Spanish Economic and Financial Outlook

Reforming Spain's pension system: Focus on financial sustainability

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Letter from the Editors

Since its drastic restructuring and reorganization in the 1960s, the Spanish public pension system has undergone a series of reforms to address structural problems, as well as economic and demographic challenges, with a goal to improve long-term sustainability. The most ambitious of these reforms was in 2011, implemented in January 2013. This reform introduced measures to increase the retirement age from 65 to 67 and to extend the benefits calculation period from 15 to 25 years. Most importantly, it alluded to the gradual introduction of a sustainability factor to take into account life expectancy trends and the system's financial indicators, laying the groundwork for improved health of the pension system in the long term.

While the 2011 reform represents significant progress, it falls short of reducing the burden of pension system debt and deficit on public accounts. In response, the Spanish government plans to accelerate the introduction of the sustainability factor in line with recommendations received from the EU and other international organizations.

In this July issue of the SEFO, we examine the current pension system outlook and the possible implications of a new sustainability factor. Given the high degree of sensitivity surrounding this debate, the implementation of this reform is not expected to be a simple process, yet a critical one for the survival of the pension system. Moreover, alongside this reform, pre-existing pensions schemes will also need to be reevaluated to ensure compatibility.

We also take another look at the EU banking union project, where we note some progress, particularly in the area of bail-ins; however, overall advancement has been limited largely due to the lack of political consensus. Certain elements of the proposed union are already falling short of expectations; for example, the envisioned Single Resolution Mechanism (SRM) currently lacks scope and financial firepower. All of this is taking place in the context of persistent EU financial market fragmentation, in part exacerbated by government policies of providing guarantees to the banking sector. Surprisingly, the banks that enjoy larger support are not those from peripheral countries. Public support in the form of implicit guarantees ranges from 0.7% in Portugal to 4.0% in Austria. These differences have a significant impact on credit. Empirical evidence shows that a 1% increase in an implicit guarantee, resulting in lower funding costs to banks, is passed on in the form of a 0.52% lower interest rate for firms on bank loans.

As long as fragmentation exists, it remains a credible threat for the Euro, emphasizing the need to move forward rapidly on the EU banking union project, not just for the benefit of peripheral countries, but for the Eurozone as a whole.

On a related note, we examine the need for prudential regulation in the area of competition policy, where findings show that an increase in competition tends to lead to an increase in risk taking behavior within the financial sector. Thus, regulators must strive to strike a balance between competition and proper incentives when designing financial sector policies.

Moving on to the fiscal front, we take a look at the impact of changes to Spain's VAT rates since the onset of the crisis and analyze the potential for additional increases.

Finally, despite a worsening international context, the end of the recession in Spain seems to be in sight, but the recovery is expected to be a slow one. We include a Special Feature on the medium term outlook for Spain. In this article, the author presents us with 12 key factors for consideration as regards the medium term outlook for the Spanish economy, supported by the latest forecasts published by the International Monetary Fund (IMF) and the European Commission (EC). The article concludes that in the context of slow, but steady progress towards EU integration and in the absence of domestic or external shocks, the Spanish economy should continue on a path towards economic recovery and fiscal consolidation over the medium term.

FEATURES

The Spanish economy: The end of the recession is in sight, but the recovery will be slow

Ángel Laborda and María Jesús Fernández[1]

Global economic conditions remain weak, particularly in Europe, where markets are still quite fragmented despite reduced debt crisis tensions and risk premiums. The softening of budgetary targets for this year and next has led us to revise upwards slightly Spanish GDP growth forecasts, notwithstanding the worsening international context.

The international economic situation remains fragile in both developed and emerging markets. The United States continues to grow and create jobs, albeit at a modest rate, while a more restrictive fiscal and monetary policy stance are causing concern regarding spillover effects for the global economy.The Euro area is still in recession, although with a trend towards stabilization, and financial markets remain fragmented. Emerging markets have lost momentum, with lower potential growth in China raising concerns about the performance of export-led growth economies. In Spain, the economy is bottoming out and is set to start to show positive growth rates as of the last quarter of this year. Domestic demand continues to be weak and some imbalances built-up over the crisis period have yet to be corrected. Exports will be the main growth driver, but their capacity is limited, which translates into a slow recovery.

International context

The global economic situation remains weak in both the developed and emerging economies, although the context is more relaxed and the tensions deriving from the European debt crisis have subsided considerably. Since the European Central Bank (ECB) announced its outright monetary transactions (OMT) programme the markets have considered the scenario of a breakup of the euro to be less likely, which has encouraged financial flows to return, albeit somewhat timidly, to peripheral countries and consequently brought down their risk premiums.

The United States has continued to grow and create jobs. In the first quarter of the year it registered annualised quarter-on-quarter GDP growth of 1.8%. Its trend growth rate is modest, at around 2%, and the unemployment rate, although falling, is still high compared to pre-crisis levels. Fiscal policy has also taken a restrictive slant after the "sequester" came into effect. The Federal Reserve announced that it could start slowing the pace of its asset purchases through the quantitative easing programme (QE3) this year and bring it to an end in the middle of 2014. The announcement has caused concern about the possible destabilising effect that withdrawal of

[1] Funcas Economy and Statistics Department.

the extraordinary monetary policy measures of the last few years might have. Government bond yields therefore rose significantly around the world as a result, while emerging countries currencies fell.

GDP in the euro area shrank by 0.2% in the first quarter of 2013, the sixth consecutive quarter of recession. All the signs are that growth will also be negative in the second quarter of the year, although a trend towards stabilisation has been noted, such that there could be a slight recovery in the second half of the year. Nevertheless, the fragmentation of the financial market, highlighted by the wide spreads in interest rates between the area's countries, indicates that the monetary policy transmission mechanisms are still not working properly, and therefore, that the European financial system is still not back to optimal health.

At the same time, the emerging economies have also lost momentum. Slower than expected growth in China and India in the first quarter of the year is seen as being part of a structural trend rather than a temporary downturn, ruling out any return to pre-crisis growth rates in the immediate future. Moreover, there is a certain amount of concern about rapid credit growth in China and the state of the country's financial system, which has recently led the country to introduce restrictive measures. China's slower potential growth will also have a negative impact on other emerging economies reliant on raw materials exports, such as those in Latin America, whose strong performance in the recent past was largely driven by demand from China.

Recent developments in the Spanish economy

Spain's GDP contracted by 2.1% in the first quarter of 2013 on an annualised quarter-on-quarter basis. This was the seventh consecutive quarter of negative growth. The smaller drop in domestic demand meant the contraction in GDP was more moderate than in the fourth quarter of 2012, when it shrank by 3.1%, and although the external sector's contribution to growth was smaller than in the previous quarter, it was still positive.

Over the same period, private consumption suffered a much milder fall (1.5%) than in the previous quarter, as indicators such as retail sales, consumer confidence index, or domestic sales by large consumer goods firms were already suggesting. The good progress of these indicators at the start of the second quarter, with slight growth in some cases even, suggests this variable is stabilising (Exhibit 1.1 and 1.2).

Public consumption at constant prices continued to fall. Nevertheless, in current prices it grew by 20.6% in the first quarter of the year, offsetting a similar drop in the previous quarter, which was basically due to public-sector workers' salaries returning to their normal levels after the drop in the previous quarter caused by the elimination of the Christmas bonus. On this point it should be recalled that public spending at market prices is equal to production costs, of which wages and salaries are the most significant component.

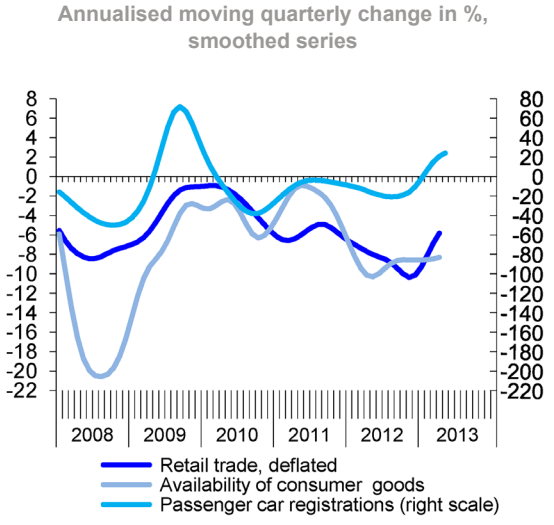
At 4.4%, the drop in gross fixed capital formation was less pronounced than in the previous quarter. This fall was concentrated in construction investment, while investments in capital goods and machinery and equipment grew slightly. The good performance of this latter component of investment is also consistent with the progress of various other economic indicators, but is most likely to be a transitional rise due to the variable's inherent fluctuations rather than represent a break in the negative trend it has followed since the end of 2011 (Exhibit 1.3 and 1.4).

Investment in housing construction continued to contract in the first quarter, falling by 9.4%. Despite the sharp fall in this variable since the start of the recession –its weight as a share of GDP dropped from 12.2% in 2007 to 5.6% in 2012– there are no signs of stabilisation. The number of new housing permits continued its rapid decline, and

Exhibit 1

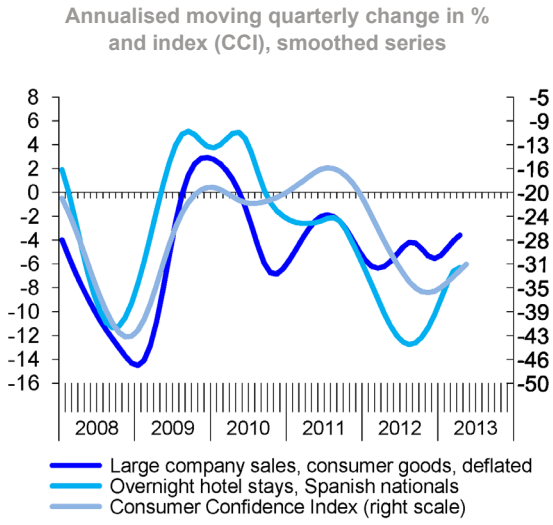
Consumption and capital goods investment indicators

1.1 - Consumption Indicators (I)



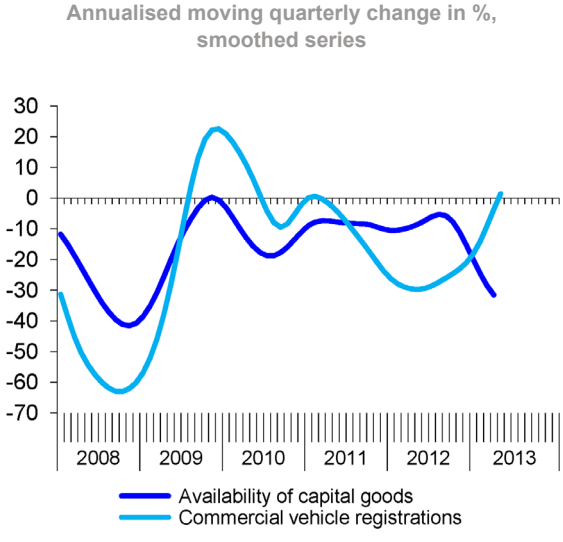
Sources: Ministry of Economy, INE, DGT and Funcas.

1.2 - Consumption Indicators (II)



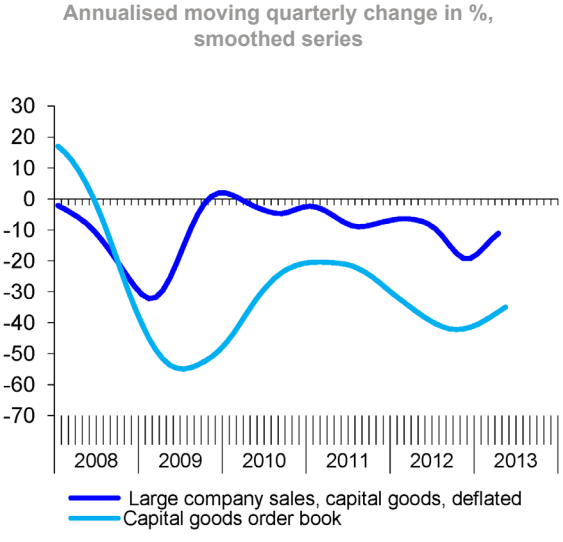
Sources: European Commission, INE, AEAT and Funcas.

1.3 - Capital goods GFCF Indicators (I)



Sources: Ministry of Economy, DGT and Funcas.

1.4 - Capital goods GFCF Indicators (II)



Sources: Ministry of Industry, AEAT and Funcas.

the property market remains depressed. Housing sales continued their decline in the first quarter of 2013, despite an acceleration in downward price trend (Exhibit 2.6).

Total exports shrank in the first quarter of 2013, the drop being concentrated in external sales of non-tourism services (which also shows a high level of quarterly volatility) as goods exports grew by 4.9%. Imports again contracted, in the case of both goods and services (tourism and non-tourism), due to the weakness of domestic demand. As regards the geographical destination of Spain's exports, there was no change in the first quarter in the pattern seen since the start of the crisis, whereby exports to non-EU countries performed better (with export growth of 6.1%) than those to EU countries (where exports shrank by 12.5%).

On the supply side, gross value added (GVA) contracted in all economic sectors in the first quarter of 2013. In the manufacturing industry it fell by 2.5%, considerably less than in the previous quarter. The results available for the industrial production index and sales of industrial goods by large firms relative to the start of the quarter reflect a prolongation of the downward trend, although the purchasing managers index (PMI) for manufacturing and the number of people registered with the social security system in the sector suggest it is bottoming out (Exhibit 2.1 and 2.2).

In construction, GVA has fallen for almost 20 consecutive quarters. In the case of services, those relating to public administration, health and education suffered a sharp contraction in the first few months of the year, but in the case of other services the drop in GVA (0.2%) was more moderate than in the previous quarter. The recent trends in sales of services by large companies, the number of people registered with the social security system and the sector's PMI indicate that activity could have stabilised in the second quarter (Exhibit 2.3 and 2.4).

The drop in the number of full-time equivalent jobs in the first quarter slowed to 5%, as suggested by the trends in the total number of people registered with the social security system and the Labour Force Survey, although in the specific case of the manufacturing industry, the drop was sharper than in the preceding quarters. As a result, the productivity of the economy as a whole continued to make rapid gains, particularly in the manufacturing industry, and unit labour costs have remained on a downward path.

The rate of job losses slowed further in the second quarter, according to the number of people registered with the social security system and the number of registered unemployed, although the marked improvement seen in this indicator was influenced by the contraction of the working population. The labour force shrank by almost 350 thousand people in seasonally adjusted terms in the last quarter of 2012 and first quarter of 2013, according to the Labour Force Survey. This was a result of a slight drop in labour-force participation rate and, above all, the fall in the working age population– a trend which has been apparent since 2010. In turn, this contraction in the working age population is basically a result of negative net migratory flows. At the same time, the seasonally adjusted unemployment rate was 26.2% in the first quarter and the youth unemployment rate was 56.1% (Exhibit 3.1 and 3.4).

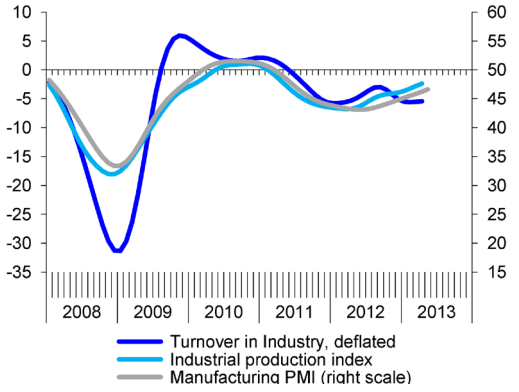
Inflation slowed in the first few months of the year. According to the consumer price index (CPI), prices rose by 2.6%, year-on-year, in the first quarter of 2013, compared with 3.1% the previous quarter. In June the increase was 2.1%, while the household consumption deflator rose by 2% in the first quarter, compared with 2.6% in the fourth quarter of 2012. Although the levels are relatively high given the demand conditions, it should be borne in mind that a large share of the price increase was due to exogenous factors, such as the VAT rise and other regulatory measures adopted in the second half of last year (Exhibit 4.1), which produced a spike in inflation of around 1.2 percentage points.

Exhibit 2

Industrial activity, services and construction indicators

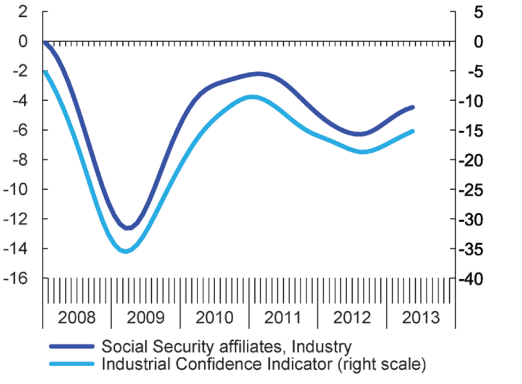
2.1 - Industrial sector indicators (I)

Annualised moving quarterly change in % and index, smoothed series



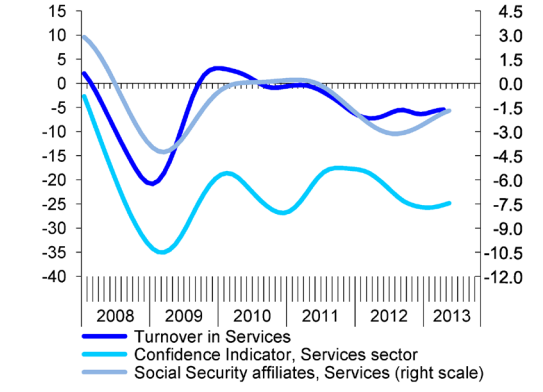
2.2 - Industrial sector indicators (II)

Annualised moving quarterly change in % and index, smoothed series



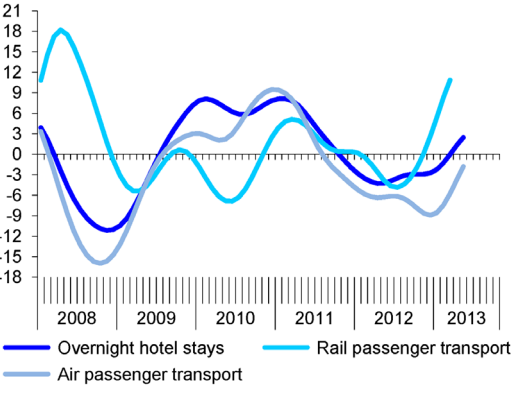
2.3 - Services indicators (I)

Annualised moving quarterly change in % and index, smoothed series



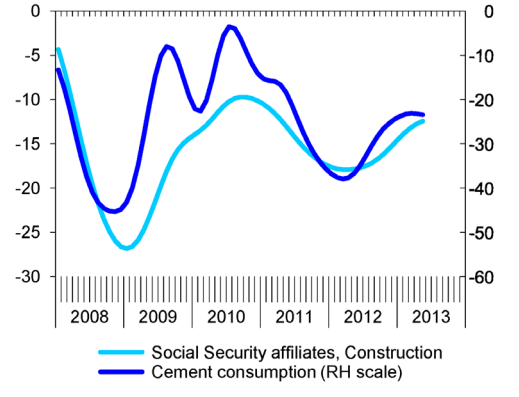
2.4 - Services indicators (II)

Annualised moving quarterly change in %, smoothed series



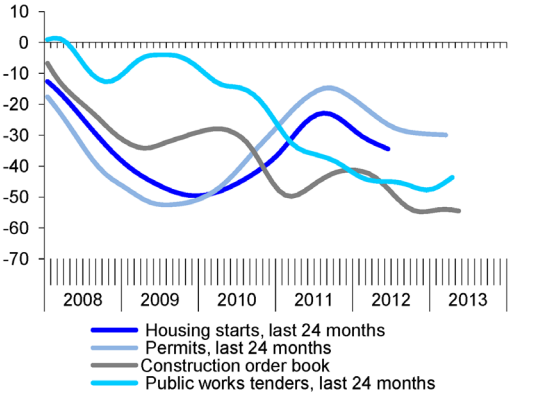
2.5 - Construction sector indicators (I)

Annualised moving quarterly change in % (Q 3/3), smoothed series



2.6 - Construction sector indicators (II)

Annualised moving quarterly change in % (Q 3/3) and index, smoothed series



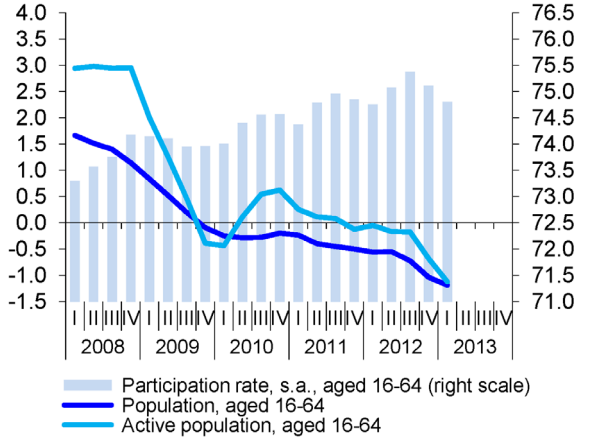
Sources: European Commission, Ministry of Labour, Ministry of Industry, Ministry of Fomento, INE, AENA, Markit Economics Ltd.,RENFE. Markit Economics Ltd., OFICEMEN and Funcas.

Exhibit 3

Labour market indicators

3.1 - Labour supply

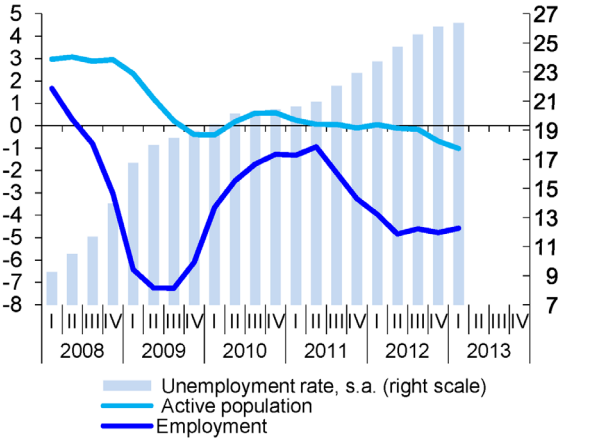
Change y-o-y in % and percentage of population aged 16-64



Source: INE (LFS).

3.2 - Employment and unemployment (LFS)

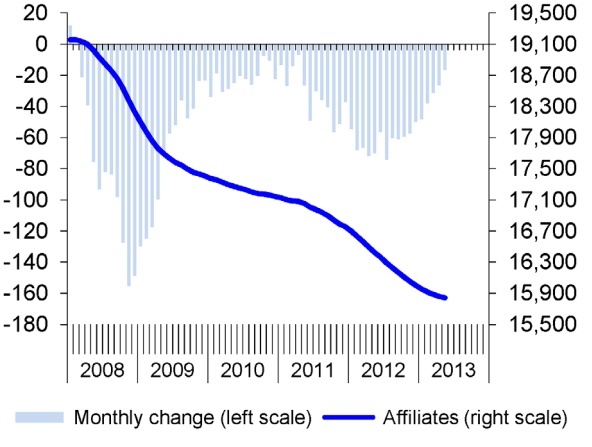
Change y-o-y in % and percentage of working age population



Source: INE (LFS).

3.3 - Social Security affiliates

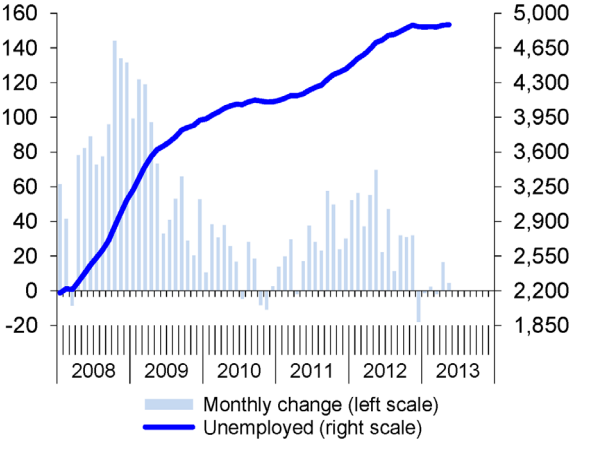
Change in thousands and in %, seasonally-adjusted data



Sources: Ministry of Labour and Funcas.

3.4 - Registered unemployment

Thousands, seasonally-adjusted data

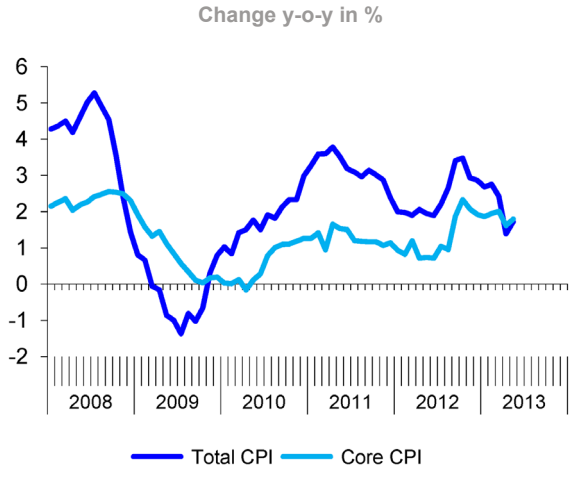


Sources: Ministry of Labour and Funcas.

Exhibit 4

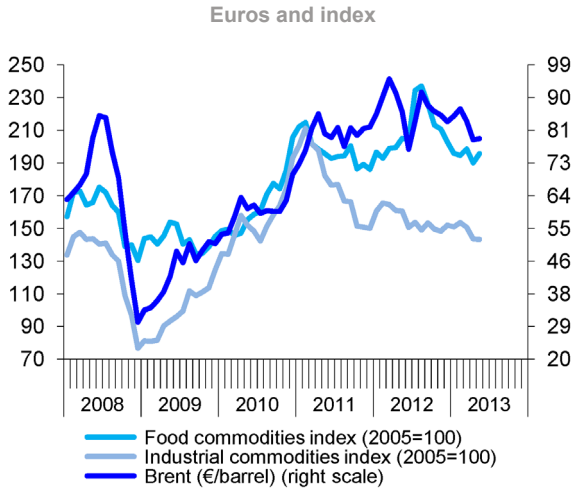
Price indicators

4.1 - Consumer prices index



Source: INE (CPI).

4.2 - Commodities prices in €



Sources: Ministry of Economy and The Economist.

In terms of external imbalances, the current account balance and the economy's net lending position were both negative in the first quarter, but this was due to seasonal factors. In fact, these deficits were 76% and 86% lower, respectively, than those of the same period in the previous year, and in cumulative terms over four quarters the balance has turned positive for the first time since 1998. The goods trade deficit shrank by 71% compared to the same quarter of the previous year. Excluding energy products, the balance has been in surplus since early 2012, and is growing (Exhibit 5.1 and 5.2). From a geographical perspective, it is noteworthy that the balance with the EU and the EMU has remained positive since 2011 and is also on an upward trend.

The financial account of the balance of payments, excluding the Bank of Spain, registered a surplus in the first quarter of 2013 of 43 billion euros compared with a net outflow of 97 billion euros in the same period of the previous year. In the second half of 2012 there was a return to positive figures after the sharp deficits registered since mid-2011, reflecting the timid return of confidence to the markets following the ECB's announcement of its OMT programme (Exhibit 6.2).

According to the monthly accounts of the public administration in national accounts terms that began to be published in January of this year,

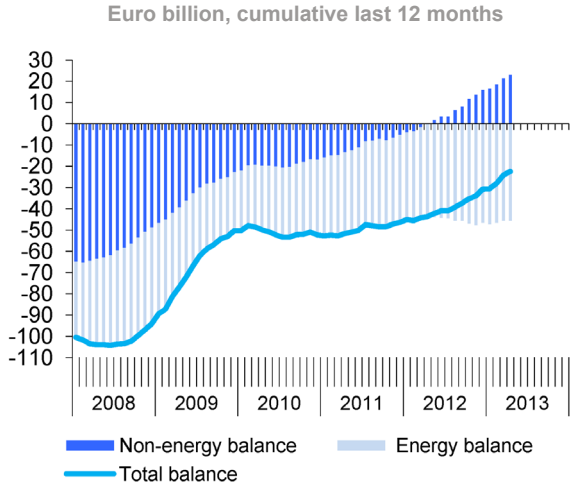
The central government budget deficit was 2.3% of annual GDP up to April 2013 and that of the regions 0.3%, while the social security fund registered a surplus of 0.4%.

the central government budget deficit was 2.3% of annual GDP up to April 2013 and that of the regions 0.3%, while the social security fund registered a surplus of 0.4%. The tax revenues taken on a cash basis dropped in this same

Exhibit 5

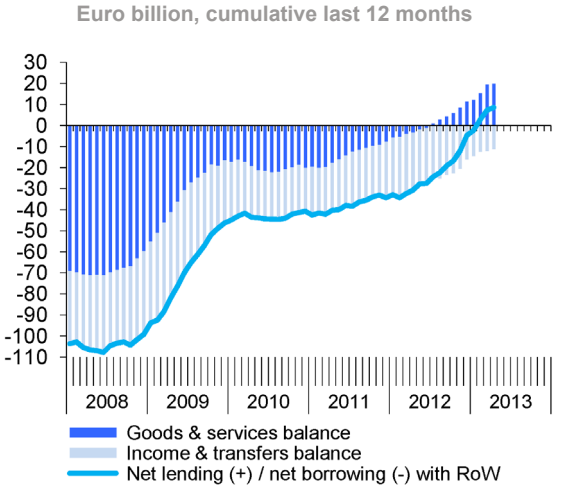
External sector

5.1 - Surplus/deficit on trade in goods (Customs)



Source: Ministry of Industry.

5.2 - Balance of payments

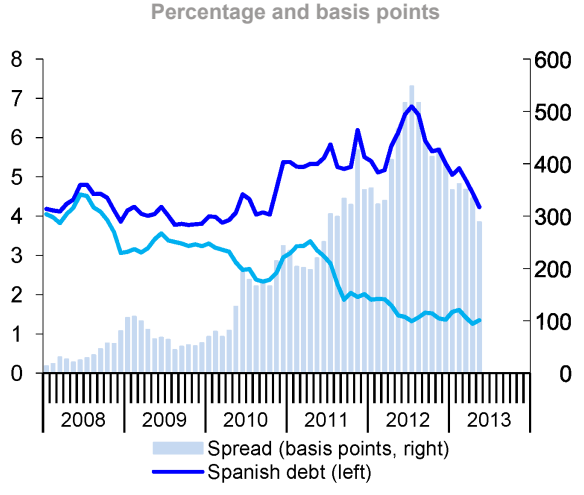


Source: Bank of Spain.

Exhibit 6

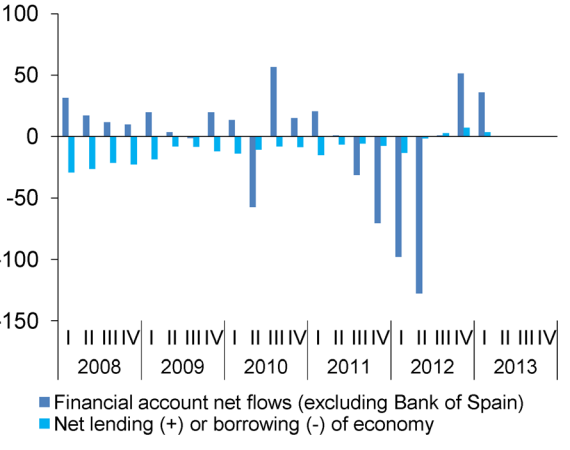
Financial indicators

6.1 - Government 10 years bonds rate



Sources: ECB and Bank of Spain.

6.2 - Balance of payments



Source: Bank of Spain.

period by 6.9%, compared with the same period of the previous year, even if this is largely due to the delaying of refunds from late 2012 until early 2013. In uniform terms, i.e. adjusting the figures to match the rate at which refunds are paid, tax revenue grew by 1.4%. This figure falls well short of the 3.8% forecast for the year as a whole in the national budget.

Forecasts for 2013-2014

The economy performed broadly as expected in the first quarter of 2013, as did the indicators available for the second quarter, thus confirming the anticipated scenario of gradual stabilisation. The new forecasts have not been affected by any major surprises in terms of the economy's trends. This has meant that, among other factors, the new forecasts do not incorporate significant changes in the expected profile for the quarters ahead. Growth rates will remain negative in the central quarters of the year, and slightly positive and rising as of the fourth (Exhibit 7.1).

Nevertheless, GDP growth has been revised upwards slightly, mainly due to the softening of the public deficit targets for this year and next, which will mean a less intense adjustment than that envisaged in previous years, and therefore, a smaller contractionary effect on GDP. This will offset the worsening international context, particularly in Europe. There are no changes in the estimates of the other determinants. Although the strains caused by the debt crisis have remitted and the risk premium has dropped (Exhibit 6.1), the financial conditions for the private sector are set to remain very restrictive, at least this year. The adjustment in the property sector still has a long way to go, and the process of deleveraging will continue to constrain households' and companies' spending capacity.

GDP growth has been revised upwards slightly, mainly due to the softening of the public deficit targets for this year and next, which will mean a less intense adjustment than that envisaged in previous years, and therefore, a smaller contractionary effect on GDP.

As a result, the GDP growth forecast for 2013 is -1.5%, compared with a previous forecast of -1.6%, and that for 2014 has risen to 0.7% from 0.5% (Table 1).

Private consumption continues to be weighed down by the reduction in households' disposable income, among other factors, and the limited scope for reducing savings, which are currently at an all time low. Nevertheless, the drop this year will be 3%, which is slightly better than in previous forecasts, while the forecast for 2014 remains -0.3%

Public consumption is expected to perform less negatively over the next few quarters than in previous forecasts owing to the smaller budgetary adjustment. Nevertheless, this variable's expected growth in 2013 as a whole has been revised down to -3.4%, as a result of its suffering a much bigger drop in the first quarter than expected. The forecast for 2014 is -1.5%, compared with -2.4% previously.

The forecast for growth in residential construction investment has worsened for both 2013 and 2014, although the outlook for non-residential investment is now less negative as a result of a smaller adjustment being needed in the budget for public works.

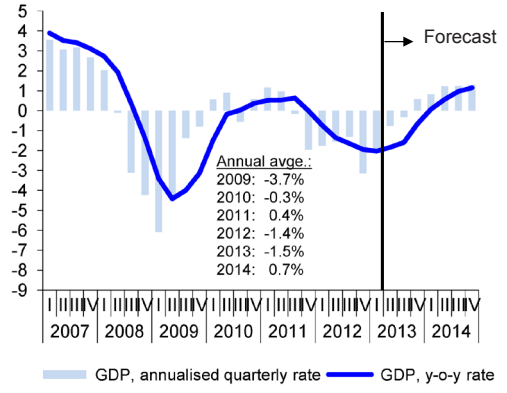
The forecast for growth in investment in capital goods in 2013 is -4.5%, as it is expected that the rise in the first quarter will prove to be transitory and that it will return to its negative trend over the next few quarters. This trend is due to a combination of the credit squeeze, the

Exhibit 7

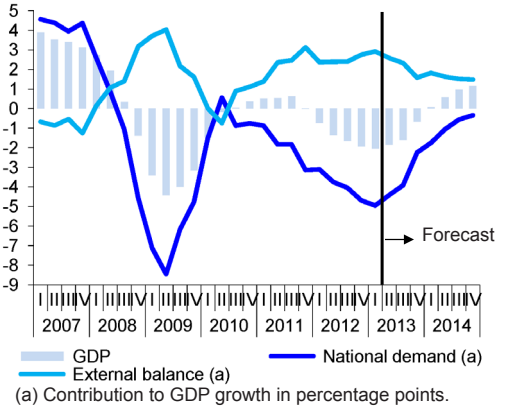
Funcas forecasts for 2013-2014, quarterly profile

Change y-o-y in %, unless otherwise indicated

7.1 - GDP

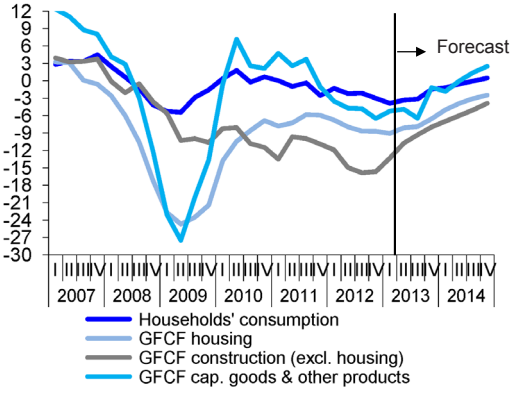


7.2 - GDP, national demand and external balance

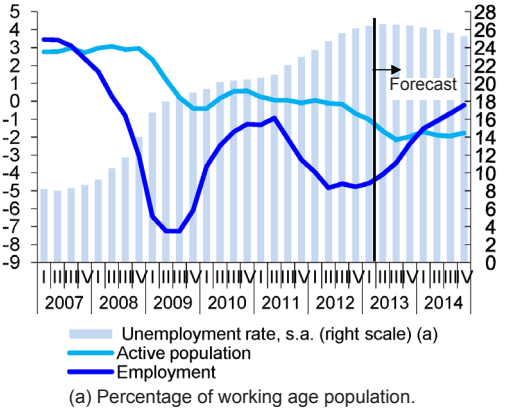


(a) Contribution to GDP growth in percentage points.

7.3 - National demand aggregates

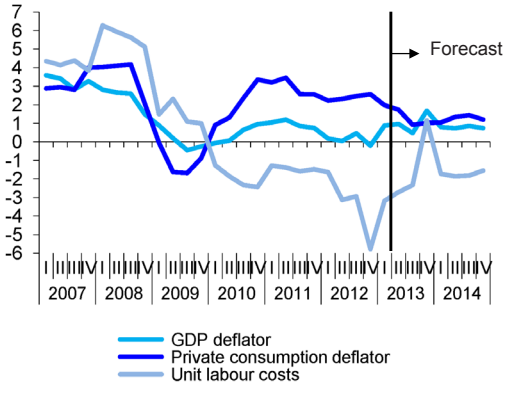


7.4 - Employment and unemployment



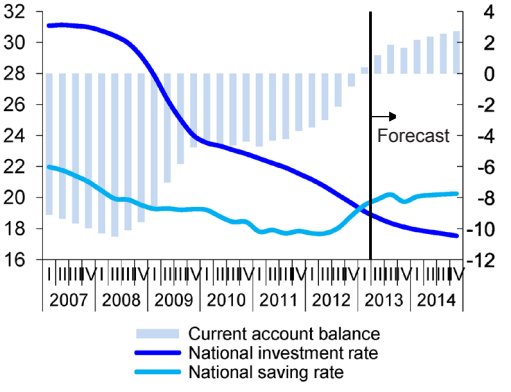
(a) Percentage of working age population.

7.5 - Inflation



7.6 - Saving, investment and c/a deficit

(% GDP, 4MA)



Sources: INE (Quarterly National Accounts) and Funcas (forecasts).

Table 1

Economic Forecasts for Spain, 2013-2014

Annual rates of change in %, unless otherwise indicates

		Actual data		*Funcas forecasts*		*Change in forecasts (a)*	
	Average 1996-2007	2011	2012	2013	2014	2013	2014
1. GDP and aggregates, constant prices							
GDP	**3.7**	**0.4**	**-1.4**	**-1.5**	**0.7**	**0.1**	**0.2**
Final consumption households and NPISHs	3.8	-1.0	-2.1	-3.0	-0.3	0.2	0.0
Final consumption general government	4.3	-0.5	-3.7	-3.4	-1.5	-0.3	0.9
Gross fixed capital formation	6.2	-5.3	-9.1	-7.4	-2.5	0.3	0.2
Construction	5.6	-9.0	-11.5	-9.2	-4.6	-0.1	0.5
Residential construction	7.3	-6.7	-8.0	-7.9	-3.6	-1.6	-0.1
Non-residential construction	4.2	-11.0	-14.6	-10.4	-5.5	1.3	1.1
Capital goods and other products	7.4	2.5	-4.9	-4.5	0.5	0.8	-0.2
Exports goods and services	6.7	7.6	3.1	3.0	6.3	0.0	0.2
Imports goods and services	9.3	-0.9	-5.0	-4.4	1.7	0.0	0.2
National demand (b)	**4.5**	**-1.9**	**-3.9**	**-3.9**	**-0.9**	**0.0**	**0.2**
External balance (b)	-0.8	2.3	2.5	2.4	1.6	0.1	0.0
GDP, current prices: - € billion	--	1,063.4	1,049.5	1,043.8	1,059.4	--	--
- % change	7.4	1.4	-1.3	-0.5	1.5	-0.1	0.0
2. Inflation, employment and unemployment							
GDP deflator	3.6	1.0	0.1	1.0	0.8	-0.2	-0.2
Household consumption deflator	**3.1**	**2.9**	**2.4**	**1.4**	**1.3**	**-0.6**	**-0.3**
Total employment (National Accounts, FTEJ)	3.3	-1.7	-4.4	-3.7	-0.9	-0.2	0.0
Productivity (FTEJ)	0.4	2.2	3.2	2.3	1.6	0.3	0.2
Wages	7.2	-0.8	-5.4	-4.0	-1.4	-0.5	-0.7
Gross operating surplus	7.3	5.0	2.2	1.8	4.6	0.6	1.1
Wages per worker (FTEJ)	3.2	0.7	-0.3	0.4	-0.2	-0.3	-0.7
Unit labour costs	2.8	-1.4	-3.4	-1.8	-1.7	-0.5	-0.8
Unemployment rate (LFS)	**12.2**	**21.6**	**25.0**	**26.5**	**25.8**	**-0.1**	**-0.2**
3. Financial balances (% of GDP)							
National saving rate	22.2	17.8	18.8	19.7	20.2	0.3	0.7
- of which, private saving	18.8	23.0	23.4	24.4	24.4	0.9	1.6
National investment rate	26.6	21.5	19.6	18.1	17.4	0.0	0.0
- of which, private investment	23.1	18.7	17.9	16.7	16.2	-0.2	-0.3
Current account balance with RoW	**-4.4**	**-3.7**	**-0.9**	**1.6**	**2.8**	**0.3**	**0.7**
Nation's net lending (+) / net borrowing (-)	-3.4	-3.2	-0.2	2.2	3.3	0.4	0.7
- Private sector	-2.6	6.3	10.4	8.7	9.1	1.1	1.9
- Public sector (general governm. deficit)	**-0.9**	**-9.4**	**-10.6**	**-6.5**	**-5.8**	**-0.7**	**-1.2**
Gross public debt	53.5	69.3	84.3	94.3	100.8	0.7	1.6
4. Other variables							
Household saving rate (% of GDI)	12.0	11.0	8.1	8.1	8.2	0.0	0.1
Household gross debt (% of GDI)	82.5	125.5	123.6	120.7	115.3	0.4	0.7
12-month EURIBOR (annual %)	3.7	2.0	1.1	0.5	0.9	-0.1	-0.1
10-year government bond yield (annual %)	5.0	5.4	5.9	4.4	4.0	-0.5	-0.1
Nominal effective euro rate (% annual change)	--	-0.3	-5.3	2.5	-0.9	0.6	0.3

(a) Change between present and previous forecasts, in percentage points.
(b) Contribution to GDP growth, in percentage points.
Sources: 1996-2012: INE and Bank of Spain; Forecasts 2013-14: FUNCAS.

persistence of unfavourable demand conditions, and the substantial spare production capacity. Nevertheless, it is set to grow next year as a result of the stimulus of exports, the need to upgrade and modernise productive capital after several years of a freeze in investment, the gradual softening of credit conditions, and the consolidation of companies' financial situation. The expected rate of change in 2014 as a whole is 0.5%, although the rate of growth in the second half of the year could top 3% (Exhibit 7.3).

Export growth this year is likely to be moderate (3%) given the weakness of the global economy, but is expected to pick up speed next year as international economic conditions become more favourable. Imports, which will contract this year by 4.4%, will return to growth in 2014 as a result of a slower decline in domestic demand and faster export growth, given the close links between exports and imports. The external sector's growth contribution will be positive and domestic demand's contribution less negative in 2014 than in 2013, such that external demand will be sufficient to enable moderate growth (Exhibit 7.2).

The number of full-time equivalent jobs will continue to decline during the year. Only well into 2014 will the economy have reached a rate of growth compatible with minimal net job creation. The average annual change in this variable in this year and next will be -3.7% and -0.9%, respectively (Exhibit 7.4). The unemployment rate, which in 2013 will reach 26.5%, is set to fall slightly in 2014 as a result of the contraction in the labour force, driven by a slightly downward trend in the labour-force participation rate, and, above all, the shrinking of the working age population. Productivity and unit labour costs will continue their upward and downward trends, respectively, from recent years.

Consumer price inflation will continue the downward trend over the remainder of the year, reaching rates of around 1% at the end of 2013 as the impact of the step effects introduced last year by the VAT rise and other regulatory measures wears off, in conjunction with the absence of inflationary tensions due to weak demand. The annual average will be approximately 1.6%. An average of 1.3% is expected for 2014 (for both the CPI and the private consumption deflator).

In the case of the external imbalances, the current account balance and the economy's net lending position will be in surplus and growing, which will be the result of an increase in the national borrowing rate and a drop in the investment rate (Exhibit 7.6). The growth of the former is explained by the increase in business savings and the reduction in public dissavings, as the household saving rate will remain almost unchanged at last year's low levels. The lower public investment and continuing decline in housing investments will lead to a reduction in the national savings rate. The breakdown in the net lending position by sectors yields a public sector deficit of 6.5% of GDP in 2013 and 5.8% in 2014 (the latest figures proposed by the European Commission) and a surplus for the private sector of 8.7% and 9.1%, respectively.

In short, the Spanish economy is bottoming out and is set to start to show positive growth rates as of the last quarter of this year. However, the fundamentals of domestic demand remain extremely weak and some of the imbalances that built up during the period of expansion have yet to be corrected. The only source of growth will therefore be exports, but their ability to single-handedly drive the economy is limited. In sum, this means the capacity for growth will be scant and the recovery is likely to be slow.

Pension reform in Spain: Introducing the sustainability factor

José A. Herce[1]

The main policy recommendation from the Experts Committee on pension reform is the introduction of a sustainability factor into the Spanish public pension system, in 2014 if possible. The sustainability factor has the potential to achieve long-term sustainability of the pensions system itself, but if enacted, would require a reorganization of pre-existing Spanish pension schemes to ensure an optimal public/private mix.

This article examines the various reforms of the Spanish social security public pension system since its massive overhaul in the 1960s. Of the multitude of reforms undertaken to date, the 2011 reform was, by far, the most rigorous, but will still only preventing one third of the severe deterioration of system accounts projected to occur by 2050. However, the 2011 reform does contain one element that has the potential to stabilize the system- the sustainability factor. On the basis of the policy options recommended by the Experts Committee in its June report, this factor could achieve the full sustainability of the pension system in the long term. Nevertheless, its introduction would pose serious questions for pre-existing supplementary and/or replacement pension schemes.

Pensions in Spain today

In Spain, a number of pension schemes coexist, encompassing practically every type of collective insurance. The dominant scheme is that of contributory pensions of the social security system, professional and mandatory, based on a pay-as-you-go method and that provides (or promises) defined benefit lifetime pensions for a broad range of contingencies, including retirement, to practically all pensioners and workers and their dependents.

But alongside the contributory pension scheme of the social security system, alternative or supplementary schemes exist that provide more or less broad coverage to large sectors of the population, all of which constitute a reality of protection and collective insurance that cannot be fully described with reference solely to the public scheme.

The following table offers a brief description of the diverse systems presently existing in Spain and their main characteristics and basic indicators.

What becomes evident is the dominance of social security pensions, with coverage of wage earners (in the private sector, non-career civil service and public sector) and the self-employed considerably

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Table 1

Current pension schemes in Spain – 2012/2013

	Social security pensions	Civil servants' pensions	Social security non-contributory pensions	Pension plans and funds and insured pension plans (PPAs in their Spanish initials)
Covered population and benefits	Mandatory. All employees and self-employed people. Pensions in the form of a monthly income for permanent disability, retirement, survivors, orphans and for family members.	Mandatory for civil servants of state security services and replaces social security. Same benefits as social security.	Universal for all workers that have not paid into the system for the fifteen years required in the ordinary system and who lack financial resources. Pensions in the form of monthly income for retirement and disability.	Voluntary. All individuals and groups (associations, enterprises) that wish to contract a plan or insurance policy. Retirement pensions in the form of monthly income, capital and similar contingencies, including dependency.
Funding	By means of social security taxes paid by employers and employees. Pay-as-you-go method. Reserve fund. Pension entitlement.	Through modest contributions by civil servants (one tenth of their income) and tax resources of the central state (remaining nine tenths). Pension entitlement.	From the tax revenue of the central state. Effective pensions if eligibility criteria met.	By means of contributions by participants or organizers. Effective consolidated rights of defined contribution.
Basic indicators	16 million employed contributors and two million unemployed contributors. 9 million contributory pensions. Average system pension of 856 euros/month (14 payments).	Somewhat more than 600,000 civil servant pensions, slightly less than the number of career civil servants paying into the system. Average system pension of 1,439 euros/month (14 payments).	450,000 beneficiaries of non-contributory pensions. Average pension of 365 euros/month (14 payments).	10.3 million participants, average retirement capital of 8,600 euros per participant and 210,000 beneficiaries in pension plans. 1.1 million persons insured, reserves of 9,000 euros per insured person and 24,000 beneficiaries (2011).
Scope of recent reforms	Postponement of retirement age. Increase in calculation period.	Expected postponement of retirement age. System closed to new participants since January 1st, 2011.	No effect on this scheme.	No effect on this scheme.
Challenges for immediate future	Deepening of reform with adoption of "sustainability factor". Regular information provided to workers.	Sustainability in context of fiscal consolidation and gradual disappearance of revenue from payments into system.	No specific challenges in short term for this scheme, except those arising from demands of consolidation.	Taxation. Regular information provided to participants and insured persons on pension rights.

Source: Afi.

broader than under the regime of retirement pensions for career civil servants. Both regimes determine full coverage of contributory public pensions in Spain.

Alongside the two aforementioned contributory public pension schemes is the non-contributory pension scheme, to which people are entitled at the age of 65 or in the event of a contingency of disability at any age if they have not completed an earning record of at least 15 years and they lack equivalent (or greater) financial resources than the benefits under this scheme.

Lastly, there are "supplementary social benefit" schemes, or private pensions, that have the status of pensions to supplement social security or civil servant pensions. In any case, these are voluntary. Naturally, these schemes are open to people who are not working, as they can participate through the individual or associate systems if done so within the pension plan schemes or by purchasing an insured pension plan (PPA in its Spanish initials).

