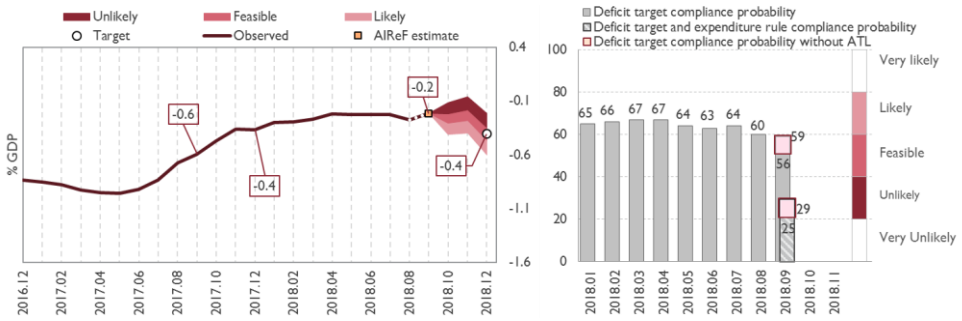
Monthly monitoring of the stability objective

E. Autonomous Regions September 2018*

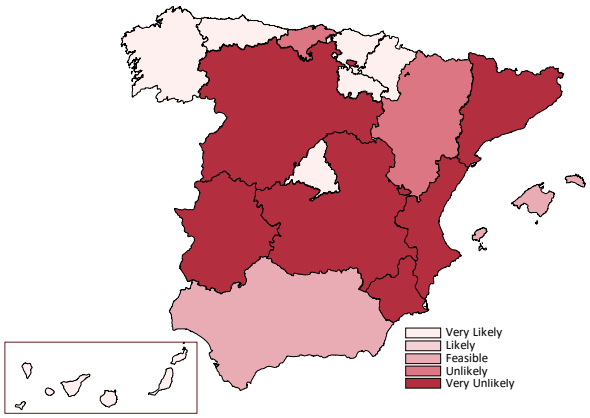
FIGURE 1. NET LENDING/BORROWING (%GDP)



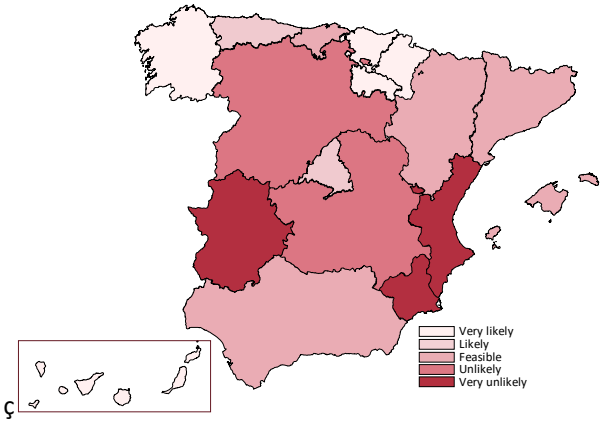
- The AIReF considers compliance with the 2018 stability objective of -0.4% of GDP to be feasible. In the absence of the possible imputation in 2018 of the impact of the Aigües Ter Llobregat (ATL) judgement, such compliance would be practically likely.
- It is estimated that the simultaneous compliance with the stability target and the expenditure rule would require reaching a lower deficit, the achievement of which is considered unlikely.

FIGURE 2. PROBABILITY OF COMPLIANCE WITH STABILITY TARGET

(FORECAST WITH ESTIMATES TO SEPTEMBER 2018 - AUGUST DATA)



(FORECASTS WITH ESTIMATES TO AUGUST 2018 -JULY DATA)



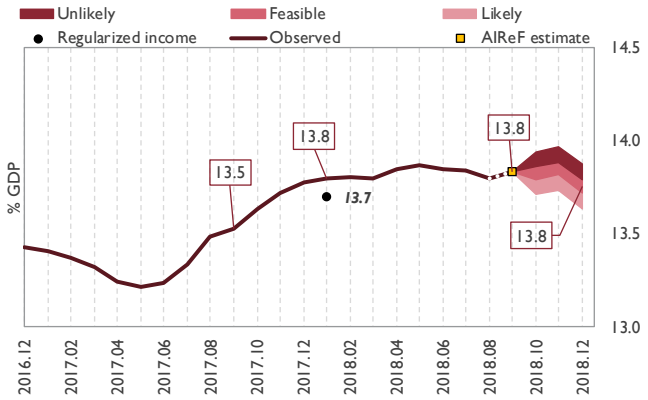
- In comparison to the latest analysis published, the probability of the following Regions complying with the stability objective has decreased:
  - Aragón, Cantabria, Castilla y Leon and Castilla - La Mancha, whose situation was already estimated to be very tight, within the limit of the previous category
  - Cataluña, which goes to being very unlikely for the possible imputation of the impact of the Aigües Ter Llobregat (ATL) judgement in 2018. If the effect does not take place in 2018, compliance would be feasible, although very tight.
- In contrast, the probability rating in Asturias and Madrid has improved; without significant changes in their forecasts, compliance has become very likely because of proximity to the year close.

Sources: General State Comptroller (IGAE) and AIReF's estimates

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

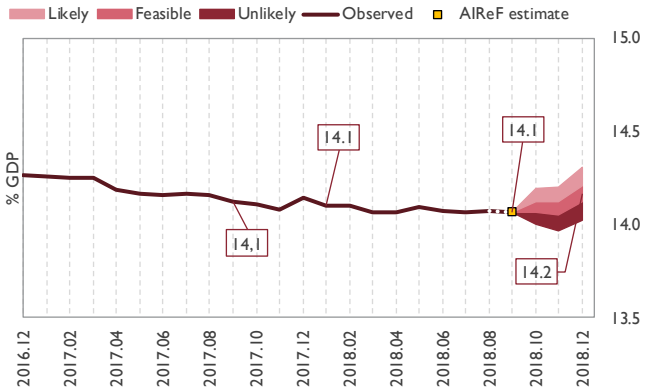
FIGURE 3. NON-FINANCIAL REVENUE (%GDP)

- So far this year, resources have



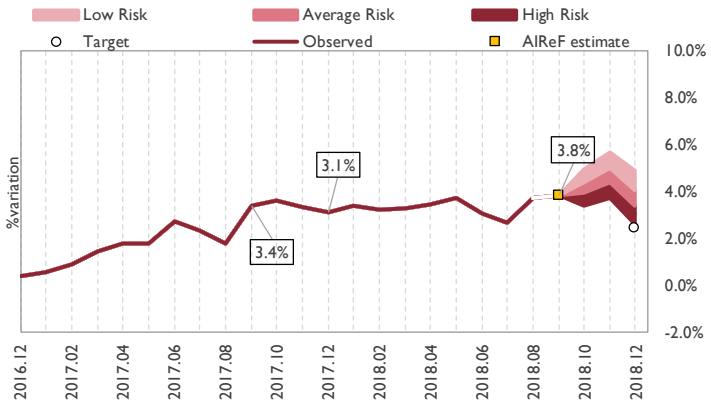
*Having removed the effect of the regularisations of previous years in the Basque Country and Navarre.

FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)



- Until September the weight of expenditure in the GDP will be maintained; this trend is expected to continue and strengthen until the end of the year, with steady increases in expenditure above the 4% arising from the Trade Unions Agreement and the expected recovery of investment linked to EU funds, accompanied in the last month, as the case may be, by the estimated impact of the ATL court ruling in Catalonia.
- In accumulated 12-months terms, non-financial expenditure increased above 4% compared to the same month of the previous year.

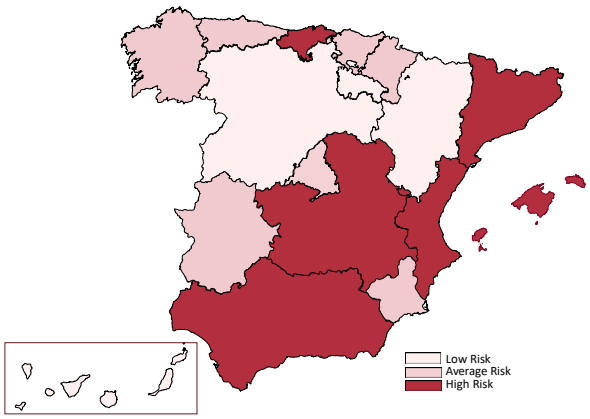
FIGURE 6. YEAR-ON-YEAR VARIATION OF EXPENDITURE FOR THE PURPOSES OF THE EXPENDITURE RULE (%VARIATION)



- The subsector is assessed to have a high risk of non-compliance with the expenditure rule.
- Once the latest data published on the expenditure rule are published for the close of 2017 and 2016, an interannual growth rate of computable expenditure will be registered in cumulative 12-months terms until September due to the effect of the 3.8% rule. A similar variation to the close is expected, at which time the complete effect of the exclusions of expenditure co-financed by EU funds and the adopted regulatory measures will be calculated, along with extraordinary expenditure on non-recurring operations (court rulings).

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

(FORECAST WITH ESTIMATES TO SEPTEMBER 2018 - AUGUST DATA)



(FORECASTS WITH ESTIMATES TO AUGUST 2018 -JULY DATA)

- In the latest analysis, once the published up-to-date data for 2017 and 2016 and the latest available information on the impact of the expected court rulings at the close of the financial year are included, the forecasts for many regions become worse, especially the modification of the risk category in Cataluña, Castilla-La Mancha and Comunidad Valenciana, which become high-risk. In contrast, the assessed risk of non-compliance with the rule in Comunidad de Madrid decreases, although there is still a moderate risk.
- It is only estimated that the growth of computable expenditure at year-end may be lower than the fixed reference rate of 2.4% in La Rioja, Castilla y León and Canarias. In contrast, risks of non-compliance with the rule are particularly pronounced in Andalucía, Baleares, Cantabria, Castilla - La Mancha, Cataluña (conditioned by the ATL operation) and Comunidad Valenciana, being more moderate in the other Autonomous Regions.
- The pronounced risks observed for the Autonomous Regions of Navarra and País Vasco could disappear as a result of the effective application of the additional provision of the PGE Law, which allows investments excluded from the calculation of the expenditure rule to be made.

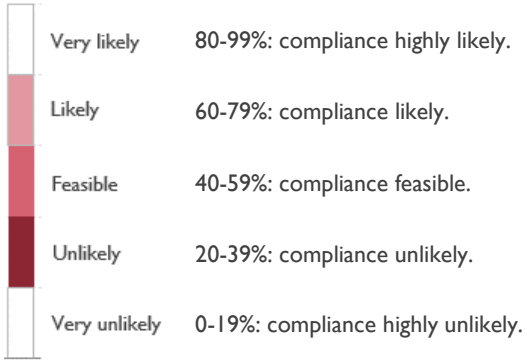
Cases and notes on monthly monitoring

- The figures represent the fiscal balance, revenue and expenditure for th ed as a percentage of GDP for all Autonomous Regions. September exec he

published data for August 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 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 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 minor income). The forecasts are conditioned by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.

- 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 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 based on the percentage of 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 for each of them. In 2018, the monthly adjustment of non-financial income was made similarly to the previous year, with monthly financing system interim payments paid in the extension period until then applying from July. 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 jobs; resources and public 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: