



Spain's 2021 budget: An assessment

The Spanish government's 2021 budget is notable for its marked optimism regarding the country's economic growth and revenue prospects, its ability to rein in public expenditure, and by extension, the country's deficit and debt levels. Consensus forecasts are more downbeat, with lower growth estimates, higher deficit and debt levels, as well as doubts surrounding the economic impact on forecasted revenue growth and the Next Generation EU funds.

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Abstract: In comparison with consensus forecasts, Spain's 2021 budget appears overly optimistic about the Spanish economy's growth prospects. The government is forecasting growth of 9.8% and a deficit of 7.7% in 2021, while other institutions estimate lower growth and higher deficits. The government's favourable forecasts are based on key assumptions regarding global and eurozone growth levels, as well as Spain's export markets. Its expectations relating to

the Next Generation EU programme may also prove overly confident given Spain's previous track record absorbing EU funds and the essentially political composition of the committee constructed to oversee the funds' use. Additionally, the government's deficit estimate was calculated before the extension of the furlough and income support schemes, which will put upward pressure on expenditures. As a result, in the absence of fiscal consolidation, Spain's public debt is

set to rise in the years to come, and will be highly exposed to an upward trend in interest rates. In terms of the government's forecast for revenue growth of 14.53%, its dependence on GDP growth and revenue elasticities also raises concerns over exceedingly optimistic projections. Lastly, considering regional, local and central government spending, state expenditure will increase to 50.8% of GDP in 2021. The biggest government expenses forecast include pensions (35.8%), public debt service (6.9%) and unemployment benefits (5.4%).

Introduction

This paper outlines the main sources of revenue and expenditure contemplated in the 2021 state budget. We begin by addressing the macroeconomic forecasts underpinning the budget and the levels of debt and deficit estimated. We next evaluate the revenue estimates. Lastly, we describe the state's public spending policies.

The macroeconomic scenario underpinning the 2021 budget

Economic growth forecasts

Table 1 compares the GDP forecasts presented by the Spanish government and by other institutions for 2020 and 2021 at the time the draft 2021 budget was unveiled. It also

shows the change in GDP between December 2019 and December 2021 assuming that the forecasts are met. The numbers reveal that the government is forecasting a sharp correction in GDP in 2020 (-11.2%). However, its forecasts for 2021 are considerably more optimistic, with growth forecast at 9.8% in 2021. Even if those estimates prove accurate, Spanish GDP would decline by over 31 billion euros between 2019 and 2021. This drop would be equivalent to 2.5% of 2019 GDP.

The forecasts compiled by the rest of the institutions featured in Table 1 are more pessimistic for growth in 2021. Whereas the government's forecasts for 2020 lie in the middle of the range of estimates presented by the rest of the forecasters, its 2021 forecasts are clear outliers. Specifically, the Bank of Spain and AIReF estimate that Spanish GDP will end 2021 between nearly 4%-5% below year-end 2019 levels, while Funcas and BBVA Research put that contraction at an even higher approximately 6%. At the time of writing this article, other institutions such as the OECD and the General Council of Economists were estimating year-on-year growth of around 5% in 2021, *i.e.*, little more than half of what the government is forecasting.

As set down in the 2021 budget, the government's growth forecasts are based on:

Table 1 **GDP growth forecasts for Spain for 2020 and 2021**

	Forecasts		Change in GDP, 2019-2021	
	2020	2021	Millions of euros	Contraction %
Government	-11.2	9.8	-31,089	-2.50
Bank of Spain*	-11.1	6.8	-62,907	-5.05
AIReF*	-11.1	8.2	-47,428	-3.81
Funcas*	-11.5	6.7	-69,340	-5.57
BBVA Research*	-11.5	6.0	-77,050	-6.19

Note: *Baseline estimates by the institution in question based on the latest data available as of January 2021. For Bank of Spain, the central scenarios is used.

Sources: Government of Spain, Bank of Spain, AIReF, BBVA Research, Funcas and authors' own elaboration.

“ NGEU's GDP contribution is only credible if the large majority (around 80%) of the 27 billion euros is earmarked to public investment. ”

(i) the assumption that the pandemic will evolve favourably; (ii) recovery in the global economy (6.2%); (iii) economic recovery in the eurozone (5%); and, (iv) in particular, a rebound in Spain's key export markets (7.3%). However, as pointed out by several institutions, including AIREF and the Bank of Spain, the intensification of the pandemic in recent months has since rendered that scenario less plausible. The government's optimistic forecasts also factor in a downtrend in long-term interest rates in 2021, oil prices of less than 50 dollar per barrel and the so-called *Recovery, Transformation and Resilience Plan*, underpinned by the *Next Generation EU* programme (NGEU). The NGEU is expected to amount to 140 billion euros in the form of transfers and loans (equivalent to 11% of Spanish GDP) starting in 2021. According to the government, the NGEU will inject 27 billion euros into the Spanish economy in 2021, accounting for 2.6 percentage points of total estimated GDP growth this year (9.8%). However, there are significant downside risks that suggest that the government's growth forecast for 2021 is overly optimistic. The chief risk relates to the uncertain outlook for the pandemic, specifically the risk of even greater damage to the business environment leading to further job losses. Unemployment is expected to top 17% in 2020. Moreover, the recently-struck Brexit deal does not fully eliminate uncertainty regarding how its implementation will affect the European economy in general and the Spanish economy in particular.

With respect to the GDP contribution of the NGEU, as noted by AIREF, it is only credible if the large majority (around 80%) of the 27 billion euros is earmarked to public investment. In addition, as stressed by the Bank of Spain's Governor during testimony provided to the Congress of Deputies on November 4th, 2020, there are significant execution risks. The Governor also pointed out a lack of precision regarding the use of

funds expected to be received in 2021. To make his case, the head of the Bank of Spain drew on historical evidence to call attention to Spain's difficulties to mobilise the funds associated with other European programmes. Specifically, he cited the last three rounds of structural European funds (smaller than the NGEU), of which less than 80% of which has been absorbed over the seven years they have been in place. The Bank of Spain also emphasised the fact that the European funds' multiplier effect requires their investment in human capital and technology, the real drivers of sustainable economic growth. In a similar vein, García-Arenas (2020) notes that the figure of 27 billion euros is extremely optimistic, as the first drawdown of NGEU funds will be equivalent to just 10% of total transfers, which translates into 5.9 billion euros for Spain. What that means is that the government presumably plans to advance the remainder, to reach the total figure of 27 billion euros, taking on debt to do so. Moreover, the budget would not appear to have factored in the fact that the NGEU, albeit approved by the European Council and Parliament, is pending ratification by certain national parliaments. That process could encounter obstacles, as we saw when Poland and Hungary attempted to veto the plan. Although that situation has since been resolved, the two countries are now threatening to delay final approval until after the summer of 2021.

Lastly, it is worth highlighting the fact that the NGEU constitutes a significant opportunity to modernise the Spanish economy. However, the success of the related initiatives will depend on how well the mechanisms are constructed and how effectively the designated institutions select, design, implement and execute the investment projects carried out under their purview. Unlike the technocratic models proposed by other countries, [1] Spain has opted for a strictly political committee limited to Cabinet members, thus politicizing

“ The government expects that growth in GDP, the reining in of spending and its forecasted increase in public revenue will reduce the deficit to 7.7%, or 93.5 billion euros, in 2021. ”

the governance framework for the application and distribution of the European funds in Spain. The creation of a mixed committee of economic experts, successful private sector businessmen and women, particularly drawn from the high-tech sector, and political authorities from the various regional and local administrations would have been a more balanced choice.

Public deficit and debt forecasts

The financial crisis of 2008 drove the public deficit to new highs, peaking at 11.28% of GDP in 2009. After a decade of fiscal consolidation, the deficit narrowed to 2.48% in 2018, enabling Spain to exit the excessive deficit procedure. The downward trend stalled in 2019, when the deficit climbed back up to 2.86%, even though the Spanish economy grew faster than the European average that year. With that backdrop, in February 2020, the government set ambitious deficit targets of 1.8% for 2020 and 1.5% for 2021. However, the effects of the pandemic on economic growth, the sharp drop in public revenue and the

massive increase in public spending did away with those targets within a matter of just a few weeks. Given the gravity of the situation, the European Commission was forced to activate the general escape clause of the Stability and Growth Pact (SGP), allowing the member states to deviate from their budget targets in 2020 and 2021. That was the context in which the macroeconomic forecasts underpinning the 2021 budget were drawn up. Specifically, the government is forecasting a deficit of 11.3% in 2020, which would imply an increase of 8.4 percentage points from 2019. Nevertheless, the government expects that growth in GDP, the reining in of spending (assuming no new waves of the pandemic) and its forecasted increase in public revenue (which we will analyse below) will reduce the deficit to 7.7%, or 93.5 billion euros, in 2021. Table 2 compares the deficit estimates presented in the state budget with those compiled by the European Commission, AIReF, Bank of Spain and Funcas. These institutions' deficit estimates for 2021 range from 6.7% to 9.6%, *i.e.*, between 80.5 and 116.5 billion euros.

Table 2 **Deficit forecasts – a comparison**

Percentage of GDP

	2019	2020	2021
Government (2021 state budget)	2.86	-11.3	-7.7
AIReF		-11.6	-8.0
Bank of Spain		-10.3 to -10.9	-6.7 to -9.6
Funcas		-11.5	-8.6
European Commission		-12.2	-9.6

Sources: European Commission (2020), Government of Spain (2020a), AIReF (2020), Bank of Spain (2020), Funcas (2021).

“ The European Commission forecasts Spain will report the highest deficit in the EU in 2021 (-9.6%), followed by France (-8.3%), Belgium (-8.1%) and Italy (-7.8%). ”

As shown in Table 3, the bulk of the deficit forecast for 2020 is accounted for by the central government (58.4%) and Social Security (36.3%), given that most of the measures taken to cushion the economic and social impact of the pandemic has fallen to the state employment service (SEPE) and the Social Security administration. The measures with the biggest economic impact in 2020 included the income support and tax exemptions extended to self-employed professionals at a cost of close to 8.1 billion euros and the benefits extended under the furlough scheme, at a cost of 24.2 billion euros. The draft 2021 budget sent to Brussels on October 15th assumed a drastic reduction in the cost of the furlough and income support schemes in 2021 to 1.72 billion euros, based on the assumption that they would not be extended beyond January 31st, 2021 (Government of Spain, 2020b). However, towards the end of January, both schemes had been extended until the end of May, which would inflate their cost to approximately 8.5 billion euros. At present, 780,000 employees are under

the furlough scheme and 350,000 self-employed professionals are benefit from the corresponding income support and tax relief.

On a comparative basis, at 9.6% of GDP, the European Commission forecasts that Spain will report the highest deficit in the EU in 2021, followed by France (-8.3%), Belgium (-8.1%) and Italy (-7.8%). At the opposite end of the spectrum lie Luxembourg (-1.3%), Sweden (-2.5%), Denmark (-2.5%) and Germany (-4.0%). Indeed, as is shown in Exhibit 1, the countries with the largest deficits are those that ended 2019 with the weakest public finances. That situation evidences the need to urgently draw up a credible medium-term fiscal consolidation plan backed by genuine political commitment. Recall that during the crisis of 2008, the EU-15 member states took an average of five years to bring their deficits back under 3%, whereas Spain took a decade. In fact, it was the country that took the longest to reach that threshold, more than the nine years it took Greece and France, the eight years it took the UK and Portugal or

Table 3 **Deficit estimates by level of government**

Percentage

	2020	2021
Central government	-6.6	-2.4
Regional governments	-0.6	-2.2
Local governments	0.0	-0.1
Social Security	-4.1	-3.0
Total	-11.3	-7.7

Source: Government of Spain (2020a).

