



Autoridad Independiente
de Responsabilidad Fiscal

Report on the 2022 – 2025 Stability Programme Update

May 12th 2022

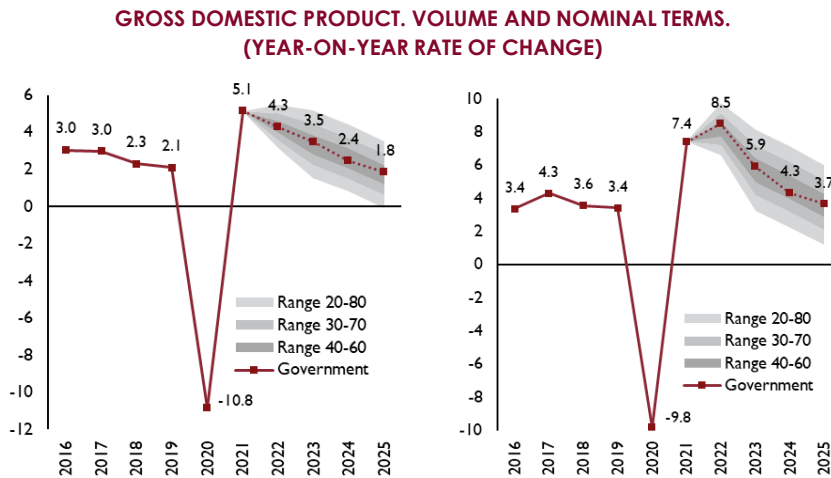
Report on the 2022 – 2025 Stability Programme Update

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

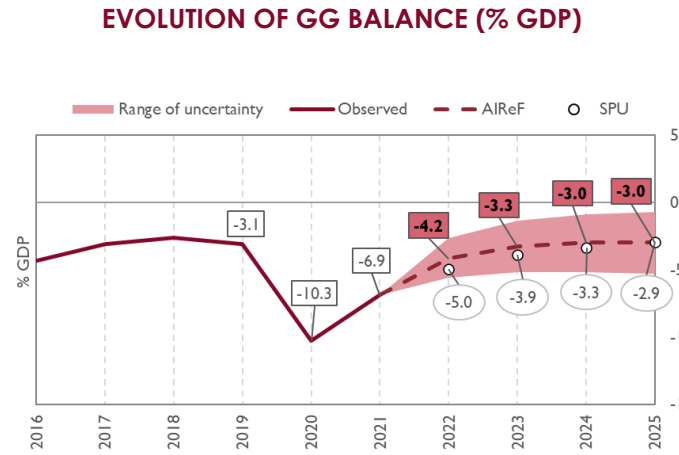
AIReF evaluates the Stability Programme Update: medium-term outlook

- 1. Introduction
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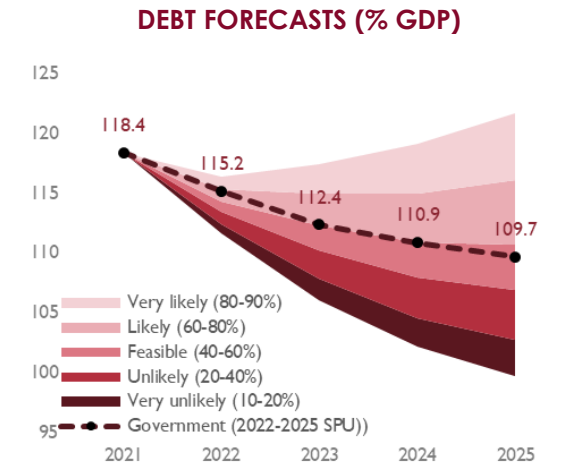
The SPU sets out feasible scenarios on both the macroeconomic and fiscal side



Context of major uncertainty and predominance of risks with a negative impact



Undemanding references and activation of fiscal rules



Reduction of the debt ratio mainly based on nominal GDP growth

Structural deficit of 4% in 2025 → MTO: 0.4% deficit

The debt ratio will start an upward path if the primary structural deficit remains constant



AIReF conclusions on the macroeconomic scenario of the SPU

AIReF endorsed (April 29th) the macroeconomic outlook, thus allowing it to be incorporated into the SPU for submission to the EU institutions

Feasible as both nominal and real GDP are in AIReF's central band

1.5 PP in
2022

- An environment of significant uncertainty**, with higher risks than usual.
 - the development of the pandemic,
 - the war in Ukraine,
 - the energy crisis, and
 - the threat of supply chain disruptions

0.7 PP in
2022

- Growth boosted in the early years by the RTRP**, for which information is lacking
 - multiplier of 0.9 but with full execution of forecasts for each year

AIReF's conclusions on the fiscal scenario of the SPU (I)

Feasible as the deficit is in AIReF's central band

Undemanding fiscal reference rates in the early years that can give the idea of a margin

- The deficit in 2021 was 6.9%, 1.5 pp below the reference rate of the 21-24 SPU. However, in 2022 it remains at 5%
- Additional risk due to positive evolution of revenue over budgeted amount
- Risks are heightened in the context of suspended fiscal rules, uncertainty about the future fiscal framework, economic risks and, evidently, in the absence of a medium-term fiscal strategy.

Fictitious margin: debt and deficit levels place the Spanish economy in a vulnerable position

- Inflation, in the MT, deteriorates the fiscal balance (increase in public wages, pensions, tenders, interest...)
- The persistence or worsening of the circumstances that led to the Government's measures could require such measures to be extended, which could increase the deficit by 0.2 to 0.6 percentage points.

In 2025, the structural deficit stands at around 4%, 0.6 pp above the pre-pandemic level

- The scope for deficit reduction without further action is exhausted and it stabilises at around 3% in 2024 and 2025

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AIReF's conclusions on the fiscal scenario of the SPU (II)

Feasible as the debt is within AIReF's central band

Decrease in the debt-to-GDP ratio of 9.6 points, but it reaches 108.8% in 2025

- The reduction in the ratio will be mainly supported by the growth in nominal GDP. Of the 9.6 points of reduction, 7.2 take place in the first two years

The stock of public debt places public finances in a vulnerable position in the face of a tightening of monetary policy

- Sharp upturn in global inflation and worsening financing conditions: Spanish 10-year bond yields above 2%
- The central interest rate scenario will mean an increase of more than 100 bp for new issues compared with the previous SPU, with a cumulative increase in the financial burden of around €20bn.
- In the short term, an additional rise in sovereign debt interest rates would have a limited impact on the evolution of the debt ratio

Unfavourable trend in the medium and long-term debt ratio under a no-policy-change scenario

- Once the boost to growth ends and prices return to their historical average, the debt-to-GDP ratio will return to an upward path under the assumption of a no-policy-change scenario
- The high level of debt, together with higher financing rates, will require a sustained structural adjustment to stabilise the debt ratio and contain the financial burden

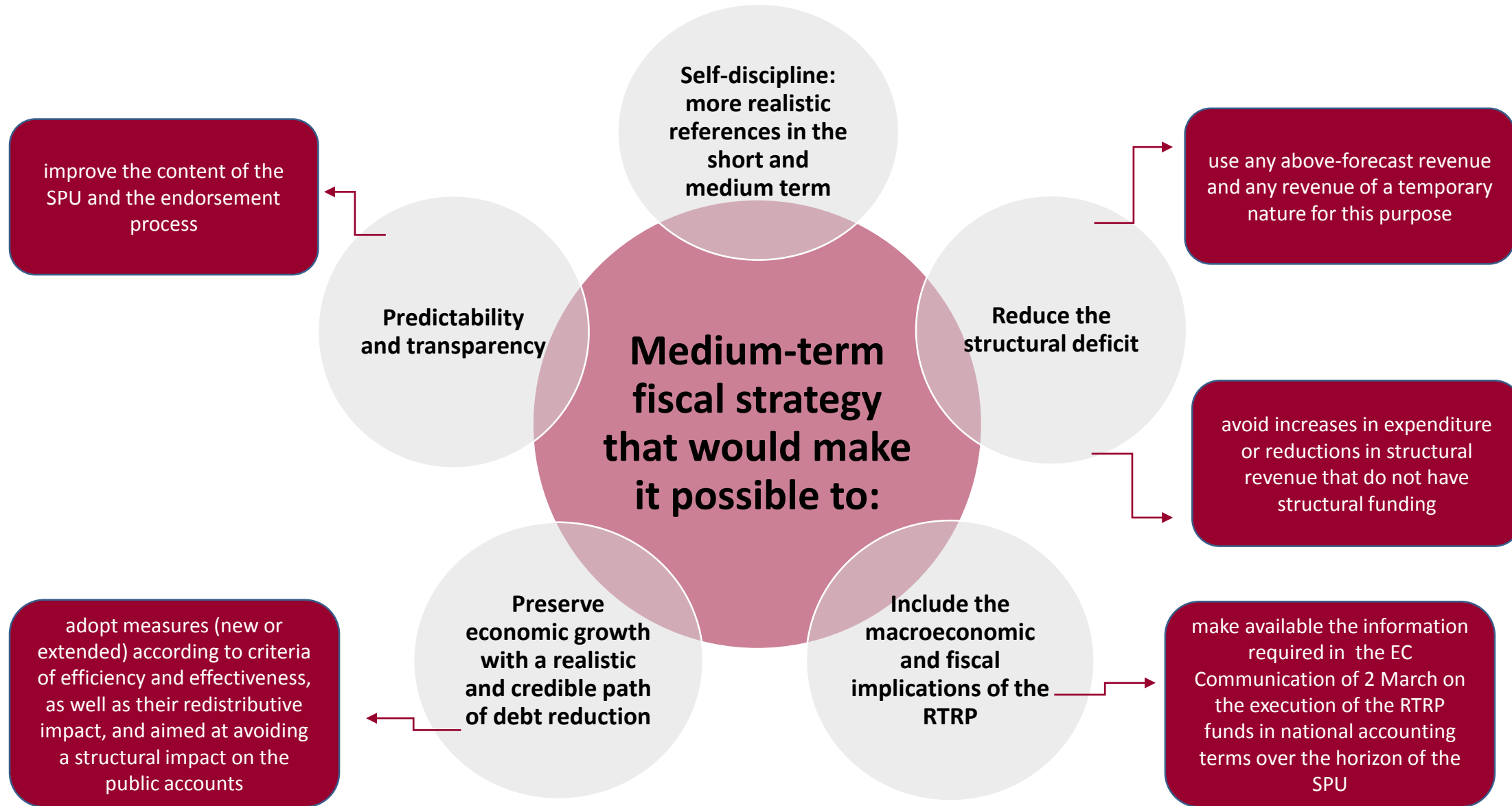
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2. The macroeconomic scenario: From the health emergency to the energy emergency

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The Government's macroeconomic scenario is similar to AIReF's

Two years after the beginning of the pandemic, the economy has been affected by a succession of global supply shocks whose implications and duration are difficult to predict

The risks surrounding the Government's forecast scenario and AIReF's own scenario are very high

AIReF's 2022-2025 macroeconomic scenario

High growth in 2022, based on the behaviour of the job market, favourable financial conditions, accumulated savings and the normalisation of tourism. From 2023, GDP converges towards potential GDP, as the boost of the RTRP becomes diluted. Inflation will moderate as from 2023

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Year-on-Year Rates of Change	AIReF 2022-2025 SPU					AIReF 2021-2024 SPU			
	2021	2022	2023	2024	2025	2021	2022	2023	2024
Private Domestic Final Consumption Expenditure	4.6 ▼	4.1 ▼	3.5 ▲	2.6 ▲	1.9	7.6	6.8	2.4	1.9
General Government Final Consumption Expenditure	3.1 ▲	1.3 ▲	0.9 ▲	0.9 ▲	0.5	2.6	-0.5	0.8	0.5
<i>GFCF Equipment and Cultivated Assets</i>	15.7 ▼	7.5 ▼	4.7 ▲	3.6 ▲	2.3	16.6	15.9	3.2	1.4
<i>GFCF Construction and intellectual property</i>	-0.7 ▼	6.2 ▼	6.1 ▲	4.5 ▲	2.4	10.2	10.3	1.9	1.5
Domestic Demand*	4.7 ▼	3.9 ▼	3.3 ▲	2.6 ▲	1.7	7.3	6.3	2.0	1.5
Exports of Goods and Services	14.7 ▲	7.6 ▼	5.0 ▲	2.9 ▲	1.9	10.3	14.0	4.1	2.1
Imports of Goods and Services	13.9 ▲	6.7 ▼	5.1 ▲	3.0 ▲	2.0	13.2	12.3	2.6	1.3
External Balance*	0.5 ▲	0.4 ▼	0.0 ▼	0.0 ▼	0.0	-0.7	0.6	0.5	0.3
Gross Domestic Product	5.1 ▼	4.3 ▼	3.3 ▲	2.6 ▲	1.7	6.6	7.0	2.6	1.8
Nominal Gross Domestic Product	7.4 ▼	8.2 ▼	5.7 ▲	4.7 ▲	3.6	8.2	8.7	4.3	3.6
Gross Domestic Product Deflator	2.2 ▲	3.7 ▲	2.3 ▲	2.0 ▲	1.8	1.5	1.6	1.7	1.8
CPI	3.1 ▲	6.5 ▲	2.7 ▲	2.0 ▲	1.8	1.4	1.6	1.8	1.8
Full-Time Equivalent Employment	6.6 ▲	2.9 ▼	1.9 ▼	1.5 ▼	0.9	4.6	5.5	2.2	1.6
Unemployment rate (% of Active Population)	14.8 ▼	13.2 ▼	12.3 ▼	11.4 ▼	11.0	16.1	14.4	13.6	13.1
Household and NPISH Savings Rate (% Gross Disposable Income)	11.4 ▲	8.7 ▲	7.9 ▲	7.2 ▼	6.6	10.2	8.1	7.6	7.4

* Contribution to GDP growth

Source : INE and AIReF forecasts.



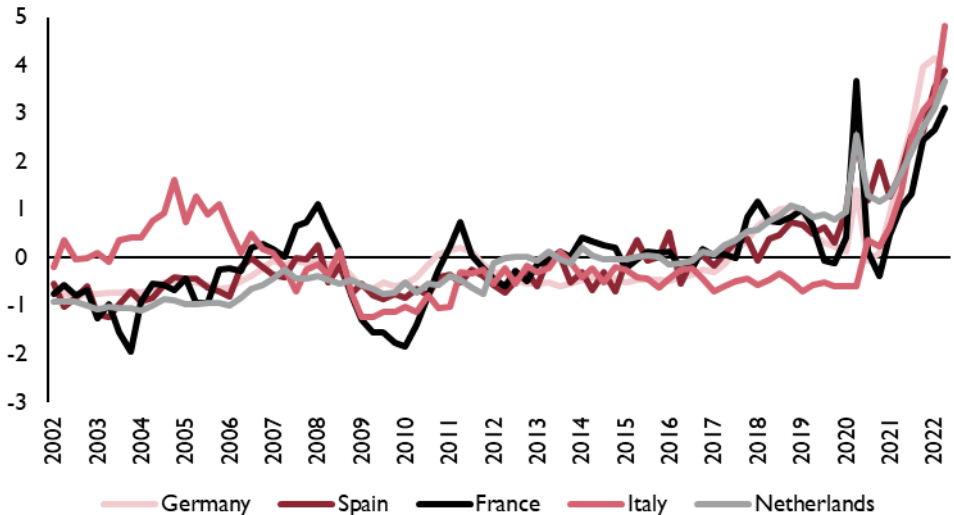
AIReF's 2022-2025 macroeconomic scenario

The bottlenecks and shortages of raw materials, in particular energy, that had already emerged in the second half of 2021 have been intensified by Russia's invasion of Ukraine.

Supply problems are unusually intense and energy prices have risen to record highs. Other agricultural and industrial raw materials show price rises.

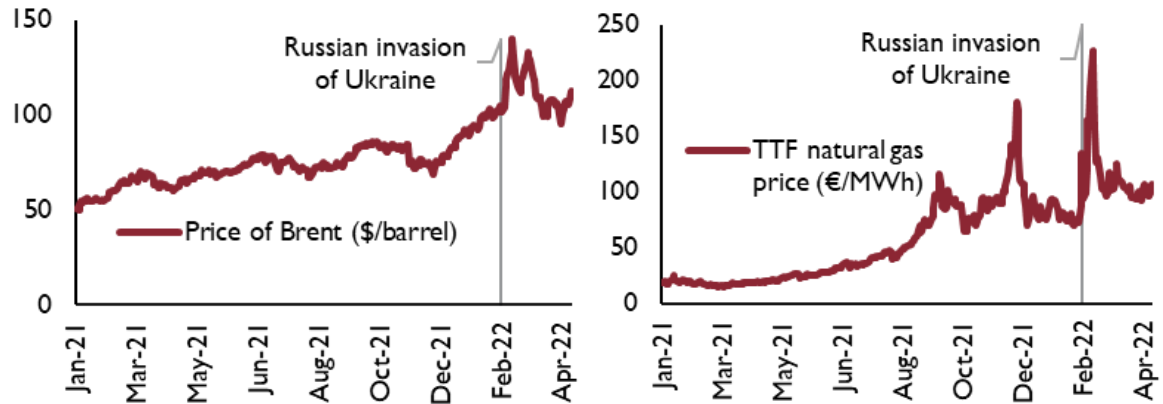
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LIMITING FACTORS TO MANUFACTURING PRODUCTION. STANDARDISED INDICES



Source: European Commission and AIReF

EVOLUTION OF OIL AND NATURAL GAS PRICES



Source: Ministry of Economic Affairs and Digital Transformation



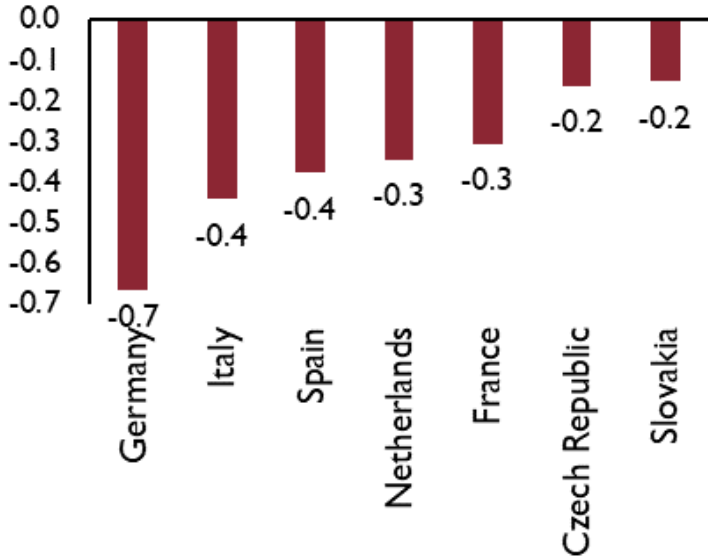
AIReF's 2022-2025 macroeconomic scenario

AIReF incorporates these shocks in its scenarios using tools such as input-output tables:

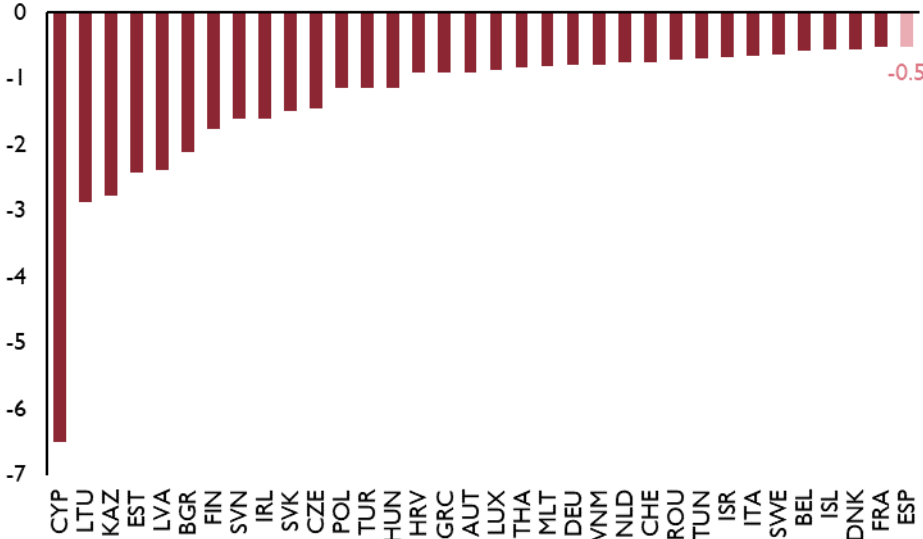
- The impact of bottlenecks on manufacturing production would subtract 0.4 pp from GVA
- Through the trade channel, the invasion of Ukraine may increase the deterioration in GVA by 0.5 pp, although a channel of uncertainty must also be added to this

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IMPACT ON GVA RESULTING FROM FACTORS LIMITING MANUFACTURING PRODUCTION (% OF GVA)



IMPACT ON GVA RESULTING FROM A CESSATION OF TRADE IN INTERMEDIATE GOODS AND FINAL DEMAND WITH THE RUSSIAN FEDERATION (% OF GVA)



Source: OECD and AIReF.



AIReF's 2022-2025 macroeconomic scenario

The main transmission channel of the war in Ukraine is energy prices:

- The war has intensified the increase in oil, gas and coal prices that had already been recorded over 2021
- The total impact on GDP associated with the observed and expected increase in energy prices in the futures markets is -0.6 pp in 2022 and -0.5 pp in 2023

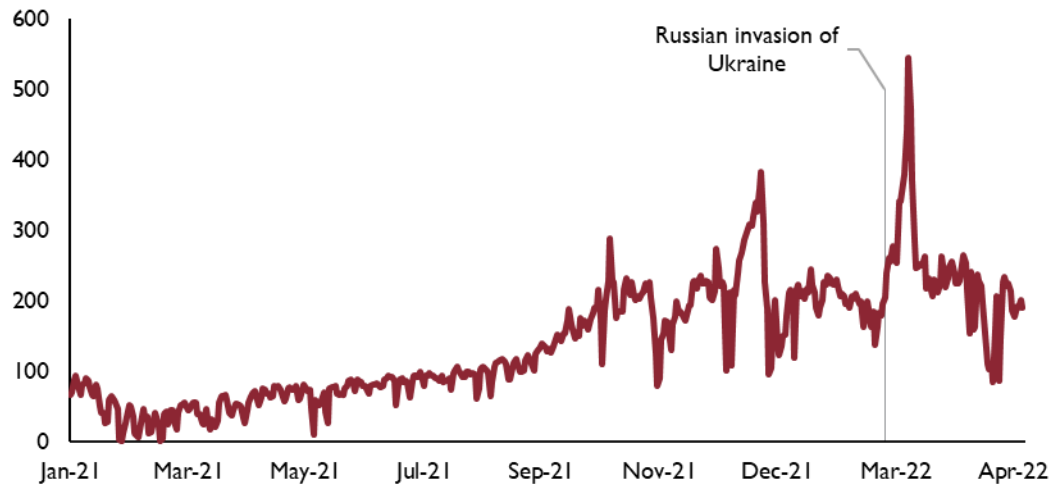
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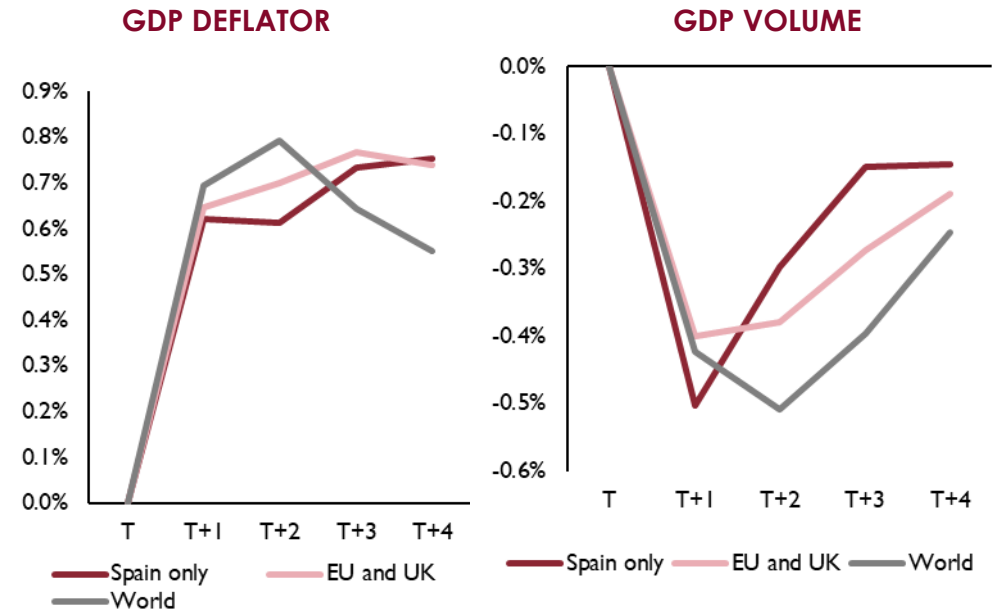
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EVOLUTION OF THE WHOLESALE ELECTRICITY PRICE €/MWH



