

MONTHLY STABILITY TARGET MONITORING 2022

PUBLICATION DATE: JULY 20TH, 2022



Independent Authority
for Fiscal Responsibility

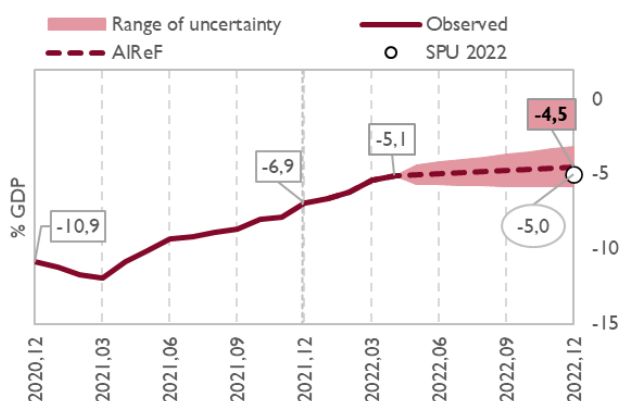
General Government

AIReF updates its forecast for the GG deficit to 4.5% of GDP in 2022, 0.3 points more negative than forecast in the June monitoring sheet and the Report on the 2022-2025 Stability Programme Update. This sheet includes the update of the macroeconomic outlook incorporated in the report on budgetary execution, public debt and the expenditure rule of July 15th and incorporates the new information received, including the package of measures approved in Royal Decree-Law 11/2022 and the increase in defence expenditure of €1bn. On the latest measures announced by the Government in the debate on the State of the Nation, only the increase of €100 per month from September to December of the scholarships and the rebate for monthly commuter train passes are included as the other measures are not sufficiently defined. All sub-sectors worsen their situation, especially the Central Government (CG), which increases its deficit by 0.1 points and the Autonomous Regions (ARs), which increase their deficit by 0.2 points.

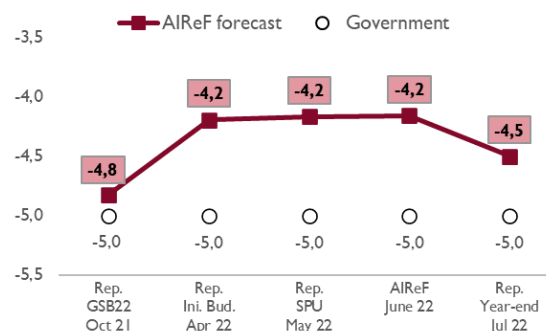
1 The pace of deficit reduction of recent months is slowing down, although it fell by an additional 0.3 points in April. This rate of improvement is expected to be maintained and for the deficit to end the year at 4.5%, 0.5 points less than forecast in the Government's 2022-2025 Stability Programme.

2 In the process of ongoing assessment of the budget cycle, AIReF reduces the deficit estimate of its last publications to 4.5%. The Government maintains its deficit expectations at 5%.

General Government deficit (% GDP)



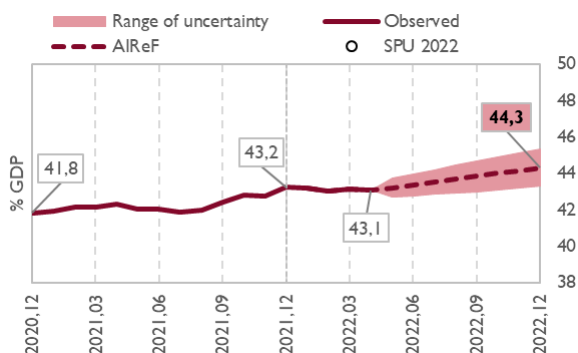
Updated General Government deficit estimate (% GDP) (AIReF)



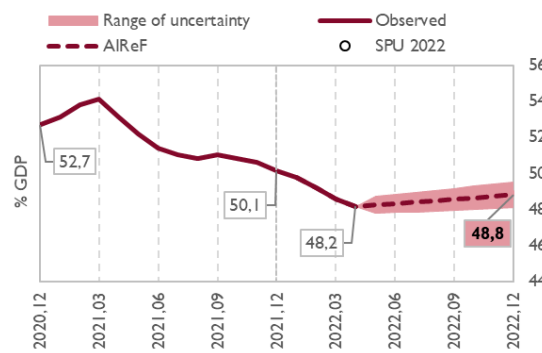
3 An increase in the weight of revenue as a percentage of GDP is expected over the year to stand at 44.3% of GDP. This weight would be lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. A continuous assessment of the execution of this plan will be carried out over the year.

4 There is a decrease of almost 2 points of GDP in the variable of annualised expenditure in April with respect to the year-end 2021 figure. This fall is expected to continue over the year, partly due to the spending financed through the RTRP with a neutral effect on the deficit. Expenditure is expected to reach 48.8% of GDP by the end of 2022.

GG revenue (% GDP)

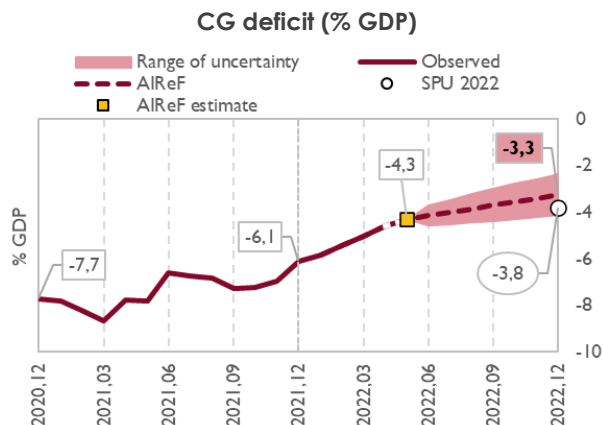


GG expenditure (% GDP)

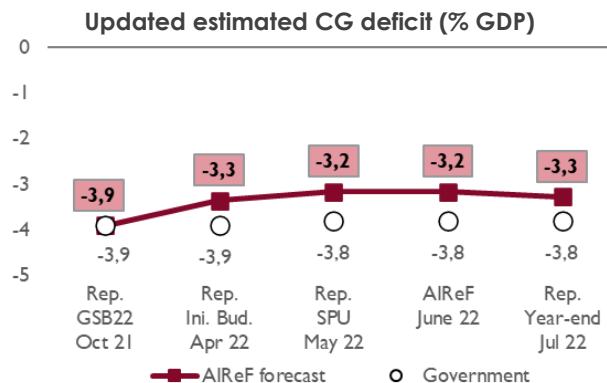


Central Government

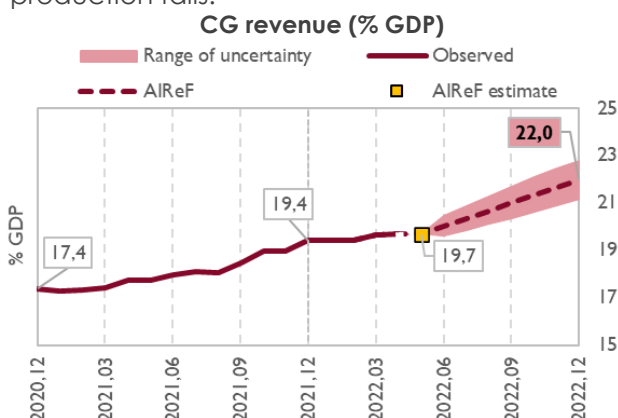
1 AIReF worsens the deficit forecast for the CG, raising its weight as a proportion of GDP by 0.1 points to stand at 3.3%, 0.5 points below the Government's forecast.



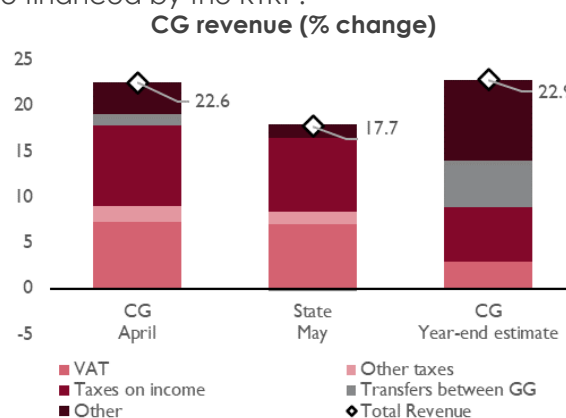
2 The increase in the estimated CG deficit to 3.3% of GDP is due to an upward revision of expenditure higher than that of revenue.



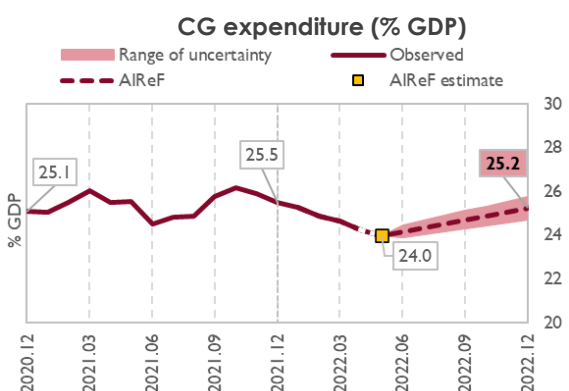
3 AIReF considers that the weight of revenue as a percentage of GDP will rise over 2022 to stand at 22.0%. This positive evolution is based on the impact of the RTRP funds, the settlement of the Regional Financing System and the evolution of taxes on income, while the weight of taxes on production falls.



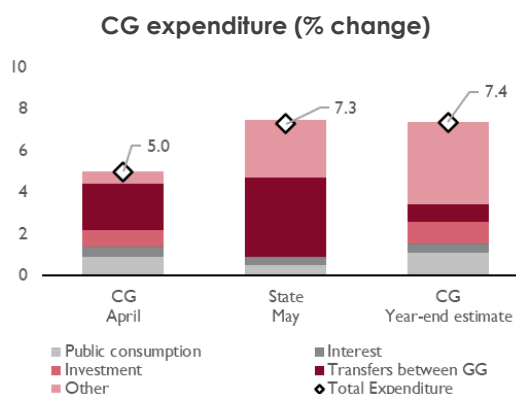
4 The cumulative revenue of the last 12 months is expected to maintain its rate of growth in 2022, ending the year with growth of 22.9%. VAT and PIT are forecast to reduce their contribution to growth, with other revenue categories pulling upwards as a result of the effect of the funds to be financed by the RTRP.



5 The forecast for expenditure rises to 25.2% of GDP in 2022, mainly as a result of the new package of anti-crisis measures and the increase in defence spending.



6 At year-end, there will be an increased contribution to growth from other current expenditure, due to the cost of measures in response to the crisis and the war in Ukraine and, to a lesser extent, investments due to the RTRP.

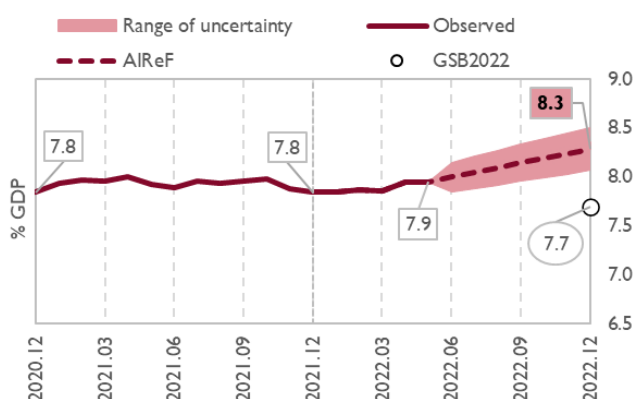


Main revenue items

In May, the growth in tax revenues intensified, to stand at 19.1% above the same period of 2021. This was despite the reduction caused by the measures adopted to mitigate the rise in electricity prices, whose impact so far this year is estimated at -€3.7bn. The main increases are in VAT and Personal Income Tax (PIT)

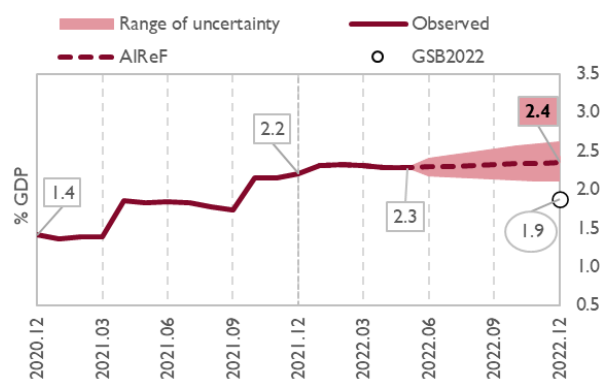
1 AIRcF raises the weight of **PIT** as a proportion of GDP to 8.3% at year-end, 0.4 points above the 2021 figure. The tax collected up to April is 14.8% higher than in the same period of 2021. This increase is mainly due to wage withholdings, driven by the growth in the number of private wage earners, and the tax due minus tax credits, tax withheld and prepayments, which, according to the early estimates of the results of the 2021 income tax campaign, show the highest tax payable on record. A year-on-year rate of 14.6% is expected for the end of the year.

PIT in Cash (% GDP)



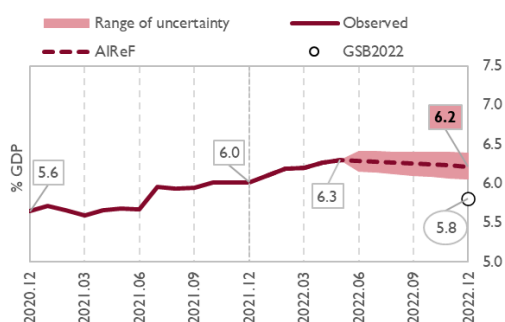
2 CIT will stand at 2.4% of GDP at year-end, 0.2 points higher than in 2021. After the incorporation of the latest data available up to May and the updating of the macroeconomic scenario, year-on-year growth of 15.6% is estimated. However, the relevant information on the evolution of the full year is still subject to uncertainty as two of the largest instalments and the settlement of the 2021 campaign are recorded in the last months of the year.

CIT in Cash (% GDP)



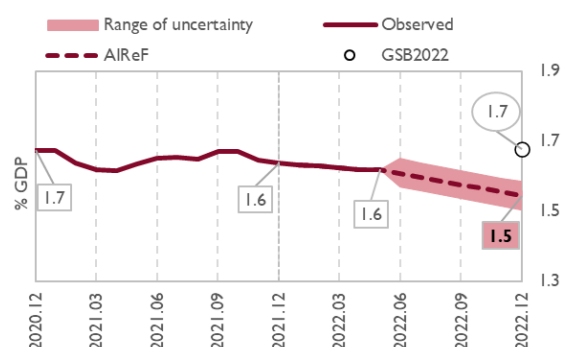
3 AIRcF downgrades its **VAT** forecast, placing its weight of GDP at 6.2% at the end of 2022, 0.1 points down on the previous forecast. The change is the result of the update of the collection results and the changes in the reduction in VAT on electricity after the approval of RDL 11/2022, whose impact up to May is estimated at -€660 million. An increase of 12.1% is expected for the end of the year.

VAT in Cash (% GDP)



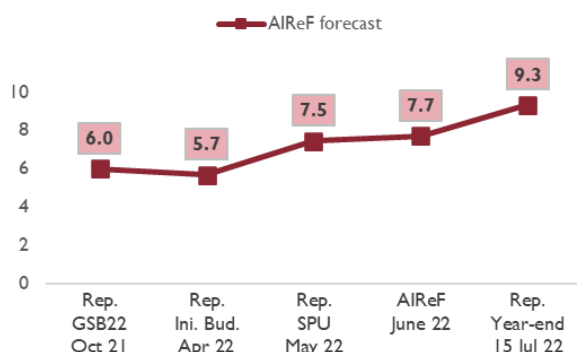
4 For **STs** as a whole, a decrease is expected in their weight over GDP of 0.1 points with respect to the previous estimate. Although up to May they have grown by 7.9%, mainly due to the improvement in the Special Tax on Hydrocarbons as it is compared with months in 2021 that were highly affected by the pandemic, the forecast is lowered as a result of the extension of the rate reduction in the Special Tax on Electricity, which so far this year has amounted to -€860 million. Year-on-year growth at the end of the year is estimated at 2.3%.

Special Taxes in Cash (% GDP)



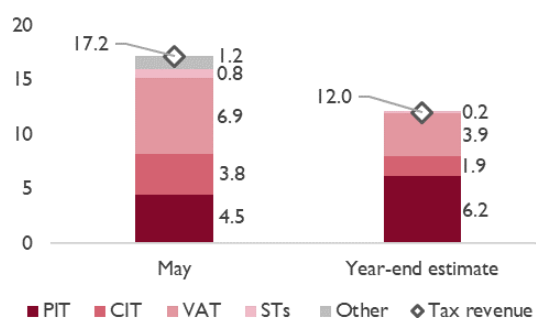
5 **Total tax revenue** in national accounting terms will be 9.3% higher than in the previous year. After incorporating the tax information recorded up to May, the information at the end of the 2021 income tax return campaign and the update of the macroeconomic scenario, AIRcF revises its revenue forecast upwards in national accounting terms, placing it 1.9 points higher than the Report on the Stability Programme Update (SPU).

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



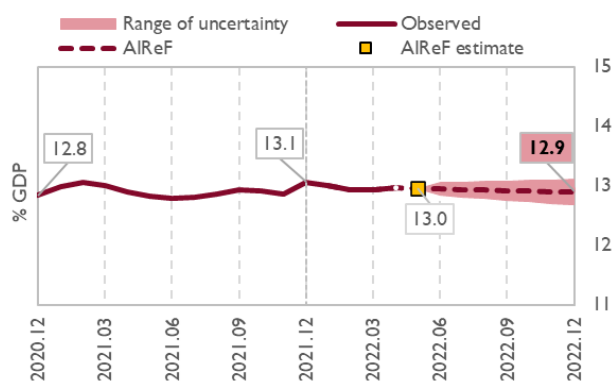
6 12-month cumulative tax revenue in cash terms up to May is up by 17.2% and growth as a whole is expected to stand at 12% at the end of the year. Up to May, all the taxes present a positive contribution to growth, since the first half of 2021 was still very much affected by the pandemic. AIRcF forecasts that PIT and VAT will be the taxes that will contribute most to growth at year-end.

Contributions to change. Cash AIRcF (% change)



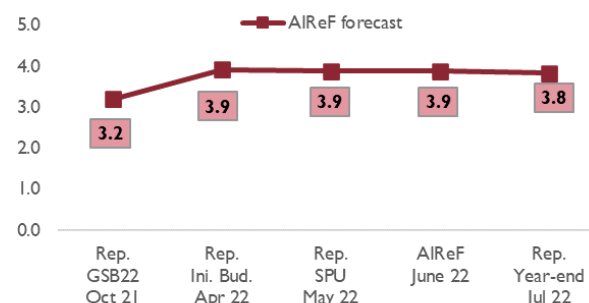
7 AIRcF expects **Social Security Fund contributions** to moderate their weight in 2022, from 13.1% to 12.9% of GDP.

SSF Social Contributions (% GDP) (NA)



8 AIRcF moderates the expected rate of growth in contributions from the 3.9% estimated in the previous report to 3.8%.

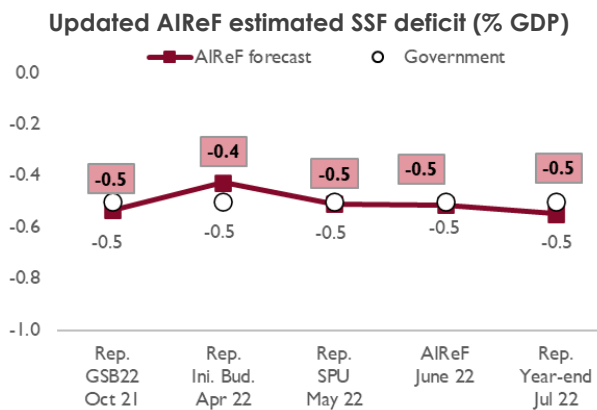
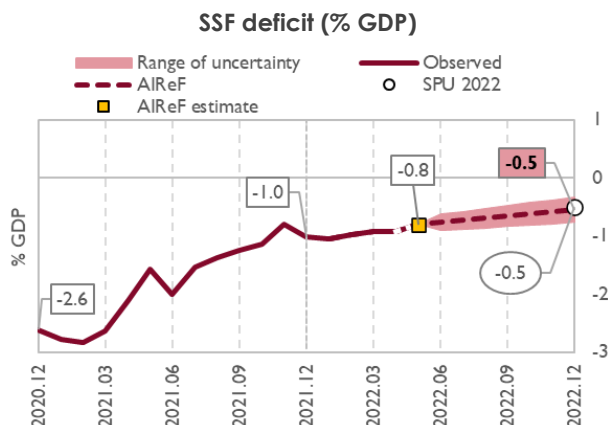
Updated forecast for Social Contributions of the GG (% change) (NA)



Social Security Funds

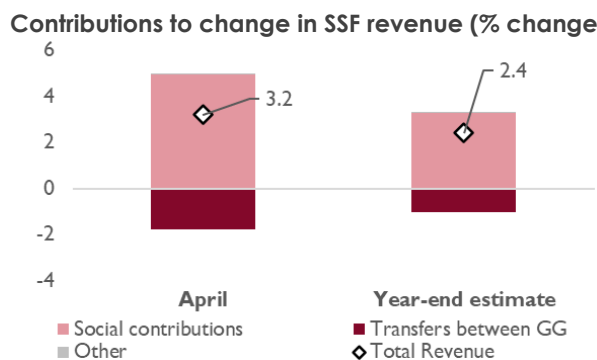
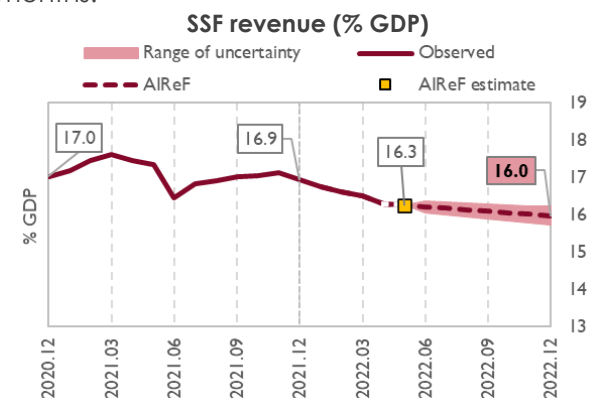
1 AIRcF estimates that the SSF deficit will stand at 0.5% of GDP in 2022. The forecast in the Report on the 2022 Stability Programme Update therefore remains unchanged.

2 The estimate of the SSF balance for 2022 of -0.5% remains unchanged and is similar to the latest available forecast from the Government.



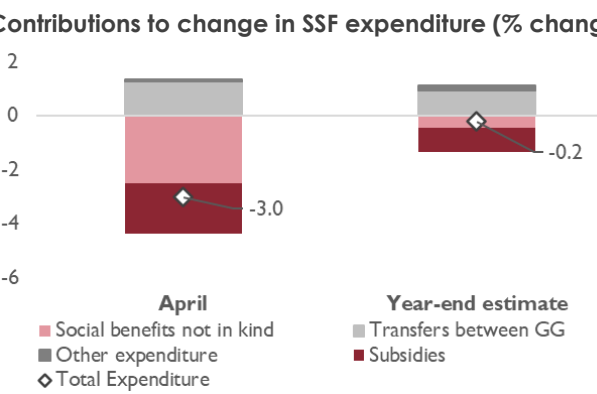
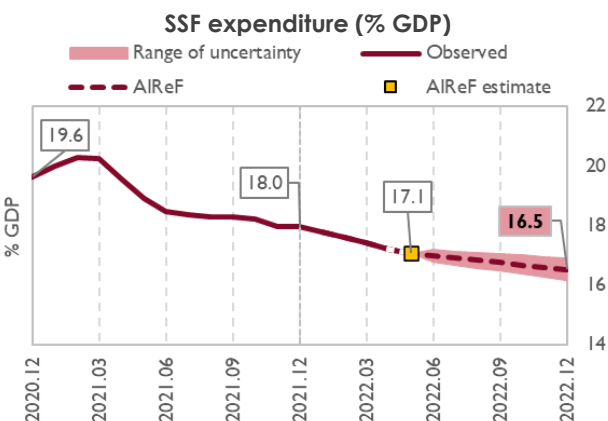
3 AIRcF estimates that the weight of revenue over GDP will decrease over 2022 from 16.9% to 16% at the end of the year. This is due to the fact that the rate of growth of the contributions is expected to slow down with respect to recent months.

4 AIRcF expects a reduction in the rate of growth of revenue over the year, due to less dynamic growth in contributions and a moderation in transfers from the State.



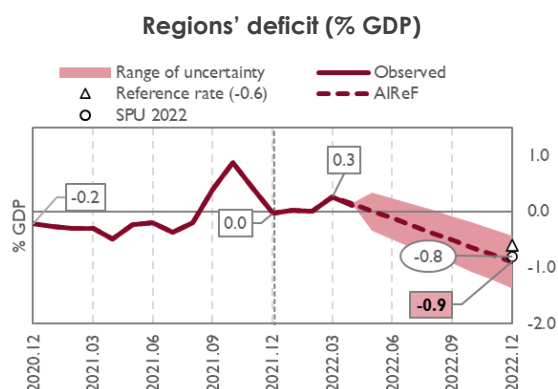
5 AIRcF estimates that the weight of expenditure over GDP will fall in 2022 by one and a half points, to stand at 16.5%, mainly as a result of the reduction in the cost of COVID measures.

6 SSF expenditure is expected to contract by 0.2% at year-end 2022, with a negative contribution of subsidies and social benefits and a positive contribution from transfers between GG sub-sectors.

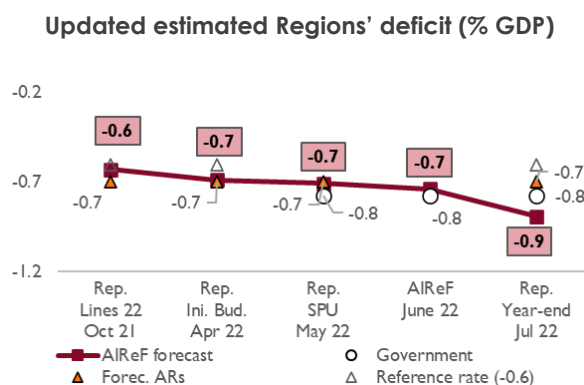


Autonomous Regions

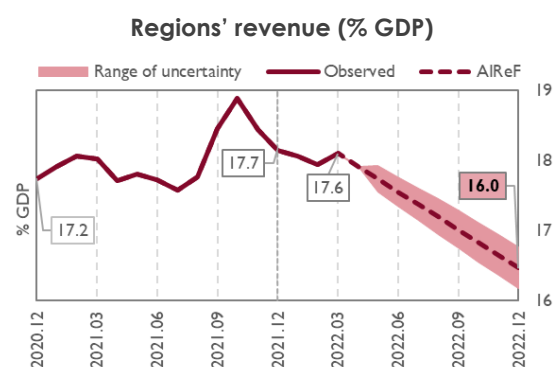
1 AIRcF estimates a deficit of 0.9% of GDP for the ARs at year-end 2022, above the reference of -0.6% set for the sub-sector and the 0.8% forecast by the Government in the SPU.



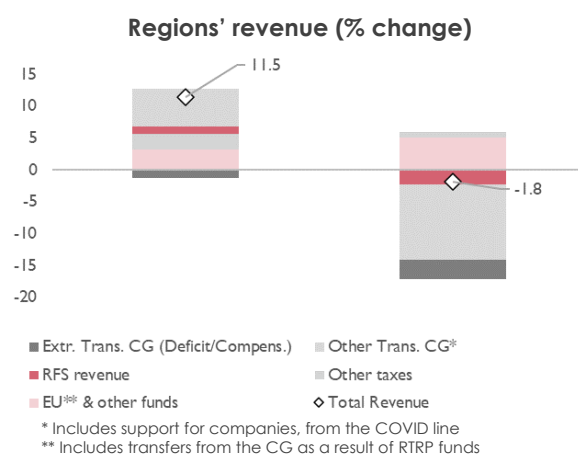
2 AIRcF worsens by 0.2 points the forecast for the AR sub-sector as it notes a more pronounced execution of spending to date and moderation of the revenue from traditional European funds.



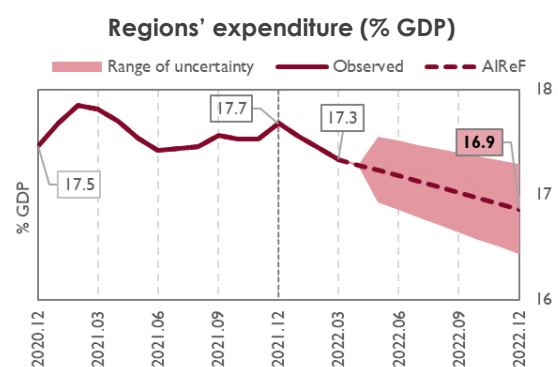
3 Revenue excluding the RTRP will fall at year-end by 7% due to the reduction in transfers from the CG (financing system, support for companies and extraordinary transfers). Including the Plan, the fall will be 2% and revenue would stand at 16% of GDP.



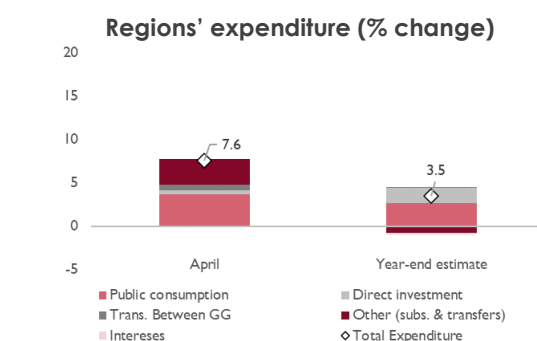
4 Revenue over the last 12 months has risen as a result of the transfers assigned from the CSA, taxes and EU funds. At year-end, the contribution from NGEU funds and taxes will partly cushion the fall in revenue from the CG.



5 Non-RTRP expenditure will fall at year-end by 1%, conditioned by the withdrawal of COVID measures, largely offset by growth in other expenditure. Including expenditure financed by the RTRP, expenditure would grow by 3% to reach 16.9% of GDP.



6 Expenditure over the last 12 months has grown in pandemic-related items, including support for companies from the COVID line. At year-end, lower growth in public consumption and higher growth in investment and other expenditure associated with the NGEU funds are expected.

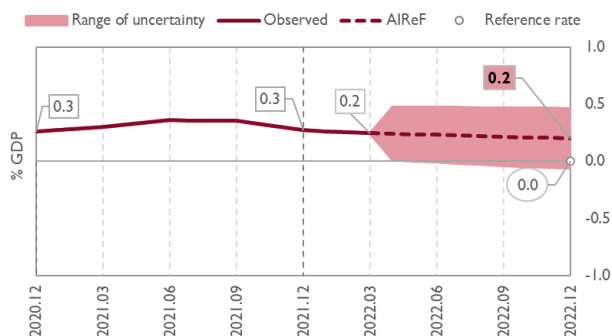


Local Governments

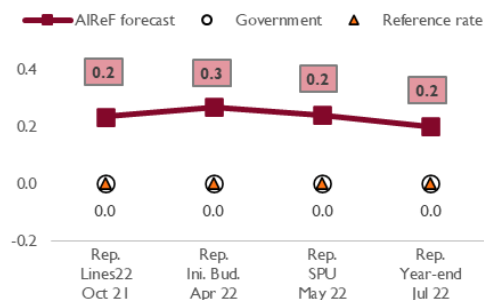
1 AIReF maintains its forecast for the end of 2022 with a surplus of around 0.2% of GDP, with a slight drop compared with year-end 2021 and exceeding the reference rate and the Government's forecast in the SPU (0% of GDP).

2 The current forecasts corroborate the previous estimate, albeit with a slight worsening by incorporating the execution data for the sub-sector from the first quarter of 2022.

LG deficit (% GDP)



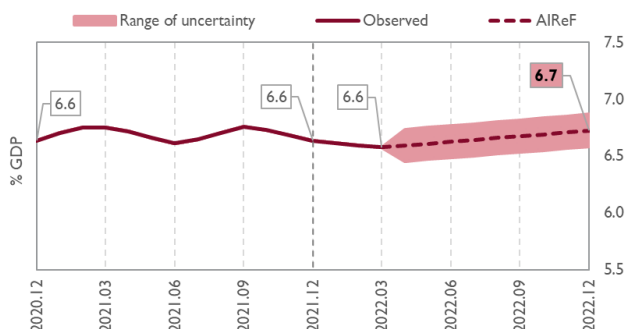
Updated estimated LG deficit.



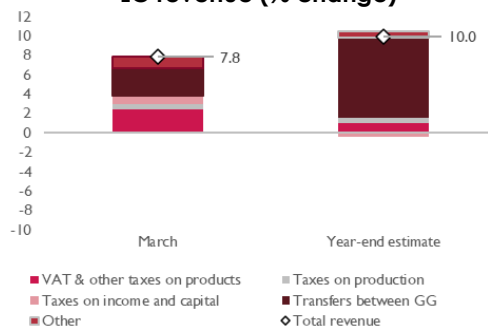
3 In the following months, local revenue rises to reach 10% (6% without the RTRP), with its weight over GDP rising by 0.1 points compared with the data observed in March.

4 The growth in revenue in 2022 is mainly the result of transfers between GG sub-sectors, RTRP Funds and the State financing system.

LG revenue (% GDP)



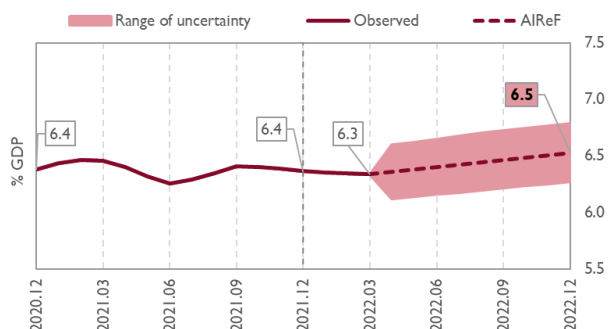
LG revenue (% change)



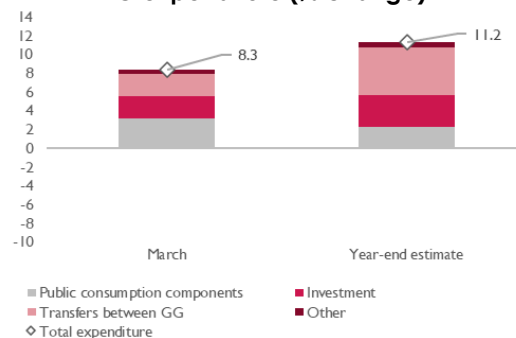
5 The increase in local expenditure that began in 2019 and was boosted by the activation of the escape clause is expected to reach more than 11% (7% without the RTRP), with its weight over GDP rising by 0.2 points compared with the data for March.

6 The increase in expenditure will be more pronounced at year-end, mainly as a result of the increase in transfers between GG sub-sectors (those made by the provincial councils to the Basque Country and those of the settlement in favour of the State from the financing system, regardless of their compensation), as well as the increase in investment as a result of application of the new RTRP Funds.

LG expenditure (% GDP)



LG expenditure (% change)



Methodological note

- AIRcF'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.
- 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 Autonomous 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 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.
- 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, AIRcF 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.
- Since monthly data are not published in the local sub-sector, the consolidation of the General Government (GG) total has been estimated by taking into account a monthly calculation of the payments for transfers from the State to the Local governments (LGs) from the financing system and the payments of the Provincial Councils to the CSA for the quota and to the Basque Country Autonomous Region.
- 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 AIRcF, 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 AIRcF, was ratified by Parliament on September 13th 2021.
- On July 27th 2021, the Council of Ministers set a deficit reference rate for 2022 for the General Government as a whole of 5% of GDP, with the following breakdown by sub-sector: for the Central Government (CG) of 3.9% of GDP, for the Social Security Funds (SSFs) of 0.5% of GDP, for the Autonomous Regions (ARs) of 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. However, the Government's forecasts published in April in the 2022-2025 Stability Programme Update have been taken into account, where the forecast for the GG as a whole remains at a deficit of 5% of GDP, but the distribution by sub-sector is changed: a deficit is forecast for the CG of 3.8% of GDP, for the SSFs of 0.5% of GDP and for the ARs of 0.8% of GDP, while a surplus of 0.1% of GDP is expected for the LGs.
- AIRcF measures total GG revenue and expenditure by including RTRP and REACT funds. The Government's estimate of how much of the funds will be executed in 2022 is considered to be the one it published in the 2022-2025 SPU, which does not mention any amount for the REACT funds.

Stability Target Monitoring 2022

- AIRcF'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.
- AIRcF'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.