

Quick Note 13/09/2017

Spain · The public sector deficit (excl. LAs) stood at 2.3% of GDP in June**Data**

- The combined deficit for the public sector as a whole, excluding local authorities (LAs), stood at 2.3% of GDP¹ in June, 7 tenths lower than the June 2016 figure.
- By public authority:
 - **The State deficit**, for which data is available up to July, was down to 1.9% of GDP compared to 2.7% in July 2016.
 - **Social Security posted a deficit of 0.5% of GDP** up to June (1 tenth less than in June 2016).
 - **Regional governments (RG) showed a deficit of 0.7% of GDP** up to June (1 tenth higher than in June 2016).

Assessment

- **The overall budget execution figures up to June show an adjustment of public sector accounts.** Specifically, in the first half of the year the public deficit was cut by 0.7 p.p., out of the 1.3 p.p. required to secure the 2017 deficit target of 3.0% of GDP (3.1% including losses linked to financial aid). This strong performance of public accounts, combined with a high likelihood of contingencies linked to the toll road bailout to be transferred entirely to 2018, should help Spain to achieve its deficit target.
- **Up to June, revenue for public authorities (excluding LAs) rose by 4.5%** compared to the same period in 2016, due to an increase in tax revenue, which rose 5.6% YoY, and in Social Security contributions, which grew by 5.4%. The tax revenue improvement was chiefly driven by an increase in VAT income, which up to July grew by 9.3%², a faster uptick than envisaged in 2017 general budgets (7.3%). Furthermore, corporate and personal income tax takings likewise grew significantly (10.8% and 7.1% respectively³), albeit less than envisaged in the 2017 general budget.
- **Public authority spending (excluding LAs) increased by 0.1%** compared to June 2016. This slight uptick was driven by an increase in social benefits (1.5%). This was practically offset by a decline in salary remuneration (-0.4%) and interest spending (-5.3%), which continues to benefit from the ongoing scenario of low interest rates.
- By authorities, while the State and Social Security recorded improvements compared to the preceding year, regional governments saw figures deteriorate by 1 tenth of GDP compared to the same period in 2016. Specifically, the State deficit, for which data is available up to July, stood at 1.9% of GDP, meaning an improvement of 0.9 p.p. compared to the previous year, driven by a 4.8% increase in non-financial resources of the State, and non-financial costs declining 3.2% against the same period in 2016.
- In the light of this data, **the risks in terms of our deficit forecast for the full year 2017, of 3.1% of GDP, look balanced.**

¹This figure does not factor in losses linked to financial aid, which stand at 299 million euros (0.03% of GDP) in the year to date.

²Growth in standardised terms (corrected for the impact had by various regulatory measures).

³Growth in standardised terms (corrected for the impact had by various regulatory measures).

Budget execution by public authority

(Accumulated data year-to-date)

	Latest figure	Millions of euros		% of GDP	
		2016	2017	2016	2017
State	July	-30,259	-21,604	-2.7	-1.9
Social Security	June	-6,584	-6,243	-0.6	-0.5
Regional governments	June	-7,154	-8,362	-0.6	-0.7
Total public authorities (excl. LC)*	June	-33,524	-26,982	-3.0	-2.3
LC	March	675	1,475	0.1	0.1
Total public authorities	1Q 2017	-7,823	-4,500	-0.7	-0.4

Note*: Excluding financial aid.

Source: CaixaBank Research, based on State Public Accounts data.

Budget execution for public authorities as a whole (excluding local councils)

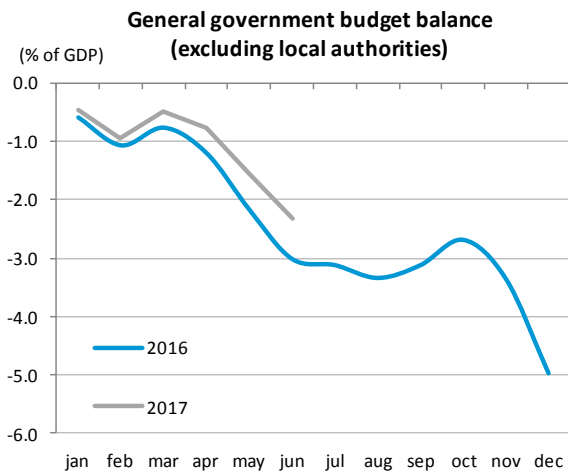
(Accumulated data up to June)

