

Flash Note 28/09/2018

Spain · The public sector deficit stood at 1.8% of GDP in 2Q 2018

Data

- The overall public sector deficit in 2Q, including local authorities (L. As), stood at 1.8% of GDP,¹ 4 tenths lower than the 2Q 2017 figure.
- By public authority,
 - The **State deficit**, for which data is available up to August, was down to **1.6% of GDP** (1.9% in August 2017).
 - **Social Security posted a deficit of 0.3% of GDP** up to July (0.5% in July 2017).
 - **Regional governments (RGs) showed a surplus of 0.1% of GDP** up to July (improving on the -0.1% of GDP figure in July 2017).
 - **Local Authorities** recorded a **surplus of 0.1% of GDP in 2Q** (matching the 2Q 2017 figure).

Assessment

- The overall budget execution figures for 2Q 2018 showed a slight adjustment to public sector accounts. In particular, in the first half of the year the public deficit would have already secured the 0.4 pp decline required to deliver on the 2018 public deficit target of 2.7% of GDP. In the second half we expect a slight uptick in expenditure, particularly due to higher remuneration for public servants and the pension increase envisaged in 2018 general state budgets.
- **Overall public sector revenue (excluding local authorities) up to July expanded considerably**, rising by 6.9% against the same period of the previous year, thanks to robust tax revenue growth of 7.8% year-on-year and social security contributions rising 5.7% YoY.
- **Consolidated public sector spending (excluding local governments) climbed by 4.2% in July against the same month of the previous year**, a somewhat stronger increase than posted in June 2018 (+3.7%). Said uptick has largely been driven by rising Social Security benefits (4.0%) and gross capital formation (23.7%). Meanwhile, despite high debt levels (98.1% of GDP in 2Q 2018), low interest rates ensured that the interest payments heading declined. Specifically, spending on interest was down 0.3% against July 2017.
- By public sector administrations, the State improved its deficit by 3 tenths compared to a year ago, while regional governments and Social Security did so by just 1 tenth. Meanwhile, local authorities maintained a slight surplus, matching the previous year.
- In the light of this data, **the risks in terms of our 2018 full-year deficit forecast of 2.7% of GDP look balanced.**

¹ This figure does not take into account losses linked to financial aid, which stand at 67 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	2018
State	August	-21,588	-18,895	-1.9	-1.6
Social Security	July	-5,309	-3,787	-0.5	-0.3
Regional Govs.	July	-744	681	-0.1	0.1
Total P.S. (excl. L.A.)*	July	-27,155	-22,634	-2.3	-1.9
Local Authorities	June	1,446	615	0.1	0.1
Total Public Sector	2Q 2018	-25,452	-22,083	-2.2	-1.8

Note: *Excluding financial aid.

Source: CaixaBank Research based on state public accounts data.

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

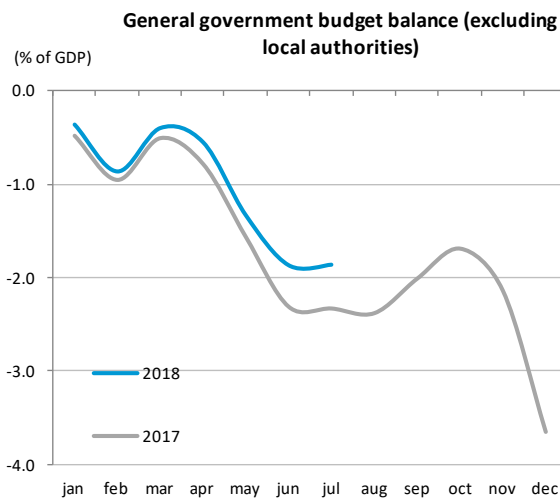
(Data accumulated up to June)

	Millions		Change %
	2017	2018	
Revenue	225,467	240,933	6.9%
Tax Revenue	123,426	133,058	7.8%
Social security contributions	78,295	82,739	5.7%
Expenditure	252,937	263,500	4.2%
Salary remuneration	57,093	58,158	1.9%
Social benefits*	101,141	105,174	4.0%
Gross capital formation	10,075	12,464	23.7%
Interests	17,175	17,130	-0.3%

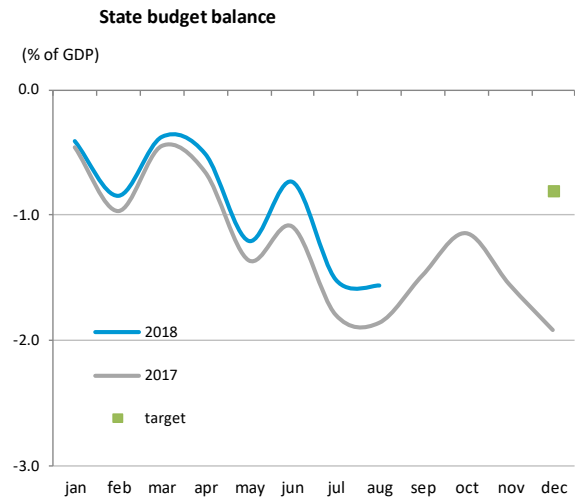
Social benefits other than transfers in kind.

Source: CaixaBank Research based on state public accounts data.

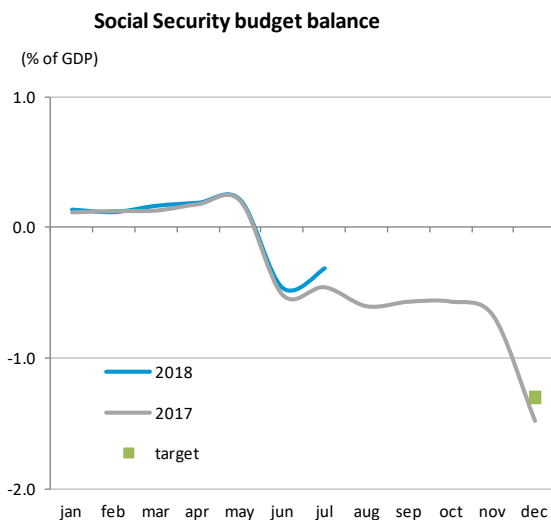
Deficit by administrations



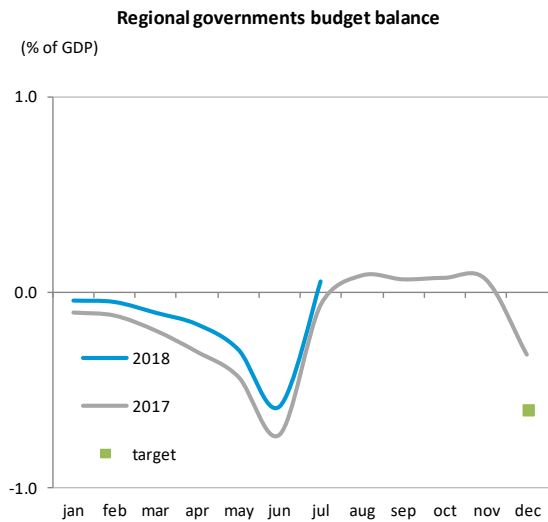
Note: Excluding financial aid.
Source: CaixaBank Research based on State Public Accounts data.



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



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