

MONTHLY STABILITY TARGET MONITORING 2022

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Independent Authority
for Fiscal Responsibility

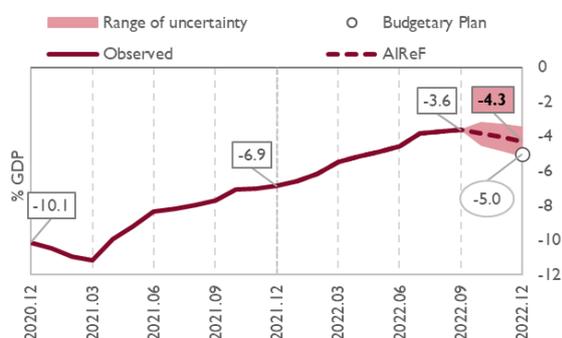
General Government

AIReF updates its forecast for the GG deficit to 4.3% of GDP in 2022, 0.3 points lower than that published in the October 2022 Report on the Budgetary Plan. The macroeconomic outlook is the one set out in the last report and incorporates the new published information on budgetary execution in September and October. The reduction in the deficit is mainly due to better-than-expected collection data, especially in the case of the second instalment of Corporate Income Tax (CIT), which are partially offset by the increase in the forecast to service debt. With respect to the last report, the changes are concentrated in the Central Government, which reduces its deficit as a result of the increase in revenue.

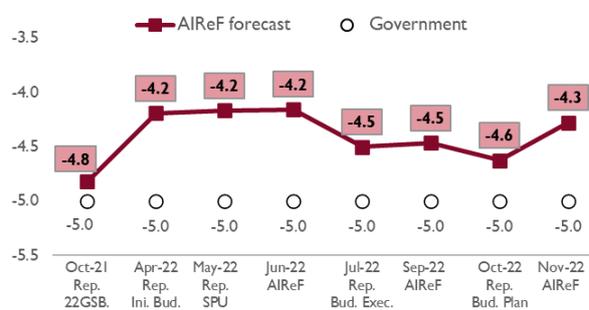
1 The pace of deficit reduction of recent months is maintained, with it falling by an additional 0.1 points in September. A slight worsening is expected in the remainder of the year due to the implementation of the approved packages of measures.

2 In the process of ongoing assessment of the budget cycle, AIReF reduces its deficit estimate to 4.3% as a result of higher forecast tax revenue. The Government maintains its deficit expectations at 5%.

General Government deficit (% GDP)



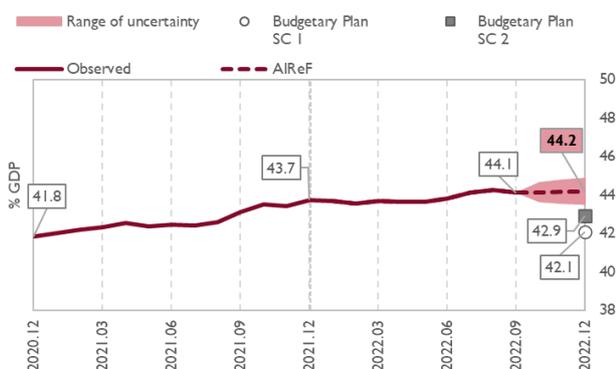
Updated General Government deficit estimate (% GDP) (AIReF)



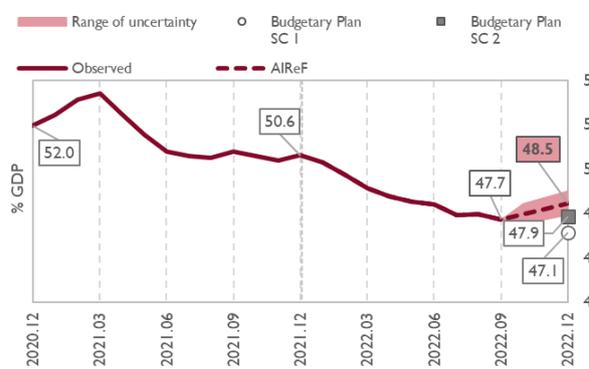
3 AIReF forecasts a slight increase in the weight of revenue as a percentage of GDP over the year to stand at 44.2% of GDP. This weight would be lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account.

4 The annualised weight of expenditure up to September as a percentage of GDP falls by almost 3 points compared with year-end 2021. However, it is expected that this trend will reverse as a result of execution of the measures and of the RTRP and the weight of expenditure will grow gradually to 48.5% of GDP at year-end 2022.

GG revenue (% GDP)



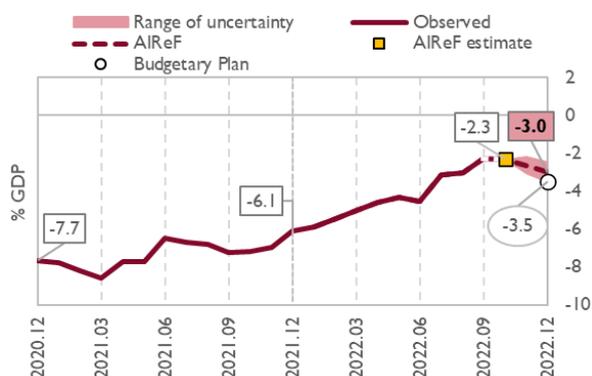
GG expenditure (% GDP)



Central Government

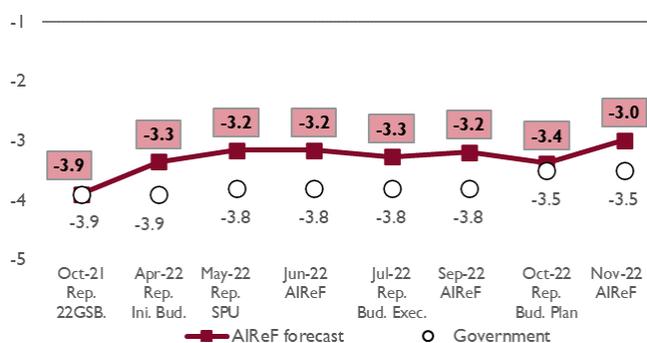
1 AIReF improves its deficit forecast for the CG, lowering its weight as a proportion of GDP by 0.4 points to 3%, 0.5 points below the forecast for 2022 in the 2023 Budgetary Plan.

CG deficit (% GDP)



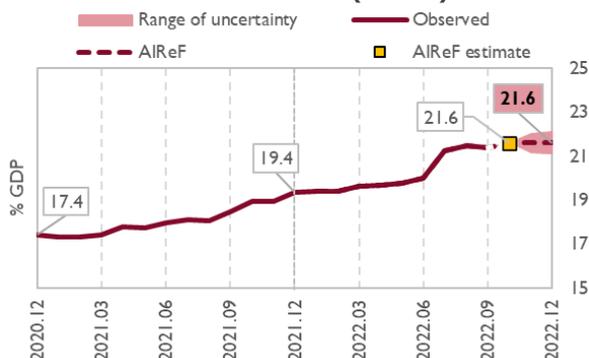
2 The decrease in the estimated CG deficit to 3% of GDP is due to an upward revision of revenue resulting from the latest collection data.

Updated estimated CG deficit (% GDP)



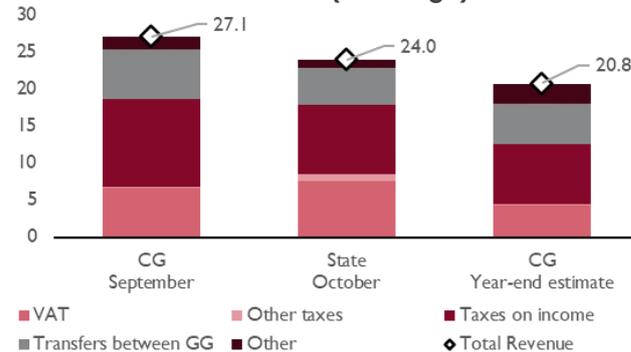
3 AIReF considers that the weight of revenue as a percentage of GDP will rise over 2022 to stand at 21.6%. This positive evolution is a consequence of RTRP funds, settlement of the RFS and the evolution of taxes, especially due to the positive surprise of the second instalment payment of CIT.

CG revenue (% GDP)



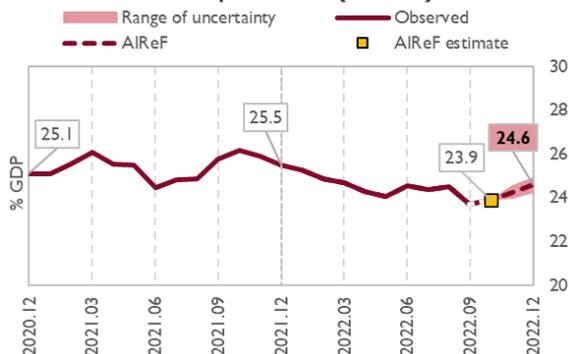
4 The cumulative revenue of the last 12 months will maintain its rate of growth over 2022, ending the year at growth of 20.8%. VAT and PIT are forecast to reduce their contribution to growth, with other revenue categories pulling upwards as a result of the effect of the RTRP funds.

CG revenue (% change)



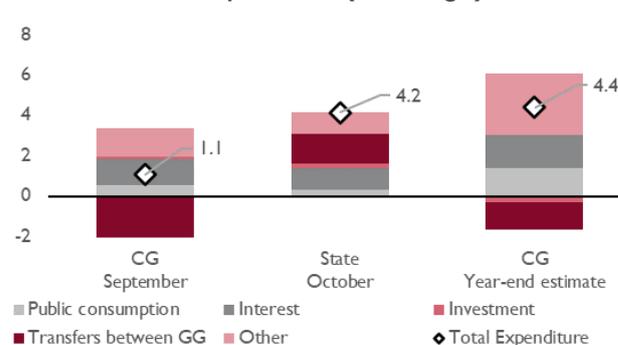
5 The expenditure forecast remains at 24.6% of GDP in 2022, although with a different composition, higher expenditure on interest and lower on other expenditure.

CG expenditure (% GDP)



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

CG expenditure (% change)



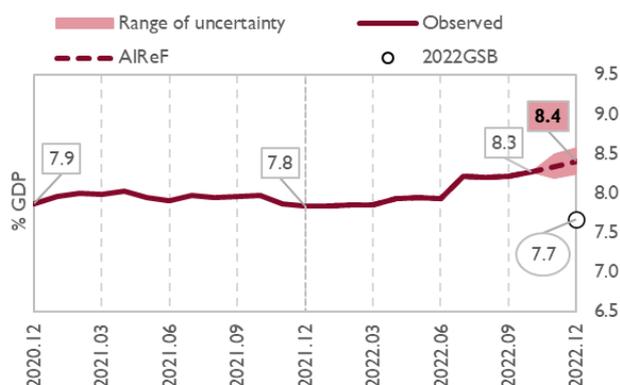
Main revenue items

The tax revenue estimates incorporate the collection data for September and October. In the year to date, tax collection has grown by 16.9%, mainly driven by the growth in revenue from PIT, VAT and Corporate Income Tax, which after payment of the second instalment is 30% higher than the same period of last year. Up to October, the reduction in revenue resulting from the measures adopted to mitigate the rising electricity prices is estimated at -€6.27bn.

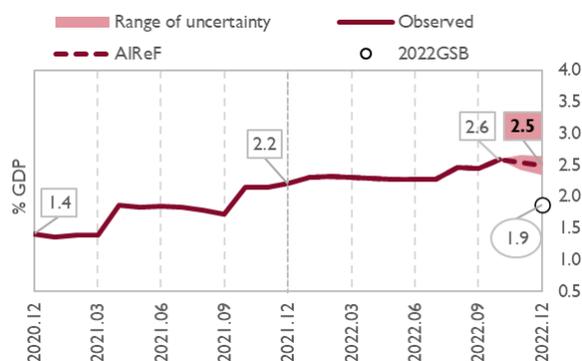
1 AIRcF estimates the weight of **PIT** to reach 8.4% of GDP, more than half a point above last year. Growth up to October was 15.8%, driven by the growth in employment, wages and pensions. Although this growth has slowed down in recent months, revenue at year-end is expected to be 16.2% higher than in 2021, affected by the increase in public sector wages applied since November.

2 **CIT** will reach 2.5% of GDP in 2022, 0.3 points above the previous year and the latest estimate. This revision is due to the revenue from the second instalment payment, 29% up on 2021, placing growth so far this year at 30.7%. This is despite the exceptional refunds as a result of a judgment and deferred tax assets, which will last until the end of the year. At year-end, it is estimated that net revenue growth will stand at 22.5%.

PIT in Cash (% GDP)



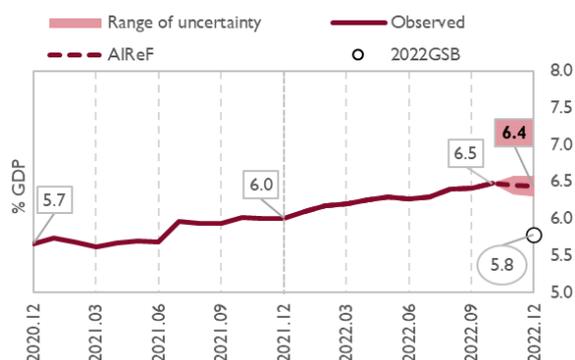
CIT in Cash (% GDP)



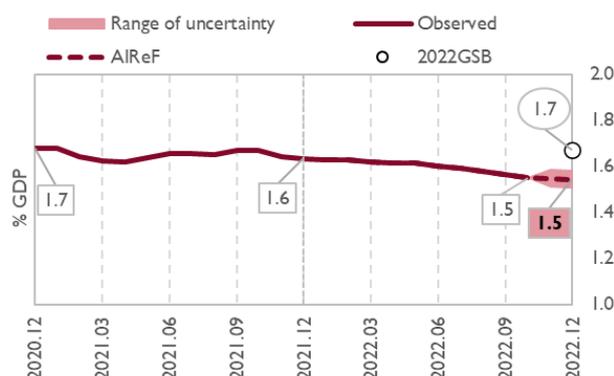
3 **VAT** will amount to 6.4% of GDP at the end of 2022, 0.4 points more than in 2021. Revenue up to October is 17.9% higher than the same period of 2021 despite the reduction in the rate on electricity, which so far this year has amounted to -€1.47bn. It is worth noting the increase in refunds of almost 30%, which is higher than the growth in gross revenue of 21.2%. At the end of 2022, the year-on-year growth rate is expected to stand at 16%.

4 **STs** as a whole are expected to reduce their weight over GDP by 0.1 points compared with 2021, to stand at 1.5% at the end of 2022. So far this year, collection has grown by 2.2% on 2021, driven mainly by growth in the Hydrocarbon Tax, which was the tax most affected by the pandemic and reduced by the lowering of the rate of the Special Tax on Electricity, which is estimated at -€1.71bn up to October.

VAT in Cash (% GDP)

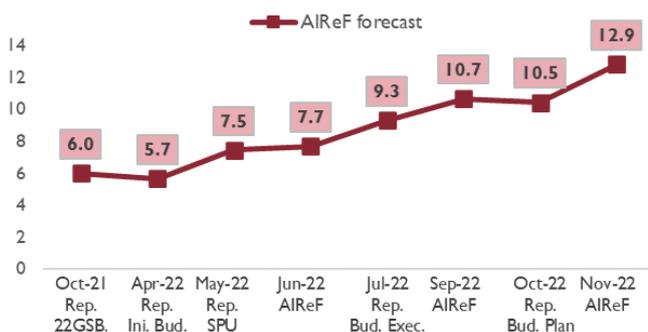


Special Taxes in Cash (% GDP)



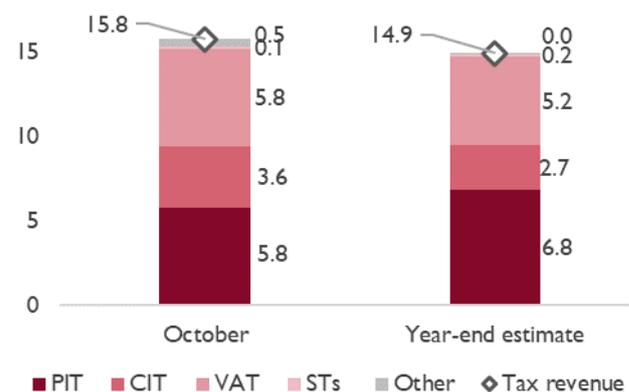
5 In national accounting terms, **total tax revenue** for 2022 will be 12.9% higher than in the previous year. The estimate is 2.4 points above the previous report as a result of the update of the collection data up to October, which have been higher than expected mainly due to the incorporation of the second instalment of Corporate Income Tax.

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



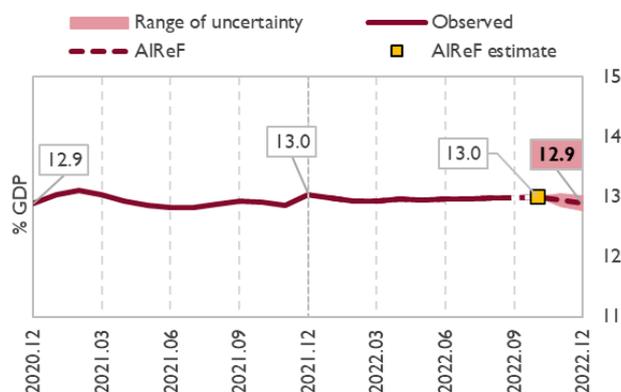
6 12-month cumulative tax revenue in cash terms up to October is up by 15.8%. Growth at year-end is estimated at 14.9%, which is more moderate as it includes more months of recovery in 2021, which was still heavily affected by restrictions on activity in the first few months of the year. All the taxes would make a positive contribution to growth, particularly PIT and VAT and Corporate Income Tax.

Contributions to change. Cash AIReF (% change)



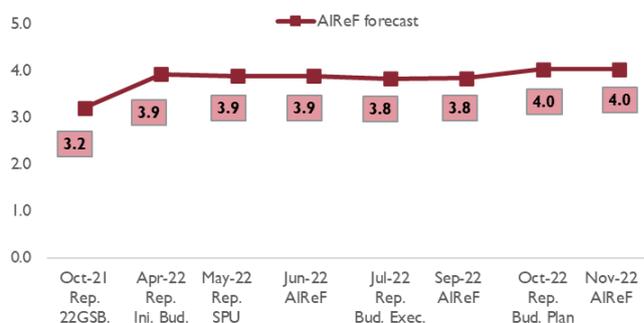
7 AIReF expects that Social Security Fund contributions will slightly reduce their weight as a percentage of GDP to 12.9% at the end of the year.

SSF Social Contributions (% GDP) (NA)



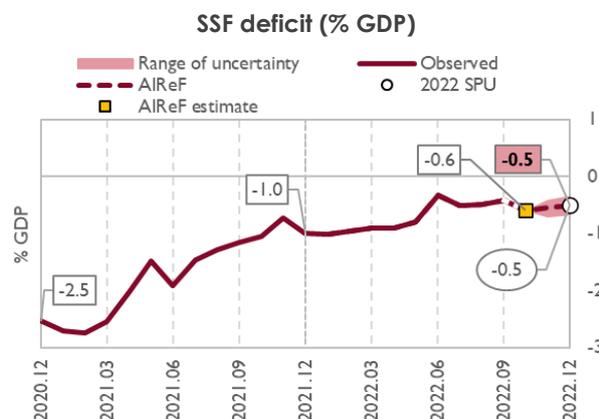
8 AIReF maintains the expected rate of growth of contributions at 4% of GDP, the same level as in the previous report.

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

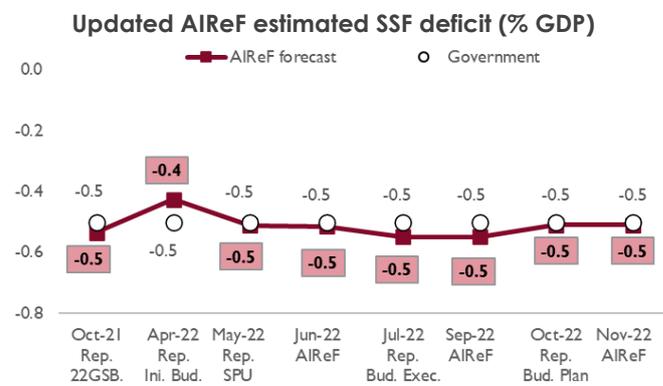


Social Security Funds

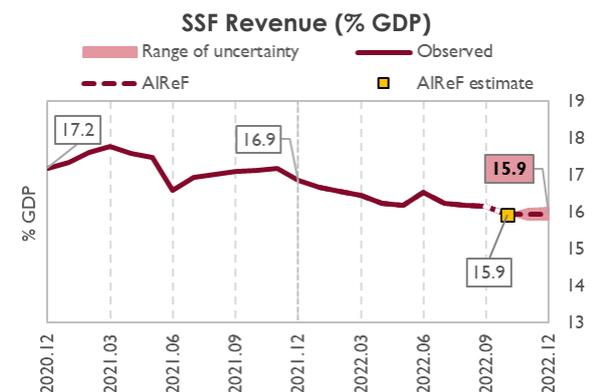
1 AIReF estimates that the SSF deficit will reach 0.5% of GDP in 2022, which is slightly lower than the figure estimated for October.



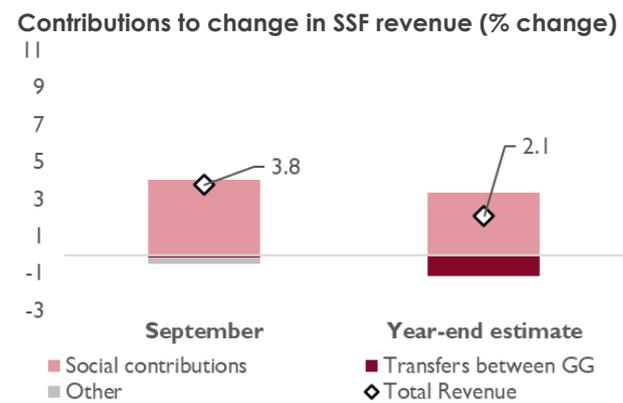
2 The estimate of the SSF balance for 2022 remains at -0.5%, which is similar to the latest available forecast from the Government.



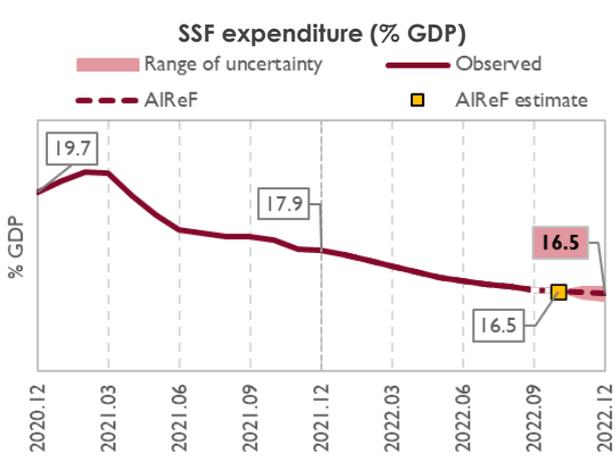
3 AIReF estimates that, after the fall of one point so far this year, the weight of revenue over GDP will remain stable in the final months of 2022 and will end of the year at 15.9%. This is due to the fact that the rate of growth of contributions is expected to slow down with respect to recent months.



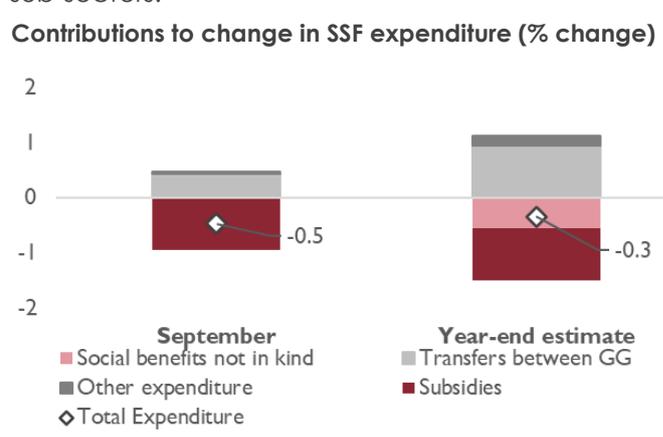
4 AIReF expects a reduction in the rate of growth of revenue due to less dynamic growth in contributions and a reduction in transfers from the State, despite rising in June as a result of transfers made under the first recommendation of the Toledo Pact corresponding to the entire year of 2022.



5 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-19 measures.



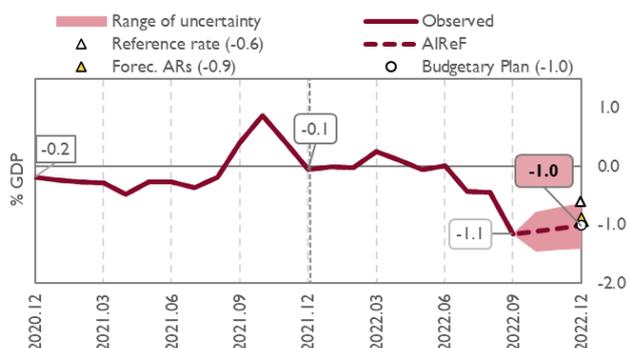
6 SSF expenditure is expected to contract by 0.3% at year-end 2022, with a negative contribution from subsidies and social benefits and a positive contribution from transfers between GG sub-sectors.



Autonomous Regions

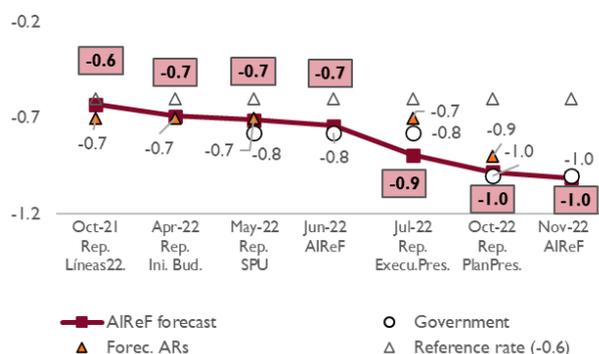
1 AIReF still estimates that the ARs will close 2022 with a deficit of 1% of GDP, 0.1 points below the level recorded in September.

Regions' deficit (% GDP)



2 AIReF maintains the deficit forecast for the ARs from the previous report, under slightly higher forecasts for expenditure.

Updated estimated Regions' deficit (% GDP)



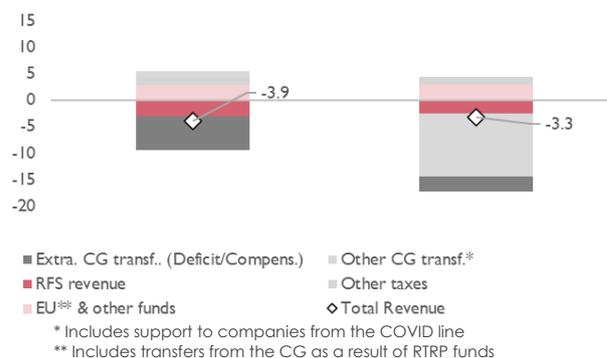
3 Revenue excluding the RTRP will fall by 5% due to the reduction in transfers from the CG (financing system, support for companies and extraordinary transfers). Including the Plan, the fall would be 3.4% and the 15.8% of GDP reached in September would be maintained.

Regions' revenue (% GDP)



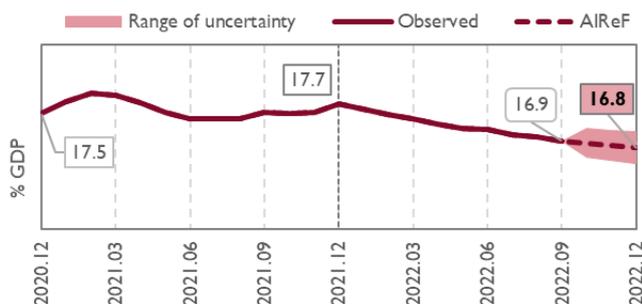
4 Revenue of the last 12 months reflects the reduction in extraordinary transfers and transfers from the RFS. At year-end, the decrease in these items and in support to companies will be partially offset by the expected growth in NGEU funds and taxes.

Regions' revenue (% change)



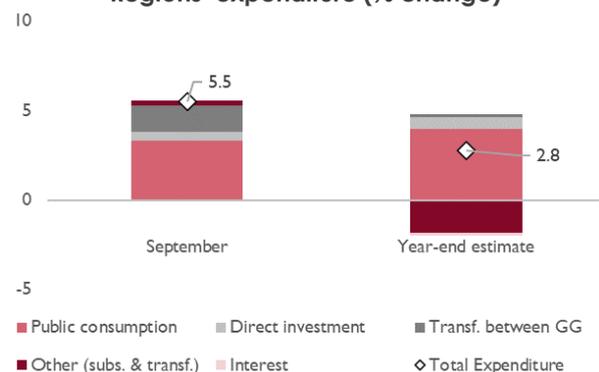
5 Non-RTRP expenditure will rise by 1% as the withdrawal of COVID measures is offset by growth in wages and other expenditure. Including the RTRP, expenditure will grow by over 2% to reach 16.8% of GDP.

Regions' expenditure (% GDP)



6 Expenditure in the last 12 months has grown mainly in items related to public consumption, whose year-end increase is expected to be higher, partially offset by the non-recurrence of the support of the COVID Line.

Regions' 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.

- 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.