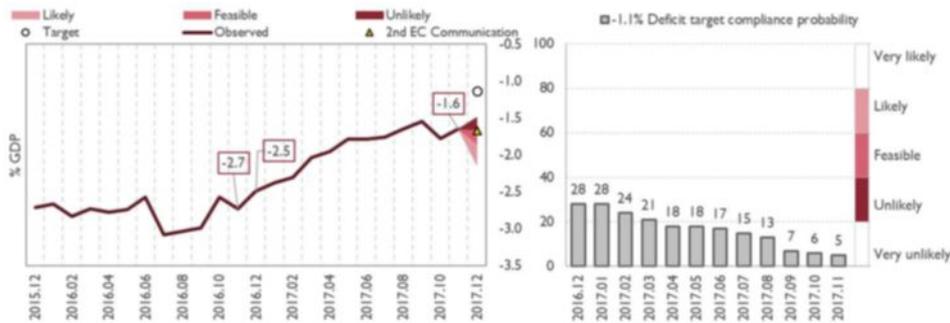


Monthly monitoring of the stability target

B. Central Administration

November 2017

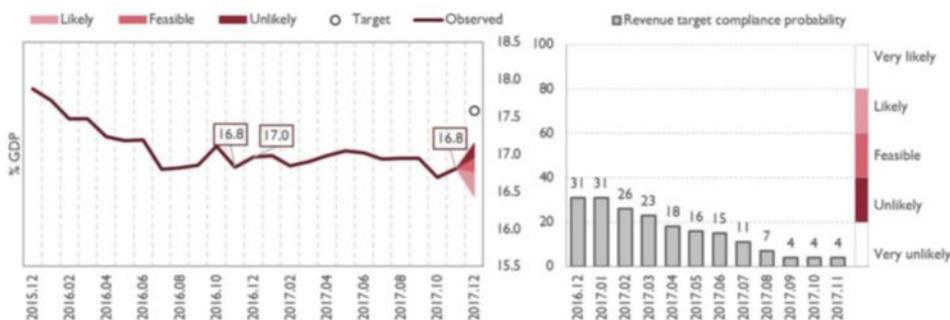
GRAPH 1. NET LENDING/BORROWING



(*) 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, continues to be considered very unlikely. There is uncertainty, mainly derived from revenue, both in the tax revenues for the third instalment payment of corporate tax (IS), and in non-tax revenues.
- 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 is somewhat more optimistic.
- Without affecting the deficit of the CA, the level of expenditure and revenues has changed slightly to adapt the results of the Accord of the Joint Committee on the Economic Agreement of May 2017 to the national accounting methods.

GRAPH 2. NON-FINANCIAL REVENUE



- Revenues up to November remained stable, at the same level as November of the previous year and two tenths below the end of 2016. According to AIReF forecasts the impact of the provisions of Spanish Royal Decree-Law 3/2016 will not reach €1,500 million in 2017, against the €4,655 million initially forecast by the Government. Therefore, similar levels to the current level are expected for the end of 2017.
- Tax revenues increased at a rate of 5.6%, almost 2 points above that of the previous month. Non-tax revenues continue to decrease, with the rate of decline standing at -3.0%.
- It is still considered highly unlikely that the revenue forecasts will be met.

GRAPH 3. NON-FINANCIAL EXPENDITURE



Source: IGAE and AIReF estimates

- Accumulated expenditure until november decreased -1.7% compared to the same month from the previous year.
- So far this year, expenditure has reduced 9 tenths, to 18.5% of GDP, favoured, as in previous months, by the reduction in public consumption and significant items, such as interest, contributions to the EU and transfers that the State makes to the SEPE.
- The rating fell from "highly likely" to "likely" to reach the level of expenditure compatible with the Government objective due to a change in the series mentioned previously.



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 the current month.
- The graphs represent the fiscal 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 update (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:

