

MONTHLY STABILITY TARGET MONITORING 2023

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Independent Authority
for Fiscal Responsibility

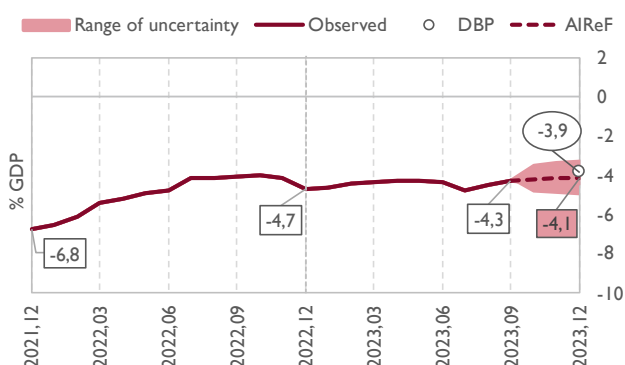
General Government

AIReF maintains its deficit estimate for the whole General Government (GG) Sector at 4.1% of GDP, as published in the [Report on the Main Lines of the Budgets of the General Government for 2024](#) on October 26th, taking into account the new information published. However, changes are recorded in the sub-sectors. While the deficit forecast for the Social Security Funds increases by 0.1 points, that of the Central Government is reduced by a similar amount.

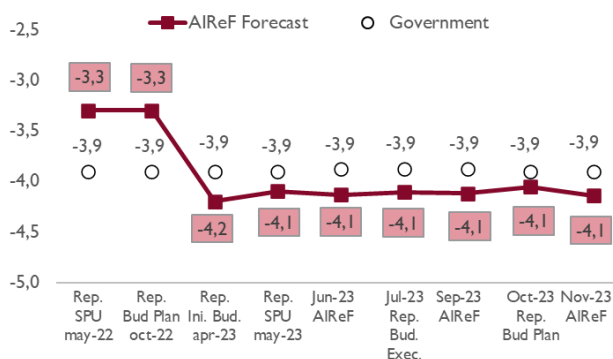
1 The deficit forecast for 2023 stands at 4.1%, despite modifications to both revenue and expenditure forecasts.

2 In the process of continuous evaluation of the budgetary cycle, AIReF maintains the deficit estimate at 4.1%. The Government maintains its deficit forecast at 3.9%.

General Government deficit (% GDP)



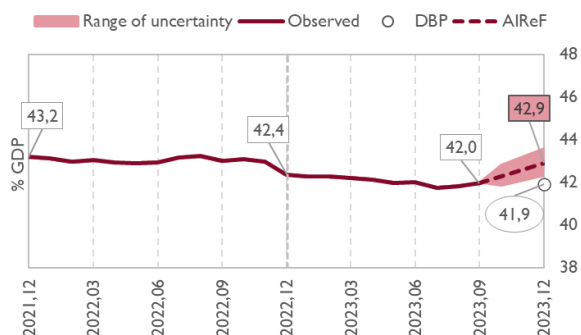
Updated GG deficit estimate (% GDP) (AIReF)



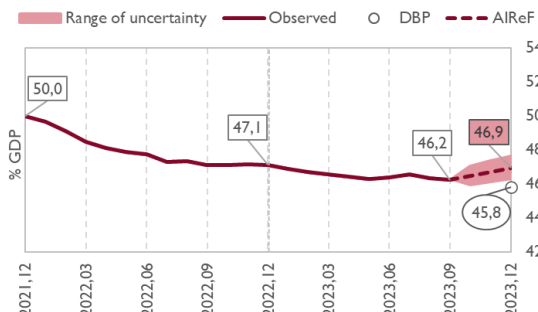
3 Observed revenue up to September, in cumulative 12-month terms, already reversed in August the downward trend taking place since the start of the year. AIReF expects this trend to continue until the end of 2023, reaching 42.9%. This growth would be lower if the Recovery, Transformation and Resilience Plan (RTRP) were not taken into account.

4 Annualised expenditure, compared with the close of 2022, resumes the downward trend that began in August that has been prevalent for most of the year, despite a certain upturn in June and July. It is expected to rise for the rest of the year, reaching 46.9% of GDP at the end of 2023, 1.1 percentage points above the forecast contained in the Budgetary Plan.

GG revenue (% GDP)

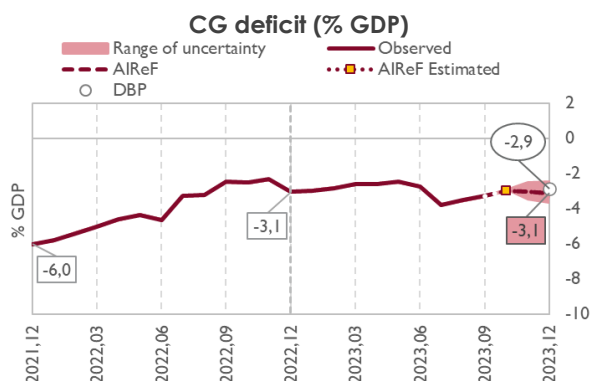


GG expenditure (% GDP)

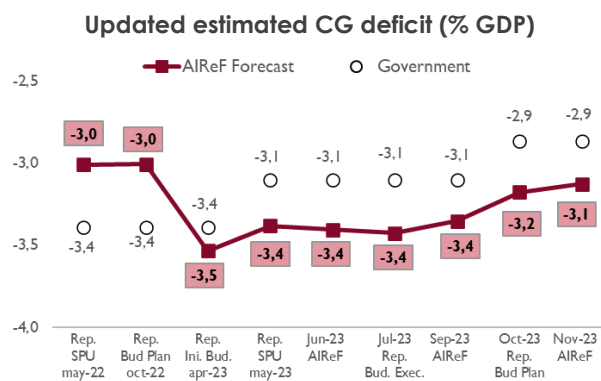


Central Government

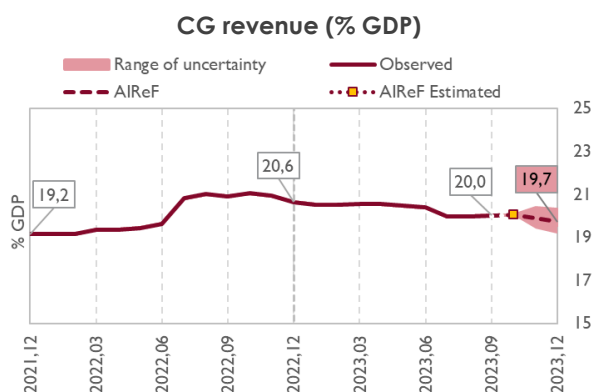
1 AIRcF reduces its deficit estimate for the Central Government by 0.1 points of GDP in 2023 to 3.1%, 0.2 points higher than the Government's forecast in the Budgetary Plan.



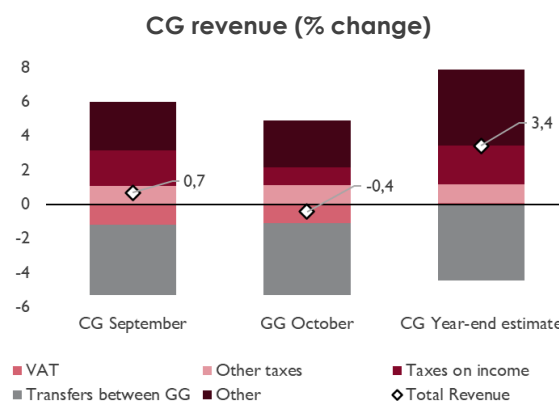
2 The deficit reduction is due to a slight downward revision, more significantly for expenditure than revenue, aligning with the latest data on collection and budget execution.



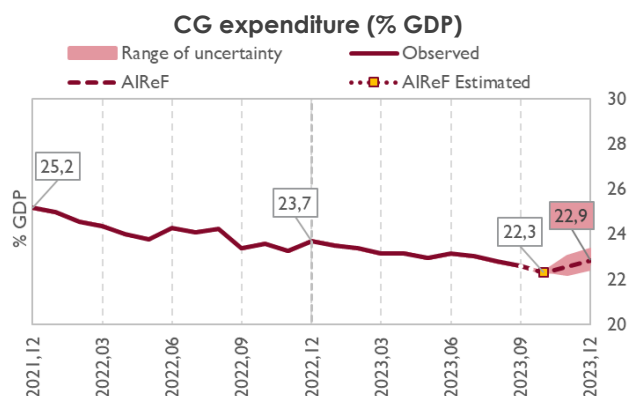
3 AIRcF expects cumulative 12-month revenue to reduce its weight to 19.7% by year-end 2023, mainly due to lower transfers received as a result of the final settlement of the regional and local financing system for 2021.



