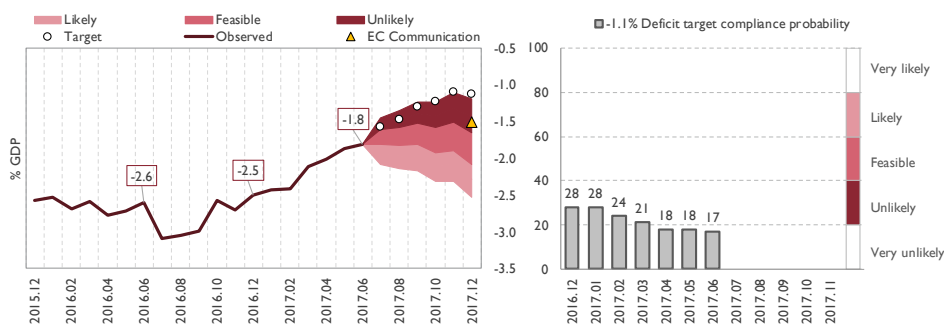


# Monthly Monitoring of Stability Target

## B. Central Administration

June 2017

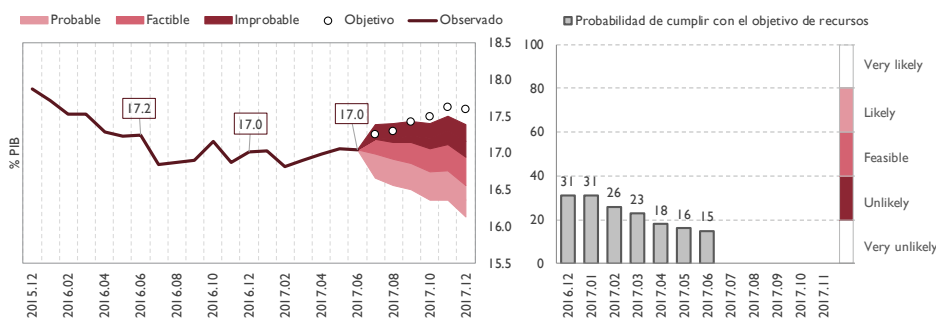
**GRAPH 1. NET LENDING/BORROWING**



- Despite the adjustment of 7 tenths in the first half of the year, compliance with the 1.1% of GDP target is still considered highly unlikely. The uncertainty is mainly due to tax measures and their effects.
- AIREF forecasts are also higher than the deficit notification sent to the European Commission (\*).

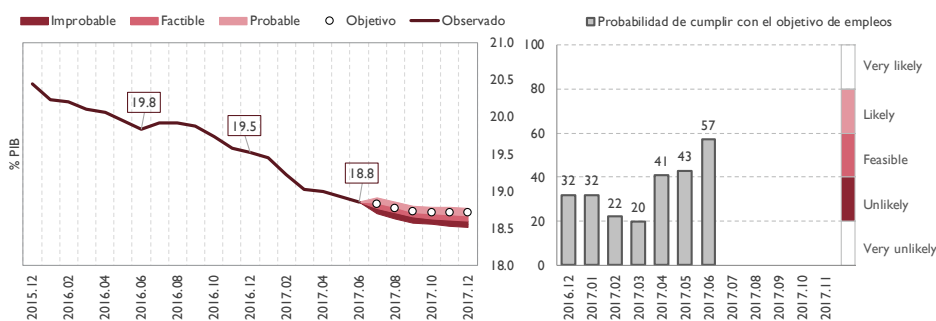
(\* ) The March 31 deficit and debt notification sent to the European Commission included a closing forecast for 2017 reflecting a deficit of 1.5% GDP.

**GRAPH 2. NON-FINANCIAL REVENUE**



- Compliance with the revenue forecast is considered highly unlikely.
- Tax revenue grew more than 5% in the first half of the year, despite capital taxes falling due to the loss of the Deposit Guarantee Fund.
- Non-tax revenue, such as dividends, sales and transfers, show significant declines, close to 12%.
- Consequently, total revenue maintains its weight in GDP at 17%.
- Revenue is projected to lost about two tenths of GDP by the end of the year due to the impact of the additional 2015 settlement in favour of the Autonomous Regions and the Basque quota.

**GRAPH 3. NON-FINANCIAL EXPENDITURE**



- In the first half of the year, expenditure reduced 7 tenths, favoured, as in previous months, by the reduction of public consumption and significant items such as interest and transfers to the SEPE.
- This trend, together with new information on the impact of toll roads, makes it feasible to reach the level of expenditure compatible with the target.

Sources: IGAE and AIREF estimates



## 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 June 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 deficit target was set by the Council of Ministers on December 2, 2016 at -1.1% GDP. The March 31 deficit and debt report sent to the European Commission included a closure forecast for 2017 which includes a deficit forecast for the Central Administration greater than the approved target, standing at -1.5% GDP (-1.4% GDP without financial aid).
- The updated AIReF forecast and the deficit target are adjusted monthly, applying the same weights 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:

