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COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Spain

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(Only the Spanish text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013[1] lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order 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, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 8 March 2023, the Commission adopted a Communication[2] providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.

4. On 26 April 2023, the Commission presented three legislative proposals[3] to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023[4] and on 27 October 2023[5], the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to apply. The fiscal component of the Spring 2023 country-specific recommendations included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

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1 Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

2 Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

3 Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

4 Council Conclusions on 'Orientations for a reform of the EU economic governance framework' of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

5 European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23.

5. As announced in its policy guidance for 2024[6], the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.

6. The Recovery and Resilience Facility[7] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives')[8]. The Facility will strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes 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 Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING SPAIN

8. On 16 October 2023, Spain submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Spain of 14 July 2023[9] the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

The Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies; therefore, the figures shown for the 2024 government balance and other budgetary variables do not constitute effective budgetary targets.

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6 Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

7 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, (OJ L 57, 18.2.2021, p. 17).

8 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

9 Council Recommendation on the 2023 National Reform Programme of Spain and delivering a Council opinion on the 2023 Stability Programme of Spain, OJ C 312, 1.9.2023, p. 77-85.

9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU[10]. That report assessed the budgetary situation of Spain, as its general government deficit in 2022 exceeded the Treaty reference value of 3% of GDP. The report concluded that the deficit criterion was not fulfilled.

10. According to the Draft Budgetary Plan, Spain's real GDP is projected to grow by 2.0% in 2024 (2.4% in 2023), while inflation, expressed through the private consumption deflator, is forecast at 3.9% in 2024 (4.4% in 2023). In turn, according to the Commission 2023 autumn forecast, Spain's real GDP is projected to grow by 1.7% in 2024 (2.4% in 2023), while HICP inflation is forecast at 3.4% in 2024 (3.6% in 2023).

The main differences between the two sets of growth projections reflect the stronger contribution from private consumption and investment projected by the government in 2024. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's 2023 autumn forecast for 2023 and 2024.

In order to ensure compliance with the requirement of Article 4(4) of Regulation (EU) No 473/2013,the Draft Budgetary Plan to be transmitted to the national parliament would need to be based on and independently endorsed macroeconomic forecasts.

11. According to the Draft Budgetary Plan, Spain's general government deficit is projected to decrease to 3.0% of GDP in 2024 (from 3.9% in 2023). This decrease is mainly driven by the phasing out of energy support measures, such as the reduction of VAT on gas and electricity, direct payments to the primary and transport sectors and subsidies to households for the natural gas bill. The general government debt-to-GDP ratio is set to decrease to 106.3% at the end of 2024 (from 108.1% at the end of 2023).

In turn, according to the Commission 2023 autumn forecast, Spain's general government deficit is projected to decrease to 3.2% of GDP in 2024 (from 4.1% in 2023), while the general government debt-to-GDP ratio is set to decrease to 106.5% at the end of 2024 (from 107.5% at the end of 2023).

12. Based on the Commission's estimates, the fiscal stance[11] is projected to be contractionary at 0.6% of GDP in 2024, following an expansionary fiscal stance of 0.3% in 2023.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.4% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 1.6% of GDP in 2023. This is not in line with the assumptions underlying the Commission 2023 autumn forecast since the Draft Budgetary Plan is based on expenditure committed at central government level, including transfers to other levels of administration, while the Commission forecast is based on expenditure actually implemented at general government level, resulting in a different implementation profile. Consequently, the Commission forecast

10 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM(2023) 631 final.

11 The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

assumes lower expenditure financed by grants from the Recovery and Resilience Facility in 2023 (1.0% of GDP) and higher expenditure financed by Recovery and Resilience Facility grants in 2024 (1.6% of GDP). Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Spain. The Draft Budgetary Plan also assumes expenditure backed by loans from the Recovery and Resilience Facility, amounting to 1.5% of GDP in 2024, compared with 0.4% of GDP in 2023.

14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices, except the levy on energy companies, are planned to be wound down by the end of 2023.

15. On 14 July 2023, the Council recommended that Spain ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure[12] in 2024 to not more than 2.6%.

