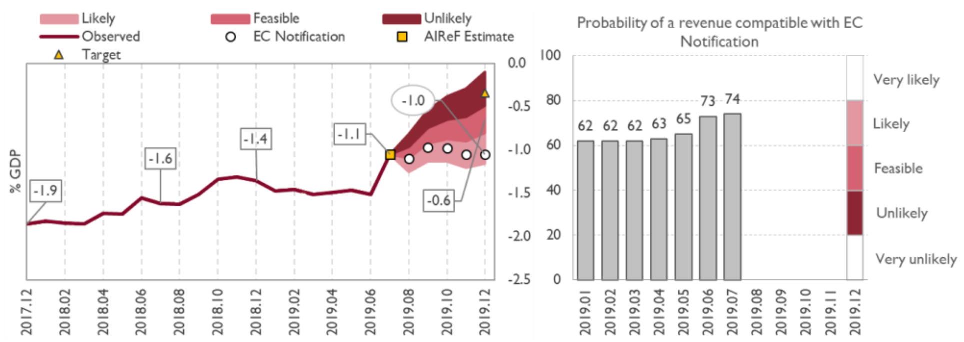
Monthly monitoring of the stability target

B. Central Administration (CA) July 2019

GRAPH 1. NET LENDING/BORROWING

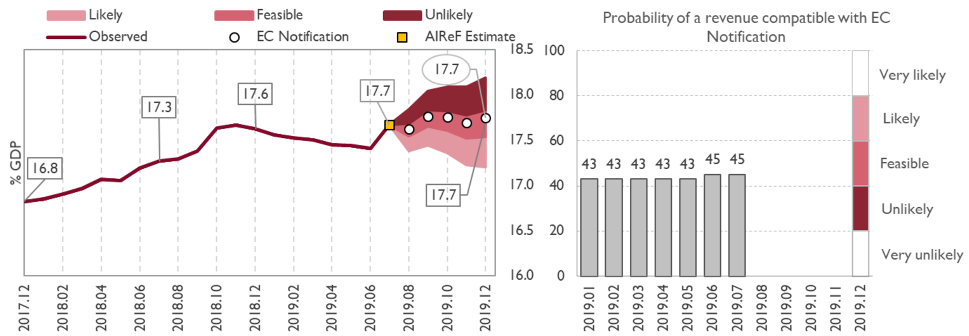


(*) The first deficit and debt notification sent to the European Commission on September 30 included a forecast for 2019 that reflected a deficit of 1% of GDP for the Central Administration.

(**) The AIReF's central scenario assumes the absence of changes to the terms of the Immediate Supply of Information on VAT (IIS).

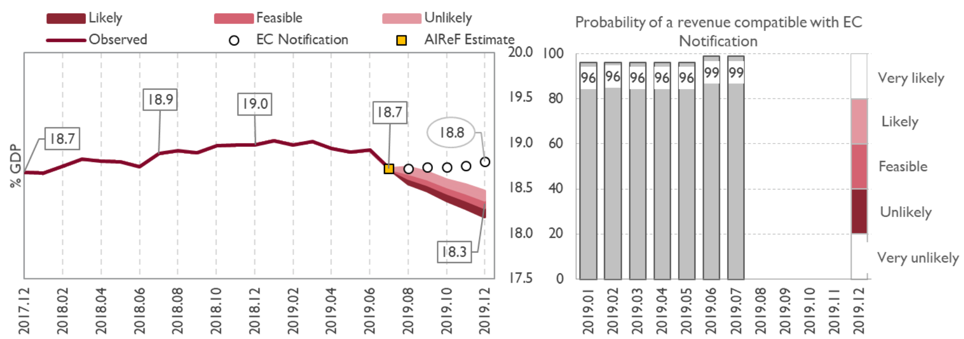
- Complying with the deficit reported to the European Commission (EC) (*) of 1% of GDP is considered likely (**), without any significant changes occurring since the last report.
- In terms of the accumulated 12 months, the deficit on GDP decreased in July three-tenths of a point compared to the close of 2018, to 1.1%.
- This reduction is mainly explained by a more contained evolution of expenditure than that of 2018 and a slight improvement in income.
- This trend and reduction of deficit will remain the same for the rest of the year, ending the year at a level close to 0.6% of GDP.

GRAPH 2. NON-FINANCIAL RESOURCES



- The AIReF considers it feasible to attain the forecasts of resources to achieve at the end of the period 17.7% of GDP, compatible with the 1st Notification to the EC.
- Resources reach 17.7% of GDP, one tenth more than at the close of 2018. This progress is mainly due to the growth of the result of the Personal Income Tax (IRPF) declaration of 2018.
- This level of income is expected to be maintained until the end of the year.

GRAPH 3 NON-FINANCIAL EXPENDITURE



Source: IGAE and AIReF's estimates. The current month's CA figure is estimated based on the data published by the State for this month, through a time-series econometric model.

- AIReF marks as very likely that the expenditure level of 18.8% of the GDP compatible with the deficit reported to the EC will be achieved.
- In 12 months' terms the expenditure reduced three-tenths of a point in July compared to 2018, a trend that will continue until the end of the year.
- This reduction is explained by the effect of non-recurrent items recorded in late 2018 that were not repeated in 2019 or will to a lesser degree, such as the impact of the DTAs, and by the calendar effect of the different pace of implementation of items such as contributions to the EU, maternity returns or transfers between Public Administrations.

Assumptions and notes on monthly monitoring

- AIReF's forecasts for non-financial revenue, non-financial expenditure and the fiscal balance are updated monthly, considering the results of its own models for taxes and interest and the national accounting data available up to the current month.

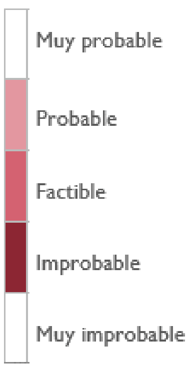
- The figures represent the fiscal balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP. The expenditure data excludes financial aid. The forecasts are conditioned by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.

- The deficit target of -0.3% GDP was set by the Council of Ministers on 13 July 2017. The first deficit and debt notification, sent to the European Commission on 30 March 2019, included a 2019 deficit forecast that reflects that the deficit foreseen for the CA is greater than the target approved, standing at -1% GDP. Subsequently, the Stability Programme Update sent in April 2019 foresees a deficit for the CA of -0.5% of GDP. The probability analysis was carried out in relation to compliance with the forecast reported to the European Commission.

- As there is no official revenue and expenditure path in national accounting terms for the CA, an estimate is made considering that the differences between the cash forecasts for the revenue estimated by AIReF and those forecasted in the GSB's project for 2019, excluding the effect of the measures that are not in effect, are shifted to revenue in national accounting terms and that the expenditure is adjusted as necessary to comply with the deficit notified.

- AIReF's updated forecast and the official forecast of the fiscal balance, revenue and expenditure by month apply the same weights as 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) sub-sector specific variables, such as expenditure, revenue and government 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:



80-99%: compliance highly likely.

60-79%: compliance likely.

40-59%: compliance feasible.

20-39%: compliance unlikely.

0-19%: compliance highly unlikely.