



Lowering fiscal vulnerabilities in Spain

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Spain: From recovery to resilience

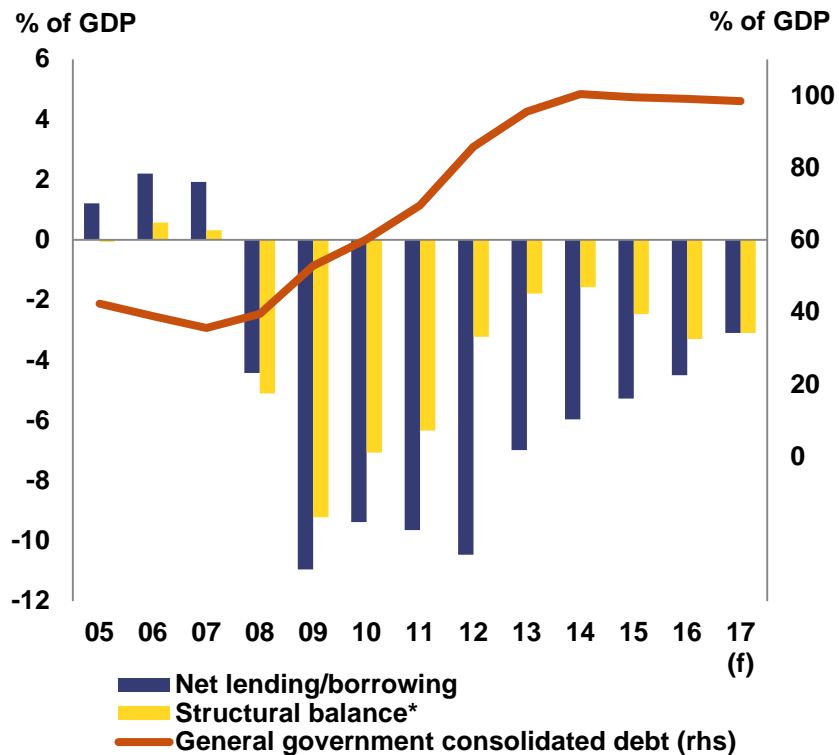
**Joint conference Banco de Espana and International Monetary Fund
Madrid, April 3rd 2018**

Outline

- 1. Avoiding pro-cyclicality***
- 2. Rebuilding fiscal buffers***
- 3. Safeguarding sustainability***
- 4. Improving coordination between government levels***

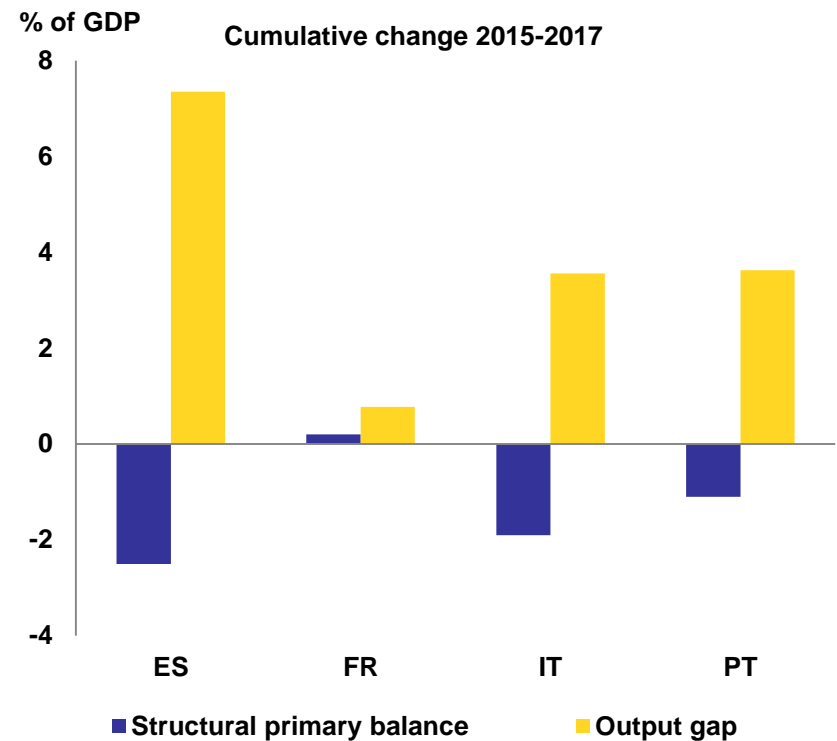
Avoiding pro-cyclical fiscal stance

Fiscal stimulus



Source: European Commission
 Note: (*) Structural balance figures not available before 2010, cyclically-adjusted balance used instead.

