MONTHLY STABILITY TARGET MONITORING 2023

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Autoridad Independiente de Responsabilidad Fiscal

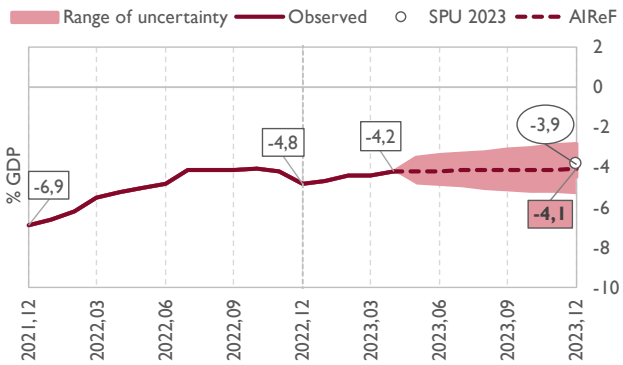
General Government

AIReF maintains its estimate for the deficit of the General Government (GG) sector at 4.1% of GDP. This was published in the June monitoring sheets and in the Report on the Stability Programme Update 2023-2026. This fact sheet incorporates the fiscal projections and the macroeconomic picture published in the Report on Budgetary Execution, Public Debt, and the Expenditure Rule of 6 July 2023. It therefore incorporates the new information received, including the impact of the measures included in Royal Decree-Laws 4/2023 and 5/2023 and the data published for the first months of 2023.

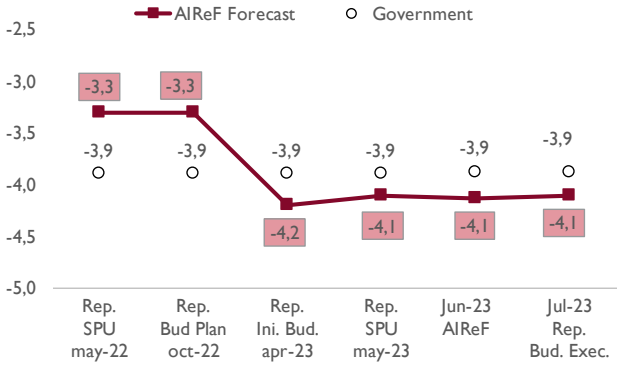
1 The deficit forecast for 2023 remains unchanged at 4.1% of GDP, although there are changes in both total revenue and total expenditure. The government maintains its deficit expectation of 3.9% in the Stability Programme.

2 The extension of the measures to deal with the energy crisis, the rise in prices and the effects of the war in Ukraine mean an increase in the deficit of two tenths of a percentage point of GDP. This increase is offset by the effect of the revision of the macroeconomic framework on the public accounts and the latest revenue collection data.

Evolution of the GG deficit (%GDP).



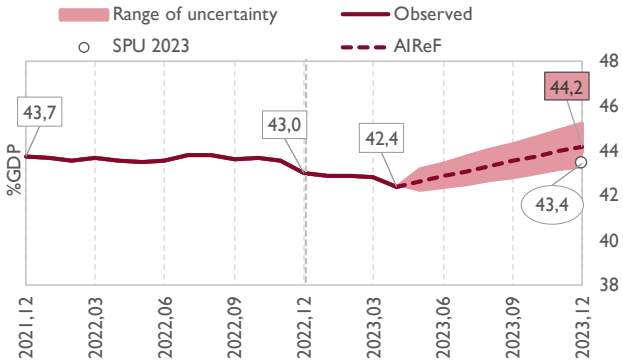
Update GG deficit estimate (%GDP) (AIReF)



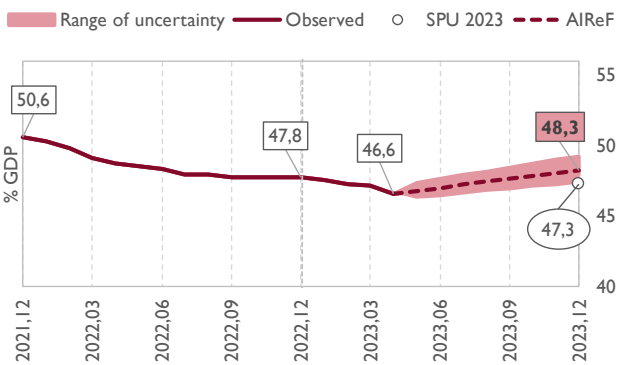
3 The annualised revenues to April reduce their weight in terms of GDP by six tenths of a point compared with the end of 2022. However, AIReF forecasts an increase in their weight over the rest of the year to 44.2%. This growth would be lower if the Recovery, Transformation and Resilience Plan (RTRP) was not considered.

4 Annualised expenditure in April decrease compared to the end of 2022, although this trend is expected to reverse, and the weight of expenditure will gradually grow to reach a weight of 48.3% of RTRP-driven GDP by the end of 2023.

GG revenue (% GDP)



GG expenditure (% GDP)

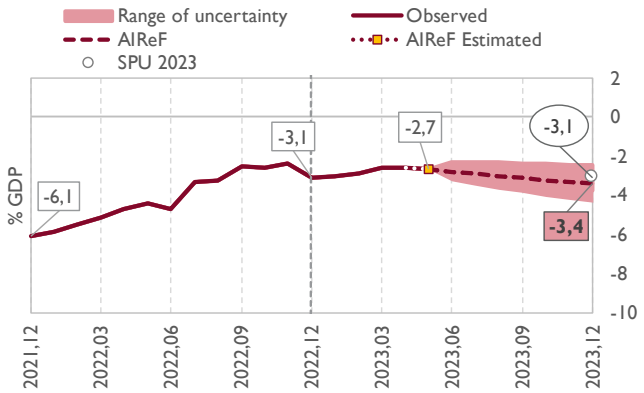


Central Government

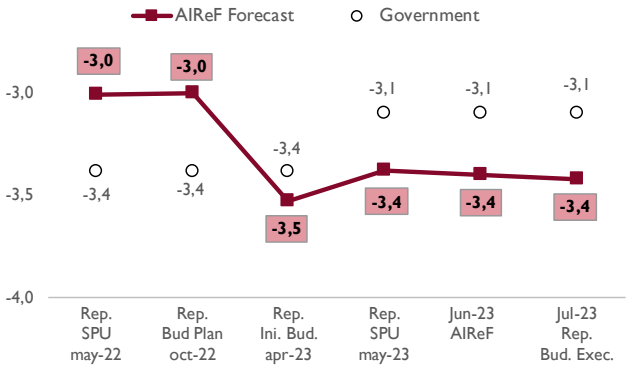
1 AIReF maintains its deficit estimate for the Central Government (CG) at 3.4% of GDP for 2023, three tenths of a percentage point higher than that forecast by the Government in the Stability Programme Update 2023-2026.

2 The deficit estimate worsens by less than one tenth of a percentage point of GDP due to the extension of some measures to combat the energy crisis and the drought, thanks to higher revenues from the good performance of the economy and the improvement in the GDP forecast .

CG deficit (%GDP)



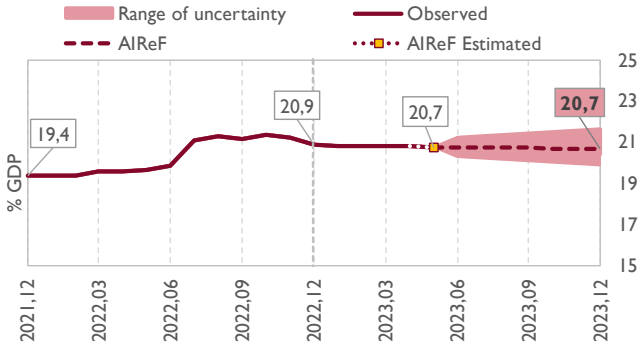
Updated estimated deficit CG (%GDP)



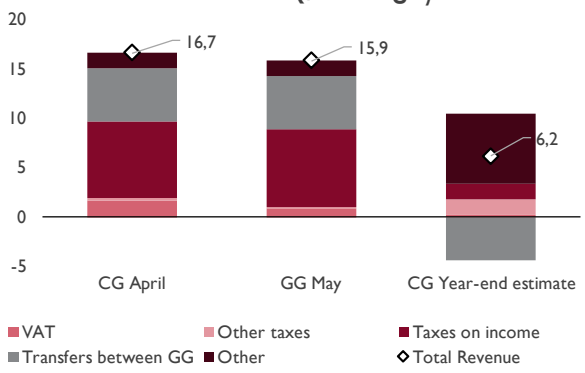
3 Revenues will decrease their weight on GDP by two tenths of a percentage point over 2023 to 20.7%, mainly due to the impact of tax measures and lower transfers due to the negative settlement of the previous year's Regional Government financing system.

4 Twelve-month cumulative revenues will slow their pace of growth, ending at an increase of 6.2%. Both taxes and transfers will slow their growth, while the rest of revenues will drive growth upwards because of funds from the RTRP.

