



Autoridad Independiente
de Responsabilidad Fiscal

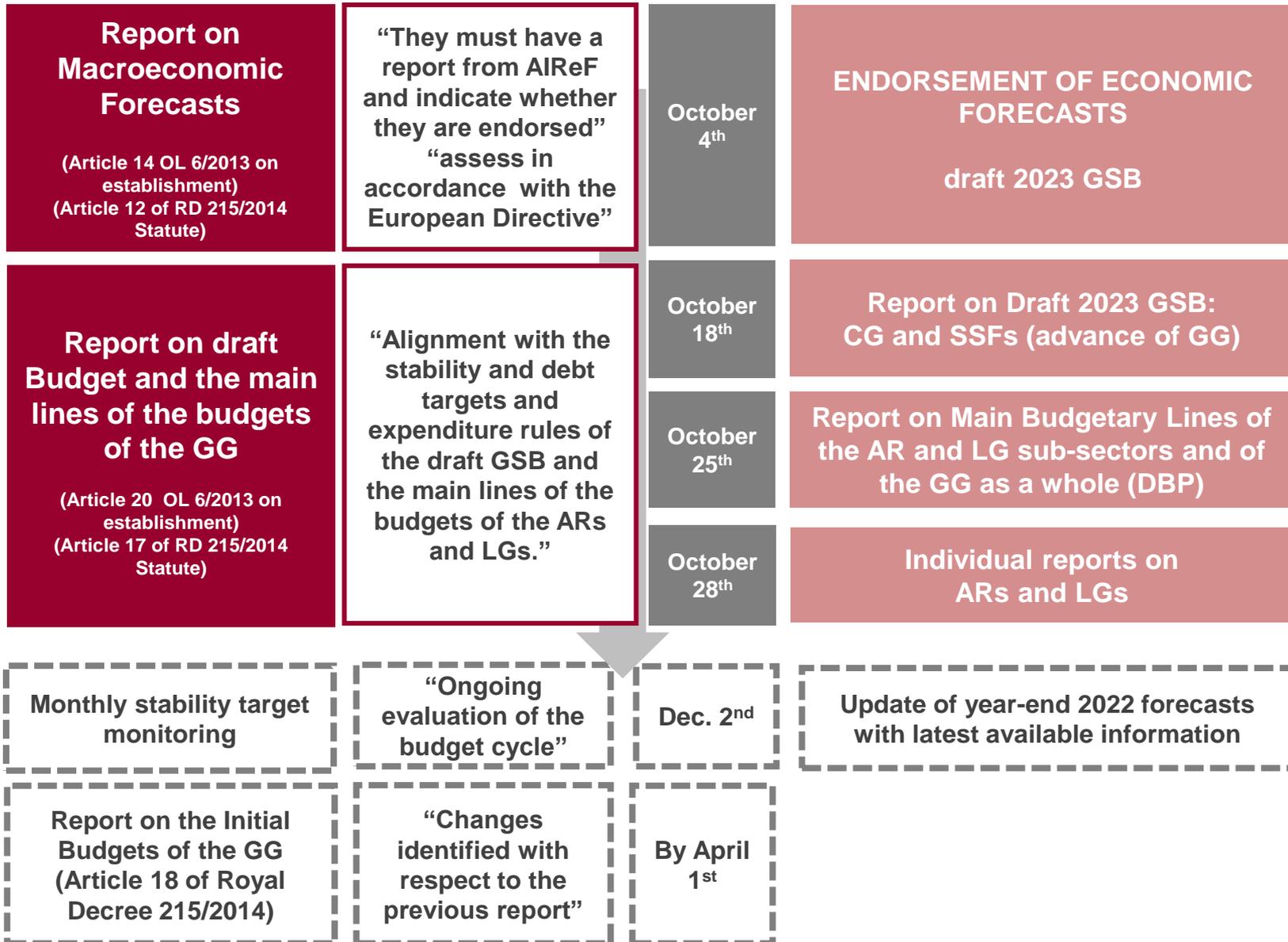
Appearance before the Budget Committee of the Senate

Reports on the Main Lines of the Budgets of the General Government

Cristina Herrero
President of AIReF
November 29th, 2022

1. Analysis of the budgets of the General Government: a cycle with several reports of different scope and purpose

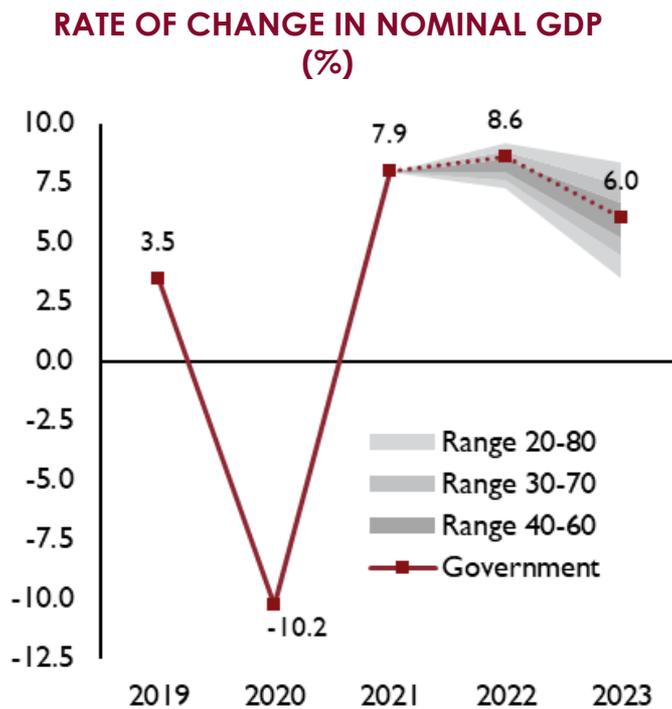
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2. Endorsement of the macroeconomic forecasts of the GSB

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



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

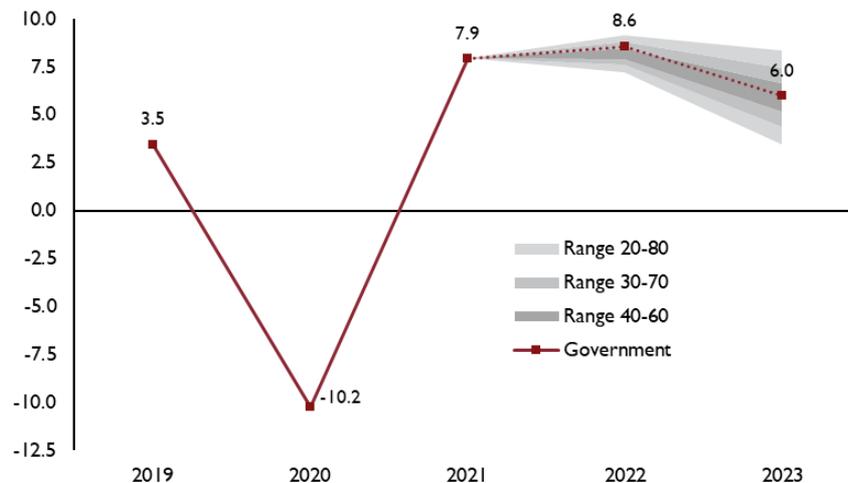
Only the economic forecasts are endorsed, not the budgetary forecasts



AIReF has revised its estimate of real growth downwards

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 of around **2%**. It warns 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

