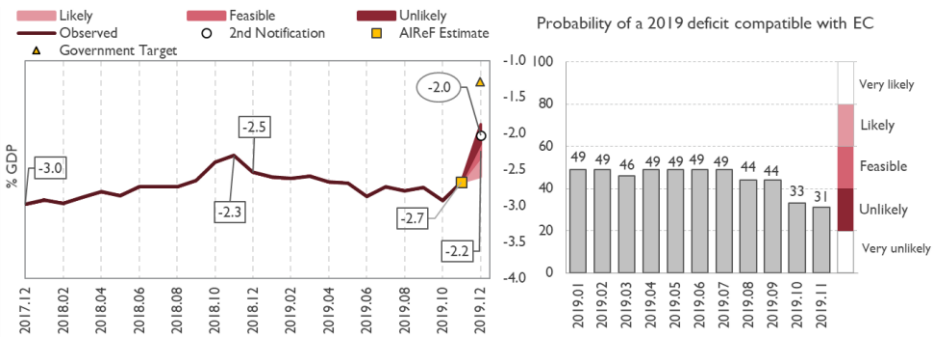
Monthly stability target monitoring

A. General Government*

November 2019

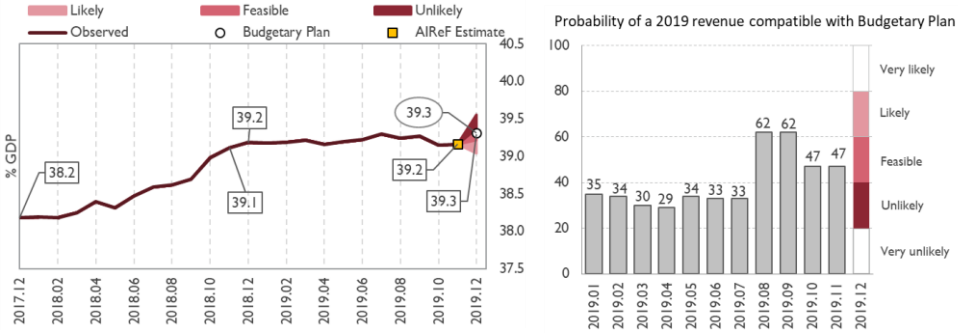
FIGURE 1. GENERAL GOVERNMENT DEFICIT



(*)The second deficit and debt notification, sent to the European Commission on September 30 included a forecast for 2019 that reflected a deficit of -2.0% of GDP for the General Government.

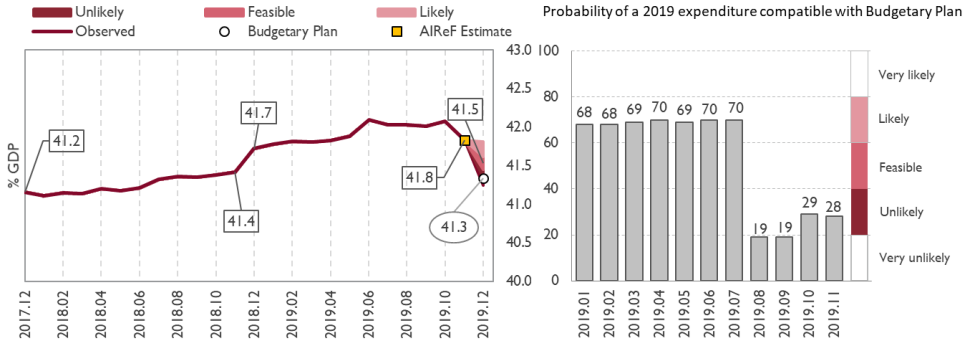
- Compliance with the target notified to the European Commission of 2% GDP continues to be considered unlikely.
- In line with the October forecast, AIReF's baseline scenario places the deficit at 2.2% GDP at year-end, with no significant changes.
- Until year-end there is expected to be a reduction in the deficit due to the containment of the growth of expenditure in the Central Government.

FIGURE 2. GENERAL GOVERNMENT REVENUE



- This year AIReF maintains its rating of feasible for the revenue level contained in the Budgetary Plan.
- AIReF maintains its collection forecasts in national accounting terms, after having recorded the fall in the second instalment payment of CIT in the previous month.
- In 12-month accumulated terms revenue maintains its weight over GDP at 39.2% in November, with a slight increase of 0.1%, until the end of the year.

FIGURE 3. GENERAL GOVERNMENT EXPENDITURE



Sources: IGAE and AIReF's estimates

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

- AIReF still considers it unlikely to achieve the expenditure forecast in the Budgetary Plan for 2019.
- In 12-months accumulated terms, expenditure has increased its weight over GDP by 0.1% until November, although AIReF expects a reduction of just over 0.3% at year-end.
- The expenditure execution profile is strongly conditioned by the different calendar of the entry into force of the increases in pensions and public salaries (January 2019 compared to August 2018) and by the lower impact throughout the year of certain non-recurring items.
- Likewise, expenditure is expected to be contained at year-end due to the application of the Order on the budgetary close for 2019.

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 the GG is -1.3% of GDP, set by the Council of Ministers on 07 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 GG is greater than the target approved, standing at -2% GDP. Subsequently, the Stability Programme Update sent in April 2019 foresees a similar deficit. Finally, the second deficit and debt notification sent to the European Commission on 30 September 2019, maintains a deficit forecast for the GG at 2%. 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.