

PRESS RELEASE
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**Report on Budgetary Execution, Public Debt and the Expenditure Rule 2024 of
General Government**

**AIReF OBSERVES RISK OF NON-COMPLIANCE WITH
EXPENDITURE RULE IN 2024 AND CALLS FOR MEASURES
TO BE ADOPTED**

- The Independent Authority for Fiscal Responsibility (AIReF) recommends activating the preventive measures provided for in the Law for all the Autonomous Regions and 13 Local Governments, states that the Ministry of Finance should appear before Congress and proposes new recommendations to improve transparency
- AIReF updates its macroeconomic forecasts and raises real GDP in 2024 to 2.4%, compared with the previously estimated 2%
- AIReF evaluates the Report on the Economic Situation of the Government in which it includes a macroeconomic scenario for the years 2024-2027, which AIReF considers optimistic
- AIReF maintains the headline deficit forecast for the General Government as a whole at 3% of GDP in 2024 after incorporating the improvement in the macroeconomic outlook, the latest information available and the impact of the latest measures approved
- By sub-sector, AIReF worsens the deficit of the Autonomous Regions, improves the fiscal balance of the Central Government and maintains the forecasts for the Social Security Funds and Local Governments
- AIReF continues to observe a risk of non-compliance with the national expenditure rule by the Central Government, all the Autonomous Regions and ten of the large Local Governments, to which it adds three of those with a sustainability risk
- AIReF also observes a risk of non-compliance with the specific recommendation of the European institutions, with growth in primary expenditure net of revenue measures of 4.3% in 2024 compared with the limit of 2.6%

The Independent Authority for Fiscal Responsibility (AIReF) published the report on budgetary execution, public debt and the expenditure rule 2024 of General Government on its website today. This report, the first on execution risks with active fiscal rules, confirms the dynamic nature of expenditure and the risk of non-compliance with both the national expenditure rule applicable to the Central Government (CG), the Autonomous Regions (ARs) and the Local Governments

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(LGs), and the recommendation issued by the European Commission for Spain, which limits the total eligible expenditure of the General Government (GG) to 2.6%. In this context, AIReF calls for the activation of corrective mechanisms, as provided for in the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF) and recommends that the Ministry of Finance should appear before the Congress of Deputies to set out measures to bring the budget back on track.

In the report, AIReF updates its macroeconomic and fiscal forecasts and projects real GDP growth for 2024 as a whole of 2.4%, compared with the 2% estimated in May. The institution explains that the favourable performance of exports of services and the influx of immigrants, which underpins consumer spending while boosting the favourable performance of the labour market, are the main factors behind this revision. AIReF also points out that inflation has halted its downward path due to the downward pressure of price increases in service activities, which generally face strong demand pressures. The forecast for the increase in the GDP deflator thus remains unchanged compared with the previous estimate, at 3.2%, and the increase in nominal GDP is revised to 5.7%, compared with the 5.4% previously estimated.

Looking ahead, AIReF points out that the expected easing of the economy's financing conditions, the high rates of household savings and the good performance of the labour market will enable high growth rates to be sustained, albeit lower than those recorded in the first quarter of 2024 (0.8%). Nonetheless, the decline in productivity and the economy's reduced investment effort pose downside risks to the projection scenario.

AIReF also evaluates the Report on the Economic Situation of the Government, which includes a macroeconomic scenario for the years 2024-2027, which will foreseeably serve as the basis for drawing up the structural fiscal plan. The Government's macroeconomic scenario projects real GDP growth of 2.4% in 2024, the same rate as AIReF, and 2.2% in 2025, higher than the 1.9% growth forecast made by AIReF. In the medium term, a comparison with AIReF's projections and other available estimates suggests that the Government's scenario is optimistic, especially in the fiscal consolidation scenario it incorporates. Specifically, the Government expects real GDP growth of 2% in 2026 and 2027, while AIReF forecasts rates of 1.8% and 1.6%, respectively.

Along the same lines, the potential growth that can be deduced from the Government's scenario is above 2% over the projection horizon and stands in the region of 2.3% in 2027, at the end of the period. This growth is above that estimated by AIReF and the Bank of Spain, which stands at around 1.6% at the end of their respective forecasting horizons. AIReF considers this scenario optimistic due to the assumptions regarding investment, household spending, the foreign context, the labour force and productivity.

Fiscal scenario

AIReF maintains its headline deficit forecast for the General Government as a whole at 3% of GDP in 2024, which aligns with the Government's forecasts. The update of the macroeconomic forecasts implies an increase in tax collection forecasts of 0.2 points. In contrast, the new extension of the measures to address the rise in energy prices and the effects of the war in Ukraine, together with other measures, implies an increase in the deficit of 0.1 points of GDP. Moreover, the latest budgetary execution and tax collection

data imply contrasting revisions of revenue and expenditure by sub-sector, which, on aggregate, imply an increase in the deficit by 0.1 points of GDP.

Accordingly, in 2024, the public deficit will be reduced by 0.6 points of GDP, from 3.6% in 2023 to 3%. Following the approval of the latest decree-laws, the measures to mitigate the effects of the war in Ukraine and the energy crisis amount to 0.3% of GDP in 2024, 0.5 points less than in 2023. Furthermore, the increase in expenditure associated with court rulings and the increase in expenditure on pensions almost offsets the evolution of other expenditure and the increase in tax collection. Lastly, the remaining revenue measures will neutralise the deficit in 2024 by offsetting those adopted in the different sub-sectors. Revenue will reach 42.5% of GDP in 2024, excluding the Recovery, Transformation and Resilience Plan (RTRP), the same level projected in the previous report and 6.8% higher than in 2023. Expenditure without the RTRP will stand at 45.5% of GDP, less than 0.1 points above the level projected in the previous report and 5.2% higher than in 2023.

By sub-sector and compared with the previous report, AIReF raises the forecast headline deficit for the ARs to 0.3% of GDP, a decline that is offset by the improvement to 2.5% of GDP of the CG deficit. Furthermore, for the Social Security Funds, the deficit forecast is maintained at 0.3% of GDP and the LGs maintain the forecast surplus of 0.1% of GDP.

Risk of non-compliance with fiscal rules

In this context, AIReF continues to observe a risk of non-compliance with the expenditure rule in 2024 of the CG, all the ARs and ten of the large Local Governments (the City Councils of Valencia, Palma, Las Palmas de Gran Canaria, Gijón/Xixón, Vitoria-Gasteiz; the Provincial Councils of Barcelona and Seville, the Island Council of Tenerife, the Island Council of Majorca and the Chartered Council of Gipuzkoa). Compared with a reference rate of 2.6% in the national expenditure rule, AIReF forecasts that the CG will see growth in eligible expenditure of 4.8%. In addition, the forecast for eligible expenditure growth in the AR and LG sub-sectors is 6.7% and 7.3%, respectively.

AIReF also estimates that the growth in primary expenditure net of revenue measures for the General Government will stand at 4.3% in 2024, compared with the limit of 2.6% established by the specific recommendation of the European institutions for Spain. Given the current forecasts, AIReF points out that complying with the recommendation would require additional expenditure containment measures and/or an increase in revenue of €10.7 bn (0.7 points of GDP). Under AIReF's current scenario, compliance with the recommendation would mean reaching a deficit in 2024 of 2.3% instead of the 3% forecast and thus reducing it by 1.4 points of GDP with respect to 2023.

Beyond the legal consequences, AIReF warns that the increase in eligible expenditure will worsen the General Government's medium-term fiscal position and increase the necessary adjustment to the structural fiscal plan that will have to be submitted to comply with the sustainability requirements of the new European fiscal governance framework.

In terms of debt, AIReF's macro-fiscal forecasts project a decrease in the debt-to-GDP ratio of 2.3 points on the level recorded in 2023, to 105.3%, 0.5 points less than in the previous report. In any event, AIReF estimates that the reduction in the ratio continues

to be underpinned by nominal GDP growth, where the deflator continues to make a significant contribution.

Recommendations

In this context, AIReF recommends that the Ministry of Finance should activate the preventive measures contained in Article 19 of the LOEPSF for all the ARs and 13 LGs. Furthermore, insofar as Article 19 is not applicable to the CG, AIReF recommends that the Ministry of Finance should appear before the Congress of Deputies to explain the growth in expenditure net of discretionary revenue measures and the possible deviations, on the one hand, for the purposes of the national expenditure rule of the CG and, on the other, in relation to the specific European recommendation for 2024.

AIReF also makes two recommendations to enhance the transparency of the fiscal framework: for the Ministry of Finance to publish a guide for the calculation of the net expenditure of discretionary revenue measures in accordance with the new European framework, both for the General Government as a whole and for each of the sub-sectors; and to resume publication of the evolution of eligible expenditure for the purposes of calculating the national expenditure rule for the CG, the ARs, including an individual breakdown, and the Local Governments.