MONTHLY STABILITY TARGET MONITORING 2021

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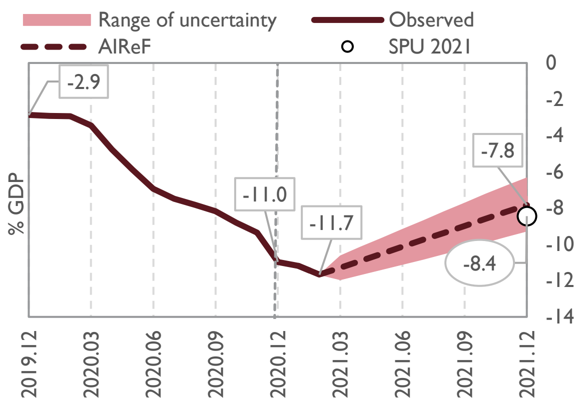
Autoridad Independiente de Responsabilidad Fiscal

General Government

AIReF updates its fiscal scenario for 2021 by incorporating new macroeconomic forecasts and the latest published available data from the public accounts and by updating the impact of the measures relating to ERTEs (furlough schemes) and benefits for cessation of activity. The results of this forecast are broken down in the [Report on the 2021-2024 Stability Programme Update]() published on May 11th, which forecasts a deficit of 7.8% for the General Government, with the largest gap between revenue and expenditure falling on the Central Government, which is expected to stand at 6.1% of GDP, followed by the SSFs, which could stand out 1.8% of GDP and the Autonomous Regions with 0.4%. Local Governments would offset part of the deficit with a surplus of 0.3% of GDP.

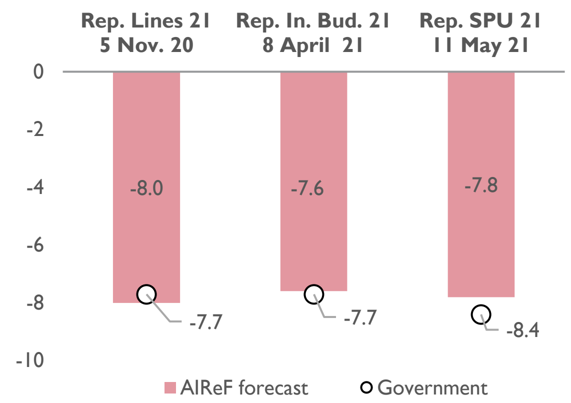
❶ AIReF estimates a deficit of 7.8% of GDP, 0.6 points less than that forecast by the Government in the 2021-2024 stability programme. Cumulative data for the previous 12 months are expected to start to reflect a decrease in the deficit over the year.

General Government deficit (% GDP)



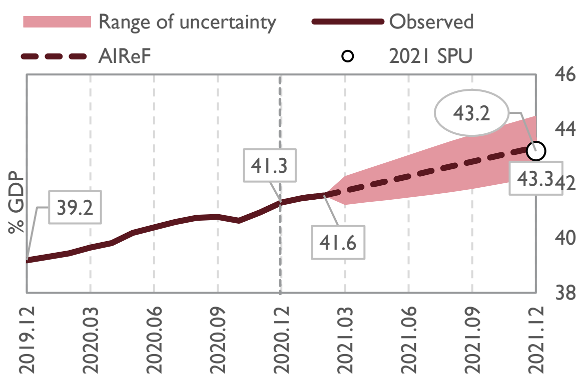
❷ In the ongoing process of the budget cycle assessment, AIReF updates its previous deficit forecast made in April, raising it by 0.2 points of GDP, mainly as a result of introducing the impact of the temporary extension of the measures affecting ERTEs and benefits for cessation of activity.

Updated estimated GG deficit (% GDP) (AIReF)



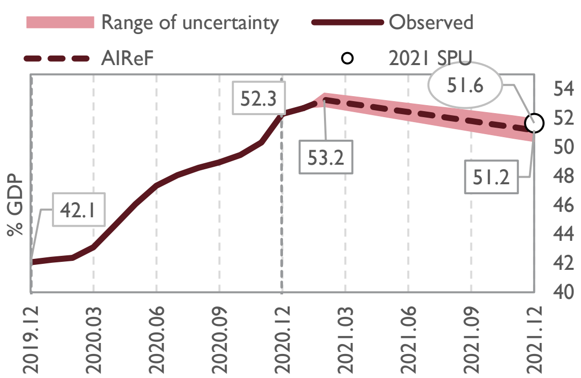
❸ A sharp increase in the weight of revenue over GDP is expected, for which growth of 2 points is expected at the end of the year. This weight would have been lower if the 2.7 points of GDP injected through the Recovery, Transformation and Resilience Plan (RTRP) had not been considered. Execution of this plan will need to be assessed over the coming months.

GG revenue (% GDP)



❹ Expenditure is expected to start a downward path over the year to reach 51.2% of GDP, as it will grow less than GDP despite the new measures adopted to mitigate the effects of the pandemic. The fall will be cushioned by expenditure to be financed through the RTRP with a neutral effect on the deficit.

GG expenditure (% GDP)

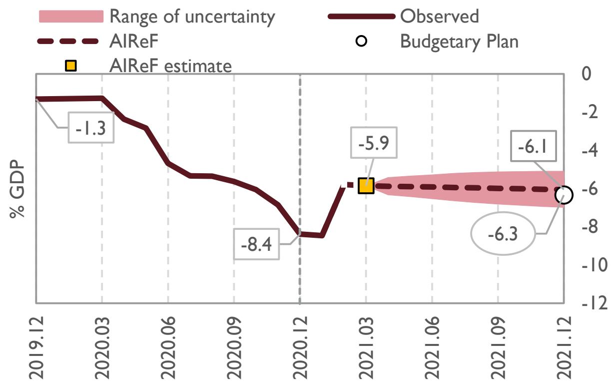


Central Government

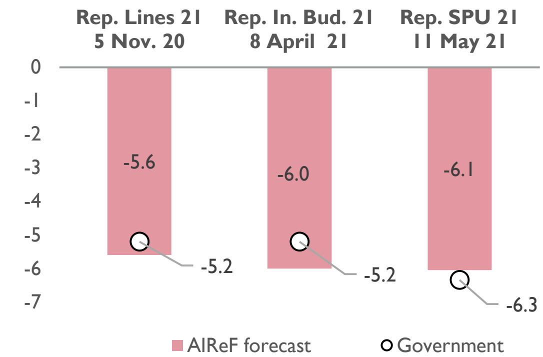
❶ AIReF forecasts that the CG deficit will reach 6.1% of GDP, 0.2 points less than the Government's forecast in the 2021-2024 SPU, in which it includes the COVID-related measures to support companies.

❷ AIReF's new forecast considers the measures approved since the draft 2021 GSB, the incorporation of new information, the updating of the measures already approved and the macroeconomic scenario. This leads to a worsening of the CG deficit by 0.1 points to 6.1% of GDP.

CG deficit (% GDP)



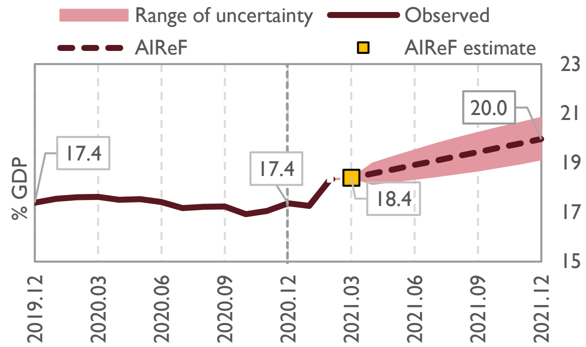
Updated estimated CG deficit (% GDP) (AIReF)



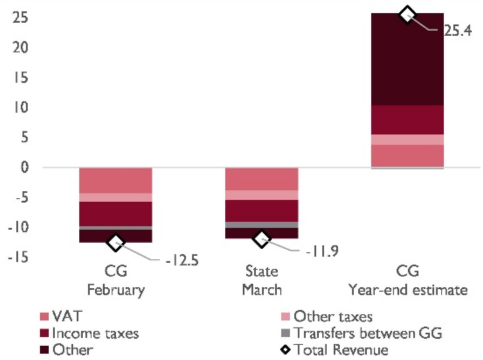
❸ The weight of the annualised variable of revenue over GDP is expected to grow significantly over the year as the CG is the main coordinator of RTRP resources.

