MONTHLY STABILITY TARGET MONITORING 2021

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AIReF Independent Authority *for* Fiscal Responsibility

General Government

AIReF updates its forecast for the General Government (GG) deficit to 4.2% of GDP in 2021, an improvement of 0.6 points on the forecast in the report on the 2022 GSB published in October 2021. These forecasts correspond to those included in the report on the initial budgets of the GG for 2022, published on April 7th. The new macroeconomic outlook presented in this report implies a reduction in real GDP of about two points and an increase in inflation of over four points, resulting in a somewhat higher nominal GDP. The reduction in the deficit is mainly due to the dynamism of tax collection in the final months of 2021 and the early months of 2022, which is more favourable than expected. This offsets the cost of the measures to mitigate the effects of the war and the deterioration of the macroeconomic scenario. Regarding the distribution of the deficit by sub-sector, the CG improves by 0.6 points, the SSFs and the LGs each improve by 0.1 points and the ARs worsen by 0.1 points.

❶ The pace of deficit reduction of recent months is maintained as it falls by an additional 0.3 points in January. It is expected to maintain a similar pace of improvement to end the year at 4.2%, 0.8 points less than that forecast in the Government's 2022 Budgetary Plan.

❷ In the process of ongoing assessment of the budget cycle, AIReF makes a new update of its deficit forecast since the report on the 2022 budgetary plan, reducing it by 0.6 points.

General Government deficit (% GDP)

Updated estimated GG deficit (% GDP) (AIReF)
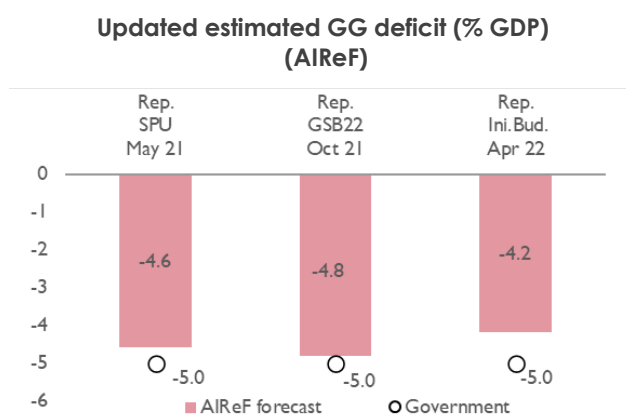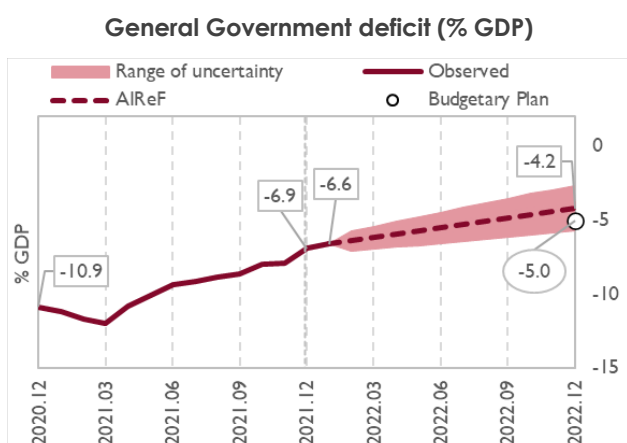
❸ AIReF forecasts a slight increase in the weight of revenue as a percentage of GDP over the year to stand at 44% of GDP. This weight would be lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Execution of this plan will need to be assessed over the year.

❹ Annualised expenditure falls by 0.3 points of GDP in January with respect to the year-end 2021 figure. This fall is expected to continue over the year, due to the reduction in COVID spending and in spite of RTRP expenditure. AIReF estimates that expenditure will amount to 48.2% of GDP at the end of 2022.

