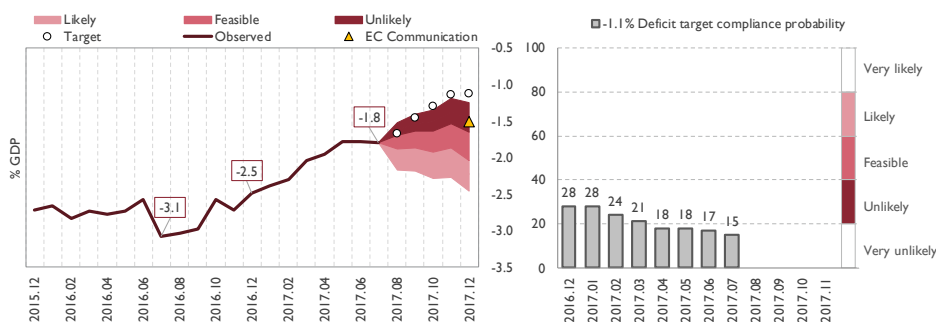


Monthly Monitoring of Stability Target

B. Central Administration

July 2017

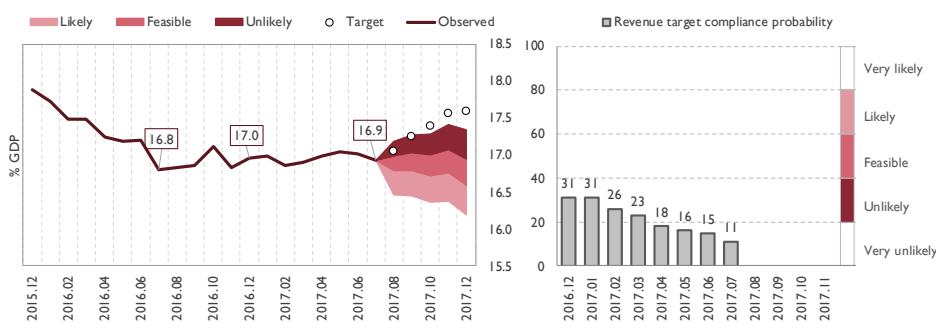
GRAPH 1. NET LENDING/BORROWING



- Compliance with the 1.1% of GDP target is still considered highly unlikely. There is uncertainty, mainly derived from revenue, especially non-tax revenue.
- AIReF forecasts are also higher than the deficit notification sent to the European Commission (*).

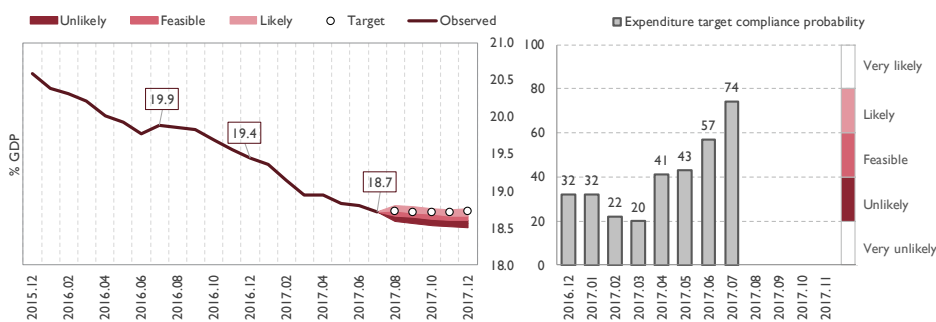
(*) The March 31 deficit and debt notification sent to the European Commission included a closing forecast for 2017 reflecting a deficit of 1.5% GDP. The second notification is pending publication.

GRAPH 2. NON-FINANCIAL REVENUE



- Compliance with the revenue forecast is considered highly unlikely. Tax revenue grew by more than 6%, driven by income tax, which included the IRPF quote that has been very favourable.
- Non-tax revenue, such as dividends, sales and transfers, continue to show significant declines.
- Consequently, total revenue lost a little weight in GDP, coming to 16,9% in July.
- Revenue is projected to lose about two tenths of GDP by the end of the year due to the revision of the Basque quota.

GRAPH 3. NON-FINANCIAL EXPENDITURE



Sources: IGAE and AIReF estimates

- Expenditure reduced 7 tenths in the first half of the year, up to 18.7 % of GDP, favoured, as in previous months, by the reduction in public consumption and significant items such as interest and transfers to the SEPE.
- This trend, together with new information on the impact of toll roads, makes it feasible to reach the level of expenditure compatible with the 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 July 2017.
- 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 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 -1.5% GDP (-1.4% 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:

