The public accounts in 2023: increase in revenues and also in expenditure

The Spanish government has presented to parliament the Draft General Government Budget for 2023 and has sent to Brussels its Budget Plan setting out a picture of the consolidated general government accounts. In terms of the general government deficit, a deficit of 3.9% of GDP is expected in 2023, which represents a 1.1-pp reduction compared to the deficit projected for 2022. The bulk of this reduction is expected to be driven by the Autonomous Communities (deficit of 0.7 pps less than in 2023), while Social Security would maintain a deficit of 0.5% in 2023. The latter implies that the government is counting on higher social security contributions and transfers from the state to cover an increase in pensions without altering the deficit (as a percentage of GDP).

With regard to the primary balance, which excludes interest payments, the government projects a reduction of 1.2 pps in 2023 to –1.6%, still greater than the –0.8% of 2019. As for public debt, a reduction of 3.0 pps is expected thanks to GDP growth in nominal terms (6.0%), although it will still remain high at around 112% of GDP.

Revenues: on the rise due to inflation

Due to the high uncertainty surrounding the outlook, the government has presented two scenarios. The first, built on the 2023 General Government Budget, is more conservative in terms of the forecast for 2022 tax revenue collections, projecting that they will be 9 billion euros below the figure we would obtain by extrapolating the budget execution data observed for the year to date up to August. The second scenario, which seems more plausible, incorporates an extra 10.8 billion in tax revenues in 2022 (which in turn leads to around 10 billion in extra revenues in 2023, due to the higher starting point) and assumes that the temporary tax cuts on electricity which are due to expire in December (and which reduced tax revenues by some 6 billion in 2022, according to AIReF) will be extended throughout 2023. Thus, in this second scenario public revenues grow by 6.6% in 2022. This is above the 4.6% in the first scenario, although still far from the 14.0% per the budget execution based on data up to July (which can be expected to moderate in the coming months). This extra increase in revenues in scenario 2 is expected to be used to increase expenditure by a similar amount. Thus, the forecasts for the general government deficit are the same in both scenarios.

If we focus on the second scenario, consolidated general government government revenues are forecast to grow by 6.2% year-on-year in 2023 (+35 billion euros), in line with the government's forecasts for nominal GDP growth (6.0%), which are in the high range of forecasts produced by different analysts. The main factors behind the higher revenues relative to 2022 are projected to include direct taxes (11.2% year-on-year, +16.3 billion euros), favoured by the price rally pushing up tax bases, and social

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Item	2019 (% GDP)	2021 (% GDP)	Scenario 1				Scenario 2			
			2022 (% GDP)	2023 (% GDP)	2023-2019 (% change)	2023-2022 (% change)	2022 (% GDP)	2023 (% GDP)	2023-2019 (% change)	2023-2022 (% change)
Public revenues	39.2	43.7	42.1	42.3	20.4	6.5	42.9	43.0	22.3	6.2
Indirect taxes (VAT, etc.)	11.5	12.2	12.2	12.2	18.3	6.0	12.6	12.3	19.3	3.5
Income & wealth taxes	10.4	11.9	11.8	12.2	30.8	9.6	12.2	12.8	37.2	11.2
Capital taxes	0.4	0.5	0.5	0.4	11.5	-15.2	0.5	0.5	39.4	6.0
Social security contributions	12.9	14.2	13.6	13.7	18.4	6.8	13.6	13.7	18.4	6.8
Other revenues	4.0	5	4	3.8	5.9	0.7	4	3.7	3.1	-2.0
Public expenditure	42.1	50.6	47.1	46.2	22.4	4.0	47.9	46.9	24.2	3.8
Employee remuneration	10.8	12.2	11.6	11.4	17.7	4.2	11.8	11.4	17.7	2.4
Intermediate consumption	5.1	5.9	5.7	5.6	22.4	4.1	5.7	5.6	22.4	4.1
Social benefits	18.4	21.8	20.6	20.8	26.0	7.0	20.7	21.1	27.9	8.0
Interest expense	2.3	2.2	2.2	2.4	16.3	15.6	2.2	2.4	16.3	15.6
Subsidies	1	1.5	1.8	1.2	33.8	-29.3	2.2	1.4	56.1	-32.6
Capital expenditure (excl. NGEU)	2.8	4.8	3.4	3.2	27.2	-0.4	3.4	3.2	27.2	-0.4
Other expenditure	1.7	2.2	1.8	1.6	4.9	-5.8	1.9	1.8	18.1	0.4
Nominal GDP (EUR billions)	*1,245.5*	*1,206.9*	*1,310.3*	*1,388.7*	*11.5*	*6.0*	*1,310.3*	*1,388.7*	*11.5*	*6.0*

Notes: *The projections incorporate the macroeconomic impact of the NGEU plan, although the NGEU transfers themselves are excluded from the revenues and expenditure. In 2019 we exclude the portion of the deficit (2 percentage points of GDP) relating to Sareb.*
Source: *CaixaBank Research, based on data from the Ministry of Finance.*

security contributions (6.0% year-on-year, +12 billion euros). The latter is expected to be driven by an increase in the maximum base salaries of 8.6% – which is expected to contribute some 0.9 billion – and the 0.6-pp increase in the common contingencies scheme – which is expected to contribute some 2.7 billion euros. Indirect taxes, meanwhile, are expected to register a more contained growth (+3.5%).

The government expects that a part of the higher revenues will come from the new temporary tax measures (the temporary levy on energy and banking and the tax on high-net-worth individuals), which will be partially offset by other targeted measures intended to reduce the tax burden on low and low-middle income households (mainly, the extension of the lower income tax band for employment income from 18,000 to 21,000 euros of gross pay and raising the minimum taxation threshold from 14,000 to 15,000 euros). On aggregate, the government estimates that the new measures will bring in additional net revenues of 4 billion euros in 2023, although AIReF reduces this figure to 3.2 billion; the discrepancy is mainly due to the government anticipating 1.5 billion in revenues derived from the tax on high-net-worth individuals in 2023, while AIReF postpones this income to 2024.

Expenditure: structural increases

With regard to public expenditure (excluding the items related to the NGEU programme), there is a substantial increase in structural expenditure, especially focused on maintaining pensioners' purchasing power.

In particular, in scenario 2, public spending would increase by 3.8% year-on-year (+23.7 billion euros) in 2023, largely due to a 21.8-billion-euro increase in social benefits (mainly a 19.6-billion increase in pension spending) and the increase in interest charges (+4.5 billion euros). The items expected to fall include subsidies, which are down by 9.4 billion. Therefore, consolidated primary current expenditure would increase by 4.4%, below the government's forecast for nominal GDP growth.

Thus, structural expenditure, which does not directly depend on the business cycle, will increase significantly. Indeed, this is the primarily reason for the 117-billion-euro increase in consolidated public expenditure compared to 2019 (not counting any potential extraordinary spending measures that might materialise in 2023 to tackle inflation and the war in Ukraine): pensions, for instance, are projected to increase by 36.6 billion euros compared to 2019, and staff costs by 24 billion.

Although government revenues will have increased by some 100 billion euros compared to 2019, and much of that increase will be structural – due to inflation[1] and structural changes in the economy that have boosted revenues (such as workers previously operating in the submerged economy coming out of the shadows due to labour policies implemented under COVID)[2] – this margin is not expected to be used to reduce the structural deficit by any significant degree. In fact, the structural deficit of the Spanish economy, which was already rather high before the pandemic, will hardly shrink at all. Specifically, according to the estimates included in the Budget Plan, it could stand at around 3.4% of GDP in 2023, very similar to the pre-pandemic level (3.5% in 2019).

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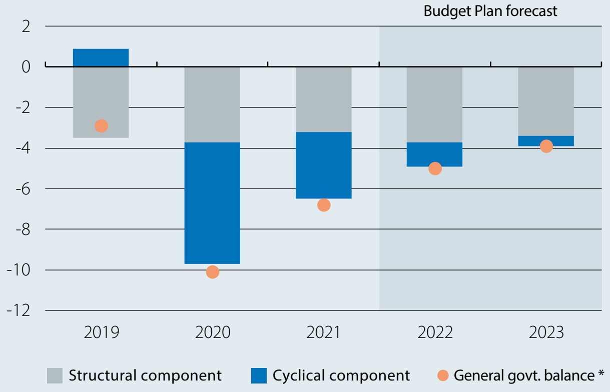
Spain: government balance

(% of GDP)



Note: ** Excludes Sareb and losses for assistance provided to financial institutions.*
Source: *CaixaBank Research, based on data from the Ministry of Finance (10/2022) and the 2021-2024 Stability Programme.*

1. Even if inflation gradually moderates, the jump in prices versus 2019 is very likely to become consolidated, hence we consider it a structural factor.
2. According to the Budget Plan, the measures adopted during the COVID crisis have led to some 285,000 additional workers registering with the Social Security institute.