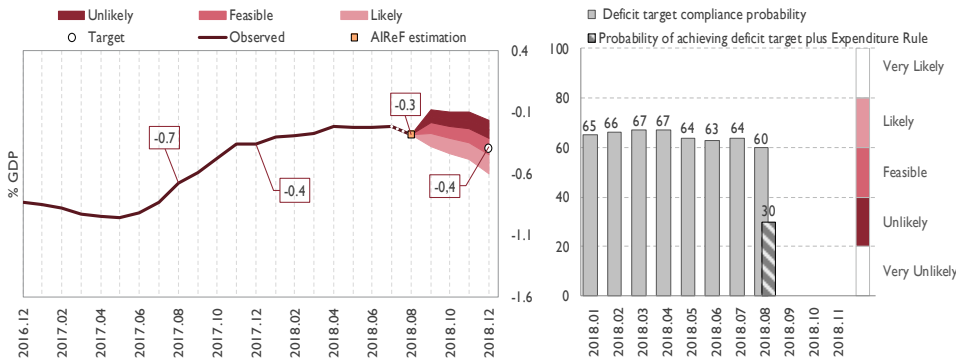


Monthly stability target monitoring

E. Autonomous Regions

August 2018*

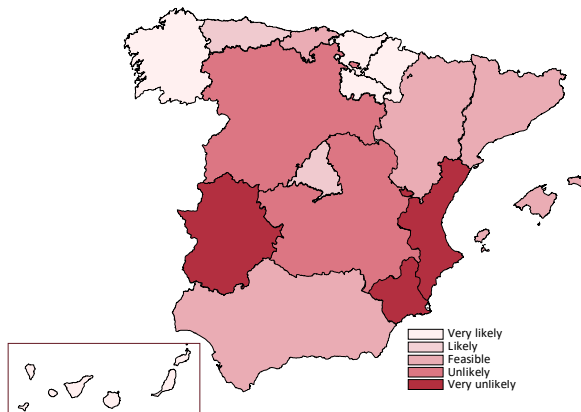
FIGURE 1. NET LENDING/BORROWING (%GDP)



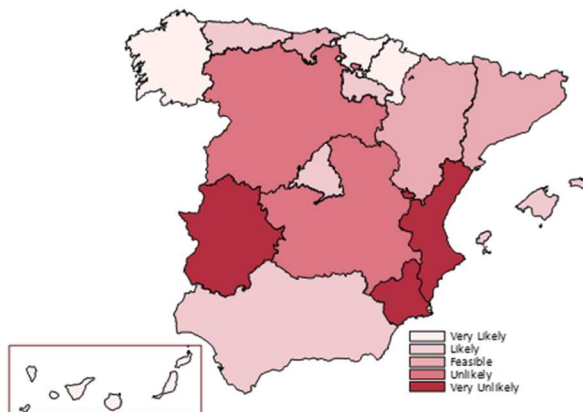
- AIReF considers compliance with the 2018 stability target of -0.4% GDP to be feasible, therefore slightly worsening the probability of achieving it with the latest available information.
- Pending the update of 2017 data on the expenditure rule, it is estimated that the simultaneous compliance with 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 AUGUST 2018 -JULY DATA-)



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



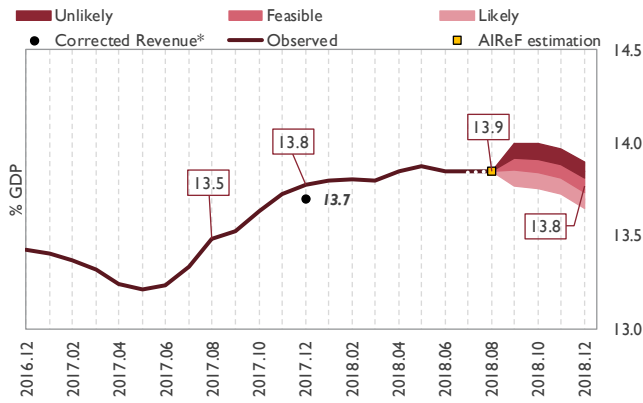
- With the latest data published and the information provided by the Regions AIReF has worsened the closing forecasts of several Regions, with significant changes in Andalusia, the Balearic Islands and Valencia.
- With respect to the latest analysis published, the probability of compliance with the stability target in the Balearic Islands and Andalusia has worsened, from likely to be feasible. On the contrary, in Rioja such compliance has gone from likely to very likely.
- Moreover, compliance with the target is considered highly unlikely for Murcia, Extremadura and Valencia, and unlikely for Castile and León and Castile La Mancha. In Cantabria and Aragon compliance is still considered to be difficult to achieve, although it is still feasible.

Sources: IGAE and AIReF's estimates

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



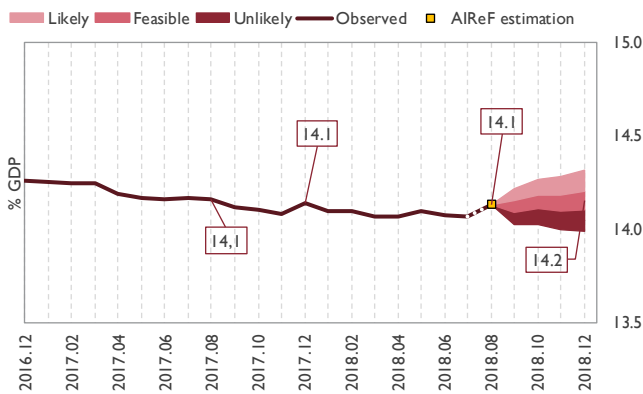
FIGURE 3. NON-FINANCIAL REVENUE (%GDP)



*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%, confirming the expected evolution until August. In the remaining months of the year this situation will be maintained, although there will be a decline of 0.1% 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 7%.

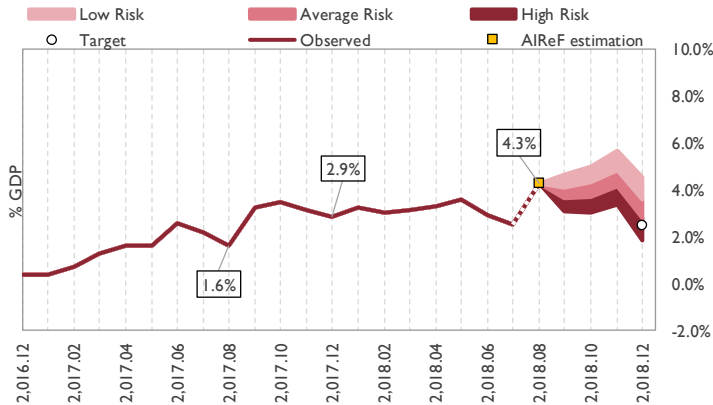
FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)



- Until August the declining trend of the weight of expenditure on GDP was maintained, falling by 0.1% in the year so far. This trend will slow down from August and it is expected that 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 around 4% 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)

(*) The computable expenditure series has not been updated in line with the publication of the closing data for 2017, therefore estimates may be distorted, which will be corrected with the publication of the corresponding data.



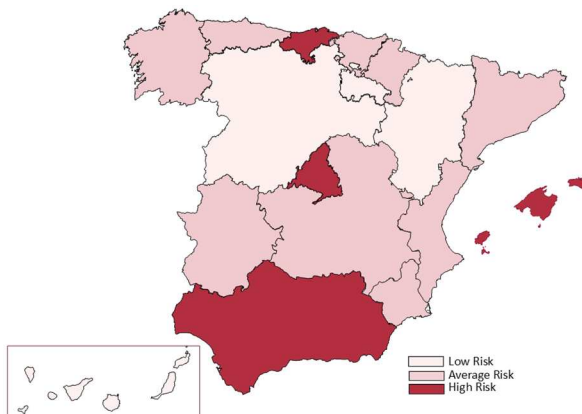
- With the limitations arising from the non-publication, to date, of computable expenditure data corresponding to the revised figure for 2017, expenditure growth until August, in 12-month accumulated terms, determines a variation of the expenditure considered for the purposes of the expenditure rule above 4%, 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 JULY 2018)



(FORECAST WITH DATA TO JUNE 2018)



- 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 may be lower than the reference rate set of 2.4% in Castile and Leon, Rioja, Aragon and the Canary Islands. Against this, it is considered that the risks of non-compliance with the rule are particularly marked in Andalusia, the Balearic Islands, Cantabria and Madrid, although estimates are conditioned by the updated data published on the expenditure rule.
- With respect to the last analysis carried out, with the exception that stems from the publication of the updated data for 2017, with the execution data to date there have been no significant changes that alter the ratings expressed.
- 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 rule to be made.



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. August execution was estimated based on the published data for July 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 weights assigned by the ARIMA forecast estimated for each month. In 2018, the monthly adjustment of non-financial income was estimated as indicated above, 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:

