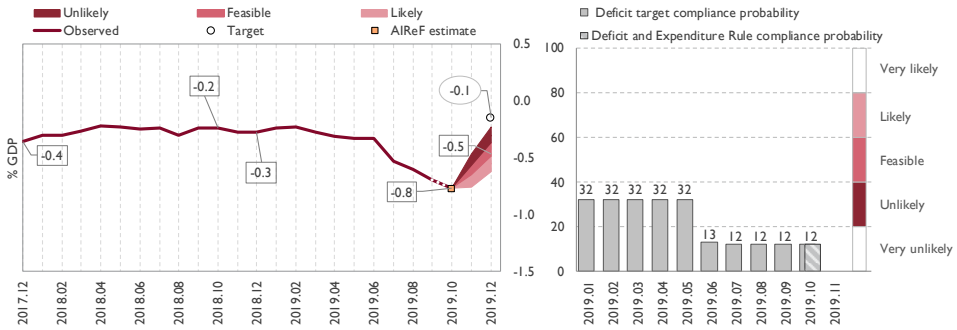
Monthly stability target monitoring

E. Regions October 2019*

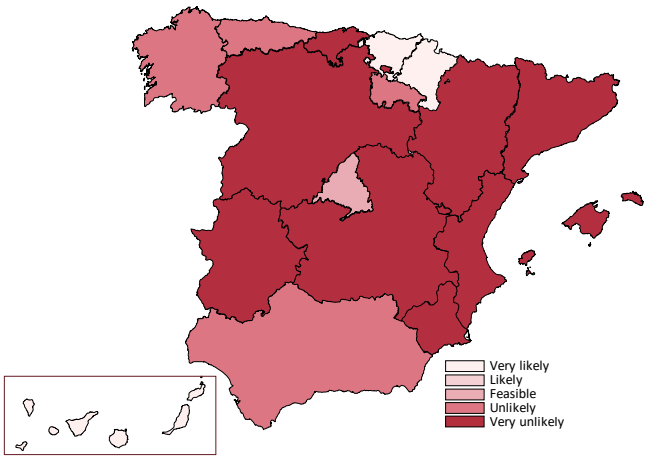
FIGURE 1. NET LENDING/BORROWING (%GDP)



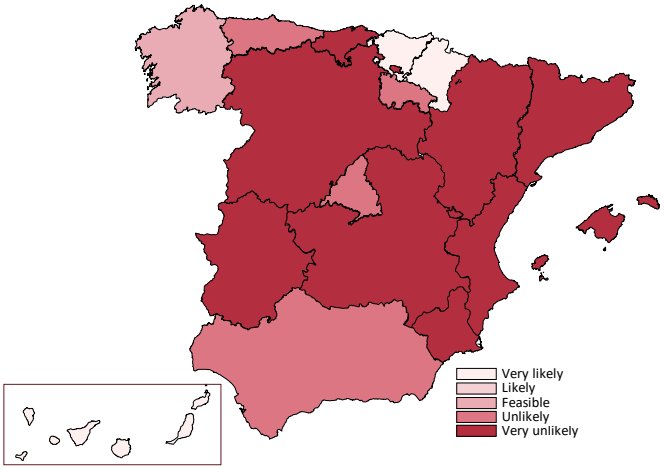
- Compliance with the stability target of -0.1% GDP is still considered highly unlikely, without any significant changes since the publication of the report on the Budgetary Plan.
- In 12-month terms, the deficit reaches a value of 0.8% in October, a month still affected by the delay in the revenue of the regional financing system (RFS).
- At the end of the year, once the instalment payments have been regularised, it is expected that the deficit will drop to 0.5%.

FIGURE 2. PROBABILITY OF COMPLIANCE WITH STABILITY TARGET

(FORECASTS WITH ESTIMATES TO OCTOBER 2019 -SEPTEMBER DATA-)



(FORECAST FROM REPORT ON EXPECTED COMPLIANCE - JUNE DATA)

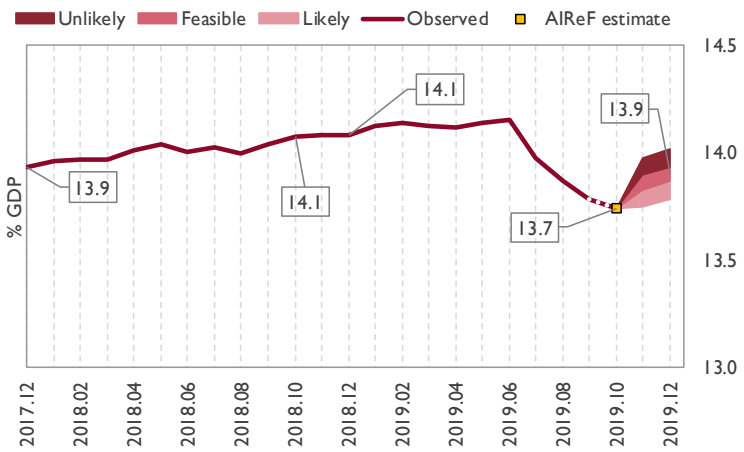


- With respect to the individual analysis, the conclusions of the last report and the rating of the probability of achieving the stability target for 2019 is maintained in all Regions, except in two cases: Madrid, which improves its rating from unlikely to feasible, and Galicia, which worsens from feasible to unlikely.
- Achieving this objective is estimated to be:
  - Highly unlikely for Aragon, the Balearic Islands, Cantabria, Castile and León, Castile-La Mancha, Catalonia, Extremadura, Murcia and Valencia.
  - Unlikely in Andalusia, Asturias, Galicia and Rioja
  - Feasible in Madrid.
  - Highly likely in the Canary Islands, Navarre and the Basque Country.
- The probability of achieving the 2019 target is affected by the negative amount of the VAT Immediate Information System (IIS) in the 2017 settlement paid in July, with an average impact of 0.2% GDP, which, however, reaches 0.4% in some Regions

Sources: IGAE and AIReF's estimates

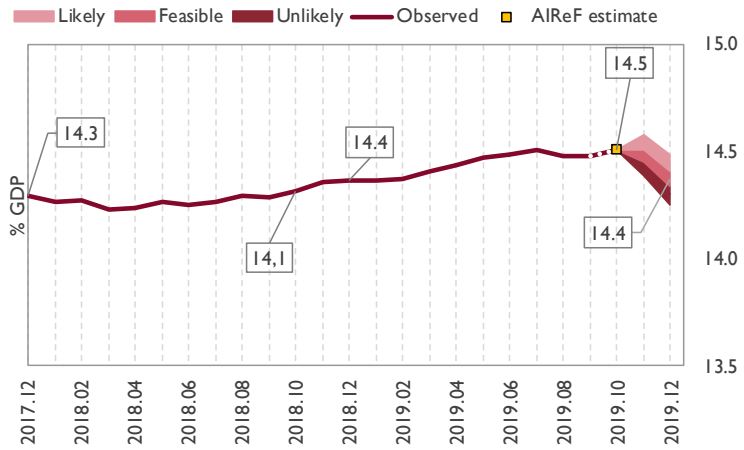
* The accumulated figure for the current month was estimated based on all the information available until the publication date.

FIGURE 3. NON-FINANCIAL REVENUE (%GDP)



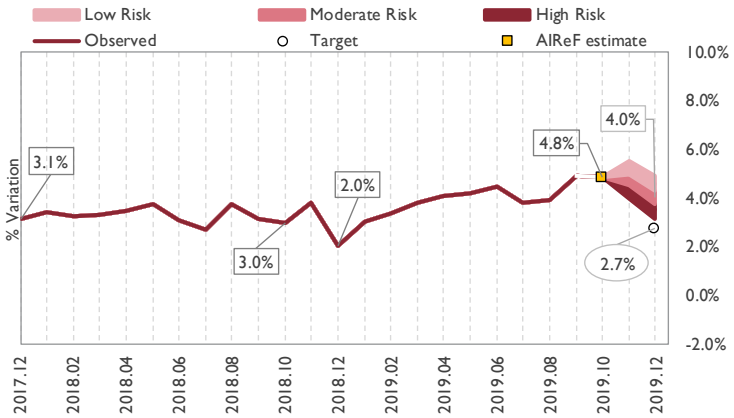
- Until October revenue reduces its weight down to 13.6%, due to the fact that the instalment payments that the Regions have been receiving were based on figures from the carried over budget. According to the provisions of Royal Decree 13/19, the regularisation of instalment payments will be paid in November and December
- The non-repetition of extraordinary revenue items received at the close of the previous year (EU funds and rulings) moderates the recovery of December's revenue.
- AIReF estimates that the joint effect of these factors will put revenue at 13.8% GDP at the end of the year.
- In 12-month accumulated terms the nominal change in revenue is nil.

FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)



- The weight of expenditure over GDP in 12-month accumulated terms increases 0.3%, but a slight reduction in the remaining months is expected, more marked at the end of the year due to the non-repetition of non-recurrent operations recorded at the end of 2018.
- At the end of the year, expenditure is expected to maintain its weight over GDP compared to the previous year.
- In nominal accumulated terms, expenditure increased by 5% compared to 2018.

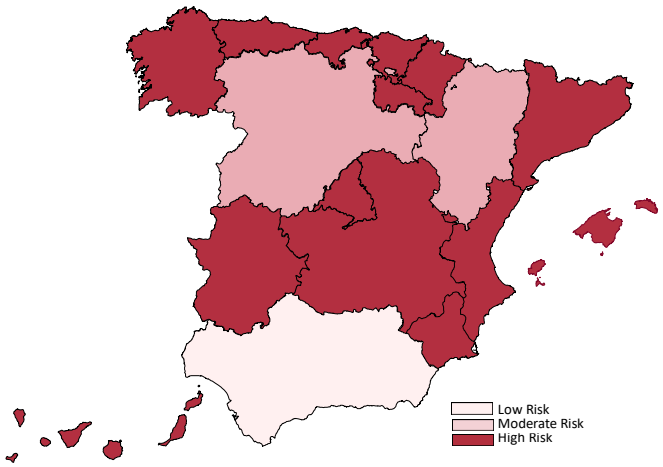
FIGURE 6. YEAR-ON-YEAR VARIATION OF EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE (%VARIATION)



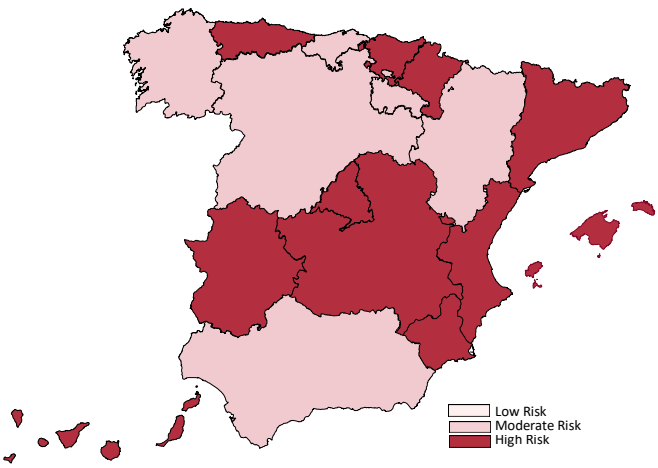
- In 12-month cumulative terms, until October the year-on-year growth of computable expenditure would be 4.8%.
- It is expected that at year-end growth will be maintained above the reference rate of 2.7%, although more moderate due to the non-repetition of non-recurrent expenditure operations from the previous year and the effect of financially sustainable investments. The negative impact of the variation of the expenditure co-financed by EU funds has also been revised downward.

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

(FORECASTS WITH ESTIMATES TO OCTOBER 2019 -SEPTEMBER DATA*-)



(FORECAST FROM REPORT ON EXPECTED COMPLIANCE - JUNE DATA)



- With respect to the analysis made in the last report, the forecasts are maintained in most Regions, observing risks of non-compliance with the expenditure rule, more or less marked, due to the growth in expenditure, the tax breaks taken, and, in many cases, the negative evolution of EU funds derived from specific revenue received in 2018.
- The risks have increased in Cantabria and Galicia, and moderated in Andalusia.
- The following can also be observed:
  - Low risk in Andalusia, in which the evolution of expenditure and, therefore, compliance with the rule is favoured by the non-repetition in 2019 of operations which resulted in higher expenditure in 2018.
  - Moderate risk Aragon and Castile and Leon.
  - High risk in the rest of the Regions: Asturias, Balearic Islands, Canary Islands, Cantabria, Castile - La Mancha, Catalonia, Extremadura, Galicia, Madrid, Murcia, Navarre, Basque Country, Rioja and 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. October execution was estimated based on the published data for September 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 considered in its calculation from the 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.

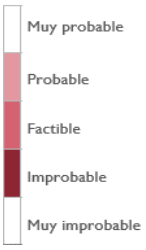
- AIReF's for non-financial revenue, non-financial expenditure, the fiscal balance and the rate of variation of computable expenditure are updated monthly, considering the results of its own models for taxes and interest, the national accounting data available at the date of the report, and any other 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. Thus, the change in ESA methodology in September 2019 has resulted in significant changes, such as the registry of the Special Canarian Fiscal Regime that has significantly increased the volume of revenue and expenditure of the regional sub-sector, and the change to a cash basis in the recording of taxes and social contributions, which has altered the internal composition of revenue.

- 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 according to the weights of the ARIMA projection based on 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 adjustment of non-financial revenue has been carried out considering that until October instalment payments have been made in accordance with the carryover 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 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:



80-99%: compliance highly likely.

60-79%: compliance likely.

40-59%: compliance feasible.

20-39%: compliance unlikely.

0-19%: compliance highly unlikely.