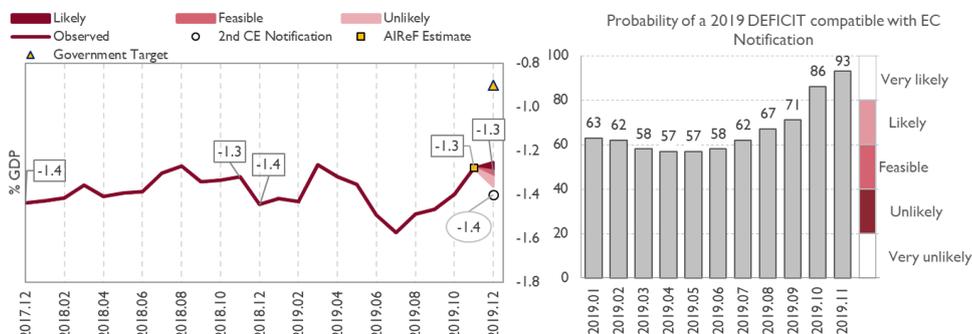


Monthly stability target monitoring

D. Social Security Funds

November 2019

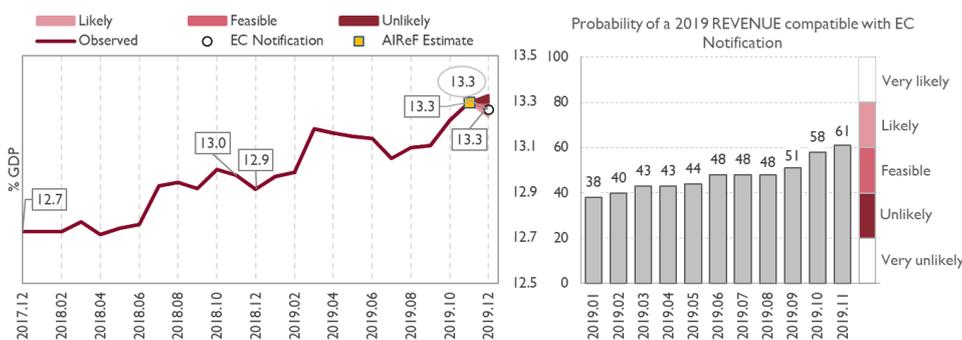
FIGURE 1. NET LENDING/BORROWING



(*) 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.

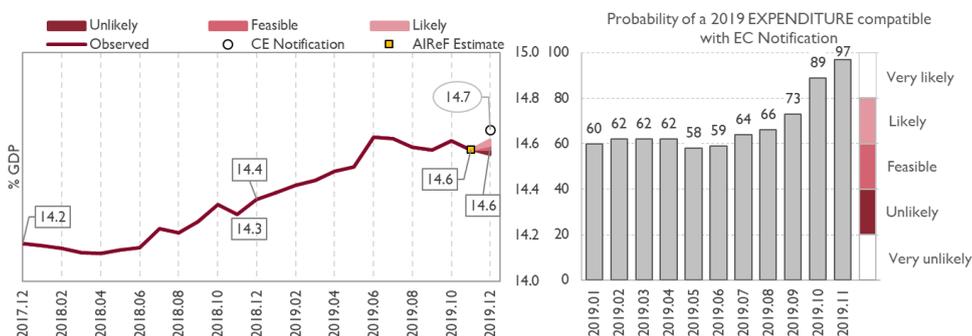
- AIReF considers it very likely achieve the deficit of 1.4% GDP notified to the EC, observing slight improvements in revenue and expenditure since the last report.
- The deficit is reduced 0.1% until November with respect to the beginning of the year, reaching 1.3%. AIReF considers that the dynamism that contributions continue to show will maintain this level at the end of the year.

FIGURE 2. NON-FINANCIAL REVENUE



- Compliance with the revenue forecast is considered likely.
- The growth of contributions remains above 7.5%. The transfers from the CG accumulated in the last 12 months also increase, which leads to an increase in revenue in the last month.
- In any event, revenue stands 0.4% GDP above the end of 2018 and is expected to maintain this weight 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 budgetary execution terms for that same month.

- AIReF now considers it very likely to comply with the expenditure forecasted by the Government.
- In 12-months accumulated terms, the weight of expenditure has increased 0.3% in line with AIReF's forecasts.
- Expenditure on contributory pensions, after growing above 7% until July, has moderated its growth to rates of around 5%, slightly reducing the expenditure forecast for the whole year.
- Unemployment benefits grow 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 (SEPE) and the Wage Guarantee Fund (FGS). 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 -0.9% GDP for 2019 is that set by the Council of Ministers on 13 July 2017. In 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 the Funds is greater than the target approved, standing at -1.4% GDP. Subsequently, the Stability Programme Update reflects a forecast of -1.2% GDP. Finally, the second deficit and debt notification sent to the European Commission on 30 September includes an expected deficit of -1.4%. The probability analysis relates 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:

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.