Monthly monitoring of the stability target

B. Central Government (CG) September 2018


FIGURE 1. NET LENDING/BORROWING

Probability of a 2018 deficit compatible with EC Comunication
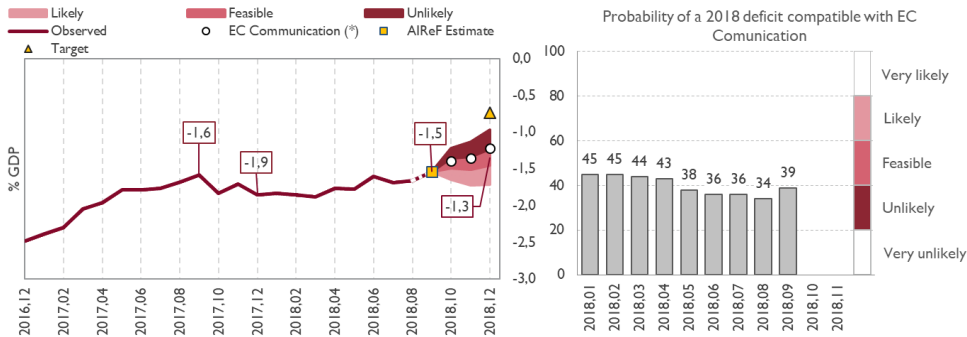
(*) The first deficit and debt notification, sent to the European Commission on 30 March, included a 2018 forecast that reflected a deficit of 1.2% GDP for the Central Administration, 0.5% above that established in the Agreement of the Council of Ministers of July 2017, which sets the deficit target for 2018.

- Compliance with the target notified to the European Commission (EC) (*) of 1.2% GDP is considered to be unlikely.
- The accumulated 12-months deficit (1.5% of GDP) decreases by four tenths compared to the close of 2017 and it is expected to reduce two tenths more by the close of the year.
- The likelihood of achieving the objective improves compared to the previous month due to the reduction of the investment forecast.

GRAPH 2. NON-FINANCIAL RESOURCES

Probability of a 2018 revenue compatible with EC Communication
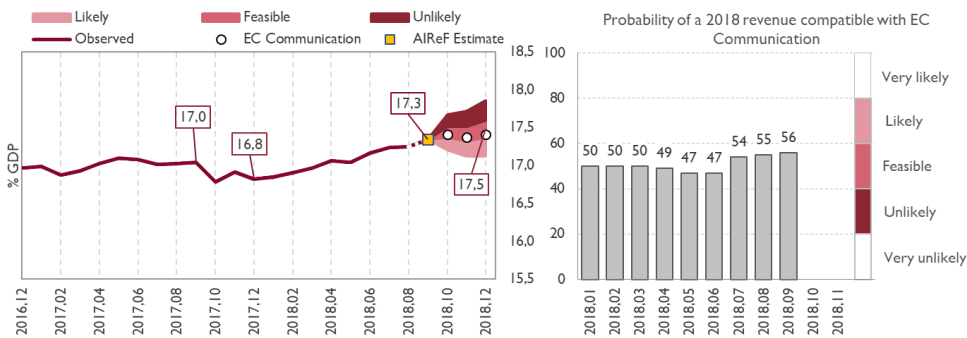
- Compliance with the revenue forecasts is still considered to be likely.
- The accumulated 12-months resources reach 17.3% of the GDP, five tenths of GDP more than at the close of 2017 (6.8% of GDP), thanks to the dynamism of the main taxes and the evolution of dividends and other incomes.
- AIReF estimates that revenue will continue to grow during the rest of the year, despite the reform measures included in the 2018 GSB, reaching 17.5% GDP, 0.7% more than at the end of 2017.

FIGURE 3 NON-FINANCIAL EXPENDITURE

Probability of a 2018 expenditure compatible with EC Communication
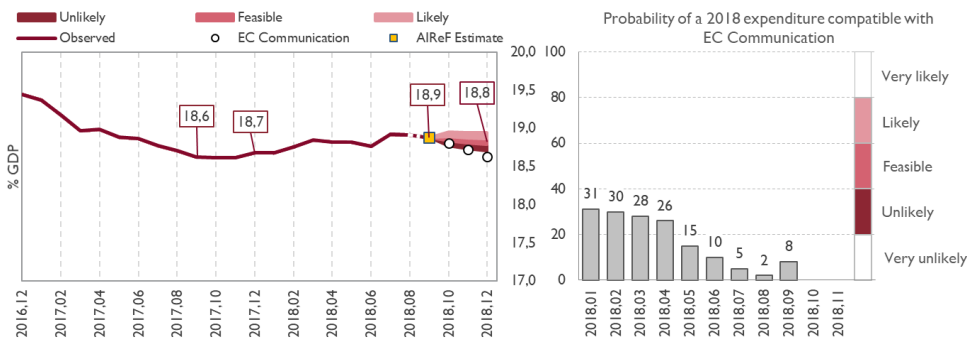
Source: IGAE and AIReF's estimates The current month's CA figure is estimated based on the data published by the State for this month, through a time-series econometric model.

- The rating remains very unlikely for expenditure.
- In 12-months accumulated terms until September, expenditure increased by 0.2% of GDP compared to the end of 2017 as a result of operations such as the Asset Protection Schemes.
- According to the latest data, the AIReF has revised its forecast of investments downwards in accordance with the latest performance data.
- For the rest of the year, the weight of jobs will stabilise, closing at 18.8% GDP, as a result of the full effect of the PGE's measures, such as the improvement in the compensation of employees.

Cases 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 -0.7% GDP was set by the Council of Ministers on 13 July 2017. The first deficit and debt notification, sent to the European Commission on 30 March 2018, included a 2018 deficit forecast that reflects that the deficit foreseen for the CG is greater than the target approved, standing at -1.2% GDP. The probability analysis is carried out in relation to compliance with this forecast.

- 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 GSB 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:

Very likely	80-99%: compliance highly likely.
Likely	60-79%: compliance likely.
Feasible	40-59%: compliance feasible.
Unlikely	20-39%: compliance unlikely.
Very unlikely	0-19%: compliance highly unlikely.