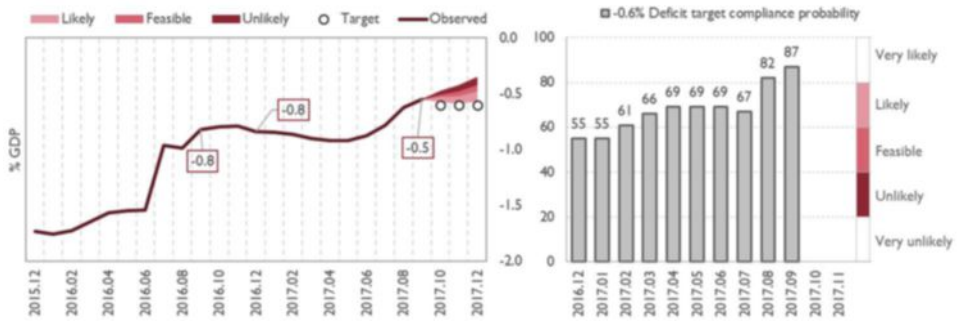
Monthly Monitoring of the Stability Target

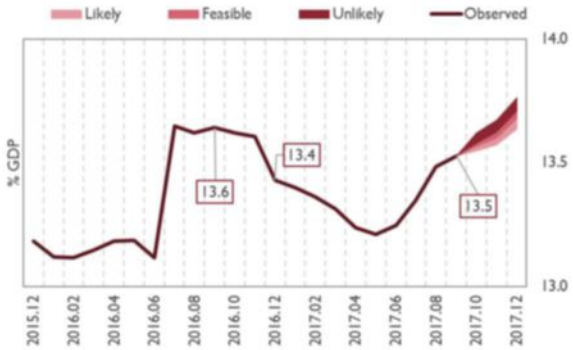
E. Regions September 2017

GRAPH 1. NET LENDING/BORROWING



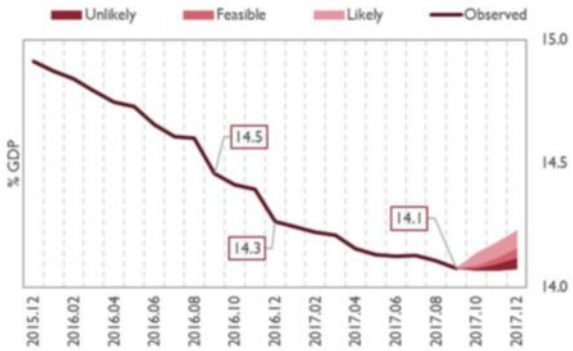
- Compliance with the 2017 Regional Subsector stability target is considered highly likely.
- This probability increases as the end of the year approaches.

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



- None-financial revenue grew with less intensity than In August, due to the fact that in the previous month, there was an advance in SEPE transfers to the Autonomous Regions (ARs), among other factors.
- Additional growth is expected until the end of the year, due to the following:
  - The effect on the Basque Country Regional Revenue of the Agreement of the Mixed Commission.
  - The EU revenue trends.

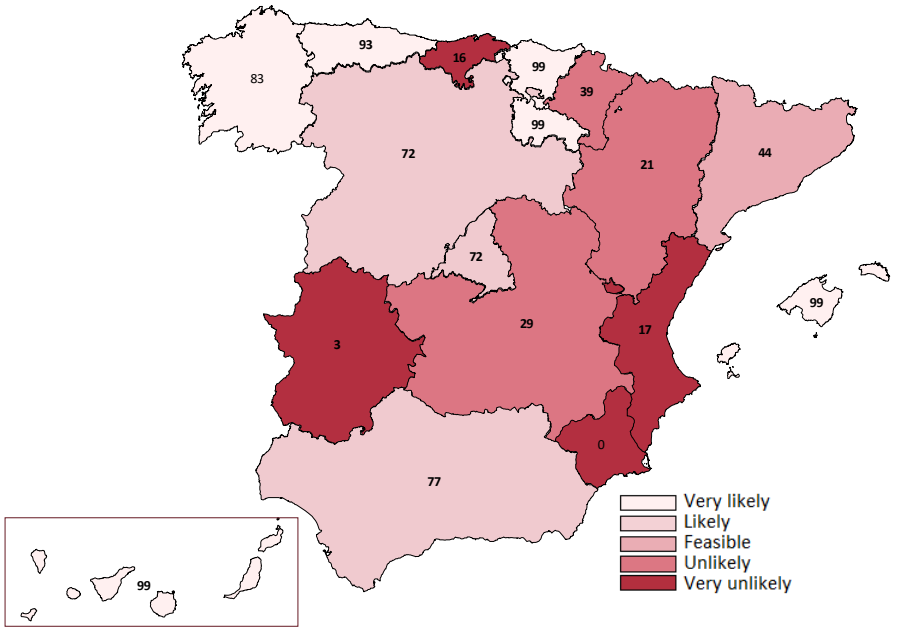
GRAPH 3. NON-FINANCIAL EXPENDITURE NET OF PAYMENTS FOR FINANCING SYSTEM



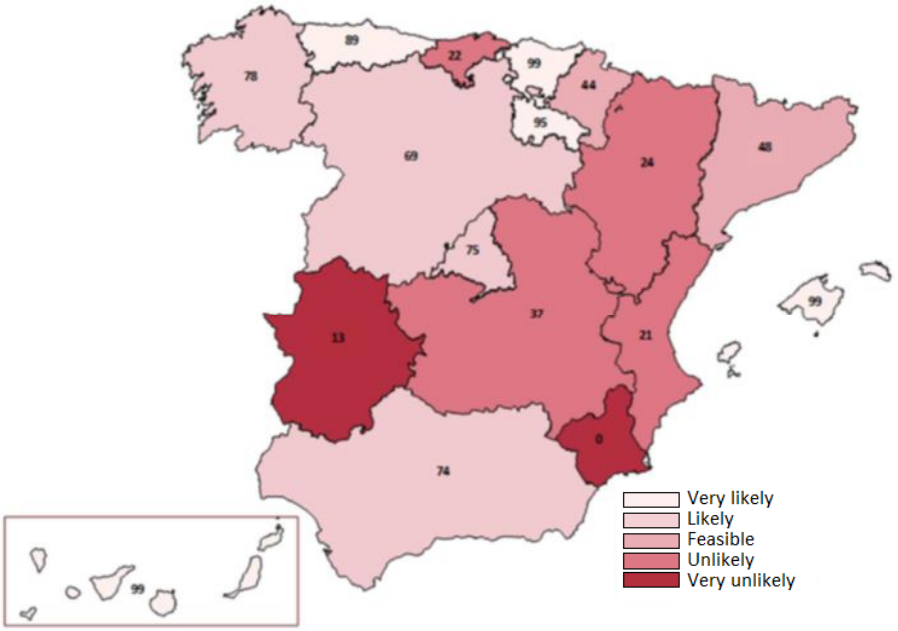
- The declining trend in terms of % of GDP of non-financial expenditure accumulated in annual periods has concluded. This trend is projected to increase until the end of the year, due to the increase in investment spending associated with EU funds compared to the 2016 level, which was exceptionally low, among other things.

GRAPH 4. PROBABILITY OF FULFILMENT OF STABILITY TARGETS

(DATA FROM SEPTEMBER 2017)



(DATA FROM AUGUST 2017)



- For those ARs with low probabilities of compliance with the 2017 stability target, the risks have been accentuated and/or confirmed:
  - It is considered "highly unlikely" for the Region of Murica, Extremadura, Valencia and Cantabria.
  - Said compliance is considered "likely" in Castilla-La Mancha and Aragon.
- Regarding the analysis carried out with the August 2017 data, there were some changes in the AIReF's likelihood of compliance ratings:
  - The assessments of Cantabria and Valencia have worsened as the risks have been confirmed. The decline in Extremadura's likelihood of compliance is worth noting, due to lower projected revenue from the EU.
  - The Region of Galicia has improved its assessment, as the data confirmed the positive scenario this close to the end of the year.

Note 1: The numbers in the regions indicate the likelihood of compliance with the 2017 target, in accordance with the methodology outlined in the confidence intervals.

Note 2: Some ARs are near the edges of the probability bands, therefore small variations in the execution, later additional information or closer proximity to the end of the year could lead to changes in their assessments in the coming months.

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 (until September 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 projections profile is conditioned by continuously updating the General Intervention of the State Administration (IGAE) of the General Government Accounts. The latest update (dated 27 September 2017) led to a significant revision of the numerous national accounting headings from 2013 to 2017, with less important changes since 2007. Likewise, the National Institute of Statistics has revised the nominal GDP for 2014-2016, incorporating the published data into their calculations.

- 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 payments through July, which will be in equal parts during the remaining six months, starting in July. 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:

Very likely	80-99%: compliance highly likely.
Likely	60-79%: compliance likely.
Feasible	40-59%: compliance feasible.
Unlikely	20-39%: compliance unlikely.
Very unlikely	0-19%: compliance highly unlikely.