MONTHLY STABILITY TARGET MONITORING 2023

PUBLICATION DATE: SEPTEMBER 15TH, 2023

Independent Authority
for Fiscal Responsibility

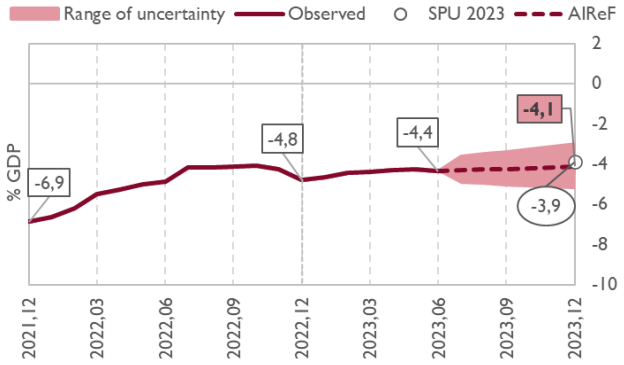
General Government

AIReF maintains its deficit estimate for the whole General Government (GG) at 4.1% of GDP published in the Report on Budgetary Execution of July 6th. This factsheet includes new information received and new data published. Significant changes at a sub-sector level have not been recorded, maintaining the same forecasts as in the report.

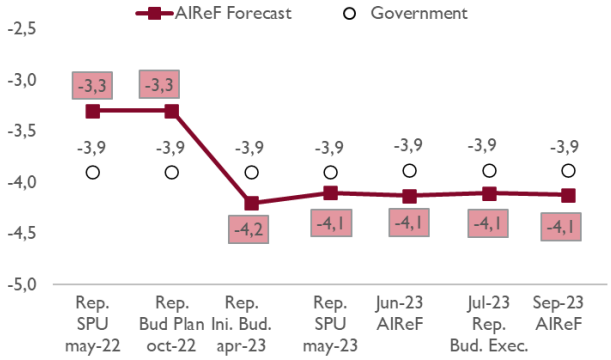
1 The deficit forecast for 2023 remains at 4.1% of GDP, despite the forecast increasing slightly for both revenue and expenditure.

2 In the process of ongoing assessment of the budget cycle, AIReF has maintained its deficit estimate at 4.1% of GDP since May. The Government maintains its deficit expectations at 3.9%.

General Government deficit (% GDP)



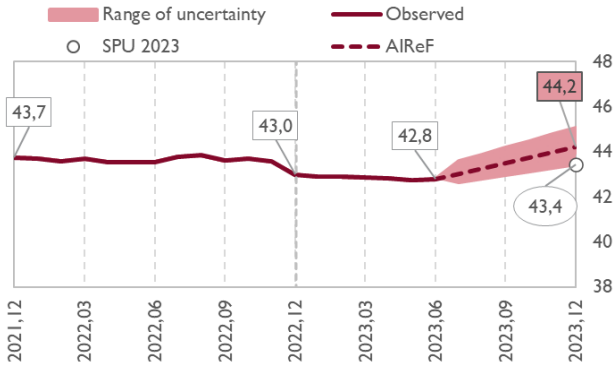
Updated General Government deficit estimate (% GDP) (AIReF)



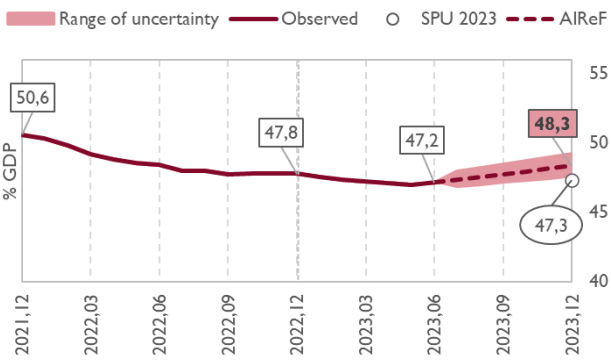
3 Annualised revenue in June begins to reverse the downward trend of the series since the start of the year. AIReF forecasts that this trend will remain until the end of 2023, reaching 44.2% of GDP. This growth would be lower if the Recovery, Transformation and Resilience Plan (RTRP) is not taken into account.

4 The downward path of annualised expenditure compared with year-end 2022 begins to change direction in June. This growth is expected to be maintained and the weight of expenditure to gradually grow to reach 48.3% of GDP by year-end 2023.

