

# MONTHLY STABILITY TARGET MONITORING 2023

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## General Government

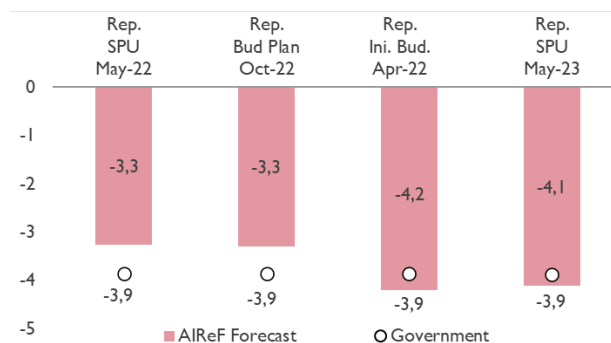
AIReF has recently published its Report on the Stability Programme Update (SPU) 2023-2026 in which it improves its forecast for the General Government (GG) deficit to 4.1% of GDP for 2023. This is one tenth of a percentage point lower than that estimated in the Report on the Initial Budgets of the General Government published in April 2023. This fact sheet takes into account the macroeconomic picture published in the aforementioned report and incorporates new information received, in particular the data published for the first months of 2023.

- 1 The 2023 deficit is estimated at 4.1%, one tenth of a percentage point lower than estimated in AIReF's Initial Budget Report mainly due to the improved macroeconomic outlook.
- 2 In the ongoing assessment process of the budget cycle AIReF improves the deficit estimate by one tenth of a percentage point of GDP to 4.1%. The Government maintains its deficit expectations at 3.9%.

**GG deficit (%GDP)**

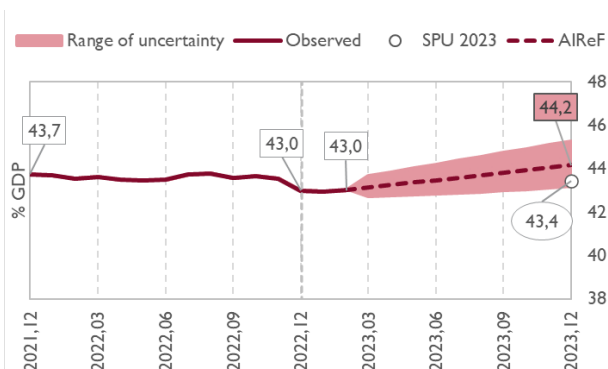


**Update GG deficit estimate (%GDP) (AIReF)**

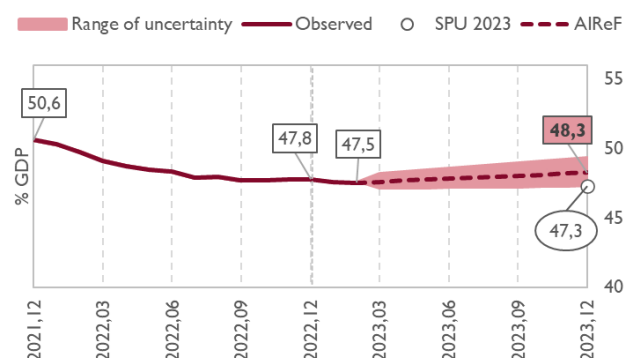


- 3 Annualised revenues to February remain at a similar level to the end of 2022 and are expected to increase their weight as a percentage of GDP over the rest of the year to 44.2%. This growth is mainly due to the Recovery, Transformation and Resilience Plan (RTRP), which has a weight in 2023 of 1.5 points.
- 4 Annualised expenditure in February are down three tenths of a percentage point of GDP compared to the end of 2022, although this trend is expected to reverse and the weight of expenditure is expected to grow gradually to reach a weight of 48.3% of GDP by the end of 2023, including the impact of the RTRP.

**GG revenue (% GDP)**



**GG expenditure (% GDP)**

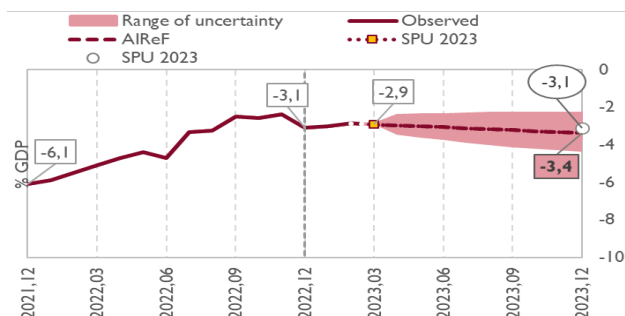


## Central Government

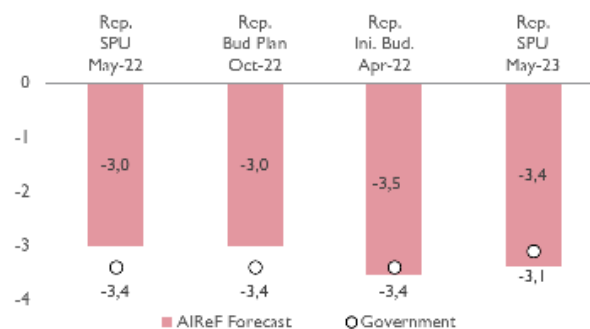
1 AIReF estimates a deficit for the Central Government (CG) in 2023 of 3.4% of GDP, one tenth of a percentage point lower than forecast in the April 2023 Initial Budget Report and about three tenths of a percentage point higher than the latest Government forecast in the SPU 2023.

2 This slight improvement in the deficit of the CG of one tenth of GDP is due to the more dynamic development of revenues and GDP.

**CG deficit (%GDP)**



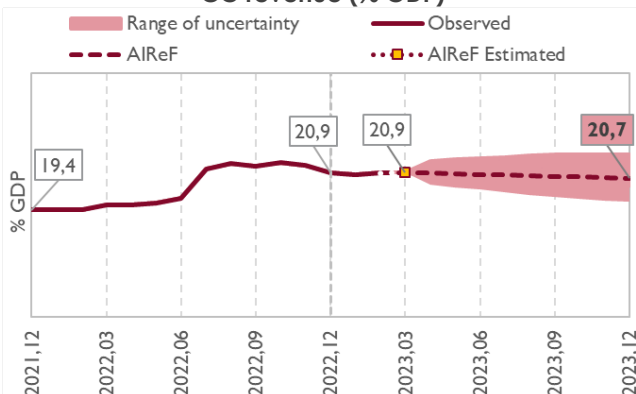
**Updated estimated deficit CG (%GDP)**



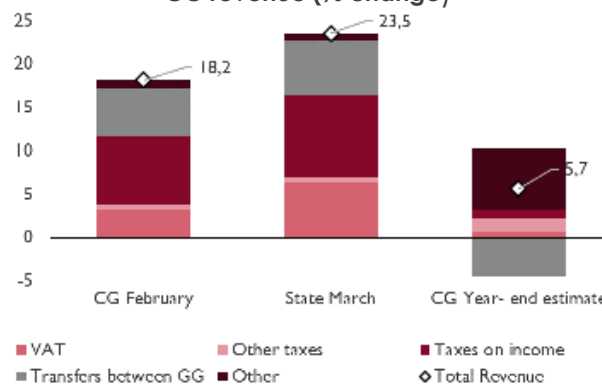
3 AIReF believes that the weight of resources as a percentage of GDP will fall by two tenths of a percentage point in 2023 to 20.7%, basically due to the impact of the tax measures and the lower transfers compared with the exceptional settlement of the Regional Governments financing system the previous year.

4 Twelve-month cumulative revenues will slow their pace of growth during 2023, ending the year at an increase of 5.7%. Both taxes and transfers are expected to reduce their weight during the year, while the rest of revenues will drive growth upwards due to the effect of funds from the RTRP.

**CG revenue (% GDP)**



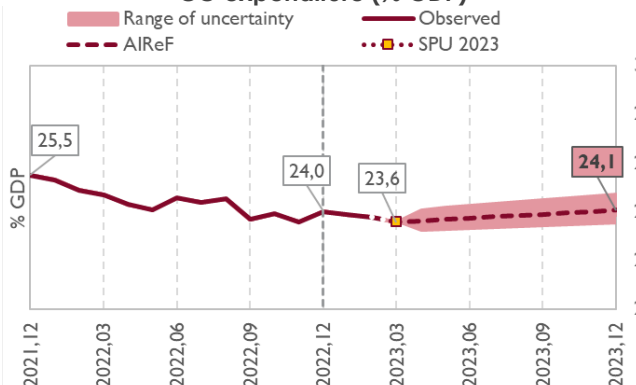
**CG revenue (% change)**



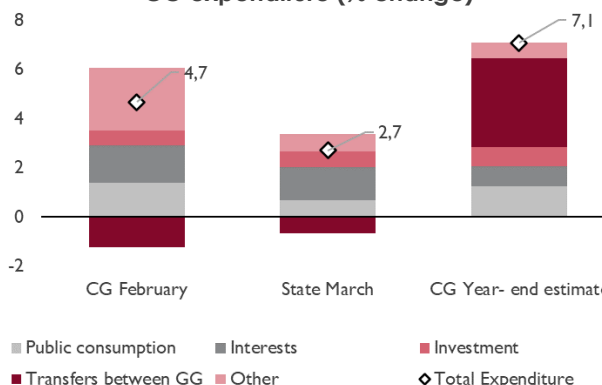
5 The expenditure forecast will increase to 24.1% of GDP over the year, boosted by the RTRP.

6 At year-end, the estimated increase in the contribution to growth of transfers due to the RTRP is noteworthy.

**CG expenditure (% GDP)**



**CG expenditure (% change)**

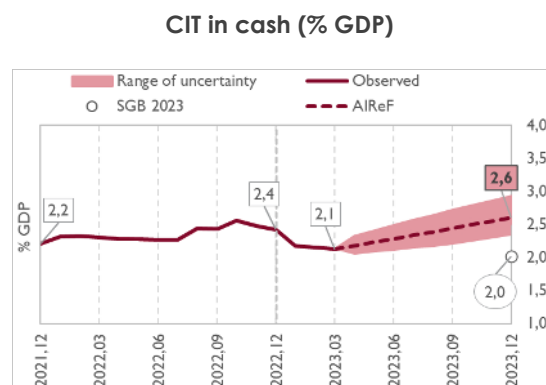
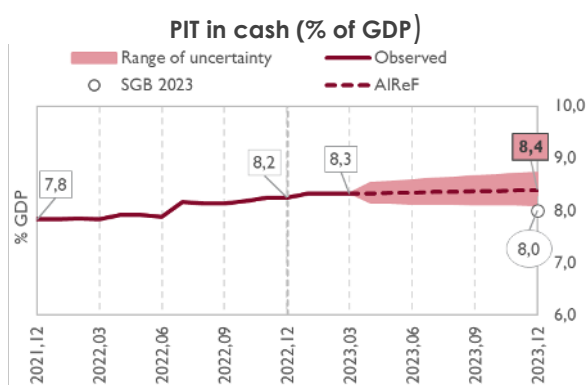


## Main revenue items

AIReF updates its estimates for tax revenue and social security contributions for 2023 with its latest macroeconomic scenario and the March collection. In the first quarter of 2023 tax revenues grew by 2.6%, more moderate than the 20.2% recorded in the same period in 2022, affected by the tax cuts on energy products and food to mitigate the rise in prices, the impact of which so far this year is estimated at €2,063m.

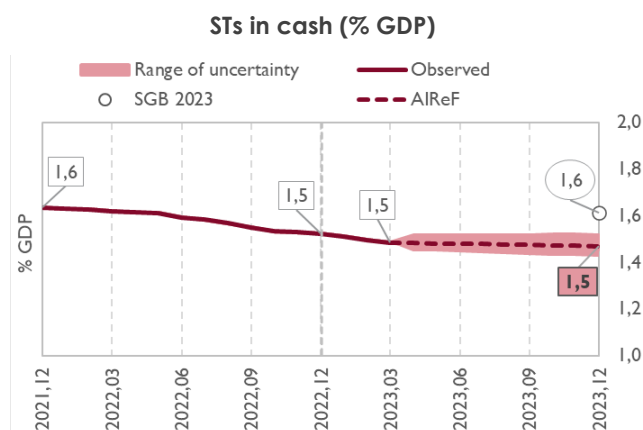
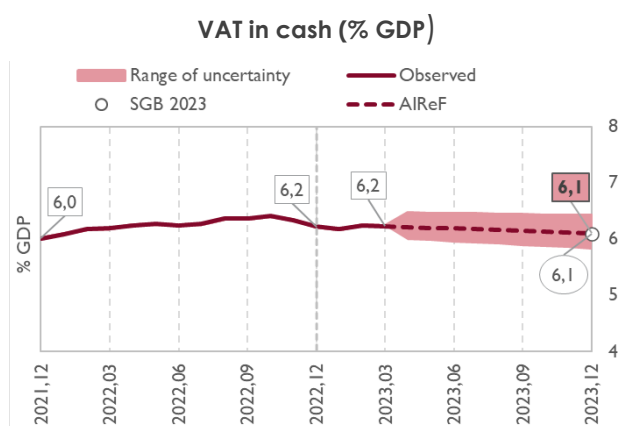
1 AIReF estimates that the weight of **personal income tax (PIT)** will reach 8.4% of GDP at the end of the year, two tenths of a percentage point more than the previous year. In the first quarter the increase in revenue was 11.7%, driven by increases in wages and pensions. By the end of the year, personal income tax revenues are expected to be 8.3% higher than in 2022, affected by the increase in the reduction of earned income introduced in the General State Budget (GSB) 2023.

2 The weight of **Corporate Income Tax (CIT)** in GDP will reach 2.6% of GDP in 2023, two tenths of a percentage point more than in 2022. It should be noted that during the first quarter this figure registers mainly refunds and its evolution has no economic relevance. After recording increases of more than 20% over the last two years, AIReF forecasts a growth in its collection of 14.3% by the end of 2023.

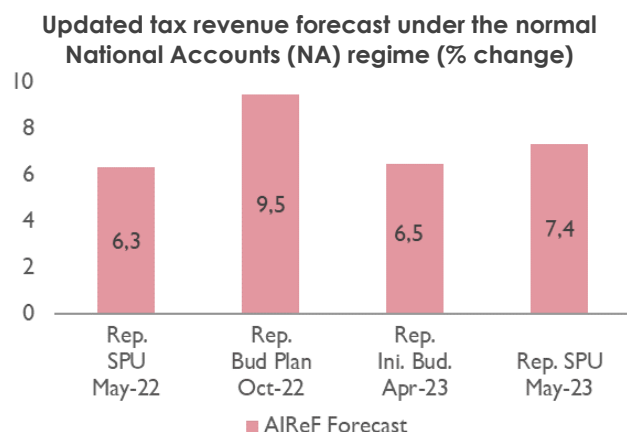


3 AIReF estimates put the weight of **Value Added Tax (VAT)** in GDP at 6.1% at the end of 2023, one tenth of a percentage point lower than the previous year. In the first quarter revenue was 7.2% higher than in 2022 for the same period, despite the extension of the radical cuts on energy products and food, the loss of revenue so far this year being estimated at €808m. At year-end, the year-on-year growth rate is expected to stand at 4.5%.

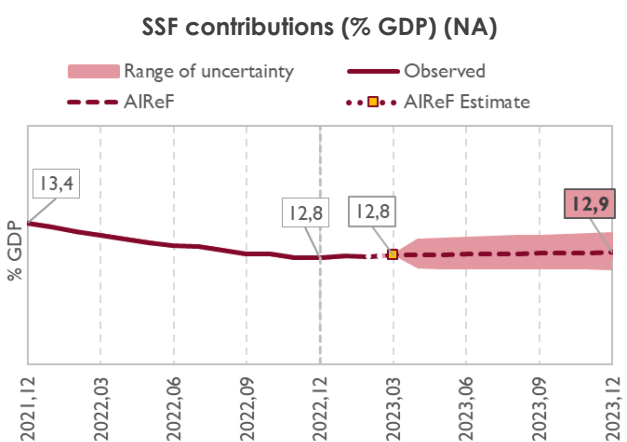
4 The **Special Taxes (STs)** as a whole will maintain its weight in GDP at 1.5% in 2023. In the first quarter of the year, collection has fallen by 3% compared to 2022, affected by falls in consumption and by the extension of the reduction in the ST. rate on Electricity which, so far this year, is estimated at 492M€, which is partially offset by the new ST on non-reusable Plastic Packaging which to date has accounted for 96M€. Estimated growth at the end of 2023 is 2.7%.



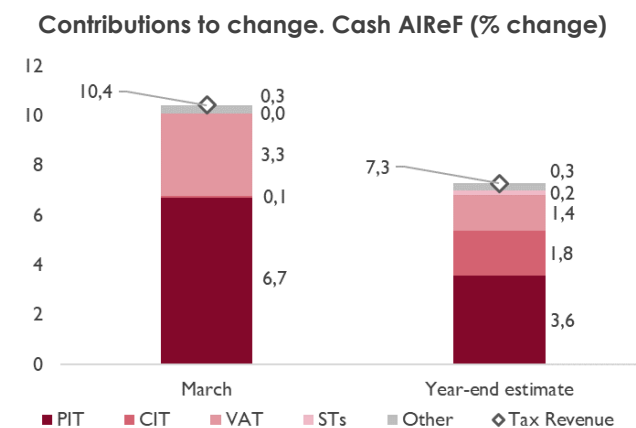
⑤ In national accounting terms, **total tax revenues** during 2023 will be 7.4% higher than in 2022, more than eight tenths above the previous report as a result of the updated macroeconomic scenario and the latest available information.



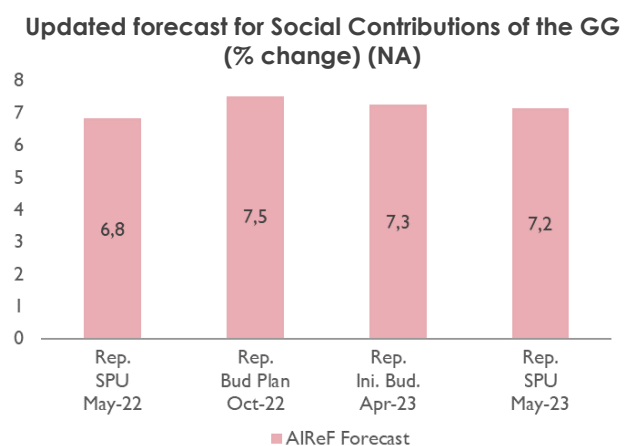
⑦ AIReF expects **Social Security Funds (SSF) contributions** to end 2023 with a weight of 12.9% of GDP.



⑥ Tax revenues in cash terms for the twelve months to March grew by 10.4%, mainly due to growth in personal income tax and VAT. At year-end, growth is estimated at 7.3%, with a positive contribution to growth from all taxes, particularly personal income tax.



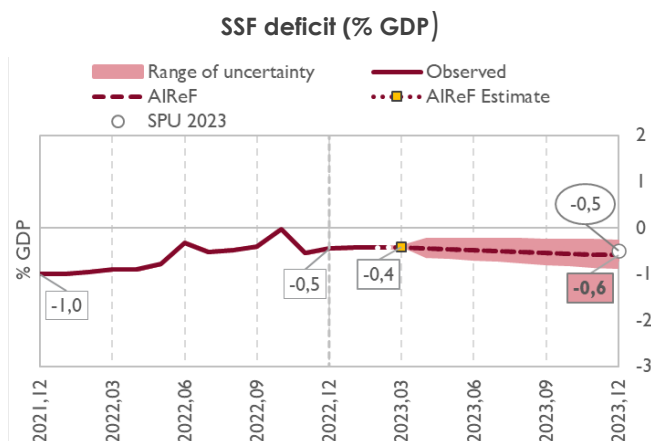
⑧ AIReF expects general government contributions to grow at a rate of 7.2%, somewhat lower than the forecast in the previous report.



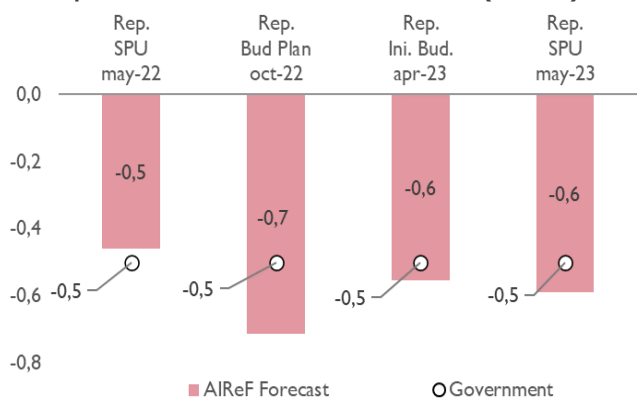
## Social Security Funds

1 AIReF estimates that the SSF deficit will reach 0.6% of GDP in 2023. This leaves the forecast in the Initial Budget Report of April 2023 unchanged.

2 The estimated balance of the SSF is maintained for 2023 at -0.6% in the 2023 Initial Budget Report, one tenth of a percentage point lower than the government's last forecast in the SPU (-0.5%).

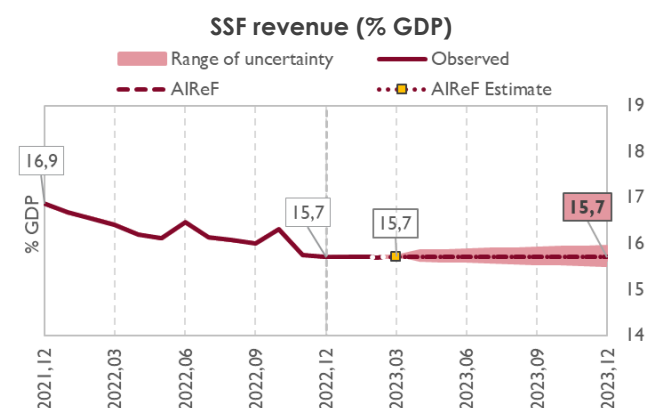


Updated AIReF estimated SSF deficit (% GDP)

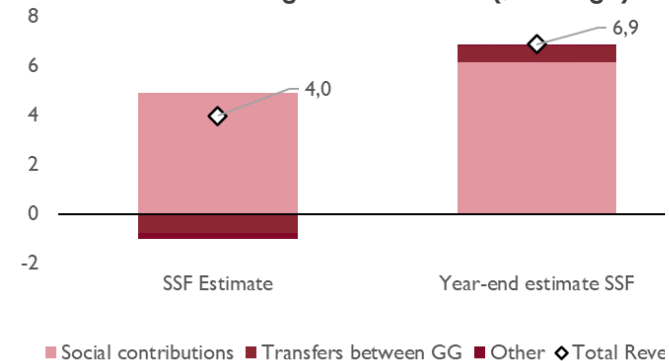


3 AIReF believes that the weight of revenues as a percentage of GDP will remain at 15.7% during the year despite the dynamism of contributions due to a certain slowdown in the growth of transfers.

4 AIReF expects an acceleration in the rate of growth of funds for the rest of the year, due to the increase in the contribution rate as a result of the application of the e Intergenerational Equity Mechanism (IEM), the increase in the maximum base and greater dynamism in the growth of contributions.

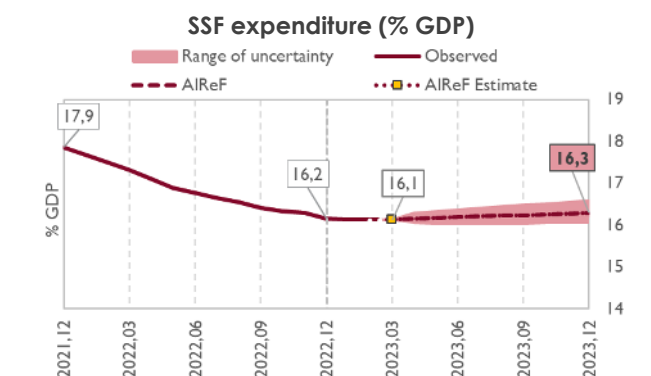


Contributions to change in SSF revenue (% change)

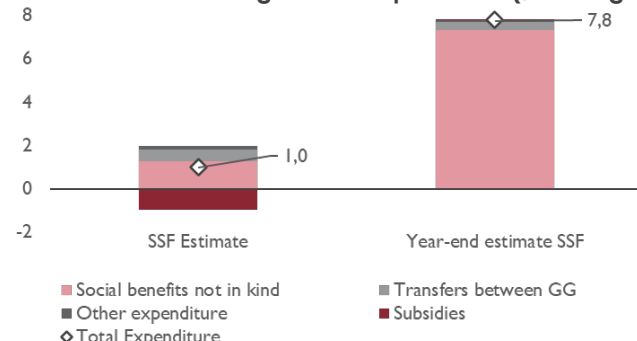


5 AIReF expects expenditure to increase its weight in GDP over the course of 2023 by two tenths of a percentage point, to end the year at 16.3%, mainly due to the indexation of pensions to the CPI of the previous year.

6 The increase in SSF expenditure will be 7.8% at the end of 2023, led mainly by the growth of pensions and, to a lesser extent, by a positive contribution from transfers between General Government sub-sectors.

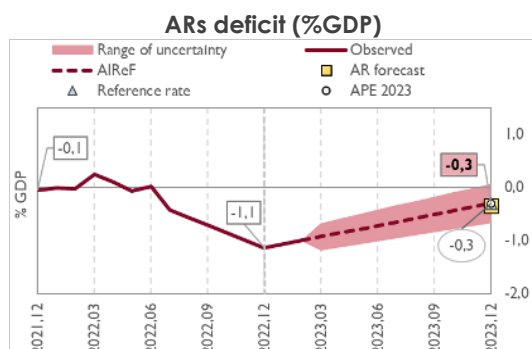


Contributions to change in SSF expenditure (% change)

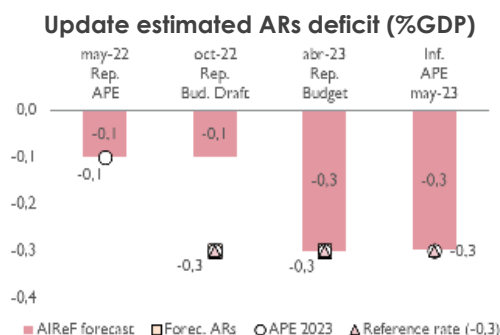


## Autonomous Regions

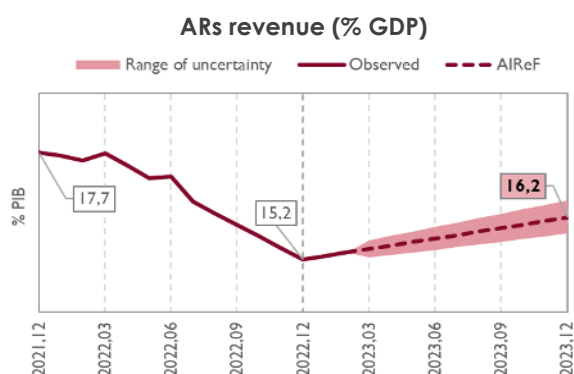
1 AIRcF continues to forecast that the Autonomous Regions (ARs) will close 2023 with a deficit of 0.3% of GDP, in line with the reference rate and the SPU forecast for the sub-sector.



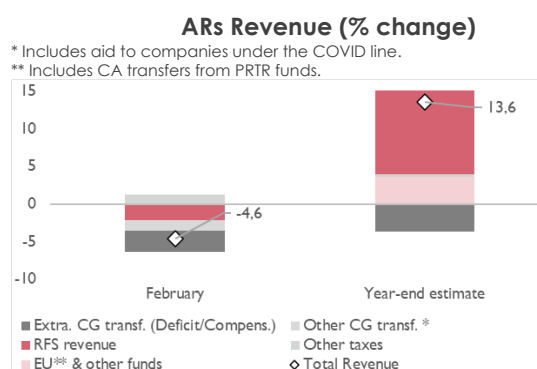
2 AIRcF maintains the deficit forecast in April for the regional governments, after incorporating the implementation data to date and updated information on the implementation of European funds up to 2022.



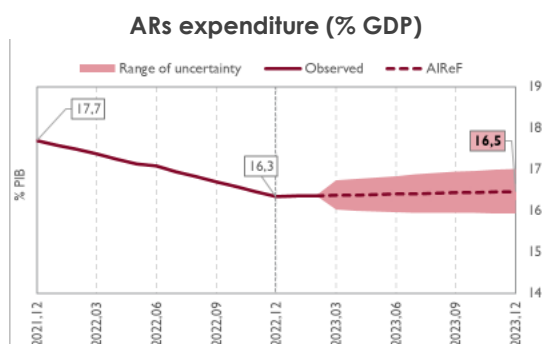
3 Revenues excluding RTRP will increase by 11% year-on-year, conditioned by the growth in revenue from the regional financing system (RFS). Including the Plan, the increase would be 13%, reaching 16.2% of GDP.



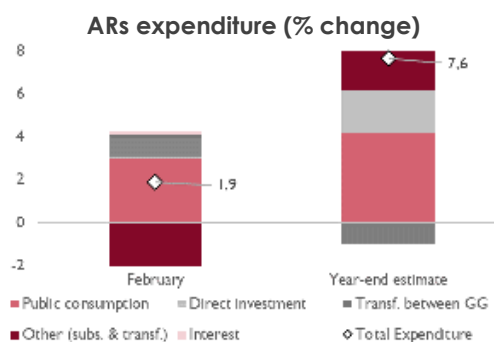
4 The revenues of the last 12 months reflect the reduction in transfers from the CG (from the RFS, aid to companies, COVID line and extraordinary transfers). This reduction will be cancelled out at closure by the increase in resources from the RFS and European funds.



5 Expenditures excluding the RTRP will increase by 5%, affected by inflation, the cost of debt and the update of public employees' salaries. Including RTRP-financed expenditures, expenditure would grow by more than 7%, to 16.5% of GDP.



6 Expenditure in the last 12 months has increased in items linked to public consumption and reimbursements to the CG of aid to non-implemented companies, with a reduction in other COVID-related expenditure. At the end of the year, the increase in public consumption, investments, subsidies and other transfers due to the implementation of the RTRP is accentuated.





## Methodological note

- AIReF's projections are updated monthly incorporating the latest data published in its forecasting models for taxes, contributions, unemployment benefits, pensions and interest. It also incorporates any relevant information, announced and approved, that may have an impact at year-end.
- The latest data published by the General Intervention Board of the State Administration (IGAE) in National Accounts terms are taken into account, as well as other monthly statistics such as the budget 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 graphs included are expressed in annualised terms, i.e., as the sum of the last twelve months. The series expresses the flow of events or forecasts over the last 12 months up to the reference month, so the figure in December coincides with the annual figure.
- Due to the healthcare crisis the monthly pattern of resources and jobs has been abruptly modified causing great uncertainty as to the temporal distribution of the flows. AIReF does not intend to estimate a monthly total but focuses on what it considers to be relevant: the flow throughout the year 2022, stressing how monthly information or new announcements cause a change in its own estimate.
- Given that no monthly data is published in the local sub-sector, the consolidation of the General Government (GG) has been estimated taking into account the monthly 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.
- The Council of Ministers on 26 July 2022 requested that the escape clause be maintained in 2023 in line with the European Commission's decision to maintain the safeguard clause of the Stability and Growth Pact to provide countries with greater flexibility to deal with the crisis arising from the invasion of Ukraine. Subsequently, on 22 September 2022, Congress considered that there were exceptional circumstances to maintain the suspension of the fiscal rules in 2023, following a report by AIReF to the same effect dated 29 July 2022. The activation of this escape clause meant that the suspension of the fiscal rules would continue in 2023.
- The same Council of Ministers set deficit reference rates for 2023 for the general government sector as a whole at 3.9% of GDP, with a breakdown by sub-sector: 3.2% of GDP for Central Government and 3.2% of GDP for social security funds. These forecasts are merely references and do not constitute a limitation on the deficit, so that failure to comply with them does not entail the application of the corrective measures of the Organic Law on Budgetary Stability and Financial Stability. However, account has been taken of the government forecasts contained in the Stability Programme Update 2023-2026 sent to Brussels last April, where the forecast for 2023 for the whole and by sub-sector coincides with the reference rates set, with the exception of CG, for which the deficit is forecast to improve by one tenth of a percentage point to 3.1% of GDP instead of the 3.2% set as the reference rate, compensating for the worsening of the forecast for the LGs, which goes from a surplus of 0.1% of GDP to a balance.
- AIReF's GC expenditure and resources are measured including the RTRP and REACT funds, which AIReF values at 1.5 GDP points in 2023. In the comparisons with the Government, AIReF has considered the valuations without RTRP, as there is no information in the Stability Programme Update on the total funds expected to be executed in 2023 in national accounting terms.
- 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



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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.