MONTHLY STABILITY TARGET MONITORING 2022

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Independent Authority for Fiscal Responsibility

General Government

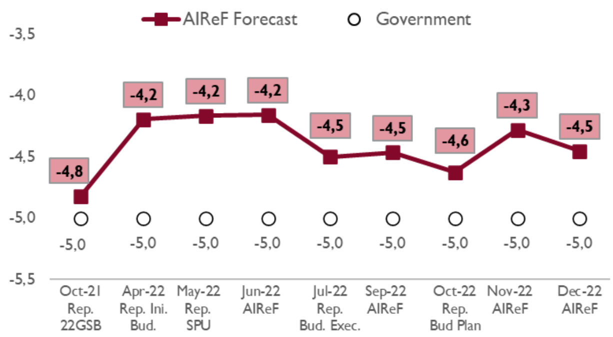
AIReF has lowered its forecast for the General Government (GG) deficit to 4.5% of GDP in 2022, two tenths of a percentage point higher than that published in the previous monitoring report. This is two tenths of a percentage point higher than that published in the previous monitoring fact sheet. This sheet incorporates the update of the macroeconomic table of the Report on the Draft Budgetary Plan and Main Lines of the General Government Budget of October 25th, as well as the new information received on budget execution, including the data on tax collection and contributions. With respect to the last sheet, the changes are concentrated in Central Government due to the inclusion of the measures of RDL 20/2022 that increase expenditure and in the Autonomous Regions due to the higher expenditure forecast derived from the latest budget execution data.

❶ The pace of deficit reduction in recent months is maintained, estimated at 3.4% in October. Until the end of the year a worsening is expected due to the implementation of the approved packages of measures, including RDL 20/2022, to reach 4.5% of GDP at the end of the year.

GG deficit (%GDP)

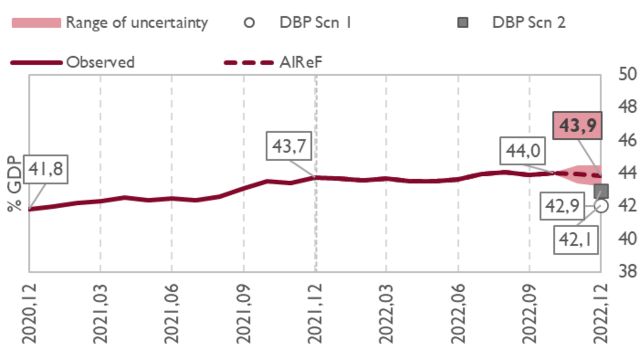
❷ In the ongoing assessment process of the budget cycle AIReF worsens the deficit estimate by two tenths of a percentage point of GDP to 4.5% of GDP, mainly due to the impact of RDL 20/2022 and the latest budget execution data, which outweighs the good performance of contributions and tax revenue.

Update GG deficit estimate (%GDP) (AIReF)



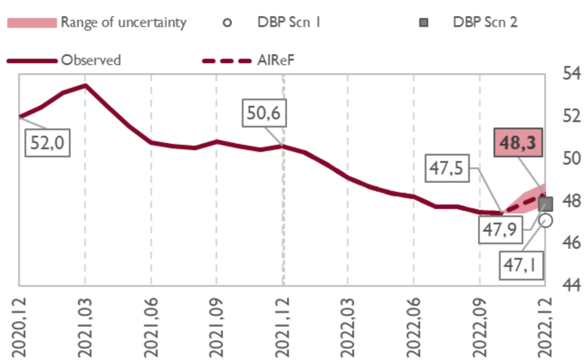
❸ AIReF forecasts an increase in the weight of revenues as a percentage of GDP during the year to 43.9% of GDP. This weight would be lower if the Recovery, Transformation and Resilience Plan (RTRP) were not taken into account.

GG revenue (% GDP)



❹ The decrease of three GDP points in the annualised expenditure variable in October compared to the end of 2021 would reverse the trend in the last part of the year, reaching a weight of 48.3% of GDP by the end of 2022 due to the implementation of the measures and the RTRP.

