Autoridad Independiente de Responsabilidad Fiscal

Debt Monitor

November 2022

- *The evolution of the advanced economies continues to be conditioned on the downside by the persistence of inflationary tensions, the tightening of financial conditions and the war in Ukraine. Leading indicators continue to reflect the slowdown in global economic activity, which has led to a downward revision of the economic outlook for 2023 by various international organisations.*

- *The price environment has forced central banks (except Japan) to intensify the tightening of their monetary policies in order to control inflation, anchor consumer and business expectations, and avoid second-round effects. In line with expectations, the ECB raised interest rates by 0.75 pps for the second consecutive month, accumulating a rise of 2 pps since July.*

- *The tightening of monetary policy is leading to sharp upturns in global sovereign debt yields, with a trend that has accelerated over the year as inflation has continued to record unexpected increases. Inflation in the euro area set a new record in October with a double-digit change (10.7%).*

- *The boost in economic activity following the shutdown during the pandemic with significant nominal growth has led to a stabilisation and reduction in the debt ratio of the world economies. Six euro area countries continue to have ratios above 100% (Greece, Italy, Portugal, Spain, France and Belgium), with the public debt of the euro area as a whole close to that level (94.2%).*

- *Adopting new fiscal measures aimed at reducing the impact of record high inflation, together with the prospect of weakened real growth in the coming quarters, may endanger the reduction of debt ratios that are close to all-time highs.*

- *Following the sharp increase caused by the COVID-19 crisis, the Spanish debt ratio has recorded a period of five straight quarters of falls to stand at 116.1% of GDP in the first half of 2022, a net increase of 17.9 points compared with the end of 2019.*

- *In nominal terms, public debt has continued growing, adding €64.21bn in the first eight months of 2022 to reach a new all-time high of €1.49tn.*

- *For 2023, AIReF estimates a reduction in the debt ratio of 6.9 points of GDP compared with the 2021 level. The reduction in the ratio will be mainly supported by the growth in nominal GDP (15.3 points), where the deflator will make a very significant contribution (8.8 points).*

- *According to AIReF's stochastic projections, achieving a debt-to-GDP ratio equal to or lower than that projected by the Government in the Budgetary Plan for 2023 is considered feasible.*

- *The pace of reduction in the debt ratio is projected to slow down in the medium term for it to stabilise at 108.5% of GDP.*

- *2022 is a turning point in the evolution of debt financing costs, with rises of more than 250 basis points in all sections of the yield curve so far this year. This new rate environment will gradually start to have an impact on the evolution of the debt service, although the increase as a percentage of GDP will not be very significant in the short term.*

- *Beyond the reduction and stabilisation of the debt ratio that is expected in the medium term, once the boost in growth as a result of the rebound in activity following the shutdown during the pandemic ends and prices return to the historical average, the debt-to-GDP ratio will resume 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. The simulations carried out by AIReF indicate that it will be necessary to reduce the primary deficit by 0.16 points of GDP per year to keep the debt ratio stable beyond 2026. A further rise in interest rates could raise this adjustment to around half a percentage point.*

- *With regard to regional debt, for 2023, AIReF estimates a reduction in the debt ratio of 3 points of GDP compared with the 2021 level, to stand at 23.1%.*

- *Under the above estimates, four ARs could have a debt ratio above 30%, while another four could stand at 13%.*

- *Valencia, Murcia, Castile-La Mancha and Catalonia could have a debt-to-GDP of over 30% in 2023. The Balearic Islands, which started from a level higher than that reference in 2021, would see their ratio reduced to substantially lower levels. Navarre, the Canary Islands, the Basque Country and Madrid could have a debt ratio of around 13% of GDP at year-end 2023.*

The leading indicators continue to reflect the slowdown in global economic activity. The evolution of advanced economies continues to be conditioned on the downside by the persistence of inflationary tensions, the tightening of financial conditions and the war in Ukraine. This deterioration has again been reflected in October's leading indicator data, which point to a sharp slowdown in activity in Q4 this year and a scenario of economic recession in Europe and the US in 2023. The extent of the global economic slowdown in the coming months is also conditioned to the downside by imbalances around the property crisis in China and the continuation of the zero-covid policy.

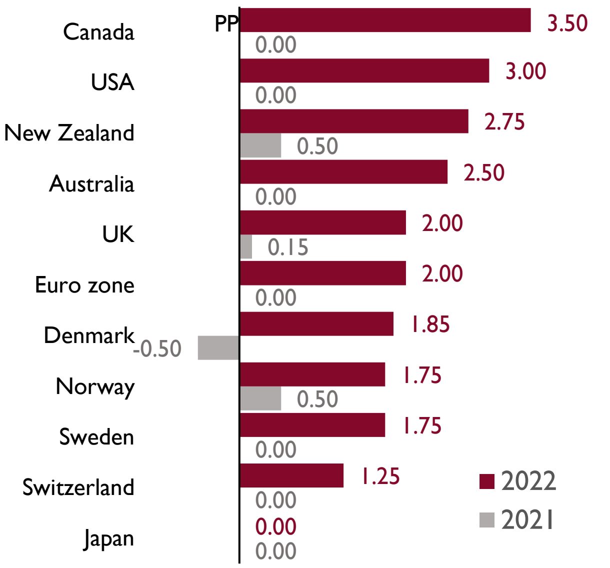
The sustained deterioration of activity, high levels of uncertainty and headwinds on the global economic path have resulted in a downward revision of the economic outlook for 2023 by various international organisations. Accordingly, the International Monetary Fund (IMF) forecasts annual global GDP growth of 2.7%, compared with the 2.9% projected back in July, and maintains its annual growth forecast for this year unchanged at 3.2%. Forecasts show that about 30% of economies could enter recession in 2023, especially in Europe if the energy and geopolitical scenario worsens, and in the case of the US depending on how persistent inflationary pressures and the tightening of monetary policy turn out to be.

Real GDP forecasts in 2022 and 2023 (annual % change)

	2022	vs previous forecast (pp)	2023	vs previous forecast (pp)
India	6.8	-1.3	6.1	-0.8
China	3.2	-1.2	4.4	-0.6
Saudi Arabia	7.6	0.0	3.7	0.0
Japan	1.7	-0.6	1.6	-0.7
Canada	3.3	-0.6	1.5	-1.3
Spain	4.3	-0.5	1.2	-2.1
Mexico	2.1	0.1	1.2	-1.4
South Africa	2.1	0.2	1.1	-0.3
Brazil	2.8	2.0	1.0	-0.4
United States	1.6	-2.1	1.0	-1.3
France	2.5	-0.4	0.7	-0.7
United Kingdom	3.6	-0.1	0.3	-0.9
Italy	3.2	0.9	-0.2	-1.8
Germany	1.5	-0.6	-0.3	-3.0

Source: IMF, WEO (October and April 2022)

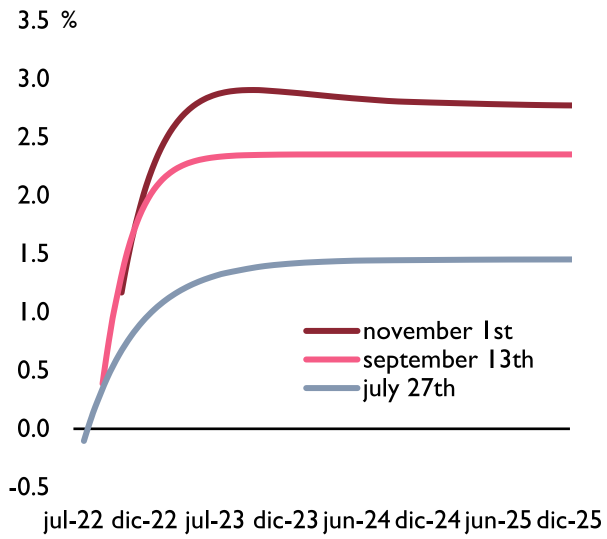
Annual change in central bank interest rates, advanced economies (pp)



Source: Refinitiv

The persistence of high inflation continues to be one of the main factors that not only condition the prospects for economic growth downwards, but have also led to a new monetary cycle and the erosion of welfare levels. The price environment has forced central banks (except Japan) to intensify the tightening of their monetary policy in order to control inflation, anchor consumer and business expectations, and avoid second-round effects. The Fed's interest rate hikes have come at the fastest pace since the 1980s. This has resulted in a sharp appreciation of the dollar and a further tightening of financial conditions globally, especially for emerging economies with larger fiscal imbalances.

Expected deposit facility rate discounted (*) by the market (%) after ECB meetings



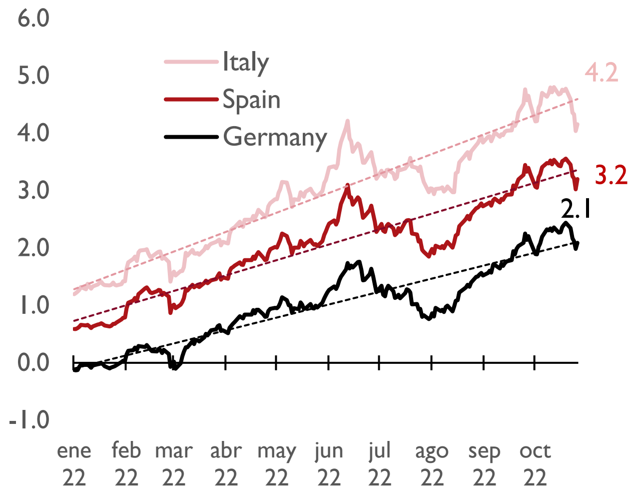
Source: Refinitiv and AIReF

(*) Through the instantaneous forward curve of the OIS

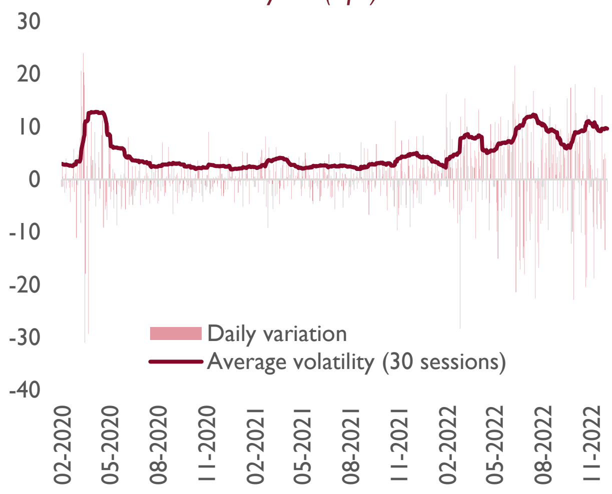
In line with expectations, in October the ECB raised interest rates by 0.75 pps for the second consecutive month to 1.5% (deposit rate) and 2% (refinancing rate), the highest level since the end of 2008. The strategy of the ECB, which has raised its official interest rates by 2 pps since July, involves rapidly abandoning the accommodative monetary policy, but without placing it in a significantly restricted position. The 0.75-pp hike brings rates closer to desired levels, so the ECB hinted that the pace of hikes will slow down in the coming months. In the financial markets, this was reflected in a fall in the yield on sovereign bonds, a modest depreciation of the euro and a slight increase in stock indices. This reaction was subsequently diluted by the poor inflation figure for the euro area, which set a new double-digit record (10.7%) in October.

The risk of deteriorating financing conditions is materialising. The tightening of monetary policy is leading to sharp upturns in global sovereign debt yields, with a trend that has accelerated over the year as inflation has continued to record unexpected increases and communications from central banks have become more hawkish. So far this year, the yield on the 10-year bond has risen by around 250 basis points in the euro area. Specifically, in the case of Spain, Italy, Portugal, France and Germany the increase was of 260, 303, 264, 245 and 230 bps, respectively. Outside the euro area, US debt yields have also risen sharply, by 254 bps.

10-year bond yield (%)



Daily change and volatility of the Spanish 10-year yield (bps)

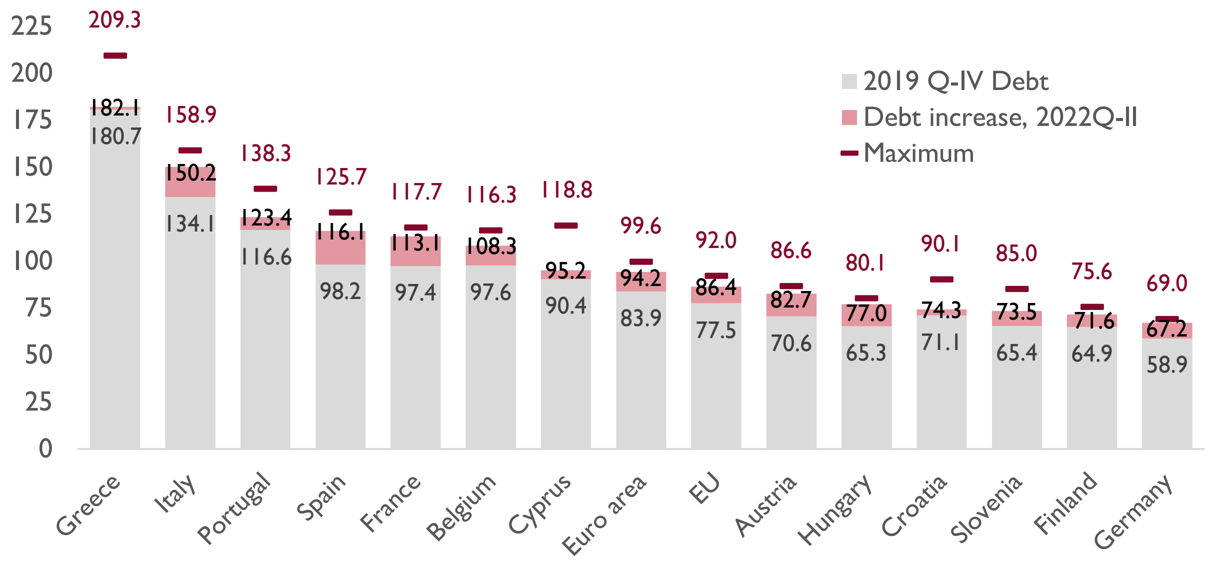


Source: Refinitiv and AIReF

The increase in sovereign bond yields has gone hand-in-hand with a sharp increase in their volatility. The scenario of major uncertainty that has emerged in 2022, with background trends that have worsened following the Russian invasion of Ukraine, is triggering sharp movements and overreactions in financial markets, and in particular in debt markets, with much more intense daily movements. While throughout 2021 there were daily movements in the 10-year yield of around +/-2.5 bp, in 2022 these movements have reached an average of +/-10 bp.

Following the sharp increase in global debt as a result of fiscal policy measures taken to address the COVID-19 pandemic, debt ratios have started a path of reduction based on significant nominal growth. Very significant government deficits were recorded in 2020 and 2021, which have contributed to a considerable increase in public debt ratios in economies around the world. The boost in economic activity after the shutdown during the pandemic with significant nominal growth has led to a stabilisation and reduction in the debt ratio of the world economies. In the case of the euro area, six countries continue to have ratios of over 100% (Greece, Italy, Portugal, Spain, France and Belgium), with the public debt of the euro area as a whole close to that level (94.2%). It is worth highlighting the reduction in the debt ratio in countries such as Greece and Cyprus, by 27 and 23 points, respectively, from their peak. In the case of Portugal, Spain and Italy, this reduction was also significant, amounting to 14.9, 9.6 and 8.7 points, respectively. In contrast, it should be noted that Germany has only managed to reduce it by 1.8 points from its peak, although its debt ratio is much lower (67.2%).

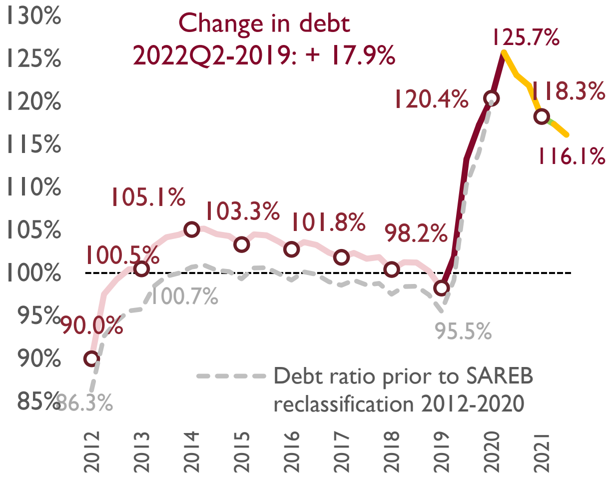
Debt (% GDP) of European Union countries with more than 60%, 2022 Q-II



Source: Eurostat

Adopting new fiscal measures aimed at reducing the impact of record high inflation, together with weakened real growth in the coming quarters, may endanger the reduction of debt ratios that are close to all-time highs. The high level of indebtedness highlights the importance of the design of fiscal policy measures with a temporary and targeted nature in favour of the households and companies most vulnerable to energy price rises, as dictated by the Country Specific Recommendations (CSRs) for countries with high debt. To prevent the expansionary tone of the new measures from generating additional inflationary pressures, it is essential to have greater coordination of economic authorities (fiscal and monetary), accelerate energy transition plans and focus on structural reforms that boost competitiveness and productivity.

Debt (GDP), quarter-on-quarter evolution

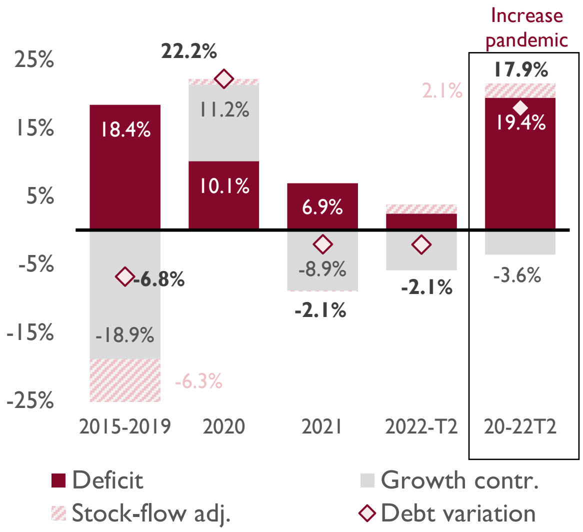


Source: INE and Bank of Spain

Following the sharp increase caused by the COVID-19 crisis, the debt ratio has recorded a period of five straight quarters of falls to stand at 116.1% of GDP in the first half of 2022. The debt-to-GDP ratio peaked at 125.7% in the first quarter of 2021, an increase of 27.5 points on the pre-pandemic level. Since that turning point, it has recorded five consecutive quarters of falls, which amount to 9.6 points and which place the ratio at 116.1% of GDP in June 2022. The net increase compared with the end of 2019 is 17.9 points.

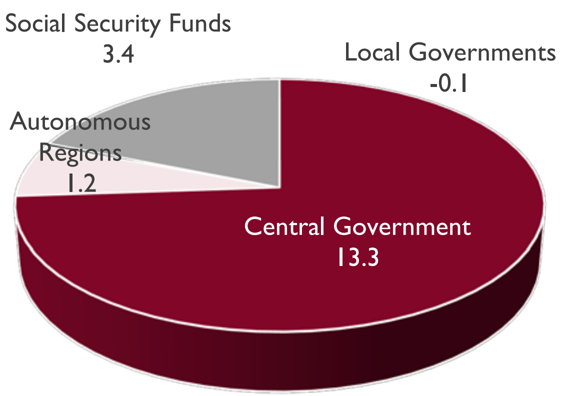
This significant cumulative reduction in recent quarters is mainly due to the denominator effect, given the strong upturn in economic activity and prices. In nominal terms, public debt has continued growing, adding €64.21bn in the first eight months of 2022 to reach a new all-time high of €1.49tn. GDP, the denominator of the ratio, has already stopped contributing negatively to the increase in the ratio, as it did during the pandemic, with the government deficit causing almost all the change.

Contribution to the change in debt (GDP points)



Source: AIReF

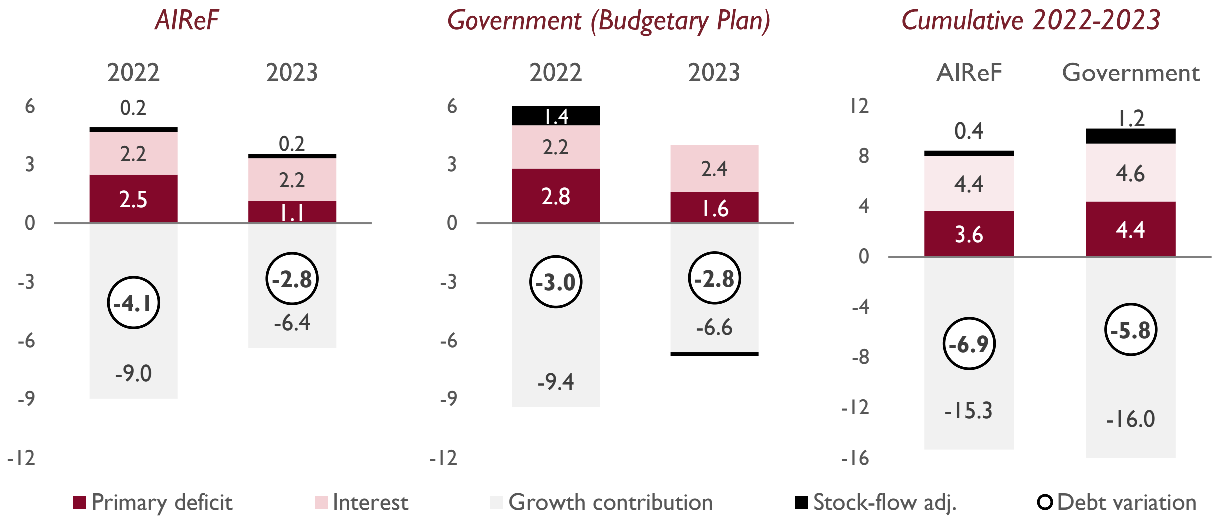
Increase in debt (% GDP) between 2022-II and 2019, by sub-sector



At a sub-sector level, the largest increase in the debt ratio was recorded in the Central Government and the Social Security Funds, which have borne 93.5% of the increase in debt in the last two and a half years by financing most of the expenditure associated with the pandemic. The extraordinary transfers and the non-impact of the fall in tax revenues on the interim payments made to the Autonomous Regions under the ordinary regime have mitigated the increase in the debt ratio of the ARs. This ratio has only grown by 1.2 points – to 24.9% of GDP – while the Local Governments have slightly reduced their debt.

For 2023, AIReF estimates a reduction in the debt ratio of 6.9 points of GDP compared with the 2021 level. The reduction in the ratio will be mainly supported by the growth in nominal GDP (15.3 points), where the deflator will make a very significant contribution (8.8 points). The government deficit will continue to contribute significantly to the increase in debt, with a financial burden that will rise in absolute terms, but will remain contained relative to GDP, despite worsening financing conditions, due to the sharp increase in nominal GDP.

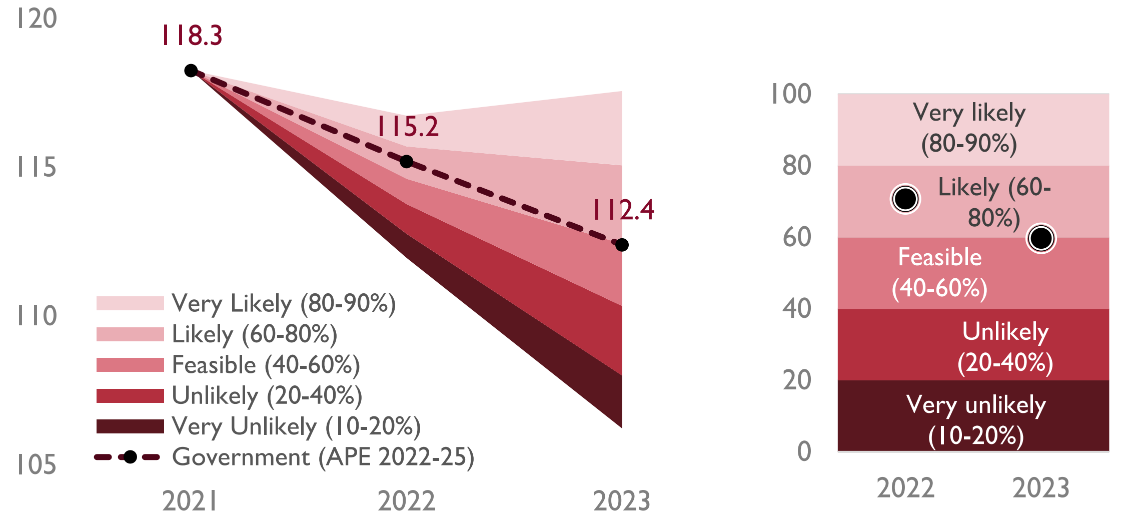
Contributions to the change in the debt-to-GDP ratio (pp)



Source: Government and AIReF

AIReF considers the debt projection included in Budgetary Plan for 2023 to be feasible. According to AIReF's stochastic projections, achieving a debt-to-GDP ratio equal to or lower than that projected by the Government for 2023 is considered feasible. In fact, AIReF estimates a somewhat higher reduction in the ratio. This cumulative divergence until 2023 of 1.1 points of GDP mainly occurs in 2022 and is the result of the greater fiscal deficit (1) and stock flow adjustment (0.8) presented in the Plan, which is partly offset by a greater contribution of nominal growth (-0.7).

Stochastic debt forecasts (% GDP) and likelihood of reaching a ratio equal to or lower than that projected by the Government in the 2022-2023 Budgetary Plan

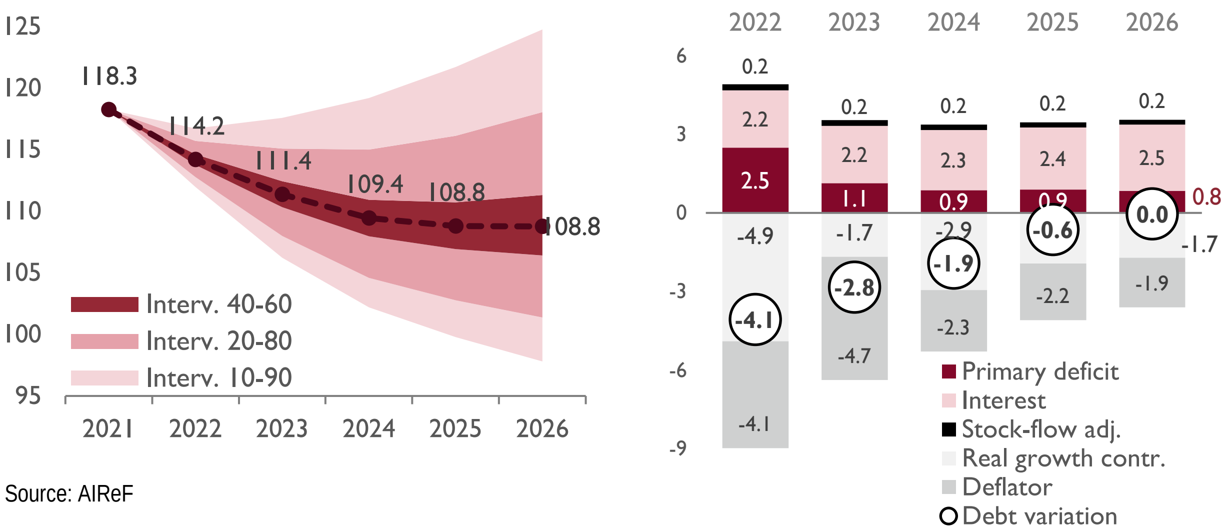


Source: Government and AIReF

Medium-term forecasts

The pace of reduction in the debt ratio is projected to slow down in the medium term for it to stabilise at 108.5% of GDP. AIReF's projection of a stabilised primary deficit of around 1%, together with decreasing nominal growth and an increasing financial burden, translates into a slowdown in the rate of reduction in the debt ratio, which in 2026 will be zero with a stabilised ratio of 108.8% of GDP.

Medium-term debt forecast (% GDP) and contribution to change



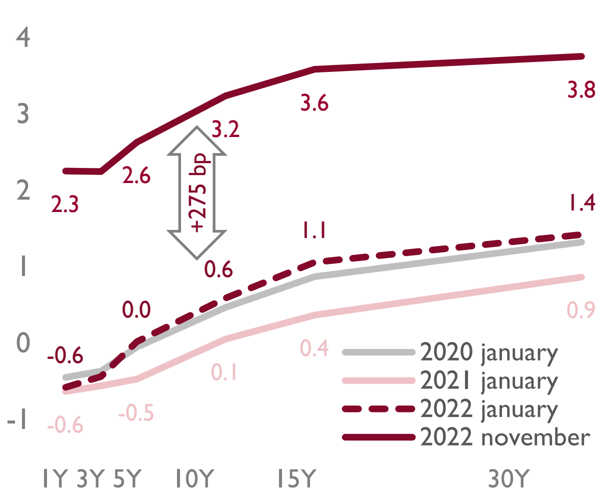
Source: AIReF

Compared with AIReF's estimates presented in the Stability Programme at the end of the forecast horizon (2025), the projected debt ratio rises by 0.2 points. The higher financial burden accumulated in the period (0.9 points) is offset by a greater negative contribution of nominal growth (-0.9 points), with the estimate of the ratio worsening by 0.2 points as a result of a slight deterioration in the evolution of the primary balance.

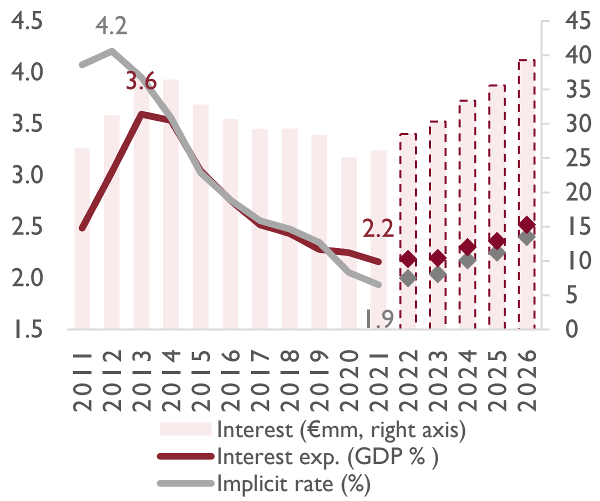
Financing conditions and financial burden

2022 is marking a turning point in the evolution of debt financing costs. Despite higher borrowing needs stemming from the pandemic, the low yields recorded in all sovereign debt issuance maturities in 2020 and 2021 even placed the cost of the debt at its all-time low, with an average rate of new issues at practically zero. This scenario of low interest rates has taken a sharp turn in 2022, in a context in which central banks around the world have reacted with historical rises to much higher and more persistent inflation than initially expected. Debt markets have quickly incorporated this scenario with year-to-date rises of more than 250 basis points across all segments of the yield curve. The deterioration in financing conditions will gradually begin to have an impact on the evolution of the debt service, with interest and repayments that will increase. However, the increase in percentage of GDP will not be very significant in the short term.

Spanish debt yield curve (%)



Financial burden and implicit rate of the debt



Source: Refinitiv, IGAE and AIReF

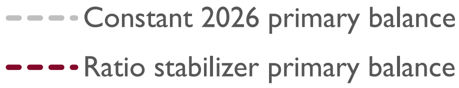
In the short term, an additional rise in sovereign debt interest rates would have a limited impact on the evolution of the debt ratio. However, in the medium and long term, they would require a more intense and prolonged fiscal effort. According to AIReF's simulations, a 100-bp rise in rates from 2023 in issuance expectations in all sections of the curve would not result in a substantive change in the evolution of the short-term debt ratio (specifically, it would generate an increase of 1.1 points in 2026). However, it would result in a certain increase in the financial burden as a percentage of GDP (by 0.5 points) and an additional cumulative interest expense in 2026 of over €17bn, of which €1.4bn would correspond to 2023. Although in the short term the deterioration in financing conditions has a limited impact, it begins to be significant when compared with past scenarios where low interest rates generated a fiscal space that has gradually disappeared.

Source: AIReF

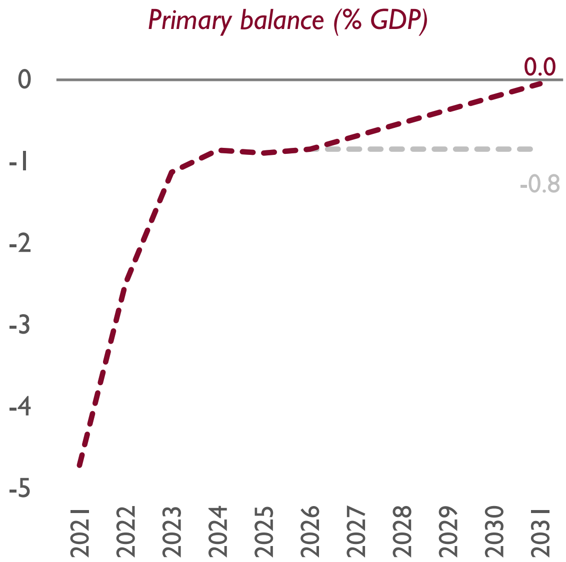
Long term

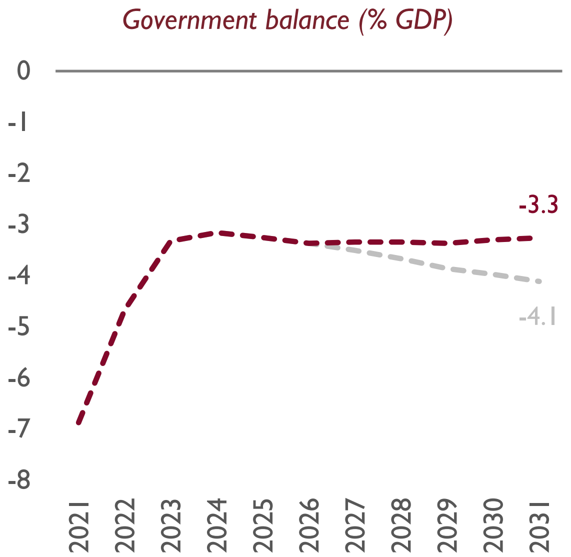
AIReF's projections paint an unfavourable trend in the medium- and long-term debt ratio under a no-policy-change scenario. Beyond the reduction and stabilisation of the debt ratio that is expected in the medium term, once the boost in growth as a result of the rebound in activity following the shutdown during the pandemic ends and prices return to the historical average, the debt-to-GDP ratio will resume 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.

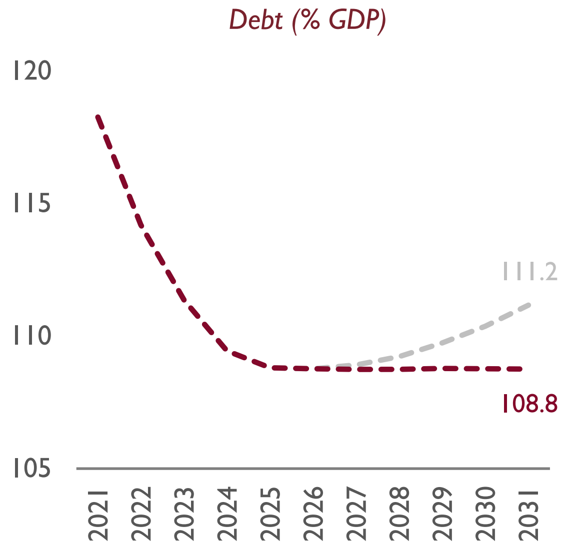
Scenarios for the evolution of the primary balance



The simulations carried out by AIReF indicate the need to reduce the primary deficit by 0.16 points of GDP per year to keep the debt ratio stable beyond 2026. The growing financial burden will have to be offset by a sustained annual adjustment of the primary balance to keep the debt and deficit stabilised at around 109% and 3.3%, respectively. AIReF's simulations estimate the size of this adjustment at 0.16 GDP points per year, which would be equivalent to approximately €2.5bn according to the GDP projection for 2026. Alternatively, maintaining a constant primary deficit of 0.8% of GDP from 2026 onwards would result in negative evolution of the deficit and debt paths, widening them to 4.1% and 111.2% in 2031.





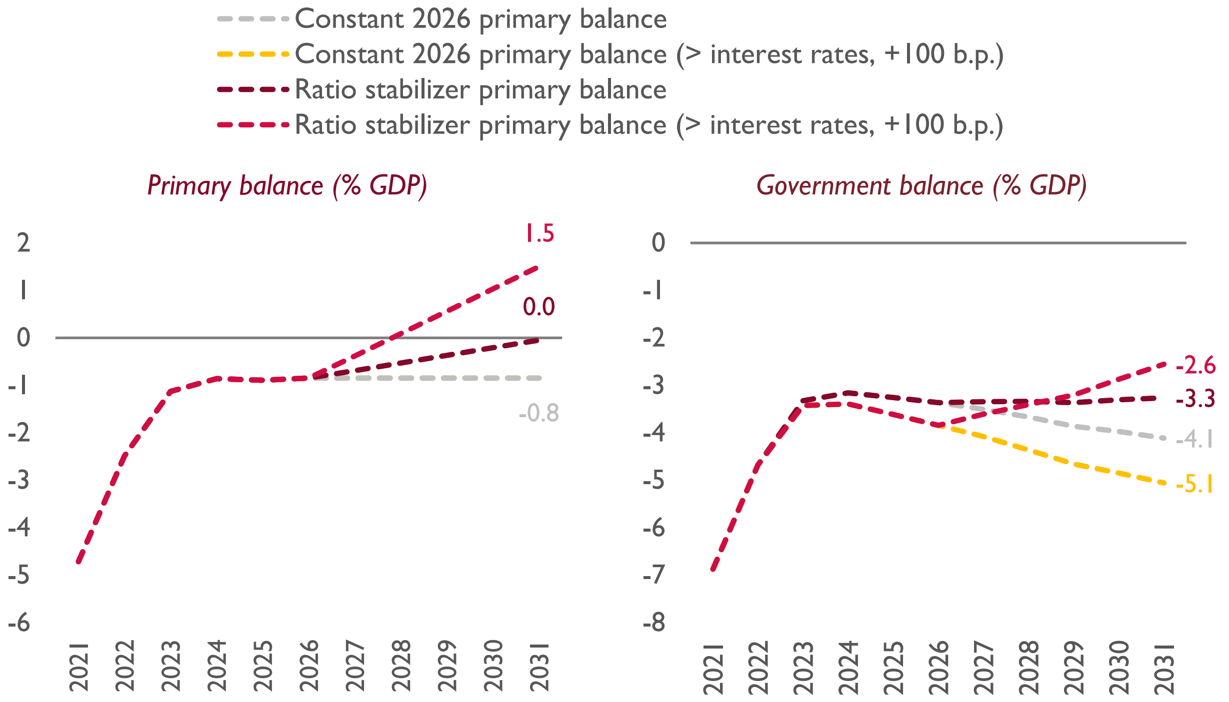


Source: AIReF

- A constant primary deficit of 0.8% from 2026 (grey line) would result in an increasing total deficit (interest expenditure rises over time), bringing it to 4.1% in 2031, and therefore a higher debt (111.2%)
- Keeping the total deficit and debt stable at 2026 levels (3.3% and 108.8%, maroon line), would imply an annual reduction in the primary deficit of 0.16 points of GDP

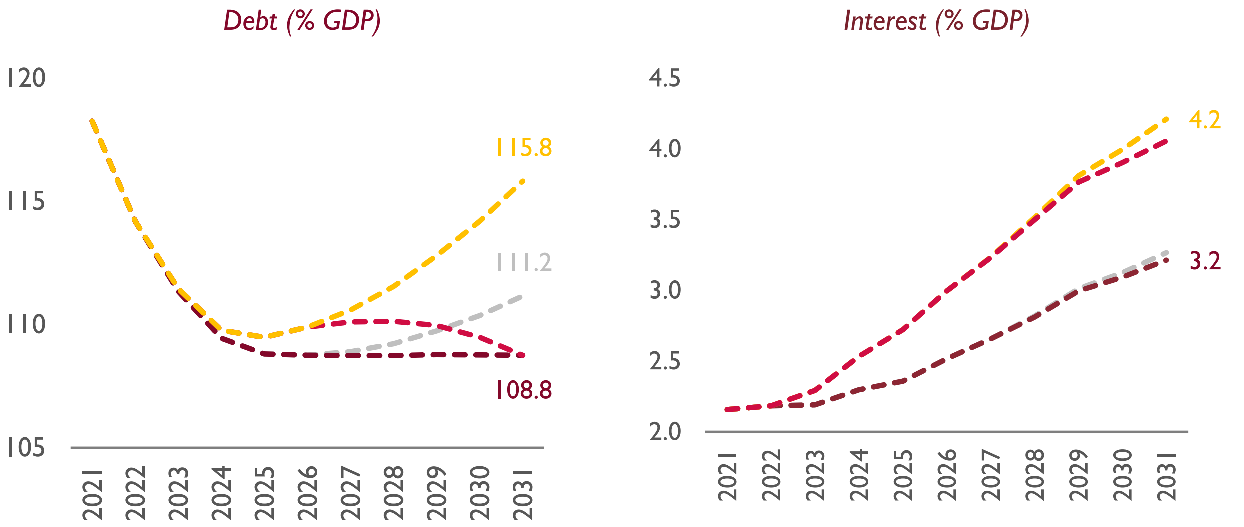
A scenario involving a further deterioration in financing conditions would result in an increase in government deficit and debt or, to keep them stable, the need for additional adjustments in other expenditure or revenue items. According to AIReF's simulations, a further rise in sovereign debt interest rates involving an increase of 100 bps from 2023 onwards in the issuance expectations of all sections of the curve would result in the need to make a greater adjustment to the primary deficit in order to be able to place the debt ratio at the same point over a 10-year horizon. Specifically, AIReF's simulations estimate the size of this adjustment at 0.47 GDP points per year, which would be equivalent to approximately €7.5bn according to the GDP projection for 2026. Alternatively, maintaining a constant primary deficit of 0.8% of GDP from 2026 onwards would result in a more negative evolution of the deficit and debt paths, widening them to 5.1% and 115.8% in 2031.

Scenarios for the evolution of the primary balance and interest rates



Long term, scenario of higher rates

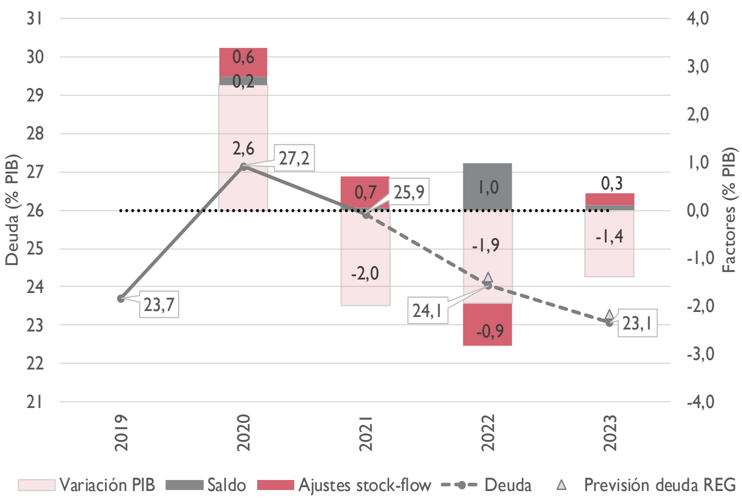
- A constant primary deficit of 0.8% from 2026 in a scenario of higher interest rates (yellow line) would result in a higher total deficit (interest expenditure rises over time), bringing it to 5.1% in 2031, and a higher debt (115.8%)
- Keeping the debt at the level of 108.8% in a scenario of higher interest rates (red line) would imply an annual reduction in the primary deficit of 0.47 points of GDP



Source: AIReF

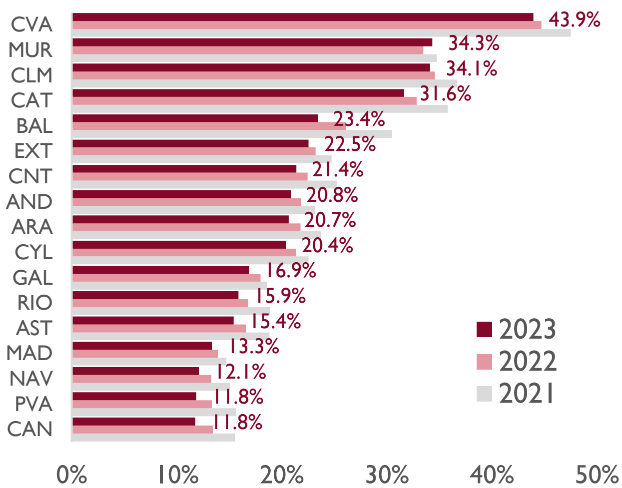
AIReF forecasts that the ARs will reduce their level of indebtedness by almost 3 points from 2021, to stand at 23.1% of GDP in 2023. Starting from 25.9% in 2021, the ratio would improve in 2022 due to the effect of projected GDP growth and the application of excess financing from previous years. This would be partially offset by the expected deficit for the sub-sector. In 2023, projected GDP growth would result in a further reduction in the ratio.

Expected evolution of the indebtedness of the ARs (% GDP)

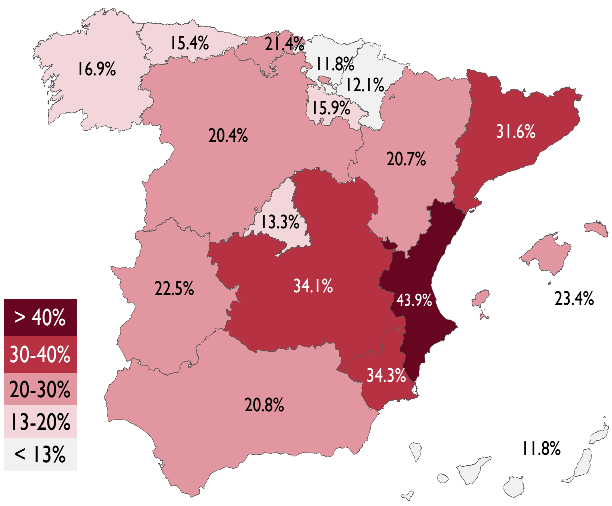


Under the above estimates, four ARs could have a debt ratio above 30%, while another four could stand at 13%. Valencia, Murcia, Castile-La Mancha and Catalonia could have a debt-to-GDP ratio of over 30% in 2023. The Balearic Islands, which started from a level higher than that reference in 2021, would see its ratio reduced to substantially lower levels. Navarre, the Canary Islands, the Basque Country and Madrid could have a debt ratio of around 13% of GDP at year-end 2023.

Regional debt-to-GDP ratio



Regional debt-to-GDP ratio, 2023



Source: AIReF

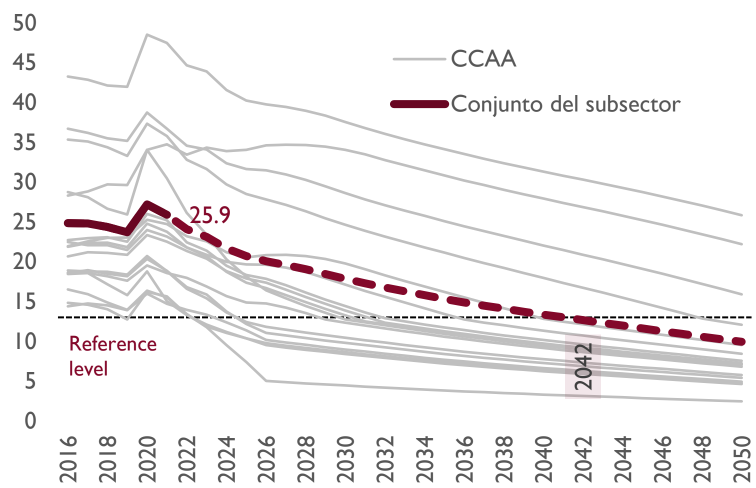
The draft budgets and budgetary lines presented by the ARs expect to reach the deficit reference set and adjust their debt to said reference. There is therefore a clear risk that excess borrowing will be generated again. All the budget documents analysed, except for the Canary Islands, expect the reference rate to be achieved: in the case of the Basque Country and Navarre, 0.6% of the GDP agreed in the respective Joint Committee on the Economic Arrangement and the Coordinating Committee of the Economic Agreement with Navarre and, in the others, the 0.3% of the GDP established for the sub-sector. This means that although at an aggregate level there are no major discrepancies between AIReF's forecasts and those of the ARs as a whole, in some cases such differences are very significant at an individual level. If the regional forecasts for 2023 are met, the medium-term situation at an overall and individual level would be compromised. Setting lax reference rates that are not in line with reality raises the risk of unsustainable decisions in the medium term or, in the short term, may lead to excess borrowing similar to that accumulated at the end of 2021.

Long-term projections under the regulatory scenario assumptions

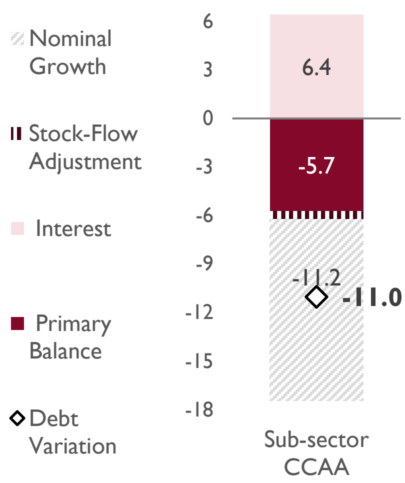
TOTAL SUB-SECTOR

Under the assumptions of a regulatory scenario[1], it is projected that the debt-to-GDP ratio will fall by 11 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Economic growth will be the factor that most contributes to the reduction in the ratio, supported by an improvement in the fiscal balance in the coming years in most of the ARs.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

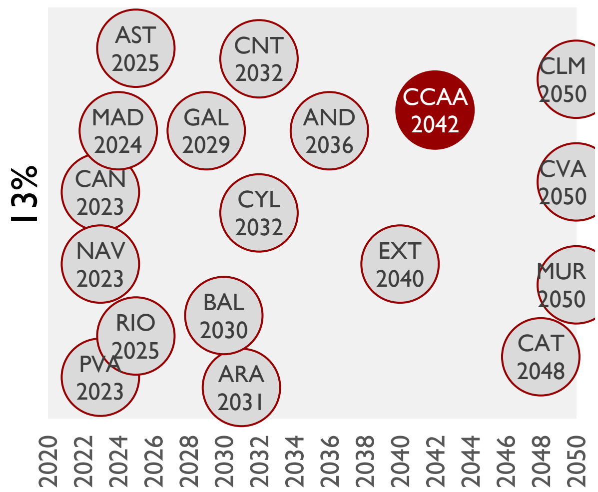


Source: AIReF

13% reference limit

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

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

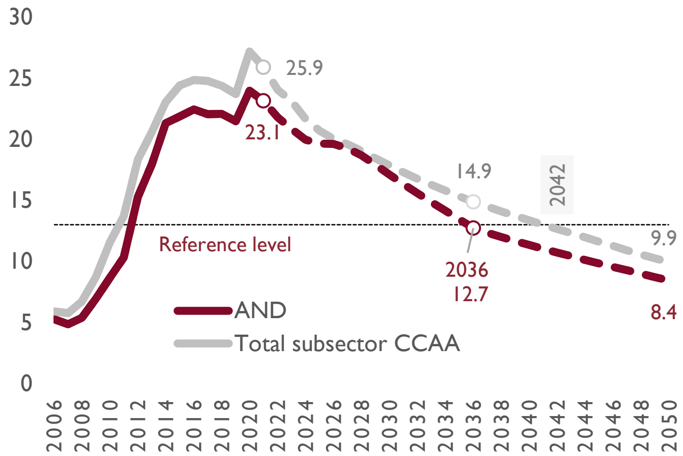


[1] The regulatory scenario implies an annual improvement in the primary balance of 0.25 points of GDP until a surplus of 0.75% is reached, which will be maintained providing the debt ratio exceeds the level of 13% of GDP. Once this limit is reached, the primary surplus will be equal to the financial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

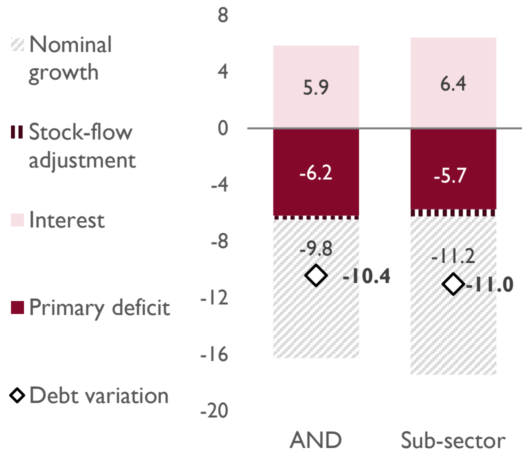
ANDALUSIA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 10.4 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, supported by an improvement in the fiscal balance in the coming years, with the reference limit of 13% thus being reached in 2036.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

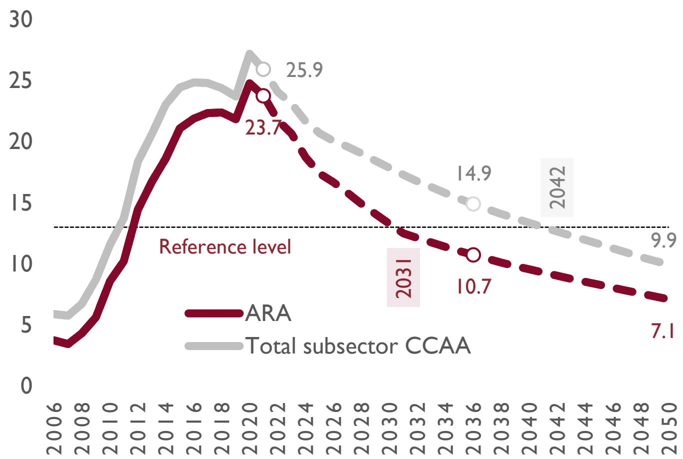


Source: AIReF

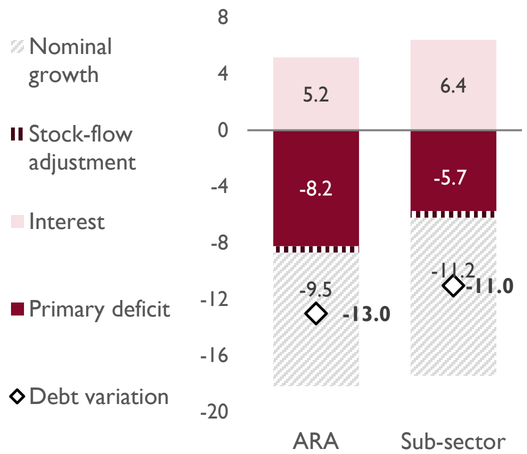
ARAGON

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 13 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, supported by a fiscal balance that would become positive in the coming years, with the reference limit of 13% thus being reached in 2031.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

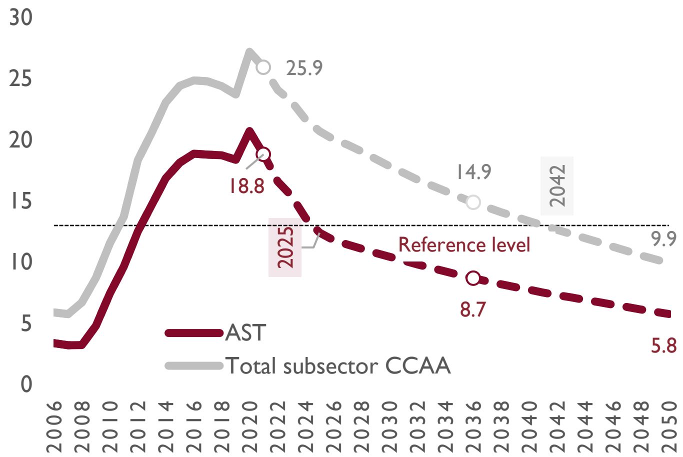


Source: AIReF

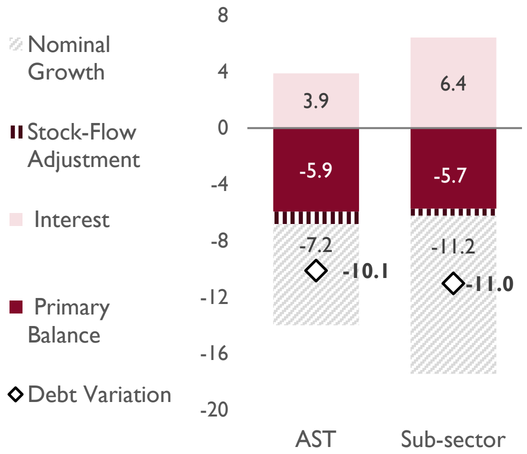
ASTURIAS

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 10.1 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, driven by a fiscal balance that would become positive in the case of Asturias, with the reference limit of 13% thus being reached in 2025.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

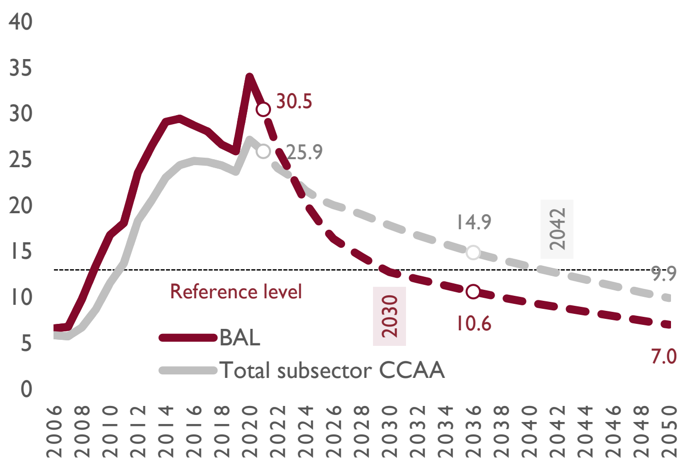


Source: AIReF

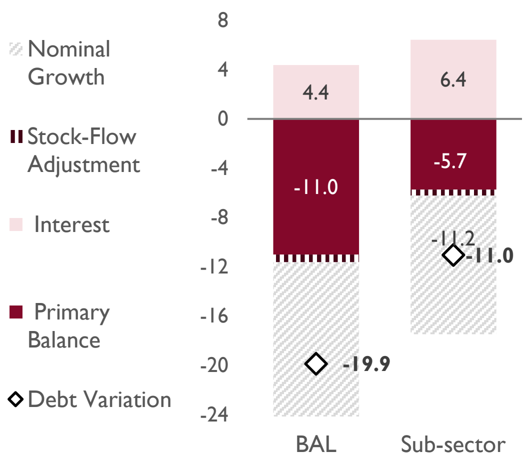
BALEARIC ISLANDS

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 19.9 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. The fiscal surplus together with economic growth will be the factors that will contribute to the reduction in the ratio, which will be boosted with the reference limit of 13% reached in 2030.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

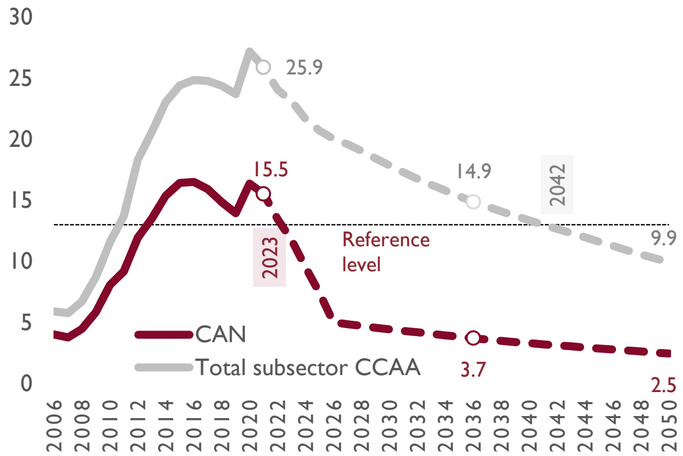


Source: AIReF

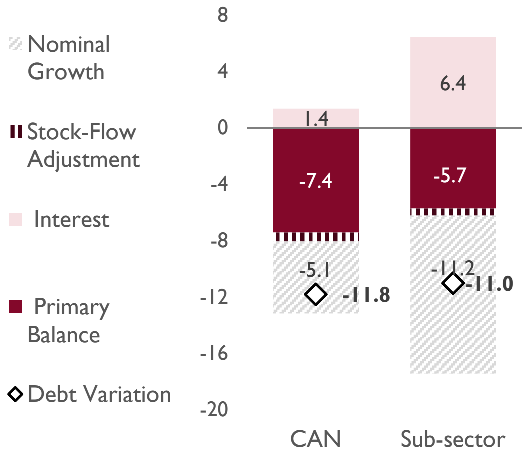
CANARY ISLANDS

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 11.8 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be a key factor in the reduction in the ratio in both cases, which will be driven by a very positive fiscal balance in the case of the Canary Islands, which will reach the reference limit of 13% in 2023, and will pay off a large part of its debt in the coming years.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

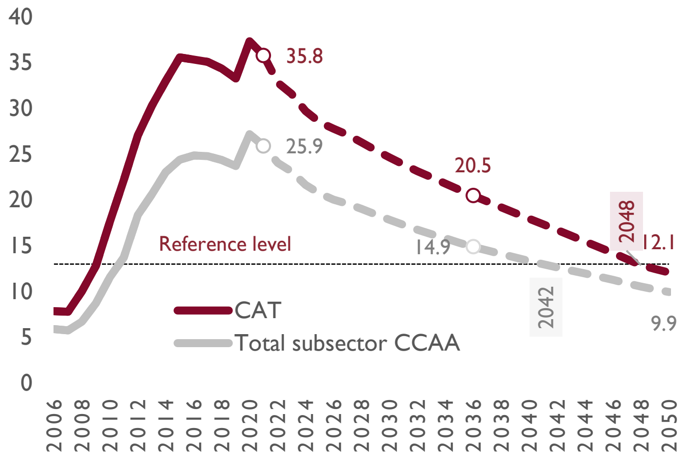


Source: AIReF

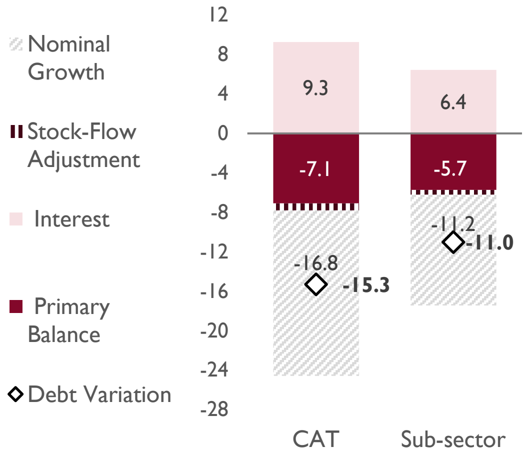
CATALONIA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 15.3 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, which will be boosted by a primary balance that would become positive in the coming years, with the reference limit of 13% thus being reached in 2048.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

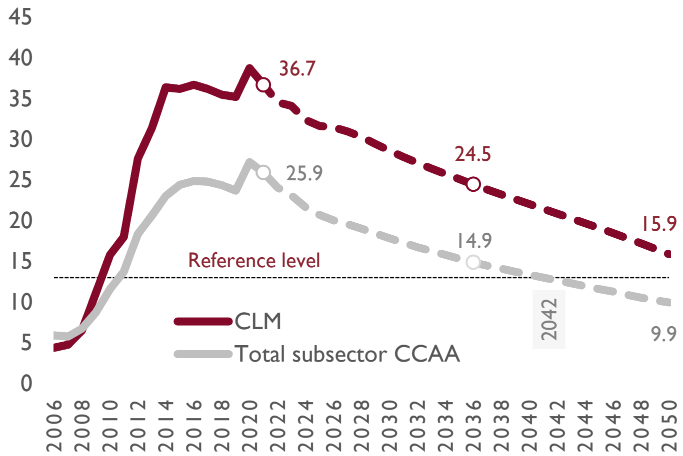


Source: AIReF

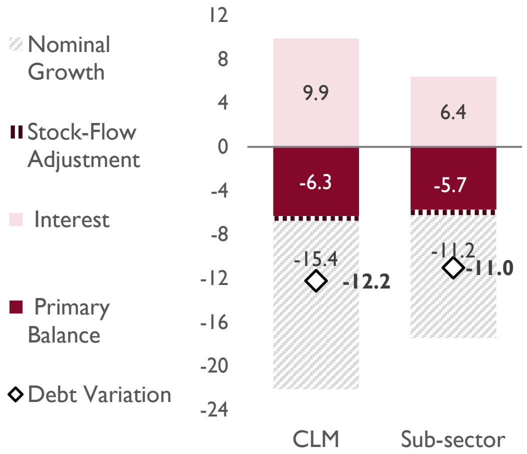
CASTILE-LA MANCHA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 12.2 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, supported by a primary balance that would become positive in the coming years. The reference limit of 13% will not be reached until the middle of the century.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

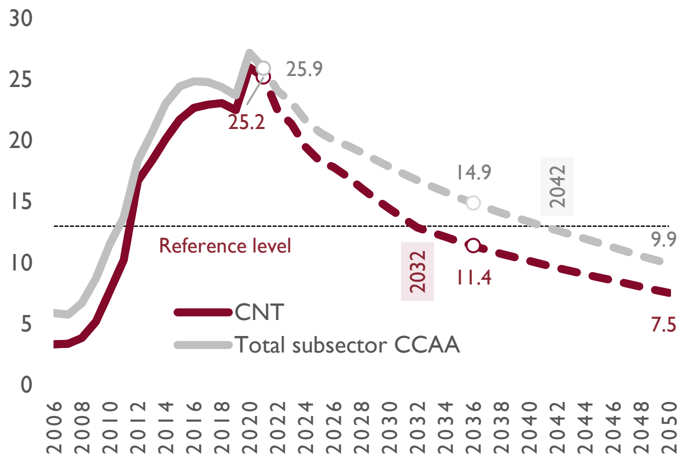


Source: AIReF

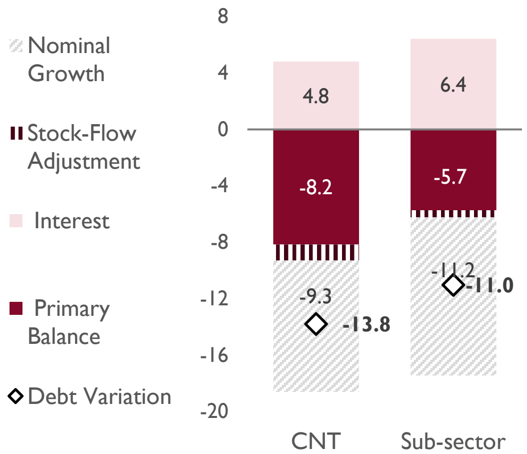
CANTABRIA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 13.8 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth together with the projected fiscal surpluses will be the factors that drive the reduction of the ratio, with the reference limit of 13% thus being reached in 2032.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

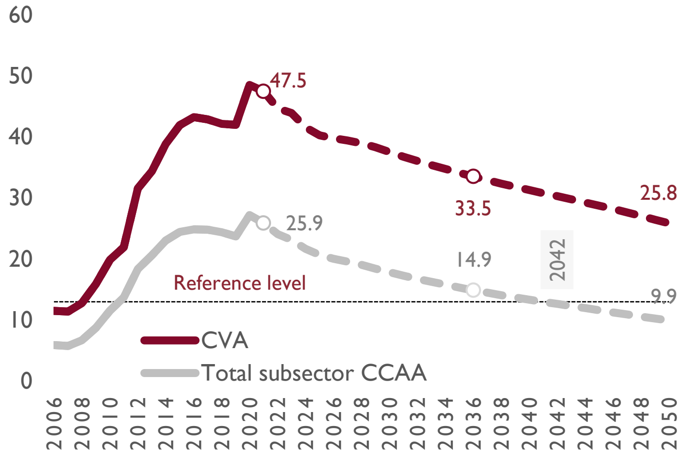


Source: AIReF

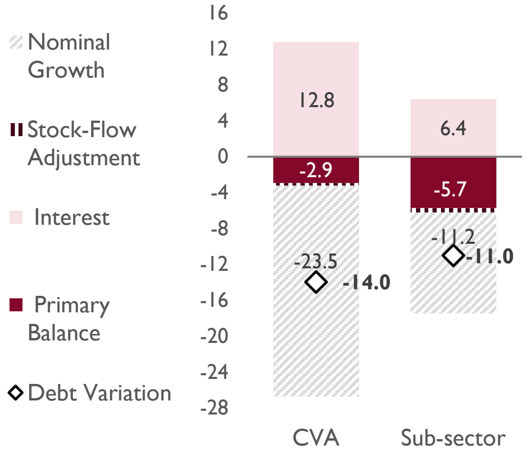
VALENCIA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 14 points of GDP in the next 15 years, with the pre-pandemic level reached in 2025. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 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.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

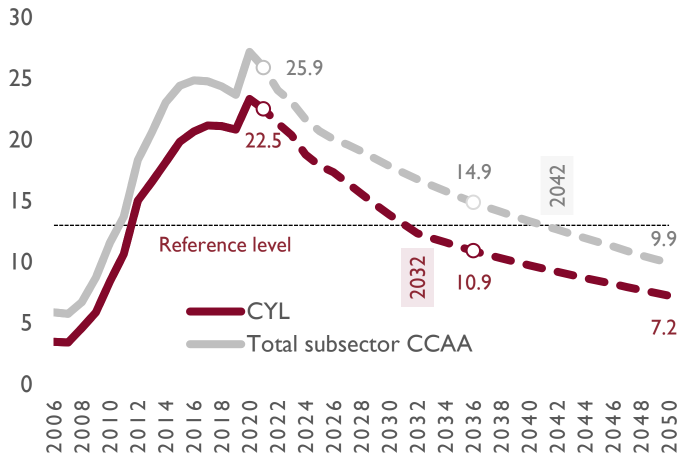


Source: AIReF

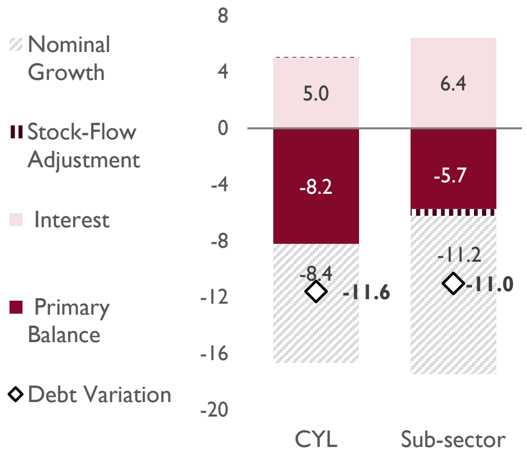
CASTILE AND LEON

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 11.6 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, which will be driven by a positive fiscal balance, with the reference limit of 13% thus being reached in 2032.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

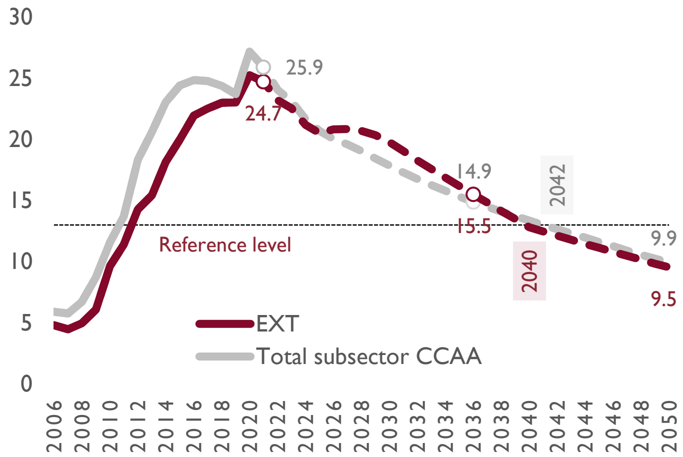


Source: AIReF

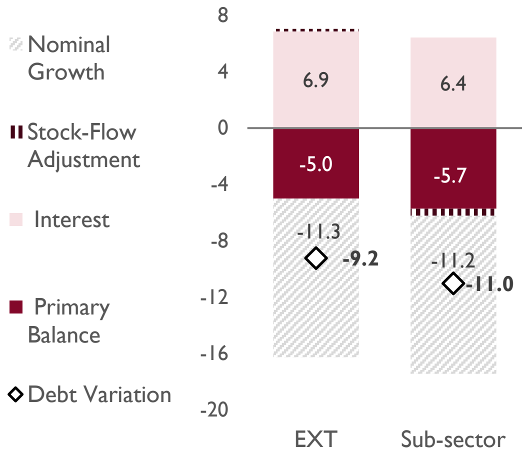
EXTREMADURA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 9.2 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, which will be driven by a positive fiscal balance, with the reference limit of 13% thus being reached in 2040.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

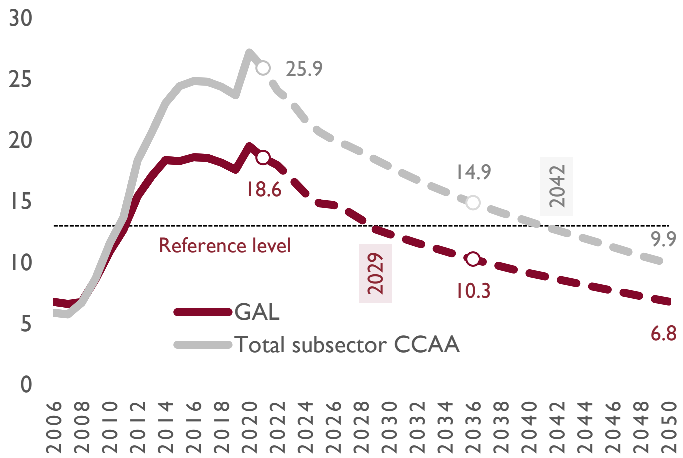


Source: AIReF

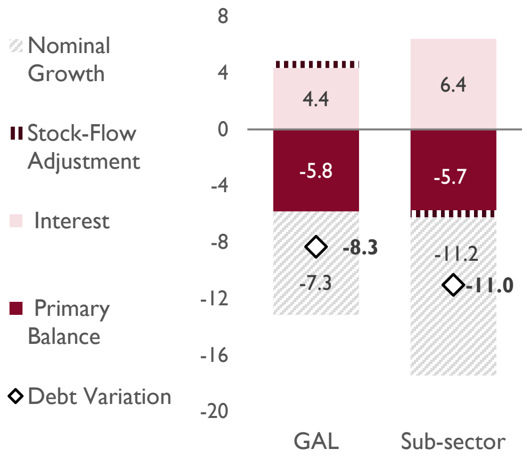
GALICIA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 8.3 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, which will be driven by a positive fiscal balance, with the reference limit of 13% thus being reached in 2029.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

