

MONTHLY STABILITY TARGET MONITORING 2021

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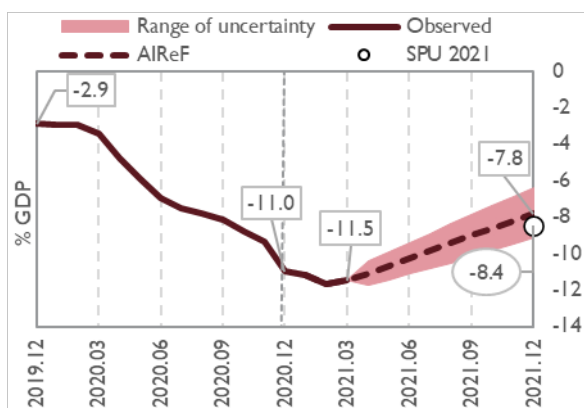
General Government

AIReF updates its fiscal scenario for 2021 and incorporates, under the same macroeconomic scenario, the latest available monthly data from the public accounts. It also updates the impact of certain regulatory measures, in particular those affecting ERTes (furlough schemes) and benefits for the cessation of activity of self-employed workers. This revision results in a higher level of both revenue and expenditure, which means that the forecast deficit remains at 7.8% of GDP. The distribution of the deficit between sub-sectors hardly changes with respect to the previous month's monitoring factsheet.

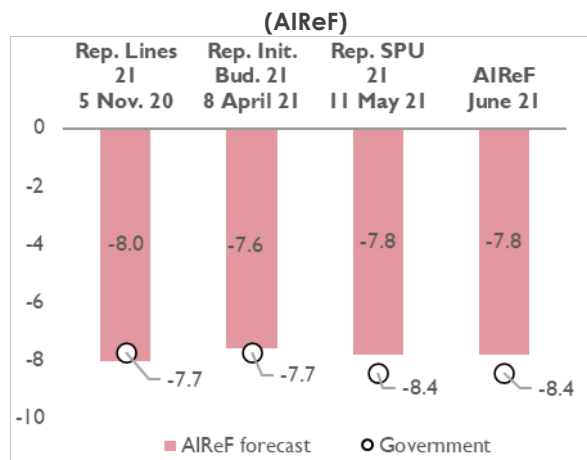
1 The accumulated deficit figure up to March for the previous 12 months is the first to record a change in trend in the deficit, thus beginning its reduction towards 7.8% of GDP, 0.6 points lower than that forecast by the Government in the 2021-2024 Stability Programme Update.

2 AIReF maintains the deficit estimate made in the previous month. However, there are increases both in revenue, as a result of better-than-expected collection data in April, and in expenditure, mainly due to non-recurring elements such as court rulings.

General Government deficit (% GDP)



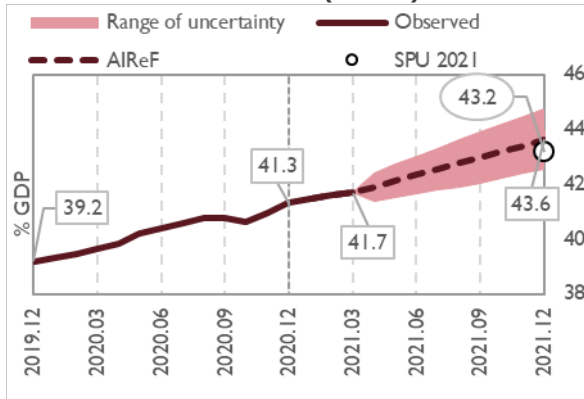
Updated estimated GG deficit (% GDP)



