MONTHLY STABILITY TARGET MONITORING 2023

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Autoridad Independiente de Responsabilidad Fiscal

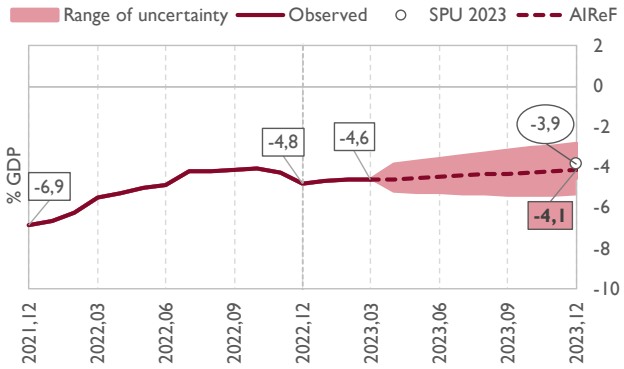
General Government

AIReF maintains its estimate for the deficit of the General Government (GG) as a whole at 4.1% of GDP. This sheet takes into account the macroeconomic picture published in the Report on the Stability Programme Update and incorporates the new information received, specifically the impact of the measures included in RDL 4/2023 and the data published for the first few months of implementation in 2023.

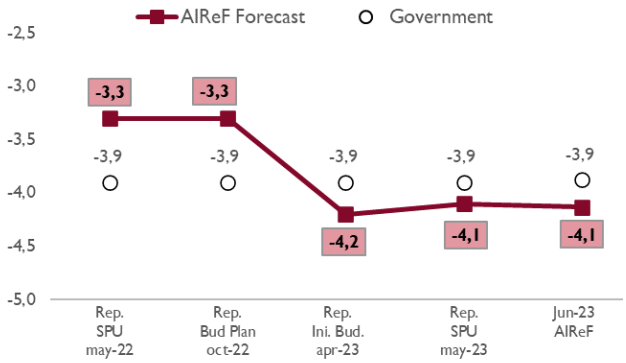
1 The deficit in 2023 is maintained at 4.1%, as the increase in expenditure is offset by a higher revenue forecast.

2 In the ongoing assessment process of the budget cycle AIReF maintains the deficit estimate at 4.1%. The Government maintains its deficit expectations at 3.9%.

GG deficit (%GDP)



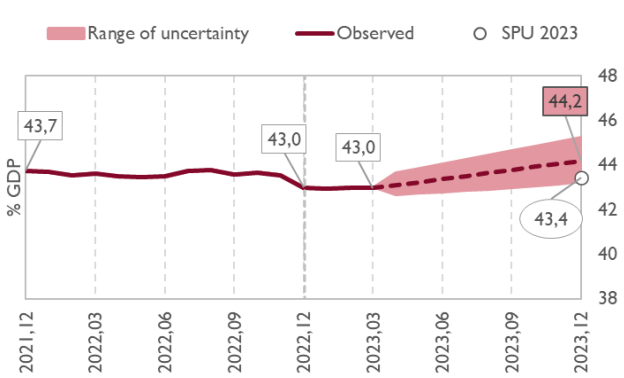
Update GG deficit estimate (%GDP) (AIReF)



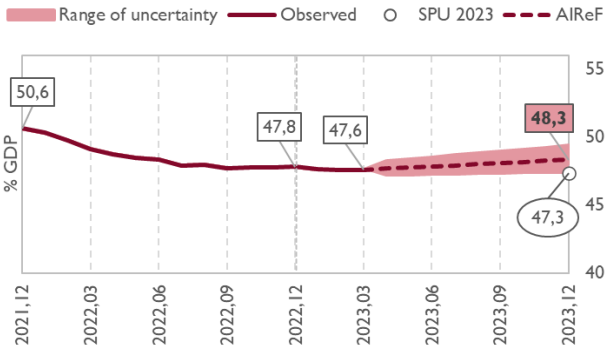
3 Annualised resources as of March remain at a similar level to the end of 2022 and are expected to increase their weight in GDP over the rest of the year to 44.2%. This growth would be mainly based on the Recovery, Transformation and Resilience Plan (RTRP).