GG revenue (% GDP)


GG expenditure (% GDP)
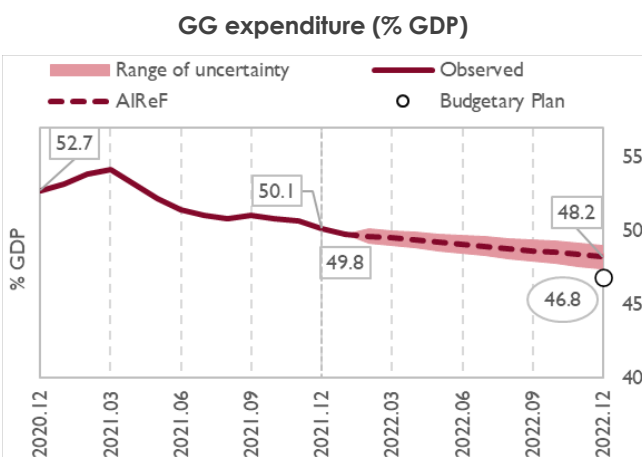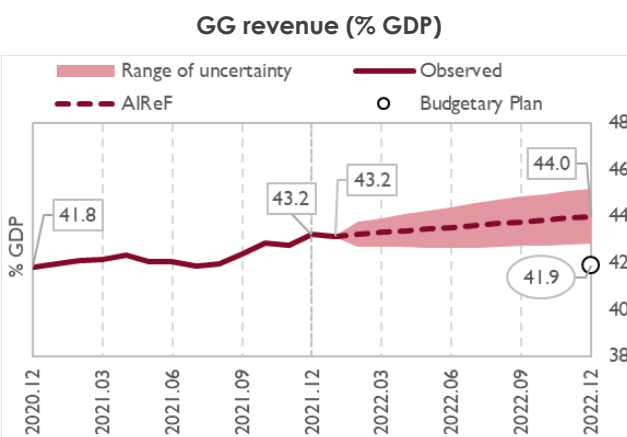
Central Government

❶ AIReF forecasts that the CG deficit will amount to 3.3% of GDP, 0.6 points of GDP lower than the Government's reference value for 2022.
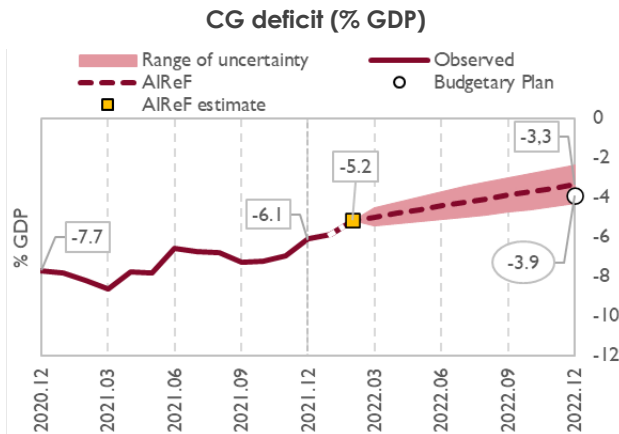
❷ AIReF's forecast incorporates data from the 2022 GSB, the first two months of execution, the latest revenue and expenditure measures taken by the Government and other available information, with an improvement on its previous forecast of 0.6 points to stand at 3.3% of GDP.

CG deficit (% GDP)

Updated estimated CG deficit (% GDP) (AIReF)
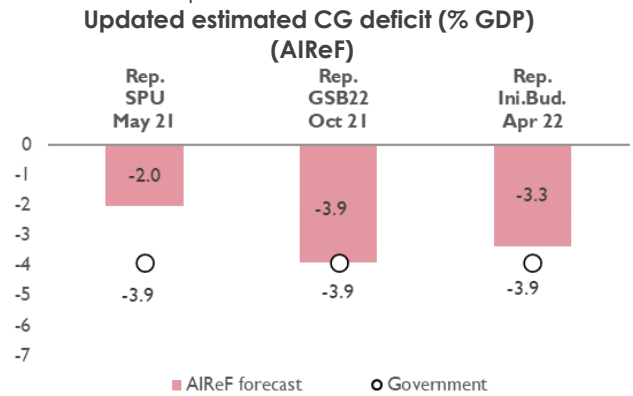
❸ AIReF considers that the weight of revenue as a percentage of GDP will rise over 2022 to stand at 21.5%. This positive evolution is mainly based on the impact of the RTRP funds and the settlement of the Regional Financing System, while the weight of taxes will barely change.
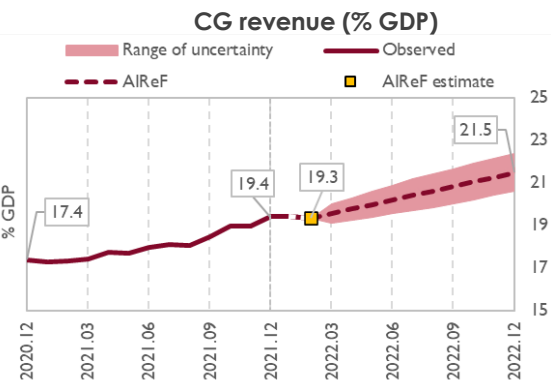
❹ The cumulative revenue of the last 12 months will maintain its rate of growth over 2022, ending the year at a rate of 19.6%. VAT and Personal Income Tax will reduce their contribution to growth, with other revenue categories pulling upwards as a result of the effect of the RTRP funds.

CG revenue (% GDP)

CG revenue (% change)
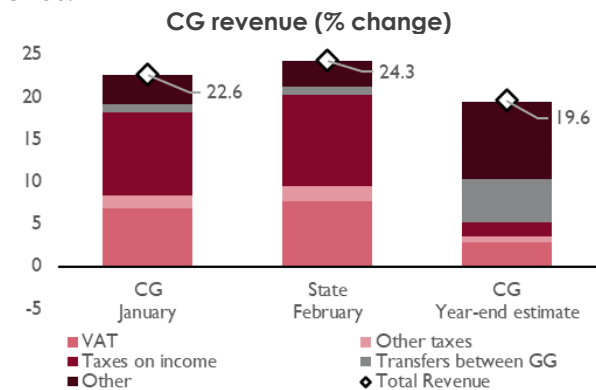
❺ AIReF forecasts expenditure of 24.8% of GDP compared with 25.5% in 2021, due to lower COVID expenditure and other non-recurring operations from 2021. However, this is partially offset by higher expected RTRP expenditure, the measures in response to the war in Ukraine and higher interest rates.
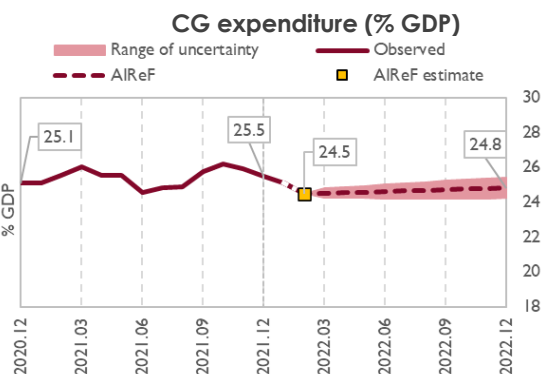
❻ At the end of the year, the increase in capital spending driven by the RTRP and other current spending as a result of the measures taken by the Government in response to the war in Ukraine prevails.
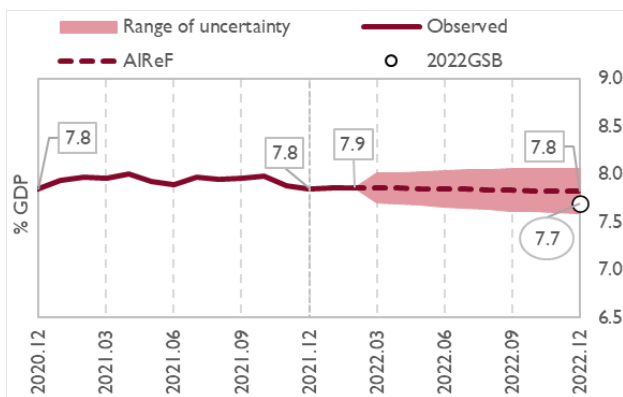
CG expenditure (% GDP)

CG expenditure (% change)
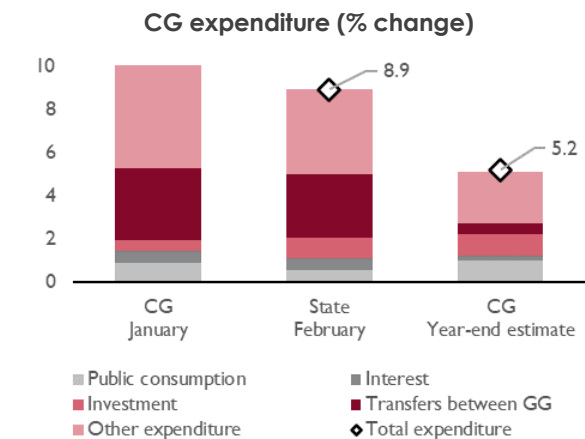
Main revenue items

In the first two months of the year, tax revenue is up by 21.4% compared with the same period of the previous year, mainly driven by VAT. The good performance recorded in the last few months of 2021 therefore continues and even improves on the 15.1% recorded at the end of the year. This is partly because the first few months of 2021 were affected by the third wave of infections. On the other hand, the tax measures approved subtract around €1.43bn from tax collection, mainly those aimed at reducing the final price of electricity for consumers.

❶ With regard to **PIT**, AIReF expects a horizontal trend. Its weight over GDP will remain at 7.8% for the end of 2022. So far this year, PIT collected is 9.4% up on the same period of 2021 and a year-on-year rate of 7.4% is expected for the end of the year.

❷ AIReF estimates that **CIT** will also maintain its weight over GDP at 2.2% in 2022. After the volatility recorded in the last two years as a consequence of the pandemic, greater stability is expected this year and growth of 7.9% is forecast for the end of the year.

PIT in Cash (% GDP)

CIT in Cash (% GDP)
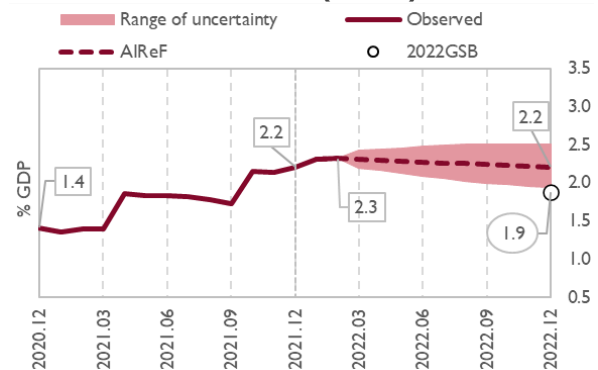
❸ AIReF estimates that **VAT** will increase its weight over GDP by 0.2 points to reach 6.2% of GDP at the end of 2022. So far this year, VAT collected is 20.5% higher than in 2021, despite approval of the reduction in the rate on electricity. This is due to the improvement in activity compared with the same period of the previous year, which suffered the consequences of the third wave of infections, and is also driven by the current increase in prices. An increase of 11.5% is expected for the end of the year.
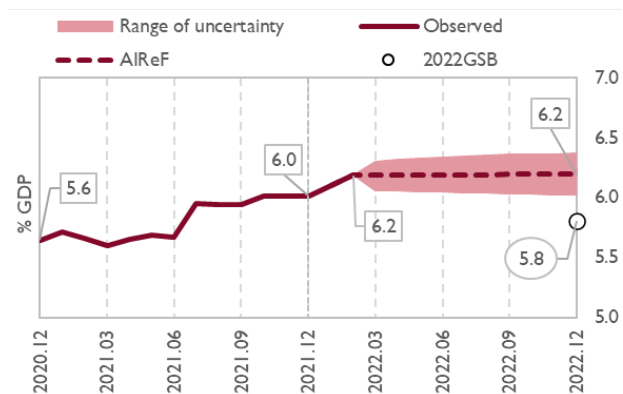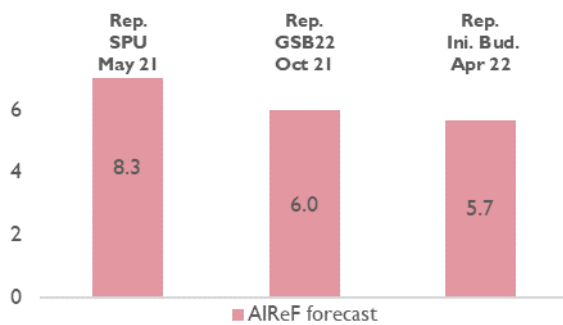
❹ STs as a whole will close 2022 with a weight of 1.6% of GDP, the same level as in 2021. In the first two months of the year, they grew by 8.5%, mainly driven by the Hydrocarbon Tax, which rose by 20.2%, and despite the reduction in the rate of the Special Tax on Electricity, which implies an estimated revenue loss of €315m. Year-on-year growth at the end of the year is estimated at 4.8%.

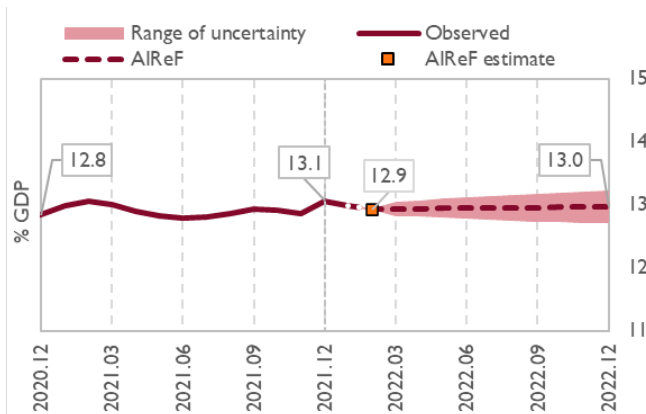### VAT in Cash (% GDP)

Special Taxes in Cash (% GDP)
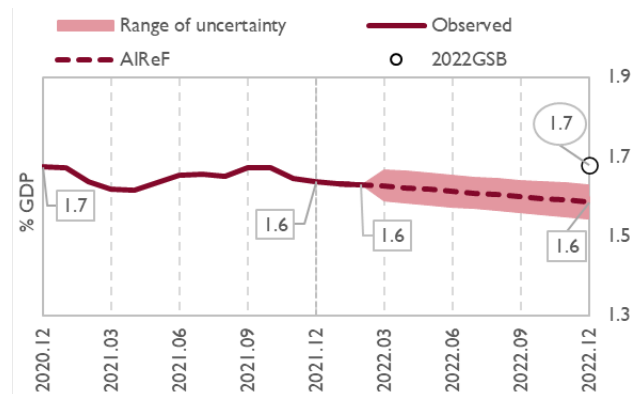
❺ Total tax revenue in national accounting terms will be 5.7% higher than in the previous year. After incorporating the year-end 2021 figures, the latest available information for 2022 and the update of the macroeconomic forecasts, the new estimate lowers the rate of year-on-year growth with respect to that included in the October report by 0.3 points. However, it is 0.6 points higher than the previous forecast in terms of GDP as a result of the higher starting level.

❻ 12-month cumulative tax revenue up to February is up by 19.6%. All taxes present a positive contribution as they refer to months that were still affected by the effects of the pandemic in the previous year. Overall growth in cash terms of 8.3% is expected for year-end 2022, with VAT and PIT being the taxes that will contribute most to the growth.

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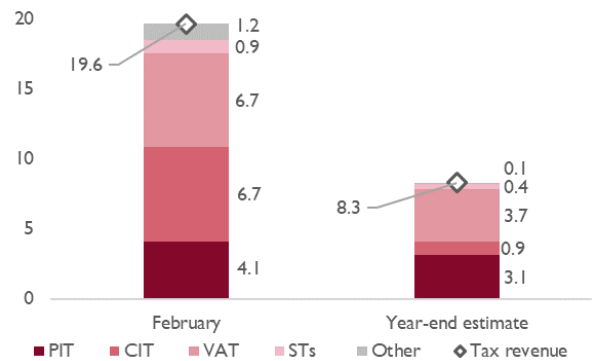

Contributions to change. Cash AIReF (% change)

❼ AIReF expects **Social Security Fund contributions** to end 2022 with a weight of 13 points of GDP, very similar to the end of 2021.

❽ AIReF raises the forecast of the rate of growth of the contributions of the GG as a whole by 0.7 points as a result of the dynamism of the data published compared with the October 2021 forecasts.

SSF Social Contributions (% GDP) (NA)

**Updated forecast for Social Contributions of the GG (% change) (NA)**
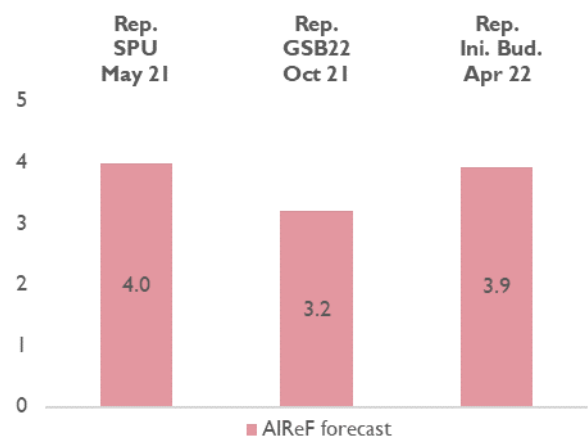
Social Security Funds

❶ AIReF estimates that the SSF deficit will stand at 0.4% of GDP in 2022. Compared with the forecast in the Report on the 2022 GSB, the expected weight of both expenditure and revenue rises, but the latter is revised to a greater extent.