Source: Ministry of Economic Affairs and Digital Transformation

IMPACT ON SPAIN'S GDP OF A 15% INCREASE IN ENERGY PRICES

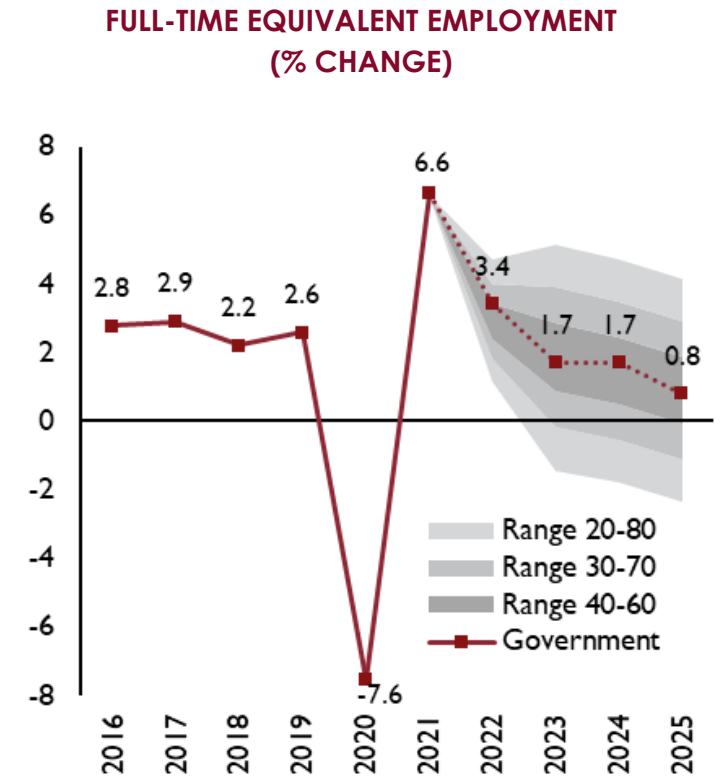
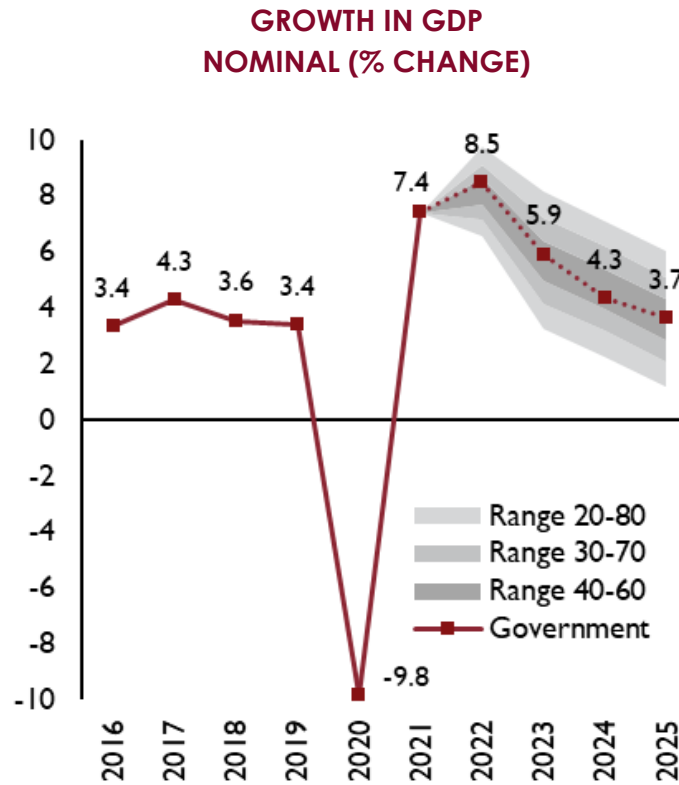
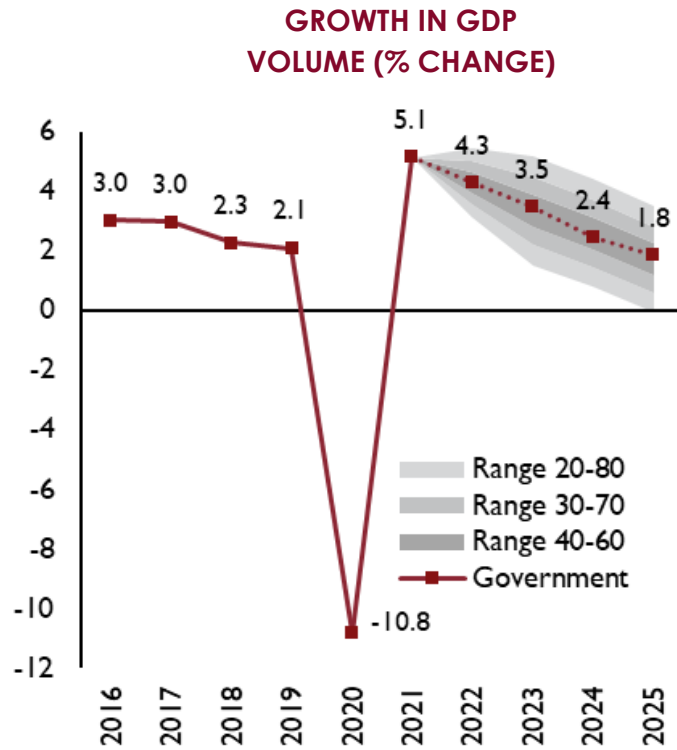


Source: Prepared by AIReF based on the Oxford Economics model

Assessment of the SPU scenario (2022-2025)

The differences between the Government's macroeconomic scenario and AIReF's are very small
 AIReF considers that the macroeconomic scenario of the SPU is feasible and as such endorsed it on April 29th

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Source: Ministry of Economic Affairs and Digital Transformation and AIReF



The impact of the RTRP on the Government's macroeconomic scenario

The Stability Programme hardly contains any information on the RTRP, a key element in the medium-term forecast scenario that becomes even more important in the current situation:

- Central scenario: downward revision in the multiplier
- Risk scenario: the experience of 2021 makes it prudent to be cautious in making assumptions about the pace of execution. AIReF has arrived at an alternative estimate based on the documentation on milestones and commitments to be achieved and awards published

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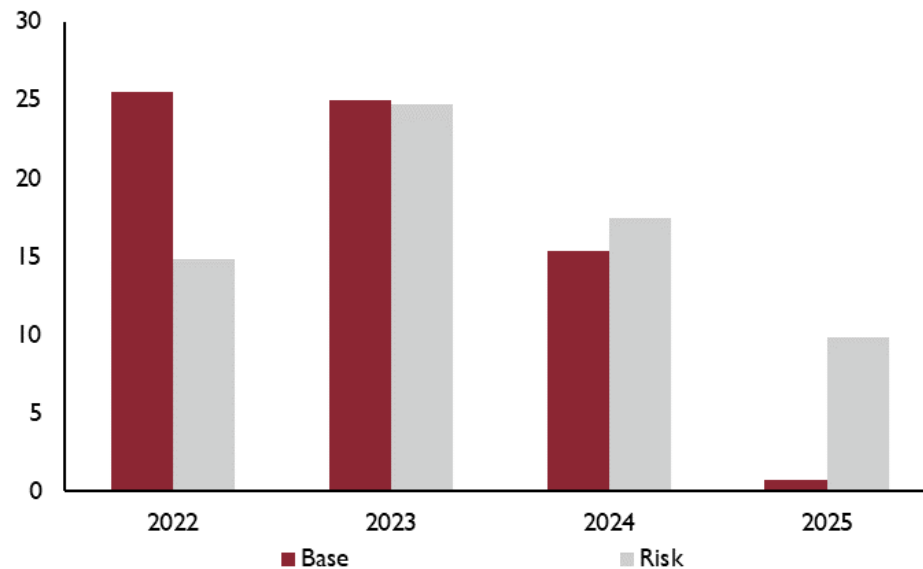
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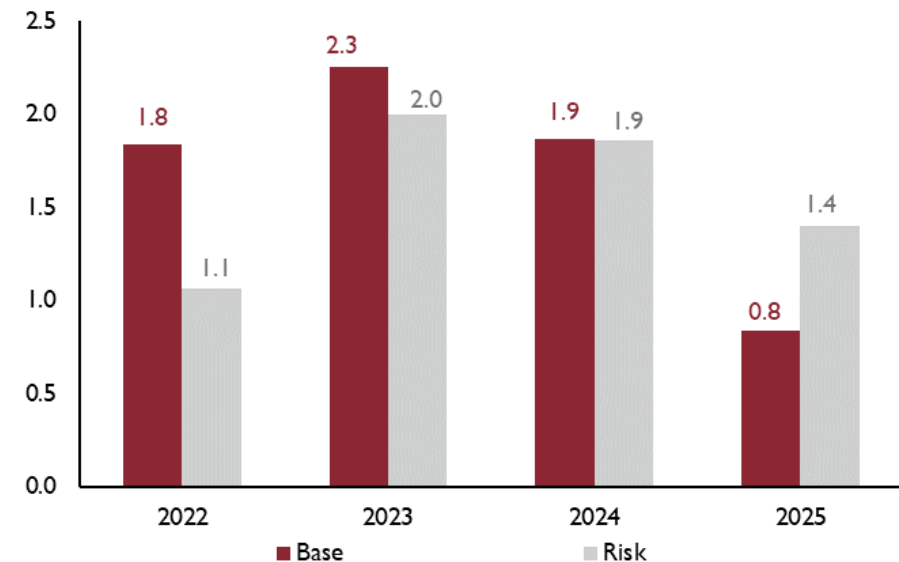
ASSUMPTIONS FOR THE EXECUTION OF THE RTRP FUNDS

(€BN)



IMPACT OF THE RTRP ON THE LEVEL OF GDP.

(% DEVIATION OVER SCENARIO WITHOUT RTRP)



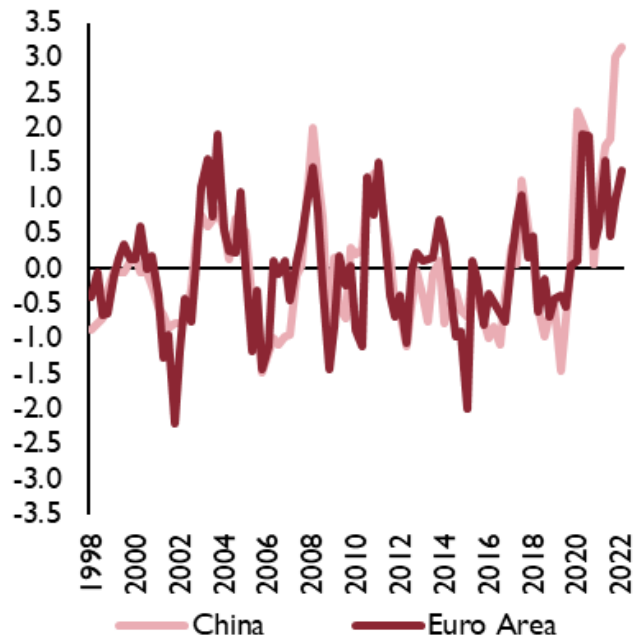
Source: Prepared by AIReF.