4 Annualised expenditure in March compared to the end of 2022 fall by two tenths of GDP, although this trend is expected to reverse and the weight of jobs will gradually grow to reach a weight of 48.3% of GDP by the end of 2023, also influenced by the RTRP.

GG revenue (% GDP)



GG expenditure (% GDP)

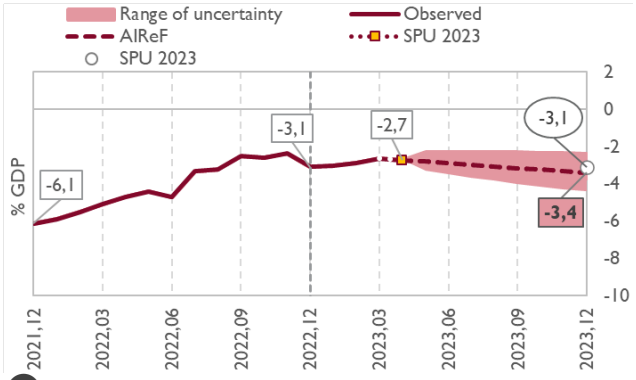


Central Government

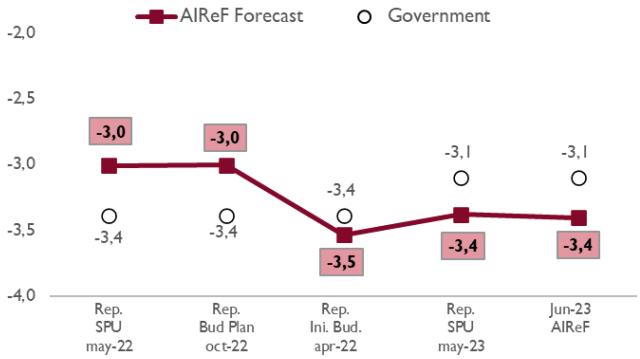
1 AIReF estimates a deficit for the Central Government (CG) in 2023 of 3.4% of GDP, the same as forecast in the Report on the Stability Programme Update of May 2023 and some three tenths of a percentage point higher than the Government's last forecast.

2 The deficit estimate is maintained despite increases in both revenue due to the good performance of the economy and expenditure due to the approval of the new package of measures.

CG deficit (%GDP)



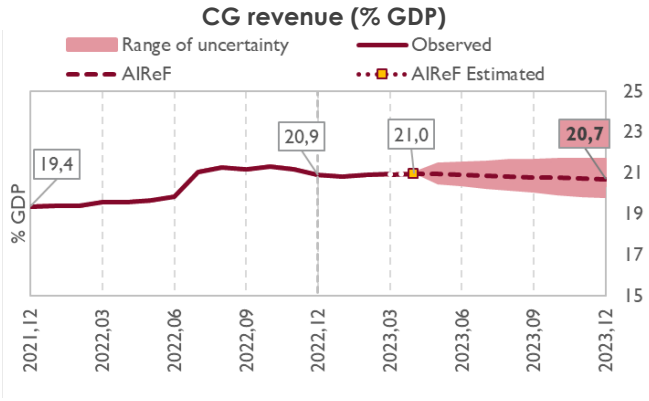
Updated estimated deficit CG (%GDP)



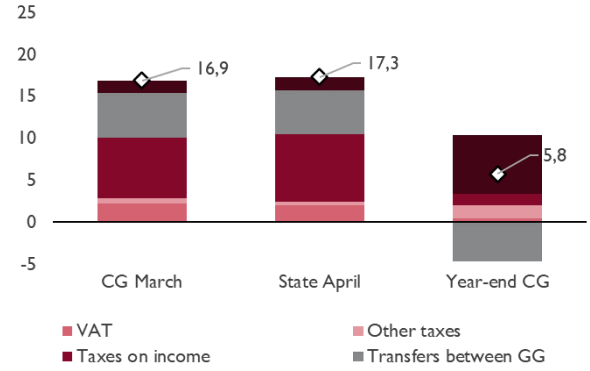
3 AIReF believes that the weight of resources as a percentage of GDP will fall by two tenths of a percentage point in 2023 to 20.7%, basically due to the impact of the tax measures and the lower transfers compared with the exceptional settlement of the Regional Government financing system the previous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

4 Twelve-month cumulative resources will slow their pace of growth during 2023, ending the year at an increase of 5.8%. Both taxes and transfers are expected to slow their growth during the year, while the rest of the revenues will drive growth upwards due to the effect of the RTRP funds.

CG revenue (% GDP)



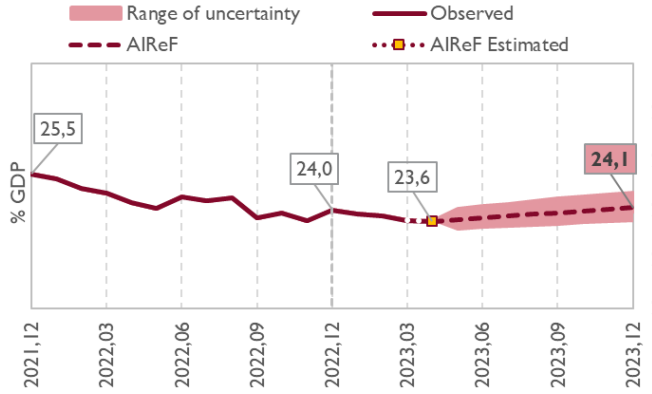
CG revenue (% change)



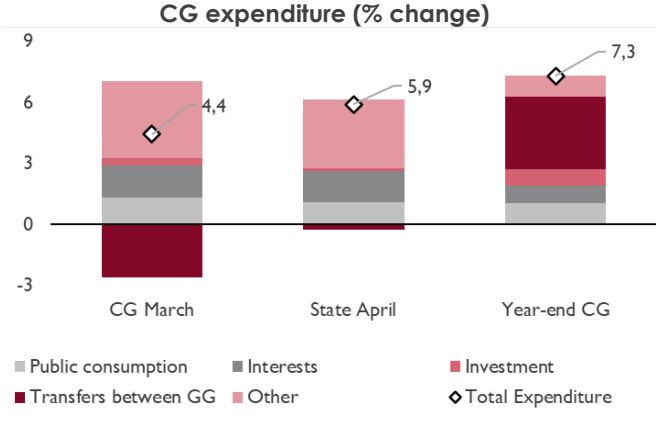
5 The expenditure forecast will increase to 24.1% of GDP over the year, incorporating the new package of measures in RDL 4/2023.

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

CG revenue (% GDP)



CG expenditure (% change)



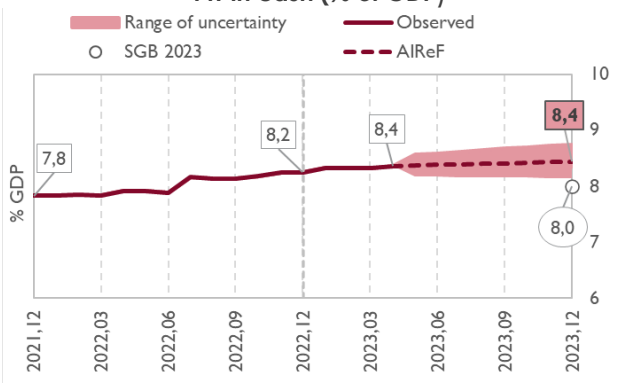
Main revenue items

AIReF updates its tax revenue estimates with the incorporation of the tax bases for the first quarter of the year and the collection for April. Up to April tax revenues show a growth of 5.5%, higher than in the first quarter, although more moderate than the 18.1% recorded for the same period in 2022. This forecast is affected by the tax rebates on energy products and foodstuffs to mitigate price rises, whose impact so far this year is estimated at -2,723M€.

