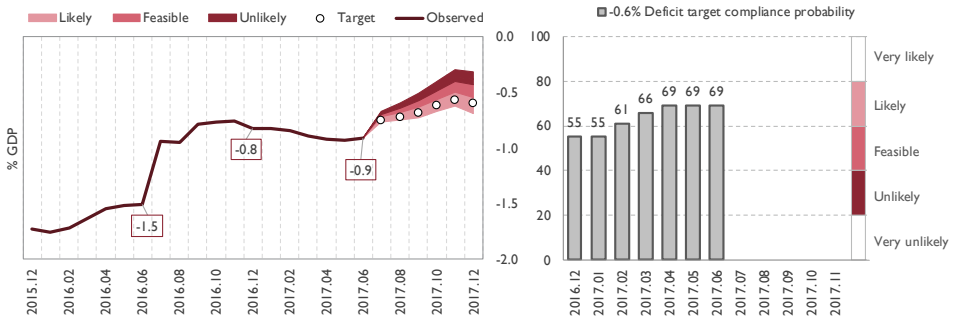
Monthly Monitoring of Stability Target

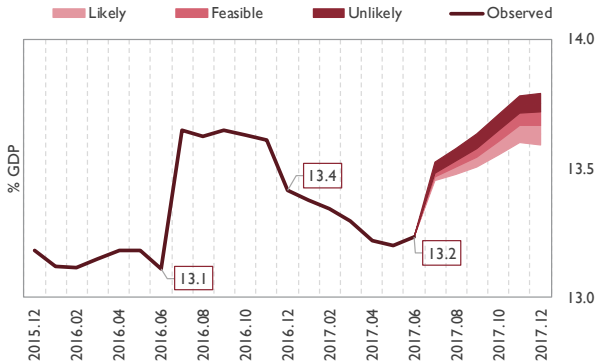
E. Regions June 2017

GRAPH 1. NET LENDING/BORROWING



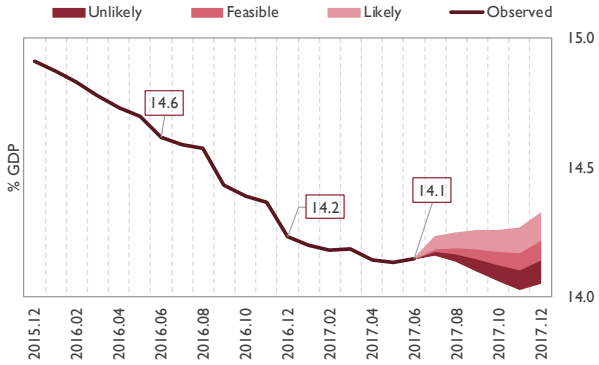
- In the first six months, the renewal of system revenue led the deficit to increase by one tenth, with some revenue. It is expected to decline in later months, mainly due to the regularization of system revenue.
- Compliance with the 2017 target is still considered likely.

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



- The trajectory of revenue in the first 6 months has been conditioned by extended advance payments, which has led to reductions of its weight in terms of % of GDP.
- Revenue growth is projected until the end of the year, favoured by:
  - The regularization of payments to accounts.
  - The definitive 2015 settlement.
  - The positive tax revenue trend.
  - The projected increase in EU funds at the end of the year, which were very low in 2016.

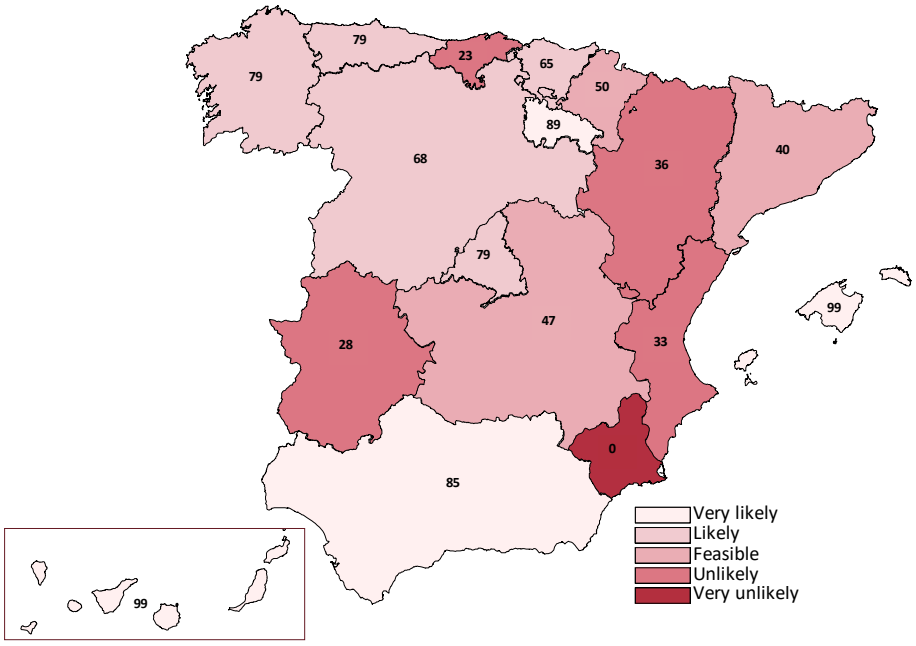
GRAPH 3. NON-FINANCIAL EXPENDITURE NET OF PAYMENTS FOR FINANCING SYSTEM



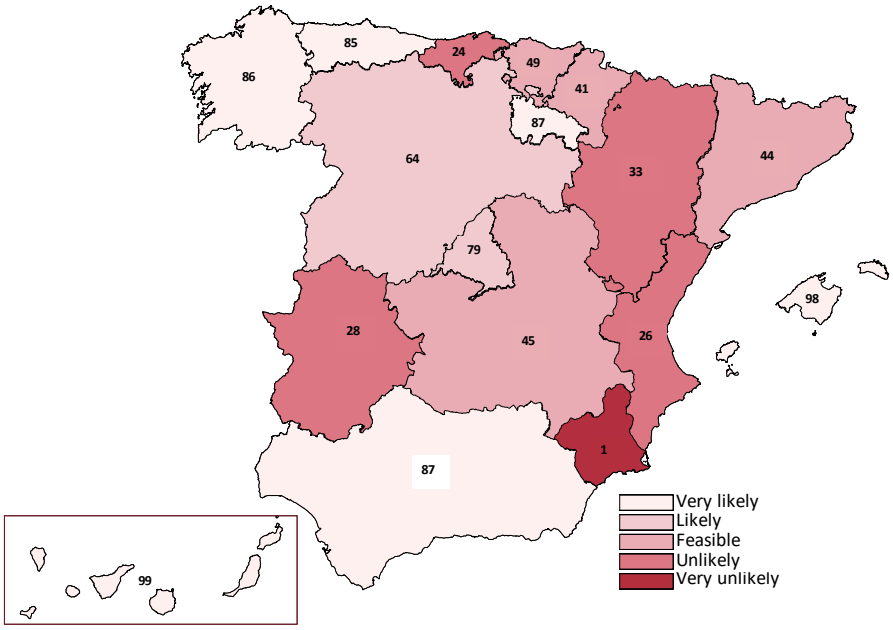
- The trend in non-financial expenditure accumulated in annual periods has been declining in terms of % of GDP over the first half of 2017.
- This decline is projected to continue to the end of the year, albeit more moderately as a result of higher level of investment spending associated with EU funds.

GRAPH 4. PROBABILITY OF FULFILMENT OF STABILITY TARGETS

(JUNE 2017)



(MAY 2017)



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

- While it is expected that the subsector as a whole can meet the stability target in 2017, there are risks with respect to fulfilment in several Regions:
  - Compliance with the 2017 stability target is considered "unlikely" in Cantabria, Extremadura, Comunitat Valencia and Aragon, although moderate deviations are expected.
  - In the Region of Murcia, it is considered "very unlikely".
- Although there were no significant changes in the analysis of the June 2016 data, slight changes were detected that did not modify the AIReF's probability of compliance rating:
  - The Basque Country's situation has improved with new data.
  - On the other hand, the probability has decreased from "highly likely" to "likely" for Asturias and Galicia.
  - Therefore, the Regions considered "highly likely" to meet the target are: the Canary Islands, the Balearic Islands, La Rioja and Andalusia.
- Several Regions are within the probability band limits, so small variations in the execution data or additional information could modify their qualification in the future.

Assumptions and Notes on Monthly Monitoring

- The graphs represent the 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 (June 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 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 financing system income has been calculated by estimating that the regularization of payments based on the extended budget, which will occur in July, once approved by the Draft General State Budget. 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:

Muy probable	80-99%: compliance highly likely
Probable	60-79%: compliance likely.
Factible	40-59%: compliance feasible.
Improbable	20-39%: compliance unlikely.
Muy improbable	0-19%: compliance highly unlikely.