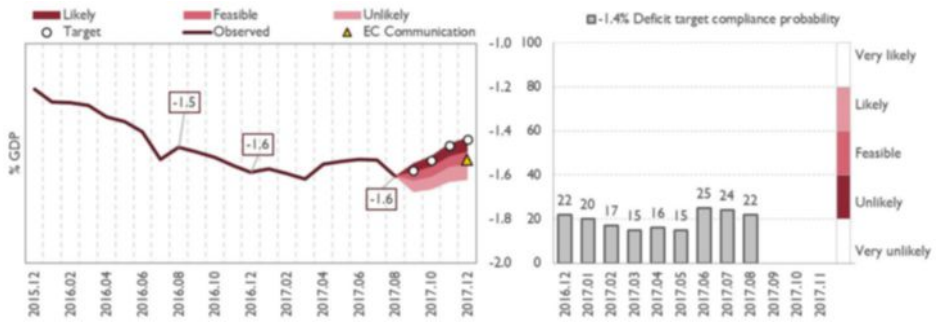
# Monthly Monitoring of Stability Target

# D. Social Security Funds August 2017

## GRAPH 1. NET LENDING/BORROWING




- It is considered highly unlikely the target of 1.4% will be met.
- The deficit of the Social Security Fund subsector is about 1.5% of GDP, below the previous year.
- The forecast included in the 2nd notification (*) is one tenth lower than the March notification, more in line with the AIReF forecast.
- In August, the SSF deficit improved, due to the transfers from the SEPE to the ARs, although the forecast for the year as a whole remains unchanged.

(*)The September 31 deficit and debt notification sent to the European Commission included a closing forecast for 2017 reflecting a Social Security deficit of 1.6% of GDP.

## GRAPH 2. NON-FINANCIAL REVENUE


- Resources as a % of GDP declined two tenths through August, 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 August, 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


Source: IGAE and AIReF estimates

- Expenditure increased in August as a result of the transfer made by the SEPE to the ARs which was carried out in December 2016. Discounting this effect, expenditure will continue to decline as a % of GDP through the rest of 2017.
- This trend reflects the reduction in unemployment spending, which remains below the initial Government forecasts. Likewise, the growth of pension spending continues below nominal GDP growth as a result of reforms adopted in 2011 and 2013, mainly the application of the IRP.
- It is considered highly likely that the 2017 GIP expenditure forecast will be met.

## 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 forecasts are conditioned by the General Intervention Board of the State Administration (IGAE) updates of the National Accounts. The latest update (dated 27 September 2017) led to a significant revision of numerous national accounts from 2013 to 2017 (and of lesser importance since 2007). The National Statistics Institute (INE) has also revised nominal GDP for 2014-2016. This new data has been included in these forecasts.

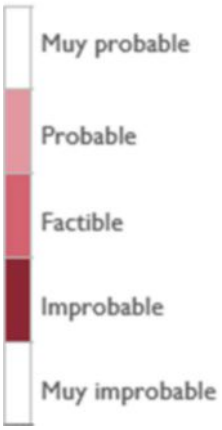
- The graphs represent the balance, revenue and expenditure of the last twelve months accumulated as a percentage of GDP.

- The deficit target was set by the Council of Ministers on December 2, 2016 at -1.4% GDP. However, the September 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 -1.5% 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.