GG expenditure (% GDP)

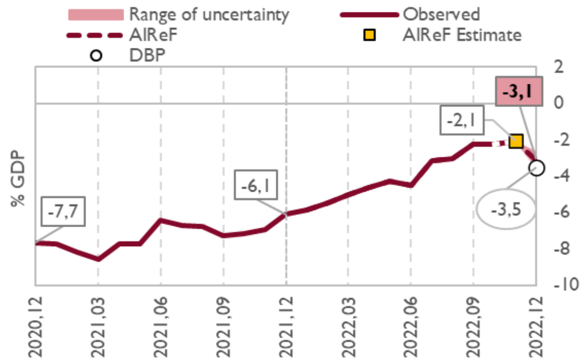


Central Government

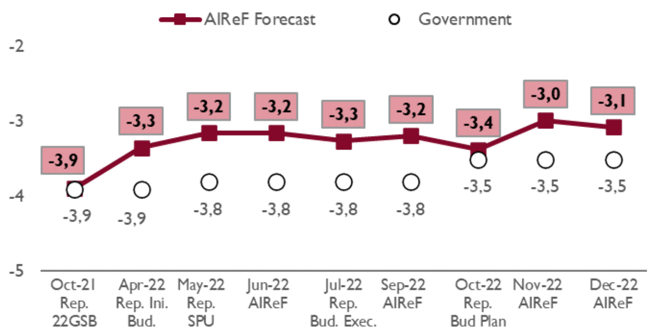
1 AIReF lowers the deficit forecast for the Central Government (CG) by one tenth of a percentage point of GDP, which stands at 3.1%, 4 tenths of a percentage point less than the forecast for 2022 in the 2023 Draft Budgetary Plan.

2 This worsening of the CG deficit is due to the fact that the cost of expenditure measures exceeds the improvement in revenue forecasts.

CG deficit (%GDP)



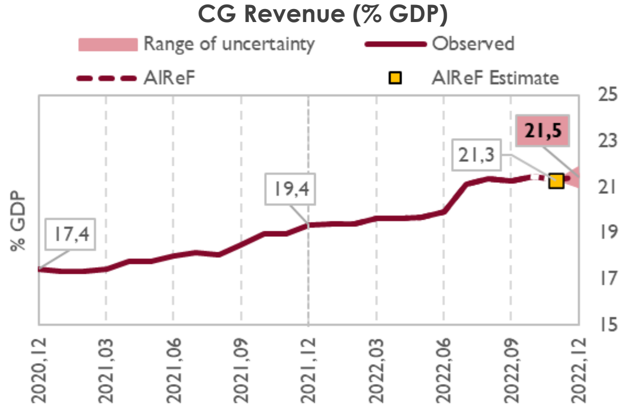
Updated estimated deficit CG (%GDP)



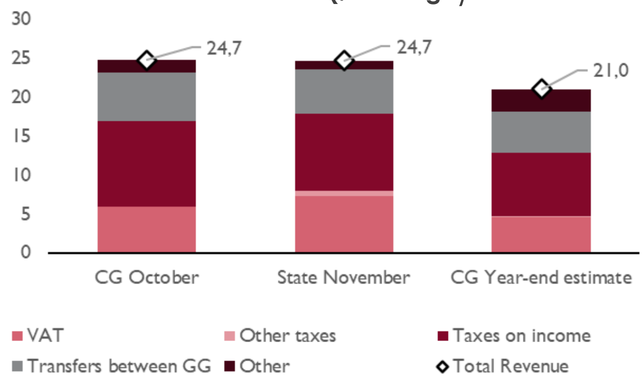
3 AIReF believes that the share of funds in GDP will increase by more than 2 percentage points in 2022 to 21.5%. Growth has slowed down in recent months, although the forecast is slightly better than the last estimate.

4 The accumulated revenues of the last twelve months will maintain their growth rate during 2022, ending the year with a growth of 21%. Personal income tax and especially VAT are expected to reduce their contribution to growth, with all other revenues pulling up the RTRP funds.

CG Revenue (% GDP)



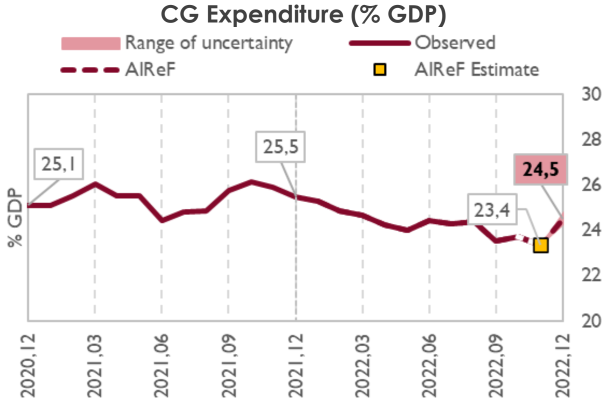
CG Revenue (% change)



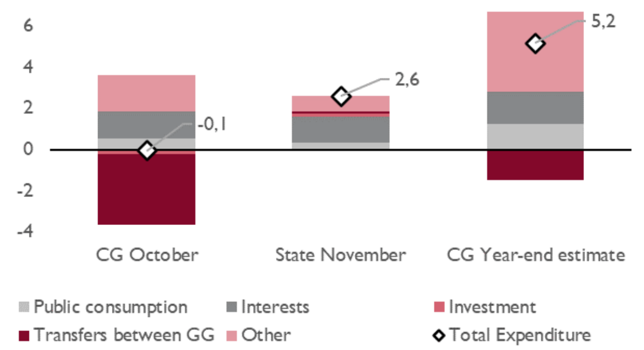
5 The expenditure forecast rises from 24.6% to 24.5% of GDP in 2022, as the upward revision of GDP offsets the increase in expenditure volume due to the measures in RDL 20/2022.

