REPORT ON THE MAIN LINES OF THE BUDGET OF THE GENERAL GOVERNMENT 2024

REPORT 49/23

October 26th, 2023

Independent Authority for Fiscal Responsibility

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The mission of the Independent Authority for Fiscal Responsibility, AAI (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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EXECUTIVE SUMMARY

The Independent Authority for Fiscal Responsibility, AAI (AIReF), must report on the draft budget and main budgetary lines of the General Government (GG). Given the fact that the General State Budget (GSB) for 2024 has not been presented, the Budgetary Plan is shaped as the main milestone in Spain's fiscal strategy for this year. Accordingly, AIReF reports on the macroeconomic forecasts that underpin it, along with its budgetary scenario and the main lines of the budgets of the Autonomous Regions (ARs). This report also updates the macroeconomic and fiscal forecasts at constant policies until 2028 to strengthen the medium-term approach of the fiscal situation of the GG. AIReF has been recommending this medium-term vision to the different GG sub-sectors as the framework for the development of their budgetary procedures.

Previously, AIReF endorsed the macroeconomic forecasts contained in the Budgetary Plan on October 16th, indicating significant downside risks. This report is also complemented with the individual reports of the ARs, which also include a fiscal scenario at constant policies until 2028 for the first time, along with the Report on Local Governments (LGs) subject to individual monitoring.

The preparation of this report, along with the budgetary procedures of the different GG sub-sectors, is strongly conditioned by institutional uncertainty, in addition to the existing economic uncertainty. First, the situation of an acting Central Government has prevented the presentation of the GSB for 2024, which also affects the rest of the GG sub-sectors. Furthermore, the Government has not published or communicated the calculation of the instalment payments and settlement of the regional and local financing systems.

Another source of institutional uncertainty is the application of the fiscal rules as from 2024, which have been suspended for four years. On the one hand, the European fiscal framework is undergoing a reform process. The European institutions have stated their aim of concluding the negotiations before the end of the year so they can be applied next year, although delays should not be ruled out. Furthermore, the results of this reform must be transposed to the national fiscal framework, although work has not yet commenced on its reform. In addition, the budgetary stability targets have not yet been approved due to the situation of an acting government. Lastly, the Government has not published the Report on the Situation of the Spanish Economy, which contains the reference rate for the expenditure rule, although this will stand at around 3% in 2024, according to AIReF's estimations pursuant to prevailing regulations.

In light of this lack of definition of the fiscal framework, the risk exists that the GG sub-sectors will prepare budgets that are not adapted to compliance with the European and national fiscal frameworks, as indicated in previous reports. In this regard, AIReF considers that coordination mechanisms exist that could reduce institutional uncertainty.

In its macroeconomic scenario, AIReF forecasts real GDP growth of 1.7% in 2024, which will converge over the medium term with its potential to stand at 1.4% in 2028. At a fiscal level, AIReF considers that the withdrawal of the measures will allow the GG deficit to be reduced to 3% in 2024, to subsequently stabilise at around 3.2% of GDP until 2028. The sustainability analysis indicates that debt would begin an upward path after reaching 106% of GDP in 2028. This once again underlines the need for a realistic and credible medium-term fiscal strategy that places debt on a downward path in the long term.

The medium-term macroeconomic scenario

The Spanish economy has shown greater resilience than other European economies in 2022 and in the months of 2023 to date, given that it has been less exposed to most shocks since the pandemic. The disruptions in value chains, the energy crisis and, more recently, the weakening of China, have together affected other European economies with greater industrial specialisation. However, the tightening of the financing conditions of the economy, 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%. However, it has revised expected growth for 2024 down 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 growth in the GDP deflator will fall from an estimated 5.8% in 2023 to 3.2%. The containment of prices, which is expected as the transfer of the recent increased production costs is completed along with the base effects associated with food prices in 2024, will be offset by the acceleration of nominal wages, the withdrawal of the measures introduced to mitigate the effects of inflation on household income in December 2023 and the recent rise in oil prices.

Based on these forecasts, AIReF endorsed the Government's macroeconomic scenario that accompanies the Budgetary Plan for 2024 on October 16th. The Government's scenario forecasts real GDP growth of 2.4% in 2023 and 2% in 2024, which places it in the central range of the probability bands prepared by AIReF based on its own forecast scenarios. In nominal terms, the Government's forecasts are higher than AIReF's, albeit within the probability range that is considered feasible. In light of this, AIReF considers that downside risks on the economic growth estimated by the Government predominate in 2024. In particular, the Government's scenario includes a significant acceleration of domestic demand, which may be optimistic in the current content of deteriorating consumer and business confidence and the tightening of financing conditions.

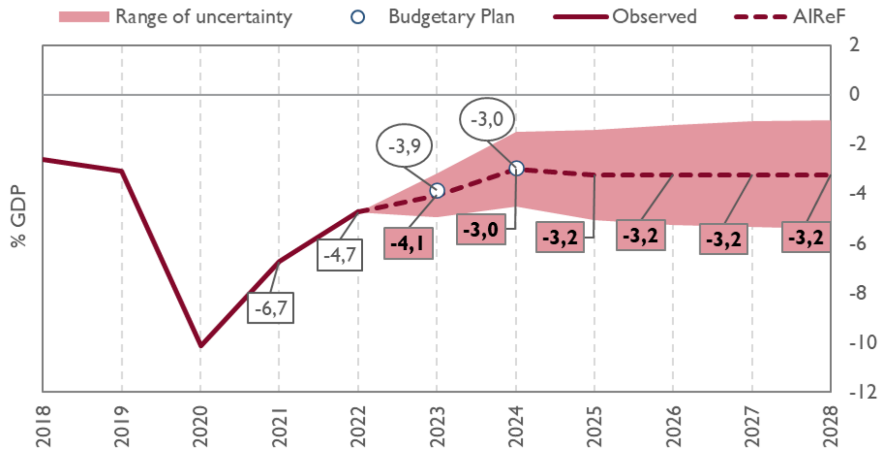
According to the forecasts made by AIReF, following the slowdown in growth in 2023 and 2024, the Spanish economy would gradually converge towards its potential growth, which AIReF estimates at around 1.3%. Economic growth would mainly be driven by the contribution from domestic demand. The contribution from the foreign sector to growth would be positive, but to a lesser extent (0.2 percentage points on average).

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 with a deficit 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 do not exhaust the margin for increased spending and reduced revenue granted to them under the temporary revenue received under the extraordinary settlement of the financing systems.

In the medium term, AIReF estimates that the GG deficit will stabilise at around 3.2% of GDP between 2025 and 2028. Once the measures are withdrawn, the margin for reducing the deficit without adopting additional measures will be exhausted, resulting in a higher level than the 3% limit set in the Stability and Growth Pact. In 2025, the deficit will rise again to 3.2%, mainly due to the withdrawal of the temporary measures to increase revenue.

FIGURE 1. EVOLUTION OF NET LENDING/BORROWING OF THE GG.



Source: AIReF and IGAE estimates

Revenue, without including the Recovery, Transformation and Resilience Plan (RTRP) will amount to 42.7% of GDP in 2024, after closing 2023 at 42%. These forecasts are higher than those included in the Budgetary Plan, by 0.1 points of GDP in 2023 and 0.7% points in 2024. The difference in 2024 stems from AIReF estimating a higher nominal level of revenue of 0.2 points and a lower nominal level of GDP, which increases the weight of this higher level of revenue over GDP by almost 0.5 points.

In 2024, AIReF forecasts revenue growth of 6.5%, driven by the withdrawal of the measures and the nominal growth in economic activity. In the opposite direction, the end of the execution of the REACT-EU funds in 2023 will reduce other revenue. As regards the Budgetary Plan, AIReF forecasts higher revenue from taxes on production and from other revenue and lower revenue from taxes on income in 2024. Including the revenue associated with the RTRP, with a neutral impact on the deficit, revenue will amount to 42.9% of GDP in 2023 and 44.2% in 2024.

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 taxes on income.

AIReF estimates that expenditure, without including the RTRP, will fall to 45.7% of GDP in 2024, after reaching 46.1% in 2023. In both years, the Budgetary Plan presents a lower level of expenditure. In a similar way to revenue, the difference between the two forecasts of 0.7 points in 2024 can be explained by the higher GDP forecast by the Government, of 0.5 points, and the higher level of expenditure forecast by AIReF, of 0.2 points.

According to AIReF's estimates, expenditure will grow by 4% in 2024, moderating its growth compared with the estimate for 2023, with heterogenous performance by its components. The withdrawal of the measures will also entail less expenditure, on top of the moderation of growth from the components of public consumption. Although growth in pensions will drop due to an increase of 4% compared with 8.5% in 2023, the weight of social transfers in cash will grow by 0.1 points. Furthermore, interest will continue to grow at high rates in 2024. As regards the Budgetary Plan, AIReF estimates higher spending on the compensation of employees, interest payments and social transfers in cash in 2024.

Medium-term expenditure will increase its weight over GDP to reach 46.3% in 2028. This increase will be driven by the growth in spending on pensions and interest payments, which will gradually increase their weight. In contrast, the components of public consumption and investment will maintain their approximate weight over GDP over the course of the period, while other expenditure will fall slightly.

TABLE 1. EVOLUTION OF NET LENDING/BORROWING OF THE GG BY SUB-SECTOR

	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

Source: AIReF estimates

Central Government

Despite the withdrawal of the measures, the Central Government will only reduce its deficit in 2024 to 3.1%, 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.

Social Security Funds

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, which will transfer directly to the pension increase. For its part, following the strong growth observed in 2023 in spending on unemployment benefits, AIReF estimates it will evolve in line with the unemployment rate and reduce its weight of GDP. On the revenue side, contributions will moderate their growth in the following years, in line with the evolution of employment and wages, also incorporating the impact of the introduction of the Intergenerational Equity Mechanism and the solidarity tax.

Autonomous Regions

According to AIReF's forecasts, 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 by more than 16%, driven by the growth in instalment payments 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.

Local Governments

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 in expenditure observed in the years in which the fiscal rules were suspended moderates.

Direction of fiscal policy and evaluation of the Country Specific Recommendation of the European Council on fiscal matters

The Country Specific Recommendations (CSRs) adopted this year establish a quantitative reference for fiscal policy in 2024 for countries with high levels of debt like Spain.

Specifically, Spain is recommended not to increase nationally financed primary expenditure net of revenue measures above 2.6% next year. For the GG 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 allows the growth above this limit for the rest of the sub-sectors to be offset.

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.

Sustainability of the debt

The reduction in the public deficit, together with the rebound in activity and much higher inflation than expected, have managed to correct more than half of the increase in the debt ratio generated in the first year of the pandemic, placing it on a downward path. 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 stand at 106.3% of GDP in 2024. This reduction will mainly be driven by the growth in nominal GDP, where the deflator will make a very significant contribution. Accordingly, AIReF considers the Government's debt projection included in the Budgetary Plan for 2024 to be feasible, since, in the period as a whole, both the reduction in the ratio and the composition of the factors that determine its evolution are similar to AIReF's estimates.

The new monetary cycle, along with the high level of existing debt, place the sustainability of the public finances in a vulnerable starting position. AIReF projects a rising debt ratio in its long-term baseline 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 in the medium and long term. The moderation of the contribution from nominal growth, which will fall slightly, together with the upward curve of interest payments that exceed the reduction in the primary deficit, will end up translating into an unfavourable dynamic of the debt ratio. The high level of initial indebtedness, along with unbalanced public accounts, will generate a higher financial burden, even in a scenario of contained debt servicing costs.

The generation of a fiscal space that allows such shocks as have occurred in recent years to be addressed in the future would require the design of a medium-term plan that guides the public accounts towards a balanced situation. In this regard, the European Commission's recommendation, along with its proposed reform of the fiscal framework, represent an opportunity and a guide to the preparation of a fiscal-structural plan. According to AIReF's calculations, the fiscal path that would comply with the guidelines to calculate the technical trajectory 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 baseline projection, placing it on a clearly downward dynamic.

Recommendations

The medium-term orientation of the analysis of the macroeconomic and fiscal scenario made by AIReF, together with the sustainability analysis, once again show the vulnerability of the Spanish economy, due to the structural persistence of the deficit and the high level of debt. Against this backdrop, the institutional uncertainty at both a European and a national level following four years of suspension of the fiscal rules poses an additional risk to the sustainability of the public accounts to the extent that this could shield increased expenditure and reduced revenue of a structural nature.

In fact, the risk of non-compliance with the CSR for 2024 will increase if the ARs only employ the 0.1% deficit reference provided for in the Budgetary Plan for the sub-sector when preparing their budgets. According to AIReF's forecasts, the 0.1% deficit would be compatible with growth in expenditure of close to 9%, which would be incompatible with compliance with the CSR.

However, AIReF considers that formal and informal mechanisms exist that would allow this institutional uncertainty to be reduced to a certain extent, which have been included in the report's recommendations. In this regard, AIReF already recommended in its endorsement report that the Ministry of Economic Affairs and Digital Transformation should publish the Report on the Situation of the Spanish Economy provided for in Article 15.5 of Organic Law 2/2012, of April 27th, on Budgetary Stability and Financial Sustainability, which contains the reference rate of the expenditure rule for 2024.

Along the same line, AIReF recommends that the Government should publish its forecasts for instalment payments 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 net lending/borrowing and the growth in primary expenditure net of revenue measures for the different sub-sectors, considering the temporary or structural nature of revenue and expenditure for each sub-sector for 2024 in a way that is coherent with compliance with the Country Specific Recommendation issued by the Council of the European Union.
- 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
- commence, as soon as possible, the work on the reform of the national fiscal framework.

1. INTRODUCTION

Legislation states that the Independent Authority for Fiscal Responsibility (AIReF) must report on the draft budget and main budgetary lines of the General Government before October 15th. In the absence of a General State Budget, the Budgetary Plan submitted to the European Commission on October 15th is shaped as the main milestone in Spain's fiscal strategy for 2024. Accordingly, this report analyses the macroeconomic and fiscal forecasts of the Budgetary Plan, providing an analysis of the General Government Sector and the different sub-sectors. Likewise, AIReF reports on the draft budgets and the main lines of the budgets of the Territorial Administrations, conducting an individualised analysis for each Autonomous Region and the 22 large Local Governments, as well as the three Provincial Councils in the Basque Country.

AIReF endorsed the macroeconomic scenario that underpins the Budgetary Plan for 2024. At the Government's request, AIReF reported on the macroeconomic forecasts that serve as the basis for the budgetary scenario included in the Budgetary Plan for 2024. The endorsement was published on October 16th[1], stating that the Government's forecasts for nominal GDP growth fall within the central range of the bands estimated by AIReF, albeit close to the upper limit, indicating the existence of downside risks.

[1] Report on the macroeconomic forecasts of the Budgetary Plan for 2024

In the Report on the Endorsement of the Macroeconomic Scenario, AIReF issued a new recommendation and reiterated three others, two of which are live recommendations. The Ministry of Economic Affairs and Digital Transformation is recommended to publish the Report on the Situation of the Spanish Economy provided for in Article 15.5 of Organic Law 2/2012, of April 27th, on Budgetary Stability and Financial Sustainability (LOEPSF), which should include the reference rate for the expenditure rule for 2024. It also reiterated that, when preparing this report, it should consult AIReF. Furthermore, within the live recommendations, it reiterated the need, on the one hand, to regulate the process of endorsing macroeconomic forecasts through an agreement between the parties, and, on the other hand, to provide more information on budgetary and fiscal measures included in the macroeconomic scenario.

The Budgetary Plan contains a scenario without measures, which prevents a more accurate assessment of 2024. Under the ordinary budgetary procedure, the Budgetary Plan is submitted to the European Commission once the Government has presented the draft General State Budget. However, the existence of a caretaker government has prevented the presentation of this draft Budget, so the Budgetary Plan does not include measures except for those related to the pension increase, the updating of the compensation of public workers, and support for regular passenger transport by train and bus. In these circumstances, the assessment of the Budgetary Plan is subject to a major limitation that prevents a more accurate analysis. Subsequently, when the draft General State Budget for 2024 is presented, AIReF will issue a report on it and, at the same time, update the assessment of the General Government as a whole.

To complete its report, AIReF includes a scenario at constant policies until 2028. In addition, and in order to frame the analysis of the General Government Sector for 2024 within a multi-year perspective, AIReF expands its forecast with a medium-term scenario until 2028. This multi-year perspective is in line with the proposed reform of European fiscal rules, which will require Member States to submit a fiscal-structural plan for four years. This will involve Spain preparing macroeconomic and budgetary projections for the 2024-2028 period in April 2024.

The evaluation contained in this report is carried out from a macroeconomic and budgetary perspective, to which end, the analysis is divided into eight main sections. Following this introduction, Section 2 refers to the content and scope of the report. The analysis of the macroeconomic scenario of the Budgetary Plan for 2024 is performed in Section 3, highlighting the main macroeconomic risks. In Section 4, the evolution of revenue and expenditure of the whole General Government Sector is analysed in detail, which is completed in Section 5 with an analysis by sub-sector. Section 6 addresses the orientation of fiscal policy, while Section 7 addresses the analysis of the evolution of public debt and assesses the challenges to the sustainability of public finances. Finally, in Section 8, the recommendations arising from the analysis are presented.

2. PURPOSE AND SCOPE

The purpose of this report is to assess the main lines of the Budget of the General Government for 2024. Article 17.1 of the LOEPSF establishes the obligation for AIReF to assess the main lines of the Budget of the General Government from the perspective of its adherence to fiscal rules. From 2020 to 2023, fiscal rules have been suspended, so in the absence of any targets, AIReF's assessment was made by comparing its forecasts with the reference deficit set by the Government. For 2024, the suspension of fiscal rules has not been declared, but despite the reactivation of fiscal rules for next year, the existence of a caretaker government has prevented the establishment of targets for 2024. Given these circumstances, AIReF's assessment is made by comparing its forecasts with those contained in the Budgetary Plan, which have not changed for the General Government Sector as regards those contained in the 2023-2026 SPU, although the forecasts for the sub-sectors have been modified.

The scope of this report has been conditioned by a lack of information:

1. **Insufficient content of the Budgetary Plan.** This does not allow for an adequate analysis of fiscal policy. As pointed out by AIReF in the Opinion on Fiscal Transparency in the General Government[2], the budgetary

[2] AIReF Opinion on Fiscal Transparency

process is, in practice, fragmented, and coherence between its main elements cannot be guaranteed: the Stability Programme Update, the budgets of each administration and the Budgetary Plan. This issue, which AIReF has pointed out in previous years, is still present in the Budgetary Plan for 2024. On the one hand, it does not integrate the impact of the RTRP and the REACT-EU funds on the revenue and expenditure of the General Government, nor does it provide a detailed breakdown at the level of national accounting headings, whereas the draft General State Budget does include a breakdown of each of the actions funded by both mechanisms. Neither does it contain a breakdown of the headings of expenditure and revenue by tier of government in national accounting terms, making it difficult to ensure coherence with the budgets of the different administrations. Moreover, in general, it does not present measures, which does not presuppose that they cannot be adopted in the draft General State Budget for 2024 or later.

2. **No presentation of the draft General State Budget for 2024 and communication of the amounts to be received by the Territorial Administrations under the financing system.** The existence of a caretaker government prevents the presentation of the draft General State Budget for 2024, mainly affecting the Central Government but also the rest of the sub-sectors. In addition, the instalment payments for 2024 and the final settlements for 2022 to be paid to the Autonomous Regions and Local Governments have not been communicated. This lack of information affects the preparation of the budgets of the Territorial Administrations and the fiscal assessment of all General Government sub-sectors by AIReF.

3. **Uncertainty about the fiscal rules that will apply in 2024.** The European fiscal framework is undergoing a reform process. European institutions have expressed their aim of concluding negotiations by the end of the year so this framework can be applicable next year, although delays cannot be ruled out. Furthermore, the result of this reform at a European level must be transposed to the national fiscal framework, although work has not yet begun on its reform.

4. **No publication of the reference rate for 2024 of the expenditure rule established by the LOEPSF.** In accordance with Article 12 of the LOEPSF, the Ministry of Digital Transformation and Economic Affairs must calculate the reference rate of the expenditure rule, which must be included in the Report on the Situation of the Spanish Economy. Since this report has not been published, AIReF has proceeded to calculate the reference rate in accordance with current regulations (Order ECC/1556/2016, of September 28th). The result obtained is a reference rate of 3% for 2024, which AIReF has

used to assess the expenditure rule. However, in the Report on the Endorsement of the Macroeconomic Scenario of the Budgetary Plan, AIReF recommended that the Ministry should publish the reference rate so that the Territorial Administrations can prepare their budgets without exhausting the margin allowed by the projected balance, since part of the revenue they will receive in 2024 under the financing system is temporary.

Lastly, the Budgetary Plan for 2024 does not contain a complete and updated list of fiscal risks that could affect the deficit for the year, and greater transparency would be desirable. Although it cannot be classified as a limitation on the scope, the Budgetary Plan for 2024 does not provide information on potential responsibilities that the General Government may face due to contingent liabilities. As in previous years, it only partially reports on the amount (maximum and granted) of guarantees granted by the General Government and its sub-sectors as of December of the last closed year, i.e., 2022.

3. MACROECONOMIC SCENARIO

3.1. Introduction

The Spanish economy has exhibited greater resilience than the rest of the European economies in 2022 and 2023 to date. The relative specialisation of the Spanish economy in the services sectors has resulted in less exposure to most shocks experienced in the wake of the pandemic[3]. Specifically, disruptions in value chains, dependence on Russian gas, and, more recently, the weakening of China have affected other European economies with greater industrial specialisation more than they have affected Spain. In addition, the favourable performance of the export of goods, the full recovery of tourism throughout 2022 and the strong performance of the export of non-tourism services contribute to this resilience.

However, the most recent information suggests a slowdown in the Spanish economy in the second half of 2023. Tightening financing conditions, declining confidence among households and businesses and sluggish economic growth in the euro area point to a deceleration of Spain's growth, already noticeable in the data available for the third quarter of the year. In this context, AIReF's GDP growth forecast for 2023 remains at 2.3%, but expected

[3] Bank of Spain (2023)

growth for 2024 is revised downward to 1.7%, a rate higher than the 1% forecast for the euro area as a whole by the ECB.

AIReF projects that inflationary pressures will persist in 2024. In particular, it is expected that inflation, measured by the private consumption deflator, will stand at 3.9% in 2023 and 2024, while the growth of the GDP deflator would fall from an estimated 5.8% in 2023 to 3.2%. The containment of prices that could be expected with completion of the pass-through of past increases in production costs and the base effects associated with food prices in 2024 will be offset by the acceleration of nominal wages, the disappearance of measures implemented to mitigate the effects of inflation on household income in December 2023 and the recent increase in oil prices.

Based on these forecasts, AIReF endorsed the Government's macroeconomic scenario that accompanies the Budgetary Plan for 2024 on October 16th. This scenario forecasts real GDP growth of 2.4% in 2023 and 2% in 2024, which fall within the central range of the probability bands prepared by AIReF based on its own forecast scenarios. In nominal terms, the Government's forecasts are higher than those of AIReF but within a probability range considered feasible. However, AIReF considers that in 2024, there are prevailing downside risks to the economic growth estimated by the Government. In particular, the Government's scenario incorporates a significant acceleration of domestic demand, which may be optimistic in the current context of deteriorating consumer and business confidence and tightening financing conditions.

This report first presents the macroeconomic scenario of AIReF, which serves as the basis for assessing the macroeconomic outlook of the Budgetary Plan for 2024. Second, it analyses the main differences from the Government's macroeconomic outlook and discusses the risks identified. It also presents a medium-term scenario for 2025-2028 with the aim of providing information to assist in medium-term planning and adapting the forecast horizon to what will foreseeably be necessary when the new fiscal framework comes into effect (see Box 1).

3.2. External conditions and recent evolution of the Spanish economy

In the final months of 2022 and the first half of 2023, global growth surprised on the upside. Global growth was high, given the disruptions in essential commodity markets (energy, food, industrial) caused by the conflict in Ukraine, the intense and synchronised tightening of financing conditions in most economies and the persistence of various geopolitical tensions that are gradually manifesting as a fragmentation of trade relations. Labour market dynamism was a constant in most advanced economies.

However, the global growth outlook for 2024 has weakened. Most analysts and international institutions agree on projecting a scenario of a soft landing for global growth. The latest forecasts from the International Monetary Fund (IMF) estimate that global GDP growth could fall from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024, below the historical average (2000–2019) of 3.8%. This weakening is mainly due to the slowdown of advanced economies, whose growth would decrease from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. This would be mainly linked to the impact of the tightening of monetary policy, uncertainty associated with geopolitical tensions and the rise in oil prices. In the case of emerging economies, the gradual loss of momentum in China stands out, stemming from the vulnerability of the real estate sector, low levels of household confidence and the impact of trade protectionism measures by the United States[4]. In this regard, it is worth stressing the crucial role of the Chinese economy over the last two decades, accounting for 25% of global growth, while its target growth for this year stands at 5%, nearly half of the estimate in 2012.

[4] Bruegel Policy Brief (2023)

FIGURE 2. REAL GDP AND INFLATION FORECASTS IN DIFFERENT COUNTRIES (YEAR-ON-YEAR CHANGE %)

FIGURE 2.A. REAL GDP GROWTH FORECASTS FOR 2023

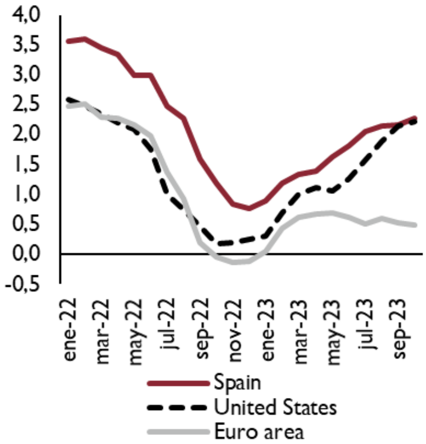


FIGURE 2.B. INFLATION FORECASTS FOR 2023

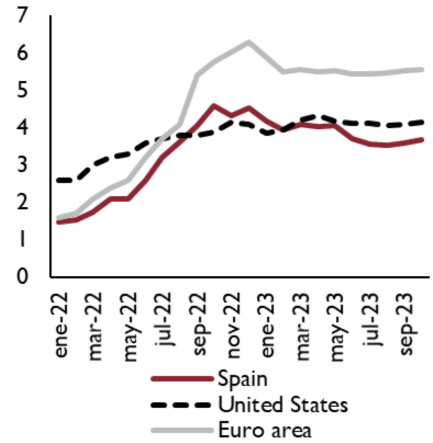


FIGURE 2.C. REAL GDP GROWTH FORECASTS FOR 2024

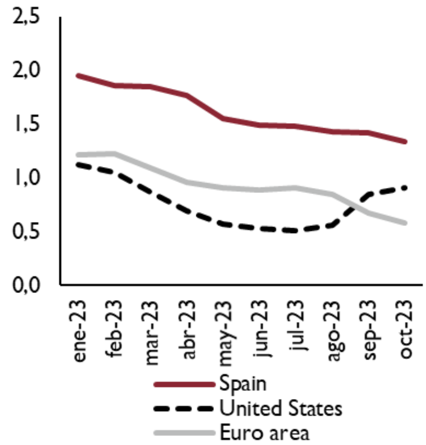
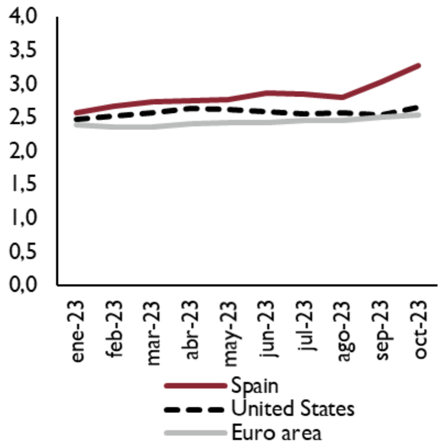


FIGURE 2.D. INFLATION FORECASTS FOR 2024

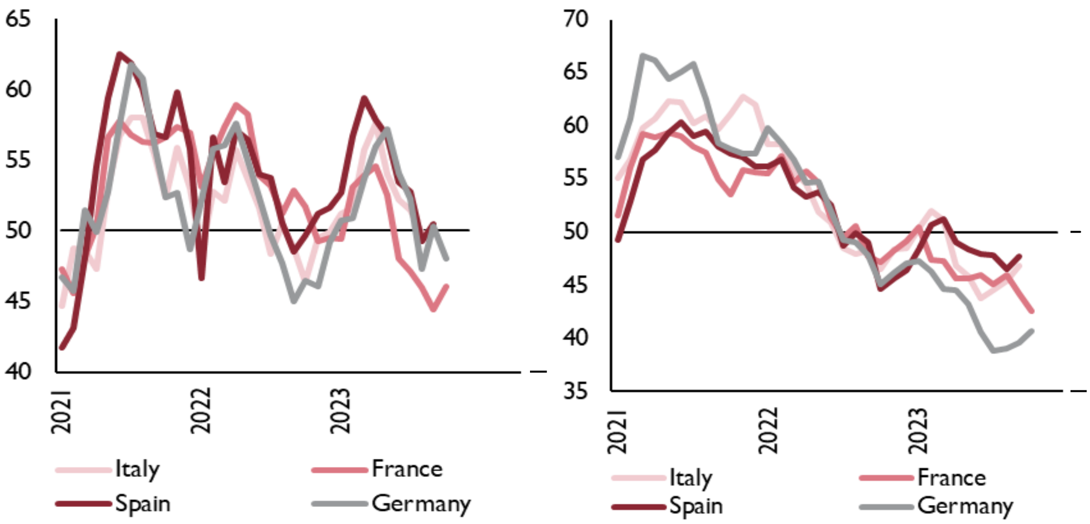


Source: Consensus Forecasts

The euro area economy has notably slowed down over the past year and its growth prospects have deteriorated. Economic activity in the euro area showed very modest average quarterly growth of 0.1% in the first half of the year and indicators suggest that the weakness may have intensified in the third quarter, especially in economies with greater industrial specialisation, although this would also extend to the services sectors. The slowdown in global demand, the rebound of energy prices, tightening financial conditions and exchange rate appreciation led to a downward revision of the ECB's growth forecasts for the whole area in the 2023-2025 horizon, placing them at 0.7% in 2023, 1% in 2024, and 1.5% in 2025. In cumulative terms, these rates imply a lower GDP level by 1 percentage point by the end of 2025. As regards the labour market, the unemployment rate reached its lowest values in the last 15 years and employment growth remained resilient in the second quarter of the year, although this momentum is slowing down according to the most recent indicators.

FIGURE 3. SERVICES AND MANUFACTURING PMIS IN DIFFERENT EURO AREA COUNTRIES (>50 INDICATES EXPANSION / <50 INDICATES CONTRACTION)

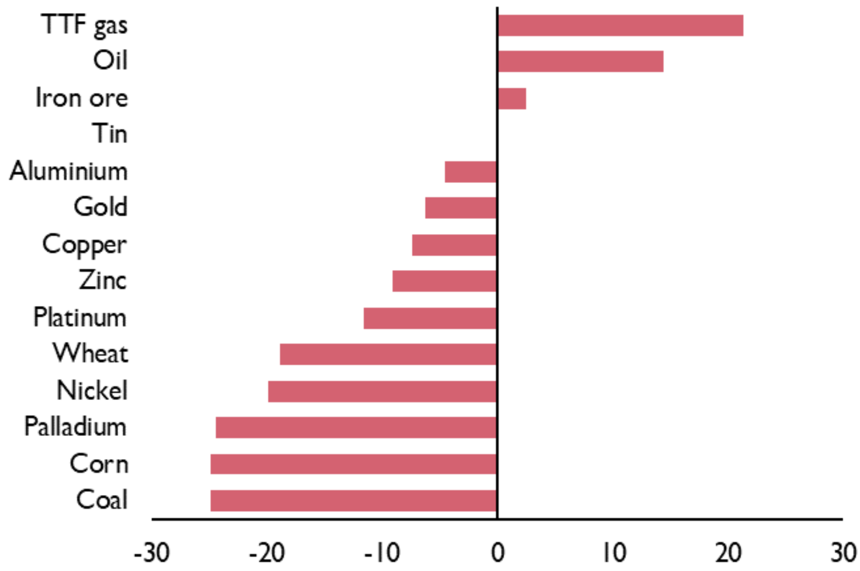
FIGURE 3.A. SERVICES PMI **FIGURE 3.B. MANUFACTURING PMI**



Source: S&P Global

Meanwhile, inflation is receding globally due to higher interest rates and fewer commodity market tensions. However, core inflation maintains high rates in a context of global labour shortages. At the same time, the persistence of the conflict in Ukraine, announcements of oil production cuts by Russia and Saudi Arabia and the outbreak of the conflict between Israel and Palestine have brought about renewed tensions in oil prices, while gas prices remain higher than those observed in the spring of 2023.

FIGURE 4. CUMULATIVE PRICE CHANGES ABOVE THE APRIL 2023 AVERAGE (%)

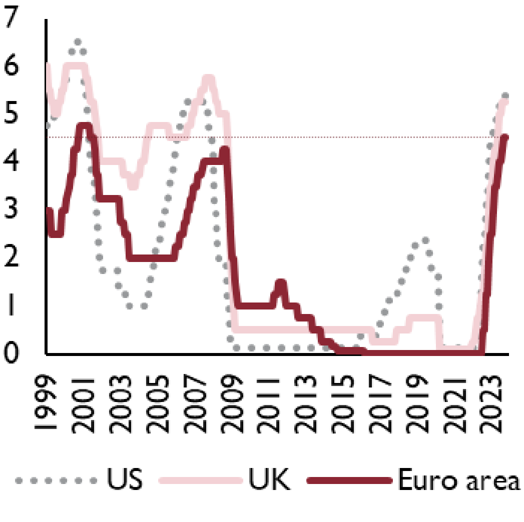


Source: Refinitiv

The persistence of inflationary pressures associated with high energy prices and increased wage tensions point to an extended period of much more restrictive financial conditions than recorded in previous years. The shift in the tone of the European Central Bank's monetary policy has been rapid and intense, with an increase in official interest rates of 450 basis points since July 2022. The pace of the ECB's balance sheet reduction is also noteworthy. The tightening of financing conditions has gradually passed through to the costs of loans to businesses and households. At the same time, the supply of bank credit is becoming more restrictive due to perceived higher risks associated with the deterioration of economic prospects. Long-term interest rates have risen to levels of 4%, not seen since the end of 2013. At any event, since inflation largely responds to supply-side shocks, there is some uncertainty regarding the ability of central banks to contain inflation[5], which could prolong the cycle of monetary restrictions.

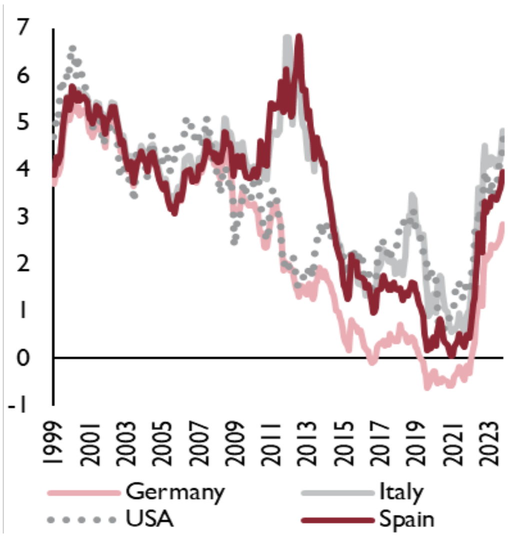
[5] IMF (2023)

FIGURE 5. EVOLUTION OF INTEREST RATES OF DIFFERENT CENTRAL BANKS



Source: BIS

FIGURE 6. YIELD OF 10-YEAR SOVEREIGN DEBT



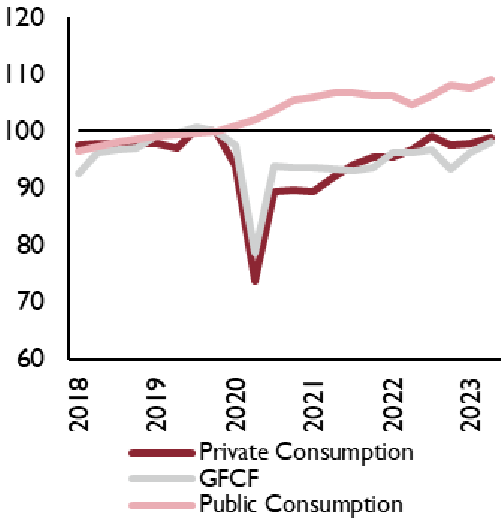
Source: Refinitiv

3.2.1. Recent evolution of the Spanish economy

The revision of the National Accounts has resulted in an upward revision of GDP levels, along with changes in the composition of the growth of the Spanish economy. In particular, the new figures published by the National Statistics Institute (INE) indicate that GDP grew by 6.4% in 2021 and 5.8% in 2022 (compared with previous estimates of 5.5% in both years). As regards the composition, the new figures for 2021 confirm that growth in the wake of the pandemic was headed up by domestic demand, while the foreign sector contributed negatively. In contrast, in 2022, a highly positive contribution from external demand (2.9 percentage points - one of the highest on record) was in addition to dynamic domestic demand, underpinned by the reactivation of tourism and a significant increase in the export of some products and non-tourism services.

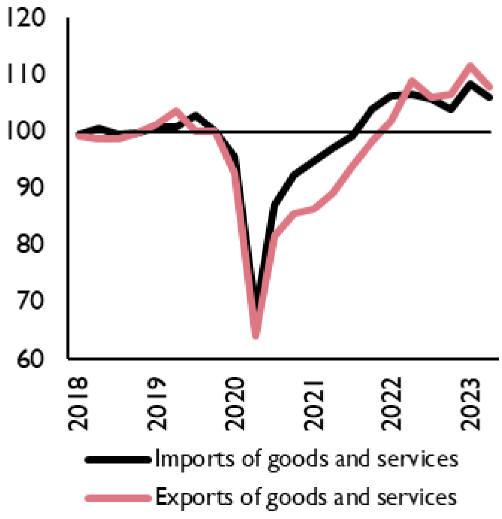
As a result, the economy recovered pre-pandemic GDP levels in the third quarter of 2022 and would stand at 2% above that level in the second quarter of 2023. However, despite the rollout of the Recovery, Transformation, and Resilience Plan (RTRP), investment has not yet returned to pre-pandemic levels, in a context of high uncertainty and tightening of financing conditions.

