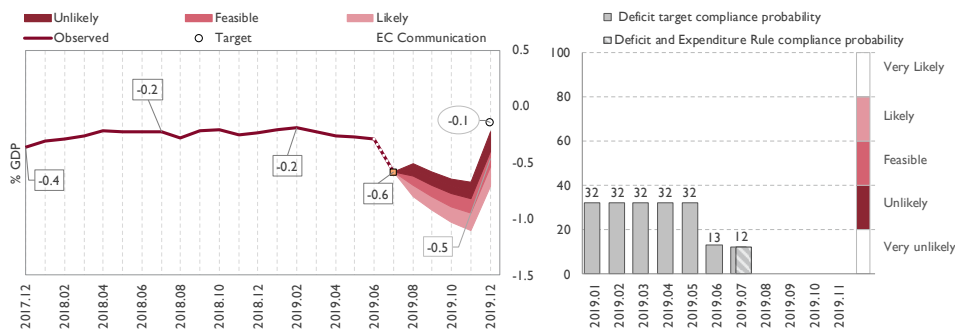


Monthly stability target monitoring

E. Autonomous Regions

July 2019*

FIGURE 1. LENDING/BORROWING (%GDP)

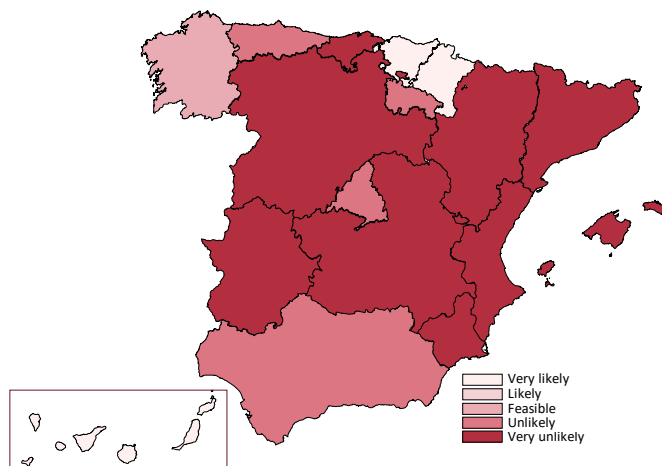


(**) The AIReF's central scenario assumes an absence of changes to the terms of the Immediate Supply of Information on VAT (SII).

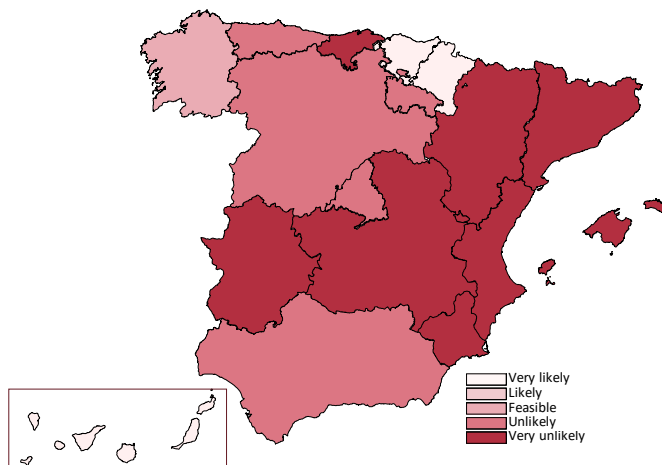
- Complying with the stability target of -0.1% of GDP is considered very unlikely (**) without significant changes occurring since the last report was published.
- In terms of 12 accumulated months, the deficit increased 4 tenths in July compared to the end of 2018, to -0.6%
- This increase, and its correction in the last month of the year, is mainly explained by the evolution of the Autonomous Community Funding system (SFA) resources.

FIGURE 2. PROBABILITY OF COMPLIANCE WITH STABILITY TARGET

(FORECASTS WITH ESTIMATES TO JULY 2019 -JUNE DATA*-)



(FORECAST REPORT ON EXPECTED COMPLIANCE - APRIL DATA -)

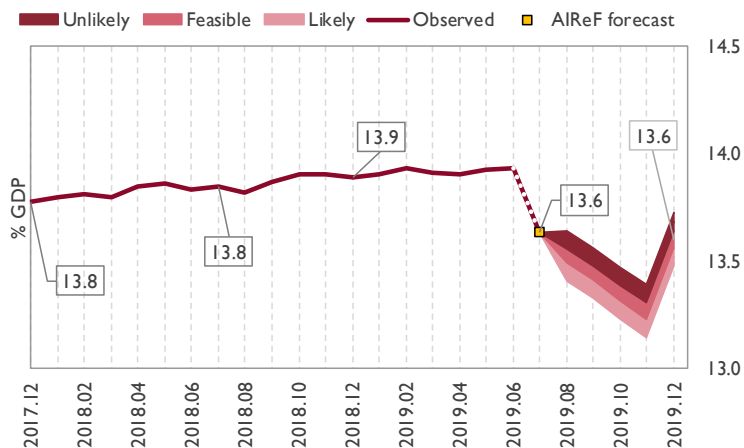


- Regarding the individual analysis of the last report published (July report on 2019's expected close), the conclusions outlined and the probability rating of fulfilling the 2019 stability objective in all Autonomous Communities is maintained, except for Castilla y León, as this was on the threshold of the category (unlikely), and, without significant changes in its data, decreases its rating during this period.
- Meeting this objective is forecasted to be:
 - Very unlikely for Aragón, Illes Balears, Cantabria, Castilla y León, Castilla-La Mancha, Cataluña, Extremadura, R. Murcia and C. Valenciana.
 - Unlikely in Andalucía, Asturias, Madrid and La Rioja
 - Feasible in Galicia
 - Very likely in Canarias, Navarra and País Vasco.

Sources: IGAE's and AIReF's estimates

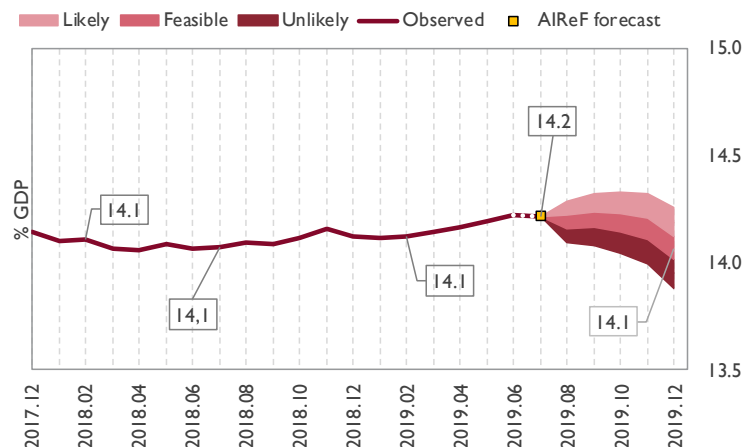
* The accumulated data for the current month was estimated based on all the available information until the publication date.

FIGURE 3. NON-FINANCIAL REVENUE (%GDP)



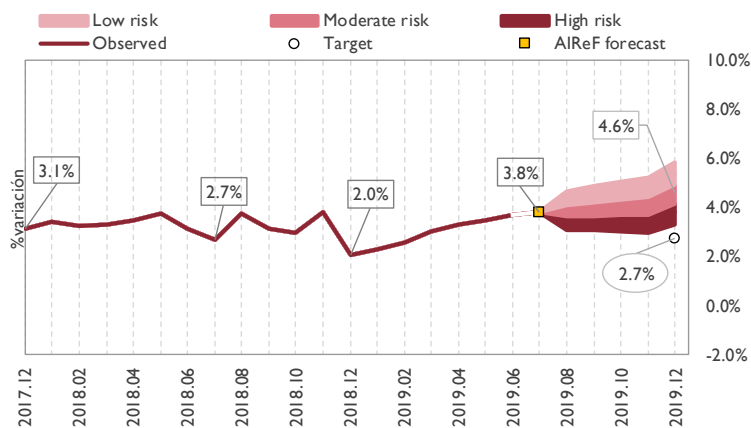
- Resources to date reduce their weight by up to 13.6% as the liquidation of SFA resources has been much lower than in the previous year. On the other hand, from July in 2018, downpayments (extended payments to date) were regularised. This year, this is not expected until December, when a large part of the decrease that will be registered up to that point will be recuperated.
- However, the non-repetition of extraordinary revenue collected at the close of the previous year (EU funds and judgements) moderates the December recovery of the SFA's income.
- In 12-months accumulated terms net revenues increased to 2%

FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)



- The weight of expenditure on GDP increases one tenth, although a slight reduction is expected in the remaining months, more pronounced at the end of the year by the non-repetition of non-recurring operations recorded at the close of 2018.
- In 12-months accumulated terms net non-financial expenditure increased by 5%.

