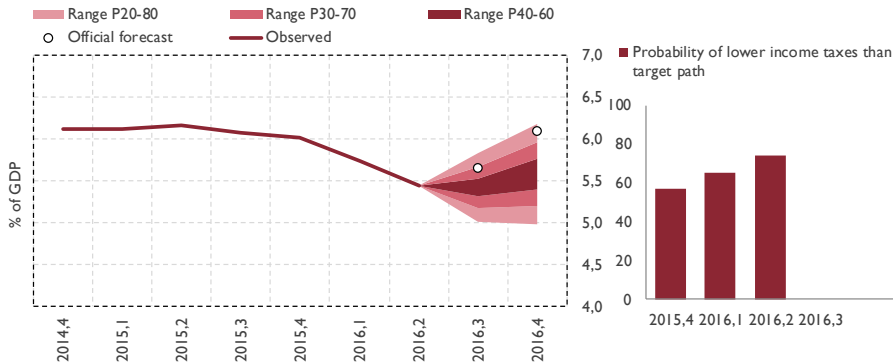


# Quarterly monitoring of the stability target

## C. Central Government

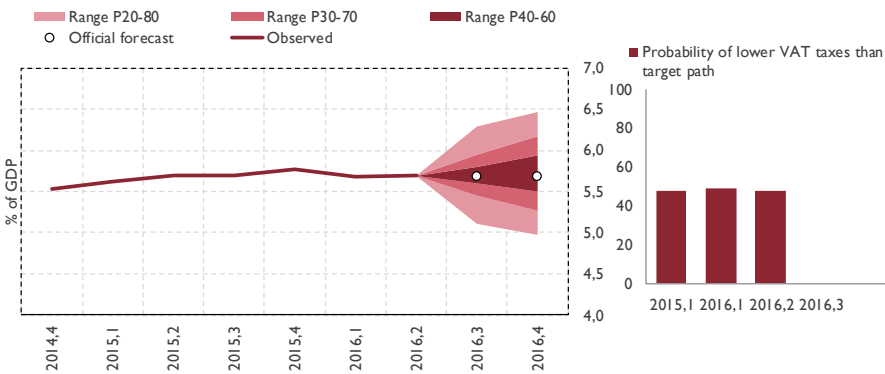
2016/Q2<sup>(\*)</sup>

**GRAPH 1. CURRENT TAXES ON INCOME (IRPF+IS) IN NATIONAL ACCOUNTS**



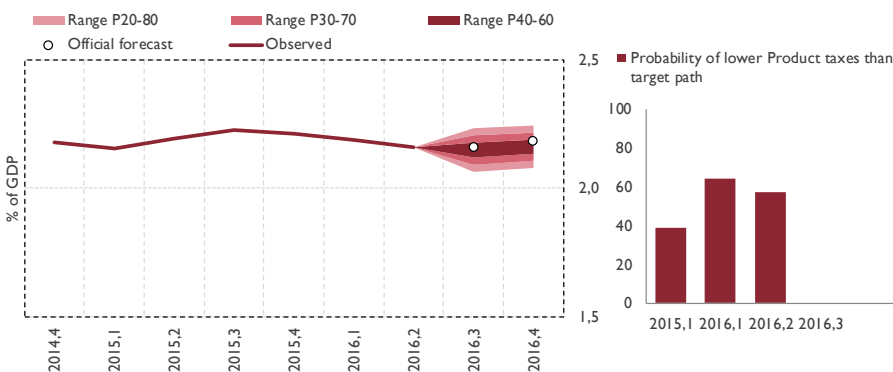
- Income tax collection flagged in the last quarter (Q2), mainly due to the Personal and Corporate Income Taxes reform, which accounts for the drop in the Corporate Tax first installment.
- An rebound is expected in Q4, when the regulatory changes on installment payments for Corporate Income Tax will come into force.
- Despite the strong economic recovery, data up until August show a decrease in the likelihood of compliance with the official forecast.
- To display the trend for each of these figures, a fact sheet has been drafted on a cash accounting basis.

**GRAPH 2. VALUE ADDED TAX IN NATIONAL ACCOUNTS**



- The 0.2% of GDP cyclical gain from 2015 seems to be exhausted by 2016.
- VAT is expected to maintain its current growth for the rest of the year, roughly at the same pace of GDP, given the positive evolution of consumption and employment.
- Data until August show that compliance with the forecast target is feasible, with no changes from previous quarters.

**GRAPH 3. TAXES ON PRODUCTS IN NATIONAL ACCOUNTS**



- The 2015 cyclical gain observed in taxes on products is fading out.
- Excise taxes are forecasted to perform slightly worse due to the last trends in hydrocarbons and electricity.
- Excise taxes are likely to underperform the forecasts.

Sources: IGAE and estimates by AIReF



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

- AIReF's projections for taxes 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 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 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.