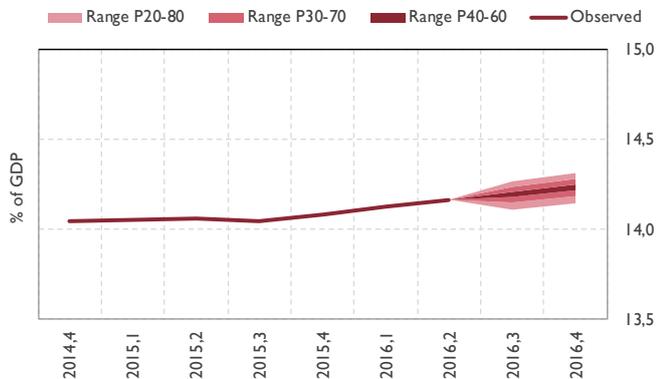


# Quarterly monitoring of the stability target

## F. Autonomous Regions

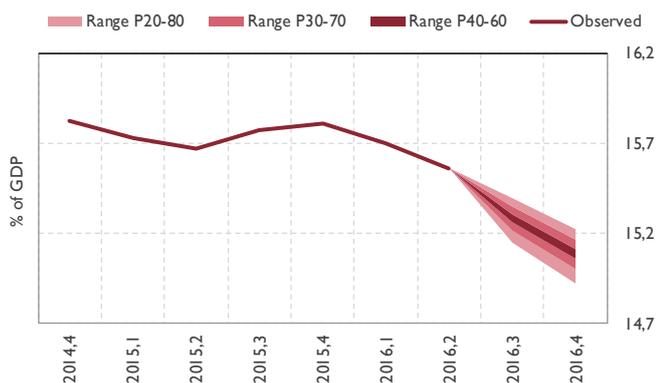
2016/Q2 (\*)

**GRAPH 1. NON-FINANCIAL REVENUE**



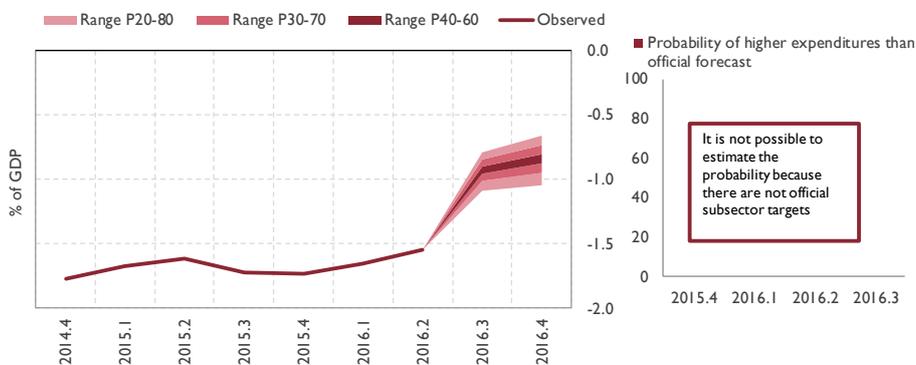
- 2016 revenue forecasts (net of payments through the financing system) a growth of 7.1% year-on-year. This is conditioned in most cases by the trend in resources from the system of regional financing. This represents an increase of four tenths of a percentage point with regard to the previous year (in terms of contribution to GDP). Revenue other than those deriving from the system grew at 3.4% over the level in 2015, maintaining their contribution to GDP.

**GRAPH 2. NON-FINANCIAL EXPENDITURE**



- 2016 expenditure forecast (not considering the effect of payments to the State through the financing system) increased by 2.2% with regard to 2015 (after factoring out expenses deemed non-recurring in 2016). This situates expenditure, in terms of contribution to GDP, 3 tenths of a percentage point below the previous year's level (8 tenths of a percentage point, before factoring out the effects of one-off operations in 2016).

