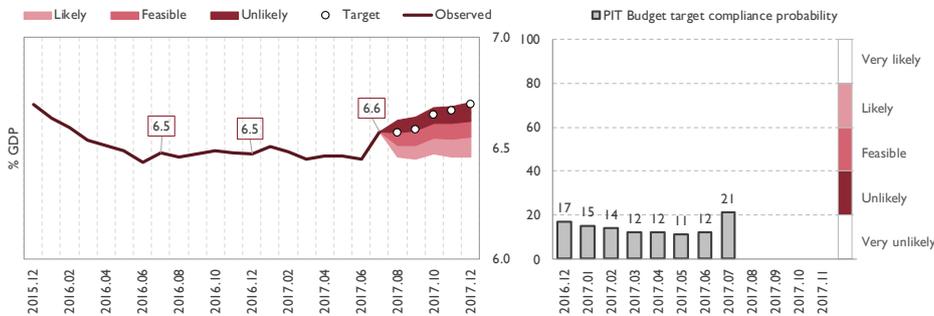


Monthly Monitoring of Stability Target

C. Tax on Cash Before Transfer

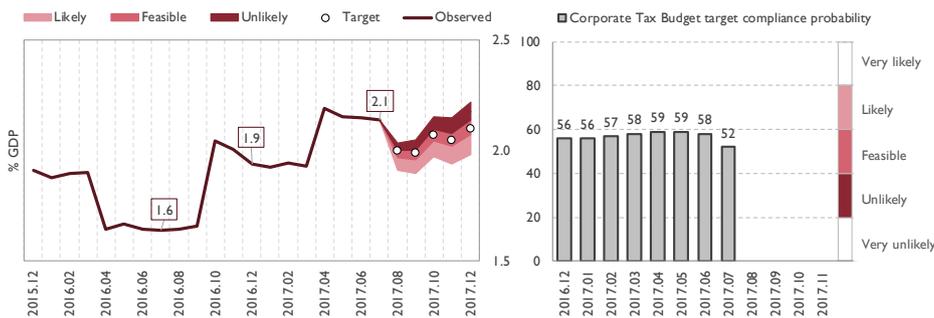
July 2017

GRAPH 1. PERSONAL INCOME TAX (IRPF) BEFORE TRANSFER



- Personal Income Tax grew by 5.2% in accumulated 12-month terms through July, up from 3.7% in June, mainly due to the impact of the Personal Income Tax Campaign, with revenues higher than the previous year (16.6%) and lower returns.
- This accumulated growth surpassed nominal GDP growth for the first time, increasing its weight to 6.6% of GDP.
- The AIReF has updated its closing forecast in line with the recorded revenue, which improves the likelihood of meeting the target from highly unlikely to unlikely.

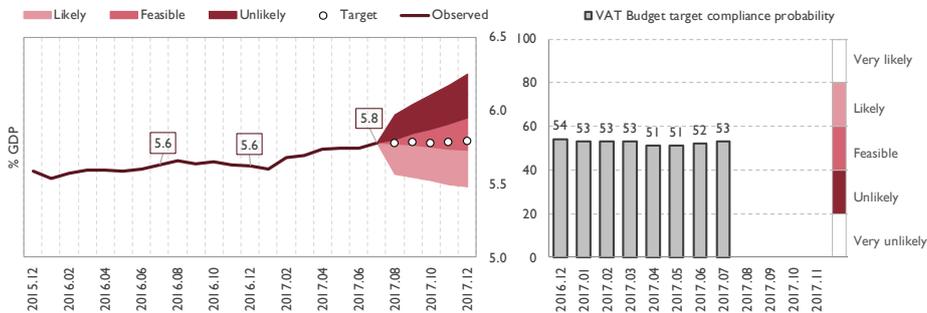
GRAPH 2. CORPORATE TAX



- Through June, Corporate Tax increased in accumulated 12-month terms, more than 30% with a period where two installments were much higher than usual due to regulatory changes.
- In July, the tax was 2.1% of GDP, the same as in June, with no significant data.
- Reaching the Budget target is still feasible, although there are uncertainties associated with the final impact of the measures adopted in RDL 3/2016, since their greatest impact will occur in the July quota, which will correspond to August cash.

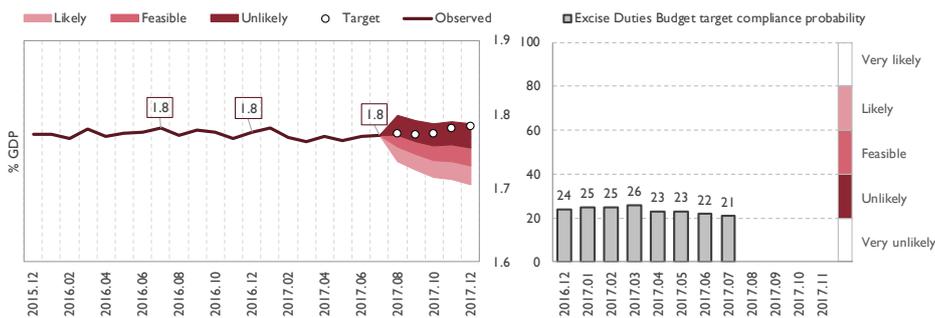


GRAPH 3. VALUE ADDED TAX (VAT) BEFORE TRANSFER



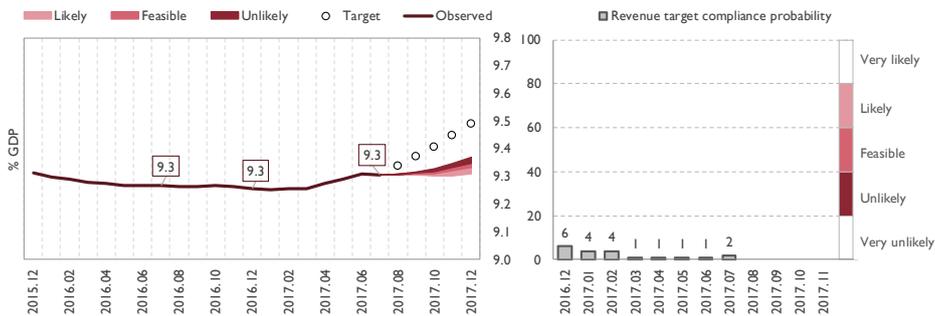
- VAT collection continues to accelerate, approaching the 7% growth rate projected in the GIP.
- For the rest of the year, this trend is expected to be consolidated, driven by growth in private consumption, construction and employment. The tax is expected to close around 5.8% of GDP.
- The AIReF maintains its feasibility forecast of the GIP target. However, as noted in the previous month, there is uncertainty about the impact of the measures relating to the limitation of deferrals and the entry into force of the VAT Immediate Information System in July.

GRAPH 4. SPECIAL TAXES BEFORE TRANSFER



- Special taxes grew 3% in accumulated 12-month terms, similar to last month. During the rest of the year, this growth is expected to continue, albeit at a slightly lower pace since, although the hydrocarbon tax is increasing at very high rates, other taxes are not growing significantly.
- The AIReF believes it highly unlikely that the GIP growth rates of 4.6% 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 during the first seven months of 2017. A slight improvement is expected by the end of the year.
- In cumulative 12-month terms, the contributions grew by 4.1% until July, in line with nominal GDP growth.
- The AIReF believes it highly 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 July
- The graphs represent the Personal Income Tax, Corporate Income Tax, VAT, Special Taxes and Contributions from the last four months accumulated as a percentage of GDP.
- 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:

