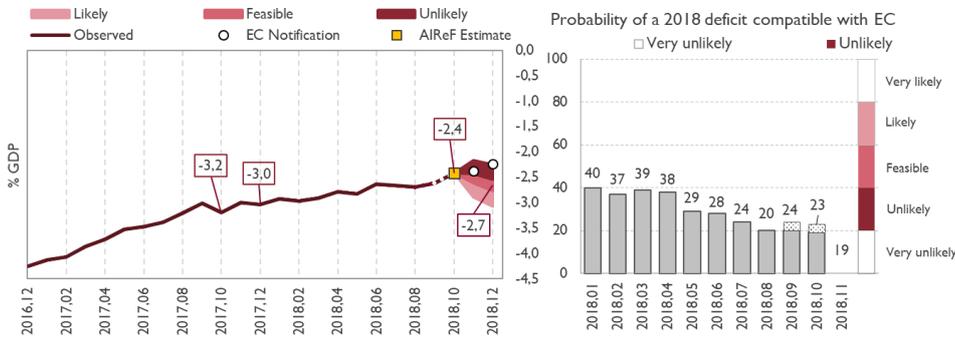


Monthly monitoring of the stability objective

A. Total of Public Administrations*

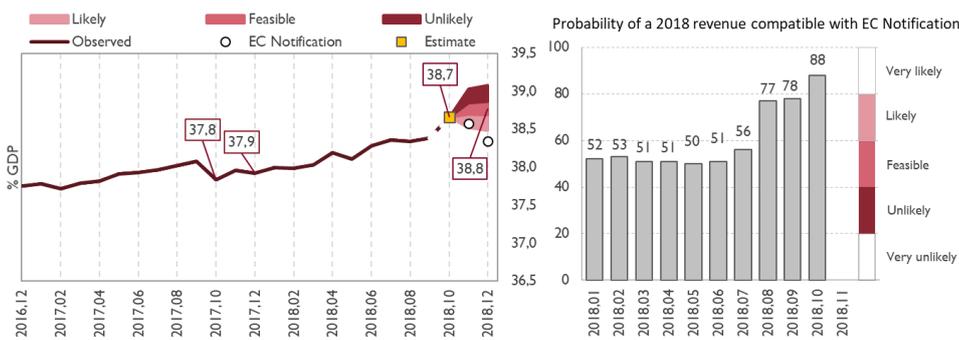
October 2018

GRAPH 1. TOTAL GENERAL GOVERNMENT DEFICIT



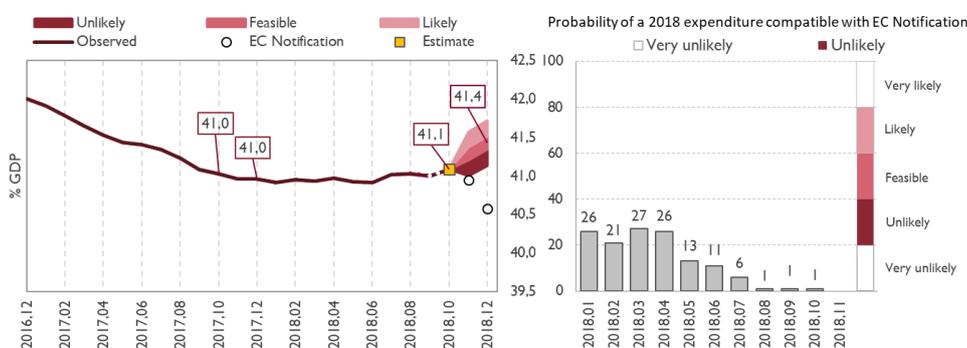
- AIReF maintains its deficit forecast for the previous months, at 2.7% of GDP.
- The improvement of the Corporate Tax forecast is offset by a lower VAT forecast and the expenditure on the rebate of Income Tax associated with maternity benefits.
- The deficit has decreased by 0.6 points of the GDP so far this year, standing at 2.4%.
- This percentage is expected to increase 0.3 GDP points by the end of the year, due to the effect of measures included in the 2018 General State Budget.

GRAPH 2. TOTAL GENERAL GOVERNMENT REVENUE



- The AIReF's forecasts of obtaining a level of resources compatible with the EC Notification have become highly likely, improving compared to the previous month.
- From January, resources have increased 8 tenths of the GDP, standing at 38.7% of the GDP, a trend that will be maintained until it reaches 38.8% at the close of the financial year.
- It is worth noting the improvement in the Corporate Tax collection forecast for the second installment payment, partially offset by the downward revision of the VAT collection forecast.

GRAPH 3. TOTAL GENERAL GOVERNMENT EXPENDITURE



Sources: General State Comptroller (IGAE) and AIReF estimations

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

- The AIReF considers it to be very unlikely that the SPU expenditure will be reached in 2018.
- Expenditures have increased their weight over GDP to 41.1% since the close of 2017, and this weight is expected to increase to 41.4% due to the impact of the measures included in the General State Budget.
- According to the latest information received, the Aigües Ter - Llobregat court ruling will have an impact in 2018, raising Public Administrations' expenditure forecast as a whole.
- Income tax rebates of maternity benefits are also included, and expenditure on interests and capital have been updated upwards according to available data regarding the impact of the reversal of the toll highway concession.



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 2018 target for the GG was set by the Council of Ministers on 13 July, 2017 at -2.2% GDP, which coincides with the forecast included in the first deficit and debt notification of 30 March, 2018 sent to the European Commission. The GG revenue and expenditure forecasts are those included in the 2018-2021 Stability Programme Update sent to the European Commission in April 2018
- 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) specific variables for the subsector, such as jobs; resources and public debt ratio over GDP; 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:

