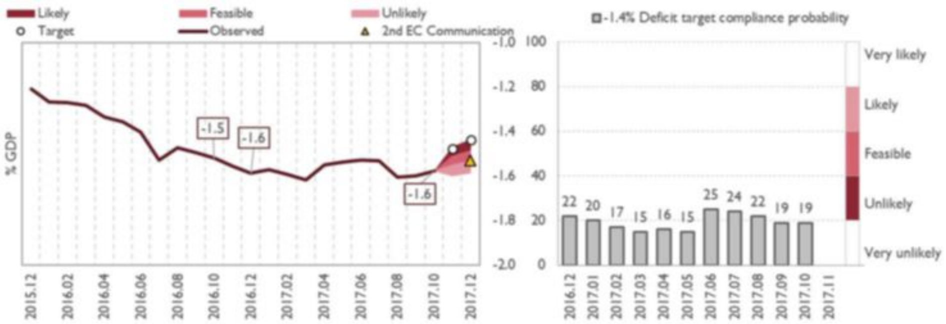
Monthly monitoring of the stability target

D. Social Security Funds — October 2017

GRAPH 1. NET LENDING/BORROWING



- Compliance with the 1.4% target is considered highly unlikely.
- The deficit of the SSF subsector will very likely end up around 1.5% of GDP, less than the previous year, and in line wih the projections included in the Notification sent to the Commission.

(*) The deficit and debt notification, sent to the European Commission on September 31 included a forecast for 2017 that reflected a SSF deficit of 1.5% of GDP

GRÁFICO 2. NON-FINANCIAL RESOURCES

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

GRAPH 3. NON-FINANCIAL EXPENDITURE

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

Source: IGAE and AIReF estimates

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 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 29 September 2017) led to a revision of numerous national accounts, with significant changes from 2013 to 2017, and smaller changes 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 2 December 2016 at -1.4% of GDP. However, the deficit and debt report sent to the European Commission on 31 September included a closure forecast for 2017 which included a Social Security Fund deficit forecast 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