MONTHLY STABILITY TARGET MONITORING 2024

PUBLICATION DATE: JULY 23RD, 2024

AIReF
Independent Authority for Fiscal Responsibility

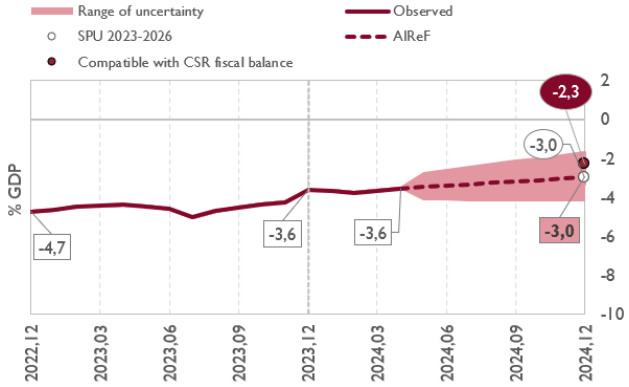
General Government

AIReF maintains its deficit estimate for the General Government (GG) at 3% of GDP with respect to the previous factsheet, although there are changes by sub-sector. The deterioration in the deficit forecast for the Autonomous Regions (ARs) due to the incorporation of the budgetary execution data is offset by the improvement in the forecasts for the Central Government (CG). This factsheet includes the macroeconomic and fiscal forecasts published in the Report on budgetary execution, public debt and expenditure rule for the GG in 2024 on July 17th. This includes the new information received, mainly the data published by the IGAE for May for the State and for April for the rest of the sub-sectors, as well as the budgetary execution data for May for the Social Security Funds.

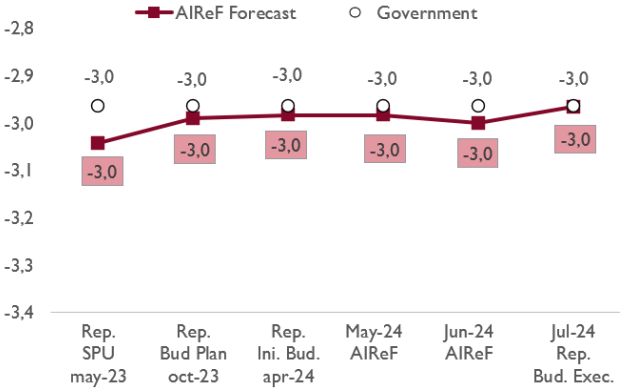
1 The deficit forecast for 2024 remains at 3%. However, compliance with these forecasts is conditioned by the materialisation of certain risks, such as contingent liabilities associated with court rulings or more dynamic expenditure than expected.

2 In the process of continuous evaluation of the budgetary cycle, AIReF maintains the deficit estimate at 3%, in line with its previous estimate and with that of the Government. The upward revision of the macroeconomic outlook is offset by the loss of revenue due to the extension of the measures and the latest information received.

General Government deficit (% GDP)



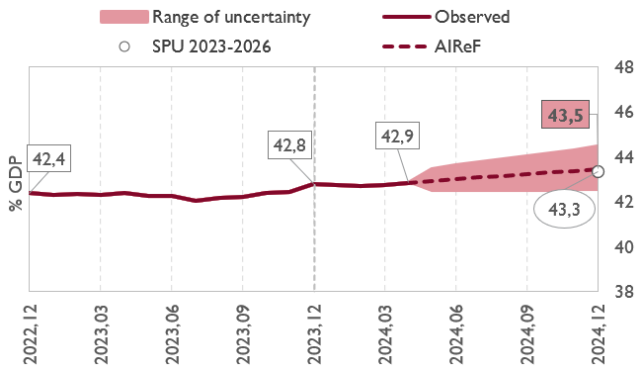
Updated GG deficit estimate (% GDP) (AIReF)



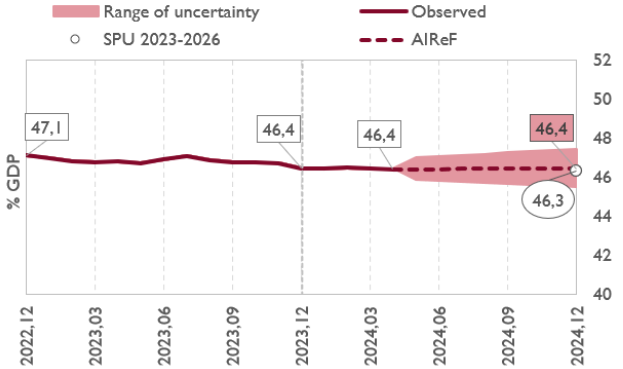
3 The revenue observed up to April in cumulative twelve-month terms increases its weight of GDP by 0.1 points compared with year-end 2023. AIReF forecasts that this weight will increase over the rest of the year to 43.5%. This growth would be lower if the Recovery, Transformation and Resilience Plan (RTRP) were not taken into account.

4 Annualised expenditure with respect to year-end 2023 seems to be undergoing a certain stagnation in 2024 after a downward trend in the last few months of 2023. For the rest of the year, this level is expected to be maintained, closing 2024 with a weight of 46.4%. In addition, the RTRP execution forecasts have been revised downwards.

GG revenue (% GDP)



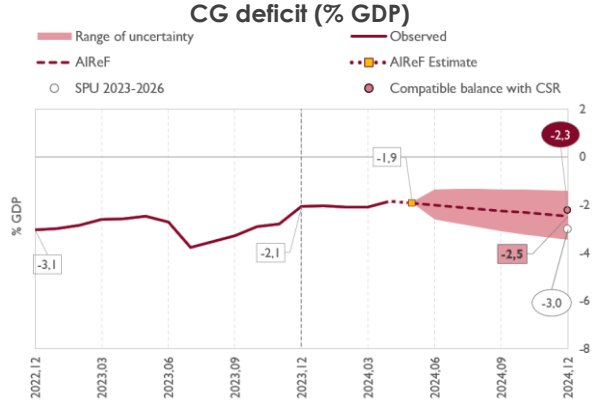
GG expenditure (% GDP)



Central Government

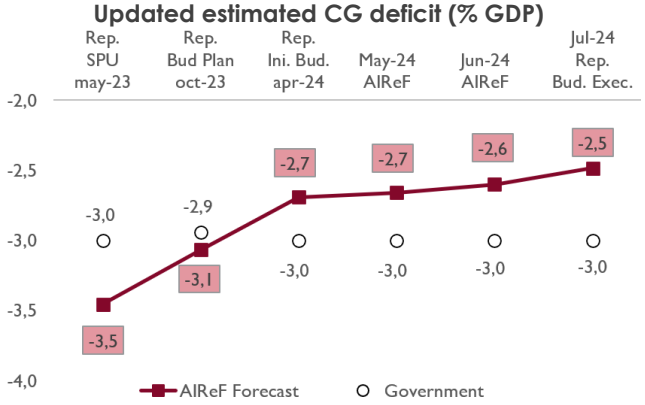
1 AIReF improves its deficit estimate for the CG to 2.5% of GDP, 0.5 points lower than forecast in the Stability Programme. According to AIReF's revenue forecasts, the fiscal balance compatible with compliance with the expenditure rule would be 2.3% of GDP.

CG deficit (% GDP)



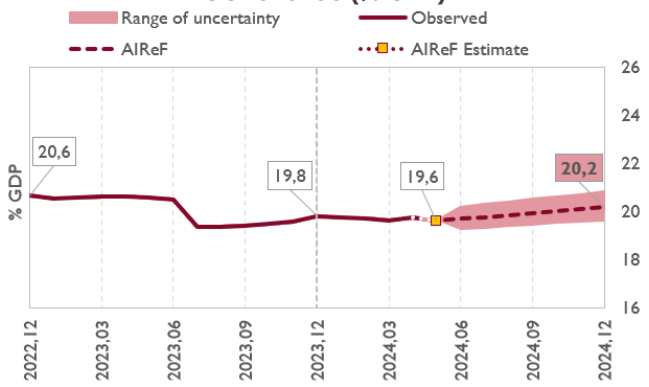
2 This improvement in the deficit is mainly due to a reduction in expenditure due to the incorporation of the latest budgetary execution data and other information received.

Updated estimated CG deficit (% GDP)



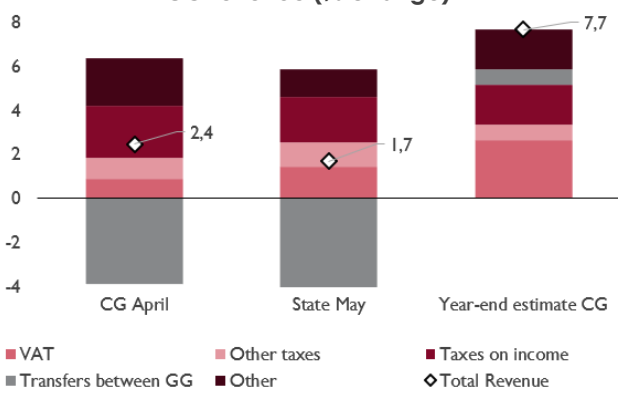
3 AIReF estimates that revenue will increase to 20.2% of GDP by year-end 2024, 0.6 points less than the previous estimate, due, on the positive side, to the receipt of RTRP funds and, on the negative side, to the extension of the reductions in VAT rates on basic foodstuffs.

CG revenue (% GDP)



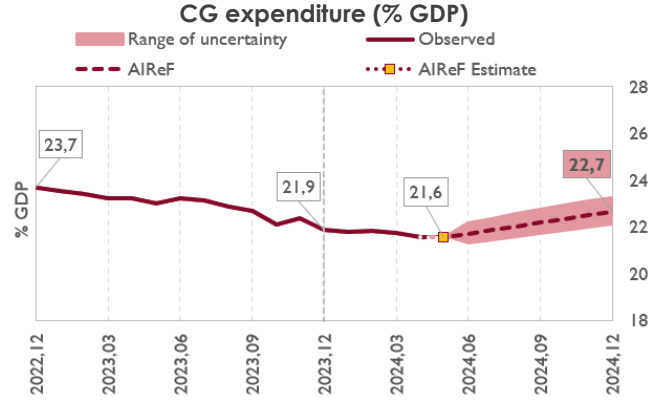
4 Revenue will increase its rate of growth throughout 2024, driven by higher revenue from the positive contribution of transfers received, after a negative contribution in the previous year as a result of the 2022 settlement of the financing system in favour of the CG.

CG revenue (% change)



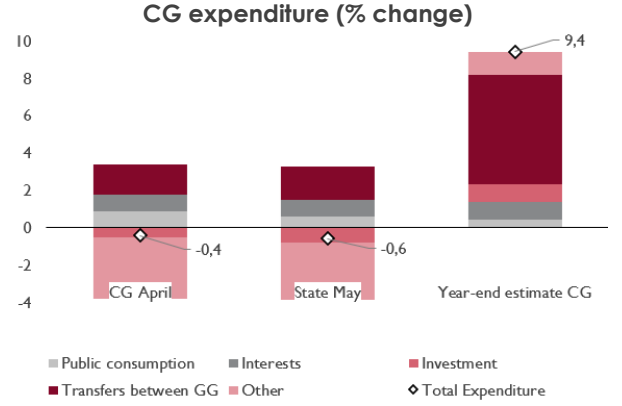
5 The year-end forecast for expenditure growth in cumulative 12-month terms decreases to 22.7% of GDP, mainly due to lower expected RTRP and military spending and despite an estimated increase in spending on court rulings.

CG expenditure (% GDP)



6 Compared with the last estimate, expenditure growth is forecast to be lower, at 9.4% at year-end. Of note is the positive contribution of transfers between GG sub-sectors.

CG expenditure (% change)



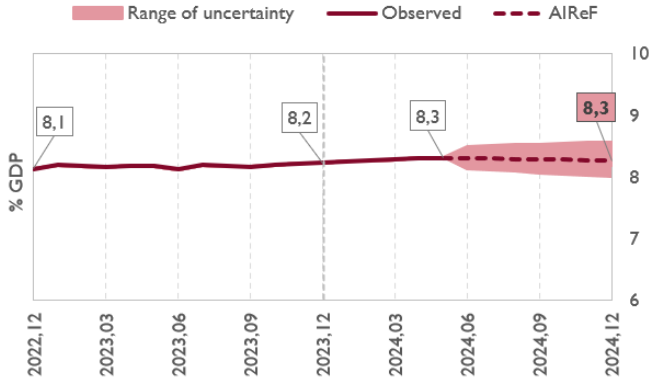
Main tax revenue and social contributions

AIReF updates its revenue estimates for 2024 with the May tax collection and the recent measures approved by Royal Decree-Law 4/2024. So far this year, tax revenue has grown by 8.7%, 1.4 points higher than the cumulative figure to April. The greater momentum in May is the result of the growth in withholdings on earnings from work and capital, a negative figure in the previous year for Corporate Income Tax due to an extraordinary rebate, and the greater dynamism this month of Special Taxes. AIReF expects 2024 to close with 8% growth in tax revenue.

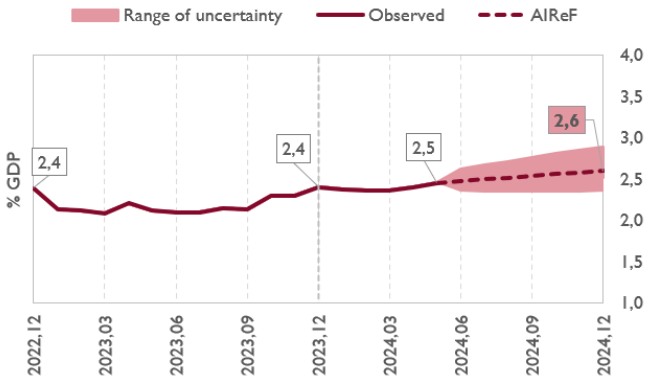
❶ In 2024, **PIT** will reach 8.3% of GDP, 0.1 points higher than in 2023. During the first five months, it has grown by 8.9% due to the boost from withholdings from work and capital, and despite the fact that the increase in the reduction of earnings from work already subtracts 1.7 points from growth. By year-end 2024, growth is expected to be lower, at 6%, greatly affected by the worse performance of the 2023 PIT campaign published by the AEAT, partially offset by the improvement in the macroeconomic scenario.

❷ AIReF improves its forecast for **CIT** by 0.1 points, which will reach 2.6% of GDP in 2024, 0.2 points more than in 2023. May is usually a month with no significant revenue and the most notable feature is the extraordinary rebate last year of more than €1 bn. AIReF forecasts growth of 15.4% by year-end 2024, although this is conditional on the extension of the 50% cap on offsetting intra-group tax losses.

PIT in cash (% GDP)



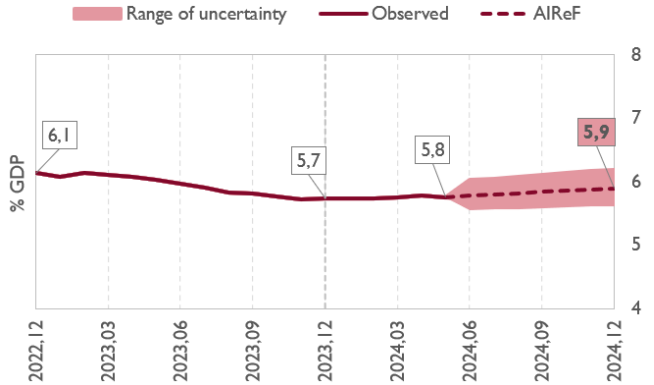
CIT in cash (% GDP)



