MONTHLY STABILITY TARGET MONITORING 2021

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Autoridad Independiente de Responsabilidad Fiscal

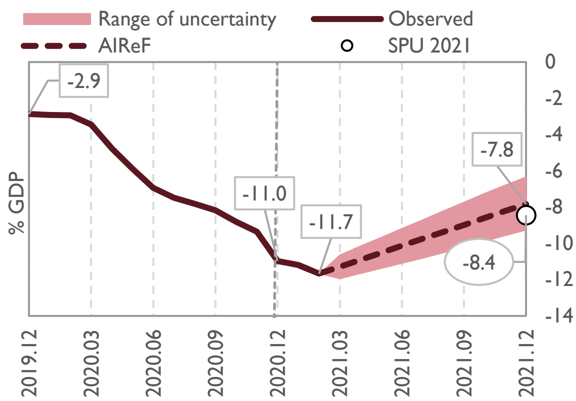
General Government

AIReF maintains its forecast for the General Government deficit with respect to the report published on 15 July, which placed it at 7.9% of GDP in 2021. It also maintains the same distribution of the deficit between the different sub-sectors. This sheet incorporates the latest execution data available to date, as well as the expected impact of the new measures approved. The update results in an increase of 0.1 percentage points of GDP in forecast revenue, which is offset by an increase in expenditure of 0.1 points. The new measures approved to mitigate the rise in the price of electricity and higher forecast expenditure on interest and public consumption are offset by higher forecast revenue from Corporate Income Tax and in the Autonomous Regions (ARs).

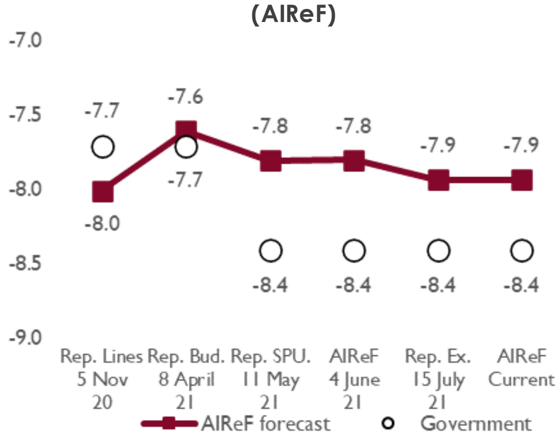
❶ The accumulated data up to June for the previous 12 months continues along its downward path by falling once again compared with the previous month. AIReF forecasts a deficit of 7.9% of GDP for the end of the year, 0.5 points less than that forecast by the Government in the 2021-2024 Stability Programme.

❷ In the process of ongoing assessment of the budget cycle, AIReF once again updates its previous deficit forecast made in July, maintaining it at 7.9%, although there are changes in revenue and expenditure.

General Government deficit (% GDP)



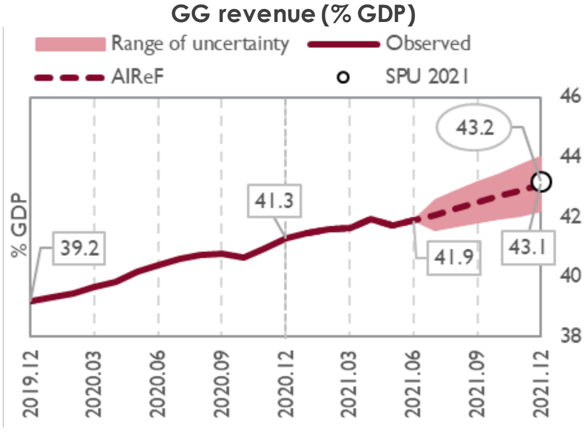
Updated estimated GG deficit (% GDP) (AIReF)



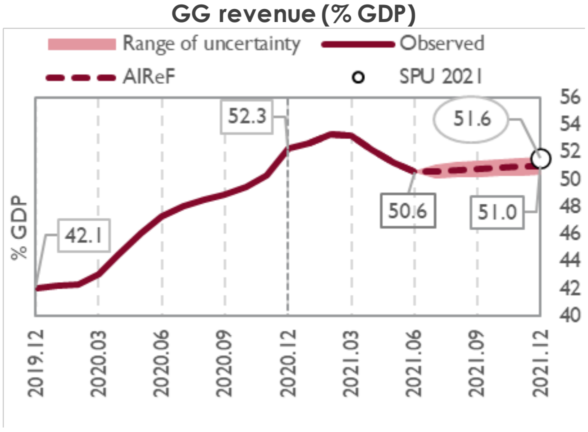
❸ The weight of expenditure as a percentage of GDP is expected to rise sharply, to stand at 43.1% of GDP. This weight would be lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been considered. Execution of this plan will need to be assessed over the coming months.

❹ There was a fall of 1.7 points of GDP in annualised expenditure from the end of last year to June. This sharp fall will be cushioned by the spending that will be financed through the RTRP with a neutral effect on the deficit. Expenditure is expected to reach 51% of GDP at the end of 2021.

GG revenue (% GDP)



GG revenue (% GDP)

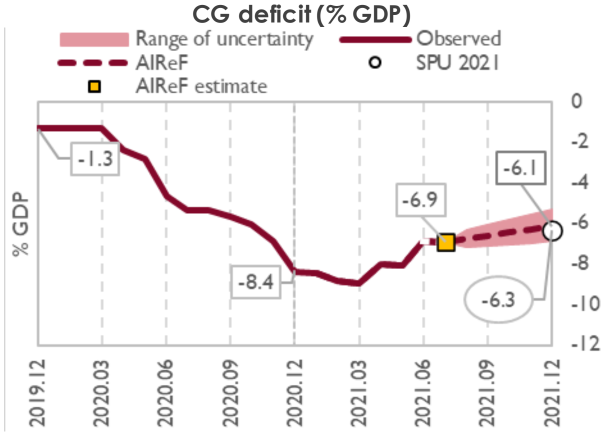


Central Government

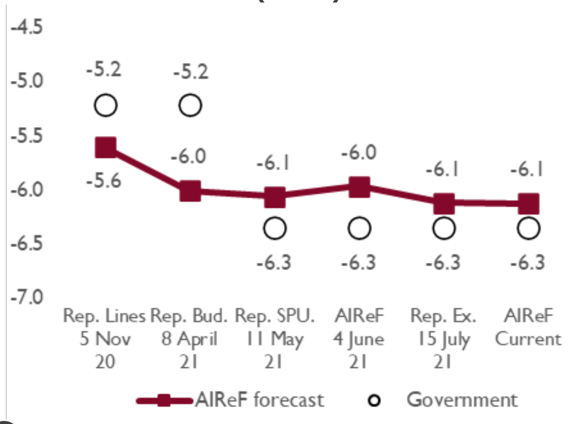
❶ AIReF forecasts that the CG deficit will amount to 6.1% of GDP, 0.2 points less than the government's forecast in the 2021-2024 Stability Programme Update.

❷ AIReF's new forecast incorporates the new information available for the State up to July and the impact of the measures approved thus far, with the figure remaining unchanged compared with the previous forecast at 6.1% of GDP.

CG deficit (% GDP)



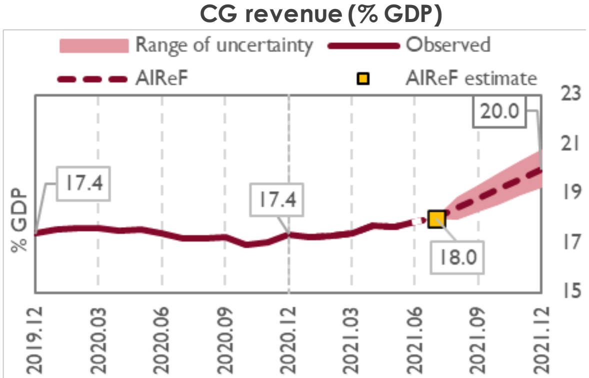
Updated estimated CG deficit (% GDP) (AIReF)



