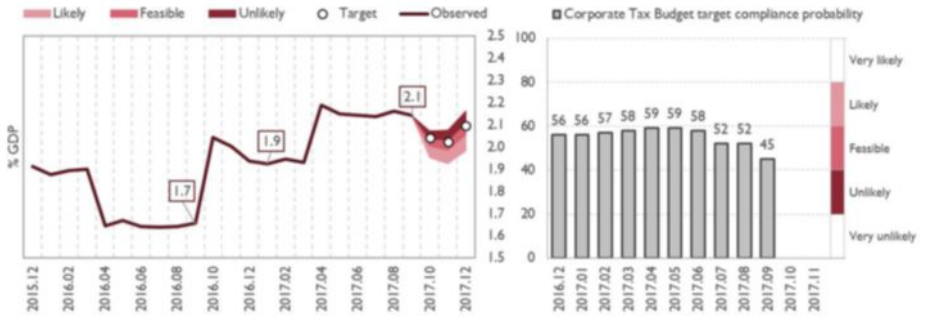
Monthly Monitoring of Stability Target

C. Tax on Cash Before Transfer September 2017

GRAPH 1. PERSONAL INCOME TAX (IRPF) BEFORE TRANSFER

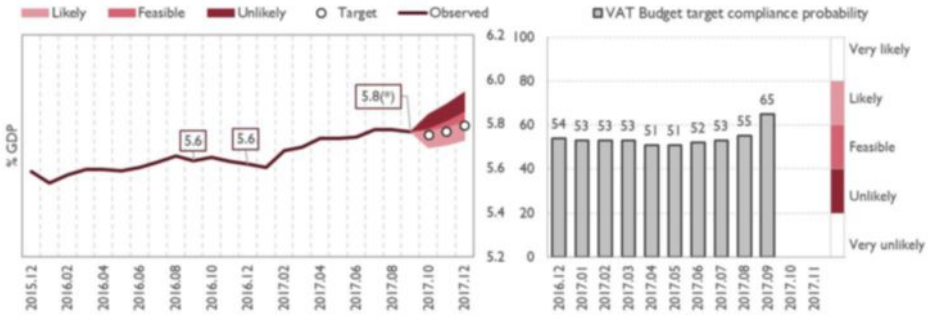
- Personal Income Tax grew by 5.3% in accumulated 12-month terms throught September, mainly due to increased payroll withholdings and IRPF filings better than last year, with fewer refunds.
- This accumulated growth is slightly better than nominal GDP growth, increasing 0.01% to 6.6% GDP.
- The AIReF maintains its closing forecast after receiving the new data. Compliance is still considered unlikely. The slight reduction in the likelihood of compliance is due to the little time left in the year for improvements.

GRAPH 2. CORPORATE TAX



- Through September, Corporate Tax increased in accumulated 12-month terms by 34.6%, continuing the trend of recent months, including the revenue of two payments much larger than the previous year, the result of legislative changes.
- In September, the tax was 2.1% of GDP, four tenths above the same month last year.
- The AIReF has updated its closing forecast after receiving the September data, slightly decreasing the likelihood of compliance. As in previous reports, however, the achievement of the Budget target is still considered feasible.

GRAPH 3. VALUE ADDED TAX (VAT) BEFORE TRANSFER

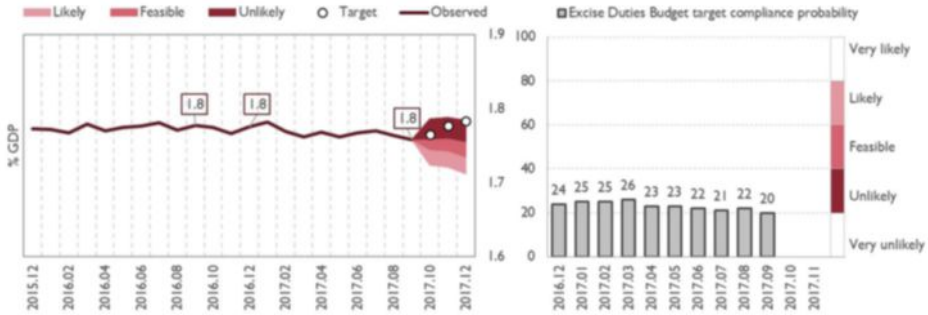


(*) August and September revnue adjusted for impact of the VAT Immediate Information System that delays cash receipts by one month.

The increase in the likelihood of compliance is due to a composition effect. On the one hand, the closing forecast update supposes an improvement of 3 percentage points, and on the other hand, a revision of the VAT forecast model supposes 7 additional points.

- The accumulated 12-month VAT collection rates through September increased with respect to accumulations through August, from 6.0% to 6.3%, approaching the 7.3% GIP growth rate forecast.
- In August, the new VAT Immediate Information System (VAT IIS) came into force, which extends the monthly income period from the 20th to the 30th of the following month. The estimated impact of the cash has been corrected for this reason.
- The forecast of AIReF for the rest of the year foresees a consolidation of the trend, driven by the expected growth of private consumption, construction and employment, which together with a methodological change in the forecast improves the rating from feasible to likely.

GRAPH 4. SPECIAL TAXES BEFORE TRANSFER



- Special taxes grew 2.8% in accumulated 12-month terms, a rate lower than in August, mainly due to a moderation in consumption. However, its weight in GDP is practically unchanged.
- For the rest of the year, growth is expected to be similar. Therefore, the AIReF believes it unlikely that the GIP growth rates of 4.5% will be met.

GRAPH 5. SOCIAL SECURITY CONTRIBUTIONS

Sources: AEAT, General Social Security Agency and AIReF estimates

- Social Security contributions maintain their weight at around 9.3% of GDP through September 2017. A slight improvement is expected by the end of the year.
- In cumulative 12-month terms, the contributions grew by 4.7%, above nominal GDP growth.
- The AIReF believes it hightly unlikely that the GIP forecasted growth of 6.8% will be met.

Assumptions and Notes on Monthly Monitoring

- The AIReF projections are based on its own models for taxes and contributions and tax data available up to August 2017.
- The graphs represent the Personal Income Tax, Corporate Income Tax, VAT, Special Taxes and Contributions from the last twelve months accumulated as a percentage of GDP.
- The National Statistics Institute has revised the nominal GDP for 2014-2016. The new data is included in these forecasts.
- AIReF projections are compared with the 2017 GIP projection targets.
- The updated AIReF forecast and the Government forecast are adjusted monthly, applying the same weights as assigned by the ARIMA Tramo Seats projection to each month for each of these components, considering both seasonality and series trends.
- Confidence intervals are obtained in two stages. First, a VAR model is estimated for the following variables: (i) subsector specific variables, such as expenditure, revenue and the ratio of public debt to GDP; and (ii) common variables referring to the national aggregate: real GDP, GDP deflator and ten-year government bond yields. Second, using projected trajectories for the different variables and the estimated joint distribution of VAR shocks, 1500 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:

Muy probable	80-99%: compliance highly likely
Probable	60-79%: compliance likely.
Factible	40-59%: compliance feasible.
Improbable	20-39%: compliance unlikely.
Muy improbable	0-19%: compliance highly unlikely.