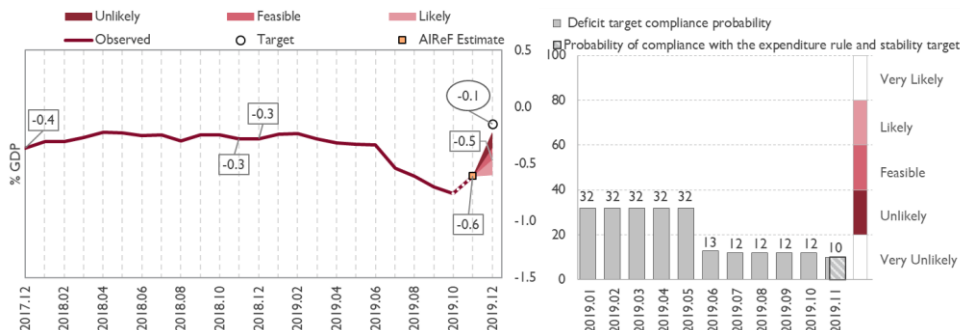# Monthly stability target monitoring

## E. Regions   November 2019*

**FIGURE 1.** NET LENDING/BORROWING (%GDP)

- Compliance with the stability target, set at -0.1% of GDP, continues to be considered very unlikely.
- In 12-months accumulated terms, the deficit reaches a value of 0.6% in November, the first month in which half of the amount corresponding to the regularisation of the revenue of the regional financing system (RFS) is paid, received to date in accordance with the extension.
- At year-end, once the instalment payments of the RFS are fully regularised, the deficit would be 0.5%.

FIGURE 2. PROBABILITY OF COMPLIANCE WITH STABILITY TARGET BY REGION

(FORECASTS WITH ESTIMATES TO NOVEMBER 2019 -OCTOBER DATA*-)
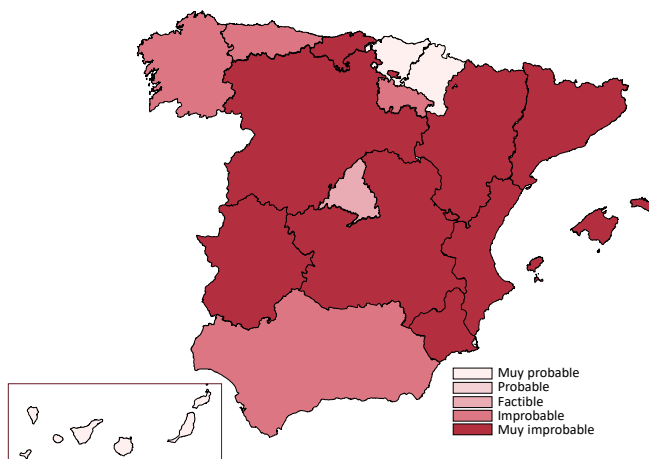
(FORECASTS WITH ESTIMATES TO OCTOBER 2019 -SEPTEMBER DATA-)
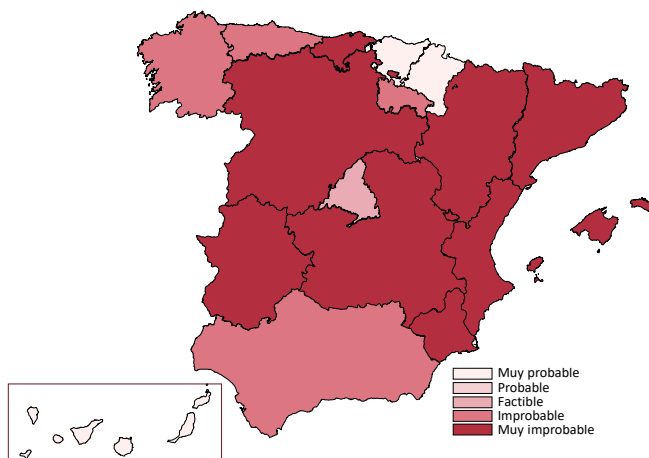
- With respect to the individual analysis of the last monthly monitoring, the conclusions drawn and the rating of the probability of compliance with the 2019 stability target are maintained in all Regions.
- Thus, compliance with this target is estimated to be:
  - Very unlikely for Aragon, the Balearic Islands, Cantabria, Castile and Leon, Castile-La Mancha, Extremadura, Murcia and Valencia.
  - Unlikely in Andalusia, Asturias, Galicia and Rioja
  - Feasible in Madrid.
  - Very likely in the Canary Islands, Navarre and the Basque Country.

