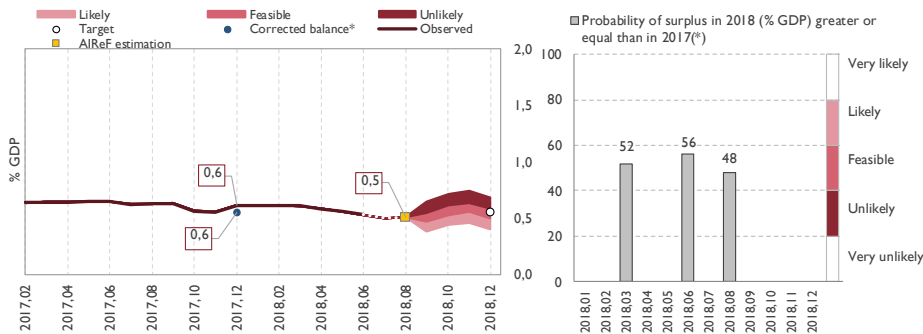


Quarterly Stability Target Monitoring

D. Local Governments (LGs)

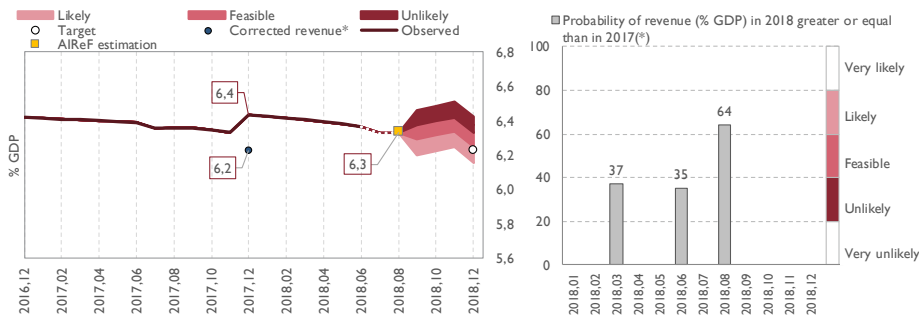
August 2018

FIGURE 1. NET LENDING/BORROWING



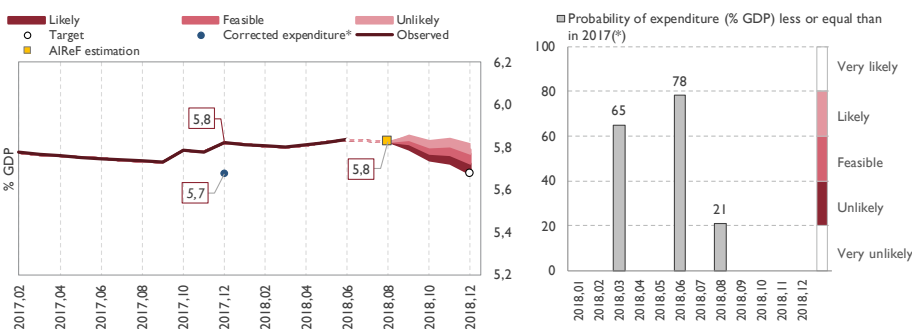
- AIReF considers it highly likely that the 2018 equilibrium target will be met and the 2017 results will be consolidated.
- The latest quarterly data show a surplus in Q2 of 2018 below the level of 2017 close to 0.1% GDP, due to an increase in expenditure of 4.5% and an increase in revenue of around 2%.
- Equally, the financial data available point to a surplus below that recorded in 2017.

FIGURE 2. NON-FINANCIAL REVENUE



- It is considered feasible that local revenue will reach the results of 2017 in terms of GDP.
- AIReF estimates that revenue will maintain steady growth of around 2% GDP for the rest of the year.
- The probability that revenue will reach the level of 2017 has increased due to the good behaviour of municipal taxes and the updating of the closing data for 2017 published by the Ministry of Finance, which increase the revenue of this year by around 1,000 M€.

FIGURE 3. NON-FINANCIAL EXPENDITURE



- For expenditure, it is considered unlikely to replicate the results of 2017 in terms of GDP.
- According to the available execution data and considering the updating of expenditure for 2017 published by the Ministry of Finance, AIReF has revised the estimate of expenditure on investment and public consumption upwards.

Source: IGAE and AIReF's estimates

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

(*) The result that would have been achieved without the effect of the adjustment of previous years in the Provincial Councils as a result of the May 2017 Agreement of the Joint Committee of the Economic Agreement is represented by a blue dot in 2017. The probability estimates for 2018 were made in relation to the results of 2017 once this effect had been removed.



Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts for non-financial revenue, non-financial expenditure and fiscal balance are updated monthly by considering the result of its own models for taxes and interest and the latest national accounting data known for the sub-sector, as of June 2018, as well as the latest data on debt (advance) and deposits that are published in the statistics of the Bank of Spain on the same date.
- The figures represent the fiscal balances, revenue and expenditure of the last twelve months, accumulated as a percentage of GDP for the GG. For the LG sub-sector, based on the figure observed for June, the rest of the months reflected in the figure have been estimated taking into account the monthly payments from the State to the LGs from the financing system and payments from the Provincial Councils to the AGE for the quota and to the Autonomous Region of the Basque Country. The remaining revenue and expenditure is based on their historical behaviour.
- 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:

