MONTHLY STABILITY TARGET MONITORING 2023

PUBLICATION DATE: OCTOBER 31ST, 2023

General Government

AIReF maintains its deficit estimate for the General Government (GG) Sector at 4.1%, albeit with a different composition by sub-sector. While the forecasts for the Central Government and Social Security Funds improve, those for Autonomous Regions and Local Governments worsen. This factsheet contains the forecasts for 2023 published in the Report on the Main Lines of the Budgets of the General Government for 2024 on October 26th, taking into account the update of the macroeconomic outlook and the new information received.

❶ The deficit forecast for 2023 stands at 4.1%. The forecast for both revenue and expenditure is lower due to the revision of the execution of the Recovery, Transformation and Resilience Plan (RTRP) with a neutral impact on the deficit. A reduction in the deficit to reach this figure is expected by the end of the year.

General Government deficit (% GDP)

❷ In the process of continuous assessment of the budgetary cycle, AIReF maintains the deficit estimate at 4.1%. The Government maintains its deficit forecast at 3.9% in the publication of the Budgetary Plan.
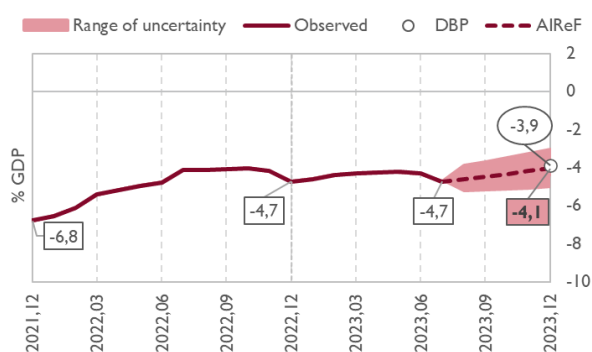
Updated GG deficit estimate (% GDP) (AIReF)
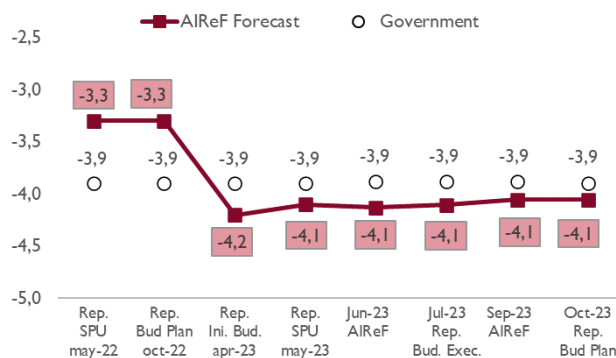
❸ The revenue observed up to July in cumulative 12-month terms continues the downward trend observed since the start of the year, only interrupted in June. AIReF expects this trend to reverse until year-end 2023, reaching 42.9%. This growth is contingent on the planned execution of the RTRP and concentrated at the end of the year.

❹ The downward path of annualised expenditure compared with year-end 2022 began to change direction in June and was confirmed in July. This upward path is expected to be maintained and the weight of expenditure will gradually increase to reach 47% of GDP by year-end 2023, 1.2 points of GDP above the forecast contained in the Budgetary Plan.
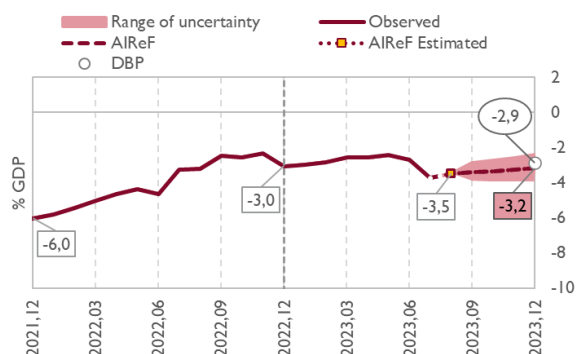
GG revenue (% GDP)
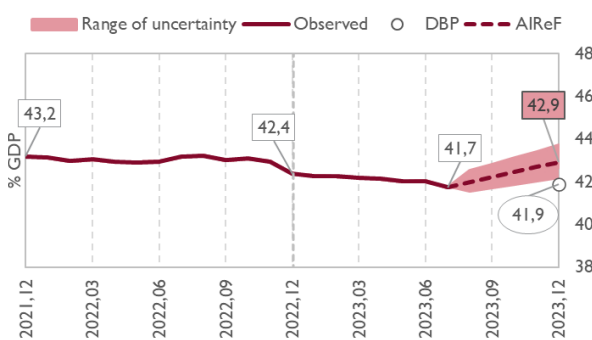

GG expenditure (% GDP)
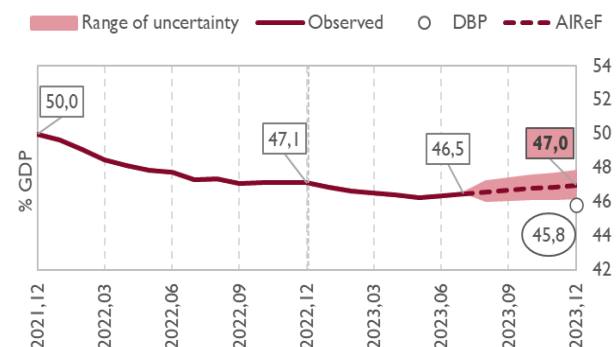
Central Government

❶ AIReF reduces its deficit estimate for the Central Government (CG) to 3.2% of GDP for 2023, 0.3 points higher than the Government's forecast in the Budgetary Plan.

CG deficit (% GDP)

❷ The deficit estimate is reduced due to a downward revision of expenditure, headed up by the updated cost of servicing debt, and by the dynamism of revenue.

Updated estimated CG deficit (% GDP)
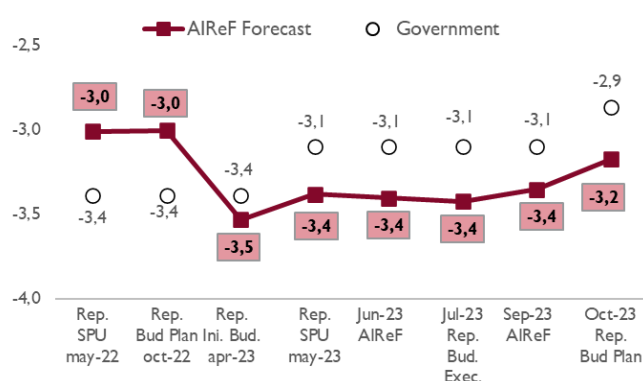
❸ AIReF expects cumulative 12-month revenue to reduce its weight to reach 19.8% at year-end 2023, mainly due to lower transfers received as a result of the final settlement of the regional and local financing system for 2021.

CG revenue (% GDP)
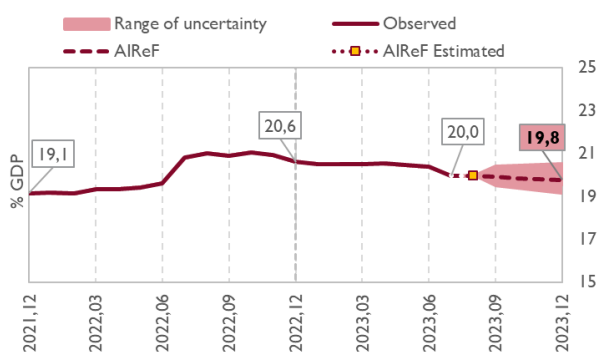
❹ Revenue is expected to increase its growth rate by year-end 2023, mainly driven by the growth of revenue from the RTRP funds. To a lesser extent, an improvement in the contribution of both VAT and other taxes is expected.

CG revenue (% change)

❺ Expenditure in cumulative 12-month terms will increase slightly to reach 22.9% of GDP at the end of the year, incorporating the anti-crisis measures in effect until December 31st this year.

CG expenditure (% GDP)
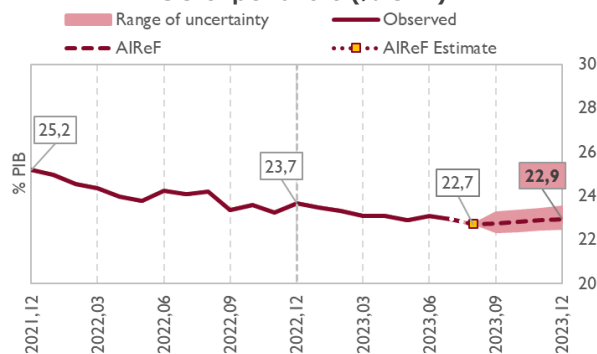
❻ At year-end 2023, it is estimated that expenditure will grow to 4.9%, with a significant positive contribution from spending on transfers and investments, and a negative contribution from other expenses due to the lower cost of measures in 2023 compared with 2022.

CG expenditure (% change)
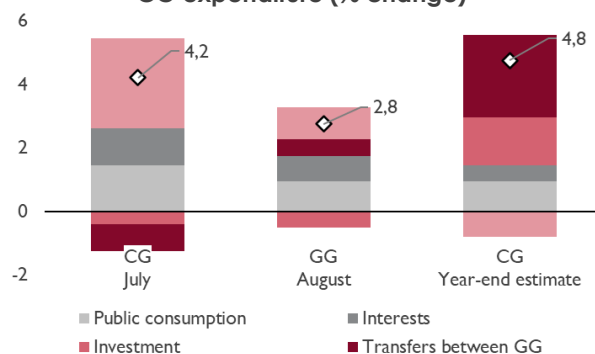
Main tax revenue and social contribution items

AIReF updates its estimates of cash-based tax revenue with its macroeconomic scenario for the Report on the Main Lines of the Budgets and with the incorporation of collection data until August. AIReF's forecasts are compared with those of the Government included in the 2023 General State Budget (GSB). To date this year, tax revenue has shown growth of 4.5%, a more moderate rise than the 19% recorded in the same period of 2022. Revenue collection in 2023 is affected by rate reductions in VAT and Special Taxes on energy products, as well as the reduction in VAT rates on food, with a year-to-date estimated impact of -€5.67bn.

❶ AIReF estimates that by the end of the year, the weight of **Personal Income Tax (PIT)** as a percentage of GDP will reach 8.2%, 0.1 points higher than last year. The increase up to August was 9.6%, mainly due to the strong performance of withholdings from employment, both in the public and private sectors, driven by growth in employment, wages and the effective tax rate. By year-end 2023, PIT is expected to be 9.4% higher than in 2022.
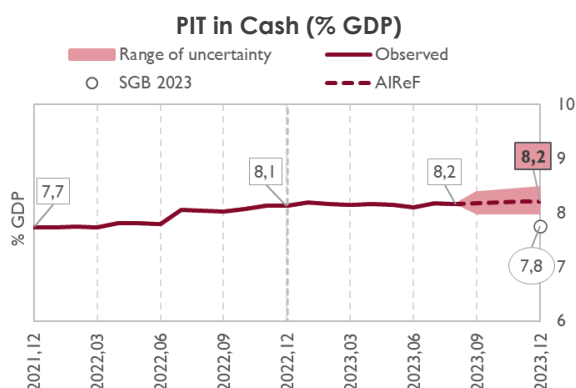
❷ According to AIReF's forecasts, **Corporate Income Tax (CIT)** will amount to 2.4% of GDP by year-end 2023, maintaining the same weight as last year. In the year to date, this tax has fallen by 10.8%, affected by a refund of more than €1bn due to the enforcement of a court ruling. AIReF forecasts an increase of 10.8% by year-end 2023, with the forecast still subject to uncertainty until the inclusion of the second and third instalment payments in the later months of the year.

PIT in Cash (% GDP)

CIT in Cash (% GDP)
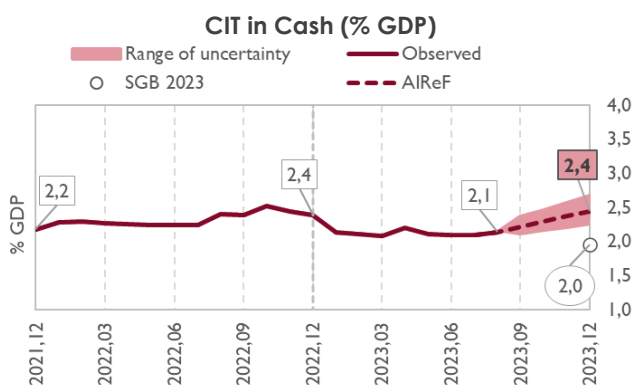
❸ The weight of **Value Added Tax (VAT)** as a percentage of GDP will stand at 5.8% by year-end 2023, 0.3 points lower than last year. Net revenue to August was 1% higher than in 2022, showing a gradual slowdown since February, affected by lower sales and the reductions in energy and food product rates, with an estimated impact in the year to date of €2.82bn. Revenue is expected to be 2.5% higher than in 2022 by year-end 2023.
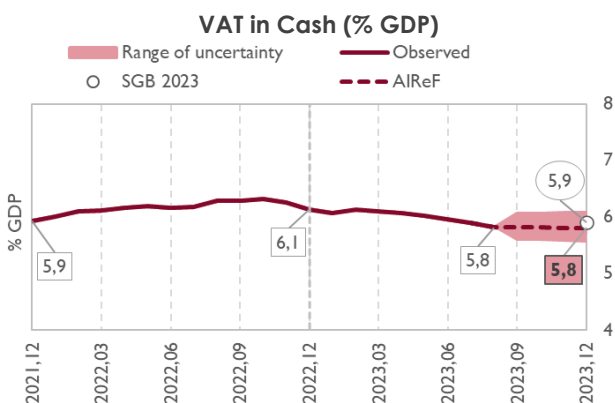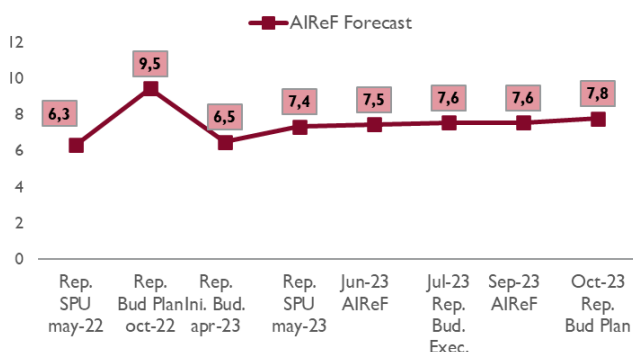
❹ AIReF expects **Special Taxes (ST)** to reduce their weight as a percentage of GDP to 1.4% in 2023. Collection up to August has grown by 1.2% compared with 2022, affected by the extension of the reduction in the Special Tax on Electricity, with an estimated impact in the first eight months of the year of -€902m, and despite incorporating €402m from the new Special Tax on Single-Use Plastics. By the end of the year, growth of 1.9% is estimated for Special Taxes as a whole.
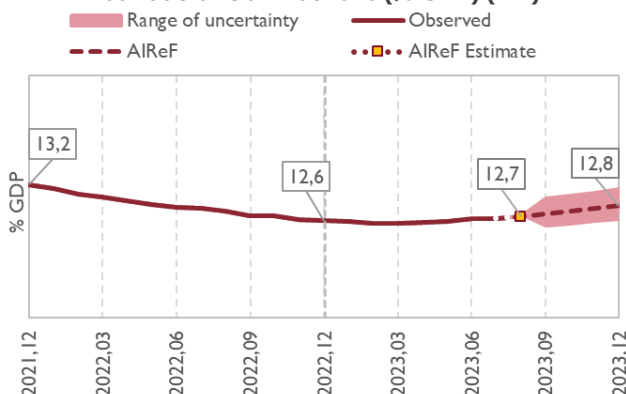
VAT in Cash (% GDP)

