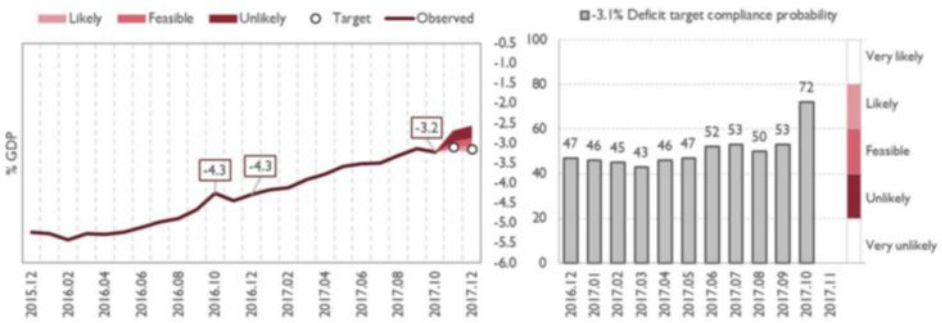
Monthly monitoring of the stability target

A. General Government* October 2017

GRAPH 1. NET LENDING/BORROWING



- Since December, there has been a deficit adjustment of 1.1 percentage points of GDP (one tenth less than recorded up to September), standing at -3,2%.
- Expenditure is expected to continue decreasing until the end of the year while revenue is expected to increase slightly, therefore compliance with the target, set at -3,1%, is upgraded from feasible to likely.

GRAPH 2. TOTAL NON-FINANCIAL REVENUE

- Revenue decreased one tenth of GDP until October in comparison with the data until September, but it is expected to provide a greater contribution until the end of the year.
- Although the expectation is that revenue will be two or three tenths above the current level by the end of the year, it will be very difficult to comply with this target. However, the AIReF forecasts have improved the rating from very unlikely to unlikely.

GRAPH 3. TOTAL NON-FINANCIAL EXPENDITURE

Sources: IGAE and AIReF estimates

- Expenditure has continued the trends of previous years, decreasing 1.2 percentage points of GDP since December due to the decrease in significant items such as financial expenses and public consumption.
- This trend is expected to moderate in the last few months of the year, as the closing order has not been put forward in the Regions in 2017, as occurred in 2016.
- Expenditure is expected to maintain sensible growth below GDP until the end of the year. Therefore, compliance with the target is considered highly likely.

* The accumulated observed data for the month of May for the GG has been forecasted based on the consolidated May data published by IGAE, which includes the Central Administration (CA), Social Security Fund (SSF) and Autonomous Regions (ARs), adding the AIReF's Local Government (LG) forecast. The Local Government data, which implies the maintenance of the surplus from the previous year, has been estimated taking into account the monthly payment of transfers and the remaining income and expenses have been estimated based on historical behaviour.

Assumptions and Notes on Monthly Monitoring

- The AIReF projections for non-financial revenue, non-financial expenditure and fiscal balances are updated monthly, considering the results of the models themselves for taxes, contributions, unemployment benefits, pensions and interests and the known national accounting data.

- The graphs represent the fiscal balances, revenue and expenditure of the last twelve months, accumulated as a percentage of GDP for the General Government (GG) without financial aid. The accumulated observed data for the month of May for the GG has been forecasted based on the consolidated May data published by IGAE, which includes the Central Administration (CA), Social Security Fund (SSF) and Autonomous Regions (ARs), adding the AIReF's Local Government (LG) forecast. The LG data have been estimated taking into account the monthly payments from the State to the LGs from the financing system and payments from the Provincial Councils to the AGE for the quote and to the Autonomous Region of the Basque Country. The remaining revenue and expenditure is based on its historical behaviour. 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. The National Statistics Institute (INE) has also revised nominal GDP for 2014-2016. This new data has been included in these forecasts.

- The 2017 target for the GG is -3.1% of GDP, set by the Council of Ministers on 2 December 2016. The GG revenue and expenditure forecasts are those included in the 2018 Budgetary Plan sent to the European Commission in October 2017.

- 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:

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