6 At year-end, the estimated increase in the contribution to growth of other expenses, mainly due to the cost of anti-crisis measures, is noteworthy.

CG Expenditure (% GDP)



CG Expenditure (% change)

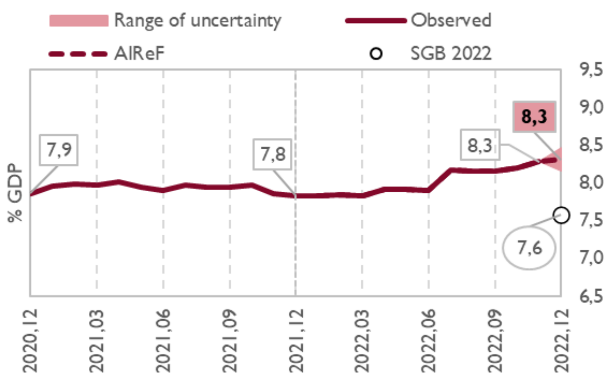


Main revenue items

After incorporating November's revenue, tax revenues are up 15.9% so far this year, driven mainly by the growth in personal income tax, VAT and corporate income tax revenues, despite the reduction in revenues caused by the measures adopted to mitigate the escalation in electricity prices, estimated at -€7,466 million up to November. On the other hand, social security contributions continue to show a positive evolution, which has led to an improvement in the forecast for 2022.

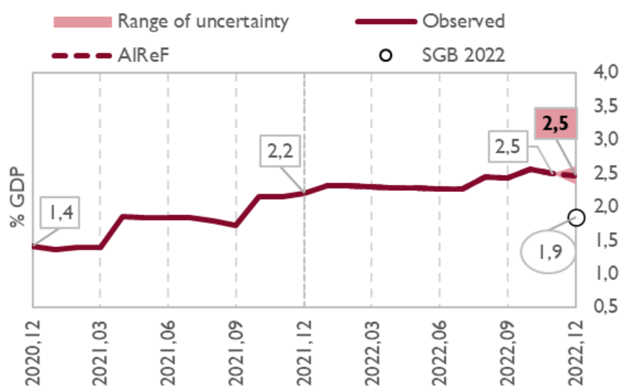
❶ AIReF estimates that the weight of **personal income tax (PIT)** will reach 8.3% of GDP at the end of the year, half a point higher than the previous year. Up to November, the increase was 16.0%, due to the growth in employment, wages and pensions. This growth, which has slowed since August, recovered slightly in November, influenced by the increase in public employees' salaries, and revenues are expected to be 16.0% higher than in 2021 at the end of the year.

PIT in cash (% of GDP)



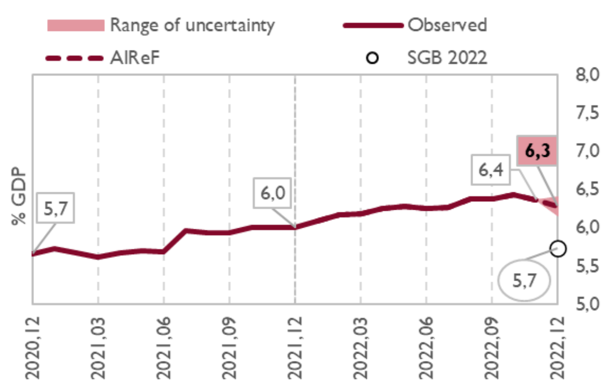
❷ The **Corporate Income Tax (CIT)** will reach 2.5% of GDP in 2022, three tenths more than in 2021. Instalment payments are up 18.7% in the absence of the third instalment payment in December and the year-to-date growth stands at 26.8%, despite exceptional refunds due to a judgement and deferred tax assets, which will still be extended until the end of the year. The increase at the end of the year is estimated at 22.4%.

CIT in cash (% GDP)



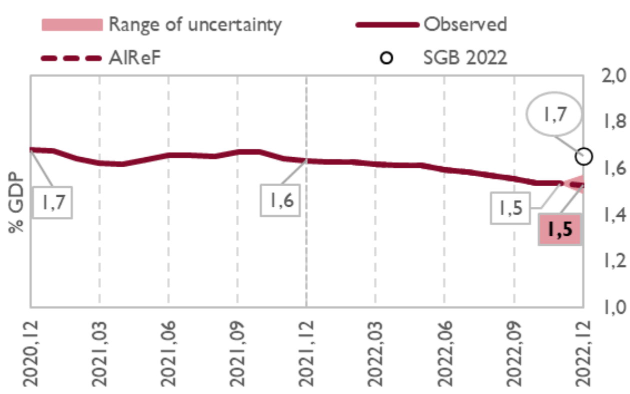
❸ **Value Added Tax (VAT)** will account for 6.3% of GDP by the end of 2022, three tenths of a percentage point more than in 2021. Up to November, revenues are 16.2% higher than in 2021 in the same period, despite the reduction in the rate on electricity, which so far this year has amounted to €1,723 million. It is worth highlighting the increase in refunds, which reached almost 34%, above gross revenues, which grew by 21.1%. By the end of 2022, the year-on-year growth rate is expected to stand at 14.4%.

VAT in cash (% GDP)



❹ For the **Special Taxes (STs)** as a whole, its weight in GDP is expected to fall by one tenth of a percentage point compared to 2021, standing at 1.5% at the end of 2022. So far this year, revenue has grown by 2.4% with respect to 2021, driven mainly by the growth of the Hydrocarbons Tax, the most affected by the pandemic and reduced by the reduction in the rate of the Special Tax on Electricity which, until November, is estimated at -1,909 M€. The estimated growth at the end of 2022 is 2.3%.

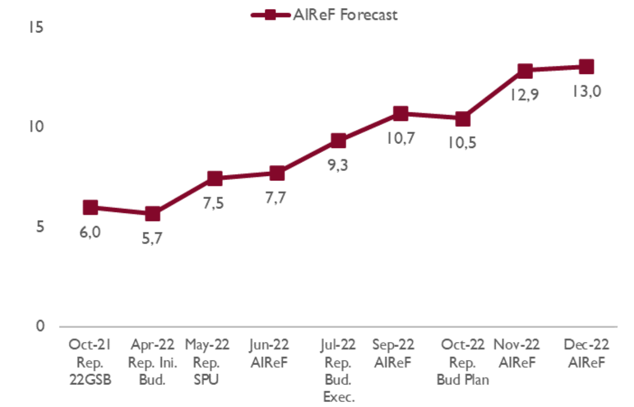
STs in cash (% GDP)



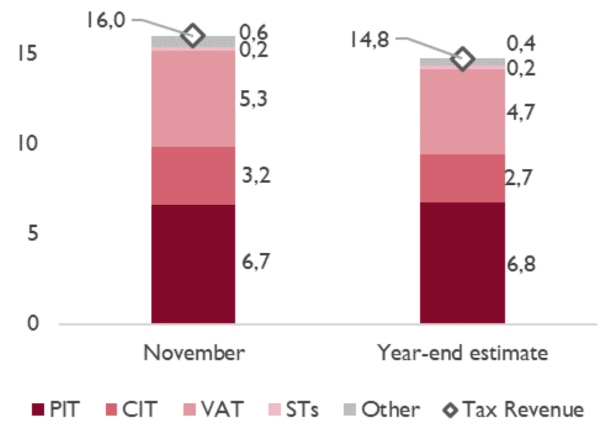
❺ In national accounting terms, **total tax revenues** during 2022 will be 13% higher than in the previous year. The incorporation of the latest available information adds one tenth of a percentage point to the latest estimate.

❻ Tax revenues in cash terms for the twelve months to November grew by 16.0%. At year-end, growth is estimated at 14.8%, more moderate due to the inclusion of one more month of recovery in 2021, still very much affected by the restrictions on activity in the first months of the year. All figures would make a positive contribution to growth, particularly personal income tax, VAT and corporate income tax.

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



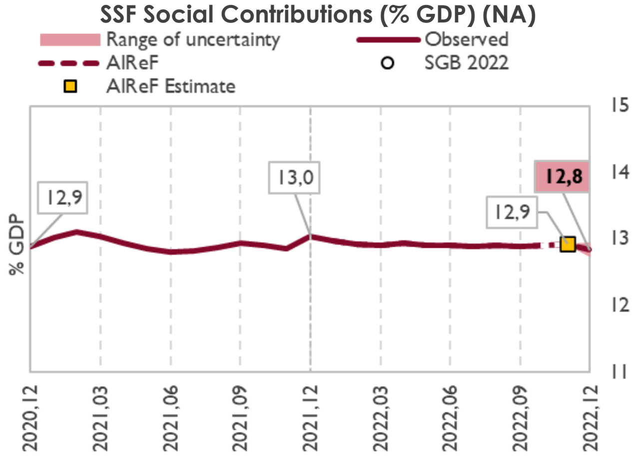
Contributions to change. Cash AIReF (% change)