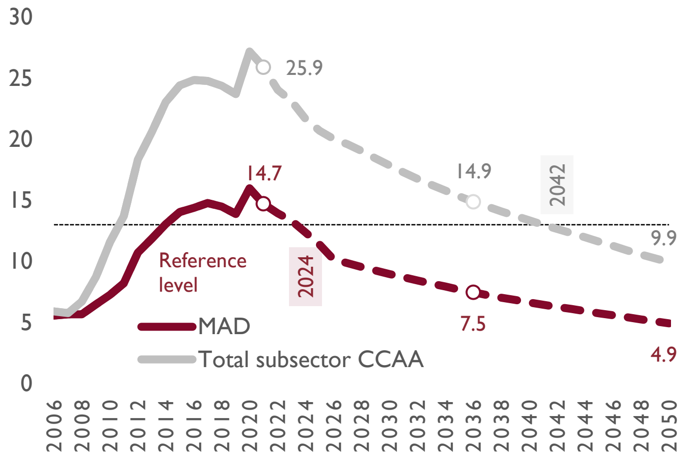


Source: AIReF

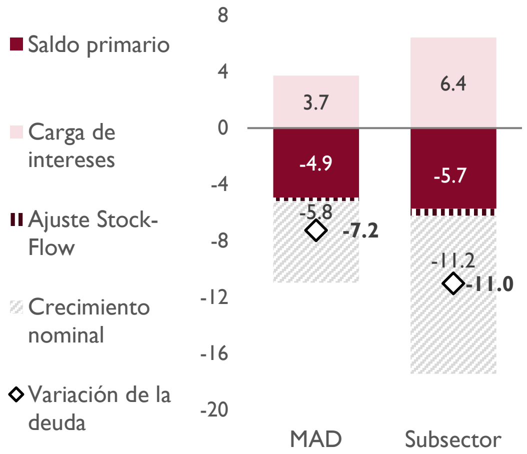
MADRID

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 7.2 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, will be seen by a fiscal balance that would become positive in the coming years, with the reference limit of 13% thus being reached in 2024.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

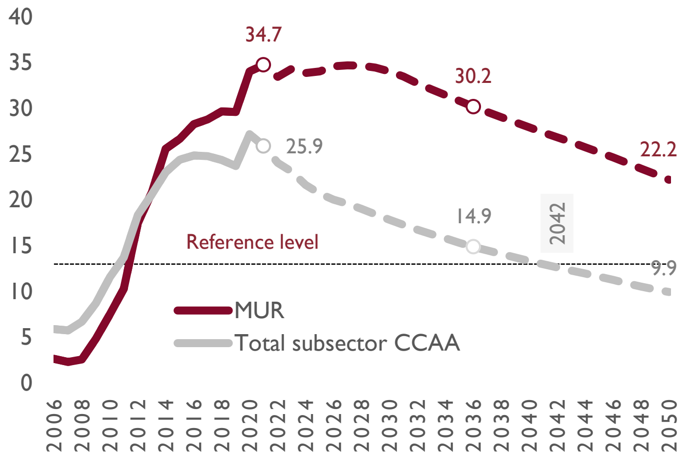


Source: AIReF

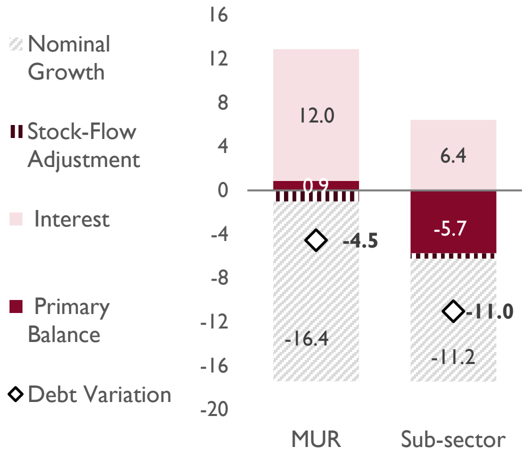
MURCIA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 4.5 points of GDP in the next 15 years, with the pre-pandemic level reached in 2037. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 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 beyond the middle of the century.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

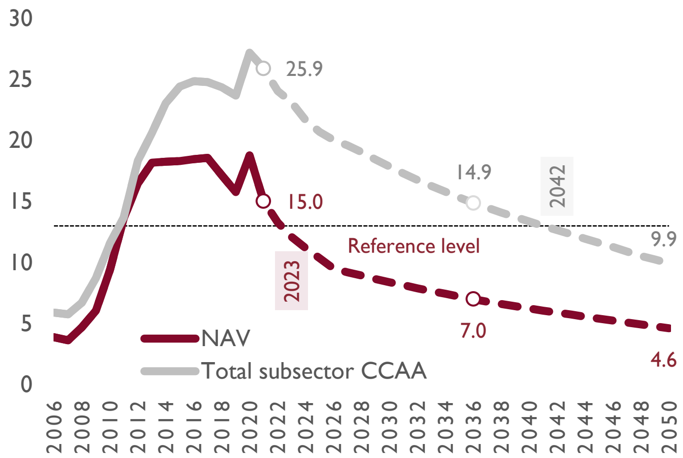


Source: AIReF

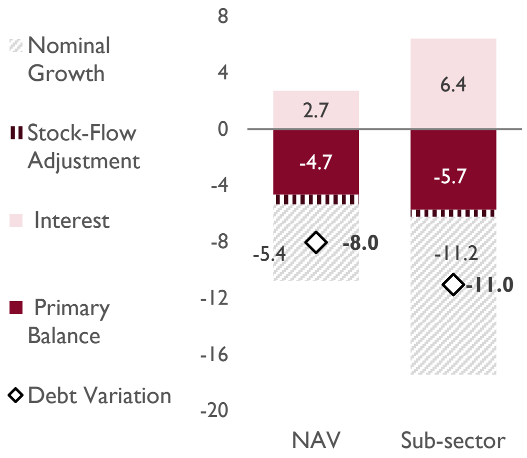
NAVARRE

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 8 points of GDP in the next 15 years, with the pre-pandemic level reached in 2021. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. The fiscal surplus together with economic growth will be the factors that will contribute to the reduction in the ratio, which will be boosted with the reference limit of 13% being reached in 2023.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

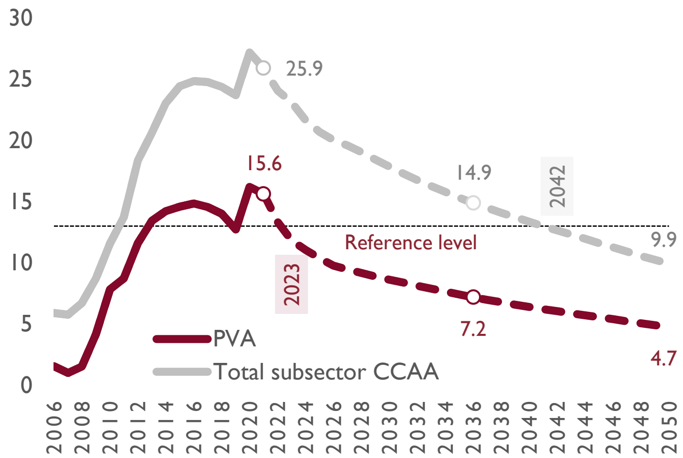


Source: AIReF

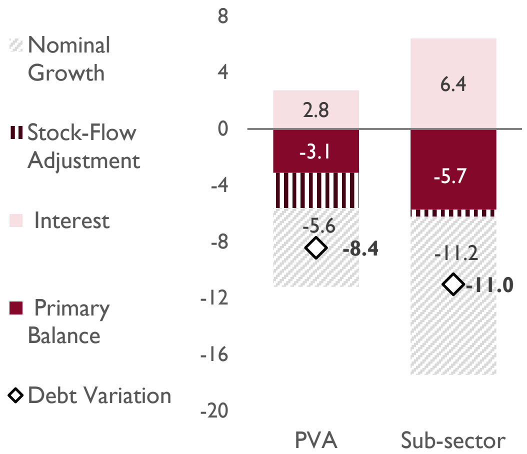
BASQUE COUNTRY

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 8.4 points of GDP in the next 15 years, with the pre-pandemic level reached in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, which will be driven by a positive fiscal balance, with the reference limit of 13% thus being reached in 2023.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)

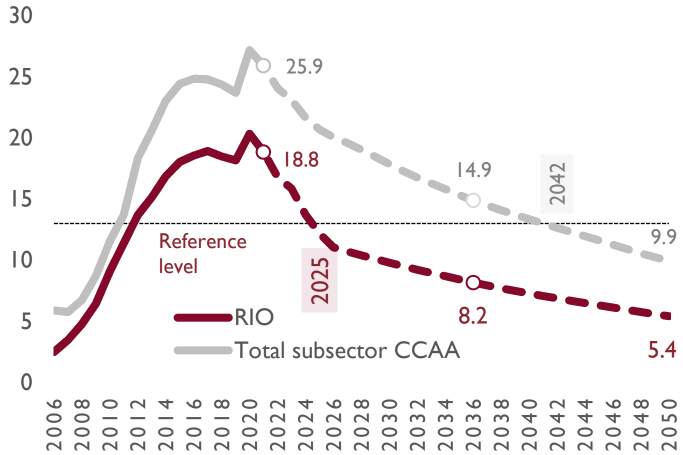


Source: AIReF

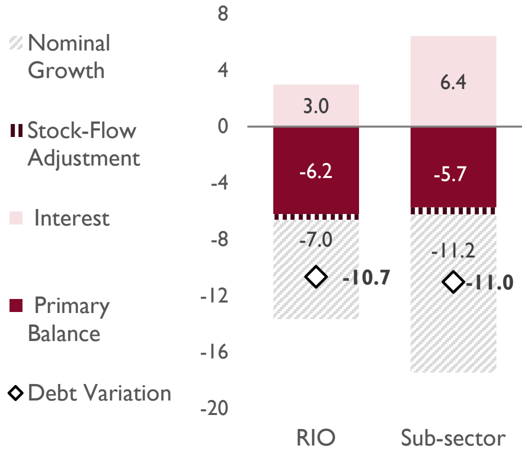
RIOJA

Under the assumptions of a regulatory scenario, it is projected that the debt-to-GDP ratio will fall by 10.7 points of GDP in the next 15 years, with the pre-pandemic level reached in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 11 points. Economic growth will be the factor that most contributes to the reduction in the ratio in both cases, which will be driven by a positive fiscal balance, with the reference limit of 13% thus being reached in 2025.

Debt projections (% GDP) of the regulatory scenario and year of arrival at the reference level of 13%



Contribution to the change in debt ratio (% GDP) in 15 years (2022-2036)



Source: AIReF