MONTHLY STABILITY TARGET MONITORING 2024

PUBLICATION DATE: SEPTEMBER 17TH, 2024

Independent Authority *for* Fiscal Responsibility

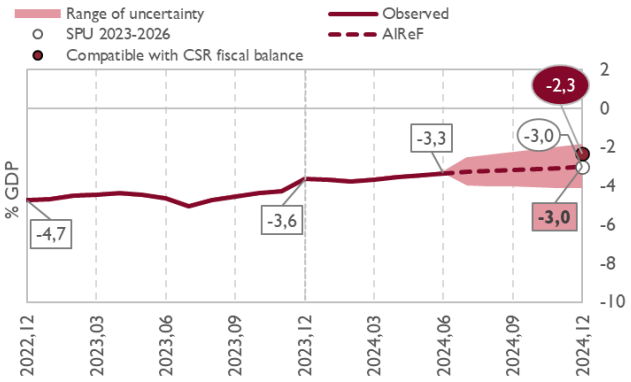
General Government

AIReF maintains its deficit estimate for the General Government (GG) at 3% of GDP published in the Report on General Government budgetary execution, Public Debt and Expenditure Rule 2024 on July 17th, 2024. No significant changes were made at a sub-sector level. This report incorporates the new information received in recent months, mainly the data published by the IGAE up to July for the State and June for the rest of the sub-sectors, as well as the budgetary execution data up to July for the State and June for the rest of the sub-sectors, as well as the budgetary execution data up to July for the Social Security Funds.

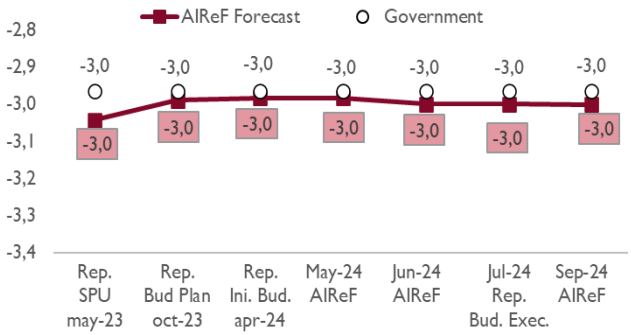
1 The deficit forecast for 2024 remains at 3%. However, compliance with these forecasts is conditional on the materialisation of certain risks, such as contingent liabilities associated with court rulings or more dynamic expenditure than expected.

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, although there are changes in the revenue and expenditure headings.

General Government deficit (% GDP)



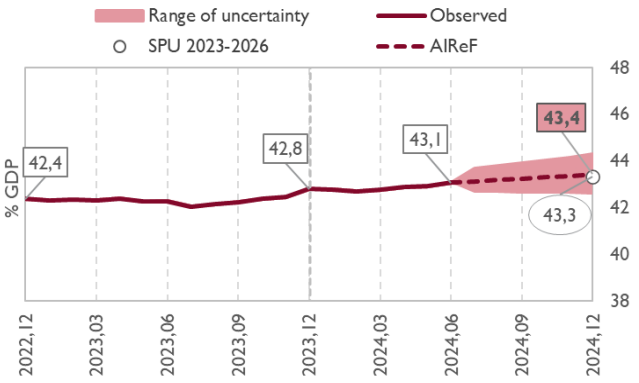
Updated GG deficit estimate (% GDP) (AIReF)



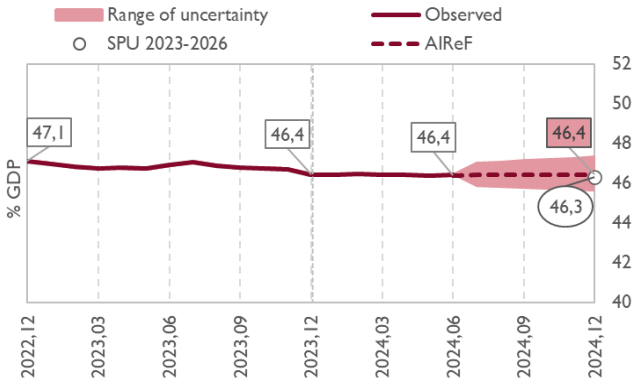
3 The revenue observed up to June in cumulative 12-month terms increased its share of GDP by 0.3 points compared with the end of 2023. AIReF forecasts that this weight will increase by a further 0.3 points to 43.4% over the rest of the year, 0.1 points less than estimated in the last report. This growth 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 stagnating 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%.

GG revenue (% GDP)

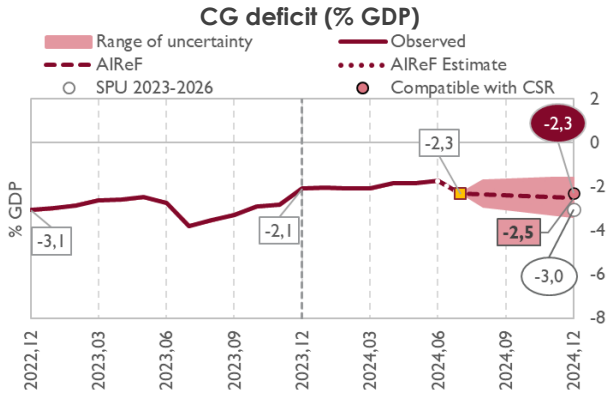


GG expenditure (% GDP)

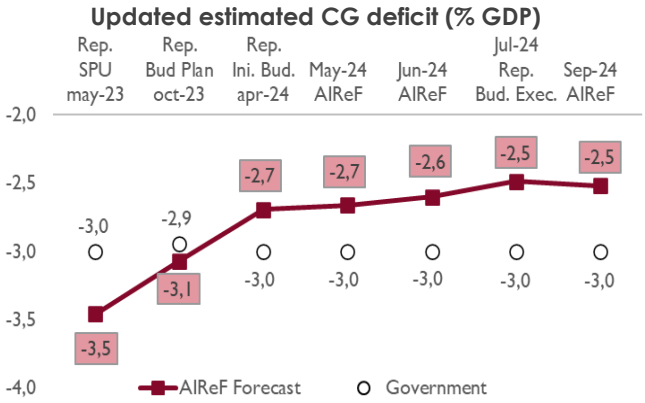


Central Government

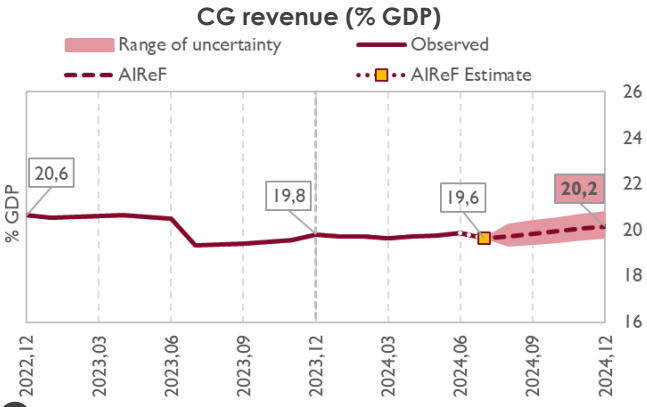
1 AIReF maintains its deficit estimate for the CG in 2024 at 2.5% of GDP. Compliance with the expenditure rule would lead to a deficit of 2.3% of GDP.



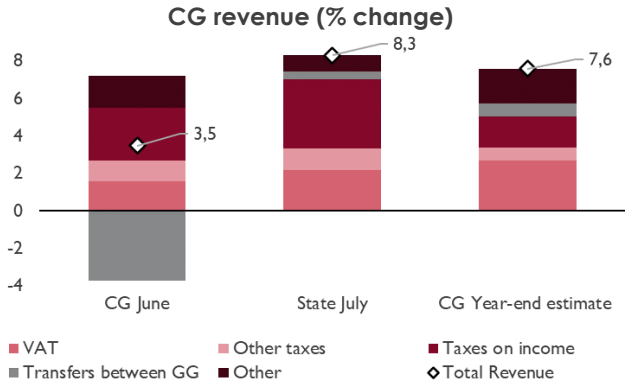
2 The deficit forecast is maintained at 2.5% of GDP, 0.5 points higher than estimated by the Government in the SPU 2023-2026.



