

MONTHLY STABILITY TARGET MONITORING 2021

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Independent Authority
for Fiscal Responsibility

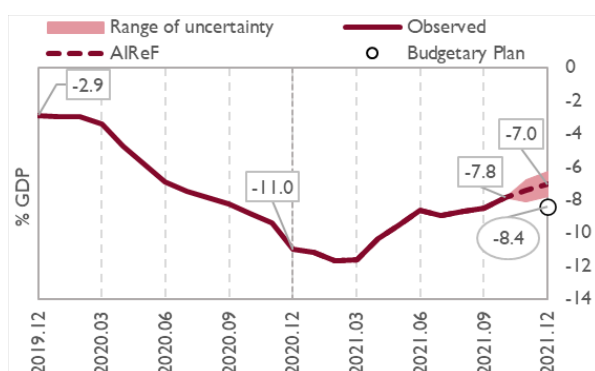
General Government

AIReF updates its forecast for the General Government (GG) deficit to 7% of GDP in 2021, an improvement of 0.3 points compared with the previous forecast published on 2nd December. This factsheet includes an update of the macroeconomic outlook with hardly any effect on 2021 as a major part of the 2021 execution data is already known. Regarding the distribution of the deficit by sub-sector, the revision is concentrated in the CG, which drops from 6.2% to 5.9%. The SSF deficit of 1.3%, the AR deficit of 0.2% and the local sub-sector surplus of 0.3% remain unchanged.

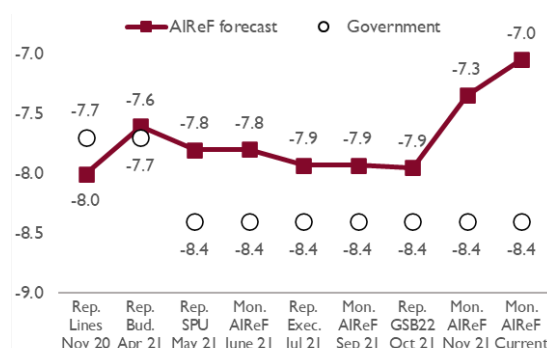
1 The pace of deficit reduction is stabilised at the accumulated figure up to October of the previous 12 months, which will reach 7% of GDP at the end of the year, 1.4 points less than that forecast in the Government's 2022 Budgetary Plan.

2 In the process of ongoing assessment of the budget cycle, AIReF reduces its deficit forecast by 0.3 points due to a lower forecast for execution of the support for companies (0.2 points) and an improvement in the forecast for revenue (0.1 points).

General Government deficit (% GDP)



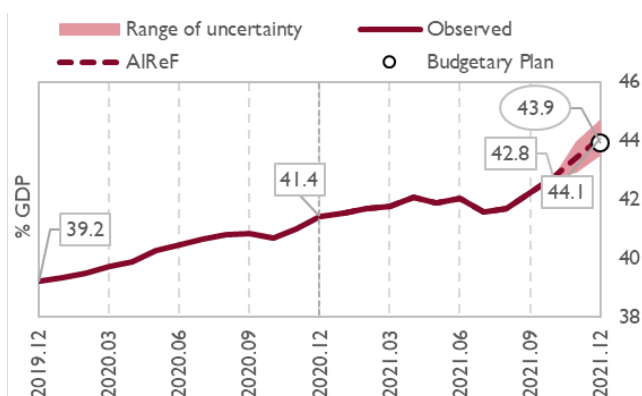
Updated estimated GG deficit (% GDP) (AIReF)



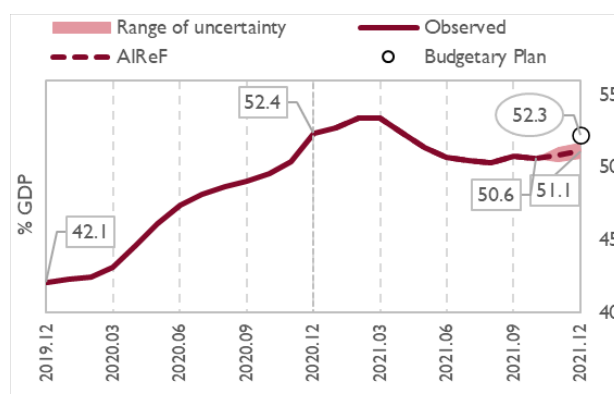
3 A sharp increase in the weight of revenue over GDP is forecast, with growth to 44.1% of GDP expected. This weight would have been lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Execution of this plan will need to be assessed over time.

4 There was a fall of 1.8 points of GDP in annualised expenditure from the end of last year to October. This sharp fall will be cushioned by the spending to be financed through the RTRP with a neutral effect on the deficit. Expenditure will stand at 51.1% of GDP at the end of 2021.

GG revenue (% GDP)

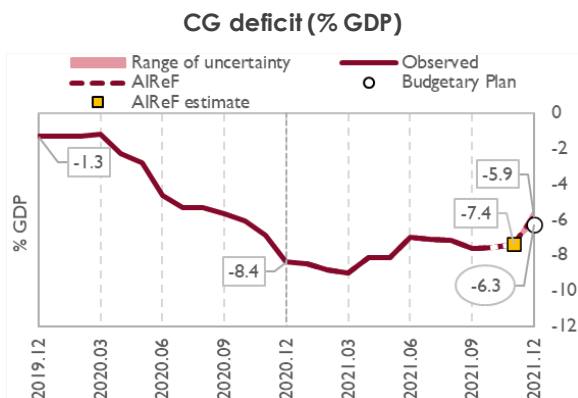


GG expenditure (% GDP)

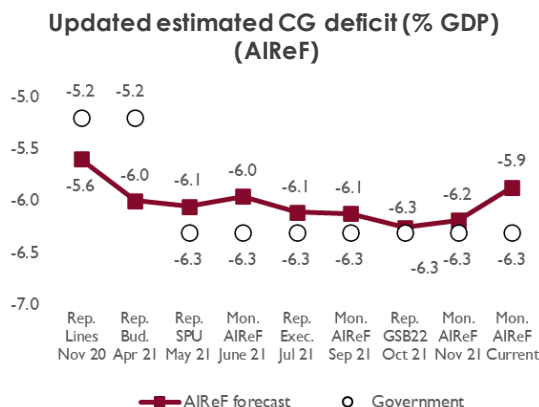


Central Government

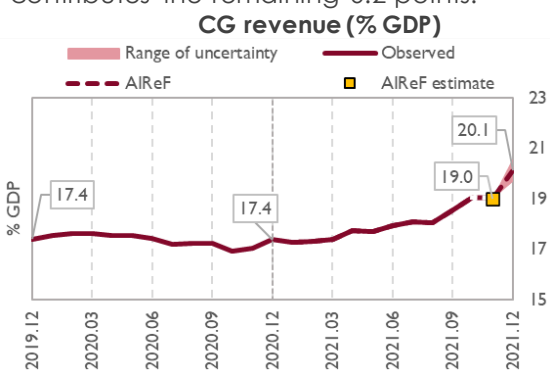
1 AIReF forecasts that the CG deficit will amount to 5.9% of GDP, 0.4 points of GDP lower than the Government's forecast included in the 2022 Budgetary Plan.



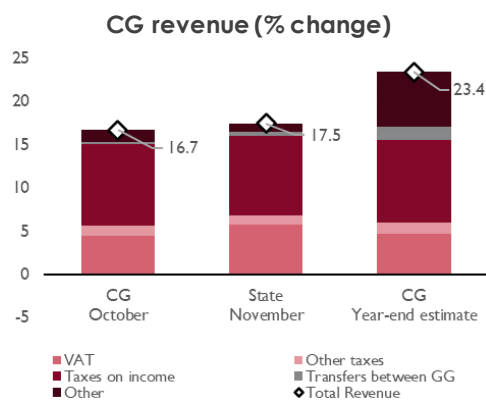
2 AIReF's new forecast incorporates the execution data from the State up to November and the latest available information, improving its previous forecast by 0.3 points to 5.9% of GDP.



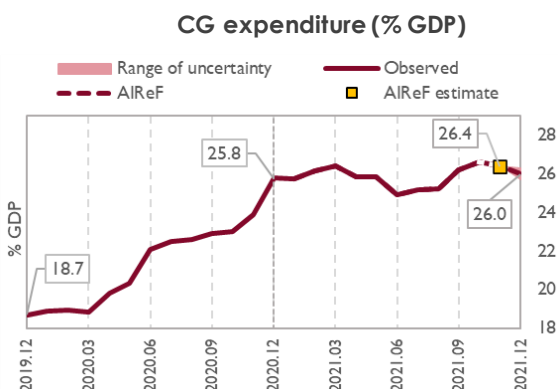
3 AIReF revises the weight of revenue over GDP upwards by 0.3 points for year-end 2021. The improved forecast of revenue following incorporation of the latest collection data contributes 0.1 points to this revision, while incorporating the assumption of non-execution of part of the support for companies that ARs will have to repay to the CG into AIReF's scenario contributes the remaining 0.2 points.



