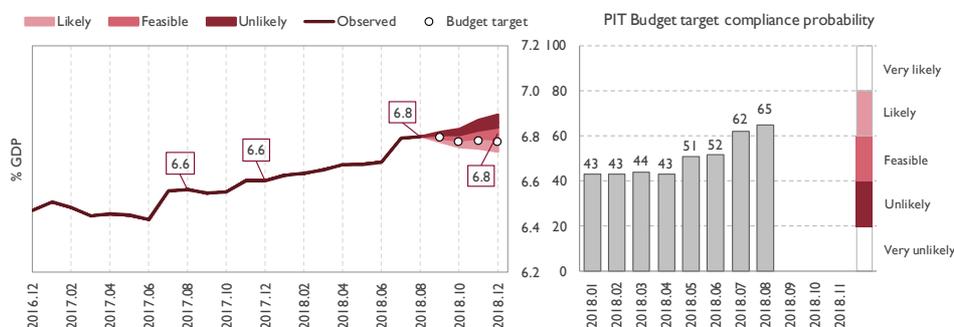


Monthly stability target monitoring

C. Taxes on hand before transfer

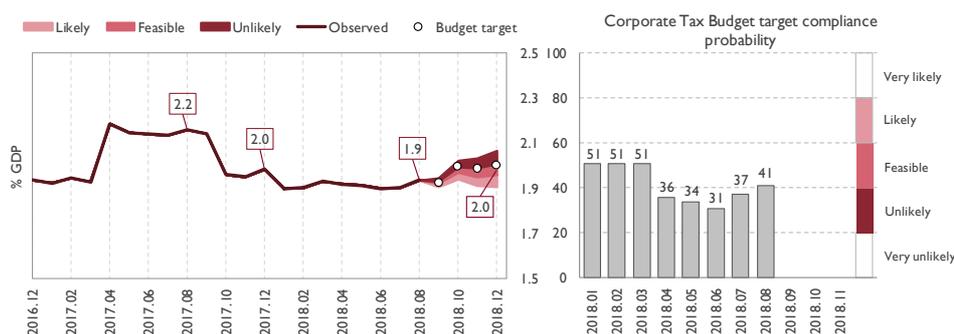
August 2018

FIGURE 1. PERSONAL INCOME TAX (PIT) BEFORE TRANSFER



- AIReF's evaluation for the end of 2018 is maintained at likely.
- PIT increased by 0.2% GDP until August to 6.8% GDP, mainly due to the withholding tax on earnings and the good result of the quota paid in July. The weight on GDP until the end of 2018 will stabilise at 6.8%.
- In August the measures approved in the GSB began to take effect. On the one hand, withholdings increase as a result of the rise in public wages and pensions, while, on the other hand, their growth is limited as a result of the increase in the reduction in earnings from work.

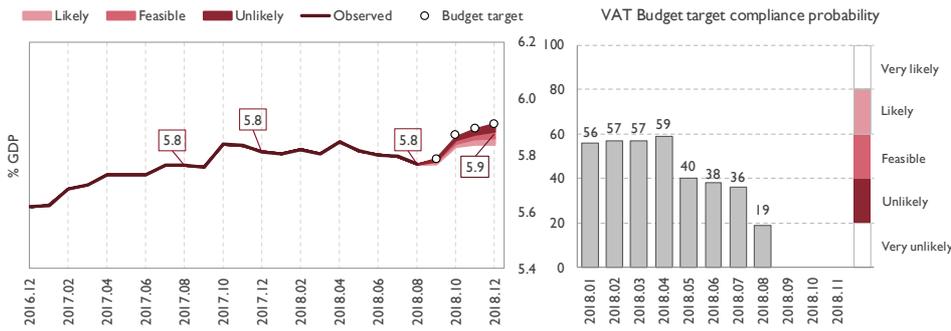
FIGURE 2. CORPORATE INCOME TAX (CIT)



- With the data available until August, AIReF improves the probability of achieving the target envisaged in the 2018 GSB to feasible.
- Both the results of the annual declaration and recorded revenues are better than expected.
- In 12-month accumulated terms the weight on GDP has been declining. In August it stands at 1.9%, 0.1% less than in December and 0.3% below that recorded in August 2017.



