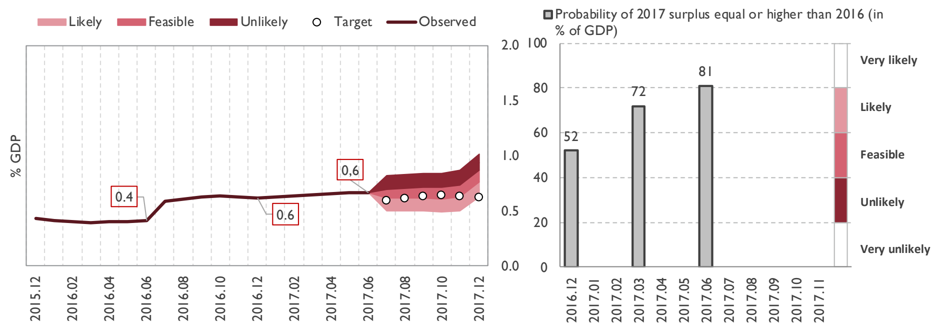
Quarterly Monitoring of the Stability Target

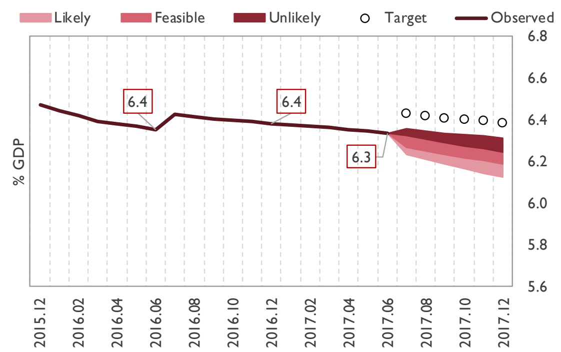
F. Local Government Subsector Q2 2017(*)

GRAPH 1. NET LENDING/BORROWING



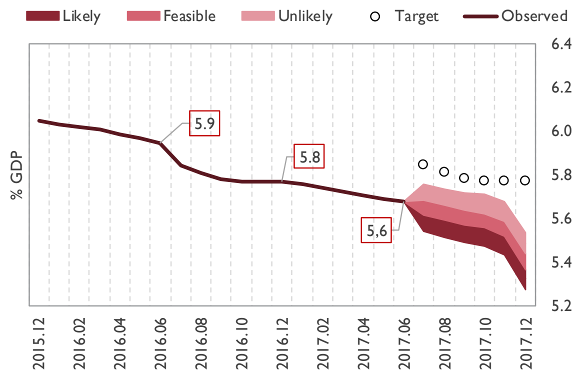
- AIReF considers it highly likely that the target will be met and the 2016 results (at least) will be consolidated. The estimated impact of the Economic Agreement with the Basque Country and the delay in the approval of the GIP in making financial investments sustain a higher surplus than the previous year.

GRAPH 2. TOTAL REVENUE



- Local Government revenue lost one-tenth of its weight over GDP in the first half of the year, and this trend is expected to continue until the end of the year.
- Tax revenue grew at rates close to 3%, driven by taxes collected by the provincial councils, which have recorded increases of more than 10%.
- Municipal taxes are showing contained evolution, with an IBI growth of around 1%.

GRAPH 3. TOTAL EXPENDITURE



- It is projected that by year end, expenditure will lose four tenths of its weight over GDP.
- The moderation of public consumption and the delay in the processing of financially sustainable investments place the increase of expenditure below GDP growth.
- The commitments derived from the Basque Country agreement, which the AIReF projects could materialize in December, mean an additional decrease of one tenth of GDP.

(*) Asssumptions and Notes on Quarterly Monitoring

- The AIReF projections for non-financial expenditure, non-financial revenue and the fiscal balance are updated quarterly considering the results of the models themselves for taxes and the national accounting data available for the Local Governments for the first and second quarter.

- The graphs represent the balance, revenue and expenditure of the last four quarters accumulated as a percentage of GDP.

- The updated AIReF forecast is adjusted quarterly, applying the same weights as assigned by the ARIMA projection to each quarter for each of these components, considering both seasonality and series trends. The balance is adjusted quarterly using the difference between revenue and expenditure.

- 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.