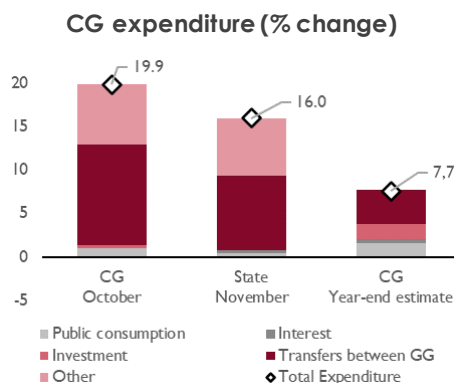
4 The cumulative revenue of the last 12 months is expected to continue its upward trend until reaching a growth rate in 2021 compared with 2020 of 23.4%. This is explained by the positive performance of tax collection in 2021 and intensified by the effect of the funds that will finance the RTRP.



5 Expenditure is forecast to stand at 26% of GDP, maintaining its weight with respect to the previous month's estimate, with the rises in some items being offset by the falls in others.



6 At the end of the year, the weight of expenditure on transfers between GG sub-sectors continues to prevail, although it falls slightly as a result of the forecast of greater non-execution of the RTRP at a territorial level.

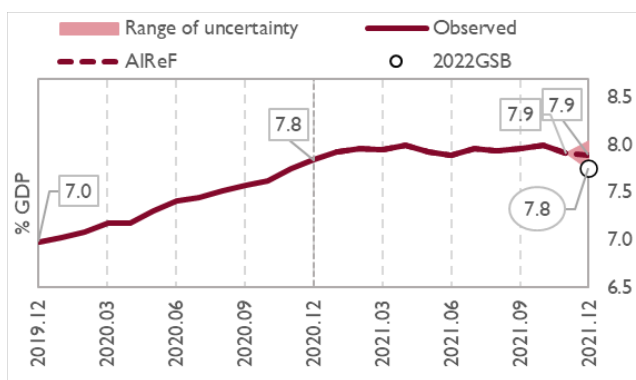


Main revenue items

Tax revenue so far this year is up by 14.9% compared with the same period of 2020. With only one month until the end of the year, AIReF's forecast places it at 14.6% above the previous year, 0.6 points more than in its last update. On a comparable basis with 2019, without the effect of the pandemic, the rise to November is 4.6% and, with the exception of Special Taxes, the main tax categories already exceed the collection of that year. The tax measures included in the 2021 budget add €1.34bn, while those approved to maintain the electricity bill subtract €1.13bn.

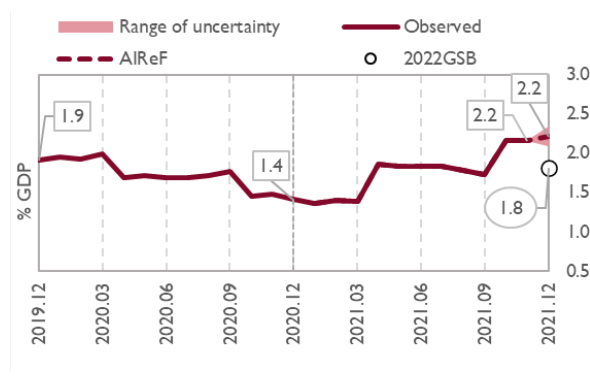
① It is forecast that the weight of **PIT** as a proportion of GDP will stand at 7.9% in 2021, 0.1 points more than in the previous year. So far this year, 7.3% more has been collected than in 2020, although this figure fell in November by 4.9%. This drop was due to two factors: firstly, the tax paid for the second instalment for 2020 being lower than the figure for 2019 and, secondly, the additional revenue in November of the previous year due to deferrals granted as a result of the pandemic. At the end of the year, the year-on-year increase is expected to stand at 7.4%.

PIT in Cash (% GDP)



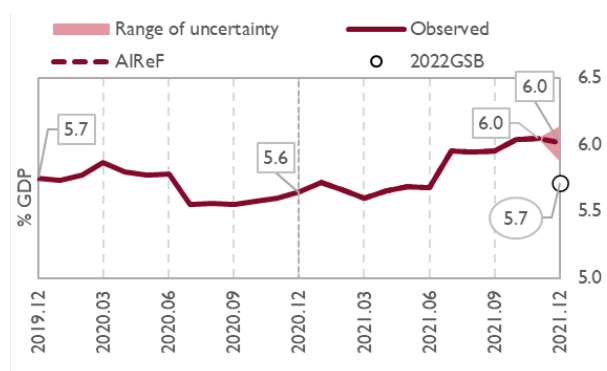
② AIReF estimates that **CIT** will stand at 2.2% of GDP in 2021, 0.8 points more than in 2020. After falling by 33.2% in 2020, up to November 2021 it has grown by 76.3% as a result of the recovery in economic activity and exceptional operations in consolidated groups that add extraordinary revenue. The increase is expected to stand at 66.7% at year-end.

CIT in Cash (% GDP)



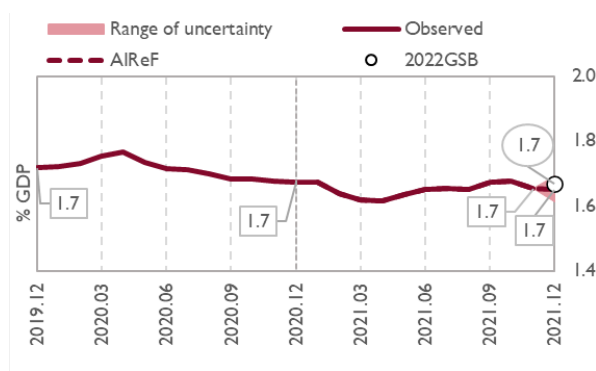
③ AIReF estimates that **VAT** will stand at 6% of GDP, 0.4 points more than in 2020. So far this year, 14.2% more revenue has been collected than in 2020. Despite the incorporation since June of the rate cut adopted to mitigate the rise in electricity prices, accumulated revenue up to November exceeds the revenue for 2019. A 13.6% increase is expected at year-end.

VAT in Cash (% GDP)



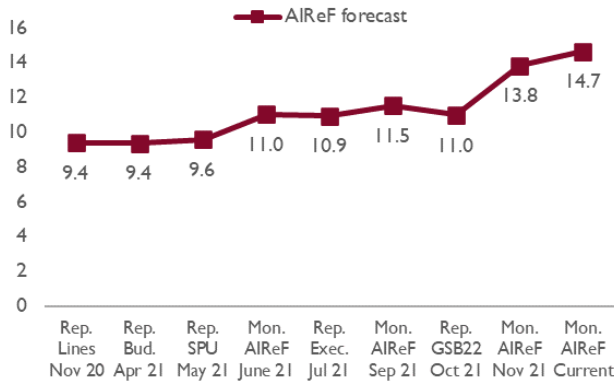
④ STs as a whole will stand at 1.7% of GDP, the same figure as for 2020. Up to November, they have grown by 4.9%, mainly driven by the Hydrocarbon Tax, which is up by over 10%, and held back by the fall in the Tax on Tobacco Products and the reduction in the rate of the Special Tax on Electricity. Year-on-year growth at the end of the year is estimated at 5.1%.

Special Taxes in Cash (% GDP)



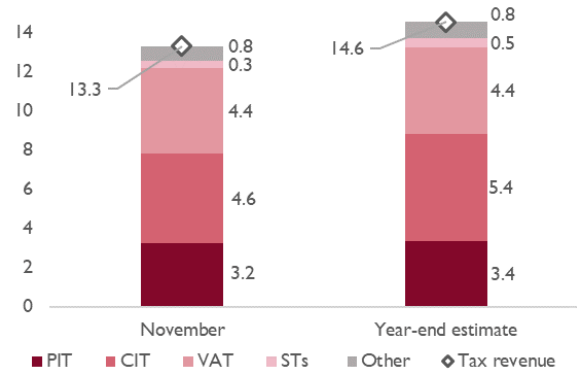
5 **Total tax revenue** in national accounting terms will be 14.7% higher than in the previous year. The incorporation of the latest available information adds a little over 0.8 points to AIReF's latest forecast, mainly due to higher-than-expected VAT collection.

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



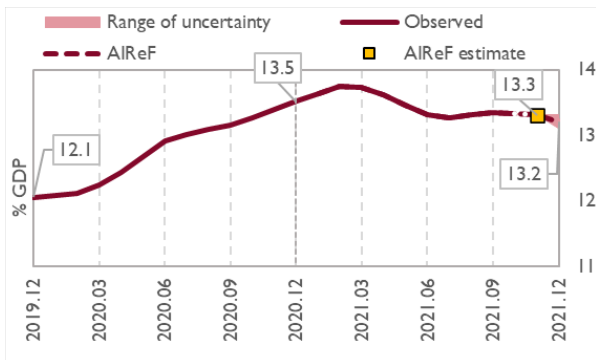
6 12-month cumulative tax revenue up to November is up by 13.3%. All taxes present a positive contribution as a result of the recovery following the fall caused by the pandemic. A rise of 14.6% is expected for year-end 2021, with CIT and VAT the taxes that will contribute most to the growth.

Contributions to change. Cash AIReF (% change)



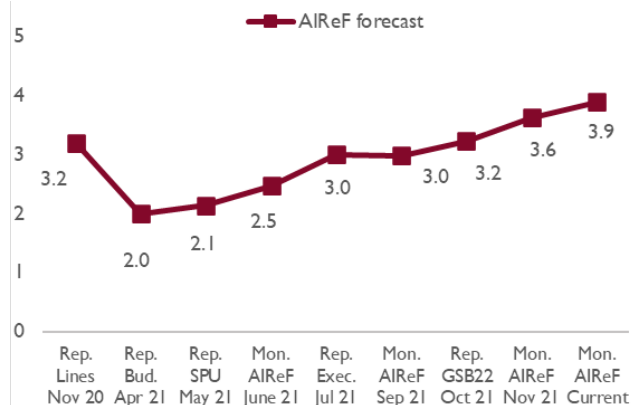
7 The weight of Social Security Fund contributions stabilised in June. The aggregate is expected to end the year with a weight of 13.2 points of GDP.

SSF Social Contributions (% GDP) (NA)



8 AIReF increases the rate of growth of contributions for the GG as a whole by 0.3 points as a result of the greater dynamism of the published data.

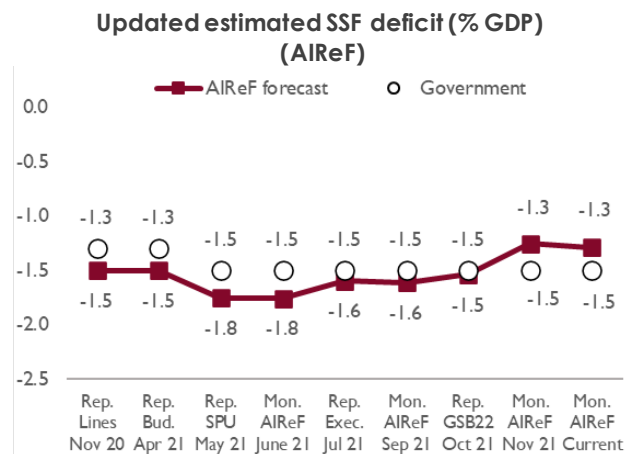
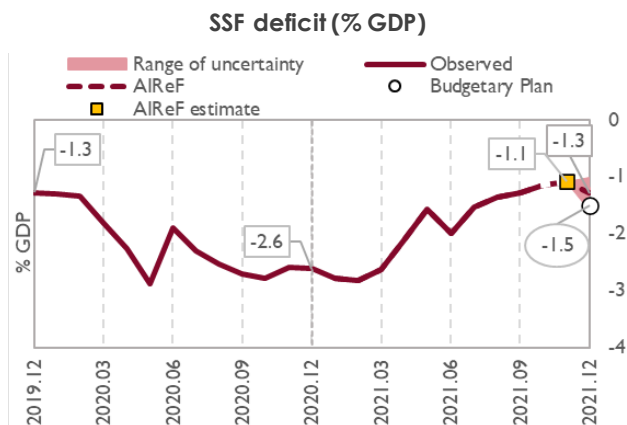
Updated forecast for Social Contributions of the GG (% change) (NA)



Social Security Funds

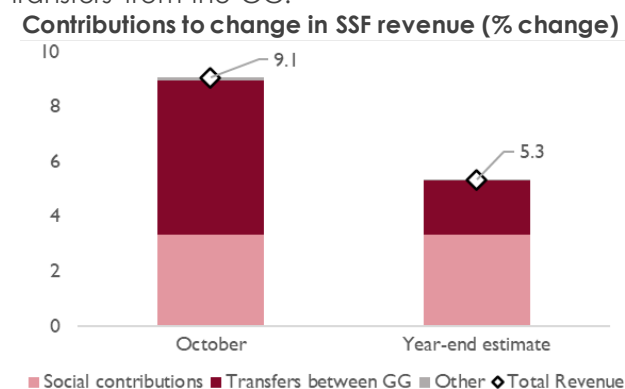
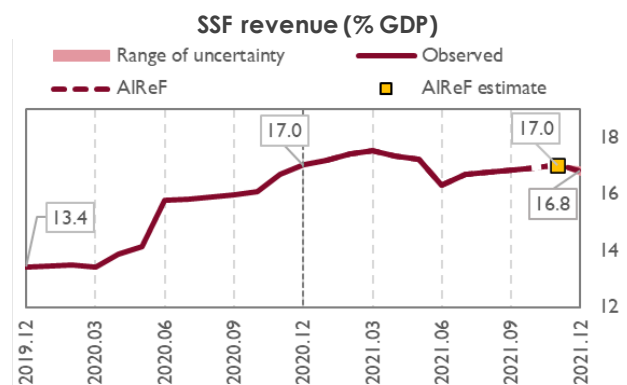
1 AIReF maintains its estimate of the SSF deficit at 1.3% of GDP. The expected weight of both expenditure and revenue rise to a similar extent, thus maintaining the deficit estimated in the last factsheet.

2 The forecast of the balance is maintained with respect to the last estimate, despite the increase in the forecast for both expenditure and revenue.



