



Independent Authority  
*for* Fiscal Responsibility

# Report on the Stability Programme Update 2023-2026

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# 1

## Introduction

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# The SPU 2023-2026 is developed in a singular context, with institutional uncertainty in addition to economic uncertainty

## Economic context

Global economy subject to different forces: more adverse scenarios have been avoided but risks persist due to high inflation and tightening of the financial conditions

## Institutional context

**2023 - year of transition towards a new fiscal framework**

### Certain elements

- Deactivation of the scape clause at the end of 2023
- 2023 without Excessive Deficit Procedure
- 2024 - year of return of some types of fiscal rules
- Country-Specific Recommendation (CSR) for Spain as from 2024: credible and gradual reduction of debt

### Uncertain elements

- Reform process of framework of fiscal rules
- Current framework in force until approval of new framework, although inapplicable as a whole
- Supervision taking into account elements of proposed reform: European Commission (EC) guidelines for indebted countries

# What implications does this context have for preparation of SPU by the Government and its assessment by AIReF?

## Implications for the SPU: Commission guidelines from March for SPU 2023-2026

Reduction of deficit to below 3% and plausible and continuous drop in the debt path in the medium term

CSR to be emitted by EC this spring will be consistent with these goals and would be defined in terms of primary expenditure net of income measures

Clear details of measures to combat energy crisis, its impact and duration

Importance of reforms and investment: assessment of contribution to sustainability and inclusive and sustainable growth

Include medium-term fiscal-structural plans

## How does AIReF assess the SPU from this perspective?

The SPU complies with the deficit target and reduces debt over the period 2023-2026

It complies with the CSR for 2023, which limits the growth of net current primary expenditure

***But....***

- It is not a genuine medium-term plan as recommended by AIReF, despite the response from the Ministry of Finance and Civil Service MINHAFP (which considers it is compliant)
- It does not explicitly state its consistency with the proposed reform or with the CSR as from 2024, in particular, whether the debt maintains a continuously downward path. AIReF's preliminary estimates point to a need for additional measures

Limited information exists on sub-sectors, measures, RTRP, risks, etc.

A planning exercise is needed to guarantee sustainability involving all tiers of General Government

Exercise must be consistent with EC guidelines and proposed reform of European framework

# Accordingly, AIReF makes new recommendations and reiterates some live recommendations

The proposed reform of the fiscal framework of the EU contains sufficient elements to lay the foundations of the future national fiscal framework, and to define the content of a medium-term fiscal strategy

The level of decentralisation in Spain adds further complexity to the transposition of European rules to Spain's institutional reality

The reforms and investments under the RTRP will be key to driving growth in the SPU and in the future framework of governance, but problems of information persist

MINHAFP begins its work to reform the national fiscal framework with the participation of the different tiers of the General Government (GG) from an integral perspective

MINHAFP incorporates an analysis of how the targets comply with the requirement for the debt to maintain a continuous and plausible downward path and of how this is attained by each tier of the GG to ensure the consistency of the distribution in the resolution of the Council of Ministers that sets the stability targets

Ministry of Economic Affairs and Digital Transformation (MINECO) designs a model of governance of the evaluation of the RTRP that could be structured in three levels:

1. Internal Government planning and coordination institution
2. Management centre for continuous monitoring with map of indicators
3. Independent *ex post* evaluation agent

- *Live recommendations are reiterated to MINHAFP on the separate publication of amount of revenue and expenditure under the RTRP in national accounts in IGAE reports and year-end figures*
- *The recommendations to provide greater information on measures and RTRP and the need to sign an agreement that regulates the endorsement process are reiterated to MINECO in the Report on macro endorsement*

# AIReF endorsed macroeconomic outlook that underpins SPU on April 28<sup>th</sup>: feasible as nominal GDP and real GDP fall within central range

## Global economy is subject to different forces at present

- Moderation of energy prices
- Relaxation of bottlenecks in global production chains
- Measures to mitigate impact of energy crisis
- Core inflation persists
- Monetary policy accentuates contractive nature

More adverse scenarios have been avoided

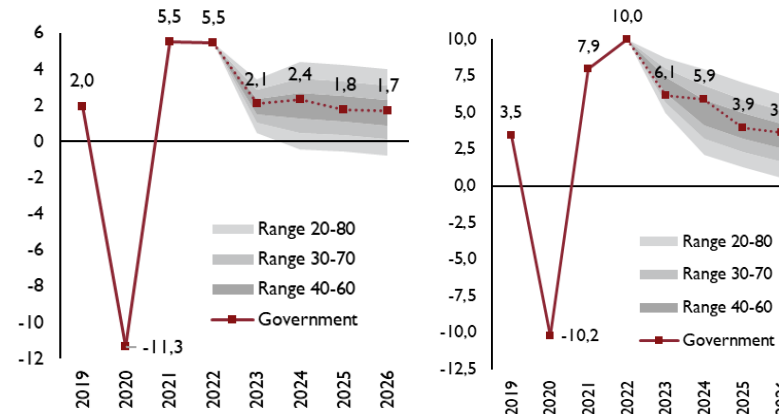
Significant tightening of financial conditions

Upward revision of forecasts for 2023 by most analysts and moderate global growth for period 2023-2026

## AIReF revises forecast growth for 2023 upwards to 1.9% compared with 1.5% in Report on Budgetary Plan

- + More recent Quarterly National Accounts figures from National Statistics Institute (INE)
- + Evolution of energy markets, job creation, dynamic exports, rollout of RTRP, fiscal policy measures
- Tightening of financial conditions

GROSS DOMESTIC PRODUCT. TERMS OF VOLUME AND NOMINAL. (YEAR-ON-YEAR RATE OF CHANGE)



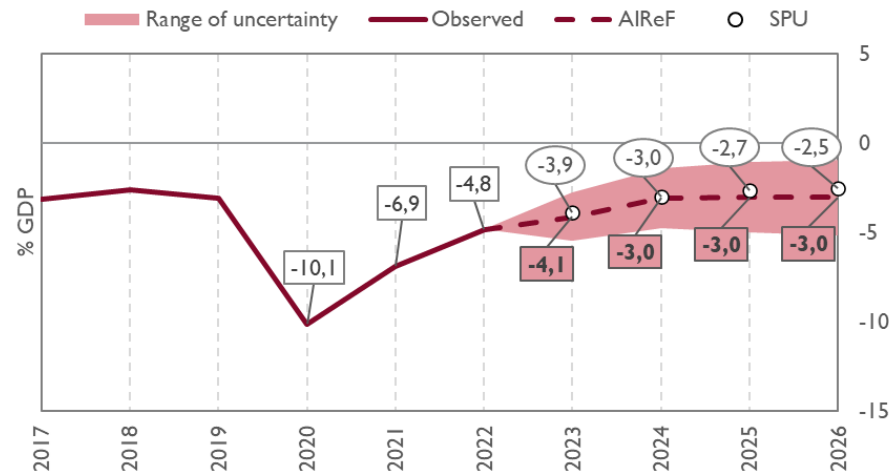
AIReF forecasts growth of 2% in 2024 which would moderate in the following years in line with expectations for other European economies

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

# AIReF estimates of deficit and debt for the period 2023–2026:

The deficit stabilises at close to 3% of GDP, compared with gradual reduction forecasts in SPU

EVOLUTION OF GG BALANCE (% GDP)

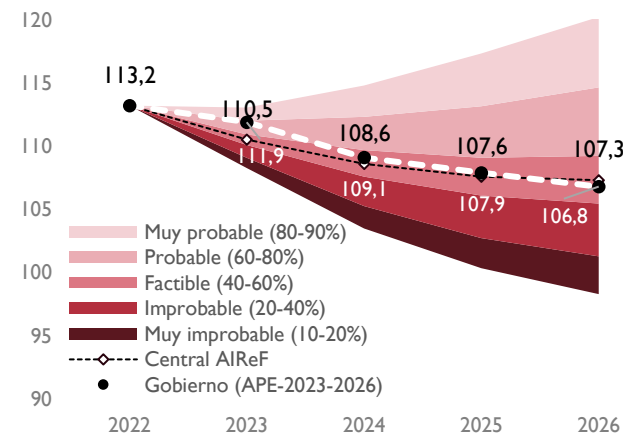


Source: IGAE, SPU and AIReF

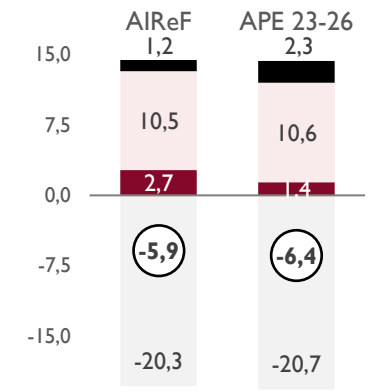
- **Revenue (without RTRP):** AIReF estimates a more moderate evolution than the SPU, lower revenue from direct taxes and contributions and a higher weight of indirect taxes and other revenue
- **Expenditure (without RTRP):** similar reduction in revenue to the SPU, lower spending on public consumption and cash benefits and higher spending on capital
- **Sub-sectors:** balanced profile conditioned by settlements of the financial system of the Territorial Governments and transfers between sub-sectors

Debt reduction until 2026 in line with the SPU

DEBT FORECASTS (% GDP) SPU 2023-2026



CONTRIBUTIONS TO CHANGE IN DEBT 2023-2026 (POINTS OF GDP)



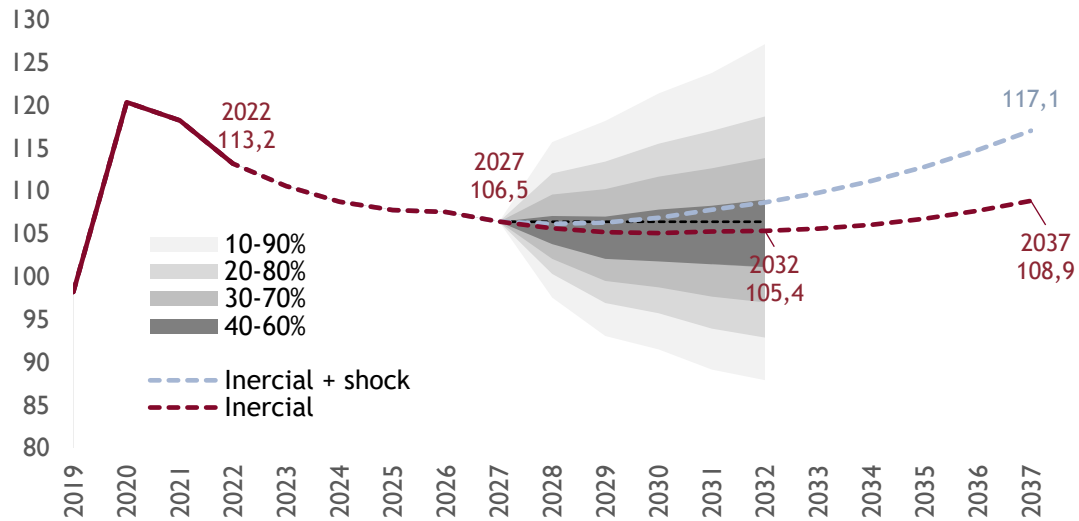
Source: SPU and AIReF

- The reduction of the debt ratio is strongly anchored in the contribution of nominal growth, which contributes 20.3 points, where the deflator contributes 12.5 points
- A slowdown in the profile of the reduction in the ratio can be observed, in line with the slowdown in the contribution of the deflator
- The clear improvement in the evolution of the primary balance will be partially offset by higher spending on servicing debt



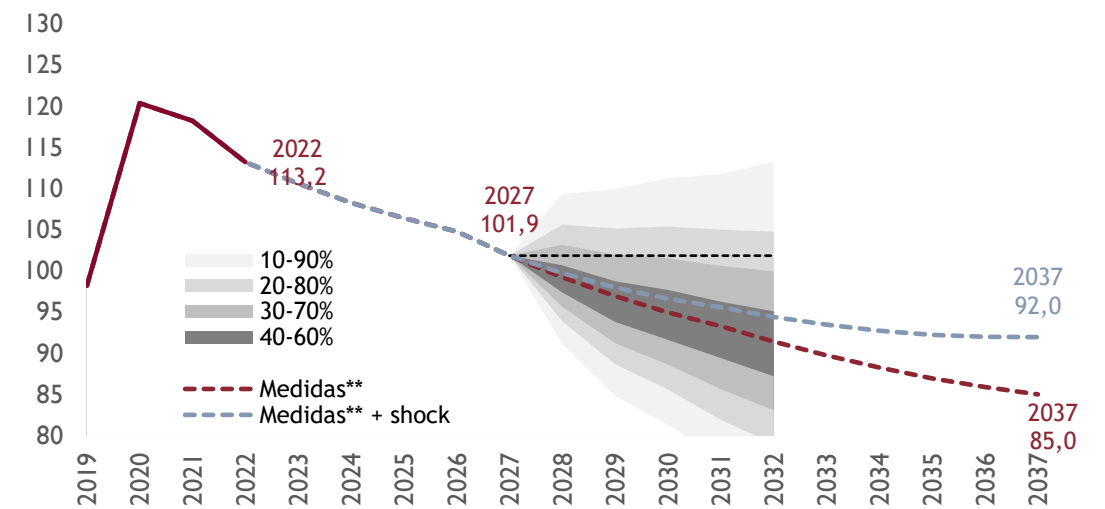
# The long-term analysis shows that the stabilisation of the deficit is insufficient to place debt on a downward path and reduce vulnerability

INERTIAL DEBT FORECAST (% GDP) AND INTEREST RATE-GROWTH SHOCK (I-G)