FIGURE 7. CONSUMPTION AND INVESTMENT. VOLUME (2019Q4=100)



Source: INE

FIGURE 8. EXPORTS AND IMPORTS. VOLUME (2019Q4=100)

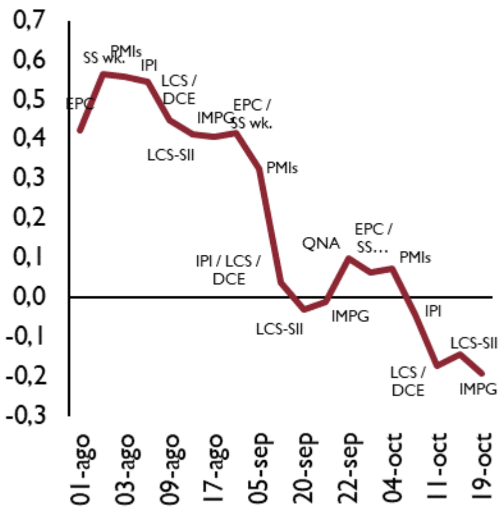


Source: INE

The information available for the third quarter of 2023 points to a weakening of growth. In the first two quarters of 2023, GDP grew by 0.6% and 0.5%, respectively. However, AIReF's MIPred model, which summarises the evolution of a set of indicators representative of the economic situation, currently points to a decline in activity in the third quarter. Indicators such as the Purchasing Managers' Index (PMI) also suggest a stagnation of activity in recent months, both in manufacturing and services. Exports, which had significantly contributed to growth in 2022, have also posted negative rates since the second quarter of the year, with a more negative performance of goods exports. In line with this, both the Survey of Spanish Companies conducted by the Bank of Spain[6] and data from Sales of Large Companies indicate a decline in their turnover in the third quarter of 2023.

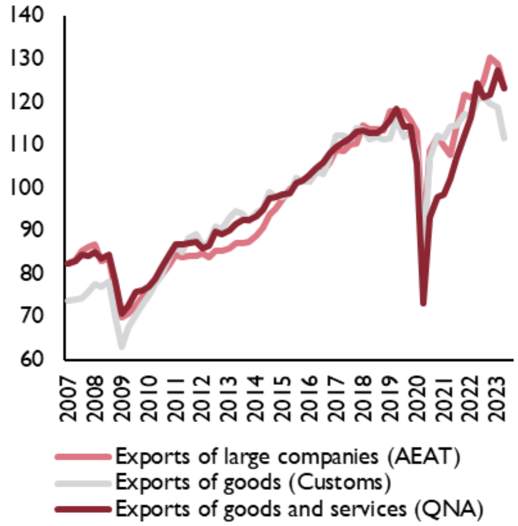
[6] Survey of Spanish Companies on the Evolution of their Activity: third quarter of 2023. ECONOMIC BULLETIN 2023/Q3. Article 15 (bde.es)

FIGURE 9. EVOLUTION OF THE ESTIMATE OF QUARTER-ON-QUARTER GDP CHANGE OF THE MIPRED MODEL (%)



Source: AIReF

FIGURE 10. EXPORTS ACCORDING TO VARIOUS SOURCES OF INFORMATION (INDEX 2015=100)



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

In line with economic activity, the labour market showed significant dynamism in the first half of 2023. Job creation in the first two quarters of 2023 was intense (Figure 11), in line with the evolution of activity. This trend is common to other advanced economies that have experienced robust employment recovery in the wake of the Covid-19 pandemic. In the case of the Spanish economy, the wage containment observed since the start of 2022 in a context of high inflation could have contributed to boosting labour demand (Figure 15).

The favourable employment trend has led to a progressive decline in the unemployment rate. In the second quarter of 2023, the unemployment rate fell to 11.6%, its lowest value since 2008 (Figure 12), remaining below the long-term average unemployment rate (2002-2019), despite the increase in the active population observed once the pandemic was overcome.

FIGURE 11. EMPLOYMENT EVOLUTION. THOUSANDS OF PEOPLE

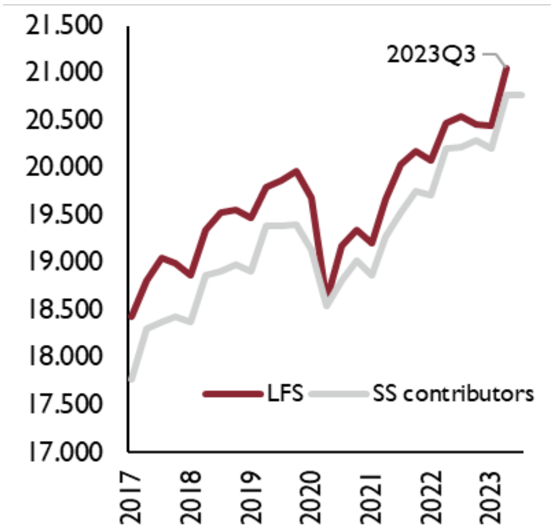
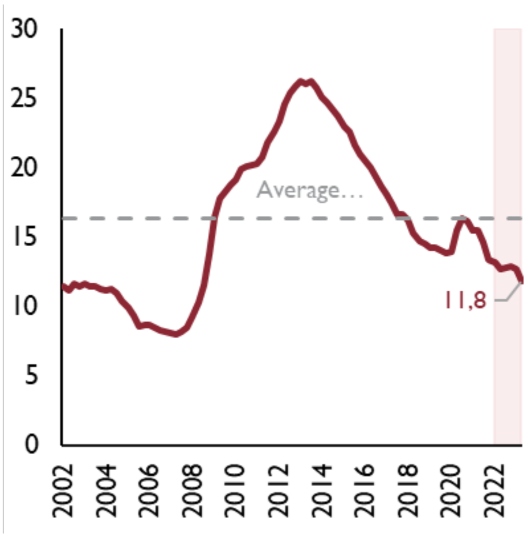


FIGURE 12. SEASONALLY-ADJUSTED UNEMPLOYMENT RATE. % ACTIVE POPULATION



Source: Haver and AIReF

However, in the third quarter, the evolution of social security affiliation has shown some signs of weakness. Affiliation increased by 7,618 people on average for the quarter, with a quarter-on-quarter rate of 0.04%, the sixth-worst third quarter on record. The slowdown in activity as the effects of the tightening of monetary policy are transmitted to the real economy could be impacting the labour market. Changes in hiring associated with the labour market reform could have altered the seasonal pattern of employment.

Job creation has been accompanied by an unprecedented reduction in the temporary employment rate following the 2021 labour reform. Since the start of 2022, employment growth has been concentrated in permanent employment contracts, particularly full-time and permanent seasonal contracts. At the same time, temporary contracts have lost importance significantly. Thus, in September 2023, temporary and training contracts accounted for 14% of total affiliates, well below the 27.9% recorded in December 2021, before the labour reform came into effect (Figure 13). Similarly, the temporary employment rate according to the Labour Force Survey (LFS) has decreased to 17.3%, from the 27.5% average for the period 2002-2021, with some stabilisation in recent months. Despite the fall in temporary employment and the number of new contracts signed monthly, other indicators suggest that there is still a high level of labour turnover. For example, the daily evolution of affiliation continues to register strong fluctuations, with pronounced changes at the start and end of the week and month. Furthermore, the turnover of workers with permanent contracts has increased, with an increase in the number of permanent contracts per person (Figure 14).

FIGURE 13. TEMPORARY EMPLOYMENT RATE. % OF SALARIED WORKERS

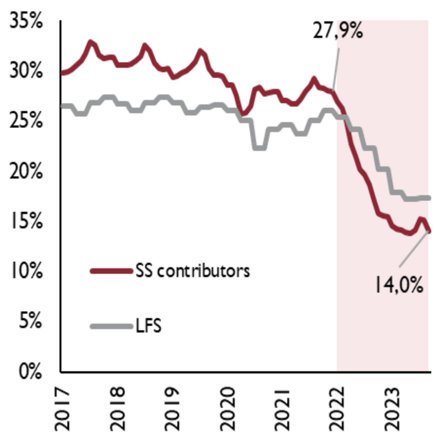
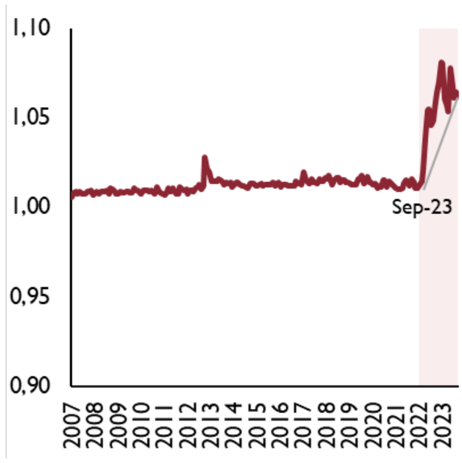


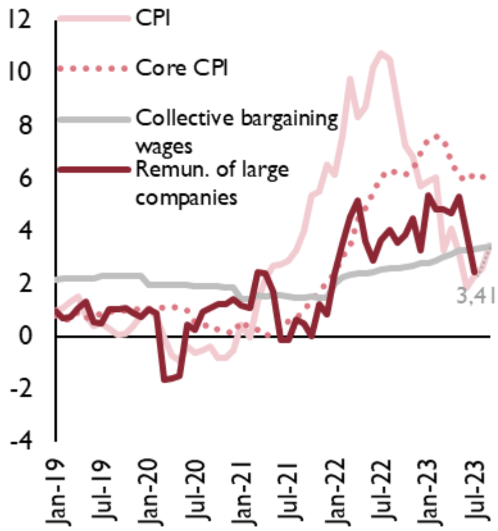
FIGURE 14. NUMBER OF PERMANENT CONTRACTS PER PERSON



Source: Social Security and State Public Employment Service

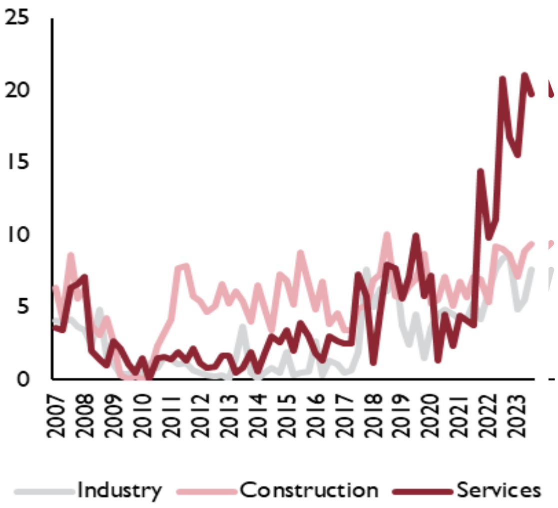
Salary increases have risen in 2023, although they remain in line with inflation, without a noticeable recovery in the purchasing power lost in 2022. Real compensation per employee experienced a significant decline in 2022. In 2023, wage demands are somewhat more intense, aligning with inflation. Accordingly, the negotiated wage rise in all agreements up to September 2023 was 3.41% (slightly below the year-on-year inflation rate for that month of 3.5%), and the agreements signed in 2023 were slightly higher, reaching 4.27% in the same month. This latter figure is slightly above the 4% set in the 5th Employment and Collective Bargaining Agreement (Spanish acronym: AENC), signed in May 2023 by trade unions and employer organisations. Despite the rising percentage of companies reporting difficulties in finding labour, there is no apparent transfer of high past inflation to wages or second-round effects.

FIGURE 15. EVOLUTION OF WAGES. YEAR-ON-YEAR RATE (%)



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

FIGURE 16. LABOUR SHORTAGE AS A LIMITING FACTOR TO PRODUCTION, BY SECTOR (% OF COMPANIES)



Source: European Commission

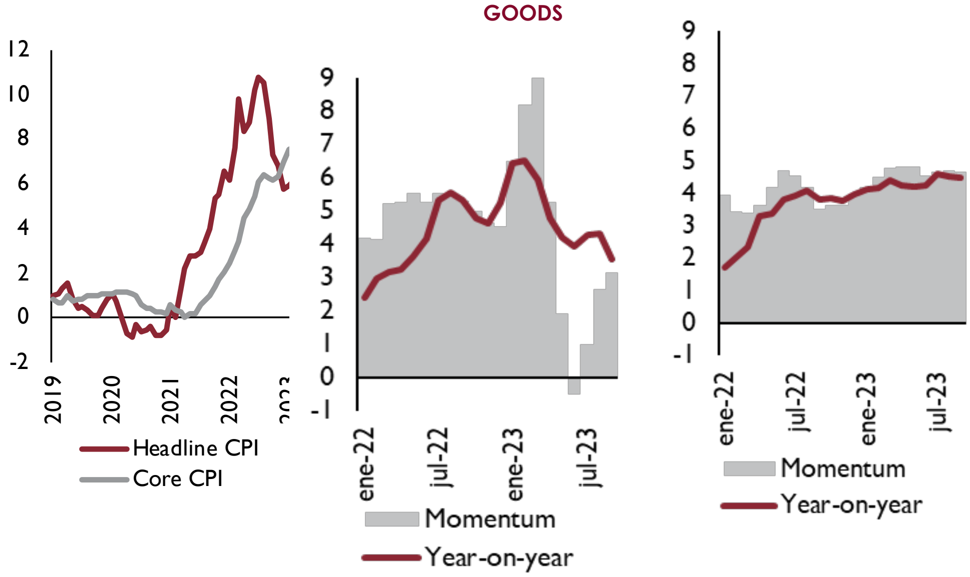
The reduction in inflation is mainly driven by its more volatile components, while core inflation shows some persistence. Since reaching its peak in July 2022 (10.8%), the headline inflation rate fell to 1.9% in June, although it subsequently rose to 3.5% in September. The lower inflation rates compared with the previous year stem from the drop in energy prices after the high levels of the previous year, along with some moderation in food prices, although they still maintain rates close to 10% (with increases of more than 60% in olive oil and 40% in sugar). In contrast, core inflation has maintained rates above 4% since April 2022, with increases around these values in both services and non-energy industrial goods.

FIGURE 17. INFLATION RATE IN SPAIN AND ITS DYNAMICS

FIGURE 17.A. IIN FLATION IN SPAIN (%)

FIGURE 17.B. NO N-ENERGY INDUSTRIAL GOODS

FIGURE 17.C. S SERVICES



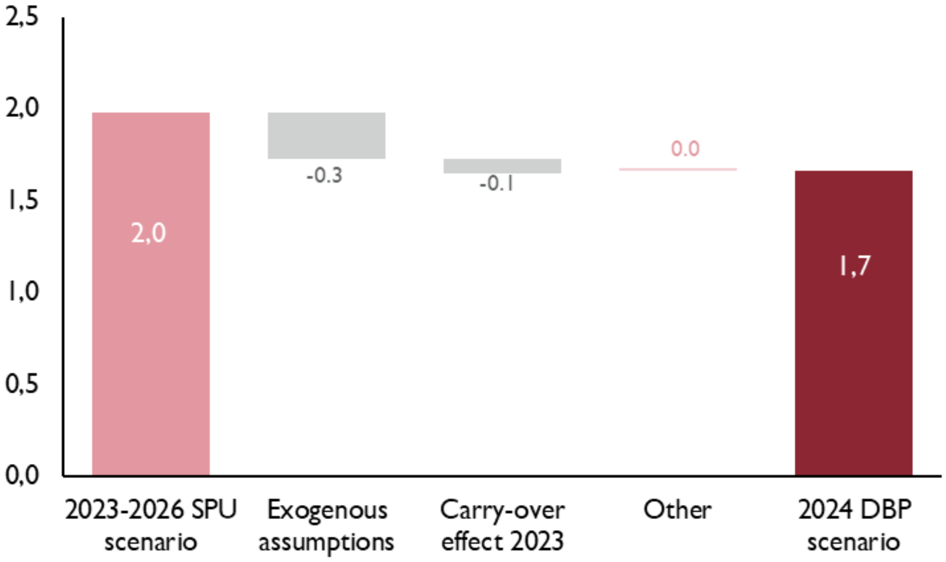
Source: INE and AIReF

3.3. AIReF's macroeconomic scenario (2023-2024)

In this section, AIReF presents its macroeconomic scenario for 2023 and 2024. This scenario serves as the basis for assessing the degree of plausibility of the Government's forecasts contained in the Budgetary Plan for 2024 in the following section. In addition, AIReF presents a macroeconomic scenario until 2028 in this report (see Box 1) to assist in medium-term economic planning and adapt its forecast horizon to what will foreseeably be necessary when the new European fiscal rules framework comes into effect.

AIReF revises its real growth forecasts for 2024 downwards. This downward revision is mainly due to weakening global growth, particularly in the euro area, along with the expected increase in oil prices and the tightening of financing conditions for the economy, the impact of which is discussed in Box 2. The downward revision of expected growth in the second half of 2023, given the recent weakening of economic activity, will have a spillover effect in 2024. All these elements counteract the positive impact associated with the revision of growth in the first half of 2023 published by the INE and the new estimate of the impact of the Recovery, Transformation, and Resilience Plan (RTRP) in 2024. As a result, the growth forecast for 2024 is reduced to 1.7%, compared with the 2% estimated in the spring.

FIGURE 18. SOURCES OF AIREF'S MACROECONOMIC OUTLOOK REVISION FOR 2024

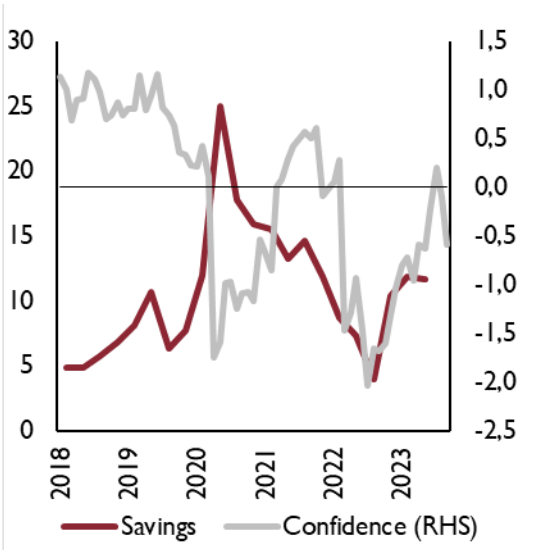


Source: Prepared by AIReF

The slowdown of GDP growth in 2024 reflects both a lower contribution from domestic demand and the foreign sector. In particular, the slower expansion of domestic demand is due to the expected slowdown of public consumption and construction investment. In contrast, private consumption would maintain a similar pace of growth to that observed in 2023. Meanwhile, investment in capital goods would become more dynamic, growing by 5.5%, compared with the 0.8% recorded in 2023.

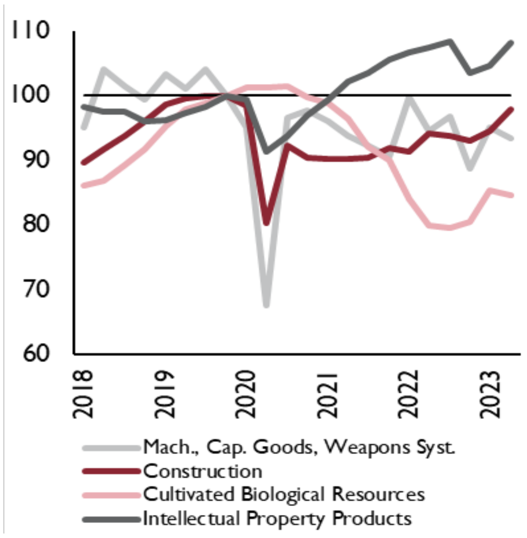
The maintenance of private consumption and the implementation of the RTRP are essential to sustain the growth of domestic demand in 2024. The increase in households' real disposable income in recent quarters, after the sharp decline in 2022, will help underpin the expansion of private consumption in 2024. However, more recently, the decline in consumer confidence and the tightening of financing conditions seem to be contributing to increases in the savings rate. Moreover, the expected expansion of investment crucially relies on the assumption of a gradual rollout of the RTRP, which is currently evident in public works tenders and would offset the slower growth of residential investment and business investment associated with persistent high levels of uncertainty and increased financing costs. In this regard, the weakness shown by the aggregate investment in capital goods since the pandemic, in a context of high uncertainty, remains at a level of 6.6% lower than pre-pandemic levels as of mid-2023.

FIGURE 19. SAVINGS RATE (% RDI) AND HOUSEHOLD CONFIDENCE (NORMALISED)



Source: INE and European Commission

FIGURE 20. COMPONENTS OF GROSS FIXED CAPITAL FORMATION (INDEX 2019Q4=100)



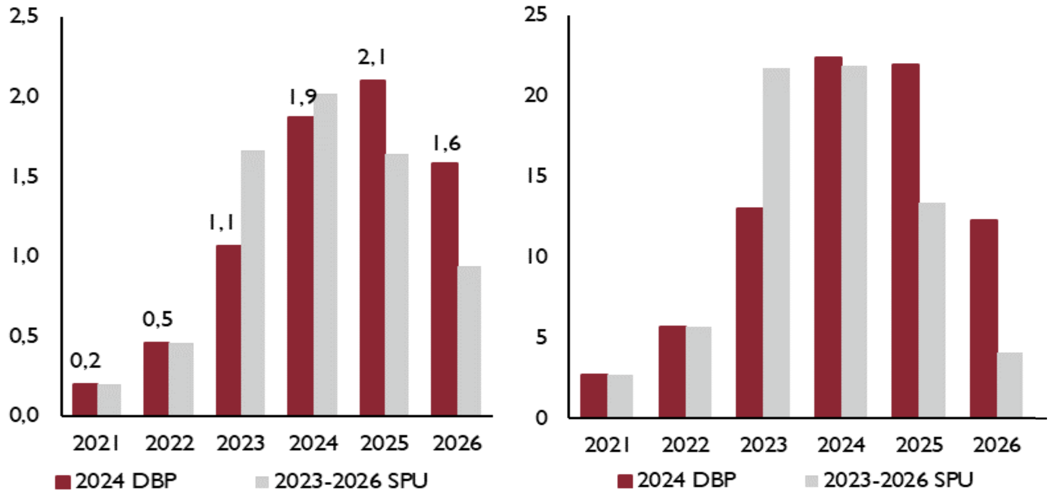
Source: INE

As regards the RTRP, AIReF revises the estimates of effective implementation in 2023 downwards and maintains those for 2024. The analysis carried out by AIReF based on information from public tender platforms and the subsidy database (see Box 3) leads to a downward revision of the assumption of effective project implementation in 2023 to €13bn. This implies a downward revision of the estimated impact of the RTRP for that year to 1.1% in terms of GDP level. In contrast, for 2024, the assumption of full execution of budgeted projects is maintained, incorporating, in addition, the transfers planned in the addendum. Overall, in 2024, it is estimated that the GDP level will be 1.9% higher than it would have been in the absence of the RTRP. However, it should be noted that two years after the start of the RTRP, detailed information on its degree of effective implementation and the additional projects carried out is still not available. Accordingly, this quantification remains a theoretical exercise that should be interpreted with caution. These estimates do not incorporate any potential impact associated with the reforms of the Plan.

FIGURE 21. ESTIMATION OF THE DISTRIBUTION OF RTRP FUNDS (€M) AND THEIR IMPACT ON GDP

FIGURE 21.A. IMPACT ON GDP. (% DEVIATION FROM A SCENARIO WITHOUT RTRP)

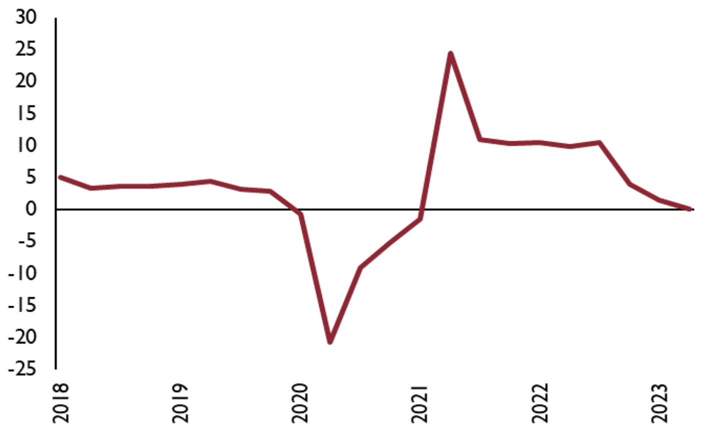
FIGURE 21.B. DISTRIBUTION OF RTRP FUNDS (MILLIONS OF €)



Source: AIReF

External demand will make a neutral contribution to growth in 2024, according to AIReF's estimates. After the extraordinary dynamism of 2021 and 2022, exports weakened throughout 2023 in line with the performance of export destination markets. In this regard, the weakening of the euro area and other markets, along with the recent appreciation of the euro, lead to expectations of a slowdown in exports in 2024. In contrast, imports would show a slight acceleration in 2024, in line with the expansion of investment in capital goods due to the import intensity of this component of demand.

FIGURE 22. EXPORT MARKETS OF SPAIN. YEAR-ON-YEAR RATE OF CHANGE (%)



Source: Haver and Refinitiv

AIReF estimates employment growth for 2024 in line with the expected evolution of activity. In 2023, AIReF projects full-time equivalent employment growth of 1.9%, which would reduce the unemployment rate to 12%, consistent with the historical relationship observed between GDP growth and the unemployment rate. In 2024, employment expansion would be lower, at 0.9%, given the expected lower dynamism of economic activity and the unemployment rate would drop to 11.5%. In this context, productivity per full-time worker would register a slight increase in 2024, rising by 0.7% after the estimated 0.5% rise for 2023.

Wages would evolve in line with inflation in 2024, remaining constant in real terms. As regards wages, growth in the compensation of employees of 4.7% is expected in 2023, conditioned by the evolution observed in the first two quarters and projected inflation. In 2024, wage rises would stand at around 4%, consistent with the guidelines of the AENC, which establishes wage rises of 3% in 2024, with a review clause of up to an additional 1%, if inflation exceeds 3%, as is the case in AIReF's scenario.

As regards prices, AIReF projects inflation will remain at 4% in 2024. This is the result of opposing forces: on the one hand, the relaxation of supply bottlenecks and the impact of tightening monetary policy on economic activity, along with base effects associated with food prices, will exert downward pressure on prices. In contrast, the disappearance of the measures implemented since 2022 to combat the effects of inflation will have a positive impact of around 1 percentage point on inflation throughout 2024. This is in addition to the assumption of higher oil prices on international markets compared with those contemplated in the 2023-2026 SPU scenario, while other raw materials will maintain high prices in a context of high volatility.

3.4. Evaluation of the macroeconomic scenario of the Budgetary Plan for 2024

3.4.1. Technical assumptions in the 2024 Budgetary Plan scenario

The exogenous assumptions underlying the Government's macroeconomic outlook appear reasonable. The technical assumptions used by the Government in preparing its macroeconomic scenario are similar to those considered by AIReF. However, discrepancies are noted in the assumption of growth in Spanish export markets in 2023, which is higher than AIReF's estimate (0.4%), while the Government forecasts slightly higher oil prices in 2024 than those made by AIReF ($86.20/barrel).

TABLE 2. ASSUMPTIONS OF THE GOVERNMENT'S MACROECONOMIC OUTLOOK FOR THE 2024 BUDGETARY PLAN

	2022	2023	2024
Short-term interest rates (three-month Euribor)	0,3	3,4	3,7
Long-term interest rates (10-year government bonds, Spain)	2,2	3,5	3,7
Exchange rate ($/€)	1,1	1,1	1,1
Growth in world GDP, excluding the euro area	3,3	3,2	3,0
GDP growth in the euro area	3,4	0,7	1,0
Spanish export markets	8,3	1,2	2,9
Oil price (Brent, $/barrel)	99,1	84,0	89,0
Natural gas price (€/MWh)	99,9	37,0	33,0

Source: Ministry of Economic Affairs and Digital Transformation

3.4.2. Comparison of AIReF's scenario and the 2024 Budgetary Plan

The following table illustrates the comparison and composition of the macroeconomic outlook of AIReF and the Government.

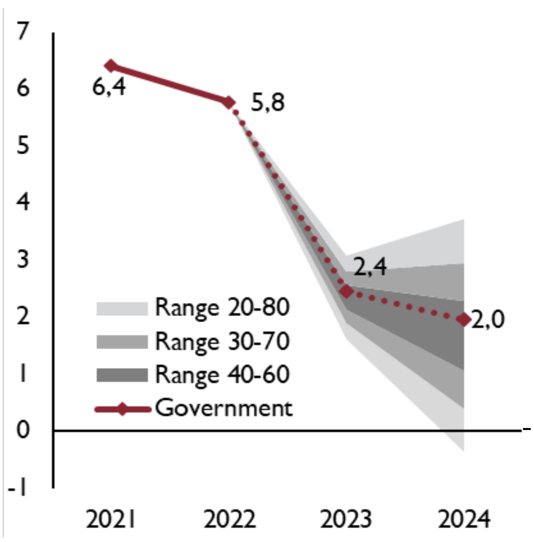
TABLE 3. MACROECONOMIC OUTLOOK FOR THE YEARS 2023-2024

		AIReF		Government	
Year-on-Year Rates of Change	***2022***	***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
GFCF Equipment and Cultivated Assets	*1,2*	*0,8*	*5,5*	*2,3*	*7,3*
GFCF Construction and Intellectual Property	*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	--	--

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

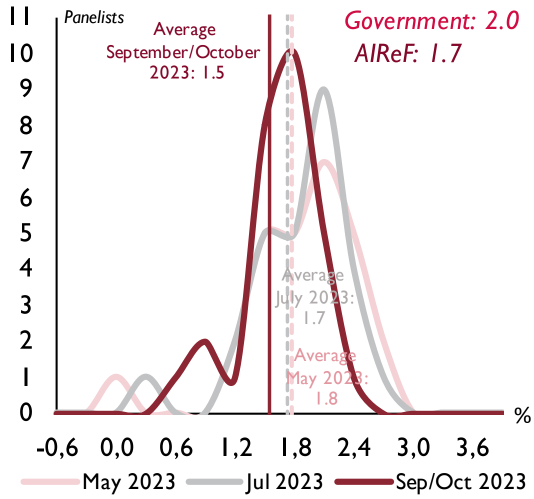
AIReF forecasts lower growth in volume terms than the Government in both 2023 and 2024. The Government's macroeconomic scenario forecasts real GDP growth of 2.4% in 2023 and 2% in 2024, while AIReF estimates very similar growth for 2023 (2.3%), however, 0.3 points lower for 2024. The Government's growth forecasts in volume terms fall within the central probability range estimated by AIReF for both years. However, the Government's expected growth for 2024 is at the upper end of the range of the most recent estimates by other private forecasters and institutions (see Figure 24).

FIGURE 23. GDP GROWTH RATE IN VOLUME TERMS (%)



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

FIGURE 24. COMPARISON OF GDP GROWTH FORECASTS IN VOLUME TERMS FOR 2024



Source: Forecast panels, BBVA Research, FUNCAS, International Monetary Fund, Bank of Spain, and AIReF

Note: Averages and distributions in Figure 24 have been calculated using only entities that have issued new forecasts between September and October 20th.

In terms of prices, AIReF anticipates lower growth in the GDP deflator than the Government. The Government's scenario includes higher growth in the implicit GDP deflator than AIReF in both 2023 and, primarily, in 2024. However, this greater increase in domestic prices in the Government's scenario is not accompanied by higher wage growth.

Consequently, the Government's nominal GDP growth forecast for 2024 is higher than AIReF's, 5.6% compared with 4.9%. The Government's forecast for real GDP in 2023 falls in the central part of AIReF's confidence intervals, albeit higher than its central forecast, while the GDP deflator forecast would be at the upper limit of the central interval, resulting in a nominal GDP forecast at percentile 60 of AIReF's estimates, i.e., at the optimistic end of its central probability range.

FIGURE 25. NOMINAL GDP GROWTH RATE (%)

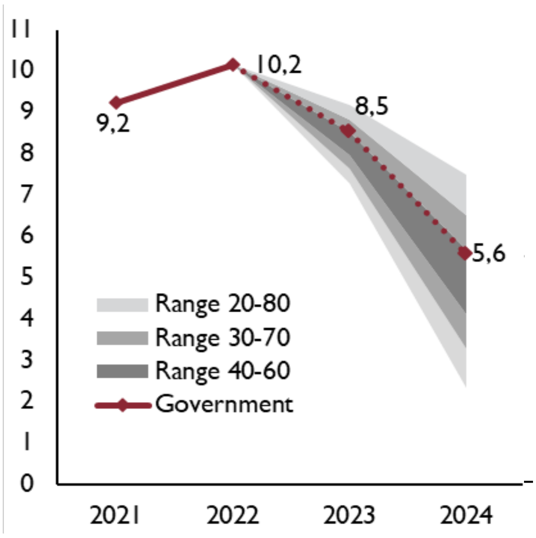
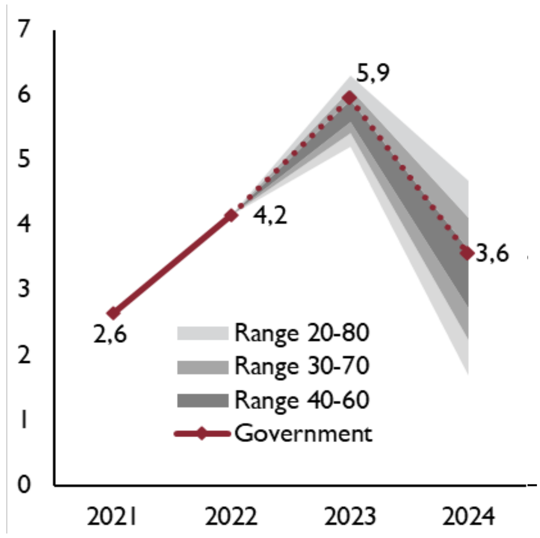


FIGURE 26. GDP DEFLATOR GROWTH RATE (%)



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

The main differences between the Government's and AIReF's macroeconomic forecasts for 2024 lie in the Government's higher expected growth in domestic demand, partially offset by a negative contribution from the foreign sector compared with AIReF's expectation of a zero contribution. The Government forecasts stronger performance from domestic demand in 2024, with a significant acceleration in both gross fixed capital formation and private consumption. This more dynamic demand reflects the Government's perception that the transmission of financing conditions to the real economy may have already been completed in 2023. AIReF considers that the increases in official interest rates have not yet fully passed on to household demand and that greater effects will be felt throughout 2024, as explained in Box 2. The Government also expects more moderate growth in public consumption and a negative contribution from the foreign sector.

The Government forecasts strong acceleration of private consumption in 2024, slightly above percentile 60 of AIReF's estimate. The Government expects private consumption to experience strong acceleration in 2024, growing from 1.5% in 2023 to 2.5% in 2024. Although AIReF also forecasts acceleration in private consumption in its scenario, this would be much lower, at only 0.2 points, reaching 1.8% in 2024. AIReF considers that the acceleration of private consumption in the Government's macroeconomic outlook poses downside risks due to tightening financing conditions and the recent deterioration of household confidence.

Conversely, the Government estimates more moderate growth in public consumption, both in 2023 and 2024. The Government expects more contained growth in public consumption in 2024, at 0.2%, although it falls within the central range of probability bands estimated by AIReF. As highlighted in Chapter Four of this report, the evolution of public consumption contained in the macroeconomic outlook is not consistent with the information published on the evolution of its main components contained in the fiscal roadmap of the Budgetary Plan.

FIGURE 27. RATE OF CHANGE OF PRIVATE CONSUMPTION IN VOLUME TERMS (%)

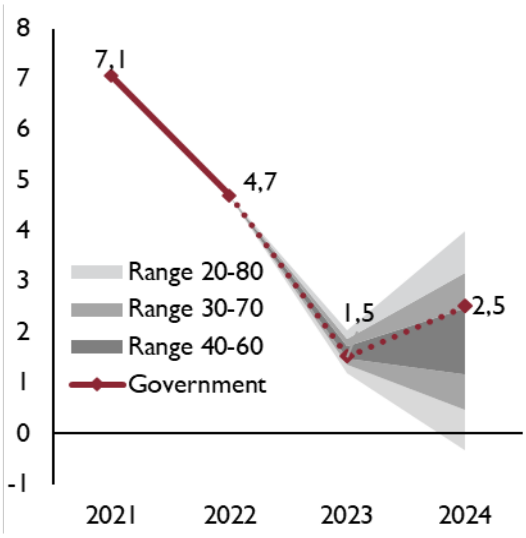
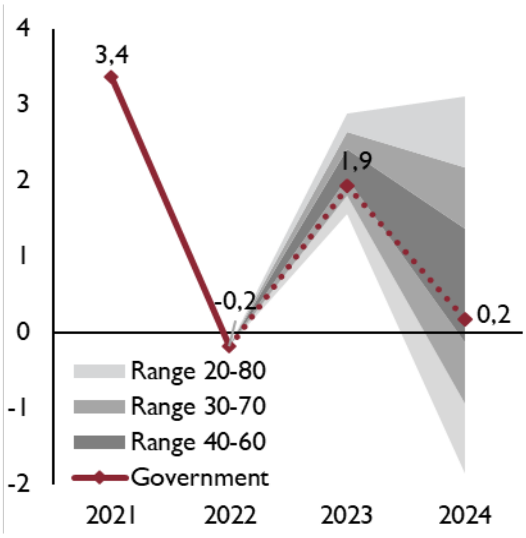


FIGURE 28. RATE OF CHANGE OF PUBLIC CONSUMPTION IN VOLUME TERMS (%)



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

As regards total investment, the Government's estimates would fall within the central interval estimated by AIReF in 2023 and in the 60-70 range in 2024. In 2023, the Government forecasts growth in investment in capital goods and cultivated assets that is considerably higher than AIReF's estimate (2.3% versus 0.8%), while it's forecast for investment in construction and intellectual property assets is lower than AIReF's central forecast (3.3% versus 3.7%). This leads to the Government's total gross fixed capital formation (GFCF) forecast falling within the central range of AIReF's estimates for this year. However, in 2024, the Government forecasts higher growth in both components of investment than AIReF, placing its forecast for total GFCF growth above the 40-60 range estimated by AIReF, presenting downside risks.

FIGURE 29. RATE OF CHANGE OF GFCF IN VOLUME TERMS (%)

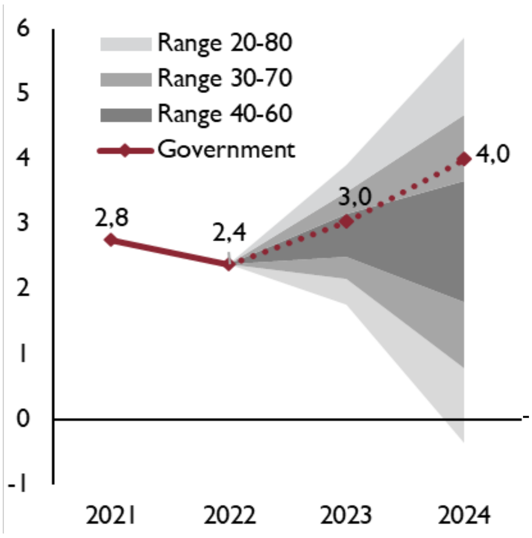
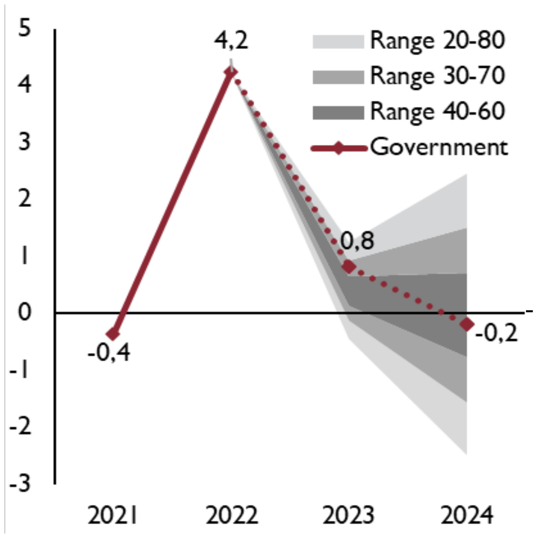


FIGURE 30. CONTRIBUTION FROM FOREIGN DEMAND TO GDP (PP)

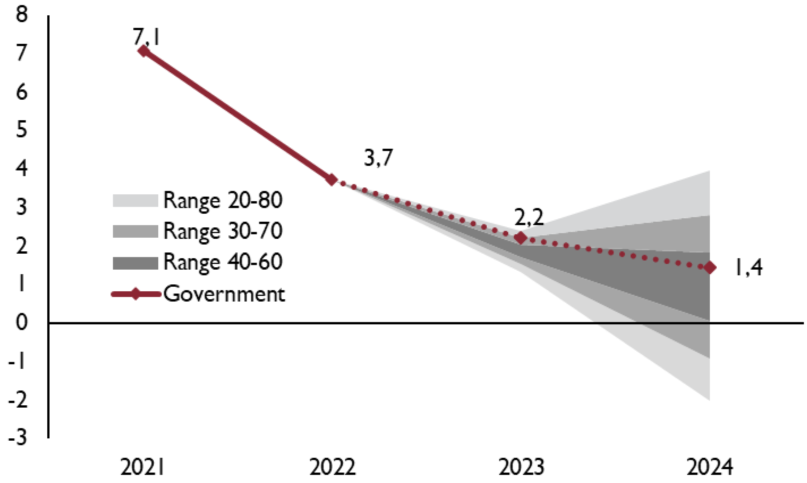


Source: INE, Ministry of Economic Affairs and Digital Transformation, and AIReF

While the Government's forecasts regarding the contribution from the foreign sector to GDP growth would be on the optimistic side of AIReF's bands in 2023, they would be within the central range, although below AIReF's forecast, in 2024. The Government's projections for the contribution of the foreign sector to GDP growth are significantly higher than those of AIReF in 2023 due to AIReF's higher forecast for growth in imports, while the forecast for exports is much closer. In 2024, in contrast, the Government is somewhat more pessimistic regarding the contribution from the foreign sector, forecasting a drop of 0.2 points of growth, while AIReF estimates a zero contribution. Looking at the aggregates of the foreign sector, it can be observed that the discrepancy is entirely due to the Government's higher forecast for import growth, 0.8 points above that of AIReF, which is consistent with the greater expansion it expects in investment and private consumption.

In line with lower real growth, AIReF expects less employment growth than the Government. Employment growth in terms of full-time equivalent positions forecast by the Government is slightly higher than that forecast by AIReF in 2024, although it falls within the central forecast range. Like AIReF, the Government forecasts an acceleration of apparent labour productivity in 2024, however, with less intensity, contrasting with the structural transformation boost that the Government attributes to the RTRP.

FIGURE 31. RATE OF CHANGE OF FULL-TIME EQUIVALENT EMPLOYMENT (%)



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

Finally, it is worth noting that the Government's forecasts are somewhat more optimistic than those of AIReF regarding the reduction in the unemployment rate, particularly in 2024, forecasting slightly less wage growth than AIReF forecasts for 2024. The Government expects the unemployment rate to fall to 10.9% for the active population in 2024, 0.6 points less than forecast by AIReF. This would occur in a context of slower wage growth compared with AIReF's forecast, in line with the slightly lower increase in apparent labour productivity forecast in the Government's scenario. This would result in a fairly similar evolution of unit labour costs in both scenarios, albeit slightly higher in the Government's scenario in 2023.

FIGURE 32. UNEMPLOYMENT RATE (% OF THE ACTIVE POPULATION)

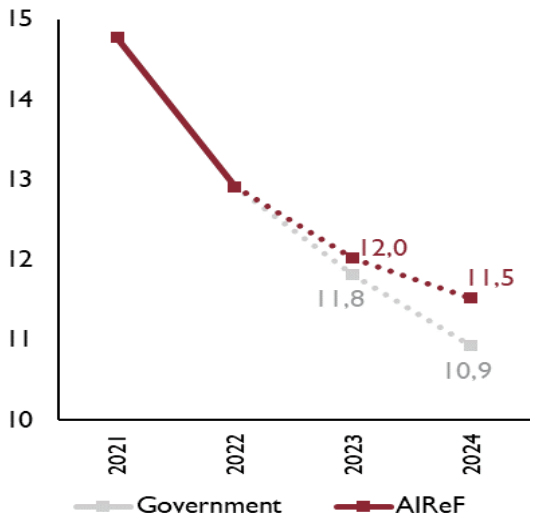


FIGURE 33. WAGE PER EMPLOYEE. RATE OF GROWTH (%)

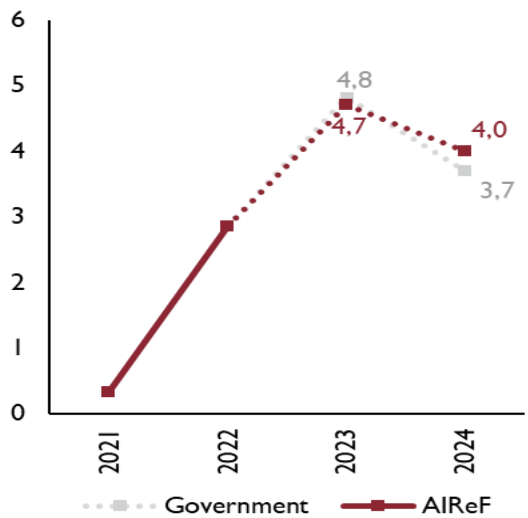


FIGURE 34. PRODUCTIVITY PER EMPLOYEE. RATE OF GROWTH (%)

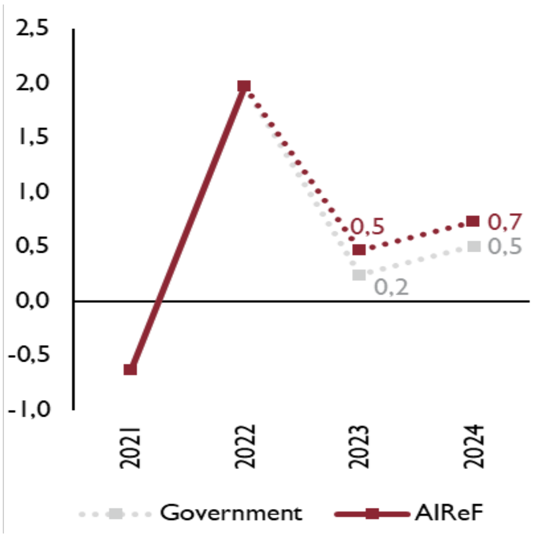
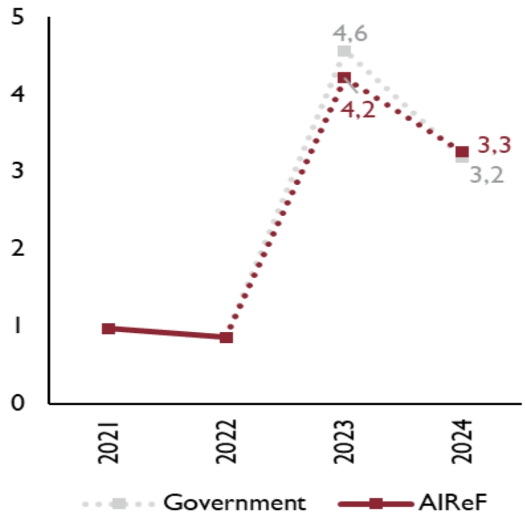
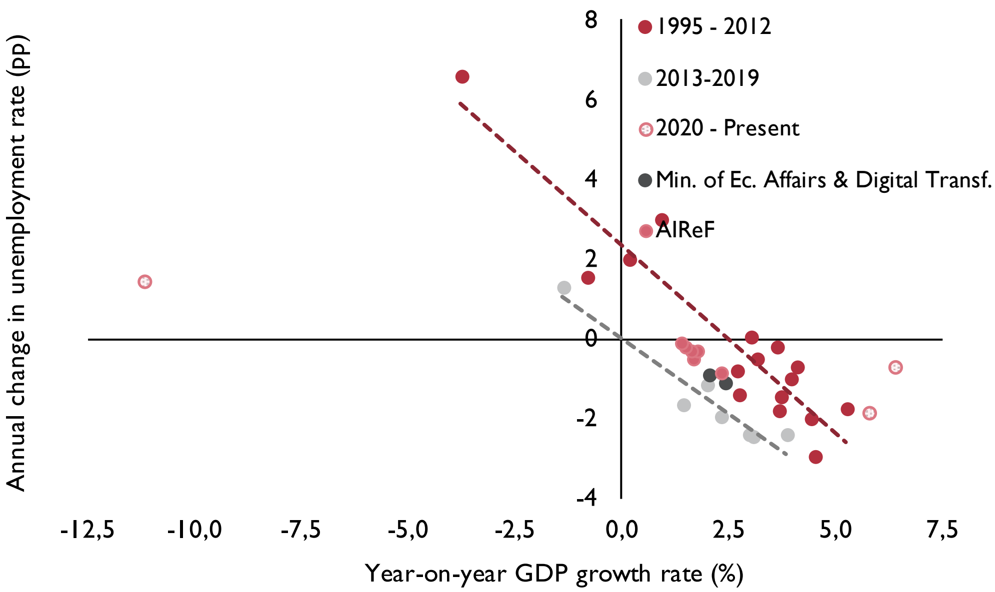


FIGURE 35. UNIT LABOUR COST. RATE OF GROWTH (%)



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

FIGURE 36. OKUN'S LAW



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

3.5. Risk analysis

Geopolitical tensions pose downside risks to global growth and the Spanish economy. The global economy has shown resilience to recent shocks, with current consensus pointing towards a smooth landing of global growth. However, uncertainty remains at very high levels. Ongoing conflicts such as the war in Ukraine, tensions between the United States and China, the threat of war in Taiwan, coupled with recent events in the Middle East, pose extreme risks. In this context, while most analysts suggest that gas supply for this winter would be guaranteed due to large reserves and contained demand from European countries, an escalation of tensions in oil markets cannot be ruled out due to the conflict between Palestine and Israel and the possibility of its spill over to other Middle Eastern countries.

Growth could be slower if inflation persists and the tightening of monetary policy intensifies. As regards prices, tensions in commodity markets could lead to high inflation persisting for longer and heightened tightening of global financial conditions. In addition, labour shortages in some European economies are driving wages up, complicating the containment of inflation and potentially leading the ECB to implement a new interest rate hike.

Furthermore, a series of crises has weakened potential growth, as indicated by the IMF. For 2028, the IMF estimates global GDP growth of 3.1%, half a percentage point lower than pre-pandemic estimates and 2 points below the rate estimated before the financial crisis. Increasing global protectionist measures to ensure the autonomy of supply in strategic sectors undoubtedly diminishes the significant contribution from trade to global growth over recent decades, posing a risk of greater fragmentation in trade and financial relationships.

In this complex context, the growth of the Spanish economy could surprise on the upside if the labour market remains robust, driving real income growth and consumer confidence, with an additional boost from European funds for investment.

BOX 1. THE SPANISH ECONOMY IN THE MEDIUM TERM.

In this box, AIReF presents a comprehensive macroeconomic scenario up to 2028, continuing the practice that began last year with the Report on the General Budget for 2023. This scenario provides relevant information for medium-term planning, a central element of the new fiscal framework that will foreseeably come into force in 2024.

According to AIReF's forecasts, after the slowdown of growth in 2023 and 2024, the Spanish economy would gradually converge to its potential growth, estimated by AIReF at around 1.3%, following a slight rebound in 2025 reflecting the exhaustion of the effects associated with tightening financial conditions on domestic and global demand.

Economic growth would be primarily driven by the contribution of domestic demand, underpinned by the expansion of both private consumption and investment. Specifically, private consumption would maintain a rate of growth consistent with a gradual return of household savings rates to their medium-term values. For its part, investment would see its rate of growth drop as the investment boost associated with the RTRP diminishes, allowing the economy's capitalisation rates to remain stable at around 20% of GDP, close to their historical average.

The contribution from the foreign sector to growth would be positive, although at a lower rate (0.2 percentage points on average). Exports would maintain growth rates in line with expected global trade growth, based on the most recent IMF forecasts projecting the lowest medium-term global growth in decades. In particular, the IMF's October 2023 forecasts suggest global GDP growth of 3.1% in 2028, below the 3.6% five-year growth projected in January 2020, before the outbreak of the pandemic, and the 4.9% expected before the financial crisis. For their part, imports would maintain a growth rate in line with final demand growth.

The employment growth profile remains in line with economic activity, estimated by means of Okun's Law, which establishes a historical relationship between employment and GDP growth. This employment growth would lead to a gradual reduction in the unemployment rate, converging in 2028 to levels close to the non-accelerating inflation rate of unemployment (NAWRU), and productivity growth of around 0.6%, similar to the average of the last three decades (1990-2022).

Finally, inflation would converge to the ECB reference rates in the medium term once pressures on prices associated with shocks in commodity markets and geopolitical tensions subside. Similarly, wages would grow in 2025 above the rate of inflation, once the hypothesis of a partial recovery of purchasing power losses recorded during the current inflationary episode is incorporated. From that year onwards, real wages would remain virtually constant.

CUADRO RE_1.1. MACROECONOMIC SCENARIO 2023-2028

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
GFCF Equipment and Cultivated Assets	*1,2*	*0,8*	*5,5*	*3,5*	*2,0*	*1,9*	*1,9*
GFCF Construction and Intellectual Property	*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

Source: INE and AIReF
Note: AIReF publishes the projected evolution of GDP in volume terms of the Autonomous Regions consistent with this macroeconomic outlook. Details can be found in the Monitor of Economic-Financial Information of the Autonomous Regions.

It is noteworthy that this scenario is framed in a context of significant uncertainty regarding the medium-term growth of the Spanish and global economies, given the succession of shocks in recent years. AIReF's estimates assume that, despite the strong recovery in the wake of the pandemic, real GDP has not regained its pre-pandemic path. This potential scarring effect — permanent effects on economic activity linked to major macroeconomic shocks — would be similar to what has been observed in the past in Spain and other countries in adverse situations associated with financial crises or supply shocks linked to an increase in the prices of energy sources. It can also be expected that if the RTRP achieves its goal of structural transformation for which it was conceived, the economy's potential growth could rise compared with AIReF's estimate.

FIGURE RE_1.1. POTENTIAL GDP OF EU MEMBER STATES

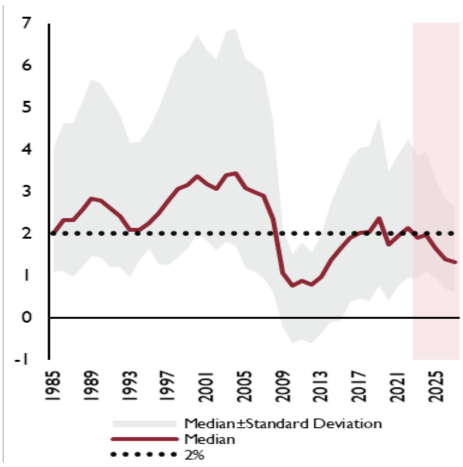
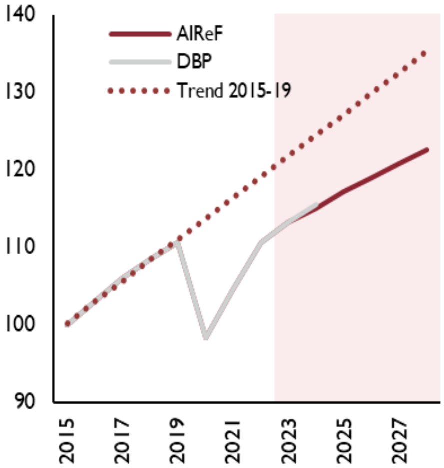


FIGURE RE_1.2. REAL GDP OF SPAIN (2015=100)(% ANNUAL CHANGE)

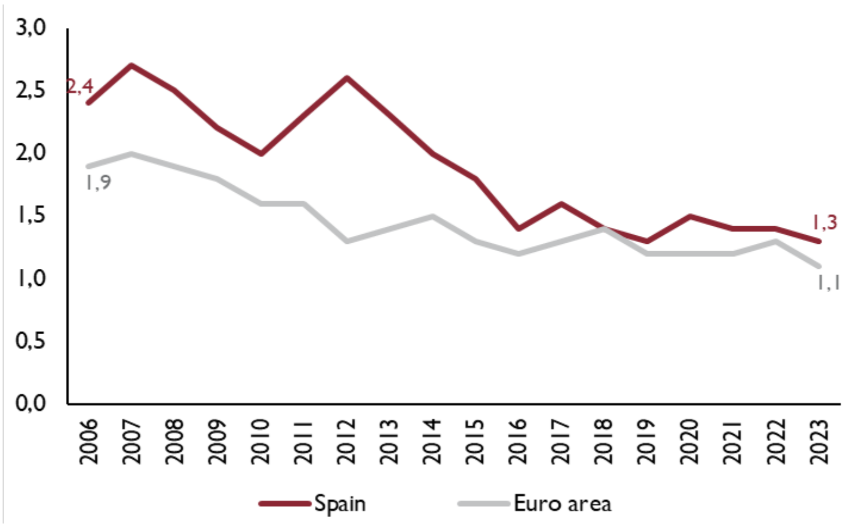


Source: European Commission. Spring 2023 Forecasts, Ministry of Economic Affairs and Digital Transformation, and AIReF

Note: EU excluding the United Kingdom and Ireland

Nevertheless, medium-term estimates of potential growth by the European Commission in spring 2023 project potential GDP growth of close to 1.5% in the EU and Spain. As mentioned above, medium-term forecasts indicate a successive downward revision from the early 2000s.

FIGURE RE_1.3. LONG-TERM GROWTH FORECASTS FROM FORECAST PANELS. AVERAGE BETWEEN T+6 AND T+10 (%)



Source: Consensus Forecasts, October forecasts each year

Furthermore, the use of the production function allows medium-term growth to be broken down into contributions from productive factors, labour and capital, and total factor productivity (TFP). AIReF's medium-term scenario assumes a 0.7-percentage point contribution of labour to economic growth, determined by both a decrease in the unemployment rate and moderate growth in the working-age population and the participation rate. Its slowdown compared with previous periods reflects the lower expansion of the working-age population expected by AIReF and the proximity of unemployment rates to their long-term equilibrium values. Furthermore, in the medium-term projection, it is assumed that the investment-to-GDP ratio will remain stable at around 20% of GDP. This leads to an estimated contribution of the TFP of 0.6 percentage points.

FIGURE RE_1.4. GDP BREAKDOWN INTO FACTORS (ANNUAL CHANGE AND CONTRIBUTION)

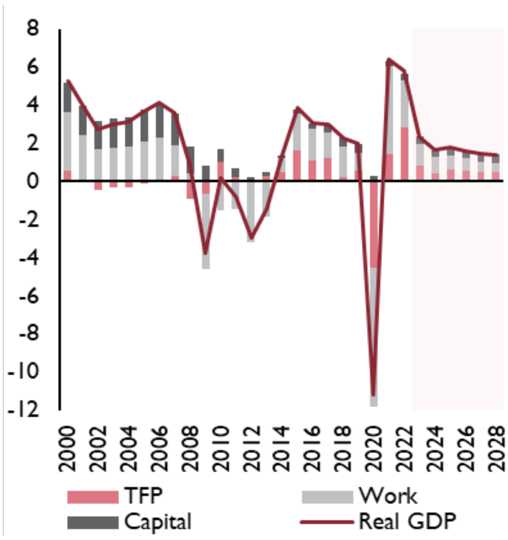
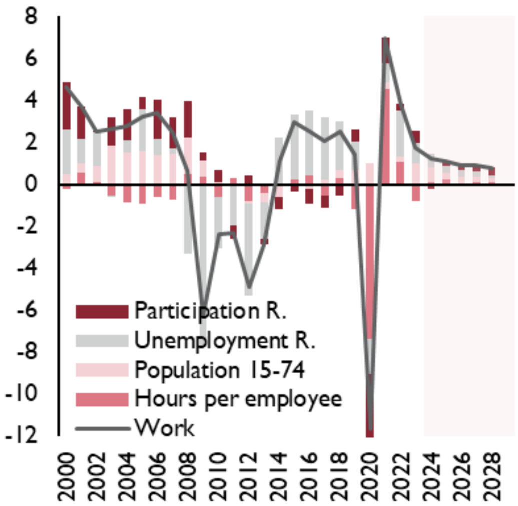


FIGURE RE_1.5. BREAKDOWN OF LABOUR FACTOR (ANNUAL CHANGE AND CONTRIBUTION)

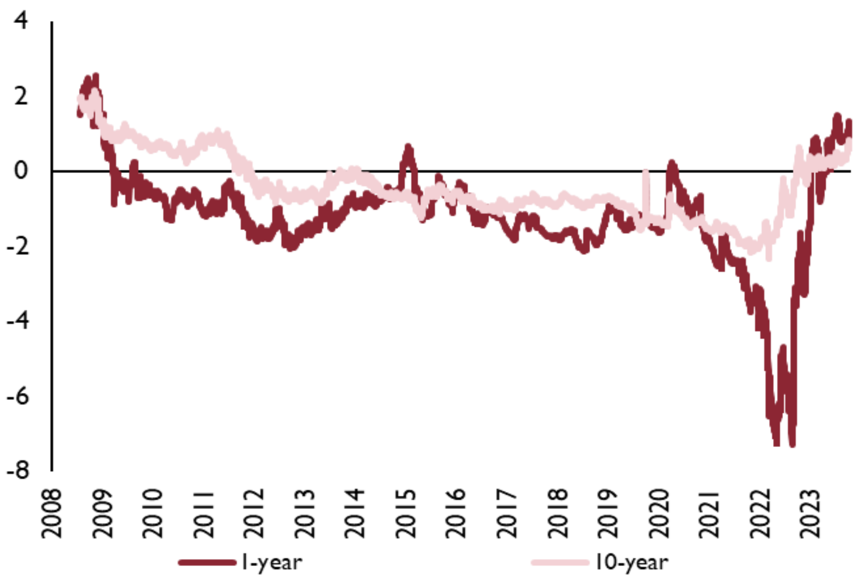


Source: AIReF

BOX 2. HAS THE TRANSMISSION OF RECENT INTEREST RATE HIKES TO THE SPANISH ECONOMY ENDED?

In recent months, financing costs for households and businesses have continued to rise in response to increases in the official interest rates of the European Central Bank. The shift in the tone of monetary policy began in mid-2022, resulting in a rapid and intense increase of 450 basis points in reference interest rates - the fastest hike since the creation of the European Monetary Union. Accordingly, real interest rates, approximated by the spread between the overnight interest swap (OIS) rate and the inflation swap value at the same term, which maintained negative rates until early 2023, currently exhibit positive and growing values. For the first time in over a decade, long-term real interest rates now stand in positive territory.

FIGURE RE_2.1. REAL INTEREST RATES (%)



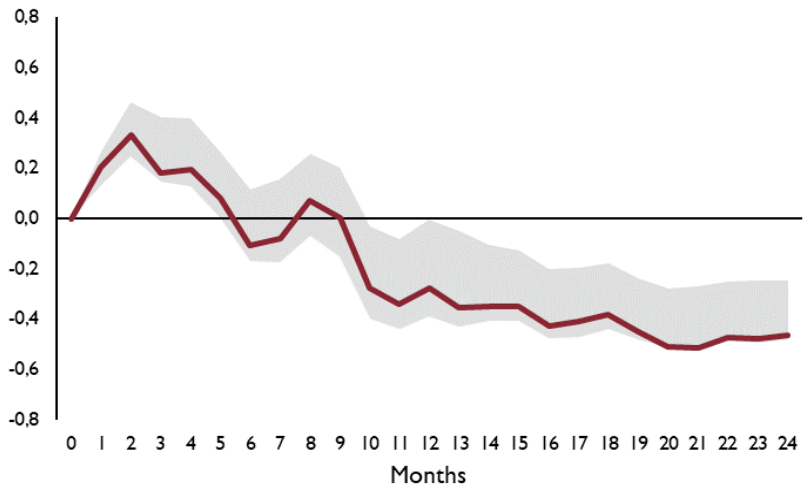
Source: Refinitiv

Note: Calculated by subtracting the value of the inflation swap at the same term from the OIS rate

The intensity and timing that these cost increases pass through to the real economy are subject to significant uncertainty. In this regard, AIReF's estimates suggest that an interest rate shock may negatively impact economic activity with a lag of eight to ten months, reaching its maximum effect at around 14-20 months. These results align with alternative model-based estimates from the ECB, indicating that the transmission of the shift in tone of the monetary policy that began in late 2021 could reduce the average GDP growth of the euro area by 2 percentage points in the period

2022-2025. The negative impact on growth in 2024 would amount to 2 percentage points, following its peak in 2023 (-4 percentage points)[7].

FIGURE RE_2.2. IMPACT OF A ONE STANDARD DEVIATION SHOCK TO THE 3-MONTH EURIBOR ON LARGE COMPANY SALES

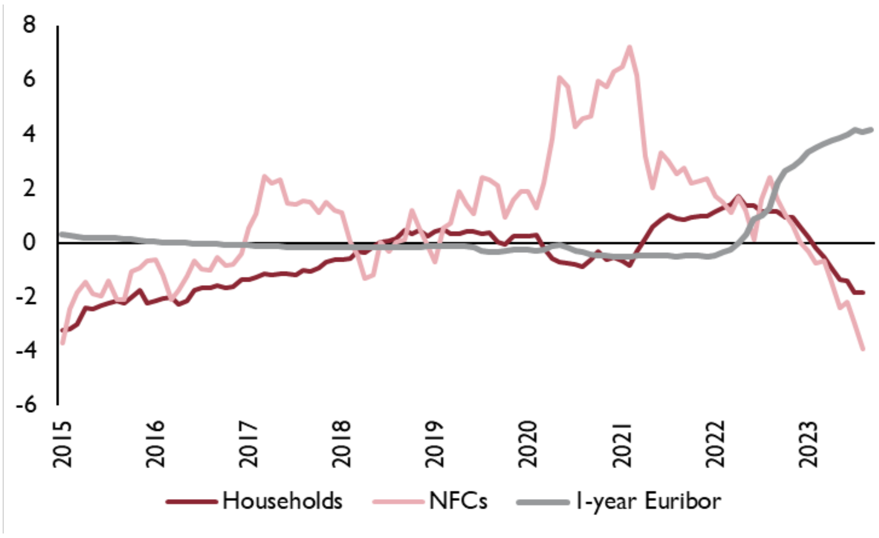


Source: AIReF

The evolution of interest rates on bank loans, the criteria for granting loans, and volumes of financing in the euro area suggests that the transmission of the tightening of monetary policy is occurring intensely. However, it has not yet ended. In addition, a gradual slowdown in lending to households and non-financial companies, particularly loans for house purchases, has been observed.

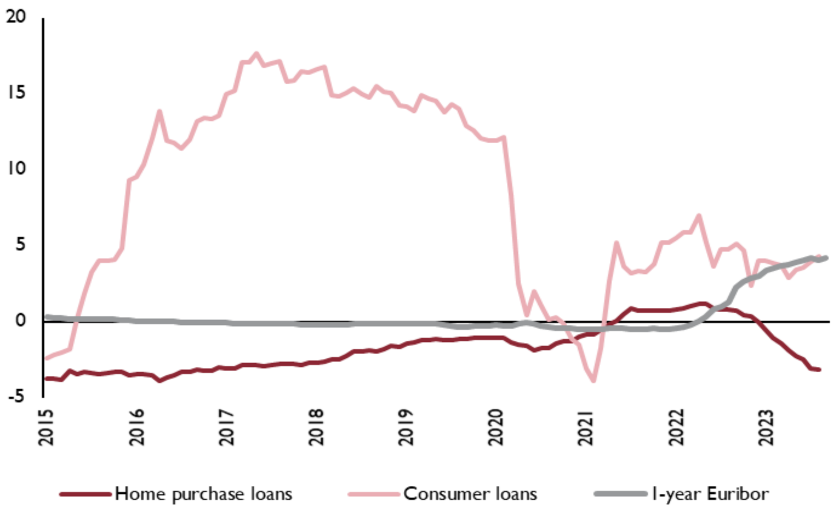
[7] BCE (2023)

FIGURE RE_2.3. YEAR-ON-YEAR CHANGE IN TOTAL LENDING TO NON-FINANCIAL COMPANIES AND HOUSEHOLDS (%)



Source: Bank of Spain

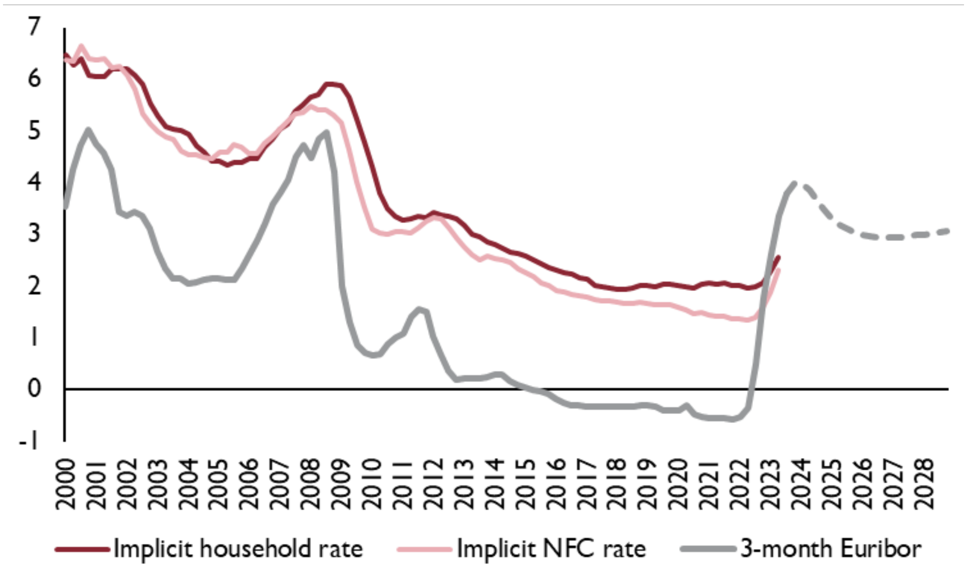
FIGURE RE_2.4. YEAR-ON-YEAR CHANGE IN LOANS TO HOUSEHOLD. BREAKDOWN BY PURPOSE



Source: Bank of Spain

Although the costs of new financing operations for households and businesses have increased significantly, delays in setting interest rates — primarily half-yearly or even yearly — have meant that implicit loan rates (and debt values) have not grown to the same extent as reference rates. This means that the temporary cushion in the disposable income of households and non-financial companies will gradually diminish, putting purchasing power under pressure as the historical relationship between implicit rates and reference rates recovers.

FIGURE RE_2.5. IMPLICIT RATES OF DEBT FOR HOUSEHOLDS AND NON-FINANCIAL COMPANIES AND 3-MONTH EURIBOR (%)



Source: Bank of Spain, INE, Refinitiv and Haver

Note: Calculated with the heading of interest paid before the allocation of FISIM in relation to the loan balance (and representative debt values in the case of non-financial companies)

All this suggests that, although the transmission of monetary policy to real activity is occurring quickly and intensely, negative effects on household and business spending decisions associated with tightening financing conditions can still be expected throughout 2024.

BOX 3. METHODOLOGY FOR CALCULATING THE TIMELINE OF THE INVESTMENT PROFILE OF THE RTRP

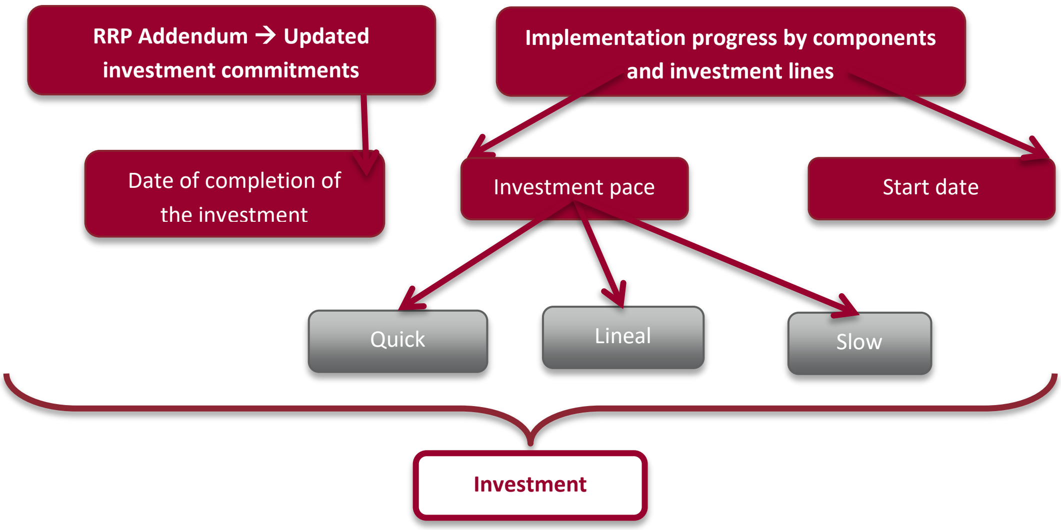
AIReF, in response to the need for a complete 2021-2027 timeline of the execution of the RTRP in national accounting terms to quantify its economic and budgetary impact, has conducted an exercise using the most up-to-date information available, including the recent addendum to the RTRP. A profile of investments has been constructed that reflects the current level of execution of the components and their lines of investment, with the main limitation of the compatibility with this addendum while respecting national accounting execution data for 2021 and 2022.

To perform this exercise, the milestones and objectives of the main RTRP components were first examined to obtain the volume of investments. Specifically, of the 27 components with associated transfers, the 16 with the largest volume of investment were analysed, accounting for €69.56bn or 87.1% of the total transfers. This analysis includes the new Component 31, REPowerEU.

Once the investments are determined, three factors are needed for their time distribution. The first is the completion date of the investment, which is determined by the milestones and objectives of the RTRP, including its addendum, i.e. the commitments made with Europe. The other two are the start date of the investment and its rate of execution. To determine these last two factors, AIReF uses an internal tool that unifies and processes existing information on public tenders formalised and subsidies granted, allowing classification by component and line of investment.

For the current year 2023, execution is approximated by combining the previous year with other methodological approaches, including monthly budgetary execution data published by IGAE, execution forecasts from Autonomous Regions, as well as levels of tenders formalised and subsidies granted this year compared with last year. The figures for the rest of the years are derived exclusively from the year outlined.

FIGURE RE_3.1. METHODOLOGICAL SCHEME OF THE CONSTRUCTION OF THE INVESTMENT PROFILE ASSOCIATED WITH THE RTRP



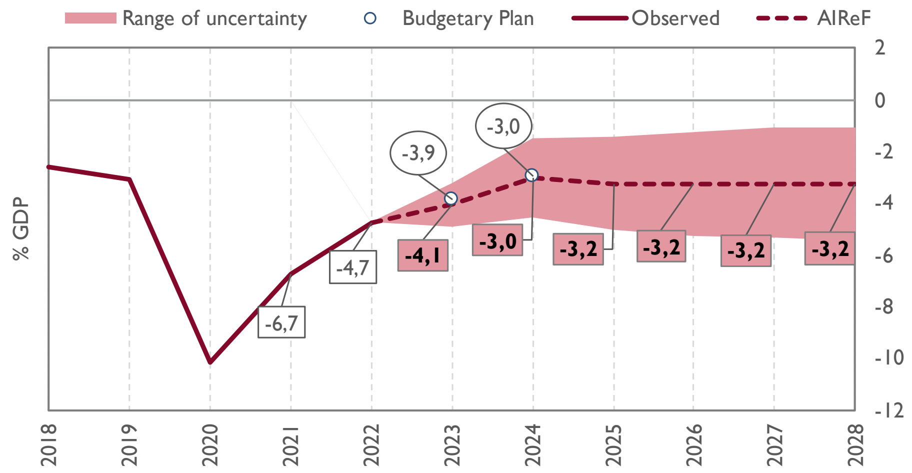
AIReF will soon publish the results and methodology of its tool, which also allows the classification of public tenders formalised and subsidies granted by authority that calls the tender, regionalisation, economic sector and area of expenditure, among others. The tool, which is interactive, will also be published as soon as it is available.

4. ANALYSIS OF THE BUDGETARY SCENARIO 2023-2028

AIReF forecasts a General Government deficit of 4.1% of GDP in 2023, 0.2 points above the Government's forecast, with a decrease of 1.1 points to 3% in 2024, in line with the Budgetary Plan. AIReF's forecasts incorporate the end of the measures to combat the energy crisis contained in the eight-royal decree-laws approved to date, which, in the absence of extensions, will mostly expire at the end of 2023. This will be reflected in the deficit reduction of 1.1 points expected for 2024. Any extension of these measures approved will directly impact the deficit in 2024. Likewise, if the Autonomous Regions and Local Governments exhaust the margin for increased expenditure or reduced revenue granted by the temporary revenue from the extraordinary settlement of the financing systems, a higher deficit will also be recorded.

In the medium term, AIReF estimates that the deficit will stabilise at 0.2 points above the 3% limit. Once the measures to mitigate the effects of the conflict in Ukraine and the energy crisis are no longer in effect, along with the temporary measures to increase revenue, the deficit will stabilise at 3.2% until 2028. This implies that, in the absence of additional measures, the margin to reduce the deficit is exhausted, which would remain slightly higher than the 3% set in the Stability and Growth Pact.

FIGURE 37. EVOLUTION OF NET LENDING/BORROWING OF THE GENERAL GOVERNMENT (% GDP)



Source: IGAE, Budgetary Plan, and AIReF Estimate

TABLE 4. REVENUE AND EXPENDITURE AS % OF GDP (EXCLUDING NGEU). MEDIUM-TERM PATH AIREF

	AIReF					
	2023	2024	2025	2026	2027	2028
REVENUE	42,0	42,7	42,6	42,7	42,8	43,0
EXPENDITURE	46,1	45,7	45,9	45,9	46,1	46,3
BALANCE	-4,1	-3,0	-3,2	-3,2	-3,2	-3,2

Source: AIReF Estimate

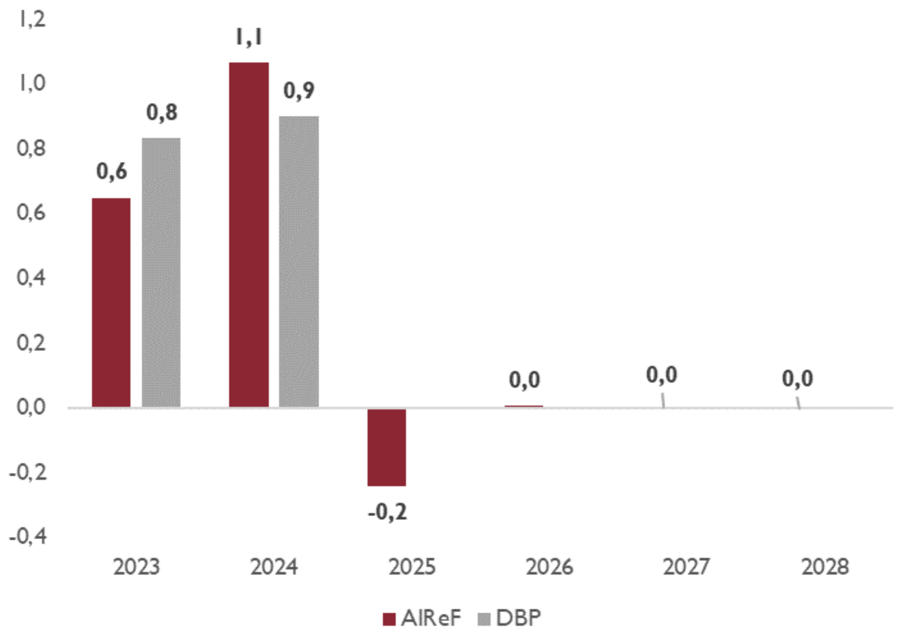
TABLE 5. REVENUE AND EXPENDITURE AS % OF GDP (EXCLUDING NGEU). AIREF VS BUDGETARY PLAN

	AIReF		DBP		Differences (AIReF-DBP)	
	2023	2024	2023	2024	2023	2024
REVENUE	42,0	42,7	41,9	42,0	0,1	0,7
EXPENDITURE	46,1	45,7	45,8	45,0	0,3	0,7
BALANCE	-4,1	-3,0	-3,9	-3,0	-0,2	0,0

Source: Budgetary Plan and AIReF Estimate

AIReF expects a reduction in the deficit of 0.6 points in 2023 and an additional 1.1 points in 2024, reaching the same level as projected by the Government in 2024, although the Budgetary Plan considers a greater improvement in 2023 and a slightly lower reduction in 2024. For 2023, the Government anticipates an improvement in the deficit of 0.8 points, 0.2 points more than expected by AIReF. However, for 2024, AIReF considers that the repeal of the measures will translate almost entirely into a deficit reduction, while the Government considers the reduction to be 0.2 points lower. In 2025, AIReF estimates that the deficit will rebound by 0.2 points due to the withdrawal of the temporary measures to increase revenue, maintaining that deficit for the rest of the projection period.

FIGURE 38. FORECAST OF ANNUAL DEFICIT VARIATION (% GDP) [8]



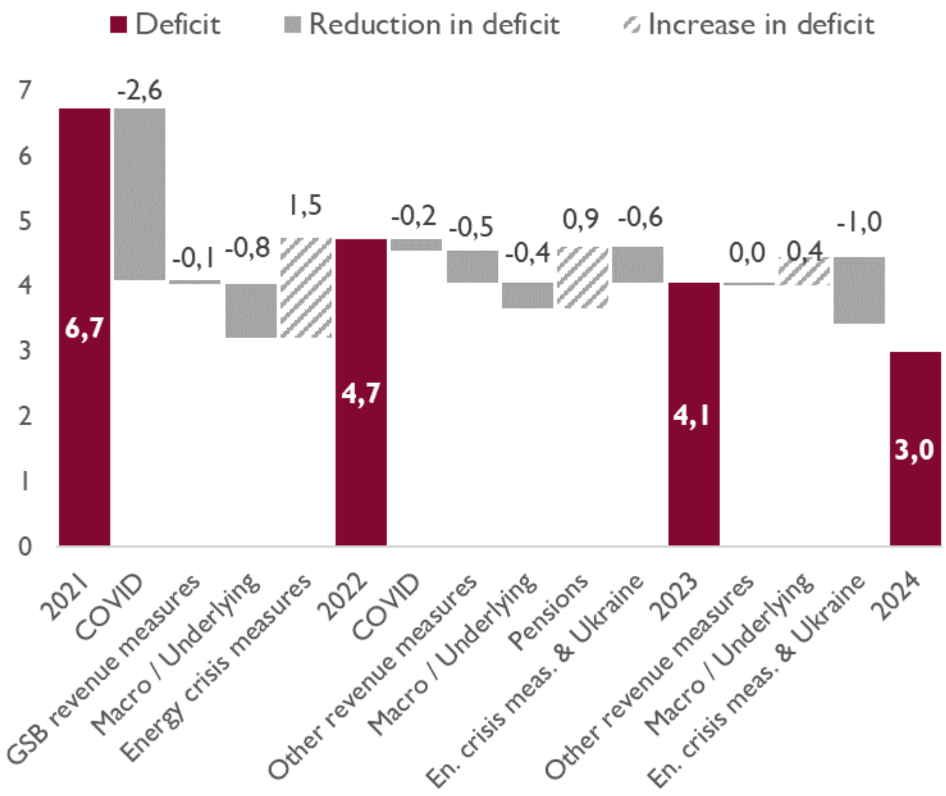
Source: Budgetary Plan and AIReF Estimate

The 2023 deficit reduction of 0.6 points is mainly due to the lower cost of measures to combat rising prices and measures to increase revenue, partially offset by the pension increase. On the positive side, the lower cost of energy and COVID-related measures reduces the deficit by more than 0.7 points, while the new revenue measures, the introduction of the Generational Equity Mechanism and temporary measures to increase revenue improve it by an additional 0.5 points, and finally, the good performance of the economy adds another 0.4 points. Conversely, the cost of the pension increase pushes the deficit up by almost one point, with the aggregate result being a 0.6-point improvement this year.

The reduction in the deficit in 2024 will be mainly due to the withdrawal of the measures, valued at over one percentage point of GDP. The withdrawal of the measures to mitigate the energy crisis and rising prices, which, for the most part, have not been renewed for 2024, will reduce the deficit for that year to 3%. If some of these measures are extended, their cost will push the deficit for 2024 upwards.

[8] The positive sign indicates a lower deficit that year than the previous year.

FIGURE 39. CONTRIBUTION TO THE EVOLUTION OF THE DEFICIT. 2021-2024

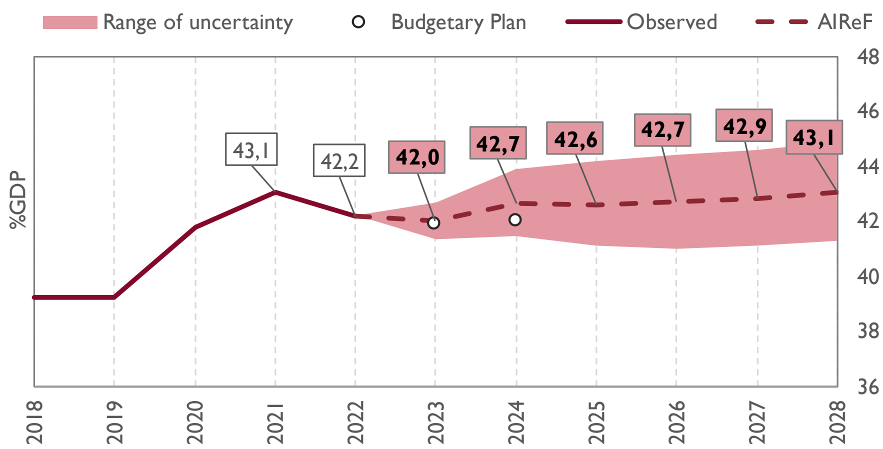


Source: AIReF Estimate

AIReF considers that in 2025, the deficit will rebound by 0.2 points due to the withdrawal of the temporary measures to increase revenue, maintaining a stable path at 3.2% for the rest of the period. The elimination of the temporary measures to increase revenue in 2025 causes the deficit to rise by 0.2 points that year. In the rest of the period, variations in expenditure and revenue, mainly the increase in both servicing debt and spending on pensions, along with the collection of tax revenue, balance each other out, keeping the deficit at 3.2%.

AIReF expects the weight of revenue on GDP, excluding the RTRP, to stand at 42.7% in 2024, 0.7 points higher than the estimate for 2023. AIReF considers that, in 2024, the disappearance of the measures to mitigate the effects of the energy crisis and rising prices, combined with other measures approved (Generational Equity Mechanism and temporary revenue), will push revenue up by 0.7 points. In 2025, a slight drop is expected due to the disappearance of the temporary measures to increase revenue. After this decline, an upward trend begins, driven by tax revenue and, in particular, the increase in taxes on income, for revenue to reach a weight of 43.1% of GDP in 2028. Thus, according to AIReF's estimates, in 2028, the weight of revenue on GDP will be almost four points higher than in 2019, representing a structural increase in revenue mainly reflected in taxes on income and contributions.

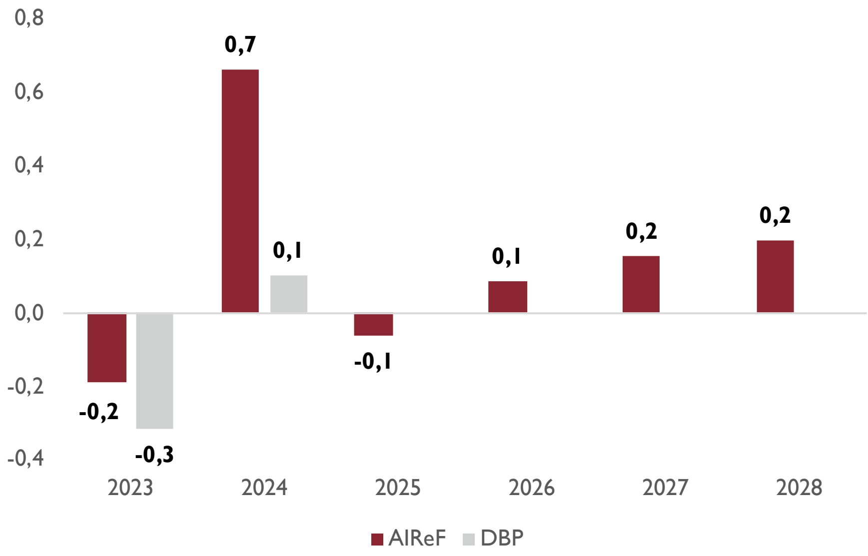
FIGURE 40. EVOLUTION OF REVENUE OF THE GG (% GDP)



Source: IGAE, Budgetary Plan, and AIReF Estimate

The revenue forecasts of the Budgetary Plan are similar to those of AIReF in 2023, while in 2024, the Budgetary Plan estimates a level that is 0.7 points lower. Although AIReF estimates a higher nominal level of revenue in 2024, almost 0.5 points of the difference in terms of GDP weight are due to the denominator effect, as a result of a lower GDP estimate by the Government. However, the differences are not distributed homogeneously among the different headings. AIReF considers a level that is 0.6 points higher for taxes on production and 0.3 points higher for other revenue in 2024, while the Budgetary Plan estimates a level that is 0.3 points higher for taxes on income.

FIGURE 41. FORECAST OF ANNUAL EVOLUTION OF REVENUE (EXCLUDING NGEU) (% GDP)[9]



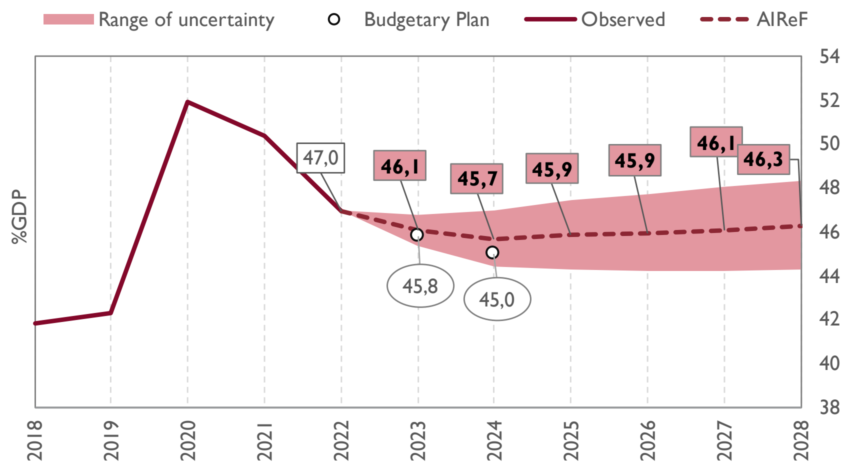
Source: Budgetary Plan and AIReF Estimate

AIReF considers that expenditure in 2024 will decrease by 0.4 points to reach a weight of 45.7% of GDP and then begin an upward trend to reach 46.3% in 2028. In 2024, expenditure will mainly fall due to the disappearance of the measures to mitigate the effects of the energy crisis and rising prices. This reduction is offset by the increase in spending on servicing debt and cash benefits from the pension increase by the annual CPI, published at the end of November, estimated by AIReF at 4%. From 2025 onwards, these two aggregates - servicing debt and cash benefits - will push spending higher, reaching a level of 46.3% in 2028. Thus, according to AIReF's estimates, the weight of expenditure on GDP will be almost four points higher in 2028 than in 2019, representing a structural increase in spending reflected in both components of public consumption and in social cash transfers and interest.

AIReF's expenditure forecasts are higher than those contained in the Budgetary Plan in both years, 0.3 points in 2023 and 0.7 points in 2024, due to the denominator effect accounting for around 0.5 of these 0.7 points. Similarly in regard to revenue, AIReF estimates a higher nominal level of spending on GDP, which, when divided by a nominal GDP estimate that is lower than that of the Budgetary Plan, enhances the differences in weight on GDP. These differences are concentrated in public consumption components, mainly in compensation of employees, and in social transfers in cash.

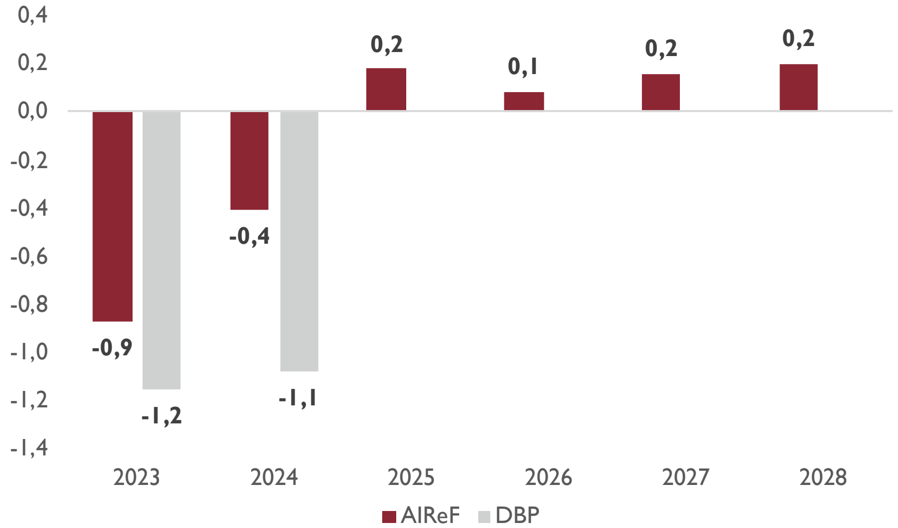
[9] The positive sign indicates lower revenue than the previous year

FIGURE 42. EVOLUTION OF GENERAL GOVERNMENT EXPENDITURE (% GDP)



Source: IGAE, Budgetary Plan, and AIReF estimate

FIGURE 43. FORECAST OF ANNUAL EVOLUTION OF EXPENDITURE (WITHOUT RTRP) (% GDP)[10][11]



Source: Budgetary Plan and AIReF estimate

4.1. Evolution of General Government revenue

AIReF forecasts that the weight of revenue as a percentage of GDP, without the RTRP, will rise from 42% in 2023 to 42.7% in 2024, 0.7 percentage points above the Budgetary Plan. Similar to the Budgetary Plan, AIReF's forecasts consider a baseline scenario without the incorporation of new revenue measures and assume that the current reductions adopted to mitigate price

[10] The positive sign indicates lower revenue than the previous year

[11] The positive sign indicates lower expenditure than the previous year

rises and the withdrawal of temporary measures approved to increase revenue will be repealed on December 31st, 2023. If the RTRP is taken into account, revenue will reach 42.9% of GDP in 2023 and 44.2% in 2024.

In 2024, AIReF estimates an additional 0.4 points in taxes and 0.3 points in other revenue. These differences are not homogeneous across the different headings. AIReF's estimate is 0.6 points higher for indirect taxes and 0.1 points higher for capital taxes. However, AIReF's estimate of the weight of direct taxes is 0.3 points lower than the Government's estimate, while the estimate of the weight of contributions is aligned. Finally, AIReF considers a higher weight of 0.3 points for other revenue.

In 2024, if the denominator effect is eliminated, the difference between AIReF's estimate and the Government's estimate is reduced to 0.2 points. Eliminating the denominator effect, AIReF estimates tax revenue almost 0.2 points higher than the Government's estimate, which is offset by a lower estimate of contributions of 0.1 points, although the aggregate of these figures is very similar in both estimates. The differences in other revenue would account for almost 0.3 points of GDP.

TABLE 6. REVENUE WITHOUT RTRP (% GDP). AIREF VS BUDGETARY PLAN

	AIReF		DBP		Differences (AIReF-DBP)	
	2023	2024	2023	2024	2023	2024
EXPENDITURE	**46,1**	**45,7**	**45,8**	**45,0**	**0,3**	**0,7**
Compensation of employees	11,2	11,2	11,1	11,0	0,1	0,2
Intermediate consumption	5,8	5,7	5,7	5,7	0,1	0,0
Social transfers in kind	2,7	2,7	2,7	2,7	0,0	0,0
Social transfers in cash	17,3	17,4	17,1	17,1	0,2	0,3
Interest	2,3	2,5	2,4	2,5	-0,1	0,0
Subsidies	1,6	1,2	1,6	1,2	0,0	0,0
Gross capital formation	2,7	2,6	2,6	2,6	0,1	0,0
Investment support and other capital transfers	0,8	0,6	0,7	0,7	0,1	-0,1
Other expenditure	1,8	1,7	1,8	1,6	0,0	0,1
NET LENDING OR BORROWING	**-4,1**	**-3,0**	**-3,9**	**-3,0**	**-0,2**	**0,0**

Source: Budgetary Plan and AIReF Estimate

Considering a scenario at constant policies, AIReF forecasts an increase in the growth of revenue from 2023 to 2028, to stand at 43.1% by the end of the period. AIReF's forecasts show an increase in revenue in 2024, resulting from the withdrawal of the reductions established to mitigate price rises. In 2025 and 2026, their weight of GDP decreases due to the withdrawal of the temporary measures to increase revenue: the Solidarity Tax on Large Fortunes, levies on the energy and financial sectors, and the limitation on the offsetting of intragroup losses of tax groups under Corporate Income Tax. As from 2026, the growth of revenue as a percentage of GDP is a consequence of the increase in taxes on income.

TABLE 7. REVENUE WITHOUT RTRP (% GDP). MEDIUM-TERM PATH AIREF

	AIReF					
	2023	2024	2025	2026	2027	2028
REVENUE	**42,0**	**42,7**	**42,6**	**42,7**	**42,9**	**43,1**
TAXES	24,3	25,2	25,1	25,1	25,3	25,5
On production	11,3	12,0	11,9	11,7	11,6	11,6
On income	12,5	12,8	12,7	13,0	13,2	13,5
Capital	0,4	0,4	0,4	0,4	0,4	0,4
CONTRIBUTIONS:	13,6	13,6	13,6	13,6	13,6	13,6
Other revenue	4,2	3,9	3,9	4,0	3,9	3,9

Source: AIReF Estimate

4.1.1. Taxes on production and imports

AIReF forecasts that in 2024, the weight of taxes on production and imports will reach 12%, 0.6 points higher than in the Budgetary Plan. The main components of this heading are VAT and taxes on products, including special taxes and the Tax on the Value of Electricity Production (IVPEE), affected until December 31st, 2023, by the measures established to mitigate the energy crisis and price rises (see Section 4.3.1 - Measures to combat the energy crisis and price rises). While AIReF's forecast places all taxes on production and imports at 11.3% at year-end 2023, in line with the Budgetary Plan, in 2024, its forecast is 0.6 points higher. These differences mainly occur because AIReF estimates a greater recovery after the withdrawal of the temporary measures. In the case of the IVPEE, AIReF forecasts higher values for 2024 than those observed before the measure came into effect because, despite the gradual drop in electricity prices, futures prices are still higher than the average in recent years. For VAT and the Special Tax on Electricity, in addition to these future prices, AIReF considers a certain recovery in consumption in 2024. AIReF also includes the tax on energy companies in this heading, in line with the content of the publications by the IGAE, while the Budgetary Plan classifies this temporary tax under the heading of other revenue, which adds an additional difference of 0.1 points of GDP.

In the absence of additional revenue measures, AIReF forecasts an acceleration of these taxes once the current measures are withdrawn, and a subsequent slowing of their growth, to stand at 11.6% of GDP in 2028. Apart from the withdrawal of the measures to mitigate price rises at the end of 2023 and the withdrawal of the tax on energy companies in 2024, the evolution of these taxes throughout the period 2023-2026 is justified by both the final expenditure subject to VAT, whose projection is linked to domestic demand, and the evolution of special taxes, in line with real GDP, and the decrease in the Tax on the Value of Electricity Production, linked to the expected gradual fall in electricity prices.

4.1.2. Taxes on income and wealth

AIReF's forecasts for taxes on income and wealth are 0.3 points of GDP lower than those of the Budgetary Plan in 2024, to stand at 12.8%. The main components of this heading are Personal Income Tax (PIT), Corporate Income Tax (CIT) and Non-Resident Income Tax (NRIT). Temporarily, during 2023 and 2024, this heading includes the Solidarity Tax on Large Fortunes and the levy on the financial sector, registering an additional impact due to the temporary limitation to offset the intragroup losses of consolidated groups under Corporate Income Tax (see Section 4.3.2 - Other Central Government revenue measures). AIReF estimates that total taxes on income and will account for 12.5 percentage points of GDP at the end of 2023, 0.2 points below the forecasts in the Budgetary Plan, and this difference rises to 0.3 points below the Government's forecasts in 2024. It should be noted that the Budgetary Plan includes the temporary tax on the financial sector under the heading of other revenue, resulting in an additional difference of just under 0.1 points of GDP.

AIReF expects the weight of taxes on income at the end of the period 2023-2028 to stand at 13.5% of GDP. The weight of GDP of this heading shows continuous growth throughout the period except for 2025, due to the withdrawal of the temporary revenue measures that year. Apart from the effect of these temporary measures, the evolution over the period is determined by AIReF's forecasts of the wage bases of Personal Income Tax, which follows the trend of compensation of employees, and due to the progressive nature of this tax, as well as by the evolution of the base of Corporate Income Tax, the growth of which is linked to the macroeconomic variable of gross operating surplus.

4.1.3. Capital taxes

AIReF's forecasts place capital taxes at 0.4% of GDP in 2024, 0.1 points higher than the forecasts in the Budgetary Plan. In 2022, this heading recorded an exceptional drop due to the new regulation of the Tax on the Increase in Value of Urban Land[12] and the refunds made as a result of the partial declaration of unconstitutionality of the Law on Local Finance. For 2023, AIReF expects this to recover to the previous level, maintaining its weight of 0.4 points of GDP throughout the period.

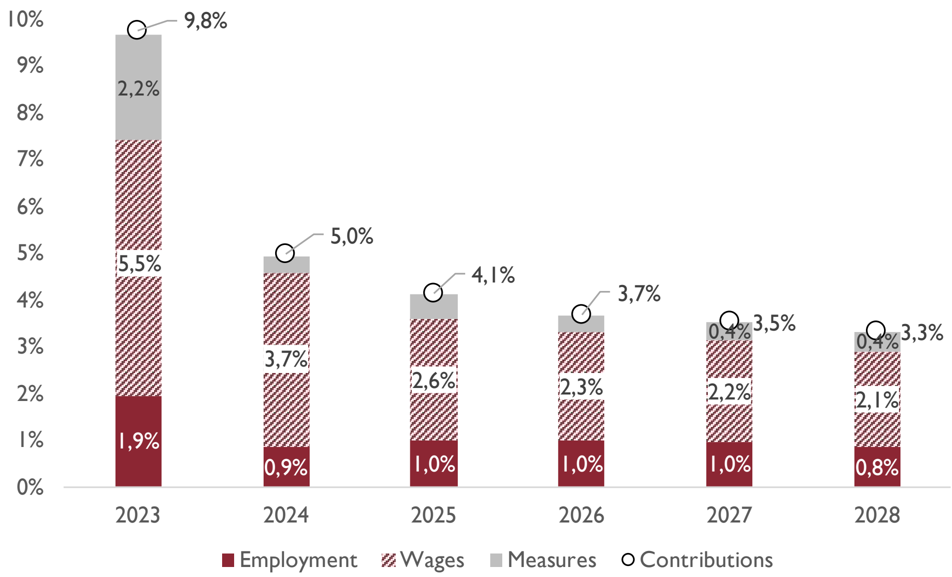
[12] 12 RDL 26/2021

4.1.4. Social contributions

AIReF expects General Government social contributions to maintain their weight of GDP at 13.6% throughout the projected period. This estimate is 0.1 points higher than the Government's estimate in 2023 and a similar level in 2024. The maintenance of the weight of GDP between 2023 and 2028 can be explained by the opposing evolution of social contributions from the Social Security Funds and imputed contributions from the Central Government. On the one hand, social contributions from the Social Security Funds increase their weight of GDP by 0.2 points throughout the period due to the effect of the measures, specifically the Intergenerational Equity Mechanism and, to a lesser extent, the introduction of the Solidarity Tax from 2025. On the other hand, imputed contributions from the Central Government lose their weight of GDP due to the gradual disappearance of the State Civil Servants regime.

The positive evolution of wages is the main determinant of the evolution of social contributions as from 2024, and, to a lesser extent, employment and measures. In 2023, measures — Intergenerational Equity Mechanism and an 8.6% increase in the maximum contribution bases in the General State Budget — are the main components driving the growth rate of contributions upward, followed by wages and employment. As from 2024, wages become the main explanatory factor for the growth of social contributions, while measures and employment maintain their positive contribution.

FIGURE 44. BREAKDOWN OF GROWTH (% CHANGE) OF SOCIAL SECURITY CONTRIBUTIONS



Source: AIReF Estimation

4.1.5. Other revenue

AIReF estimates that other revenue will decrease to 3.9% of GDP in 2024, 0.3 points higher than in the Budgetary Plan. AIReF considers that by year-end 2023, this will stand at 4.2% of GDP, the same as the previous year, and will fall to 3.9% in 2024 due to the withdrawal of the REACT EU funds. These estimates are 0.1 and 0.3 points higher than the Government's estimates, despite including additional revenue from temporary levies on the energy and financial sectors under this heading, which, in contrast, AIReF classifies as taxes on products and taxes on income, respectively, in line with national accounting data published by the IGAE. If these were considered under this heading, as the Budgetary Plan does, the discrepancies would increase by 0.2 points of GDP. As from 2024, AIReF maintains the weight of these taxes on GDP at around 3.9% until the end of the period, a similar weight to pre-pandemic levels.

4.2. Evolution of General Government expenditure.

AIReF estimates that expenditure without the RTRP will fall to 45.7% of GDP in 2024, after reaching 46.1% in 2023, 0.7 and 0.3 points respectively above the forecasts in the Budgetary Plan for those years. AIReF expects spending to decrease by around 0.4 points of GDP in 2024, mainly due to the withdrawal of most of the measures to combat inflation adopted in 2023, with no equivalent in 2024, combined with moderation of the growth in the components of public consumption. Although pensions will moderate their growth with a 4% increase compared with 8.5% in 2023, the weight of social transfers in cash will grow by 0.1 points. Interest will also continue to grow at high rates in 2024. By spending component, AIReF expects higher spending in 2024 than the Government on the compensation of employees and social transfers in cash.

If the denominator effect is eliminated, the differences in 2024 are reduced to less than 0.3 points, as occurs with revenue. Differences in the estimates of components of public consumption would be reduced to 0.1 points and differences in the value of benefits in kind to 0.2 points.

In the medium term, AIReF forecasts an upward path of expenditure, reaching 46.3% of GDP in 2028. In a medium-term scenario at constant policies, AIReF forecasts an increase in spending throughout the period, driven by growth in spending on pensions and interest, whose weight of GDP will increase. In contrast, compensation of employees will decrease in weight due to the termination of the remuneration agreement with the trade unions, and subsidies and other expenditure will decrease due to the absence of medium-term spending measures. In general, public consumption and investment will maintain their approximate weight of GDP throughout the period, while other expenditure will decrease slightly. In short, the path will be marked by the easing of inflationary pressures and AIReF considers that a return to fiscal rules will condition the evolution of expenditure.

TABLE 8. EXPENDITURE AS % OF GDP (WITHOUT RTRP) AIREF VS BUDGETARY PLAN

	AIReF		DBP		Differences (AIReF-DBP)	
	2023	2024	2023	2024	2023	2024
EXPENDITURE	46,1	45,7	45,8	45,0	0,3	0,7
Compensation of employees	11,2	11,2	11,1	11,0	0,1	0,2
Intermediate consumption	5,8	5,7	5,7	5,7	0,1	0,0
Social transfers in kind	2,7	2,7	2,7	2,7	0,0	0,0
Social transfers in cash	17,3	17,4	17,1	17,1	0,2	0,3
Interest	2,3	2,5	2,4	2,5	-0,1	0,0
Subsidies	1,6	1,2	1,6	1,2	0,0	0,0
Gross capital formation	2,7	2,6	2,6	2,6	0,1	0,0
Investment support and other capital transfers	0,8	0,6	0,7	0,7	0,1	-0,1
Other expenditure	1,8	1,7	1,8	1,6	0,0	0,1
NET LENDING OR BORROWING	-4,1	-3,0	-3,9	-3,0	-0,2	0,0

Source: Budgetary Plan and AIReF Estimates

TABLE 9. EXPENDITURE AS % OF GDP (WITHOUT RTRP). MEDIUM-TERM PATH AIREF

	AIReF					
	2023	2024	2025	2026	2027	2028
EXPENDITURE	46,1	45,7	45,9	45,9	46,1	46,3
Compensation of employees	11,2	11,2	11,1	11,1	11,0	11,0
Intermediate consumption	5,8	5,7	5,7	5,8	5,8	5,8
Social transfers in kind via market	2,7	2,7	2,7	2,7	2,7	2,7
Social benefits in cash	17,3	17,4	17,6	17,6	17,7	17,7
Interest	2,3	2,5	2,6	2,8	3,0	3,3
Gross capital formation	2,7	2,6	2,6	2,6	2,7	2,6
Subsidies and other expenditure	4,1	3,5	3,4	3,3	3,2	3,2
NET LENDING OR BORROWING	-4,1	-3,0	-3,2	-3,2	-3,2	-3,2

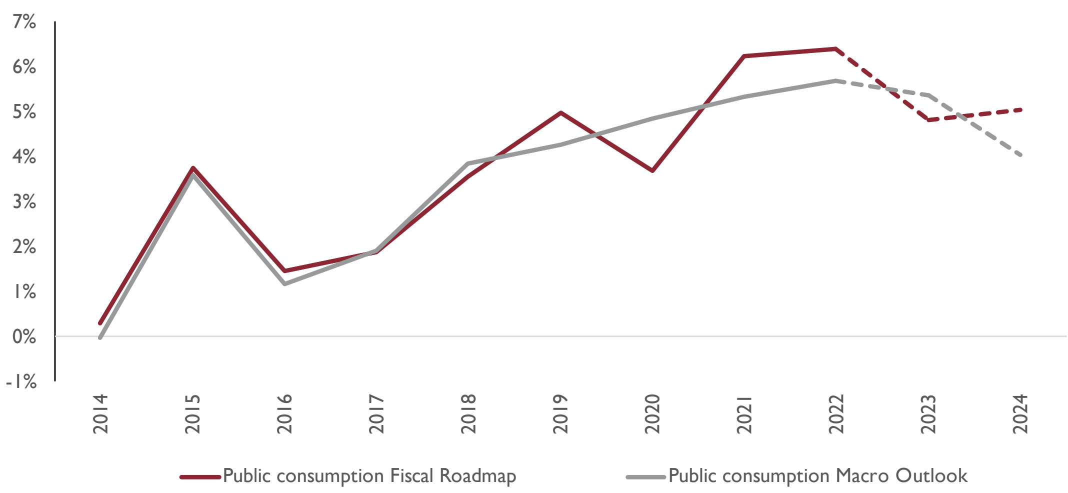
Source: AIReF Estimates

4.2.1. Main components of public consumption

Public consumption forecast by AIReF for 2023 and 2024 is 0.2 points of GDP higher in both years than forecast in the Budgetary Plan. AIReF expects public consumption to reach 19.7% and 19.6% of GDP, respectively, in 2023 and 2024, compared with 19.5% and 19.4% of GDP forecast in the Budgetary Plan for those years. Both AIReF and the Government anticipate a reduction in public consumption by 0.1 points of GDP in 2024. However, in an analysis of the main components of public consumption, the reduction for AIReF stems from intermediate consumption, while in the Budgetary Plan it is due to compensation of employees. In the medium term, AIReF expects public consumption to decrease by a further 0.1 points of GDP, reaching 19.5% of GDP in 2025, and then maintain its weight of GDP until 2028.

The evolution in 2023 and 2024 of the main components of public consumption in the fiscal roadmap of the Budgetary Plan is not consistent with the evolution of public consumption in the macroeconomic scenario published in the same report. In 2023, the main components slow their growth by almost 2 points, while the macroeconomic component maintains its growth. In 2024, the opposite happens, as while the main components maintain their rate of growth, the macroaggregate slows its growth by almost 1.5 points.

FIGURE 45. EVOLUTION OF THE MAIN COMPONENTS OF PUBLIC CONSUMPTION AND PUBLIC CONSUMPTION OF THE GG OF THE BUDGETARY PLAN. YEAR-ON-YEAR RATE



Source: INE, IGAE and Budgetary Plan

4.2.1.1 Compensation of employees

AIReF's forecast for compensation of employees remains at 11.2% of GDP in 2023 and 2024, 0.1 and 0.2 points higher respectively than forecast in the Budgetary Plan for these years. The medium-term forecast is for compensation of employees to moderate its growth as from 2025, after the termination of the improved remuneration agreement with the General Negotiation Board for Public Servants. At any event, this growth would be less than nominal GDP forecasts, so a gradual loss of its weight of GDP is estimated, to stand at 11% in 2028.

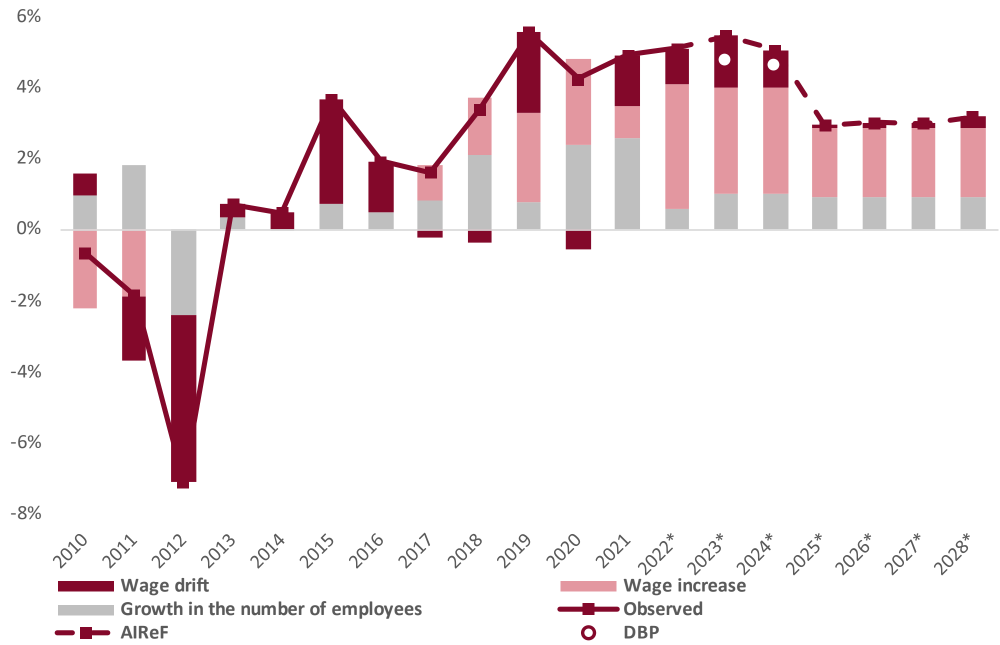
AIReF includes the agreed increase in public salaries until 2025 in its forecasts and the increase of public salaries in line with the CPI for the rest of the period. Under this estimate, AIReF has taken into account the remuneration agreements adopted by the General Negotiation Board for Public Servants.

For 2023, it has included the 2.5% increase plus the additional 0.5% conditional on the increase in the Harmonised Index of Consumer Prices (HICP) for 2023 compared with 2022, which will be paid out in October, having met the condition precedent[13]. For 2024, in addition to the 2% increase, a further 0.5% conditional on the increase in GDP in 2023 compared with 2022 has been applied, which, if met, will be paid out in 2024 with retroactive effects to 2023. In addition, for 2024, another 0.5% conditional on the increase in the CPI in 2024 compared with 2022 has been considered. Furthermore, at a regional level, the impact of specific measures, particularly affecting the health and education sectors of the Autonomous Regions has been incorporated, including the implementation of the 35-hour working week, the recovery or increase in career supplements, the reduction of ratios in the field of education and the increase in the number of teachers. For the rest of the period, in the absence of specific remuneration agreements, AIReF has used the estimated CPI growth rate of around 2% as from 2026.

The evolution of public employees is conditioned by the consolidation of part of the expenditure associated with the pandemic. As from 2022, AIReF assumes the consolidation of part of the expenditure related to COVID measures. Aside from that, an evolution in public employees of around 1% has been considered based on the results of models on the evolution of GDP and population, as well as long-term health and education expenditure.

[13] This increase in remuneration is implemented to comply with the condition established in Article 19(2)(a) of Law 31/2022, of December 23rd, on the GSB for 2023, whereby the sum of the HICP for 2022 and the flash estimate of the CPI by the INE for the month of September 2023 was higher than 6%. The result was 8.7%, given that the HICP for 2022 was 5.5% and the flash estimate of the CPI to September was 3.2%.

FIGURE 46. BREAKDOWN OF GROWTH IN COMPENSATION OF EMPLOYEES (%)



Source: INE, IGAE, and AIReF estimation

4.2.1.2 Intermediate consumption

AIReF estimates that expenditure on intermediate consumption will fall from 5.8% of GDP in 2023 to 5.7% of GDP in 2024, coinciding in 2024 with the forecast in the Budgetary Plan. Expenditure on intermediate consumption maintains its weight at 5.7% of GDP in 2023 and 2024 in the Budgetary Plan, while AIReF expects it to fall from 5.8% in 2023 to 5.7% in 2024. This slight reduction in the weight of GDP can be explained by the expected easing of inflationary pressures, which significantly influences this item of expenditure. Other contributory factors also include the increase in 2023 in electoral spending due to national, regional and local elections and expenditure on goods and services funded by the REACT EU funds, with no equivalent in 2024. In the medium term, the forecast is that, on the one hand, inflationary pressures will continue to ease, and, on the other hand, military spending will increase to meet the Government's commitments to NATO. Towards the end of the period, this expenditure is expected to maintain its weight at 5.8% of GDP.