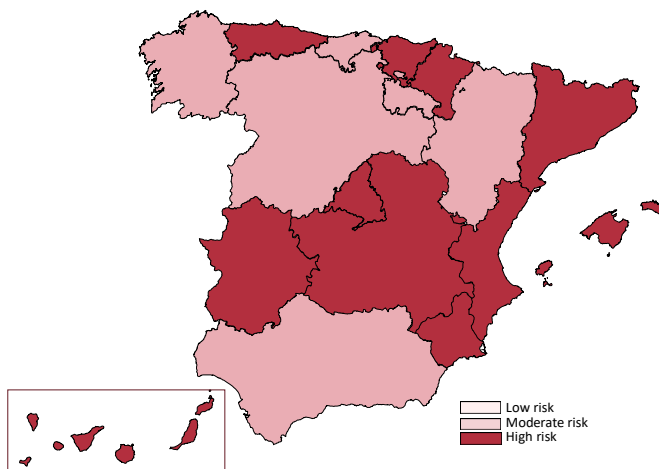
FIGURE 6. YEAR-ON-YEAR VARIATION OF EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE (%VARIATION)



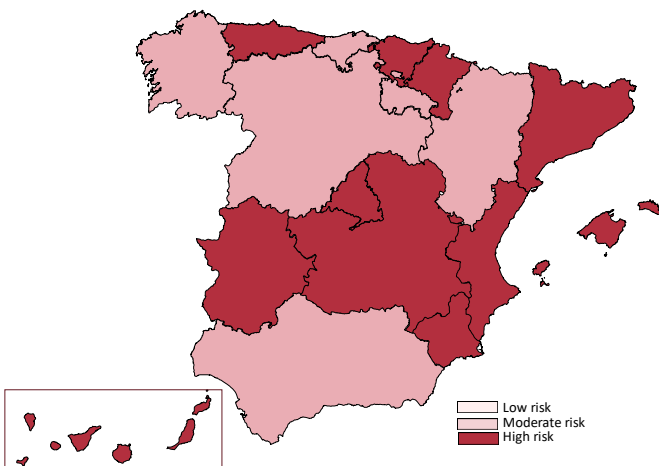
- In accumulated 12 month terms, an interannual growth rate of 3.8% of computable expenditure is recorded to July, with it being expected that this accumulated rate will remain throughout the year, recovering in December despite the non-repetition of non-recurring operations of jobs recorded in 2018, due to the negative impact of income from EU funds, contrary to 2018, mitigated by the expected increase of financially sustainable investments.

FIGURE 7. RISK OF NON-COMPLIANCE WITH THE EXPENDITURE RULE BY REGION

(FORECASTS WITH ESTIMATES TO JULY 2019 -JUNE DATA*-)



(FORECAST REPORT OF EXPECTED COMPLIANCE -APRIL DATA-)



- Regarding the analysis carried out in the past report on Autonomous Communities' initial budgets, the prospects in all Autonomous Communities remain the same considering the previous month's data, noting more or less pronounced risks of non-compliance with the expenditure rule in all Autonomous Communities because of the growth estimated and observed in jobs, associated with the measures of increased spending and tax cuts adopted and the expected evolution of EU funds.
- The risk is:
 - Moderate in Andalucía, Aragón, Cantabria, Castilla y León, Galicia and La Rioja
 - High in the rest of the Autonomous Communities: Asturias, Illes Balears, Canarias, Castilla-La Mancha, Cataluña, Extremadura, Madrid, R. Valencia



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. July execution was estimated based on the published data for June 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 considered in its calculation. 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 previously published rating.
- AIRcF'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.
- AIRcF'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 weighting of the ARIMA forecast based on the monthly execution of each Region in recent years, usually describing a regular profile but with differences in the rate of execution for income and expenditure. In 2019, the monthly payment of non-financial income has been made considering that downpayments will be paid until December in accordance with the extension of the GSB. The expected balances are calculated with the difference between known and expected revenue and expenditure in 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 jobs, resources and 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:

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.