All private social benefit schemes in Spain are, as noted, voluntary and supplementary to public contributory pensions, never a replacement. They are based on individual capitalization and may be insured or not, and benefits –whether in the form of capital, lifetime income or mixed– are based on the defined contribution principle.

Although the number of participants in pension plans or of insured persons in PPAs might suggest a large presence of such products in Spanish social benefit culture, the fact remains that behind the approximately 11.5 million participants or insured persons in such products lies weak capitalization: they carry retirement capital that ranges between 6,693 euros per participant in the individual pension plan system (INVERCO, as of March 2013) to the 15,663 euros per participant in the employment system (INVERCO, as of March 2013), and including the 8,968 euros per insured person in PPAs (General Directorate of Insurance and Pension Funds (DGSFP) as of 2012). The number of beneficiaries is also low, amounting to 211,385 and 26,643 benefit recipients for the PP and PPAs, respectively (INVERCO, as of March 2013 and DGSFP as of 2011).

Hence, the predominance of public pensions and the low intensity of private pensions and bio-demographic trends in the Spanish population pose significant challenges to pension sustainability or sufficiency that cannot be resolved without drastic changes in the design of public pensions and in the public/private mix.

Three decades of pension reforms

Indeed, what we may call the "pension problem" is mainly due to the fact that life expectancy is constantly increasing. This otherwise positive factor, as such, should not cause any problems if all life cycle decisions are adapted to the lengthening of life. But, as with individuals' decisions on the period for schooling, forming a household, or the arrival of one's first child have been nearly spontaneously adjusted to this bio-demographic trend, the decision to increase the retirement age has barely begun to be implemented in the advanced countries and, in any case, forced by reforms of pension systems.

Pension reforms have always given rise to huge social and political controversy in all countries, and in Spain, in particular. Although the managers of public pension systems are constantly claiming that these systems are facing "permanent reform", this is only partly true. It has been shown, however, that permanent reforms of pension systems never build up enough momentum to offset the obsolescence of current formulas in the face of quickly accumulating imbalances resulting from demographic or economic changes. Such reforms rarely introduce instantaneous and sufficient adjustment mechanisms in pension sustainability and sufficiency formulas.

In Spain, new regulations have been enacted continuously in order to, in one way or another,

For over three decades, since the drastic restructuring and reorganization of the social benefits system, regulators have been attempting to reform the public pension system through one way or another.

reform the public pension system since the 1960s, when the system of social benefits was drastically restructured and reorganized. But by the 1980s, the first truly substantial change in the system became necessary. Since then, a series of low intensity, "productive" or "counterproductive" reforms and institutional events have taken place that failed to change the outlook for the pension system until the reform adopted in 2011 and implemented from January 1st, 2013.

In 1985, soon after the end of the long oil crisis and the emergence of the first symptoms that the pension system might run into financial difficulties, the so-called pension "calculation period" was extended from two years prior to retirement to eight years, and the payroll tax "grace period" from ten to 15 years.

This reform effectively reined in expenditure throughout the following decade, but it did not prevent the 1992-93 recession, which had a sharp impact on employment, from structurally impairing the financial position of the system. The 1993 electoral campaign, unprecedentedly focused on the subject of pensions, to the point that many analysts at that time attributed the socialists' narrow victory to the bitter debate over pensions, and to what the Popular Party (PP) intended to do with the pension system if it came into office.

The debate left a bad taste in the mouths of all political parties and, in 1995, the Toledo Pact, the dialogue with social groups and in Parliament, was signed, having originated in an initiative by the Convergencia I Unió party from the previous year in reaction to this widespread dissatisfaction. The Toledo Pact was not a pension reform, but rather a parliamentary move for permanent debate on the system and its gradual adjustment to changing demographic and economic conditions in Spain, with the theoretical aim of taking the subject of pensions out of the electoral arena.

The 1996 elections brought the PP into office by a very narrow margin. While an exit from the labor market challenges of the recession of a few years before was clearly taking shape, the aftertaste of the pension debate in the 1993 elections and the climate of the Toledo Pact, along with the new government's need to generate trust among the trade unions, would lead to a series of agreements with social agents followed by legislative reform of pensions. The first was the Agreement for Consolidation and Rationalization of the Social Security System, the content of which was later introduced under Law 24/1997 of the same name.

Under this reform, among other less significant measures, the pension calculation period was extended from eight years to 15 years –the period in force until a few months ago. This change, in fact, allowed pensions to increase, as new participants recovered their best payment years, while it had no effect on the rest. This is why the reform easily passed through the filter of the trade unions who, a few years before, had responded with a general strike to a nominally similar, yet much more effective reform.

The 1997 reform also created the pension reserve fund, which would be set up in the year 2000 on the basis of the annual surpluses of the system and the corresponding returns. The fund amount managed to surpass 6% of GDP, totaling 66.815 billion euros in 2011.

A number of reforms of this kind have been introduced since 1997. Specifically, in 2002 (Law 35/2002, which incentivized retirement after the age of 65 and "reinstated" early retirement from the age of 61) and in 2007 (Law 40/2007, which adjusted the effective grace period to 15 years and regulated partial retirement from the age of 61).

None of these reforms dispelled the impression among analysts that they failed to tackle the long-term sustainability problem threatening the Spanish pension system.

What is more, these reforms, undertaken in a period of a veritable boom in social security registration, in the midst of spectacular growth of contributions to the system and significant stabilization of pension expenditure due to the move toward retirement of the small amount of people born during and immediately after the Spanish Civil War, did not lend the system even one one-hundredth of the stability that an unusually long and intense cycle of economic expansion would have provided.

The harsh crisis that, since 2008, has devastated the Spanish labor market and social security figures, combined with the retirement of the largest generations of workers preceding those of the Spanish baby boom (1965-1975) has impaired the revenue of the social security contributory pension system. Since 2011, the system has carried a growing deficit that may surpass 1.5% of GDP in 2013 (about 15 billion euros) and thereby required frequent disbursements from the reserve funds and credit extensions by the state in order to cover regular payments by the system. The crisis has brought forward by an entire decade a deficit that, given the advance of underlying structural factors, can be corrected only with decisive and early action by regulators and system managers.

In such circumstances, it is not surprising that there was a great deal of concern beginning in May 2010 over the financial outlook of the pension system, among the other preoccupations regarding the grave structural problems that had begun to emerge in the economy due to the 2009 recession. Indeed, one of the components of the government's economic policy change in that month was a fresh – this time substantive – reform of the social security pension system.

The 2011 reform, arising from this urgent situation and in force from January 1st, 2013, is the most ambitious of all the reforms undertaken since the consolidation of the Spanish pension system in 1967. In essence, it consists of two measures with a substantial impact: the postponement of the retirement age from 65 to 67 and the extension of the calculation period from 15 to 25 years. It contains other measures, such as the rebalancing of pension points per year of contribution, but the most effective will be, unquestionably, the aforementioned two of these.

The reform also refers to the introduction of a so-called "sustainability factor", which incorporates into the system corrections calculated on the basis of growing life expectancy and other system sustainability indicators from 2027. The measure, however, is aimed at long term sustainability and as a consequence, would have no noticeable effect before 2035.

The outlook for pensions before and after the 2011 reform

Numerous prospective studies since the 1990s on the accounts of the social security contributory pension system have repeatedly shown that the entry into retirement of the Spanish baby boom generations starting in the decade of 2030 would lead to the start of a rapid erosion of the financial equilibrium of the system due to the increased expenditure in pensions in proportion to GDP, while income from contributions would barely change in proportion to output.

Projections made prior to the crisis foresaw the first pension system deficit for after 2020, but already in 2011 a number of disbursements from the reserve fund have had to be made.

Projections made prior to the crisis foresaw the first pension system deficit for after 2020. The reserve fund would still help finance growing deficits until past 2030 and would then become a

debt of the social security system, with a ratio to GDP of about 1 (100% of GDP) by 2050. But the system surplus during the economic boom and in the initial years of the crisis, due to the solid basis of registrants existing until that time, disappeared in 2011 and a number of disbursements from the reserve fund have had to be made, amounting to some 10 billion euros.

Pension expenditure as a percentage of GDP has stood at 10% in recent years, which is practically equal to income from contributions to the system. Projections made on the basis of present regulation up to 2012 showed that by approximately 2050, pension expenditure would range between 16 and 20% of GDP. Income from contributions, in contrast, would constitute a stable proportion of GDP, as it must, if we assume that wages' share of GDP is very stable at roughly 50% and, assuming "constant legislation" (during the projection period), contribution rates and wage bases should not be expected to change either.

Hence, the pension system deficit would sustainably grow to 8% of GDP as an average of projections. The accumulation of these deficits and the growing debt service would cause the latter to exceed GDP in 2050, according to studies that were based on the system regulations in force until the end of 2012.

The 2011 reform, which entered into force on January 1st, 2013, has substantially changed system rules. Although the highly gradual application of the increase in the retirement age and the extension of the pension calculation period to 25 years means that that the effects of the measures will not be noticeable in system accounts until 2030, the expected deficit for 2050 may be reduced by one third from what was expected prior to the 2011 reform, falling from 8% of GDP in 2050 (in the average estimation) to somewhat lower than 6% of GDP. Commensurately, the debt accumulated by the pension system in the projection horizon would be about two thirds of GDP, instead of skyrocketing to equal GDP.

The reasons for this insufficient correction in the expected pension deficit lie in the fact that, in spite of the spending adjustments that the retirement age increase and the extension of the pension calculation period will cause in total spending, the incessant advance of the population's life expectancy and the retirement of the baby boom generations will be even more powerful factors driving spending.

The crisis will have increased Spanish public debt to a ratio of 100% of GDP by 2014, according to the estimates made by international organizations. This does not take into account the burgeoning structural deficit of pensions, which would prevent any significant reduction of public debt, even in the event of a quick economic recovery starting in that year. The insufficiency of the 2011 reform in contributing to the necessary reduction of the debt ratio is, therefore, obvious.

The coming sustainability factor: The last reform?

In July 2012, in the midst of the second recession of the Spanish economy and the general destabilization of markets triggered by the vicious circle of economic crisis-financial crisis-sovereign crisis, EU authorities urged the Spanish government, among other recommendations of "mandatory compliance", to speed up the implementation of measures envisaged in the 2011 pension reform and, in particular, to introduce as quickly as possible the sustainability factor.

The Experts Committee created by the government in April of this year submitted its report on the sustainability factor to the government one and a half months later. The proposal from the group of experts defined the pension sustainability factor as a dual mechanism of adjusting average pensions upon constitution of a pension right and throughout their trajectory.

In the former case, the sustainability factor has a mechanism that adjusts a recently constituted

Through the intergenerational equity factor (IEF), a recently constituted pension right for future retirees can be adjusted by taking into account trends in the life expectancy of the representative generation compared to the life expectancy of the benchmark generation in a baseline year.

pension right for future retirees by taking into account trends in the life expectancy of the representative generation compared to the life expectancy of the benchmark generation in a baseline year. This is the intergenerational equity factor (IEF), which transfers the change in life expectancy (at the age of 65, an expected increase of 1% a year), with an opposite effect, to the resulting pension under the current formula.

Hence, all new pensions in the future would be adjusted downwards as life expectancy increases. A worker retiring, for example, in 2051, would see a life expectancy increase of 24% compared to his 2014 counterpart (28% for men and 20% for women, if gender differentiation criteria are used). In that proportion, consequently, the recently qualified pension would be lower. In some years, there may be a decrease in life expectancy, with the resulting upward effect on recently qualified pensions, but this is extremely unlikely in the foreseeable future.

In the latter case, the sustainability factor has another mechanism that adjusts all pensions in accordance with the evolution of pension system income, the number of pensions, the gap between the value of new pensions and discontinued pensions and the balance between the system's income and expenditure. This is the annual revalorization factor (ARF) which, by means of a lengthy formula, transfers all these key pension system sustainability factors to all pensions every year at revalorization.

Therefore, pensions are also revalorized upwards or downwards according to the balance of factors defined by the ARF. This mechanism completely replaces the CPI revalorization mechanism that had been used, with some exceptions, since the 1997 reform. A constant deterioration of the factors in the ARF should be expected, although not necessarily. Hence the Experts Committee report warns that it would be possible, at least in theory, for the ARF to yield an upward revalorization of pensions. Such an eventuality requires a sustained increase in system income at some point, as the elements making up the ARF are established on the basis of moving averages centered on each year that comprise thirteen years, including past years and future projections. The number of pensions will continue to grow, while the gap between new pensions and discontinued pensions will remain positive for many years unless the sustainability factor can fully eliminate this gap. At present, the gap is 40%. Lastly, while the system receives less income than the expenditure to be covered, the ARF will reinforce the downward direction of the adjustment.

Alongside the possible effect of the IEF, the ARF would complete the adjustment necessary to balance pension accounts by means of a reduction in pensions, assuming constancy in other system rules. The only way to avoid a significant reduction and limit the playing out of sustainability factor elements would be to increase contributions or to increase the retirement age even more.

The sustainability factor is, therefore, the silver bullet of any pension reform that truly seeks to ensure pension sustainability. Indeed these mechanisms enact what might be called "sustainability by default" of the system and, in the case of pay-as-you-go systems, the instant and full distribution of social contributions received by the system among current pensioners, distributing the burden of this adjustment among a large proportion of them in accordance with the longevity of their generation.

The most reasonable expectation is for pensions to be lower, not in comparison to current levels, but rather compared to the levels they would otherwise have reached as a result of strict application of present formulas without the sustainability factor.

This means that if the structural elements of the system (demographic and economic factors) evolve towards improved sustainability, pensions could be increased. But the most reasonable expectation is for pensions to be lower, not in comparison to current levels, but rather compared to the levels they would otherwise have reached as a result of strict application of present formulas without the sustainability factor.

The sustainability factor is, for now, nothing more than a proposal by a group of experts. It has yet to be addressed within the Toledo Pact in accordance with standard practice since 1995. This phase will not be simple, as the introduction of a sustainability factor would truly be a definitive reform of the pension system with a view to its full sustainability over time. If it is enacted, a thorough rethinking would be in order of all other pre-existing pension schemes in Spain, as they would have to supplement – and in some cases go beyond supplementing – the social security public pensions, with much more efficient formulas to achieve sustainable and sufficient pensions for all.

The European banking union from the Spanish perspective: Myths and reality

Santiago Carbó Valverde[1] and Francisco Rodríguez Fernández[2]

Progress on the European banking union remains limited. Nevertheless, a strong banking union is needed for the financial stability of the entire Euro zone, not just individual countries.

The European banking union project has drawn a significant amount of recent attention. However, despite the inevitable trade-off between the time needed to establish it and the quality of the union, progress on implementation remains limited given the lack of political consensus. Additionally, certain design aspects, in particular related to the Single Resolution Mechanism (SRM), fall below expectations. Market fragmentation is still high and in part attributable to government policies across the EU. Empirical results suggest that government implicit support to the banks –the so-called implicit guarantees– can be twice or three times larger in countries such as Austria or Germany than in Spain, Italy or Portugal. Evidence shows a 1% increase in the implicit guarantee (resulting in lower funding costs for banks) is passed on in the form of a 0.52% lower interest rate applied to firms for bank loans. Thus, a strong banking union would not only benefit peripheral countries engaged in recapitalization and restructuring efforts, but also the Euro zone as a whole.

Status of the banking union project: A (too) long and (too) winding road

The European banking union was originally designed as a tool for crisis prevention. However, it has been recently viewed as a project with a much broader scope and with implications for financial stability related to the transmission of banking shocks across Europe and the development of sovereign crises. In fact, most international observers see financial market fragmentation and ad-hoc domestic bank bailout and bail-in policies as a key source of vulnerability for the Euro zone as a whole.

The banking union project follows up on the efforts made in Europe to better design the financial safety-net, comprising the set of regulations and supervision rules and bodies dealing with financial stability in the EU. The most important efforts in this sense were the proposals of the so-called Larosière group[3] in 2009.

Most recently, it was the Internal Market and Services Unit within the European Commission (EC) that took the lead and assumed the responsibility of designing the necessary steps towards a common resolution framework that, ultimately, would be the seed of the banking

[1] Bangor Business School and Funcas.

[2] University of Granada and Funcas.

[3] http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

union. In particular, the development of the so-called "Bank Recovery and Resolution Directive". Specifically, the EC has been seeking to develop:

(i) A regulation giving strong powers for the supervision of all banks in the euro area to the ECB and national supervisory authorities with the creation of a single supervisory mechanism;

(ii) A regulation with limited and specific changes to the establishment of the European Banking Authority (EBA) in a way to ensure a balance in its decision-making structures between the euro area and non-euro area Member States;

(iii) A communication outlining the Commission's overall vision for rolling out the banking union, covering the single rulebook, common deposit protection and a single bank resolution mechanism.

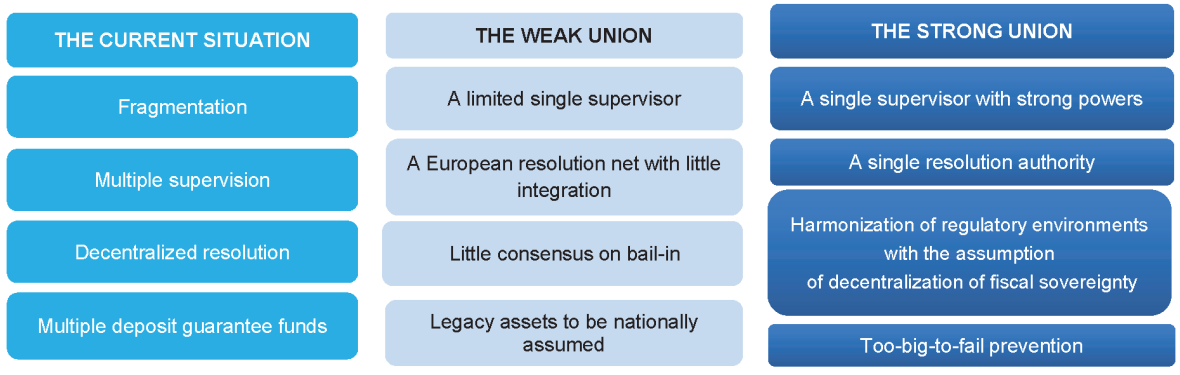
Overall, the banking union would benefit the entire Euro zone but, in the short-term, it is necessary to understand that the project itself has value as a signalling device.

During 2012 and 2013, there have been several proposals made to progress on these goals. However, the theoretical design goes much further than political consensus and practice. Overall, the general impression is that the debate on the banking union has been more focused on how solidarity would potentially work for some member countries than on the real benefits of the banking union for the Euro zone as a whole. However, this perspective proves to be wrong and the Spanish case is a good example. The Spanish banking sector has gone through a considerable transformation and restructuring over the last few years. In particular, it is following a broad EU resolution program (the so-called Memorandum of Understanding or MoU) since 2012. This specific program and the EU aid attached to it, may not have been necessary if a banking union had been in place, as the markets would have understood that any potential losses, bail-in and bailout mechanisms and depositors protection, would have been backed by a strong unified protection system. However, even if Spain has benefited from the financial assistance of the EU, it would ultimately assume the costs and pay back that aid. This virtually means that the only current benefit of developing a strong banking union for countries such as Spain is that a signal has been issued to the market that the EU is slowly progressing towards cohesion and abandoning fragmentation. Overall, the banking union would benefit the entire Euro zone but, in the short-term, it is necessary to understand that the project itself has value as a signalling device. If the proposals are strong and credible, markets will see the Euro zone as a consolidated project. If they are weak, fragmentation will continue to be considered as a threat for the Euro. Hence, the consideration that the banking union is only useful for currently troubled banking sectors is only a myth and the reality is that the benefit of this union is for the entire Euro zone.

One way of showing the status of the banking union is comparing the theoretical designs with current developments, as shown in Exhibit 1. The current situation is described on the left-hand side of the exhibit, with financial fragmentation (different domestic financial conditions), multiple banking supervision and deposit guarantee frameworks and decentralized resolution mechanisms. At the right-hand side of the exhibit, we depict the desirable structure of strong banking union with a single supervisor with broad powers, a single resolution authority (including common bailout and bail-in mechanisms), the harmonization of the necessary legal environments (even including the EU Treaty) and a system that prevents the too big to fail problem for systemic financial institutions. However, the situation is still far from such a desirable outcome. The current status of the project is somehow closer to the structure shown in the central column of Exhibit 1, a weak union with a single supervisor, domestic

Exhibit 1

Theoretical progress towards a strong banking union



Source: Authors' own elaboration.

resolution authorities with little integration, little consensus on bailout measures and the problem of legacy assets –which consists of how to deal with the losses of the current crisis– likely to be assumed by each domestic counterpart.

The theoretical ingredients of a strong banking union suggest that there is an inevitable trade-off between quality and speed in the achievement of the established goals. However, the recent developments within the EU suggest that neither the timing nor the ingredients are ambitious enough.

The theoretical ingredients of a strong banking union suggest that there is an inevitable trade-off between quality and speed in the achievement of the established goals, as the regulatory changes required will need some time to be approved, in particular, an amendment of the EU Treaty. However, the recent developments within the EU suggest that neither the timing nor the ingredients are ambitious enough. The conclusions of the recent meeting of the European Council on June 27th-28th reveal that the progress and the consensus are limited, rendering the project a weak one at present. The conclusions of the Council (EUCO 104/2/13 REV 2) suggest that "in the short run, the key priority is to complete the Banking Union in line with the European Council conclusions of December 2012 and March 2013. This is key to ensuring financial stability, reducing financial fragmentation and restoring normal lending to the economy."

It is not that the main ingredients are not included in the proposals of the Council, it is just that their design reveals a lack of completion that puts the whole project at risk. In particular, the Council mentions the three main goals in the short-run:

(i) A new Single Supervisory Mechanism (SSM). However, as we will discuss later on, the proposals for such SSM makes it virtually vulnerable and ineffective.

(ii) The transition towards the SSM, where the Council suggests that "a balance sheet assessment will be conducted, comprising an asset quality review and subsequently a stress

test. In this context, Member States taking part in the SSM will make all appropriate arrangements, including the establishment of national backstops, ahead of the completion of this exercise." This second goal in itself reveals that the responsibility and supervision powers still remain very much attached to national bodies.

(iii) The Eurogroup has agreed on the main features of the operational framework for direct bank recapitalisation by the ESM. At this stage, the main agreement consists of the problem of legacy assets being assumed by each member state but there is not really a consensus on how direct bank recapitalization may work in the future. The Council states that "the European Stability Mechanism will, following a regular decision, have the possibility to recapitalise banks directly," but little progress has been made on this particular feature.

As it seems that the main efforts up to now have been concentrated in trying to reach consensus on a fully effective SSM, it is worth noting that this requires a Single Resolution Mechanism (SRM) for banks covered by the SSM. The European Commission's proposal establishing an SRM has been debated during the Council of June 2013, with little progress. The main criticisms on current proposals are twofold. First, the role of the ECB as the head of the SSM lacks the necessary powers, which are still under discussion and likely to be more limited than expected. Second, some of the main ingredients for an effective SRM are there, but some of them are also affected by limited scope and a worrisome lack of firepower (limited budget).

In the current discussions with the EU, the main resolution measures would include:

– Bail-in measures (the imposition of losses, with an order of seniority, on shareholders and unsecured creditors);

– The sale of (part of a) business;

– Establishment of a bridge institution (the temporary transfer of good bank assets to a publicly controlled entity);

– Asset separation (the transfer of impaired assets to an asset management vehicle).

Bail-in mechanisms are key as they establish the necessary liability responsibility scheme to face the losses of bank resolution mechanisms before tapping public funds (that is, imposing part of the losses on taxpayers). Under the current European Council's general approach, eligible deposits from natural persons and micro, small and medium-sized enterprises, as well as liabilities to the European Investment Bank, would have preference over the claims of ordinary unsecured, non-preferred creditors and depositors from large corporations. The deposit guarantee scheme, which would always step in for covered deposits (i.e. deposits below 100,000 euros), would have a higher ranking than eligible deposits. Other liabilities would be permanently excluded from bail-in, such as covered deposits, secured liabilities (i.e. covered bonds), liabilities to employees of failing institutions (salary and pension benefits), commercial claims relating to goods and services critical for the daily functioning of the institution; liabilities arising from a participation in payment systems which have a remaining maturity of less than seven days; and inter-bank liabilities with an original maturity of less than seven days.

All these bail-in measures are indeed very important to create an effective SRM but are only a part of it. As in previous occasions, the focus has been more on who will assume the losses than on common mechanisms. Even if it has taken some time to reach such consensus on bail-in ingredients, this has been the main element of progress. However, there are other key ingredients where progress has been much more limited. In particular, the mechanisms for bank recapitalizations, which have been set as very restrictive and quantitatively limited. The current agreement is to set up ex-ante resolution funds to ensure that the resolution tools can be applied effectively. These national funds would

have to reach, within 10 years, a target level of at least 0.8% of covered deposits of all the credit institutions authorised in their country. To reach the target level, institutions would have to make annual contributions based on their liabilities, excluding own funds, and adjusted for risk. A first exemption to this rule is that member states establish their national financing arrangement through mandatory contributions without setting up a separate fund. The member states following this alternative would have to raise at least the same amount of financing and make it available to their resolution authority immediately upon its request. This alternative seems quantitatively equivalent to a common resolution framework but, in practical terms, involves more fragmentation and lack of centralized control.

The evidence of lack of consensus and prolonged fragmentation extends to deposit guarantee schemes, where member states would be free to choose whether to merge or keep separate their funds for resolution and deposit guarantee schemes (DGSs). More evidence of fragmentation in the DGSs can be found in that the current agreement establishes that "lending between national resolution funds would be possible on a voluntary basis. Resolution funds would be available to provide temporary support to institutions under resolution via loans, guarantees, asset purchases, or capital for bridge banks."

The proposal for a common DGS system allows these decentralized actions in spite of "flexibility" but this may cause this important ingredient of the financial safety net to remain fragmented in Europe. The current agreement mentions that "flexibility would only be available after a minimum level of losses equal to 8% of total liabilities, including own funds, has been imposed on an institution's shareholders and creditors, or under special circumstances, 20% of an institution's risk weighted assets where the resolution financing arrangement has at its disposal ex-ante contributions which amount to, at least, 3% of covered deposits." In quantitative terms, this flexibility seems too large and likely unnecessary.

Another limited agreement has been made regarding the so-called "minimum loss absorbing capacity." In particular, national resolution authorities will be required to set minimum requirements for own funds and eligible liabilities (MREL) for each institution, based on its size, risk and business model. A review in 2016 would enable the Commission, based on recommendations by the European Banking Authority, to introduce a harmonised MREL applicable to all banks. This sets a too long perspective to really decide on the minimum common funds for bank loss absorption within the Euro zone. Moreover, current discussions have implied that the maximum common funds compromised by banking union members in the interim will be around 60 billion euros, which is a significantly small amount of firepower.

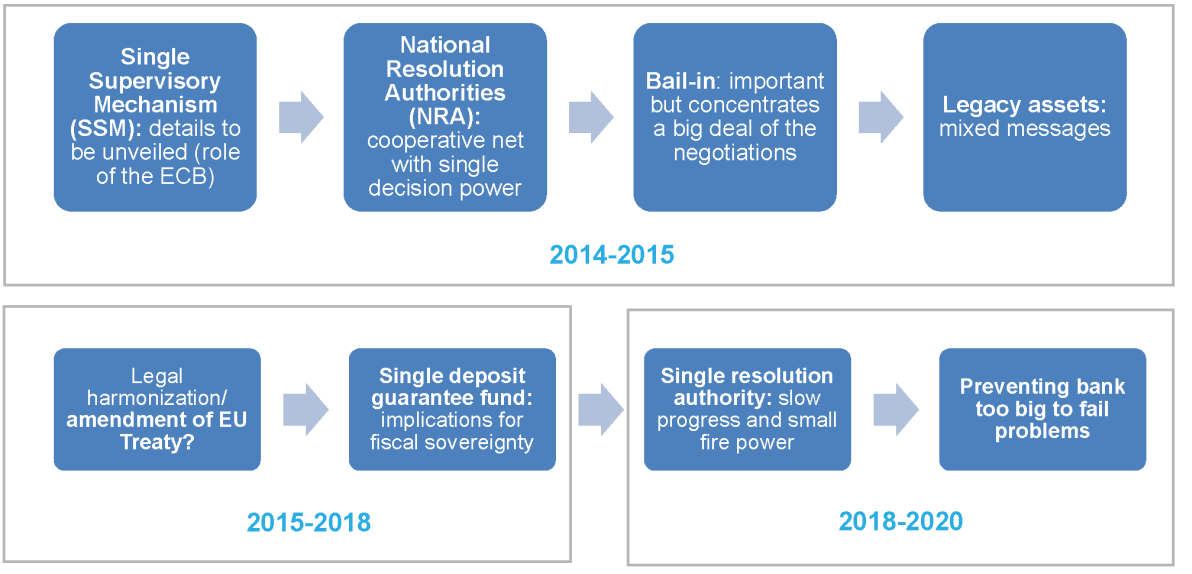
Therefore, considering recent developments, we can conclude that the road will not only be too long but also too winding. As shown in Exhibit 2, the best we can expect is to reach a single resolution framework and the necessary tools for bail-in, bailout, deposit schemes and prevention mechanisms to be ready by 2018-2020. However, the problem will not just be the time but the likely limited scope and firepower of the project. There is still time to make the necessary amendments but the precedents are not promising.

The political, financial and economic features surrounding the banking union developments suggest that financial fragmentation in Europe is not a trend but a consequence of a weak and too decentralized financial structure. As shown in Exhibit 3, the widely commented financial fragmentation in Europe is a sum of four main

The political, financial and economic features surrounding the banking union developments suggest that financial fragmentation in Europe is not a trend but a consequence of a weak and too decentralized financial structure.

Exhibit 2

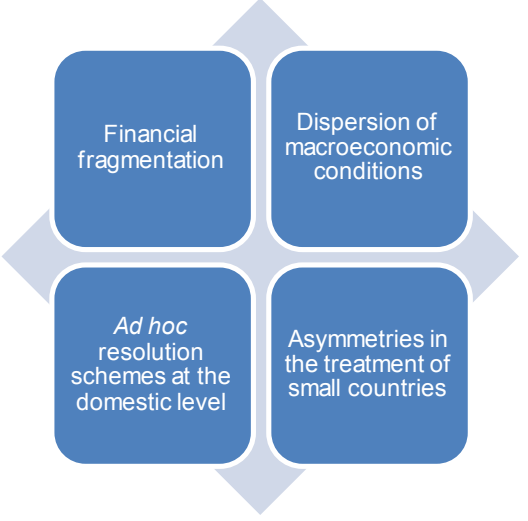
Which road to follow?



Source: Authors' own elaboration.

Exhibit 3

Sources of financial fragmentation in Europe: Fragmentation as a consequence, not a trend



Source: Authors' own elaboration.

components. The first one is what we can call "true" financial fragmentation, that is, differences in the financial structure that makes access to finance easier and cheaper for households and firms in some Euro zone countries as compared to others. However, the structural differences were there before and during the crisis. The financial crisis is a second source of fragmentation itself, as it exacerbates the differences in financial conditions between countries with severe recessions and others with more favourable economic environments. These differences cause country-risk premiums and investors' perceptions to be very different across member states. A third source of fragmentation is the ad-hoc resolution of the banking problems at domestic levels. The lack of a common resolution tool makes each country undertake its own resolution actions with consequences for investors' perceptions and, therefore, financial conditions. Finally, a fourth factor would be the asymmetries in the treatment of small countries as opposed to larger countries in the common resolution actions in areas such as EU bail-out and bail-in rules, with the Cypriot case as the most prominent example. This differential treatment also exacerbates investors'

perceptions of financial fragmentation in the Euro zone. Taking all these sources into consideration, fragmentation looks more a consequence of structural differences and a lack of a banking union than a trend.

A game of hidden incentives: Who benefits from the fragmentation of the Euro zone financial safety-net?

Given the lack of political agreement to achieve what we have defined as a "strong" banking union, we wonder why a project that would theoretically benefit the entire Euro zone is currently weak. The complete analysis of the rationale behind this problem involves many political and economic features that go beyond the scope of this note. However, we focus on certain aspects of a game of incentives that leads some countries to adopt a more favourable position than others as long as market fragmentation persists. At least, in cases where the support of domestic authorities to those banks is concerned. Specifically, we refer to the implicit and explicit guarantees provided by governments and domestic safety-nets to banks in different Euro zone countries. This section illustrates some of these benefits both as evidence of financial fragmentation and as a part of a complex incentive system in bank supervision and regulation across Europe. The findings shown correspond to broader research undertaken at Funcas by the authors.[4] In particular, we discuss two main conclusions:

i) The evidence of substantial differences in implicit and explicit guarantees given by domestic governments to their banks across EU countries.

ii) The relationship between the implicit guarantees and the fragmentation in European markets (expressed as the different interest rate spreads borne by corporations to obtain bank funding).

As for the guarantees, the implicit ones refer to the difference between the all-in credit rating (AICR) and the "stand-alone credit rating" (SACR) provided by Moody's. The AICR isolates any external support to the bank while the SCAR takes into account assumed government and central bank support motivated by systemic concerns. The difference between the two types of ratings is referred to in this context as the implicit guarantee provided by the authorities to a bank in a given country. As noted by the OECD,[5] this implicit guarantee works to reduce the costs for a bank of obtaining external funding in the markets. Turning the ratings into a numerical scale, the implicit guarantee can be expressed as the percentage reduction in the cost of debt (interest rates) for the bank.

As for the explicit guarantee, we measure the difference between the risk assumed by the banks and the explicit safety-net mechanisms put in place in a given country. In particular, these mechanisms are the solvency requirements and deposit guarantee schemes. Per Carbó Valverde *et al.* (2012),[6] we define the safety-net benefits as the percentage of deposits that would potentially be covered with public funds (taxpayer support) in the event of a bank failure. This means that our measure of the explicit guarantee shows to what extent banks can potentially benefit from taxpayer support taking into account the regulatory structure in a given country.

Our estimates of the implicit and explicit guarantees are based upon a sample of 102 large banks in Austria, Germany, Belgium, Finland, France, Netherlands, Spain, UK, Italy

[4] A complete version of this research and findings will be published in volume 136 of *Papeles de Economía Española* - Autumn 2013.

[5] Schich, S. and H.K. Hwan, "Developments in the Value of Implicit Guarantees for Bank Debt: The Role of Resolution Regimes and Practices, OECD Financial Market Trends, vol. 2, pp. 1-31.

[6] Carbó Valverde, S., Kane, E. and F. Rodríguez Fernández, (2012), "Regulatory arbitrage in cross-border banking mergers within the EU", Journal of Money, Credit and Banking, vol. 44, pp. 1609-1629.

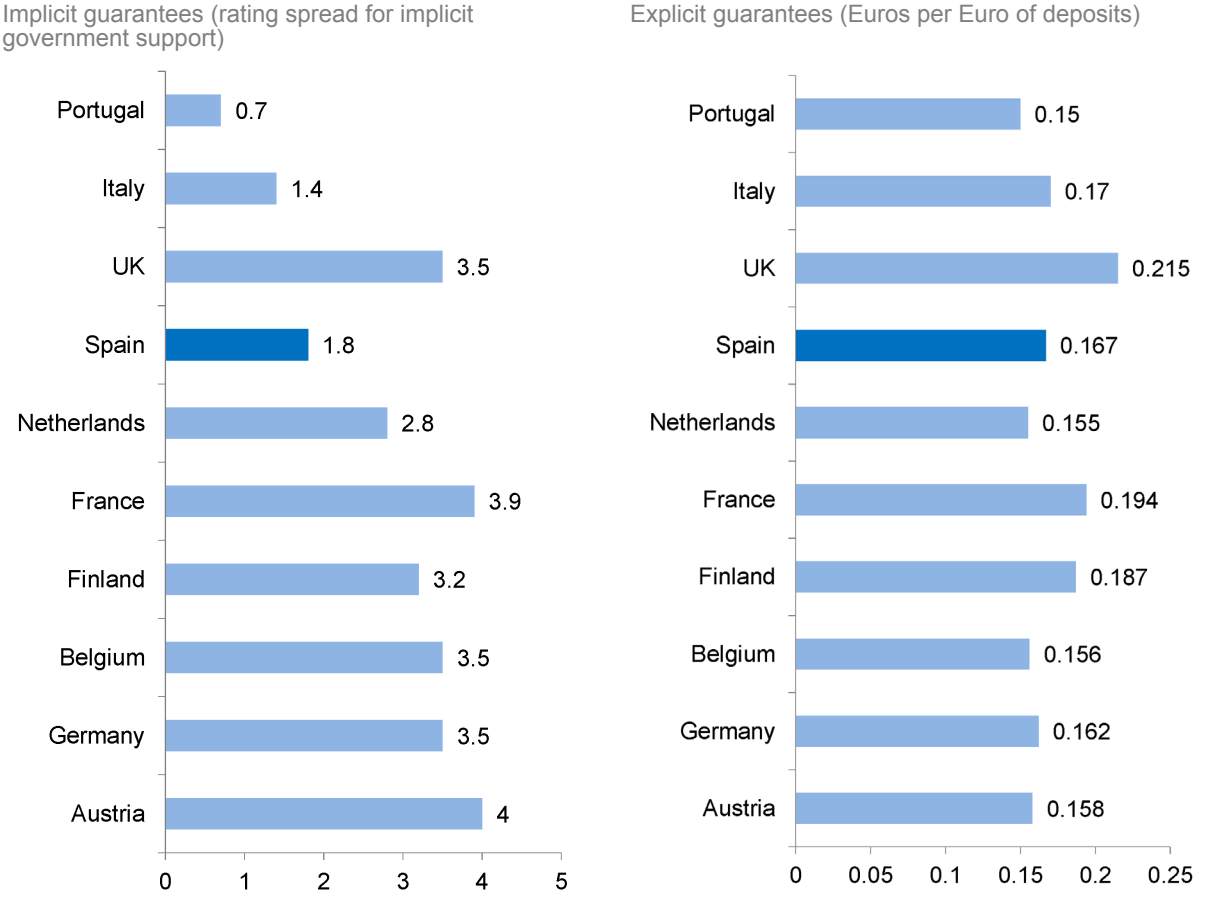
and Portugal from 2007 to 2012. The results are shown at the aggregate level for these countries in Exhibit 4. Implicit guarantees are shown as a percentage decrease in interest rates for bank funding given the government implicit support and the explicit guarantees are shown as Euros per Euro of deposits. Exhibit 4 reveals that the magnitude of the implicit support is significantly large in countries such as Austria (4%), and Germany, Belgium and the UK (3.5% in all three). However, the implicit guarantees are considerably lower in EU peripheral countries, such as Portugal (0.7%), Italy (1.4%) and Spain (1.8%).

As for the explicit guarantees, they are large in countries, such as the UK (0.215 Euros per Euro of deposits), France (0.194) or Finland (0.187) and relatively similar in Spain (0.167) and Germany (0.162).

Given the values of the guarantees estimated, and, in particular, of implicit guarantees, it seems that some EU countries benefit from government support and their banks obtain lower funding in the markets. This is a source of financial fragmentation that can be mostly attributed to public policies and that generates potential regulatory arbitrage across banking sectors. Given that these benefits

Exhibit 4

Implicit and explicit guarantees for the EU banking sectors



Source: Authors' own elaboration.

It seems that some EU countries benefit from government support and their banks obtain lower funding in the markets. This is a source of financial fragmentation that can be mostly attributed to public policies and that generates potential regulatory arbitrage across banking sectors.

in bank funding can be passed on to firms (and households), fragmentation extends to the corporate (and mortgage) market, where financial conditions can be more favourable for the firms (households) in the countries where banks enjoy larger government support. Along with other sources of fragmentation, such as country risk premium, this may create significant differences in the access to finance for firms across EU countries. In order to test these potential implications, the abovementioned research conducted at Funcas by the authors of this note includes some estimates of the determinants of the interest rate spreads that firms pay in the sample of EU countries above. This spread is computed as the difference between the average interest rate paid by firms for bank funding minus the 1-year Euribor rate. The database employed to undertake these estimations is Amadeus, provided by Bureau Van Dijk. We consider a sample of 21,236 firms over 2007-2010 and we analyze the determinants of the rate spreads paid by these firms. In particular, the spreads are explained by aggregate macroeconomic and financial variables –the ten-year sovereign bond rate, bank loan growth, the average implicit guarantees, the average firm NPL ratio and GDP growth– and firm-level variables -such as the collateral pledged by the firms (tangible assets/total assets), and the external financial dependence (the ratio "bank loans/cash flow" of the firm). In Table 1, we show a selection of the estimated coefficients for the most relevant variables in the study. For the purpose of this note, the most interesting result corresponds to the implicit guarantees. In particular, the empirical findings suggest that a 1% increase in the implicit guarantees (a 1% reduction in the cost of bank debt) is passed on to the firms as a 0.52% reduction in the cost of their funding. This result supports the idea that implicit government support to the banking sector is a significant source of financial fragmentation in the EU countries.

Table 1

Government support and financial fragmentation: Empirical evidence

Determinants of the interest rate spread paid by financial corporations in the EU	
Ten-year sovereign bond rate	0.46** (2.84)
Bank loan growth	-0.29** (4.15)
Implicit guarantees	-0.52** (3.27)
Average firm NPL ratio	0.38* (3.95)
Collateral (tangible assets/total assets)	-0.29* (2.06)
External financial dependence	-0.11* (1.93)
GDP growth	-0.31** (5.18)
R^2	0.68
Country dummies	Yes
Fixed effects	Yes
N. firm X year observations:	76,258

Note: The table shows a selection of the most relevant coefficients. The equation is estimated using fixed effects panel data and including country and time dummies.

Source: Authors' own elaboration.

Conclusions

This note surveys the main recent developments and remaining challenges for the European banking union from a Spanish perspective. The main conclusions, taking into account the data and empirical analyses discussed, are as follows:

– The European banking union project has shown limited progress. Admittedly, there is a trade-off between the quality and strength of the banking union and the time to achieve it. However, the recent resolutions and agreements have shown that neither the time nor the progress is ambitious enough. The main weakness refers to the Single Resolution Mechanism (SRM), since the current agreements depict a too decentralized framework with too limited quantitative resources.

– There seem to be hidden incentives in various EU countries to achieve a banking union. In theory, such a union will end with the dispersion in government support to banking sectors at the national level. We show some empirical findings that suggest that this government support is taking the form of implicit guarantees in various EU countries and, contrary to expectations, the banks enjoying larger government support are not those from peripheral countries.

– The empirical results suggest that implicit guarantees can be twice or three times larger in countries such as Austria or Germany than in Spain, Italy or Portugal. We also show some evidence that a 1% increase in the implicit guarantee (resulting in lower funding costs for banks) is passed on in the form of a 0.52% lower interest rate applied to firms for bank loans. This is suggestive of the existence of a significant source of market fragmentation attributable to government policies across the EU.

– The risks that bank market fragmentation would pose in terms of financial stability (i.e. deposit flight) if they were to remain in the medium-term, are substantial. For this reason, it seems critical, if not urgent, to make more real progress in the implementation of the banking union if the Eurozone aims to put the financial crisis behind it as soon as possible.

Banking sector competition and prudential regulation

Enrique Sánchez del Villar[1]

Competition has been shown to increase risk-taking behavior within the banking sector. Prudential regulators must take this factor into account in the process of designing adequate financial sector competition policy with the aim of crisis prevention.

Evidence has shown a positive link between increased competition and increased risk taking behavior in the financial sector. Although this subject has been analyzed on many occasions, it generates renewed interest whenever a country, or group of countries, faces a banking crisis, given the large costs for economic growth and public accounts associated to such crises. As highlighted in a recent working paper published by the International Monetary Fund (IMF) this past May[2], prudential regulation is and should be and important element for banking sector competition policy. Several studies have quantified the costs of banking crises and the benefits of prudential regulation in preventing or reducing the financial burden, as well as the recurrence of crises themselves. In this context, we examine banking competition and prudential regulation in Spain - a country in the process of overcoming the most serious banking crisis in its recent history. Spain must address several of the traditional challenges related to banking competition, such as: i) an intense concentration process; ii) the role of the public sector in nationalized banks; and, iii) the desirability of placing limits on certain types of deposit remuneration, among other issues.

Introduction

Macro prudential regulation has generally represented a large component of competition policy in the banking sector. Moreover, it is usually aligned with other prudential policies aimed at reducing the negative externalities of banking crises on society as a whole. When we mention negative externalities, we refer to the devastating effects of a banking crisis on wealth and employment in the broader economy. Accordingly, although any regulation has a cost, such as the moral hazard posed by the existence of deposit guarantee schemes – it is usually understood that the aggregate benefits to society of prudential banking regulation are greater than such costs.

The cost of banking crises on the economy and public accounts

Numerous studies have quantified both the costs of banking crises and the benefits of prudential regulation in preventing or reducing such costs,

[1] Partner at A.F.I. - Analistas Financieros Internacionales, S.A.
[2] Ratnovski, L. (2013): "Competition Policy for Modern Banks". IMF Working Paper 13/126.

as well as the recurrence of crises. The Basel Committee on Banking Supervision, in a report published in August 2010[3], summarized the most significant studies on the impact of banking crises – all in the second half of the twentieth century – on the gross domestic product (GDP) of the countries they affected. According to the report, the average banking crisis causes a loss of 9% of real GDP between the peak prior to the crisis and the lowest point during the crisis. This figure amounts to 19% of the real GDP prior to the crisis if we take into account the several years needed for the economy to reach pre-crisis output levels.

The current international banking crisis, which began in the summer of 2007, has a significant systemic component. In certain eurozone countries, such as Spain, the feedback loop of banking crisis-sovereign crisis is proving to be very difficult to break. If we apply the calculations made in the preceding paragraph to Spain, we will see that since the peak prior to the crisis, real GDP has fallen by 7%. Compared to real trend output (as calculated prior to the crisis), the real GDP loss in the last three years is nearly 13%, and the country has not yet entered a phase of economic recovery. The significance of these figures can be supplemented by employment data. In Spain, there are nearly 3.5 million more unemployed people than at the onset of the crisis.

Public sector intervention under such circumstances is widely accepted, as it generally reduces the negative effects of the crisis. In the case of Spain, public assistance has taken a number of forms directed at various areas:

a) **Bank recapitalizations**. First, through the Deposit Guarantee Fund (FGD in its Spanish initials) and then through the Fund for Orderly Bank Restructuring (FROB in its Spanish initials), which is partially funded by the European Stability Mechanism (ESM), Spanish deposit institutions have received aid in the form of capital for an amount that exceeds 7% of GDP. This amount includes asset protection schemes (guarantees backing buyers of banks undergoing a resolution process due to losses in the acquired loan portfolio).

b) **Liquidity support measures.** The European Central Bank has been the main source of financing for European banks facing credit constraints in financial markets. Net borrowing by Spanish banks from the Eurosystem reached levels above 35% of Spanish GDP in the summer of 2012. The Spanish government, in response to Spanish banks' difficulties funding themselves in wholesale markets, and to contain the spill-over effects on access to credit to enterprises and households, set up two programs aimed at providing funding to banks:

   - *State guarantees for bank debt issuance:* in 2008, 2009 and 2012, the Spanish Treasury provided guarantees for senior debt issues, reaching an amount above 10% of GDP as of 2012.

   - *Financial assets acquisition fund:* The Ministry of Finance and Treasury set up this fund to acquire assets with a high credit rating from financial institutions. The total amount was equal to nearly 2% of the 2012 GDP.

c) **Asset transfers.** Transfer of assets to the Company for Management of Assets Proceeding from Bank Restructuring (SAREB in its Spanish initials). The transfer was a crucial prerequisite for banks to receive State aid from the FROB (i.e., recapitalization), funded by the ESM. The total amount transferred was equal to nearly 5% of 2012 GDP, providing **liquidity injection and a reduction in minimum capital requirements.**

[3] Basel Committee on Banking Supervision (2010). "An assessment of the long-term economic impact of stronger capital and liquidity requirements".

In short, State and European-level support for Spanish bank recapitalization has amounted to nearly 7% of GDP, liquidity support, including borrowing from the ECB, totaled nearly 50% of Spanish 2012 GDP. To all this we must add the aid referenced above related to the transfer of assets to the SAREB. These figures are sufficiently illustrative of both the cost of the current banking crisis for Spain and of the importance of the role the public sector is playing in recapitalizing the financial sector.

Banking competition prior to the crisis: Correlation to increased risk appetite

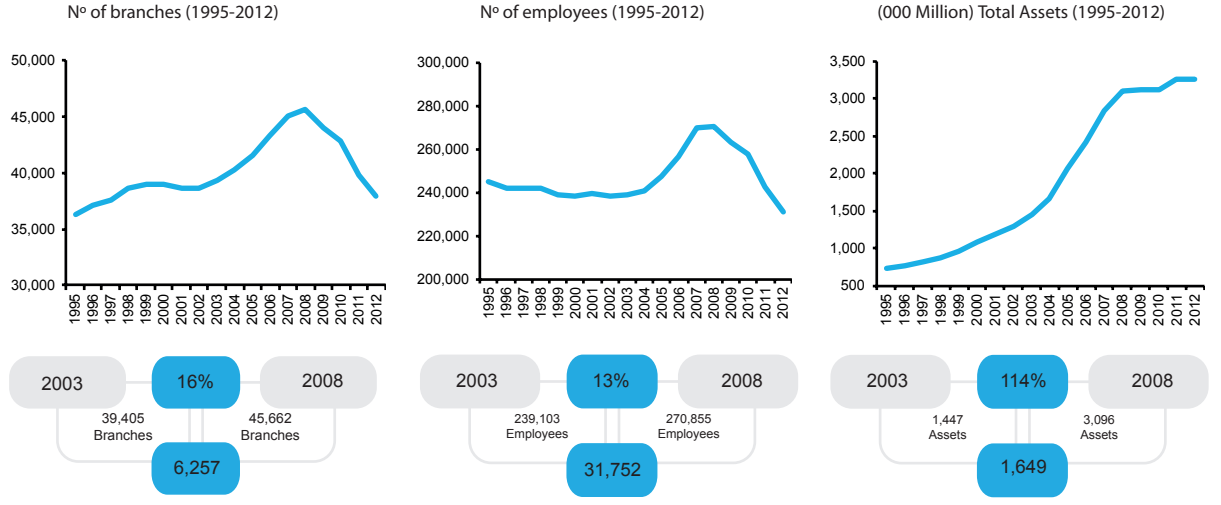
We have seen that competition –as measured by the degree of concentration in the banking sector– decreases after a banking crisis. Indeed, evidence exists that an "excess of competition" in the banking sector incentivizes institutions to take risks. Therefore, control of the level of competition is a tool that can reduce the number of crises and limit their effects when they do occur.