CG Revenue (% GDP)

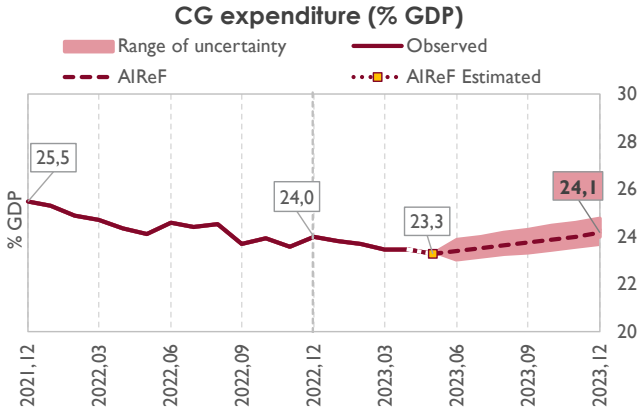


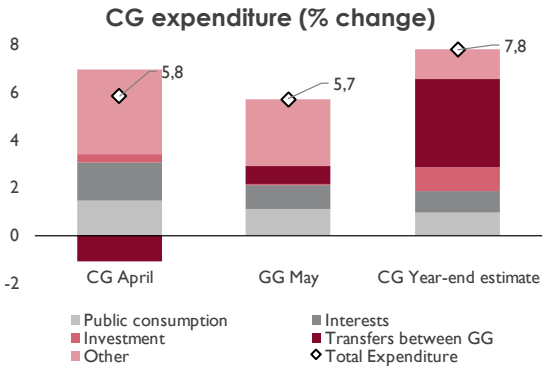
CG revenue (% change)



5 The expenditure forecast will increase to 24.1% of GDP over the year, incorporating the new packages of measures in Royal Decree-Laws 4/2023 and 5/2023.

6 At year-end, the estimated contribution to the growth in transfers from the RTRP and other expenses was higher than in other years, due to the subsidies granted as a result of the measures approved.



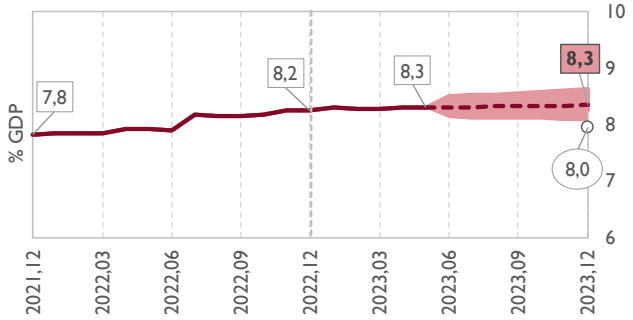


Main revenue items

AIReF updates its tax revenue estimates with the May collection data and the new measures approved. In the cumulative figures up to this month tax revenue has grown by 4.2%, 1.3 percentage points less than the previous month and more moderate than the 19.1% recorded for the same period in 2022. The collection of these first months of 2023 is affected by the reductions in VAT and excise duties on energy products and by the reduction of VAT rates on foodstuffs, with an estimated impact so far this year of -€3,541m.

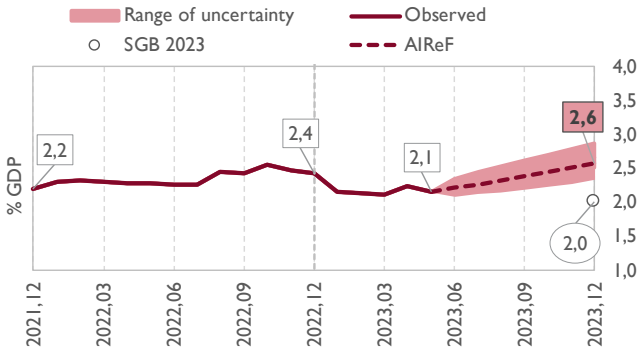
❶ AIReF estimates that the weight of **Personal Income Tax (PIT)** as a percentage of GDP will reach 8.3%, one tenth of a point higher than the previous year. Up to May the increase was 11.9%, driven in the withholdings component by the growth in employment, wages and the average tax rate. This good performance is observed in both the public and private sectors. By the end of 2023, personal income tax growth is expected to be 8.5% higher than in 2022.

PIT in cash (% of GDP)



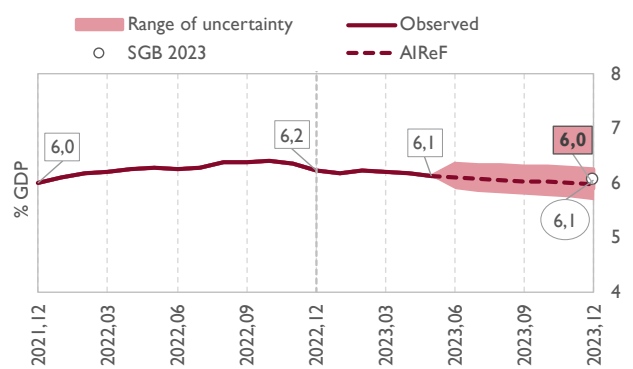
❷ **Corporate Income Tax (CIT)** will close in 2023 at 2.6% of GDP, according to AIReF forecasts, two tenths of a percentage point more than in 2022. In May there is usually no relevant data on this tax, however, on this occasion there has been a refund of more than €1,000m due to the enforcement of a ruling, which has led to the accumulated collection so far this year being 50.9% lower than in 2022. AIReF forecasts growth of 12.9% by the end of 2023.

CIT in cash (% GDP)



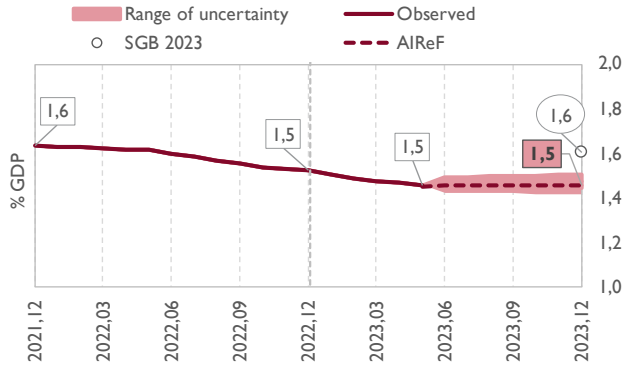
❸ The share of **Value Added Tax (VAT)** in GDP will be 6% by the end of 2023. To date, net receipts have been 4.8% higher than in 2022. The figure is lower than the accumulated figure up to April, mainly due to the lower boost in gross revenue dragged down by the slowdown in sales, together with the rate reductions on energy products and foodstuffs, whose impact so far this year is estimated at €1-,269m. An increase of 2.9% is expected by the end of 2023.

VAT in cash (% GDP)



❹ AIReF expects the **Special Taxes (STs)** to maintain its weight in GDP at 1.5% in 2023. Up to May the collection has been reduced by 1.5% compared to 2022, affected by the extension of the reduction in the rate of ST on Electricity, with an estimated impact in the first five months of the year of -€860m, and despite including €221m for the new ST on non-reusable plastic packaging. At the end of the year, growth is estimated at 3%.

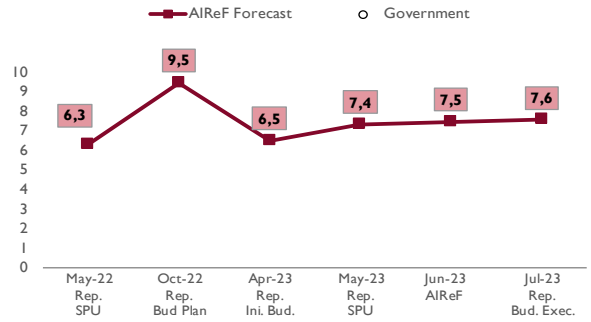
STs in cash (% GDP)



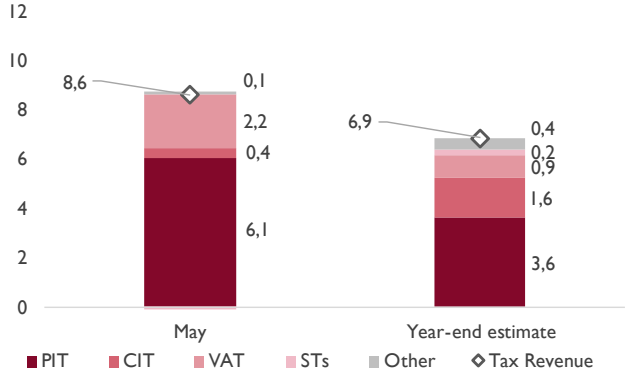
❺ **In national accounting terms, total tax revenues** in 2023 will grow by 7.6% compared to 2022, around one tenth above the previous estimate, as a result of the incorporation of the latest available information.

❻ **Tax revenues in cash terms** for the twelve months to May grew by 8.6%, driven by the growth of personal income tax throughout this period and VAT in the last months of 2022. At year-end 2023, growth is estimated at 6.9%, with a positive contribution to growth from all taxes, particularly personal income tax, with VAT losing some of its momentum.

