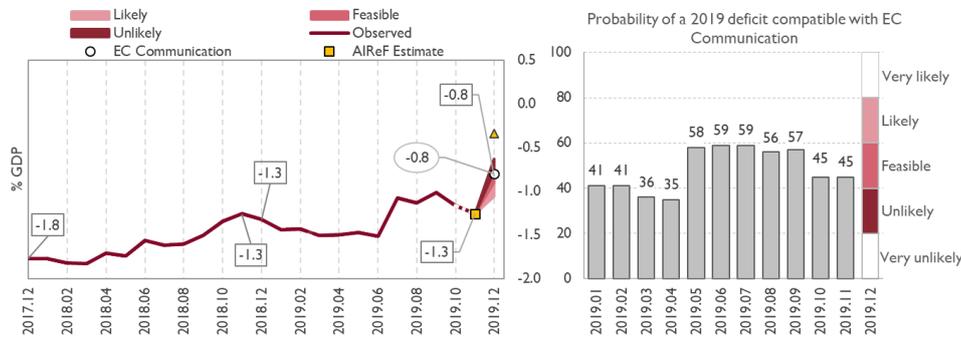


Monthly stability target monitoring

B. Central Government (CG) November 2019

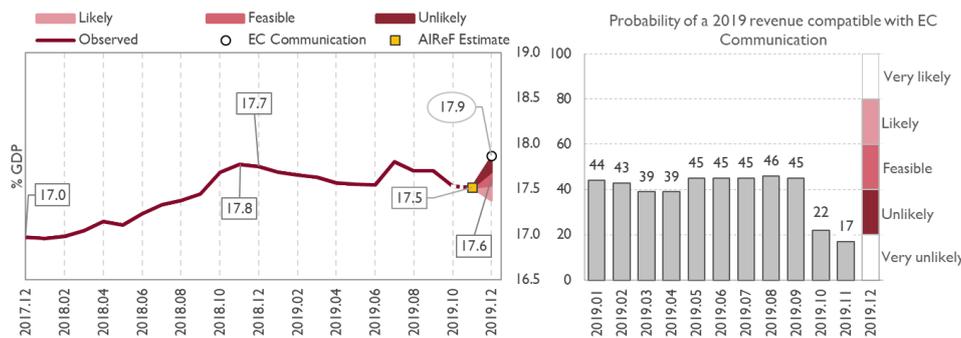
FIGURE 1. NET LENDING/BORROWING



(*) The second deficit and debt notification, sent to the European Commission on September 30 included a forecast for 2019 that reflected a deficit of 0.8% of GDP for the Central Government.

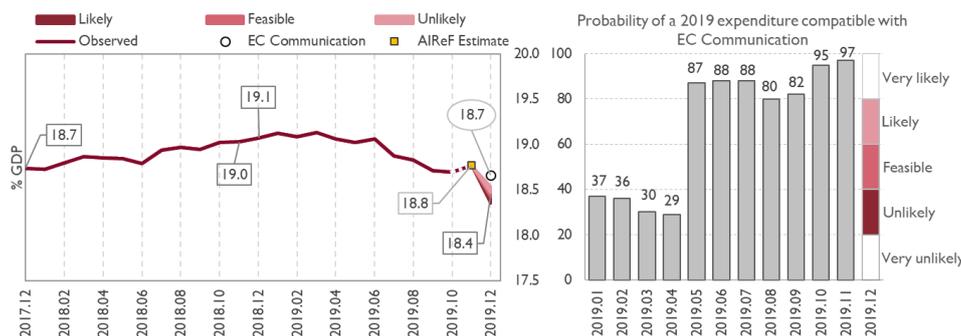
- The rating of feasible for compliance with the deficit notified to the European Commission (EC) (*) of 0.8% GDP is maintained, as there are no significant changes since the publication of the last monthly monitoring.
- In 12-months accumulated terms the deficit over GDP is maintained in October compared to the end of 2018 at 1.3%.
- Until the end of the year there is expected to be a reduction in the deficit due to the containment of the growth of expenditure.

FIGURE 2. NON-FINANCIAL REVENUE



- AIReF considers it very unlikely to comply with the revenue forecasts of 17.9% GDP compatible with the 2nd Communication to the EC, at the end of the period.
- The collection data for November do not show any significant changes with respect to the estimate in national accounting terms, after having recorded the fall of the second instalment payment of CIT in the previous month.
- AIReF maintains the year-end forecast for revenue, which is expected to stand at 17.6% GDP.

FIGURE 3. NON-FINANCIAL EXPENDITURE



Source: IGAE and AIReF's estimates. The CG figure for this month is estimated based on the data published by the State for this month, through a time-series econometric model.

- In line with the estimate for October, AIReF rates it very likely to comply with the level of expenditure of 18.7% GDP that is compatible with the 2nd Notification to the EC.
- In 12-month accumulated terms, expenditure has reduced 0.3% compared to 2018, a trend that will continue until the end of the year driven by the effect of the Order regulating the budgetary close of 2019.
- The reduction in expenditure in 2019 which is expected in December is explained by the effect of non-recurring items recorded in late 2018 that will not be recorded in 2019 or will be recorded in a lesser amount, such as the impact of DTAs, and the different pace of implementation of such items as contributions to the EU and maternity leave returns.



Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts for non-financial revenue, non-financial expenditure and the fiscal balance are updated monthly, considering the results of its own models for taxes and interest and the national accounting data available up to the current month.
- The figures represent the fiscal balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP. The expenditure data excludes financial aid. The forecasts are conditioned by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.
- The deficit target of -0.3% GDP was 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 CG is greater than the target approved, standing at -1% GDP. Subsequently, the Stability Programme Update sent in April 2019 foresees a deficit for the CG of -0.5% GDP. Finally, the second deficit and debt notification sent to the European Commission on 30 September includes an expected deficit of -0.8%. The probability analysis relates to compliance with the forecast of the second notification to the European Commission.
- As there is no official revenue and expenditure path in national accounting terms for the CG, an estimate is made considering that the differences between the cash forecasts for the revenue estimated by AIReF and those forecasted in the draft GSB for 2019, excluding the effect of the measures not in force, are shifted to revenue in national accounting terms and that the expenditure is adjusted as necessary to comply with the deficit notified.
- 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.