Source: AIReF

DEBT FORECAST, SCENARIO WITH MEASURES (0.46 POINTS) AND I-G SHOCK



Source: AIReF

- AIReF forecasts a growing debt ratio following an initial period of clear stabilisation in its long-term inertial scenario
  - According to AIReF's calculation, an adjustment of 0.46 points per annum in this inertial scenario (a cumulative 1.84 points over four years) would lead to a reduction in the debt ratio of 24 points of GDP over the next 15 years.
  - This adjustment would be compatible with the EC guidelines and with the proposed reform of the fiscal framework, which would place debt in a clearly downward dynamic, even in the most unfavourable scenario with an adverse I-G shock.
- 
- AIReF's simulation applied to the Government's fiscal scenario point to the design of a fiscal strategy compatible with the EC guidelines and to the proposed reform of the fiscal framework also requiring an adjustment which, in this case, would stand at close to 0.3 points per annum

# 2

## Macroeconomic scenario

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# The global environment in which the Stability Programme Update 2023-2026 is framed

Activity enjoys more intense performance than anticipated in autumn 2022, although forces of a conflicting nature compete in the projection horizon of the SPU

## Tailwinds in the short term

Relaxation in the lack of supply and bottlenecks in the global value chains

Moderation in raw material prices, particularly energy prices

Fiscal policy measures to counteract effects of price escalation

## Some difficulties observed in the medium term

Translation of interest rates hike to real economy

Energy costs are high in comparison with those observed pre-pandemic

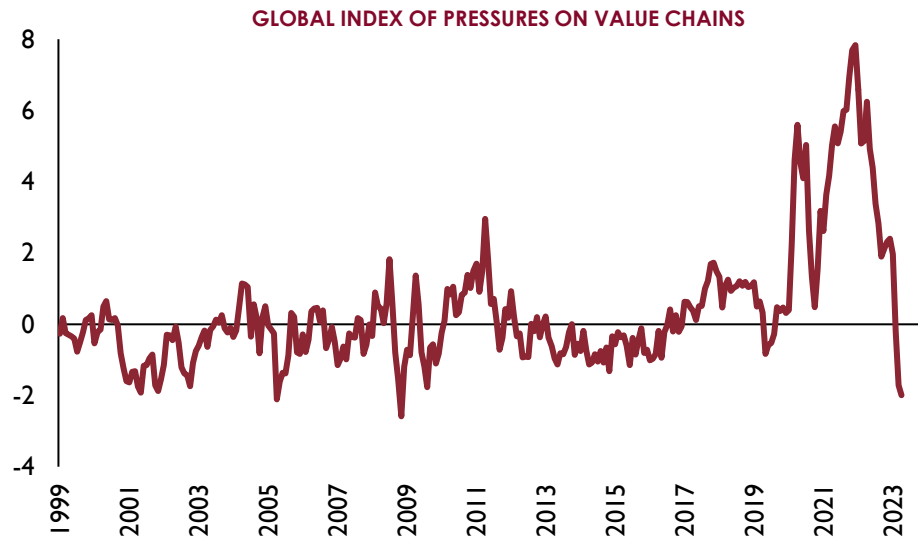
Greater dynamism of global economy

# Gradual relaxation of bottlenecks in global production chains and moderation of energy prices in Europe

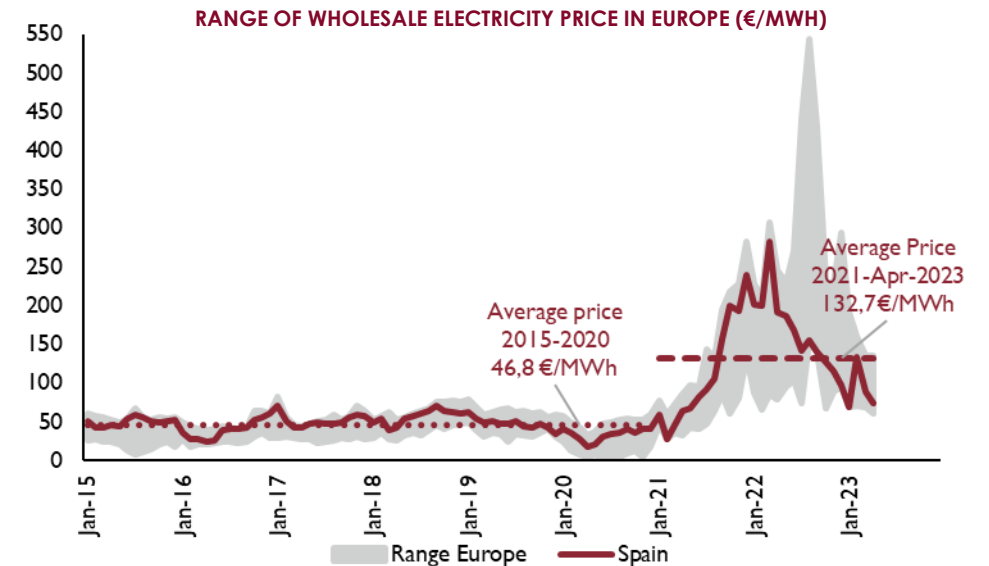
The relaxation of the negative supply disruptions, together with the impact of the measures implemented by governments to mitigate the impact of the energy crisis have helped avoid more adverse scenarios than anticipated in the autumn of 2022

The pressures of the value chains have normalised (although pressures persist in some euro area countries associated with a labour shortage)

Higher energy demand, the reconfiguration of supply sources and favourable weather conditions have led to a significant drop in energy prices, although they remain at higher levels than pre-pandemic



Source: Federal Reserve of New York



Source: EMBER

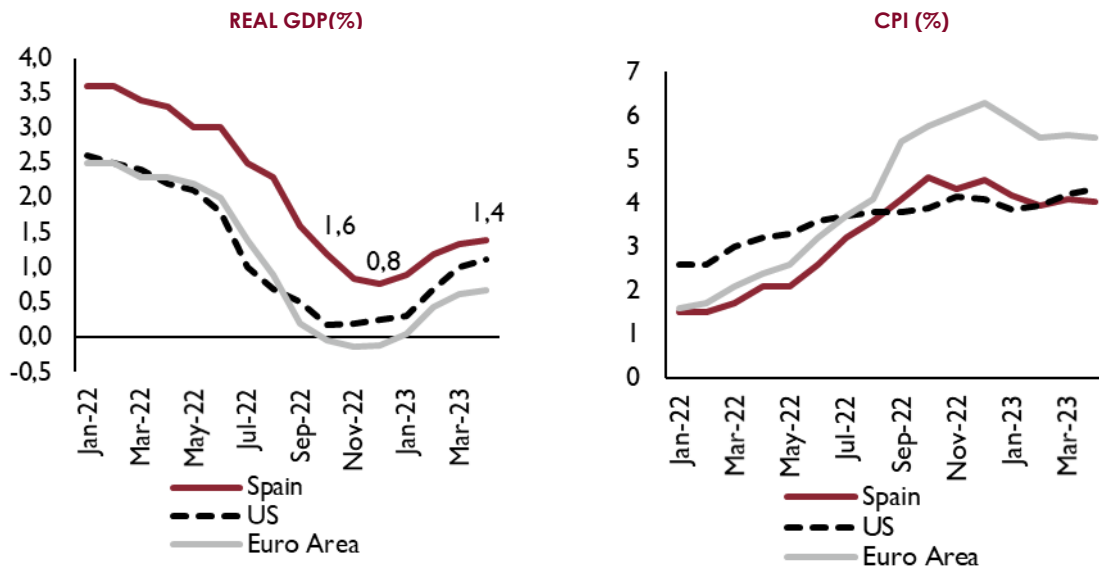
# These factors have led to an upward revision of growth forecasts for 2023

In contrast, GDP and global trade growth expectations are revised downwards

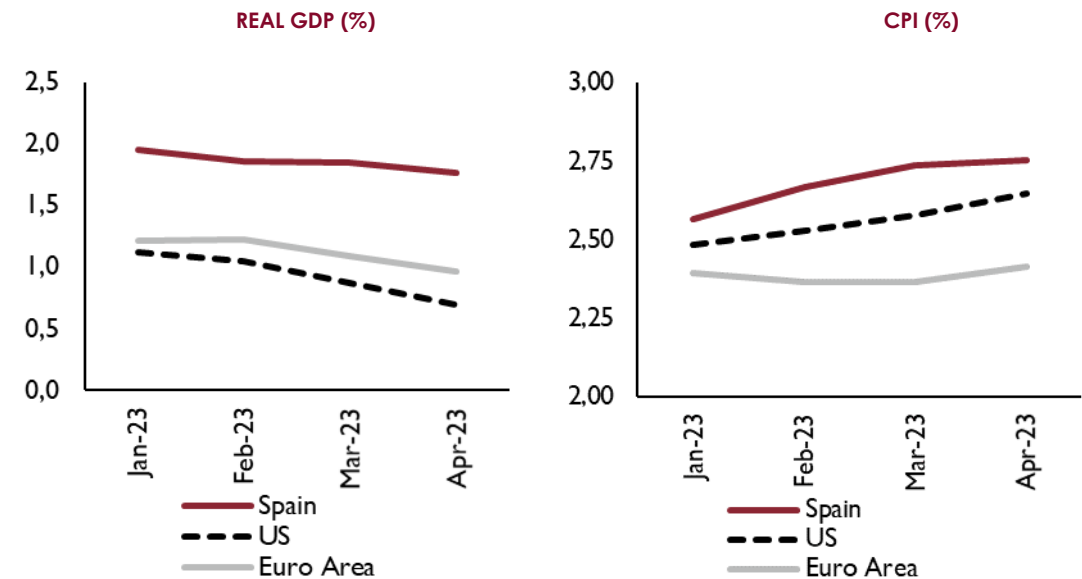
Estimates of real GDP growth for 2023 by Consenso have been revised upwards over the last seven months while inflation forecasts remain stable

In contrast, forecasts for 2024 have acquired an increasingly less positive tone

EVOLUTION OF GDP GROWTH FORECASTS AND CPI IN FORECAST PANELS FOR 2023



EVOLUTION OF GDP GROWTH FORECASTS AND CPI IN FORECAST PANELS FOR 2024



Source: Consensus Forecasts

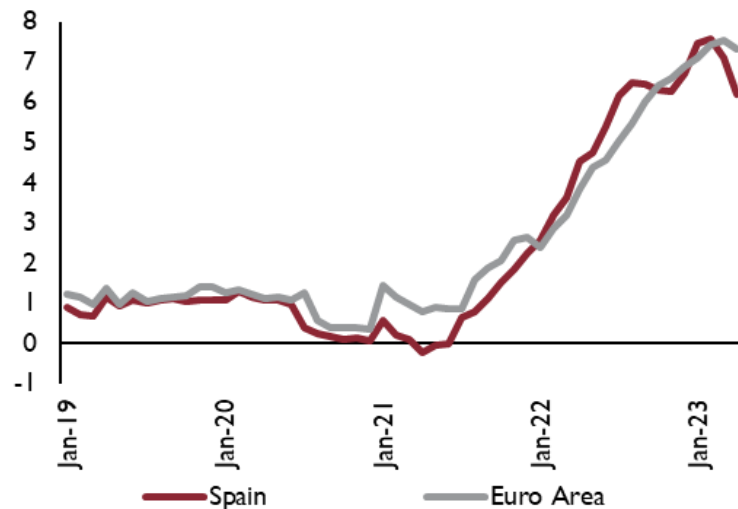
# The tightening of financial conditions intensify due to persistence of core inflation

## Central banks intensify tightening of financial conditions and normalisation of their balance sheets

As regards prices, no clear signs of a moderation of core inflation are observed, which has led to the intensification of financial conditions at a global level

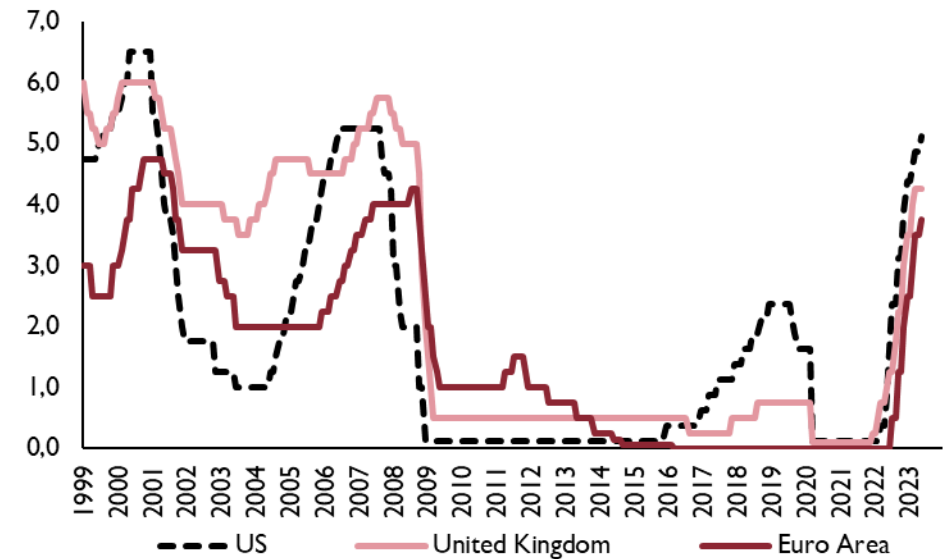
Cumulative rise of 400 basis points in global interest rates in less than one year, following a decade of rates close to zero or even at negative levels; additional rises expected

HARMONISED INDEX OF HICP (EXCLUDING ENERGY AND PROCESSED FOODS) OF SPAIN AND EMU (RATE OF CHANGE, %)



Source: INE and Eurostat

EVOLUTION OF INTEREST RATES OF DIFFERENT CENTRAL BANKS (%)



Source: BIS, Bank of England, ECB (rate of refinancing operations) and Federal Reserve of USA. (Average of range of reference rates)

