Monthly Monitoring of Stability Target

B. Central Administration   August 2017


GRAPH 1. NET LENDING/BORROWING

- Compliance with the -1.1% of GDP target is still considered highly unlikely. There is uncertainty, mainly due to revenue, especially non-tax revenue.
- The 2nd deficit notification sent to the European Commission (*) approximates the central AIReF scenario, although it remains somewhat more optimistic.
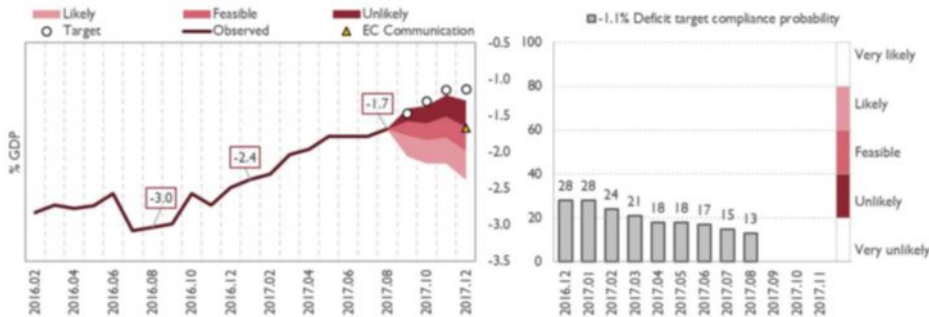
(*) The September 30 deficit and debt notification sent to the European Commission included a closing forecast for 2017 reflecting a deficit of 1.7% GDP and it's two tenths higher than reported in March.

GRAPH 2. NON-FINANCIAL REVENUE
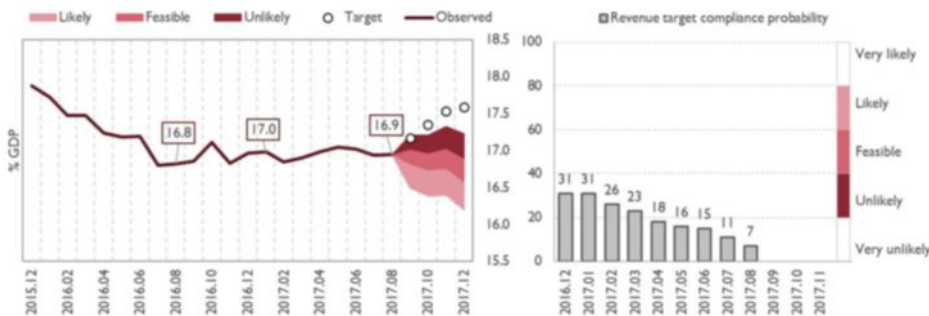
- Compliance with the revenue forecast is still considered highly unlikely.
- Tax revenue grew more than 7%, driven by positive IRPF trends (mainly in annual filings) and by the Corporate Tax payments resulting from the legistlative changes.
- Non-tax revenue, such as dividends, sales and transfers, continue to show significant declines.
- Consequently, the weight of total revenue in GDP declined slightly to 16.9% in August.

GRAPH 3. NON-FINANCIAL EXPENDITURE

Source: IGAE and AIReF estimates

- In 12-month accumulated terms, expenditure declined 2.6% through August compared to the last year. This decline is expected to slow in the last few months of the year.
- In the first half of the year, expenditure reduced 7 tenths, to 18.6%, favoured, as in previous months, by the reduction of public consumption and significant ítems such as interest and transfers to the SEPE.
- The AIReF update has increased the likelihood of reaching a level compatible with the target, considering compliance to be highly likely.

Assumptions and Notes on Monthly Monitoring

- The AIReF projections for non-financial revenue, non-financial expenditure and the fiscal balance are updated monthly, considering the results of the models themselves for taxes and interest and the national accounting data available up to July 2017.

- The graphs represent the fiscal balances, revenue and expenditure of the last twelve months, accumulated as a percentage of GDP. The data excludes financial aid. The forecasts are conditioned by the General Intervention Board of the State Administration (IGAE) updates of the National Accounts. The latest update (dated 27 September 2017) led to a significant revision of numerous national accounts from 2013 to 2017. The National Statistics Institute (INE) has also revised nominal GDP for 2014-2016. This new data has been included in these forecasts.

- The deficit target was set by the Council of Ministers on December 2, 2016 at -1.1% GDP. The March 31 deficit and debt report sent to the European Commission included a closure forecast for 2017 which includes a deficit forecast for the Central Administration greater than the approved target, standing at -1.7% GDP (-1.6% GDP without financial aid).

- The updated AIReF forecast and the deficit target are adjusted monthly, applying the same weights assigned by the ARIMA Tramo Seats projection to each month for each of these components, considering the effect of both seasonality and series trends.

- Confidence intervals are obtained in two stages. First, a VAR model is estimated for the following variables: (i) subsector specific variables, such as expenditure, revenue and the ratio of public debt to GDP; and (ii) common variables referring to the national aggregate: real GDP, GDP deflator and ten-year government bond yields. Second, using projected trajectories for the different variables and the estimated joint distribution of VAR shocks, 1500 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:

Muy probable	80-99%: compliance highly likely
Probable	60-79%: compliance likely.
Factible	40-59%: compliance feasible.
Improbable	20-39%: compliance unlikely.
Muy improbable	0-19%: compliance highly unlikely.