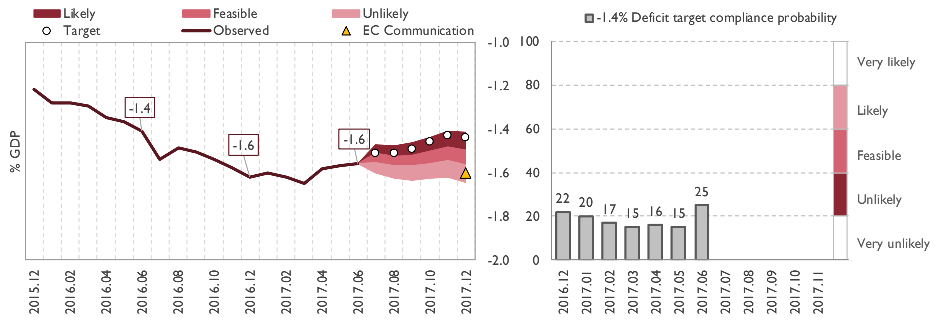
Monthly Monitoring of Stability Target

D. Social Security Funds June 2017

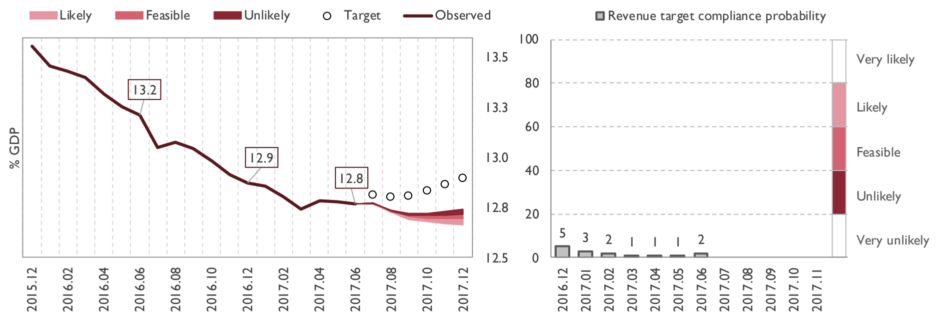
GRAPH 1. NET LENDING/BORROWING



- It is considered unlikely the target of 1.4% will be met.
- The deficit of the Social Security Fund subsector is about 1.5% GDP, below the previous year and improving the Government's March forecast by one tenth (*).
- In the first half of the year, the deficit of the SSF has improved very slightly, a trend that will continue until the end of the year due to revenue that stabilizes its weight in GDP.

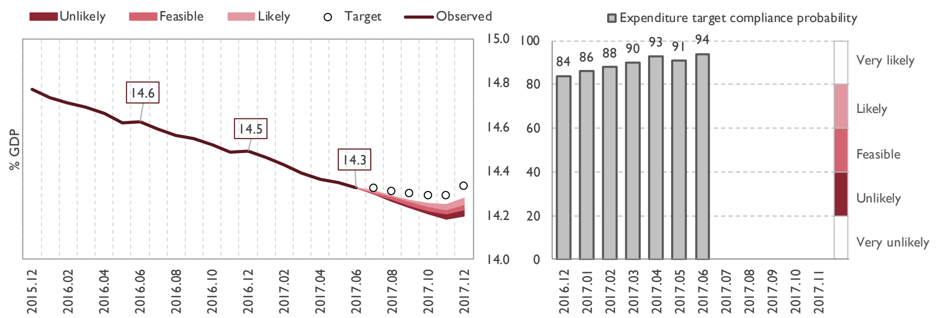
(*) The March 31 deficit and debt notification sent to the European Commission included a closing forecast for 2017 reflecting a Social Security deficit of 1.6%, consistent with the AIReF estimates.

GRAPH 2. NON-FINANCIAL REVENUE



- Resources as a % of GDP continue to decline, dropping one tenth in the first half of the year, despite the growth in contributions. This is due to lower transfers from the State to finance the SEPE and an interest reduction from the Reserve Fund.
- In June, the variation of accumulated 12-month revenue is positive with respect to 2016, although below GDP. This trend is expected to continue for the rest of the year.

GRAPH 3. NON-FINANCIAL EXPENDITURE



- Expenditure continues to decline as a % of GDP (2 tenths since the beginning of the year), which will continue for the rest of 2017. This trend reflects the reduction in unemployment benefits and growth in pensions below nominal GDP resulting from the reforms adopted in 2011 and 2013.
- It is considered highly likely that the 2017 GIP expenditure forecast will be met.

Source: IGAE and AIReF estimates

Assumptions and Notes on Monthly Monitoring

- The AIReF projections for non-financial expenditure, non-financial revenue and the fiscal balance are updated considering the results of the models themselves for contributions, pensions and unemployment, the national accounting data available up to May and the budgetary execution data available up to June for the Social Security System, the State Public Employment Service and the Wage Guarantee Fund.

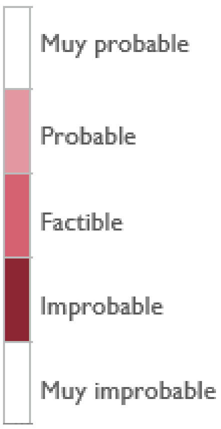
- The graphs represent the balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP.

- The deficit target was set by the Council of Ministers on December 2, 2016 at -1.4% GDP. However, 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 Social Security Funds greater than the approved target, standing at -1.6% GDP.

- There is no official revenue and expenditure forecast in terms of ESA 2010 for the Social Security Funds compatible with this target. This forecast is estimated by the AIReF.

- The updated AIReF 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) 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.