



Independent Authority
for Fiscal Responsibility

Report on budgetary execution, public debt and expenditure rule 2024 of the General Government

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1

Introduction

First report since 2020 on execution risks for the current fiscal year drawn up in a context of active fiscal rules

Legal mandate: by July 15th, express a view on compliance with the budgetary stability, public debt and expenditure rule targets for the current fiscal year.
Budgetary execution and measures planned in the current and previous year will be considered

ACTIVE FISCAL RULES

National

- No approved fiscal targets
- Active applicable national expenditure rule: limits the growth of national eligible expenditure of CG, ARs and LGs to 2.6%

European

- ECOFIN Recommendation for Spain (CSR) in force: limits the growth of eligible expenditure of the GG to 2.6%
- Fiscal-structural plan 2025-2028 to be presented in autumn

THIRD VIEW ON 2024

- **October 2023:** report on draft budgets and main budgetary lines
- **April 2024:** report on initial budgets
- In both cases, AIReF considered the deficit target of 3% of GDP to be feasible
- In October, compliance with the European recommendation was seen on the margin
- In April, there was a risk of non-compliance with the European rule and with the national rule once it is finalised for 2024

This report confirms the dynamism of expenditure and the risk of non-compliance with the rules in force

- Activation of preventive measures is requested (Organic Law on Budgetary Stability and Financial Sustainability)
- In addition, recommendations are made to improve the transparency of the fiscal framework

The report updates the April macroeconomic forecasts and fiscal projections

The latest budgetary execution data, national accounts, Central Government measures (Royal Decree-Laws 3/2024 and 4/2024) and the latest economic information are incorporated

COVERAGE

- **GG sector**
- **Sub-sectors:**
 - CG
 - SSFs
 - ARs
 - LGs
- **Each of the 17 ARs: individual reports**
- **Supplementary report on local sub-sector:**
 - The 25 large LGs
 - Local Governments with sustainability risk

FOCUSED ON 2024

- **Updated 2024 revenue, expenditure and public deficit forecasts**
- **Analysis of national expenditure rule of subject sub-sectors (CG, ARs, LGs)**
- **Analysis of European CSR for GG**
- **Debt forecast update**
- **April report: incorporated projections 2024-2028**

It also analyses the Report on the Situation of the Spanish Economy, which incorporates the 2024-27 economic scenario

INFORMATION LIMITATIONS

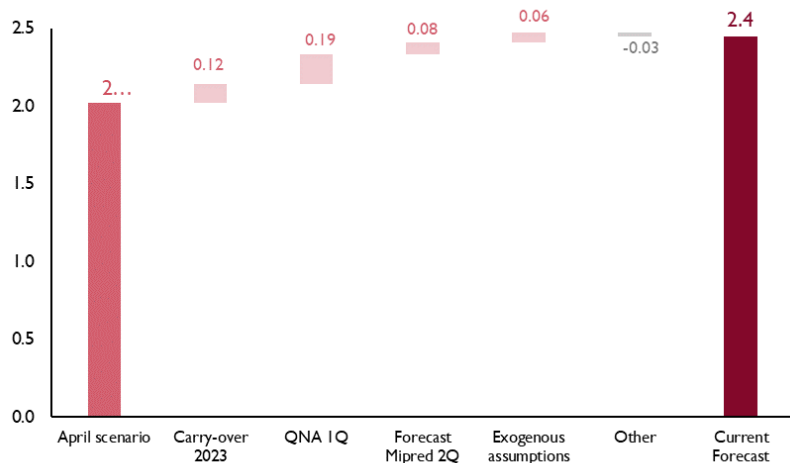
- **Contingent liabilities:** open legal proceedings
- **Investment:** defence modernisation programmes (spending target of 2% of GDP by 2029)

The real growth forecast for 2024 is revised upwards to 2.4%, equal to the rate forecast by the Government

GDP growth revised to 2.4% from 2%. The forecast for the increase in the GDP deflator is maintained at around 3.2%, leading to a revision in nominal GDP growth to 5.7%, from the 5.4% previously estimated

- **High growth rates**, above those projected a few months ago and above those recorded by the euro area economies
- Factors supporting growth: **tourism** and **exports of other services**, inflow of **foreign population**. In addition, positive evolution of domestic demand can be expected due to easing of **financing conditions**, high household **savings** rates and good **labour market** performance

Breakdown of the sources of revision of the growth rate of GDP in volume terms for 2024 with respect to the April macroeconomic scenario



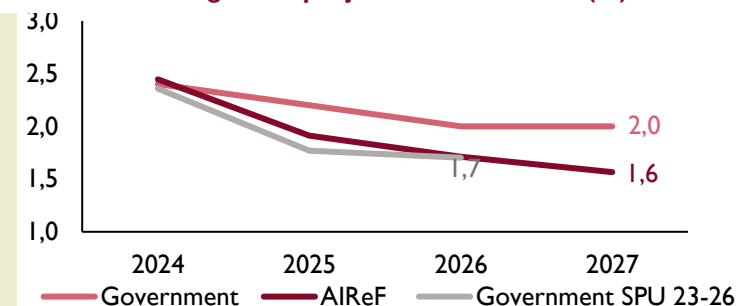
Source: INE and AIReF

Geopolitical uncertainty remains the main source of risks in relation to the growth and inflation scenario

Domestically, falling productivity and the low investment intensity of the economy pose downside risks to the projection scenario

2024-27 MACRO SCENARIO FROM THE REPORT ON THE SITUATION OF THE SPANISH ECONOMY

GDP growth projections 2024-2027 (%)

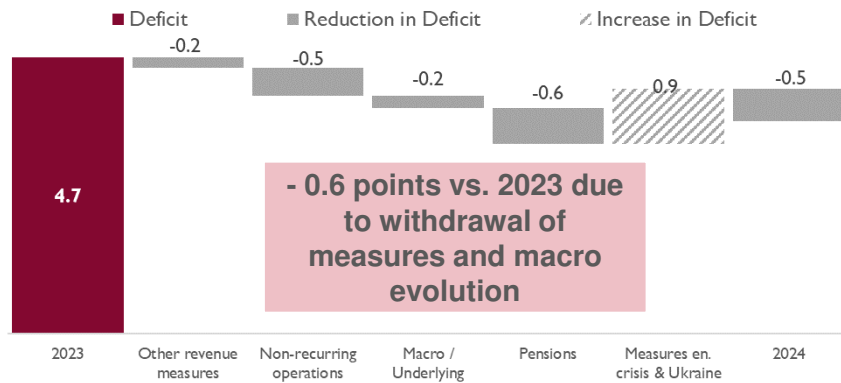


- The growth forecast for 2025 is 2.2%, which AIReF considers attainable despite being above the 1.9% of the AIReF and consensus forecasts.
- In the medium term, AIReF considers the Government's scenario, revising growth upwards to 2% at the end of the period compared with the previous 1.6%, to be optimistic
- It includes a fiscal cutback with respect to previous estimates that could subtract 0.3 or 0.4 points from annual growth
- Potential inconsistency of reference rates with potential growth and deficit targets

The positive impact of the upward revision in growth on the GG deficit forecast is offset by the adoption of measures and budgetary execution data

The forecast of a headline deficit of 3% of GDP for the GG, in line with Government forecasts, is maintained.

- Upward revision compared with April of 0.1% due to the cost of RD 3/2024 and 4/2024 measures and new data
- Increase offset by updated macro scenario, leaving the forecast unchanged at 3% GDP



Source: AReF and IGAE

With a deterioration in the forecast for ARs, which is offset by the CG

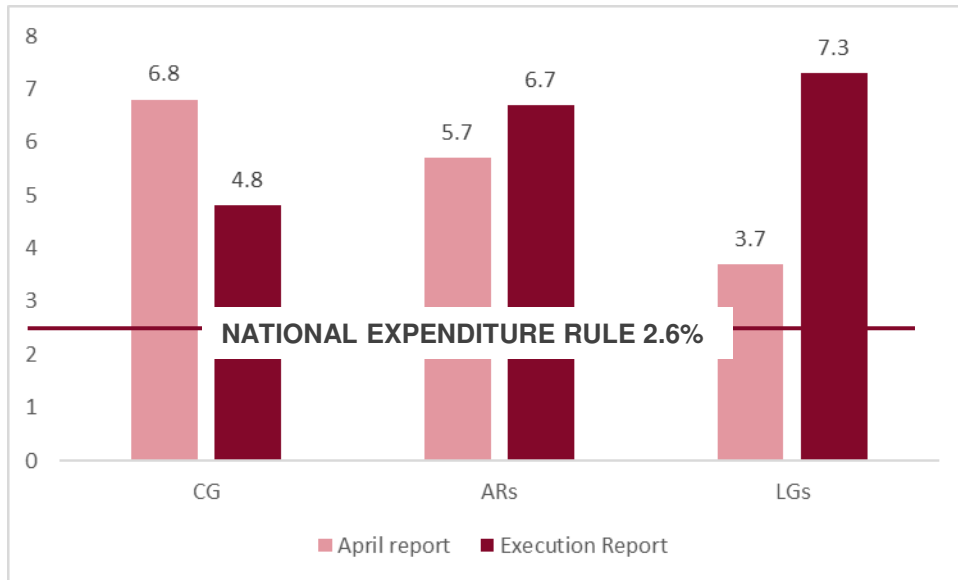
| % of GDP | Government estimate 2024 | AReF estimate 2024 | |
|-------------|--------------------------|----------------------|---------|
| | SPU 2023-2026 | Rep. Initial Budgets | Current |
| GG | -3.0 | -3.0 | -3.0 |
| CG | -3.0 | -2.7 | -2.5 |
| SSFs | -0.2 | -0.3 | -0.3 |
| ARs | 0.0 | -0.1 | -0.3 |
| LGs | 0.2 | 0.1 | 0.1 |

Source: SPU and AReF estimate

A similar public debt forecast is maintained: 2.3 points below the level recorded in 2023, which would bring the ratio to 105.3% at the end of 2024

Expenditure dynamism is confirmed with growth rates higher than the fiscal rules in force

GROWTH OF ELIGIBLE EXPENDITURE FOR THE NATIONAL EXPENDITURE RULE BY SUB-SECTOR, 2024 (%)



Source: AIReF

CG

The forecast for the growth in eligible expenditure falls from 6.8% to 4.8% due to a downward revision of current and capital expenditure (current transfers between GG sub-sectors and international cooperation)

ARs

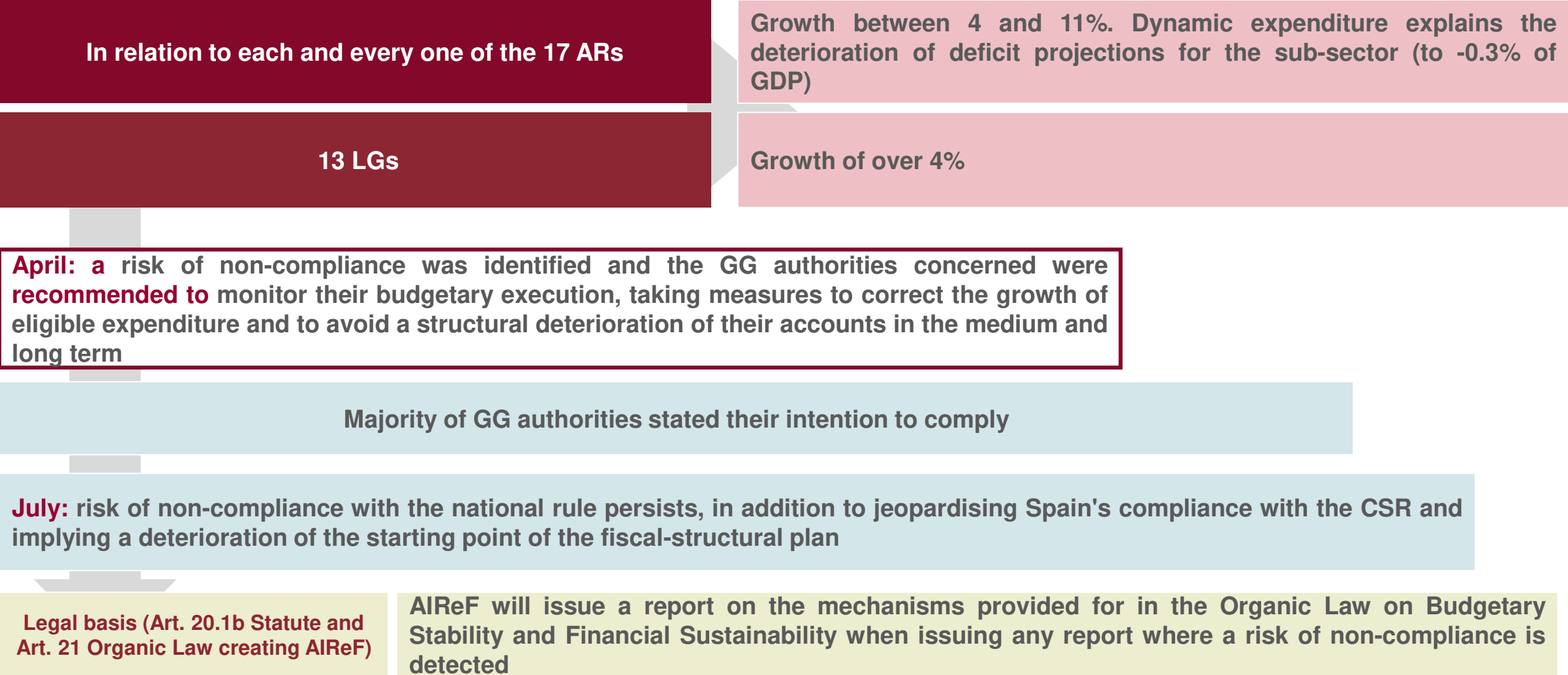
The deficit forecast for the ARs is raised, placing the growth in eligible expenditure at 6.7%, thus moving further away from the reference rate of 2.6% due to increases in compensation of employees, intermediate consumption and capital expenditure not associated with the RTRP

LGs

Growth in eligible expenditure rises from 3.7% to 7.3%, close to the 7.5% for 2023 published by the General State Comptroller (IGAE), as a result of the expected expansion of current expenditure (wage rises/contract updates) and consolidation of current subsidies

Consequently, in line with the previous report, AIReF sees a risk of non-compliance with the national expenditure rule in the CG, all the ARs and in thirteen Local Governments, as well as with the European expenditure rule for the GG as a whole.

Given the risk of non-compliance with the national expenditure rule, AIReF recommends that the Ministry of Finance should activate the preventive measures set out in Article 19 of the Organic Law on Budgetary Stability and Financial Sustainability

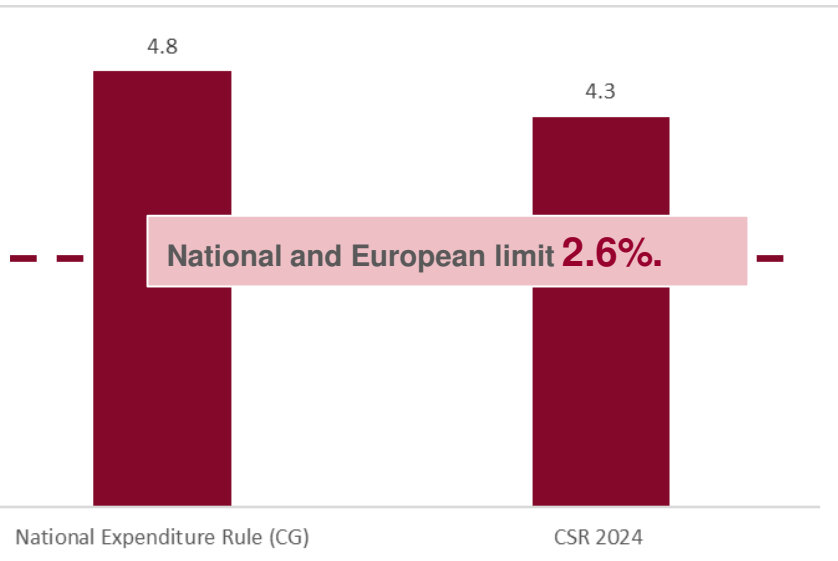


...and appear before Parliament in view of the risk of non-compliance with the national expenditure rule by the CG and with the CSR for Spain for the GG sector

The Organic Law on Budgetary Stability and Financial Sustainability does not provide for the activation of preventive measures when the GG sub-sector at risk is the CG, beyond the monitoring of execution. It does provide for the presentation of an EFP in the event of non-compliance (corrective measures), which would have to be approved by Parliament

Risk of non-compliance not only with the national rule but also with the CSR 2024 which applies to the GG sector

RATES OF GROWTH OF ELIGIBLE EXPENDITURE IN 2024. AIReF Forecast (%)



The European Commission also forecasts deviation: 3.8% growth

Comply:
Around €11 bn (0.7% GDP)
public deficit 2.3% GDP

It is recommended that the Ministry of Finance should appear before Parliament to:

- Explain the growth in expenditure net of discretionary revenue measures
- Explain possible deviations from the double limit of 2.6%
- Outline measures to bring expenditure back on track

In addition, recommendations are made to the Ministry of Finance to increase the transparency of the fiscal framework.

European

- The reformed fiscal framework pivots on a new variable: expenditure net of discretionary revenue measures
- Non-compliance can trigger EDP
- As the European rule is not the same as the national rule, the national framework will need to be adapted to make it consistent with the European framework

Recommendations to Ministry of Finance

Publish a guide for the calculation of expenditure net of discretionary revenue measures under the new European framework, both for the GG and for each sub-sector, including the SSFs. The breakdown of the specifics of the calculation for each sub-sector should be specified

National

- Before the pandemic, the IGAE published monthly reports in national accounting terms on the eligible expenditure for CG, ARs and their individual breakdown. Quarterly for the local sub-sector
- The activation of the national rule makes it necessary to resume such publication to facilitate monitoring

Resume publication of the evolution of net eligible expenditure for the purposes of the national expenditure rule for the CG, the ARs, including the individual breakdown by Region, and the LGs in the same terms as before the pandemic

2

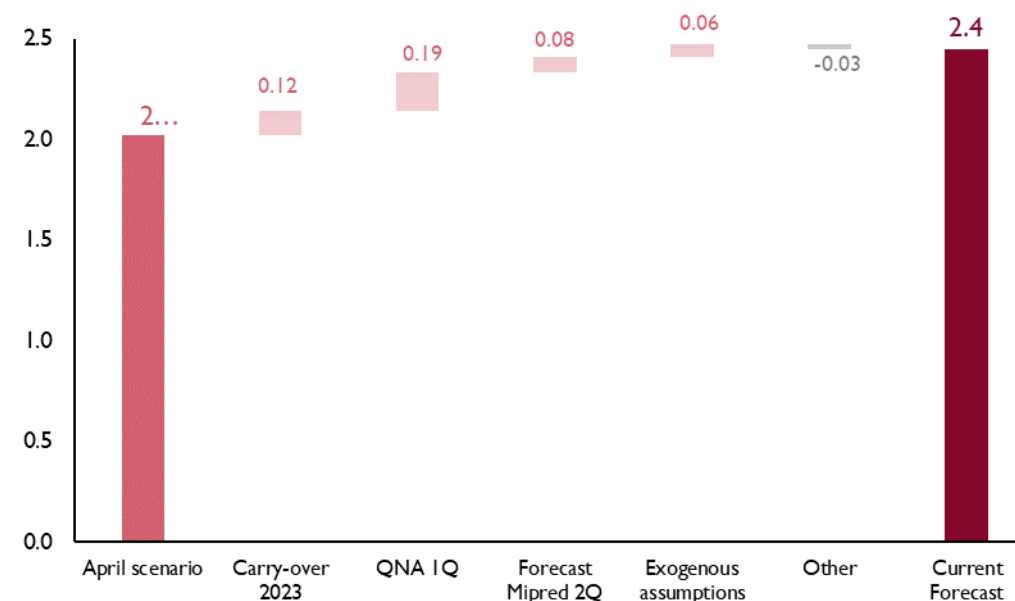
Macroeconomic scenario

AIReF updates its macroeconomic outlook for 2024 and upgrades its GDP growth forecast to 2.4%

| Year-on-Year Rates of Change | 2023 | 2024 | Revision Year 2024 |
|--|-------------|-------------|-------------------------------|
| Private Domestic Final Consumption Expenditure | 1.8 | 2.4 | ▼ -0.1 |
| General Government Final Consumption Expenditure | 3.8 | 1.2 | ▲ 0.0 |
| Gross Fixed Capital Formation | 0.8 | 3.6 | ▲ 0.9 |
| <i>GFCF Equipment and Cultivated Assets</i> | -1.3 | 3.5 | ▼ -0.4 |
| <i>GFCF Construction and Intellectual Property</i> | 1.7 | 3.6 | ▲ 1.4 |
| Domestic Demand* | 1.7 | 2.3 | ▲ 0.1 |
| Exports of Goods and Services | 2.3 | 3.3 | ▲ 1.3 |
| Imports of Goods and Services | 0.3 | 3.2 | ▲ 0.6 |
| External Balance* | 0.8 | 0.2 | ▲ 0.3 |
| Gross Domestic Product | 2.5 | 2.4 | ▲ 0.4 |
| Nominal Gross Domestic Product | 8.6 | 5.7 | ▲ 0.4 |
| Gross Domestic Product Deflator | 5.9 | 3.2 | ■ 0.0 |
| CPI | 3.5 | 3.2 | ▲ 0.1 |
| Full-Time Equivalent Employment | 3.2 | 2.5 | ▲ 0.0 |
| Unit Labour Cost | 6.0 | 3.6 | ▼ -0.3 |
| Productivity per Full-Time Employee | -0.7 | -0.1 | ▲ 0.4 |
| Compensation per Employee | 5.2 | 3.5 | ▲ 0.2 |
| Unemployment Rate (% of Active Population) | 12.2 | 11.6 | ▲ 0.1 |
| Household and NPISH Savings Rate (% Gross Disposable Income) | 11.7 | 12.4 | ▲ 2.7 |

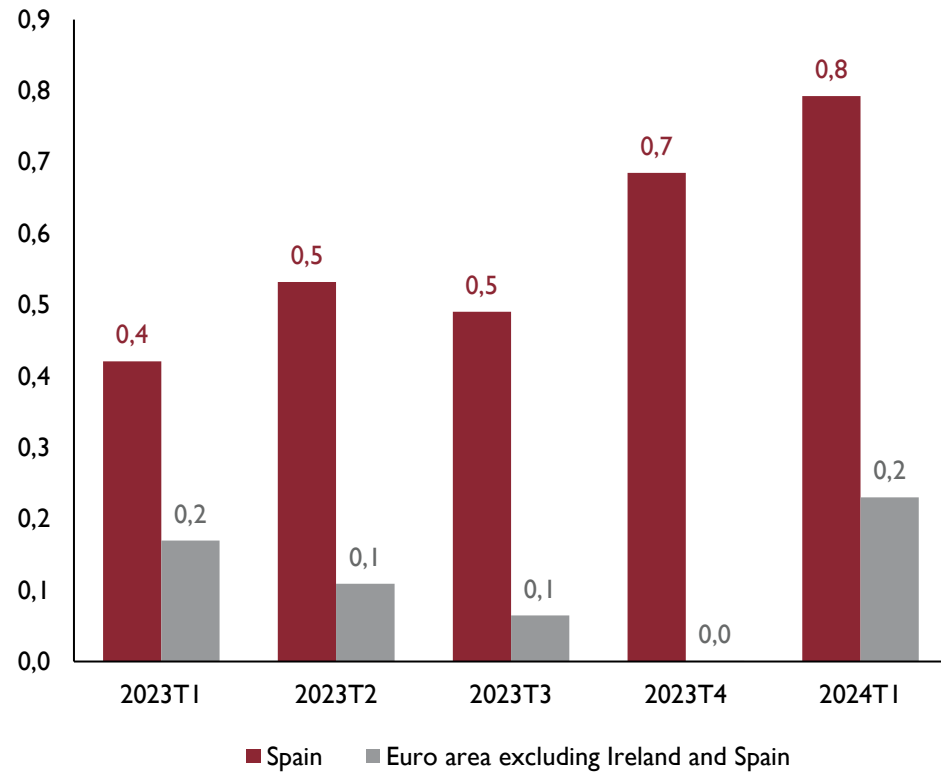
* Contributions to growth

FACTORS EXPLAINING THE REVISION OF THE FORECAST FOR 2024 COMPARED WITH THE APRIL MACROECONOMIC SCENARIO

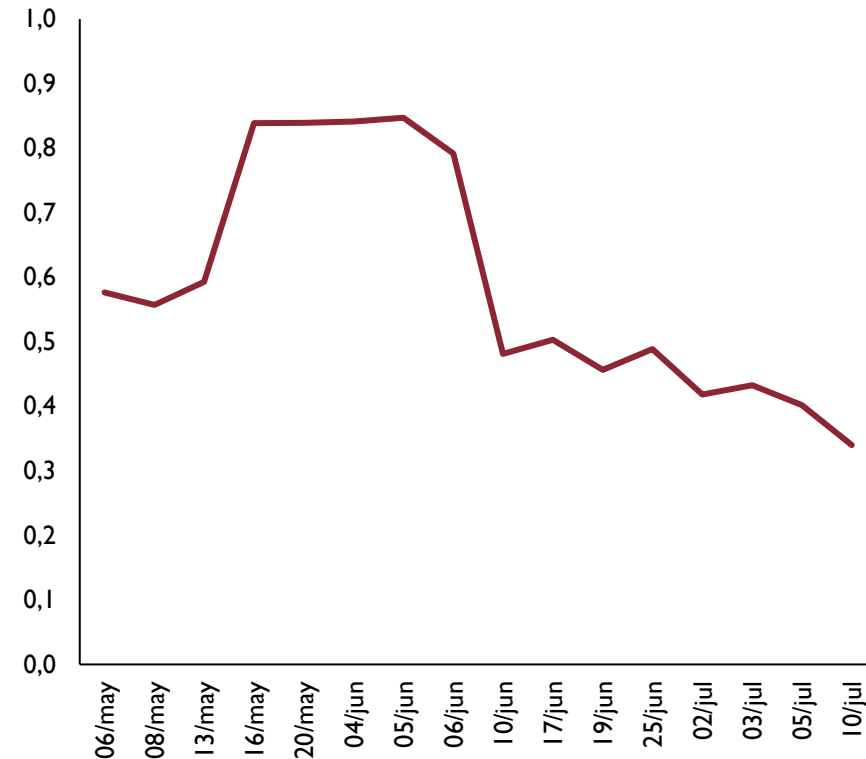


In the short term, the economy continues to show remarkable strength, although a slowdown is expected in the second quarter

EVOLUTION OF QUARTER-ON-QUARTER GDP GROWTH FOR SPAIN AND THE REST OF THE EMU



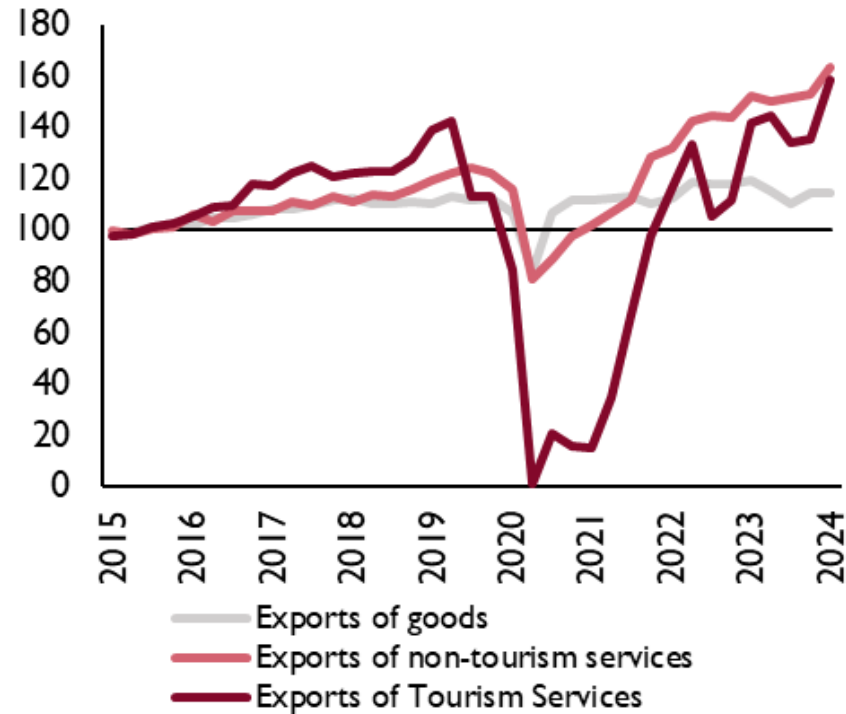
QUARTER-ON-QUARTER GDP GROWTH IN THE SECOND QUARTER OF 2024 ACCORDING TO THE MIPRED MODEL



Sources: Eurostat and AIReF

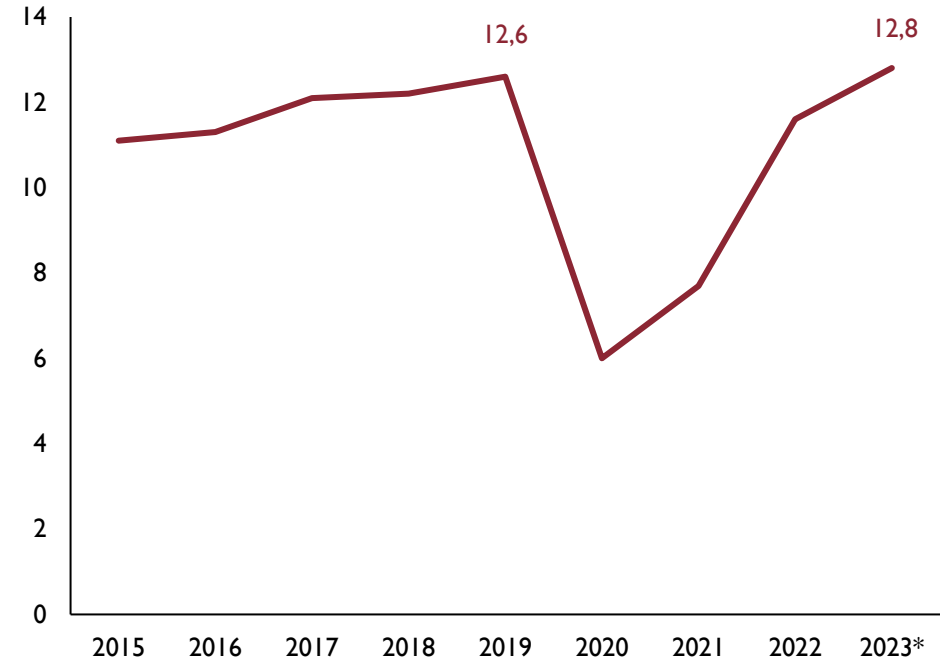
The main surprises on the upside are in the favourable performance of services exports

EXPORTS IN VOLUME (2015-T1=100)



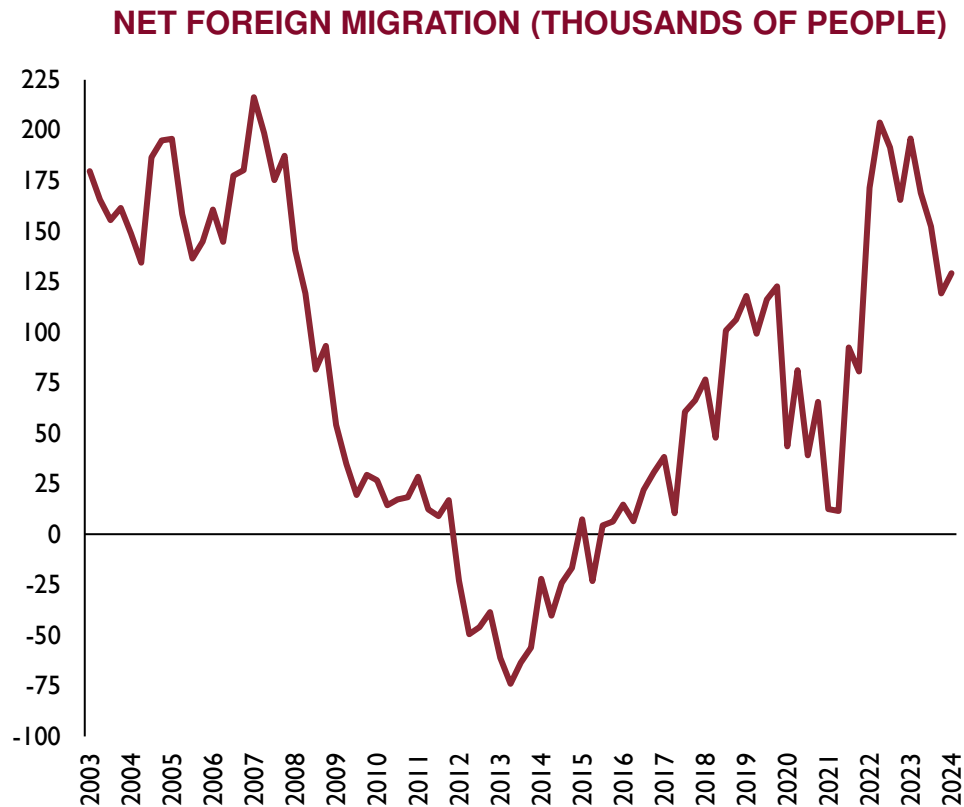
Source: INE

TOURISM GDP (% GDP)



Sources: INE and Exceltur

The second element underpinning the good cyclical momentum in the economy is the influx of foreign population



Sources: INE, Eurostat and AIReF

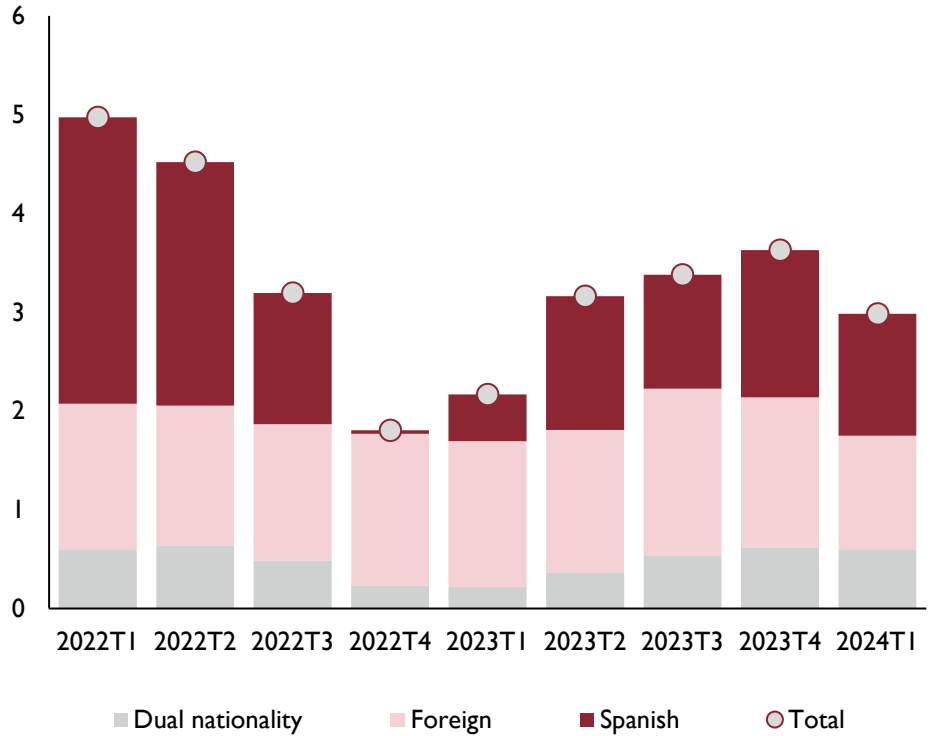
Household numbers and growth in private consumption are on the rise

It allows employment growth to be sustained with lower wage pressures relative to other countries

To the extent that employment growth is concentrated in labour-intensive sectors, apparent productivity growth would fall

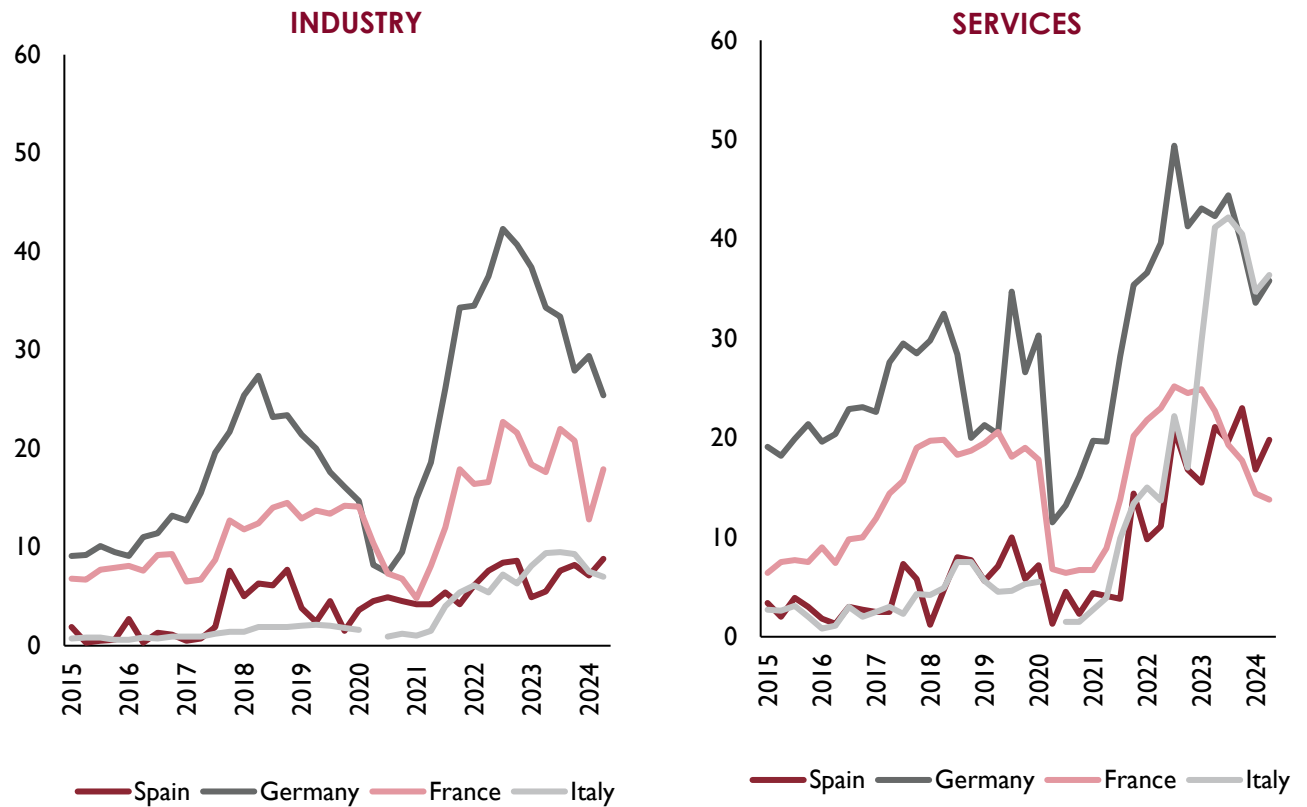
The increase in the active population associated with immigration makes it possible to sustain employment growth with a reduced incidence of labour shortages

GROWTH IN EMPLOYMENT BY NATIONALITY (RATE OF CHANGE AND CONTRIBUTIONS)



Source: INE

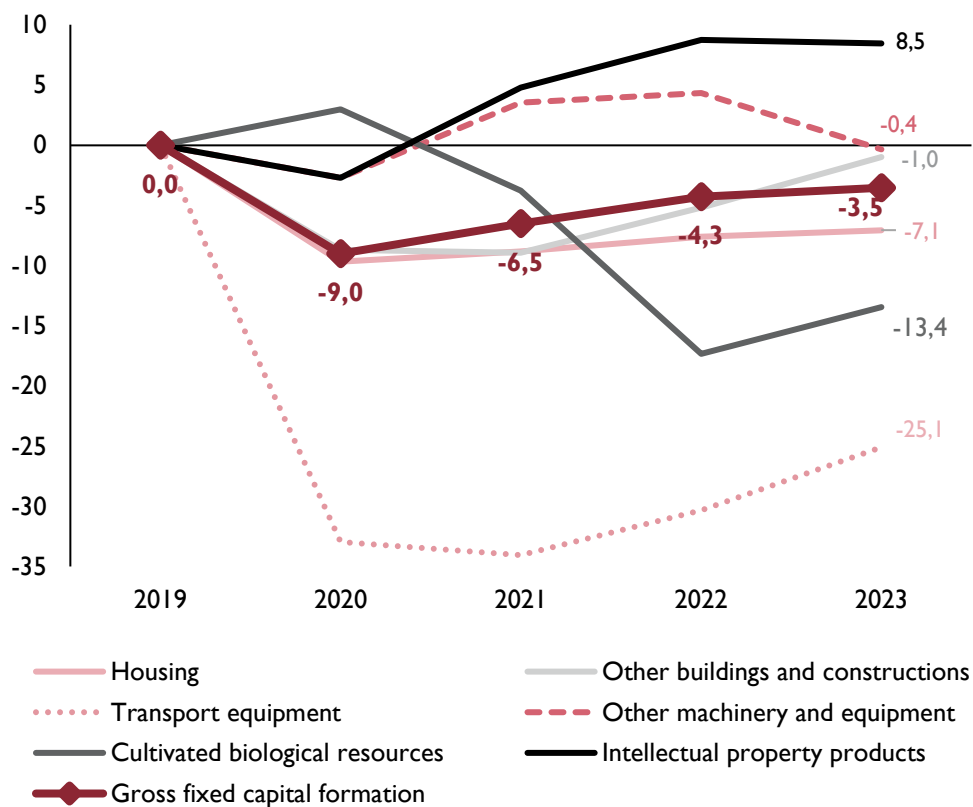
PERCENTAGE OF COMPANIES STATING THAT LABOUR SHORTAGES LIMIT THEIR PRODUCTION



Source: European Commission

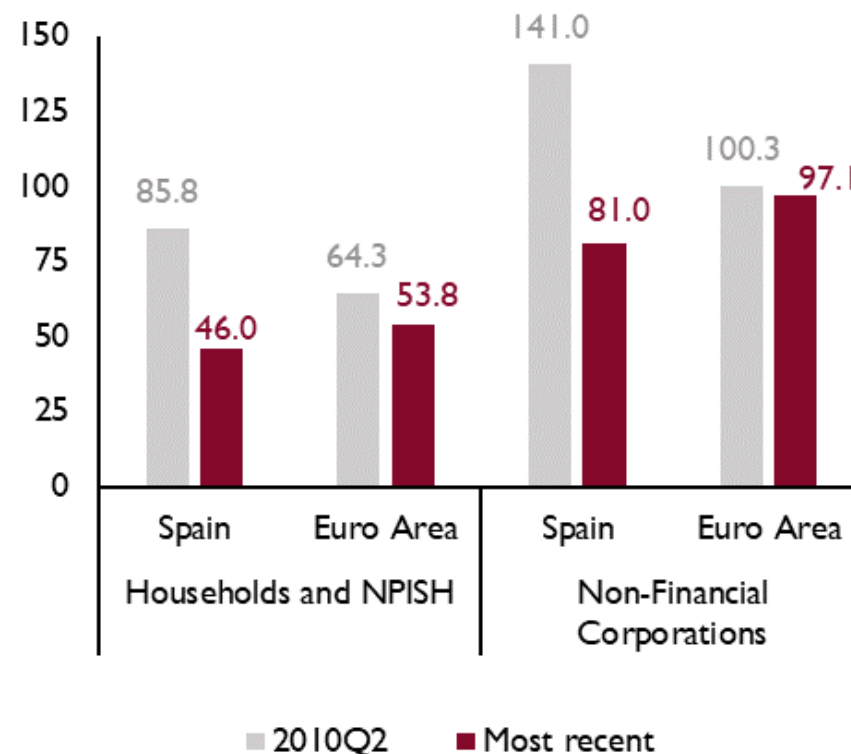
Private investment remains weak amid high interest rates, which has led companies to reduce their indebtedness