❹ The accumulative resources of the last 12 months still show strong declines including the months affected by the pandemic. Strong resource growth is expected at the end of 2021, intensified by the impact of the funds to be financed by the RTRP.

CG revenue (% GDP)



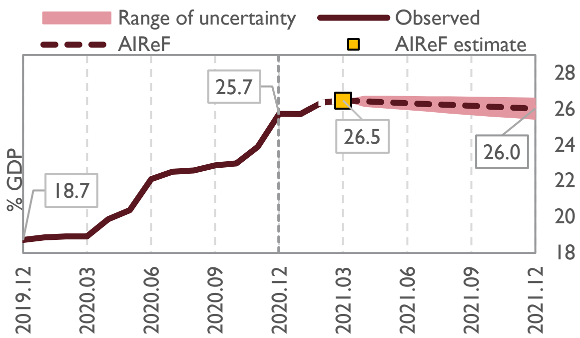
CG revenue (% GDP)



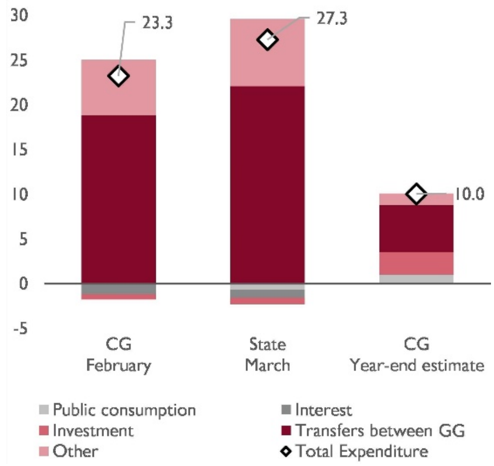
❺ The expenditure forecast is maintained at 26% of GDP by offsetting items of opposite sign. Mainly, the higher non-recurring expenditure for the reversal of the AP-7 motorway concession with the lower RTRP expenditure for 2021 provided for in the SPU.

❻ Transfers to other administrations remain the largest component of the growth in CG expenditure. Expenditure on the RTRP investments is expected to gain weight at the end of the year and has barely been implemented so far.

CG expenditure (% GDP)



CG expenditure (% change)

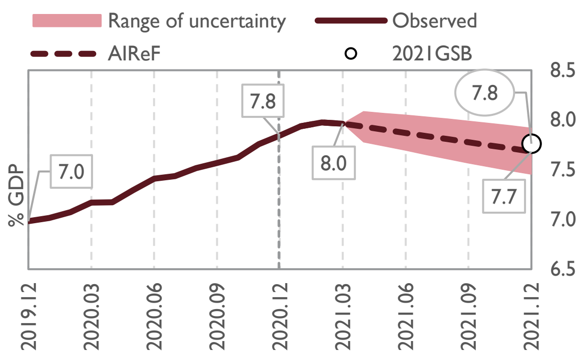


Main revenues

With the incorporation of revenue from March 2021 and considering AIReF's latest macroeconomic forecasts, the estimates for tax revenue and social security contributions for 2021 are updated. Tax collection in March fell by 3.4% compared to March 2020, both in net and in gross terms. This drop is mainly due to the decrease in VAT and, to a lesser extent, Special Taxes. The first quarter closes with a decrease of 3.1%, above the fall of 6% in the last quarter of 2020. In addition, the first revenues from some of the tax measures approved in the 2021 Budget (VAT for sugary drinks and higher rates on the Tax on Insurance Premiums) are recorded, although for the time being with a very small effect.