4.2.1.3 Social benefits in kind

As regards social transfers in kind, AIReF estimates that they will stand at 2.7% of GDP in 2023 and 2024, in line with the forecasts in the Budgetary Plan. In its estimate, AIReF includes spending by the Central Government on refugee care, which has increased due to the conflict in Ukraine. In addition, the increase in 2023 in spending on transport measures for young people, with no equivalent in 2024, will be withdrawn. As regards the Autonomous Regions, social transfers in kind incorporate increases and remuneration measures, as well as the impact of inflation on health and education agreements. In addition, the increase in pharmaceutical spending is maintained. Lastly, the medium-term forecast is that this spending will maintain its weight of GDP throughout the entire period until 2028.

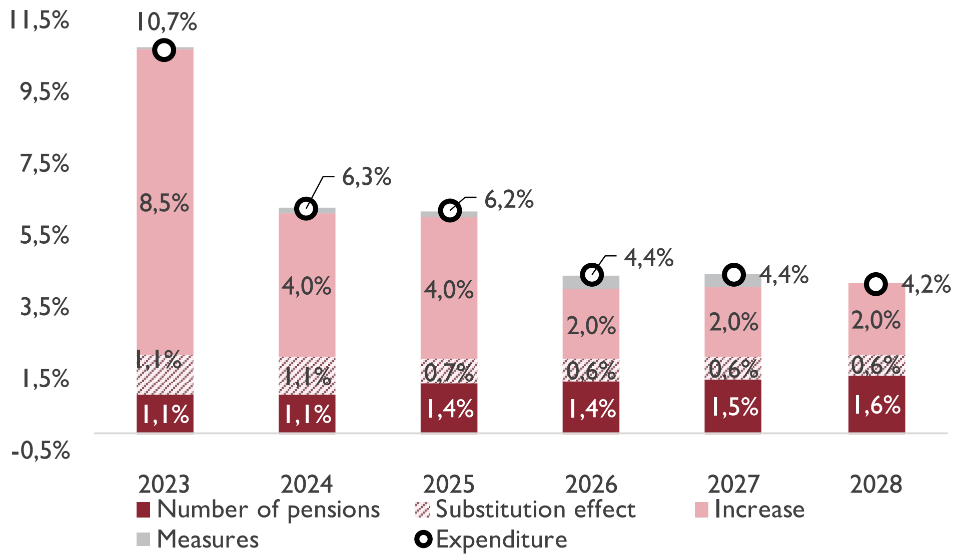
4.2.2. Social benefits in cash

AIReF expects social transfers in cash to increase their weight of GDP by 0.1 points in 2024, to reach 17.4%. This increase can be explained by the pension increase in line with the previous year's CPI, which, combined with the increase in the number of pensions and the substitution effect, causes them to increase their weight of GDP by 0.1 points. These estimates differ from those of the Government, which expects social transfers in cash to remain at a weight of 17.1% of GDP in 2023 and 2024.

AIReF expects the weight of social transfers in cash on GDP for the rest of the projected period to continue increasing, to stand at 17.7% in 2028. Between 2024 and 2028, spending on pensions as a percentage of GDP will increase by 0.6 points, mainly due to the increase in 2025 in line with the still high CPI of 2024. This increase offsets the 0.3-point drop in spending on unemployment benefits over the same period. In 2028, the level of social transfers in cash will still be 1.9 points higher than the pre-crisis level, mainly due to the evolution of spending on pensions.

AIReF estimates that spending on pensions will moderate its growth from 10.7% in 2023 to 4.2% in 2028. The evolution of spending on pensions can be explained by the increase in the number of pensions, the annual increase, the substitution effect and the measures approved. AIReF estimates the increase in the number of pensions and the substitution effect under the projection model for spending on pensions and considers that the increase will be in line with the CPI of the previous year, as provided for in Law 21/2021. This includes the 15% increase in non-contributory pensions for 2023 introduced in RDL 20/2022 and the increase in pensions with minimum supplements and non-contributory pensions provided for in RDL 2/2023 between 2024 and 2027 for sufficiency purposes. The slowdown in the growth of spending on pensions can be explained by the gradual moderation of inflation as from 2023, which is reflected in spending on pensions as from 2024.

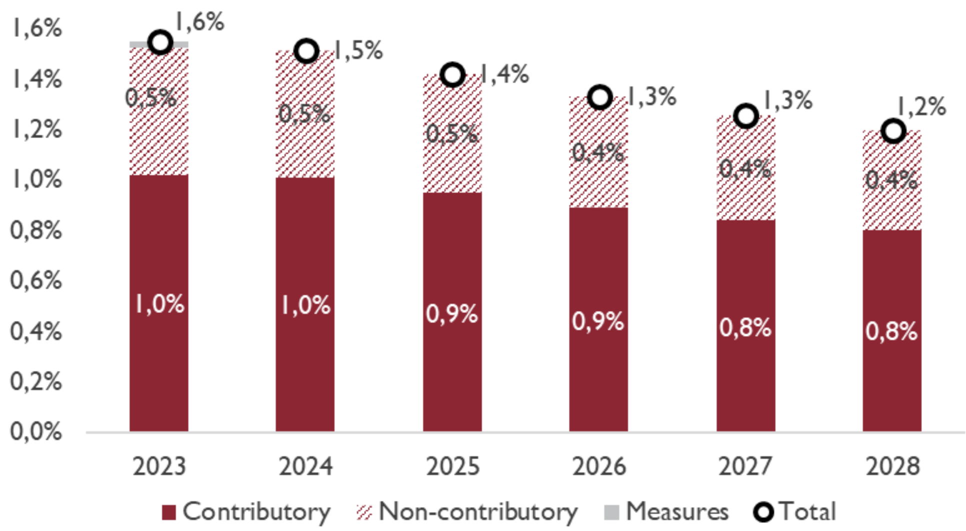
FIGURE 47. PENSION SPENDING GROWTH (% CHANGE). AIREF PROJECTIONS



Source: AIReF Estimate

Unemployment benefits decrease slightly from 1.6% of GDP in 2023 to 1.5% in 2024, after which they continue on a downward path to 1.2% in 2028. The weight of the heading moderates throughout the projected period due to the expected reduction in the unemployment rate from 12.1% in 2023 to 10.5% in 2028. The Government's unemployment rate forecast for 2024 is more positive than AIReF's — below 11% compared with AIReF's forecast of 11.5%. The measures include increases in minimum and maximum contributory benefits and non-contributory unemployment benefits in line with the IPREM established in the 2023 General State Budget at 3.6%.

FIGURE 48. UNEMPLOYMENT SPENDING EVOLUTION % OF GDP. AIREF PROJECTIONS



Source: AIReF Estimate

Other benefits maintain their weight of GDP at 3.9% throughout the projected period. This heading includes the cost of financing the Minimum Income Scheme (MIS), the increase provided for in the 2023 General State Budget of 8.5% for 2023, in line with the previous year's CPI, and the additional increase up to the 15% provided for in RDL 20/2022, which is assumed to become permanent.

4.2.3. Subsidies

AIReF's forecasts for spending on subsidies, at 1.6% of GDP in 2023 and 1.2% of GDP in 2024, align with the forecasts contained in the Budgetary Plan. Subsidies constitute the majority of support provided by the Government to combat inflation and stemming from the conflict in Ukraine, including measures related to transport, energy and support for the agricultural sector. The drop of 0.4% of GDP in 2024 is mainly due to the fact that this year does not include the impact of the potential extension of these measures, except for subsidies for regular passenger transport by train and bus, the continuation of which is included in the Budgetary Plan for 2024. At any event, the evolution of spending on subsidies in 2024 will depend on whether the extension of other measures, expiring in 2023, is ultimately approved. In the medium term, a gradual reduction of this item is estimated, reaching 1.1% of GDP in 2028, in the absence of measures within the projected period.

4.2.4. Interest

AIReF's forecast for spending on servicing debt (interest) is 2.3% of GDP in 2023 and 2.5% in 2024, with an estimated increase to 3.3% in 2028. The Budgetary Plan forecasts 2.4% of GDP in 2023 and 2.5% in 2024. AIReF's estimate takes into account inflationary expectations and financing conditions for the coming years. The tightening of monetary policy affects the yields on sovereign debt, impacting new issues. Although the long duration of the debt portfolio (approx. eight years) slows down the transmission of interest rate increases this year, the tightening of financing conditions has a gradual impact on the evolution of debt servicing costs, with both interest and repayments increasing. In the medium term, it is expected that spending on interest will grow at a faster pace than GDP, gradually rising to reach 3.3% of GDP in 2028, one point higher than the estimate for 2023.

4.2.5. Gross capital formation

AIReF forecasts a slight reduction in gross capital formation, excluding the RTRP, from 2.7% of GDP in 2023 to 2.6% in 2024, matching the estimate in the

Budgetary Plan for that year. The reduction expected by AIReF in 2024 is mainly due to the estimated decrease in the change in inventory of the Central Government and the withdrawal that year of spending on investments funded under the REACT EU funds at the regional level. In the medium term, the forecast is for national investment to grow in line with nominal GDP, maintaining its weight at around 2.6% of GDP in 2028. This evolution of spending on gross capital formation is influenced by the increase in military spending associated with defence modernisation programmes in the context of the commitment to NATO to achieve defence spending of 2% of GDP by 2029.

4.2.6. Support for investment and other capital transfers

AIReF estimates a drop in spending on capital transfers from 0.8% of GDP in 2023 to 0.6% of GDP in 2024, while the Budgetary Plan maintains an estimate of 0.7% of GDP for both years. AIReF forecasts a lower weight of capital transfers in 2024 due to the completion of spending on support for investment linked to the REACT EU funds at the regional level in 2023 and lower spending on other capital transfers due to the lack of allocation of the impact of potential court rulings in 2024 at this time. From a medium-term perspective, a reduction in capital transfers is expected to amount to 0.5% of GDP in 2028, a percentage that may be affected by the evolution of pending court rulings and appeals, rulings on ICO guarantees and other contingencies that may materialise (see Section **¡Error! No se encuentra el origen de la referencia. ¡Error! No se encuentra el origen de la referencia.**).

4.2.7. Other expenditure

The estimates by AIReF and in the Budgetary Plan for other expenditure, without including the RTRP, both stand at 1.8% of GDP in 2023 and 1.6% of GDP in 2024. The spending comprising other expenditure include that for current international cooperation, other current transfers and contributions to the European Union budget. AIReF's estimate for the aggregate of this spending aligns with the Budgetary Plan. In the medium term, AIReF considers that this aggregate will remain stable in terms of points of GDP.

4.3. Impact of measures on General Government accounts

AIReF only includes in its forecasts the impact of measures already approved or announced and their withdrawal on legally established dates. Thus, it includes measures approved in response to the energy crisis stemming from the current geopolitical situation, most of which will expire by year-end 2023 with an impact of around one point of GDP. It also takes into account agreements and personnel measures approved or planned at national and regional levels. It also considers revenue measures approved in previous years, whose impact varies over the projected period due to the temporary nature of some of the rules introduced. Finally, it includes revenue measures derived from the pension reform.

4.3.1. Measures to combat the energy crisis and price rises

AIReF estimates the total impact of measures contained in the National Plan in response to the economic and social consequences of the conflict in Ukraine, including those contained in the eight royal decrees approved to date to this end, at 1% of GDP for 2023. The impact of measures considered by AIReF to combat the energy crisis resulting from the conflict in Ukraine includes those contained in the eight royal decrees approved to date to this end: RDL 6/2022 of March 29th, RDL 11/2022 of June 25th, RDL 14/2022 of August 1st, RDL 17/2022 of September 20th, RDL 18/2022 of October 18th, RDL 20/2022 of December 27th, RDL 4/2023 of May 11th and RDL 5/2023 of June 28th, in response to the economic and social consequences of the conflict in Ukraine and to support the reconstruction of the island of La Palma and other situations of vulnerability. This represents a reduction in the cost of measures compared with the 1.6% recorded in 2022.

In terms of expenditure, the impact of measures approved in response to the energy crisis is slightly above €17bn in 2022, or 1.3 points of GDP, and over €9bn in 2023, or 0.6 points of GDP. For 2023, the expenditure measures for the Central Government approved in response to the economic and social consequences of the conflict in Ukraine have increased by around €1.7bn due to the extension of some measures already approved and the creation of new measures compared with those considered in the report on the 2023-2026 Stability Programme Update. Among the extended measures, the discount per litre of fuel for the transport and agricultural sectors stands out, the extension of which until the end of the year will add a little over €300m in expenditure for 2023. Almost an additional €400m are due to the extension of direct support for urban and intercity passenger transport, channelled through the Autonomous Regions and Local Governments. In addition, the last two royal decrees approved include sectoral aid of almost €850m, mainly aimed at alleviating the consequences of drought in our country through the Spanish Agricultural Guarantee Fund (FEGA). Support for individuals, in turn, includes, as a new feature, measures aimed at reducing the cost of train tickets for young people, which will increase expenditure by more than €160m euros this year. The estimate of measures for 2023 includes a charge stemming from the information contained in the Budgetary Plan for 2024, which primarily affects two of them. First, the impact of the new direct support line for individuals with low income and assets, approved in RDL 20/2022, is valued at just over €300m. Second, it is estimated that the impact this year of financing the new last resort tariff (TUR) for natural gas will amount to €1bn. This tariff was created under RDL 18/2022 of October 18th and is temporarily applicable to property owners' associations.

The impact of expenditure measures under the National Plan for 2024 in response to the economic and social consequences of the conflict in Ukraine, with the information available to date, amounts to almost €1.5bn, approximately 0.1 points of GDP. Although the revenue and expenditure forecasts of the Budgetary Plan presented by the Government for 2024 are framed in a baseline scenario, without the adoption of new measures, the document includes the impact of certain measures extended for next year for an amount of 0.5 points of GDP. In terms of expenditure, the impact of the extension of the transport discount announced in the Budgetary Plan is noteworthy, both for the multi-journey ticket created by Renfe and the multi-journey tickets of public service concessionaires for regular road passenger transport under the jurisdiction of the CSA, as well as for direct support for the Autonomous Regions and Local Governments aimed at reducing the price of transport tickets for regular users. The combined impact of the first two measures will amount to almost €700m, while the support channelled through territorial administrations will amount to €760m, the same amount as in 2023.

AIReF estimates that measures to mitigate the rise in energy and food prices will reduce revenue by around €5.8bn in 2023, which is equivalent to 0.4 points of GDP. The reduction to 5% in the VAT rate on electricity[14], natural gas, firewood and pellets[15], established until December 31st, 2023, will result in a reduction of about €2.3bn in revenue in national accounting terms. In addition, the reduction in the VAT rate from 4% to zero for all essential foods and from 10% to 5% for olive and seed oils and pasta, established since January 1st, 2023[16], initially until June 30th, 2023 and then extended through Royal Decree Law 5/2023 of July 28th, due to the persistence of the year-on-

[14] **VAT on electricity:** Reduction to 10% in electricity rate (RDL 12, 17, and 29/2021 and 6/2022)

Reduction to 5% from July 2022 (RDL 11/2022)

Extension until December 31st, 2023 (RDL 20/2022)

[15] **VAT on gas, briquettes and pellets:** Reduction to 5% in gas rate (RDL 17/2022)

Extension until December 31st, 2023 (RDL 20/2022)

[16] **VAT on food:** RDL 20/2022 until June 30th, 2023, and RDL 5/2023 until December 31st, 2023)

year core inflation rate above 5.5%, is estimated at around €2.2bn. The reduction to 0.05% in the Special Tax on Electricity[17], also established until December 31st, 2023, will reduce revenue by around €1.3bn, with its residual effect extending to 2024 as the collection for the last month of the previous year is recorded in that year. If these measures were to be extended throughout 2024, AIReF estimates a similar impact to the current year, which would reduce revenue forecasts for 2024 by 0.4 points of GDP.

TABLE 10. IMPACT OF MEASURES IN RESPONSE TO THE ENERGY CRISIS IN NATIONAL ACCOUNTING TERMS : AIREF ESTIMATION

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: Government and AIReF estimates

The estimated impact of the loss of revenue due to the suspension of the Tax on the Value of Electricity Production (IVPEE) amounts to close to €2.6bn in

[17] **Special Tax on Electricity:** Reduction in the electricity rate (RDL 17, 29/2021 and 6, 11/2022);

Extension until December 31st, 2023 (RDL 20/2022).

2023. The suspension of the IVPEE[18] applies from the third quarter of 2021 until December 31st, 2023, with its effect extending until 2024, as the last quarter of each year is recorded in the first quarter of the following year. The increase in electricity prices implies that revenue from this tax would have increased from around €300m to approximately €700m per quarter. Accordingly, AIReF assesses its impact during 2023 at €2.6bn and close to €700m in 2024.

In terms of the deficit, revenue from the IVPEE is allocated to the transfer from the budget of the State Secretariat for Energy to the National Markets and Competition Commission (CNMC). The suspension of the IVPEE has been accompanied by a transfer to offset the tariff deficit to the CNMC, which in 2022 stood at around €2bn higher than established in the General State Budget (GSB), ultimately amounting to almost €3.28bn compared with the €1.36bn forecast. In addition, in 2022, the transfer of the revenue from auctions of emission allowances increased by €880m compared with the €1.1bn forecast in the 2022 GSB. These transfers resulted in an electricity system surplus of over €6bn in 2022, which may be used to offset the electricity system deficit in 2023. For 2023, there is still uncertainty regarding the transfer that will offset this tax, as its amount depends on the forecast of the potential collection from the IVPEE, limited by the balance of the electricity system[19]. For 2024, AIReF's forecasts assume that the suspension of the IVPEE will not be extended and will again assume deficit neutrality.

4.3.2. Other Central Government revenue measures.

As regards tax matters, AIReF estimates that during 2023 and 2024, temporary regulatory measures will increase revenue by 0.3 points of GDP each year, to then disappear as from 2025. AIReF's revenue forecasts include, among others, the temporary value of the offsetting of intra-group losses of consolidated groups under Corporate Income Tax, with a positive impact of some €850m on instalment payments in 2023 and some €1.5bn on the tax liability that would be shifted to 2024. For their part, the temporary energy and financial levies will add around €2.9bn per annum while in force, while the Solidarity Tax on Large Fortunes will add between €600m and €700m per annum.

[18] **IVPEE**: Suspension (Royal Decree Laws 12, 17, 29/2021, and 6/2022)
Extension until December 31st, 2023 (Royal Decree Law 20/2022)

[19] Royal Decree Law 20/2022, Article 5.2: In order to ensure the balance of the system, the electricity system will be offset by the amount equivalent to the reduction in revenue from the IVPEE, with a maximum limit equal to the amount necessary to achieve the balance between the revenue and expenditure associated with the charges under the electricity system.

Structural tax measures adopted will reduce revenue by just under 0.1 points of GDP as from 2023. The positive impact of changes to Personal Income Tax (PIT) on contributions to pension plans and taxation on capital income, plus the implementation of a minimum rate under Corporate Income Tax, along with the entry into force of the new Tax on Single-Use Plastics, will partially offset the negative effect of tax cuts introduced in the 2023 Budget, whose total effect will manifest as from 2024, as this is the year in which settlements for PIT and Corporate Income Tax related to 2023 will be filed. These negative effects include the increase in the reduction of income from employment, the minimum tax liability and the reduction for deductible expenses, along with reductions in income under the module system and the extension of the maternity deduction approved for PIT in the 2023 Budget, as well as reductions in the Corporate Income Tax rate for small businesses and the VAT rate on feminine hygiene products. There are also negative impacts on 2023 revenue of around €350m due to the deferral of revenue from PIT, Corporate Income Tax, and VAT resulting from the new regulation on deferrals approved in Order HFP/311/2023.

TABLE 11. REVENUE MEASURES INCLUDED IN THE BUDGETARY PLAN: AIREF ESTIMATION IN CASH TERMS (MILLIONS OF EUROS)

CG revenue measures	Source	2023	2024	2025	2026	2027	2028
Structural revenue measures		-291	-581	-541	-515	-489	-463
PIT		**-1.377**	**-1.562**	**-1.562**	**-1.562**	**-1.562**	**-1.562**
Reduction of the contribution limit to pension plans from 2,000 to 1,500.	22GSB	74	74	74	74	74	74
Increase in taxation on capital income	23GSB	0	204	204	204	204	204
Increase in reduction of work income and minimum taxation.	23GSB	-1.271	-1.667	-1.667	-1.667	-1.667	-1.667
Extension of the maternity tax credit	Bud. Plan 23	-144	-173	-173	-173	-173	-173
PIT - Extension of deferral guarantee exemption up to €50,000	Order HFP/311/2023	-36	0	0	0	0	0
Corporate Income Tax		**530**	**331**	**331**	**331**	**331**	**331**
Establishment of a minimum rate of 15% of taxable income.	22GSB	578	578	578	578	578	578
Reduction to 40% of allowance under housing rental regime	22GSB	45	45	45	45	45	45
Reduction in the rate for small businesses	23GSB	0	-292	-292	-292	-292	-292
CIT - Extension of guarantee exemption up to €50,000	Order HFP/311/2023	-93	0	0	0	0	0
VAT		**-62**	**-24**	**-24**	**-24**	**-24**	**-24**
Reduction rate to 5% on female hygiene products	23GSB	-20	-24	-24	-24	-24	-24
VAT - Extension of deferral guarantee exemption up to €50,000	Order HFP/311/2023	-42	0	0	0	0	0
OTHER		**618**	**674**	**714**	**740**	**765**	**791**
Tax on Single-Use Plastics:	Law 7/2022	618	674	714	740	765	791
Temporary revenue measures		3.881	4.987	-353	-353	-353	-244
PIT		**-496**	**-109**	**-109**	**-109**	**-109**	**0**
Deductions for housing rehabilitation.	RDL 19/2021	-109	-109	-109	-109	-109	0
Reduction in agricultural and livestock objective estimation return	Order HFP/405/2023	-123	0	0	0	0	0
Increase in difficult-to-justify expenses (direct est.)	HFP/1172/2022	-49	0	0	0	0	0
Additional reduction on net income (objective est.) (incl. Order HFP/1172/2022	HFP/1172/2022	-215	0	0	0	0	0
CIT		**851**	**1.503**	**-244**	**-244**	**-244**	**-244**
Limitation on offsetting losses in consolidated groups.	23GSB	851	1.503	-244	-244	-244	-244
OTHER		**3.527**	**3.593**	**0**	**0**	**0**	**0**
Temporary Levy Financial Institutions	Law 38/2022	1.274	1.274	0	0	0	0
Temporary Levy Energy Companies	Law 38/2022	1.634	1.634	0	0	0	0
Solidarity tax on large fortunes	Law 38/2022	619	685	0	0	0	0
TOTAL		**3.590**	**4.406**	**-894**	**-868**	**-842**	**-707**

Source: Government and AIReF estimates

4.3.3. Social Security Fund measures

AIReF estimates that revenue measures of the Social Security Funds will have an impact of 0.3 points of GDP in 2023 and 2024, 0.4 points in 2025 and 2026, and 0.5 points in 2027 and 2028. These measures include the reforms of the pension system approved between 2021 and 2023. The Intergenerational Equity Mechanism is a targeted social contribution that takes effect in 2023 and progressively increases from 0.6 points in that year to 1.2 points in 2029, after which it will remain at that level. The anticipated impact is an increase in revenue of 0.2 points of GDP in 2023 and 2024; 0.3 points in 2025, 2026 and 2027, and 0.4 points in 2028. The 2023 GSB establishes an increase in the maximum contribution bases by 8.5%, with an estimated impact of €800m in 2023. The 2023 reform introduces a path of increases in the maximum base that takes effect in 2024 — the CPI plus an annual fixed amount of 1.2 percentage points — and represents an increase in revenue of 0.1 points of GDP over the projected period. Lastly, the Solidarity tax - a new additional contribution on earnings that exceed the maximum contribution base - takes effect in 2025 and will progressively increase until 2045. Its budgetary impact increases progressively from €364m in 2025 to €667m in 2028.

TABLE 12. SOCIAL SECURITY REVENUE MEASURES

Social Security Revenue Measures												
Measure	2023		2024		2025		2026		2027		2028	
	€m	%GDP	€m	%GDP	€m	%GDP	€m	%GDP	€m	%GDP	€m	%GDP
Intergenerational Equity Mechanism	2.930	0,2	3.622	0,2	4.311	0,3	5.013	0,3	5.785	0,3	6.601	0,4
Evolution of Maximum Contribution Bases	800	0,1	1.205	0,1	1.486	0,1	1.711	0,1	1.832	0,1	1.981	0,1
Solidarity contribution					364	0,0	462	0,0	563	0,0	667	0,0
TOTAL	**3.730**	**0,3**	**4.827**	**0,3**	**6.162**	**0,4**	**7.186**	**0,4**	**8.181**	**0,5**	**9.249**	**0,5**

Source: AIReF Estimates

The expenditure measures of the Social Security Funds have a budgetary impact of €991m in 2023, €406m in 2024, €705m in 2025, €1.44bn in 2026 and €2.14bn in 2027. The 2023 GSB sets an increase in the Minimum Income Scheme (MIS), in non-contributory pensions and in minimum pensions of 8.5%, in line with the CPI of 2022. The 2023 increase is complemented by the measures contained in RDL 20/2022, which establish an increase up to 15% of the MIS and non-contributory pensions for 2023. This additional increase has an impact of €190m for the MIS and €181m for pensions in 2023. In addition, RDL 2/2023 establishes an increase in non-contributory pensions and minimum pensions between 2024 and 2027 to ensure they exceed certain poverty thresholds[20][21]. The cumulative impact is €2.14bn in 2027, or 0.1% of GDP. Lastly, since 2021, the GSB has established an increase in the Public Indicator of Multiple Effects Income (IPREM), which directly affects non-contributory unemployment benefits and minimum and maximum contributory benefits. In 2023, a 3.6% increase in the IPREM was established, with an impact of €615m.

TABLE 13. SOCIAL SECURITY EXPENDITURE MEASURES

Social Security expenditure measures												
Measure	2023		2024		2025		2026		2027		2028	
	€m	%GDP	€m	%GDP	€m	%GDP	€m	%GDP	€m	%GDP	€m	%GDP
MIS increase	195	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
Increase in non-contributory pensions	181	0,0	244	0,0	403	0,0	549	0,0	692	0,0	692	0,0
Increase in minimum pensions	0	0,0	163	0,0	302	0,0	891	0,1	1.443	0,1	1.443	0,1
IPREM increase in non-contributory unemployment benefits and minimum and maximum contributory benefits	615	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
TOTAL	**991**	**0,1**	**406**	**0,0**	**705**	**0,0**	**1.441**	**0,1**	**2.135**	**0,1**	**2.135**	**0,1**

Source: AIReF Estimates

4.3.4. Measures adopted regarding Autonomous Regions

The lower revenue expected until 2028 due to the permanent revenue measures adopted or those communicated to date by the Autonomous Regions (ARs) is currently estimated at more than €2.3bn. According to the information provided by the ARs, the latest tax measures implemented to date or planned for the coming years will result in lower public revenue of €2.3bn until 2028. Most of them will affect the revenue of 2023 (approx. €900m) and 2024 (an additional €1.4bn), although there will be additional impacts in 2025 and 2026. On the other hand, it should be noted that in the specific case of the tax reduction measures adopted for Personal Income Tax (PIT), the impact

[20] The poverty threshold corresponds to a household with two adults in the case of the contributory retirement pension for those over the age of 65 with their spouse under their charge, a contributory permanent disability pension with their spouse under their charge or widowhood pension for those over the age of 65 with family members in their charge, half of the previous increase for other contributory pensions, and 75% of the poverty threshold for a single-member household for non-contributory pensions.

[21] The rest of the measures on the expenditure side of the pension system approved between 2021 and 2023 have longer-term effects due to the establishment of transitional period in the regulation.

on the regional accounts will be higher than the pure revenue effect recorded in Table 14 in those years when this effect is registered, both due to the decrease in the instalment payments for the year and the lower settlement of year n-2 (when the measure affects the revenue of that year and could not be considered in the calculation of the instalment payment for the same year). Specifically, AIReF estimates the impact on the 2024 regional accounts at more than €2.8bn due to the PIT measures adopted or planned to date.

The regulation and weight of tax reforms vary by AR. Catalonia is the only region that has regulated permanent tax reforms with a positive impact overall, although in Murcia, Navarre and Valencia, some permanent upward measures offset part of the negative impact of the PIT and Inheritance and Gift Tax reforms. In most ARs, permanent tax reduction measures account for between 0.1% and 0.2% of regional GDP, reaching 0.3% of GDP in Madrid, Rioja and Valencia, and 0.5% in Cantabria. In the Canary Islands, the tax reductions adopted in the PIT are all temporary, and in Castile-La Mancha, Navarre, Murcia and the Balearic Islands, temporary measures outweigh the permanent ones.

TABLE 14. ACCUMULATED REVENUE IMPACT IN THE PERIOD 2023-2028 OF PERMANENT REVENUE MEASURES ADOPTED OR PLANNED BY ARS (MILLIONS AND %GDP)

ARs	PIT	Inheritance and Gift Tax	Wealth Tax	Tax on Property Transfers and Stamp Duty	Other	TOTAL	
						€m	%GDP
ANDALUSIA	-255	-13	-108	-1	0	-377	-0,2
ARAGON	-54	-4	0	0	3	-54	-0,1
ASTURIAS	-29	0	0	0	0	-29	-0,1
BALEARIC ISLANDS	-9	0	0	0	-1	-10	0,0
CANARY ISLANDS	0	0	0	0	6	6	0,0
CANTABRIA	-47	-5	-20	-18	0	-90	-0,5
CASTILE AND LEON	-25	0	0	-1	-3	-29	0,0
CASTILE-LA MANCHA	-25	0	0	-9	0	-34	-0,1
CATALONIA	-19	0	0	0	28	9	0,0
EXTREMADURA	-34	0	-6	0	0	-40	-0,2
GALICIA	-146	-7	-34	0	-3	-190	-0,2
MADRID	-940	-49	0	0	-2	-991	-0,3
MURCIA	-4	0	0	0	4	0	0,0
NAVARRE	-61	0	0	0	19	-42	-0,2
BASQUE COUNTRY							
RIOJA	-24	-8	0	0	0	-32	-0,3
VALENCIA	-259	-232	0	4	27	-460	-0,3
TOTAL ARs	-1.930	-317	-168	-27	78	-2.363	-0,2

Source: AIReF Estimates, based on the fundamental lines of 2024 from the ARs.

Expenditure measures adopted or planned by the ARs, mainly relating to personnel, will amount to €1.8bn by 2028. According to the assessments provided by the ARs, in recent years, pay and staff increases have been implemented or are planned, some of which have effects until 2026. The main increases, incorporating the wage effect included in agreements, will be recorded in 2023 (€800m) and 2024 (€625m). However, increases are expected in 2025 (€200m) and much smaller ones in 2026 (€25m). These personnel measures are accompanied by other permanent measures of much lesser impact related to the review of agreements, and support or benefits to the private sector, although in most cases the main measures of this latter type are temporary.

TABLE 15. ACCUMULATED EXPENDITURE INCREASE IN THE PERIOD 2023-2028 FROM PERMANENT EXPENDITURE MEASURES ADOPTED OR PLANNED BY ARS (MILLIONS AND %GDP)

ARs	Compensation of employees	Social Transfers in Kind	Subsidies, cash benefits and other current support	Gross capital formation and investment support	Other	TOTAL	
						€m	%GDP
ANDALUSIA	351	97	0	0	0	**447**	**0,2**
ARAGON	0	9	0	-7	-5	**-3**	**0,0**
ASTURIAS	69	0	0	0	0	**69**	**0,2**
BALEARIC ISLANDS	2	0	10	0	0	**12**	**0,0**
CANARY ISLANDS	0	0	11	0	0	**11**	**0,0**
CANTABRIA	0	0	0	0	0	**0**	**0,0**
CASTILE AND LEON	100	-4	4	0	0	**100**	**0,1**
CASTILE-LA MANCHA	0	0	0	0	0	**0**	**0,0**
CATALONIA	597	0	0	0	0	**597**	**0,2**
EXTREMADURA	77	0	0	0	0	**77**	**0,3**
GALICIA	125	0	0	0	0	**125**	**0,2**
MADRID	48	0	0	0	0	**48**	**0,0**
MURCIA	264	8	0	0	2	**274**	**0,7**
NAVARRE	43	0	40	0	0	**83**	**0,3**
BASQUE COUNTRY*	0	0	0	0	0	**0**	**0,0**
RIOJA	12	0	0	0	0	**12**	**0,1**
VALENCIA*	0	0	0	0	0	**0**	**0,0**
TOTAL ARs	**1.687**	**110**	**65**	**-7**	**-3**	**1.852**	**0,1**

* Information not available for these ARs.

Source: AIReF Estimates, based on information provided by the ARs.

4.4. Contingent liabilities and fiscal risks

Inflation continues to pose a fiscal risk for 2024. The materialisation of risks related to the energy and price crisis has led the Government to adopt revenue and expenditure measures, resulting in a higher deficit cost of 1.7% of GDP in 2022, forecast to reach 1.1% of GDP in 2023. Currently, the rebound of inflation, which is expected to continue rising in the coming months, could prompt the Government to adopt new measures or extend some existing measures. Even if these were more targeted at the most vulnerable sectors, in line with the EU's recommendation, they would pose a risk of a higher deficit for 2024.

Moreover, uncertainty persists regarding the macroeconomic scenario that jeopardises the materialisation of the projected fiscal scenario. The uncertainty surrounding the macroeconomic scenario, which serves as the basis for the deficit forecasts for 2024, remains high. In addition to inflation, the tightening of financing conditions, geopolitical conflicts, trade tensions and the slower pace of RTRP implementation are some of the main risks that would have a negative impact on economic growth. All these elements continue to be key in the evolution of certain variables such as employment, wages, private consumption and gross operating surplus, which will affect the final path of tax revenue and contributions, as well as spending on servicing debt, with an impact on the 2024 deficit. On the positive side, if the risks of the macroeconomic scenario do not materialise, it is possible that revenue will evolve more positively than expected if the elasticity of revenue regarding macroeconomic variables remains in line with historical averages and not below them, as projected in AIReF's central scenario.

In addition to fiscal risks originating from the macroeconomic scenario, risks also exist related to the enforcement of court rulings. According to information from the Central State Administration's Account for 2022, the following fiscal risks stand out:

- **International arbitration:** In the field of energy, the litigation related to renewable energies is still ongoing, and although the arbitration is under appeal, the amount in the event of an unfavourable ruling for Spain stands at around €1.16bn, with estimated costs and interest of €190m, to which an additional €342m would be added for the potential compensation of pending decisions and awards. In addition, in non-international energy arbitration proceedings, there are pending decisions and awards amounting to around €500m.

- **Highway concessionaires:** Several legal proceedings are open: (i) legal actions by the concessionaire ACESA against the balance of compensation for the works carried out, claiming amounts of up to €4.3bn; (ii) contentious-administrative appeals against the resolutions of the Council of Ministers that approved the resolutions on the settlement of toll highway concession contracts, the amount of which is not quantified; (iii) equity loans granted to financially-troubled toll highway concessionaires, amounting to €148m; and (iv) lawsuits by highway concessionaires regarding applications for economic balance due to COVID-19, amounting to €427m.

- **Special Tax on Hydrocarbons:** A prejudicial question has been raised before the Court of Justice of the European Union regarding the regional rate of the Special Tax on Hydrocarbons differentiated by region for the same product, with an estimated impact of up to €6.5bn.

- **Electricity voucher:** Several contentious-administrative appeals have been filed against the regulation of the electricity voucher, the amount of which is not quantified.

The total amount of these risks identified by the Government amounts to €13.5bn, not including the unquantified risks related to the settlement of toll highway concession contracts and the court rulings on the electricity voucher. As regards the latter, although this risk is not quantified, in 2022, €366m that had been recorded in the pending budgetary account 413 were allocated, and this year to date, the court rulings on the electricity voucher have amounted to at least €386m, financed from the 2023 contingency fund.

Furthermore, there is a lack of transparency regarding the financing of the electricity system, which translates into uncertainty regarding the amount of the transfers to the CNMC to finance the electricity system in 2023 and 2024. In fact, in 2022, transfers were increased in December by some €2.8bn, without the total amount transferred being known until the publication of the 2022 year-end data. On the one hand, the transfer was increased by €880m due to higher revenue from auctions of greenhouse gas emission allowances. On the other hand, the transfer to offset the suspension of the IVPEE was increased by an additional €1.9bn, on top of the €1.36bn provided for in RDL 14/2022 (without prejudice to the extra contribution of €2bn to offset expenses and ensure the balance between revenue and expenditure, which was approved by RDL 20/2022).

Finally, other reiterated risks exist for which the amount is unknown, and no information is provided, especially regarding investments in defence modernisation programmes. Investments in defence modernisation programmes are in the process of being implemented and the volume of these investments is now becoming increasingly significant with a major impact on the deficit due to the Government's commitment to NATO to increase defence spending to reach 2% of GDP by 2029. Neither is there any information on the possible impact of the risks assumed by public-private partnership agreements or loans granted by public authorities that are potentially doubtful.

BOX 4. CONTRIBUTIONS FROM THE STATE TO FINANCE THE ELECTRICITY SYSTEM

The supply of electrical energy constitutes a service of general economic interest, as stated in the preamble of Law 24/2013, of December 26th, on the Electricity Sector. This law subjects the actions of public authorities to the principle of the economic and financial sustainability of the electricity system, understood as the capacity to meet all its costs, and includes, among the means to finance them, contributions from the General State Budget (GSB).

These contributions from the GSB to finance the electricity system through the National Markets and Competition Commission (CNMC) consist of the following components:

- The annual collection derived from the taxes included in Law 15/2012 on fiscal measures for energy sustainability,
- Part of the revenue estimated from the auctions of greenhouse gas emission allowances,
- The contribution to finance 50% of the additional cost of production activity in non-peninsular electricity systems,
- In addition, there may be other contributions for measures adopted by the Government on an *ad hoc* basis.

As regards these contributions, there is uncertainty regarding the amount transferred from tax collection and revenue from auctions of emission allowances.

i. Contribution from the annual collection of taxes included in Law 15/2012 on fiscal measures for energy sustainability. Among these taxes, the Tax on the Value of Electricity Production (IVPEE) deserves special consideration due to its treatment in recent years. In principle, this tax, like others, has a neutral effect on the public accounts, as the revenue collected is transferred in full to the CNMC to finance the electricity sector. However, when the Government proceeded to suspend the tax in 2021, 2022 and 2023, it also approved compensation for the loss of revenue, thus breaking deficit neutrality.

In particular, in 2022, approval was given to offset the revenue loss due to the suspension of the IVPEE (Second Additional Provision of RDL 29/2021) to ensure the system's balance. Initially, only an amount of €1.36bn was authorised (Second Additional Provision of RDL 14/2022). However, later, in December, another contribution of €1.92bn was made. Unlike the first amount to offset the loss, this amount had not been specifically included in a previous law. Accordingly, only at the end of the year was it possible to see the final amount to be offset, which amounted to a total of €3.28bn.

