



Independent Authority
for Fiscal Responsibility

Report on the Initial Budgets of the General Government for 2024

Report on the Initial Budgets of the General Government for 2024

1 Introduction and recommendations

2 Macroeconomic scenario

3 Fiscal scenario

1

Introduction and recommendations

In this Report on the Initial Budgets of the GG, AIREF updates its October statement in a unique context

Legal mandate: to evaluate the initial budgets of the GG from the perspective of their compliance with fiscal targets, focusing its evaluation on the main changes with respect to the draft budgets and main budgetary lines of the GG

STARTING POINT:

Report on draft budgets and main budgetary lines 2024 (October 26th, 2023)

BUDGET DOCUMENTS ANALYSED:

- Extension GSB
- Approved budgets ARs (forecasts for Catalonia and C&L)
- Approved budgets LGs

SOURCES OF REVISION:

- CG: measures RD-law 8/2023
- TAs: approved budgets and updated forecasts
- New economic and fiscal information

UNIQUE CONTEXT

Reactivation of fiscal rules: uncertainty about their implementation

National level

Fiscal targets not approved by Parliament (State Attorney's Office report) and national expenditure rule applicable

European level

EDP report based on 2023-2024 data, CSR for 2024, 2025-2028 Fiscal-Structural Plan

AIREF ANALYSIS IN THE REPORT ON INITIAL BUDGETS 2024:

total GG and its sub-sectors, individual ARs, supplementary LGs

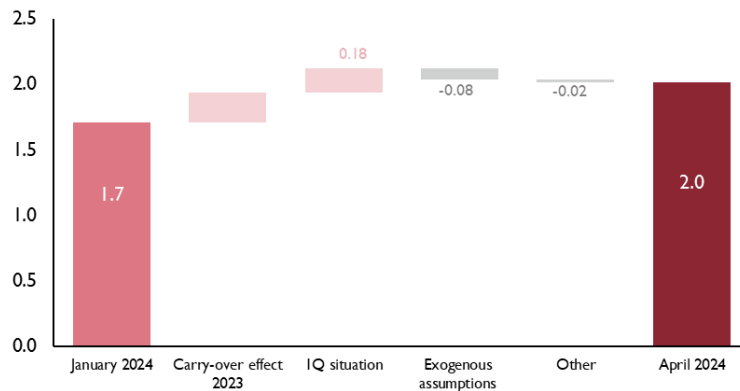
- Evaluation of the consistency of the approved budgets with respect to the fiscal rules applicable in 2024: evaluating compliance with the national and European expenditure rule
- Update of macroeconomic and fiscal forecasts

Update of medium-term scenarios 2025-2028: special importance due to the high debt and the requirements of the new European framework

AIReF revises its GDP growth forecast for 2024 upwards to 2%, but maintains its medium-term scenario unchanged

Upward revision of growth to 2% in 2024

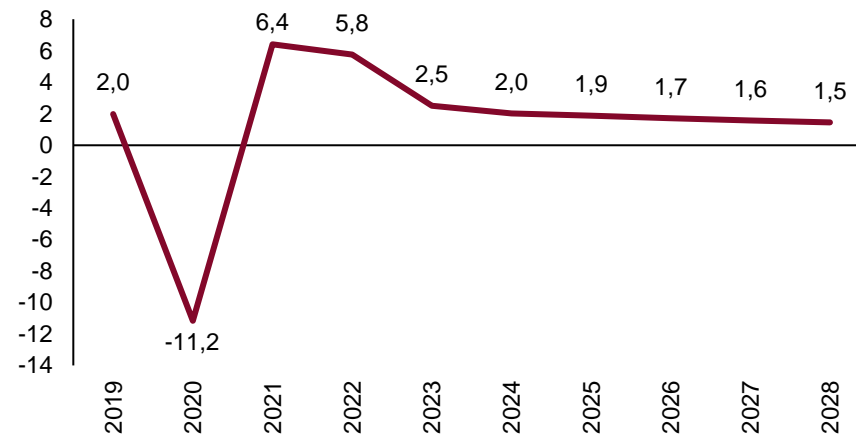
BREAKDOWN OF THE SOURCES OF REVISION OF THE GDP GROWTH RATE IN VOLUME TERMS WITH RESPECT TO THE MACROECONOMIC SCENARIO OF JANUARY 2024 (%)



Source: INE and AIReF

Medium-term vision: deceleration to 1.5% in 2028

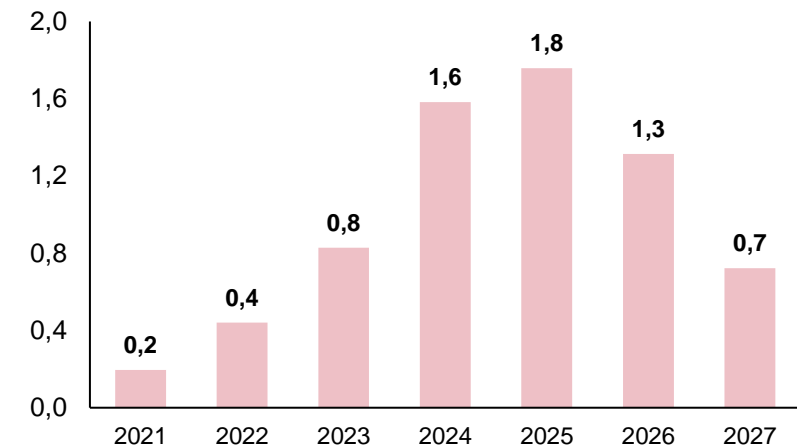
FORECASTS OF ANNUAL GDP RATES OF CHANGE 2024-2028. VOLUME %



Source: INE and AIReF

Uncertainty about impact of the RTRP

IMPACT ON GDP. (% DEVIATION WITH RESPECT TO A SCENARIO WITHOUT RTRP)



Source: AIReF

Forecast in line with Government

AIReF's revision mainly due to the new information:

- 2023 observed growth
- Dynamic behaviour of 1Q 2024

Revision does not affect medium-term vision

Growth is converging to the long-term potential of 1.3% estimated by AIReF

Long-term uncertainties:

- Will changes in the labour market have an impact on potential growth?
- Long-term implications of weak investment performance?
- Transformative effect of RTRP?

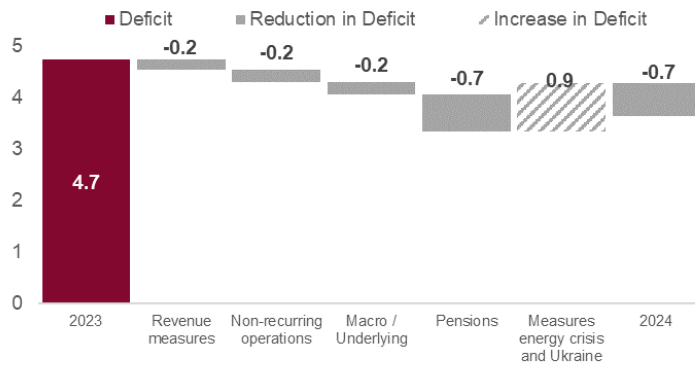
Lack of information in National Accounting

Publication of a new Monitor Tool on RTRP: formalised tenders and subsidies awarded

AIReF maintains its deficit forecast for 2024 at 3% of GDP but with revision by sub-sector and of compliance with expenditure rule

The deficit forecast for the GG as a whole is maintained: 3% of GDP

EVOLUTION OF DEFICIT BY COMPONENT AIReF (% GDP)



Source: AIReF and IGAE

Forecast in line with Government

AIReF October: feasible if CG withdrew measures and the ARs controlled spending. Why is the 3% maintained?

- Upward revision of GDP growth
- Better year-end 2023 data only partially carried over to 2024 (defence spending, court rulings, Tariff of Last Resort)

Performance by sub-sector is revised

GENERAL GOVERNMENT BALANCE (% GDP)

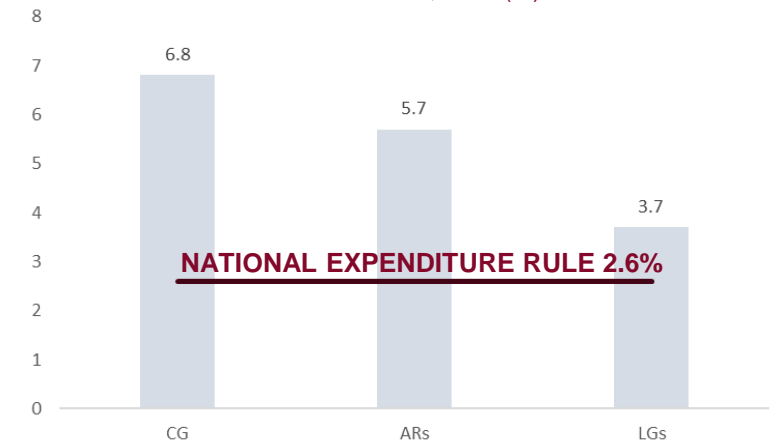
	2023 (Observed)	2024: AIReF forecast	
		AIReF current	AIReF October 2023
GG	-3.6	-3.0	-3.0
CG	-2.1	-2.7	-3.1
SSFs	-0.6	-0.3	-0.4
ARs	-0.9	-0.1	0.2
LGs	-0.1	0.1	0.2

Source: AIReF and IGAE

- CG: lower deficit due to more favourable year-end 2023 and higher forecast for nominal growth, which more than offsets the impact of the measures adopted (0.2% of GDP)
- ARs: forecast of deficit compared with surplus estimated in October. Revenue and expenditure measures, RFS update, downward revision of revenue from EU funds

The assessment of the national expenditure rule is revised: it is now breached by the CG

PRIMARY EXPENDITURE NET OF REVENUE MEASURES BY SUB-SECTOR, 2024 (%)



Source: AIReF

The behaviour of expenditure would imply a breach of the national rule by the CG, all the ARs and 10 LGs

The European rule limiting the expenditure of the GG as a whole would also be breached:

- Growth in GG expenditure of 4%, above the 2.6% required

It is again confirmed that the margin for reducing the public deficit and debt is exhausted in the medium term

The deficit stabilises at levels slightly higher than 3% of GDP

GENERAL GOVERNMENT BALANCE (% GDP)

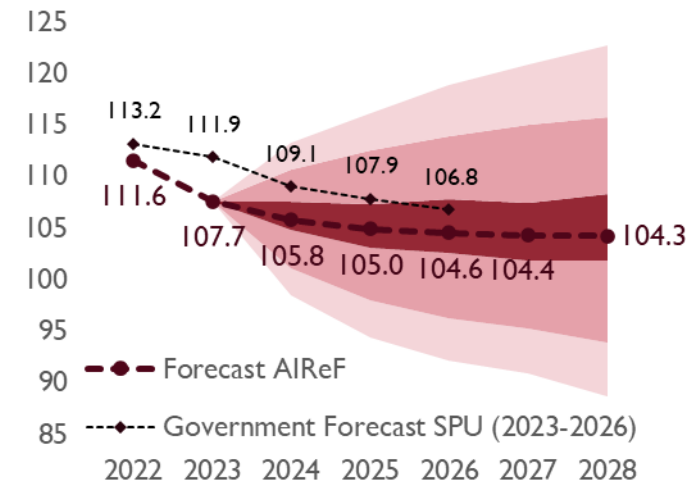
	2024	2025	2026	2027	2028
GG	-3.0	-2.9	-3.1	-3.2	-3.2
CG	-2.7	-2.2	-2.4	-2.5	-2.6
SSFs	-0.3	-0.4	-0.4	-0.4	-0.4
ARs	-0.1	-0.3	-0.3	-0.2	-0.2
LGs	0.1	0.0	0.0	0.0	0.0

Source: AIReF and IGAE

- From 2025 onwards, the flows linked to the financing system of the Territorial Authorities (TAs) are normalised
- Compared with the October report, the forecast improves for the CG and worsens for the TAs

The debt forecast is maintained and stabilised at levels of 104% of GDP

DEBT FORECASTS (% GDP)



Source: AIReF and EC

- Observed reduction in debt mainly linked to the effect of growth
- Stabilisation in the medium term and unfavourable path in the long term due to upward pressures on expenditure

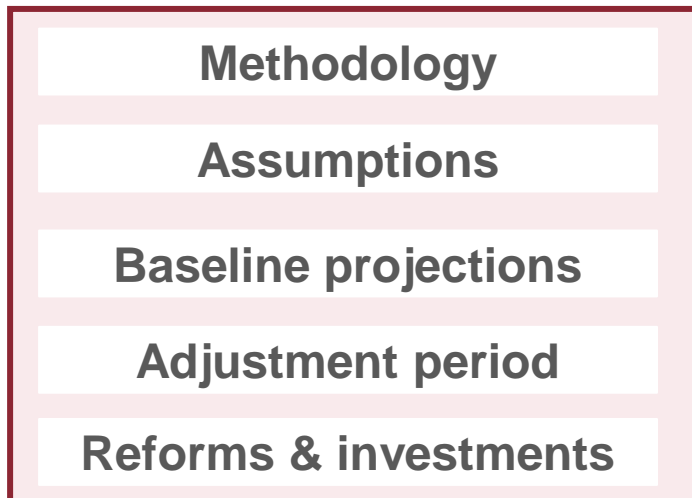
Adjustment necessary to comply with the new framework of rules

