

Quick Note 30/05/2018

Spain · Public sector deficit (excluding local authorities) of 0.4% of GDP in Q1 2018

Data

- The combined public sector deficit in Q1 stood at 0.4% of GDP, one tenth short of the Q1 2017 figure.¹
 - **Social security showed a surplus of 0.2% of GDP** (1 tenth higher than March 2017).
 - **The deficit for regional governments amounted to 0.1% of GDP** (1 tenth higher than Q1 2017).
 - The **central government** (which includes the state and central government bodies) **posted a deficit of 0.4% of GDP** (matching the Q1 2017 number).
- Based on the figures up to April, the **state deficit shrank to 0.5% of GDP** (0.7% in April 2017).

Assessment

- Improving economic activity again drove a reduction of Spain's public deficit. However, **the public deficit shrank in Q1 by just 1 tenth, of the total 9 required to secure the 2018 deficit target of 2.2%**.
- While income continues to grow at a solid pace, this constrained deficit reduction was due to an uptick in public sector spending:
 - **Overall public sector revenue (excluding local authorities) again expanded considerably**, rising 5.8% against Q1 2017, thanks to tax revenue growing 7.6% year-on-year and social security contributions rising 4.4% against last year's figure. The improvement in tax revenue has chiefly been by increased VAT and personal income tax income, which are expected to grow 5.6% and 6.5% respectively in 2018, as envisaged by general state budgets.
 - **Overall public sector spending (excluding local authorities) is up considerably year-to-date (4.1% against Q1 2017)**. The mentioned increase has largely been driven by rising Social Security benefits (3.0%) and gross capital formation (29%). Meanwhile, despite high debt levels (98.9% of GDP in Q1 2018), a scenario of low interest rates ensured that the interest payments heading remained in decline. Specifically, spending on interest was down 4.0% against March 2017.
- In the light of this data and the expansive fiscal policy envisaged in general state budgets, **the risks facing our full-year 2018 deficit forecast of 2.6% of GDP look balanced**.

¹ This figure excludes Local Corporations and does not take into account losses linked to financial aid, which stand at 62 million euros (0.01% of GDP) in the year to date.

Budget execution by government body

(Accumulated data year-to-date)

	Last figure	Millions of euros		% of GDP	
		2017	2018	2017	
State	April	-7,623	-5,928	-0.66	-0.49
Social Security	March	1,524	1,983	0.13	0.16
Regional governments	March	-2,283	-1,507	-0.20	-0.12
Total P.S. (excl. L.A.)*	March	-5,873	-4,653	-0.50	-0.38

Note: *Excluding financial aid.

Source: CaixaBank Research based on state public accounts data.

Overall public sector budget execution (excluding L.A.)

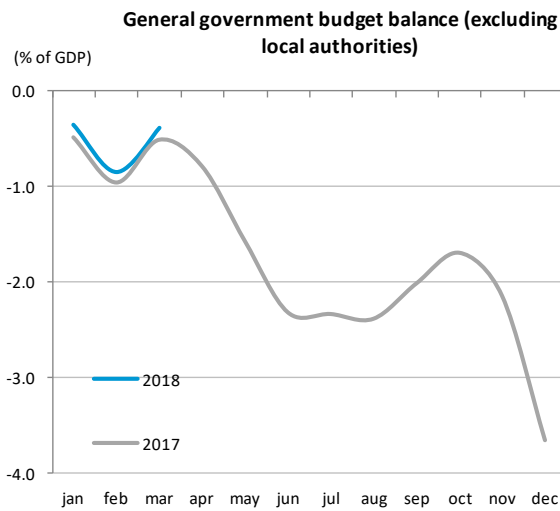
(Data accumulated up to March)

	Millions		Change %
	2017	2018	
Revenue	94,167	99,618	5.8%
Tax Revenue		56,146	7.6%
Social security contributions		34,878	4.4%
Expenses	100,216	104,333	4.1%
Salary remuneration		22,632	1.4%
Social benefits*		39,811	3.0%
Gross capital formation	4,107	5,291	28.8%
Interests	7,034	6,751	-4.0%

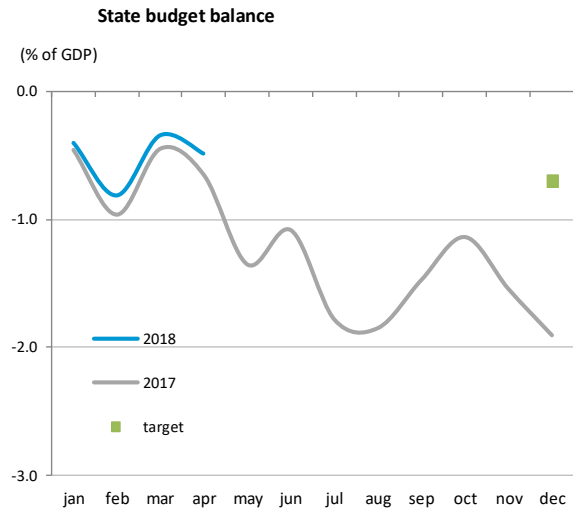
*Social benefits other than transfers in kind.

Source: CaixaBank Research based on state public accounts data.

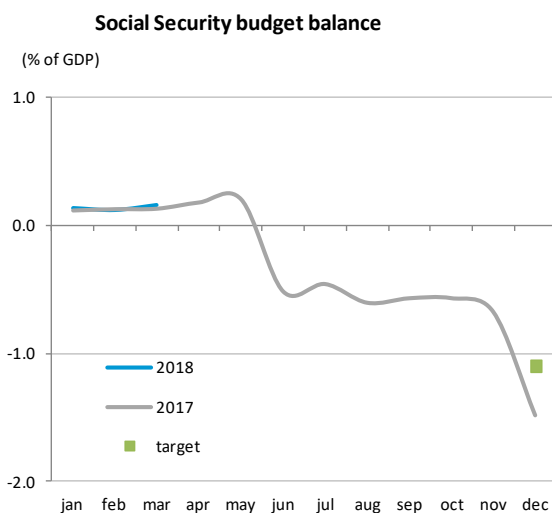
Deficit by administrations



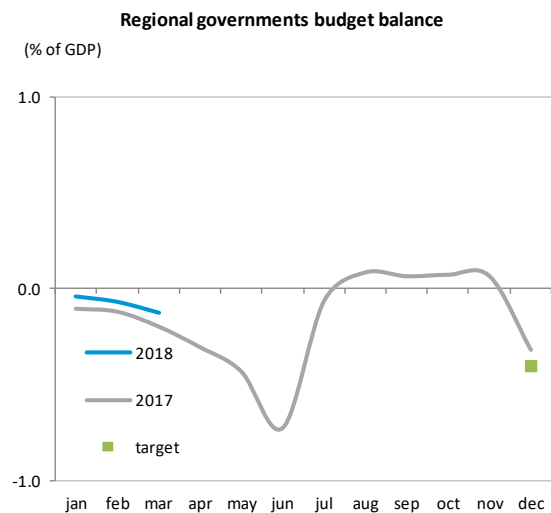
Note: Excluding financial aid.
Source: CaixaBank Research based on State Public Accounts data.



Nota*: Target refers to Central Government.
Source: CaixaBank Research based on State Public Accounts data.



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Anna Campos, Economist, CaixaBank Research, e-mail: research@caixabank.com

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