EVOLUTION OF GROSS FIXED CAPITAL FORMATION BY TYPE OF PRODUCT (CHANGE COMPARED WITH 2019)



Source: INE

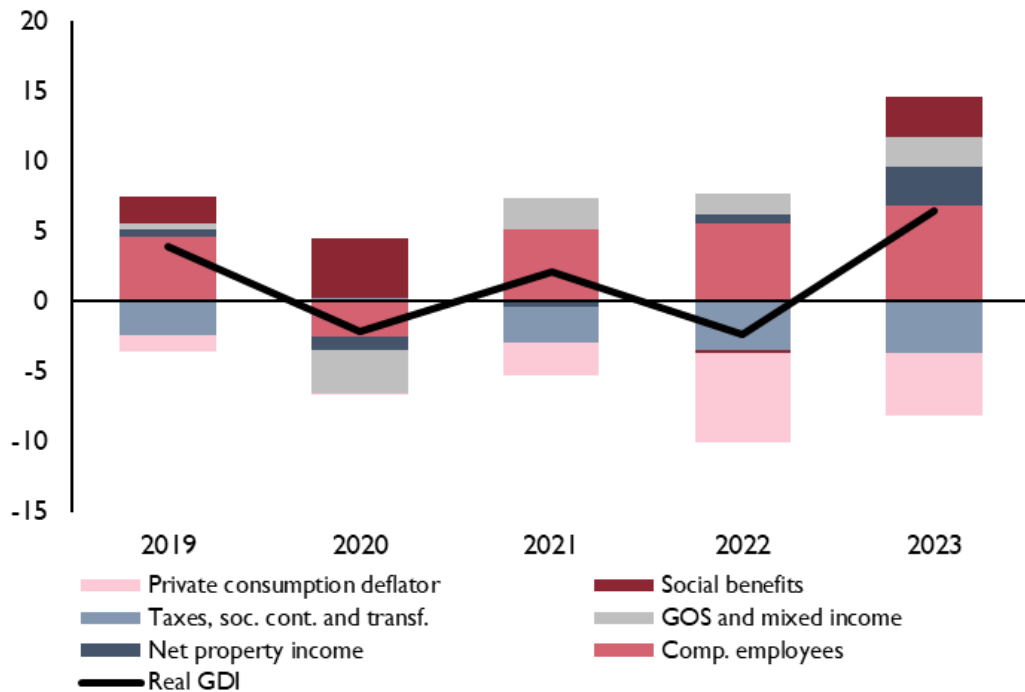
HOUSEHOLD AND CORPORATE DEBT (PERCENTAGES OF GDP)



Sources: Bank of Spain and Eurostat

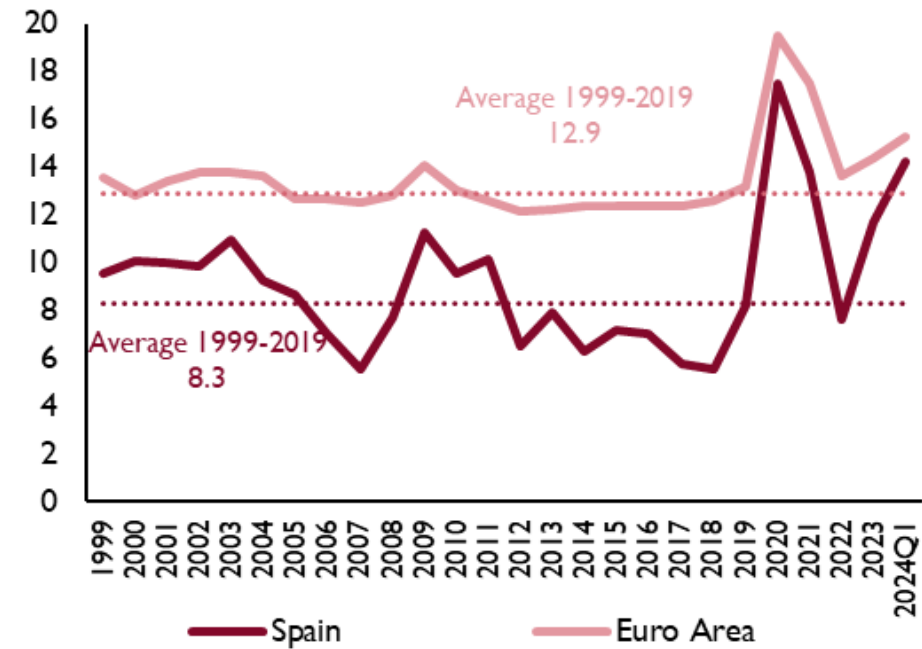
Household savings at record highs not observed since the pandemic...

CONTRIBUTIONS TO REAL HOUSEHOLD DISPOSABLE INCOME GROWTH (% AND PP)



Source: INE

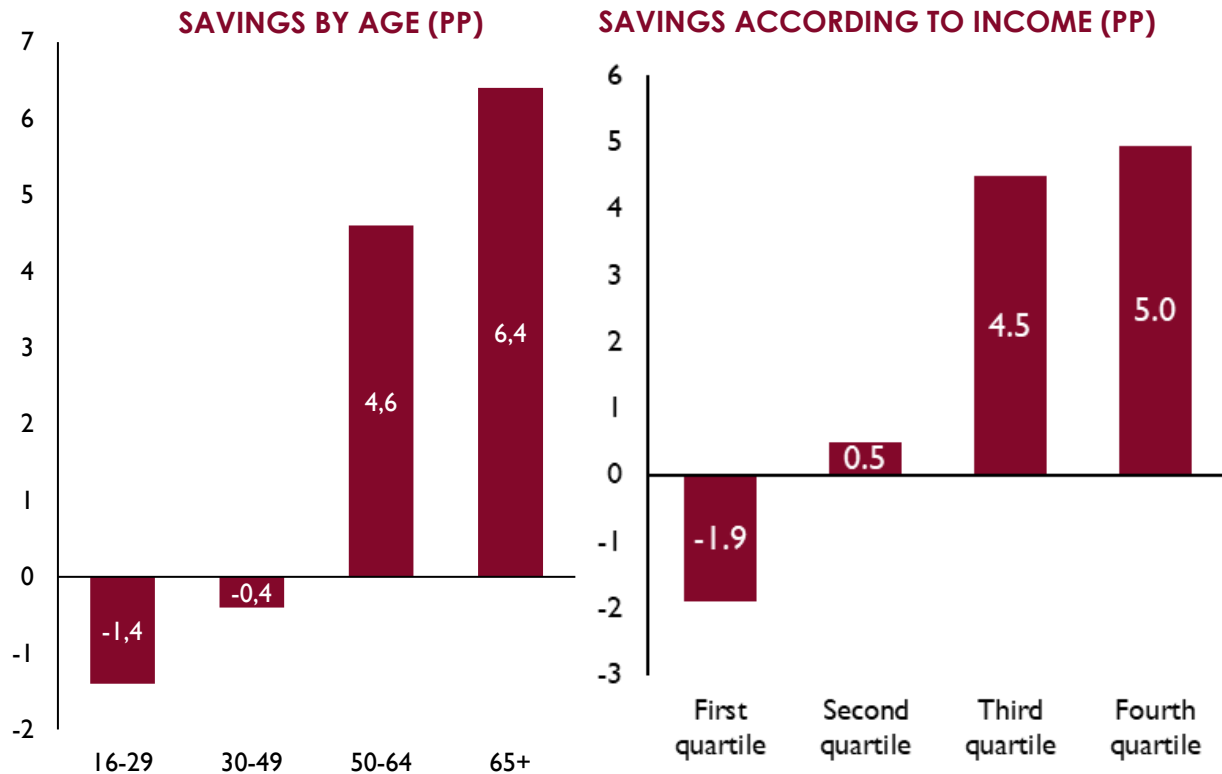
HOUSEHOLD SAVING RATE (% OF GROSS DISPOSABLE INCOME)



Source: Eurostat

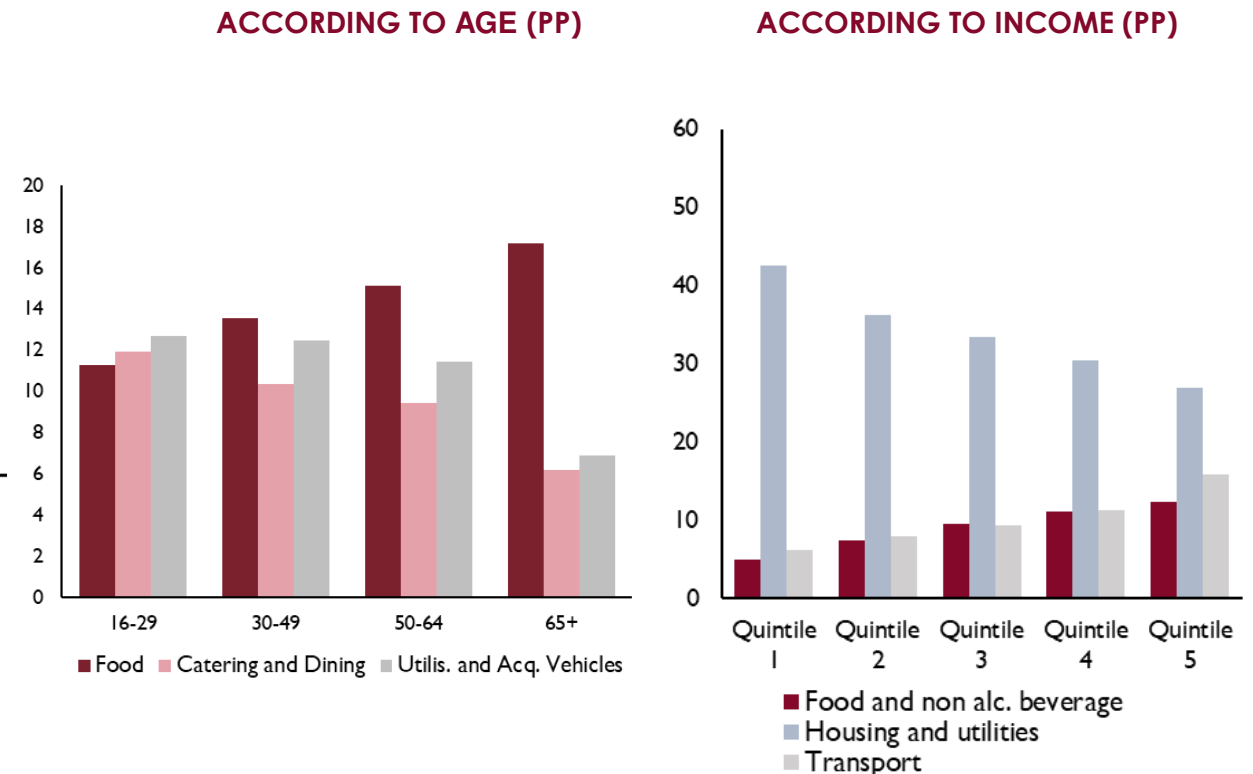
... but there is perceived heterogeneity by age and income levels, which may have an impact on both the intensity and the future composition of consumption

**CURRENT FINANCIAL SITUATION OF CONSUMERS
COMPARING 2019 Q4 AND 2024 Q2**



Source: European Commission

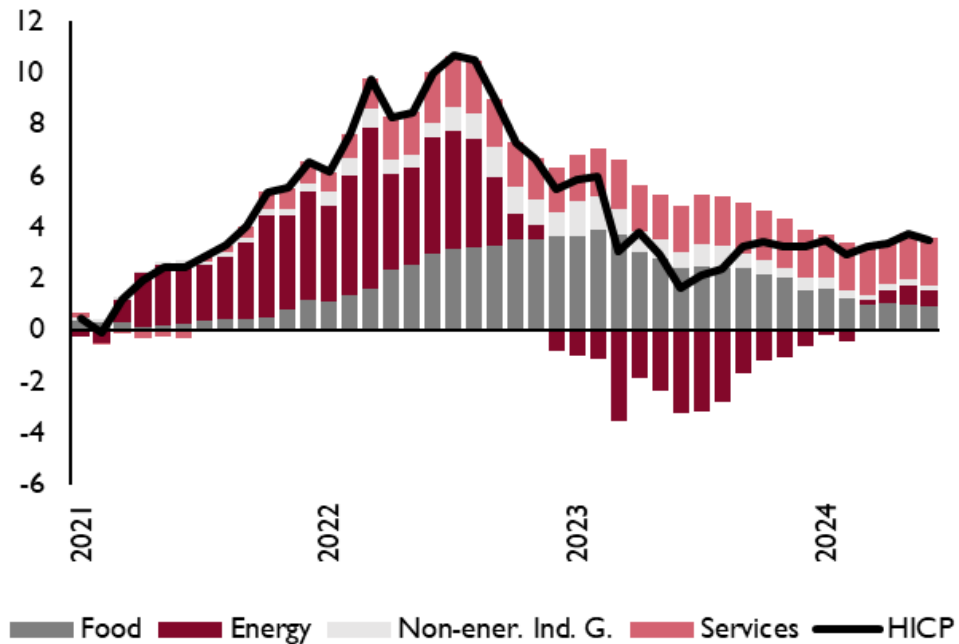
HOUSEHOLD CONSUMPTION PATTERN (%)



Source: INE

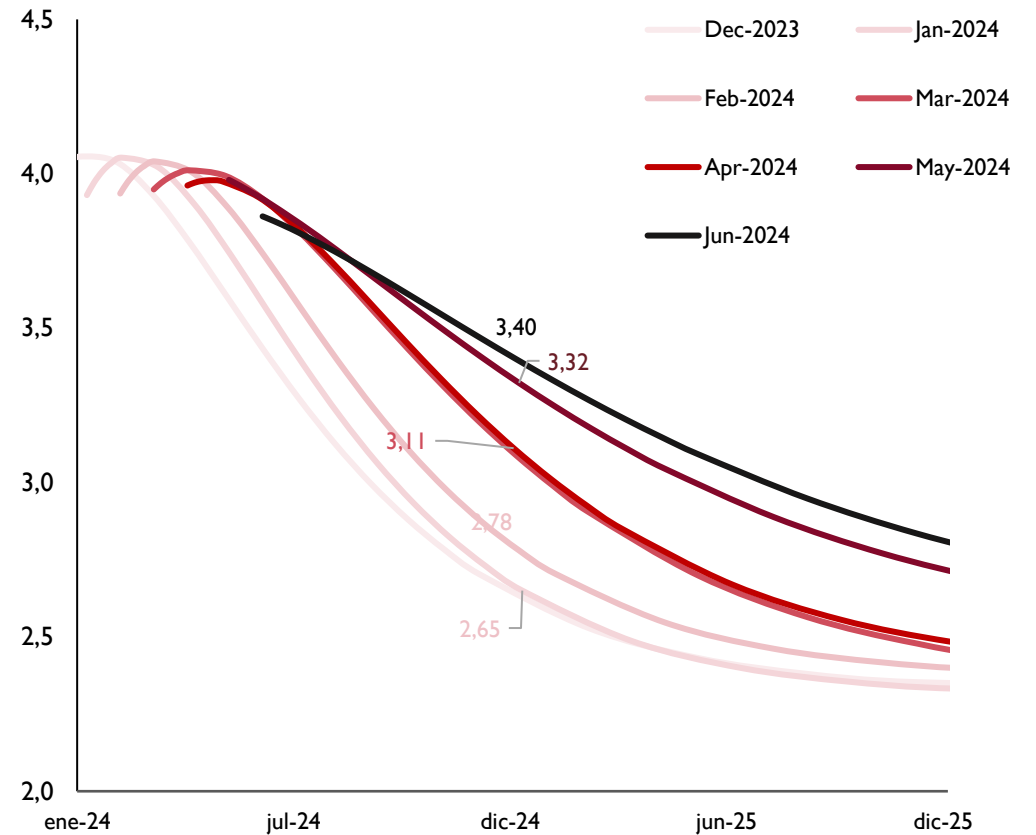
Inflation is falling at a slower pace than expected and expectations of interest rate cuts moderate

HARMONISED INFLATION IN SPAIN AND CONTRIBUTION OF THE MAIN COMPONENTS (% AND PP) OF MAIN COMPONENTS (% AND PP)



Source: INE

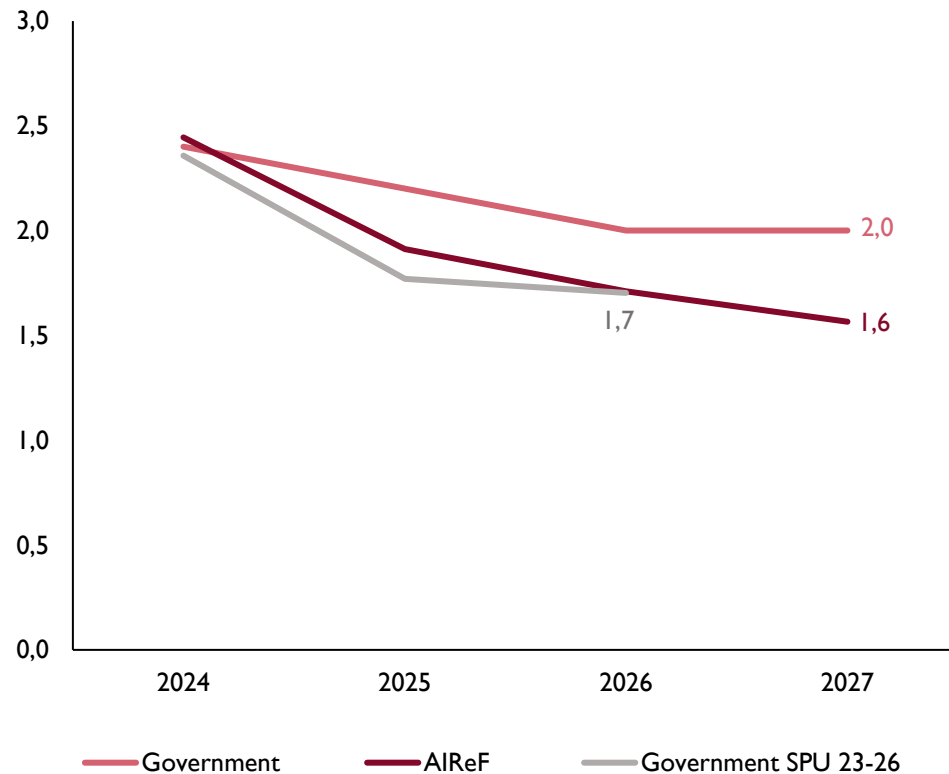
EXPECTED RATE OF THE ECB DEPOSIT FACILITY (%)



Sources: Refinitiv and AIReF

The upward revision of the growth path in the Report on the Economic Situation is optimistic in a scenario of fiscal consolidation and weak productivity

GDP GROWTH PROJECTIONS 2024-2027 (%)



Sources: AIReF and Government

The scenario relies on a recovery in productive investment that is subject to risks

On the supply side, the scenario incorporates a dynamism of hourly productivity which is also subject to risks

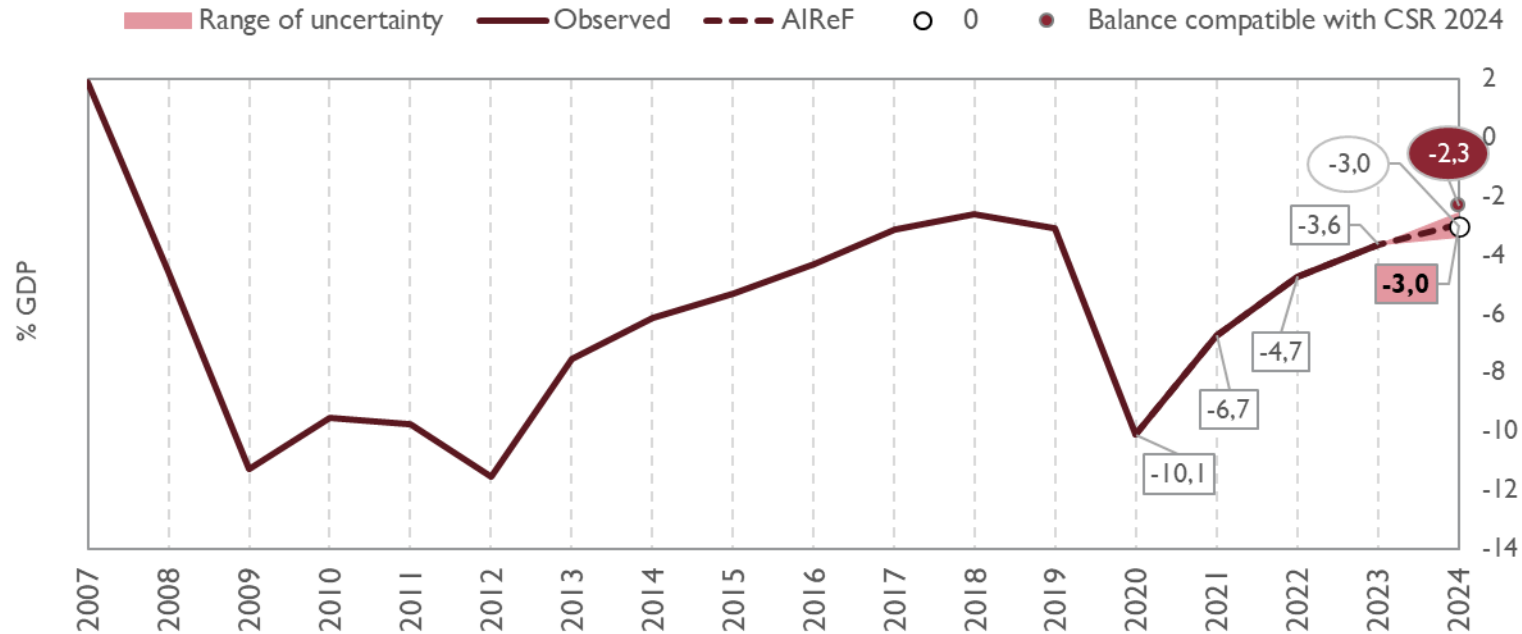
The factors leading to the 2% growth rate, the potential above 2% and the estimated impact of fiscal consolidation need to be explained (adjustment of 0.6-0.5 pp per annum)

3

Fiscal scenario

AIReF estimates a GG deficit of 3% of GDP for 2024

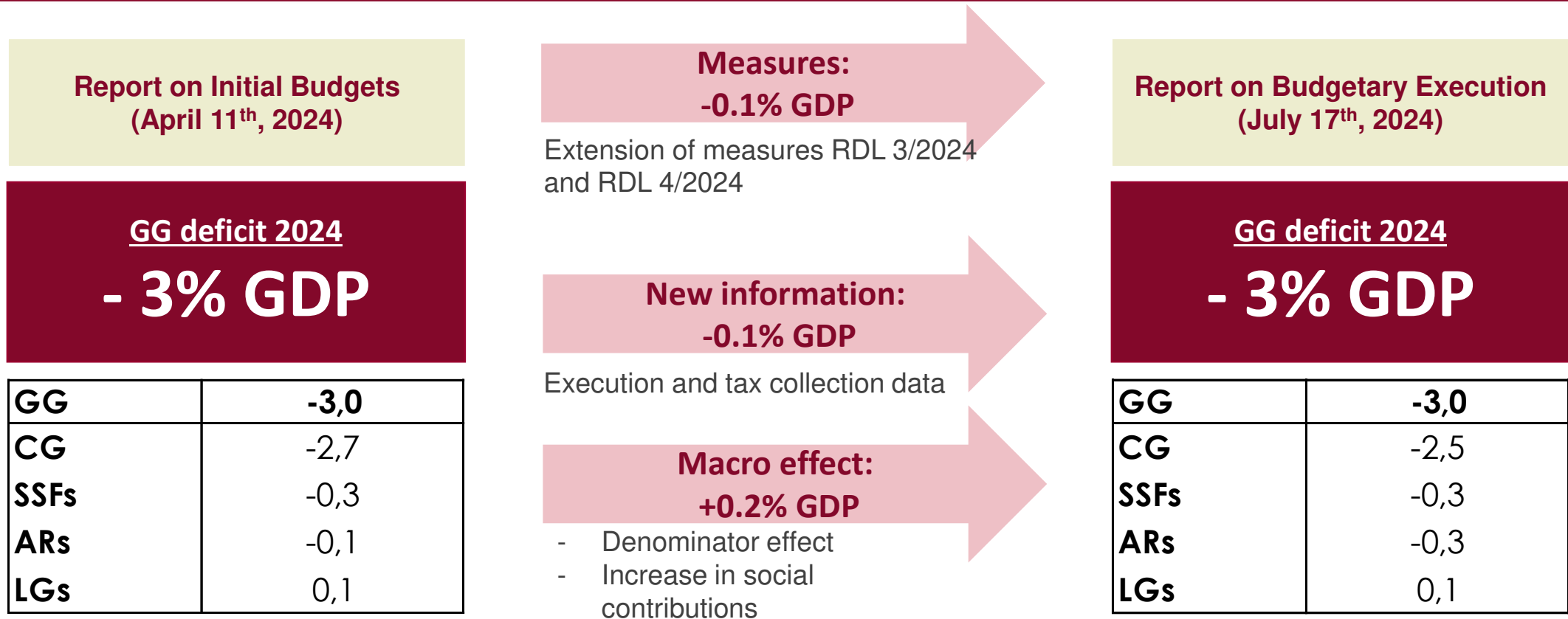
EVOLUTION OF GG FISCAL BALANCE (% GDP)



Source: IGAE and AIReF

AIReF maintains its deficit forecast for 2024 with respect to the previous report, despite the upward revision of both revenue and expenditure

The improved macroeconomic scenario offsets the new information and the cost of the new measures



The Central Government improves its deficit by 0.2 points of GDP, which is offset by an increase of a similar size for the Autonomous Regions

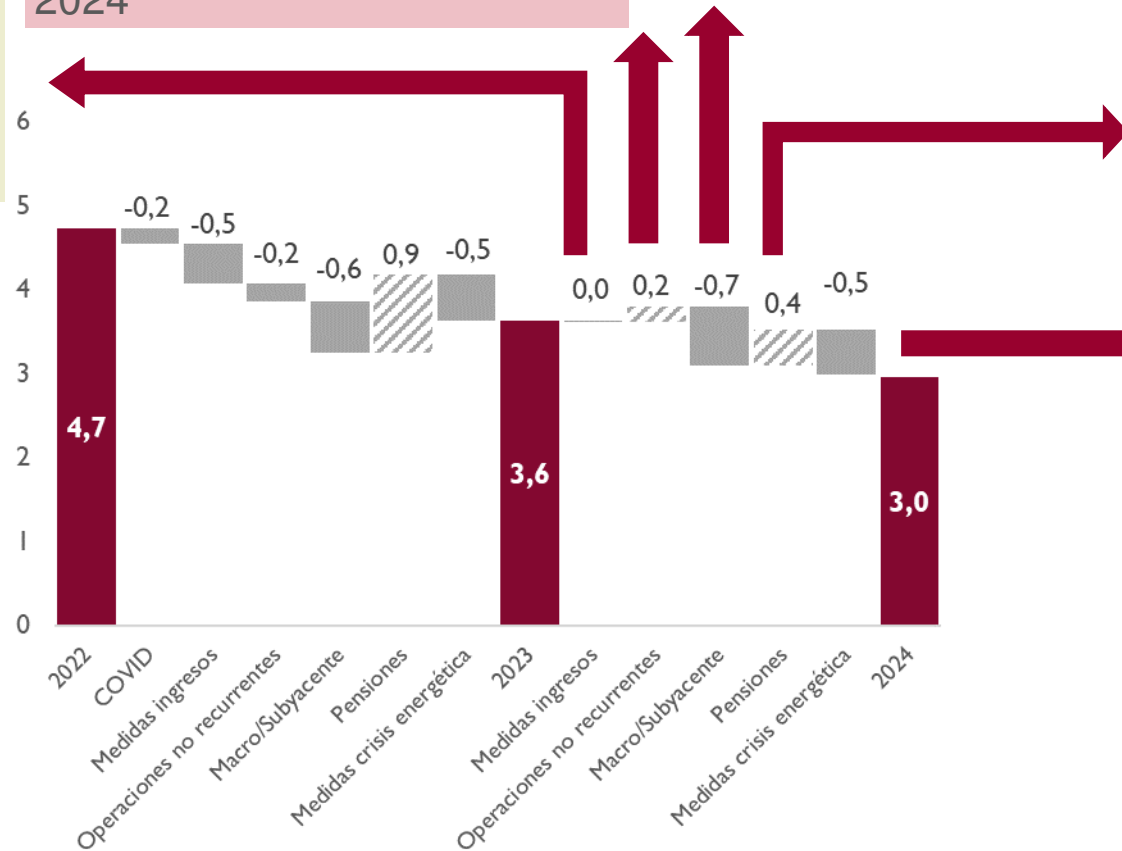
The reduction of the deficit by 0.6 points of GDP compared with 2023 is based on several factors

Revenue measures:
Non-energy revenue measures cancel each other out

Non-recurrent operations:
Costs resulting from court rulings expected to increase in 2024

Macro/underlying:
Evolution of baseline revenue and expenditure...