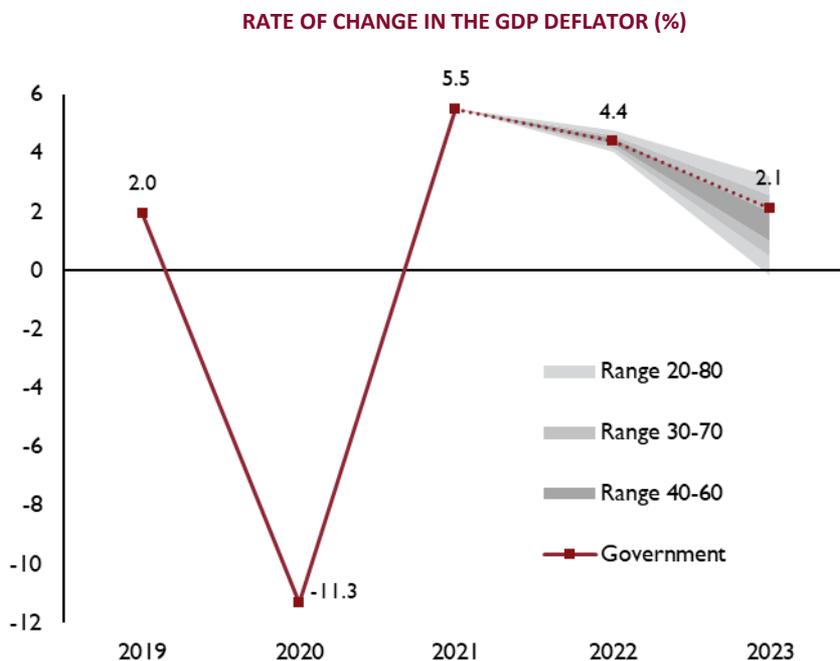
With the new information (limited in terms of measures), AIReF's new central forecast: **1.5%**

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

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



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.** Without extension +1/1.5 pp in 2023 in CPI)

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Important risks to AIReF's central scenario

1) Energy security and downward revision of growth in Europe

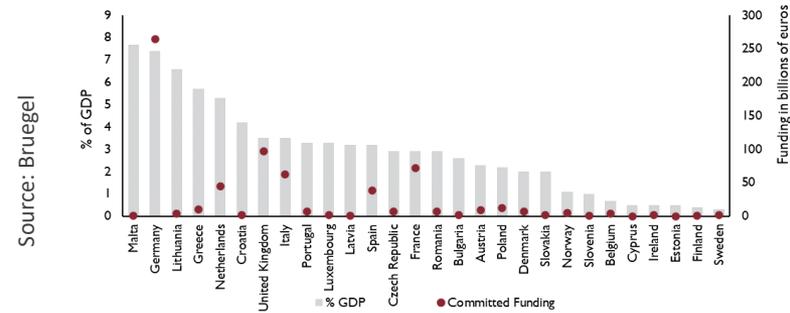
- ECB bring its revisions closer to adverse September scenario that forecasts a contraction in the euro area of 0.9%.
- In the opposite direction, adoption of measures to mitigate the impact of the energy crisis and a certain decline in gas prices

2) Persistence of inflation

- Tightening of monetary conditions. Simultaneous but not coordinated
- Risks to real growth and exchange rates
- Depreciation of the euro (8% vs. November 2021) raises energy and raw material bill in dollars

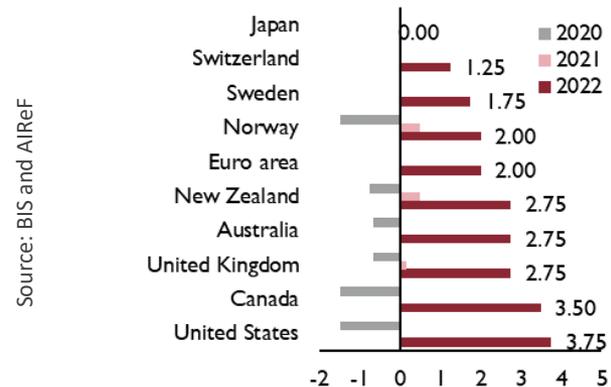
Source: Bruegel

MEASURES IMPLEMENTED TO MITIGATE THE EFFECTS OF THE ENERGY CRISIS



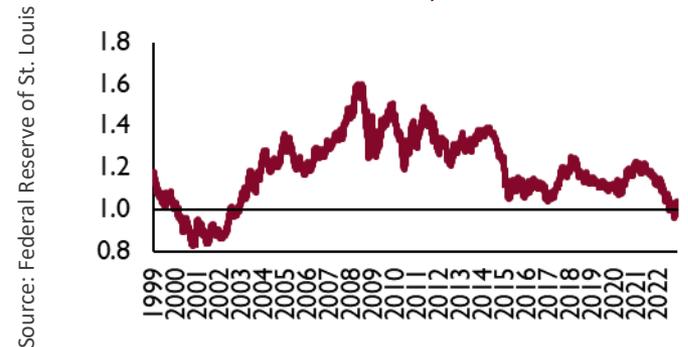
Source: Bruegel

ANNUAL CHANGE IN CENTRAL BANK RATES



Source: BIS and AIReF

EXCHANGE RATE OF THE \$ AGAINST THE EURO



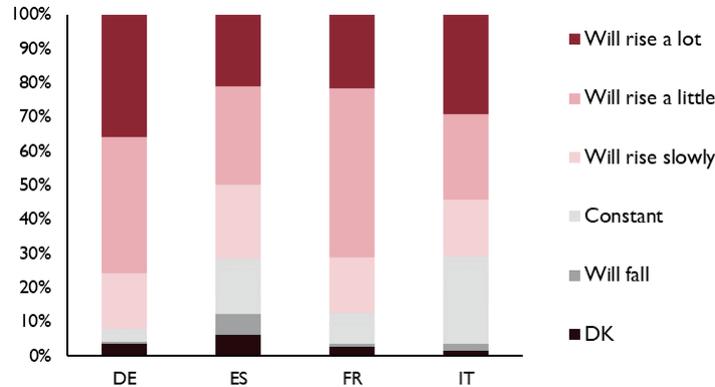
Source: Federal Reserve of St. Louis



Important risks to AIReF's central scenario

3) Risks of de-anchoring of inflation expectations

CONSUMER INFLATION EXPECTATIONS



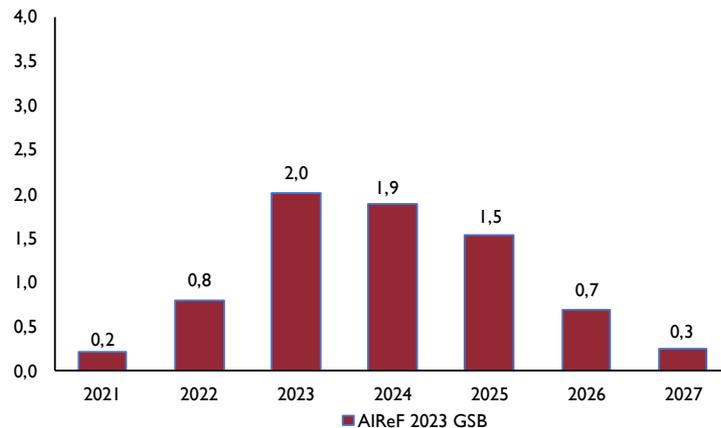
Source: European Commission.

