MONTHLY STABILITY TARGET MONITORING 2021

PUBLICATION DATE: 28 OCTOBER, 2021

General Government

AIReF maintains its GG deficit forecast at 7.9% of GDP in 2021. This factsheet contains the macroeconomic and fiscal scenario incorporated in the Report on the main budgetary lines and draft budget of the General Government for 2022 published on October 25th. On the one hand, the positive performance of tax collection and social contributions offset the higher expenditure expected at year-end. On the other hand, the incorporation of the new GDP forecast, which is lower in nominal terms, means that both revenue and expenditure as a proportion of GDP rise. Both upward effects offset the higher level of non-execution forecast in AIReF's new forecast in relation to the NGEU funds, with the weight of revenue and expenditure as a proportion of GDP remaining the same as in the previous month's factsheet. Regarding the distribution of the deficit among the different sub-sectors, the worsening of the CG by 0.2 points is offset by the 0.1-point improvement of the SSFs and of the ARs.

❶ The pace of deficit reduction is stabilised at the accumulated figure up to July of the previous 12 months and it is expected to reach 7.9% of GDP at the end of the year, 0.5 points less than forecast in the Government's 2022 Budgetary Plan.

❷ In the process of ongoing assessment of the budget cycle, AIReF once again updates its deficit forecast from that made in September, with it remaining unchanged at 7.9%.

General Government deficit (% GDP)
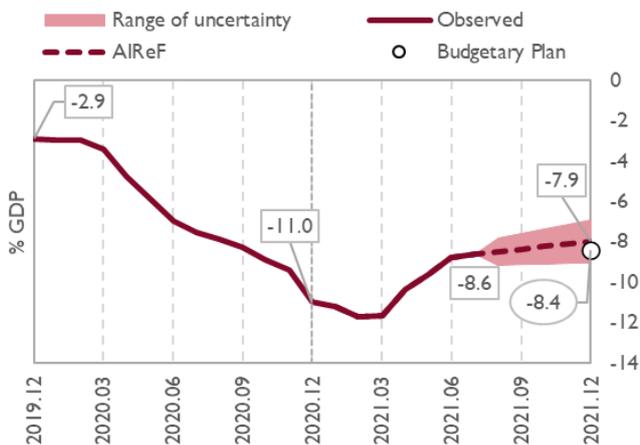

Updated estimated GG deficit (% GDP) (AIReF)
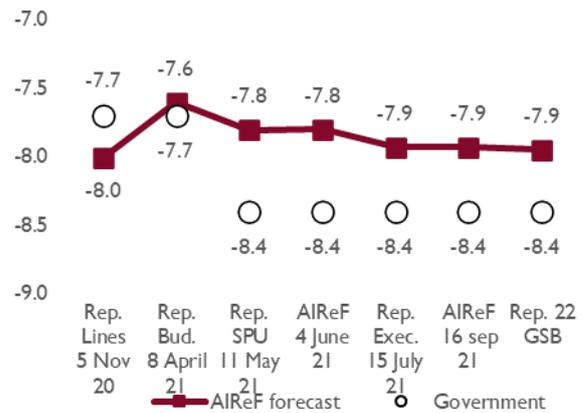
❸ The weight of revenue as a percentage of GDP is expected to rise sharply, to stand at 43.1% of GDP. This weight would have been lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Execution of this plan will need to be assessed over the coming months.

❹ There was a fall of 1.8 points of GDP in annualised expenditure from the end of last year to July. 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.
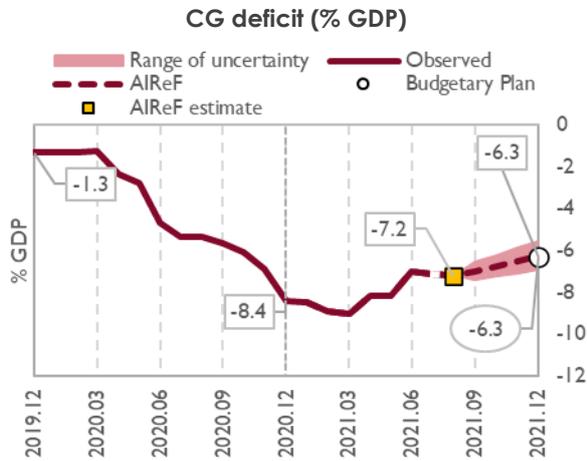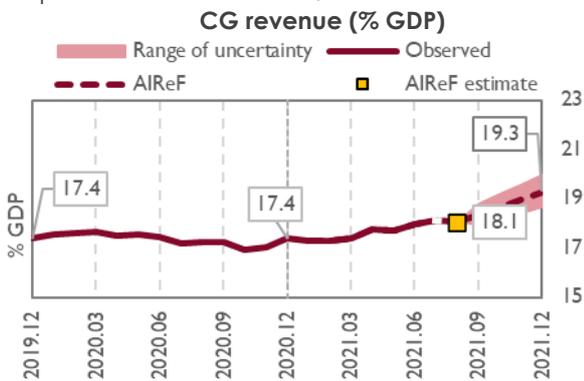
GG revenue (% GDP)
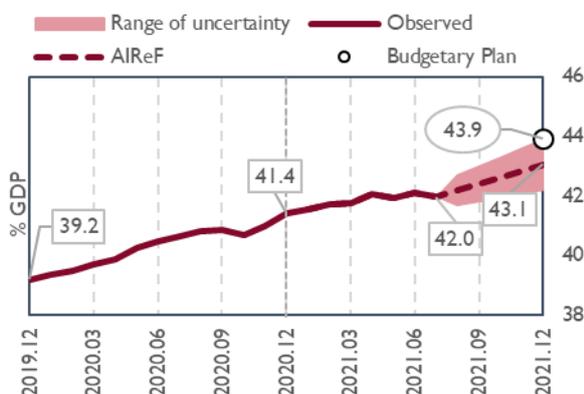
GG expenditure (% GDP)
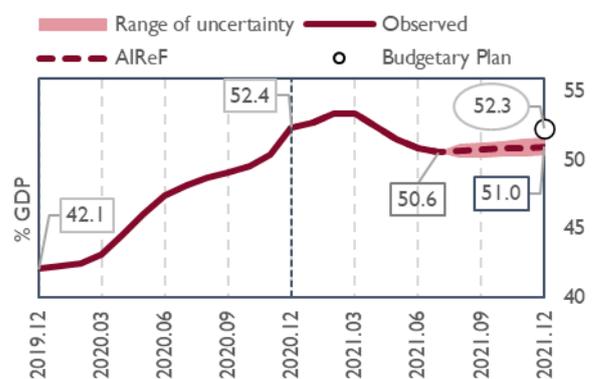
❶ AIReF forecasts that the CG deficit will amount to 6.3% of GDP, in line with the Government's forecast included in the 2022 Budgetary Plan.

CG deficit (% GDP)

❷ AIReF's new forecast incorporates the information on 2021 contained in the 2022 GSB and the execution data of the State up to August, leading to a worsening of 0.2 points compared with the previous forecast, to stand at 6.3% of GDP.

Updated estimated CG deficit (% GDP) (AIReF)
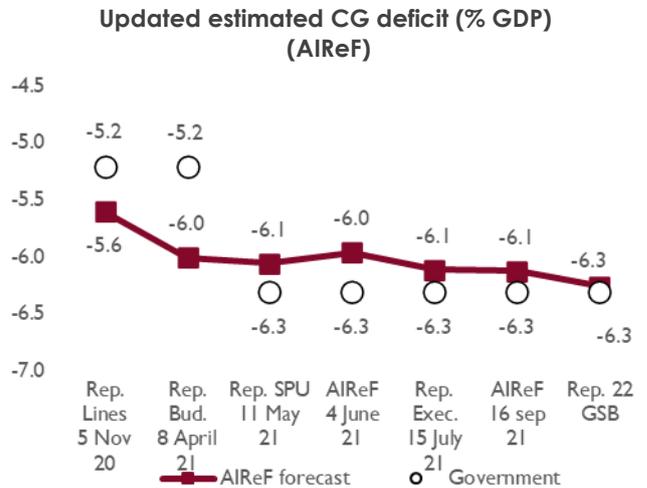
❸ The weight of the annualised variable of revenue over GDP is expected to grow significantly over the year as the CG is the main coordinator of RTRP revenue. Revenue is expected to reach 19.3% of GDP.

CG revenue (% GDP)

❹ The cumulative revenue of the last 12 months still shows 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)
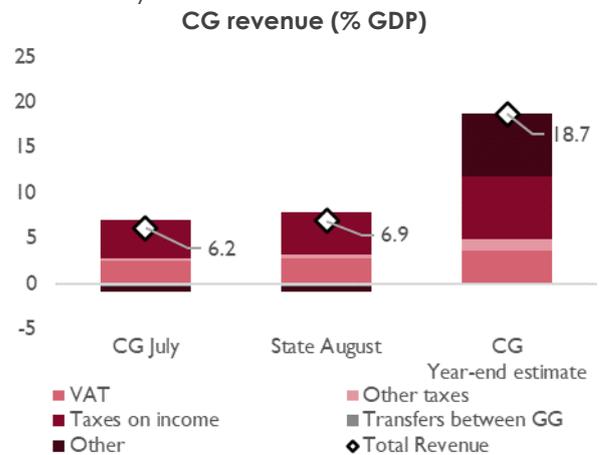
❺ Expenditure is forecast to stand at 25.5% of GDP, 0.6 points lower than the previous month's estimate, mainly as a result of the lower expected execution of the RTRP.
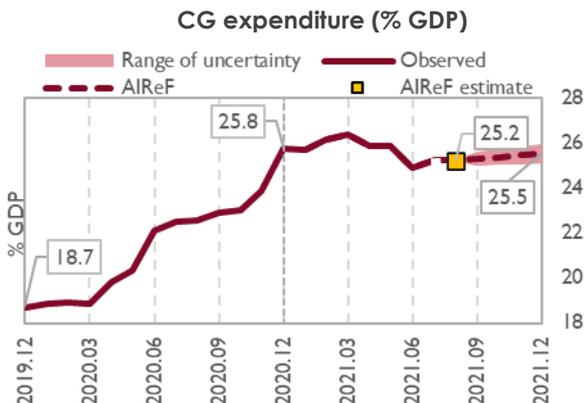
CG expenditure (% GDP)