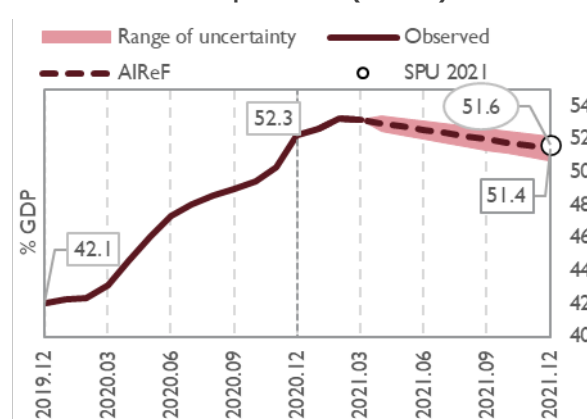
3 The weight of revenue as a percentage of GDP is expected to rise sharply, by over 2.3 points at the end of the year. This weight would have been lower if the 2.7 points of GDP injected through the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Execution of this plan will need to be assessed over the coming months.

4 Expenditure is expected to start a downward path over the year to reach 51.4% of GDP, as it will grow less than GDP despite the new measures adopted 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)



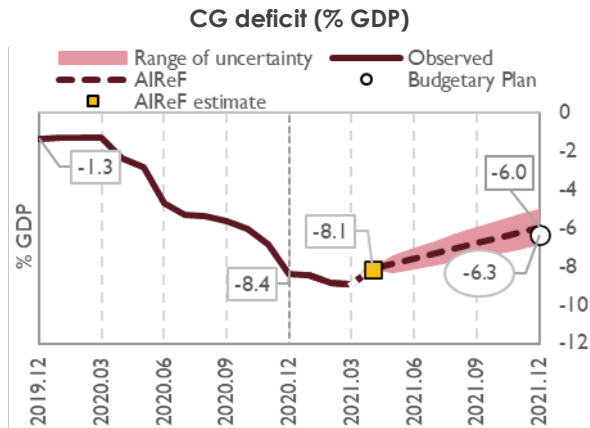
GG expenditure (% GDP)



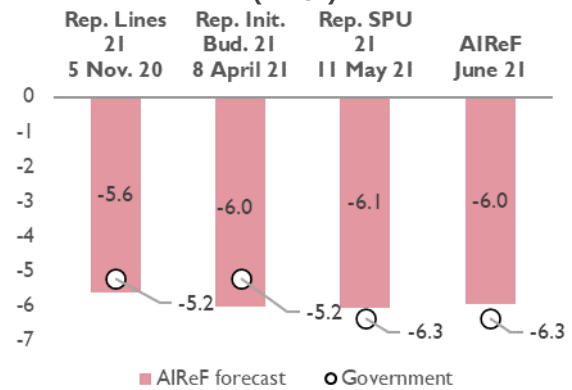
Central Government

1 AIReF forecasts that the CG deficit will amount to 6% of GDP, 0.3 points less than the Government's forecast. The April data from the State already reflect the start of the reduction in the CG deficit.

2 AIReF's new forecast takes into account the information from the State up to April. The forecast level of both revenue and expenditure is raised by 0.2 points of GDP, although there is a slight improvement in the CG deficit to 6% of GDP.

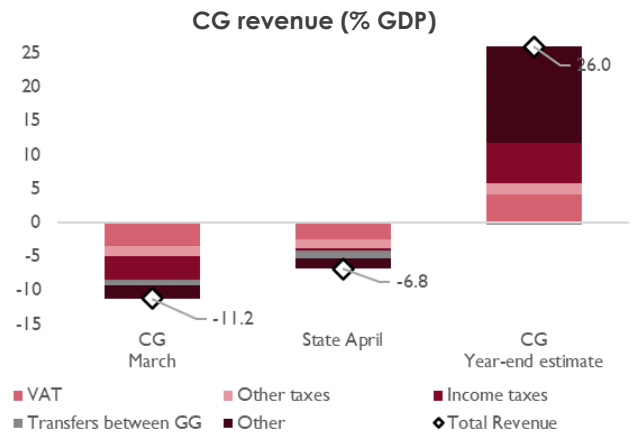
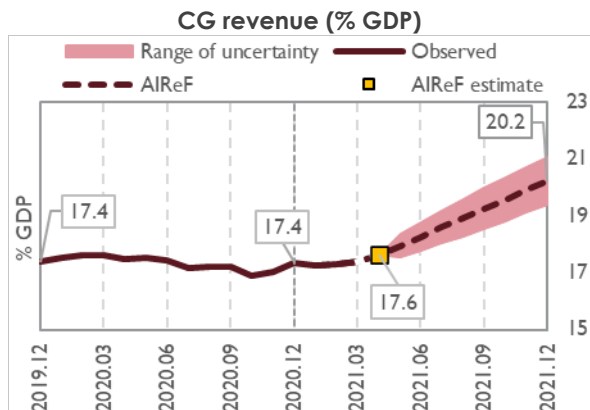


Updated estimated CG deficit (% GDP) (AIReF)



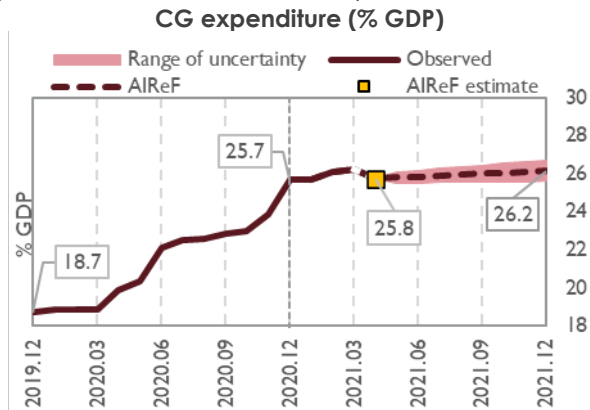
3 The weight of the annualised variable of revenue over GDP is expected to grow significantly over the year. The forecast has been modified upwards as a result of better-than-expected collection data, especially in CIT and VAT.

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 funds financed by the RTPP.

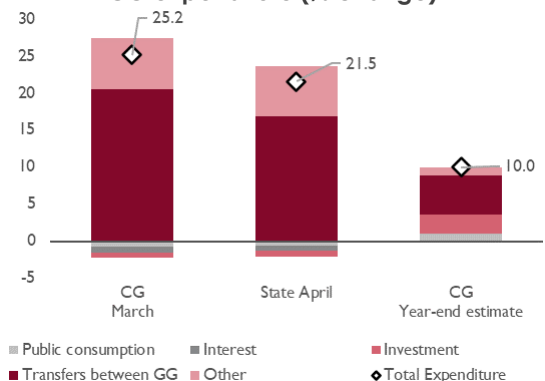


5 Expenditure is forecast to stand at 26.2% of GDP, slightly higher than that forecast in the previous month as a result of the new information on expenditure arising from court rulings and the upward revision of interest expenditure.

6 Transfers to other General Government sub-sectors remain the largest component of CG expenditure, given the State's financing role. An increase in investment expenditure, driven by the RTPP, is expected at year-end.



CG expenditure (% change)



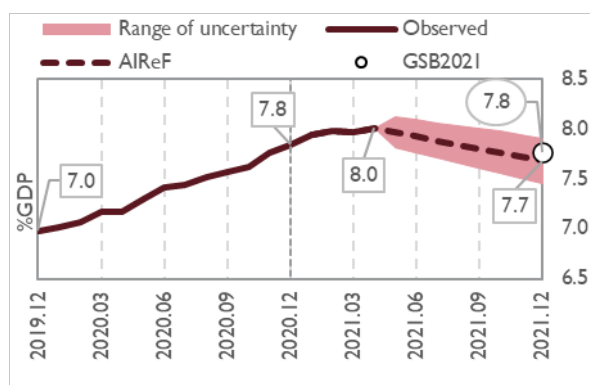
Main revenue items

AIReF revises its estimates of tax revenue and contributions upwards with the incorporation of the collection data for the month of April and the update of the measures related to exemptions from contributions. Tax revenue grows exponentially in year-on-year terms as a consequence of the fall in revenue in 2020 due to the entry into force of the State of Alarm. Compared with the same month of 2019, collection is up by 3.3%. The impact up to April of the tax measures approved in the 2021 GSB is low to date.

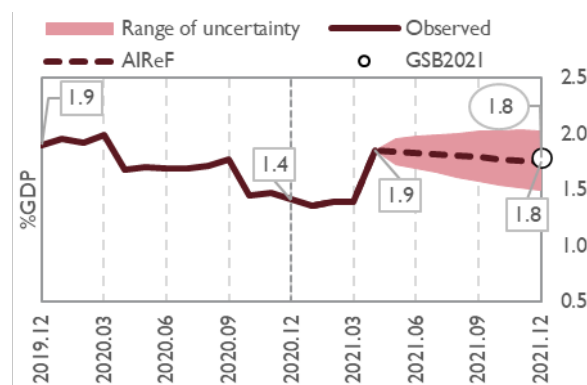
1 **PIT**, which ended 2020 with an increase in collection, is estimated to grow at below the rate of economic activity and therefore its weight as a proportion of GDP will fall by 0.1 points. After months of growth driven by GG withholdings, a recovery can be seen in April in revenue from private salaries, economic activities and instalment payments, which together are up by 3.4% compared with the same period of 2019.

2 AIReF forecasts that **CIT** will increase its weight as a proportion of GDP by 0.4 points to stand at 1.8%. The forecast is raised by 0.1 points compared with the last report as a result of including the first instalment payment for 2021 in April's revenue, which, in addition to recording a significant recovery compared with the fall suffered in 2020, includes exceptional revenue as a result of a merger, with collection rising by 21.3% compared with April 2019.

PIT in Cash (% GDP)



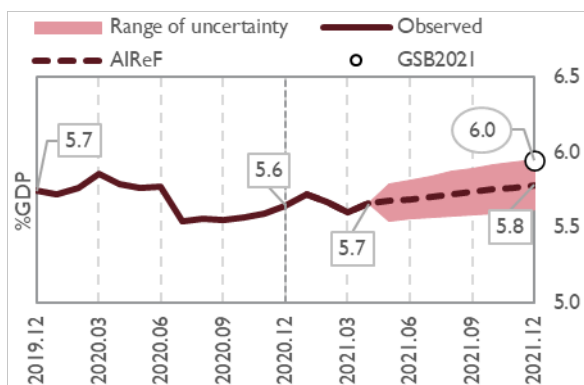
CIT in Cash (% GDP)



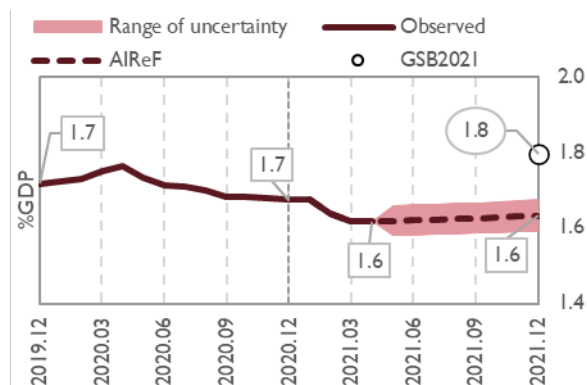
3 The weight of **VAT** over GDP is forecast to rise by 0.2 points to stand at 5.8%. Following the fall in revenue in the first quarter, affected by both mobility restrictions and Storm Filomena, in April it is up by 20% compared with the same month in 2020. While still below the 2019 figure, better-than-expected data reinforce the projected recovery, placing it 0.1 points higher than in the previous report.

4 **STs** are expected to grow at a lower rate than economic activity, maintaining their weight over GDP at 1.6%. In April, they are at levels similar to those of 2019 as a result of the recovery in the Hydrocarbon Tax, which was severely affected over the previous months by the mobility restrictions.

