

**Report on the Main Lines of the Budgets of the General Government Sector 2024**

**AIReF ESTIMATES GDP GROWTH OF 1.7% IN 2024  
AND A PUBLIC DEFICIT OF 3% OF GDP**

- The Independent Authority for Fiscal Responsibility (AIReF) reports on the Budgetary Plan, the main milestone of Spain's fiscal strategy in 2024, given the absence of a General State Budget
- AIReF highlights that 2024 will be characterised by the return of fiscal rules and the persistence of economic and institutional uncertainty
- AIReF revises GDP growth downwards for 2024 and estimates that the deficit will fall to 3% of GDP if the measures to combat the energy crisis and price rises are withdrawn and if the Autonomous Regions and Local Governments contain increased expenditure
- AIReF forecasts that debt will fall in 2024 to 106.3% of GDP, while indicating that Spain will continue to be one of the countries in the Economic and Monetary Union with the highest levels of debt
- AIReF also updates its medium-term forecasts and estimates real GDP growth of 1.4% in 2028, with a deficit that will stabilise at 3.2% of GDP and stable debt of around 105% of GDP. It has published, for the first time, medium-term scenarios for each Autonomous Region
- As from 2028, AIReF estimates that public debt will begin an upward path contrary to the requirements of the future fiscal framework, thus endangering the sustainability of the public finances
- AIReF issues recommendations to reduce institutional uncertainty and to prepare for the new framework of fiscal rules, indicating the need to convene the Fiscal and Financial Policy Council and the National Commission of Local Administrations to this end

The Independent Authority for Fiscal Responsibility (AIReF) published the Report on the Main Lines of the Budgets of the General Government Sector 2024 on its website today, in which it analyses the Budgetary Plan 2024 submitted to Brussels, which is shaped as the main fiscal milestone for Spain for 2024 in light of the absence of a General State Budget. AIReF has lowered its growth forecast for 2024 to 1.7% and estimates that the deficit will fall to 3% of GDP if the measures to combat the energy crisis and price rises are withdrawn and if the Autonomous Regions and Local Governments contain increased expenditure. It also forecasts the public debt will continue to fall in both years, but indicates that Spain will continue to be one of the countries in the Economic and Monetary Union with the highest levels of debt.

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[On October 16<sup>th</sup>, AIReF endorsed](#) the macroeconomic forecasts contained in the Budgetary Plan, indicating significant downside risks. Today it reports on the macroeconomic forecasts, the budgetary scenario and the main lines of the budgets of the Autonomous Regions (ARs) and Local Governments (LGs). It also updates the macroeconomic and fiscal forecasts at constant policies until 2028 and publishes the individual reports of the LGs – which also include a fiscal scenario at constant policies until 2028 – and the individual evaluation report on the Local Governments.

AIReF highlights that the preparation of this Report is highly conditional upon institutional uncertainty, along with the existing economic uncertainty. The situation of an acting Central Government (CG) has prevented the draft General State Budget (GSB) for 2024 from being prepared, and the calculation of the payments on account and settlement of the financing systems of the Autonomous Regions and Local Government has not been published or communicated. Furthermore, the application of the fiscal rules in 2024 is another source of institutional uncertainty, due to the reform underway of the European fiscal rules, which will need to be transposed to the national framework, along with the impossibility of approving the stability targets by the acting Government and the non-publication of the reference rate of the expenditure rule at a national level.

AIReF forecasts real GDP growth of 1.7% in 2024, which will converge towards its potential growth in the medium term, amounting to 1.4% in 2028. At a fiscal level, AIReF considers that the withdrawal of the measures will allow the deficit of the General Government (GG) to be reduced to 3% in 2024, to subsequently stabilise at around 3.2% of GDP until 2028. The sustainability analysis indicates that debt will begin a downward path after reaching 106% of GDP in 2028. This clearly highlights, once again, the need to have a realistic and credible medium-term fiscal strategy in place that puts debt on a long-term downward path.

**Macroeconomic scenario**

AIReF observes that the Spanish economy has shown greater resilience than other European economies in 2022 and in the months of 2023 to date, given that it is less exposed to disruptions in the value chain, the energy crisis and, more recently, the weakening of China. However, the tightening of financing conditions, the deterioration of household and business confidence and weak economic growth in the euro area point to a deceleration of growth in Spain, which has already been detected in the information available for the third quarter of the year. In this context, AIReF forecasts that GDP growth for 2023 will remain at 2.3%, but has revised expected growth for 2024 downward to 1.7%, a rate that remains higher than the 1% projected by the European Central Bank (ECB) for the euro area as a whole.

Furthermore, inflation – measured by the private consumption deflator – is expected to remain at 3.9% in 2023 and 2024, while the growth in the GDP deflator will fall from the 5.8% estimated in 2023 to 3.2%. The price containment, which is expected as the transfer of the recent increased production costs is completed and the base effects associated with food prices in 2024, will be offset by the acceleration of nominal wages, the removal of the measures introduced to mitigate the effects of inflation on household income and the recent rise in oil prices. Based on these forecasts, on October 16<sup>th</sup>, AIReF endorsed the Government's macroeconomic scenario that accompanies the 2024 Budgetary Plan.

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In the medium term, following the slowdown in growth in 2023 and 2024, the Spanish economy would gradually converge towards its potential growth, which AIReF estimates at around 1.3%, following a slight rebound in 2025 that reflects the end of the effects associated with the tightening of financing conditions on domestic and global demand. For its part, inflation would converge in the medium term towards the ECB's reference rate, once the pressures on prices, it is supposed, peter out.

### **Budgetary scenario**

AIReF estimates a deficit of 3% of GDP for the General Government Sector in 2024, in line with the Budgetary Plan, after closing 2023 at close to 4.1%, 0.2 points higher than the forecast contained in the Budgetary Plan and unchanged as regards the July report. The 1.1-point reduction in the deficit would only materialise in the event that the measures adopted to alleviate the effects of the energy crisis and price rises are not extended, and if the Autonomous Regions and Local Governments contain increased spending. In the medium term, AIReF estimates that the GG deficit will rise again to 3.2% of GDP in 2025 as a result of the withdrawal of the temporary measures to increase revenue and would stabilise at this level until 2028 if additional measures are not adopted, thus remaining above the 3% limit set in the Stability and Growth Pact.

Revenue, without including the Recovery, Transformation and Resilience Plan (RTRP) will amount to 42.7% of GDP in 2024, after closing 2023 at 42%. In the medium term, AIReF forecasts a small reduction in the weight of revenue in 2025, due to the withdrawal of the temporary measures to increase revenue, such as the taxes on the energy and banking sectors and the tax on large fortunes. Revenue will then recover its upward path to reach 43.1% in 2028, mainly driven by the progressive nature of income tax. Expenditure, without including the RTRP, will fall to 45.7% of GDP in 2024, after reaching 46.1% in 2023. In the medium term, its weight over GDP will increase to reach 46.3% in 2028, driven by growth in spending on pensions and servicing debt, which will progressively increase their weight.

### **Distribution by sub-sector**

By sub-sector and despite the withdrawal of the measures, the Central Government will only reduce its deficit in 2024 by 0.1 points to 3.1% of GDP, due to the extraordinary increase in the settlement of the regional and local financing systems. Subsequently, the deficit will stabilise at around 2.9% of GDP until 2028, offsetting the increase in the burden to service debt with the growth in tax collection and the moderation in the growth of other expenditure.

The deficit of the Social Security Funds will stabilise at 0.4% of GDP during the complete projection horizon. The growth in spending on pensions will moderate once inflationary tensions are overcome, while spending on unemployment benefits, after rising in 2023, will evolve in line with the unemployment rate and reduce its weight over GDP. As regards revenue, contributions will moderate their growth in line with the evolution of employment and wages, incorporating the impact of the Intergenerational Equity Mechanism and the solidarity tax.

For its part, the balance of the ARs will improve significantly in 2024, recording a surplus of 0.2% of GDP, after closing 2023 with a deficit of 0.6% of GDP. This improvement is mainly due to the evolution of the revenue under the financing system, which will grow

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by 16%, driven by the growth in payments on account and, to a lesser extent, by the exceptionally high settlement corresponding to 2022. Subsequently, following weak growth in 2025 due to the return of the settlement system to normal levels, the flow of revenue under the system will normalise. As regards expenditure, a moderation of its growth is expected once the inflationary tensions abate and the return to fiscal rules materialises. Consequently, the balance will stand at zero in 2025 and subsequently decline slightly to reach a deficit of 0.1% of GDP in the rest of the period.

Lastly, AIReF estimates a surplus of 0.2% of GDP for the LGs in 2024, after reaching 0.1% in 2023. In a similar way to the ARs, the evolution of the surplus is marked by the settlements of the financing system, to which must be added the offsetting implemented between 2022 and 2024 due to the negative settlement in 2020. Accordingly, the LG surplus will stabilise in 2025 at 0.1% of GDP, with this level consolidating until 2028, once the increased growth observed in the years in which the fiscal rules were suspended moderates.

### **European recommendation and sustainability**

The European Council recommended to Spain that the increase in primary expenditure financed at a national level and net of revenue measures should not exceed 2.6% next year. For the General Government Sector, AIReF forecasted growth in primary expenditure net of revenue measures for 2024 at the limit of the recommendation issued, such that the scenario at constant policies set out in the Budgetary Plan would exhaust the margin for increased expenditure. By sub-sector, the fall in primary expenditure net of revenue measures of the Central Government offsets the growth above this limit of the rest of the sub-sectors. Complying with this recommendation will entail a restrictive tone of the nationally-financed fiscal policy which, however, due to the effect of the boost from the RTRP funds, will end up with a practically neutral tone overall.

The updated macro-fiscal forecasts drawn up by AIReF project a fall in the debt-to GDP ratio of 5.3 points over the next two years to 106.3% of GDP in 2024. This reduction will mainly be driven by the growth in nominal GDP. Accordingly, AIReF considers the Government's debt projection included in the Budgetary Plan for 2024 to be feasible. In the long term, AIReF projects a rising debt ratio in its inertial scenario following an initial period of certain stabilisation, whereby a foreseeable increase in spending associated with the ageing population is one of the main challenges to the sustainability of the public finances.

AIReF considers that the generation of a fiscal space that allows such shocks as have occurred in recent years to be addressed would require the design of a medium-term plan that guides the public accounts towards a balanced situation. According to AIReF's calculations, the fiscal path that would comply with the guidelines to calculate the technical path contained in the proposed reform would require measures to be taken over the period 2025-2028 with a value of 0.64 points a year. This adjustment (a cumulative 2.56 points over four years) would generate a reduction in the debt ratio of 34 points of GDP over the next 16 years as regards its inertial projection, placing it on a clearly downward dynamic.

### **Recommendations**

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Against this backdrop, AIReF issues recommendations to reduce institutional uncertainty and mitigate the risk of non-compliance with the recommendations from Brussels for 2024. Furthermore, it proposes recommendations for the medium term and the fiscal framework in preparation for the new fiscal rules.

AIReF already recommended in its endorsement report to the Ministry of Economic Affairs and Digital Transformation to publish the Report on the Situation of the Spanish Economy provided for in Article 15.5 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability, with the reference rate of the expenditure rule for 2024. Along the same line, it recommends that the Government should publish its forecasts on payments on account and the settlement of the regional and local financing systems.

AIReF also recommends the Ministry of Finance to convene the coordination mechanisms under existing fiscal policy – the Fiscal and Financial Policy Council and the National Commission of Local Administrations - to agree on reference rates for financing capacity/needs and the growth in primary expenditure net of revenue measures for the different sub-sectors; to commence, as soon as possible, the work on drawing up a realistic and credible medium-term fiscal strategy that complies with the sustainability requirements that will foreseeably be included in the reform of the European fiscal framework; and to commence, as soon as possible, the work on the reform of the national fiscal framework.