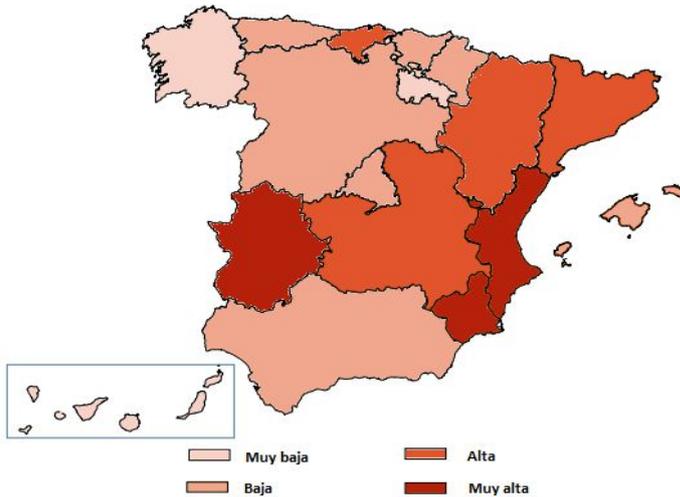
**GRAPH 3. NET LENDING/BORROWING**



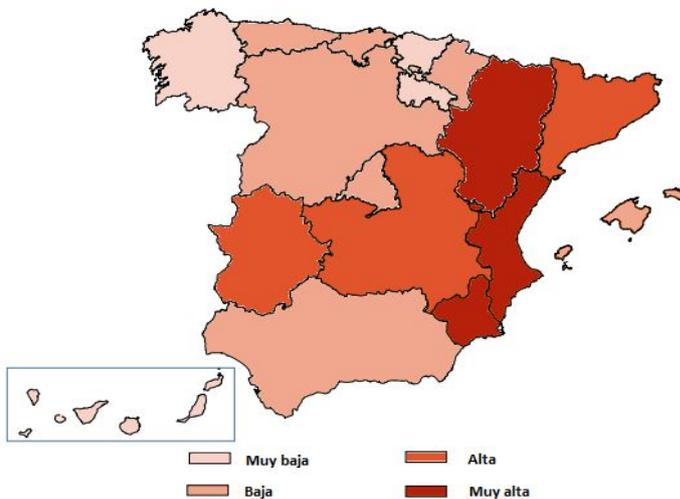
- Deficit-to-GDP ratio is forecasted to be 0.8% for 2016.
- Deficit-to-GDP is expected to improve by Q3 due to an increase in the revenue from the system of regional finance. This increase in revenue is explained by a final settlement of 0.5% of GDP.

**GRAPH 4. LIKELIHOOD OF 2016 YEAR-END BEING BELOW AVERAGE FOR THE AUTONOMOUS REGIONS SUBSECTOR**

**2.1. Data for the second quarter**



**2.2. Data for the first quarter**



- The likelihood of a worse outcome than a deficit 0.8% has been rated from very low in Galicia, La Rioja and Canary Islands to very high in Murcia, Valencia and Extremadura.
- Most significant changes due to new data have been seen in the regions of Aragón, Basque Country, Cantabria and Extremadura:
  - The year-end forecast for Aragón has improved slightly, now the likelihood of a deficit greater than 0.8% dropped from very high to high.
  - Year-end forecasts have taken a turn for the worse in Basque Country, where the likelihood of exceeding the -0.8% has shifted from very low to low; Cantabria, from low to high; and Extremadura, from high to very high.



### **(\*) Assumptions and notes related to quarterly monitoring**

- The graphs show the balance, revenue and expenditure over the last four quarters as cumulative percentage of GDP for all the Autonomous Regions, and, in each region, the likelihood of reaching a year-end with poorer results than the average for the subsector.
- AIRcF's projections for non-financial revenue, non-financial expenditure and balance are updated quarterly taking into account the results of its own models for taxation and interest, the National Accounts data known for the first and second quarters and those for the month of July, as well as any other data provided by the Autonomous Regions. In the analysis of revenue and non-financial expenditure, the effect of payments to the State through the financing system are factored out (deemed minor revenues).
- The distribution by subsectors of the deficit target fixed by Council Decision on 2 August, which for the General Government sector is -4.6% of GDP, is unavailable, due to which it is not possible to incorporate the analysis of probability of compliance with the deficit target included in previous publications.
- The quarterly profile in AIRcF's forecasts and in the official forecast for Autonomous Regions is based on the balance resulting from aggregating the estimated revenues and expenditures for each of the regions. In drafting these individual forecasts, previously known data are combined, such as revenues from the financing system, interim payments, which are paid monthly and whose settlement for the fiscal year n-2 is due in July, together with other estimates that depend on each Autonomous Region's monthly execution percentage in recent years; this usually offers a regular profile, but differences may appear in the rate of execution of revenue and expenditure in each region, which are features that cannot be captured in an aggregate approach. The balance forecasts are calculated from the difference between known and forecast revenue and expenditure for each quarter.
- Confidence intervals are obtained in two steps. Firstly, a VAR model is estimated using the following variables: (i) variables that are specific to the subsector, such as expenditure; revenue and the Government debt-to-GDP ratio; and (ii) common variables referring to the national aggregate: Real GDP, the GDP deflator and yields on Government 10-year bonds. Secondly, from the projected paths for the different variables and the estimated joint distribution of the VAR shocks, 1500 probabilistic scenarios are built. The intervals displayed on the charts refer to the percentiles 20-80, 30-70 and 40-60. The probabilistic intervals cannot be compared with the official path in this publication as there is no distribution by subsectors.