For 2023, the amount to be allocated to the CNMC to offset the revenue loss resulting from the suspension of the IVPEE was again approved (RDL 20/2022) to ensure the system's balance. This amount may range between €2.6bn (revenue loss due to the suspension of the IVPEE in 2023 estimated by AIReF) and zero if it is considered that no amount is necessary to be offset to achieve the balance between revenue and expenditure associated with electricity system charges[22].

This uncertainty also extends to 2024, as the last quarterly payment to the CNMC and the final settlement of the IVPEE for 2023 are shifted to the following year.

ii. Contribution of revenue from auctions of greenhouse gas emission allowances. The amount of the contribution to the CNMC derived from this revenue requires differentiating before and after 2022.

Before 2022, the annual GSB laws included the maximum amount to be transferred to the CNMC (Second Additional Provision of Law 15/2012). This maximum legal amount could be modified during the year by a subsequent law based on the revenue collected. For example, in 2021, the maximum amount of €1.1bn provided for in the 2021 GSB law was increased by €900m by the First Additional Provision of RDL 17/2021, resulting in a final transfer to the CNMC of €2bn.

From 2022 onwards, following the modification introduced by Law 7/2021 on Climate Change and Energy Transition, the annual GSB laws include the minimum amount to be transferred to the CNMC (Article 30(4) of Law 7/2021). In this case, a credit can be generated when the revenue actually collected from auctions of greenhouse gas emission allowances exceed the initial forecast, up to the limit of the revenue actually collected. In this regard, in December 2022, there was an increase in the initial appropriation of €880m, rising from the initially planned €1.1bn in the 2022 GSB to €1.98bn for this item.

For 2023 and subsequent years, uncertainty exists regarding the credit generated by revenue from auctions of greenhouse gas emission allowances that will be transferred to the CNMC. Unlike the years before 2021, the amount of the transfer forecast in the GSB does not operate as a maximum legal limit that could be modified by another law. Accordingly,

[22] Article 5 of Royal Decree Law 20/2022, of December 27th, on measures in response to the economic and social consequences of the conflict in Ukraine and in support of the reconstruction of the island of La Palma and other situations of vulnerability.

until the year-end data are published, there is no information on the amount actually transferred.

iii. Exceptionally, in December 2022, an additional contribution of €2bn was made to the CNMC, approved by RDL 20/2022, to cover the costs financed by the charges of the electricity system for 2022 to thus offset the potential deficit of the electricity system to ensure its balance that year.

Conclusion

In 2022, the State transferred, with charges to the GSB for that year, an amount of €7.78bn to the CNMC for the collection of taxes provided for in Law 15/2012 and for auctions of emission allowances. In addition, €1.15bn was transferred to finance both the non-peninsular additional cost and the specific measures approved for 2022[23]. In total, €8.92bn was transferred that year. For its part, the electricity system recorded a surplus of €6.19bn in 2022.

In 2023, the GSB includes a state contribution of €2.86bn for estimated tax collection and auctions of emission allowances. Of this amount, the forecast collection of the IVPEE is €1.15bn[24]. In the lower-cost scenario, the contribution would be around €1.71bn if the suspension of the IVPEE is not offset, and no additional credit is generated from auctions of emission allowances. In contrast, in the higher-cost scenario, the contribution could amount to €7bn if the suspension of the IVPEE is offset in its entirety and the maximum additional credit is generated from auctions of emission allowances. This represents a range between both scenarios of 0.4 points of GDP impact on the deficit of the Autonomous Regions.

This uncertainty also stems from not knowing the evolution over the year of the costs and revenue associated with the electricity system, although Article 186 of RDL 5/2023 establishes that, exceptionally, the entire surplus for 2022 may be used to cover temporary imbalances and transitory deviations between revenue and costs for 2023.

[23] For underground storage actions, to offset the reduction in toll charges for consumers and to finance the flexibility of electricity contracts

[24] The General State Budget for 2023 did not include the extension of the suspension of the IVPEE.

5. ANALYSIS BY SUB-SECTOR

AIReF and the Budgetary Plan show differences in 2023 and 2024 regarding the distribution of the deficit by sub-sector, although in both estimates, the Central Government bears the heaviest burden of the deficit. In 2023, the estimate of the deficit for the Territorial Administrations is aligned. However, there are discrepancies in the Central Government's deficit, which AIReF estimates to be 0.3 points higher, and in the SSF deficit, which AIReF considers will close the year with a deficit that is 0.1 points lower. In 2024, the largest difference between the two scenarios occurs in the result expected for the Autonomous Regions (ARs). While AIReF considers that the ARs will end the year with a surplus of 0.2 points, the Budgetary Plan estimates a deficit of 0.1 points. In contrast, AIReF expects a deficit almost 0.2 points higher for both the Central Government and the SSF.

TABLE 16. NET LENDING/BORROWING BY SUB-SECTOR (% GDP). AIREF VS BUDGETARY PLAN

	AIReF		DBP	
	2023	2024	2023	2024
GG	-4,1	-3,0	-3,9	-3,0
CG	-3,2	-3,1	-2,9	-2,9
SSFs	-0,4	-0,4	-0,5	-0,2
ARs	-0,6	0,2	-0,6	-0,1
LGs	0,1	0,2	0,1	0,2

Source: Budgetary Plan and AIReF estimate

TABLE 17. DEFICIT BY SUB-SECTOR (% GDP). MEDIUM-TERM PATH AIREF

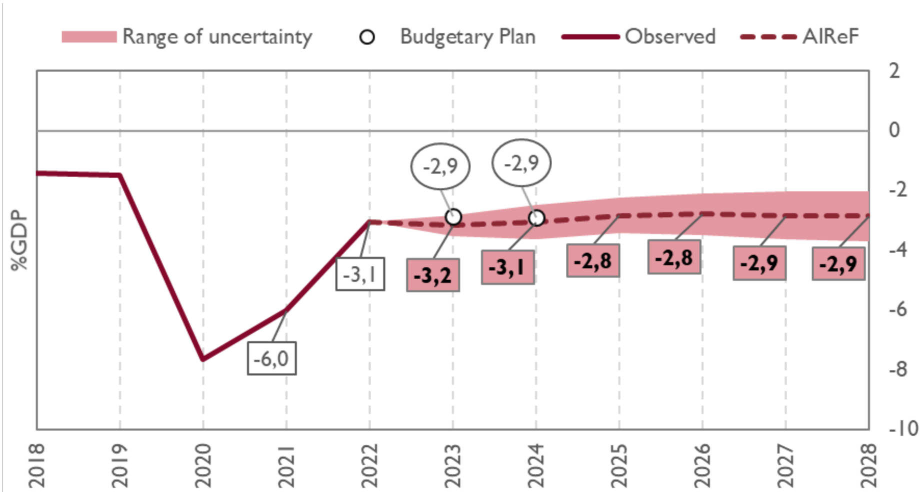
	AIReF					
	2023	2024	2025	2026	2027	2028
AA. PP.	**-4,1**	**-3,0**	**-3,2**	**-3,2**	**-3,2**	**-3,2**
AC	-3,2	-3,1	-2,8	-2,8	-2,9	-2,9
FSS	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4
CC. AA.	-0,6	0,2	0,0	-0,1	-0,1	-0,1
CC. LL.	0,1	0,2	0,1	0,1	0,1	0,1

Source: AIReF Estimate

5.1. Central Government

The deficit forecasts for the Central Government are 3.2% of GDP in 2023 and 3.1% in 2024, 0.3 and 0.2 points higher, respectively, than those forecast in the Budgetary Plan. AIReF forecasts a higher deficit for the Central Government in 2023 and 2024, although the differences are greater in 2023 and reduce their weight of GDP by half in 2024. Despite the withdrawal of the measures, the Central Government will only reduce its deficit by 0.1 points in 2024 to 3.1% due to the extraordinary increase in the settlement of the territorial financing systems. In the medium term, according to AIReF's estimates, the deficit will stabilise at around 2.9% of GDP in 2028, offsetting the increase in the interest burden with revenue growth and the moderation of the growth of other expenditure.

FIGURE 49. EVOLUTION OF NET LENDING/BORROWING OF THE CENTRAL GOVERNMENT (% GDP)



Source: IGAE, Budgetary Plan, and AIReF estimate

AIReF expects the revenue of the Central Government[25], without the RTRP, to reach 19.3% of GDP in 2024 after ending 2023 at 18.9%. The weight of revenue in 2023 is affected by the impact of measures to mitigate the effects of the energy crisis and price rises and by lower transfers received as a result of the final settlement of the regional and local financing system for 2021. In 2024, the growth in the weight of revenue represents 0.4 points of GDP, mainly explained by the increase in taxes due to the withdrawal of the measures to mitigate inflation. In 2025, a drop in revenue is estimated due to the end of the temporary measures to increase tax revenue[26], and from 2026 onwards, the continuous growth in the revenue of the Central Government is expected to reach 19.6% of GDP, mainly driven by the increase in taxes on income.

As regards expenditure, AIReF forecasts that, without the RTRP, this will reach 22.4% of GDP in 2024, around 0.3 points above the 22.1% expected for 2023. This higher expected expenditure for 2024 in the Central Government mainly stems from higher transfers to other General Government sub-sectors both through the regional and local financing system - where the final settlement for 2022 to be transferred in 2024 is expected to be higher than usual - and through the culmination of the progressive increase in the transfer to the SSFs to finance expenditure not related to Social Security, as a result of the commitment made in the Toledo Pact. Conversely, a decrease in spending on subsidies is expected due to the termination of measures taken in 2023 related to the conflict in Ukraine and to combat inflation, with the exception of those related to regular passenger transport by train and bus, whose continuation in 2024 is contained in the Budgetary Plan. In the medium term, the path is conditioned by the estimate of transfers to ARs and LGs through the financing system, which decreases in 2025 before resuming an upward path until 2028. Another noteworthy factor in the medium term is the progressive increase in spending to service debt, which, from 2024 to 2028, reaches growth rates above 11%.

As regards the evolution of eligible expenditure for the purposes of the expenditure rule, AIReF forecasts an increase of around 0.4% in 2024. This rate of change in eligible expenditure is well below the reference rate of 3% calculated by AIReF in accordance with the provisions of the LOEPSF. The projected increase is driven by the growth of certain expenditure items,

[25] The tax revenue forecast has been evaluated in the section covering the General Government Sector, as it includes forecasts for revenue under the common regime, which accounts for more than 75% of total tax revenue

[26] The Solidarity Tax on Large Fortunes, the levies on energy companies and financial institutions and the limitation on offsetting intragroup losses of consolidated groups under Corporate Income Tax.

including the increase in the number of civil servants, compensation of employees and transfers to Social Security for expenditure not related to Social Security. The increase in eligible expenditure would have been higher if not for the disappearance in 2024 of most expenditure measures to combat inflation and drought, with the exception of subsidies for regular passenger transport by train and bus, which continue into 2024 under the Budgetary Plan. Furthermore, AIReF estimates a net negative impact of permanent revenue measures in 2024 amounting to around €450m, which also contributes to the increase in eligible expenditure for that year.

TABLE 18. REVENUE, EXPENDITURE AND BALANCE OF THE CENTRAL GOVERMENT WITHOUT RTRP (% GDP). AIREF MEDIUM-TERM PATH

	AIReF					
	2023	2024	2025	2026	2027	2028
REVENUE	18,9	19,3	19,1	19,3	19,4	19,6
EXPENDITURE	22,1	22,4	21,9	22,1	22,3	22,5
BALANCE	-3,2	-3,1	-2,8	-2,8	-2,9	-2,9

Source: AIReF estimate

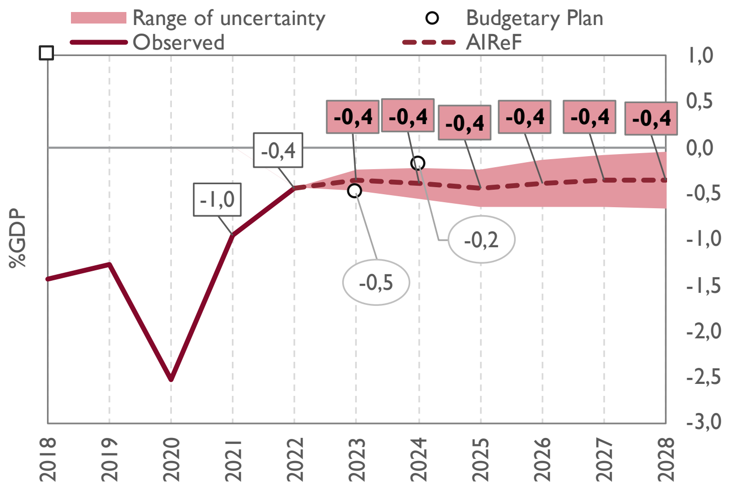
Source: AIReF Estimate

5.2. Social Security Funds

AIReF estimates that the deficit of the Social Security Funds (SSFs) will remain at 0.4% in 2023 and 2024, while the Government forecasts a moderation from 0.5% to 0.2% during that period. AIReF considers that the cost of increasing pensions in line with the Consumer Price Index (CPI) is offset by the growth in revenue, both from social contributions stemming from the impact of the Intergenerational Equity Mechanism and the increase in transfers from the Central Government for expenditure not related to Social Security established for these years.

AIReF considers that the SSF deficit will remain at 0.4% between 2025 and 2028. The increase in spending on pensions is offset by the reduction in spending on unemployment benefits resulting from the moderation of the unemployment rate. Social contributions to the Social Security Fund, for their part, maintain their weight of GDP due to the upward impact of the Intergenerational Equity Mechanism, which is offset by a certain decrease in the weight of compensation of employees on GDP.

FIGURE 50. EVOLUTION OF NET LENDING/BORROWING OF THE SOCIAL SECURITY FUNDS (% GDP)



Source: IGAE (General Accounting Office), Budgetary Plan, and AIReF Estimate

AIReF estimates that the revenue of the SSFs will remain at 15.7% of GDP in 2023 and 2024, subsequently rising to 15.9% in 2028. This evolution is explained, on the one hand, by the increase in the weight of social contributions on GDP by 0.2 points due to the effect of the Intergenerational Equity Mechanism and, to a lesser extent, the introduction of the Solidarity Tax from 2025. Transfers from the Central Government for expenditure not related to Social Security also increase during the period.

AIReF considers that the expenditure of the SSFs will increase from 16% to 16.1% between 2023 and 2024 and up to 16.2% in 2028. This increase is primarily due to the opposing evolution of spending on pensions and unemployment benefits. Spending on pensions will increase by 0.7 points of GDP between 2023 and 2028 due to the increase in line with CPI, while spending on unemployment benefits will decrease by 0.3 points due to the favourable performance of the labour market.

TABLE 19. REVENUE, EXPENDITURE AND BALANCE OF THE SSFS WITHOUT RTRP (% GDP). AIREF MEDIUM-TERM PATH

	AIReF					
	2023	2024	2025	2026	2027	2028
REVENUE	15,7	15,7	15,8	15,8	15,9	15,9
EXPENDITURE	16,0	16,1	16,2	16,2	16,2	16,2
BALANCE	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4

Source: AIReF Estimate

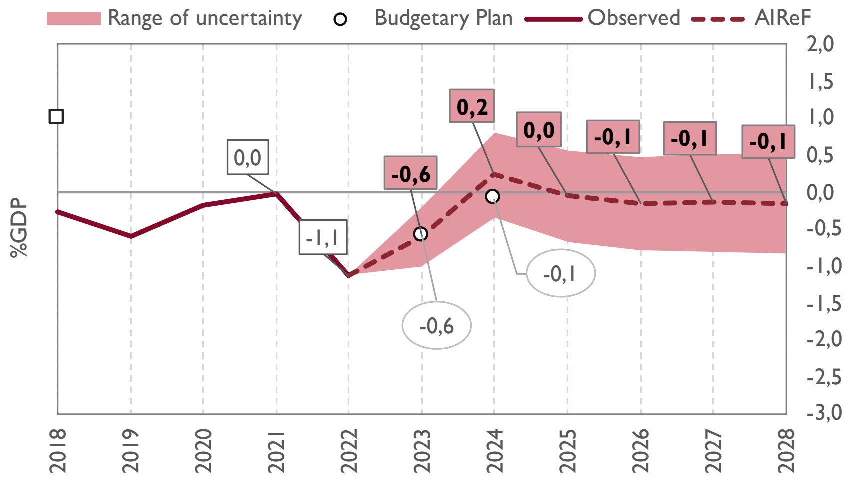
5.3. Autonomous Regions

AIReF worsens its deficit estimate for the Autonomous Regions (ARs) in 2023 by 0.2 points to 0.6% of GDP, which is also forecast in the Budgetary Plan. AIReF revises the 2023 year-end forecast from the report on July 6th, based on execution data observed to date, the update of year-end 2022 and information provided by the regions. It lowers revenue slightly and substantially raises forecast expenditure at year-end 2023, in both cases without taking the RTRP into account. Compared with the July estimates, AIReF forecasts lower revenue collection from tax revenue - mainly from the Tax on Asset Transfers and Documented Legal Acts Tax (TATDLA) - and European funds, partly due to the revision of the REACT EU funds recorded until 2022. At the same time, it raises estimates of current expenditure, incorporating the higher starting level highlighted by the updated year-end 2022 figures and the execution recorded until July. The Autonomous Regions have also worsened their estimates for 2023 by 0.2 points to -0.6% of GDP.

For 2024, AIReF estimates that the AR sub-sector will achieve a surplus of 0.2% of GDP, compared with a deficit of 0.1% estimated in the Budgetary Plan and the estimated balance by the ARs as a whole in their budgetary lines. AIReF calculates that the sub-sector balance will improve by 0.8 points compared with the expected balance in 2023, mainly due to the exceptional increase in revenue under the financing system from the 2022 settlement. Most ARs expect to achieve the balance projected for 2024 in the Stability Programme Update (SPU) published last May, under more moderate revenue estimates than those considered in AIReF's scenario. Budget surpluses are only expected to be attained in the budgetary lines prepared by Castile and Leon, Rioja and the Canary Islands. In contrast, Catalonia and Murcia have presented their lines with a deficit of 0.3% of GDP, and the Basque Country, although it has not provided its scenario for 2024, indicates that deficit as a reference.

AIReF forecasts that the ARs will maintain a deficit of 0.1% from 2026 onwards, in a scenario at constant policies. The improvement in the estimated balance for 2024, underpinned by the exceptionally positive settlement of the financing system, is temporary. From 2025, when the flows derived from the financing system begin to normalise, AIReF forecasts that the balance of the ARs will worsen to -0.1% of GDP in 2026, remaining at that level until 2028.

FIGURE 51. EVOLUTION OF NET LENDING/BORROWING OF ARS (% GDP)



Source: IGAE, Budgetary Plan, Fundamental Budget Lines 2024 of the ARs and AIReF estimate

5.3.1.1 Revenue of the Autonomous Regions

AIReF estimates that regional revenue in 2024, excluding the RTRP, will increase by 10% on the previous year, gaining 0.7 points of GDP, while the ARs forecast a lower level. The 16% increase in financing system revenue, conditioned by the exceptional settlement of 2022, despite tax cuts adopted on Personal Income Tax (PIT), is mitigated by the practically zero evolution of other revenue. Non-PIT tax revenue will grow by 4%, with a neutral impact of the measures adopted, as, overall, the lower collection resulting from the tax reduction measures on Wealth, Inheritance and Gift Tax and the TATDLA is offset by the withdrawal of temporary measures from previous years (VAT reduction and reduction in the Tax on Electricity, and elimination of the Tax on the Value of Electricity Production (IVPEE) in Navarre, and reductions on taxes in other ARs). There is expected to be a 5% increase in other revenue associated with production and contributions from the Provincial Councils to the Autonomous Region of the Basque Country. Those conditional transfers from the State included in the 2023 General State Budget that were not expressly temporary are maintained, extending support for transport as indicated in the Budgetary Plan. Lastly, the REACT EU disappears and it is estimated that other structural funds will increase due to the closure of the OP 14-20 and the boost from the OP 21-27. Considering the revenue associated with the RTRP that is planned to be executed, regional revenue will grow by 11% over the previous year. Overall, the estimates of the ARs indicate much lower figures than those estimated by AIReF in financing system revenue subject to instalment payments and slightly more moderate growth in other revenue.

In the medium term, AIReF estimates that the revenue of the ARs will stabilise at 15.4% of GDP. The settlements of the financing system of the ARs under the common regime, which in 2025 will still incorporate revenue of a cyclical nature originating from the growth in 2023 collections beyond what was forecast in the General State Budget, will recover their usual weight of GDP as from 2026, albeit affected by the tax reduction measures adopted under PIT. Tax revenue and revenue associated with production will generally maintain their weight of GDP. As regards other revenue, transfers conditional on the State are estimated to moderate and a progressively increasing certification rate for traditional European funds from the 2021-27 Operational Programme would maintain its weight of revenue.

5.3.1.2 Expenditure of Autonomous Regions

AIReF forecasts that the expenditure of the ARs will grow by 4% in 2024, without including expenditure associated with the RTRP, similar to the forecasts in the aggregate regional estimates. The update of compensation of public employees included in the Budgetary Plan, together with specific measures adopted by the ARs, would lead to a 5% increase in compensation of employees. Increases of 4% in operating expenditure and expenditure associated with pharmacy and arrangements with private providers are also expected, along with an 18% increase in spending on servicing debt, while other current expenditure would maintain its level and capital expenditure would fall due to the disappearance of REACT EU funds. The aggregate estimates of the lines of the regional budgets forecast a similar increase in expenditure in 2024 as forecast by AIReF for overall expenditure.

Expenditure by the ARs in the medium term under a scenario at constant policies will reach a weight of 15.5% of GDP. The growth of compensation of employees in 2025 will be marked by the agreement reached with the trade unions at the national level, with growth aligned with the Consumer Price Index (CPI) estimated as from 2026. This is compounded by measures currently adopted or planned by the regions, some of which have effects until 2026. For the rest of public consumption, mainly associated with health and education, AIReF has estimated its evolution by combining its long-term models - which mainly include the impact of aging - with the average growth of these items in recent years. Spending on servicing debt will increase to 0.5% of GDP. Until 2026, a contained evolution of capital expenditure not associated with the RTRP is expected, justified by the need to execute the spending on projects associated with these funds. Lastly, although the final result of the reform of the European and national fiscal frameworks is unknown, AIReF considers that in the medium term, a return to the fiscal rules will contribute to moderating growth in expenditure, in line with the latest Specific Country Recommendations (CSRs) issued by the European Council.

TABLE 20. REVENUE, EXPENDITURE AND BALANCE OF THE ARS WITHOUT RTRP (% GDP). MEDIUM-TERM PATH AIREF

		AIReF					
Autonomous Regions	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Net revenue without RTRP	15,0	**15,1**	**15,8**	**15,4**	**15,3**	**15,3**	**15,4**
Net RFS	8,1	9,3	10,3	10,0	10,0	10,1	10,2
Net IPs	*8,4*	*8,6*	*9,0*	*9,2*	*9,3*	*9,3*	*9,4*
Net Settlement	*-0,2*	*0,8*	*1,3*	*0,9*	*0,7*	*0,7*	*0,8*
CSA compensation	0,6						
Tax on Property Transfers and Stamp Duty	0,9	0,7	0,7	0,7	0,7	0,7	0,7
Inheritance and Gift Tax	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Other non-RFS tax	0,8	0,8	0,9	0,9	0,9	0,9	0,9
Other revenue	4,3	4,0	3,7	3,6	3,5	3,5	3,4
Net expenditure without RTRP	16,1	**15,7**	**15,6**	**15,5**	**15,4**	**15,4**	**15,5**
Intermediate consumption	2,8	2,8	2,8	2,8	2,8	2,8	2,8
Compensation of employees	7,1	6,9	7,0	6,9	6,9	6,9	6,9
Social transfers in kind	2,5	2,5	2,4	2,4	2,4	2,4	2,4
Interest	0,3	0,3	0,4	0,4	0,4	0,5	0,5
Other current expenditure	1,9	1,7	1,7	1,6	1,6	1,6	1,5
Capital expenditure	1,5	1,5	1,4	1,3	1,3	1,3	1,3
Net lending/borrowing	-1,1	**-0,6**	**0,2**	**0,0**	**-0,1**	**-0,1**	**-0,1**

Source: AIReF Estimate

AIReF considers that eligible expenditure for the purposes of the expenditure rule will increase by 6% in the ARs in 2024, above the reference rate of 3% estimated by AIReF. Starting from an estimate of eligible expenditure in 2023 that could increase by 7% from the level of 2022, it is calculated that in 2024, eligible expenditure will increase by nearly 6% under the estimated expenditure figures, targeted transfers from the State, revenue from EU funds and tax measures adopted at the regional level. These same growth rates would be reflected in the expenditure to be considered for the calculation of the CSRs issued for 2024 by the European Council, disaggregated for each General Government sub-sector.

Attaining the balance forecast for the regions under AIReF's revenue forecast would imply higher growth in expenditure and eligible expenditure. If AIReF's revenue forecast is met, attaining the balance projected for the regions as a whole in their main lines for 2024 would imply 6% growth in expenditure and an 8% increase in eligible expenditure under calculations for the national expenditure rule and the CSR.

TABLE 21. AIREF FORECAST CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE NATIONAL AND EUROPEAN EXPENDITURE RULE 2024/2023. ARS (% CHANGE)

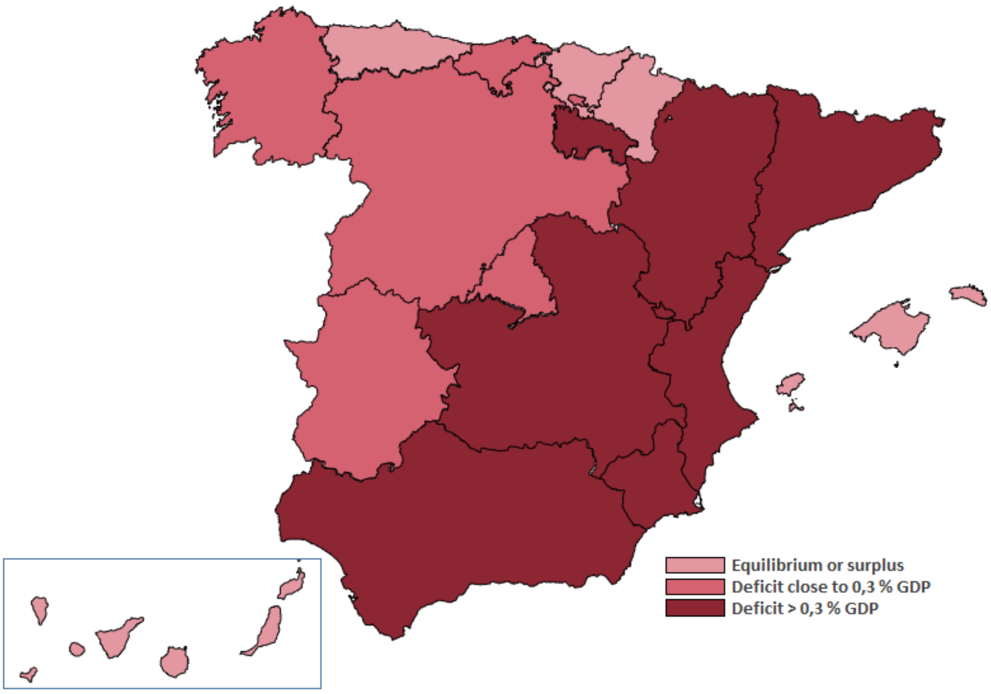
Autonomous Regions	AIReF forecast	AIReF forecast low balance = equilibrium
Expenditure (without RTRP)	4%	6%
Eligible expenditure national expenditure rule	6%	8%
Eligible expenditure CSR 2024	6%	8%

Source: AIReF Estimate

5.4. Individual forecasts

The outlook for year-end 2023 worsens in most Autonomous Regions (ARs). Under AIReF's new forecasts, 11 ARs will exceed the -0.3% GDP reference set for the sub-sector, while five will close with a surplus. Compared with the July report, the closing forecasts for 14 ARs worsen. Execution data to date, the update of year-end 2022 and information provided by the ARs have led to the revision of expected revenue and expenditure by year-end 2023. Consequently, the forecasts improve for Navarre, remain stable for Castile–La Mancha and the Canary Islands, and worsen for the others.

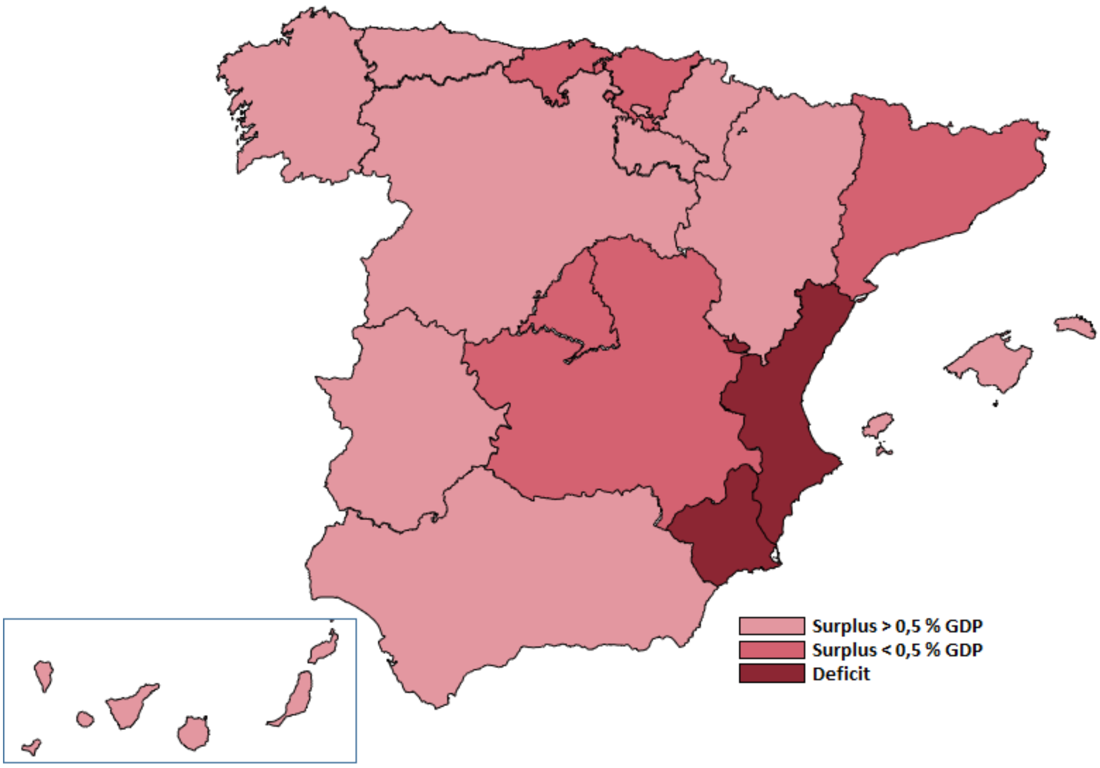
FIGURE 52. MAP OF NET LENDING/BORROWING OF ARS 2023 IN RELATION TO THE -0.3% REFERENCE FOR THE SUB-SECTOR.



Source: AIReF Estimate

In 2024, AIReF forecasts that only two ARs will close with a deficit. Under current estimates, only Murcia and Valencia would close 2024 with a deficit, albeit with a substantial improvement compared with the estimated balance for these regions in 2023. In the other ARs under the common regime, the extraordinary growth of revenue under the financing system in 2024 will result in a temporary improvement in the balance, which is expected to record a surplus in all regions. In the Basque Country and Navarre, revenue growth estimates, conditioned by the withdrawal of temporary measures taken to mitigate the effects of the crisis, will also lead to a positive evolution of the balance.

FIGURE 53. MAP OF NET LENDING/BORROWING OF ARS 2024.



Source: AIReF Estimate

In the medium term, under a scenario at constant policies, most ARs could maintain a positive balance or close to this. The economic situation in 2024, determined by exceptional revenue growth, is not replicated in the following years. In the ARs under the common regime, a deterioration of the balance is expected from 2025, which will be more or less intense depending on the weight of the measures adopted and the baseline growth derived from the application of AIReF's revenue and expenditure models in each of them.

TABLE 22. AIREF FORECAST OF BALANCE BY AR 2023-2028. CONSTANT POLICY SCENARIO FROM 2025 (% GDP)

ARs	2023	2024	2025	2026	2027	2028
ANDALUSIA	-0,6	0,7	0,2	0,1	0,1	0,1
ARAGON	-0,6	0,7	0,2	0,1	0,0	-0,1
ASTURIAS	0,4	1,6	0,6	0,6	0,8	0,6
BALEARIC ISLANDS	0,1	1,4	1,1	0,8	0,9	1,0
CANARY ISLANDS	0,5	1,5	1,3	1,4	1,6	1,6
CANTABRIA	-0,4	0,1	0,1	-0,3	-0,1	-0,2
CASTILE AND LEON	-0,3	0,7	0,1	-0,1	0,1	0,0
CASTILE-LA MANCHA	-0,9	0,3	-0,1	-0,2	-0,4	-0,5
CATALONIA	-0,9	0,1	-0,3	-0,4	-0,5	-0,5
EXTREMADURA	-0,4	0,7	-0,2	-0,4	-0,3	-0,4
GALICIA	-0,2	0,7	0,2	0,1	0,1	0,0
MADRID	-0,4	0,0	0,0	0,0	0,1	0,1
MURCIA	-2,0	0,1	-1,7	-1,9	-1,9	-2,0
NAVARRE	0,4	1,2	1,2	1,2	1,4	1,5
BASQUE COUNTRY	0,2	0,4	0,6	0,8	0,9	0,8
RIOJA	-0,5	0,9	0,3	0,2	0,1	0,1
VALENCIA	-1,9	-1,3	-1,7	-1,9	-2,0	-2,0
TOTAL ARs	**-0,6**	**0,2**	**0,0**	**-0,1**	**-0,1**	**-0,1**

Source: AIReF Estimate

A detailed individual analysis is provided in the corresponding reports published. The individual reports published alongside this document contain detailed information on the forecasts for each of the ARs.

5.5. Local Governments

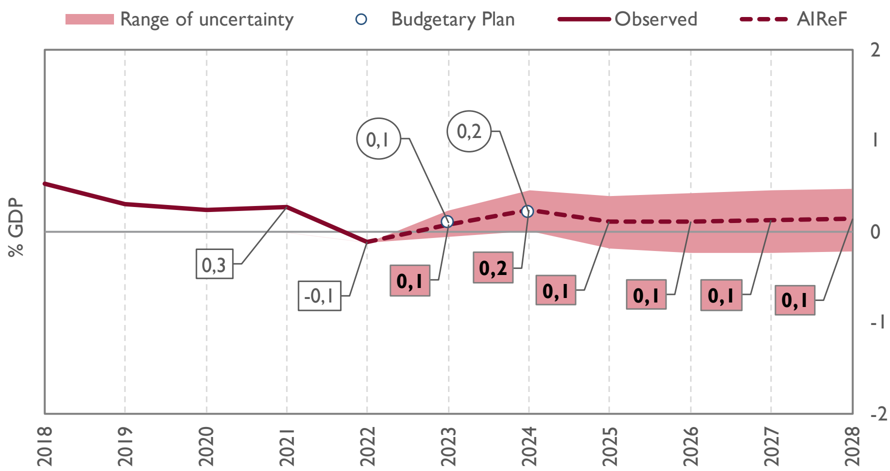
AIReF estimates that the Local Government (LG) sub-sector will achieve a surplus of around 0.1% of GDP in 2023, slightly worsening its July forecasts. AIReF has updated the year-end 2023 result expected for the entire LG sector in light of the latest information published on non-financial operations in the first half of the year, debt and local deposits for the same period according to data from the Bank of Spain, together with the information provided by the Information Centre of the Ministry of Finance and Civil Service and from the large LGs evaluated by AIReF. Analysing all this new data, AIReF slightly worsens its forecasts from July for the local sub-sector, expecting 2023 to close with a surplus of around 0.1% of GDP. This is primarily due to the performance of local expenditure, driven by the increased growth of current expenditure on personnel and goods and services. This forecast balance of 0.1% of GDP is consistent with the latest Government estimates for 2023 contained in the Budgetary Plan. Adjusted for the positive effect in 2023 of offsetting the 2020 settlement of the State financing system, which was over 0.1 points of GDP, the LG sub-sector would close 2023 with a slight deficit.

For 2024, AIReF forecasts that LGs will achieve a surplus of 0.2% of GDP, in line with the forecasts of the Budgetary Plan. AIReF forecasts an improvement of 0.1 points in the balance for 2024 compared with the forecast for 2023. This result is derived from expected growth in expenditure of around 3%, much lower than the estimated growth in revenue of almost 6%. The higher expected growth in local revenue compared with expenditure is primarily due to the effect of the positive settlement of the financing system to be received in 2024, estimated at over 0.3% of GDP.

The balance expected in 2024, adjusted for the effect of offsetting the negative settlement of 2020 and the positive settlement of the financing system, would be a deficit of 0.1% of GDP. In homogeneous terms, the balance forecast for 2024, adjusted for the positive effect of both the offsetting to be paid out over the year for the negative settlement of the 2020 financing system (almost 0.5% of GDP) and the settlement of 2022 to be received in 2024 under this system (estimated at over 0.3% of GDP), would be a deficit of around 0.1% of GDP.

The data sent by the LGs to the Ministry of Finance on the main lines for 2024 show an expected result in line with AIReF's forecasts. The data reported by LGs to the Ministry of Finance on the main lines of the 2024 budgets (with a high degree of representativeness of over 82% of all LGs) indicate that the local sub-sector could close next year with a surplus of around 0.2 points of GDP. As is customary in this phase of the budget cycle, LG revenue estimates are too prudent while expenditure is estimated at a level of execution that is challenging to achieve. Very few consider, at this stage, the significant positive effect of the 2022 settlement of the financing system. Accordingly, the final result may improve upon what is currently reported.

FIGURE 54. EVOLUTION OF NET LENDING/BORROWING OF LGS (% GDP)



Source: IGAE, Budgetary Plan, and AIReF Estimate)

TABLE 23. REVENUE, EXPENDITURE AND BALANCE OF LGS WITHOUT RTRP (% GDP). MEDIUM-TERM PATH AIREF

	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

Source: AIReF Estimate

AIReF estimates that local revenue will grow by 3% in 2024, without including the RTRP funds and the offsetting and positive settlement of the financing system. According to AIReF's estimates, the injection of revenue into LGs from the positive settlement of the financing system in 2022 to be paid by the State in 2024, estimated at around 0.3 points of GDP, is crucial to the result of the local sub-sector in the year. Furthermore, revenue more linked to economic activity, such as from the foral councils and from public fees and prices, are expected to grow in 2024 by over 5%, with the expected increase in VAT from the foral councils exceeding 10%. All of these factors contribute positively to the overall growth of local revenue. With local revenue adjusted for the RTRP and the amount offset to be received over these two years for the negative settlement of the financing system in 2020, as well as the effect of the positive settlement of said system, AIReF's estimated growth for local revenue in 2024 would be around 3%, compared with a forecast increase of almost 4% in 2023.

