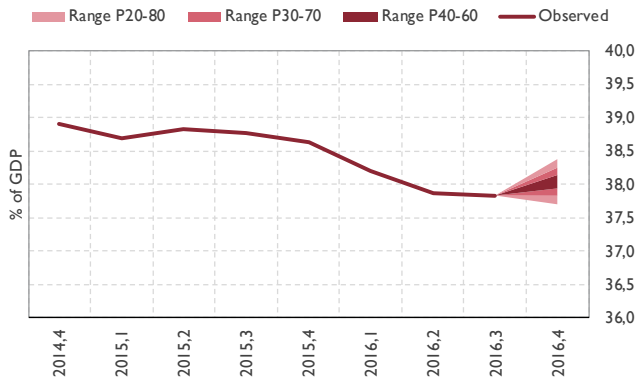


Quarterly monitoring of the stability target

A. General Government sector

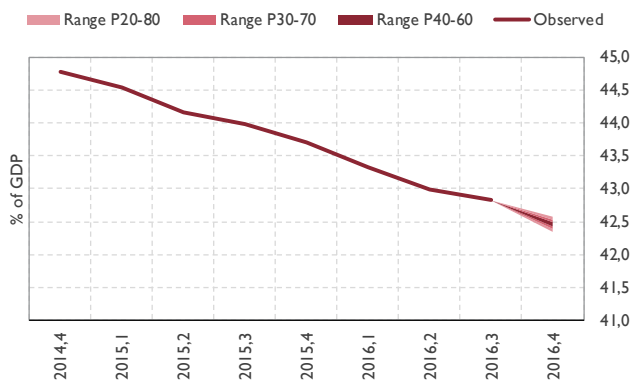
Q3 2016^(*)

CHART 1. NON-FINANCIAL REVENUE



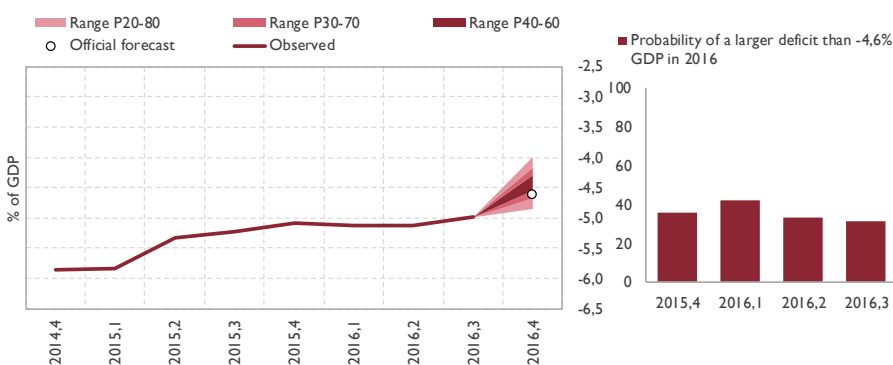
- Revenue has decreased by over a percentage point since Q4 2014, mainly as a consequence of the fiscal reform on direct taxes (IRPF and IS) and the slow growth rate in contributions.
- This trend will foreseeably be reversed in Q4 2016 as a consequence of the normative fiscal consolidation measures affecting Corporate Tax. The data for October, already comprising the second IS instalment, confirm this forecast.

CHART 2. NON-FINANCIAL EXPENDITURE



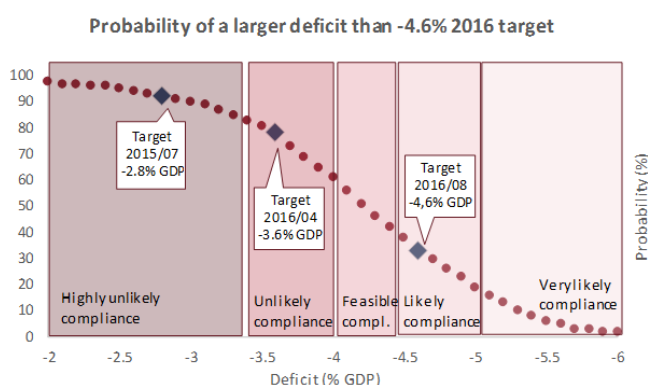
- Non-financial expenditure remains on a consolidating path since Q4 2014, shrinking by more than 2 pp of GDP.
- This reduction is mainly due to unemployment benefits, decreasing interest rates, and, to a lesser extent, measures of restraint on expenditure such as non-availability and the anticipation of closure orders.
- Restraint on public consumption is maintained.

CHART 3. NET LENDING/BORROWING



Sources: IGAE and estimates by AIReF

- Compliance with the target of -4.6% of GDP is deemed likely. Implementation data for Q3 do not alter the likelihood of compliance forecast by AIReF in Q2.
- The 2016 target has changed several times. The chart shows the probability of compliance associated with each of these changes.
- In Q3, the correction process has stabilised. However, an improvement is expected for Q4 due to recent tax measures aimed at reducing public deficit and from continuing public expenditure



(*) Assumptions and notes relating to quarterly monitoring

- AIRcF's projections for non-financial revenue, non-financial expenditure and balance are updated on the base of econometric models, national accounting data published up to September (data is available for Local Corporations until June, and for the State until October) and the budgetary data available up to October.
- The charts show moving cumulative figures for revenue, expenditure and balance for the last four quarters as a percentage of GDP.
- The deficit used for 2016 in the General Government sector is the one set by Council Decision on 2 August at -4.6% of GDP. No official path has been given for General Government sector revenue and expenditure that is consistent with the new target of -4.6%.
- For the General Government sector, AIRcF'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 balance profile is obtained from the difference between revenue and expenditure.
- 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.