

MONTHLY STABILITY TARGET MONITORING 2023

PUBLICATION DATE: APRIL 28TH, 2023



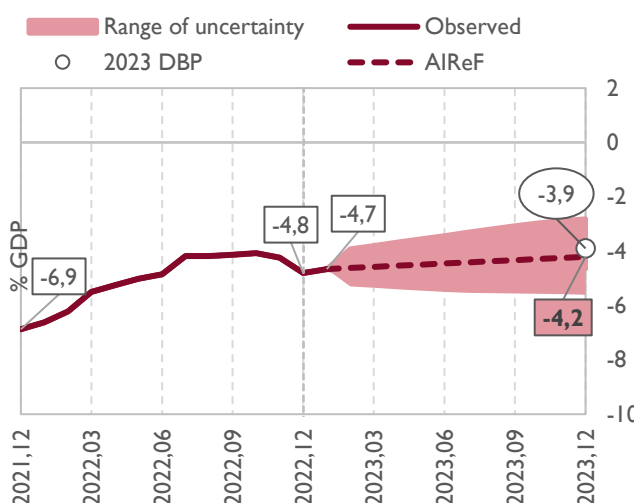
General Government

AIReF lowers its forecast for the General Government deficit to 4.2% of GDP in 2023, nine tenths of a percentage point lower than that published in the October 2022 Budget Plan Report. This is nine tenths of a percentage point lower than that published in the October 2022 Budget Plan Report because of the extension and new measures to mitigate the rise in energy and food prices. This fact sheet includes the macroeconomic picture and the fiscal projections published in the Report on the Initial Public Administrations' Budgets of 5 April 2022. This sheet includes the macroeconomic picture and the fiscal forecasts published in the Report on the Initial Public Administrations' Budgets of 5 April 2023. It thus incorporates the new information received, including the year-end 2022 and all the data received for the first months of 2023.

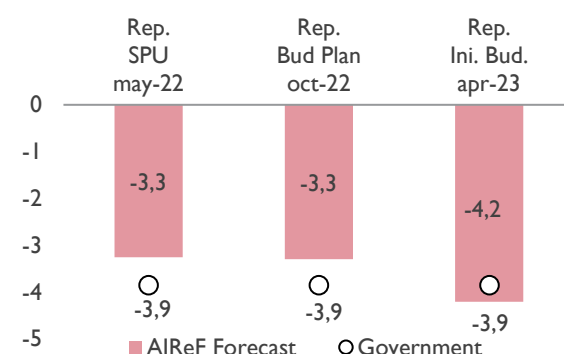
1 2023 deficit is estimated at 4.2%, 9 tenths of a percentage point higher than estimated in AIReF's Budget Plan report mainly because of the cost of the measures approved in RDL 20/2022. The 2022 cut-off raises both revenue and expenditure, while the greater dynamism of the economy slightly softens the increase in the deficit.

2 In the ongoing assessment process of the budget cycle AIReF's deficit estimate is downgraded by nine tenths of a percentage point of GDP to 4.2%, mainly due to the approval of a package of measures valued at one percentage point of GDP. The Government maintains its deficit expectations at 3.9%.

Evolution of the general government deficit (%GDP)



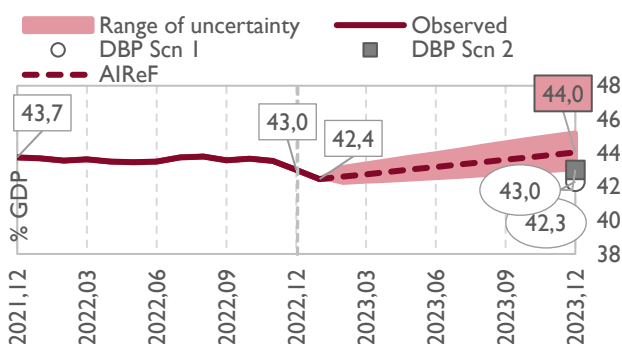
Update of estimated General Government deficit (%GDP) (AIReF)



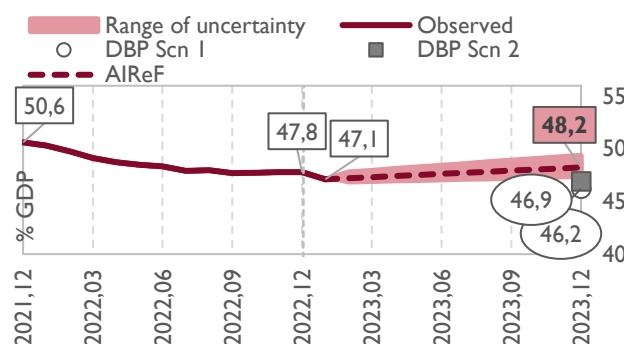
3 AIReF forecasts an increase in the weight of revenues as a percentage of GDP during the year to 44% of GDP. This weight would be lower if the Recovery, Transformation and Resilience Plan (RTRP) were not considered.

4 Regarding the expenditures, there is a decline of 7 tenths of GDP in the annualised variable in February with respect to the end of 2022. This trend will be reversed, and the weight of expenditures will gradually grow to reach a weight of 48.2% of GDP by the end of 2023.

