

# REPORT ON THE REBALANCING PLAN

REPORT 75/23

December 12<sup>th</sup>, 2023



Independent Authority  
*for* Fiscal Responsibility



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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# 1. INTRODUCTION

**The exceptional circumstances referred to in Article 11.3 of the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF) permit the suspension of the fiscal rules and require the submission of a Rebalancing Plan.**

Article 11.3 of the LOEPSF states that "Exceptionally, the State and the Autonomous Regions may incur a structural deficit in the event of natural disasters, severe economic recession or extraordinary emergency situations beyond the control of the General Government that considerably impair their financial situation or their economic or social sustainability, as judged by an absolute majority of the members of the Congress of Deputies. In these cases, a Rebalancing Plan must be approved to correct the structural deficit, taking into account the exceptional circumstances that gave rise to the non-compliance".

**Congress found that exceptional circumstances had arisen on three occasions, without the consequent suspension of the fiscal rules from 2020 to 2023 being accompanied by the Rebalancing Plan provided for in Law.**

On October 20<sup>th</sup>, 2020, Congress found that the exceptional circumstances referred to in Article 11.3 of the LOEPSF had arisen in 2020 and 2021 due to the crisis caused by the COVID-19 pandemic. The following year, on September 13<sup>th</sup>, 2021, Congress agreed that these exceptional circumstances arising from the pandemic would continue in 2022. Finally, on September 22<sup>nd</sup>, 2022, it again considered exceptional circumstances would exist for 2023, this time as a result of the price crisis exacerbated by the war in Ukraine. On none of these occasions was a Rebalancing Plan presented.

**Prior to its approval by Congress, AIReF reported on the existence of exceptional circumstances, as required by Article 22 of the Organic Law creating AIReF.** AIReF expressed a view prior to the three pronouncements by

Congress. First, in its report of October 13<sup>th</sup>, 2020<sup>1</sup>, AIReF considered that the severe crisis caused by the pandemic had led to an unprecedented fall in economic activity and this situation, together with the measures adopted to mitigate its effects, had a considerable impact on the accounts of the whole General Government Sector, which could be considered exceptional circumstances. This could be considered an exceptional situation in accordance with Article 11.3 of the LOEPSF. Second, in the report of July 30<sup>th</sup>, 2021<sup>2</sup>, AIReF maintained its appreciation of these circumstances due to the effects derived from the severe crisis caused by the pandemic. Third, in the report of July 29<sup>th</sup>, 2022<sup>3</sup> AIReF considered that in 2023 exceptional circumstances existed as a result of the energy crisis and the uncertainty due to the war in Ukraine, which had shifted the focus of uncertainty from the health sector to the supply side of the economy and whose development and economic implications were difficult to predict.

**After these four years of suspension of the fiscal rules, on December 12<sup>th</sup>, 2023 the Council of Ministers approved the Central Government Rebalancing Plan.**

The LOEPSF requires the sub-sector that has incurred in the exceptional circumstances provided for in Article 11.3 to present a Rebalancing Plan that allows the correction of the structural deficit, taking into account the exceptional circumstance that gave rise to the non-compliance. After four years of exceptional circumstances and suspension of the fiscal rules, the Central Government has submitted its Rebalancing Plan, which was approved by the Council of Ministers on December 12<sup>th</sup>, 2023.

**The Ministry of Finance and Civil Service (MINHAFF) asked AIReF for the report on the Rebalancing Plan before it was submitted to Parliament.**

On December 4<sup>th</sup>, 2023, MINHAFF asked AIReF to issue the report provided for in Article 19 of Organic Law 6/2013 creating AIReF, whereby this institution is obliged to report on the Rebalancing Plan prior to its approval. In turn, Article 23 of the LOEPSF states that the Central Government Rebalancing Plan shall be drawn up by the Government, at the proposal of the Minister of Finance and Civil Service, and shall be submitted to Parliament for approval following the procedure provided for in Article 15.6 of this Law, subject to a report from AIReF. The aim of this report is therefore AIReF's assessment of the Rebalancing Plan.