Special Taxes in Cash (% GDP)
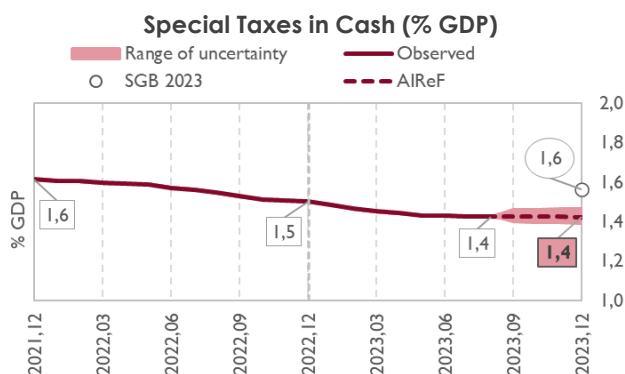
❺ In national accounting terms, total tax revenue in 2023 will grow by 7.8% compared with 2022, 0.2 points higher than the previous estimate, after incorporating the latest collection data available and the latest macroeconomic forecasts from AIReF.

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

❻ 12-month cumulative tax revenue in cash terms up to August grew by 5.1%, driven by the growth of PIT. By year-end 2023, growth of 6.8% is estimated, with a positive contribution from all components, with the contribution from direct taxes, especially PIT, standing out.

Contributions to change. Cash AIReF (% change)

❼ AIReF expects **Social Security Fund contributions** to end 2023 with a weight as a percentage of GDP of 12.8%. The increase of 0.2 points compared with year-end 2022 is due to the improved forecast for the compensation of salaried workers and employment.

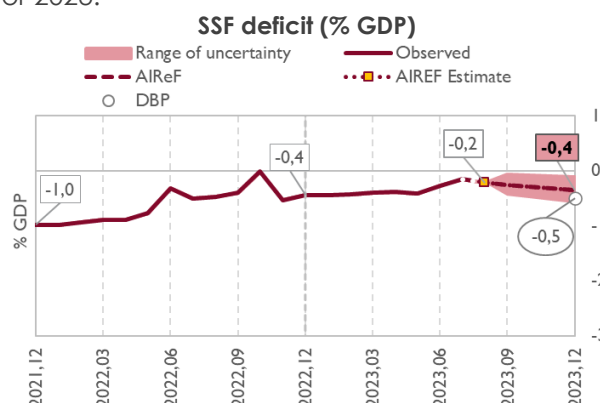**SSF Social Contributions (% GDP) (NA)**
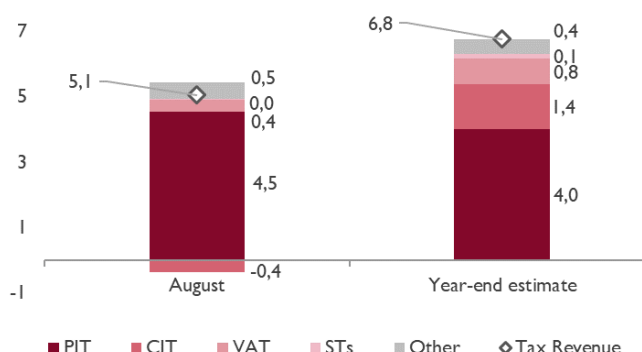
❽ AIReF expects the **growth rate of contributions from the General Government Sector to be 9.8%,** higher than recent publications, due to the dynamism shown by this aggregate in recent months.

