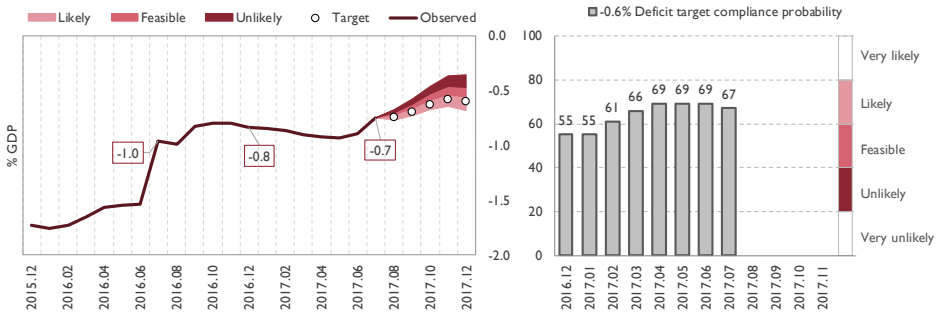
Monthly Monitoring of Stability Target

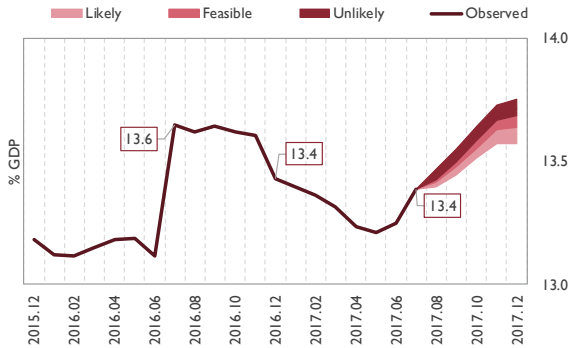
E. Regions July 2017

GRAPH 1. NET LENDING/BORROWING



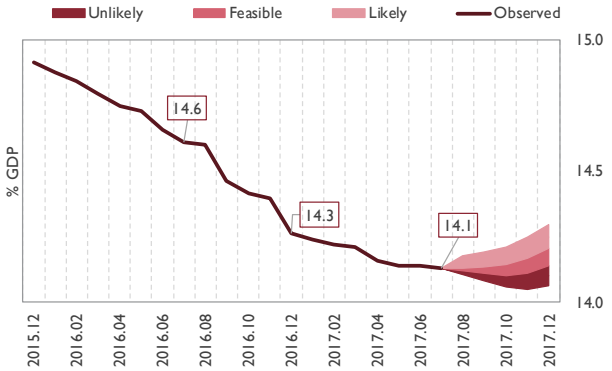
- The improvement in the regional financing system (SFA) and the regularization of payments, paid through July under the assumed GIP renewal, together with the lower level of expenditure on GDP, led to a reduction of one tenth in the Regional deficit until July 2017.
- Compliance with the 2017 target is still considered likely.

GRAPH 2. NON-FINANCIAL REVENUE NET OF PAYMENTS FOR FINANCING SYSTEM



- July revenue includes the increase in SFA payments.
- Revenue growth is projected until the end of the year, favoured by:
  - The improvement of 2017 SFA payments, which reflect the amounts of the 2017 approved budget and the regularization of the amounts received during the first half of the year, under renewal.
  - The positive tax revenue trend.
  - The projected increase in EU funds at the end of the year, which were very low in 2016.

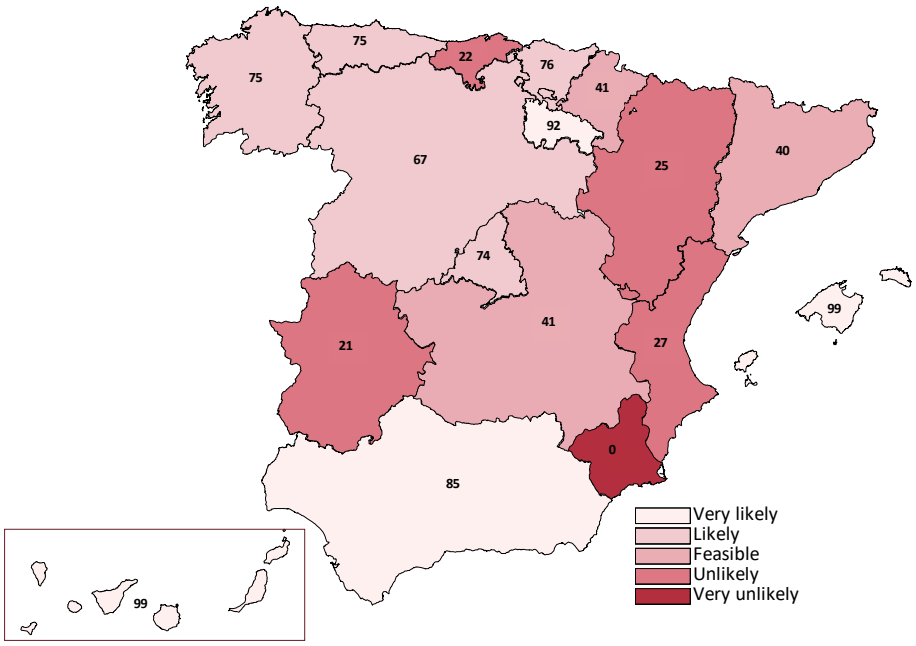
GRAPH 3. NON-FINANCIAL EXPENDITURE NET OF PAYMENTS FOR FINANCING SYSTEM



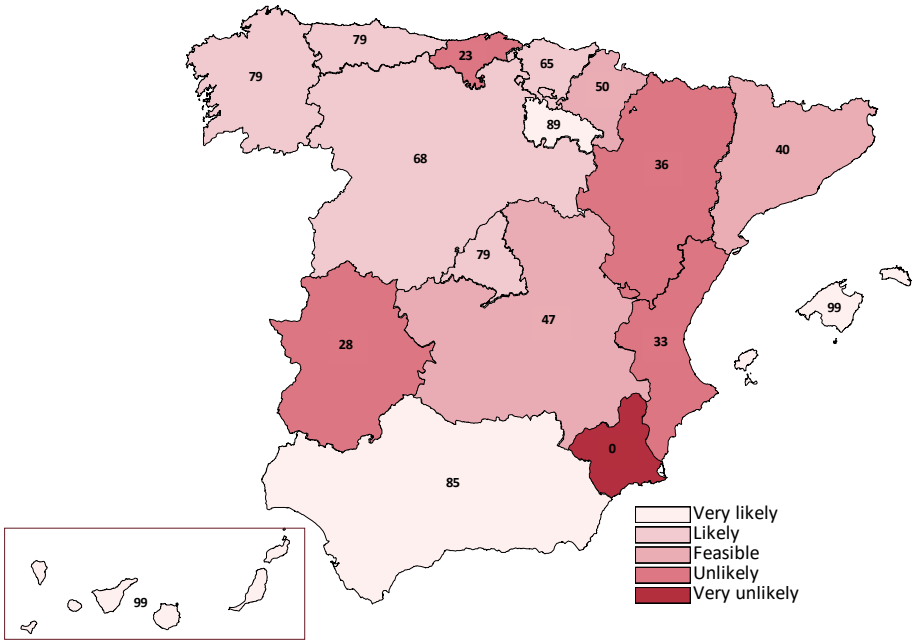
- The trend in non-financial expenditure accumulated in annual periods has been declining in terms of % of GDP over the first seven months of 2017.
- This decline is expected to continue, with a slight rebound at the end of the year due to investment spending associated with EU funds.

GRAPH 4. PROBABILITY OF FULFILMENT OF STABILITY TARGETS

(JULY 2017)



(JUNE 2017)



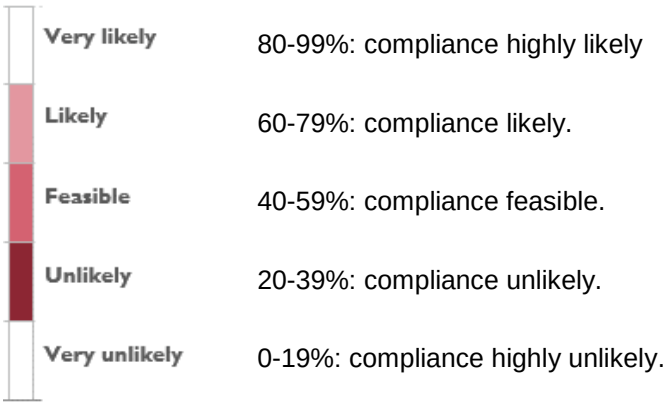
Note: The numbers in the regions indicate the probability of meeting the 2017 target, according to the confidence interval methodology.

- While it is expected that the subsector as a whole can meet the stability target in 2017, there are risks with respect to fulfilment in several Regions:
  - Compliance with the 2017 stability target is considered "unlikely" in Cantabria, Extremadura, Comunitat Valencia and Aragon, although moderate deviations are expected.
  - In the Region of Murcia, it is considered "very unlikely".
- Although there were no significant changes in the analysis of the June 2016 data, slight changes were detected that did not modify the AIReF's probability of compliance rating:
  - This probability increased in the Basque Country and La Rioja.
  - It reduced in ten regions: Galicia, Asturias, Cantabria, Navarre, Castile y Leon, Aragon, Madrid, Castilla-La Mancha, Extremadura and Comunitat Valencia.
- Several Regions are within the probability band limits, so small variations in the execution data or additional information could modify their qualification in the future.

Assumptions and Notes on Monthly Monitoring

- The graphs represent the revenue and expenditure for the last twelve months accumulated as a percentage of GDP for all Autonomous Regions. The map represents, for each region, the assessment of the probability of fulfilment of the stability target at year-end 2017.

- 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, the national accounting data available at the date of the report (March 2017), and any other information provided by the Regions. In the analysis of revenue and non-financial expenditure, the effect of payments to the State for the financing system is removed (as they are considered as minor income). 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 (and of lesser importance since 2007). The National Statistics Institute (INE) has also revised nominal GDP for 2014-2016. This new data has been included in these forecasts.

- The monthly AIReF forecasts and the Autonomous Community targets are based on the balance resulting from the aggregation of the estimates of income and expenses for each of them. For these individual forecasts previously known data, such as revenue from the financing system, whose installments are paid on a monthly basis in an ordinary year, and whose settlement in year n-2 is paid in July, is combined with other estimates based on the percentage of monthly execution of each Region in recent years, usually describing a regular profile but with differences in their rates of execution for income and expenses. However, in 2017, the monthly financing system income has been calculated by estimating that the regularization of payments based on the extended budget, which will occur in July, once approved by the Draft General State Budget. The expected balances are calculated by the difference between known and expected resources and employment for each month.

- 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: