# REPORT ON THE INITIAL BUDGETS OF THE GENERAL GOVERNMENT FOR 2024

REPORT 2/24

April 11th, 2024

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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# EXECUTIVE SUMMARY

The Independent Authority for Fiscal Responsibility (AIReF) has the legal mandate to assess the initial budgets of the General Government (GG) from the perspective of their compliance with fiscal targets, focusing its assessment, as laid down by its organic law, on the main changes with respect to the draft budgets and main budgetary lines, for which a report was issued on October 26th, 2023. 2024 is a critical year insofar as it marks the return to fiscal rules after four years of suspension, as well as the transition to the implementation of the now agreed new European fiscal framework, which will also lead to a reform of the national fiscal framework.

In this report, AIReF updates its macroeconomic and fiscal forecasts up to 2028, incorporating the impact of the measures approved or extended since the last report, as well as the latest data available. In this context, AIReF presents a new macroeconomic scenario that raises the forecasts for real growth in gross domestic product (GDP) for 2024 to 2%, while in the medium term the forecast gradually converges to the potential growth of the economy.

AIReF maintains the deficit forecast for the GG as a whole in its central scenario at 3% of GDP for 2024. The cost of the measures taken or extended since the previous report - 0.2 points of GDP - is offset by the upward revision of the macroeconomic forecasts. The revision of the medium-term forecasts confirms the stabilisation of the deficit above 3% in the absence of additional measures.

This year is also set to be the starting point for the medium-term fiscal strategy that will have to be set out in the medium-term fiscal-structural plan that Spain will have to submit in September. In this regard, the European institutions addressed a specific quantitative recommendation to Spain aimed at restricting the growth in primary expenditure net of revenue measures in 2024 to 2.6%. According to AIReF's estimates, growth will stand at 4%, which is a breach of the recommendation, placing net expenditure at 0.6 points of GDP higher than the level that would ensure compliance with the recommendation. Under AIReF's revenue scenario, compliance with the recommendation would require reaching a deficit figure in 2024 of 2.4% instead of the 3% currently forecast by AIReF, i.e. a reduction in the deficit of 1.2 points of GDP with respect to the deficit recorded in 2023.

Until the new European fiscal framework is transposed into the national legal system, national fiscal rules are once again in force in their current configuration in 2024. On the one hand, the budgetary stability and public debt targets proposed by the Government were rejected by the Senate. On the other hand, the publication of the Report on the Situation of the Spanish Economy has shown that the reference rate of the national expenditure rule stands at 2.6% for 2024, which is mandatory according to the regulations in force for the Central Government, the Autonomous Regions (ARs) and the Local Governments (LGs).

AIReF considers that there is a risk of non-compliance with the national expenditure rule in 2024 by the Central Government, all the ARs and ten of the LGs subject to individual monitoring by AIReF. Furthermore, non-compliance with the national expenditure rule also compromises compliance with the Council's specific recommendation for Spain. Beyond the legal consequences that might arise from the formal breach of the current national fiscal framework or the specific recommendation, high growth in eligible expenditure in 2024 will result in a deterioration of public finances in the medium term in a context of high public debt, which would also increase the adjustment required by the new European fiscal framework.

Consequently, AIReF recommends that these GG authorities monitor the execution of their budget 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.

In addition, this year is critical as a starting point for determining the path of primary expenditure net of revenue measures that Spanish GG authorities will be required to follow after the approval of the medium-term fiscal-structural plan. This plan should be drawn up over the summer on the basis of the reference trajectory that the European Commission will provide in June and will now mark the process of drawing up the budgets for 2025, taking as a starting point the year-end 2024 forecast.

In this regard and in line with previous recommendations and the provisions contained in the new European fiscal framework on the preparation of these plans, AIReF recommends that the Ministry of Finance initiate dialogue and work with all GG authorities on the drafting of this medium-term fiscal-structural plan. This should be done both at a bilateral level with the ARs and through the existing multilateral mechanisms for coordinating economic policy, such as the National Commission for Local Administrations and 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.

## Revision of the macroeconomic scenario for 2023

AIReF revises the growth forecast for 2024 to 2%. From that year on, in its medium-term scenario, it considers that real GDP growth will gradually converge to the long-term potential, which AIReF still estimates at around 1.3%.

In 2023, employment growth driven, among other causes, by the influx of the foreign population, has favoured an expansion in consumption above the figure previously estimated in AIReF's scenarios. Public consumption also rose by more than expected by AIReF and by the Government itself. For its part, tourism income has far surpassed pre-pandemic levels, which may be partly due to geopolitical instability in competing destination markets. In addition, exports of some business services remain notably buoyant, with exports growing in 2023 in line with AIReF's expectations. In the opposite direction, gross capital formation remained very moderate and grew well below the levels expected by AIReF and the Government.

The current weakness in investment is one of the most remarkable features of the recent growth pattern of the Spanish economy, particularly in a context in which some projects linked to the Recovery, Transformation and Resilience Plan are materialising. In addition, this scant progress in the degree of capitalisation of the economy (or even fall compared with 2019 if the depreciation of installed capital is taken into account) has been accompanied by a stagnation in productivity, which, following the ups and downs associated with the pandemic, maintains a level somewhat lower than that recorded in 2015.

In this context, AIReF forecasts that the economy will maintain significant growth of 2% in 2024, supported by the dynamism of private consumption and by an expansion of investment conditional on the rollout of investments associated with the RTRP. This GDP growth far exceeds the 0.6% expected by the ECB for the euro area as a whole.

From 2024 on, AIReF considers a scenario of gradual convergence towards long-term potential growth, which is still estimated at around 1.3%.

As regards prices, energy inflation is falling faster than expected in a context of a correction of the prices of these raw materials in international markets and, in particular, of gas prices, which have recovered levels similar to those recorded in mid-2021, before the start of the hike in prices. In contrast, some tourism-related services maintain high rates against a backdrop of expanding demand. In this regard, AIReF has revised the growth of the CPI expected for 2024 downwards to 3.1%, compared with the 4% expected in the autumn of 2023. In contrast, it maintains the expected growth of the GDP deflator at 3.2% in 2024, as this indicator reflects domestic price pressures to a greater extent. For the following years, a gradual convergence to 2% - the monetary policy benchmark rate - is expected.

As a result of the foregoing, nominal GDP growth is revised slightly upwards, to 5.2% in 2024, compared with the previous figure of 5%. In the following years, the nominal growth expected by AIReF stands at 4.1% in 2025, 3.7% in 2026, 3.6% in 2027 and 3.4% in 2028. In turn, the unemployment rate is expected to fall to 11.6% in 2024, from the 12.1% recorded in 2023, with progressive containment projected for it to stand at 10.3% in 2028.

## Budgetary scenario of the GG

For its central scenario, AIReF estimates a GG deficit of 3% of GDP in 2024, in line with the Government's forecasts. In the medium term, AIReF expects the deficit to stabilise, in the absence of additional measures, at around 3.2% of GDP, in line with the previous report.

Before the end of the year, by means of Royal Decree-Law 8/2023, the Government partially extended the existing measures and approved additional measures for 2024 with an estimated cost of around 0.3 points of GDP. AIReF's fiscal scenario in its previous report already included 0.1 points of this cost. This in turn delays the full phasing out of the measures to mitigate the effects of the energy price crisis until 2025. In addition, some Autonomous Regions have approved additional tax reductions that are almost entirely permanent in nature.

The Central Government finally decided not to present the draft General State Budget for 2024 and therefore the budget extension will be maintained throughout the year. However, the Government has expressed its intention to incorporate certain elements of the budget policy, such as the salary increase of public employees, through different legislative instruments. As a result, the confirmation of the budget extension does not result in significant changes on the previous forecast.

The changes in the macroeconomic scenario reduce the deficit by 0.3 points in 2024 due to improved tax collection and lower expected spending on unemployment benefits. In relation to revenue, there is a noteworthy increase in the forecast for compensation of employees, which raises the forecast for the collection of Personal Income Tax (PIT) and social contributions. In addition, improved labour market forecasts also imply lower growth in spending on unemployment benefits.

Finally, the incorporation of the latest information available, mainly the year-end 2023 data, results in significant changes at the level of GG authorities and headings, which in aggregate amount to an increase in the GG deficit as a whole of 0.1 points of GDP. On the one hand, the higher spending than expected by AIReF carried out by the regional and local authorities in 2023 is carried over to 2024 and the following years, thus worsening their medium-term fiscal position. On the other hand, part of the lower Central Government expenditure in 2023 has no impact on the 2024 forecast. This is the case of capital transfers associated with court rulings, whose amount in 2023 was lower than in previous years, but which in 2024 will rise again due to the recording of court rulings already handed down. Along the same lines, the fall in military investment in 2023 is deemed to be of a one-off nature. It is expected to rise again in 2024 bearing in mind the budgetary execution recorded in 2023 and the political commitment to raise military spending.

As a result of the above, the deficit in 2024 will fall by 0.6 points of GDP compared with 2023. The phasing out of the measures implemented to mitigate the effects of the energy and price crisis in 2024 will result in a reduction in the deficit of around 0.7 points. The underlying trend in other expenditure and revenue results in a reduction in the deficit of over 0.1 points of GDP, which is cancelled out by the increase in non-recurring expenditure linked to court rulings. In contrast, the rest of the revenue measures have a practically neutral impact on the deficit of 0.1 points, since the negative impact of the measures approved in the Central Government (CG) and the Autonomous Regions (ARs) offset the positive impact of those approved in the field of Social Security.

**EVOLUTION OF GENERAL GOVERNMENT BALANCE**

| | AIReF current | | | | | AIReF October 2023 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2024 | 2025 | 2026 | 2027 | 2028 |
| **GG** | **-3** | **-2.9** | **-3.1** | **-3.2** | **-3.2** | **-3** | **-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 | -0.1 | -0.1 | -0.1 |
| **LGs** | 0.1 | 0 | 0 | 0 | 0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |

AIReF forecasts that revenue will grow by 6.2% in 2024, to stand at 42.5% of GDP, 43.9% if RTRP revenue is included. This level would be 0.2 points of GDP lower than that forecast in the previous report. Part of this reduction - 0.3 points - is due to the higher expected level of nominal GDP for 2024. The partial extension of the temporary tax measures in force in 2023 also lowers the revenue forecast by 0.2 points. The new macroeconomic scenario results in higher overall tax collection, which is particularly concentrated in Personal Income Tax (PIT) and social contributions due to the improvement in the forecast of compensation of employees.

In the medium term, AIReF estimates a gradual increase in revenue to reach 43% of GDP in 2028, 0.1 points lower than the figure estimated in the previous report. In the medium term, the improved macroeconomic scenario almost offsets the impact of the higher nominal GDP forecast for 2028.

Expenditure, excluding the RTRP, will stand at 45.4% in 2024 according to AIReF's estimates, also 0.2 points below the forecast in the previous report. As with revenue, the reduction in expenditure as a proportion of GDP is explained by the effect of higher nominal GDP. The improvement in the labour market, incorporated in the new macroeconomic scenario, also reduces the weight of expenditure, while the new information raises the forecast. Including the RTRP, expenditure would stand at 46.9% of GDP in 2024. In the medium term, expenditure will increase its weight over GDP to reach 46.2% in 2028, slightly more than 0.1 points lower than in the previous report.

In the new European fiscal framework, the main supervisory variable becomes primary expenditure net of revenue measures. Accordingly, AIReF has already begun to forecast its evolution in the medium term both at the level of the GG and at the level of the sub-sectors. According to AIReF's estimates, this net expenditure for the GG as a whole will grow at an average rate of 3.8% per annum in its central scenario between 2024 and 2028.

## Central Government

AIReF estimates a deficit of 2.7% of GDP for the Central Government (CG) in 2024, a reduction of 0.4 points on the previous forecast. Regarding the expenditure rule, AIReF now estimates that the growth in eligible expenditure will stand at 6.8%, which is a deviation of over 0.4 points of GDP from the level that would be reached if the 2.6% limit were met. This sharp growth is conditioned, among other factors, by the allocation in 2024 of certain non-recurring operations not recorded in 2023. In addition, the forecast for the recovery of military investment after the one-off fall in 2023 also weighs down on the evolution of eligible expenditure.

The CG deficit will fall in 2025 and will subsequently stabilise at around 2.5% of GDP, once the measures are fully phased out and the flows derived from the settlements of the regional and local financing systems are normalised. Between 2024 and 2028, AIReF forecasts that primary expenditure net of revenue measures will grow on average by 3.7% per annum.

### Social Security Funds

AIReF reduces the estimate for the Social Security Funds' deficit by 0.1 points to 0.3% of GDP in 2024, but it remains at 0.4% of GDP in the medium term. Between 2024 and 2028, AIReF estimates that primary expenditure net of revenue measures will grow by 3.9% per annum, including the impact of revenue measures linked to the pension reform.

### Autonomous Regions

The deficit of the ARs will fall in 2024 to 0.1% of GDP, worsening the forecasts of the previous report by 0.3 points. The improvement in the deficit of the ARs in 2024 compared with year-end 2023 is mainly due to the extraordinary revenue from the settlement of the regional financing system. In addition, interim payments also grew by 8.3%. However, the deficit forecast has increased compared with the previous report, mainly as a result of the year-end 2023 data and the new information on the resources of the financing system forecast for 2024.

AIReF's forecasts for 2024 place the growth of eligible expenditure for the purposes of the expenditure rule at 5.7%, 0.4 points of GDP above the level set by the reference rate of 2.6%. At the individual level, all the ARs are at risk of non-compliance with the expenditure rule.

After the extraordinary settlement received in 2024, from 2025 onwards the balance of the ARs will deteriorate to stabilise at a deficit of around 0.2% of GDP. Between 2024 and 2028, primary expenditure net of revenue measures will grow by 3.7% per annum on average.

### Local Governments

Local Governments (LGs) will improve their balance in 2024 to return to a surplus of 0.1% of GDP, 0.1 points lower than in the previous report. The change in forecasts is mainly due to the year-end 2023 figure, with a deficit of 0.1% compared with the forecast surplus. Similar to the ARs, the change to a surplus is mainly explained by the settlement of the financing system, which goes from a negative impact in 2022 to become positive in 2024. In addition, the compensation for the negative settlement of 2022 that the LGs will receive in 2024 also has a positive impact. According to AIReF's estimates, the eligible expenditure for the purposes of the national expenditure rule in 2024 would grow by around 3.7%, which highlights the risk of non-compliance with this rule for numerous Local Governments at the individual level.

In the medium term, AIReF estimates that the balance of the LGs will stabilise at around equilibrium, and expenditure net of revenue measures will grow at an average annual rate of 3.7% between 2024 and 2028.

## Fiscal policy stance and evaluation of the Specific Recommendations of the European Council on fiscal matters for 2023 and 2024

The 2023 and 2024 Country-Specific Recommendations set quantitative benchmarks for fiscal policy in Spain.

Specifically, in 2023, the European Council recommended to Spain that the increase in nationally-financed current primary expenditure net of revenue measures should not exceed the nominal medium-term potential growth of the economy, which is currently estimated at 7.3%. Given that the net expenditure variable referred to in the recommendation grew by 4.7% last year, Spain would have complied comfortably. In a context of high deflators, this containment of net primary current expenditure would have set a clearly contractionary tone to the domestic component of the fiscal policy stance in 2023, only partially offset by the boost associated with the NGEU funds. For its part, nationally-funded public investment would have contributed neutrally to the aggregate stance last year.

For 2024, the Specific Recommendation for Spain states that the increase in nationally-financed primary expenditure net of revenue measures should not exceed 2.6% in 2024. However, for the GG as a whole, AIReF forecasts 4% growth in this variable in 2024, which means an excess of net primary expenditure with respect to the recommendation limit of 0.6 points of GDP.

Complying with the recommendation would require reaching a deficit figure of 2.4% in 2024 instead of the 3% currently forecast by AIReF. In turn, this would result in a neutral overall fiscal policy stance: the contraction associated with the domestic component would be offset by the boost provided by RTRP funds.

In addition, and in terms of the composition of public finances, it is recommended that Spain maintain nationally-financed public investment in 2024. This aspect of the recommendation would be fulfilled this year since, although there is some containment of the investment dynamism of the GG, in terms of GDP its weight would remain stable.

## Challenges foreseen from a perspective of sustainability of public finances

The reduction of the public deficit together with the growth in activity and much higher than expected inflation have managed to correct approximately two-thirds of the increase in the debt ratio generated in the first year of the pandemic, placing it on a downward path. The update of the macro-fiscal forecasts prepared by AIReF projects a reduction in the debt-to-GDP ratio of 1.8 points this year, placing it at 105.8%. This reduction will be mainly driven by the growth in nominal GDP, where the deflator will make a very significant contribution. This forecast slightly improves the forecast presented by the Government in the Draft Budgetary Plan for 2024 (106.3%), and is in the range of the latest forecasts by the IMF (104.7%) and the European Commission (106.5%).

The new monetary cycle, together the high level of existing debt, places the sustainability of public finances at a highly vulnerable starting point. In its long-term baseline scenario, AIReF projects an increasing debt ratio following an initial period of a certain level of stabilisation. The expected increase in expenditure associated with the ageing of the population is one of the main challenges for the sustainability of public finances in the medium and long term. The moderation in the contribution of nominal growth, which will edge down slightly, together with an upward trend in interest rates that exceeds the reduction in the primary deficit, will end up translating into an unfavourable trend in the debt ratio. The high initial level of debt added to unbalanced public accounts will generate an increased financial burden even in a scenario of containment of the cost of servicing debt.

The creation of a fiscal space that will make it possible to address future shocks, such as those that have occurred in recent years, requires the design of a medium-term plan that will guide public accounts towards a situation of equilibrium. In this regard, the agreement to reform the fiscal framework represents an opportunity and a guide for drafting a fiscal-structural plan.

According to AIReF's calculations, the fiscal path that would comply with the guidance for calculating the reference trajectory contained in the reform proposal would require taking measures during the period 2025-2028 worth 0.63 points per annum. This adjustment (2.52 points accumulated over four years) would generate a reduction in the debt ratio of 25 points of GDP in the next 15 years, placing it on a clearly downward path. Extending the adjustment plan to seven years would reduce the annual adjustment by 0.2 points to 0.43 points of GDP, but would entail a greater adjustment in cumulative terms (3 points).

# 1. INTRODUCTION

**AIReF has the legal mandate to report on the initial budgets of the General Government (GG).** The Organic Law on Budgetary Stability and Financial Sustainability establishes that this report must be prepared by April 1st, from the perspective of compliance with the expenditure rule and the budgetary stability and public debt targets. However, as has become usual, AIReF has had to delay the issuance of this report in order to incorporate the year-end figures for the previous year, which were published on March 27th and which are essential information for the analysis. The fiscal rules are reactivated in 2024 after being suspended for four years. Furthermore, this year sees the transition to the implementation of the agreed new European fiscal framework, which will also involve the reform of the national fiscal framework.

**2024 is a critical year as it involves the return to fiscal rules after four years of suspension.** On March 8th,2023, the European Commission announced the deactivation of the escape clause in 2024. However, the European fiscal rules that were in force in 2020, before activation of the aforementioned clause, have been reformed and are currently, after having been agreed, one step away from their final approval. In these circumstances, 2024 becomes a year of transition: at the European level, implementation of the recently agreed new European fiscal framework begins, without prejudice to Spain's obligation to comply with the specific quantitative recommendation aimed at limiting the growth of primary expenditure net of revenue measures in 2024 to 2.6%. At the national level, Spanish fiscal rules are once again in force in their current configuration (stability, public debt and expenditure rule targets) until the law is reformed to adapt it to the new European fiscal framework, which must be completed by the end of 2025.

**The proposed stability and debt targets for 2024 have not been approved by Parliament.** At the meeting of the Council of Ministers held on December 12th, 2023, the Government approved the stability and debt targets for the three-year period 2024-2026 for the General Government (GG) as a whole and by sub-sector (table 2 General Government stability targets for 2024). However, these targets were not approved by Parliament, as required by Article 15.6 of the Organic Law on Budgetary Stability and Financial Sustainability, as they did not pass the veto by the Senate. For the second time, the Government approved these same targets at the meeting of the Council of Ministers on February 13th, 2024, but their approval by the Senate was again unsuccessful.

**The reference rate of the expenditure rule, which does not require parliamentary approval, has been set at 2.6% for 2024.** The publication of the Report on the Situation of the Spanish Economy has shown that the reference rate of the expenditure rule stands at 2.6% for 2024, which is mandatory for the Central Government, the Autonomous Regions (ARs) and the Local Governments (LGs). Unlike the stability and debt targets, the expenditure rule does not require parliamentary approval. This reference rate stands at 2.7% and 2.8% for 2025 and 2026, respectively.

**In the absence of the adoption of stability targets, the Government considers the deficit path of the 2023-2026 Stability Programme as such.** In this case, the target for the GG as a whole does not change, but its distribution by sub-sector does. The result is more favourable for the Central Government (CG) and less favourable for the Autonomous Regions (ARs) and the Local Governments (LGs). However, the reference to the Stability Programme would only apply to stability targets since for debt there is no breakdown by sub-sector or individual breakdown by AR.

**TABLE 2. GENERAL GOVERNMENT STABILITY TARGETS FOR 2024 (%GDP)**

| | Council of Ministers Resolutions 12/12/2023 and 13/02/2024 | | 2023–2024 Stability Programme Update |
|---|---|---|---|
| Central Government (CG) | -2.7 | ⇒ | -3.0 |
| Autonomous Regions (ARs) | -0.1 | | 0.0 |
| Local Governments (LGs) | 0.0 | | 0.2 |
| Social Security Funds (SSFs) | -0.2 | | -0.2 |
| **Total General Government (GG)** | **-3.0** | | **-3.0** |

**This report focuses on the changes that have taken place with respect to the draft budgets and main budgetary lines, for which a report was previously issued on October 26th, 2023.** AIReF gave its opinion on the main budgetary lines of the GG as a whole[1] as well as on those of the ARs[2] and of the LGs[3] on October 26th. Since then, most of the Territorial Authorities (TAs) have approved their budgets for 2024. At the regional level, all ARs have an approved budget for 2024 with the exception of Catalonia, which is currently under a budget extension, and Castile and Leon, whose draft budget has been approved and is in the process of being processed by Parliament. Most of the Local Governments analysed individually by AIReF have also approved their budgets for 2024. In contrast, in the field of the CG and the Social Security Funds (SSFs), the Central Government finally decided not to present the draft General State Budget (GSB) for 2024, so the budget extension will be maintained throughout the year.

**This report updates AIReF's macroeconomic and fiscal forecasts for 2024 in order to assess the initial budgets of the General Government.** With regard to the previous report, AIReF presents a new macroeconomic scenario that slightly modifies GDP growth forecasts, in real and nominal terms. In addition, the new estimates incorporate the most recent figures from the quarterly accounts published on March 26th, the accounts of the institutional sectors published on April 2nd, the year-end figures published by the General State Comptroller (IGAE), as well as the economic policy measures implemented up

[1] Report on the Draft Budget and Main Budgetary Lines for 2024

[2] Report on the Draft Budget and Main Budgetary Lines of the ARs for 2024

[3] Report on the Draft Budget and Main Budgetary Lines of the LGs for 2024

to the time of publication of the report, including the package of anti-crisis measures approved by Royal Decree-Law 8/2023 of December 27th, 2023.

**AIReF gives its opinion on the situation of the GG as a whole and on each one of the sub-sectors up to 2028.** AIReF analyses the 2024 forecast for the GG as a whole and broken down by each sub-sector and updates its medium-term forecasts up to 2028. In addition, the assessment included in this report for the Territorial Authorities will soon be supplemented, at the regional level, with the publication of the individual reports on the initial budgets for 2024 and, at the local level, with a more extensive report with the individualised analysis of the 22 large LGs and the three Provincial Councils of the Basque Country.

**Finally, as regards the organisation of the report, it is divided into seven sections**. Following this introduction, Section 2 sets out the content and scope of the report. Section 3 analyses the evolution of the macroeconomic scenario. It then offers an in-depth look at the reasons for revising the scenario to end with an overview of macroeconomic risks. Section 4 addresses the development of the budgetary scenario, indicating the impact of fiscal policy measures and analysing in detail the evolution of revenue and expenditure for the GG as a whole and for each of the sub-sectors. This section ends with an analysis of the contingent liabilities and fiscal risks for 2024. Section 5 then assesses the orientation of fiscal policy, while Section 6 analyses the challenges for the sustainability of public finances resulting from the updated macroeconomic and budgetary scenarios. Finally, Section 7 presents the recommendations emerging from the analysis conducted.

# 2. PURPOSE AND SCOPE

**AIReF's Statute specifies that the purpose of this report is to assess the initial budgets on the basis of the changes that have taken place with regard to the main budgetary lines previously reported on.** AIReF prepares this report with the budgets approved by the Territorial Authorities and the measures adopted after the report on the budgetary lines. The latter include the extended support measures and additional measures for 2024 approved by Royal Decree-Law 8/2023, as well as the additional tax reductions adopted by the Autonomous Regions. It also takes into account other additional information received and the latest published data, particularly that relating to year-end 2023. With this information, AIReF updates the forecast for the GG as a whole and for each of the sub-sectors for 2024 and compares it with the estimate made in the reports on the main budgetary lines published on October 26th.

**In addition, in the context of the new European fiscal framework, AIReF includes a medium-term scenario by sub-sector up to 2028.** The start of the implementation of the new European fiscal rules in 2024 means that a multi-year fiscal strategy needs to be drawn up that sets out the medium-term fiscal-structural plan that Spain must submit in the autumn. In accordance with this multi-year approach, AIReF incorporates for each of the sub-sectors, in addition to the 2024 analysis, the assessment of the scenario forecast for the following four years, from 2025 to 2028.

**The scope of the report has been conditioned by the lack of transparency on the degree of execution of the Recovery, Transformation and Resilience Plan**

**(RTRP) in national accounting terms.** There is no periodic information on the execution of the RTRP in national accounting. From a macroeconomic point of view, this lack of information is a limitation in terms of knowing which funds are reaching the final recipient and, therefore, which are having an effect on the economy. In addition, from a fiscal point of view, it limits the analysis of the evolution of revenue and expenditure that are not related to the RTRP and that constitute the ordinary activity of the GG. This affects the national accounting projections of revenue and expenditure for 2024 and the following years.

**Finally, there is no complete and up-to-date information on fiscal risks that may affect the deficit for the year. Greater transparency would be desirable.** Although it may not be classified as a limitation on the scope, there is no complete and up-to-date information on the responsibilities faced by the GG arising from contingent liabilities. At the central level, the most detailed information on contingent liabilities is found in the General Account of the CSA and that of the State. However, in both cases, it is not complete or up-to-date (the latter refers to the end of 2022, so it does not include the developments that have taken place since then). This information is very relevant at the current time due to the numerous legal proceedings under way, for which rulings unfavourable to the interests of the State could have a significant impact on the deficit.

# 3. MACROECONOMIC SCENARIO FOR 2024

## 3.1. Introduction

**The Spanish economy recorded high growth throughout 2023, which exceeded the forecasts of most analysts and the growth seen in the euro area.** Real GDP growth in 2023 was 2.5% according to the most recent estimates of the National Statistics Institute (INE). This growth was lower than that observed the previous year (5.5%), but exceeds the forecasts of AIReF and the Government. The resilience of private consumption, driven by the increase in population and employment, and the rise in public consumption and exports of services contribute to explain this buoyancy. In contrast, investment in equipment and construction remains weak.

**In 2024, AIReF expects real GDP growth of 2% supported by domestic demand.** Private consumption will be supported by the growth in employment, the accumulated savings of Spanish households and the gradual disappearance of the restrictive impact associated with the tightening of financing conditions seen at the end of 2023. In addition, a reactivation of the investment is expected, which is dependent on the continued deployment of the Recovery, Transformation and Resilience Plan (RTRP). In contrast, exports will maintain rates of change similar to those of the previous year, due to the weakness of our main export markets and the increase in unit labour costs. In the following years, once the momentum from the RTRP and the savings accumulated in previous years has been exhausted, the economy will gradually slow down to record growth of 1.5% in 2028.

**As regards prices, inflation is falling faster than expected**. Energy inflation is falling faster than expected in a context of price correction of these raw materials in international markets and, in particular, of gas prices, which have recovered levels similar to those recorded in mid-2021, before the start of the price hike. In contrast, some tourism-related services maintain high rates of inflation against a backdrop of expanding demand. In this regard, AIReF has revised downwards the growth of the CPI expected for 2024 (to 3.1% compared with the 4% expected in the autumn of 2023), but the expected growth of the GDP deflator is maintained at 3.2% in 2024. For the following years, a gradual convergence to 2% - the monetary policy benchmark rate - is expected.

**As a consequence of the above, nominal GDP growth is revised slightly upwards, to 5.2% in 2024, compared with the previous figure of 5%.** In the following years, the nominal growth expected by AIReF stands at 4.1% in 2025, 3.7% in 2026, 3.6% in 2027 and 3.4% in 2028. In turn, the unemployment rate is expected to fall to 11.6% in 2024, from the 12.1% recorded in 2023, with progressive containment projected for it to stand at 10.3% in 2028.

This section presents AIReF's macroeconomic forecasts for the period 2024-2028 and discusses the main risk elements identified around them. In addition, three boxes focused on the analysis of the medium-term scenario, the recent evolution of employment and investment are incorporated.

## 3.2. Evolution of international economic outlook

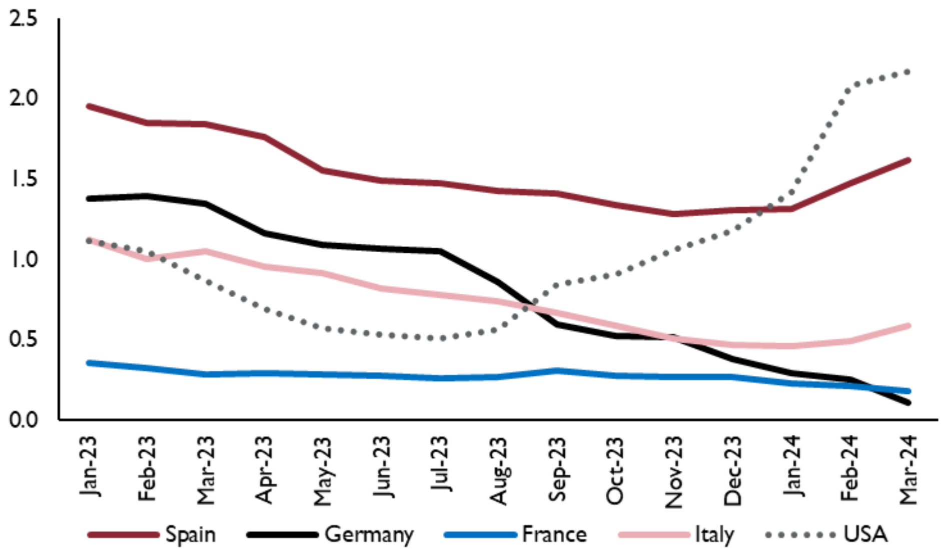
**Despite remaining immersed in a turbulent environment, global economic activity remains somewhat resilient.** The ECB estimates that global economic activity, excluding the euro area, rose by 3.5% in 2023, a rate similar to the average growth of the last decade. This was in a context in which the tightening of monetary policy was transferred to global consumer demand, with two active war conflicts (Ukraine and the Middle East) and growing trade fragmentation. This result largely reflects the performance of the United States, whose economic activity remained robust, while the euro area remained noticeably weak over 2023 and economic growth in China slowed.

**Even so, both economic activity and world trade present a deceleration profile that will continue over the coming years according to the forecasts of international organisations.** The most recent ECB forecasts place global real

GDP growth, excluding the euro area, at 3.4% in 2024, before falling to 3.2% in 2025 and 2026, slightly below the levels of the last decade. It also expects world trade, which at the end of 2023 was affected by tensions in the Red Sea, to remain below its historical trend in the coming years: after rising by 1.2% in 2023, world imports are expected to grow by 2.8% in 2024, before accelerating to rates slightly above 3% in 2025 and 2026, far from the trend growth of recent decades (above 5%).

**In the case of the euro area, economic activity remained very weak in 2023 and, although the most recent indicators show signs of recovery, the outlook for 2024 is moderate**. In particular, the tightening of financial conditions led to a slowdown in consumption and investment in the area, while exports fell due to tensions in the Red Sea, the slowdown in Chinese demand and the losses in competitiveness recorded *vis-à-vis* other advanced economies in a context of rising production costs due to higher energy prices. Nevertheless, the labour market performed favourably and the unemployment rate stood at an all-time low since the start of the euro. Some indicators for 2024 show that the deterioration might have slowed down. Even so, the ECB's euro area GDP growth outlook puts average annual real GDP growth at 0.6% in 2024, rising to 1.5% in 2025 and 1.6% in 2026 in a context of reduced monetary tightening. Private consensus forecasts reflect these trends, with GDP growth forecasts for Spain, Italy and the US rising or stabilising, in contrast to increasingly pessimistic forecasts for Germany and France.

**FIGURE 1. EVOLUTION OF REAL GDP GROWTH FORECASTS FOR 2024 (%)**

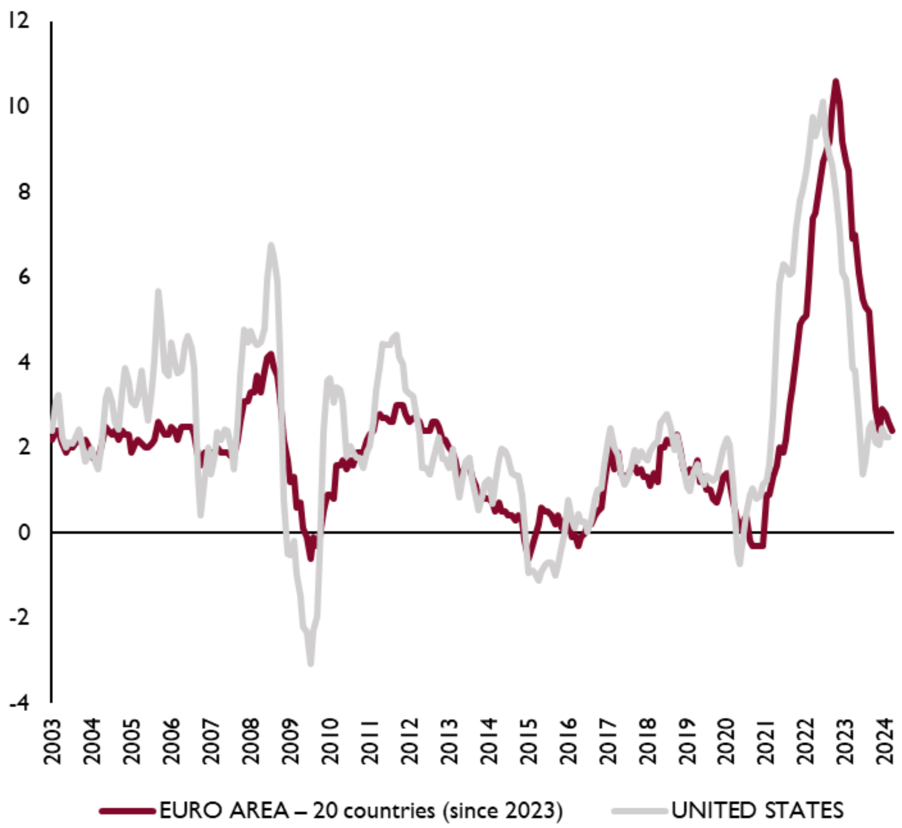



Source: Consensus Forecasts

**Inflationary pressures are dissipating at a faster rate than expected, which has led the central banks of the main advanced economies to slow down the**

**process of interest rate hikes observed over recent years, although none has yet begun to reverse them.** The slowdown in inflation is stronger in the euro area than in the United States, against a backdrop of weaker demand. Thus, the ECB has revised the inflation forecast for 2024 downwards to 2.3%, and the growth of the Harmonised Index of Consumer Prices is expected to stand at 2% in 2025 and 1.9% in 2026. However, much of this slowdown is due to lower gas prices in global markets and a lower level of growth in the case of food. In contrast, wages maintain high growth in the euro area as a whole, which could put that slowdown path at risk.

**FIGURE 2. EVOLUTION OF INFLATION IN THE EURO AREA AND IN THE US (%)**

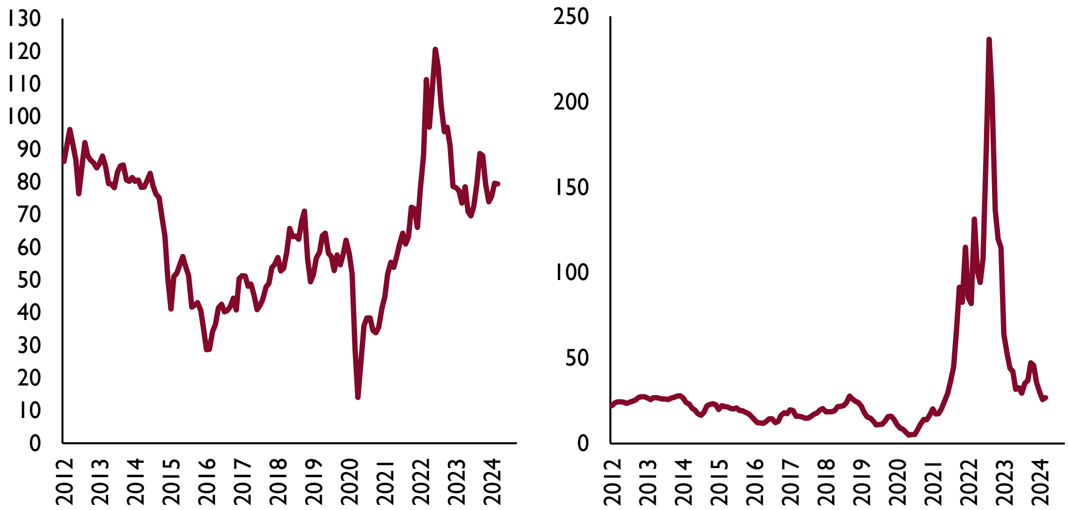



Source: Eurostat and Bureau of Labor Statistics

**Falling energy prices have helped to contain inflation.** In recent months, oil prices in international markets have remained relatively stable, at levels of around 87 dollars/barrel, similar to those observed before the conflict in Ukraine. For their part, gas prices have fallen significantly over recent months, to stand at levels close to those recorded in mid-2021 before the price hike that took place in the second half of that year, which later intensified with the Russian invasion of Ukraine. The fall in the price of gas in Europe reflects the weakness in industrial demand and lower consumption of gas by households combined with a relatively mild winter and high levels of reserves.

**FIGURE 3. PRICE OF ENERGY RAW MATERIALS**

**FIGURE 3.A. BRENT BARREL (€/BARREL)** **FIGURE 3.B. TTF GAS (€/MWH)**

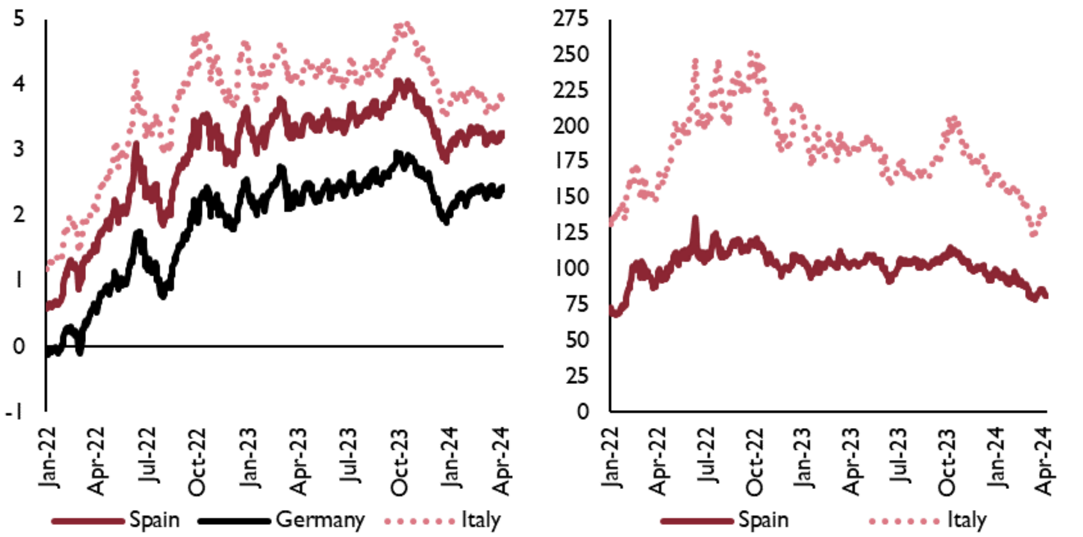



Source: Refinitiv

**The central banks of the major advanced economies are maintaining their interest rates unchanged.** Both the Federal Reserve in the United States and the ECB have slowed the process of tightening the economy's financing conditions, but they have not offered clear signals on when they will begin to reduce their interest rates. In this context, long-term interest rates and sovereign risk premiums remain virtually stable in relation to the final months of 2023.

**FIGURE 4. 10-YEAR SOVEREIGN DEBT AND INTEREST RATES**

**FIGURE 4.A. 10-YEAR SOVEREIGN DEBT INTEREST RATES** **FIGURE 4.B. 10-YEAR SOVEREIGN DEBT SPREADS (BP)**




Source: Refinitiv

## 3.3. Recent evolution of the Spanish economy

**In 2023, GDP growth was 2.5%, higher than expected by AIReF.** Employment growth driven, among other causes, by the influx of the foreign population favoured an expansion in consumption above the figure estimated in AIReF's scenarios. Private consumption increased by 1.8% in real terms, although in per capita terms the growth was practically zero in a context of low growth in real wages and more restrictive financing conditions. However, public consumption was undoubtedly the most dynamic component of demand, with growth of 3.8% in 2023, above the figure expected by AIReF and by the Government itself. In contrast, investment in construction and investment in equipment continued to record lower levels than at the end of 2019. The sluggishness of business investment throughout this cycle is one of the most noteworthy features of the growth pattern of the Spanish economy and is analysed in detail in box 3 Recent evolution of gross fixed capital formation.

**Foreign demand contributed positively to GDP growth in 2023.** In addition to the acceleration in public consumption, another component underpinning the growth in 2023 was exports of services, both tourism and non-tourism. Income from tourism far exceeded pre-pandemic levels. According to Exceltur's estimates, in 2023 the contribution of tourism to the GDP of the Spanish economy was slightly above the historical highs of 2019 (12.8% in 2023 compared with 12.6% in 2019). Geopolitical instability in competing destination markets may have contributed to this growth in tourism. In addition, exports and the added value generated by some business services, such as IT, professional, scientific or technical activities, remained notably buoyant in 2023. All in all, exports grew in 2023 in line with AIReF's expectations while imports grew at a significantly slower rate than expected, in line with what was observed in investment.

TABLE 3. FORECASTING ERRORS OF THE OCTOBER 2022 SCENARIO ESTIMATES

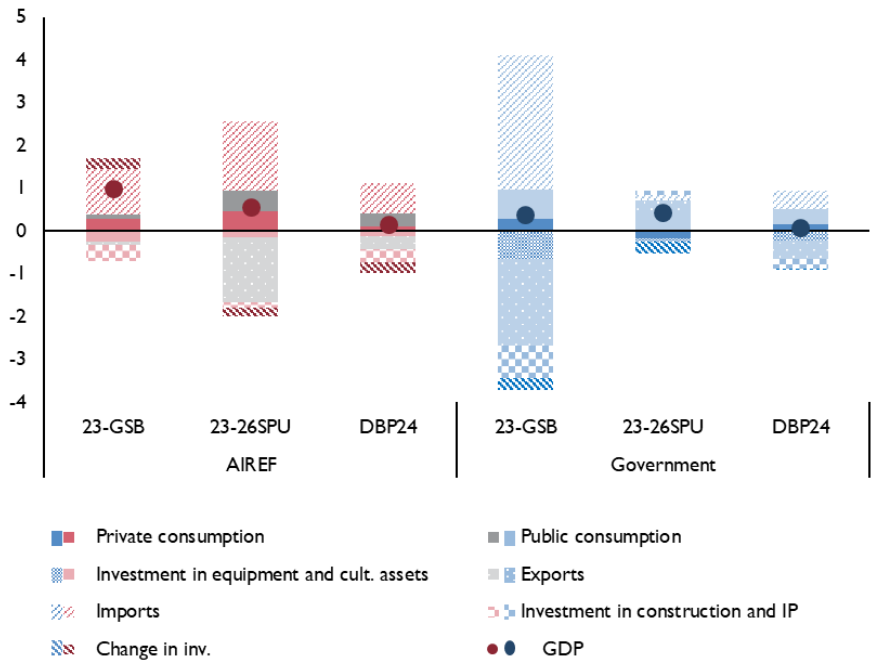
| | AIReF October 2022 | | | Government October 2022 | | | Observed March 2023 |
|---|---|---|---|---|---|---|---|
| ***Year-on-Year Rates of Change*** | **2023** | **Error** | **Cont. Error** | **2023** | **Error** | **Cont. Error** | |
| Private Domestic Final Consumption Expenditure | 1.3 | -0.5 | -0.3 | 1.3 | -0.5 | -0.3 | 1.8 |
| General Government Final Consumption Expenditure | 0.8 | -3.0 | -0.6 | 0.4 | -3.4 | -0.7 | 3.8 |
| Gross Fixed Capital Formation | 3.9 | 3.1 | 0.6 | 7.9 | 7.1 | 1.4 | 0.8 |
| *Change in Inventory** | 0.0 | 0.2 | 0.2 | 0.0 | 0.2 | 0.2 | -0.2 |
| **Domestic Demand*** | **1.7** | **0.0** | **0.0** | **2.4** | **0.7** | **0.7** | **1.7** |
| Exports of Goods and Services | 2.5 | 0.2 | 0.1 | 7.3 | 4.9 | 2.0 | 2.3 |
| Imports of Goods and Services | 3.0 | 2.6 | -1.0 | 8.2 | 7.9 | -3.1 | 0.3 |
| **External Balance*** | **-0.2** | **-1.0** | **-1.0** | **-0.3** | **-1.1** | **-1.1** | **0.8** |
| **Gross Domestic Product** | **1.5** | **-1.0** | | **2.1** | **-0.4** | | **2.5** |
| **Nominal Gross Domestic Product** | **5.9** | **-2.7** | | **6.0** | **-2.6** | | **8.6** |
| **Gross Domestic Product Deflator** | **4.3** | **-1.6** | | **4.1** | **-1.8** | | **5.9** |
| Full-Time Equivalent Employment | 0.3 | -2.9 | | 0.6 | -2.6 | | 3.2 |
| Unemployment Rate (% of Active Population) | 12.8 | 0.7 | | 12.2 | 0.1 | | 12.1 |

* Contribution to GDP growth

Source: Ministry of Economy, Trade and Industry and AIReF

**The dynamism of exports and the fall in imports resulted in a twelfth consecutive surplus in the current account of the balance of payments, this time of 2.6% of GDP.** The persistence of a current account surplus in the Spanish economy is a noteworthy fact in our recent economic history, especially in the context of the energy crisis suffered over recent years. This has allowed the International Investment Debt Position to be reduced to 52.8% of GDP (44.1% excluding the Bank of Spain), 44.8 pp lower than that observed before the global financial crisis (58.1% excluding the Bank of Spain). This correction is entirely the result of the improvement in the net lending of the private sector and, in part, is a reflection of the weakness in investment.

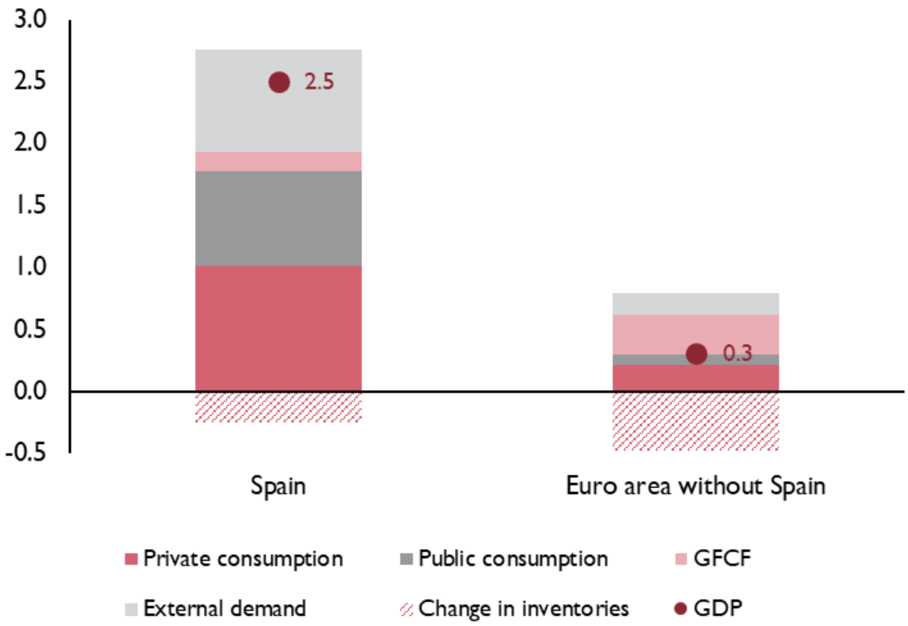
**FIGURE 5. BREAKDOWN OF THE CONTRIBUTIONS TO THE FORECAST ERROR OF REAL GDP FOR 2023 ON THE DEMAND SIDE (PP)**




Source: INE, Ministry of Economy, Trade and Enterprise

**The higher growth of the Spanish economy in 2023 compared with the euro area is a result of the dynamism of private consumption, public consumption and exports.** The Spanish economy has been less exposed to the shocks that have affected European economies as it is less integrated into global value chains, which reduced the impact of supply bottlenecks, lower dependence on Russian gas and its lower exposure to demand from China. On the domestic front, it has also benefited from the recovery of tourist flows, as well as reduced tension in the labour market, which has translated into lower wage pressures and fewer difficulties in finding labour due to the influx of immigrants who find it easier to integrate into a job as they share a common language.

FIGURE 6. BREAKDOWN OF CONTRIBUTIONS TO GDP GROWTH IN VOLUME TERMS FOR THE EURO AREA AND SPAIN IN 2023 (%)

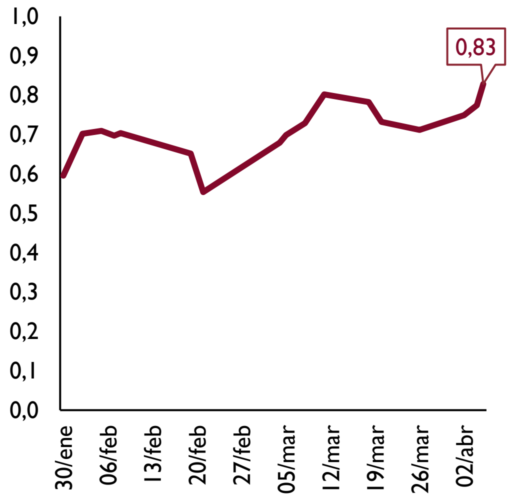



Source: INE and Eurostat

**The indicators available for the first quarter of 2024 remain notably dynamic.** The MIPred model developed by AIReF, which summarises the evolution of indicators that are closely related to economic activity, points to GDP growth of 0.8% in the first quarter of 2024. It is worth noting the increase in the General PMI in March, which was above the 50 mark indicating economic expansion for the fourth consecutive month. In addition, the manufacturing PMI continued at values above 50, which had been reached the previous month for the first time since March 2023 (51.4). However, other confidence indicators do not show such a clear trend of improvement. In March, they improved in the case of construction and Consumer Confidence, but the Industrial Climate and retail trade indicators worsened.

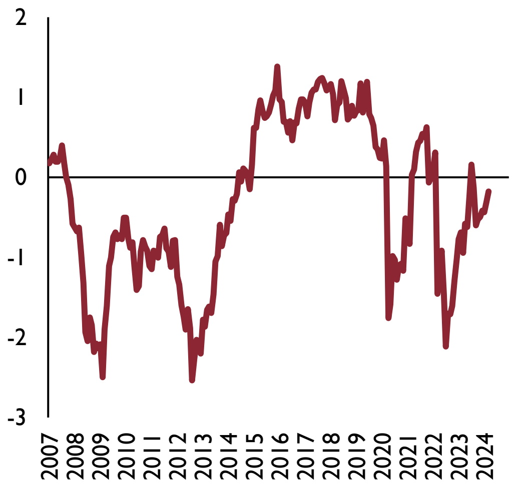
**FIGURE 7. EVOLUTION OF THE ESTIMATE OF THE CHANGE IN REAL GDP IN REAL TIME AND CONSUMER CONFIDENCE**

**FIGURE 7.A. REAL-TIME GDP ESTIMATE. QUARTER-ON-QUARTER REAL GDP RATE (MIPRED)**




Source: AIReF (as of April 5th, 2023)

**FIGURE 7.B. STANDARDISED CONSUMER CONFIDENCE INDICATOR**




Source: Ministry of Economy, Trade and Enterprise

**Over the start of 2024, job creation has maintained a strong pace of growth.** In the month of March, the number of Social Security contributors rose by 193,585, the second largest increase in a month of March on record, only behind the increase recorded in March 2023. In year-on-year terms, Social Security affiliation in March grew by 2.6%, similar to that of recent months (**¡Error! No se encuentra el origen de la referencia. ¡Error! No se encuentra el origen de la referencia.**). This employment growth is consistent with the evolution of activity and may also reflect changes in hiring patterns resulting from the labour reform.

**FIGURE 8. AVERAGE SOCIAL SECURITY AFFILIATION**

**FIGURE 8.A. SOCIAL SECURITY AFFILIATION. THOUSANDS OF PEOPLE**

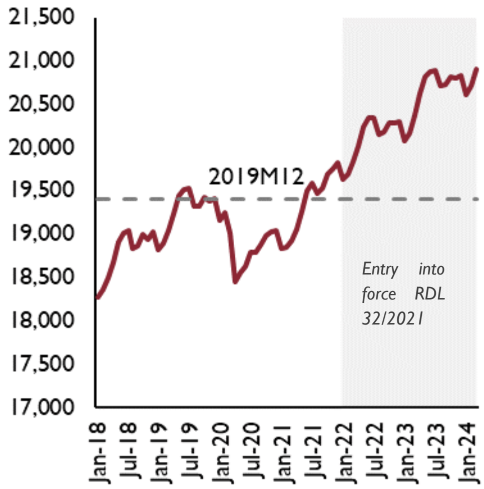
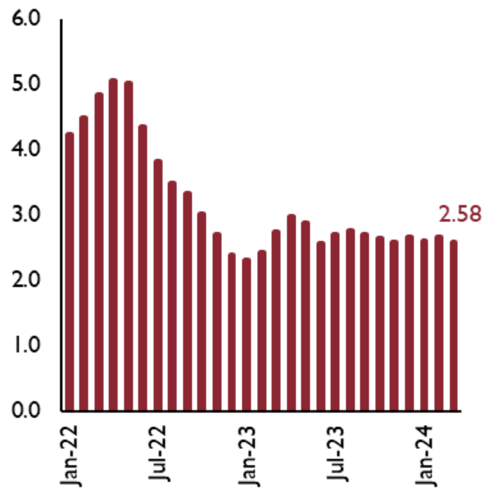



**FIGURE 8.B. YEAR-ON-YEAR RATE (%)**




Source: Haver

**The temporary employment rate in Social Security affiliation has fallen sharply since entry into force of the labour reform.** Since 2022, there has been a significant reduction in temporary employment contracts, while job creation has been concentrated in permanent employment. In particular, full-time permanent workers have recorded the largest increase in absolute terms. The number of permanent seasonal workers, which the labour reform encouraged as an alternative to temporary employment contracts, has doubled. However, their contribution to the growth in total employment has been much more limited than that of full-time permanent workers (**¡Error! No se encuentra el origen de la referencia.¡Error! No se encuentra el origen de la referencia.**). As a result, the proportion of total Social Security affiliation under temporary contracts has fallen to historically low levels, standing at 12.7% in March 2024. The LFS temporary employment rate has fallen more slowly, remaining above the affiliation temporary employment rate (figure 9Composition of employment).

**However, despite the reduction in temporary employment, there is still a high degree of turnover in the labour market.** High turnover with sharp fluctuations in affiliation at the start and the end of each month and at the start and end of each week can be seen. In addition, since January 2022 there has also been an increase in the number of permanent contracts per person and in the number of permanent workers who have been laid off for reasons such as dismissal or the end of the probationary period.

FIGURE 9. COMPOSITION OF EMPLOYMENT

FIGURE 9.A. TEMPORARY EMPLOYMENT RATE. (%)

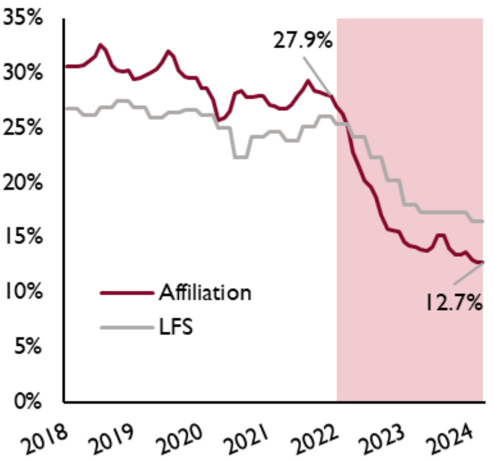
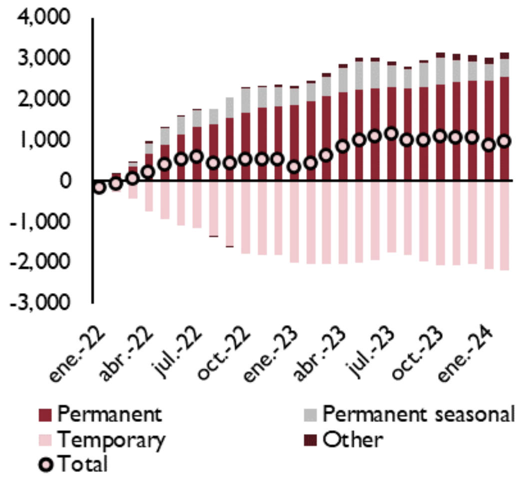



FIGURE 9.B. AFFILIATION BY CONTRACT TYPE. THOUSANDS OF PEOPLE

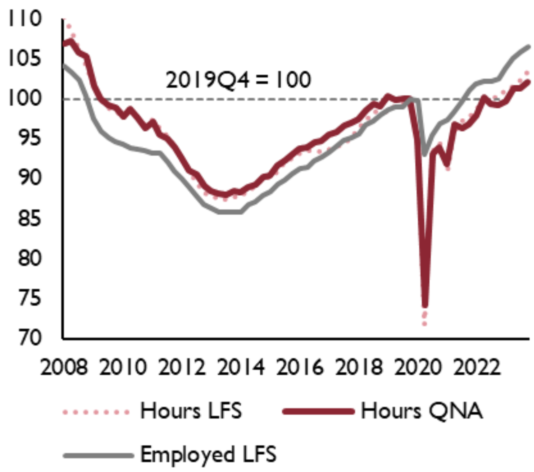



Source: Ministry of Economy, Trade and Enterprise

**The dynamism of employment has not been accompanied by a sharp growth in hours worked.** The number of hours worked has grown to a lesser extent than employment, with weaker recovery after the pandemic. This has led to a fall in the average working day per worker. The LFS data show that this change in the average working day since 2014 is the result of an increase in the percentage of employees absent from work and, to a lesser extent, a decrease of the working day of those who worked during the reference period. With regard to the first factor, the increase in absentee workers is mainly due to the increase in sick leave and, to a lesser extent, holidays and parental leave. With regard to the second factor, the decrease in the average working day of employed workers is a phenomenon that may be the result of changes in workers' preferences after the pandemic or be influenced by changes in the structure of employment contracts. However, this fall in the average working day of employees cannot be attributed to the labour reform, since it began before its entry into force. The multitude of shocks experienced over recent years together with regulatory changes in the job market and other trends of a more secular nature (such as the incorporation of women into the labour market and the shift in the age of workers towards older age brackets) makes it difficult to assess the situation of the labour market. Box 2 discusses the main changes observed at the sectoral level in employment over recent years.

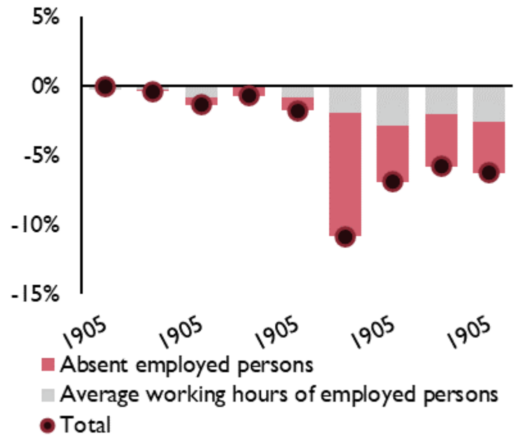
**FIGURE 10. HOURS WORKED**

**FIGURE 10.A. EVOLUTION OF HOURS WORKED AND EMPLOYMENT. 2019Q4 = 100**




Source: Haver and INE

**FIGURE 10.B. CHANGE IN THE AVERAGE WORKING DAY COMPARED WITH THE REFERENCE YEAR (2014) (%)**

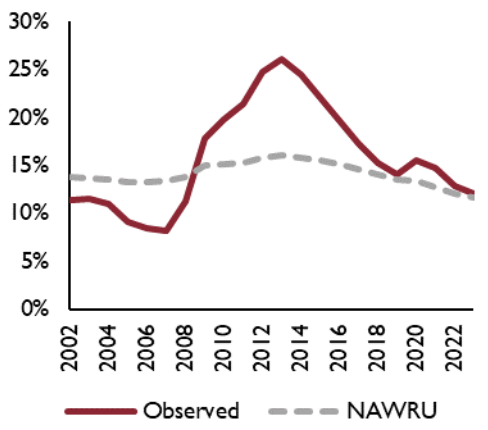



Source: INE

**Despite the growth in employment, the unemployment rate remained stable in the second half of the year, due to the increase in the active population.** The LFS unemployment rate fell sharply in the first quarter of 2023, and remained virtually stable over the rest of the year, slightly below 12% (11.8% in the fourth quarter of 2023) (Figure 11.A). The stability of the unemployment rate, despite the strong growth in employment, is the result of the increase in the active population. In turn, the increase in the active population in the last year is mainly due to the increase in the active and dual-nationality population, while the growth in the Spanish active population remains very limited. This suggests that the evolution of the labour market is closely related to that of immigration flows. For its part, the Beveridge Curve shows how the stability of the unemployment rate has been accompanied by high values of the vacancy rate (Figure 11.B). Overall, this evolution of the unemployment rate, employment, activity and vacancies suggests that there are some mismatches between the profiles of the unemployed and the characteristics of company vacancies, while the unemployment rate is close to its structural value. Should this trend observed over recent quarters continue, there will be little room in the short term to achieve further large reductions in the unemployment rate.

**FIGURE 11. EVOLUTION OF UNEMPLOYMENT**

**FIGURE 11.A. UNEMPLOYMENT RATE (%)**



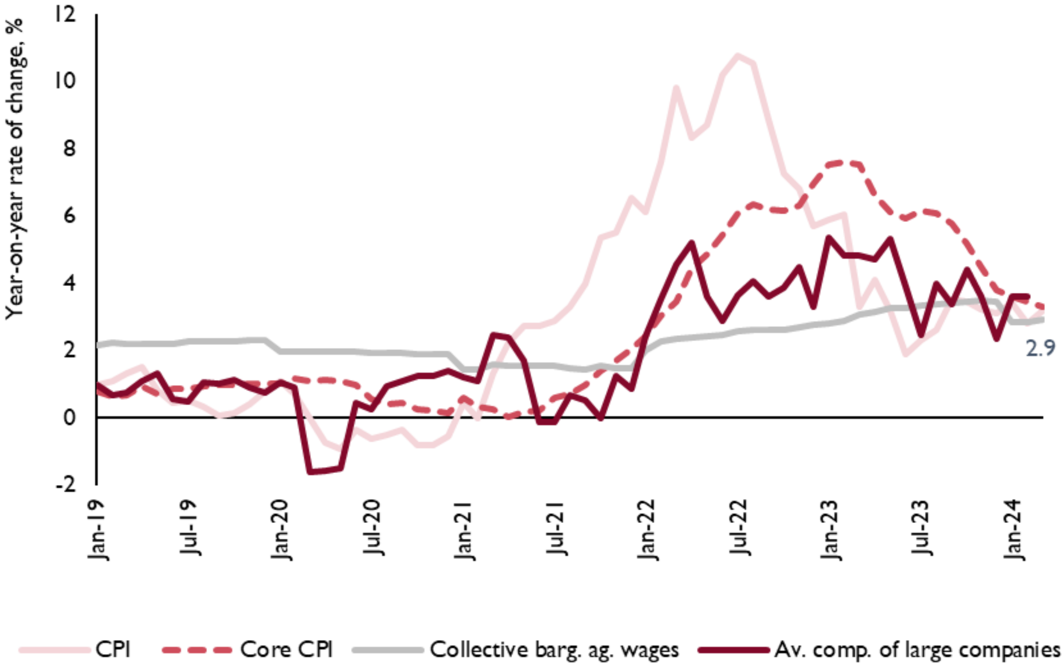

Source: Haver, INE and AIReF

**FIGURE 11.B. BEVERIDGE CURVE.**


Source: Haver

**Wages under collective bargaining agreements grew in line with inflation in 2023.** Wages under collective bargaining agreements accelerated in 2023, with an agreed increase in the year of 3.6%, which rose to 3.67% with the wage revision clauses. This growth was in line with inflation (annual average of 3.5%) and below the reference set out in the Agreement for Collective Bargaining and Employment (AENC) of May 2023 (4%). In March 2024, the agreed wage increase for all wage bargaining agreements moderated to 2.91% (below the AENC reference for 2024 of 3%). However, in the case of newly signed agreements in 2024 it stood at 4.41%. However, the coverage of the agreements signed in 2024 is still low. Wage growth in large companies stood at 3.6% in February 2024. Overall, there are thus no major wage pressures higher than inflation growth.

**FIGURE 12. EVOLUTION OF PRICES AND WAGES (%)**




Source: Haver, Ministry of Economy, Trade and Enterprise and Ministry of Labour and Social Economy

**FIGURE 13. INFLATION IN SPAIN. (%)**

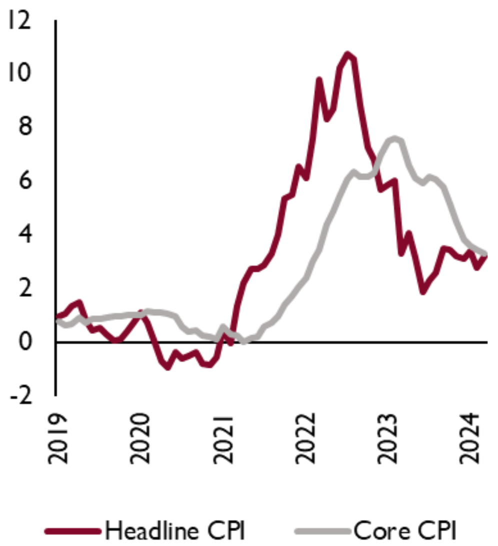
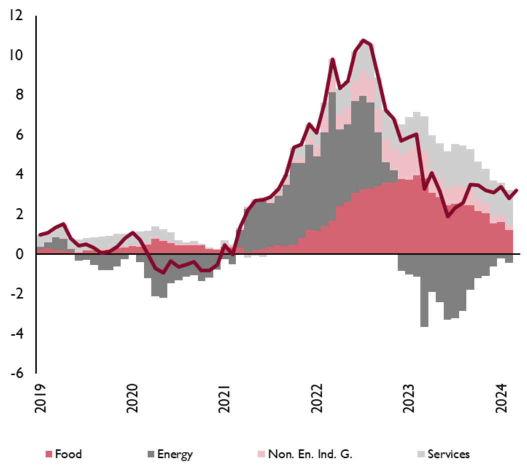



**FIGURE 14. CONTRIBUTIONS TO CPI GROWTH (%, PP)**




Source: INE

**In year-on-year terms, inflation stood at 3.2% in March 2024, far from the values above 10% observed in 2022.** The fall in inflation is mainly due to the favourable evolution of the energy component, which is the result of a drop in gas prices in international markets and not only the base effects of the previous year. In contrast, food inflation remains high at above 5%, albeit far from the rises of close to 15% recorded in 2022. Services also continue to have rates of around 4%, which are more intense in the case of catering and accommodation services. Looking to 2024, the Government has partially extended some of the measures approved to mitigate the effects of inflation on households, such as the reduction in VAT on food, the reductions in energy taxes and the subsidy for passenger transport.

**While effective financing flows to non-financial corporations and households and NPISHs remain in clearly contractionary terrain, they seem to be recovering from the lows of August 2023.** The progressive hikes in benchmark interest rates by the main central banks, together with the tightening of lending conditions, seem to have had a significant impact on effective financing flows. Together with the context of financial deleveraging of companies and families that has been taking place since 2013, this has meant that the stock of loans continues to contract.

**FIGURE 15. RATES OF CHANGE IN EFFECTIVE FINANCING FLOW**

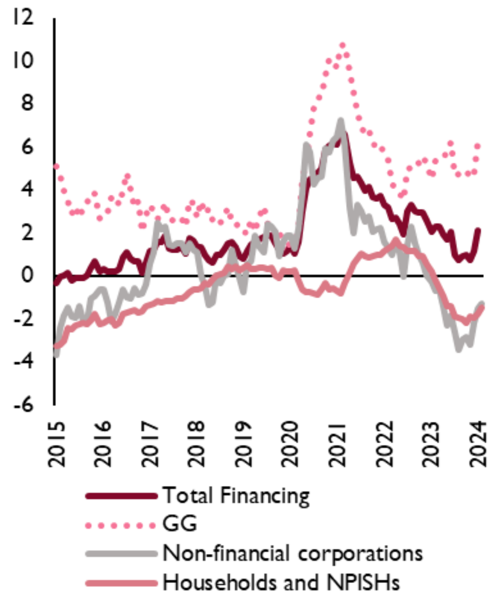
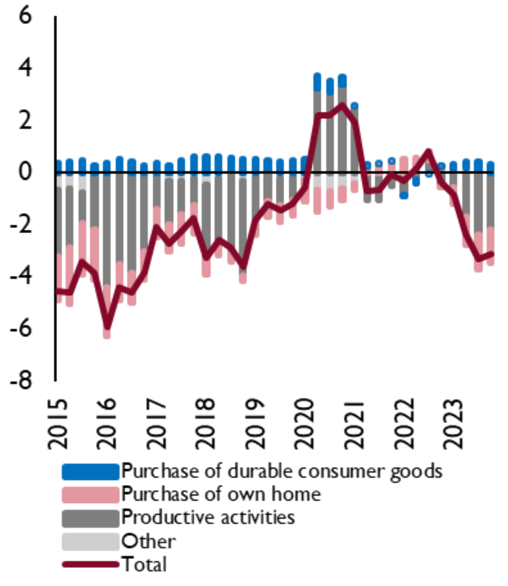



**FIGURE 16. YEAR-ON-YEAR GROWTH IN LENDING BY PURPOSE (%)**

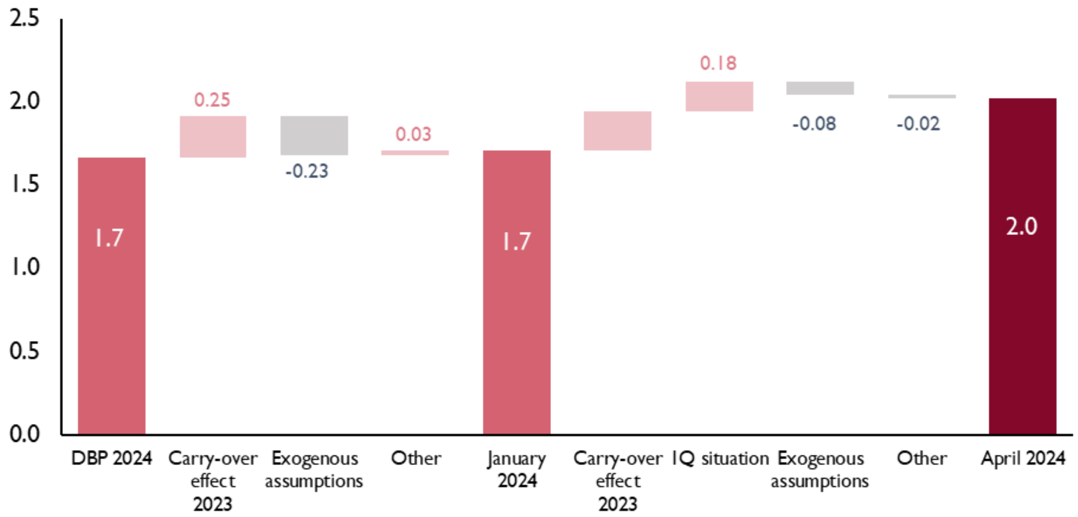



Source: Bank of Spain

## 3.4. Macroeconomic outlook for 2024

**AIReF revises its forecast of real GDP growth for 2024 upwards to 2%, after the 2.5% increase in 2023**. The positive surprise in growth observed in 2023 with respect to AIReF's forecast and, in particular, the carryover effect associated with higher quarterly growth in the final months of the year (0.6%) with respect to AIReF's prior estimate, explains 0.2 points of the upward revision in the growth of 2024. Along the same lines, the more positive than expected tone of the most recent short-term indicators means that growth for the first quarter of 2024 is expected to be higher than that forecast in the previous year. This would have a positive impact of an additional 0.2 points in the year as a whole. In contrast, exogenous assumptions, in particular the worse forecast for the evolution of Spanish export markets, in a context of weak growth in the euro area, subtract 0.1 points from the forecast for GDP growth in 2024.

**FIGURE 17. BREAKDOWN OF THE SOURCES OF REVISION OF THE GROWTH RATE OF GDP IN VOLUME TERMS WITH RESPECT TO THE DBP2024 MACROECONOMIC SCENARIO YEAR 2024**




Source: INE and AIReF

**While the exogenous assumptions that underpin the macroeconomic outlook barely change compared with the expectations in January, there is some deterioration in the growth prospects of external markets in 2024.** In general, the assumptions remain practically unchanged, although there is a downward revision in the expected growth of export markets in 2024. In the opposite direction, gas prices in the futures markets have turned downwards, while oil prices are slightly higher than expected in October. All in all, the changes are relatively small compared with the large fluctuations observed a few months ago.

**TABLE 4. EXOGENOUS ASSUMPTIONS OF AIREF'S MACROECONOMIC SCENARIO**

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|
| **3-month Euribor (%)** | 3.4 | 3.5 | 2.6 | 2.3 | 2.3 | 2.4 |
| **Interest Rate 10-year State Debt (%)** | 3.5 | 3.2 | 3.3 | 3.5 | 3.7 | 3.8 |
| **Broad NEER** | 121.8 | 123.8 | 123.8 | 123.8 | 123.8 | 123.8 |
| **Exchange rates $/€** | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 |
| **Oil (US $/barrel)** | 83.8 | 81.2 | 75.4 | 72.5 | 70.7 | 69.9 |
| **TTF gas (€/Mwh)** | 41.5 | 26.8 | 29.1 | 27.9 | 26.7 | 26.1 |
| **MIBGAS (€/Mwh)** | 39.7 | 26.1 | 28.2 | 26.9 | … | … |
| **Export merc. (annual %)** | -0.4 | 1.8 | 3.2 | 3.2 | 3.1 | 3.0 |

Source: IMF, Refinitiv

**TABLE 5. MACROECONOMIC OUTLOOK FOR 2024**

| | | *ABRIL 2024* | *DBP-2024 Oct 2023* | *JANUARY 2024* | *Difference vs Jan 2024* |
|---|---|---|---|---|---|
| ***Year-on-Year Rates of Change*** | ***2023*** | ***2024*** | ***2024*** | ***2024*** | ***2024*** |
| Private Domestic Final Consumption Expenditure | 1.8 | 2.4 | 1.8 | 1.9 | 0.5 |
| General Government Final Consumption Expenditure | 3.8 | 1.2 | 0.6 | 0.7 | 0.5 |
| Gross Fixed Capital Formation | 0.8 | 2.7 | 2.6 | 2.6 | 0.1 |
| *GFCF Equipment and Cultivated Assets* | *-1.3* | 3.9 | 5.5 | 4.3 | -0.4 |
| *GFCF Construction and Intellectual Property* | *1.7* | 2.2 | 1.5 | 2.0 | 0.2 |
| **Domestic Demand*** | ***1.7*** | **2.1** | **1.7** | **1.7** | **0.4** |
| Exports of Goods and Services | 2.3 | 2.1 | 2.3 | 1.7 | 0.4 |
| Imports of Goods and Services | 0.3 | 2.6 | 2.5 | 1.9 | 0.6 |
| **External Balance*** | ***0.8*** | **-0.1** | **0.0** | **0.0** | **-0.1** |
| **Gross Domestic Product** | **2.5** | **2.0** | **1.7** | **1.7** | **0.3** |
| **Nominal Gross Domestic Product** | **8.6** | **5.2** | **4.9** | **5.0** | **0.3** |
| **Gross Domestic Product Deflator** | **5.9** | **3.2** | **3.2** | **3.2** | **0.0** |
| **CPI** | **3.5** | **3.1** | **4.0** | **3.3** | **-0.3** |
| Full-Time Equivalent Employment | 3.2 | 2.5 | 0.9 | 1.8 | 0.8 |
| Unit Labour Cost | 6.0 | 3.8 | 3.3 | 3.8 | 0.0 |
| Productivity per Full-Time Employee | -0.7 | -0.5 | 0.7 | -0.1 | -0.4 |
| Compensation per Employee | 5.2 | 3.3 | 4.0 | 3.8 | -0.5 |
| Unemployment Rate (% of Active Population) | 12.1 | 11.6 | 11.5 | 11.4 | 0.2 |
| Household and NPISH Savings Rate (% Gross Disposable Income) | 11.7 | 9.7 | 9.2 | 8.6 | 1.1 |

* Contribution to GDP growth

Source: INE and AIReF

**The moderation in the rate of change in real GDP in 2024 would be linked to a lower expected contribution from the external balance, which would be partially offset by the contribution of domestic demand.** The greater dynamism of domestic demand is fundamentally based on consumption, both private and public, while investment as a whole is revised upwards by only 0.1 points.

**The forecast for private consumption in 2024 is revised upwards by half a percentage point from the January estimate.** The growth in private consumption in 2024 will be driven by the increase in population and employment, which is also revised upwards compared with the previous estimate, and by the expansion in real household disposable income. In addition, the pass-through of tighter financing conditions may ease in the course of the year. Finally, the household savings rate still remains at high levels, which could support the growth in consumption.

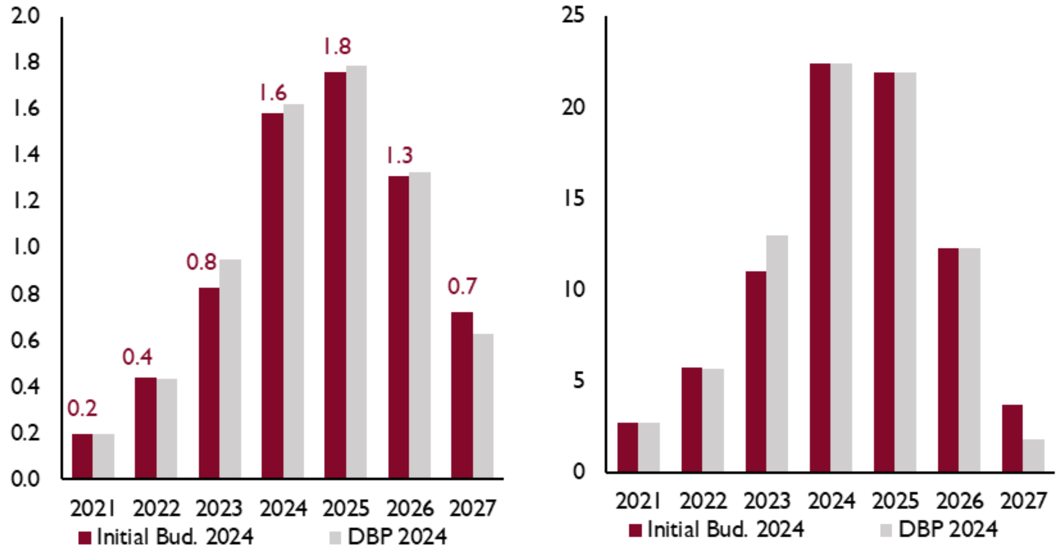
**The outlook for growth in total investment remains virtually unchanged, although the forecast for investment in equipment and cultivated assets is reduced by 0.4 points.** Investment is expected to perform more dynamically in 2024, with growth of 2.7% compared with 0.8% the previous year. There is expected to be a significant expansion in investment in equipment, which would rise by 3.9%, following the contraction recorded in 2023. This is despite its growth being revised downwards following the negative surprise of the fourth quarter 2023 data. Investment in construction will also see a faster pace of growth, to 2.2% in 2024. It is revised upwards following the positive data recently observed in the confidence indicators and the improved forecast for employment, which has a positive impact on investment in housing. In the current context of uncertainty, the acceleration of both components of investment is essentially dependent on the rollout of the projects associated with the RTRP and the fading of the negative impact of the tightening of financing conditions in the economy.

**As regards the RTRP, AIReF revises downwards the estimates of effective implementation in 2024**. After the publication of the data of the non-financial accounts of the GG, and according to AIReF's estimates, the execution of the funds linked to the transfers of the RTRP in 2023 is revised downwards, and with it the estimated impact in that year. The expected impact for 2024 is also revised downwards, mainly due to the effects of past inflation. These estimates do not incorporate any effects associated with reforms or loans.

**FIGURE 18. ESTIMATE OF THE DISTRIBUTION OF RTRP FUNDS (€M) AND THEIR IMPACT ON GDP**

**FIGURE 18.A. IMPACT ON GDP. (% DEVIATION WITH RESPECT TO A SCENARIO WITHOUT RTRP)**

**FIGURE 18.B. DISTRIBUTION OF RTRP FUNDS (€BN)**




Source: AIReF

**The contribution of the external sector to growth in 2024 would be 0.1 points lower than forecast in AIReF's previous macroeconomic scenario**. The expected growth of exports is revised upwards as a result of a much higher than expected carryover effect from 2023, which is only partially offset by somewhat less optimistic assumptions about the evolution of Spanish export markets. For its part, the upward revision of the forecast of imports is somewhat higher, since the greater carryover effect associated with the INE estimates for the last quarter of the year must be added to the greater strength expected for domestic demand.

**The pace of employment growth has been revised upwards in 2024, although some slowdown is expected in relation to the growth observed in 2023, in line with the expected evolution of GDP.** The expected growth in employment in 2024 of 2.5% is somewhat lower than that recorded in 2023 (3.2%). However, it remains higher than the GDP growth estimated in the scenario, resulting in a further decline in apparent labour productivity.

**With regard to prices, headline CPI is expected to grow by 3.1% for 2024 as a whole, compared with the 3.3% projected in the January report.** Inflation is expected to continue with its process of moderation until the end of the year with a rate of 3.1%, 0.4 points lower than in 2023. For its part, core inflation is forecast to fall to a great extent compared with 2023 – by three points – to stand at 3% in 2024, following last year's rise of 6%. The partial withdrawal in

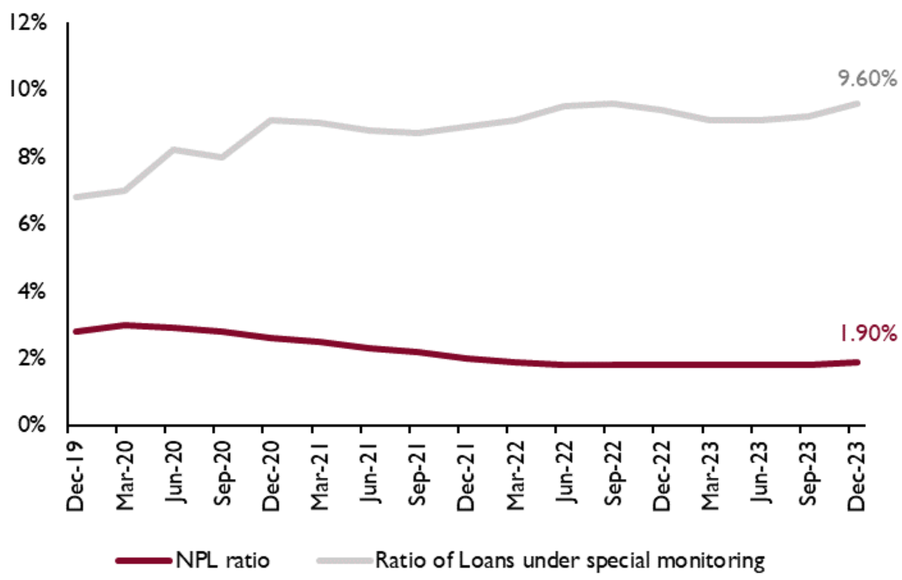
2024 of the measures adopted by the Government to mitigate the rise in energy prices may increase inflation by around 0.5 points in the current year.

## 3.5. Risks around the macroeconomic scenario

**Risks from the global environment remain skewed to the downside.** On the one hand, the active military conflicts in Europe and the Middle East may worsen and spread to other geographical areas. This means that uncertainty remains high and there may be new disruptions to trade, such as those that occurred in the Red Sea. Added to this is the increasingly evident fragmentation of trade relations, which, together with moderate productivity growth in most advanced economies, might lead to further downward revisions in medium and long-term growth prospects. Finally, the risk of greater persistence or intensity of the weakness that some European economies have shown in recent years and, in particular, Germany, whose export-oriented model has been negatively affected by the energy crisis, and lower demand from China.

**On the financial side, although there has been no significant deterioration in the credit quality of the loan portfolio of Spain, such deterioration is starting to be seen in other peer countries.** Data from the latest dashboard of the European Banking Authority (EBA) show that, although the NPL ratio for the euro area as a whole was stable at around 1.9% at the end of 2023, the ratio of stage 2 loans is at its highest since 2022 - 9.6%. Although far from being a problem at present, this is a factor that needs to be closely monitored.

**FIGURE 19. RATIO OF NON-PERFORMING LOANS UNDER SPECIAL MONITORING FOR THE GROUP OF ENTITIES SUPERVISED BY THE EBA FOR THE EURO AREA**

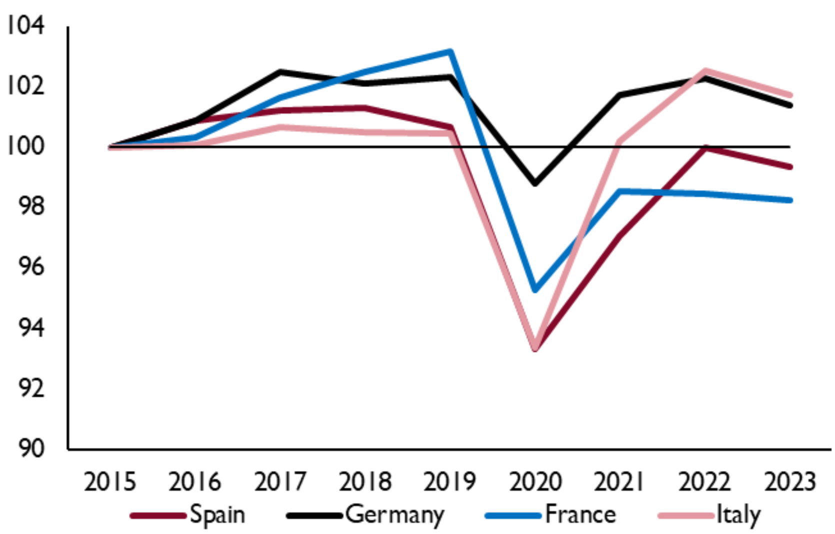



Source: EBA

**In the domestic sphere, the current account surplus observed in recent years has significantly reduced the Spanish economy's dependence on external savings**. Spain's net debtor International Investment Position (IIP) has decreased by more than 40 pp of GDP since 2009 and stood at 52.8% of GDP in the fourth quarter of 2023. However, the process of external deleveraging of the Spanish economy has been concentrated in the private sector, while the public sector's debt position has increased and has been accompanied by a notable moderation in investment.

**The weakness in investment and the moderate increase in productivity compared with other economies could compromise the possibilities of future growth if it persists over time.** In the opposite direction, the materialisation of the investment boost associated with the RTRP at a higher rate than envisaged in the baseline scenario or a greater influx of the foreign population could lead to higher growth in the short term.

**FIGURE 20. PRODUCTIVITY PER EMPLOYEE (2015=100)**




Source: INE and Eurostat

**BOX 1. THE SPANISH ECONOMY IN THE MEDIUM TERM**

In this box, AIReF presents a complete macroeconomic scenario up to 2028. This scenario provides relevant information for medium-term planning.

According to AIReF's forecasts, after the slowdown in growth in 2024, the Spanish economy will gradually converge to its potential growth, which AIReF estimates at around 1.3%. This slowdown reflects the fading of the effects associated with the RTRP in a context of fiscal consolidation, while the negative effects associated with the tightening of financial conditions in recent years disappear. This scenario hardly differs from the one previously estimated by AIReF.

Economic growth would be mainly based on the contribution of domestic demand, supported by the expansion of private consumption and, to a lesser extent, investment. Specifically, private consumption would maintain a rate of growth consistent with a gradual return of household savings rates to their medium-term value. For its part, investment would reduce its rate of growth as the investment boost associated with the RTRP fades, allowing the economy's capitalisation rates to remain stable at around 20% of GDP, close to their historical average.

The contribution of the external sector to growth would be positive, but of a smaller size (0.1 percentage points on average). Exports would maintain rates of growth in line with expected growth in world trade, on the basis of the latest IMF forecasts, which project global growth in the medium term to be the slowest in decades. In particular, the IMF's October 2023 forecast projects global GDP growth of 3.1% in 2028, down from the growth in five years of 3.6% projected in January 2020, before the pandemic, and the 4.9% expected before the financial crisis. For their part, imports are forecast to continue to grow at a pace in line with the growth of final demand.

The employment growth profile remains in line with economic activity, estimated using Okun's Law, which establishes a historical relationship between employment and GDP growth. This employment growth would lead to a progressive reduction in the unemployment rate, which would converge by 2028 to levels close to the NAWRU. Productivity growth would recover positive rates, although it remains moderate over the forecast horizon.

Finally, inflation would converge in the medium term to the ECB's reference rates once the price pressures associated with shocks in commodity markets and geopolitical tensions are assumed to fade. Along the same lines, wages will grow in line with inflation over the forecast horizon, without recovering the losses in purchasing power recorded during the current inflationary episode.

**TABLE RE_1.1. MACROECONOMIC OUTLOOK 2024-2028**

| | | *AIReF Apr 24* | | | | |
|---|---|---|---|---|---|---|
| ***Year-on-Year Rates of Change*** | ***2023*** | ***2024*** | ***2025*** | ***2026*** | ***2027*** | ***2028*** |
| Private Domestic Final Consumption Expenditure | 1.8 | 2.4 | 2.0 | 1.9 | 1.7 | 1.6 |
| General Government Final Consumption Expenditure | 3.8 | 1.2 | 1.3 | 1.0 | 1.0 | 1.1 |
| Gross Fixed Capital Formation | 0.8 | 2.7 | 2.1 | 1.9 | 1.4 | 1.3 |
| *GFCF Equipment and Cultivated Assets* | *-1.3* | 3.9 | 2.7 | 2.3 | 1.4 | 1.3 |
| *GFCF Construction and Intellectual Property* | *1.7* | 2.2 | 1.8 | 1.7 | 1.4 | 1.3 |
| **Domestic Demand*** | ***1.7*** | **2.1** | **1.8** | **1.6** | **1.4** | **1.4** |
| Exports of Goods and Services | 2.3 | 2.1 | 3.1 | 3.1 | 3.0 | 2.8 |
| Imports of Goods and Services | 0.3 | 2.6 | 3.2 | 3.2 | 2.9 | 2.9 |
| **External Balance*** | ***0.8*** | **-0.1** | **0.1** | **0.1** | **0.1** | **0.1** |
| **Gross Domestic Product** | **2.5** | **2.0** | **1.9** | **1.7** | **1.6** | **1.5** |
| **Nominal Gross Domestic Product** | **8.6** | **5.2** | **4.1** | **3.7** | **3.6** | **3.4** |
| **Gross Domestic Product Deflator** | **5.9** | **3.2** | **2.2** | **2.0** | **2.0** | **2.0** |
| **CPI** | **3.5** | **3.1** | **2.2** | **2.0** | **2.0** | **2.0** |
| Full-Time Equivalent Employment | 3.2 | 2.5 | 1.5 | 1.5 | 1.5 | 1.4 |
| Unit Labour Cost | 6.0 | 3.8 | 1.5 | 1.6 | 1.8 | 1.8 |
| Productivity per Full-Time Employee | -0.7 | -0.5 | 0.4 | 0.3 | 0.1 | 0.0 |
| Compensation per Employee | 5.2 | 3.3 | 2.0 | 1.8 | 1.8 | 1.8 |
| Unemployment Rate (% of Active Population) | 12.1 | 11.6 | 11.1 | 10.8 | 10.6 | 10.3 |
| Household and NPISH Savings Rate (% Gross Disposable Income) | 11.7 | 9.7 | 8.8 | 8.3 | 8.0 | 7.6 |

* Contribution to GDP growth

Based on these projections for the Spanish economy as a whole, the following table presents medium-term estimates for the growth of the ARs. These projections are based on an assumption that the divergences in real growth rates observed over recent years will narrow.