❻ The expenditure on transfers between GG sub-sectors and investment lose weight as a result of the lower expected execution of the RTRP, while the year-end forecast for public consumption rises.

CG expenditure (% change)
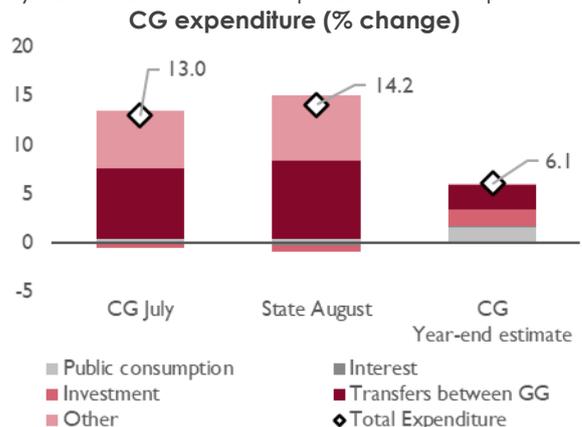
Main revenue items

The tax revenue estimates are updated with the incorporation of the collection data for the month of August 2021 and AIReF's latest macroeconomic forecasts. The results are compared with those of the Government's flash estimate of the 2021 settlement in the draft 2022 GSB. Tax collection up to August is up 14.6% compared with the same period of 2020, already surpassing the results of 2019 up to the same date, prior to the pandemic. It should be noted that the forecasts for the new taxes on Financial Transactions and Certain Digital Services are lowered after the incorporation of their early results.

❶ AIReF forecasts that the weight of PIT as a proportion of GDP will stand at 7.9% in 2021, 0.1 points above the figure for the previous year. PIT revenue continues to grow over 2021, with an increase so far this year of 8.5%, driven by the recovery in employment and private wages. At the end of the year, revenue is expected to be 7.2% higher than in 2020.

❷ AIReF expects CIT to reach 1.8% of GDP in 2021. After falling by 33.2% in 2020, a recovery of 38.7% is expected, including an exceptional sum of €1.1bn due to a merger. However, the estimate remains subject to uncertainty as two of the three instalment payments are collected in the last part of the year.
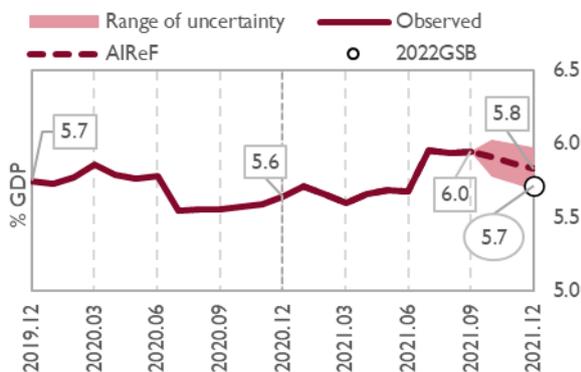
PIT in Cash (% GDP)
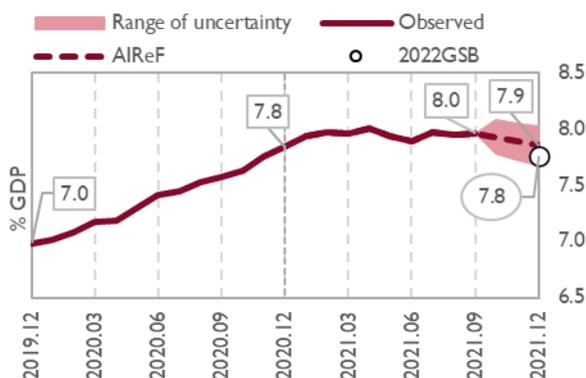

CIT in Cash (% GDP)
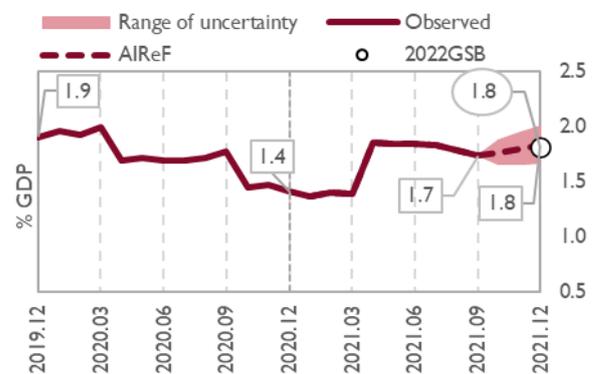
❸ The weight of **VAT** as a proportion of GDP is expected to stand at 5.8%, 0.2 points higher than in 2020. In the year to date, it has recorded a recovery of 14.8% compared with the previous year. This is despite the incorporation since June of the reduction of the rate to mitigate the rise in the price of electricity, which counteracts the effect of the measures approved in the draft 2021 GSB. At the end of 2021, revenue is expected to rise by 10.6%.

❹ **STs** as a whole will stand at 1.6% of GDP. Up to August, collection has grown by 4.4% compared with 2020, mainly driven by the recovery of the Hydrocarbon Tax, which is the tax most affected by the pandemic. Growth at year-end 2021 is expected to stand at 5% as it will be affected in the last quarter of the year by the reduction in the rate of the Special Tax on Electricity.
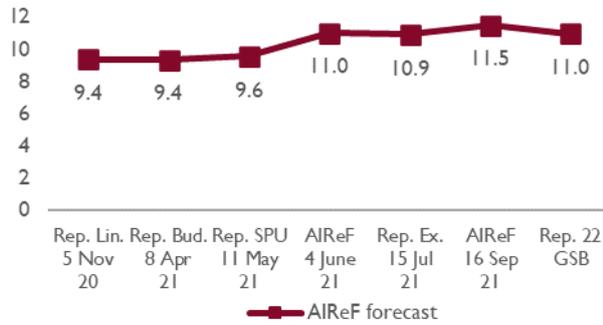
**VAT in Cash (% GDP)**

Special Taxes in Cash (% GDP)
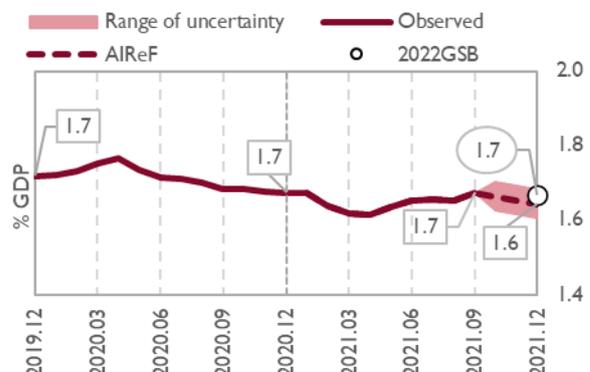
❺ After incorporating the tax information up to August and updating its macroeconomic scenario, AIReF revises the revenue forecast in national accounting terms and estimates growth of 11% at year-end, 0.5 points lower than its last revision.

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

❻ 12-month cumulative tax revenue up to August is up by 6.8%. Although it includes months affected by the pandemic, all taxes with the exception of STs have a positive contribution. Overall growth of 11% is expected for year-end 2021, with VAT, PIT and CIT being the taxes that will contribute most to the recovery.

Contributions to change. Cash AIReF (% change)
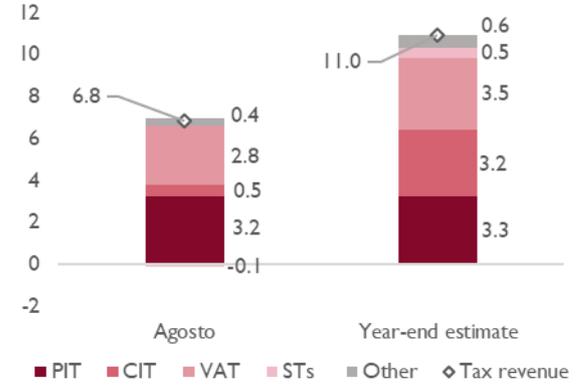
❼ Social Security Fund contributions rise over the year to stand at 13.1 points of GDP. The dynamism deduced from the published data, combined with the downward estimate of annual GDP, means that contributions will grow above the rate of growth of GDP, thus increasing their relative proportion.

SSF Social Contributions (% GDP)
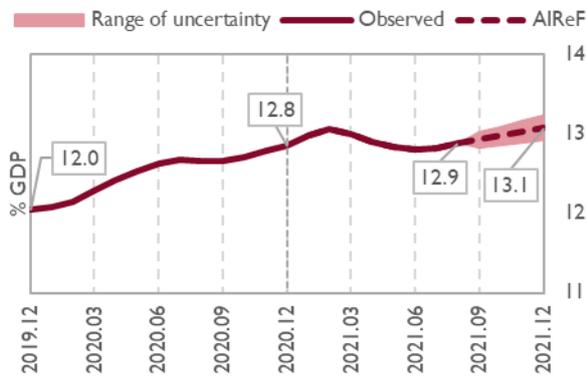
❽ AIReF increases the rate of growth of contributions for the GG as a whole by 0.2 points as a result of the greater dynamism of the published data.

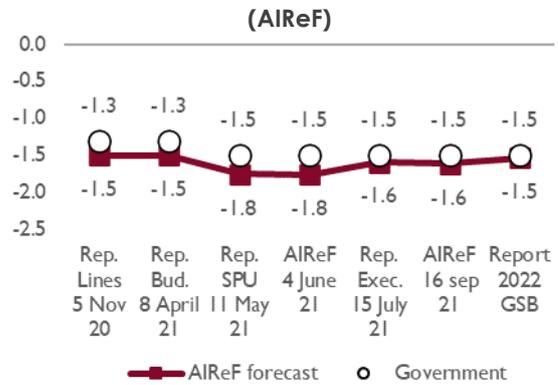**Updated forecast for Social Contributions of the GG (% change)**
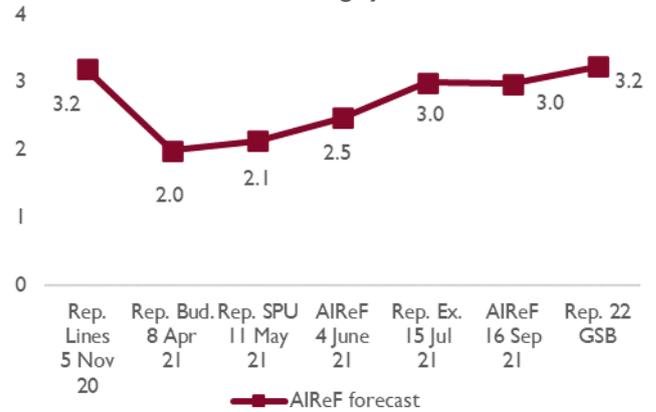
❶ AIReF reduces its estimate of the SSF deficit from 1.6% to 1.5%, in line with the estimate included in the Budgetary Plan. Both revenue and expenditure rise, but the former does so to a greater extent.
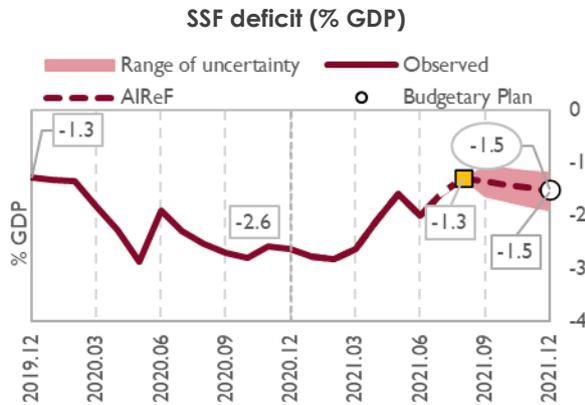
❷ The forecast of the balance is reduced by 0.1 points compared with recent estimates as a result of a greater increase in the estimate of the evolution of revenue compared with that of expenditure.

SSF deficit (% GDP)

Updated estimated SSF deficit (% GDP) (AIReF)

|	Rep. Lines 5 Nov 20	Rep. Bud. 8 April 21	Rep. SPU 11 May 21	AIReF 4 June 21	Rep. Exec. 15 July 21	AIReF 16 sep 21	Report 2022 GSB

❸ The weight of revenue began to fall in April to converge to the estimated figure of 16.3 points of GDP for 2021. After the year-on-year fall in transfers in June, the transfers received in July increase the weight of the aggregate, with a progressive decrease expected for the rest of the year.
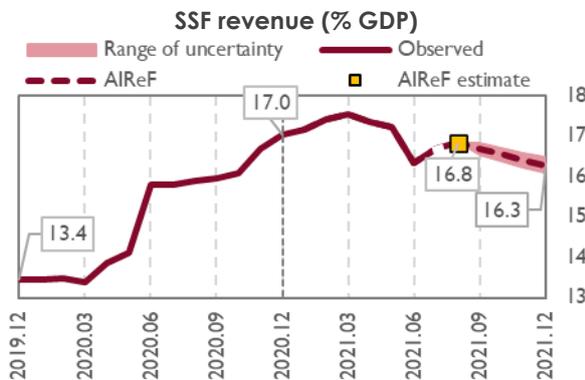
❹ With the increase in transfers in July, the cumulative data for the last 12 months of national accounting show that the growth in revenue is higher than expected for year-end 2021. This is due to the still positive contribution of the transfers. This contribution is expected to fall and turn negative.

SSF revenue (% GDP)



Contributions to change in SSF revenue (% change)
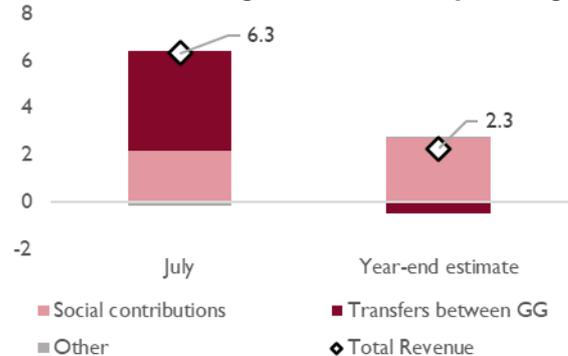
❺ The evolution of expenditure is expected to continue falling to reach 17.8 points of GDP. The reduction in the rate of decline noted in June continues with the new data.
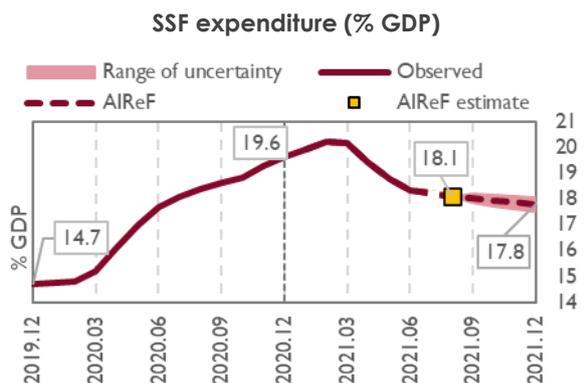
❻ The cumulative data for the last 12 months up to July show a negative contribution of subsidies to growth, while social benefits continue having a positive contribution, albeit a lower one than in previous months. The contribution of both headings is expected to maintain its downward trend.
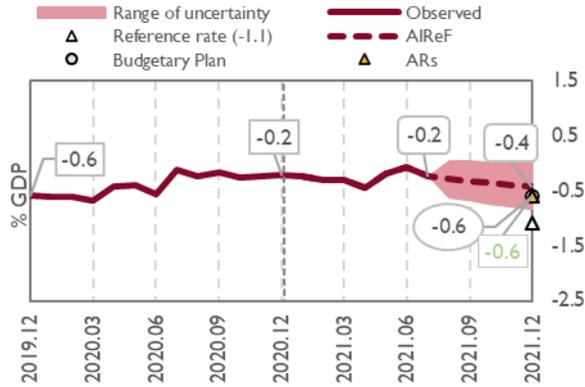
SSF expenditure (% GDP)

**Contributions to change in SSF expenditure (% change)**
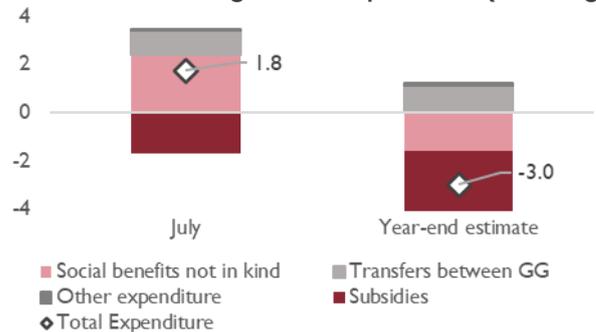
❶ AIReF slightly improves its estimates for the sub-sector, forecasting a deficit of 0.4% of GDP, which is more favourable than the forecast of the DBP and the aggregate forecast of the ARs.

❷ The forecast reflects the improvement resulting from the positive performance of tax revenue and European funds up to July, which offsets the growth in expenditure.

Regions' deficit (% GDP)

### Updated estimated Regions' deficit (% GDP) (AIReF)
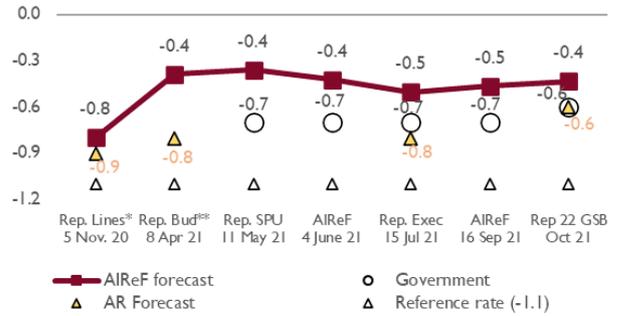
❸ Revised upwards with the data to July, revenue would grow by 9%, to stand at 17.5% of GDP, affected by the RTRP and direct support for companies. Without these items, growth would stand at 4%, falling to 16.7% of GDP.
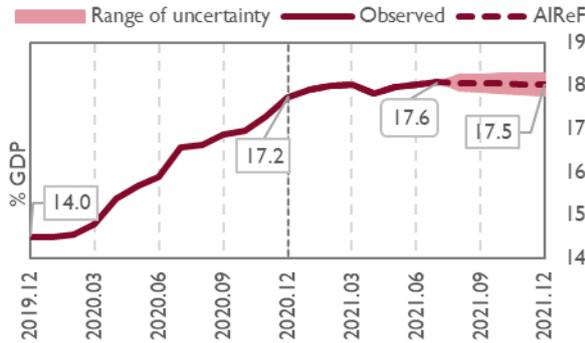
❹ Over the last 12 months, the growth in revenue has been sustained by transfers from the CSA, both unconditional transfers and support for companies. The weight of EU funds and other taxes is expected to grow at year-end.

Regions' revenue (% GDP)

Regions' revenue (% change)

(*) Includes support for companies.
(**) Includes transfers from the CG as a result of RTRP funds
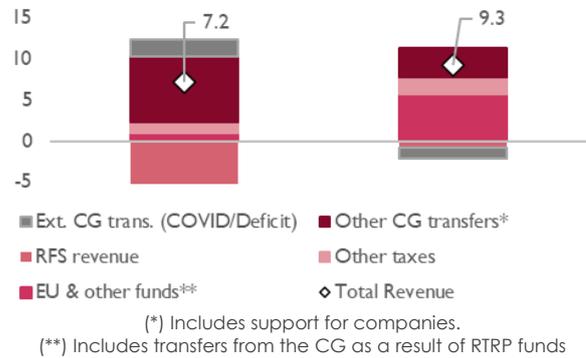
❺ At the end of the year, expenditure would reach 18% of GDP, including spending financed with revenue assigned from the RTRP and support for companies. Without them, growth would stand at 5%, falling to 17.1% of GDP.
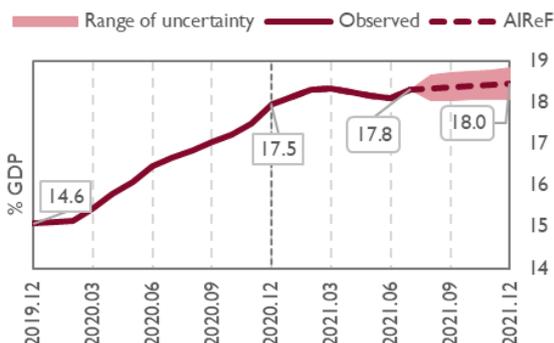
❻ The increase in expenditure at the end of the year will be concentrated in spending, partly related to COVID, financed with NGEU funds and support for companies: subsidies and transfers to the private sector, investments and public consumption.

Regions' expenditure (% GDP)

Regions' expenditure (% change)
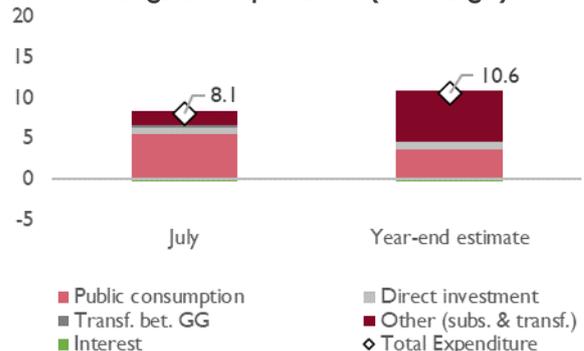
Local Governments

❶ AIReF maintains its forecast for year-end 2021, estimating a surplus of close to 0.3% of GDP, which is more favourable than the forecast included in the Budgetary Plan.

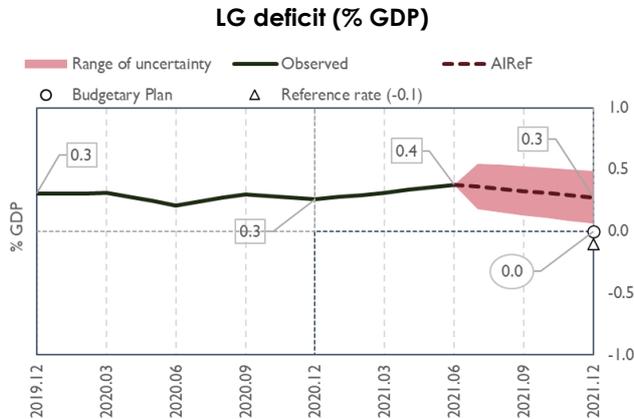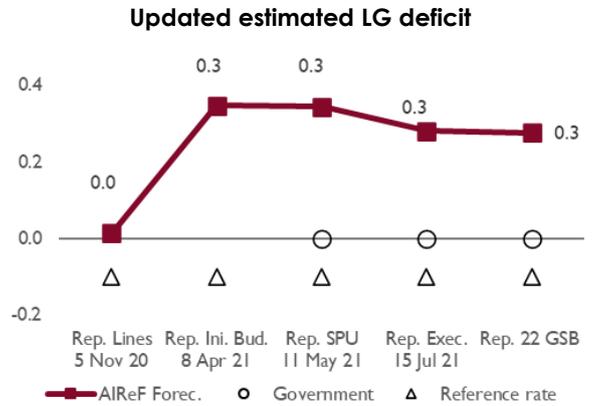**❷** AIReF maintains the previous year-end estimate of 0.3%, with a slight worsening in expenditure on incorporating the execution data for the sub-sector for the first half of the year.

LG deficit (% GDP)

Updated estimated LG deficit

❸ Local revenue continues to rise as a result of the economic recovery. However, it retains its weight in relation to GDP due to the increase in the latter.
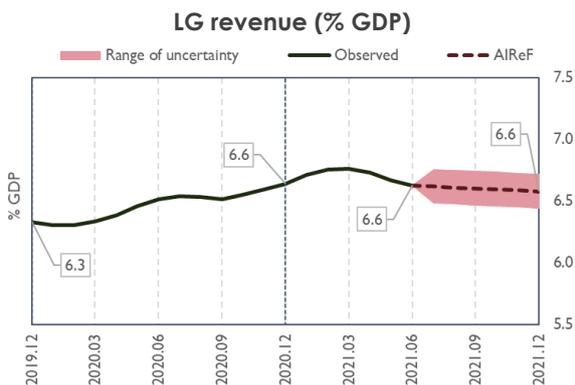
❹ While in the last 12 months the slight growth in revenue is mainly the result of transfers from the CSA, revenue from the Provincial Councils of the Basque Country linked to economic activity will also contribute at year-end.

LG revenue (% GDP)

LG revenue (% change)
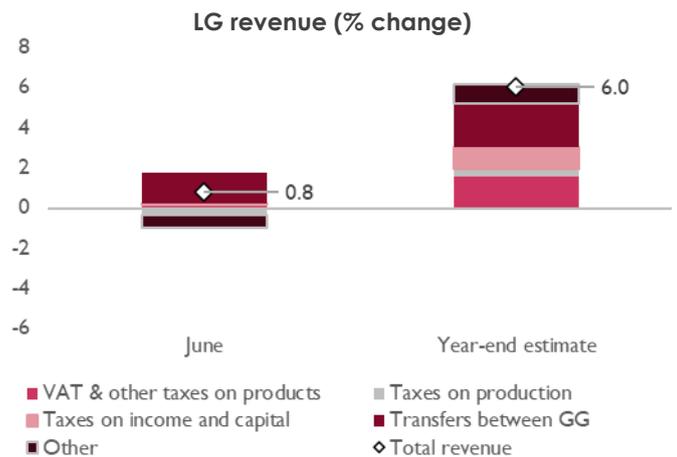
❺ In the coming months, the increase in expenditure that began in 2019, and strengthened as a result of the incorporation of surpluses following activation of the escape clause, will be maintained. However, its weight in relation to GDP falls compared with 2020 due to the greater rise in GDP.
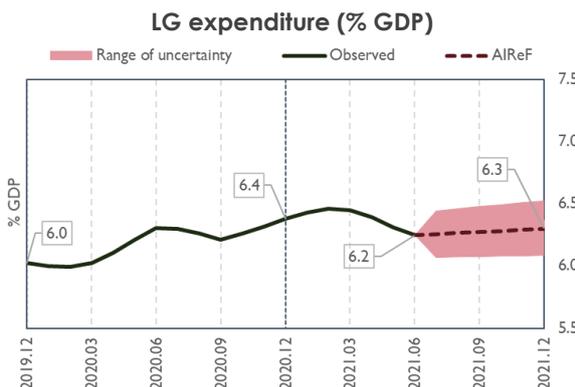
❻ At year-end 2021, an increase in expenditure is forecast. This is mainly a result of the increase in expenditure on investment and public consumption in the last six months and of the transfer of the higher revenue obtained from the Provincial Councils of the Basque Country to the Regional Government of the Basque Country.

LG expenditure (% GDP)

LG expenditure (% change)
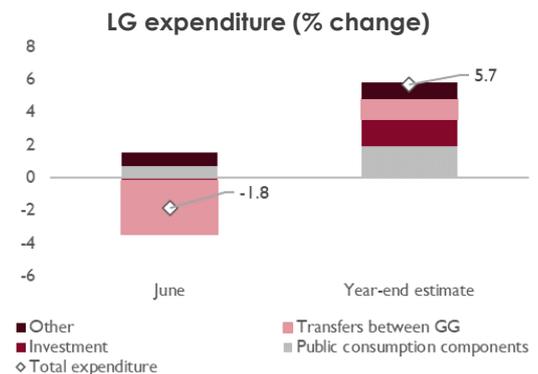
Methodological note

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 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 last year. 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 Budgetary Plan for 2022 sent to Brussels on October 15th have been taken into account. This 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), 6.3% of GDP, for the Social Security Funds (SSFs), 1.5% of GDP, for the Autonomous Regions (ARs), 0.6% 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 the application of the corrective measures provided for in the Organic Law on Budgetary Stability and Financial Stability.

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.