Updated forecast for Social Contributions from the GG Sector (% change) (NA)
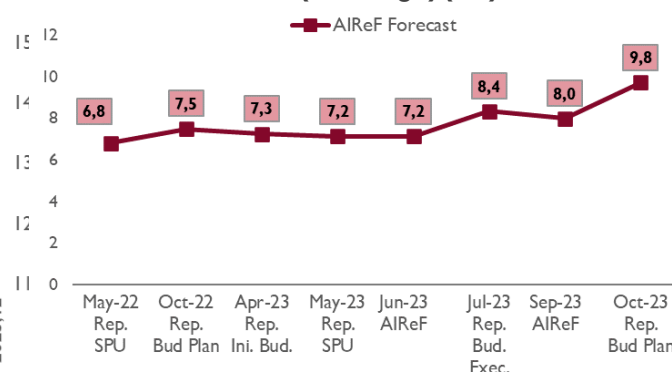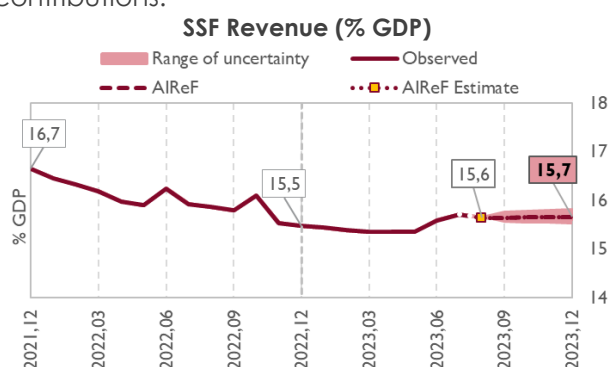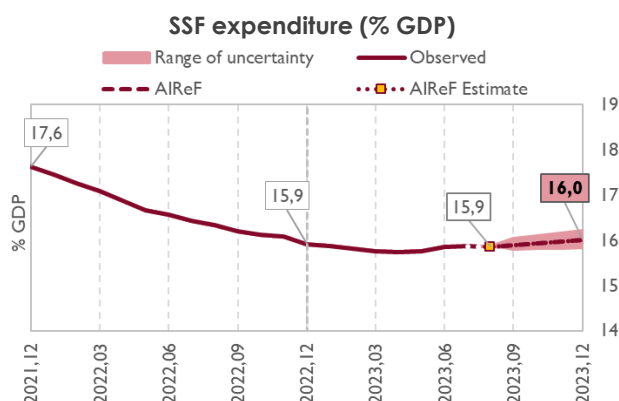
Social Security Funds

❶ AIReF estimates that the SSF deficit will reach 0.4% of GDP in 2023. This represents an improvement of 0.1 points compared with the forecast in AIReF's Budgetary Execution Report for 2023.
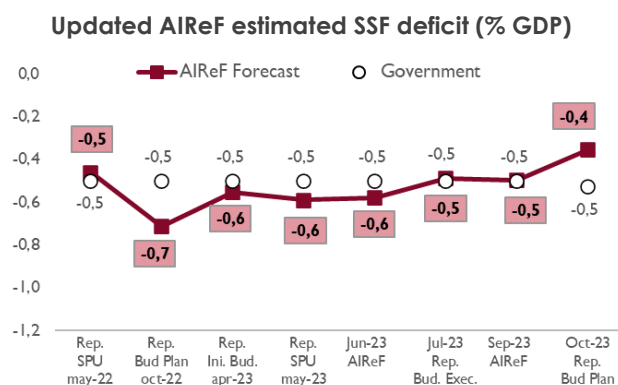
SSF deficit (% GDP)

❷ AIReF's estimate of the SSF balance for 2023 is -0.4% of GDP, 0.1 points higher than the Government's Budgetary Plan.

Updated AIReF estimated SSF deficit (% GDP)

❸ AIReF expects that the weight of revenue as a percentage of GDP will maintain a slight upward trend throughout 2023, reaching 15.7%, due to the increase in the contribution rate for the application of the IEM, the increase in the maximum base, increased transfers for improper spending, and more dynamic growth in contributions.

SSF Revenue (% GDP)

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

Contributions to change in SSF revenue (% change)

❺ AIReF expects the weight of expenditure over GDP to rise over the course of 2023 to end the year at 16%, mainly due to the deindexing of pensions from the previous year's CPI.

SSF expenditure (% GDP)
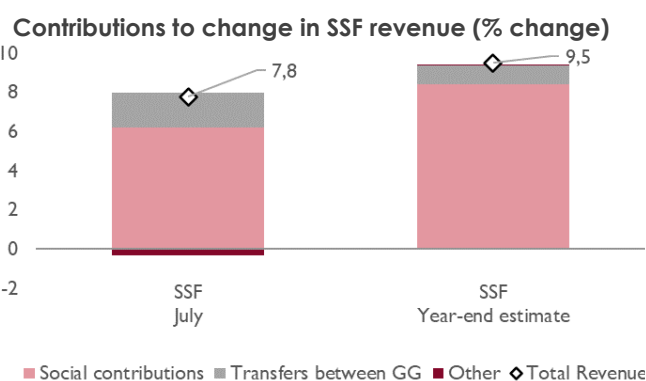
❻ SSF expenditure is expected to grow by 8.9% by year-end 2023, mainly driven by growth in spending on pensions and unemployment and, to a lesser extent, by a positive contribution from transfers between General Government sub-sectors.