**TABLE RE_1.2 MACROECONOMIC OUTLOOK FOR THE ARS 2024-2028**

| | Spanish Regional Accounts (Dec-2023) | | | | Macroeconomic Scenario 2024-2028 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| **ANDALUSIA** | 1.8 | -10.9 | 6.2 | 5.2 | 2.4 | 2.1 | 2.0 | 1.7 | 1.6 | 1.3 |
| **ARAGON** | 0.9 | -8.6 | 5.1 | 3.8 | 2.1 | 1.9 | 1.6 | 1.5 | 1.4 | 1.2 |
| **ASTURIAS** | 1.3 | -10.7 | 5.2 | 4.1 | 1.7 | 1.8 | 1.6 | 1.4 | 1.3 | 1.2 |
| **BALEARIC ISLANDS** | 2.0 | -23.1 | 11.6 | 12.5 | 4.2 | 2.2 | 2.1 | 1.8 | 1.7 | 1.6 |
| **CANARY ISLANDS** | 1.8 | -19.0 | 8.5 | 9.7 | 3.8 | 2.3 | 1.9 | 1.8 | 1.7 | 1.5 |
| **CANTABRIA** | 1.3 | -10.3 | 6.9 | 4.8 | 1.9 | 1.7 | 1.5 | 1.4 | 1.4 | 1.3 |
| **CASTILE AND LEON** | 0.6 | -8.7 | 4.5 | 3.1 | 2.2 | 1.7 | 1.5 | 1.6 | 1.5 | 1.3 |
| **CASTILE-LA MANCHA** | 0.7 | -7.8 | 5.2 | 2.2 | 1.7 | 1.7 | 1.5 | 1.5 | 1.6 | 1.3 |
| **CATALONIA** | 2.2 | -12.2 | 7.0 | 6.0 | 2.7 | 2.2 | 2.1 | 1.9 | 1.7 | 1.6 |
| **VALENCIA** | 2.0 | -10.8 | 7.4 | 5.9 | 2.0 | 2.1 | 2.1 | 1.9 | 1.6 | 1.5 |
| **EXTREMADURA** | 1.7 | -9.4 | 4.3 | 2.1 | 1.7 | 1.7 | 1.5 | 1.5 | 1.3 | 1.3 |
| **GALICIA** | 1.4 | -9.1 | 5.6 | 4.2 | 2.0 | 1.9 | 1.8 | 1.5 | 1.3 | 1.2 |
| **MADRID** | 3.1 | -10.4 | 6.0 | 7.2 | 3.0 | 2.1 | 1.9 | 1.8 | 1.6 | 1.6 |
| **MURCIA** | 2.3 | -9.0 | 6.9 | 4.0 | 1.9 | 1.7 | 1.6 | 1.2 | 1.2 | 1.3 |
| **NAVARRE** | 2.3 | -10.3 | 6.5 | 4.7 | 2.0 | 1.9 | 1.9 | 1.6 | 1.5 | 1.4 |
| **BASQUE COUNTRY** | 1.5 | -10.6 | 6.2 | 6.0 | 2.2 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 |
| **RIOJA** | 1.2 | -8.9 | 4.7 | 5.5 | 2.1 | 1.7 | 1.7 | 1.5 | 1.3 | 1.3 |
| **SPAIN** | **2.0** | **-11.2** | **6.4** | **5.8** | **2.5** | **2.0** | **1.9** | **1.7** | **1.6** | **1.5** |
| | Annual and Quarterly Accounts in Spain | | | | | | | | | |

**BOX 2. COMPOSITION OF JOB CREATION IN THE SPANISH ECONOMY**

The Spanish economy has been affected over recent years by shocks of several types, the Covid-19 pandemic and the energy price shock resulting from the conflict in Ukraine, which have had an uneven impact in sectoral terms. In the same vein, economic policy measures such as the reforms and investment programmes of the Recovery, Transformation and Resilience Plan (RTRP) aim to drive the structural transformation of the Spanish economy by promoting activities related to the digital and green transition, among others.

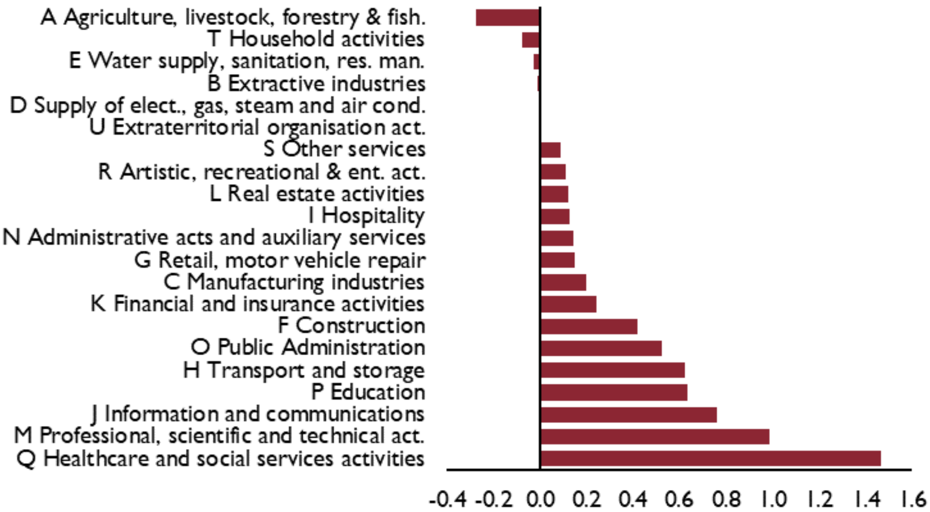
The evolution of the sectoral distribution of employment offers an approximation of the impact that all these shocks and measures may be having on the Spanish economy. In this regard, this box analyses the evolution of employment according to the Labour Force Survey (LFS) between 2019 and 2023, in order to identify changes in sectoral employment patterns, in the context of the post-pandemic recovery. Micro-data from the LFS are also used with the aim of analysing additional dimensions to the nature of the employment created in recent years.

As regards the sectoral evolution of employment – analysed using LFS employment by activity sections - the importance of the contribution to employment growth between 2019 and 2023 of public sector activities and other activities related to the Welfare State is particularly noteworthy (Figure B_2.1). Specifically, the growth of the sections of General Government (Section O), Education (Section P) and Healthcare Activities (Section Q), contribute over 40% of the growth in total employment between 2019 and 2023. Part of this growth is the result of the response to the Covid-19 pandemic itself: for example, in 2020 alone, employment in healthcare activities rose by 5.2%. However, the growth in employment in Education could also reflect other trends or structural changes, linked to the digital transition that might have led to greater training needs.

There is also a marked growth in the Information and Communications (Section J) and Professional and Scientific Activities (Section M) sections, which together contributed about 30% of employment growth between 2019 and 2023. This pattern of employment growth indicates a greater relevance of more technology-intensive and knowledge-intensive activities, related to digitalisation and with higher value added.

At the same time, the contribution of primary sector activities (Agriculture) to employment between 2019 and 2023 was negative and that of secondary sector activities (Extractive industries, Manufacturing, Energy and water) was practically zero or very limited. Along the same lines, service activities related to tourism, such as hospitality, a traditional specialisation sector of the Spanish economy, also did not make a major contribution to employment growth between 2019 and 2023, given the paralysis of the tourism sector in 2020 and the subsequent recovery in 2021 and 2022.

**FIGURE RE_2.1. CONTRIBUTION TO EMPLOYMENT GROWTH IN THE PERIOD 2019-2023 (PP)**




Source: INE

It is important to further analyse the composition of employment within the sections that have made a greater contribution to employment growth. The CNAE sections can sometimes include divisions with a certain degree of heterogeneity in terms of their relationship with new digital technologies or their intensity in employment.

Thus, for example, it can be seen that in the Information and communications section, the division that made the largest contribution by far with respect to the others is IT (19.6 pp), an activity specialising in highly qualified services, linked to new technologies and the digital transition (Figure B_2.2). In the case of Professional, technical and scientific activities, high-value-added divisions such as Architectural and engineering technical services and Head office activities, and Business management consultancy activities are particularly noteworthy. Other divisions relevant in terms of the digital transition such as Research and development have made a much more modest contribution to employment growth in Section M. For its part, in Manufacturing industry, the traditional specialisation is maintained with a major contribution of the agri-food industry to employment growth, although the Pharmaceutical industry, with higher added value and research content, also made a very significant contribution to employment growth between 2019 and 2023.

**FIGURE RE_2.2. CONTRIBUTIONS OF THE DIVISIONS TO THE GROWTH OF EMPLOYED PERSONS IN THEIR SECTION. 2019-2023 (%, PP)**

FIGURE RE_2.2.A INFORMATION AND COMMUNICATIONS

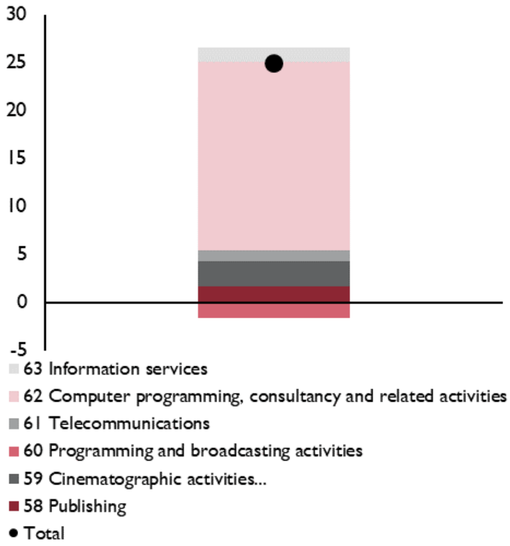



FIGURE RE_2.2.B PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES

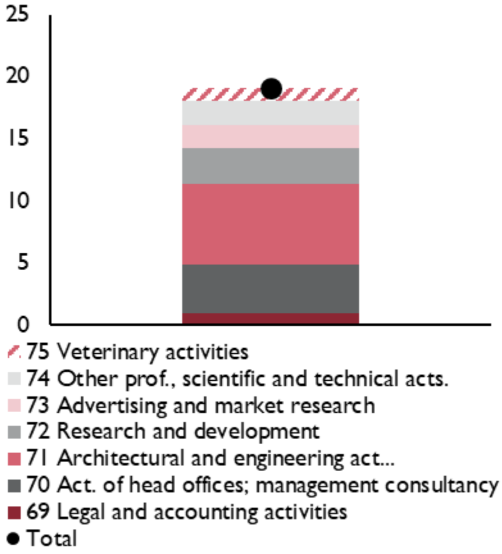



FIGURE RE_2.2.C HEALTHCARE AND SOCIAL SERVICES ACTIVITIES

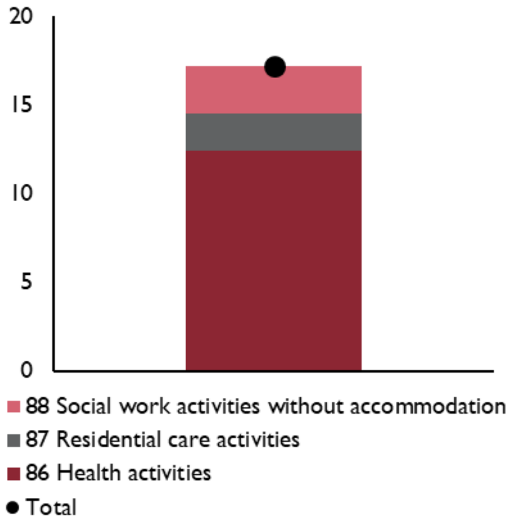
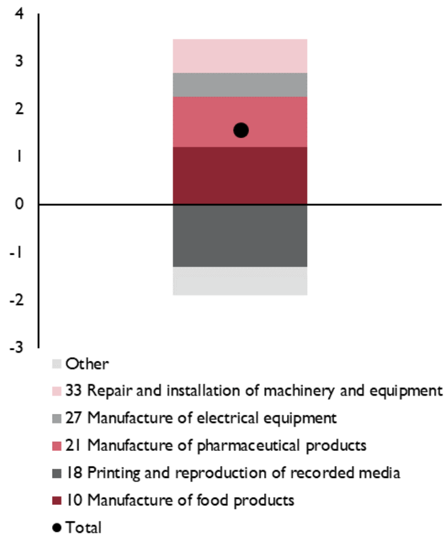



FIGURE RE_2.2.D MANUFACTURING INDUSTRY




Source: INE

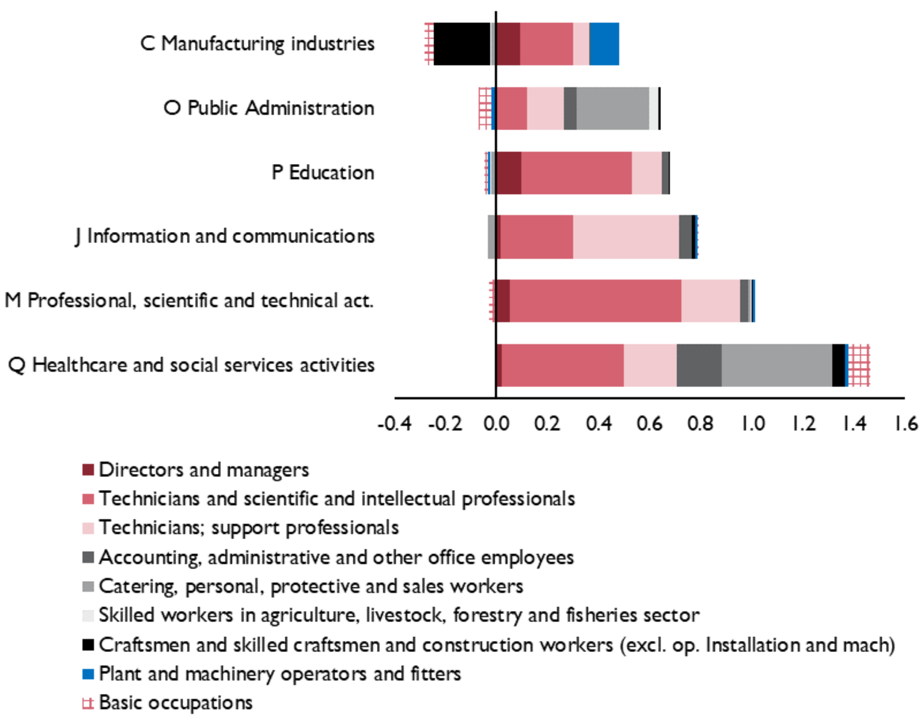
It is also important to analyse the structure of employment growth by occupation in the sections that account for most of the job creation between 2019 and 2023, with the aim of checking whether occupations with higher levels of human capital predominate.

For employment as a whole, occupations such as Scientific and intellectual technicians and professionals and Support technicians and professionals accounted for over 60% of job creation in the period 2019-2023. There is a predominance of occupations with high human capital such as Scientific and intellectual technicians and professionals and Support technicians and professionals to the detriment of other less qualified occupations such as basic occupations.

With regard to the structure by occupation in the sections that have been identified as the drivers of job creation between 2019 and 2023, the importance of Scientific technicians and professionals, technicians and intellectuals in Professional, scientific and technical activities should be highlighted (Figure B_2.3). It would therefore be a section oriented to new technologies with job creation in highly skilled occupations. In other sections, the structure by occupation does not show so clearly that employment creation has a clear orientation towards activities linked to new technologies. For example, in IT and communications, the largest contribution to employment comes from Support technicians and professionals, which may indicate a greater focus on management rather than on higher value-added activities and innovation.

In the branches of the Welfare State, job creation is generally concentrated in the most skilled occupations. Logically, in Education, training requires a high level of professional qualification. In contrast, in Healthcare activities there is a certain duality between the most skilled and the least skilled activities (personal services workers). This would suggest that the transformative potential, in terms of orientation towards a more knowledge-intensive economy, of employment in the care economy is more limited than in other branches.

**FIGURE RE_2.3. CONTRIBUTIONS OF THE SECTIONS, DISTINGUISHING BY OCCUPATION, TO THE TOTAL GROWTH OF EMPLOYED PEOPLE IN 2019-2023 LFS (PP)**



Source: INE

The evolution of employment by sections, divisions and occupations analysed points to a greater weight of activities related to new technologies such as Information and communications and professional, scientific and technical activities. In addition, in some of these sections the highest-skilled occupations made the largest contribution to employment growth between 2019 and 2023. However, these trends alone do not imply a change in the production pattern since they might constitute an inherent feature of the recovery and growth stages of the Spanish economy. However, it seems complex to compare the current stage of recovery and growth with the growth phase of the early 2000s, based on the building boom, or with the recovery following the financial and sovereign debt crisis, given the different nature and persistence of the shock from the pandemic compared with those that occurred in the period 2008 – 2013.

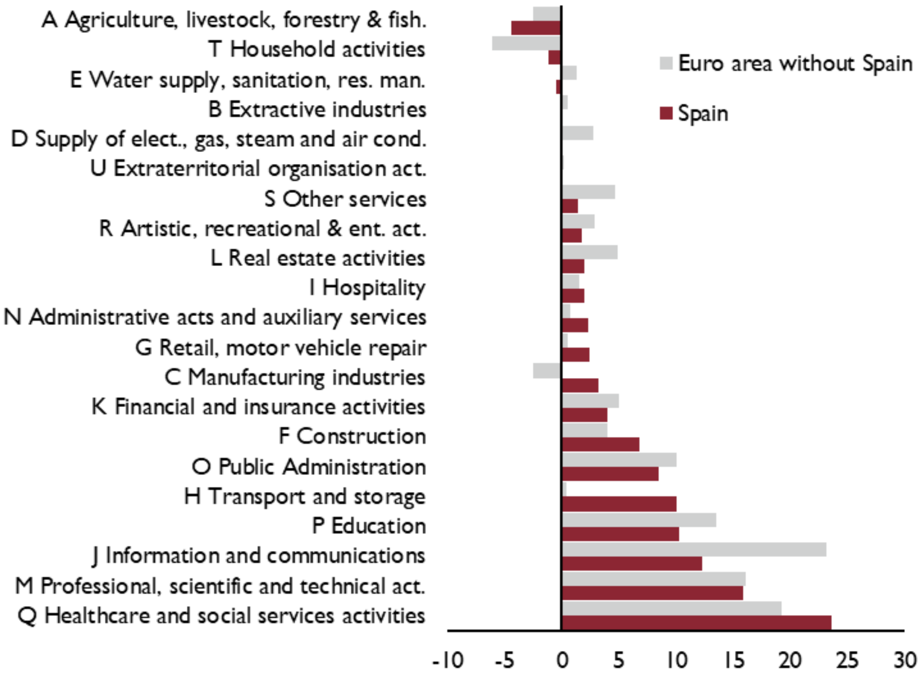
In contrast, it is interesting to take as a reference the evolution of employment in the economies of the euro area and the EU, which have dealt with the same shocks as the Spanish economy between 2019 and 2023, although with different intensity depending on the idiosyncratic features of each economy. In this regard, employment data from the Eurostat Labour Force Survey (LFS) show that the recovery in this period has been more intense in Spain than in the rest of the euro area and in the rest of the EU. This could be explained by the lesser impact of the energy shock resulting from the conflict in Ukraine, given Spain's energy mix, even though the impact of the pandemic was more intense for the Spanish economy.

With regard to the sectoral composition of job creation, there are no major relative differences between Spain, the rest of the EU and the rest of the euro area in terms of the contributions of each of the sections to total job creation. The contribution of the section most related to the knowledge economy and digital transformation, IT and communications, is similar in all three cases.

However, given that there has been much greater job creation in Spain in percentage terms, both the sections of the knowledge economy and those normally associated with the Welfare State represent a lower percentage of job creation between 2019 and 2023. For example, in the rest of the euro area, job growth in information and communications and scientific, technical and professional activities accounted for 39% of job creation compared with 30% in Spain. In the rest of the EU, this percentage was even much higher.

Similarly, Welfare State activities in Spain had a similar weight in job creation as in the rest of the euro area, although lower than in the EU. Finally, tourism-related sections (hotels and catering, transport and recreational activities) accounted for a significant percentage of the rise in job creation in Spain (14%), compared with a much lower effect in the other euro area and EU economies.

**FIGURE RE_2.4. PERCENTAGE BREAKDOWN OF EMPLOYMENT CREATED BETWEEN 2019 AND 2023 ACCORDING TO CNAE SECTION (%)**




Source: INE and Eurostat

In conclusion, the evolution of employment by sections could offer certain signs of transformation in the sectoral structure from a service economy based on tourism activities to one where the knowledge and care economy are more relevant. However, this trend is common to other European economies, which may be the result of technological transformations and the increasing digitalisation of economies and the impact of the most recent shocks.

In relative terms, Spain does not stand out for a faster productive transformation towards the sections of activity related to the digital transition; on the contrary, these industries have a lower weight in job creation than in neighbouring economies. At any event, this analysis follows a descriptive and partial approach, based solely on one macroeconomic variable - employment - and a very specific period. Analysis of the most recent data seems to indicate a stronger contribution from more traditional sectors - services linked to tourism activities and trade. A more comprehensive analysis is therefore needed to evaluate the impact of the most recent shocks and economic policies on the sectoral structure of the Spanish economy and on the potential productive transformation.

## BOX 3. RECENT EVOLUTION OF GROSS FIXED CAPITAL FORMATION

One of the most characteristic features of the Spanish economy after the outbreak of the coronavirus and the subsequent supply and demand shocks of 2021 and 2022 lies in the uneven growth of demand-side aggregates. Thus, compared with the average for 2019, public consumption has maintained an accelerated trend throughout the period. Other aggregates such as private consumption and external sector variables that recorded very accelerated growth until the beginning of 2022 have stabilised since then. For its part, gross fixed capital formation (GFCF) in volume terms has remained practically stable since mid-2020, maintaining a lower level than before the crisis.

**FIGURE RE_3.1. RECENT EVOLUTION OF DEMAND AGGREGATES. VOLUME (2019=100)**

**FIGURE RE_3.1. CONSUMPTION AND INVESTMENT. VOLUME (2019=100)**

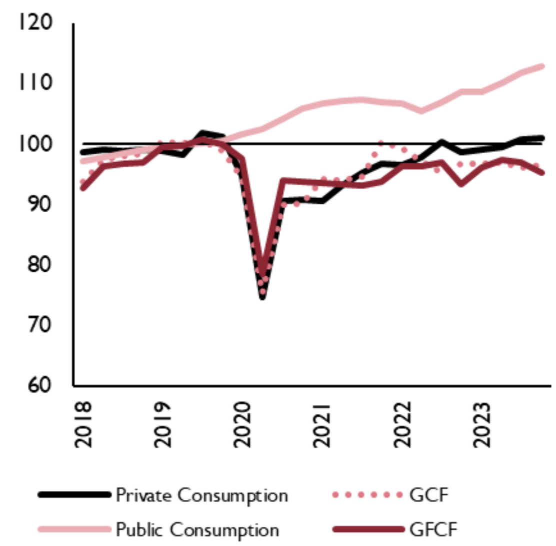
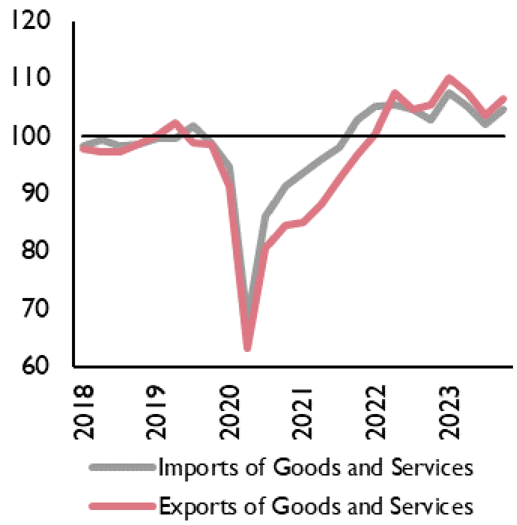


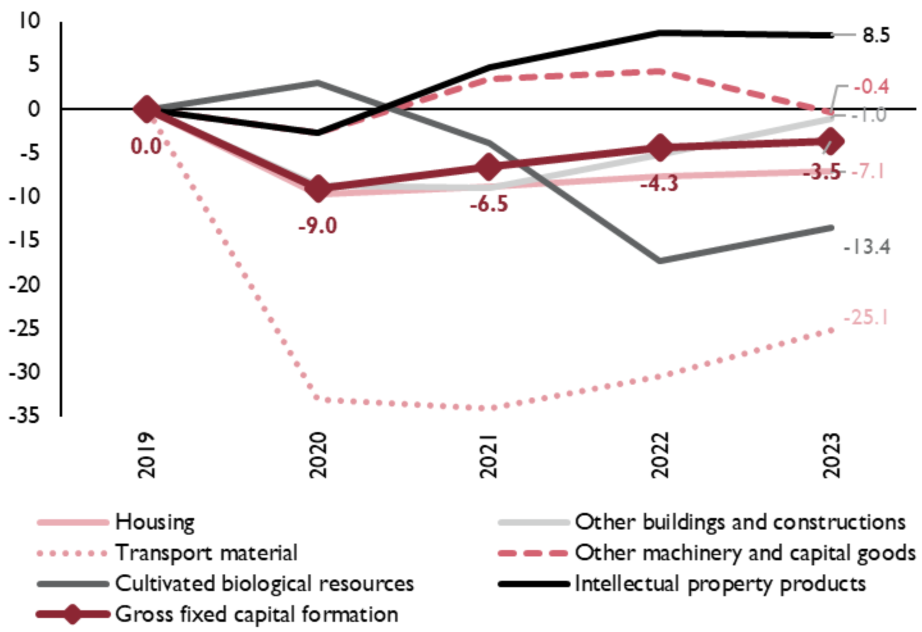

**FIGURE RE_3.1.B EXPORTS AND IMPORTS**




Source: INE

By product type, GFCF in Spain in 2023 was only higher than in 2019 in the case of intellectual property products. In contrast, investment in transport equipment has fallen by 25% compared with the 2019 level and investment in cultivated biological resources is 13.4% lower, as a result of the persistent drought and the increase in the prices of agricultural inputs. Investment in construction, marked by the performance of investment in housing, remained 4.5% below average 2019 levels, while investment in other machinery and equipment remained stagnant, as the improvement recorded in 2021 and 2022 partially reverted in 2023.

**FIGURE RE_3.2. EVOLUTION OF GROSS FIXED CAPITAL FORMATION BY PRODUCT TYPE. (CHANGE COMPARED WITH 2019 LEVELS, %)**




Source: INE

Although there are no data on investment in volume terms distinguishing between public and private investment, their behaviour can be approximated by using the simplifying assumption that the implicit deflator of GFCF is identical in both cases and equal to that of total investment. Under this premise, at the end of 2023 the level of private investment in real terms would be 8% lower than that recorded in 2019, while public investment would be more than 30% higher than in 2019. Considering a longer period of time, it could be said that private investment in real terms is practically stagnant after the pandemic, while public investment is continuing its upward trend started in 2017, albeit still far from the peaks observed in 2009.

**FIGURE RE_3.3. PUBLIC AND PRIVATE INVESTMENT. VOLUME INDEX 2019=100**

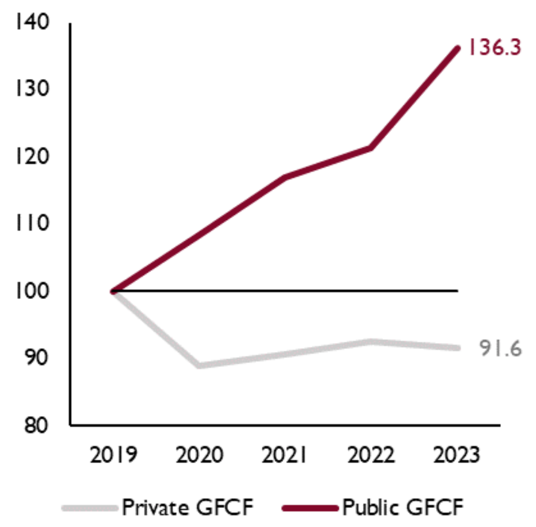
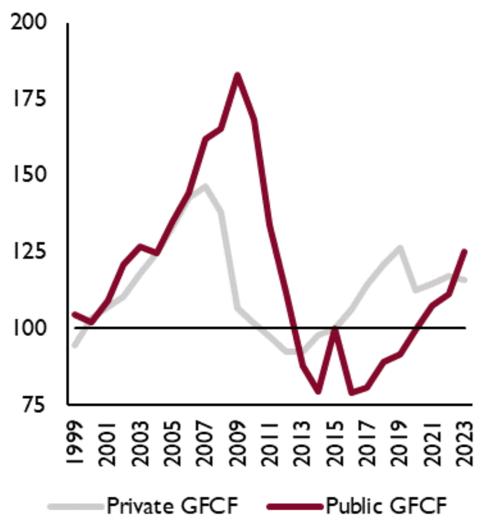


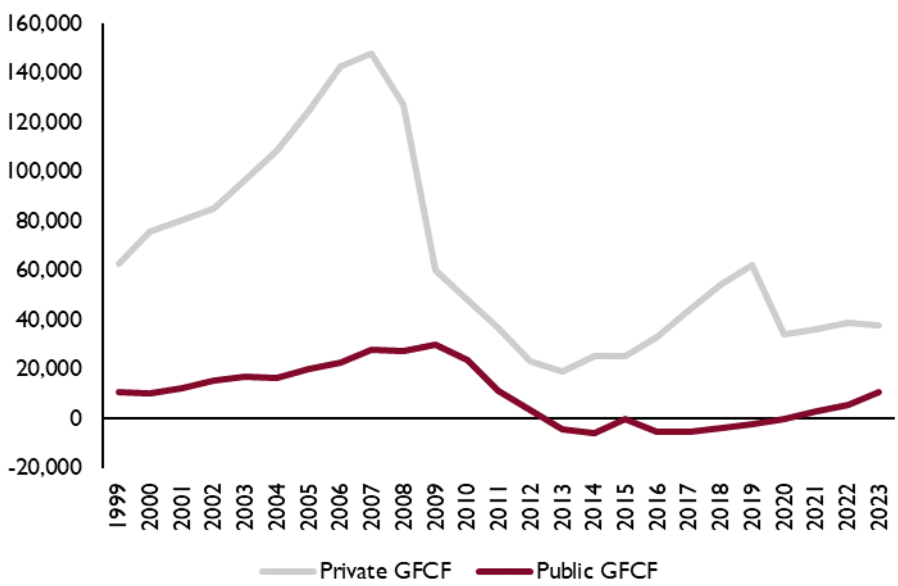

**FIGURE RE_3.4. VOLUME INDEX OF PUBLIC AND PRIVATE INVESTMENT (2015=100)**




Source: INE and AIReF estimates

In nominal terms, and after subtracting fixed capital consumption, net public investment, after almost a decade of contraction, would be positive again, while private investment remains stagnant.

**FIGURE RE_3.5. NET GFCF (MILLION EUROS)**




Source: INE

In comparison with the euro area, GFCF has performed very unevenly across the main euro area countries. After a period of similar evolution in GFCF dynamics in Spain, Germany, France, Italy and Portugal (2013-2019), this aggregate has again behaved very unevenly following the outbreak of COVID-19. While in the case of France there is a trend in line with the average of the euro area, Portugal and especially Italy show an increasing trend in investment with levels in 2023 much higher than those recorded before the outbreak of the coronavirus. In stark contrast, in countries such as Germany and Spain, GFCF remains stable with levels clearly below pre-crisis levels. These two countries stand out as those with the worst performance in the euro area as a whole.

**FIGURE RE_3.6. GROSS FIXED CAPITAL FORMATION. VOLUME (INDEX 2019=100)**

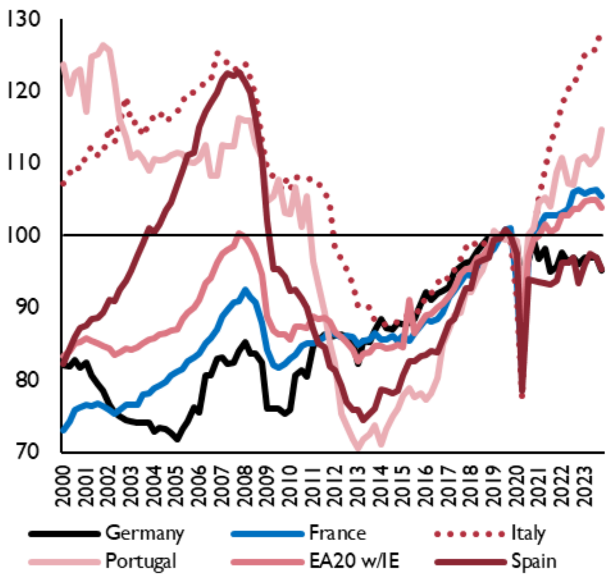
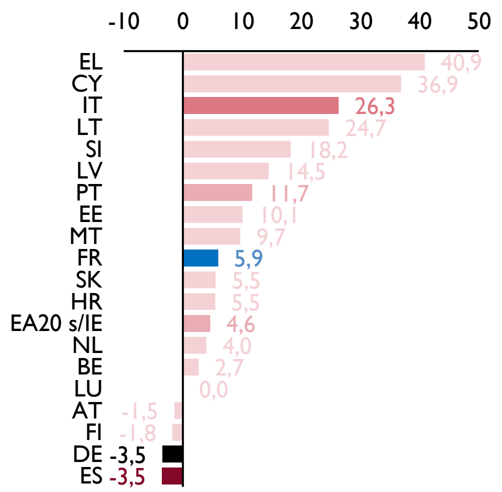



**FIGURE RE_3.7. CHANGE IN GROSS FIXED CAPITAL FORMATION BETWEEN 2019 AND 2023. VOLUME (%)**




Source: Eurostat.

Note: EA20 w/IE represents the euro area excluding Ireland.

This evolution, together with strong growth in employment, means that the ratio of investment to the number of employed persons in Spain has one of the most contractionary dynamics of investment intensity per worker among the countries of the euro area.

**FIGURE RE_3.8. GFCF VOLUME/ EMPLOYED PERSONS (INDEX 2019=100)**

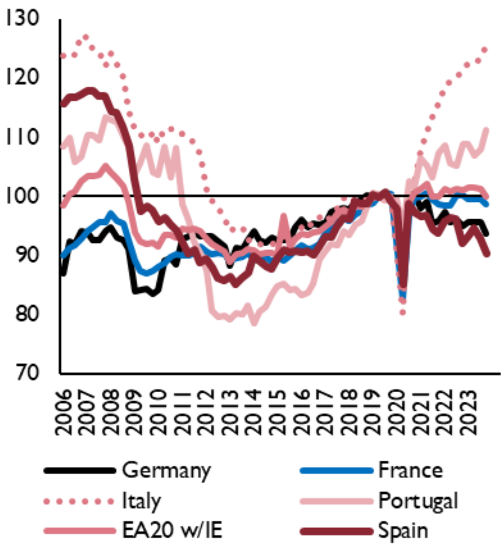
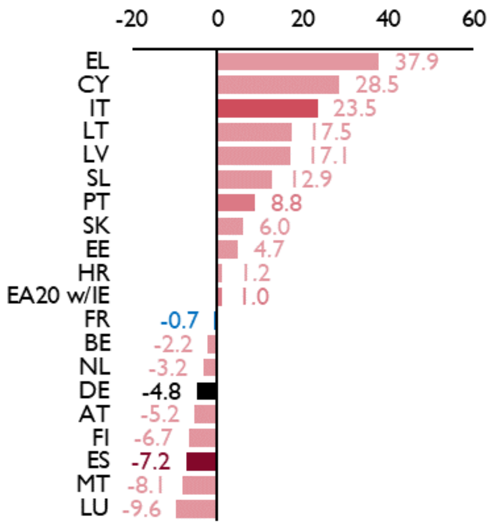



**FIGURE RE_3.9. CHANGE IN THE RATIO OF VOLUME GFCF OVER EMPLOYMENT BETWEEN 2019 2023 (%)**

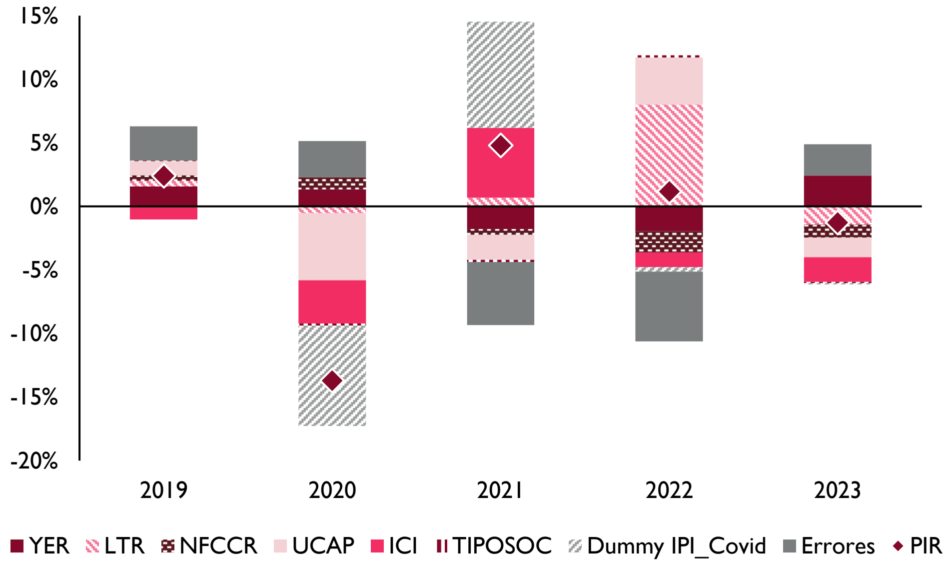



Source: Eurostat.

Note: EA20 w/IE represents the euro area without Ireland

According to the quarterly model used by AIReF to estimate and project investment – described in the annex – it can be seen that in 2021 and 2022 the models are unable to explain the weakness of this aggregate and a negative residual is necessary. In 2023, investment growth can be approximated to a greater extent by its determinants: highlighting the negative contribution of long-term real interest rates (LTR), the stagnation of the productive capacity utilisation (PCU) in industry, which might have reduced investment needs, and the deterioration of the industrial climate indicator (ICI).

**FIGURE RE_3.10. CONTRIBUTIONS TO GROWTH OF THE VARIOUS VARIABLES OF THE SIMPLIFIED ERROR CORRECTION MODEL**




Source: AIReF

Beyond this simplified model, there are other factors that might explain the weakness of investment. These include the orientation of economic growth towards activities such as education and professional activities, which are more intensive in knowledge than in physical capital (see box 2 Composition of job creation in the Spanish economy).

The role that economic uncertainty may have played has also been argued from various quarters. The relationship between uncertainty and economic activity has been studied in numerous academic articles. The main conclusions are summarised in the following table and generally tend to find a negative relationship between investment and economic uncertainty, although the causal relationship is ambiguous.

**TABLE RE_3.1 SUMMARY OF LITERATURE ON THE RELATIONSHIP BETWEEN VARIOUS MEASURES OF UNCERTAINTY AND ECONOMIC ACTIVITY**

| Authors | Article | Conclusions | Estimated impact in the case of Spain |
|---|---|---|---|
| Koetse et al. (2006) | The Impact of Uncertainty on Investment: A Meta-Analysis | In general, uncertainty affects negatively although there are numerous conditioning factors | Does not offer specific estimates |
| Meinen et al. 2016) | On Measuring Uncertainty and its impact on investment: cross-country evidence from the euro area | The conditional volatility of the unpredictable components of the macroeconomic indicators has a significant impact on investment in the countries considered (Germany, France, Italy and Spain). | Using the 2008-2008 financial crisis as an example, they find that about 30% of the shock on GFCF could be linked to uncertainty |
| Basile R, Girardi A (2018) | Uncertainty and Business Cycle: A Review of the Literature and Some Evidence from the Spanish Economy | The impact of the uncertainty is practically immediate, with no significant effects perceived after seven quarters | The reduction in the level of economic activity is approximately 0.2% compared with the baseline scenario, reaching the maximum level of impact in one to two quarters with its effect gradually fading |
| Ghirelli et al. (2019) | Measuring Economic and Economic Policy Uncertainty and Their Macroeconomic Effects: The Case of Spain | Significant effects of uncertainty shocks on GDP, consumption and investment in capital goods are detected, especially in two of the uncertainty measures used | The effects on GDP are practically immediate, peaking after two quarters (-0.1% compared with the baseline scenario). The effects dissipate, becoming insignificant after 6-7 quarters. The estimated effects on consumption are less powerful (-0.2, depending on the indicator used) than the effects on investment in capital goods (between -0.5 and -0.8). However, the effects on consumption are statistically more persistent than those on investment (between 4 and 7 quarters for the effects on consumption, compared with 1 to 2 quarters in the case of investment) |
| Ghirelli et al. (2021) | Economic Policy Uncertainty and Investment in Spain | A negative and non-linear effect is observed, especially in the case of highly indebted companies and SMEs in the context of more restrictive financial conditions, suggesting that financial frictions and risk aversion play an important role in the transmission of uncertainty. | In the base model, it is estimated that the effect of a change of one standard deviation of the annual average of the EPU index on the capital investment ratio could amount to about 4.7 points. |

At any event, it is very difficult to approximate and quantify uncertainty in the economy. The index prepared by Economic Policy Uncertainty is shown below[4]. This index seeks to measure the level of economic policy uncertainty for a series of countries through the frequency of appearance of certain economic terms appearing in the leading newspapers. It can be seen how in all countries, and particularly in the case of Germany, the index - normalised and once the trend was removed, see Figure B_3.11 - increased in 2022, reflecting the invasion of Ukraine and its major impact on energy prices. At any event, after the initial shock of 2022, a reduction in the indicator/uncertainty for the four countries as a whole can be seen in 2023, possibly as a result of overcoming the initial price shock. According to these

[4] See Baker *et al.* (2016)

indicators, Spain does not stand out for having higher levels of economic uncertainty. This was not the case during the financial crisis and in 2020 during the pandemic.

**FIGURE RE_3.11. ECONOMIC POLICY UNCERTAINTY INDEX. NORMALISED AND TREND REMOVED 1997-2023**

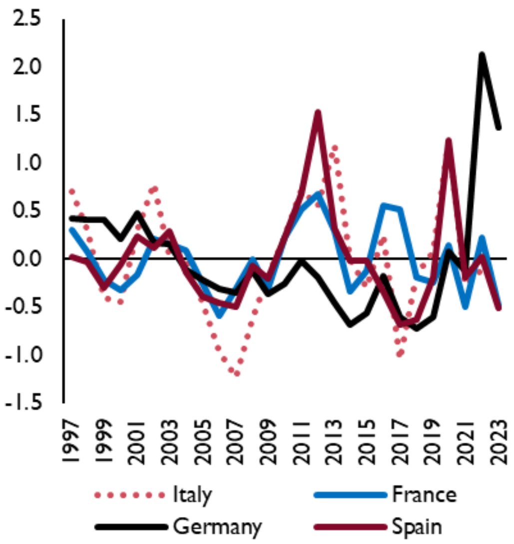
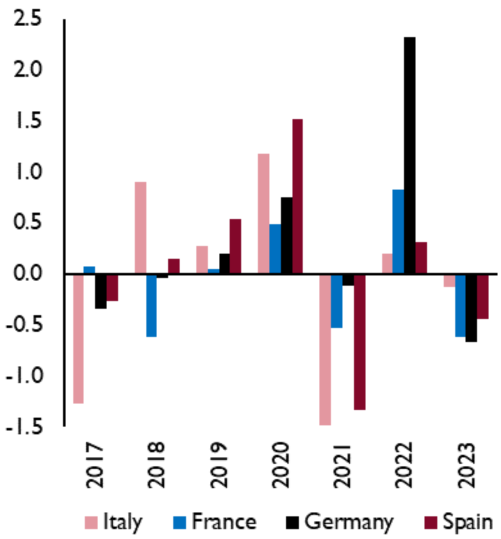



**FIGURE RE_3.12. CHANGES IN THE NORMALISED ANNUAL EPU INDEX SINCE 2017**




Source: Economic Policy Uncertainty

# 4. ANALYSIS OF 2024 BUDGETARY SCENARIO

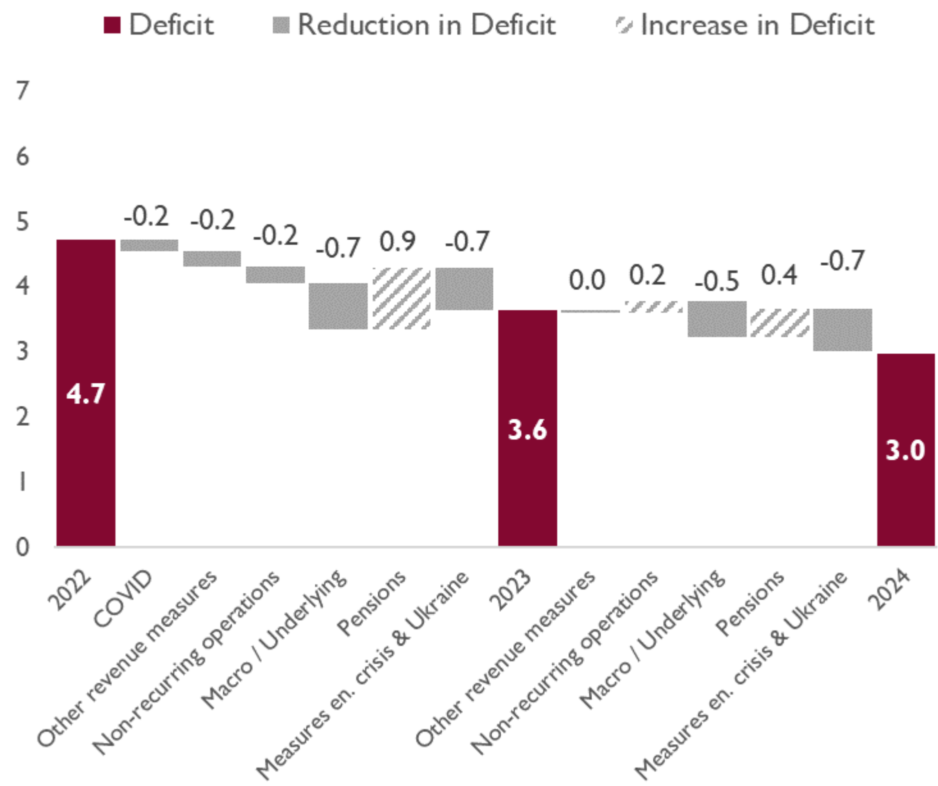
**AIReF estimates a GG deficit of 3% of GDP in 2024, in line with the forecast in the previous report.** This update of the deficit forecasts places AIReF's central scenario in line with the reference rate set by the Government in the Budgetary Plan presented last October and the Stability Programme Update. Although the estimate remains the same, there have been changes as a result of various factors with opposing effects on AIReF's central scenario. It should also be remembered that the Recovery, Transformation and Resilience Plan (RTRP) and the REACT – EU funds have a neutral effect on the deficit, although they affect the level of revenue and expenditure.

**The new measures approved raise the 2024 deficit by 0.2 points of GDP.** Since the last report in October, the Government approved a package of measures in Royal Decree-Law 8/2023, of December 27th, that partially extends the measures taken in 2023 to mitigate the economic consequences of the conflict in Ukraine and the rise in prices. These measures, which are mainly implemented through revenue, partially extend measures already in place. These measures adopted since the last report result in lower revenue collection of 0.2 points of GDP.

**The revision of the macroeconomic scenario results in an improvement in the deficit of 0.3 points of GDP.** The dynamism of the evolution of macroeconomic variables in recent months has altered the macroeconomic scenario, which is transferred to the revenue and expenditure forecasts. AIReF's new central macroeconomic scenario means higher real GDP growth in 2024, which would stand at 2% compared with the 1.7% forecast in the previous report. The GDP deflator remains unchanged, leading to a revision of GDP in nominal terms of 0.3 points, from 4.9% to 5.2% in the current scenario. On the one hand, the increased buoyancy of the economic variables raises the revenue projection, mainly due to taxes on income and social contributions as a result of the increased dynamism of employment, thus reducing the deficit by 0.2 points. On the expenditure side, the greater dynamism of the labour market reduces unemployment expenditure by just under 0.1 points of GDP.

**The new data incorporated, mainly the year-end 2023 figures, result in contrasting changes in the revenue and expenditure headings with a total impact in 2024 of a deficit that is 0.1 points of GDP higher.** AIReF's analysis incorporates all the new information published and provided by the different authorities since the previous report. Particularly noteworthy in this regard are the 2023 year-end figures, with a deficit of 3.6% of GDP for the GG as a whole. This year-end figure is almost 0.3 points of GDP below the forecasts published in the Budgetary Plan and just under 0.5 points below the forecasts in AIReF's last report. On the revenue side, the effect of the new information has a different sign for each heading and therefore the overall revenue impact is neutral. On the expenditure side, the new information, mainly on interest and gross capital formation, has led to an upward revision of the deficit of 0.1 points.

**FIGURE 21. EVOLUTION OF DEFICIT BY COMPONENT, AIREF (% GDP)**




Source: AIReF and IGAE

**The lower cost of measures due to the energy and price crisis in 2024 compared with 2023 is the determining factor reducing the deficit in 2024, with an impact of 0.7 points of GDP**. In 2022, the deficit was 4.7%. Over the course of 2023, the deficit fell by just over one point of GDP. In that year, the withdrawal of COVID measures contributed 0.2 points and the revenue measures included in the GSB, including the IEM and the increase in the contribution bases, contributed an additional 0.2 points. In the same direction, the decrease in non-recurring operations in 2023 contributed an additional 0.2 points to the reduction in the deficit. In addition, the lower weight of the measures to combat the energy crisis reduced the deficit by a further 0.7 points. However, the increase in pension expenditure that year more than offset the reduction in the deficit linked to the macroeconomic scenario and the underlying evolution of other expenditure. In 2024, AIReF believes that it will be the withdrawal of measures to mitigate the effects of the energy crisis that will push the deficit downwards by 0.7 points. For their part, the revenue measures will barely contribute to the reduction in the deficit as those adopted in the different sub-sectors offset each other. While the good performance of the economy will contribute an additional improvement of 0.5 points, this will be almost totally offset by the cost of increasing pensions by

3.8%. In the opposite direction, an increase in non-recurring operations is expected in 2024, which will push it upwards by 0.2 points, offsetting the opposite effect observed in 2023.

**AIReF considers that the deficit in the medium term will stabilise at around 3.2% in the absence of further measures, higher than forecast in the Stability Programme Update.** The deficit will continue to narrow in 2025 due to the removal of the last measures to combat the energy and price crisis. From then on, the deficit will worsen in 2026, due to the disappearance of temporary revenue measures and it will subsequently stabilise at around 3.2%. For its part, the path taken in the Stability Programme Update places the deficit at 2.5% of GDP.

**Non-RTRP revenue will continue on an upward path as a result of the withdrawal of the measures and the dynamism of employment, with the exception of 2026 due to the disappearance of temporary taxes, ending at 43% of GDP in 2028.** The removal of the measures in 2024 and 2025 pushes the weight of revenue upwards. In 2026, the disappearance of some temporary taxes will lead to stagnation of the weight of revenue over GDP. From 2027 onwards, the good performance of employment will push up the weight of revenue, especially due to taxes on income.

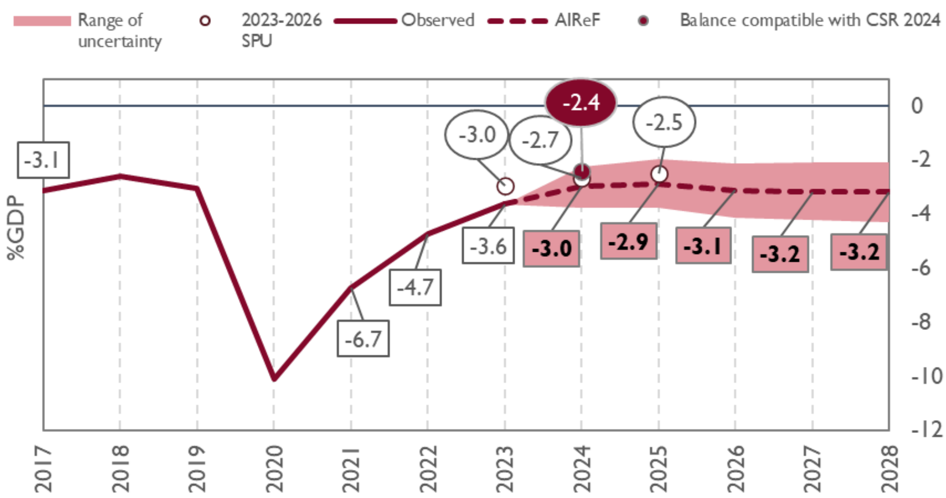
**After an initial reduction in 2024 due to the elimination of the last measures, non-RTRP expenditure will also follow an upward path in the medium term, reaching 46.2% of GDP, driven by social benefits in cash and interest**. Growth in pension expenditure and interest expenditure continues to push the weight of expenditure upwards. However, the weight of public consumption components over GDP will fall during the projection, as is the case for subsidies and other expenditure.

**TABLE 6. NET LENDING/BORROWING OF GENERAL GOVERNMENT (% GDP)**

| | AIReF Current | | | | |
|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 |
| **REVENUE** | 42.5 | 42.6 | 42.5 | 42.7 | 43.0 |
| **EXPENDITURE** | 45.4 | 45.5 | 45.6 | 45.9 | 46.2 |
| **BALANCE** | -3.0 | -2.9 | -3.1 | -3.2 | -3.2 |

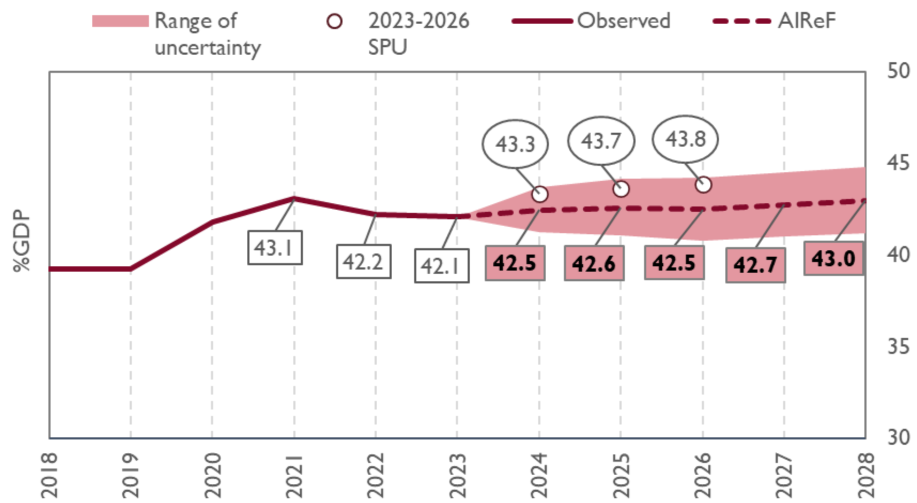
Source: IGAE and AIReF

**FIGURE 22. NET LENDING/BORROWING. TOTAL GG. MEDIUM-TERM WITHOUT RTRP (% GDP)**



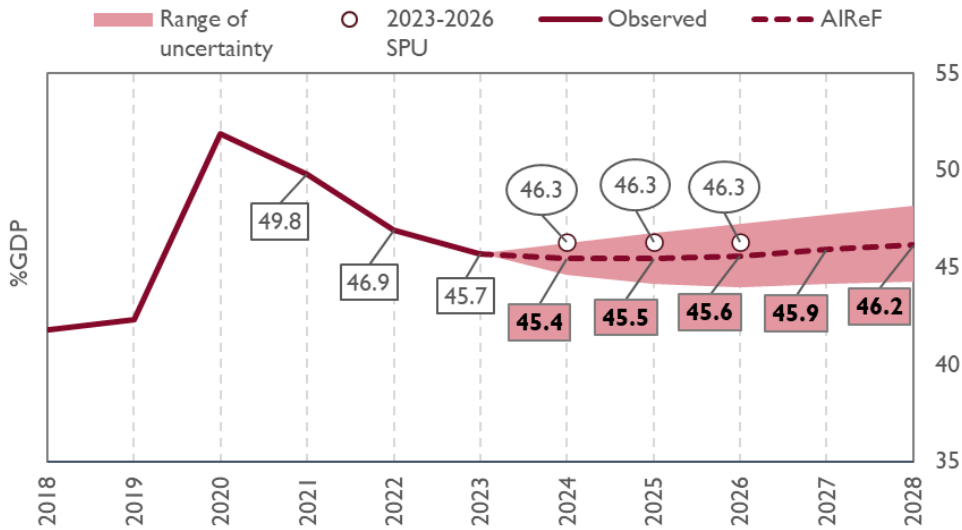

Source: AIReF and IGAE

**FIGURE 23. REVENUE. TOTAL GG. MEDIUM-TERM WITHOUT RTRP (% GDP)**




Source: AIReF and IGAE

FIGURE 24. EXPENDITURE. TOTAL GG. MEDIUM-TERM WITHOUT RTRP (% GDP)




Source: AIReF and IGAE

## 4.1. Evolution of General Government revenue

**AIReF forecasts that revenue for 2024, excluding the RTRP, will stand at 42.5% of GDP, 0.2 points below the forecast in the previous report.** After closing 2023 with revenue that reached 42.1% of GDP, in line with expectations, the revenue forecast falls as a result of the adoption and extension of measures. The estimates of taxes on production are the aggregates that undergo the largest fall compared with the previous report. This is mainly due to the partial extension of the tax reductions to mitigate the energy crisis and the rise in prices, which were expected to expire on December 31st, 2023. For its part, the latest information available[5] has a neutral effect since it leads to a reduction in the forecast of taxes on production and social contributions, together with an increase in taxes on income and other revenue that cancel each other out. Furthermore, the increase in the nominal GDP forecast reduces the weight of revenue by 0.3 points due to the denominator effect. However, in a positive direction, the update of the macroeconomic scenario results in an increase in the projections of taxes on income and social contributions, which amounts to just over 0.2 points of GDP and partially counteracts the downward revisions.

[5] Mainly: year-end 2023 information IGAE, tax revenue December 2023 and January and February 2024 AEAT, tax bases fourth quarter 2023 AEAT, impact of measures last months updated, among others.

TABLE 7. BREAKDOWN OF THE CHANGE IN REVENUE BETWEEN AIREF ESTIMATES IN THE REPORT ON THE MAIN LINES OF THE 2024 BUDGET AND THE CURRENT FIGURE

| | 2024 DBP | Breakdown of change in % GDP | | | | 2024 Current | Difference (Current - DBP) |
|---|---|---|---|---|---|---|---|
| | | Denominator effect (a) | Effect of measures (b) | Macro effect (c) | New information effect (d) | | |
| **REVENUE** | **42.7** | **-0.3** | **-0.2** | **0.2** | **0.0** | **42.5** | **-0.2** |
| **TAXES** | 25.2 | -0.2 | -0.2 | 0.1 | -0.1 | 24.9 | -0.3 |
| *On production* | 12.0 | -0.1 | -0.2 | 0.0 | -0.1 | 11.6 | -0.3 |
| *On income* | 12.8 | -0.1 | 0.0 | 0.1 | 0.1 | 12.9 | 0.1 |
| *Capital* | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | -0.1 |
| **CONTRIBUTIONS:** | 13.6 | -0.1 | 0.0 | 0.1 | -0.1 | 13.6 | 0.0 |
| ***Other Revenue*** | 3.9 | 0.0 | 0.0 | 0.0 | 0.1 | 4.0 | 0.1 |

Source: AIReF

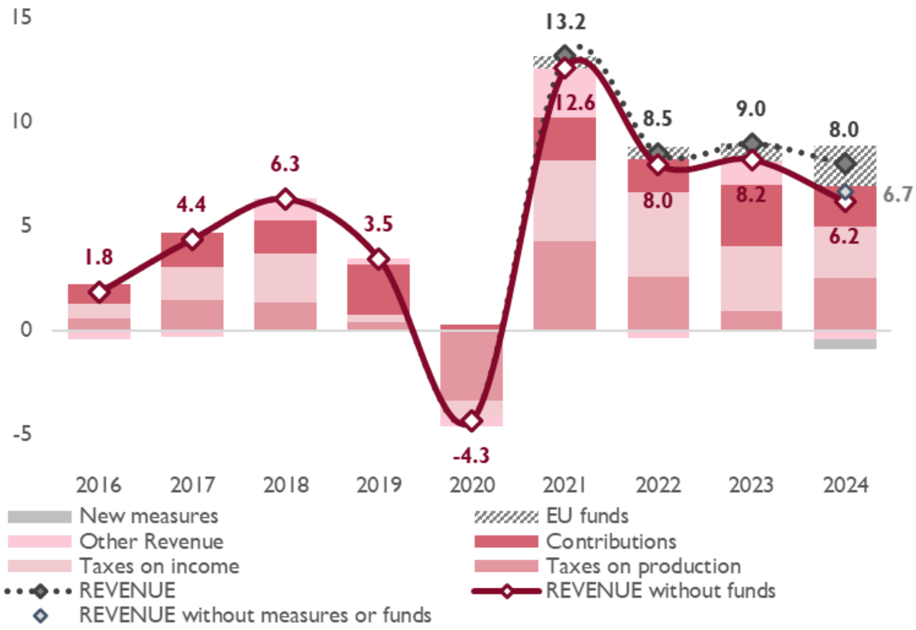
TABLE 8. REVENUE AS % OF GDP WITHOUT RTRP. AIREF MEDIUM-TERM PATH

| | Initial budgets 2024 | | | | |
|---|---|---|---|---|---|
| | 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 |
| *On production* | 11.6 | 11.7 | 11.5 | 11.4 | 11.4 |
| *On income* | 12.9 | 13.0 | 13.0 | 13.2 | 13.5 |
| *Capital* | 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

**AIReF forecasts estimated growth in revenue, excluding the RTRP, in 2024 of 6.2%.** While at the end of 2023 revenue, including the RTRP, reached growth of 9%, with a positive contribution from all revenue headings, in 2024 an increase of 8% is estimated, affected by the impact of the extension of the tax reductions to mitigate the rise in prices. Taxes and social contributions have a positive contribution, higher than in 2023 for taxes as a whole and lower for contributions. Isolating the effect of the RTRP, a negative contribution from other revenue is estimated and revenue growth of 6.2% is expected in 2024, which would stand at 6.7% without the impact of the new measures.

**FIGURE 25. CONTRIBUTIONS TO THE CHANGE IN REVENUE (%) AIREF**

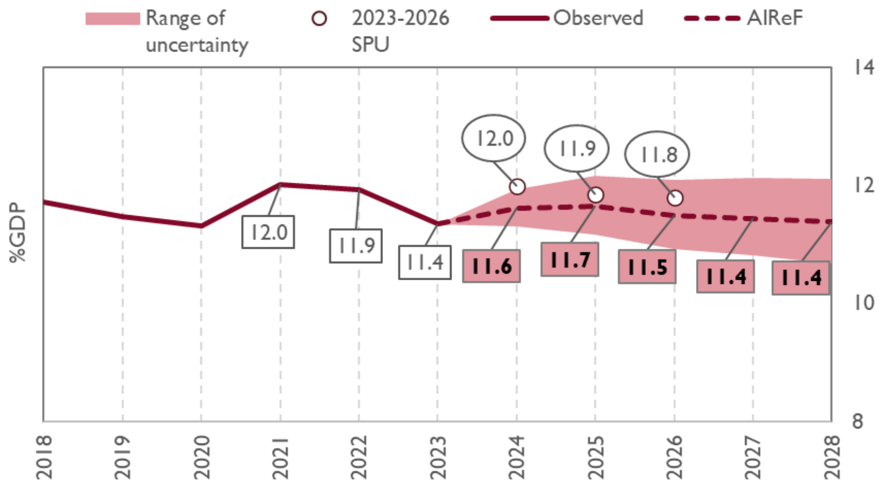



Source: IGAE and AIReF

**AIReF forecasts an upward path for revenue following the withdrawal of all temporary revenue measures in 2026, placing it at 43% at the end of the period, 0.1 points below the previous report.** Compared with the growth of 0.1 points of GDP forecast for 2025, which is driven by the withdrawal of measures to combat the rise in prices, in 2026 a fall of another 0.1 points is projected due to the disappearance of the positive impact of temporary revenue measures. As from 2027, the growth in revenue over GDP is a consequence of the increase in taxes on income and social contributions.

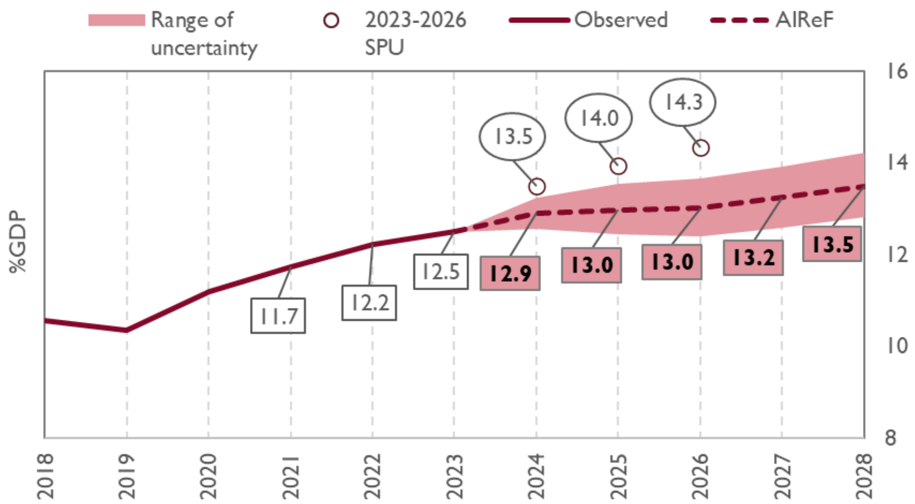
**The evolution of tax revenue is linked to the impact of the measures approved for the projection period.** In the case of taxes on production and imports (indirect taxes), in 2024 a GDP weight of 11.6% is estimated, 0.2 points above the previous year, due to the gradual withdrawal of the tax reductions established to mitigate the rise in prices, and an increase of an additional 0.1 points after their full removal in 2025. In 2026, it falls by 0.2 points due to the disappearance of the temporary tax on energy companies and then follows a downward path as a result of the evolution of Special Taxes to stand at 11.4% of GDP at the end of the projection period. The weight of taxes on income (direct taxes) over GDP is estimated at 12.9% in 2024. The growth in this figure slows down until 2026, due to the disappearance of the temporary Tax on Financial Companies and the effect of the temporary restriction on offsetting Corporate Income Tax losses, and then accelerates from 2027 to stand at 13.5% of GDP in 2028.

**FIGURE 26. EVOLUTION OF TAXES ON PRODUCTION IN NATIONAL ACCOUNTING (%GDP)**




Source: AIReF and IGAE

**FIGURE 27. EVOLUTION OF TAXES ON INCOME IN NATIONAL ACCOUNTING (%GDP)**



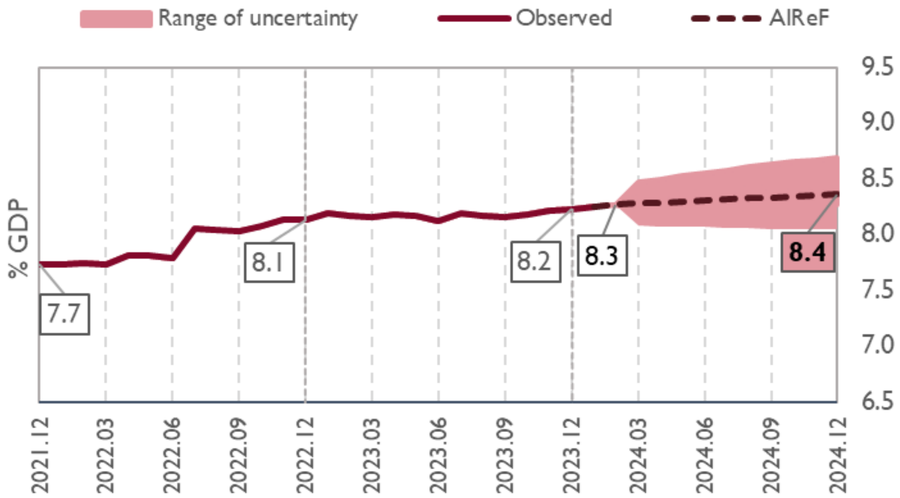

Source: AIReF and IGAE

### 4.1.1. Personal Income Tax (PIT)

**AIReF reduces the weight of PIT collection in 2024 by 0.2 points with respect to the previous report, placing it at 8.4% of GDP.** After closing 2023 at 8.2% of GDP, 0.05 points above the estimate, and despite the increase in employment growth in the new macroeconomic scenario, the estimate of the expected collection for 2024 falls as a result of the incorporation of the reductions in the withholdings approved since October and other measures approved by the

ARs, the consideration of exceptional refunds[6] and the updating of the latest available information.

**FIGURE 28. EVOLUTION OF CASH REVENUE FROM PIT[7] (% GDP)**




Source: AIReF and AEAT

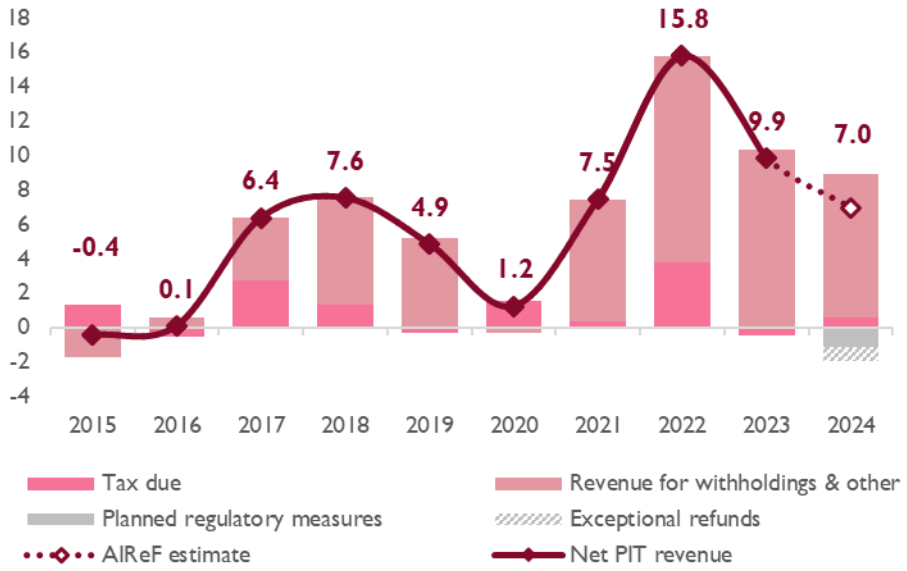
**For 2024, year-on-year growth in PIT revenue is expected to stand at 7%, 2 points below the previous report, due to the new measures approved.** After closing 2023 with a 9.9% increase in revenue, 0.5 points above the forecast in the previous report, an increase of 7% is estimated for 2024. This increase includes two opposing effects: an increase in all components of PIT against a reduction in revenue due to the impact of the regulatory measures adopted and exceptional refunds expected. The increase in the components will mainly affect withholdings and instalment payments, which together will account for 8.3 points of growth. For the tax due minus tax credits, tax withheld and prepayments resulting from the 2023 settlement, which will be paid in 2024, a positive contribution is estimated at 0.6 points due to the growth in

[6] Second Transitional Provision of the PIT Law: offers the possibility of reducing income from work in the income tax return when retirement or disability pensions are received by mutual society members whose contributions prior to 1 January 1999 have not been subject to a reduction in the taxable income, pursuant to provisions of the various rulings of the Supreme Court, the latest dated February 28th, 2023 and January 10th, 2024.

[7] AIReF's range of uncertainty is estimated using a VAR model with two lags that includes the seasonally-adjusted series of the variable to be explained and its corresponding explanatory variables. Monte Carlo simulations are performed based on this model. The result of these simulations is sorted in percentiles, from which the range of uncertainty is obtained.

investment income not subject to withholdings resulting from the rise in interest rates and the increase in leased properties (54.7% and 9.7%, respectively). In contrast, a fall is expected in capital gains not subject to withholding (-7.3%) linked to the fall in second-hand housing transactions. For their part, the regulatory measures will subtract 1.1 points of growth, mainly due to the reductions in income from work resulting both from the impact on the 2023 tax due (which will be paid in 2024) of the reduction approved in the 23GSB, and from the impact on the withholdings of the new reduction established to adapt them to the update of the national minimum wage[8] (see Section4.3 Regulatory measures). In addition, a reduction of 0.8 points of growth in PIT is expected as a result of exceptional refunds over 2024, due to the recognition of the right to recover part of the payable fees declared for contributions to mutual insurance companies made on a date prior to January 1st, 1999.

**FIGURE 29. CONTRIBUTION BY COMPONENT TO THE GROWTH OF PIT COLLECTION (% CHANGE)**



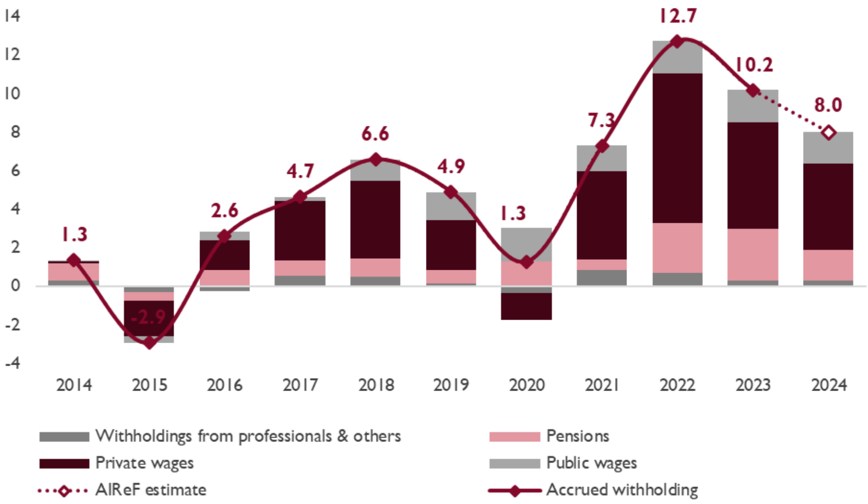

Source: AIReF and AEAT

**Withholdings from work and professional activities, which account for over 85% of revenue from Personal Income Tax, will grow by 8% in 2024.** All components are expected to increase less than in 2023. The largest increase will correspond to pensions, which will grow by 9.4%, followed by private wages, which will contribute the most to growth with a year-on-year change of 8.1% compared with 7.6% in the public sector. As in 2023, for 2024, it is the increases across the board in public wages, private wages and pensions, together with the

[8] RD 142/2023 and RD 145/2024 of February 6th.

consequent increase in their corresponding effective rates that largely explains the estimated growth. For its part, the increase in employment will account for slightly less than a third of the growth in private withholdings and slightly under a quarter of the increase in public withholdings, resulting in both cases in a contribution slightly lower than that observed in 2023.

FIGURE 30. EVOLUTION OF ACCRUED WITHHOLDINGS FROM WORK (% CHANGE)



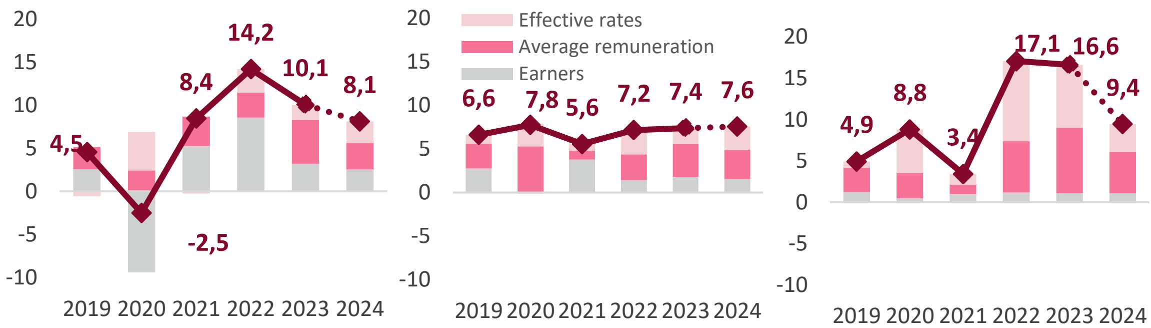

Source: AIReF and AEAT

FIGURE 31. WITHHOLDINGS ACCRUED FROM WAGES AND PENSIONS (% CHANGE)

FIGURE 31.A. WITHHOLDINGS FROM PRIVATE WAGES (% CHANGE).

FIGURE 31.B. WITHHOLDINGS FROM PUBLIC WAGES (% CHANGE).

FIGURE 31.C. WITHHOLDINGS FROM PENSIONS (% CHANGE).




Source: AIReF and AEAT

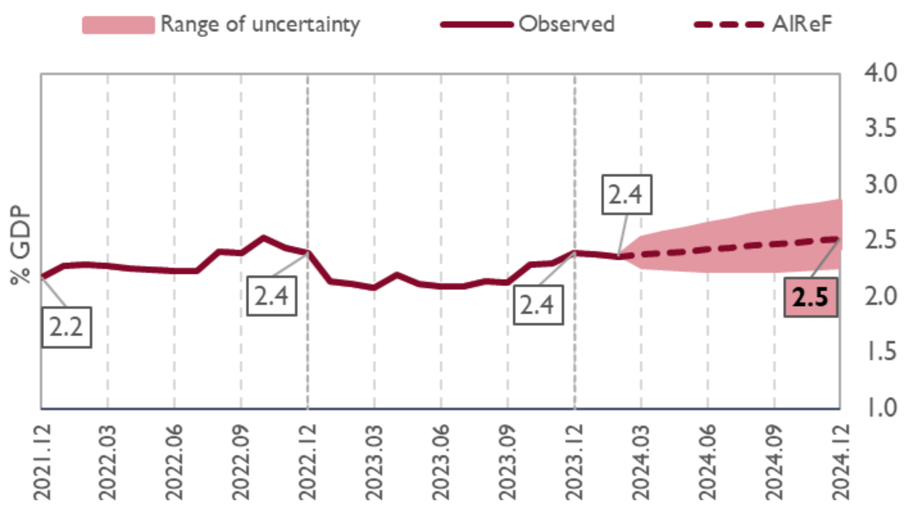
**In national accounting terms, PIT will grow by 8.2% in 2024, above the expected increase in cash terms.** In national accounting terms, the extraordinary refunds expected due to the contributions to mutual funds resulting from the Second Transitional Provision of the PIT Law are excluded. This is applied in accordance with the provisions of several Supreme Court rulings whereby instead of being recorded as lower revenue they are considered as higher GG expenditure. Consequently, the year-on-year rate of change is higher than that estimated in cash terms, which includes the reduction in revenue due to the existence of these refunds.

**In the medium term, revenue from PIT in national accounting terms will rise from 8.8% of GDP in 2024 to reach 9.4% of GDP in 2028, 0.1 points below the previous report.** Wage bases, which in 2023 recorded an elasticity with respect to compensation of employees of 0.9, are projected with a unitary elasticity in 2024 and rising above unitary in 2025 to stand at 1.2 as from 2016, in line with its historical average. The forecast is down 0.1 points from the October report. The improvement in the forecast of compensation of employees results in a greater increase in wage bases. However, this is offset both by the reduction in withholdings from work, as a result of the new tax cuts, and by the lower growth of capital income, due to the lower estimated impact of interest growth. Added to this is the denominator effect, due to the increase in nominal GDP.

### 4.1.2. Corporate Income Tax (CIT)

**AIReF's projections for 2024 place Corporate Income Tax in cash terms at 2.5% of GDP, 0.1 points higher than in the October report.** The increase is due to the rise in revenue resulting from the extension to 2024 of the temporary measure that limits the intra-group offsetting of tax loss carryforwards in consolidated groups to 50%.

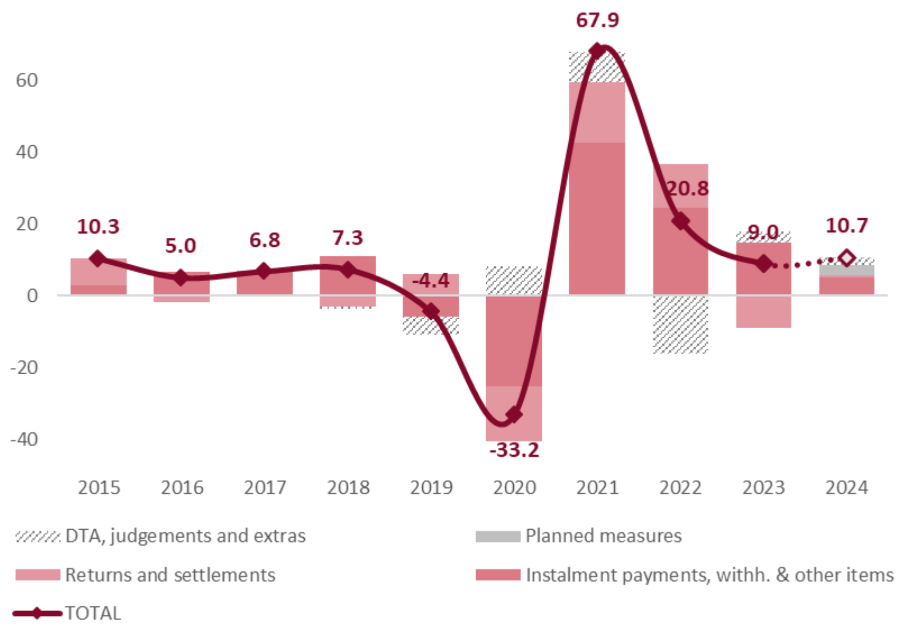
FIGURE 32. EVOLUTION OF CASH REVENUE FROM CORPORATE INCOME TAX (% GDP)




Source: AIReF and AEAT

**AIReF forecasts an increase in Corporate Income Tax collection in 2024 of 10.7%.** After closing 2023 with year-on-year growth of 9%, a further increase is expected in 2024 with a positive contribution from all components. On the one hand, instalment payments and withholdings will contribute 5.1 points of growth, lower than the 14.8 points of growth they accounted for in the previous year. For their part, the returns and settlements will add 0.6 points of growth with a more balanced dynamic between revenue and refunds compared with 2023, which presented a negative contribution, as a result of the higher growth of refunds from previous years. The extraordinary refunds expected due to the court ruling on the unconstitutionality of certain measures adopted in Royal Decree-Law 3/2016 will be partially offset by extraordinary revenue from another court ruling for fraud. Overall, they will be lower than the refunds as a result of court rulings and tax credits payable paid in the previous year and, therefore, contribute an additional 2.2 points of growth. Finally, a further 2.7 points of increase is estimated due to the incorporation of the regulatory changes, mainly due to the extension to 2024 of the temporary limitation on the offsetting of losses approved in the draft General State Budget for 2023 (see Section4.3 Regulatory measures).

**FIGURE 33. CONTRIBUTION BY COMPONENT TO GROWTH IN CORPORATE INCOME TAX COLLECTION (% CHANGE)**




Source: AIReF and AEAT

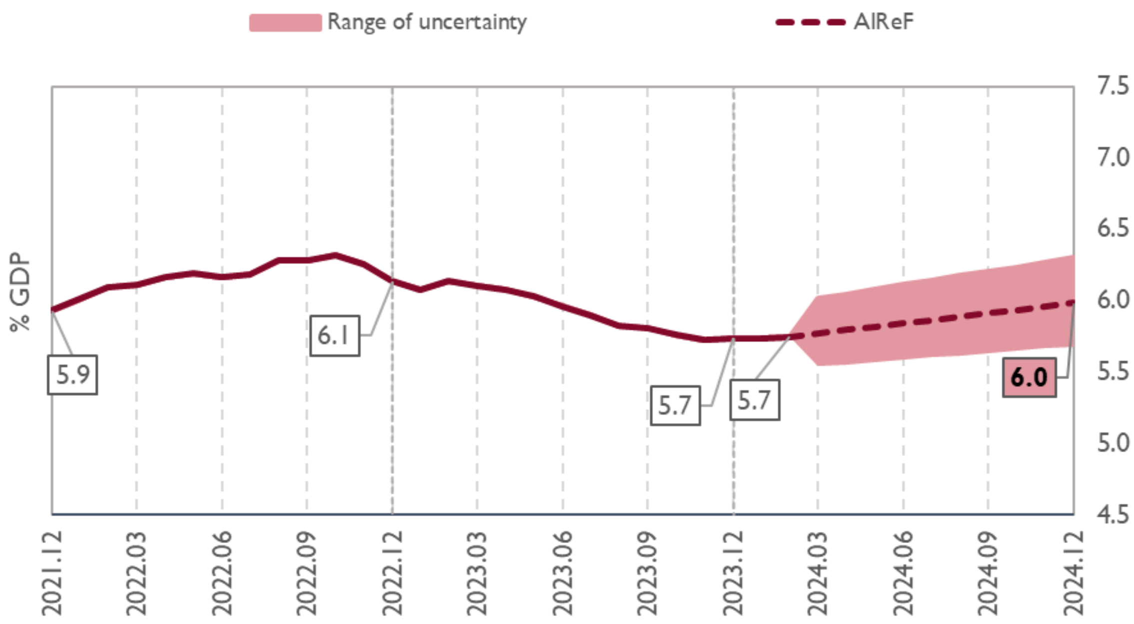
**In national accounting terms, Corporate Income Tax will grow by 10.6% in 2024, similar to growth in cash terms.** The extraordinary refunds recorded as a result of the court ruling in relation to Royal Decree-Law 3/2016 will reduce revenue in cash terms, while in accounting terms they are considered higher expenditure and not lower revenue. However, the existence of extraordinary refunds in the previous year for another court ruling and for deferred tax credits, with the same accounting treatment, maintains the year-on-year change with respect to cash revenue. The decrease in the variability of the tax compared with previous years stabilises the changes occurring as a result of the accounting adjustment that transfers the refunds to their year of application.

**After reaching 2.7% of GDP in 2024, AIReF projects that Corporate Income Tax will fall until 2026 and then rise as from 2027 to return to 2.7% of GDP in 2028, 0.2 points higher than in the previous report.** The growth in instalment payments is expected to be higher than in the previous report. This is the result of greater growth of the gross operating surplus, which is assumed to have an elasticity of 1.3, despite lower estimated growth for capital withholdings as a result of the reduction in interest rate forecasts. The temporary measures, which result in additional revenue for this tax, have a full impact in 2024 and a partial impact in 2025. They are completely removed in 2026 (see Section 4.3 Regulatory measures), gradually reducing its weight over GDP to 2.5%. An upward growth path is projected from 2027 for it to recover a weight over GDP of 2.7% in 2028.

### 4.1.3. Value Added Tax (VAT)

**AIReF reduces the expected collection of VAT in 2024 by 0.2 points, placing it at 6% of GDP, due to the partial extension of the measures.** Although revenue from VAT in 2023 was slightly under 0.1 points less than forecast by AIReF, VAT receipts for the first two months of 2024 were higher. The fall in the forecast is mainly due to the tax measures approved since the last report, which extend the reduction in rates on energy products and on certain foods to 2024. The previous report had assumed that these rates would fully return to their previous levels (see Section 4.3 Regulatory measures). The reductions will be gradually phased out over the course of the year, as set out in Royal Decree-Law 8/2023, with VAT on gas being reinstated from the second quarter and VAT on basic foodstuffs, pasta and oils returning to previous rates from the second half of the year. For its part, the reduction of VAT on electricity to 10% is extended to 2024, dependent on the daily market price exceeding 45 euros/MWH, a threshold that has not been exceeded since February. The reduction is expected to be maintained until May, which is why AIReF considers in its estimates the usual VAT rate from March to June and applies 10% over the rest of the year.

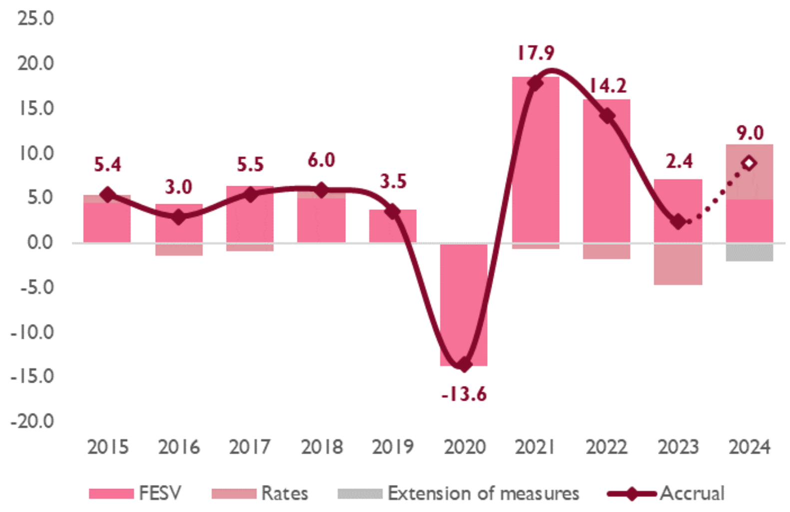
**FIGURE 34. EVOLUTION OF VAT REVENUE (%GDP)**




Source: AIReF and AEAT

**VAT collection will grow by 9.7% in 2024, 1.2 points less than in the October report.** Since the end of 2021, the adoption of VAT rate reductions to mitigate the rise in prices and their successive extensions made an increasingly negative contribution to the growth of VAT until 2023. The gradual phasing out of the rate reductions over 2024 will result in growth in accrued VAT that AIReF estimates at 9%. Of this growth, 4.8 points are a consequence of the growth of the tax base or final expenditure subject to VAT, which is assumed to have an elasticity of 0.9 with respect to the growth in domestic demand. The increase in rates as a result of the withdrawal of the established reductions contribute 6.2 points, although the partial extension of the reductions over part of the year subtracts two points of growth. From the transfer of accrued VAT to the time of collection, it follows that net VAT revenue will grow by 9.7%, with a higher increase in revenue than that expected for refunds This is because the effect of the change in rates transfers immediately to gross revenue, but with a lag with respect to refunds as these are made later than the time they are requested.

**FIGURE 35. EVOLUTION OF ACCRUED VAT (% CHANGE)**




Source: AIReF and AEAT

**FIGURE 36. CHANGE IN NET VAT REVENUE (% CHANGE)**


Source: AIReF and AEAT

**In national accounting terms, the estimated year-on-year increase in VAT for 2024 is 10.4%, higher than the cash increase.** Recording in national accounting terms shifts revenue to its accrual month and refunds to the month they are requested. Therefore, in national accounting terms, the estimates for 2024 include the gradual phasing out of the reductions from January 1st, 2024 (see Section 4.3 Regulatory measures), while in cash terms this is estimated with a lag as the revenue accrued in January is not collected until one or two months later. Consequently, the recording of revenue in 2024 is higher in national accounting terms.

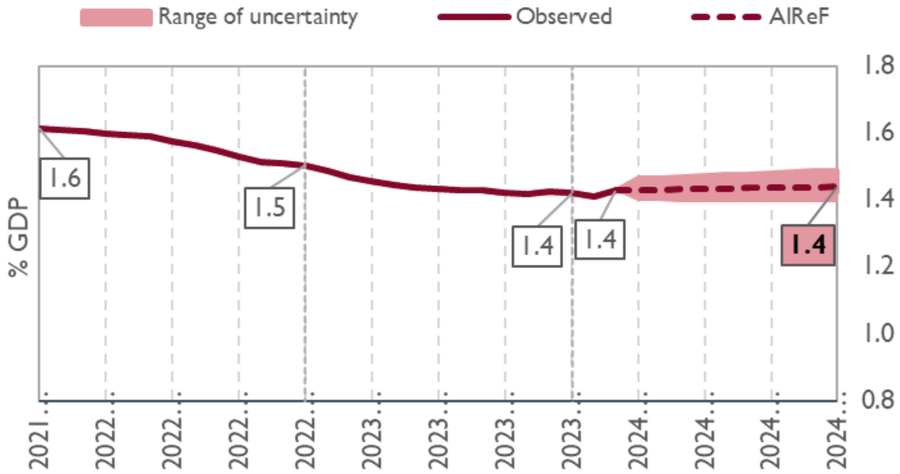
**AIReF forecasts an increase in the weight of VAT over GDP in national accounting terms from 6.1% of GDP in 2024 to 6.2% in 2025, stabilising at this value until 2028, 0.1 points less than in the previous report.** Final expenditure subject to VAT is projected based on the evolution of domestic demand, with respect to which it recorded an elasticity of 0.8 in 2023. The elasticity is expected to be 0.9 in 2024 and unitary as from 2025. The complete recovery of the usual effective rates on energy products and certain foods will result in growth of 0.1 points in weight over GDP in 2025, which remains at 6.2 points of GDP until the end of the projection period. This is 0.1 points lower than forecast in the October report as a result of the denominator effect.

### 4.1.4. Special Taxes (ST)

**AIReF forecasts that in 2024 the weight of Special Taxes will remain at 1.4 points of GDP, as in the previous report.** Following the update of the latest available information, year-on-year growth in 2024 is expected to be 6.7%, 0.6 points below the previous forecast. The effect of the partial extension of the rate reduction in the Special Tax on Electricity (see Section 4.3 Regulatory measures), which reduces the estimate by less than 0.05 points of GDP, is offset by the increase as a result of the update of the macroeconomic scenario and the incorporation of the latest available information. As regards the expected evolution, the Special Tax on Electricity contributes 4.6 points of growth due to the gradual recovery of the set rate over 2024. For their part, the ST on Tobacco Products and the ST on Hydrocarbons will contribute an additional 1.4 and 0.7 points, while other Special Taxes remain at levels similar to 2023. In national accounting terms, STs as a whole will grow by 6.5% in 2024, practically the same as in cash terms, as there are no differences between both accounting concepts for these taxes.

**In the medium term, the weight of Special Taxes as a percentage of GDP will follow a slightly downward trend, reaching 1.3% of GDP in 2028.** In 2025, an increase of 2.8% over 2024 is expected, after the full recovery of the rate of the ST on Electricity and driven by the growth in the ST on Hydrocarbons. As from 2026, year-on-year growth stabilises at around 1.2%, mainly due to the growth in the ST on Hydrocarbons and stabilised levels for the ST on Tobacco Products and the ST on Electricity, for which it is assumed that electricity prices in the final years of the projected period will remain stable.

**FIGURE 37. EVOLUTION OF REVENUE FROM STs (% GDP)**




Source: AIReF and AEAT

## 4.1.5. Other tax revenue

**AIReF estimates that other tax revenue will remain at 1.2% of GDP in national accounting terms in 2024, 0.2 points less than its previous forecast.** This heading includes temporary levies on financial and energy companies and the Tax on the Value of Electricity Production. The forecasts are revised downwards as a result of the update of the new available information, the macroeconomic forecasts and the legislative changes that partially extend the reduction of the Tax on the Value of Electricity Production to 2024, which was expected to return to its full rate in the previous report (see Section 4.3 Regulatory measures). An increase of 6% is expected in 2024 over the previous year, mainly as a result of the staggered reactivation of the Tax on the Value of Electricity Production.

**From 2026 onwards, the weight of other tax revenue over GDP falls to 0.9% as a result of the expiry of the temporary revenue measures.** In 2025, the increase due to the full recovery of the Tax on the Value of Electricity Production is offset by the termination of the contributions of financial institutions to the Deposit Guarantee Fund, with it having reached the required level in 2024. Consequently, levels similar to those of 2024 are estimated for other tax collection, which, due to the estimated growth of economic activity, see its weight over GDP fall by under 0.1 points in 2025. In 2026, the expiry of the extension of the temporary levies on financial and energy companies established in Royal Decree-Law 8/2023 (see Section 4.3 Regulatory measures) reduces the weight of this revenue to 0.9 points of GDP, which will be maintained until the end of the projection period.