In countries with high debt, the new European framework implies a fiscal challenge because it inevitably requires a strategy for debt reduction

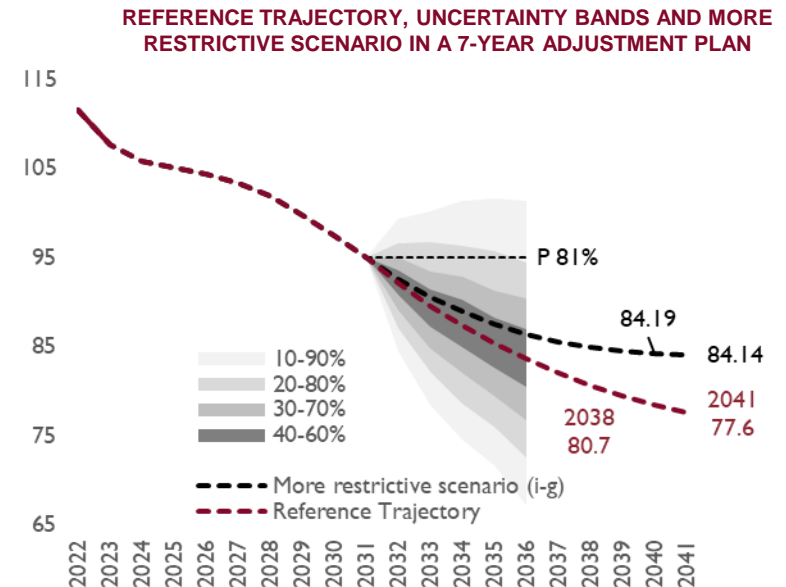
Debt Sustainability Monitor published in March by the European Commission estimates high risks for the sustainability of public accounts in the medium term, debt remains high and starts to rise from 2026

The analysis indicates that an adjustment will need to be made

In June, the EC will specify this adjustment
What will its size depend on?



AIReF has calculated different technical trajectories taking the Commission's methodology



AIReF obtains an adjustment range of 0.63% in four years and 0.43% per annum if the adjustment period is extended to seven years

AIReF makes recommendations marked by the transition to the EU framework of rules and the need to present a Medium-Term Plan

Risk of non-compliance with the national expenditure rule

AIReF recommends that the CG, ARs and several LGs monitor their budget execution and adopt the measures they deem appropriate to correct the growth of eligible expenditure for the purposes of the expenditure rule and thus avoid the structural deterioration of their accounts over the medium and long term

Transition towards a new European fiscal framework: drawing up a medium-term fiscal-structural plan

AIReF recommends that the Ministry of Finance initiate dialogue and work with all GG authorities in order to draw up a medium-term fiscal-structural plan both bilaterally with the ARs and through existing multilateral mechanisms for the coordination of economic policy, such as the National Commission for Local Administrations, the Fiscal and Financial Policy Council and, as the case may be, the Conference of Presidents

This process should clarify the practical application of fiscal rules in 2024 and lay the foundations for a new national fiscal framework for the implementation of the medium-term fiscal-structural plan

2

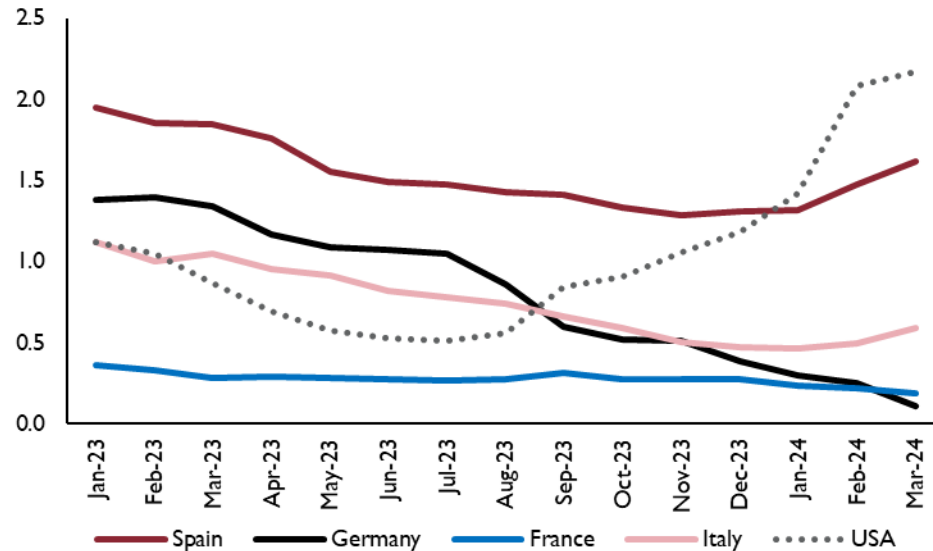
Macroeconomic scenario

The global context continues to be marked by geopolitical conflicts and the weakness of European economies

Forecasts are becoming less optimistic for Germany and France, in contrast with those for Spain, Italy and the US

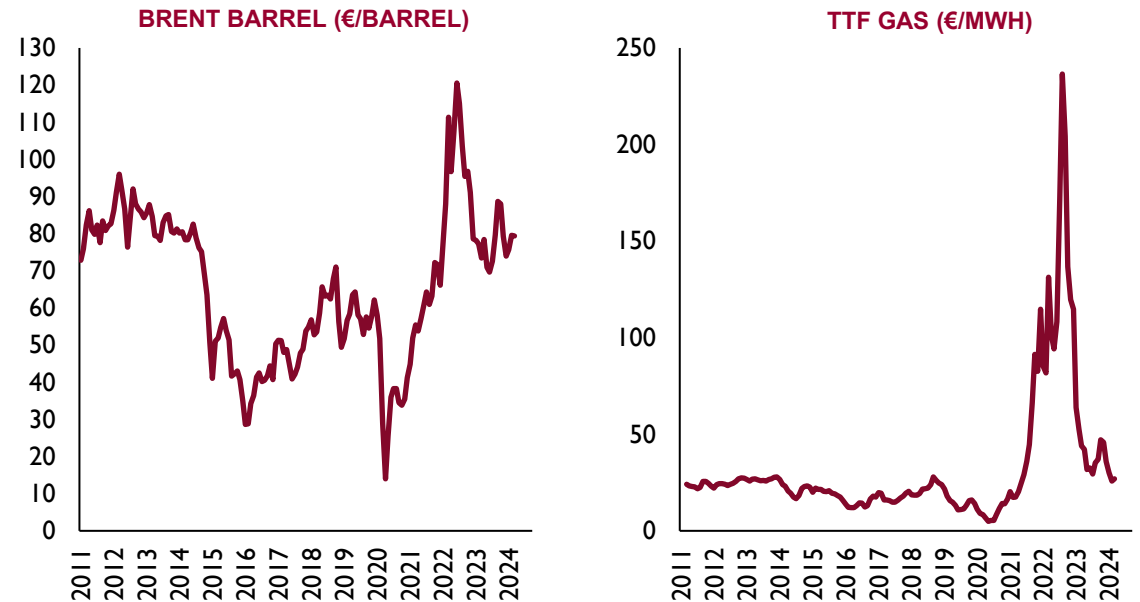
Falling energy prices have helped contain inflation

EVOLUTION OF REAL GDP GROWTH FORECASTS FOR 2024 (%)



Source: Consensus Forecasts

PRICE OF ENERGY RAW MATERIALS



Source: Refinitiv

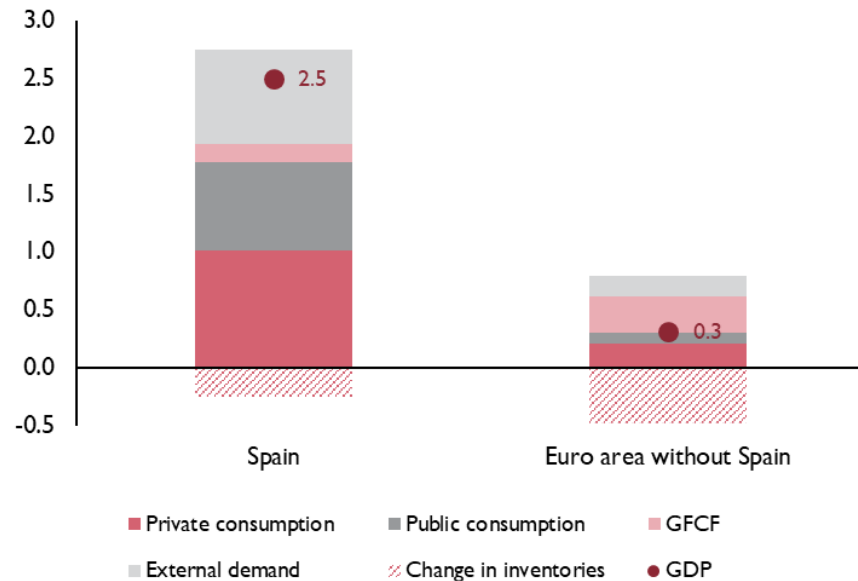
The slowdown in inflation is more intense in the euro area than in the United States, in a context of weaker demand, although there are still risks on the revenue side

The Spanish economy showed remarkable resilience in 2023, which contrasts with the stagnation of the euro area

The higher growth of the Spanish economy in 2023 is fundamentally due to the dynamism of consumption...

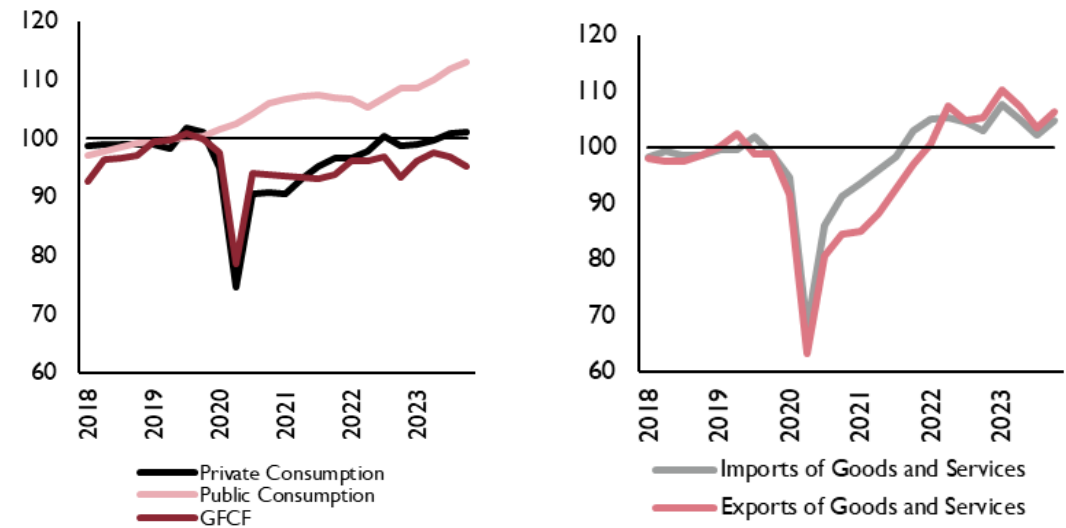
... which contrasts with the relative sluggishness of investment

BREAKDOWN OF CONTRIBUTIONS TO GDP GROWTH IN VOLUME TERMS OF SPAIN AND THE REST OF THE EURO AREA IN 2023 (%)



Source: INE and Eurostat

RECENT EVOLUTION OF CONSUMPTION, INVESTMENT AND EXTERNAL DEMAND. VOLUME (2019=100)



Source: INE

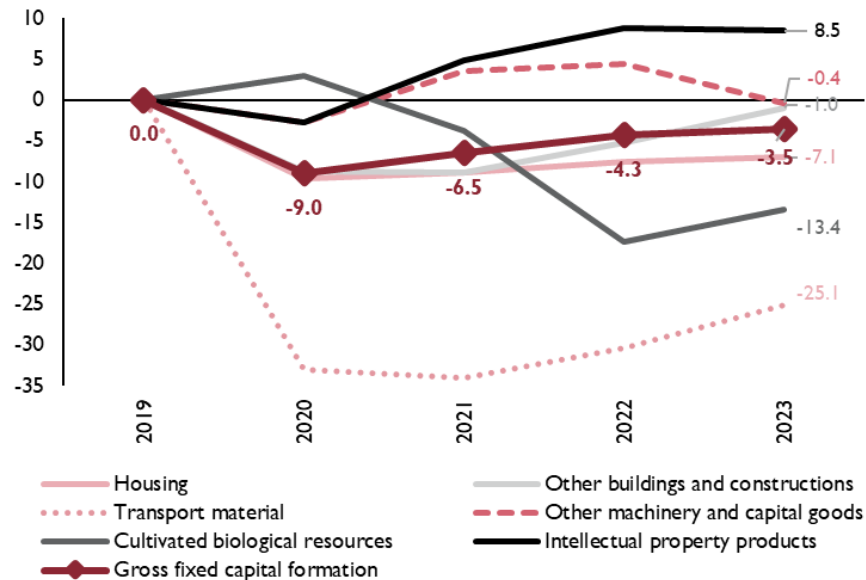
Both consumption and the external balance explain Spain's differential growth in 2023, despite the context of weakness in global trade and especially in growth in the euro area

The weakness of investment is one of the least favourable features of the recent growth pattern of the Spanish economy

Investment in intellectual property products is the only component of investment that shows dynamism

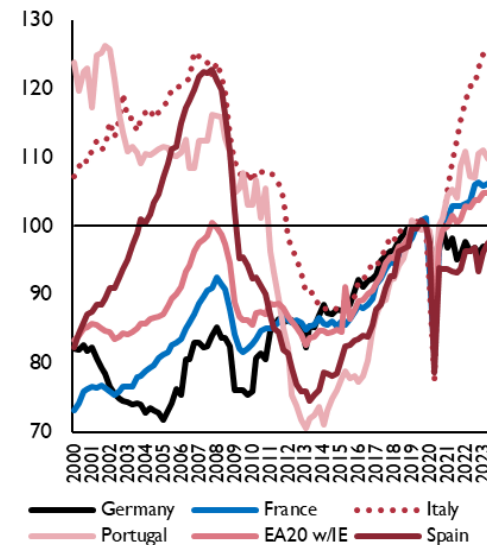
Spain, together with Germany, is the worst performer in terms of investment in the euro area

EVOLUTION OF GROSS FIXED CAPITAL FORMATION BY PRODUCT TYPE. (CHANGE COMPARED WITH 2019 LEVELS, %)



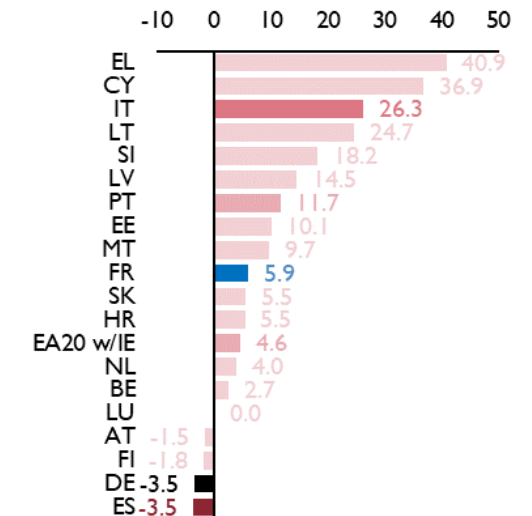
Source: INE

GROSS FIXED CAPITAL FORMATION. VOLUME (INDEX 2019=100)



Source: Eurostat

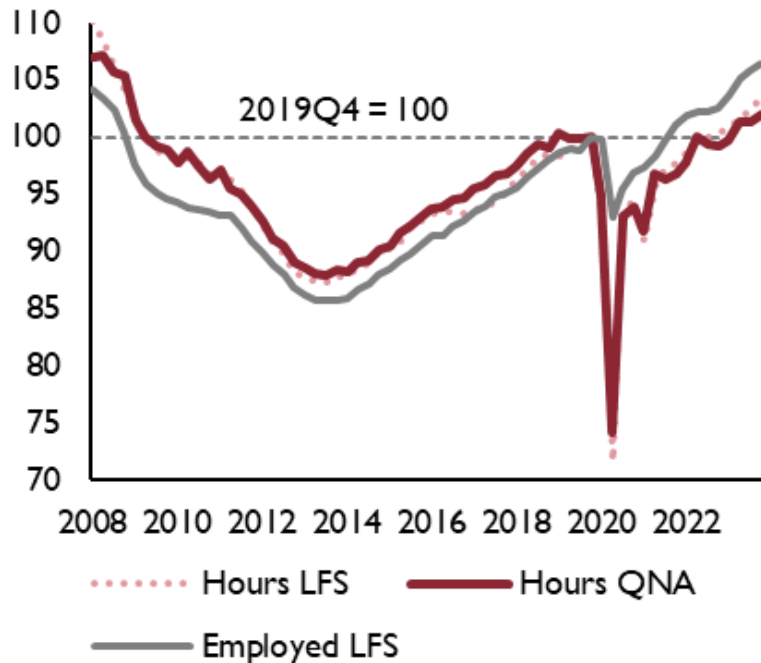
CHANGE IN GROSS FIXED CAPITAL FORMATION BETWEEN 2019 AND 2023. VOLUME (%)



Among the determinants of this behaviour is the tightening of financing conditions, possible effects associated with confidence and the composition of growth

In contrast, the labour market continues to perform favourably

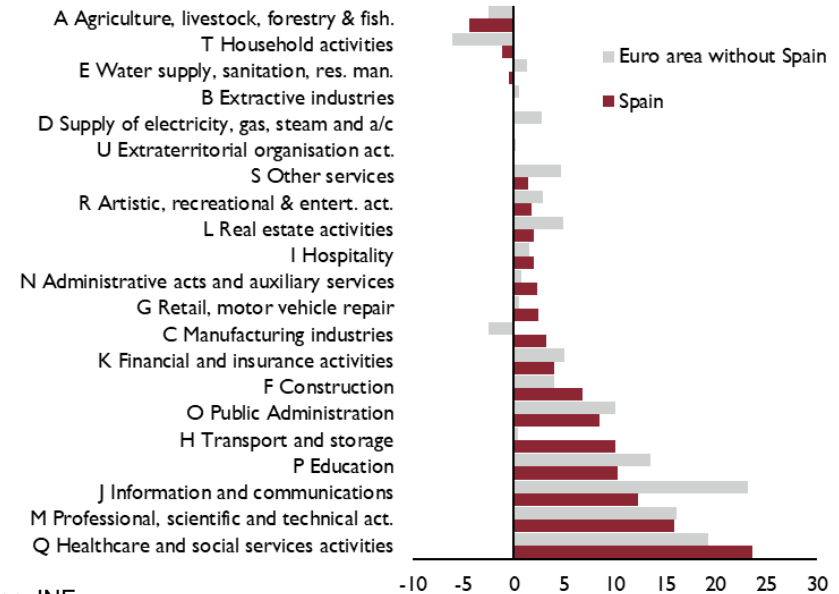
The dynamism of employment has not been accompanied by a sharp growth in hours worked, which has led to a fall in the average working day per worker



Source: INE

The industries recording the highest growth in employment are similar to those in the rest of the euro area

PERCENTAGE BREAKDOWN OF EMPLOYMENT CREATED BETWEEN 2019 AND 2023. ACCORDING TO CNAE (National Classification Economic Activities) SECTION (%)



Source: INE

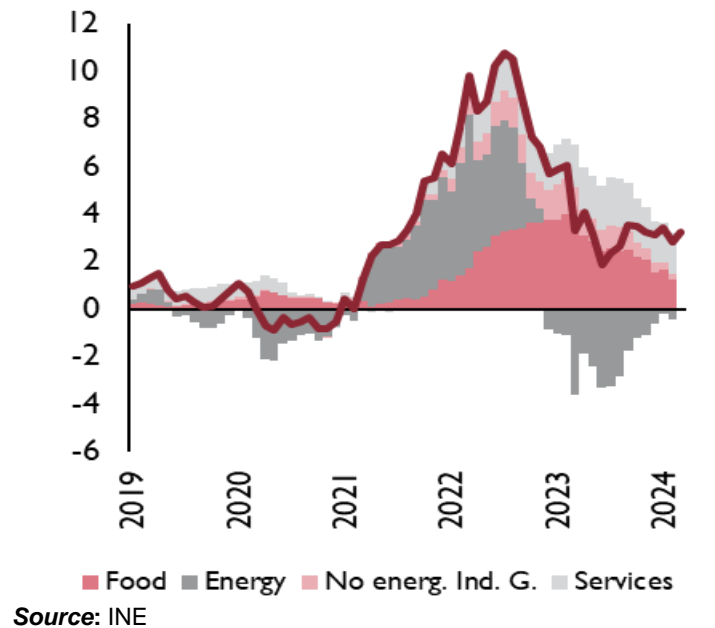
Despite the evolution of employment, the unemployment rate remained stable in the second half of the year due to the increase in the active population

The containment of inflation has been noteworthy and wages are growing at practically the same rate

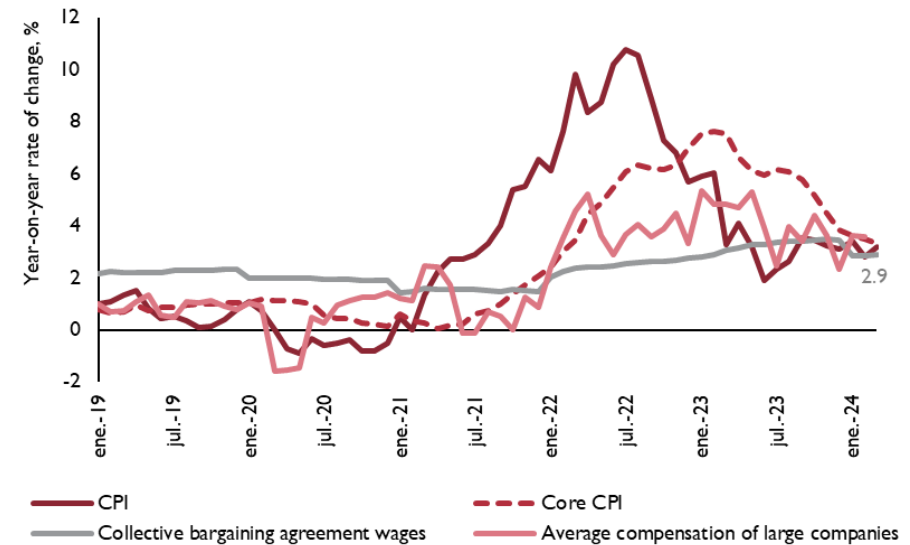
In year-on-year terms, inflation stood at 3.2% in March 2024, far from the values above 10% observed in 2022

Wages under collective bargaining agreements grew in line with inflation in 2023

EVOLUTION OF THE CPI AND ITS COMPONENTS (%)



EVOLUTION OF PRICES AND WAGES (%)



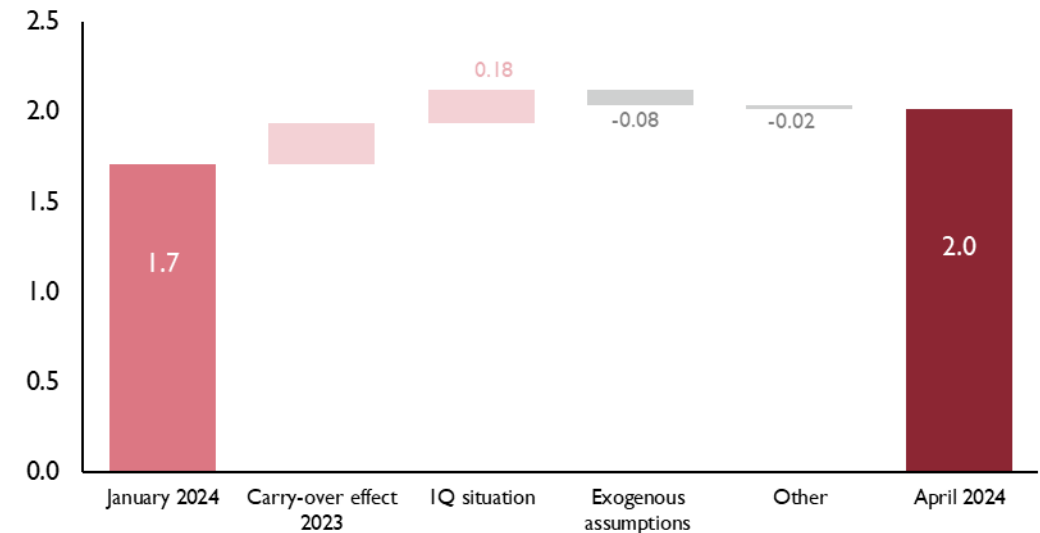
Overall, there are no major wage tensions higher than the growth in inflation

Real GDP growth forecasts for 2024 are revised upwards to 2% and inflation downwards to 3.1%

Year-on-Year Rates of Change	2023	Apr-24	Jan-24	Diff. vs Jan 2024
		2024	2024	2024
Private Domestic Final Consumption Expenditure	1.8	2.4	1.9	↑ 0.5
General Government Final Consumption Expenditure	3.8	1.2	0.7	↑ 0.5
Gross Fixed Capital Formation	0.8	2.7	2.6	↑ 0.1
GFCF Equipment and Cultivated Assets	-1.3	3.9	4.3	↓ -0.4
GFCF Construction and Intellectual Property	1.7	2.2	2.0	↑ 0.2
Domestic Demand*	1.7	2.1	1.7	↑ 0.4
Exports of Goods and Services	2.3	2.1	1.7	↑ 0.4
Imports of Goods and Services	0.3	2.6	1.9	↑ 0.6
External Balance*	0.8	-0.1	0.0	↓ -0.1
Gross Domestic Product	2.5	2.0	1.7	↑ 0.3
Nominal Gross Domestic Product	8.6	5.2	5.0	↑ 0.3
Gross Domestic Product Deflator	5.9	3.2	3.2	→ 0.0
CPI	3.5	3.1	3.3	↓ -0.3
Full-Time Equivalent Employment	3.2	2.5	1.8	↑ 0.8
Unit Labour Cost	6.0	3.8	3.8	→ 0.0
Productivity per Full-Time Employee	-0.7	-0.5	-0.1	↓ -0.4
Compensation per Employee	5.2	3.3	3.8	↓ -0.5
Unemployment Rate (% of Active Population)	12.1	11.6	11.4	↑ 0.2
Household and NPISH Savings Rate (% Gross Disposable Income)	11.7	9.7	8.6	↑ 1.1

* Contribution to GDP growth

BREAKDOWN OF THE SOURCES OF REVISION OF THE GDP GROWTH RATE IN VOLUME TERMS WITH RESPECT TO THE MACROECONOMIC SCENARIO OF JANUARY 2024 (%)



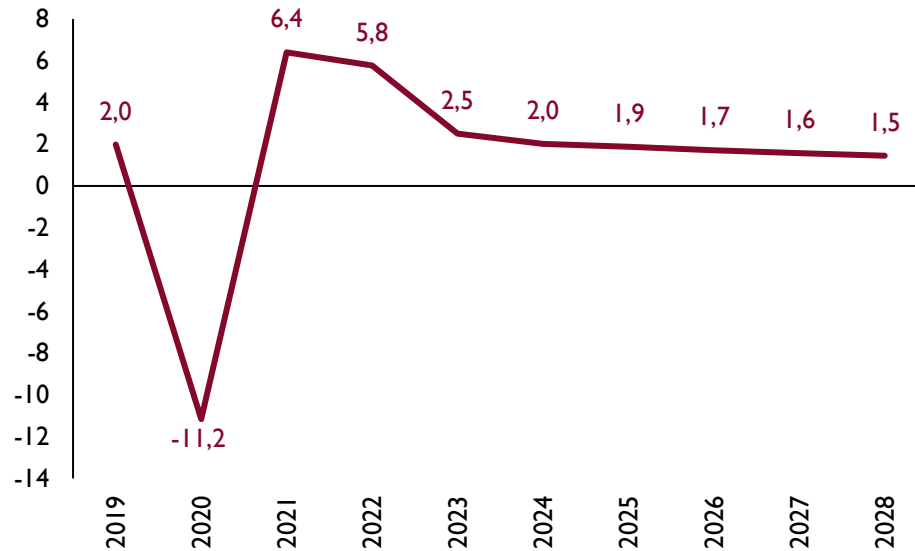
Source: AIReF

Medium-term scenario and risks

The Spanish economy would gradually converge to its potential growth, which AIReF estimates at around 1.3%

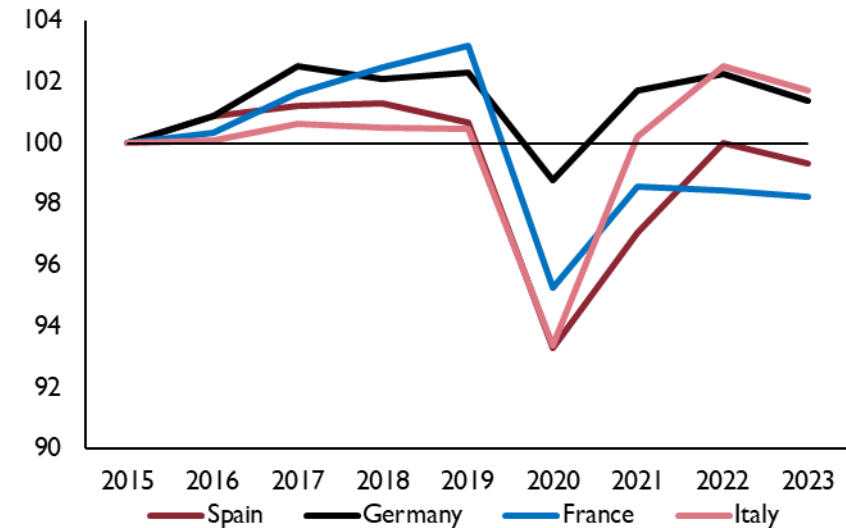
Should they persist, the weakness in investment and the moderate increase in productivity compared with other economies could compromise the possibilities of growth

FORECASTS OF ANNUAL GDP RATES OF CHANGE 2024-2028. VOLUME %



Source: INE and AIReF

PRODUCTIVITY PER EMPLOYEE (2015=100)



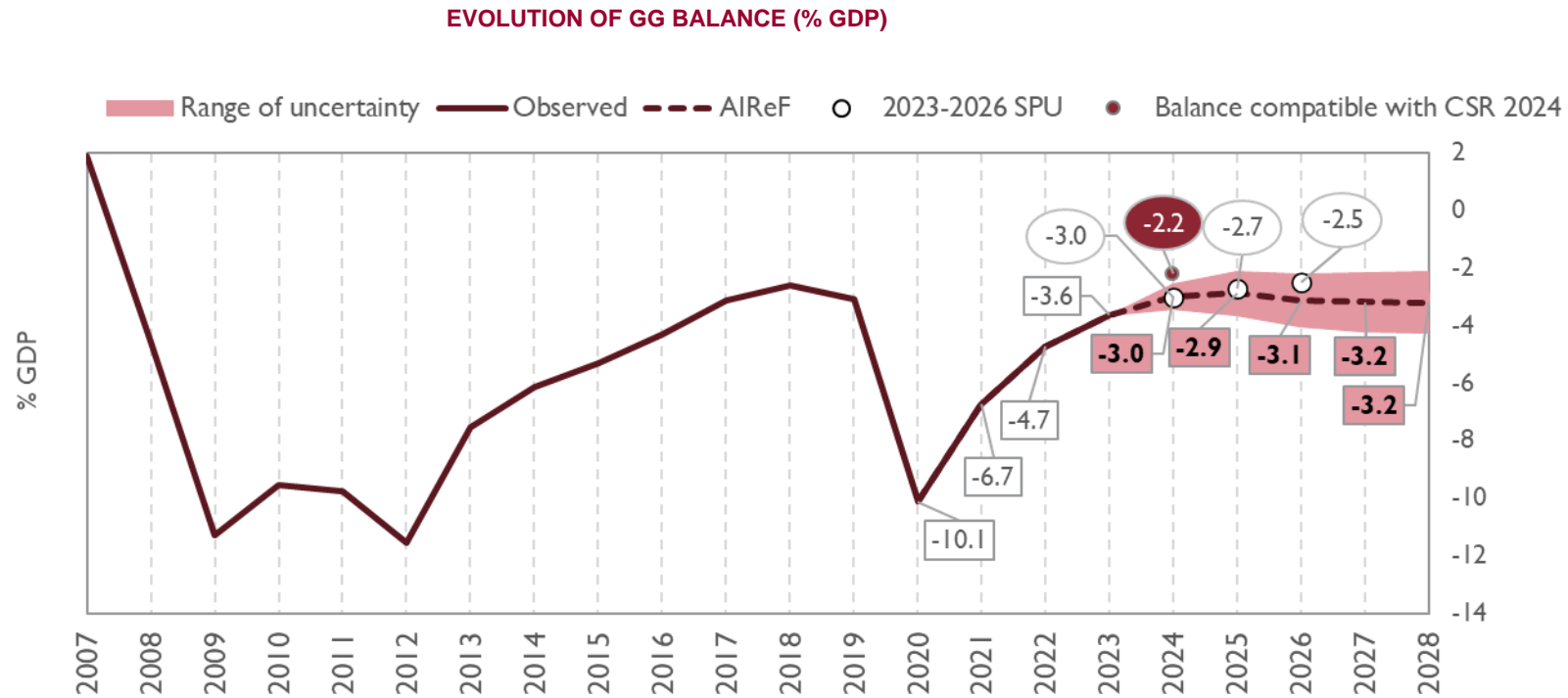
Source: INE and Eurostat

Risks from the global environment remain skewed to the downside

3

Fiscal scenario

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



Source: IGAE and AIReF

- The GG will close 2024 with a 3% deficit, in line with the Government's forecast
- The deficit will improve by an additional 0.1 points in 2025, although it will worsen by a few decimals following the withdrawal of the temporary revenue measures, to then stabilise at around 3.2%

AIReF maintains its estimate of the deficit for 2024, although the composition changes by sub-sector

Report on Main Lines
(October 26th, 2023)

GG deficit 2024
-3% of GDP

GG	-3.0
CG	-3.1
SSFs	-0.4
ARs	0.2
LGs	0.2

Measures:
-0.2% of GDP

- Measures in response to the energy crisis RDL 8/2023

New information:
-0.1% of GDP

- Decrease in CG exp.
- More TA expenditure and less AR revenue

Macro effect:
+0.3% of GDP

- Denominator effect
- Increased tax collection

Report on Initial Budgets
(April 11th, 2024)

GG deficit 2024
-3% of GDP

GG	-3.0
CG	-2.7
SSFs	-0.3
ARs	-0.1
LGs	0.1

- The improved macroeconomic scenario offsets the increased cost of measures and the new information
- Despite maintaining the same overall estimate, AIReF modifies the forecasts for each sub-sector, improving the deficit of the CG and the SSFs and worsening the deficit of the ARs and the LGs

AIReF estimates the cost of energy measures at 0.3 points of GDP for 2024

Impact in National Accounting terms	Annual impact		
	2022	2023	2024
Revenue Measures	-4,597	-5,978	-2,428
Revenue Measures (%GDP)	-0.3	-0.4	-0.2
VAT:			
VAT Electricity	-2,343	-2,134	-963
VAT on gas, briquettes and pellets	-213	-292	-40
VAT on foodstuffs from 4% to 0% on basic foodstuffs		-1,765	-882
From 10% to 5% oils and pasta		-380	-190
STs:			
ST Electricity	-2,041	-1,407	-352
Expenditure Measures	17,092	6,531	1,958
Expenditure Measures (%GDP)	1.3	0.4	0.1
Fuel allowance	5,795	1,891	112
Sectoral support	4,386	1,943	330
Electricity tariff deficit	4,158		
Direct support to individuals	121	326	
Other support to individuals	1,952	2,329	1,516
Support to refugees	680	42	
TOTAL	-21,688	-12,509	-4,386
TOTAL (% GDP)	-1.6	-0.9	-0.3
Other			
Tax on the Value of Electricity Production: Suspension	-4,377	-2,606	-746

- AIReF values the cost of the measures in 2024 at €4.39bn, 0.3% of GDP
- This impact is divided between a reduction in revenue (€2.4bn) and an increase in expenditure (€2bn)
- Compared with the previous report, this results in an increase in the deficit of 0.2 points of GDP
- The cost in 2023 has also been revised downwards, by 0.9% of GDP, with the year-end data

The measures in the field of the SSFs offset the structural reduction in revenue associated with the CG and AR measures

Other revenue measures

	2023	2024	2025	2026	2027	2028
Central Government						
Structural revenue measures	-973	-2,191	-1,986	-1,960	-1,934	-1,908
Temporary revenue measures	4,264	5,128	3,786	-488	-488	-488
CG Measures	3,291	2,937	1,800	-2,448	-2,422	-2,396
% GDP	0.2	0.2	0.1	-0.1	-0.1	-0.1
Social Security Funds						
Intergenerational Equity Mechanism	2,930	3,622	4,311	5,013	5,785	6,601
Evolution of Maximum Contribution Bases	800	1,205	1,486	1,771	1,832	1,981
Solidarity contribution			364	462	563	667
Measures of the SSFs	3,730	4,827	6,162	7,246	8,180	9,249
% GDP	0.3	0.3	0.4	0.4	0.5	0.5
ARs						
Personal Income Tax, IGT, Property Transfer Tax/Stamp Duty, Wealth Tax	-2,275	-2,880	-2,781	-2,621	-2,621	-2,621
% GDP	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
TOTAL (€M)	4,746	4,884	5,181	2,177	3,137	4,232
TOTAL (% GDP)	0.3	0.3	0.3	0.1	0.2	0.2

