EUROPEAN
COMMISSION

Brussels, 22.11.2022
C(2022) 9506 final

COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of Spain

{SWD(2022) 950 final}

(Only the Spanish text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary outlook of the general government and its subsectors for the forthcoming year.

3. The general escape clause of the Stability and Growth Pact has been active since March 2020.[1] On 23 May 2022, the Commission indicated, in its Communication on the European Semester,[2] that heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023 and it considered that the conditions to deactivate it as of 2024 were met. The continued activation of the general escape clause in 2023 will provide the space for national fiscal policy to react promptly when needed, while ensuring a smooth transition from the broad-based support to the economy during the pandemic times towards an increasing focus on temporary and targeted measures and fiscal prudence required to ensure medium-term sustainability.[3]

4. The Recovery and Resilience Facility, as established by Regulation (EU) 2021/241, provides financial support for the implementation of reforms and investment, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the RRF is supporting a fair and inclusive recovery in the EU in line with the European Pillar of Social Rights . It also boosts growth and job creation in the medium and long term, and thereby strengthens sustainable public finances. According to the Commission

[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, COM(2020) 123 final of 20 March 2020.

[2] COM(2022) 600 final.

[3] On 17 June 2022, the Council agreed its recommendations on the 2022 National Reform Programmes and the opinions on the 2022 Stability and Convergence Programmes, which takes into account the continuation of the Stability and Growth Pact's general escape clause into 2023. (See: https://www.consilium.europa.eu/en/meetings/ecofin/2022/06/17/)

proposal of 18 May 2022,[4] the Facility should also aim at increasing the resilience of the Union energy system by reducing dependence on fossil fuels and diversifying energy supplies at Union level ('REPowerEU objectives').

5. On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes,[5] the Council recalled that the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth.[6] Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is consistent with the green and digital transitions, energy security and ensuring social and economic resilience, attention is also paid to the evolution of nationally financed[7] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

6. The shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on measures containing the social and economic impact of high energy costs, on security and defence and on humanitarian assistance to the displaced persons from Ukraine is weighing on public finances. The specific nature of the macroeconomic shock imparted by Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs, call for a careful design of fiscal policy in 2023.. A broad-based fiscal impulse to the economy in 2023 does not appear warranted. The focus should instead be on protecting the vulnerable, allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine, while maintaining the agility to adjust, if needed. Fiscal policy should combine higher investment with controlling the growth in nationally-financed primary current expenditure. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. Fiscal plans for 2023 should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to GDP levels that have increased further due to the pandemic as well as reforms and investment challenges associated with the twin transition, energy security and social and economic resilience.

7. Russia's war of aggression against Ukraine has resulted in substantial additional increases in and volatility of the prices of energy. The price shock in imported energy

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4 COM(2022) 231 final.

5 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Spain and delivering a Council opinion on the 2022 Stability Programme of Spain, OJ C 334, 1.9.2022, p. 70.

6 The estimates on the fiscal stance and its components in this Opinion are Commission estimates based on the assumptions underlying the Commission 2022 autumn forecast. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

7 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

implies a substantial terms of trade loss to Member States' economies. In parallel, the exceptionally high temperatures in summer 2022 pushed up demand for electricity, while, at the same time, energy production from certain technologies has been significantly below historical levels due to technical and weather-dependant circumstances. All Member States have been negatively affected by the current energy crisis, albeit to a different extent, calling for a rapid and coordinated response.

8. Given that budgetary resources are limited and need to be used in the most efficient way, in order to manage a durable and equitable adjustment across society, the quality and design of the policy response is highly important. Therefore, also in line with the Council Regulation on an emergency intervention to address high energy prices adopted on 6 October 2022, measures should focus on providing temporary support, targeted to households and firms most vulnerable to energy price increases, while maintaining the right incentives to reduce energy demand and increase energy efficiency, in line with the European Green Deal[8]. Policies should also help reducing the energy consumption and develop the energy autonomy of the Union.

CONSIDERATIONS CONCERNING SPAIN

9. On 15 October 2022, Spain submitted the Draft Budgetary Plan for 2023. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

10. On 12 July 2022, the Council recommended that Spain[9] take action to ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[10], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Spain should stand ready to adjust current spending to the evolving situation. Spain was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, Spain should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.