- The probability of complying with the 2019 target has been affected by the negative impact of the Immediate Information System (IIS) of VAT in the 2017 settlement paid in July, with an average weight of 0.2% GDP, which, however, reaches 0.4% in some Regions.

Sources: IGAE and AIReF's estimates

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

FIGURE 3. NON-FINANCIAL REVENUE (%GDP)
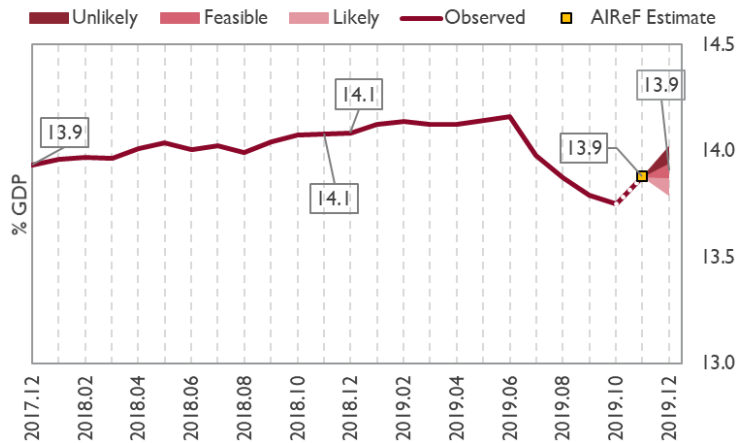
- Revenue until November in 12-months accumulated terms reduces its weight from 14.1% to 13.9%, reflecting half of the amounts corresponding to the regularisation of RFS instalment payments (that the Regions had been receiving under the extended budget) and the lower settlement received in July due to the impact of the VAT-IIS.
- The non-repetition of extraordinary revenue collected at the end of the previous year (EU funds and rulings) negates the recovery of revenue at year-end resulting from the full regularisation of instalment payments.
- In 12-months accumulated terms the nominal variation of revenue is 2%.

FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)
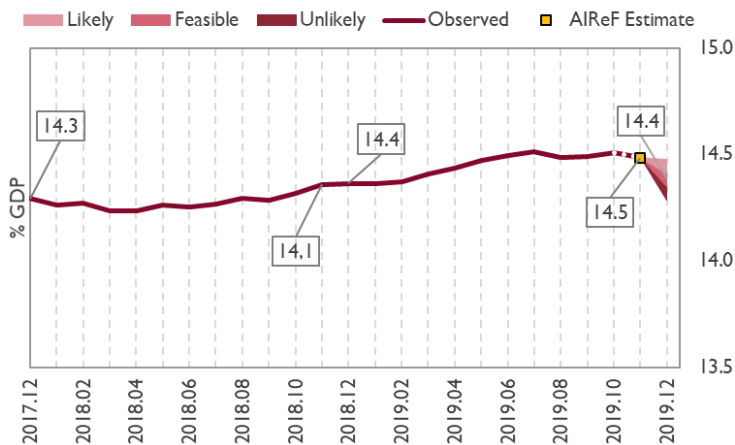
- The weight of expenditure over GDP in 12-month accumulated terms (November 2019/2018) increases by 0.4%, although a slight reduction is expected at year-end due to the non-repetition of non-recurring operations recorded at the end of 2018.
- At year-end, expenditure is expected to maintain its weight over GDP compared to the previous year.
- In nominal accumulated terms, expenditure increased by 4% compared to 2018.

**FIGURE 6.** YEAR-ON-YEAR VARIATION OF EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE (%VARIATION)
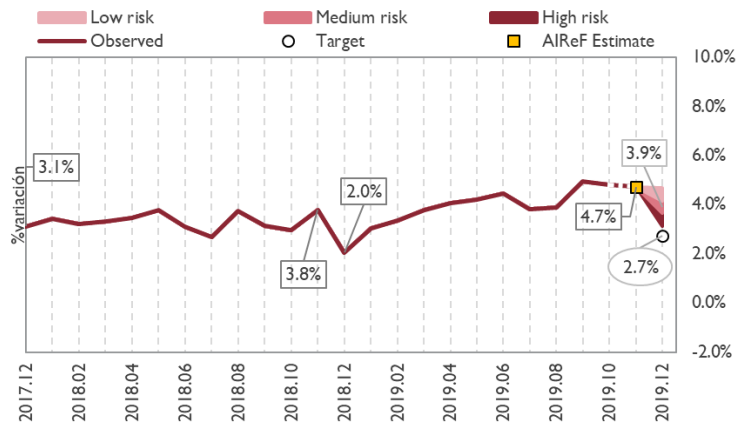
- In 12-months accumulated terms until November there would be a year-on-year growth of computable expenditure of 4.7%.

- It is expected that at year-end growth will be maintained above the reference rate of 2.7%, although more moderated due the non-repetition of non-recurring expenditure operations from the previous year and the effect of financially sustainable investments.

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

(FORECASTS WITH ESTIMATES TO NOVEMBER 2019 -OCTOBER DATA*-)
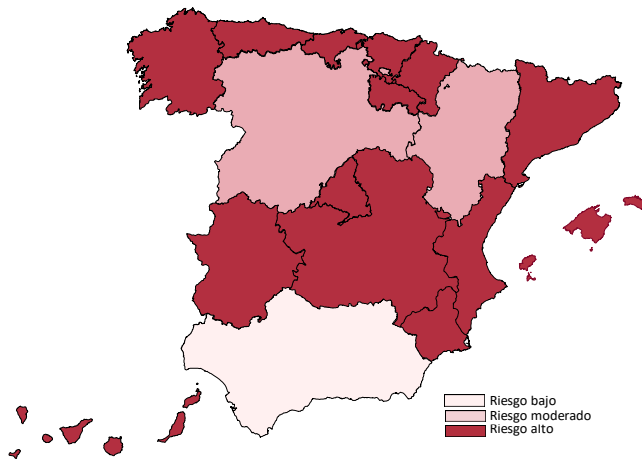
(FORECASTS WITH ESTIMATES TO OCTOBER 2019 -SEPTEMBER DATA-)
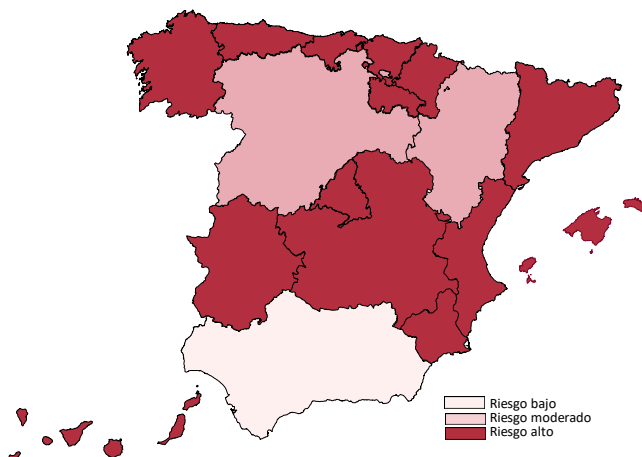
- With respect to the analysis made in the last monthly monitoring of the Regions (with data from September) the forecasts are maintained in all Regions, noting varying risks of non-compliance with the expenditure rule in all of them except in Andalusia, due to the growth in expenditure, the tax breaks adopted, and, in many cases, the negative evolution of EU funds derived from specific revenue received in 2018.

- Furthermore, the following is 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 that resulted in higher expenditure in 2018.
  - Moderate risk for Aragon and Castile and Leon.
  - High risk in the rest of the Regions: Asturias, the 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 Regions. November execution was estimated based on the published data for October 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 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 forecasts 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 lower income). The forecasts are conditioned by the updates continuously carried out by the General Intervention Board of the State Administration (IGAE) on the GG Accounts, as well as the National Statistics Institute (INE) on Regional GDP- Thus, the change in ESA methodology of September 2019 has resulted in important changes, such as the registry of the Special Fiscal Regime of the Canary Islands 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, when applicable, 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 paid in accordance with the extension of the GSB and that it is regularised in equal parts in November and December. The expected balances are calculated with the difference between known and expected revenue and expenditure for 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:

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.