

Flash Note 28/06/2019

Spain · The public sector deficit stood at 0.3% of GDP in 1Q 2019**Data**

- In 1Q 2019 the combined public administration (PA) deficit stood at 0.3% of GDP,¹ matching the number from 1Q 2018.
- According to data up to April, Social Security posted a surplus of 0.3% of GDP (1 tenth higher than April 2018), while regional governments (RG) showed a deficit of 0.2% of GDP (matching the April 2018 figure).
- Based on figures up to May, the **state deficit stood at 1.2% of GDP** (the same level as May 2018).

Assessment

- The budget execution figures available for 1Q 2019 indicate **public sector accounts standing in a very similar position in Social Security** to a year previously. A good performance from Social Security, driven by considerable growth in contributions during 1Q 2019, was offset by slight deterioration of accounts for the central state and regional governments. This means that **the stronger budgetary consolidation required to further shore up public accounts will have to wait**.
- Total public administration revenue (excluding local authorities) was up 4.1% through to April compared to the same period of the previous year. The item that buoyed revenue most powerfully was **Social Security contributions, which grew at a vigorous 8.6% yoy**, underpinned by an improving labour market as well as higher Social Security contribution bases² and an increased minimum wage. On the other hand, **tax revenues were up a moderate 1.5% yoy**, due in part to extraordinary refunds associated with maternity benefits.
- **Overall public sector spending (excluding local authorities) was up considerably in the first 4 months of the year** (+4.6% compared to April 2018). The increase was due to higher remuneration for public sector employees (6.1% yoy) and social benefits (6.8% yoy). Both headings were shaped by increases agreed in 2019, as well as an accounting effect that should be mitigated in the second half of the year (both higher public sector salaries and pensions were effective as of 1 January 2018, but were not implemented until the second half of 2018). Meanwhile, despite high debt levels (98.7% of GDP in 1Q 2019), a scenario of low interest rates ensured that the interest payments heading remained in decline. Specifically, spending on interest was down 5.8% against April 2018.
- In terms of administrations, both the state and regional governments saw deficit levels hold very close to those posted in the same period last year. Meanwhile, the Social Security surplus improved in April 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 156 million euros (0.01% of GDP) in the year to date.

² The higher contribution base was enshrined in Royal-Decree 28/2018.

Budget execution by government body

(Accumulated data year-to-date)

| | Last figure | Millions of euros | | % of GDP | |
|----------------------|-------------|-------------------|---------|----------|------|
| | | 2018 | 2019 | 2018 | 2019 |
| State | May | -14,113 | -15,202 | -1.2 | -1.2 |
| Social Security | April | 2,228 | 3,664 | 0.2 | 0.3 |
| Regional Govs. | April | -1,994 | -2,425 | -0.2 | -0.2 |
| Total PS (excl. LA)* | April | -6,375 | -7,316 | -0.5 | -0.6 |
| State | March | 532 | 119 | 0.0 | 0.0 |
| Total Public Sector | 1Q 2019 | -4,038 | -3,867 | -0.3 | -0.3 |

Note: *Excluding financial aid.

Source: CaixaBank Research based on state public accounts data.

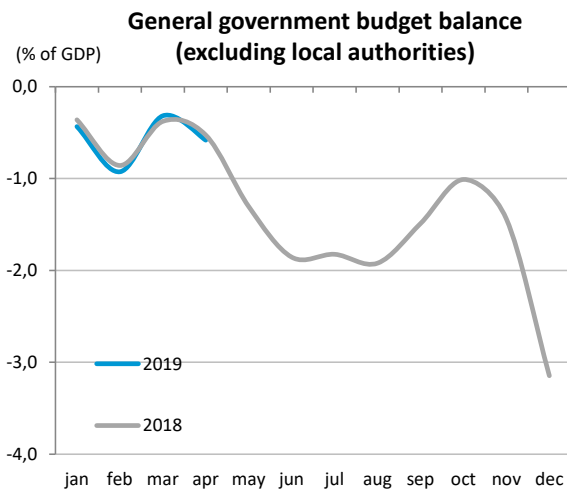
Overall public sector budget execution (excluding L.A.)

(Data accumulated up to April)

| | Millions | | Change |
|-------------------------------|----------------|----------------|-------------|
| | 2018 | 2019 | % |
| Revenue | 133,300 | 138,795 | 4.1% |
| Tax Revenue | 73,681 | 74,780 | 1.5% |
| Social security contributions | 46,648 | 50,643 | 8.6% |
| Expenses | 139,548 | 145,955 | 4.6% |
| Salary remuneration | 30,291 | 32,153 | 6.1% |
| Social benefits* | 53,341 | 56,970 | 6.8% |
| Gross capital formation | 6,277 | 5,751 | -8.4% |
| Interests | 9,140 | 8,607 | -5.8% |

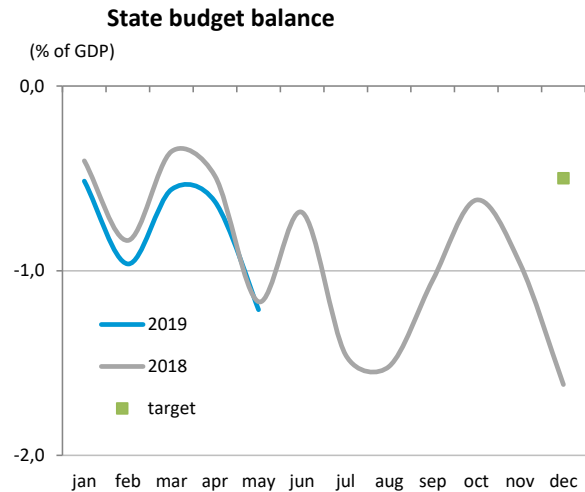
Source: CaixaBank Research based on state public accounts data.

Deficit by administrations



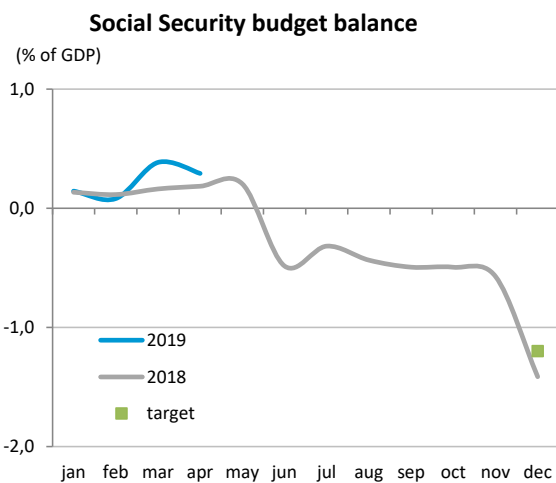
Note: Excluding financial aid.

Source: CaixaBank Research based on State Public Accounts data.

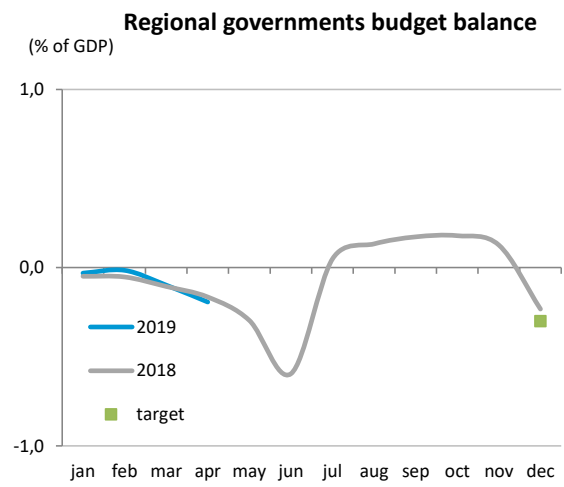


Nota*: Target refers to Central Government.

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.

Josep Mestres, CaixaBank Research, e-mail: research@caixabank.com

A NOTICE REGARDING PUBLICATION OF THE CAIXABANK "FLASH NOTE"

Flash Notes are publications produced in conjunction by CaixaBank Research and BPI Research (UEEF), containing information and opinions from sources that we consider reliable. This document is provided for informational purposes only, and CaixaBank and BPI accept no responsibility under any circumstances for any use made of the same. The opinions and estimates herein are those of CaixaBank and BPI and may be subject to change without prior notice.