GG revenue (% GDP)



GG expenditure (% GDP)

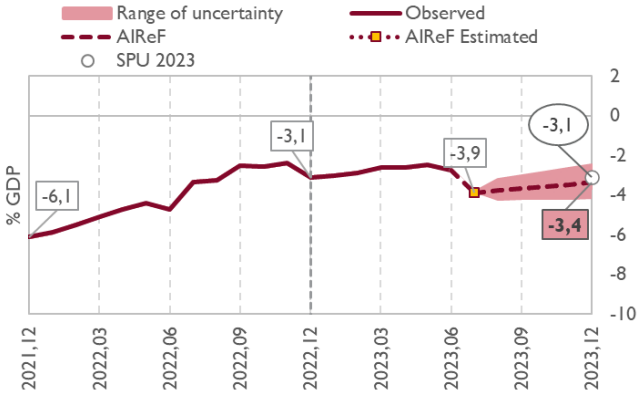


Central Government

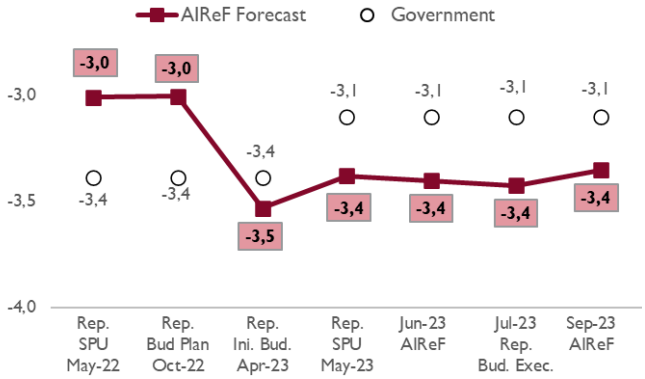
1 AIReF maintains its deficit estimate for the CG at 3.4% of GDP for 2023, 0.3 points higher than the Government's forecast contained in the Stability Programme Update 2023-2026.

2 The deficit estimate is maintained despite a certain increase in expenditure due to the increase in certain measures and the increase in servicing debt.

CG deficit (% GDP)



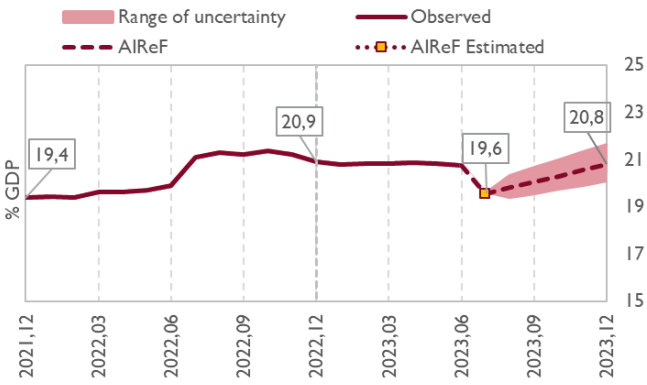
Updated estimated CG deficit (% GDP)



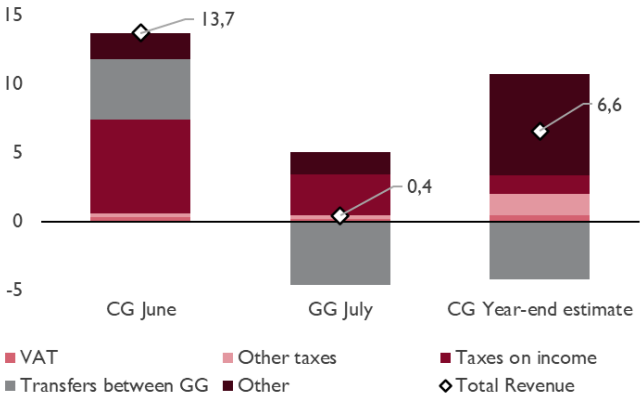
3 AIReF considers that the annualised revenue to July will reduce its weight as a proportion of GDP by more than 1 point on the previous month to stand at 19.6%, primarily due to lower transfers from the exceptional settlement of the Regional Financing System in the previous year.

4 The cumulative revenue of the last 12 months will reduce its rate of growth due to the fall in transfers. For the rest of the year, other revenue is expected to recover, which will push the rate upwards as a result of the effect of the RTRP funds.