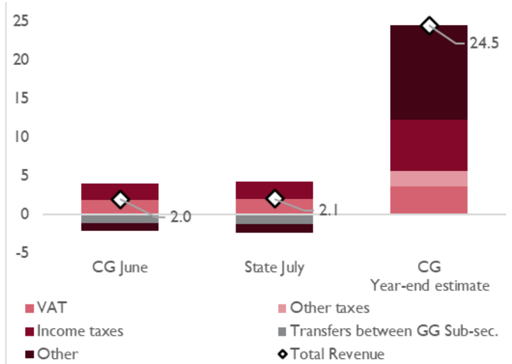
❸ The weight of the annualised variable of revenue over GDP is expected to grow significantly over the year as the CG is the main coordinator of RTRP revenue. Revenue is expected to reach 20% of GDP at year-end, 0.1 points higher than the previous forecast as a result of higher forecast CIT.

❹ The cumulative revenue of the last 12 months still 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 RTRP.

CG revenue (% GDP)



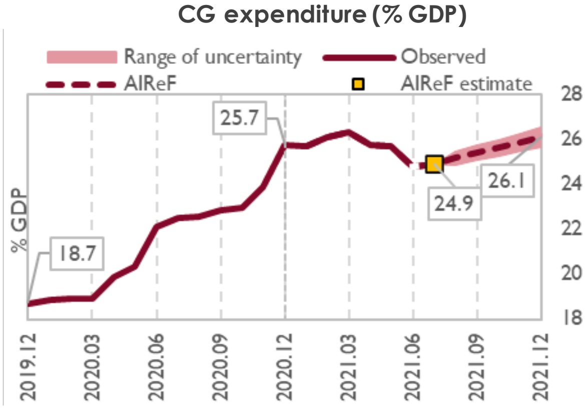
CG revenue (% GDP)



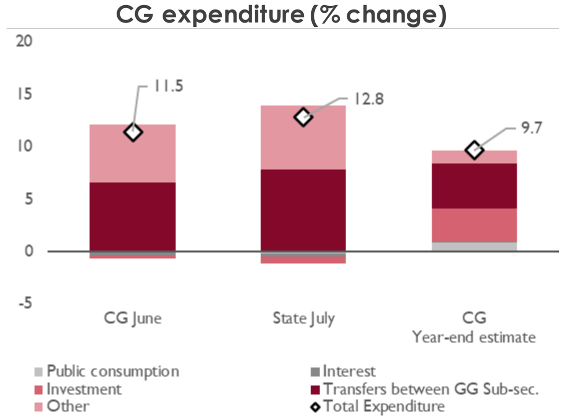
❺ Expenditure is forecast to stand at 26.1% of GDP, 0.1 points higher than the previous month's estimate, because of the measures adopted by the Government in relation to electricity.

❻ Transfers to other General Government sub-sectors lose relative weight due to the lower expected execution of RTRP expenditure in the Autonomous Regions, while investments driven by the RTRP and SAREB rise.

CG expenditure (% GDP)



CG expenditure (% change)

