

2023 DRAFT BUDGETARY PLAN

15-10-2022

1. MCROECONOMIC SCENARIO 2022-2023 (endorsed by AIReF)

Chained linked series, Year 2015=100, unless otherwise stated

	ESA Code	2021 Level	2021 % Variation	2022 % Variation	2023 % Variation
1. Real GDP	B1*g	103.6	5.5	4.4	2.1
2. Potential GDP		1178	0.3	1.0	1.0
contributions:					
Employment			-0.1	0.4	0.2
Capital			0.3	0.3	0.5
Total factor productivity			0.1	0.3	0.3
3. Nominal GDP (billions of euros)	B1*g	1207	7.9	8.6	6.0
Components of real GDP					
4. Private domestic final consumption expenditure	P.3	101.1	6.0	1.2	1.3
5. Final consumption expenditure of General Governments	P.3	113.2	2.9	-1.0	0.4
6. Gross fixed capital formation	P.51	110.7	0.9	5.1	7.9
7. Inventory variation (% of GDP)	P.52 + P.53		1.0	0.0	0.0
8. Export of goods and services	P.6	105.9	14.4	17.9	7.3
9. Import of goods and services	P.7	111.9	13.9	9.9	8.2
Contributions to real GDP growth					
10. Final national demand			5.2	1.5	2.4
11. Inventory variation	P.52 + P.53		1.0	0.0	0.0
12. External balance	B.11		0.3	2.9	-0.3

Sources: National Statistics Institute and Ministry of Economic Affairs and Digital Transformation

- The key differentiating factors of the current Spanish economic cycle are:
- the extraordinary performance of the labour market,
 - the strong investment in capital goods and intellectual property, boosted by the Recovery, Transformation and Resilience Plan,
 - the good tone of the external sector and
 - the improvement of public accounts.

1.1 The dynamism of the labour market: new labour market affiliates and the positive impact of the labour reform

The quick turnaround of employment after COVID, as well as the persistent dynamism in recent months, point to a structural change in the labour market.

The measures approved during the COVID crisis, in particular the ERTE furloughs and the extraordinary benefit for the self-employed, in addition to the Minimum Living Income, have promoted greater security in the labour market, which is favouring the emergence of workers who were in the underground economy.

This positive impact comes on top of the Recovery Plan, the investments and reforms which are boosting job creation, changing the sectoral composition of employment and reducing temporary employment.

	2021	2021	2022	2023
	Level	% Variation		
1. Total working population (Full-Time Equivalent Employment. Millions)	18.4	6.6	2.9	0.6
2. Unemployment rate (% labour force, LFS)		14.8	12.8	12.2
3. Productivity per worker FTEE (thousands of euros)	60.8	-1.0	1.5	1.5
4. Remuneration of employees (billions of euros)	585.0	5.3	5.7	4.3
5. Remuneration per employee FTEE (thousands of euros)	37.4	-0.7	2.1	3.8

(*) Data in National Accounting terms, except unemployment rate

Sources: National Statistics Institute and Ministry of Economic Affairs and Digital Transformation

1.2 Economic policy response

The government has addressed the worsening inflationary process, following the Russian invasion of Ukraine, with several packages of measures that have mobilised more than 2% of GDP and would have reduced the year-on-year CPI rate by more than 3.5 points by June 2022.

- **On energy**, a number of temporary measures have been extended until 31 December 2022. Highlights include the 20 cents per litre fuel rebate, the reduction of the Special Tax on Electricity, the suspension of the Tax on the Value of Electricity Production and the reduction of the VAT on electricity, which has been extended with a further reduction in the rate from 10% to 5%.
- The **adoption of the "gas cap"** through the Iberian mechanism in the wholesale electricity market has made it possible to reduce the wholesale price well below the levels of other European countries and lower the price for consumers, with significant cost savings all while protecting companies and households from possible further increases in gas prices.
- In the **area of social policy**, new measures targeting the most vulnerable groups have been approved. In addition to the extension of the temporary 15% increase in the Minimum Living Income, which will also apply to non-contributory pensions until 31 December, a 200 euro grant has been approved to benefit lower-income workers and the self-employed. In addition, the coverage of the electricity voucher has been extended by 600,000 families and the limit of the 15% increase in the Last Resort Rate formula for gas has been maintained.

