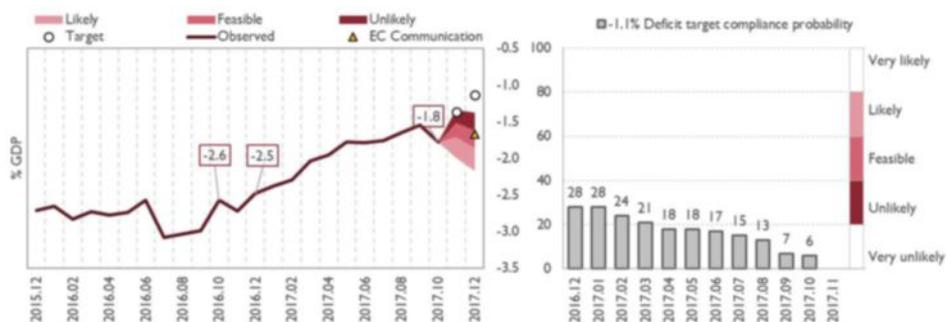


Monthly monitoring of the stability target

B. Central Administration

October 2017

GRAPH 1. NET LENDING/BORROWING



(*) The second deficit and debt notification, sent to the European Commission on September 30 included a forecast for 2017 that reflected a deficit of 1.7% of GDP for the Central Administration, two tenths above the figures in the March report.

- Compliance with the target, set at -1,1% of GDP, is considered highly unlikely. The uncertainty is mainly related to revenue, both in terms of the third payment of the Corporate Tax and the non-tax revenue.
- The 2nd deficit notification sent to the European Commission (*) and included in the Budgetary Plan is closer to the AIReF's central scenario, although somewhat more optimistic.

GRAPH 2. NON-FINANCIAL RESOURCES



- Revenue through October worsened as a result of the second instalment payment of the Corporate Tax being worse than expected. According to the AIReF estimates, the impact of the RDL 3/2016 measures will not reach €1,500 million in 2017, compared to the €4.655 million initially forecast by the Government.
- Tax revenues grew at a rate of 2.8%, more than 5 percentage points lower than the previous month, because the second instalment payment for 2016 was exceptionally high, including the minimum payment corresponding to the first and second payment.
- Compliance with the revenue forecasts is still considered highly unlikely.

GRAPH 3. NON-FINANCIAL EXPENDITURE



Source: IGAE and AIReF estimates

- Expenditure through October, in accumulated 12-month terms, decreased -2.4% compared to the same month of the previous year.
- This reduction is expected to moderate in the last months of the year, due to the exhaustion of the impact prior to the 2016 close.
- So far this year, expenditure has reduced 9 percentage points, to 18.5% of GDP, favoured, as in previous months, by the reduction in public consumption and significant items, such as interest, contributions to the EU and the state transfers to the SEPE.
- It is still considered highly likely that the Central Administration will comply with the Government expenditure target.



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 the current month.
- The graphs represent the balance, 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 2 December 2016 at -1.1% of GDP. The second deficit and debt report sent to the European Commission on 31 September 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 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