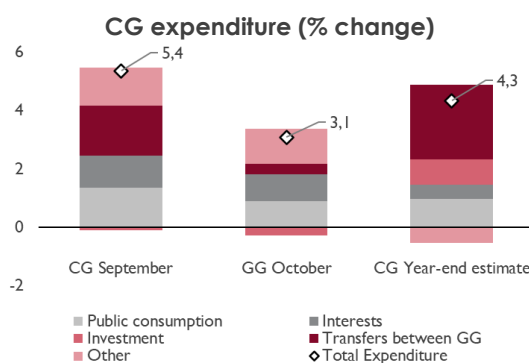
4 Revenue is expected to increase its rate of growth by year-end 2023, mainly driven by the growth of revenue from the RTRP funds. To a lesser extent, an improvement is expected in the contribution of both VAT and income taxes.



5 Expenditure in cumulative 12-month terms will increase slightly to reach 22.9% of GDP by year-end 2023, incorporating the anti-crisis measures in effect until December 31st this year.



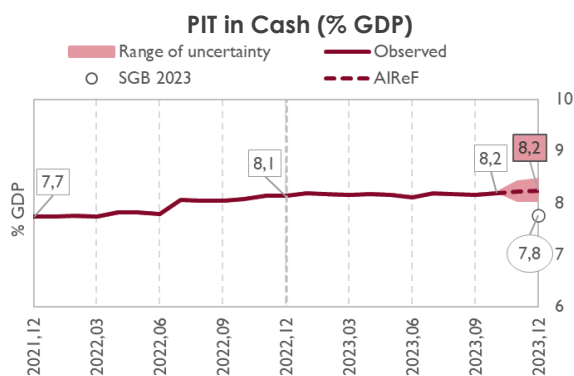
6 By year-end 2023, expenditure is estimated to rise to 4.3%, with a significant positive contribution from spending on transfers and a negative contribution from other expenses due to the lower cost of measures in 2023 compared with 2022.



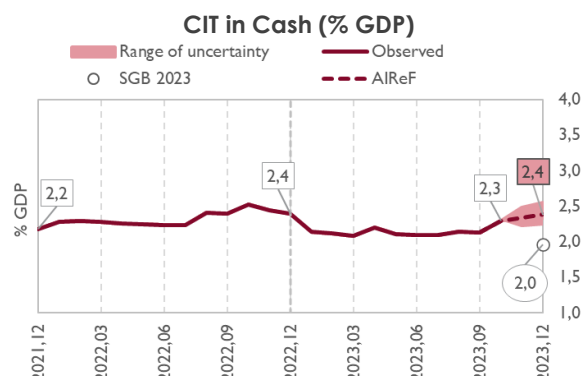
Main tax revenue and social contribution items

AIReF updates its estimates of tax revenue with the incorporation of collection data for the months of September and October. AIReF's forecasts are compared with those of the Government included in the draft General State Budget for 2023. In the year to date, tax revenue shows growth of 5.2%, affected by reductions in VAT and Special Taxes on energy products and by the reduction of VAT rates on food, with an estimated impact in the year to date of -€6.8bn.

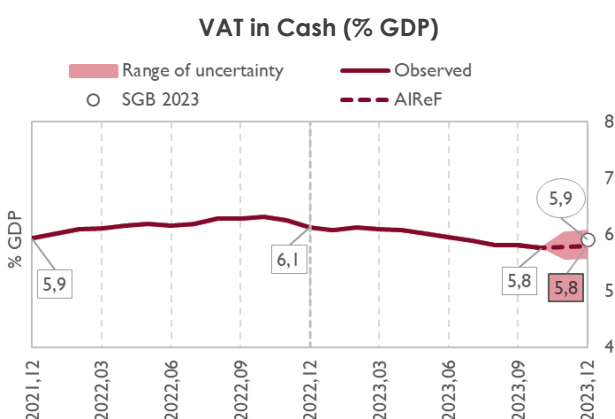
① AIReF estimates that by year-end, the weight of **Personal Income Tax (PIT)** as a percentage of GDP will reach 8.2%, 0.1 points higher than last year. The increase up to October was 9.6%, mainly due to the strong performance of withholdings from employment, both in the public and private sectors, despite the increased reduction of income from work on lower incomes. By the end of 2023, it is expected that the increase in PIT compared with 2022 will remain at 9.6%.



