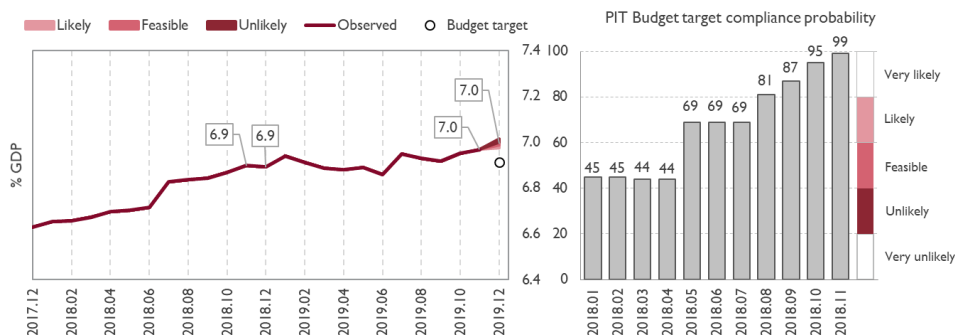


Monthly stability target monitoring

C. Tax in cash before transfer

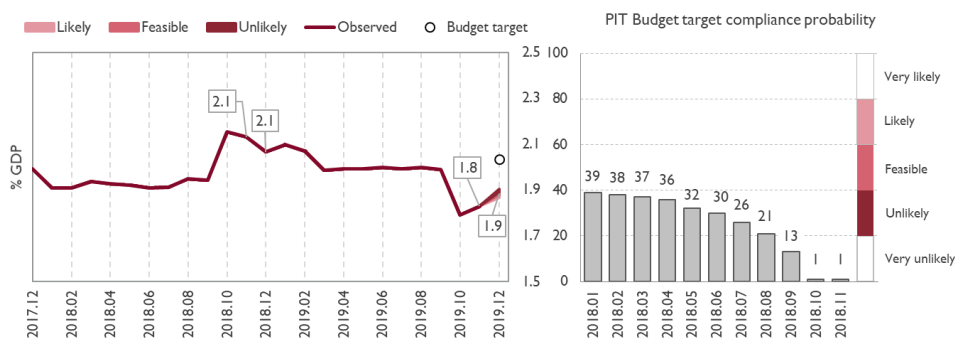
November 2019

FIGURE 1. PERSONAL INCOME TAX (PIT) BEFORE TRANSFER



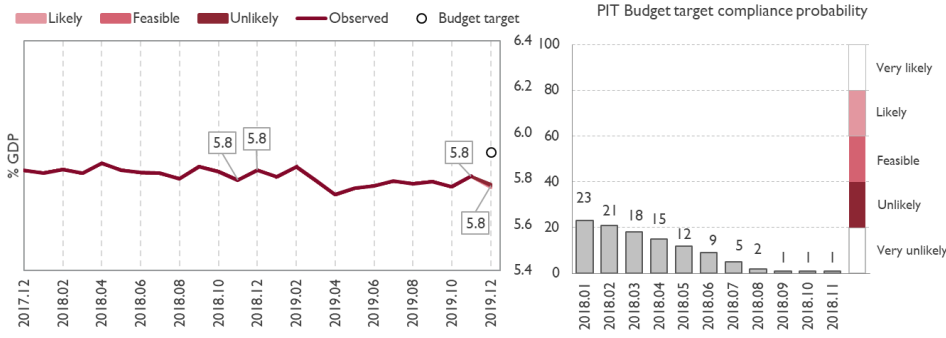
- AIReF maintains the closing estimate for 2019 envisaged in the report on the 2020 Budgetary Plan as well as the rating of very likely to comply with the GSB.
- In 12-month accumulated terms the weight of Personal Income Tax (PIT) over GDP increases 0.1% compared to the end of 2018.
- PIT grows until November to 4.7% (6.3% in homogeneous terms). Gross revenue maintains the trend of the first half of the year and evolve to 6.2%, while returns grow 17.1% mainly due the return for maternity leave benefits.
- Withholdings on earnings from work maintain their positive evolution (growth to 5.5% until November), driven by the increase in the withholding of the PAs that grow to 6.6%, compared to 5% in the private sector.

FIGURE 2. CORPORATE INCOME TAX (CIT)



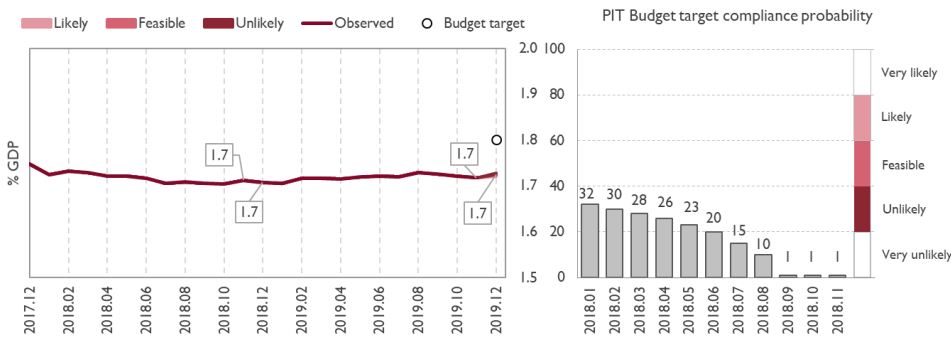
- The slowdown in the rate of returns in November makes AIReF slightly improve its closing estimate for 2019 in cash terms, without affecting the deficit in national accounting terms.
- Revenue until November has recorded a decline of 9.7%, dropping its weight over GDP in 12-months accumulated terms by 0.3%. This decrease is explained by the negative evolution of the second instalment payment, due an extraordinary return from a ruling of some 700 M€.
- Compliance with the budgetary forecast is still deemed to be very unlikely.

FIGURE 3. VALUE ADDED TAX (VAT) BEFORE TRANSFER



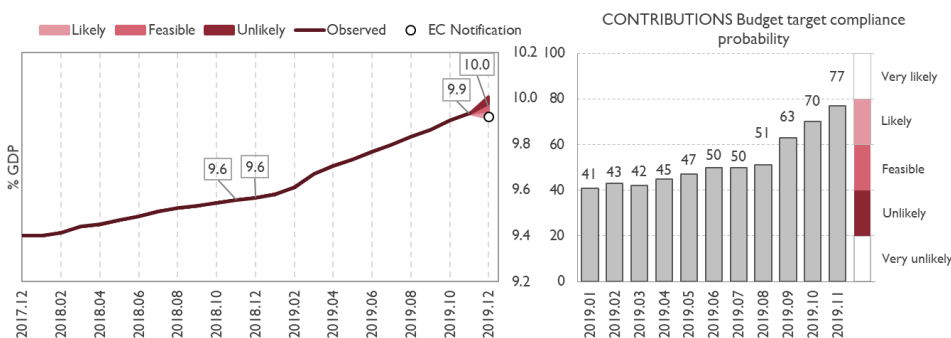
- AIReF slightly improves its estimate compared with the previous month, continuing its rating of very unlikely to comply with the target.
- Revenue recorded until November in VAT grows by 3.0% compared to the same period of the previous year, maintaining its weight over GDP in 12-months accumulated terms and it is expected to maintain the same at the end of 2019.
- So far this year gross revenue grows by 3.6% while the returns are evolving at a rate higher than 5%.

FIGURE 4. SPECIAL TAXES BEFORE TRANSFER



- AIReF maintains its closing estimate with respect to its estimate of the probability of compliance with the budget as unlikely.
- In 12-months accumulated terms special taxes maintain their weight over GDP at 1.7%, a level similar to year-end.
- Special taxes grow until November to 4.3%, slightly lowering the rates recorded at the beginning of the year. The main factor is the effect of the incorporation of the regional rate into the Tax on Hydrocarbons, what makes this tax grow to 9.5% in spite of the stagnation of consumption. Without this policy change special taxes would fall to 0.6%.

FIGURE 5. SOCIAL SECURITY CONTRIBUTIONS

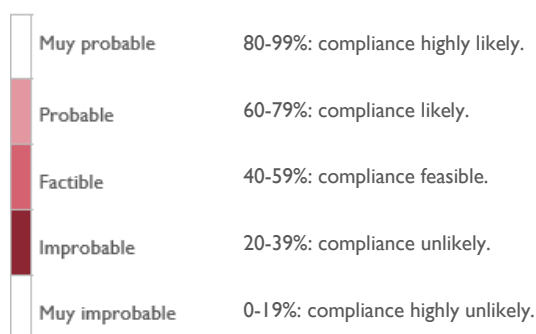


- The AIReF considers it likely that the forecasts of the GSB will be complied with.
- In 12-months accumulated terms contributions increased by 7.7% until November, increasing their weight to 9.9% GDP.
- AIReF estimates that this level will increase by an additional 0.1% at the end of 2019, primarily as a result of the measures adopted.

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

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 collection expected by the Government in the draft GSB 2019 submitted, discounting the impact of the measures contained in the same that have not entered into force.
- 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:



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.