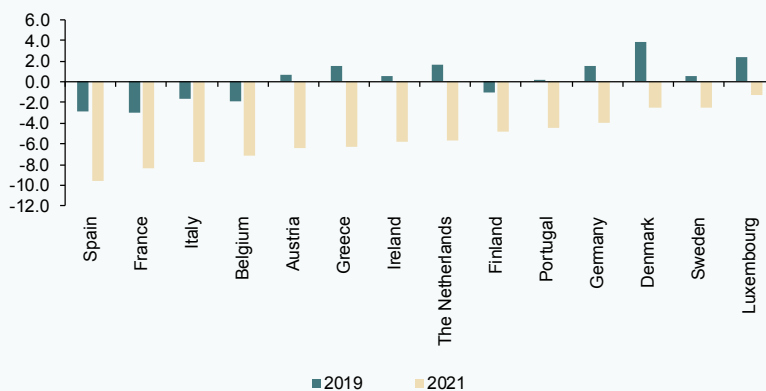
the seven years it took Ireland (Romero and Sanz, 2019). Moreover, unlike Spain, some of those countries, including Ireland, Portugal and Greece, ended 2019 with a fiscal surplus.

The size of the structural deficit and the risk that it becomes chronic is without a doubt one of the biggest challenges facing the Spanish economy over the coming decade. The Bank of Spain (2020) estimates that the structural deficit has increased from 3.1% in 2019 to at least 5%. That sharp increase is the direct result of the massive increase in public spending associated with the pandemic, a portion of which is structural. However, it also reflects the approval of other spending policies unrelated to the pandemic. Two examples include: the minimum income scheme, whose cost is initially estimated at 3 billion euros; and the increase in public sector wages and contributory pensions in line with forecast inflation (0.9%), at a cost of around 3 billion euros. The Bank of Spain believes it will take a decade to correct the structural deficit considering that the fiscal stability rules forecast correction will occur at the measured pace of 0.5 percentage points per annum. In short, in the best-case scenario, assuming a firm commitment to achieving a

balanced budget, the structural deficit will not correct before 2032.

The scale of the deficit in 2020 will also lead to record levels of public debt in Spain. According to the government's forecasts presented in Table 4, public debt will increase from 95.5% in 2019 to 118.8% in 2020, falling to just 117.4% in 2021. In other words, as a result of the pandemic, the government expects public indebtedness to increase by 23.3 percentage points in 2020 and 21.9 points in 2021 from 2019 levels. According to the European Commission (2020), Spain will also top the charts in terms of the increase in its indebtedness between 2019 and 2021 (26.5 percentage points), followed by Italy (24.8) and Greece (20.2). Table 4 compares the government's estimates with those compiled by the European Commission, AIREF and the Bank of Spain. The numbers show that the European Commission believes that the Spanish government has understated its 2020 forecast for indebtedness by 1.5 percentage points. Also, the European Commission and the Bank of Spain expect the level of public debt in Spain to be as much as five percentage points higher than the government is forecasting for 2021. In the absence of fiscal

Exhibit 1 Public deficit in the EU-14, 2019-2021



Source: European Commission (2020) and authors' own elaboration.

consolidation measures, public indebtedness in Spain is destined to rise in the years to come. To the contrary, an austerity roadmap that delivers a reduction in the structural primary deficit of 0.5 percentage points per annum would put the public deficit back at 2019 levels by 2035 (Bank of Spain, 2020).

Prevailing low interest rates are key to preventing the debt service burden from skyrocketing. In the short-term, interest expense is set to remain stable thanks to the benign financing conditions - the rate on new issues was 0.23% in 2019, a figure that had fallen to 0.21% by October 2020, and rates were negative for paper with more than a five-year maturity (AIReF, 2020). Prevailing conditions would leave debt service costs at around 31.7 billion euros in 2021, compared to 31.3 billion euros in 2019. [2] In the absence of a fiscal consolidation roadmap designed to gradually reduce the deficit as a percentage of GDP, the sustainability of Spain's public debt is excessively exposed to an upward trend in interest rates.

Public revenue

As summarised in Table 5, the government is forecasting year-on-year growth in non-financial revenue in Spain of 14.53% in 2021, which would imply growth of 6.2% with respect to 2019. By tax sources, it is estimating very significant growth in the main

taxes – personal income tax, VAT and excise duties and corporate income tax - compared to 2020, corporate income tax being the only one estimated to generate less revenue in 2021 than in 2019. Delivery of those revenue targets primarily depends on three factors: (i) how accurate the growth forecasts prove to be; (ii) the impact of the economic cycle on the various tax bases; and, (iii) the discretionary measures (regulation changes) approved for 2021 across a number of taxes. It looks very likely that the government's revenue forecasts will prove too optimistic.