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<sup>1</sup> [AIReF 2020 Report on exceptional circumstances Article 11.3 LOEPSF](#)

<sup>2</sup> [AIReF 2021 Report on exceptional circumstances Article 11.3 LOEPSF](#)

<sup>3</sup> [AIReF 2022 Report on exceptional circumstances Article 11.3 LOEPSF](#)

## 2. ASSESSMENT

**The scope and content of the Rebalancing Plan are defined in Article 22 of the LOEPSF.** On the one hand, unlike other budgetary documents, the Rebalancing Plan does not have a global scope for the whole of the General Government Sector. Instead, it contains the commitment of the sub-sector that has incurred in the assumptions provided for in Article 11.3 of this Law. In fact, the Law provides for a specific approval procedure depending on the sub-sector concerned. On the other hand, its content is that established by the Law on Economic and Financial Plans, which includes trend forecasts of revenue and expenditure, a description and timetable of the measures to be adopted to meet the targets and forecasts of economic and fiscal variables, the assumptions on which they are based and a sensitivity analysis. Additional information on stability targets and debt targets is added<sup>4</sup>.

**The Rebalancing Plan of the Central Government does not incorporate the content provided for in Article 22 of the LOEPSF, but refers to the fiscal consolidation path of the 2023 Stability Programme Update (SPU) of last April and the Budgetary Plan of October.** The Rebalancing Plan submitted does not adhere to the content provided for in the Law, however, explicitly refers to the SPU and the Budgetary Plan. The subjective scope of these documents is not limited to the Central Government, but, as the Rebalancing Plan points out, it also offers a path for the whole General Government and for each sub-sector. However, neither do these budgetary planning documents contain all the elements required by Article 22 in relation to Central Government. Among other things, they do not contain a revenue and expenditure forecast for the Central Government.

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<sup>4</sup> Article 22 of the LOEPSF states that a rebalancing plan must contain "...the path to achieve the budgetary stability target, breaking down the evolution of revenue and expenditure, and of the main items thereof, which enable this path to be met". It should also include a debt path and an analysis of its dynamics to the extent that, as provided for in Article 13.3, the debt limits are also not met.

**By issuing this report, AIReF complies with its legal obligation to report on the Rebalancing Plan prior to its approval.** Given the scope and content of the Plan received, AIReF's report submits the assessment already made of both the SPU and the Budgetary Plan. In line with the express reference of the Plan to the 2023-2026 SPU of last April and to the Budgetary Plan of October, AIReF's assessment of the budgetary stability path in the Rebalancing Plan will refer to both documents.

**The European institutions have expressed views on both the SPU and the Budgetary Plan.** The analysis of the SPU led to the Council recommendation on fiscal policy to gradually eliminate the support measures, to limit the growth of primary expenditure net of revenue measures to a maximum of 2.6% in 2024 and, thereafter, to continue to implement a medium-term fiscal policy strategy of gradual and sustainable consolidation. The European Commission also concluded in its assessment of the Budgetary Plan that it was in line with the aforementioned specific Council recommendation, while noting that the Government should submit an update of the Budgetary Plan once the draft General State Budget for 2024 has been prepared.

**AIReF reported on the SPU in May<sup>5</sup> and the Budgetary Plan in October<sup>6</sup>, updating its medium-term macroeconomic and fiscal forecasts in both cases.** Although the Rebalancing Plan extends to 2026 and maintains the fiscal path presented in May, AIReF updated its medium-term forecasts until 2028 on the occasion of the publication of the Report on the Main Lines of the General Government Budget for 2024 on October 26<sup>th</sup>. Consequently, it is more appropriate to compare the path contained in the Rebalancing Plan with AIReF's most up-to-date forecasts for October.

**AIReF already pointed out in the May report that the SPU does not constitute a genuine medium-term planning instrument.** The main reasons include the continuous revision of targets, the lack of a breakdown of the fiscal measures to achieve the path proposed and the lack of greater detail on the revenue and expenditure paths by sub-sector. AIReF also pointed out the problems of fragmentation of the budgetary process due to the lack of coherence between the General Government budget and the medium-term planning instruments, the Stability Programme and the Budgetary Plan. In short, these weaknesses can be extended to the Rebalancing Plan insofar as it refers to both documents.

**The Rebalancing Plan does not explicitly contain the macroeconomic outlook underlying the fiscal path.** Implicitly, it could be understood that it would be

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<sup>5</sup> [Report on the 2023–2026 Stability Programme Update](#)

<sup>6</sup> [Report on the Main Lines of the General Government Budget for 2024.](#)

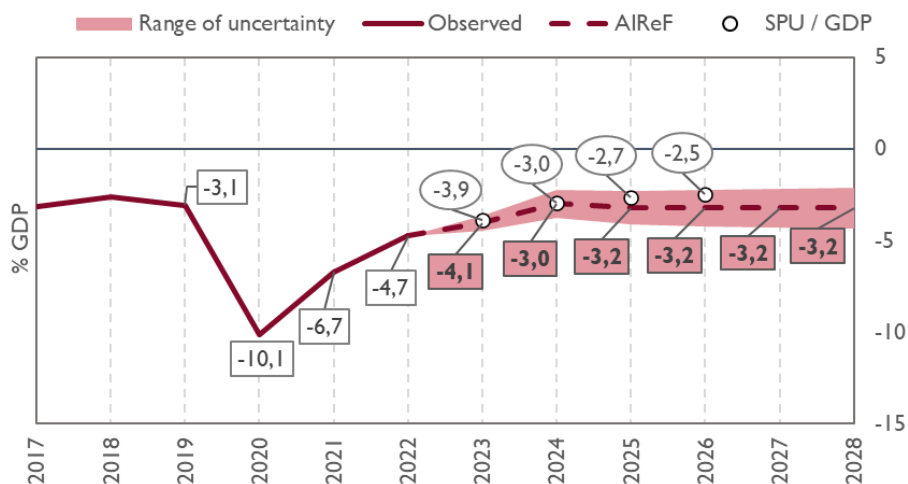


the path contained in the Budgetary Plan for 2024 and the SPU for 2025 and 2026. In its October report, AIReF forecasts real GDP growth of 1.7% in 2024, compared with the 2% estimated by the Government in the Budgetary Plan for the same year. For 2025 and 2026, the discrepancies are smaller, as AIReF estimates real GDP growth of 1.8% and 1.6%, respectively, in those years, similar to the 1.8% and 1.7% in the SPU.

**AIReF's central scenario presents a stabilisation of the General Government deficit at around 3.2% of GDP in the absence of additional measures, compared with a gradual reduction to 2.5% in 2026 in the Rebalancing Plan.**

After reaching 3% in 2024, in line with AIReF's central scenario, the Rebalancing Plan presents a further reduction in the deficit of 0.5 points in two years, to 2.5% of GDP, while AIReF assumes a rebound in the deficit in 2025 and subsequent stabilisation at 3.2%. In particular, in 2025 AIReF estimates that the deficit would rise to 3.2% mainly due to the withdrawal of the temporary measures to increase revenue. Accordingly, once the withdrawal of the measures materialises in 2024, the margin for reducing the deficit without adopting additional corrective measures is exhausted, resulting in a level slightly above the 3% limit set in the Stability and Growth Pact (SGP).

**FIGURE 1. EVOLUTION OF GENERAL GOVERNMENT NET LENDING/BORROWING (% GDP)**



Source: IGAE, SPU, Budgetary Plan and AIReF estimate.

**The Rebalancing Plan does not contain measures underpinning the deficit reduction to 2026.** The measures contained in the Rebalancing Plan coincide with those contained in the Budgetary Plan for 2024 with some exceptions. In the absence of new measures, AIReF foresees a small reduction in the weight of revenue in 2025 due to the withdrawal of temporary measures to increase revenue, such as the levies on the energy and banking sectors and the tax on

large fortunes. Subsequently, revenue will resume its upward path to reach 43.1% in 2028, mainly driven by the progressive nature of income taxes. As regards expenditure, after falling by almost half a point in 2024 due to the disappearance of the measures, it will increase its weight of GDP to 46.3% in 2028. This increase will be driven by growth in spending on pensions and servicing debt, which will gradually increase their weight of GDP. In contrast, the components of public consumption and investment will roughly sustain their weight of GDP over the whole period, while other expenditure will fall slightly. Insofar as the Rebalancing Plan does not update the evolution of revenue and expenditure until 2026, it is not possible to make a comparison with AIReF's most up-to-date estimate<sup>7</sup>.

**TABLE 1. NET BORROWING/LENDING BY SUB-SECTOR (% GDP).**

**AIREF VS. BUDGETARY PLAN**

	AIReF						GOVERNMENT					
							SPU				Budgetary Plan	
	2023	2024	2025	2026	2027	2028	2023	2024	2025	2026	2023	2024
<b>GG</b>	<b>-4,1</b>	<b>-3,0</b>	<b>-3,2</b>	<b>-3,2</b>	<b>-3,2</b>	<b>-3,2</b>	<b>-3,9</b>	<b>-3,0</b>	<b>-2,7</b>	<b>-2,5</b>	<b>-3,9</b>	<b>-3,0</b>
<b>CG</b>	-3,2	-3,1	-2,8	-2,8	-2,9	-2,9	-3,1	-3,0	-2,8	-2,8	-2,9	-2,9
<b>SSFs</b>	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,5	-0,2	-0,1	0,0	-0,5	-0,2
<b>ARs</b>	-0,6	0,2	0,0	-0,1	-0,1	-0,1	-0,3	0,0	0,1	0,1	-0,6	-0,1
<b>LGs</b>	0,1	0,2	0,1	0,1	0,1	0,1	0,0	0,2	0,1	0,2	0,1	0,2

Source: SPU, Budgetary Plan and AIReF estimate.

**The Central Government deficit in 2026 coincides with AIReF's central scenario and the Rebalancing Plan, although there are some differences in their evolution.** Compared with the 2.9% forecast in the Budgetary Plan for 2024, AIReF estimates that 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 regional and local financing systems, which will partially offset the withdrawal of the measures. In 2026, the deficit would stand at 2.8% of GDP in both AIReF's and the Government's scenario. Subsequently, AIReF estimates that the deficit will stabilise at around 2.9% of GDP until 2028, offsetting the increase in the interest burden with the growth in tax collection and the moderation in the growth of other expenditure.

**The deficit of the Social Security Funds will stabilise at around 0.4% of GDP over the entire projected horizon compared with the reduction forecast in the**

<sup>7</sup> For a detailed comparison for 2024 between AIReF's forecasts and the figures in the Rebalancing Plan and the Budgetary Plan, please refer to [the Report on the Main Lines of the General Government Budget for 2024](#).

**Rebalancing Plan.** Growth in spending on pensions is set to moderate once the inflationary pressures that translate directly to the revaluation of pensions have been overcome. For its part, following the growth observed in 2023 in spending on unemployment benefits, AIReF estimates that 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. In contrast, the Rebalancing Plan considers that the Social Security Funds will be balanced in 2026.

**While the Rebalancing Plan considers that the Autonomous Regions and Local Governments will achieve a surplus of 0.3 points in 2026, AIReF forecasts a situation close to balance.** According to AIReF's forecasts, the balance of the Autonomous Regions will improve substantially in 2024, recording a surplus of 0.2% of GDP after closing 2023 with a deficit of 0.6%. As a result of the uneven evolution of the financing system, the balance will stand at zero in 2025 and then worsen slightly to a deficit of 0.1% in the rest of the period. In contrast, the Rebalancing Plan considers a surplus will be recorded in 2025 and 2026, although the Budgetary Plan presents a worsening of the situation of the sub-sector in 2023 and 2024 compared with the SPU. As for the Local Governments, AIReF estimates that the surplus will stabilise in 2025 at 0.1% of GDP and consolidate that level until 2028, once the growth in spending observed in the years when the fiscal rules were suspended moderates. In this regard, the Rebalancing Plan contains a surplus that is 0.1 points higher in 2026.

**AIReF considered the decreasing debt forecast included in the SPU and in the Budgetary Plan to be feasible, although it warned that after stabilising in the medium-term it would take an upward path in the absence of additional measures.** Beyond 2024, when the significant contribution of nominal growth disappears, AIReF projects a slowdown in the pace of reduction of the debt ratio, stabilising at around 105% of GDP. In the long term, the evolution of the debt-to-GDP ratio is unfavourable due to high initial indebtedness coupled with unbalanced public accounts weighed down by the impact of ageing and the tightening of monetary conditions.

**The Rebalancing Plan does not specify whether the path presented complies with the requirements of the future European fiscal rule framework.** Although the negotiations on the reform of the European fiscal framework had not been concluded when the Rebalancing Plan was submitted to AIReF, there is sufficient evidence to analyse the debt path from the point of view of the European Commission's reform proposal. This proposal states that the debt-to-GDP ratio must show a downward forecast with a plausibility level of at least

70%, as well as a downward path in a series of certain scenarios of financial stress.

**According to AIReF's estimates, the adjustment needed to comply with the new framework of fiscal rules at a European level would be greater than implied in the Rebalancing Plan.** AIReF stated in its October report that, according to its own estimates, the fiscal path that would comply with the guidelines for calculating the technical path contained in the European Commission's legislative proposal would require an annual adjustment of 0.64% of GDP over the period 2025-2028 with regard to AIReF's central scenario. In terms of the deficit, assuming AIReF's revenue forecasts, this annual adjustment would mean achieving a deficit of 2% of GDP in 2026 and 0.8% in 2028, compared with the deficit of 2.5% of GDP in 2026 considered in the Rebalancing Plan. In any event, the adjustment finally required by the new European fiscal rule framework will depend on the final outcome of the reform and, among other factors, on whether a four or seven-year adjustment period is chosen.

**The distribution of the deficit by sub-sector in the Rebalancing Plan does not guarantee compliance with the limit of a 2.6% increase in primary spending net of revenue measures stated in the Council's recommendation.** According to AIReF's estimates, the 0.1% deficit of the Autonomous Regions would allow nationally financed primary deficit spending net of revenue measures to grow by close to 9%, which would be incompatible with compliance with the recommendation. This is possible because the Autonomous Regions and Local Governments will receive extraordinary revenue in 2024 from the 2022 settlement of the regional and local financing systems. Moreover, to the extent that these increases in net spending are structural in nature, they would entail a further deterioration in the sustainability of the public accounts.

**Compliance with the national expenditure rule could lead to the fiscal consolidation path presented in the Rebalancing Plan being met.** According to the Report on the Situation of the Spanish Economy, the reference rate of the expenditure rule would be below 3% during the period of the Rebalancing Plan in accordance with the current calculation methodology. Applying this rate to the Central Government, the Autonomous Regions and the Local Governments would mean a more contained evolution in spending than provided for in AIReF's central scenario and would lead to a lower deficit in 2026 than that stated in the Rebalancing Plan.

**The Rebalancing Plan does not clarify whether the draft General State Budget (GSB) for 2024 and the corresponding update of the Budgetary Plan will alter its forecasts.** The Rebalancing Plan states that the Budgetary Plan submitted to the European Commission is of an inertial nature, which excludes the

extension already announced by the Government of certain measures, as well as the measures that could be approved both to increase and reduce the deficit. As this is the main fiscal policy instrument, the draft General State Budget is likely to alter the inertial forecasts or, failing that, will require a detailed analysis to check that it does not modify them. In this regard, in its evaluation, the Commission indicated the need to present an update of the Budgetary Plan when the draft GSB for 2024 is presented. In accordance with its rules, AIReF will also have to report on the draft General State Budget when it is presented.