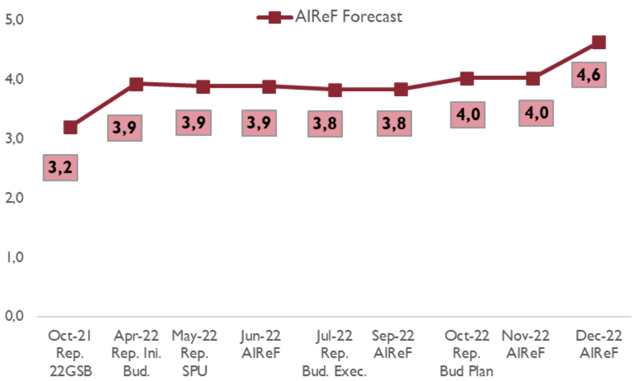
❼ AIReF expects **Social Security Funds contributions** to end the year with a weight of 12.8% of GDP, one tenth of a point below the November forecast, due to the denominator effect of GDP.

❽ AIReF raises the expected rate of growth in contributions by 6 tenths of a percentage point to 4.6% due to the dynamism shown by contributions in the latest information received.

SSF Social Contributions (% GDP) (NA)



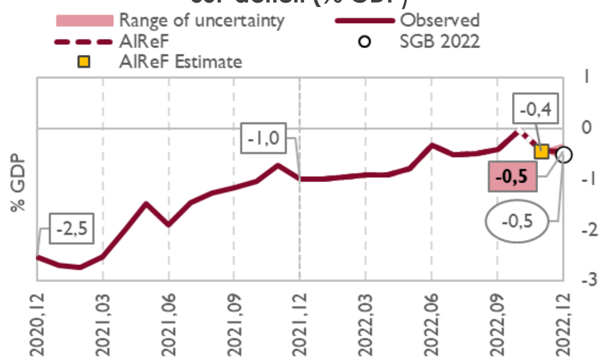
Updated forecast for Social Contributions of the GG (% change) (NA)



Social Security Funds

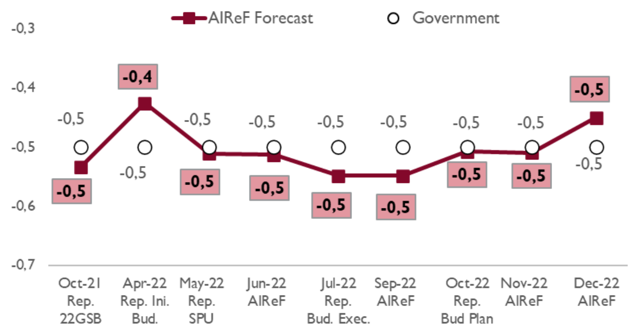
❶ AIReF estimates that the Social Security Funds (SSF) deficit will reach 0.5% of GDP in 2022, similar to the forecast in the October 2022 Draft Budgetary Plan.

SSF deficit (% GDP)



❷ AIReF slightly improves the estimate of the SSF balance for 2022 due to the higher forecast for contributions, although the closing rate remains at -0.5%.

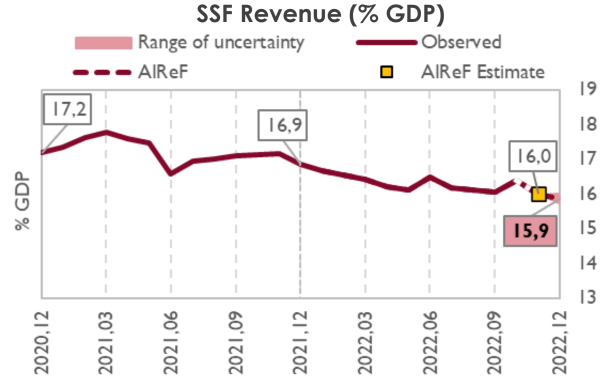
Updated AIReF estimated SSF deficit (% GDP)



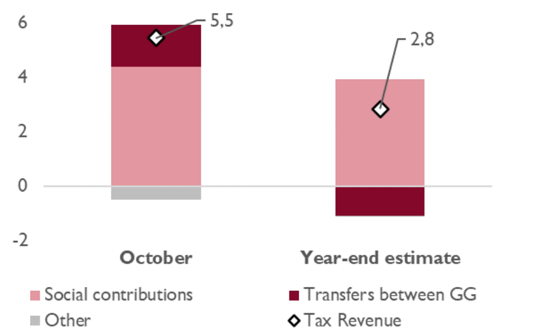
❸ AIReF believes that the weight of revenues over GDP will fall by five tenths of a point by the end of the year, from 16.4% in October to 15.9%, due to the fact that lower transfers are expected in the final months than those received in 2021.

❹ AIReF expects a slowdown in the rate of growth of revenues for the rest of the year, due to a lower dynamism and a moderation in transfers from the State, despite an increase in June and October due to the transfers made under the first recommendation of the Toledo Pact for the whole of the 2022 financial year.

SSF Revenue (% GDP)



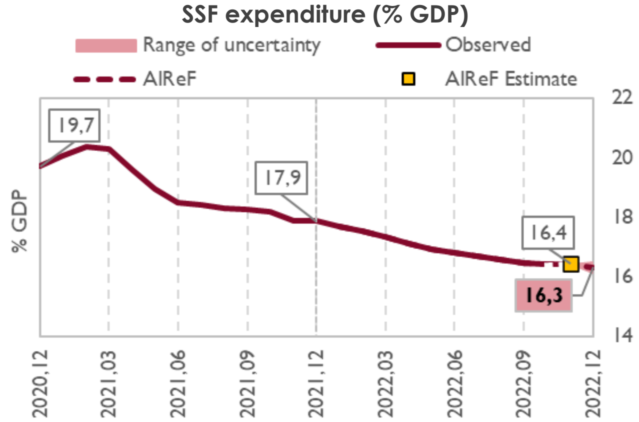
Contributions to change in SSF revenue (% change)



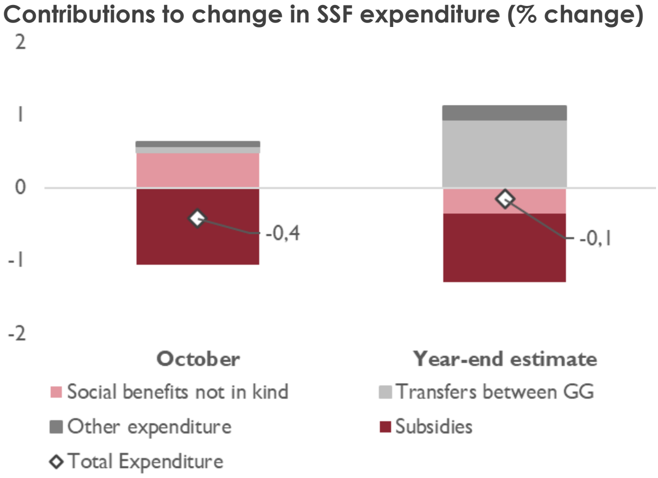
❺ AIReF expects expenditure to reduce their weight in GDP over the course of 2022 by almost one and a half percentage points, mainly due to the reduction in the cost of COVID measures to end the year at 16.3%, one tenth of a point below the 16.4% estimated for November.

❻ SSF expenditure will contract by 0.1% at the end of 2022, with a negative contribution from subsidies and social benefits and a positive contribution from transfers between GG sub-sectors.

SSF expenditure (% GDP)



Contributions to change in SSF expenditure (% change)

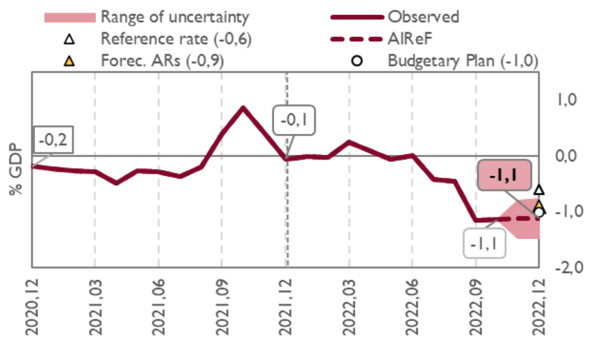


Autonomous Regions

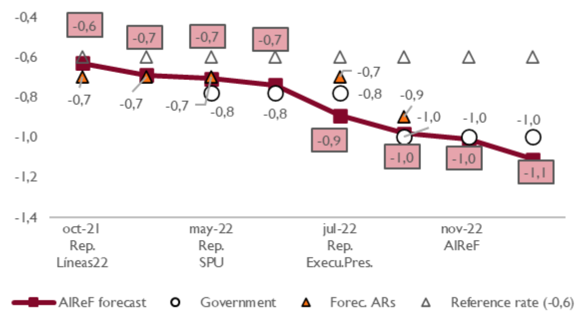
❶ AIReF estimates that the autonomous regions (ARs) will close 2022 with a deficit of 1.1% of GDP, maintaining the deficit accumulated until October.

❷ AIReF has made the deficit forecast for the regional governments one tenth of a percentage point worse as the expected level of expenditure has increased according to the latest information on budget execution.

ARs deficit (%GDP)



Update estimated ARs deficit (%GDP)

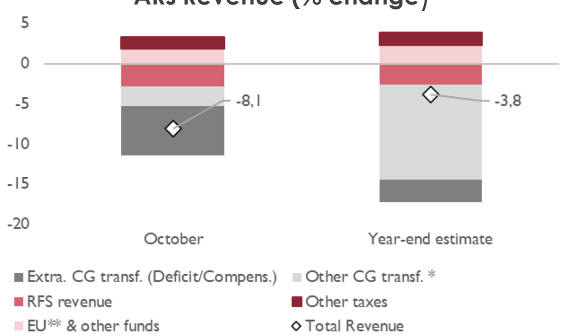


❸ Revenues excluding the RTRP will fall by 6% at year-end, mainly due to the decrease in transfers from the CG (financing system, aid to companies and extraordinary transfers). Including the Plan, the fall will be 3.8%, reaching 15.5% of GDP.

❹ The revenues of the last 12 months show the reduction in transfers from the CG (from the Regional Financial System (RFS), extraordinary transfers and aid to companies). At the end of the year, the decrease in extraordinary transfers is attenuated and the fall in transfers to support companies is accentuated.

ARs Revenue (% GDP)

ARs Revenue (% change)

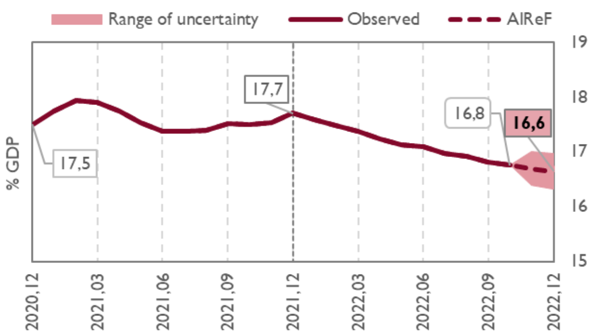


* Includes aid to companies under the COVID line.
** Includes transfers from CA for PRTR funds.

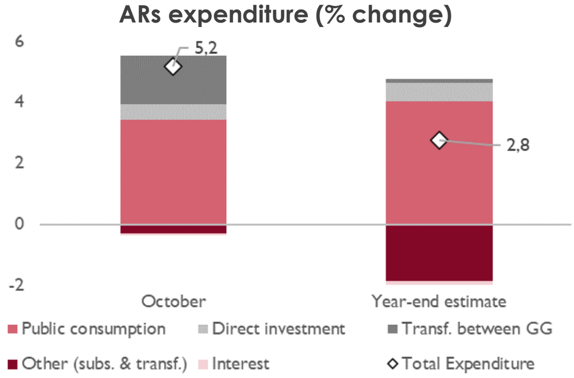
❺ Expenditures excluding the RTRP will increase by 1%. The partial withdrawal of COVID measures is offset by growth in wages and other expenditures. Including RTRP-financed expenditure, expenditure will grow by almost 3% to reach 16.6% of GDP.

❻ Expenditure in the last 12 months grew mainly in items linked to public consumption. At the end of the year, the increase in public consumption and investment is accentuated, partly compensated by the non-repetition of the COVID line.

ARs expenditure (% GDP)



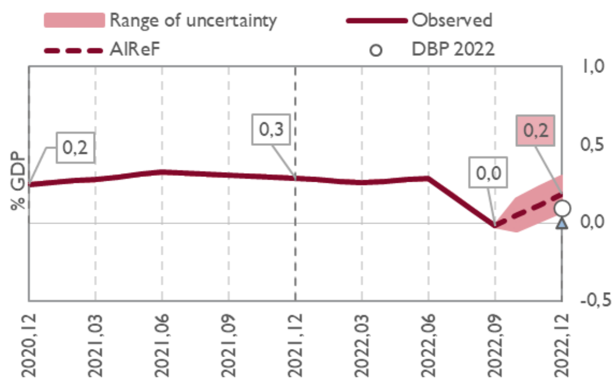
ARs expenditure (% change)



Local Governments

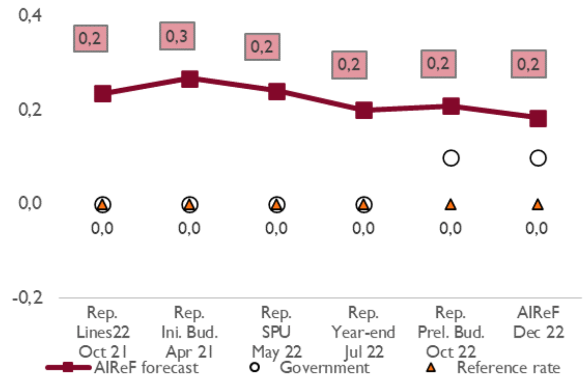
1 AIReF maintains its 2022 year-end forecast of a surplus of around 0.2% of GDP, albeit with a slight fall on the last estimate, exceeding the reference rate (0%) and the Government's forecast (0.1%).

LGs deficit (%GDP)



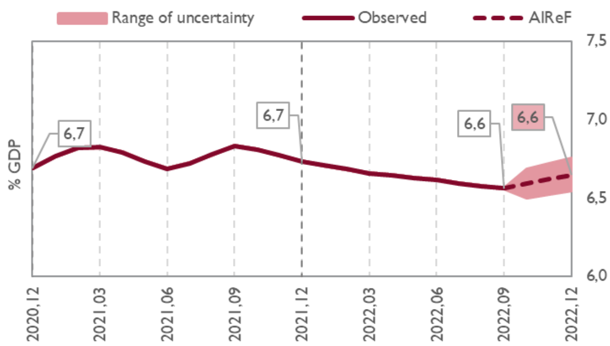
2 The current forecast corroborates the October estimate, with a slight worsening, when incorporating the implementation data for the third quarter of 2022.

Updated estimated LGs surplus (%GDP)



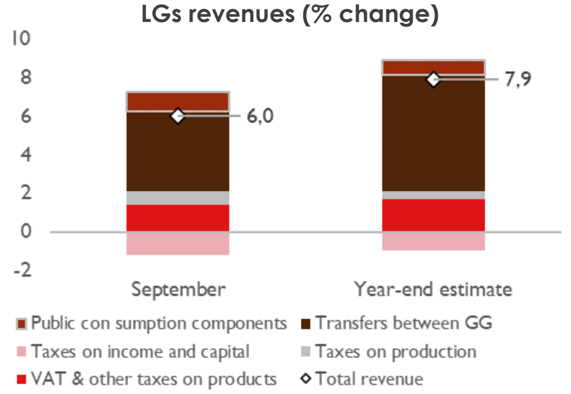
3 Local revenues are estimated to grow by almost 8% (6.5% without RTRP) compared to 2021, increasing their share of GDP by about one tenth of a percentage point compared to the data observed in September.

LGs revenues (% GDP)



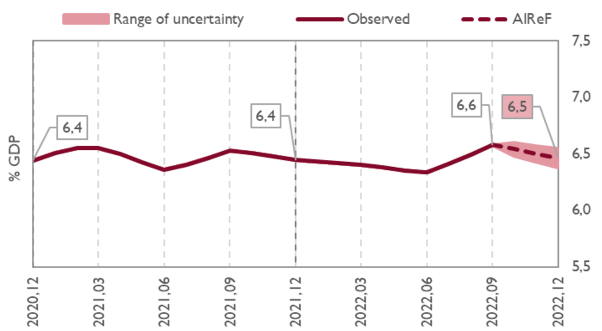
4 Revenue growth will be stronger at the end of the year than observed, mainly due to the higher increase in transfers between public authorities, although the fall in capital receipts from municipal capital gains limits this growth.

LGs revenues (% change)



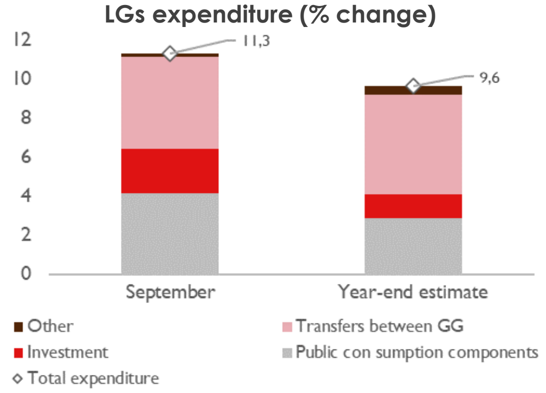
5 The year-on-year increase in local expenditure is expected to reach almost 10% (8% without PRTR) when including the payment of the settlement of the financing system that occurred in the third quarter and led to a rise in expenditure. These expenditures decrease their weight in GDP by one tenth of a percentage point compared to the last data observed.

LGs expenditure (% GDP)



6 Expenditure growth will be lower at the end of 2022 than observed, mainly as a result of lower contributions from public consumption and investment.

LGs expenditure (% change)



Methodological note

- 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.
- 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, 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.
- 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 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.
- 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.
- 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.
- 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.

- 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.