



Autoridad Independiente
de Responsabilidad Fiscal

Report on the Main Lines of the 2024 Budget of the General Government

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Introduction

2024, the year of the return to fiscal rules: although several sources of uncertainty remain

ECONOMIC UNCERTAINTY

Tightening of financial conditions

Deterioration of household and business confidence

Degree of implementation of the Recovery, Transformation and Resilience Plan (RTRP)

Weaknesses of China and euro area economies

War in Ukraine and Israel: possible increase and volatility of energy commodity prices

INSTITUTIONAL UNCERTAINTY AND LACK OF INFORMATION

Absence of presentation of the Draft 2024 GSB: Budgetary Plan milestone of the 2024 fiscal strategy, although insufficient content

Uncertainty about the application of fiscal rules from 2024: European reform and transposition into national framework

Stability targets not approved

No publication or communication of payments on account or settlements of the financing system of the Territorial Administrations

No publication of the Report on the Situation of the Spanish Economy containing the reference rate of the expenditure rule

Country Specific Recommendation (CSR) 2024: benchmark of 2.6% nationally-financed primary expenditure

2024 year of return to fiscal rules

AIReF makes recommendations to reduce institutional uncertainty and prepare for the future rules framework

AIReF reports on the 2024 Budgetary Plan: the deficit falls to 3% of GDP due to withdrawal of measures and control of AR and LG expenditure

1.7%

Real GDP (% growth)

- AIReF has endorsed the macroeconomic forecasts of the Budgetary Plan, but warns of downside risks. It is endorsing the forecasts of the ARs
- Real GDP growth of 2.3% is expected in 2023 and the forecasts for spring 2024 is revised downwards, from 2% to 1.7%
- Lower estimates than those of the Government, which forecasts higher growth in domestic demand in 2024
- Persistence of inflationary pressures
- RTRP impact: 1.1% in 2023 and 1.9% in 2024 in terms of GDP

-3%

GG balance (% GDP)

- AIReF forecasts a deficit for the GG as a whole of 4.1% of GDP in 2023 (compared with 3.9% in the Budgetary Plan) and of 3% of GDP in 2024 (in line with the Budgetary Plan) if measures are withdrawn and the TAs control the increase in expenditure without exhausting the margin
- Deficit reduction if the measures to mitigate the energy and price crisis are not extended
- The CG and SSFs accumulate a deficit of 3.1% and 0.4% of GDP, respectively, compared with the surplus of 0.2% of the ARs and 0.2% of the LGs
- In 2024, without the RTRP, revenue reaches 42.7% of GDP (+6.5%) and expenditure 45.7% of GDP (+4%)

106.3%

Public debt (% GDP)

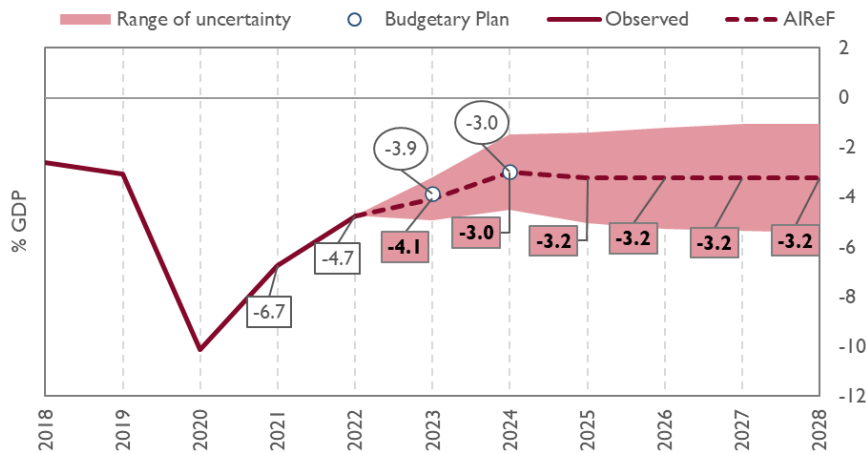
- Following the sharp initial increase caused by the pandemic, the debt ratio is on a downward path.
- For 2024, a reduction of 5.3 points of GDP compared with 2022, mainly due to the growth in nominal GDP (13.5 points)
- The debt projection included in the Budgetary Plan for 2024 is considered feasible
- However, Spain is one of the EMU countries with the highest levels of debt, behind Greece and Italy and with a level similar to that of Portugal and France

AIReF estimates that the 2023 Country Specific Recommendation will be met and for 2024 the margin for increased CSR spending is expected to be exhausted

AIReF goes further and updates its medium-term forecasts: exhaustion in the margin for deficit and debt reduction

In the medium term, AIReF forecasts real GDP growth of 1.4% in 2028, converging to potential growth, and the deficit stagnates at 3.2% of GDP, exhausting the margin for reduction, while debt stabilises at around 105% of GDP

NET GG LENDING/BORROWING (% GDP)



In 2025, the deficit mainly rises due to the withdrawal of temporary revenue-increasing measures

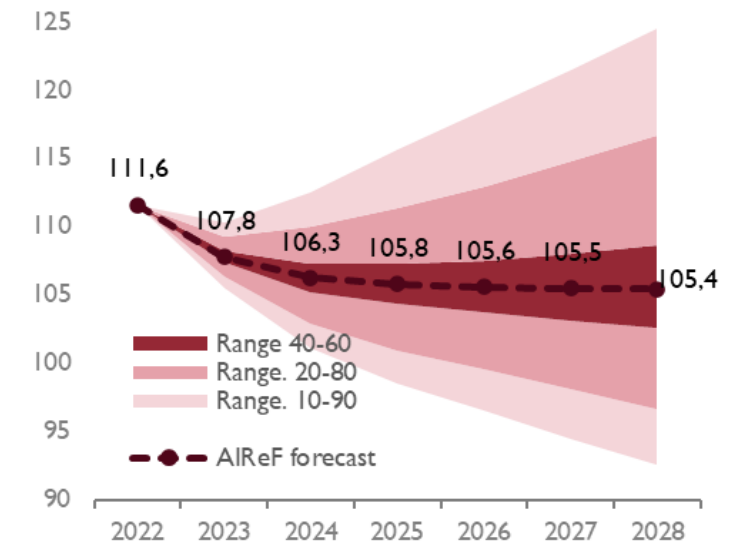
Source: IGAE, Budgetary Plan and AIReF

NET LENDING/BORROWING BY SUB-SECTOR (% GDP)

	AIReF					
	2023	2024	2025	2026	2027	2028
GG	-4.1	-3.0	-3.2	-3.2	-3.2	-3.2
CG	-3.2	-3.1	-2.8	-2.8	-2.9	-2.9
SSFs	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
ARs	-0.6	0.2	0.0	-0.1	-0.1	-0.1
LGs	0.1	0.2	0.1	0.1	0.1	0.1

AIReF publishes medium-term scenarios broken down by AR for the first time

PUBLIC DEBT (% GDP)

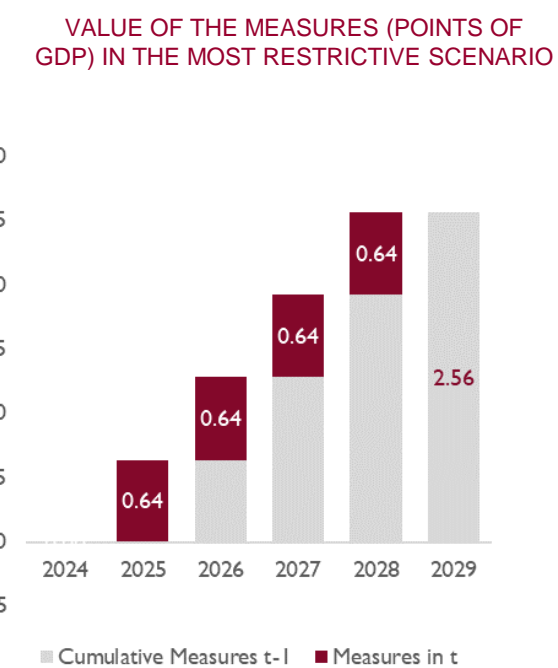
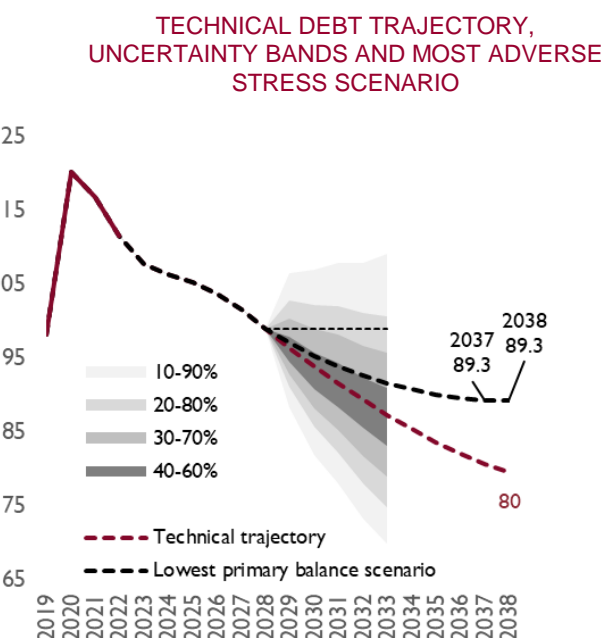
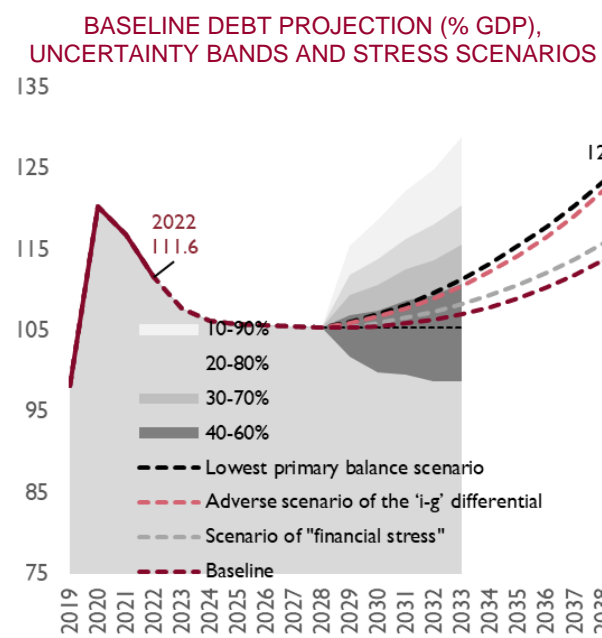
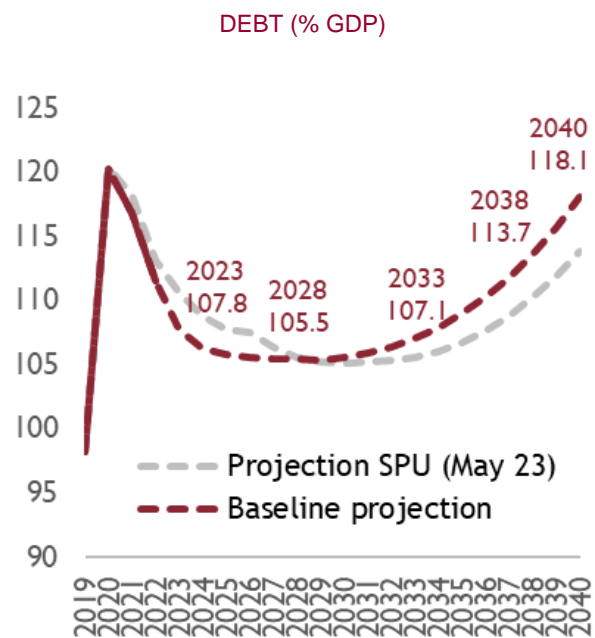


Source: AIReF

Strengthening the medium-term orientation of the fiscal position of the GG, as recommended by AIReF to the different public authorities as the framework for developing their budgetary procedures

As from 2028, the debt would start an upward path: contrary to requirements of future framework and risk for sustainability

- The fiscal path that would comply with the guidelines for calculating the technical trajectory of the legislative proposal to reform the governance framework, according to AIReF's interpretation and projections, would require taking measures during the period 2025-2028 worth 0.64 points of GDP per year
- This would meet the requirement of plausible debt reduction in the most demanding scenario which, according to AIReF's calculations, is defined by the scenario of "lowest primary balance"



Source: AIReF

Recommendations to reduce institutional uncertainty and prepare for the new framework of rules with sustainability as the core pillar

Recommendations to reduce institutional uncertainty and the risk of non-compliance with CSR 2024

Recommendation in macro endorsement: publication of the Report on the Situation of the Spanish Economy containing the reference rate of the expenditure rule for 2024

Publication of payments on account and settlements of the territorial financing system

Convene fiscal policy coordination mechanisms (Fiscal and Financial Policy Council and National Commission for Local Administration)

→ Agree on reference rates of net lending/borrowing and growth of primary expenditure net of revenue measures for the different GG sub-sectors

→ Start work to develop a medium-term fiscal strategy

→ Start work on the reform of the national fiscal framework

Recommendations on the medium-term and fiscal framework

AIReF will publish an Opinion on the Budgetary Procedure next week with proposals to improve the General Budgetary Law

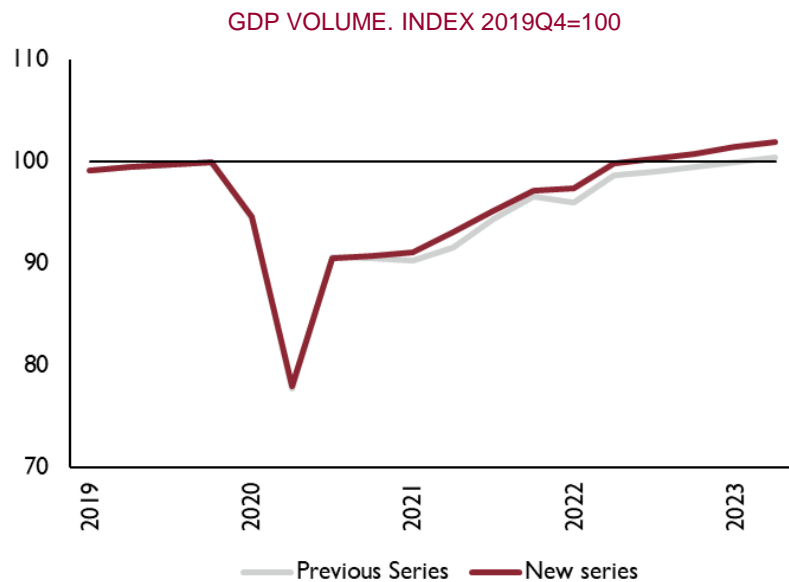
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Macroeconomic scenario

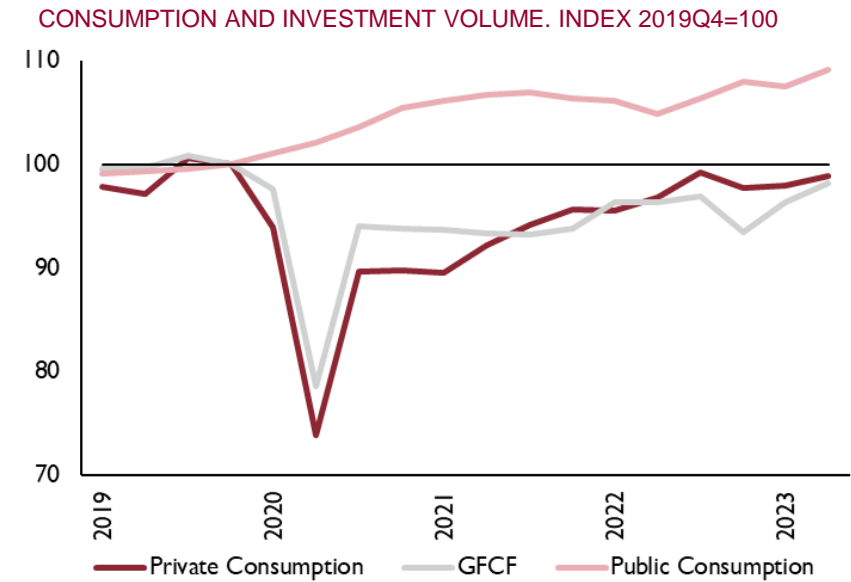
The Spanish economy has shown greater resilience than other European economies in 2022 and the first half of 2023

New national accounting figures suggest that GDP surpassed the pre-pandemic level in the third quarter of 2022, with high growth in the first two quarters of 2023

Despite the rollout of the Recovery, Transformation and Resilience Plan (RTRP), investment would still not have recovered to pre-pandemic levels



Source: INE



Source: INE

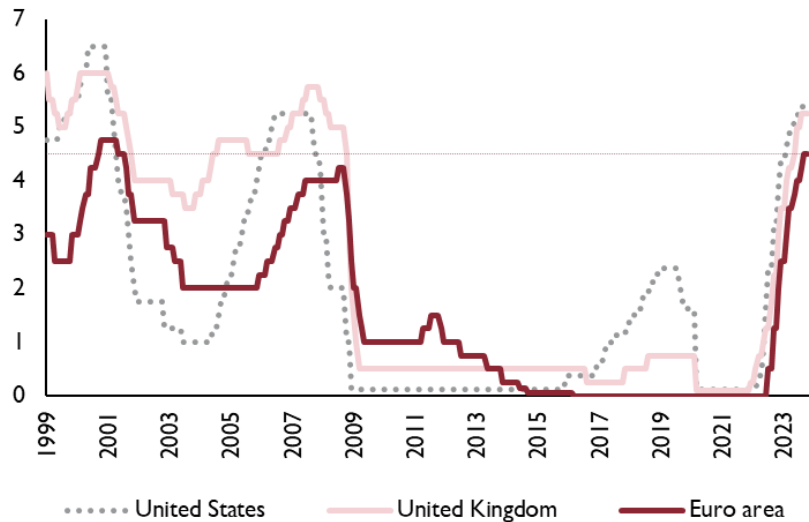
Lower exposure to bottlenecks in value chains, less dependence on Russian gas and, more recently, less exposure to China, together with good export performance and the recovery in tourism, help explain the greater resilience compared with other European economies

The tightening of financial conditions and geopolitical tensions condition global growth and inflation

There has been a sharp change in the monetary policy stance and this is gradually being passed through to the real economy

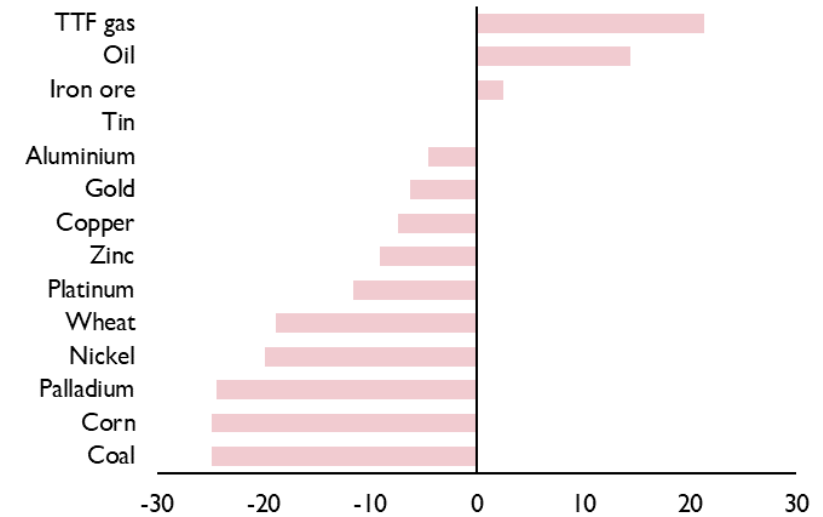
The war in Ukraine, the announcements of cuts in oil production and the outbreak of conflict in the Middle East raise uncertainty and have brought new tension in oil prices

EVOLUTION OF INTEREST RATES OF VARIOUS CENTRAL BANKS



Source: BIS

CUMULATIVE CHANGE IN PRICES OVER THE AVERAGE OF APRIL 2023 (%)



Source: Refinitiv

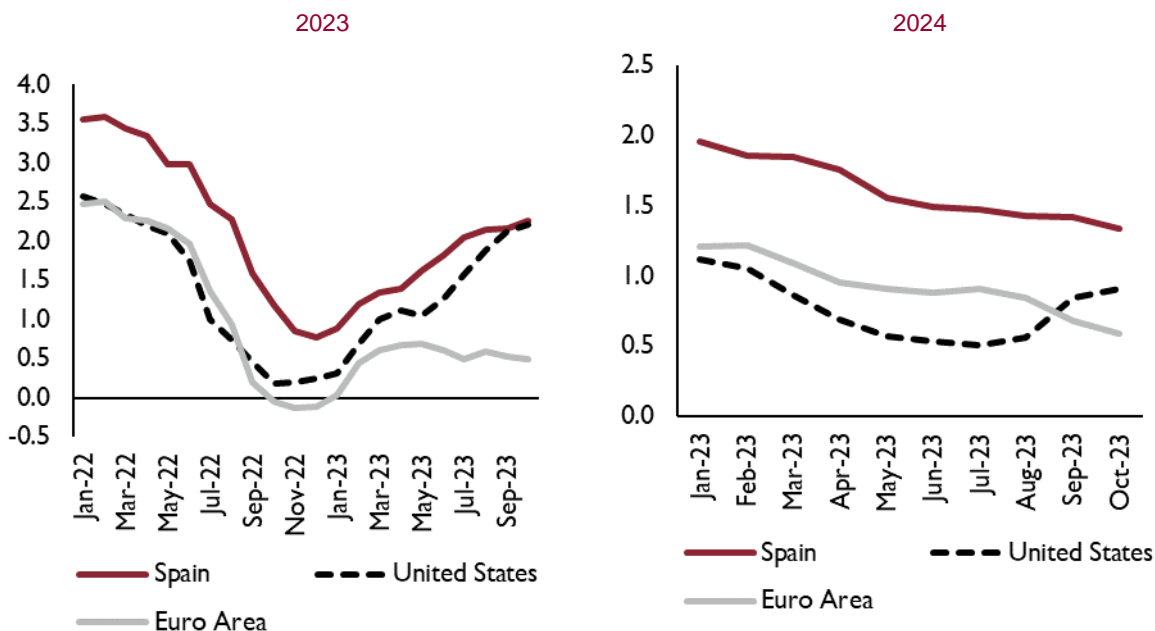
The persistence of inflationary pressures associated with high energy prices and higher wage tensions point to a prolonged period of restrictive financial conditions

The global and euro area outlook has deteriorated and inflation remains above the central banks' benchmark

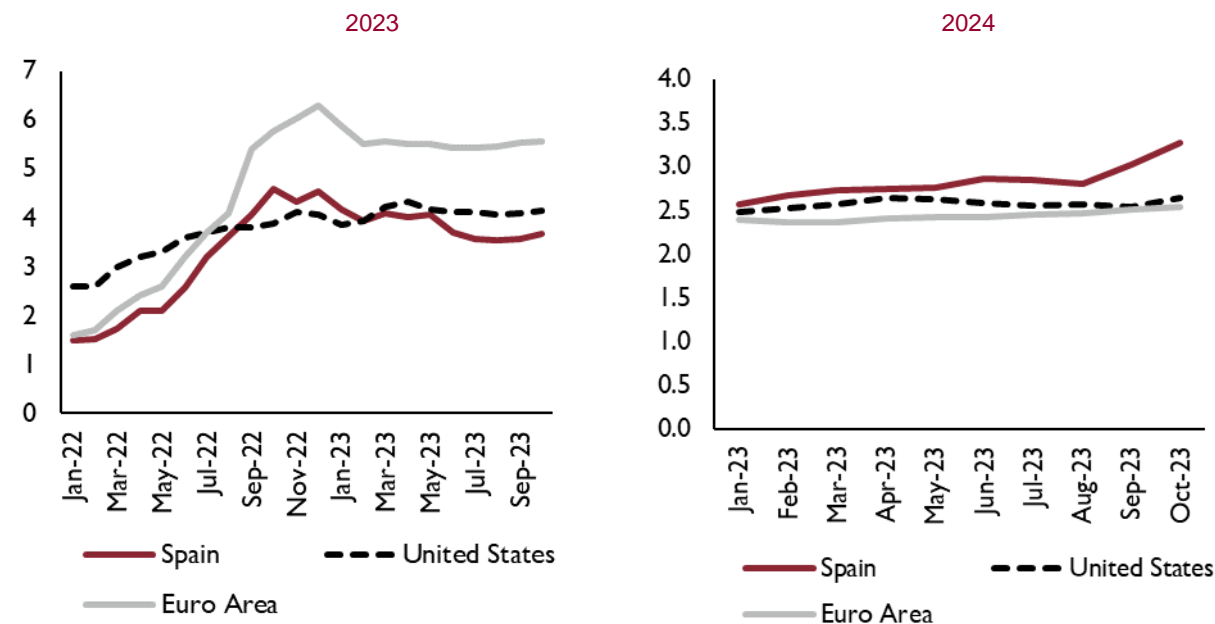
Particularly noteworthy is the weakness of the euro area, especially the economies with greater industrial specialisation and the slowdown in China

The slowdown in inflation is mainly due to its more volatile components. Core inflation remains high

REAL GDP FORECASTS (%)



CPI FORECASTS (%)



Source: Consensus Forecasts

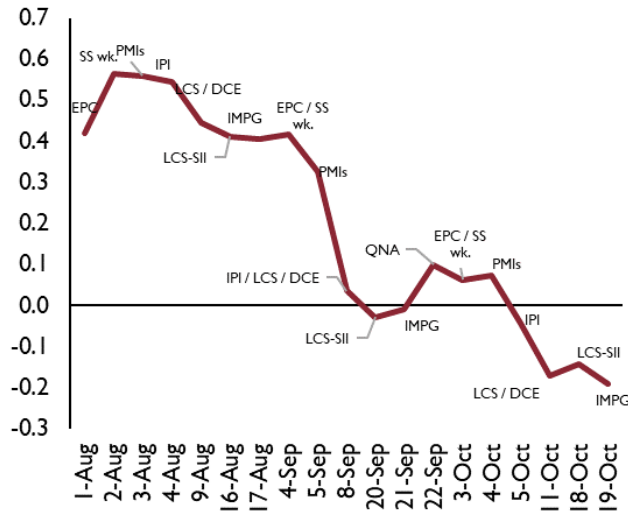
The information available for Spain points to weaker growth in the second half of the year

With almost 86% of the indicators for the quarter available, MIPred points to a slight contraction in GDP

The job market has shown signs of weakness in the third quarter

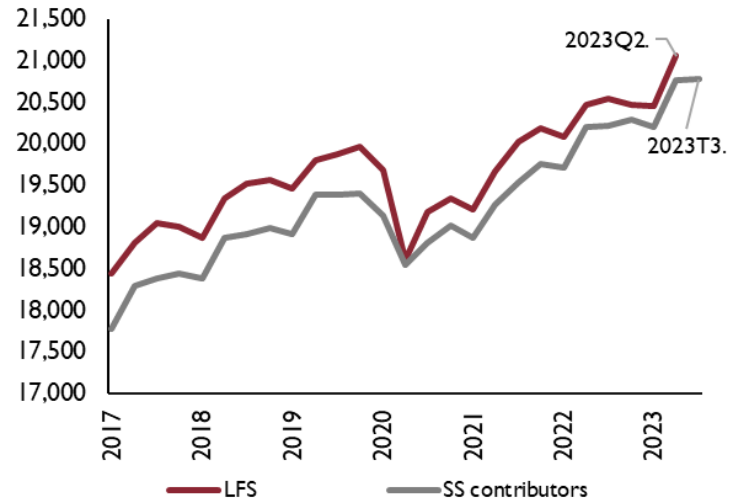
Exports contract in real terms amid weak European demand

MIPred MODEL REAL-TIME GDP ESTIMATE



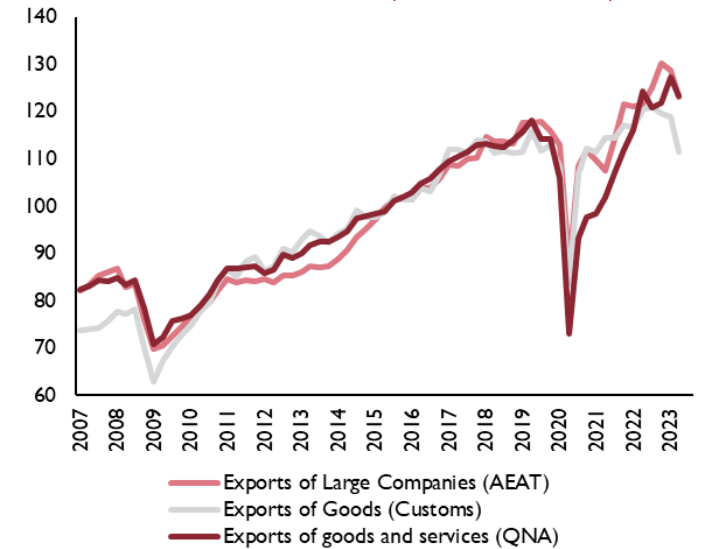
Source: AIReF
NB: Proportion of indicators observed in the quarter: 85.7%

EVOLUTION OF EMPLOYMENT. THOUSANDS OF PEOPLE



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

EXPORTS ACCORDING TO VARIOUS SOURCES OF INFORMATION (INDICES 2015=100)



Source: INE, Tax Agency and Ministry of Economic Affairs and Digital Transformation

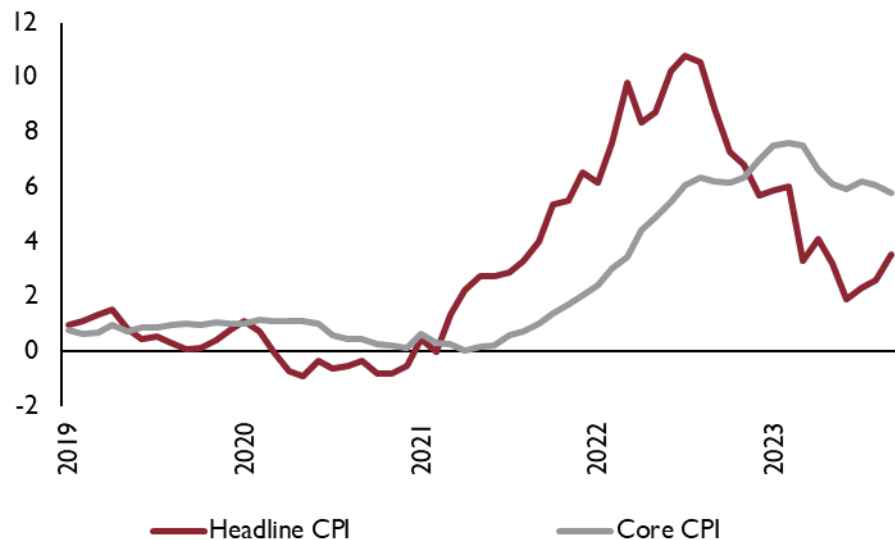
Indicators such as the Purchasing Managers' Indexes (PMI) also suggest a significant weakening in activity in recent months in both manufacturing and services

The reduction in inflation is mainly supported by its most volatile components, but core inflation shows some persistence

Despite the fall in the CPI rate, core inflation has remained above 4% since April 2022

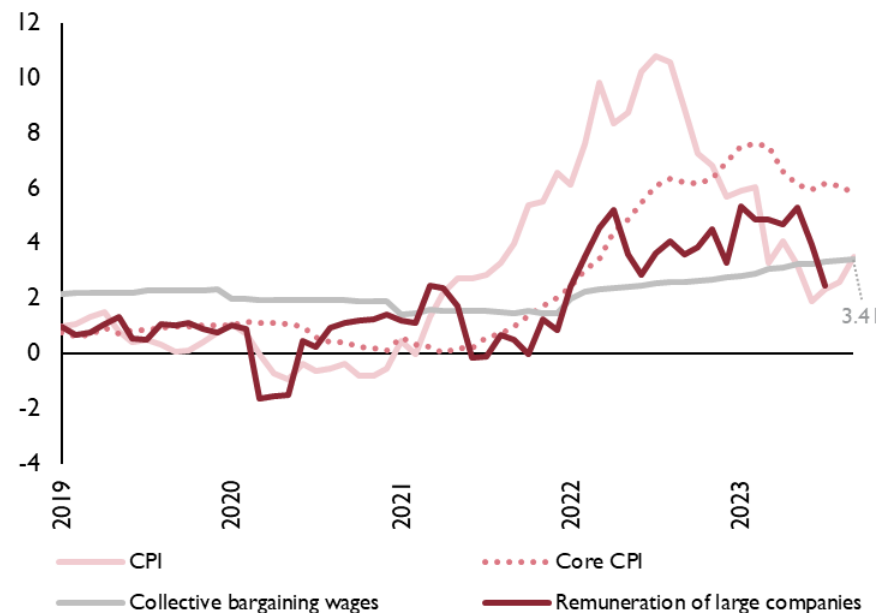
Wages have accelerated in relation to 2022, but stay in line with inflation

INFLATION IN SPAIN (%)



Source: INE and AIReF

EVOLUTION OF WAGES. YEAR-ON-YEAR RATE (%)



Source: Haver, Ministry of Economic Affairs and Digital Transformation and Ministry of Labour and Social Economy.

AIReF forecasts lower growth in volume terms than the Government in both 2023 and 2024

Year-on-Year Rates of Change	2022	AIReF		Government	
		2023	2024	2023	2024
Private Domestic Final Consumption Expenditure	4.7	1.6	1.8	1.5	2.5
General Government Final Consumption Expenditure	-0.2	2.2	0.6	1.9	0.2
Gross Fixed Capital Formation	2.4	2.8	2.6	3.0	4.0
<i>GFCF Equipment and Cultivated Assets</i>	1.2	0.8	5.5	2.3	7.3
<i>GFCF Construction and Intellectual Property</i>	2.9	3.7	1.5	3.3	2.6
Domestic Demand*	2.9	1.9	1.7	1.9	2.2
Exports of Goods and Services	15.2	3.1	2.3	3.4	2.4
Imports of Goods and Services	7.0	2.1	2.5	1.4	3.3
External Balance*	2.9	0.4	0.0	0.8	-0.2
Gross Domestic Product	5.8	2.3	1.7	2.4	2.0
Nominal Gross Domestic Product	10.2	8.2	4.9	8.5	5.6
Gross Domestic Product Deflator	4.1	5.8	3.2	5.9	3.6
CPI	8.4	3.9	4.0	--	--
Full-Time Equivalent Employment	3.7	1.9	0.9	2.2	1.4
Unit Labour Cost	0.9	4.2	3.3	4.6	3.2
Productivity per Full-Time Employee	2.0	0.5	0.7	0.2	0.5
Compensation per Employee	2.9	4.7	4.0	4.8	3.7
Unemployment Rate (% of Active Population)	12.9	12.0	11.5	11.8	10.9
Household and NPISH Savings Rate (% Gross Disposable Income)	7.6	11.1	9.2	--	--

AIReF revises the expected growth in 2024 downwards to 1.7%, compared with the 2% forecast in the spring

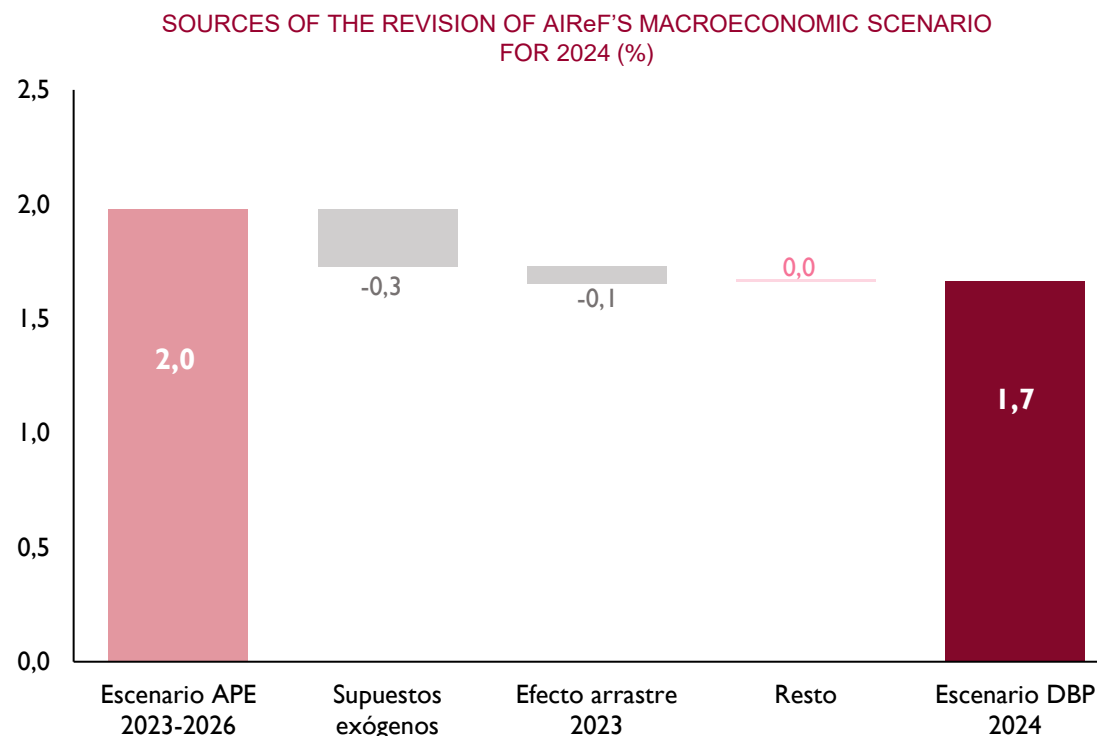
AIReF endorses the Government's scenario, but warns of downside risks. The largest discrepancies are concentrated in the expected growth for private consumption and investment in 2024

Inflation will remain at 4% on average in 2024. The disappearance of the measures implemented since 2022 to combat the effects of inflation will have a positive impact of close to 1 percentage point on inflation in 2024 as a whole

Factors for revision of the macroeconomic outlook

Downward revision of expected growth in the second half of 2023

Weakening global growth, in particular in the euro area



Source: AIReF

Tightening of financing conditions

Persistence of inflation

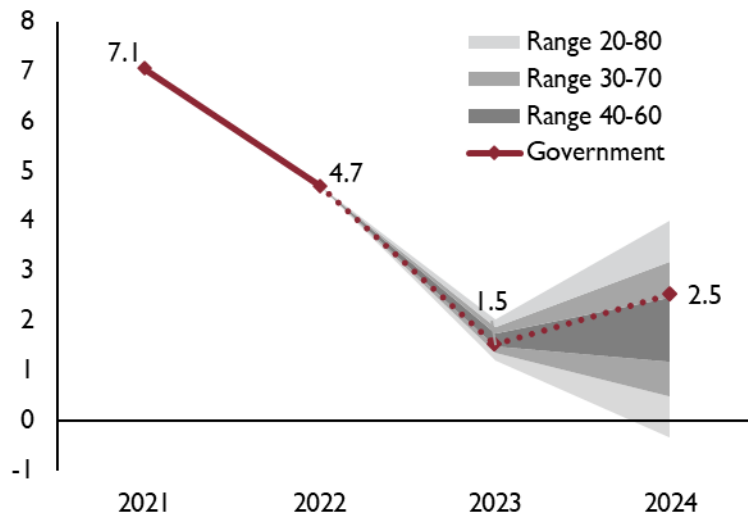
The biggest discrepancies are in the expected growth of domestic demand

The Government's scenario incorporates an acceleration of private consumption that presents risks in an environment of worsening confidence and tighter financial conditions

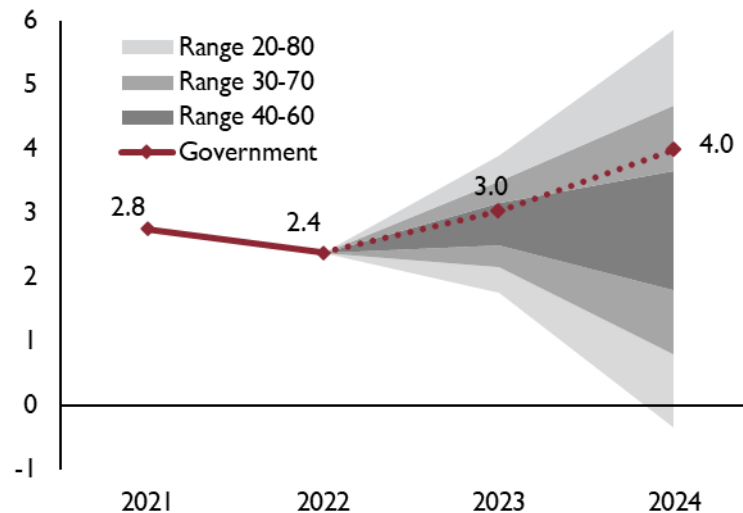
The expected expansion of investment in the Government scenario is also high in an environment of high uncertainty and increased financial costs

The impact of RTRP remains subject to a great deal of uncertainty

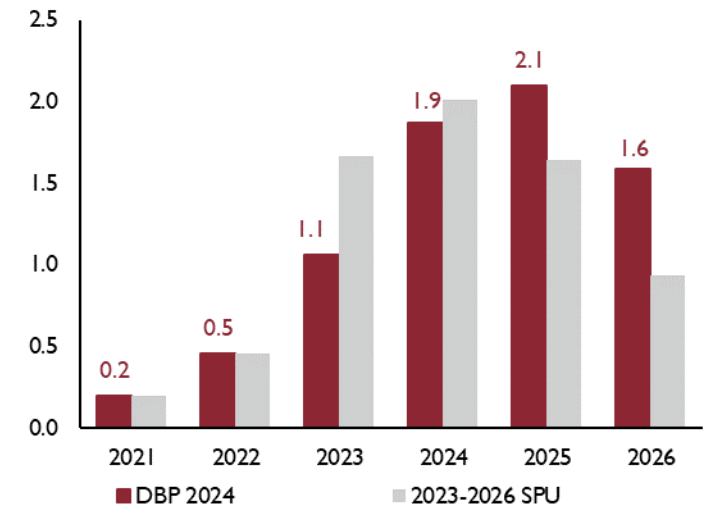
RATE OF CHANGE IN PRIVATE CONSUMPTION IN VOLUME TERMS (%)



RATE OF CHANGE IN GFCF IN VOLUME TERMS (%)



IMPACT ON GDP. (% DEVIATION OVER A SCENARIO WITHOUT RTRP)

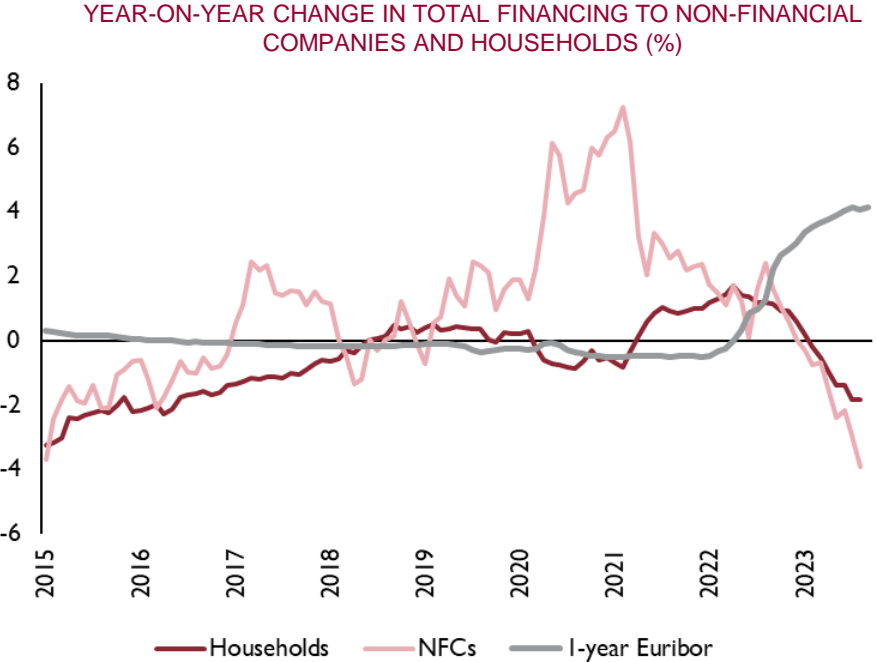


Source: INE, Ministry of Economic Affairs and Digital Transformation and AIReF

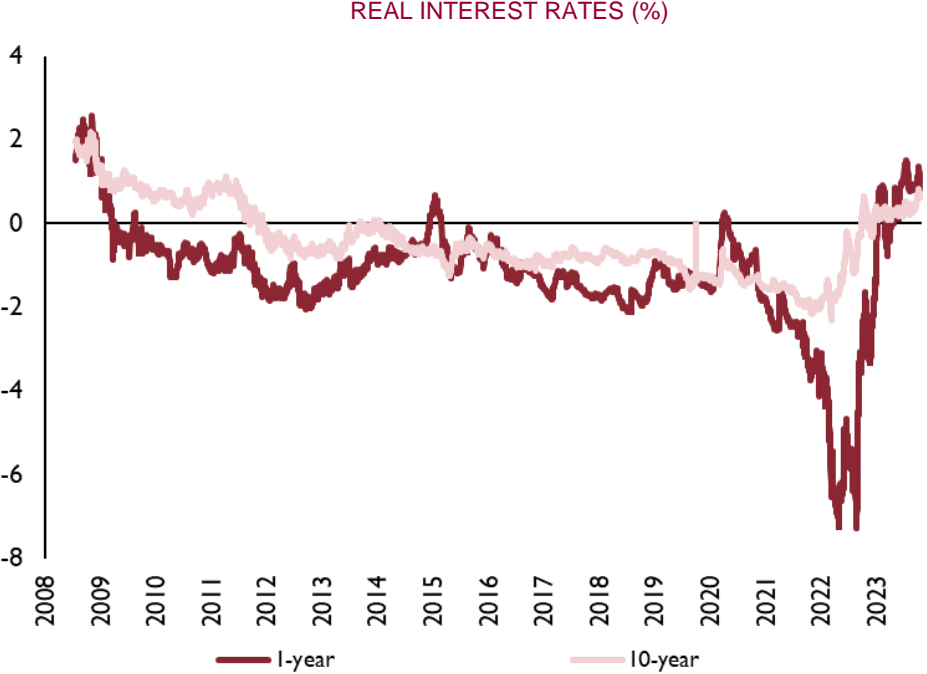
The pass-through of the recent interest rate hikes to the Spanish economy has been intense...

The evolution of bank lending rates, criteria for granting credit and volumes of financing in the euro area suggest that the tightening of monetary policy is passing through intensely

Real interest rates are now positive and rising - for the first time in over a decade



Source: Bank of Spain



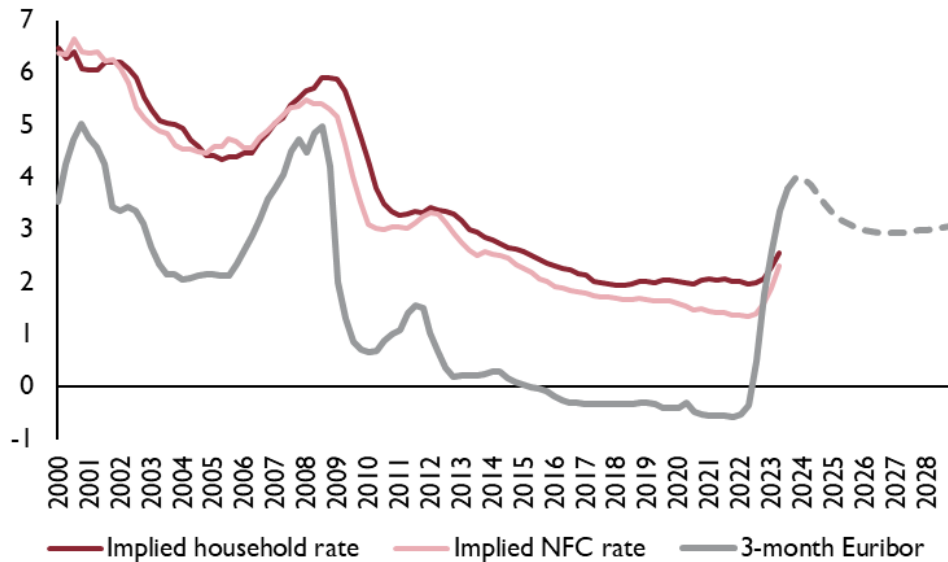
Source: Refinitiv
 NB: Calculated using the OIS rate minus the value of the inflation swap at the same maturity

... but has not yet finished

While the costs of new business and household financing have risen, delays in interest rate revisions mean that implied rates have not yet risen to the same extent as the reference rates

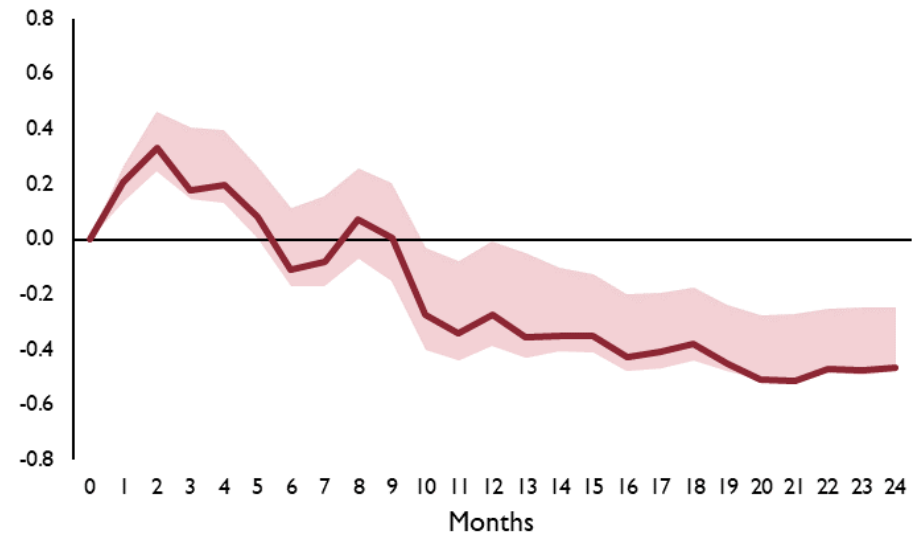
AIReF's estimates suggest that an interest rate shock may have a negative impact on economic activity with a lag of between eight to ten months, with its maximum effect falling in around 14 to 20 months

IMPLIED RATES ON HOUSEHOLD AND NON-FINANCIAL CORPORATE DEBT AND THREE-MONTH EURIBOR (%)



Source: Bank of Spain, INE, and Haver

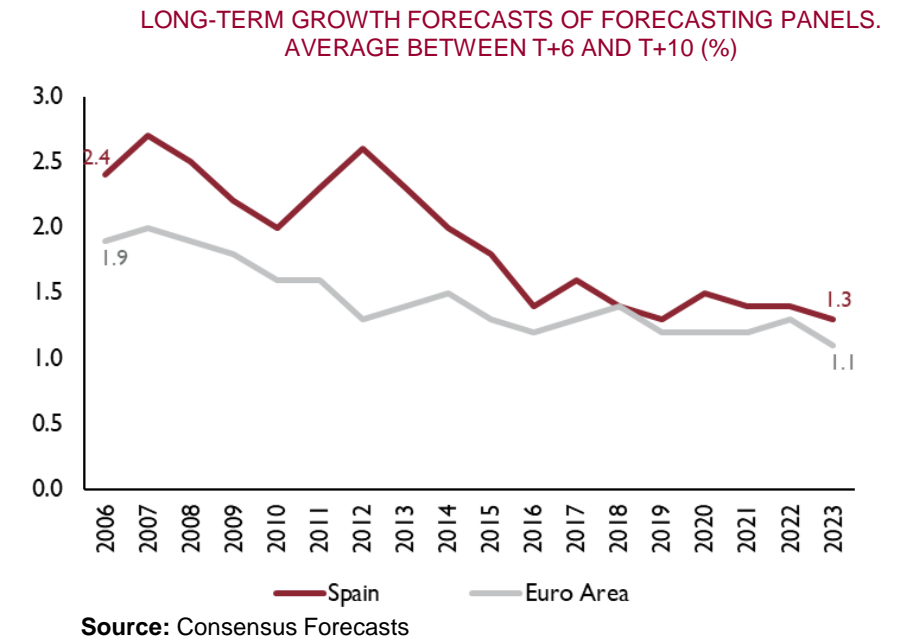
IMPACT OF A ONE STANDARD DEVIATION SHOCK TO THE 3-MONTH EURIBOR ON LARGE COMPANIES' SALES



Source: AIReF

AIReF draws up a scenario for 2025-2028 for medium-term planning, which is a core element of the new fiscal framework