### 4.1.6. Social contributions

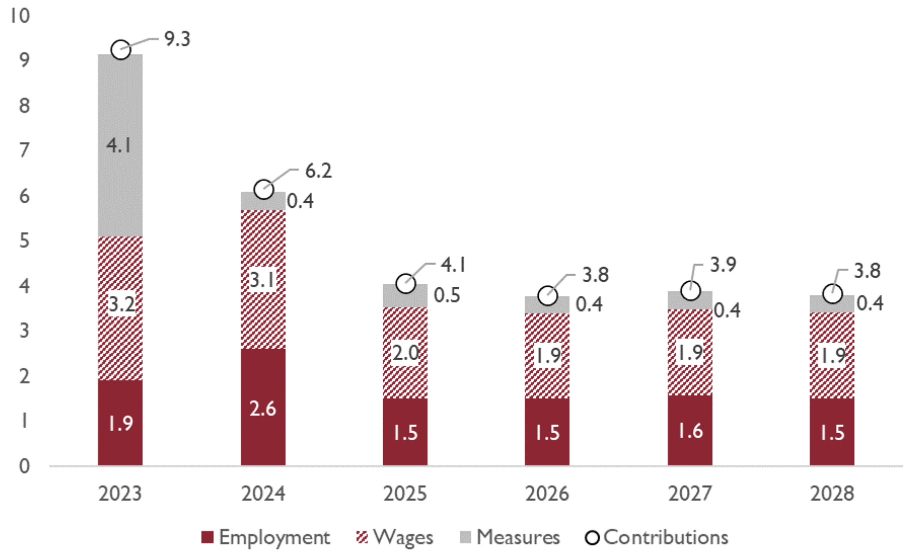
**AIReF estimates that social contributions will increase their weight by 0.1 points to 13.6% of GDP in 2024, similar to the percentage of GDP forecast in the previous report.** The denominator effect of the upward revision of GDP and the information effect of lower revenue from social contributions at year-end 2023 than estimated in the last report are offset by the effect of the new macroeconomic scenario. Specifically, employment and compensation of employees are more dynamic, which has a positive impact on the estimated collection of social contributions in 2024.

**The weight of social contributions over GDP continues to rise between 2024 and 2028, albeit more slowly, to stand at 13.7% in 2028.** This increase is explained by the dynamism of the labour market and the impact of revenue measures, specifically the IEM, the maximum bases and the solidarity contribution.

**The positive trend in wages and, to a lesser extent, employment drive growth in contributions in 2024.** In 2024, the contribution of wages and employment to the growth in social contributions is expected to be 3.1 points and 2.6 points, respectively. The measures, which include the increase in the social contributions of the Intergenerational Equity Mechanism and the increase in the maximum contribution bases, add 0.4 points to that growth. This forecast represents a downward revision of the contribution of wages and an upward revision of the contribution of employment compared with the estimate in the previous report in line with the new macroeconomic scenario.

**The moderation in the positive contribution of wages and employment leads to growth in social contributions slowing down from 6.2% in 2024 to 3.8% in 2028**. The measures maintain their contribution to growth over the time horizon. The contribution of wages is revised downwards and that of employment is revised upwards compared with the last report.

**FIGURE 38. BREAKDOWN OF GROWTH IN SOCIAL CONTRIBUTIONS**




## 4.1.7. Other revenue

**Other revenue, excluding the RTRP, stands at 4% of GDP in 2024, 0.1 points higher than the previous estimate.** The main reason for the revision is the growth in interest income, which at year-end 2023 was 0.2 points above the forecast, reaching a weight over GDP of 0.6 points. It is expected to fall slightly in 2024 to 0.5 points of GDP. This heading also includes all revenue from the European Union. Including the RTRP; other revenue will reach 5.4% of GDP in 2024. However, there is a high level of uncertainty about the pace of implementation of the RTRP and about other European funds.

**For other revenue, without the RTRP, a stable path is projected that maintains its weight over GDP at 4% until 2028.** In the medium term, growth is projected to be in line with that of economic activity.

# 4.2. Evolution of General Government expenditure

**Expenditure, excluding the RTRP, will stand at 45.4% in 2024 according to AIReF's estimates, 0.2 points below the forecast in the previous report.** As with revenue, the reduction in expenditure as a proportion of GDP is explained by the effect of higher nominal GDP, which results in a reduction of 0.3 points of GDP due to the denominator effect. The improvement in the labour market, which is incorporated in the new macroeconomic scenario, also reduces the weight of expenditure. In the opposite direction, the effect of the new information raises expenditure by 0.1 points of GDP. Including the RTRP, expenditure will stand at 46.9% of GDP in 2024.

**If the denominator effect is eliminated, as is the case for revenue, the differences in 2024 fall to 0.1 points of GDP.** The largest differences are concentrated in the upward revision of interest expenditure and gross capital formation by 0.1 points of GDP, respectively, which is partially offset by the fall in subsidies and other expenditure, also by 0.1 points of GDP.

**In the medium term, AIReF forecasts an upward trend in expenditure to reach 46.2% of GDP in 2028 - excluding the RTRP.** Over the period, the weight of expenditure over GDP will rise to 46.2% in 2028, 0.1 points lower than in the previous report. This difference is mainly explained by the changes in the forecast of the evolution of interest rates, which result in a smaller increase in the medium-term interest burden.

**Lastly, primary expenditure net of revenue measures will grow at an average rate of 3.8% per annum between 2024 and 2028.** In the new European fiscal framework, the main supervisory variable becomes primary expenditure net of revenue measures. Therefore, AIReF has already begun to forecast its evolution in the medium term both at the level of the GG and at the level of the sub-sectors. According to AIReF's estimates, this net expenditure for the GG as a whole will grow at an average rate of 3.8% per annum between 2024 and 2028.

**BOX 4. BREAKDOWN OF PRIMARY EXPENDITURE NET OF REVENUE MEASURES BY SUB-SECTOR**

The primary expenditure net of revenue measures included in the European regulations is for the entire GG. However, AIReF has calculated the breakdown that would correspond to each of the four sub-sectors, CG, SSFs, ARs and LGs.

To carry out this breakdown, the transfers that occur between the different sub-sectors are eliminated, as is done to calculate the national expenditure rule.

Therefore, all transfers related to the regional and local financing system are excluded from the eligible expenditure of the corresponding sub-sector. Expenditure that is financed by other sub-sectors is also eliminated, which means that expenditure that is financed with revenue received on a special-purpose basis is excluded.

Unlike the calculation of the national expenditure rule, in the European framework this expenditure path applies to all sub-sectors including the SSFs. The calculation for the SSFs has been made in the same manner as for the other sub-sectors. In particular, the transfer made by the CG to finance the SSFs is excluded from the eligible expenditure of the SSFs as it is expenditure financed by the CG sub-sector. In addition, as a specific feature, cyclical unemployment is eliminated from the eligible expenditure of the SSFs.

**TABLE 9. FACTORS EXPLAINING THE DIFFERENCES BETWEEN THE ESTIMATE OF EXPENDITURE IN THE REPORT ON BUDGETARY LINES AND INITIAL BUDGETS**

**(WITHOUT RTRP AS %GDP)**

| | 2024 Budgetary Plan | Breakdown of change in % GDP | | | | 2024 Current | Difference (Current - Budgetary Plan) |
|---|---|---|---|---|---|---|---|
| | | Denominator effect (a) | Effect of measures (b) | Macro effect (c) | New information effect (d) | | |
| **EXPENDITURE** | **45.7** | **-0.3** | **0.0** | **0.0** | **0.1** | **45.4** | **-0.2** |
| *Compensation of employees* | 11.2 | -0.1 | 0.0 | 0.0 | 0.0 | 11.1 | -0.1 |
| *IC + STK purch. mark.* | 8.4 | -0.1 | 0.0 | 0.0 | 0.0 | 8.4 | -0.1 |
| *Social benefits in cash* | 17.4 | -0.1 | 0.0 | 0.0 | 0.0 | 17.3 | -0.1 |
| *Interest* | 2.5 | 0.0 | 0.0 | 0.0 | 0.1 | 2.5 | 0.1 |
| *GFCF* | 2.6 | 0.0 | 0.0 | 0.0 | 0.1 | 2.7 | 0.1 |
| *Transfers between GG* | | | | | | | |
| *Other expenditure* | 3.5 | 0.0 | 0.0 | 0.0 | -0.1 | 3.4 | -0.1 |

Source: AIReF

**TABLE 10. EXPENDITURE IN % GDP (WITHOUT RTRP). AIREF MEDIUM-TERM PATH**

| | AIReF Initial Budgets | | | | |
|---|---|---|---|---|---|
| | 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 |
| **NET LENDING OR BORROWING** | **-3.0** | **-2.9** | **-3.1** | **-3.2** | **-3.2** |

Source: AIReF

### 4.2.1. Main components of public consumption expenditure

**AIReF reduces the public consumption forecast for 2024 by 0.1 points of GDP compared with the figure included in the Report on the Main Budgetary Lines.** AIReF forecasts that public consumption will reach 19.5% of GDP in 2024, slightly lower than the 19.6% forecast in the previous report. From the point of view of the main components of public consumption, the reduction comes from lower expected expenditure on compensation of employees. In the medium term, AIReF forecasts that public consumption will fall by 0.1 points of GDP in 2025 and 2026, respectively, to reach 19.3% and then maintain its weight over GDP until 2028.

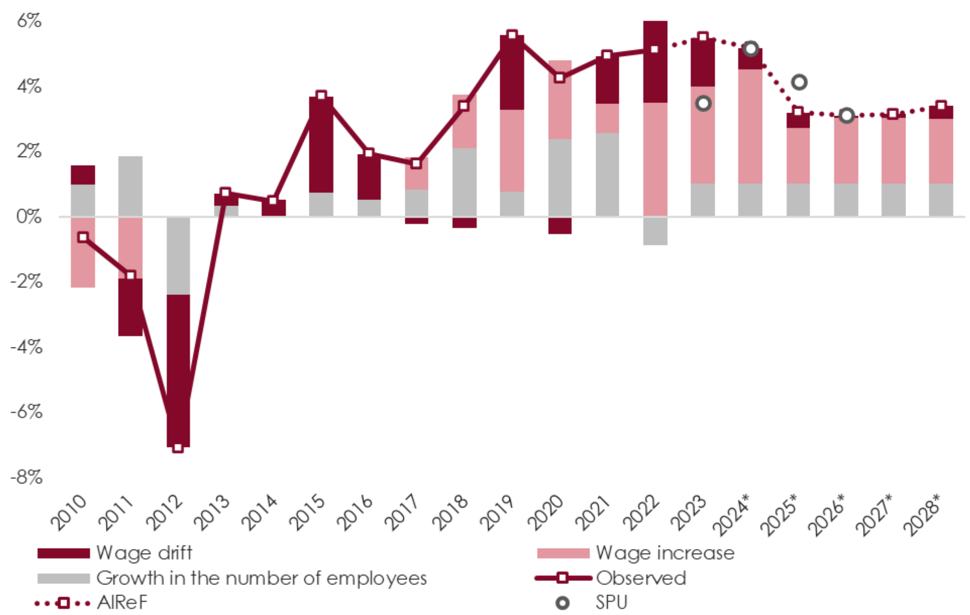
#### 4.2.1.1 Compensation of employees

**AIReF's forecast for compensation of employees is 11.1% of GDP in 2024, 0.1 points of GDP lower than the previous report, to then fall by another 0.1 points**

**and remain stable at 11% until 2028.** This reduction in 2024 is due to the denominator effect of AIReF's upward revision of GDP for this year. The medium-term forecast is that the growth of compensation of employees will moderate as from 2025 after the end of the pay rise agreed by the General Negotiation Committee of the Civil Service. At any event, this growth would be in line with the projections of nominal GDP, and its weight over GDP would therefore remain stable at 11% from 2025 to 2028.

**AIReF assumes in its forecasts the agreed increase in public wages until 2025 and the increase in public wages with the CPI for the rest of the period**. This growth incorporates the improvement in public wages approved in 2022 by the General Negotiation Committee of the Civil Service, which entails a fixed wage increase of 2% for 2024 and the additional increase of 0.5% conditional on a Harmonised Index of Consumer Prices over 8% higher in 2024 compared with 2022. This growth in compensation of employees occurs on the consolidated compensation of 2023, which involved a wage increase of 2.5% plus an additional 1% increase due to the fulfilment of the two conditions set for 2023 (0.5% for the condition relating to the HICP and another 0.5% for the condition linked to nominal GDP). In addition to the wage increase, AIReF estimates a 1% increase due to the increase in the workforce and the expected wage drift. The new forecast also includes, at the territorial level, the impact of the new expenditure measures of the ARs relating to staff adopted after the Report on the Main Budgetary Lines. For the rest of the period, in the absence of specific compensation agreements, the rate of increase in the CPI estimated by AIReF of 2% has been used as an average from 2026.

**FIGURE 39. BREAKDOWN OF THE GROWTH IN COMPENSATION OF PUBLIC EMPLOYEES (% CHANGE)**




Source: INE, IGAE and AIReF

### 4.2.1.2 Intermediate consumption and social benefits in kind

**AIReF maintains the estimate of expenditure on intermediate consumption and social benefits in kind at 5.7% and 2.7% of GDP, respectively.** The weight of intermediate consumption over GDP is maintained as the incorporation of the year-end 2023 data has led to lower expenditure in 2024 for the CG and the AR sub-sectors, while for the LGs it has led to an increase as the expenditure is to be repeated in future years. In the medium term, expenditure on intermediate consumption is expected to grow in line with GDP, maintaining its weight at 5.6%. This trend would only be interrupted in 2027 by the expenditure resulting from the holding of general, regional and local elections in accordance with the normal four-year legislative calendar. AIReF maintains the estimate of social transfers in kind at 2.7% of GDP in 2024 and the medium-term forecast is for this expenditure to maintain its weight over GDP throughout the period.

## 4.2.2. Social benefits in cash

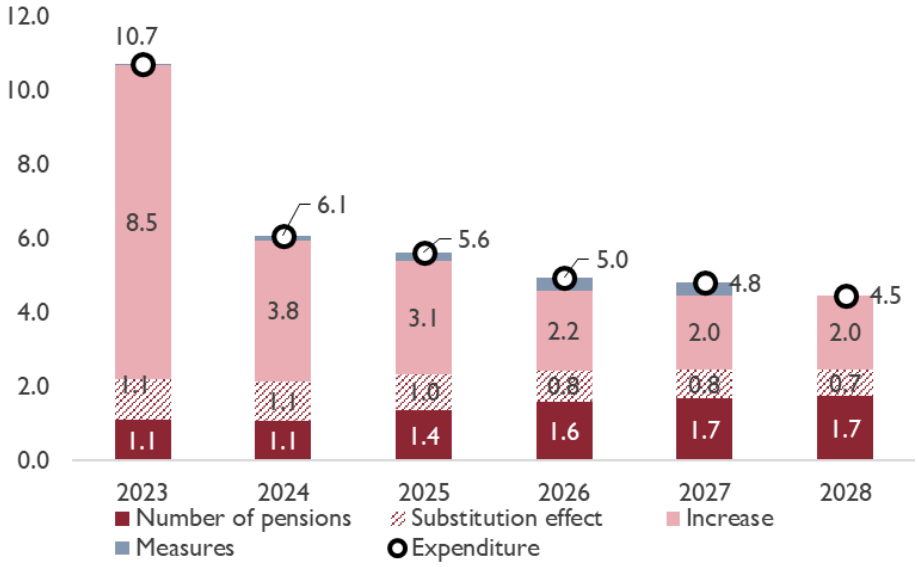
**AIReF forecasts that social benefits in cash will maintain their weight over GDP at 17.3% in 2024, 0.1 points below the forecast of the previous report.** The revision is due to the denominator effect resulting from the upward revision of nominal GDP in 2024 since the October 2023 forecast. The 0.1-point increase in pension expenditure between 2023 and 2024 is offset by the fall in expenditure on unemployment benefits. Therefore, total social benefits in cash remain constant in GDP points.

**The weight of social benefits in cash over GDP will rise progressively from 17.3% in 2024 to 17.7% in 2028.** This increase is largely explained by the evolution of pension expenditure, which determines that its weight over GDP rises by 0.6 points between 2024 and 2028. This increase is partially offset by the 0.2-point reduction in expenditure on unemployment benefits. In 2028, the level of social transfers in cash remains 1.9 points above the pre-crisis level, mainly due to the evolution of pension expenditure.

**AIReF revises its estimate of Social Security pension expenditure for 2024 downwards, from a growth rate of 6.3% in the previous report to a rate of 6.1% today.** This revision is made because the increase in pensions in 2024 has been 3.8% compared with the 4% forecast in the October report, at which time the final average inflation figure from December 2022 to November 2023 was not known. In contrast, the forecast of the increase in the number of pensions and the substitution effect, both of 1.1%, is maintained. The measures incorporated are similar to those of the October report, that is, the progressive increase in pensions with a supplement to reach the minimum statutory level and in non-contributory pensions between 2023 and 2027 for sufficiency purposes.

**The growth in pension expenditure will moderate between 2024 and 2028, from 6.1% in 2024 to 4.5% in 2028.** This slowdown is determined by the moderation of inflation - which remains at 2% as from 2026 - and the substitution effect. In contrast, the growth in the number of pensions increases over the entire projection horizon. As a result of this evolution, the weight of Social Security pension expenditure over GDP progressively increases from 11.9% in 2024 to 12.5% in 2028.

**FIGURE 40. GROWTH IN PENSION EXPENDITURE. AIREF PROJECTIONS**

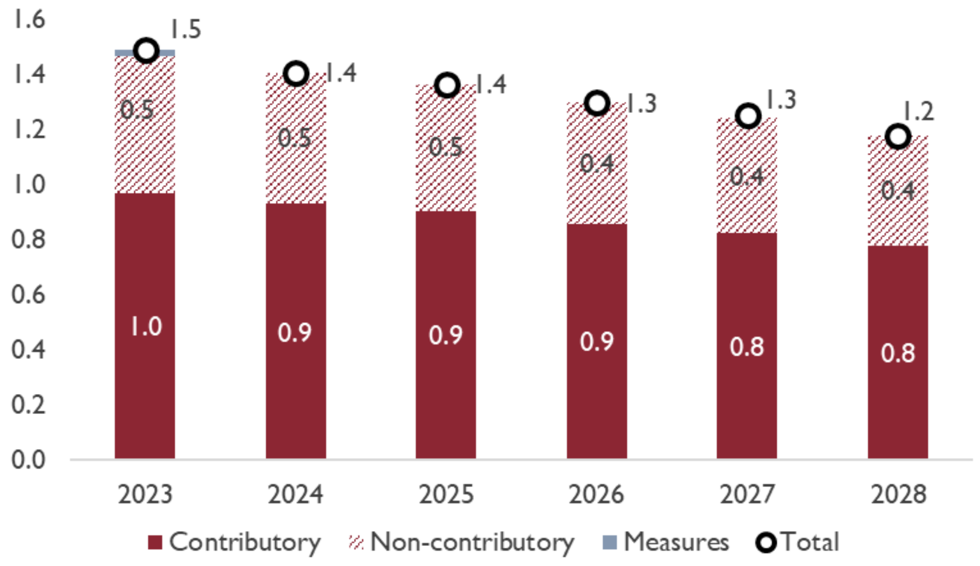



Source: AIReF and Ministry of Inclusion, Social Security and Migration

**AIReF estimates the weight of unemployment benefits over GDP will fall slightly from 1.5% in 2023 to 1.4% in 2024, 0.1 points lower than forecast in the last report for 2024.** The moderation of the weight of this item in 2024 is explained by several factors. Firstly, the denominator effect reduces its weight over GDP. Secondly, unemployment expenditure in 2023 was lower than estimated in the last report. Lastly, the changes in the macroeconomic scenario reduce the forecast of the unemployment path, specifically due to the dynamism of employment and the moderation of prices.

**The weight of unemployment benefits over GDP follows a downward path until 2028, from 1.4% in 2024 to 1.2% in 2028**. The determinants of this development are the dynamism of employment and the reduction in the unemployment rate.

FIGURE 41. EVOLUTION OF UNEMPLOYMENT EXPENDITURE (% GDP). AIREF PROJECTIONS




Source: AIReF and SEPE

**AIReF forecasts that the other benefits included in social transfers in cash will remain practically at around 4% of GDP in 2024, with that level remaining constant until 2028.** This is because the main headings - temporary incapacity benefit, maternity, paternity and pregnancy risk benefit, MIS - maintain their weight over GDP over the time horizon.

### 4.2.3. Interest

**AIReF's forecast for interest expenditure remains at 2.5% of GDP for 2024 and is estimated to reach 3% in 2028.** In accordance with the year-end 2023 data, AIReF has increased interest expenditure in the Territorial Authorities by a little under 0.1 points of GDP, without changing the weight over GDP of 2.5% estimated in the previous report. However, in the medium term, AIReF updates its forecast so that from 2026 to 2028 it follows a less pronounced path to stand at 3% in 2028 instead of the 3.3% of GDP forecast in the previous report. This difference is mainly explained by the change in the forecast of the evolution of interest rates, which results in a smaller increase in the medium-term interest burden.

### 4.2.4. Gross capital formation

**AIReF forecasts that gross capital formation, excluding the RTRP, will stand at 2.7% of GDP in 2024, 0.1 points of GDP more than in the previous report, also raising the medium-term path to 2.9% in 2028**. In 2024, this increase is due to the increase in investment spending by the LGs and the ARs, due to the year-end 2023 data. In contrast, the expenditure executed in the CG in 2023 has led to a downward revision of gross capital formation for 2024 due to a lower expected increase in military deliveries for this year. In the medium term, AIReF also increases its estimate of expenditure on national investment throughout the period by transferring part of the increase in 2023 investments under the territorial scope.

**AIReF includes in its forecasts an increase in medium-term military investments in line with the forecast of the Stability Programme Update.** Within the framework of the political commitment with NATO to raise military spending to 2% of GDP, the Stability Programme Update included an increase to reach 1.3% of GDP in 2026 according to the functional expenditure classification (COFOG) that AIReF linearly incorporated into its forecasts from the level recorded in 2022. However, the year-end 2023 data showed a fall in investment for military deliveries[9] linked to defence modernisation programmes in national accounting terms compared with 2022, in contrast with the increase forecast by AIReF in the October report. For 2024, AIReF considers that military deliveries will recover to levels similar to those reached in 2022, although somewhat below the forecast in the previous report. For the following years, AIReF proposes a linear increase to reach a level similar to that forecast in the previous report by 2028. This assumption is supported by the fact that in 2023 the execution of defence modernisation programmes was maintained at similar levels and the appropriations of the Ministry of Industry for this purpose have been increased. At some point in the forecast horizon, this should materialise in higher military deliveries in national accounting terms.

### 4.2.5. Subsidies and other expenditure

**AIReF reduces its estimate of expenditure on subsidies and other expenditure by 0.1 points of GDP to 3.4% in 2024, maintaining its forecast at the end of the period at 3.2% of GDP.** This fall is explained by the incorporation of the year-end 2023 data, which, within the scope of the CG, has led to a decrease in some items of current expenditure. This reduction has been partly offset by the incorporation of the new energy expenditure measures approved by Royal Decree-Law 8/2023 that were not included in the 2024 Budgetary Plan. In the medium term, it is estimated that this expenditure will reach 3.2% of GDP in

[9] Under national accounting standards, deliveries of armaments and support systems are recorded as expenditure at the time they are made available to the Ministry of Defence, irrespective of the time of budget execution.

2028, in line with the forecast of the previous report and in the absence of measures in the envisaged time horizon.

**In 2024, expenditure on other capital transfers is expected to increase due to the impact of court rulings that are unfavourable to the interests of the State.** As the impact of this type of expenditure was lower in 2023 than in other years, the weight of capital transfers over GDP fell by 0.3 points mainly for this reason. However, for 2024, several court rulings have already been handed down that will result in an increase in capital transfer expenditure of at least 0.2 points of GDP.

## 4.3. Regulatory measures

**AIReF includes in its forecasts the impact of the measures already approved or announced and their withdrawal on the dates legally provided.** This includes the measures approved by Royal Decree-Law 8/2023, of December 27th, which extends to 2024 some of the measures to mitigate the effects of the energy crisis, the rise in prices and the drought, with an estimated impact of 0.3 points of GDP in 2024. It should be mentioned that AIReF already included the measures related to transport in its October report, which were published in the 2024 Budgetary Plan, whose valuation is estimated at 0.1 points of GDP. It also includes the agreements and personnel measures approved or planned at the State and territorial level. In addition, the impact of Royal Decree 142/2024, of February 6th, amending the PIT Regulation, approved by Royal Decree 439/2007, of March 30th, on withholdings and instalment payments, is taken into account. It also considers the revenue measures approved previously, whose impact starts or extends to 2024, as well as those whose impact varies over the projection period as a result of the timing of the measure introduced. Finally, the revenue measures resulting from the pension reform are included.

### 4.3.1. Measures in response to the energy crisis and the conflict in Ukraine

**The total cost of the temporary measures put in place to mitigate higher prices resulting from the energy crisis and the conflict in Ukraine will total 0.3 points of GDP in 2024, according to AIReF's estimates.** Royal Decree-Law 8/2023, of December 27th, extended some of the measures to respond to the effects of inflation and to protect the most vulnerable groups, which, were it not for this legislation, would have terminated on December 31st, 2023. The impact of this extension in 2024 is estimated at around €4bn.

**TABLE 11. IMPACT OF MEASURES IN RESPONSE TO THE ENERGY CRISIS IN NATIONAL ACCOUNTING TERMS: AIREF ESTIMATE**

| Impact in National Accounting terms | Annual impact 2022 | Annual impact 2023 | Annual impact 2024 | Royal Decree Law 8/2023: 2024 previous RD law 8/2023 | Royal Decree Law 8/2023: 2024 Impact of Royal Decree Law 8/2023 |
|---|---|---|---|---|---|
| **Revenue Measures** | **-4,597** | **-5,978** | **-2,428** | **-109** | **-2,319** |
| **Revenue Measures (%GDP)** | **-0.3** | **-0.4** | **-0.2** | **0.0** | **-0.2** |
| **VAT:** | | | | | |
| **VAT Electricity** | -2,343 | -2,134 | -963 | | -963 |
| **VAT on gas, briquettes and pellets** | -213 | -292 | -40 | | -40 |
| **VAT on foodstuffs** | | | | | |
| from **4% to 0%** on basic foodstuffs | | -1,765 | -882 | | -882 |
| From **10% to 5%** oils and pasta | | -380 | -190 | | -190 |
| **STs:** | | | | | 0 |
| **ST Electricity** | -2,041 | -1,407 | -352 | -109 | -243 |
| **Expenditure Measures** | **17,092** | **6,531** | **1,958** | **301** | **1,657** |
| **Expenditure Measures (%GDP)** | **1.3** | **0.4** | **0.1** | **0.0** | **0.1** |
| **Fuel allowance** | 5,795 | 1,891 | 112 | 112 | |
| **Sectoral support** | 4,386 | 1,943 | 330 | 162 | 168 |
| **Electricity tariff deficit** | 4,158 | | | | |
| **Direct support to individuals** | 121 | 326 | | | |
| **Other support to individuals** | 1,952 | 2,329 | 1,516 | 27 | 1,489 |
| **Support to refugees** | 680 | 42 | | | |
| **TOTAL** | **-21,688** | **-12,509** | **-4,386** | **-410** | **-3,976** |
| **TOTAL (% GDP)** | **-1.6** | **-0.9** | **-0.3** | **0.0** | **-0.3** |
| **Other** | | | | | |
| **Tax on the Value of Electricity Production:** Suspension | -4,377 | -2,606 | -746 | -532 | -214 |

Source: Government and AIReF estimates

**The extension of the tax reductions on food and energy products for 2024 results in a revenue reduction estimated at 0.2 points of GDP.** Royal Decree-Law 8/2024 extends the tax measures on food and energy products, which were in force until December 31st, 2023, extending their application to 2024 with a different phasing-out schedule for each of the taxes affected. In the case of the VAT rate on electricity, which in 2023 was reduced from 21% to 5%, a lower reduction is approved, setting it at 10% until December 31st, 2024. This reduction is subject to the average daily market price of electricity exceeding 45 euros/MWh each month. In February, the price of electricity did not exceed this threshold and, according to the evolution of electricity price futures, it will not be exceeded until May. Therefore, it is expected that from March to June the usual rate of 21% will be applied and the impact of the reduction in the electricity rate for the year as a whole is assessed to be a reduction in revenue of a little under €1bn. With regard to the tax reduction on food, the reduction implemented in 2023 until June 30th, 2023[10] is extended, with an impact that AIReF estimates a reduction in revenue of around €1bn. The VAT on gas, briquettes and pellets, which in 2023 was lowered to 5%, is reduced to 10% during the first quarter of 2024 in the case of gas and up to the second quarter in the case of briquettes and pellets, with an estimated negative impact on 2024 revenue of €40m. Finally, for the Special Tax on Electricity, which in 2023 maintained a reduced rate of 0.5%, the reduction is extended for the first half of 2024. However, its intensity is gradually lowered with a reduced rate of 2.5% up to April 31st, 2024 and 3.8% up to June 30th, 2024, which results in a loss in revenue of around €250m.

**For 2024, AIReF forecasts a loss of revenue from the reduction in the Tax on the Value of Electricity Production of about €750m and assumes that its effect will be neutral in terms of the deficit.** The revenue from the Tax on the Value of Electricity Production is earmarked for the transfer from the budget of the State Secretariat for Energy to the National Commission on Markets and Competition (Spanish acronym: CNMC), with a neutral effect on the deficit. The suspension of the Tax on the Value of Electricity Production first started to be applied with the onset of the energy crisis in the third quarter of 2021. In 2022, it was accompanied by a transfer to compensate the CNMC for the tariff deficit of about €3.28bn and an increase in the transfer of revenue from the auctions of emission rights of €880m in addition to the €1.1bn provided for in the General State Budget for 2022, which contributed to a surplus in the electricity system of more than €6bn in that year. The suspension of the Tax on the Value of Electricity Production was maintained in 2023, but no transfers were made to the electricity system to compensate for it. For 2024, Royal Decree-Law 8/2023 establishes the gradual restoration of the Tax on the Value of Electricity Production during the second half of the year, with a reduction of half of its amount during the first quarter and a quarter in the second. AIReF's forecasts again assume neutrality over the deficit and assess the effect of the suspension during this year at reduced revenue of around €750m, which includes both the effect of the partial suspension of 2024 and that relating to the fourth quarter of 2023, which is transferred to the cash figure of the first quarter of the following year.

**AIReF estimates a total impact on CG expenditure of almost €2bn for 2024, 0.1 points of GDP, after having an impact in 2023 of 0.4 points.** The estimate for this year takes into account the extension of the measures approved in Royal

[10] 0% for basic foodstuffs, 5% for pasta, olive and seed oils

Decree-Law 8/2023 of December 27th, which adopts measures to address the economic and social consequences of the conflicts in Ukraine and the Middle East, as well as to mitigate the effects of the drought. In addition, the impact for 2023 of some measures is updated, following the publication of year-end data in budget accounting.

**On the expenditure side, Royal Decree-Law 8/2023 included two blocks of new measures or extensions of existing ones - the energy block and the transport block - whose impact amounts to about €1.7bn**. In the field of energy, the measure relating to the Tariff of Last Resort (TUR) for gas in homeowners' associations was extended until June 30th of this year, taking into account the lower-than-expected impact that this measure finally had last year. In addition, the extension until mid-year of three measures of lesser impact was included: the reduction by 80% of the cost of electricity tolls, the temporary flexibility of electricity contracts, and that of gas contracts. The combined impact of these three measures is approximately €170m. In the field of transport, Royal Decree-Law 8/2023 extended existing transport support for a further year, with a total impact of almost €1.5bn. On the one hand, the support for passenger transport that is channelled through the Territorial Authorities (both ARs and LGs), with an impact of €784m, which includes special support for road transport passes in the Canary Islands and the Balearic Islands, was extended. On the other hand, the extension of the reduction in the price of multi-journey tickets, both offered by concessionaires of public scheduled road passenger transport under the responsibility of the CSA and that of the tickets offered by Renfe Viajeros in rail transport, was approved. The extension of all these passes will have an estimated cost of €680m. The support extended in the field of public transport was already integrated into AIReF's estimate published in the Report on the Budgetary Plan for 2024.

**The valuation of some of the measures has been modified according to the latest information, resulting in a lower cost of about €2.5bn in 2023 and €200m in 2024**. For 2023, the most significant change is the absence of compensation to the system for the suspension of the Tax on the Value of Electricity Production, expected to amount to just over €1.1bn. In addition, the estimate for 2023 of the impact of the new gas TUR for homeowners' associations for an amount of about €600m is revised downwards. This is due to the new year-end information, which shows that the impact estimated by the Government in the Budgetary Plan for 2024 for this measure was higher than the actual figure. In addition, there is a transfer of part of the appropriation that had been allocated[11] for direct support to the agricultural sector and that is channelled through FEGA (Spanish Agricultural Guarantee Fund), of around €200m. For 2024, the passing of funds from the transfer to FEGA is recorded and the impact of the rebates on the price of fuel for transporters and farmers is revised upwards, as in this case, the actual execution is greater than estimated.

### 4.3.2. Other Central Governments revenue measures

**The impact of the structural CG revenue measures results in an increase in the deficit estimated at 0.1 points of GDP from 2024, while the temporary measures add 0.3 points and 0.2 points in 2024 and 2025, respectively.** The revenue measures included in the General State Budget for 2023 (23GSB) and the 2023 Budgetary Plan, whose impact begins or extends until 2024, mostly involve tax reductions that have become more intense since the last report as a result of further reductions in PIT to adapt it to the rise in the national minimum wage. In contrast, the temporary measures provide additional revenue that, since the previous report, extend their effect until 2025.

**Structural revenue measures increase the deficit by 0.1 points of GDP from 2024.** Since the last report, the tax reductions are higher due to the approval of Royal Decree 142/2024, which raises the minimum amount for PIT withholdings to bring them in line with the increase in the national minimum wage. The expected impact is a reduction in collection of €962m in 2024, which will fall to €730m in 2025 because the result of the 2024 tax return (which is paid in 2025) is expected to include higher income from taxpayers with multiple jobs, whose withholdings are reduced under the new legislation. In 2024, PIT revenue will also be lower due to the impact on the 2023 tax due minus tax credits, tax withheld and prepayments (to be paid in 2024) of the reductions on income from work approved in the 23GSB, valued at €550m, as well as the effect on the first few months of 2024 and on the 2023 tax due minus tax credits, tax withheld and prepayments of the extension of the maternity deduction included in the 2023 Budgetary Plan, estimated at €68m. For their part, the rate reductions of Corporate Income Tax for small businesses, introduced in the 23GSB, will reduce the revenue from the 2023 return by €292m (which will be paid in June 2024). In addition, 2024 records the residual impact of the reduction in VAT rates on feminine hygiene products of the last

[11] Measure approved by Article 10 of the Royal Decree-Law of May11th, adopting urgent agricultural and water measures in response to the drought and the worsening conditions in the primary sector resulting from the war in Ukraine and weather conditions, as well as promoting the use of collective public transport by young people and preventing occupational risks in episodes of high temperatures.

two months of 2023, which have been paid in January and February 2024. In the opposite direction, the increase in the taxation of capital income will result in additional revenue in the 2023 PIT return, estimated at €204m.

**Temporary revenue measures reduce the 2024 deficit by 0.3 points and the 2025 deficit by 0.2 points.** The main changes with respect to the previous report are the result of the extension of the temporary levies on financial and energy companies and the temporary Solidarity Tax on Large Fortunes, established in Royal Decree-Law 8/2023, as well as the extension of the temporary limitation on the offsetting of intra-group losses in consolidated groups in Corporate Income Tax, initially established on a temporary basis in the 23GSB and whose extension to 2024 has been introduced as an amendment to the Draft Law from Royal Decree-Law 8/2023. The levies, initially defined for 2024, are extended to 2025, which raises revenue compared with the forecast in the previous report by an additional €2.9m. They are subsequently terminated as from 2026[12]. Although the Temporary Solidarity Tax on Large Fortunes remains in force until the reform of the Regional Financing System, the Autonomous Regions have eliminated the total or partial rebate on the Wealth Tax. Therefore, the Temporary Solidarity Tax on Large Fortunes will no longer collect what was forecast as from 2025 for the CG and will now pass to the ARs. In addition, it is estimated that the impact of the limitation in Corporate Income Tax on the offsetting of losses in consolidated groups will add about €1bn for its application on the instalment payments of the current year and around €1.4bn on the tax due minus tax credits, tax withheld and prepayments, which is carried forward to the collection of the following year, and will subtract each year the part corresponding to the recovery that companies may apply during the ten years following the limitation. Overall, this results in an impact of €2.3bn in 2024. In 2025, the impact of the limitation on Corporate Income Tax losses is reduced to about €1bn because, despite the removal of the limitation, the impact from the previous year's tax due minus tax credits, tax withheld and prepayments persists, and from 2026 it leads to a reduction in revenue of around €500m due to the annual recovery of the limitations applied in 2023 and 2024.

[12] Although the Government has expressed the intention to transform the temporary levies into permanent taxes, at the time of preparation of this report no regulatory changes have been made in this regard. Therefore, AIReF only considers their temporary application until 2025.

TABLE 12. IMPACT OF REVENUE MEASURES IN CASH TERMS: AIREF ESTIMATE

| Central Government Revenue Measures | Source | 2023 | | 2024 | | 2025 | | 2026 to 2028 | |
|---|---|---|---|---|---|---|---|---|---|
| | | €M | % GDP | €M | % GDP | €M | % GDP | €M | % GDP |
| **Structural revenue measures** | | -973 | -0,1 | -2.191 | -0,1 | -1,986 | -0,1 | -1,934 | -0,1 |
| **PIT** | | **-1,813** | **-0.1** | **-3,156** | **-0.2** | **-2,924** | **-0.2** | **-2,924** | **-0.2** |
| Reduction of the contribution limit to pension plans from 2,000 to 1,500. | GSB22 | 74 | 0.0 | 74 | 0.0 | 74 | 0.0 | 74 | 0.0 |
| Increase in taxation on capital income | GSB23 | 0 | 0.0 | 204 | 0.0 | 204 | 0.0 | 204 | 0.0 |
| Increase in reduction of work income and minimum taxation. | GSB23 | -1,726 | -0.1 | -2,276 | -0.1 | -2,276 | -0.1 | -2,276 | -0.1 |
| Increase in reduction of work income and minimum taxation. | RD 142/2024 | 0 | 0.0 | -962 | -0.1 | -730 | 0.0 | -730 | 0.0 |
| Extension of the maternity tax credit | Bud. Plan 23 | -128 | 0.0 | -196 | 0.0 | -196 | 0.0 | -196 | 0.0 |
| PIT - Extension of deferral guarantee exemption up to €50,000 | Order HFP/311/2023 | -33 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **Corporate Income Tax** | | **555** | **0.0** | **349** | **0.0** | **349** | **0.0** | **349** | **0.0** |
| Establishment of a minimum rate of 15% of the taxable income. | GSB22 | 596 | 0.0 | 596 | 0.0 | 596 | 0.0 | 596 | 0.0 |
| Reduction to 40% of allowance under housing rental regime | GSB22 | 45 | 0.0 | 45 | 0.0 | 45 | 0.0 | 45 | 0.0 |
| Reduction in the rate for small businesses | GSB23 | 0 | 0.0 | -292 | 0.0 | -292 | 0.0 | -292 | 0.0 |
| PIT - Extension of deferral guarantee exemption up to €50,000 | Order HFP/311/2023 | -86 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **VAT** | | **-306** | **0.0** | **-23** | **0.0** | **-23** | **0.0** | **-23** | **0.0** |
| Reduction rate to 5% on female hygiene products | GSB23 | -21 | 0.0 | -23 | 0.0 | -23 | 0.0 | -23 | 0.0 |
| PIT - Extension of deferral guarantee exemption up to €50,000 | Order HFP/311/2023 | -285 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **OTHER** | | **591** | **0.0** | **639** | **0.0** | **612** | **0.0** | **664** | **0.0** |
| Tax on Single-Use Plastics: | Law 7/2022 | 591 | 0.0 | 639 | 0.0 | 612 | 0.0 | 664 | 0.0 |
| **Temporary revenue measures** | | 4,264 | 0.3 | 5,128 | 0.3 | 3,786 | 0.2 | -488 | 0.0 |
| **PIT** | | **-362** | **0.0** | **-109** | **0.0** | **-109** | **0.0** | **0** | **0.0** |
| Deductions for housing rehabilitation | RDL 19/2021 | -109 | 0.0 | -109 | 0.0 | -109 | 0.0 | 0 | 0.0 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Reduction in agricultural and livestock objective estimation return | Order HFP/405/ 2023 | -166 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Increase in difficult-to-justify expenses (direct est.) | HFP/1172/2022 | -49 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Additional reduction on net income (objective est.) (incl. Order HFP/1172/2022 | HFP/1172/2022 | -38 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **CIT** | | **1,098** | **0.1** | **2,329** | **0.2** | **987** | **0.1** | **-488** | **0.0** |
| Limitation on offsetting losses in consolidated groups. | GSB23 | 1,098 | 0.1 | 2,329 | 0.2 | 987 | 0.1 | -488 | 0.0 |
| **OTHER** | | **3,528** | **0.2** | **2,908** | **0.2** | **2,908** | **0.2** | **0** | **0.0** |
| Temporary Levy on Financial Institutions | Law 38/2022 | 1,264 | 0.1 | 1,686 | 0.1 | 1,686 | 0.1 | 0 | 0.0 |
| Temporary Levy on Energy Companies | Law 38/2022 | 1,645 | 0.1 | 1,222 | 0.1 | 1,222 | 0.1 | 0 | 0.0 |
| Solidarity Tax on Large Fortunes | Law 38/2022 | 619 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **TOTAL** | | **3,291** | **0.2** | **2,937** | **0.2** | **1,800** | **0.1** | **-2,422** | **-0.1** |

Source: Government and AIReF estimates

### 4.3.3. Measures of the Social Security Funds

**AIReF estimates that the revenue measures of the Social Security Funds will have an impact of 0.1 points of GDP in 2024, 0.2 points in 2025 and 2026, and 0.3 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 special-purpose social contribution that comes into force in 2023 and progressively increases from 0.6 points in that year to 1.2 points in 2029, after which it remains at that level. The expected impact is an increase in revenue from €692m in 2024 to €3.67bn in 2028 - that is, 0.2 points of GDP. The 2023 reform introduces a path of increases in the maximum base that comes into force in 2024 – CPI plus an annual fixed amount of 1.2 pp – and implies a growing revenue increase from €405m in 2024 to €1.18bn in 2028, which amounts to 0.1 points of GDP. Finally, the solidarity contribution, a new additional contribution on income from work that exceeds the maximum contribution base, comes into force in 2025 and will gradually increase until 2045. Its budgetary impact increases progressively from €364m in 2025 to €667m in 2028.

**TABLE 13. SOCIAL SECURITY REVENUE MEASURES**

| Social Security Revenue Measures | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Measure | 2024 | | 2025 | | 2026 | | 2027 | | 2028 | |
| | €M | %GDP | €M | %GDP | €M | %GDP | €M | %GDP | €M | %GDP |
| Intergenerational Equity Mechanism | 692 | 0.0 | 1,381 | 0.1 | 2,083 | 0.1 | 2,855 | 0.2 | 3,671 | 0.2 |
| Evolution of Maximum Contribution Bases | 405 | 0.0 | 686 | 0.0 | 911 | 0.1 | 1,032 | 0.1 | 1,181 | 0.1 |
| Solidarity contribution | | | 364 | 0.0 | 462 | 0.0 | 563 | 0.0 | 667 | 0.0 |
| **TOTAL** | **1,097** | **0.1** | **2,432** | **0.2** | **3,456** | **0.2** | **4,451** | **0.3** | **5,519** | **0.3** |

Source: AIReF

**The expenditure measures of the Social Security Funds have a growing budgetary impact from €299m in 2024 to €2.55bn in 2027 and 2028.** RDL 2/2023 establishes an increase in non-contributory pensions and minimum pensions between 2024 and 2027 in order to ensure that they exceed certain poverty thresholds[13][14]. The increase is applicable to the MIS benefit, the amount of which is calculated with reference to non-contributory pensions. In the absence of the 2024 GSB, RDL 8/2023 specifies the amount of these benefits in order to guarantee compliance with these increases. The total impact of the Social Security expenditure measures is €2.55bn in 2027, 0.1% of GDP.

[13] Poverty threshold corresponding to a two-adult household in the case of contributory retirement pension for over-65s with a dependent spouse, contributory permanent incapacity pension with a dependent spouse or widow's pension for over-65s with family responsibilities, half of the above increase for all other contributory pensions, and 75% of the poverty threshold for a one-person household for non-contributory pensions.

[14] The other pension system expenditure measures approved between 2021 and 2023 have longer-term effects due to the establishment of transitional periods in the regulation.

TABLE 14. SOCIAL SECURITY EXPENDITURE MEASURES

| Social Security expenditure measures | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Measure | 2024 | | 2025 | | 2026 | | 2027 | | 2028 | |
| | €M | %GDP | €M | %GDP | €M | %GDP | €M | %GDP | €M | %GDP |
| MIS increase | 70 | 0.0 | 266 | 0.0 | 399 | 0.0 | 525 | 0.0 | 525 | 0.0 |
| Increase in non-contributory pensions | 64 | 0.0 | 253 | 0.0 | 393 | 0.0 | 533 | 0.0 | 533 | 0.0 |
| Increase in minimum pensions | 165 | 0.0 | 405 | 0.0 | 954 | 0.1 | 1,491 | 0.1 | 1,491 | 0.1 |
| **TOTAL** | **299** | **0.0** | **924** | **0.1** | **1,746** | **0.1** | **2,549** | **0.1** | **2,549** | **0.1** |

Source: AIReF

### 4.3.1. Measures taken at the regional level

**The ARs have adopted permanent tax reduction measures that reduce the estimated collection by €2.26bn in the coming years.** Since the Report on the Main Budgetary Lines, several ARs have approved new permanent revenue measures not considered in the October scenarios. The combined positive impact of these measures in the sub-sector is estimated at €100m. This figure basically results from the cancelling out of two types of opposing tax measures: on the one hand, there is an increase in collection over the October estimate of €690m, mainly as a result of the cancellation of the rebates approved in the Wealth Tax in several ARs for taxpayers subject to the Solidarity Tax on Large Fortunes - with an impact mainly in the Region of Madrid - and, to a lesser extent, new environmental taxes. This figure is largely offset by the new tax reductions adopted by several ARs in PIT, Transfer Tax and Stamp Duty and Inheritance and Gift Tax. The new reductions in PIT will affect revenue in 2024 and will mainly have an impact on the regional accounts as from 2025. In the regions under the ordinary regime, in 2026 a twofold effect will be calculated in the system's revenue: on the one hand, through the interim payments; on the other hand, through the 2024 settlement, to the extent that they have not been included in the calculation of this year's interim payments.