As for the cyclical (automatic) growth forecast in revenue, this will depend on both delivery of the GDP growth forecasts for 2020 and 2021 and on the revenue elasticities implicitly assumed for each source of tax. As already noted above, the government's GDP growth forecasts for 2020 and 2021 (-11.2% and +9.8%, respectively) look overly optimistic when compared with the consensus forecasts gleaned from the leading Spanish and international analysts. Another issue casting doubt over the forecasts for 2021 is the various revenue elasticities implicitly assumed by the government. Even assuming that the government has its macroeconomic forecasts right, application of the elasticities estimated in recent literature, *e.g.* Sanz-Sanz, Castañer and Romero-Jordán (2016); Mourre and Princen (2015); Creedy and Sanz (2010), [3] leads to the conclusion that by virtue of the

Table 4 **Debt forecasts – a comparison**

Percentage of GDP

	2019	2020	2021
Government (2021 state budget)	95.5	118.8	117.4
AIReF		118.4	116.0
Bank of Spain		116.7 – 117.8	117.1 – 122.8
European Commission		120.3	122.0

Sources: European Commission (2020), Government of Spain (2020a), AIReF (2020), Bank of Spain (2020).

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cyclical component alone, personal income tax revenue may fall with respect to 2019 levels to 83 billion euros (-4.5%); revenue from the consumption taxes, VAT and duties, may drop to 90.6 billion euros (-2.5%); and receipts from corporate income tax may fall to 22.73 billion euros (-4.2%). [4] If we assume the most pessimistic growth scenario foreshadowed by the OECD in which growth reaches just 5% in 2021, the revenue lost in respect of the three main taxes – personal, corporate and indirect taxation – would top 13 billion euros, which is 6.5% less than the government is forecasting. In line with

those figures, the cycle-induced revenue forecast by the government also looks out of sync with the elasticities with respect to the output gap endorsed by the EU’s Economic Policy Committee for calculating the trends in revenue and expenditure for the Spanish economy. Specifically, the elasticities used for these calculations are 1.84 for personal income tax, 1.56 for corporate income tax and 1 for tax on consumption.

As for the discretionary measures, Table 6 summarises the main tax developments

Table 5

Total non-financial public revenue – state and all govt. – 2019-2021

	Revenue in millions of euros						Percentage change	
	2019		2020		2021		2020-2021	2019-2021
	State	Total	State	Total	State	Total	Total	Total
Tax	116,899	212,808	93,922	196,537	121,770	222,107	13.01	4.37
Non-tax	27,905	27,905	26,671	26,671	33,524	33,524	25.69	20.14
Total	144,804	240,713	120,593	223,208	155,294	255,631	14.53	6.20
Key taxes								
	2019		2020		2021		2020-2021	2019-2021
	State	Total	State	Total	State	Total	Total	Total
	Personal income tax	40,736	86,892	36,217	87,419	43.66	94,196	7.8
Corporate income tax	23,733	23,733	17,993	17,993	21,720	21,720	20.71	-8.48
VAT & excise duties	43,165	92,918	31,382	82,795	44,227	94,029	11.95	1.2
Other*	7,100	7,100	5,449	5,449	10,334	10,334	89.64	45.5

Note: *Includes environmental taxation in addition to other unspecified concepts.

Source: Authors' own elaboration based on the Presentation of the Draft State Budget for 2021.

Table 6 **Changes in tax regulations reflected in the 2021 state budget**

Tax regulation change	Impact on tax revenue in 2021 (Millions of euros)
Increase of two percentage points in the marginal rate applicable to taxable earned income of > 300,000 euros and of three percentage points for taxable savings income of > 200,000 euros.*	144
Increase in property tax from 2% to 3% for net worths of > 10 million euros.	339
Modification of the limits on the deduction for contributions to pension plans.	0 - 580**
Increase in rate of VAT on sugary/sweetened drinks from 10% to 21%.	340
Increase in taxation on diesel of 38 euros per 1,000 litres.	0 - 450***
Increase in the excise levied on insurance premiums from 6% to 8%.	455
Limit of 95% on corporate income tax exemption for dividends and capital gains for firms with revenue of > 40 million euros.	473
Tax on financial transactions (0.2% on trades involving the purchase of shares in listed Spanish companies with a market cap of > 1 billion euros).	850
Tax on certain digital services (3% of revenue from advertising, online intermediation and data transmission services) for enterprises with global revenue of > 750 million euros and revenue generated in Spain of > 3 million euros.	750
All measures	3,351

Notes: *Refers to the rates levied on the state tranche for taxable earned income. In the case of savings income, the increase refers to the combined state and regional tranches. **Revenue gain deferred until 2022; in 2021 revenue will not increase. ***The increase in the excise duty levied on diesel was withdrawn during the passage of the budget. The government had initially estimated growth in tax receipts of 450 million euros.

Sources: Government of Spain (2020a).

introduced for 2021 and the revenue gains the government expects them to yield, figures which AIREF has dubbed overly optimistic. As the table shows, in the best-cast scenario, the new discretionary measures will, according to the government, bring in a further 3.35 billion euros, which is not enough to offset the revenue lost on account of cyclical effects. Moreover, the 3.35-billion-euro figure does not factor in the possible loss of revenue associated with behavioural changes which

the tax hikes could induce. It therefore looks as if Spain's public finances will sustain greater revenue fallout than foreshadowed in the state budget for 2021.

Public expenditure

Table 7 sums up the public expenditure figures set down in the 2021 state budget. Public spending is expected to total 456.07 billion euros in 2021, of which 26.63 million

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euros (5.8%) is set to come from the NGEU fund. The plan is to earmark 67% of those European funds to industry and energy (5.62 billion euros), R&D and digitalisation (4.75 billion euros), resilient infrastructure and eco-systems (4.7 billion euros) and healthcare (2.95 billion euros).

The official figures point to growth in state expenditure of 20.1% in 2021 (13.1% excluding the European funds), boosting its weight as

a percentage of GDP from 34.3% to 37.2% (35.0% excluding the NGEU). However, if we layer in the spending contemplated at the regional and local government levels, public expenditure at all levels of government as a percentage of GDP rises to 50.8% (48.0% excluding the European funds). In sum, the government plans to lift spending across all levels of government from 42.1% of GDP in 2019 to 50.8% in 2021, an increase equivalent to approximately 92.5 billion euros.

Table 7

Consolidated general state budget for 2021 (Key aggregates)

Policies	2020	2021 budget			Weight of NGEU	Change	Change
		National	EU	Total			
	(1)	(2)	(3)	(4)	(3)/(2)	(2)/(1)	(4)/(1)
1. Basic public services*	21,517	22,503	193	22,697	0.9	4.6	5.5
2. Social welfare	209,400	222,353	4,040	226,394	1.8	6.2	8.1
<i>Pensions</i>	158,212	163,297	0	163,297	0.0	3.2	3.2
<i>Unemployment</i>	20,820	25,012	0	25,012	0.0	20.1	20.1
<i>Other financial benefits</i>	19,105	20,621	2	20,623	0.0	7.9	7.9
<i>Other benefits</i>	11,263	13,423	4,038	17,462	30.1	19.2	55.0
3. Priority public goods	7,971	8,423	4,948	13,371	58.7	5.7	67.7
<i>Healthcare</i>	2,157	2,242	0	2,242	0.0	3.9	3.9
<i>Education</i>	2,876	3,090	1,803	4,893	58.3	7.4	70.1
<i>Culture</i>	914	948	200	1,148	21.1	3.7	25.6

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Table 7

Consolidated general state budget for 2021 (Key aggregates)

Continued

Policies	2020	2021 budget			Weight of NGEU	Change	Change
		National	EU	Total			
	(1)	(2)	(3)	(4)	(3)/(2)	(2)/(1)	(4)/(1)
4. Economic policy initiatives	29,569	32,189	17,210	49,399	53.5	8.9	67.1
<i>Agriculture, fishing and food</i>	7,624	7,999	407	8,405	5.1	4.9	10.2
<i>Industry and energy</i>	5,477	5,544	5,623	11,166	101.4	1.2	103.9
<i>Commerce, tourism and SMEs</i>	892	941	1,289	2,230	137.0	5.5	150.0
<i>Transport subsidies</i>	2,517	2,621	0	2,621	0.0	4.1	4.1
<i>Infrastructure</i>	5,366	6,832	4,696	11,527	68.7	27.3	114.8
<i>Research, development and innovation</i>	6,377	6,731	4,752	11,483	70.6	5.6	80.1
<i>Other initiatives</i>	1,316	1,521	443	1,967	29.1	15.6	49.5
5. General lines of intervention	111,168	143,970	243	144,213	0.2	29.5	29.7
<i>Public debt</i>	31,547	31,675	0	31,675	0.0	0.4	0.4
<i>Transfers to other levels of government</i>	52,395	70,288	0	70,288	0.0	34.2	34.2
<i>Other initiatives</i>	27,226	42,007	243	42,250	0.6	54.3	55.2
Social expenditure (2+3)	217,371	230,776	8,988	239,765	3.9	6.2	10.3
Total expenditure	379,625	429,438	26,634	456,074	6.2	13.1	20.1

Note: *Justice, defence, citizen safety, foreign policy and international cooperation/development.

Source: Government of Spain (2020a).

The direct expenses of greatest relevance in the budget are pensions (35.8%), public debt service (6.9%) and unemployment benefits (5.4%). Expenditure on pensions is expected to reach 163.3 billion euros in 2021, growth of 3.2% (or 5.09 billion euros) from 2020. That sharp growth is attributable to the interplay of three factors: (i) the agreed pension increases (0.9% for contributory pensions

and 1.8% for non-contributory pensions); (ii) the forecasted increase in the number of pensioners; and, (iii) the forecasted growth in the average pension. The pension increase is based on estimated inflation for 2021 of 0.9% (as is the increase in public sector wages). Expenditure on unemployment benefits is estimated at 25.01 billion euros in 2021 (2020: 20.82 billion euros), growth of 20.1%, even

though the government expects the rate of unemployment to decline by one percentage point this year to 16.1%. The government attributes the growth in this heading to the cost of extending the furlough scheme until January 31st and the extension of the right to continued assistance when unemployment benefits cease from the age of 55 to 52. Further extension of the furlough scheme, which has recently been agreed until May 31st, will have the effect of increasing the cost of unemployment benefits considerably, specifically by an estimated 8.7 billion euros.

Notes

- [1] France is a prime example, having opted to set up a committee of international experts. France's committee is presided by the economists Jean Tirole (Nobel prize-winner in 2014) and Olivier Blanchard (Chief Economist at the IMF between 2008 and 2015). Other renowned members include Dani Rodrik (Harvard), Carol Propper (Imperial College of London), Stefanie Stantcheva (Harvard), Paul Krugman (Nobel prize-winner in 2008) and Peter Diamond (Nobel prize-winner in 2010).
- [2] The Spanish Treasury is expected to issue around 175 billion euros of debt in 2021, taking advantage of the current low rates.
- [3] More specifically, those elasticities are 1.48% for personal income tax, 1% for consumption tax and 1.43% for corporate income tax. It is also assumed that the tax bases will move in tandem with GDP. In reality, that is a conservative assumption as the evidence suggests that tax bases are also elastic to changes in GDP. In short, it is foreseeable that gross household income, consumer spending and corporate profit will move by more than the change in GDP, making it very likely that these revenue projections would ultimately constitute a minimum threshold that would very probably be exceeded.
- [4] Based on those assumptions, in 2020, revenue from personal income tax (due to the cyclical effect) would amount to 72.49 billion euros (-16.6%); revenue from VAT and duties would amount to 82.51 billion euros (-11.2%); and revenue from corporate income tax would amount to 19.93 billion euros (-16.1%).

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