Using the same homogeneous terms, AIReF's forecasts for local expenditure in 2024 are almost 4% higher than expected in 2023. AIReF estimates that the growth of local expenditure in 2024 could reach 5% more than the expected increase in 2023 of almost 3%. Similar to current revenue, after homogenising local expenditure for both years associated with the RTRP funds, the forecast growth in local expenditure in 2024 would be almost 4%, compared with the expected increase in 2023 of 5%. This increase is primarily in compensation of employees, intermediate consumption and the contribution from the foral councils to the Autonomous Region of the Basque Country to ensure their participation in the arranged taxes.

In the medium-term horizon of 2025-2028, AIReF estimates that the local sub-sector will consolidate an annual surplus of around 0.1% of GDP. This surplus is lower than the consolidation of the years prior to the suspension of fiscal rules, including 2019, which was particularly intensive in spending. This reduction in the structural surplus of the local sub-sector is mainly driven by the growth observed in the years with a suspension on current expenditure, which, due to its recurring nature, consolidates in the future, without this increase being fully offset by the expected increase in revenue.

In the medium term, under a scenario at constant policies, AIReF expects that LG revenue will stabilise at around 6.3% of GDP, and expenditure at 6.2%, consolidating an annual surplus of 0.1%. As from 2025 and in a scenario at constant policies, AIReF forecasts that the revenue of the local sub-sector will stabilise its weight of GDP at around 6.3%, and expenditure will stabilise at around 6.2%. This will result in an expected medium-term annual surplus from 2025 to 2028 of around 0.1% of GDP. In this horizon, the average annual growth forecast of revenue and expenditure, and after homogenising the former from the extraordinary effect of the positive settlement of the financing system in 2022, consolidates at around 3%, although revenue is estimated to grow slightly more than expenditure, resulting in a slight surplus.

AIReF considers that eligible expenditure for the purpose of the expenditure rule will increase by almost 5% in 2024, resulting in a slightly higher increase for 2023 than this percentage. Starting from an estimate of eligible expenditure at year-end 2023 that increases by more than 5% compared with 2022, AIReF expects that eligible expenditure in 2024 could increase at a slightly lower rate, taking into account estimates made of non-financial expenditure, targeted State transfers and revenue from EU funds.

5.6. Individual analysis of Local Governments

The current forecasts by AIReF for 2023 for the group of the 25 large Local Governments analysed individually worsen compared with the July forecasts, although they anticipate a 1.6% revenue surplus. AIReF estimates that the group of large LGs analysed individually would end 2023 with a surplus of 1.6% of non-financial revenue, lower than the 2.6% estimated in July. The surplus would become a slight deficit if the positive effect of the 2020 settlement is removed. According to AIReF's estimates, the City Councils of Barcelona, Bilbao, Valladolid and Vigo, the Provincial Council of Seville, the Island Council of Tenerife and the Foral Council of Biscay are expected to close 2023 with a deficit. In the last three entities mentioned under the common regime, AIReF predicted a surplus in July. The estimated deficits of the City Council of Valladolid, of more than 8%, of the Provincial Council of Seville and of the City Council of Vigo, of around 5%, are particularly important due to their impact on revenue.

For 2024, AIReF estimates that this group will obtain a surplus of more than 5% of revenue, mainly derived from the high positive impact of the 2022 settlement of the financing system. AIReF estimates that the group of large Local Governments under the common regime will receive around €1.7bn from the 2022 settlement, with a projected surplus for 2024 of 5% of their revenue, more than three times the surplus of 2023. It is estimated that the

Local Governments analysed will achieve a surplus as a whole. If the positive effects of the 2022 and 2020 settlements were removed, the group of large Local Governments would post a deficit of almost 2% of revenue. Under this assumption, deficits would be incurred by the City Councils of Madrid, Barcelona, Valencia, Malaga and Gijon, the Provincial Councils of Barcelona, Valencia and Seville, and the Island Councils of Tenerife and Majorca.

During the period of the suspension of the fiscal rule (2020-2023), the eligible expenditure of the group would increase by almost 40% compared with 2019, averaging 10% per annum. During the suspension of the fiscal rules, the group of large Local Governments expects an increase in eligible expenditure compared with 2019 of almost 40%. The level at the end of 2023 is particularly important as this would be the starting point for 2024 and subsequent years, to which the rate approved under the new fiscal framework would apply. If most of this expenditure were structural, it could have a negative impact in subsequent years.

6. PUBLIC DEBT

6.1. General Government total

6.1.1. Recent evolution

Spain's public debt-to-GDP ratio stood at 111.2% in the second quarter of 2023, representing a decrease of 0.4 points on year-end 2022, a 3.3-point reduction over the last year and an increase of 13 points compared with the pre-pandemic level. In monetary terms, public debt has continued to grow in 2023, at a similar rate to nominal GDP, amounting to €1.56 trillion in August.

FIGURE 55. DEBT (% GDP), QUARTERLY EVOLUTION UNTIL 2023 Q-II

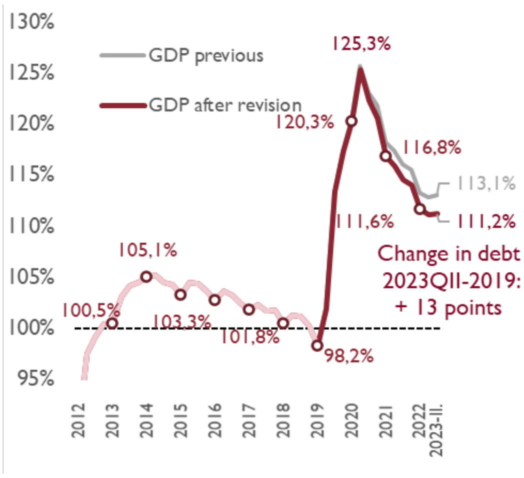
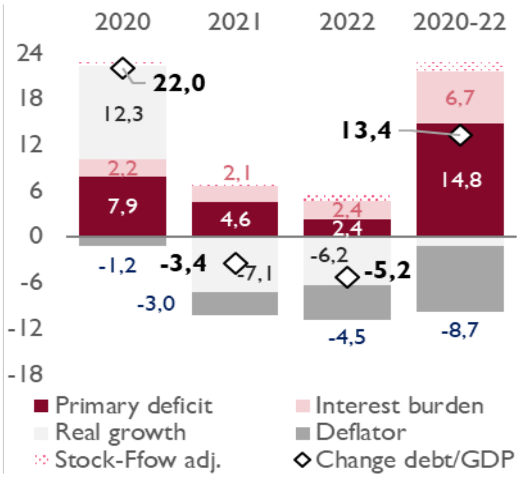


FIGURE 56. CONTRIBUTION TO CHANGE IN DEBT (% GDP) 2020-2022



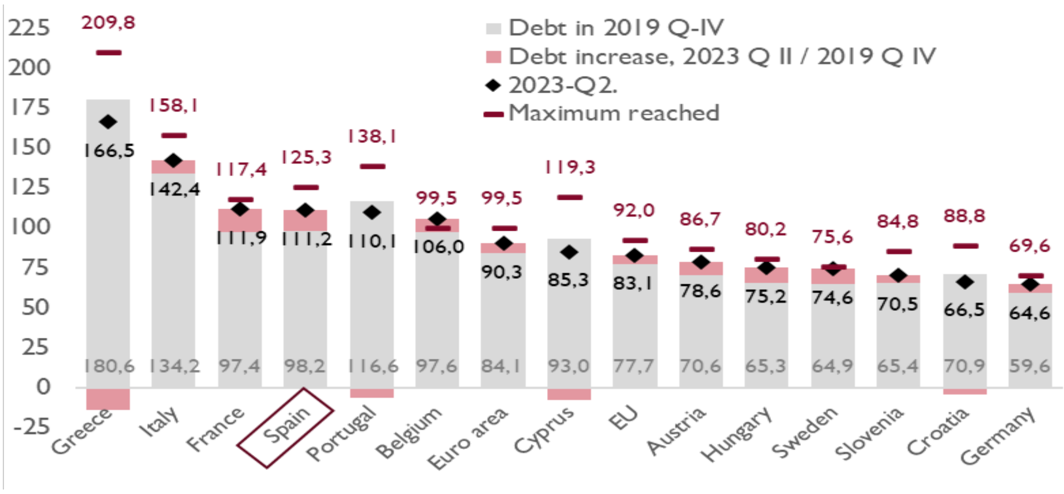
Source: Banco España, INE y AIReF

The recent GDP revision has resulted in a 1.85-point reduction in the debt ratio. The €23bn increase in GDP in the second quarter of 2023, according to the latest revision of the National Accounts, has led to a 1.85-point reduction in the debt ratio due to a larger denominator of the quotient, with 1.4 points attributed to the GDP revision for the year 2021.

After the initial sharp increase caused by the pandemic, the debt-to-GDP ratio now shows a downward trend. The quarterly profile of the debt ratio has maintained a continuous trend of reductions for eight quarters, only interrupted in the second quarter of 2023, stabilising at 112.1%. The reduction from the peak reached in the first quarter of 2021 (125.2%) amounts to 14 points. The correction of the public deficit (from 10.1% of GDP in 2020 to 4.7% in 2022), along with the rebound in activity and much higher inflation than expected, has managed to correct a little over half of the increase caused by the pandemic.

However, Spain currently has one of the highest debt levels in the EMU, behind Greece and Italy and at a similar level to Portugal and France. In 2019, Spain already had one of the highest debt-to-GDP ratios in the euro area, and the pandemic has further consolidated this. Despite the 13-point reduction from the peak reached, Spain, along with France, is among the countries that have most increased their debt due to the Covid crisis and maintains one of the highest deficit levels. In contrast, Portugal, after a similar initial spike, has managed to reduce its deficit in the last three years to almost budget balance.

FIGURE 57. DEBT (% GDP) IN 2023 Q II, AND CHANGE FROM PRE-COVID LEVEL, EUROPEAN UNION COUNTRIES WITH DEBT RATIO ABOVE 60% OF GDP

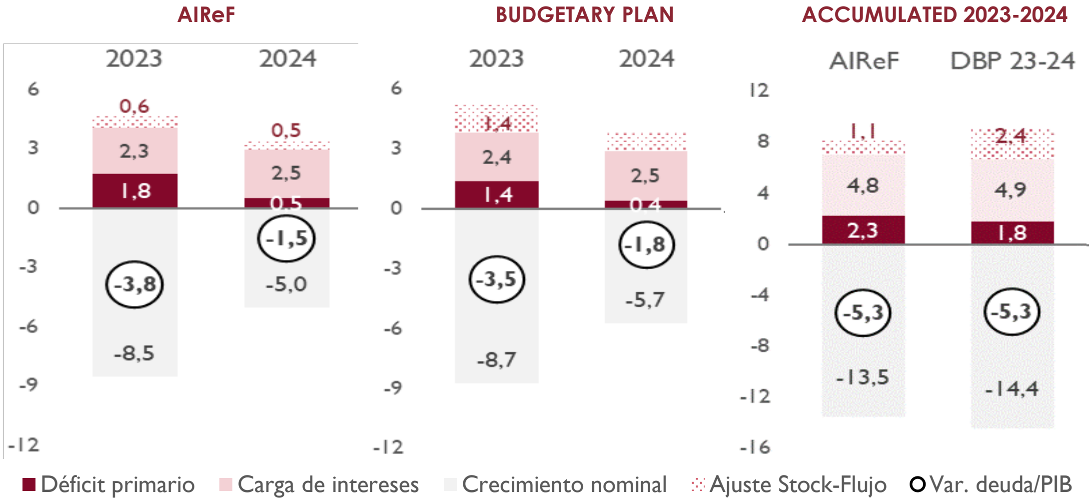


Source: Eurostat

6.1.2. Short- and medium-term forecasts

For 2024, AIReF estimates a 5.3-point reduction in the debt-to-GDP ratio compared with the 2022 level. The reduction in the ratio will mainly be underpinned by nominal GDP growth (13.5 points), with the deflator making a significant contribution (9.3 points). The public deficit will continue to contribute significantly to the debt increase, with a financial burden that will increase in absolute terms but remain contained relative to GDP despite worsening financing conditions, thanks to strong nominal growth.

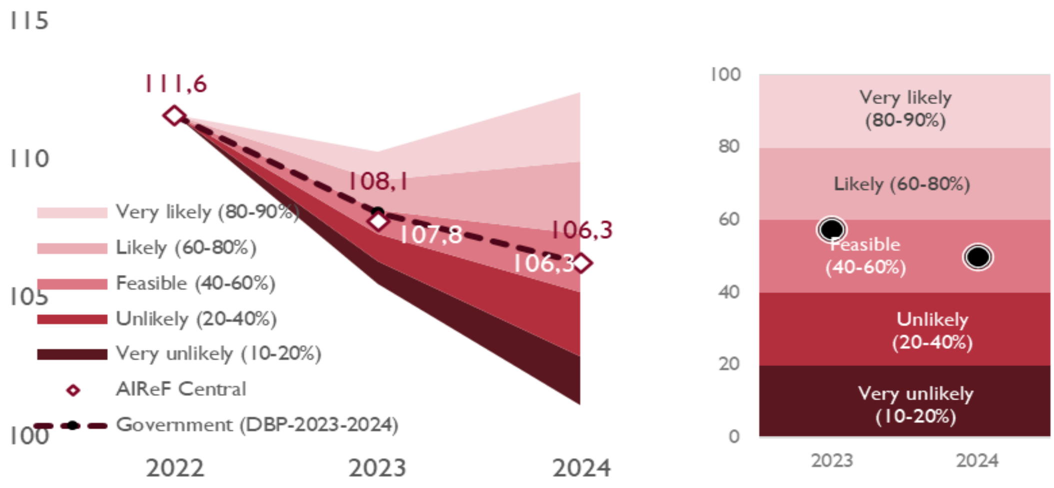
FIGURE 58. CONTRIBUTIONS TO DEBT-TO-GDP RATIO CHANGE



Source: Government and AIReF

AIReF considers the debt forecast included in the Budgetary Plan for 2024 to be feasible. According to AIReF's stochastic projections, achieving a debt-to-GDP ratio equal to or lower than that forecast by the Government for 2024 is considered feasible. In fact, AIReF estimates an identical reduction in the ratio, with a similar contribution from the interest burden, albeit with a more pessimistic contribution from growth (-0.9 points) and the primary balance (-0.5 points), which is offset by a greater contribution in the opposite direction from the stock-flow adjustment (+1.3 points).

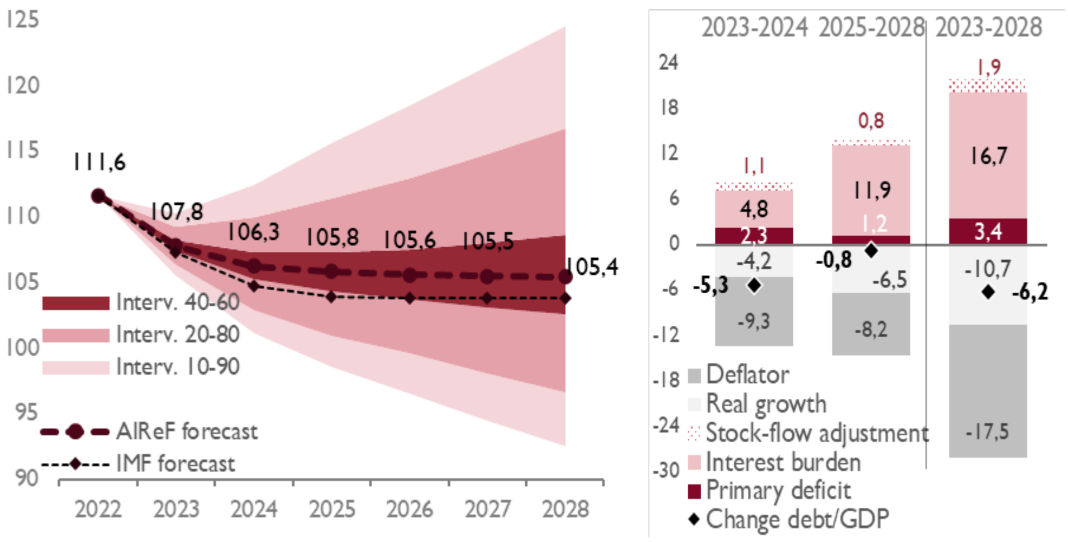
FIGURE 59. DEBT FORECASTS (% GDP) AND PROBABILITY OF ACHIEVING A RATIO EQUAL TO OR LOWER THAN PROJECTED BY THE GOVERNMENT IN THE BUDGETARY PLAN 2023-2024



Source: Government and AIReF

Beyond the year 2024, when the significant contribution from nominal growth disappears, a slowdown in the pace of debt ratio reduction is expected, stabilising at around 105% of GDP. The moderation in the contribution of nominal growth, which will decrease slightly in the period 2025-2028 (from 3.8% to 3.4%), with an upward trend in interest rates (from 2.7% to 3.3%) offsetting the reduction in the primary balance (from -0.6% to zero), will result in a slowdown in the pace of the debt ratio reduction, which will stand at zero by 2028.

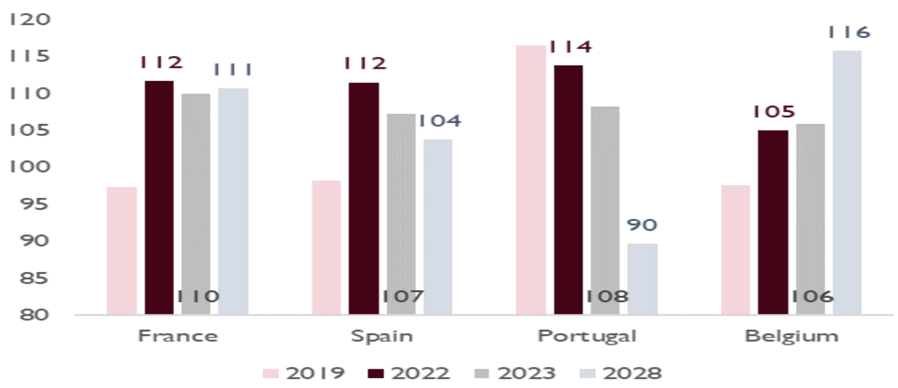
FIGURE 60. DEBT FORECASTS (% GDP) AND CONTRIBUTION TO CHANGE



Source: AIReF

The IMF's forecasts for Spain show a very similar profile to those made by AIReF, with a stabilisation of the debt ratio in the medium term, following a significant reduction in the next two years. As regards the forecasts of countries with a debt ratio similar to Spain's, it is worth noting the favourable evolution of Portugal and the negative trend of Belgium. In contrast, France will remain stable at current levels.

FIGURE 61. DEBT FORECASTS (% GDP) OF EUROPEAN UNION COUNTRIES WITH A DEBT RATIO SIMILAR TO SPAIN IN 2023



Source: IMF

6.1.3. Financing conditions

The evolution of inflation, higher and more persistent than initially anticipated by central banks, has forced a tightening of monetary policy over the past year. Never before has there been such a rapid, intense and widespread hike in interest rates by the different central banks. Overall, there has been a cumulative increase of between 400 and 500 basis points in global interest rates over the past year, following a decade of yields close to zero or even negative in some countries. The ECB has increased its official intervention rates by 450 bp since July 2022, while the Federal Reserve has seen an increase of 525 basis points since March 2022.

FIGURE 62. OFFICIAL INTEREST RATES (%)

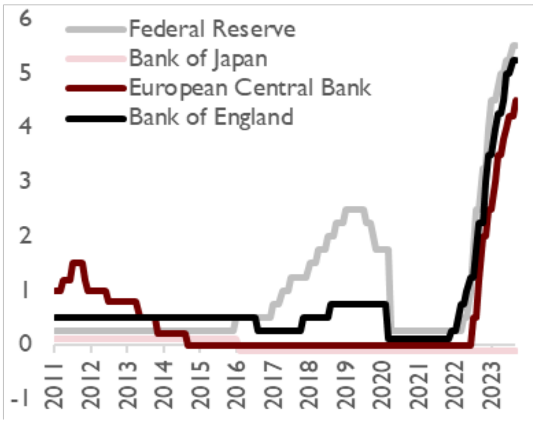
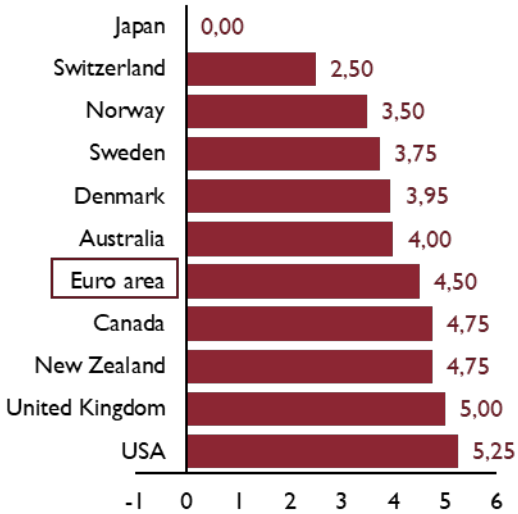


FIGURE 63. ANNUAL ACCUMULATED CHANGE IN 2022 AND 2023 (PP)



Source: Refinitiv

Without ruling out further interest rate hikes, the strategy of central banks is to maintain their intervention rates in a "sufficiently long" restrictive zone, conditioning any further steps on the evolution of activity and inflation data. With interest rates clearly at restrictive levels and sound evidence that the transmission of monetary policy is working, monetary authorities have adopted a more prudent attitude, aware that the macroeconomic impact of interest rate hikes operates with some delay.

After the sharp rise in 2022, the yield on European sovereign debt has remained relatively stable throughout this year, consolidating the levels reached. In 2023, the yield curve has continued to flatten, with the yield at one year rising more significantly, albeit with some stabilisation in other maturities, especially as from the first quarter, where yields have fluctuated within a narrow range. The recent upward movement of interest rates by the ECB has pushed yields on the main European debt benchmarks to levels close to the highs of recent months.

FIGURE 64. YIELD OF 10-YEAR SOVEREIGN DEBT

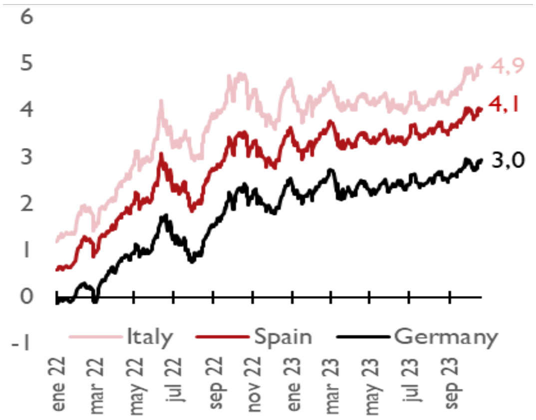
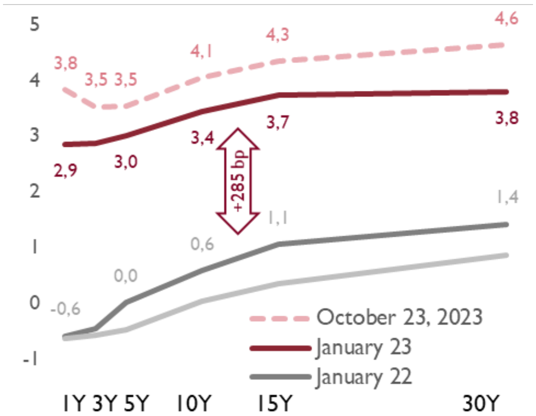


FIGURE 65. SPANISH YIELD CURVE (%)

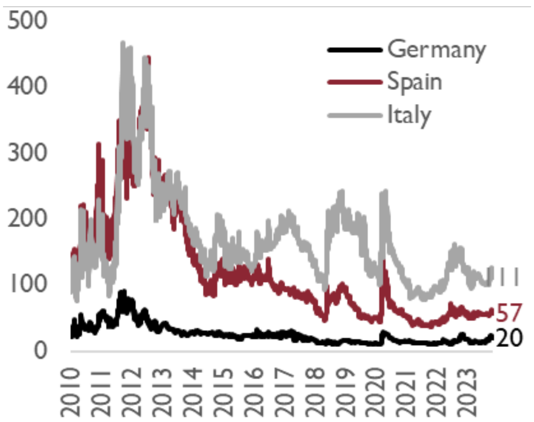


Source: Refinitiv

The increase in yields due to high inflation has been a global phenomenon. In this regard, it is noteworthy that Spanish 10-year debt has maintained its spread against the German yield stable at around 100 basis points in 2023, although there has been a slight increase in recent weeks, which has been somewhat more significant in the case of Italy. In historical terms, the risk premium is relatively low. This, along with the maintenance of credit default swap (CDS) prices at very low levels, is a sign that investors do not perceive a deterioration in the financial health of Spanish public debt despite the rise in yields. In addition, the ECB's determination not to allow financial fragmentation in the euro area through the use of instruments such as the reinvestment of PEPP maturities and the implementation of a new anti-fragmentation tool is contributing to keeping risk premiums at relatively low levels.

FIGURE 66. 10-YEAR SPREAD VS. GERMANY (BP)

FIGURE 67. 10-YEAR CREDIT DEFAULT SWAP



Source: Refinitiv

As regards State financing, after reaching its minimum in 2021, the average cost of new issuances by the Treasury has increased from -0.04% to 3.36% in September 2023, a value not recorded since 2011. This higher issuance cost has also created a turning point in the average cost of the State's debt portfolio, which has increased from its historical minimum of 1.64% to 2.05%.

FIGURE 68. AVERAGE COST OF STATE DEBT (%)

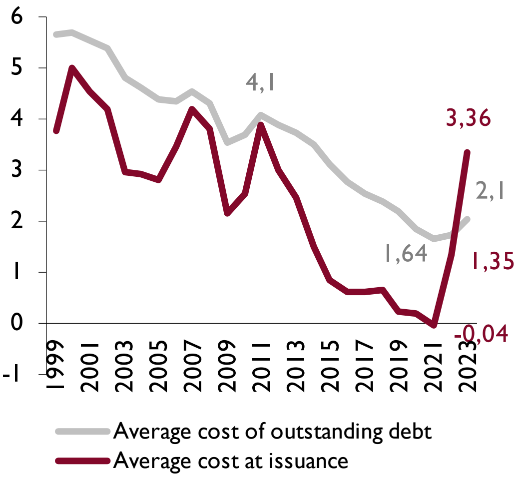
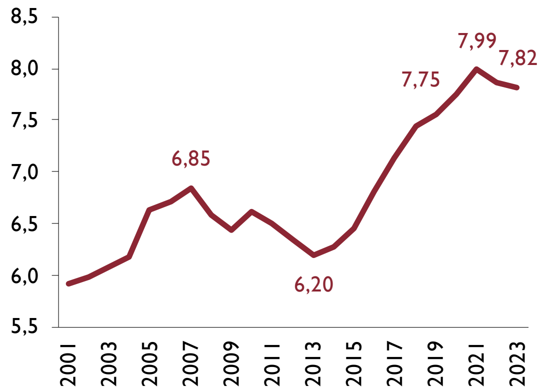


FIGURE 69. AVERAGE MATURITY OF STATE DEBT (YEARS)



Source: Public Treasury

According to AIReF's forecasts, in 2023, the average interest rate on public debt issuance will close the year above 3%, increasing to around 4% in the coming years. The cost of servicing debt, both in nominal terms and as a percentage of GDP, will continue to grow in the coming years, consolidating the shift in trend that began in 2021 after seven consecutive years of reductions. These issuance rates would raise the implicit rate to 3.2% and the cost of servicing debt to 3.3% of GDP in 2028. According to AIReF's simulations, an additional 100 bp interest rate hike from 2024 across all maturities of the curve would not result in a substantive change in the short-term evolution of the debt ratio (specifically, it would generate an increase of 1.4 points in 2028). However, it would lead to a certain increase in the financial burden as a percentage of GDP (by 0.6 points, raising it to 3.9%) and an additional cumulative cost of servicing debt in 2028 of approximately €30bn.

FIGURE 70. INTEREST RATES OF NEW ISSUANCES

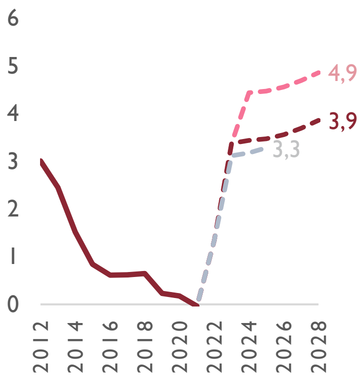


FIGURE 71. AVERAGE INTEREST RATE OF DEBT

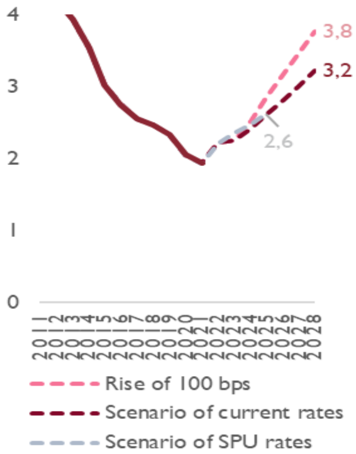
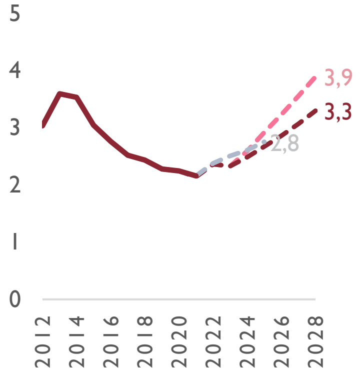


FIGURE 72. INTEREST EXPENDITURE (% GDP)



Source: AIReF

6.1.4. Long-term forecasts and sustainability

The new monetary cycle, marked by the rapid and intense tightening of financing conditions, coupled with the high level of existing debt, places the sustainability of public finances in a highly vulnerable starting position. Spain maintains high levels of debt, both in comparison with other countries and historically. Despite recent declines, spending pressures associated with an aging population could lead to a resurgence of debt in the coming years. In this context, the General Government will have to finance substantial amounts of debt (20% of GDP) at significantly higher interest rates and in debt markets with increased tensions due to the waning of demand from the ECB and high global debt levels.

In the medium and long term, AIReF projects an unfavourable evolution of the debt-to-GDP ratio. In its long-term baseline scenario, AIReF forecasts an increasing debt-to-GDP ratio after an initial period of stabilisation. The expected rise in spending associated with an aging population is one of the main challenges to the sustainability of public finances in the medium and long term. High initial indebtedness, combined with unbalanced public accounts, will generate an unfavourable dynamic in the financial burden, even in a scenario of contained costs of servicing debt. In its long-term scenario, AIReF forecasts that the cost of servicing debt as a percentage of GDP will gradually and steadily increase from 2.4% of GDP in 2022 to around 4.5% in the next 15 years. Compared with the forecast presented in the Stability Programme Update last May, the debt ratio will be 4 points higher by the year 2040. This increase is mainly due to the expected rise in future debt financing rates as a result of the anticipated response of monetary policy to inflation and economic conditions, which will necessitate maintaining high interest rates for a longer period than initially anticipated.

FIGURE 73. DEBT (% GDP)

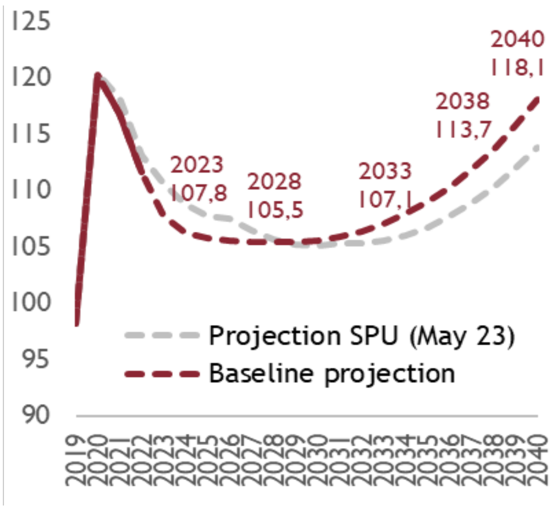
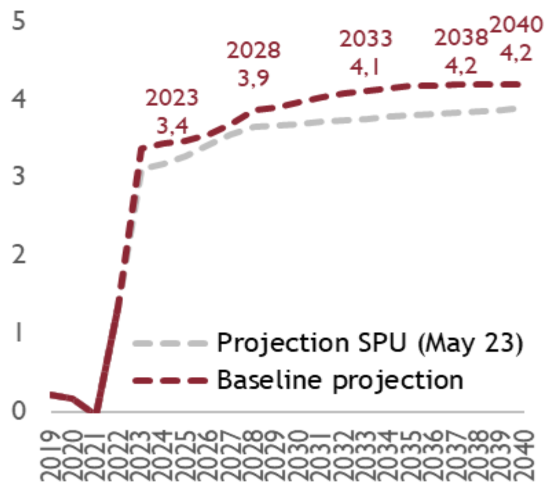


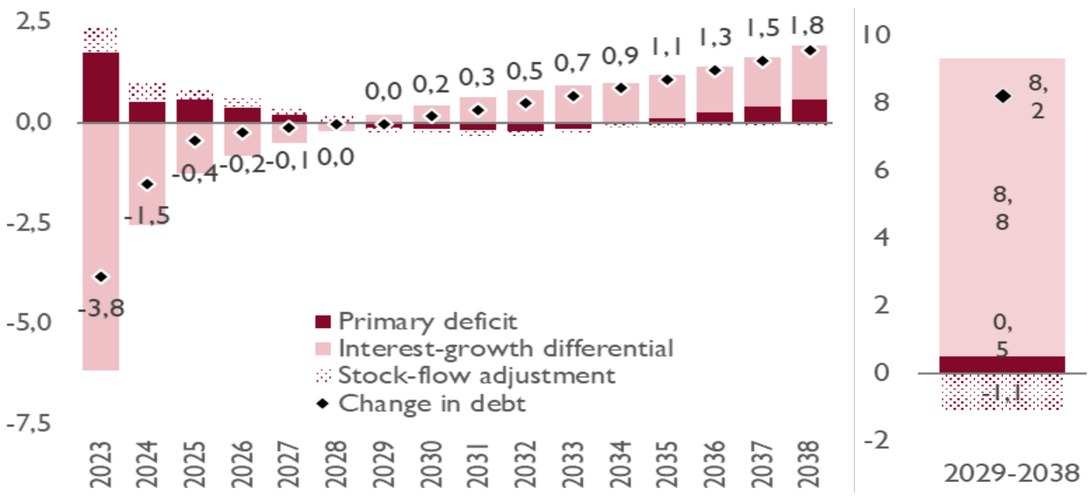
FIGURE 74. AVERAGE INTEREST RATE ON NEW ISSUES (%)



Source: AIReF

Higher issuance rates along with limited growth expectations will cause the interest-growth differential (snowball effect) to become positive in the medium term, requiring a primary surplus to be attained to halt the growing dynamic of the debt ratio.

FIGURE 75. CONTRIBUTIONS TO CHANGE IN DEBT



Source: AIReF

Generating fiscal space, necessary to reduce the current debt level and address future shocks, requires the design of a medium-term plan that guides public accounts towards a balanced situation. A gradual and sustained adjustment that allows budget balance to be attained over a reasonable time horizon will generate a path to reduce the debt ratio to more prudent levels, containing the financial burden and creating the fiscal space needed to address future challenges, both those that are known, such as the aging population and those related to climate change, and those that cannot be foreseen.

According to AIReF's calculations, the fiscal path that would comply with the guidelines for calculating the technical path contained in the proposed legislative framework for economic governance reform would require measures totalling 0.64 points per annum[27] during the period 2025-2028. This would meet the plausible debt reduction requirement in the most demanding scenario, as defined by AIReF's calculations in the "lower primary balance" scenario. The annual adjustment of 0.64 points of GDP (a cumulative 2.56 points over four years)[28] in the period 2025-2028 would result in a reduction of the debt ratio of 34 points of GDP over the next 16 years (reaching 80% of GDP in 2038 vs. 114% in the baseline scenario). In addition, debt would follow a clearly downward path, even in the case of a shock in a "lower primary balance" scenario.

[27] Adjustment in accordance with compliance with the European Commission's Debt Sustainability Analysis methodology, including deterministic scenarios of financial stress, a lower primary balance and an adverse stress scenario of a 1% interest-growth differential.

[28] An annual adjustment of 0.49 points (a cumulative 1.96 points over four years) would be sufficient to meet the stochastic plausibility criterion of the European Commission's methodology but not the deterministic criteria associated with stress scenarios. Specifically, an adjustment of 0.49 points of GDP over four years would increase the probability to 70% that the debt ratio records a downward path in the five years following the adjustment (2033), placing the debt ratio at 88% of GDP in 2038. The baseline scenario assumes a probability of compliance with that requirement of 46%, while the more demanding adjustment that ensures a downward path of debt in the adverse primary balance scenario (0.64 points) raises that probability to 77%.