VAT in Cash (% GDP)

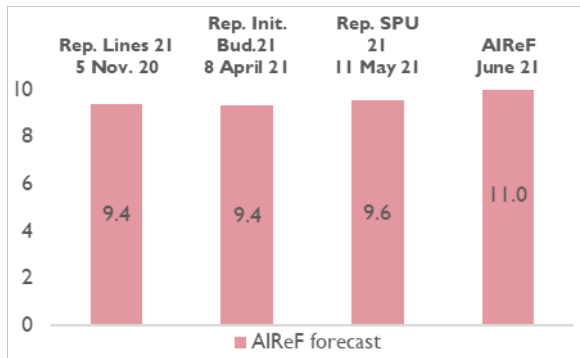


Special Taxes in Cash (% GDP)



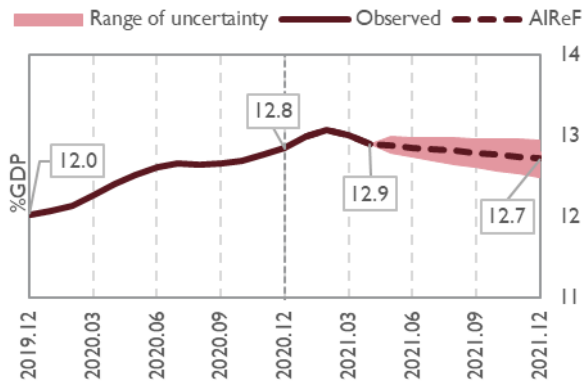
5 After incorporating the tax information up to April, AIReF revises its revenue forecast in National Accounting Terms and estimates growth of 11% at the end of the year, over one point higher than in the May report, mainly due to CIT and VAT.

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



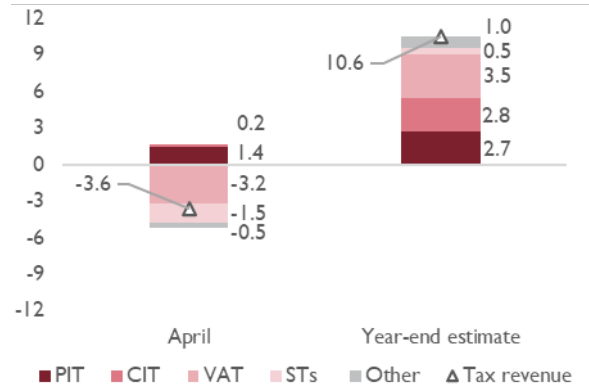
7 Social Security Fund contributions fall over the year to stand at 12.7 points of GDP. The improved performance of the economy expected for 2021 means that their weight as a proportion of GDP will fall, despite the positive evolution of employment and subsidies for exemptions, which are expected to last at least until the end of the year.

SSF Social Contributions (% GDP)



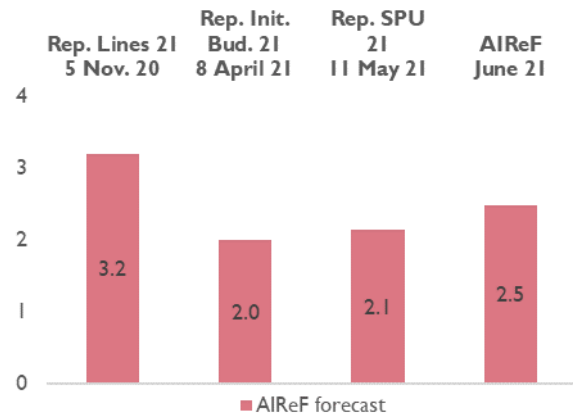
6 12-month cumulative tax revenue up to April is down by 3.6% as it includes the monthly revenue since May 2020, a period affected by the pandemic. It now reflects a positive contribution from PIT and from CIT, while the other tax categories will reverse their trend and achieve combined growth of 10.6% by the end of 2021, with VAT being the tax that will contribute most to the recovery.

Contributions to change. Cash AIReF (% change)



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 to the fact that Royal Decree Law 11/2021, which extends ERTes (furlough schemes) and benefits for cessation of activity for self-employed workers to September, is more generous with the exemptions than estimated by AIReF in its report.

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

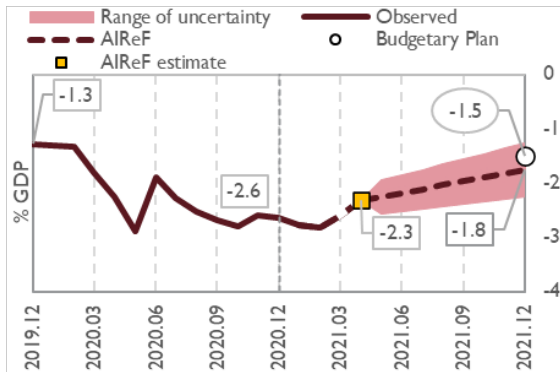


Social Security Funds

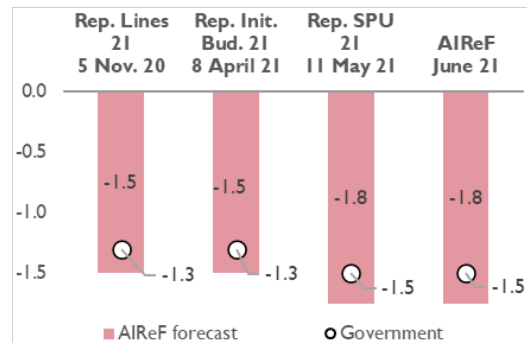
1 AIReF estimates a SSF deficit of 1.8% of GDP. The weight of both revenue and expenditure is expected to fall, but the latter is expected to fall to a greater extent and therefore an improvement in its balance compared with 2020 is forecast.

2 The forecast of the balance remains the same as in the previous report. The change in the estimate of the cost of exemptions raises both expenditure and revenue almost to the same extent, leaving the deficit unaffected.

SSF deficit (% GDP)



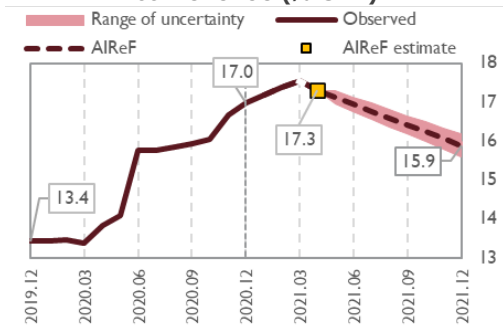
Updated estimated SSF deficit (% GDP) (AIReF)



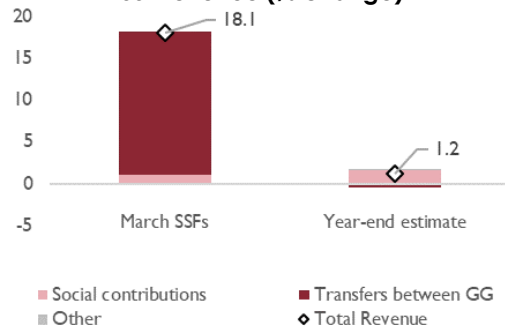
3 The weight of revenue rose in March as a result of the very positive performance of contributions, which grew by 3.7% compared with the cumulative figure in March of last year, and as a result of the higher level of transfers from the CG compared with pre-crisis levels. Over the course of the year, the improvement in economic activity is expected to push down the weight of revenue.

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 the fact that the transfers are going to remain almost identical with respect to 2020, instead of the increase they had with respect to 2019.

SSF revenue (% GDP)



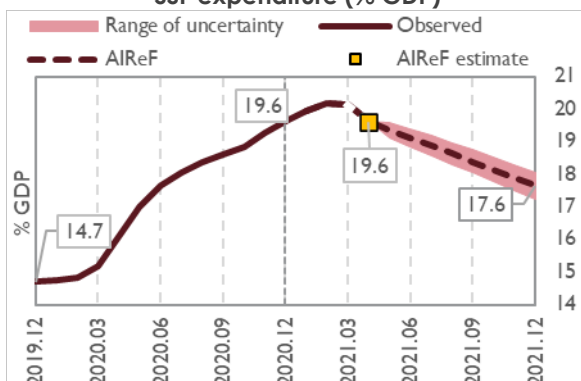
SSF revenue (% change)



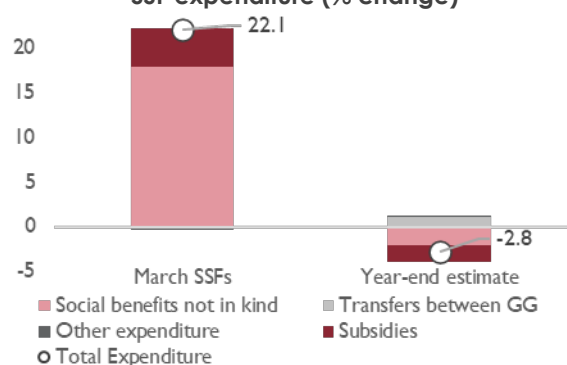
5 The evolution of expenditure is expected to change direction both as a result of the denominator effect and as result of the reduction in cash social benefits linked to COVID-19 measures.

6 The cumulative data for the last 12 months 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.

SSF expenditure (% GDP)



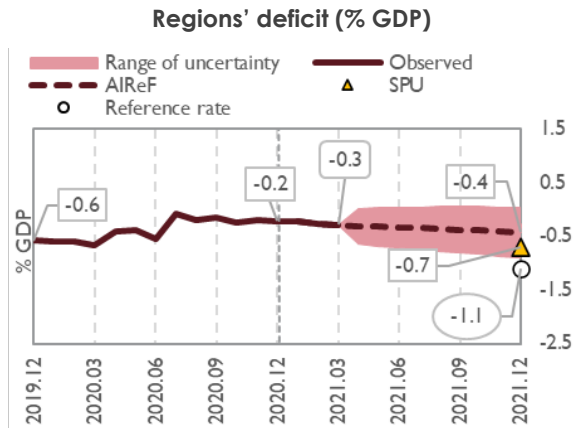
SSF expenditure (% change)



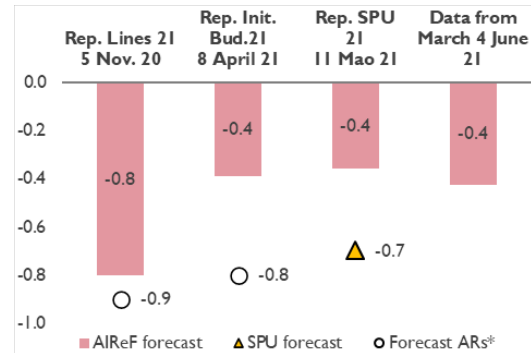
Autonomous Regions

1 AIReF continues to forecast a deficit of 0.4% of GDP for the Autonomous Regions, with rises in the COVID impact, close to 0.9% of GDP (1.5% with support to companies), and in the estimated coverage of said impact by REACT funds and transfers from the State.

2 The forecasts are maintained with respect to the report on the SPU, with a slight worsening as a result of expenditure recorded up to March, mainly in compensation of employees, and the information on COVID measures adopted.



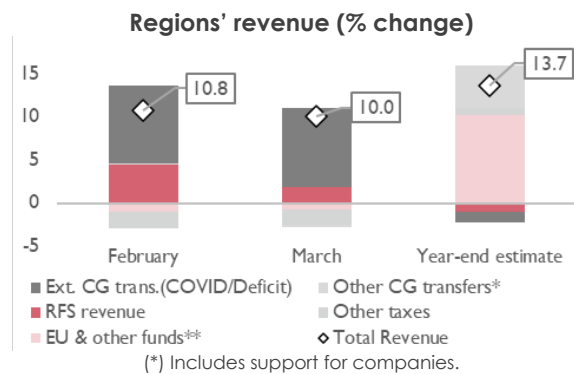
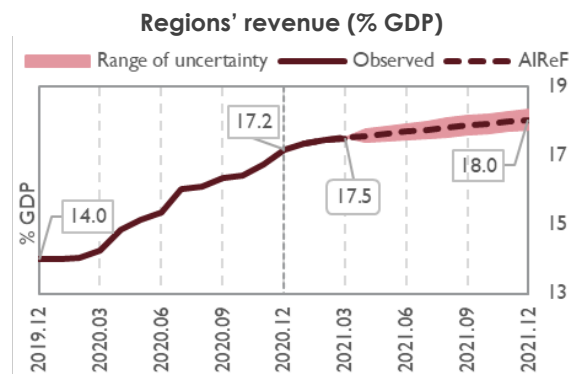
Updated estimated Regions' deficit (% GDP) (AIReF)



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

3 Revenue of the Autonomous Regions would grow over the year due to the RTRP funds and direct support to companies, to stand at 18% of GDP. Without this revenue, they would remain at a level similar to that of the previous year, falling to 15.9% of GDP.

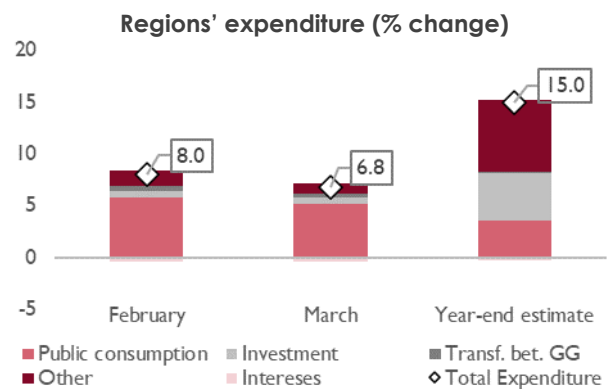
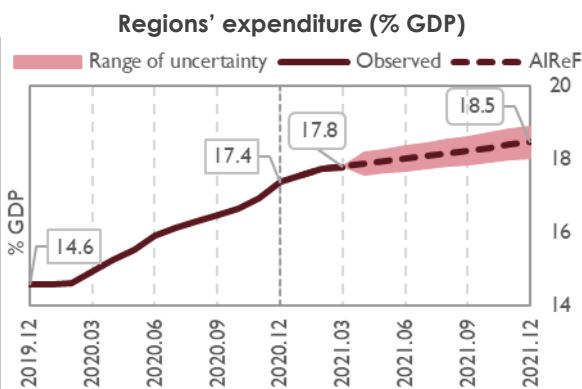
4 Over the last 12 months, the growth in revenue has been sustained by unconditional transfers from the CSA. At year-end, the increase is forecast to be mainly based on the RTRP funds and support to companies.



(*) Includes support for companies.
(**) Includes transfers from the CG as a result of RTRP funds

5 At the end of the year, expenditure would amount to 18.5% of GDP, including spending financed with assigned revenue. Without this, growth would be moderate, falling to 16% of GDP.

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



Methodological note

- 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.
- 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.
- 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 match the annual data.
- 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 estimates.
- Since monthly data are not published in the local sub-sector, the consolidation of the General Government total has been estimated by taking into account 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 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.
- However, the deficit forecasts contained by the Government in the Updated Stability Programme 2021-2024, submitted to Brussels on April 30th, have been taken into account. 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 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.
- 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.
- 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.