

MONTHLY STABILITY TARGET MONITORING 2021

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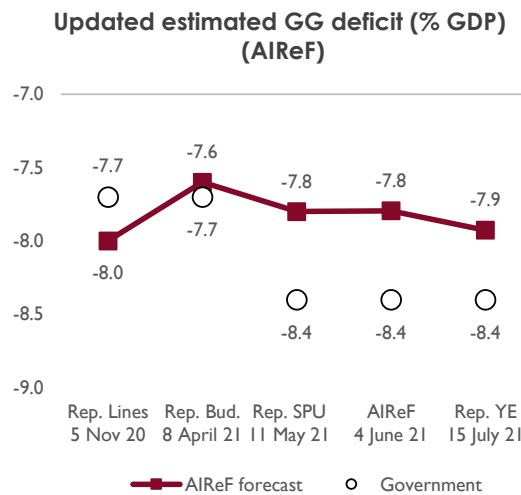
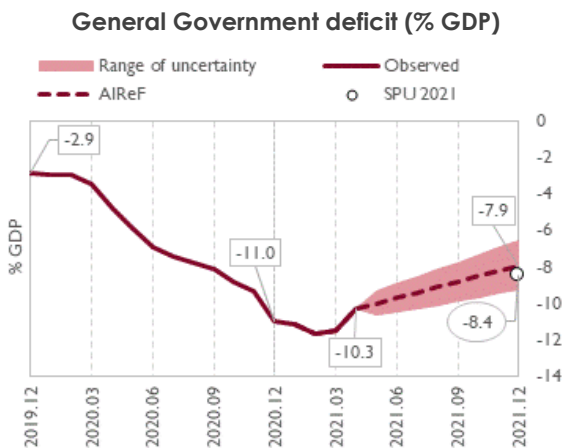


General Government

AIReF updates its forecast for the General Government deficit to 7.9% of GDP in 2021, 0.1 points higher than in last month's factsheet. This increase is the result of the interaction of various opposing factors, such as the adoption of new measures and the incorporation of the latest results of the implementation recorded up to the month of May. An update of the macroeconomic scenario, which remains largely unchanged compared with the previous scenario, has also been included. The [Report on Budgetary Execution, Public Debt and the Expenditure Rule 2021](#) breaks down the evolution of each of the headings that affect the balance of the GG. With regard to the distribution of the deficit between sub-sectors, the CG is expected to account for 6.1% of GDP, the SSFs for 1.6% and the Autonomous Regions for 0.5%, with the Local Governments expected to achieve a surplus of 0.3%.

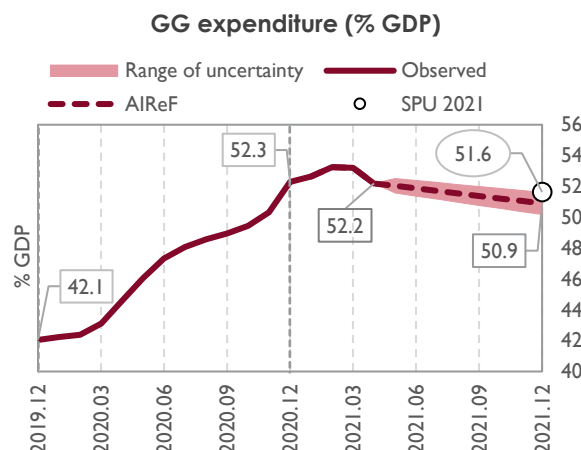
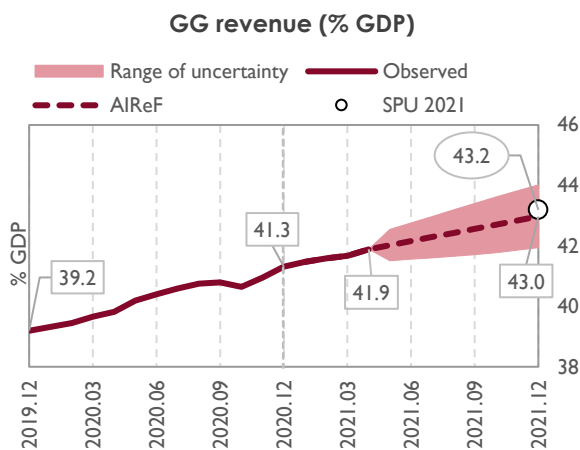
1 The accumulated deficit figure up to April of the previous 12 months continues its downward progression by falling once again compared with the previous month and is expected to stand at 7.9% of GDP at the end of the year, 0.5 points lower than that forecast by the Government in the 2021-2024 Stability Programme Update.

2 In AIReF's latest report for year-end 2021, the deficit forecast has been updated again with respect to that of June, raising it by 0.1 points of GDP.



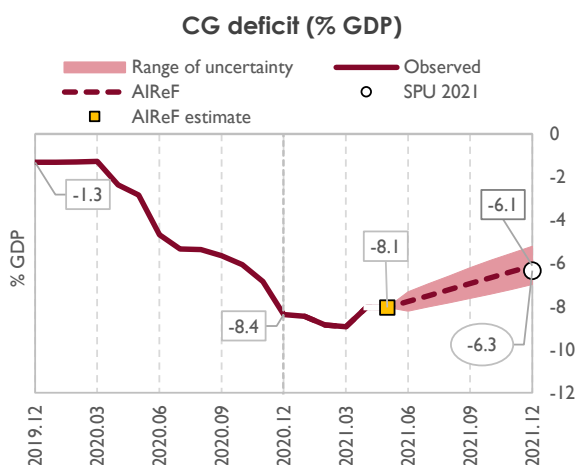
3 A sharp increase in the weight of revenue against GDP is forecast, with growth of 1.7 points expected at the end of the year. This weight would have been lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Implementation of this plan will need to be assessed over the coming months.

4 AIReF expects expenditure to start a downward path over the year to stand at 50.9% 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 the spending that will be financed through the RTRP with a neutral effect on the deficit.

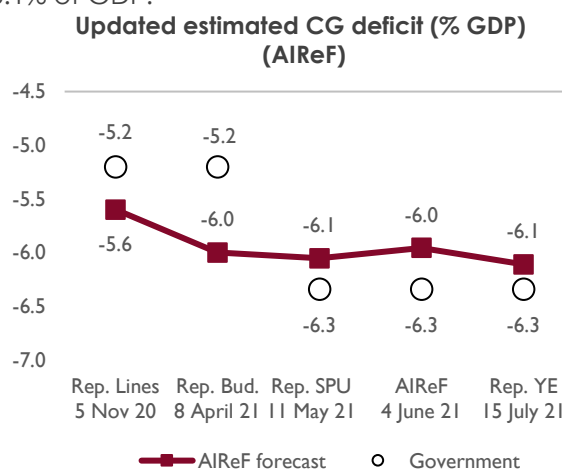


Central Government

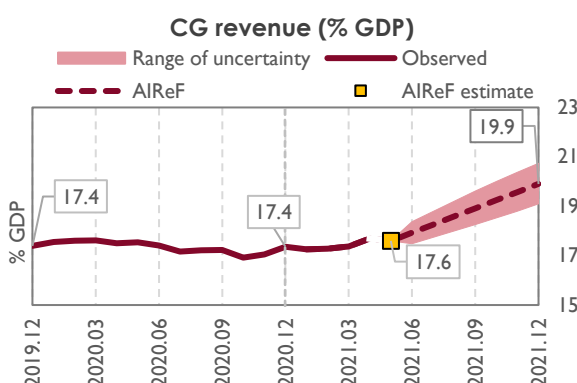
1 AIReF forecasts that the CG deficit will amount to 6.1% of GDP, 0.2 points less than the Government's forecast included in the 2021-2024 Stability Programme Update.



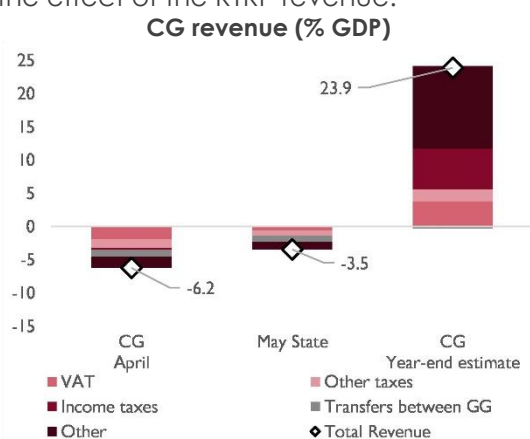
2 AIReF's new forecast incorporates the new information available for the State up to May and is 0.1 points of GDP higher than that set out in the previous month's factsheet, standing at 6.1% of GDP.



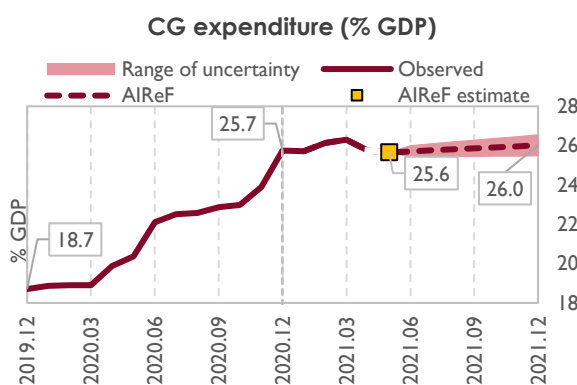
3 The weight of the annualised variable of revenue over GDP is expected to grow significantly over the year as the CG is the main coordinator of RTRP revenue.



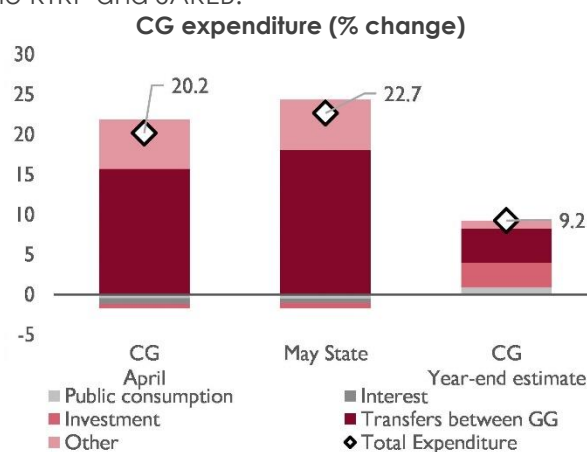
4 The cumulative revenue of the last 12 months still shows sharp falls as it includes the months affected by the pandemic. Strong revenue growth is expected at year-end 2021, intensified by the effect of the RTRP revenue.



5 Expenditure is forecast to continue to grow to stand at 26% of GDP, mainly driven by RTRP spending, SAREB expenditure and various judgments.



6 Transfers to other General Government sub-sectors lose relative weight due to lower extraordinary transfers to the Autonomous Regions while, in contrast, an increase in investment expenditure is expected at year-end, driven by the RTRP and SAREB.

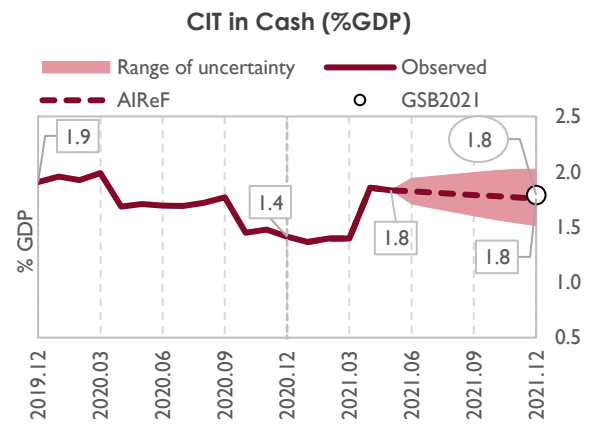
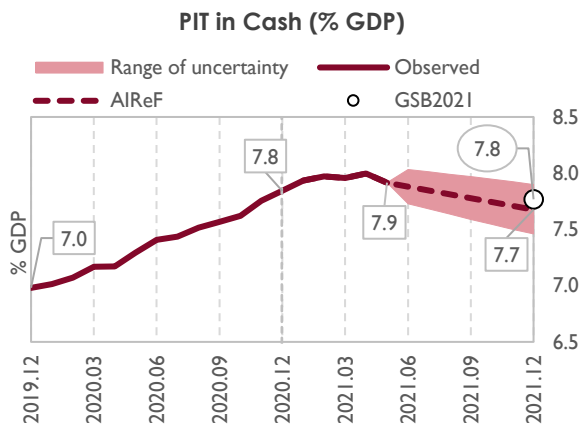


Main revenue items

The positive performance of tax collection recorded up to May and the increase in the estimate of the cost of exemptions has led to an upward revision of the estimates for tax revenues and contributions, despite the incorporation of the impact of the lower VAT rate on electricity consumption. The tax measures incorporated in the 2021 Budget continue to have no significant effect. Compared with 2019, cumulative tax collection up to May is up by 3.5%.