Evidence exists that an "excess of competition" in the banking sector incentivizes institutions to take risks. Therefore, control of the level of competition is a tool that can reduce the number of crises and limit their effects when they do occur.

In a recent working paper published this past May by the IMF, the Fund accepted the aforementioned hypothesis that the level of competition in the banking sector affects risk-taking by credit institutions. Thus, the greater the competition, the greater the pressure on margins, and this is compensated for with more risk. In addition, efforts to secure market shares (in assets or in liabilities), which are inherent to situations of strong competition, are usually linked to the taking of greater risks. The Fund's work yields two main conclusions. First, that competition and banking authorities must cooperate to ensure that competition policy includes a macro-prudential component. Regulations governing

Exhibit 1

Evolution of Spanish financial system indicators



Source: Bank of Spain.

bank resolution are an example of this necessary coordination in the field of prudential policy. Furthermore, they allow for treatment that is separate from regulations governing insolvencies, and they also establishes conditions under which State aid to the banking sector is permissible.

Second, that modern banking is ever more dependent on financial markets in both its investments and its sources of funding. This fact allows institutions to grow quickly and take risks of a different nature from traditional banks. In such a setting, competition policy in the banking sector should tackle matters such as the "too big to fail" problem and even place limits on certain activities. The latter is the aim of a number of regulatory initiatives, such as the Volker Rule in the Dodd-Frank Act in the U.S., the Vickers proposal in the UK and the Liikanen proposal for the EC, and even of proposals for activity differentiation between banks that can be bailed out and those that cannot.

Let us examine the case of Spain, and see how well the above assumptions apply. Exhibit 1 shows the evolution of assets, branch offices and employees in the Spanish banking sector in recent years. The three factors underwent steep growth in the period prior to the crisis, which we would interpret as a sign of strong competition. Growth in the volume of assets, moreover, led to an accumulation of risks on sector balance sheets.

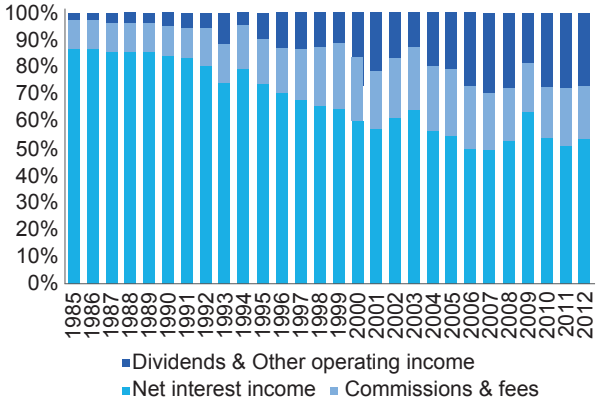
First, we will seek evidence in the P&L structure of the Spanish banking sector of a period of intense competition prior to the banking crisis. Then, we will analyze the accumulation of risks by the sector in that period.

Modern banking is ever more dependent on financial markets for investments and sources of funding. Institutions grow quickly and take risks of a different nature from traditional banks. Thus, competition policy in the banking sector should tackle matters such as the "too big to fail" problem and even place limits on certain activities.

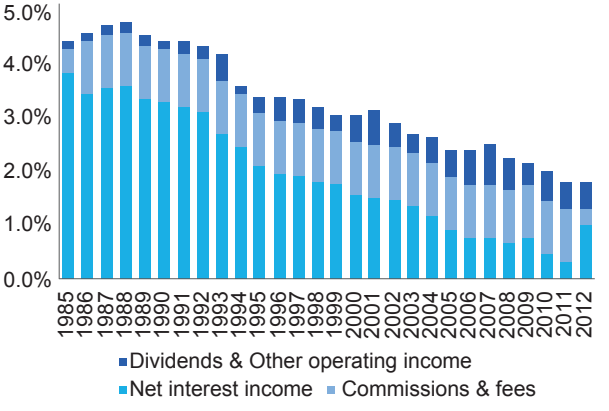
In Exhibit 2, left, it can be seen that in the 1980s, the interest margin accounted for somewhat

Exhibit 2

Component weights in banking sector gross value added



Component weights in banking sector gross value added as % total assets



Sources: Afi, BoS.

more than 85% of the gross value added (GVA). By 2007, just before the crisis, only 50% of GVA came from that item. The rest was generated through fees, dividends and proceeds from financial transactions, which indicates a clear shift of banking business towards more market-related activities and a higher level of risk.

Exhibit 2, right, supports this conclusion by showing the same components of gross value added in relation to total assets managed. The interest margin in the mid-1980s represented 4.5% of total assets. By 2007, just before the crisis, this percentage had decreased to approximately 2.5%. Such a significant reduction may have been the result of many factors, but other variables, such as strong growth in total assets, in credit investment and of capacity of the banking sector, suggest that strong competitive pressures in the sector were the decisive element.

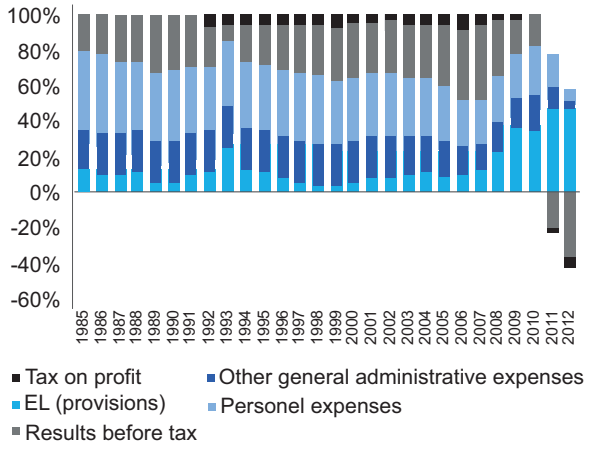
Having found evidence of a period of strong competition in the sector in the years prior to the crisis, we should seek to determine its effects on risk-taking. Exhibit 3, left, shows the evolution over time of the weight of gross value added generated by the Spanish banking sector within each item. Here too, Exhibit 3, right, complements the information on the allocation of gross value added in relation to total sector assets.

It can be seen that there are two periods of crisis associated with an increase in impairment provisions: 1992-1994 and 2008-2012. The volume of provisions in the current crisis, especially in the last two years, reveals a sharp accumulation of risk in the previous years (already shown in the growth of assets). Hence, evidence of a strong degree of competition and of a large accumulation of risks correlate in time.

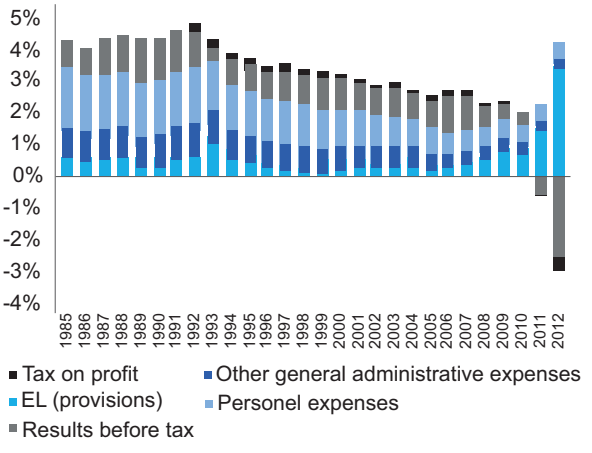
To conclude this brief analysis of the relationship between competition, risks and regulation in the Spanish banking sector, we must discuss the attempts by the Spanish authorities to prevent the so-called "deposit war" (of a highly competitive nature) in the midst of the recapitalization of institutions, and with financial

Exhibit 3

Component weights in banking sector gross value added destination



Component of banking sector gross value added destination as % of total assets



Sources: Afi, BoS.

markets still closed to many Spanish financial institutions.

In June 2011, the Ministry of Economy instituted a requirement of larger contributions to the deposit guarantee fund for high-yield deposits. The measure had little effect, as banks stopped marketing high-yield deposits and began marketing high-yield commercial paper, which was not covered by the guarantee fund, and the measure was rescinded in August 2012. More recently, the press has reported a recommendation made by the Bank of Spain to banks to protect their financial margins, with a special emphasis on high-yield deposits. It would appear that this recommendation has had an effect, at least temporarily, as shown in Exhibit 4. Remuneration of households' new time deposits has noticeably fallen since the start of 2013, and this cannot be explained by a drop in market rates. Indeed, the spread between the deposit and the Euribor (the average between 3 months and 12 months) has narrowed by more than 100 bp since the start of the year.

Banking crisis and competition: Post crisis consolidation

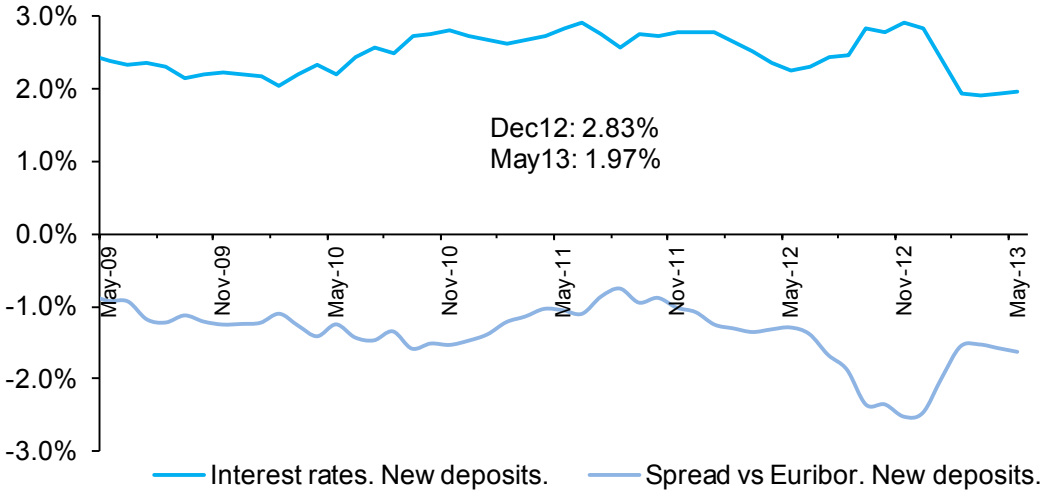
The rationale for making prudential regulation an important element of competition policy in the banking sector is based on empirical evidence that the greater the competition within the sector, the greater the incentives for risk taking. Thus, a conflict may arise between the objectives of maximum efficiency through competition, on the one hand, and financial stability sought by prudential regulation on the other.

Hence, one common way of affecting the degree of banking competition is for national regulators to make it more or less easy for foreign banks to enter the national market. At the same time, national authorities have either fostered or dissuaded mergers of domestic institutions, thereby affecting the degree of concentration and, consequently, of competition in the sector.

Concentration tends to be a natural outcome of a banking crisis, resulting from the necessary

Exhibit 4

Remuneration of households´new time deposits



Sources: Afi, BoS.

market correction –i.e., the disappearance of less efficient players– and a prudential approach taken by national authorities to prevent further negative effects. In other words, competition decreases following a banking crisis.

The greater the competition, the greater the incentives for risk taking in the banking sector. This empirical evidence would justify the prudential nature of banking sector competition policy.

In the case of Spain, public intervention has laid the groundwork for a more stable financial sector, but at the cost of reducing competition. Around the onset of the financial crisis, Spain had 36 financial institutions. With State support from the FROB and the FGD, 14 reorganized resulting deposit institutions were recapitalized during the crisis with commitments for nearly 8.5% of these institutions' assets.

In three of the 14 recapitalized institutions (BFA-Bankia, NCG Banco and Catalunya Banc), which represent 12 of the original 36 institutions, the FROB holds a majority stake in the capital. These institutions have received 58% of the total State aid in the form of capital, a percentage that is slightly higher than their 53% share of the total assets of all institutions receiving such aid. Only in the case of Bankia is State presence intended to be permanent, at least until a suitable opportunity to exit should arise. In the other two cases, FROB intends to sell the institution within a relatively short period of time, but no more than five years after the entry of the public sector into the banks' capital.

Table 1

Spanish financial sector restructuring and recapitalization

Recipient of public aid	Ownership	Number of original entities	FROB & FGD aid amount (x000 euros)	Public aid as % assets
BFA-Bankia	67% FROB	7	22,424	7.0%
BMN	64% FROB	4	1,645	2.4%
Liberbank	Private	3	124	0.2%
Catalunya Banc	FROB. To be sold	3	12,052	14.7%
NCG Banco	FROB. To be sold	2	9,052	12.9%
Banco CEISS	Integration in other Group	2	1,129	2.7%
CCM	Integration in other Group	1	4,168	16.0%
Banco Caja 3	Integration in other Group	3	407	1.9%
Unimm	Integration in other Group	3	3,822	12.6%
Banca Cívica	Integration in other Group	4	977	1.9%
Banco de Valencia	Integration in other Group	1	6,000	23.5%
CAM	Integration in other Group	1	12,949	19.4%
Banco Gallego	Integration in other Group	1	245	5.2%
CajaSur	Integration in other Group	1	358	2.2%
	TOTAL	36	75,352	

Sources: Afi, AEB.

Another two institutions (BMN and Liberbank), which represent seven of the original 36 institutions, have also received financial aid and are looking forward to the entrance of private capital to replace the Government's stake.

The nine other institutions, representing 17 of the original entities, have received nearly 40% of State capital aid, although with broad dispersion. All these institutions have been integrated into, or are in the process of integrating into banking groups that have not received capital injections.

Conclusion

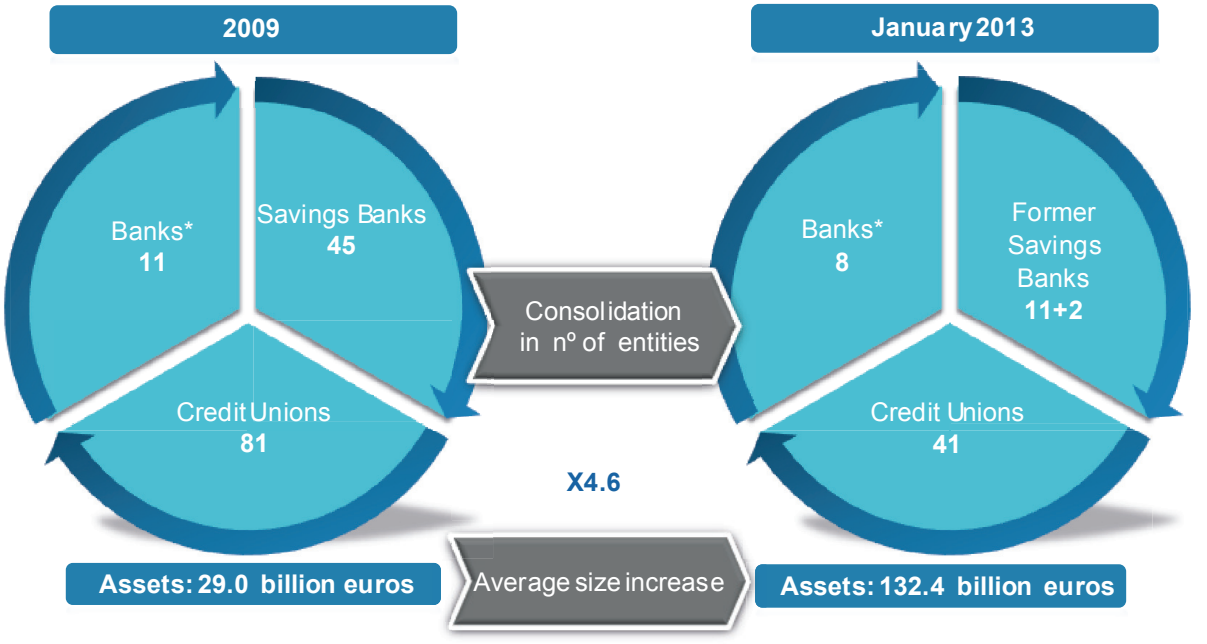
In sum, of the 36 institutions in existence at the start of the crisis, comprising banking groups that have received State aid, only three –BFA-Bankia, BMN and Liberbank– presently look forward to resuming independent operations. Therefore, recapitalization with State aid, although with a few exceptions, has ultimately fostered a reorganization of the Spanish banking sector that should prevent or reduce the incidence of future crises. Although, this has come at the price of intense concentration and a resulting loss of competition.

As is the case for financial crises on average, the Spanish banking crisis is having a very high cost in terms of employment, public debt and economic growth. As a way of limiting the damage, the Spanish state has injected very large amounts of aid, both in the form of recapitalization of institutions, and liquidity facilities.

As would be expected, the banking crisis has also had an impact on the competitive framework of the sector. It has led to sharp concentration, reducing to less than half the number of institutions operating in the retail business with a significant volume, while the average bank

Exhibit 5

Banking system restructuring process



** Only Banks with significant retail business*
Source: Afi.

size, measured by total assets, is now 4.6 times higher than at the onset of the crisis. In addition, public intervention in the form of nationalization of financial institutions –i.e., a controlling interest of the State in the capital– also alters the competitive panorama, even if only temporarily.

The data and balance sheet trends, the number of branch offices and employees, and income statements in the sector in the years prior to the crisis, reveal an accumulation of risk that, at least in part, may have been fed by a highly competitive environment. Some regulations and proposals currently being discussed in international forums precisely seek to limit deposit institutions' ability to engage in certain types of activities –i.e., limit competition– as a way of preventing banking crises.

As an recent example, in the case of Spain, authorities have sought to rein in the so-called "deposit war", which had led to gradual increases in the remuneration of customer deposits. Contrary to the norms of competition, the measure would be one of a number of prudential measures for a sector in search of margins, with a competitive panorama distorted by the presence of the public sector in the capital of several financial institutions, and a very large bill to be footed by taxpayers.

Impact of changes in Spain's VAT rates during the economic crisis: A comparative analysis

Desiderio Romero-Jordán[1] and José Félix Sanz-Sanz[2]

VAT increases in Spain since the onset of the crisis have brought rates from among the lowest in the EU to in-line with the average. There is room for additional increases for items currently subject to lower rates, but this would be insufficient to remedy Spain's low VAT revenue ratio.[3]

The VAT reforms in 2010 and 2012 raised Spain's reduced and standard rates by 3 and 5 percentage points, respectively. Although these measures are in line with trends elsewhere in the European Union, they put Spain in the group of EU-27 countries (along with Hungary, Romania, Latvia, the Czech Republic and Estonia) in which VAT rates have risen furthest during the economic crisis. One of the direct consequences for Spain is that it has gone from having one of the lowest standard rates in the EU (along with Luxembourg) to now having a rate that is near the average. The tax rates applicable to certain representative items in households' shopping baskets (such as food, books, or medicines) are nevertheless lower in Spain than in its peers. However, this is not so in the case of other items which have a significant weight in the Spanish economy, such as the hotel and catering industry, where the rates are similar to those in neighbouring countries. In this context, the review of some of the goods subject to lower rates is an option to consider, although this would not solve the problem of a low VAT collection ratio and could make the tax regressive.

Introduction

The serious deterioration in Spain's public finances during the current economic crisis has triggered labour market reforms, public expenditure cuts in areas such as health and education, and increases in the majority of taxes (Sanz-Sanz and Romero-Jordán, 2012a). In the case of value added tax (VAT), the first rate increase came in July 2010 in order to offset the sharp drop in collection, which fell by 14% in 2008 and 30% in 2009. The reduced rate was increased from 7% to 8% and the standard rate went from 16% to 18%. The super-reduced rate was kept at 4%. Faced with a worsening in the public deficit in 2011 (9.44%), there was a second rise in September 2012, taking the reduced rate to 10% and the standard rate to 21%. Additionally, for the first time since 1992, certain changes were introduced in the tax base.[4] In short, in the space

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[2] Universidad Complutense de Madrid.

[3] The revenue ratio is the ratio between the actual revenue collected and the maximum revenue that would be collected in the absence of exemptions, reduced rates and tax evasion.

[4] A number of goods and services became subject to the 21% rate for the first time: theatre, cinema and circus tickets, digital television services, hairdressing, undertakers' services, flowers, plants, and works of art, school materials other than books.

In the space of less than two years, the reduced rate has risen by 3 points and the standard rate by 5 points. As a result, the VAT rate in force in Spain has gone from being among the lowest in the EU to the average.

of less than two years, the reduced rate has risen by 3 points and the standard rate by 5 points. As a result, the VAT rate in force in Spain has gone from being among the lowest in the EU to the average. These changes have paralleled those observed in other EU-27 countries since the start of the crisis. Indeed, almost half of the countries in the EU raised their VAT rates between 2010 and 2012 (standard and/or reduced rate) to increase the tax take. As a result of this trend, the average standard rate in the EU-27 rose by 1.8 points between 2008 and 2013, reaching 21.3% at the end of the period (European Commission, 2012, Eurostat, 2013).

The two VAT reforms mentioned, recommended on several occasions by the International Monetary Fund and the European Commission, set out to help correct the low revenue ratio from which the tax has traditionally suffered in Spain. According to the OECD (2012), Spain's VAT revenue ratio was 34%, well short of the average among its member countries of 55%. In the Commission's view, to meet this objective it is necessary to (i) raise tax rates, and (ii) increase the range of goods subject to the standard rate, as well as the frequently mentioned need to reduce fraud. Once the reduced and standard rates had been raised, the European Commission recommended (May 2013) implementing a "(...) wider limitation on the application of reduced VAT rates" given the high cost of collection. In fact, in 2011 this cost was estimated at almost 13 billion euros, equivalent to 18% of revenue (Sanz-Sanz and Romero-Jordán, 2012b). 66% of this fiscal expenditure corresponds to the reduced rate and 34% to the super-reduced rate. It should be borne in mind that the weight of the tax base subject to the standard rate is 46% in Spain, compared with 67% in the EU-15. The shares of the tax base subject to the reduced rate and super-reduced rate are 44% and 10% (25% and 9% in the EU-15) (European Commission, 2004).

However, reviewing the VAT base does not seem to be on the Spanish government's agenda, at least in the short term. It should be noted that

While possible changes in the tax base remain on hold, the two reforms looked at have already meant a significant effort for Spanish households. In particular, the 2012 reform has had an average impact per household of 356 euros.

the goods taxed at the 4% super-reduced rate are basically unprepared foodstuffs, medicines, books, newspapers, prostheses and vehicles for disabled persons. Likewise, the basket of goods taxed at the reduced rate of 10% includes water, prepared foodstuffs, glasses, housing, passenger transport, and hotel accommodation. While possible changes in the tax base remain on hold, the two reforms looked at have already meant a significant effort for Spanish households. In particular, the 2012 reform has had an average impact per household of 356 euros (Sanz-Sanz and Romero-Jordán, 2012b).

In this context, this study has two aims. Firstly, to perform a comparative analysis of the current state of play and changes in VAT rates in the EU-27 since 2008. Secondly, in light of the latest proposals from the European Commission, to compare the tax rates on a basket of basic goods, including, among other things, foodstuffs, water, restaurant services, hotel accommodation, and admission to cultural services. As a starting point, section 2 gives an overview of the VAT rates in effect in 2013. Sections 3 to 5 discuss changes in both the general rate and the reduced rates over the period 2008-2013. Section 6

compares the rates applicable to a selection of items in different countries.

The starting-point: VAT rates in 2013

The VAT-rate structure currently in effect has its origins in Directive 92/77/EEC of October 19th, 1992, which introduced the value added tax to accompany the creation of the common internal market. Thus, since 1993 the standard rate has coexisted with one or two reduced rates, a super-reduced, a zero rate, and a lesser known rate, referred to as the "parking" rate. In other words, the directive set a standard rate of 15%, and

Table 1
VAT rates applied in January 2013

Member States	Standard rate	Reduced rates	Super-reduced rate	Parking rate	Zero rate
EU-15					
Denmark	25	-			Yes
Sweden	25	6 / 12			Yes
Finland	24	10 / 14			Yes
Greece	23	6.5 / 13			
Ireland	23	9 / 13.5	4.8	13.5	Yes
Portugal	23	6 / 13		13	
Belgium	21	6 / 12		12	Yes
Spain	21	10	4		
Netherlands	21	6			
Italy	21	10	4		Yes
Austria	20	10		12	
United Kingdom	20	5			Yes
France	19.6	5.5 / 7	2.1		
Germany	19	7			
Luxembourg	15	6 / 12	3	12	
EU-12					
Hungary	27	5 / 18			
Romania	24	5 / 9			
Poland	23	5 / 8			
Latvia	21	12			
Lithuania	21	5 / 9			
Czech Republic	21	15			
Bulgaria	20	9			
Slovakia	20	10			
Slovenia	20	8.5			
Estonia	20	9			
Malta	18	5 / 7			
Cyprus	18	5 / 8			
Rate range EU-15	15-25	5-14	2.1-4.8	12-13.5	
Rate range EU-12	18-27	5-18			
Arithmetical Mean EU-27	21.2				
Arithmetical Mean EU-15	21.4				
Arithmetical Mean EU-12	20.8				

Source: European Commission (2013).

established a series of specific cases governed by the following rules. Firstly, countries were allowed to apply one or more reduced rates of not less than 5% on a list of goods explicitly set out in the directive.[5] Secondly, countries that had been applying a rate of less than 5% (including the zero rate) were allowed to retain it in their VAT structure. Thirdly, countries that taxed goods and services not included on the list at a reduced rate in 1991 were allowed to apply a "parking rate" of not less than 12%. Lastly, countries such as Spain, where the standard rate increased by more than two points, have been allowed to apply a super-reduced rate to the list of goods referred to above.

The main issue regarding the VAT rates in force in the EU-27 is their high degree of dispersion: Standard rates range from 15% to 27% and reduced rates from 5% to 18%, a difference of between 12 and 13 points between the lowest and highest rates.

Bearing these premises in mind, Table 1 shows the VAT rates in force in January 2013 in the EU-27 (sorted by standard rate). The information is broken down into two groups: the EU-15 and the EU-12. The main issue regarding the VAT rates in force in the EU-27 is their high degree of dispersion: standard rates range from 15% to 27% and reduced rates from 5% to 18%. That is to say, in both instances there is a difference of between 12 and 13 points between the lowest and highest rates. This rate dispersion is widest in the case of the reduced rate in the EU-12 where the highest value is 18% in Hungary –equal to the standard rate existing in many European countries. One important source of differences is that, with some exceptions, super-reduced, parking or zero rates are not applied in the EU-12 as a consequence of the date of accession of this group of countries.

Trend in the standard rate during the crisis

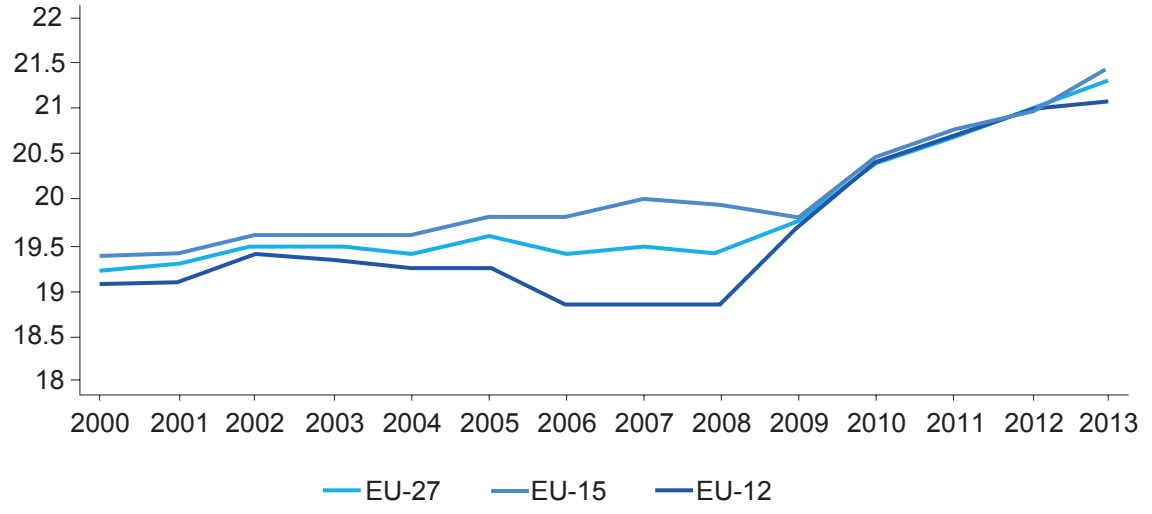
The interval in the standard rates in force at the start of 2013 was 12 percentage points, ranging from 15% in Luxembourg to 27% in Hungary. The highest rates are in the Nordic countries (Denmark and Sweden with 25% and Finland with 24%), in the three countries bailed out pre-2013 (Greece, Ireland and Portugal with 23%) and Hungary (27%), Romania (24%) and Poland (23%). Most EU-27 countries have a standard rate of over 20%, with the exceptions being Luxembourg (15%), Cyprus (18%), Malta (18%), Germany (19%), and France (19.6%). The dispersion of the standard rate observed in the EU-15 is 6 points, if we exclude Luxembourg as an outlier, compared with 10 points in the EU-12. Spain's standard rate is currently very close to the averages for both the EU-15 (21.4%) and the EU-27 (21.2%).

For the countries of the EU-27 as a whole, the average value of the standard rate reached its historical peak in 2013, at 21.3%. Thus, between 2000 and 2013, the average standard rate rose by 2.1 percentage points. As Exhibit 1 shows, this tendency is basically explained by the sharp rise in rates since 2008, both in the EU-15 and the EU-12, coinciding with the onset of the current economic crisis. In the years leading up to the crisis, the trend was less clear: in the EU-15 there was a slight upward tendency, whereas in the EU-12 the opposite was the case. To illustrate the scope of the changes since 2008, Exhibit 2 plots the variation in the standard rate. As the exhibit shows, the rate has increased in the three bailed-out countries of the EU-15 (2 points in Ireland, 3 in Portugal and 4 in Greece) and in the Netherlands, Finland and Italy (2 points), the United Kingdom (2.5 points) and Spain (5 points). Thus, Hungary, Romania and Spain are the three countries with the steepest rise in the standard rate. There has

[5] See Annex H of Directive 92/77/EEC, which includes, among other goods, foodstuffs, medicines and apparatus for disabled persons, water, transport, admission to cinemas, theatres and shows, concerts or museums, social housing, sports facilities, and undertakers' services.

Exhibit 1

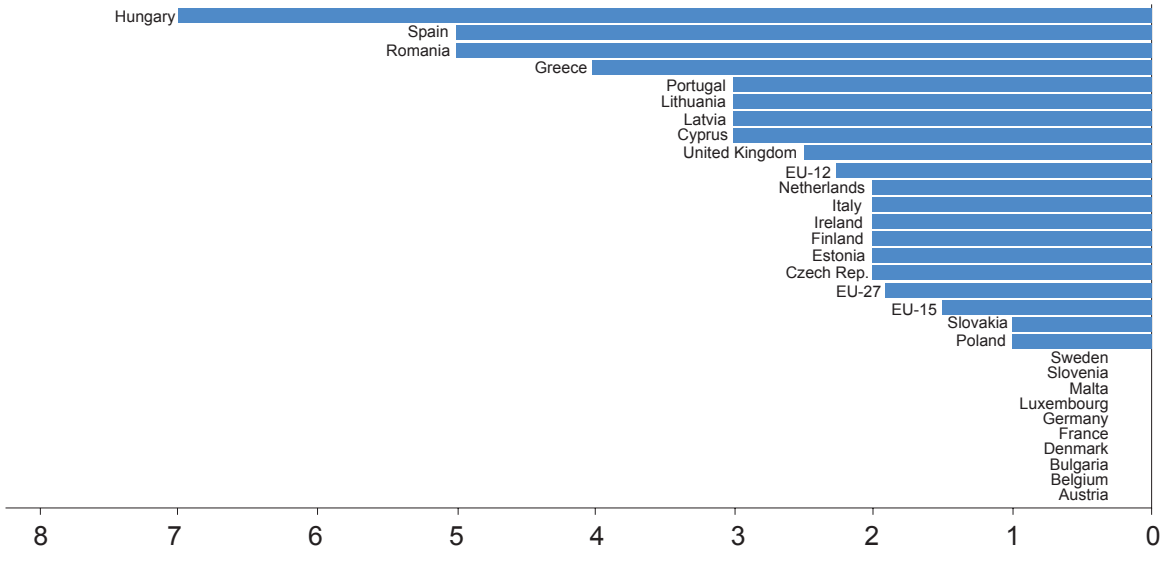
Trend in standard VAT rate



Source: Eurostat, Taxation trends in the European Union *(2013).*

Exhibit 2

Points variation in standard VAT rate between 2008 and 2013



Source: Eurostat, Taxation trends in the European Union *(2013).*

been no change over the last five years in any of the EU-15 countries. In the EU-12, the standard rate rose between 2008 and January 2013 in all countries except Malta, Slovenia and Bulgaria. The biggest increases were in Hungary (7 points), Romania (5 points), and Lithuania, Latvia and Cyprus (3 points).

Trend in the reduced rate during the crisis

With the exception of Denmark, all the countries of the EU-27 apply at least one reduced rate, which under community legislation may not be less than 5%. As Table 1 shows, a total of twelve EU-27 countries –including Spain– apply a reduced rate: the range varies from 5% in the United Kingdom to 15% in the Czech Republic, with a maximum value of 10% in the EU-15 and 12% in the EU-12. In half of this group the range is between 9% and 10% (Spain, Italy, Austria, and Slovakia apply a rate of 10%). In the remaining 14 countries, two reduced rates are applied, referred to here as minimum and maximum reduced rates. In 11 of these countries the minimum rate is between 5% and 6%. The maximum rate varies between 12% and 14% in the EU-15 (with the exception of France) and between 7% and 9% in the EU-12 (with the exception of Hungary, where it is 18%).

Exhibits 3a, 4a and 5a give an overview of the trend in average reduced VAT rates over the period 2000 to 2103. Similarly, Exhibits 3b, 4b and 5b show a ranking of countries with the biggest rate increases over the period 2008 to 2103. A number of conclusions emerge from this set of exhibits. Firstly, there has been an upward trend in the average rate in the EU-27 for the single reduced rate and the minimum reduced rate since 2006. However, the increase in the EU-15 average was more pronounced. Conversely, the maximum reduced rate has varied, with small changes over the period, between 10.5% and 11%. Secondly, over the period from 2008 to January 2013, the VAT rate increases have affected four countries in the EU-15 (Spain, Greece, Portugal and Finland) and five in the EU-12 (Latvia, Czech Republic, Estonia, Bulgaria and Romania). The increases have been biggest in Latvia (7 points), the Czech Republic (6), Estonia (4), and Spain (3), where a single rate is applied, as in Hungary where the maximum rate of 18% was reintroduced, Malta where a maximum rate of 7% was first introduced in 2011, and Greece, where the top rate went from 9% to 13%. The only country in which the rate was cut was Finland, with a reduction of 3 points.

The trend in the other rates

The other rates –super-reduced, parking and zero– have remained stable over the last few years, except in Ireland, where there have been minor changes since the legislation governing them came into force. The super-reduced rate is in force in five EU-15 countries: Ireland (4.8%), Spain (4%), Italy (4%), Luxembourg (3%) and France (2.1%). As Table A1 in the appendix shows, there is little uniformity in terms of the goods and services to which these super-reduced rates apply. Luxembourg makes most use of them, covering a wide range of goods (foodstuffs, children's clothing and footwear, hotel accommodation, housing, etc.). By contrast, in Ireland it only applies to certain foodstuffs, although there is a wide range of zero-rated goods (books, most foods for human consumption, medicines, prostheses, apparatus for disabled persons, etc.). In Spain, the super-reduced rate is applied to fresh foodstuffs, medicines, books, newspapers, and social housing.

Seven EU-15 countries (United Kingdom, Ireland, Belgium, Italy, Finland, Denmark and Sweden) and just one EU-12 country (Malta) have a zero rate. However, as Table A2 in the appendix shows, the range of zero-rated items is quite wide in the United Kingdom and Ireland, but limited mainly just to newspapers, and publications by non-profit-making organisations elsewhere. Similarly, the zero rate is applied to prescription medicines for human use in Sweden and the sale of farm land in Italy.

Exhibit 3a

Trend in single reduced VAT rate

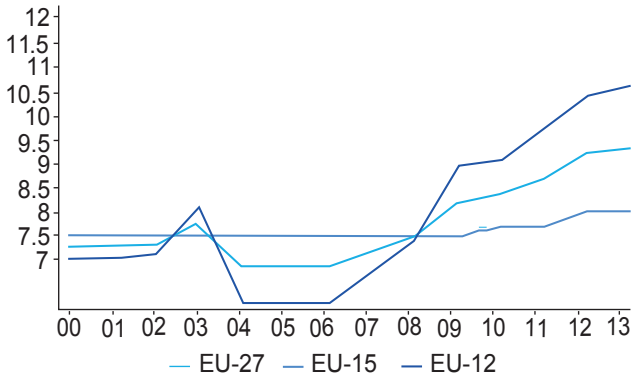


Exhibit 3b

Change in single reduced VAT rate between 2008 and 2013

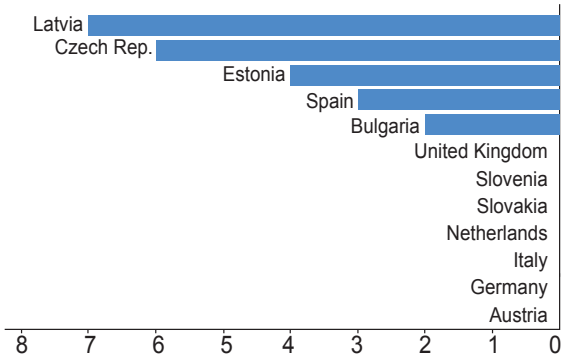


Exhibit 4a

Trend in minimum reduced VAT rate

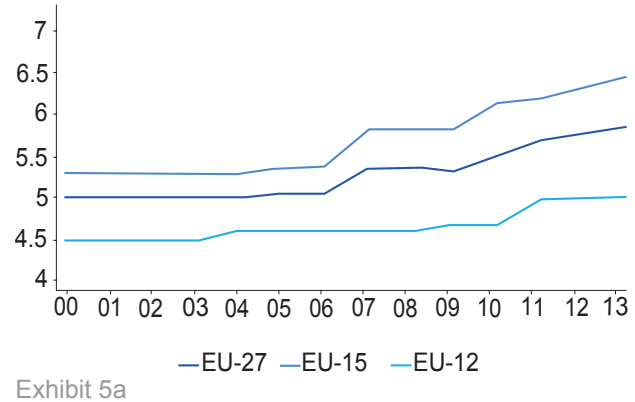


Exhibit 4b

Change in minimum reduced VAT rate between 2008 and 2013

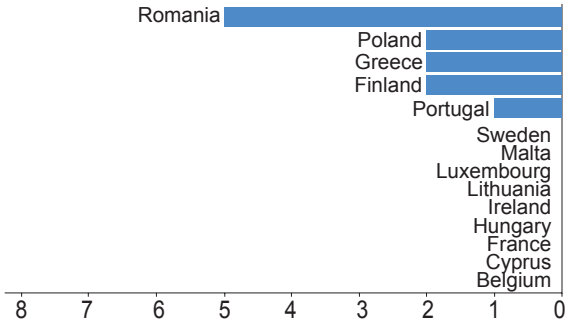


Exhibit 5a

Trend in maximum reduced VAT rate

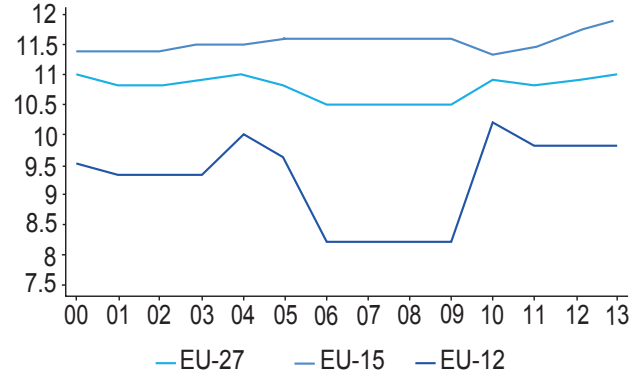
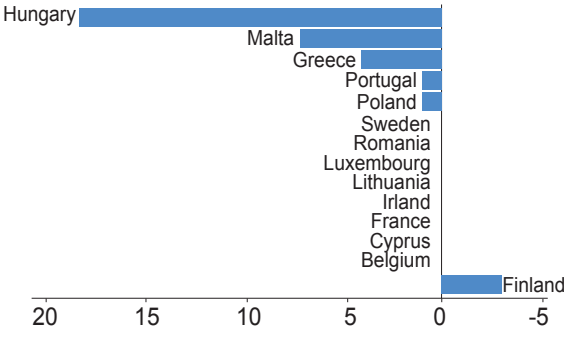


Exhibit 5b

Change in maximum reduced VAT rate between 2008 and 2013



Source: Eurostat, Taxation trends in the European Union *(2013).*

Finally, the parking rate is currently in force in Ireland, Luxembourg, Belgium, Austria and Portugal.[6] The use of the parking rate is entirely marginal, except in Ireland (see Table A3 in the appendix). For example, in Luxembourg, Austria and Portugal it is applied to certain types of wine. In Ireland, Luxembourg and Belgium it is applied to certain energy goods. In all these cases the tax rate is between 12% and 13.5%, and has remained unchanged since 1993.

Tax rates applied to a basket of basic goods

As mentioned in the introduction, the European Commission has recommended that the Spanish government review the list of goods to which the reduced rates apply. Table 2 therefore sets out an initial overview of the differences in the way the goods and services consumed by households are treated. For these purposes, a selection has been made of ten representative goods in European shopping baskets, although the comparison has been restricted to the countries of the EU-15. With the exception of admission charges for cultural services (cinema, theatre, etc.), the goods examined are subject to the super-reduced or reduced rate in Spain. The information shown in Table 2 allows the following conclusions to be drawn:

i) In general, the tax treatment of the goods examined here is far from uniform. Medicines, for example, are zero-rated in the United Kingdom, taxed at the super-reduced rate in Spain, and at the standard rate in Germany. Another example is books, which are zero-rated in the United Kingdom and Ireland, but subject to the standard rate in Denmark. Yet another is that of water, which is zero-rated in the United Kingdom, but subject to the standard rate in Sweden.

ii) Denmark is an extreme case in the application of tax rates in that, in general, all the goods in the basket are subject to the standard rate of 25%. At the other end of the scale, in Luxembourg most of these goods are subject to the super-reduced rate. Likewise, as we saw in the previous section, Ireland and the United Kingdom apply a zero rate to a wide range of goods and services, such as foodstuffs, medicines, apparatus for disabled persons, or housing.

iii) Books, newspapers, medicines and apparatus for disabled persons, and foodstuffs, are subject to slightly lower rates in Spain as they benefit from the super-reduced rate. Conversely, the cost of admissions for cultural services is clearly higher in Spain since the 2012 VAT reform. Finally, the rates applicable to hotel accommodation and restaurant services, which have a significant weight in the Spanish economy owing to the role of tourism, are very similar to those existing in the other countries examined. In fact, hotel services are subject to a reduced rate in 12 of the EU-15 countries. Similarly, restaurant services are subject to a reduced rate in 9 countries, with only Germany, Denmark and the United Kingdom applying the standard rate.

To sum up, the analysis suggests that a review of the tax bases subject to the super-reduced and reduced rate is an option to be considered in Spain's case. Nevertheless, a reform of this nature should take the following points into account. Firstly, altering the tax treatment of any of the goods subject to VAT will not solve the problem of the low VAT revenue ratio referred to in the introduction. And secondly, the current VAT structure, with a super-reduced rate for goods such as foodstuffs and medicines and a reduced rate for services such as transport or water, avoids the tax being regressive and inclines it towards proportionality (Romero-Jordán and Sanz-Sanz and Castañer 2013). Raising the tax rates on these tax bases could upset this balance and make the tax regressive.

[6] In Italy it was eliminated in 1995, in the United Kingdom it was only in force in 1994, and in France it was applied in 1987.

Table 2

VAT rates applied in January 2013

ITEM	GOODS	S P A I N	Germany	Austria	Belgium	Denmark	Finland	France	Greece	Netherlands	Ireland	Italy	Luxembourg	Portugal	United Kingdom	Sweden
1	Foodstuffs	SR/R	R/S	R	R/S	S	R	SR/ R/S	R	R	Z/ SR/R	SR/R	SR	R/S	Z/S	R/S
2	Water suppliers	R	R	R	R	S	S	R	EX/R	R	EX/S	R	SR	R	Z	S
3	Pharmaceutical products	SR	S	R	R	S	R	SR/ R/S	R/S	R	Z/S	R	SR	R/S	Z	S
4	Medical equipment for disabled persons	SR	R	S	R/S	S	EX/S	R	R	R/S	Z/S	SR/S	SR/S	R	Z	EX/S
5	Transport of passengers	R	R/S	R	Z/R	Z/S	R	R	R	EX/R	EX	EX/R	EX/ SR	R	Z	Z/R
6	Books	SR	R	R	R/S	S	R	R/S	R	R	Z	SR/S	SR	R	Z	R
7	Newspapers	SR	R	R	Z/R/S	S	R/S	SR/S	R	R	R	SR/S	SR	R	Z	EX/R
8	Admission to cultural services (shows, cinema, theatre)	S	EX/R	EX/R	EX/R	S	R	R/S	R	R	EX/R	R	SR	EX/R	S	R
9	Hotel accommodation	R	R	R	R	S	R	R	R	R	R	R	SR	R	S	R
10	Restaurant and catering services	R	S	R	R	S	R	R	S	R	R	R	SR	S	S	R

EX: exempt. Z: zero rate. SR: super-reduced rates. R: reduced rate. S: standard rate.

Source: European Commission (2013).

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Appendix

Table A1

Goods taxed at the super-reduced rate

Goods	Spain	Luxembourg	Ireland	Italy	France
Foodstuffs[1]	X	X	X	X	
Water (mineral and piped supply)		X			
Children's clothing and footwear		X			
Medicines	X	X			X
Books	X	X		X	
Newspapers	X	X		X	X
Hotels, restaurants, cinemas, theatres, sporting events, use of sports facilities		X			
Housing - repairs to housing	X	X		X	
Apparatus for disabled persons		X		X	

[1] Does not include all nutrition-related goods.

Table A2

Zero-rated goods

Goods	United Kingdom	Ireland	Malta	Belgium	Denmark	Italy	Finland	Sweden
Books	X	X						
Newspapers	X			X	X			X
Publications by non-profit-making organisations							X	X
Foodstuffs for human consumption	X	X	X					
Beverages for human consumption including water (except alcoholic beverages)	X	X	X					
Seeds, plants and ingredients normally intended for use in preparation of foodstuffs	X	X	X					
Fertilisers	X	X						
Foodstuffs for animals (excluding pets)	X	X						
Medicines for human consumption	X	X	X					X
Medicines for animal consumption		X						
Medical equipment - prostheses	X	X	X					
Children's clothing and footwear	X	X						
Housing for residential use	X							
Domestic passenger transport	X							
Sale of land for non-residential use						X		

Table A3

Goods taxed at the parking rate

Type / goods and services	Ireland	Luxembourg	Belgium	Austria	Portugal
Applicable rate	13.5%	12%	12%	13%	13%
Energy products for heating and lighting	X				
Petroleum products used as fuel		X	X		
Lignite, coke			X		
Agricultural diesel					X
Cleaning and washing products		X			
Sale of real property	X				
Cleaning and repair of properties	X				
Certain tourism services	X				
Short-term hire (less than 5 weeks) of vehicles, boats, canoes, etc.	X				
Veterinary services	X				
Driving schools	X				
Certain types of wine		X		X	X
Custody of shares and administration of loans		X			

Recent key developments in the area of Spanish financial regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

Bank of Spain Circular on the Central Credit Register and amending the Accounting Circular (Circular BdE 1/2013, published in the BOE on May 31st)

The purpose of the Circular is to enhance the information to be reported to the Central Credit Register (CCR). The main changes in the way the CCR operates that have been introduced are the following:

- It has been made **obligatory to report exposures on a transaction-by-transaction basis**, in euros, with no general minimum reporting threshold. All the parties intervening in each transaction must also be identified, stating the nature of their intervention, their exposure, and all related parties.

- **A more detailed breakdown of the main type of product** than is reported at present is requested to allow better identification of the characteristics and risks of the various transactions. Also new **product types** are included on the list of those for which transactions are to be reported.

- **More information and details are now required regarding collateral.** Particularly detailed information is required in the case of **mortgage loans**.

- As well as their **outstanding exposure on transactions at the end of each month**, credit institutions are required to submit monthly reports **explaining why loan exposures have been reduced** and the amount of the reduction.

- **Restructured, refinanced, renegotiated, subrogated and segregated** transactions are to be identified and linked to the details of any transaction previously reported to the CCR from which they originate.

- **Connection between linked operations in different institutions**: Transactions secured by other CCR reporting entities are to be linked to transactions reported by the guarantor. Additionally, the beneficiary of the guarantee is to provide the guarantor with the details of the guaranteed transactions through the CCR.

- For each transaction in which institutions continue to assume exposures, the **accounting and own resources information** is to be submitted.

- The **Sareb** (Company for the Management of Assets proceeding from Restructuring of the Banking System) has been included as a **reporting entity.**

- In the case of the transfer of loans to third parties in which management is retained, the transferring entity is to continue reporting transferred exposures as previously, but must also identify the assignee and the exposure assumed.

- The Credit Institution Deposit Guarantee Fund will not report the guarantees it gives to other entities as a result of asset protection schemes included in restructuring plans or actions, or other measures to support credit institutions adopted in accordance with the regulations governing its operation.

- **Reguarantee companies** are not required to report to the CCR any transaction in which they refinance financial guarantees given and bonds and non-financial guarantees, warranties and indemnities provided.

➢ **Use and transfer of the CCR data by reporting entities:** The CCR will provide reporting entities with the following information:

a) **Consolidated monthly information** on the system as a whole corresponding to all the counterparties with whom the reporting entity has a cumulative risk of 9,000 euros or more.

b) **On request**, the Bank of Spain will provide information on any counterparty not reported by the applicant reporting entity that has applied for a risk transaction or who is listed as an obligor or guarantor in the bills of exchange or letters of credit which the entity has been asked to acquire or trade.

c) It will forward any corrected data **as soon as supplementary statements** are received with amendments or cancellations of previously reported data.

➢ **Amendment of the accounting Circular**

New financial statements have been introduced with the aim of obtaining: (i) transaction-by-transaction data on derivative instruments, equity instruments, and assets received in foreclosures or in settlement of debts, and (ii) supplementary data on debt securities reported to the CCR.

A **new confidential financial statement** has been instituted, with data on the cost of financing acquired in the month in relation to business in Spain, and other information on the **housing repossessed or received in settlement of debts resulting from home purchase lending transactions**.