**The Rebalancing Plan will be replaced by the medium-term fiscal structural plan that the Spanish authorities need to draw up in the spring as a result of the reform of the European fiscal framework.** To the extent that the new European fiscal rules framework establishes a more demanding path, the path contained in the Rebalancing Plan will have to be reformulated. In any event, its time horizon will have to be extended to at least 2028. In this regard, AIReF has already recommended that work should begin both to adapt the national fiscal framework to the European fiscal framework and to draw up this medium-term fiscal structural plan. AIReF will also have to update its assessment when its content is known.

# 3. RECOMMENDATIONS

## 3.1. New recommendations

In its most recent reports, AIReF has pointed out the existing context of institutional uncertainty in which the General Government must operate. This uncertainty, both at a European and a national level, may lead to structural increases in the public deficit, which poses an additional risk to sustainability.

In this regard, the Rebalancing Plan is a step towards reducing institutional uncertainty at a national level, together with the start of the process of approving the stability targets, the holding of the meetings of the Fiscal and Financial Policy Council and the National Commission of the Local Administrations, the publication of the Report on the Situation of the Spanish Economy and the communication of data on regional and local financing systems.

However, AIReF's successive reports, based on the assessment of the macroeconomic and fiscal scenario with a medium-term orientation, together with the sustainability analysis, have highlighted the vulnerability of the Spanish economy due to the structural persistence of the deficit and the high level of debt. Consequently, AIReF has repeatedly indicated the urgent need to draw up a genuine medium-term fiscal strategy that explicitly underlines the measures needed to realistically and credibly guarantee a reduction in debt towards more sustainable levels. This strategy will need to be adapted to meet the sustainability requirements arising from the reform of the European fiscal framework, when it enters into force, as it is expected to require the adoption of a Structural Fiscal Plan that will be in place for a period of four to seven years and which should contain the necessary fiscal and structural measures. Uncertainty regarding the framework that will prevail at a supranational level in the future should not impede drawing up a national

fiscal strategy, which is necessary and also required in the context of the deactivation of the national and European escape clauses.

Furthermore, the implementation of fiscal policy in the short-, medium- and long-term will require forging broad political and institutional agreements across all tiers of government. First, compliance with the Council's Country Specific Recommendation for Spain by 2024 requires the coordination of all tiers of government. Second, the fiscal strategy that is firmed up in the medium-term fiscal structural plan will only be realistic and credible if it is also designed with the participation of all agents and sub-sectors. Lastly, the reform of the national fiscal framework, which is necessary both because of the weaknesses detected in the current framework and the adaptation to the European framework, will require a broad social and political consensus to give the new framework credibility and stability.

In this regard, AIR<sup>e</sup>F already made a recommendation in the Report on the Main Lines and Draft Budget for 2024 on the advisability of drawing up a medium-term fiscal strategy that is consistent with the sustainability requirements contained in the reform of the European fiscal framework currently underway and the need to reform the national fiscal framework. At this time, it is important to reinforce and firm up this recommendation, both due to the weaknesses indicated in the Rebalancing Plan that is the subject of this report, and due to the importance of the forthcoming presentation of the draft General State Budget (GSB) for 2024 will have on the path to be defined.

**AIR<sup>e</sup>F therefore recommends the Ministry of Finance and Civil Service to:**

- 1. Start work as soon as possible on a realistic and credible medium-term fiscal strategy to put the debt path on a downward curve and to meet the sustainability requirements that are expected to result from the reform of the European fiscal framework, irrespective of the fact that, if the reform is not adopted by the end of this year, the proposed strategy will need to be adapted later to the final content of the reform. Work should also start on the reform of the national fiscal framework. In both cases, the participation of all General Government sub-sectors and social and political stakeholders should be involved.**

The President of AIR<sup>e</sup>F



Cristina Herrero Sánchez