11. On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty.[11] This report assessed the budgetary situation in Spain as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

12. According to the Commission 2022 autumn forecast, the Spanish economy is expected to grow by 4.5% in 2022 and by 1.0% in 2023, while inflation is forecast at

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8 Communication from the Commission, the European Green Deal, COM(2019) 640 final.

9 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Spain and delivering a Council opinion on the 2022 Stability Programme of Spain, OJ C 334, 1.9.2022, p. 70.

10 Based on the Commission autumn 2022 forecast, the medium-term (10-year average) potential output growth of Spain is estimated at 5.0% in nominal terms. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

11 Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, COM(2022) 630 final of 23 May 2022.

8.5% in 2022 and 4.8% in 2023. As for 2022, the Draft Budgetary Plan depicts an outlook comparable with the Commission's forecast (real GDP growth of 4.4%) as the recovery of tourism underpinned a strong contribution to growth from external demand throughout the year. In 2023, both sets of projections expect domestic demand to be the main driver of growth. However, the Draft Budgetary Plan projects a markedly higher GDP expansion in 2023, by 2.1%, i.e. more than 1 pp. above the Commission's projections, chiefly resulting from a greater contribution from private consumption and investment than in the Commission's forecast. The Draft Budgetary Plan, while not providing any explicit forecast for HICP inflation, estimates the private consumption deflator to increase by 7.7% and 4.1% in 2022 and 2023, respectively[12]. The Commission's forecast for the HICP and the private consumption deflator projects higher levels in both years (8.5% and 4.8%, respectively). On the labour market, a steep drop in the unemployment rate is projected in the Draft Budgetary Plan in 2023, whilst the Commission's forecast estimate it to remain stable.

Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in 2022 and markedly favourable in 2023.

Spain complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

13. The Draft Budgetary Plan assumes that expenditure amounting to 2.0% of GDP in 2022 and 1.7% in 2023 will be financed by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt of Spain. The plan also assumes expenditure funded through loans from the Recovery and Resilience Facility, though such loans have not been requested yet, with a direct impact on the general government deficit and debt amounting to 0.3% of GDP in 2023. In 2022, the Draft Budgetary Plan projects a higher absorption of Recovery and Resilience Facility grants than the Commission's forecast (0.9% of GDP), as the former is based on expenditure paid at central government level, including transfers to other levels of administration, while the latter is based on expenditure actually implemented at general government level. According to the data of the Public Procurement Platform and the National Database of Subsidies, the Commission estimates that general government expenditure financed by Recovery and Resilience Facility grants during the first nine months of 2022 amounted to 0.4% of GDP. In 2023, the Commission 2022 autumn forecast includes a slightly lower amount of general government expenditures financed by Recovery and Resilience Facility grants (1.6% of GDP) than in the Draft Budgetary Plan. This figure mainly reflects the significant expenditure committed at central government level in 2021 and 2022 that is expected to be spent at general government level in 2023.

14. In its 2023 Draft Budgetary Plan, Spain's general government deficit is planned to decrease from 5.0% of GDP in 2022 to 3.9% of GDP in 2023, mainly due to sustained strong tax revenues that are expected to grow above nominal GDP growth and also due to the phasing out of most energy measures. The general government

[12] For the purpose of this assessment, the Commission considers the deflator on private consumption contained in the Draft Budgetary Plan to be a close estimate of the headline inflation rate projected by Spain

debt ratio is planned to decrease from 115.2% of GDP in 2022 to 112.4% of GDP in 2023. These projections are in line with the Commission 2022 autumn forecast.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including macroeconomic risks related to the Russian invasion of Ukraine, energy price hikes and continued supply chain disturbances.

15. The government deficit is impacted by the measures adopted to counter the economic and social impact of the exceptional increases in energy prices, which aggravated over the course of the summer.[13] The budgetary cost of these measures is projected in the Commission 2022 autumn forecast to amount to 1.6% of GDP in 2022 and 0.2% of GDP in 2023. They consist of measures reducing government revenue, namely a reduction of VAT rate on electricity to 5%, a reduction of the special tax on electricity to 0.5%, a temporary exemption from the tax on the value of electricity production and the reduction of VAT on gas to 5%; and increasing expenditure, such as a 20-cent-per-litre fuel rebate and several subsidies to low-income households, including the social heat voucher, and other support measures to companies belonging to the economic sectors most affected by high energy prices, such as direct payments to gas- and electro-intensive companies. On 18 October, one day after the submission of the Draft Budgetary Plan, the government approved another set of measures, that includes subsidies through the natural gas bill, with an estimated cost of 0.3% of GDP in 2022. The cost of these measures is partly offset by new taxes on windfall profits of energy producers, which are projected to bring budgetary revenues of 0.1% of GDP in 2023. Taking these revenues into account, the net budgetary cost of all energy-related measures in the Commission autumn 2022 forecast is estimated at 1.6% of GDP in 2022 and, as most measures have been legislated as temporary and expire by the end of 2022, 0.0% of GDP in 2023.[14] Most measures do not appear targeted to vulnerable households or firms[15], and do not fully preserve the price signal to reduce energy demand and increase energy efficiency[16]. As a result, the amount of temporary and targeted support to households and firms most vulnerable to energy price hikes, that can be taken into account in the assessment of compliance with the fiscal country-specific recommendation for 2023, is estimated in the Commission 2022 autumn forecast at 0.5% of GDP in 2022 and 0.0% of GDP in 2023.

Additionally, the Draft Budgetary Plan incorporates a temporary levy on the net interest income of credit institutions that is projected to bring budgetary revenues of 0.1% of GDP in 2023.

16. Based on the Commission's 2022 autumn forecast and including the information incorporated in Spain's 2023 Draft Budgetary Plan, gross fixed capital formation is expected to amount to 2.8% of GDP in 2022 and 2.9% of GDP in 2023, compared to 2.7% of GDP recorded in 2021. This includes investment for the green and digital

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13 Deficit developments in 2023 are also affected by the complete phasing out of COVID-19 emergency temporary measures, which are estimated in the Commission autumn 2022 forecast at 0.4% of GDP in 2022.

14 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

15 Targeted measures amount to 0.5% of GDP in 2022 and 0.0% of GDP in 2023, while untargeted measures amount to 1.1% of GDP in 2022 and 0.2% of GDP in 2023.

16 Income measures amount to 0.2% of GDP in 2022 and 0.0% of GDP in 2023, while price measures amount to 1.4% of GDP in 2022 and 0.2% of GDP in 2023.

transitions and for energy security, such as the reinforced industrial policy "España 2030", the Plan for housing rehabilitation and urban regeneration or the impulse given to cybersecurity and 5G connectivity, which are funded by the Recovery and Resilience Facility and other EU funds.

17. In 2023, the fiscal stance is projected in the Commission 2022 autumn forecast to be contractionary (+1.0% of GDP[17]). This follows an expansionary fiscal stance in 2022 (-3.4% of GDP).

The growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1.4 percentage points to the fiscal stance.[18] This includes the reduced impact from the energy measures by 1.4% of GDP[19], with the temporary and targeted support measures to households and firms most vulnerable to energy price hikes accounting for 0.5% of GDP of this reduction.

The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.3 percentage points of GDP in 2023 compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2023.[20]

18. The Draft Budgetary Plan does not include budgetary projections beyond 2023.

19. In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the growth of nationally-financed current expenditure is projected to be below the medium-term potential output growth. Therefore, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Spain plans to finance additional investment through the RRF and other EU funds, and it also preserves nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security.

Overall, the Commission is of the opinion that the Draft Budgetary Plan for Spain is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022.

While Spain deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

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[17] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy. The fiscal stance includes the fiscal impulse funded by the Union.

[18] This follows an expansionary contribution from this component of 2.6 percentage points in 2022.

[19] The budgetary impact of targeted price and income measures is projected to increase by 0.3% and decrease by 0.3% of GDP respectively, while the budgetary impact of untargeted price and income measures is projected to increase by 0.2% and to decrease by 0.2% of GDP respectively.

[20] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.3 percentage points of GDP, due to the gradual adjustment to the pre-pandemic levels.

A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

Done at Brussels, 22.11.2022

For the Commission
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