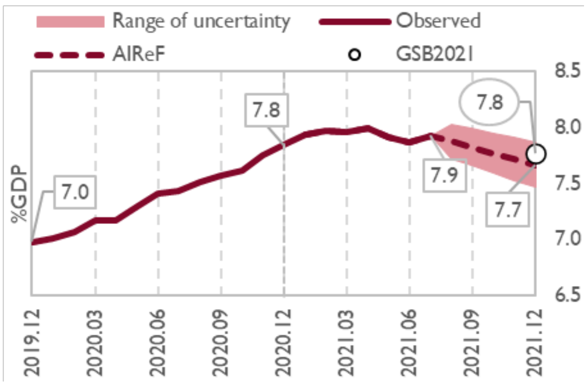


Main revenue items

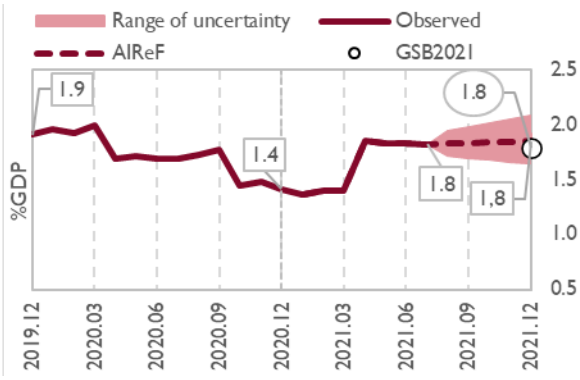
AIReF's revenue forecast incorporates the new information available to date and it revises its revenue estimate upwards from its previous report. Cumulative tax revenues up to July grow by 3.1% compared with 2019, prior to the pandemic. It should be noted that the revenue from the new tax on financial transactions is recorded for the first time, with a lower impact than expected for the time being, and the fiscal measures to stabilise electricity bills are incorporated.

❶ AIReF maintains its forecast for PIT with growth below economic activity, which will put it at 7.7% of GDP, 0.1 points lower than in the previous year. PIT revenue continues to grow over 2021, with an increase so far this year of 9.3%, driven by the growth in withholdings on work and particularly those of private wages. At the end of the year, revenue is expected to be 5.8% higher than in 2020.

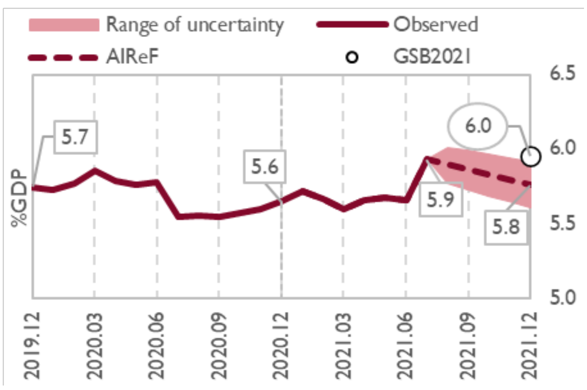
PIT IN CASH (% GDP)



❷ Growth in the weight of CIT as a proportion of GDP is maintained at 0.4 points compared with 2020, to stand at 1.8%. However, the update of the net tax amount accrued in 2020 leads to an upward revision of the estimate, with a year-on-year increase that is 4.2 points above that of the previous report, which remains subject to uncertainty as two of the three instalment payments are collected in the last part of the year.

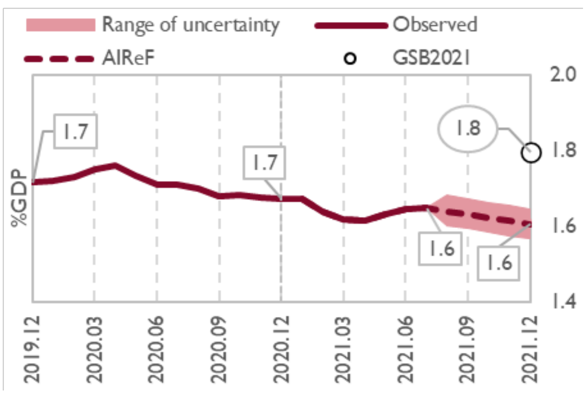


❸ AIReF forecasts a weight of **VAT** over GDP of 5.8%, 0.2 points higher than 2020 and the same as in the previous report. Collection was particularly positive in July, with both higher revenue and lower refunds than expected, and a growth rate above that of economic activity, which puts its rise so far this year at 16.1%. At the end of 2021, revenue is expected to rise by 10.2%.