Contributions to change in SSF expenditure (% change)
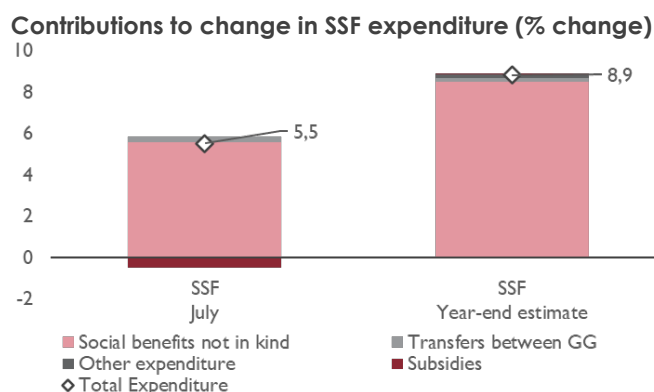
Autonomous Regions

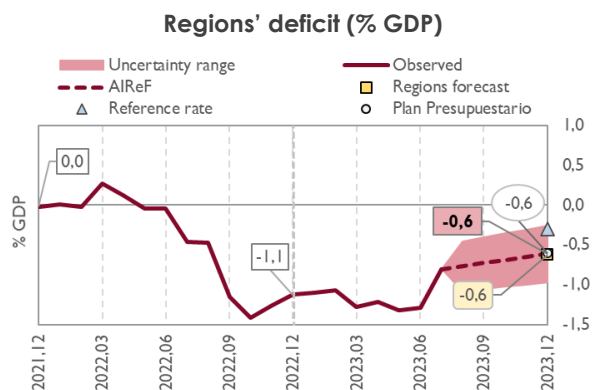**❶** AIReF estimates that the ARs will close 2023 with a deficit of 0.6% of GDP, in line with the forecast contained in the Budgetary Plan and the estimates of the Autonomous Regions.
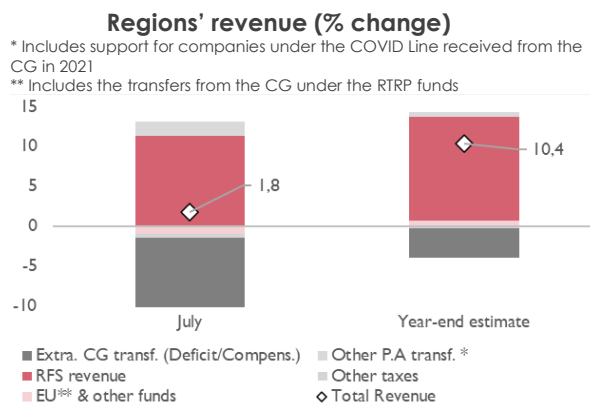
❷ AIReF has increased the expected deficit by 0.2 points for year-end 2023, due to lower expected revenue collection and higher execution recorded in expenses, both unrelated to the RTRP.

Regions' deficit (% GDP)

Updated estimated Regions' deficit (% GDP)
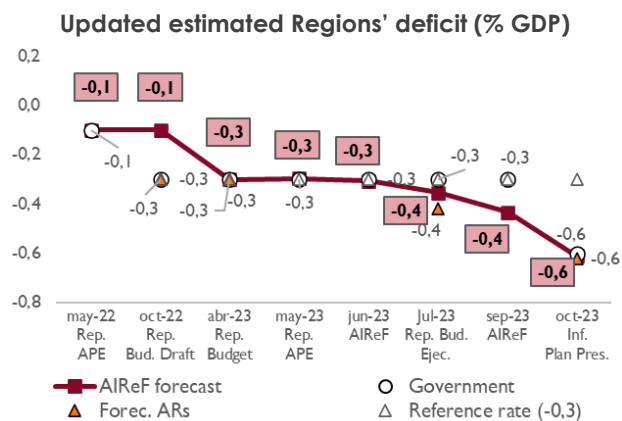
❸ Revenue excluding the RTRP will rise by 9% year-on-year, thanks to the growth in revenue under the Regional Financing System (RFS). Including the Plan, revenue would rise by 10%, reaching 15.4% of GDP.
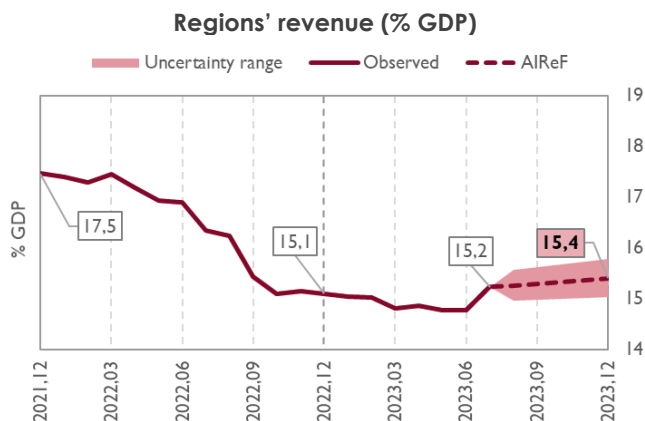
❹ Extraordinary transfers received from the CG have fallen over the last 12 months, while revenue under the RFS has increased due to the settlement effect. By year-end, the contribution from the RFS will have increased, it will be positive from the European funds and the reduction in extraordinary funds will have moderated.

