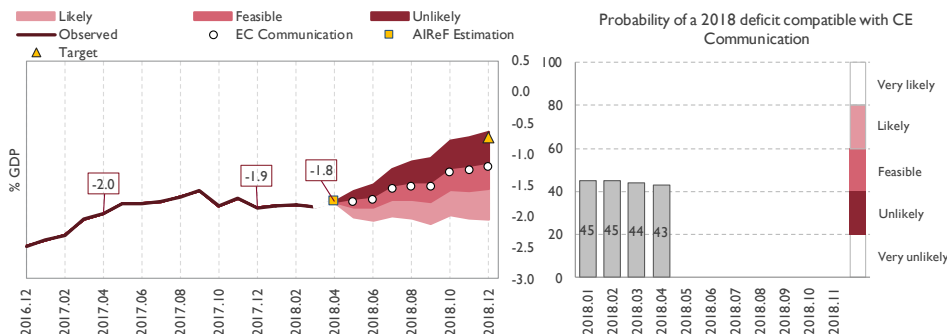


Monthly stability target monitoring

B. Central Administration (CA)

April 2018

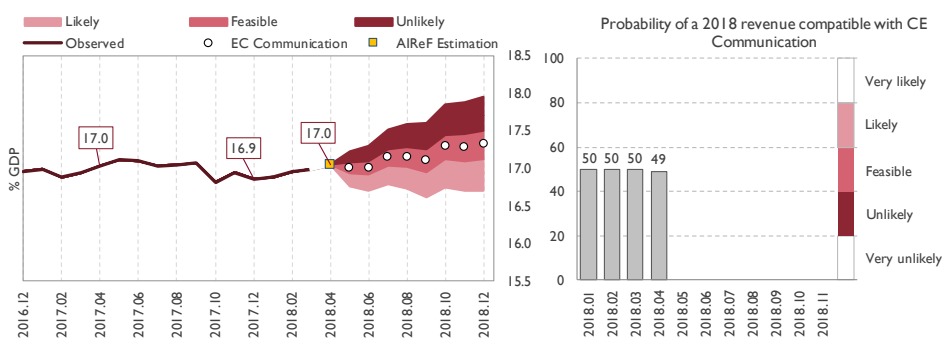
FIGURE 1. NET LENDING/BORROWING



(*) The first deficit and debt notification, sent to the European Commission on 30 March, included a 2018 forecast that reflected a deficit of 1.2% GDP for the Central Administration, 0.5% above that established in the Agreement of the Council of Ministers of July 2017, which sets the deficit target for 2018.

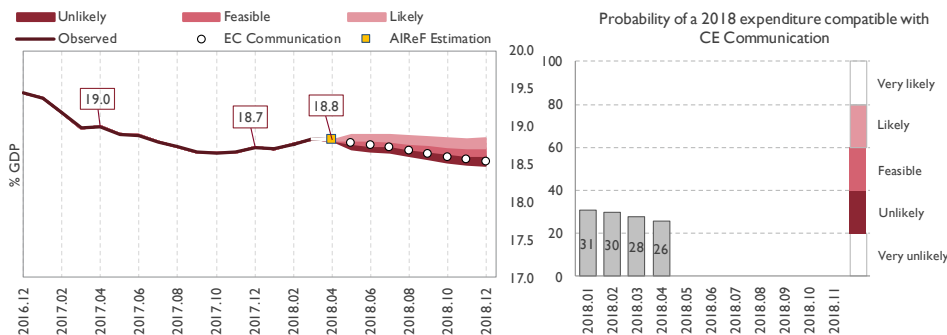
- Compliance with the target notified to the European Commission (*) of -1.2% GDP is considered to be feasible.
- The deficit notification sent is closer to the AIREF's baseline scenario, although somewhat more optimistic.
- The likelihood of achieving the target is reduced as a result of the measures included via amendment in the processing of the GSB.

FIGURE 2. NON-FINANCIAL REVENUE



- Revenue from taxes and contributions increase by 8.8% until April, notably including the good performance of PIT, while the CIT and ST estimates have been revised downwards in accordance with latest data.
- Non-tax revenues improved due to the income from EU funds and the increase in Bank of Spain dividends.
- Revenue will maintain a growing trend throughout the year despite the reform measures included in the 2018 draft GSB, reflecting the dynamism of the economy.
- Compliance with the revenue forecasts is still considered to be likely.

FIGURE 3. NON-FINANCIAL EXPENDITURE



Source: IGAE and AIREF's estimates The April CA figure is estimated on the basis of the data published by the State for this month, through a time-series econometric model.

- In accumulated 12-month terms, expenditure increased 3.3% compared to the same month of the previous year. This increase is a result of the greater contribution to the EU and the increase in investment.
- The data available until April still do not include the effect of the GSB measures such as the improvement in compensation of employees or the transfer to Social Security, which are included in AIREF's closing forecast.
- Expenditure is stabilised as a percentage of GDP, curbing the downward trend in recent years.
- The rating of unlikely is maintained.



Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts for non-financial revenue, non-financial expenditure and the fiscal balance are updated monthly, considering the results of its own models for taxes and interest and the national accounting data available up to the current month.
- The figures represent the fiscal balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP. The expenditure data excludes financial aid. The forecasts are conditioned by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.
- The deficit target was set by the Council of Ministers on 13 July 2017 at -0.7% of GDP. The first deficit and debt notification, sent to the European Commission on 30 March 2018, included a 2018 deficit forecast that reflects that the deficit foreseen for the CA is greater than the target approved, standing at -1.2% GDP. The probability analysis is carried out in relation to compliance with this forecast.
- As there is no official revenue and expenditure path in national accounting terms for the CA, an estimate is made considering that the differences between the cash forecasts for the revenue estimated by AIReF and those forecasted in the GSB are shifted to revenue in national accounting terms and that the expenditure is adjusted as necessary to comply with the deficit notified.
- AIReF's updated 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) sub-sector 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, 15,000 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