Flash Note 17/01/2019

Spain · Draft 2019 General State Budgets: budgetary adjustment via revenues

Data

- On Monday, 14 January, the Minister of Finance unveiled draft 2019 General State Budgets. The draft bill will have to be passed by Spain's Parliament.

Assessment

- The **macroeconomic figures used in the latest draft budgets were revised slightly** compared to those in the draft budgets sent to Brussels in October 2018, including GDP growth in 2019 being lowered to 2.2% (-0.1 pp). The AIReF believes the macroeconomic numbers are reasonable, while they are also in line with CaixaBank Research forecasts (see table 1).

- However, **the government will have to cut the deficit from 2.7% of GDP in 2018 to 1.3% of GDP in 2019**, 0.5 pp more than the October figure, after Spain's Senate rejected the new deficit roadmap that had been agreed with the European Commission.

- CaixaBank Research believes **2019 financing requirements will be down 0.5 pp due to a cyclical effect** (driven by expanding economic activity), cutting the deficit to 2.2% of GDP (see chart). Therefore, in order to secure the target **the government will need to slash the deficit by a further 0.9 pp.**

- The draft General State Budgets include all the key measures set out in the draft paper sent to Brussels (see table 2):
    - **New revenue measures** include the introduction of new taxes on financial transactions and digital services, increased corporate tax revenue via limits on exemptions and a minimum tax rate for major corporations, as well as other changes to tax regulations. The draft budgets also envisage increased Social Security contributions via higher minimum (following a minimum wage increase) and maximum taxable amounts. The budgetary impact of these measures is estimated to stand at approximately **0.5% of GDP**.
    - Likewise, **changes to the VAT settlement system** will mean an exceptional uptick in tax revenue during 2019, equivalent to approximately one additional month of revenue (**0.4% of GDP**).
    - **Increased expenditure** items include higher pensions, public sector wage growth and increased social spending. The budgetary impact had by new spending items is estimated at approximately **0.2-0.3% of GDP**.

- Successful implementation of the new measures, including changes to the VAT settlement system, will mean **faster revenue growth than expenditure growth**, which should **drive down financing requirements** by approximately **0.7 pp**, meaning a deficit just slightly higher than the established target. Nonetheless, there is still uncertainty over the revenue generation capacity of new taxes and their implementation.

Table 1: Macroeconomic Scenario

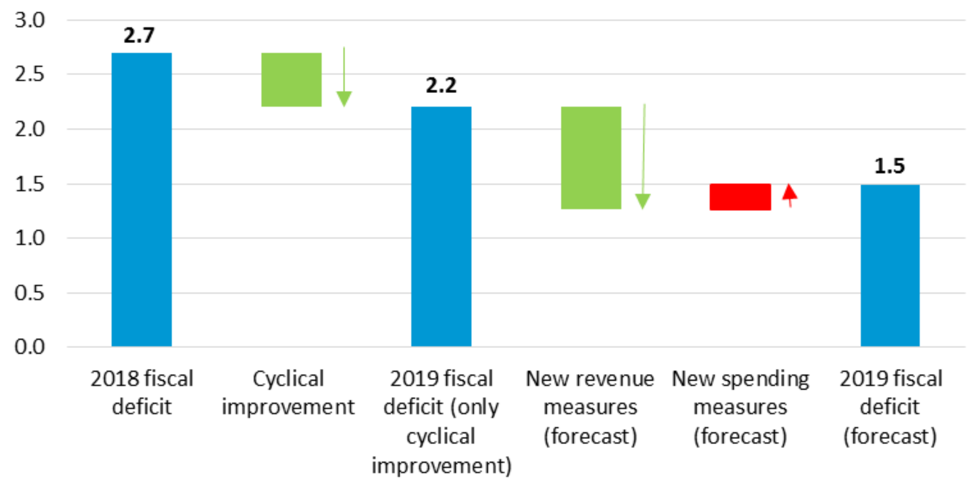
Annual change (%) unless expressly stated otherwise

	2018	2019 Budgets	CaixaBank Forecast 2019
Real GDP	2.6	2.2	2.1
Private consumption	2.3	1.7	1.9
PA consumption	1.9	1.4	1.2
FBCF	5.5	4,3	3.7
National Demand (contrib.)	2.9	2.2	2.1
Exports of goods and services	2.4	2.8	3.3
Imports of goods and services	3.5	3.1	3.5
Foreign balance (contrib.)	-0.3	-0.1	0.0
Employment CN	2.5	1.8	2.1
Unemployment rate (% active pop.)	15.5	14.0	13.6

Source: CaixaBank Research, based on Ministry of Finance and INE data.

Chart: Public deficit

(% of GDP)



***Source**: CaixaBank Research, using data from the Ministry of Finance, from AiREF and own estimates.*

Table 2: Key revenue and expenditure forecasts in the 2019 Budgetary Plan

(Millions of euros)

	Forecast 2018	2019 (Budgets)	Growth 2017-2018	Growth 2018-2019
Revenue:				
Tax Revenue	207,610	227,356	8.0%	9.5%
Personal Income Tax	82,420	86,454	7.9%	4.9%
Corporate Tax	24,179	27,579	12.4%	14.1%
VAT	70,126	78,307	9.3%	11.7%
Soc. Sec. Contributions	114,916	123.584	5.4%	7.5%
Expenditure:				
Unemployment benefits	17,702	18,402	-0.2%	4.0%
State financial spending	31,602	31,449	-0.6%	-0.5%
State personnel spending	25,505	23,372	4.7%	3.9%
Contributory pensions	127,110	135.268	3.6%	6.4%

Source: CaixaBank Research, based on Ministry of Finance data

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