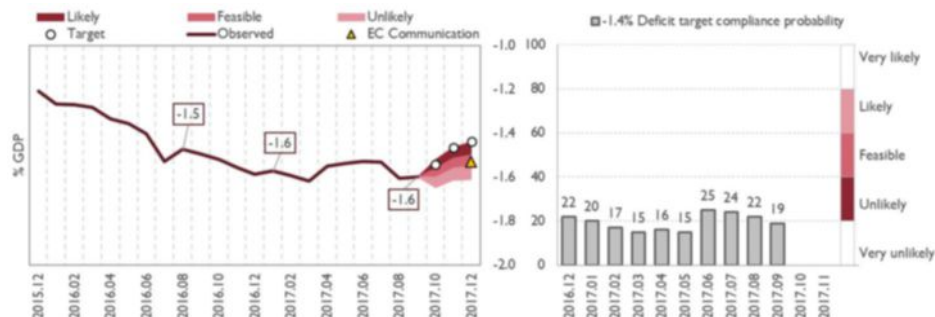# Monthly Monitoring of the Stability Target

D. Social Security Funds   September 2017

GRAPH 1. NET LENDING/BORROWING

(*) The notification of the deficit and the debt sent to the European Commission on 30 September included a 2017 closing forecast that reflected a SSF deficit of 1.5% of GDP.

- Compliance with the target of 1.4% is considered highly unlikely.
- The SSF subsector deficit will very likely end up around 1.5% of GDP, below the previous year and in line with the information sent to the Commission in the Notification.
- The uncertainty regarding this forecast is reduced compared to the previous month due to the decreasing amount of time until year-end.

GRAPH 2. NON-FINANCIAL REVENUE

- Revenue as a % of GDP have declined two tenths since January due to lower transfers from the State to finance the SEPE and and interest reduction from the Reserve Fund.
- Contributions, however, have grown strongly at rates above nominal GDP.
- Compliance with the 2017 GIP revenue forecasts is considered highly unlikely.

GRAPH 3 NON-FINANCIAL EXPENDITURE

Source: IGAE and AIReF estimates

- Expenditure increased in September as a result of the June transfer from the SEPE to the ARs, which in 2016 was made in December. Discounting this effect, expenditure continued to decline as a % of GDP, a situation that will continue for the rest of the year.
- This trend reflects a reduction in unemployment spending, which remains below the initial Government forecasts. Likewise, growth in pension expenditures continues below nominal GDP growth, mainly due to the application of the IRP.
- Compliance with the 2017 GIP expenditure forecasts is considered highly likely.

Assumptions and notes on quarterly 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 October for the Social Security System, the State Public Employment Service and the Wage Guarantee Fund. The projections profile is conditioned by continuously updating the General Intervention of the State Administration (IGAE) of the General Government Accounts. The latest update (dated 29 September 2017) led to a significant revision of the numerous national accounting headings from 2013 to 2017, with less important changes since 2007. Likewise, the National Institute of Statistics has revised the nominal GDP for 2014-2016, incorporating the newly published data into their calculations.

- 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 30 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 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) 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:

Very likely	80-99%: compliance highly likely.
Likely	60-79%: compliance likely.
Feasible	40-59%: compliance feasible.
Unlikely	20-39%: compliance unlikely.
Very unlikely	0-19%: compliance highly unlikely.