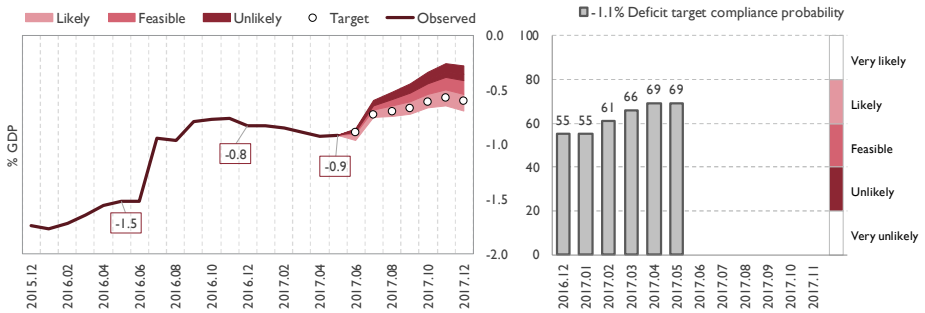
Monthly Monitoring of Stability Target

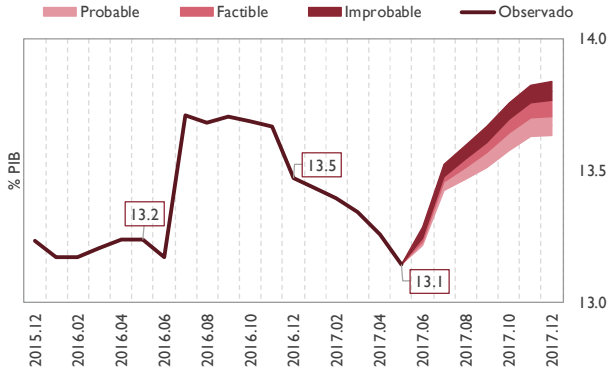
E. Regions May 2017

GRAPH 1. NET LENDING/BORROWING



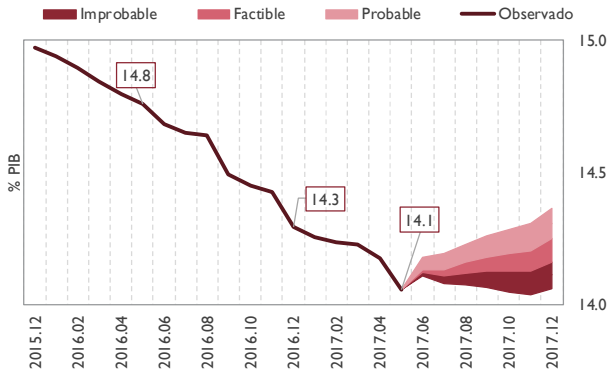
- In the first few months, the renewal of system revenue led the deficit to increase by one tenth.
- The deficit is expected to be reduced in recent months, due to positive revenue trends.
- The likelihood of compliance with the 2017 target is maintained with the new information.

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



- The trajectory of revenue in the first 5 months has been conditioned by extended advance payments, declining 4 tenths.
- Revenue growth is projected until the end of the year, favoured by:
  - The regularization, since July, of payments to accounts.
  - The definitive 2015 settlement.
  - The positive revenue trend itself.
  - The projected increase in EU funds at the end of the year, which were very low in 2016.

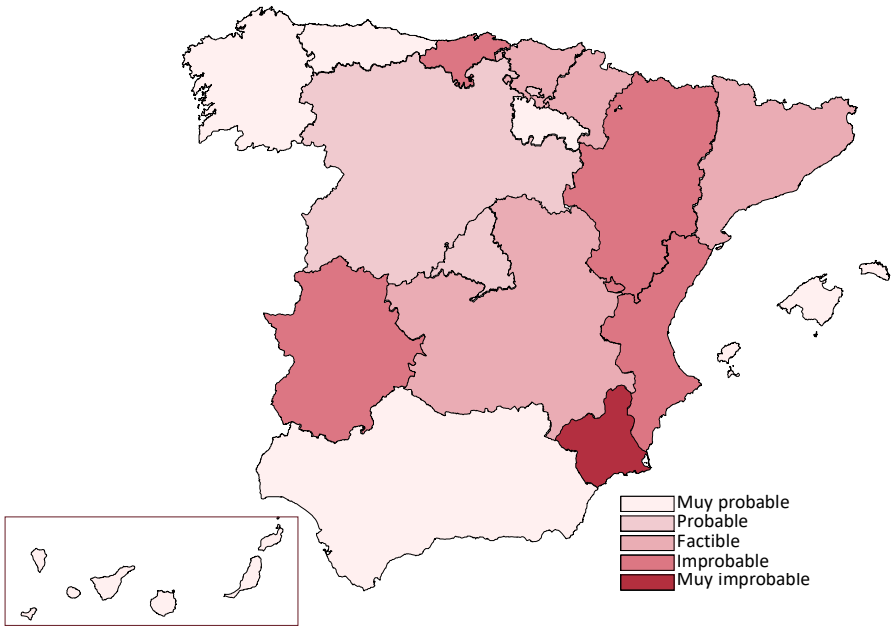
GRAPH 3. NON-FINANCIAL EXPENDITURE NET OF PAYMENTS FOR FINANCING SYSTEM



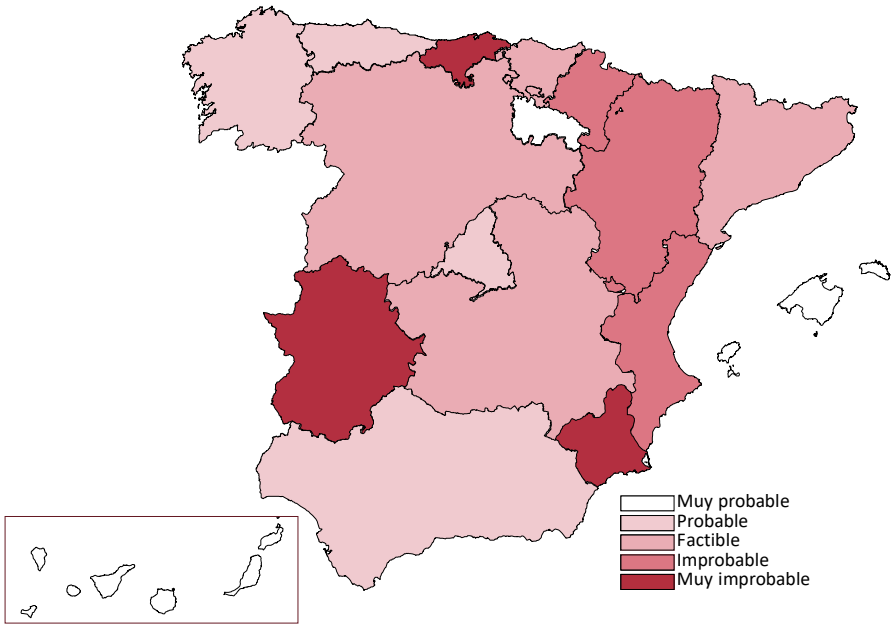
- During the first few months, non-financial expenditure continued to decline as % of GDP, decreasing by two tenths.
- However, this decreasing trend is expected to change at the end of the year as a result of the higher level of expenditure from the regularization of payments and the Budget approvals.

GRAPH 4. PROBABILITY OF FULFILMENT OF STABILITY TARGETS

(MAY 2017)



(DECEMBER 2016 – Initial Budget Reports, April -)



- 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 in Comunidad Foral Navarre, Aragon and Comunitat Valenciana is considered "unlikely".
  - In the Region of Murcia, it is considered "very unlikely".
- The following changes in the 2017 AIReF forecast by Autonomous Community have been made in relation to the analysis carried out with the closing figures for 2016 (stated in the April report on the initial budgets of the Autonomous Regions:
  - For the Autonomous Regions as a whole, the incorporation of the final 2015 settlement has improved the probability of compliance, changing its rating (with the exception of Murcia).
  - For the Foral Navarre, the improved rating is due to the good performance data.

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 (March 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.