General Government' Revenues (% GDP)



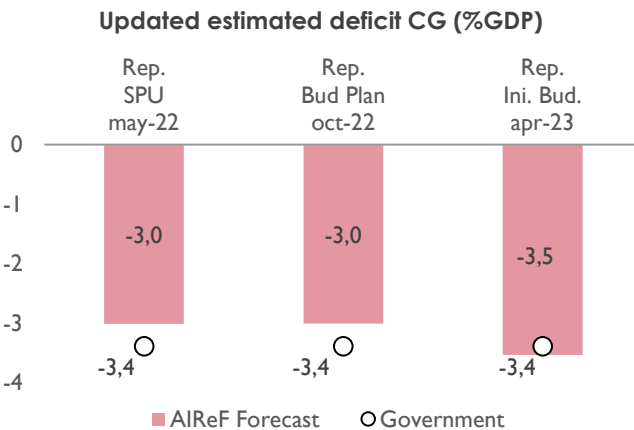
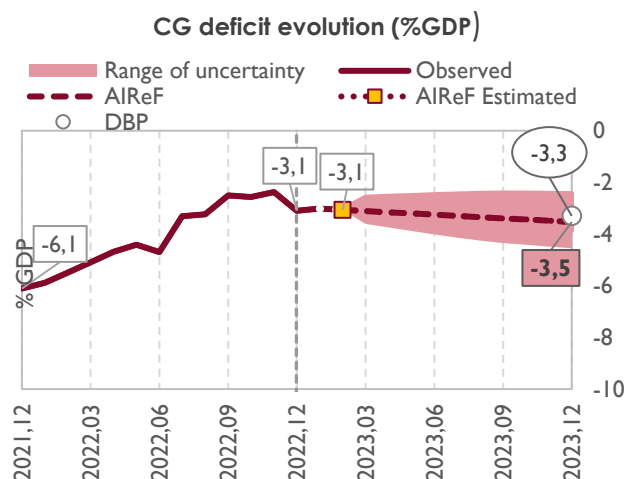
General Government' Expenditure (% GDP)



Central Government

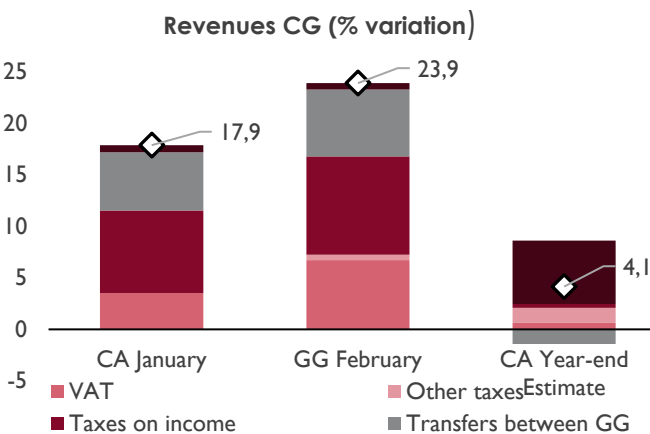
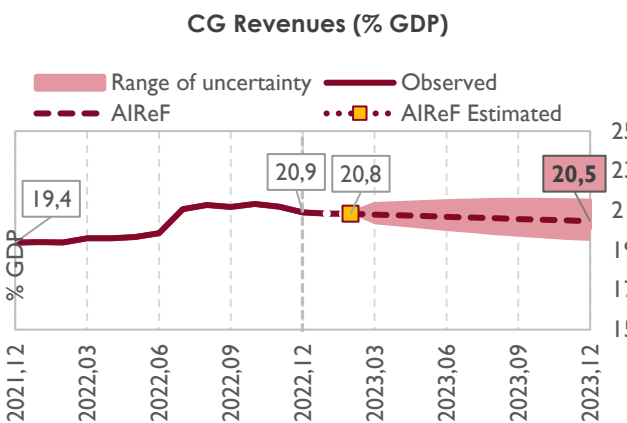
1 AIReF estimates the forecast deficit of the Central Government (CG) for 2023 at 3.5%, 5 tenths of a percentage point lower than the forecast in the 2023 Budget Plan and two tenths of a percentage point higher than the Government's forecast.

2 This worsening of the CG deficit is due to the adoption of new measures, partly offset by more dynamic revenue and GDP developments.



3 AIReF believes that the weight of resources as a percentage of GDP will fall by 4 tenths of a percentage point in 2023 to 20.5%, basically due to the impact of the measures on tax revenue and the lower transfers compared with the exceptional settlement of the territorial government financing system the previous year.

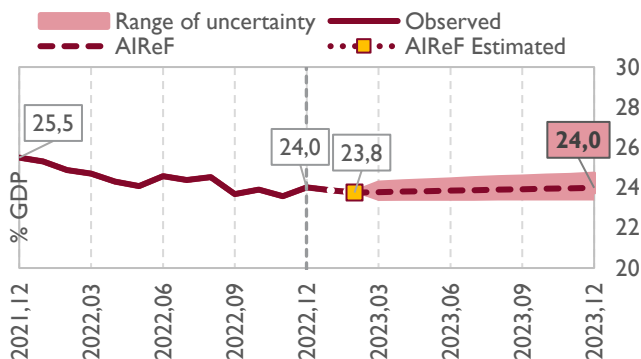
4 Cumulative revenues over the last twelve months will slow their growth rate during 2023, ending the year at 4.1% growth. Both taxes and transfers will reduce their weight during the year, while the rest of revenues will drive growth upwards because of the funds that will finance the RTRP.



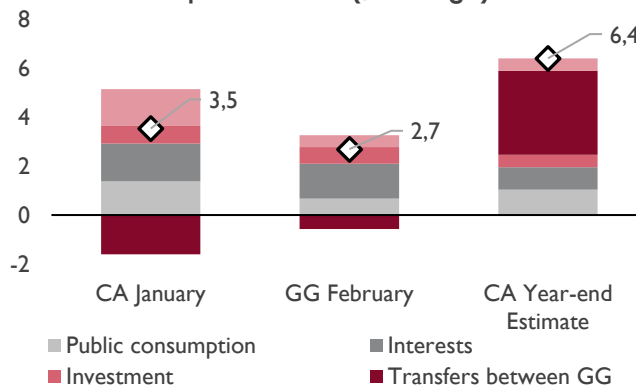
5 Expenditure forecast remains at a weight of 24% of GDP over the year, with spending growth in line with GDP.

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

Expenditure CG (% GDP)



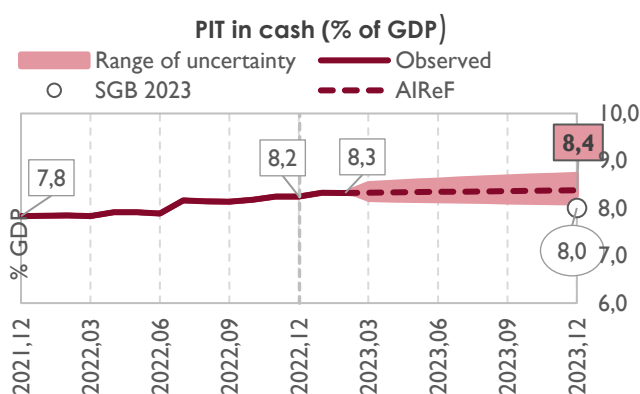
Expenditure CG (% change)



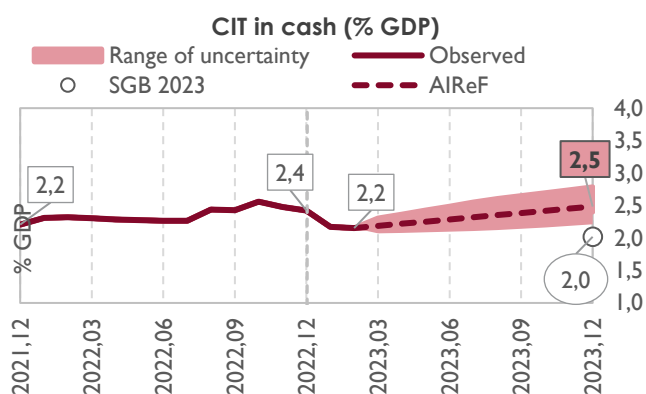
Main revenues items

In the first two months of 2023, tax revenues grew by 1.6%, with a more moderate growth than that recorded in 2022, affected by the extension of the tax rebates on energy products to mitigate the rise in prices, whose impact so far this year is estimated at -1,436M€.

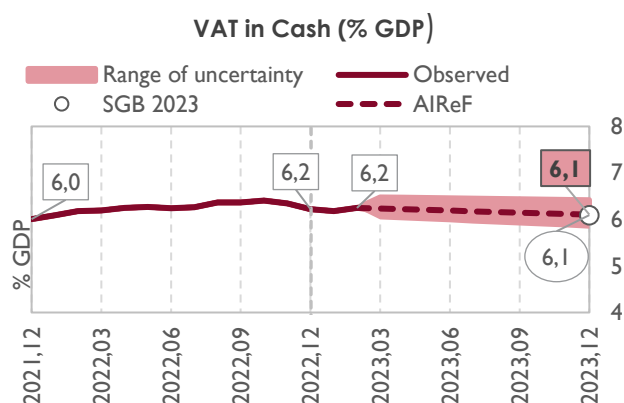
1 AIReF estimates that the weight of **personal income tax (PIT)** will reach 8.4% of GDP at the end of the year, two tenths of a percentage point higher than the previous year. Up to February the increase was 11.8%, more moderate than the previous year-end figure of 15.8%. At the end of the year, revenue will be 8.1% higher than in 2022, driven by increases in wages and pensions and affected by the reduction in earned income introduced in the General State Budget (GSB) 2023.



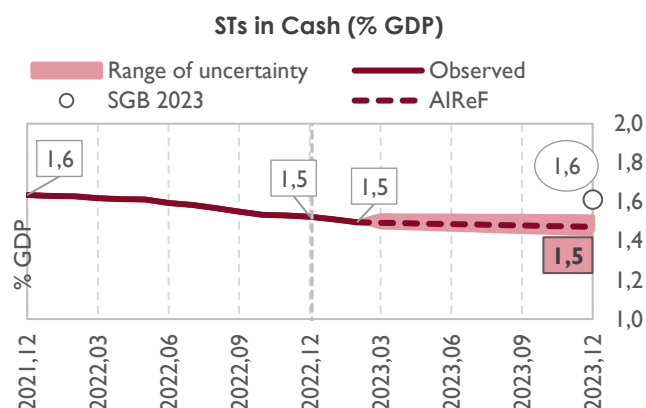
2 **Corporate income tax (CIT)** will reach 2.5% of GDP in 2023, one tenth of a percentage point more than in 2022. AIReF forecasts a growth of 9.1% in corporate income tax revenue in 2023 after posting increases of more than 20% over the last two years. During the first two months of the year this figure mainly records refunds, so its evolution up to February is not very representative.



3 **Value Added Tax (VAT)** will reduce its weight to 6.1% of GDP by the end of 2023, one tenth of a percentage point less than in 2022. Up to February, revenues are 7.3% higher than in 2022 in the same period, despite the extension of the tax rebates on energy products, with an impact so far this year of -€352M. By the end of 2023 the year-on-year growth rate will stand at 4.4%, additionally affected by the rate rebates on certain foodstuffs, whose impact will be reflected for the first time in the March revenue collection.

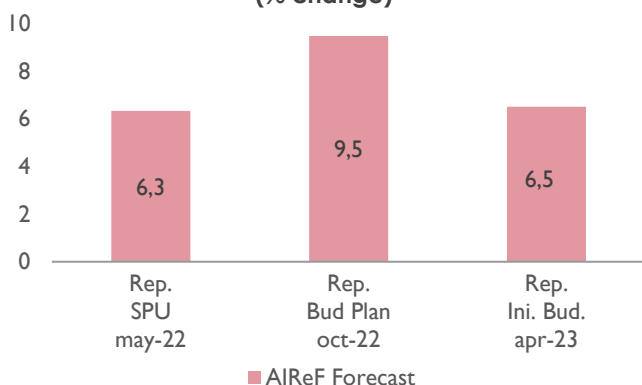


4 The **Special Taxes (STs)** will maintain its weight in GDP at 1.5% at the end of 2023. In the first two months of the year, revenue has fallen by 3.6% with respect to 2022, affected by falls in consumption and reduced by the extension of the reduction in the rate of special tax on electricity which, so far this year, is estimated at -315M€. This includes revenue from the new E.I. on non-reusable plastic packaging, which to date has amounted to €42m. Estimated growth at the end of 2023 is 2.8%.



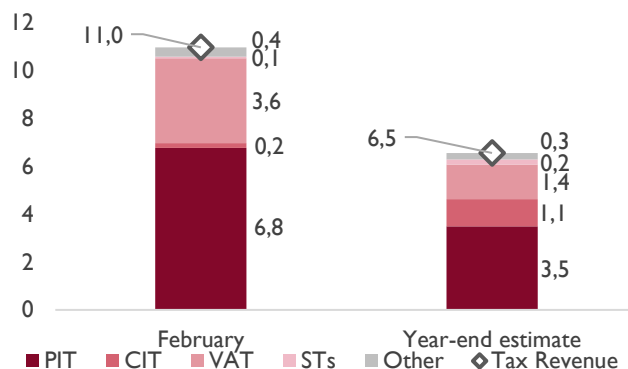
5 In national accounting terms, **total tax revenues** during 2022 will be 6.5% higher than the previous year, three points lower than in the previous report because of the extension of all temporary tax measures in force in 2022 relating to energy taxation, as well as new VAT measures on certain food products.

Update forecast on common system tax revenue NA (% change)



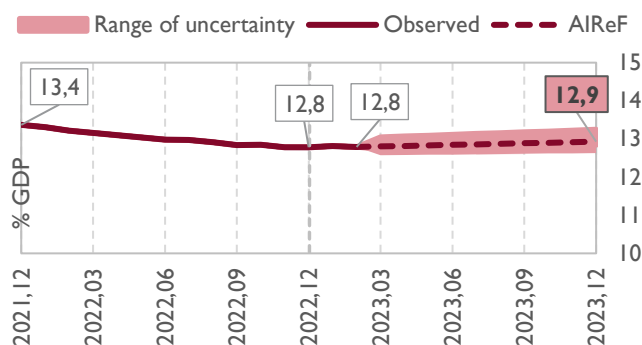
6 Tax revenues in cash terms for the twelve months to February grew by 11%. At the end of the year, growth is estimated at 6.5%, with a positive contribution to growth from all taxes, particularly personal income tax.

Contributions to the change AIReF Cash (% change)



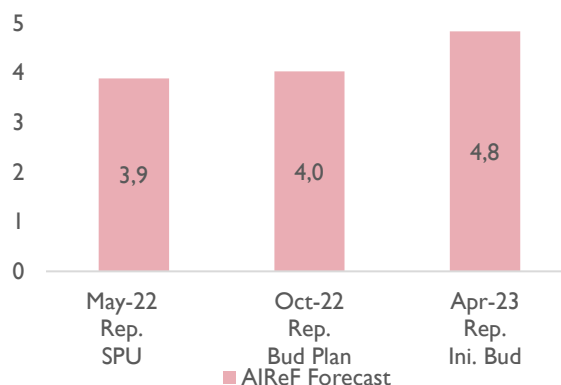
7 AIReF expects **Social Security Funds contributions to end 2023** with a weight of 12.9% of GDP.

SSF contributions (% GDP) (NA)



8 AIReF raises the forecast for the rate of growth of total General Government contributions by 8 tenths of a percentage point to 4.8% due to the dynamism shown in recent months.

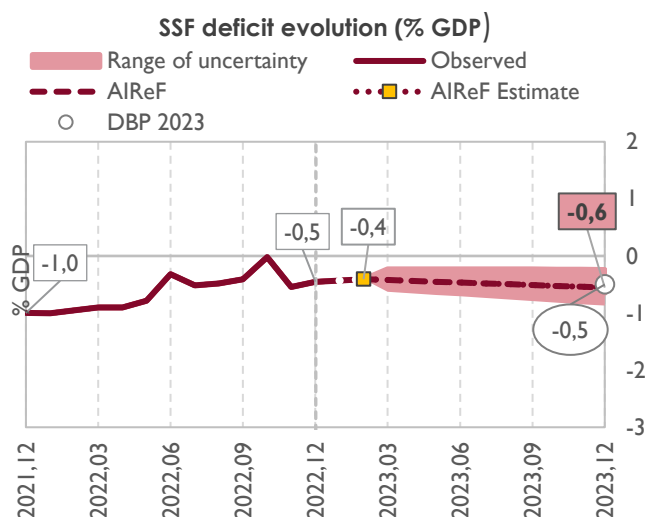
Updated forecast of SSF contributions for the total of the General Government sector (% change) (NA)



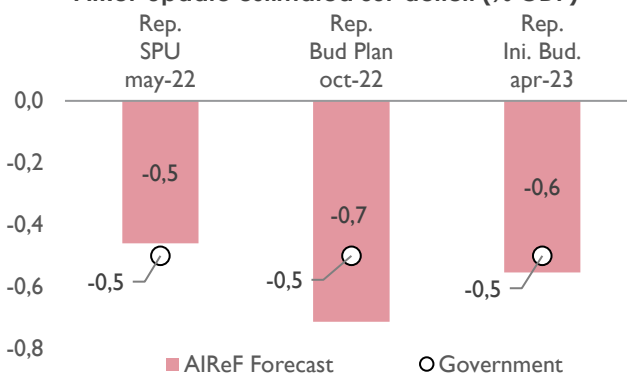
Social Security Funds

① AIReF estimates that the Social Security Funds deficit will reach 0.6% of GDP in 2023. Compared with the forecast in the October 2022 Budget Plan Report the weight of resources increases slightly and that of employment decreases, so the estimated balance for 2023 is revised upwards by one tenth of a percentage point.

② Estimation of the SSF balance is revised upwards for 2023, from -0.7% in the October 2022 Budget Plan Report to -0.6% of GDP, one tenth of a percentage point lower than the latest available government estimate (-0.5%).

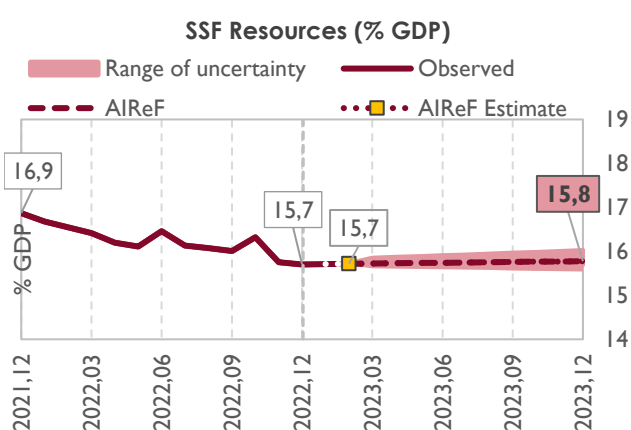


AIReF update estimated SSF deficit (% GDP)

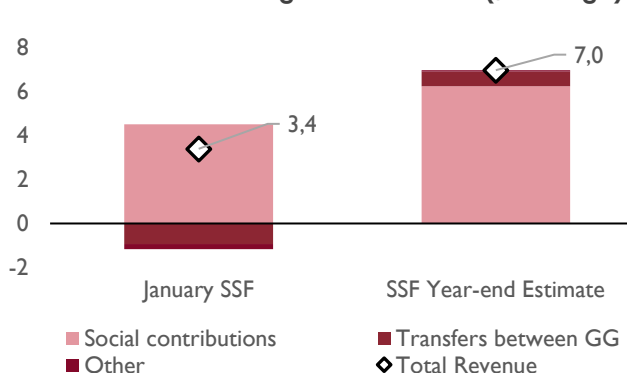


③ AIReF believes that the weight of resources as a percentage of GDP will increase moderately during 2023 to reach 15.8% by the end of the year. This is because the rate of growth in contributions is expected to increase compared to recent months.

④ AIReF expects an acceleration in the rate of growth of resources for the rest of the year, due to the increase in the contribution rate because of the application of the MEI, the increase in the maximum base and greater dynamism in the growth of contributions.



Contributions to change SSF Resources (% change)

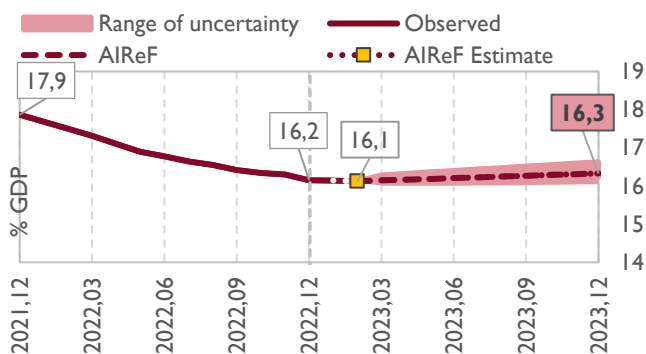


Stability Target Monitoring 2023

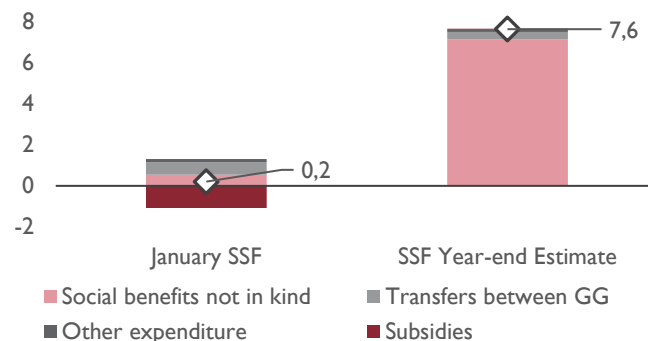
5 AIReF expects expenditures to increase its weight in GDP over the course of 2023 by two tenths of a percentage point, to end the year at 16.3%, mainly due to the indexation of pensions with the CPI of the previous year.

6 SSF expenditures will grow by 7.6% by the end of 2023, led by growth in pensions and a positive contribution from transfers between public authorities. PP.

Expenditures SSF (% GDP)



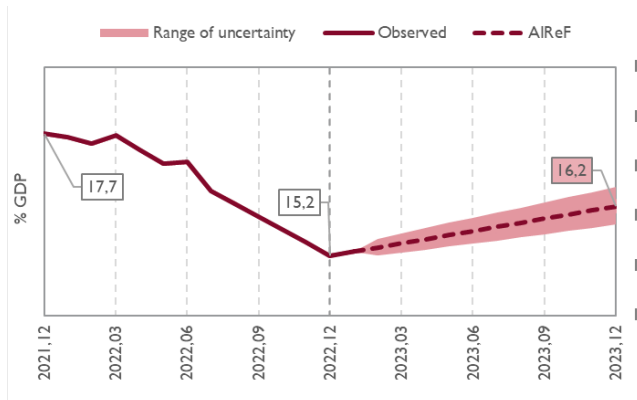
Contributions to SSF expenditure change (% change)



Autonomous Regions

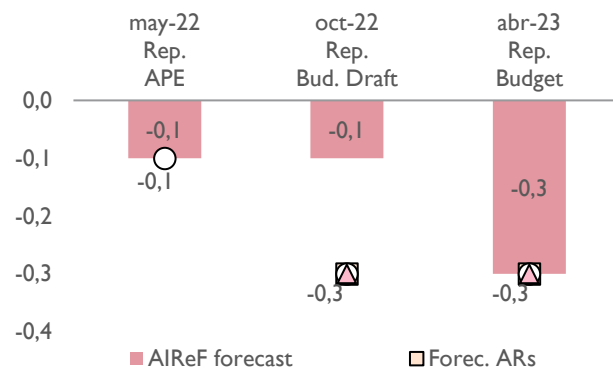
1 AIReF estimates that the Autonomous Regions (ARs) will close 2023 with a deficit of 0.3% of GDP, in line with the reference rate and with the forecasts for the regions as a whole.

Evolution of the deficit of AR (%GDP)



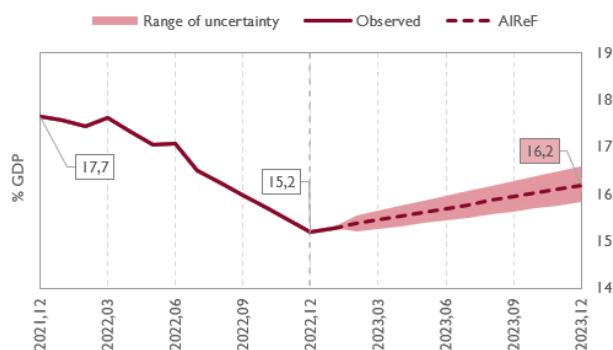
2 AIReF has made the deficit forecast in October for the Autonomous Regions two tenths of a percentage point worse than forecast in the previous report.

Update of the estimated deficit of the AR (%GDP)



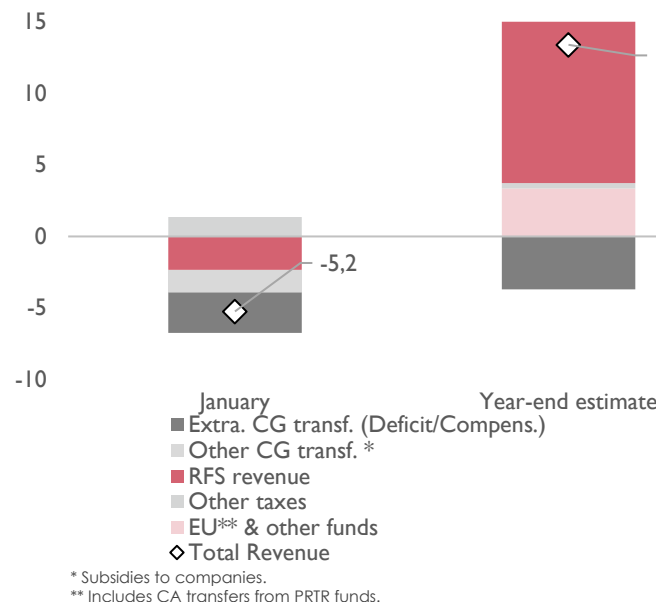
3 Revenues excluding RTRP will increase by 11%, mainly due to the growth in revenues from the Regional Financing System (RFS). Including the Plan, the increase would be 13%, reaching 16.2% of GDP.