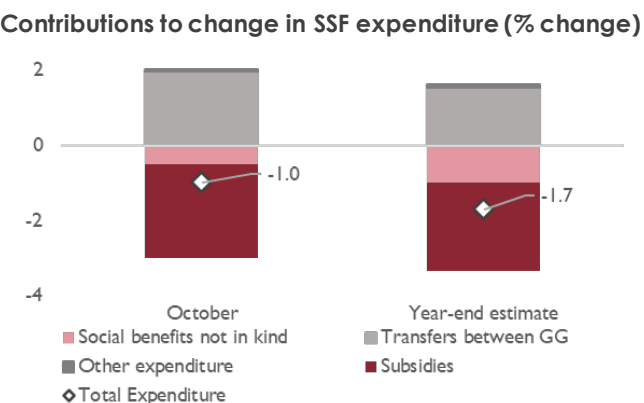
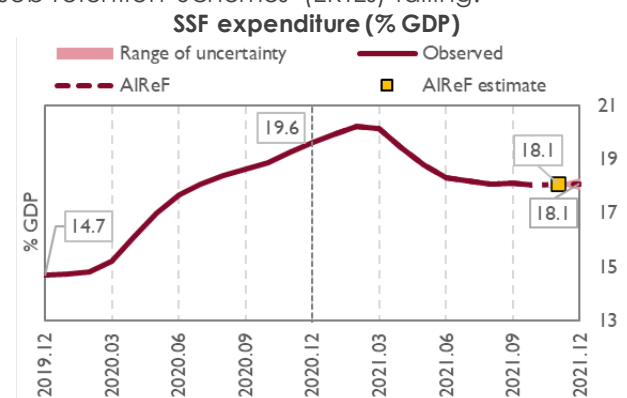
3 The weight of revenue rises by 0.1 points compared with the last estimate due to the dynamism of contributions.

4 AIReF expects growth in SSF revenue of 5.3% with respect to 2020 as a result of the good performance of contributions and higher transfers from the CG.



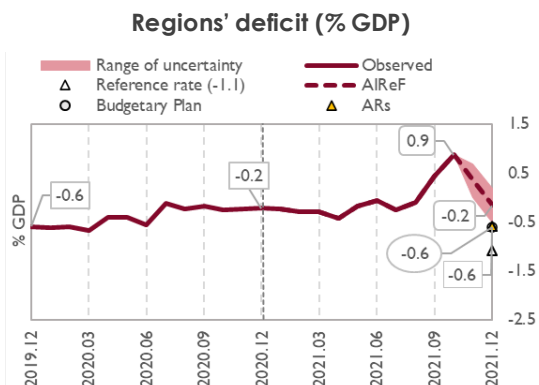
5 The weight of expenditure rises by 0.1 points in the new forecast, ending the year at a weight of 18.1 points of GDP. This change is mainly due to changes in the valuation of the measures included under social benefits, with the estimate of the cost of Temporary Incapacity for Work rising and the cost of the Minimum Living Income and Job-retention Schemes (ERTEs) falling.

6 The cumulative data for the last 12 months up to October show a negative contribution to growth from subsidies and social benefits. The contribution of social benefits and other expenditures is expected to maintain its downward trend.

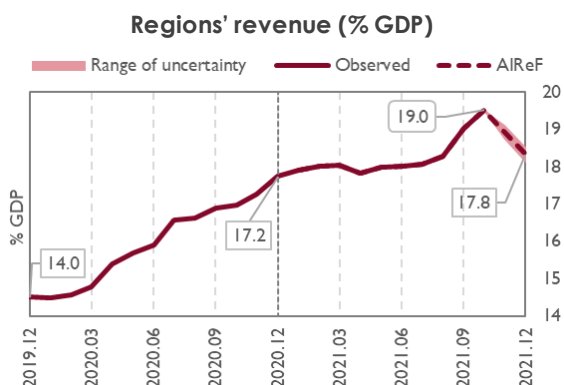


Autonomous Regions

1 AIReF maintains its estimates for the sub-sector, forecasting that the ARs will reach a deficit of 0.2% of GDP in 2021, similar to that recorded in the previous year.

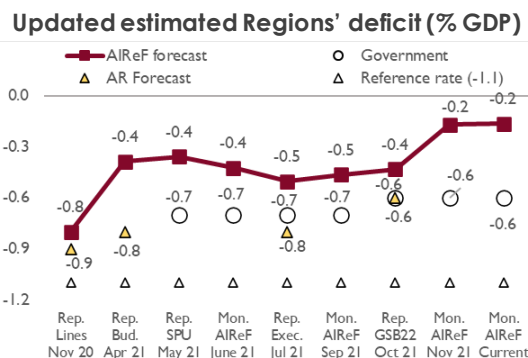


3 Revenue would grow at year-end by 10%, to stand at 17.8% of GDP, influenced by the NGEU funds and direct support for companies. The growth to October due to the payment of 100% of the deficit fund and the support for companies is mitigated in the following months, which in 2020 recorded a major part of the COVID Fund.

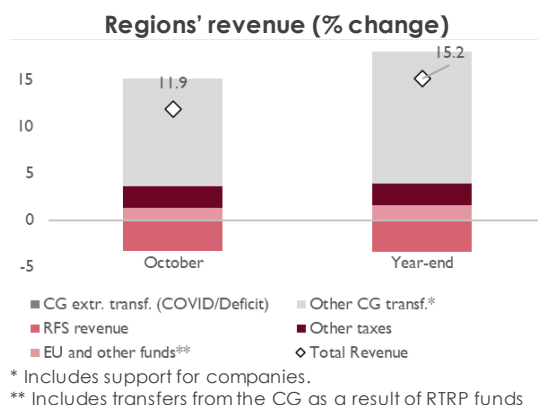


5 The data to October confirm the expected year-end figure: expenditure would amount to 18% of GDP including spending financed with the RTRP and State support for companies, both granted and reimbursed. Without them, it would grow by 5% to 17% of GDP.

2 The year-end forecast is maintained in the sub-sector, under a positive evolution of revenue and a similar growth in expenditure over the previous year.

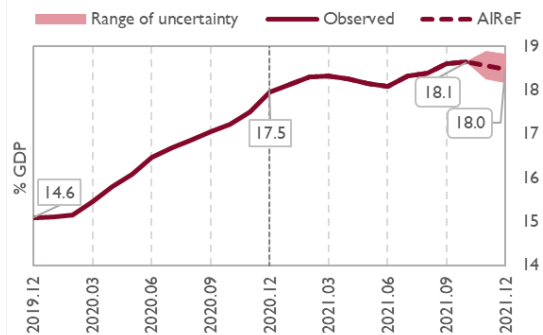


4 Over the last 12 months, the growth in revenue has been sustained in the assigned transfers from the CSA (support for companies). The weight of EU funds is expected to grow at year-end, accentuated by the neutral recording of REACT-EU funds.

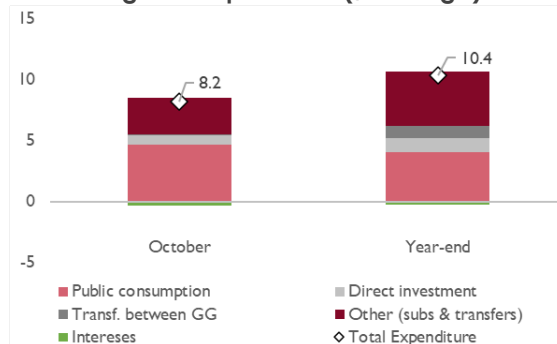


6 The increase in expenditure at the end of the year will mainly come from expenditure financed in part with NGEU funds and support for companies: public consumption, subsidies and support for the private sector and investment; the transfers to the CG will rise as a result of reimbursements of support for companies.

Regions' expenditure (% GDP)

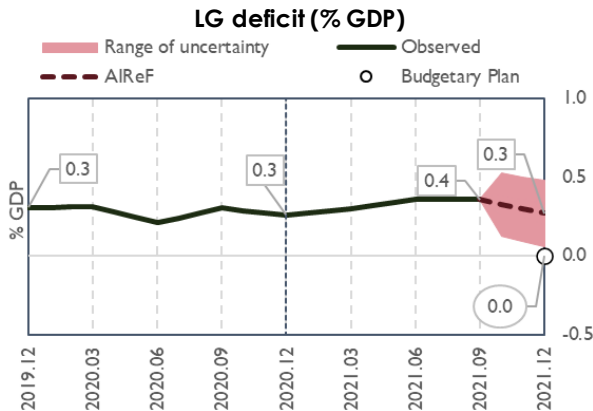


Regions' expenditure (% change)

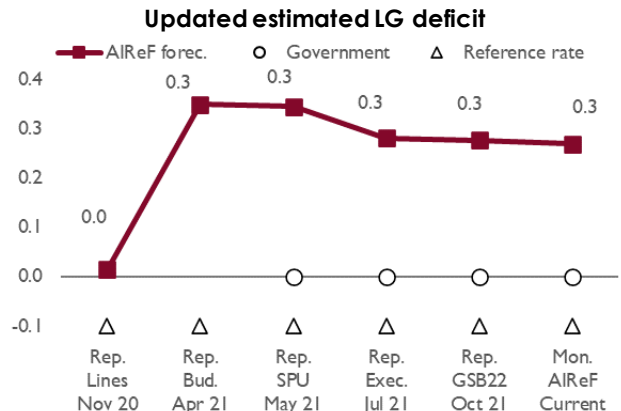


Local Governments

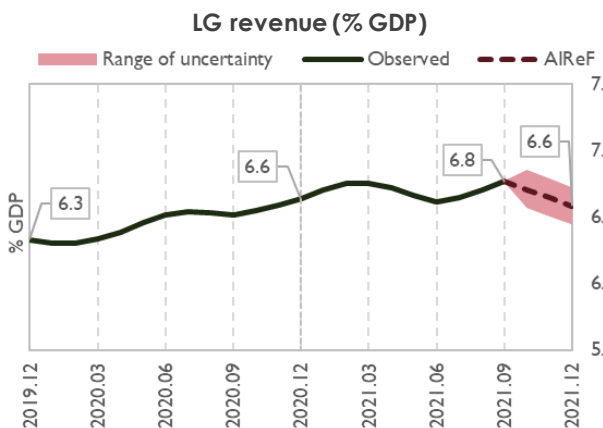
1 AIReF maintains its forecast for year-end 2021, estimating a surplus of close to 0.3% of GDP, above the reference rate of 0% set for the year.



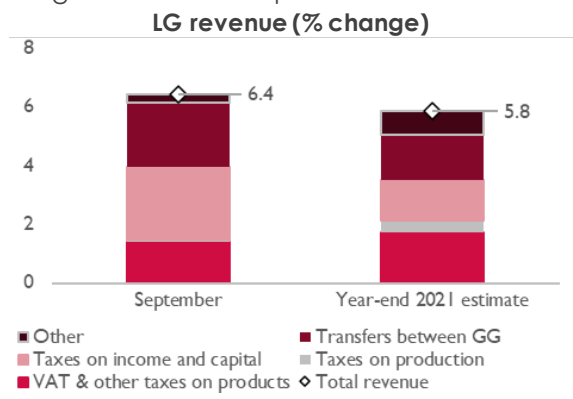
2 AIReF maintains the previous year-end estimate of 0.3% of GDP, with a slight improvement as a result of incorporating the sub-sector's execution data for the third quarter.



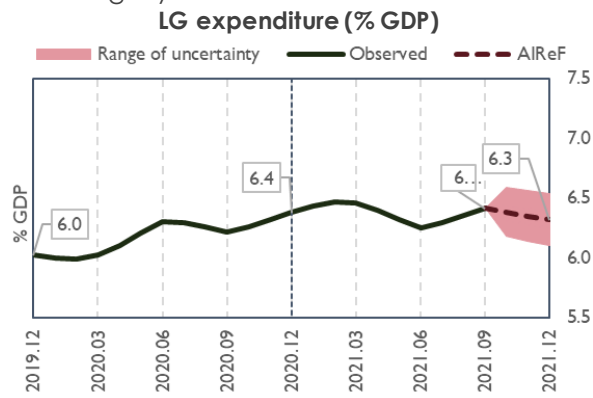
3 Local revenue maintains its growing trend, although its weight as a proportion of GDP falls slightly due to the larger increase in the latter.



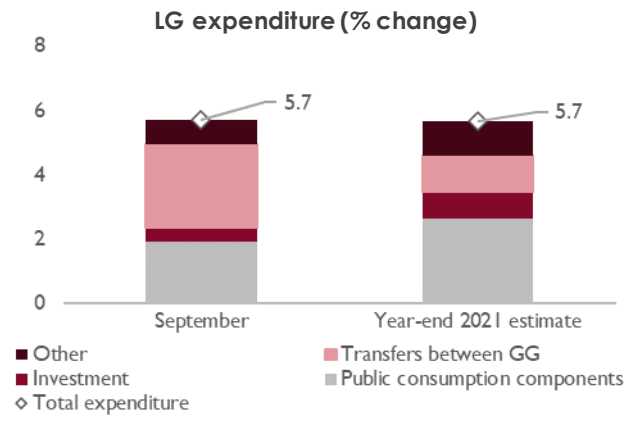
4 Lower growth in revenue is expected for year-end 2021 compared with that obtained over the last 12 months. This is mainly the result of the lower level of transfers from the CSA and the lower revenue from taxes on income and capital, although other taxes improve.



5 Expenditure attenuates its growth due to the lower expected performance of transfers of expenditure from the Provincial Councils of the Basque Country in the last quarter of 2021 compared with those of 2020. The weight over GDP also falls slightly for the same reason as for revenue.



6 At year-end 2021, an increase in expenditure similar to that recorded in the last 12 months is expected, although the contribution of the different components to this growth has changed.



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.