- 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

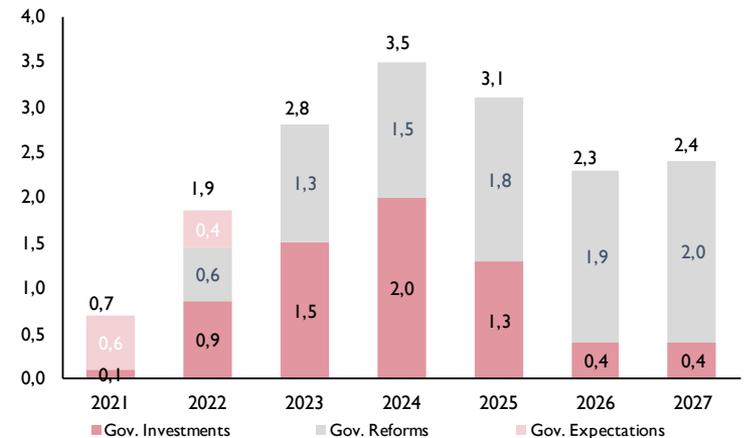
4) RTRP investment execution risks

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

AIREF



GOVERNMENT



Source: Ministry of Economic Affairs and Digital Transformation and 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	2022	2023
Private Domestic Final Consumption Expenditure	6.0	1.5	1.3	1.2	1.3
General Government Final Consumption Expenditure	2.9	-0.9	0.8	-1.0	0.4
GFCF	0.9	5.5	3.9	5.1	7.9
<i>GFCF Equipment and Cultivated Assets</i>	6.5	5.1	2.7	6.6	9.5
<i>GFCF Construction and Intellectual Property</i>	-1.5	5.6	4.4	4.5	7.2
Domestic Demand*	5.2	1.7	1.7	1.5	2.4
Exports of Goods and Services	14.4	16.9	2.5	17.9	7.3
Imports of Goods and Services	13.9	9.6	3.0	9.9	8.2
External Balance*	0.3	2.7	-0.2	2.9	-0.3
Gross Domestic Product	5.5	4.4	1.5	4.4	2.1
Nominal Gross Domestic Product	7.9	8.2	5.9	8.6	6.0
Gross Domestic Product Deflator	2.3	3.6	4.3	4.0	3.8
Consumer Price Index	3.1	8.9	3.9	-	-
Full-Time Equivalent Employment	6.6	2.9	0.3	2.9	0.6
Unit Labour Cost	0.3	1.3	4.6	0.5	2.3
Productivity per Full-Time Employee	-1.0	1.5	1.2	1.5	1.5
Compensation per Employee	-0.7	2.8	5.8	2.1	3.8
Unemployment Rate (% of Active Population)	14.8	12.8	12.8	12.8	12.2
Household and NPISH Savings Rate (% Gross Disposable Income)	13.6	8.5	8.7	-	-

* 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 around the end of 2023/early 2024

- Scenario assumptions:
- Resolution of the energy crisis
 - Execution of the RTRP

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

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In the autumn forecasts, the European Commission projects growth for Spain of 4.5% in 2022, 1% in 2023 and 2% in 2024

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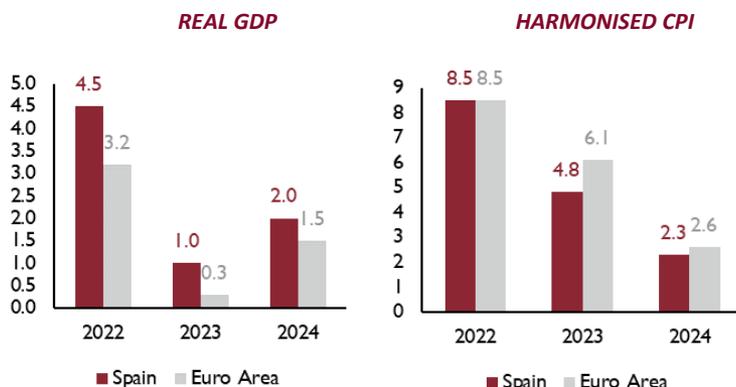
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EC AUTUMN 2022 FORECASTS

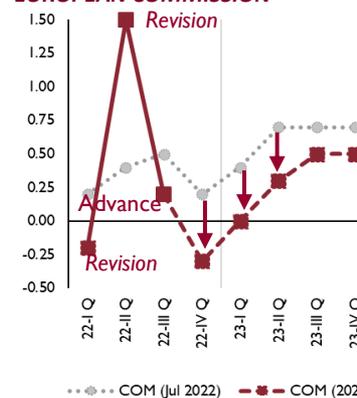


Source: European Commission.

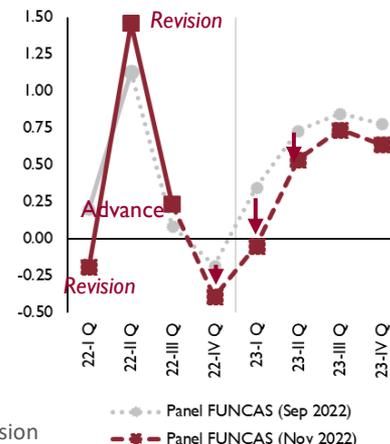
GDP GROWTH EXPECTATIONS (QUARTER-ON-QUARTER RATE OF CHANGE)

PRO-MEMORIA: FUNCAS PANEL

EUROPEAN COMMISSION



Source: FUNCAS and European Commission



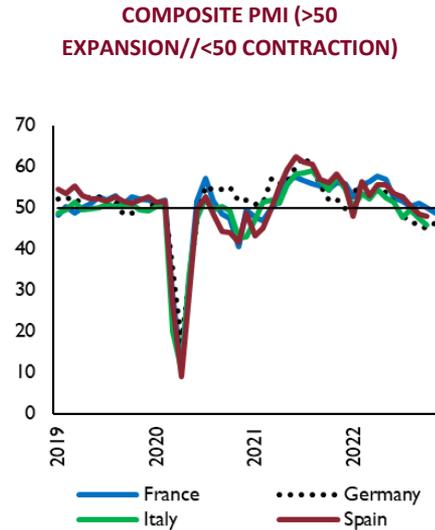
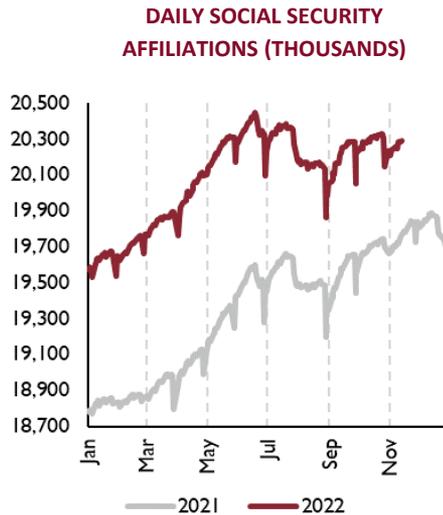
- Quarter-on-quarter GDP growth higher than expected in the third quarter of 2022, with a positive impact on the projections for the whole of 2022
- The European Commission revises Spain's growth in 2022 upwards, but for 2023 growth is expected to slow to 1% year-on-year
- These estimates are based on an assumption of a contraction in GDP in the fourth quarter of 2022, followed by stagnation in the first quarter of 2023
- For the euro area, the European Commission expects growth of 0.3% in 2023 as a whole, substantially lower than the ECB's September central scenario
- Germany and Latvia would be the only euro area countries to experience contractions in their real GDP in 2023



New macroeconomic information since the Reports (I)

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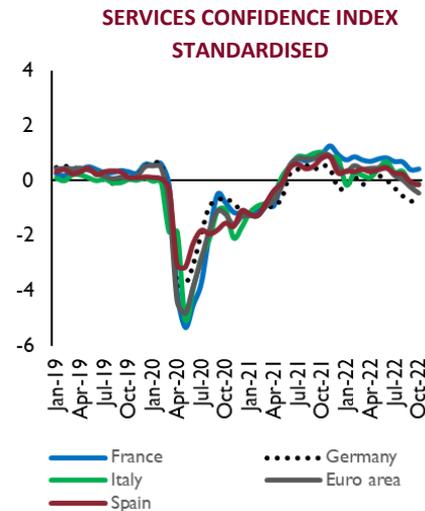
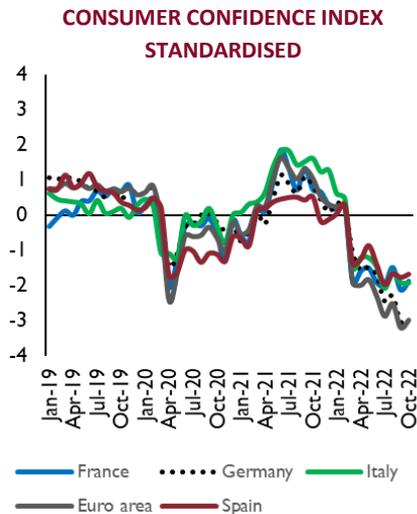
1) Short-term indicators



Source: Ministry of Economic Affairs and Digital Transformation and AIRef

- Information for the fourth quarter is still very scant: particularly noteworthy are the robust employment data, but slowdown in the pace of services and manufacturing growth
- In Europe, the negative tone of indicators such as the PMIs is noteworthy

2) Confidence Indicators



Source: European Commission.

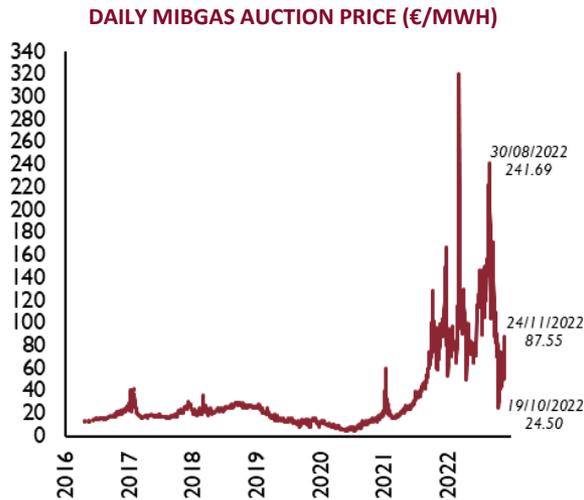
- The price shock has mainly affected real disposable income, with consumer confidence still not recovering
- Confidence in the services sector is beginning to suffer with all countries below their historical average - with the exception of France.



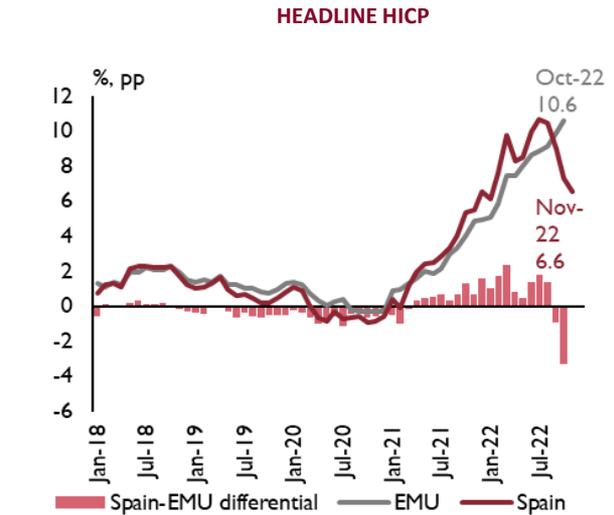
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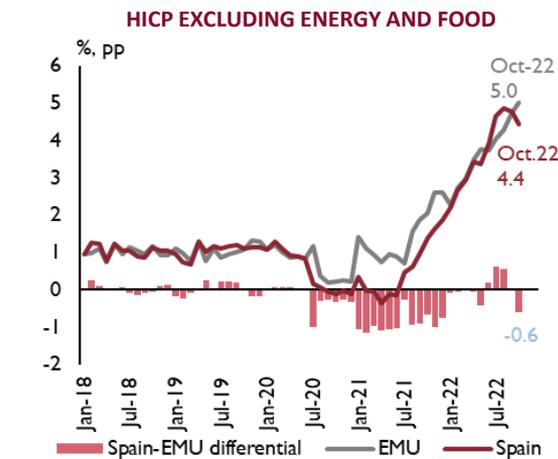
3) Lower prices for some energy raw materials, but inflation persists



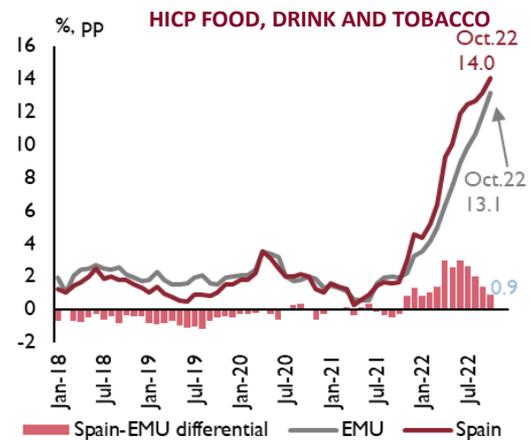
Source: MIBGAS



Source: Eurostat



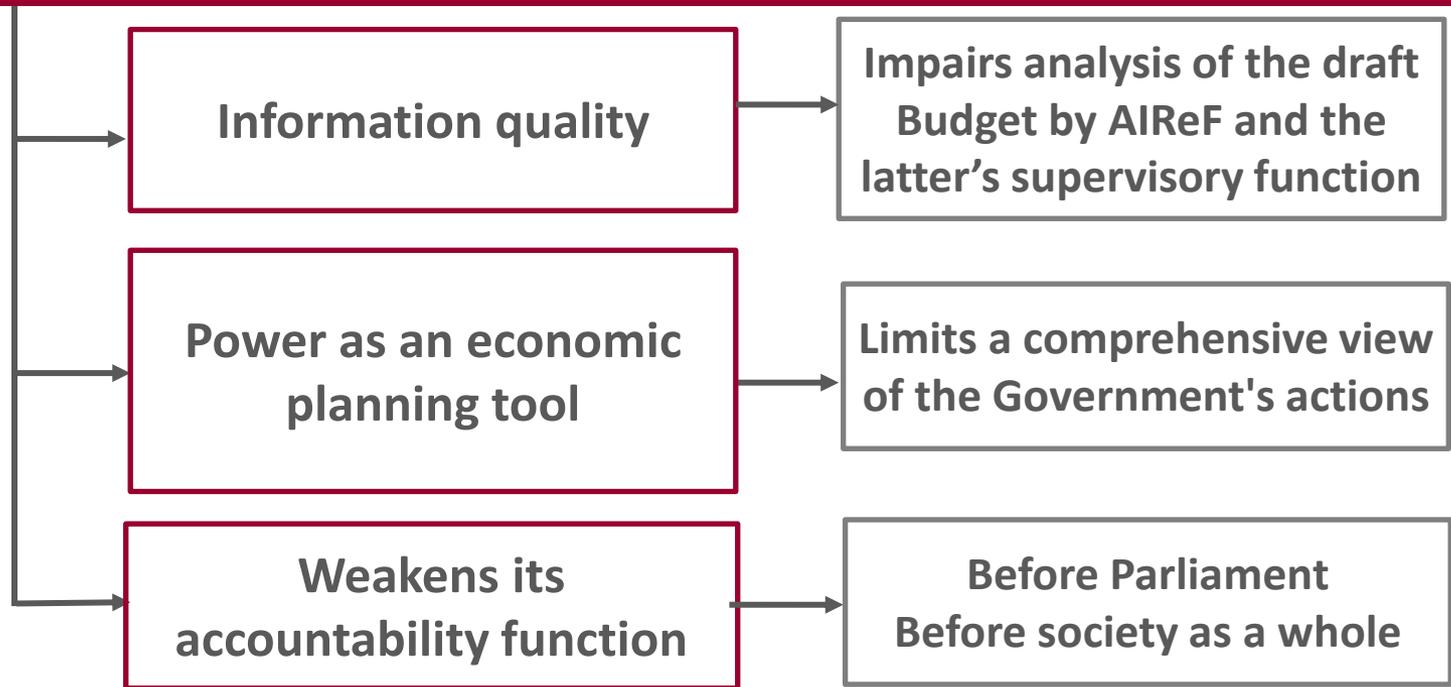
Source: Eurostat



The CPI has slowed its year-on-year pace but core inflation and food prices continue to accelerate

3. General State Budget (Article 17 of the Organic Law on Budgetary Stability and Financial Sustainability): Report of October 18th

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 current uncertainty cannot undermine the purpose of the Budget, which has mechanisms for managing it

