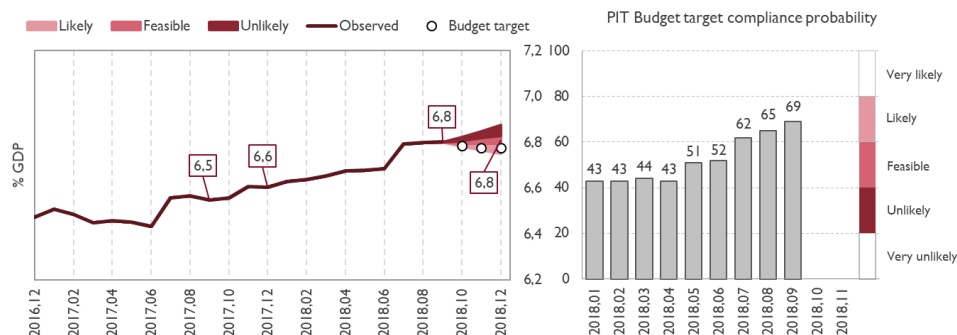


Monthly stability objective monitoring

C. Taxes in cash before transfer

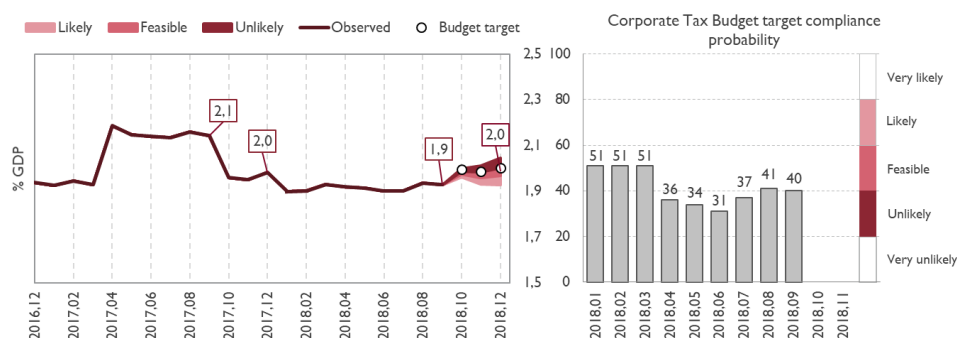
September 2018

FIGURE 1 PERSONAL INCOME TAX (PIT) BEFORE TRANSFER



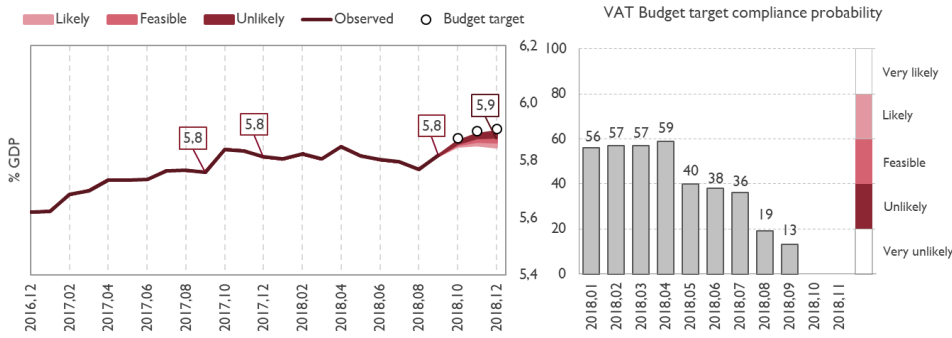
- With the data published in September, the AIREF maintains its 2018 Personal Income Tax (IRPF) closing estimate and evaluates it to be likely to comply with the budget.
- So far this year, the IRPF has seen its weight over GDP grow by 2 tenths to stand at 6.8%.
- So far this year, income increased 8.1% compared to the same period of the previous year. This evolution is mainly a consequence of the behaviour of job retention and good tax paid in July.

FIGURE 2 CORPORATE INCOME TAX (CIT)



- The data in September are irrelevant to this tax so the AIREF has not modified its closing estimate, nor its compliance rating. The slight drop in probability is due to the fact that, as there are fewer months left to the end of the year, the likelihood of compliance is being reduced.
- In 12-month accumulated terms the weight on GDP has been declining. In September, it stands at 1.9%, two tenths below that recorded in September 2017.
- For the rest of the year, AIREF expects the weight over GDP to increase slightly to 2.0%, mainly as a result of the last two instalments.

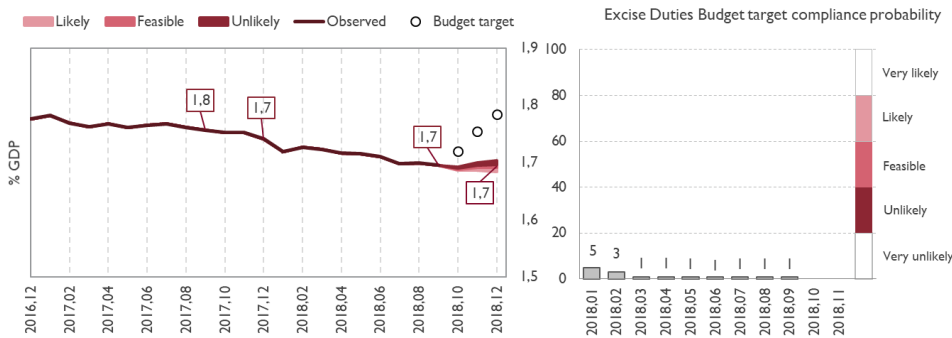
FIGURE 3 VALUE ADDED TAX (VAT) BEFORE TRANSFER*



(*). Since August 2017 revenues have been adjusted for the impact of the introduction of the VAT Immediate Information System that delays cash income by one month and increases the management of monthly returns.

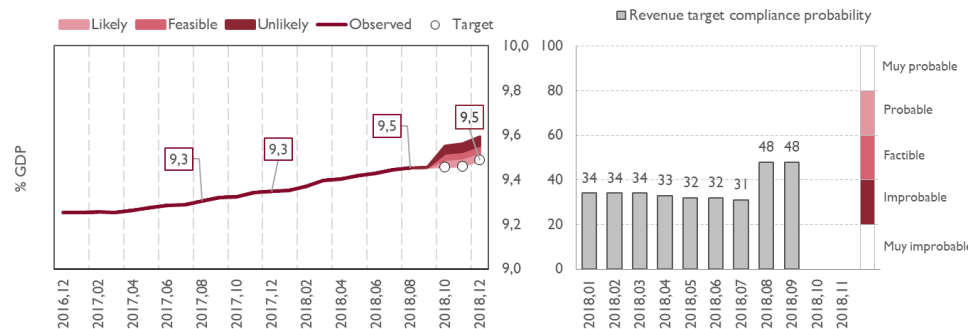
- Registered income in September maintained the trend in recent months, with rates slightly above 4%, meaning that the AIREF has not changed its rating of the forecast at the end of the year, which is still considered to be very unlikely.
- So far this year, domestic demand has increased by around 4.5% (mainly due to the price effect), with the final expenditure subject to VAT above 6%, however, net income from VAT stands at 4% due to an increase in returns and lower income in previous years.
- The weight over GDP is maintained from the beginning of the year at 5.8%, expected to improve by one tenth in the remainder of 2018.

FIGURE 4 SPECIAL TAXES BEFORE TRANSFER



- As has been the case so far this year, the AIREF considers it to be very unlikely that the objective established in the budget will be achieved.
- The slight reduction in Special Taxes continues in September. Its weight over GDP is maintained at 1.7%, with an estimated close by the end of 2018 at levels similar to this.
- The growth rate of 0.2% until September is significantly lower than the 2.2% registered at the close of 2017 and is very far from the 6.4% forecast in the PGE.
- The most relevant special tax, that on hydrocarbons, is growing at a rate of 1.7%, while tobacco products fall to -1.5%.

FIGURE 5 SOCIAL SECURITY CONTRIBUTIONS



- The AIREF considers it possible that the growth forecasts of the PGE will be met.
- In 12-month accumulated terms, contributions increased by 5.5% until September, maintaining a stable weight of around 9.5% GDP. This trend will continue until the end of the year.

Sources: Spanish Tax Agency (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 target envisaged in the 2018 PGE.
- 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 jobs; resources and public 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:

