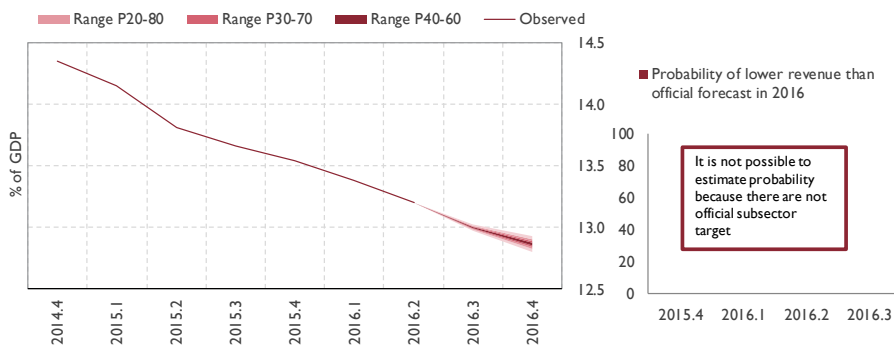


Quarterly monitoring of the stability target

E. Social Security Funds

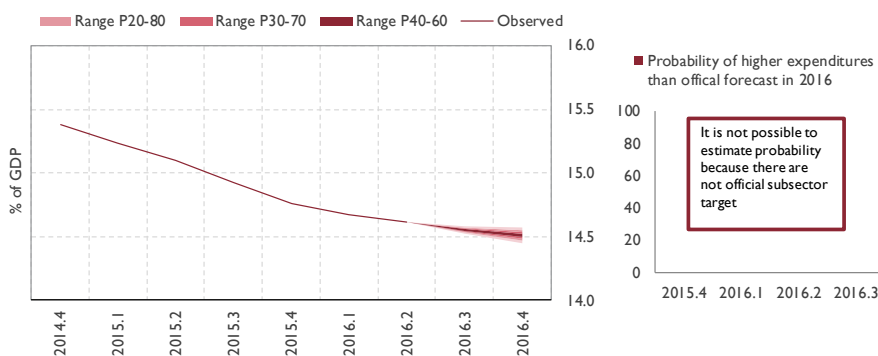
2016/Q2^(*)

CHART 1. NON-FINANCIAL REVENUE



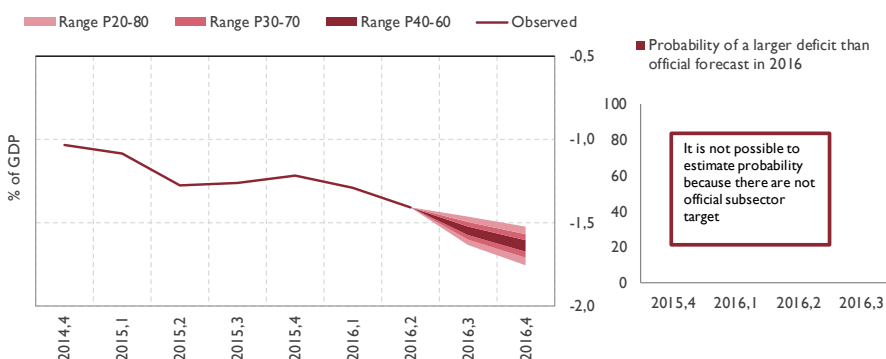
- Revenue as a share of GDP continued to shrink in Q2, a trend that it is expected to continue throughout the year.
- The share of GDP is expected to drop by 1.5 % of GDP by 2016/Q4, from 2014/Q4.
- Performance mainly explained by social contributions growing at a slower pace than GDP and fewer State transfers to finance SEPE.

CHART 2. NON-FINANCIAL EXPENDITURE



- Expenditure continue to decrease, although this trend is levelling out slightly and will continue in this direction during Q3 and Q4 2016.
- Over the period Q4 2014 – Q4 2016, expenditure is expected to decrease by 0.9 GDP percentage points.
- Pattern explained by a reduction in unemployment benefits and a rise in pensions below nominal GDP.

CHART 3. NET LENDING/BORROWING



- The Social Security Funds deficit is estimated to reach a value close to 1.6% of GDP.
- The evolution in revenue and expenditure described above entails a deficit of 0.6 GDP percentage points in 2 years.
- Data for Q2 2016 hardly modifies AIREF's central forecast.



(*) Assumptions and notes relating to quarterly monitoring

- AIRcF's projections for non-financial expenditure, non-financial revenue and balance are updated taking into account the results from its own models for contributions, pensions and unemployment, the National Accounts data available until July and the cash data available up to August for the Social Security System, the Public State Employment Service and the Salary Guarantee Fund.
- Chart 1, 2 and 3 show moving cumulative figures of the last four quarters as percentage of GDP.
- The deficit used for 2016 in the General Government sector is the one set by the Council Decision on 2 August at -4.6% of GDP. This target has not been distributed among the various subsectors. Therefore, the probability of compliance has not been estimated for subsectors. The new deficit target for 2016 has no associated official General Government revenue and expenditure paths.
- For the General Government sector, AIRcF's updated forecast and the official balance path are allocated to quarters applying the same weights as assigned by Tramo/Seats ARIMA projections to each quarter (for each of these components, including both seasonality and trend). The quarterly profile for the balance is obtained using by bottom up from revenue and expenditure.
- Confidence intervals are obtained in two steps. Firstly, a VAR model is estimated using the following variables: (i) variables that are specific to the subsector, such as expenditure; revenue and the Government debt-to-GDP ratio; and (ii) common variables referring to the national aggregate: Real GDP, the GDP deflator and yields on Government 10-year bonds. Secondly, from the projected paths for the different variables and the estimated joint distribution of the VAR shocks, 1500 probabilistic scenarios are built. The intervals displayed on the charts refer to the percentiles 20-80, 30-70 and 40-60. The probabilistic intervals cannot be compared with the official path in this publication as there is no distribution by subsectors.