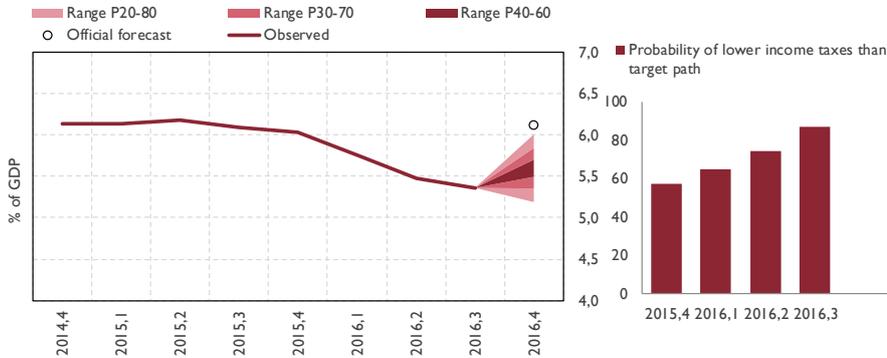


Quarterly monitoring of the stability target

C. Central Government Taxes

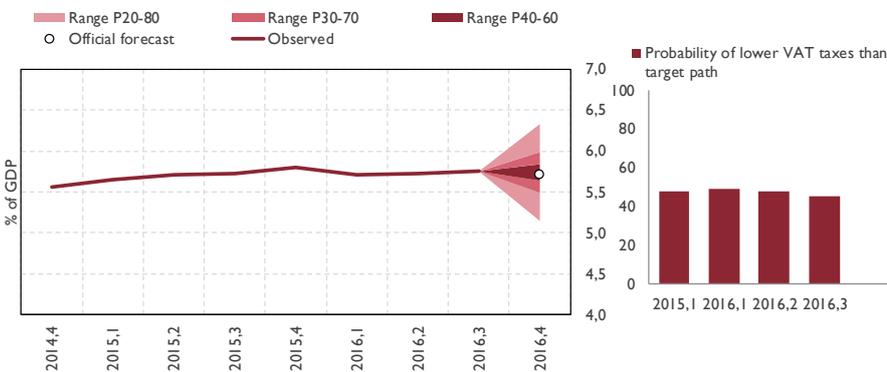
Q32016^(*)

CHART 1. CURRENT TAXES ON INCOME (IRPF+IS) IN THE NATIONAL ACCOUNTING



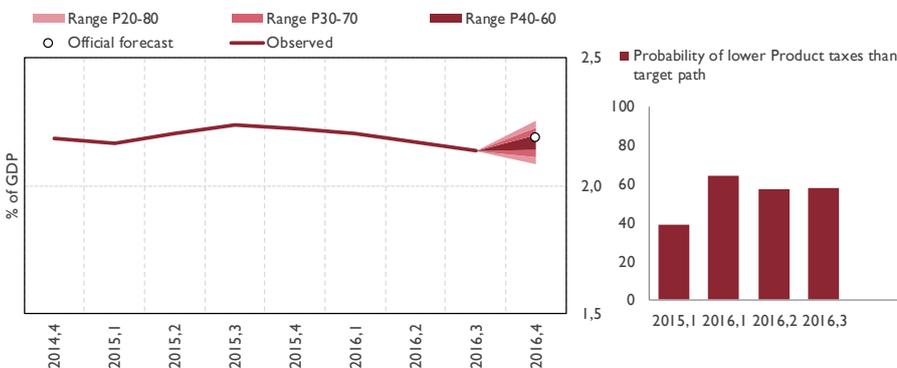
- Income tax for Q3 remains on a downward path since Q2 2015, for two main reasons: the direct taxation fiscal reform and the drop in the first Corporate Tax (IS) instalment.
- State implementation data for October reflect a new trend after incorporating the impact from normative changes to IS instalments, amounting to 0.7% of GDP. As a consequence, income tax revenues are expected to improve in the fourth quarter.
- Despite the effects of this measure and the positive trend in tax bases, it is highly unlikely that the budget target will be met, given that the effects of the fiscal reform have been greater than expected.

CHART 2. VALUE ADDED TAX IN THE NATIONAL ACCOUNTING



- In 2016, VAT was driven by consumption and employment; however, this has not led to a cyclical improvement. This trend is expected to remain in place until the end of the year.
- Data until October show that compliance with the forecast target is feasible, with no changes from previous quarters.

CHART 3. TAXES ON PRODUCTS IN THE NATIONAL ACCOUNTING



- Taxes on products in 2016 have shown a cyclical loss. However, a slight improvement is expected in Q4 2016, mainly owing to the performance of hydrocarbons and the smaller decrease in taxes on electricity.
- Excise taxes are likely to meet the forecasts.

Sources: IGAE and estimates by AIRF



(*) Assumptions and notes relating to quarterly monitoring

- AIReF's projections for taxes are updated quarterly on the basis of econometric models and 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 value added tax and taxes on products for the last four quarters as a percentage of GDP.
- The target for 2016 for each of these tax figures in the national accounting has been estimated by AIReF, as no official forecast has been made. AIReF's estimate is based on the cash data foreseen in the 2016 General State Budget, adjusted to national accounting terms.
- 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 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.