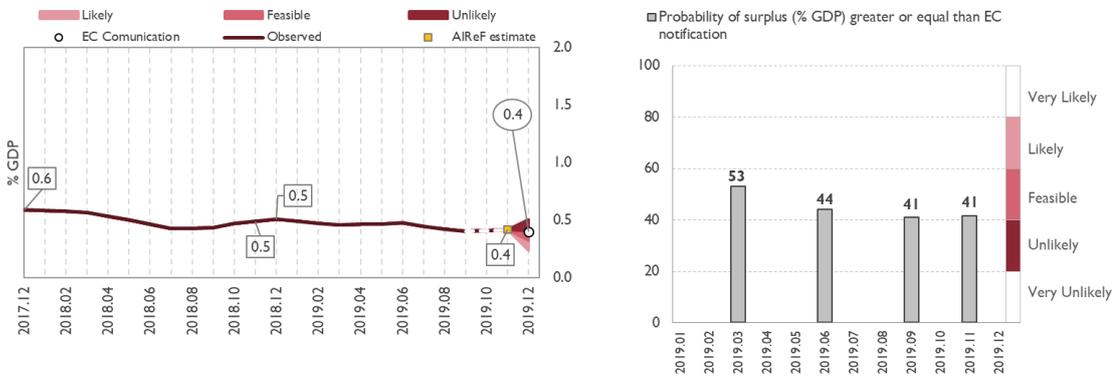# Quarterly Stability Target Monitoring

## F. Local Governments (LGs)   November 2019


FIGURE 1. NET LENDING/BORROWING

- Compliance with the stability target is still considered very likely, as it is feasible to consolidate the results reported by the Government to the EC last October (2nd Notification).
- In 12-months terms, in November the surplus reached a value of 0.4% GDP, below the level of 2018 at 0.1% GDP.
- This result of 0.4% is expected to be replicated at year-end.

FIGURE 2. NON-FINANCIAL REVENUE
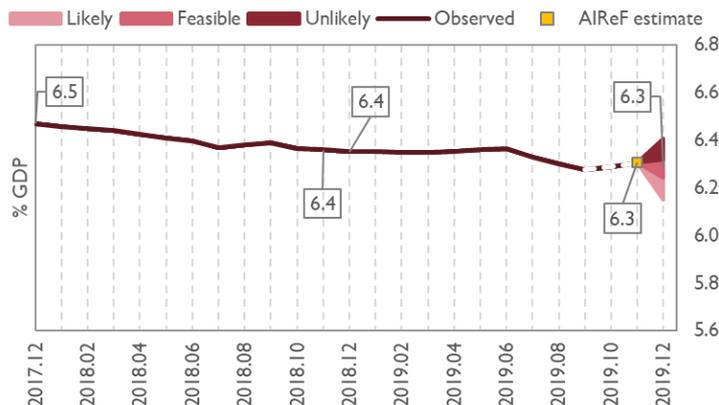
- In 12-months accumulated terms revenue until November reduces its weight by 0.1% GDP.
- AIReF estimates that local revenue will maintain a stable growth path, slightly higher than 2%, consistent with that realised until September, mainly due to the expected evolution of tax revenues.

FIGURE 3. NON-FINANCIAL EXPENDITURE
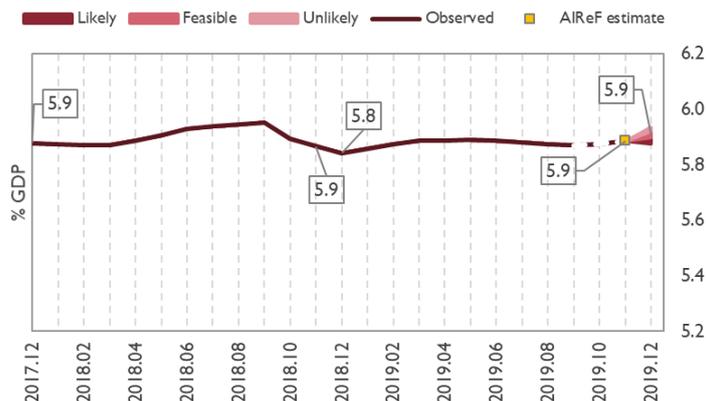
- In 12-months accumulated terms expenditure maintains its weight over GDP until November.
- AIReF estimates that at year-end expenditure will stand at 5.9% GDP, 0.1% above the previous year's result mainly due to an increase in current expenditure, above the reference rate of the expenditure rule, and also in investment expenditure, especially financially sustainable investments.

Source: IGAE and AIReF's estimates

Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts for non-financial revenue, non-financial expenditure and fiscal balance are updated monthly by considering the result of its own models for taxes and interest and the latest national accounting data known for the sub-sector, as of September 2019, as well as the latest data on debt and deposits that are published in the statistics of the Bank of Spain on the same date.

- The figures represent the fiscal balances, revenue and expenditure of the last twelve months, accumulated as a percentage of GDP for the GG. For the LG sub-sector, based on the figure observed for September, the rest of the months reflected in the figure 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 Region of the Basque Country. The remaining revenue and expenditure is based on their historical behaviour.

- 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.