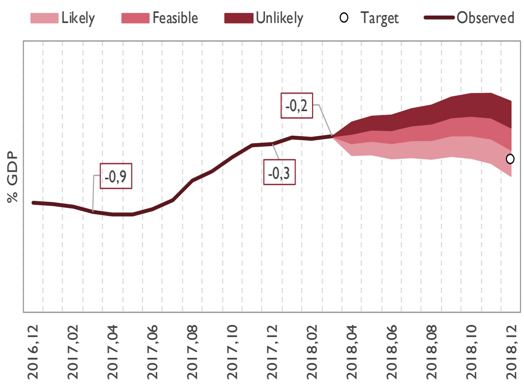
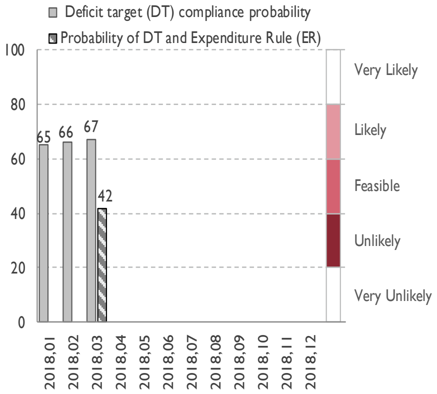
Monthly stability target monitoring

E. Autonomous Regions March 2018

FIGURE 1. NET LENDING/BORROWING

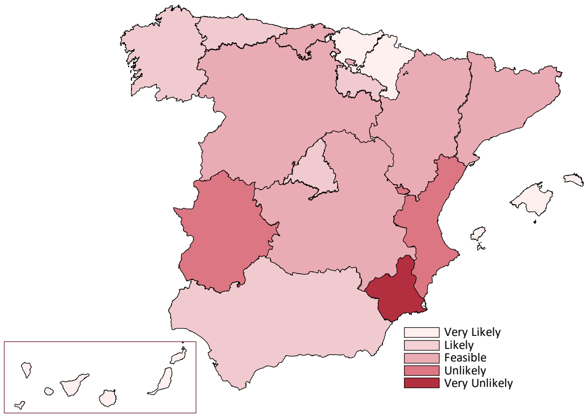




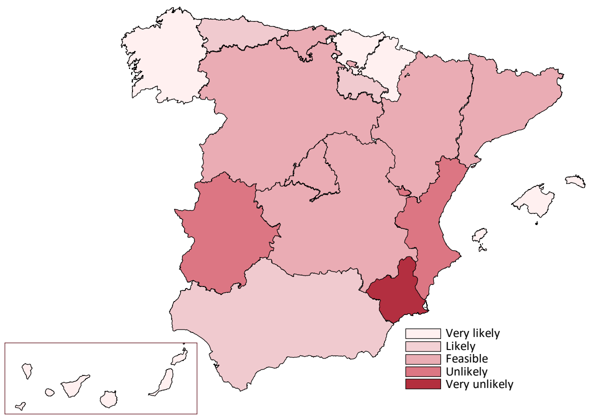
- It is considered likely that the regional sub-sector will comply with the 2018 stability target.
- It is estimated that the simultaneous compliance with the stability target and the expenditure would require reaching a lower deficit, the achievement of which is considered feasible although difficult.

FIGURE 2. PROBABILITY OF COMPLIANCE WITH STABILITY TARGET

(FORECAST WITH DATA FROM MARCH 2018)



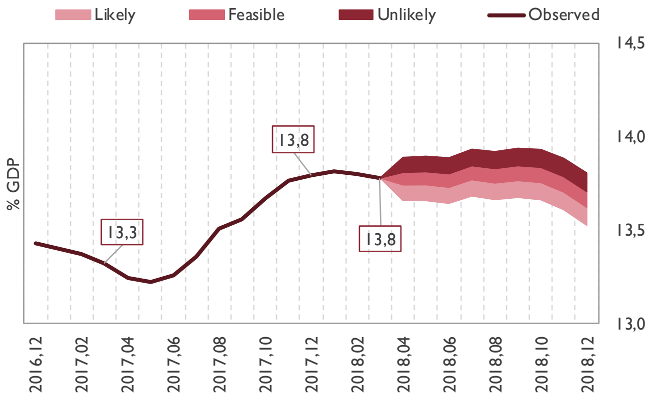
(FORECAST WITH 2018 BUDGET REPORT DATA - FEBRUARY DATA-)



- For 2018, there is a favourable situation in relation to compliance with the stability target in the majority of the Regions. Difficulties are only observed in the cases of Extremadura and Valencia, for which compliance is considered unlikely; this is also the case for Murcia, where compliance is considered to be highly unlikely.

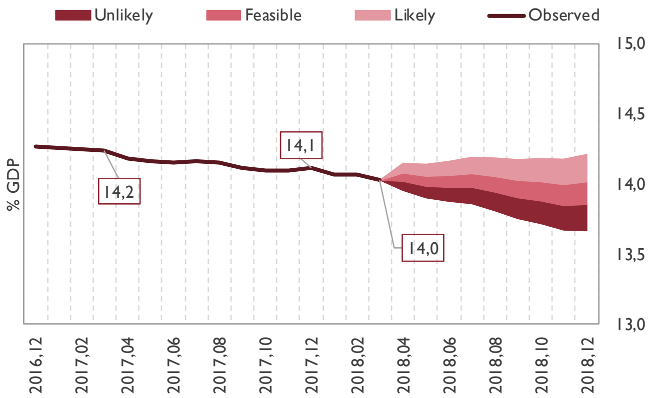
- There have been no significant changes with respect to the analysis carried out in the May report with the forecasts of the initial budgets, which included the performance analysis of data until February. The rating has only changed over time in Madrid, in which compliance with the target was considered feasibly, but with a probability close to the 'likely' range.

FIGURE 3. NON-FINANCIAL REVENUE



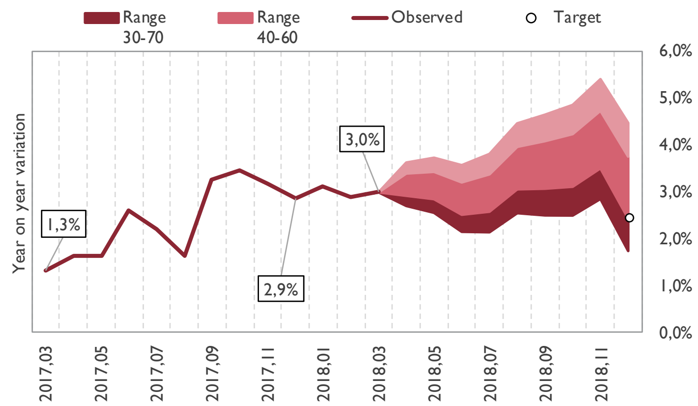
- In 12-month accumulated terms non-financial revenue recorded an increase of 8%.
- It is expected that, from July, settled interim payments will be updated and regularised in accordance with the deferment until then, replicating the monthly adjustment of 2017, which will maintain the weight of revenue on GDP.
- However, it is expected that its weight on GDP will fall in the last months of the year due to the regularisation of income that took place in 2017 in favour of Navarre and the Basque Country not being replicated.

FIGURE 5. NON-FINANCIAL EXPENDITURE



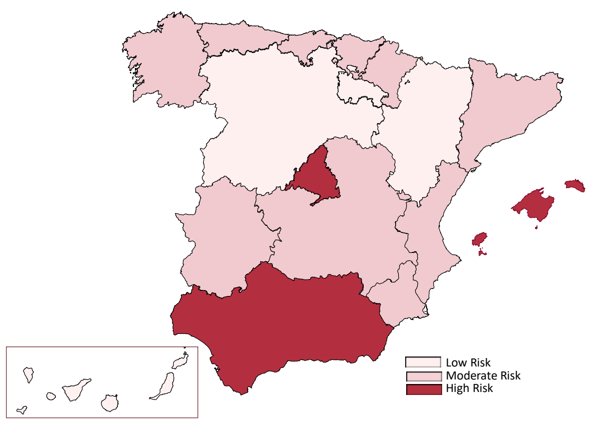
- In accumulated 12-month terms, non-financial expenditure increased 2.7% compared to the same month of the previous year.
- The recent downward trend as a percentage of GDP is maintained, which may be curbed in the last month due to the expected recovery of investment linked to EU funds.

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

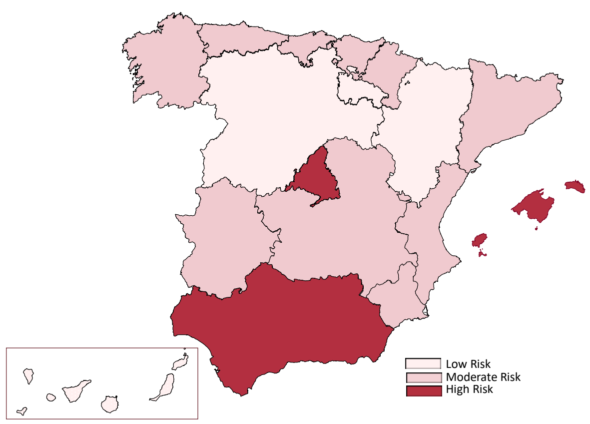


- In 12-month accumulated terms expenditure growth until March determines a variation of the expenditure for the purposes of the expenditure rule of 3%.
- The expected evolution of expenditure results in the detection of moderate risks of non-compliance with the expenditure rule for the sub-sector.

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



(FORECAST WITH 2018 BUDGET REPORT DATA)



- For 2018, there are moderate to high risks of non-compliance with the expenditure rule in the majority of 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.
- With respect to the analysis carried out in the May report, with performance data until February, there have been no significant changes that alter the conclusions expressed therein.
- The risks observed will be mitigated for the Regions of the Balearic Islands, the Canary Islands, Navarre and the Basque Country by the effective application, if any, of the 106th additional provision of the GSB Law. This provision allows the Regions that generated a surplus in 2017 to make financially sustainable investments, under certain conditions, which would be excluded

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. 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 in 2018, 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.