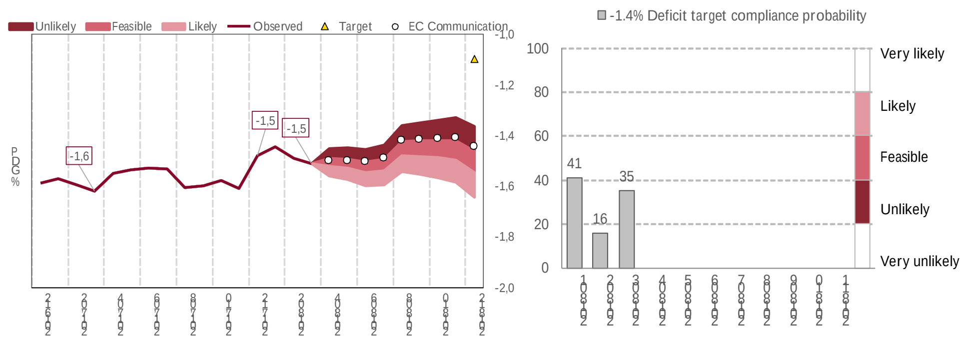
Monthly stability target monitoring

D. Social Security Funds (SSF) March 2018

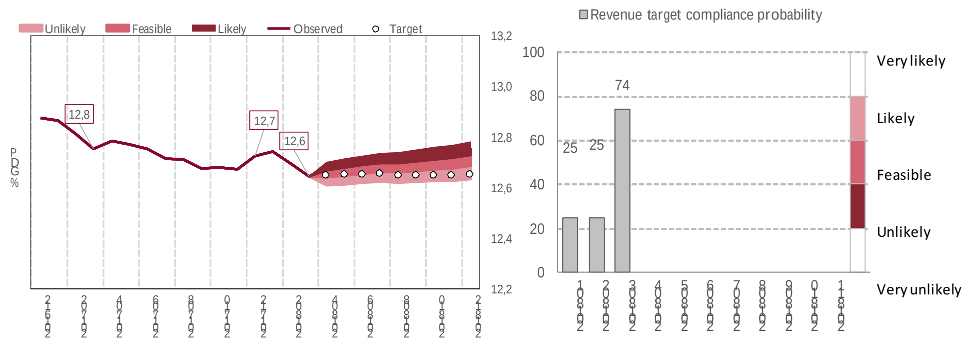
FIGURE 1. NET LENDING/BORROWING



- It is considered unlikely to reach the 1.4% deficit notified to the E.C. despite the increase in the CA transfer contained in the GSB.
- The SSF sub.sector deficit will very likely stand at around 1.5% GDP, in line with that observed the previous year.

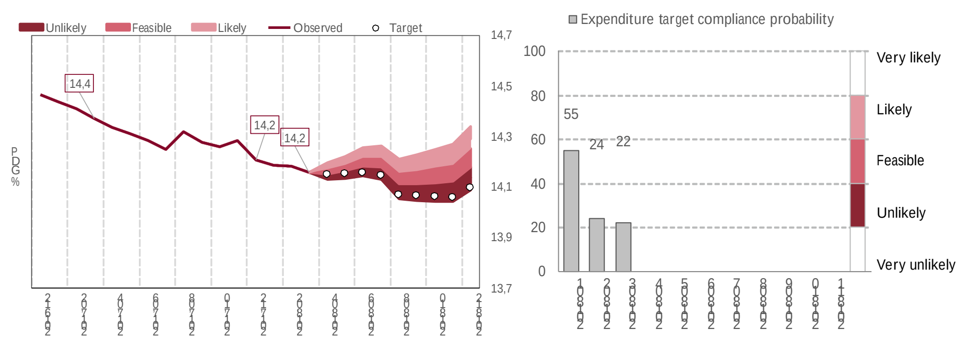
(*) The deficit and the debt notification sent to the European Commission on 30 September included a 2018 closing forecast that reflected a SSF deficit of 1.4% GDP.

FIGURE 2. NON-FINANCIAL REVENUE



- Revenue as a percentage of GDP remained stable, with contributions still growing at rates close to 5%.
- Compliance with the revenue envisaged in the GSB is now considered likely due to the inclusion of the new CA transfer approved during processing of the GSB into AIReF's estimates.

FIGURE 3 NON-FINANCIAL EXPENDITURE



- Expenditure grew as percentage of GDP due to the increase in pensions above that set by the PRI (minimum and non-contributory by 3% and the rest by 1.6%).
- The reduction in expenditure on unemployment is maintained, although much more moderate.
- It is considered unlikely to comply with the expenditure envisaged in the GSB, consistent with compliance with the target notified.

Source: IGAE and AIReF's estimates

Assumptions and Notes on Monthly Monitoring

- AIReF's forecasts for non-financial expenditure, non-financial revenue and the fiscal balance are updated considering the results of its own models for contributions, pensions and unemployment, and the latest national accounting data and budgetary execution data available for the Social Security System, the State Public Employment Service and the Wage Guarantee Fund. The forecasts are conditioned by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the GG Accounts.

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

- The deficit target of -1.1% GDP was set by the Council of Ministers on 13 July 2017. However, the first deficit and debt notification, sent to the European Commission on 30 March 2018, included a 2018 deficit forecast that reflects that the deficit foreseen for the Social Security Agencies is greater than the target approved, standing at -1.4% 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) sub-sector 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