- Period 2023-2025: temporary measures offset the cost of structural measures
- Period 2026-2028: structural measures have a cost of 0.1 points of GDP, incorporating the reduction in Personal Income Tax (PIT) withholdings

- The IEM rate rises over the projection period, providing an additional 0.05 points of revenue each year
- The increase in the maximum contribution bases brings an additional €400m each year
- The solidarity contribution, which enters into force in 2025, adds an additional €100m per annum

- The measures approved by the ARs reduce their revenue by about 0.2 points per annum

The new information and the impact of the new macroeconomic outlook affect the deficit in the opposite direction

New information -0.1% of GDP

Central Government (+0.3% GDP)

- Part of the reduction in CG expenditure in 2023 does not carry over to 2024:
 - Court rulings. Reduced level in 2023 that rises again in 2024 according to rulings already handed down (PIT and CIT)
 - Military investment is expected to rise in 2024 following the drop seen at year-end 2023

Territorial authorities (-0.4% GDP)

- The year-end 2023 data for the territorial authorities, worse than forecast mainly as a result of higher expenditure, is almost fully carried over to future years, thus worsening their fiscal position in 2024 and in the medium term
- In addition, the 2024 revenue of the financing system notified in December to the ARs under the ordinary regime were lower than estimated in October

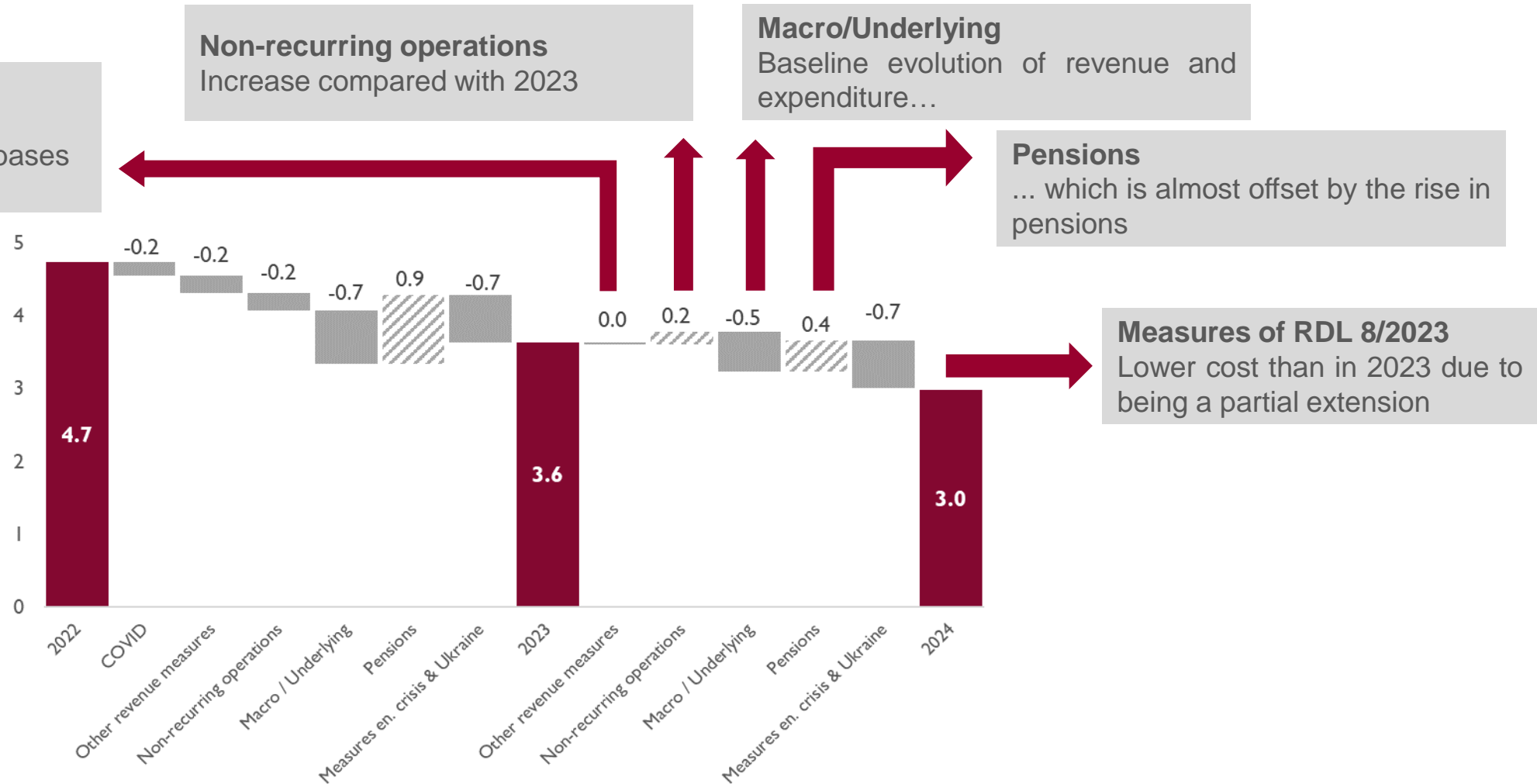
Effect of new economic outlook +0.3% of GDP

- The improvement in the macroeconomic scenario reduces the deficit by 0.3 points, mainly due to the dynamism of the labour market

The reduction in the deficit in 2024 is mainly based on the withdrawal of measures to combat the energy and price crisis

Revenue measures:

- IEM
- Maximum contribution bases
- PIT (CG and ARs)



AIReF reduces its estimate of revenue by almost 0.3 points, both due to the approval of new measures and to the denominator effect

	Report on Main Lines
REVENUE	42.7
TAXES	25.2
<i>On production</i>	12.0
<i>On income</i>	12.8
<i>Capital</i>	0.4
CONTRIBUTIONS:	13.6
Other revenue	3.9

Measures:
-0.2% of GDP

- Measures in response to the energy crisis RDL 8/2022

New information:
Without effect

- Some items offset others

Macro effect:
-0.1% of GDP

- Denominator effect (-0.3% GDP)
- Increase in taxes on income (+0.2%)

	Current
REVENUE	42.5
TAXES	24.9
<i>On production</i>	11.6
<i>On income</i>	12.9
<i>Capital</i>	0.4
CONTRIBUTIONS:	13.6
Other revenue	4.0

The improvement in the macroeconomic environment, mainly observed in the evolution of taxes on income and social contributions, raises revenue in nominal terms and offsets the cost of the measures. However, the increase in nominal GDP reduces the weight of revenue by 0.3 points.

AIReF expect revenue to grow in the medium-term, except for a small reduction in 2026, until it reaches 43% in 2028

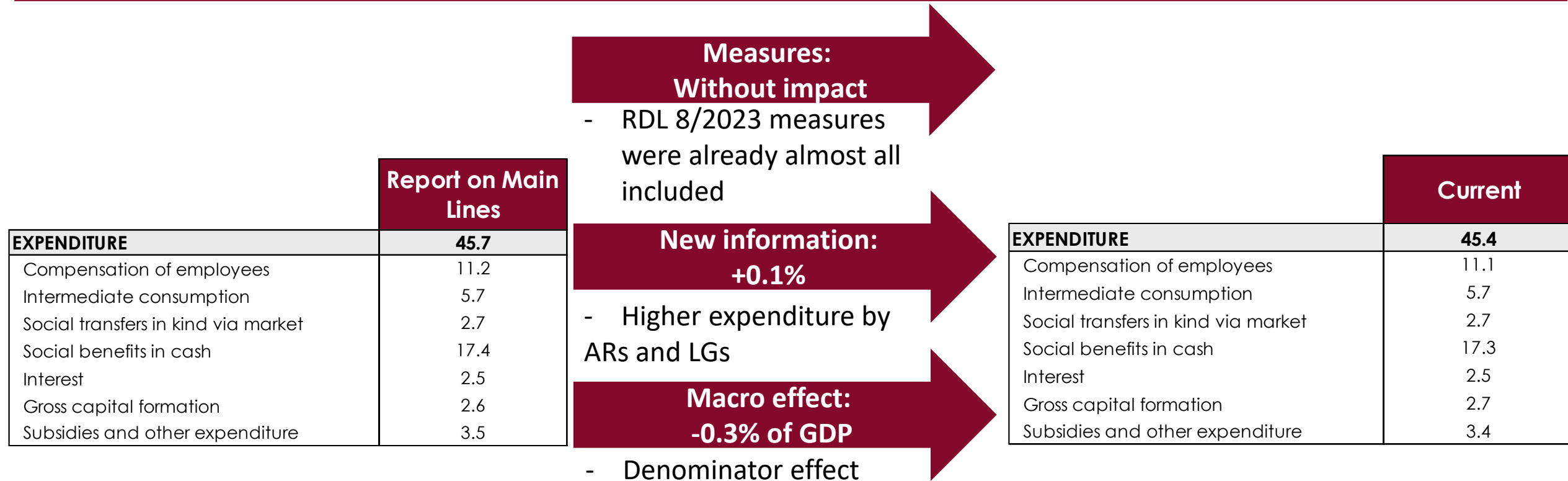
EVOLUTION GG REVENUE (% GDP). WITHOUT RTRP

	AIReF Current				
	2024	2025	2026	2027	2028
REVENUE	42.5	42.6	42.5	42.7	43.0
TAXES	24.9	25.0	24.9	25.0	25.2
<i>On production</i>	11.6	11.7	11.5	11.4	11.4
<i>On income</i>	12.9	13.0	13.0	13.2	13.5
<i>Capital</i>	0.4	0.4	0.4	0.4	0.3
CONTRIBUTIONS:	13.6	13.6	13.6	13.6	13.7
Other revenue	4.0	4.0	4.0	4.0	4.0

Source: AIReF

- **Taxes on production:** AIReF expects a slight increase in 2025 after the withdrawal of measures, to then fall for over rest of the period
- **Taxes on income:** after stagnation in 2026 due to the withdrawal of measures, their weight over GDP is expected to grow
- **Contributions:** a slight increase in their weight over GDP is expected due to the dynamism of the labour market and the measures
- **Other revenue:** return to pre-pandemic weight

AIReF reduces its estimate of expenditure by 0.3 points, mainly due to the denominator effect



- The new information from the year-end 2023 data and new measures at the regional level raise expenditure in nominal terms because the increase in territorial expenditure is greater than the reduction in CG expenditure.
- The denominator effect pushes expenditure down

AIReF estimates that expenditure will grow over the medium-term, driven by interest expenditure, cash benefits and investment

EVOLUTION OF GG EXPENDITURE (% GDP). WITHOUT RTRP

	2024	2025	2026	2027	2028
EXPENDITURE	45.4	45.5	45.6	45.9	46.2
Compensation of employees	11.1	11.0	11.0	11.0	11.0
Intermediate consumption	5.7	5.6	5.6	5.7	5.6
Social transfers in kind via market	2.7	2.7	2.7	2.7	2.7
Social benefits in cash	17.3	17.5	17.5	17.7	17.7
Interest	2.5	2.6	2.7	2.8	3.0
Gross capital formation	2.7	2.7	2.8	2.8	2.9
Subsidies and other expenditure	3.4	3.3	3.2	3.2	3.2

Source: AIReF

- **Public consumption:** slight reduction in the weight of public consumption in the medium term
- **Cash transfers:** pension expenditure pushes the weight of this heading upwards, partially offset by the reduction in unemployment expenditure
- **Interest:** the evolution of rates means that this expenditure will rise in the medium term, albeit to a lesser extent than in the previous report
- **Gross capital formation:** the weight of military investment is expected to rise in the medium term
- **Subsidies and other expenditure:** after the removal of the measures, the weight of this aggregate falls

According to the European expenditure rule, primary expenditure net of revenue measures of the GG as a whole will grow on average by 3.8% per annum between 2024 and 2028

AIReF forecasts an improvement in the balance of the CG and a worsening of the territorial authorities with respect to the previous report

BALANCE BY SUB-SECTOR (% GDP)