CG revenue (% GDP)

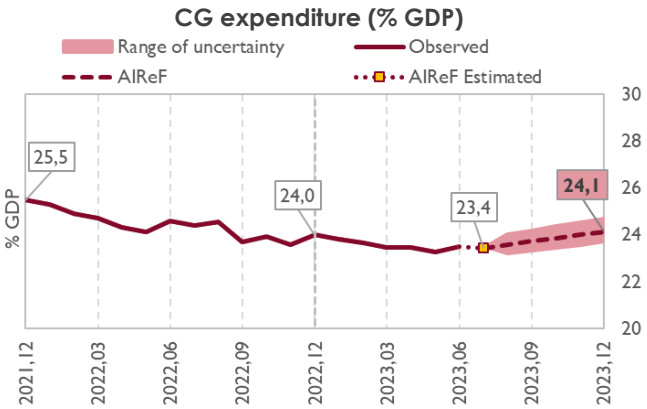


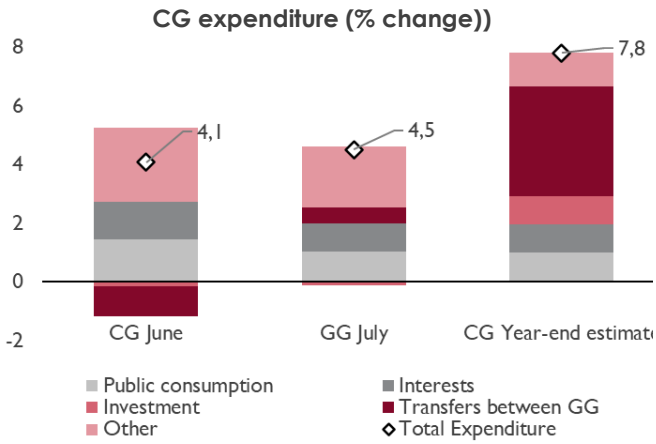
CG revenue (% change)



❺ The expenditure forecast will increase its weight as a percentage of GDP to 24.1% in 2023, incorporating the new raft of measures introduced under Royal Decree-Laws 4/2023 and 5/2023.

❻ Particularly noteworthy at year-end is the estimated growth in expenditure of 7.8%, with a noteworthy contribution from the transfers due to the RTRP and other expenses from subsidies granted which are higher than in previous years due to the measures approved.





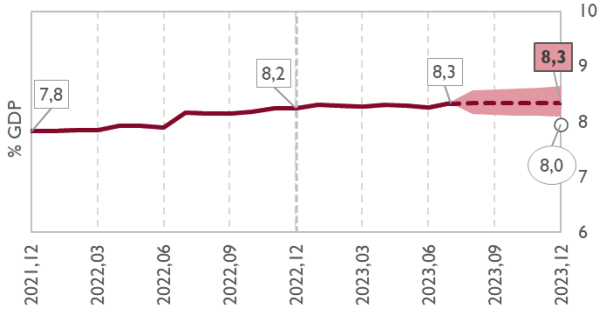
Main tax revenue and social contribution items

AIReF updates its estimates of tax revenue with the incorporation of the collection data until July. The cumulative amount of tax revenue to July shows growth of 3.9%, 0.1 points less than in the previous month and more moderate than the 18% recorded in the same period of 2022. Collection in 2023 is affected by the rate reductions of VAT and Special Taxes on energy products and by the VAT rate reduction on food, with an impact in the year to date estimated at -€4.94bn.

❶ AIReF estimates the weight of **PIT** to reach 8.3% of GDP by year-end, 0.1 points higher than last year. The increase up to July was 9.7%, driven by the withholding component of the growth in employment, wages and the average tax rate, both in the public and private sector. A worse result was also observed in the annual return as a higher increase was recorded in tax refunds than payments. PIT is expected to be 8.5% higher by the end of 2023 than in 2022.

❷ **CIT** will amount to 2.6% of GDP by year-end 2023, according to AIReF's forecasts, 0.2 points higher than in 2022. In the year to date, this tax has fallen by 39.1% on 2022, affected by the refund of more than €1bn in the enforcement of a court ruling. AIReF forecasts growth of 12.9% by the end of 2023, although this is still subject to uncertainty until the second and third instalment payments towards the end of the year are included.

PIT in Cash (% GDP)

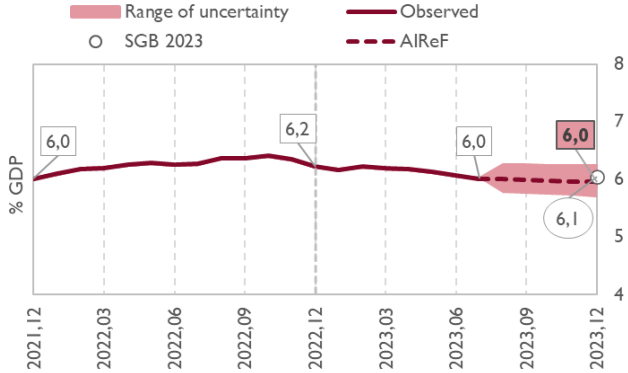


CIT in Cash (% GDP)

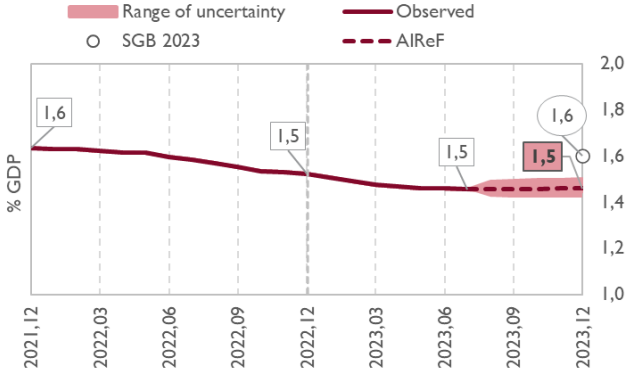
❸ The weight of **VAT** as a percentage of GDP will stand at 6% by the end of 2023, 0.2 points lower than last year. Revenue up to July was 2.1% higher than in 2022, showing a gradual slowdown since the month of February, affected by more sluggish sales and the rate reductions on energy and food products. Revenue is expected to rise by 2.6% year-on-year by the end of 2023.

❹ AIReF forecasts that **Special Taxes** will maintain their weight as a percentage of GDP at 1.5% in 2023. Up to July, collection performed similarly to 2022, affected by the extension of the rate reduction of the Special Tax on Electricity, with an estimated impact in the first seven months of the year of -€1.16bn, despite collecting €346m from the new Special Tax on Single-Use Plastics. Growth of 2.6% for Special Taxes as a whole is forecast by year-end 2023.

VAT in Cash (% GDP)



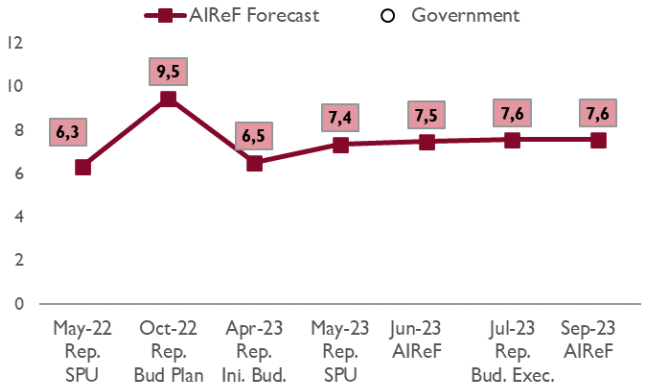
Special Taxes in Cash (% GDP)



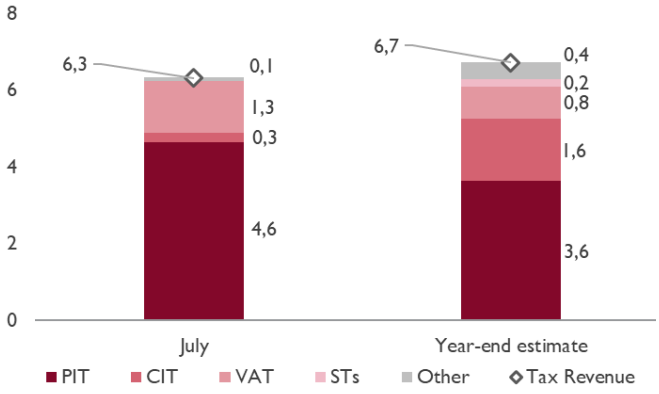
❺ **In national accounting terms, total tax revenue** for 2023 will be 7.6% higher than in 2022, maintaining the previous estimate after including the latest collection data available.

