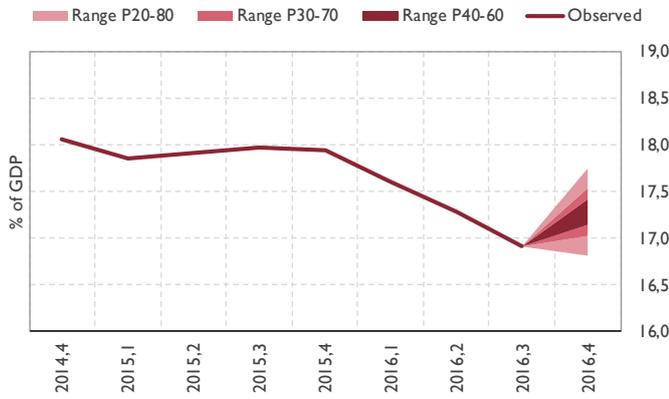


Quarterly monitoring of the stability target

B. Central Government

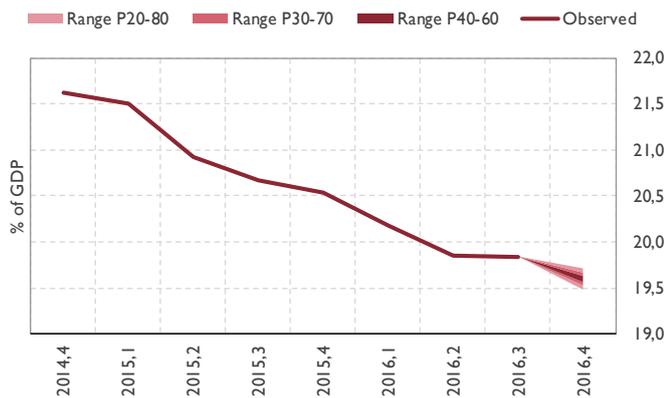
Q3 2016^(*)

CHART 1. NON-FINANCIAL REVENUE



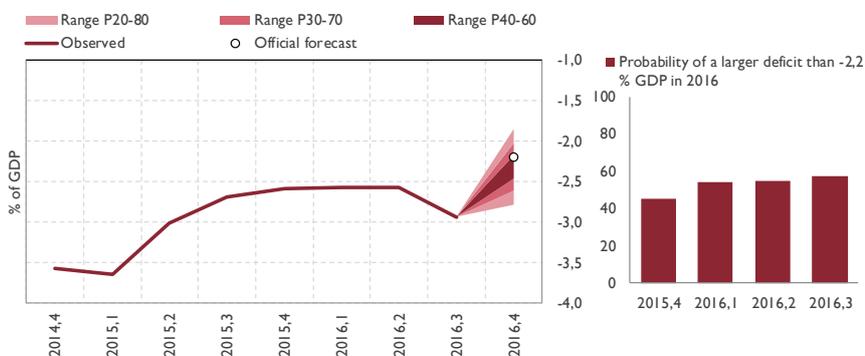
- Revenue has lost close to one percentage point of GDP since Q4 2015, settling in the region of 16.9% of GDP.
- This reduction derives mainly from the trend in income taxes and, in particular, Corporate Income Tax.
- State implementation data up to October reverse this trend by incorporating revenue deriving from the normative changes in fractioned payments of Corporate Tax, amounting to 0.7 tenths of GDP, which is reflected in AIReF's central estimate for Q4.

CHART 2. NON-FINANCIAL EXPENDITURE



- A slowing trend is observed in non-financial expenditure since Q4 2014. Nevertheless, non-financial expenditure in Q3 remain stable, influenced by the Territorial Administrations' final settlement in 2014.
- In Q4, the consolidating trend is expected to continue. State implementation 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.

CHART 3. NET LENDING/BORROWING



Sources: IGAE and estimates by AIReF

- Compliance with the target, fixed at -2.2% of GDP, is deemed feasible. The Central Government year-end forecast is around -2.3% of GDP.
- In accordance with this forecast, the deficit is expected to decrease by 1.3% of GDP from Q4 2014. The correction process is improving, according to the implementation data for October.
- The deficit is expected to improve in Q4 2014 as a result of higher tax revenue in October deriving from reformed instalments.



(*) Assumptions and notes relating to quarterly monitoring

- AIRcF's projections for non-financial revenue, non-financial expenditure and balance are updated on the basis of econometric models, national accounting data published for the first, second and third quarters and the national accounting data available up to October.
- The charts show moving cumulative figures for balance, revenue and expenditure in the last four quarters as percentage of GDP.
- The deficit target is -2.2% of GDP, as set by the Council of Ministers on 2 December 2016. No official path for revenue and expenditure that is compatible with this target is available.
- AIRcF's updated forecast and the official balance path are allocated to quarters with the same weighting as assigned by the Tramo Seats ARIMA projection to each quarter, for each of these components, including both the effects of seasonality and the series trend. The quarterly profile for the balance 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 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.