Budget execution 2012 and AEAT collection report

The Central Government deficit reached €40, 330 million in 2012, 3.84% of GDP

- In cash terms, the deficit stood at €29, 013 million, or 2.76% of GDP compared to 4.42% in 2011
- Tax revenues in December reached the highest level in the historical series due to legislative changes
- The increase in revenue was due to the impact of fiscal consolidation measures that impacted revenue in the last months of the year
- Tax refunds fell by 7.9% in 2012 due to the weaker economy and greater fraud control. In previous years, it had fallen by 3% in 2011 and 19.3% in 2010.

March the 6th 2012. The Central Government ended 2012 with a deficit in national accounting terms of €40, 330 million, equivalent to 3.84% of GDP, which combined with the modest surplus of the agencies under the Central Government without financial support, showed an aggregate balance for the Central Government of 3.83% of GDP, only 0,3 percentage points above the expected target.

This data compares with a Central Government deficit equal to 5.14% of GDP in 2011, which due to the small surplus of the agencies under the Central Government without financial support, yielded an aggregate balance for the Central Government of 5.13%.

The Central Government deficit for 2011 above mentioned , was taken before exceptional settlements in favour of the Central Government funding system for 2009 in order to get an homogenious comparison.

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Once these negative settlements are taken into account, the deficit figures for 2011 would be 2.97% of GDP for the Central Gvernment 5.09% for Regional Governments and 0.84% for local governments.

This is reflected in the Main Indicators Report of the financial and economic activity of the Central Government in December, released today, which shows the Central Governemnt deficit data at the end of last year, as well as in the monthly tax revenues report from the Tax Agency.

These results show that most of the effects of the measures implemented by the Central Government would focus on the final months of the year, which confirms that the evolution of the deficit has remained on track to reach the target set by the end of the year

In December, the month in which the third payment installment of corporation tax was collected and when the greatest effects of the measures taken for this tax were concentrated, the government deficit was reduced from 4.37% of GDP in November to 3.84% at the end of 2012. This demonstrates how the deficit has been reduced to meet the European commitment as a result of the measures implemented.

The primary deficit, meaning net of accrued interest, was €14, 634 million, and equivalent to 1.39% of GDP.

In cash terms, a methodology that considers income and payments when they actually occur, the deficit stood at €29, 013 million, or 2.76% of GDP, compared to 2.64% in the previous month and 4.42% in the same period of 2011.

Non-financial income

Total non-financial income for the twelve months of the year, before discounting the participation of local authorities in income tax, VAT and excise duty, totalled €215, 446 million, representing an increase of 21.7% in year-on-year terms.

In December, total non-financial income increased by 57.4% to €20.304 billion as a result of the consolidation measures implemented by the Government.

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Meanwhile personal income tax revenues rose to €70, 631 million, that is 1.2% more than last year. The evolution of this tax was positively influenced by the supplementary levy on earned income that was approved in December 2011.

Revenues from corporate income tax to December increased by 29% to €21, 435 million as a result of regulatory changes on installment payments approved in July that have increased these revenues by 41.3%, largely affecting the revenues from large companies and consolidated groups.

The total revenue from indirect taxes was €71, 594 million, representing an increase of 0.5%.

VAT collection increased by 2.4% to €50, 463 million, compared to a 10% drop recorded in the first part of the year, due to significant growth in revenue deferrals from prior periods and the higher tax rates since September the 1st. VAT collection amounted to €3, 247 million in December.

Accumulated revenues from excise duties to December reached €18, 209 million, a decrease of 4%. Tobacco revenue fell 2.6% and the Special Tax on Fuels by 7.4%, although revenues from the Special Tax on Electricity grew by 9.8% and by 1.4% from the beer tax.

Non-financial payments

In the 12 months of 2012, non-financial payments increased by 0.8% year-on-year to €152,357 million.

Wages and salaries of those employed by the Central Government fell by 6.7% to €13, 144 million to December .

Interest payments on debt rose by 17.3% to €26, 055 million to December, to the extent that its progress depends on the volume of debt, changes in interest rates and the debt matury schedule.

Current transfer payments have increased from €79, 892 million in 2011 to €84, 244 million in 2012 And payments for real investments decreased by 1.9% to €6, 762 million.

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Tax collection

Tax Agency report shows that tax revenues in December 2012 totalled €15,024 million. This exceeds the highest value of the historical series of December recorded in 2007, of €13,481 million.

The increase in revenues throughout the year is explained by two reasons. On the one hand it is primarily due to the concentration of regulatory impacts from October such as the measures adopted in March and July on corporation income tax payment installments, the new VAT rates coming into force in September, and revenues from the Special tax returnIn fact, in December most revenues came from the third corporate income tax payment, VAT revenue at the new rate, and the majority from the revenues of the special tax return, which combined amounted to €4,000 million.

Millions of euros	**Regulatory impact in December 2012**
CORP (3rd payment)	2.481
VAT (higher rate)	636
SPECIAL	874
Total December	**4.043**

On the other hand, and to a lesser extent, the increase in tax revenue in December and throughout 2012 has been influenced by the gradual slowdown in the pace of refunds. In the first months of the year there was a significant growth in refunds, which subsequently fell in line with the decrease in level of requested refunds. After several monthly ups and downs with growth levels of over 50% in August and 62% declines in

December, the refunds decreased in total by 7.9% (€3, 791 million) for the whole 2012 compared to €44, 017 million in 2011.

The reduction in refunds is due to both a weak economy and increased tax control. at a time of economic contraction both revenues and refund applications decreased, due to the decline in activity. Tax refunds have therefore decreased from €61, 050 million in 2009 to €49, 282 million in 2010, €47, 808 million in 2011 and €44, 017 million in 2012. This means that the reduction of 7.9% in 2012 is in line with what happened in 2011, which fell 3%, while in 2010 tax refunds fell by 19.3%.

Furthermore, today there is greater control of tax refunds. The Tax Agency has monitored more strictly the provenance of refunds by using the periods granted by law for this purpose. In all cases, tax refunds have complied with the maximum legal periods for payment without incurring late payment interest.