The risks surrounding the Government's forecasts and AIReF's own forecasts are higher than usual: value chains and financial conditions

- ❑ Pandemic and China's zero-COVID strategy
- ❑ Possible cuts in the energy supply
- ❑ The intensity and persistence of inflation may lead to a tightening of global financial conditions and financial stability

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INDICATOR OF GLOBAL PRESSURES ON VALUE CHAINS FOR CHINA AND THE EURO AREA



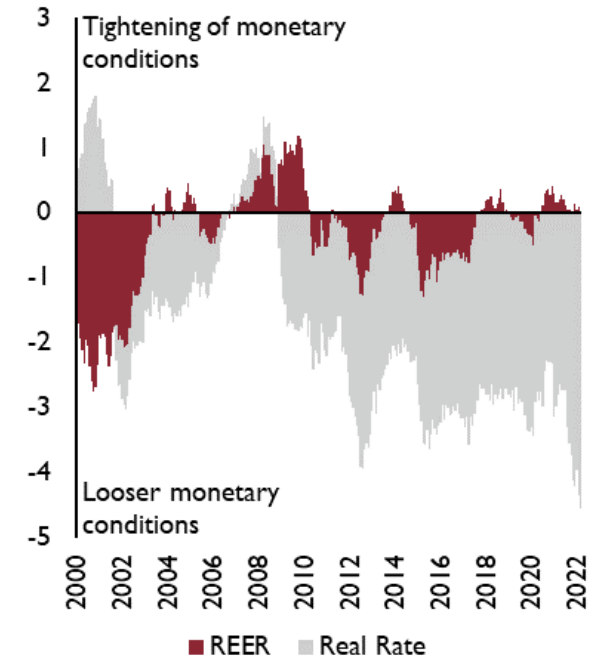
Source: New York FED and AIReF

BUNDESBANK ESTIMATE OF IMPACT ON GDP RESULTING FROM THE INVASION OF UKRAINE (DEVIATIONS FROM BASELINE SCENARIOS)



Source: Bundesbank

INDEX OF MONETARY CONDITIONS IN THE EURO AREA

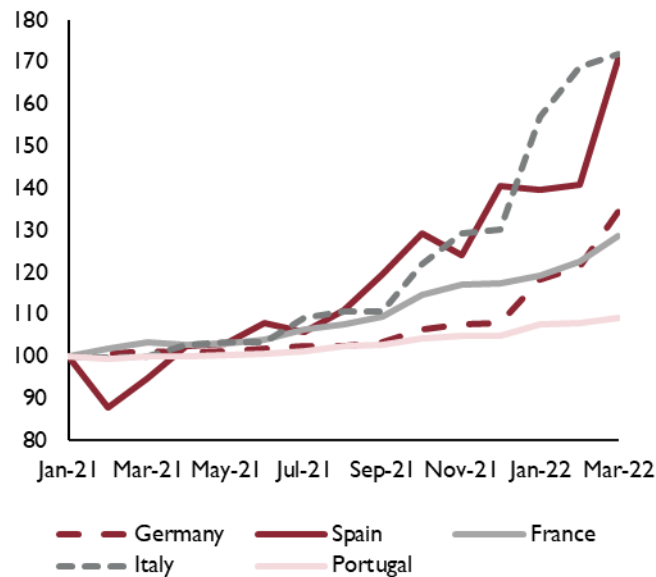


Source: European Commission.

The risks surrounding the Government's forecasts and AIReF's own forecasts are higher than usual: inflation and competitiveness

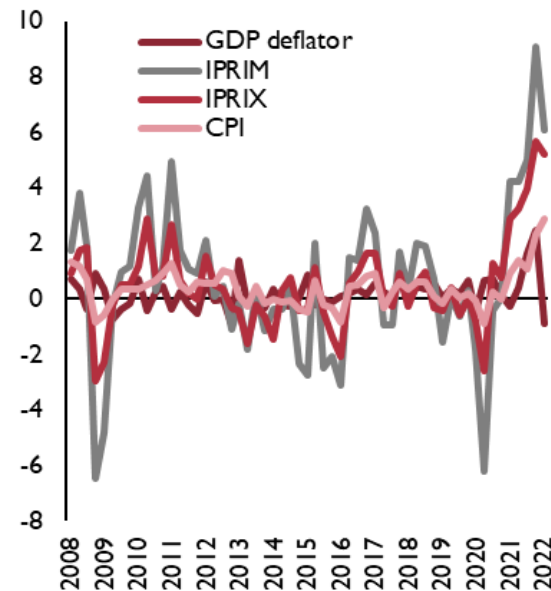
- ❑ The inflation scenario poses risks to growth
- ❑ Loss of competitiveness: the inflation differential is larger in energy, but a differential reappears in the rate of change of core inflation, which is still moderate

EVOLUTION OF THE HARMONISED ICP: ELECTRICITY, GAS AND FUELS (JAN 2021 = 100)



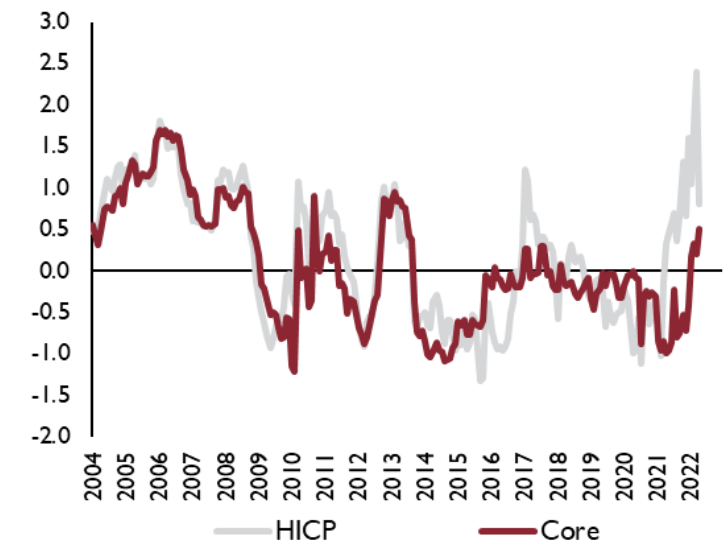
Source: INE and EUROSTAT

QUARTERLY EVOLUTION OF THE GDP DEFLATOR AND OTHER PRICE INDICATORS (QUARTERLY RATE SWDA)



Source: INE

HEADLINE AND CORE INFLATION DIFFERENTIAL WITH RESPECT TO THE EMU (IN PP)



Source: INE and EUROSTAT

The risks surrounding the Government's forecasts and AIReF's own forecasts are higher than usual: second-round effects and monetary policy

- ❑ Risk of second-round effects of inflation that needs to be monitored
- ❑ Higher inflation puts pressure on expectations for ECB rate hikes

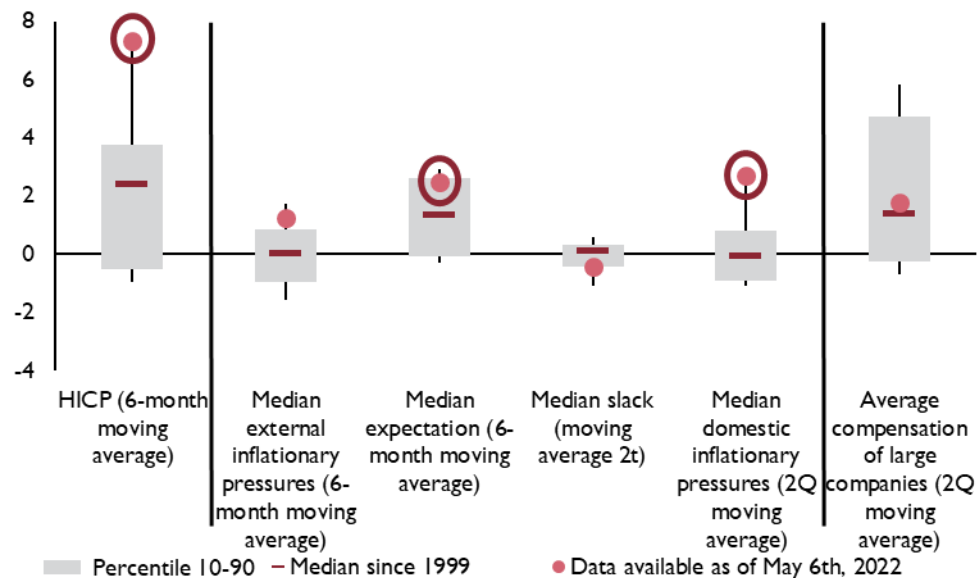
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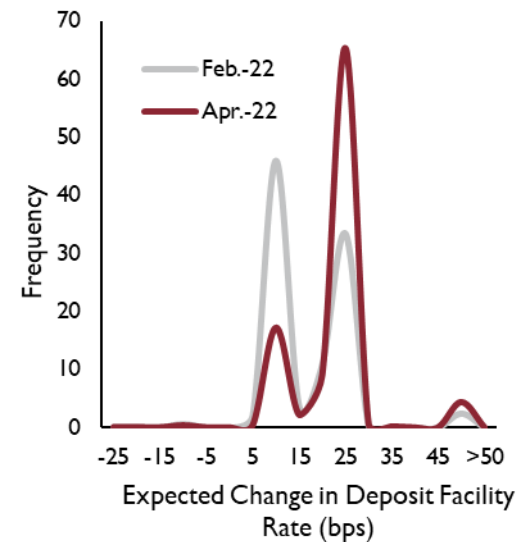
SPAIN: INFLATION INDICATORS



Source: Refinitiv, Haver Analytics and Funcas

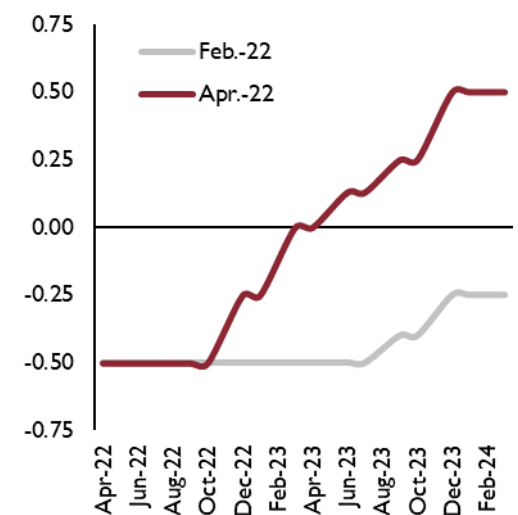
SURVEY OF MONETARY POLICY ANALYSTS. EURO AREA.

EXPECTED CHANGE IN DEPOSIT FACILITY RATE (BPS)



Source: ECB

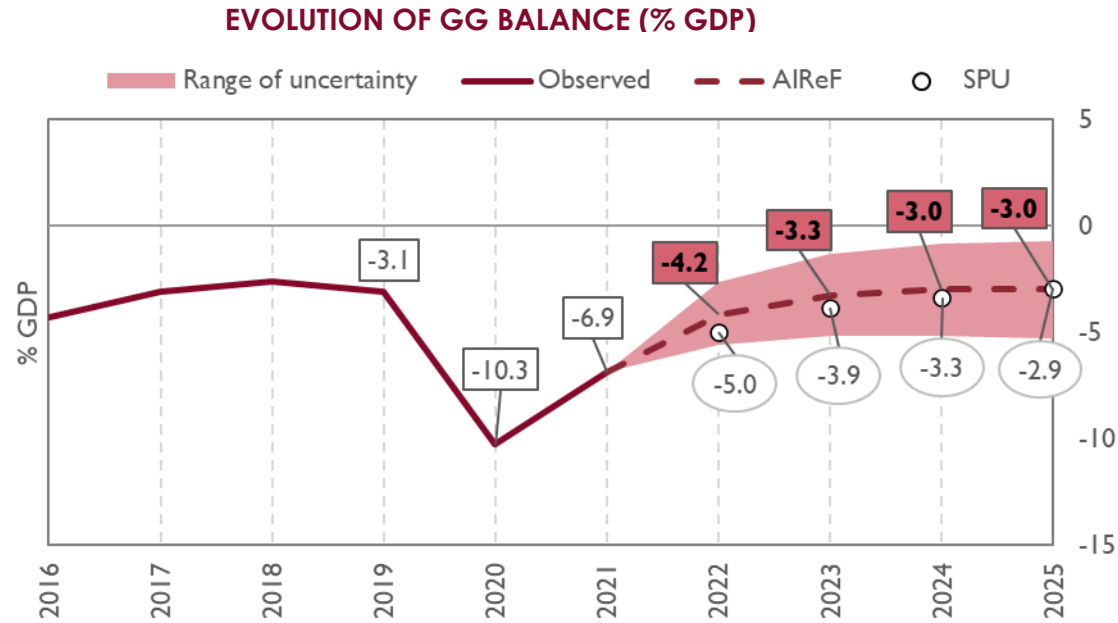
EXPECTED DEPOSIT FACILITY RATE (%)



3. 2022-2025 fiscal scenario

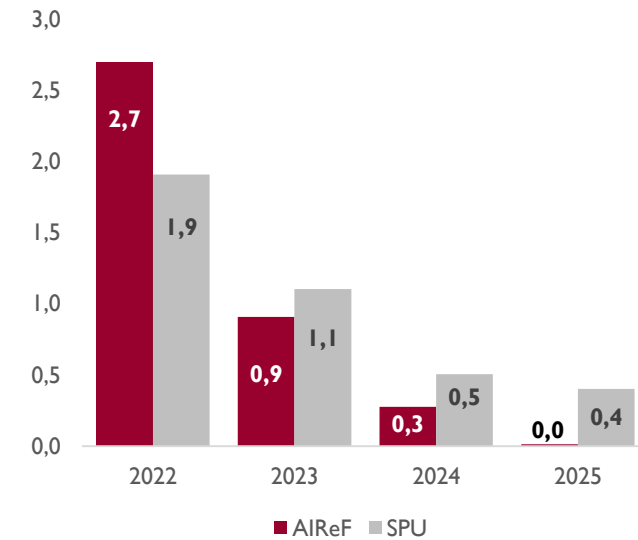
For its central scenario, AIReF estimates a reduction in the General Government deficit over the period to 3% of GDP in 2025, 0.1 points higher than the figure included in the SPU

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Source: IGAE, AIReF and SPU

FORECAST REDUCTION IN THE GG BALANCE (% GDP)



Source: AIReF, SPU

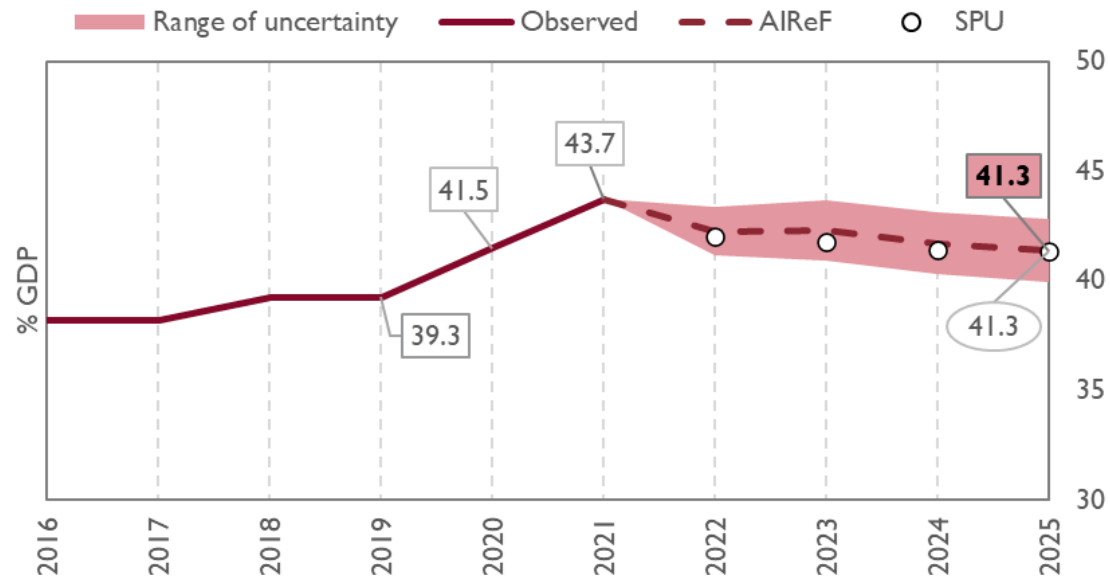
- ❑ **2022:** sharp reduction in the deficit due to the withdrawal of COVID measures and economic recovery, cushioned by the introduction of energy measures
- ❑ **2023:** Sharp reduction in the deficit due to the withdrawal of COVID measures and the economic recovery
- ❑ **2024-2025:** Slowdown in the reduction of the deficit, much more pronounced in AIReF's scenario



Revenue

AIReF forecasts that the weight of revenue over GDP, excluding the RTRP, will fall slightly to 41.3% in 2025, the same as the path set in the SPU

EVOLUTION OF GG REVENUE (% GDP)



Source: IGAE, AIReF and SPU

- The **weight falls** over the period since revenue grows at a lower rate than nominal GDP. The weight is still two points higher than in 2019.
- **Period 2022-2023:** the dynamism of the economic recovery would cause lead to growth of 5.4% on average
- **Period 2024-2025:** this growth moderates to an average of 3%

Revenue

AIReF forecasts lower revenue from taxes and social contributions and a higher weight of revenue from other sources

	AIReF				SPU			
	2022	2023	2024	2025	2022	2023	2024	2025
REVENUE	42.2	42.3	41.7	41.3	42.0	41.8	41.4	41.3
TAXES	24.2	24.2	23.9	23.7	24.3	24.3	24.2	24.1
<i>On production</i>	12.1	12.1	11.7	11.5	12.0	12.0	11.8	11.6
<i>On income</i>	11.7	11.8	11.8	11.7	11.8	11.8	12.0	12.1
<i>Capital</i>	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
CONTRIBUTIONS:	13.7	13.9	13.8	13.7	13.7	13.7	13.8	13.9
Other revenue	4.3	4.1	4.0	4.0	4.0	3.8	3.4	3.3

Source: AIReF and SPU

- **I. on Production (VAT and STs):** strong growth in 2022 (7.7%), which begins to decrease in 2023 (5.5%) and falls to growth of less than 2% at the end of the period, below domestic demand
- **I. on Income (PIT and CIT):** gradual decrease in the growth of taxes on income from 6.4% in 2022 to 3.4% at the end of the period. A little below the evolution of compensation of employees (PIT) and of GOS (CIT)
- **Contributions:** in 2022-2023, strong employment growth, limited in 2022 as a result of the withdrawal of exemptions, to move towards more balanced growth between employment and wages at around 3.4%
- **Other revenue:** sharp reduction in the first few years due to the withdrawal of REACT funds, with stable evolution over the rest of the period. Back to historical levels

Expenditure

The weight of expenditure as a proportion of GDP, excluding the RTRP, also falls in AIReF's central scenario, to 44.3% in 2025, the same level as that included in the SPU

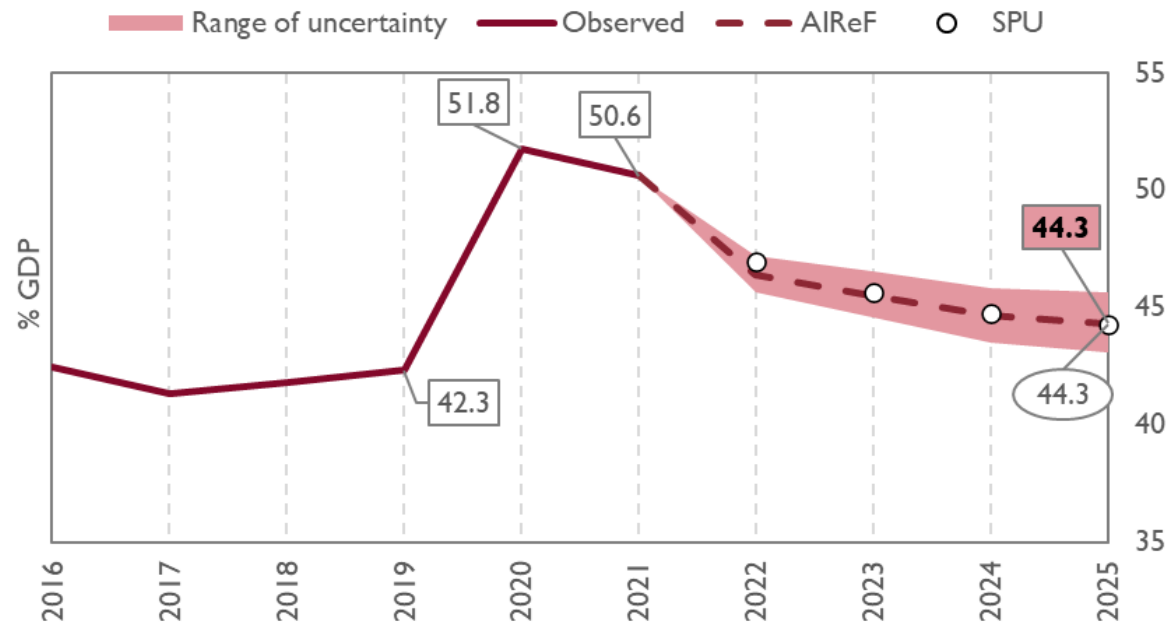
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EVOLUTION OF GG EXPENDITURE (% GDP)



Source: IGAE, AIReF and SPU

- The **weight falls**, but it does not drop all the way to pre-crisis levels
- **2022**: sharp reduction due to the disappearance of COVID measures, somewhat mitigated by the introduction of measures to alleviate the energy crisis
- **2023**: reduction due to the elimination of measures to mitigate the energy crisis combined with a sharp increase in pension expenditure due to the evolution of the CPI
- **Period 2024-2025**: moderate growth in expenditure below nominal GDP
- The reduction in expenditure forecast in the SPU is more moderate in 2022 and stronger in 2023

Expenditure

AIReF forecasts higher expenditure on public consumption and lower on social benefits in cash

	AIReF				SPU			
	2022	2023	2024	2025	2022	2023	2024	2025
EXPENDITURE	46.4	45.5	44.7	44.3	47.0	45.6	44.8	44.3
Compensation of employees	11.6	11.4	11.3	11.2	11.5	11.3	11.1	10.9
Intermediate consumption	5.6	5.5	5.4	5.4	5.5	5.4	5.3	5.2
Social transfers in kind via market	2.9	2.8	2.8	2.7	3.0	2.8	2.7	2.7
Social benefits in cash	17.5	17.5	17.4	17.4	17.6	17.7	17.7	17.6
Interest	2.1	2.0	2.0	2.0	2.2	2.2	2.1	2.1
Subsidies	1.2	1.2	1.1	1.1	1.4	1.1	1.1	1.0
Gross capital formation	2.4	2.3	2.1	2.1	2.4	2.3	2.2	2.1
Other capital transfers	1.1	0.8	0.7	0.6	1.2	0.8	0.6	0.6
Other expenditure	2.1	2.0	1.9	1.9	2.1	2.1	2.0	2.0

Source: AIReF and SPU

- **Public consumption:** compensation of employees at CPI, number of employees at 1% and wage drift according to historical average. Part of COVID spending becomes structural.
- **Social benefits in cash:** reduction in spending on unemployment and job-retention schemes (ERTEs). The SPU estimates 0.1 or 0.2 points higher expenditure over the entire period
 - Pensions grow by around 4-5% except in 2023, when growth of 8.8% is expected as a result of the 2022 CPI.
- **Interest:** includes tightening of monetary policy conditions
- **GFCF:** return to the previous level in the absence of non-recurring items and without including the RTRP
- **Other expenditure:** return to pre-crisis level

Balance by sub-sector

AIReF forecasts a lower deficit for the CG and higher deficit for the SSFs and the ARs and a higher surplus for the LGs than the SPU

BALANCE BY SUB-SECTOR (% GDP)

	AIReF				SPU			
	2022	2023	2024	2025	2022	2023	2024	2025
GG	-4.2	-3.3	-3.0	-3.0	-5.0	-3.9	-3.3	-2.9
CG	-3.2	-3.0	-3.3	-2.8	-3.8	-3.4	-3.6	-3.2
SSFs	-0.5	-0.5	-0.3	-0.3	-0.5	-0.5	-0.3	-0.2
ARs	-0.7	-0.1	0.2	-0.1	-0.8	-0.1	0.2	0.2
LGs	0.2	0.3	0.4	0.3	0.1	0.2	0.3	0.2

Source: AIReF and SPU

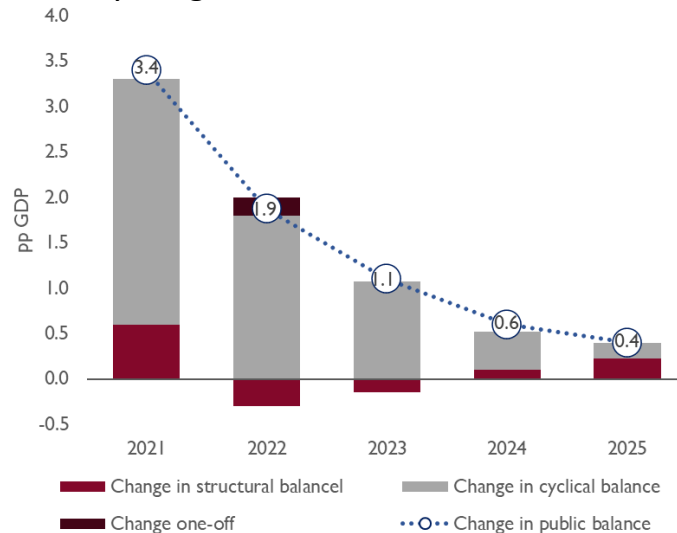
- **CG:** it took on the bulk of the increase in the deficit in the crisis and also the bulk of its reduction in 2022
- **SSFs:** they reduce their deficit due to the increase in transfers for “improper” expenditure and the introduction of the Intergenerational Equity Mechanism. This reduction will not be seen in 2023 due to the increase in pensions in line with the CPI
- **ARs:** AIReF considers that the positive settlements resulting from 2021 and 2022 collection will lead to the ARs having a surplus in 2024, but that revenue will return to normal in 2025 and the balance will worsen to a deficit of 0.1 points. The SPU considers that the 2024 surplus will be maintained in 2025
- **LGs:** structural surplus at around 0.3% of GDP, also influenced by settlements of the financing system

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

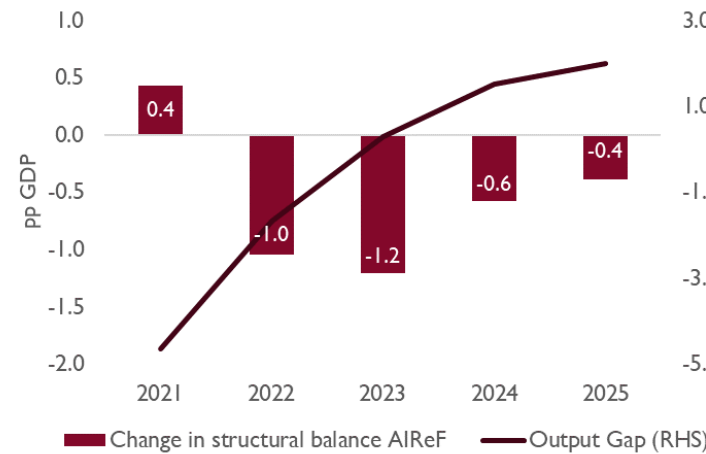
- The SPU's budgetary path implies an oscillating domestic fiscal policy: **expansive in 2022**, practically **neutral in 2023 and 2024**, to begin **consolidation in 2025**. The improvement in the structural balance towards the end of the horizon is not supported by new fiscal policy measures contained in the SPU.
- AIReF's estimates yield a somewhat different path, with a domestic fiscal policy stance that is **essentially expansive throughout the horizon**
- When an **output gap level equivalent to that before the pandemic is recovered**, the **structural deficit will have deteriorated by over 0.5 pp in the opinion of AIReF**

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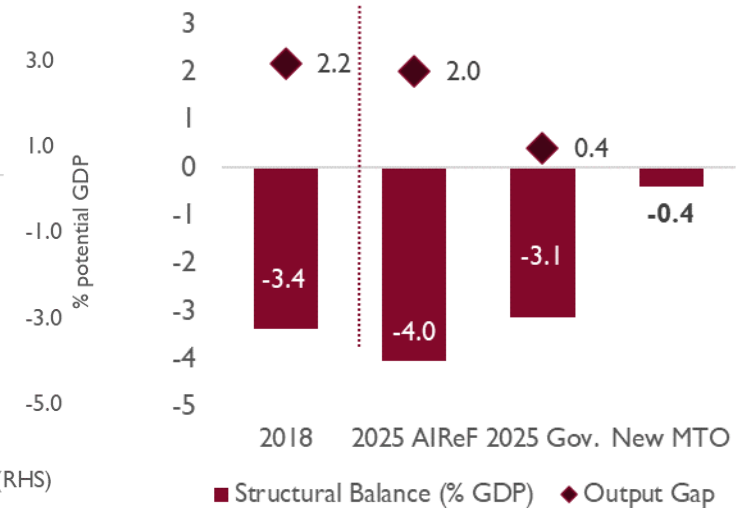
Contributions to change in Public Balance – Stability Programme



Breakdown of evolution of structural effort - AIReF



Structural Balance & Output Gap

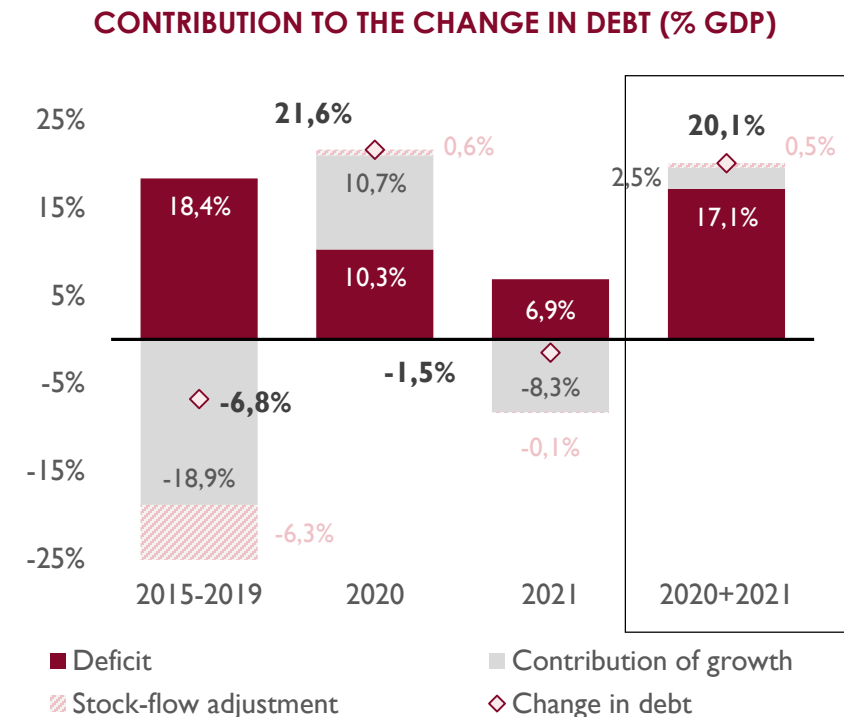
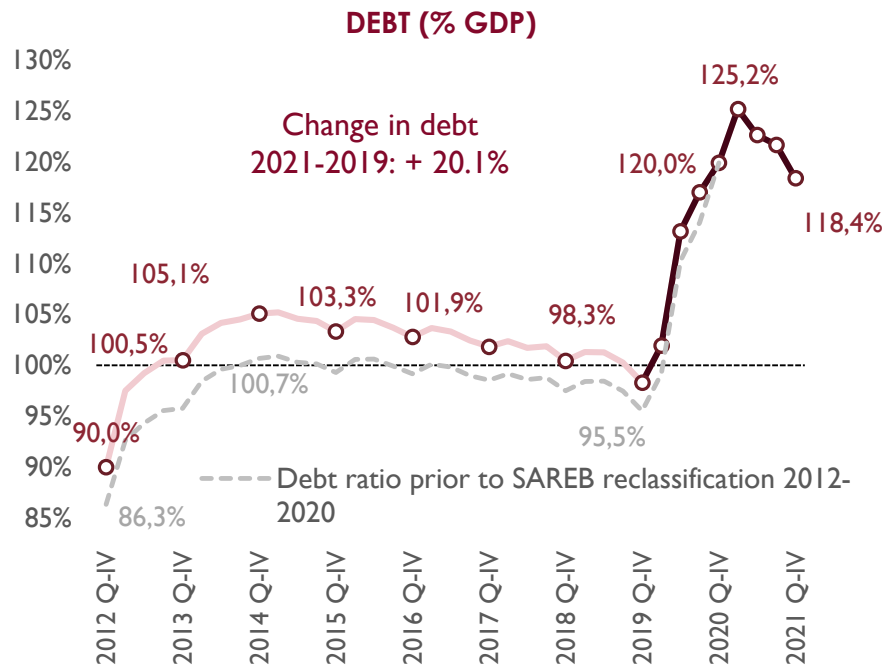


Sources: Prepared by AIReF.



The significant increase in the stock of public debt places the sustainability of public finances in a highly vulnerable position in the medium term

- The scars of the previous financial crisis, together with the sharp increase in borrowing caused by the pandemic, have brought the **debt-to-GDP ratio to record highs**.
- Specifically, the debt-to-GDP ratio stood at 118.4% at the end of 2021, an **increase of 20.1 points on the pre-pandemic level**.
- The **rebound in activity** has allowed a **correction of 6.8 points** from the peak reached in the first quarter of the year



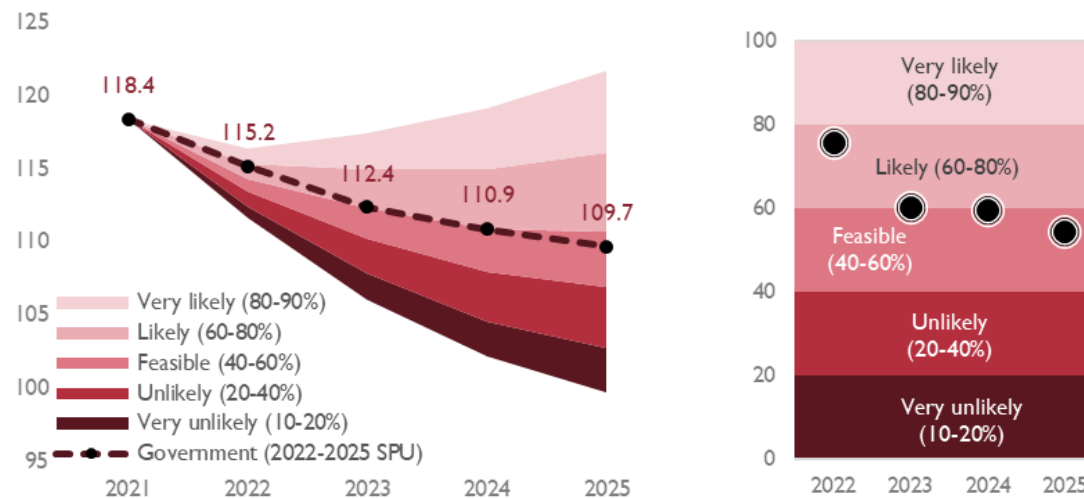
Sources: Bank of Spain, INE, and AIReF.

High nominal growth will be the main driver of the reduction in the debt ratio in the short term

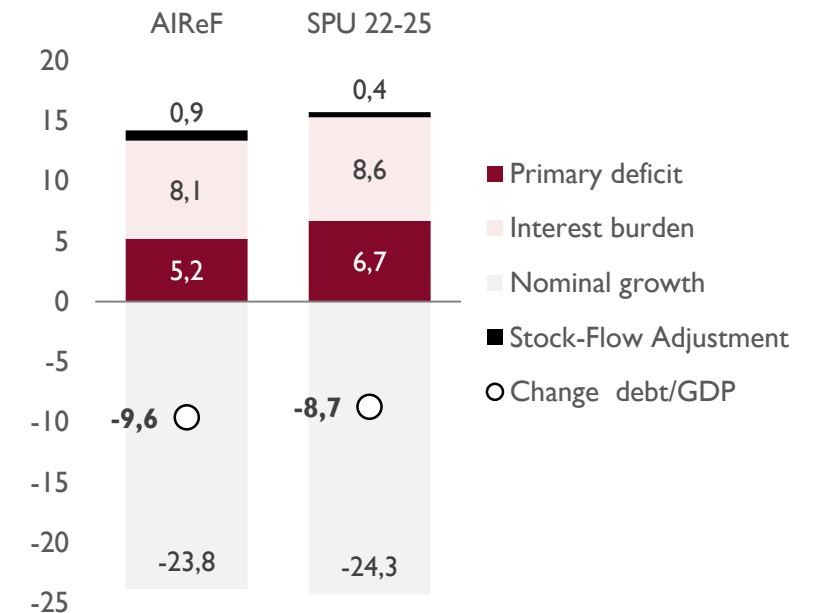
- Under the macro-fiscal forecasts, AIReF projects a reduction in the debt-to-GDP ratio of 9.6 points for 2025, placing the ratio at **108.8%**
- The reduction in the ratio will be **mainly supported by the growth in nominal GDP**, where the **deflator** will have a very significant contribution. The public deficit will continue to contribute significantly to the increase in debt
- **AIReF considers the Government's debt projection included in the SPU for 2025 to be feasible**

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DEBT FORECASTS (% GDP) AND LIKELIHOOD OF REACHING A RATIO EQUAL TO OR LOWER THAN THAT PROJECTED BY THE GOVERNMENT IN THE 2022-2025 SPU



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



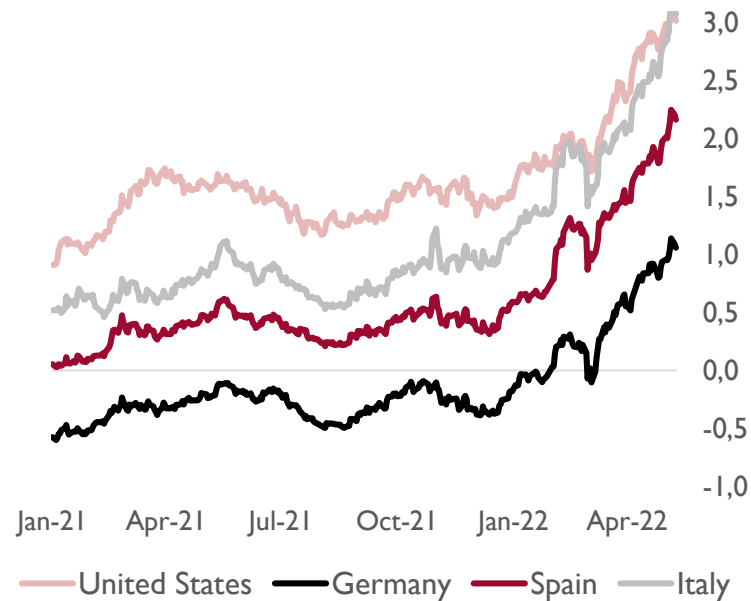
Sources: Government and prepared by AIReF.



The sharp upturn in inflation has worsened financing conditions, increasing the financing burden

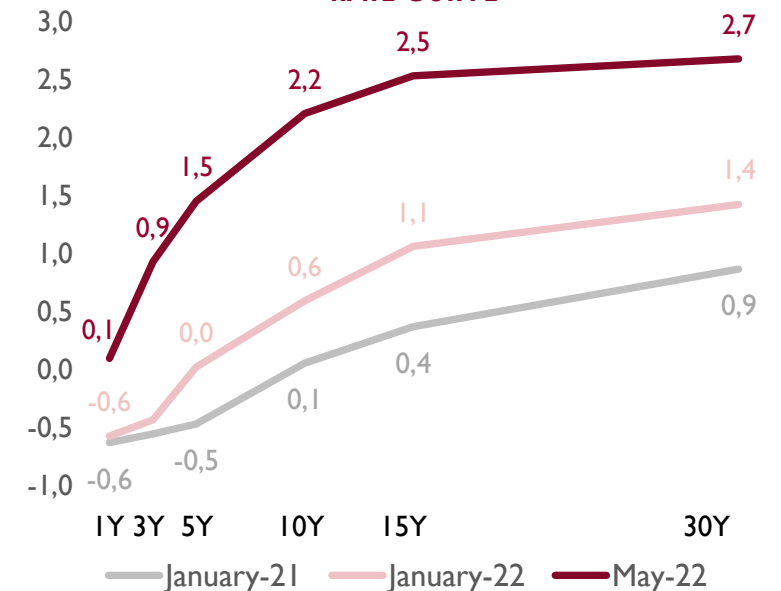
- Financial markets have started the year by adjusting to the new **scenario of high inflation** and rises in interest rates, favouring a correction in equities and a **sharp increase in sovereign debt yields**.
- **AIReF revises the path of interest expenditure upwards**, adapting it to a context of rising interest rates and higher inflation expectations, which will mean **an increase in the financial burden of close to €20bn** compared with the forecast in the previous report on the SPU.

10-YEAR BOND YIELD (%)



The yield on the Spanish **10-year bond** stands at over 2%, an **increase of 185 basis points** in the last **six months**, with a risk premium that has risen to 110 basis points

EVOLUTION OF THE SPANISH INTEREST RATE CURVE

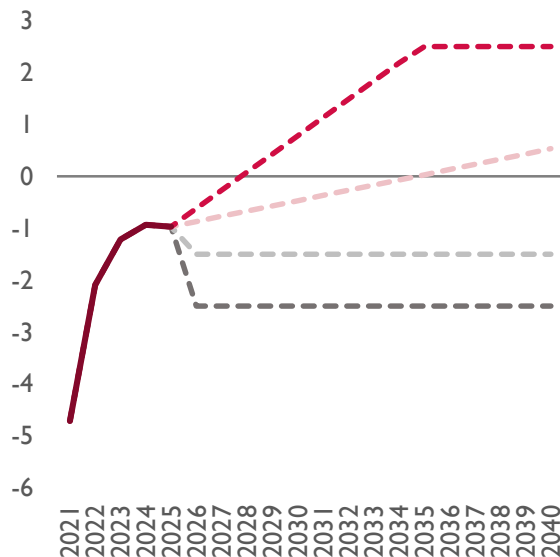


Sources: Refinitiv

Beyond the short term, AIReF's projections show an unfavourable debt ratio trend under a no-policy-change scenario

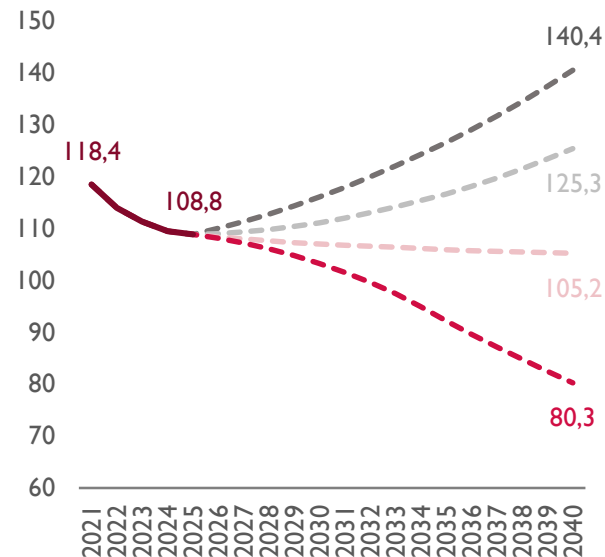
- The **high level of debt**, together with **higher financing rates**, will require a **sustained structural adjustment** to place the debt at more prudent levels, contain the financial burden and generate fiscal space that will make it possible to address future risks

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



- AIReF forecast up to 2025
- - - Consolidation path of 0.35 points
- - - Structural Primary Deficit of 1.5%

DEBT (% GDP) ACCORDING TO PRIMARY BALANCE SCENARIOS



- - - Adjustment of 0.1 GDP points per year
- - - Structural Primary Deficit of 1.5%
- - - Structural Primary Deficit of 2.5%

- Maintaining a **constant structural primary deficit of between 1.5 and 2.5% of GDP** (in line with the Government's and AIReF's estimates), would initiate an **upward trend in the path of the debt ratio**, with a growing total deficit as a result of higher interest expenditure.
- A **structural adjustment of at least 0.1 points of GDP per year** will be necessary to maintain the **debt ratio stable** at values above 100% of GDP
- The **financial sustainability** of the public accounts will require a path for reducing the debt ratio towards a much more comfortable position, with a **gradual and sustained reduction in the public deficit** until budgetary equilibrium
- An **annual adjustment of 0.35 points** would make it possible to **reduce the debt ratio to 80% in 2040**, achieving budgetary balance in 2035 and maintaining a low interest expenditure of around 2.5% of GDP

4. Recommendations

Live recommendations to the Ministry of Finance

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 General Government.

- The Stability Programme Update is not enough
- The projects and reforms to be financed with EU resources have a multi-year perspective and are not integrated into the SPU
- While the geopolitical and economic context requires fiscal policy action in the short term, it needs to be accompanied by a medium-term strategy that makes it possible to achieve a realistic and credible path of debt reduction once the measures are withdrawn
- It must preserve economic growth
- Flexibility in the face of the changes that arise in the economic situation

AIReF also repeats the need to include more information in the SPU

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Recommendations

New recommendations to the Ministry of Finance

- **To allocate any revenue that materialises above the forecast and temporary revenue to accelerate the necessary reduction in the structural deficit and avoid increases in expenditure or reductions in revenue of a structural nature that do not have funding that is also structural**

- The Government's deficit forecast for 2022 is not demanding in the absence of additional measures and may generate the risk that it will be viewed by the different GG sub-sectors as a margin to conduct a more expansive fiscal policy
- Higher-than-expected inflation would bring an additional increase in revenue in the short term, although in the medium term it also worsens the fiscal balance
- The ARs and LGs will have a major increase in revenue in 2023 and 2024 on a temporary basis due to the settlements of the financing system
- These risks are more evident in the absence of a medium-term fiscal strategy and in a context of suspended fiscal rules and uncertainty about the future fiscal framework

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Recommendations

New recommendations to the Ministry of Finance

- **To evaluate the impact of the measures already adopted in terms of efficiency, effectiveness and redistributive impact before deciding, where necessary, on their possible extension**
- **To design any new measures that may be necessary on the basis of:**
 - **Criteria of effectiveness, efficiency and redistributive impact**
 - **Setting out in an explicit and quantified manner the objectives pursued, the timeframe and the circumstances and assumptions under which they would be extended**
 - **Procedure for their evaluation**
 - **In the event that they involve a structural increase in the deficit, to identify their source of financing**

- Persistent or exacerbated tensions in energy markets may lead to an extension of the measures
- The medium-term fiscal strategy needs to be flexible in order to adapt to the current context of risks so as to allow the preservation of economic growth to be compatible with a realistic and credible path of debt reduction to sustainable levels. The high level of debt places the Spanish economy in a position of vulnerability that reduces the fiscal margin in the event of shocks
- Measures designed following criteria of efficiency and effectiveness, as well as their impact in redistributive terms
- Aimed at avoiding a structural impact on the public accounts

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Recommendations

Recommendations included in the endorsement

Information on the execution of the RTRP in national accounting terms

- Making available the information required in the framework of the European Commission's communication of March 2nd 2022. In particular, this information refers to execution of the RTRP funds in national accounting terms over the horizon of the stability programme

Information for the endorsement of the macroeconomic forecasts

- More information on the budgetary and fiscal measures included in the macroeconomic scenario with the aim of increasing the rigour of the endorsement process

Memorandum of Understanding

- With the aim of making the endorsement process more transparent and efficient, in line with current practices in peer countries, the flow and timing of the exchange of information should be regulated through an agreement between AIReF and the Government

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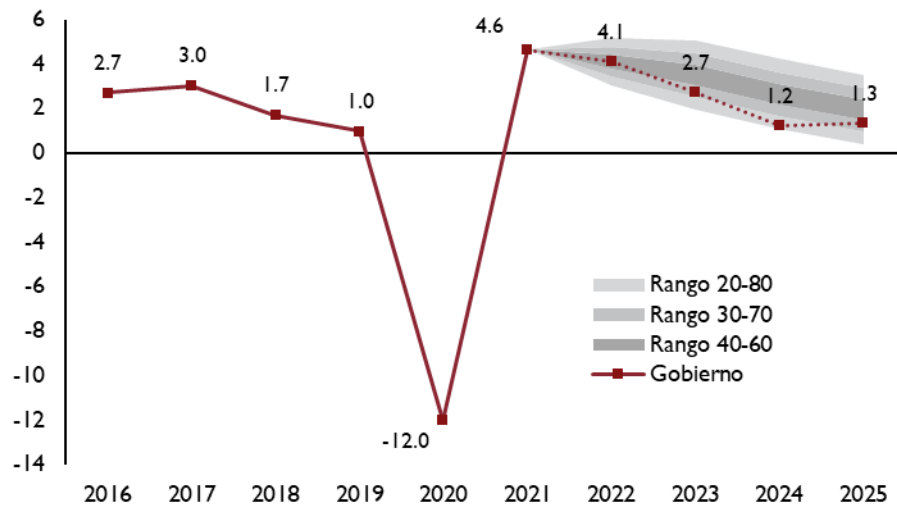
Autoridad Independiente
de Responsabilidad Fiscal

www.airef.es



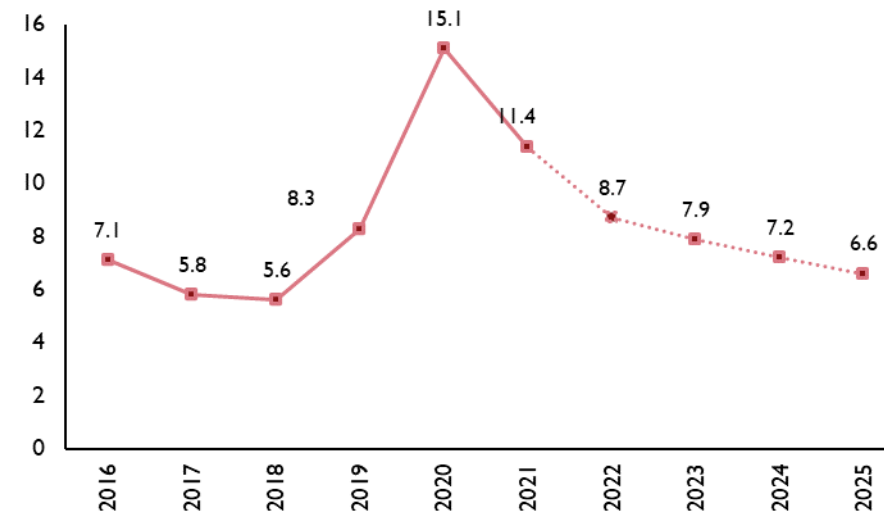
[@AIReF_es](https://twitter.com/AIReF_es)

PRIVATE CONSUMPTION IN TERMS OF VOLUME (RATE OF CHANGE)



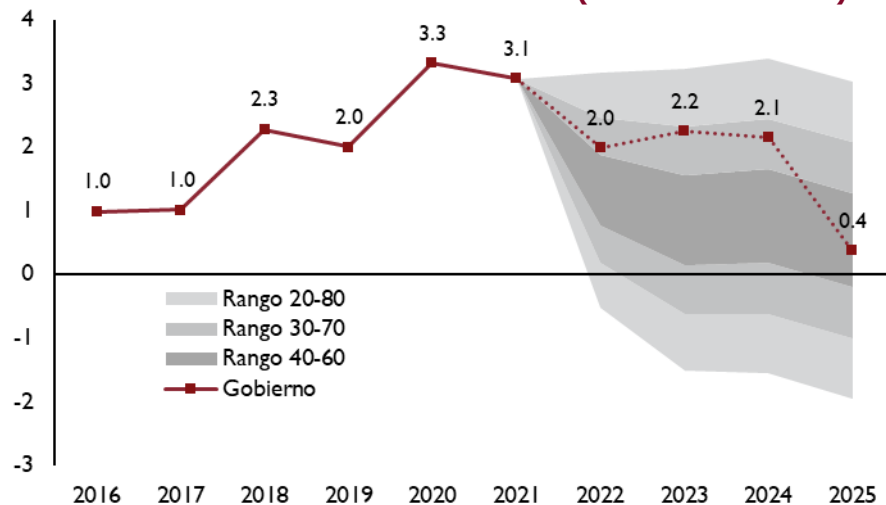
Source: Ministry of Economic Affairs and Digital Transformation and AIReF

PRIVATE SAVINGS RATE (% GDI)



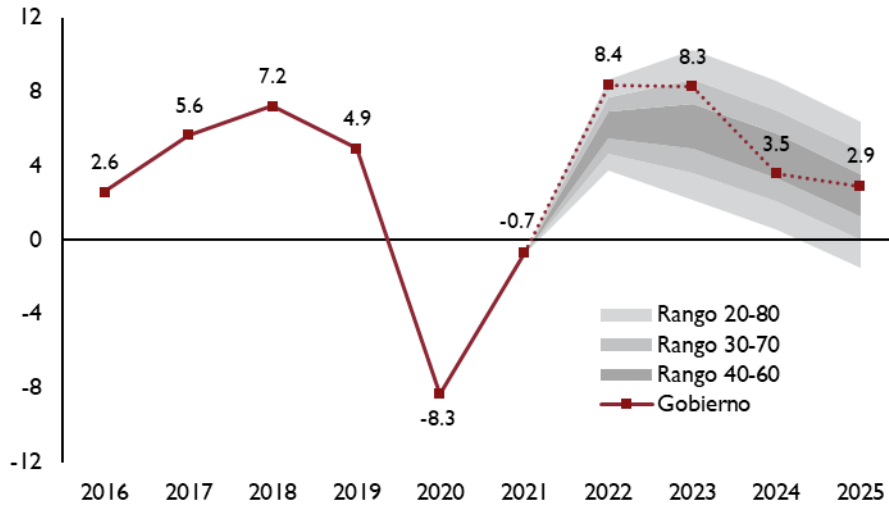
Source: AIReF

GENERAL GOVERNMENT FINAL CONSUMPTION EXPENDITURE IN TERMS OF VOLUME (RATE OF CHANGE)



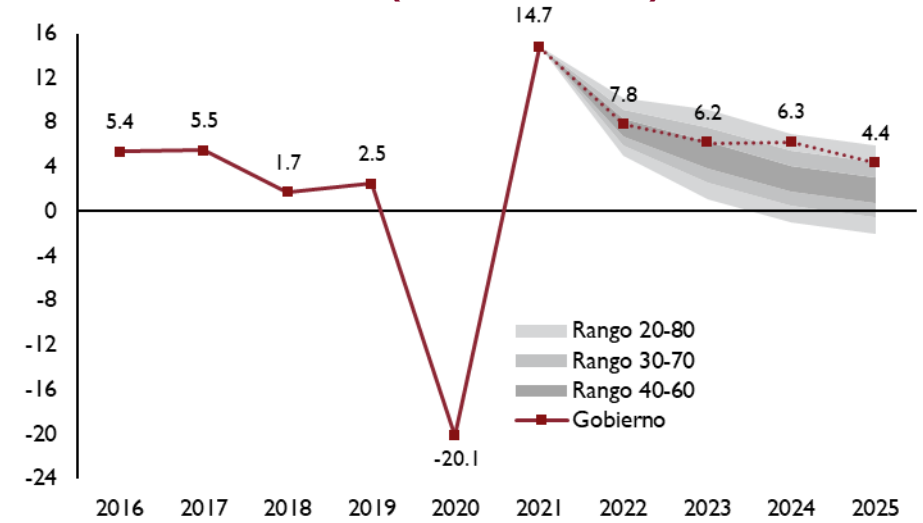
Source: Ministry of Economic Affairs and Digital Transformation and AIReF

GFCF IN CONSTRUCTION AND INTELLECTUAL PROP. TERMS OF VOLUME (RATE OF CHANGE)



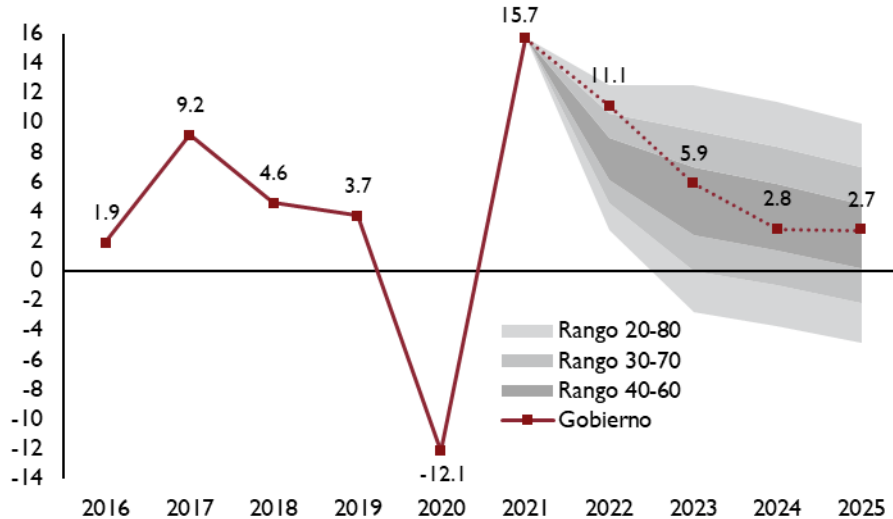
Source: Ministry of Economic Affairs and Digital Transformation and AIReF

EXPORTS OF GOODS AND SERVICES IN TERMS OF VOLUME (RATE OF CHANGE)



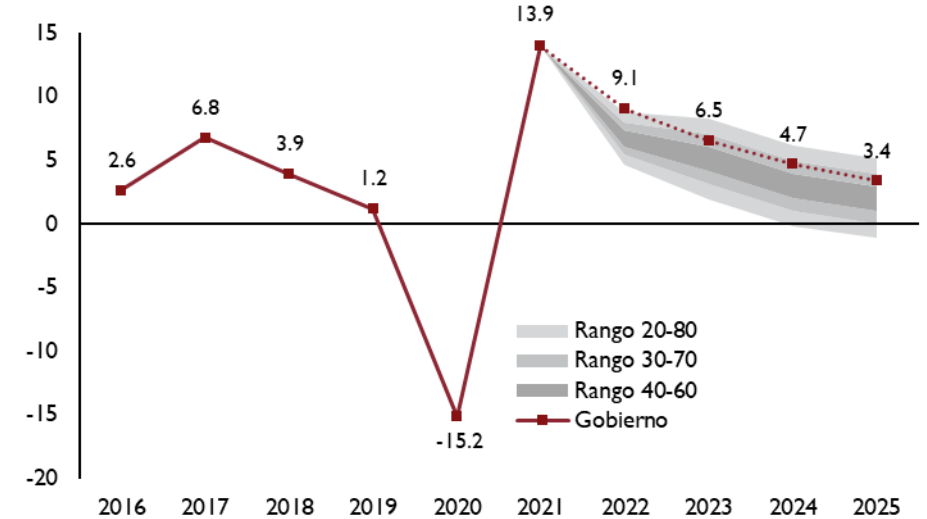
Source: Ministry of Economic Affairs and Digital Transformation and AIReF

GFCF IN EQUIPMENT AND CULTIVATED ASSETS. TERMS OF VOLUME (RATE OF CHANGE)



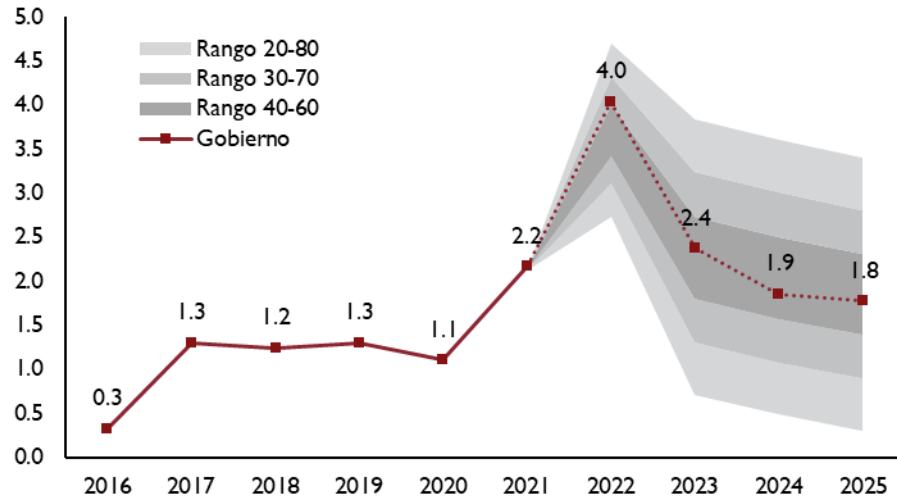
Source: Ministry of Economic Affairs and Digital Transformation and AIReF

IMPORTS OF GOODS AND SERVICES IN TERMS OF VOLUME (RATE OF CHANGE)



Source: Ministry of Economic Affairs and Digital Transformation and AIReF

IMPLICIT GROSS DOMESTIC PRODUCT DEFLATOR. (YEAR-ON-YEAR RATE OF CHANGE)



Source: Ministry of Economic Affairs and Digital Transformation and AIReF

UNEMPLOYMENT RATE (% OF ACTIVE POPULATION).

