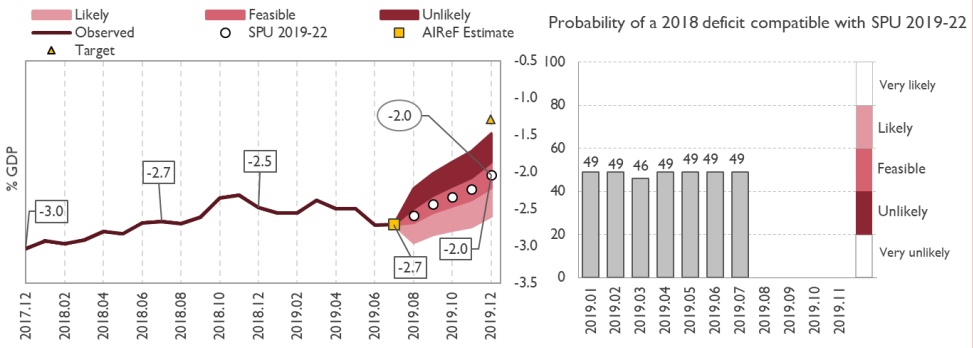
Monthly stability target monitoring

A. Public Administrations* July 2019

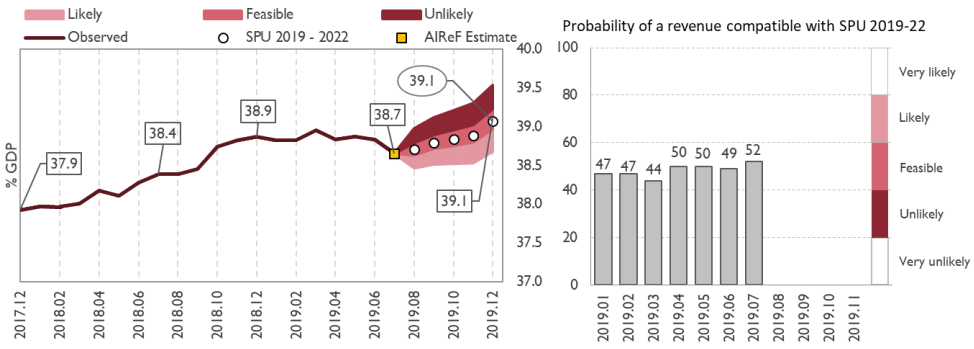
GRAPH 1. TOTAL GENERAL GOVERNMENT DEFICIT



(*) The first deficit and debt notification sent to the European Commission on 30 September included a 2019 forecast that reflected a deficit of -2.0% GDP for all Public Administrations.

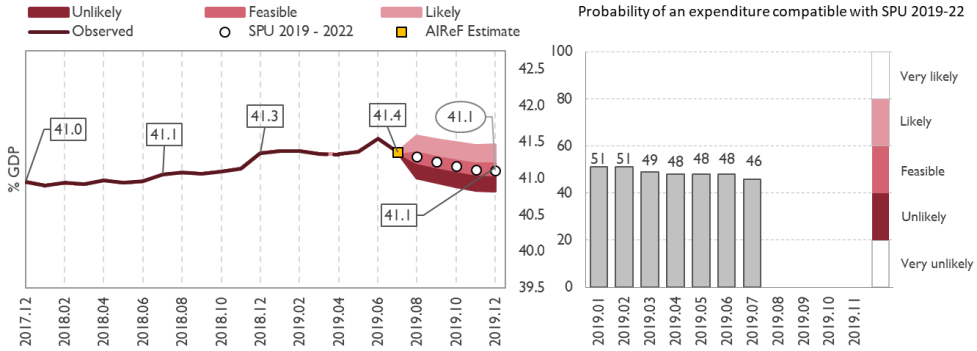
- Complying with the deficit reported to the European Commission of 2% of GDP is still considered to be feasible, without significant changes occurring since the last report was published.
- The AIReF maintains its forecast of a deficit, which stands at 2% of GDP at the end of the year in line with the expected compliance report published in July.
- The reduction of the deficit during the second half of the year, from the current 2.7% of GDP, is explained by both an improvement of resources and the implementation profile of expenditure.

GRAPH 2. TOTAL NON-FINANCIAL REVENUE



- The AIReF considers it feasible to obtain a level of resources compatible with the 2019-2022 SPU this year.
- Since January, the resources have reduced by 0.2% of GDP, standing at 38.7% of GDP, in 12 month accumulated terms. However, an increase of 4 tenths is expected to the end of the year.
- The evolution of the resources is affected in the first half of the year by the pace of tax returns and, from July, by the good behaviour of the Personal Income Tax quota, and the growth of social contributions.

GRAPH 3. TOTAL GENERAL GOVERNMENT EXPENDITURE



Sources: IGAE and AIReF's estimates

- AIReF considers it feasible to achieve the expenditure envisaged in the 2019 SPU.
- Although the first half of the year ends with a higher level of expenditure than that at the end of 2018, increasing its weight on the GDP to 41.4% in twelve accumulated month terms, a reduction of its weigh on the GDP down to 41.1% is expected.
- This expenditure profile is strongly affected by the different calendar of the entry into force of increases in pensions and public salaries (January 2019 compared to August in 2018) and by the least impact throughout the year of certain non-recurrent items such as the return of Personal Income Tax for maternity and paternity allowances.

* The estimated accumulated monthly figure for the GG was estimated on the basis of all the information available until the publication date.

Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts for non-financial revenue, non-financial expenditure and fiscal balances are updated monthly, considering the results of its own models for taxes, contributions, unemployment benefits, pensions and interests and the known national accounting data.

- The figures represent the fiscal balances, revenue and expenditure of the last twelve months, accumulated as a percentage of GDP for the GG without financial aid. The estimated accumulated figure until this month for the GG was estimated on the basis of all the information published to date, in addition to AIReF's forecasts. The LG data 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. The forecasts are conditioned by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.

- The 2019 target for Public Administrations is -1.3% of GDP, as set by the Council of Ministers on 13 July 2017. The first deficit and debt notification, sent to the European Commission on 30 March 2019, included a 2019 deficit forecast that reflects that the deficit foreseen for the Public Administrations is greater than the target approved, standing at -2% GDP. Subsequently, the Stability Programme Update sent in April 2019 foresees a similar deficit. The probability analysis is carried out in relation to compliance with this forecast.

- AIReF's updated forecast and the official forecast of the fiscal balance, revenue and expenditure by month apply the same weights as assigned by the ARIMA Tramo Seats projection to each month for each of these components, considering the effect of both seasonality and series trends.

- 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, 15,000 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:

Muy probable	80-99%: compliance highly likely.
Probable	60-79%: compliance likely.
Factible	40-59%: compliance feasible.
Improbable	20-39%: compliance unlikely.
Muy improbable	0-19%: compliance highly unlikely.