

## **AIReF STATES THAT THE REBALANCING PLAN DOES NOT COMPLY WITH THE LAW ON BUDGETARY STABILITY AND RECOMMENDS CREATING A FISCAL STRATEGY PRIOR TO THE RETURN OF FISCAL RULES**

- **The Independent Authority for Fiscal Responsibility (AIReF) argues that the approved Rebalancing Plan does not include the information provided for in the Law on Budgetary Stability. In contrast, it refers to the consolidation path provided for in the Stability Programme Update and the Budgetary Plan**
- **It does not explicitly present the macroeconomic outlook underlying the proposed fiscal path, nor does it contain measures that underpin the deficit reduction until 2026**
- **The document does not specify whether the deficit reduction path meets the requirements of the future European framework for fiscal rules nor clarifies whether the draft General State Budget for 2024 and the update of the Budgetary Plan will alter the forecasts**
- **AIReF considers that the Rebalancing Plan will be surpassed by the medium-term structural fiscal plan that Spanish authorities must draw up in the spring as a result of the reform of the European fiscal framework**
- **AIReF recommends establishing a demanding medium-term fiscal strategy in line with the new fiscal rules to address the vulnerability of public finances**
- **It also recommends starting work on the reform of the national fiscal framework**

**The Independent Authority for Fiscal Responsibility (AIReF) published on its website today the Report on the Rebalancing Plan approved by the Council of Ministers on Tuesday. The content and scope of the Plan, as indicated by AIReF in its Report, do not comply with the provisions of the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF), but instead refer to the fiscal consolidation path outlined in the Stability Programme Update 2023-2026 from last April and the Budgetary Plan from October.**

AIReF explains in its Report that the occurrence of exceptional circumstances that allow the fiscal rules to be suspended, as provided for in the LOEPSF, requires the approval of a Rebalancing Plan to correct the structural deficit incurred during the suspension, taking into account the exceptional circumstance that caused the suspension. Since the outbreak of the COVID-19 pandemic, the Spanish Congress has identified exceptional circumstances on three occasions: October 2020, September 2021 and September 2022, the latter due to the price crisis. The Government has not presented a Rebalancing Plan on any of these three occasions. AIReF, for its part, reported the existence of exceptional circumstances on all three occasions, as required by the Law of its Creation.

After four years of suspended fiscal rules, the Council of Ministers has approved the Central Government Rebalancing Plan, and the Ministry of Finance and Civil Service has requested the corresponding Report on this Plan from AIReF before its passage through Parliament.

In its assessment, AIReF points out that the content and scope of the approved Rebalancing Plan do not conform to the content established in the Law on Budgetary Stability. Article 22 of the LOEPSF indicates that the Rebalancing Plan, unlike other budgetary documents, does not have a global scope for the whole General Government Sector but must be addressed at the specific sub-sector subject to the exceptional circumstances. It must also contain, like the Economic-Financial Plans, trend forecasts for revenue and expenditure, a description and schedule of measures to comply with the targets and forecasts of the economic and fiscal variables, the assumptions on which they are based and a sensitivity analysis. Furthermore, additional information on stability and debt targets must be included.

The approved Rebalancing Plan, according to AIReF, does not incorporate this content, but refers to the fiscal consolidation path outlined in the Stability Programme Update 2023-2026 from last April and the Budgetary Plan from October - two budgetary documents that are not limited in scope to the Central Government. Furthermore, these documents also lack forecast revenue and expenditure for the Central Government, as required by Law. Given its content, the AIReF report refers to the assessment already made of both the Stability Programme Update and the Budgetary Plan, reported in [May](#) and [October](#) of this year, respectively. European institutions have also commented on these documents. In both reports, AIReF updated its medium-term macroeconomic and fiscal forecasts. In the Report published today, AIReF contrasts the path outlined in the Rebalancing Plan with its forecasts from October, which are the most recent.

AIReF already stated in its May report that the Stability Programme Update does not constitute a genuine medium-term planning instrument. It also pointed out the problems of the fragmentation of the budgetary process on several occasions due to the lack of coherence between the General Government budget and the medium-term planning instruments: the Stability Programme Update and the Budgetary Plan. In the current Report, AIReF indicates that these weaknesses also extend to the Rebalancing Plan insofar as it refers to both documents.

Furthermore, the Rebalancing Plan does not explicitly include the macroeconomic outlook underlying the fiscal path. AIReF points out that it could implicitly be understood that this would reflect the content of the Budgetary Plan for 2024 and the Stability Programme Update for 2025 and 2026. In this regard, AIReF forecasts real GDP growth of 1.7% in 2024 in its October report, compared with the 2% estimated by the Government in the Budgetary Plan for the same year. For 2025 and 2026, the discrepancies are smaller, as AIReF estimates real GDP growth of 1.8% and 1.6%, respectively, in those years, similar to the 1.8% and 1.7% forecasts in the Stability Programme Update.

Furthermore, AIReF's central scenario presents a stabilisation of the General Government deficit of around 3.2% of GDP in the absence of additional measures, compared with a gradual reduction to 2.5% in 2026 in the Rebalancing Plan. After reaching 3% in 2024 in line with AIReF's central scenario, the Rebalancing Plan shows an additional deficit reduction of 0.5 points in two years, down to 2.5% of GDP, while AIReF assumes an increase in the deficit in 2025 and its subsequent stabilisation at 3.2%. In particular, in 2025, AIReF estimates that the deficit will rise to 3.2%, mainly due to the withdrawal of temporary measures to increase revenue. Once the withdrawal of the measures comes into effect in 2024, AIReF estimates that the margin for reducing the deficit without adopting additional corrective measures would be exhausted, resulting in a level slightly above the 3% limit set in the Stability and Growth Pact.

### **Without measures to underpin the deficit reduction**

AIReF also points out that the Rebalancing Plan does not include measures to underpin the deficit reduction until 2026. The measures included coincide with those in the Budgetary Plan for 2024, with some exceptions. In the absence of new measures, AIReF expects a slight reduction in the weight of revenue in 2025 due to the withdrawal of the temporary measures to increase revenue and a recovery to 43.1% in 2028. As regards expenditure, after falling by almost half a percentage point in 2024 due to the withdrawal of the measures, its weight of GDP will increase to 46.3% in 2028. This increase is driven by the growth in spending on pensions and servicing debt. Since the Rebalancing Plan does not update the evolution of revenue and expenditure until 2026, it is not possible to make a comparison with AIReF's most recent estimate.

By sub-sector, the Central Government deficit in 2026 coincides with AIReF's central scenario and the Rebalancing Plan, however, with some differences in its evolution. In contrast, AIReF estimates that the Social Security Fund deficit will stabilise at around 0.4% of GDP throughout the projected horizon, compared with the reduction forecast in the Rebalancing Plan. In the case of the Autonomous Regions and Local Governments, the Rebalancing Plan estimates that they will achieve a surplus of 0.3 points in 2026, while AIReF forecasts a situation close to balance.

As regards debt, AIReF already considered the decreasing debt forecast included in the Stability Programme Update and the Budgetary Plan to be feasible, although it warned that, after stabilising in the medium term, it would resume an upward path in the absence of additional measures. Beyond 2024, when the significant contribution of nominal growth disappears, AIReF projects a slowing pace of debt reduction, stabilising at around 105% of GDP. In the long term, the evolution of debt is unfavourable due to the high initial debt combined with unbalanced public accounts, exacerbated by the impact of ageing and tightening monetary conditions.

### **The future fiscal framework**

AIReF also points out that the Rebalancing Plan does not explicitly state whether the path presented meets the requirements of the future European fiscal framework. It considers that, although the negotiations on the reform of the fiscal framework have not concluded, there are sufficient indicia to analyse the debt path from the perspective of the reform proposed by the European Commission. This proposal establishes that the debt ratio must show a downward path with a plausibility level of at least 70%, along with a downward path in a series of financial stress scenarios. According to AIReF's estimates, the necessary adjustment to comply with the new framework would be 0.64 points of GDP per annum over the period 2025-2028, which, in terms of the deficit and assuming AIReF's revenue forecasts, would imply achieving a deficit of 2% of GDP in 2026 and 0.8% in 2028, compared with the deficit of 2.5% of GDP in 2026 proposed in the Rebalancing Plan. In any event, the adjustment required by the new framework will ultimately depend on the outcome of the reform.

AIReF also notes that the distribution of the deficit by sub-sector in the Rebalancing Plan does not guarantee compliance with the 2.6% increase limit in primary spending net of revenue measures established in the European recommendation. According to AIReF's estimates, the deficit of 0.1% for the Autonomous Regions would permit increases in nationally-financed primary spending net of revenue measures of around 9%, which would be incompatible with compliance in accordance with the recommendation. In addition, to the extent that these increases in net spending are of a structural nature, this would result in an additional deterioration of the sustainability of public finances. In contrast, compliance with the national expenditure rule (below 3%, according to the Report on the Situation of the Spanish Economy) would imply a more contained evolution of spending than provided for in AIReF's central scenario and would lead to a lower deficit in 2026 than forecast in the Rebalancing Plan.

### **It is unclear whether the Budget would alter the forecasts**

The Rebalancing Plan does not clarify whether the draft General State Budget (GSB) for 2024 and the corresponding update of the Budgetary Plan will alter its forecasts. The Budgetary Plan submitted to the European Commission is of an inertial nature, excluding, for example, the already announced extension by the Government of certain measures, along with any other measures that may be approved. In this regard, AIReF considers it likely that the draft GSB will alter the inertial forecasts, as it is the main fiscal policy instrument. The Commission noted in its evaluation the need to present an updated Budgetary Plan when the draft GSB for 2024 is presented.

Finally, AIReF indicates that the Rebalancing Plan will be surpassed by the medium-term structural fiscal plan that the Spanish authorities must prepare in the spring as a result of the reform of the European fiscal framework. The new framework will likely determine a more demanding path, requiring a reformulation of the one contained in the Rebalancing Plan. In any event, its time horizon will need to be extended to at least 2028. In this regard, AIReF will need to update its assessment when its content is known.

### **Recommendations**

In this context, AIReF recommends that the Ministry of Finance and Civil Service initiate, as soon as possible, the work to develop a realistic and credible medium-term fiscal strategy that allows for a downward trajectory of the debt path and meets the sustainability requirements that will foreseeably result from the reform of the European fiscal framework. This is regardless of whether, if the reform is not approved by the end of this year, the proposed strategy will have to be adapted later to its final content. It also considers that work should begin on the reform of the national fiscal framework. In both cases, the participation of the whole General Government Sector and of the social and political stakeholders involved is key.

AIReF points out that the presentation of this Rebalancing Plan is a step forward in reducing institutional uncertainty, along with the start of the approval process for the stability targets, the holding of meetings of the Fiscal and Financial Policy Council and the National Commission of Local Administrations, the publication of the Report on the Situation of the Spanish Economy and the communication of data on the regional and local financing systems. However, AIReF once again highlights the vulnerability of the Spanish economy due to the structural persistence of the deficit and the high level of debt. It also warns that the implementation of short-, medium- and long-term fiscal policy will require broad agreements to be forged at a political and institutional level across all tiers of government.

AIReF already made a recommendation in the Report on the Main Lines of the Budget for 2024 regarding the suitability of developing a medium-term fiscal strategy with the sustainability requirements included in the ongoing reform of the European fiscal framework and the need to reform the national fiscal framework. It now considers it important to strengthen and firm up this recommendation, both due to the weaknesses indicated in the Rebalancing Plan subject to this Report and the importance of the path to be defined in the upcoming presentation of the draft GSB for 2024.