Year-on-Year Rates of Change	2022	2023	2024	2025	2026	2027	2028
Private Domestic Final Consumption Expenditure	4.7	1.6	1.8	1.7	1.5	1.4	1.2
General Government Final Consumption Expenditure	-0.2	2.2	0.6	1.2	1.0	0.9	0.9
Gross Fixed Capital Formation	2.4	2.8	2.6	1.8	1.5	1.6	1.3
<i>GFCF Equipment and Cultivated Assets</i>	1.2	0.8	5.5	3.5	2.0	1.9	1.9
<i>GFCF Construction and Intellectual Property</i>	2.9	3.7	1.5	1.1	1.3	1.4	1.1
Domestic Demand*	2.9	1.9	1.7	1.5	1.4	1.3	1.1
Exports of Goods and Services	15.2	3.1	2.3	3.2	2.9	2.9	2.9
Imports of Goods and Services	7.0	2.1	2.5	2.8	2.5	2.6	2.3
External Balance*	2.9	0.4	0.0	0.2	0.2	0.2	0.3
Gross Domestic Product	5.8	2.3	1.7	1.8	1.6	1.5	1.4
Nominal Gross Domestic Product	10.2	8.2	4.9	3.8	3.6	3.5	3.4
Gross Domestic Product Deflator	4.1	5.8	3.2	2.0	2.0	2.0	2.0
CPI	8.4	3.9	4.0	2.0	2.0	2.0	2.0
Full-Time Equivalent Employment	3.7	1.9	0.9	1.1	1.0	0.9	0.8
Unit Labour Cost	0.9	4.2	3.3	2.1	1.6	1.5	1.4
Productivity per Full-Time Employee	2.0	0.5	0.7	0.7	0.6	0.6	0.6
Compensation per Employee	2.9	4.7	4.0	2.8	2.2	2.1	2.0
Unemployment Rate (% of Active Population)	12.9	12.0	11.5	11.2	10.9	10.6	10.5
Household and NPISH Savings Rate (% Gross Disposable Income)	7.6	11.1	9.2	9.0	8.7	8.2	7.8

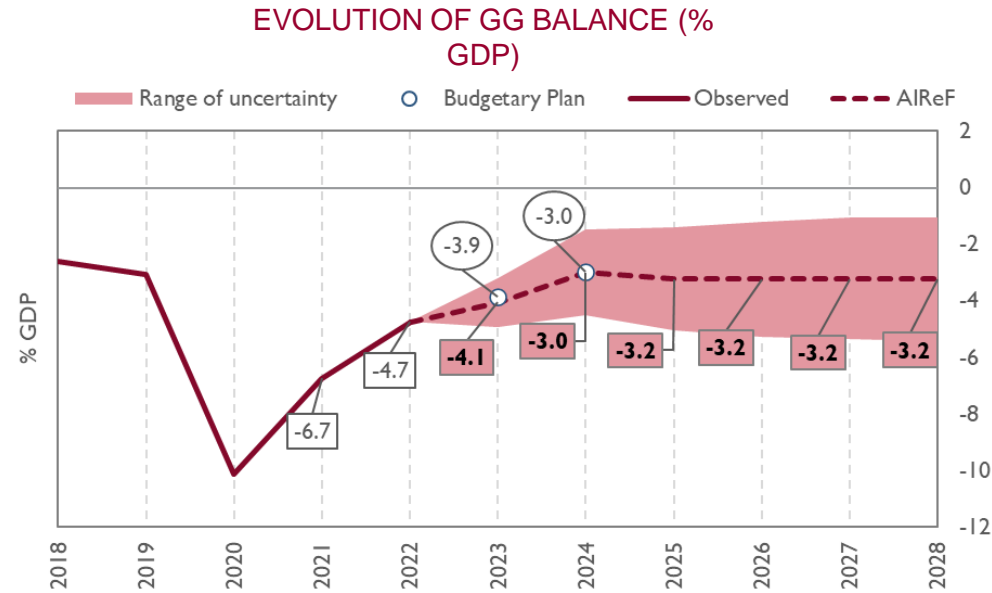


AIReF's medium-term scenario is framed in a context in which the successive shocks of recent decades have led to a downward revision of the medium-term growth outlook. If the RTRP reaches its objective of structural transformation, the potential growth of the economy could be higher than AIReF's estimate

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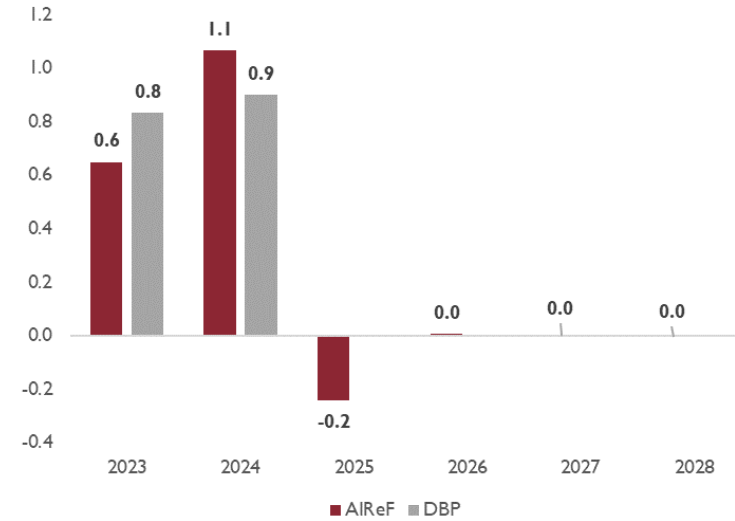
Fiscal scenario

AIReF estimates that the deficit will stabilise in the medium term at 3.2% of GDP, 0.2 points above the limit of 3% of GDP



Source: AIReF and Budgetary Plan

GG BALANCE REDUCTION FORECAST (% GDP)

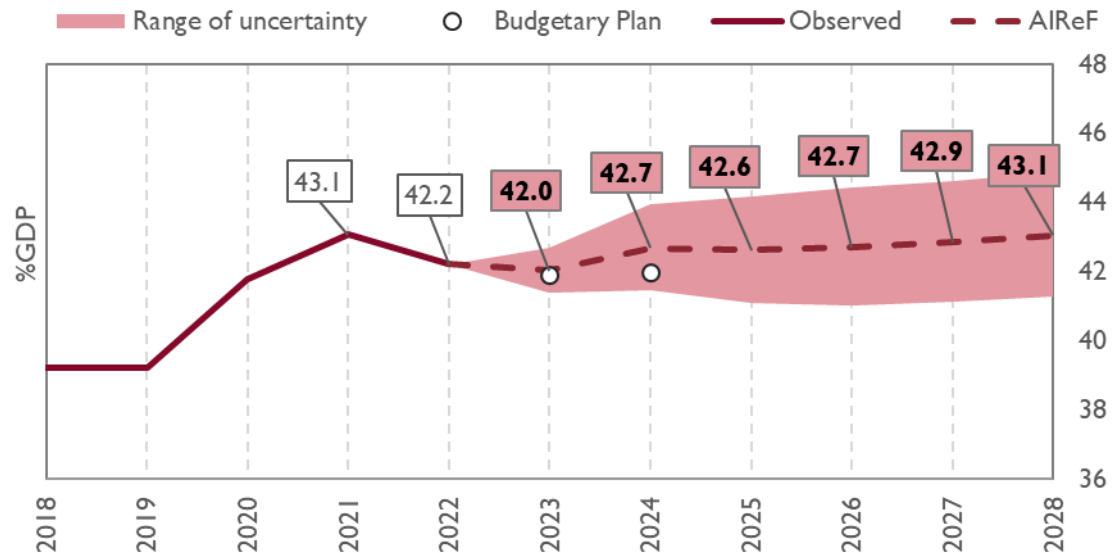


Source: AIReF

- AIReF maintains its forecast for 2023 with a deficit of around 4.1% of GDP, 0.2 points above the Budgetary Plan
- AIReF estimates a deficit for the GG as a whole in 2024 of 3% of GDP, in line with the Budgetary Plan, subject to the withdrawal of the measures to mitigate the effects of the energy crisis and the rise in prices
- In 2025, the deficit would rise again to 3.2%, mainly due to the withdrawal of temporary revenue-increasing measures. In the rest of the period, the increase in taxes on income is offset by the increase in interest and pension expenditure

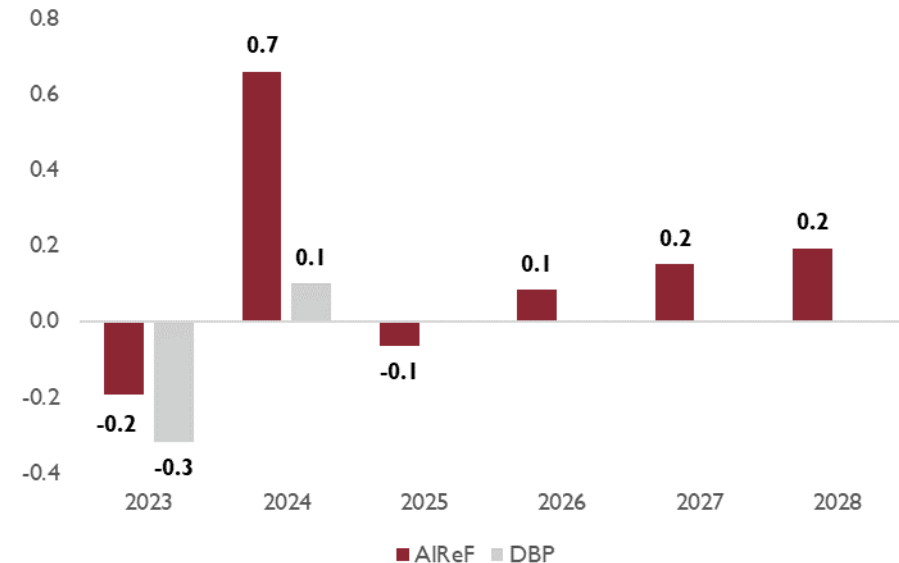
For 2024, AIReF estimates revenue that is 0.7 points higher than in the Budgetary Plan, with 0.5 points due to the denominator effect

EVOLUTION GG REVENUE (% GDP)



Source: AIReF and Budgetary Plan

FORECAST ANNUAL CHANGE IN REVENUE (% GDP)



Source: AIReF and Budgetary Plan

- The evolution of revenue up to 2025 is linked to the evolution of the measures
- From 2025, the increase in the weight over GDP is determined by the dynamism of taxes on income, PIT and CIT, while other revenue grows more in line with nominal GDP

AIReF estimates the cost of measures against the energy crisis at 1 point of GDP in 2023 and 0.1 points in 2024

Impact in National Accounting terms	Annual impact		
	2022	2023	2024
Revenue Measures	-4,556	-5,822	-105
Revenue Measures (%GDP)	-0.3	-0.4	0.0
VAT:			
VAT Electricity	-2,302	-2,012	
VAT on gas, briquettes and pellets	-213	-267	
VAT on foodstuffs			
from 4% to 0% on basic foodstuffs		-1,825	
From 10% to 5% oils and pasta		-393	
STs:			
ST Electricity	-2,041	-1,324	-105
Expenditure Measures	17,092	9,114	1,512
Expenditure Measures (%GDP)	1.3	0.6	0.1
Fuel allowance	5,795	1,666	39
Sectoral support	4,386	2,417	6
Electricity tariff deficit	4,158	1,153	
Direct support to individuals	121	333	
Other support to individuals	1,952	3,377	1,467
Support to refugees	680	167	
TOTAL	-21,648	-14,936	-1,617
TOTAL (% GDP)	-1.6	-1.0	-0.1
Other			
Tax on the Value of Electricity Production: Suspension	-4,377	-2,597	-735

Source: AIReF

- AIReF values the cost of the measures in 2023 at about €15bn
- It is estimated that revenue will fall by almost €6bn, while expenditure rises by about €9bn
- AIReF includes in its central scenario the cost of the expenditure measures announced in the Budgetary Plan for 2024, valued at 0.1 points of GDP
- AIReF does not include in its central scenario the potential extension of the measures

The other measures raise revenue with an irregular profile

Other revenue measures

	2023	2024	2025	2026	2027	2028
Central Government						
Structural revenue measures	-291	-581	-541	-515	-489	-463
Temporary revenue measures	3,881	4,987	-353	-353	-353	-344
CG Measures	3,590	4,406	-894	-868	-842	-807
% GDP	0.2	0.3	-0.1	-0.1	0.0	0.0

EVOLUTION OF GG EXPENDITURE (%GDP)

Social Security Funds						
Intergenerational Equity Mechanism	2,930	3,622	4,311	5,013	5,785	6,601
Evolution of Maximum Contribution Bases	800	1,205	1,486	1,771	1,832	1,981
Solidarity contribution			364	462	563	667
Measures of the SSFs	3,730	4,827	6,161	7,246	8,180	9,249
% GDP	0.3	0.3	0.4	0.4	0.5	0.5
ARs						
Personal Income Tax, IGT, Property Transfer Tax/Stamp Duty, Wealth Tax	-2,581	-2,812	-2,754	-2,711	-2,713	-2,713
% GDP	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
TOTAL (€M)	4,739	6,421	2,513	3,667	4,625	5,730
TOTAL (%GDP)	0.3	0.4	0.2	0.2	0.3	0.3

- Period 2023-2024: temporary revenue measures exceed the cost of structural measures
- Period 2025-2028: structural measures have a cost of almost 0.1 points of GDP

- The IEM rate rises over the projection period, providing an additional 0.05 points of revenue each year
- The increase in the maximum contribution bases brings in an additional €200m each year
- The solidarity contribution, which comes into force in 2025, contributes an additional €100m each year

- The measures approved by the ARs reduce revenue by 0.2 points each year

Source: AIReF

AIReF forecasts higher revenue from taxes on production and other revenue, and lower revenue from taxes on income

EVOLUTION GG REVENUE (% GDP)

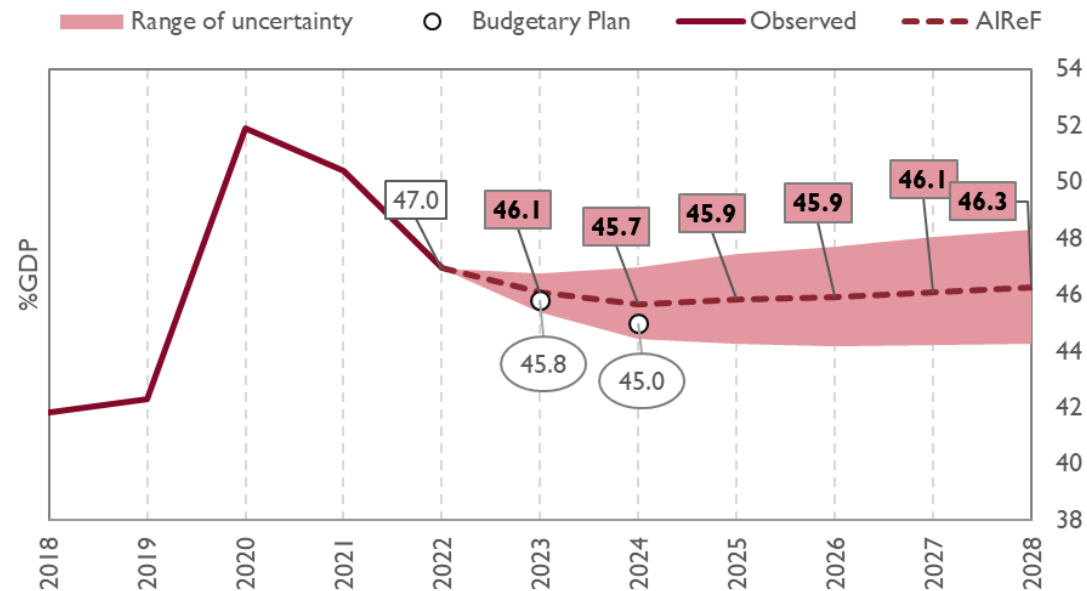
	AIReF						DBP	
	2023	2024	2025	2026	2027	2028	2023	2024
REVENUE	42.0	42.7	42.6	42.7	42.9	43.1	41.9	42.0
TAXES	24.3	25.2	25.1	25.1	25.3	25.5	24.4	24.8
<i>On production</i>	11.3	12.0	11.9	11.7	11.6	11.6	11.3	11.4
<i>On income</i>	12.5	12.8	12.7	13.0	13.2	13.5	12.7	13.1
<i>Capital</i>	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
CONTRIBUTIONS:	13.6	13.6	13.6	13.6	13.6	13.6	13.5	13.6
Other revenue	4.2	3.9	3.9	4.0	3.9	3.9	4.1	3.6

Source: AIReF and Budgetary Plan

- **Taxes on production:** strong growth due to the withdrawal of measures in 2024 and reduction in its weight for the rest of the period due to Special Taxes
- **Taxes on income:** reduction in 2025 due to the withdrawal of temporary measures and growth in the rest of the period
- **Contributions:** the weight is maintained over the period incorporating the growing impact of the measures
- **Other revenue:** returns to its historical weight in 2024 and remains stable for the rest of the period

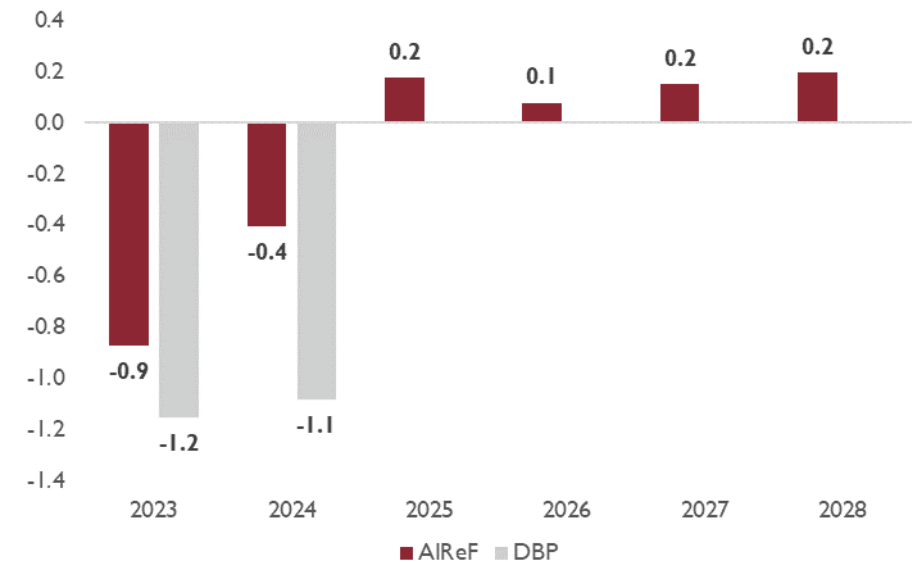
For 2024, AIReF estimates expenditure that is 0.7 points higher than in the Budgetary Plan, with 0.5 points due to the denominator effect

EVOLUTION GG EXPENDITURE (% GDP)



Source: AIReF and Budgetary Plan

FORECAST ANNUAL CHANGE IN EXPENDITURE (% GDP)



Source: AIReF and Budgetary Plan

- The reduction in expenditure in 2024 is linked to the elimination of the measures
- From 2025, the upward path is determined by the increase in interest expenditure and pension expenditure, partially offset by the decrease in expenditure on subsidies and other expenditure and the moderation in the growth of public consumption

AIReF forecasts a higher weight of public consumption and social transfers in cash than the Budgetary Plan

EVOLUTION GG EXPENDITURE (% GDP)

	AIReF						DBP	
	2023	2024	2025	2026	2027	2028	2023	2024
EXPENDITURE	46.1	45.7	45.9	45.9	46.1	46.3	45.8	45.0
Compensation of employees	11.2	11.2	11.1	11.1	11.0	11.0	11.1	11.0
Intermediate Consumption	5.8	5.7	5.7	5.8	5.8	5.8	5.7	5.7
Social transfers in kind	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Social transfers in cash	17.3	17.4	17.6	17.6	17.7	17.7	17.1	17.1
Interest	2.3	2.5	2.6	2.8	3.0	3.3	2.4	2.5
Subsidies	1.6	1.2	1.2	1.2	1.1	1.1	1.6	1.2
Gross capital formation	2.7	2.6	2.6	2.6	2.7	2.6	2.6	2.6
Investment support and other capital transfers	0.8	0.6	0.6	0.6	0.5	0.5	0.7	0.7
Other expenditure	1.8	1.7	1.6	1.6	1.6	1.6	1.8	1.6
NET LENDING/BORROWING	-4.1	-3.0	-3.2	-3.2	-3.2	-3.2	-3.9	-3.0

Source: AIReF and Budgetary Plan

- **Public consumption:** compensation of employees according to agreement with trade unions for 2023 and 2024 and according to CPI in 2025 to 2028, adding the effect of the additional measures forecast at a regional level
- **Social benefits in cash:** increase in the weight of pension expenditure, partially offset by the moderation in unemployment expenditure
- **Interest:** increase in interest expenditure due to the rise in effective rates
- **Gross fixed capital formation:** includes part of the increase in military expenditure
- **Other expenditure:** return to pre-pandemic levels

AIReF forecasts a similar level of deficit as the Budgetary Plan, but a different breakdown by sub-sector

EVOLUTION GG EXPENDITURE (% GDP)

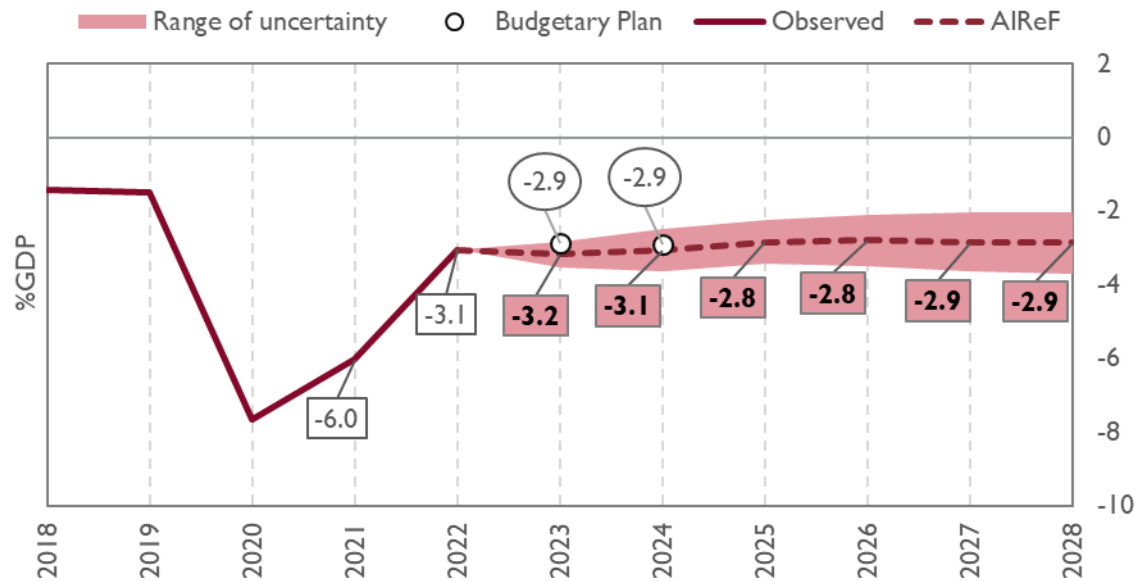
	AIReF						DBP	
	2023	2024	2025	2026	2027	2028	2023	2024
GG	-4.1	-3.0	-3.2	-3.2	-3.2	-3.2	-3.9	-3.0
CG	-3.2	-3.1	-2.8	-2.8	-2.9	-2.9	-2.9	-2.9
SSFs	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.2
ARs	-0.6	0.2	0.0	-0.1	-0.1	-0.1	-0.6	-0.1
LGs	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2

Source: AIReF and Budgetary Plan

- **CG:** bears the cost of the measures to combat the price crisis and the increase in defence spending
- **SSFs:** the increase in pension expenditure is offset by the reduction in unemployment expenditure and by the increase in transfers for improper expenditure and the introduction of the revenue measures of the pension reform
- **ARs:** positive settlements in 2022 will lead to a surplus of 0.2 points in 2024, which will become a deficit of 0.1 points for the rest of the period
- **LGs:** surplus of about 0.1 points also influenced by the settlements of the financing system

In a scenario with no new measures, the CG and SSF deficits stabilise in the medium term

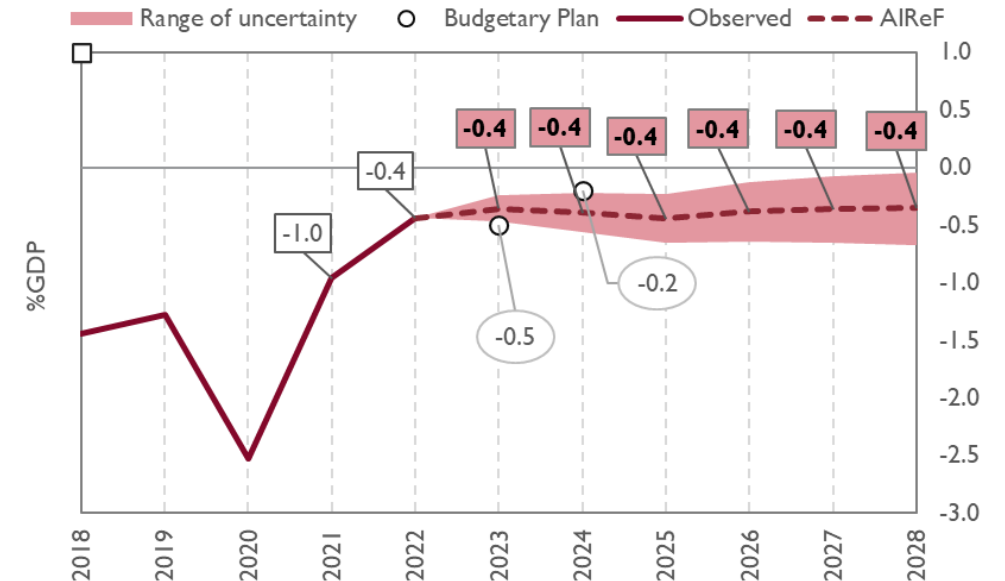
AIREF FORECASTS CG BALANCE (% GDP)



Source: AIREF and IGAE

CG: the Central Government deficit stabilises in 2025, as the increase in interest expenditure is offset by the increase in revenue collection

AIREF FORECASTS SSF BALANCE (% GDP)

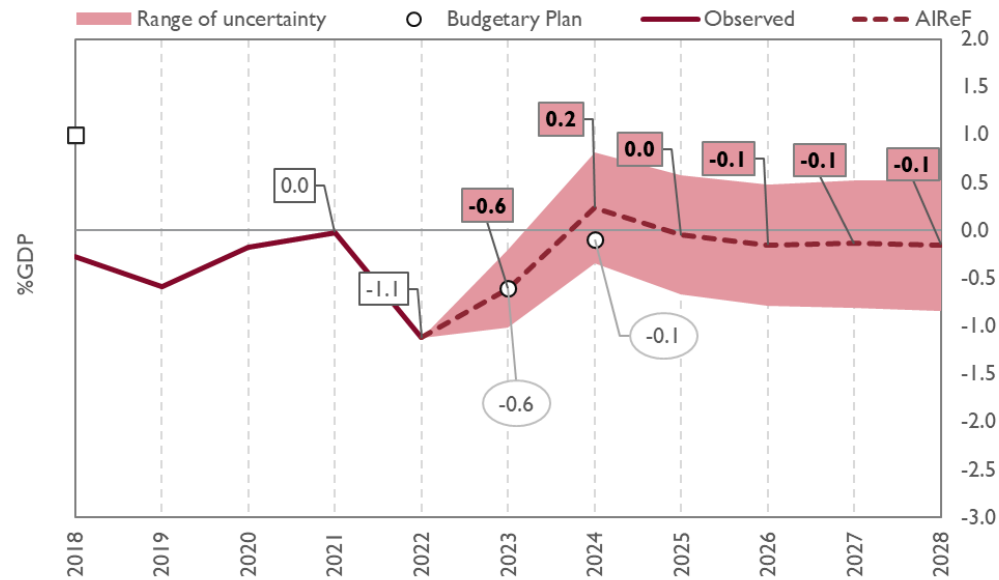


Source: AIREF and IGAE

SSFs: the deficit of the Social Security Funds is stable in the period, as the increase in pension expenditure is offset by the increase in transfers for improper expenditure and the revenue measures approved

The deficit of the ARs will stand at 0.1% of GDP in the medium term in a no-policy-change scenario

AIREF FORECASTS AR BALANCE (% GDP)



Source: AIREF and IGAE

AIREF FORECASTS AR REVENUE AND EXPENDITURE (% GDP)

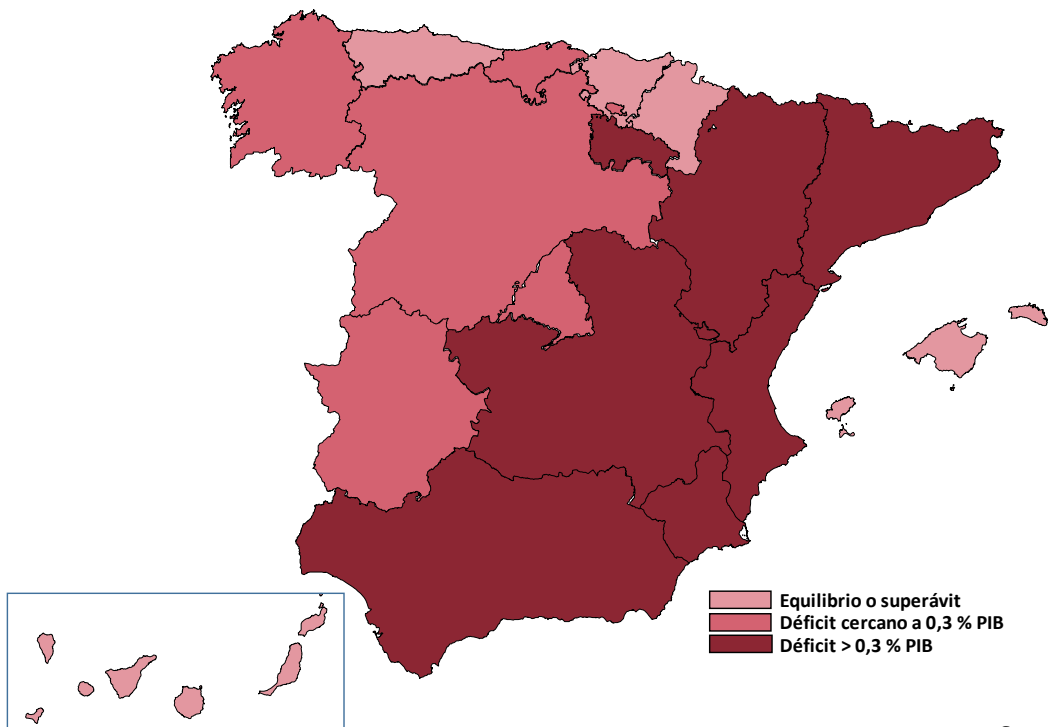
	AIREF					
	2023	2024	2025	2026	2027	2028
REVENUE	15.1	15.8	15.4	15.3	15.3	15.4
EXPENDITURE	15.7	15.6	15.5	15.4	15.4	15.5
BALANCE	-0.6	0.2	0.0	-0.1	-0.1	-0.1

Source: AIREF

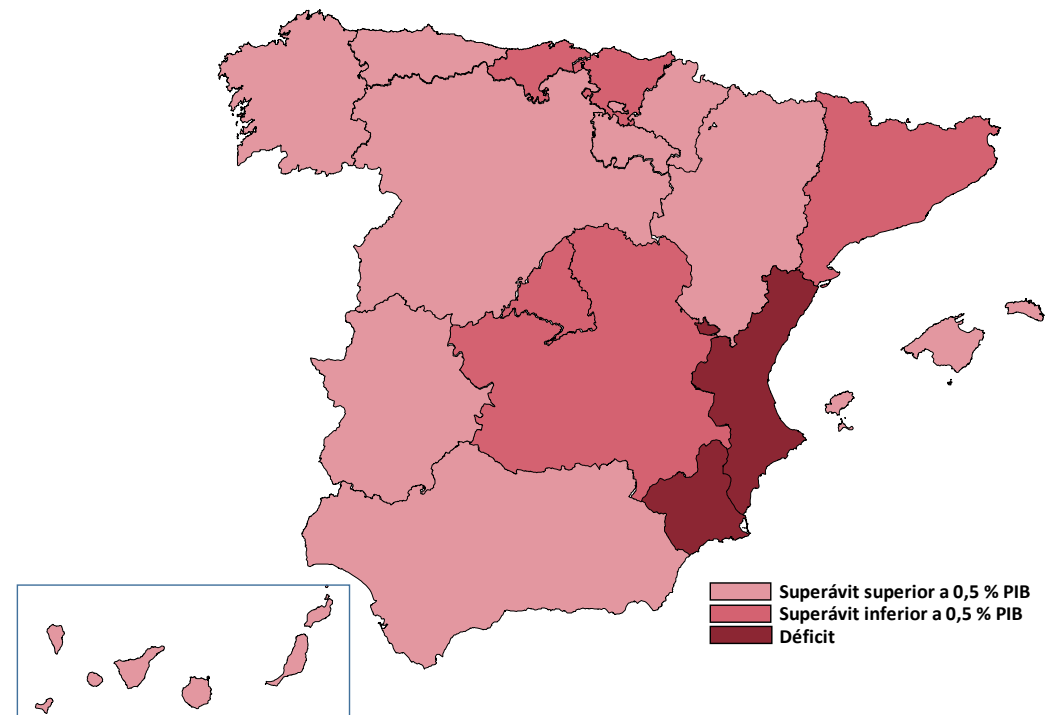
- AIREF worsens its deficit forecasts for 2023 due to higher-than-expected expenditure execution
- The irregular flow of revenue from the financing system marks the evolution of revenue of the ARs
- AIREF forecasts expenditure growth to moderate as inflationary pressures ease and fiscal rules return to normal

The outlook for 2023 and 2024 is worsening in most ARs

FORECAST AR BALANCE 2023 (% GDP)



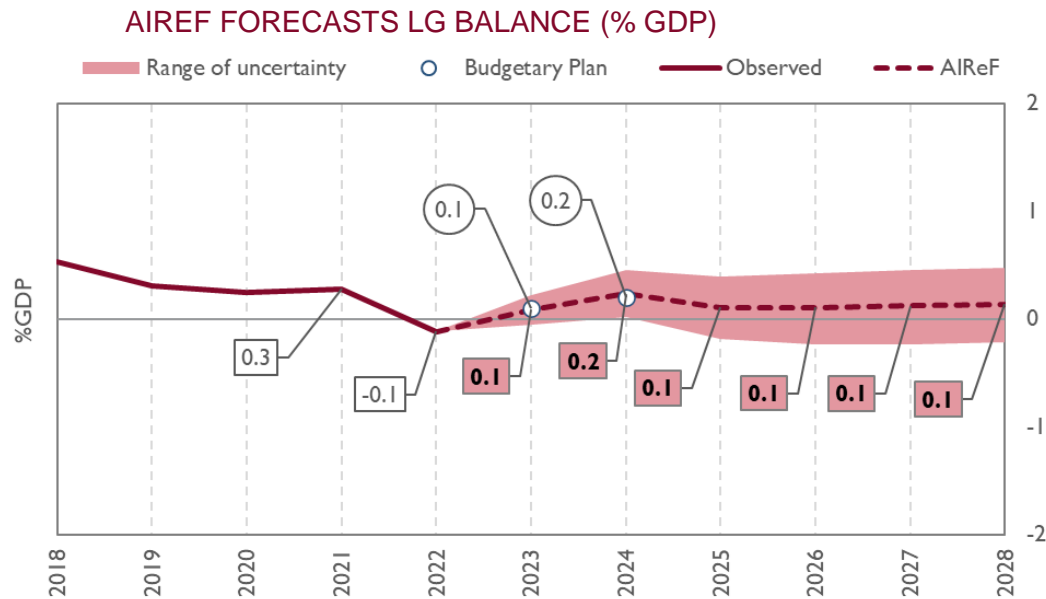
FORECAST AR BALANCE 2024 (% GDP)



Source: AIReF

- In 2024, AIReF forecasts that only two ARs will close with a deficit
- The individual reports by AR contain a medium-term fiscal scenario until 2028 for the first time
- Detailed information on forecasts and data is collected in the [AR MONITOR TOOL](#)

The LGs will maintain a surplus of 0.1% of GDP in the medium term



Source: AIReF and IGAE

AIREF FORECASTS LG REVENUE AND EXPENDITURE (% GDP)

	AIReF					
	2023	2024	2025	2026	2027	2028
REVENUE	6.4	6.5	6.3	6.3	6.3	6.3
EXPENDITURE	6.3	6.3	6.2	6.2	6.2	6.2
BALANCE	0.1	0.2	0.1	0.1	0.1	0.1

- For 2024, AIReF forecasts that the LGs will achieve a surplus of 0.2% of GDP, in line with the forecasts in the Budgetary Plan
- Adjusted for the effect of the compensation of the negative 2020 settlement and the positive settlement of the financing system, the deficit would be 0.1% of GDP
- In a no-policy-change scenario, AIReF forecasts that LG revenue will stabilise at around 6.3% of GDP and expenditure at 6.2%, consolidating an annual surplus of 0.1%

The analysis of the LGs confirms the result of the sub-sector

LOCAL GOVERNMENTS	EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023)						Stability	Debt ratio
	Budgetary stability				Eligible expenditure		Forecast 2024	Forecast 2024
	2020	2021	2022	Forecast 2023	Growth 2020-2022 (*)	Forecast 2023		
MADRID	+	+	-	+	32%	6%	+	33%
BARCELONA	-	-	-	-	28%	2%	+	36%
VALENCIA	+	+	+	+	21%	12%	+	19%
SEVILLE	-	+	+	+	10%	7%	+	24%
ZARAGOZA	-	+	+	+	19%	3%	+	62%
MÁLAGA	+	+	+	+	20%	3%	+	34%
MURCIA	+	+	-	+	12%	7%	+	56%
PALMA	+	+	+	+	24%	3%	+	28%
LAS PALMAS DE GRAN CANARIA	+	+	-	+	13%	23%	+	1%
BILBAO	-	+	+	-	6%	8%	+	5%
ALICANTE	+	+	+	+	21%	18%	n.a.	n.a.
CÓRDOBA	+	-	+	+	23%	28%	+	54%
VALLADOLID	-	+	-	-	26%	9%	+	46%
VIGO	+	+	+	-	16%	26%	+	1%
GIJÓN / XIXÓN	-	-	-	+	17%	6%	+	27%
L'HOSPITALET DE LLOBREGAT	-	+	+	+	9%	0%	+	25%
VITORIA-GASTEIZ	n.a.	n.a.	+	n.a.	n.a.	n.a.	n.a.	n.a.



PC BARCELONA	+	+	+	+	0%	25%	+	1%
PC VALENCIA	+	+	-	+	31%	18%	+	11%
PC SEVILLA	+	-	-	-	145%	16%	+	3%
ISLAND GOV. OF TENERIFE	+	+	-	-	76%	13%	+	12%
ISLAND GOV. OF MALLORCA	+	+	+	+	38%	22%	+	36%
PROV. COUNC. OF ARABA/ÁLAVA	-	+	-	+	11%	7%	n.a.	n.a.
PROVINCIAL COUNCIL OF GIPUZKOA	-	+	+	+	14%	28%	+	23%
PROVINCIAL COUNCIL OF BISCAY	-	+	+	-	26%	37%	+	65%

+ Surplus or forecast surplus

- Deficit or forecast deficit

Note: The background colours in the debt column represent the tranche of the debt ratio: green if <75%, yellow if between 75% and 110% and red if >110%.

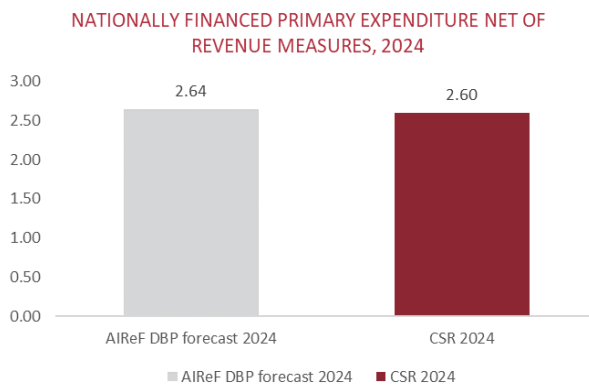
(*) Cumulative growth of eligible expenditure from the level verified in the 2019 settlement.

 Improves in valuation: from deficit in Report on ML2023 to surplus
 Worsens in valuation: from surplus in Report on YEAR-END 2023 to deficit

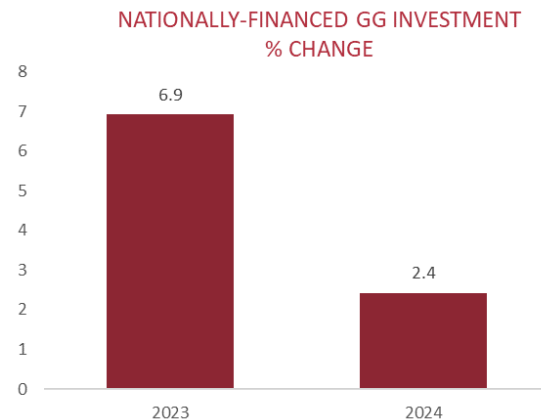
The no-policy-change scenario of the Budgetary Plan would exhaust recommended 2024 margin for increased spending in Spain

- The Country Specific Recommendation (CSR) on fiscal matters recommends that the increase in nationally-financed primary expenditure net of revenue measures should not exceed 2.6% next year
- For the GG as a whole, AIReF forecasts growth in primary expenditure net of revenue measures in 2024 within the limit of the recommendation issued
- In addition, it is recommended that Spain preserve nationally-financed public investment, which, although it will suffer a sharp slowdown in 2024, will keep its weight over GDP practically constant
- After a clearly expansionary stance in 2023, the fiscal policy stance will be neutral in 2024, thanks to the boost from the RTRP, which will offset the contractionary contribution of national public finances to the aggregate stance

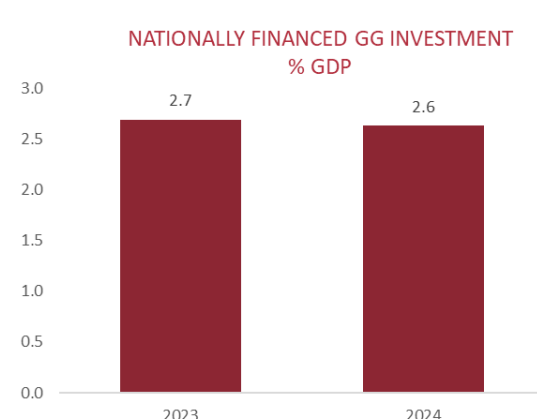
NATIONALLY-FINANCED PRIMARY EXPENDITURE NET OF REVENUE MEASURES, 2024



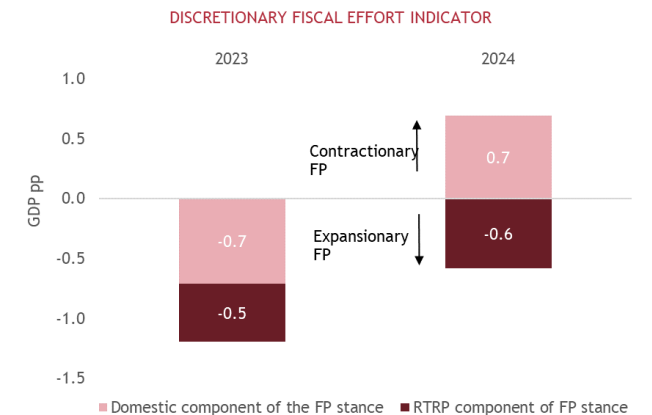
NATIONALLY-FINANCED GG INVESTMENT. % CHANGE



NATIONALLY-FINANCED GG INVESTMENT. % GDP



DISCRETIONARY FISCAL EFFORT INDICATOR

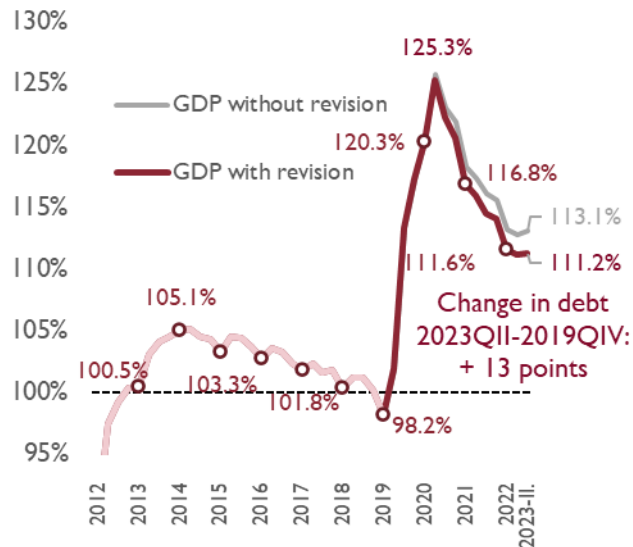


Source: AIReF

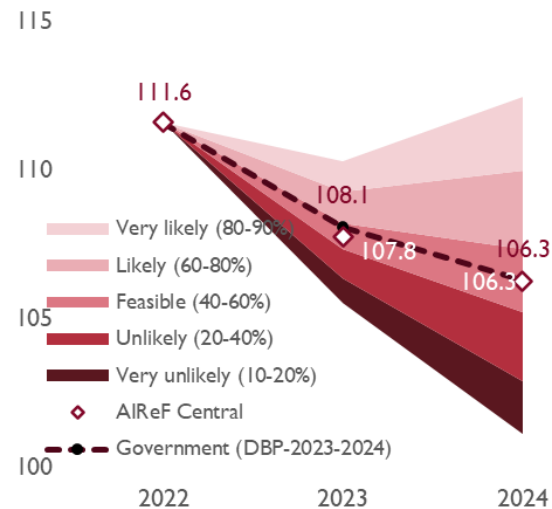
AIReF projects a decline in the debt-to-GDP ratio of 5.3 points over the next two years, placing it at 106.3% in 2024

- The debt-to-GDP ratio stood at 111.2% in the second quarter of 2023, a reduction of 0.4 points on the end of 2022 and an increase of 13 points on the pre-pandemic level.
- Like the Government, AIReF projects a reduction in the debt-to-GDP ratio in 2024 of 5.3 points on the level recorded in 2022, placing it at 106.3%
- This reduction will be supported by the growth in nominal GDP (13.5 points), where the deflator will make a very significant contribution (9.3 points)

QUARTER-ON-QUARTER EVOLUTION OF DEBT (% GDP)

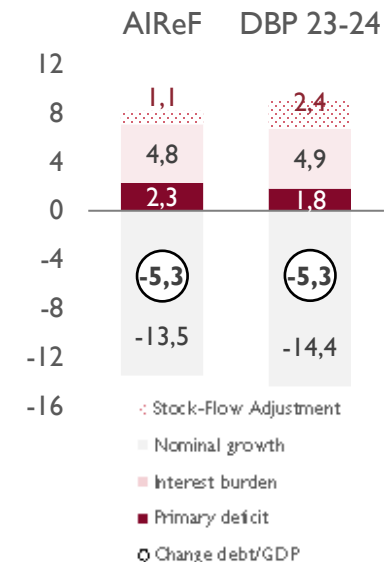


DEBT FORECASTS (% GDP) AND LIKELIHOOD OF REACHING A RATIO EQUAL TO OR LOWER THAN THAT PROJECTED BY THE GOVERNMENT IN THE 2023-2024 BUDGETARY PLAN



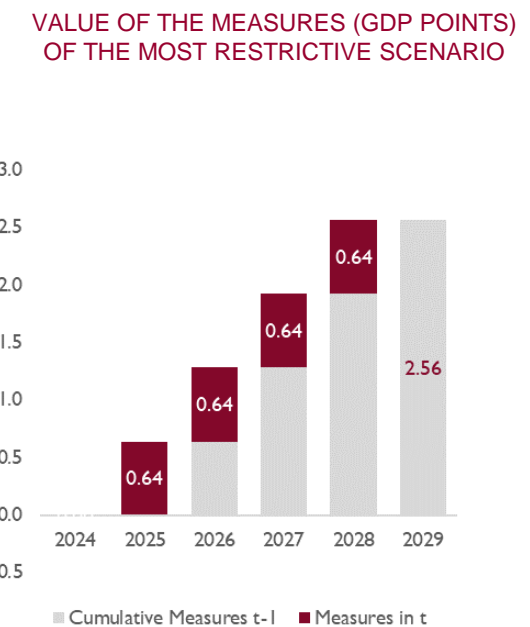
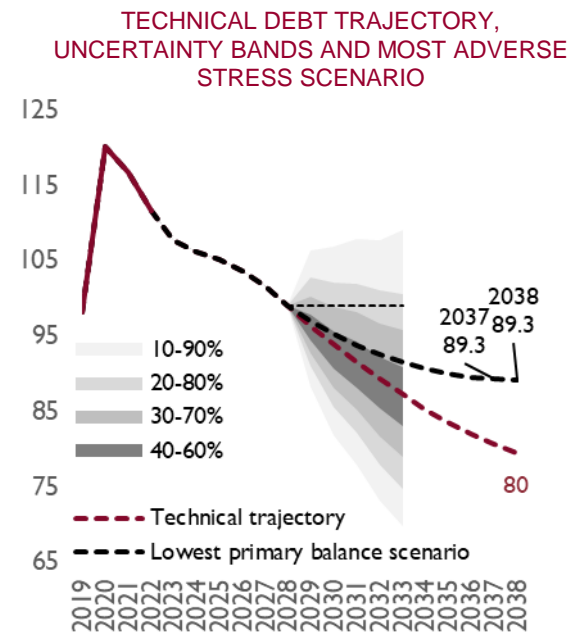
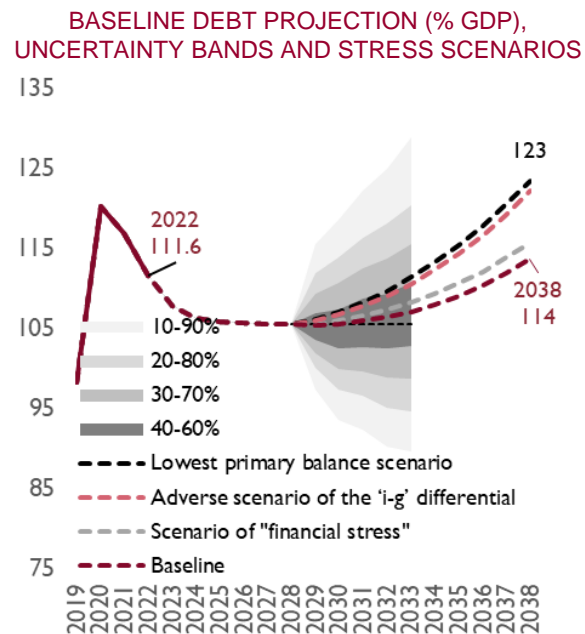
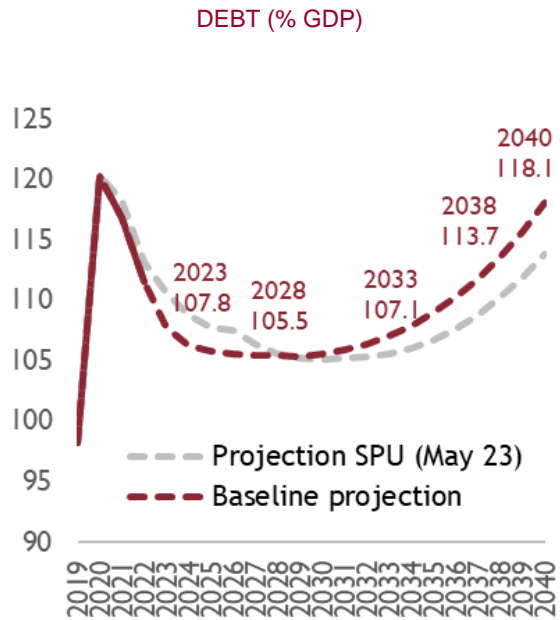
Source: AIReF, Bank of Spain and Government

CONTRIBUTIONS TO THE CHANGE IN DEBT 2023-2024 (GDP POINTS)



But in the medium and long term, AIReF projects an unfavourable evolution of the debt-to-GDP ratio

- In its long-term baseline scenario, AIReF projects a rising debt ratio following an initial period of some stabilisation
- Therefore, it is necessary to design a medium-term plan that will guide the public accounts towards a situation of equilibrium
- According to AIReF's calculations, the fiscal path that would comply with the guidelines contained in the proposal of the new fiscal framework would require measures during the period 2025-2028 amounting to 0.64 points per year, thus fulfilling the requirement of plausible debt reduction in the most demanding scenario



Source: AIReF

4

Recommendations

Recommendations to reduce institutional uncertainty and prepare for the new framework of rules with sustainability as the core pillar

Recommendations to reduce institutional uncertainty and the risk of non-compliance with CSR 2024

Recommendation in macro endorsement: publication of the Report on the Situation of the Spanish Economy containing the reference rate of the spending rule for 2024

Publication of payments on account and settlements of the territorial financing system

Convene fiscal policy coordination mechanisms (Fiscal and Financial Policy Council and National Commission for Local Administration)

→ Agree on reference rates of net lending/borrowing and growth of primary expenditure net of revenue measures for the different GG sub-sectors

→ Start work to develop a medium-term fiscal strategy

→ Start work on the reform of the national fiscal framework

Recommendations on the medium-term and fiscal framework

AIReF will publish an Opinion on the Budgetary Procedure next week with proposals to improve the General Budgetary Law



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