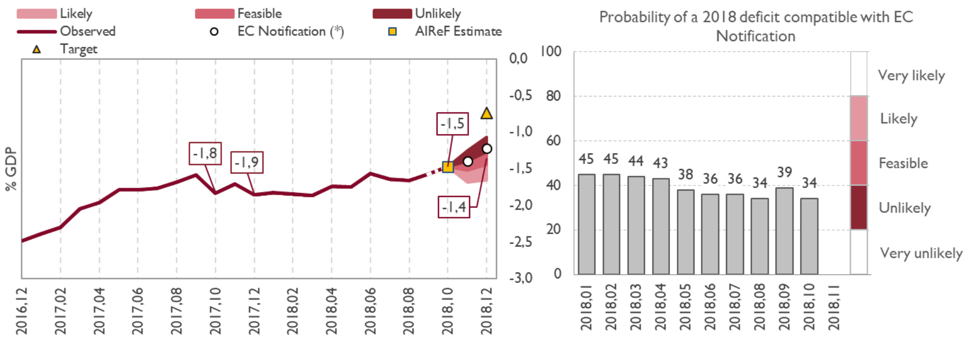
Monthly monitoring of the stability target

B. Central Government (CG) October 2018

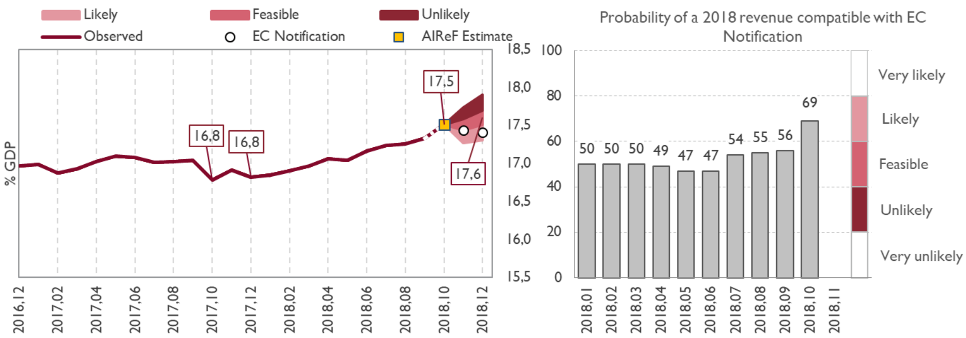
FIGURE 1. NET LENDING/BORROWING



(*) 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 Government, 0.5% above that established in the Agreement of the Council of Ministers of July 2017, which sets the deficit target for 2018.

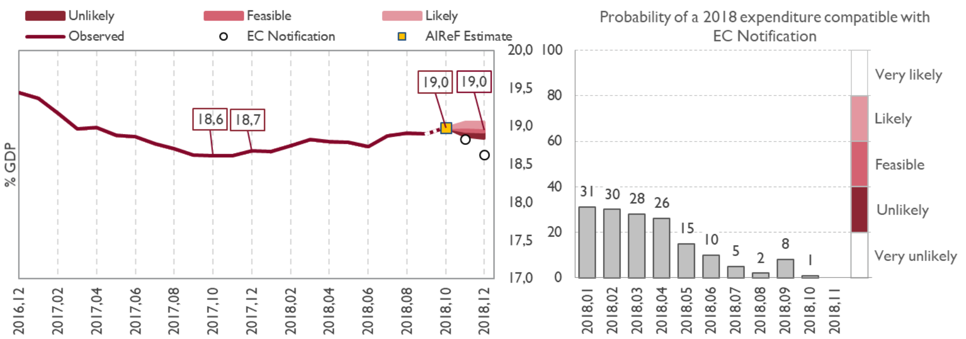
- Compliance with the target notified to the European Commission (EC) (*) of 1.2% GDP is considered to be unlikely.
- The accumulated 12-months deficit (1.5% of GDP) decreases four tenths compared to the close of 2017 and it is expected to reduce one tenth more by the end of the year.
- The probability of achieving the objective worsens compared to the previous month, since the good progress of income due to the increase of the second installment payment of Corporation Tax is compromised by the rebate of income tax for maternity and paternity leave, and the revision of the AIReF's forecasts regarding VAT and the impact of the reversal of toll highway concessions.

GRAPH 2. NON-FINANCIAL RESOURCES



- Meeting the resource forecasts for the improvement of the provision of the collection of Corporation tax by the second instalment payment goes from being considered to be feasible to being considered to be likely, partially offset by the downward revision of VAT.
- The resources accumulated in 12 months reach 17.5% of the GDP, seven tenths of the GDP more than at the close of 2017, which was 16.8%, thanks to the dynamism of the main tax issues.
- The AIReF estimates that the resources will continue to increase during the rest of the financial year, reaching 17.6% of GDP, 8 tenths more than at the close of 2017.

GRAPH 3. NON-FINANCIAL EXPENDITURE



- Expenditure is considered to continue being unlikely.
- Until October, expenditure increase three tenths of GDP compared to the end of 2017. The salaries of the Police and Civil Guard increased in line with expectations in October.
- The expenditure forecast increases due to the rebate of the Personal Income Tax (IRPF) on maternity and paternity benefits, and a greater forecast of expenses on interests and capital transfers linked to the reversal of toll highway concessions. For the rest of the year, the weight of expenditure with respect to GDP is expected to remain at 19% of GDP.

Source: IGAE and AIReF's estimates The Central Administration's data for the current month is estimated from data published by the State for the same month, through an econometric time series model.

Cases and notes relating to 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 CA 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 CA, 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) 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:

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.