Other existing **financial statements have been modified**, with the purpose of requesting the information necessary to compile balance of payments statistics.

➢ **Entry into force:** In general, the Circular will come into effect on December 31st. However, some of the changes to CCR financial statements and the accounting Circular will be phased in later.

Law on measures to strengthen protection for mortgage borrowers, debt restructuring and rented social housing (Law 1/2013, published in the BOE on May 15th)

This law stems from Royal Decree-Law 27/2012 of November 15th (BOE of November 16th), on urgent measures to strengthen the protection of mortgage debtors, to which other measures were added during its parliamentary debate. It introduces some substantial reforms to Spain's mortgage market, amending various pieces of legislation:

I. Royal Decree-Law 27/2012 of November 15th, on urgent measures to strengthen the protection of mortgage debtors

- **Scope.** The requirements for the application of the two-year moratorium on evictions have been made more flexible. In particular, although the level of household income is still set three times the public revenue index, this can be expanded to four or five times in

certain cases of social vulnerability, and the scope of the Social Housing Fund extended in cases not covered by the legislation.

II. Amendment of the Mortgage Law, consolidated text according to Decree of February 1946

- **Limitation on default interest.** For new contracts, default interest is limited to three times the legal interest rate, and may only accrue on the outstanding principal.

- **Extrajudicial sale.** Regulations governing extrajudicial sale have been introduced in order to make it a real alternative to foreclosure proceedings. It must be agreed in the conveyance and may only apply in the event of default on capital repayments or payment of guaranteed interest.

III. Amendment of Law 2/1981 of March 25th, regulating the mortgage market

- **Independence of valuers.** Credit institutions are prohibited from purchasing or holding significant interests in valuation companies.

- **Requirements applicable to loans.** The requirements that loans and mortgage lending must meet in order to be realisable include the stipulation that their maximum repayment period not exceed thirty years. This measure does not have retroactive effect.

- **Expansion of security.** The possibility that the credit institution may demand an increase to the mortgage when its value drops more than 20% below the initial valuation has been eliminated.

- **Reverse mortgage.** Persons recognised as having a level of disability of 33% or more are entitled to apply for a reverse mortgage.

IV. Amendments to Law 1/2000, January 7th, on Civil proceedings

- **Unfair terms.** As a consequence of the ruling of the **Court of Justice of the European Union on March 14th, 2013** on the preliminary issue raised by Barcelona Mercantile Court no. 3 regarding the interpretation of Directive 93/13/EEC of the Council of April 5th, 1993, a series of **amendments have been made to foreclosures proceedings:**

  - **Writ of execution.** If the court believes there to be signs that any contract term is unfair, it will hear the parties and resolve as it sees fit.

  - **Grounds for general opposition.** The existence of unfair terms in the deed of conveyance has been introduced as a general ground for opposition. In this case, the court order will determine the consequences of the unfair terms, ordering a stay on foreclosure or for it to proceed without application of the unfair terms.

  - **Foreclosure of mortgaged property.** If grounds for opposition are upheld, the court will order a stay of execution when the grounds for foreclosure rest on the unfair contract terms. Otherwise, foreclosure may proceed, but without application of the unfair terms of contract.

- **Start of proceedings**. The claim for payment from the debtor will be upheld in the case of non-payment of a number of monthly instalments such that the debtor has breached his obligations for a period equivalent to three months, providing that the price at which the mortgaged property is valued by the parties in the conveyance in which the mortgage terms are set out, and which serves as the basis for the auction, is not less than 75% of the surveyor's valuation.

- **Speeding up auction proceedings** Incentives have been put in place to encourage bidders to take part in auctions.

- **Repossession of properties.** In the case of auctions for which there are no bidders, the value of the repossessed properties for the creditor will **be 70% of their theoretical auction starting price**. If the amount the debtor owes is less than this percentage of the value, the value of the repossessed property will be 60% in the case of a main residence, or 50% or the amount owed for all items in any other case.

- **Imputation of payments.** If the foreclosure is insufficient to cover the whole amount demanded in the writ of execution, plus interest and instalments accruing during foreclosure proceedings, this sum will be imputed in the following order: normal interest, principal, default interest, and costs.

- **Write-off mechanisms in the case of remaining debt** in the event that, after foreclosure, debt remains due to the financial institution, **two write-off mechanisms** are envisaged:

  - If the debtor pays 65% of the remaining debt over a period of five years or 80% over ten years, he/she will be released from the remainder.

  - If the financial institution sells the property in the ten years following foreclosure, 50% of the capital gains realised will be allocated to reduce the remaining debt.

V. Amendment of Royal Decree-Law 6/2012 March 9th, on urgent measures to protect mortgage debtors without resources

- **Broadening of the scope.** This Royal Decree-Law is now extended to cover **mortgage guarantors** with respect to their main residence, for the purposes of uniformity with the moratorium on evictions.

- For the collective covered by the Royal Decree-Law, the **default interest** may not exceed the normal interest plus 2% on the outstanding debt.

- **Guarantors and mortgagors other than the debtor.** These parties may demand that the financial institution exhaust the main debtor's assets before claiming the guaranteed debt from them.

- **Codes of good practice.** A number of specific aspects of their content have been amended in favour of mortgage debtors.

VI. Amendment of the consolidated text of the Pension Schemes and Funds Law, approved by Legislative Royal Decree 1/2002 of November 29th

- **Availability of pension plans.** For a period of two years after the entry into force of this law, members of pension plans may apply to realise their vested rights in the event of proceedings to evict them from their main residence, provided certain requirements are met.

VII. Amendment of the consolidated text of the Private Insurance Law, approved by Legislative Royal Decree 6/2004 of October 29th

- **Policy holder information requirements.** In the case of life insurance in which the policy holder does not assume the risk of the investment, he/she will be informed of the expected return on the investment, taking account of all the costs.

VIII. Other measures

- **Marketing of complex loans.** It will be necessary to obtain from the borrower a

handwritten statement in the deed to the effect that he/she has been warned of the risks inherent to the contract when it includes an interest rate collar, is associated with the contracting of interest-rate risk hedging instruments or is granted in one or more foreign currencies.

- **Subsidised housing.** In the case of loans granted for the purchase of subsidised housing, dation in payment of the property shall not require the authorisation of the administration nor entail the obligation to repay the economic aid already received.

Circular of the National Securities Market Commission on the document with basic information for investors and the prospectus of collective investment undertakings (Circular CNMV 2/2013 published in the BOE on May 24th)

The Circular adapts Directive 2009/65/EC (Undertakings for Collective Investment in Transferable Securities, UCITS) to Spanish legislation, with the aim of unifying the various marketing documents for collective investment institutions (CIIs) and of providing investors with a single document (**Key Investor Document (KID)**) which enables them to compare similar products, while avoiding asymmetries in the information provided and unifying the different necessary documents.

National Securities Market Commission (CNMV) Circular implementing certain obligations to provide information to investment services clients, in relation to the assessment of the suitability and advisability of financial instruments (Circular CNMV 3/2013, published in the BOE on June 19th)

This Circular aims to implement the new requirements of the Securities Market Law regarding the assessment of the suitability of the products and services offered to or acquired by investors. Specifically, it lays down the requirement to document compliance with the obligation to give information regarding the recommendations and evaluation carried out, such that institutions keep a signed copy of the documentation provided to clients. It also defines the terms in which the warnings given in each case and signed by the client are to be drafted, and the specific text the client is to write with their signature.

As regards the **suitability assessment**, institutions are to provide their clients with a description of how the recommendation made matches the investor's characteristics and objectives in writing or any other durable form. This description must refer to the three components of the suitability assessment, i.e. the product's suitability given the client's level of knowledge and experience, financial situation and investment goals, and the main risks the investor may face.

Also as regards the **advisability assessment**, institutions must give the client a copy of the document with the assessment performed and authorise the CNMV to establish the terms in which the client is to state in a handwritten note that he/she has been warned by the institution that the product he/she is about to purchase is not advisable for him/her or that it has not been possible to assess its advisability.

The CNMV is also authorised to establish the terms in which **the register of clients and unsuitable products** is to be kept following a negative assessment.

Spanish economic forecasts panel: July 2013[1]

Funcas Economic Trends and Statistics Department

The forecast for 2013 remains unchanged at 1.5%

The economic indicators available for the second quarter seem to confirm the scenario in which the economic slowdown is gradually bottoming out, as envisaged in the consensus view in earlier Forecast Panels. Thus, the GDP growth forecast for this year remains -1.5%, although there has been a change in its expected composition: a smaller drop is anticipated in the domestic demand components, while the forecast for exports has been revised downwards. This implies domestic demand will make a less negative contribution to growth (-3.9 percentage points, compared to -4 in the previous Panel) and the external sector will make a smaller positive contribution (2.4 pp compared with 2.5 pp in the preceding consensus).

This change in composition derives, on the upside, from the fact that the consumption indicators are slowing their fall faster than expected and that the fiscal adjustment will be less than envisaged earlier, due to the change in the deficit targets, and on the downside, from the less buoyant international context.

The forecast for 2014 has been raised to 0.7%

The GDP-growth forecast for 2014 has been revised upwards slightly to 0.7%. This growth is still expected to come from a positive contribution from the external sector, offset by a negative contribution from domestic demand. The quarterly profile that emerges from the consensus figures (Table 2) is almost unchanged from that of the previous Panel Forecast. The economy is expected to stabilise in the third quarter, and positive growth, albeit at modest rates, to begin in the fourth.

Industrial activity remains on a downward path

The decline in industrial activity, measured using the industrial production index, slowed considerably in the first quarter of 2013, probably owing to the improvement in export activity. The forecast for this year has improved, but remains negative: -3.4%. The forecast for 2014 is -0.2%.

Transitory rise in inflation

The inflation rate rose to 1.7% in May. The consensus forecast for the coming months suggests it will rise again in June, and then resume its downward trend in July (unless there are any regulatory or tax changes that affect consumer prices).

The average rates expected for 2013 as a whole and for 2014 have both been cut by one tenth of a point, to 1.6% and 1.3%, respectively. The forecast for the year-on-year rate to December of

[1] The Spanish Economic Forecasts Panel is a survey run by FUNCAS which consults the 19 analysis departments listed in Table 1. The survey, which has been produced since 1999, is published bi-monthly in the first half of January, March, May, July, September and November. The responses to the survey are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 19 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.

this year has been cut significantly to 0.9% while the year-on-year rate to December of next year remains unchanged at 1.5% (Table 3).

The outlook for employment is negative

The seasonally adjusted unemployment and social security system registration figures in the second quarter indicate a significant slowing in the rate of job losses. The rise in the unemployment rate has consequently slowed, although this was also influenced by the contraction of the labour force. The expected variation in employment for 2013 is a decrease of 3.4% –unchanged from the previous consensus– while that expected for 2014 is -0.4%.

The consensus estimates for GDP, employment and salary growth can be used to deduce the implicit productivity and unit labour cost growth estimates. Thus, productivity is expected to grow by 2% in 2013 and 1.1% in 2014, while unit labour costs (ULCs), which fell by 3.4% last year, are forecast to drop by a further 1.8% and 1% this year and next, respectively. This latter figure is more negative than that in the previous Panel as the expected rise in wage costs for next year has been revised downwards. The process of recovering cost-competitiveness is, therefore, expected to continue.

The trade balance will be positive in 2013 and 2014

The current account balance, which moved into surplus in the second half of 2012, returned to negative figures in the first quarter of this year, although this was due to seasonal factors. Comparing it with the same quarter of the previous year shows a reduction of 76%. The trend is therefore still towards a correction. The consensus forecast for this variable has improved to 1% and 1.7% of GDP in 2013 and 2014, respectively.

The government deficit targets will be met

The central government deficit between January and April came to 2.3% of GDP in national accounts terms, and that of the autonomous regions came to 0.3%, while the social security funds registered a surplus of 0.4%. The tax revenues on a cash basis dropped in this same period by 6.9%, compared with the same period of the previous year, even if this is largely due to the delaying of refunds from late 2012 until early 2013. In uniform terms, i.e. adjusting the figures to a single rate of refund payments, tax revenues grew by 1.4%.

The relaxation of the deficit targets has resulted in a corresponding upward revision of the forecasts for this variable to 6.5% of GDP this year, and 5.7% the next.

The external context is expected to improve

The assessment of the global economy has not changed since the last Panel Forecast. As regards the EU, the most recent indicators suggest conditions will remain weak. Outside the EU, the United States continues to grow at a modest pace, the strength of its property market being particularly noteworthy, clearly having left behind the crisis caused by the bursting of the bubble in 2006. The main concern now is the potentially destabilising effect on financial markets of the Federal Reserve's announcement of its progressive withdrawal of the asset purchase programme. The emerging economies, particularly China, have performed worse than expected.

Panellists' opinion of the current situation in the EU remains largely negative, while the opinion on the situation outside the EU remains neutral. In both cases the trend is expected to improve over the coming months.

Interest rates on government debt are not expected to rise further

Short-term interest rates (three-month Euribor) have remained stable at around 0.2% in recent months, although there was a slight increase in the second half of June. Long-term rates (ten-year bond yields) are around 4.5%, although rates rose slightly after the Federal Reserve's announcement that it would be winding down its massive bond purchase programme.

Short-term interest rates are still regarded as being appropriate for the Spanish economy's situation, and the number of panellists expecting them to remain stable over the coming months has increased. In the case of long-term rates, there has been almost no change in the opinion in the preceding panel forecasts that the current level is too high to enable the economy to recover, but most panellists expect them to remain stable over the next few months.

The euro is overvalued

The euro, which most panellists have considered to be overvalued against the dollar for some time, continued its moderate upward trend in June. It is also expected to remain stable over the coming months.

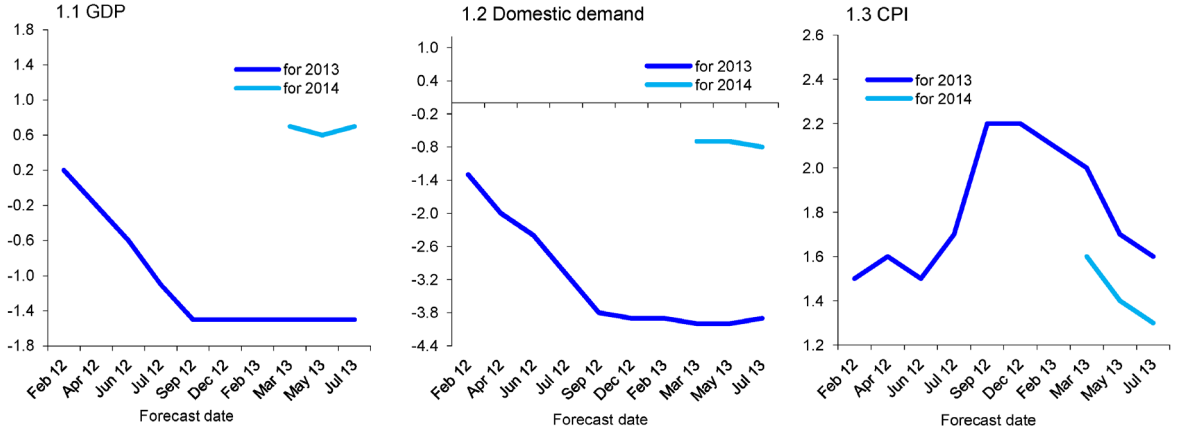
Expansionary monetary policy is warranted

There has been no change in the view of fiscal policy either, which continues to be unanimously considered to be restrictive, an orientation the majority considers necessary. The overwhelming majority of panellists also consider current monetary policy to be expansionary, and all the participants believe that this orientation should be maintained.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – July 2013

Average year-on-year change, as a percentage, unless otherwise stated

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF Construction		Demand domestic	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	-1.7	0.4	-3.0	-0.3	-3.9	-3.3	-7.1	-0.8	-5.0	1.7	-9.2	-2.5	-3.9	-0.9
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.4	0.9	-3.0	-0.5	-5.1	-1.8	-8.5	1.3	-4.7	4.9	-10.9	-1.0	-4.5	-0.4
Bankia	-1.5	0.7	-2.9	-0.7	-5.0	-3.0	-7.4	-0.6	-5.6	0.7	-9.1	-1.6	-4.2	-1.2
CatalunyaCaixa	-1.5	0.7	-2.9	-0.1	-4.6	-1.9	-7.7	-3.8	-6.4	-3.4	-9.0	-4.1	-4.2	-1.2
Cemex	-1.6	0.4	-3.0	0.1	-3.6	-1.7	-7.9	-0.3	-6.0	1.7	-10.0	-2.6	-4.1	-0.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.2	1.0	-2.5	0.1	-4.2	-2.6	-5.5	0.3	-3.6	2.5	-7.2	-1.1	-3.4	-0.4
Centro de Predicción Económica (CEPREDE-UAM)	-1.3	0.9	-2.5	0.1	-3.8	-0.8	-7.2	-1.5	-5.8	-0.1	-8.9	-2.6	-4.1	-0.8
CEOE	-1.5	0.8	-2.8	-0.2	-4.1	-2.4	-7.4	-1.4	-3.1	3.5	-10.5	-4.7	-3.9	-0.9
ESADE	-1.0	--	-2.0	--	-4.0	--	-6.0	--	--	--	--	--	-3.3	--
Fundación Cajas de Ahorros (FUNCAS)	-1.5	0.7	-3.0	-0.3	-3.4	-1.5	-7.4	-2.5	-5.7	0.1	-9.2	-4.6	-3.9	-1.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	0.8	-2.6	0.2	-4.7	-2.5	-7.7	-1.3	-6.0	1.3	-10.0	-2.8	-4.3	-0.8
Instituto de Estudios Económicos (IEE)	-1.5	0.7	-3.0	-0.1	-4.4	-1.8	-7.0	-1.6	-3.5	2.5	-9.0	-4.0	-3.9	-0.7
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.5	0.6	-3.1	-0.4	-3.6	-2.5	-6.0	1.5	-3.6	5.6	-8.0	-0.6	-3.7	-0.4
Instituto Flores de Lemus (IFL-UC3M)	-1.7	-0.2	-2.6	-0.4	-3.9	-3.1	-7.8	-4.4	-6.5	-3.4	-9.7	-6.0	-3.8	-1.7
Intermoney	-1.6	0.5	-2.9	-0.4	-4.2	-2.5	-8.2	-2.7	-7.3	-2.4	-9.7	-3.7	-4.1	-1.2
La Caixa	-1.4	0.8	-2.7	0.1	-4.2	-2.1	-6.6	-1.0	-4.1	1.8	-8.7	-2.4	-3.7	-0.5
Repsol	-1.5	0.7	-2.8	0.1	-3.1	-2.4	-6.7	-0.1	-4.9	2.5	-8.8	-2.2	-3.7	-0.5
Santander	-1.4	0.9	-2.9	0.5	-5.0	-3.0	-6.8	-0.9	-4.2	2.5	-7.9	-2.9	-4.0	-0.5
Solchaga Recio & asociados	-1.5	0.7	-2.7	0.1	-4.2	-1.7	-8.1	-1.5	-4.6	1.6	-11.0	-3.1	-4.2	-0.6
CONSENSUS (AVERAGE)	-1.5	0.7	-2.8	-0.1	-4.2	-2.3	-7.2	-1.2	-5.0	1.3	-9.3	-2.9	-3.9	-0.8
Maximum	-1.0	1.0	-2.0	0.5	-3.1	-0.8	-5.5	1.5	-3.1	5.6	-7.2	-0.6	-3.3	-0.3
Minimum	-1.7	-0.2	-3.1	-0.7	-5.1	-3.3	-8.5	-4.4	-7.3	-3.4	-11.0	-6.0	-4.5	-1.7
Change on 2 months earlier[1]	0.0	0.1	0.0	-0.1	0.6	0.1	-0.1	-0.1	0.7	-0.2	-0.2	0.0	0.1	-0.1
- Rise[2]	8	5	8	3	10	10	7	7	10	6	2	6	12	6
- Drop[2]	1	2	4	4	2	1	6	3	4	4	9	4	2	5
Change on 6 months earlier[1]	0.0	--	-0.5	--	2.3	--	-0.6	--	-1.3	--	-0.4	--	0.0	--
Memorandum items:														
Government (April 2013)	-1.3	0.5	-2.5	0.0	-4.4	-3.1	-7.1	-0.9	--	--	--	--	--	--
Bank of Spain (March 2013)	-1.5	0.6	-3.0	-0.3	-4.4	-1.5	-8.1	-0.9	-5.6[3]	1.4[3]	-10.1	-2.5	-4.2	-0.6
EC (May 2013)	-1.5	0.9	-3.1	-0.1	-3.7	-0.4	-7.6	-1.1	-5.8	0.1	--	--	-4.1	-0.4
IMF (April 2013)	-1.6	0.7	-3.4	0.5	-3.2	-1.2	-7.5	-1.7	--	--	--	--	-4.1	-0.2
OECD (November 2012)	-1.4	0.5	-2.3	-0.5	-4.0	-0.8	-9.0	-2.7	--	--	--	--	-4.0	-0.9

[1] *Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).*

[2] *Number of panellists revising their forecast upwards (or downwards) since two months earlier.*

[3] *Investment in capital goods.*

Table 1 (Continued)

Economic Forecasts for Spain – July 2013

Average year-on-year change, as a percentage, unless otherwise stated

	Exports of goods & serv.		Imports of goods & serv.		Industrial output		CPI (annual av.)		Labour costs[3]		Jobs[4]		Unemployment. (% labour force)		C/A bal. pymts (% of GDP)[5]		Gen. Government Balance (% of GDP)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	2.9	6.2	-4.4	2.8	--	--	1.6	1.0	--	--	-3.6	-0.2	27.1	26.8	0.9	1.5	-6.5	-5.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.7	6.4	-4.9	2.8	--	--	1.7	1.2	0.3	-0.2	-3.9	-0.5	27.1	26.4	0.5	1.0	-6.5	-5.7
Bankia	4.7	5.4	-3.9	0.0	-2.6	--	1.5	1.7	-0.3	0.3	-3.7	-0.4	26.8	26.6	1.3	3.0	--	--
CatalunyaCaixa	2.5	5.3	-5.2	2.0	--	--	1.5	1.8	--	--	-3.5	-0.4	26.9	26.0	--	--	--	--
Cemex	4.1	5.0	-3.1	3.2	--	--	1.5	1.2	--	--	-3.0	0.1	26.8	26.3	0.6	1.0	-6.5	-5.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.3	5.7	-2.4	1.6	--	--	1.5	1.0	--	--	-2.8	0.2	26.8	26.2	1.8	2.6	-6.5	-5.7
Centro de Predicción Económica (CEPREDE-UAM)	3.5	4.8	-3.9	1.0	-4.4	-1.0	1.7	1.4	-0.4	0.2	-3.1	-0.3	26.8	26.9	0.8	1.9	-6.2	-6.1
CEOE	4.6	5.6	-3.4	0.7	-2.9	1.5	1.6	1.1	0.2	0.0	-3.5	-0.5	27.0	26.7	1.4	2.1	-6.3	-5.0
ESADE	5.5	--	-3.0	--	--	--	2.5	--	--	--	-2.5	--	26.0	--	1.8	--	--	--
Fundación Cajas de Ahorros (FUNCAS)	3.0	6.3	-4.4	1.7	-2.9	0.5	1.6	1.3	0.4	-0.2	-3.7	-0.9	26.5	25.8	1.3	2.5	-6.5	-5.8
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.0	6.0	-5.0	1.5	-3.5	-0.2	1.8	1.5	--	--	-3.4	-0.1	27.0	26.7	1.0	1.8	-6.4	-5.8
Instituto de Estudios Económicos (IEE)	4.3	6.0	-3.5	1.6	--	--	1.8	1.3	0.8	0.2	-3.5	-0.4	27.1	26.9	1.0	2.0	-6.3	-5.2
Instituto de Macroeconomía y Finanzas (Universidad CJC)	3.7	3.8	-3.3	0.9	-3.1	-1.0	1.5	1.0	--	--	-3.8	-1.2	27.2	27.7	0.8	0.8	-7.0	-6.0
Instituto Flores de Lemus (IFL-UC3M)	1.2	3.6	-5.5	-1.1	-3.7	-3.2	1.4	1.4	--	--	--	--	27.2	27.2	--	--	--	--
Intermoney	2.1	2.5	-5.6	-2.9	-4.0	-1.0	1.4	1.0	--	--	-3.7	-1.0	27.3	27.0	0.8	1.0	-6.6	-5.8
La Caixa	2.3	4.2	-5.1	0.4	-2.1	2.1	1.6	1.4	-0.2	0.6	-3.4	0.3	26.7	25.9	0.7	2.0	-6.3	-5.5
Repsol	2.8	4.9	-4.1	1.5	-4.5	0.5	1.7	1.3	0.4	-0.8	-3.5	-0.9	26.5	26.0	0.4	0.8	-6.6	-5.8
Santander	5.0	5.7	-4.6	1.7	--	--	1.8	1.7	0.2	0.4	-3.5	-0.2	26.9	26.3	1.0	1.5	--	--
Solchaga Recio & asociados	3.5	5.5	-4.9	1.9	--	--	1.6	1.4	--	--	-3.5	-0.4	27.1	26.6	1.5	2.5	-6.3	-5.5
CONSENSUS (AVERAGE)	3.6	5.2	-4.2	1.2	-3.4	-0.2	1.6	1.3	0.2	0.1	-3.4	-0.4	26.9	26.6	1.0	1.7	-6.5	-5.7
Maximum	5.5	6.4	-2.4	3.2	-2.1	2.1	2.5	1.8	0.8	0.6	-2.5	0.3	27.3	27.7	1.8	3.0	-6.2	-5.0
Minimum	1.2	2.5	-5.6	-2.9	-4.5	-3.2	1.4	1.0	-0.4	-0.8	-3.9	-1.2	26.0	25.8	0.4	0.8	-7.0	-6.1
Change on 2 months earlier[1]	-0.1	-0.1	0.1	-0.3	0.3	-0.2	-0.1	-0.1	0.1	-0.2	0.0	-0.1	0.0	-0.1	0.3	0.2	-0.3	-0.4
- Rise[2]	5	4	4	4	6	2	4	2	2	1	4	3	2	3	8	7	1	1
- Drop[2]	7	6	8	6	1	2	8	8	3	4	8	5	6	6	3	2	7	6
Change on 6 months earlier[1]	-0.8	--	-0.8	--	0.2	--	-0.5	--	-0.4	--	-0.3	--	0.2	--	1.0	--	-0.9	--
Memorandum items:																		
Government (April 2013)	4.1	5.9	-3.7	2.6	--	--	--	--	1.1	0.4	-3.4	-0.4	27.1	26.7	1.9	2.9	-6.3	-5.5
Bank of Spain (March 2013)	3.8	5.4	-4.9	2.0	--	--	1.8	1.0	1.7	-0.1	-3.8	-0.6	27.1	26.8	2.5[6]	3.5[6]	-6.0	-5.9
EC (May 2013)	4.1	5.7	-4.0	2.0	--	--	1.5	0.8	1.4	0.1	-3.4	0.0	27.0	26.4	1.6	2.9	-6.5	-7.0
IMF (April 2013)	3.3	4.2	-4.7	1.5	--	--	1.9	1.5	--	--	-2.5	0.9	27.0	26.5	1.1	2.2	-6.6	-6.9
OECD (November 2012)	6.4	6.2	-1.3	2.4	--	--	1.2	0.4	--	--	--	--	26.9	26.8	0.5	1.8	-6.3	-5.9

[1] *Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).*

[2] *Number of panellists revising their forecast upwards (or downwards) since two months earlier.*

[3] *Average earnings per full-time equivalent job.*

[4] *In National Accounts terms: full time equivalent jobs.*

[5] *Current account balance, according to Bank of Spain estimates.*

[6] *Net lending position vis-à-vis rest of world.*

Table 2

Quarterly Forecasts - July 2013[1]

	Quarter-on-quarter change (percentage)							
	13-Q1	13-Q2	13-Q3	13-Q4	14-Q1	14-Q2	14-Q3	14-Q4
GDP[2]	-0.5	-0.2	0.0	0.1	0.1	0.3	0.3	0.4
Household consumption[2]	-0.4	-0.3	-0.3	-0.2	0.0	0.2	0.2	0.2

[1] *Average forecasts by private institutions listed in Table 1.*

[2] *According to series corrected for seasonality and labour calendar.*

Table 3

CPI Forecasts – July 2013[1]

Monthly change (%)				Year-on-year change (%)	
Jun-13	Jul-13	Aug-13	Sep-13	Dec-13	Dec-14
0.0	-0.6	0.3	0.3	0.9	1.5

[1] *Average of forecasts by private institutions listed in Table 1.*

Table 4

Opinions – July 2013

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	2	17	10	9	0
International context: Non-EU	5	14	0	13	6	0
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	6	9	4	1	17	1
Long-term interest rate[3]	1	4	15	1	12	6
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	18	1	0	0	11	8
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	19	0	0	10	6	3
Monetary policy assessment[1]	2	1	16	0	0	19

[1] *In relation to the current state of the Spanish economy.*

[2] *Three-month Euribor.*

[3] *Yield on Spanish 10-year public debt.*

[4] *Relative to theoretical equilibrium rate.*

SPECIAL FEATURE

The outlook for the Spanish economy in the medium term

Guillermo de la Dehesa[1]

The on-going euro area recession has made it more challenging for Spain to manage its internal difficulties. Nevertheless, if there are no new surprises in Spain, or in the euro area, and announced structural reforms are implemented, the country's medium term economic performance should improve.

In this Special Feature, the author provides us with a medium term scenario for the Spanish economy in the context of the prospects for euro area economic performance and integration. Under his base case scenario of continued, slow progress towards euro area banking and fiscal union, the Spanish economy will continue correcting its accumulated imbalances and show improvement in key macroeconomic and fiscal/debt indicators over the coming years. In this article, the author presents us with 12 key factors for consideration as regards the medium term outlook for the Spanish economy, supported by the latest forecasts published by the International Monetary Fund (IMF) and the European Commission (EC). Findings show that Spain will face key challenges related to the housing market adjustment, public and private debt sustainability, and employment creation. On this last point, the author provides some recommendations for boosting Spanish employment. Ultimately, the assumption is that in the absence of an unexpected shock in Spain, or at the EU level, Spain's difficulties should be tackled through an improved macroeconomic climate and the implementation of appropriate structural reforms over time.

First and foremost, Spain is a member state of the euro area, and unfortunately this area is in recession (-0.6%) and is having serious internal difficulty managing its crisis. This is despite the currency area's not suffering from a balance of payments crisis, having managed to run a current account surplus of 1.8% of GDP in 2012, and having so far avoided a fiscal crisis, with a fiscal deficit of 3.7% of GDP and a structural deficit of 2% of GDP, while its public debt stands at 92.9% of GDP. The reasons for these euro area difficulties lie in the lack of a clear and universally accepted plan for banking, fiscal and political union. This is causing huge uncertainty among investors, which is now spreading to depositors.

By contrast, the United States has been a Federation of States for the last 226 years (since July 4th, 1776), to which later states acceded, and has a current account deficit on the balance of payments of 3% of GDP, a fiscal deficit of 8.9% of GDP and a structural deficit of 6.4% of GDP.

[1] Chairman, Centre for Economic Policy Research, CEPR.

Its debt stands at 107.6% of GDP, and is growing at 2.2% per year. The dollar is the dominant international currency and the U.S. sovereign debt market is the biggest, deepest, most liquid and safest in the world.

In other words, the euro area has no choice but to unite or fail, as the GDP of each of its member states progressively shrinks relative to those of large or medium-sized emerging countries. For this reason, in 2050 there will be no European countries in the G8 as their GDPs will be too small to qualify. The eight members, in order of size of GDP, will be: China, the United States, India, Brazil, Russia, Japan, Mexico and Indonesia. (Spain would be in 17th position after South Korea).

However, a united euro area would be the fourth world power in 2050, behind China, the U.S. and India, in which case the world would basically be governed by a G4 (China, the United States, the euro area, and India). If all the members of the European Union were to join forces, by 2050, the European Union would be the second world power in GDP terms, ahead of the U.S.

In the medium term, i.e. over the next five years, none of this is foreseen to happen, as it would be necessary to substantially alter the treaties of the European Union, a process that is likely to take longer. However, there have recently been positive signs, such as the appointment of a group of experts by the European Commission (EC) to study the creation of a "redemption fund" for all debt over 60% of GDP in the euro area, and to study the issue of "eurobills," which would be a step towards finally resolving Europe's debt problems through mutualisation, particularly in the case of states facing market fragmentation and high debt refinancing costs, such as Spain.

In the meantime, the Spanish economy will continue to improve unless there are serious divisions within the euro area that may heighten the doubts about progress towards banking union in the medium term and fiscal union in the long term. I think this would be highly unlikely, given that if the process of union were to go into reverse or the euro were to break up, all its members would lose out. It would also trigger a global crisis and I do not think anyone would jeopardise a process of union that has been under way for 56 years since the Treaty of Rome in 1957 just for short- or medium-term political gains. Against this backdrop, let's consider the medium-term outlook for the Spanish economy.

Spain's medium term outlook: 12 factors for consideration

#1: Improved perspectives for GDP growth

At the end of 2013, Spain had suffered a cumulative contraction of between 6.6 and 7.0 percentage points of GDP over a five-year period, its severest recession since the Spanish Civil War. However, the European Commission (EC) estimates that the Spanish economy will return to growth in 2014, at a rate of 0.9%, and the International Monetary Fund (IMF) estimates it will grow by 0.7%. This is more than Italy (0.7% and 0.5%) but less than France (1.1% and 0.9%). Moreover, the IMF estimates that Spain will grow at 1.6% in 2018, to reach the euro area average.

However, in its very recent revision of its World Economic Outlook (WEO), published on July 9th, 2013, the IMF downgraded Spain's growth for 2014 from 0.7% to 0.0%, keeping it at -1.6% for 2013. It is not yet clear whether the EC plans to revise its figures in line with those of the IMF. This abrupt change in the WEO between April 2013 and July seems hard to explain.

Apparently, the reason is that in April 2013 the IMF did not take into account the structural adjustment planned in 2014 under the Stability Programme, which implied shaving ¾ of a point of GDP from Spain's fiscal deficit (General Government net lending). The IMF therefore estimated that in 2013 the deficit would be 6.6% of GDP and that it

would increase in 2014 to 6.9% of GDP. However, the impact of further fiscal consolidation has been included in July's WEO and the IMF now estimates that the 2013 fiscal deficit will be 6.7% of GDP, one tenth higher than in the April WEO, but that it will drop to 5.9% of GDP in 2014. This represents a reduction of 8 tenths of a percentage point. This adjustment implies negative growth in 2014 (assuming a fiscal multiplier of one). However, the IMF has calculated that some of the fiscal adjustment measures (on the income side) will have a fiscal multiplier of less than one and that the underlying conditions for growth are more favourable now than they were at the time of the April WEO. For this reason, they estimate that growth in 2014 will be zero.

The April 2013 WEO estimated that the contribution of Spanish domestic demand to growth in 2014 would be -0.2% and that of net exports would be 0.9%, yielding 0.7% of growth. However, the July 2013 WEO now estimates that the contribution of domestic demand to growth will be negative, at -1.5% of GDP, which is 1.3 percentage points more than in the April WEO. By contrast, the contribution of net exports will be positive by 1.5 points of GDP, 0.6 percentage points more than in the April WEO, leading to growth of 0.0% for the Spanish economy in 2014.

In any event, it is now a fact that Spain is correcting its internal and external imbalances, and is starting to show some signs of its strengths.

#2: Competitiveness gains

Spain has undergone a sharp internal devaluation in real terms that is as significant or more so than the one implemented in Germany by Chancellor Schroeder in 2003 under the "Agenda 2010" reforms.

According to the European Commission (EC), between 2010 and 2014, and taking account of the effects of the drop in employment, the drop in real salaries will be 8.2%, the increase in productivity per employed person, 12.6% (partly due to the contraction in construction jobs), the drop in real unit labour costs (ULC) will reach 12.3% (compared to the euro area average), and the real effective exchange rate will have been devalued by 15.7% compared with the OECD average. This devaluation is helping improve companies' gross operating surplus, which will rise from 40% of GDP in 2008 to 45.6% in 2014.

Spain's Philips curve, i.e. the ratio between wage increases and employment, improved between 2009 and 2012, after the rapid and erroneous wage increases while unemployment was rising in 2008 and 2009. The quarterly labour cost survey published by the Spanish Statistics Institute (INE) shows that in 2012 alone, labour costs fell by 4.5% compared to Germany and 3.5% compared to the euro area, and that they are still falling. Nominal ULC indices, starting from base 100 in 1997, rose to 142 in 2009 and dropped to 115 in 2014, while productivity per employed person in 2007 was 100, and it is set to rise to 111.7 in 2014.

#3: Current account imbalance correction backed by strong tourism receipts

In just five years (2007-2012) Spain has managed to reduce its current account deficit by 9.6 points of GDP.

According to the EC and the IMF, Spain will achieve a current account surplus of 2.6% of GDP in 2013 (starting from a deficit of -9.6% of GDP in 2007), representing a change of 12.2 percentage points in six years. However, part of this success is due to the fact that domestic demand, and therefore imports, has slumped during the recession due to the drop in consumption and particularly in investment.

However, the EC estimates that in 2014, this surplus will be 2.9% of GDP, without the negative contribution of domestic demand and the IMF estimates that in 2018, the surplus will reach 3.6% of GDP, even with domestic demand growing by 1.3%.

On the export side, according to the EC, exports of goods and services are due to increase from 23.9% of GDP in 2009, to 32.2% of GDP in 2012, 33.6% of GDP in 2013, and 35.2% of GDP in 2014, reaching a higher percentage of GDP than in Italy (32.3%) and France (29%).

The weight of exports as a percentage of GDP will, of course, also tend to rise as GDP falls, leading to Spain's –and particularly Italy's– exports accounting for a larger share of GDP than those of France, for example. Germany is the exception, as its exports of goods and services account for 50% of GDP and are still rising.

Thus, according to the EC, Spanish exports of goods outside of the euro area are set to rise from 4.7% of GDP in 2009 to 9.2% of GDP in 2014. Net exports will contribute 2.6 points to GDP growth in 2013, and 1.3 points in 2014. Between January and February 2013, exports grew by 5% compared to the same period in 2012, 33.6% destined for Asia, 16.1% for Africa, and 12.5% for Latin America.

Proof of this diversification is that in the period 2010-2013, cumulative total exports grew by 34.6%, exports to Japan rose by 45.3%, to the Rest of the World by 40.6%, to the United States by 33%, to the BRICS by 28.1%, to the rest of the EU by 14.5%, and to the euro area by just 0.7%. The EC estimates that exports of goods and services will grow by 4.1% in 2013 and 5.7% in 2014.

In 2001, Spain's share of global goods exports was 1.8%, making the country number 16 in the global export rankings, with an exported value of 114 billion dollars. In 2011, ten years later, Spain's world quota had fallen to 1.7% of the total, 0.1% less, dropping down the rankings to 17th place, with exports worth 309 billion dollars, 2.7 times more than in 2001.

In 2001, Spain's share of global service exports was 3.7%, making the country number 7 in the rankings, with an exported value of 53 billion dollars. In 2011, its world share was 3.4%, 0.3% less, but maintaining position 7 and exporting 140 billion dollars, 2.64 times higher than in 2001.

Between 2000 and 2012, Spain's share of exports to the EU fell by a tenth of a percentage point, the best performance in the region after Germany (which saw no decrease), and comparing favourably with a drop of 20% for Italy, 30% for France, and 37% for the United Kingdom.

Spain's participation in the global supply chains, today a fundamental part of exports, is just 18.5% of total exports. This percentage is higher than that in Italy (17.5%) and the United Kingdom (16.5%), but lower than in Germany and France, where it is 25%. Added value, including exports as a percentage of GDP, is just 15% in Spain compared with 23% in Germany.

Exports to China account for 1.5% of Germany's GDP, a higher share than that of the United Kingdom, Italy and Spain, while Spain's exports to China represent just 0.3% of GDP, less than its exports to Portugal, which account for 0.7% of GDP. Finally, Spanish exports are more inelastic to an appreciation of the euro than Germany's. A 3% appreciation reduces Germany's exports by 0.9% 18 months later, but reduces Spain's exports by just 0.4% after 18 months.

This price inelasticity is fundamental and is partly due to Spain's exporting more intermediate goods and products, such as chemicals, pharmaceuticals, and components for the motor vehicle industry, which compete advantageously with those of other countries, and quality agricultural products with well recognised brands.

The only outstanding problem is that the energy balance remains negative, despite the deep recession and the still bigger drop in domestic demand, which highlights Spain's excessive energy dependence. Whereas in 2012 the balance of non-energy goods showed a surplus of 2.8% of GDP, the energy balance was still negative, and equivalent to 4.4% of GDP.

As regards tourism, the sector, which accounts for 11% of total current account income (397,614 million euros in 2012) and provides jobs for two million people, is growing thanks to the sharp rise in foreign tourist arrivals, which in 2013 could exceed 58.7 million visitors, with an average expenditure per tourist of 950 euros, making it a record year. This situation is likely only to be temporary, however, as it is partly due to the instability in competing destinations such as Egypt and Turkey.

However, much of this success is also due to the strong correction in hotel prices and salaries in the sector as a whole, which has enabled the tourism balance to maintain a surplus of 2.9% of GDP in 2011 and 3.0% of GDP in 2012.

The balance of non-tourism services was also positive (0.5% of GDP) in 2011 and 2012 (0.8% of GDP), such that the total services balance ran a surplus of 3.8% of GDP in 2012.

Finally, the balance of the investment income account, which was negative (3.3% of GDP in 2008) has improved as a result of the drop in interest rates paid to foreign creditors and investors. Consequently, according to EC figures, Spain's total external current account balance will run a surplus of 2.2% of GDP in 2013 and 3.5% of GDP in 2013.

#4: Falling inflation

According to the EC, harmonised consumer inflation, which is tracked by the ECB, will fall from 2.4% in 2012 to 1.6% in 2013, and then down to 0.8% in 2014. According to the IMF, non-harmonised inflation will fall to 1.5% in 2014. The factors in this decrease include the decline in consumption, in turn caused by a contraction in employment and rising unemployment, falling salaries and house prices. If the supposedly temporary increases in VAT and special duties on alcoholic beverages, tobacco and fuel are excluded, Spain's inflation rate would already be below that of the euro area.

#5: Housing market correction underway

House prices are continuing their decline. According to S&P, house prices have fallen by 30% since their peak in 2007 and will continue to drop until they are down by 45%. In Ireland, where the bubble was bigger, they have dropped by 60%. The INE, starting from an index of 100.3 in 2008, estimates house prices to have dropped to 64.7% in the first quarter of 2013, a decline of 35.6 percentage points. This drop is expected to continue, as the INE estimates that, according to the last two housing censuses from 2001 and 2011, out of a total stock of 25,208 million homes, 3.44 million (13.7%) were empty in 2011. Eurostat calculates that house prices have fallen 38 points from an index of 118 in 2007 to 80 in January 2013.

House prices are continuing their decline. According to S&P, house prices have fallen by 30% since their peak in 2007 and will continue to drop until they are down by 45%.

Just 12,800 construction permits were granted for new housing in the first four months of 2013, which represents a drop of 29% on 2012 when the number exceeded the 53,000 in 2007, four times more. In April 2013 only 1,646 new mortgages were taken out, compared with 14,425 in April 2007, an 8.7-fold drop. An important underlying factor was the rapid immigration between 1997 and 2005. In 2005, this process created 536,900 new households. This figure subsequently declined, except in 2008 when it rose slightly, then dropped to just new 11,700 households in 2012, or 45.8 times fewer.

#6: A more growth-friendly and balanced fiscal adjustment

According to the EC, the total public sector deficit, including the 3.3 percentage points

of GDP in aid to the banking sector, will drop from 11.2% of GDP in 2009 to 7% of GDP in 2014, with the structural deficit being 5.5% of GDP that year. According to the IMF, it will fall to 5.9% of GDP, with a structural deficit of 5.1% in 2014. Finally, the EC has given Spain two more years (until 2016) to meet the nominal public deficit target of 3% of GDP established in the Maastricht Treaty in return for an increase in the number and scope of the structural reforms intended to increase growth potential over the medium to long term.

This was the right decision to make and is based on the IMF's observation in late 2012 that the fiscal multipliers deriving from the rate of fiscal austerity imposed by the EC on Spain and other Member States were greater than unity. In other words, each 1% cut in public spending or tax rise led to a drop of more than 1% in GDP. Moreover, the effect of increasing taxes was more than that of reducing expenditure. This type of austerity not only makes it impossible to meet the deficit targets set, but increases the public deficit yet further, as the bigger drop in GDP further diminishes tax revenues.

However, this does not mean that austerity is not necessary after Spain's huge rise in public and private debt, although its pace and composition were inappropriate and ended up being counterproductive. In the medium to long term only growth reduces debt.

The EC has recently estimated that the public deficit of all levels of government will drop from 6.3% of GDP in 2013 to 5.5% in 2014, to 4.1% in 2015, and 2.7% of GDP in 2016. This deficit of 2.7% of GDP will comprise a 2.0% general government deficit, a 0.2% regional government deficit, 0% from the local authorities, and a deficit of 0.5% on the social security fund.

#7: Remaining challenges to public sector debt reduction

According to the EC the public debt will reach 96.8% of GDP in 2014 and according to the IMF it will peak at 110.6% of GDP in 2018, with net debt of 98% of GDP (after deducting assets). However, per the Maastricht Treaty definition of public debt it will reach 91.4% of GDP in 2013 and 97% of GDP in 2014. According to Reinhart and Rogoff[2], debts of over 90% of GDP tend to slow the growth rate, basically due to the cost of refinancing. In Spain, the cost of refinancing the debt has increased since the Greek crisis in 2010, rising from 1.8% of GDP in 2009 and is now over 3% of GDP.

#8: Private sector deleveraging

Private household debt has dropped from 86% of GDP in 2009 to 80% of GDP in 2012, i.e. six points of GDP in four years, and the debt of non-financial corporations has fallen from 139% of GDP in 2010 to 131% of GDP in 2012, i.e. eight points of GDP in three years. Financial corporations' debt has risen slightly from 100% of GDP in 2010 to 103.6% of GDP in 2012.

The peak in total Spanish private debt was reached in 2009 with 220% of GDP. The government estimates that at the current rate of deleveraging and with the expected GDP growth it could be cut in half, to 110% of GDP, by 2024.

#9: Negative net international investment position but recovering capital inflows

The private sector as a whole has deleveraged considerably vis-à-vis the rest of the world, with its

[2] Reinhart, Carmen M.and Rogoff, Kenneth S. (2010). "Growth in a Time of Debt". American Economic Review 100 (2): 573–78.

external deficit going from 13% of GDP in 2010 to a surplus of close to 5% of GDP in 2012. However, although the deleveraging of the Spanish public and private sectors is necessary and enables the country, as well as its banks and businesses, to improve their ratings, it also reduces private and public sector investment and consumption. This also constrains domestic demand and consequently the growth rate.

Rapid external debt growth in a currency like the euro, which Spain does not control, has resulted in one of the biggest imbalances in Spain's economy. Between 1981 and 2012 the need for external financing to cover internal expenditure (current account deficit) increased almost every year, except in 1984, 1985, and 1986 and again in 1995, 1996 and 1997. In other words, Spain only managed to achieve a current account surplus of 1.3% and 1.2% of GDP six times in 31 years.

The worst year was 2008, when the need for financing, or current deficit came to 9.6% of GDP. Part of this need for financing was used to increase Spain's foreign assets, which rose to 88% of GDP between 1996 and 2006. This meant a sharp rise in gross external debt (liabilities vis-à-vis the rest of the world) which came to 220% of GDP in 2012, of which 168% of GDP was in the form of short term liabilities. In 2012, it reached a minimum and the EC estimates a net lending position (current account surplus) of 2.2% and 3.5% of GDP in 2013 and 2014.

However, the most important data for international investors is the net international investment position (NIIP), i.e. the net external credit position (stock of foreign assets) less the net debit position (external liabilities), as if it is very high, the cost of new debt and rolling over existing debt becomes excessive. At the end of 2011 Spain owed -91% of GDP. The net position was made up of foreign assets worth 128% of GDP and foreign liabilities of 219% of GDP. In 2012 it had increased to -93% of GDP.

Given that the limit permissible under the macroeconomic imbalance procedure (MIP) is just -35% of GDP, Spain has a deviation of -58% of GDP.

This position is high if we compare it with other euro area countries, with only Ireland and Portugal above it. Moreover, two thirds of the liabilities are in the form of debt, which requires periodic payments, unlike shares, equity units and other forms of direct or portfolio investment. However, the cost of finance is moderate as the net interest and dividend payments are 2.4% of GDP, while the assets produce a slightly higher percentage, with a yield of 3% of GDP.

Itemised by institutional sectors, in billions of euros, the Bank of Spain (-310.3) accounts for the largest share of NIIP, followed by general government (-297), non-financial corporations (-274), other monetary financial institutions (-165.6) and finally that of households, which is positive (+63). International banks unwound credit positions in Spain on a large scale between June 2008 and June 2011, withdrawing a volume of 350 billion euros.

Since September 2012, there has been a rapid influx of capital into Spain, with 81,100 million euros by December 2012, and 30,373 million euros in January 2013 alone.

Lastly, according to UNCTAD, the stock of foreign direct investment in Spain went from 384,500 million dollars in 2005 to 634,500 million dollars in 2011, i.e. it rose from 34% of GDP to 42.1% of GDP. In 2010, Spain had 2,407 companies that were investing abroad (815 less than France and 351 less than Italy), and they had created 14,457 foreign subsidiaries (6,091 less than France but 31 more than Italy).

#10: Deep financial sector restructuring but credit remains constrained

The restructuring of the Spanish banking system has been the biggest and toughest in the euro

area. Of the 45 savings banks existing in 2009, with an average size of 29,440 million euros in assets, in 2013 there were just 13 institutions, with average assets of 89,506 million euros. The number of branches has gone from 23,157 in 2009 to 17,898 in 2013, a cut of 5,259. And the number of employees has dropped from 124,054 in 2009 to 98,762 in 2013, a drop of 20.4%.

Considering all the banks together, the total number of banking institutions has gone from 52 in 2009 to 15 in 2013, to which should be added a group of 27 rural savings banks joined by two Institutional Protection Schemes (SIPs in their Spanish initials), which have suffered least in the crisis, and two small savings banks that have survived the restructuring. Also there are two banks, Catalunya Bank and Nova-Galicia Banco, that are due to be auctioned, so the final number of banks could be 13 and the total number of credit institutions 16, counting the group of rural savings banks and the two small savings banks.

The banks are deleveraging, both because they were highly leveraged after the bubble, and because their supervisors are requiring them to take a number of corrective measures.

Firstly, set aside more provisions for doubtful loans (for a value of 7.72% of GDP). Secondly, to try to balance their loans with deposits, and thirdly, to increase their levels of capital to 9% of their risk-weighted assets. At the time this article was written, the seven largest banks, Santander, BBVA, Caixabank, Bankia, Sabadell, Popular and Banco CEISS, which represent 70% of the Spanish system, reported excess capital of 46 billion euros.

The other side of this deleveraging effort by banks, businesses and households is that domestic credit to the private sector has contracted from 175.8% of GDP in 2010 to 146.5% of GDP in March 2013, equivalent to 29.3% of GDP in just three years, and it will probably continue to fall. Between December 2010 and March 2013, credit to households dropped by 7% and credit for productive activities by 13%.

The Eurosystem's April survey on bank loans shows that in Spain's case, demand for credit in 2013 by non-financial corporations fell by 22%, demand from households for home loans has fallen by 40%, and credit to households for consumer spending and other purposes has dropped by 20%. The reasons given were reduced spending on durable goods and securities purchases, a deterioration in consumer confidence, and more finance being drawn from savings and from other sources. At the same time, banking institutions have toughened their conditions for loan approvals and reduced the terms over which they lend.

Moreover, there is no correlation between the cost of borrowing and the interest rate set by the ECB, as the monetary policy transmission mechanism has broken down. The cost of five-year loans to Spanish SMEs is 6%, whereas in France and Germany it is just 3.75%, as the transmission mechanism functions there but not in Spain or Italy, where the cost is correlated with the sovereign debt spread rather than the ECB's main refinancing rate (MRO). The ECB and the Eurosystem need to act decisively to avoid this and the only sure way of doing so is to move forward more rapidly towards Banking Union.

#11: Domestic savings rate recovery

According to the EC, household saving as a percentage of disposable income is slowly recovering to reach 8.9% in 2014 and gross private saving will increase from 23% of GDP in 2010 to 25.9% of GDP in 2014, while public saving will fall to -0.4% of GDP in 2014. This is resulting in Spain's having an external surplus on the current account, as from the macroeconomic point of view, this is equivalent to the current surplus of domestic saving over domestic investment.

#12: Improved employment performance and labour market recommendations

The loss of external confidence in the summer of 2011 broke the recovery in total employment that had begun after falling until the third quarter of 2009, passing from a positive interannual rate of 3% at the end of 2007 to a negative rate of -7.5% in the third quarter of 2009. It then recovered until it fell just 1% in the third quarter of 2011 and again fell to -5% in mid-2012. The same happened, but more markedly, with wage employment, which fell by 21% on a year-on-year basis in the first quarter of 2009, recovered by 2% in the third quarter of 2011, and fell again to -13.5% in late 2012.

According to the EC and the IMF, employment will stop its decline in 2014, slowing from -4.4% in 2012 to 0.0% in 2014, and unemployment will peak in 2013 at 27% to drop back slightly to 26.4% in 2014. However, part of this improvement in employment is seasonal, and it is very likely that the number of people unemployed will rise again in the last quarter.

Boosting employment will not be easy. However, the new labour reforms should make it possible to do so more rapidly than in previous recessions. These labour reforms have increased the flexibility of employment, reduced the growth rate of real labour costs, and have introduced a new employment adjustment dynamic in a context of weak total factor productivity (TFP) growth. This has meant that in the near term a GDP growth threshold of 0.30% could stabilize the net rate of unemployment growth, and in the medium term, a threshold of GDP growth of 1.35% would be sufficient for net job creation.

Registered unemployment fell by 127,748 in June, as 98,000 jobs were created, and it is very likely that growth in employment and the decline in unemployment will continue in June, July and August on account of seasonal employment in the tourism industry. However, it could fall in the fourth quarter.

Similarly, social security registrations began to grow in March 2013, from a low of 16.18 million, and the social security system gained 212,000 new members in the quarter, reaching a total of 16.39 million. This is still a long way short of the 19.37 million people registered with the social security system in December 2007.

Among the steps that would help to boost employment are:

- Launch active employment policies, as the percentage of recipients of unemployment benefits as a share of all unemployed persons dropped to just 61.5% in May 2013. This is compounded by the fact that many of them are long-term unemployed persons who have little chance of finding work.

  At the moment, if the deseasonalised unemployment rate is not rising, it is largely because the labour force is shrinking and many unemployed people are not registering with the employment service either because they regard it as futile, or because they find work through private agencies or in the underground economy.

- Replace the current system of temporary contracts with a single open-ended contract that, starting with 10 days' severance pay per year of service, gradually rises to a maximum of 23 days per year of service.

- In the case of unemployment benefits, experience has shown that increasing the duration of benefits rather than their generosity is counterproductive. This means reversing the direction of the measures taken so far, i.e. reducing benefits from two years and increasing the salary replacement rate, or percentage of final salary covered by benefits, rather than leaving the duration unchanged at two years and reducing the salary replacement rate from 60% to 50%, as has been done.

- To bring the number of long-term unemployed down from three million faster, (926,000 of these are aged under 30 and close to 600,000 have only primary education or lower secondary) there is no alternative but dual vocational training, which can only be implemented efficiently by private agencies paid reasonable rates. In any event, the EC predicts that in 2020 it will have been possible to create 2.2 million net jobs, such that present registered unemployment would have been reduced by 40%.

- Publish deseasonalised employment and social security system membership figures, as is done in other euro area countries, to avoid misunderstandings.

Conclusion

To sum up, we could assume that if there are no new surprises in Spain or the euro area and all the announced structural reforms are implemented:

- Spain has already managed to achieve a current account surplus. By the end of 2013 the recession could start to bottom out and thereafter the current account will remain in surplus even as domestic demand grows.

- GDP growth will end being positive in 2014 reaching around 1.6% in 2018 and increasing job creation.

- The public deficit will reach 2.7% of GDP in 2016. There will be a primary fiscal surplus in 2019, i.e. discounting the cost of rolling over the public debt.

- In 2020 registered unemployment could drop by 40% after creation of 2.2 million net jobs since 2014, and in 2025 the deseasonalised unemployment rate will return to the current euro area rate of 12.2% compared with Spain's current rate of 26.9%. If real salaries remain constant, and stabilise at 22% of wage earners, net job creation could increase with a growth rate of 1.2%.

- Private debt should drop to 110% of GDP by 2024, half of its level in 2009. And in 2030 public debt could drop to 60% of GDP, thus complying with the requirements of the Maastricht Treaty. It will be difficult to reduce the public debt, which will reach 96.8% of GDP in 2014 per Maastricht terms. To comply with the 60% of GDP required by the treaties, a primary annual surplus of 2.3% of GDP will be required until 2030. However, it should be borne in mind that the Maastricht definition calculates this debt at face value or issue value, not at market value, and excludes commercial credit and advances, as well as shares and insurance technical reserves. Investors use market prices to measure debt, but to meet the 60% of GDP target in the treaties, it is sufficient to comply with the terms of Maastricht.

KEY FACTS:

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in blue

		GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)
						Construction							
					Total	Total	Housing	Other construction	Equipment & other products				
Chain-linked volumes, annual percentage changes													
2007		3.5	3.5	5.6	4.5	2.4	1.4	3.6	10.0	6.7	8.0	4.3	-0.8
2008		0.9	-0.6	5.9	-4.7	-5.8	-9.1	-1.6	-2.1	-1.0	-5.2	-0.6	1.5
2009		-3.7	-3.8	3.7	-18.0	-16.6	-23.1	-9.1	-21.3	-10.0	-17.2	-6.6	2.9
2010		-0.3	0.7	1.5	-6.2	-9.8	-10.1	-9.6	2.8	11.3	9.2	-0.6	0.3
2011		0.4	-1.0	-0.5	-5.3	-9.0	-6.7	-11.0	2.5	7.6	-0.9	-1.9	2.3
2012		-1.4	-2.1	-3.7	-9.1	-11.5	-8.0	-14.6	-4.9	3.1	-5.0	-3.9	2.5
2013		-1.5	-3.0	-3.4	-7.4	-9.2	-7.9	-10.4	-4.5	3.0	-4.4	-3.9	2.4
2014		0.7	-0.3	-1.5	-2.5	-4.6	-3.6	-5.5	0.5	6.3	1.7	-0.9	1.6
2012	I	-0.7	-1.3	-3.8	-7.4	-9.5	-6.8	-11.9	-3.5	2.1	-5.9	-3.1	2.4
	II	-1.4	-2.2	-2.8	-9.2	-11.6	-7.9	-14.9	-4.7	2.7	-5.2	-3.8	2.4
	III	-1.6	-2.1	-4.0	-9.7	-12.4	-8.7	-15.8	-4.8	4.2	-3.4	-4.0	2.4
	IV	-1.9	-3.0	-4.1	-10.3	-12.3	-8.7	-15.7	-6.5	3.2	-5.4	-4.7	2.8
2013	I	-2.0	-3.9	-4.3	-9.0	-11.3	-9.1	-13.3	-5.2	4.5	-5.1	-4.9	2.9
	II	-1.8	-3.3	-4.2	-7.7	-9.5	-8.1	-10.8	-4.9	4.4	-4.0	-4.4	2.6
	III	-1.6	-3.2	-2.5	-7.8	-8.6	-7.9	-9.3	-6.5	0.5	-6.8	-3.9	2.3
	IV	-0.7	-1.5	-2.5	-4.9	-7.3	-6.5	-8.0	-1.2	2.9	-1.8	-2.2	1.6
2014	I	0.1	-1.2	-1.6	-4.3	-6.0	-5.0	-7.0	-1.8	6.0	0.4	-1.7	1.8
	II	0.6	-0.6	-1.7	-3.0	-5.0	-3.9	-6.0	0.0	6.0	1.2	-1.1	1.6
	III	1.0	0.0	-1.3	-1.8	-4.1	-3.1	-5.0	1.4	6.5	2.3	-0.6	1.5
	IV	1.2	0.5	-1.5	-0.8	-3.2	-2.5	-3.9	2.5	6.8	2.8	-0.3	1.5
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2012	I	-1.8	2.1	-4.2	-9.5	-13.8	-7.8	-18.9	-1.2	-9.9	-7.7	-1.2	-0.6
	II	-1.5	-4.2	-1.3	-11.8	-14.8	-11.0	-18.2	-6.4	7.3	-5.2	-5.3	3.7
	III	-1.3	-2.1	-9.8	-4.9	-9.8	-6.3	-13.1	3.9	21.8	11.3	-4.4	3.1
	IV	-3.1	-7.6	-1.0	-14.5	-10.8	-9.5	-12.2	-20.4	-3.7	-17.9	-7.8	4.7
2013	I	-2.1	-1.5	-4.7	-4.4	-9.6	-9.4	-9.5	4.2	-5.2	-6.5	-2.6	0.5
	II	-0.8	-2.1	-1.0	-6.7	-7.7	-7.2	-8.2	-5.0	6.6	-0.5	-2.8	2.0
	III	-0.3	-1.3	-3.2	-5.0	-6.4	-5.4	-7.3	-2.8	4.8	-1.1	-2.4	2.0
	IV	0.6	-1.0	-1.2	-3.7	-5.5	-4.1	-6.8	-0.8	6.0	1.2	-1.4	2.0
2014	I	0.9	-0.3	-1.0	-2.0	-4.5	-3.2	-5.6	1.4	6.4	1.9	-0.7	1.5
	II	1.2	0.4	-1.4	-1.2	-3.5	-2.8	-4.2	2.2	6.7	2.9	-0.3	1.5
	III	1.2	0.8	-1.4	-0.4	-2.8	-2.1	-3.4	2.9	6.9	3.0	0.0	1.2
	IV	1.3	1.0	-2.2	0.2	-2.1	-1.8	-2.3	3.4	7.0	3.2	0.2	1.1
		Current prices (EUR billions)	**Percentage of GDP at current prices**										
2007		1,053.2	57.4	18.3	30.7	21.9	12.2	9.7	8.8	26.9	33.6	106.7	-6.7
2008		1,087.8	57.2	19.5	28.7	20.2	10.8	9.4	8.4	26.5	32.3	105.8	-5.8
2009		1,048.1	56.5	21.3	23.6	16.8	8.1	8.7	6.8	23.9	25.8	101.9	-1.9
2010		1,048.9	58.0	21.4	22.3	15.1	7.1	8.0	7.2	27.2	29.4	102.2	-2.2
2011		1,063.4	58.3	20.9	21.1	13.6	6.4	7.2	7.4	30.3	31.1	100.8	-0.8
2012		1,049.5	59.2	20.1	19.1	11.8	5.6	6.2	7.3	32.2	31.2	99.0	1.0
2013		1,043.7	58.6	19.7	17.5	10.4	4.9	5.5	7.2	33.8	30.2	96.4	1.9
2014		1,059.4	58.2	18.9	16.8	9.6	4.6	5.0	7.2	36.0	30.7	94.7	5.3

**Seasonally and Working Day Adjusted.*
(a) Contribution to GDP growth.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.1.- GDP
Percentage change

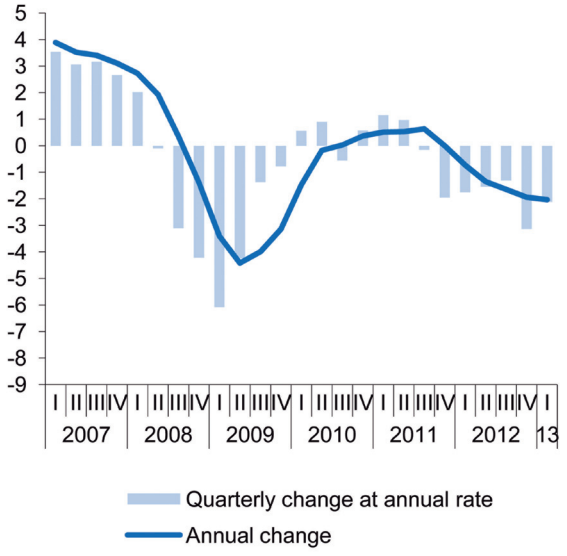


Chart 1.2.- Contribution to GDP growth
Percentage points

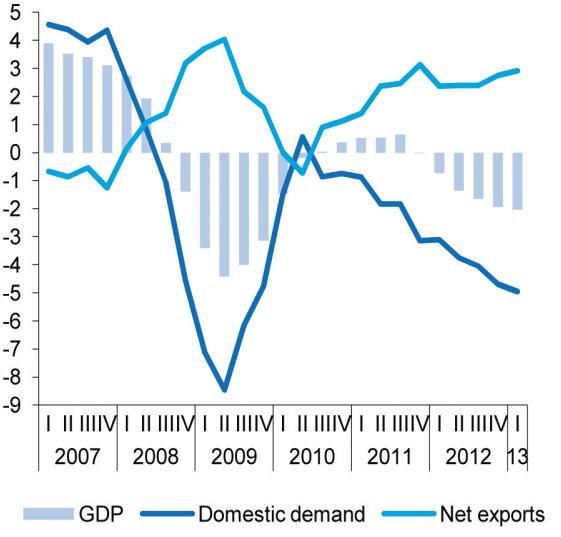


Chart 1.3.- Final consumption
Annual percentage change

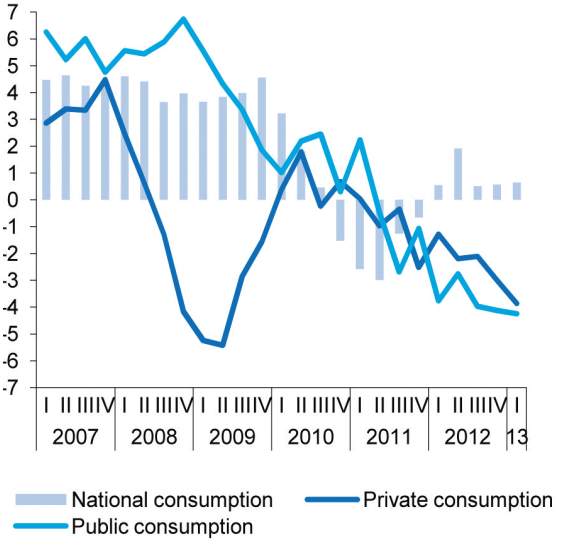


Chart 1.4.- Gross fixed capital formation
Annual percentage change

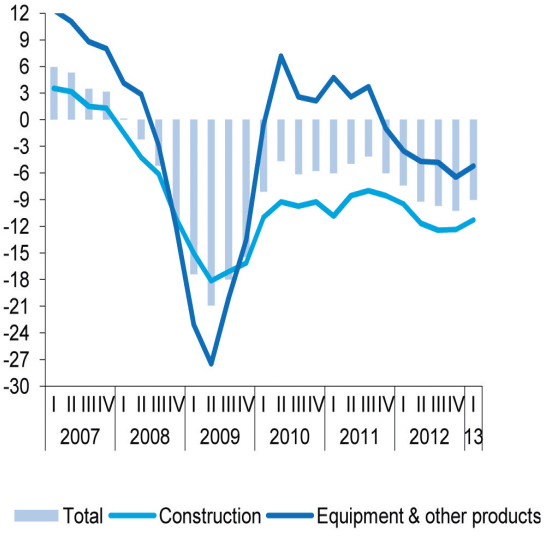


Table 2

National accounts: Gross value added by economic activity SWDA*

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Services								
					Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
Chain-linked volumes, annual percentage changes													
2007	3.8	7.0	0.5	1.8	5.0	4.3	3.4	11.9	2.8	8.0	4.5	2.2	1.0
2008	1.0	-2.7	-2.1	-0.2	2.3	0.4	1.5	2.8	2.1	2.3	5.1	2.0	-0.3
2009	-3.6	-3.2	-12.1	-7.8	-0.6	-1.9	0.9	-4.0	0.0	-2.6	2.3	0.3	-5.4
2010	-0.4	2.0	4.3	-14.3	1.2	1.6	6.5	-3.7	-0.9	-0.2	2.4	0.3	0.1
2011	1.0	8.2	2.7	-5.9	1.4	1.1	3.9	-3.6	2.7	3.2	1.1	1.4	-5.5
2012	-1.5	2.2	-2.9	-8.1	-0.4	-1.2	1.1	0.1	1.8	-0.7	-0.5	-0.7	-0.3
2013	-1.6	0.4	-2.5	-4.8	-1.0	-1.3	-1.3	-1.6	0.4	-0.8	-1.6	0.5	-0.9
2014	0.8	1.1	1.8	-2.6	1.0	1.7	2.0	-1.2	3.0	1.2	-0.6	0.4	-0.6
2012 I	-0.8	2.5	-3.2	-7.5	0.7	0.0	1.5	2.7	2.0	-0.1	0.6	1.3	-0.4
II	-1.5	2.2	-3.1	-7.7	-0.3	-1.5	0.9	2.6	1.8	-1.5	0.2	-1.5	-0.2
III	-1.8	2.4	-2.9	-8.9	-0.6	-1.1	1.2	-1.2	2.0	-0.4	-1.4	-1.2	-0.2
IV	-2.1	1.9	-2.4	-8.5	-1.2	-2.1	0.6	-3.4	1.3	-0.8	-1.2	-1.3	-0.5
2013 I	-2.1	0.6	-3.9	-6.3	-1.3	-2.2	-1.8	-2.2	0.4	-0.7	-0.8	-0.1	-0.9
II	-1.9	0.9	-3.2	-4.9	-1.3	-1.9	-1.3	-2.5	0.2	0.1	-2.0	2.1	-1.5
III	-1.7	0.4	-2.1	-3.9	-1.4	-1.5	-0.7	-0.9	-0.2	-2.3	-1.8	-0.2	-0.8
IV	-0.7	-0.2	-0.8	-4.1	-0.3	0.5	-1.5	-0.7	1.3	-0.3	-1.6	0.2	-0.3
2014 I	0.3	1.0	1.1	-4.0	0.5	0.5	1.5	-1.8	3.0	0.6	0.1	-0.6	-1.8
II	0.7	1.1	1.4	-3.0	1.0	2.0	1.8	-1.3	3.0	1.2	-1.0	0.3	-0.7
III	1.1	1.1	2.0	-2.1	1.2	2.2	2.5	-1.0	3.0	1.5	-0.8	0.9	-0.1
IV	1.3	1.1	2.5	-1.2	1.3	2.2	2.0	-0.7	3.0	1.5	-0.7	1.0	0.0
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2012 I	-2.6	1.4	0.1	-11.8	-1.9	2.8	-0.8	-1.7	0.1	-2.8	-8.9	-0.6	7.9
II	-1.5	-1.6	-1.7	-11.0	-0.1	-4.4	-1.0	-1.1	3.9	-4.0	8.8	-10.6	-1.9
III	-1.0	4.2	-4.0	-8.4	0.6	-0.2	-3.4	-8.2	4.6	10.5	-2.1	8.1	-5.2
IV	-3.2	3.6	-3.8	-2.4	-3.4	-6.2	7.9	-2.2	-3.1	-6.3	-1.9	-1.0	-2.2
2013 I	-2.8	-3.6	-6.0	-2.9	-2.0	2.1	-9.8	3.2	-3.5	-2.2	-7.4	4.3	5.9
II	-0.4	-0.5	1.3	-5.7	-0.2	-2.9	1.0	-2.5	3.0	-1.0	3.7	-2.7	-4.2
III	-0.1	2.1	0.4	-4.4	0.2	1.3	-1.0	-2.0	3.0	0.5	-1.5	-1.4	-2.5
IV	0.7	1.4	1.3	-3.5	1.0	1.5	4.2	-1.5	3.0	1.5	-1.0	0.8	-0.3
2014 I	0.9	1.2	1.6	-2.5	1.1	2.2	2.0	-1.0	3.0	1.5	-0.8	1.0	0.0
II	1.3	-0.3	2.3	-1.5	1.5	3.0	2.0	-0.8	3.0	1.5	-0.7	1.0	0.0
III	1.4	2.2	2.9	-0.8	1.2	2.1	2.0	-0.6	3.0	1.5	-0.6	1.0	0.0
IV	1.4	1.5	3.4	-0.1	1.1	1.7	2.0	-0.4	3.0	1.5	-0.5	1.0	0.0
	Current prices (EUR billions)	**Percentage of value added at basic prices**											
2007	946.0	2.7	17.3	13.9	66.1	23.0	4.2	5.3	6.9	7.2	16.1	3.4	11.3
2008	997.0	2.5	16.9	13.6	67.0	23.1	4.1	5.4	6.9	7.4	16.7	3.4	9.1
2009	973.4	2.4	15.3	13.1	69.2	23.6	4.2	5.9	6.4	7.4	18.1	3.6	7.7
2010	957.8	2.6	16.2	10.9	70.3	24.4	4.3	4.6	7.3	7.4	18.6	3.7	9.5
2011	976.3	2.5	16.9	10.1	70.5	24.8	4.3	4.2	7.7	7.6	18.3	3.7	8.9
2012	964.4	2.7	16.9	9.1	71.3	25.5	4.3	4.3	8.1	7.6	17.7	3.8	8.8
2013	955.0	2.9	16.8	8.5	71.8	25.2	4.3	4.5	8.2	7.7	18.1	3.9	9.3
2014	970.7	2.9	17.0	8.1	72.0	25.8	4.3	4.5	8.4	7.8	17.4	3.8	9.1

**Seasonally and Working Day Adjusted.*
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 2.1.- GVA by sectors
Annual percentage change

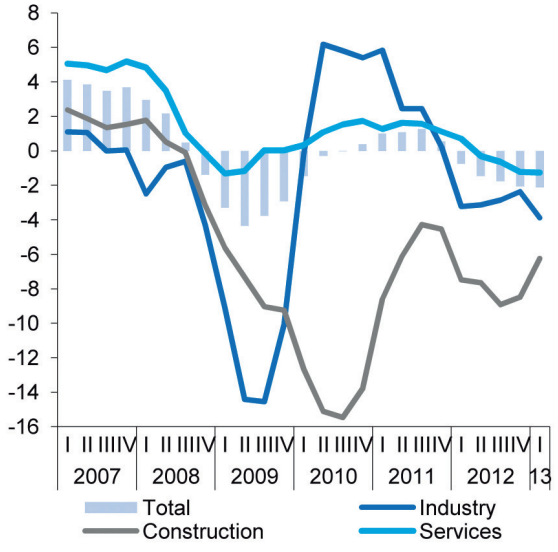


Chart 2.2.- GVA, services (I)
Annual percentage change

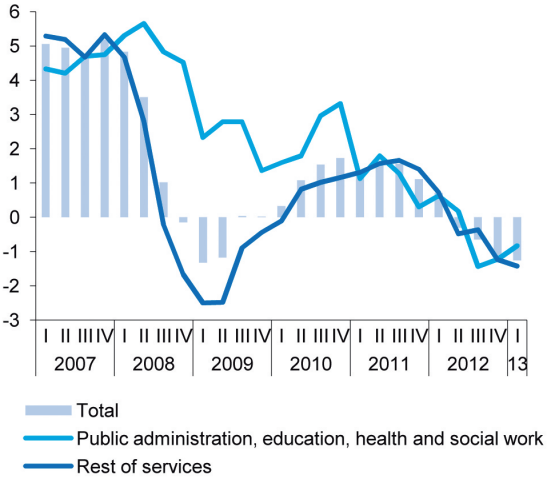


Chart 2.3.- GVA, services (II)
Annual percentage change

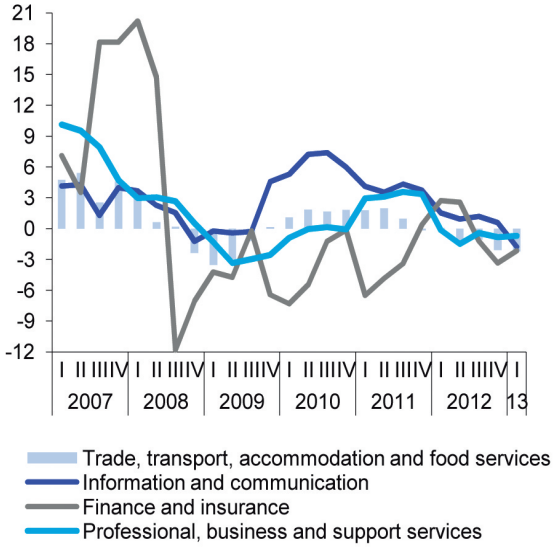


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

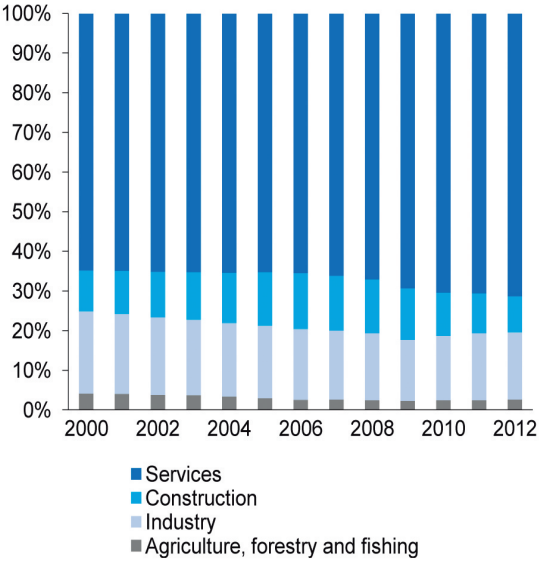


Table 3a

National accounts: Productivity and labour costs (I)

Forecasts in blue

		Total economy						Manufacturing industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
2007		126.4	123.1	102.7	128.2	124.7	94.3	107.8	91.1	118.3	139.9	118.3	95.7
2008		127.6	122.8	103.9	137.0	131.9	97.4	104.1	89.7	116.0	147.4	127.0	98.2
2009		122.8	115.2	106.6	142.7	133.8	98.8	90.4	77.5	116.6	150.7	129.2	100.6
2010		122.4	112.2	109.1	143.1	131.2	96.4	94.0	74.1	126.9	152.7	120.4	93.0
2011		122.9	110.3	111.4	144.1	129.3	94.1	96.7	73.4	131.8	152.1	115.4	86.2
2012		121.2	105.4	114.9	143.6	125.0	90.9	92.8	69.1	134.4	155.4	115.6	85.2
2013		119.3	101.5	117.6	144.3	122.7	88.3	90.2	--	--	--	--	--
2014		120.1	100.6	119.4	144.0	120.5	86.1	91.8	--	--	--	--	--
2011	I	122.9	111.1	110.6	143.4	129.7	94.7	98.4	73.5	134.0	150.5	112.3	84.5
	II	123.2	111.3	110.7	144.0	130.2	94.8	97.9	73.9	132.4	151.7	114.5	86.3
	III	123.1	110.3	111.6	143.7	128.8	93.8	96.1	73.6	130.5	152.2	116.6	88.5
	IV	122.5	108.6	112.8	145.0	128.5	93.3	94.2	72.4	130.1	154.0	118.4	85.8
2012	I	122.0	107.0	114.0	145.5	127.6	93.0	94.2	70.1	134.4	154.4	114.9	84.8
	II	121.5	106.1	114.5	144.4	126.1	91.8	93.5	69.3	135.0	155.6	115.2	85.6
	III	121.1	105.2	115.2	143.9	125.0	90.6	92.8	69.0	134.4	155.2	115.5	86.9
	IV	120.1	103.4	116.1	140.6	121.1	88.1	90.8	67.9	133.8	156.3	116.8	83.6
2013	I	119.5	102.1	117.0	144.6	123.6	89.2	90.3	66.3	136.2	156.1	114.6	84.0
Annual percentage changes													
2007		3.5	3.0	0.5	4.7	4.2	0.9	0.3	-2.5	-0.8	7.2	1.5	-2.0
2008		0.9	-0.2	1.1	6.9	5.7	3.3	-3.4	-1.5	-1.9	5.3	7.4	2.7
2009		-3.7	-6.3	2.7	4.2	1.5	1.4	-13.1	-13.6	0.5	2.3	1.7	2.4
2010		-0.3	-2.5	2.3	0.3	-2.0	-2.4	3.9	-4.5	8.8	1.3	-6.9	-7.5
2011		0.4	-1.7	2.2	0.7	-1.4	-2.4	2.9	-1.0	3.9	-0.4	-4.1	-7.3
2012		-1.4	-4.4	3.2	-0.3	-3.4	-3.5	-3.9	-5.8	2.0	2.1	0.1	-1.2
2013		-1.5	-3.7	2.3	0.4	-1.8	-2.8	-2.9	--	--	--	--	--
2014		0.7	-0.9	1.6	-0.2	-1.8	-2.5	1.8	--	--	--	--	--
2011	I	0.5	-1.4	1.9	0.6	-1.3	-2.3	6.1	-1.3	7.5	-1.1	-8.0	-11.4
	II	0.5	-0.9	1.5	0.1	-1.4	-2.5	2.7	-0.5	3.1	-0.8	-3.8	-6.8
	III	0.6	-1.6	2.3	0.7	-1.6	-2.4	2.7	0.0	2.7	0.0	-2.6	-6.2
	IV	0.0	-2.9	2.9	1.4	-1.5	-2.2	0.1	-2.2	2.3	0.3	-2.0	-4.8
2012	I	-0.7	-3.7	3.1	1.4	-1.6	-1.8	-4.3	-4.6	0.3	2.6	2.3	0.3
	II	-1.4	-4.7	3.5	0.2	-3.1	-3.2	-4.5	-6.3	1.9	2.6	0.6	-0.8
	III	-1.6	-4.6	3.1	0.1	-2.9	-3.4	-3.4	-6.2	3.0	2.0	-1.0	-1.8
	IV	-1.9	-4.7	2.9	-3.0	-5.8	-5.6	-3.6	-6.3	2.9	1.4	-1.4	-2.6
2013	I	-2.0	-4.5	2.6	-0.6	-3.2	-4.0	-4.2	-5.5	1.4	1.1	-0.2	-0.9

(a) Nominal ULC deflated by GDP/GVA deflator.

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 3a.1.- Nominal ULC, total economy
Index, 2000=100

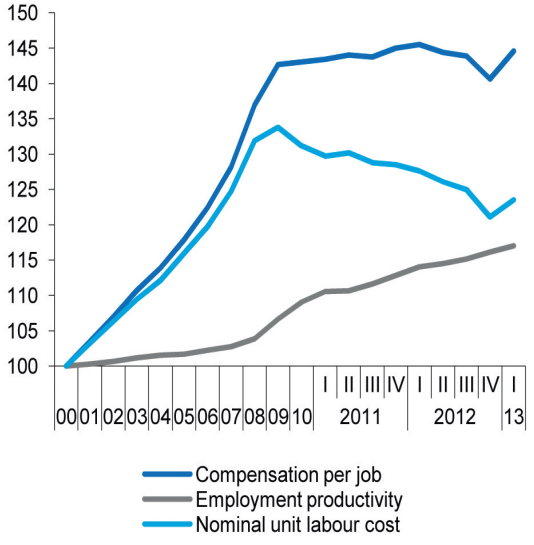
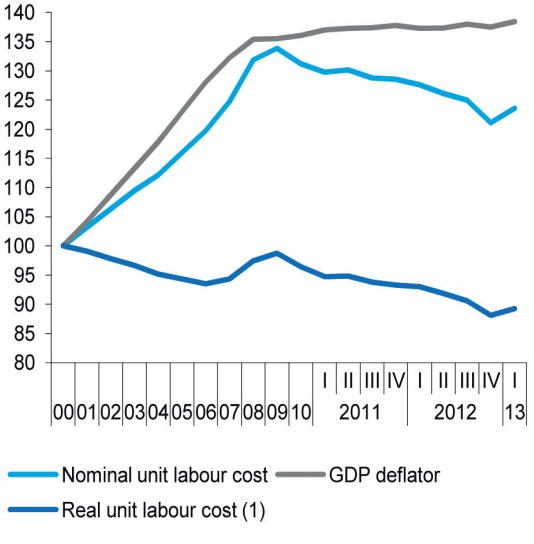


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Chart 3a.3.- Nominal ULC, manufacturing industry
Index, 2000=100

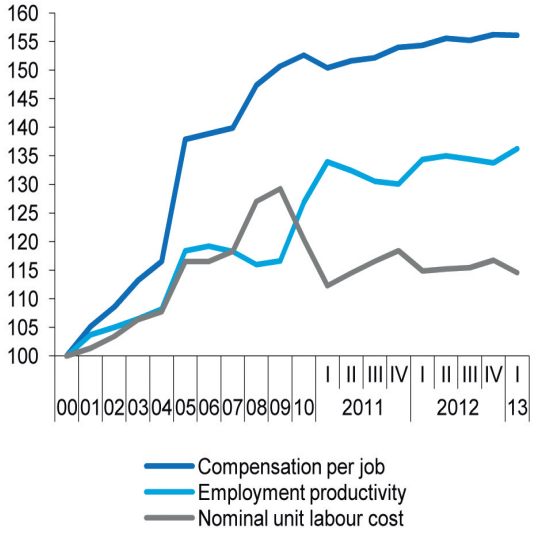
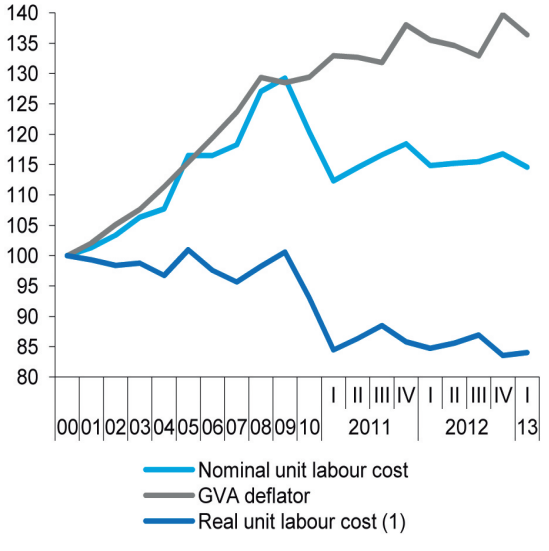


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

National accounts: Productivity and labour costs (II)

Forecasts in blue

		Construction						Services					
		Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
2007		140.6	145.5	96.6	135.2	139.9	88.1	130.4	131.7	99.0	124.4	125.7	96.6
2008		140.3	128.5	109.1	152.3	139.6	84.7	133.3	135.3	98.6	131.8	133.7	98.4
2009		129.3	101.3	127.7	166.9	130.7	78.0	132.5	132.0	100.4	136.8	136.3	98.8
2010		110.9	88.5	125.3	168.8	134.7	83.7	134.1	130.5	102.8	137.1	133.5	97.9
2011		104.3	74.7	139.7	178.3	127.6	79.2	135.9	130.5	104.1	137.5	132.0	96.1
2012		95.8	60.8	157.7	183.0	116.0	74.3	135.4	126.7	106.9	136.2	127.4	92.5
2013		91.2	53.6	170.1	--	--	--	134.0	123.1	108.9	--	--	--
2014		88.9	50.9	174.7	--	--	--	135.3	122.2	110.7	--	--	--
2011	I	107.2	80.3	133.5	179.1	134.1	82.9	134.7	130.7	103.0	136.9	132.9	96.5
	II	104.3	77.1	135.2	177.8	131.5	81.6	136.0	131.5	103.4	137.5	132.9	97.6
	III	103.4	73.1	141.6	178.5	126.1	78.5	136.7	130.8	104.5	137.0	131.1	95.6
	IV	102.3	68.2	150.1	177.5	118.3	73.8	136.3	129.1	105.6	138.7	131.3	94.8
2012	I	99.2	63.5	156.2	185.1	118.5	74.3	135.6	128.3	105.7	138.4	131.0	94.3
	II	96.3	63.0	152.8	184.3	120.6	76.6	135.6	127.3	106.5	136.9	128.6	93.4
	III	94.2	59.6	158.1	182.1	115.2	74.9	135.8	126.5	107.4	136.7	127.3	92.1
	IV	93.6	56.9	164.4	179.9	109.4	71.4	134.6	124.5	108.1	132.8	122.8	90.2
2013	I	93.0	54.5	170.5	184.1	108.0	70.8	133.9	123.9	108.1	137.0	126.7	90.2
Annual percentage changes													
2007		1.8	5.3	-3.4	2.4	6.0	2.2	5.0	4.0	0.9	4.6	3.7	-0.3
2008		-0.2	-11.7	12.9	12.6	-0.2	-3.9	2.3	2.7	-0.4	6.0	6.4	1.9
2009		-7.8	-21.2	17.0	9.6	-6.3	-7.8	-0.6	-2.4	1.8	3.8	1.9	0.4
2010		-14.3	-12.6	-1.9	1.1	3.0	7.2	1.2	-1.2	2.4	0.2	-2.1	-0.9
2011		-5.9	-15.7	11.5	5.6	-5.3	-5.3	1.4	0.0	1.4	0.3	-1.1	-1.8
2012		-8.1	-14.7	12.9	2.6	-9.1	-6.2	-0.4	-3.0	2.7	-0.9	-3.5	-3.7
2013		-4.8	-14.1	7.8	--	--	--	-1.0	-2.8	1.8	--	--	--
2014		-2.6	-13.1	2.7	--	--	--	1.0	-0.7	1.7	--	--	--
2011	I	-8.6	-10.9	2.6	5.4	2.8	3.7	1.3	0.0	1.3	0.3	-1.0	-1.2
	II	-6.1	-14.6	9.9	5.4	-4.1	-4.8	1.6	0.9	0.7	-0.5	-1.2	-2.5
	III	-4.3	-17.4	15.8	4.9	-9.5	-10.0	1.6	0.2	1.4	0.2	-1.1	-1.8
	IV	-4.5	-20.0	19.4	6.8	-10.6	-10.3	1.1	-0.9	2.1	1.1	-1.0	-1.8
2012	I	-7.5	-20.9	17.0	3.3	-11.7	-10.4	0.7	-1.8	2.6	1.1	-1.5	-2.3
	II	-7.7	-18.3	13.0	3.6	-8.3	-6.1	-0.3	-3.2	3.0	-0.4	-3.2	-4.3
	III	-8.9	-18.4	11.6	2.0	-8.6	-4.5	-0.6	-3.3	2.7	-0.3	-2.9	-3.6
	IV	-8.5	-16.5	9.6	1.3	-7.5	-3.2	-1.2	-3.5	2.4	-4.2	-6.5	-4.9
2013	I	-6.3	-14.1	9.1	-0.5	-8.8	-4.7	-1.3	-3.5	2.3	-1.0	-3.3	-4.3

(a) Nominal ULC deflated by GVA deflator.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 3b.1.- Nominal ULC, construction
Index, 2000=100

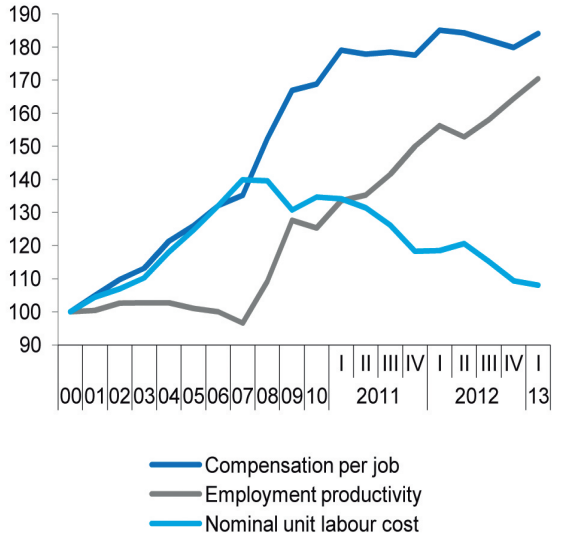
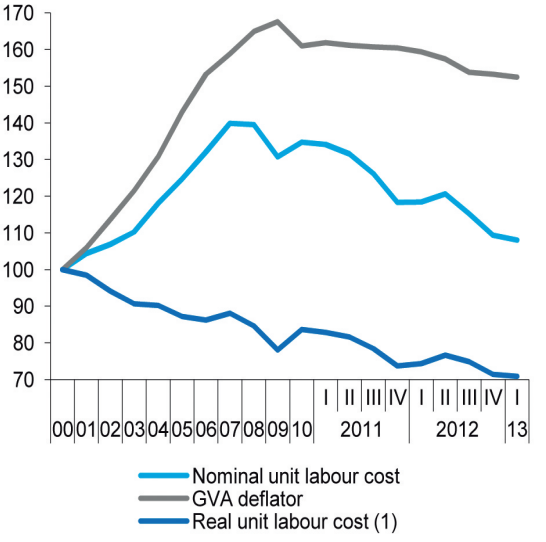


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Chart 3b.3.- Nominal ULC, services
Index, 2000=100

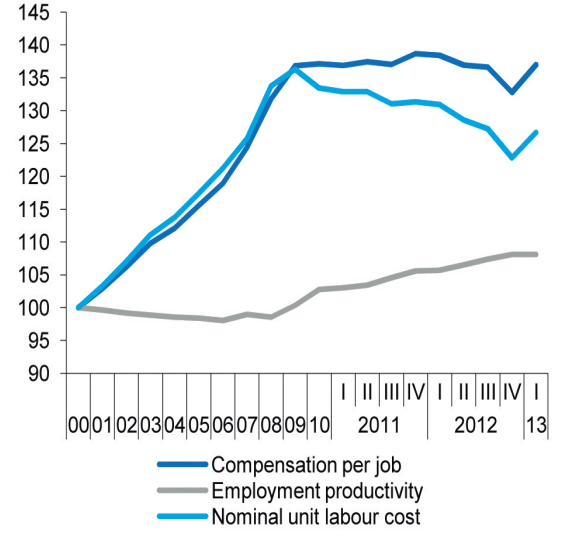
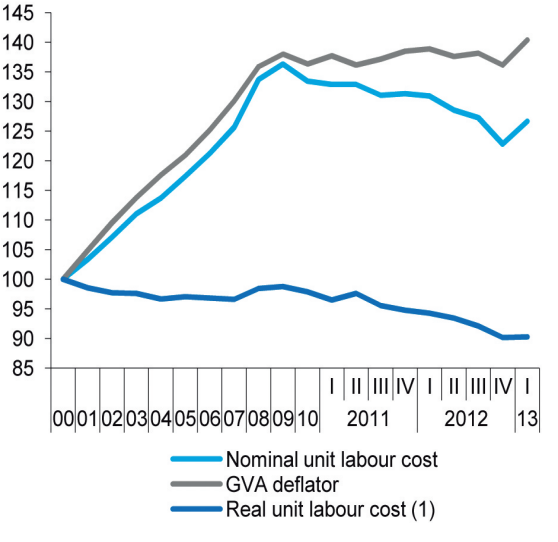


Chart 3b.4.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in blue

	Gross domestic product	Compen-sation of employees	Gross opera-ting surplus	Taxes on production and imports less subsi-dies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross natio-nal income	Final national consumption	Gross national saving (a)	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsidies
	1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12	13
	EUR Billions, 4-quarter cumulated transactions										**Percentage of GDP**		
2007	1,053.2	504.1	441.2	107.8	-27.4	1,025.7	-7.0	1,018.7	797.7	221.0	47.9	41.9	10.2
2008	1,087.8	537.6	458.1	92.0	-31.8	1,056.0	-9.2	1,046.8	834.4	212.4	49.4	42.1	8.5
2009	1,048.1	524.6	446.4	77.1	-23.1	1,025.0	-7.3	1,017.7	816.0	201.7	50.1	42.6	7.4
2010	1,048.9	512.8	441.9	94.2	-17.2	1,031.7	-5.9	1,025.9	832.6	193.2	48.9	42.1	9.0
2011	1,063.4	508.6	464.2	90.5	-24.1	1,039.3	-6.9	1,032.4	842.7	189.7	47.8	43.7	8.5
2012	1,049.5	481.0	474.6	93.9	-14.9	1,034.6	-4.7	1,029.9	832.6	197.3	45.8	45.2	8.9
2013	1,043.7	461.6	483.3	98.8	-17.0	1,026.7	-4.0	1,022.7	816.8	206.0	44.2	46.3	9.5
2014	1,059.4	455.2	505.4	98.7	-23.5	1,035.9	-3.7	1,032.2	817.4	214.7	43.0	47.7	9.3
2011 I	1,052.8	512.0	446.0	94.8	-19.0	1,033.7	-6.2	1,027.5	838.1	189.4	48.6	42.4	9.0
II	1,058.0	511.2	452.7	94.1	-19.2	1,038.8	-6.3	1,032.5	840.4	192.1	48.3	42.8	8.9
III	1,062.4	510.1	458.8	93.5	-21.6	1,040.7	-5.9	1,034.8	842.5	192.4	48.0	43.2	8.8
IV	1,063.4	508.6	464.2	90.5	-24.1	1,039.3	-6.9	1,032.4	842.7	189.7	47.8	43.7	8.5
2012 I	1,062.0	505.3	465.9	90.9	-24.8	1,037.2	-7.2	1,030.0	842.8	187.2	47.6	43.9	8.6
II	1,058.7	499.0	470.1	89.6	-23.2	1,035.5	-7.5	1,027.9	841.6	186.4	47.1	44.4	8.5
III	1,055.8	492.5	473.1	90.2	-19.4	1,036.5	-6.9	1,029.5	839.6	189.9	46.6	44.8	8.5
IV	1,049.5	481.0	474.6	93.9	-14.9	1,034.6	-4.7	1,029.9	832.6	197.3	45.8	45.2	8.9
2013 I	1,046.3	473.7	477.7	94.9	-11.9	1,034.3	-3.7	1,030.7	826.8	203.8	45.3	45.7	9.1
	Annual percentage changes										**Difference from one year ago**		
2007	6.9	8.2	8.0	-2.9	46.0	6.1	-5.8	6.2	7.3	2.3	0.6	0.5	-1.0
2008	3.3	6.6	3.8	-14.7	15.8	3.0	32.0	2.8	4.6	-3.9	1.6	0.2	-1.8
2009	-3.7	-2.4	-2.6	-16.2	-27.4	-2.9	-21.3	-2.8	-2.2	-5.0	0.6	0.5	-1.1
2010	0.1	-2.3	-1.0	22.2	-25.6	0.7	-19.1	0.8	2.0	-4.2	-1.2	-0.5	1.6
2011	1.4	-0.8	5.0	-3.9	40.2	0.7	17.0	0.6	1.2	-1.8	-1.1	1.5	-0.5
2012	-1.3	-5.4	2.2	3.7	-37.9	-0.5	-31.9	-0.2	-1.2	4.0	-2.0	1.6	0.4
2013	-0.6	-4.0	1.8	5.2	13.7	-0.8	-15.0	-0.7	-1.9	4.4	-1.6	1.1	0.5
2014	1.5	-1.4	4.6	-0.1	38.2	0.9	-7.5	0.9	0.1	4.3	-1.3	1.4	-0.1
2011 I	0.7	-1.7	-0.1	21.4	10.0	0.5	-18.9	0.7	2.2	-5.6	-1.2	-0.3	1.5
II	1.2	-1.4	2.2	11.1	13.9	0.9	-5.6	1.0	1.6	-1.6	-1.2	0.4	0.8
III	1.5	-1.1	4.8	0.4	22.9	1.1	-21.5	1.3	1.6	0.2	-1.3	1.4	-0.1
IV	1.4	-0.8	5.0	-3.9	40.2	0.7	17.0	0.6	1.2	-1.8	-1.1	1.5	-0.5
2012 I	0.9	-1.3	4.5	-4.1	30.3	0.3	16.5	0.2	0.6	-1.2	-1.1	1.5	-0.4
II	0.1	-2.4	3.8	-4.8	20.7	-0.3	20.0	-0.4	0.1	-3.0	-1.2	1.6	-0.4
III	-0.6	-3.4	3.1	-3.5	-10.5	-0.4	16.6	-0.5	-0.3	-1.3	-1.4	1.6	-0.3
IV	-1.3	-5.4	2.2	3.7	-37.9	-0.5	-31.9	-0.2	-1.2	4.0	-2.0	1.6	0.4
2013 I	-1.5	-6.2	2.5	4.4	-51.9	-0.3	-49.4	0.1	-1.9	8.9	-2.3	1.8	0.5

(a) Including change in net equity in pension funds reserves.

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 4.1.- National income, consumption and saving
EUR Billions, 4-quarter cumulated

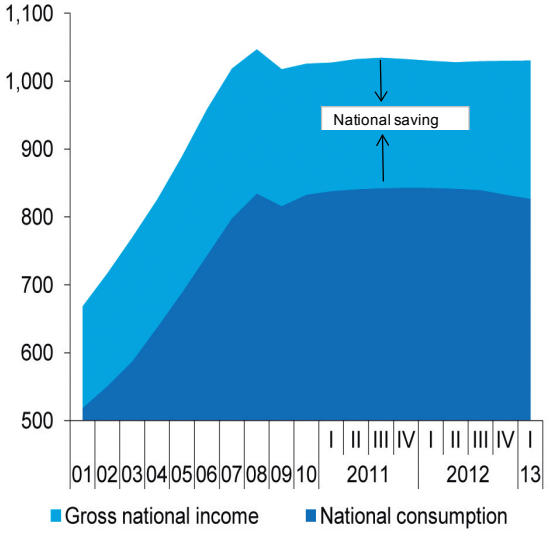


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

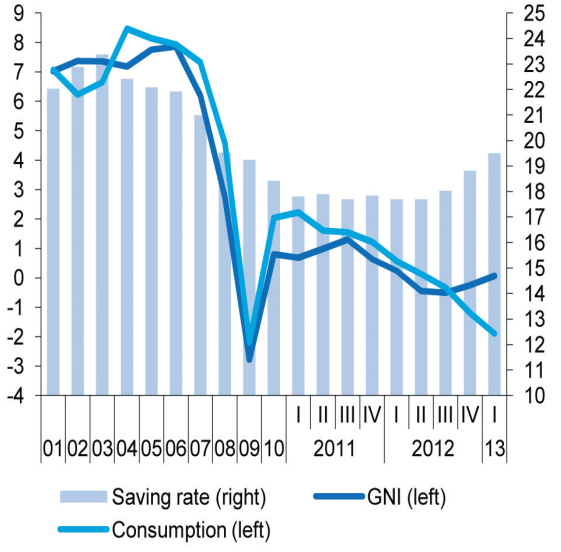


Chart 4.3.- Components of National Income (I)
Annual percentage change

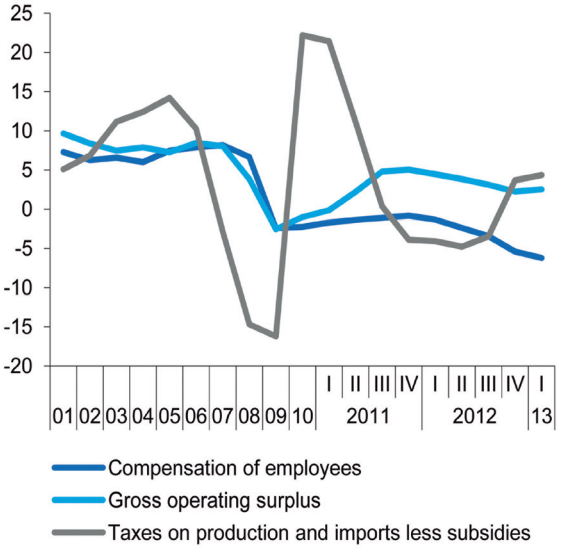


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

Table 5

National accounts: Net transactions with the rest of the world

Forecasts in blue

		Goods and services				Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account deficit
		1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR Billions, 4-quarter cumulated transactions													
2007		-70.8	-90.8	30.4	-10.4	-27.4	-7.0	-105.2	4.3	-100.9	221.0	326.2	-105.2
2008		-63.3	-85.4	30.6	-8.5	-31.8	-9.2	-104.3	4.4	-99.9	212.4	316.7	-104.3
2009		-19.5	-41.6	28.3	-6.2	-23.1	-7.3	-49.9	4.3	-45.5	201.7	251.6	-49.9
2010		-23.0	-48.0	29.3	-4.3	-17.2	-5.9	-46.0	6.4	-39.6	193.2	239.3	-46.0
2011		-8.4	-40.1	32.9	-1.2	-24.1	-6.9	-39.4	5.4	-33.9	189.7	229.1	-39.4
2012		10.7	-25.4	33.6	2.5	-14.9	-4.7	-8.9	6.6	-2.4	197.3	206.2	-8.9
2013		38.0	-5.0	34.3	8.8	-17.0	-4.0	17.0	5.9	22.9	206.0	189.0	17.0
2014		56.3	7.0	36.4	12.9	-23.5	-3.7	29.1	5.6	34.7	214.7	185.6	29.1
2011	I	-22.6	-48.1	29.8	-4.3	-19.0	-6.2	-47.8	6.6	-41.3	189.4	237.3	-47.8
	II	-17.4	-45.2	31.0	-3.2	-19.2	-6.3	-42.9	6.8	-36.2	192.1	235.0	-42.9
	III	-13.1	-42.9	32.4	-2.7	-21.6	-5.9	-40.7	6.5	-34.2	192.4	233.1	-40.7
	IV	-8.4	-40.1	32.9	-1.2	-24.1	-6.9	-39.4	5.4	-33.9	189.7	229.1	-39.4
2012	I	-5.5	-38.2	33.1	-0.4	-24.8	-7.2	-37.5	4.6	-32.9	187.2	224.7	-37.5
	II	-2.1	-34.9	33.0	-0.2	-23.2	-7.5	-32.8	4.9	-27.9	186.4	219.2	-32.8
	III	3.2	-31.4	33.6	1.0	-19.4	-6.9	-23.1	5.1	-18.0	189.9	213.0	-23.1
	IV	10.7	-25.4	33.6	2.5	-14.9	-4.7	-8.9	6.6	-2.4	197.3	206.2	-8.9
2013	I	19.2	-18.9	33.9	4.3	-11.9	-3.7	3.7	7.3	11.0	203.8	200.2	3.7
Percentage of GDP, 4-quarter cumulated transactions													
2007		-6.7	-8.6	2.9	-1.0	-2.6	-0.7	-10.0	0.4	-9.6	21.0	31.0	-10.0
2008		-5.8	-7.8	2.8	-0.8	-2.9	-0.8	-9.6	0.4	-9.2	19.5	29.1	-9.6
2009		-1.9	-4.0	2.7	-0.6	-2.2	-0.7	-4.8	0.4	-4.3	19.2	24.0	-4.8
2010		-2.2	-4.6	2.8	-0.4	-1.6	-0.6	-4.4	0.6	-3.8	18.4	22.8	-4.4
2011		-0.8	-3.8	3.1	-0.1	-2.3	-0.6	-3.7	0.5	-3.2	17.8	21.5	-3.7
2012		1.0	-2.4	3.2	0.2	-1.4	-0.4	-0.9	0.6	-0.2	18.8	19.6	-0.9
2013		3.6	-0.5	3.3	0.8	-1.6	-0.4	1.6	0.6	2.2	19.7	18.1	1.6
2014		5.3	0.7	3.4	1.2	-2.2	-0.3	2.7	0.5	3.3	20.3	17.5	2.7
2011	I	-2.1	-4.6	2.8	-0.4	-1.8	-0.6	-4.5	0.6	-3.9	18.0	22.5	-4.5
	II	-1.6	-4.3	2.9	-0.3	-1.8	-0.6	-4.1	0.6	-3.4	18.2	22.2	-4.1
	III	-1.2	-4.0	3.1	-0.3	-2.0	-0.6	-3.8	0.6	-3.2	18.1	21.9	-3.8
	IV	-0.8	-3.8	3.1	-0.1	-2.3	-0.6	-3.7	0.5	-3.2	17.8	21.5	-3.7
2012	I	-0.5	-3.6	3.1	0.0	-2.3	-0.7	-3.5	0.4	-3.1	17.6	21.2	-3.5
	II	-0.2	-3.3	3.1	0.0	-2.2	-0.7	-3.1	0.5	-2.6	17.6	20.7	-3.1
	III	0.3	-3.0	3.2	0.1	-1.8	-0.7	-2.2	0.5	-1.7	18.0	20.2	-2.2
	IV	1.0	-2.4	3.2	0.2	-1.4	-0.4	-0.9	0.6	-0.2	18.8	19.6	-0.9
2013	I	1.8	-1.8	3.2	0.4	-1.1	-0.3	0.3	0.7	1.0	19.5	19.1	0.3

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 5.1.- Balance of goods and services
Percentage of GDP, 4-quarter moving averages

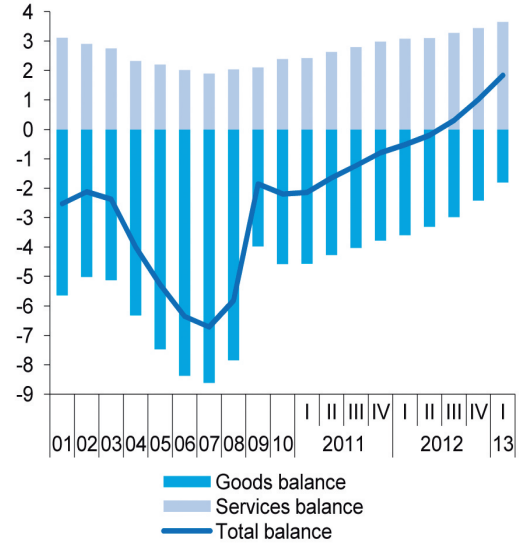


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

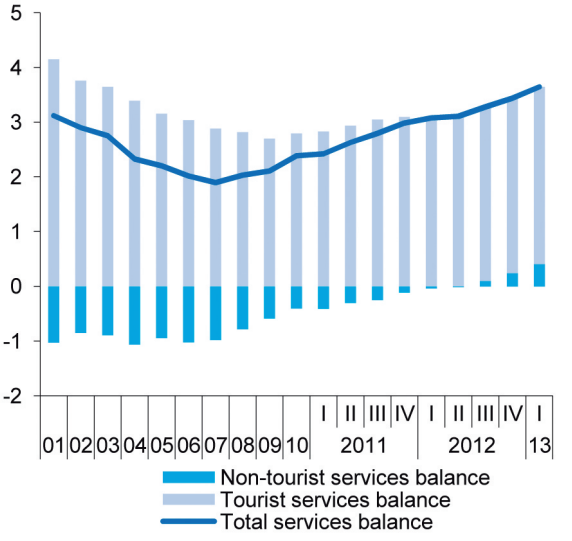


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

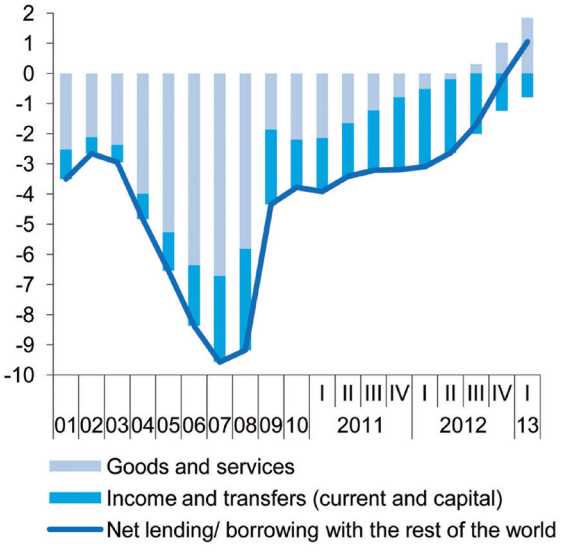


Chart 5.4.- Saving, investment and current account deficit
Percentage of GDP, 4-quarter moving averages

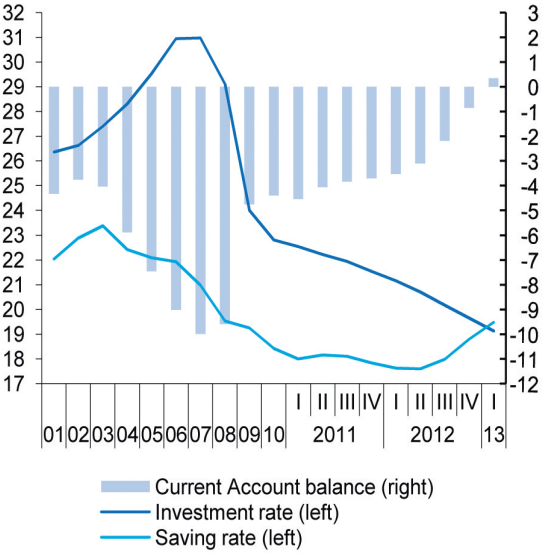


Table 6

National accounts: Household income and its disposition

Forecasts in blue

		Gross disposable income (GDI)						Final consumption expenditure	Gross saving (a)	Saving rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP
		Total	Compensation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contributions and other current transfers (paid)	Personal income taxes							
		1=2+3+4-5-6	2	3	4	5	6	7	8=1-7	9=8/1	10	11	12=8+10-11	13
EUR Billions, 4-quarter cumulated operations														
2007		671.2	503.9	262.7	197.3	206.3	86.5	604.7	70.0	10.4	3.5	101.5	-28.0	-2.7
2008		717.0	537.6	264.1	217.0	216.9	84.7	622.4	99.0	13.8	5.4	91.1	13.3	1.2
2009		720.9	524.5	248.0	233.8	209.3	76.1	592.4	128.6	17.8	5.8	65.4	69.0	6.6
2010		700.1	512.7	235.4	238.7	207.2	79.5	608.1	91.8	13.1	7.2	58.4	40.6	3.9
2011		696.6	508.5	235.5	241.0	207.1	81.3	620.0	76.7	11.0	4.9	55.6	26.0	2.4
2012		677.5	481.0	234.6	244.5	200.4	82.3	621.2	55.1	8.1	3.5	49.5	9.1	0.9
2013		666.0	461.6	237.9	245.9	195.3	84.1	611.3	53.7	8.1	2.6	44.1	12.2	1.2
2014		672.5	455.2	249.3	246.8	193.8	85.0	617.0	54.5	8.1	2.2	42.2	14.4	1.4
2011	II	697.5	511.2	235.1	240.1	208.3	80.6	616.1	80.8	11.6	7.5	56.1	32.3	3.0
	III	698.1	510.0	236.1	240.9	207.8	81.2	619.1	78.3	11.2	7.6	56.1	29.8	2.8
	IV	696.6	508.5	235.5	241.0	207.1	81.3	620.0	76.7	11.0	4.9	55.6	26.0	2.4
2012	I	694.9	505.2	235.8	242.1	206.4	81.9	622.0	73.0	10.5	5.0	54.2	23.8	2.2
	II	688.9	498.9	234.4	242.2	204.4	82.3	622.1	66.9	9.7	4.7	52.7	19.0	1.8
	III	685.3	492.5	234.2	245.2	203.9	82.6	622.1	62.5	9.1	3.9	50.4	16.1	1.5
	IV	677.5	481.0	234.6	244.5	200.4	82.3	621.2	55.1	8.1	3.5	49.5	9.1	0.9
2013	I	676.6	473.8	237.8	246.6	199.3	82.4	617.6	57.7	8.5	3.2	48.6	12.4	1.2
Annual percentage changes, 4-quarter cumulated operations										**Difference from one year ago**	**Annual percentage changes, 4-quarter cumulated operations**			**Difference from one year ago**
2007		6.6	8.2	7.2	8.1	8.8	16.6	6.8	12.3	0.6	-49.8	4.2	--	0.0
2008		6.8	6.7	0.5	9.9	5.2	-2.1	2.9	41.5	3.4	55.5	-10.2	--	3.9
2009		0.6	-2.4	-6.1	7.8	-3.5	-10.2	-4.8	29.9	4.0	7.3	-28.2	--	5.4
2010		-2.9	-2.2	-5.1	2.1	-1.0	4.5	2.7	-28.6	-4.7	23.9	-10.7	--	-2.7
2011		-0.5	-0.8	0.1	1.0	-0.1	2.3	2.0	-16.4	-2.1	-31.5	-4.8	--	-1.4
2012		-2.7	-5.4	-0.4	1.4	-3.2	1.1	0.2	-28.1	-2.9	-29.8	-11.0	--	-1.6
2013		-1.7	-4.0	1.4	0.6	-2.5	2.2	-1.6	-2.6	-0.1	-25.0	-11.0	--	0.3
2014		1.0	-1.4	4.8	0.4	-0.8	1.1	0.9	1.5	0.0	-15.0	-4.2	--	0.2
2011	II	-1.7	-1.4	-2.2	2.0	0.5	3.7	2.4	-25.2	-3.6	30.3	-9.1	--	-1.9
	III	-0.7	-1.1	-0.1	1.9	0.6	3.0	2.7	-21.7	-3.0	24.9	-7.2	--	-1.5
	IV	-0.5	-0.8	0.1	1.0	-0.1	2.3	2.0	-16.4	-2.1	-31.5	-4.8	--	-1.4
2012	I	-0.6	-1.3	0.4	1.2	-0.6	2.9	1.5	-15.1	-1.8	-29.2	-5.2	--	-1.2
	II	-1.2	-2.4	-0.3	0.9	-1.9	2.1	1.0	-17.2	-1.9	-37.7	-6.1	--	-1.3
	III	-1.8	-3.4	-0.8	1.8	-1.8	1.8	0.5	-20.1	-2.1	-48.1	-10.2	--	-1.3
	IV	-2.7	-5.4	-0.4	1.4	-3.2	1.1	0.2	-28.1	-2.9	-29.8	-11.0	--	-1.6
2013	I	-2.6	-6.2	0.9	1.8	-3.4	0.6	-0.7	-20.9	-2.0	-36.5	-10.3	--	-1.1

(a) Including change in net equity of households in pension funds reserves.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 6.1.- Households: Gross Disposable Income
EUR Billions, 4-quarter cummulated

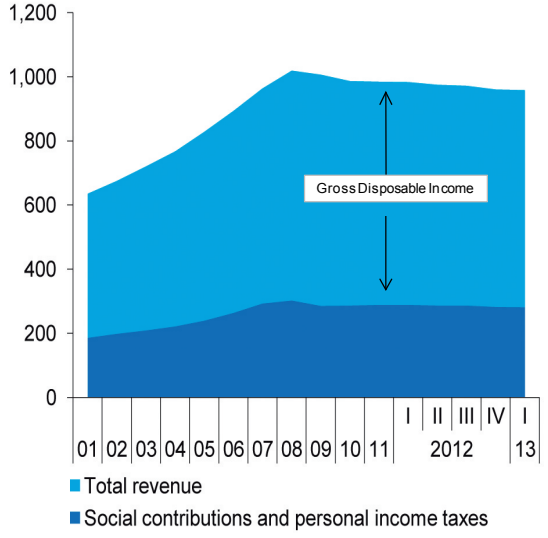
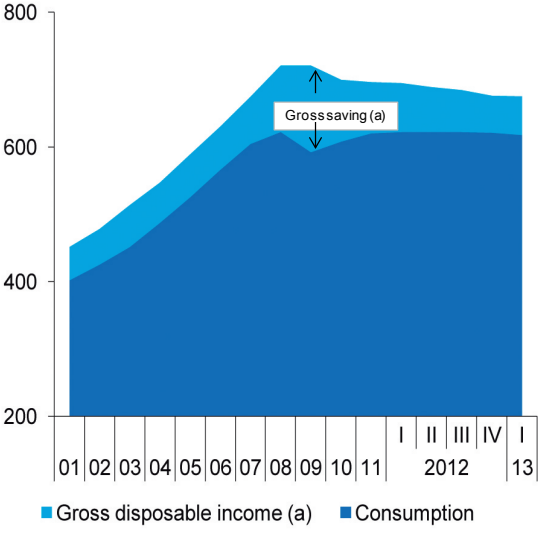


Chart 6.2.- Households: Gross Saving
EUR Billions, 4-quarter cummulated



(a) Including change in net equity of households in pension funds reserves.

Chart 6.3.- Households: Income, consumption and saving
Annual percentage change and percentage of GDI, 4-quarter moving averages

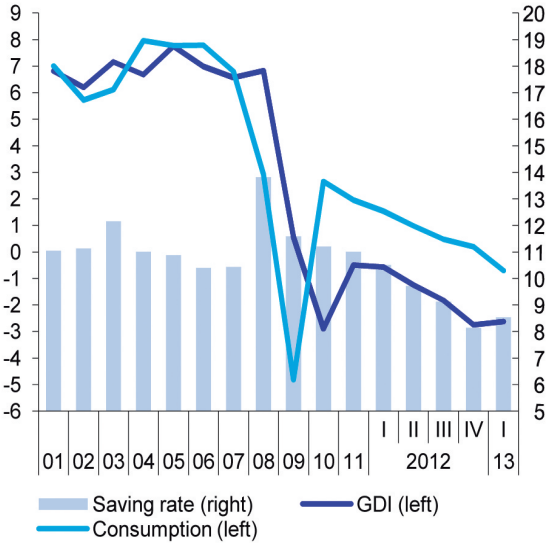
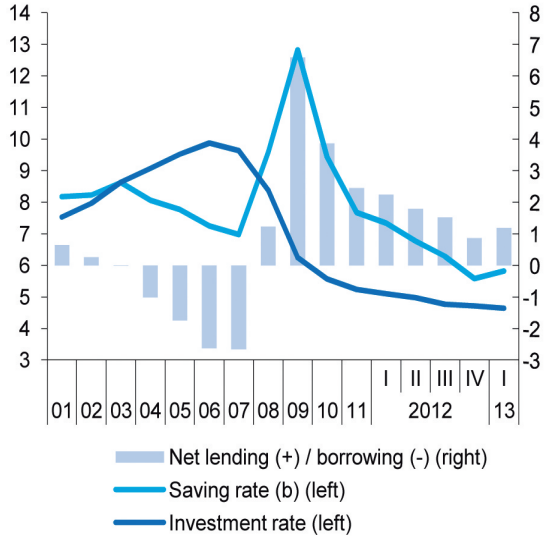


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 7

National accounts: Non-financial corporations income and its disposition

Forecasts in blue

		Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
		1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR Billions, 4-quarter cumulated operations														
2007		490.3	318.2	172.0	-62.9	-9.9	41.8	57.5	10.6	181.1	-113.1	-10.7	35.1	36.9
2008		522.1	339.0	183.1	-71.2	-10.6	26.1	75.3	12.8	171.8	-83.7	-7.7	35.1	32.9
2009		507.7	323.3	184.4	-50.9	-10.3	20.0	103.2	13.7	128.2	-11.3	-1.1	36.3	25.3
2010		516.0	314.9	201.1	-46.0	-10.4	15.7	129.0	12.7	130.1	11.6	1.1	39.0	25.2
2011		537.1	314.8	222.4	-53.8	-10.1	16.6	141.9	11.5	134.6	18.9	1.8	41.4	25.1
2012		533.7	301.1	232.6	-45.7	-9.9	20.9	156.2	9.7	129.7	36.3	3.5	43.6	24.3
2013		526.4	288.2	238.2	-56.2	-10.0	16.9	155.2	8.3	122.2	41.2	4.0	45.3	23.2
2014		538.1	286.2	251.8	-58.8	-10.1	17.8	165.2	7.5	120.9	51.8	4.9	46.8	22.5
2011	II	527.4	315.1	212.3	-49.3	-10.5	14.9	137.6	12.7	132.0	18.3	1.7	40.3	25.0
	III	532.1	315.1	217.0	-50.1	-10.4	14.6	142.0	13.0	134.0	21.0	2.0	40.8	25.2
	IV	537.1	314.8	222.4	-53.8	-10.1	16.6	141.9	11.5	134.6	18.9	1.8	41.4	25.1
2012	I	537.1	312.5	224.6	-54.7	-10.1	16.5	143.3	10.9	134.3	19.9	1.9	41.8	25.0
	II	535.6	308.3	227.2	-52.8	-9.8	17.3	147.3	11.2	135.1	23.4	2.2	42.4	25.2
	III	534.6	304.1	230.5	-52.3	-9.9	16.7	151.6	10.3	134.1	27.9	2.6	43.1	25.1
	IV	533.7	301.1	232.6	-45.7	-9.9	20.9	156.2	9.7	129.7	36.3	3.5	43.6	24.3
2013	I	531.1	295.9	235.2	-41.9	-9.7	19.8	163.8	9.7	124.8	48.8	4.7	44.3	23.5
Annual percentage changes, 4-quarter cumulated operations												**Difference from one year ago**		
2007		6.6	7.5	4.9	22.0	11.7	23.1	-17.5	13.3	9.0	--	-1.9	-0.6	0.8
2008		6.5	6.5	6.4	13.1	7.0	-37.5	31.0	20.8	-5.1	--	3.0	0.0	-4.0
2009		-2.8	-4.6	0.7	-28.5	-2.5	-23.3	37.1	6.9	-25.4	--	6.6	1.3	-7.7
2010		1.6	-2.6	9.0	-9.6	0.4	-21.8	25.1	-7.2	1.5	--	2.2	2.6	0.0
2011		4.1	0.0	10.6	16.8	-2.5	6.1	9.9	-9.3	3.4	--	0.7	2.4	-0.2
2012		-0.6	-4.4	4.6	-14.9	-2.3	25.7	10.1	-15.5	-3.7	--	1.7	2.2	-0.8
2013		-1.4	-4.3	2.4	22.8	1.0	-19.0	-0.6	-15.0	-5.7	--	0.5	1.7	-1.1
2014		2.2	-0.7	5.7	4.6	1.0	5.2	6.5	-10.0	-1.1	--	0.9	1.5	-0.8
2011	II	2.8	-1.0	9.1	12.7	1.5	-23.7	13.7	-7.9	3.0	--	1.1	2.3	0.0
	III	4.0	-0.6	11.3	12.0	-0.7	-14.7	15.7	-7.3	5.3	--	1.1	2.7	0.3
	IV	4.1	0.0	10.6	16.8	-2.5	6.1	9.9	-9.3	3.4	--	0.7	2.4	-0.2
2012	I	3.2	-0.8	9.2	13.2	-1.6	4.8	9.1	-10.5	2.1	--	0.7	2.3	-0.3
	II	1.6	-2.2	7.0	7.1	-6.6	16.3	7.1	-12.1	2.3	--	0.5	2.2	0.2
	III	0.5	-3.5	6.2	4.5	-4.8	14.1	6.8	-20.4	0.1	--	0.7	2.3	-0.1
	IV	-0.6	-4.4	4.6	-14.9	-2.3	25.7	10.1	-15.5	-3.7	--	1.7	2.2	-0.8
2013	I	-1.1	-5.3	4.7	-23.4	-4.0	20.1	14.3	-10.7	-7.1	--	2.8	2.5	-1.5

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 7.1.- Non-financial corporations: Gross Operating Surplus
EUR Billions, 4-quarter cummulated

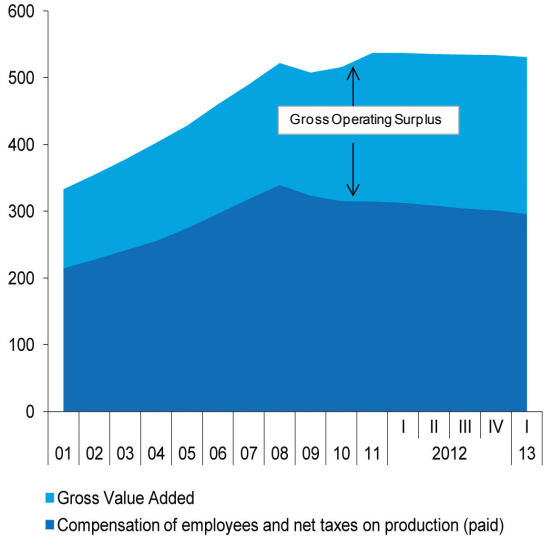


Chart 7.2.- Non-financial corporations: GVA, GOS and saving
Annual percentage change, 4-quarter moving averages

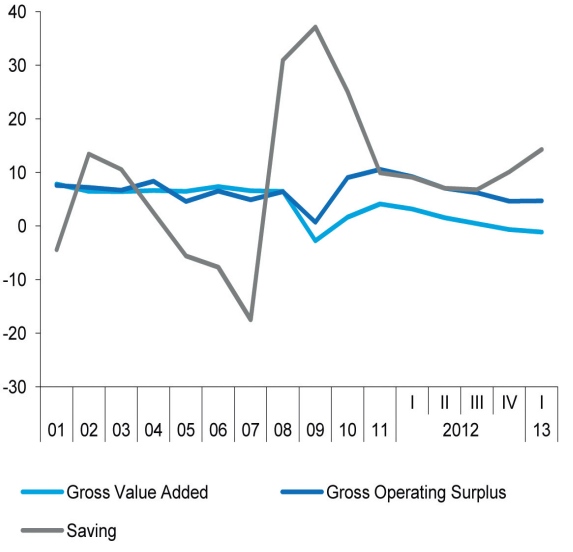
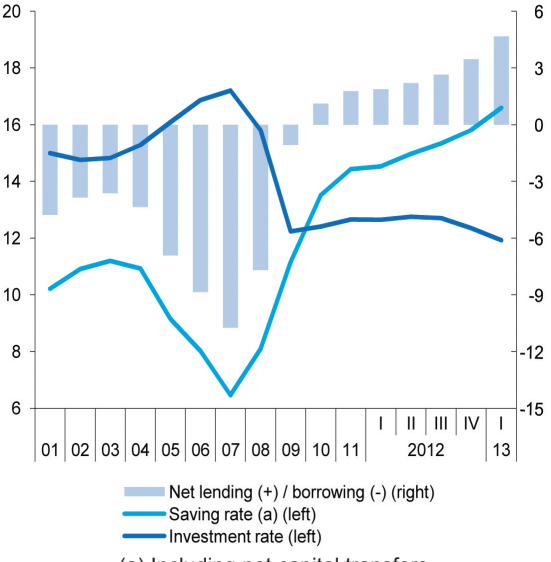


Chart 7.3.- Non-financial corporations: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

Chart 7.4.- Non-financial corporations: Profit share and investment rate
Percentage of non-financial corporations GVA, 4-quarter moving averages

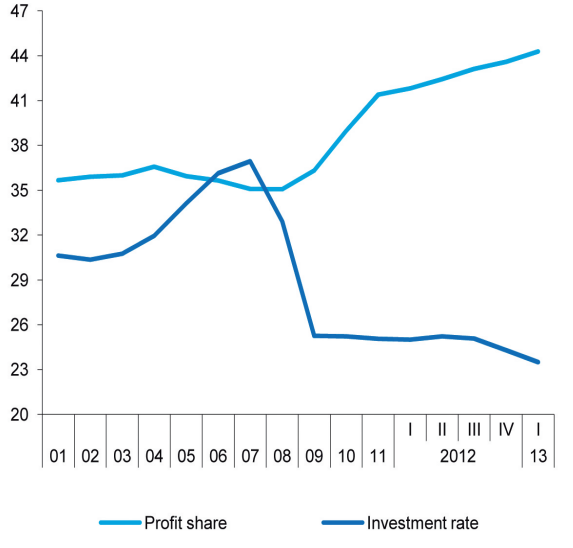


Table 8

National accounts: Public revenue, expenditure and deficit

Forecasts in blue

	Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
	1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
EUR Billions, 4-quarter cumulated operations														
2007	125.1	122.0	137.0	136.8	107.8	6.6	122.7	18.9	264.8	193.1	71.8	51.5	20.2	20.2
2008	136.9	106.6	116.5	143.1	118.5	6.0	136.3	22.7	219.7	212.0	7.7	56.5	-48.9	-48.9
2009	144.5	92.4	101.1	140.1	125.7	7.9	153.7	22.4	168.4	223.6	-55.2	61.9	-117.1	-117.1
2010	145.7	109.9	99.6	140.3	125.7	10.6	161.6	20.7	176.8	224.5	-47.7	53.7	-101.5	-101.5
2011	144.8	105.0	101.6	140.0	123.6	15.5	163.8	21.0	167.5	222.7	-55.2	45.2	-100.4	-95.3
2012	137.9	107.3	106.3	135.0	116.1	21.1	168.5	17.8	163.0	211.4	-48.5	63.1	-111.6	-73.3
2013	135.7	111.4	103.5	132.1	113.1	26.2	170.8	15.6	157.0	205.5	-48.5	19.3	-67.8	-67.8
2014	133.8	110.7	105.4	131.8	110.3	29.2	171.6	14.6	156.0	200.5	-44.4	17.1	-61.5	-61.5
2011 I	145.6	110.8	99.6	140.3	125.2	11.6	162.1	21.3	176.1	225.4	-49.4	50.1	-99.5	-99.5
II	144.8	110.0	99.9	140.1	124.1	12.7	161.9	20.6	175.4	224.4	-49.0	48.2	-97.2	-97.2
III	144.9	108.9	99.9	139.7	123.9	14.5	162.6	20.0	172.4	223.3	-50.9	45.1	-96.0	-96.0
IV	144.8	105.0	101.6	140.0	123.6	15.5	163.8	21.0	167.5	222.7	-55.2	45.2	-100.4	-95.3
2012 I	144.8	104.9	101.6	139.5	123.3	17.1	165.0	20.8	164.6	220.8	-56.2	43.3	-99.5	-94.3
II	144.5	102.8	102.6	138.7	122.8	18.7	166.5	20.8	159.9	219.5	-59.6	44.2	-103.8	-93.2
III	143.7	103.1	102.2	137.9	122.0	20.2	168.2	19.9	156.7	217.6	-60.8	45.0	-105.8	-90.7
IV	137.9	107.3	106.3	135.0	116.1	21.1	168.5	17.8	163.0	211.4	-48.5	63.1	-111.6	-73.3
2013 I	137.1	107.7	105.4	134.2	115.6	21.8	169.7	17.6	159.7	209.2	-49.5	59.8	-109.3	-70.9
Percentage of GDP, 4-quarter cumulated operations														
2007	11.9	11.6	13.0	13.0	10.2	0.6	11.6	1.8	25.1	18.3	6.8	4.9	1.9	1.9
2008	12.6	9.8	10.7	13.2	10.9	0.5	12.5	2.1	20.2	19.5	0.7	5.2	-4.5	-4.5
2009	13.8	8.8	9.6	13.4	12.0	0.8	14.7	2.1	16.1	21.3	-5.3	5.9	-11.2	-11.2
2010	13.9	10.5	9.5	13.4	12.0	1.0	15.4	2.0	16.9	21.4	-4.6	5.1	-9.7	-9.7
2011	13.6	9.9	9.6	13.2	11.6	1.5	15.4	2.0	15.8	20.9	-5.2	4.3	-9.4	-9.0
2012	13.1	10.2	10.1	12.9	11.1	2.0	16.1	1.7	15.5	20.1	-4.6	6.0	-10.6	-7.0
2013	13.0	10.7	9.9	12.7	10.8	2.5	16.4	1.5	15.0	19.7	-4.6	1.8	-6.5	-6.5
2014	12.6	10.4	10.0	12.4	10.4	2.8	16.2	1.4	14.7	18.9	-4.2	1.6	-5.8	-5.8
2011 I	13.8	10.5	9.5	13.3	11.9	1.1	15.4	2.0	16.7	21.4	-4.7	4.8	-9.4	-9.4
II	13.7	10.4	9.4	13.2	11.7	1.2	15.3	1.9	16.6	21.2	-4.6	4.6	-9.2	-9.2
III	13.6	10.2	9.4	13.2	11.7	1.4	15.3	1.9	16.2	21.0	-4.8	4.2	-9.0	-9.0
IV	13.6	9.9	9.6	13.2	11.6	1.5	15.4	2.0	15.8	20.9	-5.2	4.3	-9.4	-9.0
2012 I	13.6	9.9	9.6	13.1	11.6	1.6	15.5	2.0	15.5	20.8	-5.3	4.1	-9.4	-8.9
II	13.6	9.7	9.7	13.1	11.6	1.8	15.7	2.0	15.1	20.7	-5.6	4.2	-9.8	-8.8
III	13.6	9.8	9.7	13.1	11.6	1.9	15.9	1.9	14.8	20.6	-5.8	4.3	-10.0	-8.6
IV	13.1	10.2	10.1	12.9	11.1	2.0	16.1	1.7	15.5	20.1	-4.6	6.0	-10.6	-7.0
2013 I	13.1	10.3	10.1	12.8	11.0	2.1	16.2	1.7	15.3	20.0	-4.7	5.7	-10.4	-6.8

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 8.1.- Public sector: Income, Consumption and saving
Percentage of GDP, 4-quarter moving averages

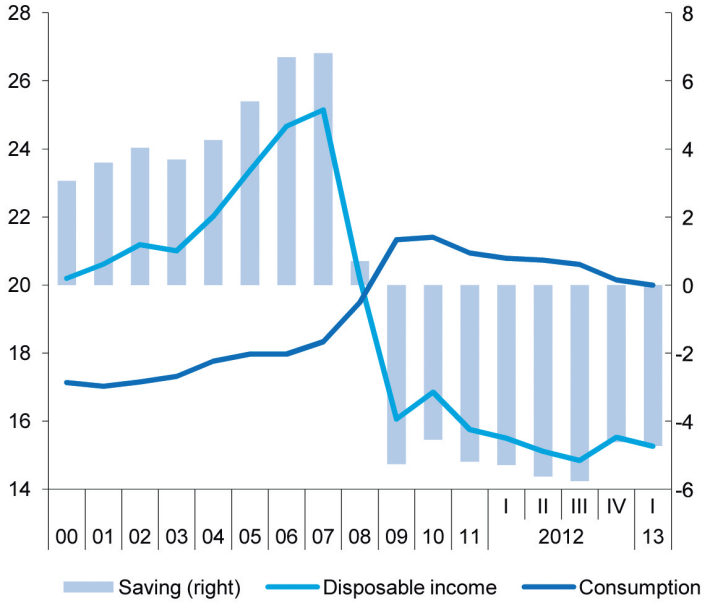
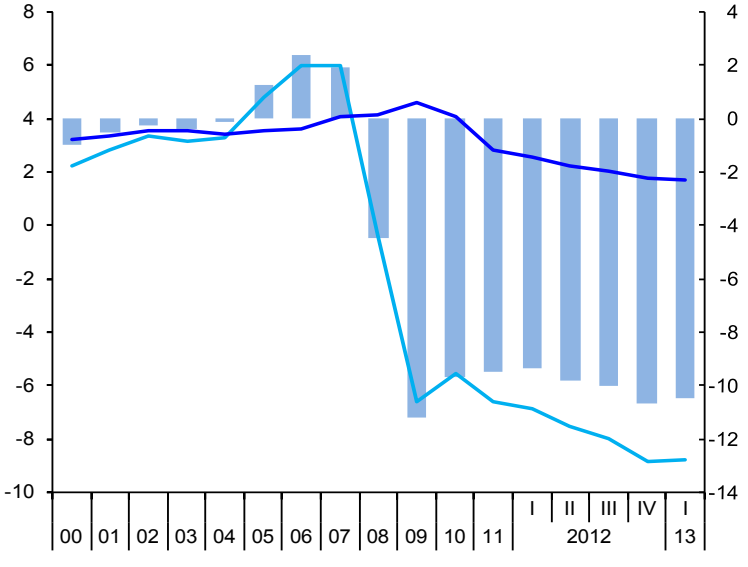


Chart 8.2.- Public sector: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

Table 9

Public sector balances, by level of Government

Forecasts in blue

		Deficit					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					**EUR Billions, end of period**				
2007		12.1	-2.3	-3.2	13.7	20.2	317.4	61.0	29.4	17.2	382.3
2008		-32.9	-18.2	-5.3	7.6	-48.9	367.1	72.6	31.8	17.2	437.0
2009		-98.0	-21.3	-5.9	8.1	-117.1	485.5	91.0	34.7	17.2	565.1
2010		-52.9	-39.6	-7.0	-1.9	-101.5	549.7	120.8	35.4	17.2	644.7
2011 (a)		-36.6	-54.1	-9.0	-0.8	-100.4	622.3	141.4	35.4	17.2	736.5
2012 (a)		-81.5	-18.4	-1.6	-10.1	-111.6	760.3	184.5	41.9	17.2	883.8
2013		-37.8	-15.7	0.0	-14.3	-67.8	--	--	--	--	984.1
2014		-33.7	-10.6	0.0	-17.2	-61.5	--	--	--	--	1,067.4
2011	I	-48.6	-41.4	-6.2	-3.3	-99.5	581.9	126.7	37.3	17.2	685.7
	II	-47.3	-39.6	-7.0	-3.3	-97.2	594.8	135.7	37.6	17.2	705.5
	III	-45.0	-38.4	-7.6	-5.1	-96.0	598.0	137.6	36.7	17.2	708.6
	IV	-36.6	-54.1	-9.0	-0.8	-100.4	622.3	141.4	35.4	17.2	736.5
2012	I	-45.0	-45.1	-9.4	0.0	-99.5	655.4	146.4	36.9	17.2	774.9
	II	-56.2	-42.6	-7.7	2.7	-103.8	680.2	168.3	45.0	17.2	804.6
	III	-55.3	-40.5	-6.6	-3.4	-105.8	695.5	167.5	43.8	17.2	817.2
	IV	-81.5	-18.4	-1.6	-10.1	-111.6	760.3	184.5	41.9	17.2	883.8
2013	I	--	--	--	--	--	796.8	189.6	42.8	17.2	922.8
		Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
2007		1.2	-0.2	-0.3	1.3	1.9	30.1	5.8	2.8	1.6	36.3
2008		-3.0	-1.7	-0.5	0.7	-4.5	33.7	6.7	2.9	1.6	40.2
2009		-9.3	-2.0	-0.6	0.8	-11.2	46.3	8.7	3.3	1.6	53.9
2010		-5.0	-3.8	-0.7	-0.2	-9.7	52.4	11.5	3.4	1.6	61.5
2011 (a)		-3.4	-5.1	-0.8	-0.1	-9.4	58.5	13.3	3.3	1.6	69.3
2012 (a)		-7.8	-1.8	-0.1	-1.0	-10.6	72.4	17.6	4.0	1.6	84.2
2013		-3.6	-1.5	0.0	-1.4	-6.5	--	--	--	--	94.3
2014		-3.2	-1.0	0.0	-1.6	-5.8	--	--	--	--	100.8
2011	I	-4.6	-3.9	-0.6	-0.3	-9.4	55.3	12.0	3.5	1.6	65.1
	II	-4.5	-3.7	-0.7	-0.3	-9.2	56.2	12.8	3.6	1.6	66.7
	III	-4.2	-3.6	-0.7	-0.5	-9.0	56.3	12.9	3.5	1.6	66.7
	IV	-3.4	-5.1	-0.8	-0.1	-9.4	58.5	13.3	3.3	1.6	69.3
2012	I	-4.2	-4.2	-0.9	0.0	-9.4	61.7	13.8	3.5	1.6	73.0
	II	-5.3	-4.0	-0.7	0.3	-9.8	64.3	15.9	4.2	1.6	76.0
	III	-5.2	-3.8	-0.6	-0.3	-10.0	65.9	15.9	4.1	1.6	77.4
	IV	-7.8	-1.8	-0.1	-1.0	-10.6	72.4	17.6	4.0	1.6	84.2
2013	I	--	--	--	--	--	76.2	18.1	4.1	1.6	88.2

(a) Figures for Central Government and Total Governement are including financial entities bail-out expenditures.
Sources: Bank of Spain (Financial Accounts of the Spanish Economy) and Funcas (Forecasts).

Chart 9.1.- Government deficit
Percent of GDP, 4-quarter cumulated operations

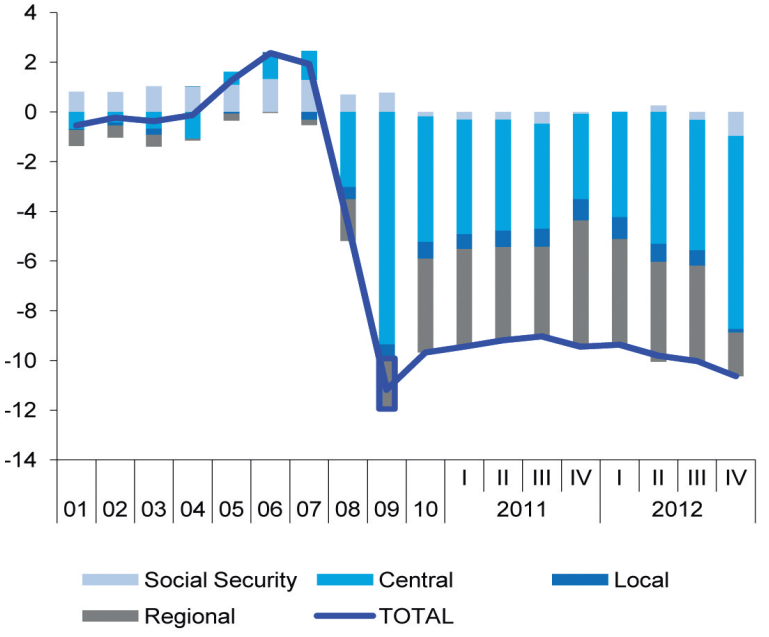


Chart 9.2.- Government debt
Percent of GDP

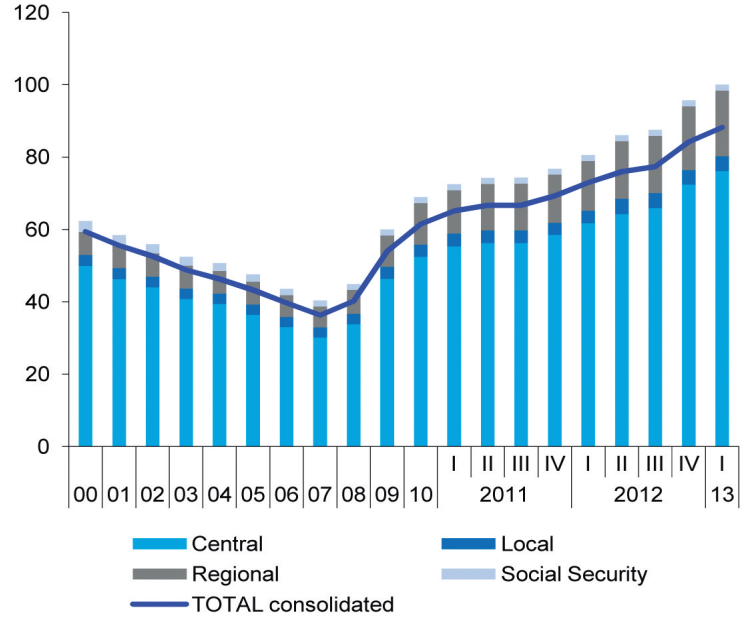


Table 10

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	**Index**	**Thousands**	**1000 GWH**	**2005=100**	**Thousands**	**Index**	**Balance of responses**	**2005=100 (smoothed)**	**Balance of responses**
2008		87.2	38.5	18,834	269.5	98.3	2,696	40.4	-18.0	96.8	-24.0
2009		83.3	40.9	17,657	256.9	82.7	2,411	40.9	-30.8	78.1	-54.5
2010		93.4	50.0	17,244	263.8	83.4	2,295	50.6	-13.8	80.4	-36.9
2011		93.4	46.6	16,970	260.5	82.2	2,232	47.3	-12.5	80.7	-30.7
2012		88.8	43.1	16,335	254.6	77.3	2,114	43.8	-17.5	76.9	-36.9
2013 (b)		89.8	46.0	13,550	107.2	76.8	2,022	46.6	-15.7	73.6	-33.9
2011	III	93.6	45.0	16,934	65.2	81.8	2,226	44.9	-14.4	80.8	-29.8
	IV	91.9	40.7	16,792	64.2	80.4	2,197	43.8	-16.5	79.6	-35.3
2012	I	92.5	45.0	16,630	64.8	79.0	2,165	44.9	-14.8	78.5	-35.3
	II	89.6	41.7	16,427	64.0	77.4	2,131	42.2	-17.4	77.7	-36.6
	III	85.8	42.6	16,225	63.2	77.3	2,095	43.6	-20.0	77.1	-38.4
	IV	87.3	42.9	16,050	62.6	75.9	2,066	44.5	-17.9	76.1	-37.5
2013	I	88.9	45.5	15,922	62.6	75.7	2,041	45.7	-15.9	75.0	-35.3
	II (b)	90.6	46.4	15,849	41.8	75.4	2,020	47.6	-15.4	74.3	-32.4
2013	Apr	89.7	44.0	15,867	20.9	75.4	2,026	44.7	-17.4	74.3	-33.3
	May	89.8	47.2	15,856	20.9	--	2,020	48.1	-14.7	--	-32.3
	Jun	92.3	48.1	15,824	--	--	2,015	50.0	-14.2	--	-31.6
		Percentage changes (c)									
2008		--	--	-0.6	0.7	-7.3	-2.2	--	--	-8.2	--
2009		--	--	-6.2	-4.7	-15.8	-10.6	--	--	-19.3	--
2010		--	--	-2.3	2.7	0.8	-4.8	--	--	2.9	--
2011		--	--	-1.6	-1.3	-1.4	-2.7	--	--	0.4	--
2012		--	--	-3.7	-2.2	-6.0	-5.3	--	--	-4.8	--
2013 (d)		--	--	-17.5	-3.0	-3.6	-5.5	--	--	-4.1	--
2011	III	--	--	-2.7	-1.1	-6.0	-3.3	--	--	-3.4	--
	IV	--	--	-3.3	-6.0	-6.8	-5.3	--	--	-5.6	--
2012	I	--	--	-3.8	3.6	-6.4	-5.7	--	--	-5.6	--
	II	--	--	-4.8	-4.5	-8.1	-6.1	--	--	-4.3	--
	III	--	--	-4.8	-4.9	-0.5	-6.5	--	--	-3.0	--
	IV	--	--	-4.2	-3.6	-7.0	-5.5	--	--	-5.1	--
2013	I	--	--	-3.2	-0.6	-1.2	-4.8	--	--	-5.5	--
	II (e)	--	--	-1.8	0.7	-1.4	-4.0	--	--	-3.6	--
2013	Apr	--	--	-0.2	-1.3	-1.4	-0.4	--	--	-0.5	--
	May	--	--	-0.1	-0.2	--	-0.3	--	--	--	--
	Jun	--	--	-0.2	--	--	-0.2	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available months over the monthly average of the previous quarter. (f) Excluding domestic service workers and non-professional caregivers. Sources: European Commission, Markit Economics Ltd., M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

Chart 10.1.- General activity indicators
Percent change from previous period and index

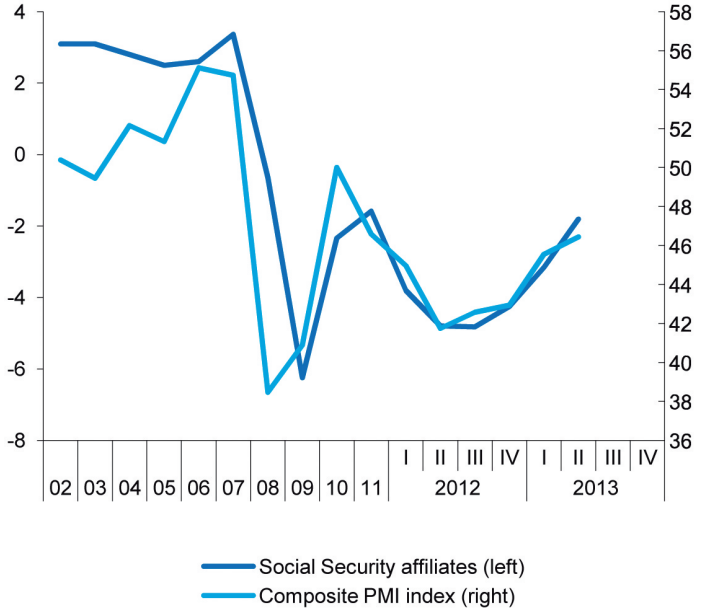


Chart 10.2.- Industrial sector indicators
Percent change from previous period and index

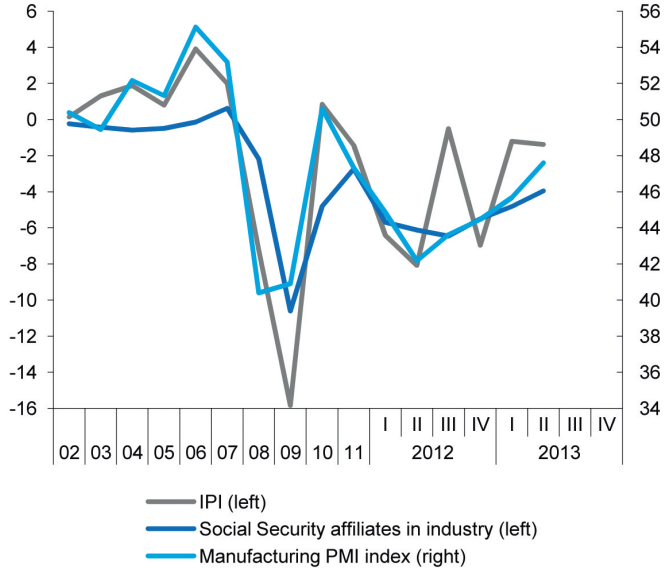


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	Consump-tion of cement	Construction confidence index	Official tenders (f)	Housing starts (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	**Million Tons**	**Balance of responses**	**EUR Billions**	**Thou-sands**	**Million m²**	**Thousands**	**2005=100 (smoothed)**	**Index**	**Million**	**Million (smoothed)**	**Balance of res-ponses**
2008	2,340	42.7	-23.8	39.8	346.0	44.9	12,644	109.3	38.2	268.6	203.5	-18.8
2009	1,800	28.9	-32.3	39.6	159.3	19.4	12,247	94.6	41.0	253.2	187.0	-29.7
2010	1,559	24.5	-29.7	26.2	123.6	16.3	12,186	95.3	49.3	269.4	192.2	-22.5
2011	1,369	20.4	-55.4	13.7	86.3	14.1	12,176	94.3	46.5	286.8	203.1	-21.0
2012 (b)	1,136	13.5	-54.9	7.4	28.6	8.5	11,907	88.5	43.1	280.7	191.9	-21.5
2013 (b)	1,005	4.5	-52.3	3.0	--	2.5	11,655	82.2	46.1	89.3	76.3	-24.0
2011 III	1,342	4.9	-58.6	3.7	17.9	3.5	12,177	94.2	45.5	71.7	50.7	-14.3
IV	1,277	4.4	-53.6	2.6	18.2	2.9	12,127	92.8	40.2	71.1	50.1	-22.0
2012 I	1,218	3.8	-50.4	1.7	16.7	2.7	12,055	91.0	44.8	70.4	49.3	-15.3
II	1,160	3.4	-52.2	2.4	11.9	2.2	11,954	89.5	42.4	69.3	48.5	-19.7
III	1,105	3.2	-55.5	1.7	--	1.9	11,850	88.2	42.6	69.9	47.7	-26.7
IV	1,061	3.0	-61.4	1.5	--	1.7	11,769	86.8	42.6	68.2	46.6	-24.3
2013 I	1,027	2.8	-46.7	1.6	--	2.0	11,724	85.5	45.7	68.2	45.9	-27.0
II (b)	1,001	1.8	-57.8	1.4	--	0.5	11,712	84.8	46.5	46.5	30.5	-21.0
2013 Apr	1,007	0.9	-55.8	0.5	--	0.5	11,707	84.8	44.4	22.9	15.3	-22.0
May	1,000	0.9	-65.3	0.9	--	--	11,710	--	47.3	24.2	15.3	-23.0
Jun	995	--	-52.4	--	--	--	11,719	--	47.8	--	--	-18.0
Percentage changes (c)												
2008	-10.0	-23.8	--	-1.3	-43.8	-56.6	1.5	-3.6	--	-1.2	-3.1	--
2009	-23.1	-32.3	--	-0.4	-54.0	-56.8	-3.1	-13.5	--	-5.7	-8.1	--
2010	-13.4	-15.4	--	-33.9	-22.4	-16.1	-0.5	0.8	--	6.4	2.8	--
2011	-12.2	-16.4	--	-47.9	-30.2	-13.2	-0.1	-1.1	--	6.4	5.7	--
2012 (d)	-17.0	-34.1	--	-45.5	-43.0	-39.9	-2.2	-6.2	--	-2.1	-5.5	--
2013 (d)	-14.8	-24.4	--	-16.5	--	-27.4	-2.4	-5.1	--	-1.0	-5.9	--
2011 III	-16.2	-34.7	--	-31.4	-27.6	-5.5	-0.9	-3.3	--	3.6	-1.7	--
IV	-17.9	-35.1	--	-63.2	-46.3	-23.9	-1.6	-6.0	--	-3.5	-4.4	--
2012 I	-17.4	-42.0	--	-50.7	-27.4	-30.5	-2.4	-7.3	--	-3.7	-6.2	--
II	-17.5	-36.8	--	-37.2	-56.2	-42.8	-3.3	-6.5	--	-6.4	-6.2	--
III	-17.8	-20.3	--	-53.4	--	-45.7	-3.4	-5.5	--	3.9	-7.1	--
IV	-15.0	-29.3	--	-39.6	--	-41.5	-2.7	-6.4	--	-9.6	-8.9	--
2013 I	-12.1	-16.8	--	-8.4	--	-27.7	-1.5	-5.6	--	0.1	-5.8	--
II (e)	-10.0	-20.8	--	-18.5	--	-25.9	-0.4	-3.6	--	9.5	-0.4	--
2013 Apr	-0.9	2.2	--	-4.7	--	-25.9	-0.1	-0.5	--	-0.2	0.0	--
May	-0.6	1.3	--	-32.3	--	--	0.0	--	--	5.7	0.1	--
Jun	-0.6	--	--	--	--	--	0.1	--	--	--	--	--

(a) Seasonally adjusted, except for annual data and (f). (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available months over the monthly average of the previous quarter. (f) Percent changes are over the same period of the previous year. (g) Excluding domestic service workers and non-profesional caregivers.

Sources: European Commision, Markit Economics Ltd., M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN, SEOPAN and Funcas.

Chart 11.1.- Construction indicators
Percentage changes

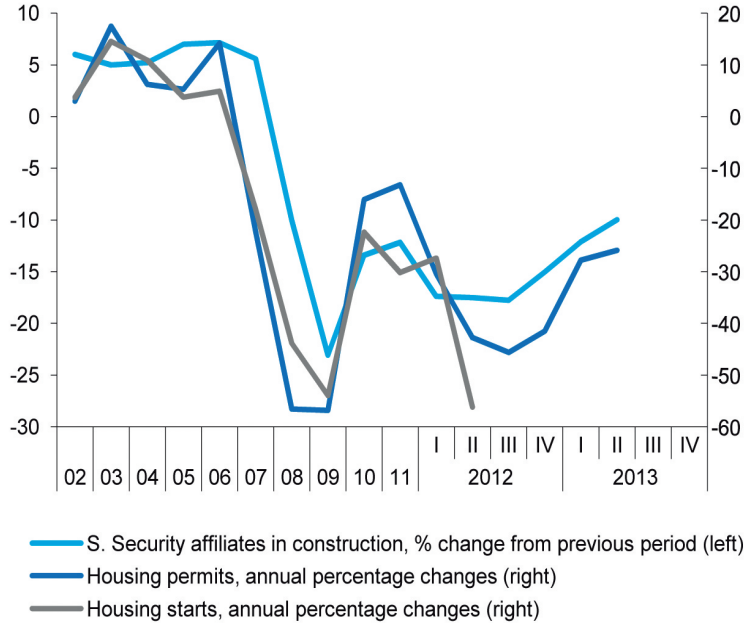


Chart 11.2.- Services indicators
Percentage changes from previous period and index

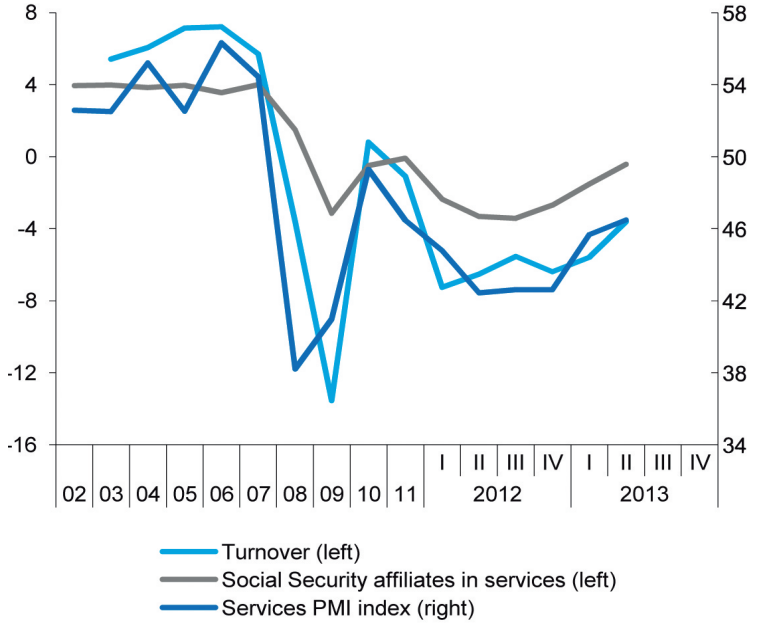


Table 12

Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Availability of investment goods (f)
	2005=100 (smoothed)	**Thousands (smoothed)**	**Balance of responses**	**Million**	**Balance of responses**	**Thousands (smoothed)**	**Balance of responses**	**2005=100 (smoothed)**
2008	98.2	1,185.3	-33.8	113.2	-21.0	236.9	-4.4	89.7
2009	92.9	971.2	-28.3	110.1	-40.3	142.1	-51.0	65.5
2010	91.3	1,000.1	-21.1	113.6	-26.7	152.1	-31.1	58.3
2011	86.2	808.3	-17.1	111.5	-21.7	142.0	-23.0	52.5
2012	79.8	703.8	-31.8	102.1	-24.3	106.7	-38.6	48.2
2013 (b)	73.9	319.6	-30.8	33.3	-23.1	40.4	-36.0	40.3
2011 III	85.9	201.5	-15.7	28.1	-21.8	35.1	-22.0	51.9
IV	84.5	197.3	-16.7	27.3	-20.8	32.8	-26.9	50.6
2012 I	82.9	190.9	-24.7	27.0	-26.1	30.1	-31.1	49.3
II	81.1	181.1	-29.0	25.5	-21.0	27.6	-38.0	48.3
III	79.1	171.0	-35.3	25.0	-23.4	25.6	-43.5	47.6
IV	77.1	166.4	-38.0	24.1	-26.5	24.1	-41.7	45.7
2013 I	76.1	172.3	-32.7	24.2	-21.5	23.6	-38.8	42.0
II (b)	75.9	120.4	-29.0	16.4	-24.7	15.9	-33.2	39.1
2013 Apr	75.9	59.6	-29.0	8.0	-25.4	7.9	-37.5	39.1
May	75.9	60.8	-32.0	8.5	-24.0	8.0	-32.0	--
Jun	--	--	-26.0	--	-24.8	--	-30.0	--
Percentage changes (c)								
2008	-5.9	-27.5	--	-2.9	--	-43.6	--	-20.9
2009	-5.4	-18.1	--	-2.7	--	-40.0	--	-27.0
2010	-1.7	3.0	--	3.1	--	7.0	--	-10.9
2011	-5.6	-19.2	--	-1.8	--	-6.6	--	-9.9
2012	-7.4	-12.9	--	-8.5	--	-24.8	--	-8.3
2013 (d)	-7.1	-4.9	--	-7.4	--	-17.6	--	-1.8
2011 III	-4.9	-4.5	--	9.4	--	-14.7	--	-8.4
IV	-6.1	-8.1	--	-11.2	--	-23.9	--	-10.2
2012 I	-7.4	-12.4	--	-4.2	--	-29.0	--	-10.0
II	-8.5	-19.0	--	-19.6	--	-29.4	--	-7.3
III	-9.5	-20.5	--	-7.8	--	-26.1	--	-5.7
IV	-9.6	-10.4	--	-14.2	--	-21.0	--	-15.3
2013 I	-5.0	15.0	--	2.1	--	-9.1	--	-28.5
II (e)	-1.2	20.7	--	6.3	--	3.9	--	-24.6
2013 Apr	-0.1	2.0	--	-3.1	--	0.6	--	-3.5
May	-0.1	1.9	--	6.5	--	0.7	--	--
Jun	--	--	--	--	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available months over the monthly average of the previous quarter. (f) Domestic production plus imports less exports.

Sources: European Commission, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

Chart 12.1.- Consumption indicators
Percent change from previous period and balance of responses

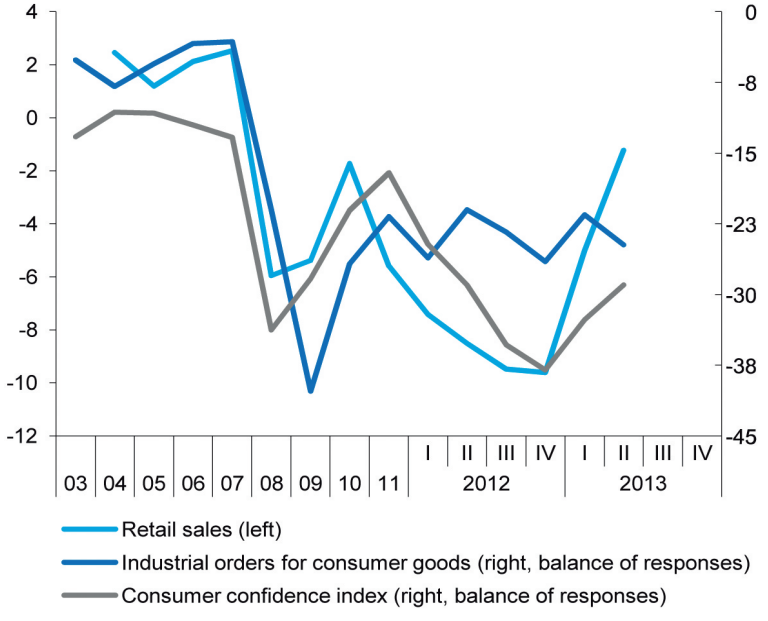


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

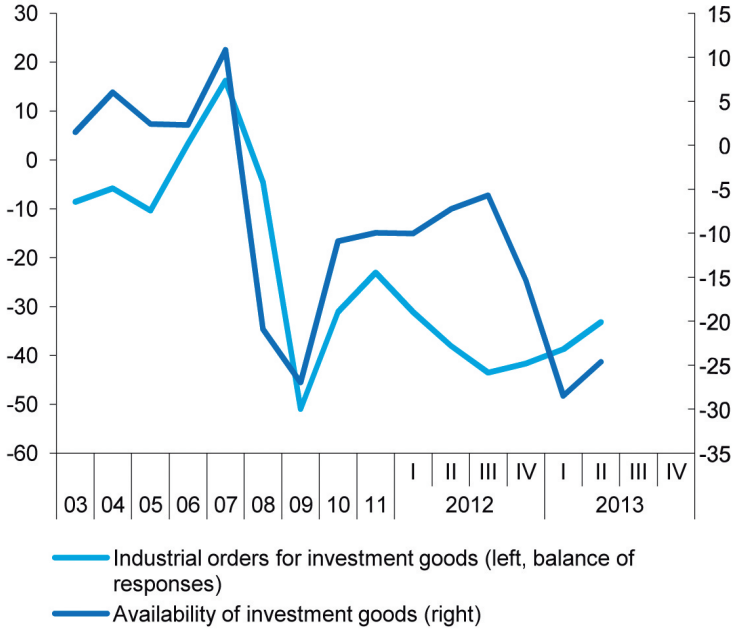


Table 13a

Labour market (I)

Forecasts in blue

		Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							**Percentage**					
2007		30.4	22.2	--	20.4	--	1.8	--	72.6	66.6	8.3	18.2	7.6	12.2
2008		30.8	22.8	--	20.3	--	2.6	--	73.7	65.3	11.3	24.6	10.2	17.5
2009		30.9	23.0	--	18.9	--	4.1	--	74.0	60.6	18.0	37.8	16.0	28.4
2010		30.8	23.1	--	18.5	--	4.6	--	74.4	59.4	20.1	41.6	18.2	30.2
2011		30.7	23.1	--	18.1	--	5.0	--	74.7	58.5	21.6	46.4	19.6	32.8
2012		30.5	23.1	--	17.3	--	5.8	--	75.1	56.2	25.0	53.2	23.1	36.0
2013		30.1	22.7	--	16.7	--	6.0	--	74.8	54.9	26.5	--	--	--
2014		29.6	22.2	--	16.5	--	5.7	--	74.7	55.3	25.8	--	--	--
2011	II	30.7	23.1	23.1	18.3	18.3	4.8	4.8	74.8	59.0	21.0	45.5	19.0	31.9
	III	30.7	23.1	23.1	18.2	18.0	5.0	5.1	75.0	58.3	22.0	47.2	19.9	33.8
	IV	30.7	23.1	23.1	17.8	17.8	5.3	5.3	74.8	57.6	22.9	48.9	20.8	34.8
2012	I	30.6	23.1	23.0	17.4	17.6	5.6	5.5	74.8	56.9	23.7	50.9	21.6	35.8
	II	30.5	23.1	23.1	17.4	17.4	5.7	5.7	75.1	56.4	24.7	52.5	22.8	35.8
	III	30.5	23.1	23.1	17.3	17.2	5.8	5.9	75.4	56.0	25.6	53.8	23.8	35.9
	IV	30.3	22.9	23.0	17.0	17.0	6.0	6.0	75.1	55.4	26.1	55.4	24.3	36.5
2013	I	30.2	22.8	22.8	16.6	16.8	6.2	6.0	74.8	55.0	26.4	56.1	24.4	38.1
		Percentage changes (d)							**Difference from one year ago**					
2007		1.8	2.8	--	3.1	--	-0.2	--	0.7	0.8	-0.2	0.1	-0.4	0.4
2008		1.4	3.0	--	-0.5	--	41.3	--	1.1	-1.3	3.1	6.4	2.6	5.3
2009		0.4	0.8	--	-6.8	--	60.2	--	0.4	-4.7	6.7	13.2	5.8	10.9
2010		-0.3	0.2	--	-2.3	--	11.6	--	0.4	-1.2	2.1	3.8	2.1	1.8
2011		-0.4	0.1	--	-1.9	--	7.9	--	0.3	-0.9	1.6	4.8	1.4	2.7
2012		-0.7	-0.2	--	-4.5	--	15.4	--	0.3	-2.3	3.4	6.7	3.5	3.2
2013		-1.3	-1.7	--	-3.6	--	4.1	--	-0.2	-1.3	1.5	--	--	--
2014		-1.6	-1.8	--	-0.9	--	-4.5	--	-0.2	0.4	-0.7	--	--	--
2011	II	-0.4	0.1	1.3	-0.9	-0.4	4.1	8.0	0.4	-0.3	0.8	4.0	0.7	1.7
	III	-0.4	0.1	0.5	-2.1	-4.9	8.8	23.0	0.4	-1.0	1.7	5.1	1.5	3.4
	IV	-0.5	-0.1	-0.6	-3.3	-5.0	12.3	16.5	0.3	-1.7	2.5	5.8	2.2	4.3
2012	I	-0.6	0.0	-1.3	-4.0	-5.3	14.9	12.8	0.4	-2.0	3.1	6.5	2.8	4.9
	II	-0.5	-0.1	1.0	-4.8	-4.1	17.8	19.1	0.3	-2.6	3.8	7.1	3.8	4.0
	III	-0.7	-0.2	0.5	-4.6	-4.0	16.1	15.4	0.4	-2.4	3.5	6.6	3.9	2.1
	IV	-1.0	-0.7	-2.9	-4.8	-5.7	13.1	5.6	0.3	-2.2	3.2	6.6	3.6	1.7
2013	I	-1.2	-1.0	-3.1	-4.6	-4.5	10.0	0.9	0.0	-2.0	2.7	5.2	2.8	2.2

(a) Labour force aged 16-64 over population aged 16-64. (b) Employed aged 16-64 over population aged 16-64. (c) Unemployed in each group over labour force in that group. (d) Annual percentage changes for original data; annualized quarterly percentage changes for S.A. data.

Sources: INE (Labour Force Survey) and Funcas (Forecasts).

Chart 13a.1.- Labour force, Employment and unemployment, SA
Annual / annualized quarterly growth rates and percentage of active population

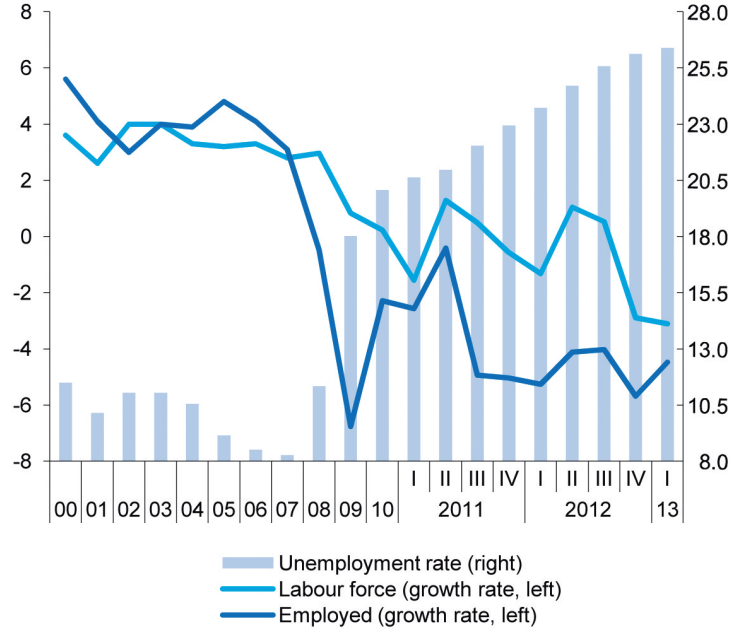


Chart 13a.2.- Unemployment rates, SA
Percentage

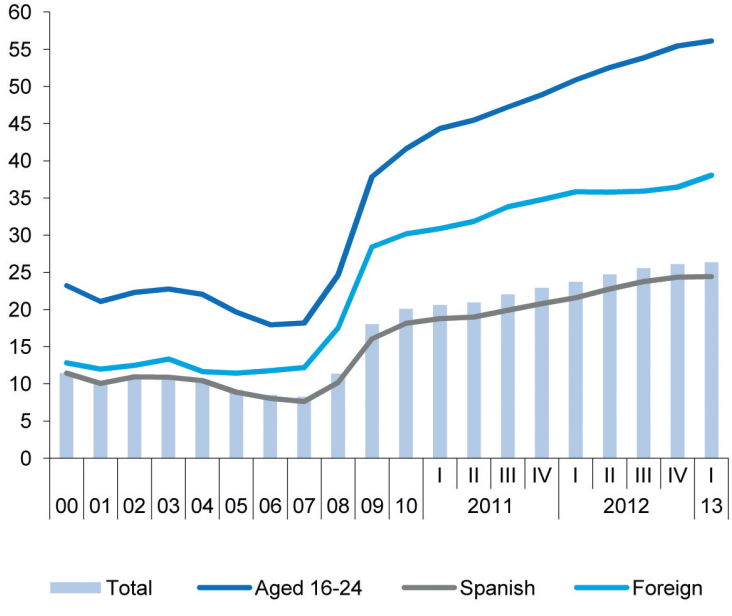


Table 13b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees				Self- employed			
						By type of contract						
	Agriculture	Industry	Construction	Services	Total	Temporary	Indefinite	Temporary employment rate (a)		Full-time	Part-time	Part-time employment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)												
2007	0.87	3.24	2.75	13.50	16.76	5.31	11.45	31.7	3.60	17.96	2.40	11.78
2008	0.82	3.20	2.45	13.79	16.68	4.88	11.80	29.3	3.58	17.83	2.43	11.97
2009	0.79	2.78	1.89	13.44	15.68	3.98	11.70	25.4	3.21	16.47	2.42	12.79
2010	0.79	2.61	1.65	13.40	15.35	3.82	11.52	24.9	3.11	16.01	2.45	13.27
2011	0.76	2.56	1.39	13.40	15.11	3.83	11.28	25.3	3.00	15.60	2.50	13.82
2012	0.75	2.43	1.15	12.95	14.24	3.36	10.88	23.6	3.04	14.73	2.55	14.75
2013 (c)	0.72	2.32	1.05	12.55	13.61	3.01	10.60	22.1	3.02	13.97	2.66	16.00
2011 I	0.78	2.54	1.49	13.33	15.12	3.75	11.37	24.8	3.03	15.59	2.57	14.14
II	0.74	2.58	1.43	13.55	15.29	3.90	11.39	25.5	3.01	15.72	2.59	14.14
III	0.71	2.58	1.37	13.50	15.18	3.95	11.23	26.0	2.98	15.76	2.40	13.21
IV	0.81	2.53	1.28	13.20	14.83	3.70	11.12	25.0	2.98	15.35	2.46	13.81
2012 I	0.78	2.46	1.19	13.01	14.41	3.42	10.99	23.8	3.02	14.93	2.51	14.37
II	0.73	2.44	1.19	13.05	14.40	3.41	10.99	23.7	3.02	14.82	2.60	14.93
III	0.72	2.44	1.14	13.02	14.23	3.42	10.81	24.0	3.09	14.83	2.49	14.37
IV	0.78	2.38	1.07	12.72	13.93	3.21	10.72	23.0	3.03	14.36	2.60	15.33
2013 I	0.72	2.32	1.05	12.55	13.61	3.01	10.60	22.1	3.02	13.97	2.66	16.00
Annual percentage changes								**Difference from one year ago**	**Annual percentage changes**			**Difference from one year ago**
2007	-2.0	-0.9	6.1	3.8	3.4	-3.8	7.1	-2.4	1.6	3.3	1.6	-0.2
2008	-5.5	-1.2	-10.7	2.1	-0.5	-8.0	3.0	-2.4	-0.5	-0.7	1.1	0.2
2009	-4.0	-13.3	-23.0	-2.5	-6.0	-18.4	-0.9	-3.9	-10.3	-7.6	-0.4	0.8
2010	0.9	-5.9	-12.6	-0.3	-2.1	-4.0	-1.5	-0.5	-3.0	-2.8	1.4	0.5
2011	-4.1	-2.1	-15.6	0.0	-1.6	0.1	-2.1	0.4	-3.6	-2.5	2.2	0.6
2012	-0.9	-4.9	-17.6	-3.3	-5.7	-12.1	-3.6	-1.7	1.4	-5.6	1.8	0.9
2013 (d)	-6.8	-5.8	-11.5	-3.6	-5.5	-12.1	-3.5	-1.5	0.0	-6.4	6.2	1.3
2011 I	-6.2	-2.3	-10.2	0.3	-0.9	0.7	-1.4	0.4	-3.5	-2.2	4.7	0.8
II	-4.8	-1.6	-15.9	1.3	-0.5	2.1	-1.3	0.6	-3.3	-1.6	3.6	0.6
III	-6.1	-0.9	-17.8	-0.2	-1.8	0.0	-2.4	0.5	-3.7	-2.6	1.1	0.4
IV	0.5	-3.7	-18.8	-1.6	-3.2	-2.5	-3.4	0.2	-3.7	-3.7	-0.6	0.4
2012 I	-0.9	-3.2	-20.6	-2.4	-4.7	-8.6	-3.4	-1.0	-0.3	-4.2	-2.4	0.2
II	-1.2	-5.4	-16.6	-3.7	-5.9	-12.7	-3.5	-1.9	0.3	-5.7	0.5	0.8
III	1.8	-5.2	-17.1	-3.6	-6.2	-13.4	-3.7	-2.0	3.7	-5.9	3.8	1.2
IV	-3.0	-5.7	-15.9	-3.6	-6.1	-13.5	-3.6	-2.0	1.8	-6.5	5.7	1.5
2013 I	-6.8	-5.8	-11.5	-3.6	-5.5	-12.1	-3.5	-1.6	0.0	-6.4	6.2	1.6

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed. (c) Period with available data. (d) Growth of available period over the same period of the previous year.
Source: INE (Labour Force Survey).

Chart 13b.1.- Employment by sector
Annual percentage changes

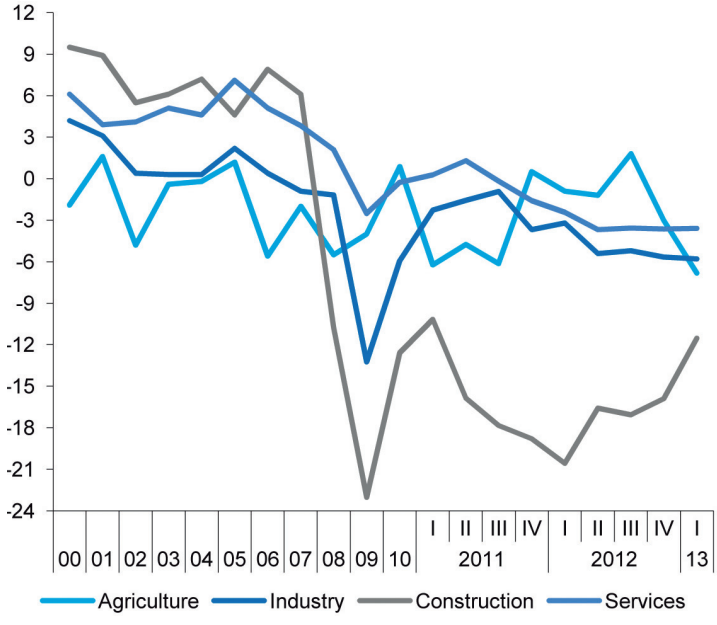


Chart 13b.2.- Employment by type of contract
Annual percentage changes

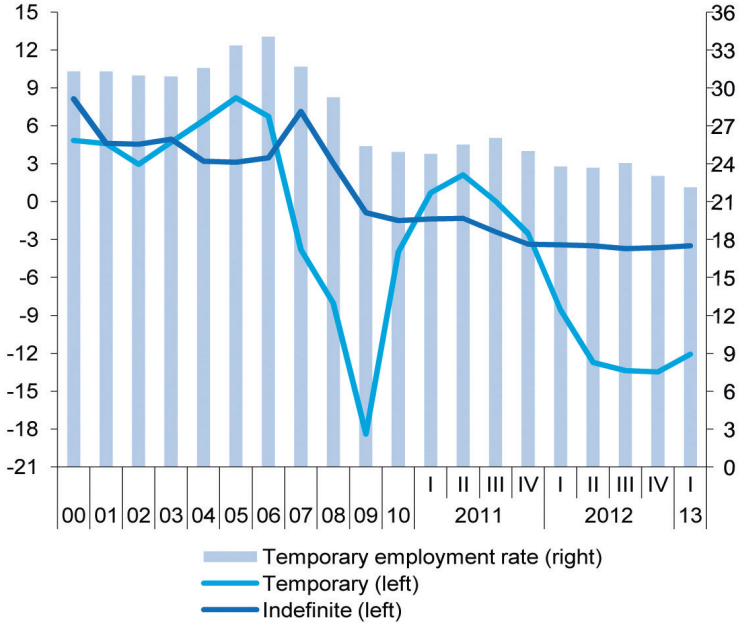


Table 14

Index of Consumer Prices

Forecasts in blue

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2011		100.0	66.73	81.41	26.99	39.74	14.67	6.41	12.18	21.09
Indexes, 2011 = 100										
2007		91.7	95.2	93.9	100.8	91.2	88.9	95.7	75.4	91.0
2008		95.5	97.4	96.9	101.1	94.8	94.6	99.5	84.4	96.1
2009		95.2	98.2	97.7	99.8	97.0	95.4	98.2	76.8	96.3
2010		96.9	98.7	98.3	99.4	98.3	96.4	98.2	86.4	96.9
2011		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2012		102.5	101.3	101.6	100.8	101.5	103.1	102.3	108.9	102.8
2013		104.1	102.8	103.4	101.8	103.4	106.1	106.4	107.8	106.2
Annual percentage changes										
2007		2.8	2.5	2.7	0.7	3.9	3.7	4.7	1.7	4.1
2008		4.1	2.3	3.2	0.3	3.9	6.5	4.0	11.9	5.7
2009		-0.3	0.8	0.8	-1.3	2.4	0.9	-1.3	-9.0	0.2
2010		1.8	0.6	0.6	-0.5	1.3	1.0	0.0	12.5	0.7
2011		3.2	1.3	1.7	0.6	1.8	3.8	1.8	15.7	3.2
2012		2.5	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013		1.5	1.4	1.8	0.9	1.9	2.9	4.1	-0.9	3.3
2012	Jan	2.0	0.9	1.3	0.2	1.4	2.8	1.0	8.0	2.2
	Feb	2.0	0.8	1.2	0.1	1.3	2.8	1.8	7.9	2.5
	Mar	1.9	0.8	1.2	0.3	1.2	2.7	1.4	7.5	2.3
	Apr	2.1	0.7	1.1	0.1	1.1	2.9	2.1	8.9	2.7
	May	1.9	0.7	1.1	0.2	1.1	3.0	1.1	8.3	2.4
	Jun	1.9	0.7	1.3	0.1	1.2	3.8	2.5	6.2	3.4
	Jul	2.2	1.0	1.4	1.0	1.0	3.2	2.0	7.8	2.8
	Aug	2.7	1.0	1.4	0.7	1.1	3.2	2.7	11.9	3.1
	Sep	3.4	1.9	2.1	2.0	1.8	2.9	2.8	13.4	2.9
	Oct	3.5	2.3	2.5	2.0	2.6	3.0	2.7	11.2	2.9
	Nov	2.9	2.1	2.3	1.7	2.3	3.1	3.3	7.5	3.2
	Dec	2.9	1.9	2.1	1.5	2.2	3.1	3.9	7.6	3.3
2013	Jan	2.7	1.9	2.2	1.3	2.2	3.6	4.3	5.3	3.8
	Feb	2.8	1.9	2.3	1.4	2.2	3.6	3.1	5.9	3.5
	Mar	2.4	2.0	2.3	1.4	2.4	3.6	2.5	3.2	3.3
	Apr	1.4	1.6	1.9	1.5	1.7	3.1	2.7	-2.5	3.0
	May	1.7	1.8	2.0	1.5	2.0	2.9	4.9	-1.8	3.5
	Jun	2.0	1.8	2.0	1.6	2.0	3.0	4.0	0.9	3.3
	Jul	1.6	1.5	1.8	0.7	2.0	3.1	4.8	-1.6	3.6
	Aug	1.3	1.7	2.0	1.0	2.2	3.0	4.5	-4.5	3.5
	Sep	0.5	0.9	1.2	-0.1	1.5	2.7	4.6	-6.5	3.3
	Oct	0.6	0.9	1.1	0.1	1.4	2.3	4.7	-4.6	3.1
	Nov	1.0	1.0	1.2	0.3	1.5	2.2	4.3	-2.0	2.9
	Dec	1.1	1.0	1.2	0.4	1.5	2.2	4.2	-1.7	2.8

Sources: INE and Funcas (Forecasts).

Chart 14.1.- Inflation rate (I)
Annual percentage changes

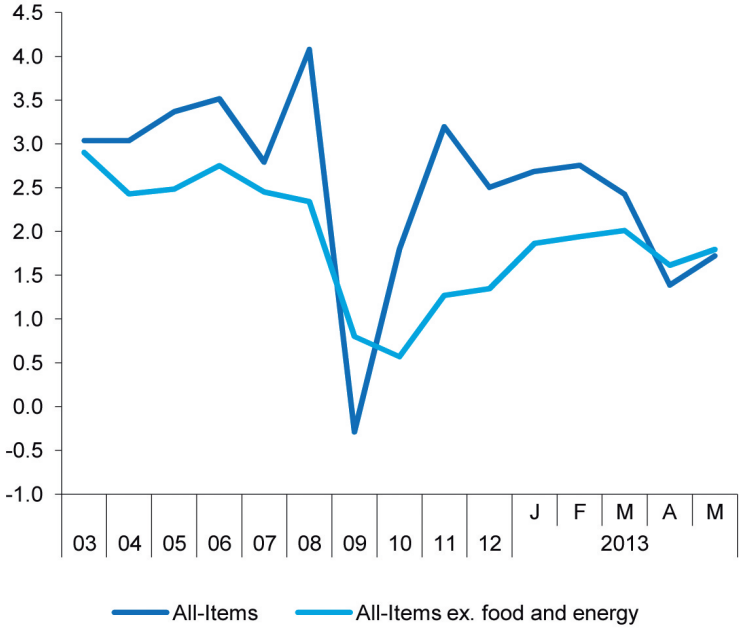


Chart 14.2.- Inflation rate (II)
Annual percentage changes

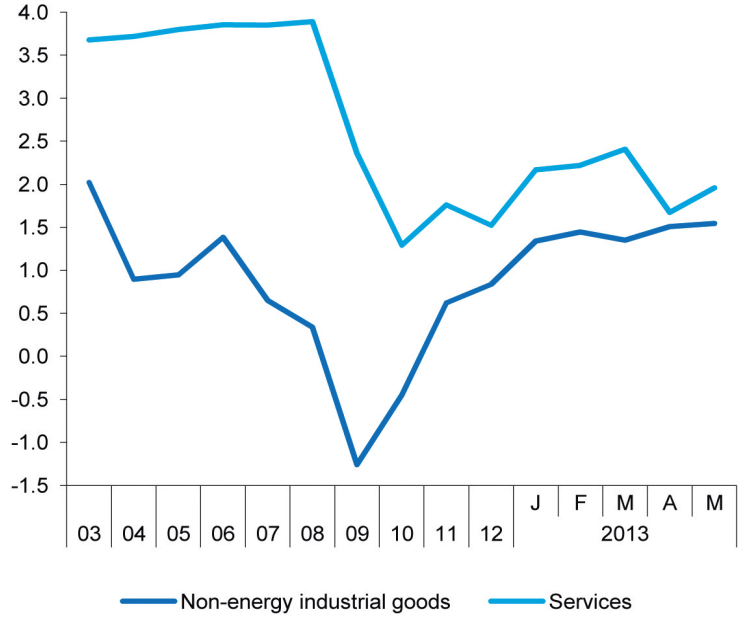


Table 15

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	excluding energy	Housing Price Index (INE)	m^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2000=100	2005=100		2007=100			2000=100				
2008	135.4	116.3	113.6	98.5	100.7	91.1	137.5	134.8	145.6	142.5	--
2009	135.5	112.4	111.0	91.9	93.2	85.8	142.3	139.2	151.8	150.5	--
2010	136.0	116.5	113.0	90.1	89.6	74.8	142.8	140.4	150.2	151.4	--
2011	137.3	124.6	117.7	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012	137.5	129.3	119.7	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013 (b)	138.4	130.0	121.0	64.7	73.9	56.4	140.2	135.5	154.6	147.8	--
2011 III	137.3	125.2	118.2	82.9	84.1	60.9	138.9	134.9	151.2	159.8	--
IV	137.8	125.5	117.8	79.4	82.8	65.5	151.7	151.3	152.9	163.6	--
2012 I	137.2	128.7	118.5	75.4	80.2	63.7	142.2	137.9	155.1	144.7	--
II	137.3	128.4	119.4	73.0	78.1	70.2	146.5	145.3	150.2	154.1	--
III	138.0	130.2	120.2	70.2	76.1	60.4	138.8	135.2	149.7	159.8	--
IV	137.5	129.9	120.7	69.2	74.5	67.3	146.9	145.8	150.2	160.0	--
2013 I	138.4	130.8	121.2	64.7	73.9	56.4	140.2	135.5	154.6	147.8	--
II (b)	--	128.9	120.8	--	--	--	--	--	--	--	--
2013 Mar	--	129.6	121.2	--	--	--	--	--	--	--	--
Apr	--	128.1	120.9	--	--	--	--	--	--	--	--
May	--	129.7	120.7	--	--	--	--	--	--	--	--
Annual percent changes											
2008	2.4	6.5	4.5	-1.5	0.7	-8.9	4.8	5.1	4.1	4.6	3.6
2009	0.1	-3.4	-2.3	-6.7	-7.4	-5.8	3.5	3.2	4.3	5.6	2.3
2010	0.4	3.7	1.8	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.6	1.5
2011	1.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.1
2012	0.1	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.3
2013 (c)	0.9	1.0	1.8	-14.3	-7.9	-11.5	-1.4	-1.8	-0.3	2.1	0.6
2011 III	0.8	7.1	4.3	-7.4	-5.6	-11.1	1.5	1.2	2.2	4.8	2.6
IV	0.8	5.9	2.9	-11.2	-6.8	-19.9	1.6	1.4	2.2	2.5	2.1
2012 I	0.2	4.6	1.4	-12.6	-7.2	-16.4	1.1	1.2	0.9	1.4	2.2
II	0.1	3.1	1.2	-14.4	-8.3	-8.6	-0.3	0.0	-1.4	0.7	1.7
III	0.5	3.9	1.7	-15.2	-9.5	-0.7	-0.1	0.3	-0.9	0.0	1.3
IV	-0.2	3.5	2.5	-12.8	-10.0	2.7	-3.2	-3.6	-1.8	-2.2	1.3
2013 I	0.9	1.6	2.3	-14.3	-7.9	-11.5	-1.4	-1.8	-0.3	2.1	0.6
II (b)	--	0.3	1.2	--	--	--	--	--	--	--	--
2013 Mar	--	0.0	1.9	--	--	--	--	--	--	--	--
Apr	--	-0.6	1.3	--	--	--	--	--	--	--	--
May	--	0.8	1.0	--	--	--	--	--	--	--	--

(a) Seasonally adjusted. (b) Period with available data. (c) Growth of available period over the same period of the previous year.
Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

Chart 15.1.- Housing and urban land prices
Index (2007=100)

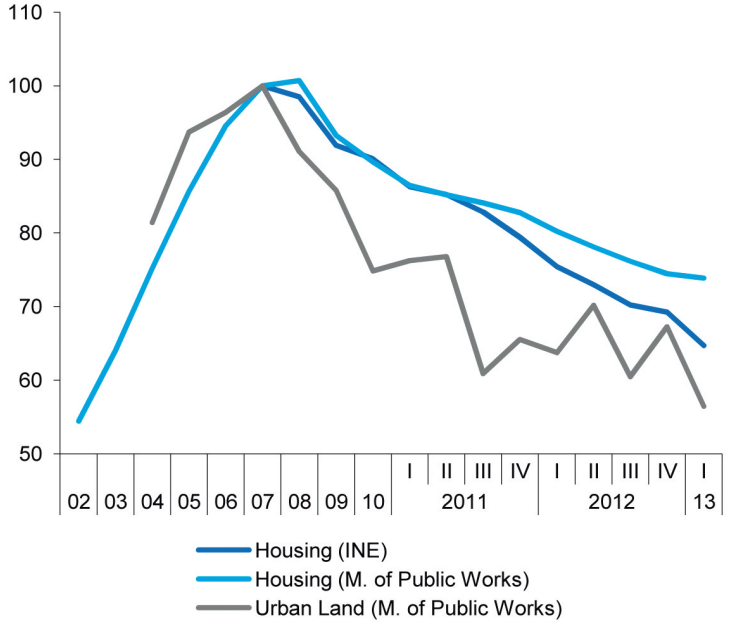


Chart 15.2.- Wage costs
Annual percent change

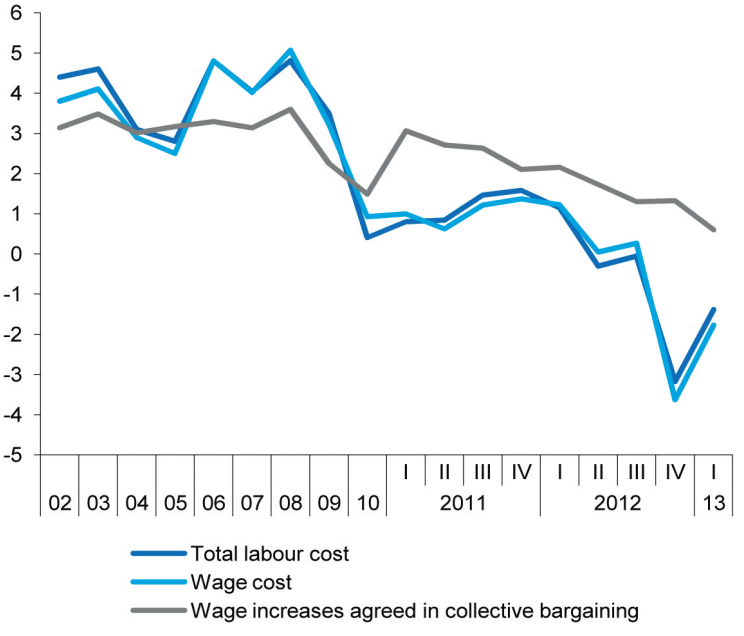


Table 16

External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries	Exports to non-EU countries	Total Balance of goods	Balance of goods excluding energy	Balance of goods with EU countries
	Nominal	Prices	Real	Nominal	Prices	Real					
	EUR Billions	**2005=100**		**EUR Billions**	**2005=100**		**EUR Billions**				
2008	189.2	109.0	112.0	283.4	109.1	111.5	130.8	58.5	-94.2	-50.7	-26.3
2009	159.9	101.6	101.5	206.1	96.2	92.0	110.5	49.4	-46.2	-18.8	-9.1
2010	186.8	103.2	116.7	240.1	100.6	102.4	126.3	60.5	-53.3	-17.9	-5.0
2011	215.2	108.2	128.4	263.1	109.1	103.5	142.4	72.9	-47.9	-4.0	3.4
2012	222.6	110.4	131.4	253.4	114.2	95.9	139.9	82.8	-30.8	15.8	12.6
2013 (b)	77.0	109.3	139.3	82.7	109.8	99.0	47.3	29.7	-5.7	9.9	47.3
2011 III	54.6	108.7	130.0	65.1	110.4	101.9	35.6	18.9	-10.5	0.2	1.8
IV	55.7	110.1	130.9	65.2	112.3	100.2	36.4	19.3	-9.5	-0.2	1.4
2012 I	55.0	110.1	129.3	65.9	114.8	99.1	35.1	19.9	-10.9	1.5	1.9
II	55.0	108.3	131.5	63.0	112.8	96.6	34.5	20.5	-8.1	3.8	2.9
III	57.1	110.6	133.7	63.6	114.8	95.6	34.7	22.5	-6.4	5.5	2.9
IV	58.1	112.5	133.7	61.1	114.5	92.1	35.7	22.4	-3.0	7.3	4.9
2013 I	57.3	108.9	136.1	61.5	111.1	95.6	34.5	22.8	-4.2	7.2	3.8
II (b)	21.1	110.2	148.7	22.4	106.4	109.2	12.7	8.4	-1.3	8.4	1.7
2013 Feb	18.8	108.8	133.9	20.4	110.2	95.9	11.8	7.0	-1.6	2.1	1.5
Mar	18.9	107.0	137.0	18.5	110.7	86.7	10.8	8.1	0.4	3.6	1.3
Apr	21.1	110.2	148.7	22.4	106.4	109.2	12.7	8.4	-1.3	2.8	1.7
	Percentage changes (c)								**Percentage of GDP**		
2008	2.3	1.6	0.7	-0.6	4.1	-4.5	-0.1	8.0	-8.7	-4.7	-2.4
2009	-15.5	-6.7	-9.4	-27.3	-11.8	-17.5	-15.5	-15.5	-4.4	-1.8	-0.9
2010	16.8	1.6	15.0	16.5	4.6	11.3	14.3	22.5	-5.1	-1.7	-0.5
2011	15.2	4.8	10.0	9.6	8.5	1.1	12.7	20.5	-4.5	-0.4	0.3
2012	3.4	2.0	1.7	-3.7	4.6	-7.1	-1.8	13.6	-2.9	1.5	1.2
2013 (d)	7.5	-0.5	8.0	-3.5	-4.2	0.8	1.6	18.3	--	--	--
2011 III	8.4	4.7	3.6	3.6	12.3	-7.8	9.0	7.3	-4.0	0.1	0.7
IV	8.6	5.4	2.9	0.4	7.3	-6.4	8.8	8.1	-3.6	-0.1	0.5
2012 I	-4.9	-0.2	-5.0	4.5	9.1	-4.2	-13.3	12.5	-4.1	0.6	0.7
II	-0.2	-6.5	7.0	-16.1	-6.9	-9.9	-6.5	11.9	-3.1	1.5	1.1
III	16.5	9.0	7.1	3.2	7.4	-4.0	1.6	45.1	-2.4	2.1	1.1
IV	7.2	7.1	-0.1	-14.7	-1.0	-13.7	12.1	-0.1	-1.1	2.8	1.9
2013 I	-5.6	-12.3	7.5	3.0	-11.4	16.1	-12.5	6.1	-1.6	2.8	1.5
II (b)	48.9	4.9	42.3	43.1	-15.9	70.3	50.1	47.0	--	--	--
2013 Feb	-4.6	-2.0	-2.6	-9.8	-1.9	-8.1	-1.2	-9.7	--	--	--
Mar	0.6	-1.7	2.3	-9.2	0.5	-9.6	-8.6	16.3	--	--	--
Apr	11.7	3.0	8.5	21.1	-3.9	26.0	18.1	3.2	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data. (d) Growth of available period.
Source: Ministry of Economy.

Chart 16.1.- External trade (real)
Percent change from previous period

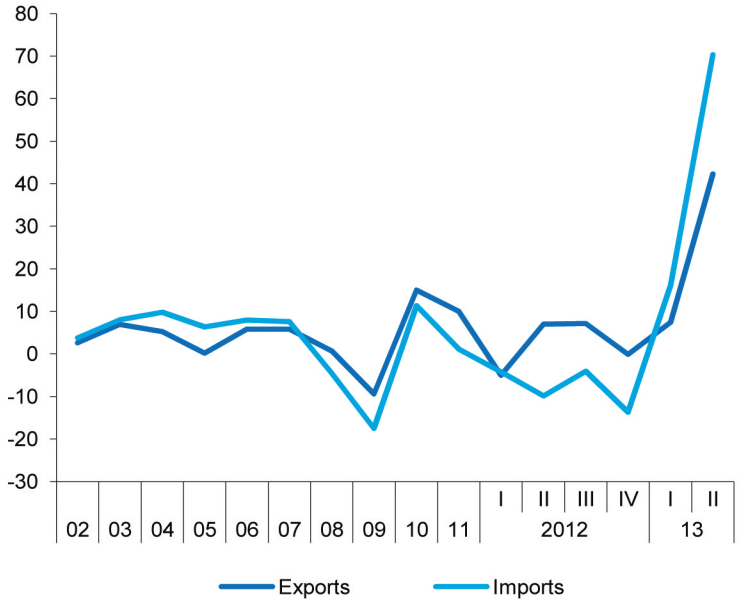


Chart 16.2.- Trade balance
EUR Billions, moving sum of 4 quarters

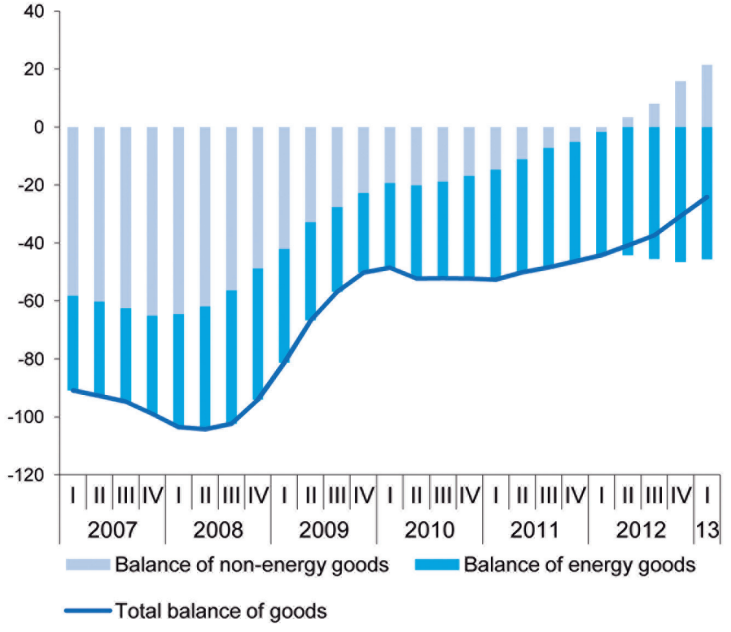


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
								Financial account, excluding Bank of Spain					Bank of Spain	
	Total	Goods	Services	Income	Tansfers			Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives		
	1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
EUR billions														
2007	-105.27	-91.12	23.05	-30.06	-7.15	4.58	-100.69	86.68	-53.18	104.26	39.69	-4.09	14.32	0.31
2008	-104.68	-85.59	25.79	-35.48	-9.39	5.47	-99.20	70.00	1.55	-0.20	75.72	-7.06	30.22	1.02
2009	-50.54	-41.61	25.03	-25.93	-8.03	4.22	-46.32	41.52	-1.92	44.82	4.66	-6.05	10.46	5.67
2010	-46.96	-48.17	28.04	-19.93	-6.90	6.29	-40.67	27.63	1.53	28.73	-11.23	8.61	15.70	2.66
2011	-39.79	-42.33	34.63	-25.71	-6.37	5.47	-34.32	-80.46	-7.02	-27.55	-43.92	-1.97	109.14	-5.63
2012	-11.52	-25.67	36.98	-18.72	-4.12	6.59	-4.93	-174.34	24.23	-55.84	-151.04	8.31	173.52	-5.75
2013 (a)	-3.61	-3.47	9.24	-4.82	-4.56	2.32	-1.29	45.40	6.06	-3.96	41.77	1.53	-45.26	-1.15
2011 III	-20.41	-32.62	39.53	-23.41	-3.92	3.75	-16.66	-94.38	5.18	-42.67	-53.03	-3.86	117.07	6.02
IV	-25.78	-31.67	22.12	-17.81	1.59	3.92	-21.86	-210.82	7.15	-49.28	-167.91	-0.78	225.86	-6.82
2012 I	-41.47	-27.17	17.40	-18.85	-12.84	2.02	-39.44	-292.96	20.47	-119.55	-202.22	8.35	316.72	-15.69
II	-9.47	-19.77	28.16	-14.10	-3.75	5.16	-4.31	-382.41	-7.66	-139.93	-233.62	-1.20	393.65	6.93
III	3.83	-19.54	43.52	-13.35	-6.79	4.55	8.38	2.30	8.94	12.48	-33.28	14.17	-9.80	0.88
IV	12.55	-10.52	21.88	-9.84	11.02	8.03	20.58	150.05	50.95	79.49	15.99	3.62	-180.02	-9.39
2013 I	-9.80	-7.69	20.45	-11.63	-10.92	4.13	-5.67	130.33	12.48	-0.52	117.01	1.36	-116.30	8.36
II (a)	-1.03	-2.72	7.27	-2.81	-2.76	2.82	1.80	5.88	5.70	-11.34	8.31	3.22	-19.47	-11.79
2013 Feb	-4.89	-1.75	6.18	-3.31	-6.00	2.23	-2.66	43.90	7.59	3.17	33.68	-0.54	-34.28	6.96
Mar	3.73	2.38	7.11	-3.88	-1.87	1.04	4.78	-4.37	-2.39	-36.49	34.73	-0.22	2.19	2.60
Apr	-1.03	-2.72	7.27	-2.81	-2.76	2.82	1.80	5.88	5.70	-11.34	8.31	3.22	-19.47	-11.79
Percentage of GDP														
2007	-10.0	-8.7	2.2	-2.9	-0.7	0.4	-9.6	8.2	-5.0	9.9	3.8	-0.4	1.4	0.0
2008	-9.6	-7.9	2.4	-3.3	-0.9	0.5	-9.1	6.4	0.1	0.0	7.0	-0.6	2.8	0.1
2009	-4.8	-4.0	2.4	-2.5	-0.8	0.4	-4.4	4.0	-0.2	4.3	0.4	-0.6	1.0	0.5
2010	-4.5	-4.6	2.7	-1.9	-0.7	0.6	-3.9	2.6	0.1	2.7	-1.1	0.8	1.5	0.3
2011	-3.7	-4.0	3.3	-2.4	-0.6	0.5	-3.2	-7.6	-0.7	-2.6	-4.1	-0.2	10.3	-0.5
2012	-1.1	-2.4	3.5	-1.8	-0.4	0.6	-0.5	-16.6	2.3	-5.3	-14.4	0.8	16.5	-0.5
2011 III	-8.0	-12.8	15.5	-9.2	-1.5	1.5	-6.5	-37.0	2.0	-16.7	-20.8	-1.5	45.8	2.4
IV	-9.4	-11.5	8.0	-6.5	0.6	1.4	-7.9	-76.7	2.6	-17.9	-61.1	-0.3	82.1	-2.5
2012 I	-16.0	-10.5	6.7	-7.3	-5.0	0.8	-15.3	-113.3	7.9	-46.2	-78.2	3.2	122.5	-6.1
II	-3.5	-7.3	10.4	-5.2	-1.4	1.9	-1.6	-141.8	-2.8	-51.9	-86.6	-0.4	146.0	2.6
III	1.5	-7.7	17.2	-5.3	-2.7	1.8	3.3	0.9	3.5	4.9	-13.2	5.6	-3.9	0.3
IV	4.7	-3.9	8.1	-3.7	4.1	3.0	7.7	55.8	19.0	29.6	6.0	1.3	-67.0	-3.5
2013 I	-3.8	-3.0	8.0	-4.6	-4.3	1.6	-2.2	51.0	4.9	-0.2	45.8	0.5	-45.5	3.3

(a) Period with available data.

Source: Bank of Spain.

Chart 17.1.- Balance of payments: Current and capital accounts
EUR Billions, 12-month cumulated

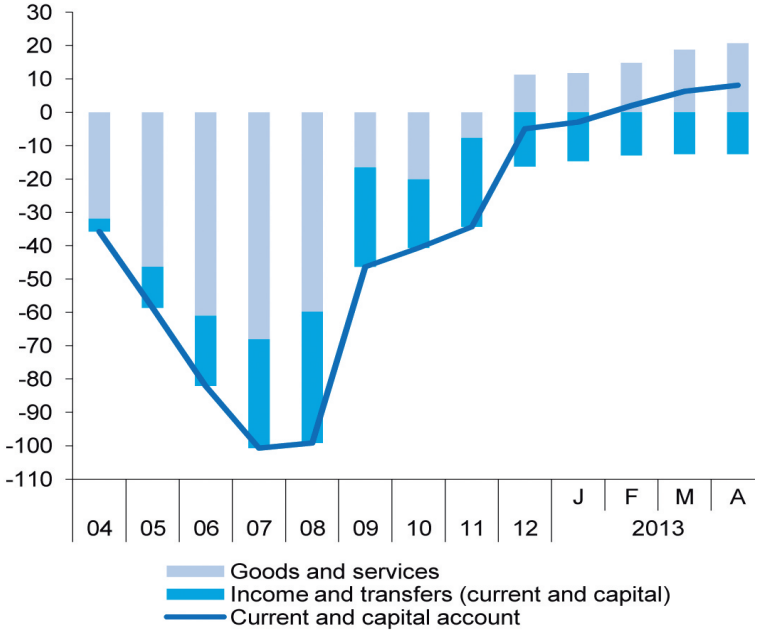


Chart 17.2.- Balance of payments: financial account
EUR Billions, 12-month cumulated

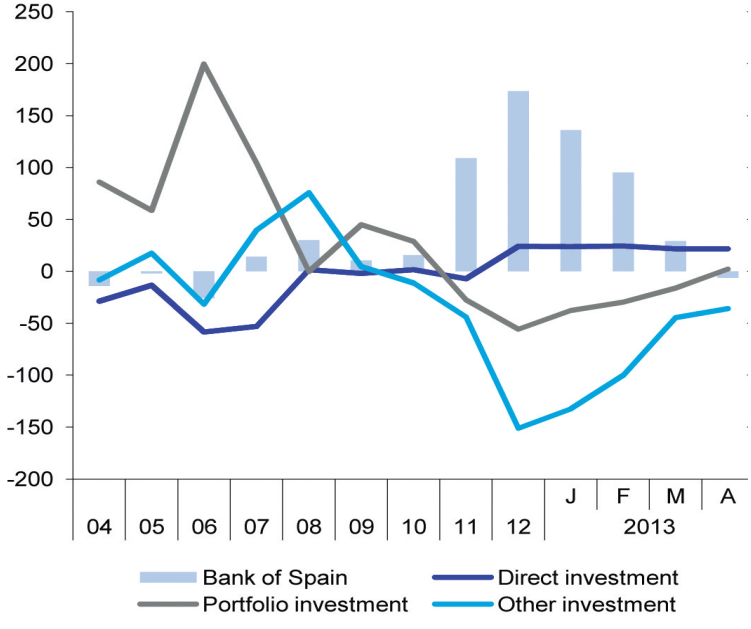


Table 18

State and Social Security System budget

	State							Social Security System				
	National accounts basis			Revenue, cash basis (a)					Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others	Surplus or deficit	Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
2007	12.4	165.3	152.9	214.2	121.0	78.9	14.4	14.7	116.7	103.7	102.0	81.8
2008	-33.2	132.6	165.8	188.7	102.0	70.7	16.0	14.6	124.2	108.7	109.7	86.9
2009	-99.1	105.8	204.9	162.5	87.5	55.7	19.3	8.8	123.7	107.3	114.9	92.0
2010	-51.6	141.9	193.5	175.0	86.9	71.9	16.3	2.4	122.5	105.5	120.1	97.7
2011 (b)	-31.6	137.5	169.1	177.0	89.6	71.2	16.1	-0.5	121.7	105.4	122.1	101.5
2012 (b)	-43.7	122.7	166.4	215.4	96.2	71.6	47.7	-5.8	118.6	101.1	124.4	105.5
2013 (c)	-33.3	35.2	68.6	72.5	31.8	31.5	9.3	7.8	53.0	41.4	45.2	39.4
2013 Mar	-40.3	124.1	164.4	211.3	93.4	71.1	46.8	-5.5	119.6	100.2	125.1	106.6
Apr	-44.0	123.0	167.0	210.8	93.2	70.4	47.2	-6.0	119.5	99.8	125.6	106.9
May	-40.7	126.2	166.9	212.7	93.1	71.5	48.1	-5.9	119.6	99.6	125.6	107.3
Annual percentage changes												
2007	--	9.7	7.3	12.1	18.1	3.4	16.4	--	9.7	8.3	8.4	7.9
2008	--	-19.8	8.4	-11.9	-15.7	-10.4	11.1	--	6.5	4.8	7.6	6.2
2009	--	-20.2	23.6	-13.9	-14.2	-21.2	20.4	--	-0.5	-1.3	4.7	5.9
2010	--	34.2	-5.5	7.7	-0.7	29.1	-15.7	--	-1.0	-1.7	4.5	6.2
2011 (b)	--	-3.1	-12.6	1.1	3.1	-0.9	-0.8	--	-0.7	-0.1	1.7	3.9
2012 (b)	--	-10.8	-1.6	21.7	7.3	0.5	195.9	--	-2.5	-4.0	1.9	3.9
2013 (c)	--	-9.9	-5.2	18.5	3.9	1.6	149.5	--	-3.2	-4.8	1.9	4.0
2013 Mar	--	-8.7	-7.0	19.2	5.1	2.0	150.8	--	-2.7	-4.7	1.6	4.0
Apr	--	-9.9	-5.2	18.5	3.9	1.6	149.5	--	-3.2	-4.8	1.9	4.0
May	--	-7.3	-5.3	20.3	4.4	4.5	150.3	--	-2.4	-4.9	1.6	4.1
Percentage of GDP, 12-month cumulated												
2007	1.2	15.7	14.5	20.3	11.5	7.5	1.4	1.4	11.1	9.8	9.7	7.8
2008	-3.0	12.2	15.2	17.3	9.4	6.5	1.5	1.3	11.4	10.0	10.1	8.0
2009	-9.5	10.1	19.5	15.5	8.4	5.3	1.8	0.8	11.8	10.2	11.0	8.8
2010	-4.9	13.5	18.5	16.7	8.3	6.9	1.5	0.2	11.7	10.1	11.5	9.3
2011 (b)	-3.0	12.9	15.9	16.6	8.4	6.7	1.5	0.0	11.4	9.9	11.5	9.5
2012 (b)	-4.2	11.7	15.9	20.5	9.2	6.8	4.5	-0.6	11.3	9.6	11.9	10.1
2013 (c)	-3.2	3.4	6.5	6.9	3.0	3.0	0.9	0.7	5.0	3.9	4.3	3.7
2013 Mar	-3.8	11.8	15.6	20.1	8.9	6.8	4.5	-0.5	11.4	9.5	11.9	10.1
Apr	-4.2	11.7	15.9	20.0	8.9	6.7	4.5	-0.6	11.4	9.5	11.9	10.2
May	-3.9	12.0	15.9	20.2	8.9	6.8	4.6	-0.6	11.4	9.5	11.9	10.2

(a) Including the regional and local administrations share in direct and indirect taxes. (b) State figures doesn't include financial entities bail-out expenditures. (c) Cummulated since January.
Sources: M. of Economy and M. of Labour.

Chart 18.1.- State: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

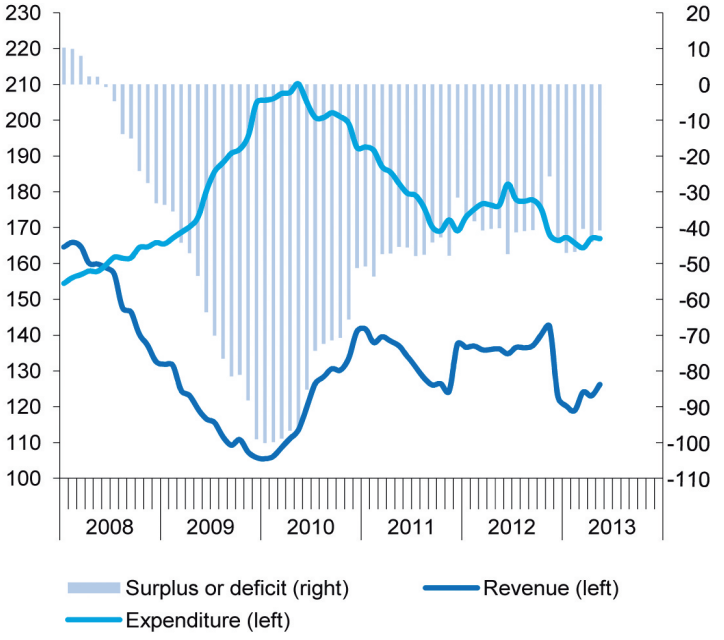


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

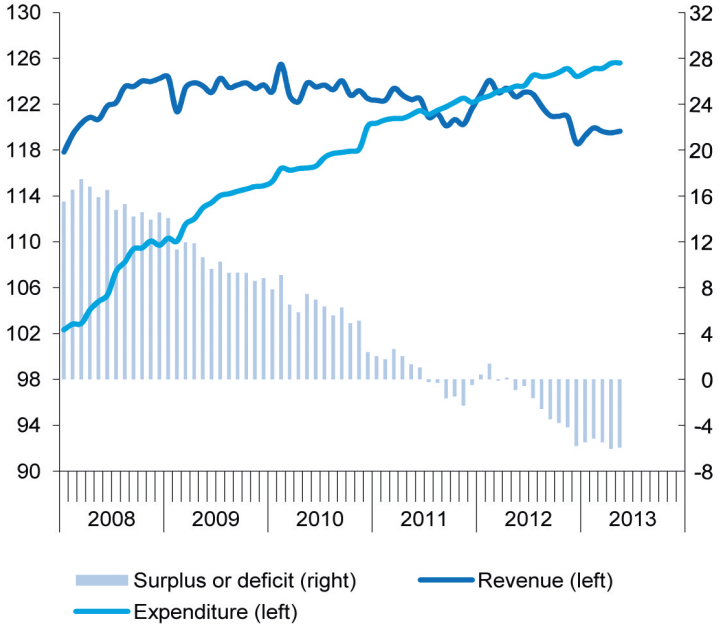


Table 19

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)					
	10 year Bonds	Spread with German Bund (basis points)	Housing credit to households	Consumer credit to households	Credit to non-financial corporations (less than 1 million)	TOTAL	Government	Non-financial corporations	Households	Contribution of Spanish MFI to M3	Stock market (IBEX-35)
	Average of period data					**End of period data**					
2007	4.3	7.4	5.3	9.8	5.8	2,470.5	382.3	1,213.8	874.4	--	15,182.3
2008	4.4	36.0	5.8	10.9	6.4	2,655.3	437.0	1,307.0	911.3	--	9,195.8
2009	4.0	70.5	3.4	10.5	4.7	2,767.0	565.1	1,298.6	903.3	--	11,940.0
2010	4.2	146.5	2.6	8.6	4.3	2,844.5	644.7	1,301.6	898.1	--	9,859.1
2011	5.4	277.4	3.5	8.6	5.1	2,862.7	736.5	1,255.3	871.0	--	8,563.3
2012	5.8	427.9	3.4	9.1	5.6	2,862.5	883.8	1,144.8	833.9	--	8,167.5
2013 (a)	4.8	331.2	3.2	9.6	5.7	2,840.0	914.0	1,095.5	812.0	--	7,762.7
2011 III	5.4	311.6	3.6	8.7	5.2	2,853.2	708.6	1,267.0	877.6	--	8,546.6
IV	5.7	365.1	3.7	9.1	5.4	2,862.5	736.5	1,255.1	871.0	--	8,563.3
2012 I	5.2	334.7	3.8	9.7	5.5	2,886.1	774.9	1,252.5	858.7	--	8,008.0
II	6.2	462.8	3.5	8.7	5.7	263.0	73.1	112.1	77.8	--	7,102.2
III	6.4	500.5	3.3	9.2	5.7	2,867.8	817.2	1,209.8	840.8	--	7,708.5
IV	5.6	413.6	3.1	8.8	5.5	2,862.5	883.8	1,144.8	833.9	--	8,167.5
2013 I	5.1	353.5	3.2	9.5	5.6	2,860.8	922.8	1,118.5	819.5	--	7,920.0
II (a)	4.5	308.9	3.2	9.6	5.8	2,840.0	914.0	1,095.5	812.0	--	7,762.7
2013 Apr	4.6	333.4	3.2	9.6	5.9	2,840.0	914.0	1,107.5	814.7	--	8,419.0
May	4.2	288.5	3.2	9.6	5.8	--	--	1,095.5	812.0	--	8,320.6
Jun	4.7	305.0	--	--	--	--	--	--	--	--	7,762.7
						Percentage change from same period previous year					**(b)**
2007	--	--	--	--	--	12.3	-2.2	17.7	12.5	15.1	7.3
2008	--	--	--	--	--	7.8	14.3	8.2	4.4	7.7	-39.4
2009	--	--	--	--	--	4.0	29.3	-1.4	-0.3	-0.8	29.8
2010	--	--	--	--	--	3.2	14.1	0.6	0.2	-2.2	-17.4
2011	--	--	--	--	--	1.6	14.2	-2.0	-2.4	-1.6	-13.1
2012	--	--	--	--	--	1.3	20.0	-6.1	-3.8	0.1	-4.6
2013 (c)	--	--	--	--	--	0.7	18.9	-7.3	-4.3	-0.5	9.3
2011 III	--	--	--	--	--	2.1	15.0	-1.5	-1.6	0.1	-17.8
IV	--	--	--	--	--	1.6	14.2	-2.0	-2.4	-1.6	0.2
2012 I	--	--	--	--	--	1.6	13.0	-1.5	-2.7	-0.9	-6.5
II	--	--	--	--	--	1.2	14.0	-2.9	-3.1	-2.6	-11.3
III	--	--	--	--	--	0.9	15.3	-4.1	-3.6	-3.6	8.5
IV	--	--	--	--	--	1.3	20.0	-6.1	-3.8	0.1	6.0
2013 I	--	--	--	--	--	1.0	19.1	-6.9	-4.0	-0.5	-3.8
II (c)	--	--	--	--	--	0.7	18.9	-7.3	-4.3		-2.0
2013 Apr	--	--	--	--	--	0.7	18.9	-6.9	-4.2	-0.8	6.3
May	--	--	--	--	--	--	--	-7.3	-4.3	-0.5	-1.2
Jun	--	--	--	--	--	--	--	--	--	--	-6.7

(a) Period with available data. (b) Percent change from preceeding period. (c) Growth of available period over the same period of the previous year.
Source: Bank of Spain.

Chart 19.1.- 10 year bond yield
Percentage rates and basis points

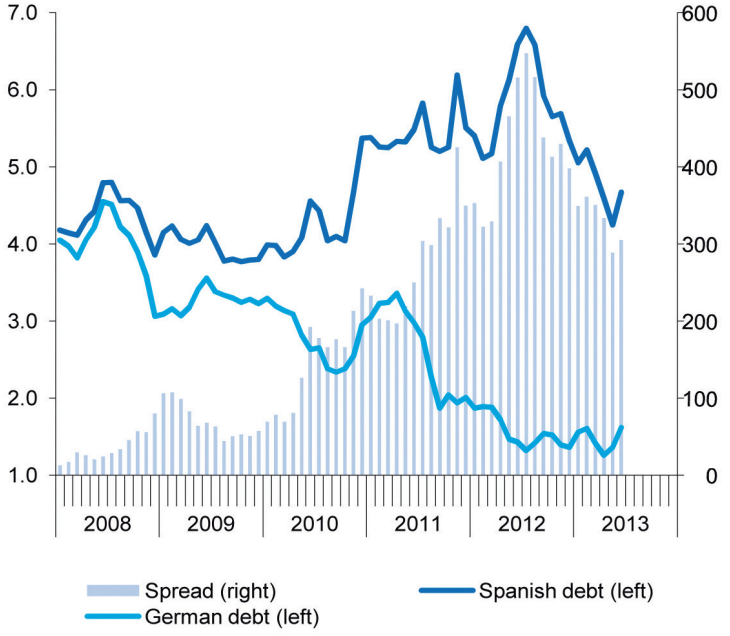


Chart 19.2.- Credit stock growth
Annual percentage change

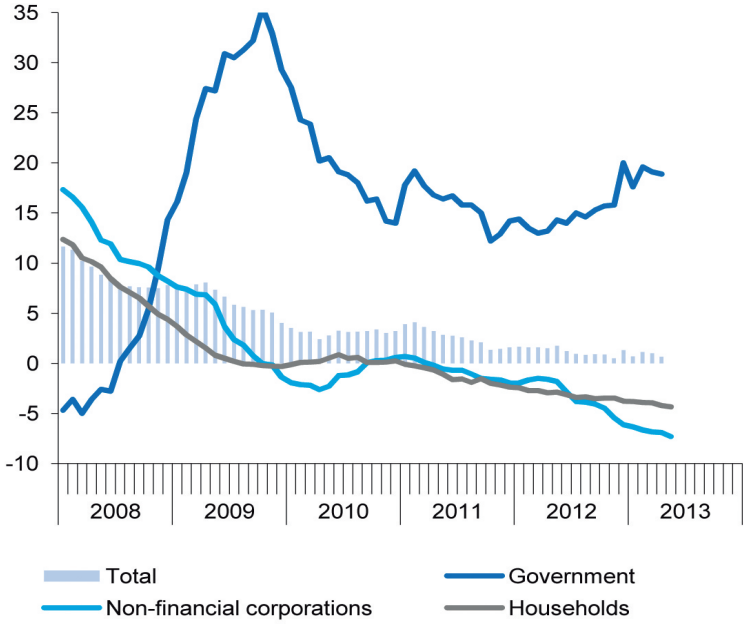


Table 20

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
		Relative productivity	Relative wages	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			**2005=100**			**2005=100**			**1999 I =100**
2007		91.2	108.8	119.3	106.5	104.4	102.0	108.4	106.5	101.8	111.9
2008		93.0	110.9	119.3	110.9	107.8	102.9	114.7	111.7	102.6	114.5
2009		102.8	114.7	111.6	110.6	108.1	102.3	110.9	106.7	103.9	114.0
2010		99.9	112.4	112.5	112.9	109.9	102.7	115.2	110.0	104.7	112.9
2011		100.2	108.4	108.3	116.3	112.9	103.1	122.7	116.0	105.8	113.1
2012		102.6	108.1	105.3	119.2	115.7	103.0	126.8	119.0	106.6	111.7
2013 (a)		--	--	--	120.6	116.9	103.2	128.0	119.5	107.1	112.7
2011	III	--	--	--	116.1	112.9	102.8	123.2	116.6	105.7	112.7
	IV	--	--	--	117.6	114.1	103.1	123.4	116.9	105.6	112.8
2012	I	--	--	--	116.7	114.4	102.0	126.3	118.5	106.6	110.8
	II	--	--	--	119.4	115.9	103.0	126.2	118.8	106.2	111.8
	III	--	--	--	119.3	115.8	103.0	127.6	119.4	106.9	111.1
	IV	--	--	--	121.4	116.8	104.0	127.3	119.3	106.7	113.1
2013	I	--	--	--	119.9	116.5	102.9	128.0	119.5	107.1	112.7
	II (a)	--	--	--	121.6	117.5	103.5	--	--	--	--
2013	Mar	--	--	--	121.4	117.5	103.3	128.5	119.6	107.4	112.5
	Apr	--	--	--	121.5	117.4	103.5	127.4	119.5	106.6	113.2
	May	--	--	--	121.6	117.6	103.5	--	--	--	--
		Annual percentage changes					**Differential**	**Annual percentage changes**		**Differential**	
2007		-0.8	4.1	4.9	2.8	2.1	0.7	3.2	2.1	1.1	--
2008		1.9	1.9	0.0	4.1	3.3	0.8	5.7	4.9	0.8	--
2009		10.6	3.5	-6.4	-0.2	0.3	-0.5	-3.3	-4.5	1.2	--
2010		-2.9	-2.1	0.8	2.0	1.6	0.4	3.9	3.1	0.8	--
2011		0.3	-3.5	-3.8	3.1	2.7	0.3	6.5	5.4	1.0	--
2012		2.4	-0.4	-2.7	2.4	2.5	-0.1	3.4	2.6	0.8	--
2013 (b)		--	--	--	2.3	1.6	0.7	0.8	1.4	-0.5	
2011	III	--	--	--	2.9	2.7	0.2	6.4	5.3	1.1	--
	IV	--	--	--	2.7	2.9	-0.2	5.3	4.7	0.6	--
2012	I	--	--	--	1.9	2.7	-0.8	4.1	3.6	0.5	--
	II	--	--	--	1.9	2.5	-0.6	2.9	2.4	0.5	--
	III	--	--	--	2.8	2.5	0.2	3.5	2.4	1.2	--
	IV	--	--	--	3.2	2.3	0.9	3.1	2.1	1.0	--
2013	I	--	--	--	2.8	1.9	0.9	1.4	0.8	0.5	--
	II (b)	--	--	--	1.7	1.3	0.4	--	--	--	--
2013	Mar	--	--	--	2.6	1.7	0.8	1.7	0.9	0.8	--
	Apr	--	--	--	1.5	1.2	0.3	0.3	0.3	-0.1	--
	May	--	--	--	1.8	1.4	0.4	--	--	--	--

(a) Period with available data. (b) Growth of available period over the same period of the previous year.

Sources: Eurostat and Bank of Spain.

Chart 20.1.- Relative Unit Labour Costs in industry (Spain/EMU)
1998=100

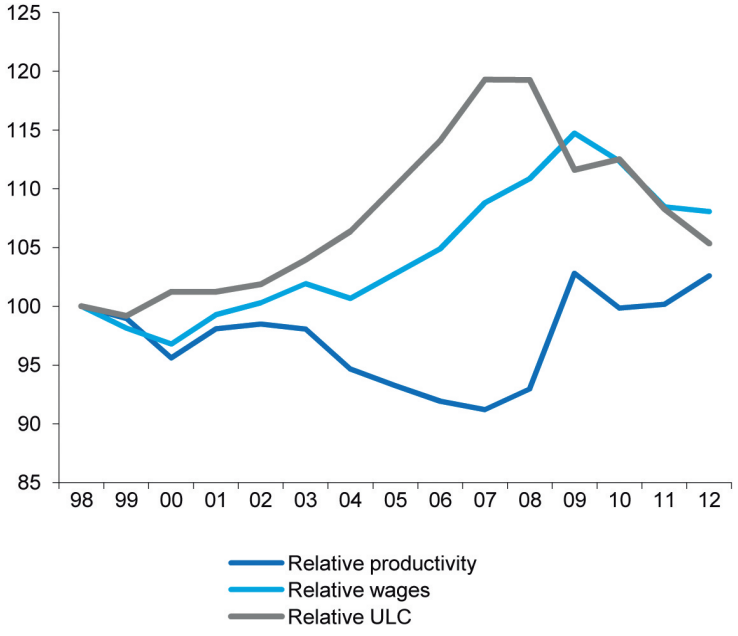


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

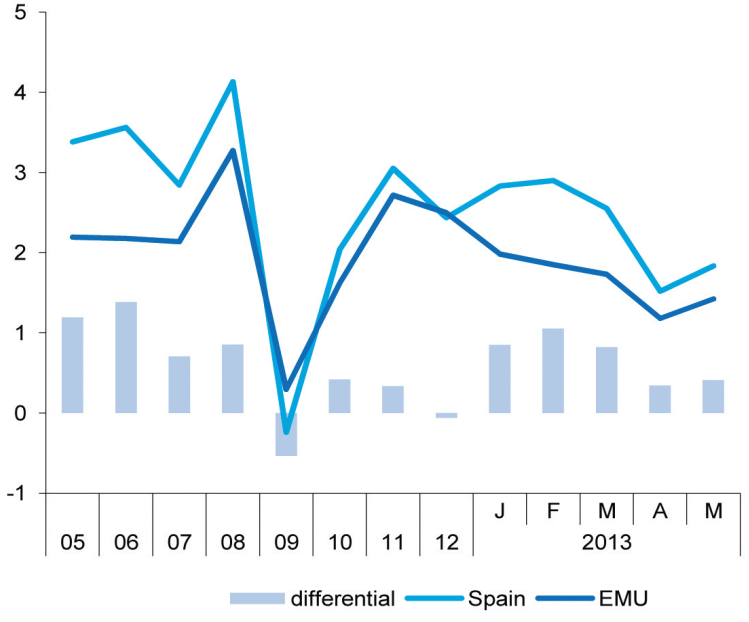


Table 21a

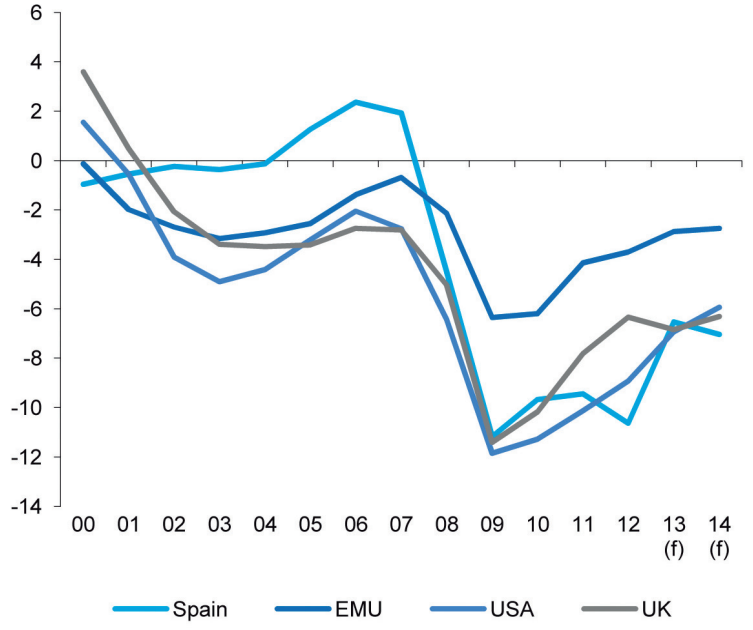
Imbalances: International comparison (I)

In blue: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	USA	UK
Billions of national currency												
2005	11.5	-207.7	-402.9	-43.1	392.5	5,729.9	8,502.9	533.2	-67.8	36.4	-645.5	-25.9
2006	23.3	-118.5	-272.8	-36.6	391.1	5,884.1	8,837.5	577.1	-88.9	42.4	-556.1	-39.1
2007	20.2	-62.5	-385.1	-39.7	382.3	5,994.3	9,328.4	624.7	-105.2	38.7	-704.0	-32.2
2008	-48.9	-197.1	-913.4	-72.6	437.0	6,490.0	10,797.1	753.6	-104.3	-64.2	-676.5	-14.4
2009	-117.1	-567.1	-1,647.4	-159.9	565.1	7,137.4	12,445.9	950.8	-49.9	5.5	-500.4	-17.7
2010	-101.5	-569.0	-1,626.6	-149.3	644.7	7,852.6	14,236.9	1,164.8	-46.0	22.8	-472.4	-37.3
2011	-100.4	-390.2	-1,517.3	-118.4	736.5	8,295.2	15,456.0	1,295.4	-39.4	29.3	-497.7	-20.2
2012	-111.6	-351.8	-1,392.3	-97.8	883.9	8,794.6	16,777.3	1,387.4	-8.9	173.0	-473.3	-57.7
2013	-68.7	-275.2	-1,119.9	-108.0	960.0	9,157.3	17,873.2	1,505.0	16.9	240.6	-447.2	-42.3
2014	-75.5	-271.0	-1,005.7	-102.9	1,037.9	9,466.0	18,866.3	1,607.9	31.0	261.2	-504.6	-33.0
Percentage of GDP												
2005	1.3	-2.5	-3.2	-3.4	43.2	70.3	67.7	42.2	-7.5	0.4	-5.1	-2.1
2006	2.4	-1.4	-2.0	-2.7	39.7	68.7	66.4	43.3	-9.0	0.5	-4.2	-2.9
2007	1.9	-0.7	-2.8	-2.8	36.3	66.4	66.8	44.2	-10.0	0.4	-5.0	-2.3
2008	-4.5	-2.1	-6.4	-5.0	40.2	70.2	75.9	52.3	-9.6	-0.7	-4.8	-1.0
2009	-11.2	-6.4	-11.9	-11.4	53.9	80.0	89.5	67.8	-4.8	0.1	-3.6	-1.3
2010	-9.7	-6.2	-11.3	-10.2	61.5	85.6	98.7	79.4	-4.4	0.2	-3.3	-2.5
2011	-9.4	-4.1	-10.1	-7.8	69.3	88.0	103.1	85.5	-3.7	0.3	-3.3	-1.3
2012	-10.6	-3.7	-8.9	-6.3	84.2	92.7	107.6	90.0	-0.9	1.8	-3.0	-3.7
2013	-6.5	-2.9	-6.9	-6.8	91.3	95.5	110.6	95.5	1.6	2.5	-2.8	-2.7
2014	-7.0	-2.7	-5.9	-6.3	96.8	96.0	111.3	98.7	2.9	2.7	-3.0	-2.0

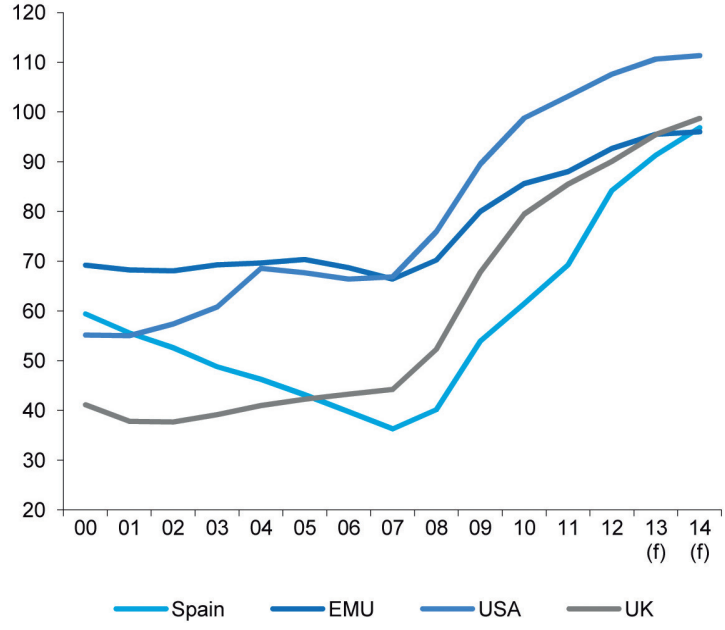
Source: European Commission.

Chart 21a.1.- Government deficit
Percentage of GDP



(f) European Commission forecast.

Chart 21a.2.- Government gross debt
Percentage of GDP



(f) European Commission forecast.

Table 21b

Imbalances: International comparison (II)

	Household debt (a)				Non-financial corporations debt (a)				Financial corporations debt (a)			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	USA	UK
Billions of national currency												
2005	653.5	4,770.1	11,716.4	1,163.3	951.5	6,797.6	8,681.5	1,266.3	528.3	7,722.7	12,957.3	2,418.5
2006	780.7	5,188.5	12,833.3	1,287.0	1,191.4	7,469.7	9,649.9	1,436.0	753.9	8,726.2	14,260.5	2,616.5
2007	876.6	5,555.3	13,689.3	1,398.2	1,385.3	8,278.0	10,973.1	1,479.9	980.4	10,124.3	16,204.5	3,130.0
2008	913.4	5,806.1	13,669.0	1,448.5	1,474.7	8,912.9	11,657.4	1,680.0	1,042.5	11,097.7	17,101.0	3,494.2
2009	906.1	5,931.8	13,397.0	1,441.5	1,461.1	8,869.3	11,302.8	1,597.7	1,121.1	11,486.6	15,688.5	3,461.5
2010	901.7	6,112.4	13,059.9	1,448.3	1,494.8	9,138.1	11,426.0	1,575.8	1,115.6	11,569.9	14,486.0	3,555.9
2011	874.3	6,198.5	12,863.7	1,446.1	1,476.1	9,293.4	11,965.0	1,625.8	1,134.5	11,909.1	14,045.4	3,473.2
2012	837.6	6,192.1	12,819.3	1,463.6	1,372.0	9,386.9	12,728.3	1,665.0	1,132.7	12,120.4	13,911.3	3,602.9
Percentage of GDP												
2005	71.9	58.6	93.3	92.1	104.6	83.5	69.1	100.3	58.1	94.8	103.1	191.5
2006	79.2	60.6	96.4	96.5	120.9	87.2	72.5	107.7	76.5	101.9	107.1	196.3
2007	83.2	61.5	98.0	99.0	131.5	91.7	78.6	104.8	93.1	112.1	116.1	221.7
2008	84.0	62.8	96.1	100.5	135.6	96.4	82.0	116.6	95.8	120.1	120.3	242.5
2009	86.5	66.5	96.4	102.8	139.4	99.4	81.3	114.0	107.0	128.7	112.9	246.9
2010	86.0	66.6	90.6	98.8	142.5	99.6	79.2	107.5	106.4	126.1	100.5	242.5
2011	82.2	65.8	85.8	95.4	138.8	98.7	79.8	107.3	106.7	126.4	93.7	229.1
2012	79.8	65.3	82.2	95.0	130.7	99.0	81.6	108.0	107.9	127.8	89.2	233.7

(a) Loans and securities other than shares.
Sources: European Central Bank and Federal Reserve.

Chart 21b.1.- Household debt
Percentage of GDP

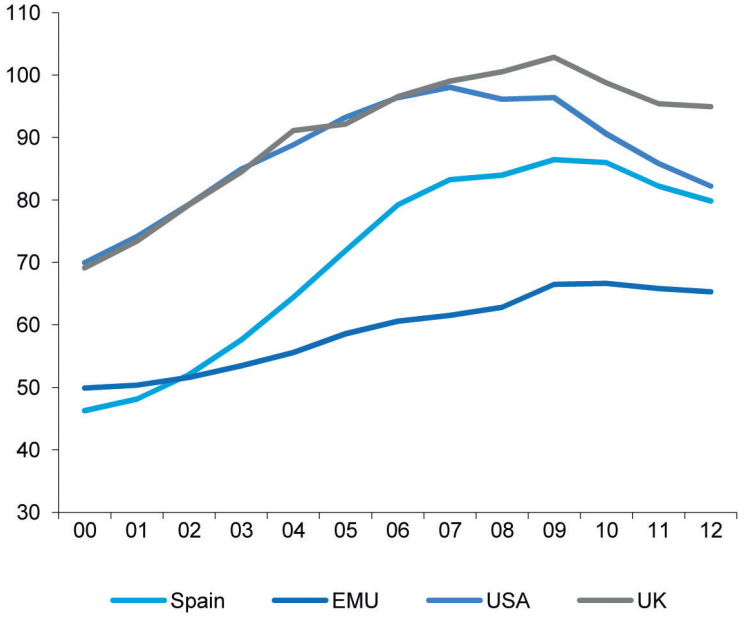
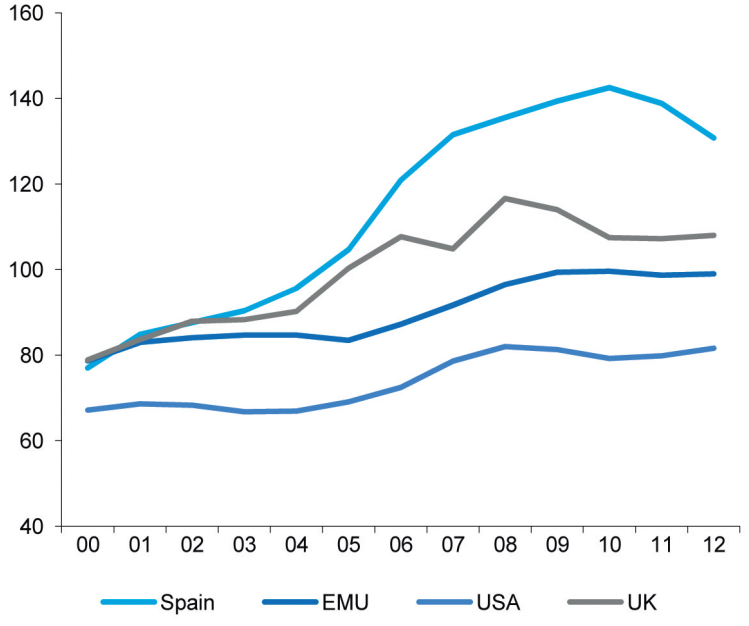


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS

Updated: June 30th, 2013

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-1.5	April 2013
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.7	April 2013
Doubtful loans (monthly % var.)	2.3	April 2013
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	745,149	May 2013
Recourse to the Eurosystem (Spanish financial institutions, million euros)	254,979	May 2013
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	25,236	May 2013
"Operating expenses/gross operating income" ratio (%)	45.68	March 2013
"Customer deposits/employees" ratio (thousand euros)	4,988.06	March 2013
"Customer deposits/branches" ratio (thousand euros)	30,972.28	March 2013
"Branches/institutions" ratio	228.62	March 2013

A. Money and interest rates

Indicator	Source:	Average 1996-2009	2011	2012	2013 May	2013 June	Definition and calculation
1. Monetary Supply (% chg.)	ECB	6.9	2.2	3.5	2.9	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	3.4	1.4	0.18	0.20	0.22	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.3	2.0	0.54	0.48	0.53	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.9	5.4	5.3	4.25	4.75	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.0	5.0	4.8	3.40	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": The 3-month and 1-year Euribor rates have increased in June after registering record minimum values in previous months. The 3-month rate increased to 0.22% and the 1-year rate to 0.53%. The Spanish 10-year bond yield has also increased —in an international environment dominated by the uncertainty surrounding expansive monetary policies of central banks and the situation of the Chinese economy— to 4.75%.

B. Financial markets

Indicator	Source:	Average 1996-2009	2011	2012	2013 April	2013 May	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.3	81.6	84.7	76.7	78.9	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	77.8	112.6	64.8	66.7	79.0	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.3	2.2	1.7	3.2	1.2	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.6	3.3	2.2	5.1	3.9	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	3.4	1.6	0.6	0.2	0.3	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	490.2	684.4	751.1	803.8	808.2	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	1.1	-0.8	3.9	5.4	0.9	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	5.1	1.6	-24.8	11.3	-17.1	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec1985=100)	Bank of Spain and Madrid Stock Exchange	973.6	857.7	824.7	848.4	781.8(a)	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,319.2	8,566.7	7,583.2	8,419.0	7,762.6(a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	17.1	9.7	18.2	34.2	35.6	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1996-2009	2011	2012	2013 April	2013 May	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	2.8	15.1	-15.1	148.8	-22.4	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	45.2	59.24	73.9	169.4	-1.1	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.6	1.9	2.3	2.4	2.3	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	2.1	-15.8	-10.8	6.9	-6.2	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	-2.7	-25.9	54.1	-17.9	-3.1	IBEX-35 shares concluded transactions

(a) Last data published: March 15th 2013.
Comment on "Financial Markets": During the last month there has been a decrease in transactions with outright spot and forward T-bills, and a small increase in government bonds and debenture transactions. The stock market has shown a downward trend. The IBEX-35 fell to 7,762 points in June and the General Index of the Madrid Stock Exchange to 781.8 points. Additionally, there was a 6.2% decrease in financial IBEX-35 future transactions and a 31% fall in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2003-2009	2010	2011	2012 Q III	2012 Q IV	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.6	1.9	-3.4	-1.7	-0.2	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	0.1	4.2	3.1	-1.7	-4.0	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	243.2	294.2	293.3	303.0	312.6	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP

C. Financial Savings and Debt (continued)

Indicator	Source:	Average 2003-2009	2010	2011	2012 III Q	2012 IV Q	Definition and calculation
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	75.2	85.9	82.2	79.9	79.8	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	6.1	3.1	-0.1	1.2	2.9	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	11.4	-0.3	-0.5	-2.2	-0.7	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During the fourth quarter of 2012, there was a 0.2% reduction in financial savings to GDP in the overall economy, relatively smaller compared to the 1.7% decrease registered in the previous quarter. On the other hand, household financial savings have experienced a significant slowdown, changing from -1.7% in the previous quarter to -4.0%. There was also a slight reduction in households´ financial deleveraging, registering a debt to GDP ratio of 79.8%. Finally, the stock of financial assets on households' balance sheet registered a slight increase of 2.9%, while there was a 0.7% drop in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source:	Average 1996-2009	2011	2012	2013 March	2013 April	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.7	-3.8	-10.4	0.1	-1.5	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	10.5	-5.3	-1.8	0.8	-0.7	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	10.2	5.2	23.2	3.1	-1.1	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	16.0	41.0	3.1	0.5	1.3	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-0.5	-4.3	-9.0	-7.8	-7.8	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 1996-2009	2011	2012	2013 March	2013 April	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	28.3	28.3	20.0	0.8	2.3	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-0.3	-15.7	0.3	13.9	-14.0	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	11.0	37.9	-10.6	-1.2	2.5	Equity percentage change for the sum of banks, savings banks and credit unions

Comment on "Credit institutions. Business Development": The latest available data as of April 2013 show a 1.5% reduction in bank credit to the private sector and also a 0.7% fall in financial institutions deposit-taking, from the previous month. Also, there was a -2.3% reduction in doubtful loans compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1996-2009	2010	2011	2013 December	2013 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	207	188	189	173	163	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	64	88	86	85	85	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	247,916	257,578	243,041	231,389	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,572	42,894	39,843	37,903	37,265	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	365,832	473,173	394,459	437,789	745,149(a)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	30,953	66,986	118,861	337,206	254,979(a)	Open market operations and ECB standing facilities. Spain total

E. Credit institutions. Market Structure and Eurosystem Refinancing (continued)

Indicator	Source:	Average 1996-2009	2010	2011	2012 December	2013 March	Definition and calculation
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	18,500	22,196	47,109	44,961	25,236(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: May 2013.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In May 2013, the recourse to Eurosystem funding by Spanish credit institutions accounted for 34.91% of net total funds borrowed from the ECB by the Eurozone. It was 33.92% in April.

F. Credit institutions. Efficiency and Productivity, Risk and Profitability

Indicator	Source:	Average 1996-2009	2010	2011	2012 December	2013 March	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	55.73	46.53	49.85	47.18	45.68	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions´ P&L accounts
44. "Customer deposits/ employees" ratio (Euro thousands)	Bank of Spain	3,074.38	4,605.69	4,512.30	4,701.87	4,988.06	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	18,620.11	16,554.20	29,171.23	30,110.18	30,972.28	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	187.24	155.41	205.38	219.09	228.62	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.1	3.6	6.5	6.9	6.2	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.10	0.86	0.40	-0.12	1.13	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.83	0.31	0.06	-1.93	-2.73	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	13.54	5.73	3.28	-18.74	-12.11	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": In March 2013 the Spanish banking sector faced a tough business and macroeconomic environment, in line with the generalized difficulties experienced by European Union banking sectors. Productivity indicators have improved due to the restructuring process of the Spanish banking sector.