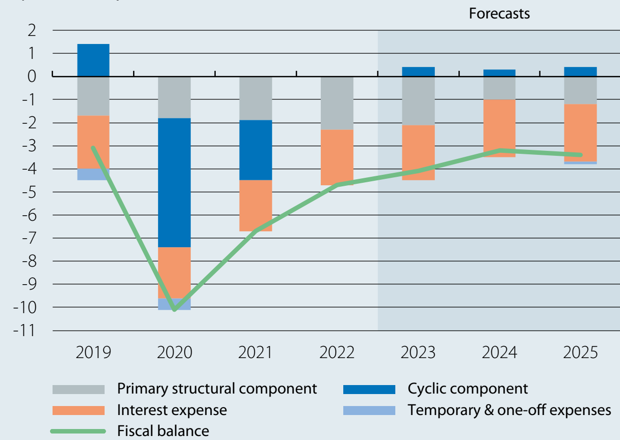
Impact on the national accounts of the partial extension of anti-inflation measures in 2024

In late 2023, the government approved a decree, which was validated by Congress in January, to partially extend in 2024 the economic support measures implemented in 2022-2023 aimed at mitigating the impact of inflation. The extension of some of these measures will apply upward pressure on the relatively contained government deficit, while avoiding the spike in inflation that would have occurred had the measures expired in their entirety in January 2024. Below, we review the current state of the national accounts in Spain and the impact of the partial extension of the measures to support households and the productive sector, evaluating their fiscal cost.



Source: *CaixaBank Research, based on data from the European Commission.*

The budget deficit in Spain: statusas of early 2024

In recent years, Spain has significantly reduced its budget deficit, following the sharp rise recorded in 2020 due to the support measures introduced in response to the pandemic (it reached 10.1% of GDP). In 2023, the deficit is expected to stand at around 4.0% of GDP (we will find out the final figure in March). For 2024, the Budget Plan published in October placed the budget deficit for 2024 at 3.0% of GDP. This assumed an inertial scenario with no new measures such as the partial extension of the action plan and was based on the assumption that public revenues would increase by 5.8% year-on-year and public expenditure by 3.7%. These projections do not differ much from those of the European Commission. In particular, the Commission expected a budget deficit before the extension of the action plan of 3.2% of GDP in 2024 and of 3.4% of GDP in 2025, which is mainly explained by the structural deficit – in 2024 the forecast is for a primary structural deficit of 1% and interest expenditure of 2.5%. On the other hand, the cyclical balance no longer presents a deficit now that the Spanish economy has recovered its potential GDP.

Extension of measures and impact on the national accounts

In 2023, the government implemented an action plan to mitigate the high levels of inflation, which had a fiscal cost of 15 billion euros, or 1% of GDP, according to AiREF. The plan consisted of a series of tax cuts applicable to energy and food which reduced public revenues by 6 billion euros, as well as a series of measures to support individuals and the productive sector – blanket support for users of public transport, financing of the regulated TUR gas tariff and a series of sectoral support measures –[1] which increased public expenditure by 9 billion euros. The forecasts for the 2024 budget deficit presented in the previous section assumed that the 2023 action plan would be withdrawn in its entirety on 1 January 2024, resulting in savings of 15 billion euros this year. However, at the end of December the government announced a partial extension in 2024 of some of the measures included in the action plan, which parliament approved in January. To what extent will this partial extension entail a deviation from the 2024 deficit targets? To answer this question, we must analyse the new measures in detail and evaluate their fiscal cost:

- Firstly, the new measures include the partial and phased reversal throughout 2024 of the tax cuts on electricity bills that were implemented in 2022-2023. In the case of gas bills, on 1 January VAT rose from 5% to 10% and it will increase again after 31 March, returning to the original rate of 21%. In the case of VAT on electricity, this also rose from 5% to 10% on 1 January, but it will remain at 10%[2] throughout 2024 and will not return to 21% until 2025. As for electricity excise duty (IEE), which since September 2021 has been reduced from 5.11%[3] to the legal minimum of 0.5%, this will

1. These included: discounts on fuels for professional haulers using diesel; for farmers, direct aid for those holding a transport licence based on their estimated consumption; direct aid to the agricultural sector to mitigate the higher fertilizer prices; aid to the fishing and ceramics sectors; sectoral aid from the Spanish Agrarian Guarantee Fund (FEGA) in response to the drought, etc.
2. The VAT cut affects consumers with a contracted capacity of less than or equal to 10 kW. Virtually all households therefore benefit from this reduction. The 10% VAT rate will also apply to 70% of electricity supply contracts for businesses (non-domestic).
3. The tax base is the electricity bill determined on the basis of electricity consumption and contracted capacity.

increase during 2024 following a phased pattern. The partial extension of these tax cuts will deduct around 1.8 billion euros of revenues compared to a scenario with a return to normal rates in January 2024.

- In food, the 0% VAT rate on essential foods and the 5% rate on pasta are extended until 30 June. The major change is that VAT on oil, which had been reduced to 5% (its normal rate is 10%), will be lowered even further to 0%.[4] These measures will deduct around 1.2 billion euros of public revenues compared to a return to normal rates in January 2024.
- On the expenditure side, the funding during the first half of 2024 of the limits applicable to increases in the regulated TUR gas tariff[5] could have a fiscal cost of 500 million. With regard to public transport, the measures in place during 2023 have been extended throughout 2024. 1.4 billion euros are allocated to offering free rail travel to frequent users of the Cercanías, Rodalies and Media Distancia networks, as well as a 30% discount for public transport networks under regional and local government ownership.[6]

In short, we estimate that the fiscal cost of all these measures could amount to around 5 billion euros, or 0.3% of GDP.

The partial extension of the action plan will therefore apply upward pressure on the fiscal deficit this year of around 0.3 pps relative to the forecasts set out in the Budget Plan and those of the European Commission, which assumed that there would be no extension for this year, thus increasing the deficit to around 3.3%-3.5% of GDP. Offsetting this 0.3-pp increase in the deficit will be a 0.1-0.2-pp reduction due to GDP growth being greater than expected a few months ago; nominal GDP growth in 2023 was 8.6%, exceeding the forecasts (the European Commission expected growth of 7.7% and the Budget Plan, 8.3%), and the good figure for Q4 2023 will have a knock-on effect on growth in 2024. Thus, taking into account the fiscal cost of the extension and the incorporation of the latest macro data, the deficit in 2024 is likely to be within the range of 3.1%-3.4% of GDP. Where exactly it will end up within this range will depend, among other factors, on the final deficit figure for 2023 – i.e. the starting point for 2024 – and on whether the budget for this year ends up incorporating any additional measures.

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Spain: impact of the partial extension of anti-inflation measures in 2024 compared to a full withdrawal in January 2024

	Annual impact on the deficit (EUR millions)
Revenue measures (lower incomes)	
VAT on electricity: rise from 5% to 10% (normal rate: 21%) throughout 2024	–1,500
Excise duty on electricity: from 0.5% to 2.5% in Q1, 3.8% in Q2 and then 5.11%	–200
VAT on gas: from 5% to 10% in Q1, 21% (foreseeably) thereafter	–50
VAT on food: until 30 June, 0% on essential foods and oil, 5% on pasta	–1,200
Expenditure measures (higher expenditure)	
Transport aid	1,440
Financing of the regulated TUR gas tariff	500

Source: *CaixaBank Research, based on an extrapolation of the impact in 2023.*

4. However, this measure is not yet in effect; as Congress still needs to approve the amendment to the decree that lowers it to 0%.
5. These limits prevent the commodity cost from rising by more than 15%, limiting the quarterly increase to approximately 5% as well as the existence of the neighbourhood TUR tariff, which is available to blocks of flats with gas central heating.
6. Unlike last year, these discounts will apply regardless of whether or not the regional/local authorities supplement them with an additional discount of 20%.