

AIReF ESTIMATES ECONOMY TO GROW 1.6% IN 2023 AND DEFICIT TO CLOSE AT 4.2% OF GDP

- **The Independent Authority for Fiscal Responsibility maintains its growth forecast unchanged at 1.6% and expects a consumer price index change of 4%.**
- **Raises the public deficit forecast for 2023 by 9 tenths of a percentage point due to measures to alleviate the energy crisis, to 4.2% of GDP.**
- **The revenue forecast decreases by one percentage point to 42.5% of GDP, excluding the RTRP. The expenditure estimate is reduced by one tenth of a percentage point to 46.7% of GDP, excluding the RTRP.**
- **The increase in the deficit is shared between the central government, the Autonomous Regions, and the Local Entities, while the estimate for the Social Security Funds improves.**
- **AIReF projects a decline in the debt-to-GDP ratio of 2.6 points in 2023, to 110.6% of GDP at the end of the year, although in the medium term it expects an unfavourable trend after an initial period of some stabilisation.**
- **AIReF recommends the government to provide the SPU with sufficient content and scope to effectively articulate a medium-term fiscal strategy and to publish full information on the implementation of the RTRP.**

The Independent Authority for Fiscal Responsibility (AIReF) today published on its website the Initial General Government Budget Report 2023, in which it updates its macroeconomic and fiscal forecasts incorporating the impact of the measures approved or extended since the last report. AIReF maintains its growth estimate at 1.6% for 2023 and raises its estimate of the general government deficit for the same year by 0.9 percentage points to 4.2% of GDP.

AIReF presents a new macroeconomic scenario in which it maintains its forecast for real GDP growth for 2023 at 1.6%, compared with the 5.5% observed in 2022, and places nominal growth at 6.5%, compared with 10% the previous year. On the one hand, global growth expectations are being revised upwards and energy commodity prices on international markets are moderating. On the other hand, financing conditions continue to tighten and a further pass-through of past interest rate increases to the real economy is expected in the second half of 2022. Against this background, the forecast for 2023 remains unchanged at 1.6%.

In the area of prices, AIReF estimates a change in the consumer price index of 4% in 2023 and 4.8% in the case of the GDP deflator. Energy products are showing negative rates of change, but high rates of inflation persist in food, industrial goods and services

which reflect a gradual pass-through of past cost increases. Wages, for their part, maintain moderate rates.

As for the fiscal scenario, AIReF estimates for its central scenario a general government deficit of 4.2% of GDP in 2023, three tenths of a percentage point above the reference rate set for 2023. This revision increases the deficit forecast by 9 tenths of a percentage point of GDP with respect to the October report, which did not include the extension of the measures approved since 2021 to mitigate the effects of the energy crisis and the new measures.

The deficit increase due to the measures is 1% of GDP by 2023 (reduction of energy taxation, reduction of VAT on certain foodstuffs, increase in fuel subsidy expenditure in the transport sector and several other sectoral measures and measures to help individuals). For their part, the changes in the macroeconomic scenario reduce the deficit by 2 tenths of a percentage point due to the improvement in revenue collection and the denominator effect due to a higher level of GDP in nominal terms by 2023. Finally, the incorporation of the latest available information leads to an increase in the deficit forecast of one tenth of a percentage point of GDP compared to October. On the one hand, revenue developments have been more positive than expected in corporate income tax and, to a lesser extent, in personal income tax and social security contributions. On the other hand, the latest budget execution data lead to an increase in the forecast for interest expenditure, intermediate consumption, and investment.

Compared to 2022, the deficit is reduced by 6 tenths. The phasing out of the COVID-19 measures reduces the deficit by 1 tenth of a percentage point in 2023 and the cost of the measures adopted so far to mitigate the effect of the energy and price crisis in 2023 is lower than in 2022, reducing the deficit by a further 5 tenths of a percentage point. By contrast, the revaluation of pensions with the CPI in 2022, 8.5%, raises the deficit by 1 percentage point. The underlying evolution of the rest of expenditure and revenue implies a reduction in the deficit of 8 tenths of a percentage point of GDP, to which an additional 2 tenths of a percentage point must be added due to the impact of the revenue measures included in the Budget Plan.

In 2023, revenues will grow by 6.4% to 42.5% of GDP, 44% including RTRP revenues. This would be 1 GDP point lower than projected in the previous report. Expenditure, excluding the RTRP, will stand at 46.7% in 2023, compared to 46.8% projected in the previous report. Including the RTRP, expenditure will stand at 48.3% of GDP.

Balance by Administration

The worsening of the deficit is shared between the Central Government (CG), the Autonomous Regions (AR) and the Local Entities (LE). In the case of the CG, AIReF forecasts a deficit of 3.5% of GDP in 2023, which is 5 tenths of a percentage point higher than the previous forecast. The factor with the greatest weight is the approval of the new measures and the partial extension of the existing ones. On the other hand, changes in the macroeconomic scenario and new information, especially regarding tax collection, reduce the deficit by 3 tenths of a percentage point.

AIReF also raises the deficit of the Autonomous Regions (AR) by two tenths of a percentage point to 0.3% of GDP and reduces the surplus of the local and regional governments by three tenths of a percentage point, which will end the year with a surplus of 0.2% of GDP. The worsening of the balance of the Autonomous Regions and Local Entities is mainly due to the higher growth in expenditure in 2022, which consolidates a starting level for 2023. AIReF, on the other hand, reduces its estimate for the Social Security Funds deficit by one tenth of a point to 0.6% of GDP.

Sustainability

AIReF's macro-fiscal forecasts project a decline in the debt-to-GDP ratio of 2.6 points in 2023, which would put the ratio at 110.6% at the end of the year, after ending 2022 at 113.2% of GDP. According to AIReF, debt reached an all-time high of 125.7% in the first quarter of 2021 and since then it has started a downward trend that will continue this year.

AIReF's forecast improves on the 112.4% presented by the Government in the draft Budget Plan for 2023, which is in line with the latest forecasts by the IMF and the European Commission. The public deficit will continue to contribute to the increase in debt in a similar way to 2022 and the reduction in the ratio will be sustained mainly by nominal GDP growth, where the deflator will make a very notable contribution. Beyond some correction of the sharp increase recorded in the debt ratio in the first year of the pandemic, AIReF projects an unfavourable trend after an initial period of some stabilisation.

The expected increase in pension, health, and long-term care spending due to population ageing, coupled with the new monetary cycle - with a rapid and intense tightening of financing conditions - and the high level of existing debt, puts the sustainability of public finances in a vulnerable position.

Recommendations

In the Report, AIReF recalls that the Stability Programme Update (SPU) is Spain's medium-term budgetary planning document, and it considers that now is the right time to articulate a realistic and credible medium-term fiscal strategy that guarantees the sustainability of public finances. In this regard, the European Commission has stressed that the escape clause will be deactivated at the end of 2023 and has instructed Member States to present a path that ensures that debt is placed on a downward trajectory.

Consequently, AIReF recommends that the Government should provide the PSA with sufficient content and scope to effectively articulate a medium-term fiscal strategy in line with the principles of the reform of the European fiscal framework. To this end, it should include disaggregated forecasts in national accounting terms for each sub-sector, as well as sufficient detail of the measures needed to comply with the proposed deficit and debt path.

In addition, to have complete information on the implementation of the RTRP, AIReF recommends that the Ministry of Finance and the Civil Service publish separately the

PRESS RELEASE
05/04/2023

amounts corresponding to the resources and uses of the RTRP in the national accounting headings, as well as the detail in national accounting of the amount transferred and the recipient subsector of the current and capital transfers between the general government bodies corresponding to the RTRP.