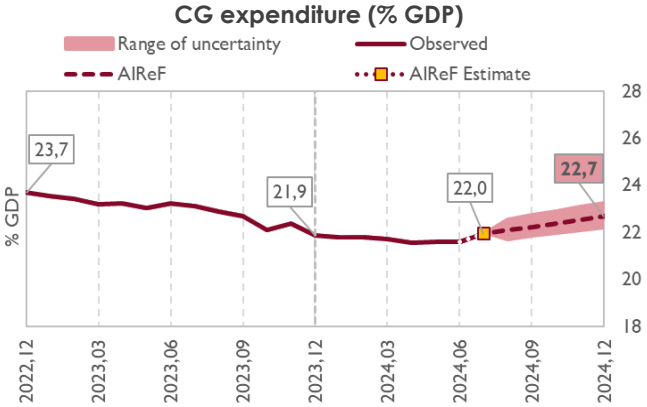
3 AIReF maintains its revenue estimate at 20.2% of GDP at year-end 2024, with a slight downward revision for tax revenue on the basis of the information received.



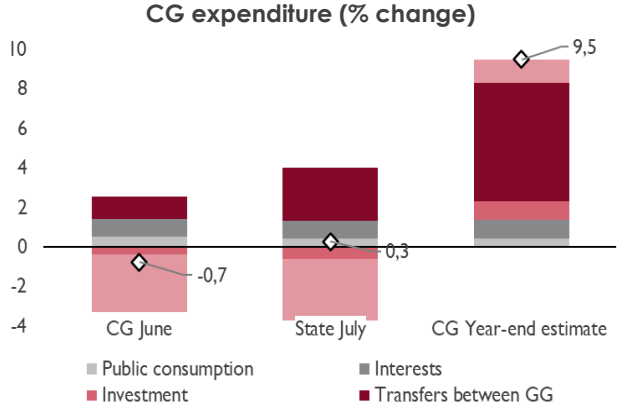
4 At year-end, revenue will grow by 7.6%. For the rest of the year, the negative contribution of transfers between GG sub-sectors will disappear (as can already be seen in the State data) and a reduction in the contribution from income taxes and an increase in the contribution of VAT is expected.



5 The year-end expenditure forecast in cumulative 12-month terms is maintained at 22.7% of GDP, increasing by 0.8 points compared with year-end 2023.



6 Compared with the last estimate, the growth rate of expenditure is expected to be 0.1% higher, at 9.5% at year-end. The increase in the contribution of transfers between sub-sectors is worthy of mention. In the following months, transfers are expected to continue to increase their contribution, as is the case with investment and other expenditure.



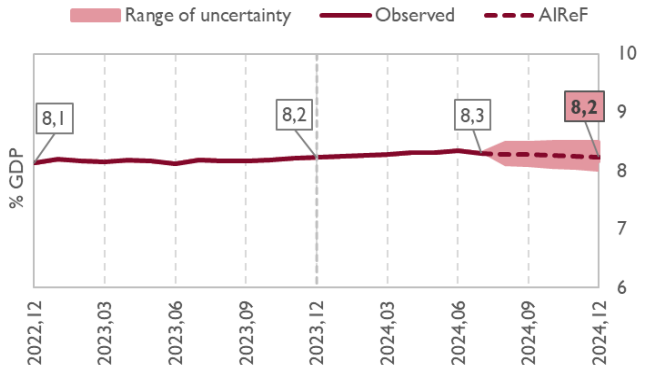
Main tax revenue and social contributions

AIReF updates its revenue estimates for 2024 with the July tax collection and the measures approved by Royal Decree-Law 4/2024. In the year to date, tax revenue has grown by 6.7%, 2 points down on the cumulative figure to May. This slowdown is the result of the poor performance of the annual personal income tax return and the higher rate of execution of rebates. AIReF expects 2024 to close with tax revenue growth of 7.8%.

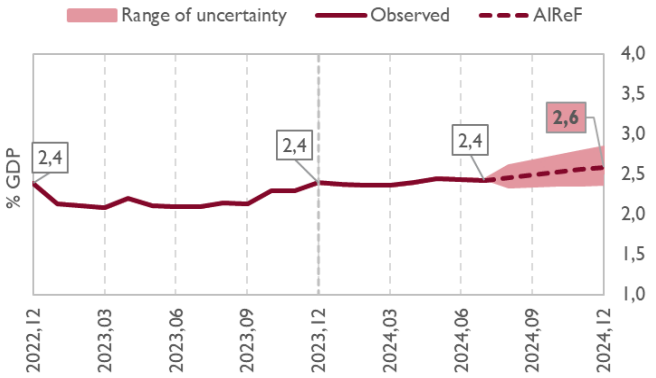
❶ In 2024, **PIT** will reach 8.2% of GDP, maintaining its weight compared with a year earlier. During the first seven months, it has grown by 7% due to the boost from withholdings from work and capital, and despite the PIT 2023 campaign that represents a differential share of around €3.3 bn below the AIReF forecast, along with the increase in the reduction of earnings from work, which already reduces growth by 1.7 points. A lower growth rate of 5.8% is forecast for year-end 2024, seriously affected by the poorer performance of the annual PIT return.

❷ AIReF maintains its forecast for **CIT,** which will reach 2.6% of GDP in 2024, 0.2 points more than in 2023. The tax collection in June and July was lower than expected due to a higher level of rebates. AIReF forecasts growth of 14.2% by year-end 2024, although this is conditional on the extension of the 50% cap on the offsetting of intra-group tax losses.

PIT in cash (% GDP)



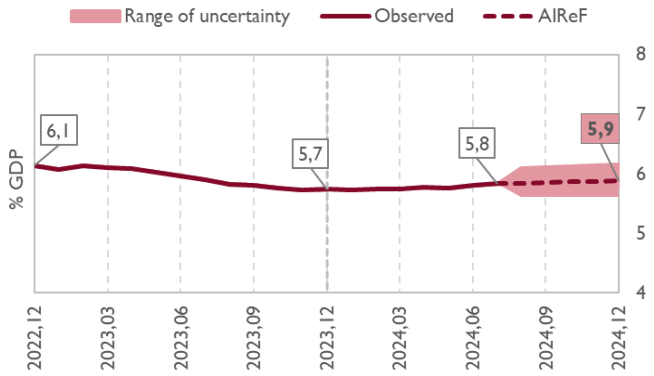
CIT in cash (% GDP)



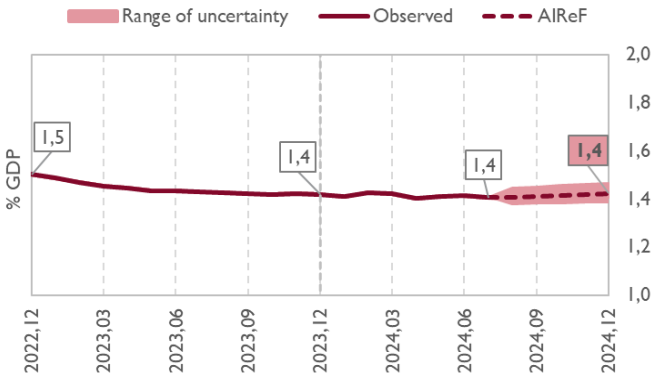
❸ **VAT** will reach a weight of 5.9% of GDP by year-end 2024, 0.2 points more than in the previous year. Up to July, VAT revenue has grown by 8.1%, above the evolution of sales. The rate reductions on food and energy have reduced tax collection by around €1.55 bn. AIReF forecasts that the extension of the measures on basic foodstuffs approved will continue to drain revenue and VAT will stand at 8.3% at year-end.

❹ The weight of **Special Taxes** on GDP will remain at 1.4% in 2024. In the year to date, revenue has grown by 4.2% compared with 2023, growth that is 0.4 points lower than that accumulated up to May. The slowdown can be explained by the weakening in sales of hydrocarbons and tobacco, partially offset by the recovery in the rate of the Special Tax on Electricity. AIReF expects growth of 5.9% at year-end.

VAT in cash (% GDP)



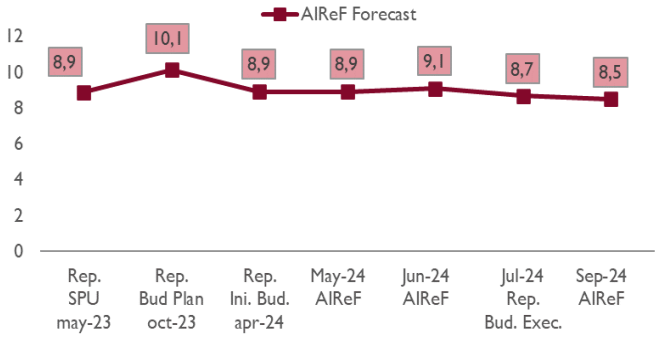
Special Taxes in cash (% GDP)



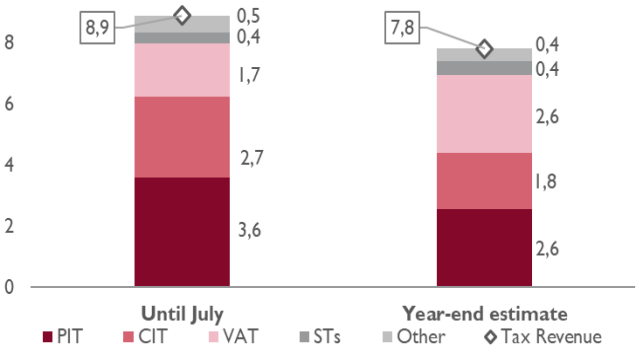
❺ **In national accounting terms, total tax revenue** in 2024 will grow by 8.5% compared with 2023, 0.2 points below the previous estimate. The approval of Royal Decree-Law 4/2024, which extends the measures on foodstuffs, together with the figure for the end of the 2023 Personal Income Tax campaign - with higher rebates and lower revenue than estimated - pushes this revision downwards.

❻ **12-month cumulative tax revenue in cash terms** up to July grew by 8.9%, mainly driven by direct taxes (Personal Income Tax and Corporate Income Tax). At the end of 2024, growth of 7.8% is estimated, with a positive contribution from all figures: Personal Income Tax due to the good evolution of withholdings, VAT due to the recovery in sales and the gradual restoration of tax rates, and Corporate Income Tax due to the improvement in company profits (although conditional on the extension of the cap on offsetting intra-group tax losses).

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



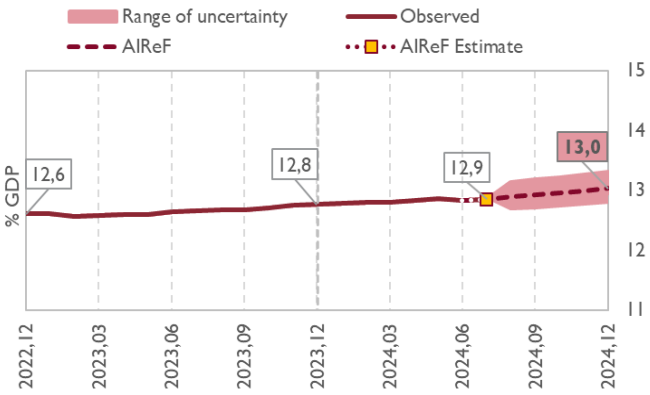
Contributions to change. Cash AIReF (% change)



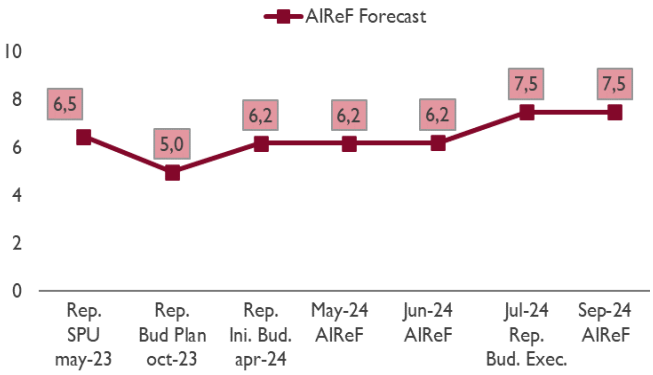
❼ AIReF expects **Social Security Fund contributions** to end 2024 with a weight of 13% of GDP. The increase of 0.2 points compared with the end of 2023 is due to a favourable macroeconomic scenario and to the increase in both the IEM and the maximum contribution bases.

❽ AIReF forecasts a **7.5% growth rate in contributions from the GG sector.** This remains unchanged from the last forecast in July.

SSF social contributions (% GDP) (NA)



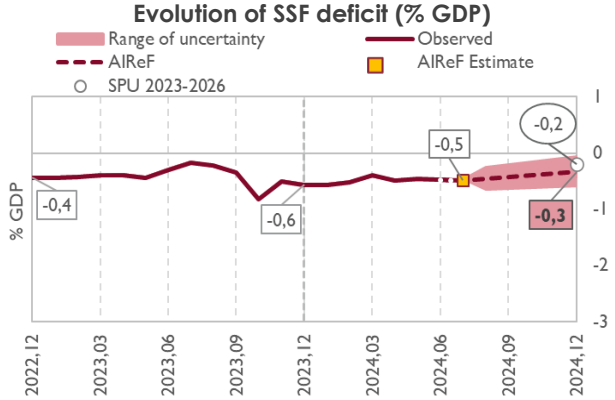
Updated forecast for social contributions from the GG Sector (% change) (NA)



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 the institution's latest forecasts published.

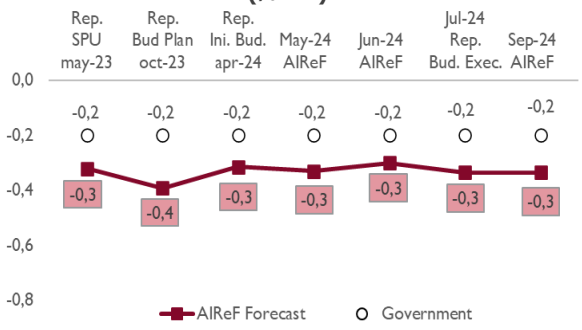
Evolution of SSF deficit (% GDP)



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

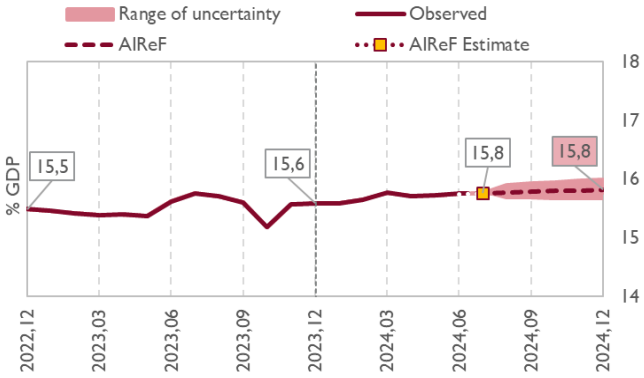
Updated AIReF SSF deficit estimate (% GDP)

(% PIB)



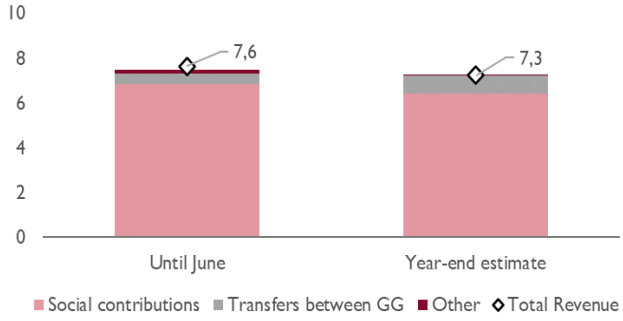
3 AIReF expects the weight of revenue as a percentage of GDP to reach 15.8% of GDP by year-end 2024, both due to the increase in transfers for improper spending by the CG and due to the dynamic nature of contributions.

SSF revenue (% GDP)



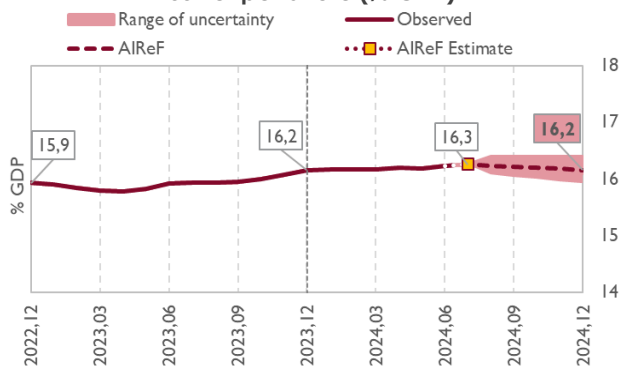
4 AIReF expects a slight slowdown in the rate of growth of revenue for the rest of the year, due to a moderation in the intensity of the growth in contributions greater than the increase in the contribution of transfers forecast by the CG for the remainder of the year.

Contributions to change in SSF revenue (% change)



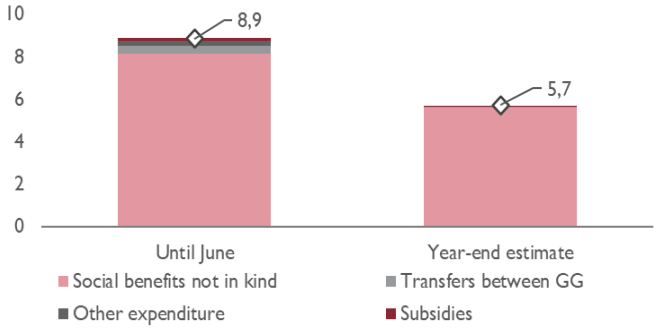
5 AIReF expects expenditure to maintain its weight of GDP at 16.2% throughout 2024. The 0.1-point increase (compared with 2023) in the weight of GDP from spending on pensions is offset by the reduction in spending on unemployment.

SSF expenditure (% GDP)



6 The pace of SSF expenditure growth is expected to slow over the year, mainly due to slower growth than in 2023 in expenditure on pensions and unemployment.

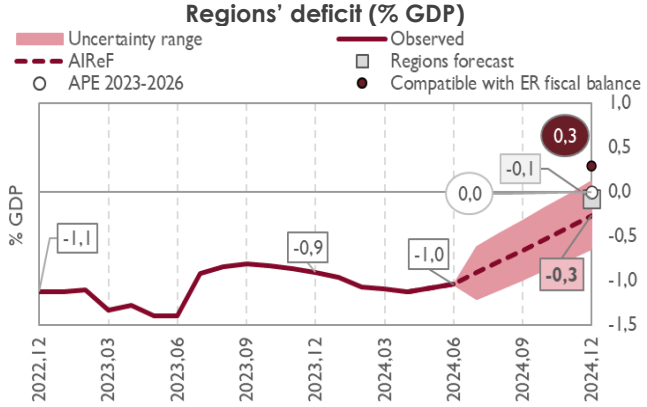
Contributions to change in SSF expenditure (% change)



Autonomous Regions

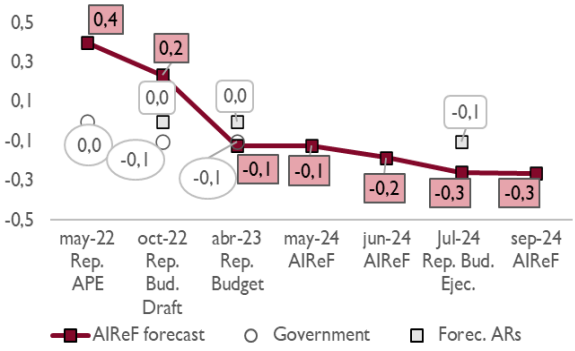
1 AIReF continues to estimate that the Autonomous Regions will reach a deficit of 0.3% of GDP in 2024. Compliance with the expenditure rule would lead to a surplus of 0.3% of GDP.

Regions' deficit (% GDP)



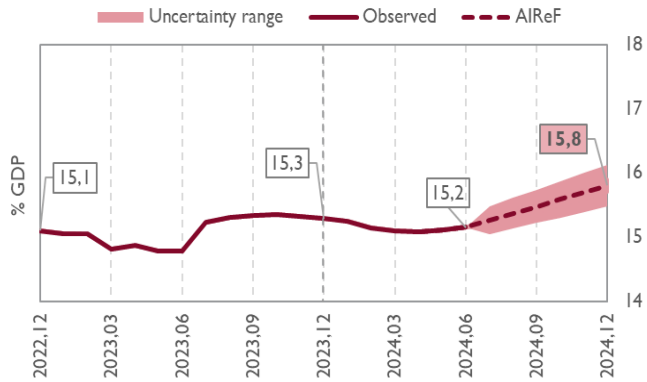
2 AIReF maintains the outlook for 2024 in the Autonomous Regions with the execution observed up to June and the update of the RFS revenue due to the 2022 final settlement.

Updated estimated Regions' deficit (% GDP)



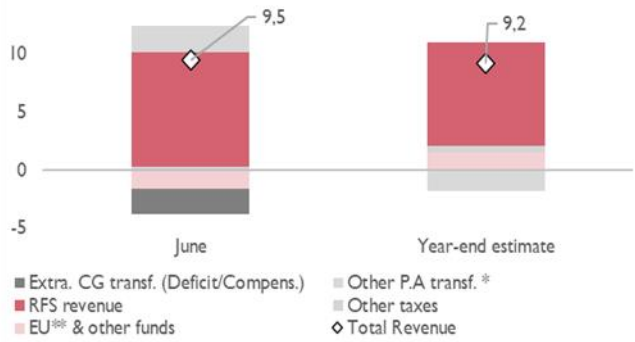
3 Revenue will increase by 9% at year-end thanks to RFS revenue. When taking into account the revenue associated with the RTRP, revenue will close at 15.8% of GDP.

Regions' revenue (% GDP)



4 Revenue growth in the last 12 months is affected by the reduction of extraordinary transfers and non-RTRP EU funds, and the increase in RFS revenue and other GG transfers, whose contribution decreases at year-end, while tax and RTRP-related revenue increase.

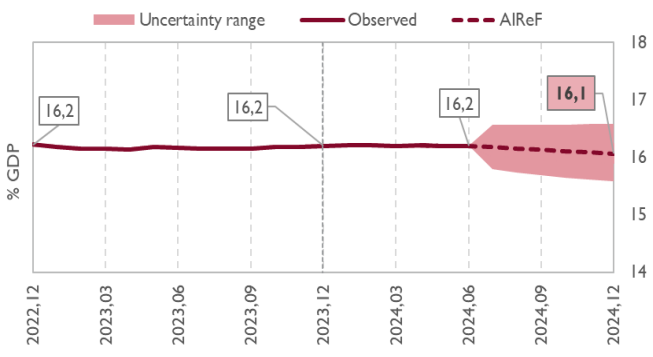
Regions' revenue (% change)



* Includes CG transfers from RTRP funds.

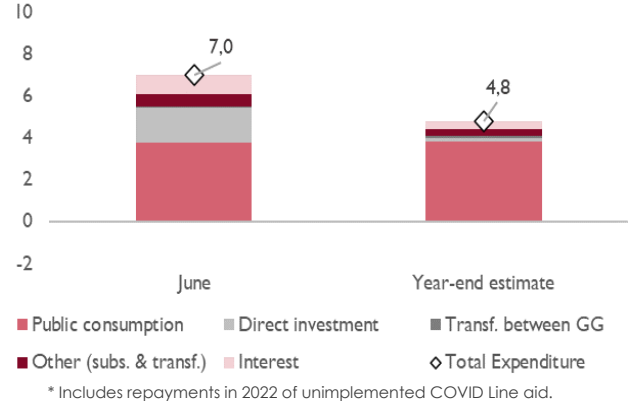
5 On the basis of budgetary execution data, it is estimated that by year-end, expenditure will have increased by 5% to reach 16.1% of GDP, including revenue associated with the RTRP.

Regions' revenue (% GDP)



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

Regions' revenue (% change)



* Includes repayments in 2022 of unimplemented COVID Line aid.

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 is 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.