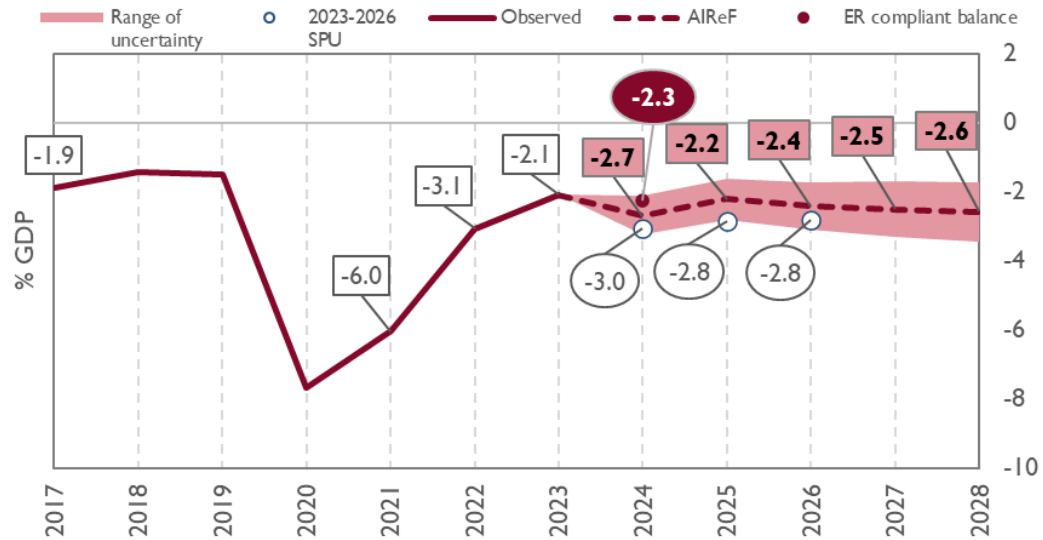
	AIReF current					AIReF October 2023				
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028
GG	-3.0	-2.9	-3.1	-3.2	-3.2	-3.0	-3.2	-3.2	-3.2	-3.2
CG	-2.7	-2.2	-2.4	-2.5	-2.6	-3.1	-2.8	-2.8	-2.9	-2.9
SSFs	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
ARs	-0.1	-0.3	-0.3	-0.2	-0.2	0.2	0.0	-0.1	-0.1	-0.1
LGs	0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1

Source: AIReF

- **CG:** the CG reduces its deficit compared with the previous report due to the year-end 2023 data and the downward revision of the interest forecast
- **SSFs:** the increase in pension expenditure is offset by the dynamism of contributions and the increase in transfers for improper expenditure
- **ARs:** the balance of the ARs deteriorates in the medium term after worse than expected year-end 2023 data, stabilising at a deficit of around 0.2 points
- **LGs:** the LGs will remain at equilibrium in the medium term in contrast with the previously expected surplus after the deficit recorded in 2023

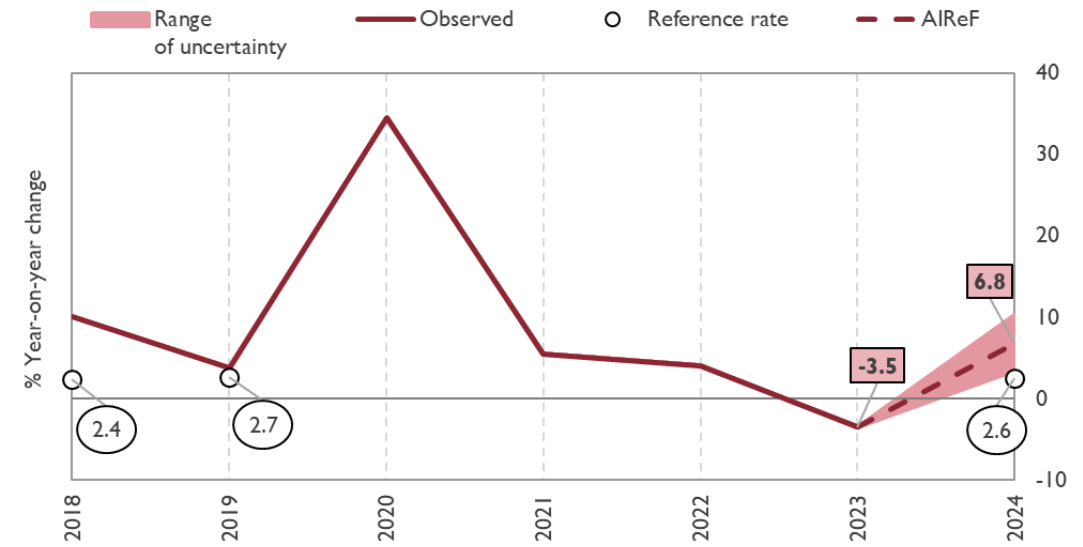
CG: The deficit will fall in 2025 and thereafter stabilise at around 2.5% of GDP

CENTRAL GOVERNMENT BALANCE (% GDP)



Source: AIReF

CG ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE (% CHANGE)



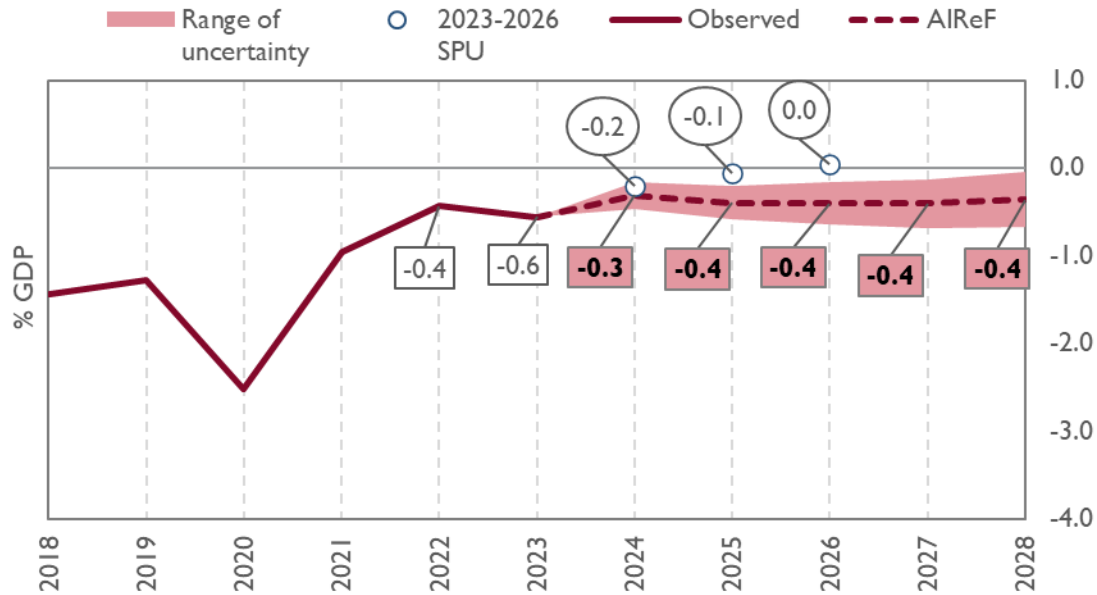
Source: AIReF

- The CG has a deficit path linked to the evolution of the measures, the settlements of the territorial financing systems, the non-recurring operations and the increase in defence and interest expenditure
- The CG will increase its eligible expenditure for the purposes of the expenditure rule by 6.8% in 2024, above the national reference rate of 2.6%
- If the CG complied with the national expenditure rule, the deficit would be fall to 2.3% in 2024

The CG's primary expenditure net of revenue measures will grow by 3.7% per annum on average between 2024 and 2028

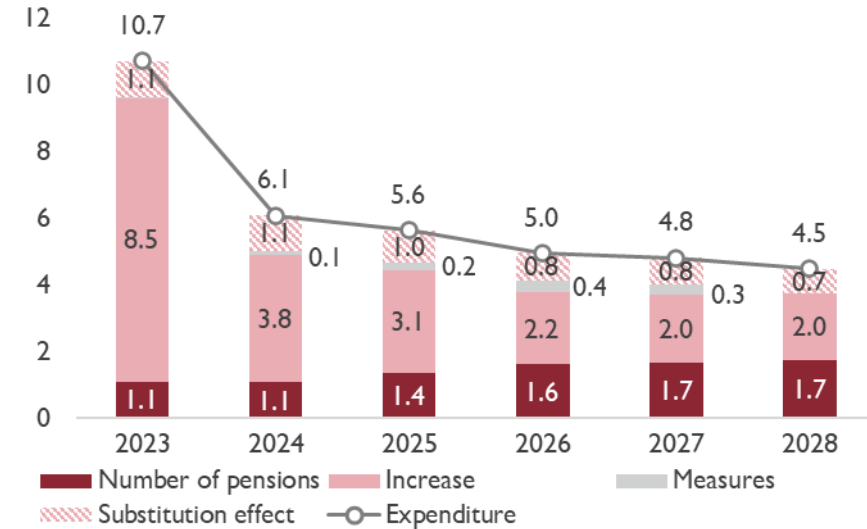
SSFs: their deficit would stabilise at 0.4% in the medium-term

SOCIAL SECURITY FUNDS BALANCE (% GDP)



Source: AIReF

PENSION EXPENDITURE (% CHANGE)

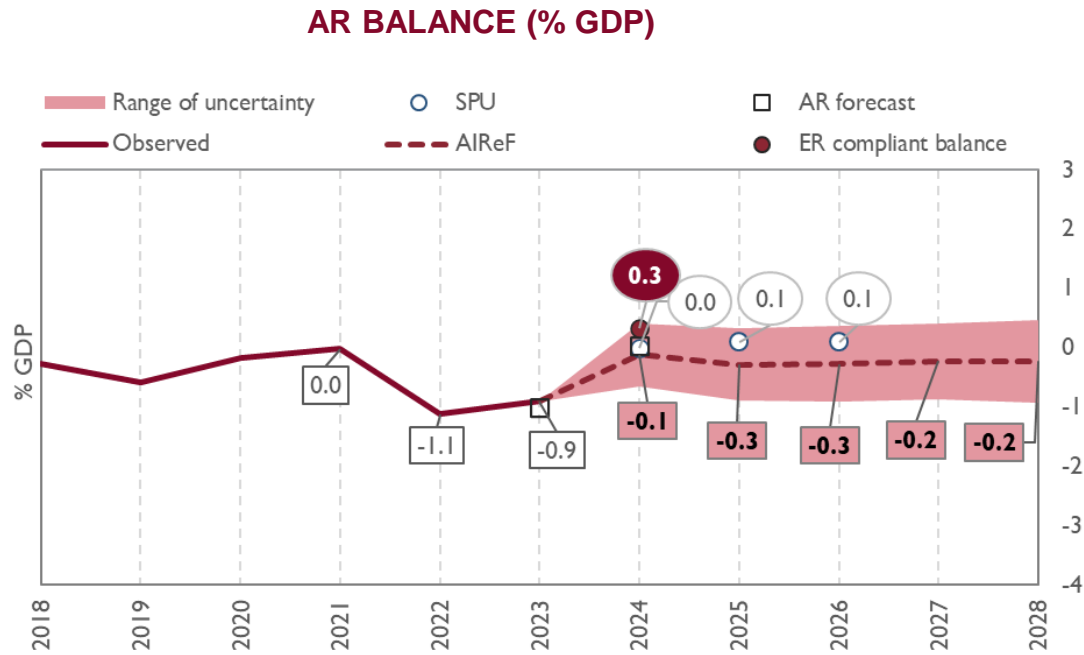


Source: AIReF

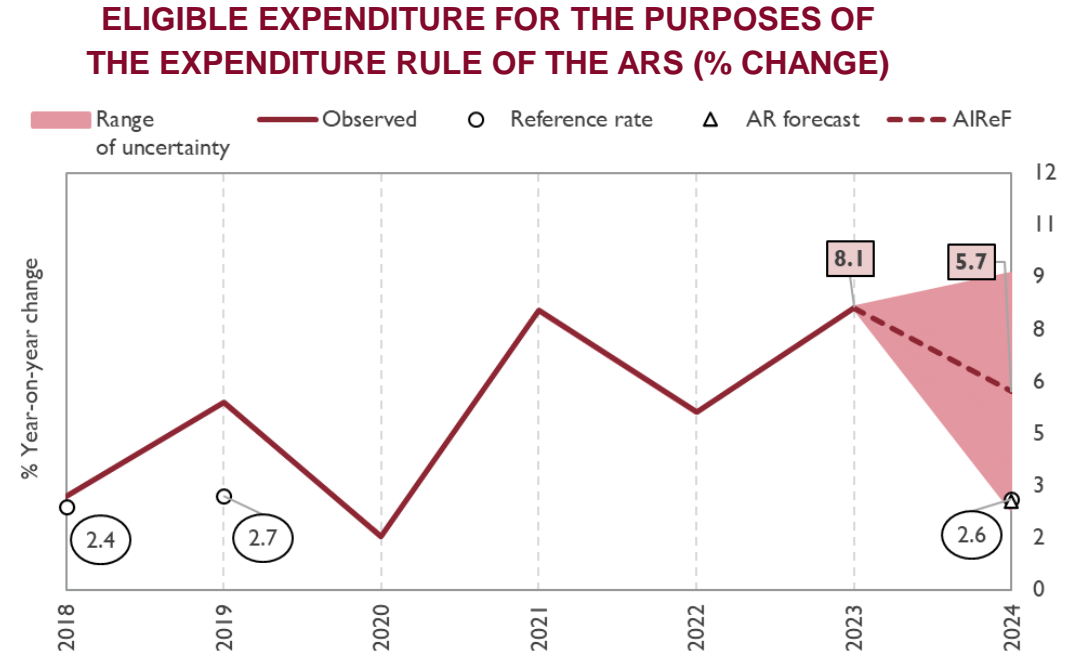
- Pension expenditure continues to grow at high rates, but is offset by the dynamism of contributions and the CG measures and transfers