According to the Commission 2023 autumn forecast, Spain's net nationally financed primary expenditure is projected to increase by 2.1% in 2024, which is below the recommended maximum growth rate. This is in line with what was recommended by the Council.

16. Moreover, the Council recommended that Spain take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Spain should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission 2023 autumn forecast, the net budgetary cost[13] of energy support measures is projected at 0.9% of GDP in 2023, -0.1% in 2024 and 0.0% in 2025. The levy on energy companies is assumed to remain in force in 2024. If the related savings were used to reduce the government deficit, the wind down of energy support measures on their own would imply a fiscal adjustment of 1.0% of GDP in 2024, whereas net nationally financed primary expenditure[14] provides a contractionary contribution to the fiscal stance of 1.1% of GDP in that year. The energy support measures are projected to be wound down as soon as possible in 2023 and 2024 and the related savings are projected to be fully used to reduce the government deficit. This is in line with what was recommended by the Council.

17. In addition, the Council recommended that Spain preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions.

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[12] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

[13] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[14] This contribution is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

According to the Commission 2023 autumn forecast, nationally financed public investment is projected to decrease to 2.0% of GDP in 2024 (from 2.1% of GDP in 2023). This is due to the timing of the programming periods of the EU structural funds and the related nationally financed contributions. Investments under the new programming period in 2024 are expected to be lower than investments occurring in 2023 under the previous programming period. This leads to a decline in related investment expenditure, including in the nationally co-financed part. The fiscal adjustment in 2024 is not primarily due to the marginal decrease in investment. Taking into account these factors, public investment in 2024 is assessed as respecting the Council recommendations. In turn, expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 2.3% of GDP in 2024 (from 1.6% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Spain continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

The Draft Budgetary Plan does not include budgetary projections beyond 2024.

19. According to the Commission's forecast, the growth of net nationally financed primary expenditure is projected to respect the recommended maximum growth rate in 2024.

Moreover, according to the Commission 2023 autumn forecast, and taking into consideration the information included in Spain's Draft Budgetary Plan, the emergency energy support measures are expected to be wound down by the end of 2023. The related savings are projected to be used to reduce the general government deficit in 2024.

Furthermore, Spain is expected to preserve nationally financed public investment. Spain should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the updated Draft Budgetary Plan of Spain is in line with the Council Recommendation of 14 July 2023.

However, the Commission projects Spain's headline budget deficit at 3.2% of GDP in 2024, above the Treaty reference value of 3% of GDP, and the government debt ratio at 106.5% in 2024, above the Treaty reference value of 60% of GDP, and 10 percentage points of GDP below the ratio at end 2021.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

Spain is invited to submit to the Commission and to the Eurogroup an updated Draft Budgetary Plan as soon as a new government takes office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament.

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	**DBP**	**COM**	**DBP**	**COM**
Real GDP (% change)	5.8	2.4	2.4	2.0	1.7
HICP inflation (%; annual average)	8.3	n.a	3.6	n.a	3.4
General government balance (% of GDP)	-4.7	-3.9	-4.1	-3.0	-3.2
Primary balance (% of GDP)	-2.4	-1.4	-1.6	-0.4	-0.6
General government gross debt (% of GDP; at end-year)	111.6	108.1	107.5	103.3	106.5
	COM	**COM**		**COM**	
Fiscal stance (*) (% of GDP)	-2.5	-0.3		0.6	
Fiscal adjustment (**) (% of GDP)	-2.6	0.3		1.1	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	1.4	-0.6		-1.0	
Growth in net nationally financed primary expenditure (% change) (A)				2.1	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				2.6	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				0.5	
Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation (*****) (% of GDP)				-0.2	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(****) According to the Council Recommendation 'on the 2023 National Reform Programme of Spain and delivering a Council opinion on the 2023 Stability Programme of Spain', (OJ C 312, 1.9.2023, p. 85).

(*****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

'DBP' 2024 Draft Budgetary Plan, 'COM' Commission 2023 autumn forecast.

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