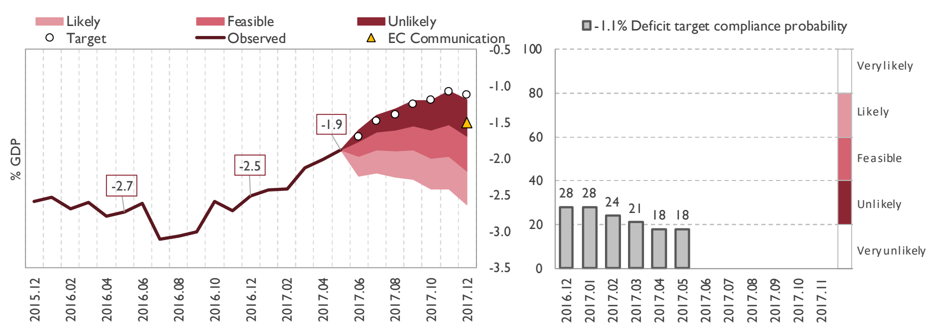
1 August 2017

Monthly Monitoring of Stability Target

B. Central Administration May 2017

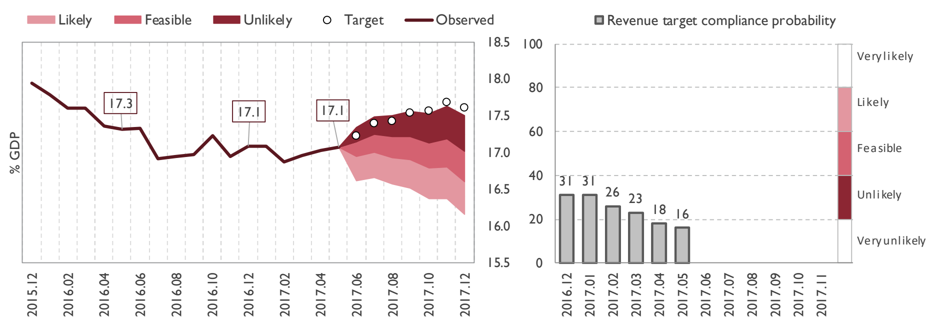
GRAPH 1. NET LENDING/BORROWING



- Achieving the target of -1.1% GDP is highly unlikely due to uncertainties in tax collection, which could be aggravated if the tax measures adopted do not roll out all their effects and due to an insufficient expenditure adjustment.
- AIReF forecasts are also higher than the deficit notification sent to the European Commission (*).

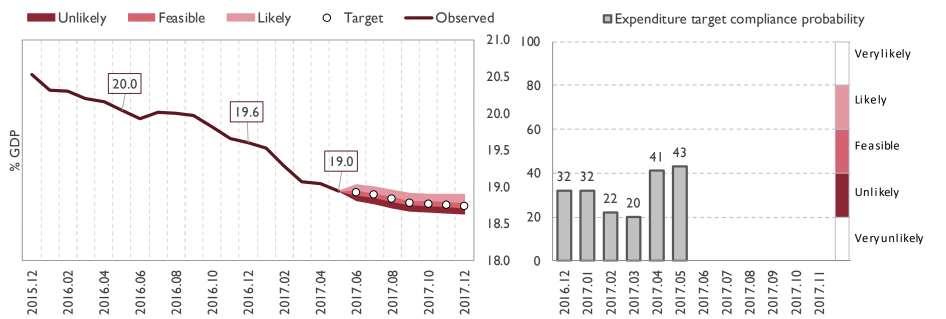
(*) The March 31 deficit and debt notification sent to the European Commission included a closing forecast for 2017 reflecting a deficit of 1.5% GDP.

GRAPH 2. NON-FINANCIAL REVENUE



- Despite the growth in taxes in the first months of the year, total revenue maintains its weight of GDP at 17.1%, due to non-tax revenue, such as dividends, sales and transfers, falling significantly.
- In addition, revenue is expected to close 2017 about 3 tenths below the previous year, due to the impact of the additional 2015 settlement in favour of the Autonomous Regions, the Basque quota and the possible diversion of direct taxes, especially income tax.
- Compliance with the target is considered highly unlikely.

GRAPH 3. NON-FINANCIAL EXPENDITURE



Sources: IGAE and AIReF estimates

- The continued trend of consolidation of non-financial expenditure (6 tenths of GDP since December) is favoured by the reduction of public consumption and significant items such as interest and transfers to the SEPE.
- This trend, together with new information on the impact of toll roads, makes it feasible to reach the level of expenditure compatible with the target, with a projected 2017 adjustment of almost one p.p. over the prior year.
- The approval of the GIP with measures such as the updating of employee compensation will slow the adjustment.

Assumptions and Notes on Monthly Monitoring

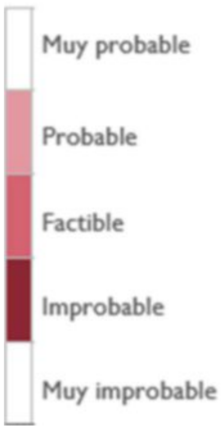
- The AIReF projections for non-financial revenue, non-financial expenditure and the fiscal balance are updated monthly, considering the results of the models themselves for taxes and interest and the national accounting data available up to May 2017.

- The graphs represent the balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP. The data excludes financial aid.

- The deficit target was set by the Council of Ministers on December 2, 2016 at -1.1% GDP. The March 31 deficit and debt report sent to the European Commission included a closure forecast for 2017 which includes a deficit forecast for the Central Administration greater than the approved target, standing at -1.5% GDP (-1.4% GDP without financial aid).

- The updated AIReF forecast and the deficit target are adjusted monthly, applying the same weights assigned by the ARIMA Tramo Seats projection to each month for each of these components, considering the effect of both seasonality and series trends.

- Confidence intervals are obtained in two stages. First, a VAR model is estimated 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 the different variables and the estimated joint distribution of VAR shocks, 1500 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:



80-99%: compliance highly likely

60-79%: compliance likely.

40-59%: compliance feasible.

20-39%: compliance unlikely.

0-19%: compliance highly unlikely.