

# MONTHLY STABILITY TARGET MONITORING 2022

PUBLICATION DATE: SEPTEMBER 15<sup>TH</sup>, 2022



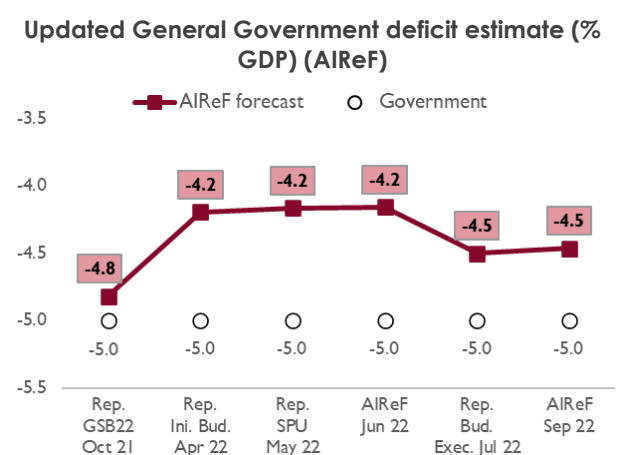
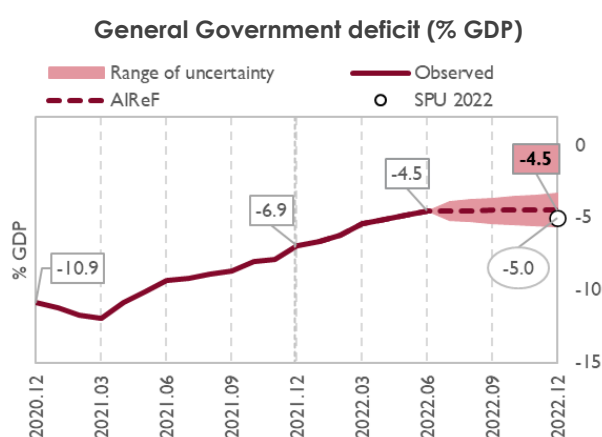
Independent Authority  
*for* Fiscal Responsibility

## General Government

AIReF maintains its forecast for the GG deficit at 4.5% of GDP in 2022. This is similar to the level estimated in the last report, although it reflects an increase in the forecast for both revenue and for expenditure. These forecasts incorporate the new information published, including the raft of measures approved in Royal Decree-Law 14/2022 and the data on tax collection for July, which are more positive than expected, especially in the case of VAT and Personal Income Tax. By sub-sector, the Central Government improves its deficit by 0.1 points. This is offset by a slight worsening in the ARs, which is not sufficient to amend the deficit forecast of 0.9% of GDP. Both the SSFs and the LGs maintain their deficit with respect to the last report.

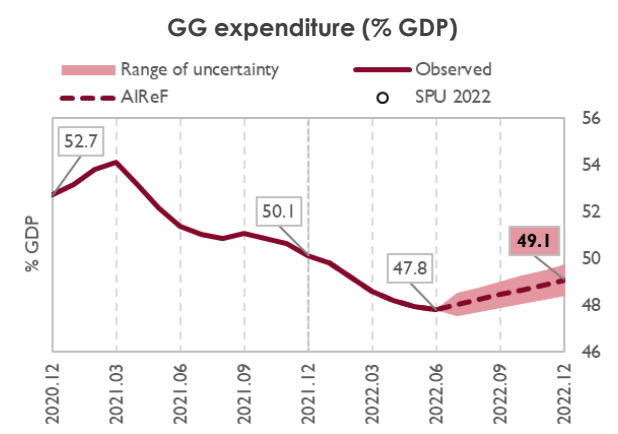
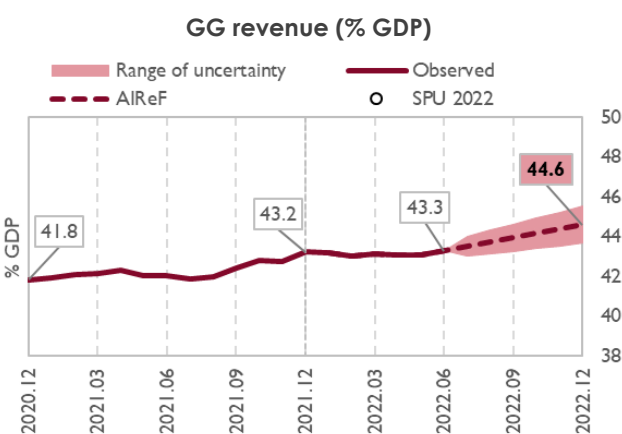
1 The pace of deficit reduction of recent months is maintained as it falls by 0.3 points in June. It is expected to stabilise up to the end of the year, closing the year at the level reached.

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



3 The weight of revenue as a percentage of GDP will continue to grow over the year to stand at 44.6% 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 To date, there is a decrease of more than 2 points of GDP in the variable of annualised expenditure in June with respect to the end of 2021. This trend would be reversed as the execution of the RTRP accelerates, gradually raising the weight of expenditure to 49.1% of GDP at the end of 2022.

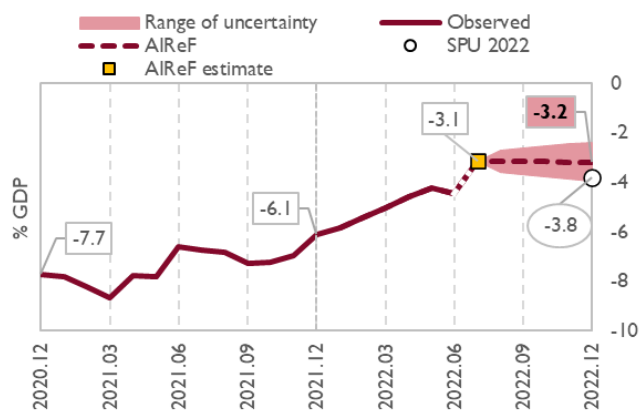


## Central Government

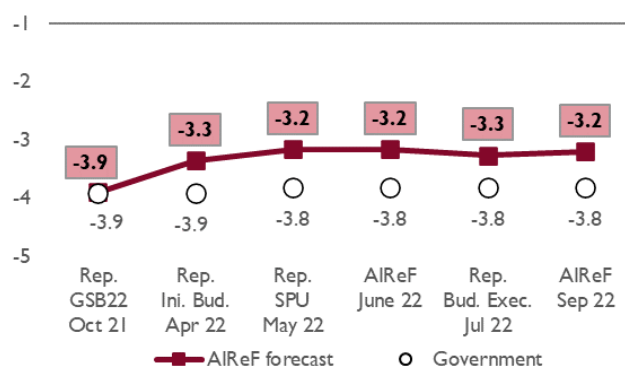
1 AIReF improves the deficit forecast for the CG, lowering its weight as a proportion of GDP by 0.1 points to stand at 3.2%, 0.6 points below the Government's forecast.

2 The decrease in the estimated CG deficit to 3.2% of GDP is due to an upward revision of revenue higher than that of expenditure.

**CG deficit (% GDP)**



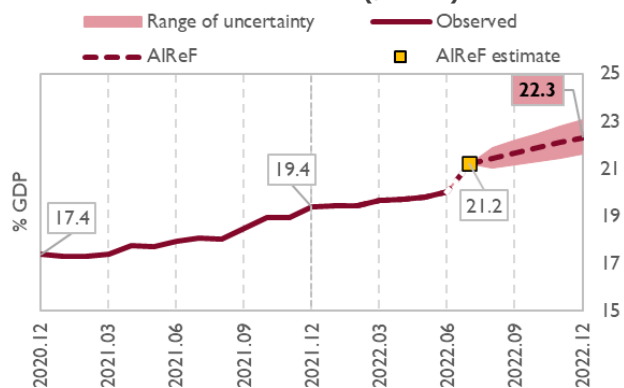
**Updated estimated CG deficit (% GDP)**



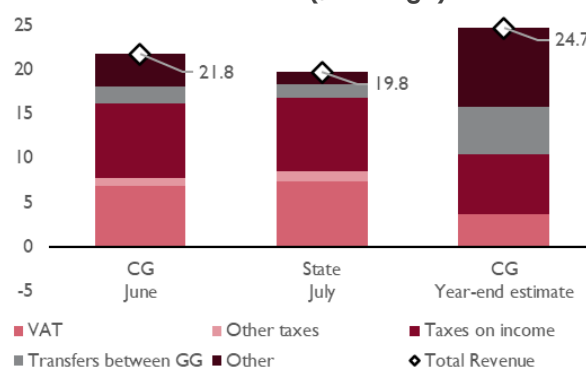
3 AIReF considers that the weight of revenue as a percentage of GDP will rise over 2022 to stand at 22.3%. This positive evolution is based on the impact of the RTRP funds, the settlement of the Regional Financing System and the evolution of taxes on income, while the weight of taxes on production is maintained.

4 The cumulative revenue of the last 12 months will maintain its rate of growth over 2022, ending the year at growth of 24.7%. 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.

**CG revenue (% GDP)**



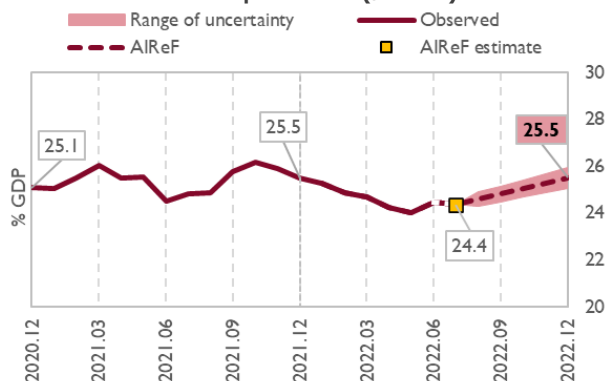
**CG revenue (% change)**



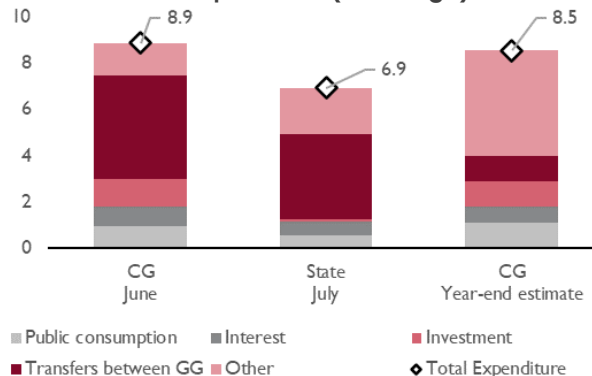
5 The forecast for expenditure rises to 25.5% of GDP in 2022, mainly as a result of higher than expected expenditure as a result of the anti-crisis measures adopted to date.

6 At year-end, the contribution of other expenditure to the growth is expected to rise, mainly as a result of the cost of the anti-crisis measures, to the detriment of the contribution of transfers to other GG-subsectors.

**CG expenditure (% GDP)**



**CG expenditure (% change)**

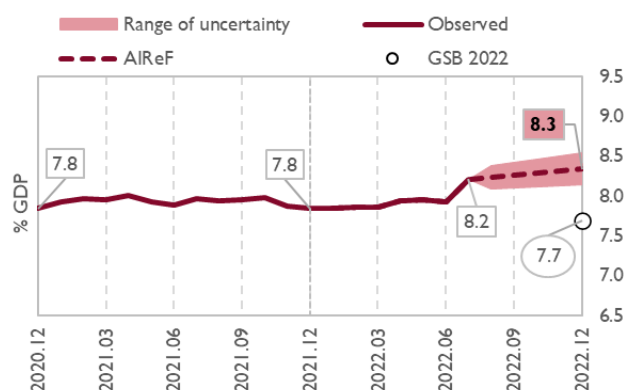


## Main revenue items

Tax revenues grew by 17.2% in **July** and by 18% for the year to date. As in previous months, the main increases are in VAT, due to the rise in prices and the improvement in consumption, and in PIT, due to the increase in employment and the increase in wages and pensions. In contrast, the measures adopted to mitigate the rise in electricity prices have led to a significant reduction in collection, for an estimated amount of €-3.7bn in the year.

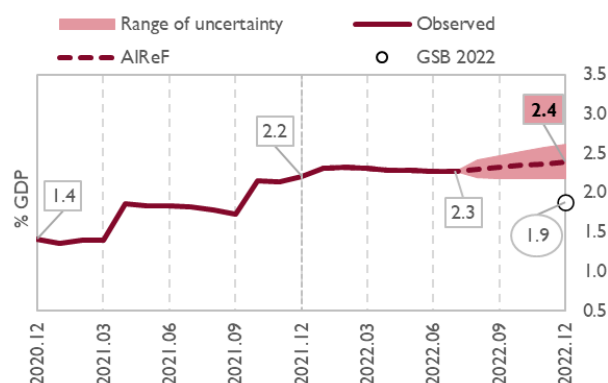
1 AIRcF maintains the weight of **PIT** as a proportion of GDP for the end of the year at 8.3%, 0.4 points higher than in 2021. Growth up to July was 17.4%, improving the rates recorded in the first half of the year. Noteworthy in the July increase is the 26.2% growth in the tax payable in the 2021 annual return, together with the positive performance of withholdings, both on wages, driven by the growth in employment and wages, as well as on capital and leases.

PIT in Cash (% GDP)



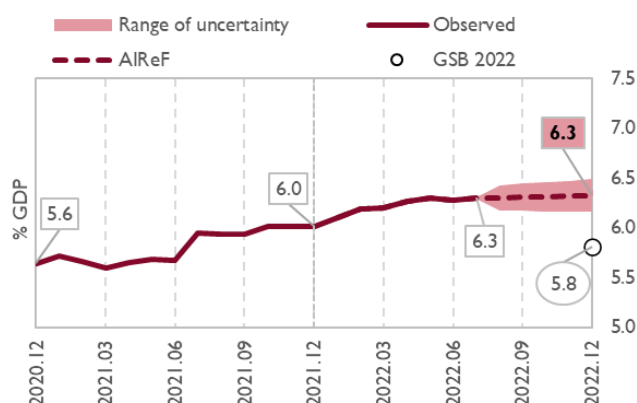
2 The forecast for **CIT** is maintained at 2.4% of GDP for the end of the year, 0.2 points higher than in 2021. The incorporation of the new data available for June and July does not involve significant information for this tax that would lead us to modify our forecast. It will be in August, with the settlement of the 2021 campaign, and in the final months of the year, with the second and third instalment payments, that a better update of our forecasts may be made.

CIT in Cash (% GDP)



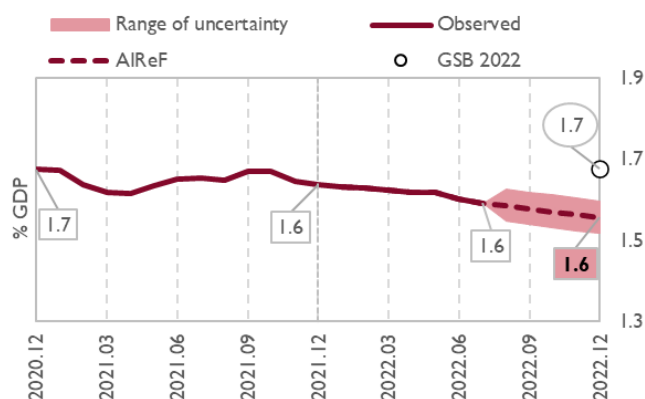
3 AIRcF improves its forecast for **VAT** by 0.1 points to 6.3% of GDP for year-end 2022. Its cumulative growth up to July of 17.8% is moderating compared with that recorded in recent months. This moderation is a consequence of the high increase in refunds, as gross revenue continues to have rates of around 20%. The impact of the reduction in the VAT rate on electricity is estimated at €930m to July.

VAT in Cash (% GDP)



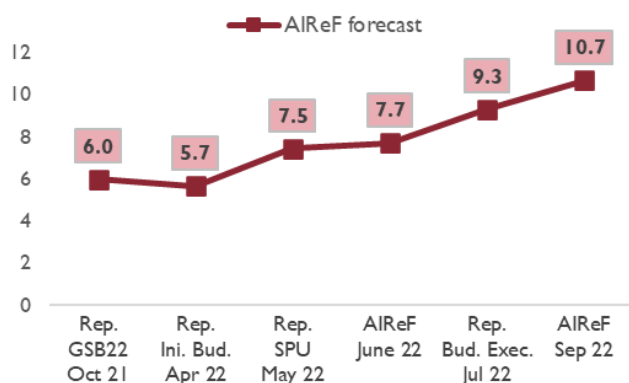
4 **STs** as a whole are expected to maintain their weight of the GDP of the end of last year, at 1.6%. In July, these taxes grew by 2.2% and the cumulative growth for the year stands at 5.4%. The reduction in the rate of the Special Tax on Electricity has had an impact on collection that is estimated at €1.16bn to July.

Special Taxes in Cash (% GDP)



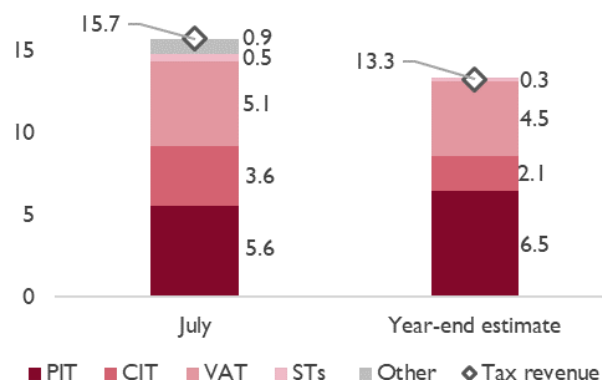
5 In 2022, **total tax revenue** in national accounting terms will be 10.7% higher than in the previous year. The incorporation of the tax information up to July, and in particular the 2021 annual income tax return, leads AIReF to revise its revenue forecast upwards in national accounting terms, placing it 1.4 points higher than that included in the 2022 Report on Budgetary Execution.

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



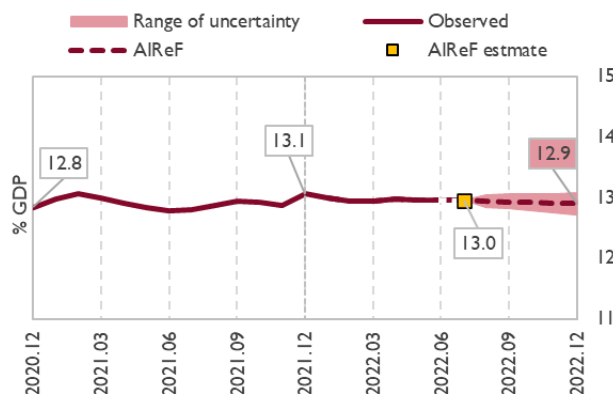
6 12-month cumulative tax revenue in cash terms up to July is up by 15.7% and overall growth is expected to stand at 13.3% at year-end 2022. All taxes would make a positive contribution to growth, particularly PIT, CIT and VAT, which would contribute 5.6, 5.1 and 3.6 points, respectively.

Contributions to change. Cash AIReF (% change)



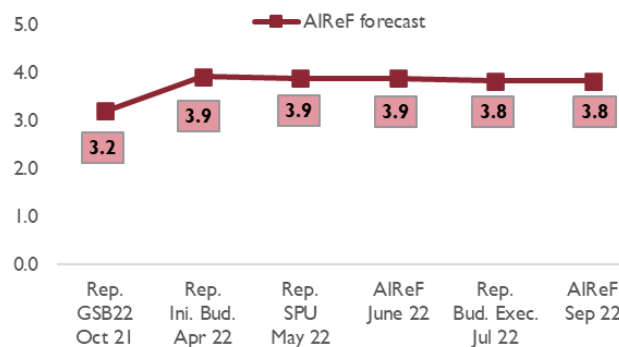
7 AIReF expects that **Social Security Fund contributions** will slightly reduce their weight as a percentage of GDP to 12.9% at the end of the year.

SSF Social Contributions (% GDP) (NA)



8 AIReF maintains the expected growth rate of contributions at 3.8% of GDP, the same level as in the previous report.

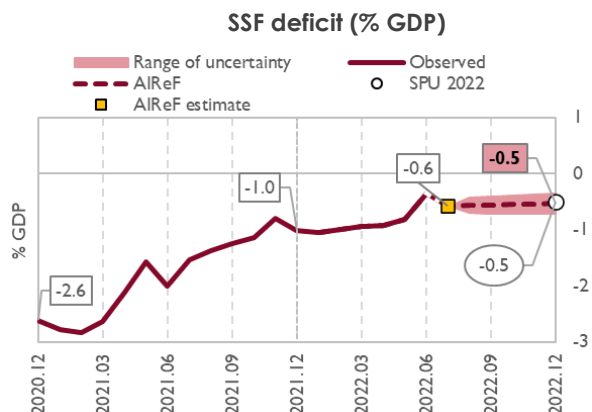
Updated forecast for Social Contributions of the GG (% change) (NA)



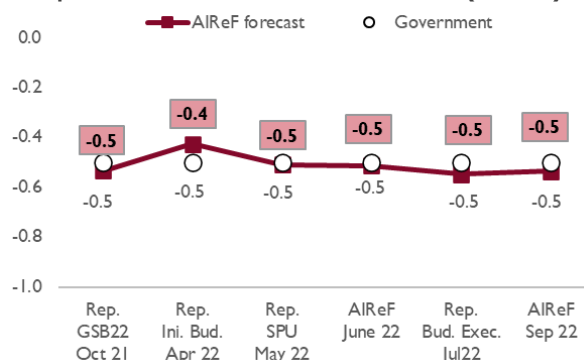
## Social Security Funds

1 AIReF estimates that the SSF deficit will reach 0.5% of GDP in 2022. The forecast in the July 2022 Report on Budgetary Execution thus remains unchanged.

2 The estimate of the SSF balance for 2022 is maintained at -0.5%, a similar forecast to the latest one available from the Government.

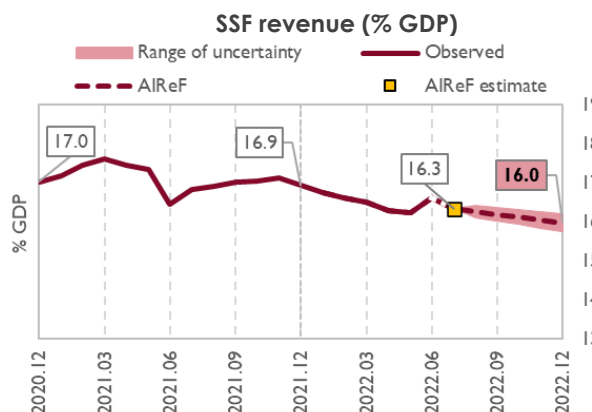


### Updated AIReF estimated SSF deficit (% GDP)

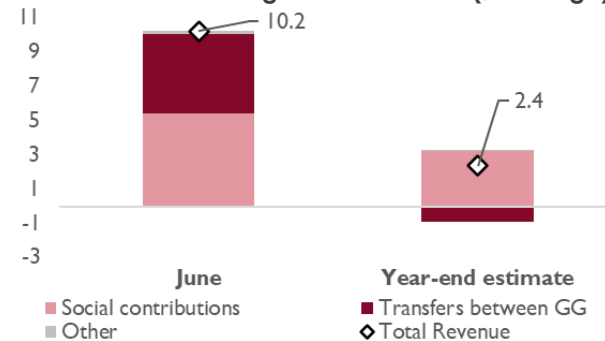


3 AIReF estimates that the weight of revenue over GDP will decrease over 2022 from 16.9% to 16% at the end of the year. This is due to the fact that the rate of growth of the contributions is expected to slow down with respect to recent months.

4 AIReF expects a slowdown in the rate of growth of revenue as a result of less dynamic growth in contributions and a moderation in transfers from the State, despite an increase in June due to the transfers made under the first recommendation of the Toledo Pact for the whole of the 2022 fiscal year.

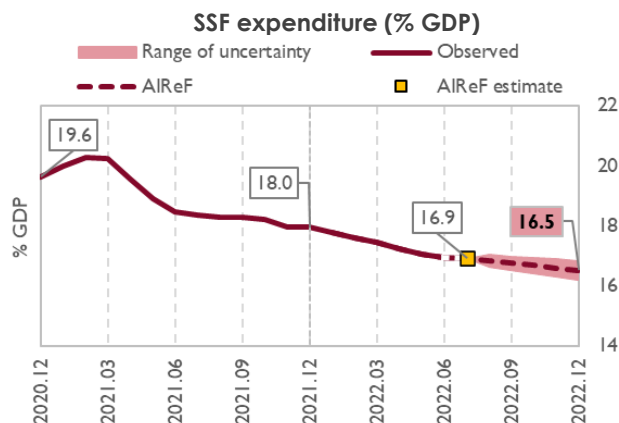


### Contributions to change in SSF revenue (% change)

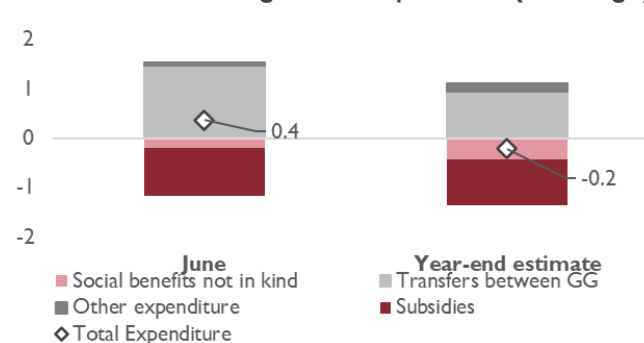


5 AIReF estimates that the weight of expenditure over GDP will continue to fall over 2022 by one and a half points, to stand at 16.5%, mainly as a result of the reduction in the cost of COVID-19 measures.

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.



### Contributions to change in SSF expenditure (% change)

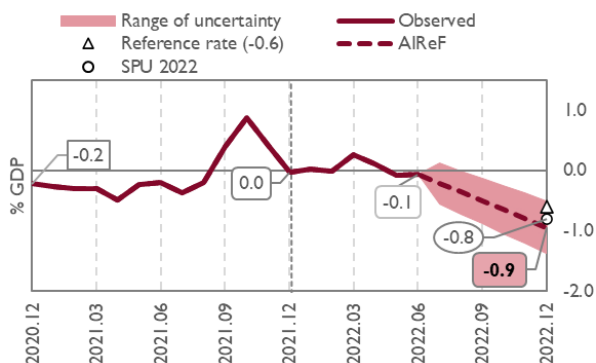


## Autonomous Regions

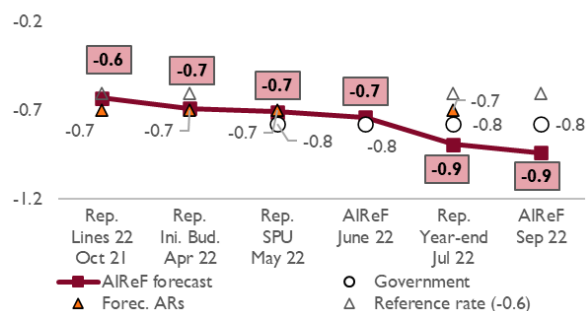
**1** AIReF continues to estimate a deficit of 0.9% of GDP for the ARs at year-end 2022, exceeding the reference rate and the SPU forecast for the sub-sector.

**2** AIReF maintains its forecast for the AR sub-sector. However, it revises slightly upwards both revenue and, to a greater extent, expenditure.

**Regions' deficit (% GDP)**



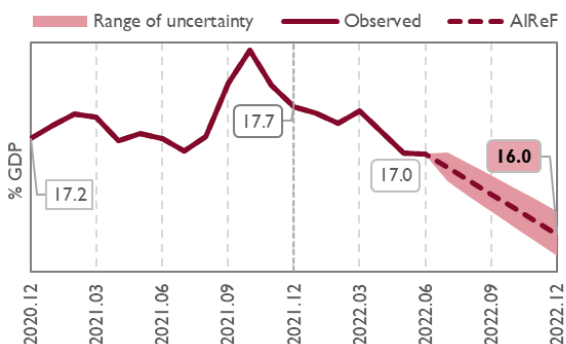
**Updated estimated Regions' deficit (% GDP)**



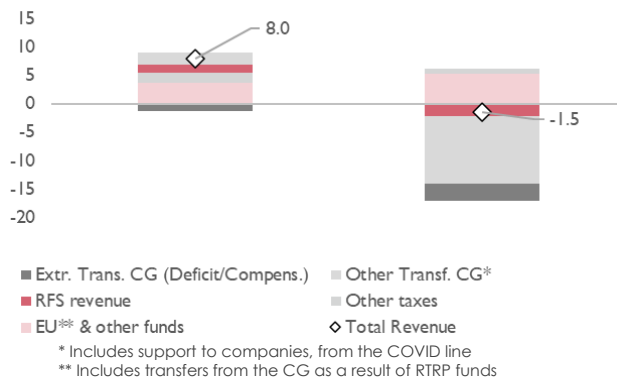
**3** Revenue excluding the RTRP will fall at year-end by 7% due to the reduction in transfers from the CG (financing system, support for companies and extraordinary transfers). Including the Plan, the fall would be 2% and revenue would stand at 16% of GDP.

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

**Regions' revenue (% GDP)**



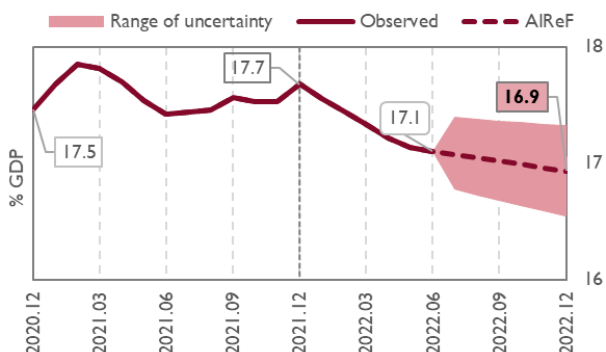
**Regions' revenue (% change)**



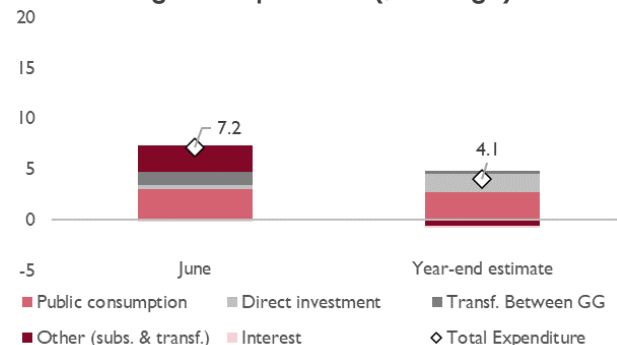
**5** Non-RTRP expenditure will fall at year-end by 1%, conditioned by the withdrawal of COVID-19 measures, largely offset by growth in other expenditure. Including expenditure financed by the RTRP, expenditure would grow by 4% to reach 16.9% of GDP.

**6** Expenditure in the last 12 months maintains its profile: it still reflects growth in items linked to the pandemic. At year-end, higher growth in investment and other expenditure associated with the NGEU funds is expected.

**Regions' expenditure (% GDP)**



**Regions' 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.
- 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.