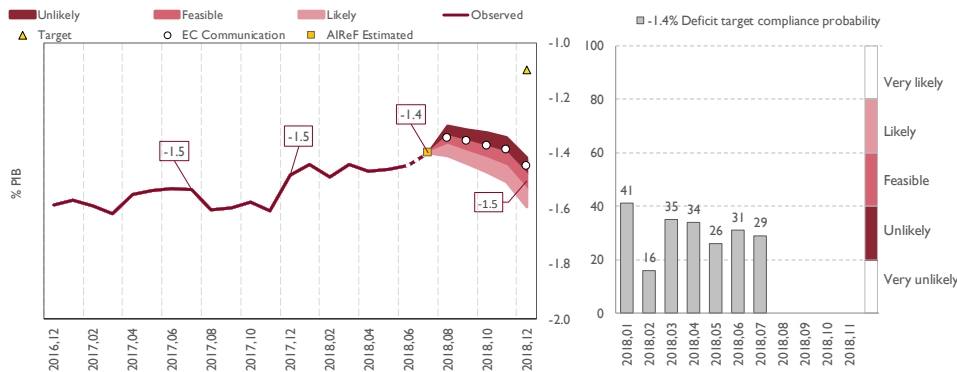


Monthly monitoring of the stability target

D. Social Security Funds (SSF)

July 2018

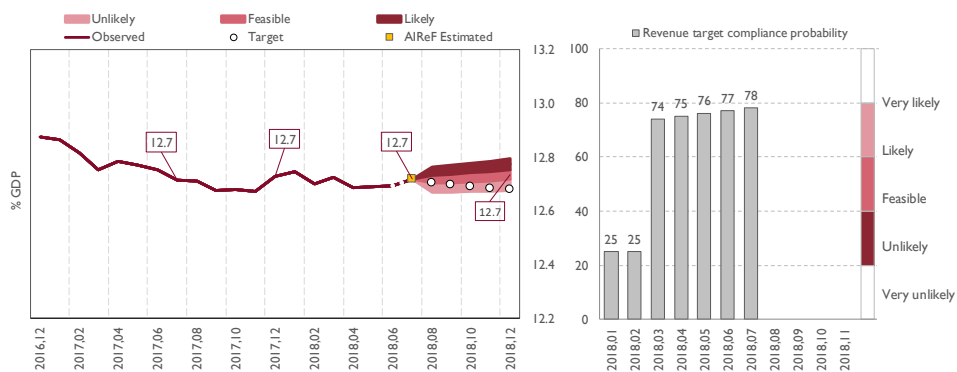
FIGURE 1. NET LENDING/BORROWING



- Achievement of the deficit of 1.4% GDP notified to the EC is considered unlikely.
- The deficit has fallen by 0.1% since the beginning of the year, although this reduction will be reversed in the remainder of the year due to the entry into force of the pension increase.
- The SSF sub-sector deficit will stand at around 1.5% GDP, in line with that observed the previous year.

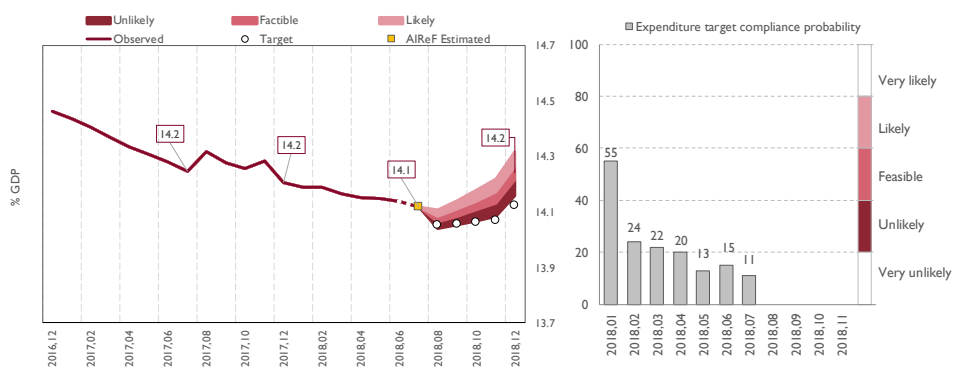
(*) The deficit and the debt notification sent to the European Commission on 30 September included a 2018 closing forecast that reflected a SSF deficit of 1.4% GDP.

FIGURE 2. NON-FINANCIAL RESOURCES



- Compliance with the revenue is considered likely since the incorporation into AIReF's estimates of the new CA transfer included in the GSB and mostly received in July.
- The weight of revenue has remained stable since the beginning of the year, standing at 12.7% GDP and will continue until the end of the year, mainly due to the growth of contributions.

FIGURE 3. NON-FINANCIAL EXPENDITURE



- Compliance with the GSB expenditure projections is considered highly unlikely.
- Since the beginning of the year, the weight of expenditure has fallen by 0.1% in line with AIReF's forecasts.
- The increase in pensions envisaged in the GSB will mean an increase of 0.1% until the end of the year, thus maintaining expenditure's weight on GDP at 14.2% as at the end of 2017.
- AIReF has slightly reduced expenditure forecasts because the increase in widow's pensions is having a smaller effect than expected.
- The reduction in unemployment expenditure is maintained.

Source: IGAE and AIReF's estimates from the cash data for July 2018.



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 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, 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