Regions' revenue (% GDP)

Regions' revenue (% change)

* Includes support for companies under the COVID Line received from the CG in 2021
** Includes the transfers from the CG under the RTRP funds

❺ Expenditure without including the RTRP 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 7% to 16% of GDP.

❻ Public consumption, interest and investment have risen 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)
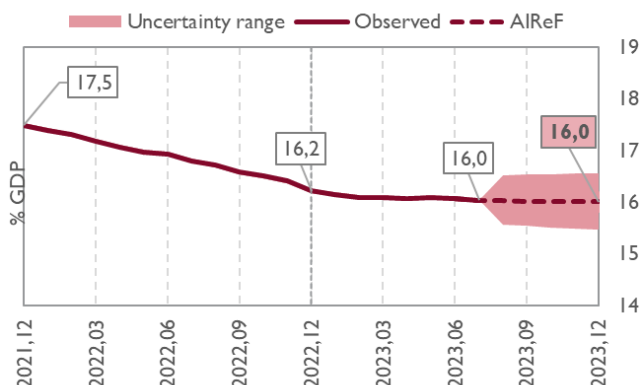
Regions' expenditure (% change)

* Includes the refunds in 2022 from support not executed under the COVID Line
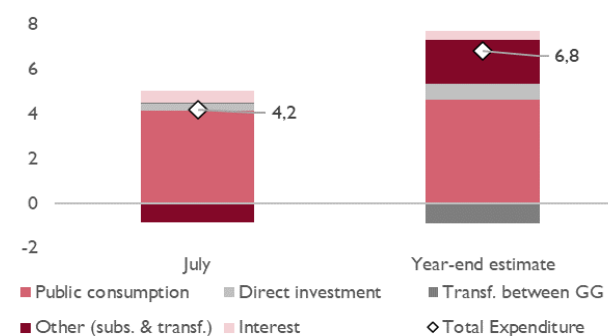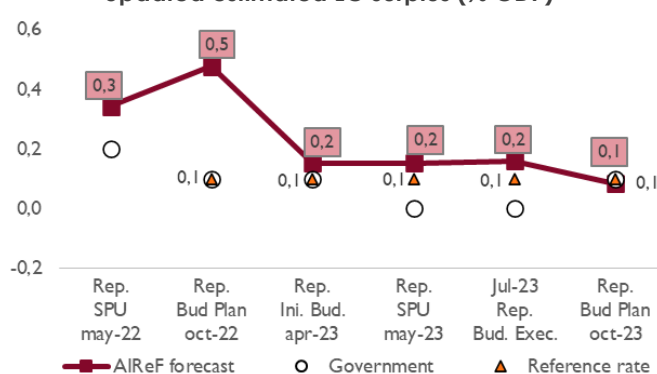

Local Governments

1 AIReF estimates a LG surplus of around 0.1% of GDP for 2023, in line with the reference rate and the forecast of the Budgetary Plan for the sub-sector (0.1%).

2 The estimates made in July worsen slightly based on the new information from the second quarter of 2023.

Evolution of LG surplus (% GDP)
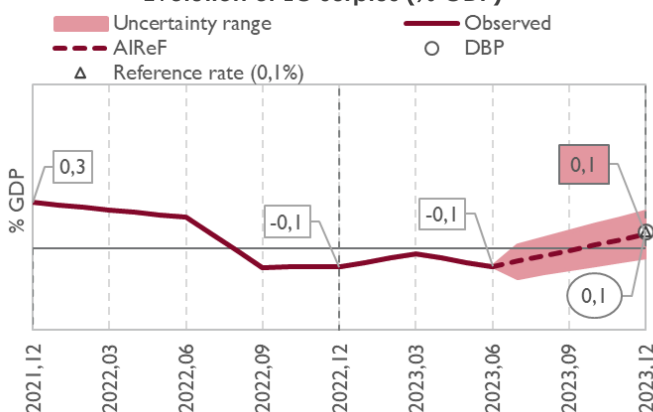
Updated estimated LG surplus (% GDP)

3 Revenue without the RTRP will grow by almost 5%, and by almost 6% including the RTRP. However, its weight over GDP is less compared with the data from 2022 and the first half of the year, as a result of higher GDP growth.

4 In the last 12 months, the weight of transfers has increased due to compensation for the negative settlement of 2020 collected at year-end 2022 and Q2 2023, as well as the immediate supply of VAT information. This will fall by year-end as it will only include collection for this year.

Evolution of LG revenue (% GDP)
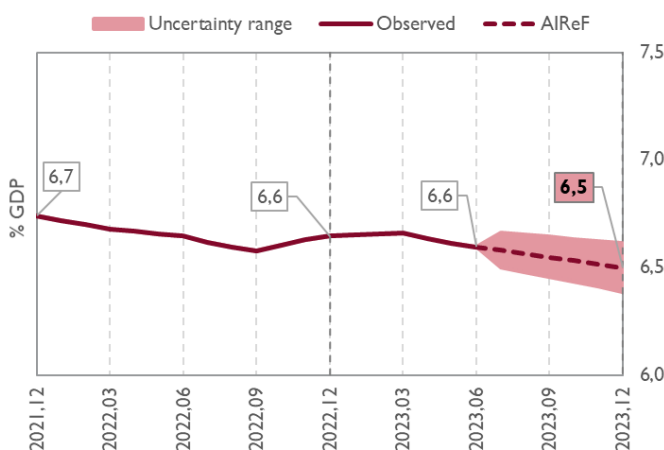
LG revenue (% change)
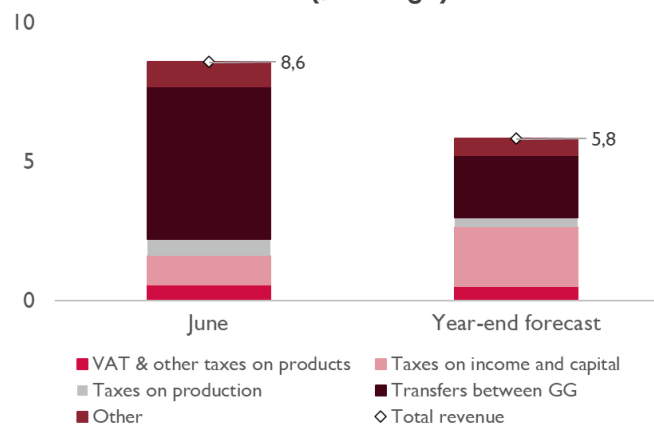
❺ Expenditure without the RTRP will grow by almost 2%, due to the payment of the negative settlement under the financing system in 2022, and with the RTRP it will grow by almost 3%. Its weight over GDP will fall by 0.4 points compared with 2022 and by 0.3 points compared with the first half of this year.

❻ The increase in transfers over the last 12 months is due to including the entire settlement from 2020 recorded in 2022 in favour of the CG. The contribution to growth by year-end 2023 from this item is negative as it is not included in said settlement.

Evolution of LG expenditure (% GDP)
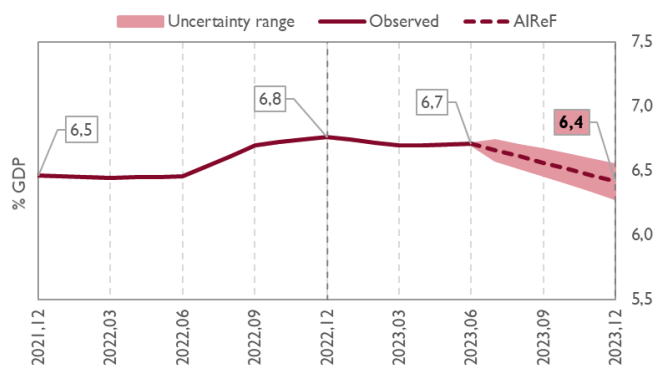
LG expenditure (% change)
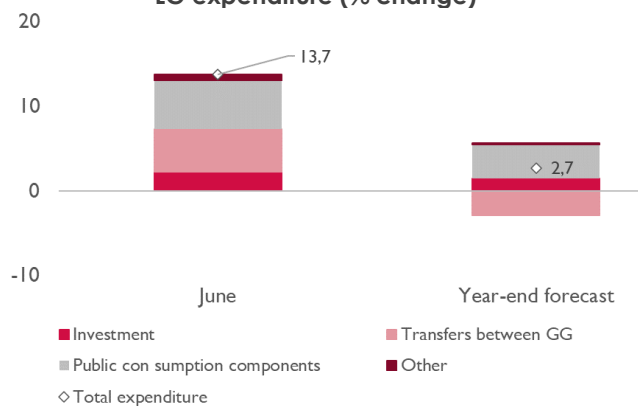
Methodological note

o AIReF's forecasts are updated monthly by incorporating the latest data published 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.

o 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.

o 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 data for December therefore match the annual data.

o 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.

o 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 from the Provincial Councils to the CSA for the quota and to the Autonomous Region of the Basque Country.

o 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.

o 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 submitted to Brussels back in October 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 0.3 points higher to stand at 2.9% of GDP instead of the 3.2% established as the reference rate, offsetting the worsening of the forecast for the ARs, which increase their deficit by 0.3 points to 0.6%.

- o   AIReF's total forecast revenue and expenditure for the GG is measured including the RTRP and REACT funds, which AIReF expects to stand at 0.9 points of GDP in 2023. In the comparisons with the Government, AIReF has considered the forecasts without the RTRP, since the Budgetary Plan does not include information on the total funds expected to be executed in 2023 in national accounting terms.

- o   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.

o   AIReF's Report on Budgetary Execution, Public Debt and the Expenditure Rule 2020, of July 15th, 2020, contains an annex with the main abbreviations and acronyms used.