

Flash Note 01/04/2019

Spain · The public deficit shrinks to 2.6% of GDP in 2018

Data

- **The public sector deficit** stood at **31,805 million euros** in 2018, a figure that represents **2.6% of GDP**.
- Revenues were up 6.0% against 2017 and expenses climbed 4.7%.

Assessment

- **Spain emerged from the excessive deficit procedure** after posting a public deficit of less than 3% in 2018, specifically 2.6% of GDP. The figure is in line with the CaixaBank Research forecast and the government target agreed with the European Commission (both at 2.7%), albeit standing above the official target of 2.2% that was initially agreed.
- Looking at the 2017 data (3.1% of GDP), **the deficit shrank only moderately (-0.4 pp)** despite economic growth in 2018, due to the expansive measures included in 2018 general state budgets.¹
- The public deficit reduction was driven by **rising revenues** as a percentage of GDP (+0.9 p.p.), which were particularly buoyant thanks to a sharp uptick in taxation (6.2%) and Social Security contributions (4.9%) (see first table for further details).
- Meanwhile, **expenses as a percentage of GDP were up 0.4 pp**, bringing an end to the expenditure reduction trend seen in previous years. Interest payments were down only marginally (-0.05 pp), while social transfers expanded slightly (+0.1 pp), despite a labour market improvement.
- **By administrations** (see second table):
 - **Regional governments** cut their deficit by 0.13 pp to 0.2% of GDP in 2018, thus comfortably complying with the stability target (deficit of 0.6% of GDP). In particular, the near entirety of regional governments saw balances improve compared to the previous year, while five regional governments ended the year with a surplus (Canary Islands, Basque Country, Navarra, Galicia and Asturias).
 - **Local Authorities** also comfortably secured their stability targets, posting a surplus of 0.5% of GDP, similar than the previous year's figure.
 - The deficit correction for the **central administration**, of 0.3 p.p., was insufficient to meet the stability target, with the deficit standing at 1.5% of GDP.
 - Finally, **Social Security** posted a deficit of 1.4% of GDP, well short of the stability target, signalling persistent structural problems.
- In the light of this data, **the risks in terms of our 2019 deficit forecast (of 2.3% of GDP) look balanced**. We therefore expect the 2019 deficit to stand significantly above the formal target agreed with the European Commission (1.3%), after 2018 budgets were extended into 2019, indicating that further adjustments to public accounts will be required.

¹ Financial support in 2018 amounted to 78 million euros, representing 0.01% of GDP, well below the 508 million euros seen in 2017 (0.04% of GDP).

Table 1: Net lending (+) / borrowing (-) capacity of Public Administrations financing 2017-2018

	2017	2018	2017-2018 change	2017	2018	2017-2018 change
	Millions of euros			% of GDP		
				(p.p.)		
TOTAL INCOME	442,223	468,836	6.0%	37.9	38.8	0.9
Taxes	259,601	275,681	6.2%	20.5	21.3	0.8
Social Security contributions	143,056	150,114	4.9%	12.0	12.2	0.2
Rest	39,566	43,041	8.8%	5.4	5.3	-0.1
TOTAL EXPENDITURE	478,126	500,641	4.7%	41.0	41.4	0.4
Compensation of employees	123,045	127,017	3.2%	10.5	10.5	-0.04
Intermediate consumption	58,817	60,634	3.1%	5.0	5.0	-0.02
Social benefits	177,711	185,093	4.2%	15.2	15.3	0.1
Gross fixed capital formation	23,019	26,000	13.0%	2.0	2.2	0.2
Interests	29,817	30,315	1.7%	2.6	2.5	-0.05
Rest	65,717	71,582	8.9%	5.6	5.9	0.3
Net lending (+) / borrowing (-) capacity	-35,903	-31,805	-11.4%	-3.1	-2.6	0.4
Aid to financial institutions	-508	-78	-84.6%	-0.04	-0.01	0.04
Net lending (+) / borrowing (-) capacity without aid to financial institutions	-35,395	-31,727	-10.4%	-3.0	-2.6	0.4

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

Table 2: Finance capacity (+) or need (-) by administration

(% of GDP)

	2017	2018		2019
	Data	Target	Data	Target
Central Administration	-1.8	-0.8	-1.5	-0.3
Regional Governments	-0.4	-0.6	-0.2	-0.1
Local Authorities	0.6	0.1	0.5	0.0
Social Security	-1.4	-1.3	-1.4	-0.9
Financing capacity (+) or need (-) excluding financial aid	-3.0	-2.7	-2.6	-1.3

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

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