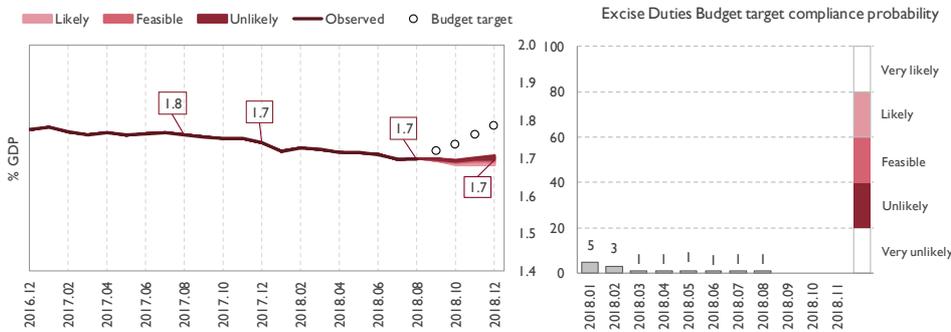
FIGURE 3. VALUE ADDED TAX (VAT) BEFORE TRANSFER



(*) Since August 2017 revenues have been adjusted for the impact of the introduction of the VAT Immediate Information System that delays cash receipts by one month.

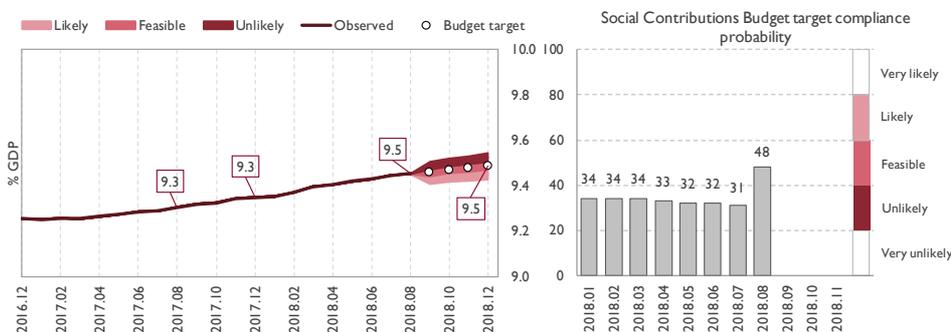
- Revenues recorded until August have led to AIReF to downgrade the closing forecast for 2018 to consider it highly unlikely.
- VAT collection fell by 0.1% GDP, to 5.8% GDP, a weight similar to that recorded at the end of 2017 and in August last year. It must be borne in mind that the adjustments made to neutralize the effect of immediate information system (IIS) could distort the series.
- For the end of 2018, AIReF estimates a growth of 4.9%, lower than the 5.6% expected in the budgets.

FIGURE 4. SPECIAL TAXES BEFORE TRANSFER



- AIReF's forecast for the end of 2018 deems compliance with that envisaged in the budgets to be highly unlikely.
- Until August, the ST continue to slightly reduce their weight on GDP, although still representing 1.7% GDP in 12-month accumulated terms.
- So far in 2018 collection has grown at a rate of 0.1%, well below the 2.2% at the end of 2017 and the 6.4% envisaged in the GSB.
- Until the end of 2018, AIReF estimates that ST will grow at a rate of 1%, with their weight on GDP decreasing slightly.

FIGURE 5. SOCIAL SECURITY CONTRIBUTIONS



Sources: AEAT, General Social Security Agency and AIReF's estimates

- AIReF now considers it feasible that the growth forecasts of the GSB will be met.
- Affiliation data, better than previously expected, lead to the upward revision of the contributions forecast.
- In 12-month accumulated terms contributions increased by 5.8% until August, maintaining a stable weight of around 9.5% GDP. This trend will continue until the end of the year.



Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts are based on its own models for taxes and contributions and tax data available to date.
- The figures represent Personal Income Tax, Corporate Income Tax, VAT, Special Taxes and Contributions from the last twelve months accumulated as a percentage of GDP.
- AIReF's forecasts are compared with the target envisaged in the 2018 draft GSB.
- AIReF's updated 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) sub-sector specific variables, such as expenditure, revenue and government debt-to-GDP ratio; 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, 15,000 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:

