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Spain · The Council of Ministers approves draft 2018 General State Budget

Council of Ministers 27/03/2018

- The Council of Ministers approved the draft bill for General State Budget (PGE in its Spanish acronym), which will now have to be passed by Spain's parliament.
- The PGE includes an **update to the macroeconomic figures** submitted by the government in October 2017. **The new forecasts look realistic** and are coherent with those of CaixaBank Research (see table 1). The GDP growth forecast for 2018 was revised to 2.7%, up from the figure of 2.3% announced by the government in October 2017. Forecasts for the labour market are somewhat more optimistic than CaixaBank Research numbers. Specifically, employment growth is expected to stand at 2.5%, more than the 2.4% forecast by CaixaBank Research, despite the government anticipating slightly weaker GDP growth.

Table 1: Macroeconomic scenario

Annual change (%) unless expressly stated otherwise

	Data 2017	PGE 2018	CaixaBank Forecast 2018
Real GDP	3.1	2.7	2.8
Private consumption	2.4	2.0	2.6
Public sector consumption	1.6	1.1	1.2
GFCF	5.0	4.7	3.3
Domestic demand (contrib.)	2.8	2.3	2.5
Exports of goods and services	5.0	4.8	3.5
Imports of goods and services	4.7	4.1	2.9
Foreign balance (contrib.)	0.3	0.4	0.3
Employment CN	2.8	2.5	2.4
Employment EPA Q4 (thous.)	490	475	445
Unemployment EPA Q4 (thous.)	-471	-339	-439
Jobless rate (% active pop.)	17.2	15.5	15.3
Current account balance (% of GDP)	1.9	1.7	1.8

Source: CaixaBank Research, based on Moncloa and National Statistics Institute data.

- **The draft general budgets law includes the following measures:**
 - **A wage increase of 1.95% for public sector workers in 2018**, increasing spending by some 2.4 billion euros. This salary increase will also take place over multiple years (up to 2020) and is comprised of fixed salary growth plus an additional increase linked to economic growth. The plan also envisages an additional 0.55% increase in 2020 subject to public deficit target being achieved.
 - **Personal income tax cuts worth an estimated 1 billion euros.** The draft budget would lift the minimum taxable income to 14,000 gross annually (from 12,000 at present), with personal income tax cuts for those earning up to 18,000 gross. In addition, the budget also includes personal income tax deductions for spending on childcare (1,000 euros annually), care for a disabled spouse (1,200 euros annually) and an expanded deduction for large families of up to 600 euro annually as of, and including, the fourth child.
 - **A pension increase worth an estimated 2 billion euros.** In particular, the draft budget envisages a 3% increase in minimum and non-contributory state pensions, as well as an uptick of 1% for pensions of up to 700 euros per month.

Table 2: Main budgetary measures in the 2018 PGE and their impact

	<i>Millions of euros</i>	<i>% of GDP</i>
Public sector salary increases	2,400	0,2%
Income tax cuts	2,000	0.2%
Pension increases	1,000	0,1%
Total	5,400	0.4%

Source: CaixaBank Research, based on Ministry of the Treasury and Moncloa data.

- Factoring in the announced measures, the draft budgets envisage growth in 2018 tax revenue of 6.0%, somewhat short of the expansion posted in 2017 (6.4%). Meanwhile, growth in expenses is limited to 1.3%, in line with the non-financial spending cap approved in July 2017.

Table 3: Main state revenue items

(Millions of euros)

	2016	2017	2018 (PGE)	Growth 2016-2017	Growth 2017-2018
Tax revenues	186,248	198,100	210,015	6.4%	6.0%
Personal income tax	72,415	77,038	82,056	6.4%	6.5%
Corporate tax	21,678	23,143	24,258	6.8%	4.8%
VAT	62,845	67,797	71,575	7.9%	5.6%

Source: CaixaBank Research, based on Ministry of the Treasury and Moncloa data

- Following the release of 2018 draft budgets, **the risks to our 2018 deficit forecast (2.5% of GDP) look slightly upside.**

Anna Campos and Judit Montoriol, Economists, CaixaBank Research, e-mail: research@caixabank.com

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