❷ The estimate of the balance of the SSFs for 2022 is revised upwards from the -0.5% of the Report on the 2022 GSB to -0.4% of GDP, which is a more optimistic forecast than the last available government forecast (-0.5%).

SSF deficit (% GDP)
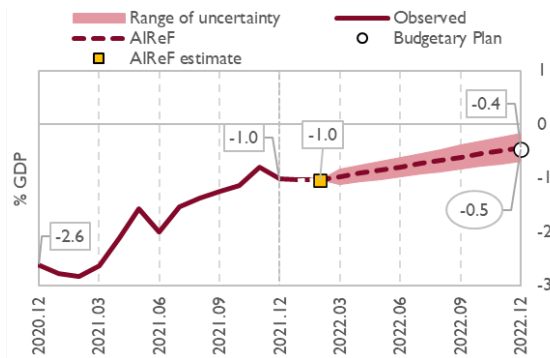

Updated estimated SSF deficit (% GDP) (AIReF)
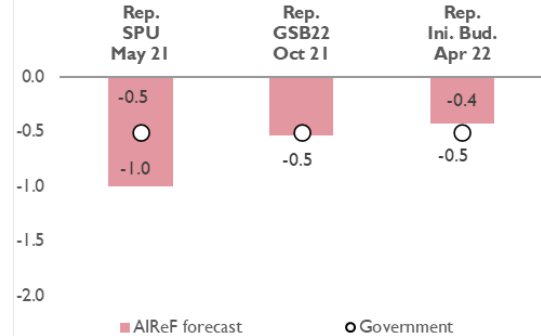
❸ AIReF estimates that the weight of revenue over GDP will decrease over 2022 to amount to 16.1% at the end of the year. This is due to the fact that the rate of growth of the contributions is expected to slow down with respect to recent months.

❹ AIReF expects a reduction in the rate of growth of revenue over the year due to a stagnation of transfers and lower dynamism in the growth of contributions.

SSF revenue (% GDP)
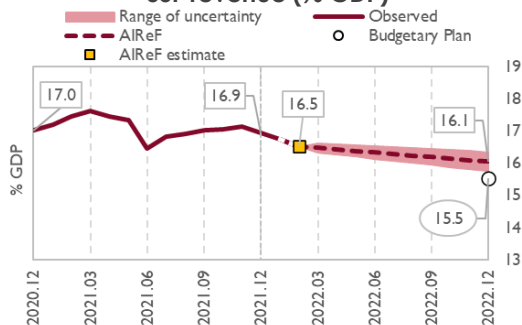
Contributions to change in SSF revenue (% change)
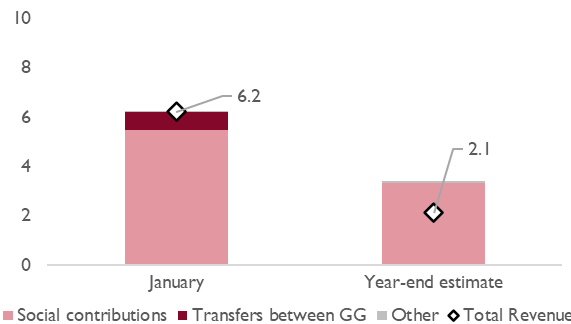
❺ AIReF estimated that the weight of expenditure will fall by one and a half points during the year, mainly due to the reduction in the cost of COVID measures.

❻ SSF expenditure is expected to contract by 1.1% at year-end 2022, with a negative contribution of subsidies and social benefits and a positive contribution from transfers between GG sub-sectors.

SSF expenditure (% GDP)
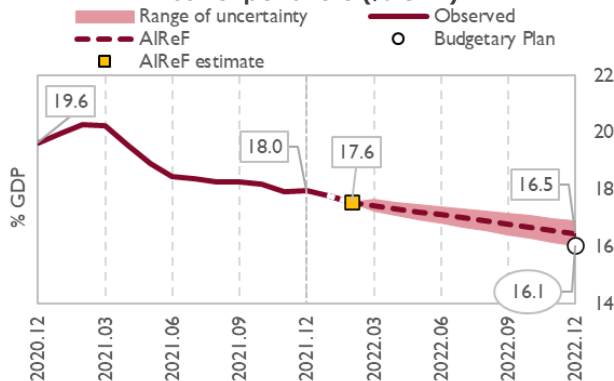
Contributions to change in SSF expenditure (% change)
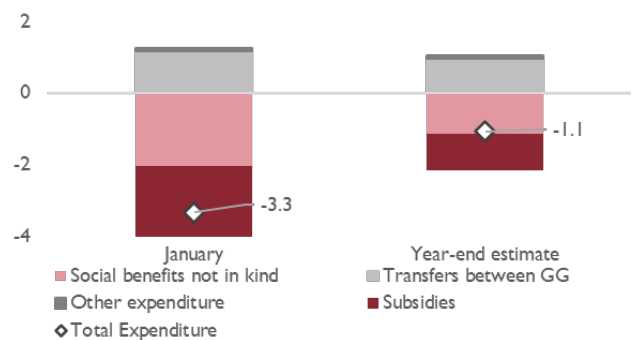
Autonomous Regions

❶ AIReF forecasts that the ARs will record a deficit of 0.7% of GDP in 2022, 0.1 points above the reference of -0.6% set for the sub-sector.

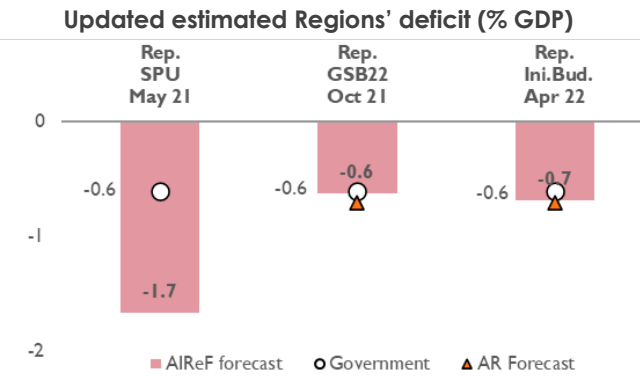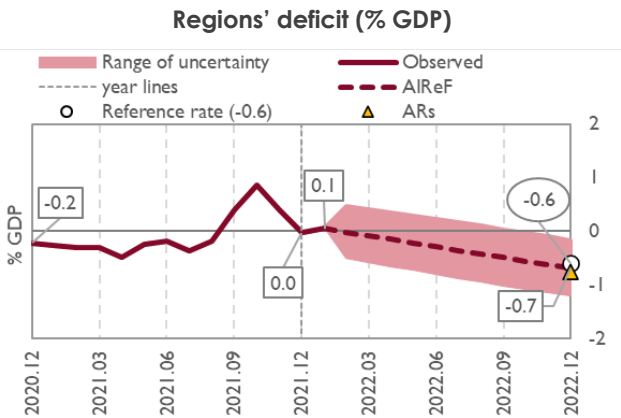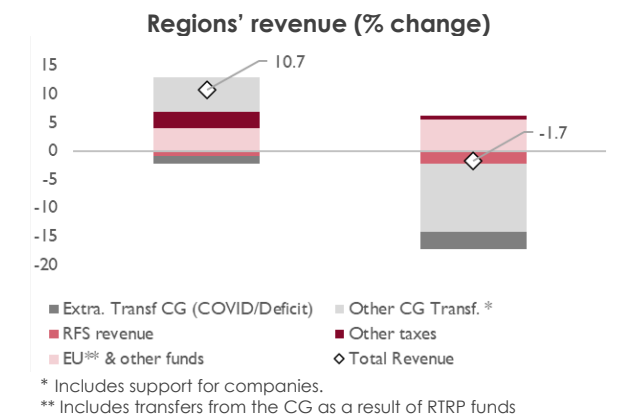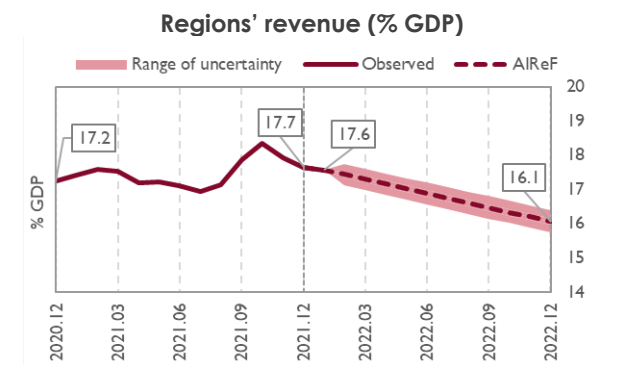❷ With the recognition in the GSB of the compensations to be received from the CG, in October AIReF improved its forecast in the Report on the SPU. However, the outlook has worsened slightly since then.

