

Quick Note 28/06/201802/07/2018

Spain · The public sector deficit stood at 0.3% of GDP in Q1 2018

Data

- The combined public sector deficit in Q1 stood at 0.3% of GDP, one tenth short of Q1 2017.¹
- Based on figures up to April:
 - **Social Security posted a surplus of 0.2% of GDP** (matching that of April 2017).
 - **The deficit for regional governments amounted to 0.2% of GDP** (1 tenth below April 2017).
- Based on the figures up to May, the **state deficit stood at 1.2% of GDP** (1.4% in May 2017).

Assessment

- Improving economic activity again drove a reduction of Spain's public deficit. However, **the public deficit in Q1 shrank 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, the weaker deficit reduction was due to an uptick in public sector spending:
 - **Overall public sector revenue (excluding local authorities) up to April again expanded considerably**, rising 6.6% against the same period of the previous year, thanks to robust tax revenue growth of 7.6% year-on-year and social security contributions rising 5.4% against the previous year's figure. Tax revenue improvements have been chiefly driven by rising VAT revenue (+4.1% up to May) and personal income tax (+7.3% up to May), in line with 2018 general state budgets forecasts.
 - **Overall public sector spending (excluding local authorities) was up considerably through to April (4.2% against the same period last year)**. Said increase was largely driven by rising Social Security benefits (3.0%) and gross capital formation (38.4%). 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 interests was down 4.0% against April 2017.
- In the light of this data and the expansive fiscal policy envisaged in general state budgets, **the risks in terms of our full-year 2018 deficit forecast of 2.6% of GDP look balanced**.

¹ This figure does not take into account losses linked to financial aid, which stand at 62 million euros (0.001% of GDP) in Q1 2018.

Budget execution by government body (Accumulated data year-to-date)

| | Last figure | Millions of euros | | % of GDP | |
|--------------------------|-------------|-------------------|---------|----------|-------|
| | | 2017 | 2018 | 2017 | 2017 |
| State | May | -15,787 | -14,493 | -1.36 | -1.19 |
| Social Security | April | 2,089 | 2,263 | 0.18 | 0.19 |
| Regional governments | April | -3,538 | -2,438 | -0.30 | -0.20 |
| Total P.S. (excl. L.A.)* | April | -9,105 | -6,881 | -0.78 | -0.57 |
| L.A. | March | 668 | 735 | 0.0 | 0.1 |
| Total Public Sector | Q1 2018 | -5,205 | -3,918 | -0.4 | -0.3 |

Note: *Excluding financial aid.

Source: CaixaBank Research based on state public accounts data.

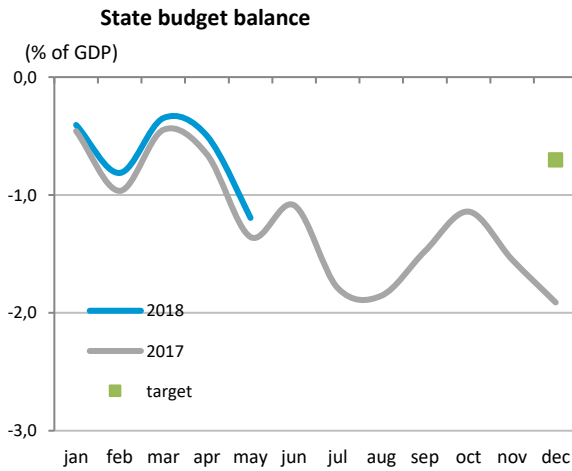
Overall public sector budget execution (excluding L.A.) (Data accumulated up to April)

| | Millions | | Change % |
|-------------------------------|----------------|----------------|-------------|
| | 2017 | 2018 | |
| Revenue | 124,577 | 132,798 | 6.6 |
| Tax Revenue | | 73,589 | 7.6 |
| Social security contributions | | 46,633 | 5.4 |
| Expenses | 133,909 | 139,552 | 4.2 |
| Salary remuneration | | 30,294 | 1.9 |
| Social benefits* | | 53,332 | 3.0 |
| Gross capital formation | 5,519 | 7,637 | 38.4 |
| Interests | 9,507 | 9,128 | -4.0 |

*Social benefits other than transfers in kind.

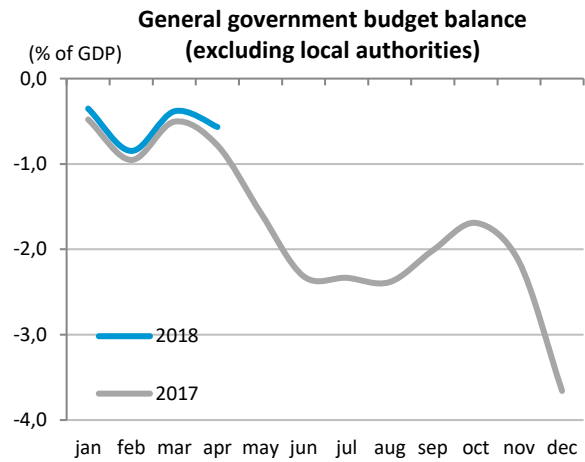
Source: CaixaBank Research based on state public accounts data.

Deficit by administrations



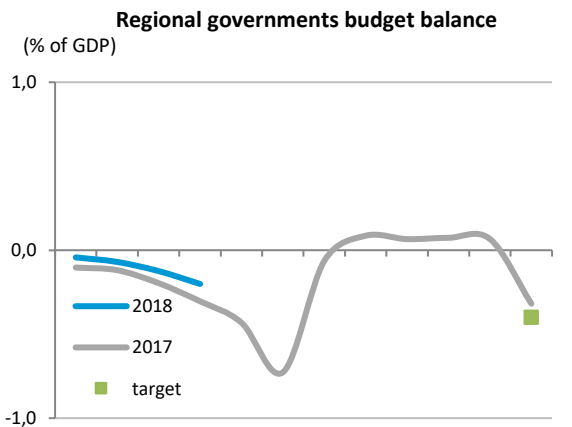
Nota*: Target refers to Central Government.

Source: CaixaBank Research based on State Public Accounts

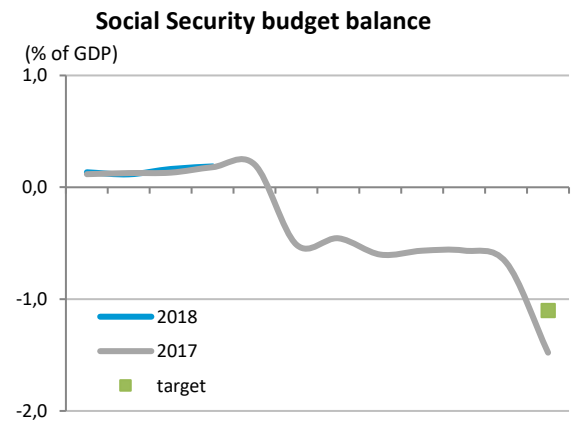


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