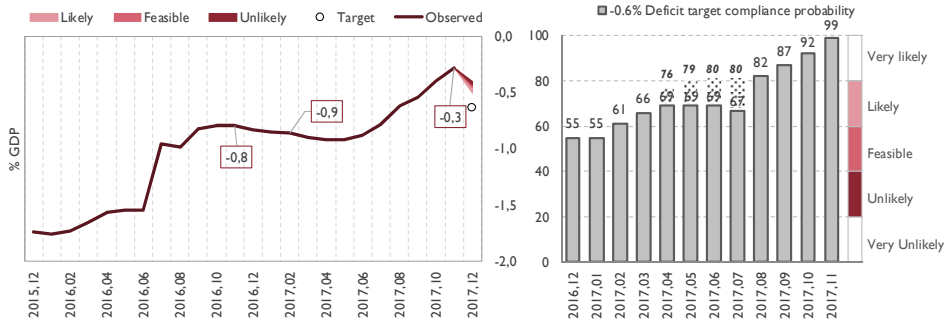
Monthly monitoring of the stability target

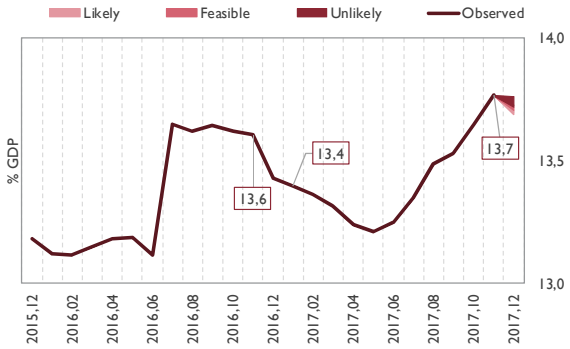
E. Regions November 2017

GRAPH 1. NET LENDING/BORROWING



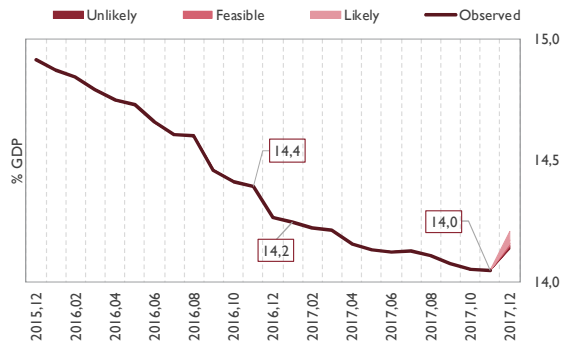
- Compliance with the 2017 Regional Subsector stability target is considered highly likely.
- In the months from April to June the probability of compliance was presented considering the final distribution of revenues derived from the Accord of the Joint Committee on the Economic Agreement of May 2017 between the Region of the Basque Country and the Provincial Councils.

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



- Non-financial revenue, measured as a percentage of GDP, maintains the growing trend that began in July due to updating of system resources, strengthened by the positive evolution of certain taxes (tax on asset transfers and documented legal acts - ITPAJD, and tax on inheritance and donations - ISD) and specific revenues of the Canary Islands, Navarra and the Basque Country.
- Towards the end of the year inter-annual growth will be moderated, given that certain revenues, such as SEPE transfers, which were collected in December 2016, have already been recorded in 2017 in previous months.

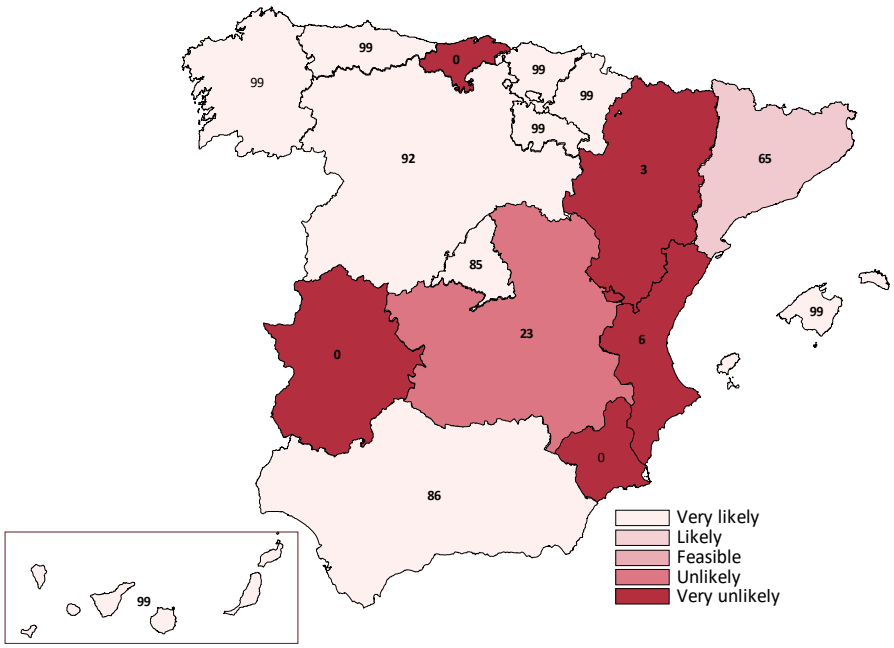
GRAPH 3. NON-FINANCIAL EXPENDITURE NETO OF PAYMENTS BY FINANCING SYSTEM



- Non-financial expenditure in terms of GDP has reached 14%, similarly to previous months. In absolute terms, the accumulated expenditure growth over twelve months is 1.8%, greater than the figure recorded in October.
- The growth in expenditure is expected to be accentuated towards the end of the year, as the fall in investment recorded in 2016 will not be replicated.

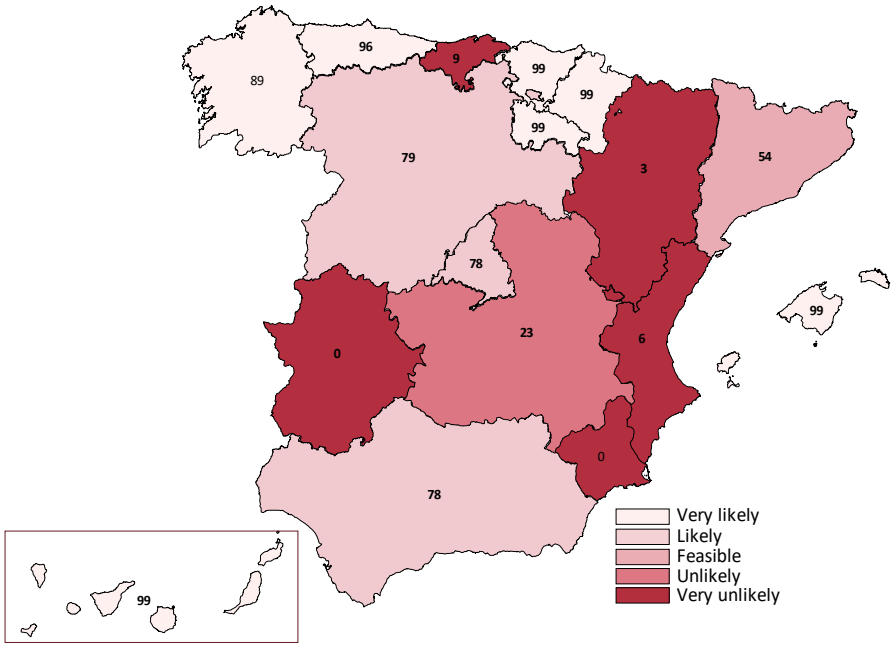
GRAPH 4. PROBABILITY OF FULFILMENT OF STABILITY TARGETS

(DATA FROM NOVEMBER 2017)



- For those ARs with low probabilities of compliance with the 2017 stability target in previous reports, the risks have been confirmed:
  - Said compliance is considered "highly unlikely" for the Region of Murcia, Extremadura, Cantabria, Comunitat Valenciana and Aragón.
  - Compliance is considered "unlikely" in Castilla-La Mancha.
- Certain changes in AIReF's rating of likelihood of compliance have occurred in comparison to the analysis carried out with data from October 2017, mainly due to the greater proximity to year-end.
  - In the Regions of Andalusia, Madrid and Castilla y León compliance with the target is "highly likely".
  - In the Region of Catalonia, the likelihood has moved from "feasible" to "likely".

(DATA FROM OCTOBER 2017)



Note 1: The numbers in the regions indicate the likelihood of compliance with the 2017 target, in accordance with the methodology outlined in the confidence intervals.

Note 2: Some ARs are near the limits of the probability bands, therefore small variations in the data used, later additional information or closer proximity to the end of the year could lead to changes in their assessments in the coming months.

Assumptions and notes on monthly monitoring

- The graphs represent the fiscal balance, revenue and expenditure for the last twelve months accumulated as a percentage of GDP for all Autonomous 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 (until November 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 projections profile is conditioned by continuously updating the General Intervention of the State Administration (IGAE) of the General Government 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 instalments 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. In 2017, it is necessary to consider that the monthly non-financial revenue has been affected by the regularization of payments to the financing system from July, which has caused an increase of revenue since this month. The expected balances are calculated by the difference between known and expected revenue and expenditure 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