Pensions:
... which is partially offset by the rise in pensions



Measures of RDL 8/2023, RDL 3/2024 and RDL 4/2024

- Measures to alleviate the energy crisis and price rises
- Reduction of their cost compared with 2023

The cost of measures to mitigate price rises in 2024 is 0.3 points of GDP

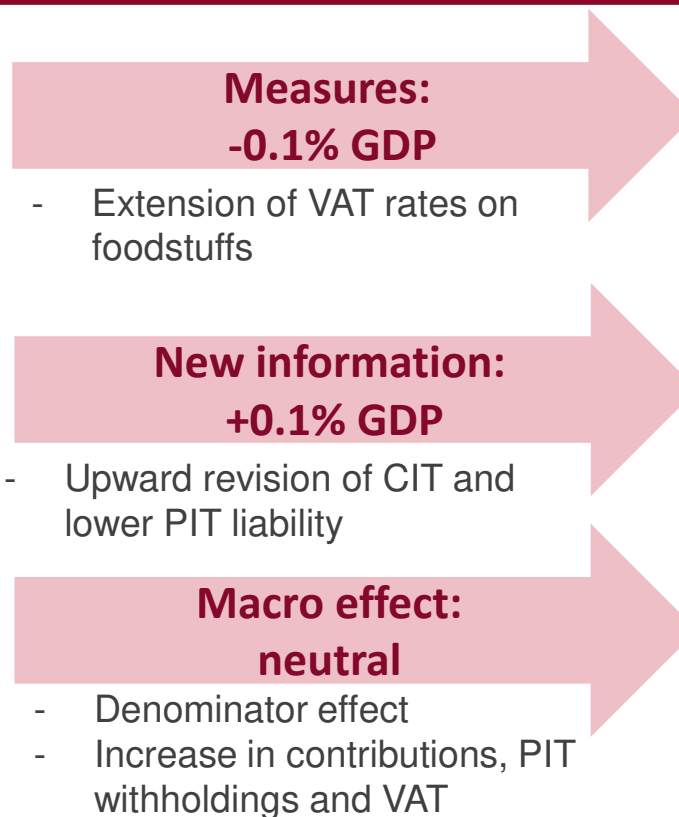
| Impacto en términos de Contabilidad Nacional | Impacto anual 2024 | | |
|--|---------------------------|-----------------------------------|---------------------------------------|
| | Informe Presup. Iniciales | Actual (Incluye RDL 3 y 4 / 2024) | Diferencia Actual - Presup. Iniciales |
| Medidas de Ingresos (millones €) | -2.428 | -3.229 | -801 |
| Medidas de Ingresos (% PIB) | -0,2 | -0,2 | -0,1 |
| IVA: | | | |
| IVA Electricidad | -963 | -963 | 0 |
| IVA gas, briquetas y pellets | -40 | -40 | 0 |
| IVA alimentos básicos Del 4% al 0% hasta 30/09/2024 Del 4% al 2% de 01/10/2024 a 31/12/2024 | -882 | -1.544 | -662 |
| IVA aceite de oliva Del 10% al 5% hasta 30/06/2024 Del 10% al 0% de 01/07/2024 a 30/09/2024 Del 10% al 2% de 01/10/2024 a 31/12/2024 | -79 | -141 | -63 |
| IVA aceites semilla y pastas alimenticias Del 10% al 5% hasta 30/09/2024 Del 10% al 7,5% de 01/10/2024 a 31/12/2024 | -112 | -206 | -95 |
| IIEE: | | | |
| IE Electricidad | -352 | -334 | 18 |
| Medidas de Gastos (millones €) | 1.958 | 2.093 | 135 |
| Medidas de Gastos (% PIB) | 0,1 | 0,1 | 0,0 |
| Bonificación al carburante | 112 | 112 | 0 |
| Ayudas sectoriales | 330 | 380 | 50 |
| Resto de ayudas a particulares | 1.516 | 1.601 | 85 |
| TOTAL (millones €) | -4.386 | -5.322 | -936 |
| TOTAL (% PIB) | -0,3 | -0,3 | -0,1 |
| Otras | | | |
| IVPEE: Suspensión | -746 | -741 | 5 |

AIReF includes in its estimate the cost of the measures approved in RDL 3/2024 and RDL 4/2024, which result in a cost increase of 0.1 points of GDP

AIReF has also revised its evaluation of the measures in light of the new information available and the new macroeconomic outlook

AIReF maintains the weight of revenue over GDP at 42.5%

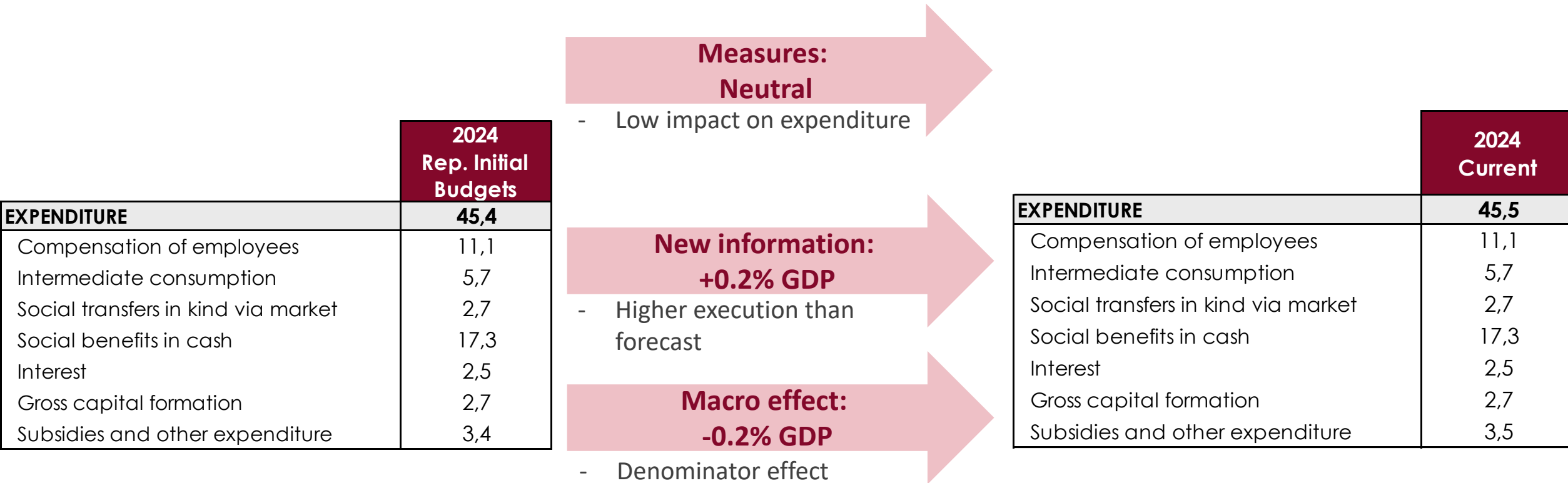
| | 2024 Rep. Initial Budgets |
|-----------------------|---------------------------------|
| REVENUE | 42,5 |
| TAXES | 24,9 |
| <i>On production</i> | 11,6 |
| <i>On income</i> | 12,9 |
| <i>Capital</i> | 0,4 |
| CONTRIBUTIONS: | 13,6 |
| Other revenue | 4,0 |



| | 2024 Current |
|-----------------------|-----------------|
| REVENUE | 42,5 |
| TAXES | 24,8 |
| <i>On production</i> | 11,5 |
| <i>On income</i> | 12,9 |
| <i>Capital</i> | 0,4 |
| CONTRIBUTIONS: | 13,7 |
| Other revenue | 4,1 |

- The new measures approved are offset by new information updating the cost of the measures and the latest tax collection data
- The increase in contributions is due to the increase in the forecast for compensation of employees

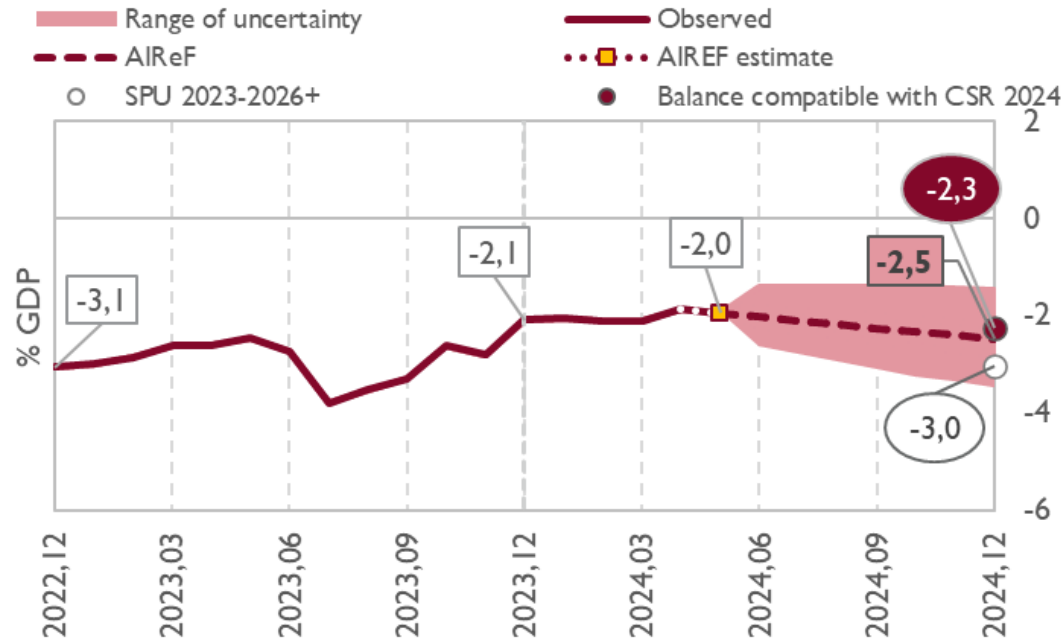
AIReF slightly increases its estimate of the weight of expenditure to 45.5% of GDP



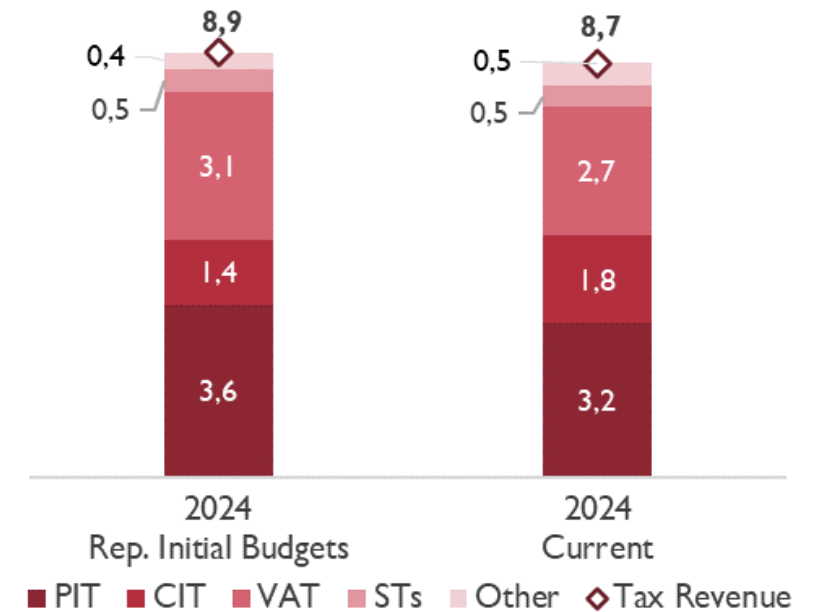
The denominator effect of higher GDP almost offsets the increase in expenditure as a result of new information

Central Government: AIReF estimates a deficit of 2.5% of GDP in 2024, 0.2 points lower than in the last report

AIREF FORECASTS CG FISCAL BALANCE (% GDP)

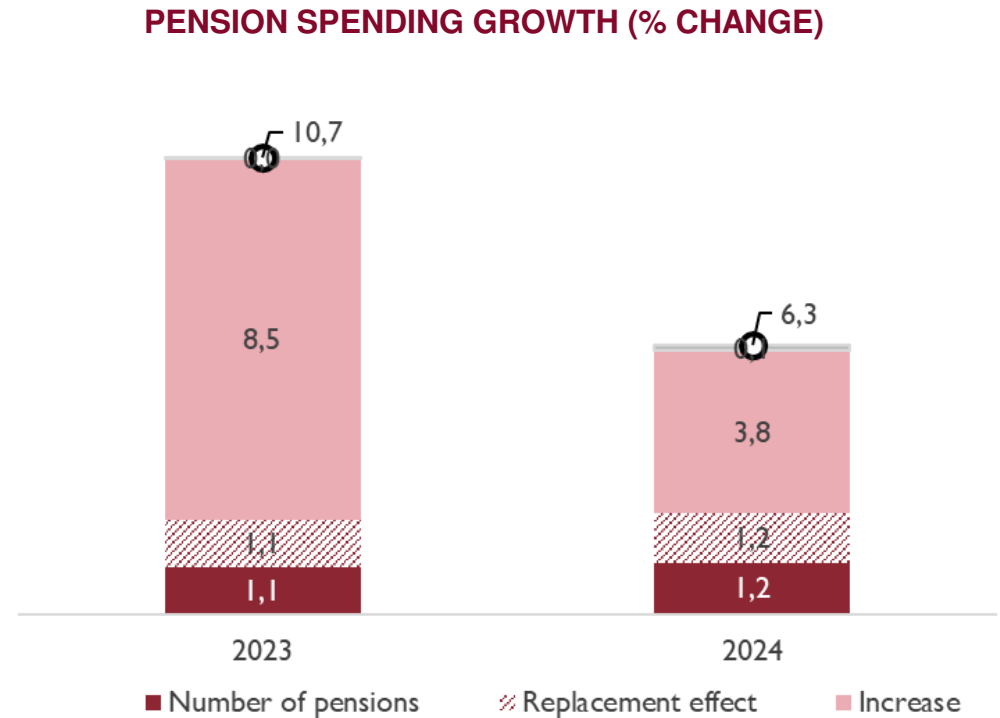
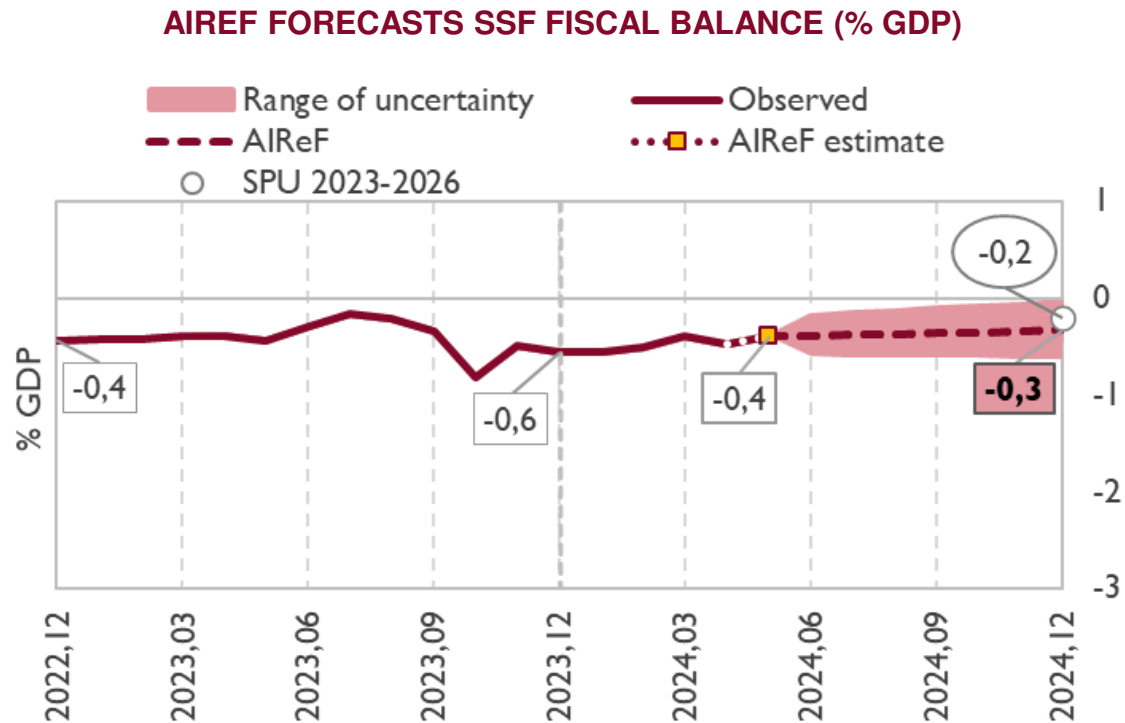


TAX REVENUE UNDER THE COMMON FISCAL REGIME. SPANISH NATIONAL ACCOUNTS (% CHANGE)



- The estimate of expenditure is lowered, mainly as a result of transfers to other GG sub-sectors and gross capital formation
- Eligible expenditure for expenditure rule purposes will grow by 4.8% against the reference rate of 2.6%
- On the revenue side, lower tax collection (measures and new information) and higher interest income are expected

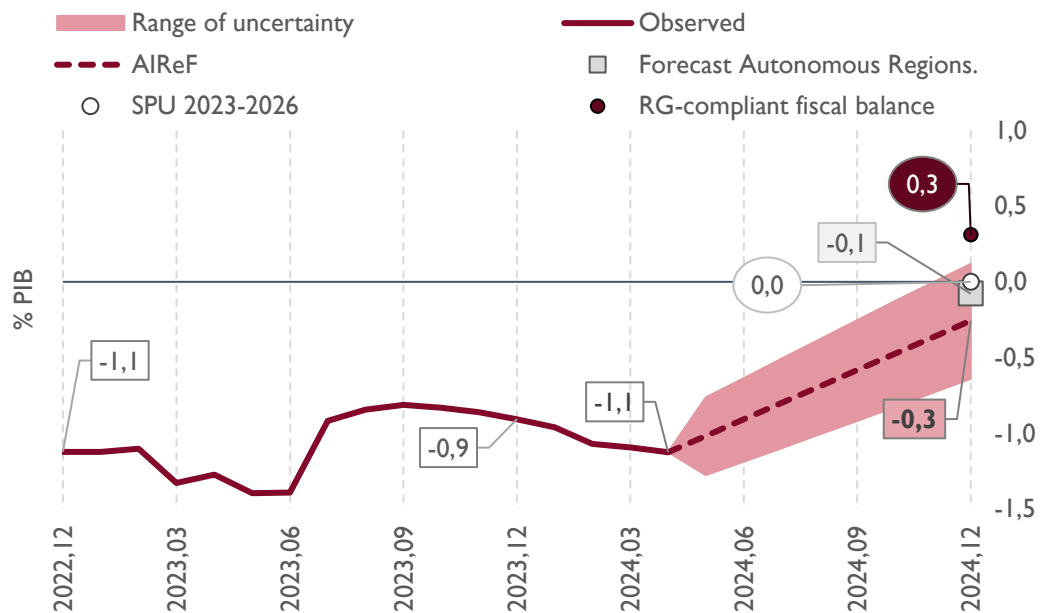
Social Security Funds: AIReF maintains the deficit with respect to the previous report



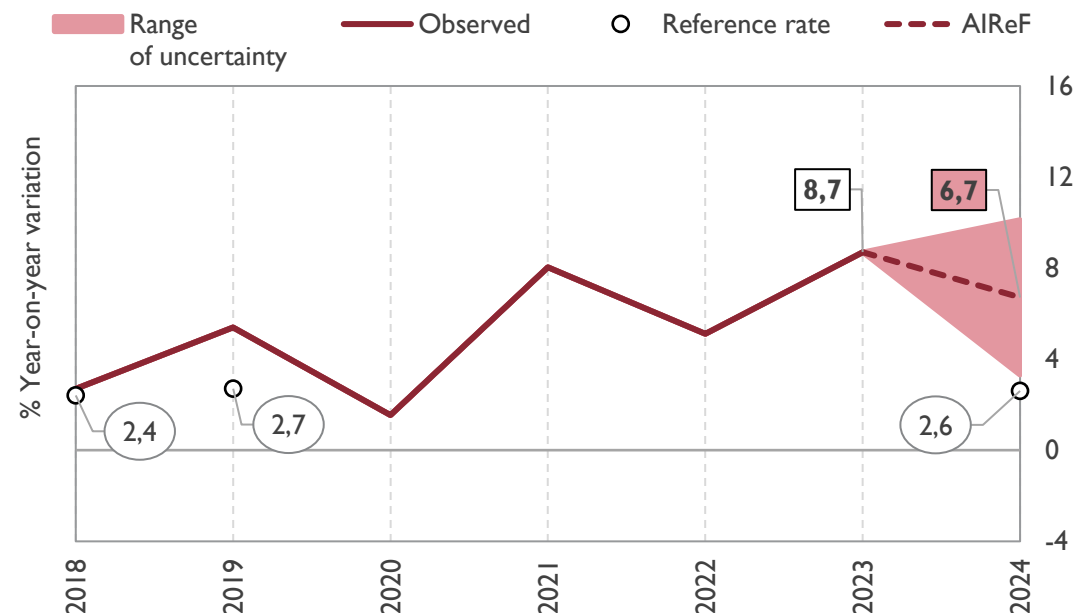
- AIReF raises its estimate of spending on pensions for 2024 to 6.3% on the basis of the new information published. It also revises spending on temporary disability upwards
- However, the buoyancy of contributions offsets the increase in spending, with the fiscal balance estimated to remain at -0.3% of GDP

ARs: AIReF increases the ARs' deficit by 0.2 points and still sees a risk of non-compliance with the expenditure rule

AIREF FORECASTS AR FISCAL BALANCE (% GDP)

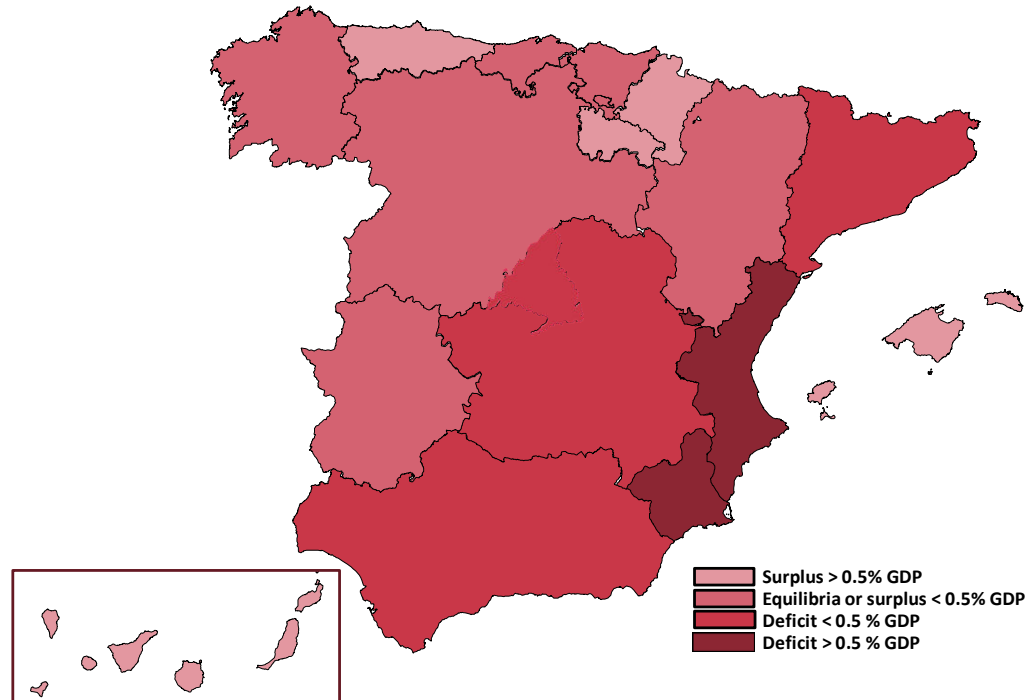


AIREF FORECASTS AR EXPENDITURE RULE (% CHANGE)



- AIReF worsens the ARs' fiscal balance for 2024 to -0.3% of GDP due to the upward revision of spending, based on the execution observed and the measures reported by the ARs
- The risk of non-compliance with the expenditure rule in 2024 is maintained. A surplus of 0.3% would be achieved if the expenditure rule is complied with under AIReF's revenue estimates

ARs: most will close 2024 with a surplus or close to a balanced budget, but the risk of non-compliance with the expenditure rule persists in all of them



NATIONAL EXPENDITURE RULE GROWTH (% CHANGE)

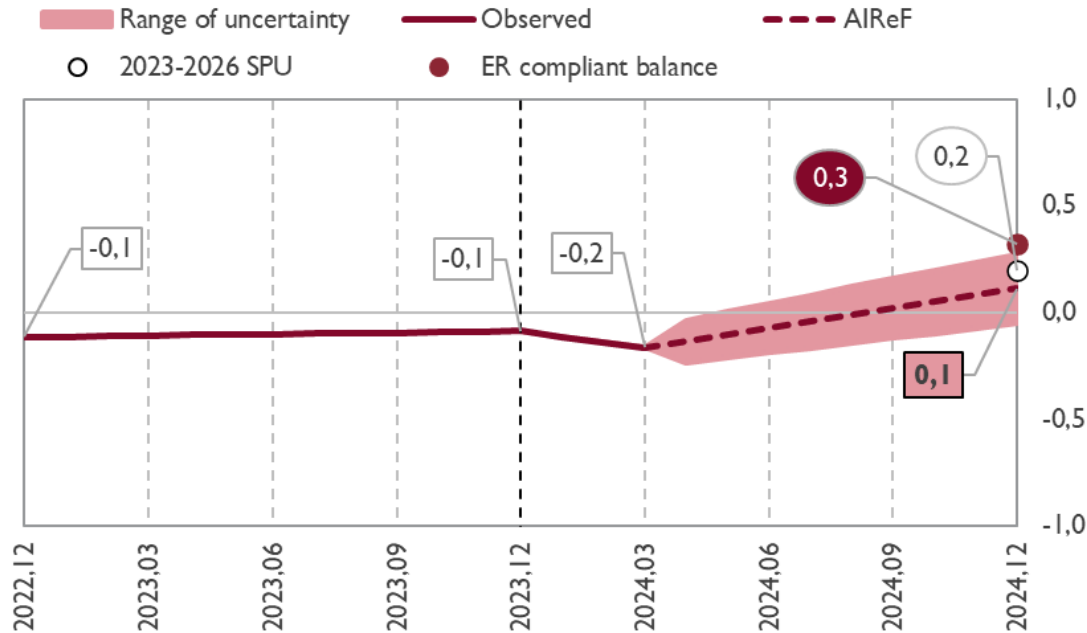
| ARs | Forecasts AIReF ER 2024 | |
|---------------------------------|-------------------------|----------------------|
| | Current | Rep. Initial Budgets |
| ANDALUSIA | 4.7% | 5.1% |
| ARAGON | 5.2% | 5.3% |
| ASTURIAS | 8.9% | 7.9% |
| BALEARIC ISLANDS | 11.2% | 8.2% |
| CANARY ISLANDS | 8.5% | 8.5% |
| CANTABRIA | 10.7% | 7.9% |
| CASTILE AND LEON | 6.0% | 5.5% |
| CASTILE-LA MANCHA | 6.5% | 5.9% |
| CATALONIA | 6.4% | 4.8% |
| EXTREMADURA | 7.8% | 9.0% |
| GALICIA | 9.0% | 8.1% |
| MADRID | 5.2% | 4.5% |
| MURCIA | 7.8% | 8.0% |
| NAVARRRE | 10.4% | 8.5% |
| BASQUE COUNTRY | 4.2% | 4.4% |
| RIOJA | 6.3% | 7.3% |
| VALENCIA | 7.5% | 5.9% |
| TOTAL AUTONOMOUS REGIONS | 6.7% | 5.7% |

Source: AIReF

- Fiscal balance forecasts worsen in nine ARs and improve in three, although the outlook remains positive:
 - Only two ARs, Valencia and Murcia, will close with deficits of more than 1 percentage point. Four with deficits of around half a percentage point or less.
 - The other ARs, in surplus or with balanced budgets
- The individual reports by AR are published and the information is updated in the [AR MONITOR TOOL](#)

LGs: AIReF maintains the forecast surplus at 0.1 points

AIREF FORECASTS LG FISCAL BALANCE (% GDP)



AIREF FORECASTS LG FISCAL BALANCE (% GDP)



- The local sub-sector would have a deficit outcome in 2024 very similar to that of 2023, after factoring out the two years' extraordinary revenue from the financing system
- AIReF still sees a risk of non-compliance with the expenditure rule in 2024, 7.3% compared with the reference of 2.6%

LGs: analysis of the group of large LGs confirms AIReF's estimates

| LOCAL GOVERNMENTS | EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023) | | | | | | AIReF Forecasts 2024 | | |
|----------------------------|--|------|------|------|----------------------|------|----------------------|----------------------|------------|
| | Budgetary stability | | | | Eligible expenditure | | Stability | Eligible expenditure | Debt ratio |
| | 2020 | 2021 | 2022 | 2023 | Growth 2020-2022 (*) | 2023 | | | |
| MADRID | + | + | - | + | 32% | 7% | + | 3.7% | 36% |
| BARCELONA | - | - | - | + | 28% | 8% | + | -0.1% | 37% |
| VALENCIA | + | + | + | + | 21% | 13% | + | 4.4% | 17% |
| SEVILLE | - | + | + | + | 10% | 6% | + | 2.6% | 25% |
| ZARAGOZA | - | + | + | + | 19% | 9% | + | 0.1% | 67% |
| MÁLAGA | + | + | + | + | 20% | 8% | + | -3.2% | 36% |
| MURCIA | + | + | - | - | 12% | 15% | + | -0.9% | 63% |
| PALMA | + | + | + | + | 24% | 2% | + | 5.8% | 37% |
| LAS PALMAS DE GRAN CANARIA | + | + | - | + | 13% | 7% | + | 5.3% | 0% |
| ALICANTE/ ALICANTE | + | + | + | + | 21% | 13% | + | 0.1% | 6% |
| BILBAO | - | + | + | - | 6% | 7% | + | 3.0% | 5% |
| CÓRDOBA | + | - | + | - | 23% | 23% | + | -8.5% | 51% |
| VALLADOLID | - | + | - | - | 26% | 8% | + | -5.2% | 49% |
| VIGO | + | + | + | + | 16% | 5% | + | 2.5% | 0% |
| L'HOSPITALET DE LLOBREGAT | - | + | + | + | 9% | 1% | + | 3.7% | 28% |
| GIJÓN / XIXÓN | - | - | - | + | 17% | 3% | + | 4.9% | 34% |
| VITORIA-GASTEIZ | - | + | + | - | n.a. | n.a. | + | 7.4% | 17% |

| LOCAL GOVERNMENTS | EVOLUTION OF THE SITUATION IN THE PERIOD OF SUSPENSION OF FISCAL RULES (2020-2023) | | | | | | AIReF Forecasts 2024 | | |
|--------------------------------|--|------|------|------|----------------------|------|----------------------|----------------------|------------|
| | Budgetary stability | | | | Eligible expenditure | | Stability | Eligible expenditure | Debt ratio |
| | 2020 | 2021 | 2022 | 2023 | Growth 2020-2022 (*) | 2023 | | | |
| PC BARCELONA | + | + | + | + | 0% | 27% | - | 18.5% | 0% |
| PC VALENCIA | + | + | + | + | 31% | 18% | + | -11.8% | 5% |
| PC SEVILLE | + | - | - | + | 129% | -24% | + | 18.7% | 1% |
| ISLAND GOV. OF TENERIFE | + | + | - | + | 76% | 20% | + | 7.4% | 14% |
| ISLAND GOV. OF MALLORCA | + | + | + | + | 38% | 24% | - | 7.7% | 16% |
| PROV. COUNC. OF ARABA/ÁLAVA | - | + | - | + | 11% | 5% | + | 2.5% | 69% |
| PROVINCIAL COUNCIL OF GIPUZKOA | - | + | + | + | 20% | 15% | + | 5.3% | 27% |
| PROVINCIAL COUNCIL OF BISCAY | - | + | + | - | 26% | 18% | + | -11.2% | 73% |

+ Surplus or forecast surplus
- Deficit or forecast deficit

Note: The background colours in the debt column represent the tranche of the debt ratio: green if <75%, yellow if between 75% and 110% and red if >110%.

(*) Cumulative growth of eligible expenditure from the level verified in the 2019 settlement.

| | |
|--|--|
| | Important limitations to the scope |
| | Improves in valuation: from deficit in Report on ML2023 to surplus |
| | Worsens: from surplus in Report on 2024 Budget to deficit |
| | Improves: from deficit in Report on 2024 Budget to surplus |

- Only the Provincial Council of Barcelona and the Island Council of Majorca are expected to post deficits
- Risk of non-compliance with the expenditure rule in 10 large LGs (with growth in eligible expenditure of more than 7% for the City Council of Vitoria-Gasteiz, the Provincial Councils of Barcelona and Seville, the Island Councils of Tenerife and Majorca)

LGs: risk rating and estimates 2024.

22 City Councils with sustainability challenges

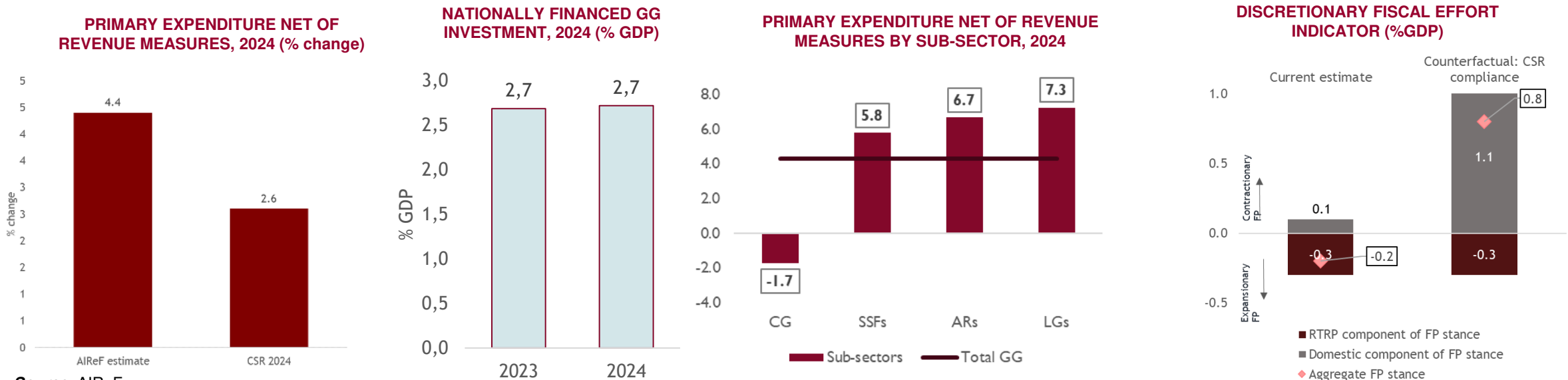
| RISK LEVEL | LOCAL GOVERNMENT | (Outstanding Debt+ Cash Surplus)/ Current revenue | APP | Adjusted non-financial balance/Current revenue | Adjusted net lending/Current revenue |
|------------|------------------------------|---|-----|--|--------------------------------------|
| Critical | Jaén | 522% | 608 | -10% | -10% |
| Critical | Jerez de la Frontera | 461% | 57 | -5% | 1% |
| Critical | Parla | 724% | 274 | -16% | -19% |
| Very High | Algeciras | 213% | 56 | 0% | 2% |
| Very High | Barrios (Los) | 691% | 16 | 15% | 15% |
| Very High | Navalcarnero | 348% | 115 | 3% | 3% |
| High | Alcorcón | 70% | 8 | 18% | 19% |
| High | Arcos de la Frontera | 221% | 199 | 4% | 3% |
| High | Barbate | 301% | 622 | 17% | -7% |
| High | Gandía | 285% | 18 | 8% | 8% |
| High | Palacios y Villafranca (Los) | 159% | 305 | 5% | 5% |
| High | Totana | 356% | 55 | 8% | 10% |
| Moderate | Alboraia/Alboraya | 402% | 12 | 14% | 14% |
| Moderate | Aranjuez | 243% | 216 | 17% | 17% |
| Moderate | Arganda del Rey | 179% | 109 | 2% | 7% |
| Moderate | Ayamonte | n.a. | 41 | n.a. | n.a. |
| Moderate | Línea de la Concepción | 194% | 16 | 8% | 3% |
| Low | Puerto Real | 114% | 51 | 17% | 19% |
| Low | San Andrés del Rabanedo | 112% | 19 | 23% | 23% |

Source: AIReF: AIReF

- AIReF downgrades the risk rating of **Alboraia/Alboraya and Algeciras** due to the deterioration of their liability position and their ability to correct
- AIReF upgrades **La Línea de la Concepción's** rating as it has consolidated the generation of improved fiscal balances
- **San Fernando de Henares and Caravaca de la Cruz are removed from the risk analysis** as they substantially improve their net position
- Due to its negative impact on their ability to correct, the increase in eligible expenditure for the City Councils of Alcorcón (21%), Jaén (16%) and San Andrés del Rabanedo (9%) stands out.
- **Failure by Maracena to fulfil its duty to cooperate, preventing the determination of its level of risk**

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

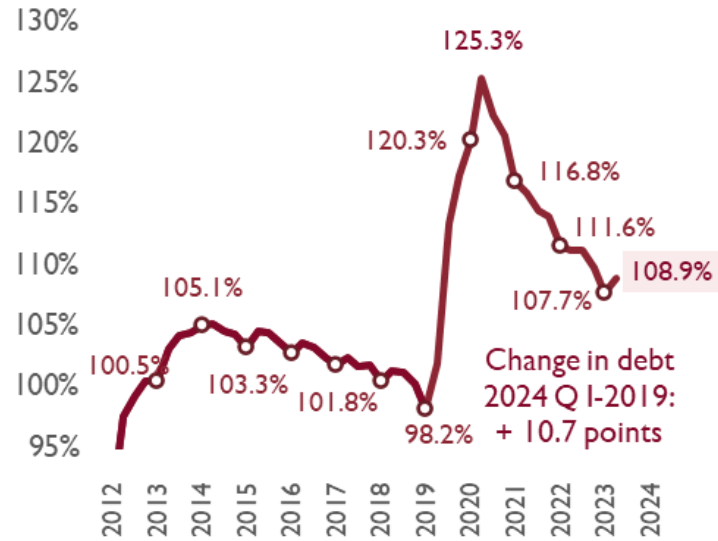
- In 2024, the CSR recommends that Spain's increase in nationally-financed primary expenditure net of revenue measures should not exceed 2.6% this year
- For the GG sector, AIReF forecasts growth in primary expenditure net of revenue measures of 4.3% this year, which is 0.7 percentage points of GDP higher than the recommendation. Meeting the recommendation would require additional deficit reduction measures amounting to €10.7 bn. All GG sub-sectors, with the exception of the CG, show growth in net primary expenditure above the CSR benchmark
- In addition, Spain is recommended to sustain nationally-financed public investment, which would be met by maintaining both its rate of change and its share of GDP
- The national fiscal policy stance will be broadly neutral in 2024. However, the RTRP component will provide a boost that results, in aggregate, in an expansionary stance for the fiscal policy as a whole



Source: AIReF

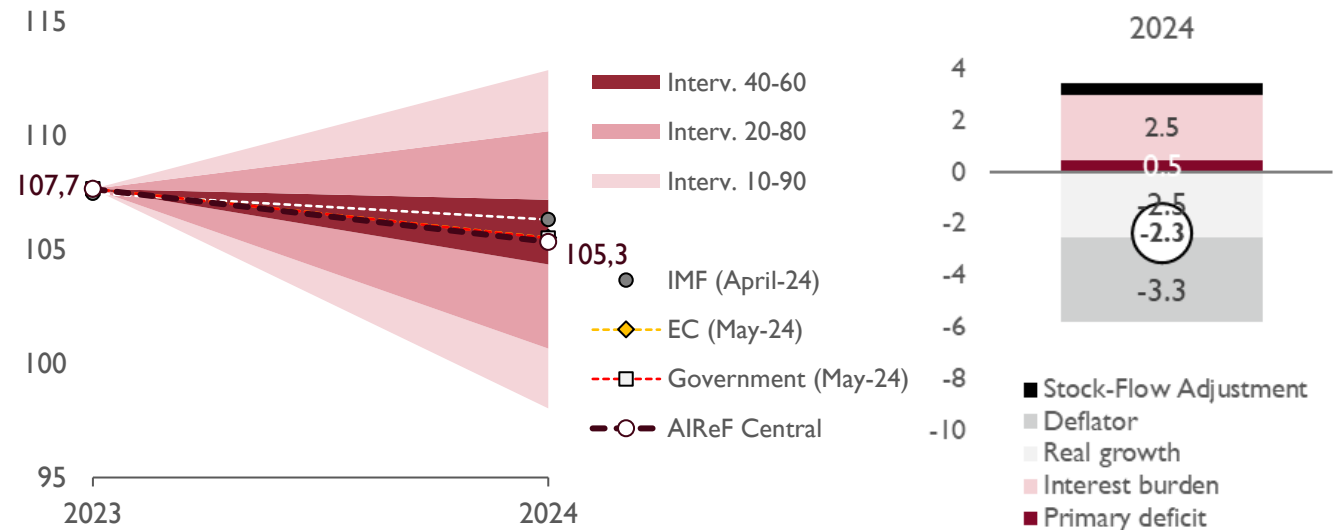
Debt evolution and projection in 2024

DEBT EVOLUTION (% OF GDP)



Source: Bank of Spain, INE and AIReF

PROJECTED DEBT (% GDP) AND CONTRIBUTIONS TO CHANGE (GDP POINTS)



Source: AIReF: AIReF

- The Spanish debt-to-GDP ratio stood at 108.9% in the first quarter of 2024, an increase of 1.2 percentage points from the end of 2023 and 10.7 points higher than the pre-pandemic level
- AIReF's macro-fiscal forecasts project for this year a decrease in the debt-to-GDP ratio of 2.3 points over the level recorded in 2023, which would put the ratio at 105.3% at the end of 2024 (Government, 105.5%)
- The reduction in the ratio continues to be underpinned by nominal GDP growth, where the deflator continues to make a significant contribution



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