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What shortcomings does the draft Budget present 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**

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
- 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

Still does not provide national accounting information on the initial Budget, or the national accounting adjustments or execution of the RTRP

The shortcomings of endorsement procedure for the macro outlook remain

Is not part of a medium-term strategy

The draft 2023 GSB, Budgetary Plan and individual reports: reports are once again issued in a context of the 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 to 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 activation of the escape clause with the drafting of a rebalancing plan

The national and European guidelines are aimed at ensuring the sustainability of public finances and targeting measures in response to the crisis

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In this context of suspended rules, consistency with national and European guidelines is monitored

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National Guidance: Organic Law on Budgetary Stability and Financial Stability

- AIReF must issue an opinion on the **existence of exceptional circumstances**: Article 11.3 of the Organic Law on Budgetary Stability and Financial Sustainability: **October 2020, July 2021, July 2022**
- **Suspension entails the preparation of a rebalancing plan to ensure sustainability**

% of GDP

Replacement of stability targets by reference rates	2023 Reference rates
AC	-3,2
CC.AA.	-0,3
CC.LL.	0,1
FSS	-0,5
AA.PP.	-3,9

Focus on sustainability and medium-term vision

European Guidance (ECOFIN)

Without ever losing sight of sustainability, it has evolved from **qualitative to QUANTITATIVE**

- **20-21: temporary, timely and targeted**
- **22: country differentiation (prudence in high-debt countries)**

- Quantitative limitation to 2023 GG expenditure: growth in nationally financed primary current expenditure lower than potential GDP
- Beyond 2023: credible and gradual debt reduction path

IFIs have an *ex ante* supervisory role and a medium-term vision

Consistency of the proposed budgets with the national guidelines: reference rates for 2023

In a context of suspension, the rates offer an anchor and reference for each and every General Government sub-sectors. Positive effects (predictability and transparency) provided they are realistic. Otherwise, the positive effects disappear.

	AIReF		DBP	
	2022	2023	2022	2023
AA.PP.	-4,6	-3,3	-5,0	-3,9
AC	-3,4	-3,0	-3,5	-3,3
FSS	-0,5	-0,7	-0,5	-0,5
CC.AA.	-1,0	-0,1	-1,0	-0,3
CC.LL.	0,2	0,5	0,1	0,1

At the level of the GG as a whole, AIReF's forecasts for 2023 are below the reference rate (-3.9% of GDP) and will allow a reduction in the deficit of 1.3% if there is no extension or new measures. Should the existing measures be extended, the deficit in 2023 would be similar to that in 2022

Draft 2023 GSB

- **Unrealistic starting revenue forecasts**
- **CG:** reference rate achievable as long as there is no extension or measures that the DBP of October 15th itself expects
- **SSFs:** reference rate difficult to achieve given AIReF's higher expenditure forecasts

ARs

- **Same reference rate for all** irrespective of the situation. AIReF estimates a high number of ARs that can beat the reference rate of -0.3% of GDP. However, virtually all budgets plan to exhaust the margin
- **Compliance heavily influenced by the RFS:** favourable RFS settlements
- There is a tendency **to consolidate the increase in spending due to COVID**

LGs

- **Reference surplus** (0.1% of GDP) lower than AIReF's estimate
- **Behaviour also affected by the financing system** (settlements)
- **Trend to consolidate a surplus** and strengthen the net financial position

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

Scenario 2 raises revenue and expenditure by the same amount for both years, although the different assumptions underlying the two scenarios without changes in the macroeconomic assumptions are unclear

REVENUE AND EXPENDITURE BUDGETARY PLAN SCENARIOS VS AIREF (% GDP)

	2022			2023		
	DBP-1.	DBP-2.	AIREF	DBP-1.	DBP-2.	AIREF
REVENUE	42.1	42.9	43.0	42.3	43.0	43.5
TAXES	24.4	25.3	24.9	24.8	25.5	25.5
<i>On production</i>	12.2	12.6	12.3	12.2	12.3	12.7
<i>On income</i>	11.8	12.2	12.1	12.2	12.8	12.4
<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	4.4	3.8	3.8	4.2
	2022			2023		
	DBP-1.	DBP-2.	AIREF	DBP-1.	DBP-2.	AIREF
EXPENDITURE	47.1	47.9	47.6	46.2	46.9	46.8
Compensation of employees	11.6	11.8	11.8	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	2.4
Investment support and other cap. transfers	0.9	0.9	1.1	0.6	0.6	0.9
Other expenditure	1.9	1.9	2.1	1.7	1.7	1.9
NET LENDING/BORROWING	-5.0	-5.0	-4.6	-3.9	-3.9	-3.3

Source: AIREF and Ministry of Finance



In the Budgetary Plan, scenario 2 presents a closer picture to the reality of the situation of public finances, although with a lower level of expenditure than AIReF

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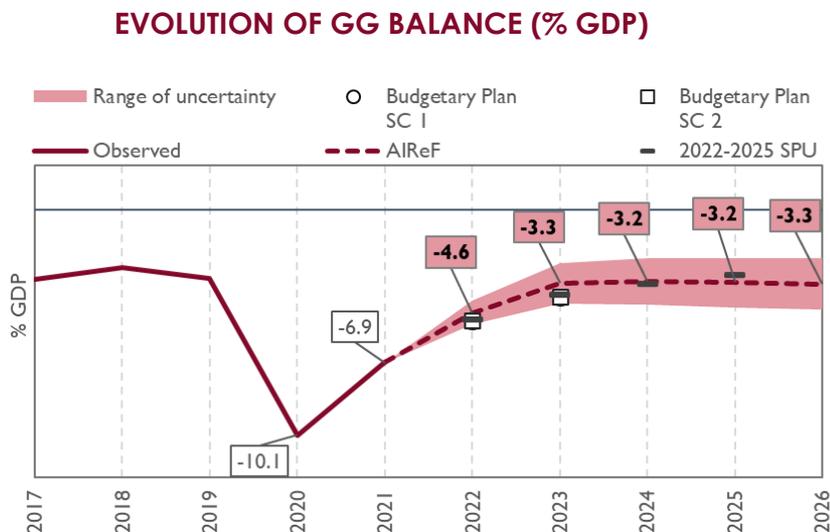
Budgetary Plan Scenario 1	Budgetary Plan Scenario 2	AIReF's Forecasts
<ul style="list-style-type: none"> • No extension of measures in 2023 • Does not include the latest measures in 2022 • Revenue forecast aligned with the GSB and therefore not incorporating the most recent information • Revenue and expenditure below AIReF • Higher deficit than forecast by AIReF in both years 	<ul style="list-style-type: none"> • With partial extension of measures in 2023: all in revenue and 0.7 points in expenditure • Includes the latest measures • Does not raise compensation of employees in 2023, although the 1.5% increase is consolidated • Revenue forecast aligned with AIReF in 2022 and 2023 • Expenditure not associated with measures below AIReF • Higher deficit than AIReF forecast in 2022 and lower deficit in 2023 taking into account the cost of the measures 	<ul style="list-style-type: none"> • Incorporates the most up-to-date information possible, including latest measures • Cannot incorporate the extension of the measures due to lack of detailed information, although some form of extension is almost certain • If measures are extended under Scenario 2, the deficit would rise to 4.4% of GDP in 2023



The two scenarios of the Budgetary Plan share the same macroeconomic scenario, which could result in some internal inconsistencies

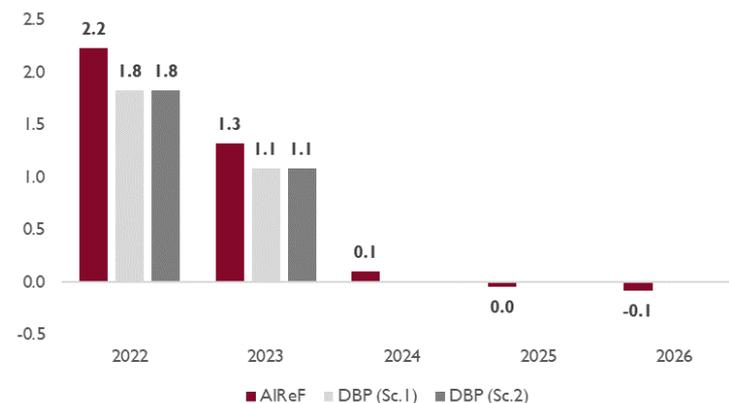
In the medium term, the deficit will stabilise between 0.2 and 0.3 points above the limit of 3% of GDP

Assuming that the measures are temporary, AIREF's forecasts show that the margin for reducing the deficit runs out in the medium term.



Source: IGAE, Budgetary Plan and AIREF

FORECAST REDUCTION IN THE GG BALANCE (% GDP)



Source: Budgetary Plan and AIREF

- The weight of revenue over GDP, excluding the RTRP, will fall to 42.5% in 2026
- The weight of expenditure as a proportion of GDP, excluding the RTRP, also falls in AIREF's central scenario, to 45.8% in 2026
- Structural and temporary revenue measures will add 0.3 points of revenue in 2023 and 0.4 points in 2024, to then decrease and have a negative contribution of 0.1 points in 2026
- The measures to mitigate the energy crisis approved so far add 1.5 points of deficit in 2022 and 0.1 points in 2023
- The projected deficit for 2023 will depend on further action taken



Balance by sub-sector

In 2023, AIReF forecasts a lower deficit of the CG and the ARs, a higher deficit of the SSFs and a higher surplus of the LGs

BALANCE BY SUB-SECTOR (% GDP)

	AIReF					DBP	
	2022	2023	2024	2025	2026	2022	2023
AA.PP.	-4,6	-3,3	-3,2	-3,2	-3,3	-5,0	-3,9
AC	-3,4	-3,0	-3,6	-3,4	-3,2	-3,5	-3,3
FSS	-0,5	-0,7	-0,5	-0,5	-0,5	-0,5	-0,5
CC.AA.	-1,0	-0,1	0,4	0,2	0,0	-1,0	-0,3
CC.LL.	0,2	0,5	0,6	0,4	0,3	0,1	0,1

Source: Budgetary Plan and AIReF

- **CG:** It assumes all the measures to mitigate the energy crisis and is also affected by the payments resulting from the territorial financing systems
 - The non-financial expenditure limit in 2023 is 1.1% higher than in 2022, although AIReF estimates that without NGEU funds and extraordinary transfers it would rise to 6.5%
 - The revenue measures included in the GSB will add 0.3 points to the weight of revenue over GDP in 2023 AIReF estimates the total impact of the measures of the National Response Plan for the economic and social consequences of the Russian war, including those approved in RDL 18/2022, at 1.5% of GDP for 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** Irregular evolution marked by the short-term revenue provided by the positive settlements of the financing system to conclude the period in a balanced position
- **LGs:** Structural surplus at around 0.3% of GDP, also influenced by settlements of the financing system

Since publication of the Reports, there has been no new information: on Wednesday 30th the budget execution data are published, including the second instalment of CIT

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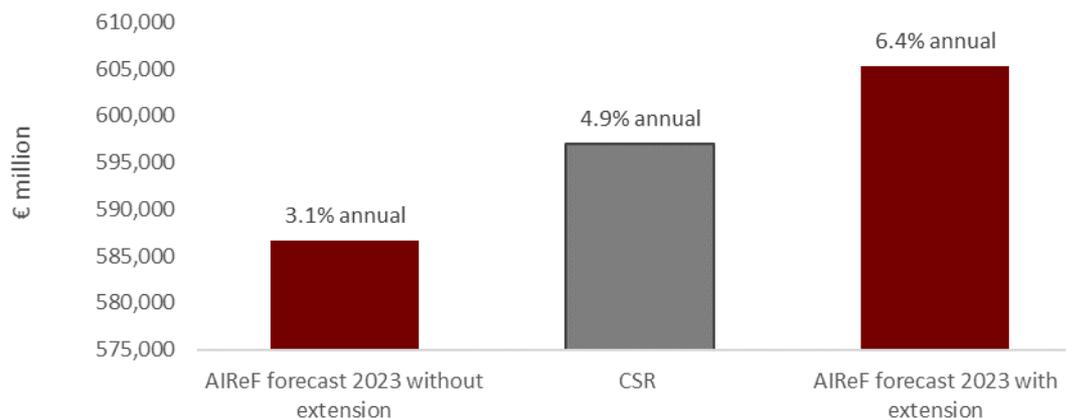
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4. European fiscal recommendation: the increase in 2023 in current primary expenditure net of revenue measures could be compatible with the European fiscal recommendation in the absence of new measures

- 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** (5% according to the European Commission's estimate)
- In the absence of new measures or extension of those already adopted, the CSR could be complied with in 2023
- However, if all the measures were extended for the whole of 2023, the annual growth in the current primary expenditure of the GG would be 6.5%, **which is clearly above the range of compliance with the fiscal CSR**

Current primary expenditure, net of revenue measures, GG, 2023



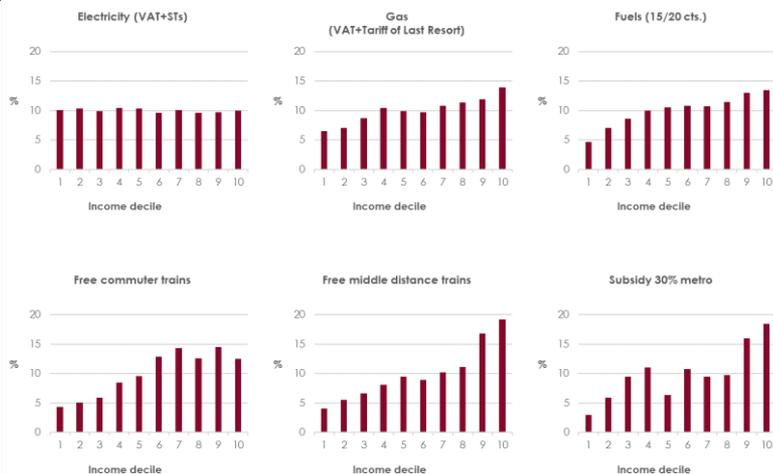
Source: AIREF

The compatibility of the Budgetary Plan with the European recommendation requires an analysis of the targeted nature of the measures

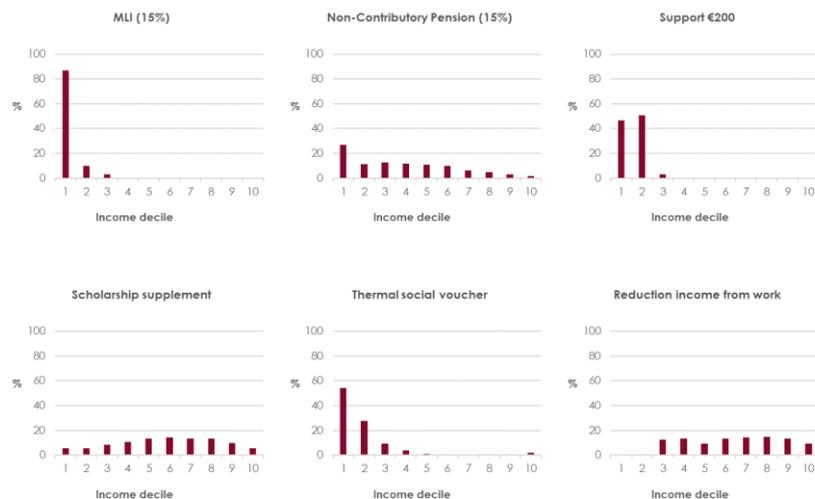
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- The increase in current primary expenditure will be assessed taking into account the temporary and specific aid in favour of households and companies most vulnerable to the rises in energy prices and refugees due to the war in Ukraine
- Measures acting on energy and transport prices do not target lower income individuals
- The measures aimed at offsetting the loss of real income caused by inflation are by their nature more targeted. However, the supplement to scholarships and extension of the reduction in income from work are mainly targeted towards income levels close to the median

