



# Lowering fiscal vulnerabilities in Spain

**Servaas DEROOSE**

**Deputy Director-General  
European Commission, DG Economic and Financial Affairs**

***Spain: From recovery to resilience***

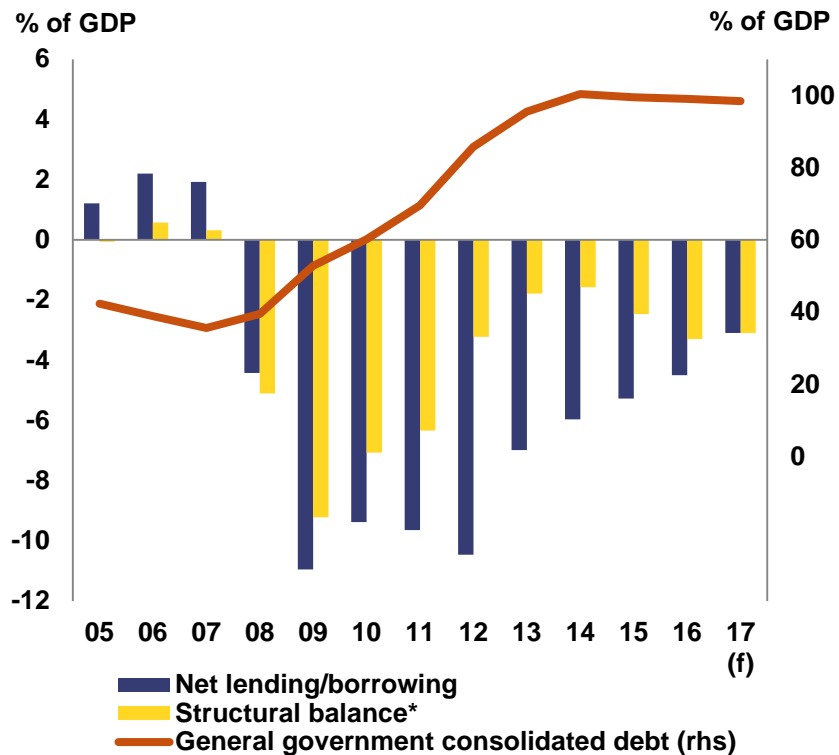
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Madrid, April 3rd 2018**

# Outline

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

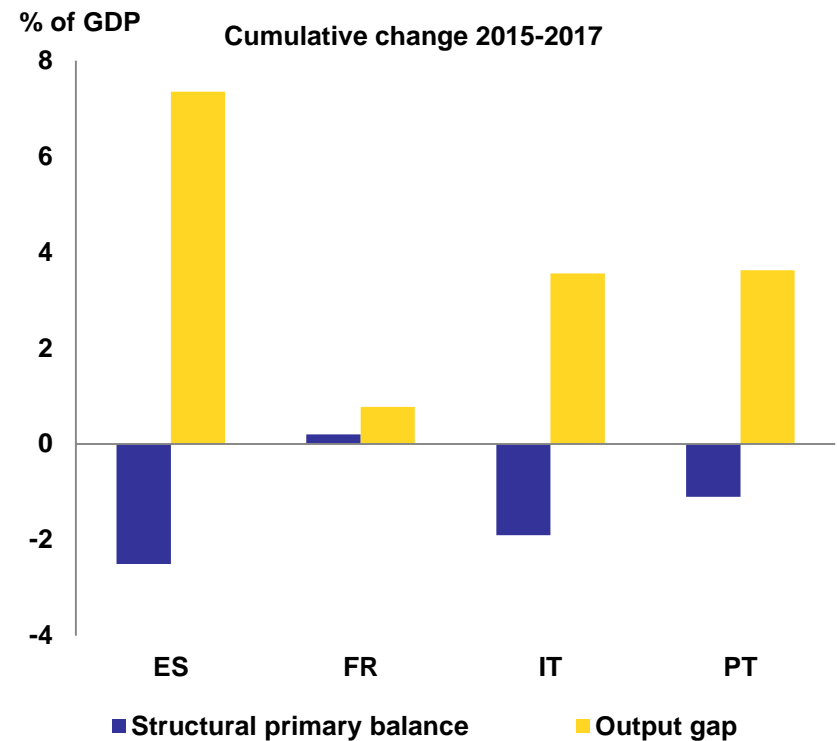
# Avoiding pro-cyclical fiscal stance

## Fiscal stimulus



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

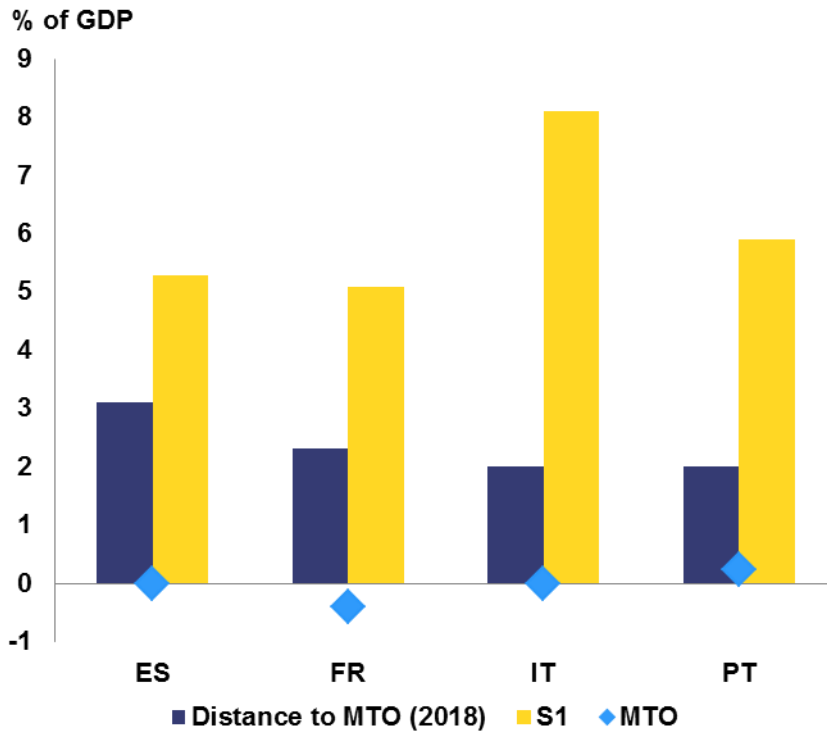
## Closing output gap



Source: European Commission

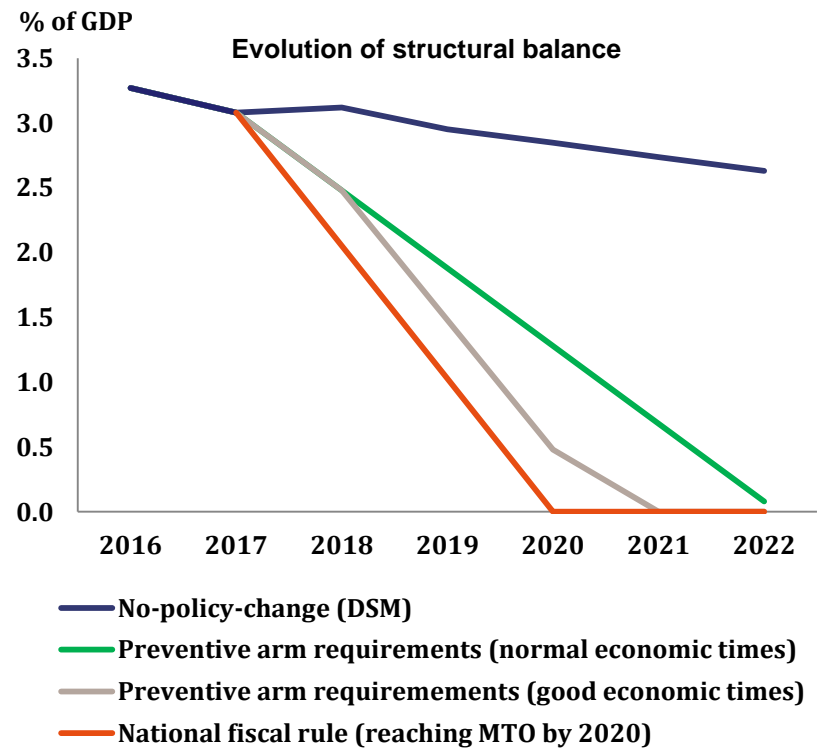
# Rebuilding fiscal buffers

## Large fiscal consolidation needs



Source: European Commission

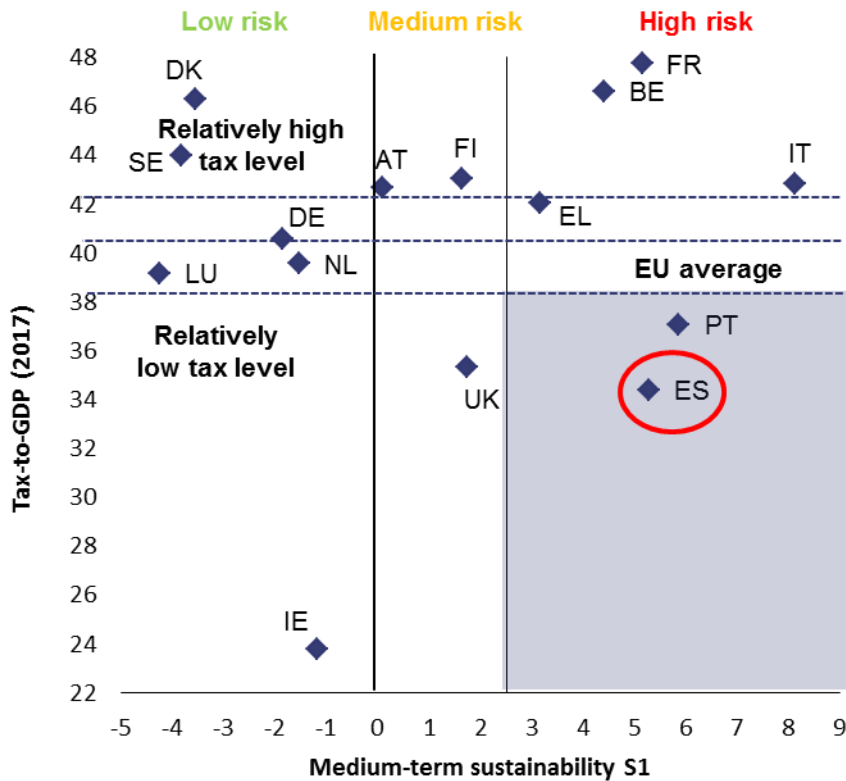
## Possible adjustment paths



Source: European Commission

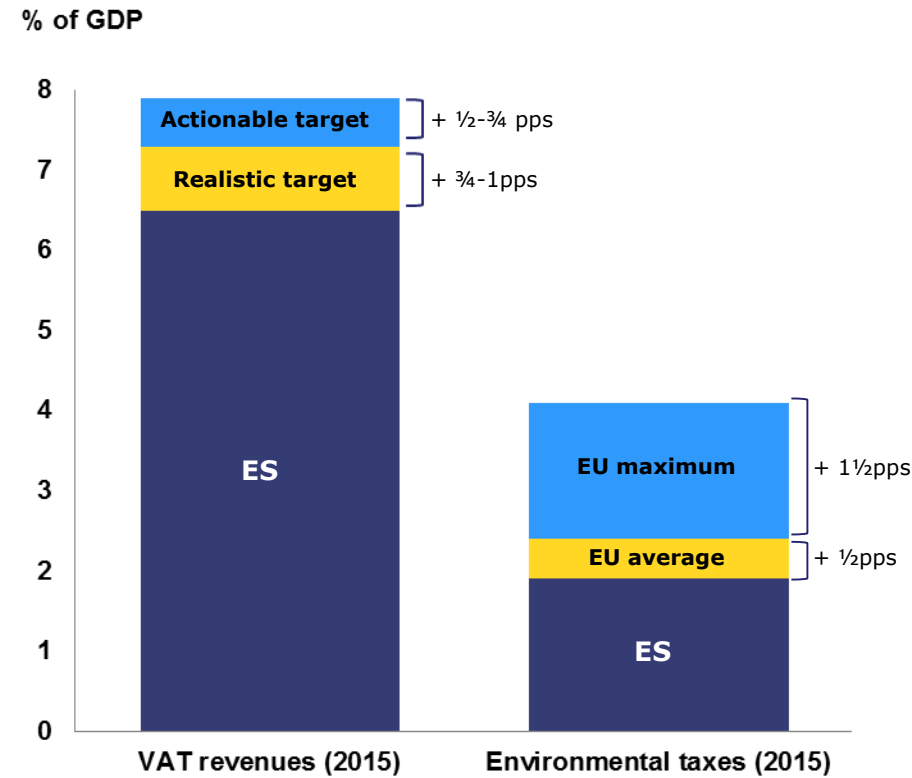
# Acting on the revenue side

## Low tax-to-GDP ratio



Source: European Commission

## Potential to increase tax revenue

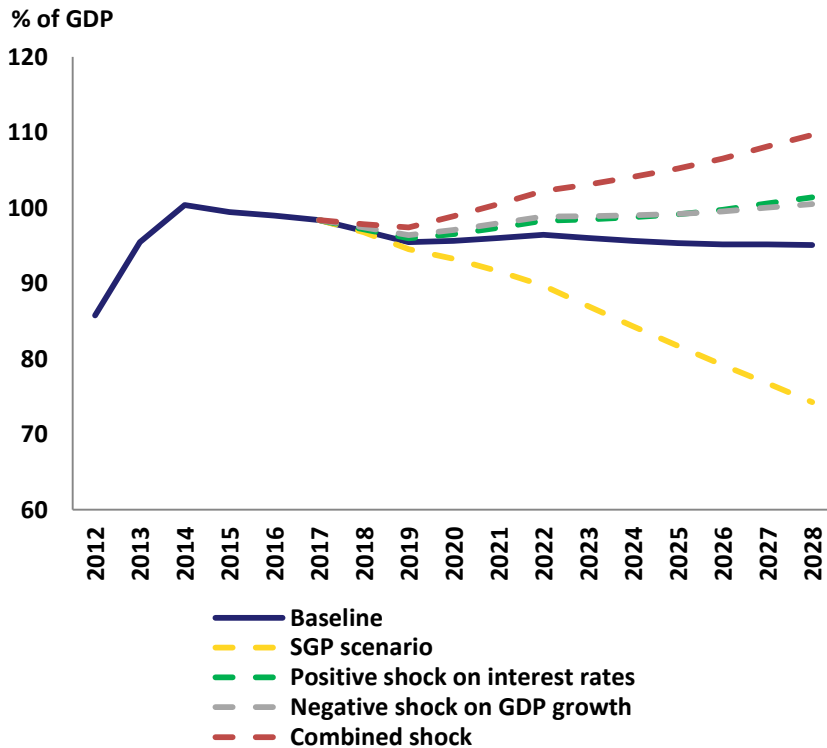


Source: European Commission

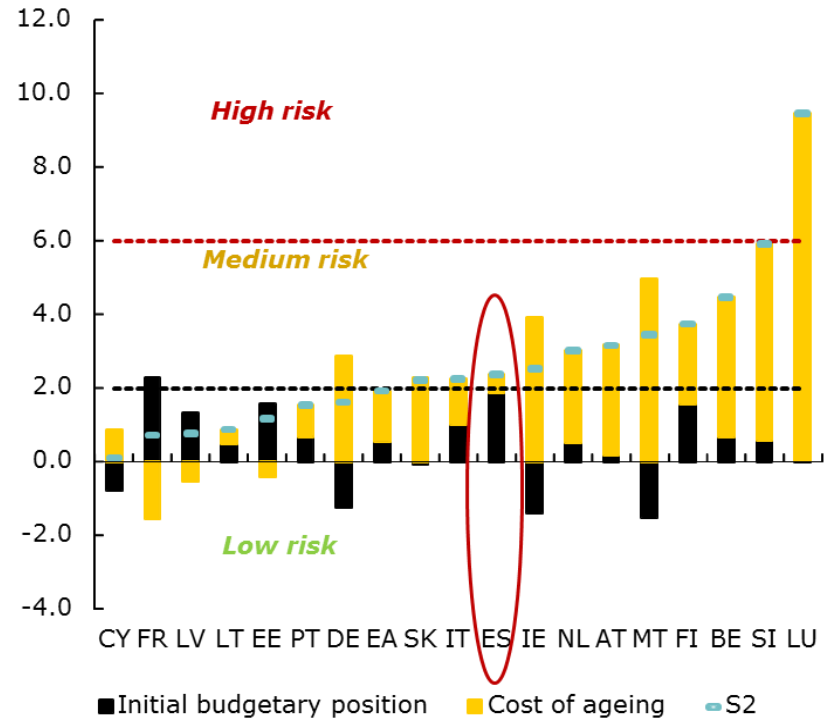
Note: EU maximum for environmental taxes represented by Croatia.

# Safeguarding fiscal sustainability

## Debt ratio vulnerable to shocks



## Moderate long-term risks



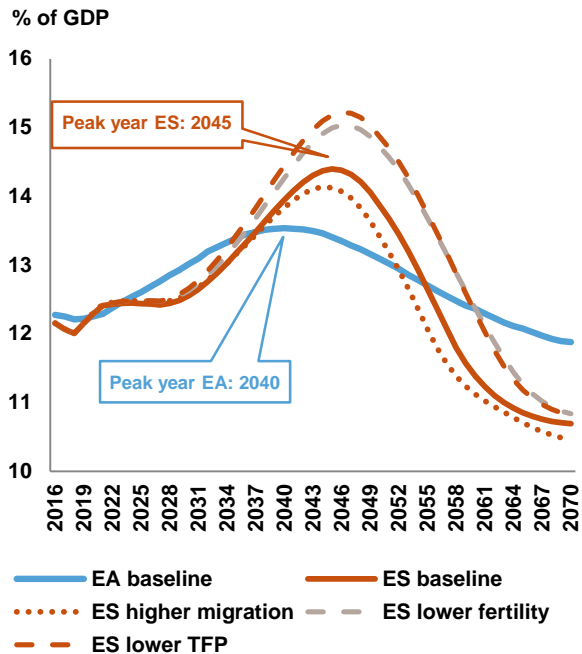
Source: European Commission

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

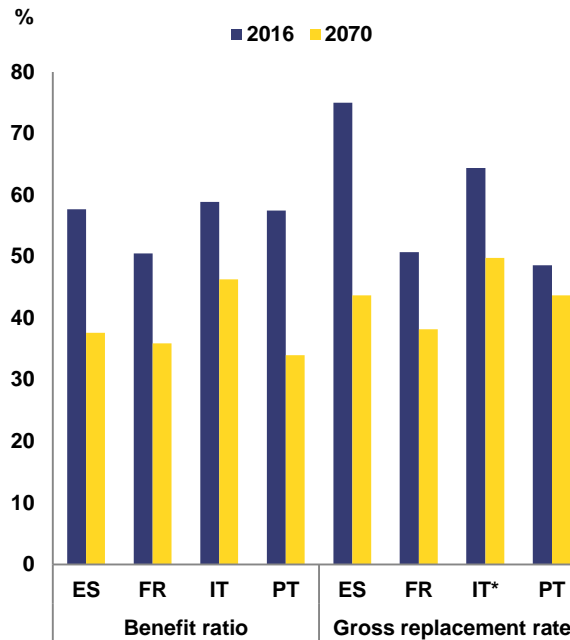
# Addressing fiscal challenge of ageing

## Pension system sustainable in the long run



Source: European Commission

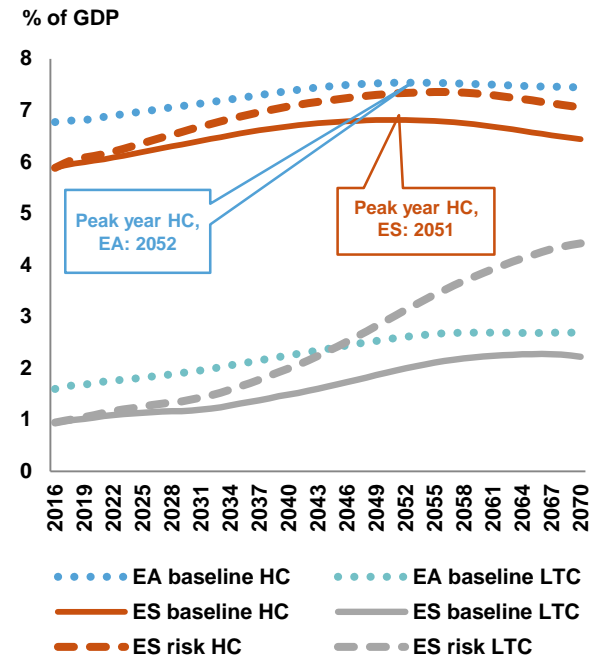
## Future adequacy under pressure



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

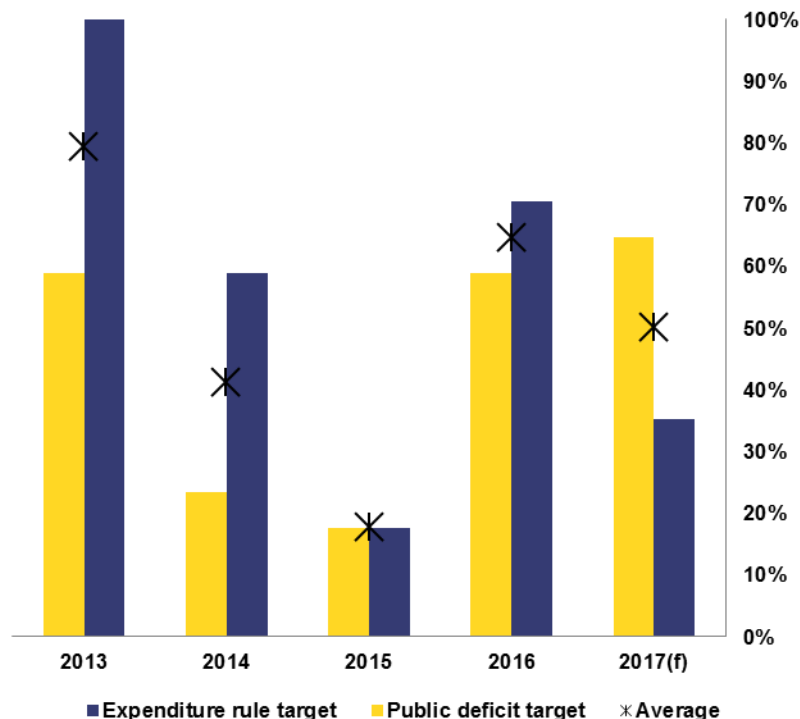


Source: European Commission

# 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