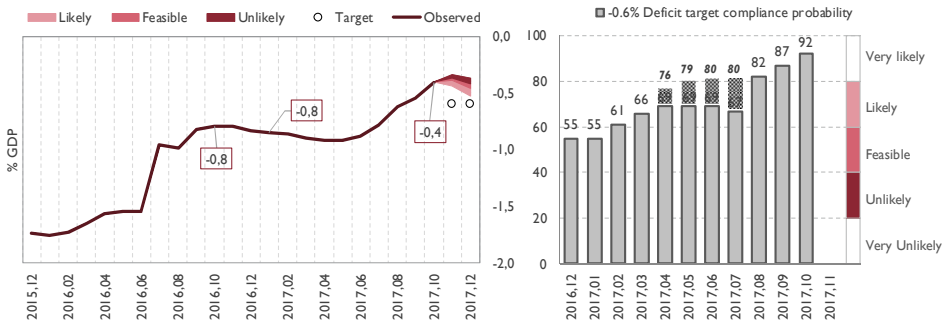
Monthly monitoring of the stability target

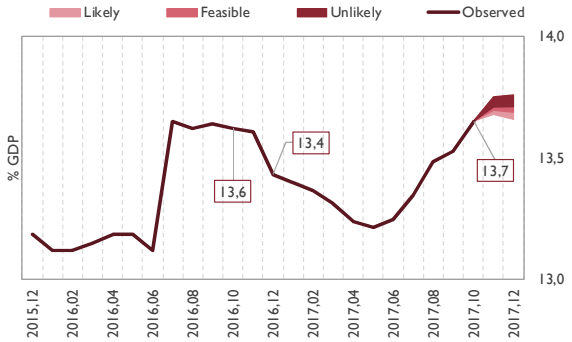
E. Regions October 2017

GRAPH 1. NET LENDING/BORROWING



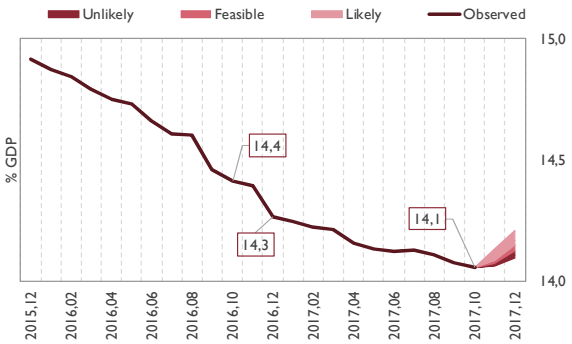
- Compliance with the 2017 stability target is still considered highly likely for the Regional subsector as a whole.
- In the months from APril to June, the likelihood of compliance has been represented, as in the Local Government forecasts, considering the final distribution between the Central Administration and the Basque Country and the Provincial Councils of the revenue derived from the Agreement of the Mixed commission of the Economic Agreement of May 2017.

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



- Non-financial revenue continues the growth as a % of GDP started in July with the update of the system revenue, reinforced by the positive trends for certain taxes (ITP and AJD, ISD as well as revenue from specific sources, such as the Canary Islands, Navarra and the Basque Country). With regard to the month of September, the weight of the revenue in accumulated 12-month terms has increased by 0.2 p.p..
- Additional growth is expected until the end of the year, mainly due to the recognition of the Basque Country revenue due to the regularization of the quota.

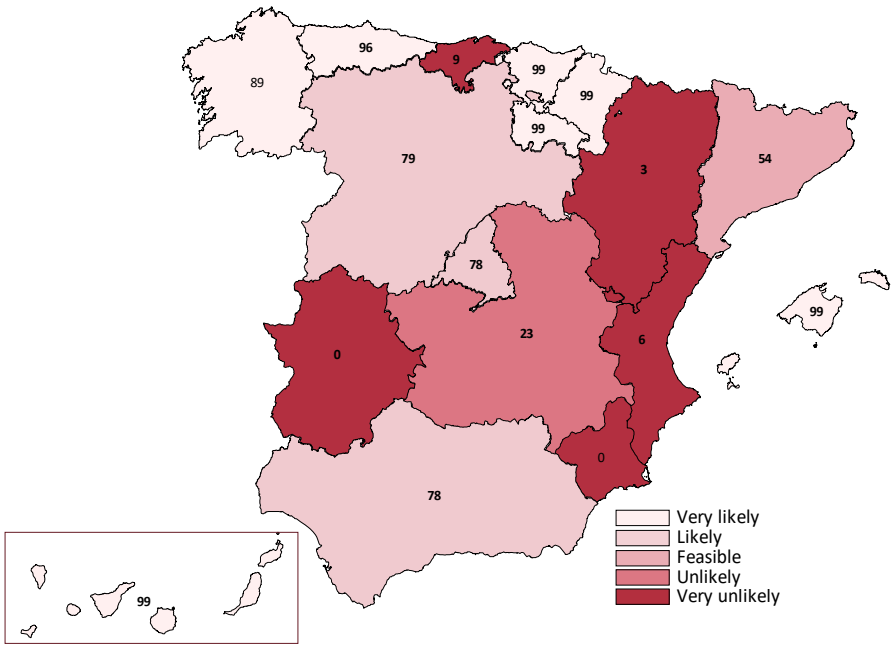
GRAPH 3. NON-FINANCIAL EXPENDITURE NET OF PAYMENTS FOR FINANCING SYSTEM



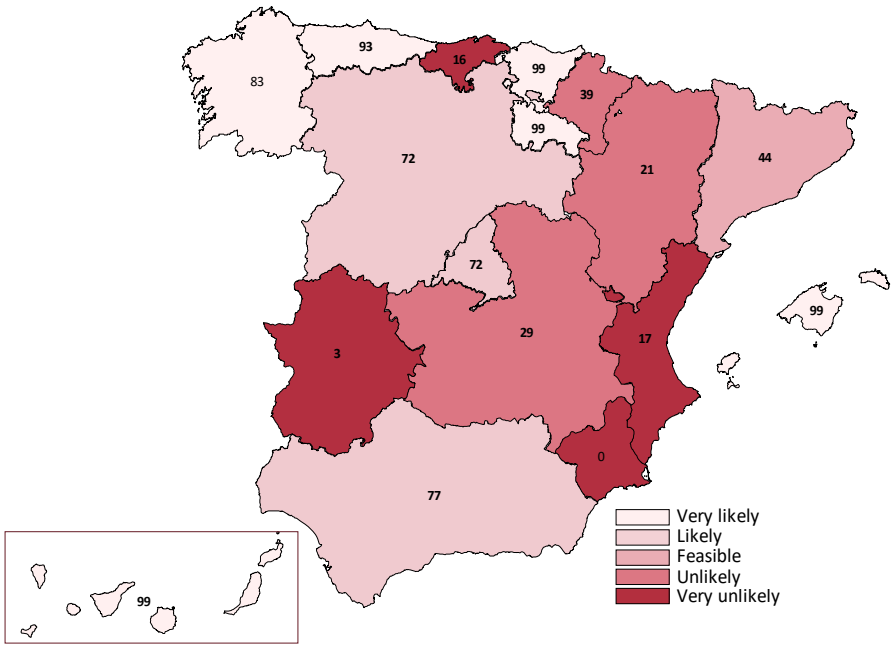
- The weight of non-financial expenditure in accumulated 12-month terms remains at 14.1%, as recorded in September. Expenditure grew, in absolute terms, almost 1.5% in accumulated 12-month terms, a growth higher than recorded in September.
- This expenditure growth is expected to increase until the end of the year, as the drop in investment recorded at the end of 2016 will not be replicated.

GRAPH 4. LIKELIHOOD OF COMPLIANCE WITH THE STABILITY TARGET

(MADE WITH OCTOBER 2017 DATA)



(MADE WITH SEPTEMBER 2017 DATA)



- The risks for the Autonomous Regions are confirmed and accentuated, which shows a low likelihood of compliance with the 2017 stability target in previous reports.
  - It is considered "highly unlikely" for the Region of Murcia, Extremadura, Cantabria, Valencia and Aragon.
  - Compliance is considered "unlikely" for Castilla-La Mancha.
- With respect to the analysis made with the September 2017 data, there were some changes in the AIReF likelihood of compliance assessments:
  - The assessment for Aragon has worsened due to the decreasing amount of time remaining for its correction.
  - The AR of Navarra has improved substantially, improving its likelihood of compliance with the 2017 stability target to "highly likely", due to the update of the 2015-2019 contribution of the provincial council derived from the agreement of the CoordinaTIng Commission this past December.

Note 1: The numbers in the regions indicate the probability of meeting the 2017 target, according to the confidence interval methodology.

Note 2: Some ARs are near the limits of the probability band, therefore small variations in the execution data, additional information or closer proximity to the end of the year could modify their ratings in the coming months.

Assumptions and Notes on Monthly Monitoring

- The graphs represent the balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP for all 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 (October 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 forecasts are conditioned by the General Intervention Board of the State Administration (IGAE) updates of the National Accounts.

- 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 non-financial revenue has been calculated by estimating that the regularization of payments based on the extended budget, which will occur in July, which include an increase in revenue from that month forward. 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