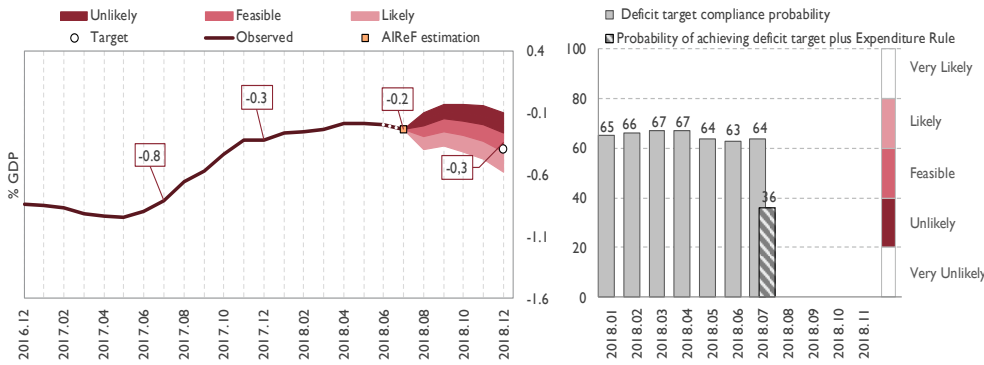


Monthly stability target monitoring

E. Autonomous Regions

July 2018*

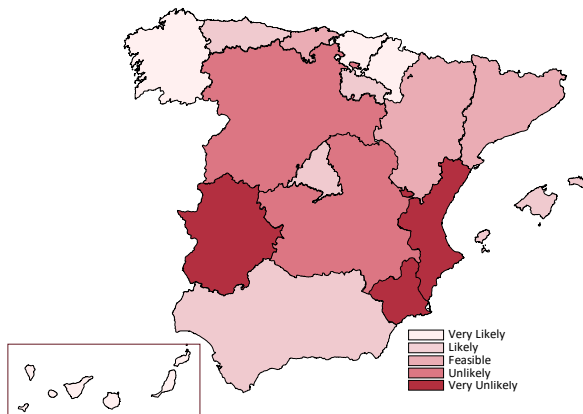
FIGURE 1. NET LENDING/BORROWING (%GDP)



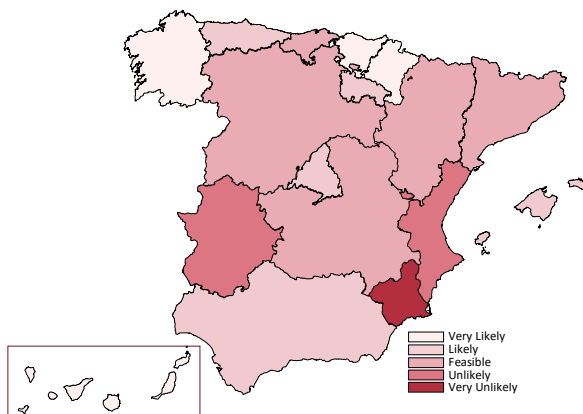
- It is considered likely that the regional sub-sector will comply with the 2018 stability target of -0.4% GDP.
- In the year so far the deficit has fallen by 0.1%, although it is expected that at year-end it will return to the level of the previous year, standing at 0.3%.
- It is estimated that the simultaneous compliance with the stability target and the expenditure rule would require reaching a lower deficit, the achievement of which is considered unlikely.

FIGURE 2. PROBABILITY OF COMPLIANCE WITH STABILITY TARGET

(FORECASTS WITH ESTIMATES TO JULY 2018 -JUNE DATA-)



(FORECAST OF THE JULY REPORT ON EXPECTED YEAR-END FOR 2018 - ESTIMATES TO JUNE; APRIL DATA-)

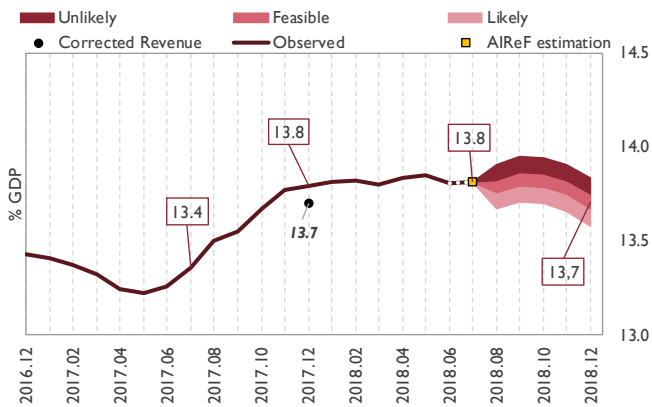


- Although a favourable situation continues to be observed with respect to compliance with the 2018 stability target in most Regions, the prospects have worsened in some, essentially due to the latest figures notified on the final settlement for 2016 of the financing system and the slow-down observed in the growth of TATDLA.
- With respect to the latest analysis published in the July report, the rating of probability of compliance with the stability target has worsened in four Regions: Extremadura, Valencia, Castile and León and Castile La Mancha.
- Moreover, compliance with the target is considered highly unlikely for Murcia, Extremadura and Valencia, and unlikely for Castile and León and Castile La Mancha. Although compliance is still considered to be feasible in Cantabria and Aragon, it will be difficult.



* The estimated accumulated figure for July was estimated based on all the information available until the publication date.

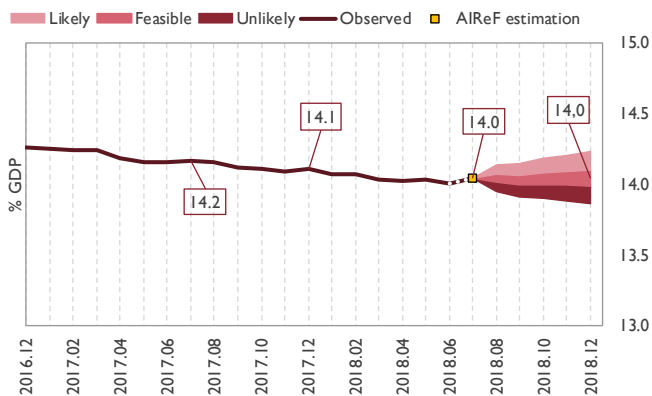
FIGURE 3. NON-FINANCIAL REVENUE (%GDP)



*Having removed the effect of the regularisations of previous years in the Basque Country and Navarre.

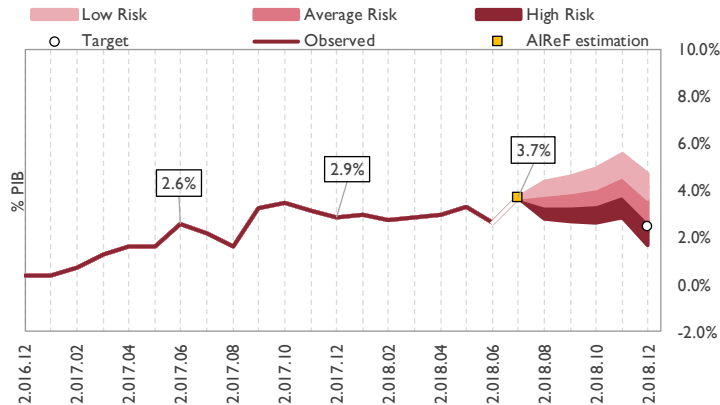
- In the year so far, revenue has maintained its weight on GDP at 13.8%. In the second half of the year the situation will be maintained until the final months, when its weight will fall to 13.7%, as the extraordinary regularisation of income that took place in favour of the Basque Country and Navarre at the end of 2017 at over 0.1% GDP will not be replicated.
- In 12-month accumulated terms non-financial revenue recorded an increase of 8%.
- In some Regions a moderation in the growth of revenue from TATDLA is observed which, alongside the updating of the 2016 settlement of the financing system, has slightly moderated the closing

FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)



- Until July the declining trend of the weight of expenditure on GDP was maintained, falling by 0.1% in the year so far to stand at 14%. It is expected that this trend will slow down in the second half of the year and the weight of expenditure will be maintained until year-end, essentially due to the effect of the Trade Union Agreement and the expected recovery of investment linked to EU funds, which could increase expenditure growth above 4%.
- In accumulated 12-month terms, non-financial expenditure increased above 3% compared to the same month of the previous year.

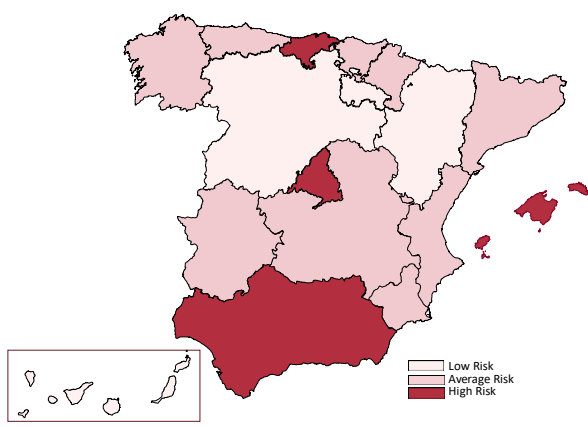
FIGURE 6. YEAR-ON-YEAR VARIATION OF EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE (% VARIATION)



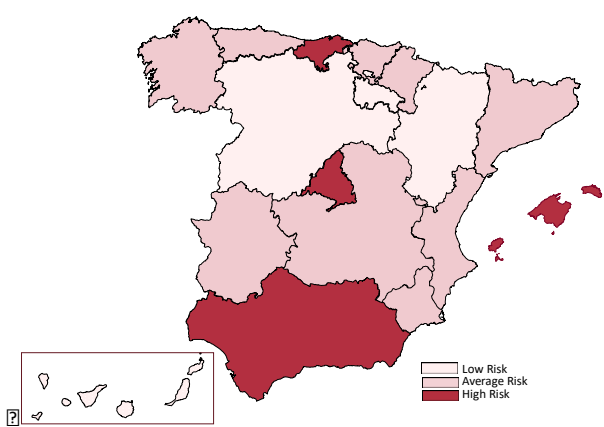
- Expenditure growth until July, in 12-month accumulated terms, determines a variation of the expenditure considered for the purposes of the expenditure rule above 3%, which is expected to moderate slightly in the last month of the year, when the effect of the expenditure co-financed by the EU and the regulatory measures adopted is calculated.
- The expected evolution of expenditure results in the detection of a high risk of non-compliance with the expenditure rule for the sub-

FIGURE 7. RISK OF NON-COMPLIANCE WITH THE EXPENDITURE RULE BY REGION

(FORECAST WITH DATA TO JUNE 2018)



(FORECAST OF THE JULY REPORT ON EXPECTED YEAR-END FOR 2018 - APRIL DATA-)



- Moderate to high risks of non-compliance with the expenditure rule for 2018 continue to be observed in most Regions. It is only estimated that the growth of computable expenditure at year-end will be lower than the reference rate set of 2.4% in Castile and Leon, Rioja, Aragon and the Canary Islands. On the other hand, it is considered that the risks of non-compliance with the expenditure rule are especially pronounced in Andalusia, Balearic Islands, Cantabria and Madrid.
- With respect to the analysis carried out in the July report, with data until April, there have been no significant changes that alter the conclusions expressed therein.
- The risks observed for the Regions of Balearic Islands, Navarre and the Basque Country could moderate due to the effective application, as appropriate, of the additional provision of the GSB Law, which allows investments excluded from the calculation of the expenditure



Assumptions and Notes on Monthly Monitoring

- The figures represent the fiscal balance, revenue and expenditure for the last twelve months accumulated as a percentage of GDP for all Autonomous Regions. July execution was estimated based on the published data for June and the latest available information. Expenditure is accompanied by a figure that represents, in percentage variation, the accumulated computable expenditure of the last twelve months. This variable is used to calculate the expenditure rule and is determined by excluding a series of variables from non-financial expenditure. The maps represent, for each Region, the ration of the probability of compliance with the stability target at year-end and the risks of non-compliance with the expenditure rule, comparing the current rating with the last rating published.
- AIReF's for non-financial revenue, non-financial expenditure, the fiscal balance and the rate of variation of computable expenditure are updated monthly, considering the results of its own models for taxes and interest, the national accounting data available at the date of the report, 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 updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.
- AIReF's monthly forecasts and the Regional targets are based on the balance resulting from the aggregation of the revenue and expenditure estimates 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 the rate of execution for income and expenditure for each of them. In 2018, the monthly adjustment of non-financial income was estimated in a similar way to the previous year, considering that from July the financing system interim payments paid in the extension period until then will be regularised on a monthly basis. The expected balances are calculated with the difference between known and expected revenue and expenditure for each month.
- The foreseeable evolution scenarios of the rate of change of the computable expenditure is developed on the basis of the computable expenditure data published for the purposes of the expenditure rule and by employing the monthly adjustment and confidence interval calculation methodology.
- 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 government debt-to-GDP ratio; 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.