# Quarterly monitoring of the stability target

## B. Central Government
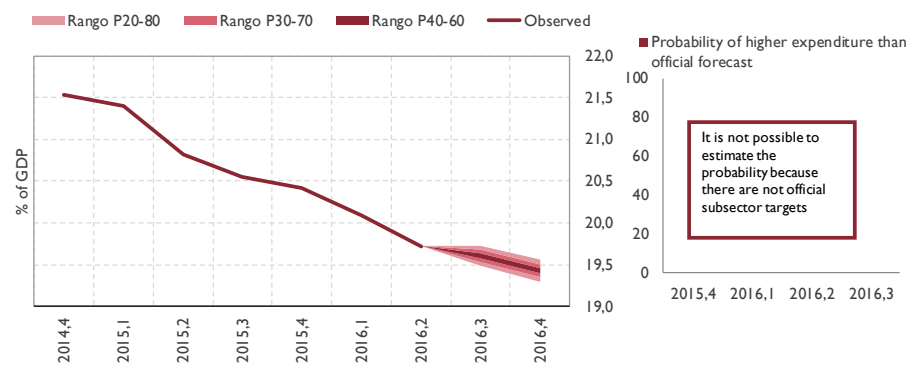
*2016/Q2*[(*)]

---

**CHART 1.** NON-FINANCIAL REVENUE

Range P20-80   Range P30-70   Range P40-60   —Observed

% of GDP

Probability of lower revenue than official forecast

It is not possible to estimate the probability because there are not official subsector targets
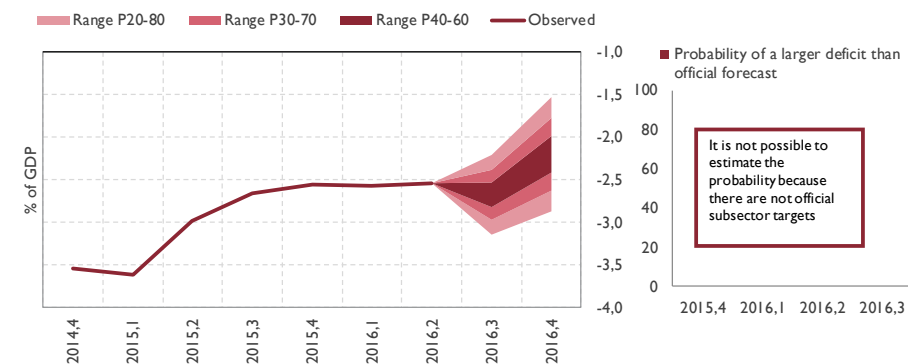
2015,4   2016,1   2016,2   2016,3
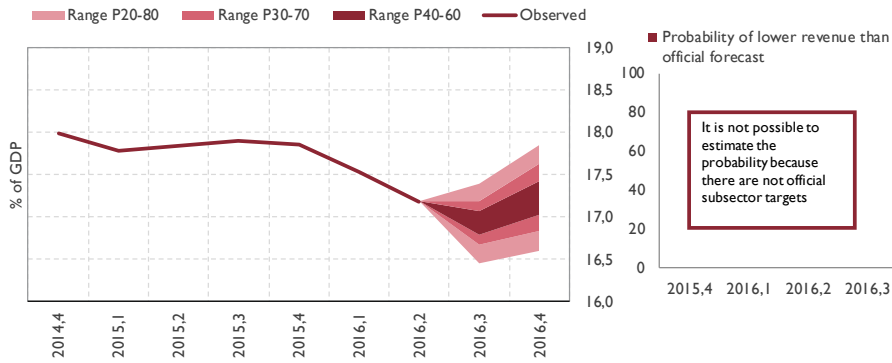
- Revenue has contracted by about six tenths of a percentage point of GDP since the last quarter of 2015, to stand in the region of 17.2% of GDP.
- This reduction derives mainly from the trend in income taxes and, in particular, the Corporate Income Tax.
- The data for the State up to the month of August confirm downside risks in Corporate Income Tax collection, which are expected to ease with recent normative changes.

---

**CHART 2.** NON-FINANCIAL EXPENDITURE

Rango P20-80   Rango P30-70   Rango P40-60   —Observed

% of GDP

Probability of higher expenditure than official forecast

It is not possible to estimate the probability because there are not official subsector targets

2015,4   2016,1   2016,2   2016,3

- A slowing pace is observed in non-financial uses, which are expected to contract by about two percentage points of GDP between 14/Q4 to 16/Q4.
- State data up to August confirm this trend.
- Early budgetary closure and the execution of the Non-Availability Agreements contribute to the envisaged restraint in all uses.
- There is no available information on potential additional expenses besides the envisaged in the budget.

---

**CHART 3.** NET LENDING/BORROWING

Range P20-80   Range P30-70   Range P40-60   —Observed

% of GDP

Probability of a larger deficit than official forecast

It is not possible to estimate the probability because there are not official subsector targets

2015,4   2016,1   2016,2   2016,3

- The Central Government year-end forecast is around -2.2% of GDP.
- The deficit is expected to decrease by over one percentage point of GDP from 2014. The adjustment process is stalling, according July and August data.
- However, normative measures recently approved will give rise to additional resources in Q4 which will reduce the deficit.

Sources: IGAE and estimates by AIReF

## (*) Assumptions and notes related to quarterly monitoring

- AIReF's projections for non-financial revenue, non-financial uses and balance are updated on the base of econometric models, National Accounts data published up to June (data is available for the State until August).

- Chart 1, 2 and 3 show figures in moving cumulative figures of the last four quarters as percentage of GDP.

- The deficit used for 2016 in the General Government sector is the one set by the Council Decision on 2 August at -4.6% of GDP. This target has not been distributed among the various subsectors. Therefore, the probability of compliance has not been estimated for subsectors. The new deficit target for 2016 has no associated official General Government revenue and expenditure paths.

- For the General Government sector, AIReF's updated forecast and the official balance path are allocated to quarters applying the same weights as assigned by Tramo/Seats ARIMA projections to each quarter (for each of these components, including both seasonality and trend). The quarterly profile for the balance is obtained from resources and uses figures.

- Confidence intervals are obtained in two steps. Firstly, a VAR model is estimated using the following variables: (i) variables that are specific to the subsector, such as uses; resources and the Government debt-to-GDP ratio; and (ii) common variables referring to the national aggregate: Real GDP, the GDP deflator and yields on Government 10-year bonds. Secondly, from the projected paths for the different variables and the estimated joint distribution of the VAR shocks, 1500 probabilistic scenarios are built. The intervals displayed on the charts refer to the percentiles 20-80, 30-70 and 40-60. The probabilistic intervals cannot be compared with the official path in this publication as there is no distribution by subsectors.