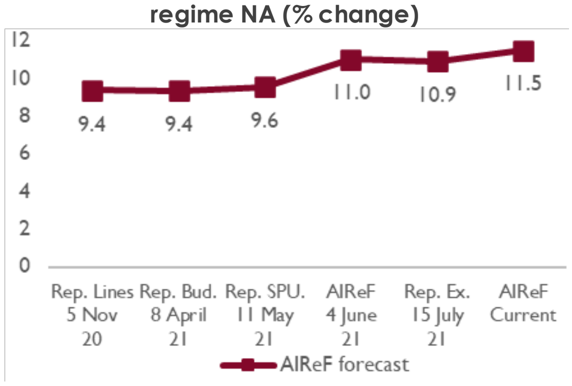
❹ **STs** as a whole will amount to 1.6% of GDP, 0.1 points less than the previous report as a result of the lowering of the ST rate on Electricity. Although in cumulative terms up to July, revenue is still below that of 2019, it has grown for the fourth consecutive month compared with the previous year, placing the year-on-year rate of change at 5.1%. This increase is forecast to reach 5.3% at the end of 2021.

SPECIAL TAXES IN CASH (% GDP)

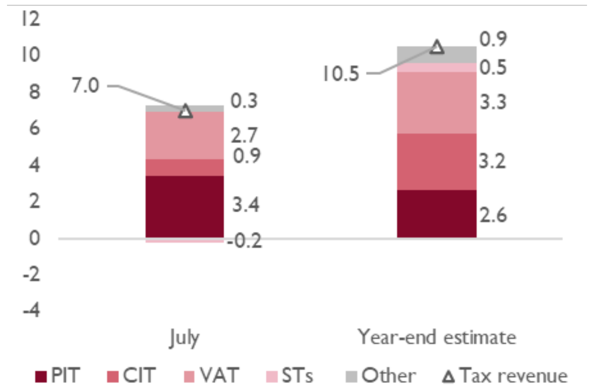


❺ After incorporating the tax information up to July and updating the net tax amount accrued for 2020 Corporate Income Tax, AIReF revises its revenue forecast in National Accounting Terms and estimates growth of 11.5% at the end of the year, 0.6 points higher than forecast in its Report on Budgetary Execution.

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

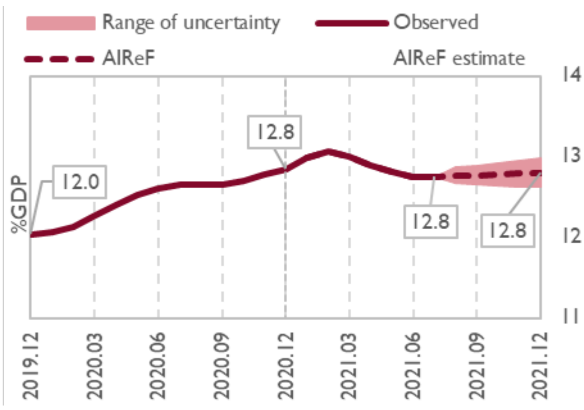


❻ 12-month cumulative tax revenue up to July is up by 7% as it includes the monthly revenue since July 2020. Although the months affected by the pandemic are included, a positive contribution can already be noted in all the figures with the exception of STs. Overall growth of 10.5% is expected for year-end 2021, with VAT and CIT the taxes that will contribute most to the recovery.



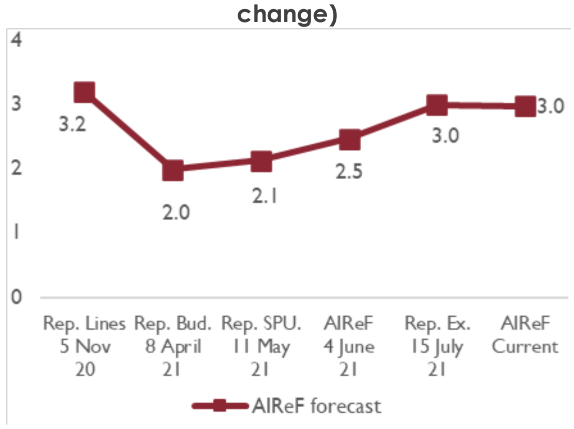
❼ Social Security Fund contributions remain throughout the year at a weight of 12.8 points of GDP. The pace of the cost of exemptions and the greater dynamism of the published data mean that contributions will grow at a similar rate to GDP, thus maintaining their relative weight.

SSF Social Contributions (% GDP)



❽ AIReF maintains the same rate of growth in total GG contributions as in the last report.

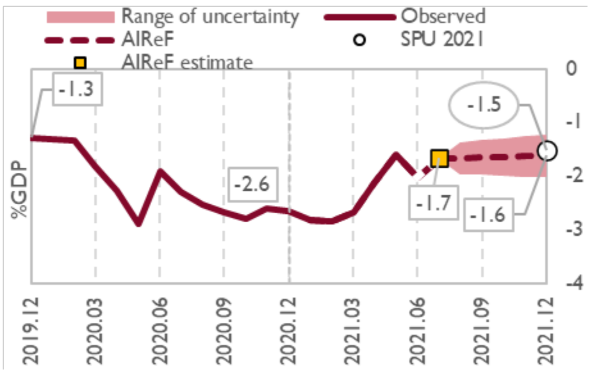
Updated forecast for Social Contributions of the GG (% change)



Social Security Funds

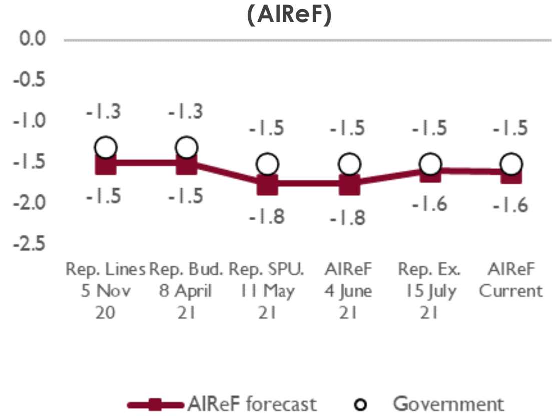
❶ AIReF maintains its estimate of the SSF deficit at 1.6%. However, the latest data show an increase in the year-on-year deficit as a result of the reduction in transfers from other General Government sub-sectors in relation to those received in 2020 up to June.

SSF deficit (% GDP)



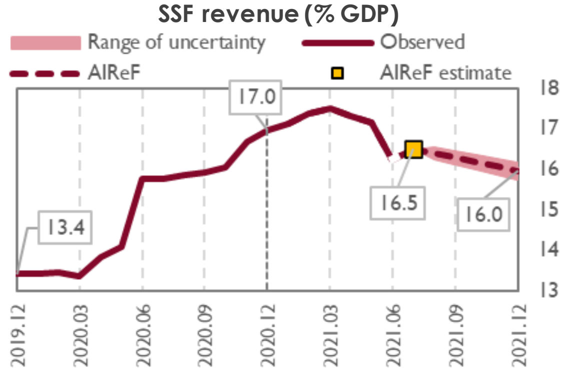
❷ The forecast of the balance remains the same as in the previous report.

Updated estimated SSF deficit (% GDP) (AIReF)



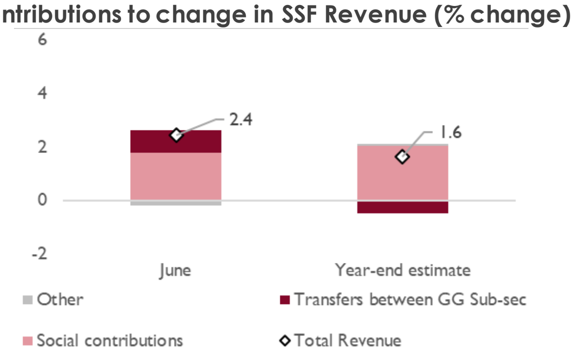
❸ The weight of revenue began to fall in April from a level to converge to the estimated figure of 16 points of GDP for 2021. The June figure accelerated the fall in revenue as a result of the year-on-year reduction in transfers from other General Government sub-sectors.

SSF revenue (% GDP)



❹ The known cumulative data for the last 12 months of National Accounts start to show the expected profile for 2021, in which the growth of transfers from other General Government sub-sectors is not the driving force for growth in revenue.

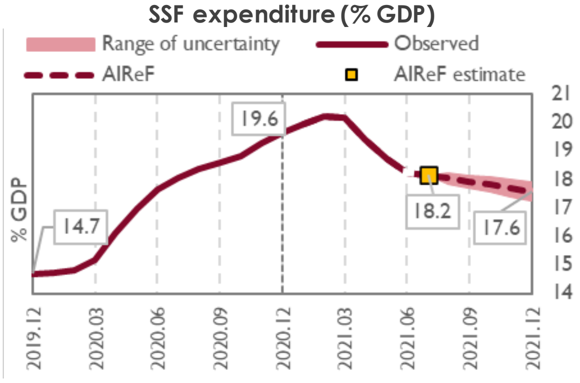
Contributions to change in SSF Revenue (% change)



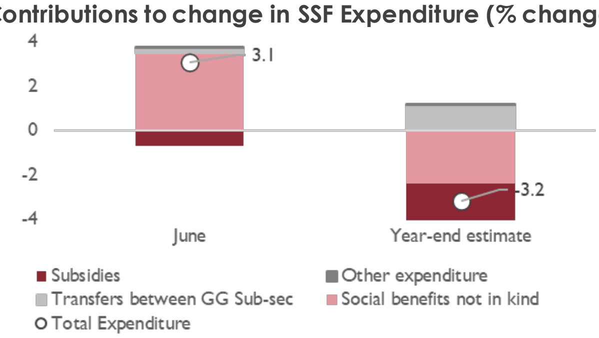
❺ The evolution of expenditure is expected to maintain the downward trend both as a result of the denominator effect and as a result of the reduction in cash social benefits, which is revised downwards slightly.

❻ The cumulative data for the last 12 months to June start to have the expected structure for 2021 rather than that of 2020. The contribution to growth of subsidies is now negative, and that of social benefits in kind is beginning to fall. The contribution of both headings is expected to maintain its downward trend.

SSF expenditure (% GDP)



Contributions to change in SSF Expenditure (% change)

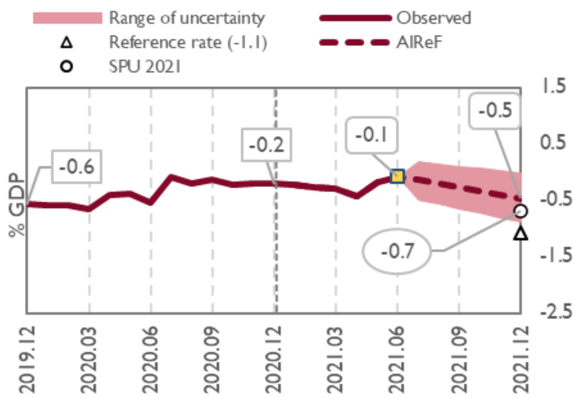


Autonomous Regions

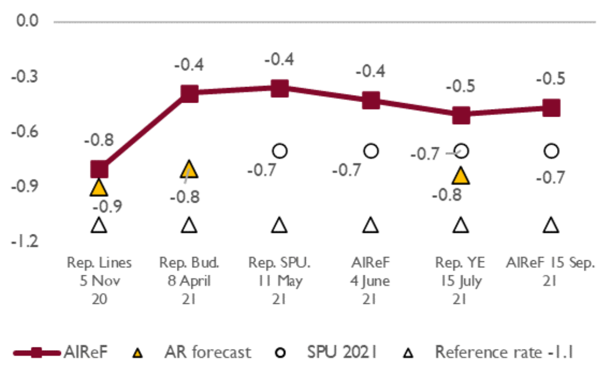
❶ AIReF continues to forecast a deficit of 0.5% of GDP for the Autonomous Regions, maintaining the estimate of the previous report, which is below the SPU forecast for the sub-sector.

❷ The forecast remains stable, with a slight improvement due to the positive performance of tax revenue and European funds up to June.

Regions' deficit (% GDP)



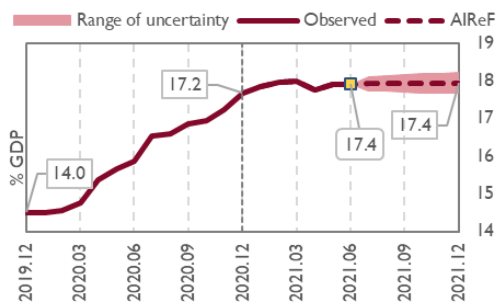
Updated estimated Regions' deficit (% GDP) (AIReF)



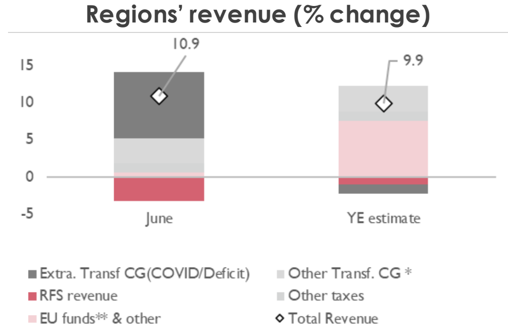
❸ Revised upwards with the data to June, revenue would grow by 10%, remaining at 17.4% of GDP, affected by the RTRP and direct support to companies. Without this revenue, the growth would stand at 3%, falling to 16.4% of GDP.

❹ 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 based on European funds and State support for companies.

Regions' revenue (% GDP)



Regions' revenue (% change)



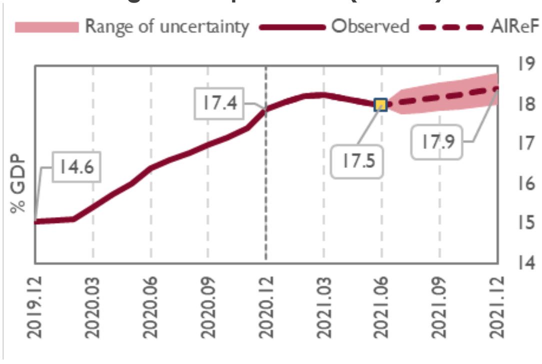
(*) Includes support for companies

(**) Includes transfers from the CG as a result of RTRP funds

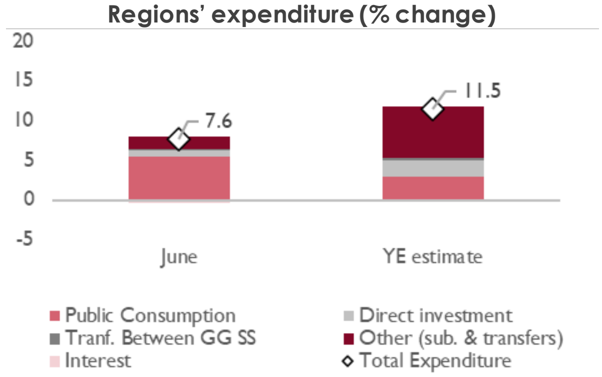
❺ At the end of the year, expenditure would reach 17.9% of GDP, including spending financed with assigned revenue from the RTRP and support for companies. Without them, growth would be 5%, falling to 17% of GDP.

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

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.
- 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, AIReF 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 AIReF, was approved by Parliament on October 20th. The activation of this escape clause on account of the extraordinary emergency 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.
- 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.