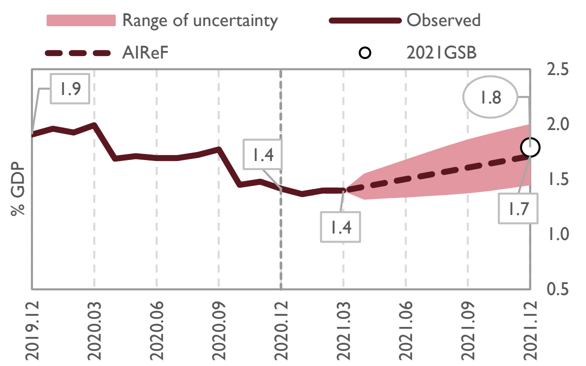
❶ **PIT** is estimated to grow below economic activity, decreasing its weight over GDP by 0.1 points. Up to March, it grew by 2.5%, driven mainly by GG withholdings. The recovery in revenue from private wages, economic activities and instalment payments is expected to result in an increase of 5.6% at the end of 2021.

PIT IN CASH (% GDP)



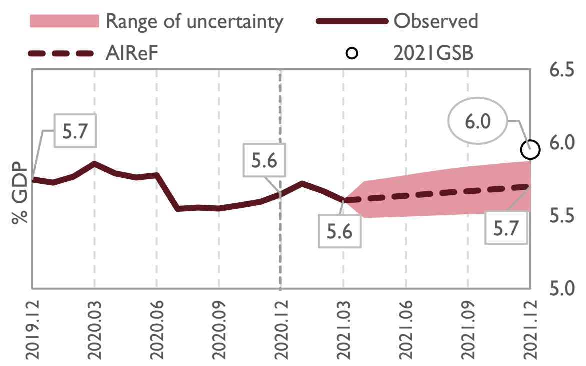
❷ AIReF forecasts that **CIT** will increase its weight over GDP by 0.3 points to stand at 1.7%. After falling in cash terms by 33.2% in 2020, a recovery of 27.3% in 2021 is expected. In the first quarter of the year, this figure mainly records refunds requested in the previous year but very little revenue and so its evolution up to March is not economically significant.

CIT IN CASH (%GDP)



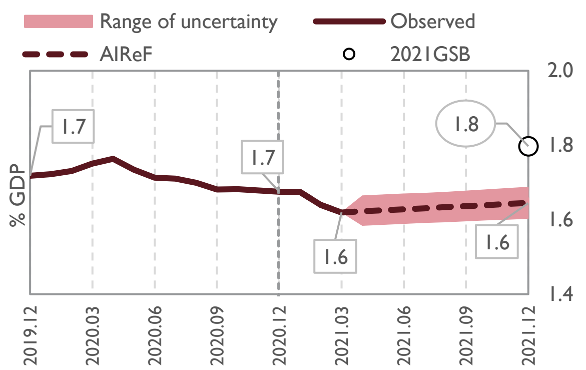
❸ After a positive start to the year, VAT fell by 13.9% in March, mainly due to the accrual of January, a month that was severely affected by mobility restrictions and the storm "Filomena". So far this year It has fallen by 4.9% and is expected to rise in the following months to reach growth of 9.5% at the end of the year.

VAT IN CASH (% GDP)



❹ **STs** are expected to grow at a lower rate than economic activity. In March, they fell by 10.6% mainly because of the Hydrocarbon Tax, which is still heavily affected by mobility restrictions.

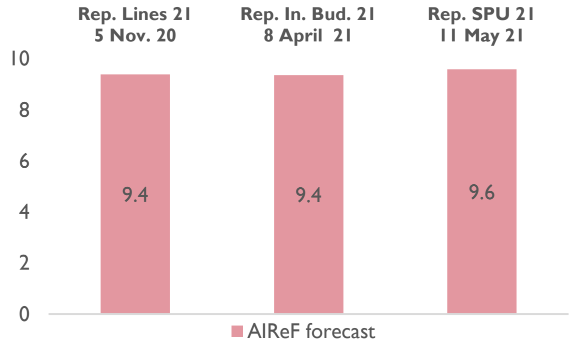
SPECIAL TAXES IN CASH (% GDP)



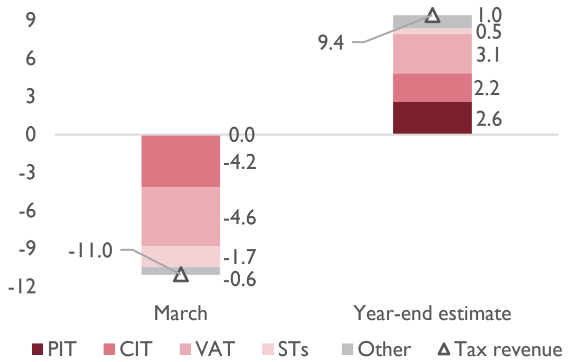
❺ After updating the macroeconomic scenario and incorporating the tax information up to March, and the amounts accrued for the first quarter of 2021, AIReF revises its revenue forecast in National Accounting terms and estimates growth of 9.6% at the end of the year, 0.2 points higher than the April report.

❻ 12-month cumulative tax revenue up to March is down by 11%, the largest drop in the last year as it incorporates monthly revenue since April 2020, a period which is affected by the pandemic in its entirety. Apart from PIT, which already has a positive contribution, all tax categories will reverse their trend and achieve combined growth of 9.4% at the end of 2021, with VAT being the tax that will contribute most to the recovery.

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



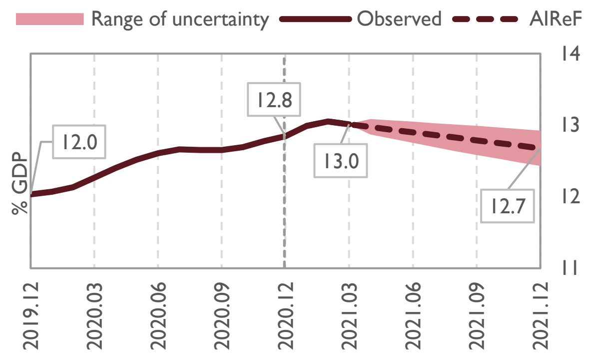
Contributions to change. Cash AIReF (% change)



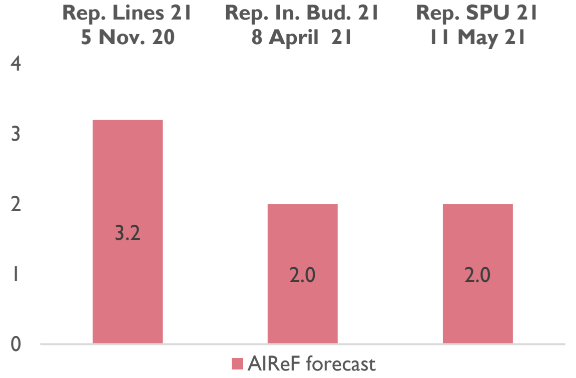
❼ Contributions maintain slight growth following the initial fall at the start of the crisis. This effect is accentuated by the fall in GDP. The improved performance of the economy expected for 2021 means that their weight as a proportion of GDP will fall, despite the positive evolution of employment and subsidies for exemptions, which are expected to last at least until the end of the year.

❽ AIReF expects contributions to grow over the year, maintaining the growth forecast of 2% contained in the previous report. The weight of this heading over GDP is expected to fall by 0.1 points compared with the weight in 2020. This is a result of the higher expected growth in economic activity compared with that of revenue from contributions.

Social Contributions (% GDP)



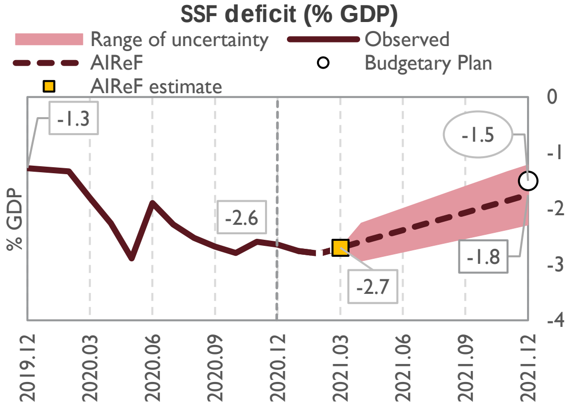
Updated forecast for Social Contributions (% change)



Social Security Funds

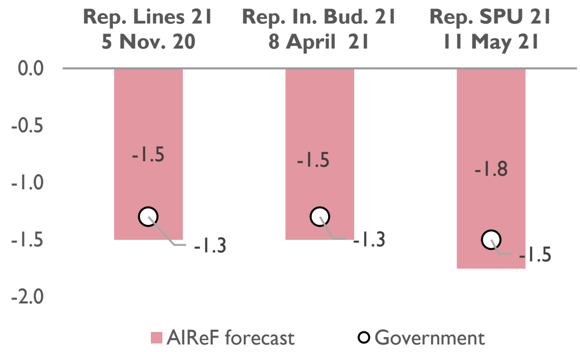
❶ AIReF estimates a SSF deficit of 1.8% of GDP. The weight of both revenue and expenditure is expected to fall, but the latter is expected to fall to a greater extent and therefore an improvement in its balance compared with 2020 is forecast.

SSF deficit (% GDP)



❷ The forecast of the balance worsens compared to the previous report, mainly as a result of the temporary extension of the measures affecting ERTEs and the benefit for cessation of activity of self-employed workers, which are extended until the end of 2021 in AIReF's central scenario.

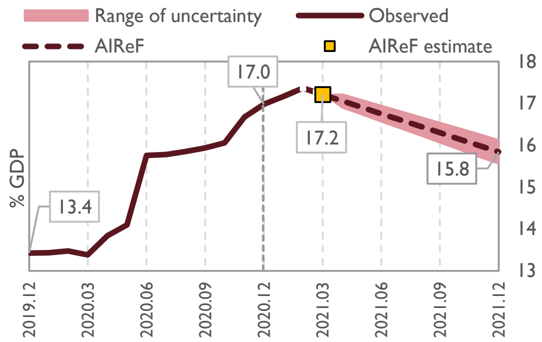
Updated estimated SSF deficit (% GDP) (AIReF)



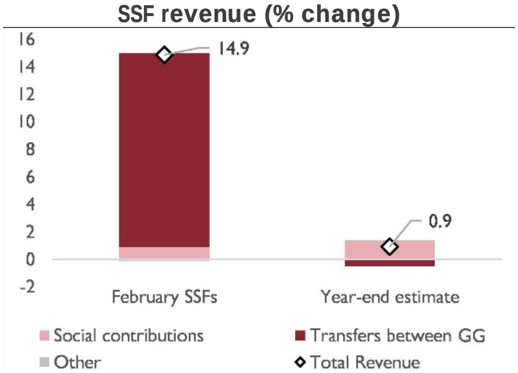
❸ The weight of revenue rose in February as a result of the very positive performance of contributions, which grew by 2.8% compared with the cumulative figure in February last year. Over the course of the year, the improvement in economic activity is expected to push down the weight of revenue.

❹ The accumulated known data for the last 12 months of National Accounts still shows a very similar result to that of 2020 closure as they still do not reflect that the transfers are going to remain almost identical compared to 2020, instead of the increase they had on 2019.

SSF revenue (% GDP)



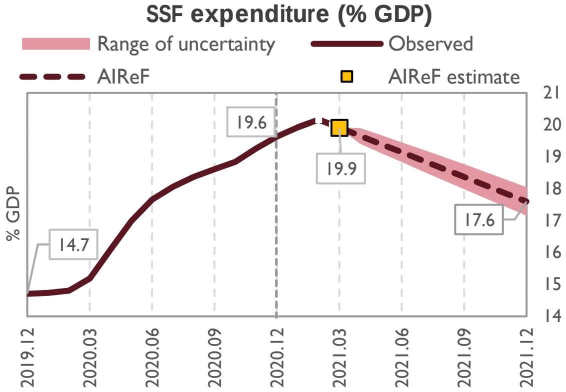
SSF revenue (% change)