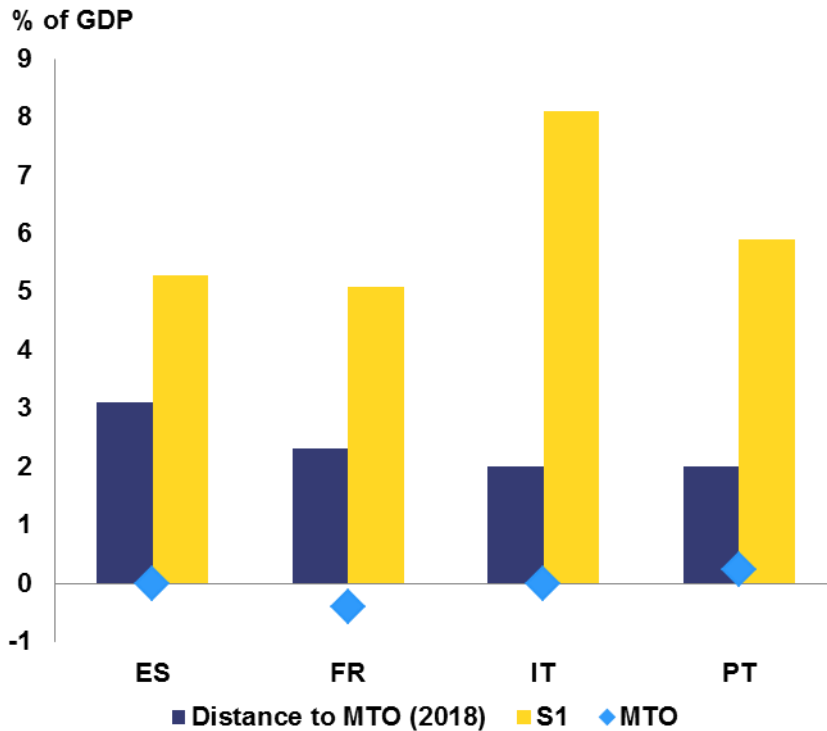
Closing output gap



Source: European Commission

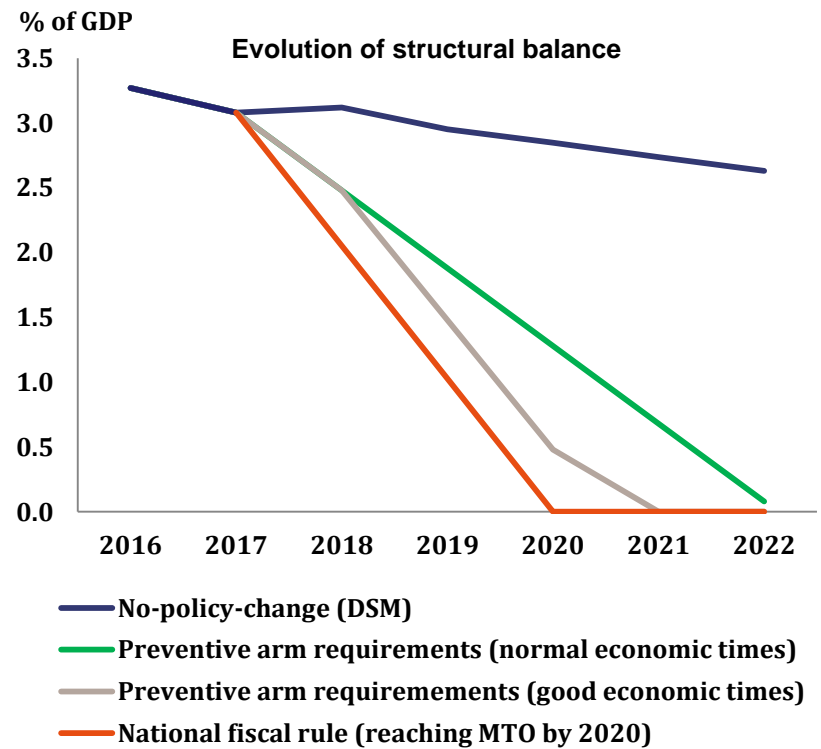
Rebuilding fiscal buffers

Large fiscal consolidation needs



Source: European Commission

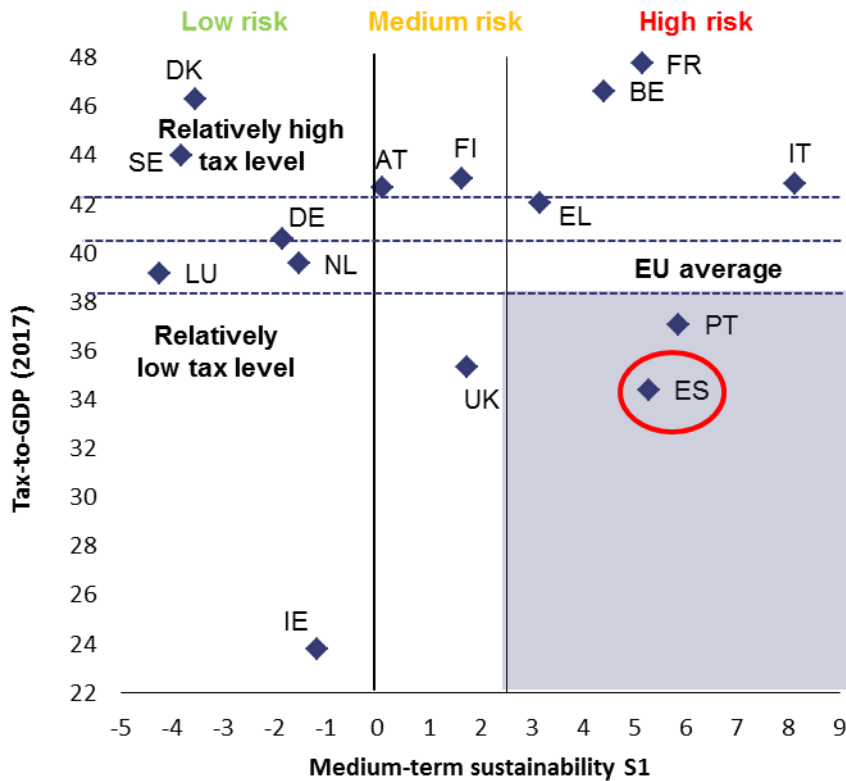
Possible adjustment paths



Source: European Commission

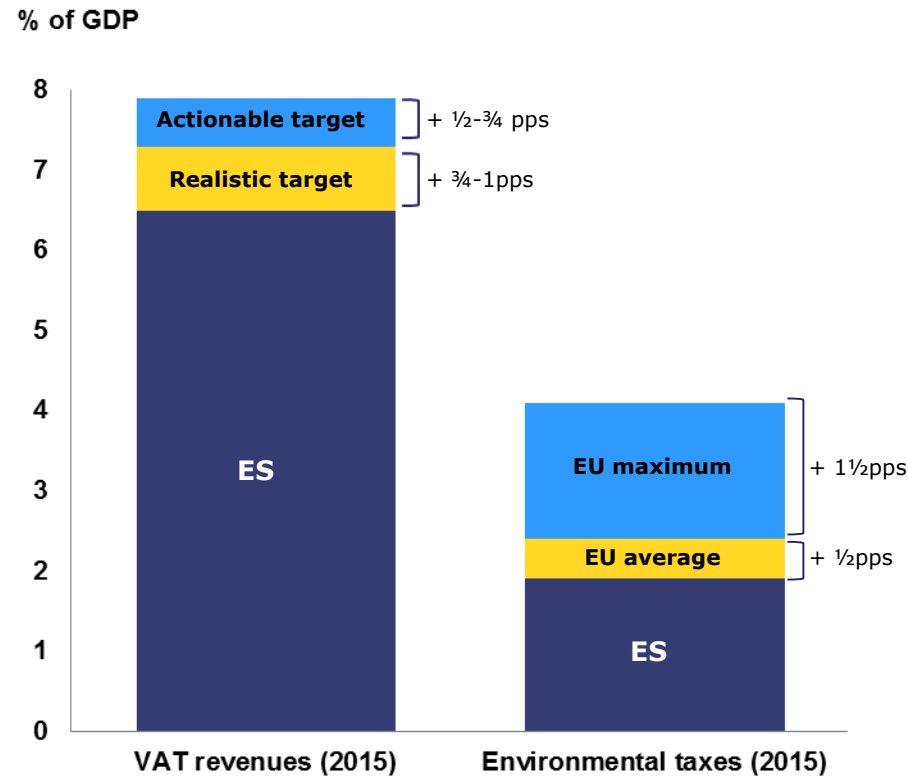
Acting on the revenue side

Low tax-to-GDP ratio



Source: European Commission

Potential to increase tax revenue

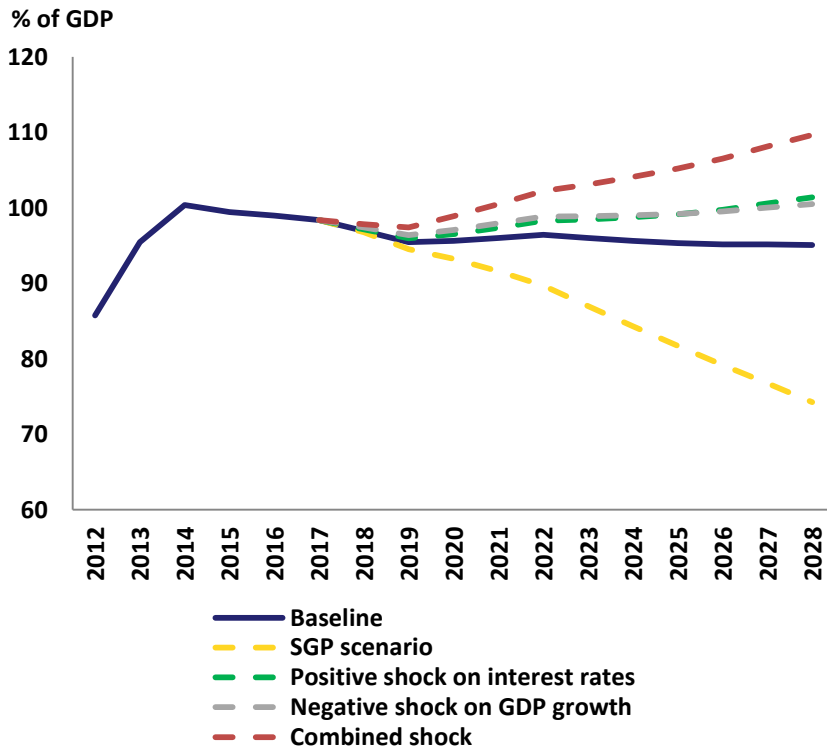


Source: European Commission

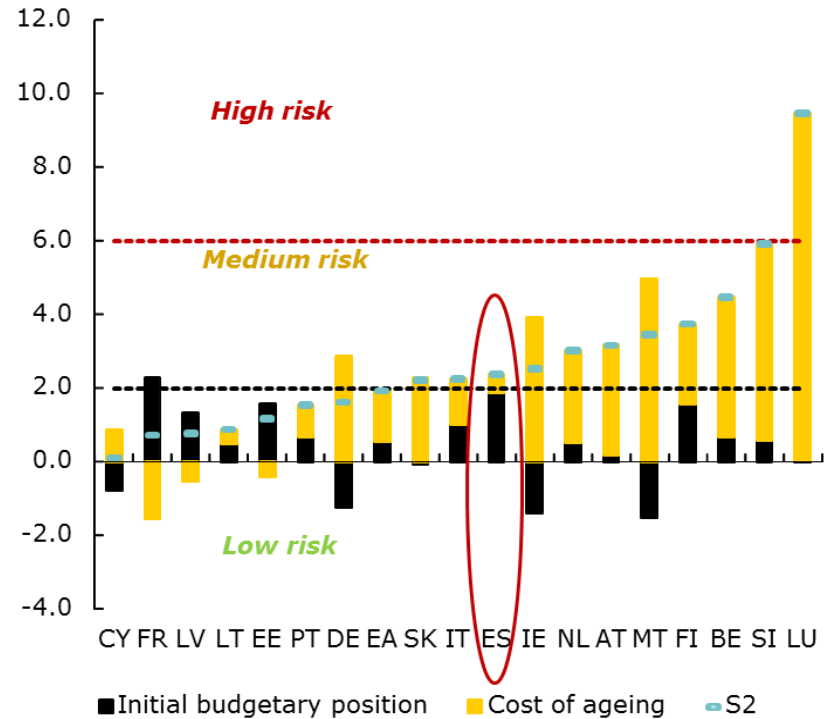
Note: EU maximum for environmental taxes represented by Croatia.

Safeguarding fiscal sustainability

Debt ratio vulnerable to shocks



Moderate long-term risks



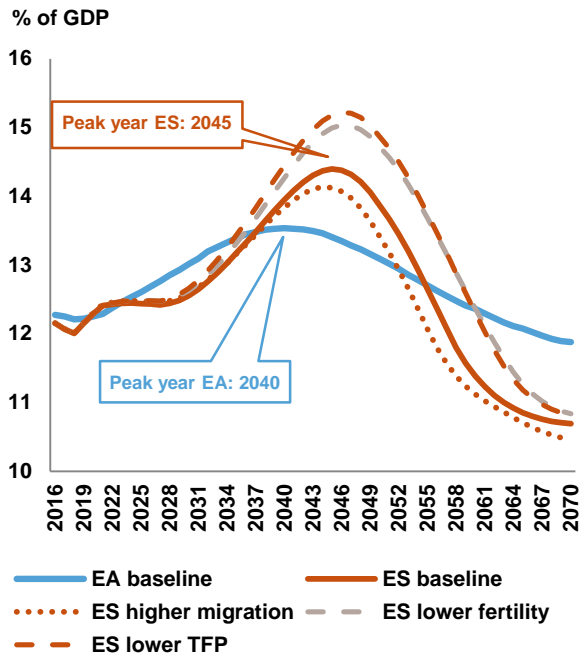
Source: European Commission

Note: Positive shock on interest rates: Standardized (permanent) positive shock (+1p.p.) to the short- and long-term interest rates on newly issued and rolled over debt; Negative shock on GDP growth: Standardized (permanent) negative shock (-0.5p.p.) on GDP growth; Combined shock: Combined negative shocks on GDP growth (-0.5 pp) and short-and long-term interest rates (enhanced: +2pp 3y, +1pp thereafter).

Source: European Commission

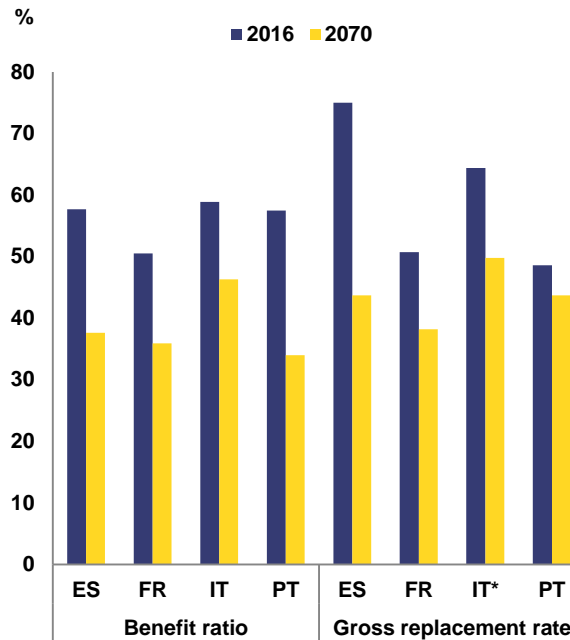
Addressing fiscal challenge of ageing

Pension system sustainable in the long run



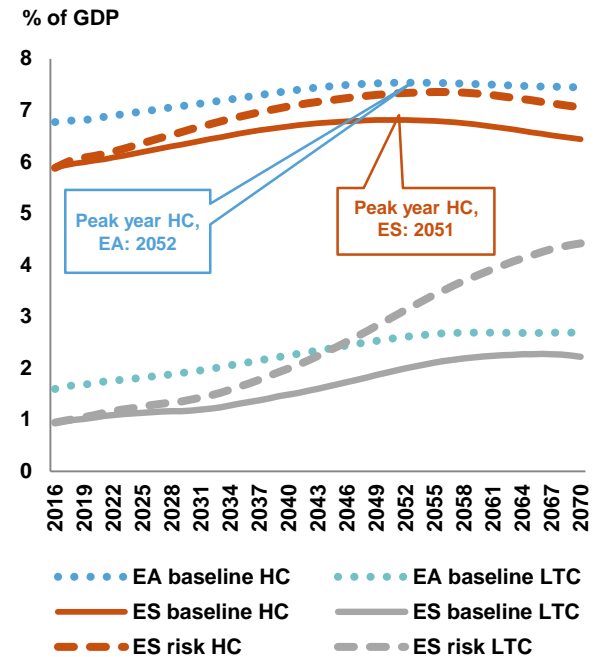
Source: European Commission

Future adequacy under pressure



Source: European Commission
 Note: (*) Gross Replacement Rate for earnings-related instead of total pensions used due to data limitations.

Increased spending on health and long-term care

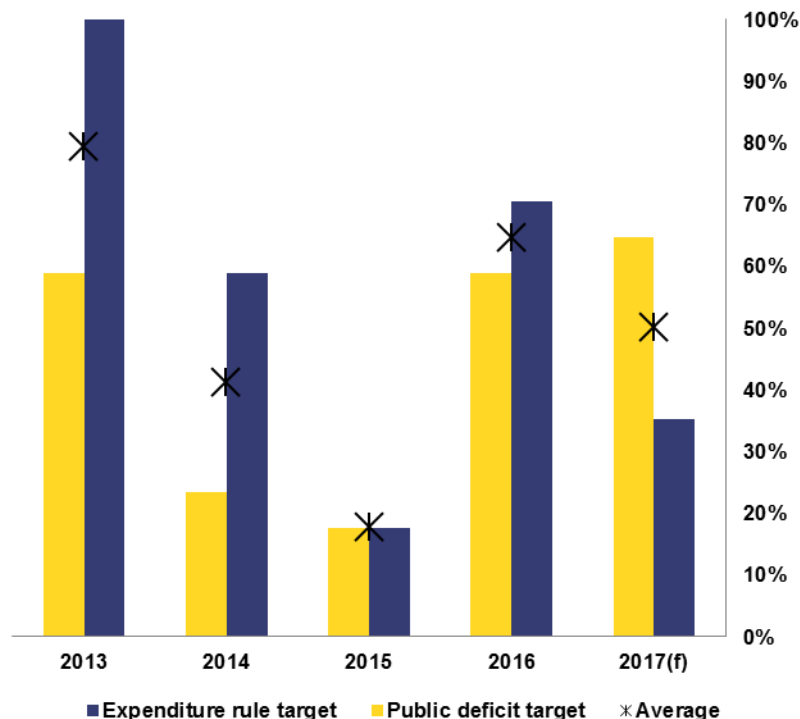


Source: European Commission

Improving coordination across levels of government

Varying compliance with fiscal rules

Share of regions having complied with the public deficit and expenditure rule targets



Source: Spanish Ministry of Finance and European Commission
Note: 100%=17 regions

Tackling non-compliance

- ❖ Targets set for different government levels: ambitious, realistic, consistent, (differentiated?)
- ❖ Increase effectiveness and automaticity of enforcement tools
- ❖ Strengthen Spain's expenditure rule