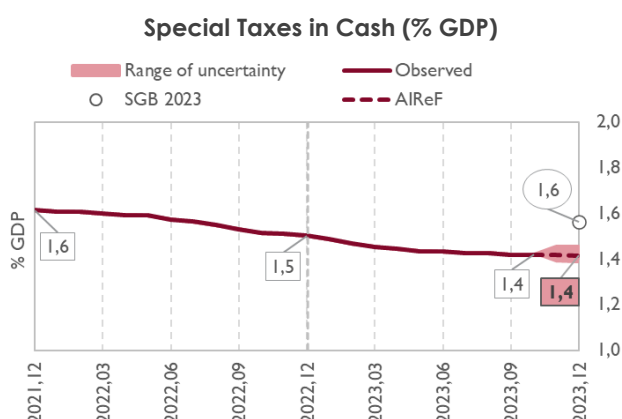
② According to AIReF's forecasts, **Corporate Income Tax (CIT)** will reach 2.4% of GDP by the end of 2023, maintaining the same weight as last year. In the year to date, this tax has grown by 3.3%, after recording two of the three instalment payments, with an increase of 13.6% on last year and affected by a refund of over €1bn due to the enforcement of a court ruling. AIReF estimates an increase of 7.9% by the end of 2023.



③ AIReF expects **VAT** to reduce its weight of GDP by 0.3 points to 5.8% in 2023. In the year to date, net revenue has been 0.9% higher than in 2022, affected by the slowdown in sales and reductions in rates on energy products and food, with an estimated impact in the year to date of €3.71bn. By year-end, growth of 2.4% is expected compared with last year.

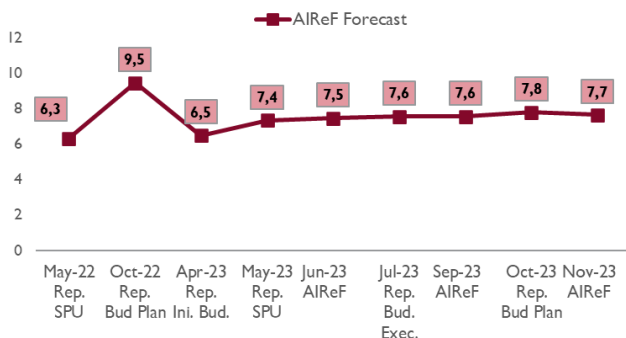


④ **Special Taxes** will account for 1.4% of GDP at year-end 2023, 0.1 points below last year. Revenue until October has grown by 1.7% compared with 2022, affected by the extension of the reduced rate of the Special Tax on Electricity, with an estimated impact of -€1.1bn, and despite incorporating €499m for the new Special Tax on Single-Use Plastic. The forecast places total Special Taxes by year-end 2023 with 2% growth compared with 2022.



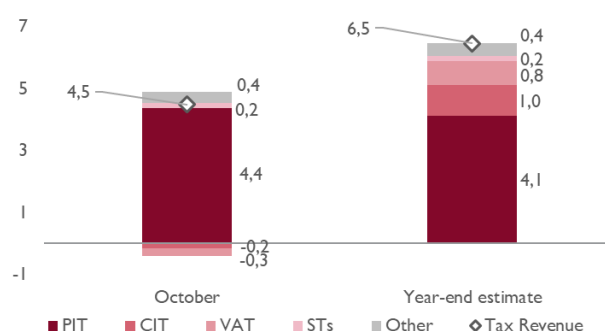
5 In national accounting terms, total tax revenue in 2023 will grow by 7.7% compared with 2022, 0.1 points less than the previous estimate, as a result of the updated collection data until October.

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



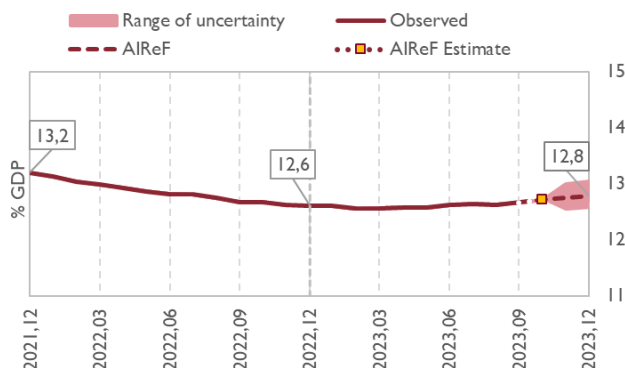
6 12-month cumulative tax revenue in cash terms up to October grew by 4.5%, driven by the growth of PIT. By year-end 2023, growth of 6.5% is estimated, with a positive contribution from all components, with the contribution from direct taxes, especially PIT, standing out.

Contributions to change. Cash AIReF (% change)



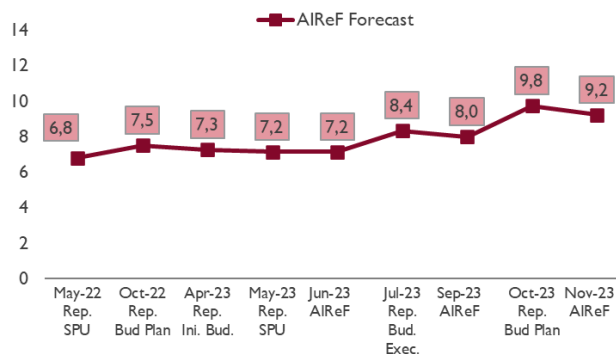
7 AIReF expects Social Security Fund contributions to end 2023 with a weight as a percentage of GDP of 12.8%. The increase of 0.2 points compared with year-end 2022 is due to the entry into force of the IEM.

SSF Social Contributions (% GDP) (NA)



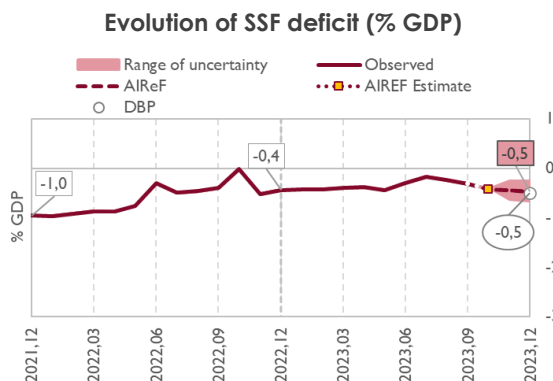
8 AIReF expects the growth rate of contributions from the General Government Sector to be 9.2%, slightly lower than the last publication but higher than the forecasts made during the year, due to the dynamism shown by this aggregate in recent months.

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

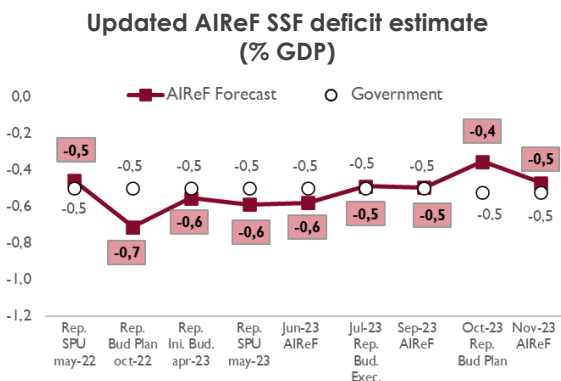


Social Security Funds

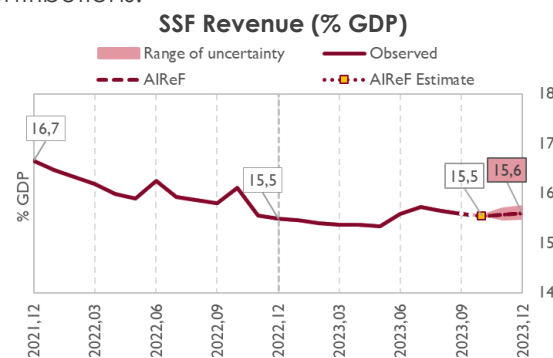
1 AIReF estimates that the SSF deficit will reach 0.5% of GDP in 2023. This forecast is at the same level as the Government's Budgetary Plan.



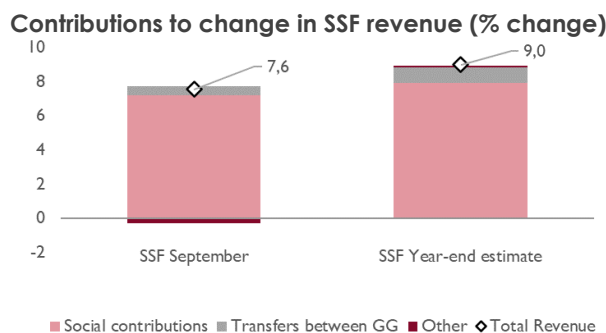
2 AIReF's estimate of the SSF balance for 2023 is revised upwards by 0.1 points compared with the forecast in AIReF's October 2023 Report on the Budgetary Plan.



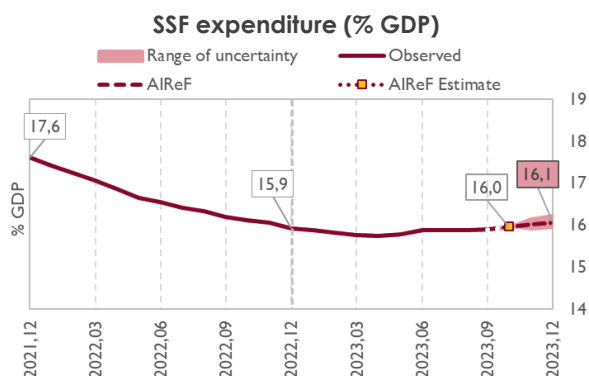
3 AIReF expects the weight of revenue as a percentage of GDP to maintain a slight upward trend throughout 2023, reaching 15.6%, due to the increase in the contribution rate for the application of the IEM, the increase in the maximum base, increased transfers for improper spending and more dynamic growth in contributions.



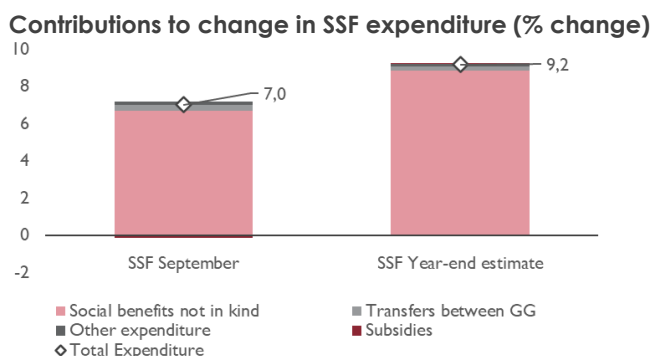
4 AIReF expects an acceleration in the rate of revenue growth over the rest of the year, driven by contributions and transfers between General Government sub-sectors. The growth of contributions is driven by the IEM and the improvement in the compensation of employees and employment.



5 AIReF expects the weight of expenditure over GDP to rise throughout 2023 to end the year at 16.1%, mainly due to the deindexing of pensions from the previous year's CPI.

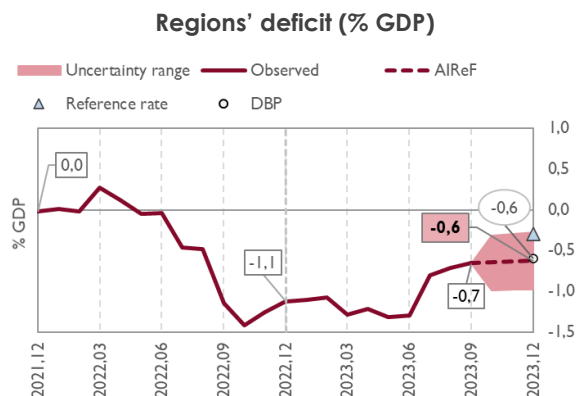


6 SSF expenditure is expected to grow by 9.2% by year-end 2023, mainly driven by growth in spending on pensions and to a lesser extent, spending on unemployment.

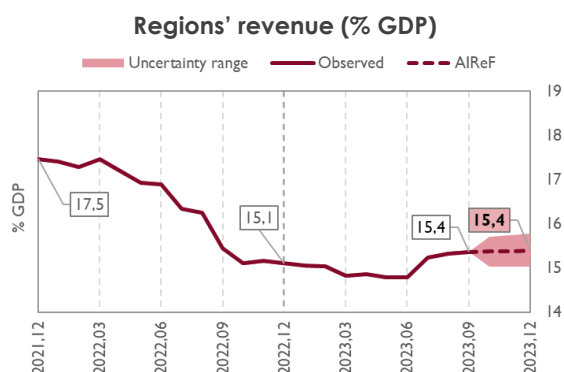


Autonomous Regions

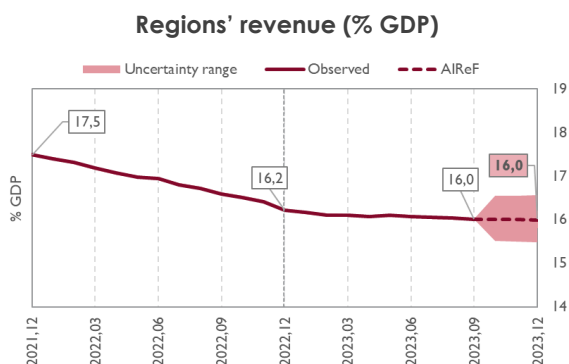
1 AIRcF continues to estimate that ARs will close 2023 with a deficit of 0.6% of GDP, based on data available until September.



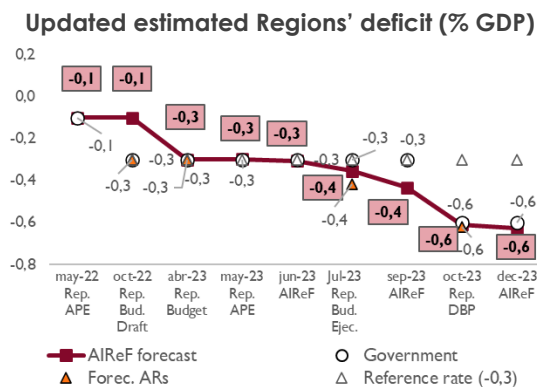
3 Revenue excluding the RTRP will rise by 9% year-on-year, thanks to the growth in revenue under the Regional Financing System (RFS). Including the RTRP, revenue would rise by 10%, reaching 15.4% of GDP.



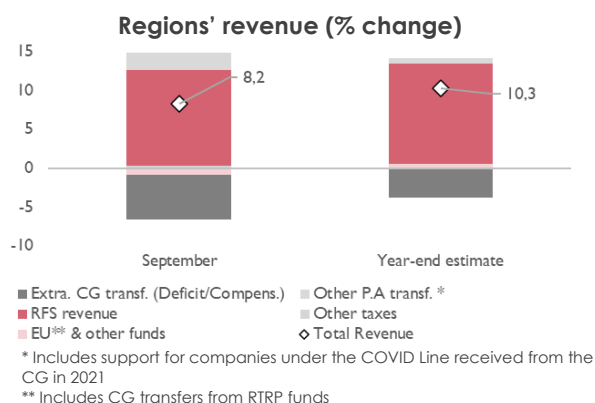
5 Expenditure without including the RTRP will rise by 6%, affected by inflation, the execution of funds, the cost of servicing debt and public wage rises. Including expenses financed under the RTRP, expenditure will grow by 7%, remaining at 16% of GDP.



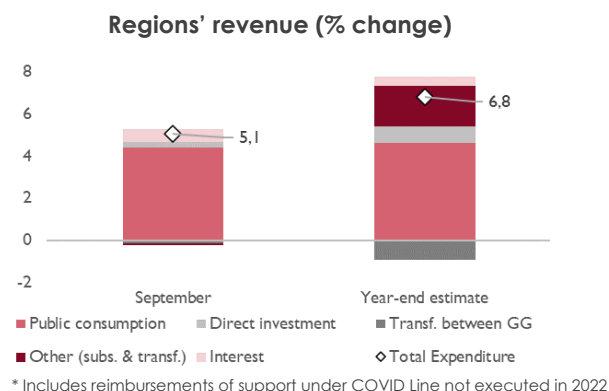
2 AIRcF maintains its expected deficit for the AR sub-sector at the end of 2023 in line with the forecast contained in the Budgetary Plan.



4 In the last 12 months, extraordinary transfers and European funds have decreased, increasing the revenue of the Regional Financing System (RFS). At year-end, the contribution of the RFS will increase, the contribution from European funds will be positive and the reduction in extraordinary funds will moderate.



6 Public consumption, interest and investment have risen in the last 12 months. The growth in public consumption will be maintained at year-end, while investments, subsidies and other transfers to the private sector will increase.



Methodological note

- AIRcF'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.
- 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 reference month and the data 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, AIRcF does not aim to estimate a monthly total in these factsheets, however, 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 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 from the Provincial Councils to the CSA for the quota and to the Autonomous Region of the Basque Country.
- 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 AIRcF 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 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%.

- 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.
- 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.