❻ **12-month cumulative tax revenue in cash terms** up to July is up by 6.3%, driven by higher PIT throughout the year and VAT in the last few months of 2022. Growth of 6.7% is forecast by year-end 2023, with a positive contribution from all components, particularly PIT.

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



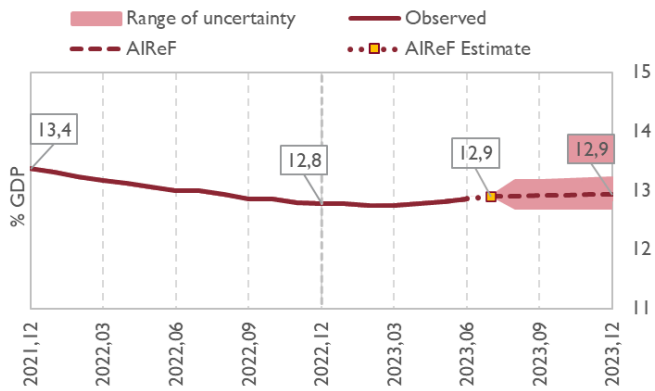
Contributions to change. Cash AIReF (% change)



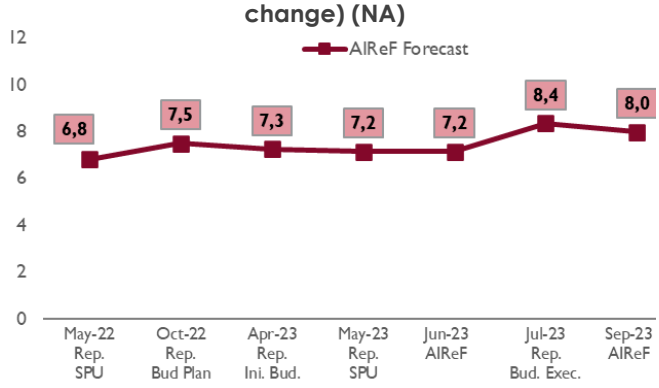
❼ AIReF expects that the **Social Security Funds** will close 2023 with a weight as a percentage of GDP of 12.9%. The 0.1-point rise compared with the start of the year is due to the improved forecast for the remuneration of salaried workers and employment.

❽ AIReF expects the rate of **growth of contributions from the whole GG sector to stand at 8%,** a fall of 0.4 points on the forecast contained in the Report on Budgetary Execution of July 2023.

SSF Social Contributions (% GDP) (NA)



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

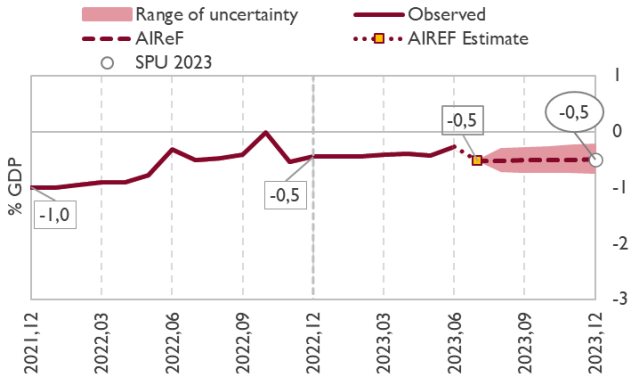


Social Security Funds

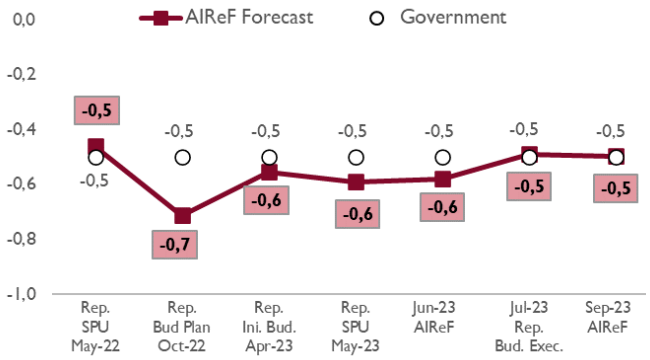
❶ AIReF estimates that the SSF deficit will reach 0.5% of GDP in 2023. This is the same as the forecast contained in the Report on Budgetary Execution of July 2023.

