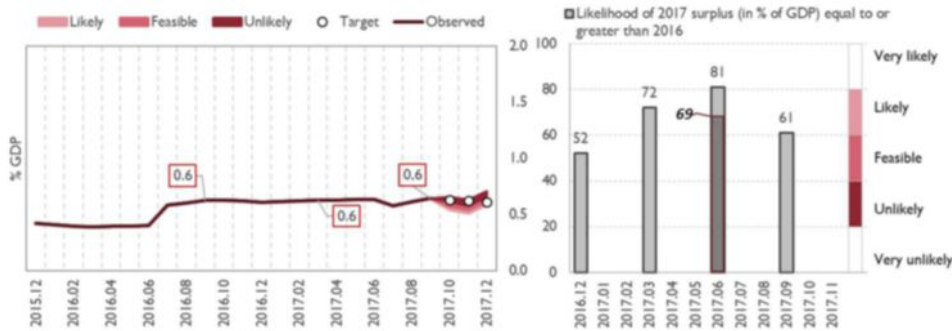


Quarterly Monitoring of the Stability Target

F. Local Government Subsecto

Q3 2017^(*)

GRAPH 1. NET LENDING/BORROWING



- AIReF considers it highly likely that the 2017 equilibrium target will be met and the 2016 results (at least) will be consolidated.
- The decrease in the probability with respect to the previous quarters is derived from the effect of the distribution of resources, from the Agreement of the Mixed Commission of the Economic Agreement with the Basque Country of May 2017, between the Basque Country and the Provincial Councils through the agreement of the Basque Finance Council of October of this year. This effect has homogenized Q2, as reflected. The likelihood would have been 69% at that time.

GRAPH 2. TOTAL REVENUE



- The AIReF estimates that the LG revenue will increase in 2017 compared to 2016, mainly due to the increase in tax revenues. However, this increase does not compensate for the increase in GDP.
- Local government revenue grew until October below GDP growth, which puts LG revenue at 6.3%, one tenth less than the previous year. This pace is expected to be maintained until the end of the year.

GRAPH 3. TOTAL EXPENDITURE



- In terms of expenditure, a slight absolute increase is projected, driven by the increase in current expenditure, although this increase does not compensate for the increase in GDP.
- As with revenues, and to a greater extent, local expenditure grew until October below the increase in GDP, which places local revenue at 5.6%, two tenths below the previous year. It is expected that this rate will increase slightly until the end of the year, standing at around 5.7% of GDP.



(*) Assumptions and Notes on Quarterly Monitoring

- The AIReF projections for non-financial expenditure, non-financial revenue and the fiscal balance are updated quarterly considering the results of the models themselves for taxes and the national accounting data available for the Local Governments on the date the report is issued (September 2017), as well as any other information provided by the Local Governments. The forecasts are conditioned by the General Intervention Board of the State Administration (IGAE) updates of the National Accounts.
- For these 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. However, in 2017, the monthly non-financial revenue has been calculated by estimating that the regularization of payments based on the extended budget, which will occur in July, which include an increase in revenue from that month forward. The expected balances are calculated by the difference between known and expected resources and employment for each period.
- 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:

