

MONTHLY STABILITY TARGET MONITORING 2021

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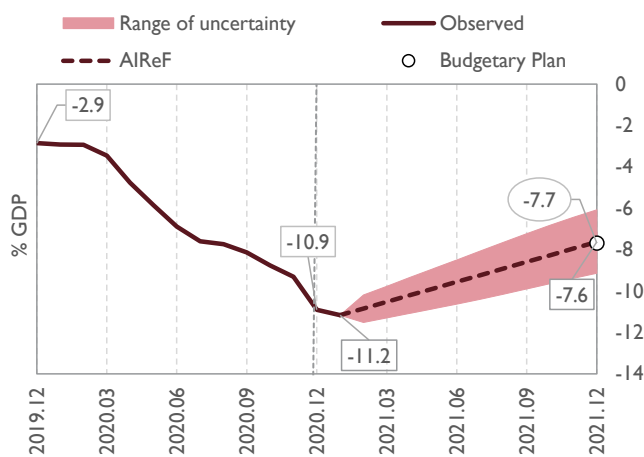
General Government

AIReF publishes the first monthly monitoring factsheet corresponding to 2021. This factsheet incorporates the 2020 year-end data, the information for January and February of the public accounts, the impact of the measures approved since the presentation of the 2021 draft GSB and the update of the macroeconomic scenario for 2021. The results of this forecast are broken down in the [Report on the Initial Budgets of the General Government for 2021](#) published on April 8th, which forecasts a deficit of 7.6% for the General Government, with the largest gap between revenue and expenditure falling on the Central Government, which is expected to stand at 6% of GDP, followed by the SSFs at 1.5% of GDP and the Autonomous Regions with 0.4%. For their part, the Local Governments would offset part of the deficit with a surplus of 0.3% of GDP.

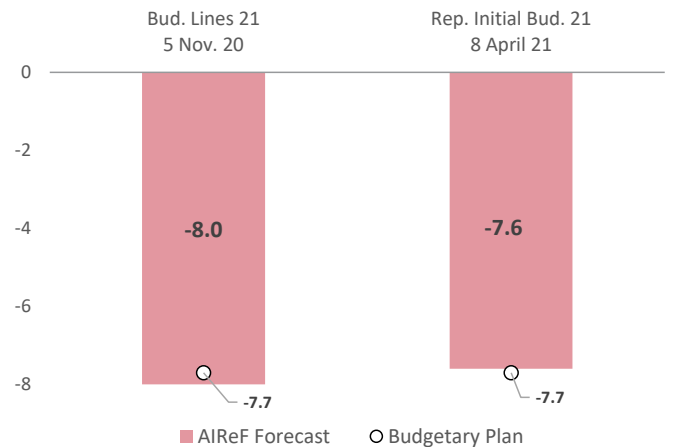
1 AIReF estimates a deficit of 7.6% of GDP, 0.1 points less than that forecast in the Budgetary Plan that the Government sent to Brussels. Cumulative data for the previous 12 months are expected to start to reflect a decrease in the deficit over the year.

2 The deficit forecast is lowered by just over 0.3 points, as the incorporation of new information, mainly for year-end 2020, more than offsets the deterioration caused by the downward revision of the macroeconomic scenario and the adoption of new measures by the governments.

General Government deficit (% GDP)



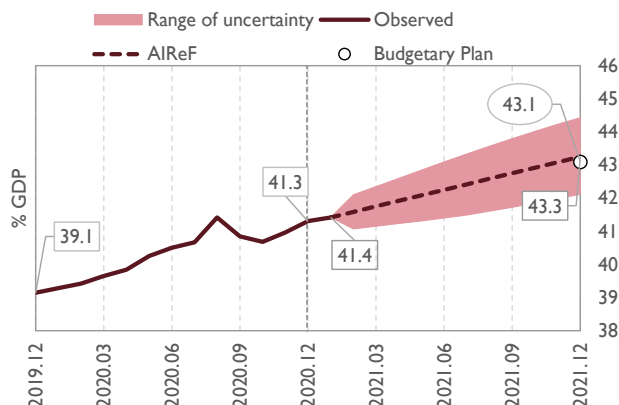
Updated estimated General Government deficit (% GDP) (AIReF)



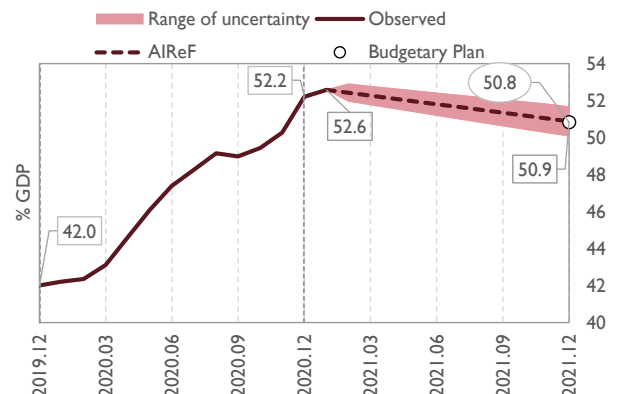
3 A 2-point increase in the weight of revenue over GDP is forecast for the end of the year. This weight would have been lower if the 2.9 points of GDP injected through the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Execution of this plan will need to be assessed over the coming months.