Regions' deficit (% GDP)

Updated estimated Regions' deficit (% GDP)

❸ Revenue would fall at year-end 2022 by 2%, affected by the reduction in transfers from the CG (financing system, support for companies and extraordinary transfers), to stand at 16.1% of GDP.

❹ Over the last 12 months, the growth in revenue has been based on assigned transfers from the CSA, taxes and EU funds. At the end of the year, the contribution from the NG funds and taxes is expected to cushion the fall in transfers from the CG.

Regions' revenue (% GDP)

Regions' revenue (% change)

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

❺ With growth of 2%, at the end of the year, expenditure would amount to 16.8% of GDP, including spending financed with the RTRP. Without this, it would fall by 3%, affected by the withdrawal of COVID measures (mainly support for companies financed in 2021 by the CG).

❻ To date, the increase in expenditure has been concentrated in items particularly affected by the pandemic. At year-end, the application of the NG funds and the recovery of expenditure not directly linked to COVID would exceed the withdrawal of COVID measures.

Regions' expenditure (% GDP)

Regions' expenditure (% change)
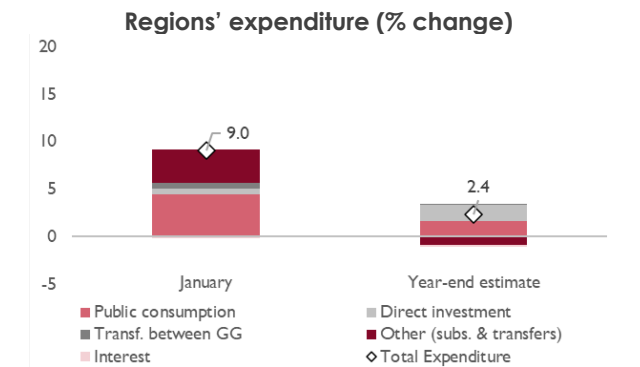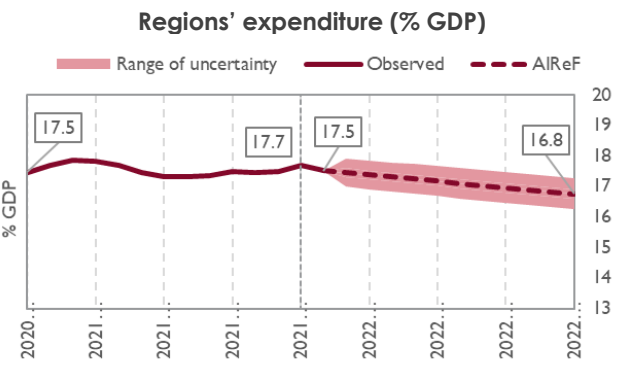
Methodological note

o   AIReF's forecasts are updated monthly by incorporating the latest published data into 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 benefit statistics.

o   The figures included are declared 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 date for December therefore match 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, AIReF does not aim to estimate a total monthly, 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.

o   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.

o   On October 6th 2020, the Council of Ministers requested activation of the escape clause on account of the extraordinary emergency situation caused by the pandemic, which, following a report from AIReF, was approved by Parliament on October 20th 2020. The activation of this escape clause rendered without effect the fiscal rules for 2020 and 2021. Subsequently, on July 27th 2021, the Council of Ministers decided to maintain the suspension of fiscal rules for 2022, which, following a report from AIReF, was ratified by Parliament on September 13th 2021.

o   However, the deficit reference rates for 2022 set by the Government at the Council of Ministers meeting of July 27th 2021 have been taken into account. A reference deficit of 5% of GDP was set for the GG as a whole, with the following breakdown by sub-sector: 3.9% of GDP for the Central Government, 0.5% of GDP for the Social Security Funds, 0.6% of GDP for the Autonomous Regions and a balanced budget 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 the application of the corrective measures provided for in the Organic Law on Budgetary Stability and Financial Stability.

o   Total GG revenue and expenditure is measured including RTRP and REACT funds. The Government's estimate of how much of the RTRP funds will be executed in 2022 is considered to be the one it published in the 2022 Budgetary Plan, and the amount of REACT funds that will be executed in 2022 is considered to be the one published in the 2021-2024 Stability Programme.

o   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 income and expenditure.

o   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.