FIGURE 76. BASELINE DEBT PROJECTION (%GDP), UNCERTAINTY BANDS, AND STRESS SCENARIOS

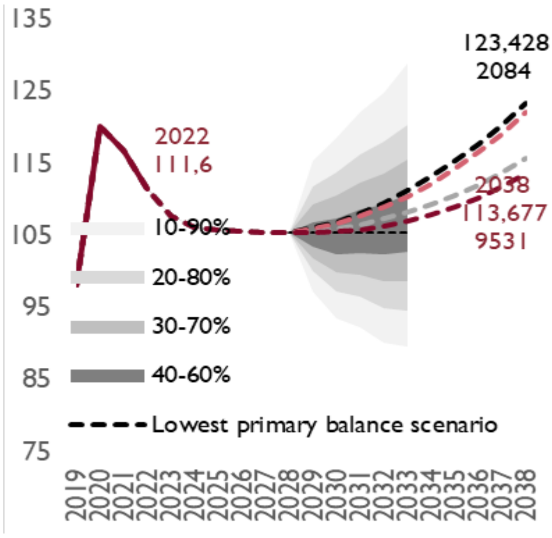
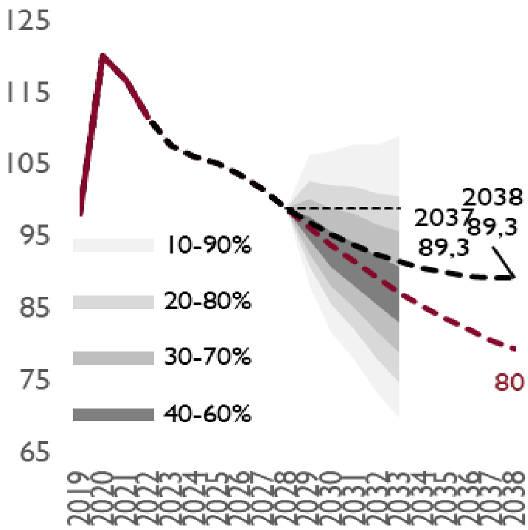
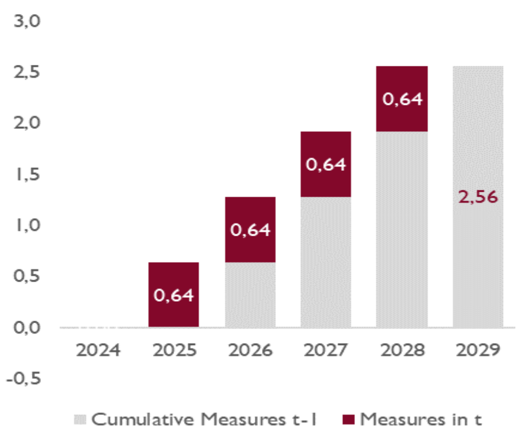


FIGURE 77. TECHNICAL DEBT TRAJECTORY, UNCERTAINTY BANDS, AND MOST ADVERSE STRESS SCENARIO



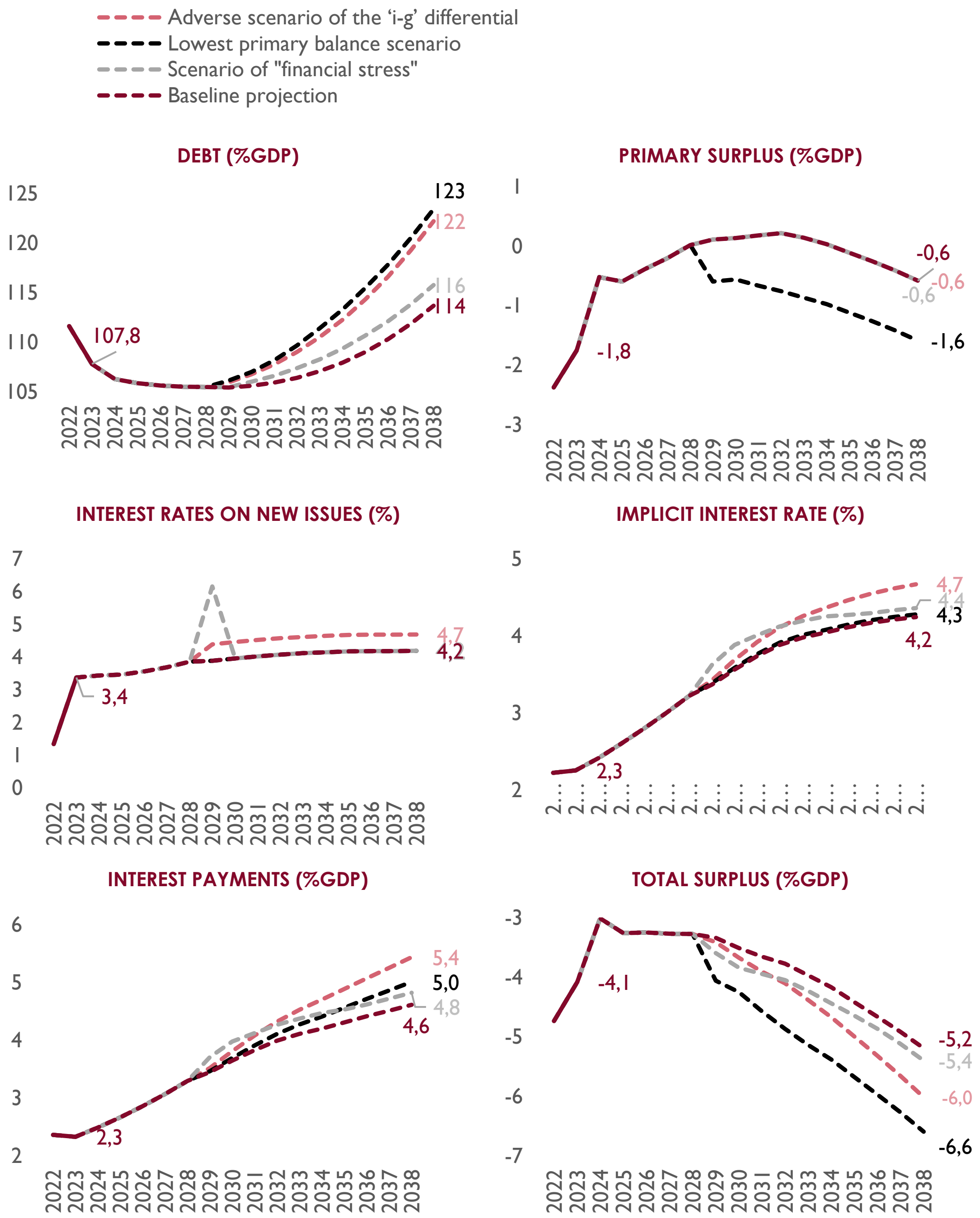
Source: AIReF

FIGURE 78. VALUE OF MEASURES (GDP POINTS) FROM THE MOST RESTRICTIVE SCENARIO



Source: AIReF

FIGURE 79. BASELINE PROJECTION AND STRESS SCENARIOS

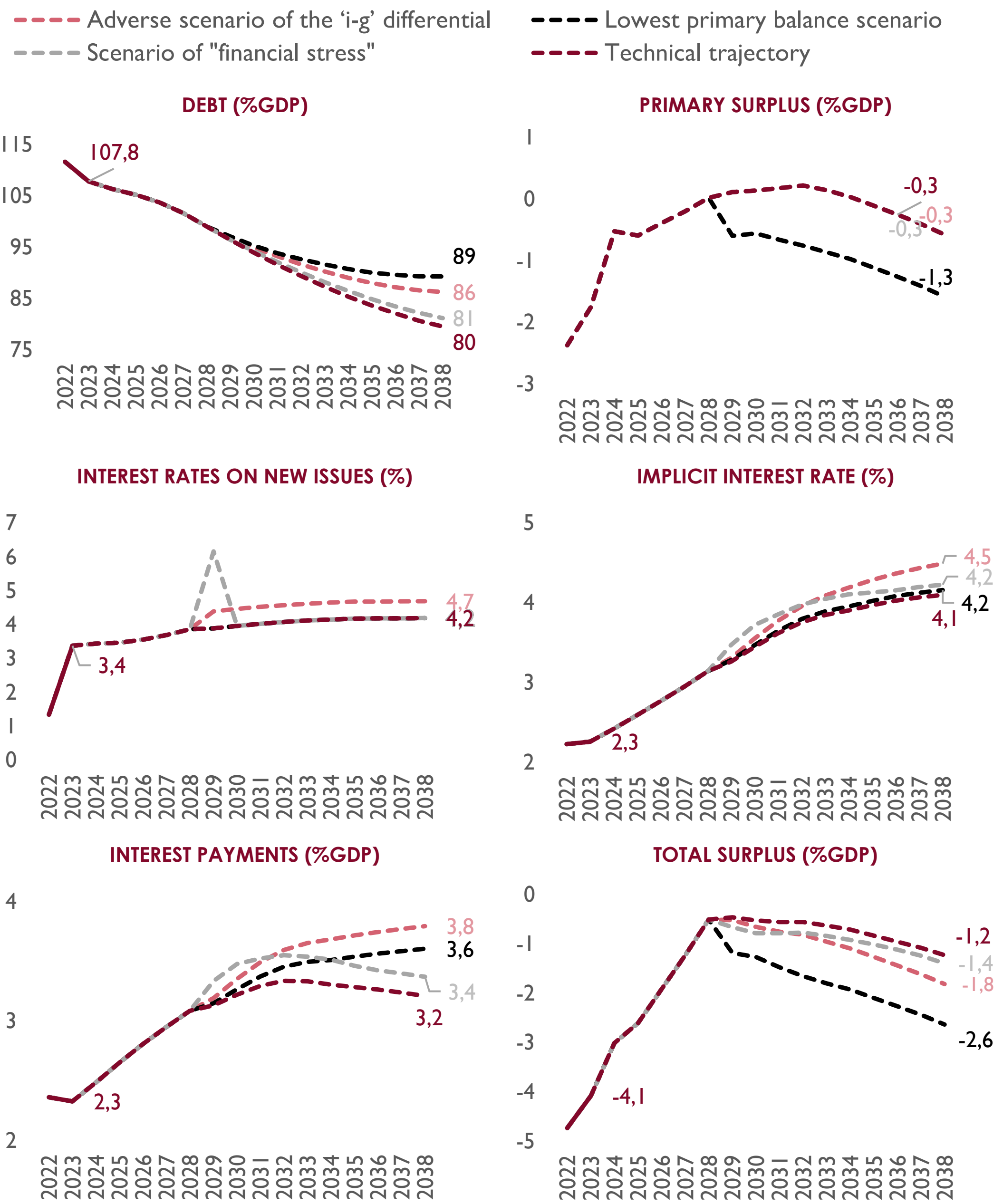


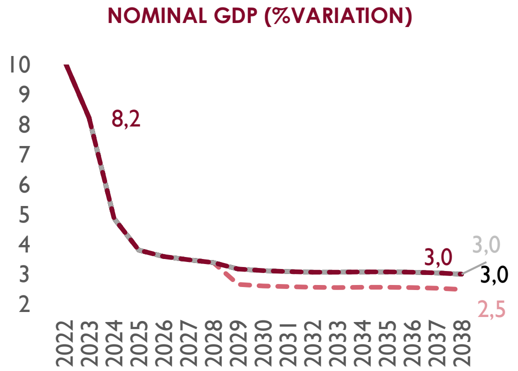
NOMINAL GDP (%VARIATION)

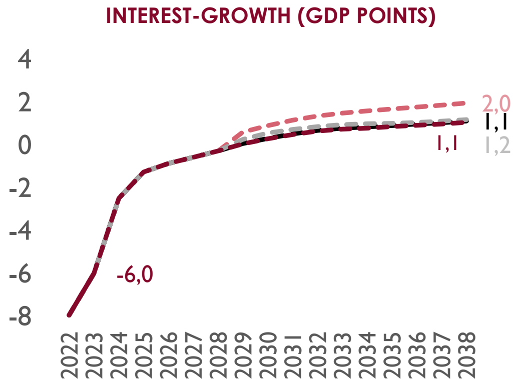
INTEREST-GROWTH (GDP POINTS)

SOURCE: AIREF

FIGURE 80. TECHNICAL TRAJECTORY AND STRESS SCENARIOS







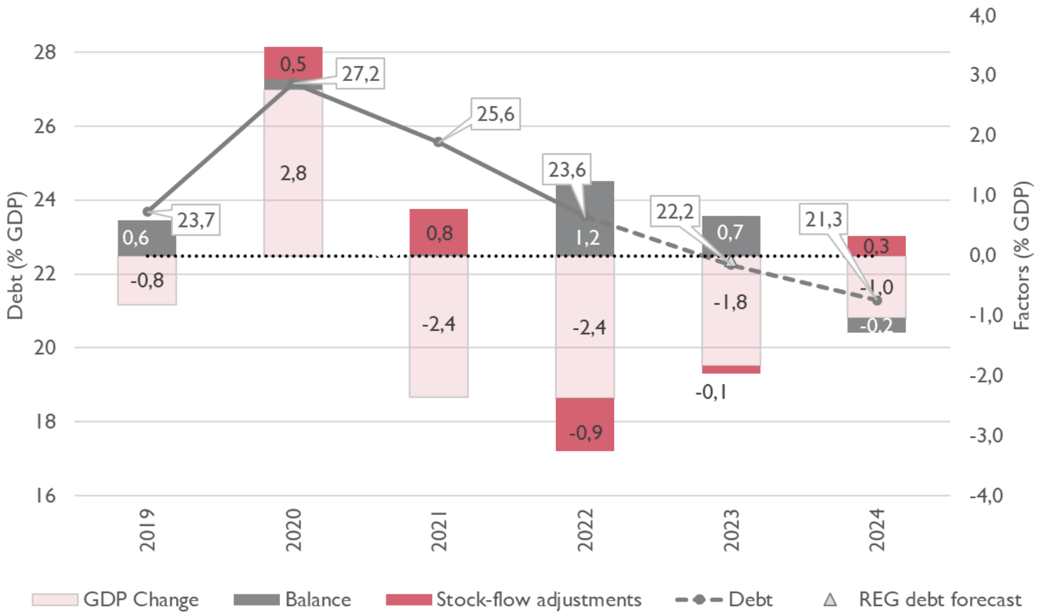
SOURCE: AIREF

6.2. Autonomous Regions and Local Governments

AIReF forecasts that the Autonomous Regions (ARs) will reduce their level of indebtedness by more than 2 points from 2022, reaching 21.3% of GDP in 2024. Starting from 23.6% in 2022, the ratio would improve in 2023 due to the projected GDP growth, partially offset by the forecast deficit for the sub-sector. In 2024, the expected GDP growth and the projected surplus would imply an additional reduction in the ratio.

The Autonomous Regions aim to achieve a similar debt level to that forecast by AIReF in 2023. The ARs as a whole estimate reaching a fairly similar level of indebtedness in 2023, although there are differences with AIReF in the individual forecasts of some regions. Several regions have not submitted debt forecasts for 2024, making it impossible to form an aggregate forecast for that year.

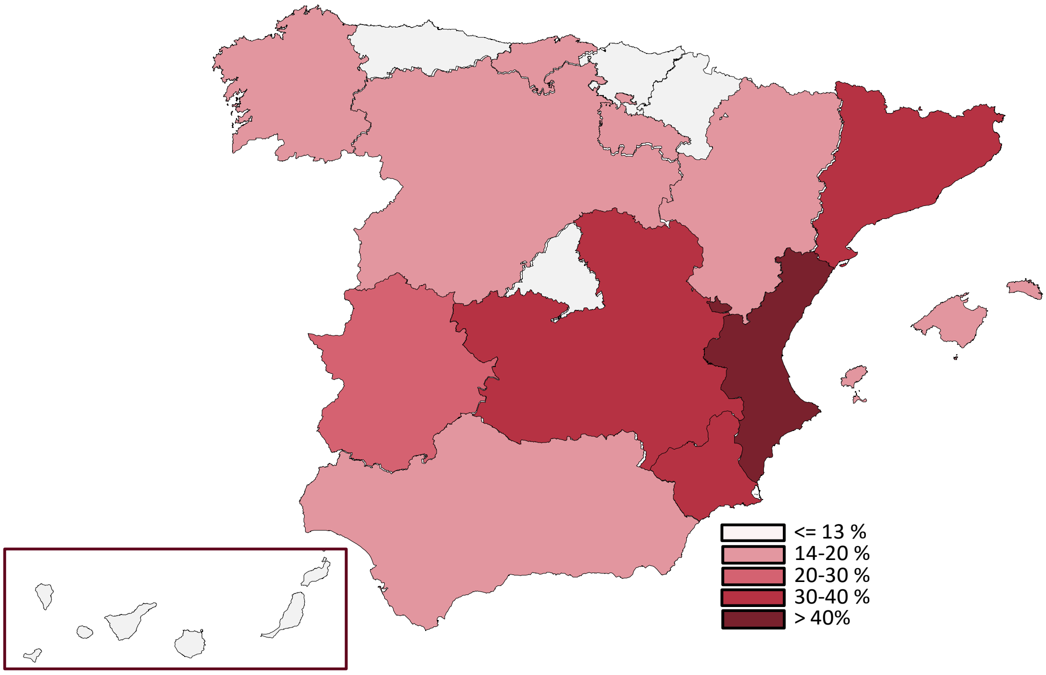
FIGURE 81. PROJECTED EVOLUTION OF AR DEBT (% GDP)



Source: Bank of Spain and AIReF estimate

Under the aforementioned estimates, four ARs could have a debt ratio exceeding 30%, while five could be below the 13% set in the LOEPSF. Valencia, Murcia, Castile-La Mancha and Catalonia would continue above 30% of debt/GDP in 2024. In contrast, the regions of Navarre, the Canary Islands, the Basque Country, Madrid and Asturias would place their debt at year-end 2024 below the 13% of GDP set as a reference in the LOEPSF.

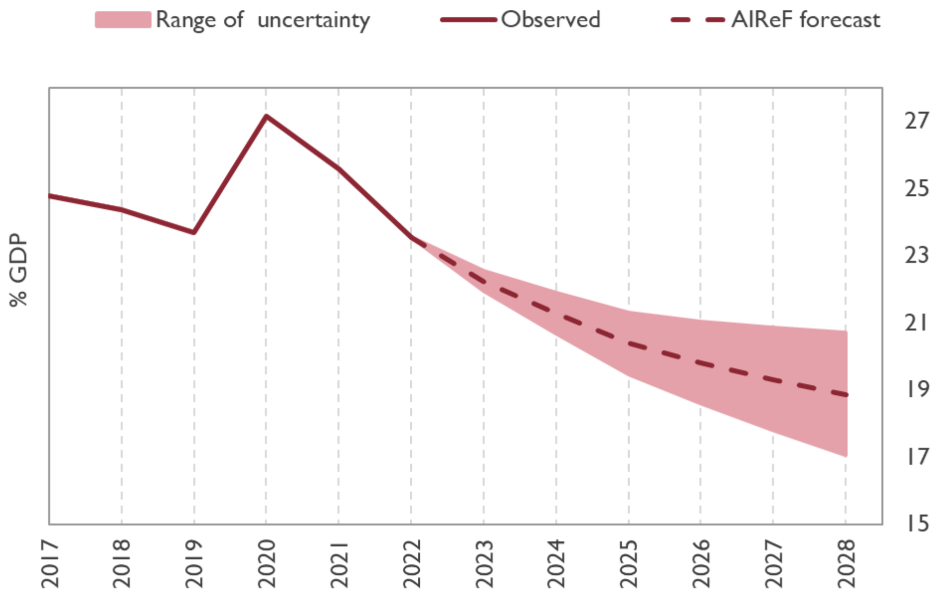
FIGURE 82. DEBT-TO-GDP RATIO REGIONAL FORECASTS 2024 (% GDP)



Source: AIReF Estimate

The expected evolution of GDP, partially offset by the forecast deficits for the sub-sector, conditions the medium-term evolution of the debt ratio. The surplus of 0.2 points expected for the sub-sector in 2024 is conditioned by the revenue of the financing system, and, as these return to lower levels as from 2025, a deficit scenario would resume, with the risk of worsening if the exceptional revenue of 2024 is used to increase structural spending or reduce other permanent revenue. These factors partially offset the downward trend in the debt ratio due to the expected evolution of GDP in nominal terms, shaping a downward trend in the debt-to-GDP ratio that remains far from the reference level of 13% set in the LOEPSF for 2028.

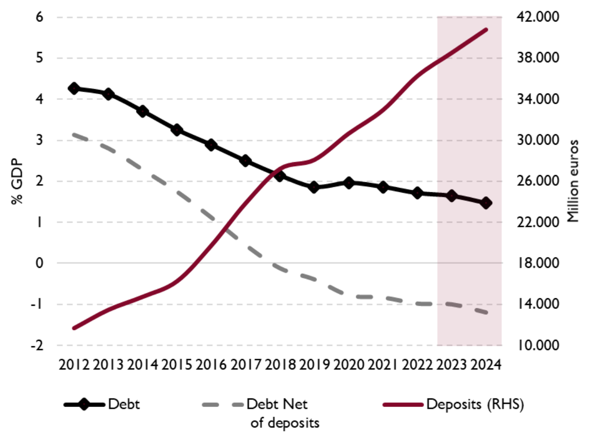
FIGURE 83. FORECASTS OF REGIONAL GOVERNMENTS' DEBT IN THE MEDIUM TERM (2025-2028) (% GDP)



Source: Bank of Spain and AIReF estimate

As regards Local Governments, the latest information available on local debt and deposits confirms AIReF's forecasts for the results to be achieved in 2023 and 2024. According to the latest data published by the Bank of Spain on local debt and deposits as of June 30th, 2023, Local Governments' debt has increased by almost €700m compared with the previous quarter, while local deposits have decreased by €1bn in the same period; accordingly, the net asset position of the sub-sector has worsened slightly in the second quarter. However, AIReF expects the position to stabilise in the second half of the year. For 2024, AIReF estimates that the net asset position of Local Governments will improve, with the expected surplus increasing to around 1.2% of GDP.

FIGURE 84. EVOLUTION OF DEBT AND DEPOSITS OF LOCAL GOVERNMENTS



Source: Bank of Spain and AIReF estimate

7. FISCAL POLICY GUIDANCE

The current recommendations for Spain stress the need to ensure a prudent fiscal policy in the period 2023-2024, particularly through the gradual withdrawal of the measures to support the energy crisis and the reduction of medium-term debt[29]. The European Commission and the Council have stressed the need for fiscal policies in 2023 and 2024 to be prudent in all Member States to ensure the medium-term sustainability of debt. In the case of countries where debt poses a sustainability challenge, a plausible and continuous reduction of debt in the medium term must also be guaranteed. As stated in the Commission's Communication on Fiscal Policy Guidelines for 2024, dated March 8th, 2023, the fiscal component of Country Specific Recommendations (CSRs) incorporates elements of the legislative proposals of April 26th, 2023, on the reform of the fiscal framework, to the extent that they are consistent with prevailing legislation. Concurrently, the Commission

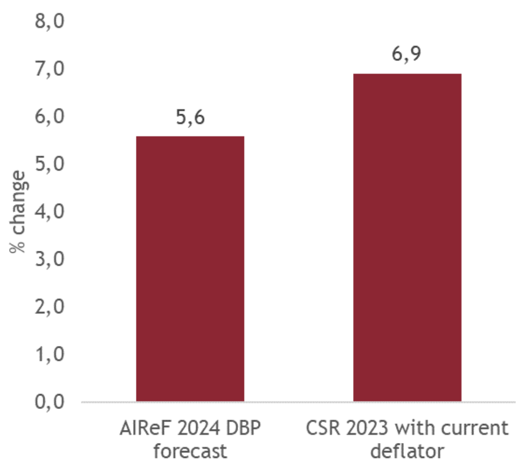
[29] See "Council Recommendation on Spain's 2022 National Reform Programme and delivering a Council Opinion on Spain's 2022 Stability Programme" https://data.consilium.europa.eu/doc/document/ST-9754-2022-INIT/es/pdf. Also refer to "Council Recommendation on Spain's 2023 National Reform Programme and delivering a Council Opinion on Spain's 2023 Stability Programme" https://eur-lex.europa.eu/legal-content/ES/TXT/HTML/?uri=CELEX%3A52023DC0609

announced that it would propose to the Council to initiate Excessive Deficit Procedures in the spring of 2024 based on the 2023 execution data.

For 2023, Spain has been recommended to limit the increase in nationally-financed current primary expenditure below medium-term potential growth. When assessing compliance with the fiscal recommendation in 2023, the deflator chosen to calculate the reference for current primary expenditure is crucial. For the purposes of this report, the most recent deflator forecast for the current year is taken as a reference, as used by the European Commission in its evaluation[30].

For the General Government Sector, AIReF forecasts net growth of 5.6% in current primary expenditure, excluding revenue measures, in 2023. This rate of growth would be below the reference for the evaluation of the fiscal CSR, which, in a context of high GDP deflators, amounts to 6.9%

FIGURE 85. CURRENT PRIMARY EXPENDITURE NET OF REVENUE MEASURES IN 2023. COMPARISON WITH THE FISCAL CSR, GENERAL GOVERNMENT.



Source: AIReF and Budgetary Plan

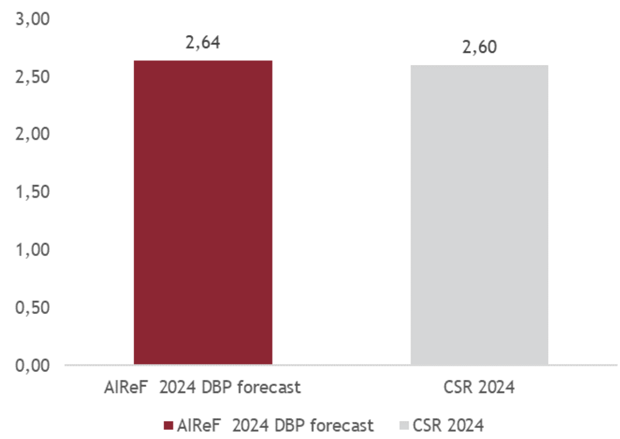
For the upcoming year, the recommendation spans the entire nationally-financed primary expenditure (current and capital), net of revenue measures. This expenditure variable should not increase beyond 2.6% per annum. In addition, in terms of composition, Spain is recommended to preserve nationally-financed public investment.

The scenario at constant policies presented in the Budgetary Plan would exhaust this margin of increased expenditure. According to AIReF's forecast, the expenditure variable will precisely grow at that rate next year, without

[30] The medium-term GDP growth potential is approximated based on the ten-year centred average in 2023 (1.2%) and the GDP deflator used corresponds to the one forecast by AIReF for 2023 at the time of the publication of this report (5.7%).

additional measures and assuming that the measures implemented to mitigate the impact of inflation throughout 2023 disappear in 2024 according to the established timelines. As regards the evolution of nationally-financed public investment, the Budgetary Plan scenario shows a certain contention of the investment dynamism. The rate of growth of public investment would experience a pronounced slowdown in 2024, although in GDP terms, its weight would remain practically stable.

FIGURE 86. NATIONALLY FINANCED PRIMARY EXPENDITURE NET OF REVENUE MEASURES IN 2024. COMPARISON WITH THE FISCAL CSR, GENERAL GOVERNMENT

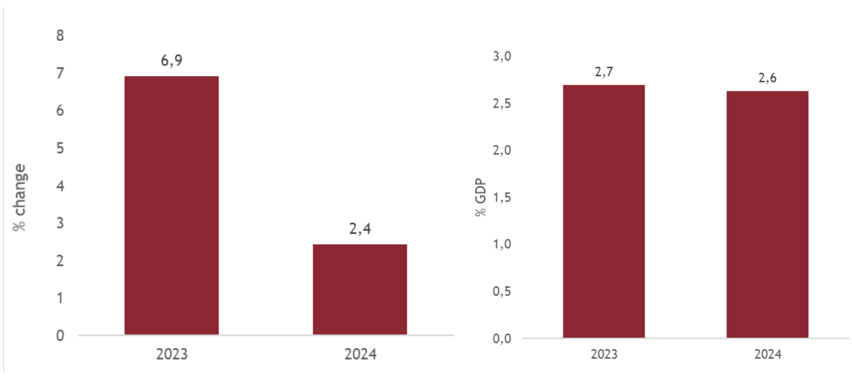


Source: AIReF

FIGURE 87. EVOLUTION OF NATIONALLY FINANCED PUBLIC INVESTMENT

FIGURE 87.A INVESTMENT OF REGIONAL GOVERNMENTS FIGURE 87.B. INVESTMENT OF REGIONAL GOVERNMENTS

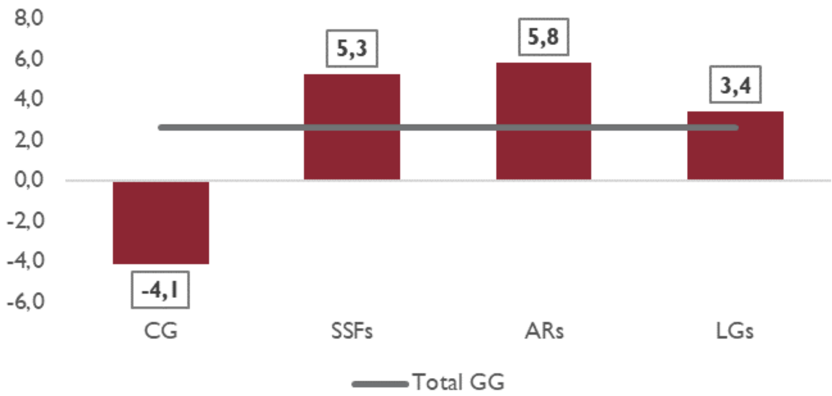
NATIONALLY FINANCED (% CHANGE) **NATIONALLY FINANCED (% OF GDP)**



Source: AIReF

By sub-sector, the fall in primary expenditure net of revenue measures of the Central Government offsets the growth above the limit in the other sub-sectors. The withdrawal of revenue and expenditure measures to mitigate the effects of the energy crisis and price rises means that primary expenditure net of revenue measures falls by 4.1% for the Central Government. In contrast, expenditure by the Social Security Funds will grow by 5.3%, driven by the 4% pension increase. As for the Territorial Administrations, primary expenditure net of revenue measures will grow by 5.8% for the Autonomous Regions and 3.4% for the Local Governments according to AIReF's forecasts. Under AIReF's revenue forecasts, the 0.1% deficit forecast for the Autonomous Regions in the Budgetary Plan would be compatible with expenditure growth of close to 9%, implying non-compliance with the recommendation. Furthermore, the partial or full extension of the measures in force in 2023 would result in a smaller drop in Central Government expenditure, also leading to non-compliance with the recommendation.

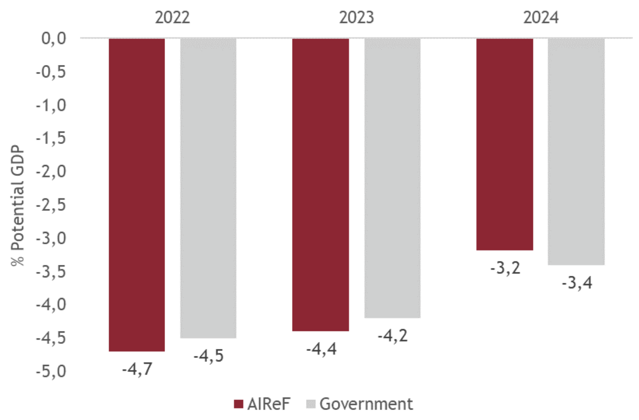
FIGURE 88. NATIONALLY FINANCED PRIMARY EXPENDITURE NET OF REVENUE MEASURES IN 2024. BY GG SUB-SECTOR.



Source: AIReF

Given the structural situation of public finances, the imbalance between revenue and expenditure remains very high, far from the structural balance that serves as an anchor for fiscal policy at the national level. This imbalance is evident despite the clear improvement in the structural balance forecast by both AIReF and the Government next year, linked to the withdrawal at the end of this year of most of the measures taken to mitigate the effects of the energy crisis.

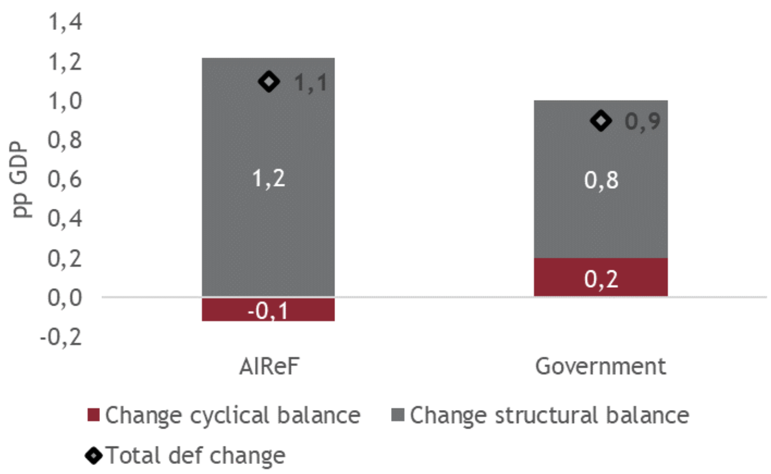
FIGURE 89. STRUCTURAL BALANCE



Source: AIReF and Budgetary Plan

Breaking down the forecast change in the public deficit for 2024 into its cyclical and structural components, slight differences can be observed between the Government and AIReF's estimates. In both cases, the reduction in the deficit in 2024 is the result of a significant structural contribution according to current estimates. While, in the Government's case, the cyclical balance will also contribute to improving the deficit next year — in line with estimates of a positive output gap — AIReF's output gap estimates indicate a slightly adverse cyclical contribution in 2024.

FIGURE 90. CONTRIBUTIONS TO THE CHANGE IN THE GG DEFICIT IN 2024

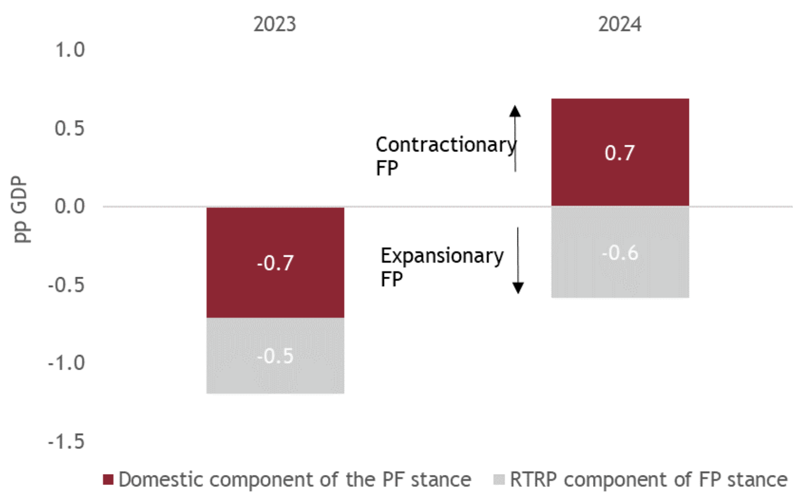


Source: AIReF and Budgetary Plan

The aggregate boost of fiscal policy must be analysed, including the Next Generation EU funds. Although current volatility intensifies uncertainty regarding estimating the output gap, the structural balance remains an important tool to explore the underlying situation of the national component of public finances. Similarly, its change allows the tone of the part of fiscal policy financed nationally to be explored. However, from a macroeconomic perspective, it is important to analyse the aggregate tone of fiscal policy, including the considerable boost provided by the Next Generation EU (NGEU) funds. Since these funds have, in principle, a neutral impact on the deficit, the evolution of the structural balance does not include the magnitude of the boost associated with them. Measuring the evolution of expenditure, including NGEU funds, in relation to the potential performance of the economy in the medium term allows the aggregate tone of fiscal policy to be estimated. This complementary measure of discretionary fiscal effort (DFE)[31] is relevant in the current circumstances.

The discretionary fiscal effort (DFE) indicator shows that the aggregate tone of fiscal policy — including expenditure financed by both NGEU funds and nationally — is expansive in 2023, but will be neutral in 2024. The DFE points to considerable fiscal expansion this year, contributed to by both the national component and the RTRP. Next year, however, the effect of the national public finances would contract the aggregate tone of fiscal policy, in line with the signal provided by the change in the structural balance (of the same sign, although of a different magnitude). Next year, this contractive tone would be offset by the boost from the RTRP funds so that, overall, fiscal policy is expected to adopt a practically neutral tone.

FIGURE 91. DISCRETIONARY FISCAL EFFORT (DFE) INDICATOR, 2023 AND 2024 *



* Note: A negative sign represents an expansionary fiscal policy, and vice versa.
Source: AIReF

[31] For more details on the methodology for calculating the discretionary fiscal effort, see Carnot, N. & F. de Castro (2015). 'The Discretionary Fiscal Effort: an Assessment of Fiscal Policy and its Output Effect.' European Commission. Economic Papers 543 (February 2015)

8. RECOMMENDATIONS

8.1. New Recommendations

The medium-term orientation of the macroeconomic and fiscal scenario analysis conducted by AIReF, along with the sustainability analysis, once again highlight the vulnerability of the Spanish economy due to the structural persistence of the deficit and the high level of debt.

In this context, the existing institutional uncertainty at both the European and national level after four years of the suspension of fiscal rules poses an additional risk to the sustainability of the public accounts, as this may bolster structurally-driven increases in expenditure and reductions in revenue.

Furthermore, at the European level, the European fiscal framework is currently undergoing a reform process. European institutions have expressed their aim of concluding negotiations before the end of the year to ensure the new framework is applicable next year, although delays cannot be ruled out.

At the national level, the results of this European reform must subsequently be transposed into the national fiscal framework, although work on its reform has not yet begun. In addition, the existence of a caretaker government has prevented, on the one hand, the establishment of stability targets for 2024 despite the reactivation of the fiscal rules for next year, and, on the other hand, the presentation of the draft General State Budget for 2024. This primarily affects the Central Government but also other Territorial Administrations. Furthermore, the instalment payments and final settlements of the financing system for next year have not been notified to the Autonomous Regions (ARs) and Local Governments (LGs), affecting the preparation of the budgets of the ARs and LGs.

Despite this institutional uncertainty, Spain is obliged to comply with the Country Specific Recommendation for 2024 imposed by the Council of the European Union, which limits the increase in nationally-financed expenditure net of revenue measures to 2.6%. Regardless of the government in place, this restriction must be adhered to by the Spanish General Government Sector in 2024.

The risk of non-compliance with this Country Specific Recommendation will increase if the ARs prepare their budgets with only the reference of the 0.1% deficit set out in the Budgetary Plan for the sub-sector. According to AIReF's forecasts, a 0.1% deficit would be compatible with expenditure growth of close to 9%, which would be incompatible with compliance with the recommendation.

In these circumstances, AIReF considers that mechanisms exist to reduce institutional uncertainty to some extent. In this regard, AIReF advocates the use of existing fiscal policy coordination mechanisms between the Central Government and the Territorial Administrations, convening the Fiscal and Financial Policy Council and the National Commission of the Local Administrations.

These coordination bodies may agree on rates for net lending/borrowing and the growth of primary expenditure net of revenue measures, for the different GG sub-sectors, when the stability targets provided for in the LOEPSF are not formally established. These rates should consider the temporary or structural nature of the revenue and expenditure of each sub-sector in 2024 and be consistent with compliance with the Country Specific Recommendation.

Simultaneously, these bodies, with representation from the different tiers of government, are the ideal forum to begin work as soon as possible on developing a realistic and credible medium-term fiscal strategy that meets the sustainability requirements likely to be reflected in the reform of the European fiscal framework, as well as for the reform of the national fiscal framework.

Accordingly, AIReF recommends the Ministry of Finance and Civil Service to:

1. **Publish its forecasts for instalment payments and settlements of regional and local financing systems for 2024.**

2. **Convene the existing fiscal policy coordination mechanisms: the Fiscal and Financial Policy Council and the National Commission of the Local Administrations to:**

    - **Agree on the reference rates for net lending/borrowing and growth of primary expenditure net of revenue measures for the different GG sub-sectors, considering the temporary or structural nature of revenue and expenditure of each sub-sector for 2024, and ensure they are consistent with compliance with the Country Specific Recommendation issued by the Council of the European Union.**

    - **Commence work as soon as possible to develop a realistic and credible medium-term fiscal strategy that complies with sustainability requirements likely to be reflected in the reform of the European fiscal framework.**

    - **Commence work as soon as possible on the reform of the national fiscal framework.**

8.2. Recommendations contained in the endorsement of the macroeconomic forecasts

On October 16th, AIReF published the endorsement of the macroeconomic forecast of the 2024 Budgetary Plan, which includes four recommendations (one new, one reiterated and two live), set out below and already sent to the target public bodies:

1. Publish the Report on the Situation of the Spanish Economy provided for in Article 15(5) of Organic Law 2/2012, of April 27th, on Budgetary Stability and Financial Sustainability, including the reference rate for the expenditure rule for the year 2024.
2. Seek prior consultation from AIReF on the Report on the Situation of the Spanish Economy drawn up by that ministerial department as provided for in Article 15(5) of Organic Law 2/2012, of April 27th, on Budgetary Stability and Financial Sustainability.
3. Regulate the process of endorsing macroeconomic forecasts through an agreement between the parties.
4. Provide more information on budgetary and fiscal measures incorporated in the macroeconomic scenario to enhance the rigour of the endorsement process.

The President of AIReF

Cristina Herrero Sánchez