**While the regulation and weight of the tax reforms remains uneven by AR, they generally advance in the approval of permanent tax reductions.** Only in Castile-La Mancha and the Canary Islands are most of the tax reductions adopted of a temporary nature. Most of the new measures approved are of a permanent nature or of uncertain timing (such as the cancellation of the rebate in the Wealth Tax), with those adopted in Navarre and the Balearic

Islands having the greatest negative impact. These regions will record the greatest loss of revenue in terms of GDP in the period, along with Cantabria, Rioja, Valencia and Extremadura. In Madrid, the increase in revenue expected from the cancellation of the Wealth Tax rebate for taxpayers subject to the Solidarity Tax on Large Fortunes makes it possible to cancel part of the effect of the tax reductions adopted in PIT and Inheritance and Gift Tax. However, overall the measures approved will reduce its tax collection in the period by 0.2 points of GDP. The same effect is expected from the measures adopted in Andalusia, Galicia, Aragon and Asturias. In the last three regions and Extremadura, new measures have been approved since the previous report that increase the loss of collection by between 0.1 and 0.2 points of their GDP. In contrast, in Andalusia and Galicia, the fall in revenue estimated in October is slightly mitigated mainly due to the cancellation of the rebates in the Wealth Tax for high net worth taxpayers. With no relevant regulatory changes since the previous report, the permanent reductions adopted in Castile and Leon and the Canary Islands do not reach 0.1 points of their GDP. Finally, in both Castile-La Mancha and Catalonia the net impact of the measures adopted is positive in the period, largely due to the regulation of environmental taxes.

**TABLE 15. CUMULATIVE TAX COLLECTION IMPACT IN THE PERIOD 2023-2028 OF THE PERMANENT REVENUE MEASURES ADOPTED OR PLANNED BY THE ARS (€M AND %GDP)**

| ARs | PIT | Inheritance and Gift Tax | Wealth tax | Tax on Property Transfers and Stamp Duty | Other | TOTAL | |
|---|---|---|---|---|---|---|---|
| | | | | | | €m | % GDP |
| ANDALUSIA | -255 | -13 | -93 | -1 | 0 | **-362** | **-0,2** |
| ARAGON | -86 | -44 | -18 | 0 | 43 | **-105** | **-0,2** |
| ASTURIAS | -48 | -2 | 0 | -7 | 0 | **-57** | **-0,2** |
| BALEARIC ISLANDS | -54 | -78 | -44 | 0 | 7 | **-169** | **-0,4** |
| CANARY ISLANDS | 0 | 0 | 0 | 0 | 0 | **0** | **0,0** |
| CANTABRIA | -52 | -5 | -13 | -18 | -2 | **-90** | **-0,5** |
| CASTILE AND LEON | -25 | 0 | 0 | -1 | -3 | **-29** | **0,0** |
| CASTILE-LA MANCHA | -25 | 0 | 0 | -9 | 49 | **16** | **0,0** |
| CATALONIA | -19 | 0 | 20 | 0 | 32 | **32** | **0,0** |
| EXTREMADURA | -56 | -4 | -6 | -9 | 0 | **-74** | **-0,3** |
| GALICIA | -118 | -7 | -1 | -16 | -6 | **-148** | **-0,2** |
| MADRID | -957 | -49 | 555 | 0 | -2 | **-453** | **-0,2** |
| MURCIA | -17 | 0 | 0 | -12 | 4 | **-24** | **-0,1** |
| NAVARRE | -148 | 0 | 0 | 0 | 23 | **-124** | **-0,5** |
| BASQUE COUNTRY | | | | | | | |
| RIOJA | -38 | -9 | 0 | 0 | 0 | **-47** | **-0,4** |
| VALENCIA | -429 | -232 | 25 | -16 | 27 | **-624** | **-0,4** |
| **TOTAL ARs** | **-2.326** | **-442** | **424** | **-88** | **171** | **-2.259** | **-0,1** |

Source: AIReF, based on the 2024 Budgets and Medium-term Budgetary Plans of the ARs.

**The expenditure measures adopted or planned by the ARs will increase sub-sector spending by €2.2bn in the period, €250m more than estimated in the**

**October report.** Since the Report on the Main Budgetary Lines, the ARs have adopted new personnel expenditure measures valued at €360m, which will be added to the increase of €1.6bn estimated in October for the personnel measures planned at that time. Since 2023, remuneration and staff increases have been implemented or are planned, in addition to the wage increase resulting from basic regulations, the effects of which are concentrated in 2023 and 2024 and extend until 2026. A small part of the higher expenditure resulting from the new personnel measures is offset by the disappearance of some actions provided for in the budgetary lines that in the end were not carried out, and the implementation of pharmacy and healthcare strategies that are expected to result in savings during the period.

**TABLE 16. CUMULATIVE INCREASE IN EXPENDITURE IN THE PERIOD 2023-2028 OF THE PERMANENT EXPENDITURE MEASURES ADOPTED OR PLANNED BY THE ARS (€M 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 | 353 | 0 | 0 | 0 | 0 | **353** | **0,2** |
| ARAGON | 0 | -5 | 0 | 0 | -27 | **-32** | **-0,1** |
| ASTURIAS | 170 | 0 | 0 | 0 | 0 | **170** | **0,6** |
| BALEARIC ISLANDS | 4 | 0 | 6 | 130 | 0 | **139** | **0,3** |
| CANARY ISLANDS | 0 | 0 | 11 | 0 | 0 | **11** | **0,0** |
| CANTABRIA | 13 | 0 | 0 | 0 | 0 | **13** | **0,1** |
| CASTILE AND LEON | 125 | -4 | 4 | 0 | 0 | **125** | **0,2** |
| CASTILE-LA MANCHA | 0 | 0 | 0 | 0 | 0 | **0** | **0,0** |
| CATALONIA | 744 | 0 | 0 | 0 | 0 | **744** | **0,3** |
| EXTREMADURA | 70 | 0 | 0 | 0 | 0 | **70** | **0,3** |
| GALICIA | 169 | 0 | 0 | 0 | 0 | **169** | **0,2** |
| MADRID | 48 | 0 | 0 | 0 | 0 | **48** | **0,0** |
| MURCIA | 236 | 20 | 0 | 0 | -20 | **235** | **0,6** |
| 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 | 59 | 0 | 0 | 0 | 0 | **59** | **0,0** |
| **TOTAL ARs** | **2.044** | **11** | **61** | **130** | **-47** | **2.199** | **0,1** |

Source: AIReF, based on the 2024 Budgets and Medium-term Budgetary Plans of the ARs.

## 4.4. Analysis by sub-sector

### 4.4.1. Central Government

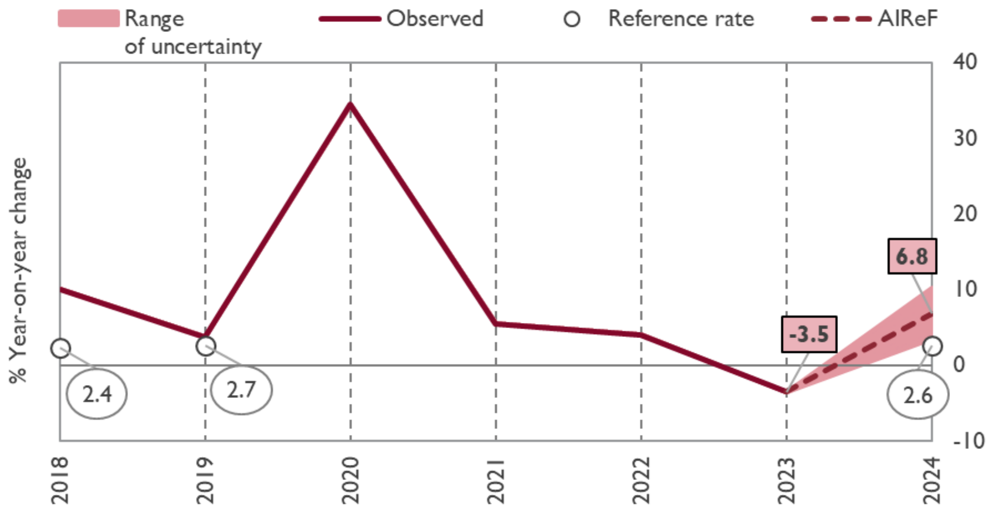
**AIReF estimates a CG deficit of 2.7% of GDP for 2024, 0.4 points lower than that forecast in the previous report, reaching 2.6% of GDP in 2028.** The factor that most influences this decrease in the deficit is new information, mainly the year-end 2023 data, which has led to an improvement of almost 0.5 points of GDP. The macroeconomic scenario reduces it by an additional 0.1 points. In the opposite direction, the approval of new measures totalling 0.2 points of GDP raises the deficit by this amount for 2024. As a result of this update, the estimated deficit is lower than the Government's forecasts of 3% of GDP in the 2023-2026 SPU for 2024. In the medium term, AIReF's forecast is that, conditional on expenditure associated with the regional and local financing system, the deficit will improve in 2025 to 2.2% of GDP and then maintain a slight upward path, in which the growth of defence and interest expenditure also contributes, reaching a deficit of 2.6% of GDP in 2028.

**The increase in the deficit compared with year-end 2023 is 0.7 points of GDP. This change is mainly due to the regional financing system (RFS)**. Expenditure on current transfers, excluding the RTRP, between GG sub-sectors is expected to increase in 2024 by 0.7 points of GDP. In addition to the greater contribution to the SSFs to complete the financing of “unauthorised” expenses, the fundamental factor results from the regional financing system due to the growth of interim payments and the 2022 settlement in favour of the ARs, received in 2024 and which was much higher than that received in 2023.

**For the purposes of complying with the CG expenditure rule for 2024, AIReF estimates an increase in eligible expenditure of around 6.8% in 2024. Accordingly, AIReF forecasts non-compliance with this fiscal rule.** Compared with the 0.4% increase forecast in the previous report, this new estimate is mainly due to the estimated fall in 2023 of eligible expenditure due to the year-end data, which reduces the starting point for calculating the change in eligible expenditure for 2024. Part of that reduction in spending in 2023 does not fully carry over to 2024, as is the case of military investment and expenditure linked to court rulings. In addition, the negative net impact of revenue measures for 2024 has been updated to 0.1% of GDP as a result of the extension of revenue measures in the aforementioned Royal Decree-Law 8/2023 and other revenue measures. This results in eligible expenditure growing by a further 1% (6.8% instead of the 5.8% in the absence of revenue-reducing measures). This estimated growth of 6.8% in eligible expenditure exceeds the reference rate of 2.6% for 2024 by an estimated amount of 0.4 points of GDP.

**Compliance with the expenditure rule would mean a deficit of 2.3% of GDP in 2024 under AIReF's revenue forecasts.** In addition, this situation compromises compliance with the Specific Recommendation to limit the growth of primary expenditure net of revenue measures of the GG as a whole below 2.6%.

FIGURE 42. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE CG (% CHANGE)




Source: Ministry of Finance and AIReF.

TABLE. 17. AIREF FORECASTS OF CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE FOR NATIONAL AND EUROPEAN EXPENDITURE RULE. TOTAL CG (% CHANGE)

| Total Central Government | AIReF forecast % change 2024/2023 |
|---|---|
| Expenditure (without RTRP) | 9.4% |
| Eligible expenditure national expenditure rule | 6.8% |
| Eligible expenditure CSR 2024 | 1.8% |

Source: AIReF

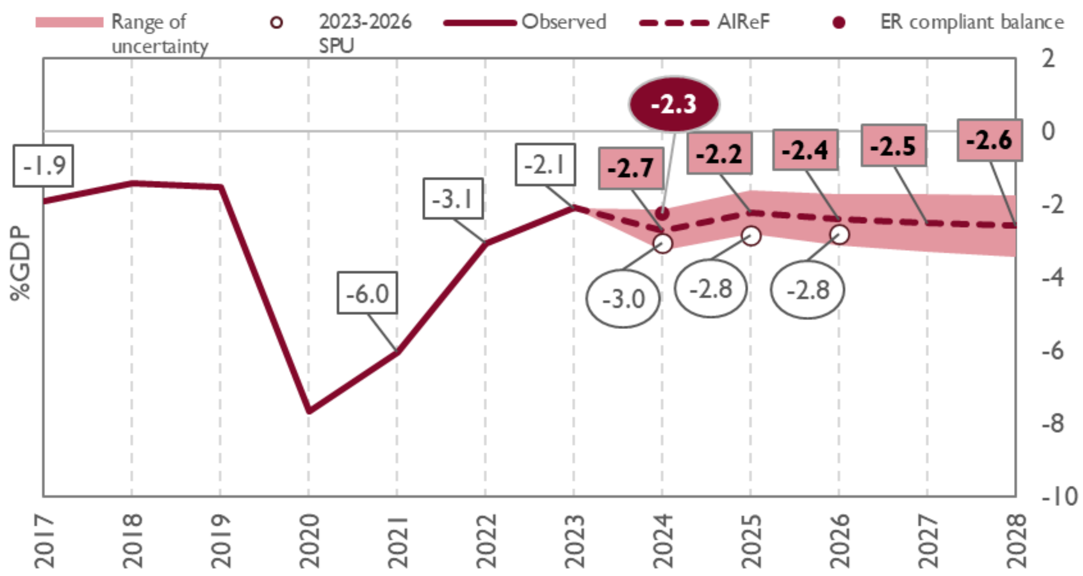
**AIReF estimates the average growth between 2024 and 2028 of primary expenditure net of revenue measures at 3.7% per annum.** This estimate includes all the measures approved so far, as well as the withdrawal of the temporary measures on the date provided for in the regulations.

TABLE 18. EVOLUTION OF REVENUE, EXPENDITURE AND BALANCE OF THE CG: (% GDP)

| | AIReF current | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| **REVENUE** | 19.3 | 19.3 | 19.2 | 19.3 | 19.5 | 19.5 |
| **EXPENDITURE** | 22.0 | 21.6 | 21.6 | 21.8 | 22.0 | 22.0 |
| **BALANCE** | -2.7 | -2.2 | -2.4 | -2.5 | -2.6 | -2.6 |

Source: AIReF

**FIGURE 43. NET LENDING/BORROWING. CENTRAL GOVERNMENT. MEDIUM-TERM WITHOUT RTRP (% GDP)**




Source: Ministry of Finance and AIReF

#### 4.4.1.1 Central Government revenue

**AIReF forecasts that CG revenue, excluding RTRP funds, will amount to 19.3% of GDP in 2024, unchanged from the last report.** Despite maintaining the same estimate, there have been changes that affect it in different directions. The new information and the improvement in the macroeconomic scenario push revenue upwards by 0.3 points. In the opposite direction, the approved measures and the denominator effect reduce it by the same amount.

**Although the weight of the revenue is maintained, its composition changes by heading.** After ending 2023 at 0.2 points above the level forecast by AIReF, total CG revenue remains at the same weight over GDP. However, the weight of taxes falls due to the extension of the tax reductions, while the weight of transfers from other GG authorities increases, as does that of property income and other revenue. The most significant changes occur in taxes on production and imports with a reduction of 0.3 points compared with the previous report, due to the impact of the extension of the rebates to mitigate the rise in prices and the effect of the incorporation of the new information available. Taxes on income, transfers from other GG authorities and property income increase by a further 0.1 points due to the incorporation of new information and, in the case of the taxes, also due to the increase in projections due to the update of the macroeconomic scenario.

**In the medium term, the weight of CG revenue remains at 19.3% until 2025, falls by 0.1 points in 2026 and from then grows to reach 19.5% at the end of the**

**projection period.** From 2024 to 2026, taxes remain at 15.6% of GDP marked by the calendar of the withdrawal of tax reductions and the expiry of temporary measures of additional revenue (See Section 4.1 Evolution of General Government revenue). From 2027, they increase to reach 19.5% of GDP in 2028, with an evolution determined by the increase in taxes on income. For their part, the weight of social contributions remains unchanged at 0.6% of GDP until 2026, and then falls by 0.1 points to stand at 0.5% until 2028. A downward path is projected for transfers from other GG authorities from 1.3% of GDP in 2024 to 1.1% in 2028, while property income and other revenue rise from 1.8% in 2024 to 1.9% at the end of the projection period.

#### 4.4.1.2 Central Government expenditure

**AIReF reduces its estimate of non-RTRP expenditure to 22% of GDP for 2024 compared with the 22.4% forecast in the previous report.** This decrease in estimated expenditure for 2024 of 0.4 points of GDP is due to the revision of both the macroeconomic and fiscal scenarios. From a macroeconomic point of view, the upward revision of the nominal GDP forecast for 2024 explains almost 0.2 GDP points of the reduction in expenditure due to the denominator effect. From the fiscal point of view, the new information received has led to a reduction in expenditure for 2024 by a further 0.2 points of GDP, mainly due to the execution at year-end 2023, which was lower than AIReF's estimate. This reduction has been partially offset by the increase in planned expenditure on court rulings and, to a lesser extent, by the extension of energy support under Royal Decree-Law 8/2023 not included in the 2024 Budgetary Plan (which already included transport measures) and which, therefore, were not incorporated into AIReF's forecasts. Finally, if we consider expenditure linked to the RTRP, CG expenditure would stand at 23.4% of GDP.

**By expenditure components, AIReF reduces its forecast for both current and capital expenditure by 0.1 points of GDP for 2024.** The headings of current expenditure that undergo the largest changes are social transfers in cash, the contribution to the budget of the European Union, and subsidies, where the quantification of the measures is adjusted and the new ones from the extension of Royal Decree-Law 8/2023 are incorporated. In the opposite direction, the forecast of current transfers between GG sub-sectors rises. As regards capital expenditure, AIReF estimates a decrease with respect to the previous report in gross capital formation, mainly resulting from the forecast of fewer military deliveries than those initially estimated. However, this fall is partially offset by the increase in expenditure on other capital transfers due to the expected impact of court rulings against the interests of the State[15].

**Expenditure, excluding the RTRP, is expected to grow by 9.4% in 2024 compared with 2023, in contrast with the 6.5% reduction projected in the previous report, and grow by around 4.4% in 2028.** After updating the data, higher expenditure growth is expected in 2024 compared with 2023, mainly due to the lower expenditure executed in 2023 than expected by AIReF. This is compounded by the expected increase in expenditure on court rulings and, to a lesser extent, by the extended support not provided for in the 2024 Budgetary Plan. However, if RTRP expenditure were included, expenditure would increase by 12.8% compared with last year. In the medium term, non-RTRP expenditure is estimated to grow by 2% in 2025 due to lower transfers from the regional and local financing system in that year. From 2026, it is expected to grow by more than 4% driven by the rise in military expenditure and interest expenditure.

**In the medium term, the path is conditioned by the estimation of transfers to the ARs and LGs due to the financing system.** These transfers decrease in 2025 and then recover an upward path until 2028. Another prominent factor in the medium term is the progressive increase in interest expenditure and defence expenditure.

[15] The ruling of the Constitutional Court that declared several aspects of Royal Decree-Law 3/2016 on the reform of Corporate Income Tax unconstitutional and ruling 707/2023 of the Supreme Court that recognised the right of pensioners who contributed to former employment mutual insurance companies to recover part of the payments declared in the taxation of PIT.

## BOX 5. EXTENSION OF THE GENERAL STATE BUDGET

### General procedure

In the event that the Budget Law is not passed before the first day of the corresponding fiscal year, the budgets of the previous year will be considered automatically carried over until the approval and publication of the new ones in the Official State Gazette.

The General Budget Law limits the scope of the extension by excluding appropriations for expenditure corresponding to programmes or actions that end in the financial year whose budgets are carried over or for obligations that lapse in that fiscal year.

There are also certain significant expenditure items, such as the wages of public employees, the increase in pensions and territorial financing, the amounts of which are updated in the General State Budget (GSB) law. In this regard, in the event of an extension, it is common for the Government to use some legal instrument to approve supplementary rules and regulate aspects that are usually set out in the articles of the GSB.

### Impact in 2024

For 2024, the initial appropriations of the 2023 GSB were carried over, except for those for expenditure that ended in 2023. By way of example, the appropriations associated with the Spanish Presidency of the Council of the European Union, which took place between July 1st and December 31st, were not carried over to 2024.

In relation to significant expenditure whose amounts are normally updated in the GSB law, as a result of the extension, the update has either taken place through Royal Decree-Law 8/2023 (the pension increase) or is in the process of being approved as it has been incorporated as an amendment to the bill from Royal Decree-Law 8/2023 (the increase in public employees' wages to give effect to the multi-year agreement on the improvement in remuneration of the Civil Service Negotiation Committee and the update of the amounts of the instalment payments and definitive settlement of the regional and local financing system).

In addition, regardless of the budget extension, some revenue and expenditure measures that were in force in 2023 have been approved for 2024 by Royal Decree-Law 8/2023. In the case of the extension of the time limitation on the offsetting of intra-group losses in consolidated groups for

Corporate Income Tax purposes, this revenue measure is in the process of being approved as an amendment to the draft law stemming from Royal Decree-Law 8/2023.

Finally, although the rules of the extension applied to appropriations for RTRP expenditure, they have a special regime that gives them greater flexibility to transfer appropriations between sections and to incorporate appropriations from previous years. In this regard, there should be no serious prejudice to the execution of the RTRP arising directly from the budget extension.

### 4.4.2. Social Security Funds

**The Social Security Funds (SSFs) will reduce their deficit from 0.6% of GDP in 2023 to 0.3% in 2024, 0.1 points below the 2024 estimate in the previous report.** The weight of revenue over GDP rises by 0.1 points, while expenditure maintains its weight over GDP in 2024 compared with the last report.

**The weight of revenue over GDP rises by 0.1 points compared with the estimate in the previous report, to stand at 15.8 points in 2024.** The 0.1-point increase in the weight of revenue is the result of the higher estimate of interest income, combined with a slight increase in the other main headings. For their part, the estimate of social contributions remains approximately constant since the denominator effect of the upward revision of GDP and the information effect of revenue from social contributions at year-end 2023, which are lower than estimated in the last report, are offset by the effect of a more dynamic macroeconomic scenario on the collection of contributions estimated for 2024.

**Expenditure remains unchanged from the previous report at 16.1% of GDP in 2024.** The decrease in the weight of expenditure on pensions and expenditure on unemployment benefits compared with the previous report is offset by a certain increase in the weight of benefits for temporary incapacity, benefits for maternity, paternity and pregnancy risk, family benefits and the MIS. Pension expenditure observed at year-end 2023 is lower than previously estimated, while the forecast increase in pension expenditure in 2024 is moderated due to a slightly more contained increase in the CPI than expected in the previous report. Expenditure on unemployment benefits decreases its weight over GDP due to the dynamism of the labour market, while the increase in the weight of the other benefits is explained by an upward revision of the 2023 level by incorporating the data observed at the end of the year.

**Between 2025 and 2028, the balance of the SSFs stabilises at -0.4%.** Revenue increases from 15.8% of GDP in 2024 to 16% in 2028, and expenditure from 16.1% to 16.4%. The evolution of revenue is determined by the dynamism of the labour market and the impact of revenue measures, specifically the IEM, the maximum bases and the solidarity contribution. The increase in expenditure is marked by the evolution of pension expenditure, only partially offset by the moderation of expenditure on unemployment benefits. This balance is also strongly conditioned by the amount determined from the transfers from the CG in compliance with the recommendation of the Toledo Pact.

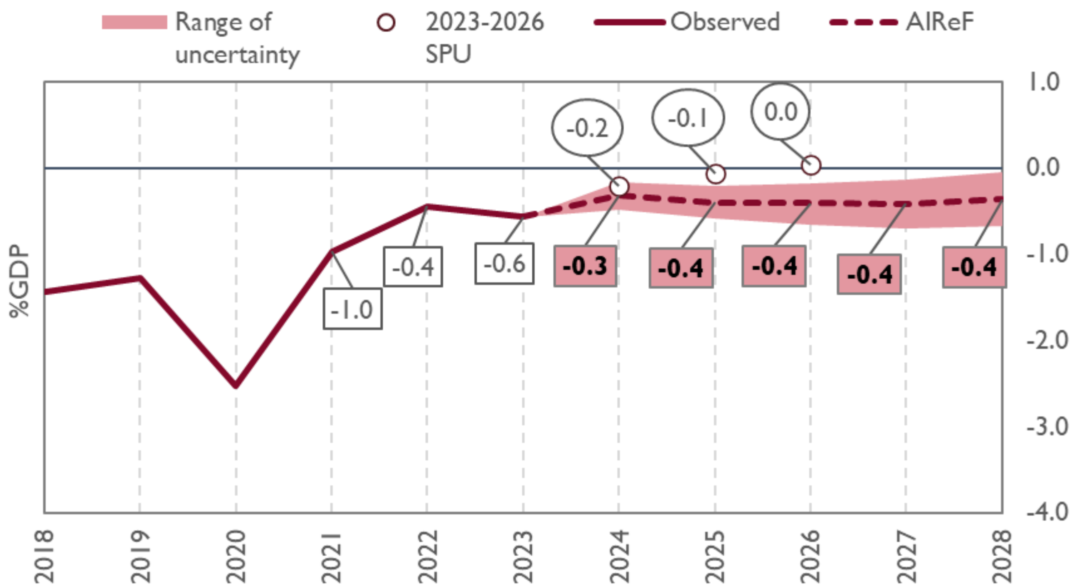
**Primary expenditure net of revenue measures will grow by 3.9% per annum between 2024 and 2028.** This estimate includes revenue measures linked to the pension reform that moderate the growth of primary expenditure.

TABLE 19. EVOLUTION OF REVENUE, EXPENDITURE AND BALANCE OF THE SSFs (% GDP)

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| **REVENUE** | 15.8 | 15.9 | 15.9 | 16.0 | 16.0 |
| **EXPENDITURE** | 16.1 | 16.3 | 16.3 | 16.4 | 16.4 |
| **BALANCE** | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 |

Source: AIReF

FIGURE 44. NET LENDING/BORROWING. SOCIAL SECURITY FUNDS. MEDIUM-TERM WITHOUT RTRP (% GDP)

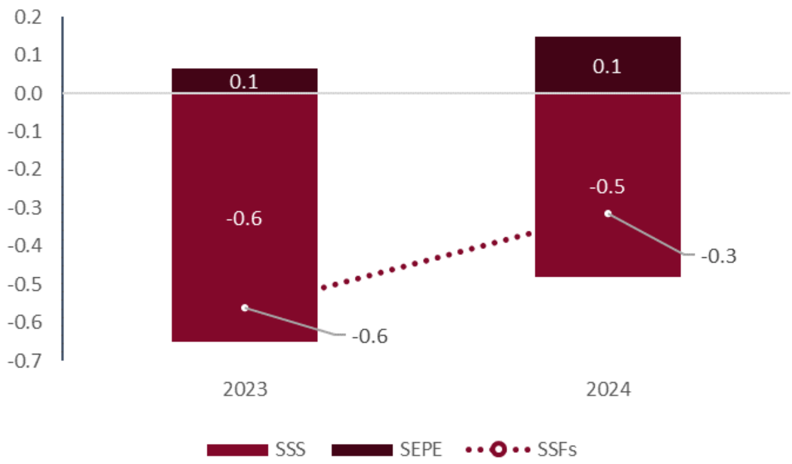



Source: AIReF and IGAE

**This evolution does not affect the various agents of the Social Security Funds equally.** In 2024, the balance of the Social Security Funds improved by almost

0.3 points, of which almost 0.2 points corresponded to the Social Security System and a little less than 0.1 points to the SEPE. The increase in the SEPE surplus is due to the reduction in the weight of expenditure over GDP, driven by the improvement in the unemployment rate and the dynamism of the labour market. In the case of the Social Security System, the reduction in the deficit is due to revenue growing at a higher rate than expenditure, mainly due to the dynamism of employment. FOGASA presents a balanced budget in this period

**FIGURE 45. BALANCE OF THE SOCIAL SECURITY FUNDS BY AGENT (%GDP)**

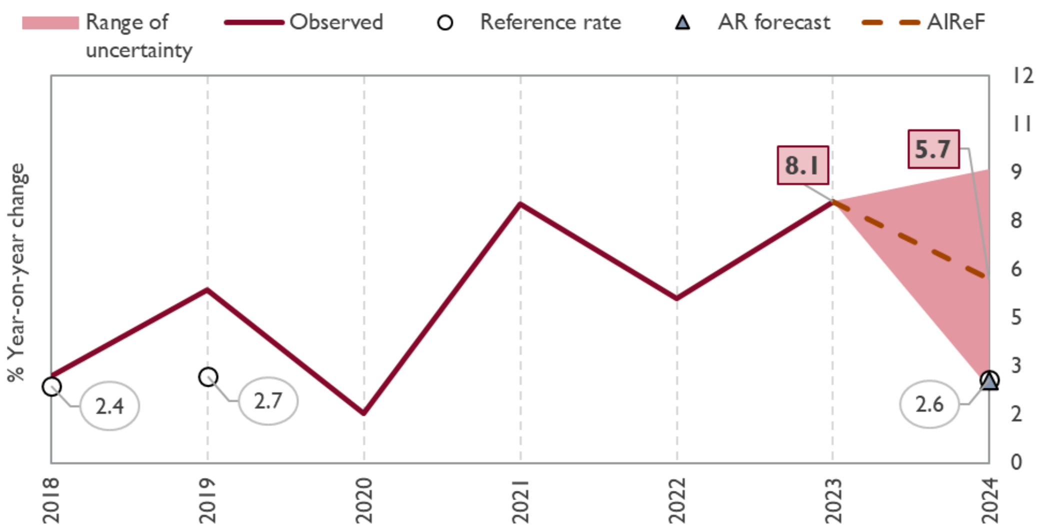



Source: Social Security, SEPE, IGAE and AIReF

### 4.4.3. Autonomous Regions

**AIReF notes a risk of non-compliance with the 2024 expenditure rule in the regional sub-sector and estimates that it will reach a deficit of 0.1% of GDP.** Under the current forecasts for expenditure and revenue, AIReF estimates that in 2024 the sub-sector could reach a deficit of 0.1 points of GDP in line with the forecasts of the Budgetary Plan and higher than the balance included in the SPU. However, the growth of eligible expenditure is close to 6%, above the current 2.6% reference rate of the expenditure rule, which may compromise compliance with the Country-Specific Recommendation issued by the European Council for 2024.

**FIGURE 46. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE 2024. ARS (% GDP**




Source: IGAE, AIReF and Medium-Term Budgetary Frameworks of the ARs.

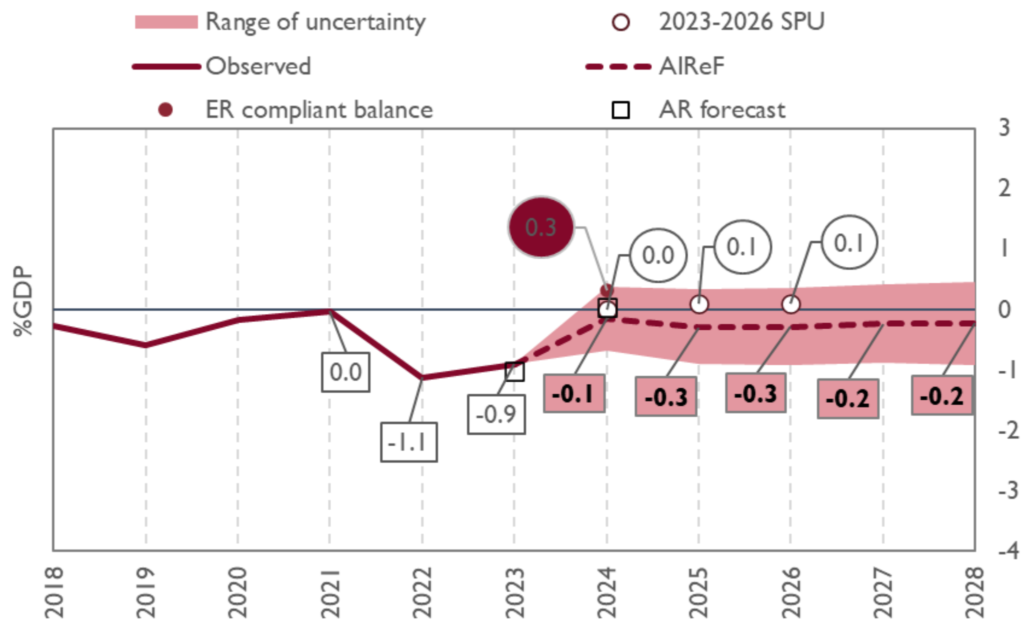
**TABLE 20. AIREF FORECASTS OF CHANGE IN EXPENDITURE AND ELIGIBLE EXPENDITURE FOR NATIONAL AND EUROPEAN EXPENDITURE RULE. TOTAL ARs (% CHANGE)**

| Total ARs | AIReF forecast % change 2024/2023 |
|---|---|
| Expenditure (without RTRP) | 3.3% |
| Eligible expenditure national expenditure rule | 5.7% |
| Eligible expenditure CSR 2024 | 5.6% |

Source: AIReF

**Under AIReF's revenue scenario, compliance with the expenditure rule in 2024 would take the sub-sector to a surplus of 0.3 points of GDP.** Under AIReF's forecasts, a growth in eligible expenditure of 2.6% would mean maintaining the level of expenditure not associated with the RTRP. As a result, a surplus in the sub-sector of 0.3% of GDP would be achieved under this level of expenditure and AIReF's estimates of the level of revenue not linked to the RTRP – more than 65% of which is revenue reported from the financing system of ARs under the ordinary regime.

FIGURE 47. NET LENDING/BORROWING OF ARS (% GDP)




Source: AIReF and IGAE

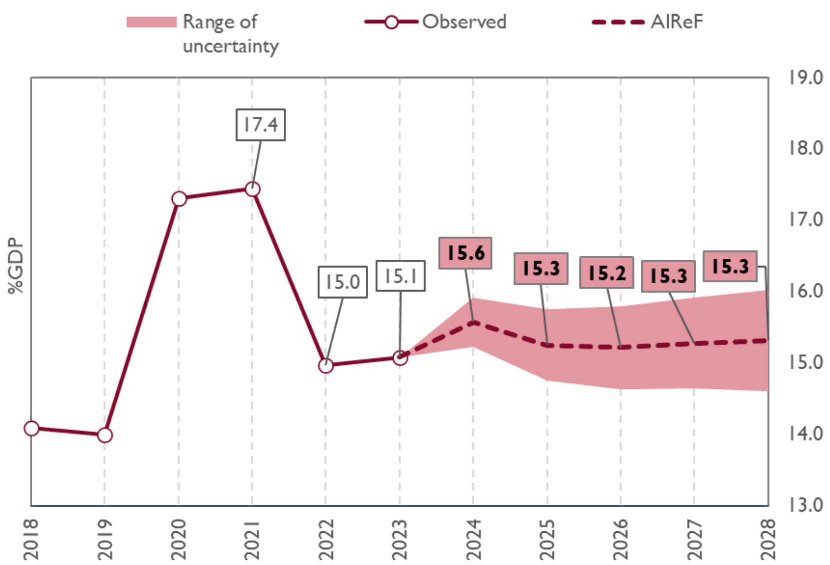
**AIReF's forecasts worsen the balance of the ARs in the period 2024-2028 with respect to the October report.** Several elements have fundamentally conditioned the downward revision of the sub-sector's balance: the incorporation of the revenue from the AR financing system for 2024 notified to the ARs, the year-end 2023 data, the updated information on European funds and approval of new expenditure measures at the regional level. In the opposite direction, albeit with less impact, the new tax measures adopted by some ARs and the revision of the macroeconomic scenario have slightly improved the outlook for the sub-sector. In short, AIReF's estimates of the annual balance of the ARs up to 2028 have fallen by 0.3 points for 2024, 0.2 points for 2025 and 0.1 points as from 2026. In the absence of additional measures, the forecasts therefore move away from the surplus of 0.1 points indicated in the SPU for 2026.

### 4.4.3.1 Revenue and expenditure of the Autonomous Regions

**AIReF's forecasts on AR revenue deteriorate for 2024 and subsequent years with respect to the previous report.** AIReF has revised the revenue forecasts for 2024 downwards on the estimates in the October report and this correction is partially carried over to the following years. The revenue of the financing system notified to the ARs by the Fiscal and Financial Policy Council in December 2023 was 0.1 points lower than estimated by AIReF in October. The updated information on the recorded revenue from European funds other than NGEU funds points to a higher amount recognised in 2023 than expected in October, which lowers the estimates of this revenue in the immediately following years and improves them in the last years of the period. In the opposite direction, the outlook for tax revenue in the sub-sector as a whole improves slightly due to the new tax measures adopted (cancellation of rebates in Wealth Tax that offset new tax reductions in PIT, Transfer Tax and Stamp Duty and Inheritance and Gift Tax) and the revision of the macroeconomic forecasts for the period.

**The ARs have adopted new revenue measures that, together, slightly improve the forecast of the previous report on the sub-sector's tax revenue.** With the final approval of the budgets, several ARs have adopted permanent tax measures (or measures for an uncertain period of time) not contemplated in their October scenarios. This will have an impact on the regional accounts as from 2024, with a cumulative positive net effect in the period of €100m compared with the October estimate. On the one hand, tax collection will be €690m higher than estimated in the previous report, mainly due to the cancellation of the rebates approved in the Wealth Tax of several ARs to taxpayers subject to the Solidarity Tax on Large Fortunes and, to a minimal extent, the creation of new environmental taxes. On the other hand, a greater negative impact is expected compared with the estimate in the Report on the Main Budgetary Lines as a result of the new reductions adopted in Transfer Tax and Stamp Duty, Inheritance and Gift Tax and PIT. Finally, some ARs that had adopted temporary income tax reduction measures with an impact in 2023 and 2024 have extended their effect for another year. Therefore, the recovery of revenue due to the withdrawal of these measures is put back to 2025 or 2026.

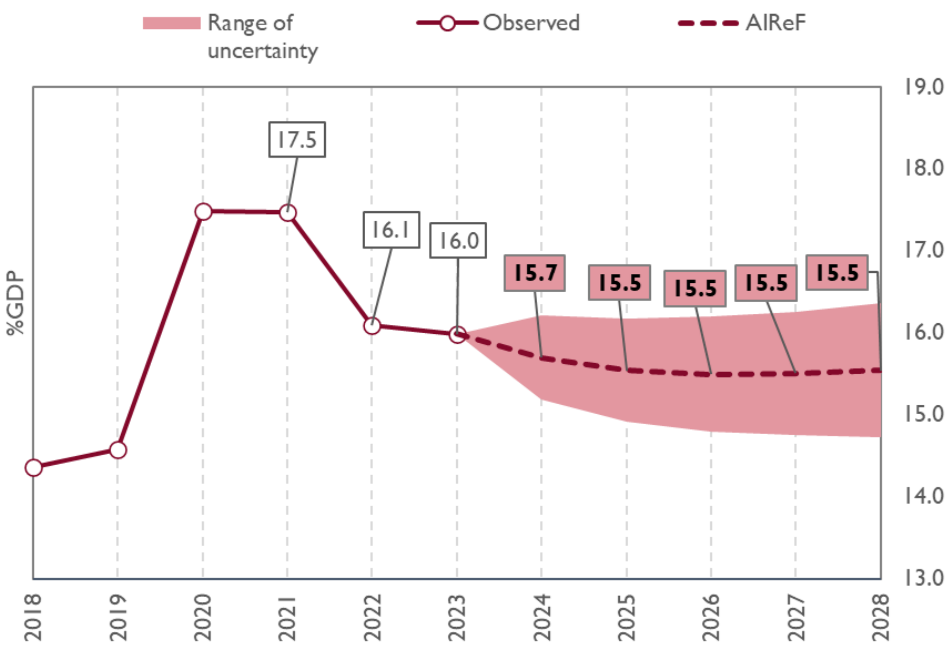
**FIGURE 48. NET REVENUE OF THE ARs WITHOUT RTRP (% GDP)**




Source: IGAE and AIReF.

**AIReF increases the level of expenditure not associated with the RTRP in the period over that estimated in October.** The higher level of expenditure not associated with the RTRP shown by the year-end 2023 data over that expected in the previous report is partly carried over to the following years as it is considered to be structural in nature. The upward deviations have concentrated on interest expenditure, transfers to other GG sub-sectors, capital expenditure and, to a lesser extent, social transfers other than social transfers in kind, offset by a lower execution of intermediate consumption and subsidies. Part of the increase in capital expenditure and current transfers to the private sector in 2023 has entailed bringing forward the execution schedule compared with that estimated in October, partly associated with the execution of European funds other than the RTRP, and incorporates some specific operations that will not be replicated in the future. Its weight is therefore expected to fall in the following years, although its level rises over that expected in October. The increase in expenditure resulting from the year-end 2023 data is combined with the estimated effect of the new permanent spending measures notified by the ARs, which mainly affect personnel expenditure and raise the sub-sector's expenditure in the period by over €300m.

FIGURE 49. NET EXPENDITURE OF THE ARs WITHOUT RTRP (% GDP)




Source: IGAE and AIReF.

**TABLE 21. REVENUE, EXPENDITURE AND BALANCE OF THE ARS WITHOUT RTRP (% GDP). AIREF MEDIUM-TERM PATH**

| Total ARs | AIReF Forecast 2024 %GDP | AIReF forecast 2025 %GDP | AIReF Forecast 2026 %GDP | AIReF forecast 2027 %GDP | AIReF Forecast 2028 %GDP |
|---|---|---|---|---|---|
| **Net revenue without RTRP** | **15.6** | **15.3** | **15.2** | **15.3** | **15.3** |
| Net RFS | 10.1 | 9.9 | 10.0 | 10.0 | 10.1 |
| *Net IPs* | *8.8* | *9.1* | *9.2* | *9.3* | *9.3* |
| *Net Settlement* | *1.4* | *0.8* | *0.8* | *0.8* | *0.8* |
| Tax on Property Transfers & Stamp Duty | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Inheritance and Gift Tax | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other non-RFS tax | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Other revenue | 3.7 | 3.6 | 3.5 | 3.5 | 3.4 |
| **Net expenditure without RTRP** | **15.7** | **15.5** | **15.5** | **15.5** | **15.5** |
| Intermediate consumption | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Compensation of employees | 6.9 | 6.9 | 6.9 | 6.8 | 6.8 |
| Social transfers in kind | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Interest | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Other current expenditure | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 |
| Capital expenditure | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| **Net lending/borrowing** | **-0.1** | **-0.3** | **-0.3** | **-0.2** | **-0.2** |

Source: AIReF estimate

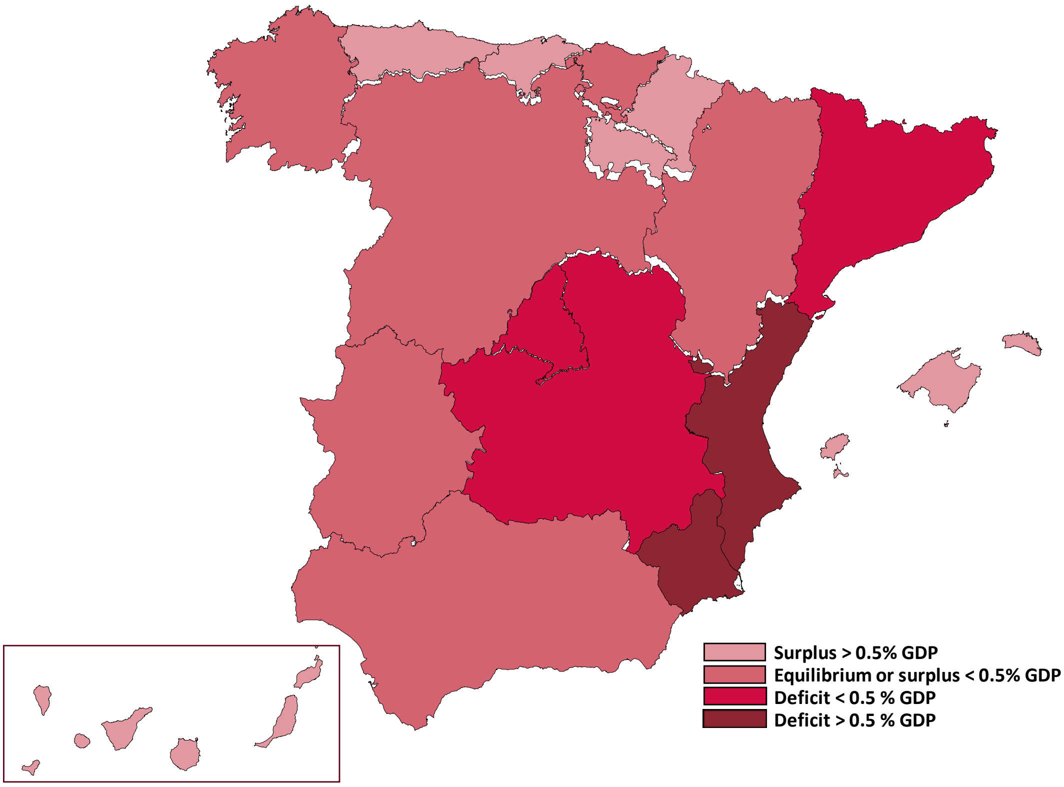
**Under a no-policy-change scenario, AIReF estimates that primary expenditure net of revenue measures will grow on average by 3.7%.** AIReF has estimated the primary expenditure net of revenue measures in all the years of the period, calculated in accordance with the current specifications of the European framework. In doing so, it has taken into account its forecasts on the evolution of total expenditure and of the items excluded from the expenditure calculation, as well as current information on the permanent and temporary revenue measures adopted and planned by the regions with an impact in these years. Considering these elements, AIReF estimates that primary expenditure net of measures will grow in the ARs by 5.6% in 2024. For the period 2025-2028, AIReF estimates annual rates above 3.5%, reaching an average of 3.7% in the period.

### 4.4.3.2 Individual analysis

**At the individual level, the forecasts for year-end 2024 for almost all ARs worsen compared with the previous report.** Virtually all the individual changes largely result from the year-end 2023 data, the information on the execution of European funds and the incorporation of the financing system revenue for 2024 notified to the ARs under the ordinary regime. Consequently, the forecasts for all ARs worsen, with the exception of Rioja.

**However, AIReF estimates that most ARs will close 2024 with a surplus or balances close to equilibrium.** Although the individual estimates have generally worsened compared with those prepared in October, AIReF forecasts that only the ARs of Murcia and Valencia will close 2024 with a deficit of more than 1%. It expects moderate deficits in Catalonia and Castile-La Mancha and balances close to equilibrium in Extremadura, Madrid and Andalusia. The other ARs will close the year with a surplus.

**FIGURE 50. MAP OF AR NET LENDING/BORROWING 2024 (%GDP)**




Source: AIReF

TABLE 22. FORECASTS BY AR NET LENDING/BORROWING 2024 (% GDP)

| ARs | AIReF Forecasts | | AR forecasts | |
|---|---|---|---|---|
| | Current | Lines | Current | Lines |
| ANDALUSIA | 0.0% | 0.7% | 0.0% | -0.1% |
| ARAGON | 0.3% | 0.7% | -0.1% | 0.0% |
| ASTURIAS | 1.1% | 1.6% | 0.1% | 0.0% |
| BALEARIC ISLANDS | 1.1% | 1.4% | 0.5% | 0.0% |
| CANARY ISLANDS | 0.8% | 1.5% | 0.4% | 0.1% |
| CANTABRIA | 0.6% | 0.1% | 0.3% | 0.0% |
| CASTILE AND LEON | 0.3% | 0.7% | -0.1% | 0.5% |
| CASTILE-LA MANCHA | -0.3% | 0.3% | 0.0% | 0.0% |
| CATALONIA | -0.2% | 0.1% | 0.3% | -0.3% |
| EXTREMADURA | 0.0% | 0.7% | 0.2% | 0.0% |
| GALICIA | 0.4% | 0.7% | 0.0% | 0.0% |
| MADRID | -0.1% | 0.0% | 0.0% | 0.0% |
| MURCIA | -1.7% | -1.4% | -0.6% | -0.5% |
| NAVARRE | 0.6% | 1.2% | -0.3% | 0.2% |
| BASQUE COUNTRY | 0.2% | 0.4% | -0.3% | -0.3% |
| RIOJA | 1.1% | 0.9% | 0.3% | 0.3% |
| VALENCIA | -1.9% | -1.3% | -0.1% | 0.3% |
| **TOTAL AUTONOMOUS REGIONS** | **-0.1%** | **0.2%** | **0.0%** | **0.0%** |

Source: AIReF, Budgetary Plans and Main Budgetary Lines 2024 of the ARs.

**AIReF notes a risk of non-compliance with the expenditure rule in all ARs.** Under AIReF's forecasts on revenue and expenditure and the evolution of the main items considered in the calculation of the expenditure rule, it is noted that eligible expenditure would grow in all ARs above the reference rate of 2.6% set for 2024. The calculated changes vary between regions between 4% and 9%, dependent on the expected growth in expenditure, the change in expenditure financed with European funds and the effect of the tax reduction measures adopted in each one of the ARs.

TABLE 23. AIREF FORECASTS BY AR CHANGE IN ELIGIBLE EXPENDITURE 2024 (% CHANGE)

| ARs | AIReF Forecasts |
|---|---|
| ANDALUSIA | 5.1% |
| ARAGON | 5.3% |
| ASTURIAS | 7.9% |
| BALEARIC ISLANDS | 8.2% |
| CANARY ISLANDS | 8.5% |
| CANTABRIA | 7.9% |
| CASTILE AND LEON | 5.5% |
| CASTILE-LA MANCHA | 5.9% |
| CATALONIA | 4.8% |
| EXTREMADURA | 9.0% |
| GALICIA | 8.1% |
| MADRID | 4.5% |
| MURCIA | 8.0% |
| NAVARRE | 8.5% |
| BASQUE COUNTRY | 4.4% |
| RIOJA | 7.3% |
| VALENCIA | 5.9% |
| **TOTAL AUTONOMOUS REGIONS** | **5.7%** |

Source: AIReF

**A detailed analysis will be included in the corresponding reports published together with this report.** The individual reports contain detailed information on the updated forecasts for 2024, including the revision of the medium-term outlook for each of the ARs.

### 4.4.4. Local Governments

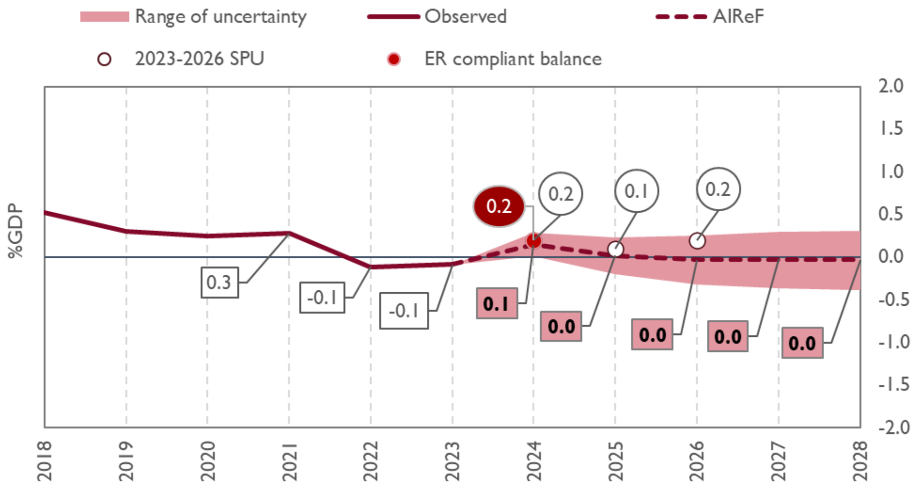
**For 2024, AIReF worsens its forecast of the surplus to be achieved by the local sub-sector by 0.1 points compared with the October report, placing it at 0.1% of GDP. This is mainly the result of the impact of the year-end 2023 data.** With respect to the previous report, this report incorporates the latest information published on year-end 2023, the financial year-end 2023 data on debt and local deposits published by the Bank of Spain, the information provided by the Information Centre of the Ministry of Finance on the budgets of the Local

Governments, the data provided by the 25 large LGs subject to individual evaluation, as well as the information communicated by the Ministry of Finance in the National Commission of Local Administrations on the amounts to be received in the year through the financing system. In this regard, it was mainly the publication of the year-end 2023 data, where the previously published data on cumulative execution for the first three quarters of the year were also revised (spending was raised for those three quarters by more than €1bn), which has led AIReF to lower its forecasts by 0.1 points as it expects a large part of this expenditure to be replicated as it is recurrent in nature, placing the estimated balance for this year at around 0.1% of GDP, lower than the 0.2% recorded in the SPU.

**The local sub-sector would obtain a slight deficit in 2024 after adjusting for the extraordinary revenue to be received through the financing system.** For 2024, the surplus expected by AIReF in the local sub-sector is significantly influenced by the extraordinary revenue to be received from the financing system, which is estimated at 0.2 points of GDP above that obtained in a standard year. If this extraordinary financing is deducted from the expected balance, the LGs would obtain a deficit close to 0.1% of GDP in 2024.

**AIReF's estimates on the balance of the LG sub-sector in the period 2025-2028 are around equilibrium, also 0.1 points worse than in the October report.** The consolidation of a major portion of current expenditure in 2023 not only affects 2024, but has also conditioned the downward revision of the expected balance in the local sub-sector in the period 2025-2028. This higher expenditure is largely current in nature, which means it is expected to be consolidated in future years. This is compounded by the revision of macroeconomic forecasts for the period and the containment of some tax revenue as a result of new tax reduction measures announced by some large LGs. All these effects mean that AIReF's estimates on the annual balance of the LGs up to 2028 have decreased by about 0.1 points in each of the years of the period, placing it at around equilibrium.

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

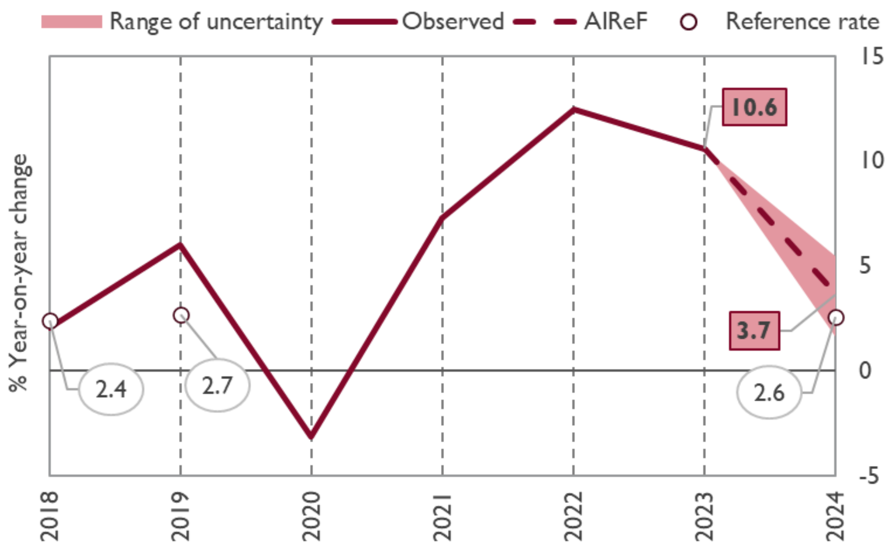



Source: Ministry of Finance and AIReF.

**AIReF estimates that the local sub-sector could breach the expenditure rule in 2024.** AIReF's current forecasts of a slight surplus would not allow it to comply with the reference rate of the expenditure rule set at 2.6% for this year. This is due to the fact that the growth in eligible expenditure is estimated to be close to 4%, mainly as a result of the expected increase in current expenditure from contract updates, wage rises and the consolidation of current subsidies. These forecasts are significantly influenced by the 2023 eligible expenditure estimate made by AIReF. The growth in primary expenditure in that year, drawn from the published data, would stand at around 11%, similar to the growth recorded in 2022 (of more than 12%).

**To comply with the expenditure rule in 2024, the LG sub-sector should obtain a surplus of 0.2% of GDP under AIReF's revenue scenario.** Under the hypothesis of AIReF's expected scenario for the revenue of the LGs, growth in eligible expenditure of 2.6%, consistent with compliance with the expenditure rule, would require a surplus for the sub-sector as a whole of almost 0.2% of GDP, 0.1 points higher than the balance forecast by AIReF.

FIGURE 52. ELIGIBLE EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE 2024. LGs (% CHANGE)




Source: Ministry of Finance and AIReF.

#### 4.4.4.1 Revenue and expenditure of the Local Governments

**AIReF improves its October forecasts for local revenue expected in the period 2024-2028 by 0.1 points of GDP, placing it at 6.6% of GDP this year, excluding the RTRP, and 6.4% in the following years.** According to the year-end 2023 data, the weight of the revenue obtained by the LGs, adjusted for RRF funds, reached 6.5% of GDP, 0.1 points more than estimated by AIReF in its Report on the Main Budgetary Lines. In a no-policy change scenario, AIReF forecasts that this increase will be carried over to the following years, mainly affecting revenue linked to economic activity. Consequently, AIReF has updated its estimates of the local sub-sector's revenue for the period 2024-2028, raising its October figures by 0.1 points, placing it, after adjusting for the same funds, at around 6.6% of GDP this year and 6.4% in the following years.

**AIReF estimates that, in the period 2024-2028, the average growth of local revenue, adjusted for RRF funds and extraordinary compensation from the financing system, will stand at around 3%.** Incorporating the year-end 2023 data into AIReF's estimates, local revenue adjusted for RRF funds and compensation for the negative 2020 settlement of the financing system, it is estimated that revenue will grow on average in each of the years of the period 2024-2028 by around 3%. AIReF has revised the forecast for the revenue to be obtained by the LGs in the aforementioned period upwards as a result of the impact that the year-end 2023 data has on the following years.

**In the medium term, AIReF raises its estimates of local expenditure by 0.2 points of GDP compared with the October forecast, placing it at 6.5% of GDP**

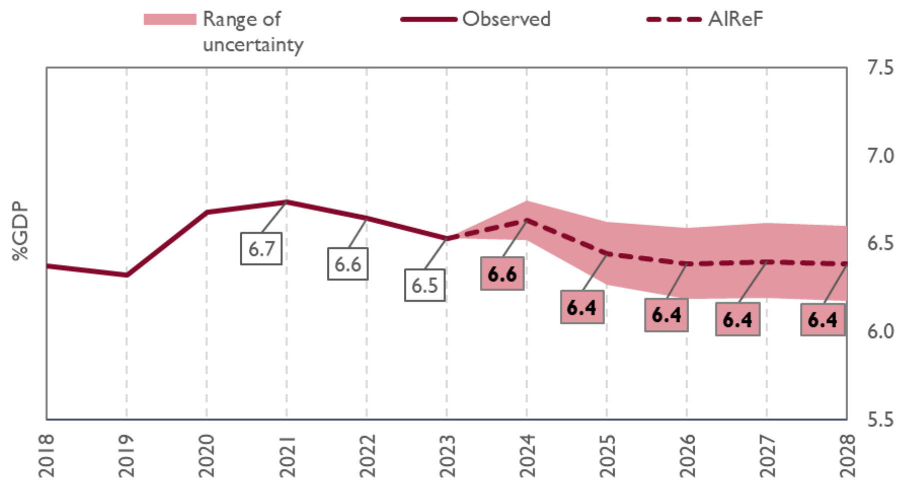
**in 2024 and at 6.4% in 2025 to 2028, excluding the RTRP.** As with revenue, in a no-policy change scenario and based on the 2023 data according to which the weight of LG expenditure over GDP, excluding that derived from the RTRP, stood at 6.6% (0.3 points more than estimated by AIReF in its Report on the Main Budgetary Lines), AIReF has revised its forecasts of the local sub-sector expenditure upwards by 0.2 points for the period 2024-2028, placing it at 6.5% of GDP in 2024 and 6.4% % in the following three years, as a result of the recurrence of part of the current expenses verified at the end of 2023.

**TABLE 24. REVENUE, EXPENDITURE AND BALANCE OF THE LGs WITHOUT RTRP. MEDIUM-TERM PATH AIREF (% GDP)**

| | AIReF current | | | | |
|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 |
| **REVENUE** | 6.6 | 6.4 | 6.4 | 6.4 | 6.4 |
| **EXPENDITURE** | 6.5 | 6.4 | 6.4 | 6.4 | 6.4 |
| **BALANCE** | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |

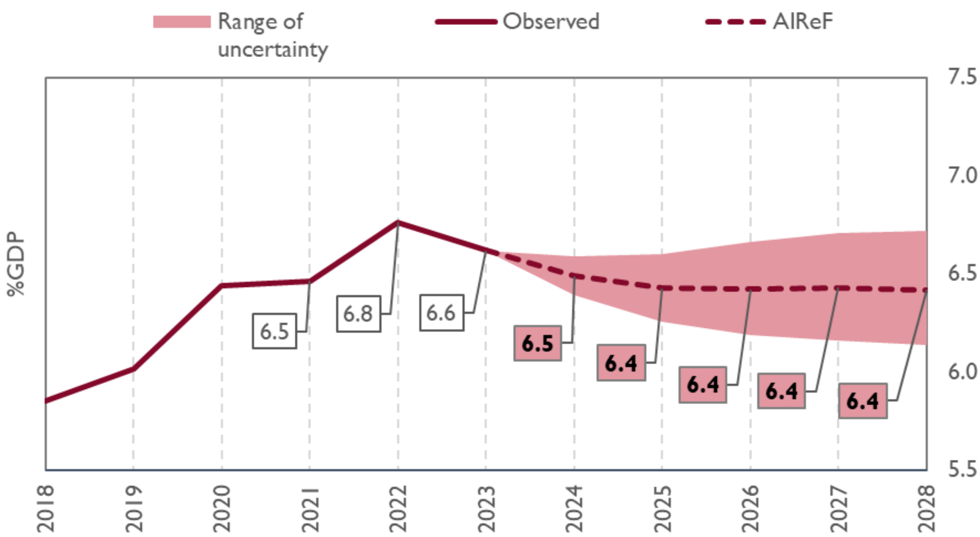
Source: Ministry of Finance and AIReF.

**FIGURE 53. REVENUE OF THE LGs WITHOUT RTRP (% GDP)**




Source: Ministry of Finance and AIReF.

FIGURE 54. EXPENDITURE OF THE LGs WITHOUT RTRP (% GDP)




Source: Ministry of Finance and AIReF.

**In the same homogeneous terms, AIReF's forecasts for the average growth of local expenditure in the period 2024-2028 are around 3%.** Similar to the revenue stream, after homogenising local expenditure with regard to that related to RRF funds, in the period 2024-2028 the expected average year-on-year growth of local expenditure would stand at more than 3%, and would be significantly influenced by the year-end 2023 data, as indicated above.

**Primary expenditure net of revenue measures will grow at an average rate of 3.7% per annum between 2024 and 2028.** In the absence of additional measures, AIReF has estimated the primary expenditure net of revenue measures in all the years of the period, calculated in accordance with the current specifications of the European framework. In doing so, it has taken into account its forecasts on the evolution of total expenditure and of the items excluded from the expenditure calculation.

#### 4.4.4.2 Analysis of the group of 25 large LGs

**The forecasts for 2024 of the group of large LGs show an improvement compared with those sent with the budgetary lines, although the performance is very uneven.** This group has improved on its year-end 2023 estimates from a deficit of over 1% to a surplus of close to 2%. Particularly noteworthy in this group are the Provincial Councils of the Basque Country, as they improved on their estimates by more than 7 percentage points. For 2024, the group of large LGs slightly improves its October estimates, placing them at around 4% of revenue, with surpluses forecast for all of them. AIReF's forecasts raise the estimates for the group, placing them at 6% of revenue. The breakdown of the forecasts is laid out in the Supplementary Report on the Individual Evaluation of these LGs that is published together with this report.

**The surplus estimated by AIReF does not guarantee compliance with the expenditure rule in all the LGs.** In ten of the LGs analysed, the reported eligible expenditure for 2024 grows at more than twice the permitted rate. The necessary net lending in these LGs for complying with the expenditure rule, *ceteris paribus,* would have to increase by over 4 percentage points on revenue. These are the City Councils of Madrid, Valencia, Palma, Las Palmas de Gran Canaria, Alicante/Alacant, Gijón/Xixón; the Provincial Councils of Barcelona and Seville, the Island Council of Tenerife and the Provincial Council of Araba/Álava.

**TABLE 25. LARGE LGS EXCESS OF ELIGIBLE EXPENDITURE OVER THE LIMIT AND NECESSARY NET LENDING TO COMPLY WITH THE EXPENDITURE RULE. (€M AND % REVENUE)**

| Entity | N L/B 2024 | | Eligible Expenditure 2024 | | | | N L/B compatible with 2024 expenditure rule compliance | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % / REV | Amount | Change 2024 (%) | Amount Limit (rate 2.6%) | Surplus over limit | Amount | % / REV |
| City Council Madrid | 182 | 3,0 | 5.456 | 5,8 | 5.292 | 164 | 345 | 5,8 |
| City Council Valencia | 26 | 2,3 | 986 | 7,5 | 941 | 45 | 71 | 6,4 |
| City Council Palma | -0 | 0,0 | 507 | 16,0 | 448 | 59 | 59 | 11,5 |
| City Council Las Palmas GC | 42 | 7,7 | 442 | 17,2 | 387 | 55 | 97 | 17,9 |
| City Council Alicante/Alicante | 25 | 7,4 | 307 | 8,0 | 292 | 15 | 40 | 12,0 |
| City Council Gijón/Xixón | 1 | 0,4 | 294 | 16,1 | 259 | 34 | 36 | 11,5 |
| Prov. Counc. Barcelona | 17 | 1,5 | 1.170 | 11,1 | 1.080 | 90 | 107 | 9,2 |
| Prov. Counc. Seville | 50 | 10,5 | 347 | 8,7 | 328 | 19 | 70 | 14,6 |
| Island Council Tenerife | 1 | 0,1 | 871 | 7,8 | 829 | 42 | 43 | 4,0 |
| Basque Prov. Counc. Araba/Álava | 8 | 0,9 | 533 | 5,7 | 517 | 16 | 24 | 2,7 |
| **Total** | **352** | **2,8** | **10.912** | **7,9** | **10.372** | **540** | **891** | **7,2** |

Source: Local Governments and AIReF.

## 4.5. Contingent liabilities and fiscal risks

**Uncertainty about the macroeconomic scenario implies risks about the materialisation of the projected fiscal scenario.** Geopolitical conflicts, inflationary and trade tensions, financing conditions and the slower pace of implementation of the RTRP are some of the main risks that would have a negative impact on economic growth. All these elements remain 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 interest expenditure, with an impact on the deficit for 2024 and the rest of the period.

**In addition to the fiscal risks originating in the macroeconomic scenario, there are risks related to the enforcement of court rulings.** These are open court cases which, if resolved in a manner unfavourable to the interests of the State, could have a significant impact on the deficit. These legal proceedings mainly concern certain aspects of the regulation of taxes (Corporate Income Tax, Personal Income Tax, Hydrocarbons Tax and Tax on Economic Activities). Others are related to concession contracts, renewable energy premiums and the regulation of the Electricity Social Voucher.

**Among the risks arising from legal proceedings, some are identified in the General State Account for 2022**, **published in November 2023.** These risks amounted to €13.5bn at the end of the 2022, excluding unquantified risks:

- **International arbitrations**: in relation to energy, the dispute over renewable energies remains open and, although appeals are being lodged against the arbitration decisions, the amount awarded in the unfavourable decisions for Spain stand at around €1.16bn.
- **Motorway concessionaires:** there are several open proceedings: (i) the legal actions of the concessionaire ACESA against the balance of the compensation for the works carried out, claiming amounts of up to €4.3bn, although on January 29th, 2024 the Supreme Court dismissed this claim almost in its entirety[16]; (ii) the contentious-administrative appeals against the agreements of the Council of Ministers that approved the resolutions to liquidate the toll road concession contracts, the amount of which is not quantified; (iii) the participatory loans granted to the concessionaires of motorways in a delicate financial situation, amounting to €148m and (iv) the claims of the concessionaires of motorways on requests for economic equilibrium due to COVID-19, which amount to €427m.
- **Special Tax on Hydrocarbons:** a preliminary ruling is pending before the Court of Justice of the European Union regarding the regional tax rate on the Special Tax on Hydrocarbons differentiated by territory in relation to the same product, with an estimated impact of up to €6.5bn.
- **Electricity social voucher:** there are several contentious-administrative appeals against the regulation of the Electricity Social Voucher, the amount of which is not quantified. However, €366m was already allocated in 2022.
- **Others:** various disputes in relation to the entities included in the General Account (ACUAMED and the Gijón Port Authority Group)

**There are also other risks arising from legal proceedings not listed above.** In some cases, there is already a final court ruling and payments have even started:

[16] The Supreme Court's court upheld ACESA's claim for investments amounting to €32.9m, an amount to be updated in the manner provided for in the 2006 Agreement, and rejected the appeal in all other respects.

- **Corporate Income Tax reform:** the ruling of the Constitutional Court of January 2024 declared several aspects of Royal Decree-Law 3/2016 on the reform of Corporate Income Tax unconstitutional. Although there have already been some refunds, it seems foreseeable that their effects will spread over 2024 and 2025.
- **Refund of PIT to pensioners who contributed to mutual insurance companies:** Supreme Court ruling 707/2023 of February 2023 recognised the right of many pensioners who contributed to the former employment mutual insurance companies to recover part of the contributions declared for PIT purposes. Although some refunds were already made in 2023, the main impact will be on the 2024 accounts once the Tax Agency has launched a specific process for this item in March. At any event, its final amount will depend on the number of applications that eventually materialise.
- **Mobile telephone operators:** the Supreme Court ruling of July 2022 declared the Tax on Economic Activities on mobile telephone operators to be in breach of European law. In this case, there have also been some refunds in 2023 and they are expected to continue over 2024.
- **Tax relief for indirect purchases from foreign companies:** the Ruling of the General Court of the European Union of September 2023 overturned the decision of the European Commission that declared the tax relief illegal for companies that made indirect purchases from foreign companies. This ruling has been appealed by the European Commission and is therefore pending a decision.

In the opposite direction, there is the challenge by the Treasury before the National High Court of the ruling in favour of Santander of the Tax Appeal Board to try to reimburse the deferred tax credits (DTAs) that Banco Santander recorded for the losses borne through the absorption of Banco Popular. In this case, a ruling in favour of the State would have the effect of reducing the deficit.

**On the other hand, the adoption of additional revenue and/or expenditure measures by the different GG authorities would also increase the deficit.** The materialisation of the risks related to the energy and price crisis has already led to the extension of some support for 2024 through Royal Decree-Law 8/2023. In addition, the different GG authorities could adopt discretionary measures to reduce revenue or increase expenditure. In this regard, the Central Government, in the absence of the approval of the 2024 GSB, could adopt new measures outside the extended budget, which would affect the deficit at the end of the year.

**Lastly, there are other risks whose amount is repeatedly unknown and no information is provided, especially on investments in defence modernisation programmes.** Investments in special defence modernisation programmes are under way and this information is now becoming important as the volume of these investments is likely to have an increasingly significant impact on the deficit as a result of the Government's commitment to NATO to raise defence spending to 2% of GDP by 2029. Neither is there any information on the possible impact of the risks assumed by public-private partnership contracts or loans granted by GG authorities that might prove to be doubtful receivables or on the evolution of the default risk of ICO guarantees granted as a result of the pandemic and the conflict in Ukraine.

# 5. FISCAL POLICY STANCE

**The 2023-2024 biennium is a transition period for the EU fiscal framework, standing between the end of the escape clause and the entry into force of the EU economic governance reform.** The quantitative rules approved in the 2023 and 2024 Country Specific Recommendations (CSR) are applicable in these two years.[17] For this period, the Commission and the Council have highlighted the need for fiscal policies to be prudent in all Member States. In the case of countries whose debt poses a sustainability challenge, as is the case of Spain, a plausible and continuous debt reduction must also be guaranteed in the medium term.

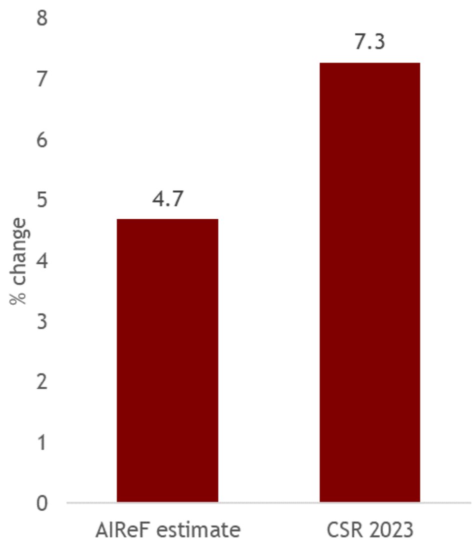
**For 2023, the Specific Recommendations for Spain established the need to limit the increase in nationally-financed current primary expenditure below medium-term potential growth.** When assessing compliance with this CSR, the deflator chosen to calculate the current primary expenditure reference is

[17] See Council Recommendation on the 2022 National Reform Programme of Spain and delivering a Council opinion on the 2022 Stability Programme of Spain.

Also see Council Recommendation on the 2023 National Reform Programme of Spain and delivering a Council opinion on the 2023 Stability Programme of Spain crucial. For the purposes of this report, the flash estimate by quarterly aggregation of 2023 is taken as reference[18].

**For the GG as a whole, AIReF forecasts growth of current primary expenditure net of revenue measures of 4.7% in 2023.** This rate of change would be below the reference for the evaluation of the fiscal CSR, which, in a context of high GDP deflator, reaches a value of 7.3%. Therefore, according to AIReF's estimates, the fiscal CSR applicable to Spain would have been met in 2023.

**FIGURE 55. PRIMARY CURRENT EXPENDITURE NET OF REVENUE MEASURES IN 2023. COMPARISON WITH THE FISCAL CSR OF 2023, GG**




Source: AIReF

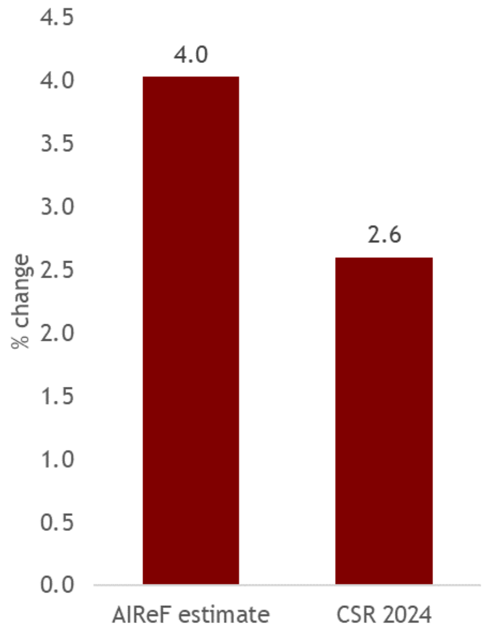
**For 2024, the Specific Recommendation for Spain covers all nationally-financed primary expenditure (current and capital), net of revenue measures**. This expenditure variable should not increase by more than 2.6% per annum as established by the CSR. In addition, and in terms of the composition of public finances, it is recommended that Spain maintain nationally-financed public investment.

**Current estimates suggest that primary expenditure net of revenue measures would grow in 2024 at a rate clearly higher than that allowed by the CSR**. According to AIReF's forecasts, the net primary expenditure variable will grow this year at a rate of 4%, 1.4 percentage points higher than allowed. The net primary expenditure that would be recorded in 2024 would be €8.8bn higher

[18] Medium-term potential GDP growth is approximated from the ten-year average centred on 2023 (1.3%).

than allowed, that is, an excess of net primary expenditure of around 0.6% of GDP.

FIGURE 56. NATIONALLY FINANCED PRIMARY EXPENDITURE NET OF REVENUE MEASURES IN 2024. COMPARISON WITH THE FISCAL CSR OF 2024, GG

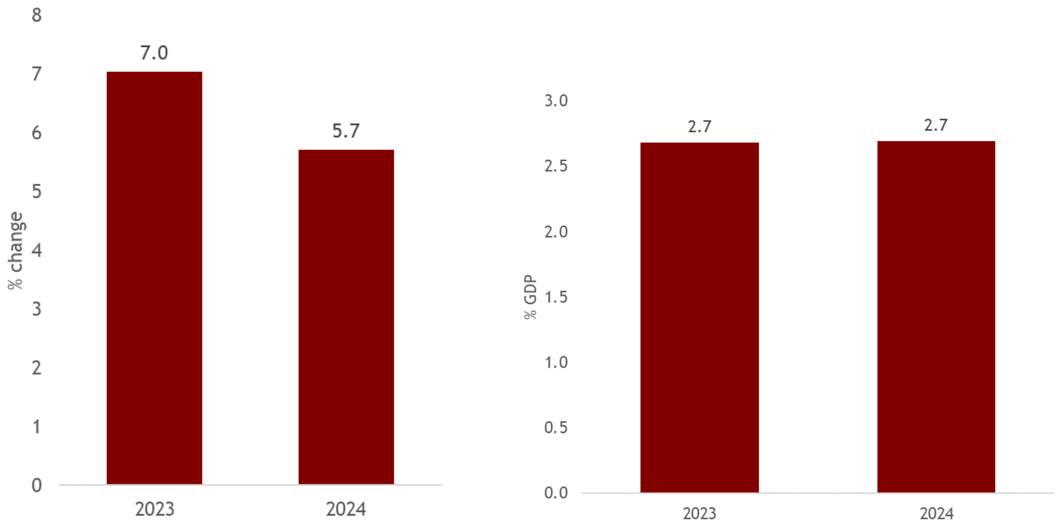



Source: AIReF

**In contrast, the evolution of nationally-financed public investment in 2024 would be consistent with the CSR for this year**. While there is some containment of the investment dynamism of the GG – with a slight slowdown in the rate of change of public investment – in terms of GDP its weight would remain stable.

**FIGURE 57. EVOLUTION OF NATIONALLY-FINANCED PUBLIC INVESTMENT**

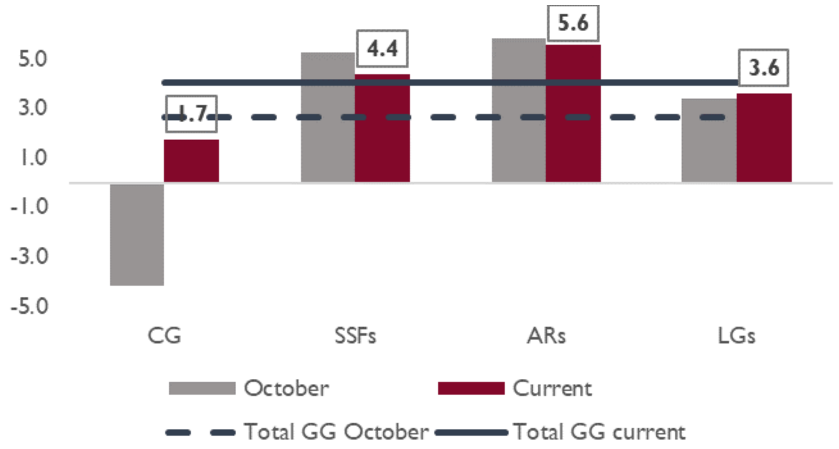
**FIGURE 57.A. NATIONALLY FINANCED GG INVESTMENT (% CHANGE)** | **FIGURE 57.B. NATIONALLY FINANCED GG INVESTMENT (% GDP)**




Source: AIReF

**By sub-sector, all GG sub-sectors show growth in expenditure net of revenue measures above the 2.6% limit, except for the CG, with growth of 1.7%.** In the CG, AIReF forecasts growth of 1.7% compared with a reduction forecast in the previous report. This change in trend is explained by the fact that part of the expenditure reductions in 2023 compared with the forecast do not carry over to lower spending in 2024. This is the case of the fall in military investment in 2023. It is considered to be of a one-off nature and is expected to rise again in 2024, which reduces the starting point and raises the growth rate for 2024. Some measures such as the financing of the Gas Tariff of Last Resort also had a lower impact than expected in 2023, which also reduces the level of initial expenditure compared with the previous report. In addition, the partial extension of the revenue measures also raises the rate. The expenditure of the Social Security Funds will grow by 4.2%, driven by the increase in pensions. This means exceeding the limit by 0.1 points of GDP in the CG and by 0.2 points in the SSFs. With regard to the Territorial Authorities, primary expenditure net of revenue measures will grow by 5.6% in the ARs and by 3.6% in the LGs, 0.4 points of GDP above the limit in the case of the ARs and less than 0.1 points of GDP in the case of the LGs. Under AIReF's revenue forecasts, compliance with the recommendation would lead to the ARs recording a surplus of 0.2% of GDP.

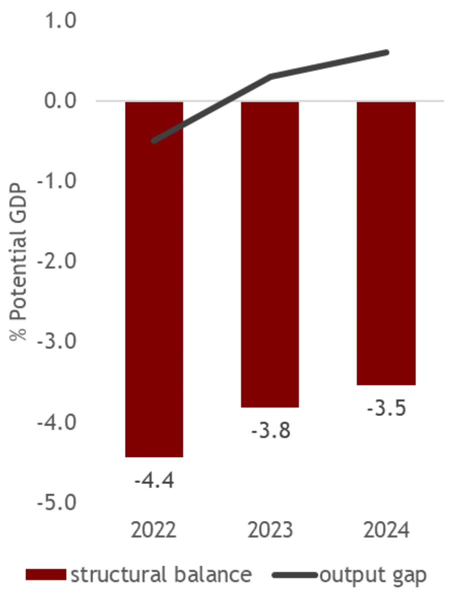
**FIGURE 58. NATIONALLY-FINANCED PRIMARY EXPENDITURE NET OF REVENUE MEASURES IN 2024. BY GG SUB-SECTOR**




Source: AIReF

**Taking into account the structural situation of public finances, the mismatch between revenue and expenditure remains at high levels, far from the structural balance that operates as the anchor of fiscal policy in the national fiscal framework.** This imbalance can be seen despite the improvement in the structural balance in recent years, linked to the disappearance of most of the measures adopted to mitigate the effects of the energy crisis.

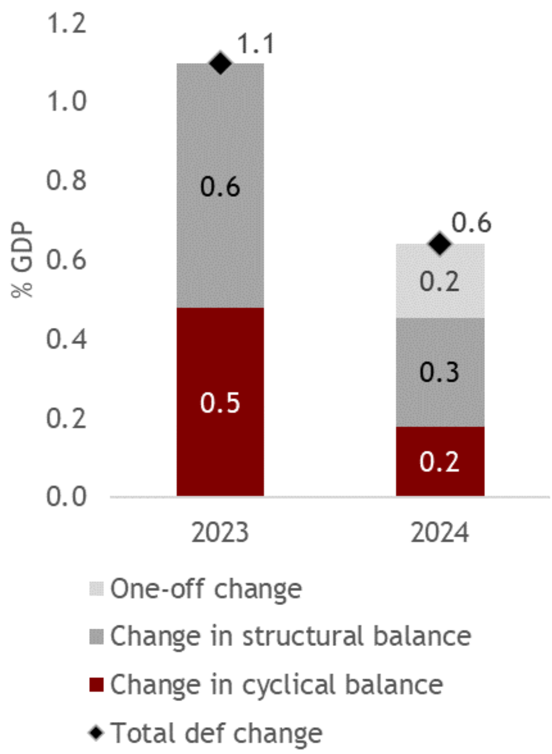
**FIGURE 59. STRUCTURAL BALANCE**




Source: AIReF

**Breaking down the change in the government deficit – observed in 2023 and forecast for 2024 - into its cyclical and structural components, a decrease in the contribution of the latter can be seen.** This, together with a smaller cyclical contribution due to a certain stabilisation of the output gap, would explain the smaller reduction in the deficit expected in 2024 compared with the figure of the previous year.

FIGURE 60. CONTRIBUTIONS TO THE CHANGE IN THE GG DEFICIT IN 2023 AND 2024




Source: AIReF

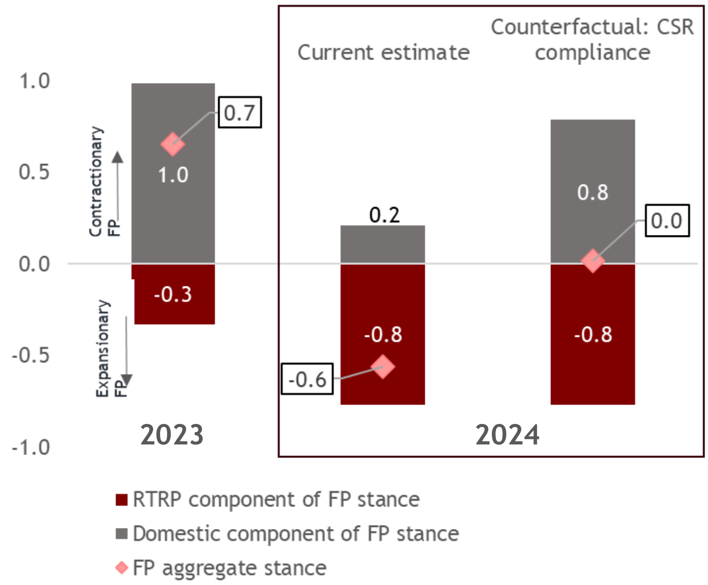
**The aggregate fiscal policy stance should be analysed including the Next Generation EU funds.** Although the current volatility intensifies the uncertainty surrounding the estimate of the output gap, the structural balance remains a relevant tool for approximating the underlying situation of the national component of public finances. In the same way, changes in said figure make it possible to approximate the stance of the part of the fiscal policy that is financed nationally. However, from a macroeconomic point of view it is relevant to analyse the aggregate fiscal policy stance including the considerable boost provided by Next Generation (NGEU) funds. Given that these funds have, in theory, a deficit-neutral impact, the evolution of the structural balance does not capture the magnitude of the boost associated with these funds. Measuring the evolution of net primary expenditure, including NGEU funds, in relation to the potential performance of the economy in the medium term makes it possible to estimate the aggregate fiscal policy stance. This supplemental discretionary fiscal effort (DFE) measure[19] is relevant in current circumstances.

**The discretionary fiscal effort (DFE) indicator signals that the aggregate fiscal policy stance – including expenditure from NGEU funds in addition to nationally-financed expenditure – was contractionary in 2023, but will become expansionary this year.** In 2023, the containment of current primary expenditure net of revenue measures – which grew well below the nominal growth rate of the economy – would have determined the contractionary fiscal policy stance, only partially offset by the boost from NGEU funds. In contrast, current estimates suggest that in 2024 the national component of fiscal policy would have a slightly contractionary stance (with a growth rate of net primary expenditure close to the potential performance of our economy in the medium term). Considering the boost of NGEU funds this year, the aggregate stance would be clearly expansionary.

**An alternative scenario in 2024, compatible with compliance with the CSR, would instead imply a neutral stance for fiscal policy as a whole.** If the primary expenditure net of revenue measures grew at 2.6% as set out in the recommendation addressed to Spain – instead of the 4% that AIReF estimates suggest – the national component would contribute a contraction of 0.8 points of GDP to the fiscal stance (0.6 pp more than in the currently expected scenario). This contraction would be offset by the expansion from NGEU funds, resulting in an aggregate neutral stance. In this case, the total GG deficit would stand at 2.4% of GDP in 2024, instead of the 3% currently forecast by AIReF.

[19] For further details on the methodology for calculating 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).

**FIGURE 61. DISCRETIONARY FISCAL EFFORT (DFE) INDICATOR, 2023 AND 2024***

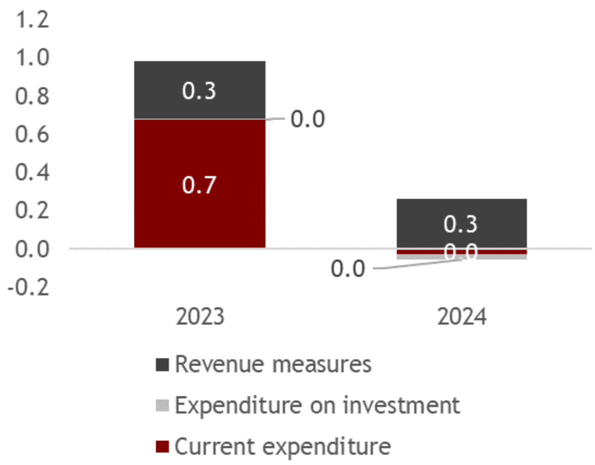



*Note: a negative sign represents an expansive fiscal policy and vice versa.

Source: AIReF

**In 2023, revenue and, above all, current expenditure, contributed to the contractionary stance of the national component of fiscal policy**. In contrast, nationally-financed investment last year maintained a neutral stance that is expected to be maintained in 2024, in line with the CSR's recommendation to preserve it. This year, revenue will maintain a contractionary contribution to the fiscal policy stance, while nationally-financed current expenditure will provide a neutral stance, as will investment.

**FIGURE 62. CONTRIBUTIONS TO THE NATIONAL COMPONENT OF THE DISCRETIONARY FISCAL EFFORT (DFE), 2023 AND 2024***




*Note: a negative sign represents an expansive contribution to the aggregate fiscal stance and vice versa

Source: AIReF

# 6. EVOLUTION AND SUSTAINABILITY OF PUBLIC DEBT

## 6.1. Recent evolution and short-term projections

**The Spanish debt-to-GDP ratio stood at 107.7% at the end of 2023, a reduction of 4 points over the year and an increase of 9.4 points on the pre-pandemic level.** In monetary terms, public debt has continued to grow in 2023 to reach €1.57tn. However, the rate of debt growth has been lower than that of nominal GDP, which has led to a reduction in the ratio. The quarterly profile shows a downward path over the last 11 quarters, with a cumulative reduction of 17.7 points from the peak reached in the first quarter of 2021 (125.3%).

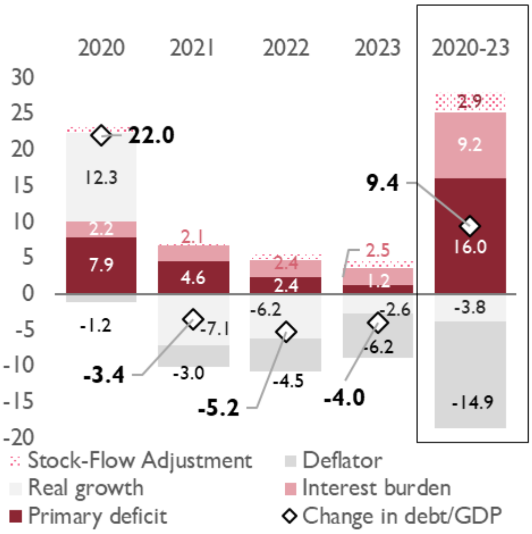
**The Central Government and the Social Security Funds have borne practically all of the increase in debt over the last four years.** By sub-sector, the debt of the Central Government and the Social Security Funds has increased by 11.2 points in the last four years, while the debt ratio of the ARs has fallen by 1.4 points to 22.2% of GDP. For their part, Local Governments have reduced their debt slightly to 1.6%.

**The reduction in the ratio in 2023 was significant and was mainly the result of a high contribution from the GDP deflator.** Nominal GDP grew by 8.6% in 2023. The contribution of growth to the fall in the ratio was 8.8 points, of which 2.6 points came from real growth and 6.2 points from the deflator. In the opposite direction, the primary balance, the interest burden and the stock-flow adjustment have contributed positively to the increase in the ratio, adding 4.9 points of GDP. This contribution implies a reduction of 0.6 points compared with last year.

**Following the sharp initial increase caused by the pandemic, the debt ratio is on a clear downward path.** Some correction of the high public deficit together with much higher than expected growth and inflation have managed to correct approximately two thirds of the increase in debt caused by the pandemic, placing the ratio on a clear downward path. Of the 9.4 points of increase in the ratio over the last four years, fiscal factors (deficit plus other changes in debt) have made a positive contribution of 28.1 points. This has been partially offset by the contribution of nominal growth (18.6 points), where the GDP deflator has contributed 14.9 points and real growth 3.8 points.

FIGURE 63. EVOLUTION OF DEBT (% GDP)


FIGURE 64. CONTRIBUTIONS TO THE CHANGE IN DEBT (GDP POINTS)




Source: Bank of Spain, INE, and AIReF

**However, Spain is currently one of the EMU countries with the highest levels of debt, behind Greece and Italy and with a level similar to that of Portugal and France.** In 2019, Spain was already one of the euro area countries with the highest debt ratio, and the pandemic has contributed to consolidating this situation. Despite the 18-point reduction from the maximum level, Spain, together with France, are the countries that have increased their debt the most due to the COVID crisis, and which maintain some of the highest deficit levels. By contrast, Portugal, after a similar initial upturn, has managed to reduce its deficit in the last three years to almost balance the budget.

**AIReF's macro-fiscal forecasts project a reduction in the debt ratio this year of 1.9 points of GDP on the level recorded in 2023, which would place the ratio**

**at 105.8% at the end of 2024.** This forecast slightly improves the forecast presented by the Government in the Draft Budgetary Plan for 2024 (106.3%), and is in the range of the latest forecasts by the IMF (104.7%) and the European Commission (106.5%). The public deficit will continue to contribute to the increase in debt, albeit with a slightly lower contribution than in 2023, and the reduction in the ratio will be mainly supported by the nominal growth in GDP, where the deflator will make a very significant contribution.

FIGURE 65. DEBT FORECASTS (%GDP)

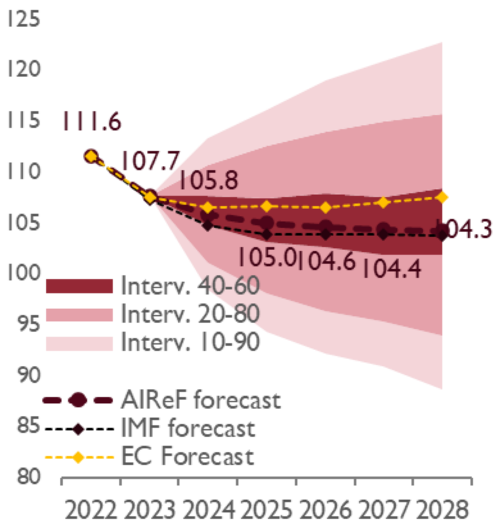
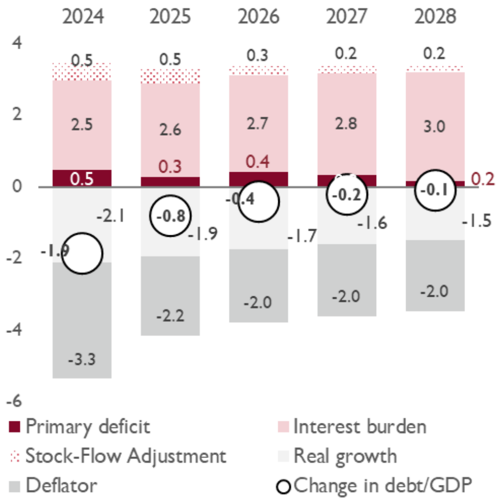



FIGURE 66. DEBT FORECASTS, CONTRIBUTION TO CHANGE

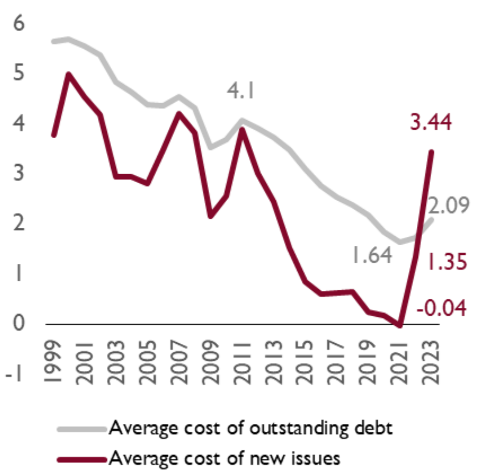



Source: AIReF, IMF and EC

**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.** The moderation in the contribution of nominal growth, which will fall slightly in the period 2025-2028 (from 4.1% to 3.4%), with an upward trend in interest rates (from 2.6% to 3%) and a stabilised primary balance (-0.3%), will translate into a slowdown in the pace of reduction of the debt ratio, which will be exhausted in 2028. The forecasts of the IMF and the European Commission for Spain show a very similar profile to those made by AIReF, with a stabilisation of the debt ratio in the medium term, after a significant reduction in the last three years.

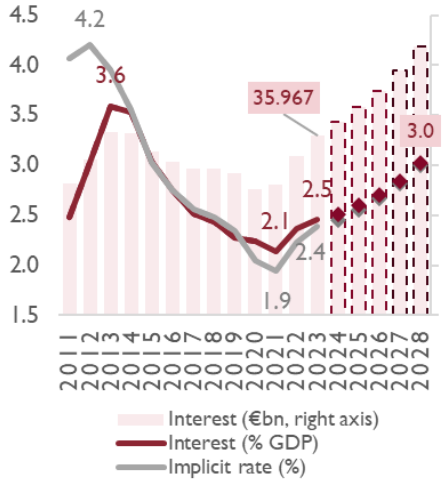
**After reaching a low of -0.04% in 2021, the average cost of new Treasury issues rose in 2023 to 3.44%, a figure not seen since 2011.** This higher issuance cost has also generated a turning point in the average cost of the State debt portfolio, which has increased from its all-time low of 1.64% to 2.09%. Similarly, the implicit rate of total debt has risen by half a percentage point from its 2021 low to 2.4%. Much higher issuance rates than those of the end of the last decade will draw an upward path in the implicit debt rates, which will gradually pass through to interest expenditure, both in nominal terms and as a percentage of GDP.

**FIGURE 67. AVERAGE COST OF STATE DEBT**




Source: Public Treasury

**FIGURE 68. DEBT INTEREST RATES AND FINANCIAL BURDEN**




Source: IGAE and AIReF

**Total General Government interest expenditure has risen by just over €10.8bn from a low in 2020 to a total of €35.97bn in 2023.** In 2023, interest expenditure in nominal terms continued to increase, thus continuing with the change in trend that began in 2021 after seven continuous years of reductions. Even though the Treasury has had to place its debt at higher rates, lower inflation has allowed the expenditure to grow at a more moderate rate in 2023 (around 13%), compared with the strong upturn in 2022 (21%). The high average maturity of the debt portfolio, which means that higher interest rates are passed through gradually, together with the strong growth of the economy, has allowed the financial burden measured as a percentage of GDP to grow very moderately to reach 2.5% of GDP. Looking ahead, this new interest rate environment implies a major vulnerability for the sustainability of public finances, given the high debt that will have to be refinanced at significantly higher rates.

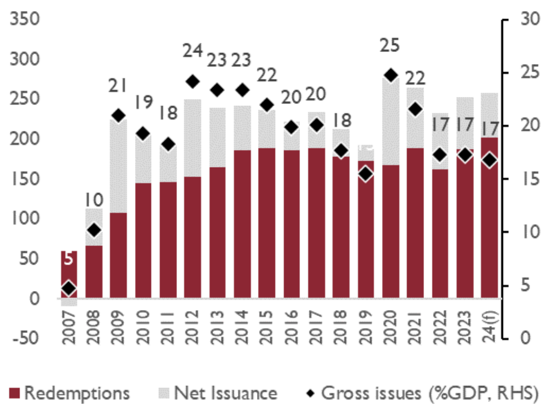
**For 2024, the Public Treasury proposes a borrowing schedule similar to that of last year, reducing net issues by €10bn to €55bn.** For the fourth consecutive year, net borrowing will be obtained through the issuance of medium- and long-term instruments, contributing to the objective of maintaining the average maturity of the portfolio. Medium- and long-term maturities are expected to increase to €118.12bn. Therefore, gross issuance is likely to rise to €173.12bn. There will be no net issuance of Treasury Bills in 2024, so gross issuance will be very similar to that of 2023, with an expected figure of €84.45bn. In aggregate terms, gross issuance is expected to be €257.57bn, about 2% higher than in 2023, although as a percentage of GDP it remains at 17%, a relatively low ratio by historical standards, representing a low refinancing risk.

**FIGURE 69. TREASURY BORROWING IN 2023 AND 2024 (€BN)**

| *(billions of euros)* | Initial forecast 2023 | Executed 2023 | Forecast 2024 |
|---|---|---|---|
| Net Issuance | **70.0** | **65.1** | **55.0** |
| Gross Issuance | **256.8** | **252.0** | **257.6** |
| ***Medium and long-term*** | | | |
| *Gross Issuance* | 172.5 | 167.5 | 173.1 |
| *Redemptions* | 97.5 | 97.5 | 118.1 |
| *Net Issuance* | 75.0 | 70.0 | 55.0 |
| ***Letras del Tesoro*** | | | |
| *Gross Issuance* | 84.3 | 84.4 | 84.5 |
| *Redemptions* | 89.3 | 89.3 | 84.5 |
| *Net Issuance* | -5.0 | -4.9 | 0.0 |

Source: Public Treasury

**FIGURE 70. TREASURY BORROWING (€BN AND % GDP)**



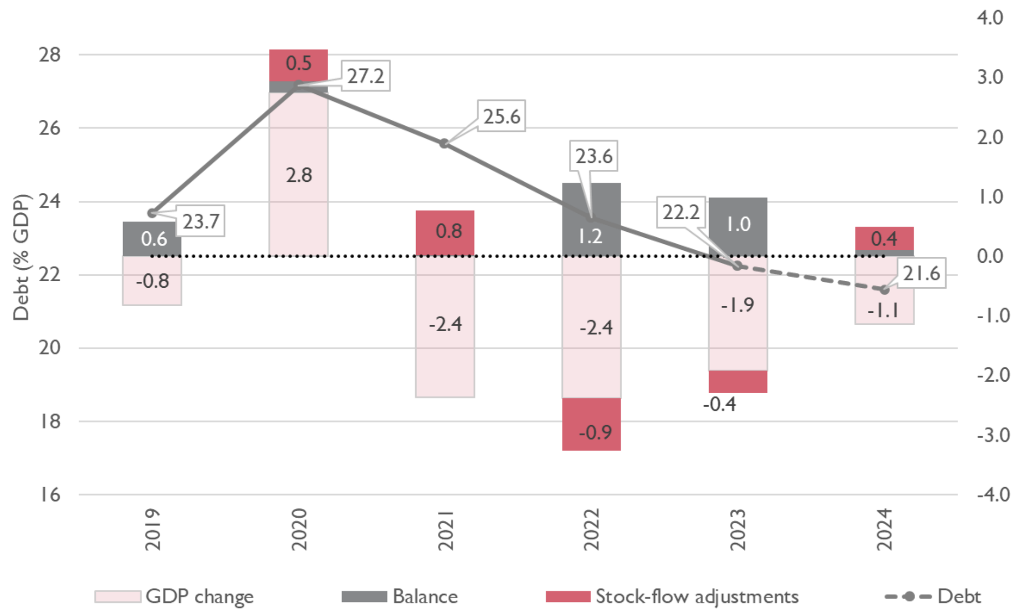

Source: Public Treasury, AIReF

## 6.2. Autonomous Regions and Local Governments

**AIReF forecasts that the debt of the ARs will reach 21.6% of GDP in 2024, down more than half a percentage point from the previous year.** Starting from 22.3% in 2023, the ratio would improve due to the effect of expected GDP growth, partially offset by the financing of the 2023 deficit and the balance of the sub-sector in 2024. This forecast is 0.3 points higher than that contained in the Report on the Budgetary Lines due to the worse deficit expected for 2024 and a debt level at the end of 2023 that is higher than expected.

**The ARs expect to reach a level of debt in 2024 that is 1 point of GDP lower than forecast by AIReF.** The ARs as a whole forecast a level of debt in 2024 that is 1 point of GDP lower than that forecast by AIReF. The differences are due both to a lower forecast for the financing of deficits from previous years and to a better forecast balance for 2024 by the regions as a whole. However, some of them have more pessimistic forecasts than AIReF.

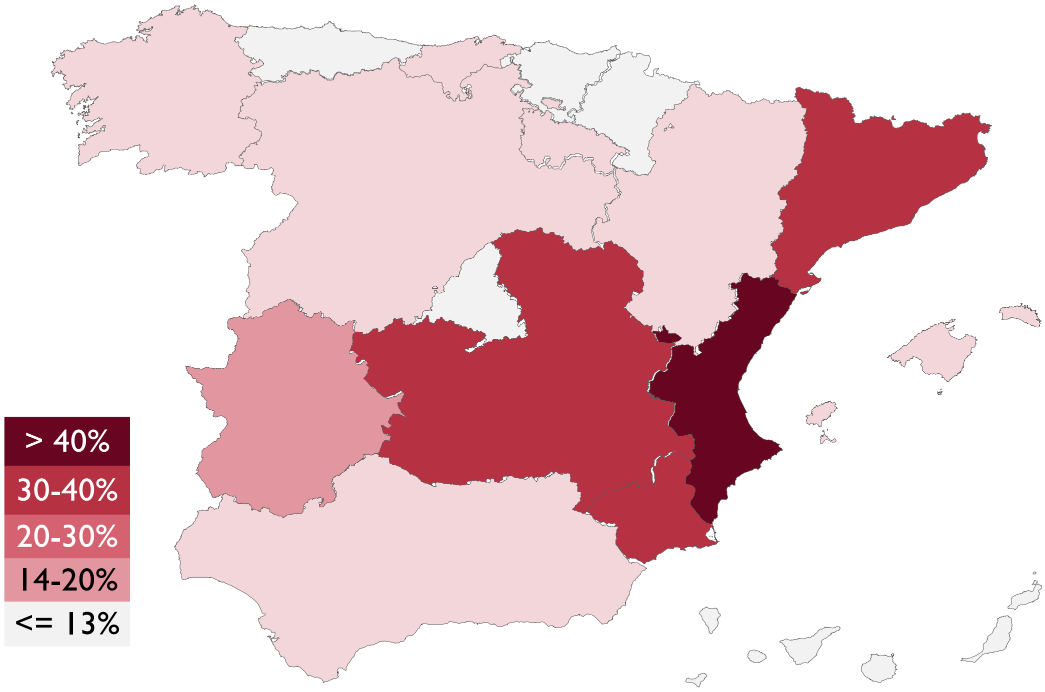
**FIGURE 71. FORECAST EVOLUTION OF AR DEBT (% GDP)**




Source: Bank of Spain and AIReF

**By region, the situation indicated in the Report on the Main Budgetary Lines is maintained: four could have a debt ratio above 30%, while five could be below the 13% set in the Organic Law on Budgetary Stability and Financial Sustainability.** Valencia, Murcia, Castile-La Mancha and Catalonia would still be above 30% of debt/GDP in 2024. In contrast, Navarre, Asturias, the Canary Islands, the Basque Country and Madrid would place their debt at the end of 2024 below the 13% of GDP set as a reference in the Organic Law on Budgetary Stability and Financial Sustainability.

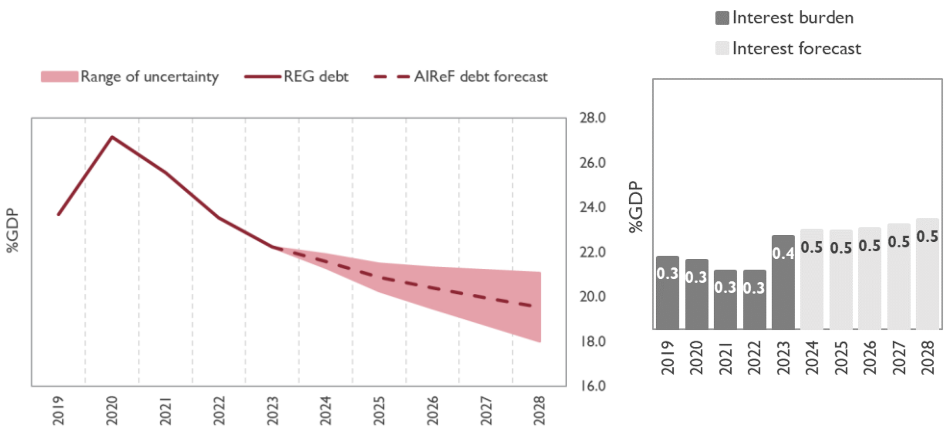
FIGURE 72. REGIONAL DEBT-TO-GDP RATIO FORECASTS 2024 (% GDP)




Source: AIReF

**The expected evolution of GDP, partly offset by the deficits expected for the sub-sector, conditions the evolution of the debt ratio in the medium term.** The expected balance of the sub-sector in 2024 is conditioned by the revenue from the financing system. When this revenue returns to lower levels from 2025, the sub-sector will return to a scenario of higher deficits, 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 trend in the ratio due to the expected evolution of GDP in nominal terms, shaping a downward trend in the debt-to-GDP ratio that is still far from the reference level of 13% set in the Organic Law on Budgetary Stability and Financial Sustainability in 2028. Despite the downward trend in the debt-to-GDP ratio, due to the worse conditions in the financial markets, the ratio of the interest burden to GDP shows an upward trend.

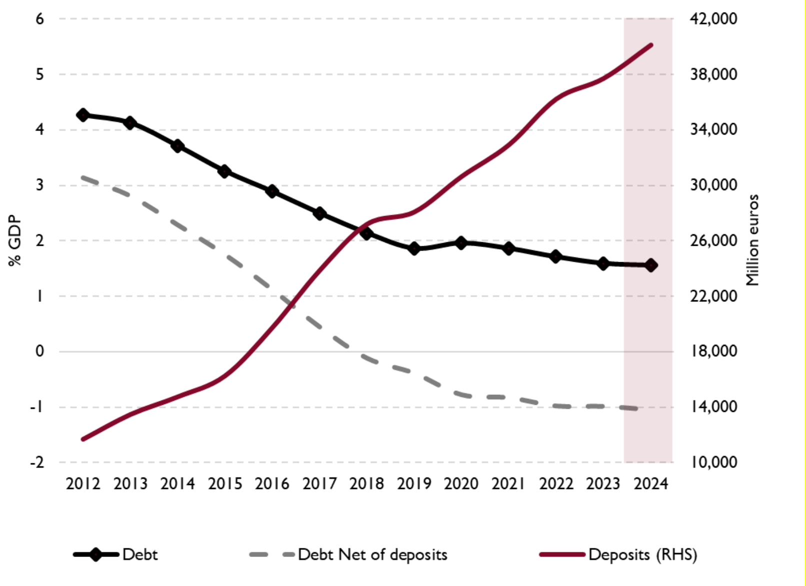
**FIGURE 73. FORECASTS OF DEBT AND INTEREST BURDEN OF THE ARs IN THE MEDIUM TERM (2025-2028) (% GDP)**




Source: Bank of Spain and AIReF

**The information available on the evolution of local debt and deposits at the end of 2023 corroborates AIReF's forecasts on the results to be achieved by LGs in 2024.** According to the latest data published by the Bank of Spain on local debt and deposits at the end of 2023, the debt of the LGs has stabilised, while local deposits have increased, albeit at a slower rate than in previous years. Therefore, the sub-sector's net asset position has improved slightly. While in 2023, as in 2022, the sub-sector recorded a deficit of 0.1% of GDP, its net asset position improved. This is a consequence, as was the case in 2022, of the fact that it is at the start of the following year that the need to use the deposits existing at the end of the previous year is reflected, as a result of the deficit from that year. For 2024, AIReF forecasts that the sub-sector will stabilise its net active position at around the 0.1% of GDP compatible with the estimated surplus.

**FIGURE 74. EVOLUTION OF DEBT AND DEPOSITS OF LOCAL GOVERNMENTS**




Source: Bank of Spain and AIReF estimates

## 6.3. Long-term projections and sustainability

**The new monetary cycle together with the fast and intense tightening of financing conditions, on top of the high level of existing debt, places the sustainability of public finances at a highly vulnerable starting point.** Spain maintains high debt levels, both in relation to other countries and in historical comparison. Despite it falling recently, spending pressures associated with the ageing population could push debt back on an upward path over the coming years. In this regard, the GG will have to finance high amounts of debt (20% of GDP) at significantly higher interest rates and in debt markets under increased stress as a result of the disappearance of the demand of the ECB and the high level of debt worldwide.

**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 a rising debt ratio following an initial period of some stabilisation. The expected increase in expenditure associated with the ageing population is one of the major challenges for the sustainability of public finances in the medium and long term. The high initial level of debt added to unbalanced public accounts will generate an unfavourable trend in the financial burden even in a scenario of containment of the cost of debt. In its long-term scenario, AIReF projects interest expenditure in relation to GDP that will gradually and steadily rise from 2.5% of GDP in 2023 to around 4.5% in the next 15 years. The debt ratio is at practically the same level in 2040 as in the projection presented in the Budgetary Plan last October. A reduction in expectations for debt financing rates in the coming years has offset a certain deterioration in the projection of the primary balance.

FIGURE 75. DEBT (% GDP)

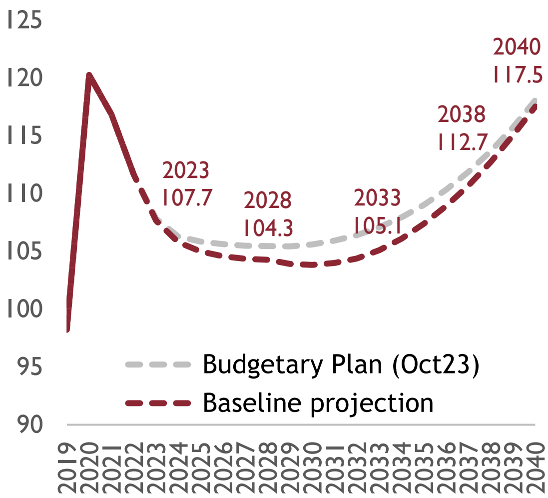
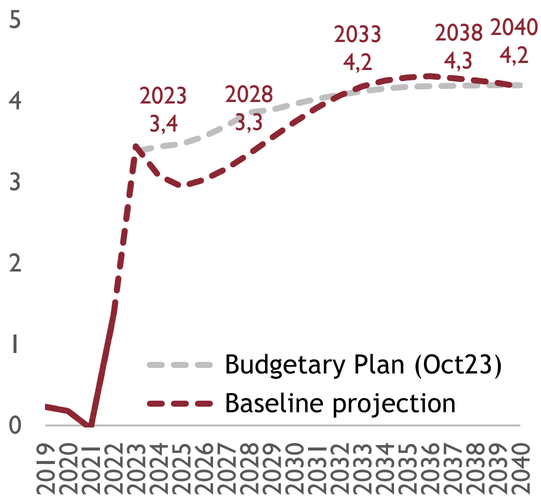


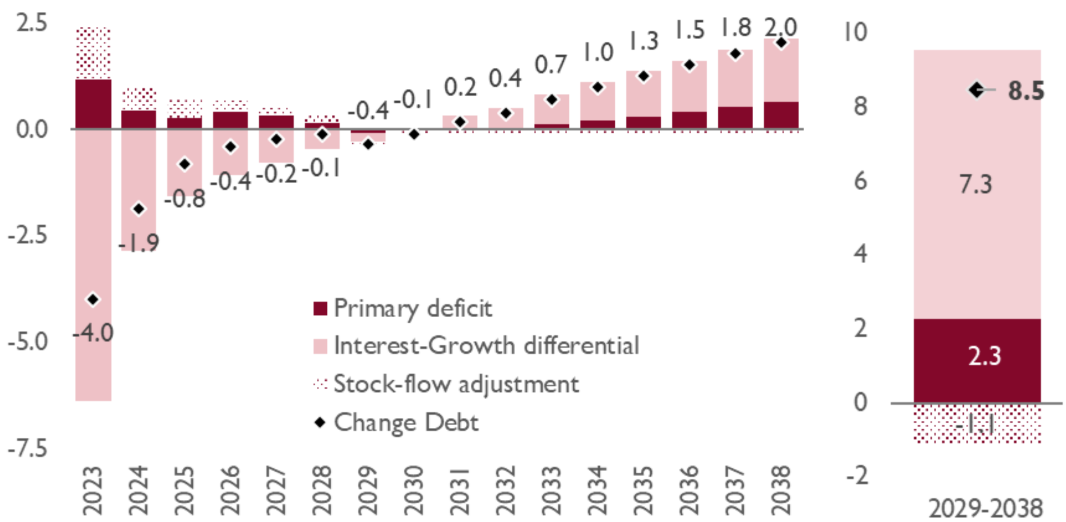

FIGURE 76. AVERAGE RATE OF NEW ISSUES (%)




Source: AIReF

Higher issuance rates together with rather limited expected growth will cause the interest-growth differential (snowball effect) to become positive in the medium term. This will make it necessary to achieve a primary surplus in order to stop the upward trend in the debt ratio.

FIGURE 77. CONTRIBUTIONS TO THE CHANGE IN DEBT (GDP POINTS)




Source: AIReF

**The creation of fiscal space, which is required to reduce the current level of debt and to be able to address future shocks such as those that have occurred in recent years, makes it necessary to design a medium-term plan that guides**

**public accounts towards a balanced situation**. A gradual and sustained adjustment to achieve budgetary equilibrium within a reasonable time horizon will generate a path for reducing the debt ratio to more prudent levels, containing the financial burden and creating the fiscal space necessary to address future challenges, both of a known nature, such as ageing and issues related to climate warming, and of an unpredictable nature.

**According to AIReF's calculations, the fiscal path that would comply with the guidance for calculating the reference trajectory contained in the agreement to reform the economic governance framework would require taking measures during the period 2025-2028 worth 0.63 points per annum[20].** This would meet the requirement of plausible debt reduction in the most demanding scenario that, according to AIReF's calculations, is defined by the "adverse scenario of the interest rate-growth differential (i-g)". The annual adjustment[21] of 0.64 points of GDP (2.52 points accumulated over four years)[22] in the period 2025-2028 would mean a reduction in the debt ratio of 25 points of GDP in the next 15 years (to 82% of GDP in 2038 vs. 113% in the baseline scenario). In addition, debt would be on a clearly downward path, even in the event of a shock of an "adverse scenario of the interest rate-growth differential (i-g)".

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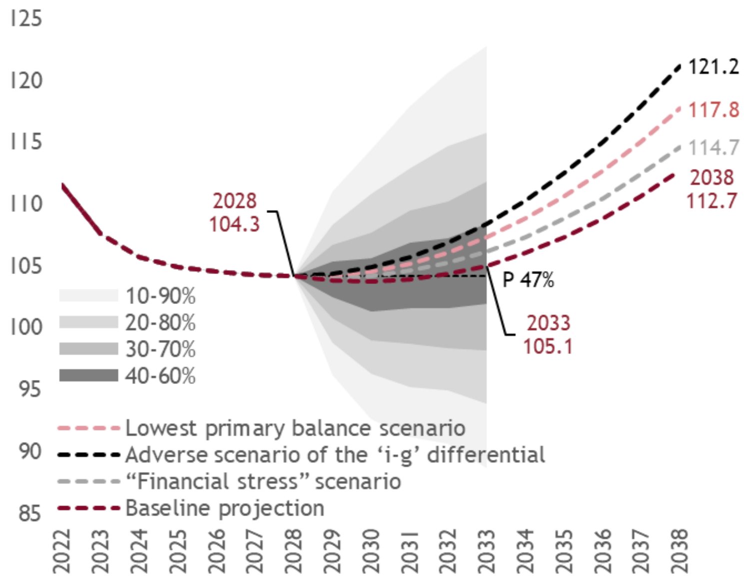
20 Adjustment according to compliance with the requirements of the European Commission's Debt Sustainability Analysis methodology, including the deterministic scenarios of financial stress, lower primary balance and an adverse stress scenario of a 1% interest rate-growth differential.

21 The annual adjustment incorporates a fiscal policy feedback effect through a fiscal multiplier of 0.75, which means that a fiscal consolidation of 1 percentage point of GDP reduces GDP by 0.75 percentage points in the same year compared with the baseline scenario. This effect is gradually eliminated over three years. Following the EC approach, the value of the multiplier and its time profile have been taken from Carnot, N. and de Castro, F. (2015), "The discretionary fiscal effort: an assessment of fiscal policy and its output effect". It is assumed that fiscal consolidation does not affect potential output. The negative output gap will reduce the primary balance according to the semi-elasticity of the budget balance to the output gap, with a value of 0.597 in the case of Spain.

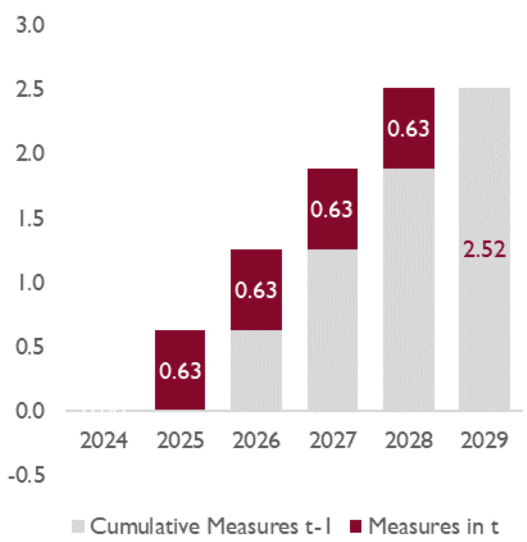
22 An annual adjustment of 0.36 points (cumulative 1.44 points over four years) would be sufficient to meet the stochastic plausibility criterion of the European Commission's methodology, but not with the deterministic criteria associated with stress scenarios. In particular, an adjustment of 0.36 points of GDP over four years would increase the probability that the debt ratio will show a downward path in the five years following the adjustment (2033), placing the debt ratio at 95% of GDP in 2038. The baseline scenario assumes a probability of fulfilling that requirement of 47%, while the more demanding adjustment that guarantees a downward path of debt in the primary balance adverse scenario (0.63 points) raises that probability to 83%.

**FIGURE 78. BASELINE DEBT PROJECTION (%GDP), UNCERTAINTY BANDS AND STRESS SCENARIOS**



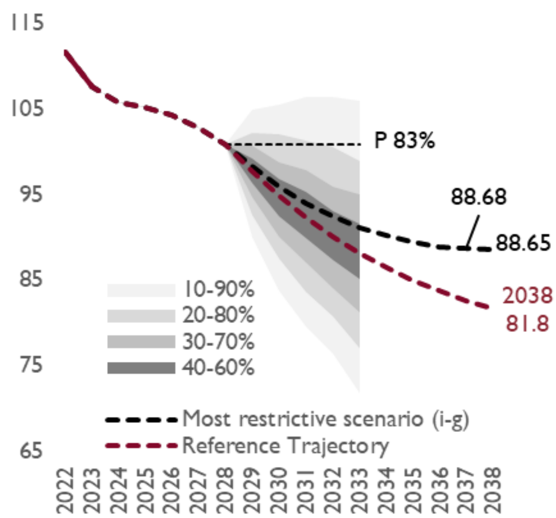

Source: AIReF

**FIGURE 79. VALUE OF THE MEASURES (GDP POINTS) OF THE MOST RESTRICTIVE SCENARIO IN A 4-YEAR ADJUSTMENT PLAN**




Source: AIReF

**FIGURE 80. REFERENCE TRAJECTORY, UNCERTAINTY BANDS AND MORE RESTRICTIVE SCENARIO IN A 4-YEAR ADJUSTMENT PLAN**



**According to AIReF's calculations, extending the adjustment plan to seven years[23] would reduce the annual adjustment by 0.2 points to 0.43 points of GDP.** Although a smaller adjustment would be necessary each year, this should be implemented over a longer period of time, totalling at the end of the period a larger cumulative adjustment (3 points in seven years versus 2.5 points in four years). A more protracted adjustment is not without risks, including the emergence of a certain degree of fiscal fatigue. However, the more gradual process offers a higher degree of feasibility and places the evolution of the public debt and balance on a more favourable trend. An adjustment of 0.43 points of GDP (3 points accumulated over seven years) in the period 2025-2031 would mean a reduction in the debt ratio of 27 points of GDP in the next 15 years (to 81% of GDP in 2038).

**FIGURE 81. VALUE OF THE MEASURES (GDP POINTS) OF THE MOST RESTRICTIVE SCENARIO IN A 7-YEAR ADJUSTMENT PLAN**

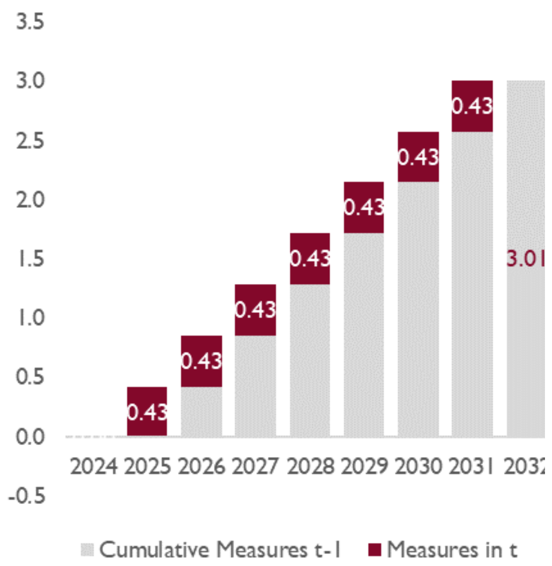
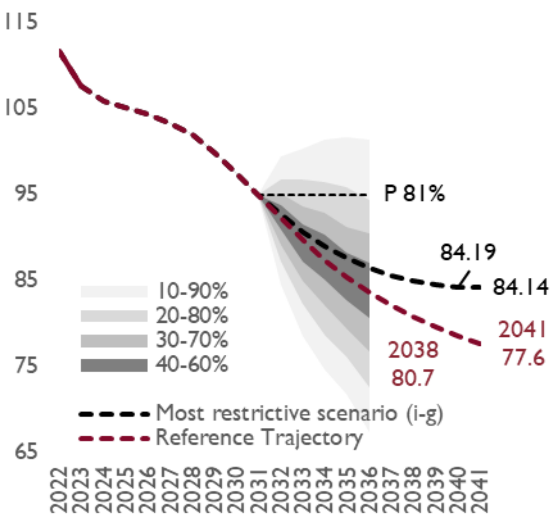



**FIGURE 82. REFERENCE TRAJECTORY, UNCERTAINTY BANDS AND MOST RESTRICTIVE SCENARIO IN A 7-YEAR ADJUSTMENT PLAN**




Source: AIReF

[23] To ensure a more gradual reduction in debt, the adjustment period can be extended by a maximum of three years if the Member State supports its medium-term fiscal-structural plan with a set of verifiable and time-bound reforms and investments. As a whole and as a rule, these reforms and adjustments must foster growth and resilience, support fiscal sustainability, address common EU priorities and take into account the Country-Specific Recommendations addressed to the Member State within the framework of the European Semester.

**A positive impact of reforms and investments on potential growth could partly limit the fiscal adjustment.** According to AIReF's calculations, if reforms and investments were made that entail a permanent 0.3-point improvement in potential GDP growth, the necessary adjustment would be reduced to 0.39 points of GDP in the seven-year plan. For the cumulative adjustment over seven years to be similar to that over four years (2.52 GDP points) and to meet the requirements of the new governance framework, a permanent potential GDP growth of 0.5 points would be required.

FIGURE 83. BASELINE PROJECTION AND REFERENCE TRAJECTORIES OF AN ADJUSTMENT PLAN OF 0.64 POINTS OF GDP AT 4 YEARS AND 0.44 POINTS AT 7 YEARS

FIGURE 83.A. DEBT (%GDP)

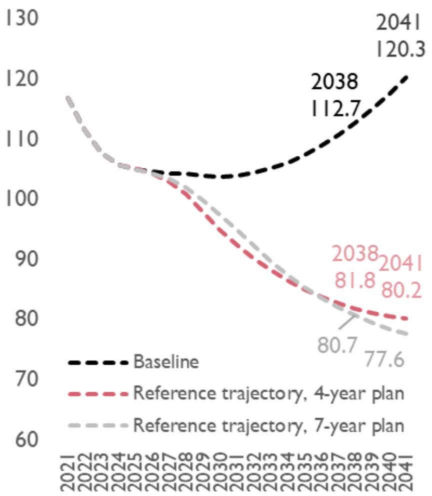



FIGURE 83.B. PRIMARY BALANCE (% GDP)

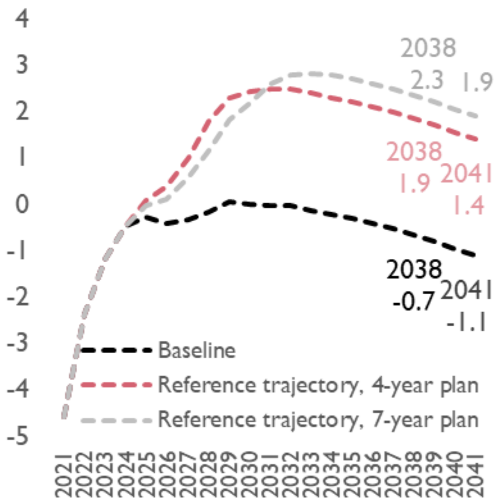



FIGURE 83.C. TOTAL BALANCE (%GDP)

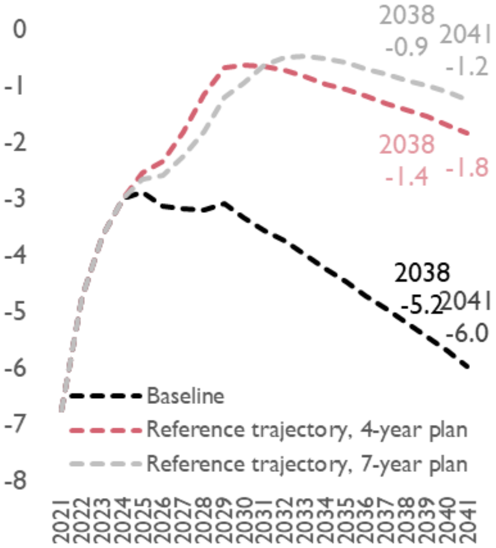
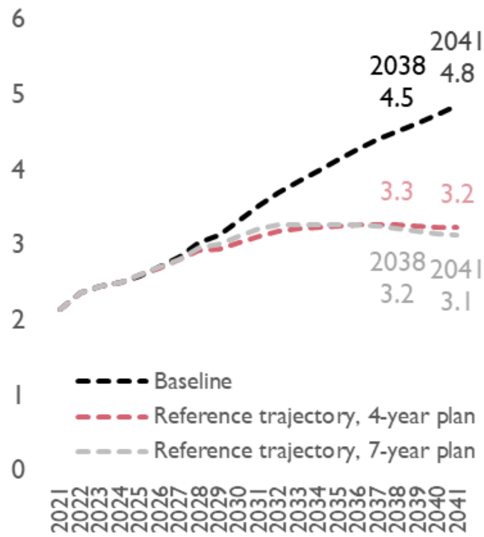



FIGURE 83.D. INTEREST (%GDP)




Source: AIReF

# 7. RECOMMENDATIONS

## 7.1. New recommendations

2024 is also set to be the starting point for the medium-term fiscal strategy that will need to be set out in the medium-term fiscal-structural plan that Spain will have to submit in the autumn. In this regard, the European institutions addressed a specific quantitative recommendation to Spain aimed at restricting the growth in primary expenditure net of revenue measures in 2024 to 2.6%. According to AIReF's estimates, the growth of this net expenditure will stand at 4%, which means a failure to comply with the recommendation by a margin of 0.6 points of GDP.

At a domestic level, until the new European fiscal framework is transposed into the national legal system, national fiscal rules are once again in force in their current configuration in 2024. On the one hand, the budgetary stability and public debt targets proposed by the Government were rejected by the Senate. On the other hand, the publication of the Report on the Situation of the Spanish Economy has shown that the reference rate of the expenditure rule stands at 2.6% for 2024, which is mandatory for the Central Government, the ARs and the LGs. Unlike the stability and debt targets, the expenditure rule does not require parliamentary approval.

AIReF considers that there is a risk of non-compliance with the national expenditure rule in 2024 by the Central Government, all the ARs and a high number of the LGs subject to individual monitoring by AIReF. In its central scenario, AIReF forecasts growth in eligible expenditure for the purposes of the expenditure rule of 6.8% in the CG, of 5.7% in the AR sub-sector, with all of them above the limit of 2.6%, and 3.7% in the LG sub-sector. This highlights the risk of non-compliance by numerous GG authorities at the individual level.

Furthermore, non-compliance with the national expenditure rule also compromises compliance with the Council's Specific Recommendation for Spain.

To the extent that these increases in expenditure are structural in nature, their materialisation would result in a deterioration in the sustainability of public finances in the medium and long term beyond the legal consequences that might arise from the formal breach of the current national fiscal framework or the Specific Recommendation. In this regard, the European fiscal framework, to which the national framework must the adjusted, will require a controlled path of eligible expenditure for future years that allows the necessary adjustment to be achieved to meet European specifications. Therefore, if the starting level of 2024 is higher, the adjustment will be more demanding.

Consequently, AIReF recommends that the CG, all the ARs, the City Councils of Madrid, Valencia, Palma, Las Palmas de Gran Canaria, Alicante/Alacant and Gijón/Xixón, the Provincial Councils of Barcelona and Seville, the Island Council of Tenerife and the Provincial Council of Álava:

1. ***Monitor the execution of their budget and adopt the measures they deem appropriate to correct the growth in eligible expenditure for the purposes of the expenditure rule and thus avoid the structural deterioration of their accounts over the medium and long term.***

In addition, this year is critical as a starting point for determining the path of primary expenditure net of revenue measures that Spanish GG authorities will be required to follow after the approval of the medium-term fiscal-structural plan. This plan should be drawn up over the coming summer on the basis of the reference trajectory that the European Commission will provide in June and will now mark the process of drawing up the budgets for 2025, taking as a starting point the year-end 2024 forecast.

AIReF also recommends that the Ministry of Finance should:

2. ***Initiate dialogue and work with all GG authorities in order to draw up this 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 and the Fiscal and Financial Policy Council or, 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.***

The President of AIReF

**Cristina Herrero Sánchez**

# ANNEX I. ERROR CORRECTION MODELS

| LONG-TERM EQUATION | | SHORT-TERM EQUATION | |
|---|---|---|---|
| **PRIVATE CONSUMPTION** | | | |
| Gross disposable income of households and NPISHs (volume) (log) | 0,2517 | Gross disposable income of households and NPISHs (volume) (dlog) | 0,0721 |
| Household financial wealth. Volume (log) | 0,1297 | Lending to households for consumption. Volume (dlog)(-3) | 0,0411 |
| Household wealth. Volume (log) | 0,1506 | Employment rate (differences) | 0,0056 |
| Lending to households for consumption. Volume (log)(-3) | 0,0520 | dummy COVID ST | -0,0554 |
| 3-month Euribor. Real (levels) | -0,0029 | dummy19q2 | -0,0149 |
| dummy COVID LT | -1,0608 | dummy19q3 | 0,0245 |
| Constant | 1,9161 | dummy22q3 | 0,0257 |
| | | dummy22q4 | -0,0212 |
| | | Long-term error | -0,3595 |
| Sample 1995Q1-2022Q4 | | Constant | 0,0028 |
| **INVESTMENT IN EQUIPMENT** | | | |
| GDP Volume (log)(-4) | 0,4248 | Industry Confidence Index (differences) | 0,0319 |
| Industry Confidence Index (Levels) | 0,0242 | Lending to resident companies. Balance. Real (dlog) | 0,4139 |
| Lending to resident companies. Balance. Real (log) | 0,2100 | Capacity utilisation (differences) | 0,0035 |
| Long-term interest rates. Real (levels) | -0,0116 | dummy IPI_Covid | 1,0419 |
| Capacity utilisation (levels) | 0,0257 | dummy09q1_09q2 | -0,1001 |
| Effective Corporate Income Tax rate (log) | -0,0923 | dummy18q2 | 0,0943 |
| dummy99q2_00q1 | 0,0889 | dummy21q2 | -0,0601 |
| dummy20q3_21q1 | 0,1509 | Long-term error | -0,2703 |
| Sample 1995Q1-2022Q4 | | | |
| **INVESTMENT IN CONSTRUCTION** | | | |
| Price of Square Metre Housing INE. Real (log) | 0,1450 | Price of Square Metre Housing INE. Real (dlog) | 0,1120 |
| Unemployment rate (levels) | -0,0244 | Unemployment rate (differences) | -0,0162 |
| Lending to households. Housing. Volume (log)(-4) | 0,1841 | Lending to households. Housing. Volume (dlog) | 0,2576 |
| Household financial wealth. Volume (log) | -0,1567 | dummy99q1 | -0,0397 |

| | | | |
|---|---|---|---|
| Confidence in the Construction Sector (Levels) | 0,0007 | dummy14q1 | 0,0512 |
| Constant | 4,3514 | dummy09q1_11q4 | -0,0168 |
| | | dummy20q2 | -0,1464 |
| | | dummy20q3 | 0,0939 |
| Sample 1995Q1-2022Q4 | | Long-term error | -0,312 |

## EXPORTS

| | | | |
|---|---|---|---|
| Spanish export markets. Volume (log) | 0,9220 | Spanish export markets. Volume (dlog) | 0,5716 |
| Nominal effective exchange rate vs. developed countries (log)(-3) | - 0,4735 | Nominal effective exchange rate vs. developed countries (dlog)(-3) | -0,3044 |
| Relative unit labour costs (log) | - 0,3037 | dummy08q4_09q1 | -0,0550 |
| Expectations of export volume (levels)(-1) | 0,0010 | dummy19q3 | -0,0277 |
| dummy COVID LT | - 0,8103 | dummy22q3 | -0,0436 |
| Constant | 3,9531 | dummy COVID ST | 0,0062 |
| | | Long-term error | -0,2895 |
| Sample 19980Q4-2022Q4 | | Constant | 0,0049 |

## IMPORTS

| | | | |
|---|---|---|---|
| Demand for imports. Volume (log) | 1,3477 | Demand for imports. Volume (dlog) | 1,1265 |
| Relative price of imports (log) | - 0,5792 | Relative import price (dlog) | -0,3068 |
| Constant | 1,0955 | dummy 2009q1 | -0,1004 |
| | | Long-term error | -0,0932 |
| Sample 1995Q1-2022Q4 | | Constant | 0,0028 |

## PRIVATE EMPLOYEES

| | | | |
|---|---|---|---|
| GDP Volume (log) | 1,9000 | GDP volume (dlog) | 1,0500 |
| Working age population. Total (log) | 1,1962 | Actual compensation per private employee (dlog) | -0,2059 |
| Private capital stock (log) | - 1,0153 | ERTEs (dlog) | 0,0031 |
| Actual compensation per private employee (log) | - 0,8041 | dummy09q2 | -0,0203 |
| ERTEs (log) | 0,0232 | dummy19q1 | 0,0142 |
| Constant | 4,9340 | dummy10q4_12q4 | -0,0126 |
| | | dummy22q2 | -0,0286 |
| Sample 1995Q1-2022Q4 | | Long-term error | -0,0676 |

## COMPENSATION PER EMPLOYEE. PRIVATE

| | | | |
|---|---|---|---|
| Headline CPI (log)(-1) | 0,6708 | General CPI (dlog)(-1) | 0,1992 |
| Productivity per employee (log) | 0,2684 | Productivity per employee (dlog) | 0,3602 |
| Salary per employee. Public (log) | 0,1929 | Unemployment rate (differences)(-1) | -0,0012 |
| Effective rate of social contributions * dummy after 2008q3 (levels) | 0,0019 | dummy COVID ST | -0,0043 |
| Unemployment rate * dummy financial crisis | -0,0006 | dummy07q2_q4 | 0,0091 |
| dummy COVID LT | 0,2128 | dummy08q1_q3 | 0,0199 |
| | | dummy15q3_18q2 | -0,0056 |
| | | dummy22q3 | 0,0237 |
| | | Long-term error | -0,2853 |
| Sample 1995Q1-2022Q4 | | Constant | 0,0039 |

## GROSS DISPOSABLE INCOME OF HOUSEHOLDS AND NPISHs

| | | | |
|---|---|---|---|
| Compensation of employees Total: Nominal (log) | 0,5152 | Compensation of employees Total: Nominal (dlog) | 0,6127 |
| Gross Operating Surplus Households and NPISHs Nominal (log) | 0,2713 | Gross Operating Surplus Households and NPISHs Nominal (dlog) | 0,2643 |
| PIT proxy rate (levels) | -0,0063 | PIT proxy rate (differences) | -0,0085 |
| Different social benefits STK. Nominal (log) | 0,1747 | Different social benefits STK. Nominal (dlog) | 0,1463 |
| Constant | 1,3194 | dummy22q3 | -0,0260 |
| | | dummy22q4 | 0,0210 |
| *Sample 1999Q1-2022T4* | | Long-term error | -0,7534 |

## CORE CPI

| | | | |
|---|---|---|---|
| GDP Volume (log) | 0,3659 | Unemployment rate (differences)(-1) | -0,0016 |
| Effective VAT rate (levels) | 0,0222 | Effective VAT rate (differences) | 0,0027 |
| Unit labour costs (log) | 0,5251 | Production-limiting factors (levels)(-2) | 0,0005 |
| dummy 2012q1 2012q4 | 0,0385 | dummy_02q1_q4 | 0,0032 |
| Constant | 0,1534 | dummy_07q4 | 0,0057 |
| | | dummy_aft2013q1 | -0,0036 |
| | | dummy_22q2 | 0,0089 |
| | | Long-term error | 0,0028 |
| *Sample 1997Q1-2022Q4* | | Constant | -0,0447 |

## HEADLINE CPI

| | | | |
|---|---|---|---|
| | | Core CPI (dlog) | 1,0864 |
| | | Brent in € = Brent* exchange rate €/$ (dlog) | 0,0199 |
| | | MIBGAS. Prices Mw/h (dlog)(-1) | 0,0024 |
| | | dummy99q2 | -0,0088 |

| | | |
|---|---|---|
| | dummy09q2 | -0,0052 |
| | dummy21q4 | 0,0114 |
| *Sample 1997Q1-2022Q4* | dummy22q4 | -0,0165 |
| **GDP DEFLATOR** | | |
| | Headline CPI (dlog) | 0,2142 |
| | House Price INE. Nominal (dlog)(-1) | 0,0945 |
| | IPRI capital goods (dlog)(-3) | 0,7441 |
| | dummy13q1 | 0,0138 |
| | dummy21q4 | 0,0151 |
| | dummy22q2 | -0,015 |
| | dummy22q4 | 0,0184 |
| *Sample 2000T1-2022T4* | | |

Source: AIReF