DISTRIBUTION OF THE COST OF THE MEASURES ACTING ON THE PRICE OF ENERGY & TRANSPORT (BY DECILE OF HOUSEHOLD INCOME)



DISTRIBUTION OF THE COST OF MEASURES TO OFFSET THE LOSS OF REAL INCOME CAUSED BY INFLATION (BY DECILES OF HOUSEHOLD INCOME)



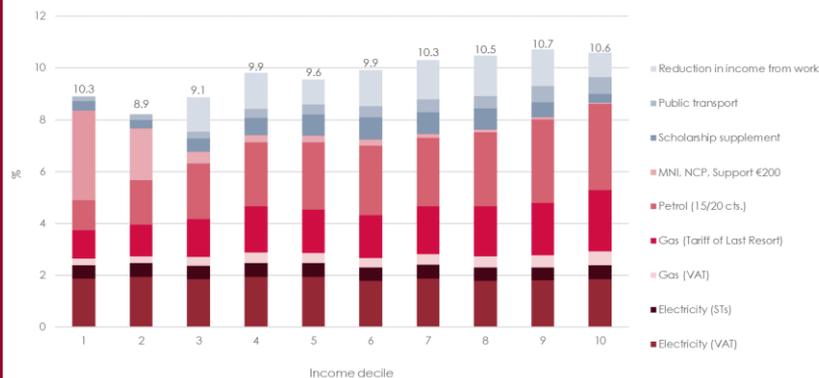
Source: AIReF and Budgetary Plan



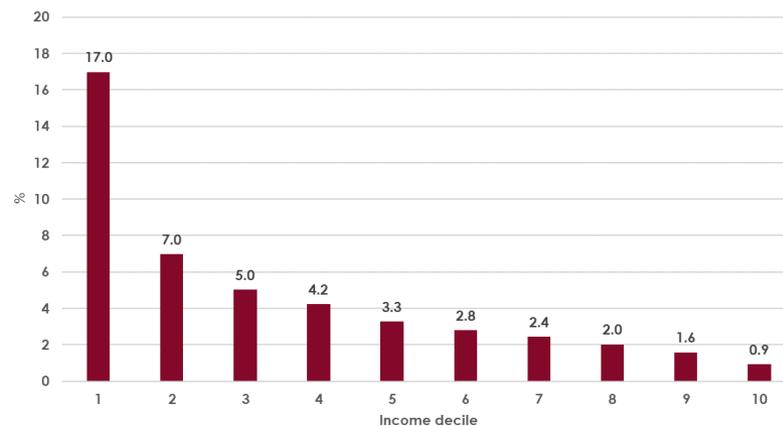
The compatibility of the Budgetary Plan with the European recommendation requires an analysis of the targeted nature of the measures

- The package of measures is somewhat targeted towards the most vulnerable, although high-income households absorb a significant part of the cost of the measures
- In terms of income, the amount allocated to lower income households accounts for 17%, while for higher income households this percentage is 1%

DISTRIBUTION OF THE TOTAL COST OF MEASURES TO OFFSET THE LOSS OF INCOME CAUSED BY INFLATION (BY DECILES OF HOUSEHOLD INCOME)



AMOUNT OF TOTAL MEASURES IN RELATION TO GROSS INCOME (BY HOUSEHOLD INCOME LEVEL)



Source: Prepared by the author based on INE and the Panel on Households, Income and Wealth (IEF-AEAT)

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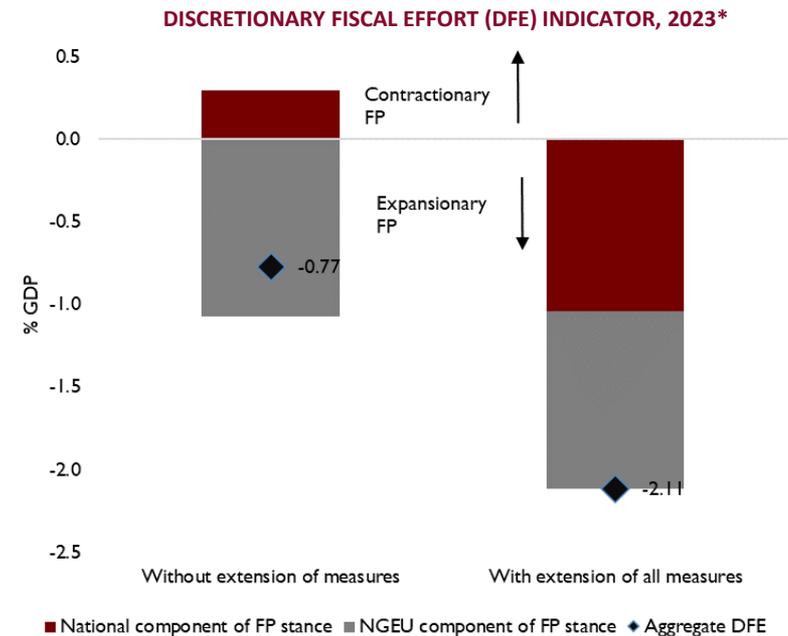
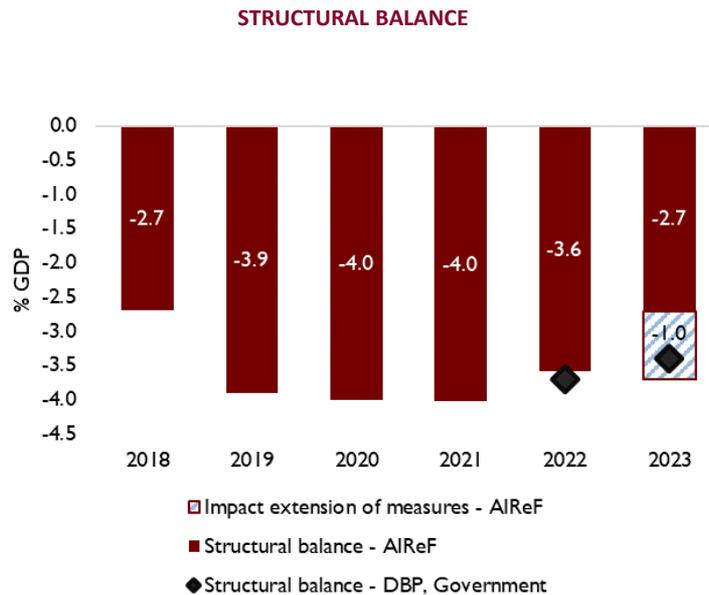
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The aggregate fiscal policy stance in 2023 will be expansive if the boost associated with the NGEU funds materialises

- In 2023, the mere phasing out of the measures would lead to an improvement in the structural balance of almost one percentage point of GDP. In contrast, if the package were extended for the whole of 2023, there would be little structural effort next year and national fiscal policy would adopt a neutral stance with respect to 2022
- Including expenditure from NGEU funds, the fiscal policy stance will be expansive in 2023 regardless of whether the measures are extended or not. The boost of €15bn from these funds will either strengthen a slight national expansion in the event that the measures are extended, or more than compensate for a certain containment of national expenditure in the event that they are not extended.



Source: AIReF and Budgetary Plan

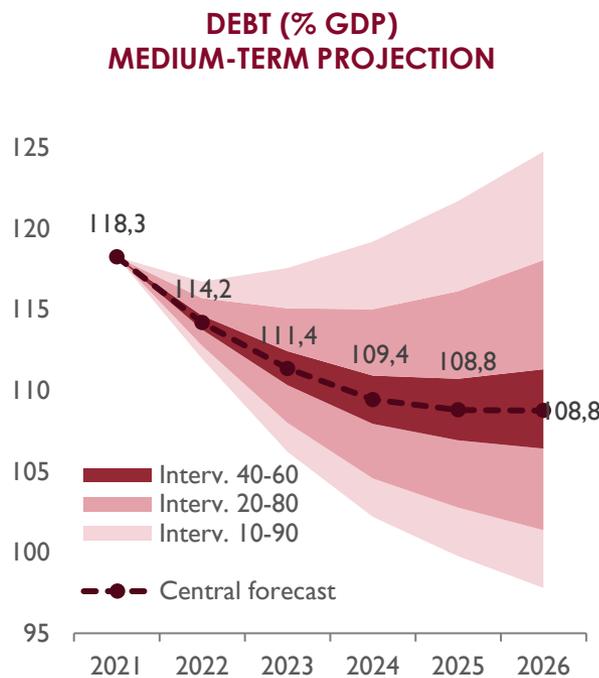
* Note: a negative sign represents an expansive fiscal policy and vice versa

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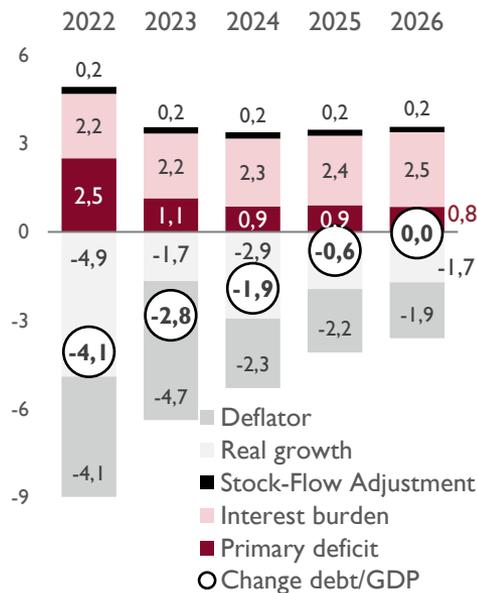


5. Without additional measures, the pace of reduction is projected to slow down in the medium term and debt to stabilise at 108.8% of GDP

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



CONTRIBUTIONS TO THE CHANGE IN DEBT (% GDP)



✓ The favourable evolution of the denominator of the debt ratio should not mask the need to achieve a path of budgetary rebalancing in the medium term that allows greater fiscal space to be generated in an environment of great uncertainty and demographic pressures...

✓ ... given the significant stock of debt, which places the sustainability of public finances in a highly vulnerable position,

✓ in a scenario of worsening financing conditions, which will require a sustained structural adjustment to keep the debt ratio stable and contain the financial burden

Source: Bank of Spain, National Statistics Office (INE)



6. Recommendations made (i)

Recommendations in the endorsement of October 4th

New: AIReF should participate in the process earlier

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

It reiterates two recommendations: 1) to have adequate information on the measures that are incorporated into the economic scenario and path of revenue and expenditure and 2) to regulate the endorsement process by means of an agreement

Recommendations in the report of October 18th

New: adequately structure the budget process and address the deficiencies in the GSB

1. 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
2. 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

It reiterates the recommendation on transparency of information in national accounting terms

Recommendations made (ii)

Recommendations
in the report
of October 25th

New: addressed
to the Ministry
of Finance and
Civil Service

“To define reference rates for each administration taking into account their starting situation, so that they are demanding, but feasible to achieve”

- Lax reference rates **do not provide incentives** for the necessary reduction in the structural deficit, both at the level of the GG and individual administrations
- According to AIReF's estimates, the CG sub-sector could reach a deficit of less than 0.1% of GDP as opposed to the sub-sector's reference rate of 0.3% of GDP
- All the ARs have submitted budgets **in line** with the reference rate
- The **same reference rate for all ARs** under the ordinary regime is unrealistic, as it is excessively **demanding for some and lax for others**

It **reiterates** the recommendation that the Budgetary Plan should incorporate all the measures planned by the Government and the impact of the REACT-EU and RTRP funds on revenue and expenditure, as well as the breakdown by sub-sector in national accounting terms

Dissatisfaction with responses to Endorsement Recommendations

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New to Ministry of Economic Affairs and Digital Transformation: AIReF should participate in the process earlier (July report on economy)

The Report on the Situation of the Spanish Economy is **not provided for in the Law on the Establishment of AIReF**, and this fact cannot be remedied by a request made by the Ministry of Economic Affairs and Digital Transformation

*AIReF could issue an **Opinion***

Reiterated to the Ministry of Economic Affairs and Digital Transformation: agreement

The Ministry of Economic Affairs and Digital Transformation **does not see the need to regulate** the exchange of information through a MOU

*It is **international best practice and provides certainty in content and timing***

Reiterated to the Ministry of Economic Affairs and Digital Transformation and the Ministry of Finance and Civil Service: have adequate information on the measures

The Ministry of Finance and Civil Service and Ministry of Economic Affairs and Digital Transformation reply that they **already provide all** the available information that is incorporated into the GSB



Dissatisfaction with the responses to the Recommendations of the Report of October 18th

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New to Ministry of Finance and Civil Service: adequately structure the budget process and address the deficiencies of the GSB

The Ministry of Finance and Civil Service states that it already **complies with both recommendations:**

- Budgets **have been an instrument of economic, budgetary and fiscal policy** to support families and businesses in a context of crisis, have supported growth and channelled RTRP funds
- Exceptional measures accompanied by **Regulatory Impact Analysis Reports**

None of these answers address the shortcomings identified by AIReF: unrealistic revenue forecast; failure to incorporate all measures; lack of information in national accounting

Reiterated to Ministry of Finance and Civil Service: information transparency in national accounting terms

The Ministry of Finance and Civil Service argues that the adjustments **are published in the half-yearly EDP notification**

Ex post publication is not enough. They were published up to 2017 so it is feasible

The Ministry of Finance and Civil Service states that it already **publishes monthly execution data** in NA terms, but preparing a budget in NA terms for the CG and SSFs is an **extremely complex task** that would involve changes to budget preparation mechanisms.

Without a budget in NA terms, it is not possible to ensure consistency and coherence between medium-term planning instruments and draft budgets
According to AIReF's estimates, in the draft 2023 GSB, the NA adjustments for the Government are estimated at 1.1% of GDP (0.8% according to AIReF's data)



Dissatisfaction with the responses to the Recommendations of the Report of October 25th

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New to Ministry of Finance and Civil Service: set reference rates for each administration taking into account their starting situation, so that they are demanding, but feasible to achieve

The Ministry of Finance and Civil Service states that it already complies with this recommendation and it maintains and reaffirms its commitment to budgetary stability. For the ARs, in the context of suspended rules, it has passed on reference rates for the sub-sector as a whole that the ARs have taken into account and have contributed to reducing the deficit

*AIReF's forecasts for 2022 have been consistently below 5%, between 4.2% and 4.6%. Similarly, the forecast of 3.9% for 2023 is lax in the absence of an extension of measures. With regard to the ARs, AIReF's forecasts are -0.1% in 2023 for the sub sector and even a surplus for several ARs. Therefore, **the -0.3% reference for all ARs is not realistic and may encourage an increase in the structural deficit***

Reiterated to Ministry of Finance and Civil Service: The Budgetary Plan should incorporate all the measures planned by the Government and the impact of the REACT-EU and RTRP funds on revenue and expenditure (...)

The Ministry of Finance and Civil Service argues that the DBP and the macro outlook **already include said information. The DBP includes two scenarios to take into account the measures and complies with the code of conduct on its content**

*AIReF considers **the information provided** in the Budgetary Plan to be **insufficient**. In addition, there are **inconsistencies between scenarios**. It still does not set out the impact of the RTRP and the REACT-EU funds and nor does it provide a breakdown of the headings of expenditure and revenue by tier of government, which makes it difficult to ensure consistency with the budgets of the different administrations*



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