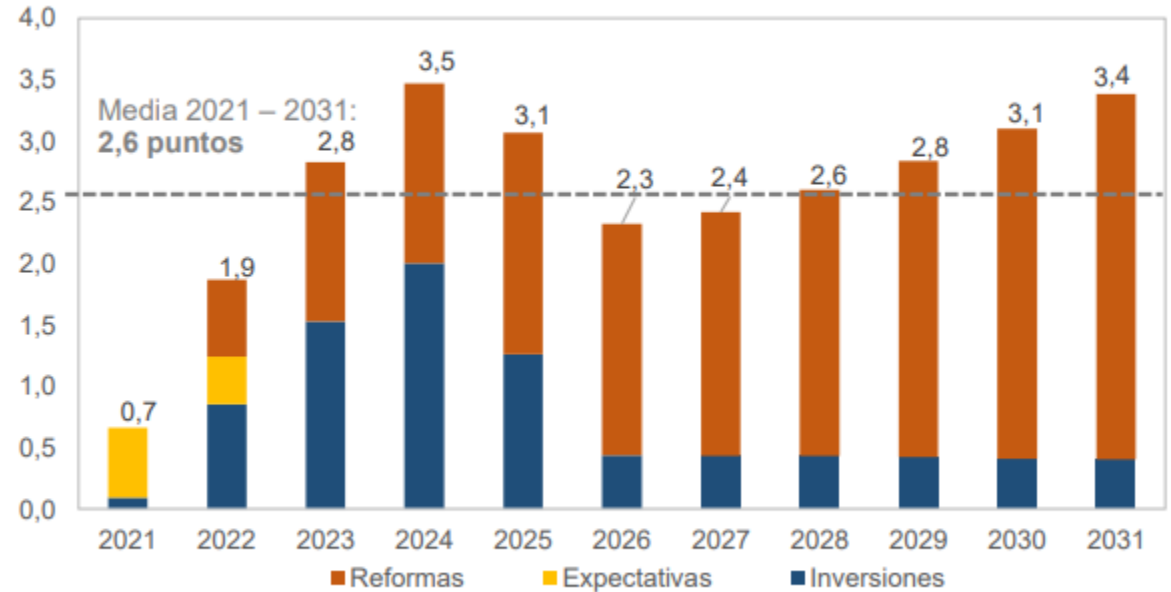
1.2 Economic policy response

- In **terms of transport**, reductions have been approved for transport passes, making suburban and medium-distance transport managed by the State 100% free with a 30% discount on regional and local public transport services. This aid will promote public transport and help with the policy of reducing greenhouse gas emissions.
- Regarding **measures for enterprises**, aid has been approved for the most vulnerable sectors. The possibility of deferring social security payments at a reduced interest rate (0.5%) has been extended. Direct aid has also been approved for companies in particularly exposed sectors, such as electricity and gas intensive industry, transport, agriculture, livestock and fisheries. The gas-intensive cogeneration industry has been included in the Iberian mechanism in order to strengthen its solvency and also to reduce demand and increase supply in the wholesale electricity market.
- In addition, a **temporary levy on the extraordinary revenues of energy companies and banks and a Tax on Large fortunes** has been put in place to help finance measures to support households and businesses.

1.3 Impact of the Recovery, Transformation and Resilience Plan

The Recovery Plan will raise the level of GDP by an average of **2.6 GDP points over a decade**. The NGEU programme is a far-reaching innovation in European economic policy, the application of which in Spain through the implementation of the Recovery Plan has an economic impact with expectations, investments and structural reforms.

The transformational vocation of the Recovery Plan will allow for an average increase in the level of GDP of around 2.6 points, which translates to between 30 and 40 billion euros over the 2021-2031 period. In the long term, from 2032 onwards, the Recovery Plan will have added 3.4 GDP points structurally despite the withdrawal of stimulus measures.