4 Expenditure is expected to start a downward path over the year to reach 50.9% of GDP, as it will grow less than GDP despite the adoption of new measures to mitigate the effects of the pandemic. However, the fall will be cushioned by the spending that will be financed through the RTRP with a neutral effect on the deficit.

GG revenue (% GDP)

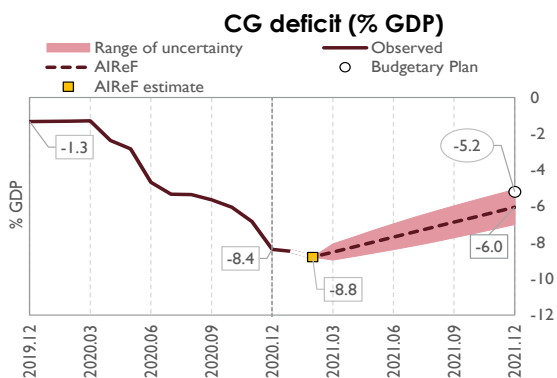


GG expenditure (% GDP)

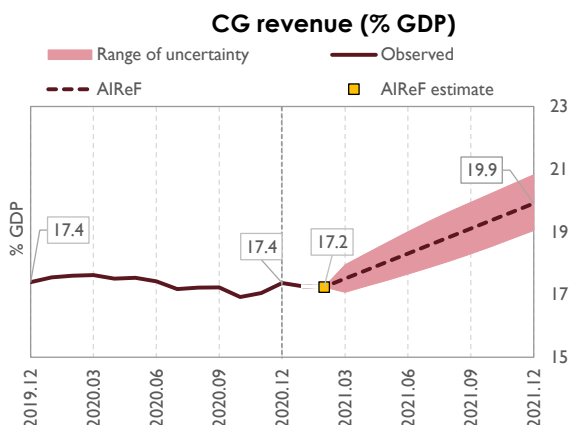


Central Government

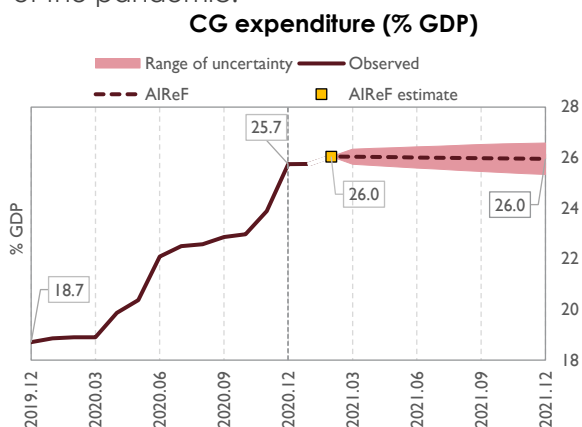
1 AIReF estimates that the CG deficit will reach 6% of GDP, moving away from the forecast of 5.2% that the government included in the Budgetary Plan, which did not include the measures that have been approved since the submission of the 2021 draft GSB.



3 The weight of the annualised variable of revenue over GDP is expected to grow significantly over the year as the CG is the main coordinator of RTRP revenue.

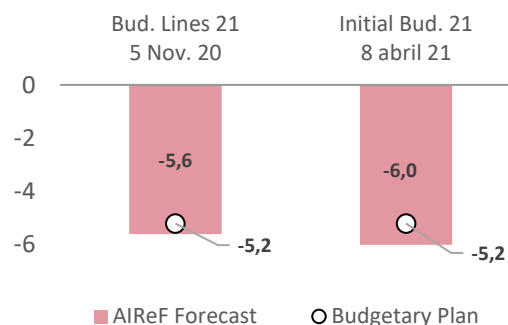


5 Expenditure is forecast to grow at a similar rate to GDP, remaining at 26% of GDP, driven by the spending provided for in the RTRP and the new measures approved to avoid the negative effect of the pandemic.



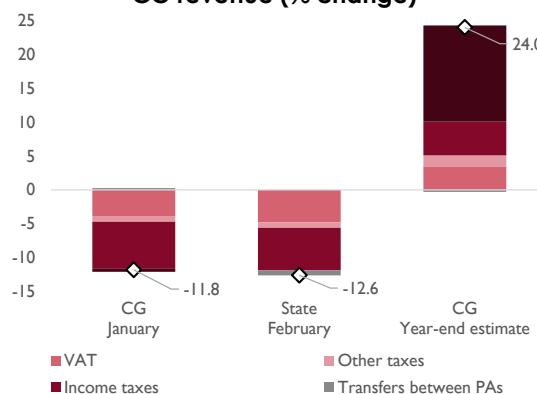
2 The new forecast takes into account the measures approved since the presentation of the draft 2021 GSB and the update of the macroeconomic scenario, which is partially offset by the incorporation of new information and the update of the impact of the measures already approved. All this leads to a worsening of the deficit by 0.4 points to 6% of GDP.

Updated estimated CG deficit (% GDP)



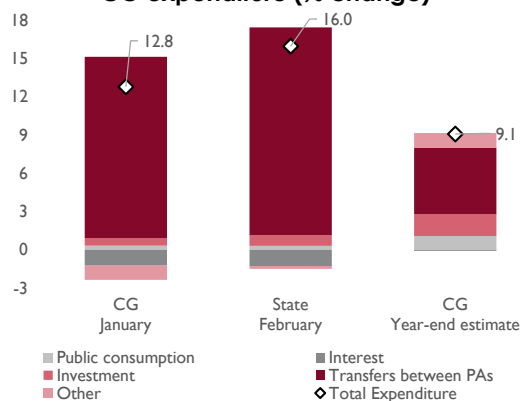
4 The cumulative revenue of the last 12 months up to January for the CG and February for the State still includes sharp falls as they include the months affected by the pandemic. Strong revenue growth is expected at year-end 2021, intensified by the effect of the RTRP funds.

CG revenue (% change)



6 The CG continues to bear a major part of the cost resulting from the pandemic. The largest component of CG expenditure is expected to continue to be transfers to other tiers of government.

CG expenditure (% change)



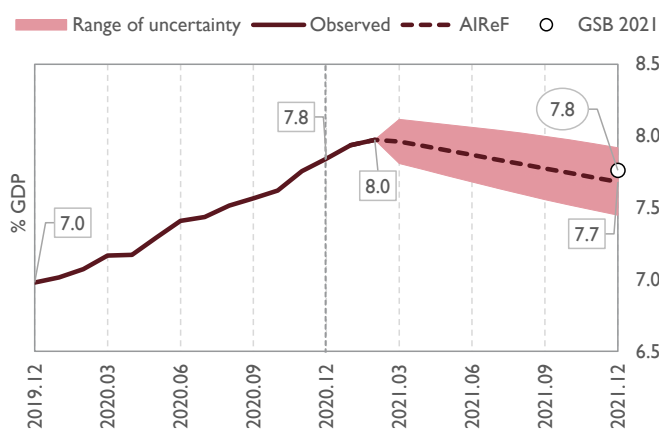
Main revenue items

The data for January and February show the evolution of accrued revenue in the final months of 2020, which is better than expected, although at rates of change that are still compared with months prior to the pandemic. After a start to the year marked by figures indicating a recovery, tax revenue in February fell by 4.3%, mainly affected by a decrease in Special Taxes and VAT.

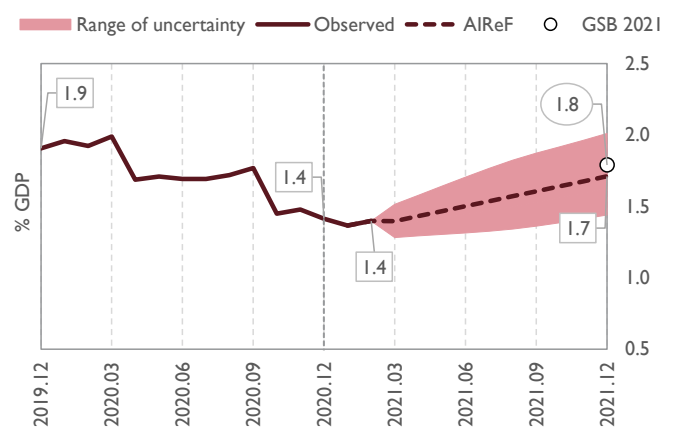
❶ An increase in **PIT** is expected in 2021 that is lower than the increase in economic activity, with a fall in its weight over GDP of 0.1 points. In the first two months of the year, it grew by 2.5% compared with the same period of the previous year, as a result of an increase in gross revenue of 1.5% and lower refunds than in the previous year.