AR Revenues (% GDP)



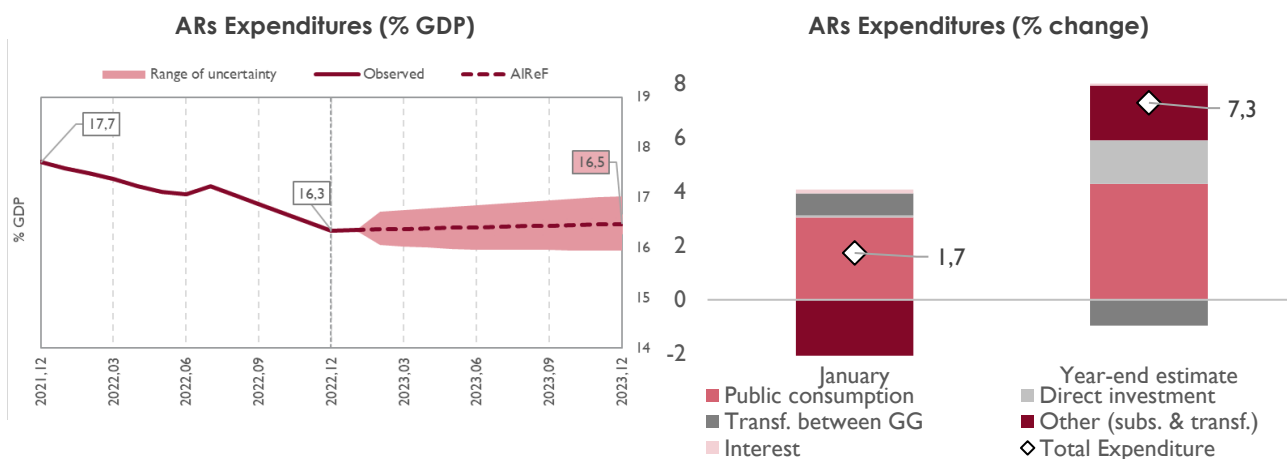
4 Revenues of the last 12 months show the reduction in transfers from the CG (from the RFS, aid to companies, COVID line and extraordinary transfers). At closure, the increase in revenues from the RFS and European funds cancels out the disappearance of extraordinary transfers.

ARs Revenues (% variation)



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

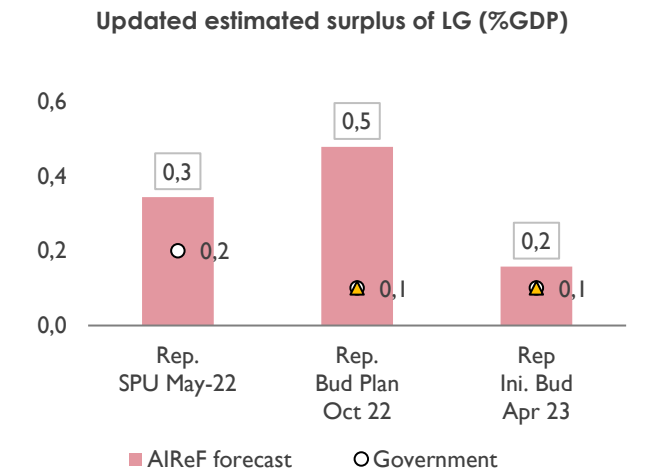
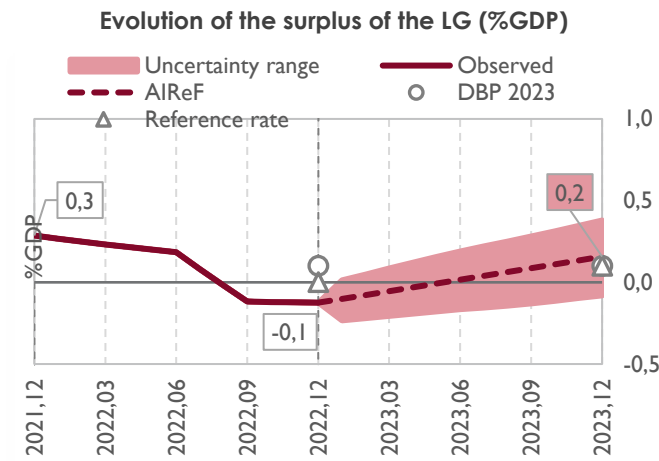
6 Expenditures in the last 12 months has increased in public consumption and reimbursements to the CG of aid to companies, with COVID expenditure falling. At the end of the year, the increase in public consumption, investments, subsidies, and other transfers due to the implementation of the RTRP is accentuated.



Local Governments

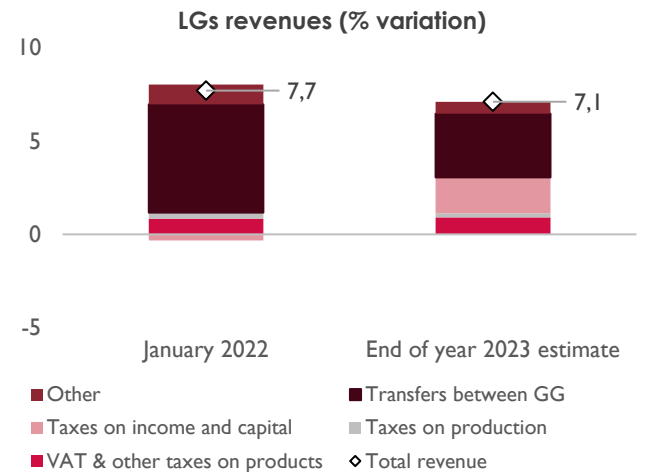
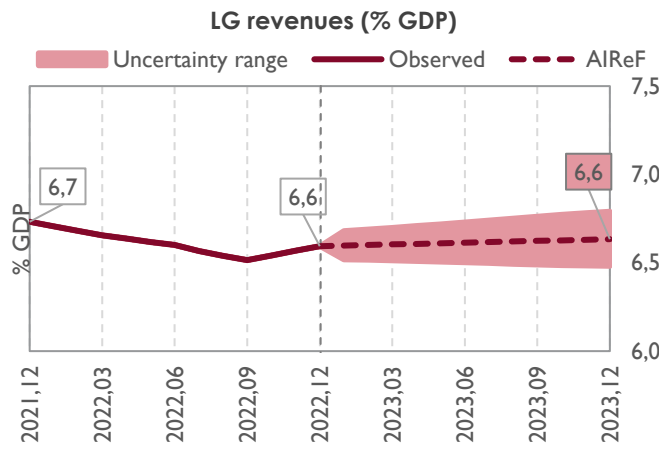
1 AIReF estimates a local surplus of around 0.2% of GDP for 2023, slightly above the reference rate and the Government's forecast (0.1%).

2 Current estimates are worse than those of October 2022, because of a worse-than-expected closing of 2022 (deficit of 0.1% of GDP).

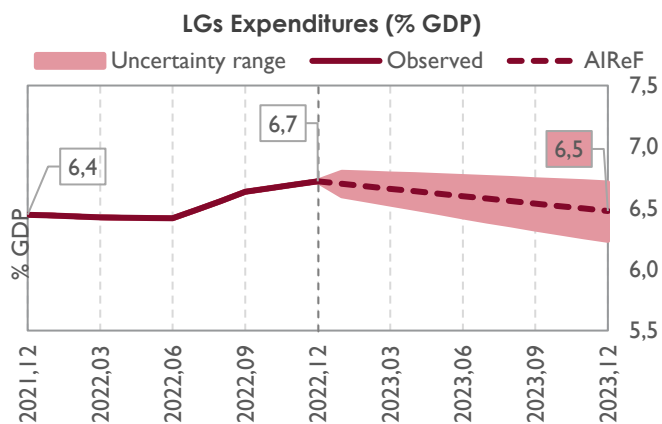


3 Local revenues are estimated to grow by more than 3% compared to 2022, homogenised from settlements and compensations from previous years and NGEU funds, stabilising their weight in GDP compared to the data observed in December.

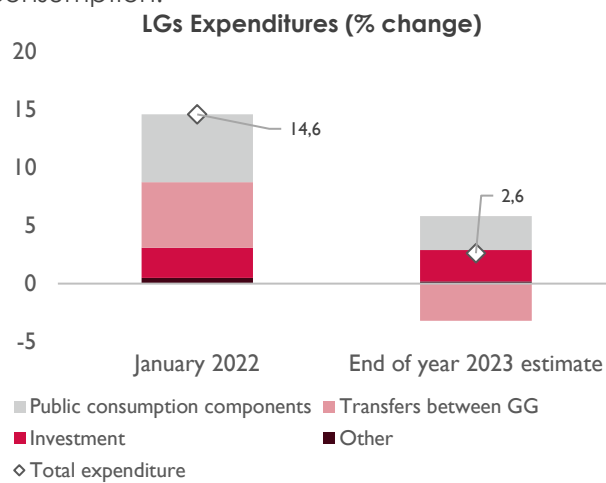
4 Revenue growth will be less pronounced than that observed at the end of 2022, mainly due to the lower contribution of transfers between public administrations, which in 2022 included higher extraordinary compensations from the financing system. This is mainly due to the lower contribution of transfers between public administrations, which in 2022 included higher extraordinary compensations from the financing system.



5 The year-on-year increase in standardised local expenditures is expected to be around 4%. These expenditures will decrease their weight in GDP by two tenths of a percentage point compared to the last observed data.



6 Increase in expenditure will be lower at the end of 2023 than in 2022, mainly because of the lower contribution of transfers between public administrations due to the settlement in favour of the State of the financing system in 2022 and public consumption.



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 about 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 considering 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 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 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 considered. In the Plan, the forecast for the GG 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.