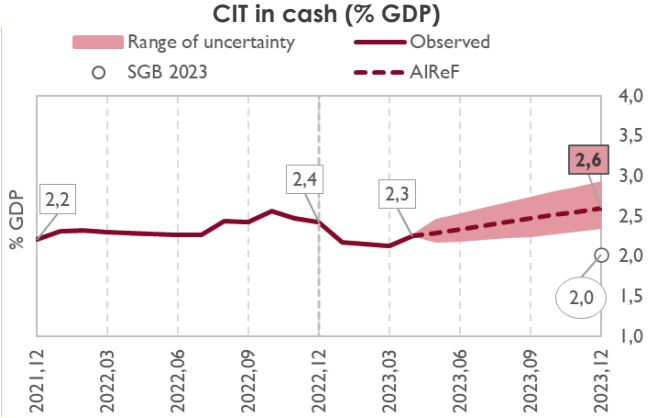
❶ AIReF estimates that the weight of **personal income tax (PIT)** will reach 8.4% of GDP at the end of the year, two tenths of a percentage point more than the previous year. Up to April 11.6% has been paid in, due to the growth in wages, which continue the upward trend of 2022 in both the public and private sectors, pensions and despite the reduction in earned income in the lowest wage brackets. By the end of the year, personal income tax is expected to be 8.9% higher than in 2022.

❷ **Corporate Income Tax (CIT)** will stand at 2.6% of GDP in 2023, two tenths of a percentage point higher than in 2022. In April the first instalment payment was recorded, which is up 25.6% on the previous year, although the high refunds in the first few months of the year, corresponding to previous years, mean that collection so far this year is 33% lower than in 2022. AIReF forecasts a growth in tax collection of 15.5% by the end of 2023.

PIT in cash (% of GDP)



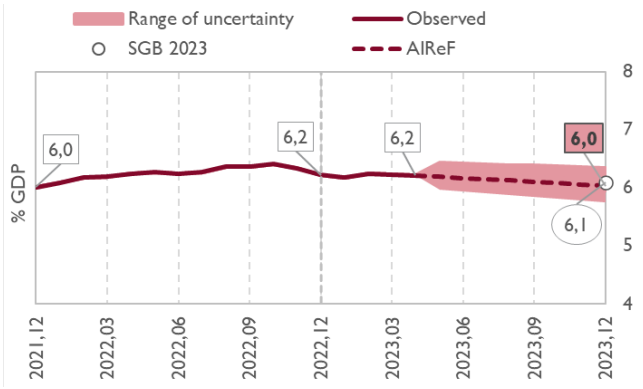
CIT in cash (% GDP)



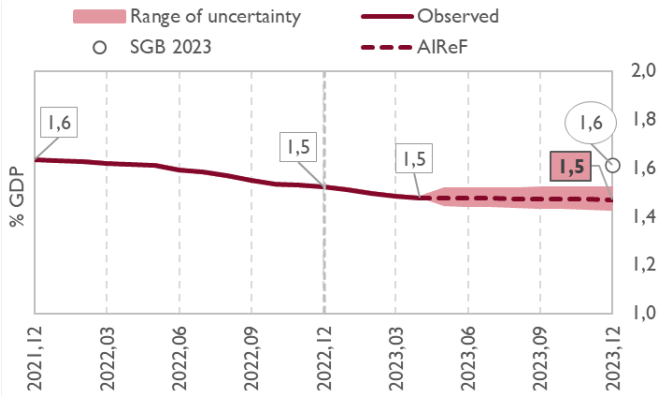
❸ **Value Added Tax (VAT)** will reach a 6% share of GDP by the end of 2023, two tenths of a percentage point lower than the previous year. To date, net receipts have been 5.9% higher than in 2022, above the growth in gross receipts due to a decrease in refunds, despite the rate reductions on energy products and foodstuffs, whose impact so far this year is estimated at €1-,279m. An increase by the end of 2023 of 3.3% is expected.

❹ The **Special Taxes (STs)** as a whole will maintain its weight on GDP at 1.5% in 2023. Up to April, revenues have fallen by 1.8% compared to 2022, affected by the extension of the reduction of the ST rate on Electricity, whose estimated impact so far this year is -€681M, and despite including €167M for the new E.I. on non-reusable Plastic Packaging. At the end of the year, growth is estimated at 2.8%.

VAT in cash (% GDP)

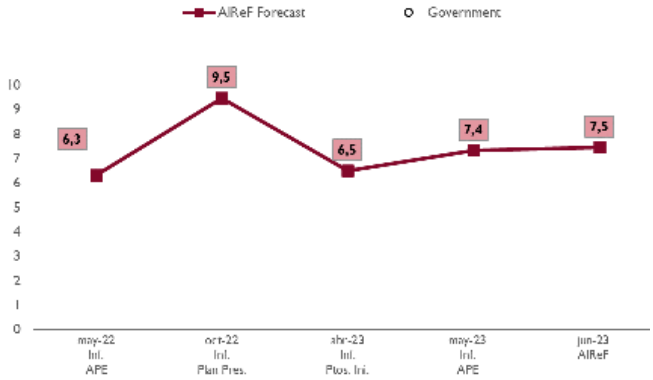


STs in cash (% GDP)



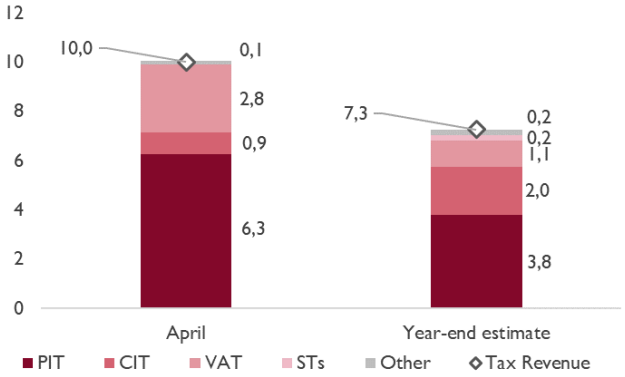
❺ In national accounting terms, **total tax revenues** in 2023 will be 7.5% higher than in 2022, less than one tenth above the previous report as a result of incorporating the latest available information.

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



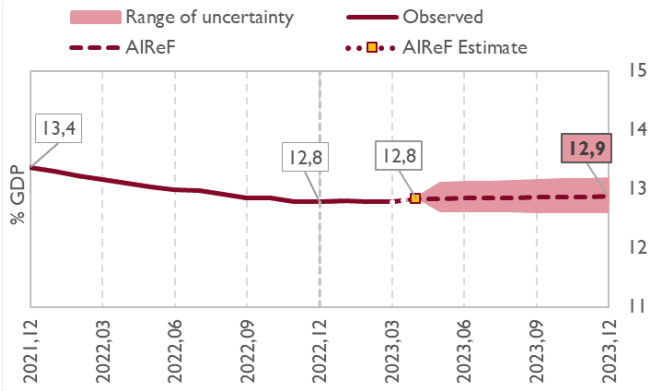
❻ Tax revenues in cash terms for the twelve months to April grew by 10.0%, driven by the growth in personal income tax during the first months of the year. At the end of the year, growth is estimated at 7.3%, with a positive contribution to growth from all taxes, particularly personal income tax.

Contributions to the change. AIReF Cash (% change)



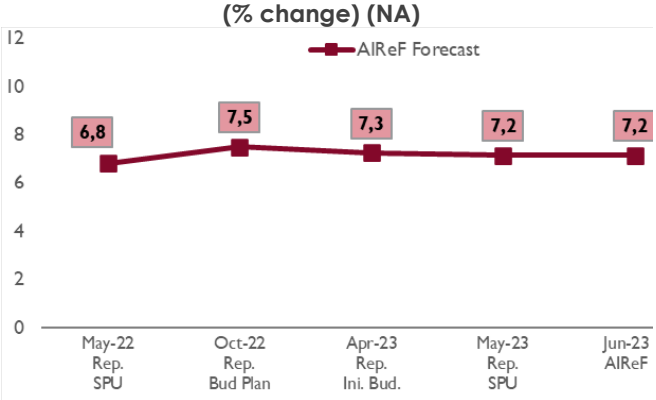
❼ AIReF expects **Social Security Funds (SSF) contributions** to end 2023 with a weight of 12.9% of GDP.

Social Security Contributions (% GDP) (NA)



❽ AIReF expects general government contributions to grow at a rate of 7.2%, thus leaving the forecast in the Stability Programme Update Report unchanged.

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

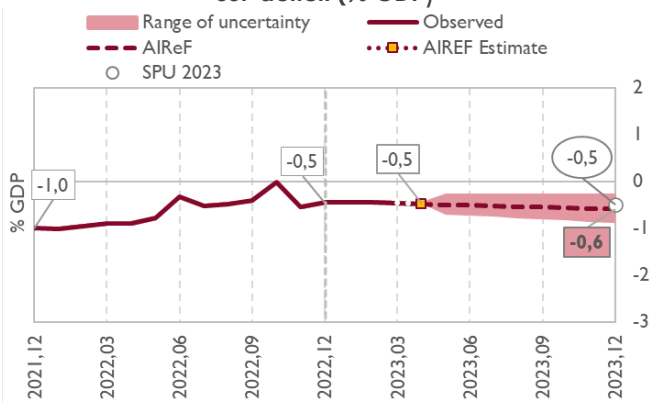


Social Security Funds

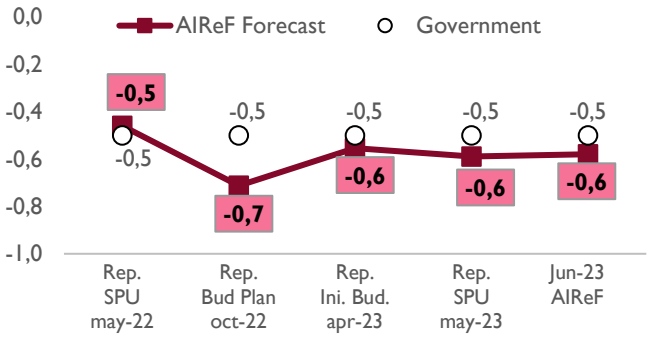
1 AIReF estimates that the S.S.F. deficit will reach 0.6% of GDP in 2023, one tenth of a percentage point higher than the Government's forecast.

2 AIReF maintains the estimate of the S.S.F. balance for 2023 of -0.6% from the Stability Programme Update Report.

SSF deficit (% GDP)



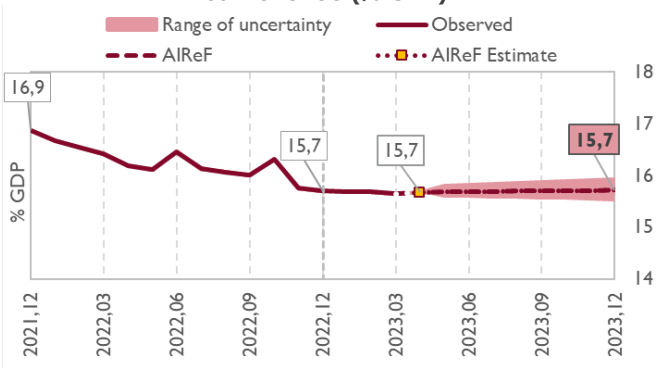
Updated AIReF estimated SSF deficit (% GDP)



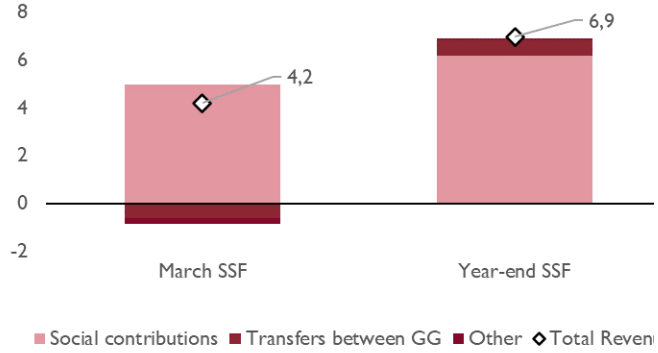
3 AIReF believes that the weight of revenues as a percentage of GDP will remain at 15.7% over the year despite the dynamism of contributions due to a certain slowdown in the growth of transfers.

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

SSF revenue (% GDP)



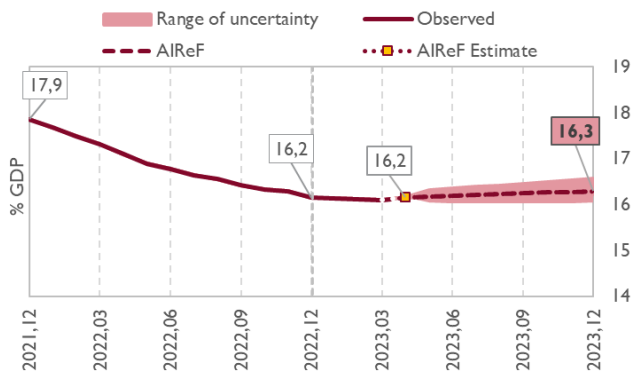
Contributions to change in SSF revenue (% change)



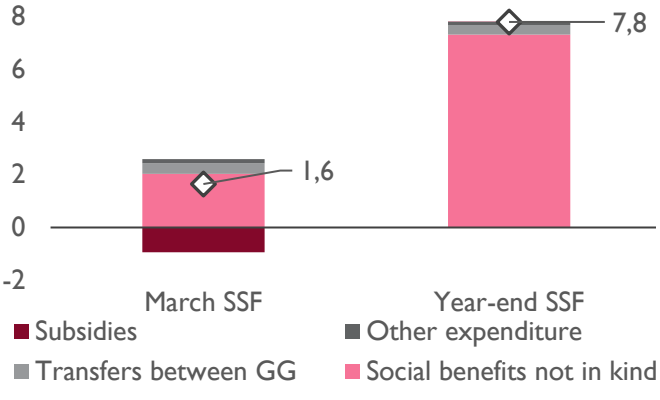
5 AIReF expects expenditure to increase its weight in GDP over the course of 2023 by one tenth of a point, to end the year at 16.3%, mainly due to the indexation of pensions with the CPI of the previous year.

6 SSF expenditure will grow by 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.

SSF expenditure (% GDP)



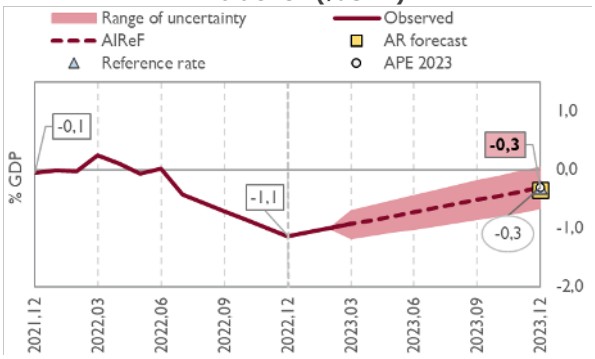
Contributions to change in SSF expenditure (% change)



Autonomous Regions

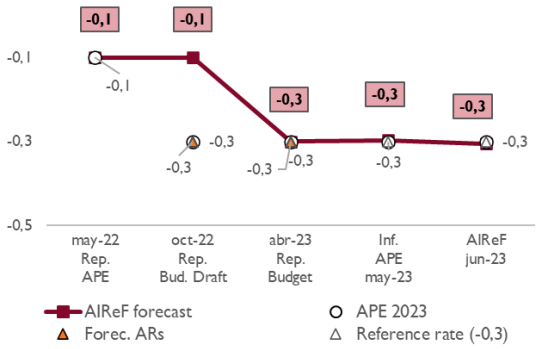
1 AIReF continues to consider that at the close of 2023 the Autonomous Regions (Ars) will reach a deficit of 0.3% of GDP, coinciding with the reference rate and the SPU forecast for the sub-sector.

ARs deficit (%GDP)



2 AIReF maintains the deficit forecast in May for the regional governments, after incorporating the execution data to date, which show a slightly more moderate execution of some revenues and expeditures.

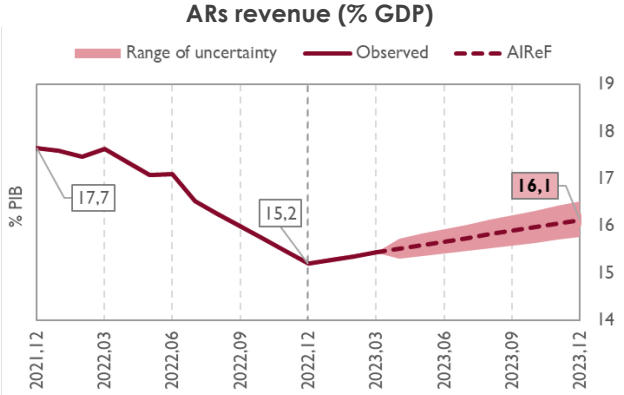
Update estimated ARs deficit (%GDP)



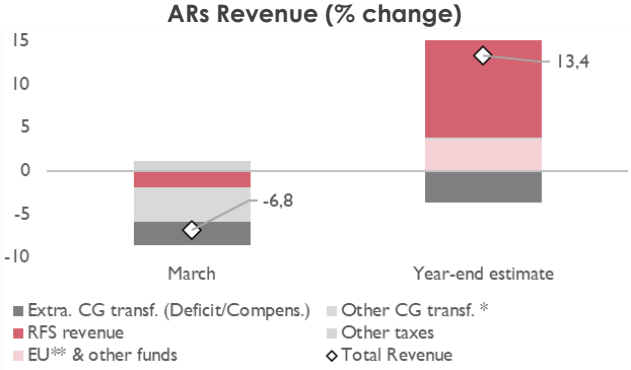
3 Revenues excluding RTRP will increase by 10% year-on-year, conditioned by the growth in revenue from the regional financing system (RFS). With the Plan, the increase would be 13%, reaching 16.1% of GDP.

4 In the last 12 months, revenues have been reduced by transfers from the CG (from the RFS, aid to companies, COVID line and extraordinary transfers). This reduction will be cancelled out during the year due to the increase in resources from the RFS and European funds.

ARs revenue (% GDP)



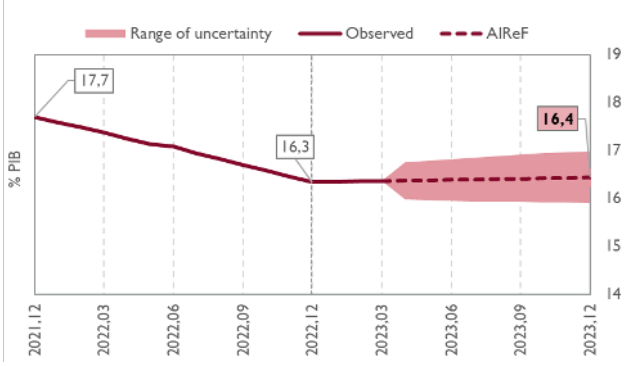
ARs Revenue (% change)



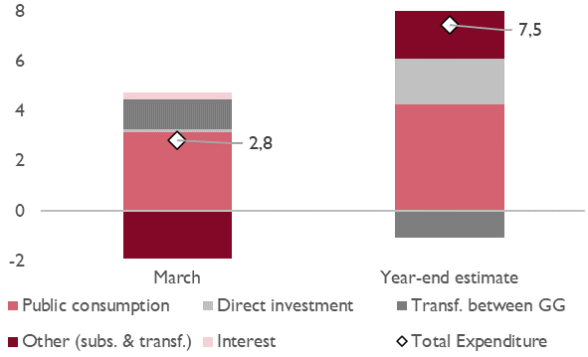
5 Expenditures excluding the RTRP will increase by more than 4%, affected by inflation, the cost of debt and the update of public employees' salaries. Including RTRP-financed expenditure, expenditure would grow by more than 7%, to 16.4% of GDP.

6 Expenditure in the last 12 months has increased in items linked to public consumption and due to the reimbursement to the CG of COVID aid, reducing other expenditure associated with the pandemic. 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.

ARs expenditure (% GDP)



ARs expenditure (% change)



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.
- From 2020 onwards, given the change in the monthly pattern of revenue and expenditure, caused mainly by the health crisis and the war in Ukraine, AIReF does not intend to estimate a monthly total in these files, but rather focuses on what it considers relevant: the flow throughout the year 2023, stressing how the 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. 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 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 expediture and revenues 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 uncertainty range is estimated on the basis of a VAR model with two lags that includes the seasonally adjusted series of sub-sector resources (or income) and employment, nominal

GDP, sub-sector debt as a percentage of GDP and ten-year interest rates. Monte Carlo simulations are performed on the basis of this model. The result of these simulations is sorted into percentiles, from which the bands are obtained. The uncertainty range of the balance is obtained as the difference between the corresponding resources and uses.

- In AIReF's Report on the budget outturn, public debt and expenditure rule 2020, dated 15 July 2020, there is an annex with the main abbreviations and acronyms used.