❷ AIReF forecasts growth in **CIT** of 30.9% in 2021, after closing 2020 with a fall of 33.2%. Its weight over GDP is expected to rise by 0.3 points to stand at 1.7%. For the first two months of the year this figure mainly records refunds, so its evolution so far this year, although positive, is unrepresentative.

PIT IN CASH (% GDP)



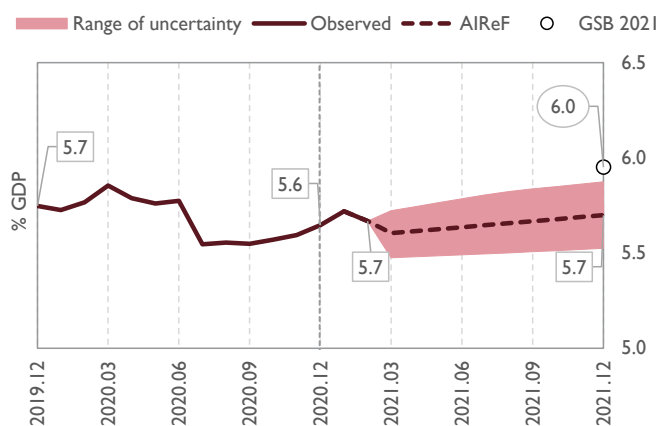
CIT IN CASH (%GDP)



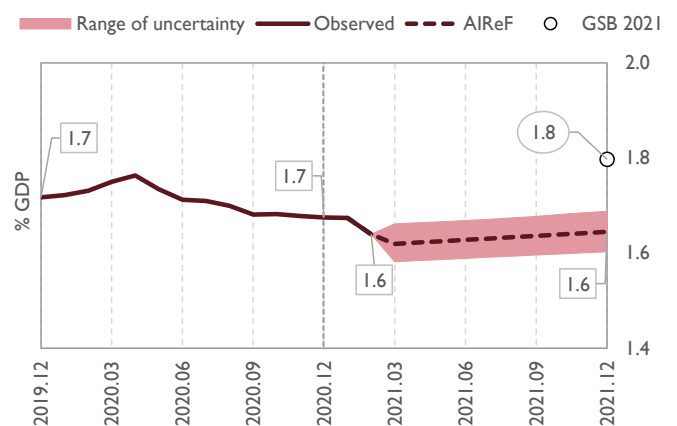
❸ **VAT** will increase its weight as a percentage of GDP by 0.1 points. After closing 2020 with a fall of 11.5%, so far this year, it has recorded a decrease of 2.9%. An upward trend is expected that will reach growth of 9.2% by the end of 2021. Collection in February, which includes the revenue of SMEs in the fourth quarter of 2020, is down in year-on-year terms by 6.1%, although this fall is accentuated by the effect of refunds.

❹ **Special Taxes** as a whole are expected to evolve at a lower rate than economic activity and their weight over GDP is expected to fall by 0.1 points. In February, they are 24.9% down, the largest fall since last June. This was mainly the result of the impact of Storm Filomena on the Hydrocarbon Tax.

VAT IN CASH (% GDP)

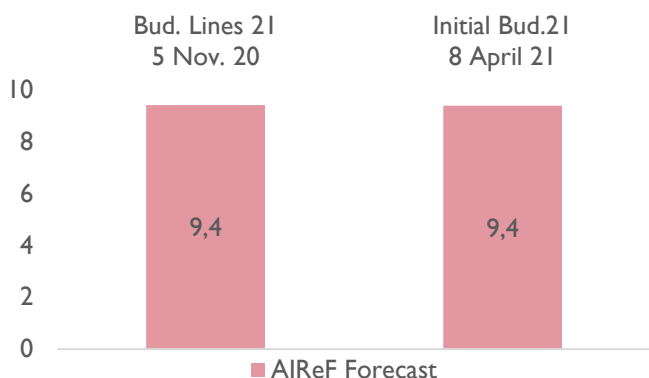


SPECIAL TAXES IN CASH (% GDP)



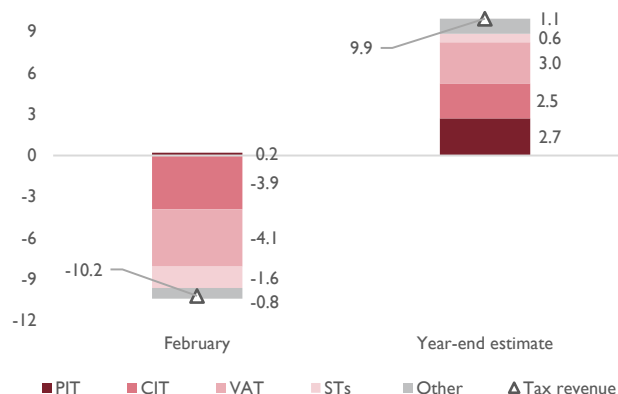
5 AIReF forecasts tax revenue growth for 2021 in terms of national accounting of 9.4% compared with the previous year. After reviewing the macroeconomic forecasts and incorporating the latest available information from 2021 and year-end 2020, which was better than expected, the forecast in terms of rates remains the same as in the November report, although the new estimate is 0.3 points of GDP higher than the previous one.

Updated tax revenue forecast under the ordinary regime NA (% change)



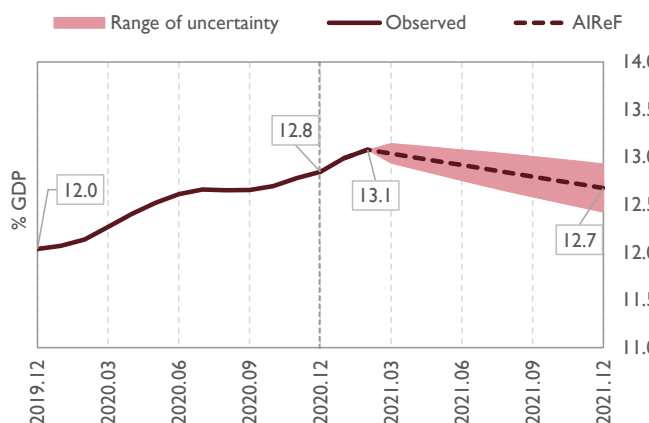
6 12-month cumulative tax revenue up to February is down by 10.2%, with negative contributions from all tax categories except PIT, as it incorporates monthly revenue since March 2020, a period entirely affected by the pandemic. For the end of the year, growth of 9.9% is expected, with VAT being the tax that will contribute most to the recovery.

Contributions to change Cash AIReF (% change)



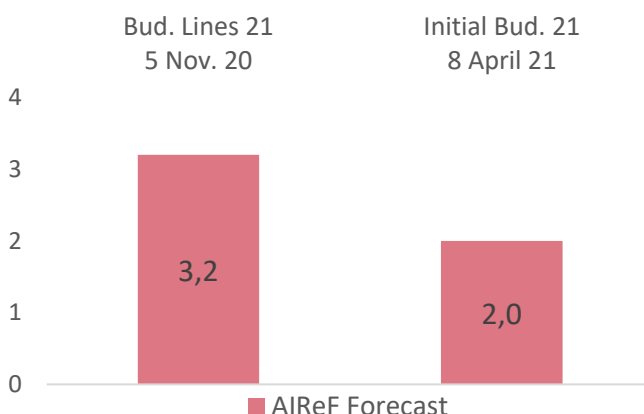
7 Contributions continue to grow slightly following the initial fall at the start of the crisis. This effect is accentuated by the fall in GDP. The improved performance of the economy expected for 2021 means that their weight as a proportion of GDP will fall, despite the positive evolution of employment and subsidies for exemptions, which are expected to last at least during the first half of the year.

Social Contributions (% GDP)



8 AIReF expects contributions to grow over the year, but at a lower rate than that estimated in the November report. Nevertheless, the estimate of the weight of this heading over GDP rises by 0.3 points. This is due to year-end 2020 being more positive than expected.

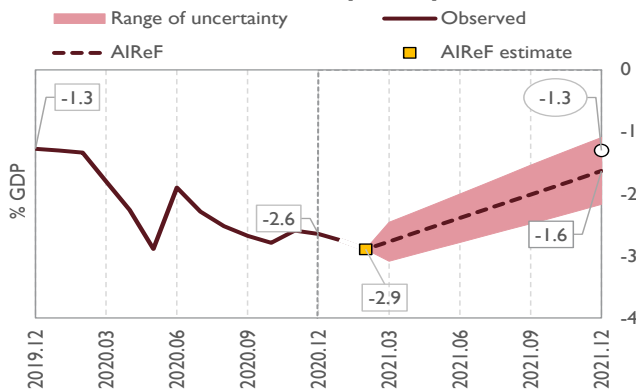
Updated forecast for Social Contributions (% change)



Social Security Funds

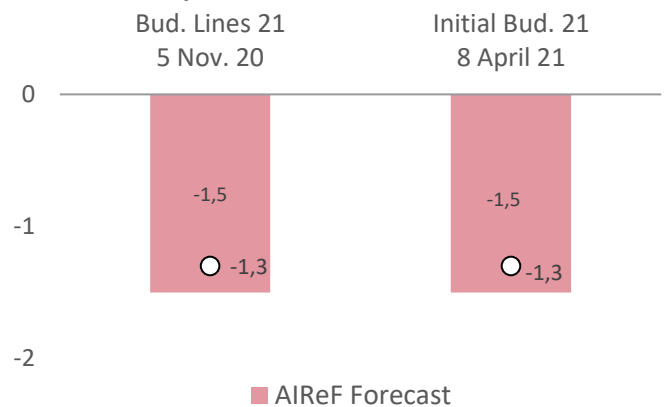
1 AIReF estimates an SSF deficit of 1.5% of GDP. Both revenue and expenditure are expected to fall, but the latter is expected to fall to a greater extent and therefore an improvement in its balance of 1.6 points of GDP is forecast.

SSF deficit (% GDP)



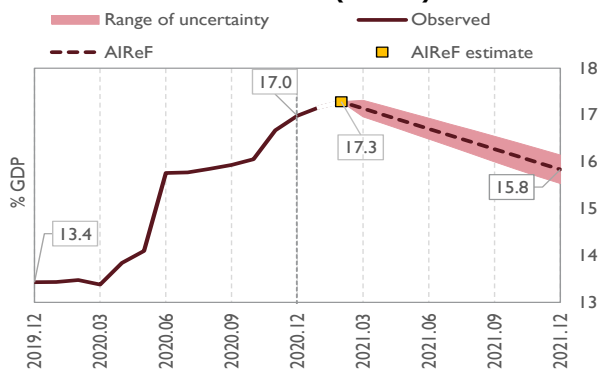
2 The balance is currently the same as estimated in the November report, although the level of revenue and expenditure is raised due to the new transfers received from the CG.

Updated estimated SSF deficit



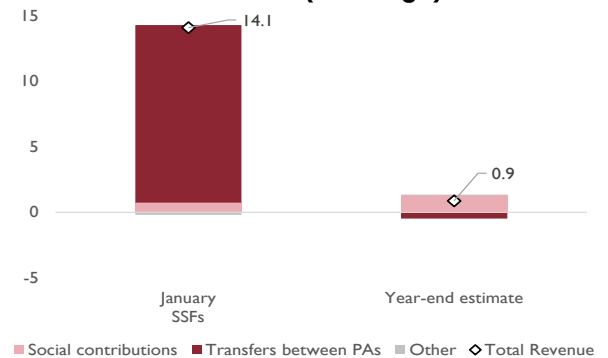
3 The weight of revenue rose in January as a result of a very positive performance from contributions. Over the year, the improvement in economic activity is expected to push down revenue as a result of the denominator effect, even though an increase in contributions and a level of transfers almost identical to that of 2020 are expected.

SSF revenue (% GDP)

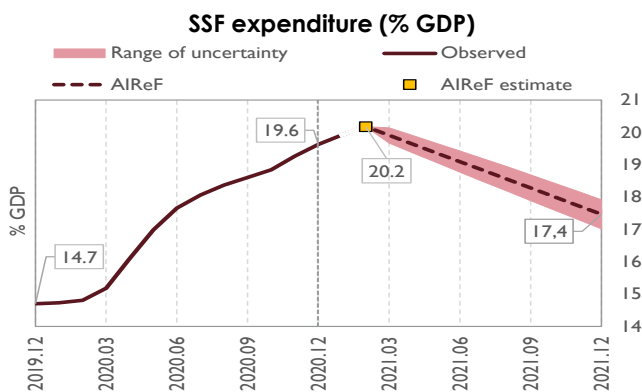


4 The known cumulative data for the last 12 months of National Accounts still shows a very similar result of that of year-end 2020 as they do not yet reflect the fact that the transfers will remain practically the same as in 2020, instead of the increase they had compared with 2019.

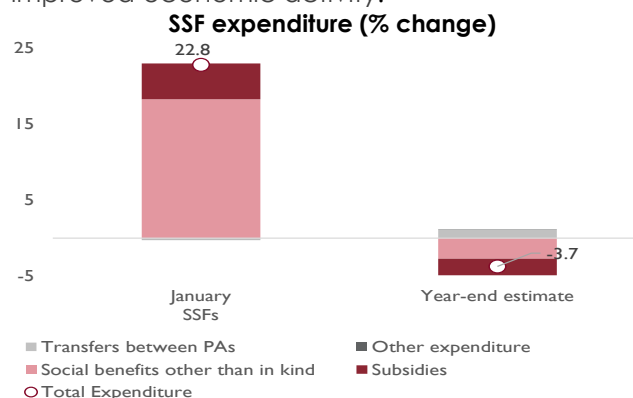
SSF revenue (% change)



5 The evolution of expenditure is expected to change direction both as a result of the denominator effect and as a result of the reduction in cash social benefits.

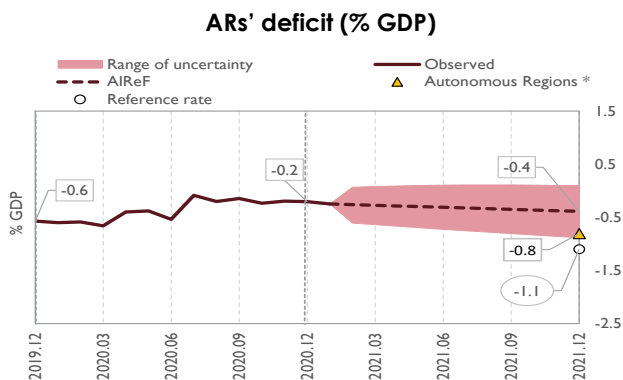


6 The cumulative data from the last 12 months to January continue to reflect what happened in 2020 and not the expectations for 2021. A reduction in the level of expenditure is expected, led by the reduction in cash social benefits due to improved economic activity.



Autonomous Regions

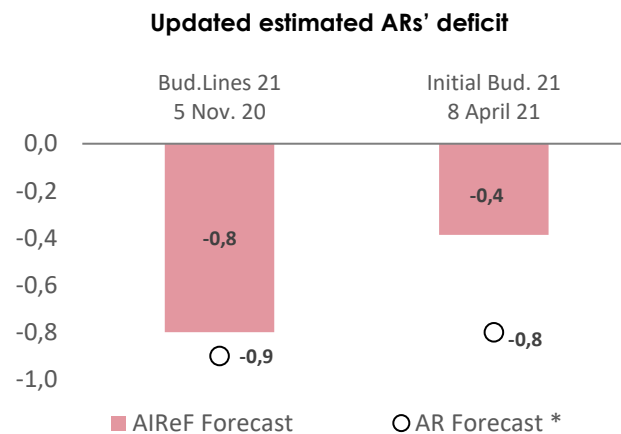
1 AIReF forecasts a deficit of 0.4% of GDP for the Autonomous Regions, with a COVID-19 impact of 0.8% of GDP estimated, 1.4% if support to companies is included, which will largely be offset by transfers from the State.



(*) No Murcia forecasts.

3 Revenue of the Autonomous Regions would grow over 2021 due to the RTRP funds and direct support to companies, to stand at 18% of GDP at year-end. Without this revenue, they would fall to 15.9% of GDP.

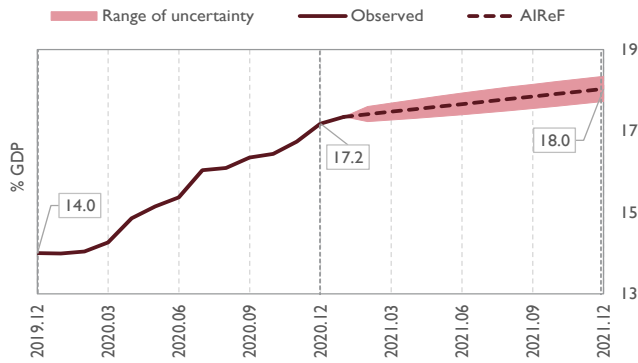
2 Current forecasts improve compared with the Report on the Budgetary Lines, mainly as a result of a better-than-expected year-end 2020. The ARs forecast a higher deficit with a higher level of expenditure.



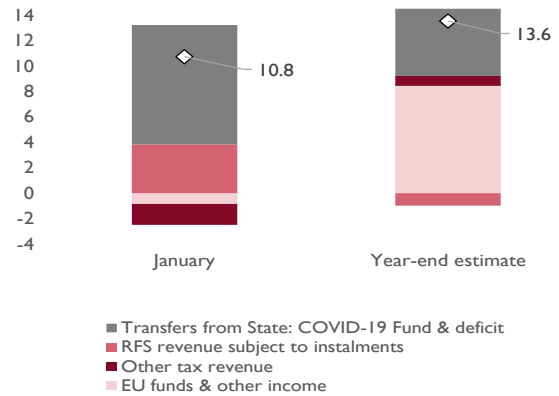
(*) No forecasts for Madrid in Budgetary Lines or Murcia in either report.

4 At year-end, a greater increase in revenue is expected due to the RTRP funds, with the unconditional transfers from the State and other items losing relative weight.

Regions' revenue (% GDP)



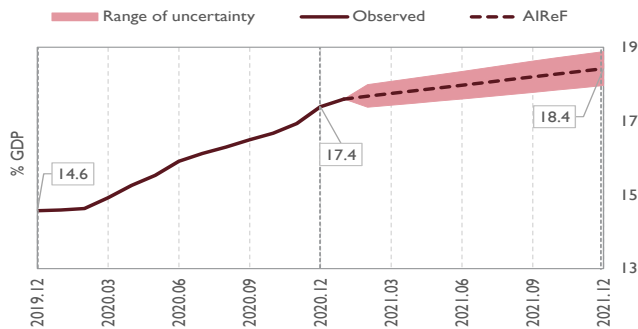
Regions' revenue (% change)



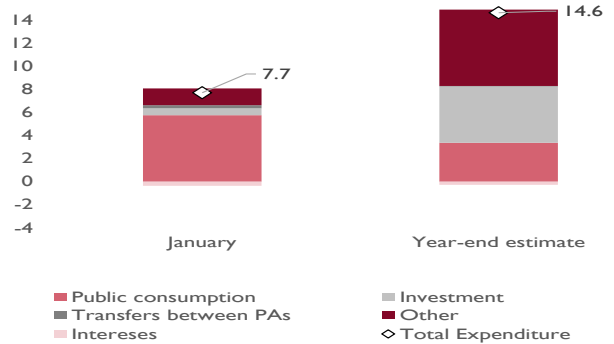
5 Expenditure would amount to 18.4% of GDP at the end of the year, including expenditure financed by assigned revenue. Without it, growth would be moderate, falling to 16.3% of GDP.

6 The increase in expenditure at the end of the year is concentrated in the spending and investments to be financed from RTRP funds and direct support to companies, with public consumption losing relative weight.

Regions' expenditure (% GDP)



Regions' expenditure (% change)



Methodological note

- o AIR^eF's forecasts are updated monthly by incorporating the latest published data in its forecast models for taxes, contributions, unemployment benefits, pensions and interest. Any relevant, announced and approved information that may have an impact at year-end is also included.
- o The forecasts also take into account the latest data published by the General Intervention Board of the State Administration (IGAE) in National Accounting terms, as well as other monthly statistics, such as budgetary execution of the different sub-sectors (Central State Administration, Social Security System, State Public Employment Service (SEPE), Wage Guarantee Fund (FOGASA) and the Regions), monthly information on tax collection from the State Tax Administration Agency (AEAT), the pension payroll (eSTADISS database) and unemployment benefits statistics.
- o The figures included are stated in annualised terms, i.e., as a sum of the last 12 months. The series expresses the flow of what has happened or is expected for the last 12 months up to the indicated month and the data for December therefore matches the annual data.
- o As a result of the health crisis, the monthly pattern of revenue and expenditure has changed dramatically, leading to a great deal of uncertainty with regard to the time distribution of the flows. In these factsheets, AIR^eF does not aim to estimate a monthly total, but instead focuses on what it deems relevant: the flow over the whole of 2021, highlighting how the monthly information, or new announcements, lead to a change in its own estimate.
- o Since monthly data are not published in the local sub-sector, the consolidation of the GG total has been estimated by only taking into account the data known as they affect other sub-sectors (transfers from the State for the financing system, transfers from Provincial Councils to the Basque Country and State).
- o On October 6th 2020, the Council of Ministers requested activation of the escape clause provided for in the Organic Law on Budgetary Stability and Financial Stability, which, following a report from AIR^eF, was approved by Parliament on October 20th. The activation of this escape clause on account of the extraordinary emergency situation caused by the pandemic renders without effect the fiscal rules for 2021, as it did for 2020.
- o However, the deficit forecasts included by the Government in the Budgetary Plan for 2021 sent to Brussels on October 15th 2020 have been taken into account. This document forecasts a deficit for the General Government of 7.7% of GDP, with the following breakdown by sub-sector: for the Central Government (CG) of 5.2% of GDP, for the Social Security Funds (SSFs) of 1.3% of GDP, for the Autonomous Regions of 1.1% of GDP and 0.1% of GDP for the Local Governments. These forecasts are mere references and they do not constitute a restriction on the deficit and therefore any failure to comply with them does not lead to application of the corrective measures provided for in the Organic Law on Budgetary Stability and Financial Stability.
- o AIR^eF's range of uncertainty is estimated using a VAR model with two lags that includes the seasonally-adjusted series of revenue (or income) and expenditure of the sub-sector, nominal GDP, sub-sector debt over GDP and ten-year interest rates. Monte Carlo simulations are performed based on this model. The result of these simulations is sorted in percentiles, from which the bands are obtained. The range of uncertainty of the balance is obtained as the difference between the corresponding revenue and expenditure.
- o AIR^eF's Report on budgetary execution, public debt and the expenditure rule 2020, of July 15th 2020, contains an annex with the main abbreviations and acronyms used.