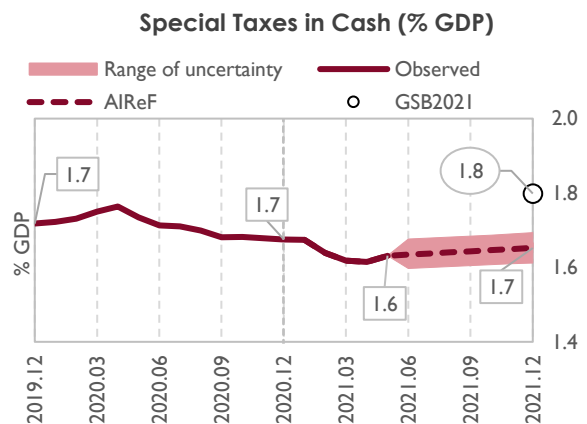
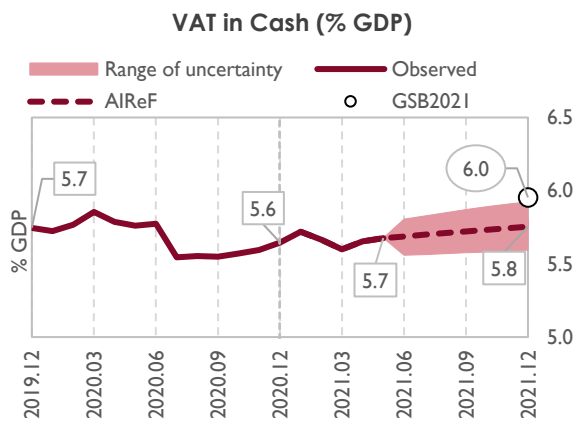
① AIReF forecasts that **PIT** will grow below economic activity in nominal terms, with its weight over GDP falling by 0.1 points to 7.7%. Driven by the growth in withholdings on work and economic activities, the year-on-year rate of change in cumulative terms stood at 8.3% in May and is expected to stand at 5.8% at the end of the year.

② The weight of **CIT** over GDP is expected to rise by 0.4 points to stand at 1.8%. After falling by 33.2% in 2020, the results of the first instalment payment have been more positive than expected and an increase of 34.4% is estimated at the end of 2021. However, the estimate is still subject to uncertainty due to the concentration of the highest volume of tax collection in the last few months of the year.



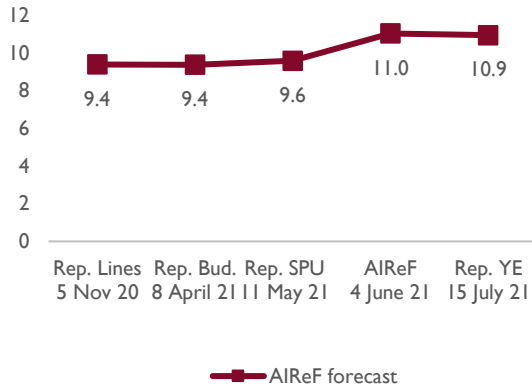
③ The weight of **VAT** over GDP is forecast to rise by 0.2 points to stand at 5.8%. The recovery seen in the April and May revenue was better than estimated by AIReF in its May report and higher than the fall expected from the reduction in the rate on electricity consumption. As a result, the rate of change is expected to stand at 10.2% at the end of 2021.

④ **STs** as a whole will remain at 1.7% of GDP. Estimates are revised upwards because the April and May collection data were better than expected, mainly for the hydrocarbon tax, which is the most affected by the pandemic. Although in cumulative terms, revenue is still down on 2019, a rate of change of 6.6% is expected for the end of the year.



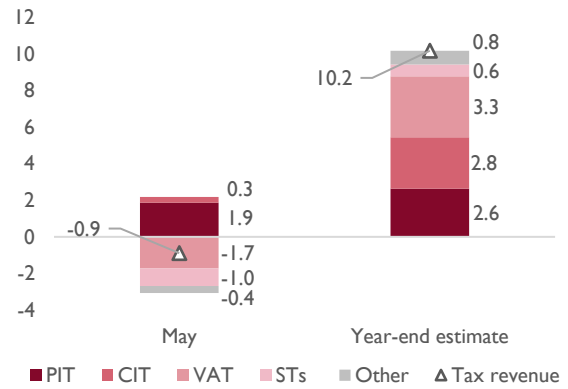
5 After incorporating the tax information up to May and introducing the impact of the changes in electricity taxation, AIReF revises its revenue forecast in National Accounting terms and estimates growth of 10.9% at the end of the year, similar to that of the previous month and over one point higher than in the May report.

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



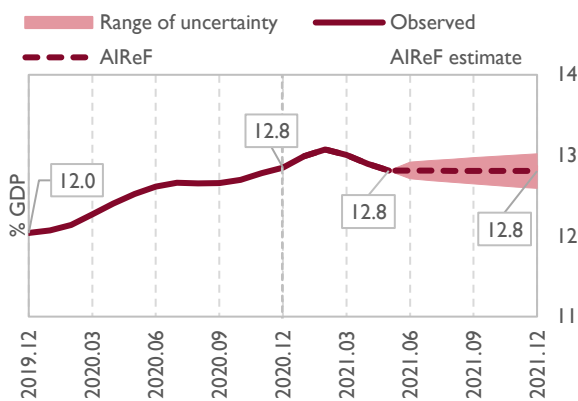
6 12-month cumulative tax revenue up to May is down by 0.9% as it includes the monthly revenue since June 2020, a period affected by the pandemic, with a positive contribution of PIT and CIT. The other tax categories will reverse their trend and achieve combined growth of 10.2% at the end of 2021, with VAT being the tax that will contribute most to the recovery.

Contributions to change. Cash AIReF (% change)



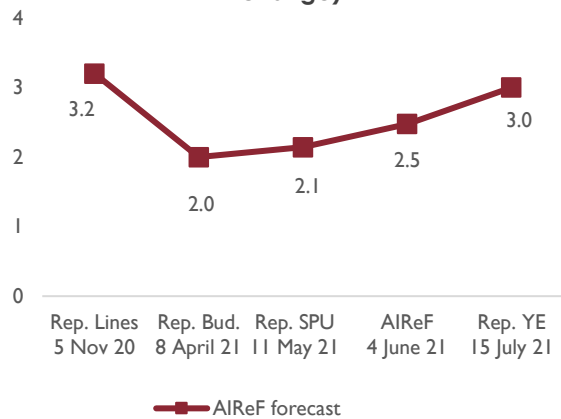
7 Social Security Fund contributions remain throughout the year at a weight of 12.8 points of GDP. The weight is not reduced to a greater extent as a result of the increase in the estimate of the cost of exemptions and the greater dynamism of the data published to date.

SSF Social Contributions (% GDP)



8 AIReF expects total GG contributions to grow over the year at a faster rate than estimated in the last report. The change is due both to the fact that Royal Decree Law 11/2021, which extends ERTes (furlough schemes) and benefits for cessation of activity for self-employed workers, is more generous with the exemptions than estimated by AIReF in its report, and to the fact that the data published to date show greater dynamism than expected.

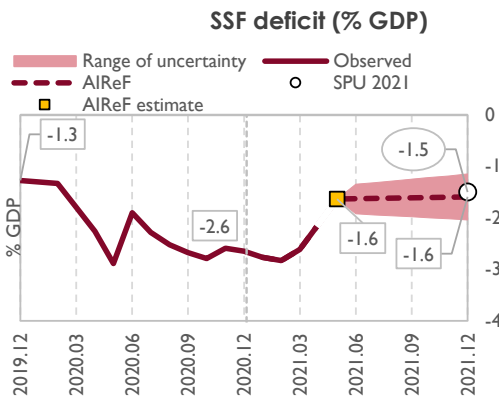
Updated forecast for Social Contributions of the GG (% change)



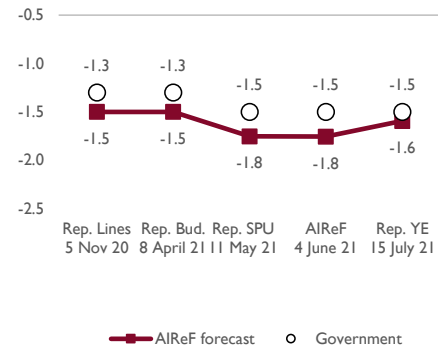
Social Security Funds

1 AIReF estimates a SSF deficit of 1.6% 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.

2 The forecast of the balance improves compared with the previous report. This is due to the greater dynamism of contributions and a reduction in social benefit expenditure.

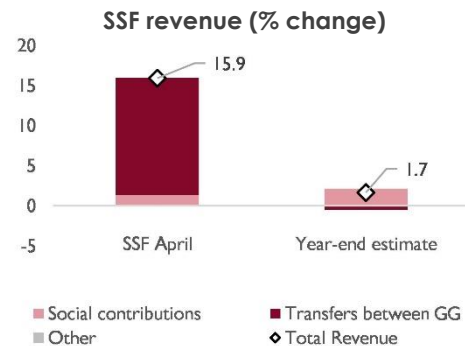
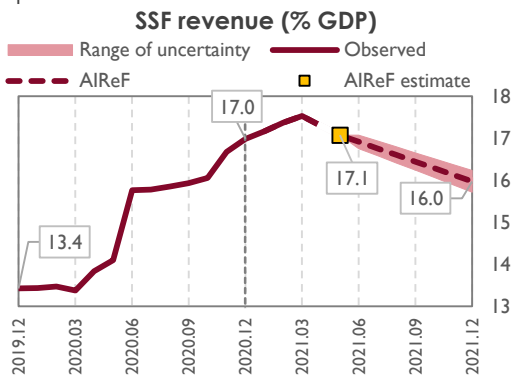


Updated estimated SSF deficit (% GDP) (AIReF)



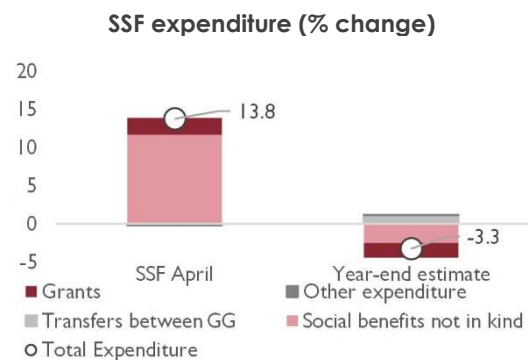
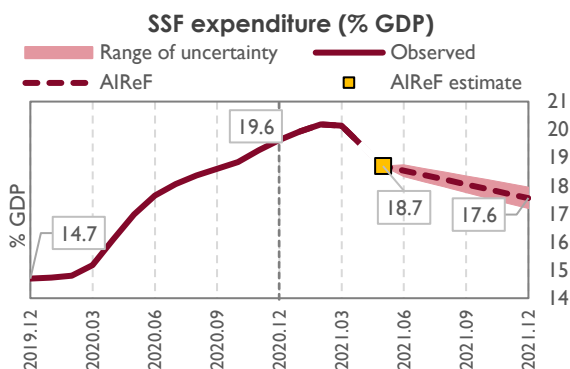
3 The weight of revenue began to fall in April from a level to converge to the estimated figure of 16 points of GDP for 2021. This figure is somewhat more positive than in the last report due to the slight increase in the estimate of contributions, which is due to both higher estimated exemptions and the evolution of the data published to date.

4 The known cumulative data for the last 12 months of National Accounts still shows a very similar result to that of year-end 2020 as they do not yet reflect that the transfers are going to remain almost identical with respect to 2020, instead of the increase they had with respect to 2019.



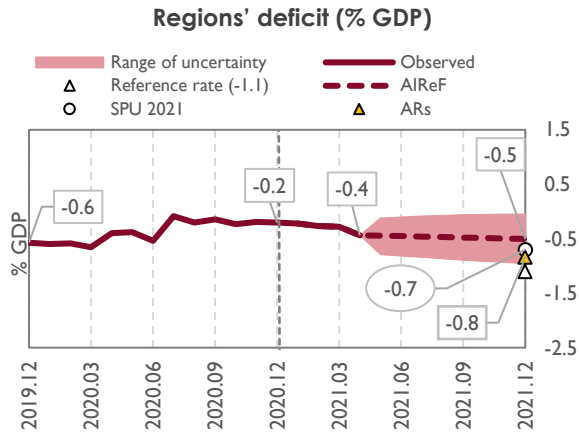
5 The evolution of expenditure is expected to maintain the downward trend both as a result of the denominator effect and as a result of the reduction in cash social benefits.

6 The cumulative data for the last 12 months to April continue to reflect what happened in 2020 and not the expectations for 2021. A reduction in the level of expenditure is expected as a result of the reduction in cash social benefits and subsidies due to improved economic activity.



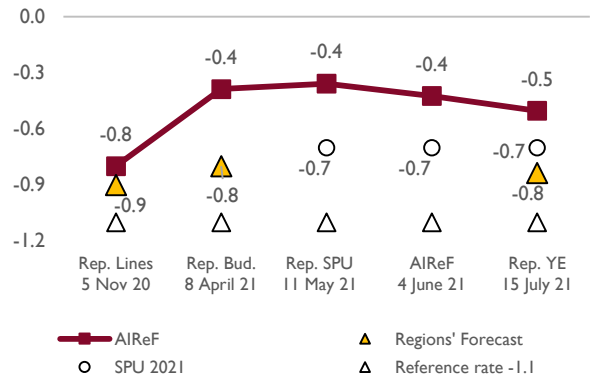
Autonomous Regions

1 AIReF forecasts a deficit of 0.5% of GDP for the Autonomous Regions, 0.1 points worse than the previous estimate, but still below the SPU forecast for the sub-sector.

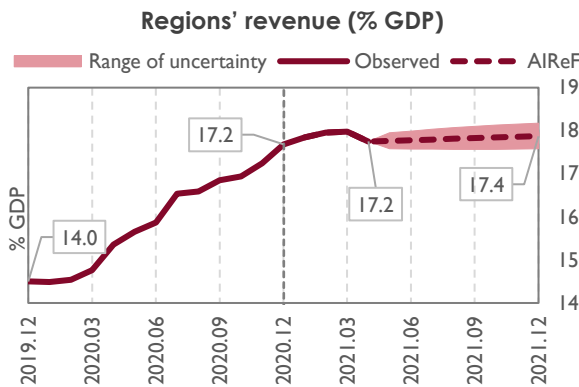


2 The forecasts have worsened mainly as a result of the higher estimated COVID impact and the downward revision, which is more intense for revenue, of the NGEU funds.

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

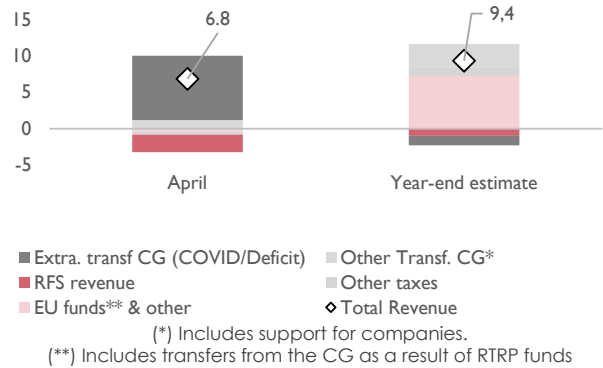


3 Revenue of the Autonomous Regions would grow over the year by 9% due to the RTRP and direct support to companies, to stand at 17.4% of GDP. Without this revenue, the growth would stand at 2%, falling to 16.2% of GDP.

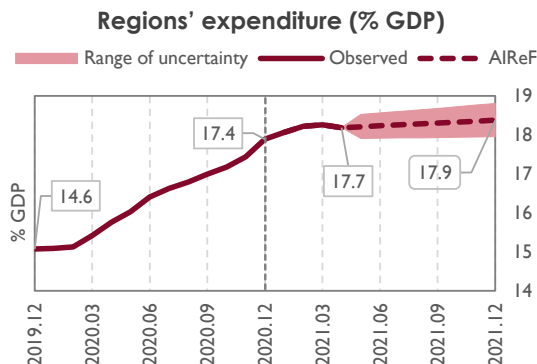


4 Over the last 12 months, the growth in revenue has been sustained by unconditional transfers from the CSA. At year-end, the increase is forecast to derive from the RTRP funds and the support for companies.

Regions' revenue (% change)

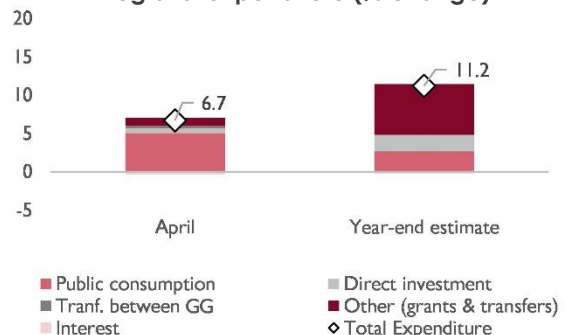


5 At the end of the year, expenditure would amount to 17.9% of GDP, including spending financed with assigned revenue, RTRP and support for companies. Without them, growth would be 4%, falling to 16.7% of GDP.



6 The increase in expenditure at the end of the year will be concentrated in spending, partly related to COVID, financed with NGEU funds and direct support to companies: grants and transfers to the private sector, investments and public consumption.

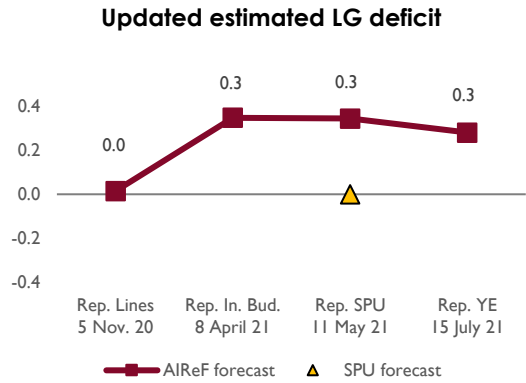
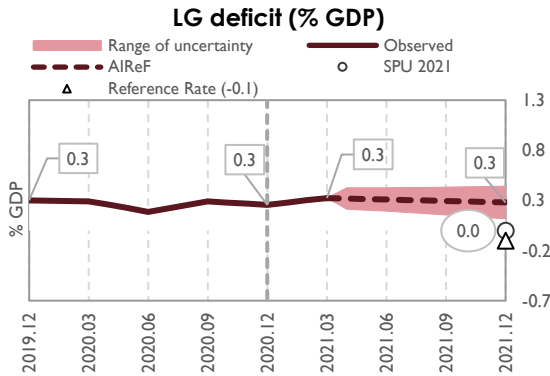
Regions' expenditure (% change)