Fuente: Elaboración propia

2. ORIENTATION OF FISCAL POLICY

On 23 May, the European Commission announced the extension of the safeguard clause in the Stability and Growth Pact until 2023. Consequently, following the guidelines coming from European institutions, **Spain has again activated in 2023 the escape clause** foreseen in our national regulations, which means a temporary suspension of the fiscal rules, as was already done in 2021 and 2022.

However, the government guarantees its firm commitment to budgetary stability for the 2022-2025 period. This is why the Stability Programme, submitted to Brussels on 30 April, included a roadmap for gradual reduction of the public deficit, which, at the same time, supports budgetary sustainability in the medium term, reaching a deficit of less than 3% of GDP in 2025.

2023 Projections (% GDP)

Sub-sectors	2022	2023
Central Government	-3.5	-3.3
Autonomous Communities	-1.0	-0.3
Local Authorities	0.1	0.1
Social Security	-0.5	-0.5
Total Public Administrations	-5.0	-3.9

Source: Ministry of Finance and Civil Service

Following the specific recommendations from the Council (CSR) ensures prudent fiscal policy.

Amounts associated with the Recovery and Resilience Mechanism are not included as these flows have no impact on the government deficit due to the principle of neutrality approved by Eurostat.

TWO SCENARIOS

SCENARIO 1: 2023
BUDGET

Includes:

- Revenue and expenditure measures included in the 2023 General State Budget
- Regional government revenue and expenditure measures

SCENARIO 2: An
updated revenue
forecast

The use of the potential tax margin to:

extend and adopt the most appropriate measures to **protect the families, workers and businesses** most affected by the energy crisis

The government guarantees its firm commitment to budgetary stability for the 2022-2025 period, without ever abandoning fiscal responsibility

2022-2023 revenue and expenditure projections for all government levels

	ESA Code	2021	SCENARIO 1 General State Budget		SCENARIO 2: an updated revenue forecast	
			2022	2023	2022	2023
1. Total revenue	TR	43.7	42.1	42.3	42.9	43.0
of which						
1.1. Taxes on production and imports	D.2	12.2	12.2	12.2	12.6	12.3
1.2. Current taxes on income and wealth, etc.	D.5	11.9	11.8	12.2	12.2	12.8
1.3. Taxes on capital	D.91	0.5	0.5	0.4	0.5	0.5
1.4. Social contributions	D.61	14.2	13.6	13.7	13.6	13.7
1.5. All other resources		5.0	4.0	3.8	4.0	3.8
p.m.: Tax Burden (D.2+D.5+D.61+D.91)		39.0	38.3	38.9	39.2	39.5
2. Total expenditure	TE	50.6	47.1	46.2	47.9	46.9
of which						
2.1. Remuneration of employees	D.1	12.2	11.6	11.4	11.8	11.4
2.2. Intermediate consumption	P.2	5.9	5.7	5.6	5.7	5.6
2.3. Social transfers	D.62, D.63	21.8	20.6	20.8	20.7	21.1
2.4. Interest	D.41	2.2	2.2	2.4	2.2	2.4
2.5. Subsidies	D.3	1.5	1.8	1.2	2.2	1.4
2.6 Gross capital formation	P.5	2.7	2.5	2.6	2.5	2.6
2.7. Capital transfers	D.9	2.1	0.9	0.6	0.9	0.6
2.8. Others		2.1	1.9	1.7	1.9	1.7

COMPARISON WITH EUROPEAN COMMISSION FORECASTS

(As % GDP)

	2022		2023	
	Spain	European Commission	Spain	European Commission
Total revenue	42.1%	43.6%	42.3%	42.6%
Total expenditure	47.1%	48.4%	46.2%	47.0%
Public deficit	-5.0%	-4.9%	-3.9%	-4.4%

Source: Ministry of Finance and Civil Service, European Commission Spring forecasts

The forecasts have been made against a background of high uncertainty, currently marked by geopolitical tensions, the energy crisis and inflationary pressures.

STRUCTURAL BALANCE

% GDP	ESA code	2021	2022	2023
General Government balance as a % of GDP				
1. Total Public Administrations	S.13	-6.8	-5.0	-3.9
Total Public Administrations (S.13) (% GDP, unless otherwise stated:)				
6. Interest	D.41	2.2	2.2	2.4
7. Primary balance		-4.6	-2.8	-1.6
8. One-off measures and other temporary measures (*)		-0.3	-0.2	0
of which financial support		-0.1	-0.1	0
9. Real GDP (% variation)		5.5	4.4	2.1
10. Potential GDP (% variation)		0.3	1	1
contributions:				
Employment		-0.1	0.4	0.2
Capital		0.3	0.3	0.5
Total factor productivity		0.1	0.3	0.3
11. Output gap		-5.2	-2	-0.9
12. Cyclical balance		-3.3	-1.2	-0.5
13. Adjusted cyclical balance (1-12)		-3.5	-3.8	-3.4
14. Adjusted primary cyclical balance (13+6)		-1.3	-1.6	-1.1
15. Structural balance (13-8)		-3.2	-3.7	-3.4

(*) A positive sign corresponding to a deficit reduction measure

Sources: Ministry of Economic Affairs and Digital Transformation and Ministry of Finance and Civil Service

EXPENDITURE RULE

BILLIONS OF €	2021 (A)	2022 (P)	2023 (P)
Nominal GDP (1)	1206.8	1310.5	1389.2
Total General Government Expenditure (2)	603.8	617.6	642.4
Interest (3)	26	29.2	32.7
Expenditure financed with European funds (4)	7.8	7.9	4.6
Gross fixed capital formation financed with EU funds	3.3	4.7	2.6
Total Gross fixed capital formation	33.2	32.4	36.2
Gross fixed capital formation financed by Spain (5)	29.9	27.7	33.6
Average gross fixed capital formation financed by Spain over the last four years (6)	25.2	26.9	29.4
Cyclical expenditure on unemployment benefits (7)	4.1	2.3	1.8
Corrected eligible expenditure 8 = 2-3-4-5+6-7	561.2	577.3	599.1
Discretionary revenue measures (9) (*)	1.4	1.3	-0.9
One-off revenue (10)	0	0	0
One-off expenditure (11)	-2.7	-0.9	0
Total one-offs (12)	-2.7	-0.9	0
Discretionary revenue measures without one-off revenue (13) (*)	1.4	1.3	-0.9
Corrected eligible expenditure without one-off expenditure (14) = (8) + (11)	558.5	576.4	599.1
Corrected net eligible expenditure net of discretionary revenue measures and one-offs (15) = (14) - (13)	557.1	575.2	600
Growth of corrected eligible nominal expenditure net of measures and one-offs	3	3	4.1

(*) In incremental terms.

Sources: Ministry of Economic Affairs and Digital Transformation and Ministry of Finance and Civil Service

THE RECOVERY, TRANSFORMATION AND RESILIENCE PLAN IN 2023

Revenue from RRF transfers (millions of euros)

	2020	2021	2022	2023	2024	2025	2026
Revenue considered to ensure the principle of neutrality	487.6	21484.4	25622.0	19247.8	1675.4	729.6	265.8
Cash disbursements of RRM transfers		19036.6	18000.0	17000.0	8000.0	3475.9	4000.0

Expenditure financed by transfers from the RRF (millions of euros)

	2020	2021	2022	2023	2024	2025	2026
Remuneration of employees (D.1)	0.1	3.9	9.5	5.3	0.5	0.2	0.1
Intermediate spending (P.2.)	5.7	239.2	318.1	226.6	19.7	8.6	3.1
Social transfers, current transfers and subsidies (D.62+D.632+D.3+D.7)	61.0	2978.8	2853.9	2406.3	209.4	91.2	33.2
Interest (D.41)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CURRENT EXPENDITURE	66.8	3221.8	3181.5	2638.2	229.6	100.0	36.4
Gross fixed capital formation P.51g	34.6	1680.6	1635.5	1367.1	119.0	51.8	18.9
Capital transfers D.9	386.1	16582.0	20805.0	15242.5	1326.7	577.7	210.5
TOTAL CAPITAL EXPENDITURE	420.8	18262.5	22440.5	16609.6	1445.7	629.6	229.4
TOTAL	487.6	21484.4	25622.0	19247.8	1675.4	729.6	265.8

These revenues and expenditures from the Recovery, Transformation and Resilience Plan have not been included in the fiscal revenue and expenditure projections because their impact is deficit-neutral due to Eurostat's principle of neutrality.

IMPACT OF THE MEASURES INCLUDED IN THE GENERAL STATE BUDGETS FOR 2023 AND COMPLEMENTARY INITIATIVES

2023 General State Budget Measures	Differential impact	
	2023	2024
Personal Income Tax (PIT)	-1787	-348
Rate hike in the savings base		204
Reduction of earned income	-1565	-316
Difficult to justify expenditure (5 to 7%)		-116
Additional 5% module reduction		-68
Extension of the maternity deduction	-222	-52
CORPORATE TAX	0	-292
Rate cut to 23% for small enterprises		-292
VAT	-21	-3
Rate cut on feminine hygiene products and contraceptives	-21	-3
TOTAL	-1808	-643

Source: Ministry of Finance and Civil Service

Measures in other legislative initiatives complementary to the 2023 General State Budget	Differential impact	
	2023	2024
CORPORATE TAX	244	2195
Limitation on loss consolidation	244	2195
OTHER DIRECT TAXES	1500	0
Large Fortune Tax	1500	
SPECIAL TAXES	491	0
Excise duties on single-use plastic products	491	
OTHER REVENUE (NON-TAXABLE)	3500	0
Temporary levy on energy and banks	3500	
TOTAL	5735	2195

CLASSIFICATION OF EXPENDITURE BY FUNCTIONS (scenario 2)

Functions	COFOG code	2022	2023
		% GDP	% GDP
1. General public services	1	5.6	5.7
2. Defence	2	1.0	1.1
3. Public order and security	3	2.0	1.9
4. Economic affairs	4	5.8	4.8
5. Environmental protection	5	1.0	1.0
6. Housing and community services	6	0.5	0.5
7. Health	7	7.1	7.1
8. Recreational activities and religion	8	1.1	1.1
9. Education	9	4.4	4.4
10. Social protection	10	19.4	19.7
11. Total expenditure	TE	47.9	46.9

Source: Ministry of Finance and Civil Service



CSR COMPLIANCE

CSR / concrete measures	Compliant / in process
1. CSRs relating to improvements in the budgetary framework and public procurement, sustainability of public finances and reinforcement of institutional resilience	✓
Budgetary framework and rationalisation of public spending	✓
Increased use of European funds under the Recovery and Resilience Mechanism and Cohesion Policy	✓
Public revenue and tax reform (improvement of the revenue raising capacity, equity and guidance towards a new growth model)	✓
2. CSRs relating to the social services and social protection system (minimum income, unemployment protection and family support) and housing.	✓
Effective social services	✓
Strengthening of social protection for unemployment, minimum income and family support.	✓
Support measures to cope with rising energy prices	✓
Access to housing	✓
3. CSRs relating to human capital and employment (education, training, active employment policies, procurement incentives)	✓
Regulation of the labour market, stable employment and efficient procurement incentives	✓
Improved qualifications and adequate skills acquisition for employability, especially in the digital sphere	✓
Measures to reduce early school leaving and improve educational outcomes	✓

CSR COMPLIANCE

CSR / concrete measures	Compliant / in process
4. Investment-related CSRs: new model of green, digital, innovative and less energy-dependent growth	✓
Boosting private investment	✓
R&D&I	✓
Digital transition (connectivity, digitalization, cybersecurity, etc.)	✓
Green transition - Energy efficiency and renewable energies	✓
Green transition - Construction sector	✓
Green Transition - Management of water resources	✓
Green Transition - Circular economy and protection of the environment,	✓
Green and digital transition in the agri-food sector	✓
Green and digital transition in the automobile sector (secure, sustainable and connected mobility)	✓
5. CSR relating to the improvement of the regulation and application of the Law Guaranteeing Market Unity.	✓
6. CSR linked to strengthening coordination between different levels of government	✓
7. CSR linked to strengthening the healthcare system	✓