	Millions		Change
	2016	2017	%
Revenue	180,951	189,117	4.5%
Tax revenue	97,452	102,874	5.6%
Social contributions	63,708	67,169	5.4%
Expenses	216,226	216,443	0.1%
Salary remuneration	49,182	48,997	-0.4%
Social benefits*	86,564	87,839	1.5%
Interests	15,458	14,644	-5.3%

Note: *Social benefits other than transfers in kind.

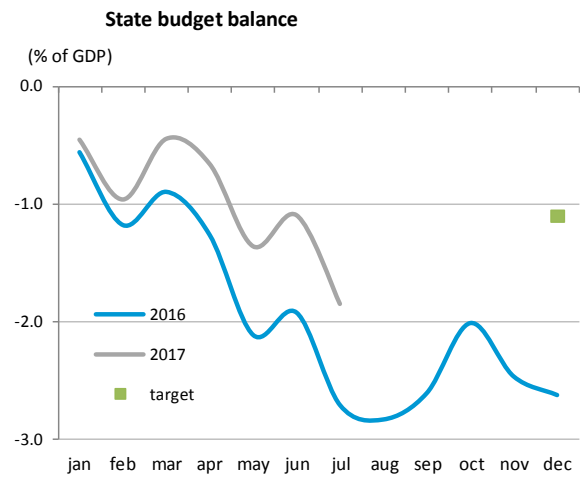
Source: CaixaBank Research, based on State Public Accounts data.

Deficit by authorities



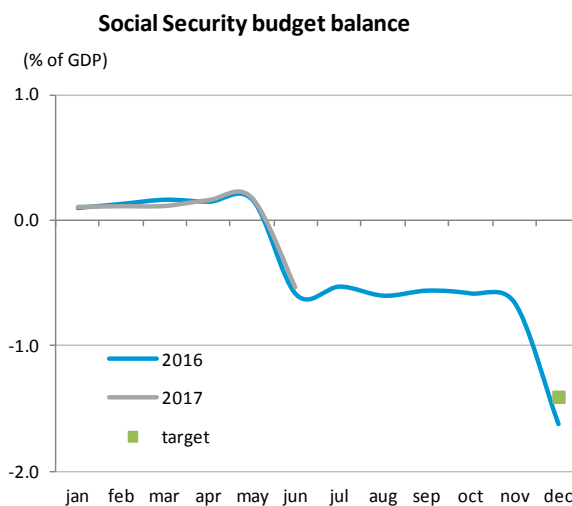
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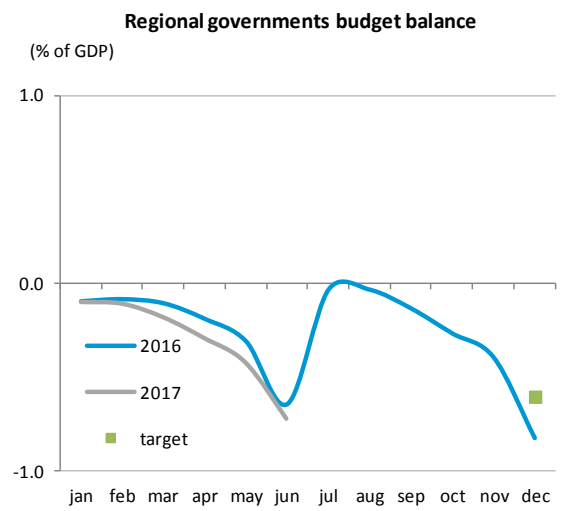


Note*: Target refers to Central Government.

Source: CaixaBank Research based on State Public Accounts data.



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Anna Campos, Economist, Macroeconomics Department, Strategy Planning and Research Division, CaixaBank e-mail: research@caixabank.com

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