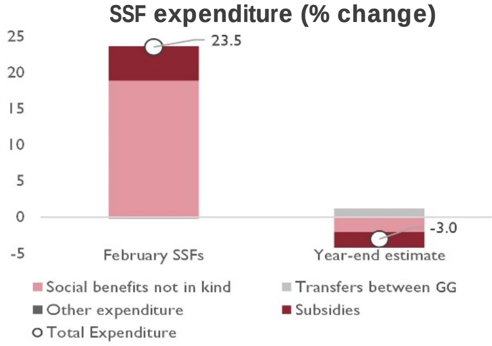
❺ The evolution of expenditure is expected to change direction both by the denominator effect and by a reduction in cash social benefits.

❻ The cumulative data for the last 12 months to February 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.

SSF expenditure (% GDP)



SSF expenditure (% change)

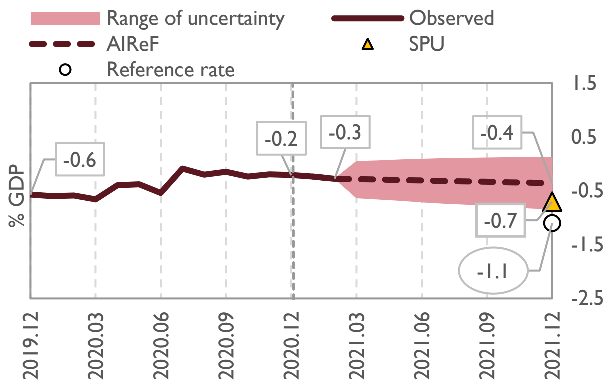


Autonomous Regions

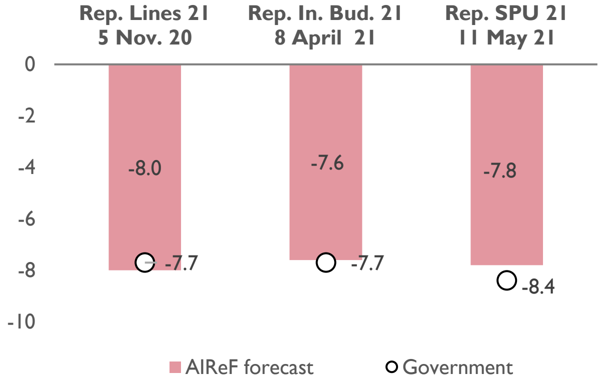
1 AIReF continues to forecast a deficit of 0.4% of GDP for the Autonomous Regions, with a COVID impact of 0.8% of GDP (1.4% with support to companies), offset by transfers from the State.

2 Forecasts remain unchanged with respect to the budget report. The SPU forecasts a sharper deficit for the sub-sector than the one estimated by AIReF.

Regions' deficit (% GDP)



Updated estimated Regions' deficit (% GDP) (AIReF)

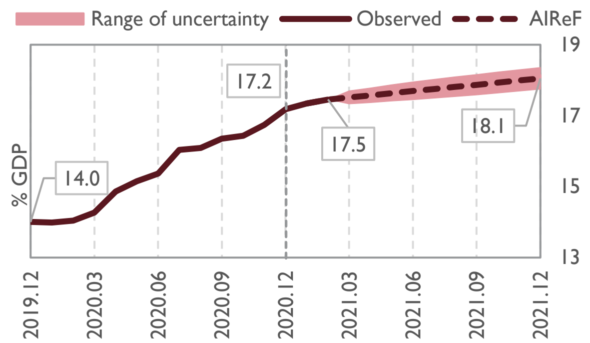


(*) No forecasts for Murcia or, in Budgetary Lines, for Madrid

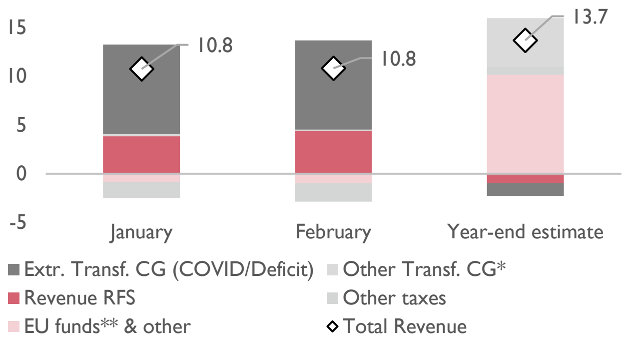
3 Revenues of the Autonomous Regions would grow over the year thanks to the RTRP funds and direct support to companies, uo to 18.1% of GDP. Without these resources, they would maintain a level like the previous year, falling to 15.9% of GDP.

4 Over the last 12 months, the growth in resources has been sustained by unconditional transfers from the CSA. At year-end, a greater increase is expected, mainly as a result of the RTRP funds and the support for companies.

Regions' revenue (% GDP)



Regions' revenue (% change)

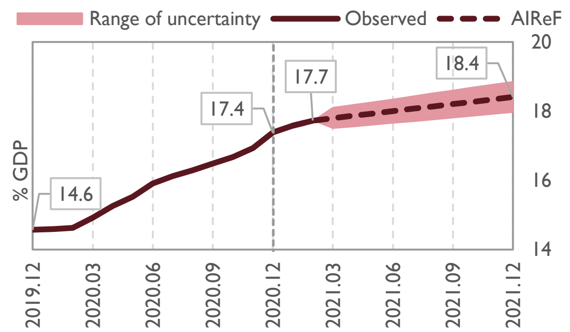


(*) Includes support to companies, not RTRP funds
(**) Includes transfers from the CG as a result of RTRP funds

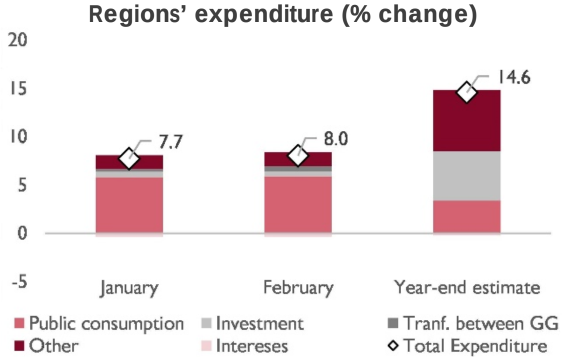
5 Revenues would reach 18.4% of GDP, by the end of the year, including expenditure financed with assigned revenue. Without them, growth would be moderate, falling to 16.3% of GDP.

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

Regions' expenditure (% GDP)



Regions' expenditure (% change)



Methodological note

- AIReF'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.
- 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 benefit statistics.
- 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 match the annual data.
- As a result of the health crisis, the monthly pattern of revenue and expenditure has changed sharply, causing great uncertainty as to the temporary distribution of flows. In these factsheets, AIReF does not intend to estimate a monthly total, but focuses on what it considers relevant: the flow throughout the 2021, highlighting how the monthly information, or new announcements, causes a change in its own estimates.
- Since monthly data are not published in the local sub-sector, the consolidation of the General Government total has been estimated by considering the pay-outs by transfer from the State to Local Governments under the financing system on a monthly basis and the payments from the Provincial Councils to the CSA on the quota basis and to the Regional Government of the Basque Country.
- 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 AIReF, was approved by Parliament on October 20th. The activation of this escape clause as a result of the extraordinary emergency caused by the pandemic renders, as it happened in 2020, to rescind the fiscal rules for 2021.
- However, the deficit forecasts made by the Government in the Updated Stability Programme 2021-2024, submitted to Brussels on April 30th, have been considered. This document forecasts a deficit for the whole General Government of 8.4% of GDP with the following breakdown by sector: for the Central Government (CG), 6.3% of GDP; for the Social Security Funds (SSFs), 1.5% of GDP; for the Autonomous Regions (ARs), 0.7% of GDP and for Local Governments (LGs), budget balance. These forecasts are mere references and they do not constitute a limitation to the deficit and therefore non-compliance does not entail the application of the corrective measure of the Organic Law on Budgetary Stability and Financial Stability.
- AIReF'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.
- AIReF'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.