

Quick Note 27/03/2018

## Spain · The public sector deficit stood at 3.1% of GDP in 2017

### Data

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- The public sector deficit stood at **36,758 million euros** in 2017, a figure that represents 3.1% of GDP.
- Revenues were up 4.6% against 2016 while expenses climbed 1.1%.

### Assessment

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- The 2017 public deficit **stood at 3.1% of GDP**, in line with the stability target agreed with the European Commission and the CaixaBank Research forecast.
- The **deficit declined considerably (-1.2 p.p.)** compared to the 2016 figure (4.3% of GDP) thanks to rapid growth in economic activity and sustained neutral fiscal policy.<sup>1</sup>
- The public sector deficit adjustment was largely driven by **cost reductions** representing 1.6 p.p. of GDP. Again, there was a decline in interest payments and a dip in social transfers in kind, which are associated with lower unemployment benefit payments.
- The deficit reduction was also driven by **increased revenues** as a percentage of GDP (+0.2 p.p.), which were particularly buoyant thanks to a sharp uptick in taxation (5.2%) and Social Security contributions (4.9%) (see first table for further details).
- **By administrations** (see second table):
  - The deficit of **regional governments** was halved against 2016, comfortably meeting stability targets. Specifically, the deficit of regional governments ended the year at 0.3% of GDP (0.5 p.p. below the 2016 figure), while four regional governments posted surpluses at year-end 2017 (Balearic Islands, Canary Islands, Navarra and Basque Country).
  - **Local Authorities** also comfortably secured their stability targets, showing a surplus of 0.6% of GDP, matching the previous year's figure.
  - The deficit correction for the **central state**, of 0.6 p.p., was not enough to secure the stability target, with the deficit standing at 1.9% of GDP. However, it is worth pointing out that the central state posted a primary surplus for the first time in 10 years.
  - Finally, **Social Security** budget execution revealed ongoing structural problems even in a year of economic boom, with the deficit declining by just 0.1 p.p. to 1.5% of GDP, well short of the stability target.
- In the light of this data, **the risks to our 2018 deficit forecast (of 2.5% of GDP) look balanced.**

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<sup>1</sup> Financial aid in 2017 amounted to 475 million euros, representing 0.04% of GDP, well below the 2,389 million euros seen in 2016 (0.2% of GDP).

**Table 1: Net lending (+) / borrowing (-) capacity of Public Administrations financing 2016-2017**

	2016	2017	2016-2017 change	2016	2017	2016-2017 change
	(Millions of euros)		(%)	(% of GDP)		(p.p.)
<b>TOTAL INCOME</b>	421,632	441,099	4.6%	37.7	37.9	0.2
Taxes	246,475	259,355	5.2%	22.0	22.3	0.3
Social Security contributions	136,173	142,908	4.9%	12.2	12.3	0.1
Rest	38,984	38,836	-0.4%	3.5	3.3	-0.1
<b>TOTAL EXPENDITURE</b>	472,033	477,332	1.1%	42.2	41.0	-1.2
Compensation of employees	121,325	122,781	1.2%	10.8	10.6	-0.3
Intermediate consumption	56,973	58,186	2.1%	5.1	5.0	-0.1
Social benefits	173,775	177,924	2.4%	15.5	15.3	-0.2
Gross fixed capital formation	21,590	23,286	7.9%	1.9	2.0	0.1
Interests	31,405	29,836	-5.0%	2.8	2.6	-0.2
Rest	66,965	65,319	-2.5%	6.0	5.6	-0.4
<b>Net lending (+) / borrowing (-) capacity</b>	-50,401	-36,233	-28.1%	-4.5	-3.1	1.4
Aid to financial institutions	-2,389	-475	-80.1%	-0.2	0.0	0.2
<b>Net lending (+) / borrowing (-) capacity without aid to financial institutions</b>	-48,012	-35,758	-25.5%	-4.3	-3.1	1.2

Source: CaixaBank Research, based on data from the Ministry of Finance and Civil Service .

**Table 2: Net lending (+) / borrowing (-) capacity by administrations**

(%) of GDP)

	2016		2017		2018	
	Figure	Objective	Figure	Objective	Figure	Objective
Central Government	-2.5	-1.1	-1.9	-0.7		
Regional Governments	-0.8	-0.6	-0.3	-0.4		
Local Governments	0.6	0	0.6	0		
Social Security	-1.6	-1.4	-1.5	-1.1		
<b>Net lending (+) / borrowing (-) capacity without aid to financial institutions</b>	<b>-4.3</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-2.2</b>		

Anna Campos, Economist, CaixaBank Research. E-mail: [research@caixabank.com](mailto:research@caixabank.com)

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