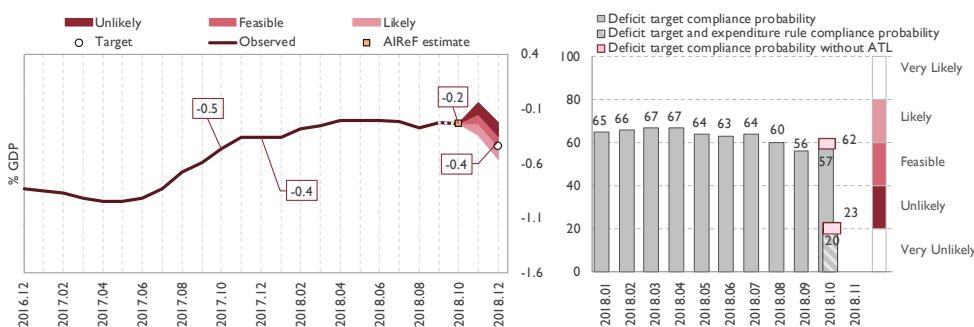


Monthly monitoring of the stability target

E. Autonomous Regions

October 2018*

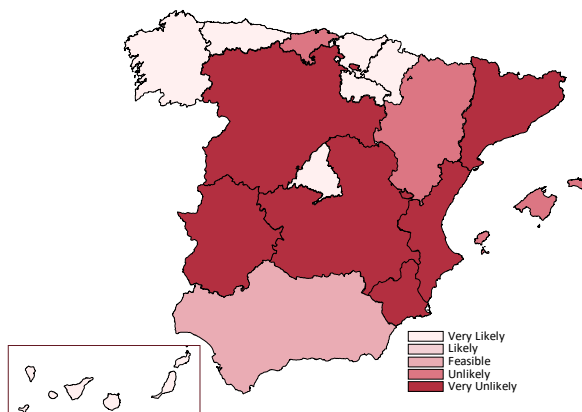
FIGURE 1. NET LENDING/BORROWING (%GDP)



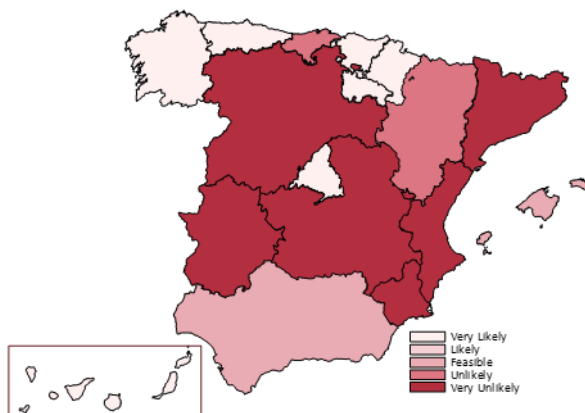
- AIReF considers compliance with the stability objective of -0.4% of GDP to be feasible. If the possible imputation in 2018 of the impact of the Aigües Ter Llobregat (ATL) court ruling is not taken into account, this compliance would be considered probable.
- It is estimated that the simultaneous compliance 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 OCTOBER 2018 - SEPTEMBER DATA)



(FORECAST WITH ESTIMATES TO SEPTEMBER 2018 - AUGUST DATA)

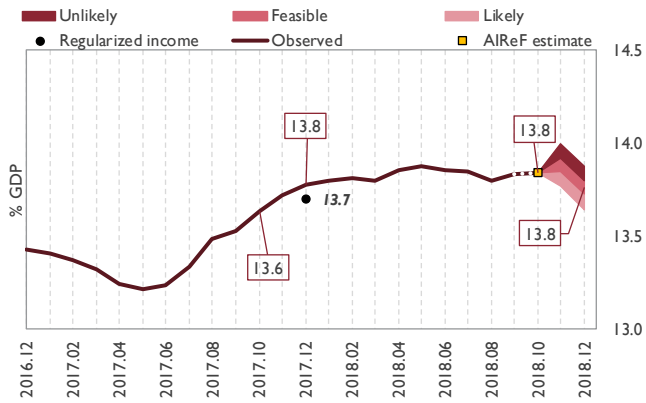


- In terms of the analysis of the previous month, the rating of the probability of complying with the stability objective in all Autonomous Regions is maintained.
- It is considered that at least seven of the Autonomous Regions are in a very favourable situation for compliance with the budget stability objective in 2018, with this compliance being feasible in two others.
- On the other hand, complying with the stability objective in 2018 seems very unlikely for six Autonomous Regions. In the case of Catalonia, however, this situation is conditioned by the imputation this year of the effect of the court ruling relating to Aigües Ter Llobregat (ATL), since, as it does not fall in this financial year, compliance with the stability objective would be feasible for the Autonomous Region.

Sources: General State Comptroller (IGAE) and estimates by AIReF

* The accumulated data from the current month has been estimated from the information available at the time of publishing

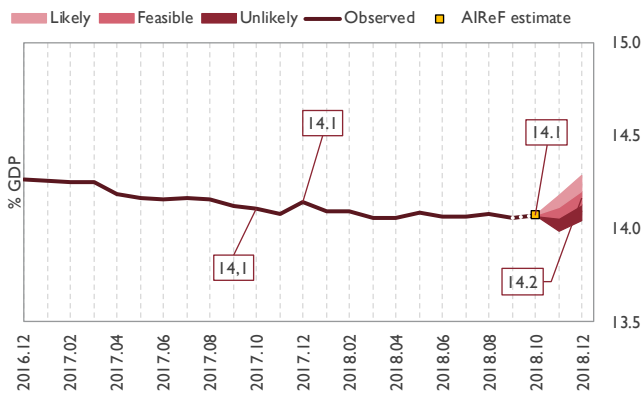
FIGURE 3. NON-FINANCIAL REVENUE (%GDP)



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

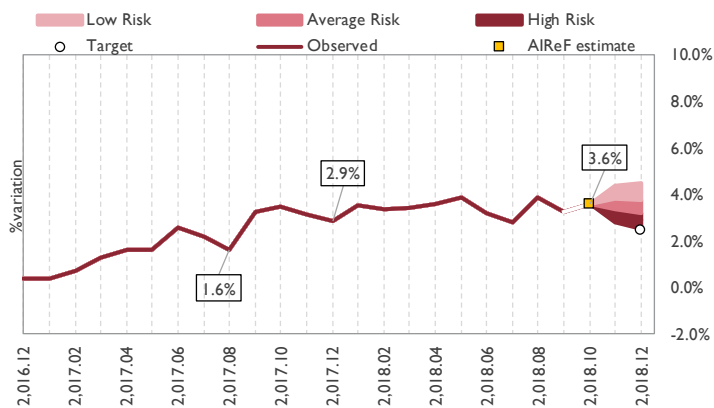
- The resources to date maintain a moderate upward trend in terms of weight over GDP that is expected to be reversed towards the end of the year, since the extraordinary regularisation of income that took place in favour of the Basque Country and Navarra at the end of 2017 has not been repeated, and represented more than one tenth of GDP.
- In accumulated 12-months terms, non-financial resources registered an increase of over 7% compared to the previous period.

FIGURE 5. NON-FINANCIAL EXPENDITURE (%GDP)



- The weighting of expenditure in GDP registers a constant trend that is expected to be maintained until the end of the year, in which a significant increase would be registered due to the calculation of the impact that the court ruling of Aigües Ter Llobregat (ATL) would have on Catalanian expenditure.
- In accumulated 12-months terms, non-financial expenditure increased around 4.5% 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)



- A high risk of non-compliance with the expenditure rule is identified for the subsector.
- In cumulative 12-months terms to October, a year-on-year increase is registered in computable expenditure for the purposes of the 3.6% rule. A similar variation to the close is expected, at which time, in addition to the increase in extraordinary expenditure for non-recurring operations (court rulings), the full effect of the exclusions for expenses co-financed by EU funds and the regulatory measures adopted will be calculated.

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

(FORECAST WITH ESTIMATES TO OCTOBER 2018 - SEPTEMBER DATA)



(FORECAST WITH ESTIMATES TO SEPTEMBER 2018 - AUGUST DATA)



- In terms of the analysis carried out with the previous month's data, the perspectives are maintained in all Autonomous Regions, except for the Canary Islands for which the latest data point to a greater growth in spending at the close that increases the risk of breaching the expenditure rule.
- In this way, it is only in La Rioja, Aragón and Castilla y León where the increase in computable expenditure at the close is estimated to be less than the fixed reference rate of 2.4%. In contrast, it is considered that the risks of breaching the rule are especially marked in Andalucía, the Balearic Islands, Cantabria, Castilla - La Mancha, Catalonia (conditioned by the ATL operation) and Comunidad Valenciana, being moderated in the other Autonomous Regions.
- The moderate risks identified in the Autonomous Regions of the Canary Islands, Navarra and the Basque Country may disappear, however, due to the effective application of the additional regulation of the PGE Law that allows investments excluded from the calculation of the rule to be made.



Cases and notes relating to the monthly monitoring

- The figures represent the fiscal balance, revenue and expenditure for the last twelve months accumulated as a percentage of GDP for all Autonomous Regions. From the data published in September and the latest available information, operation until October has been estimated. 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 based non-financial income was carried out in a similar way to the previous financial year, with the month-to-month regularisation of the deliveries on account of funding paid deferred until then applying from July. The forecasted salaries are calculated from the difference between resources and jobs known and forecasted 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) variables specific to the subsector, such as jobs; the resources and the public debt ratio over GDP; and (ii) common variable 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:

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.