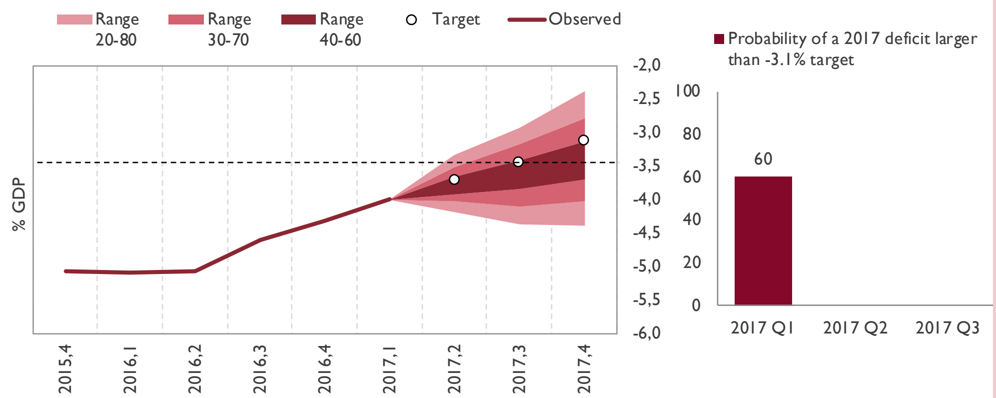
Quarterly Monitoring of the Stability Target

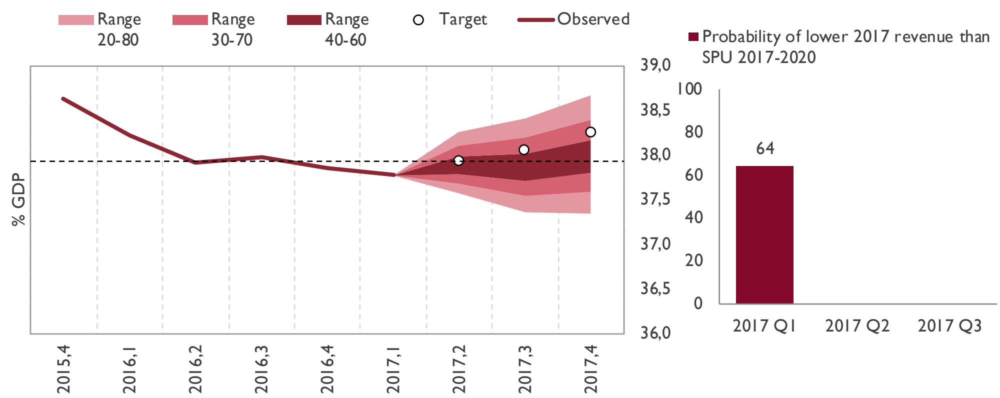
A.General Government Q1 2017

GRAPH 1. NET LENDING/BORROWING

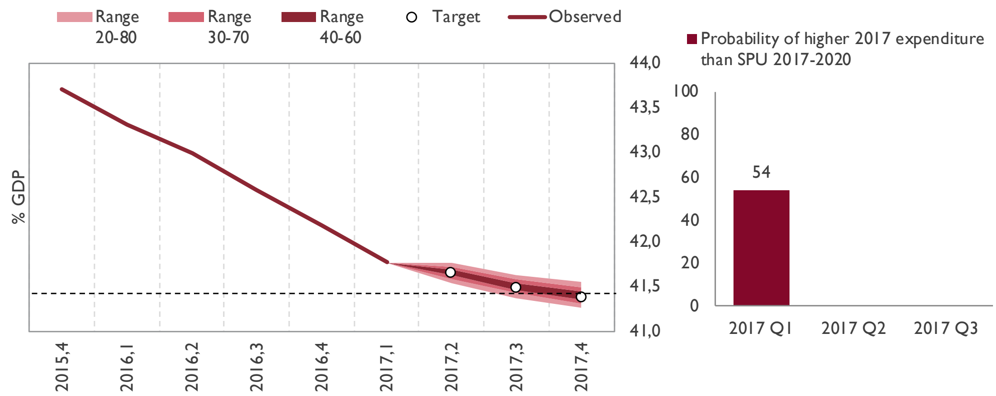


- It is unlikely the -3.1% GDP target will be achieved, , since the AIReF forecasts include the projected impact of the Administration patrimonial liability for toll roads (0.2% GDP). If this one-off is not considered, the target would be feasible, though demanding. There is uncertainty in the evolution of revenue, mainly due to direct taxes.
- There are doubts that the positive margin of the Local Governments and, to a lesser extent, the Regions, can compensate for the expected deviation from the Central Administration and the Social Security Funds.
- A more detailed analysis is performed by subsectors for Central Administration, Social Security and Regions.

GRAPH 2. NON-FINANCIAL REVENUE



GRAPH 3. NON FINANCIAL EXPENDITURE



SOURCES: IGAE AND AIREF PROJECTIONS

Assumptions and Notes on Quarterly Monitoring

- The AIReF projections for fiscal balances are updated considering the results from the models themselves and the national accounting data available up to March for the Central Administration, Social Security Fund and Regions.

- The graphs represent the fiscal balance, revenue and expenditure for General Government.

- The 2017 General Government target is the one set by the Council of Ministers on December 2, 2016.

- The updated AIReF forecast and the official forecast of the fiscal balance, revenue and expenditure by quarter apply the same weights as assigned by the ARIMA Tramo Seats projection to each quarter for each of these components, considering the effect of both seasonality and series trends.

- The actual General Government Q1 figure shown in the graph was projected using IGAE data, which includes the Central Administration, Social Security Funds and Regions, adding the AIReF quarterly forecast for Local Governments. Since Q1 2017 execution information on the Local Governments will not be published until the end of June, the Q1 2017 figure shown in the graph is a projection based on the provisional data published by the Bank of Spain from the variation of excessive deficit protocol debt and the variation of deposits held in credit entities and applying an ARIMA model for stock-flow adjustment components. This financial projection shows it is feasible that the Q4 2016 surplus figure can be replicated at the end of 2017.

- Confidence intervals are obtained in two stages. First, a VAR model is projected 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 different variables and the projected joint distribution of VAR shocks, 1500 probabilistic scenarios are constructed. The intervals shown in the graphs refer to the 20-80, 30-70 and 40-60 percentiles. These probabilistic intervals provide conclusions about the likelihood of the official forecast.