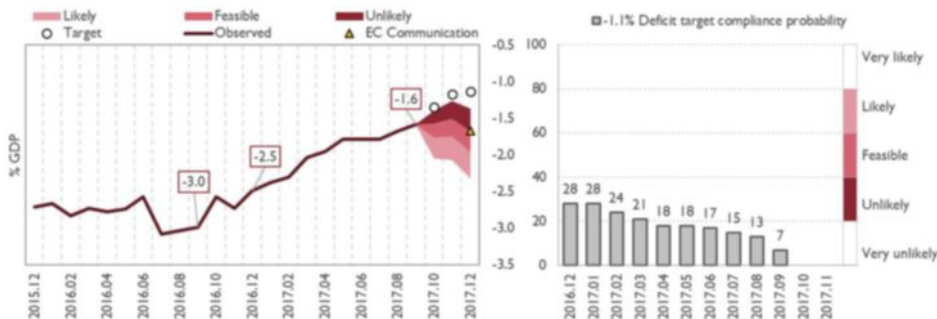


Monthly Monitoring of the Stability Target

B. Central Administration

September 2017

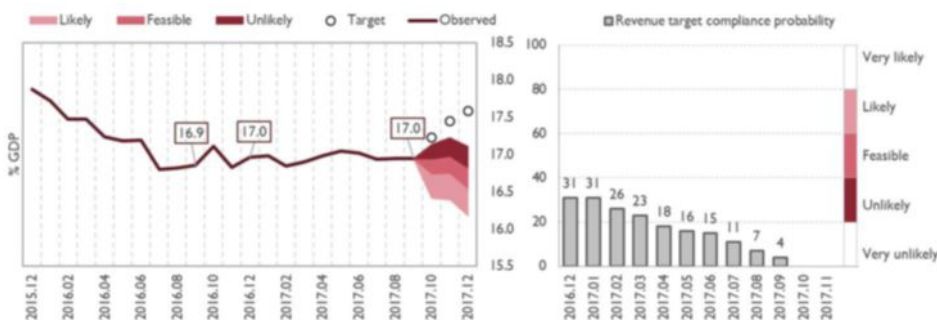
GRAPH 1. NET LENDING/BORROWING



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

- Compliance with the target, set at -1,1% of GDP, is considered very unlikely. There is uncertainty, mainly derived from revenue, and especially from non-tax revenue.
- The 2nd notification of the deficit sent to the European Commission (*) and included in the Budgetary Plan is closer to the AIREF central scenario, although it is somewhat more optimistic.

GRAPH 2. NON-FINANCIAL REVENUE



- With the October tax collection data, the revenue forecast has worsened as a result of a second Corporate Tax instalment payment which is less than expected, partially offset by the greater dynamism of the VAT.
- The revenue forecast is still considered highly unlikely.
- Tax revenue grew at a rate of 7%, one tenth below the previous month.
- Non-tax revenue, such as dividends, sales and transfers, continue to have very significant decreases.

GRAPH 3. NON-FINANCIAL EXPENDITURE



Source: IGAE and AIREF estimates

- Accumulated expenditure decreased - 2.9% compared to the same month from the previous year.
- This trend is expected to reduce in the last months of the year, since in 2017 the Central Administration has not issued the closing order as in 2016.
- So far this year, expenditure has reduced 8 tenths, to 18.5% of GDP, favoured, as in previous months, by the reduction in public consumption and significant items, such as interest and transfers to the SEPE.
- It is still considered highly likely that the level of expenditure compatible with the Government's target will be met.



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 projections profile is conditioned by continuously updating the General Intervention of the State Administration (IGAE) of the General Government Accounts. The latest updated (dated 27 September 2017) led to a significant revision of the numerous national accounting headings from 2013 to 2017. Likewise, the National Institute of Statistics has revised the nominal GDP for 2014-2016, incorporating the newly published data into their calculations.
- The deficit target was set by the Council of Ministers on December 2, 2016 at -1.1% 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% of 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:

