The latest figures released on the general government sector in National Accounts terms show that the general government (excluding local government) deficit in the first three quarters of 2017 stood at around 2% of GDP, 1.3 pp less than in the same period of 2016 (see Chart 1). By component, consolidated general government (excluding local government) revenue[1] rose by 5.2% year-on-year in the first three quarters of the year, compared with a decline of 1.1% in the same period of 2016, due to the dynamism of tax revenue and social contributions. However, it should be noted that part of this strong behaviour of direct tax revenue is due to the base effect associated with the change in regulations on minimum corporate income tax prepayments, effective from October 2016.[2] Indeed, the latest information on revenue from shared State, regional and local taxes shows a certain slowdown in revenue at the beginning of Q4.

Consolidated general government (excluding local government) expenditure declined by 0.1% year-on-year to September, compared with the growth of 0.4% recorded in the same period of the previous year. The moderation was common to all the main items, some of which even showed significant year-on-year decreases in nominal terms in the reference period, particularly investment and unemployment expenditure and public debt interest payments. However, the most recent indicators of the behaviour of general government employment show that it picked up significantly in Q3, according to the Labour Force Survey, and in the October-November period, according to Social Security registration data. According to the latest Banco de España projections,[3] which take into account the most recent budget outturn information and the official budgetary plans, the 2017 general government deficit may stand at around 3.2% of GDP. The 2017 fiscal policy stance implicit in these projections becomes approximately neutral, following the expansionary stance pursued in 2015 and 2016.

Regarding 2018, at the cut-off date of this report the draft State and Social Security budget for next year had not yet been released. If this situation persists at 31 December, the 2017 budget will be extended automatically. In any event, on 16 October the Government, in compliance with the European Semester calendar, sent the European Commission the “2018 Budgetary Plan” which includes the outline of the regional and local government budgets and which, as far as the rest of the general government sector is concerned, is formulated under a “no-policy-change” scenario, i.e. it includes no new economic policy measures. This Budgetary Plan envisages an overall general government deficit for 2018 of 2.3% of GDP, slightly above the target of 2.2% set for 2018 by the EU Council.

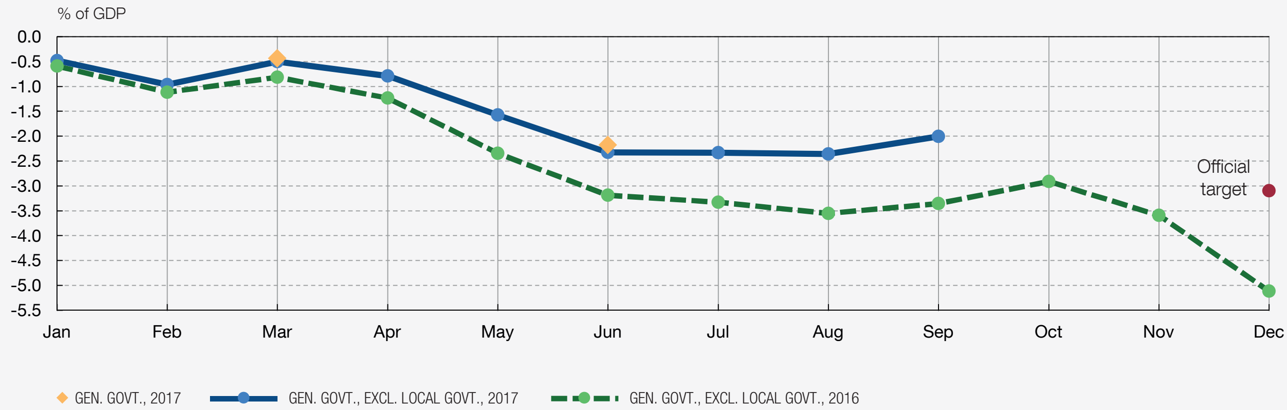
In its assessment of the Budgetary Plan released on 21 November, the European Commission acknowledges that the Spanish government deficit will very likely be below 3% of GDP in 2018. However, it also notes that, under the “no-policy-change” assumption used to formulate the Plan, the European Commission and the Plan itself consider that the deficit will be above the target set by the EU Council (2.2% of GDP). Similarly, the latest Banco de España projections are for a government deficit of 2.6% of GDP in 2018. The European Commission invited the Spanish government to submit an updated Budgetary Plan as soon as it had a draft

1 Net of transfers to/from other general government sub-sectors.

2 Royal Decree-Law 2/2016 of 30 September 2016. This legislation affected payments for the year as a whole, which were thus concentrated in the fourth quarter of the year. Hence the positive impact on tax revenue in January-September due to this measure will be neutralised in 2017 Q4, when the year-on-year comparison will again become homogeneous.

3 See report entitled “Macroeconomic projections for the Spanish economy (2017-2020): the Banco de España’s contribution to the Eurosystem’s December 2017 joint forecasting exercise”.

Chart 1
GENERAL GOVERNMENT BUDGET BALANCE IN THE NATIONAL ACCOUNTS.
Cumulative figures from January



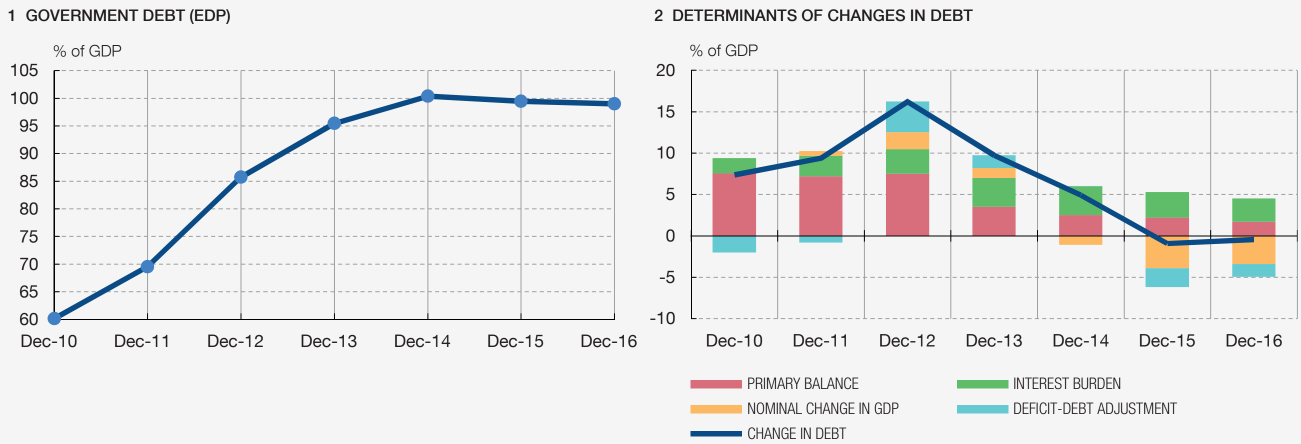

SOURCES: IGAE (Spanish National Audit Office), Council of the European Union.

State and Social Security budget for next year, so the Commission could adequately assess Spain's compliance with its fiscal obligations in the European framework.[4]

4 See point 11 of the European Commission opinion (21 November, https://ec.europa.eu/info/sites/info/files/economy-finance/c-2017-8015-en.pdf)

The general government debt, after reaching a record high of 100.4% of GDP in 2014, has edged downward slightly (see Chart 2, left-hand panel) to stand at 98.7% in 2017 Q3. The main reason for the recent fall in government debt seems to have been the growth of nominal GDP (Chart 2, right-hand panel), which more than offsets the impact of the budget deficit.

Chart 2
GENERAL GOVERNMENT DEBT




SOURCES: Banco de España and IGAE.