# Macroeconomic outlook of SPU 2023-2026 compared with AIReF forecasts

Year-on-Year Rates of Change	2022	AIReF				Government			
		2023	2024	2025	2026	2023	2024	2025	2026
Private Domestic Final Consumption Expenditure	4,4	1,0	2,6	1,9	1,7	2,1	3,0	1,7	1,9
General government Final Consumption Expenditure	-0,7	1,3	0,6	1,1	1,0	1,9	0,9	0,7	0,8
GFCF	4,6	2,1	4,2	2,6	2,1	0,9	5,0	2,4	0,9
<b>Domestic Demand*</b>	<b>3,1</b>	<b>1,2</b>	<b>2,4</b>	<b>1,9</b>	<b>1,6</b>	<b>1,7</b>	<b>2,9</b>	<b>1,6</b>	<b>1,4</b>
Exports of Goods and Services	14,4	6,1	2,0	2,4	2,4	1,5	2,5	2,2	1,9
Imports of Goods and Services	7,9	4,4	3,1	2,5	2,5	0,7	3,9	1,9	1,3
<b>External Balance*</b>	<b>2,4</b>	<b>0,8</b>	<b>-0,4</b>	<b>0,0</b>	<b>0,0</b>	<b>0,4</b>	<b>-0,5</b>	<b>0,1</b>	<b>0,3</b>
<b>Gross Domestic Product</b>	<b>5,5</b>	<b>1,9</b>	<b>2,0</b>	<b>1,8</b>	<b>1,6</b>	<b>2,1</b>	<b>2,4</b>	<b>1,8</b>	<b>1,7</b>
<b>Nominal Gross Domestic Product</b>	<b>10,0</b>	<b>6,8</b>	<b>5,0</b>	<b>4,1</b>	<b>3,4</b>	<b>6,1</b>	<b>5,9</b>	<b>3,9</b>	<b>3,6</b>
<b>Gross Domestic Product Deflator</b>	<b>4,3</b>	<b>4,8</b>	<b>3,0</b>	<b>2,2</b>	<b>1,8</b>	<b>4,0</b>	<b>3,5</b>	<b>2,1</b>	<b>1,9</b>
<b>Consumer Price Index</b>	<b>8,4</b>	<b>4,0</b>	<b>2,8</b>	<b>2,1</b>	<b>1,8</b>	--	--	--	--
Full-Time Equivalent Employment	3,8	1,4	1,7	1,5	1,1	2,1	2,3	1,6	1,5
Compensation per employee	2,0	4,4	4,7	3,1	2,2	4,7	3,3	2,4	1,7
Unemployment rate (% of Active Population)	12,9	12,5	11,7	11,2	11,0	12,2	10,9	10,3	9,8
Household and NPISH Savings Rate (% Gross Disposable Income)	7,2	7,3	6,8	6,8	6,8	--	--	--	--

\* Contribution to GDP growth

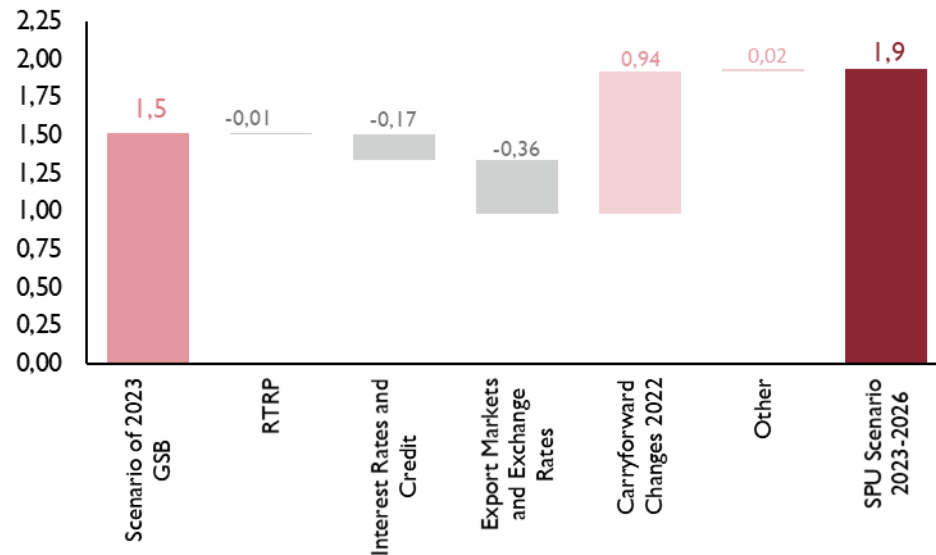
Source: INE, AIReF and Ministry of Economic Affairs and Digital Transformation

# AIReF revises real GDP growth forecast up to 1.9% in 2023

The revision of growth in 2023 reflects the revision of the QNA figures in 2022 and the positive performance of employment and exports in the first few months of the year, despite industry remaining moderate

Over the period as a whole, the real growth paths forecast by AIReF and the Government present similarities, with downside risks in the growth forecast by the Government in 2024

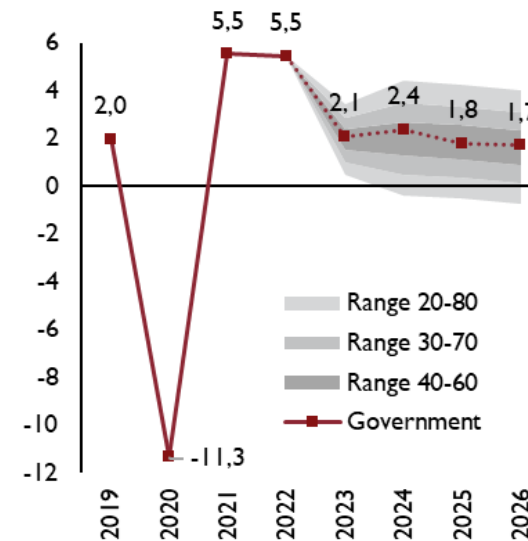
**FACTORS EXPLAINING REVISION OF REAL GDP GROWTH FORECAST IN 2023  
(% AND PP)**



Source: National Statistics Institute and AIReF

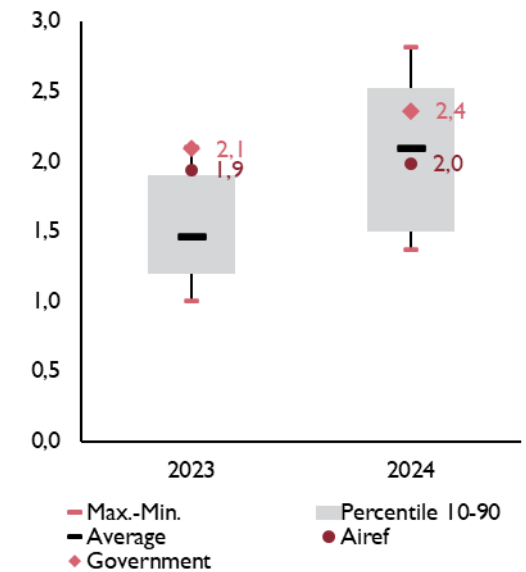
**GROSS DOMESTIC PRODUCT. TERMS OF VOLUME (RATE OF ANNUAL CHANGE)**

**FORECAST REAL GDP PATH**



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

**GOVERNMENT AND AIReF COMPARED WITH FUNCAS PANEL**



Sources: Ministry of Economic Affairs and Digital Transformation, FUNCAS and AIReF



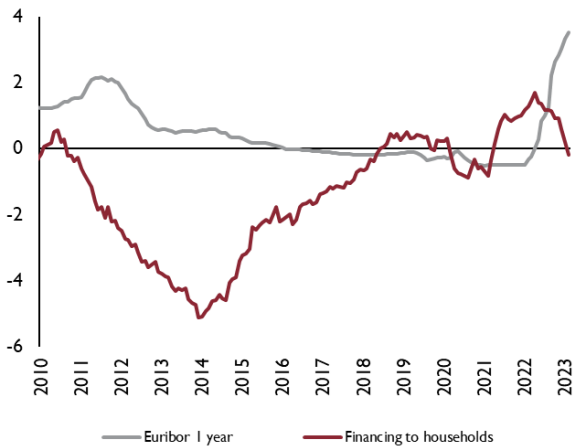
# The transfer of interest rate rises to real activity is expected to be observed in the second half of 2023 and 2024

The financial conditions have tightened and their transfer to real activity may be observed more intensely in the second half of 2023 and 2024

The financial conditions to grant loans continue to tighten in the first quarter of 2023. The demand for finance by companies has also dropped, as it has, even more sharply, by households for consumption and to purchase homes

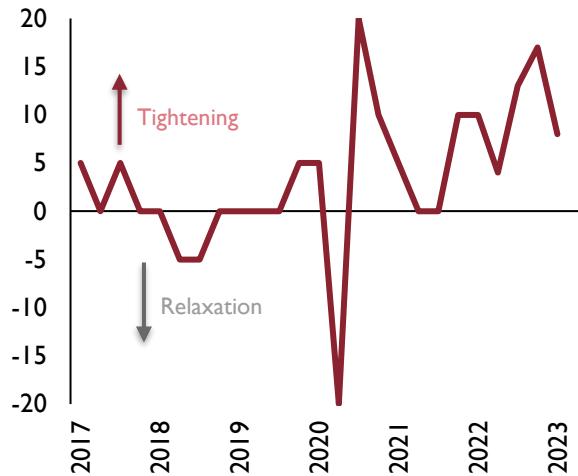
Although the effect of interest rate hikes on the real economy is subject to uncertainty, AIReF's estimates clearly show that this will be observed with greater intensity in the second half of 2023, and particularly in 2024

TOTAL FINANCING TO HOUSEHOLDS AND 12-MONTH EURIBOR (% AND Y-O-Y RATE)



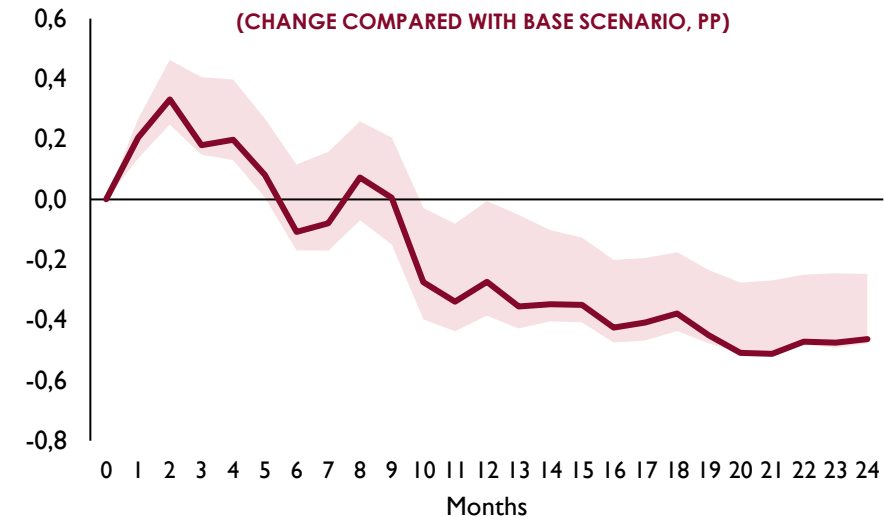
Source: Bank of Spain

CHANGES IN STANDARDS TO GRANT LOANS TO SNFI



Source: European Central Bank

IMPACT OF A SHOCK OF A CHANGE IN 3-MONTH EURIBOR ON SALES TO LARGE COMPANIES (CHANGE COMPARED WITH BASE SCENARIO, PP)



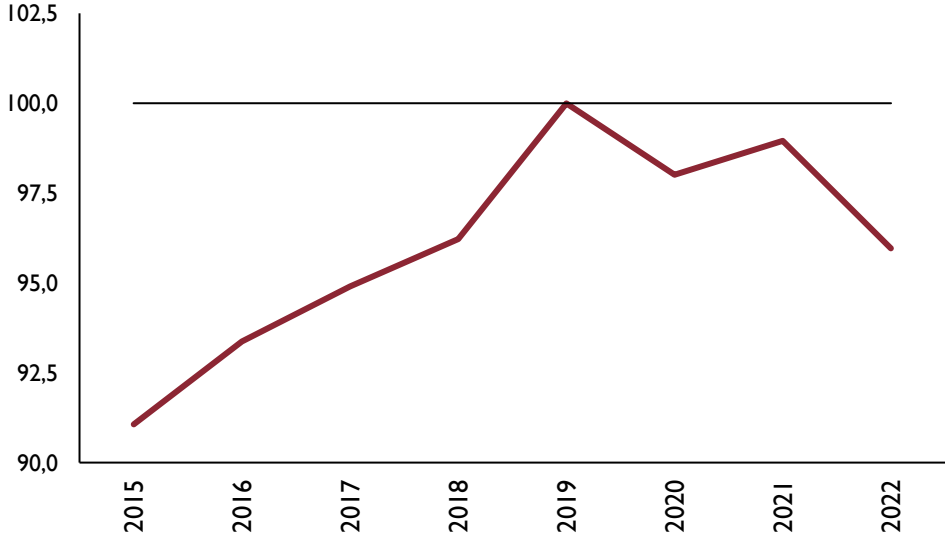
Source: AIReF

# AIReF forecasts more moderate growth in private consumption in 2023 and 2024 compared with the Government

The tightening of financial conditions, the drop in real income in 2022 and the end of the boost associated with pent-up savings justify the moderate performance of private consumption

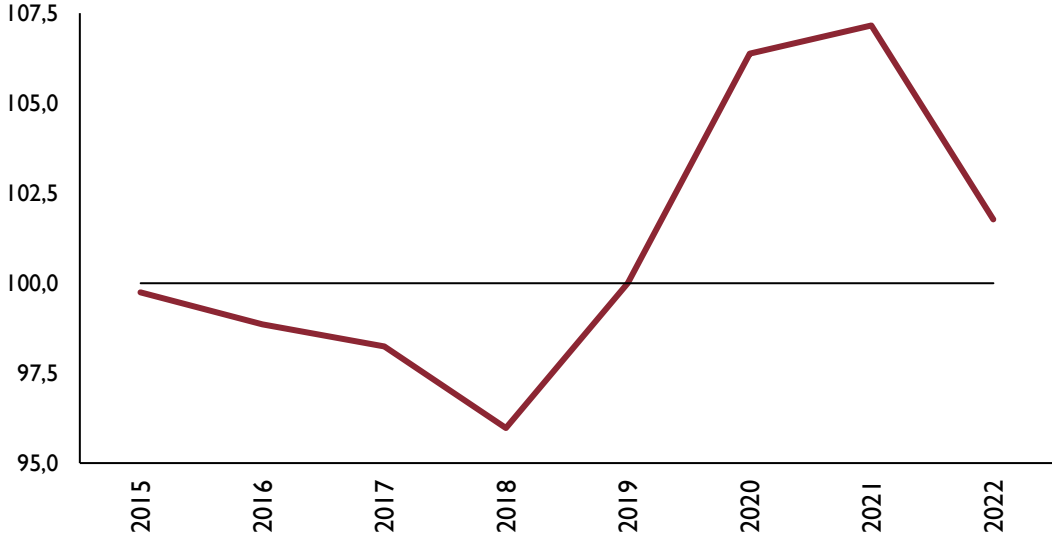
A significant boost from pent-up savings cannot be expected, while the savings rate and financial savings in real terms stand at similar levels to those observed before the pandemic

REAL GROSS DISPOSABLE INCOME OF HOUSEHOLDS AND NPISHS  
(2019=100)



Source: National Statistics Institute and AIReF

REAL TOTAL FINANCIAL ASSETS OF FAMILIES AND NPISHS  
(2019=100)



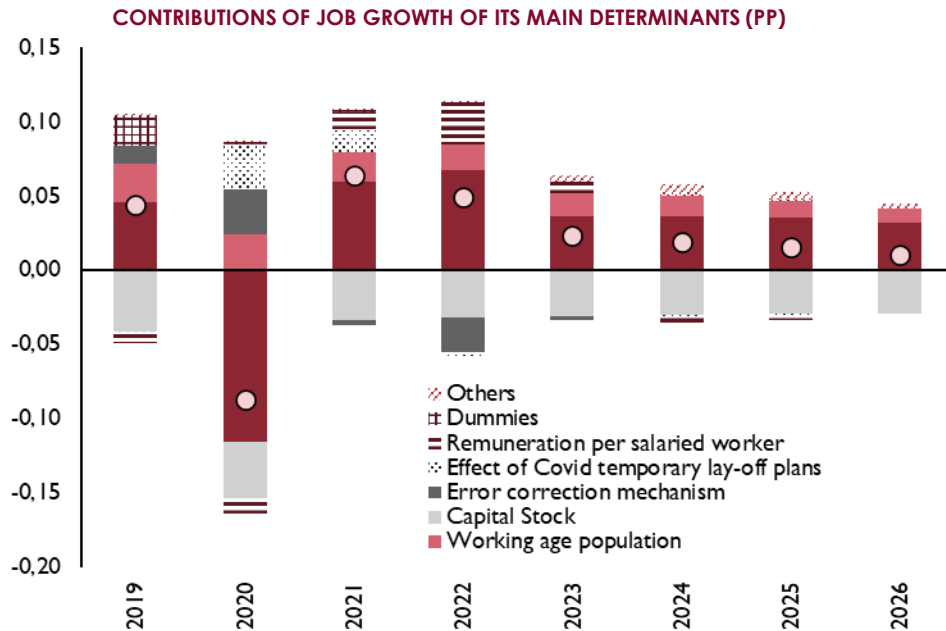
Source: Bank of Spain, National Statistics Institute and AIReF

# Employment and unemployment in the SPU 2023-2026

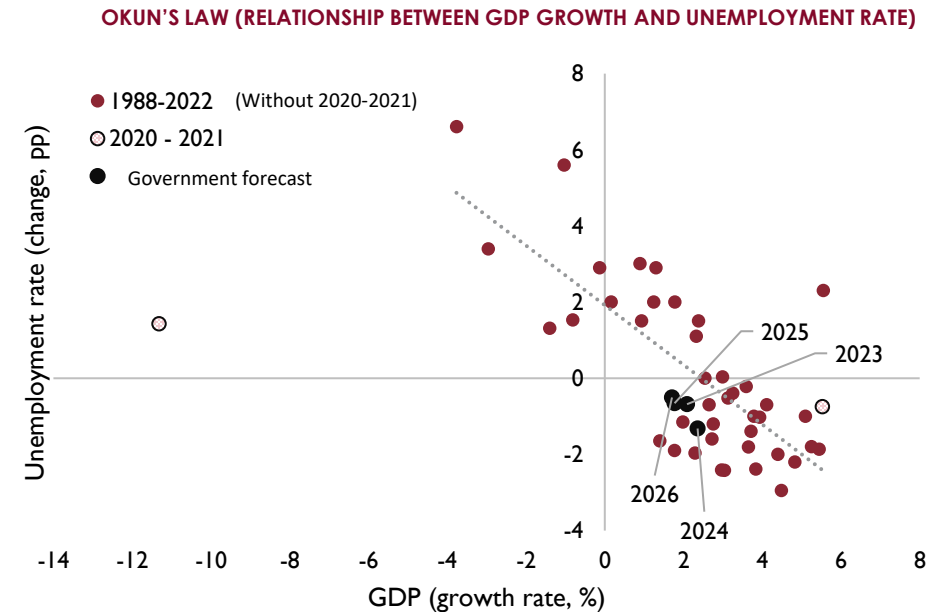
## No major discrepancies between Government and AIReF job growth forecasts

Employment growth in 2022 was conditioned by GDP growth and moderation of real salaries

Both the Government's and AIReF's forecasts in the projection horizon are consistent with the historical relationship observed between growth and employment (Okun's Law)



Source: AIReF



Source: AMECO and Haver Analytics

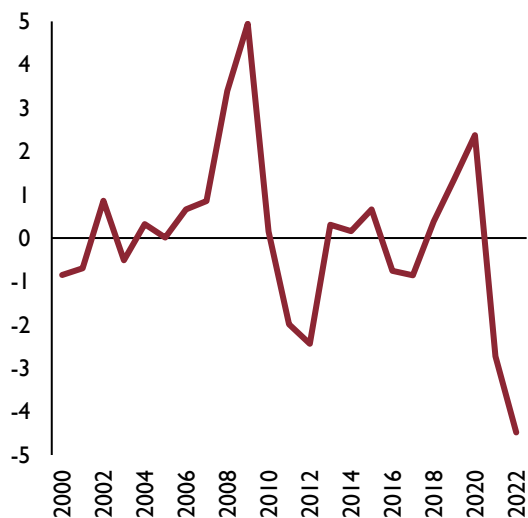
# AIReF higher salary growth compared with the SPU 2023-2026

**Higher salary growth is forecast, underpinned by greater salary demands observed in the first few months of the year, the Agreement on Employment and collective agreements signed recently and the labour shortage in some sectors**

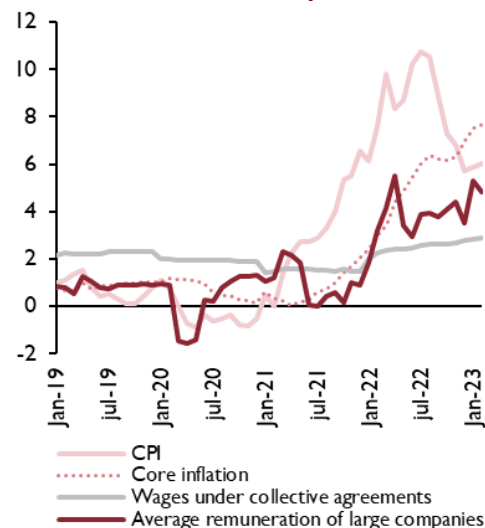
Following the salary falls in 2022, salary demands are more dynamic in the first few months of 2023

Although the percentage of workers affected by collective agreements signed in 2023 is low (less than 8%), the salary agreements signed in the first few months of the year are closely aligned with total salary growth this year

EVOLUTION OF REAL SALARIES (Y-O-Y RATE)

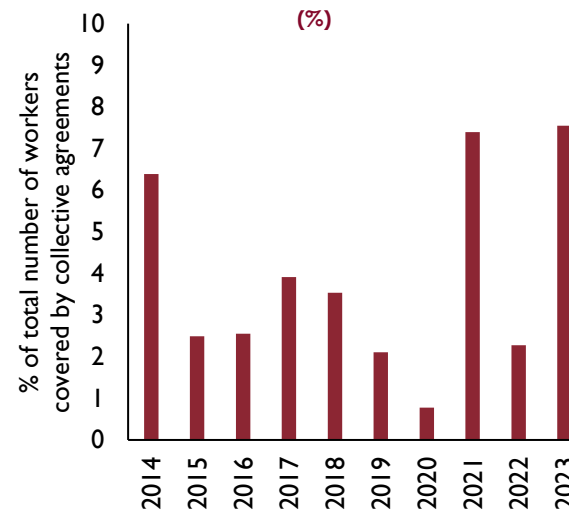


PRICES AND NEGOTIATED SALARIES (Y-O-Y RATE)



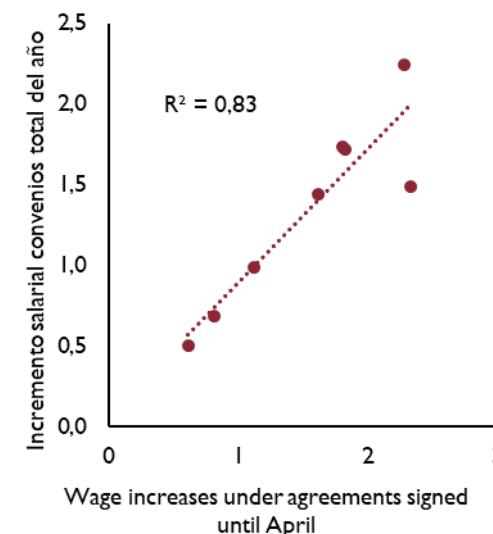
Source: National Statistics Institute, Tax Agency, Ministry of Work and Social Economy and AIReF

PERCENTAGE OF WORKERS COVERED BY COLLECTIVE AGREEMENTS SIGNED TO APRIL (%)



Source: Ministry of Work and Social Economy and AIReF

RELATIONSHIP BETWEEN SALARY GROWTH SIGNED IN APRIL AND FOR THE WHOLE OF THE YEAR



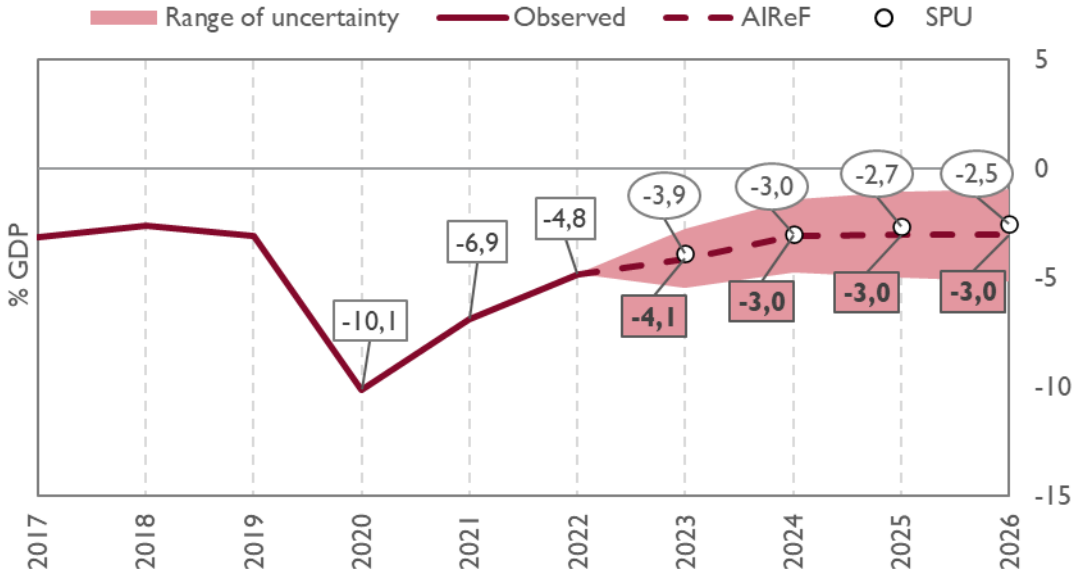
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## Fiscal scenario

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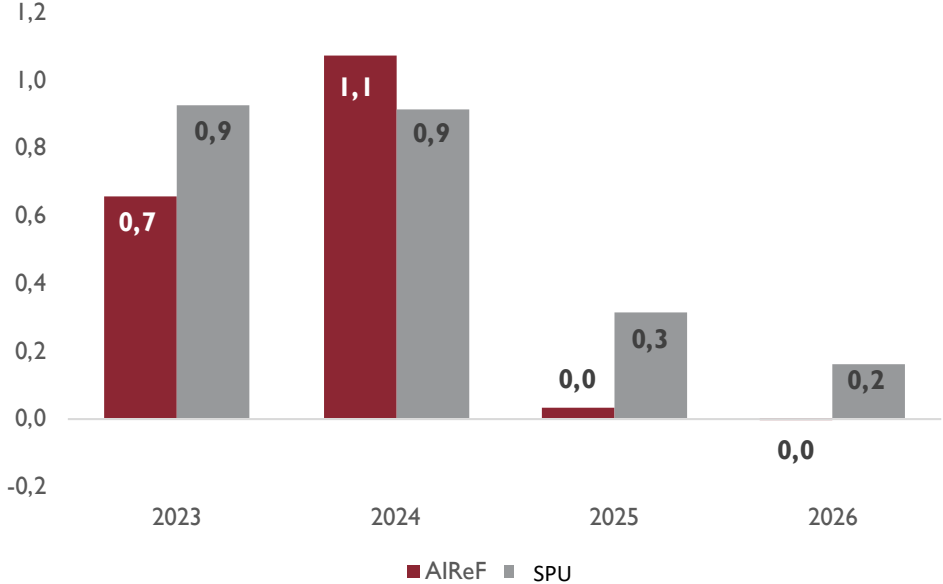
# AIReF estimates that the deficit will stabilise at 3% of GDP, 0.5 points higher than forecast in the SPU by 2026

**EVOLUTION OF GG BALANCE (% GDP)**



Source: AIReF and SPU

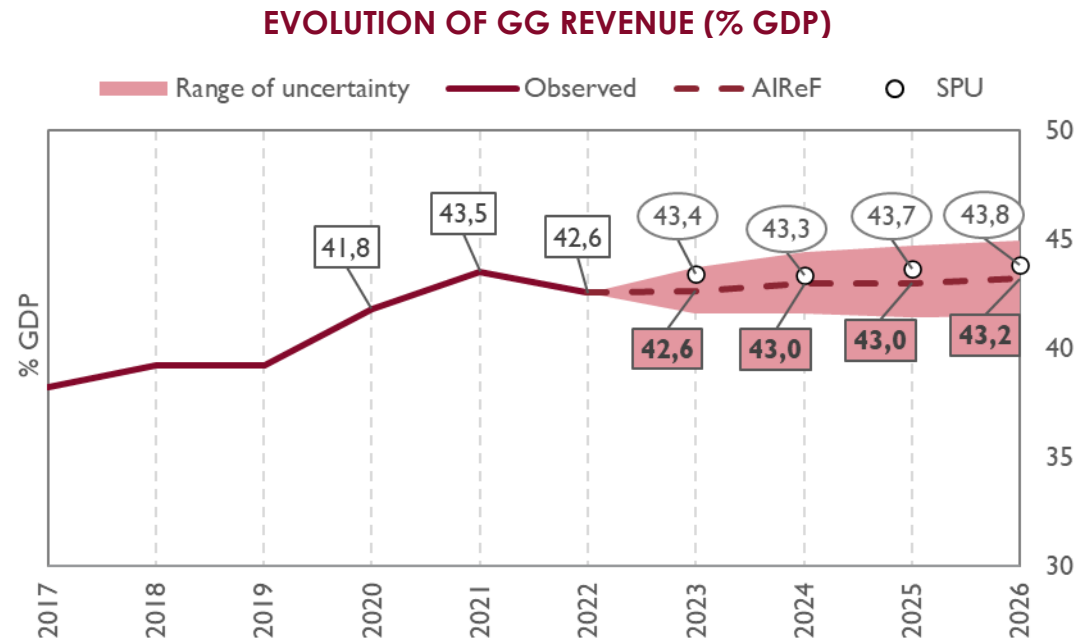
**FORECAST REDUCTION IN GG BALANCE (% GDP)**



Source: AIReF and SPU

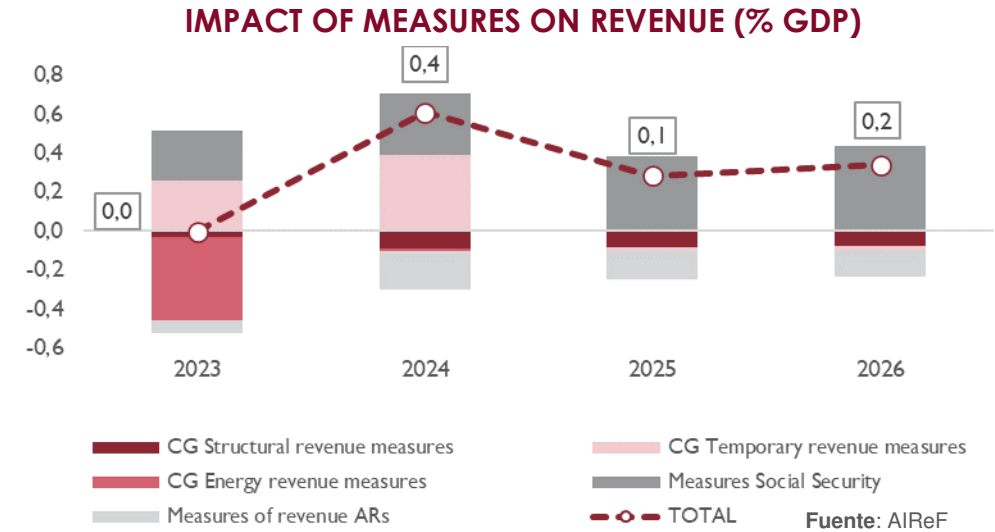
- Both the SPU and AIReF consider that there will be a sharp fall in the deficit in 2023 and 2024, mainly due to the withdrawal of measures
- For 2025 and 2026, AIReF considers that the deficit will stabilise at 3% in the absence of new measures, while the SPU considers there will be an additional improvement of 0.3 and 0.2 points, respectively

# AIReF estimates a more moderate evolution of revenue, without the RTRP, than the SPU, to stand at 0.6 points lower by 2026

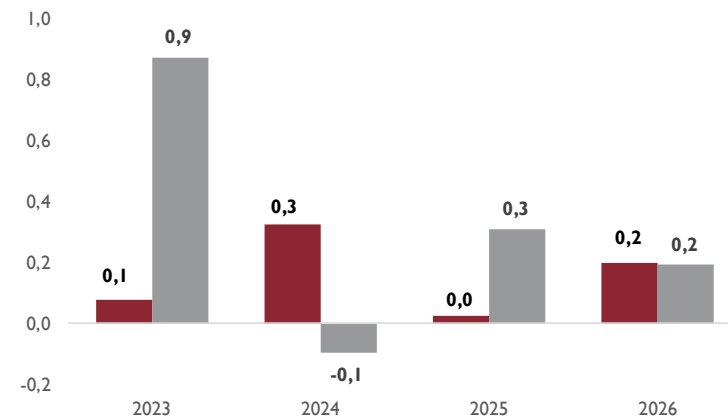


Source: AIReF and SPU

- The evolution of revenue forecast by AIReF is tied into the schedule of tax measures
- The path estimated by the SPU considers a sharp rise in 2023, stagnation in 2024 and a recovery in the rest of the period



### FORECAST ANNUAL CHANGE IN REVENUE (% GDP)



Source: AIReF and SPU

# AIReF estimates the cost of measures to combat the energy crisis at 1 point of GDP in 2023, with a residual value in 2024

Impact in National Accounting terms (€m)	AIReF estimate	
	2023	2024
<b>Revenue Measures</b>	<b>-6.142</b>	<b>-178</b>
<b>IVA:</b>		
VAT on Electricity Reduction in electricity rate to 10% (RDL 12, 17 & 29 /2021 & 6/2022) & to 5% since July (RDL 11/2022) Extended until 31-12-2023 (RDL 20/2022)	-2.349	
VAT on gas, briquettes and pellets Reduction in gas rate to 5%(RDL 17/2022) Extended until 31-12-2023 (RDL 20/2022)	-796	
<b>VAT on Food</b>		
Reduction from 4% to 0% on staple food produce (RDL 20/2022) (Until 30-6-2023)	-643	
Reduction from 10% to 5% on oils and food pastes (RDL 20/2022) (Until 30-6-2023)	-139	
<b>IIEE:</b>		
<b>STs:</b> Electricity rate reduction (RDL 17, 29/2021 & 6, 11/2022) Extended until 31-12-2023 (RDL 20/2022)	-2.215	-178
<b>Expenditure Measures</b>	<b>7.331</b>	<b>6</b>
<b>Fuel allowance</b>	1.347	
<b>Sectoral support</b>	2.688	6
<b>Direct support for individuals</b>	600	
<b>Other support for individuals</b>	2.396	
<b>Support for refugees</b>	300	
<b>TOTAL</b>	<b>-13.473</b>	<b>-184</b>
<b>TOTAL (% GDP)</b>	<b>-1,0</b>	<b>0,0</b>

- AIReF values the cost of the measures approved to date to alleviate the energy crisis at €13bn
- It considers that revenue will fall by more than €6bn, while expenditure will rise by more than €7bn



# The rest of the measures increase revenue with an uneven profile over the course of the period

## Other revenue measures

	2023	2024	2025	2026
<b>Central Government</b>				
Structural revenue measures	-399	-1.310	-1.286	-1.266
Temporary revenue measures	3.659	5.783	-249	-249
<b>CG measures</b>	<b>3.259</b>	<b>4.473</b>	<b>-1.535</b>	<b>-1.515</b>
<b>% GDP</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.1</b>	<b>-0.1</b>

- Period 2023-2024: temporary revenue measures exceed structural costs
- Period 2025-2026: structural measures have a cost of 0.1 points of GDP

<b>Social Security Funds</b>				
Intergenerational Equity Mechanism	2.891	3.594	4.300	5.003
Evolution of Maximum Contribution Bases	800	1.205	1.486	1.711
Solidarity Contribution			139	278
<b>SSF measures</b>	<b>3.691</b>	<b>4.799</b>	<b>5.925</b>	<b>6.992</b>
<b>% GDP</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>

- The IEM raises its rate during projection period, contributing 0.05 additional points of revenue each year
- The rise in the maximum contribution bases contribute an additional €200m each year
- The Solidarity Contribution, which will come into force in 2025, will contribute a little over €100m each year

<b>ARs</b>				
PIT, TSD, TATDLA, Wealth Tax	-847	-3.014	-2.310	-2.203
<b>% GDP</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>

- The measures approved by the ARs reduce revenue by a little over 0.1 points per annum

<b>TOTAL (€m)</b>	<b>6.103</b>	<b>6.258</b>	<b>2.080</b>	<b>3.274</b>
<b>TOTAL (% GDP)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.1</b>	<b>0.2</b>

# AIReF forecasts lower revenue from direct taxes and contributions and a higher weight from indirect taxes and in other revenue

EVOLUTION OF GG REVENUE (% GDP)

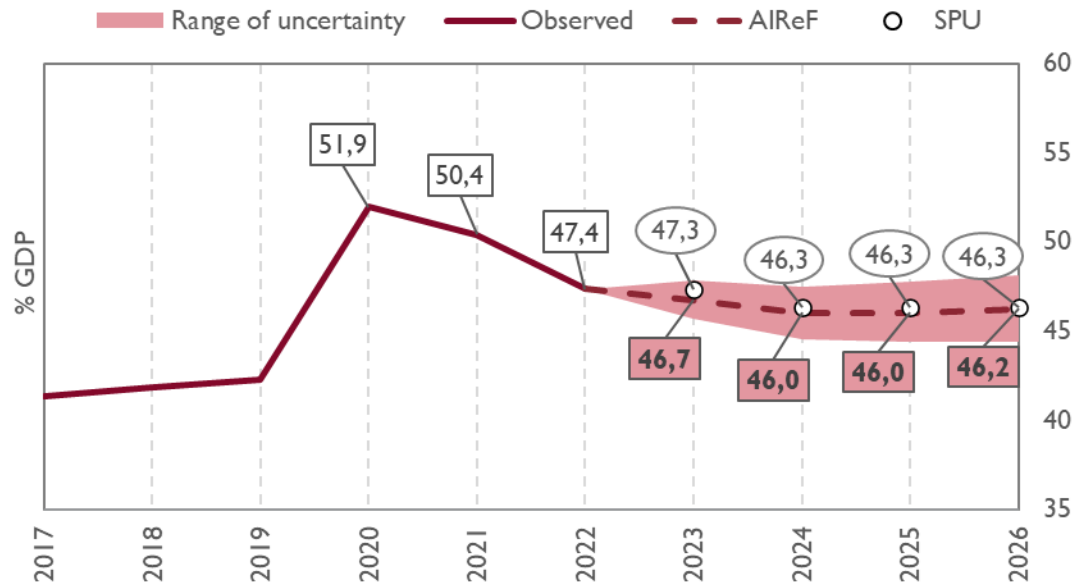
	AIReF				SPU			
	2023	2024	2025	2026	2023	2024	2025	2026
<b>REVENUE</b>	<b>42,6</b>	<b>43,0</b>	<b>43,0</b>	<b>43,2</b>	<b>43,4</b>	<b>43,3</b>	<b>43,7</b>	<b>43,8</b>
<b>TAXES</b>	24,9	25,4	25,3	25,5	25,5	25,8	26,2	26,5
<i>On production</i>	11,8	12,3	12,1	12,0	11,9	12,0	11,9	11,8
<i>On income</i>	12,6	12,7	12,8	13,1	13,2	13,5	14,0	14,3
<i>Capital</i>	0,5	0,5	0,4	0,4	0,4	0,3	0,3	0,3
<b>CONTRIBUTIONS:</b>	13,6	13,8	13,9	13,9	13,9	14,0	14,0	14,0
<b>Other revenue</b>	4,1	3,7	3,8	3,8	4,0	3,5	3,5	3,4

Source: AIReF and SPU

- **Tax on Production:** strong growth in 2024 due to withdrawal of measures
- **Income Tax:** higher growth than GDP growth throughout the projection period. However, AIReF estimates 1.3 points less than the SPU in 2026
- **Contributions:** the weight of contributions rises due to the impact of the pension reform
- **Other revenue:** fall in 2024 due to the withdrawal of the REACT funds with stable evolution over the rest of the period

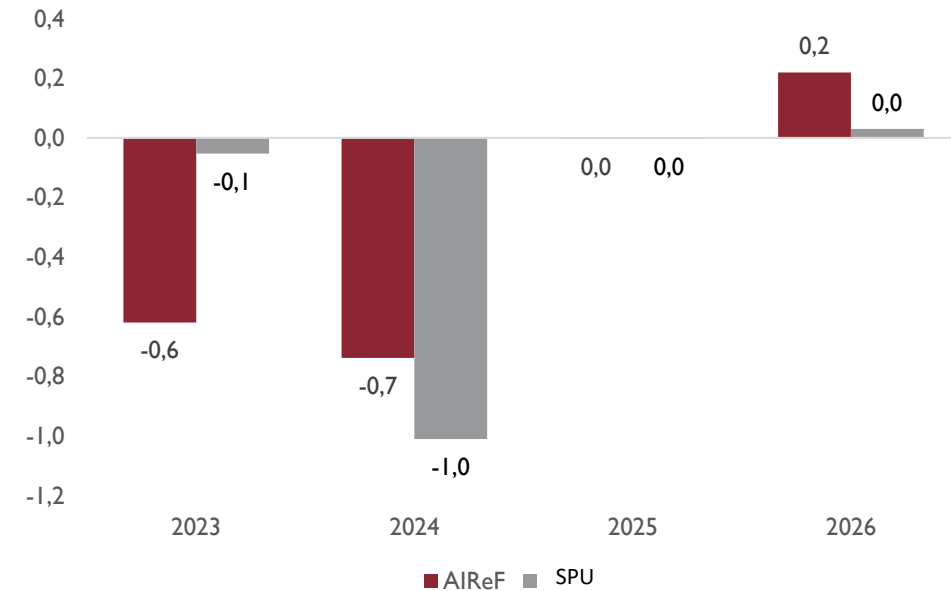
# AIReF estimates a reduction in expenditure, without the RTRP, of around 1.1 points of GDP, similar to the estimate in the SPU

EVOLUTION OF GG EXPENDITURE (% GDP)



Source: AIReF and SPU

FORECAST ANNUAL CHANGE OF EXPENDITURE (% GDP)



Source: AIReF and SPU

- **Period 2023-2024:** the withdrawal of the measures to combat the energy crisis and prices reduces the weight of expenditure. The extension or approval of new measures would lead to a shift in the reduction of the deficit from 2023 to 2024
- **2025 - 2026:** the cost of servicing debt pushes expenditure upwards, with more moderate growth in other expenses as inflation drops and the new fiscal measures take effect

# AIReF forecasts lower spending on public consumption and cash benefits and higher capital spending

EVOLUTION OF GG EXPENDITURE (% GDP)

	AIReF				SPU			
	2023	2024	2025	2026	2023	2024	2025	2026
<b>EXPENDITURE</b>	<b>46,7</b>	<b>46,0</b>	<b>46,0</b>	<b>46,2</b>	<b>47,3</b>	<b>46,3</b>	<b>46,3</b>	<b>46,3</b>
Compensation of employees	11,3	11,3	11,2	11,1	11,3	11,2	11,2	11,2
Intermediate Consumption	5,8	5,7	5,7	5,7	5,8	5,8	5,8	5,8
Social transfers (in kind)	2,9	2,8	2,8	2,8	2,8	2,9	2,8	2,9
Social transfers (in cash)	17,5	17,5	17,6	17,6	17,7	17,6	17,7	17,7
Interest	2,4	2,5	2,7	2,9	2,4	2,6	2,7	2,9
Gross capital formation	2,8	2,6	2,6	2,7	2,7	2,6	2,4	2,4
Subsidies	1,4	1,2	1,2	1,1	1,8	1,3	1,4	1,4
Capital transfers	0,8	0,6	0,6	0,6	1,0	0,6	0,5	0,5
Other expenditure	1,8	1,7	1,7	1,7	1,8	1,7	1,8	1,7

Source: AIReF and SPU

- **Public consumption:** remuneration of salaried workers in line with agreement with trade unions and with the CPI in 2025 and 2026 when adding the effect of the additional measures expected at a regional level
- **Cash social benefits:** the weight of spending on pensions rises, with growth in excess of 6% for the period on average, partially offset by a reduction in the weight of unemployment
- **Interest:** spending rises due to higher tax rates
- **Gross Capital Formation:** contains part of the increased military spending and stabilisation of other components
- **Other expenses:** return to pre-pandemic levels following withdrawal of the measures

# The path by sub-sector is conditioned by settlements of the financial system

BALANCE BY SUB-SECTOR (% GDP)

	AIReF				SPU			
	2023	2024	2025	2026	2023	2024	2025	2026
<b>GG</b>	<b>-4,1</b>	<b>-3,0</b>	<b>-3,0</b>	<b>-3,0</b>	<b>-3,9</b>	<b>-3,0</b>	<b>-2,7</b>	<b>-2,5</b>
<b>CG</b>	-3,4	-3,5	-3,2	-3,2	-3,1	-3,0	-2,8	-2,8
<b>SSFs</b>	-0,6	-0,3	-0,3	-0,2	-0,5	-0,2	-0,1	0,0
<b>ARs</b>	-0,3	0,4	0,2	0,2	-0,3	0,0	0,1	0,1
<b>LGs</b>	0,2	0,3	0,2	0,2	0,0	0,2	0,1	0,2

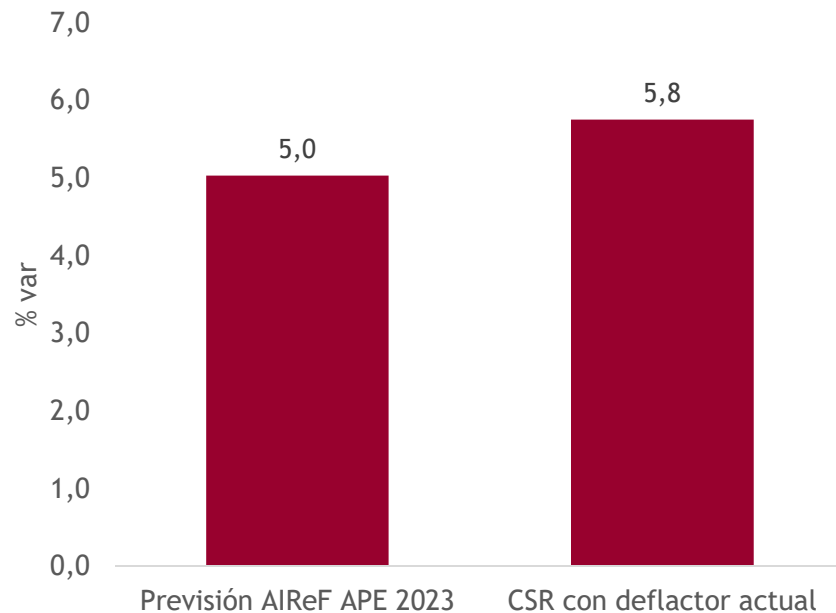
Source: AIReF and SPU

- **CG:** takes on the cost of the measures to combat price rises and increased defence spending
- **SSFs:** higher pension costs offset by the rise in transfers for unofficial expenses and the introduction of revenue measures from pension reform
- **ARs:** the positive settlements stemming from collection in 2022 and 2023 would lead to a surplus of 0.4 points in 2024, which will moderate to 0.2 points in the rest of the period
- **LGs:** surplus of close to 0.2% of GDP, also influenced by the settlements of the financial system

# The increase in current primary expenditure net of revenue measures in 2023 would be compatible with the fiscal CSR in the absence of new measures

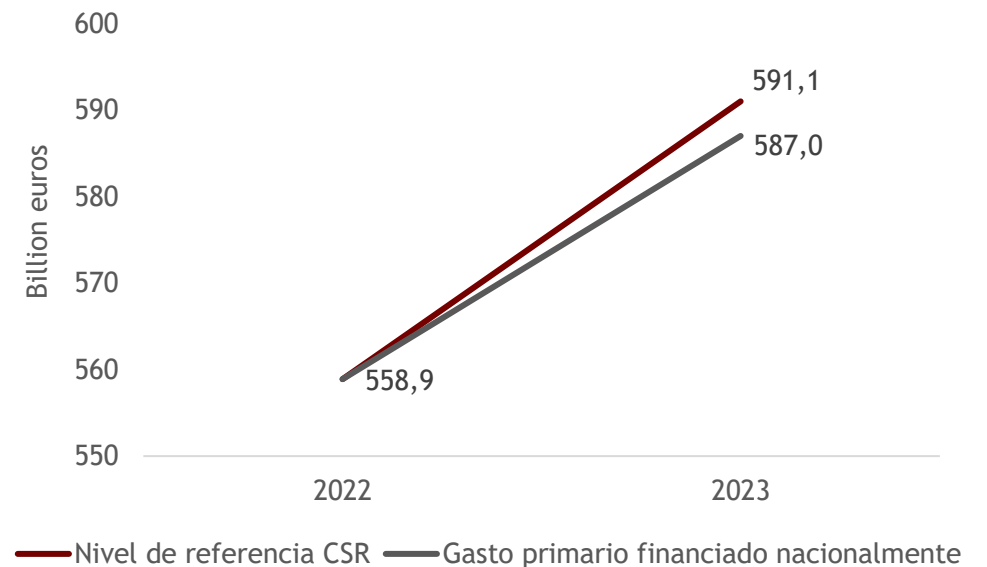
- The Country-Specific Recommendation (CSR) on fiscal matters recommends Spain to limit higher current primary expenditure financed at a national level to below potential medium-term growth (5.8%, taking into account our current forecast of the GDP deflator)
- In the absence of new measures or the extension of already adopted measures, the CSR would be met in 2023

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



Source: AIReF and SPU

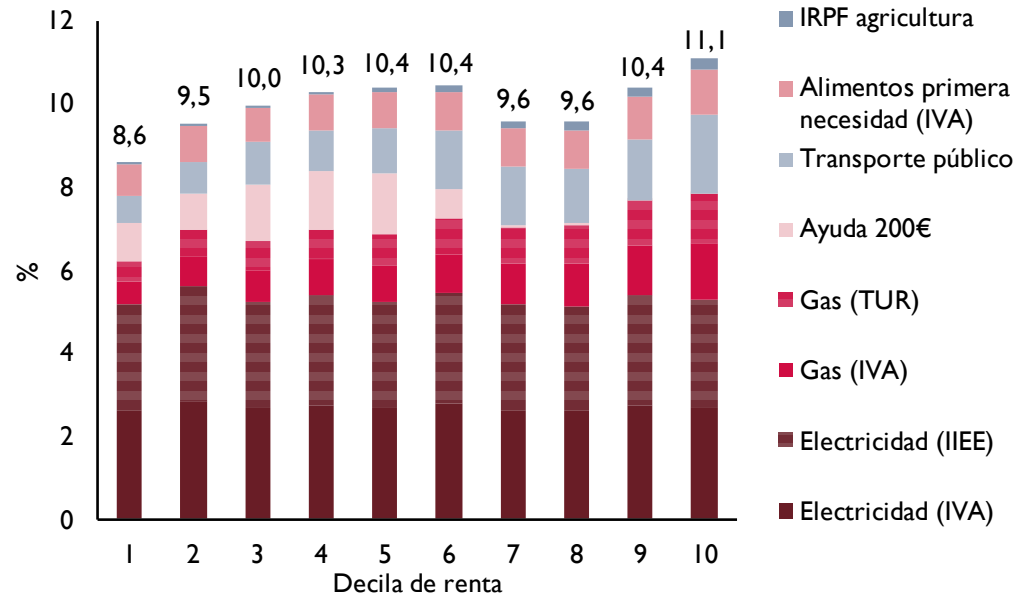
**CHANGE IN CURRENT PRIMARY EXPENDITURE NET OF REVENUE MEASURES. COMPARISON WITH THE FISCAL CSR, GG AS A WHOLE**



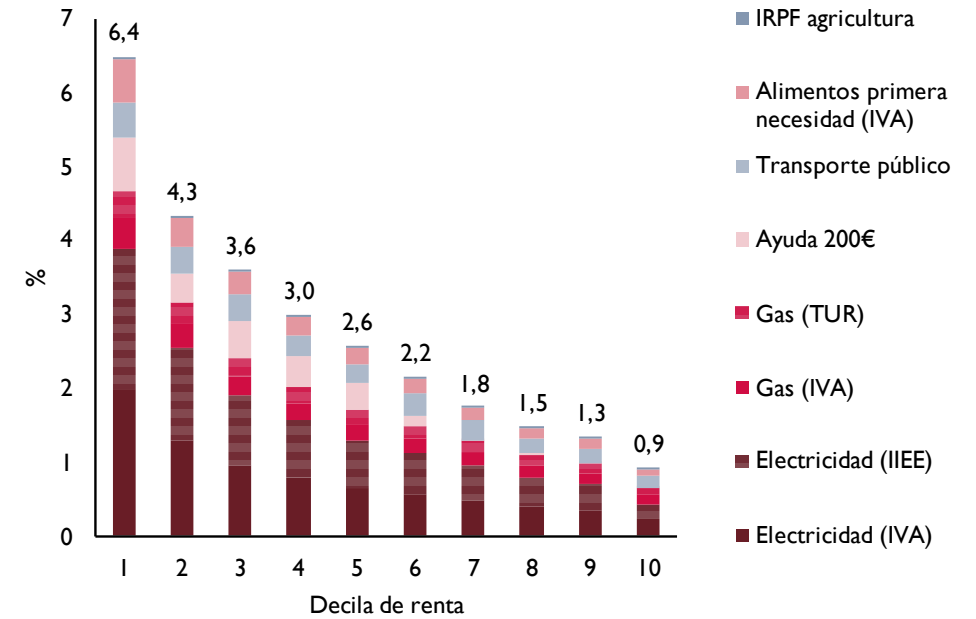
Source: AIReF and SPU

# The temporary measures to combat inflation are not, in the main, focused on vulnerable households

DISTRIBUTION OF COST OF PACKAGE OF MEASURES TO ALLEVIATE THE EFFECTS OF THE ENERGY PRICE INCREASE, BY DECILE OF INCOME



AMOUNT OF THE MEASURES IN RELATION TO GROSS INCOME OF HOUSEHOLDS, BY DECILE OF INCOME

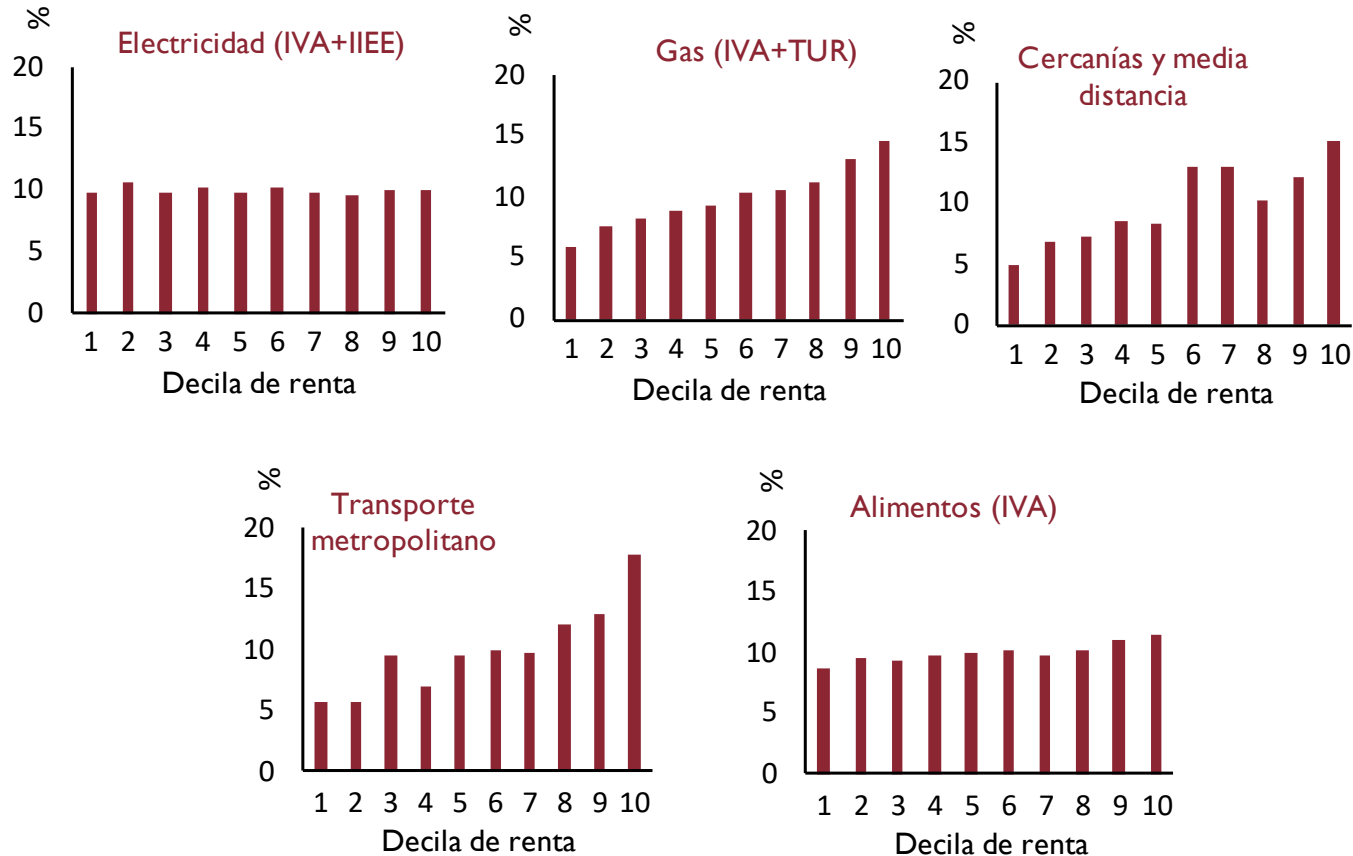


Source.: AIReF or based on FBS (INE) and Households Panel. Income and Assets 2016/2019 (IEF)

- The measures targeting the most vulnerable have taken on a permanent nature (Minimum Income Scheme increase, non-contributory pensions, social heating voucher)
- The temporary measures currently in force with the highest amounts are, in the main, not very targeted: VAT reduction on gas and electricity

# The targeting of measures that act on prices depends on the product considered and requires an individual analysis

DISTRIBUTION OF COST OF MEASURES THAT ACT ON ENERGY, TRANSPORT AND FOOD PRICES, BY DECILE OF INCOME



AIReF has developed a [new tool on its website](#) that allows the degree of targeting of VAT reductions to be seen for a wide range of goods and services and their potential combinations.

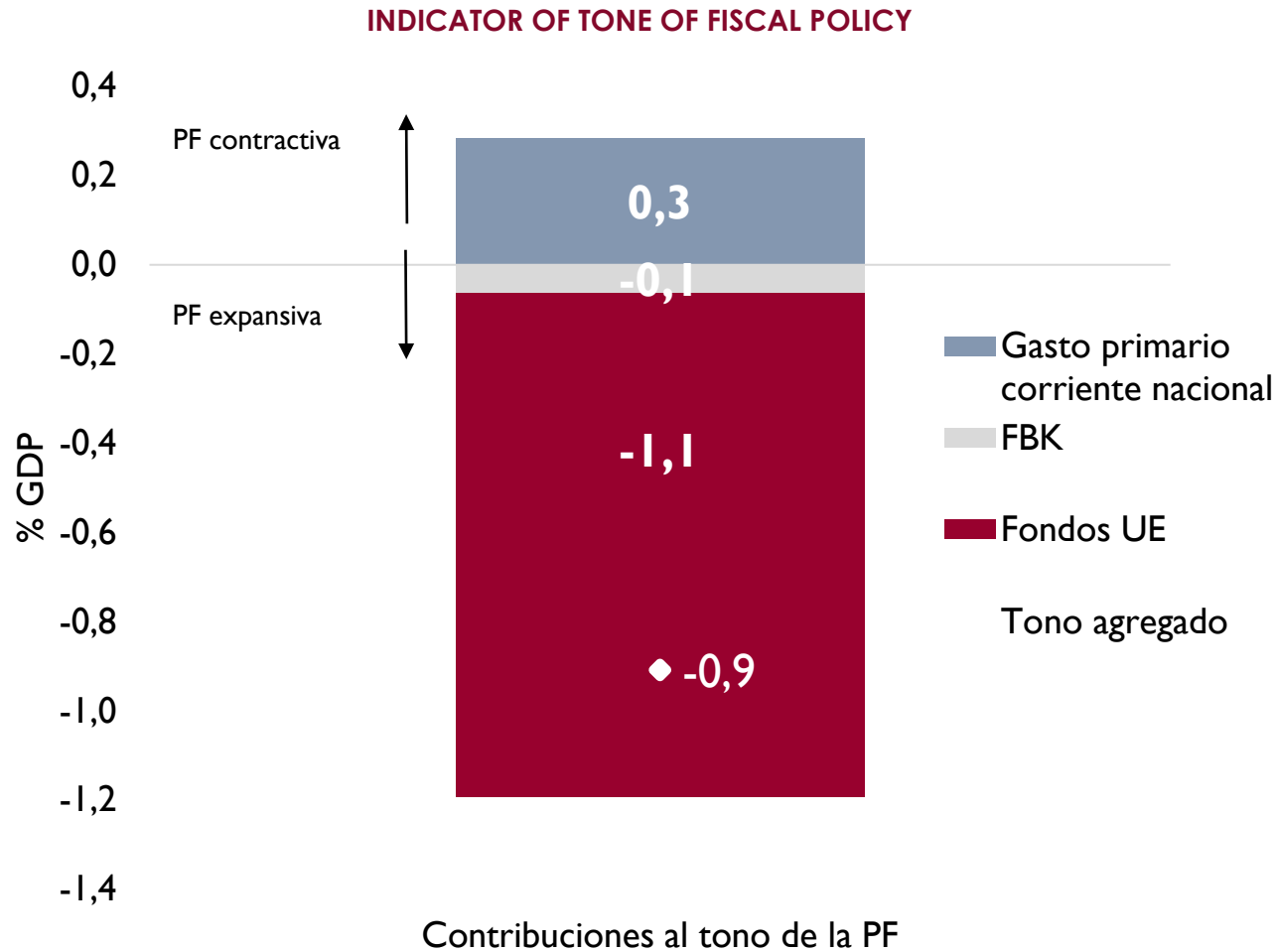
## Focalización cambios IVA



Esta herramienta permite conocer el grado de focalización de los cambios del IVA para un extenso conjunto de bienes y servicios y sus posibles combinaciones



# Confirmation that the aggregate tone of fiscal policy in 2023 is expansive

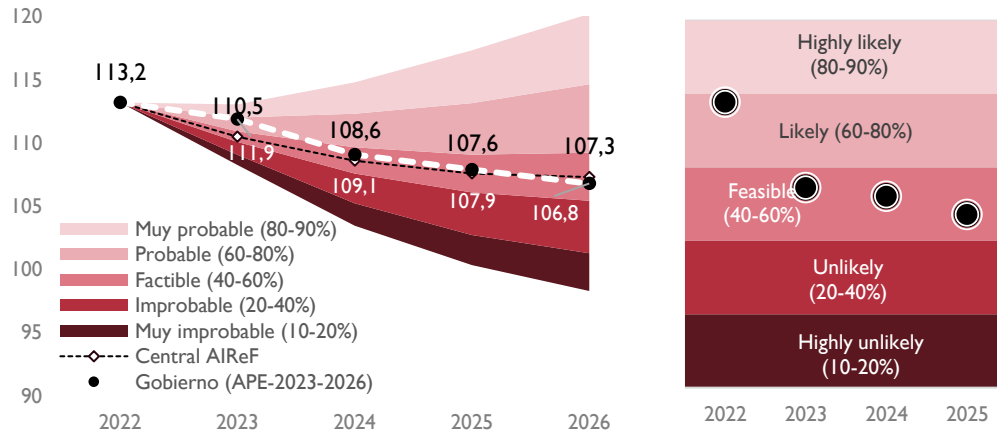


- The expansion amounts to 0.9 points of GDP in 2023. This is primarily attributable to increased spending charged to the NGEU funds this year. The expansive tone is slightly strengthened by the contribution of the national investment
- In contrast, nationally financed current primary expenditure would contribute to the aggregate tone with a contraction of 0.3 points of GDP in the absence of new measures

Source: AIReF and SPU

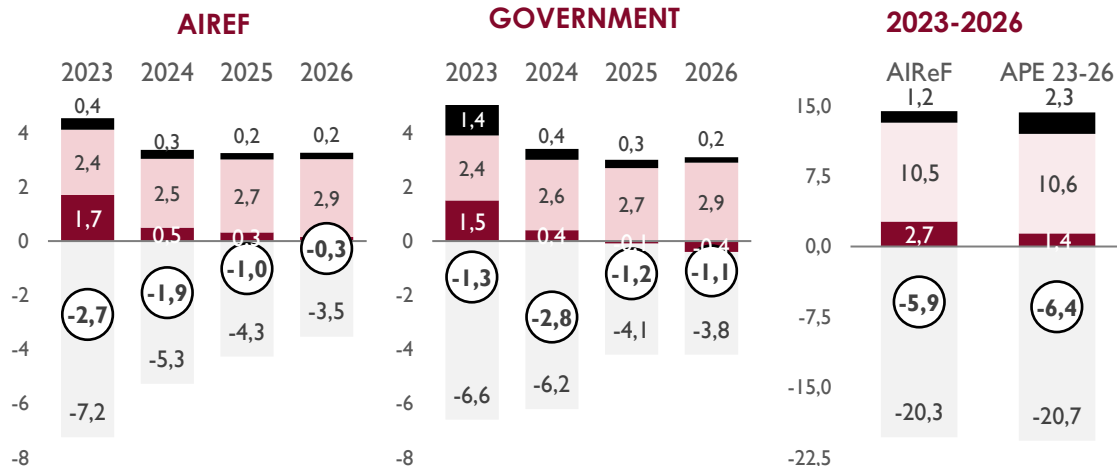
# AIReF forecasts a reduction in the debt ratio on GDP of 5.9 points over the next four years to stand at 107.3% in 2026

DEBT FORECASTS (% GDP) SPU 2023-2026



- The Government presents a slightly higher reduction in the debt ratio, albeit similar to AIReF's (6.4 vs. 5.9 points of GDP)
- AIReF considers the debt forecast included in the SPU for 2026 to be feasible
- The reduction in the debt ratio is strongly anchored in the contribution of nominal growth, which contributes 20.3 points, whereby the deflator contributes 12.5 points
- A deceleration is observed in the profile of the debt reduction, in line with the deceleration of the contribution of the deflator
- The clear improvement in the evolution of the primary balance will be partially offset by higher spending on servicing debt

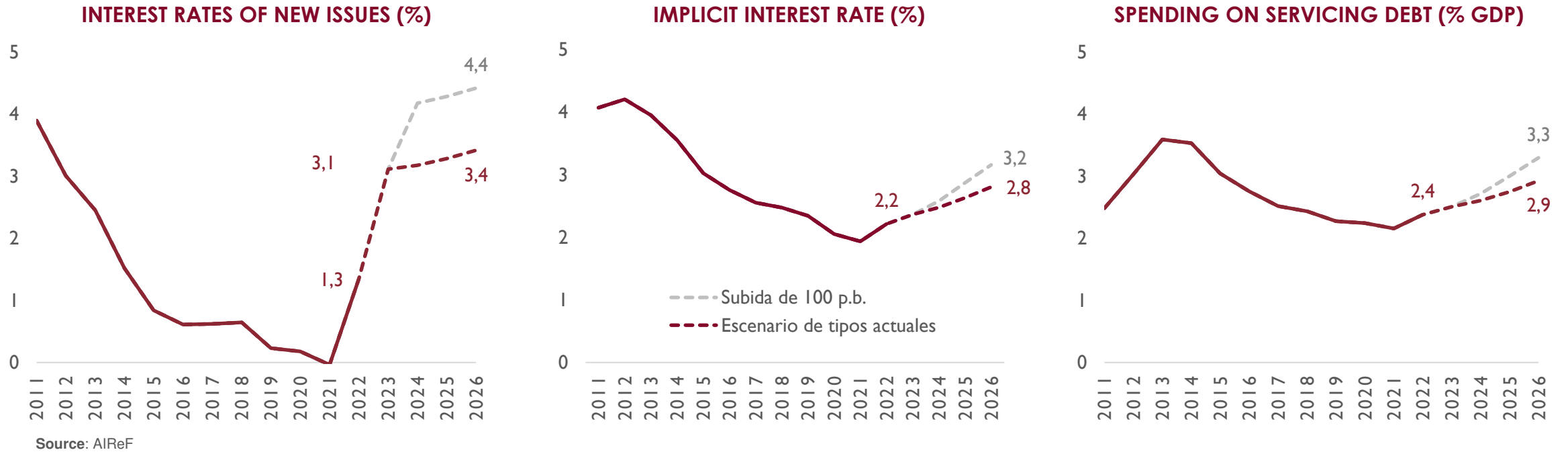
CONTRIBUTIONS TO THE CHANGE IN DEBT (POINTS OF GDP)



■ Déficit primario      ■ Carga de intereses      ■ Crecimiento nominal  
 ■ Ajuste Stock-Flujo      ○ Var. deuda/PIB

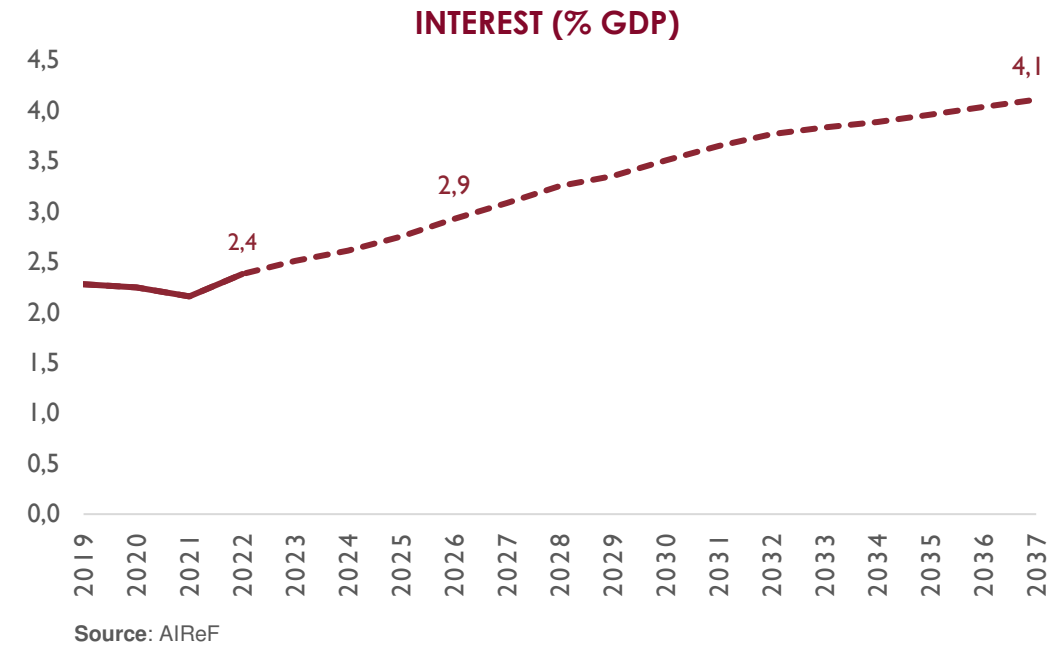
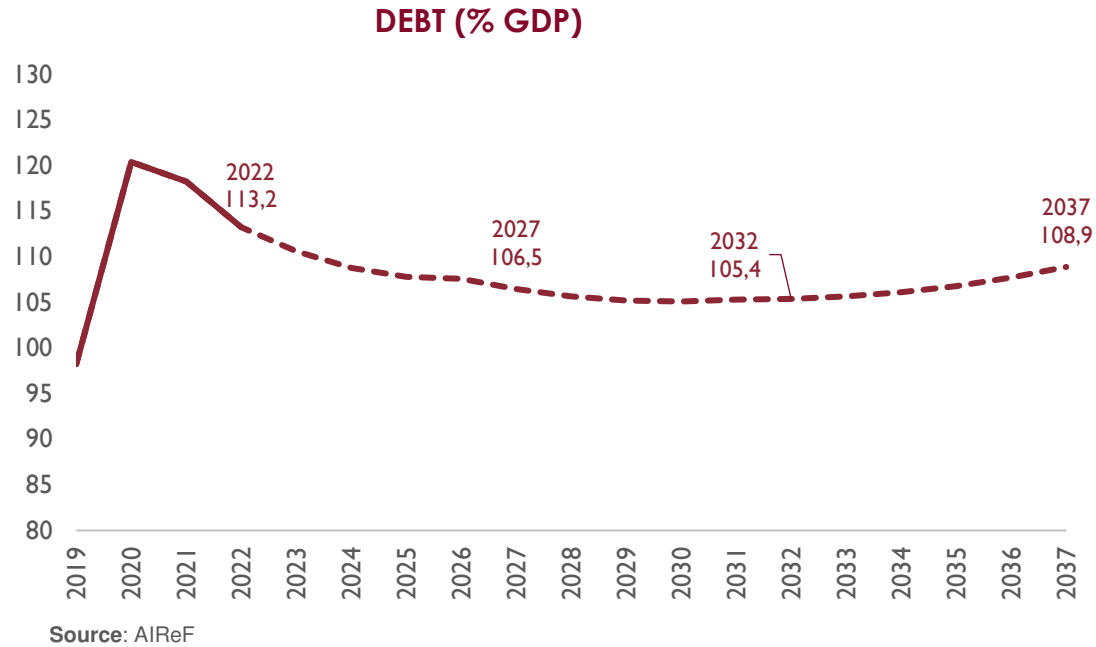
Source: Government and AIReF

# 2022 was a turning point in the evolution of debt financing costs



- 2022 was a turning point in the evolution of interest rates, with an increase in the average issue rate by the Treasury from 0% to 1.3%
- According to AIReF's forecasts, the average issue rate in 2023 will continue to rise to 3%, and up to 3.4% by 2026. These issue rates will raise the implicit rate to 2.8% and spending on servicing debt to 2.9% of GDP
- An additional increase of 100 bp in average interest rates would raise the implicit rate to 3.2% and spending on servicing debt to 3.3%, generating a 0.5-point increase in the debt ratio by 2026

# The new monetary cycle, together with the high level of existing debt, place the sustainability of the public finances in a highly vulnerable starting position



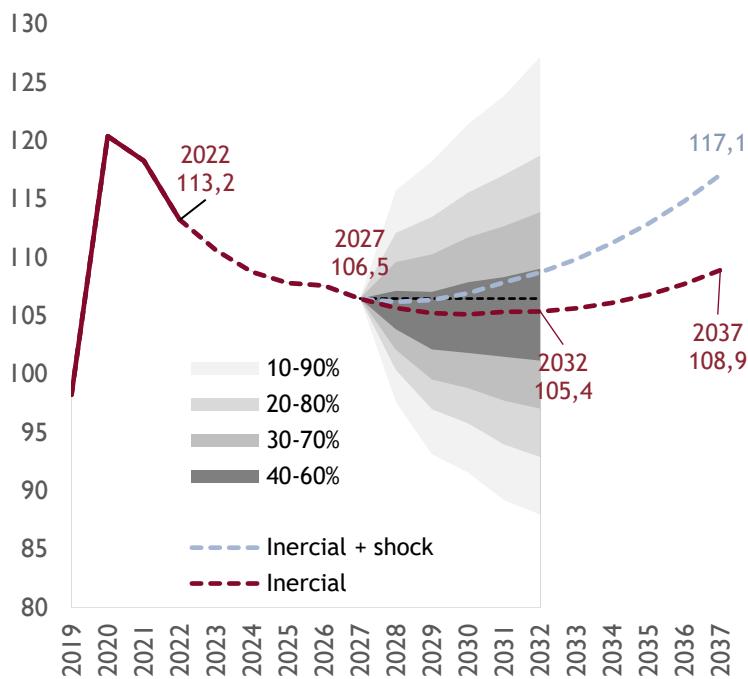
- AIReF forecasts, in its long-term inertial scenario, a rising debt ratio following an initial period of certain stability
- The foreseeable increase in costs associated with the ageing population is one of the main challenges to the sustainability of the public finances in the medium and long term

- The high level of initial indebtedness, along with unbalanced public accounts, will generate an unfavourable dynamic of the financial burden, even in a scenario of cost containment of the debt
- In a long-term scenario, AIReF forecasts spending on interest in relation to GDP that will gradually increase in a sustained manner from 2.4% of GDP in 2022 to stand at close to 4% in the next 15 years

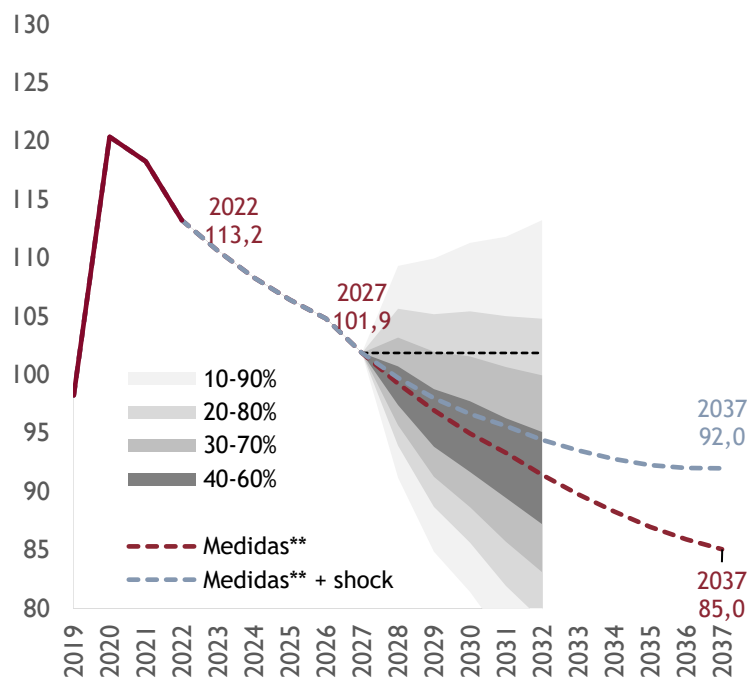
# The generation of the fiscal space makes it necessary to design a medium-term plan that guides the public accounts towards a balanced situation

**AIReF's simulations show that the design of a fiscal strategy that is compatible with the European Commission guidelines and with the proposed reform of the fiscal framework would require a more demanding path than that contained in the SPU**

**INERTIAL DEBT FORECAST (% GDP), AND INTEREST RATE-GROWTH (I-G) SHOCK**



**DEBT FORECAST, SCENARIO WITH MEASURES (0.46 POINTS) AND I-G SHOCK**



- According to AIReF's calculations, the fiscal path to comply with the Commission guidelines for the period 2024-2027 would require additional measures to be taken over the next four years for a value of 0.46 points per annum
- This adjustment (an additional 1.84 points over four years) would lead to a reduction in the debt ratio of 24 points of GDP over the next 15 years (to 85% of GDP in 2037 vs. 109% in the inertial scenario), placing it in a clearly downward scenario, even under the requirement of a plausible debt reduction in the most demanding scenario of a disturbance of 1% in the interest rate-growth differential

Source: AIReF



# 4

## Recommendations

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# New recommendations

- To commence the work on the reform of the national fiscal framework
- To incorporate an analysis of how the targets meet the requirement for debt to maintain a downward path and the contribution of each tier of government

- Participation of the different tiers of the General Government from an integral perspective
- European Commission guidelines on fiscal policy for 2024
- Incompatibility of the current national fiscal framework with the proposed European reform

## Design a model of governance of the evaluation of the RTRP for the coming years

AIReF proposes a model of governance on three levels:

- An internal governance institution that coordinates evaluation
- Continuous monitoring of each management centre affected by the RTRP funds by means of a map of indicators that address the degree of implementation and the results
- Independent expert agents that carry out *ex post* evaluations in terms of efficiency and efficacy, particularly for those headings of the plan that may have the greatest impact on the dynamic of the future growth of the economy and on the composition of revenue and expenditure

# Other recommendations

## REITERATED RECOMMENDATIONS

- Separately publish the amounts corresponding to revenue and expenditure in the RTRP under the headings of national accounts in the monthly and quarterly reports on implementation published by the IGAE and at year-end

## RECOMMENDATIONS CONTAINED IN THE ENDORSEMENT OF THE MACROECONOMIC FORECASTS

- Submit information on measures of a budgetary and fiscal nature incorporated in the macroeconomic scenario
- Regulate the endorsement process of the macroeconomic forecasts by means of an agreement between the parties





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