The SSFs' primary expenditure net of revenue measures will grow by 3.9% per annum on average between 2024 and 2028

ARs: their balance deteriorates after an improvement in 2024, stabilising at around 0.2% of GDP



Source: AIReF



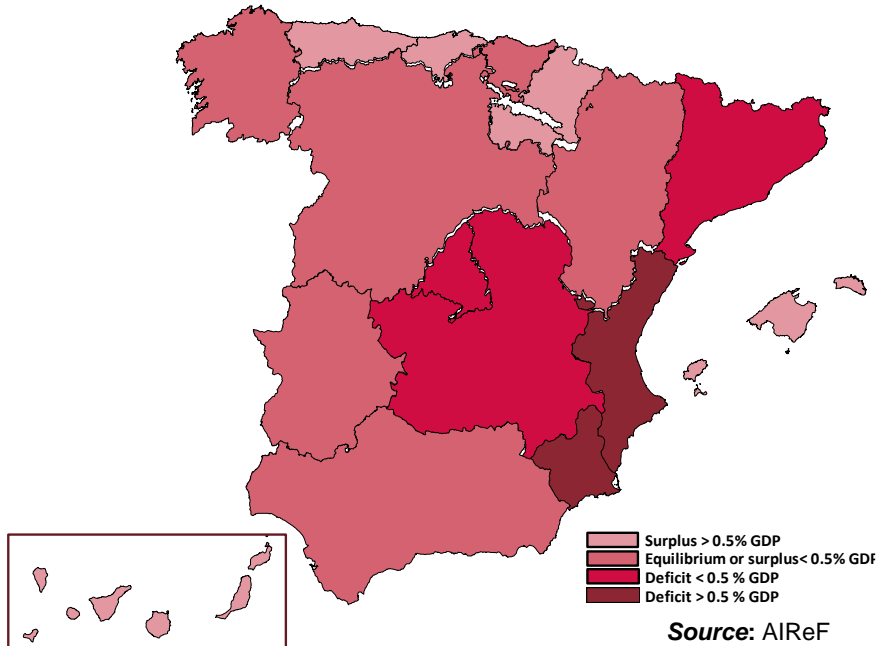
Source: AIReF

- The deficit of the ARs will stabilise at around 0.2% of GDP in the medium-term, following the extraordinary settlement of the RFS in 2024
- AIReF forecasts that the ARs will increase their eligible expenditure for the purposes of the expenditure rule by 5.7% in 2024, above the national reference rate
- If the ARs complied with the national expenditure rule, they would reach a surplus of 0.3% of GDP

The ARs' primary expenditure net of revenue measures will grow by 3.7% per annum on average between 2024 and 2028

ARs: most will close 2024 with a surplus or balance close to equilibrium

AR BALANCE (% GDP)



NATIONAL EXPENDITURE RULE GROWTH (% CHANGE)

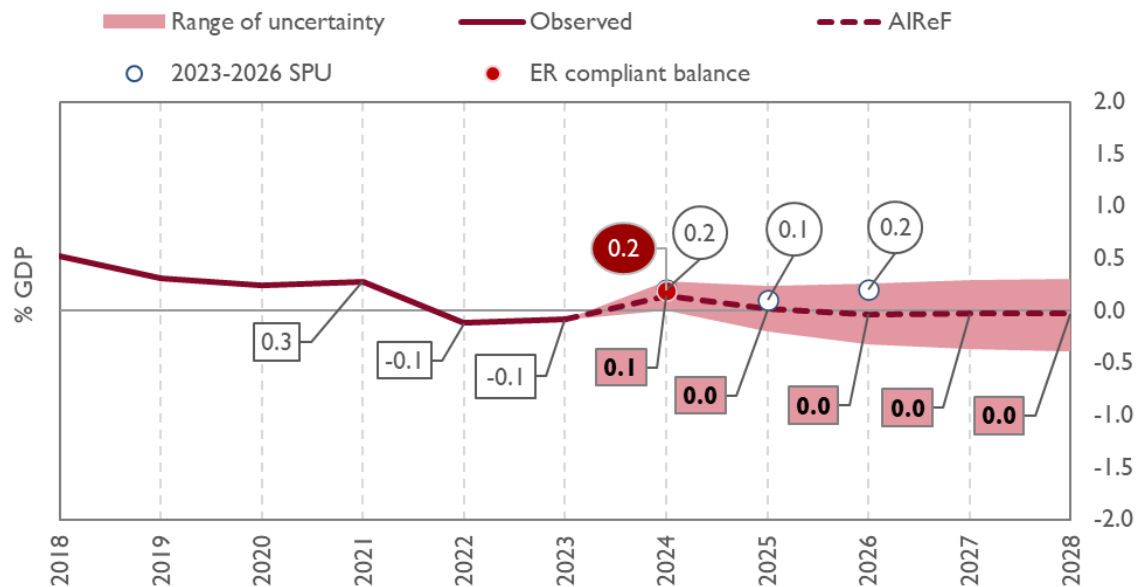
ARs	AIReF forecast
ANDALUCÍA	5,1%
ARAGÓN	5,3%
ASTURIAS	7,9%
BALEARES	8,2%
CANARIAS	8,5%
CANTABRIA	7,9%
CASTILLA Y LEÓN	5,5%
CASTILLA - LA MANCHA	5,9%
CATALUÑA	4,8%
EXTREMADURA	9,0%
GALICIA	8,1%
COMUNIDAD DE MADRID	4,5%
REGIÓN DE MURCIA	8,0%
CF DE NAVARRA	8,5%
PAÍS VASCO	4,4%
LA RIOJA	7,3%
COMUNITAT VALENCIANA	5,9%
TOTAL	5,7%

Source: AIReF

- After the settlement of the system's revenue received in 2024, the balance will deteriorate in all the ARs under the ordinary regime
- AIReF notes a risk of non-compliance with the expenditure rule in all the ARs
- AIReF also updates the medium-term forecasts in the individual reports of the ARs

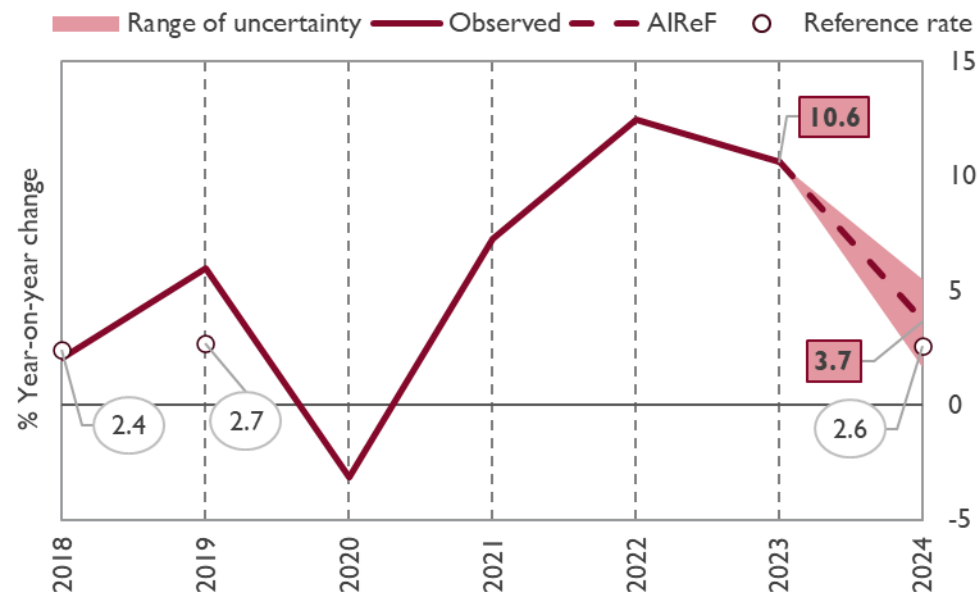
LGs: expected to reach equilibrium in the medium term

LG BALANCE (% GDP)



Source: AIReF

NATIONAL EXPENDITURE RULE GROWTH IN LGS (% CHANGE)



Source: AIReF

- Following year-end 2023, the LGs will reach equilibrium in the medium term
- Eligible expenditure for the purposes of the national expenditure rule will grow by 3.7% in 2024

The LGs' primary expenditure net of revenue measures of the will grow by 3.7% per annum on average between 2024 and 2028

LGs: in 2024 AIReF forecasts that all large LGs will obtain a surplus

LOCAL GOVERNMENTS	EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023)						AIReF Forecasts 2024			
	Budgetary stability				Eligible expenditure		Stability	Eligible expenditure	Debt ratio	
	2020	2021	2022	2023	Growth 2020-2022 (*)	2023				
MADRID	+	+	-	+	32%	7%	+	5.8%	36%	
BARCELONA	-	-	-	-	28%	-1%	+	0.8%	34%	
VALENCIA	+	+	+	+	21%	13%	+	9.2%	18%	
SEVILLE	-	+	+	+	10%	8%	+	0.7%	24%	
ZARAGOZA	-	+	+	+	19%	9%	+	1.8%	66%	
MÁLAGA	+	+	+	+	20%	2%	+	-5.9%	49%	
MURCIA	+	+	-	-	12%	8%	+	-7.4%	58%	
PALMA	+	+	+	+	24%	2%	+	17.4%	33%	
LAS PALMAS DE GRAN CANARIA	+	+	-	+	13%	11%	+	17.2%	2%	
BILBAO	-	+	+	-	6%	6%	+	2.4%	5%	
ALICANTE/ALICANTE	+	+	+	+	21%	13%	+	8.0%	6%	
CÓRDOBA	+	-	+	-	23%	20%	+	-1.8%	43%	
VALLADOLID	-	+	-	-	26%	7%	+	-0.8%	39%	
VIGO	+	+	+	+	16%	5%	+	2.6%	1%	
GIJÓN / XIXÓN	-	-	-	+	17%	4%	+	13.4%	28%	
L'HOSPITALET DE LLOBREGAT	-	+	+	+	9%	1%	+	0.6%	27%	
VITORIA-GASTEIZ	-	+	+	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
PC BARCELONA	+	+	+	+	0%	27%	+	11.1%	1%	
PC VALENCIA	+	+	+	+	31%	18%	+	-10.9%	11%	

Source: AIReF

LOCAL GOVERNMENTS	EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023)						AIReF Forecasts 2024			
	Budgetary stability				Eligible expenditure		Stability	Eligible expenditure	Debt ratio	
	2020	2021	2022	2023	Growth 2020-2022 (*)	2023				
PC SEVILLE	+	-	-	+	129%	-12%	+	8.7%	1%	
ISLAND GOV. OF TENERIFE	+	+	-	+	76%	25%	+	7.8%	9%	
ISLAND GOV. OF MALLORCA	+	+	+	+	38%	19%	+	2.1%	15%	
PROV. COUNCIL OF ARABA/ÁLAVA	-	+	-	+	11%	8%	+	5.7%	59%	
PROVINCIAL COUNCIL OF GIPUZKOA	-	+	+	+	14%	29%	+	1.1%	25%	
PROVINCIAL COUNCIL OF BISCAY	-	+	+	-	26%	21%	+	-11.8%	72%	

+ Surplus or forecast surplus
 - Deficit or forecast deficit
 Note: The background colours in the debt column represent the tranche of the debt ratio: green if <75%, yellow if between 75% and 110% and red if >110%.
 (*) Cumulative growth of eligible expenditure from the level verified in the 2019 settlement.
 Worsens: from surplus in Report on Main Budgetary Lines 2024 to deficit
 Improves: from deficit in Report on Main Budgetary Lines 2024 to surplus

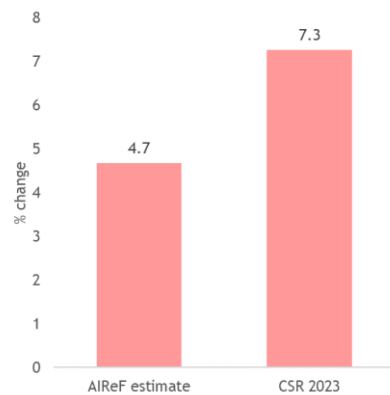
Source: AIReF

- Ten LGs present risks of non-compliance with the national expenditure rule in 2024
- All the LGs analysed have debt below the 75% limit and some have an asset financial position (more savings than debt)

The Specific Recommendation on fiscal matters addressed to Spain would be breached in 2024 according to current forecasts

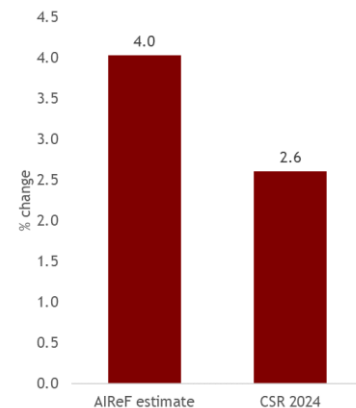
- In 2023, the CSR recommends that Spain limit the increase in nationally-financed current primary expenditure below medium-term potential growth. This recommendation has been met
- In turn, the CSR for 2024 recommends that the increase in nationally-financed primary expenditure net of revenue measures should not exceed 2.6% this year
- For the GG as a whole, AIReF forecasts growth in primary expenditure net of revenue measures of 4% this year, which means non-compliance with the recommendation by a margin of 0.6 points of GDP
- In addition, it is recommended that Spain preserve nationally-financed public investment, an aspect that would be met since its weight over GDP will remain practically unchanged
- After a contractionary tone in 2023, the fiscal policy stance will be expansive in 2024, due, on the one hand, to the boost of the RTRP and, on the other hand, to the weak containment of net primary expenditure associated with non-compliance with the CSR. In contrast, a CSR compliance scenario in 2024 would be consistent with a neutral fiscal policy stance

PRIMARY CURRENT EXPENDITURE NET OF REVENUE MEASURES, 2023

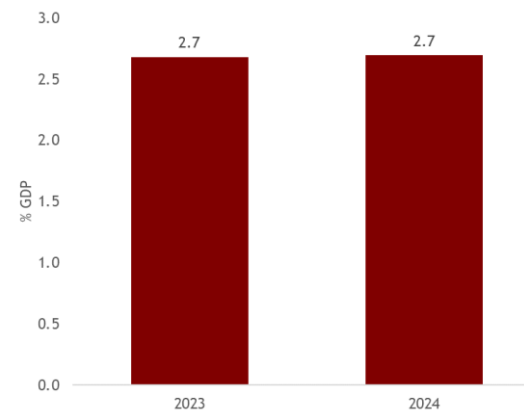


Source: AIReF

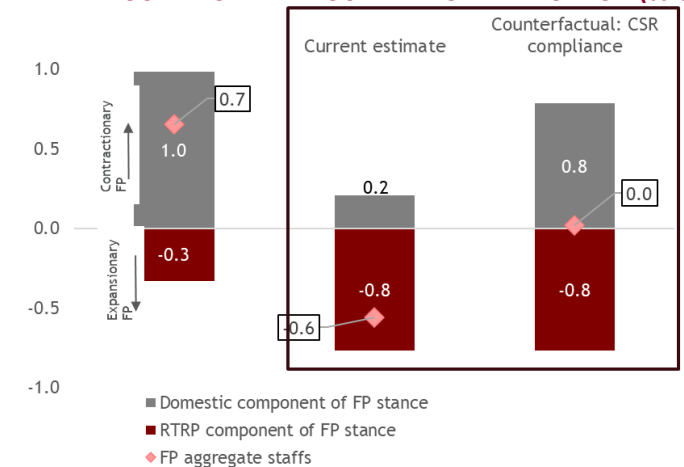
PRIMARY EXPENDITURE NET OF REVENUE MEASURES, 2024



nationally-financed GG INVESTMENT



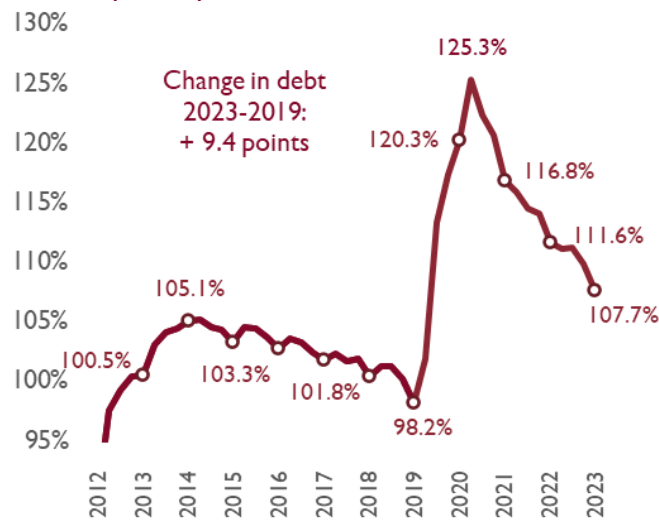
DISCRETIONARY FISCAL EFFORT INDICATOR (% GDP)



After a significant reduction in the last three years, AIReF projects a stabilisation of the debt ratio in the medium term

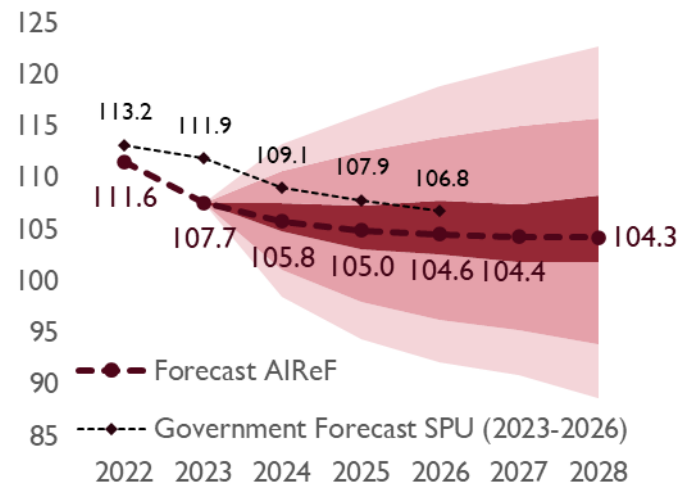
- The Spanish debt-to-GDP ratio stood at 107.7% at the end of 2023, a reduction of 4 points over the year, mainly as a result of a high contribution from the GDP deflator.
- Compared with 2019, the increase is 9.4 points
- AIReF's macro-fiscal forecasts project a reduction in the debt ratio of 1.8 points of GDP this year

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

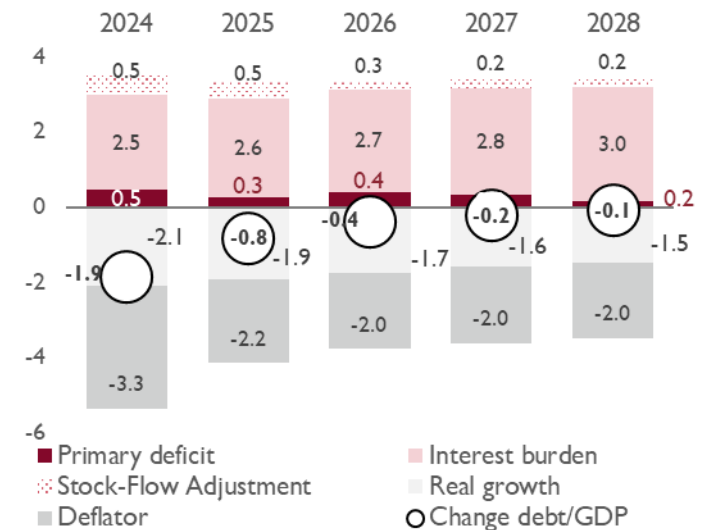


Source: Bank of Spain

DEBT FORECAST (% GDP) AND CONTRIBUTION TO CHANGE



Source: AIReF

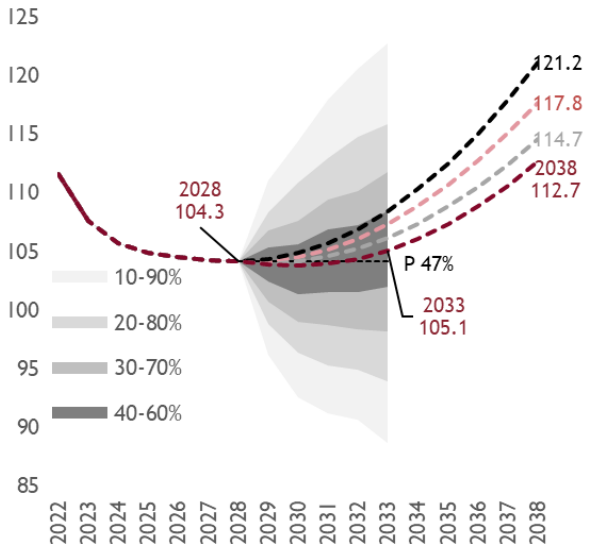


Beyond 2024, when the significant contribution of nominal growth disappears, a slowdown in the pace of reduction of the debt ratio is projected, with it stabilising at around 105% of GDP

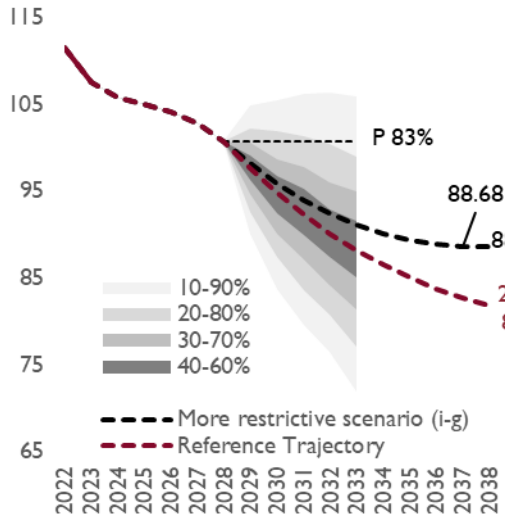
In the medium and long term, AIReF projects an unfavourable evolution of the debt-to-GDP ratio

- In its long-term baseline scenario, AIReF projects an increasing debt ratio following an initial period of a certain level of stabilisation, thus making it necessary to design a medium-term plan that will guide the public accounts towards a situation of balance
- According to AIReF's calculations, the fiscal path that would comply with the guidance contained in the new fiscal framework agreement would require taking measures during the period 2025-2028 amounting to 0.63 points per annum, thus fulfilling the requirement of plausible debt reduction in the most demanding scenario
- Extending the adjustment plan to seven years would reduce the annual adjustment by 0.2 points to 0.43 points of GDP

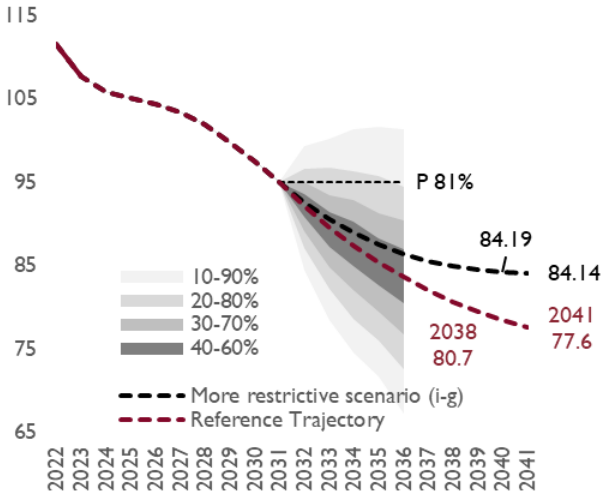
BASELINE PROJECTION OF DEBT (% GDP), UNCERTAINTY BANDS AND SCENARIOS



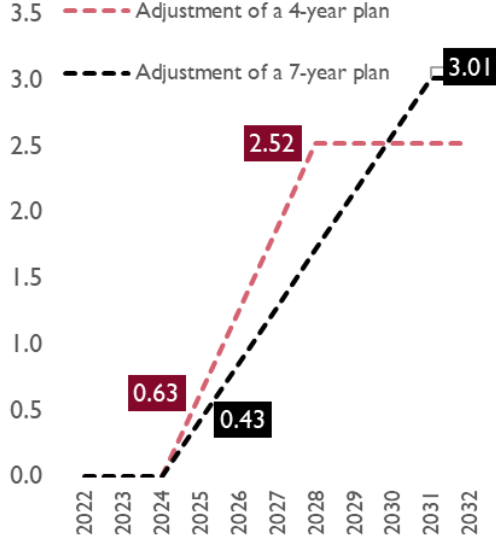
REFERENCE TRAJECTORY, UNCERTAINTY BANDS AND MOST RESTRICTIVE SCENARIO
4-YEAR ADJUSTMENT PLAN



7-YEAR ADJUSTMENT PLAN



CUMULATIVE ADJUSTMENT AT 4 AND 7 YEARS



Source: AIReF





José Abascal, 2-4, 2.ª planta

28003 Madrid

+34 910 100 599

info@airef.es

www.airef.es



[Autoridad Independiente de Responsabilidad Fiscal \(AIReF\)](#)



[@AIReF_es](#)