MONTHLY STABILITY TARGET MONITORING 2022

PUBLICATION DATE: OCTOBER 28TH, 2022

General Government

AIReF updates its forecast for the GG deficit to 4.6% of GDP in 2022. These fiscal forecasts, which include the updating of the macroeconomic outlook, are those included in the Report on the Main Budgetary Lines and Draft Budget of the General Government of October 25th. The deficit estimates rise compared with the report of October 18th due to the approval of new measures by the Central Government.

❶ The pace of deficit reduction of recent months is maintained, with it falling by 0.1 points in July. It is expected to worsen by 0.8 points up to the end of the year due to the incorporation of the new measures approved.

❷ In the process of ongoing assessment of the budget cycle, AIReF estimates a deficit of 4.6%, 0.1 points up on that published in the last monitoring sheet. The Government's deficit estimate is 0.4 points higher.

General Government deficit (% GDP)
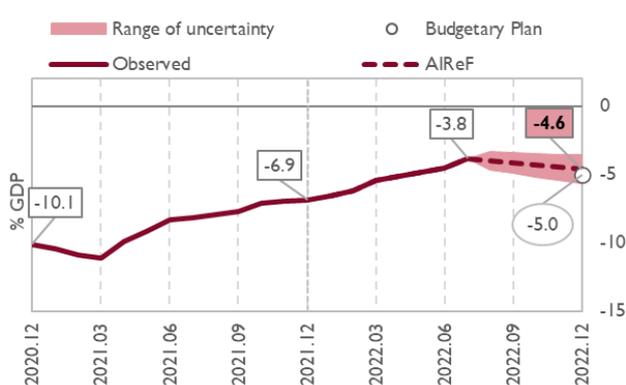
**Updated General Government deficit estimate (% GDP) (AIReF)**
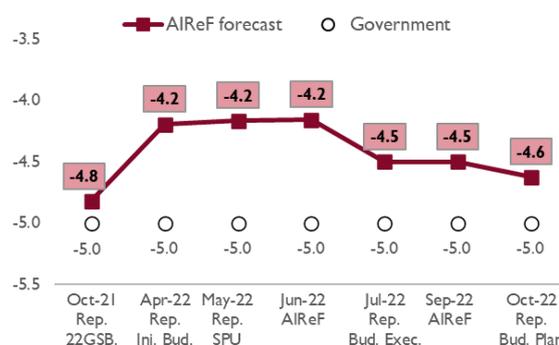
❸ AIReF forecasts an increase in the weight of revenue as a percentage of GDP over the year to stand at 43.8% of GDP. This weight is higher than the two scenarios published in the Budgetary Plan. The differences with the scenarios presented by the Government are due, among other things, to the fact that these do not include the Recovery, Transformation and Resilience Plan (RTRP).

❹ Expenditure falls by over 2 points of GDP in annualised terms in July compared with the year-end 2021 figure. This trend is expected to reverse and the weight of expenditure will gradually grow to reach 48.4% of GDP at the end of 2022. The estimated level is higher than in both scenarios of the Budgetary Plan, as AIReF's scenario includes the RTRP, among other reasons.
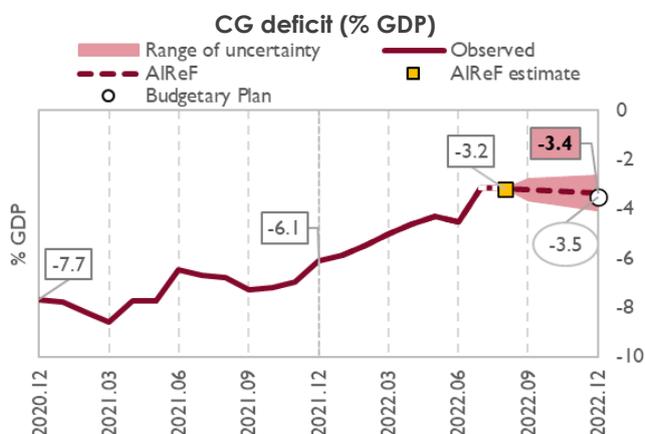
GG revenue (% GDP)
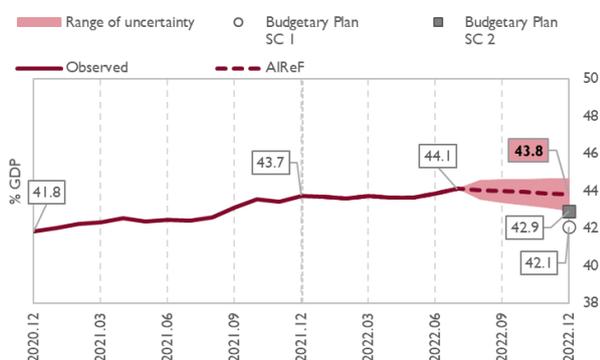

GG expenditure (% GDP)
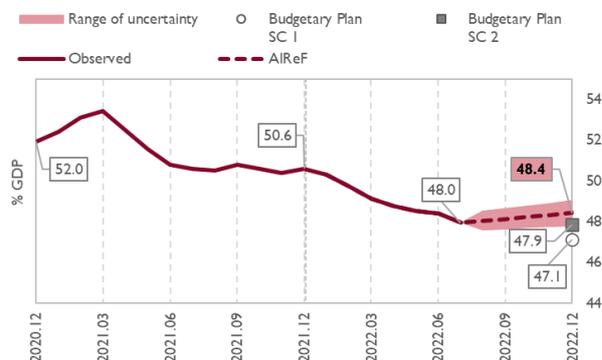
Central Government

❶ AIReF worsens its deficit forecast for the CG, raising its weight as a proportion of GDP by 0.2 points to stand at 3.4%, 0.1 points below the forecast for 2022 in the 2023 Budgetary Plan.

❷ The increase in the estimated deficit to 3.4% of GDP is due to an upward revision of expenditure due to the approved measures which is higher than for revenue, without considering the RTRP.

CG deficit (% GDP)

Updated estimated CG deficit (% GDP)
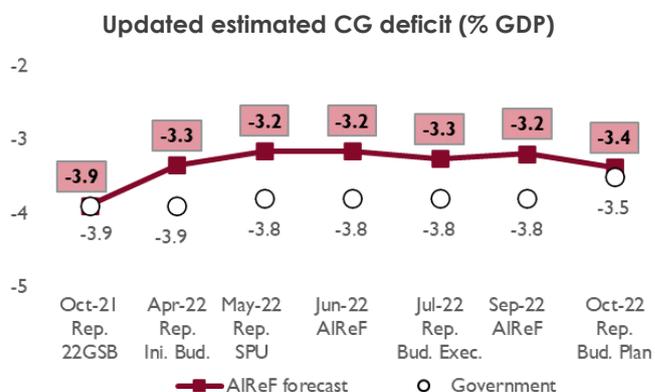
❸ AIReF considers that the weight of revenue as a percentage of GDP will rise over 2022 to stand at 21.2%, almost two points higher than in the previous year. This change is mainly based on the dynamism of taxes on income, while the weight of taxes on production remains unchanged.
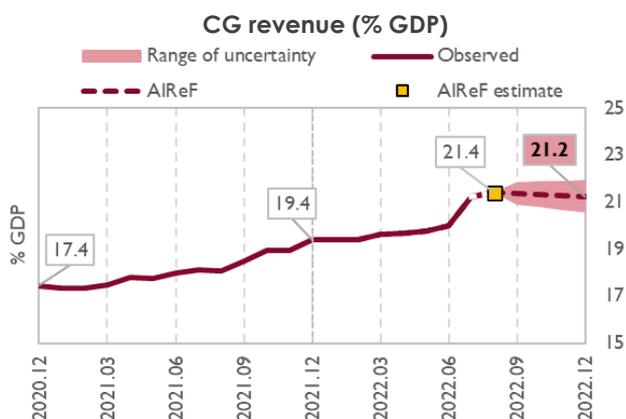
**❹** The cumulative revenue of the last 12 months will slow down its rate of growth over 2022, ending the year at growth of 18.5%. VAT and Personal Income Tax (PIT) will slightly reduce their contribution to growth, while other revenue categories raise their contribution in the final months due to the effect of the funds financed through the RTRP.

CG revenue (% GDP)

CG revenue (% change)
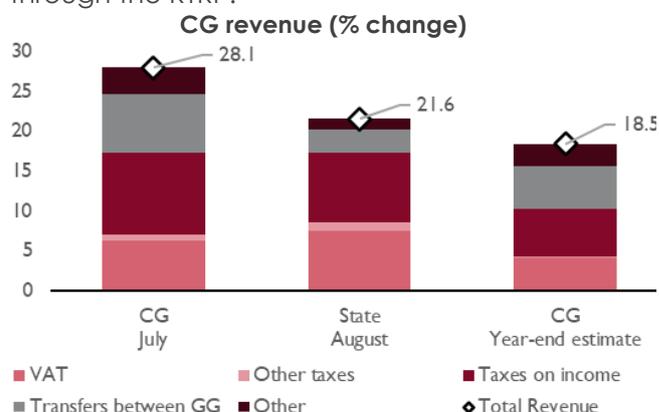
5 The forecast for expenditure falls to 24.6% of GDP in 2022 as a result of lower expenditure of the RTRP expected at year-end, which is partially offset by the new anti-crisis measures of RDL 18/2022.

6 The contribution to growth of other expenditure rises, mainly due to the anti-crisis measures, to the detriment of the contribution of transfers to other GG sub-sectors, which falls due to lower RTRP expenditure.

CG expenditure (% GDP)


CG expenditure (% change)
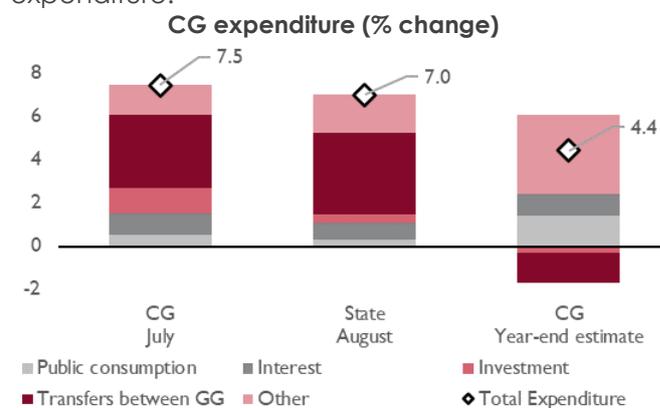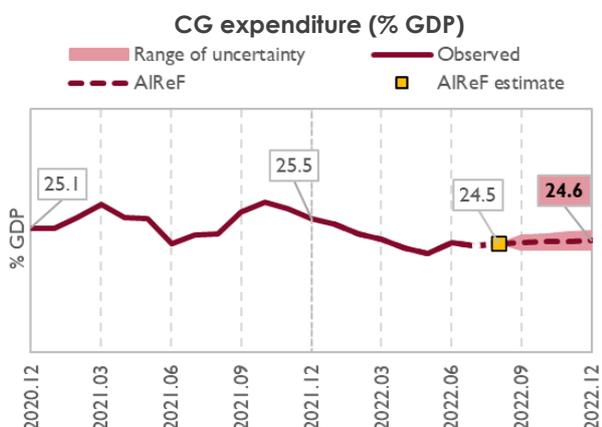
Main revenue items

The tax revenue estimates are updated with the incorporation of the collection data for the month of August 2022 and AIReF's latest macroeconomic forecasts. The results of cash tax revenues are compared with those published by the Government in the draft 2023 GSB. Tax collection up to August grows by 19% compared with the same period of 2021, mainly driven by PIT and VAT revenues, despite the measures adopted to mitigate the rise in electricity prices, whose estimated amount so far this year totals €4.53bn.

❶ AIReF expects the weight of **PIT** to reach 8.4% of GDP by the end of 2022, more than half a point above the previous year. Growth up to August was 16.7%, mainly due to the good performance of withholdings on work, driven by the growth in employment and wages. However, its rate of change this month is slowing compared with previous months. At the end of the year, revenue is expected to be 15.3% higher than in 2021.
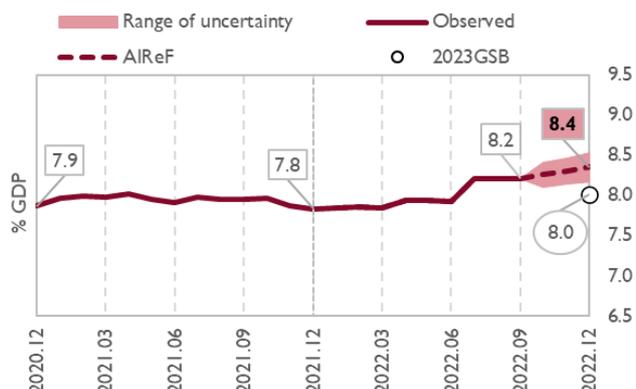
❷ AIReF expects **CIT** to reach 2.2% of GDP in 2022, similar to the figure for the previous year. The August data incorporate the result of the 2021 tax return, whose net tax payable grew by a little over 44% compared with that of 2020, placing growth so far this year at 52.7%. With an estimate still subject to uncertainty, as two of the three payments are received in the last part of the year, collection at year-end 2022 is expected to be 7.5% higher than in the previous year.

PIT in Cash (% GDP)

CIT in Cash (% GDP)
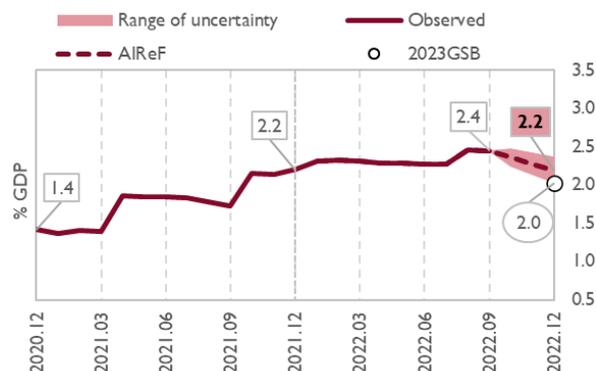
❸ AIReF estimates a weight of **VAT** over GDP of 6.4% at the end of 2022. Its growth up to August is 20.1% higher than in the same period of 2021 due to the improvement in consumption and the increase in prices. This is despite the impact of the measures to mitigate the rise in energy prices which, so far this year, is estimated at €-1.05bn. Estimated revenue at the end of 2022 stands at 14.6% above the 2021 figure.
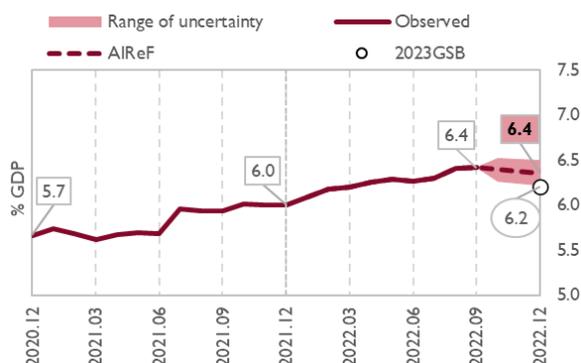
❹ The weight of STs as a whole as a percentage of GDP remains at 1.6%. So far this year, collection has risen by 4.2% compared with 2021, driven by the recovery of the Hydrocarbon Tax since the pandemic and despite the impact of the reduction in the rate of the Special Tax on Electricity, which is estimated at €-1.31bn up to August. At the end of the year, the year-on-year growth rate is expected to stand at 3.3%.

### VAT in Cash (% GDP)

Special Taxes in Cash (% GDP)
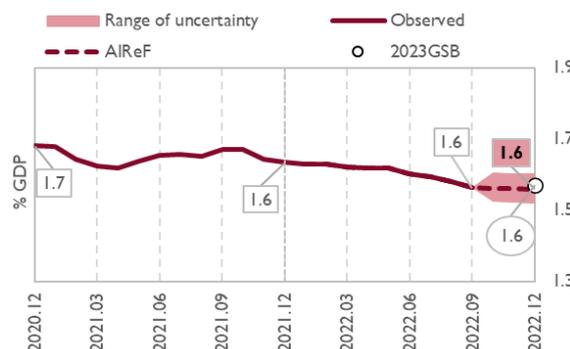
5 In 2022, **total tax revenue in national accounting terms** will be 10.5% higher than in the previous year. Following the incorporation of the August collection figures and the update of AIReF's macroeconomic scenario, the revenue forecast is revised in national accounting terms, placing it 0.2 points below its last revision.

**Updated tax revenue forecast under the normal NA regime (% change)**
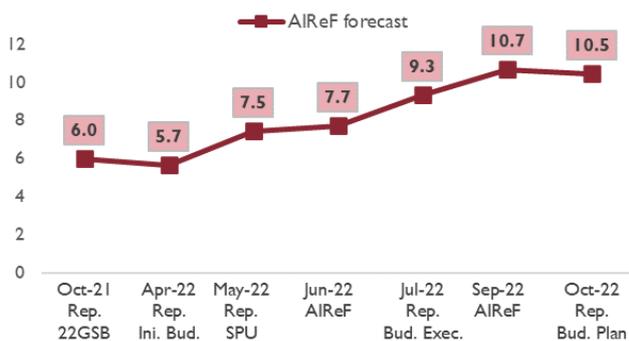
6 12-month cumulative tax revenue in cash terms up to August is up by 18% and growth is expected to stand at 12.4% at the end of 2022, which is more moderate as a result of being compared to the months of significant recovery in 2021. All the taxes would make a positive contribution to growth, particularly PIT and VAT, which would contribute 6.5 and 4.7 points, respectively.

Contributions to change. Cash AIReF (% change)
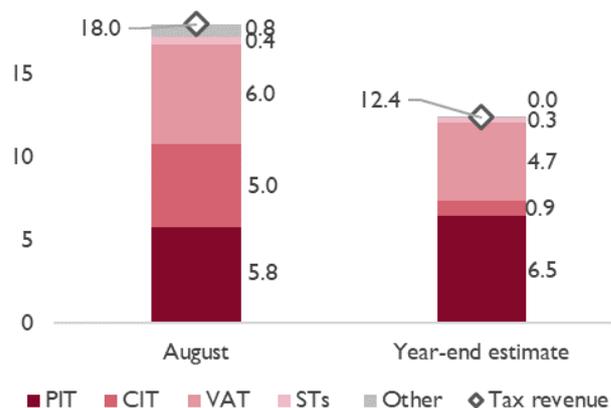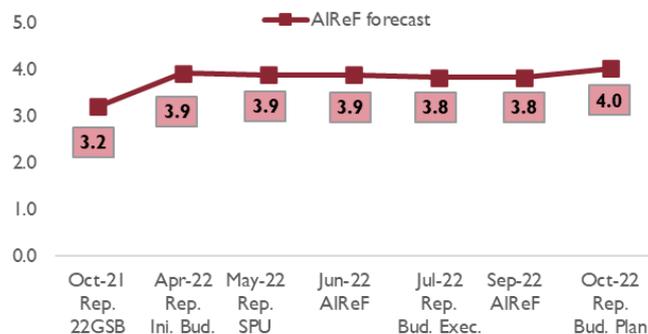

7 AIReF expects that **Social Security Fund contributions** will slightly reduce their weight as a percentage of GDP to 12.9% at the end of the year.

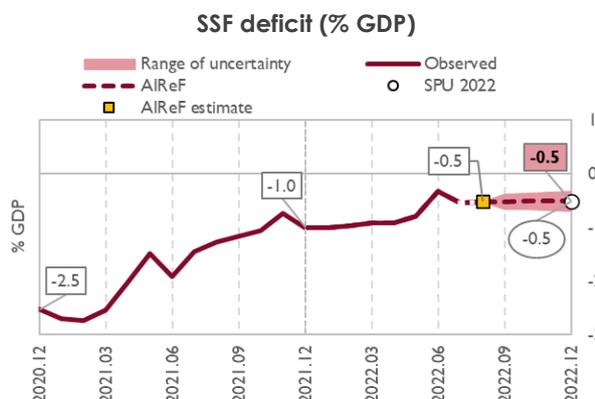**SSF Social Contributions (% GDP) (NA)**
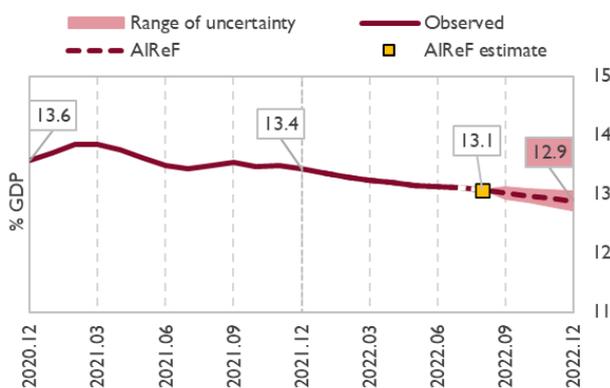
8 AIReF expects contributions to grow at a rate of 4% of GDP, slightly higher than in the previous report.

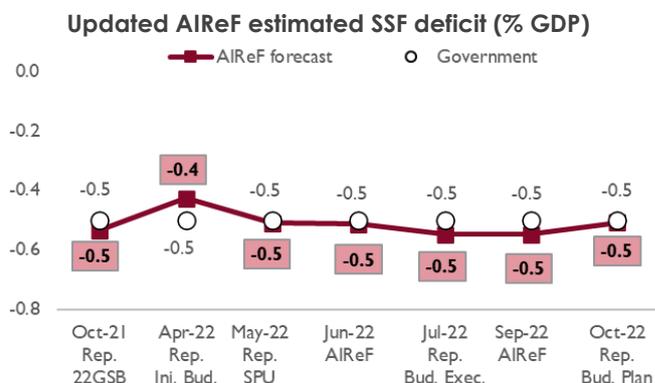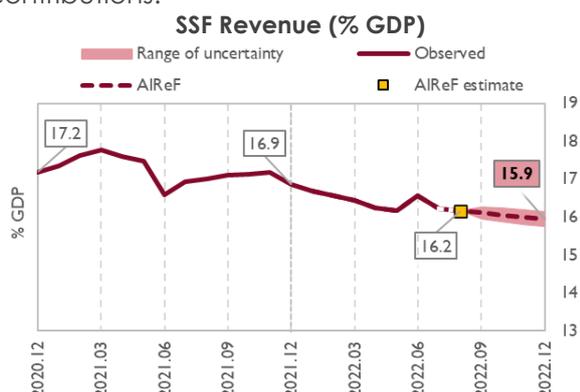**Updated forecast for Social Contributions of the GG (% change) (NA)**

Social Security Funds

❶ AIReF estimates that the SSF deficit will reach 0.5% of GDP in 2022 in line with the level estimated to date.
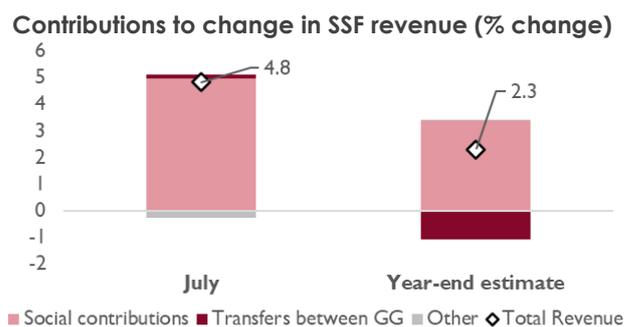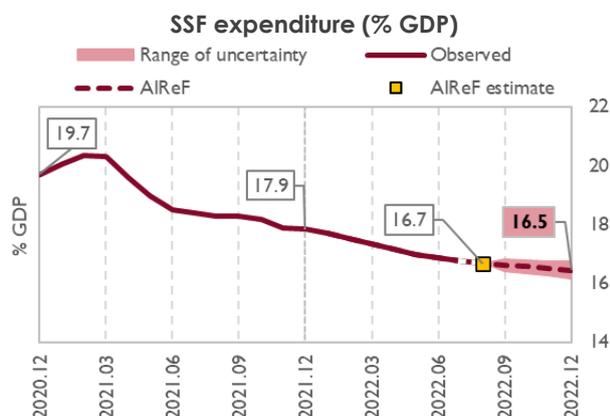
SSF deficit (% GDP)

❸ AIReF estimates that the weight of revenue over GDP will fall by 1 point from 2021 due to the reduction of COVID measures. In the final months, it will fall from the 16.2% estimated for August to 15.9% at the end of the year as a result of the slowdown in the pace of growth of contributions.

SSF Revenue (% GDP)

❺ AIReF estimates that the weight of expenditure over GDP will fall in 2022 by almost 1.5 points, to stand at 16.5%, mainly as a result of the reduction in the cost of COVID-19 measures.

SSF expenditure (% GDP)

❷ AIReF maintains the estimate of the SSF balance for 2022 of -0.5%, similar to the forecast published in the Government's Budgetary Plan.

Updated AIReF estimated SSF deficit (% GDP)

❹ AIReF expects a reduction in the rate of growth of revenue in the remainder of the year due to less dynamic growth in contributions and a reduction in transfers from the State compared with 2021.

Contributions to change in SSF revenue (% change)

❻ SSF expenditure is expected to contract by 0.3% at year-end 2022 as a result of the negative contribution of subsidies and social benefits due to the elimination of COVID measures, partially offset by a positive contribution of transfers between GG sub-sectors.

Contributions to change in SSF expenditure (% change)
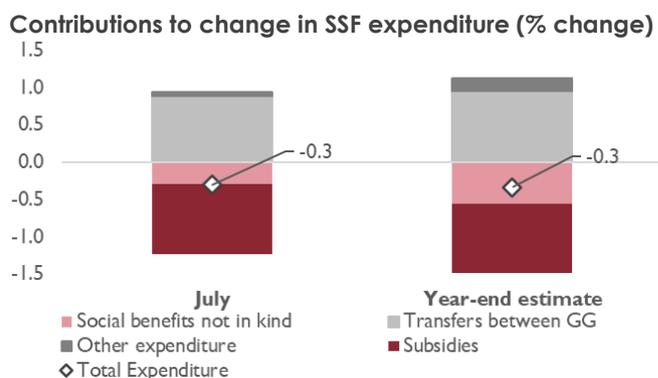
Autonomous Regions

❶ AIReF estimates a deficit of 1% of GDP at year-end 2022 for the ARs, equal to that estimated in the Budgetary Plan.

Regions' deficit (% GDP)

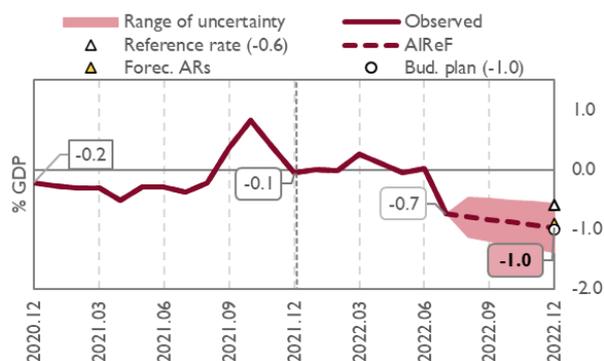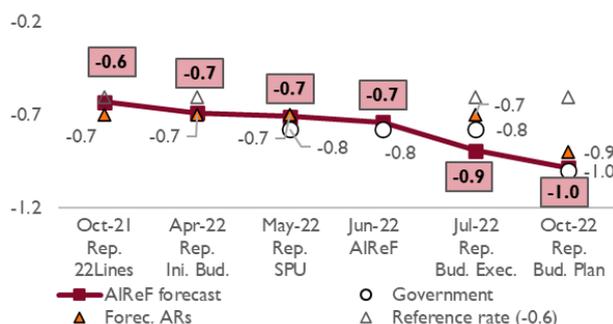**❷** AIReF worsens the deficit forecast for the ARs by 0.1 points, incorporating, among other revisions, the recently approved wage update.

Updated estimated Regions' deficit (% GDP)

❸ Revenue excluding the RTRP will fall at year-end by 5% due to the reduction in transfers from the CG (financing system, support for companies and extraordinary transfers). Including the Plan, the fall would be 3.4% and revenue would stand at 15.8% of GDP.

Regions' revenue (% GDP)
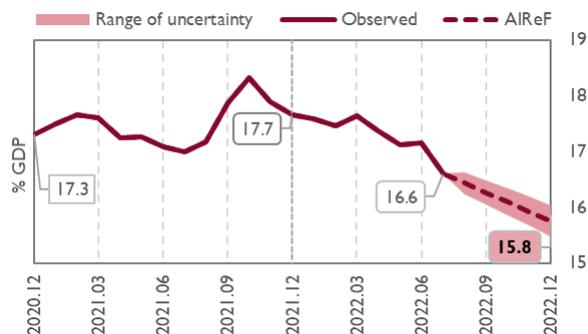
❹ Revenue of the last 12 months has risen as a result of the EU funds, taxes and transfers from the CSA. At year-end, the contribution from NGEU funds and taxes will partly cushion the fall in revenue from the CG.

Regions' revenue (% change)

* Includes support to companies from the COVID line
** Includes transfers from the CG as a result of RTRP funds
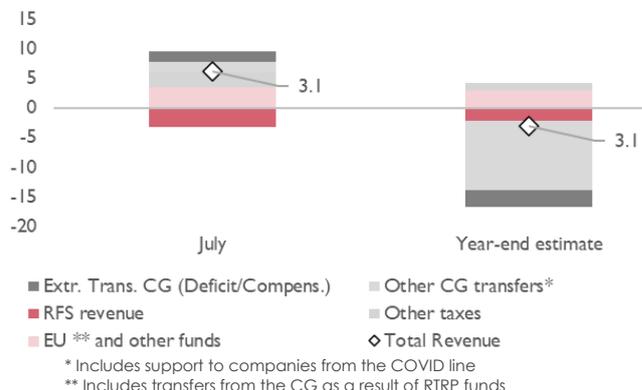
❺ Non-RTRP expenditure will rise at year-end by 1% as the withdrawal of COVID measures is offset by growth in wages and other expenditure. Including expenditure financed by the RTRP, expenditure would grow by 2% to reach 16.7% of GDP.

Regions' expenditure (% GDP)
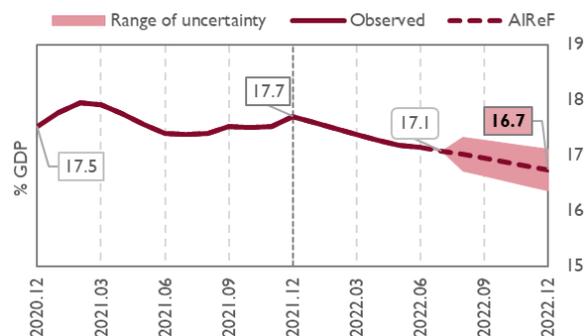
❻ Expenditure in the last 12 months has grown in pandemic-related items (COVID support) and public consumption. At year-end, higher growth in wages and operating expenses are expected, but also in investment and other expenditure associated with the NGEU funds.

Regions' expenditure (% change)
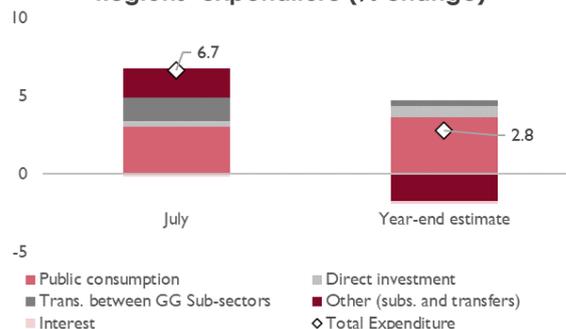
Methodological note

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 Autonomous 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 (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.

o 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 AIReF, 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 AIReF, was ratified by Parliament on September 13th 2021.

o 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 October in the 2023 Budgetary Plan have been taken into account. In the Plan, the forecast for the GG as a whole remains at a deficit of 5% of GDP for 2022, but the distribution by sub-sector changes: a deficit is forecast for the CG of 3.5% of GDP, for the SSFs of 0.5% of GDP and for the ARs of 1% of GDP, while a surplus of 0.1% of GDP is expected for the LGs.

o AIReF measures total GG revenue and expenditure by including RTRP and REACT funds, which AIReF values at 0.8 point of GDP in 2022. In comparisons with the Government, AIReF has considered the valuations without the RTRP since the Budgetary Plan only contains information on total funds for 2022, but not on the funds executed by each Administration.

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.