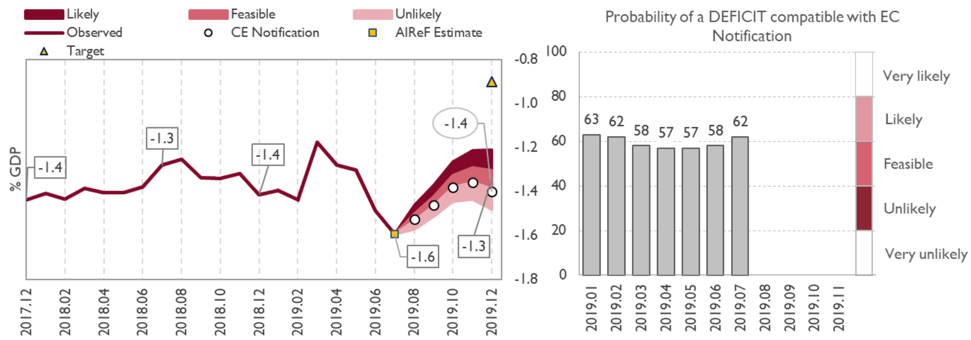
Monthly monitoring of the stability target

D. Social Security Funds (SSF) July 2019

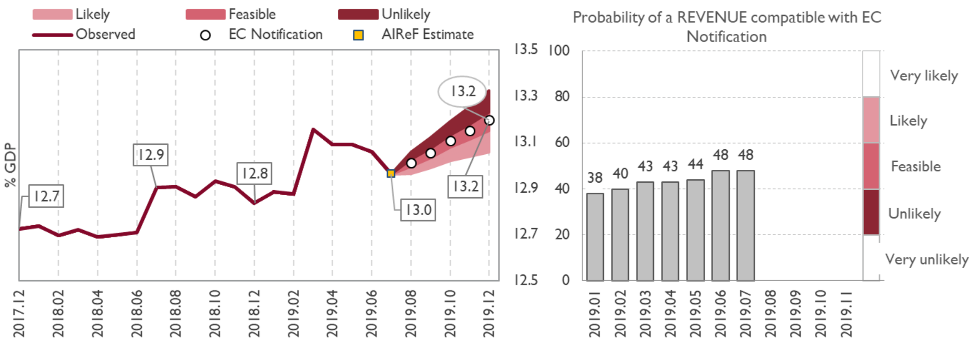
GRAPH 1. NET LENDING/BORROWING



(*) The deficit and the debt notification sent to the European Commission on 30 September included a 2019 closing forecast that reflected a SSF deficit of 1.4% GDP.

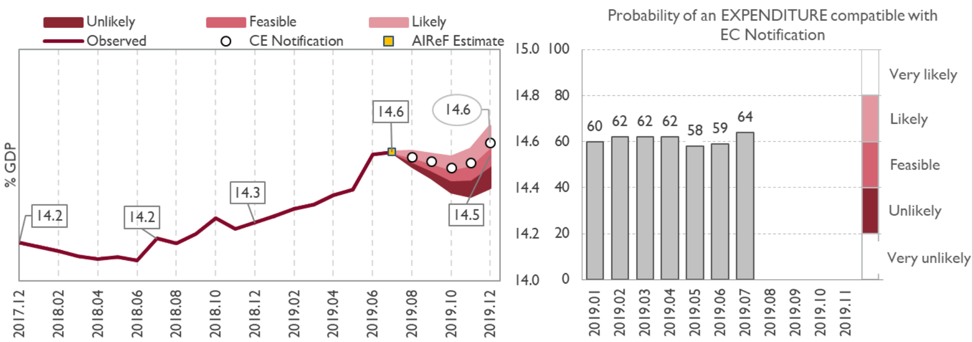
- It is considered likely that the deficit of 1.4% of GDP notified to the E.C. will be achieved, without significant changes occurring since the last report.
- The deficit worsens until July by two-tenths of a point compared to the end of 2018 due to the extra pensions pay and the different nature of transfers from the CA, an effect that will be diluted until the year-end.

GRAPH 2. NON-FINANCIAL RESOURCES



- Fulfilling the forecast of resources is considered feasible.
- Despite the fact that the growth of contributions remains above 7%, transfers from the CA accumulated in the past 12 months have decreased, which moderates the expansionary path of resources of the earlier months of this year.
- In any event, resources are 2 tenths of GDP above the figure at the close of 2018 and they are expected to continue growing at the same pace until the end of the year.

GRAPH 3. NON-FINANCIAL EXPENDITURE



Source: IGAE and AIReF's estimates The data for the current month of the FSS is estimated from the data published in terms of budget execution for that same month.

- Compliance with the Government's expenditure projections is considered likely.
- In 12 months, accumulated terms, the weight of expenditure on GDP has increased by 0.3% in line with the AIReF's forecasts.
- Spending on pensions presents a growth of over 7% until July, due to the revaluation with the CPI and the impact of the rest of the measures taken. In August, that growth slowed to 5%.
- Spending on Temporary Disability in terms of cash in accumulated terms increased above 10% until July. In National Accounts terms, more moderate growth rates of around 8% are forecasted.
- Unemployment benefits have increased since the beginning of the year, after 6 years registering negative rates.

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 affected by the updates continuously carried out by General Intervention Board of the State Administration (IGAE) on the Public Administration Accounts.

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

- The 2019 deficit target of -1.3% GDP was set by the Council of Ministers on 13 July 2017. The first deficit and debt notification, sent to the European Commission (EC) on 30 March 2019, included a 2019 deficit forecast that reflects that the deficit foreseen for the Social Security Agencies is greater than the target approved, standing at -1.4% GDP. Subsequently, the Stability Programme Update has a forecast of -1.2% of GDP. The probability analysis is carried out in relation to compliance with the forecast notified to the European Commission.

- 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:

Muy probable	80-99%: compliance highly likely.
Probable	60-79%: compliance likely.
Factible	40-59%: compliance feasible.
Improbable	20-39%: compliance unlikely.
Muy improbable	0-19%: compliance highly unlikely.