Quarterly monitoring of the stability target
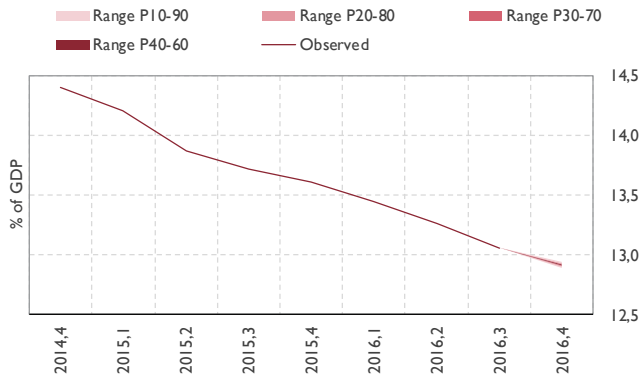
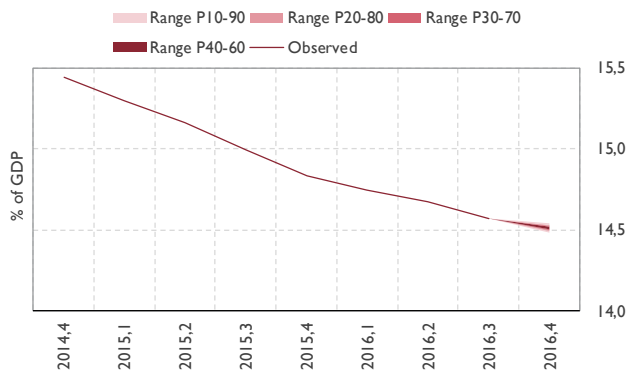## E. Social Security Funds   Q₃ 2016 2016[(*)]

CHART 1. NON-FINANCIAL REVENUE

- Range P10-90
- Range P20-80
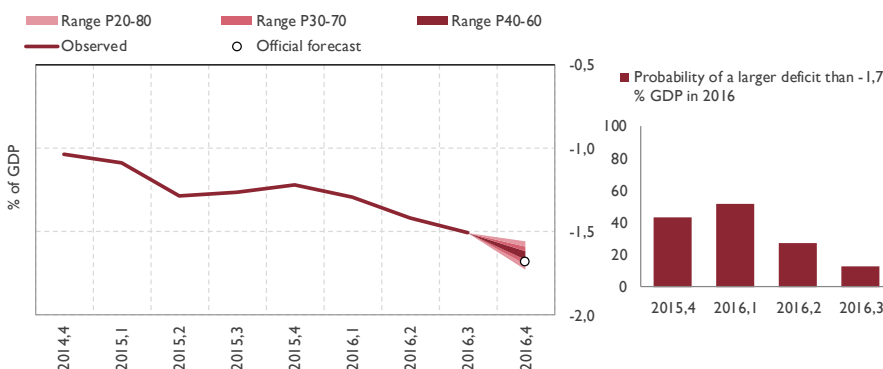- Range P30-70
- Range P40-60
- Observed

- Social Security Funds revenue as a share of GDP continued to shrink in Q3 2016, a trend that it is expected to continue throughout the year.
- For the period Q4 2014-Q4 2016, FSS revenue is expected to decrease by 1.5 GDP points.
- This trend is explained by a growth rate in contributions below GDP, due to salary restraints, smaller unemployment contributions, the measures adopted by employment services and fewer State transfers to finance SEPE.

CHART 2. NON-FINANCIAL EXPENDITURE

- Range P10-90
- Range P20-80
- Range P30-70
- Range P40-60
- Observed

- Expenditure continues to decrease as a share of GDP, despite a slight levelling out that is expected to continue throughout Q4 2014.
- For the period Q4 2014-Q4 2016, expenditure is foreseen to decrease by 0.9 GDP points.
- This pattern is the result of a reduction in unemployment benefits and a rise in pensions below nominal GDP. This reflects the impact of the reforms adopted in 2011 and 2013.

CHART 3. NET LENDING/BORROWING

- Range P20-80
- Range P30-70
- Range P40-60
- Observed
- Official forecast

Probability of a larger deficit than -1,7 % GDP in 2016

IGAE and estimates by AIReF

- The Social Security Funds subsector deficit is estimated to reach 1.6% of GDP, and compliance with the target of 1.7% set at the Council of Ministers on 2 December is deemed very likely.
- Restraints on expenditure are insufficient to offset the loss of weight in revenue, which has given rise to a deficit increase of 0.6 GDP points over two years.
- The data for Q3 2016 hardly modifies AIReF's central forecast.

(*) Assumptions and notes relating to quarterly monitoring

- AIReF's projections for non-financial expenditure, non-financial revenues and balance are updated taking into account the results from its own models for contributions, pensions and unemployment, the National Accounting data available until September and the budget implementation data available up to October for the Social Security System, the Public State Employment Service and the Salary Guarantee Fund.

- The charts show moving cumulative figures for the balance, revenues and expenditures for the last four quarters as percentage of GDP.

- The deficit target is -1.7% of GDP, as set by the Council of Ministers on 2 December 2016. No official path for revenue and expenditure that is compatible with this target is available.

- AIReF's updated forecasts are allocated to quarters applying the same weights as assigned by Tramo/Seats ARIMA projections to each quarter, for each of these components, including the effect of both seasonality and series trend. The quarterly profile for the balance is obtained from the difference between 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.