❷ AIReF's estimate of the SSF balance for 2023 stands at -0.5% of GDP, similar to the Government's latest estimate.

SSF deficit (% GDP)



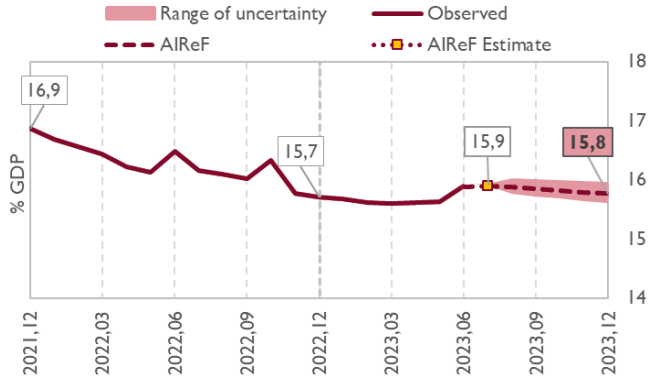
Updated AIReF estimated SSF deficit (% GDP)



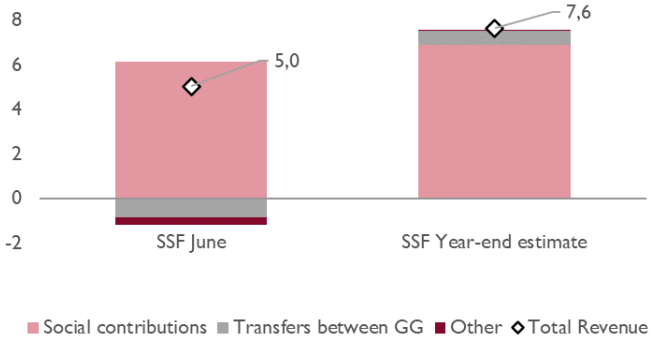
❸ AIReF expects that the weight of revenue as a percentage of GDP will rise slightly in 2023 to 15.8%, due to the increase in the contribution rate for the application of the IEM, the increase in the maximum base and more dynamic growth in contributions.

❹ AIReF expects an acceleration in the rate of growth of revenue over the rest of the year, driven by contributions and transfers between GG sub-sectors. The growth of contributions is underpinned by improved remuneration to salaried workers and employment.

SSF Revenue (% GDP)



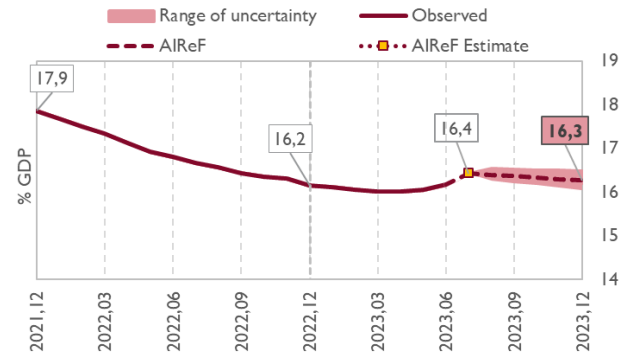
Contributions to change in SSF revenue (% change)



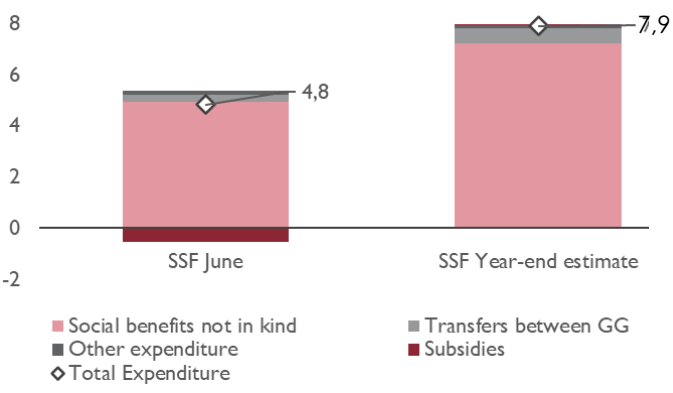
❺ The weight of expenditure over GDP will rise over the course of 2023 to end the year at 16.3%, mainly due to the deindexing of pensions from the previous year's CPI.

❻ SSF expenditure is expected to grow by 7.9% by year-end 2023, mainly headed up by growth in spending on pensions and, to a lesser extent, by a positive contribution from transfers between GG sub-sectors.

SSF expenditure (% GDP)



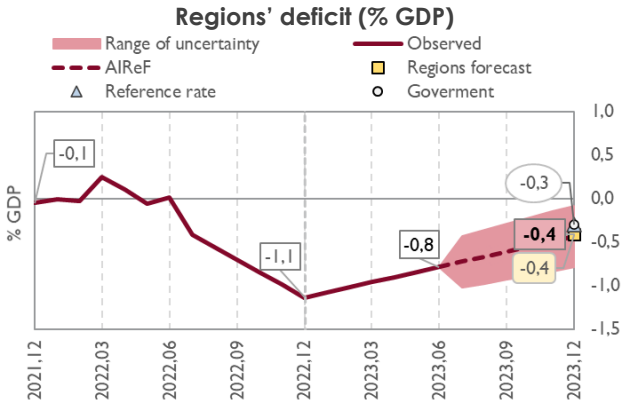
Contributions to change in SSF expenditure (% change)

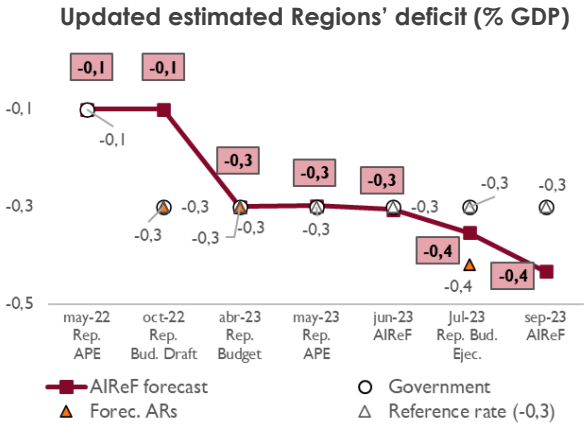


Autonomous Regions

1 AIReF still estimates that the ARs will close 2023 with a deficit of 0.4% of GDP, 0.1 points above the reference rate contained in the Stability Programme.

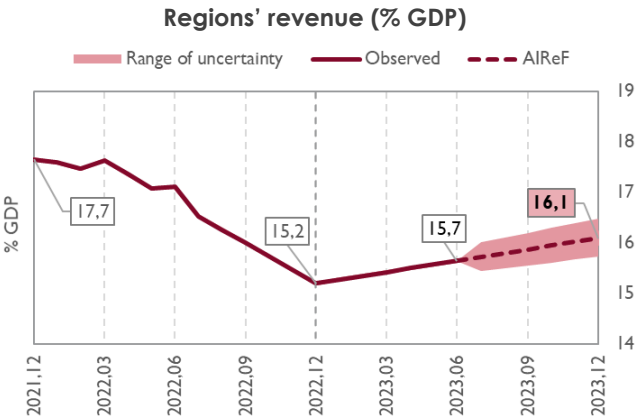
2 AIReF has slightly increased the forecast deficit for year-end 2023, without exceeding the 0.4% of GDP due to higher execution of advertising expenses than the forecast in previous months.

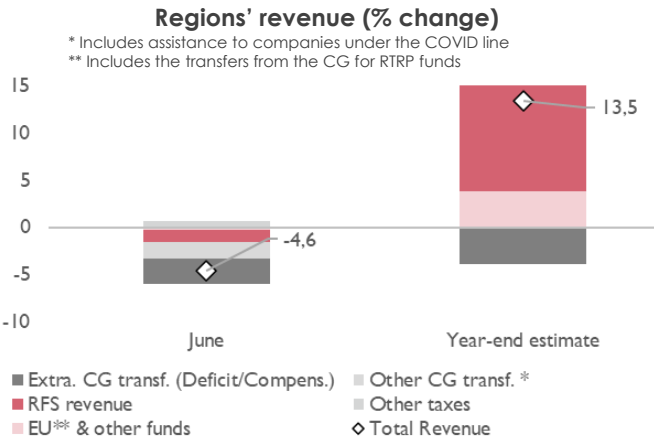




3 Revenue excluding the RTRP will rise by more than 10% year-on-year, thanks to the revenue growth under the Regional Financing System (RFS). Including the Plan, revenue would rise by 13% to stand at 16.1% of GDP.

4 The transfers received from the CG have fallen over the last 12 months, thus reducing total revenue. This fall will be cancelled out at year-end by the rise in revenue under the RFS and in European funds.

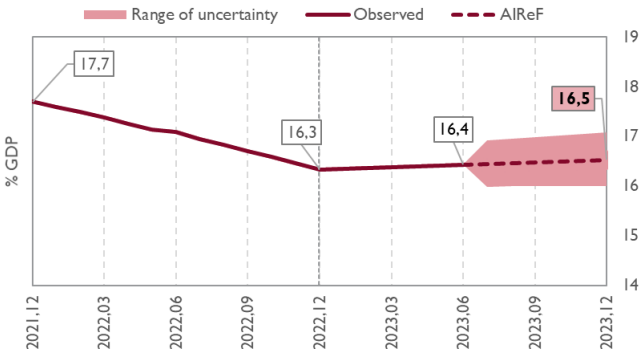




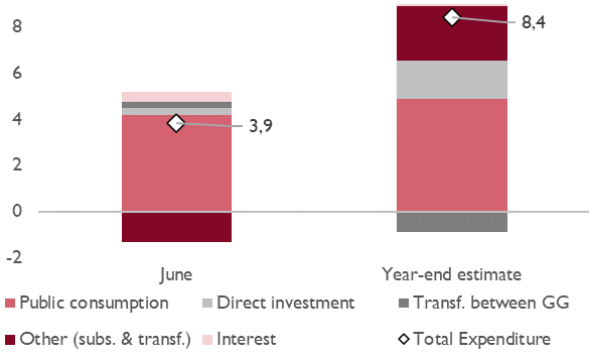
5 Non-RTRP expenditure will rise by 6%, affected by inflation, the execution of funds, the cost of servicing debt and public wage rises. Including expenses financed under the RTRP, expenditure will grow by 8% to 16.5% of GDP.

6 Public consumption, interest and investment have grown in the last 12 months, while pandemic-related expenditure has fallen. The growth in public consumption will be maintained at year-end, while investments, subsidies and other transfers from the execution of the RTRP will increase.

Regions' expenditure (% GDP)



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.
- Since 2020, given the change in the monthly pattern of revenue and expenditure, primarily caused by the health crisis and the war in Ukraine, in these factsheets AIReF does not aim to estimate a monthly total, but instead focuses on what it deems relevant: the flow over the whole of 2023, highlighting how the monthly information, or new announcements, lead to a change in its own estimates.
- Since monthly data are not published on 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 July 26th, 2022, the Council of Ministers requested that the escape clause should remain in place in 2023, in line with the decision taken by the European Commission to maintain the safeguard clause under the Stability and Growth Pact to provide countries with greater flexibility to tackle the crisis stemming from the invasion of Ukraine. Subsequently, on September 22nd, 2022, the Congress of Deputies appreciated that exceptional circumstances would exist to maintain the suspension of the fiscal rules in 2023, following a report from AIReF in the same vein dated July 29th, 2022. The activation of this escape clause meant the continuity of the suspension of the fiscal rules in 2023.
  - The same meeting of the Council of Ministers established deficit reference rates for 2023 for the GG as a whole of 3.9% of GDP, with the following breakdown by sub-sector: 3.2% of GDP for the Central Government, 0.5% of GDP for the Social Security Funds, 0.3% of GDP for the ARs and a surplus of 0.1% of GDP for the LGs. These forecasts are mere references and do not constitute a limitation on the deficit, and hence the non-compliance therewith does not entail the application of corrective measures under the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF). However, the Government forecasts contained in the Stability Programme Update 2023-2026 submitted to Brussels back in April have been taken into account, where the forecast for 2023 for the GG and the sub-sectors thereof coincide with the reference rates established, with the exception of the CG, for which the deficit forecast was 0.1 points higher to stand at 3.1% of GDP instead of the 3.2% established as the reference rate, offsetting the worsening of the forecast for the LGs, which falls from a surplus of 0.1% of GDP to budgetary balance.
  - AIReF's total forecast revenue and expenditure for the GG is measured including the RTRP and REACT funds, which AIReF expects to stand at 1.5 points of GDP in 2023. In the comparisons with the Government, AIReF has considered the forecasts without the RTRP, since the Stability

Programme Update does not include information 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 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 revenue and expenditure.

- 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.