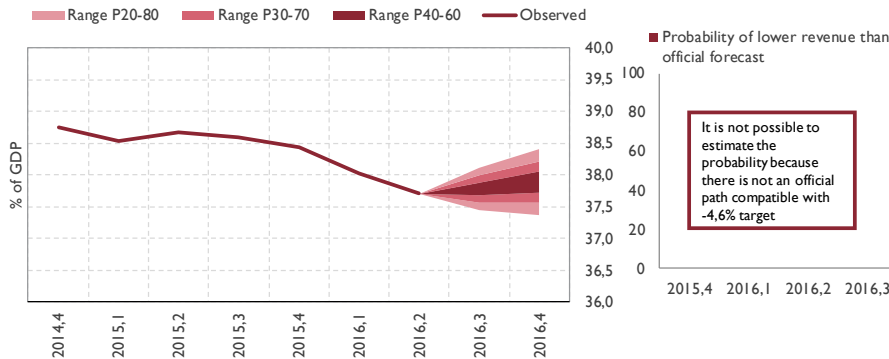


# Quarterly monitoring of the stability target

## A. General Government sector

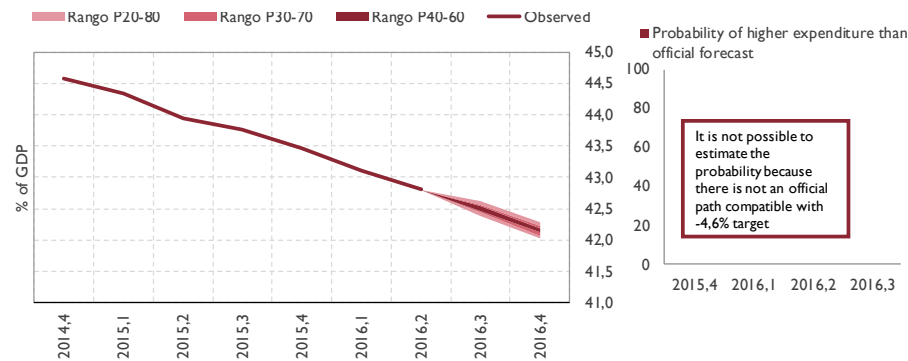
2016/Q2<sup>(\*)</sup>

CHART 1. NON-FINANCIAL REVENUE



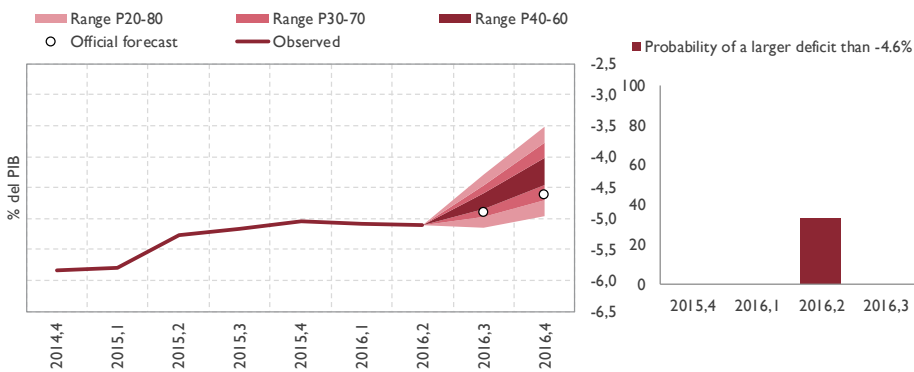
- Revenue show a reduction of nearly one percentage point since the final quarter in 2014, reaching 37.7% of GDP by the second quarter 2016.
- This reduction derives mainly from the trend in income taxes affected by the fiscal reform.
- Downside risks in revenue are expected to ease by the end of the year due to the recent legal changes affecting Corporate Income Tax.

CHART 2. NON-FINANCIAL EXPENDITURE



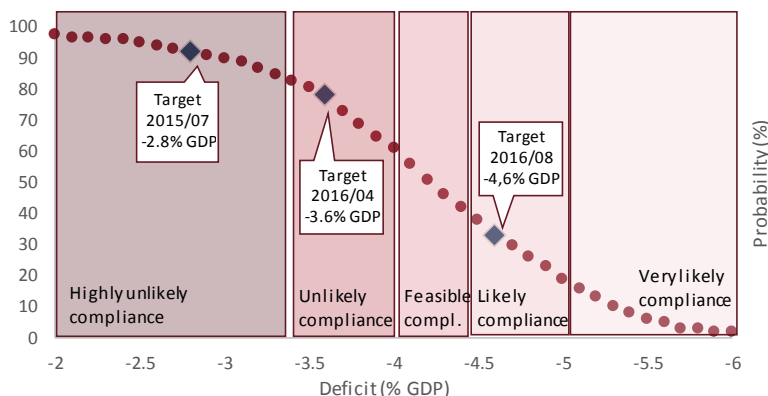
- Non-financial expenditure expected to diminish, over the period from Q4 2014 to Q4 2016, by more than 2 percentage points of GDP.
- This reduction is explained, among other factors, by the downward path followed by interest payments and unemployment benefits.
- For 2016, restraint is maintained over the main components of government consumption

CHART 3. NET LENDING/BORROWING



- Target compliance, set by Council Decision 2 August 2016 at -4.6% of GDP, is deemed likely. The 2016 target has changed several times. The chart below shows the probability of compliance associated with each of these changes.
- The adjustment process tends to stall. However, an improvement is expected for Q3 and Q4 due to recent tax measures aimed at reducing public deficit and from continuity in public expenditure restraint.
- Information, disaggregated by subsectors, is included on the respective fact sheets for the Central Government, Social Security Funds, Autonomous Regions and Local Corporations.

Probability of a larger deficit than -4.6% 2016 target





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

- AIReF's projections for non-financial revenue, non-financial expenditure and balance are updated on the base of econometric models, National Accounts data published up to June (data is available for Local Corporations until June, and for the State until August) and the budgetary data available up to August.
- Chart 1, 2 and 3 show 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 allocated to the various subsectors. Therefore, the probability of compliance has not been estimated for each subsector. 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 revenue and expenditure 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 expenditure, revenue 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.