Local Governments

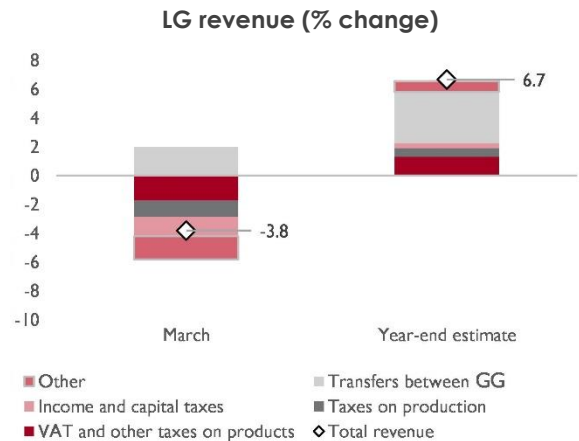
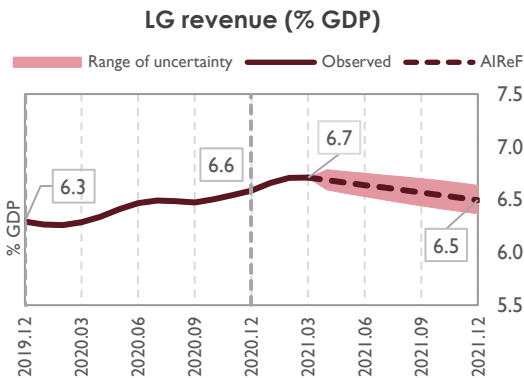
1 AIReF maintains its forecast for year-end 2021 at around 0.3% of GDP, a slight improvement on the results for 2020.

2 The current forecasts corroborate the previous estimate, although with a slight worsening on incorporating the implementation data for the sub-sector to the first quarter of 2021.



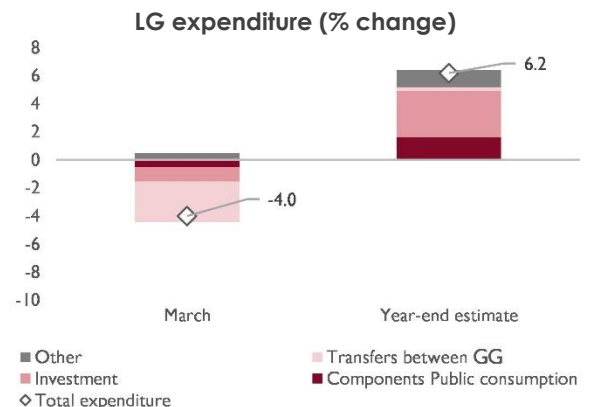
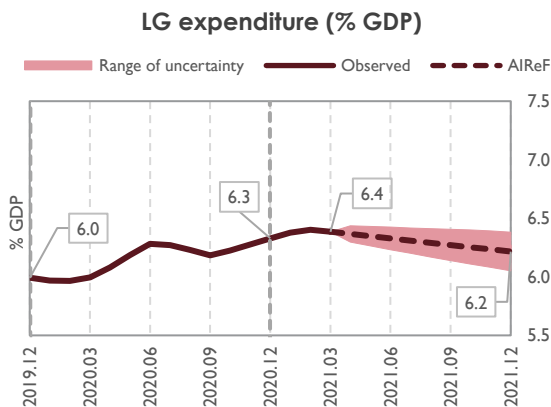
3 In the following months, local revenue continues to rise as a result of the slight economic recovery. However, its weight in relation to GDP decreases due to the greater increase in the latter.

4 The growth in revenue in 2021 is mainly the result of the funds to be received from transfers between General Government sub-sectors and the revenue of the provincial councils linked to economic activity.



5 The increase in local expenditure that began in 2019 and was boosted by the activation of the escape clause will be maintained, with its weight over GDP falling as a result of the effect of the larger increase in GDP.

6 The increase in expenditure will be more pronounced at year-end, mainly as a result of the increase in investment expenditure.



Methodological note

- o AIR⁺F'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 Autonomous 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 the sheets, AIR⁺F 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 on the local sub-sector, the consolidation of the GG total has been estimated by taking into account a monthly calculation of the payments for transfers from the State to the LGs from the financing system and the payments of the Provincial Councils to the CSA for the quota and to the Basque Country Autonomous Region.
- 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⁺F, 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 2021-2024 Stability Programme Update sent to Brussels on April 30th have been taken into account. That document forecasts a deficit for the General Government of 8.4% of GDP, with the following breakdown by sub-sector: for the Central Government (CG) of 6.3% of GDP, for the Social Security Funds (SSFs) of 1.5% of GDP, for the Autonomous Regions (ARs) of 0.7% of GDP and a balanced budget for the Local Governments (LGs). 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⁺F'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⁺F'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.