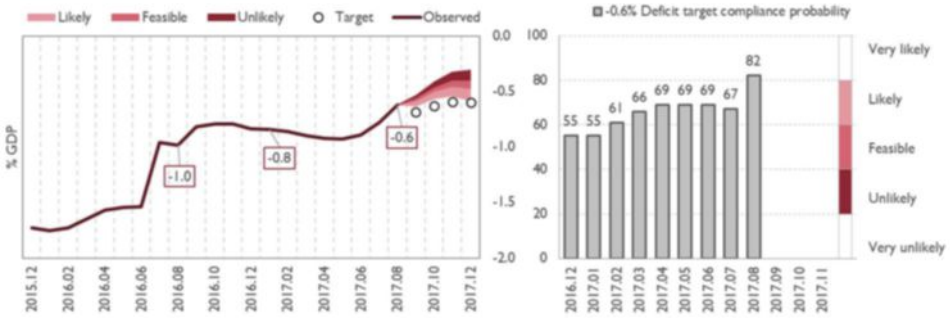
Monthly Monitoring of Stability Target

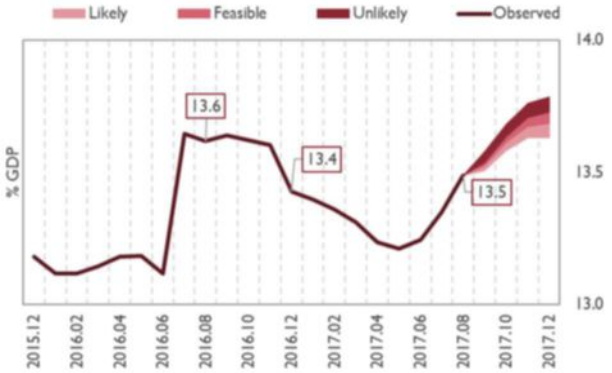
E. Regions August 2017

GRAPH 1. NET LENDING/BORROWING



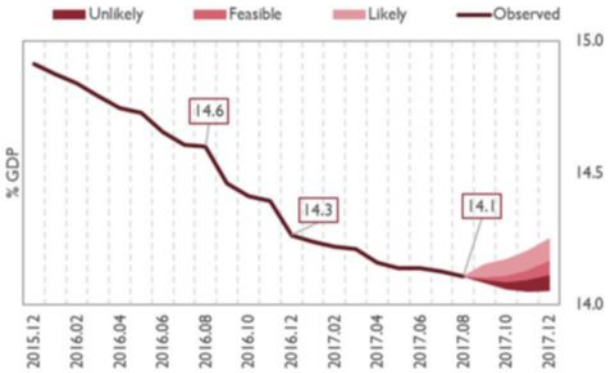
- The forecasted improvement in the balance until the end of 2017, from the analysis carried out with teh July data, has derived in large part from the inclusión of the effect foreseen in the Basque Country of the application of the Agreement of the Mixed Commission of the Economic Agreement of May 2017.
- With this improvement, compliance with the 2017 target is considered highly likely,

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



- Non-financial revenue has grown in August above expectations. Among other factors, this is mainly due to SEPE transfers, which do not affect the closure forecasts.
- Additional revenue growth is projected until the end of the year, favoured by:
  - The inclusion in the Basque Country assessment of the application of the May agreement.
  - The positive tax revenue trend.

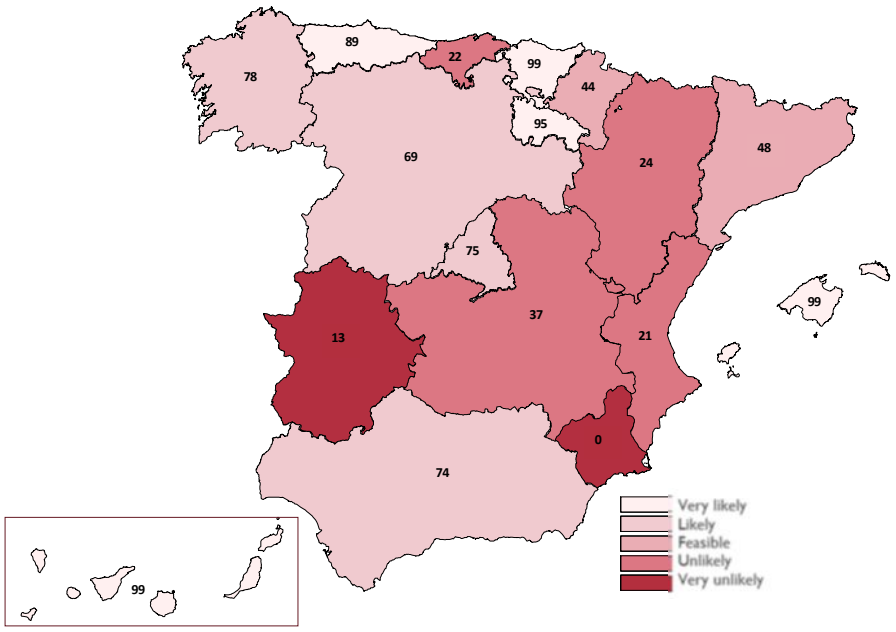
GRAPH 3. NON-FINANCIAL EXPENDITURE NET OF PAYMENTS FOR FINANCING SYSTEM



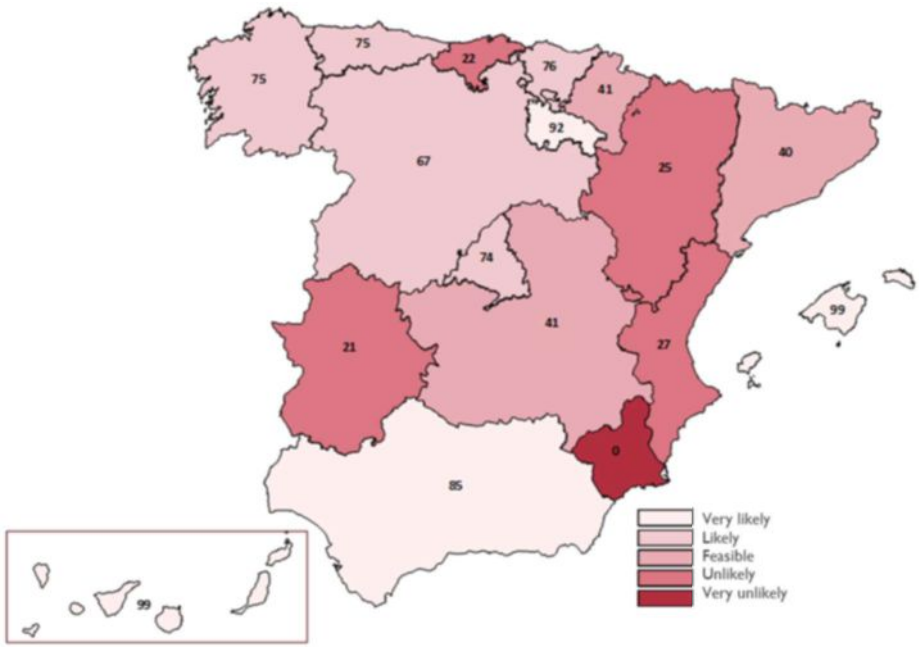
- The trend in non-financial expenditure accumulated in annual periods continued to decline in terms of % of GDP.
- This decline is expected to continue, with a slight rebound at the end of the year due to the investment spending associated with EU funds.

GRAPH 4. PROBABILITY OF FULFILMENT OF STABILITY TARGETS

(MADE WITH AUGUST 2017 DATA)



(JULY 2017)



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

- In 2017, the likelihood of the subsector to comply with the targets is increasing, favoured by the new information on revenue expected at closing, while risks of default are accentuated and/or confirmed in several regions:
  - Fulfillment of the stability target in 2017 is considered "highly unlikely" for Extremadura and the Region of Murcia.
  - This compliance is considered "unlikely" in Castilla-La Mancha, Valencia, Cantabria and Aragon.
- Regarding the analysis made with the July 2017 data, there are some changes in the AIReF's compliance ratings:
  - The ratings have worsened in Andalusia, Castilla-La Mancha and Extremadura. In the latter two, which were already at the lower limit of the previous range, the passage of time and the revision of data has led them to be moved to the next probability range.
  - The Regions of Asturias and the Basque Country have improved, now considered "highly likely". In the latter, this is mainly due to the inclusion of the estimated effect of the application of the May 2017 Agreement of the Mixed Commission.
- The changes are conditioned:
  - In all cases, due to the nearing year-end closure, which tends to consolidate recorded trends.
  - In some Regions, due to the revision of the closure forecasts with the August data and the additional information available for the analysis of the 2018 budget lines, and, in Castilla-La Mancha, for the PEF.
- Several Regions are again close to the limits of the probability bands (or even closer). Therfore, small variations in the data or additional information could later lead to changes in their ratings.

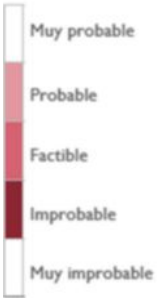
Assumptions and Notes on Monthly Monitoring

- 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 (August 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:



80-99%: compliance highly likely

60-79%: compliance likely.

40-59%: compliance feasible.

20-39%: compliance unlikely.

0-19%: compliance highly unlikely.