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



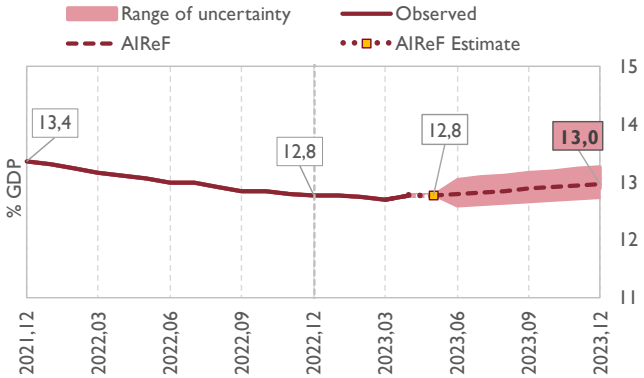
Contributions to the change AIReF Cash (% change)



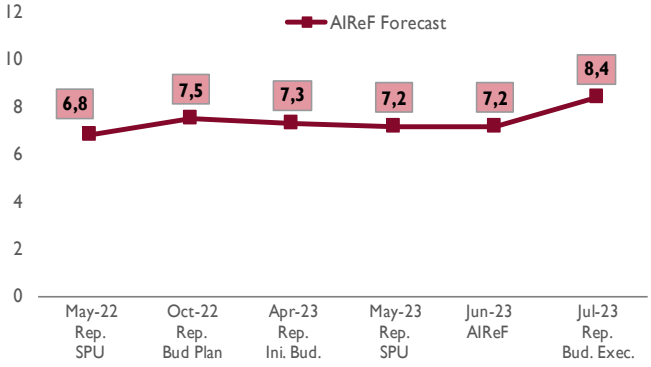
❼ AIReF expects **Social Security Funds (SSFs) contributions** to end 2023 with a weight of 13% of GDP. The increase of two tenths of a percentage point compared with the beginning of the year is mainly due to the measures adopted.

❽ AIReF expects **total General Government contributions to grow at a rate of 8.4%,** 1.2 percentage points higher than the forecast in the Stability Programme Update Report due to the improvement in the forecast for compensation of employees and employment.

Social Security Contributions (% GDP) (NA)



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

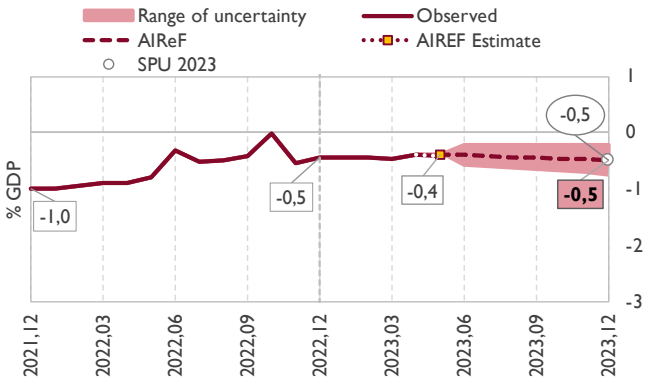


Social Security Funds

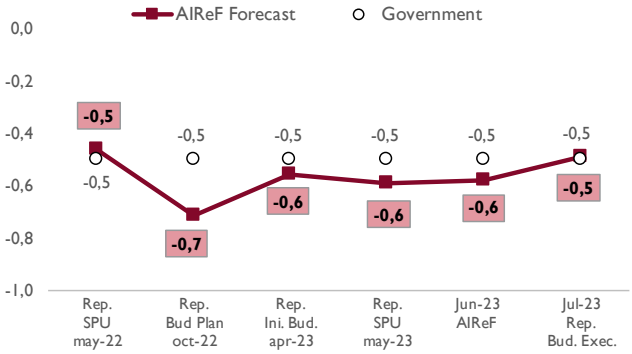
❶ AIReF estimates that the SSFs deficit will reach 0.5% of GDP in 2023, in line with the Government's forecast in the Stability Programme of May 2023.

❷ AIReF reduces the estimate of the SSFs deficit for 2023 in the Stability Programme Update Report by one tenth of a percentage point due to the improvement in the forecasts for employee compensation.

SSF deficit (% GDP)



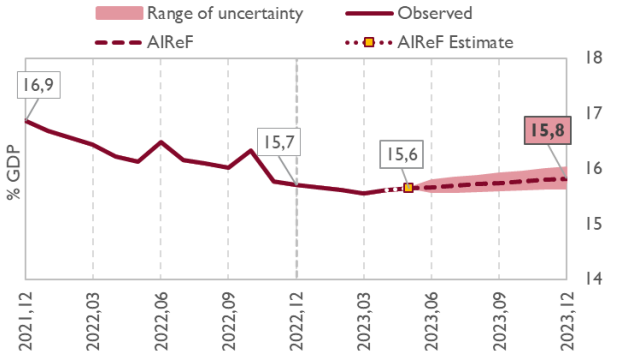
Updated AIReF estimated SSF deficit (% GDP)



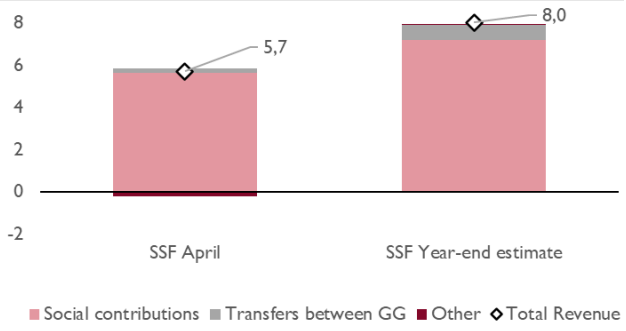
❸ AIReF expects the weight of revenue over GDP to maintain a slightly upward trend, reaching 15.8%, due to the increase in the contribution rate because of the application of the Intergenerational Equity Mechanism (IEM), the increase in the maximum base and greater dynamism in the growth of contributions.

❹ AIReF expects an acceleration in the rate of growth of revenues for the rest of the year, driven by contributions and transfers between.

SSFs revenue (% GDP)



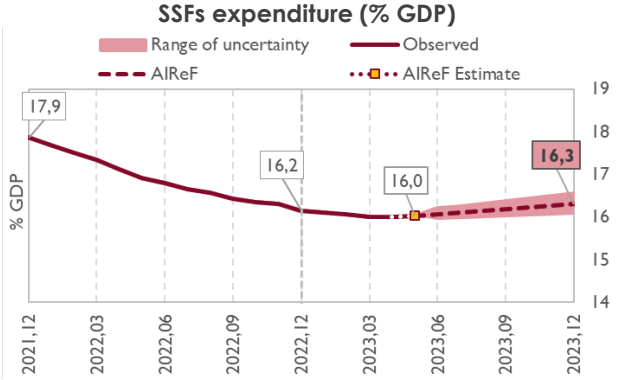
Contributions to change in SSFs revenue (% change)



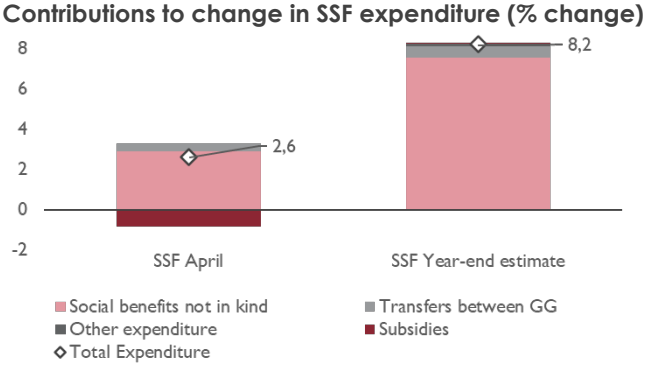
❺ AIReF expects expenditures to increase their weight in GDP over the course of 2023 to end the year at 16.3%, mainly due to the indexation of pensions with the previous year's CPI.

❻ SSFs expenditure is expected to increase by 8.2% by the end of 2023, led mainly by growth in pension spending and, to a lesser extent, by a positive contribution between General Government sub-sectors.

SSFs expenditure (% GDP)



Contributions to change in SSF expenditure (% change)

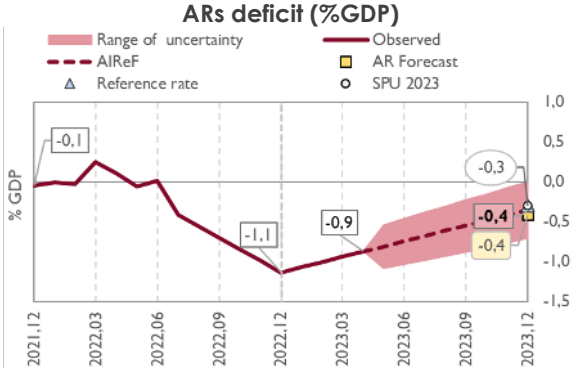


Autonomous Regions

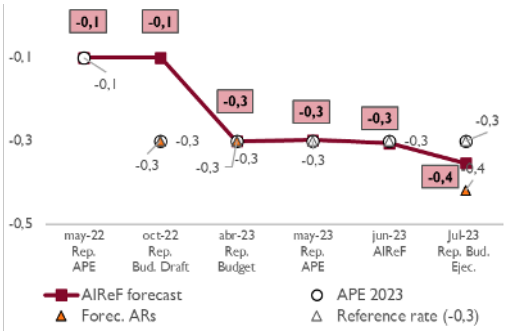
1 AIReF estimates that by the end of 2023 the Autonomous Regions (Ars) will have a deficit of 0.4% of GDP, one tenth of a percentage point higher than the reference rate and the SPU forecast for the sub-sector.

2 AIReF has cut the deficit forecast for the Autonomous Regions by one tenth of a percentage point, once the implementation data and the updated forecasts and information from the Atonomous Regions have been incorporated.

ARs deficit (%GDP)



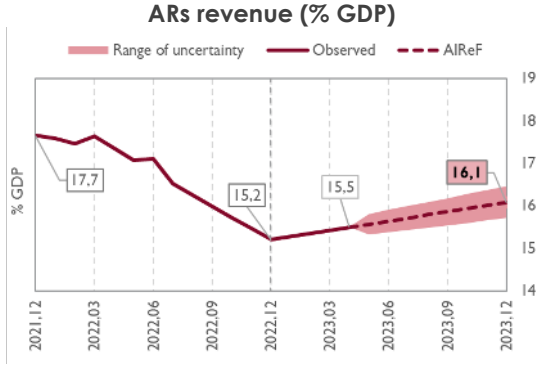
Update estimated ARs deficit (%GDP)



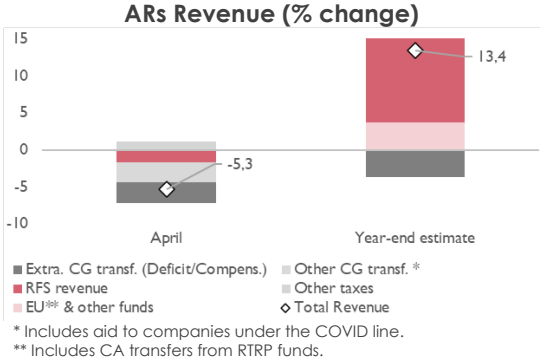
3 Revenue without RTRP will increase by 10% year-on-year, conditioned by the growth of revenue from the Regional Financing System (RFS). With the RTRP, the increase would be 13%, reaching 16.1% of GDP.

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

ARs revenue (% GDP)



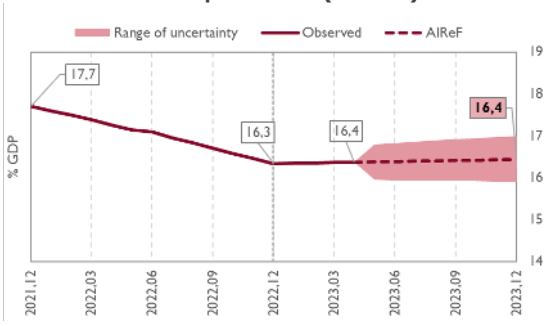
ARs Revenue (% change)



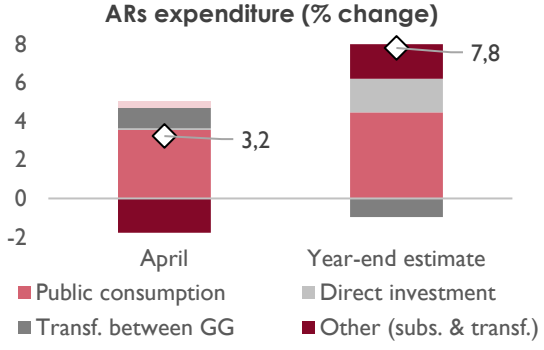
5 Expenditure without RTRP will increase by more than 5%, affected by inflation, the execution of funds, the cost of debt and the updating of public wages. Including RTRP-financed expenditures, expenditure would grow by 8%, to 16.4% of GDP.

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)

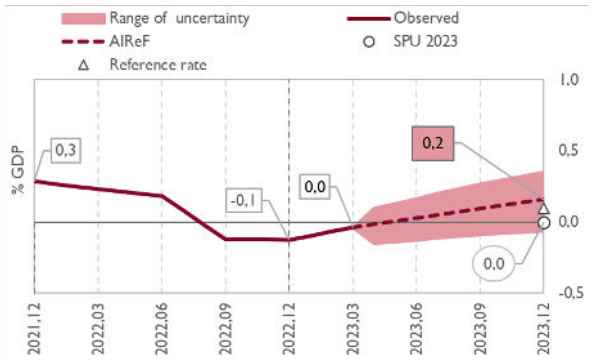


Local Governments

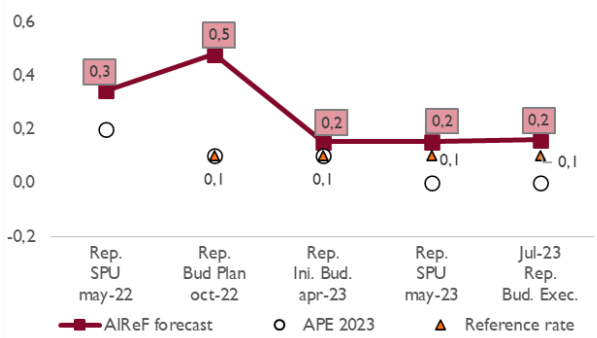
1 AIReF estimates a LGs surplus for 2023 of around 0.2% of GDP, slightly above the reference rate (0.1%) and the SPU forecast for the sub-sector (0.0%).

2 The estimates made in May are maintained as new information, relating to the first quarter, does not substantially change the forecast.

LGs surplus (%GDP)



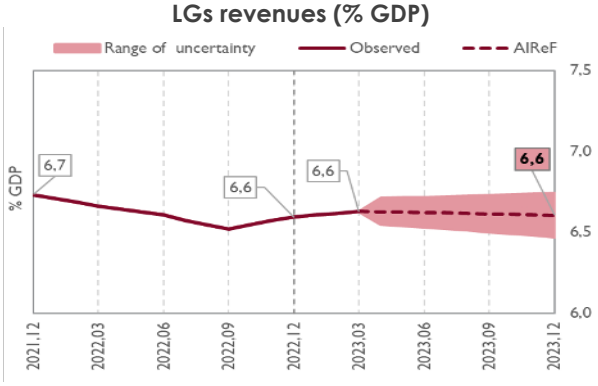
Updated estimated LGs surplus (%GDP)



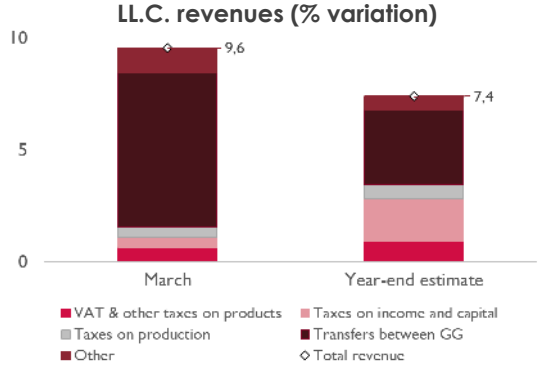
3 Revenue will grow by 4% year-on-year, homogenised from financing system settlements and RTRP funds, stabilising their weight on GDP with respect to the data observed for 2022 and the first quarter.

4 In the last 12 cumulative months there has been an increase in the transfers received from the CG for the compensation received at the end of 2022 and Q1 2023 for the negative settlement of 2020 and VAT management system – SII. This will be reduced at the end of the year by including only the 2023 compensation.

LGs revenues (% GDP)



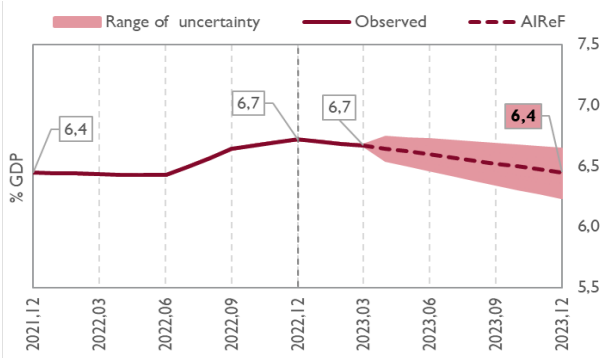
LL.C. revenues (% variation)



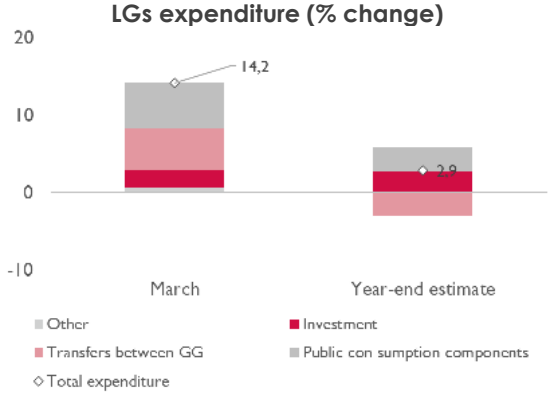
5 Expenditure will also grow by 4% year-on-year, homogenised from financing system settlements and RTRP. Their weight in GDP will decrease by three tenths of a percentage point, compared with the latest data observed, due to the payment in 2022 of the 2020 settlement of two tenths of a percentage point of GDP.

6 The increase over the last 12 cumulative months in transfers is due to collecting the entire 2020 settlement made in 2022 in favour of the CG. The contribution to growth at the end of the year is negative as there is no negative settlement.

LGs expenditure (% GDP)



LGs 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 considering 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 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 based on 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 based on 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.