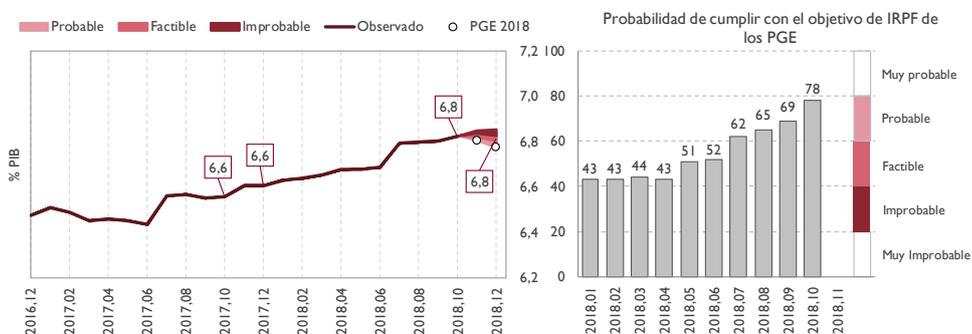# Monthly monitoring of the stability objective

C. Tax on cash before transfer — October 2018
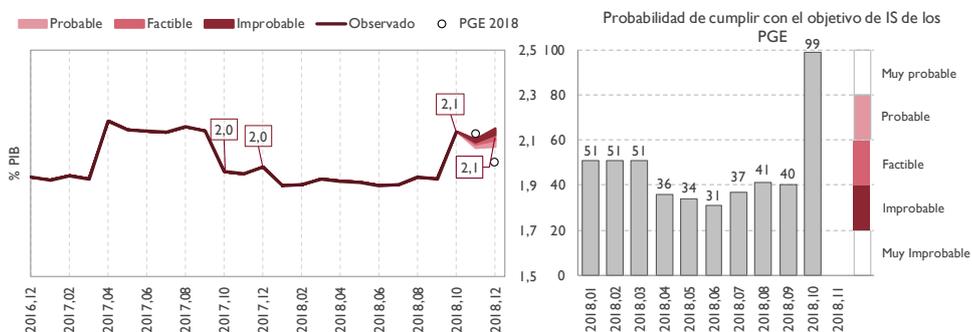

GRAPH 1. PERSONAL INCOME TAX (PIT) BEFORE TRANSFER

Probable   Factible   Improbable   —Observado   ○ PGE 2018

% PIB

6,6   6,6   6,8   6,8

Probabilidad de cumplir con el objetivo de IRPF de los PGE

Muy probable — Probable — Factible — Improbable — Muy Improbable

43 43 44 43 51 52 62 65 69 78

- The published IRPF data for October are in line with the AIReF's forecast, maintaining the 2018 close estimate and the qualification of budget compliance as probable.

- In accumulated 12-month terms, the weight of personal income tax on GDP has increased by 2 tenths to 6.8%, with the expectation that it will remain at this level until the end of the year.

- So far this year, income has increased 7.8% compared to the same period in the previous year. There is a slight deceleration in terms of the evolution of previous months, mainly as a consequence of the slowdown in job retention.

GRAPH 2. CORPORATE INCOME TAX (CIT)

Probable   Factible   Improbable   —Observado   ○ PGE 2018

% PIB

2,0   2,0   2,1   2,1

Probabilidad de cumplir con el objetivo de IS de los PGE

Muy probable — Probable — Factible — Improbable — Muy Improbable

51 51 51 36 34 31 37 41 40 99

- The CIT October data has been surprising due to its positive behaviour. This month, the second instalment payment is received that has greatly exceeded budget forecasts. This change in the evolution of tax has led AIReF to improve its closing forecast by two tenths of the GDP and change the rating from feasible to very probable.

- In accumulated 12-month terms the weight of the CIT on GDP has increased by one tenth compared to the one recorded a year ago, standing at 2.1%.

- AIReF expects that, in what is left of the year, the weight over GDP will remain at current levels, with the main uncertainty being the behaviour of the third installment payment that will be settled in December.

GRAPH 3. VALUE ADDED TAX (VAT) BEFORE THE TRANSFER
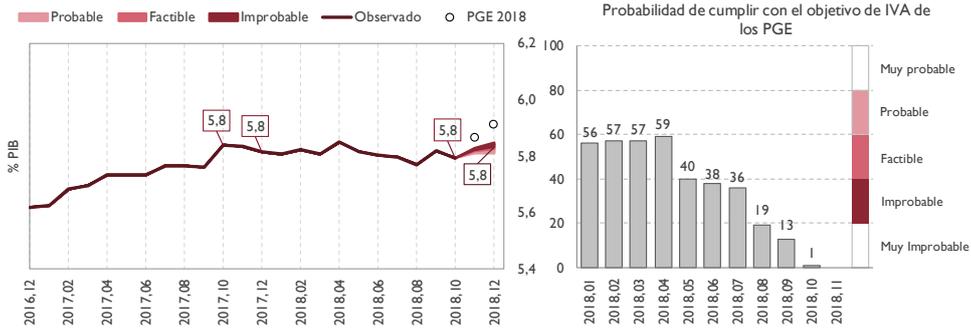
(*) From August 2017, income is adjusted by the impact of the introduction of the Immediate Supply of VAT information that delays the income by a month and increases the management of monthly returns.

- The income recorded in October in VAT increased by 1% compared to the same month of the previous year, which represents an evolution of less than the 4.2% it had until September. This evolution is mainly due to an increase in returns made.

- This more moderate growth, along with the maintenance of the trend of deceleration in the growth of consumption and therefore of the VAT bases, has lead the AIReF to lower its closing forecast by nearly 1 tenth to 5.8% of GDP and compliance with the budget is confirmed as very unlikely.

GRAPH 4. SPECIAL TAXES BEFORE TRANSFER
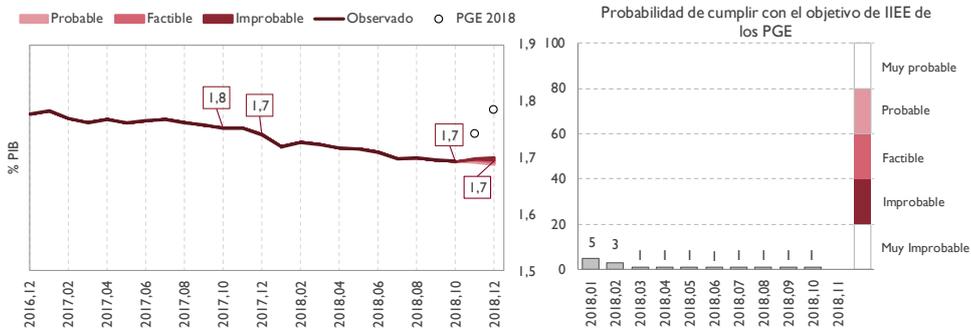
- Special taxes increased by 2.4% in October and 0.5% this year. This evolution is much lower than that in the budget forecast (6.4%).

- Although its interannual evolution in October is better than in previous months, its weight over GDP remains at 1.7% and is estimated to be at similar levels at the close of 2018.

- The special taxes that saw improved behaviour this month were electricity (5.9%) due to the increase in prices and tobacco products (7.1%). Hydrocarbons fell at a rate of - 1%.

- The AIReF maintains its consideration of achieving the objective forecast in the budget to be very improbable.

GRAPH 5. SOCIAL SECURITY CONTRIBUTIONS
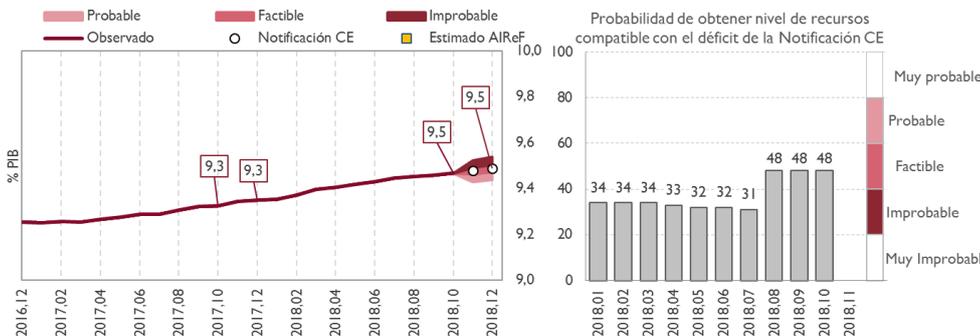
- The AIReF considers compliance with the State Budget forecasts to be feasible.

- The contributions increased to October, in accumulated 12-month terms, by 5.6%, increasing its weight to 9.5% of the GDP. This level will be maintained until the end of the year.

Sources: Spanish Tax Agency (AEAT), Office of the Comptroller General of Social Security (Intervención General de Seguridad Social) and AIReF 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 forecasts are compared with the objective forecast in the 2018 General State Budgets.

- 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) specific subsector variables, such as jobs; the resources and public debt ratio over 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, 15,000 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:

Very likely	80-99%: compliance highly likely.
Likely	60-79%: compliance likely.
Feasible	40-59%: compliance feasible.
Unlikely	20-39%: compliance unlikely.
Very unlikely	0-19%: compliance highly unlikely.