



Autoridad Independiente
de Responsabilidad Fiscal

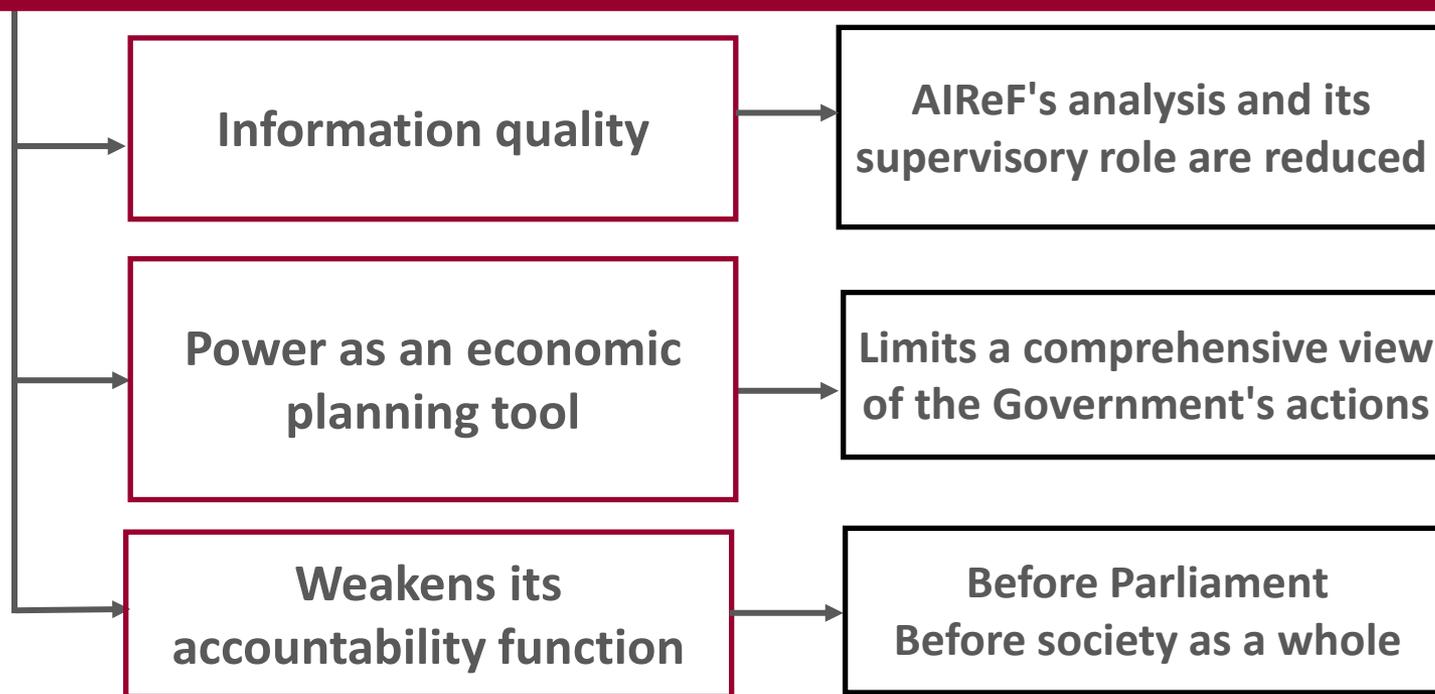
Appearance before the Budget Committee of the Congress of Deputies

**Report on the Main Lines of the Budget of the General Government: 2023
Draft General State Budget**

**Cristina Herrero
President of AIReF
October 18th, 2022**

AIReF must report to provide general information on the draft General State Budget (Article 17 of the Organic Law on Budgetary Stability and Financial Sustainability)

The draft budget is the main economic policy instrument of the Government of the Nation and, therefore, a fundamental control mechanism at a national level in terms of its design and implementation. However, it has notable deficiencies that detract from it:



The uncertainty of the time cannot detract from the purpose of the Budget, which has the mechanisms to manage it

What are the deficiencies of the draft budget for fulfilling its function?

The GSB has to be framed in multi-year budgetary scenarios that constitute the scheduling of the activity of the State public sector

The GSB is the “quantified, joint and systematic expression of the rights and obligations to be settled during the fiscal year”

**But,
2023
GSB**

It is based on revenue forecasts that do not include the most recent information for 2022. Undervaluation of the starting point

Does not incorporate measures for a potentially large amount which, however, are likely to be adopted:

- The Government's own macroeconomic scenario projects that the economic circumstances that led to the temporary measures to mitigate the effects of the energy crisis in 2022 will persist in 2023
- It does not incorporate new measures announced a week after the presentation of the draft budget (still to be specified)
- The DBP sent to Brussels already incorporates a second scenario with higher revenue and expenditure than the GSB

It still does not provide national accounting information on the initial budget, or the national accounting adjustments or execution of the RTRP

The deficiencies of the endorsement procedure for the macroeconomic outlook persist

It is not part of a medium-term strategy

AIReF has already been pointing out these weaknesses and recommending that they be rectified

1. Introduction

2. Macroeconomic scenario

3. Fiscal scenario

4. CSR and Sustainability

5. Recommendations

October 2021

Report on the draft GSB for 2022

- No information on RTRP in national accounting
- No information on national accounting adjustments
- Non-inclusion of measures announced a few days after its approval
- Lack of fiscal information in the endorsement process

October 2022

Endorsement of the economic forecasts of the draft 2023 GSB

- The July report on the economic situation is the starting point for drawing up government accounts (budgetary targets, interim payments, expenditure ceilings, etc.).
- The ultimate aim of the endorsement is to place the budget scenario on a realistic basis

New AIReF recommendations to improve the quality of information and fiscal planning
Reiteration of recommendations to improve the endorsement process: procedure and information

New AIReF recommendation to consult with AIReF on the report on the economic situation that serves as the basis for setting the reference targets/rates
Reiteration and expansion of recommendations to incorporate a revenue and expenditure scenario into the endorsement process

These deficiencies are reiterated and are tending to become budgetary practice and be exacerbated. Unsatisfactory response to AIReF recommendations



This report is again issued in a context of suspended rules

On September 22nd, following a report from AIReF, Parliament considered that the extraordinary circumstances for maintaining the suspension of fiscal rules in 2023 existed

- **Fourth year of suspension** pursuant to Article 11.3 of the Organic Law on Budgetary Stability and Fiscal Sustainability
- While in 2020 and 2021, this was based on the serious crisis caused by the pandemic, **in 2023 it is based on the energy crisis and the uncertainty caused by the war in Ukraine**
- In its July assessment, AIReF warned of a **decrease in growth forecasts for 2023 and upside risks in inflation**
- And it concluded that, in line with the decisions adopted within the framework of European fiscal supervision, **this extension should not overlook the vulnerability associated with the structural deficit and level of debt**

For 2023, Spain has received a quantitative recommendation from ECOFIN that restricts expenditure growth

At a national level, the Organic Law on Budgetary Stability and Fiscal Sustainability links the activation of the escape clause with the drafting of a rebalancing plan

National and European guidelines are aimed at guaranteeing the sustainability of the public finances and focus the response measures to the crisis

Scope of the report

- 1. Introduction
- 2. Macroeconomic scenario
- 3. Fiscal scenario
- 4. CSR and Sustainability
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The analysis of the macroeconomic forecasts performed for the endorsement published on October 4th is completed

AIReF publishes its full forecasts and frames them in a medium-term scenario

The draft 2023 GSB: CG and SSF sub-sectors are assessed

On October 27th, reports will be issued on the DBP, the main budgetary lines of the ARs and LGs and the individual reports of the ARs will be published.

With suspended rules, compliance with the reference rates is evaluated. A preliminary estimate of the GG is offered

	(%GDP) Reference rate 2023
Central Government (CG)	-3.2
Autonomous Regions (ARs)	-0.3
Local Governments (LGs)	0.1
Social Security Funds (SSFs)	-0.5
General Government (GG)	-3.9

Estimate of change in eligible expenditure. Special attention to the expenditure ceiling of the GSB

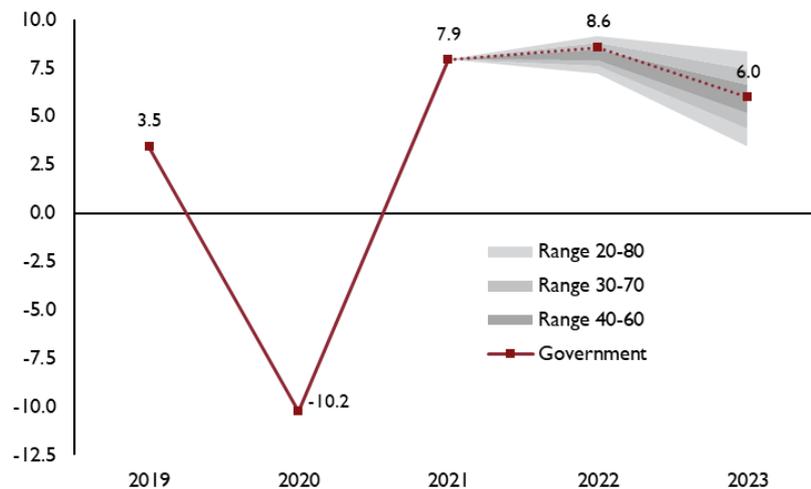
Consistency with national and European guidelines. Analysis of medium-term sustainability and CSR on limitation of expenditure growth



The nominal growth that accompanies the GSB does not present substantive differences with AIReF's current forecast. Endorsement of the scenario

Nominal GDP growth, the most relevant variable for short-term budgetary dynamics, lies in the central range of AIReF's probability bands

Rate of change in nominal GDP (%)



Source: INE, Ministry of Economic Affairs and Digital Transformation and AIReF.

AIReF's Central Forecast: 5.9%

But substantive differences

Outlook for real growth and inflation

Composition of real growth

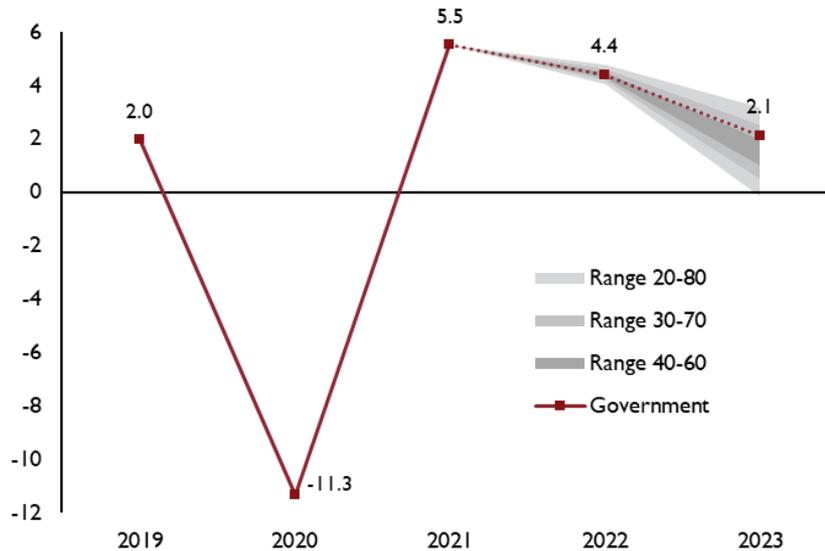
Perception of risks

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AIReF has revised downwards its estimate of real growth

Real growth: although the Government has brought its forecasts closer to those of AIReF, they remain in the optimistic part of AIReF's confidence interval and also above most analysts and institutions

RATE OF CHANGE IN GDP IN TERMS OF VOLUME (%)



AIReF's Report on exceptional circumstances (July) already confirmed the materialisation of downside risks indicated in → the SPU around **2%**. Warning that this scenario does not incorporate the risk that the threat of a total cut-off of Russian gas supplies to European economies will materialise

With the new information (limited in terms of measures), AIReF's new central forecast: **1.5%**

Main discrepancy: strong dynamism of **investment and exports** in Government scenario (offset by import dynamism)

Source: INE, Ministry of Economic Affairs and Digital Transformation and AIReF



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The downward revision with respect to AIReF's report on the 22-25 SPU is the result of three types of factors

SOURCES OF REVISION OF AIReF's MACROECONOMIC OUTLOOK FOR 2023 (%)



The revision of the national accounting partially offsets the above

Materialization of downside risk: deterioration of technical assumptions that, in contrast, are not included in the Government's scenario

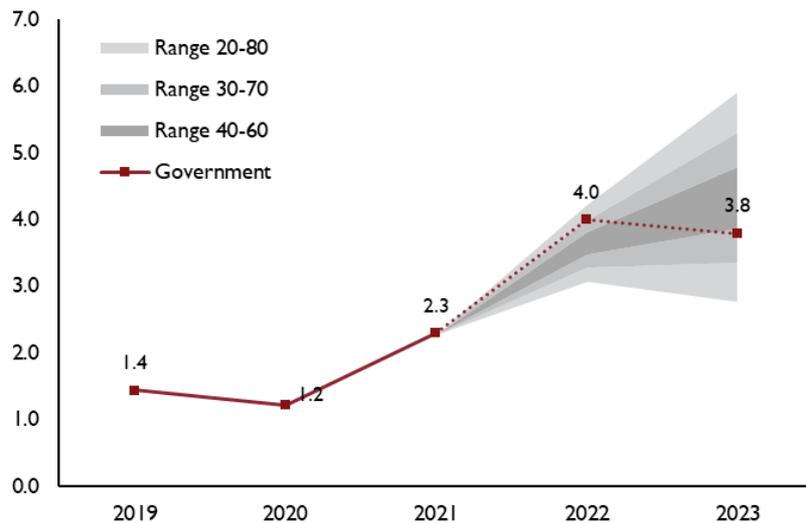
Worsening of forecasts for the second half of the year compared with the forecast in May. Indicators point to stagnation already happening in the third quarter



Generalised upward revision of inflation forecasts, albeit less intense in the case of the Government

GDP deflator growth: the Government expects a change in the deflator that lies at the lower limit of AIREF's central range

RATE OF CHANGE IN THE GDP DEFLATOR (%)



Source: INE, Ministry of Economic Affairs and Digital Transformation and AIREF

AIREF's Central Forecast: 4.3%

This represents an upward revision of 2 pp with respect to AIREF's SPU forecast

And an acceleration of domestic price dynamics with respect to 2022. The energy shock, which in 2022 was particularly noted in consumer prices via its import component, is expected to be passed on to domestic prices

CPI forecast: 8.9% (2022), 3.9% (2023)

Extension of measures is assumed

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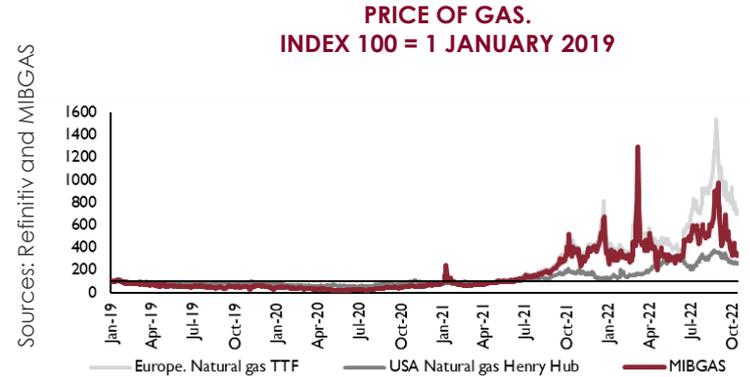


Important risks to AIReF's central scenario

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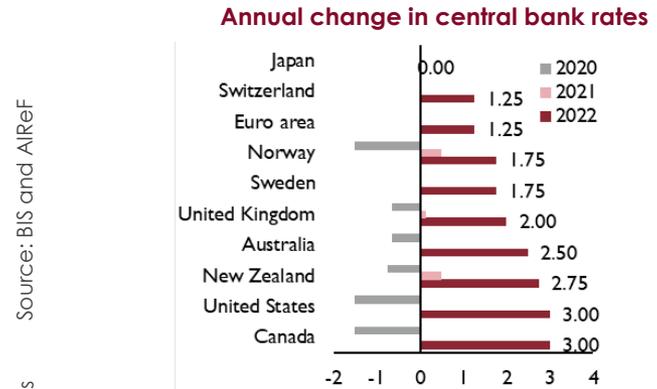
1) Security of gas supply risk

- The scenarios do not assume rationing. However, geopolitical escalation or climatology may reverse this assumption
- At any event, gas prices remain high



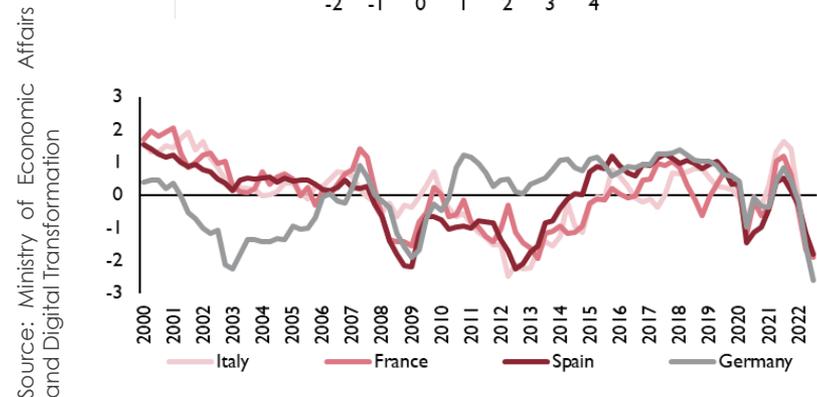
2) Tightening of monetary policy

- Simultaneous but not coordinated
- Risks on real growth and exchange rates



3) More contained behaviour of private consumption

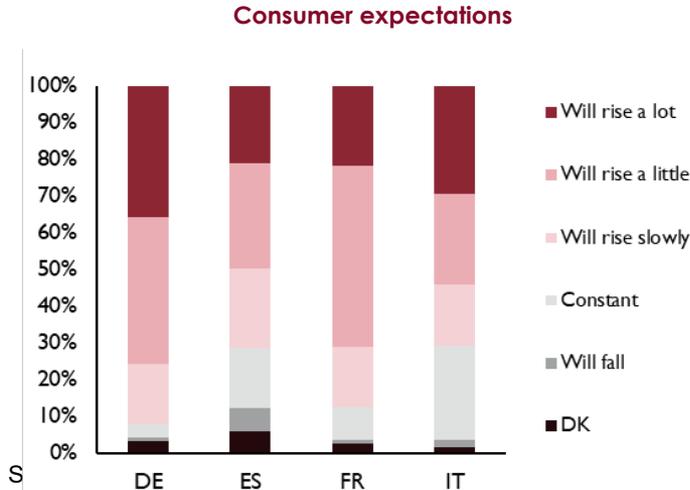
- Deteriorating purchasing power, confidence and financial conditions may undermine the evolution of private consumption and increase savings for precautionary reasons



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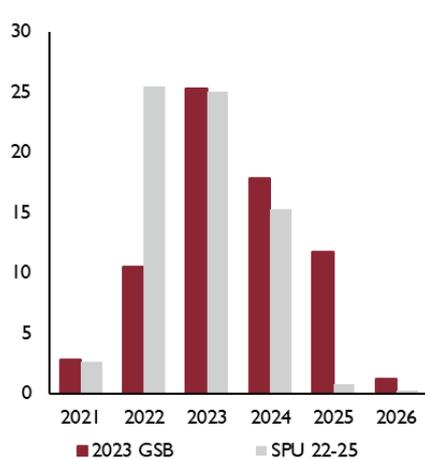
4) Risks of de-anchoring of inflation expectations



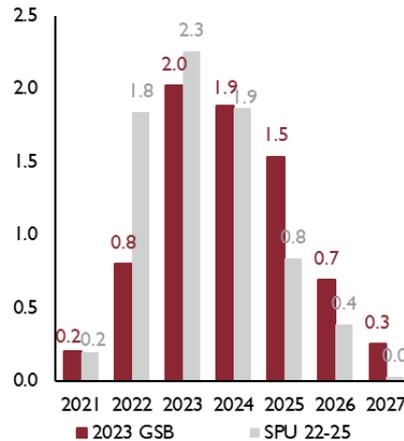
- Nearly 21% of households expect prices to rise sharply over the next 12 months
- CPI sub-indices show that persistence is rising across the board

5) RTRP investment execution risks

ESTIMATE OF THE DISTRIBUTION OF FUNDS (Bn euros)



IMPACT ON GDP (% DEVIATION WITH RESPECT TO A SCENARIO WITHOUT RTRP)



- The pace of execution has been revised with respect to the SPU, which results in a more gradual and extended impact over time

Source: Prepared by AIReF.



AIReF frames its forecasts in a medium-term scenario

In order to assist in the medium-term economic planning that AIReF considers essential in this uncertain environment and which it repeatedly includes among its recommendations to the Government, a complete macroeconomic scenario up to 2026 is presented

Year-on-Year Rates of Change	AIReF						Government	
	2021	2022	2023	2024	2025	2026	2022	2023
Private Domestic Final Consumption Expenditure	6.0	1.5	1.3	2.7	2.0	1.8	1.2	1.3
General Government Final Consumption Expenditure	2.9	-0.9	0.8	1.1	0.8	0.9	-1.0	0.4
GFCF	0.9	5.5	3.9	5.3	3.2	2.2	5.1	7.9
<i>GFCF Equipment and Cultivated Assets</i>	6.5	5.1	2.7	9.9	5.8	3.6	6.6	9.5
<i>GFCF Construction and Intellectual Property</i>	-1.5	5.6	4.4	3.4	2.0	1.6	4.5	7.2
Domestic Demand*	5.2	1.7	1.7	2.9	2.0	1.7	1.5	2.4
Exports of Goods and Services	14.4	16.9	2.5	2.7	1.5	1.3	17.9	7.3
Imports of Goods and Services	13.9	9.6	3.0	3.0	1.9	1.5	9.9	8.2
External Balance*	0.3	2.7	-0.2	-0.1	-0.2	-0.1	2.9	-0.3
Gross Domestic Product	5.5	4.4	1.5	2.7	1.8	1.6	4.4	2.1
Nominal Gross Domestic Product	7.9	8.2	5.9	5.0	3.9	3.4	8.6	6.0
Gross Domestic Product Deflator	2.3	3.6	4.3	2.2	2.0	1.8	4.0	3.8
Full-Time Equivalent Employment	6.6	2.9	0.3	1.5	0.9	0.6	2.9	0.6
Unit Labour Cost	0.3	1.3	4.6	2.4	1.6	1.1	0.5	2.3
Productivity per Full-Time Employee	-1.0	1.5	1.2	1.2	0.9	1.0	1.5	1.5
Unemployment rate (% of Active Population)	14.8	12.8	12.8	12.2	11.8	11.5	12.8	12.2
Household and NPISH Savings Rate (% Gross Disposable Income)	13.6	8.5	8.7	8.5	8.1	7.3	-	-

* Contribution to GDP growth

This scenario assumes that the Spanish economy would resume a path of recovery in the spring of 2023 and recover to pre-pandemic levels of activity in the first quarter of 2024.

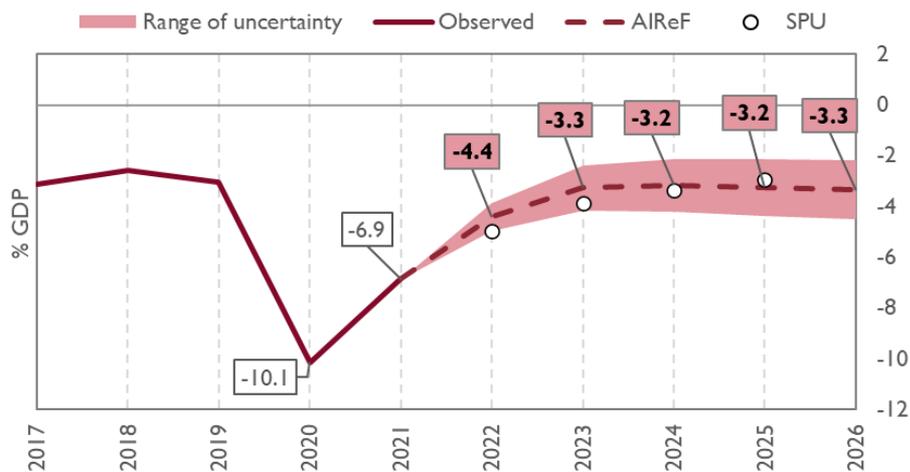
Resolution of the energy crisis
Execution of the RTRP



Source: National Statistics Institute, Ministry of Economic Affairs and Digital Transformation and AIReF.

AIReF estimates a total GG deficit of 3.3% of GDP in 2023, without including the extension of the package of energy measures

Evolution of GG balance (% GDP)



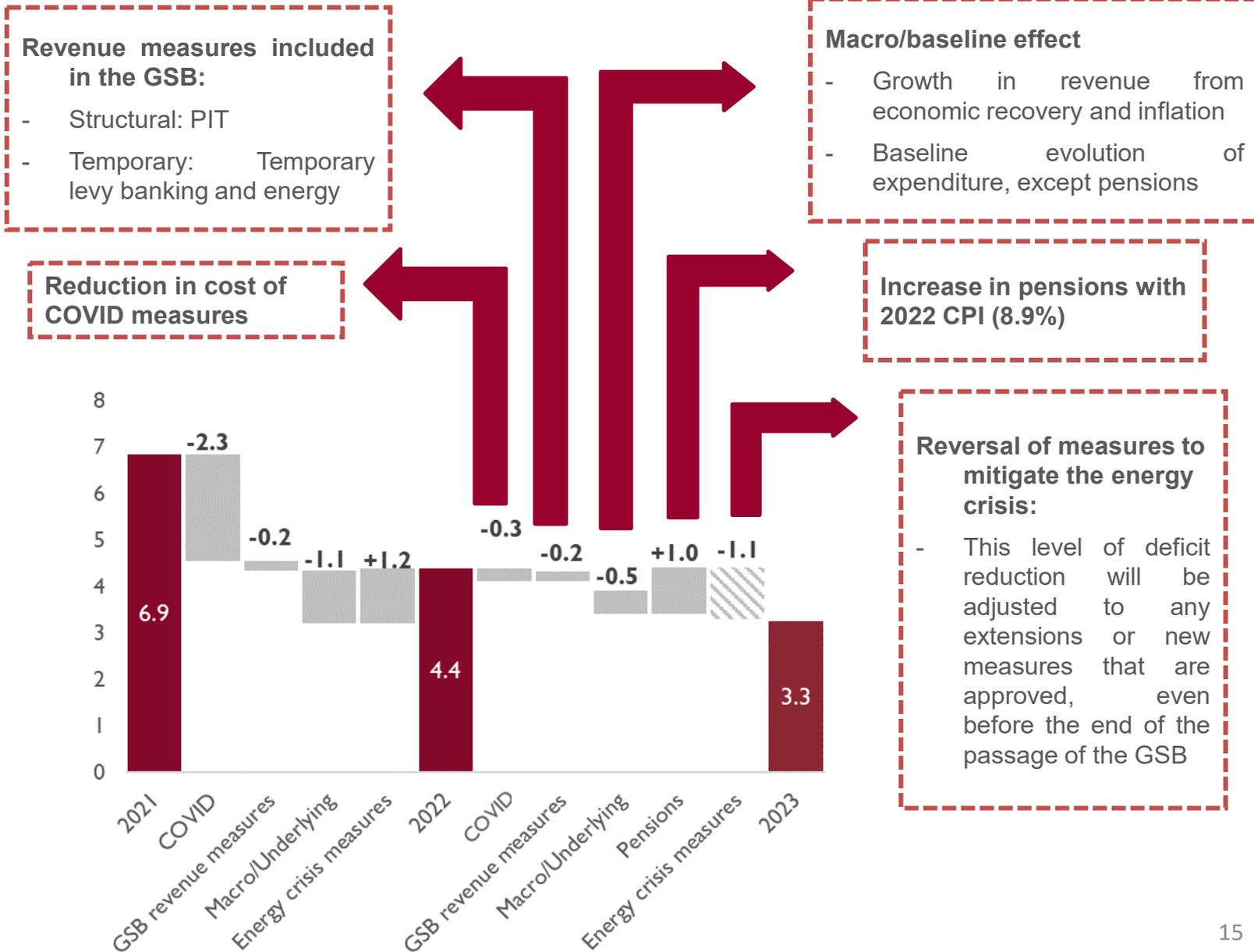
Source: AIReF

- After closing 2022 with 4.4% of GDP, AIReF's forecasts remain 0.6 points below the reference rates set by the Government
- In the medium term, AIReF estimates that the GG deficit will stabilise at around 3.2% of GDP, with a slight upturn in 2026 to 3.3% of GDP

In the medium term, the margin for reducing the deficit without adopting additional measures is exhausted, resulting in a level above the 3% of GDP limit set in the Stability and Growth Pact

The level of deficit reduction in 2023 will depend on the decision on the extension of the measures

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Source: AIReF



The revenue measures included in the GSB will add 0.2 points to the weight of revenue over GDP in 2023

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Revenue measures in cash terms: AIReF estimate									
Total annual impact									
Measure	Source	2023		2024		2025		2026	
		€m	% GDP						
Structural revenue measures		-463	0.0	-1,232	-0.1	-1,232	-0.1	-1,232	-0.1
PIT		-1,141	-0.1	-1,712	-0.1	-1,712	-0.1	-1,712	-0.1
Reduction of the contribution limit for pension plans from 2,000 to 1,500.	GSB22	149	0.0	149	0.0	149	0.0	149	0.0
Increase in taxation on capital income	GSB23	0	0.0	204	0.0	204	0.0	204	0.0
Increase reduction work income and minimum taxation.	GSB23	-1,290	-0.1	-1,881	-0.1	-1,881	-0.1	-1,881	-0.1
Reduction in modules income system and increase reduction in ded. expenses	GSB23	0	0.0	-184	0.0	-184	0.0	-184	0.0
Corporate Income Tax		421	0.0	129	0.0	129	0.0	129	0.0
Establishment of a minimum rate of 15% of taxable income.	GSB22	400	0.0	400	0.0	400	0.0	400	0.0
Reduction to 40% of allowance under housing rental regime	GSB22	21	0.0	21	0.0	21	0.0	21	0.0
Reduction in the rate for small businesses	GSB23	0	0.0	-292	0.0	-292	0.0	-292	0.0
VAT		-24	0.0	-24	0.0	-24	0.0	-24	0.0
Reduction rate to 5% on female hygiene products	GSB23.	-24	0.0	-24	0.0	-24	0.0	-24	0.0
OTHER		282	0.0	375	0.0	375	0.0	375	0.0
Tax on single-use plastics:	Law 7/2022	282	0.0	375	0.0	375	0.0	375	0.0
Temporary revenue measures		3,694	0.3	7,210	0.5	3,485	0.2	-39	0.0
PIT		-50	0.0	-99	0.0	-80	0.0	-39	0.0
Deductions for housing rehabilitation.	RDL 19/2021	-50	0.0	-99	0.0	-80	0.0	-39	0.0
CIT		244	0.0	2,439	0.2	2,195	0.1	0	0.0
Limitation on offsetting losses in consolidated groups.	GSB23	244	0.0	2,439	0.2	2,195	0.1	0	0.0
OTHER		3,500	0.1	4,870	0.1	1,370	0.0	0	0.0
Temporary Levy Financial Institutions	In process	1,500	0.1	1,500	0.1	0	0.0	0	0.0
Temporary Levy Energy Companies	In process	2,000	0.1	2,000	0.1	0	0.0	0	0.0
Solidarity tax on large fortunes	In process	0	0.0	1,370	0.1	1,370	0.1	0	0.0
TOTAL		3,231	0.2	5,978	0.4	2,253	0.2	-1,271	-0.1

Source: AIReF

The permanent measures entail a structural loss of revenue, while the increases in revenue come from temporary measures



The GSB does not include the extension of the measures adopted in 2022 to mitigate the effects of the energy crisis and the invasion of Ukraine by Russia

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AIREF Impact of the CG measures adopted in response to the energy crisis			
Impact in National Accounting terms (€m)	Measures until 31-Dec -2022	Extension until 31-Dec - 2023	
	2022	2023	2024
Revenue Measures	-4,051	-5,038	-172
VAT: Reduction of electricity rate to 10% (RDL 12, 17 & 29 /2021 & 6/2022) & to 5% since July (RDL 11/2022)	-1,955	-2,280	
Reduction in gas rate to 5% (RDL 17/2022)	-151	-806	
STs Electricity rate reduction (RDL 2021, 6/2022 & 6/2022)	-1,944	-1,952	-172
Expenditure Measures	11,721	13,490	
Fuel allowance	4,531	6,774	593
Sectoral support	3,522	3,587	
Direct support for individuals	540	540	
Other support for individuals	1,928	2,588	
Support for refugees	1,200		
TOTAL	-15,772	-18,528	
TOTAL (% GDP)	-1.2	-1.3	
Other			
Tax on the Value of Electricity Production: Suspension (RDL 12, 17, 29/2021 & 6/2022)	-3,780	-3,762	-1,088

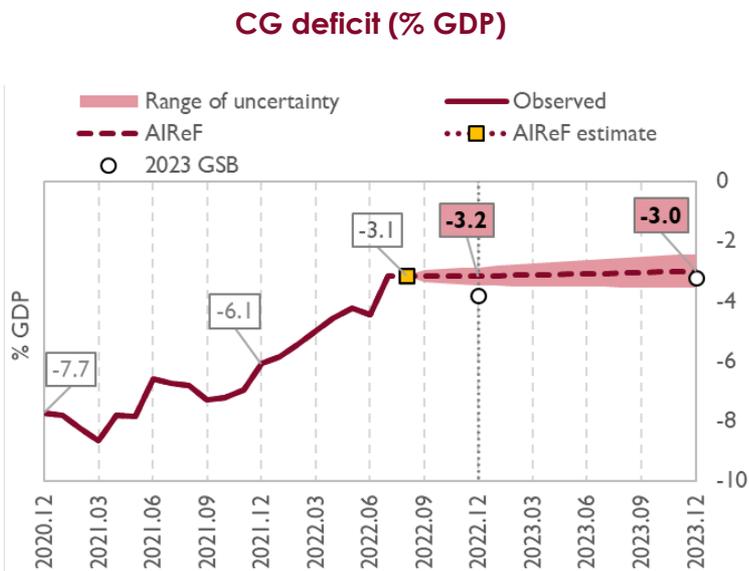
Source: AIREF

	CPI		
	Headline	Excluding energy and unprocessed foods	Energy
June-21	2.7	0.2	23.5
July-21	2.9	0.6	20.7
August-21	3.3	0.7	23.5
September-21	4.0	1.0	28.8
October-21	5.4	1.4	39.5
November-21	5.5	1.7	35.9
December-21	6.5	2.1	40.2
January-22	6.1	2.4	33.0
February-22	7.6	3.0	44.3
March-22	9.8	3.4	60.9
April-22	8.3	4.4	33.7
May-22	8.7	4.9	34.2
June-22	10.2	5.5	40.8
July-22	10.8	6.1	41.4
August-22	10.5	6.4	37.4
September-22	8.9	6.2	22.4
October-22			

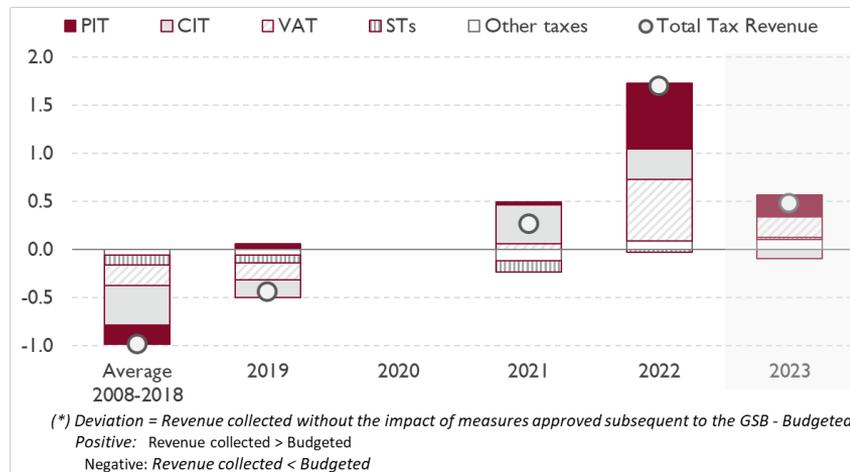
The projected deficit of 3.3% of GDP for 2023 would be increased depending on the horizon and scope of the extension(s) to be adopted over the year, as well as due to the new measures

Central Government: AIReF forecasts a deficit in 2023 of 3% of GDP, 0.2 points less than in 2022

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DIFFERENCE BETWEEN TAX REVENUE FORECASTS GSB AND AIReF



Source: AIReF

- **Forecast of the CG deficit 0.6 and 0.2 points below the Government's reference rate**
- Since the fiscal rules were suspended in 2021, the revenue forecast in the GSB has been below what has actually been collected, a trend that seems to be continuing for 2023
- Deficit reference rate for 2023 still has margin (less than in 2022)



Tax revenue: AIReF estimates that in 2023 the weight of tax revenue as a percentage of GDP will be 0.5 points higher than that presented in the 2023 GSB

TAX REVENUE IN CASH TERMS, BEFORE TRANSFER TO TERRITORIAL GOVERNMENTS: DRAFT 2023 GSB VS AIREF (% GDP)

	2022			2023		
	2023 GSB	AIREF	Difference	2023 GSB	AIREF	Difference
TAX REVENUE(*)	18.6	19.2	0.6	18.9	19.5	0.5
PIT	8.0	8.4	0.3	8.1	8.4	0.3
CIT	2.0	2.2	0.2	2.1	2.0	-0.1
VAT	6.2	6.4	0.2	6.2	6.4	0.2
STs	1.6	1.6	0.0	1.6	1.6	0.0
Other	0.8	0.8	0.0	0.9	1.0	0.1

(*) Before the transfer to Territorial Governments

Source: AIReF

- The main difference focuses on year-end 2022, which is higher in AIReF's estimate
 - €300m less PIT and €1bn less VAT than in the same period of 2021 would have to be collected to comply with the 2022 GSB forecast
- The difference in the starting point is slightly reduced in 2023 due to the lower dynamism in the growth rates estimated by AIReF (7.2% compared with the 7.7% estimated by the GSB)
- Excluding the impact of the reversal of the temporary measures in 2022 as well as the new measures in 2023, the growth in tax revenue in cash would be 4.7%

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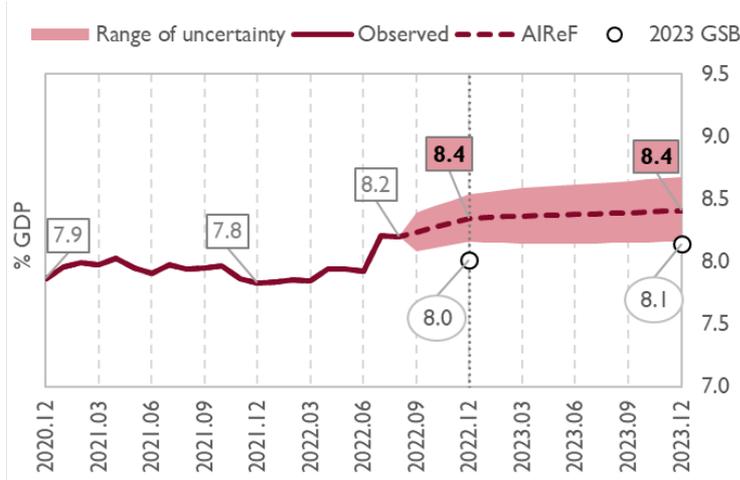
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PIT maintains its weight over GDP in 2023, after the increase in 2022, driven by tax due less tax relief, withholdings and prepayments and the dynamism of the labour market

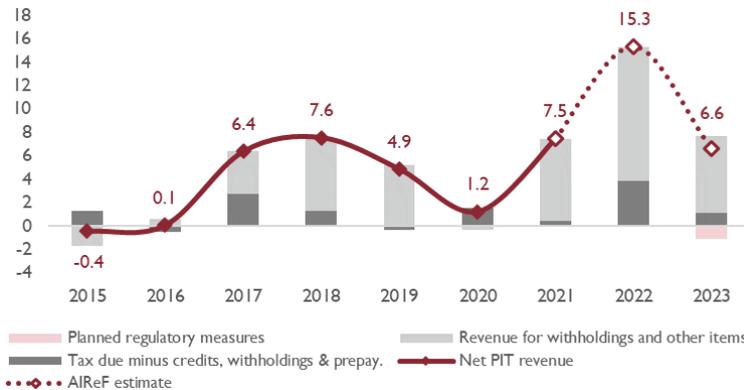
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PIT IN CASH (% GDP)

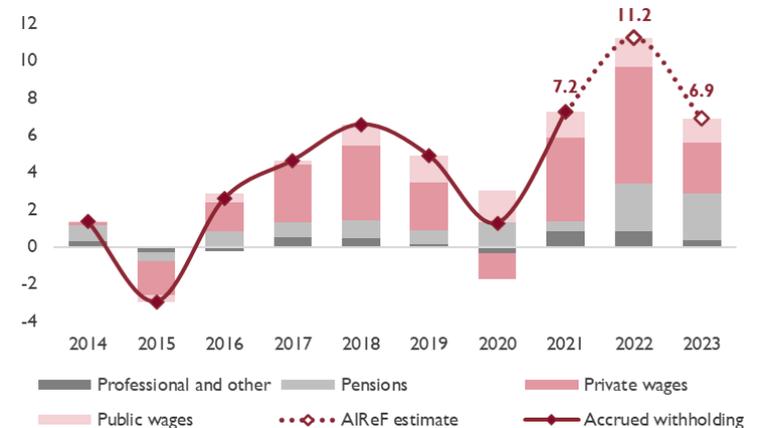


PIT moderates its growth in 2023 (6.6%) due to a negative contribution of the planned measures and a reduction in the dynamism of withholdings on work and tax due less tax relief, withholdings and prepayments
 Withholdings on work will grow in 2023 driven by the increase of pensions and the increase in compensation per employee

PIT GROWTH IN CASH (%)



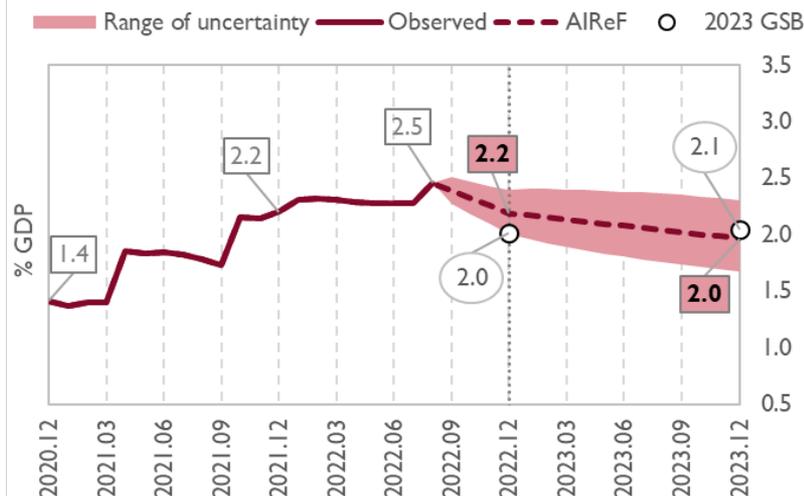
GROWTH IN WITHHOLDINGS ON WORK (%)



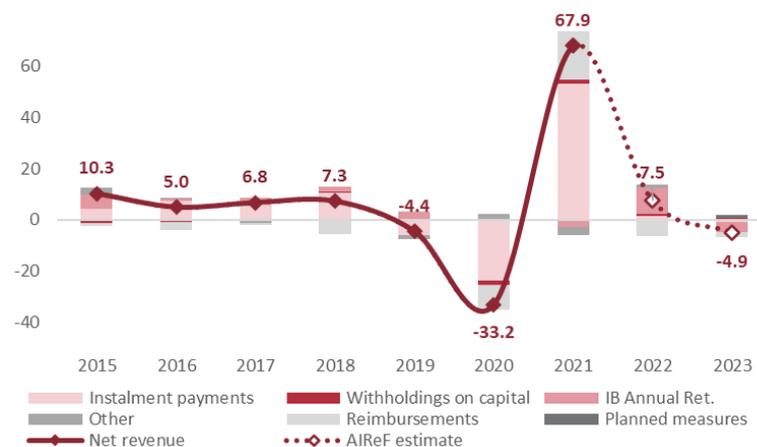
Corporate Income Tax reduces its weight over GDP in 2023, after remaining at 2.2% in 2022

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CIT IN CASH (% GDP)



CONTRIBUTION TO GROWTH BY COMPONENT



Source: AIReF and AEAT

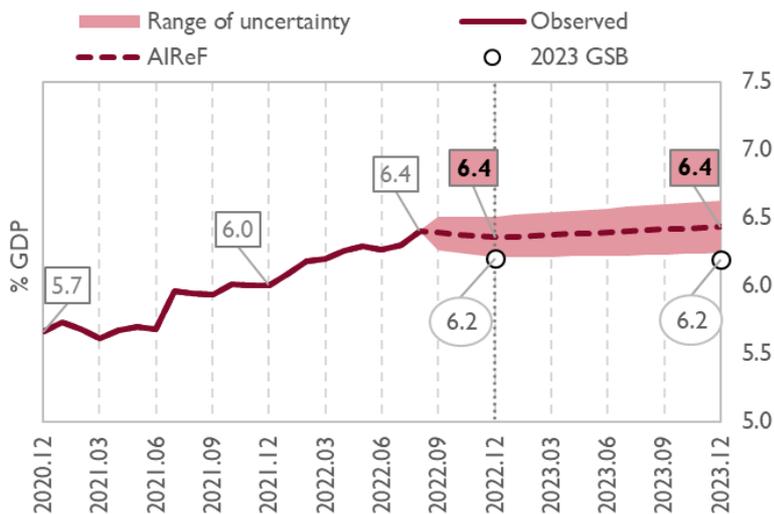
- AIReF considers that Corporate Income Tax (CIT) will reduce its weight, ending 2023 at 0.2 points below 2022, in contrast to the increase expected in the GSB
- According to AIReF, CIT will grow in cash terms by 7.5% in 2022 and will fall by 4.9% in 2023, which contrasts with the drop of 0.5% in 2022 and the growth of 7.7% in 2023 considered in the draft GSB
- CIT is still highly uncertain in 2022, since the second and third instalments are paid in October and December



VAT maintains its weight over GDP in 2023, after the increase that began with the pandemic

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VAT IN CASH (% GDP)

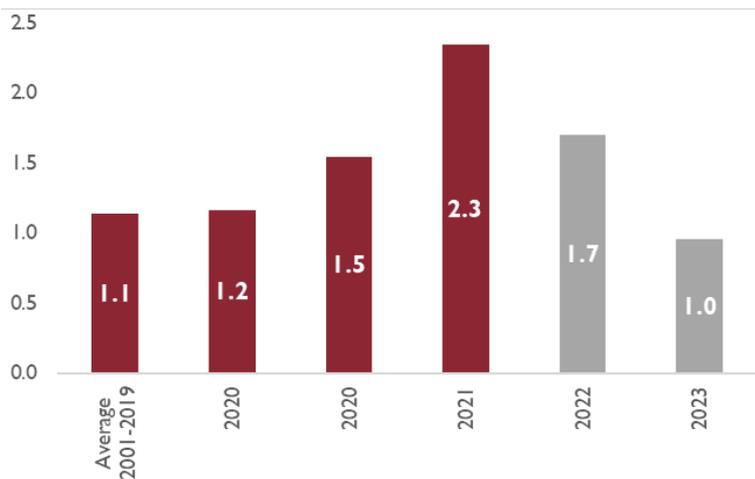


VAT maintains its weight over GDP in 2023, after the increase of 0.4 points in 2022

This estimate is 0.2 points higher in both years than the GSB

This forecast does not include the extension of the VAT reduction for electricity and gas

VAT ELASTICITY (WITHOUT MEASURES) DOMESTIC DEMAND



The dynamism of VAT in 2022 is based on inflation and an increase in elasticity with domestic demand that began in 2020

In 2023, elasticity is expected to be in line with historical elasticity and growth is expected to be mainly supported by inflation



Central Government revenue : AIReF considers a stabilisation of the weight of total revenue over GDP until 2023

1. Introduction

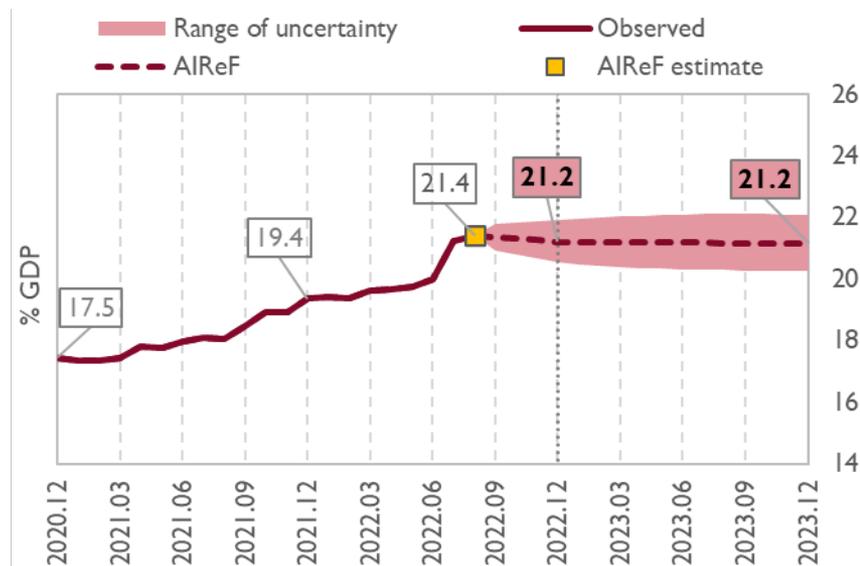
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EVOLUTION OF CG REVENUE (% GDP) IN NATIONAL ACCOUNTING



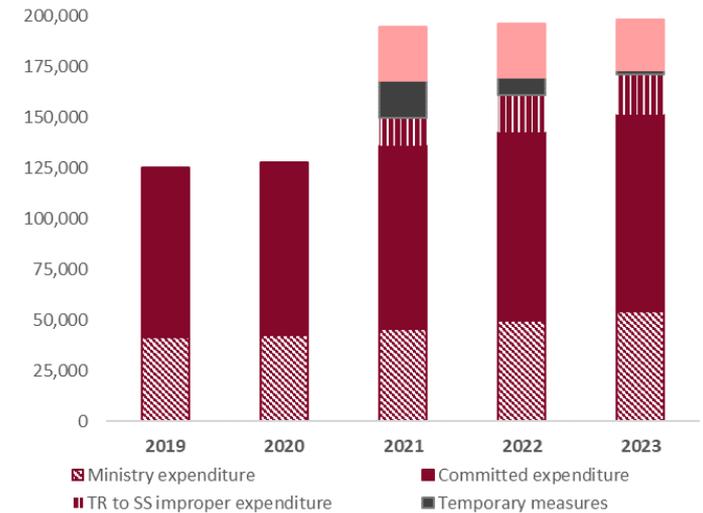
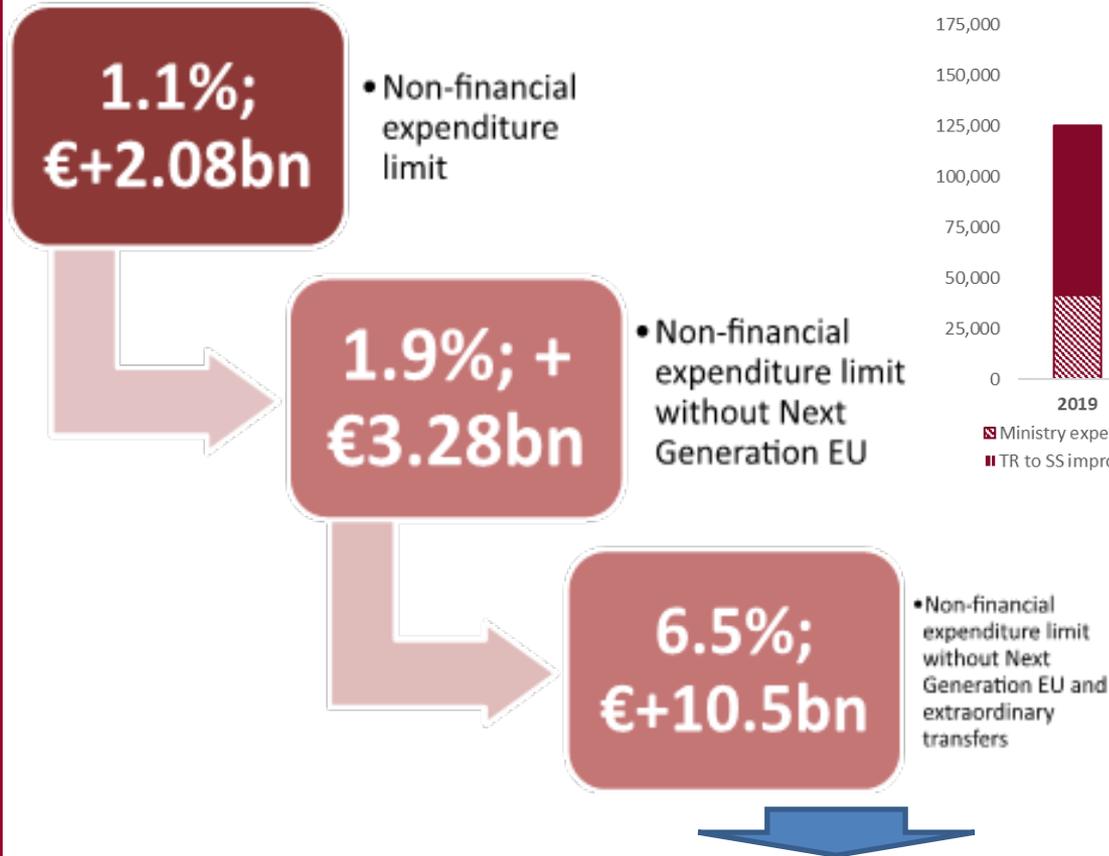
Source: AIReF

- The increase in RTRP funds in 2023 offsets the reduction in the weight of other revenue
- STs maintain their weight in 2022 and 2023 at 1.6% of GDP, despite a certain upturn in 2023 due to the end of the reduction in the rate on electricity
- Other revenue increases its weight over GDP by 0.2 points in 2023 as a result of the revenue from the new levies on financial institutions and energy companies.

The non-financial expenditure limit in 2023 consolidates the increase of the last two years and is 1.1% higher than in 2022

EVOLUTION OF THE NFEL 2019-2023

EVOLUTION OF THE NFEL 2019-2023



Interest	+€1.1bn	Civil servant pensions	+€2.51bn
Compensation of employees	+€1.2bn	Capital transfers	+€1.9bn
Imp. Exp. Soc. Security	+€1.49bn		

CG expenditure: AIReF considers a reduction in the weight over GDP of 1.3 points in 2023, excluding the RTRP

1. Introduction

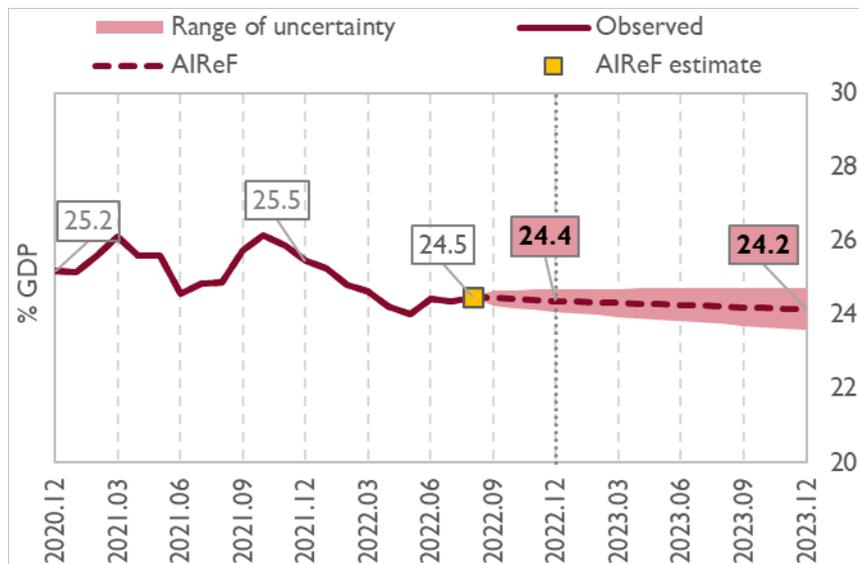
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EVOLUTION OF CG EXPENDITURE (% GDP) IN NATIONAL ACCOUNTING

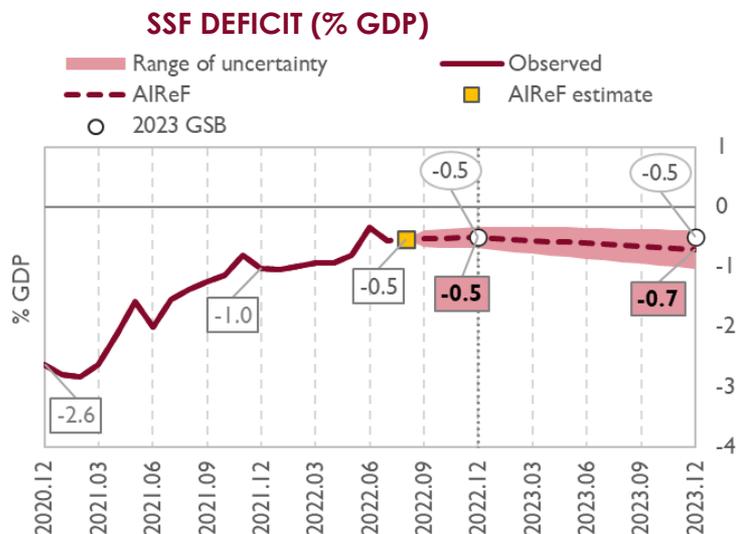


Source: AIReF

- AIReF expects total Central Government expenditure to reduce its weight over GDP by 0.2 points in 2023 if the estimated RTRP funds for each year are included
- Excluding the RTRP funds, AIReF estimates that expenditure will fall by 1.3 points in 2023 to 22.3%
- This reduction is mainly due to the assumption that the measures against the energy crisis will not be extended, which implies a reduction in expenditure of 0.9 points

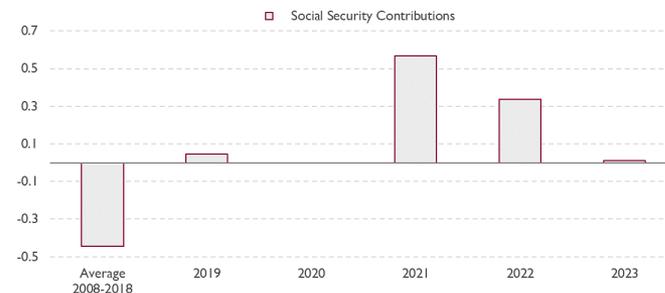
Social Security Funds: forecast deficit in 2023 of 0.7% of GDP, 0.2 points more than in 2022

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Source: AIReF

DIFFERENCE BETWEEN SSF CONTRIBUTION FORECASTS, GSB AND AIReF



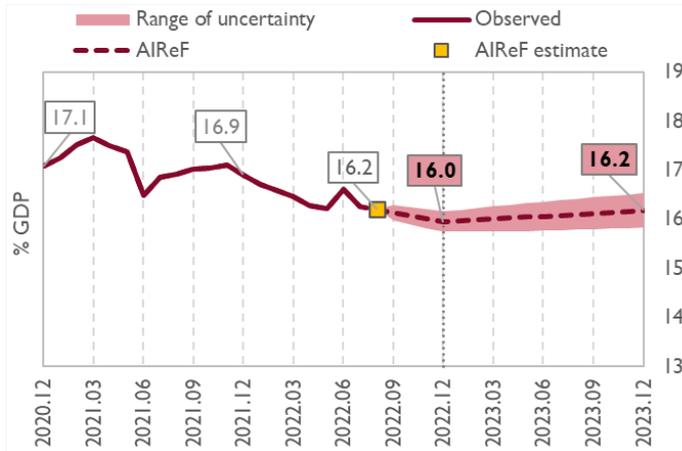
(*) Deviation = Revenue collected without the impact of measures approved subsequent to the GSB - Budgeted
 Positive: Revenue collected > Budgeted
 Negative: Revenue collected < Budgeted

- **Deficit forecast** for the Social Security Funds (SSFs) in line with the Government's reference rate in 2022, but 0.2 points more pessimistic in 2023
- The estimate of contributions for 2023 is in line with that included in the 2023 GSB
- The increase in the deficit is due to a greater increase in expenditure than in revenue



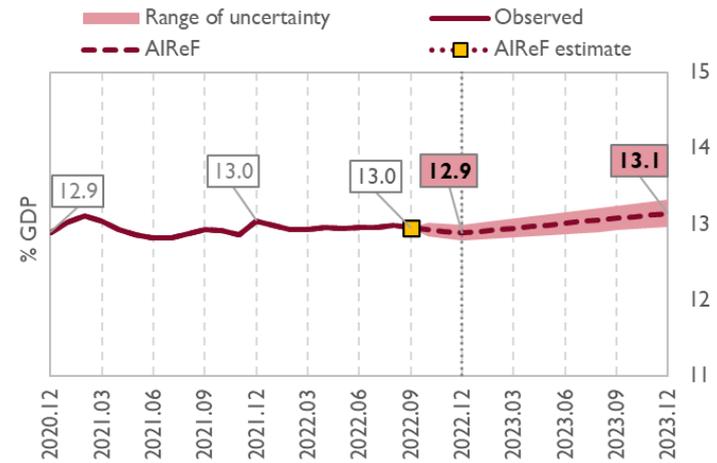
SSF revenue: increase in weight over GDP by 0.2 points due to the increase in contributions and higher transfers from the State

SSF REVENUE (% GDP)

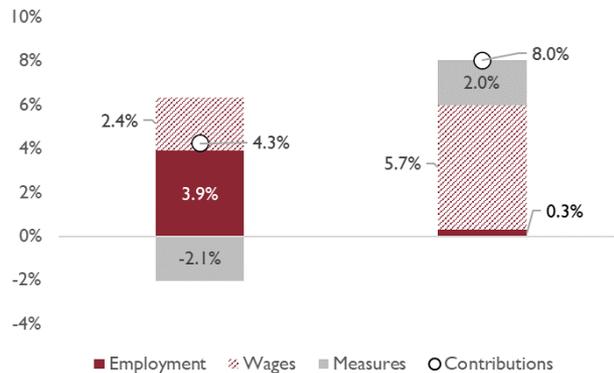


Source: AIReF

SSF CONTRIBUTIONS (% GDP)



BREAKDOWN OF GROWTH IN SOCIAL CONTRIBUTIONS



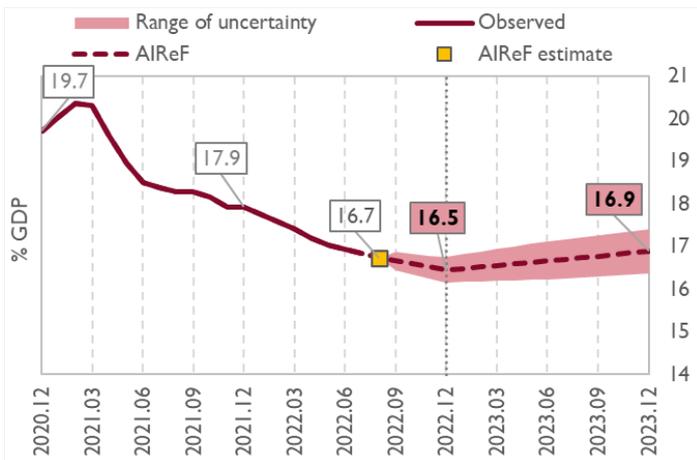
- While in 2022 employment led the growth of contributions, in 2023 it is the dynamism in wages that is pushing them upwards
- The new measures, Intergenerational Equity Mechanism and increase in maximum contribution bases, provide greater dynamism



SSF expenditure: increase in weight of GDP of 0.4 points due to the increase in pensions in line with the CPI

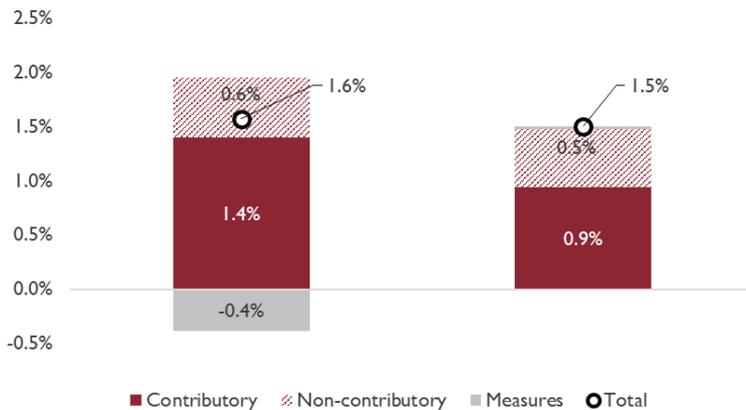
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SSF EXPENDITURE (% GDP)

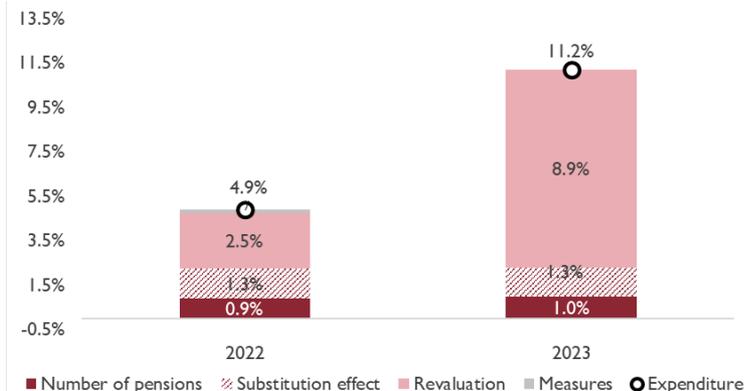


Source: AIReF

EVOLUTION OF UNEMPLOYMENT EXPENDITURE



GROWTH IN PENSION EXPENDITURE (% Change)



- Pension expenditure rises by 0.6 points of GDP, mainly due to the increase in line with the 2022 CPI
- Unemployment expenditure falls by 0.1 points
- The disappearance of expenditure for temporary incapacity due to COVID reduces the weight of expenditure by 0.2 points



Budgetary Plan: presents two scenarios with the same deficit path and without considering the impact of the measures on the macroeconomic scenario

Scenario 2 raises revenues and expenditure by the same amount for both years, although the different assumptions underlying the two scenarios, which share the same macroeconomic outlook, are not clear

REVENUE BUDGETARY PLAN SCENARIOS VS AIREF (% GDP)

	2022			2023		
	DBP-1.	DBP-2.	AIReF	DBP-1.	DBP-2.	AIReF
REVENUE	42.1	42.9	42.9	42.3	43.0	43.3
TAXES	24.4	25.3	24.9	24.8	25.5	25.3
<i>On production</i>	12.2	12.6	12.3	12.2	12.3	12.6
<i>On income</i>	11.8	12.2	12.1	12.2	12.8	12.3
<i>Capital</i>	0.5	0.5	0.4	0.4	0.5	0.4
CONTRIBUTIONS:	13.6	13.6	13.7	13.7	13.7	13.9
Other revenue	4.0	4.0	4.3	3.8	3.8	4.1

Source: AIReF and Ministry of Finance

- Scenario 1 seems to be in line with the GSB forecasts, although it has some inconsistencies:
 - The Tax on the Value of Electricity Production has an estimate of €3.43bn compared with €1.35bn in the GSB
- Scenario 2, which incorporates more recent information, is close to AIReF's forecasts, although with a somewhat different composition (higher taxes and lower other revenue)
- Scenario 2 does not specify which measures are extended, which might explain the differences with AIReF's forecasts in 2023

Budgetary Plan: Scenario 2 shows lower growth in expenditure in 2023, despite including additional measures

EXPENDITURE BUDGETARY PLAN SCENARIOS VS AIREF (% GDP)

	2022			2023		
	DBP-1.	DBP-2.	AIReF	DBP-1.	DBP-2.	AIReF
EXPENDITURE	47.1	47.9	47.3	46.2	46.9	46.6
Compensation of employees	11.6	11.8	11.7	11.4	11.4	11.6
Intermediate consumption	5.7	5.7	5.8	5.6	5.6	5.7
Social transfers in kind via market	20.6	20.7	20.4	20.8	21.1	20.7
Interest	2.2	2.2	2.2	2.4	2.4	2.2
Subsidies	1.8	2.2	1.8	1.2	1.4	1.4
Gross capital formation	2.5	2.5	2.3	2.6	2.6	2.2
Investment support and other Cap. Tr.	0.9	0.9	1.1	0.6	0.6	0.8
Other expenditure	1.9	1.9	2.0	1.7	1.7	1.9
NET LENDING/BORROWING	-5.0	-5.0	-4.4	-3.9	-3.9	-3.3

Source: AIReF and Ministry of Finance

- Expenditure grows in 2023 by 3.6% in scenario 1 and by 3.5% in scenario 2 compared with the 4.4% increase in AIReF's scenario, which does not include the extension of measures
- Scenario 1 does not include the 1.5% increase in compensation of employees in 2022, although it is included in the GSB forecasts
- Scenario 2 shows a strong increase in expenditure in 2022, which seems high for the measures listed
- Scenario 2 does not specify which measures are extended in 2023 and does not raise compensation of employees, although the 1.5% increase is consolidated

AIReF will update its forecasts and provide a more detailed analysis of the Budgetary Plan in the report it will present on October 27th

The compatibility of the budget with the CSR requires a focused analysis of the measures

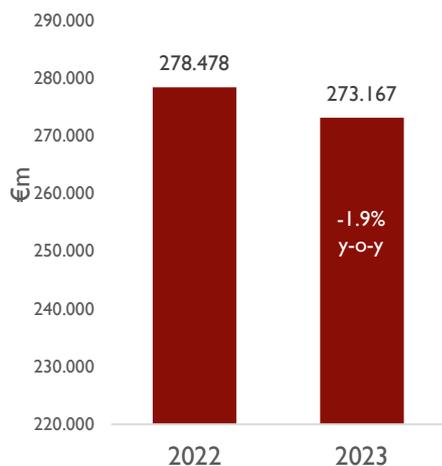
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- The Country Specific Recommendation (CSR) on fiscal matters recommends that Spain limit the increase in nationally financed current primary public expenditure below medium-term potential growth (ranging from 3.1% to 5.1% depending on the deflator)
- In the absence of new measures or extension of those adopted, the CSR could be complied with in 2023

Current primary spending net of Central Government revenue measures falls in 2023. Extending the increase in expenditure forecast in the 2023 SGB to the GG as a whole would be within the range of compliance with the CSR

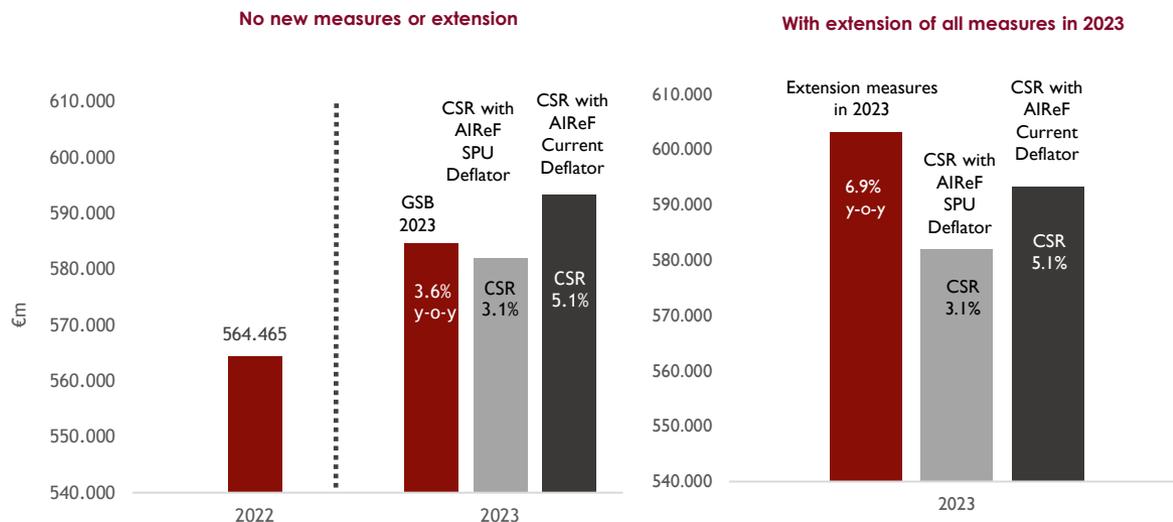
If all the measures were extended for 2023, the growth in the current primary expenditure of the GG would be almost 7% per year, 6% if the extension is for the amount included in Scenario 2 of the DBP, which is clearly above the range of compliance with the fiscal CSR

CURRENT PRIMARY EXPENDITURE NET OF REVENUE MEASURES. CENTRAL GOVERNMENT



Source: AIReF

CURRENT PRIMARY EXPENDITURE NET OF REVENUE MEASURES. COMPARISON WITH THE FISCAL CSR, GG AS A WHOLE



Source: AIReF

Source: AIReF



The favourable trend in the denominator of the debt ratio means that it can be expected to fall in the short term

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The debt ratio has fallen for five straight quarters to stand at 116.1% of GDP in June 2022, which is still an increase of 17.9 points compared with the end of 2019.

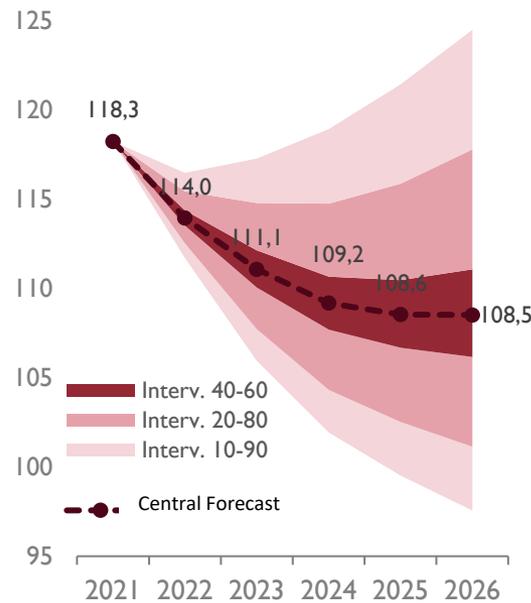
For 2023, AIReF estimates a reduction in the debt ratio of 7.2 points of GDP compared with the 2021 level due to the favourable evolution of nominal GDP. Although the pace of this reduction is projected to slow down in the medium term and stabilise at 108.5% of GDP

DEBT (% GDP)
QUARTER-ON-QUARTER EVOLUTION



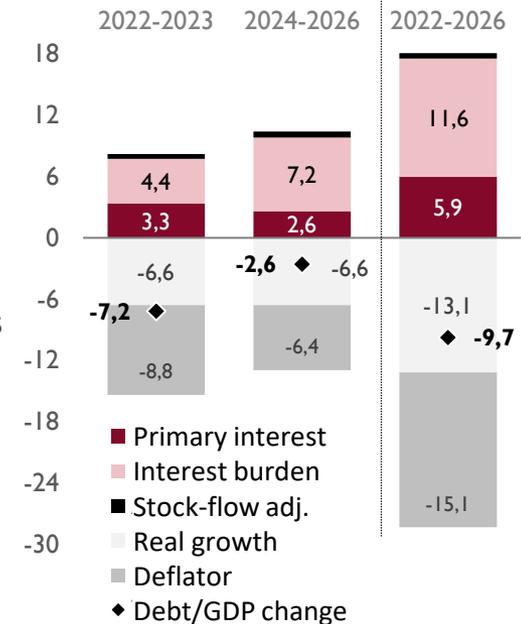
Source: Bank of Spain, INE

DEBT (% GDP)
MEDIUM-TERM PROJECTION



Source: AIReF

CONTRIBUTIONS TO THE CHANGE
IN DEBT (% GDP)



Source: AIReF



AIReF makes two new recommendations...

Aimed at adequately structuring the budget process and addressing the deficiencies noted in the GSB

AIReF maintains alive and repeats its **recommendation to establish a medium-term fiscal strategy** to provide fiscal guidance and credibly and realistically guarantee sustainability

Report on 22-25 SPU recommended evaluating the measures already adopted at that time, and with a view to possible new measures to explicitly set their targets and conditions for any extension

In the next fiscal year, the draft **General State Budget** should recover its **central role as an instrument of fiscal and economic policy** and an element of design, planning, execution, control and supervision of the activity of the public sector

It should **incorporate and publish in any extension of the measures an evaluation** of their effectiveness and efficiency and specify the **conditions** that trigger their extension or withdrawal, as well as the adoption of new measures, both at the time of their approval and for the future. **This will allow the measures to be integrated into a realistic and credible medium-term national fiscal strategy** to achieve a sufficient deficit level to bring the debt back to more sustainable levels that will reduce the vulnerability of the Spanish economy

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... and it reiterates its recommendation on transparency of information in national accounting terms

The following should be included in the GSB

- **information on national accounting adjustments** to reconcile the budget balance with net borrowing or lending in terms of ESA 2010.
- information on those **entities which, although not of a public nature, are included for the purposes of ESA 2010** in the Central Government sub-sector and on the balance resulting from the net lending or borrowing of Central Government Bodies.
- **an initial budget in national accounting terms** of the CG and SSFs

Recommendations included in the endorsement with a view to improving the endorsement procedure

New

For AIReF to participate in the process earlier. The July Cyclical Report contains an economic scenario which forms the basis for drawing up the GSB and which many administrations take as their starting point.

The Ministry of Economic Affairs and Digital Transformation should consult AIReF on the Report on the Situation of the Spanish Economy prepared by the Ministry in accordance with Article 15.5 of the Organic Law on Budgetary Stability and Financial Sustainability

Repeated

Having **adequate information on the measures** that are incorporated into the economic scenario, as well as a path of revenue and expenditure

Regulation of the endorsement process through an **agreement** with the Ministry of Economic Affairs and Digital Transformation



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