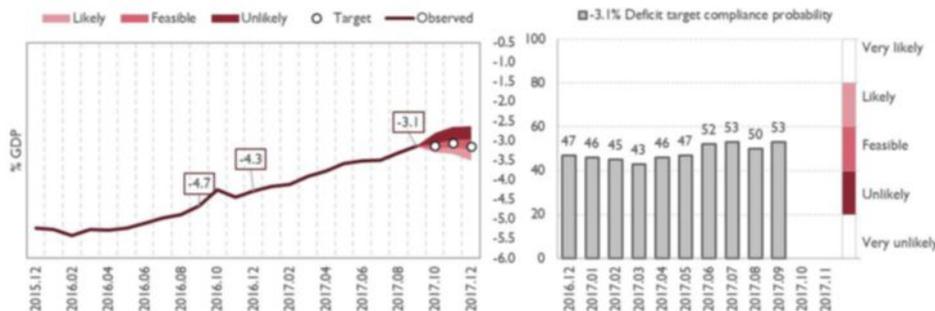


Monthly Monitoring of the Stability Target

A. General Government*

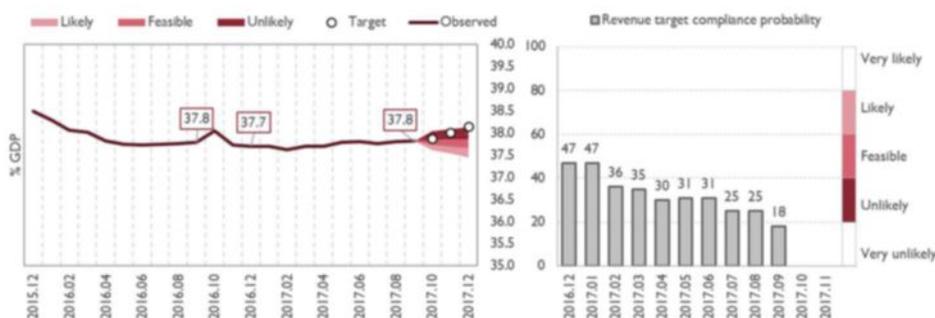
September 2017

GRAPH 1. TOTAL GENERAL GOVERNMENT DEFICIT



- Since December, there has been a deficit adjustment of 1.2 p.p of GDP (two tenths more than recorded in August) placing it at -3,1%, mainly due to decreasing employment trends.
- These employment trends are expected to continue until the end of the year, therefore compliance with the objective, set at -3,1%, of GDP, is considered feasible.

GRAPH 2. TOTAL GENERAL GOVERNMENT REVENUE



- Revenue contributes moderately to the deficit adjustment, increasing its weight in GDP by one tenth since December.
- It is expected to maintain similar levels until the end of the year. Tax collection is not expected to change significantly, since the measures adopted are not expected to have many more effects.

GRAPH 3 TOTAL GENERAL GOVERNMENT EXPENDITURE



Sources: IGAE and AIREF estimates

- Expenditure is expected to continue the downward trend that began in previous years, decreasing 1 percentage point of GDP since December due to drops in significant items, such as financial expenses and public consumption.
- This trend is expected to moderate in the last months of the year, since in 2017 the Central Administration has not issued the closing order as in 2016.
- Expenditure is expected to grow significantly below GDP until the end of the year, continuing the consolidation.

* The observed cumulative data for the month of September for the General Government was estimated based on the consolidated September data published by the IGAE, which includes the Central Administration, Social Security Fund and Autonomous Regions, adding the Local Government forecasts made by AIREF. The Local Government data, which implies the maintenance of the surplus from the previous year, has been estimated taking into account the monthly payment for transfers and other revenue and expenditure that has been broken down monthly based on its historical behaviour.



Assumptions and notes on monthly monitoring

- The AIReF projections for non-financial revenue, non-financial expenditure and fiscal balances are updated monthly, taking into account the results of the models for taxes, contributions, unemployment benefits, pensions and interests and the known national accounting data.
- The graphs represent the fiscal balances, revenue and expenditure of the last twelve months, accumulated as a percentage of GDP for the General Government (GG) without financial aid. The observed cumulative data for the month of September for the General Government was estimated based on the consolidated September data published by the IGAE, which includes the Central Administration (CA), Social Security Fund (SSF) and Autonomous Regions (AR), adding the Local Government (LG) forecasts made by AIReF. The LG data have been estimated taking into account the monthly payments from the State to the LGs from the financing system and payments from the Provincial Councils to the AGE for the quota and to the Autonomous Region of the Basque Country. The remaining revenue and expenditure is based on its historical behaviour. The projections profile is conditioned by continuously updating the General Intervention of the State Administration (IGAE) of the General Government Accounts. The latest updated (dated 27 September 2017) led to a significant revision of the numerous national accounting headings from 2013 to 2017. Likewise, the National Institute of Statistics has revised the nominal GDP for 2014-2016, incorporating the newly published data into their calculations.
- The 2017 target for the GG is -3.1% of GDP, set by the Council of Ministers on 2 December 2016. The GG revenue and expenditure forecasts are those included in the 2018 Budgetary Plan sent to the European Commission in October 2017.
- The updated AIReF forecast and the official forecast of the fiscal balance, revenue and expenditure by month apply the same weights as 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:

Very likely	80-99%: compliance highly likely.
Likely	60-79%: compliance likely.
Feasible	40-59%: compliance feasible.
Unlikely	20-39%: compliance unlikely.
Very unlikely	0-19%: compliance highly unlikely.