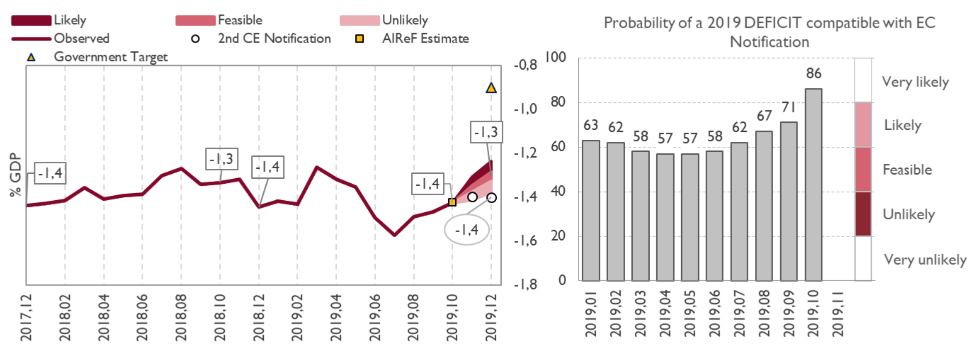
05 December 2019

# Monthly monitoring of the stability target

# D. Social Security Funds October 2019

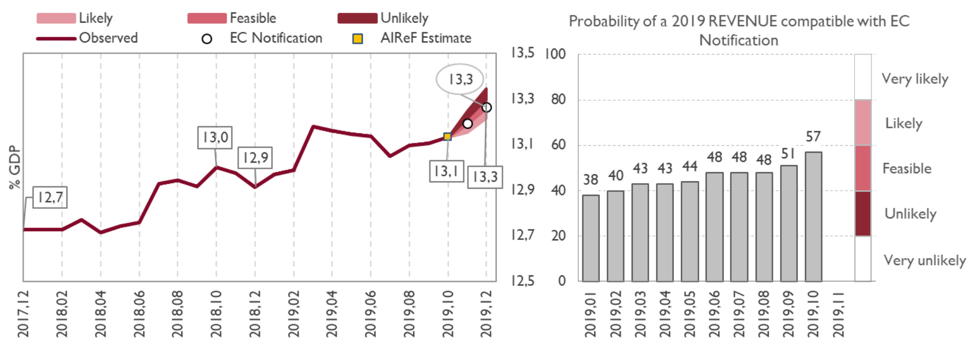
## FIGURE 1. NET LENDING/BORROWING




(*) 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.

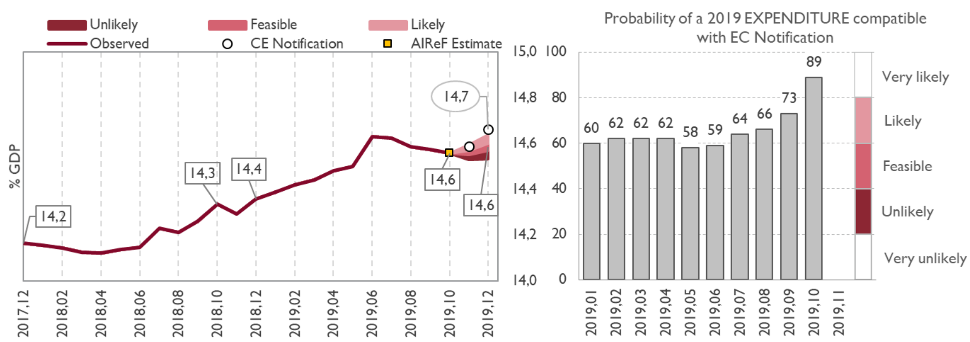
- AIReF considers achievement of the deficit of 1.4% GDP notified to the EC very likely, with slight improvements in revenue and expenditure since the publication of the last report.
- The deficit is maintained at the level of the end of 2018 until October. However, AIReF believes that the dynamism that prices continue to show will lead to a reduction of 0.1% at the end of the year.

## FIGURE 2. NON-FINANCIAL REVENUE




- Compliance with the revenue forecast is considered feasible, slightly improving AIReF's previous forecast.
- Although the growth of contributions remains above 7.5%, AC transfers accumulated in the last 12 months have been reduced, moderating the expansionary path of revenue early this year.
- In any case, revenue is 0.2% GDP above the end of 2018 and this weight is expected to increase a further 0.2% until the end of the year.

## FIGURE 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 budgetary execution for the same month.

- AIReF now considers the compliance with the expenditure forecasted by the Government to be very likely.
- In 12-months accumulated terms, the weight of expenditure has fallen by 0.2% in line with AIReF's forecasts.
- After growing above 7% until July, expenditure on contributory pensions has moderated its growth to rates around 5%, slightly reducing the expenditure forecast for the year as a whole.
- Temporary Disability expenditure in cash terms grows above 10% until October. In National Accounting terms, more moderate growth rates of around 8% are estimated.
- Unemployment benefits have increased since the beginning of the year, after 6 years of recording negative rates, mainly due to the measures adopted.

## 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 the *Intervención General de la Administración del Estado* (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 -0.9% GDP for 2019 was set by the Council of Ministers on 13 July 2017. The first deficit and debt notification, sent to the European Commission on 30 March 2019, included a 2019 deficit forecast that reflects that the deficit foreseen for the FSS is greater than the target approved, standing at -1.4% GDP. Subsequently, the Stability Programme Update includes a forecast of -1.2% GDP. Finally, the second deficit and debt notification sent on September 30 to the European Commission includes a deficit forecast of -1.4%. The probability analysis is carried out with respect to compliance with the forecast of the second notification 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:

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|---|---|
| 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. |