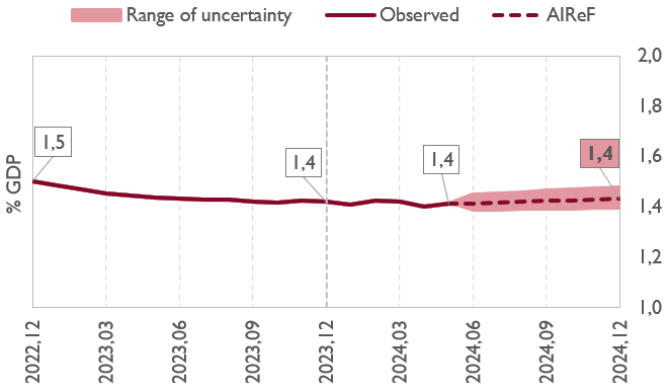
❸ **VAT** will reach a weight of 5.9% of GDP by year-end 2024, 0.2 points more than in the previous year. Up to May, VAT revenue has grown by 5.8%, in line with the evolution of sales. The rate reductions on food and energy have reduced tax collection by around €1.55 bn. AIReF forecasts that the extension of the measures approved on basic foodstuffs will continue to drain revenue and VAT growth will stand at 8% in 2024.

❹ The weight of **Special Taxes** on GDP will remain at 1.4% in 2024. So far this year, revenue has grown by 4.6% compared with 2023, an evolution that is 2.6 points higher than the cumulative figure up to April. The 15.3% upturn in May is the result of a greater boost from sales of hydrocarbons and tobacco and the recovery in the VAT rate on electricity. AIReF expects growth of 6.5% by year-end.

VAT in cash (% GDP)



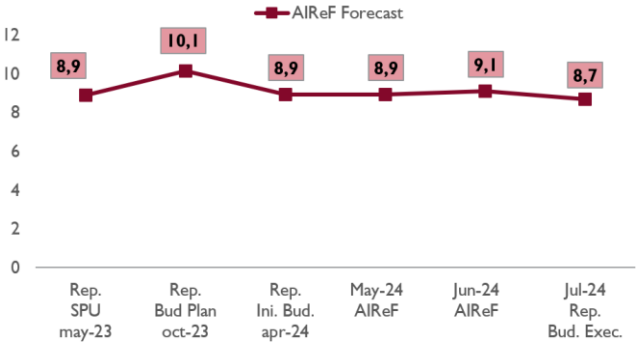
Special Taxes in cash (% GDP)



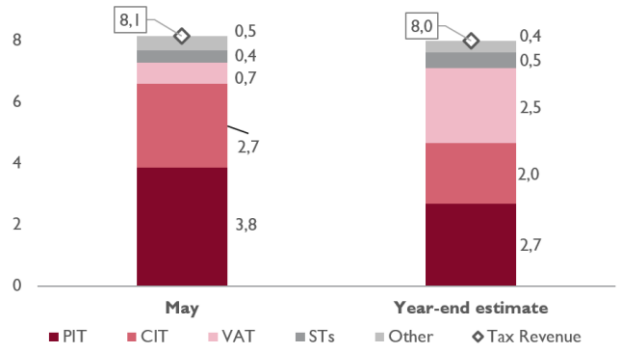
❺ **In national accounting terms, total tax revenue** in 2024 will grow by 8.7% compared with 2023, 0.4 points below the previous estimate. The approval of Royal Decree-Law 4/2024, which extends the measures on foodstuffs, together with the figure for the end of the 2023 Personal Income Tax campaign - with higher rebates and lower revenue than estimated - pushes this revision downwards.

❻ **12-month cumulative tax revenue in cash terms** up to May grew by 8.1%, mainly driven by direct taxes (Personal Income Tax and Corporate Income Tax). At the end of 2024, growth of 8% is estimated, with a positive contribution from all figures: Personal Income Tax due to the good evolution of withholdings, Corporate Income Tax due to the improvement in company profits (albeit conditional on the extension of the limitation on offsetting intra-group taxable income), and VAT due to the recovery in sales and despite the extension of the reduction in rates on basic foodstuffs.

Update of 2024 forecast of income tax under the general NA regime (% year-on-year change)



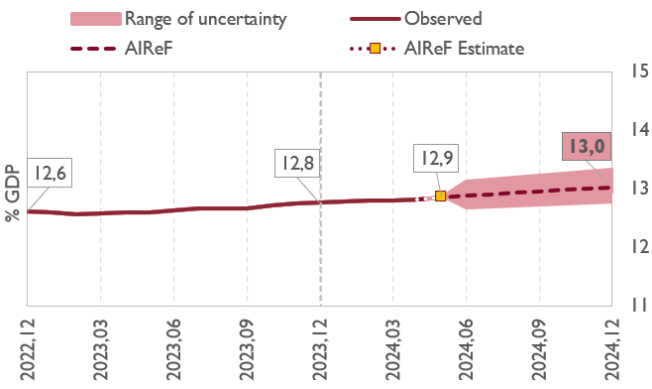
Contributions to change. Cash AIReF (% change)



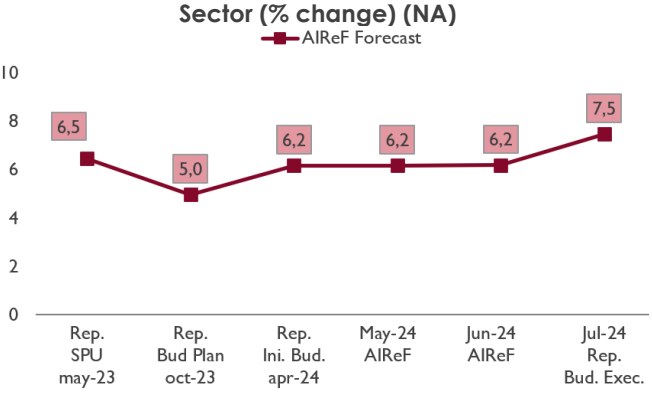
❼ AIReF expects **Social Security Fund contributions** to end 2024 with a weight of 13% of GDP. The increase of 0.2 points compared with the end of 2023 is due to a favourable macroeconomic scenario - mainly in compensation per employee - and to the increase in both the IEM and the maximum contribution bases.

❽ AIReF forecasts a **7.5% growth rate in contributions from the GG sector.** The June forecast is increased by 1.3 percentage points.

SSF social contributions (% GDP) (NA)



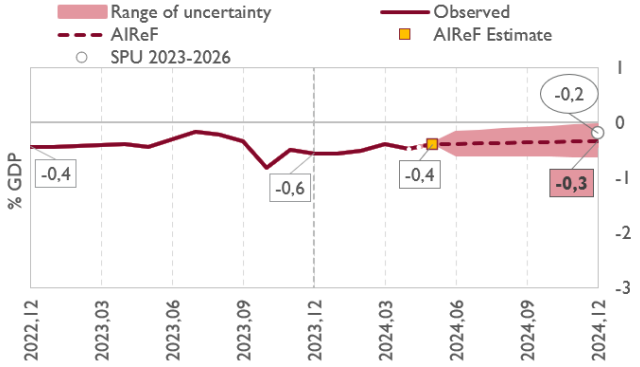
Updated forecast for social contributions from the GG Sector (% change) (NA)



Social Security Funds

1 AIReF estimates that the SSF deficit will improve over the year to reach 0.3% of GDP in 2024, in line with AIReF's latest forecasts.

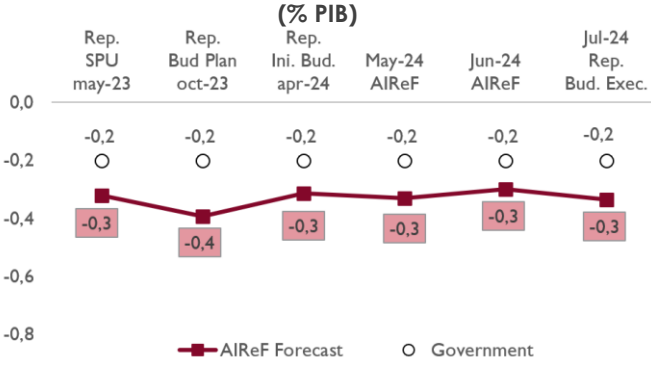
Evolution of SSF deficit (% GDP)



2 The estimate of the SSF deficit for 2024 is maintained at -0.3% as stated in the Report on the Initial Budget for 2024, 0.1 points below the figure presented by the Government in the 2023-2026 Stability Programme Update.

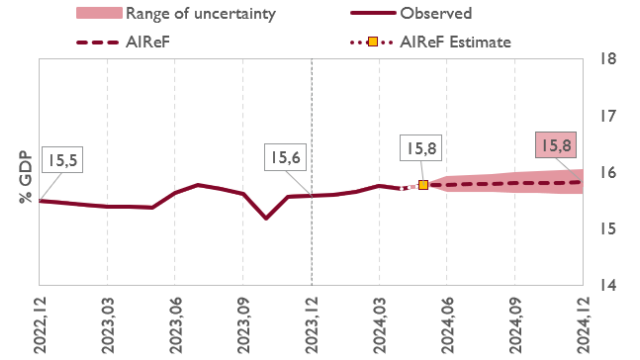
Updated AIReF SSF deficit estimate (% GDP)

(% PIB)



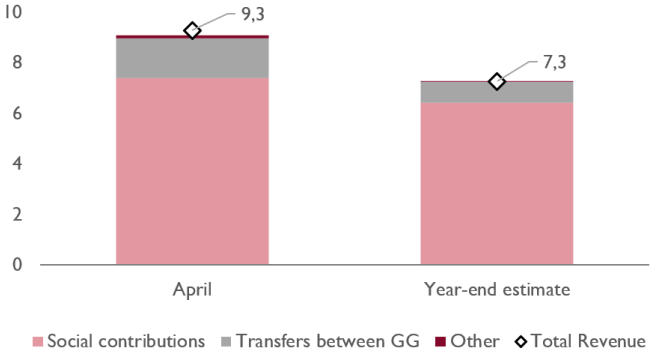
3 AIReF expects the weight of revenue as a percentage of GDP to reach 15.8% of GDP by year-end 2024, due to the fact that the downward revision of CG transfers for improper spending is more than offset by the dynamism of contributions.

SSF revenue (% GDP)



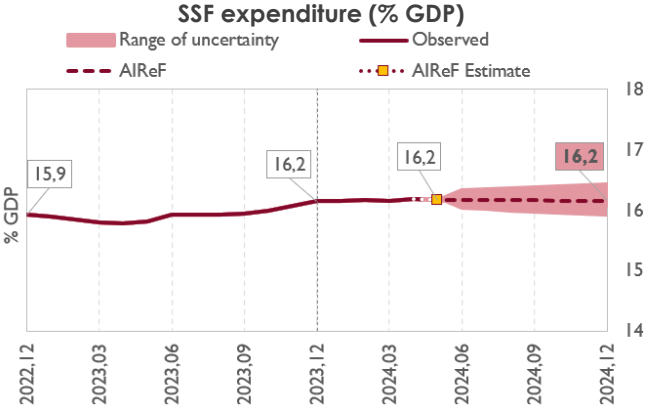
4 AIReF expects a slowdown in the rate of growth of revenue over the rest of the year, due to a moderation in the intensity of the growth of both contributions and transfers from the Central Government over the rest of the year.

Contributions to change in SSF revenue (% change)



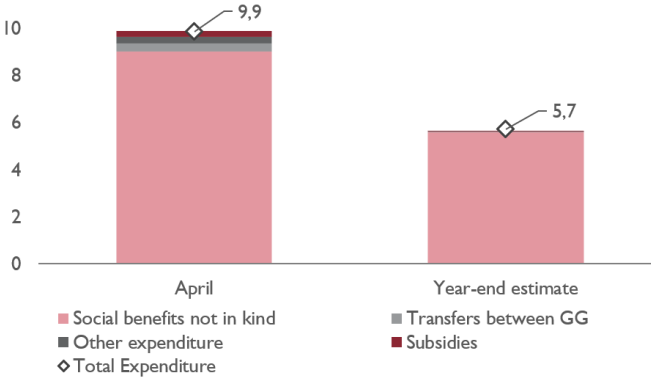
5 AIReF expects expenditure to maintain its weight of GDP at 16.2% throughout 2024. The 0.1-point increase (compared with 2023) in the weight of GDP from spending on pensions is offset by the 0.1-point reduction in spending on unemployment.

SSF expenditure (% GDP)



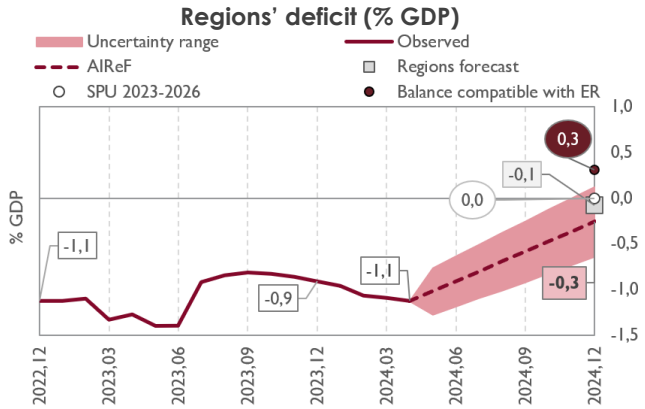
6 The pace of SSF expenditure growth is expected to slow over the year, mainly due to lower growth in pension and unemployment expenditure compared with 2023.

Contributions to change in SSF expenditure (% change)

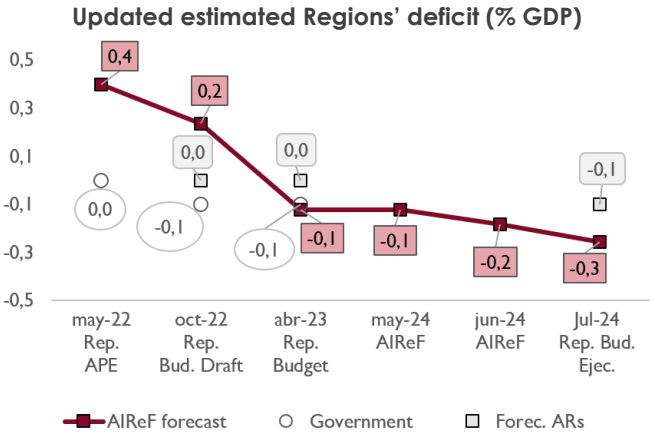


Autonomous Regions

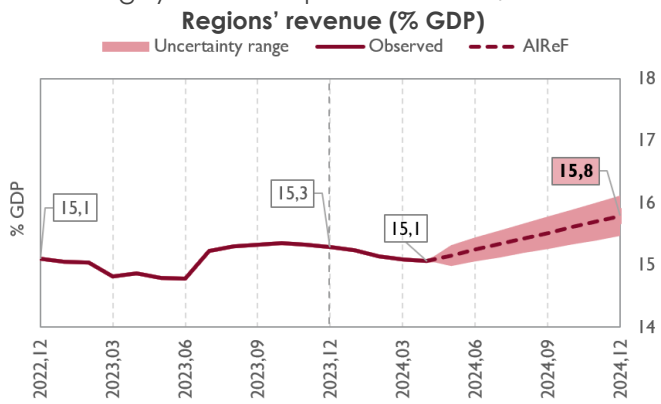
1 AIReF estimates that the Autonomous Regions will reach a deficit of 0.3% of GDP in 2024. Compliance with the expenditure rule would lead to a surplus of 0.3% of GDP under AIReF's revenue forecast.



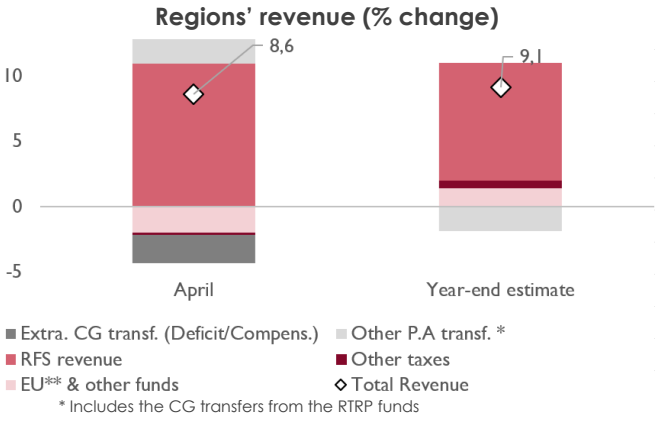
2 AIReF worsens the outlook for 2024 for the Autonomous Regions by 0.1 points, raising the spending not associated with the RTRP by incorporating new measures and the execution observed up to April.



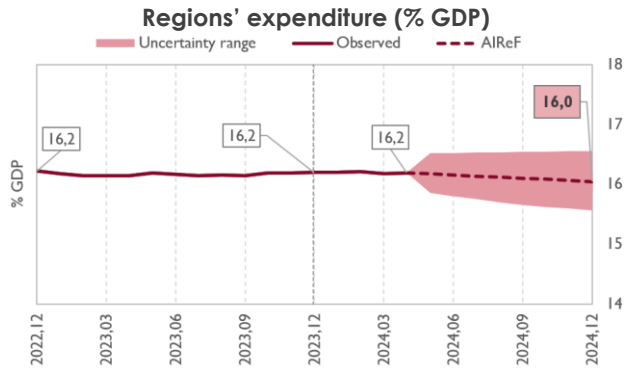
3 Revenue will increase by 9%, with or without the RTRP, thanks to revenue under the regional financing system. Revenue will start to increase its weight of GDP when the 2022 settlement materialises and the instalment payments of the financing system are updated to 15.8% of GDP.



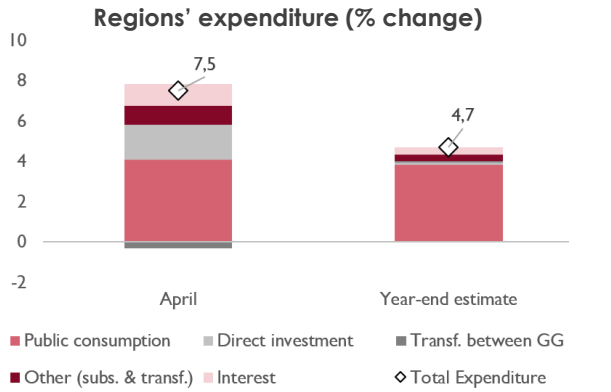
4 The growth of the last 12 months is affected by the reduction in extraordinary transfers, EU funds and tax revenue, and the increase in revenue under the regional financing system and other GG transfers.



5 Based on budgetary execution data and the incorporation of new staffing measures, it is estimated that non-RTRP expenditure will have increased by 4% by year-end. Including the Plan, the increase will be 5% and reach 16% of GDP.



6 The last 12 months have seen significant growth in interest, public consumption, investment, and subsidies and transfers. At year-end, similar contributions from public consumption and more moderate contributions from other items will be recorded.

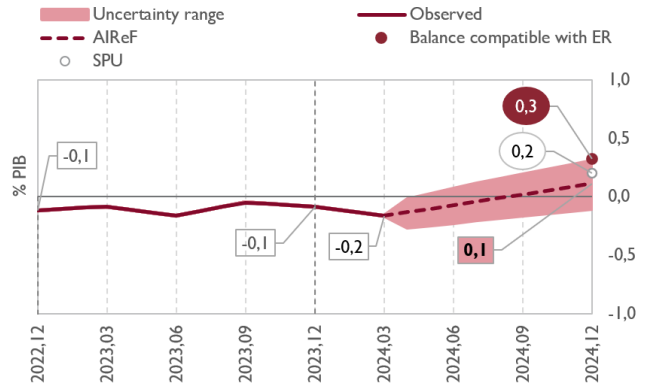


* Includes the reimbursements in 2022 from COVID Line support that was not executed

Local Governments

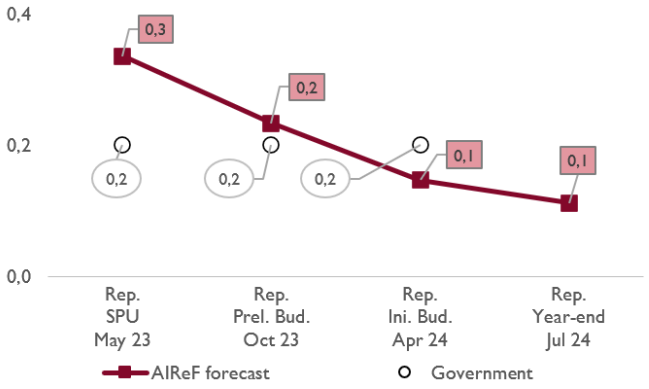
1 AIReF estimates a LG surplus of around 0.1% of GDP for 2023, 0.1 points lower than the reference rate established in the SPU. The surplus needed to comply with the expenditure rule would be 0.3% under AIReF's revenue forecast.

Evolution of LG surplus (% GDP)



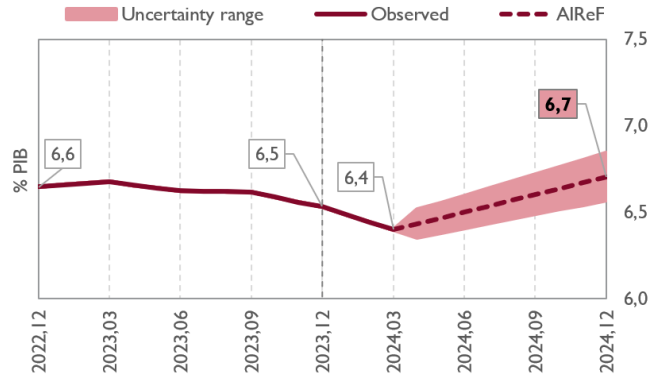
2 Although the surplus is maintained at 0.1% of GDP, estimates are now slightly worse than in April, mainly based on the information on execution for the first quarter of 2024.

Updated estimated LG surplus (% GDP)



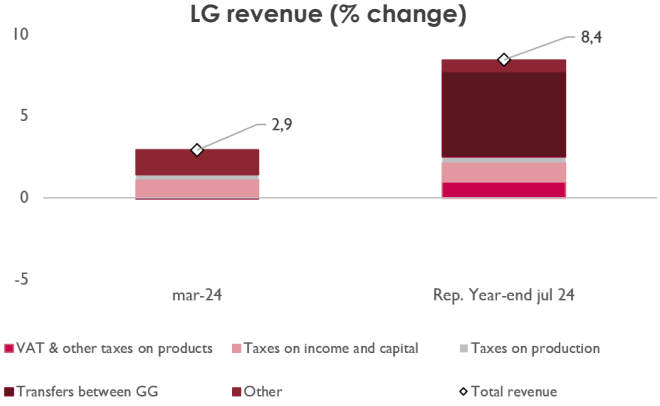
3 Revenue without the RTRP will grow by almost 8%, mainly driven by the extraordinary revenue under the financing system, increasing its weight of GDP to 6.6% (6.7% with the RTRP), 0.1 points more than in 2023.

LG revenue (% GDP)



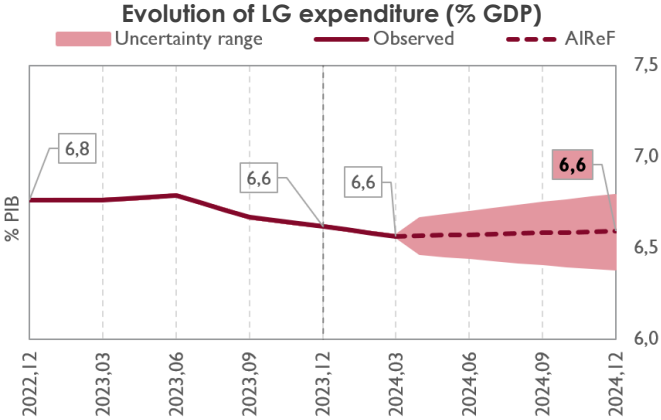
4 The weight of the transfers between GG sub-sectors will increase significantly on 2023, due to the 2022 settlement of the financing system, extraordinary to an amount of 0.2 points of GDP compared with an average year.

LG revenue (% change)



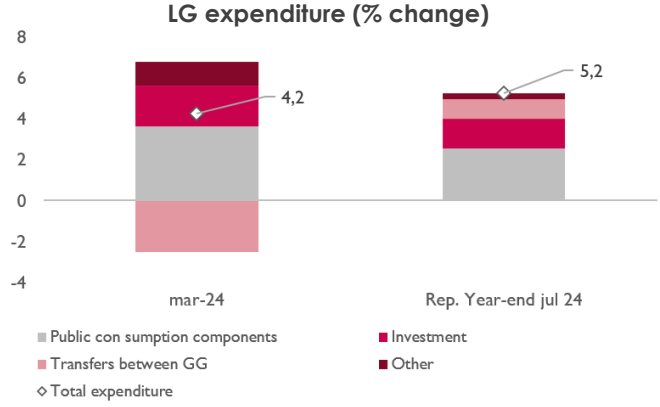
5 Expenditure without the RTRP is projected to grow by almost 5%, decreasing its weight of GDP to 6.5% (6.6% with the RTRP), 0.1 points less than in 2023.

Evolution of LG expenditure (% GDP)



6 In 2024, a lower contribution to growth from public consumption and investment is forecast, due to the return of the application of the expenditure rule that limits the growth observed in previous years.

LG expenditure (% change)



Methodological note

- 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.
- 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 expressed in annualised terms, i.e. as a sum of the last 12 months. The series expresses the flow of what has happened or expected for the last 12 months up to the reference month and the data for December therefore match the annual data.
- AIReF does not aim to estimate a monthly total in these factsheets, rather it focuses on what it deems relevant: the flow over the whole of 2024, 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.
- Given that the stability targets have not been approved, the Government considers as such the deficit path of the Stability Programme 2023-2026, which establishes a balance of -3% of GDP for the GG sector as a whole, with the following breakdown by sub-sector: a deficit of 3% of GDP for the Central Government (CG), a deficit of 0.2% of GDP for the Social Security Funds (SSFs), equilibrium for the Autonomous Regions (ARs) and a surplus of 0.2% of GDP for the Local Governments (LGs).
- As regards the expenditure rule, the publication of the Report on the Situation of the Spanish Economy has announced that the reference rate stands at 2.6% for 2024, which is mandatory for the CG, the ARs and the LGs, without parliamentary approval being necessary, unlike the stability and debt targets.
- AIReF's total for the revenue and expenditure of the GG is measured including the RTRP, which AIReF calculates at 0.9 points of GDP in 2024. In its comparisons with the Government, AIReF has considered values without the RTRP, since there is no information on the total funds expected to be executed in 2024 in national accounting terms in either the Stability Programme 2023-2026 or in the 2024 Budgetary Plan.
- 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.