Flash Note 29/05/2019

Spain · The public sector deficit (excluding local authorities) stood at 0.3% of GDP in 1Q 2019

Data

- The combined public sector déficit (public administations, P.A.), excluding local authorities (L.A.), stood at 0.3% of GDP[1] in 1Q 2019, 1 tenth lower than the 1Q 2018 figure.

- By administrations, Social Security posted a surplus of 0.4% of GDP (2 tenths higher than 1Q 2018), while regional governments (RG) showed a deficit of 0.1% of GDP (matching the 1Q 2018 figure). The state deficit in April stood at 0.7% of GDP (two tenths higher than April 2018).

Assessment

- The budget execution figures available up to March show a **slight improvement to overall public sector accounts**, excluding local authorities. In particular, in the first quarter of the year the public deficit shrank 1 tenth compared to 1Q 2018. This uptick was due to a **good performance from Social Security**, thanks a considerable increment in Social Security contributions in the early stages of 2019.

- Overall public sector revenue (excluding local authorities) expanded 5.6% compared to 1Q 2018. The heading that most propelled revenues was **Social Security contributions, which rose at a rapid 10.6%** compared to a year previously, bouyed by an improving labour market (both in terms of affiliation and salaries), as well as a larger contribution base[2] and higher minimum wage. On the other hand, **tax revenues were up a moderate 1.5% yoy** due in part to extraordinary refunds and refunds associated with maternity benefits.

- **Overall public sector spending (excluding local authorities) was up signifcantly year to date** (4.6% against 1Q 2018). The increase was due to higher remuneration for public sector employees (5.6% yoy) and social benefits (6.8% yoy). Both headings were shaped by an accounting effect that should be mitigated in the second half of the year, given that both higher public sector salaries and pensions were effective as of 1 January 2018, but were not implemented until the second half of 2018. Likewise, both headings are affected by the increments agreed in 2019. Meanwhile, despite high public debt levels (98.5% of GDP in 1Q 2019), the current scenario of low interest rates ensured that the interest payments heading remains in decline. Specifically, spending on interest was down 8.4% against March 2018.

- By government bodies, in April the central state saw its deficit increase by 2 tenths compared to April 2018, as a result of higher current expenditure and more restrained revenue growth. Meanwhile, the Social Security surplus improved in March against the same month a year ago, driven by higher Social Security contributions.

- In the light of this data, **the risks in terms of our 2019 deficit forecast, of 2.3% of GDP, look balanced.**

[1] This number does not take into account revenue linked to financial aid, which stands at 174 million euros (0.01% of GDP) in the year to date.
[2] The higher contribution base was enshrined in by Royal-Decree 28/2018.

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

	Last figure	Millions of euros		% of GDP	
		2018	**2019**	**2018**	**2018**
State	April	-5,895	-8,195	-0.5	-0.7
Social Security	March	1,953	4,825	0.2	0.4
Regional Govs.	March	-1,277	-1,234	-0.1	-0.1
Total P.S. (excl. L.A.)*	March	-4,570	-3,988	-0.4	-0.3

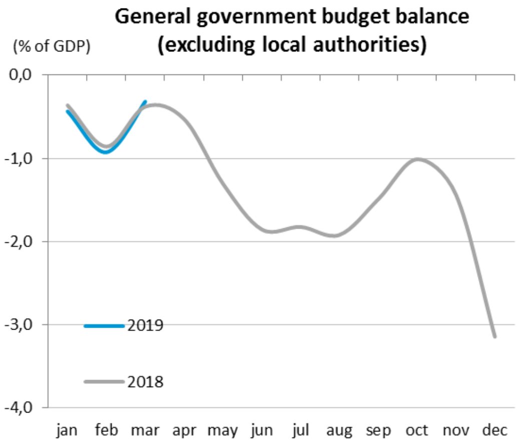
Note: *Excluding financial aid.
Source: CaixaBank Research based on state public accounts data.

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

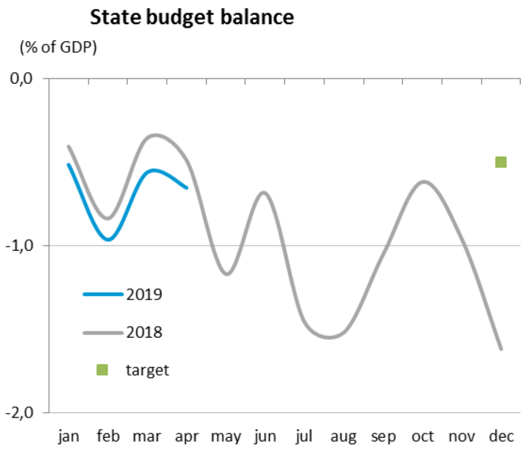
	Millions		Change
	2018	**2019**	**%**
Revenue	**99,718**	**105,303**	**5.6%**
Tax Revenue	55,942	56,797	1.5%
Social security contributions	34,890	38,604	10.6%
Expenses	**104,350**	**109,117**	**4.6%**
Salary remuneration	22,647	23,918	5.6%
Social benefits*	39,810	42,523	6.8%
Gross capital formation	4,590	4,283	-6.7%
Interests	6,753	6,186	-8.4%

Source: CaixaBank Research based on state public accounts data.

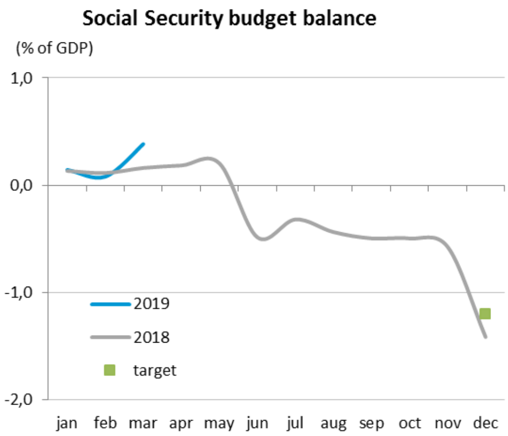
Deficit by administrations



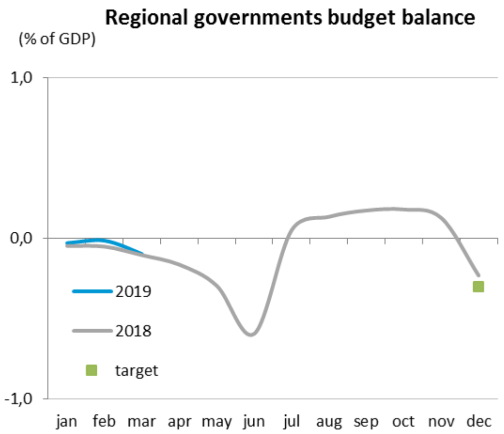
Note: Excluding financial aid.
Source: CaixaBank Research based on State Public Accounts data.



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



Source: CaixaBank Research based on State Public Accounts data.



Source: CaixaBank Research based on State Public Accounts data.

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