

Spanish Economic and Financial Outlook

Spain's private sector deleveraging process: Making the adjustment

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Letter from the Editors

There have been some recent positive events at the local, European, and transatlantic level, that may have important implications for Spain. At the national level, the latest economic indicators suggest the economy is stabilizing rapidly. We have also seen a reduction in Spain's risk premium, accompanied by the increase in returns on German debt. Furthermore, the country continues to advance on the private sector deleveraging process related to the property market and household debt. In Europe, September consensus forecasts show that perceptions of economic conditions have improved over the last few months. There has also been progress on legislation for the so-called Banking Union, specifically advancement towards the Single Resolution Mechanism. Finally, this summer marked the commencement of negotiations on the EU-US Transatlantic Trade and Investment Partnership, the largest proposed bilateral trade agreement in history.

In this context, this September issue of the SEFO analyzes the significance of these events and their possible implications. As stated recently by both the IMF and the European Commission, deleveraging remains one of the major challenges for the Spanish economy. Over the past few months, we have witnessed some progress in the housing market adjustment. The recent evolution of house price indices shows that they are finally adjusting fast and remain on a declining path. In addition, large operations in the Spanish real estate market have helped to increase the confidence of international investors. The more optimistic outlook in the housing sector, together with increased financial stability, is helping the process of household deleveraging, which has accelerated in recent months, allowing families to gradually increase savings and net financial wealth. From 2005 to 2008, Spaniards increased debt by 260 billion euros. From 2009 to 2012, this debt has been reduced by 90 billion euros, suggesting that a long deleveraging process still lies ahead and that Spanish families should continue to rebalance their debt to equilibrium levels, more suitable to the reactivation of internal demand and achievement of higher economic growth rates.

In this SEFO, we assess the government's recently approved electricity sector reform. The latest reform represents part of Spain's austerity drive and a much-needed effort to reign in the electricity deficit in the face of weak demand and overcapacity. The reform will contribute to financial stability in the sector, but questions remain as to

whether or not it will be sufficient to eliminate the deficit, as well as to resolve regulatory uncertainty and improve investment climate in the sector.

In addition, we take a look at progress on the Banking Union initiative at the EU level. As this SEFO points out, public sector aid to the banking sector in the wake of this latest financial crisis has cost the EU as a whole almost 1.3 trillion euros or 10% of EU-27 GDP. In Spain, the aid granted was in line with the EU average, but the losses realized and hence passed on to the public deficit were greater due to the fact that the bulk of the capital aid transferred was to absorb losses rather than taking the form of financial transactions, such as buying shares. The cost of the EU banking sector bailouts demonstrates the need to make urgent progress on the Banking Union initiative. In light of this, we examine the latest proposals for the Single Resolution Mechanism presented by the Commission on July 10th as a complement to the Single Supervisory Mechanism. Together, the two pillars of the Banking Union are envisioned to operate to prevent the emergence of large-scale financial crises and to tackle them in an orderly manner, reducing the damage for the public sector and for taxpayers, in the event that they occur. Although negotiations on the Banking Union are progressing slowly given political considerations, we expect progress over the coming year.

Aside from progress on financial regulation, last June the EU entered into negotiations with the US for the creation of the Transatlantic Trade and Investment Partnership. The effects of reaching a free trade agreement between today's two main economic areas are significantly positive and are estimated, in the best-case scenario, to generate close to 120 billion euros per year for the European Union. Ex ante assessments of the proposed agreement show that Spain will be one of the countries to obtain the greatest welfare gains from the bilateral partnership – 6.55% of GDP per capita in the more ambitious scenario. Second round negotiations are scheduled for October.

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Santiago Carbó Valverde and Francisco Rodríguez Fernández

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15 **The Spanish housing market: Is the adjustment over?**

José García Montalvo

The recent evolution of house price indices, transactions activity, and trends in the Spanish property market all point to cautious optimism over a recovery in the sector. House prices remain overvalued, but continue falling.

27 **State aid to Spain's banking sector in the EU context**

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Numerous EU governments have provided solvency and liquidity support to their troubled banks throughout the crisis, resulting in higher public deficits. Given the challenges many European banking sectors are still facing, it is likely that additional losses from public bailout schemes will further impact fiscal balances in the coming years.

35 **Progress on the second pillar of the Banking Union: The Single Resolution Mechanism**

Francisco J. Valero, A.F.I.

The EU is currently discussing draft legislation on the creation of a Single Resolution Mechanism, which along with the proposed creation of a new Single Supervisory Mechanism, would constitute

the two main pillars of the Banking Union. Negotiations are progressing slowly and given political considerations, we expect further changes to be introduced prior to the Directive's final approval.

43 **Implications of the EU-US TTIP: The largest bilateral trade agreement in history**

Verónica López Sabater and Álvaro Martín Enríquez, A.F.I.

Regional or bilateral trade agreements, like TTIP¹ between the US and the EU, are replacing the Doha Round, launched in 2001 by the World Trade Organization (WTO), due to their potential to achieve higher levels of international trade liberalization and elimination of non-tariff barriers.

51 **An austerity-driven energy reform**

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The government's latest energy reform reflects an effort to reign in the electricity deficit, recently aggravated by weak demand and excess capacity, but questions remain as to whether or not it will be sufficient to eliminate the deficit, as well as to resolve regulatory uncertainty and improve investment climate in the sector.

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Economic indicators Financial system indicators

¹ Transatlantic Trade and Investment Partnership.

Advancement on Spain's household deleveraging process

Santiago Carbó Valverde¹ and Francisco Rodríguez Fernández²

Reducing household debt levels is one of the major challenges for the Spanish economy. Nevertheless, the deleveraging process has been accelerating in recent months, underpinned by progress on the housing market correction and improved financial stability.

High private sector debt levels associated to asset price bubbles and related lending booms have made household deleveraging a common and painful consequence of financial crises in many countries. As recently pointed out by the IMF and the European Commission, deleveraging remains one of the major challenges for the Spanish economy over the next few years. In this context, this article provides an analysis of the recent evolution and prospects of household debt and financial savings rates in Spain. Spain's private sector debt levels have increased rapidly in recent years compared to the majority of its European peers, and its financial savings rate has been negative until 2012, due to the large incurrence of liabilities. Nevertheless, our analysis reveals that although the debt reduction effort may still take some years, deleveraging seems to be accelerating recently. Funcas' estimates for 2013 point to a continued acceleration in the deleveraging effort, permitting Spanish families to progressively increase financial savings and their net financial wealth.

The trade-off between private sector deleveraging and growth

During times of economic expansion, macroeconomic analysts follow the evolution of a country's private sector savings rate as an advanced indicator for investment and economic growth. However, during financial crises, households' and firms' savings tend to be considerably limited by high levels of private sector debt. This debt is frequently associated to asset price bubbles and lending booms, as is the case of the current financial crisis in many

countries. In this article, we analyse the Spanish case, paying particular attention to household debt and financial savings.

In its latest staff report on the situation of the Spanish economy³ as of August 2013, the International Monetary Fund (IMF) points to deleveraging as one of the main remaining challenges for the Spanish economy over the coming years. The IMF highlights that recovery from a financial crisis is typically weaker than a normal recovery and this is due to the sacrifices that stem from fiscal consolidation and private

¹ Bangor Business School and Funcas.

² University of Granada and Funcas.

³ Staff Report for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 19th, 2013, with the officials of Spain on economic developments and policies.

sector deleveraging efforts. As for the Spanish private sector, the report mentions that firms are deleveraging by cutting employment and investment “in the face of costly financing and weak demand prospects” and this trend is helping many firms to become net lenders to the rest of the economy. In the case of households, although their level of debt is relatively lower than that of firms, the effort is probably tougher as most of the debt is long-term (mortgages) and the real estate assets that serve as collateral for such debt have lost significant value.

Overall, the IMF estimates that even if it is a necessary adjustment, deleveraging may create some pressures that –along with financial distress– could generate a negative macro-financial feedback loop that leaves not only private, but also public debt “at elevated levels for the foreseeable future.”

Similar concerns have been expressed in a recent report by the European Commission (EC), in particular by the directorate of Economic and Financial Affairs⁴. The Commission observes that deleveraging processes in the private sector are

a common feature in several EU countries, which, “although necessary, represent a source of concern in terms of implications for economic activity.” The report offers some statistical estimates comparing the current levels of household and non-financial corporations’ debt with a benchmark based on “pre-crisis” levels. The analysis suggests that deleveraging pressures could be highest in Cyprus, Portugal “and, although to a lesser extent, Spain, where both credit supply and demand risks are high.”

One of the main consequences of households’ deleveraging –as we will show in this article for the Spanish case– is a decrease in housing investment and in consumption. In the abovementioned EC report, the simulation of a deleveraging shock in a dynamic general equilibrium model also shows significant negative effects on unemployment, “notably when the economy is characterized by significant real and nominal wage rigidities.”

As shown in Table 1, the magnitude of private sector debt in Spain has become sizeable. In 2005, total private sector debt in the form of securities other than shares and loans was

Table 1

The magnitude of the leverage: Private sector debt in Spain

Private sector debt in the form of securities other than shares and loans (billion euros)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013Q1
Non-financial corporations	951.5	1,191.3	1,385.3	1,474.7	1,461.1	1,494.8	1,470.0	1,365.0	1,322.5
Households	653.4	780.7	876.6	913.4	906.1	901.7	874.3	837.2	822.8
Private sector - Total	1,604.9	1,972.0	2,261.9	2,388.1	2,367.2	2,396.5	2,344.3	2,202.2	2,145.3
Private sector debt in the form of securities other than shares and loans (% GDP)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013Q1
Non-financial corporations	104.3	120.9	131.5	135.6	139.4	142.5	138.2	130.1	126.4
Households	71.9	79.2	83.2	84.0	86.5	86.0	82.2	79.8	78.6
Private sector - Total	176.2	200.1	214.7	219.6	225.9	228.5	220.4	209.9	205.0

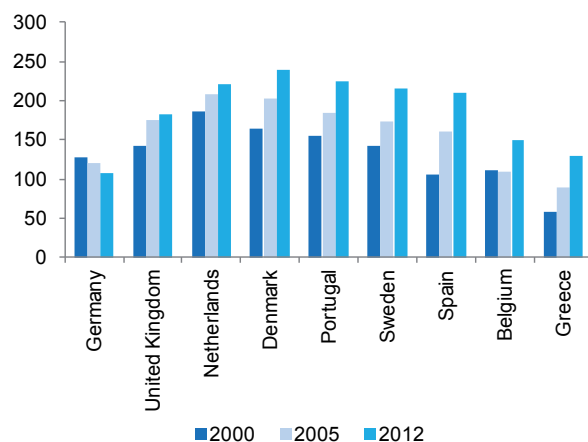
Source: Bank of Spain and own elaboration.

⁴ In particular, the report entitled “Indebtedness, Deleveraging Dynamics and Macroeconomic Adjustment” by Carlos Cuerpo, Inês Drumond, Julia Lendvai, Peter Pontuch and Rafal Raciborski. (European Economy. Economic Papers. 477. April 2013. Brussels).

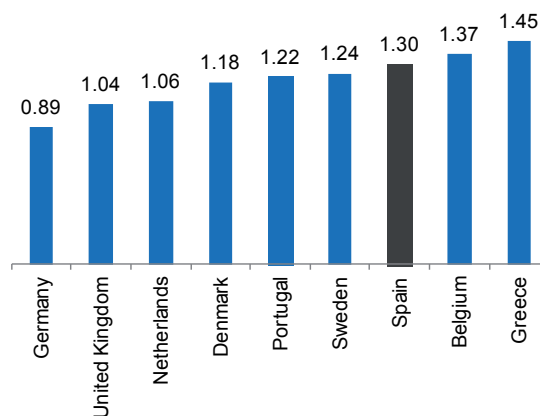
Exhibit 1

Private sector debt: Comparison across EU countries

Private sector debt/GDP (%)



Private sector debt 2012 / Private sector debt 2005



Source: Eurostat and own elaboration.

1,604.9 billion euros. This figure rapidly grew to 2,396.5 billion euros in 2010 and its reduction has only occurred in the last two years as it stands at 2,145.3 billion euros as of 2013Q1. In the case of households, debt has increased from 653.4 to 913.4 billion euros between 2005 and 2008, falling thereafter to 822.8 billion euros in 2013Q1. In the case of non-financial firms, debt increased from 951.5 to 1,494.8 billion euros between 2005 and 2010, as deleveraging has only occurred from 2010 onwards with the outstanding debt being 1,322.5 billion euros in 2013Q1.

In terms of GDP, total debt of Spanish households was 71.9% in 2005. It reached a peak in 2009 (86.5%) and fell to 78.6% in 2013Q1. In the case of non-financial corporations, the debt-to-GDP ratio rose from 104.3% in 2005 to 142.5% in 2010 and it fell to 126.4% by 2013Q1.

Using Eurostat data (Exhibit 1) we find that the private debt-to-GDP ratio in Spain in 2012 (210%) was of a similar magnitude to that of other countries such as Denmark (238%), Netherlands (221%), Portugal (224%) or Sweden (215%).

However, as shown in the right chart in Exhibit 1, the net increase in the debt of the private sector from 2005 to 2012 has been really fast in Spain. The debt to GDP ratio in 2012 was 1.30 times larger than in 2005, greater only in Greece (1.45) and Belgium (1.37).

Overall, the magnitude of private sector debt in Spain is considerable. However, the acceleration path of this debt is perhaps even more significant and reducing it has become a big challenge, as we will show later on in this article.

Spain's household financial savings rate

Concentrating on Spanish households, we wonder to what extent the increase in debt levels in the years before the crisis (and even during the initial years of the crisis) has affected the savings rate of Spanish households. The flow of financial assets and liabilities in the hands of Spanish families (labelled as "net acquisition of financial assets" and "net incurrence of financial liabilities", respectively) is shown in Table 2.

Table 2

Financial transactions account: Spanish households (billion euros)

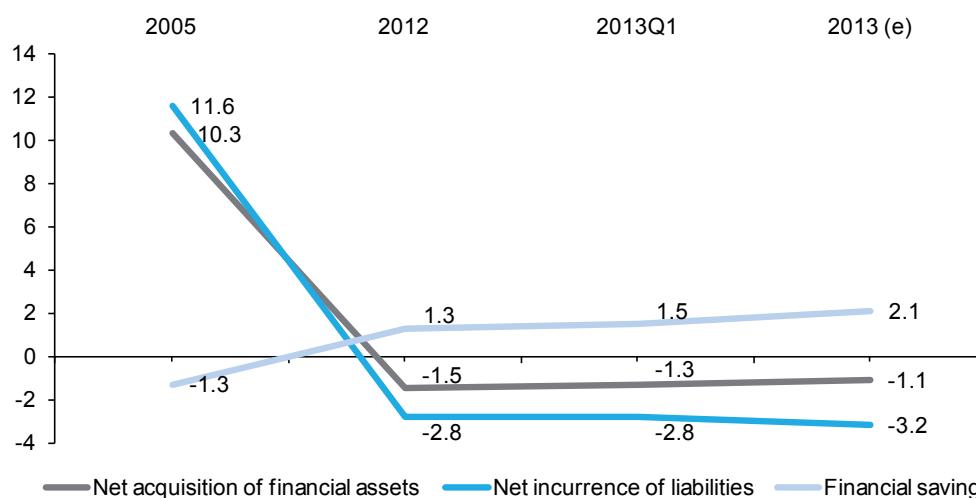
	2005	2012	2013Q1
Net acquisition of financial assets	93.2	-16.2	2.4
Currency and deposits	50.1	2.9	6.8
Securities other than shares	1.8	-14.1	-12.6
Shares and other equity	17.5	5.9	5.5
Insurance technical reserves	17.1	-1.2	4.8
Other accounts receivable	6.6	-9.7	-2.2
Net incurrence of financial liabilities	105.1	-29.5	-5.7
Loans	111.8	-35.1	-12.9
Other accounts payable	-6.7	5.7	7.2

Source: Bank of Spain and own elaboration.

There are two main trends in the financial transactions account of Spanish households. First, the net acquisition of financial assets declined considerably between 2005 (93.2 billion euros) and 2012 (-16.2 billion euros). The decrease is due to both a reduction in the acquisition of

financial assets as well as to a reduction in the market value of these assets. The most recent data, as of 2013Q1, show that the improvement in market conditions is permitting Spanish families to increase the value of their net acquisition of financial assets, which was 2.4 billion euros in the

Exhibit 2

Households' financial savings over GDP (%)

Source: Bank of Spain and own elaboration.

first quarter of this year. The second trend refers to the net incurrence of financial liabilities. In 2005 alone, Spanish households increased the flow of debt represented by loans and other liabilities by 105.1 billion euros. In 2012, the situation was completely different as a negative flow of 29.5 billion euros was registered. This deleveraging effort continued in 2013Q1 with a negative incurrence of liabilities (net reduction of debt) of 5.7 billion euros, only during that quarter

The financial savings rate is computed as the difference between the net acquisition of financial assets and the net incurrence of liabilities, as a percentage of GDP. As shown in Exhibit 2, this rate was negative in 2005 (-1.3% of GDP) due to a large incurrence of liabilities (11.6%) as compared to assets (10.3%). Both components of financial savings fell considerably thereafter and from 2012 onwards we observe a significantly larger fall in liabilities, which permitted the savings rate to increase to 1.3%. Funcas estimates that in 2013 the deleveraging effort will continue to accelerate, permitting households to increase their financial savings rate to 2.1% by the end of the year.

Household debt: The role of mortgages

Among the determinants of the increase in household debt, the real estate bubble and the related growth in mortgages and other loans are the most important drivers. In this sense, the way the deleveraging process is conducted is strongly linked to the developments in mortgage markets. At first glance, the reduction of mortgage debt could be undertaken by means of the sale of the underlying asset (the house), or devoting other resources to make early payments on these loans. Both alternatives do not seem to be available to most Spanish households given the recent evolution of unemployment, wages, savings and rent expectations. In such situations,

Among the determinants of the increase in household debt, the real estate bubble and the related growth in mortgages and other loans are the most important drivers. In this sense, the way the deleveraging process is conducted is strongly linked to the developments in mortgage markets.

other solutions, such as personal liquidation and bankruptcy laws and/or loan payment facilities and renegotiations, are also useful in reducing the pressure of mortgage debt. Some of these solutions are discussed in the conclusions of this article⁵.

Along with reductions in the stock of debt, deleveraging also requires an adjustment of lending flows. This is clearly happening in Spain, as shown in Exhibit 3, which shows the annual change in the effective flow of financing to Spanish families. The annual change was 20.88% in 2005 and has been progressively reduced to 4.4% in 2008, turning negative from 2010 onwards. During 2012 and 2013, this reduction in the financing flows has accelerated and in the first half of 2013, the annual change in financing to households has

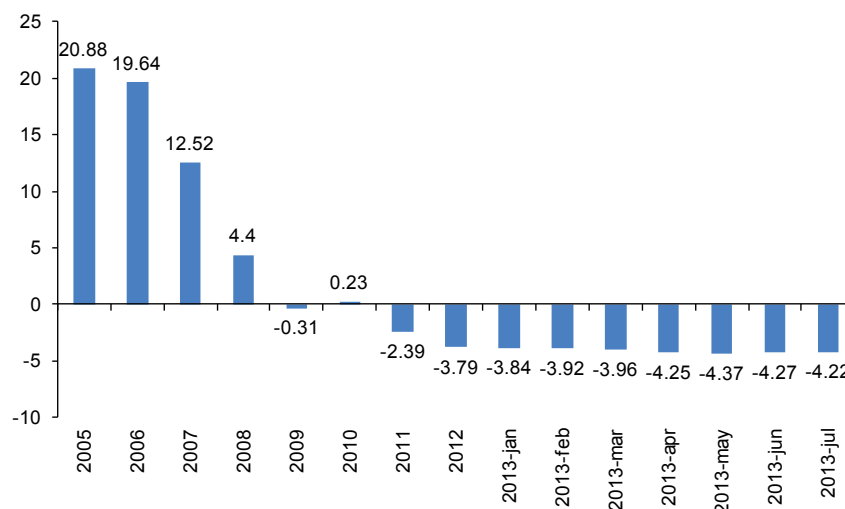
The reduction in financing to Spanish families represents a paradigm of the deleveraging trade-off, as correcting the existing debt imbalances has a cost in terms of investment and consumption.

been around -4%. This reduction in financing to Spanish families represents a paradigm of the deleveraging trade-off, as correcting the existing debt imbalances has a cost in terms of investment and consumption. In any event, the trend shown

⁵ A detailed review of current initiatives to face the socio-economic problems related to mortgage defaults are summarized in the volume 2, number 2 issue of *Spanish Economic and Financial Outlook* (SEFO) entitled "An assessment of the Spanish mortgage framework: Issues, policy options, and implications": <http://www.funcas.es/publicaciones/Sumario.aspx?IdRef=20006>

Exhibit 3

Financing of households (annual change in the effective flow of loans)

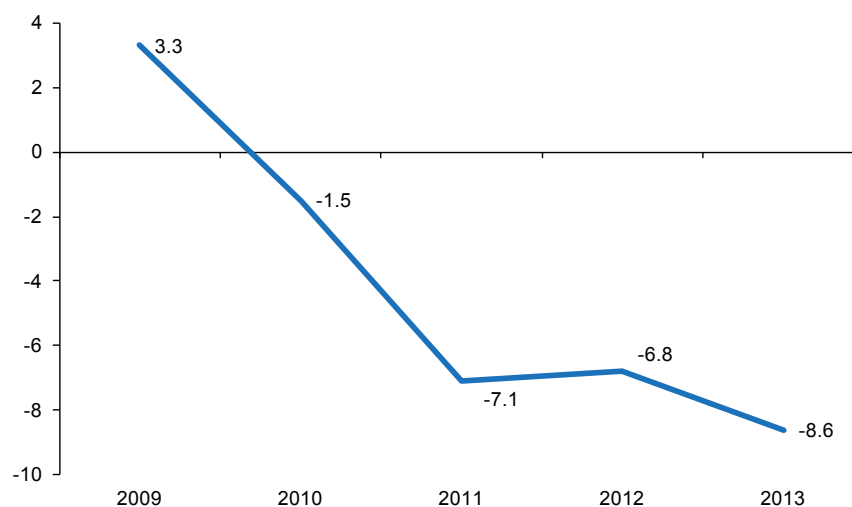


Source: Bank of Spain and own elaboration.

in Exhibit 3 reveals that even if deleveraging will probably take years to reach a more sustainable level, it seems to have accelerated in recent months.

Exhibit 4

Evolution of the monthly rate of the number of property transactions (Variation in June as compared to May of the same year, %)

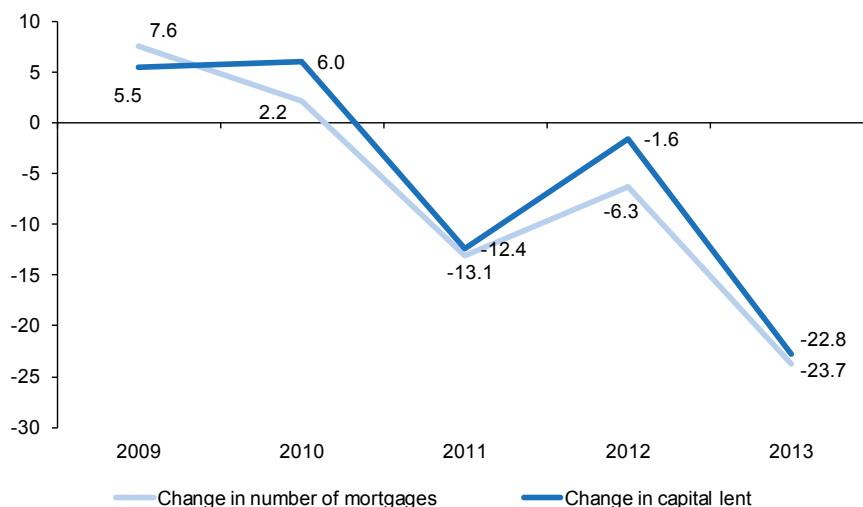


Source: National Statistics Office (INE) and own elaboration.

Exhibit 5

Monthly change in mortgages constituted in Spain

(Variation in June as compared to May of the same year, %)



Source: National Statistics Office (INE) and own elaboration.

The other alternatives to speed up the reduction of mortgage debt would be the sale of the house that serves as collateral or the early redemption of (at least part of) the loan. Both possibilities are limited by the macroeconomic conditions and also because part of the adjustment in the real estate market is still to be completed. Such adjustment negatively affects the real wealth of households but it permits an increase in the number of housing transactions, reactivates and stabilizes the housing market and, overall, accelerates deleveraging by means of asset disposals (house sales). However, as shown in Exhibit 4 –based on the most recent data as of June 2013– the number of property transactions is not rising but decreasing at an ever-increasing pace, suggesting that the adjustment in the housing market is yet to be finished.

The same conclusion applies when analysing the monthly change in mortgages constituted. The most recent figure as of June 2013 shows, for example, a reduction in the number of these contracts by 23.7%

just from May to June 2013. Similarly, the capital lent in new mortgage contracts has declined by 22.8% during the same monthly period.

Financial wealth of Spanish households

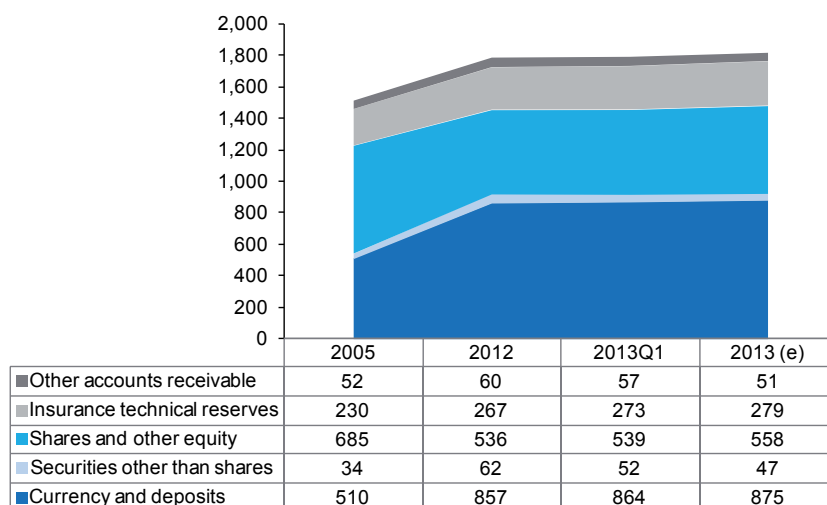
Along with financial flows, the evolution of the financial wealth of Spanish families (the stock values) is a very relevant indicator of the capacity of these households to reduce their debt. This is because reducing leverage is more feasible when the value of assets is increasing and more resources can be devoted to debt service payments.

The evolution of the structure of the balance sheet of Spanish families in recent years, as well as Funcas' projections for 2013, are shown in Exhibit 6. We observe that the asset side has grown at a slow pace in recent years both due to the difficulties of Spaniards to acquire new financial

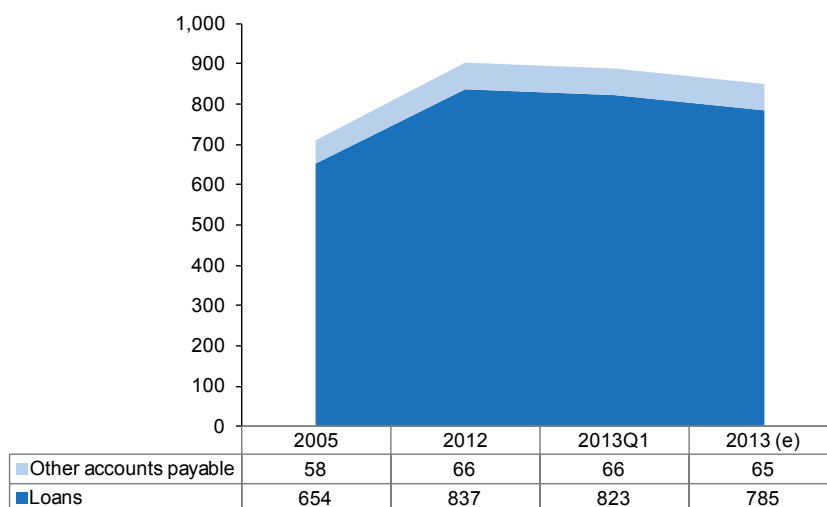
Exhibit 6

Financial balance sheet of Spanish households (2005, 2012, 2013Q1, and projections for 2013, billion euros)

Assets



Liabilities



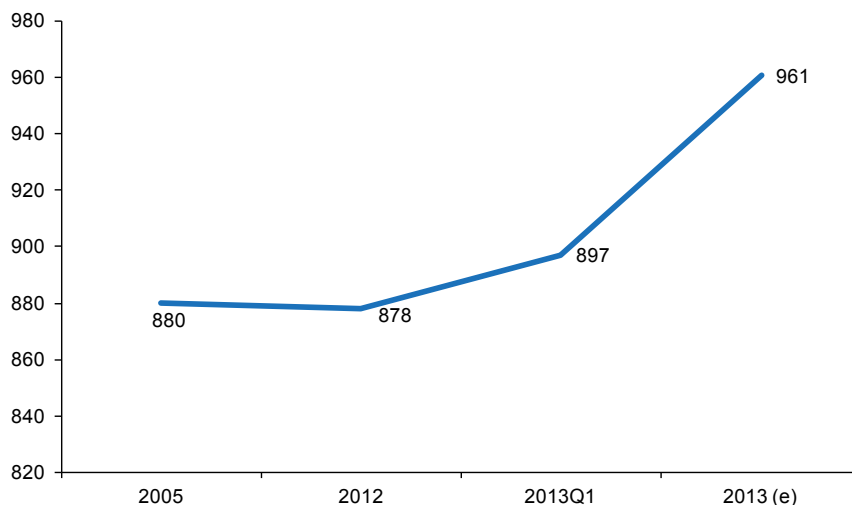
Source: Bank of Spain and own elaboration.

assets and as a result of the decrease in the value of some of these assets (in particular, those whose performance is linked to stock markets, such as shares). In any event, total outstanding financial assets were 1,591 billion euros in 2005,

1,781 billion euros in 2012 and 1,786 billion euros in 2013Q1. Funcas estimates for 2013 that total assets will rise to 1,811 billion euros by the end of the year. The liability side, however, has been considerably reduced, and the fall has been

Exhibit 7

Net financial assets of Spanish households (2005, 2012, 2013Q1, and projections for 2013, billion euros)



Source: Bank of Spain and own elaboration.

particularly significant in the last two years. Total loans were 837 billion euros in 2012 and as of 2013Q1, they were 823 billion euros. Funcas' projection is that loans will decline to 785 billion euros by the end of 2013.

The difference between the assets and liabilities in the hands of Spanish families is referred to as "net financial assets" or "households' financial wealth". This figure is shown in Exhibit 7. There is some positive news as the recent acceleration of the deleveraging process, as well as the relatively improved performance of the stock market, has permitted Spaniards to increase their net financial assets to 897 billion euros in 2013Q1. Funcas estimates that household financial wealth will stand at 961 billion euros by the end of 2013,

Funcas estimates that household financial wealth will stand at 961 billion euros by the end of 2013, which represents a 9.4% increase with respect to 2012.

which represents a 9.4% increase with respect to 2012.

Conclusions

From 2005 to 2008, Spaniards increased their financial debt by 260 billion euros. From 2009 to 2012, this debt has been reduced by 90 billion euros, suggesting that a long deleveraging process still lies ahead. This is a common feature in financial crises, in particular when countries are severely hit by real estate bubbles, as has been the case in Spain.

Even if the deleveraging process may still take a few years to be completed, we observe that there has been a relative acceleration in the process in recent months, given progress on corrections in the housing market and the progressive restoration of financial stability.

The reason why the deleveraging process will necessarily take years, is that some of the standard solutions to reduce household debt –such as the

early redemption of loans or house sales— are currently not available in a country which suffers high unemployment and a decrease in the value of real estate assets. Even if house purchase transactions eventually increase, there will be a necessary welfare loss, as the mortgage debt linked to the house will be, in many cases, larger than the sale value of the house, a problem which is commonly known as “negative equity”.

crises —such as imposing haircuts on mortgage contracts— are not necessary and would be harmful to financial stability.

Given this situation, government efforts, in line with, *inter alia*, IMF recommendations, should be focused on making the deleveraging process as efficient as possible. This should involve legal measures such as facilitating personal bankruptcy laws —which have been relatively absent in Spain as compared to other EU jurisdictions— and also social measures to alleviate some negative consequences, which are inevitable to a large extent during the correction of current imbalances, such as foreclosures and evictions.

As noted by the IMF in its latest assessment of the Spanish economy as of August 2013, there are some positive policy actions being currently developed in Spain, such as “debt relief mechanisms, which are envisaged for natural persons subject to bankruptcy proceedings. Additional measures, and in particular the establishment of a special personal insolvency regime to provide a fresh start for debtors, have to be carefully balanced against their impact on the objectives of the policy strategy; i.e. preserving and reinforcing financial stability, and keeping the strong payment culture currently existing in Spain. It is also important to analyze the overall efficiency of those measures from a macroeconomic point of view.”

Overall, a progressive economic recovery, as well as a necessary (though painful) deleveraging should drive Spanish families to rebalance their debt to equilibrium levels more suitable to the reactivation of internal demand and achievement of larger economic growth rates in the country. In this context, other more drastic resolution mechanisms adopted in previous international

The Spanish housing market: Is the adjustment over?

José García Montalvo¹

The recent evolution of house price indices, transactions activity, and trends in the Spanish property market all point to cautious optimism over a recovery in the sector. House prices remain overvalued, but continue falling.

The housing market adjustment following the bursting of the property bubble in Spain has represented a key challenge for the economy. During several years, the adjustment has largely been made through quantities rather than prices. Nevertheless, the recent evolution of house price indices shows that they are finally adjusting fast and remain on a declining path. In addition, large operations in the Spanish real estate market have helped to increase the confidence of international investors. Some key trends have also emerged in the property market, such as the presence of banks as key players in the sector, the increase in cash purchases versus reliance on external financing, and the larger role of foreign investors and foreign funds. Recent transactions by banks and Spain's so-called bad bank the SAREB have also been promising. Despite these developments, the stock of new houses remains largely unchanged and banks continue to accumulate repossessed properties on their balance sheets. Ratios show that the Spanish property market remains overvalued, but that progress on the adjustment process is on going.

Introduction

The Spanish housing market has been one of the best examples of a large housing bubble bursting after the beginning of the financial crisis in 2008. The specific characteristics of the Spanish real estate market have produced an evolution of the main indicators of the housing sector quite different from other countries with similar bubbles. While in some countries, like in the US, the real estate sector seems to already be recovering, questions remain over the extent of the recovery in other countries, such as the case of Spain. In this context, this article examines whether or not the Spanish housing market has completed its adjustment. To analyze this question, we describe

the current situation of the Spanish housing market and its future perspectives.

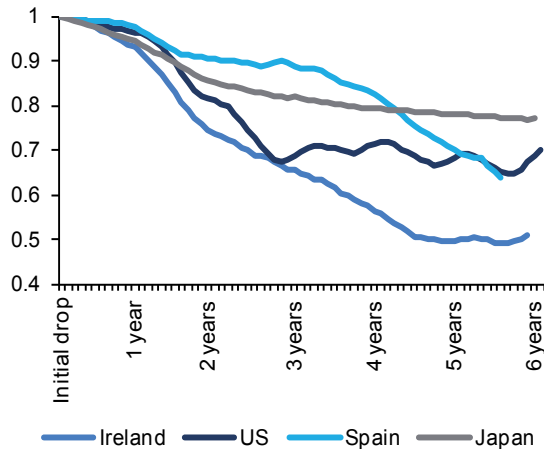
The main characteristic of the Spanish market is its inefficient adjustment process. Unlike efficient markets, Spanish markets usually adjust via quantities instead of via prices. An extreme example of this can be observed in the case of

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¹ Professor of Economics, Universitat Pompeu Fabra and ICREA-Academia Fellow.

Exhibit 1

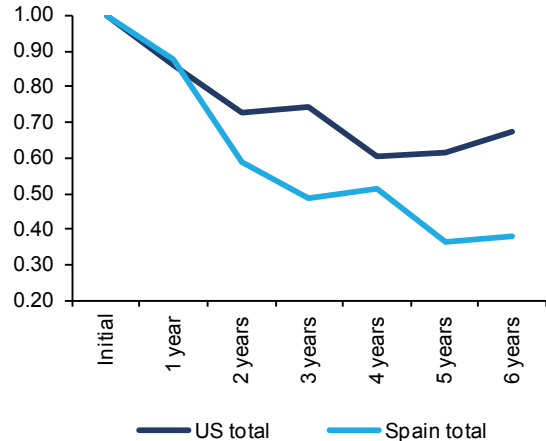
Evolution of housing prices in several countries after the busting of a bubble



Sources: US: Case-Shiller 20 cities composite index. Spain: INE. Ireland: National Residential Property Price index. Japan: Nationwide residential urban land price (Japan Real Estate Institute); and author's calculations.

Exhibit 2

Evolution of housing sales since the beginning of the crisis



Sources: NAR, Census Bureau, Ministerio de Fomento and author's calculations.

the Spanish labor market. While unemployment was growing by the millions, real wages were increasing until very recently. The Spanish housing market is another example of this type of adjustment. Exhibit 1 shows the adjustment of house prices since the beginning of the crisis in four representative countries: Spain, Japan, the US and Ireland². The exhibit shows that the drop in house prices after 3 years of crisis in the sector was around 30% in Ireland and in the US. In Spain, the corresponding figure was around 10%³. Even in the Japanese case, where the bursting of the housing bubble started in 1991, the price adjustment was initially faster than in the Spanish case, although it decelerated soon after the second year into the crisis and it has continued until today.

Obviously, the immediate result of the failure to adjust prices at the proper speed has been

plummeting home sales. Exhibit 2 shows that after three years of crisis, sales of US homes went down by 25%, while in Spain they dropped by 50%. This fact translates into a large drop in new residential construction. In the Spanish case, the drop from the peak has been 92%.

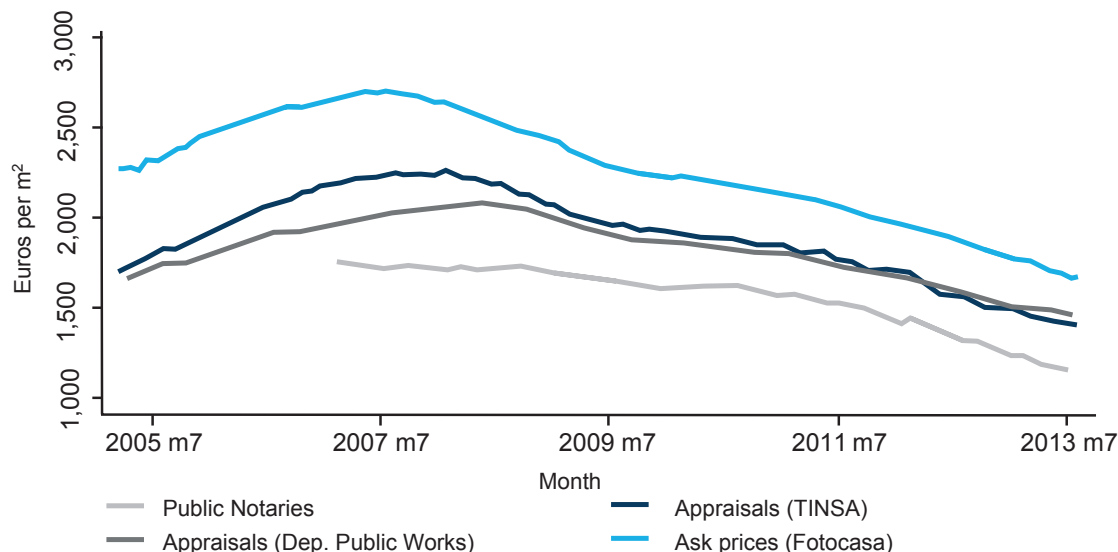
Recent evolution

In any case, the analysis of the evolution of house prices in Spain is complicated because of the multiplicity of indicators and the fact that none of them is, strictly speaking, the market price. It is possible to make some inferences about the process of adjustment of the Spanish residential market by comparing the evolution of different price indicators. Exhibit 3 shows the level of four indices: the ask price on existing houses

² The initial drop happens in different periods in each country. In Japan it occurs in January 1991. In the US, in July of 2006. In Ireland, in December of 2006. In Spain, in September of 2007.

³ The message of the exhibit is identical if we work with deflated home prices. There is a large divergence during many years in the speed of adjustment of house prices between Spain and other countries that suffered large housing bubbles.

Exhibit 3

Evolution of alternative indicators of house prices in Spain

Sources: Centro de Información Estadística del Notariado, Ministerio de Fomento, TINSA, Fotocasa and author's calculations.

compiled by Fotocasa; the official house price maintained by the Department of Public Works (Ministerio de Fomento, formerly Ministerio de Vivienda), based on an aggregation of appraisal values from many companies; the house prices compiled by the Spanish Official Association of Notaries⁴; and the IMIE Spanish housing market index, which is produced by TINSA, one of the largest appraisal companies in Spain⁵. It is reasonable to expect ask prices to be above appraisal values and prices recorded by notaries. The difference between appraisal values and prices as compiled by notaries is due to the inertia of the bias towards over-appraisals during the housing bubble and the undeclared cash that is involved in many house purchases. Montalvo and Raya (2012)⁶ estimate an 8% average divergence

between the declared price and the actual price paid. We argue in the following pages that the increase in the proportion of buyers who do not use external financing makes indices based on appraisals less relevant.

There are some other price indices. Table 1 covers all the relevant indicators of house prices.

The change in house prices since the peak is around 35% and this figure is very similar for the majority of price indicators.

Besides the ones describe above, there is the price compiled by the Sociedad de Tasación

⁴ There is another official price index produced by the Spanish Statistical Office but being an index, it does not allow for calculation of original levels. In principle, the index of the notaries should have a similar level since most sales are first notarized and, afterwards, registered in the official Property Registry.

⁵ Notice that the methodology to construct these indicators is diverse and their geographical coverage may not be identical.

⁶ "What is the right price of Spanish residential real estate?," 1 (3), *Spanish Economic and Financial Outlook*, September 2012, 22-29.

Table 1
House price change since the peak

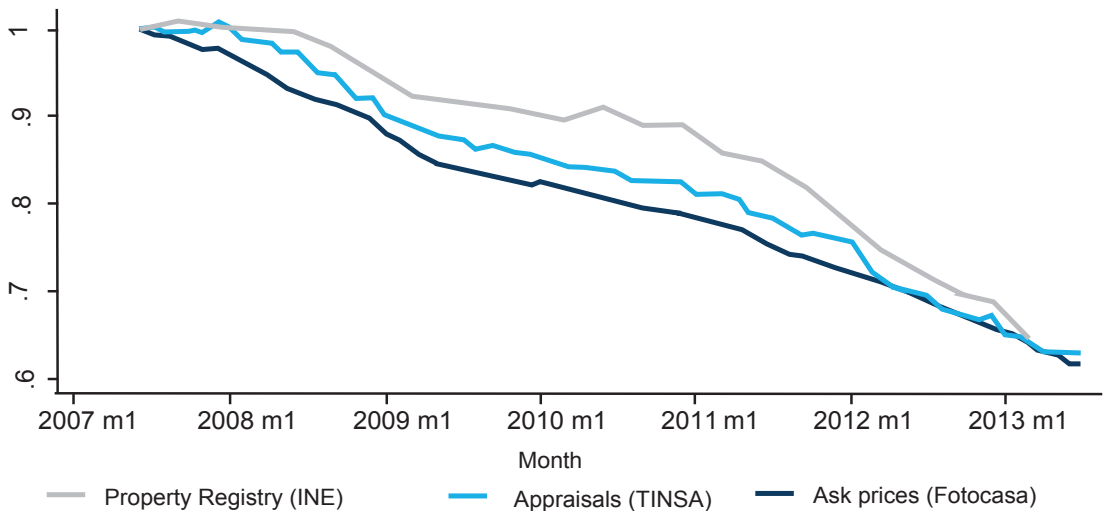
	Peak	Last observation	Change since peak
Ministerio - Appraisals	March-08	June-13	-29.5%
INE-Registry prices	September-07	June-13	-36.7%
Fotocasa-Ask prices (existing houses)	June-07	June-13	-33.6%
Official Association of Notaries	July-07	June-13	-34.9%
SOCTAS- New houses	December-07	June-13	-27.6%
IMIE- Appraisals	December-07	August-13	-38.6%

Source: Several sources, as detailed in table, and author's calculations.

(SOCTAS) referring to new residential construction, and the index of the Spanish Statistical Office (INE) that comes from the data of the property registries. Table 1 indicates that the change in price since the peak is around 35%, and this figure is very similar for all the indicators with the exception of the SOCTAS, probably because it refers only to new construction. The timing of the change in

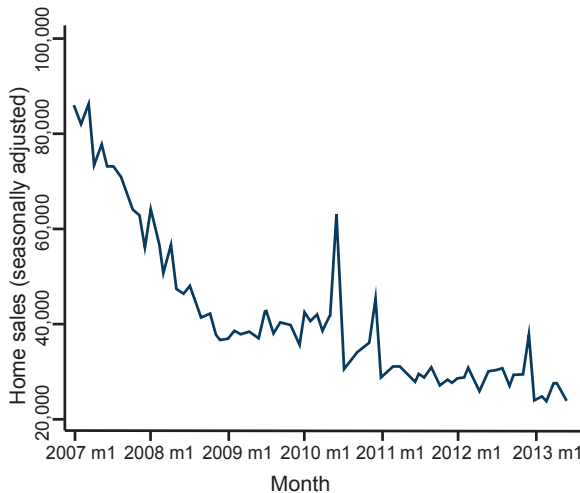
prices is as interesting as its current accumulated loss. Exhibit 4 shows that house prices have been converging across the different indicators during the first years after the beginning of the crisis. Ask prices initially were going down faster than appraisal values and appraisal prices faster than the prices compiled by the INE. Appraisal values have adjusted downward very quickly

Exhibit 4
Evolution of prices since the beginning of the housing crisis



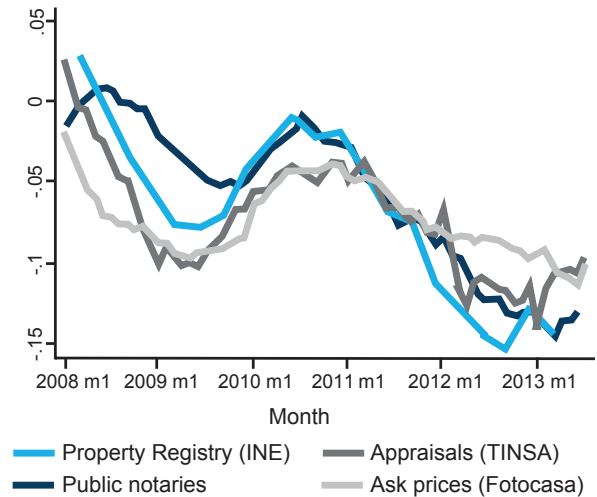
Sources: Bank of Spain, TINSA and author's own calculations.

Exhibit 5

Housing sales seasonally adjusted

Source: Centro de Información Estadística del Notariado.

Exhibit 6

Prices changes of alternative indicators

Sources: INE, TINSA, Official Association of Notaries, Fotocasa and author's calculations.

after 2012, basically because of the impact of the government's financial reform decrees known as Guindos I and II that increased provisions on real estate credits and repossessed real estate kept on banks' balance sheets. However, in recent months, appraisals and ask prices have slowed their decline while the prices of INE have accelerated their downward adjustment.

The evolution of home sales shows a downward trend with spikes explained by frequent changes in tax conditions on home buying since the beginning of the crisis. Exhibit 5 shows the evolution of seasonally adjusted sales calculated from the data of the Spanish Official Association of Notaries⁷. Despite being seasonally adjusted, the data of Exhibit 5 show three clear peaks. In June 2010 there was a peak before the increase in the value added tax and the transaction tax. The latter one affected only some regions (the most significant Catalonia, Andalucía and Extremadura).

In December of 2010 there is another peak to take advantage of the last period of general deduction for interest and capital of mortgages for the acquisition of a house. After that date, only individuals earning less than 24,107 euros could itemize tax deductions for buying a home. In January of 2012 the newly elected government introduced again a general tax deduction on house buying that was, finally, eliminated in December of 2012. That is the last peak in Exhibit 5. During 2010, there was a stabilization of sales and a slow down in price adjustment (Exhibit 6) due basically to the expectation of the end of the general fiscal incentives for home buying.

Current situation

The current situation is characterized by several distinctive facts. First, the banking sector has become a critical player in the housing market and, generally speaking, in the real estate market.

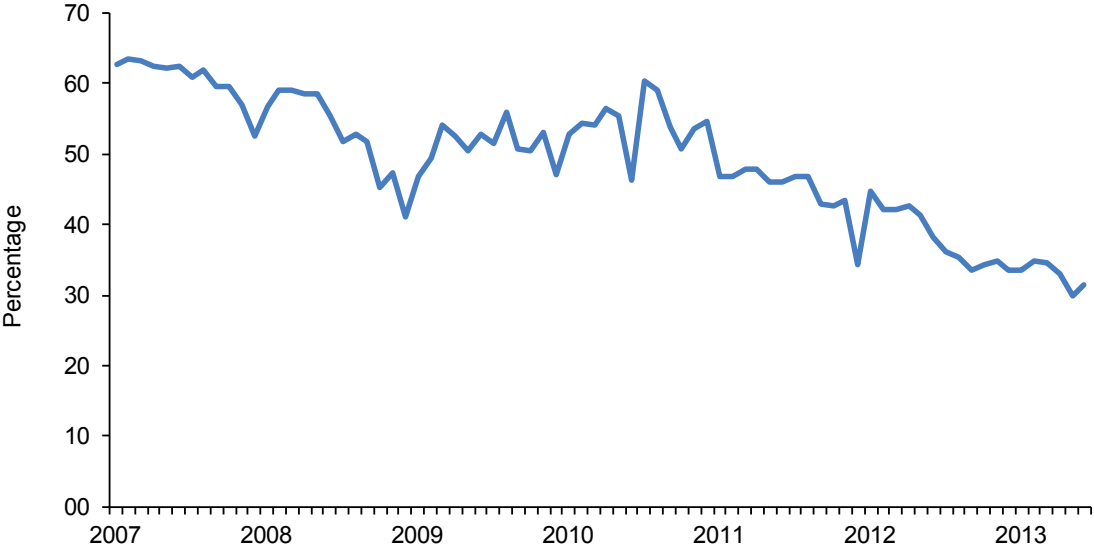
⁷ The data of the Property Registries offered by the Department of Public Works is not appropriate to analyze this question since registration may take up to three months which distorts the temporal pattern of actual sales.

During the first semester of 2013, the five largest private banks (La Caixa, BBVA, Santander, Sabadell and Popular) plus Spain's so-called bad bank, SAREB, have sold around 35,000 properties. SAREB represents 5% of the sales of that group of financial institutions. These properties account for 25.5% of all the transactions in urban properties (houses and other properties attached to them) during the first semester as reported by the Spanish Official Association of Notaries. This proportion should be considered just a possible approximation since the banks do not disclose separately some urban properties (houses, apartments, garages and box rooms) from land and commercial properties. If we consider the total number of transactions of urban properties then the proportion is 20.2%. It is interesting to notice that we can conclude, based on partial information, that banks are getting profits out of these sales since the prices at which they are closing operation are, on average, above the net accounting value. The reason is that the

bank provisions for nonperforming loans and repossessed properties forced by the so called Guindos I and II decrees of 2012 reduced very much the net accounting value. The rush to sell their properties taking advantage of this situation will lead to the end of these profits.

Secondly, the proportion of home buyers who pay cash has increased drastically⁸. Several reasons explain this trend. First, the sharp reduction in the price of the properties allows buyers with some savings to pay without the need to get a mortgage. Second, banks have adjusted their risk parameters and have decided to reduce their exposure to the housing sector. Therefore, it is more difficult to get a mortgage. In addition, conditional on approval, the spread with respect to the reference interest rate (Euribor) has multiplied from 4 to 6 during the last year and a half. Finally, the return on alternative investments, and in particular deposits, has gone down quite significantly. Using data of Tecnocasa, an intermediary in the residential housing market,

Exhibit 7
Proportion of house sales financed with a mortgage



Source: Official Association of Notaries.

⁸ This trend makes the price indices based on appraisals less relevant since many sales would not require an appraisal.

we estimated that during the first quarter of 2013 the proportion of houses bought without external finance was around 55%, and reached 60% in Barcelona. The Spanish Official Association of Notaries has estimated that close to 70% of all the transactions take place without a mortgage (see Exhibit 7). They calculate this figure dividing the number of new mortgages for buying houses by the sale of houses in urban buildings. Banco de Sabadell claims that 70% of their sales during the first semester of 2013 did not involve a mortgage.

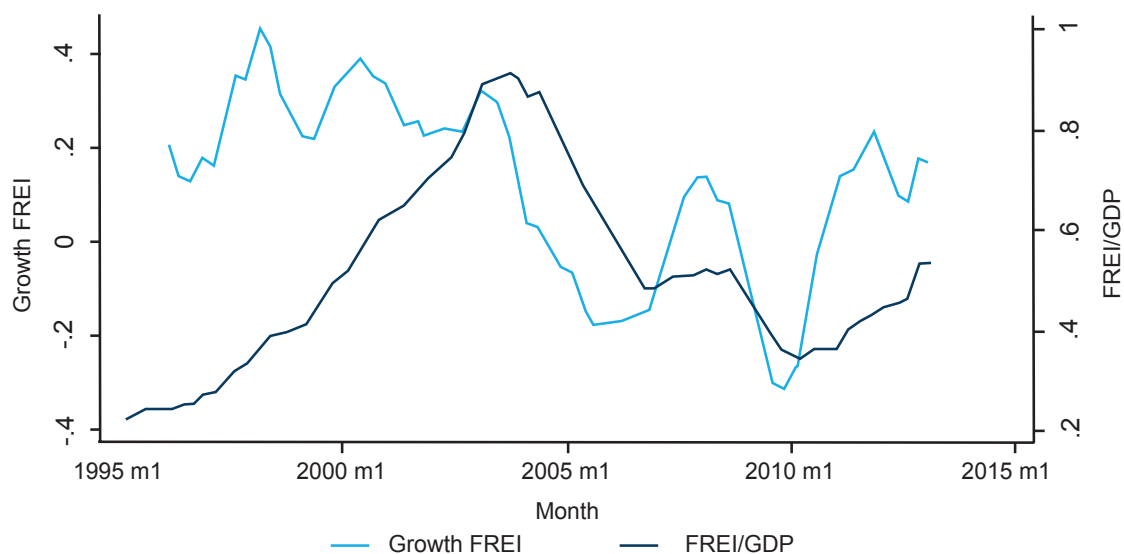
The trend towards all-cash deals is associated with the return of investors to the market. Using the data of Tecnocasa, we estimate that 25% of the buyers during the third quarter of 2013 were investors, mostly buying houses of less than 100,000 euros. We should notice that the recovery of the US market started also with a rush of investors buying cheap properties (\$70,000-\$100,000) to convert them to rentals. This process was accompanied by a sizeable increase in the percentage of all-cash sales. For instance, during the first quarter of 2013, 65% of homes in Miami

were sold in all-cash deals compared with 16% in 2007. The national proportion for all-cash purchases in the US shows a large increase in recent years, although there is some controversy on the level: the National Association of Realtors (NAR) sets the most recent proportion at 31% while Goldman Sachs says it reaches 57% and Realty Trac estimates 40%. The NAR also estimates that 70% of all Miami investors paid cash.

Thirdly, foreign buyers are coming back to the Spanish real estate sector. Exhibit 8 shows that foreign investment in the Spanish real estate sector is growing at 16%. In the past the behavior of foreign investors tended to anticipate changes in the evolution of the sector. Foreign investment went down at the beginning of 2005 in anticipation of the bursting of the bubble. However, the proportion of foreign real estate investment over GDP is still far from the pre-bursting levels, although it has grown since the minimum of 2010. Another measure of the growing importance of foreigners in the Spanish real estate market is the proportion of foreigners buying real estate as reported by the

Exhibit 8

Foreign investment in the Spanish real estate market



Sources: Bank of Spain. FREI: Foreign Real Estate Investment.

Registry. During the first quarter of 2013, foreign buyers represented 17.5% of the transactions, while in 2012, they accounted for around 12% and one year before they represented around 10%. Of those foreigners, 91.4% had their residence in Spain.

A final indication is the interest of foreign funds, especially during the last months, for buying real estate properties in Spain. During the first semester of 2013 the sales of non-residential real estate reached almost 900 million euros (DTZ Consulting), although the first quarter was not especially positive. In clear contrast with the

There was a consensus among international real estate investment fund managers that prior to entry into the Spanish property market, it was first necessary to see a few large operations and, specifically, from the SAREB. Recent SAREB operations BULL and BERMUDAS have helped to improve sentiment towards investment in Spanish real estate.

situation in 2012⁹, when many large operations had Spanish buyers like Amancio Ortega¹⁰, international funds are betting on Spanish real estate properties. Table 2 compiles some relevant real estate deals and a few pending operation during 2013. It also shows that the activity of international investors has accelerated during July and August. There was a consensus among international real estate investment fund managers that prior to entry into the Spanish property market, it was first necessary to see a few large operations and, specifically, from the

SAREB. Recent SAREB operations BULL and BERMUDAS have helped to improve sentiment towards investment in Spanish real estate (See Table 2).

It is certainly true that some of these operations were not simple transactions of packages of real estate properties for cash. For instance, when a real estate subsidiary of a nationalized bank is sold, the operation does not entail the transfer of any property but the right to manage the contracts of SAREB and get (part of) the fees and commissions for selling properties. Project BULL is not a simple operation either. US private equity fund HIG (51%) and SAREB (49%) will share a Bank Asset Trust, or FAB (Fondo de Activos Bancarios) in its Spanish initials. The model is vendor financed, which means that SAREB will finance part of the price paid by Bayside Capital, an HIG Capital affiliate. Banco de Sabadell has sold a securitization vehicle that has 953 houses of former savings bank CAM as underlying assets. Solvia, the real estate company of Banco de Sabadell, will still be in charge of finding buyers for them and will get fees for maintenance and commissions for sales.

Many experts have argued that the participation of SAREB in the real estate market would imply a very strong downward pressure on housing prices. This is not likely to be the case. Opposite to what we hear frequently, SAREB is mostly a depository for real estate credits. Properties (land and buildings in construction and finished) account for only 11.3 billion of total assets of 50.7 billion. The total number of finished units for sale represents a little more than 10% of the total stock of new construction on sale¹¹. The large acceleration in the adjustment of house prices happened after the Decrees for new provisions Guindos I and II that eliminated partly the incentives of banks to

⁹ Investment in real estate by international investors is very sensitive to Spanish macroeconomic conditions. Most of the investment (42%) in 2012 took place during the fourth quarter after comments by Mario Draghi on doing whatever was necessary to keep the Euro area safe. In 2012, foreign investors accounted for 46% of the investment.

¹⁰ Founding chairman of the Inditex fashion group. In early 2013, he was ranked as the third richest person in the world by Forbes with a net worth of \$57 billion.

¹¹ Notice that the units of SAREB include new constructions and existing homes.

Table 2

Some relevant real estate operations during 2013

Month	Asset	Seller	Price (millions)	Investor
February	Fontanella 6-8 (Barcelona)	Generalitat Catalunya	25	Avignon Capital
April	Castellana 18 (Madrid)	Deutsche Bank	42	Ram Bhavnani
April	Apt building	Ayuntamiento de Madrid	42.5	Rilafe
May	Ronda Sant Pere 5	Casacuberta Inmuebles	19	Deka Immobilien
June	Former headquarters of Altae	Bankia	9	Norman Foster
June	Hotel Vela (Starwood)	FCC, Comsa-Ente, OHL y BCN Godia	200	Qatar Fund Diar
June	Public buildings (13)	Generalitat Catalunya	172	AXA Real Estate
June	Caspe 6 (Barcelona)	Longshore (Drago Capital)		International investor
July	VPO Madrid (IVIMA): 1,860 houses in rent control	Comunidad de Madrid	128.5	Blackstone (management Magic Real Estate)
July	@Mar Building	AXA Real Estate	17	Autonomy
July	Los Alcores, Mirador de Cuenca and Almazora	Morgan Stanely y Grupo Lar	30	Incus Capital Advisors
July	Serrano 60	La Caixa	42.5	Meyer Bergman
July	Corte Inglés building (Plaza Catalunya)	El Corte Inglés	100	IBA Capital Partners
July	1,000 houses	BBVA	Aprox. 100	Baupost Group
August	Operation BULL: 939 houses and 750 others (parkings, etc.) plus	SAREB	100	HIG Capital (management by Monthisa)
August	Operation BERMUDAS	SAREB	245	Burlington Loan Management Limited
August	VPO Madrid (IVIMA): 2,932 houses	Comunidad de Madrid	201.2	Goldman Sachs (management by Azora)
August	Parque Principado	SONAE y CBRE Global Investors	145	Intu Properties
August	CXI Inmobiliaria	Catalunya Banc	40	Kennedy Wilson y Värde Partners
August	953 real estate properties in a vehicle	Banco Sabadell		
September	Bankia Habitat	Bankia	40-90 ¹	Cerberus Capital Management
September	Servihabitat Gestión In (51%)	La Caixa	127-189 ²	Texas Pacific Group
September	Serrano 83	DAFOR	14.6	Crescendo

Note: Transaction prices are based on publicly available information.

¹ Depending on the degree of development of the business plan.

² Final value will depend on the volume of assets of Caixabank that will be managed by Servihabitat over the next five years.

Operation	Seller	Description
Operation HARVEST	SAREB	22 real estate pieces (land), 5,700 ha
Operation RUNNER	SAREB	35% park Corredor (Torrejón de Ardoz)
Operation BLUE	SAREB	Package of resorts
Operation TEIDE	SAREB	Buildings finished and in construction
Operation CORONA	SAREB	Office space rented in Madrid
Public buildings	Spanish Government	15,135 public buildings, residential and commercial properties

Source: Author's elaboration.

keep unrealistic appraisals for their repossessed real estate properties.

Despite the above referenced trends in the Spanish housing market, there are still two important questions to address. The first one is the evolution of the stock of new houses for sale. Some calculations estimate the number at 811,000 houses at the end of the first semester of 2012¹². The number has been around 800,000 since the end of 2010, which means that the market is still not able to absorb the new constructions, even though they are much fewer than before. The second question is the issue of the total amount of

repossessed properties on the balance sheets of the large banks that did not transfer most of their real estate assets to SAREB. We already mentioned that the largest private banks are selling their repossessed properties much faster than in the past. Despite this fact, they are accumulating real estate properties, which means that the speed of entrance of new properties on their balance sheets is still faster than their ability to sell them. Table 3 shows that the five largest banks accumulated around 62 billion euros (Gross accounting value) and they have increased their holdings by 7% during the first semester of 2013. Around 72% of those assets come from

Table 3

Repossessed properties by the largest Spanish private banks

	End of 2012		End of June 2013		June 2013	Dec12-June 2013	June 2013
	NAV	Coverage	NAV	Coverage	GAV 2013	Increase NAV	Coverage
From developers and construction firms							
Santander	2,906	3,650	3,125	3,917	7,042	7.54%	55.62%
Popular	3,772	3,613	4,158	3,845	8,003	10.23%	48.04%
BBVA	4,001	4,893	3,876	4,987	8,863	-3.12%	56.27%
Sabadell	4,037	3,217	4,473	4,110	8,583	10.80%	47.89%
Grupo "La Caixa"	5,417	5,531	6,071	6,708	12,779	12.07%	52.49%
From households							
Santander	707	454	728	446	1,174	2.97%	37.99%
Popular	665	351	732	379	1,111	10.08%	34.11%
BBVA	1,492	1,020	1,766	1,142	2,908	18.36%	39.27%
Sabadell	2,397	1,197	2,073	1,014	3,087	-13.52%	32.85%
Grupo "La Caixa"	1,458	946	1,599	1,240	2,839	9.67%	43.68%
Total							
Santander	4,323	4,913	4,562	5,213	9,775	5.53%	53.33%
Popular	5,402	5,191	5,998	5,508	11,506	11.03%	47.87%
BBVA	5,873	6,103	6,081	6,489	12,570	3.54%	51.62%
Sabadell	6,712	4,735	6,643	5,463	12,106	-1.03%	45.13%
Grupo "La Caixa"	7,174	6,720	8,065	8,329	16,394	12.42%	50.81%
TOTAL	29,484	27,662	31,528	31,002	62,530	6.93%	49.58%

Note: NAV stand for Net Accounting Value. The Gross Accounting Value is abbreviated as GAV. Total includes others plus capital instruments and financing of companies holding repossessed real estate.

Source: Financial information of banks (1st semester) and author's calculations.

¹² CatalunyaCaixa (2013), *Informe sobre el sector inmobiliario residencial en España*.

developers and construction firms, and 57% is land. The reposessions from retail mortgages account for 18% of the total. The increase in the delinquency rate of retail mortgages can lead to an acceleration of future reposessions. The net accounting value adds up to 31 billion euros for the five largest banks and it reaches 39 billion euros for all the banks.

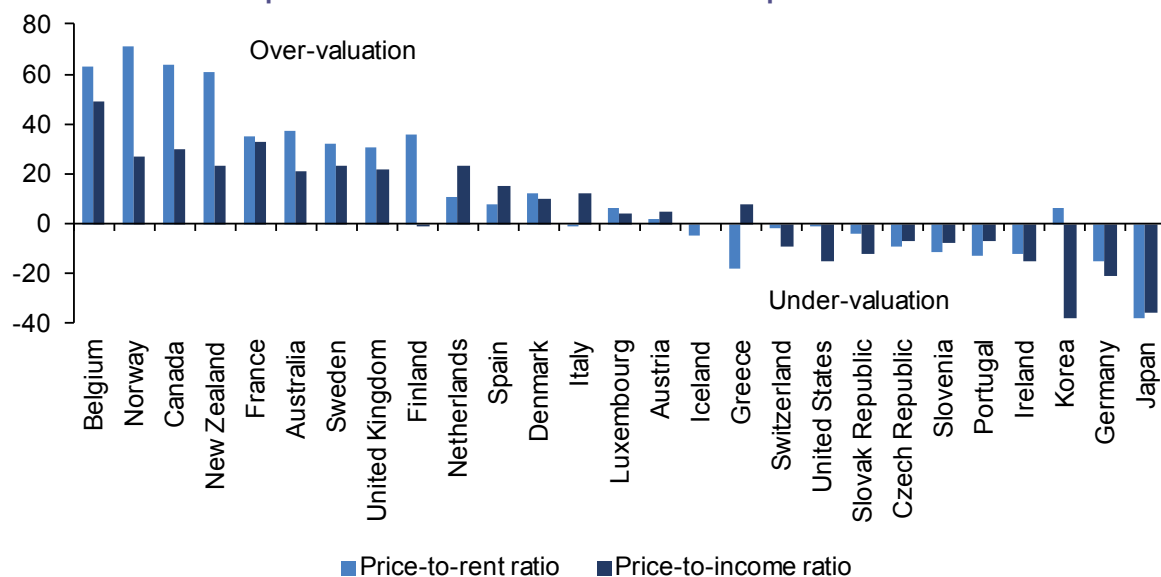
The future ahead

By now it is generally accepted that two ratios are better suited to analyze the situation of the housing market than prices¹³. The first indicator is the price-to-rent ratio, which basically calculates the return of the rental market. This ratio is relevant for investors (especially today since the future of the Spanish housing market goes through the rental market) and for the demand for housing services (to decide between buying and renting).

The second indicator is the price over income, which is the most relevant indicator for local demand. Exhibit 9 shows the OECD estimation of both indicators with respect to the long term average for a large sample of countries. In the United States, house prices have undershot and they are rising. In fact the Case-Shiller's 20-cities composite index has grown at an annual rate of 12.1% in the year ending in June of 2013, although it is slowing down. Housing prices seem to be also undervalued in Ireland and they are stabilizing. Spain belongs to the group of countries in which there is overvaluation but house prices are still falling. The OECD price-income index shows an overvaluation of 15% while the price-rent ratio sets the overvaluation at 8%¹⁴. However, these indices are sensitive to the determination of the period to calculate the long run average and the definition of the variables. If we use household disposable income as a denominator of the second ratio and

Exhibit 9

Price to rent ratio and price income ratio: International comparisons



Source: OECD.

¹³ Unfortunately, the European Union decided recently to include just the house price index in the macroeconomic excessive imbalances procedure, instead of these two indicators.

¹⁴ *The Economist* uses a different reference period and finds the current overvaluation of Spanish residential properties to be 12.9% using the price to income ratio and 11.1% using the price to rent index.

take the average over the period prior to 2001 then the overvaluation following the price-rent index will still be 29%. Notice that house prices are going down but disposable income is also going down which reduces the speed of adjustment of the ratio for a given drop in house prices. The price-rent ratio is still further away from the long run average since the return to rent is around 4.53% while the long run average is around 6%. In any case this second indicator is less reliable in the Spanish case because the 2006 survey of the rental market, used to set the reference rent, is not very credible.

In addition, VAR models are predicting a drop of prices of 9% by the end of 2013¹⁵. Finally, existing house prices are quite sensitive to changes in the sentiment of the market. When the market improves and prices recover, or go down more slowly, the growth rate of prices of existing homes is faster than that of new constructions. The opposite is true when the market deteriorate. There is no indication in the relative evolution of prices of existing versus new houses that leads us to expect a change in the trend of price declines. In summary, real estate prices and, in particular, residential property, are expected to continue dropping fast for a while. This may not be a bad trend if it continues attracting foreign investors, as it helps to improve the affordability of housing for Spanish families, and it stimulates the rental market.

¹⁵ García-Montalvo (2013), *Predicción de los precios de los activos inmobiliarios en el segmento residencial*, mimeo.

State aid to Spain's banking sector in the EU context

Joaquín Maudos¹

Numerous EU governments have provided solvency and liquidity support to their troubled banks throughout the crisis, resulting in higher public deficits. Given the challenges many European banking sectors are still facing, it is likely that additional losses from public bailout schemes will further impact fiscal balances in the coming years.

Many EU countries have had to provide support to their financial sectors in order to help them overcome the crisis. Between the contingent liabilities and capital injections, State aid to Europe's banks since the start of the crisis has come to almost 1.3 trillion euros, equivalent to 10% of EU-27 GDP. State aid measures have largely taken two forms –liquidity support through guarantees and financial asset purchases, and solvency support through direct capital injections. Several countries have already seen their public deficits increase as a result of bailing out their banking sectors. Additional risks taken on in the form of contingent liabilities may add further pressures to public accounts in the years to come. In Spain, while public aid was less than in some countries and in line with the EU average, the losses, and hence impact on the public deficit, have been bigger. Moreover, Spain's contingent liabilities are much higher than the European average. Hence, the economic recovery will be a key determinant factor in the ultimate losses incurred by the State, and thus by taxpayers, as a result of the public bank bailout.

Since the outbreak of the crisis that has come to be known as the “Great Recession” six years ago, governments in numerous countries have had to bail out their banks to help them overcome their liquidity and solvency problems. Initially, the closing of wholesale funding markets forced central banks to act as lenders of last resort, multiplying the size of their balance sheets by offering abundant liquidity at low interest rates. But governments also stepped in to help their troubled banking sectors, implementing liquidity measures, primarily through issuing guarantees

and buying financial assets, which substantially increased risk in the form of contingent liabilities. Moreover, in some cases (such as Spain), governments acted as guarantors for bonds issued by their “bad banks”, consequently assuming yet more risk.

Moreover, impairment and falling value of bank assets as a consequence of the crisis have affected institutions' solvency, forcing governments to inject capital into banks, further increasing public debt levels. In many cases, the public aid granted

¹ Professor of Economic Analysis at the University of Valencia and researcher at Ivie. This article was written as part of the Ministry of Science and Innovation SEC2010-17333 and Generalitat Valenciana PROMETEO/2009/066 research projects.

has helped absorb losses, which has had a negative impact on public deficits.

In the specific case of the European Union's banking sectors, during the crisis of 2007-2012, State aid in the form of capital reached a total of 673 billion euros, equivalent to 5.2% of the EU-27's GDP. And almost a quarter of this State aid has been written off, implying a cumulative increase in the public deficit of 1.2% of GDP. Given that, in addition to State aid provided as capital, governments have also assumed risks in the form of contingent liabilities to the equivalent of 4.6% of EU-27 GDP at the end of 2012, the possibility that the public deficit deriving from aid to the banking sector might increase in the future, with an even bigger bill for taxpayers, cannot be ruled out. Between the contingent liabilities and

Between the contingent liabilities and capital injections, State aid to Europe's banks since the start of the crisis has come to almost 1.3 trillion euros, equivalent to 10% of EU-27 GDP.

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Against this backdrop, this article sets out to analyse State aid to the Spanish banking sector in comparison with other banking sectors in the EU-27, using information from the European Commission (specifically, Eurostat) for the period 2007-2012. The information enables solvency aid to be analysed separately from other aid resulting in contingent liabilities (mainly liquidity support), and the effect that State aid to the banking sector has had on the public deficit. The breakdown of the data for each of the years of the crisis is extremely useful, as it allows us to analyse European governments' varying reactions, in terms of response time, as well as scale.

State aid to shore up banks' solvency

State aid to bolster banks' capital has been provided in the form of loans, asset purchases, and direct capital injections. As Exhibit 1a shows, for the EU-27's banking sectors, the total cumulative solvency aid to banking institutions over the period 2007-2012 was 673 billion euros. The countries of the euro area account for 78% of this total. Examining the results by country, Germany stands out, with a public capital injection of 285 billion euros. It is followed, although at a considerable distance, by the United Kingdom with an injection of 140 billion euros. The third country in terms of solvency aid is Spain, with 54 billion euros.

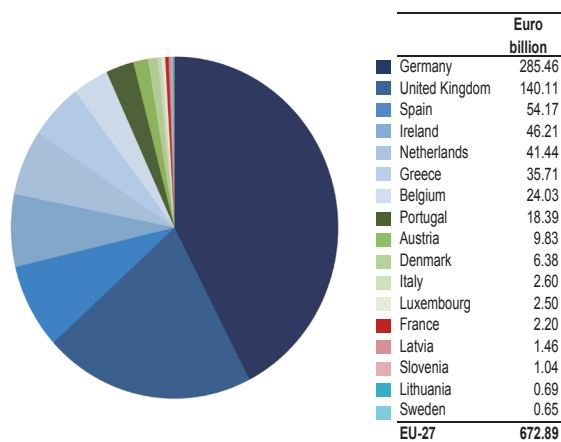
The scale of the aid granted is obviously determined by the size of the banking sector. For this reason, Exhibit 1b shows the ranking of the EU-27's banking sectors sorted by the amount of aid as a percentage of each country's GDP. One case that stands out is that of Ireland, where almost the whole banking sector went bankrupt, forcing the government to inject public funds equivalent to just over a quarter of the value of the economy (28.2% of GDP, to be precise). State aid to keep Greece's banks solvent was also significant, coming to 18.4% of GDP.

Of the EU-27's biggest countries, the injections of public capital into Germany's and the United Kingdom's banking sectors were largest, with percentages of GDP of 10.85% and 7.4%, respectively, as against an average value of 5.2% in the EU-27 and 5.5% in the euro area. Portugal (11.1%), the Netherlands (6.9%) and Belgium (6.4%) are also above the European average. In the case of Spanish banks, State aid in the form of capital represented 5.2% of GDP in 2012, in line with the EU-27 and slightly below the euro area averages. In the case of France and Italy, public capital injections were minor relative to the size of their economies.

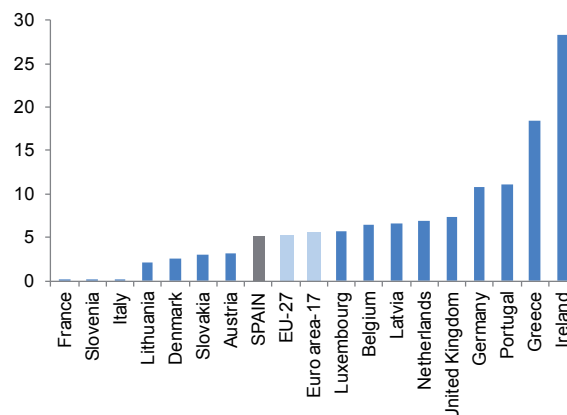
Exhibit 1

State aid to EU-27's banks in the form of capital over the period 2007-2012

a) Distribution



b) Percentage of GDP



Source: European Commission and author's calculations.

The breakdown by years offered by the European Commission makes it possible to analyse the different speeds at which the EU-27's governments reacted to their banking sectors' problems with public resources. Focusing on the Spanish case, the biggest percentage of aid granted in the form of capital was in 2012, when aid for a total of more than twice that in all the previous years was granted. By contrast, in the EU-27 as a whole, the bulk of the resources were mobilised between 2008 and 2011. By country, those that granted most aid to support banks' solvency were also those that granted aid in the early years of the crisis, prior to 2010, as was the case in Germany, the United Kingdom, the Netherlands, and Ireland. Along with Greece and Portugal, Spain is the country, which has mobilised most resources since 2012 to solve its banks' solvency problems.

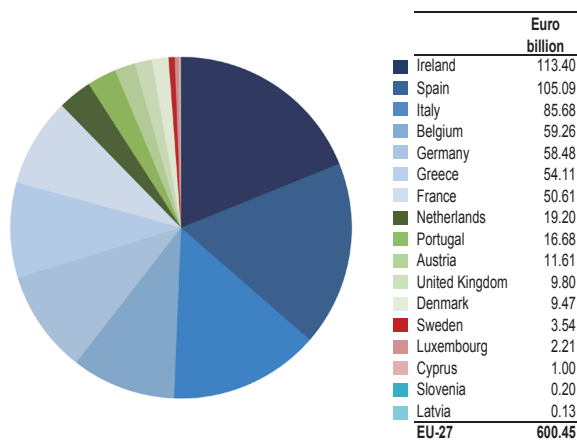
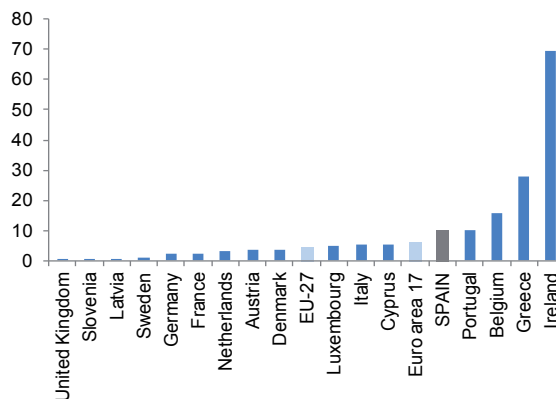
Other exposures associated with public aid to the banks: Contingent liabilities

Between the outbreak of the crisis in mid-2007 and 2012 the European Central Bank multiplied

its monetary base by 2.6 to meet financial institutions' liquidity problems, above all with the two extraordinary auctions it ran at the end of 2011 and in early 2012, when it injected over a trillion euros into euro area countries. In addition to ECB liquidity support, European governments have also helped alleviate financial institutions' liquidity problems in other ways, mainly by buying financial assets and granting guarantees to underwrite bank debt issues. These operations, although they produced income to the treasury in the short term from the commissions charged, led to the public sectors' facing exposure to the possible loss in value of the assets or potential exercise of the guarantees given. This aid was therefore classified as a contingent liability. Bonds issued by bad banks backed by government guarantees, such as in the case of the SAREB in Spain, are also contingent liabilities.

As Exhibit 2 shows, for the EU-27 as a whole, the value of contingent liabilities existing at the end of 2012 was 600 billion euros. Three countries (Ireland, Spain and Italy) account for almost half the total. In Ireland the guarantees granted to the

Exhibit 2

Contingent liabilities associated with banking sector aid in the EU-27**a) Distribution****b) Percentage of GDP**

Source: European Commission and author's calculations.

banking sector by the government came to 352 billion euros in 2008, although at the end of 2012 the figure had dropped to 113 billion euros, of which 29 billion euros corresponded to guarantees for the bonds issued by the bad bank (NAMA). In Spain and Italy, the total contingent liabilities come to 105 billion euros and 86 billion euros, respectively.

As a percentage of GDP, the Irish government assumed the biggest risk by far in the form of guarantees to its banks, totalling almost 70% of GDP. At 28% of GDP, the aid granted by the Greek government is also substantial. In Spain the exposure assumed by the government from aid to the banks other than measures to shore up their solvency represents 10% of GDP in 2012, a percentage that is twice the EU-27 average. Contingent liabilities in 2012 increased by more than 60% on the previous year as a result of government guarantees underwriting the SAREB's debt issues used to purchase toxic real-estate assets from banks receiving public aid (referred to as Group 1 and 2 banks in the *Memorandum of Understanding* between Spain and the EU).

The impact on the public deficit of State aid to the banking sector

Public aid to the banking sector only represents a cost to taxpayers when it entails the recognition and assumption of losses. Similarly, it can produce a budgetary surplus if the income associated with the aid granted (for example, in the form of interest on loans granted or commissions charged for guarantees given) exceeds their cost. In the case of aid in the form of capital, in the short term, it can cause public deficits as losses are absorbed, although in the long term, it may help reduce the deficit if capital gains are made when the bank shareholdings are sold off.

Exhibit 3 shows the cumulative value of the net gains/losses for the period 2007-2012 generating public surpluses/deficits, and the percentage of 2012 GDP they represent. For the EU-27 as a whole, banking aid has meant an increase in the public deficit of 149 billion euros. In some countries (specifically, in six) the aid granted yielded net income. And in the other countries, in

which the aid increased the public deficit, three (Germany, Spain and Ireland) account for 81.5% of the total, with sums close to 40 billion euros in each country.

As a percentage of GDP, Ireland is by far the country that has faced the biggest bill for the bank bailout, as the cumulative recognised losses came to 24% of 2012 GDP. In the EU-27, Spain comes second in terms of the cost to taxpayers of its bank bailout, with losses equivalent to 3.8% of GDP (39.6 billion euros). In Greece and Portugal the impact of the aid on the public deficit came to 2.9% and 2.5% of GDP, respectively, while in Germany it was 1.6%. Consequently, although in countries such as Germany, the Netherlands, the United Kingdom, Portugal and Greece the public resources mobilised to inject capital into their banks exceeded those in Spain, towards the end of 2012 the percentage considered lost and hence the increase in the public deficit was less. In Germany, for example, public aid granted to

shore up banks' solvency was substantial (10.8% of GDP), but the impact on the public deficit was just 1.6% of GDP. By contrast, in Spain the aid granted was half that of Germany (5.2% of GDP), but the losses realised and hence passed on to

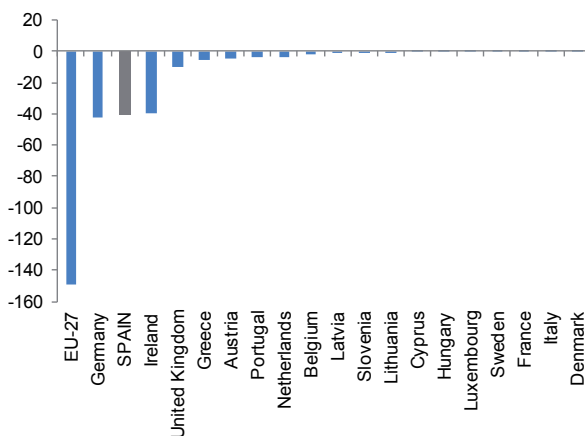
In Spain, the aid granted was half that of Germany (5.2% vs. 10.8% of GDP), but the losses realised and hence passed on to the public deficit are more than twice as big (3.8% vs. 1.6% of GDP) due to the fact that the bulk of the capital aid transferred was to absorb losses rather than taking the form of financial transactions, such as buying shares.

the public deficit were more than twice as big (3.8%) due to the fact that the bulk of the capital aid transferred was to absorb losses rather than taking the form of financial transactions, such as buying shares.

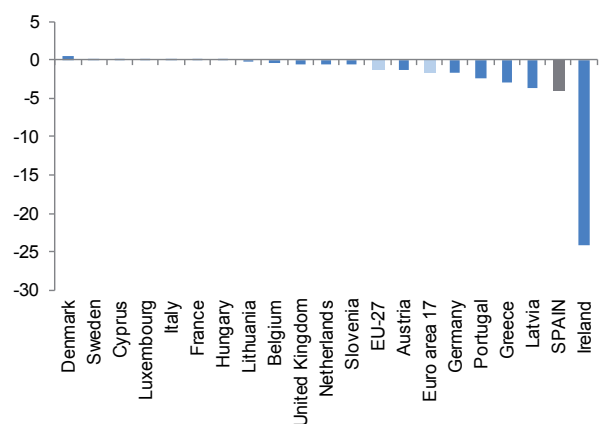
Exhibit 3

Cumulative impact from 2007 to 2012 of State aid to the banking sector on the public deficits of the EU-27

a) Euro billion



b) Percentage of 2012 GDP



Source: European Commission and author's calculations.

Disaggregated analysis of public aid to the Spanish banking sector and cost to taxpayers

In order to make the detailed analysis of the Spanish case that follows as compatible as possible with the European Commission's Eurostat statistics used above, the data reported below do not include aid which, although initially granted, has since been recovered. Similarly, aid initially granted by the Fund for Orderly Restructuring of the Banking Sector (FROB) which was subsequently assumed by the Deposit Guarantee Fund (FGD) is not included, because although it is considered public by the European Commission, the source of its funding is private.

As Table 1 shows, the aid granted by the FROB1 (in the form of a loan with the purchase of preference shares) came to 8,317 million euros. The initial figure was higher (9,674 million euros), but the aid of 977 million euros granted to Banca Civica which, following its absorption by Caixabank, was returned to the FROB in April 2013 has been discounted. Similarly, the 377 million aid

to Unnim which was assumed by the FGD has been discounted.

In the case of the FROB2 (capital injection in the form of share purchases) the sum was 5,183 million euros. The initial figure was 5,751 million euros, from which the 568 million aid to Unnim subsequently assumed by the FGD has been discounted.

In the case of funds from the European Stability Mechanism (ESM), the figure is 39,078 million euros, which does not include the FROB's shareholding in the SAREB as it is not bank solvency aid.

With this breakdown, the final figure for public aid to the Spanish banking sector in the form of capital until 2012 (without including aid granted by the FGD) is 52,578 million euros. If we include the ESM funds used to set up the SAREB (2,192 million euros), the figure rises to 54,770 million euros, a figure very close to that which appears in the European Commission's statistics (54,169 million euros)².

Table 1

State aid to ensure the solvency and liquidity of the Spanish banking sector provided through 2012 Millions of euros

a) Capital injections		b) Contingent liabilities	
FROB 1	8,317	Guarantees on bank debt (until 09/07/13)	55,032
FROB 2	5,183	Covered bonds issued by the SAREB	46,600
ESM	39,078		
Total	52,578	Total	101,632
SAREB	2,192		
Total+SAREB	54,770		

Source: FROB and author's calculations.

² If we include the aid granted by the FGD and the aid from the FROB to Banca Civica for an amount of 977 million euros (which subsequently has been given back by Caixabank), the total aid is very much in line with the estimates provided by the Bank of Spain in its informative note published September 2nd, 2013, which is in the order of 61,366 million euros. Nevertheless, we must take into consideration that in this article, we have focused on the aid granted through the end of 2012 (given that the international comparisons, if on the basis of Eurostat data, can only be made through 2012). Meanwhile, the Bank of Spain also includes aid granted by the FGD and data for 2013, even though this figure does not deduce the 977 million euros of aid provided by the FROB to Banca Civica that have since been returned to the FROB.

Of the 52,578 million euros of State aid in the form of capital for the Spanish banks, four entities absorbed 93%: 22,424 million euros in the case of Bankia (42.6% of the total), 12,052 million euros in the case of Catalunyaacaixa (22.9%), 9,052 million euros in NovaGaliciacaixa (17.2%) and 5,500 million euros in Banco de Valencia (10.5%).

In the case of contingent liabilities, between 2008 and 2012 the State granted guarantees underwriting bank debt of 108,329 million euros, of which more than half had been repaid by July 2013 (using the latest information from the Treasury). A Financial Assets Acquisition Fund (FAAF) was also created, which bought bank assets worth 19,341 million euros, since totally liquidated. Finally, the bonds issued by the SAREB to acquire assets transferred by banks that have received State aid (Groups 1 and 2) have a government guarantee of 46,600 million euros. Specifically, guaranteed bonds account for 92% of the SAREB's balance sheet of 50,653 million euros, the remaining 8% being equity (2% capital and 6% subordinated debt).

With these figures the total contingent liabilities outstanding on 09/07/2013 came to 55,032 million euros, which when added to the 46,600 million euros of debt backed by the SAREB, yields total contingent liabilities of 101,632 million euros, which is close to the figure of 105,093 million euros in the European Commission statistics on 31/12/2012.

According to the European Commission's calculations, the impact on the public deficit of State aid to the Spanish banking sector comes to 39,637 million euros. The figure is higher (43,479 million euros) in the case of capital injections to cover losses at Bankia (18,302 million euros), Catalunyaacaixa (11,126 million euros), Novagaliciacaixa (7,601 million), Banco de Valencia (5,498 million) and Unnim (953 million). The inclusion of the aid to Unnim as public deficit (the loss was assumed by the FGD) is due to the fact that the European Commission considers the FGD to be part of the State. The

net effect on the public deficit is less than the capital injections considered lost as a result of public income obtained from aid granted in the form of commissions or interest income.

If, rather than use European Commission data on solvency aid to Spanish banks computed as public deficit (capital transfers to absorb losses and not financial transactions in the form of share purchases of 43,479 million euros), the analysis is performed in terms of losses realised so far according to the FROB's annual accounts up to 2012, the sum comes to 36,197.1 million euros to the end of 2012. This aggregate figure corresponds to losses by Bankia (13,641 million euros), Catalunyaacaixa (9,642 million euros), Novagaliciacaixa (6,649.4 million euros), Banco de Valencia (5,498.5 million euros), Ceiss (525 million euros) and BMN (241.25 million euros). Consequently, the difference from the European Commission's calculation for the period to 2012 is 7,281.9 million euros and is due in part to the bigger losses Eurostat ascribes to Bankia (4,661 million euros more), Catalunyaacaixa (1,484 million euros more) and Novagaliciacaixa (951.57 million euros more), and the inclusion of Unimm's losses (953 million euros) in the public deficit. However, the European Commission has not included asset impairments at Ceiss and BMN in the public deficit, unlike its treatment by the FROB.

What share of the solvency aid has been lost? If we compare the data on aid granted with the recognised losses and focus on the four institutions absorbing the largest percentage of the aid granted, according to the European Commission's data, Bankia has lost 82%, Catalunyaacaixa 92%, Novagaliciacaixa 84% and Banco de Valencia 100%. And according to the FROB's annual accounts, the percentage loss was 61% at Bankia, 80% at Catalunyaacaixa, 73% at Novagaliciacaixa and 100% at Banco de Valencia. Consequently, in these four institutions, an average of 87% of the aid granted has been lost, according to the European Commission's calculations, and 72% according to those of the FROB.

Concluding remarks

Five messages clearly emerge from this analysis of State aid to the Spanish banking sector: 1) as a percentage of GDP, the solvency aid was of a value similar to the European average (5.2%) and less than that in countries such as the United Kingdom (7.4%) and Germany (10.8%) and a long way short of that in countries worst hit by the crisis (18.4% in Greece and 28.2% in Ireland); 2) the reaction to the crisis came later in Spain, as can be seen from the figures for the early years of the crisis (2007-2010), when compared with an injection of public capital of 5% of GDP in the EU-27, the resources mobilised in Spain represented exactly half that, at 2.5% of GDP. If public resources had been mobilised much earlier, as was the case in other countries (such as Germany, the United Kingdom and the Netherlands), the problems affecting part of the Spanish banking sector may have been resolved earlier. Nevertheless, previous consolidation efforts had to be undertaken to ensure public funds would be used efficiently; 3) State aid to the banking sector has had a much bigger effect on the public deficit than the EU-27 average, as cumulatively, it comes to 3.8% of 2012 GDP, compared with an EU-27 average of 1.15%. In fact, only the collapse of the Irish banking sector has had a bigger impact on the public deficit (24.1%); 4) in the case of State aid to ensure banks' solvency, the European Commission considers the loss to be 43,479 million euros (this therefore forming part of the public deficit), while the FROB puts a slightly lower figure on the asset impairment losses (36,197.1 million euros); and 5) apart from the capital aid, the risks assumed by the Spanish government through aid granted to the banks in the form of contingent liabilities (10% of GDP in 2012, in particular in the form of guarantees for bank debt and bonds issued by the SAREB) are much higher than the European average (4.7%).

In short, as in other countries, resolving the banking crisis in Spain has made it necessary to mobilise public resources, which has meant a burden for taxpayers. The public aid granted in the form of capital was less in Spain than in some

other European countries, although its impact on the public deficit has been bigger. Nevertheless, given the problems other European banking sectors are still facing, it is likely that the public deficit from losses on aid to banks will increase in these countries over the coming years.

In the case of the Spanish banking sector, only time and the economic recovery will tell if the State aid to the banks will translate into further liabilities for taxpayers, as the value at which nationalised banks can be sold will depend on the recovery, as will the potential losses associated with the asset protections schemes granted by the FROB when auctioning off certain institutions, and the profitability of the SAREB's business plan, as the SAREB is part-owned by the FROB and its bonds are guaranteed by the State. In any event, the cost of the banking crisis is far higher than that assumed by taxpayers, as one has to add in the sums assumed by financial institutions that have written down their assets with charges against provisions (almost 250 billion euros since the crisis began) and by drawing on the Deposit Guarantee Fund (almost 21 billion euros counting losses assumed and others estimated on the asset protection schemes granted), and the losses faced by shareholders and holders of hybrid instruments (preference shares and subordinated debt), in this latter case initially estimated at almost 13 billion euros. Consequently, it is the banking sector and its owners who have assumed by far the largest share of the cost of the crisis, devoting a sum equivalent to over 25% of GDP which, had it not been for the crisis, they would mainly have devoted to strengthening their solvency, paying their shareholders, and setting aside funds for their community welfare activities.

Progress on the second pillar of the Banking Union: The Single Resolution Mechanism

Francisco J. Valero¹

The EU is currently discussing draft legislation on the creation of a Single Resolution Mechanism, which along with the proposed creation of a new Single Supervisory Mechanism, would constitute the two main pillars of the Banking Union. Negotiations are progressing slowly and given political considerations, we expect further changes to be introduced prior to the Directive's final approval.

The existence of a Single Resolution Mechanism for banking crises would ensure the absence of any competitive distortion in this area within the single market. Its main objective would be to ensure efficient resolution, under the Single Supervisory Mechanism, of a bank that was facing serious difficulties, with minimal cost to taxpayers and the real economy. Although the EU decision process tends to be slow and complicated, it seems that over the next year, the mechanism should be operational.

Introduction

The European Commission (EC) proposed on July 10th a Single Resolution Mechanism (SRM) for banking crises as part of the so-called Banking Union (BU), that resulted in draft regulation, COM (2013) 520. The proposal will undergo the usual co-decision making procedure, which entails approval by the Council of the European Union (EU) and by the European Parliament. Ideally, this should be completed prior to the European Parliamentary elections, scheduled for mid-2014.

The SRM, which has been configured as something more than a network of national

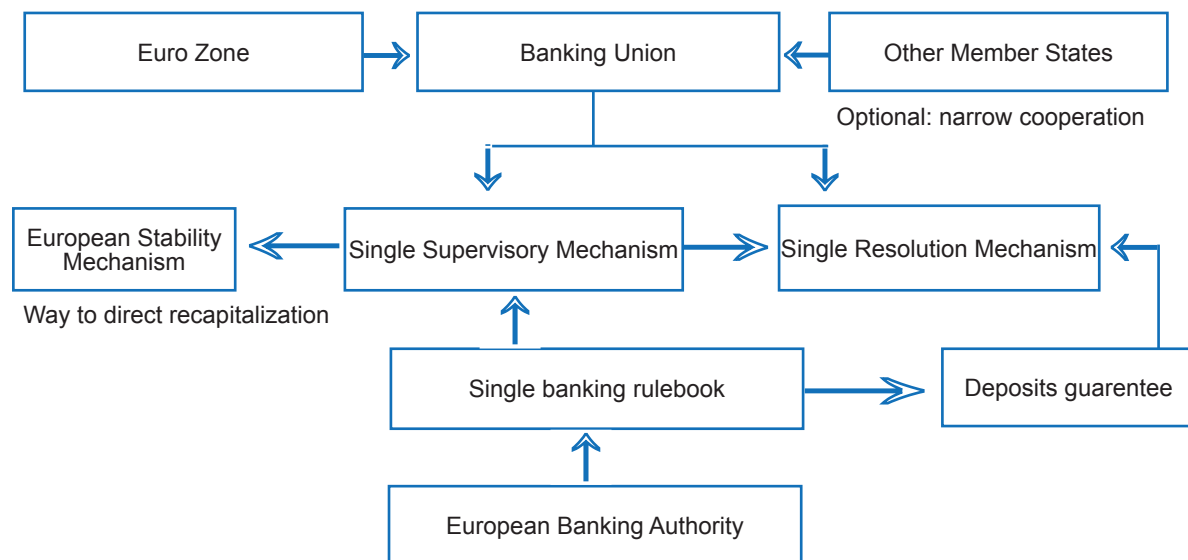
resolution authorities, like the FROB (Fund for Orderly Bank Restructuring) in Spain, is a necessary complement to the Single Supervisory Mechanism (SSM). The latter was still pending final approval as of early September 2013. The two mechanisms will apply to banks in the Euro-Area, as well as banks in other EU countries that voluntarily join them².

The two pillars, SRM and SSM, would constitute the BU, as shown in Exhibit 1. There has been talk of a common deposit guarantee fund, but this subject has not become a pillar in its own right in the EU. Nevertheless, as shown in the exhibit and discussed later herein, it is in some way contemplated given its implicit link to the SRM.

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² Estimated total of some 6,000 banks.

Exhibit 1

The European Banking Union

Source: Afi.

The BU seeks to break the negative feedback loop between sovereign and banking risks in the monetary union and to eliminate fragmentation and the resulting distortions due to differing financing conditions of economic agents depending on their country of origin. Logically, such conditions are worse for the weakest countries, such as Spain.

The legal basis used by the EC to implement the SRM is Article 114 of the Treaty on the functioning of the European Union (TFEU), the objective of which is to harmonize the laws of EU countries with a view to the functioning of the single market. This prevents the need to reform the Treaty, in line with the requests by countries such as Germany, but also has some limitations.

Relationship with resolution directive

The SRM is based on the Bank Recovery and Resolution Directive, COM (2012)280, which is currently under negotiation in the co-decision making procedure between the Parliament and Council of the European Union, and it would apply throughout the EU. The directive would create a single rulebook on bank resolution to ensure against any competitive distortions in banking in the single market³.

The directive acquired particular significance during the crisis in Cyprus in relation to guaranteed deposits (up to 100,000 euros) in the resolution of banking crises, leading to negotiations in the EU Council whose results are reflected in the

³ It could be argued that non-participation in the centralized resolution mechanisms could be a competitive disadvantage, but the decision would be a voluntary choice for countries.

SRM proposal. mainly in Articles 15 and 24.3, as detailed below:

1) Precedence of liabilities (descending order) for purposes of internal recapitalization:

- Ordinary capital.
- Additional capital (tiers 1 and 2).
- Loans of senior executives and directors.
- Other subordinated loans.
- Non-preference and unsecured loans.
- Other unsecured deposits and loans of deposit guarantee systems.

2) Liabilities excluded from internal recapitalization, no specific order of priority:

- Guaranteed deposits.
- Other guaranteed liabilities⁴.
- Liabilities arising from customer assets or money or from a fiduciary relationship.
- Interbanking liabilities, excluding institutions in the same group, with original maturity of less than seven days.
- Liabilities arising from participation in a payment or securities settlement system with a remaining maturity of less than seven days.

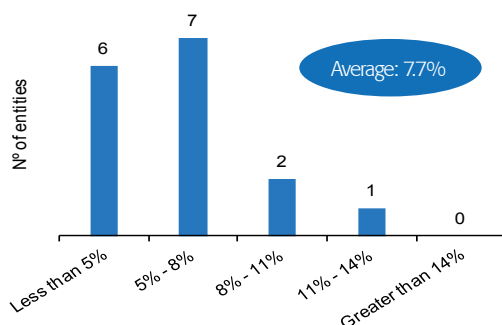
- Liabilities to employees for wages, pensions or fixed remuneration and, in some cases, variable remuneration.
- Trade payables for essential goods and services for daily operations.
- Tax authorities and social security.

To comprehend the novelty and complexity of these matters from the perspective of Spain, we might consider the law currently in force in Spain on bank resolution, law 9/2012, which does not envisage recapitalizing unsecured deposits, as we have upheld with a degree of insistence, in order to not harm the funding of banks, and it does not contain the same level of detail we have just seen.

The SRM is also subject, under the same directive, to minimum equity and eligible liabilities, in principle, of 8%. This is to enable internal recapitalization to function, although this liability level will be set in the SRM later by the Single Resolution Board mentioned below, pursuant to Article 10 of the proposed regulation. Based on the aforementioned general levels, the balance sheet data to March 2013 of the largest institutions adjusted for capital injections, hybrid management processes under way and asset sales, we may conclude, as shown in Exhibit 2, that only three

Exhibit 2

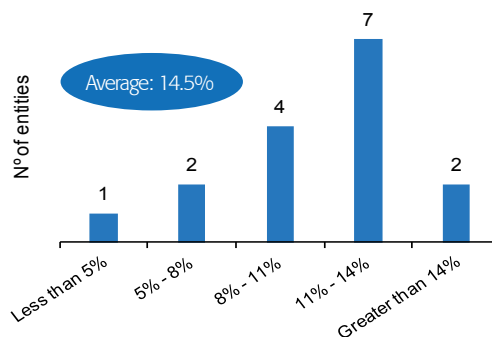
Distribution of Spanish banks by ratio of net equity and subordinated debt to total liabilities



Sources: Afi, Bank of Spain, CECA, AEB, AIAF, Bloomberg.

Exhibit 3

Distribution of Spanish banks by ratio of net equity, subordinated debt and senior debt to total liabilities



⁴ Such as *cédulas hipotecarias* [covered bonds] in Spain.

institutions are capable of absorbing that level of losses without affecting other liabilities, assuming a total depletion of funds. In other cases, at least senior debt would be affected.

With regard to senior debt, Exhibit 3 shows that only three banks would need recapitalization of at least part of the unsecured deposits.

The point of this exercise is merely to estimate the possible effect of the new regulations, including the SRM, on resolution in the Spanish banking system. It shows that, although this is currently an open subject for the reasons discussed above, it may still have a significant impact. It is not surprising that the resolution of banking crises requires seemingly complicated processes, as the clear purpose of both laws is to minimize the cost of banking crises for the public sector. This would, inevitably, allocate the cost to the shareholders and certain creditors of the banks. We must also bear in mind that the resolution of a bank crisis is generally considered preferable to liquidation of the bank, an option that is always open, but under insolvency law.

According to the calendar established by the European Council on June 27-28th, 2013, the SRM is to be implemented from January 1st, 2015, along with the Bank Recovery and Resolution Directive. In both cases, internal recapitalization would be postponed to January 1st, 2018.

In the meantime, national resolution regimes would remain in force. The EC states that such regimes would have to progressively converge owing to the aforementioned allocation of losses to shareholders and other eligible creditors. This shift would be reinforced by the following:

- 1) Changes in rules governing State aid to banks adopted on the same date as the SRM. See *Banking Communication*⁵ entering into force from August 1st, 2013 and replacing that of 2008.

- 2) Possible direct recapitalization by the European Stability Mechanism (ESM).

Functioning

According to the EC proposal, the SRM would function through execution of the following steps:

- 1) The European Central Bank (ECB), as supervisor, would decide when an SRM bank is facing grave financial difficulties and should be resolved.
- 2) A Single Resolution Board (SRB), composed of representatives of the ECB, EC and national resolution authorities, would prepare the resolution of the bank, with broad powers to analyze and define the appropriate approach for doing so. The affected national resolution authorities would be closely involved in this task.

Following a parallel path to the SSM, specifically to the ECB Supervisory Council, SRB members would be appointed at the highest political level by the EU Council, subject to the approval of the European Parliament. The SRB would be accountable to both institutions, and would even have to report on its activities to the national parliaments of participating countries.

The SRB would function in plenary and executive meetings. The latter would handle the resolution of specific institutions, in which only the involved national authorities would participate. For cross-border groups, all host authorities would have a single aggregate vote in order to reflect the greater responsibility of the origin authority, which would also have a vote.

- 3) On the basis of the SRB recommendation, or through its own initiative, the EC would decide if and when a bank would undergo

⁵ Communication from the Commission on the application, from August 1st 2013, of State aid rules to support measures in favor of banks in the context of the financial crisis ("Banking Communication"), published in the DOUE C 216 of July 30th 2013.

resolution and it would define a framework for the use of resolution instruments.

The EC's explanation for this is that a resolution decision could only come from an EU institution⁶. Leaving aside political and legal institutions, only

ECB, as supervisor, would decide when an SRM bank is facing grave financial difficulties and should be resolved.

the ECB and the EC remain. However, as the former acts as supervisor, it should not play this role owing to the conflicts of interest involved. Further, the EC is not only free of any conflict of interest, but is also considered to have sufficient experience in the matter, given the role it has played in bank restructuring in the present crisis.

In our view, it would be preferable to develop a European resolution authority with sufficient power to exercise its functions autonomously, although we believe this may require a reform of the TFEU. Hence, in the meantime, this role can be played by the EC. Indeed, European supervisory agencies like the EBA function subject to the approval of the EC with regard to technical rules, apart from the ex-post-facto oversight of the EU Parliament and Council.

- 4) Under the supervision of the SRB, national resolution authorities would be responsible for executing the resolution plan, which is entirely necessary, bearing in mind the national laws that may apply, such as general commercial law and insolvency law. At the same time, it reveals the limitations of the EC in this field, despite what we have stated above.

⁶ For this reason, the EBA, European Banking Authority is excluded, apart from possible conflicts of interest, as it is an agency, as is the SRB.

⁷ If the fund makes payouts greater than half the target figure during the process. If this were to occur, banks may have to make minimum contributions of ¼ of the fund target.

If one of the authorities should fail to comply with an SRB decision, the board may directly issue executive orders to the affected banks.

- 5) A Single Bank Resolution Fund (SBRF) would be established under the control of the SRB in order to ensure the availability of medium-term financial assistance for the restructuring. It would be financed from contributions by banks, and it would replace national resolution funds, although it remains to be seen whether countries with the largest contributive capacity would accept such a plan.

Given that the majority of the resolution cost is to be borne by shareholders and other creditors, under burden sharing rules, the role of the fund would be to provide financial backing where its absence could harm the credibility of resolution processes.

As we can see, the SRM has a lighter structure than the SSM, but this is natural: while supervision is an ongoing task that affects each of the involved institutions on a daily basis, resolution tends to be occasional and is only required when a bank has serious problems.

Funding

The initial funding of the SBRF is based on bank contributions to be made over a large number of years: in principle, 10, but extensible to 14⁷, to avoid immediately affecting a bank's profitability and lending capacity. In fact, this funding is already envisaged in the recovery and resolution Directive.

In principle, the SBRF's target is 1% of the guaranteed deposits of all participant countries in

the BU. Based on 2011 figures, this would mean a total of 55 billion euros, which is not too large a figure, in view of the cost of the current crisis not to the EU as a whole, but in a country like Spain, where State aid committed in diverse forms of capital between May 2009 and early September 2013, amounts to 61,366 billion euros⁸.

It is possible that these contributions will be viewed by some countries as a form of banking tax. In such a case, the unanimity rule for fiscal affairs in the EU would apply, which would clearly complicate matters.

Not all banks would participate in the same way, but rather in accordance with their business models and risk profiles. Details would be determined by

The Single Bank Resolution Fund would be funded in the amount equal to 1% of the guaranteed deposits of all participant countries in the Banking Union.

further implementing regulation, apart from the content itself of the directive.

Countries with national funds that would be replaced by the SBRF may choose to have such funds make contributions for their own banks until the national funds are depleted, but this would assume that they have sufficient available funds, which will not always be the case, as seen in the current case of Spain.

The functioning of the SBRF would also be funded from the contributions by banks other than those of the SRM, but never by countries involved or by the EU budget. It would be similar to the SSM.

In no case would the SRM have the legal capacity to oblige countries to provide additional State aid for bank resolution. The budgetary sovereignty

of member states is a principle that limits the effectiveness of such mechanisms, as it does of European supervisory agencies, such as the EBA.

Deposit guarantee

With the SRM, it seems that the EC considers the BU to be complete and has not proposed a common guarantee fund. Nevertheless, the proposed directive under negotiation since 2010 would allow deposit guarantee funds or systems of different countries to provide financial assistance to each other in the form of loans.

It must be recalled that the Bank Recovery and Resolution Directive obliges such funds or systems to contribute to funding resolution to the extent corresponding to them in guaranteed deposits for deposit losses if the bank is liquidated under insolvency law. That is, deposit guarantees cannot be simply separated from the resolution of banking crises.

If necessary, the SBRF may provide financial assistance to a deposit guarantee fund or system.

Cross-border groups

In line with single market rules, a quite important principle is that such groups cannot discriminate among creditors according to their member state of origin.

In groups that contain institutions based in countries both inside and outside the BU –for instance, in Spain and the United Kingdom– the SRM would not apply, but rather general rules, such as those of the board of resolution authorities or intermediation between them by the EBA, which are envisaged in the aforementioned directive.

In groups that operate in third countries, the recovery and resolution directive will be taken into

⁸ See the press note of the Bank of Spain of September 2nd: http://www.bde.es/ff/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/Briefing_notes/es/notabe02-09-2013.pdf

account. The SBRF can enter into non-binding agreements with the authorities of third countries on behalf of national authorities.

Conclusions

The SRM once again shows that decision-making processes in the EU are too often slow and complicated to be sufficiently effective in solving the problems they are meant to tackle. We must recall, as the recent history of banking crises in Spain and other countries has shown, that resolving such crises is frequently a dynamic and complex process.

This fact, which helps one understand the gradual approach the EU often takes in dealing with the current crisis, also shows that all the elements used to act in solving problems are somehow mutually related. Hence, this gradual approach is not always the most appropriate.

Nevertheless, and until it is proven otherwise, good progress is better than none at all. Accordingly, we positively assess the upcoming implementation of the SRM, although we have yet to see the obstacles it will encounter or its final form.

The latter point is due to the fact that some member states, especially important ones like Germany, have stated their opposition to the EC proposal. Therefore, we cannot assume that all the fundamental provisions will be approved as drafted.

Implications of the EU-US TTIP: The largest bilateral trade agreement in history

Verónica López Sabater and Álvaro Martín Enríquez¹

Regional or bilateral trade agreements, like TTIP² between the US and the EU, are replacing the Doha Round, launched in 2001 by the World Trade Organization (WTO), due to their potential to achieve higher levels of international trade liberalization and elimination of non-tariff barriers.

The EU and the US are involved in the most ambitious trade liberalization negotiations process ever witnessed. The road ahead will necessarily require surpassing existing difficulties in a number of relevant issues foreseen on the negotiators' agendas. The effects of reaching a free trade agreement between today's two main economic areas are significantly positive and are estimated, in the best case scenario, to generate close to 120 billion euros per year for the European Union. Ex ante assessments of the proposed agreement show that Spain will be one of the countries to obtain the greatest welfare gains from the bilateral partnership for which negotiations have just recently begun.

What is the TTIP?

Since the launch of the Doha Round in 2001, the World Trade Organization (WTO) has been unable to reach significant agreement on how to achieve higher levels of international trade liberalization. Despite the lacklustre progress at the WTO, there has been intense activity in the establishment of bilateral/regional free trade agreements that search for greater levels of liberalization in the area of international trade/relations.

The Transatlantic Trade and Investment Partnership (TTIP) or Transatlantic Free Trade Area (TAFTA) is a future trade agreement that has entered into the negotiations phase following the European Commission's receiving

official authorization from EU member states on June 14th, 2013. The G8 Summit celebrated in Fermanagh, Northern Ireland on June 17th officially launched the start of negotiations by Presidents Barack Obama (US), José Manuel Durão Barroso (European Commission), Herman Van Rompuy (European Council) and Prime Minister David Cameron (UK). The first round took place in Washington, DC. The second round will take place in October of this year, in Brussels.

The relevance of TTIP for Spain comes not only in the form of direct benefits, but also in the search for common commercial issues between the world's two major trade partners – the EU and the US. To give some perspective, commercial

¹ A.F.I. - Analistas Financieros Internacionales, S.A.

² Transatlantic Trade and Investment Partnership.

Table 1

Selection of free trade agreements: In effect and under negotiation

Free trade agreements in effect	Free trade agreements under negotiation
ASEAN Free Trade Area (AFTA)	Commonwealth of Independent States Free Trade Agreement (CISFTA)
Asia-Pacific Trade Agreement (APTA)	Union of South American Nations (CSN)
Central American Integration System (SICA)	Pacific Island Countries Trade Agreement (PICTA)
Central European Free Trade Agreement (CEFTA)	African Free Trade Zone (AFTZ) between SADC, EAC and COMESA
Common Market for Eastern and Southern Africa (COMESA)	Arab Maghreb Union (UMA)
G-3 Free Trade Agreement (G-3)	Asia-Pacific Economic Cooperation (APEC)
Greater Arab Free Trade Area (GAFTA)	Association of Caribbean States (ACS)
Dominican Republic–Central America Free Trade Agreement (DR-CAFTA)	Bolivarian Alternative for the Americas (ALBA)
Gulf Cooperation Council (GCC)	Bay of Bengal Initiative for MultiSectoral Technical and Economic Cooperation (BIMSTEC)
North American Free Trade Agreement (NAFTA)	Community of Sahel-Saharan States (CEN-SAD)
Pacific Accord	Economic Community of West African States (ECOWAS)
South Asia Free Trade Agreement (SAFTA)	Euro-Mediterranean free trade area (EU-MEFTA)
Southern African Development Community (SADC)	Economic Community of Central African States (ECCAS)
Southern Common Market (MERCOSUR)	Free Trade Area of the Americas (FTAA)
Trans-Pacific Strategic Economic Partnership (TPP)	Free Trade Area of the Asia Pacific (FTAAP)
	GUAM Organization for Democracy and Economic Development (GUAM)
	Intergovernmental Authority on Development (IGAD)
	Pacific Agreement on Closer Economic Relations (PACER and PACER Plus)
	People's Trade Treaty of Bolivarian Alternative for the Americas (ALBA)
	Regional Comprehensive Economic Partnership (RCEP) (ASEAN plus 6)
	Shanghai Cooperation Organisation (SCO)
	Transatlantic Trade and Investment Partnership (TTIP)
	Tripartite Free Trade Area (T-FTA)
	China–Japan–South Korea Free Trade Agreement

Source: World Trade Organization (WTO).

transactions between the US and the European Union account for well above 2 billion euros per day and represent over one third of global commercial flows.

Content of negotiations

The final decision to launch negotiations was made immediately following the recommendations

The focus of the bargaining process is on the reduction of non-tariff barriers that impose productivity losses and add complexity to doing business on both sides of the Atlantic.

issued by the US–EU *High Level Working Group on Jobs and Growth (HLWGJG)*, created on November 28th, 2011, whose closing report was made public in February 2013. The main conclusions of the report establish that both blocks ought to negotiate on an equal basis to reach agreement on the key aspects (customs and trade facilitation, competence, public enterprises and subsidies, energy and raw materials, SMEs and transparency) that are meant to strengthen the multilateral trade system and the rules that sustain it, as well as to improve access to markets and respect the regulatory commitments within a transatlantic agreement.

Considering that existing tariffs between both blocks are relatively low –4% on average– the focus of the bargaining process is on the reduction of non-tariff barriers that impose productivity losses and add complexity to doing business on both sides of the Atlantic. The main non-tariff barriers are originated in domestic regulations and, what is more complex, in the subnational regulations in each of the markets at national, regional and local levels, which is in itself an added difficulty in the negotiations process. Differences in commercial standards denominations are also abundant and complex.

In this context, below we present the main elements under negotiation in this free trade agreement.

Access to markets

The scale and scope of both the US' and the EU's trade relations place both blocks among the

highest positions as measured by most standard indicators. Jointly, they are the two largest economic parties globally, responsible for over 40% of the world's GDP. Thus, the US is the most important trade partner for the EU, measured by the level of exports from the EU to the US - 17% of total EU exports were destined to the US in 2011, the second largest global provider after China. On the other hand, 11% of EU imports came from the US, becoming the third largest provider, just behind China and Russia. The reverse flows show that the EU was the second destination market for US exports in 2011, right after Canada, with which the US shares a free trade area, of which Mexico is also a member, the so-called *North America Free Trade Agreement (NAFTA)*, representing 19% of total US exports.

Around 65% of bilateral trade between the US and the EU corresponds to trade in goods, machinery and transportation equipment ranking first and second in trade exchange flows, followed by the chemicals industry. In both sectors, European exports to the US surpass in value imports coming from the US quite significantly³.

Investment follows a similar pattern, since approximately one third of foreign direct investment (FDI) coming from the EU is destined for the US, ahead of FDI to non-EU Europe (25% of total flows) and Asia (14%). FDI flows reached their peak in 2007 (right before the crisis erupted) whereas the lowest value was in 2010. The reverse flow – FDI from the US to the EU– reached pre-crisis levels by 2010, one of the indicators demonstrating that the US recovery began earlier than the European recovery, which is on-going.

Regulations and non-tariff barriers

Tariffs between both parties are relatively low today, with those protecting the European market being comparatively higher, especially in sectors

³ The EU exported 104.5 billion euros in machinery and equipment to the US, the reverse flow reaching 70.8 billion euros. European exports to the US in the chemicals industry were over 50% higher in value than US exports to the EU in the same sector.

such as automotive (where tariffs are on average eight times higher than in the US), processed foods (four times) and agriculture, fishery and forestry (twice as high, 18% on average). Thus, the focus of the negotiations lies in the area of non-tariff barriers, which are expected to generate substantial potential impact under the proposed agreement, given their capacity to condition the degree of market integration that is finally achieved. Non-tariff barriers are diverse: administrative procedures, documentation, certifications, safety and health standards, sanitary and phytosanitary measures and technical specifications, among others.

These types of obstacles to international trade are sources of increased costs for business development, as well as of greater difficulties and impediments for companies to access markets. These obstacles are lower in the case of trading services relative to trading goods, with the sector most affected being the aerospace industry. The largest non-tariff barriers from the European perspective are those applied to machinery, whereas the lowest apply to the pharmaceuticals sector. On the other hand, the US shows a complicated network of “behind the border” requirements, especially in the chemicals industry, cosmetics and biotechnology. The opposite happens with electronics, iron, steel and other metallic products.

Shared global trade challenges and opportunities

The dimension and global representativeness of transatlantic commercial relations impose a responsibility on both parties to search for solutions to issues which go beyond the strict definition of bilateral trade, as these will have global spillover effects. This is the case for sensitive issues, such as the protection of intellectual property rights or genetically modified foods, facing divergent positions on both sides. There are numerous issues that will be potentially indirectly affected by the bilateral partnership, such as labour and

social conditions, sustainable development of less developed countries and regions and environmental protection, among others.

Expected impact

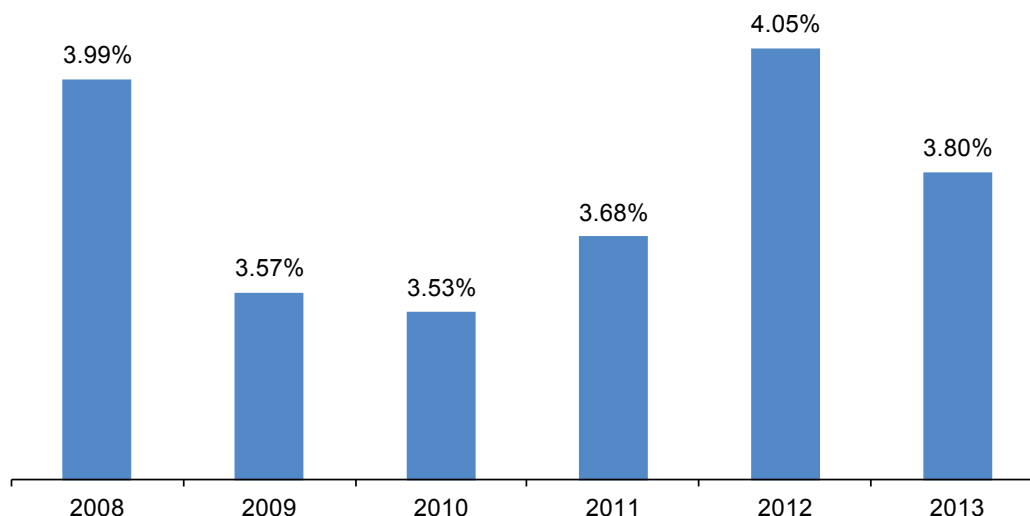
The TTIP, in spite of falling into the category of bilateral free trade agreements, is in fact a multi-bilateral treaty implying one country (the US) and a heterogeneous group of 28 countries, which are all members of the EU. The complexity of commercial treaties negotiations within the EU, like other political issues, lies in the necessary search for a minimum degree of consensus amongst the 28 member countries, or alternatively, to defend the common interests of all of the EU states, which can be significantly divergent in specific aspects.

The European Commission, which has the mandate of the 28 member countries to negotiate the terms and conditions of the agreement, has

More export-oriented countries – as is the case of Spain – would obtain the greatest welfare gains.

commissioned a good number of regional impact studies to allow for *ex ante* measurements of the advantages and disadvantages, the benefits and the costs associated to the process, as well as the expected results of an eventual free trade transatlantic zone. Results obtained by these studies – using computerized general equilibrium models – are optimistic. In economic terms, for the EU, the estimated economic gains are somewhere between 68.2 billion and 119 billion euros per year, considering worst and best case scenarios once the treaty fully enters into force, along with the creation of up to one million jobs per year in the EU. From the US perspective, the annual economic gains range between 49.5 billion and 95 billion euros, respectively.

Exhibit 1

Spanish export to the US, as % of total exports

Note: Data for 2013 are for period Jan-Jun 2013.

Source: Datacomex⁴.

Additionally, there is an estimated 100 billion euro/year economic gain for the global economy, although there are individual countries that will be negatively affected due to the intensification of the transatlantic trade relations: in the most ambitious scenario, Canada, Australia, Mexico and Japan will suffer the largest welfare losses, whereas in the least ambitious scenario, the most harmed will be some of the BRICs (particularly India and Russia), as well as Argentina and Mexico.

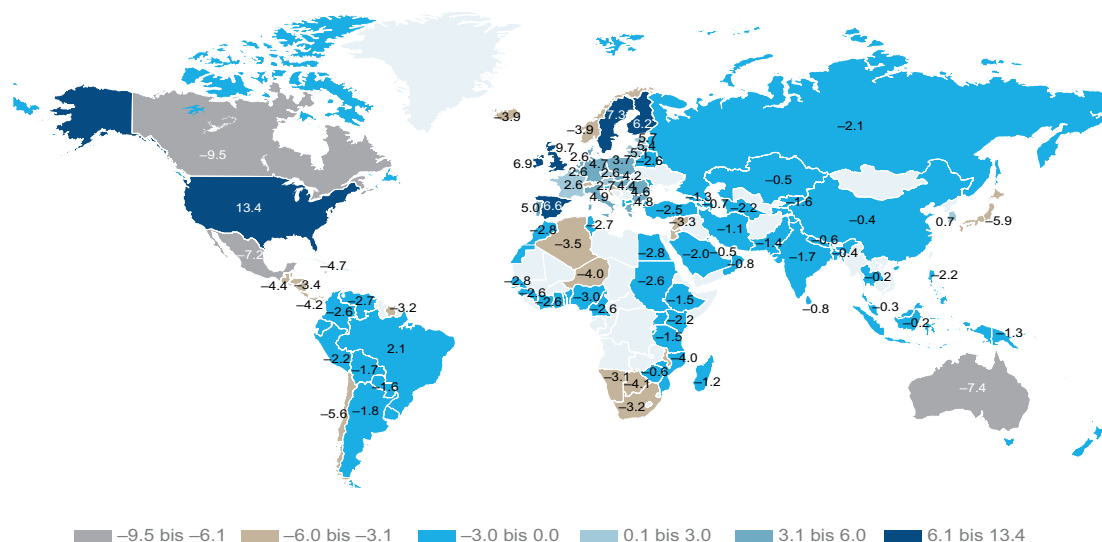
All the impact studies analysed estimate that Spain will be one of the participant countries obtaining the biggest welfare gains as soon as the treaty enters into force. This would be the case both under the most modest scenario, considering elimination of tariff barriers only, as well as in the comprehensive scenario, where agreement would also be reached in most of the non-tariff barriers. In both cases, Spain would fall above the average in terms of expected welfare gains. Under the comprehensive/best case scenario, the

The agreement would mean welfare gains for Spain in the order of 6.55% and 0.31% of GDP per capita growth under a more ambitious and less ambitious agreement, respectively, and the creation of up to 143,000 new jobs.

US would be in the top position, followed by the United Kingdom and Sweden, with Spain being fourth in the ranking. Under the modest scenario which solely considers the removal of all tariff barriers on imports –implying a strong reduction in income from custom duties– Spain once again occupies the fourth position, after the US, Greece and the United Kingdom. The agreement would mean welfare gains for Spain in the order of 6.55% and 0.31% of GDP per capita growth under a more ambitious and less ambitious agreement,

⁴ Datacomex, at <http://datacomex.comercio.es/>

Exhibit 2

Welfare gains (% change in GDP per capita). Complete liberalization

Source: Bertelsmann Foundation.

respectively, and the creation of up to 143,000 new jobs.

Any specific country's welfare gains strictly depend on its trade structure, size and geographical position. That said, the most export-oriented countries –as in the case of Spain– would obtain greater welfare gains. In this sense, Spain and the US significantly differ in their export dimension and activities. The share of Spanish exports in GDP is above 32% (World Bank data for 2012) and growing, whereas in the US they represent just 14% of GDP. This structure implies a clear distinction among each country's trade orientation. Spain is strongly export-oriented, while the US depends mainly on its own domestic market. Welfare gains for Spain would come from a substitution effect –importing cheaper US goods instead of more expensive EU goods– rather than a significant growth in Spanish exports to the US, which is not among its top destinations today (Bertelsmann Foundation).

According to some Spanish representatives in the European Commission, despite the overall benefits, there are several key issues under negotiation that require special attention from Spain in order to protect national interests. This is the case for the agricultural sector –which has already proven to be extremely complex to negotiate– where it is foreseen that special sections may be demanded as it has previously occurred in other areas, such as the French cultural industry with regards to the ACTA⁵.

Critics and next steps

Issues at the forefront of the first round of negotiations included: access to markets for agricultural and industrial products, procurement rules, investment, energy and raw materials, health and phytosanitary measures, services, intellectual property rights, sustainable development, dispute resolution, competence, custom facilities and

⁵ Anti-Counterfeiting Trade Agreement (ACTA), multilateral treaty for the establishment of international standards for compliance with intellectual property rights, approved by the European Commission but later rejected by the European Parliament.

subsidies to public companies. Fifteen working groups are committed to the negotiation of over twenty issues. As stated previously, the second round will be held next October in Brussels.

There are many voices that, even prior to commencement of negotiations, showed their concerns about (a) the development of the negotiations process itself (interests of social and corporate lobbies, lack of transparency in the access to information and even suspicions of international espionage, relevance of public consultations, among others) and (b) the direct and indirect effects resulting from the agreement. Regarding the latter point, one of the issues most debated by civil society is the inevitable reinstatement of the main principles contained in the already rejected ACTA, due to the exclusive interest of the US. Another critique of the comprehensive version of an eventual agreement between the EU and the US lies in the potential damage caused to third countries, together with the questioning of WTO *raison d'être* – multilateralism vs. bilateralism – that has not been able to progress significantly thus far on negotiations under the Doha Round since 2008.

However, many experts believe that the greater agility of bilateral free trade agreements, such as the TTIP, may generate incentives for third countries to strengthen their liberalization efforts at the multilateral level.

We are now involved in a negotiating process between relatively equal parties – more developed countries with solid and reliable institutions able to assume commitments towards executing credible and lasting regulatory reforms, with similar cultural conceptions and a strong social-based citizenship. This guarantees the existence of the necessary foundations to reach plausible results at a faster pace than in other multi-bilateral free trade agreements, in spite of the difficulty of reaching agreement on a great deal of complex issues.

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An austerity-driven energy reform¹

María Paz Espinosa²

The government's latest energy reform reflects an effort to reign in the electricity deficit, recently aggravated by weak demand and excess capacity, but questions remain as to whether or not it will be sufficient to eliminate the deficit, as well as to resolve regulatory uncertainty and improve investment climate in the sector.

In July 2013, the government approved a major overhaul of the Spanish electricity sector to correct existing imbalances that have led to an exponential increase of regulated electricity costs and a huge tariff deficit. The reform addresses the problem of financial sustainability of the sector, severely affected by weak demand and overcapacity. Previous regulation introduced in 2012 and early 2013, also aimed at restoring financial stability of the sector, failed to correct the tariff shortfall and new regulatory measures were needed to reduce the 4.5 billion euros forecasted deficit for 2013. The frequent change of the rules of the game in the sector has created regulatory uncertainty, more so as it is not clear that the present reform will be sufficient to eliminate the deficit. Moreover, the government has left the door open to new regulation that would deal with the price formation system. In general, short run financial criteria have prevailed, while efficiency principles and a long run perspective have little weight in the reform.

The need for reform

The size of the electricity tariff deficit implies a potential risk to Spain's public finances and therefore represents an urgent economic challenge facing the country. This deficit is the consequence of the steep and increasing gap between the price paid by consumers and all the elements included as regulated costs of electricity³.

The European Commission (EC, 2013) and the International Monetary Fund (IMF, 2013) have already recommended a deep overhaul of Spanish electricity regulation and finding a lasting solution to the electricity tariff deficit. At the end of May 2013, the European Commission warned that the policy measures introduced during 2012 and in early 2013 in the Spanish electricity market were not sufficient to put a stop to the increasing tariff deficit and recommended a thorough reform⁴.

¹ Financial support from MEC (ECO2012-35820), the Basque Government (DEUI, IT783-13) and UPV/EHU (UFI 11/46 BETS) is gratefully acknowledged.

² UPV/EHU.

³ See Espinosa (2013) and Espinosa and Pizarro-Irizar (2012).

⁴ The Commission recommendations also include the improvement of competition in the retail electricity market and setting up an independent observatory. Concerning the transport infrastructure, the report concludes that it is abundant but there is scope to make the selection of investment more stringent and prioritize efficient maintenance of existing networks.

According to the European Commission, the level of the Spanish electricity tariff deficit implies a potentially sizeable contingent liability for the budget and non-negligible macroeconomic risks.

There is no doubt that the evolution of the tariff deficit acts as a severe drag on the economy. According to government estimates, the shortfall would have widened to 10.5 billion euros this year (1% of Spanish GDP) without the measures undertaken in 2012 and early 2013. Even though these policy measures aimed at achieving financial equilibrium for the electricity system, a few months later they have not proven to be so effective. The government's new estimate is a tariff deficit of 4.5 billion euros for 2013, to be added to the outstanding electricity debt of 26.06 billion euros coming from the imbalances over the last decade⁵.

Thus, the pressure stemming from the large financial deficit in the energy sector has made reform unavoidable. Last February, the Spanish Congress had to approve 2.2 billion euros in funds to finance the deficit of regulated activities in the electricity market. It is clear that some policy action was urgently necessary. The July reform has distributed the forecasted 4.5 billion euros annual gap among consumers' energy bills (0.9 billion euros), firms (2.7 billion euros) and the state budget (0.9 billion euros). Yet distributing the power tariff shortfall among the market participants was by no means the only problem; the exponential growth of the costs of the system, including debt repayment, is also a sign of important deficiencies in market organization that the present reform fails to address.

The key features of the reform

The reform of the Spanish electricity system will be implemented through a new Electricity Act that will be approved by the end of 2013, a Royal Decree-law comprised of urgent measures with immediate

effect and several decrees and ministerial orders. This regulatory change comes at a steep price for the electricity sector. Energy stock prices fell sharply as a reaction to the announcement and Spanish utilities have been placed on *Rating Watch Negative* (Fitch Ratings). The reform will also hit consumers hard as they will see their electricity bills increase. Foreign and domestic investors in the renewable energy sector have expressed strong opposition to these measures that have plunged the profitability of their projects, and have announced lawsuits challenging the retroactive nature of the reform.

The new regulation has slashed regulated costs (remuneration to distribution, transmission and renewable generation) and raised consumers' electricity bills with immediate effects. It is estimated that the urgent cost reduction measures adopted, which will be effective for the second half of 2013, will cover only 1.4 billion euros of the 4.5 billion euros annual gap, while the rest will be covered by the 2.2 billion euros credit approved by Congress in February and the contribution of 0.9 billion euros by the state budget.

More importantly, the new regulation sets limits on the tariff shortfall and cuts the possibility of transferring the deficit collection rights to FADE, the Deficit Securitization Fund for the Electricity System. Any future mismatch between tariffs

The new regulation sets limits on the tariff shortfall and cuts the possibility of transferring the deficit collection rights to FADE, the Deficit Securitization Fund for the Electricity System. Any future mismatch between tariffs and regulated costs will be financed by the firms with regulated revenues, at the market interest rate, and paid back over the following five years, in principle through rate increases.

⁵ The accumulated deficit is close to 38 billion euros but 11.8 billion euros have already been recovered through tariffs.

and regulated costs will be financed by the firms with regulated revenues, at the market interest rate, and paid back over the following five years, in principle through rate increases.

Renewable generation will bear the brunt of the cuts

The reform will have the greatest impact on regulation and incentives provided to renewable energy. According to government estimates, the cut will be 1.5 billion euros per year (15% of the subsidies to the special regime).

The FIT (feed-in-tariffs) have been completely eliminated for all existing generation units⁶. The reform introduces a new system to replace the FIT; generators will receive the market price for the electricity they generate and, if needed, subsidies to guarantee a fixed profitability over the life span of the project. For the next six years, this rate of return is referenced (before taxes) to the yield of the ten-year Spanish Treasury bond plus 300 basis points, around 7.5% - an unusual reference, given that WACC (weighted average of the cost of capital) is the standard rate for regulated activities (Miles and Ezzell, 1980; Nantell and Carlson, 1975).

To determine the level of subsidy each year, the formula takes into account all the past subsidies and revenues of the project. If the previous rate of return on assets is higher than the regulated value, the subsidy in that year is correspondingly decreased to reach a fixed profitability over the life span of the project. Furthermore, the formula uses investment and operating costs standards corresponding to an ideal efficient plant. Hence, profitability could be higher or lower depending on the regulatory benchmark, which has not yet been set.

The proposal lacks detail, but regulation setting the technological benchmark for each plant is expected by the end of the year. This further regulation will fix the parameters affecting the benchmark plant's investment, operating costs and regulatory life span for each technology, as well as the estimates of the market price affecting the remuneration to the different renewable energy installations.

Setting the standard investment and operating costs is a task of insurmountable difficulty due to the large variability among different units depending on location, scale and the time of the investment. Renewable energy costs are site specific as resources (wind, sunlight,...) are not evenly distributed across regions. And this cost assessment is further complicated by the fast learning curve and significant declines in costs over time. As a consequence, the levelized cost of electricity (LCOE, the ratio of lifetime costs to lifetime electricity generation, both discounted back to a common year using a discount rate that reflects the average cost of capital) for each renewable technology cannot be accurately assessed unless it is made dependent on location, scale and time of investment (see IRENA, 2013⁷). If the standard costs are set as weighted averages, many plants will not be able to cover costs.

Since the new methodology is applied to past subsidies of the project, it tends to penalize the

Since the new methodology is applied to past subsidies of the project, it tends to penalize the more mature generation units, particularly the wind plants. Furthermore, feed-in tariffs were proportional to the energy produced, so that the more efficient units, with larger production volumes, will see their future returns more drastically reduced.

⁶ Previous measures included the elimination of incentives to new renewable projects and the limit on the number of subsidized hours of solar-energy electricity generation.

⁷ International Renewable Energy Agency.

Table 1

Incentives to the special regime, 2013

Technology	Capacity 31/12/2013 (MW)	Energy 2013 (GWh)	Hours 2013	Equivalent FIT(€/MWh)	Total FIT (million €)
Cogeneration	6,314	27,122	4,296	73.6	1,997
Photovoltaic	4,405	7,151	1,623	402.4	2,877
Solar Thermal	2,521	4,778	1,895	251.8	1,203
Wind	24,188	54,943	2,271	42.7	2,344
Small hydro	2,064	6,509	3,154	43.2	281
Biomass	779	4,777	6,135	75.2	359
Waste	576	2,532	4,398	29.3	74
Waste treat.	658	4,440	6,747	103.7	461
Total	41,505	112,252	2,705	85.5	9,596

Source: CNE (2013).

more mature generation units, particularly the wind plants (some of them may have even exceeded the critical level of return so that they would no longer be subsidized). Furthermore, feed-in tariffs were proportional to the energy produced, so that the more efficient units, with larger production volumes, will see their future returns more drastically reduced. Table 1 presents the Spanish Energy Commission's forecast of incentives to the different renewable technologies in 2013, before the change in methodology (CNE, 2013). The new subsidies are likely to change the distribution among the different technologies.

Spain is now the third largest producer of solar energy in the European Union after Germany and Italy. According to the solar trade associations, 38 billion euros have been invested in the Spanish solar industry since 2007, most with debt that needs to be repaid within 10 to 15 years. Expected returns to solar energy had already been severely cut since the regulatory changes began in 2010 and the new reform further reduces the revenue of all renewable projects, which in some cases may no longer cover the cost of servicing their loans. The reduced payouts for renewable-energy generation may call for the banks to refinance loans to the industry or take over the assets.

Unsurprisingly, the reform is threatened by lawsuits due to its retroactive scope. The way past subsidies and revenues of renewable projects are taken into account to calculate the future capital investment subsidies is equivalent to applying the new regulation, and the reduced profitability, to the entire life of the project and changes the conditions under which the investments were undertaken.

The huge cuts to renewable energy come after the generous system of subsidies for the sector had generated an investment bubble. The lack of a market mechanism, that would make the level of the subsidies responsive to the needs and the ability to pay of the system, led to unsustainable financial obligations. The reform does not tackle this issue, which is at the heart of the problems that have built-up in the sector. The new methodology sets the principle of equal return for all renewable energy sources, but does not take into account their different cost of production and does not even consider the optimal technology mix. The reform has missed the opportunity to introduce market mechanisms that could provide the right signals to investors in the long run⁸. Even in the current circumstances, where investment is not required due to excess capacity, the reform should have

⁸ See Ciarreta et al 2012a,b and 2013a,b.

considered the optimal technology mix and taken appropriate action to reduce the presence of less efficient technologies.

Finally, the reform has also put in place changes that undermine the cost/benefit analysis for distributed (on-site) generation. Net metering⁹ for residential installations is not considered and the introduction of a 'support levy' (peaje de respaldo) threatens the future of solar or wind self-generated energy by drastically reducing the financial returns homeowners and businesses would receive on their investment¹⁰. After the reform, these users may find it more expensive to produce their own energy than to buy it from the grid. Moreover, the obligation to connect to the grid for all the existing units (so that the home-produced energy can be taxed), under penalty of 6 to 30 million euros (clearly inappropriate for households who have a few solar panels on their roofs), has been strongly contested.

Distribution and transmission

One of the main objectives of the reform was the revision of remuneration to the activities of distribution and transport. According to the government estimates, the new regulation for transmission, distribution and extra costs of non-mainland systems will save 1 billion euros per

year, a large contribution to the financial stability of the sector. After the reform, distribution and transmission will be remunerated to guarantee a fixed rate of return to the net assets (the part of the investment not amortized). For the next six-year regulatory period, this rate of return is referenced (before taxes) to the yield of the Spanish Treasury bond plus 200 basis points, around 6.5%. Yet again, the reference to the ten-year Treasury bond is uncommon; WACC (weighted average of the cost of capital) is a more standard regulatory tool to remunerate the cost of the assets for utilities (see Cambini and Rondi, 2009). In addition, each year the regulator will fix the maximum investment level entitled to this return, which places a limit on regulated costs.

Regarding the incentives introduced in the proposal, Spain's National Energy Commission has recommended that the performance payments consider the consequences for consumers of supply failure so that the signals provided to the utilities would be correct from an economic standpoint.

Capacity

Apart from the cut in annual capacity payments, which is justified by the excess capacity in the system (see Table 2), the reform also includes

Table 2

Evolution of the Reserve Margin in Spain

Technology	Installed Capacity, Ci (GW)	Available Capacity, Ca (GW)	Ratio Ca/Ci	Extreme peak demand (GW)	Reserve Margin
2000	52.83	38.22	72.36	33.24	1.15
2005	73.97	48.58	65.68	43.38	1.12
2010	99.04	55.59	56.13	44.12	1.26
2012	101.83	59.78	58.70	43.01	1.39
Minimum Required					1.10

Source: Ciarreta et al. (2013b).

⁹ Under net metering consumers receive retail credit for at least a portion of the solar or wind electricity they generate.

¹⁰ A similar 'solar tax' is being considered in Arizona (convenience fee) but with a "20-year grace period" before being subject to the new policy.

capacity mothballing provisions that will affect combined cycle generation. Even though the intermittency of renewable production makes these units necessary, in the actual conditions of weak demand, some of the combined cycle plants are working at 10% of capacity. The new regulation will allow for 6,000 MW to hibernate, which will curb losses.

The exponential growth of the costs of the system and the resulting financial unsustainability are partly related to deficiencies in market organization that have led to overcapacity. The promotion of green energy through feed-in tariffs, which did not take into consideration the renewable capacity in the system or the optimal technology mix, has led to excessive investment incentives that must now be corrected. The reform promotes the closure of renewable facilities to decrease capacity and further alleviate the payouts for renewable energy generation, which will contribute to financial stability. However, it should be noted that the investment already made is a sunk cost and these units have a marginal cost close to zero, which makes closure not a wise economic decision.

Consumers' electricity bills

According to government estimates, the increase in energy bills will amount to 900 million euros per year and 450 million euros in 2013. Around half of the bill paid by consumers corresponds to the payment for the energy consumed, with a fixed and a variable component. The fixed term, or 'power charge', applies for having the service available, regardless of how much electricity is used, and depends only on the maximum power (kW) set in the electricity contract. The variable charge, the 'usage charge', depends on electricity consumption. The new regulation increases substantially the fixed charge in the bill (77% increase for consumers with power less than or equal to 10kW) and brings down slightly the price paid for each kWh of consumption. As a result,

the energy bill will increase substantially for consumers with low consumption and decrease for consumers with high consumption levels. On

On average the increase in the final bill is estimated at 3.2% with large variability depending on the consumption profile. The change in consumer pricing, with more weight on the fixed component of the bill, does not seem justified by the cost structure of the electricity system and is mainly driven by the need to increase revenues in the actual context of weak demand.

average the increase in the final bill is estimated at 3.2% with large variability depending on the consumption profile.

The change in consumer pricing does not seem justified by the cost structure of the electricity system and is mainly driven by the need to increase revenues in the actual context of weak demand (CNE, 2013). Although those consumers with higher price-elasticity could decrease their bills by reducing the power contracted¹¹, the new regulation provides no incentives for efficiency measures that reduce consumption.

Thus, the regulatory change has aimed at increasing revenues by increasing the fixed term in consumers' bills, where elasticity is bound to be very low, but no effort has been made to improve efficiency by providing consumers with appropriate signals. Furthermore, the access charges should be designed so as to distribute the regulated costs in a way that reflects the costs that consumers impose on the system. This principle would encourage the agents to take efficient decisions.

¹¹ The Spanish Energy Commission has recommended that the new price schedule should not be applied immediately and has asked for a transition period in which consumers should be informed of the regulatory changes and to allow them time to change their contracts with electricity providers (CNE, 2013).

The impact of the reform on the tariff deficit

According to the government's estimates, transmission costs for 2013 are reduced by 180 million euros, distribution costs by 348 million euros and subsidies to renewable energy by 750 million euros. Table 3 presents regulated revenues and costs for 2013 after the reform.

Regarding the deficit for 2013, Spain's National Energy Commission (CNE, 2013) considers that the uncertainty regarding the revenue from tariffs is very high. First, it is very sensitive to the demand level. If demand decreases in the interval of -1.5% to -3.5%, revenues would decrease by 200-300 million euros. Second, as a reaction to the increases in the fixed term in their bills,

consumers may change their contracts in order to decrease the power component in their bills.

An important question is whether the tariff deficit has been tackled conclusively with this sector overhaul. Beyond its effect on the deficit in 2013, the reform has been heralded as the definitive reform that would prevent future deficits. To this purpose the reform has tried to build automatic adjustments within the sector's regulation, so that any future cost increases are matched with higher revenues.

The Electricity Bill¹² to be approved later this year puts in place a limit for the deficit. In particular, the limit is set at 2% of the system revenues, and the accumulated deficit cannot be higher than 10% of the annual revenues. Within those limits, firms will finance the shortfall proportionally to their

Table 3

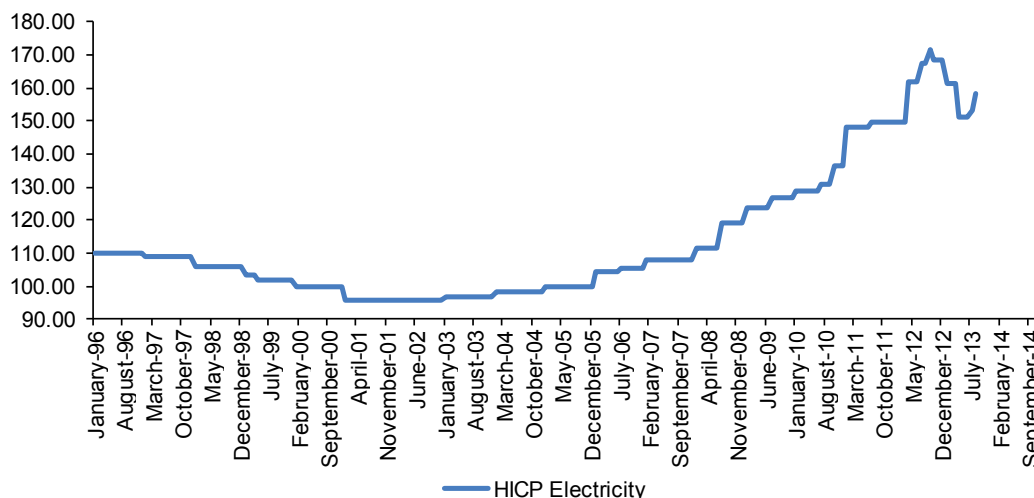
Projected costs and revenues for 2013 after the reform

(million euros)	REVENUES	COSTS
Regulated revenues	14,678	
Regulated costs (access charges, capacity payments and other regulated activities)		20,581
Transmission		1,492
Distribution		5,070
Feed-in-tariffs and diversification		10,075
Recovery deficit from regulated activities		2,629
Non-mainland generation		925
Other		390
Regulated Revenue-Cost		-5,903
Other revenues	5,922	
Tax measures (Law 15/2012)	2,647	
CO2 emission auctions	150	
State budget	925	
Credit	2,200	

Source: Ministerio de Industria, Energía y Turismo. *Propuesta de orden por la que se revisan los peajes de acceso de energía eléctrica, July 2013.*

¹² Anteproyecto de Ley del Sector Eléctrico.

Exhibit 1

Harmonized Index of Consumer Prices: Electricity for Spain. Year 2005=100¹³

Source: Eurostat.

entitlement to revenue, and will recover those amounts in the following five years. Above those limits, rates will be revised to cover the excess deficit.

If the shortfall exceeds those limits, then the Bill (Art. 19) states that tariffs should be increased to cover the excess. However, if the shortfall rises well above the critical level such a rise may be unfeasible, so that new regulatory changes may be necessary to prevent excessive consumers' price increases. In fact, according to the government the present reform is introduced to prevent price increases of 42% in 2013, which would have been required to cover the tariff deficit.

The problem is that, even though any deficit should be followed by an increase in the electricity price, further consumer price increases of a magnitude

sufficient to cover significant deficits simply may not be feasible. Exhibit 1 shows the monthly evolution of the *Harmonized Index of Consumer Prices: Electricity for Spain* (Eurostat)¹⁴ Consumer electricity prices in August 2013 were 58% higher than the same month in 2005.

This recent evolution of consumer electricity prices may make it impossible for future deficits to be offset by further rate increases. In any case, until additional details about the specifics of the reform are made public and the market participants are able to respond to the measures, it is difficult to evaluate whether the reform will be sufficient to contain the deficit in the short term.

Outlook for the future

Despite several controversial aspects of the reform, there is agreement on the need for

¹³ The Harmonized Index of Consumer Prices (HICPs) for the European Union are calculated by Eurostat using statistics provided by the Member States on price changes and the consumption patterns of consumers within their economic territories. Information on electricity prices is collected for both household and industrial consumers. Each category of domestic standard consumers is characterized by specified annual consumption and standard dwelling, and is expected to possess specific household facilities and appliances. Industrial standard consumers are users with an annual consumption above 30,000 kWh and several categories are considered, based exclusively on the amount of annual consumption.

¹⁴ <http://research.stlouisfed.org/fred2/series/CP0451ESM086NEST>

regulatory change that would achieve financial stability. However, there has been opposition to the current reform for several reasons. First, it is not clear that the regulatory changes will be sufficient to eliminate the deficit, although presumably they will narrow the annual tariff shortfall. Second, the reform faces legal challenges in national and international courts due to its retroactive scope. Third, it negatively affects the financial system due to the high debt in wind and solar projects which may cause a wave of loan defaults. Fourth, it is likely to be followed by new regulation dealing with market design and the price formation system and therefore it does not resolve the uncertainty of the agents involved.

The effect on investment climate will depend on how the reform is perceived by the markets. In their statement released following the announcement by the Spanish government of new regulatory measures, Fitch Ratings viewed 'the proposal as a further sign of increasing political risk in the sector.' Furthermore, according to the rating agency report, there is no confidence that the new regulation will eliminate the tariff deficit: 'It remains to be seen if the new proposal is more successful in TD reduction, after the regulatory measures introduced in 2012 and in early 2013 did not achieve this goal.'

It is difficult to evaluate precisely the impact of the continuous changes in regulation on an already deteriorated investment climate, but it is clear that the reform has not only missed the opportunity of mitigating uncertainties, but its retroactive scope has inflicted irreparable damage on future investment prospects in different sectors. Regulatory risk certainly damages the image of Spain as a stable destination for investment flows.

In a market where investment decisions have consequences for decades, a long term perspective is essential. However, beset by financial imbalances, the reform deals only with deficit distribution. No action is taken to improve the market design or the technology mix or to promote energy efficiency. While good regulation

should provide an environment where investment and consumption decisions are guided by economic signals, the present reform penalizes the more mature and efficient renewable production units and worsens the incentives for consumers' energy saving.

This reform is part of Spain's austerity drive and it was certainly needed to ensure financial stability, but efficiency and market design issues should not have been ignored. In particular, regulation concerning renewable energy should take into account the country's optimal technology mix (see Ciarreta et al., 2013b). Rather than payment schedules that are supposed to be effective for 15-25 years, and that have proven impossible to maintain, the promotion of green energy should be explicitly responsive to market conditions and existing capacity, and investors should be aware of this when making their investment decisions. A well designed incentive scheme would have avoided retroactive measures that change the rules of the game midstream.

The reform of the wholesale electricity market (the pool), announced for 2014, could further contribute to financial stability in the sector, but it should not overlook efficiency issues. Regulation and market design should not only guarantee proper functioning under present circumstances of weak demand and excess capacity, but also over the longer-term, in order to provide stability to the sector and remove regulatory uncertainties.

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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)

Law on measures to support entrepreneurs, stimulate growth and create employment (Law 11/2013, published in the State Official Gazette (BOE) on July 27th)

This Law, which results from Royal Decree-Law 4/2013, enacts the following measures:

- **Measures to promote corporate finance: The Regulation on the Organisation and Supervision of Private Insurance** has been amended to allow insurance undertakings to invest in securities traded on the alternative stock market (MAB), and for these investments to be considered eligible to meet requirements for technical provisions.

Similarly, the **Regulation on Pension Funds and Plans** has been amended to allow pension funds to invest in securities traded on the MAB and in venture capital undertakings, with an upper limit of 3% of the fund's assets invested in each entity.

The limitation on investment in multilateral trading facilities imposed by Article 405 of the **Share Capital Companies Law**, such that the total amount issued by companies may not exceed their paid-up share-capital plus reserves, has been lifted. To ensure retail investors are adequately protected, this

relaxation of the rules will only apply to issues aimed at institutional investors.

- **Measures to combat late payment:** Law 3/2004, establishing measures to combat late payment of commercial operations, has been reformed to adapt it to European Union requirements.

The **legal interest rate the debtor** is liable to pay in the event of late payment has also been changed, such that it is now the interest rate applied by the European Central Bank plus eight percentage points.

The law establishes a rebuttable presumption that conditions excluding compensation for the cost of collection, which are contrary to the law, are **unfair contract terms**.

CNMV Circulars establishing standard formats for the annual compensation report and annual corporate governance report (Circular 4/2013 and 5/2013, published in the BOE on June 24th)

The Circulars set out the content and structure of the annual corporate governance report, the annual remuneration report, and other information to be published by public limited companies, savings banks and other entities issuing securities admitted to trading on official securities markets,

with different templates for each type of reporting entity.

Both Circulars came into force on the day after their publication and will be applicable to reports submitted as of **January 1st, 2014, in the case of governance reports**, and to reports to be submitted for approval to general assemblies or shareholders' meetings held as of **January 1st, 2014, in the case of remuneration reports**.

- **Annual remuneration report for public limited companies and the members of the board of directors and oversight committee of savings banks issuing securities admitted to trading on organised securities markets (CNMV Circular 4/2013)**

Two templates have been established, one for public limited companies and the other for savings banks issuing securities admitted to trading on official securities markets. The structure of the report in these cases is as follows:

- **The entity's remuneration policy for the current year.** This section includes information on: (i) general principles and the general terms of the remuneration policy; (ii) main changes in the remuneration policy since that applied the previous financial year, and any changes made during the year affecting the conditions for the exercise of previously granted options; (iii) criteria used to determine the entity's remuneration policy; and, (iv) the relative importance of variable remuneration components and fixed remuneration, and the criteria applied to determine the various components of board members' remuneration packages (remuneration mix).
- **Planned remuneration policy for future years.** A general forecast is to be given of the planned remuneration policy for

future years, describing the following aspects of the policy: fixed components, allowances and variable remuneration, relationship between remuneration and performance, benefit systems, contractual conditions for executive directors, and a forecast of the most significant changes in the remuneration policy with respect to previous years.

- **Overall summary of how the remuneration policy was applied during the year.** Main characteristics of the structure of the remuneration policy and its items during the past year, including the details of the individual remunerations accruing to each of the board members, and a summary of the decisions taken by the board for their application.
- **Details of remuneration paid to each board member.**
- **Other relevant information.**

- **Annual corporate governance report (CNMV Circular 5/2013)**

Three report templates have been established: one for **public limited companies**, another for **entities issuing securities** traded on an official market (**other than savings banks**), and a third for **savings banks that issue securities** traded on an official market (however, savings banks not issuing non-voting equity units traded on official securities markets are not obliged to complete certain sections).

All the reports referred to in these circulars must be sent to the CNMV in standard electronic document format for their publication as a **relevant event**. The CNMV is therefore to make the relevant electronic templates available to entities.

Bank of Spain Circular on the reporting of transactions and balances in marketable securities (Circular 3/2013, published in the BOE on August 2nd)

Circular 3/2013 aims to cover the new security-by-security information requirements envisaged in ECB Regulation (EU) 1011/2102, October 17th, 2012, regarding statistics on securities portfolios that are to be submitted by resident depository institutions about their resident clients' holdings of securities issued by other resident entities.

The following institutions are **obliged to report**:

1. Credit institutions and branches in Spain of credit institutions on official Bank of Spain registers acting as depositaries or settlement agencies in regulated securities markets, and the Bank of Spain.
2. Resident financial institutions on official CNMV registers acting as depositaries or settlement agencies in regulated securities markets.
3. Financial institutions on official CNMV registers acting as investment fund management companies, in relation to shares in Spanish investment funds.

The following security-by-security **information** on marketable securities is to be sent (itemised by security class and individual security, identified by ISIN code), on a **monthly** basis, within ten working days of the end of each month:

- a) The entities listed under points 1 and 2 above are to report:
 - Transactions conducted and balances held for clients, including those corresponding to investment funds.
 - In the case of marketable securities issued by resident entities and held

on behalf of resident clients, only the balance need be given.

- Foreign investment fund marketing entities domiciled in Spain that are on the CNMV's official registers are to report information (transactions and balances) on their clients' investment fund shares.
- Transaction totals and the balances in the entity's securities accounts (proprietary and third party), corresponding to securities issued by resident entities that are deposited in accounts at the entity opened in non-resident depository entities, central non-resident securities depositaries or international clearing or settlement systems.

- b) Spanish investment fund management companies will report transactions involving shares in these funds and their balances.

Moreover, the entities mentioned in points 1 and 2 of the first rule will report the information included below **between the Circular's entry into force and the time of the report corresponding to December 31st, 2014**:

- Transactions performed and balances held on their own account.
- Transactions performed and balances of securities issued by non-resident entities, held on behalf of entities other than those mentioned above, which send information about their own transactions and balances directly to the Bank of Spain.
- Transaction totals and balances of the entity's security accounts, corresponding to securities issued by non-resident entities.

The Circular will **come into effect on January 1st, 2014**, and will **repeal Bank of Spain Circular 2/2001**, of July 18th, 2001, on the reporting of foreign transactions and asset and liability balances in marketable securities.

Spanish economic forecasts panel: September 2013¹

Funcas Economic Trends and Statistics Department

The forecast for 2013 has risen to -1.3%

GDP contracted by 0.1% in the second quarter of 2013, compared with a 0.4% drop in the preceding quarter. This confirms the scenario suggested by most economic indicators that the economy is stabilising rapidly. What is surprising is the speed at which the decline in household consumption has slowed, and that capital investment has grown for the second consecutive quarter.

The improvement in the second quarter was mainly the result of the less negative contribution from domestic demand. The external sector's contribution was only slightly up on that in the previous quarter, despite the strong growth in exports, as imports also rose sharply.

The consensus growth forecast for the year as a whole has been revised upwards by two tenths of a percentage point to -1.3%.

The forecast for 2014 remains unchanged at 0.7%

The GDP growth forecast for 2014 is unchanged at 0.7%, although its composition has changed. Domestic demand is expected to make a less negative contribution, and while the external sector is still expected to make a positive contribution, it is smaller than predicted in the previous panel forecast.

The quarterly profile that emerges from the consensus figures (Table 2) suggests quarter-on-quarter growth of 0.1% in the third quarter. The growth rates for subsequent quarters are also expected to be positive but modest.

Industrial activity is close to stabilising

Industrial activity, as measured by the industrial production index, continued its downward trend in the second quarter, although the PMI for August suggests this is bottoming out. The consensus forecast for this year has improved markedly, rising to -2.6%, with activity now expected to stabilise next year, compared to a drop of -0.2% in the previous panel forecast.

Decline in inflation

As expected, the inflation rate began to fall in July as the step effect caused by the change in prescription charges in the same month last year ended. Inflationary pressures on the demand side remained absent, and the trend towards moderation will continue in September and October, with the end of the other step effects caused by the VAT rise a year ago.

The consensus forecast for the year-on-year rate in December 2013 has risen slightly to 1.1%, while the year-on-year rate for December 2014

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.

has remained unchanged at 1.5% (Table 3). The average rates forecast for this year and next are 1.7% and 1.3%, respectively.

Slightly brighter outlook for employment

According to the national accounts, the rate of job losses in full-time job equivalent terms slowed in the second quarter. Social security system affiliates figures for July and August suggest this trend probably continued into the third quarter. The consensus forecasts for this year and next have improved to -3.2% and -0.2%, respectively. The unemployment rate forecasts have also been revised downwards from 26.5% to 25.9%.

Using the consensus estimates for GDP, employment and salary growth to deduce the implicit productivity and unit labour cost growth estimates, productivity is expected to grow by 2% in 2013 and 1% in 2014, while ULCs are forecast to drop by 1.9% and 0.8% this year and next, respectively. The process of recovering cost-competitiveness is, therefore, expected to continue.

A positive trade balance in 2013 and 2014

The current account balance registered a surplus equivalent to 0.3% of GDP in the first half of 2013, compared with a deficit of 3.3% in the same period of the previous year. The rapid correction in the deficit observed last year in particular is partly due to the fact that the trade balance in goods and services moved into surplus, in conjunction with a smaller deficit on the income balance.

The consensus forecast for this variable has improved to a positive balance of 1.3% of GDP in 2013 and 2.1% in 2014.

The public deficit forecast has worsened

The consensus forecast for the public deficit has risen to 6.7% of GDP this year and 5.9% next, in both cases, two tenths of a percentage point higher than in the previous survey. This upward revision of the deficit-to-GDP ratio may be partly explained by a larger forecast deficit, but also by the impact on the ratio of the downward revision of its denominator, i.e. the GDP figure, given by the INE last August.

The external context is expected to improve

The perception of economic conditions in the euro zone has improved over the last few months, the area's GDP having performed better than expected, with 0.3% growth in the second quarter. The United States remains on its growth trend and it is now the emerging economies that are showing signs of running out of steam. There is also concern about the impact on emerging economies of the withdrawal of the Federal Reserve's extraordinary monetary policy measures, triggering a sharp devaluation in some emerging countries' currencies.

The improved expectations regarding the European economy have been reflected in the results of the forecast panel. The panellists' opinion about the current situation in the EU remains mainly negative, but the number of unfavourable votes has decreased significantly from 17 in the last survey to 12 now. The number of panellists who see an improvement in conditions over the next six months has also grown significantly.

In the case of the assessment of the situation outside the EU, the majority view is neutral, with a tendency towards an improvement over the coming months.

Interest rates on government debt are not expected to rise further

Short-term interest rates (three-month EURIBOR) have stood at around 0.22% in recent weeks, slightly above the rate in previous months. Most panellists now feel this level is low for economic conditions in Spain (previous panels viewed it as appropriate) but still expect rates to remain stable.

In the case of long-term rates, there was a drop in yields on Spanish government debt in August from 4.66% (monthly average) to 4.51%, which was accompanied by an increase in the return on German debt, resulting in a substantial reduction in Spain's risk premium to around 250 basis points. There has been almost no change from the opinion in the preceding panel forecasts that the current level is too high to enable the economy to recover, but most panellists expect rates 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, has maintained a value around 1.33 and is still expected to remain stable over the coming months.

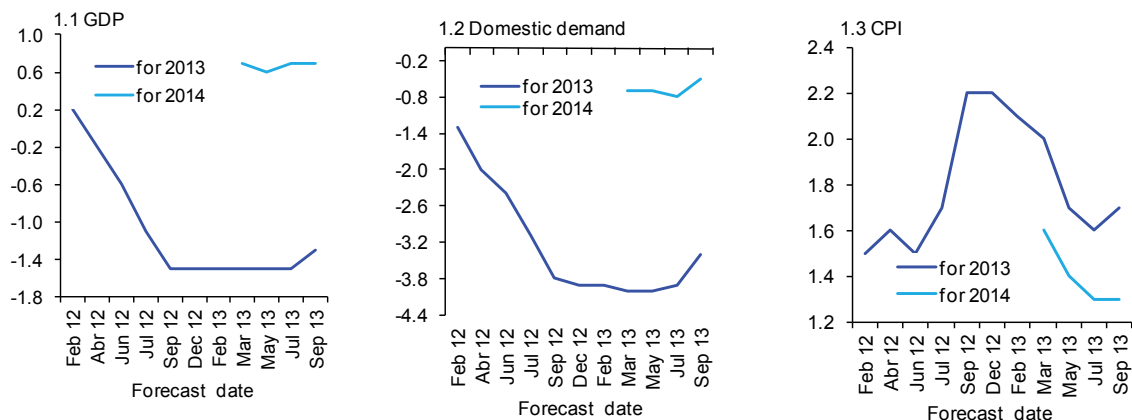
Expansionary monetary policy is warranted

There has been no change in the view of fiscal policy either, which continues to be almost unanimously considered restrictive, an orientation most panellists consider necessary. The overwhelming majority of panellists also consider current monetary policy to be expansionary, which participants unanimously agree is the right orientation.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – September 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)	-1.3	0.5	-2.8	-0.6	-2.7	-2.4	-6.0	-1.0	-0.5	2.8	-10.5	-3.8	-3.5	-1.2
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.4	0.9	-2.7	-0.2	-1.9	-1.7	-6.2	1.1	0.8	5.6	-10.5	-1.9	-3.2	-0.3
Bankia	-1.3	0.8	-2.7	-0.2	-3.4	-3.2	-6.7	-0.7	0.3	5.4	-10.7	-4.3	-3.6	-0.9
CatalunyaCaixa	-1.4	0.8	-2.8	0.0	-2.0	-1.6	-7.4	-2.9	-2.2	-0.2	-10.5	-4.8	-3.5	-0.9
Cemex	-1.3	0.8	-2.6	0.4	-2.7	-2.4	-6.3	-0.1	-1.7	2.8	-10.5	-3.8	-3.3	-0.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.2	1.1	-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)	-1.2	0.9	-2.6	0.1	-2.5	-0.7	-6.2	-0.9	-0.4	0.9	-10.0	-2.2	-3.2	0.8
CEOE	-1.2	0.8	-2.7	0.1	-3.0	-2.7	-5.9	-1.2	1.2	5.4	-10.4	-6.0	-3.3	-0.7
ESADE	-1.0	--	-2.0	--	-4.0	--	-6.0	--	--	--	--	--	-3.3	--
Fundación Cajas de Ahorros (FUNCAS)	-1.2	1.0	-2.6	0.3	-2.1	-1.6	-6.2	-2.1	-0.3	1.0	-10.3	-4.8	-3.2	-0.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	0.5	-3.0	-0.5	-3.4	-1.5	-7.0	-2.0	-2.5	1.0	-10.0	-2.8	-3.7	-0.9
Instituto de Estudios Económicos (IEE)	-1.4	0.7	-2.8	-0.1	-3.5	-1.8	-7.3	-1.6	-2.5	2.5	-10.1	-4.0	-3.7	-0.7
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.4	0.6	-2.9	-0.3	-2.2	-2.9	-5.8	1.7	0.6	7.4	-10.0	-1.5	-3.3	-0.5
Instituto Flores de Lemus (IFL-UC3M)	-1.4	0.3	-2.7	0.5	-2.6	-2.3	-6.0	-1.4	0.5	2.9	-10.0	-4.2	-3.1	-0.4
Intermoney	-1.4	0.5	-2.5	-0.1	-3.2	-3.1	-7.2	-3.5	-2.8	-1.7	-10.4	-5.6	-3.3	-0.7
La Caixa	-1.2	0.8	-2.7	0.2	-1.5	-1.2	-6.5	-1.1	-0.1	2.6	-10.3	-3.1	-3.1	-0.3
Repsol	-1.3	0.8	-2.8	-0.1	-1.3	-0.6	-6.8	-0.5	1.8	8.0	-11.4	-5.8	-3.3	-0.3
Santander	-1.3	0.9	-2.6	0.5	-1.9	-2.1	-6.9	-1.2	-0.9	2.5	-9.6	-3.5	-3.3	-0.4
Solchaga Recio & asociados	-1.3	0.8	-2.6	0.3	-4.2	-1.7	-6.2	-1.3	-2.1	1.6	-8.1	-2.8	-3.7	-0.4
CONSENSUS (AVERAGE)	-1.3	0.7	-2.7	0.0	-2.8	-2.0	-6.4	-1.0	-0.8	2.9	-10.0	-3.7	-3.4	-0.5
Maximum	-1.0	1.1	-2.0	0.5	-1.3	-0.6	-5.5	1.7	1.8	8.0	-7.2	-1.1	-3.1	0.8
Minimum	-1.5	0.3	-3.0	-0.6	-4.2	-3.2	-7.4	-3.5	-3.6	-1.7	-11.4	-6.0	-3.7	-1.2
Change on 2 months earlier ¹	0.2	0.0	0.1	0.1	1.4	0.3	0.8	0.2	4.2	1.6	-0.7	-0.8	0.5	0.3
- Rise ²	15	9	12	11	16	9	14	8	17	13	3	3	17	12
- Drop ²	0	1	3	3	0	6	3	8	0	1	13	12	0	3
Change on 6 months earlier ¹	0.2	0.0	0.1	0.0	2.3	0.4	0.8	0.0	4.5	1.1	-0.7	-1.0	0.6	0.2
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 (July 2013)	-1.6	0.0	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2013)	-1.7	0.4	-3.0	-1.5	-2.9	-1.4	-9.9	-2.9	--	--	--	--	-4.3	-1.7

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 – September 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)	6.2	7.1	-0.4	3.1	--	--	1.8	1.0	--	--	-3.2	-0.2	26.6	26.3	0.9	1.5	-6.5	-5.8
Banco Bilbao Vizcaya Argentaria (BBVA)	5.0	6.7	-0.8	3.8	--	--	1.7	1.1	0.0	0.3	-3.4	0.0	26.2	25.4	1.0	1.8	-6.5	-5.8
Bankia	6.3	6.9	-1.0	1.9	-1.5	--	1.7	1.5	-0.3	0.3	-3.4	-0.4	26.5	25.9	1.5	3.1	--	--
CatalunyaCaixa	5.2	6.6	-0.9	3.7	--	--	1.8	1.6	--	--	-3.4	-0.4	26.6	26.0	--	--	--	--
Cemex	5.1	6.2	-0.8	3.6	--	--	1.5	1.2	--	--	-3.0	0.1	26.0	25.5	0.8	1.4	-6.5	-5.5
Centro de Estudios Económica de Madrid (CEEM-URJC)	5.8	5.7	-1.1	1.6	--	--	1.7	1.0	--	--	-2.8	0.2	26.1	25.2	1.8	2.6	-6.5	-5.7
Centro de Predicción Económica (CEPREDE-UAM)	5.4	4.8	-0.7	2.1	-4.2	-0.9	1.3	1.1	-0.1	0.2	-3.1	-0.3	26.5	26.4	1.0	2.0	-7.3	-6.8
CEOE	6.8	6.0	0.2	1.8	-2.6	1.5	1.7	1.7	0.4	0.0	-3.4	-0.1	26.4	25.8	1.6	3.1	--	--
ESADE	5.5	--	-3.0	--	--	--	2.5	--	--	--	-2.5	--	26.0	--	1.8	--	--	--
Fundación Cajas de Ahorros (FUNCAS)	5.6	6.0	-0.2	1.9	-2.2	0.9	1.7	1.4	0.5	-0.2	-3.4	-0.4	26.4	25.8	1.8	2.9	-6.8	-6.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.0	6.0	-2.0	2.0	-3.0	-0.5	1.8	1.4	--	--	-3.1	0.0	26.7	26.2	1.0	1.8	-6.4	-5.7
Instituto de Estudios Económicos (IEE)	4.8	6.0	-2.5	1.6	--	--	1.8	1.3	0.6	0.2	-3.3	-0.4	26.8	26.0	1.0	2.5	-6.5	-5.8
Instituto de Macroeconomía y Finanzas (Universidad CJC)	6.4	4.5	0.6	1.6	-2.1	-0.5	1.6	1.0	--	--	-3.5	-1.1	26.6	26.7	1.8	2.8	-7.2	-5.8
Instituto Flores de Lemus (IFL-UC3M)	3.8	5.0	-1.6	2.8	-2.4	-1.9	1.5	1.5	--	--	--	--	26.6	26.1	--	--	--	--
Intermoney	4.3	4.5	-2.5	0.9	-3.8	-1.0	1.7	1.2	--	--	-3.6	-0.8	27.0	26.5	1.0	1.2	-6.6	-5.8
La Caixa	5.2	5.6	-0.6	2.4	-2.1	2.1	1.7	1.4	0.1	0.8	-3.1	0.5	26.2	25.3	1.8	2.4	-6.9	-6.2
Repsol	6.3	7.5	0.2	4.7	-2.3	0.5	1.5	1.5	-0.2	-0.8	-3.3	-0.1	26.3	25.7	1.1	1.4	-6.7	-5.9
Santander	5.5	5.7	-2.1	2.0	--	--	1.5	1.1	0.0	0.4	-3.4	-0.2	26.7	26.1	1.0	1.5	--	--
Solchaga Recio & asociados	4.5	5.5	-3.2	1.9	--	--	1.7	1.4	--	--	-3.2	-0.2	26.5	26.1	1.5	2.0	-6.3	-5.5
CONSENSUS (AVERAGE)	5.4	5.9	-1.2	2.4	-2.6	0.0	1.7	1.3	0.1	0.1	-3.2	-0.2	26.5	25.9	1.3	2.1	-6.7	-5.9
Maximum	6.8	7.5	0.6	4.7	-1.5	2.1	2.5	1.7	0.6	0.8	-2.5	0.5	27.0	26.7	1.8	3.1	-6.3	-5.5
Minimum	3.8	4.5	-3.2	0.9	-4.2	-1.9	1.3	1.0	-0.3	-0.8	-3.6	-1.1	26.0	25.2	0.8	1.2	-7.3	-6.8
Change on 2 months earlier ¹	1.8	0.7	3.0	1.2	0.8	0.2	0.1	0.0	-0.1	0.0	0.2	0.2	-0.4	-0.7	0.3	0.4	-0.2	-0.2
- Rise ²	17	11	18	15	9	4	11	5	4	2	14	9	0	0	10	11	0	2
- Drop ²	0	1	0	0	0	1	3	6	4	0	0	0	18	16	0	1	6	6
Change on 6 months earlier ¹	1.4	0.5	2.9	0.7	1.0	-0.2	-0.3	-0.3	0.0	-0.4	0.0	0.0	-0.3	-0.6	1.0	0.9	-1.0	-1.5
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 (July 2013)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2013)	4.5	6.7	-3.7	0.8	--	--	1.5	0.4	-1.0	-1.0	-4.2	-1.6	27.3	28.0	2.1	3.5	-6.9	-6.4

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 - September 2013¹

	Quarter-on-quarter change (percentage)							
	13-Q1	13-Q2	13-Q3	13-Q4	14-Q1	14-Q2	14-Q3	14-Q4
GDP ²	-0.4	-0.1	0.1	0.1	0.2	0.2	0.3	0.4
Household consumption ²	-0.5	-0.1	-0.1	-0.1	0.0	0.1	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 – September 2013¹

Monthly change (%)				Year-on-year change (%)	
Sep-13	Oct-13	Nov-13	Dec-13	Dec-13	Dec-14
0.2	0.8	0.2	0.2	1.1	1.5

¹ Average of forecasts by private institutions listed in Table 1.

Table 4

Opinions – September 2013

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	2	5	12	15	4	0
International context: Non-EU	7	11	1	10	9	0
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	8	7	4	2	16	1
Long-term interest rate ³	1	5	13	1	13	5
	Overvalued ⁴	Normal ⁴	Undervalued ⁴	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	16	2	1	1	12	6
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	18	1	0	13	4	2
Monetary policy assessment ¹	2	0	17	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.

KEY FACTS:

- ❑ **ECONOMIC INDICATORS** *Page 72*
- ❑ **FINANCIAL SYSTEM INDICATORS** *Page 121*

KEY FACTS: ECONOMIC INDICATORS

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		-3.8	-3.7	3.7	-18.0	-16.6	-20.4	-12.2	-21.3	-10.0	-17.2	-6.7	2.9
2010		-0.2	0.2	1.5	-5.5	-9.9	-11.4	-8.4	5.5	11.7	9.3	-0.6	0.4
2011		0.1	-1.2	-0.5	-5.4	-10.8	-12.5	-9.2	5.8	7.6	-0.1	-2.1	2.1
2012		-1.6	-2.8	-4.8	-7.0	-9.7	-8.7	-10.6	-2.6	2.1	-5.7	-4.1	2.5
2013		-1.2	-2.6	-2.1	-6.2	-10.3	-8.4	-11.8	-0.1	5.6	-0.2	-3.1	1.9
2014		1.0	0.3	-1.6	-2.1	-4.8	-4.0	-5.5	1.4	6.0	1.9	-0.5	1.5
2012	I	-1.2	-1.8	-4.9	-6.0	-8.6	-7.8	-9.4	-1.6	0.1	-6.9	-3.4	2.2
	II	-1.6	-3.1	-4.4	-6.9	-9.3	-8.1	-10.3	-2.9	0.5	-7.7	-4.2	2.6
	III	-1.7	-2.8	-4.9	-7.5	-10.9	-9.2	-12.4	-2.0	3.3	-4.6	-4.2	2.5
	IV	-2.1	-3.5	-5.0	-7.7	-10.0	-9.7	-10.4	-3.7	4.4	-3.5	-4.7	2.6
2013	I	-2.0	-4.2	-3.3	-7.5	-10.2	-9.4	-10.9	-3.3	3.6	-4.8	-4.6	2.6
	II	-1.6	-3.1	-2.4	-6.4	-10.5	-8.6	-12.0	-0.2	9.2	3.1	-3.6	2.0
2014	III	-1.1	-2.4	-1.3	-6.1	-10.3	-8.3	-11.9	-0.1	4.8	-0.1	-2.8	1.7
	IV	-0.2	-0.4	-1.4	-4.8	-10.1	-7.4	-12.4	3.3	4.9	1.2	-1.4	1.3
	I	0.5	0.1	-1.6	-3.5	-7.7	-6.4	-8.7	2.5	9.4	5.3	-1.0	1.5
	II	0.9	0.2	-1.9	-1.9	-4.2	-3.9	-4.5	1.1	5.0	0.7	-0.6	1.5
2014	III	1.2	0.4	-1.5	-2.3	-3.9	-3.1	-4.5	-0.4	4.7	0.1	-0.5	1.7
	IV	1.3	0.6	-1.3	-0.8	-3.3	-2.5	-3.9	2.3	5.3	1.5	0.0	1.4
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2012	I	-1.7	1.0	-7.0	-6.6	-13.4	-8.1	-17.9	5.4	-12.0	-12.5	-2.1	0.4
	II	-2.0	-4.4	-0.1	-12.6	-15.8	-15.9	-15.8	-7.3	2.3	-8.4	-5.3	3.3
	III	-1.5	-2.9	-11.5	0.6	-5.1	-6.5	-3.9	10.0	28.5	19.8	-4.0	2.5
	IV	-3.0	-7.6	-1.1	-11.5	-5.3	-7.9	-2.9	-20.1	2.6	-9.8	-7.1	4.1
2013	I	-1.5	-1.8	-0.2	-6.0	-14.1	-7.1	-19.7	7.4	-14.5	-16.9	-2.2	0.6
	II	-0.4	-0.1	3.6	-8.2	-16.7	-12.7	-20.1	5.0	26.3	25.8	-1.1	0.7
2014	III	0.5	0.2	-7.4	1.9	-4.3	-5.4	-3.3	10.6	9.1	5.5	-1.0	1.5
	IV	0.9	0.2	-1.4	-6.4	-4.5	-4.1	-4.9	-8.9	2.6	-4.7	-1.5	2.3
	I	1.2	0.2	-1.0	-0.7	-4.6	-3.2	-5.6	4.4	1.3	-2.8	-0.2	1.4
	II	1.2	0.4	2.5	-2.3	-3.6	-2.8	-4.2	-0.6	7.3	5.3	0.1	1.2
2014	III	1.5	0.8	-6.0	0.3	-2.8	-2.1	-3.4	4.2	7.9	3.1	-0.4	1.8
	IV	1.6	1.0	-0.5	-0.6	-2.1	-1.8	-2.3	1.2	4.8	0.7	0.3	1.5
	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		1,046.9	56.6	21.4	23.6	16.8	8.5	8.3	6.8	23.9	25.8	101.9	-1.9
2010		1,045.6	57.9	21.5	22.2	14.9	7.3	7.7	7.3	27.4	29.5	102.2	-2.2
2011		1,046.3	58.6	21.2	20.7	12.9	6.0	6.9	7.8	30.8	31.9	101.1	-1.1
2012		1,029.0	59.3	20.2	19.2	11.5	5.2	6.3	7.7	32.7	31.9	99.3	0.7
2013		1,024.4	58.9	19.9	17.5	9.9	4.4	5.5	7.6	34.8	31.7	96.9	1.6
2014		1,044.0	58.9	19.2	16.7	9.1	4.0	5.1	7.6	36.6	31.9	95.3	4.7

*Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

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

Chart 1.1.- GDP
Percentage change

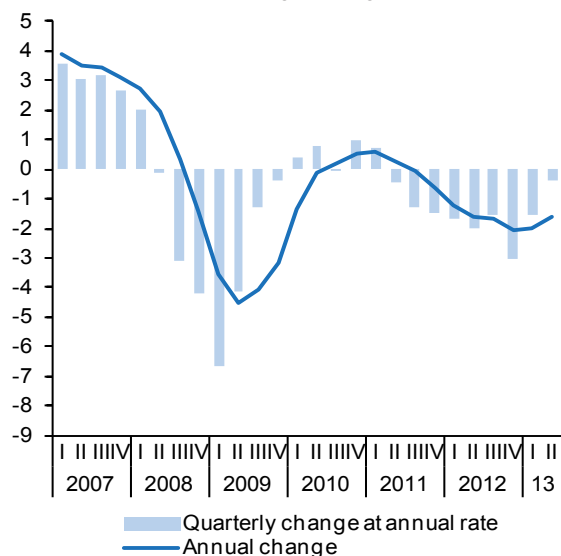


Chart 1.2.- Contribution to GDP growth
Percentage points

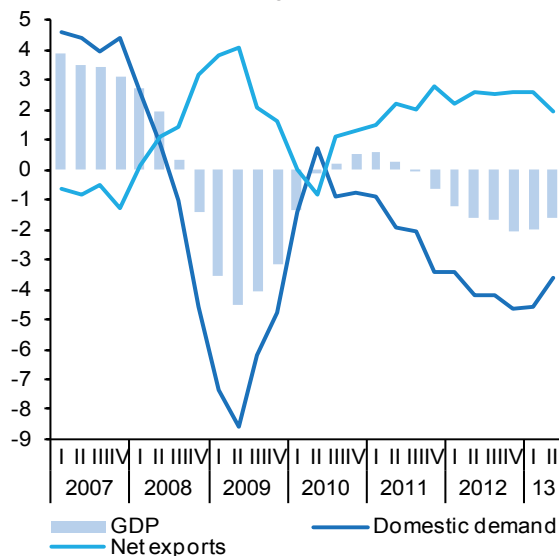


Chart 1.3.- Final consumption
Annual percentage change

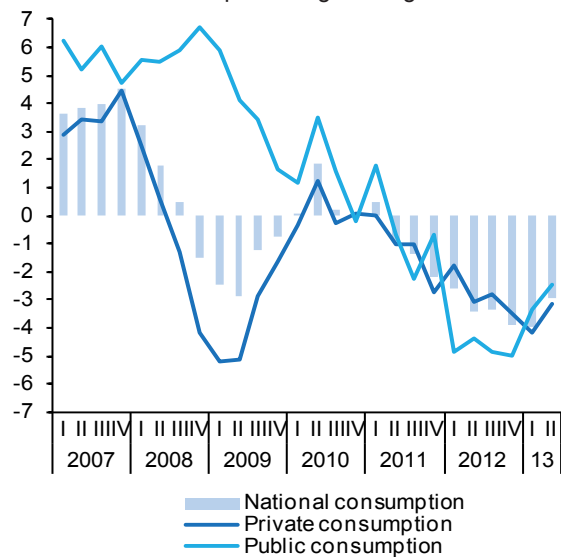


Chart 1.4.- Gross fixed capital formation
Annual percentage change

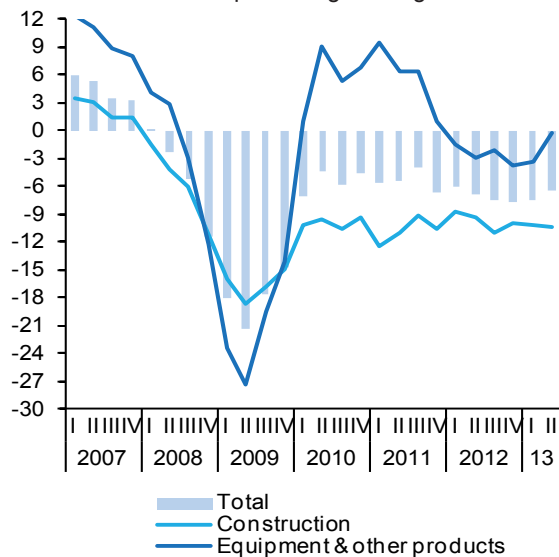


Table 2

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	-3.7	-3.3	-11.4	-8.2	-0.8	-2.6	0.9	-4.0	0.0	-2.6	2.3	0.2	-5.4	
2010	-0.2	1.9	7.1	-16.5	1.2	1.8	6.2	-3.5	-1.2	-0.3	2.4	0.3	-0.6	
2011	0.6	5.6	2.7	-9.0	1.4	1.3	0.3	-3.2	3.0	5.3	1.1	0.2	-6.1	
2012	-1.3	-10.9	-0.5	-8.6	-0.3	0.5	0.9	-2.8	1.1	-1.9	-0.5	-1.7	-4.9	
2013	-1.3	-2.9	-1.8	-5.6	-0.6	-0.8	0.0	-1.2	-0.1	-1.0	-0.4	-0.6	-0.6	
2014	1.1	0.8	1.7	-3.8	1.5	2.6	1.8	1.1	2.6	1.5	-0.5	1.4	0.0	
2012	I	-0.9	-6.9	-1.7	-9.1	0.7	1.3	0.9	0.8	0.9	-1.2	0.4	0.7	-5.0
	II	-1.3	-12.6	-0.7	-8.6	-0.1	0.2	1.3	1.0	0.8	-2.6	-0.1	-2.2	-4.7
	III	-1.4	-11.2	0.2	-8.7	-0.4	1.0	1.0	-6.1	1.6	-1.5	-1.3	-2.5	-4.9
	IV	-1.8	-12.7	0.4	-7.7	-1.1	-0.5	0.5	-6.9	1.1	-2.2	-1.1	-3.0	-5.1
2013	I	-2.0	-6.2	-3.0	-5.8	-1.1	-1.8	-1.1	-3.5	-0.3	-0.8	0.0	-2.0	-2.6
	II	-1.6	-1.2	-3.1	-5.9	-0.8	-1.1	-0.1	-4.1	-0.2	-0.5	0.1	-1.0	-1.7
	III	-1.3	-2.3	-1.4	-5.2	-0.8	-1.2	0.5	1.8	-0.7	-2.2	-0.6	-0.1	0.6
	IV	-0.3	-2.0	0.2	-5.8	0.3	0.9	1.0	1.4	0.8	-0.4	-1.0	0.9	1.3
2014	I	0.5	-0.2	1.3	-6.1	1.1	1.5	1.9	0.0	3.5	0.3	0.2	-0.4	0.5
	II	1.0	1.1	1.7	-3.7	1.3	2.8	1.5	0.7	2.5	1.5	-1.2	2.0	0.3
	III	1.3	1.1	1.7	-3.1	1.7	3.0	2.1	1.5	2.3	2.0	-0.6	1.9	-0.3
	IV	1.5	1.1	1.9	-2.3	1.8	3.3	1.5	2.1	2.1	2.1	-0.5	2.0	-0.4
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate														
2012	I	-1.2	-29.5	8.8	-10.2	-1.1	7.3	4.0	-4.0	-3.4	-6.4	-9.5	4.0	-7.5
	II	-1.9	-23.2	0.6	-11.4	-0.5	-3.8	-0.8	0.5	5.7	-4.1	5.4	-11.5	-2.7
	III	-1.0	6.8	-2.9	-7.1	0.0	1.2	-3.4	-22.9	5.4	7.8	-0.3	-0.9	-7.1
	IV	-3.0	0.4	-4.5	-2.0	-2.9	-6.0	2.1	1.1	-3.1	-5.6	0.6	-3.0	-3.0
2013	I	-1.9	-5.9	-4.9	-2.3	-1.0	1.8	-2.3	10.6	-8.3	-0.7	-5.3	8.5	2.6
	II	-0.5	-5.4	-0.1	-11.7	0.9	-1.3	3.1	-1.8	6.1	-2.8	5.5	-7.8	0.8
	III	0.3	2.1	4.1	-4.3	-0.1	1.0	-1.0	-2.0	3.0	0.5	-3.0	2.5	2.0
	IV	1.0	1.4	2.1	-4.5	1.3	2.2	4.2	-0.5	2.9	1.5	-0.8	1.0	-0.3
2014	I	1.2	1.2	-0.7	-3.6	2.2	4.1	1.3	4.4	2.2	2.2	-0.6	3.2	-0.4
	II	1.4	-0.3	1.3	-2.6	1.9	3.9	1.5	1.0	2.0	2.0	-0.5	1.2	-0.2
	III	1.6	2.2	4.3	-1.8	1.3	2.0	1.6	1.1	2.1	2.2	-0.4	2.1	-0.3
	IV	1.8	1.5	2.8	-1.1	1.8	3.3	1.7	1.8	2.3	2.1	-0.4	1.4	-0.5
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	972.2	2.4	15.5	13.0	69.2	23.5	4.2	5.9	6.4	7.4	18.1	3.6	7.7	
2010	954.8	2.6	16.6	10.7	70.2	24.2	4.3	4.6	7.4	7.4	18.6	3.7	9.5	
2011	959.8	2.5	17.1	9.5	70.9	24.5	4.2	4.2	7.9	7.8	18.5	3.7	9.0	
2012	944.2	2.5	17.4	8.6	71.6	25.3	4.2	4.4	8.2	7.7	18.1	3.8	9.0	
2013	934.8	2.6	17.5	8.0	71.9	24.9	4.2	4.5	8.4	7.7	18.4	3.8	9.6	
2014	952.5	2.6	17.7	7.4	72.3	25.7	4.2	4.6	8.6	7.7	17.7	3.8	9.6	

*Seasonally and Working Day Adjusted.

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

Chart 2.1.- GVA by sectors
Annual percentage change

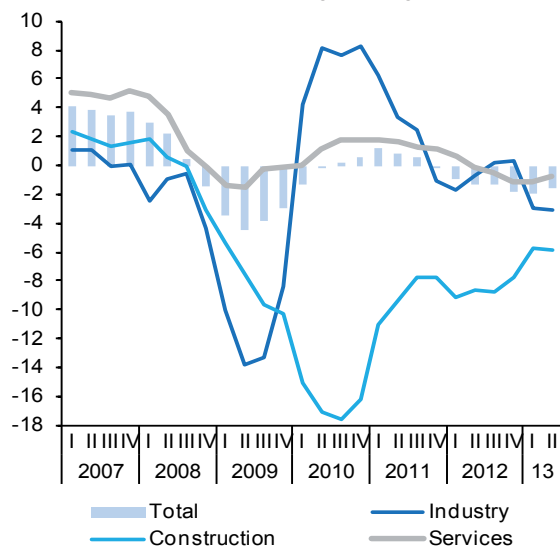


Chart 2.2.- GVA, services (I)
Annual percentage change

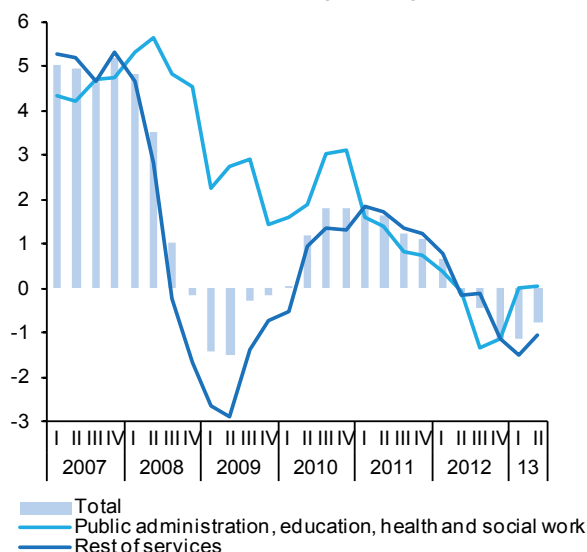


Chart 2.3.- GVA, services (II)
Annual percentage change

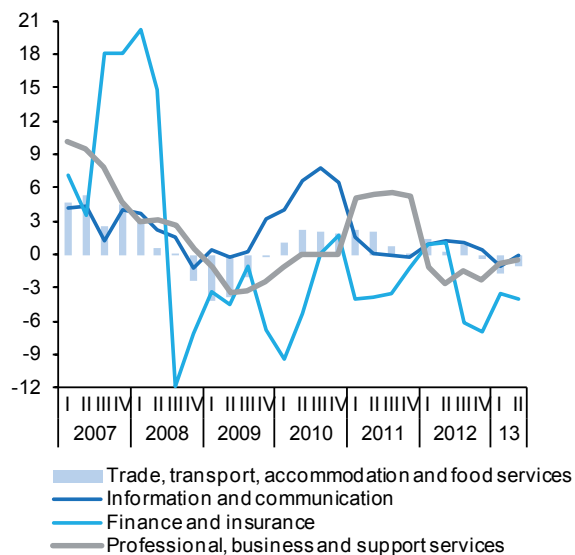


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

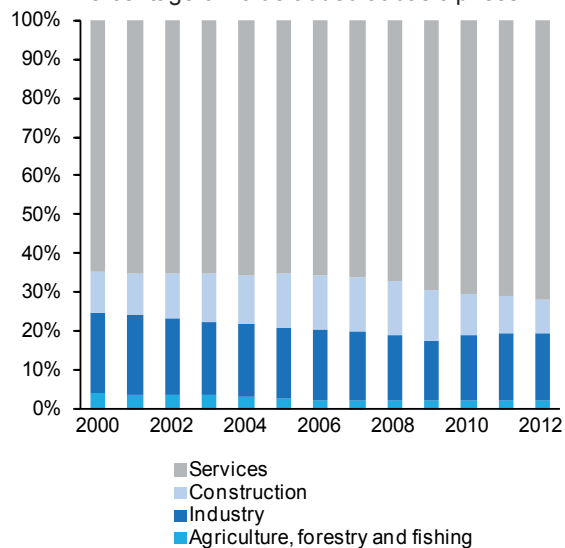


Table 3a

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		122.7	115.2	106.5	142.7	133.9	98.9	91.3	78.0	117.1	150.4	128.5	99.9
2010		122.4	112.5	108.8	143.3	131.7	97.1	95.5	74.9	127.4	151.9	119.2	93.3
2011		122.5	110.0	111.4	145.2	130.4	96.1	96.7	73.4	131.7	154.6	117.4	90.5
2012		120.5	104.8	115.0	145.5	126.5	93.3	95.7	69.0	138.6	158.1	114.1	88.5
2013		119.0	101.2	117.6	146.2	124.3	91.0	94.2	--	--	--	--	--
2014		120.2	100.8	119.2	145.9	122.4	88.8	95.9	--	--	--	--	--
2011	III	122.4	109.6	111.6	145.4	130.2	96.1	95.7	73.4	130.3	155.2	119.1	92.1
	IV	121.9	108.2	112.6	146.1	129.7	95.6	93.7	72.3	129.7	155.9	120.2	90.2
2012	I	121.4	106.6	113.9	146.3	128.4	94.8	96.8	70.3	137.8	156.8	113.8	90.0
	II	120.8	105.2	114.8	146.5	127.6	94.2	96.2	69.3	138.7	159.0	114.6	89.1
	III	120.3	104.4	115.2	146.5	127.1	93.7	95.8	68.8	139.3	158.7	113.9	89.5
	IV	119.4	102.8	116.2	142.8	122.9	90.6	93.8	67.7	138.6	158.0	114.0	85.4
2013	I	118.9	101.7	116.9	145.8	124.7	91.2	93.8	66.2	141.6	158.7	112.0	86.3
	II	118.8	101.3	117.4	146.4	124.7	91.4	94.1	65.8	143.1	161.0	112.5	86.2
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		-3.8	-6.2	2.5	4.2	1.6	1.5	-12.3	-13.1	0.9	2.1	1.1	1.7
2010		-0.2	-2.3	2.2	0.4	-1.7	-1.8	4.6	-3.9	8.8	0.9	-7.3	-6.6
2011		0.1	-2.2	2.3	1.3	-1.0	-1.0	1.3	-2.0	3.4	1.8	-1.5	-3.0
2012		-1.6	-4.8	3.3	0.2	-3.0	-2.9	-1.1	-6.0	5.2	2.3	-2.8	-2.3
2013		-1.2	-3.4	2.2	0.5	-1.7	-2.5	-1.5	--	--	--	--	--
2014		1.0	-0.4	1.4	-0.2	-1.6	-2.4	1.8	--	--	--	--	--
2011	III	0.0	-2.4	2.4	1.6	-0.7	-0.6	1.5	-1.3	2.8	2.3	-0.5	-2.3
	IV	-0.6	-3.3	2.8	1.9	-0.8	-0.8	-2.5	-3.3	0.8	2.2	1.4	-0.6
2012	I	-1.2	-4.3	3.2	1.7	-1.4	-1.4	-2.8	-4.9	2.3	2.6	0.4	0.6
	II	-1.6	-5.1	3.7	0.8	-2.8	-2.7	-1.8	-6.5	5.0	2.7	-2.1	-1.3
	III	-1.7	-4.7	3.2	0.7	-2.4	-2.6	0.1	-6.3	6.9	2.2	-4.4	-2.8
	IV	-2.1	-5.0	3.1	-2.3	-5.3	-5.3	0.1	-6.3	6.9	1.4	-5.1	-5.4
2013	I	-2.0	-4.5	2.6	-0.3	-2.9	-3.7	-3.2	-5.8	2.8	1.2	-1.6	-4.2
	II	-1.6	-3.8	2.2	-0.1	-2.3	-2.9	-2.2	-5.2	3.2	1.2	-1.9	-3.2

(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

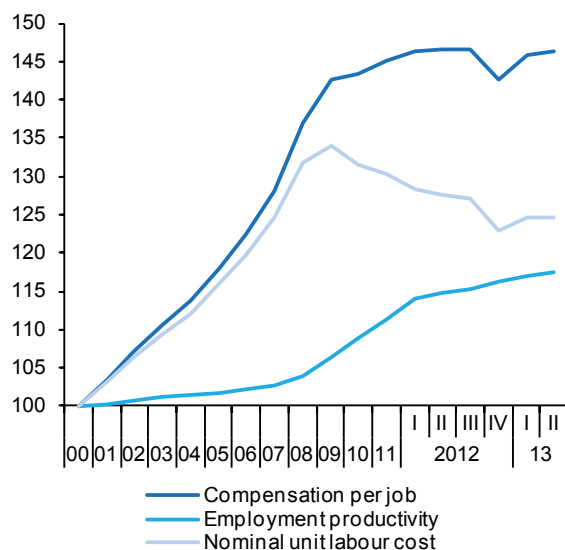
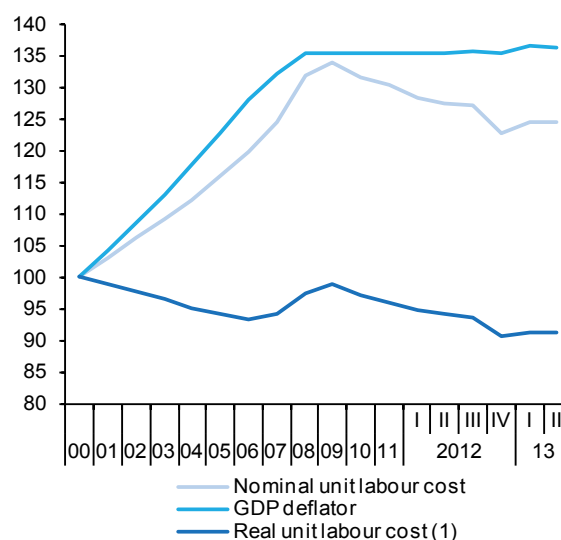


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

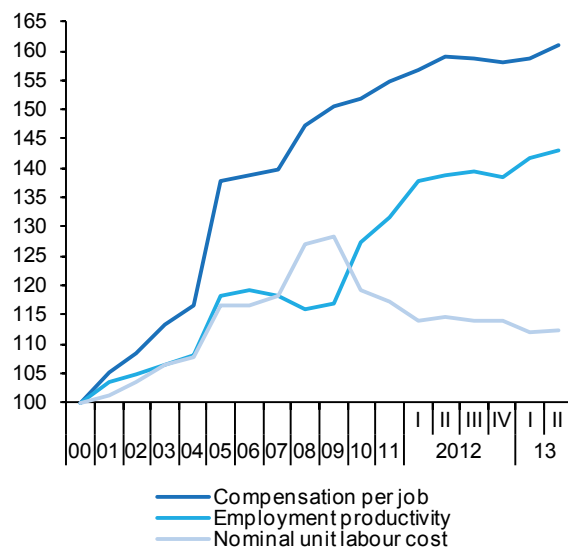
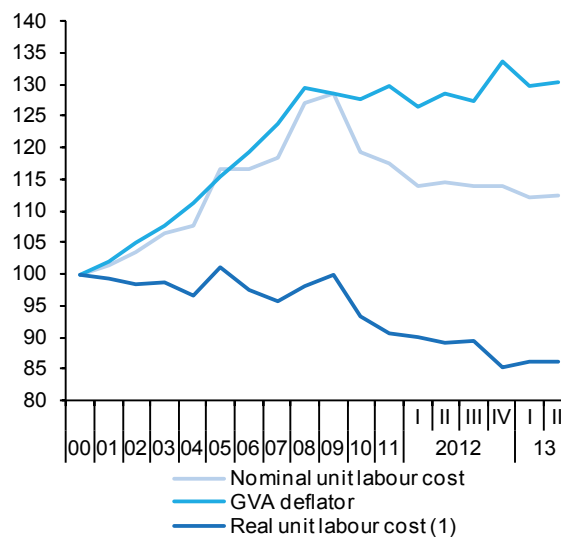


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(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	128.8	101.0	127.6	166.9	130.9	78.3	132.2	132.0	100.1	136.8	136.6	99.0
2010	107.6	88.2	122.0	167.3	137.2	85.0	133.8	130.7	102.4	137.6	134.4	98.9
2011	97.9	74.2	132.0	172.4	130.7	82.3	135.7	130.1	104.4	138.8	133.0	97.8
2012	89.5	60.0	149.1	177.7	119.2	77.4	135.4	125.7	107.7	138.3	128.4	94.7
2013	84.4	52.6	160.4	--	--	--	134.6	122.7	109.7	--	--	--
2014	81.2	49.4	164.3	--	--	--	136.6	122.8	111.2	--	--	--
2011 III	96.5	72.5	133.1	172.3	129.4	81.9	136.2	129.9	104.8	138.8	132.4	97.6
IV	95.0	67.9	139.9	175.0	125.0	79.2	136.1	128.5	105.9	139.8	132.0	95.9
2012 I	92.5	63.6	145.4	174.8	120.2	77.1	135.8	127.5	106.5	139.6	131.1	96.5
II	89.7	61.9	144.9	180.1	124.3	80.4	135.6	126.0	107.6	139.2	129.4	95.6
III	88.1	58.8	149.9	177.9	118.7	77.9	135.6	125.5	108.0	139.4	129.0	95.1
IV	87.6	55.8	157.1	178.3	113.5	74.2	134.6	123.7	108.8	134.9	124.0	91.6
2013 I	87.1	55.1	158.0	173.5	109.8	71.1	134.2	123.1	109.1	138.6	127.1	92.2
II	84.5	52.6	160.5	180.9	112.7	74.7	134.6	122.7	109.7	138.8	126.5	93.1
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	-8.2	-21.4	16.9	9.6	-6.2	-7.5	-0.8	-2.4	1.6	3.8	2.2	0.6
2010	-16.5	-12.7	-4.4	0.2	4.8	8.6	1.2	-1.0	2.3	0.5	-1.7	-0.1
2011	-9.0	-15.9	8.2	3.1	-4.7	-3.2	1.4	-0.5	1.9	0.9	-1.0	-1.1
2012	-8.6	-19.1	13.0	3.1	-8.8	-6.0	-0.3	-3.4	3.2	-0.4	-3.5	-3.2
2013	-5.6	-12.3	7.6	--	--	--	-0.6	-2.4	1.8	--	--	--
2014	-3.8	-6.1	2.5	--	--	--	1.5	0.1	1.4	--	--	--
2011 III	-7.8	-17.6	12.0	2.6	-8.4	-6.8	1.2	-0.5	1.7	1.2	-0.6	-0.6
IV	-7.8	-19.8	15.0	3.4	-10.0	-8.4	1.1	-1.5	2.6	1.8	-0.8	-1.1
2012 I	-9.1	-21.1	15.2	3.4	-10.3	-7.5	0.7	-2.5	3.2	1.2	-1.9	-1.9
II	-8.6	-18.1	11.6	3.5	-7.3	-5.0	-0.1	-3.8	3.8	0.3	-3.4	-3.9
III	-8.7	-18.9	12.6	3.3	-8.3	-4.9	-0.4	-3.4	3.1	0.4	-2.6	-2.6
IV	-7.7	-17.8	12.3	1.9	-9.2	-6.3	-1.1	-3.8	2.8	-3.5	-6.1	-4.5
2013 I	-5.8	-13.3	8.7	-0.7	-8.6	-7.8	-1.1	-3.4	2.4	-0.7	-3.0	-4.5
II	-5.9	-15.0	10.8	0.4	-9.3	-7.1	-0.8	-2.7	2.0	-0.3	-2.2	-2.6

(a) Nominal ULC deflated by GVA deflator.

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

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

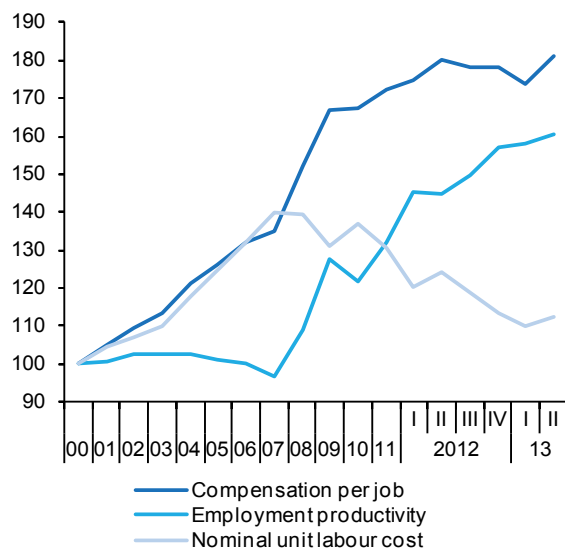
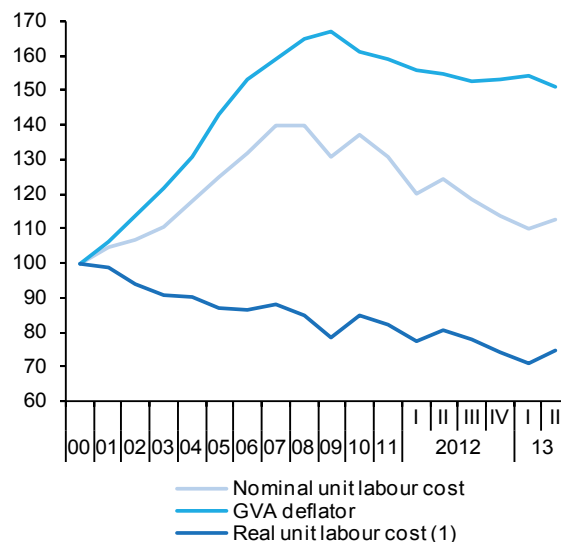


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

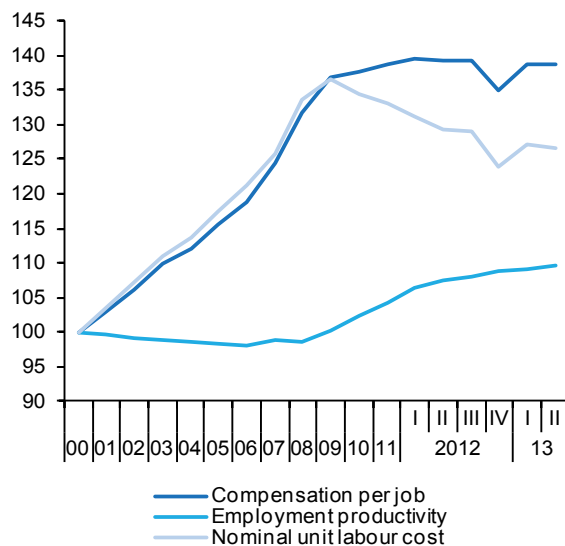
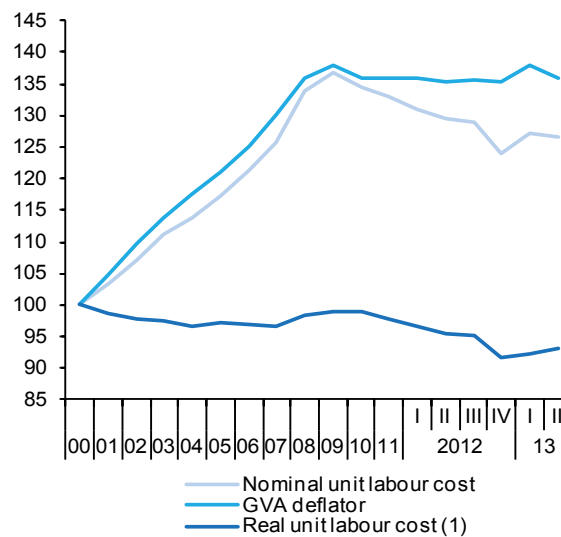


Chart 3b.4.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in blue

	Gross domestic product	Compensation of employees	Gross operating surplus	Taxes on production and imports less subsidies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross national income	Final national consumption	Gross national saving (a)	Compensation 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	1,046.9	524.7	445.1	77.1	-23.1	1,023.8	-7.3	1,016.6	816.4	200.2	50.1	42.5	7.4
2010	1,045.6	514.8	436.9	93.9	-17.2	1,028.4	-5.9	1,022.5	829.6	192.9	49.2	41.8	9.0
2011	1,046.3	511.0	445.1	90.3	-23.7	1,022.6	-7.0	1,015.7	835.0	180.6	48.8	42.5	8.6
2012	1,029.0	482.6	452.4	94.0	-15.3	1,013.7	-4.8	1,008.9	818.1	190.8	46.9	44.0	9.1
2013	1,024.4	463.6	461.2	99.6	-8.2	1,016.3	-5.1	1,011.2	807.8	203.5	45.3	45.0	9.7
2014	1,044.0	458.9	484.1	101.0	-13.5	1,030.5	-5.2	1,025.3	814.9	210.1	44.0	46.4	9.7
2011 III	1,050.1	512.6	443.7	93.8	-22.4	1,027.7	-5.8	1,021.9	836.8	185.2	48.8	42.3	8.9
IV	1,046.3	511.0	445.1	90.3	-23.7	1,022.6	-7.0	1,015.7	835.0	180.6	48.8	42.5	8.6
2012 I	1,042.8	507.0	444.2	91.5	-24.0	1,018.8	-7.3	1,011.5	832.4	179.1	48.6	42.6	8.8
II	1,037.9	500.5	446.9	90.5	-22.2	1,015.7	-7.6	1,008.1	829.5	178.6	48.2	43.1	8.7
III	1,034.3	494.0	448.5	91.9	-18.3	1,016.1	-7.1	1,009.0	825.4	183.6	47.8	43.4	8.9
IV	1,029.0	482.6	452.4	94.0	-15.3	1,013.7	-4.8	1,008.9	818.1	190.8	46.9	44.0	9.1
2013 I	1,024.6	475.7	457.3	91.6	-12.7	1,011.9	-3.8	1,008.1	811.9	196.2	46.4	44.6	8.9
II	1,022.2	469.4	459.9	92.8	-11.3	1,010.9	-4.0	1,006.9	807.7	199.1	45.9	45.0	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	-3.8	-2.4	-2.8	-16.2	-27.4	-3.0	-21.3	-2.9	-2.2	-5.8	0.7	0.4	-1.1
2010	-0.1	-1.9	-1.9	21.8	-25.4	0.4	-19.1	0.6	1.6	-3.6	-0.9	-0.7	1.6
2011	0.1	-0.7	1.9	-3.9	37.6	-0.6	18.3	-0.7	0.7	-6.4	-0.4	0.8	-0.4
2012	-1.7	-5.6	1.6	4.1	-35.5	-0.9	-30.5	-0.7	-2.0	5.6	-1.9	1.4	0.5
2013	-0.4	-3.9	1.9	6.0	-46.5	0.3	5.0	0.2	-1.3	6.7	-1.6	1.1	0.6
2014	1.9	-1.0	5.0	1.4	64.6	1.4	2.0	1.4	0.9	3.3	-1.3	1.3	0.0
2011 III	0.5	-0.9	3.0	-3.7	28.4	0.0	-23.3	0.1	1.0	-3.4	-0.7	1.1	-0.4
IV	0.1	-0.7	1.9	-3.9	37.6	-0.6	18.3	-0.7	0.7	-6.4	-0.4	0.8	-0.4
2012 I	-0.4	-1.4	1.3	-3.3	25.4	-0.9	18.6	-1.0	-0.2	-4.5	-0.5	0.7	-0.3
II	-1.1	-2.5	1.2	-4.0	13.2	-1.4	22.5	-1.5	-0.8	-4.8	-0.7	1.0	-0.3
III	-1.5	-3.6	1.1	-2.0	-18.4	-1.1	22.2	-1.3	-1.4	-0.8	-1.1	1.1	0.0
IV	-1.7	-5.6	1.6	4.1	-35.5	-0.9	-30.5	-0.7	-2.0	5.6	-1.9	1.4	0.5
2013 I	-1.7	-6.2	3.0	0.0	-47.2	-0.7	-47.4	-0.3	-2.5	9.5	-2.2	2.0	0.2
II	-1.5	-6.2	2.9	2.5	-49.4	-0.5	-46.9	-0.1	-2.6	11.5	-2.3	1.9	0.4

(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

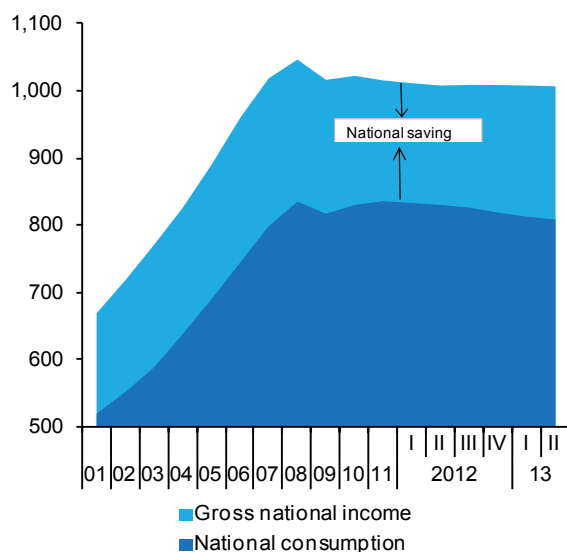


Chart 4.2.- National income, consumption and saving rate

Annual percentage change and percentage of GDP, 4-quarter moving averages



Chart 4.3.- Components of National Income (I)

Annual percentage change

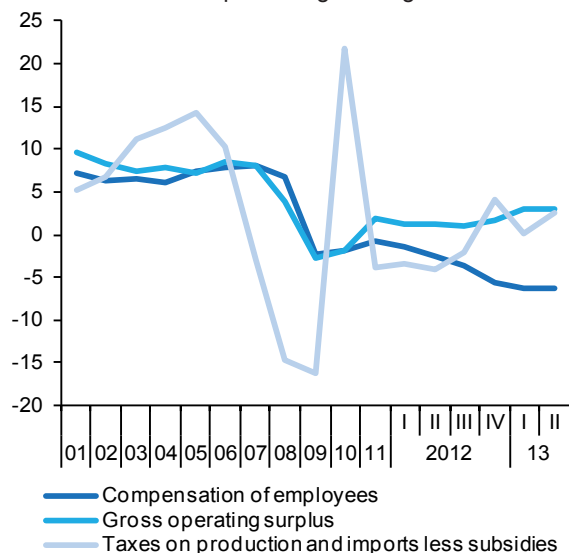


Chart 4.4.- Functional distribution of income

Percentage of GDP, 4-quarter moving averages

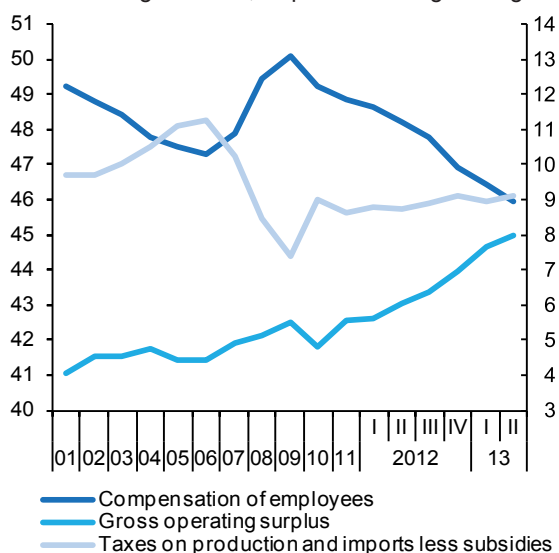


Table 5

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
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		-19.7	-41.6	28.3	-6.4	-23.1	-7.3	-50.0	4.3	-45.7	200.2	250.2	-50.0
2010		-22.6	-48.2	29.3	-3.7	-17.2	-5.9	-45.7	6.0	-39.7	192.9	238.6	-45.7
2011		-11.0	-43.7	33.0	-0.3	-23.7	-7.0	-41.6	5.4	-36.2	180.6	222.3	-41.6
2012		7.7	-25.8	33.8	-0.4	-15.3	-4.8	-12.5	6.6	-5.9	190.8	203.3	-12.5
2013		31.9	-5.6	35.4	2.1	-8.2	-5.1	18.6	7.2	25.8	203.5	184.9	18.6
2014		48.7	7.3	37.0	4.3	-13.5	-5.2	30.1	6.5	36.6	210.1	180.1	30.1
2011	III	-13.9	-45.0	32.5	-1.3	-22.4	-5.8	-42.0	6.2	-35.8	185.2	227.2	-42.0
	IV	-11.0	-43.7	33.0	-0.3	-23.7	-7.0	-41.6	5.4	-36.2	180.6	222.3	-41.6
2012	I	-7.7	-41.1	33.2	0.2	-24.0	-7.3	-39.0	5.0	-34.0	179.1	218.1	-39.0
	II	-5.1	-38.1	33.2	-0.1	-22.2	-7.6	-34.9	4.7	-30.1	178.6	213.5	-34.9
	III	0.4	-33.6	33.8	0.2	-18.3	-7.1	-24.9	5.3	-19.6	183.6	208.6	-24.9
	IV	7.7	-25.8	33.8	-0.4	-15.3	-4.8	-12.5	6.6	-5.9	190.8	203.3	-12.5
2013	I	15.1	-19.3	34.1	0.3	-12.7	-3.8	-1.4	6.9	5.5	196.2	197.6	-1.4
	II	22.5	-12.9	34.4	1.0	-11.3	-4.0	7.2	8.0	15.2	199.1	191.9	7.2
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	-4.4	19.1	23.9	-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		-1.1	-4.2	3.2	0.0	-2.3	-0.7	-4.0	0.5	-3.5	17.3	21.2	-4.0
2012		0.7	-2.5	3.3	0.0	-1.5	-0.5	-1.2	0.6	-0.6	18.5	19.8	-1.2
2013		3.1	-0.5	3.5	0.2	-0.8	-0.5	1.8	0.7	2.5	19.9	18.0	1.8
2014		4.7	0.7	3.5	0.4	-1.3	-0.5	2.9	0.6	3.5	20.1	17.3	2.9
2011	III	-1.3	-4.3	3.1	-0.1	-2.1	-0.6	-4.0	0.6	-3.4	17.6	21.6	-4.0
	IV	-1.1	-4.2	3.2	0.0	-2.3	-0.7	-4.0	0.5	-3.5	17.3	21.2	-4.0
2012	I	-0.7	-3.9	3.2	0.0	-2.3	-0.7	-3.7	0.5	-3.3	17.2	20.9	-3.7
	II	-0.5	-3.7	3.2	0.0	-2.1	-0.7	-3.4	0.5	-2.9	17.2	20.6	-3.4
	III	0.0	-3.3	3.3	0.0	-1.8	-0.7	-2.4	0.5	-1.9	17.8	20.2	-2.4
	IV	0.7	-2.5	3.3	0.0	-1.5	-0.5	-1.2	0.6	-0.6	18.5	19.8	-1.2
2013	I	1.5	-1.9	3.3	0.0	-1.2	-0.4	-0.1	0.7	0.5	19.1	19.3	-0.1
	II	2.2	-1.3	3.4	0.1	-1.1	-0.4	0.7	0.8	1.5	19.5	18.8	0.7

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

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

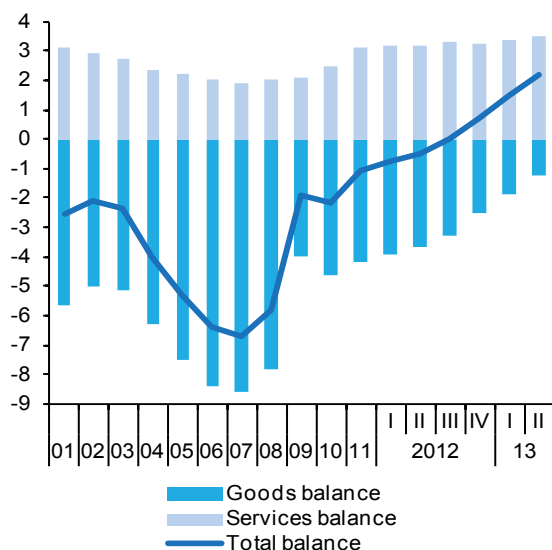


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

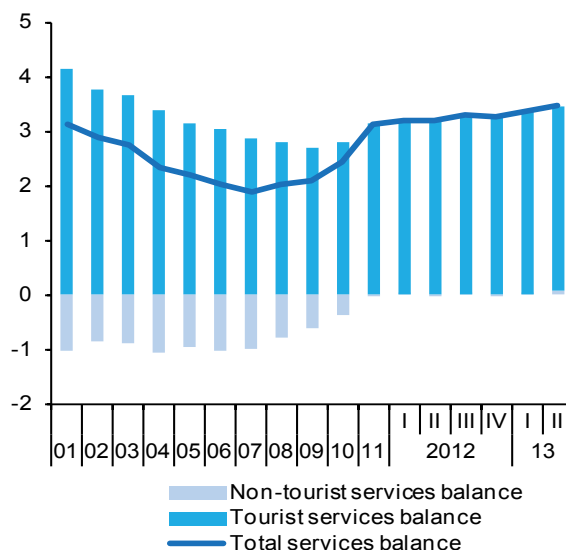


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

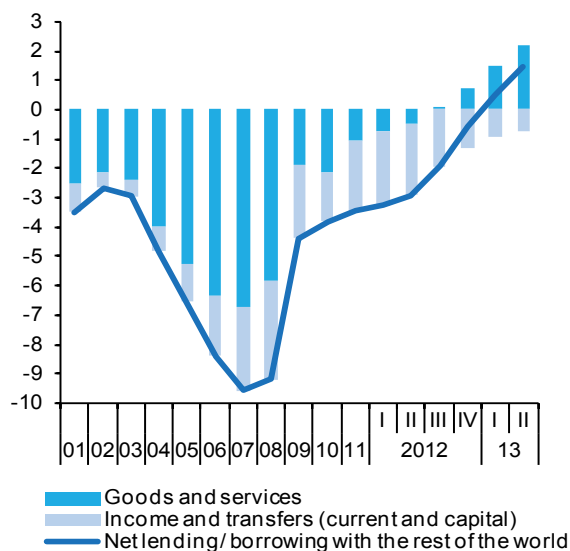


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

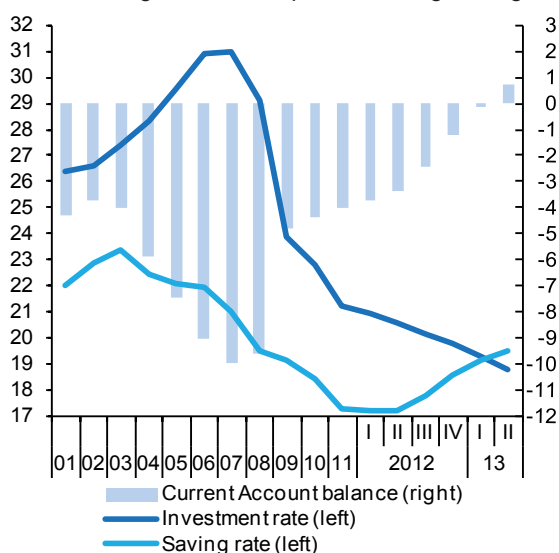


Table 6

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	2.5
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		672.9	462.1	244.2	246.4	195.5	84.3	614.3	57.5	8.5	2.6	44.4	15.7	1.5
2014		684.8	457.4	258.5	248.9	194.0	85.9	625.8	57.9	8.5	2.2	42.4	17.7	1.7
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	3.1
	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	2.5
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	2.3
	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	1.6
	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		-0.7	-3.9	4.1	0.8	-2.5	2.5	-1.1	4.3	0.4	-25.0	-10.3	--	0.7
2014		1.8	-1.0	5.8	1.0	-0.8	1.9	1.9	0.6	-0.1	-15.0	-4.6	--	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	--	-1.1
	II	-1.2	-2.4	-0.3	0.9	-1.9	2.1	1.0	-17.2	-1.9	-37.7	-6.1	--	-1.2
	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 cumulated

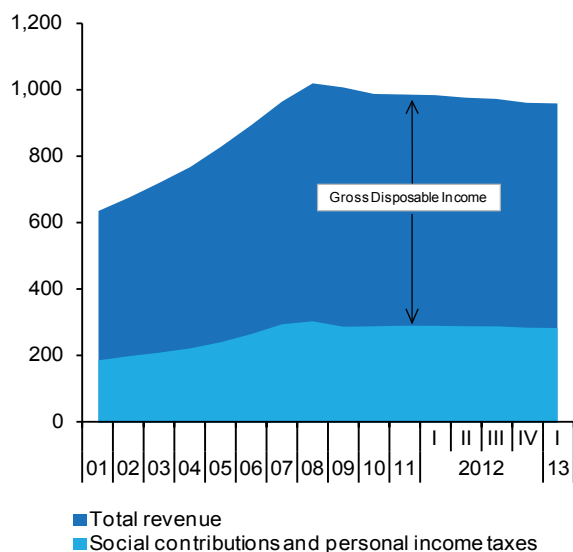


Chart 6.2.- Households: Gross Saving
EUR Billions, 4-quarter cumulated

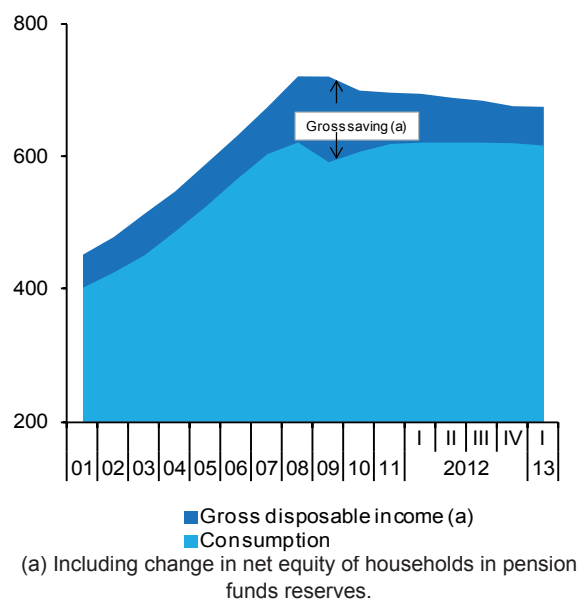


Chart 6.3.- Households: Income, consumption and saving
Annual percentage change and percentage of GDI, 4-quarter moving averages

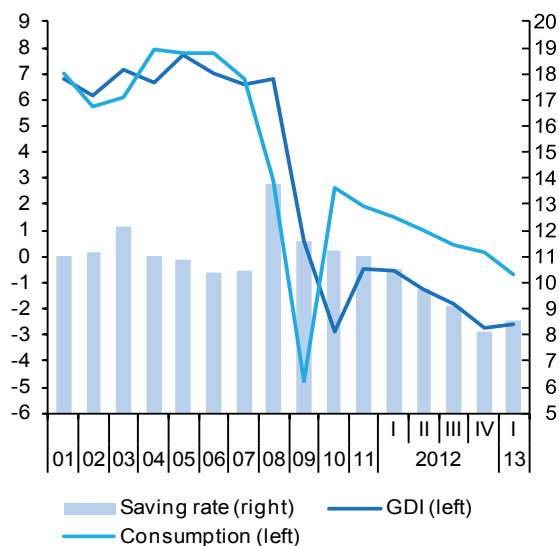


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages

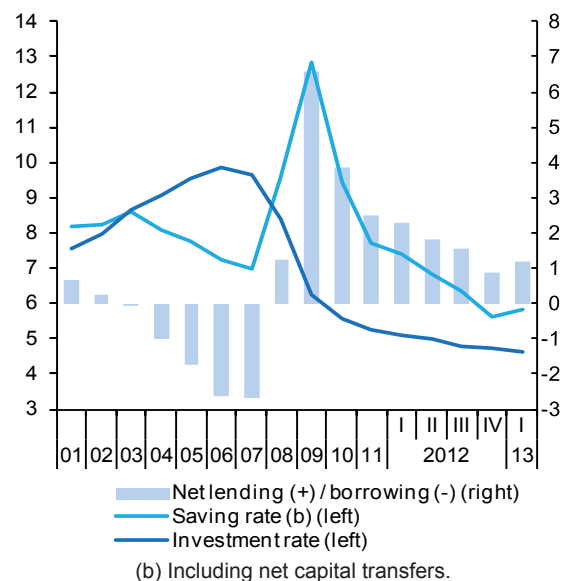


Table 7

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	525.4	289.0	236.4	-48.5	-10.0	16.9	161.0	8.3	120.6	48.7	4.8	45.0	22.9
2014	538.3	288.3	250.0	-55.7	-10.1	17.8	166.5	7.5	119.4	54.5	5.2	46.4	22.2
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	2.3	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	2.7	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	4.8	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	-1.6	-4.0	1.6	6.0	1.0	-19.0	3.1	-15.0	-7.0	--	1.2	1.4	-1.3
2014	2.5	-0.2	5.8	14.9	1.0	5.2	3.4	-10.0	-1.0	--	0.5	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	--	0.8	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 cumulated

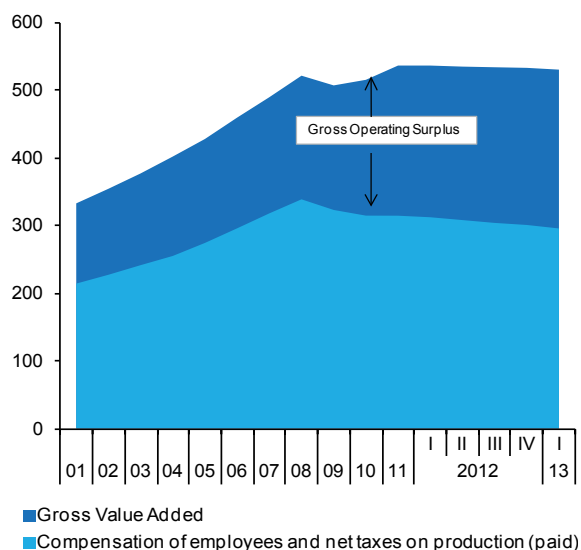


Chart 7.2.- Non-financial corporations: GVA, GOS and saving

Annual percentage change, 4-quarter moving averages

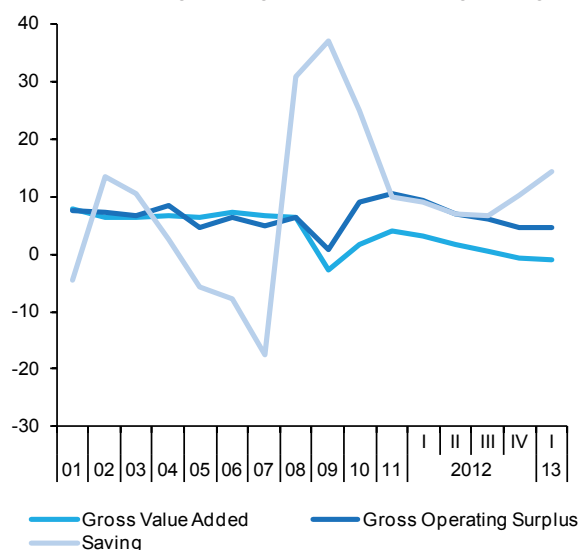


Chart 7.3.- Non-financial corporations: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages

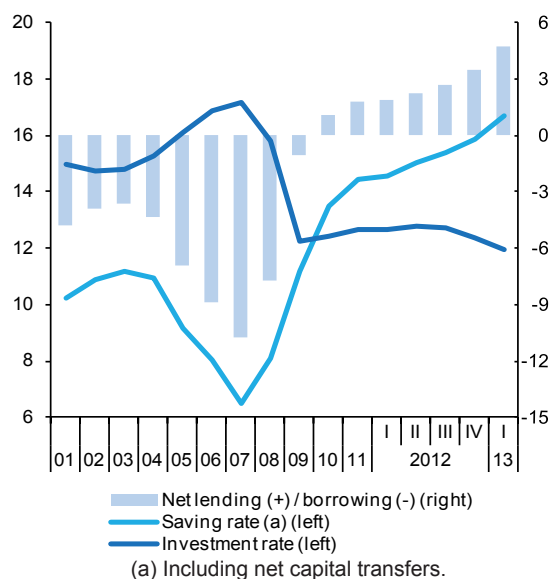


Chart 7.4.- Non-financial corporations: Profit share and investment rate

Percentage of non-financial corporations GVA, 4-quarter moving averages

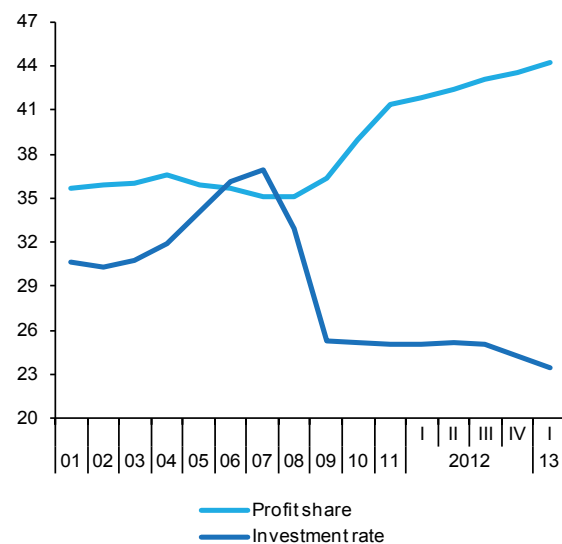


Table 8

National accounts: Public revenue, expenditure and deficit

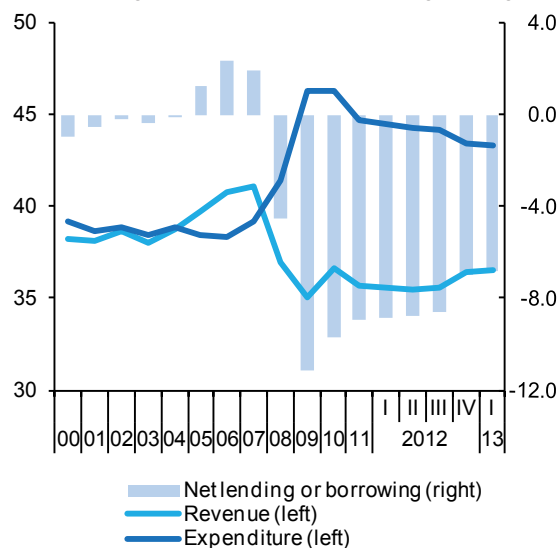
Forecasts in blue

	Gross value added	Taxes on production and imports receivable	Taxes on income and wealth 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	136.4	112.3	103.7	132.3	113.8	26.7	171.3	16.4	156.6	207.9	-51.3	18.3	-69.6	-69.6
2014	134.9	113.1	106.3	132.4	111.4	30.2	173.0	14.9	157.2	203.6	-46.4	15.9	-62.2	-62.2
2011 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	9.7	13.4	12.0	0.8	14.7	2.1	16.1	21.4	-5.3	5.9	-11.2	-11.2
2010	13.9	10.5	9.5	13.4	12.0	1.0	15.5	2.0	16.9	21.5	-4.6	5.1	-9.7	-9.7
2011	13.8	10.0	9.7	13.4	11.8	1.5	15.7	2.0	16.0	21.3	-5.3	4.3	-9.6	-9.1
2012	13.4	10.4	10.3	13.1	11.3	2.0	16.4	1.7	15.8	20.5	-4.7	6.1	-10.8	-7.1
2013	13.3	11.0	10.1	12.9	11.1	2.6	16.7	1.6	15.3	20.3	-5.0	1.8	-6.8	-6.8
2014	12.9	10.8	10.2	12.7	10.7	2.9	16.6	1.4	15.1	19.5	-4.4	1.5	-6.0	-6.0
2011 II	13.8	10.5	9.5	13.4	11.8	1.2	15.4	2.0	16.7	21.4	-4.7	4.6	-9.3	-9.3
III	13.8	10.4	9.5	13.3	11.8	1.4	15.5	1.9	16.4	21.3	-4.9	4.3	-9.1	-9.1
IV	13.8	10.0	9.7	13.4	11.8	1.5	15.7	2.0	16.0	21.3	-5.3	4.3	-9.6	-9.1
2012 I	13.9	10.1	9.7	13.4	11.8	1.6	15.8	2.0	15.8	21.2	-5.4	4.1	-9.5	-9.0
II	13.9	9.9	9.9	13.4	11.8	1.8	16.0	2.0	15.4	21.1	-5.7	4.3	-10.0	-9.0
III	13.9	10.0	9.9	13.3	11.8	2.0	16.3	1.9	15.2	21.0	-5.9	4.3	-10.2	-8.8
IV	13.4	10.4	10.3	13.1	11.3	2.0	16.4	1.7	15.8	20.5	-4.7	6.1	-10.8	-7.1
2013 I	13.4	10.5	10.3	13.1	11.3	2.1	16.6	1.7	15.6	20.4	-4.8	5.8	-10.7	-6.9

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

Chart 8.1.- Public sector: Revenue, expenditure and deficit (a)

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.

Chart 8.2.- Public sector: Main revenues

Percentage of GDP, 4-quarter moving averages

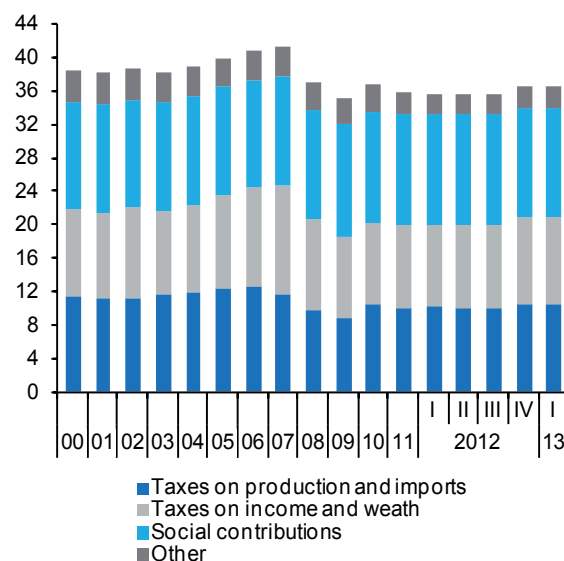


Chart 8.3.- Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

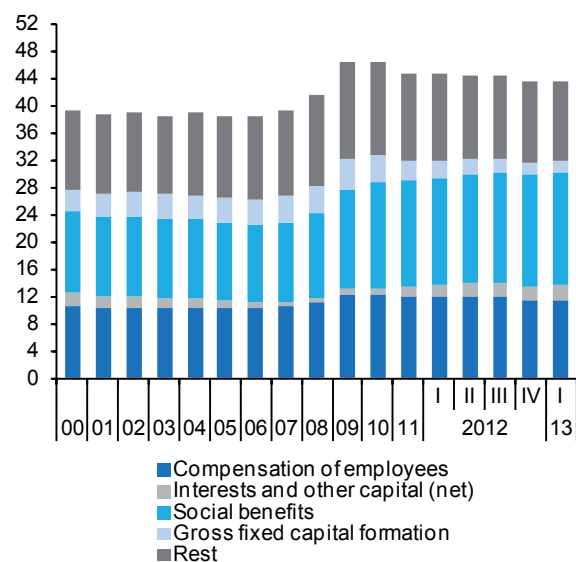
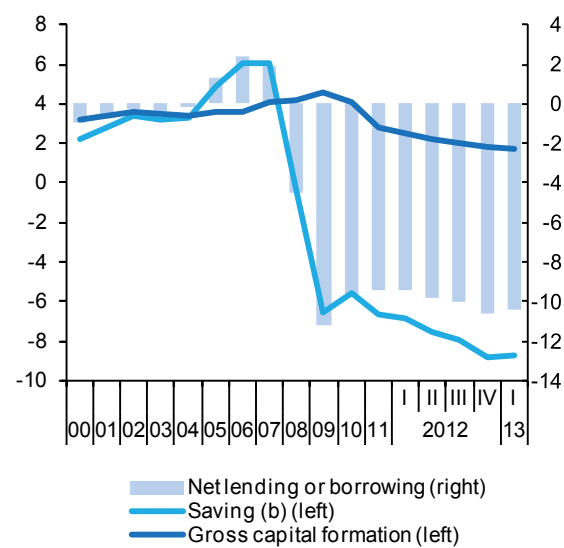


Chart 8.4.- Public sector: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages



(b) 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	-40.2	-15.4	0.0	-14.0	-69.6	--	--	--	--	975.8
2014	-34.9	-10.4	0.0	-16.9	-62.3	--	--	--	--	1,055.5
2011 I	-48.6	-41.4	-6.2	-3.3	-99.5	581.9	126.7	37.3	17.2	685.7
2011 II	-47.3	-39.6	-7.0	-3.3	-97.2	594.8	135.7	37.6	17.2	705.5
2011 III	-45.0	-38.4	-7.6	-5.1	-96.0	598.0	137.6	36.7	17.2	708.6
2011 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
2012 II	-56.2	-42.6	-7.7	2.7	-103.8	680.2	168.3	45.0	17.2	804.6
2012 III	-55.3	-40.5	-6.6	-3.4	-105.8	695.5	167.5	43.8	17.2	817.2
2012 IV	-81.5	-18.4	-1.6	-10.1	-111.6	760.3	184.5	41.9	17.2	883.8
2013 I	-77.3	-19.4	-0.5	-12.1	-109.3	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	-9.4	-2.0	-0.6	0.8	-11.2	46.4	8.7	3.3	1.6	54.0
2010	-5.1	-3.8	-0.7	-0.2	-9.7	52.6	11.6	3.4	1.6	61.7
2011 (a)	-3.5	-5.2	-0.9	-0.1	-9.6	59.5	13.5	3.4	1.6	70.4
2012 (a)	-7.9	-1.8	-0.2	-1.0	-10.8	73.9	17.9	4.1	1.7	85.9
2013	-3.9	-1.5	0.0	-1.4	-6.8	--	--	--	--	95.3
2014	-3.3	-1.0	0.0	-1.6	-6.0	--	--	--	--	101.1
2011 I	-4.6	-4.0	-0.6	-0.3	-9.5	55.6	12.1	3.6	1.6	65.5
2011 II	-4.5	-3.8	-0.7	-0.3	-9.3	56.7	12.9	3.6	1.6	67.2
2011 III	-4.3	-3.7	-0.7	-0.5	-9.1	57.0	13.1	3.5	1.6	67.5
2011 IV	-3.5	-5.2	-0.9	-0.1	-9.6	59.5	13.5	3.4	1.6	70.4
2012 I	-4.3	-4.3	-0.9	0.0	-9.5	62.8	14.0	3.5	1.6	74.3
2012 II	-5.4	-4.1	-0.7	0.3	-10.0	65.5	16.2	4.3	1.7	77.5
2012 III	-5.3	-3.9	-0.6	-0.3	-10.2	67.2	16.2	4.2	1.7	79.0
2012 IV	-7.9	-1.8	-0.2	-1.0	-10.8	73.9	17.9	4.1	1.7	85.9
2013 I	-7.5	-1.9	-0.1	-1.2	-10.7	77.8	18.5	4.2	1.7	90.1

(a) Figures for Central Government and Total Government 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

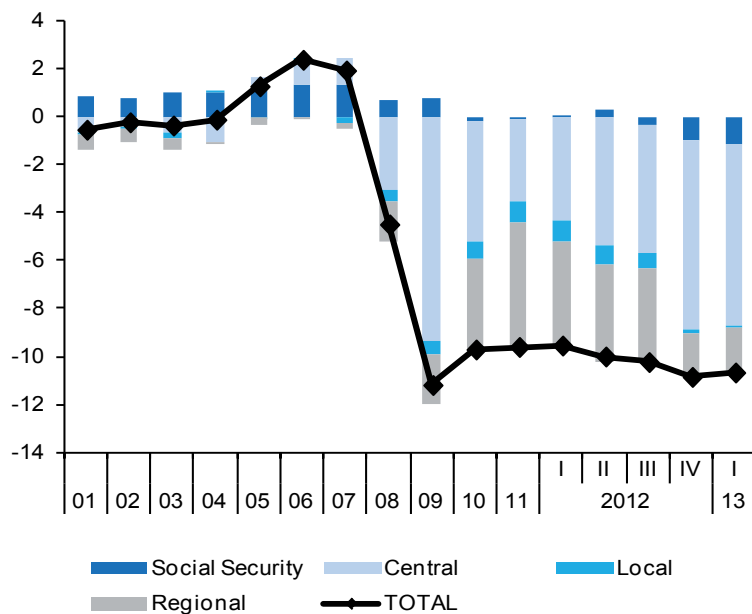


Chart 9.2.- Government debt
Percent of GDP

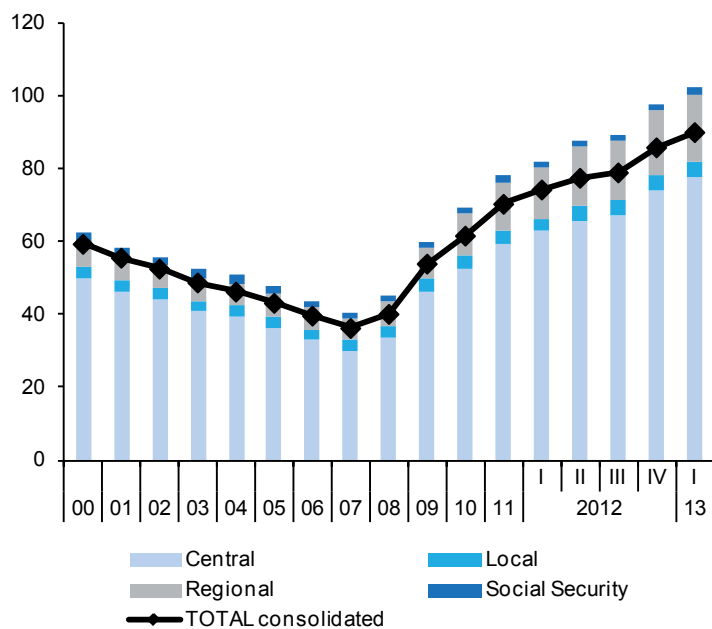


Table 10

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Senti- ment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial pro- duction index	Social Secu- rity Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	Index	Thousands	1000 GWH	2005=100	Thou- sands	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	261.3	82.2	2,232	47.3	-12.5	80.7	-30.7
2012		88.8	43.1	16,335	255.5	77.3	2,114	43.8	-17.5	76.8	-37.0
2013 (b)		90.8	46.9	15,838	167.8	78.1	2,023	47.6	-15.1	75.3	-31.9
2011	IV	91.9	40.7	16,794	64.4	80.5	2,197	43.8	-16.5	79.6	-35.2
2012	I	92.5	45.0	16,630	64.9	78.9	2,166	44.9	-14.8	78.5	-35.3
	II	89.6	41.7	16,426	64.1	77.5	2,133	42.2	-17.4	77.6	-36.5
	III	85.8	42.6	16,233	63.7	77.4	2,093	43.6	-20.0	77.0	-38.6
	IV	87.3	42.9	16,055	62.9	76.1	2,066	44.5	-17.9	76.1	-37.7
2013	I	88.9	45.5	15,918	62.6	76.1	2,042	45.7	-15.9	75.2	-34.9
	II	90.6	46.4	15,834	62.8	75.9	2,022	47.6	-15.4	74.7	-31.6
	III (b)	93.9	49.7	15,784	41.4	75.5	2,012	50.4	-13.5	--	-27.7
2013	Jun	92.3	48.1	15,810	20.9	75.9	2,018	50.0	-14.2	74.5	-30.6
	Jul	93.5	48.6	15,792	20.6	75.5	2,014	49.8	-14.2	--	-29.4
	Aug	94.3	50.8	15,775	20.8	--	2,009	51.1	-12.7	--	-25.9
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	-0.9	-1.4	-2.7	--	--	0.4	--
2012		--	--	-3.7	-2.2	-6.0	-5.3	--	--	-4.8	--
2013 (d)		--	--	-3.7	-2.8	-2.7	-5.1	--	--	-3.3	--
2011	IV	--	--	-3.3	-6.9	-6.6	-5.1	--	--	-5.5	--
2012	I	--	--	-3.9	2.8	-7.8	-5.5	--	--	-5.6	--
	II	--	--	-4.8	-4.8	-7.0	-5.9	--	--	-4.5	--
	III	--	--	-4.6	-2.4	-0.3	-7.3	--	--	-3.1	--
	IV	--	--	-4.3	-4.9	-6.7	-5.2	--	--	-4.7	--
2013	I	--	--	-3.4	-1.7	0.2	-4.5	--	--	-4.2	--
	II	--	--	-2.1	1.2	-0.9	-3.7	--	--	-2.9	--
	III (e)	--	--	-1.3	-4.2	-2.1	-2.1	--	--	--	--
2013	Jun	--	--	-0.2	-0.2	-0.1	-0.1	--	--	-0.2	--
	Jul	--	--	-0.1	-1.3	-0.5	-0.2	--	--	--	--
	Aug	--	--	-0.1	0.6	--	-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 (I)
Annualized percent change from previous period

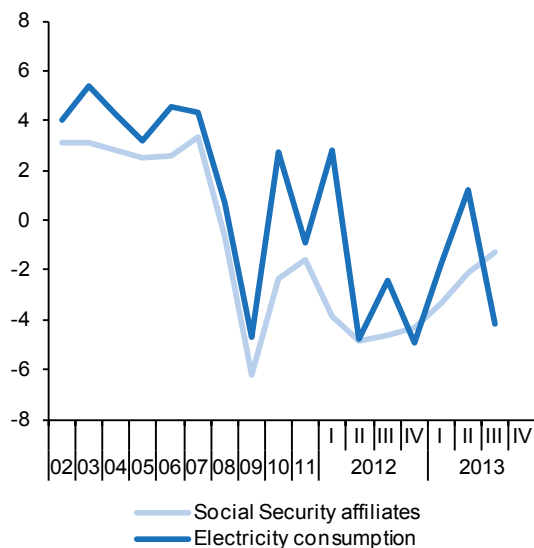


Chart 10.2.- General activity indicators (II)
Index

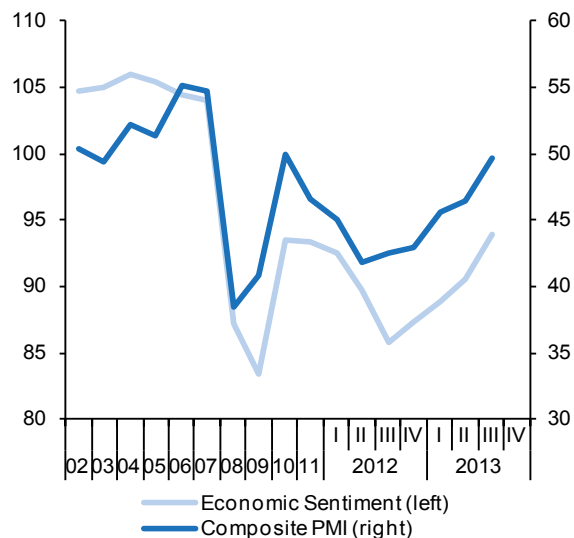


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

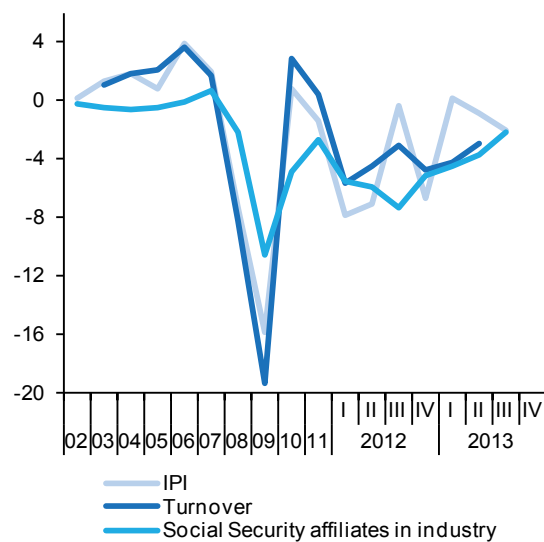


Chart 10.4.- Industrial sector indicators (II)
Index

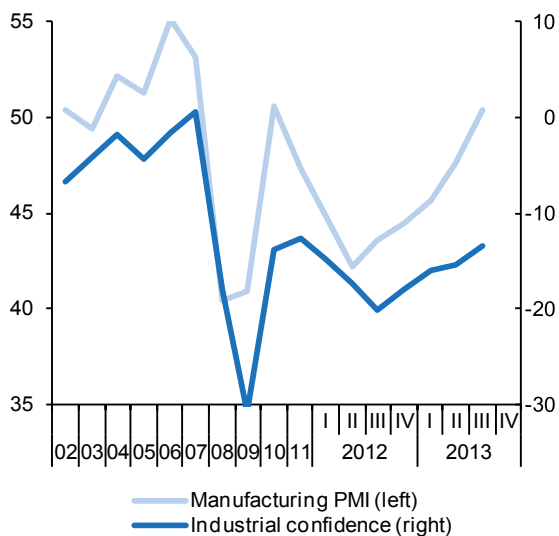


Table 11

Construction and services sector indicators (a)

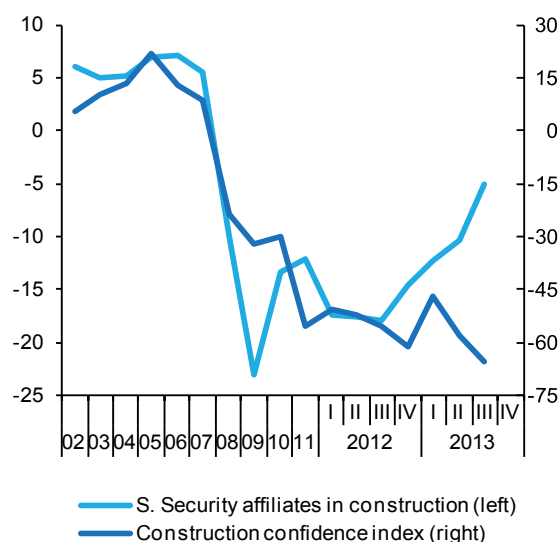
	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	Consumption of cement	Construction confidence index	Official tenders (f)	Housing starts (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	Million Tons	Balance of responses	EUR Billions	Thousands	Million m ²	Thousands	2005=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2008	2,340	42.7	-23.8	39.8	346.0	44.9	12,644	109.2	38.2	268.6	202.3	-18.8
2009	1,800	28.9	-32.3	39.6	159.3	19.4	12,247	94.5	41.0	253.2	186.3	-29.7
2010	1,559	24.5	-29.7	26.2	123.6	16.3	12,186	95.3	49.3	269.4	191.7	-22.5
2011	1,369	20.4	-55.4	13.7	86.3	14.1	12,176	94.3	46.5	286.8	203.3	-21.0
2012 (b)	1,136	13.5	-54.9	7.4	28.6	8.5	11,907	88.5	43.1	280.7	193.2	-21.5
2013 (b)	1,004	5.5	-55.5	3.7	--	3.0	11,702	84.6	46.9	157.6	105.3	-21.1
2011 IV	1,278	4.4	-53.6	2.6	18.2	2.9	12,128	92.8	40.2	71.1	50.1	-22.0
2012 I	1,218	3.8	-50.4	1.7	16.7	2.7	12,054	91.0	44.8	70.4	49.3	-15.3
II	1,160	3.4	-52.2	2.4	11.9	2.2	11,952	89.4	42.4	69.7	48.5	-19.7
III	1,105	3.2	-55.5	1.7	--	1.9	11,859	88.1	42.6	69.2	47.6	-26.7
IV	1,062	3.0	-61.4	1.5	--	1.7	11,772	86.8	42.6	68.7	46.5	-24.3
2013 I	1,028	2.8	-46.7	1.6	--	2.0	11,720	86.0	45.7	68.8	45.9	-27.0
II	1,000	2.7	-57.8	2.1	--	1.1	11,698	85.6	46.5	69.9	46.1	-21.0
III (b)	987	--	-65.2	--	--	--	11,702	--	49.5	23.6	15.5	-12.6
2013 Jun	994	0.9	-52.4	0.6	--	--	11,705	85.6	47.8	23.4	15.4	-18.0
Jul	989	--	-61.1	--	--	--	11,701	--	48.5	23.6	15.5	-14.0
Aug	984	--	-69.3	--	--	--	11,703	--	50.4	--	--	-11.1
Percentage changes (c)												
2008	-10.0	-23.8	--	-1.3	-43.8	-56.6	1.5	-3.7	--	-1.2	-3.0	--
2009	-23.1	-32.3	--	-0.4	-54.0	-56.8	-3.1	-13.4	--	-5.7	-7.9	--
2010	-13.4	-15.4	--	-33.9	-22.4	-16.1	-0.5	0.8	--	6.4	2.9	--
2011	-12.2	-16.4	--	-47.9	-30.2	-13.2	-0.1	-1.1	--	6.4	6.0	--
2012 (d)	-17.0	-33.9	--	-45.5	-43.0	-39.9	-2.2	-6.2	--	-2.1	-5.0	--
2013 (d)	-13.9	-24.2	--	-11.5	--	-27.3	-2.2	-4.2	--	-0.1	-5.6	--
2011 IV	-17.8	-34.8	--	-63.2	-46.3	-23.9	-1.7	-5.8	--	-2.0	-4.4	--
2012 I	-17.4	-42.9	--	-50.7	-27.4	-30.5	-2.4	-7.3	--	-4.1	-6.2	--
II	-17.6	-35.3	--	-37.2	-56.2	-42.8	-3.4	-6.8	--	-4.0	-6.3	--
III	-17.9	-21.6	--	-53.4	--	-45.7	-3.0	-5.7	--	-3.1	-7.3	--
IV	-14.5	-28.6	--	-39.6	--	-41.5	-2.9	-5.8	--	-2.7	-8.8	--
2013 I	-12.4	-17.2	--	-9.0	--	-27.7	-1.8	-3.7	--	1.0	-5.0	--
II	-10.4	-17.8	--	-13.3	--	-26.3	-0.8	-1.7	--	6.2	1.9	--
III (e)	-5.1	--	--	--	--	--	0.1	--	--	5.0	2.7	--
2013 Jun	-0.5	0.4	--	18.8	--	--	0.1	-0.1	--	0.6	0.3	--
Jul	-0.5	--	--	--	--	--	0.0	--	--	0.6	0.3	--
Aug	-0.5	--	--	--	--	--	0.0	--	--	--	--	--

(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-professional caregivers.

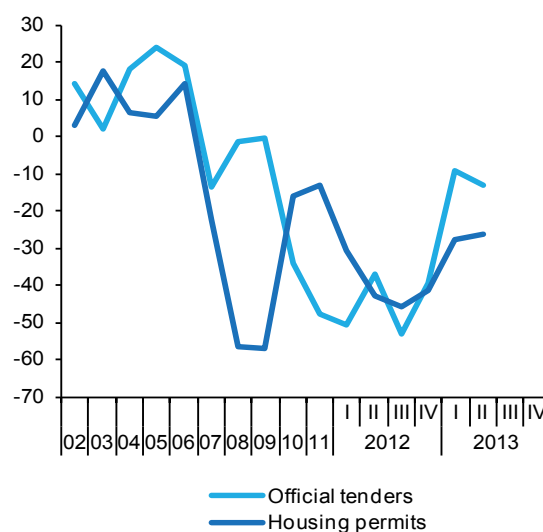
Sources: European Commission, Markit Economics Ltd., M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN, SEOPAN and Funcas.

Chart 11.1.- Construction indicators (I)

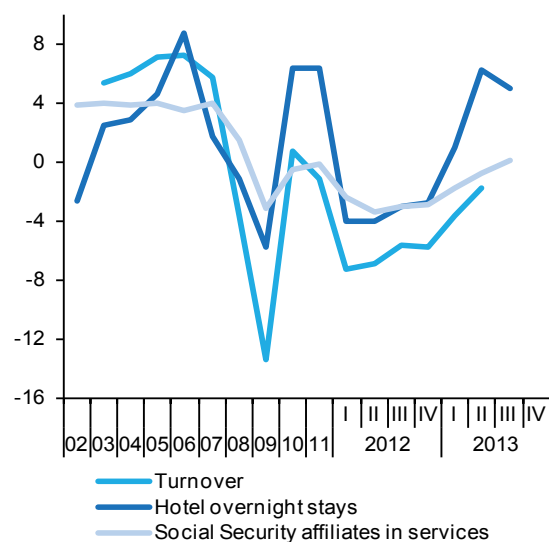
Annualized percentage changes from previous period and index

**Chart 11.2.- Construction indicators (II)**

Annualized percentage changes from previous period

**Chart 11.3.- Services indicators (I)**

Percentage changes from previous period

**Chart 11.4.- Services indicators (II)**

Index

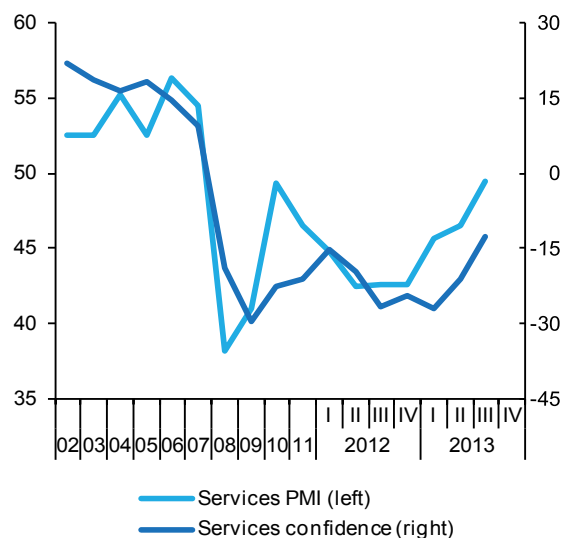


Table 12

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	-33.7	113.2	-21.0	236.9	-4.4	89.7
2009	92.9	971.2	-28.2	110.1	-40.3	142.1	-51.0	65.5
2010	91.3	1,000.1	-20.9	113.6	-26.7	152.1	-31.1	58.4
2011	86.2	808.3	-17.1	111.5	-21.8	142.0	-23.0	54.1
2012	79.8	703.8	-31.7	102.1	-24.3	106.7	-38.6	48.2
2013 (b)	75.7	513.3	-28.4	55.1	-22.0	68.4	-34.0	44.2
2011 IV	84.5	197.3	-16.8	27.2	-20.9	32.8	-26.8	51.3
2012 I	82.9	190.9	-24.6	27.0	-26.0	30.1	-31.1	49.3
II	81.1	181.2	-29.0	25.6	-20.7	27.5	-38.0	47.7
III	79.0	171.3	-35.2	25.0	-23.8	25.5	-43.5	47.0
IV	77.1	166.7	-37.8	24.1	-26.6	24.2	-41.7	46.0
2013 I	76.3	172.0	-32.6	24.2	-21.4	24.2	-38.8	44.9
II	76.3	180.0	-28.7	24.8	-24.3	25.8	-33.0	45.7
III (b)	76.5	123.7	-21.9	16.6	-19.7	18.3	-28.5	--
2013 Jun	76.7	60.8	-25.6	8.6	-24.3	8.8	-29.1	46.3
Jul	76.7	61.5	-22.7	8.2	-21.7	9.0	-26.5	--
Aug	--	62.2	-21.0	8.3	-17.6	9.3	-30.6	--
Percentage changes (c)								
2008	-6.0	-27.5	--	-2.9	--	-43.6	--	-20.9
2009	-5.4	-18.1	--	-2.7	--	-40.0	--	-26.9
2010	-1.7	3.0	--	3.1	--	7.0	--	-10.9
2011	-5.6	-19.2	--	-1.8	--	-6.6	--	-7.4
2012	-7.4	-12.9	--	-8.5	--	-24.8	--	-10.9
2013 (d)	-6.3	-2.6	--	-5.4	--	-8.6	--	0.0
2011 IV	-6.0	-8.1	--	-11.7	--	-23.9	--	-15.1
2012 I	-7.4	-12.4	--	-3.4	--	-29.2	--	-14.7
II	-8.7	-18.9	--	-19.3	--	-29.9	--	-12.4
III	-9.6	-20.2	--	-9.2	--	-26.5	--	-5.9
IV	-9.4	-10.3	--	-13.3	--	-19.3	--	-8.0
2013 I	-4.3	13.5	--	2.7	--	0.8	--	-8.9
II	0.2	19.9	--	8.7	--	28.4	--	7.0
III (e)	0.9	12.9	--	1.7	--	28.6	--	--
2013 Jun	0.1	1.3	--	6.9	--	2.7	--	1.4
Jul	0.1	1.2	--	-4.6	--	2.6	--	--
Aug	--	1.1	--	1.4	--	2.4	--	--

(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.

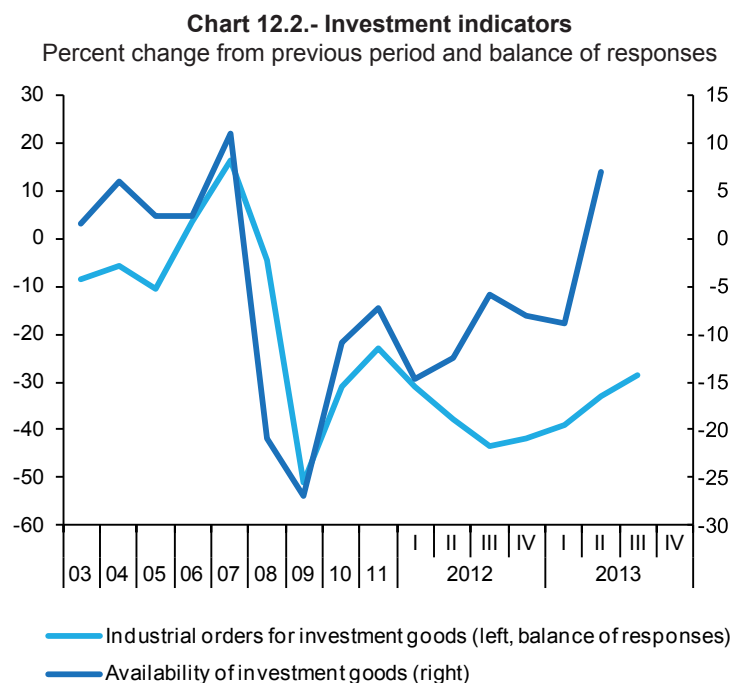
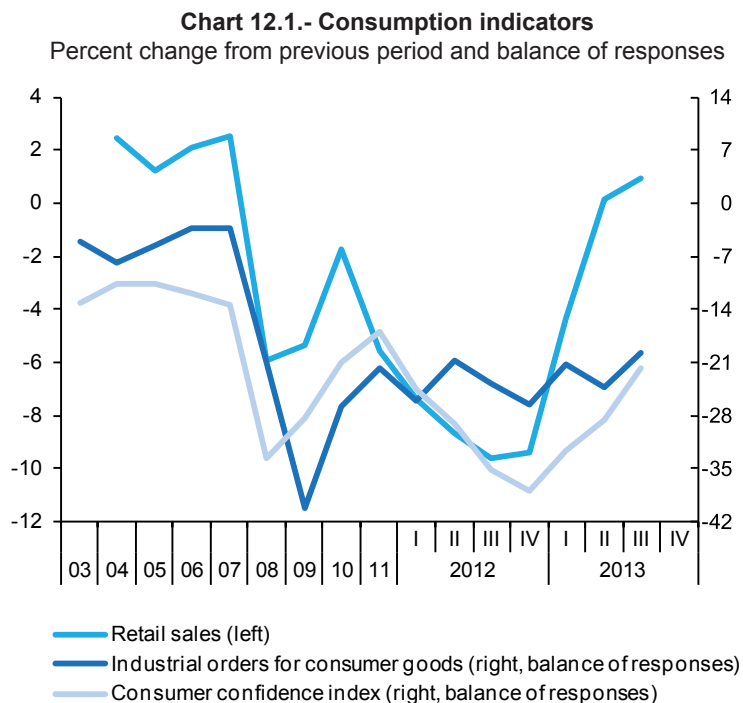


Table 13a

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)				
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign	
										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	--	74.9	55.0	26.4	--	--	--
2014		29.8	22.5	--	16.7	--	5.8	--	74.9	55.4	25.8	--	--	--
2011	III	30.7	23.1	23.1	18.2	18.0	5.0	5.1	74.9	58.3	22.0	47.3	19.8	33.9
	IV	30.7	23.1	23.1	17.8	17.8	5.3	5.3	74.8	57.6	22.9	48.8	20.7	34.9
2012	I	30.6	23.1	23.1	17.4	17.6	5.6	5.5	74.9	57.0	23.8	50.9	21.7	35.5
	II	30.5	23.1	23.1	17.4	17.4	5.7	5.7	75.1	56.4	24.7	52.7	22.8	36.0
	III	30.5	23.1	23.1	17.3	17.2	5.8	5.9	75.3	55.9	25.5	53.9	23.7	36.0
	IV	30.3	22.9	23.0	17.0	17.0	6.0	6.0	75.1	55.4	26.1	55.3	24.3	36.6
2013	I	30.2	22.8	22.8	16.6	16.8	6.2	6.0	75.0	55.0	26.4	56.0	24.5	37.7
	II	30.2	22.8	22.7	16.8	16.7	6.0	6.0	74.9	55.0	26.4	55.6	24.8	36.0
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		-1.2	-1.5	--	-3.2	--	3.8	--	-0.2	-1.1	1.3	--	--	--
2014		-1.0	-1.1	--	-0.4	--	-3.1	--	0.0	0.4	-0.5	--	--	--
2011	II	-0.4	0.1	0.4	-0.9	-0.9	4.1	5.5	0.4	-0.3	0.8	4.1	0.7	1.8
	III	-0.4	0.1	0.1	-2.1	-4.9	8.8	20.8	0.4	-1.0	1.8	5.3	1.5	3.4
	IV	-0.5	-0.1	-0.1	-3.3	-4.8	12.3	17.9	0.3	-1.7	2.5	5.7	2.2	4.4
2012	I	-0.6	0.0	-0.5	-4.0	-5.0	14.9	15.6	0.4	-2.0	3.1	6.5	2.8	4.8
	II	-0.5	-0.1	0.2	-4.8	-4.8	17.8	17.5	0.3	-2.6	3.8	7.2	3.8	4.0
	III	-0.7	-0.2	0.0	-4.6	-4.0	16.1	13.3	0.4	-2.4	3.5	6.6	3.9	2.1
	IV	-1.0	-0.7	-2.4	-4.8	-5.3	13.1	6.3	0.3	-2.2	3.2	6.5	3.5	1.7
2013	I	-1.2	-1.0	-2.2	-4.6	-4.1	10.0	3.3	0.1	-1.9	2.7	5.2	2.8	2.2
	II	-1.2	-1.5	-1.4	-3.6	-1.1	5.0	-2.1	-0.2	-1.4	1.6	2.9	2.0	0.0

(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

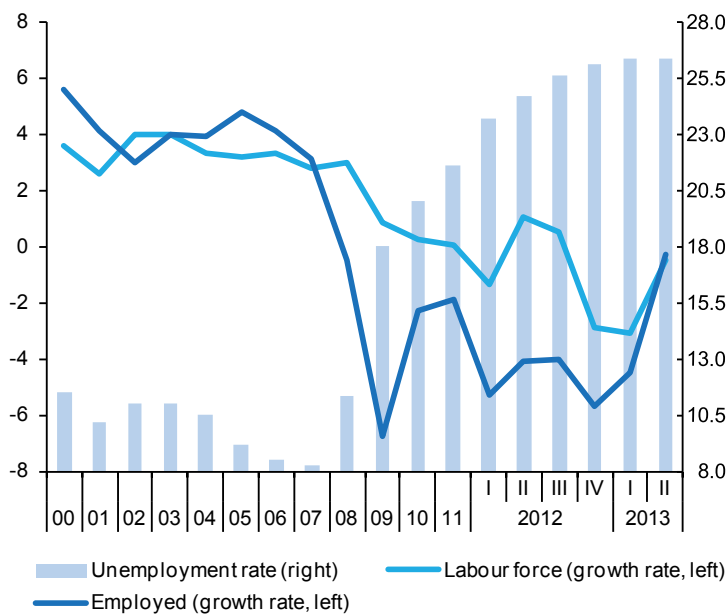


Chart 13a.2.- Unemployment rates, SA
Percentage

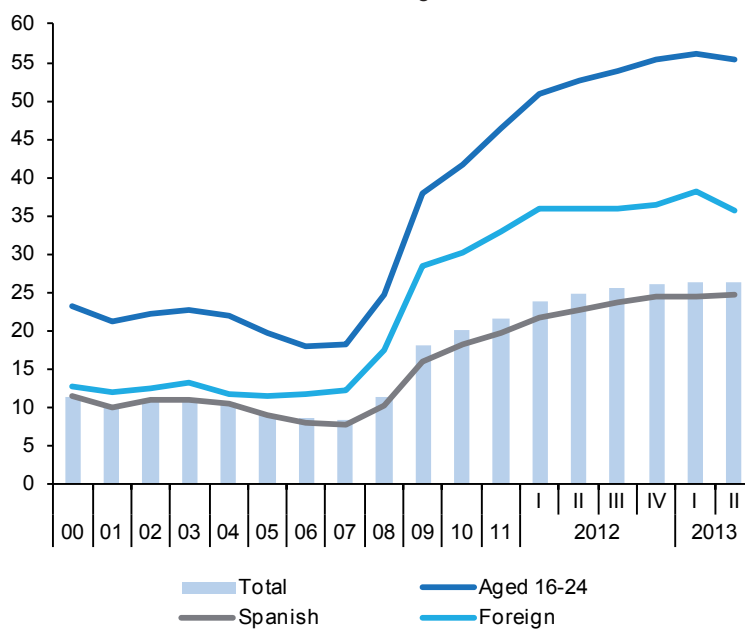


Table 13b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day			
	Agriculture	Industry	Construction	Services	Employees			Self-employed	Full-time	Part-time	Part-time employment rate (b)		
					Total	By type of contract							
						Temporary	Indefinite	Temporary employment rate (a)					
	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)	0.74	2.31	1.04	12.62	13.67	3.09	10.58	22.6	3.04	14.00	2.71	16.21	
2011	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
	II	0.76	2.30	1.02	12.70	13.72	3.17	10.55	23.1	3.06	14.03	2.75	16.41
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)	-1.6	-5.7	-12.9	-3.1	-5.1	-9.5	-3.7	-1.0	0.7	-5.9	6.1	1.5	
2011	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
	II	3.9	-5.7	-14.2	-2.7	-4.7	-6.9	-4.0	-0.5	1.3	-5.3	5.9	1.5

(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

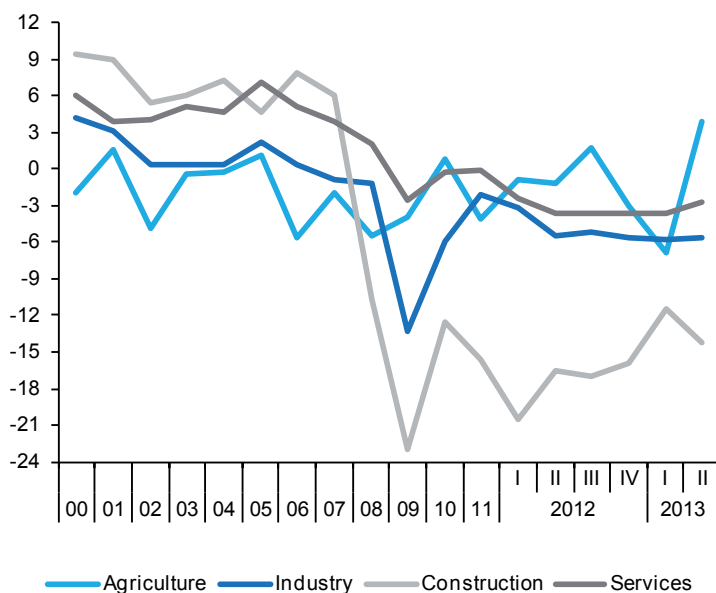


Chart 13b.2.- Employment by type of contract

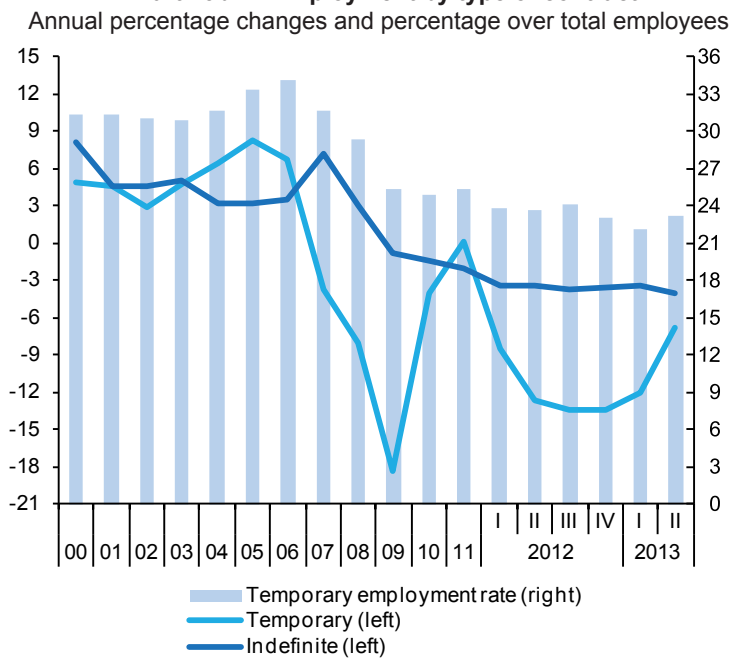


Table 14

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										
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		104.2	102.5	103.2	101.4	103.2	106.2	108.0	109.6	106.8
2014		105.6	103.1	104.1	101.1	104.4	108.8	112.8	112.7	110.1
Annual percentage changes										
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		1.7	1.2	1.6	0.6	1.6	3.1	5.7	0.7	3.9
2014		1.4	0.6	0.9	-0.3	1.2	2.4	4.4	2.8	3.1
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	2.1	1.7	2.0	1.5	1.9	3.0	5.3	1.0	3.7
	Jul	1.8	1.3	1.7	0.2	1.9	3.4	7.4	-0.4	4.6
	Aug	1.5	1.2	1.6	0.4	1.7	3.3	7.6	-2.2	4.6
2014	Sep	0.7	0.3	0.8	-0.8	1.0	3.0	7.6	-3.1	4.4
	Oct	0.9	0.2	0.7	-0.7	0.9	2.6	7.7	-0.8	4.1
	Nov	1.4	0.4	0.8	-0.4	0.9	2.4	7.3	2.2	3.9
	Dec	1.4	0.4	0.8	-0.4	1.0	2.4	7.1	2.5	3.8
	Jan	1.5	0.5	0.9	-0.3	1.1	2.6	6.8	2.6	3.9
	Feb	1.2	0.5	0.9	-0.4	1.1	2.5	6.9	0.9	3.9
	Mar	1.3	0.4	0.8	-0.4	0.9	2.6	7.5	1.5	4.1
	Apr	1.9	0.7	1.0	-0.4	1.4	2.6	7.1	4.7	4.0
	May	1.8	0.5	0.9	-0.4	1.2	2.5	5.5	5.9	3.5
	Jun	1.7	0.6	0.9	-0.4	1.2	2.6	4.3	5.6	3.1
	Jul	1.4	0.6	0.9	-0.3	1.2	2.3	2.9	4.1	2.5
	Aug	1.3	0.7	0.9	-0.2	1.2	2.3	2.5	2.9	2.4

Sources: INE and Funcas (Forecasts).

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

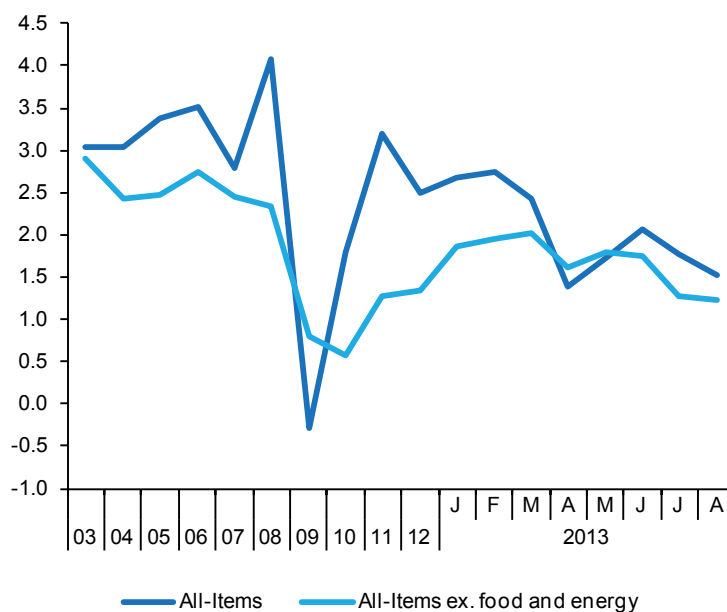


Chart 14.2.- Inflation rate (II)
Annual percentage changes

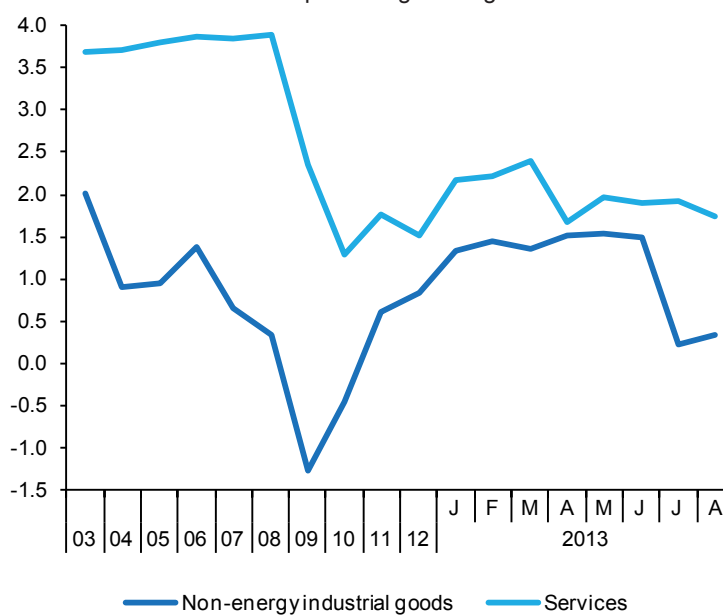


Table 15

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		135.6	116.5	113.0	90.1	89.6	74.8	142.8	140.4	150.2	151.4	--
2011		135.6	124.6	117.7	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012		135.6	129.3	119.7	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013 (b)		136.6	129.9	120.9	64.4	73.0	56.4	143.1	140.0	152.7	149.1	--
2011	IV	135.6	125.5	117.8	79.4	82.8	65.5	151.7	151.3	152.9	163.6	--
2012	I	135.5	128.7	118.5	75.4	80.2	63.7	142.2	137.9	155.1	144.7	--
	II	135.5	128.4	119.4	73.0	78.1	70.2	146.5	145.3	150.2	154.1	--
	III	135.7	130.2	120.2	70.2	76.1	60.4	138.8	135.2	149.7	159.8	--
	IV	135.6	129.9	120.7	69.2	74.5	67.3	146.9	145.8	150.2	160.0	--
2013	I	136.7	130.8	121.2	64.7	73.9	56.4	140.2	135.5	154.6	147.8	--
	II	136.4	129.0	120.7	64.2	72.1	--	146.0	144.5	150.8	150.3	--
	III (b)	--	130.2	120.3	--	--	--	--	--	--	--	--
2013	May	--	129.5	120.7	--	--	--	--	--	--	--	--
	Jun	--	129.5	120.5	--	--	--	--	--	--	--	--
	Jul	--	130.2	120.3	--	--	--	--	--	--	--	--
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		0.1	3.7	1.8	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.6	1.5
2011		0.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.1
2012		0.0	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.3
2013 (c)		0.8	1.0	1.5	-13.2	-7.8	-11.5	-1.4	-1.8	-0.3	2.1	0.7
2011	IV	0.0	5.9	2.9	-11.2	-6.8	-19.9	1.6	1.4	2.2	2.5	2.1
2012	I	-0.1	5.2	2.5	-12.6	-7.2	-16.4	1.1	1.2	0.9	1.4	2.2
	II	-0.1	2.6	1.0	-14.4	-8.3	-8.6	-0.3	0.0	-1.4	0.7	1.7
	III	0.2	3.9	1.7	-15.2	-9.5	-0.7	-0.1	0.3	-0.9	0.0	1.3
	IV	0.0	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	0.7	0.5	1.1	-12.0	-7.8	--	-0.3	-0.6	0.4	-2.4	0.7
	III (c)	--	0.0	0.1	--	--	--	--	--	--	--	--
2013	May	--	0.0	1.9	--	--	--	--	--	--	--	--
	Jun	--	-0.6	1.3	--	--	--	--	--	--	--	--
	Jul	--	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)

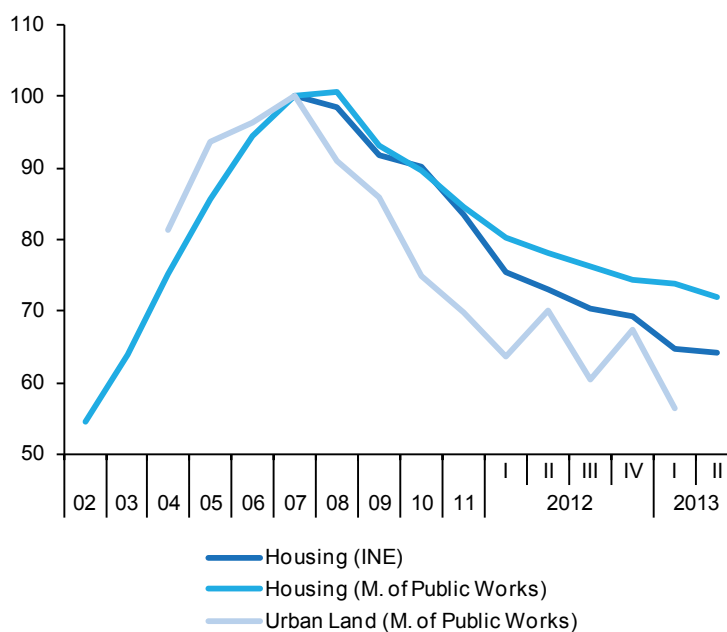


Chart 15.2.- Wage costs
Annual percent change

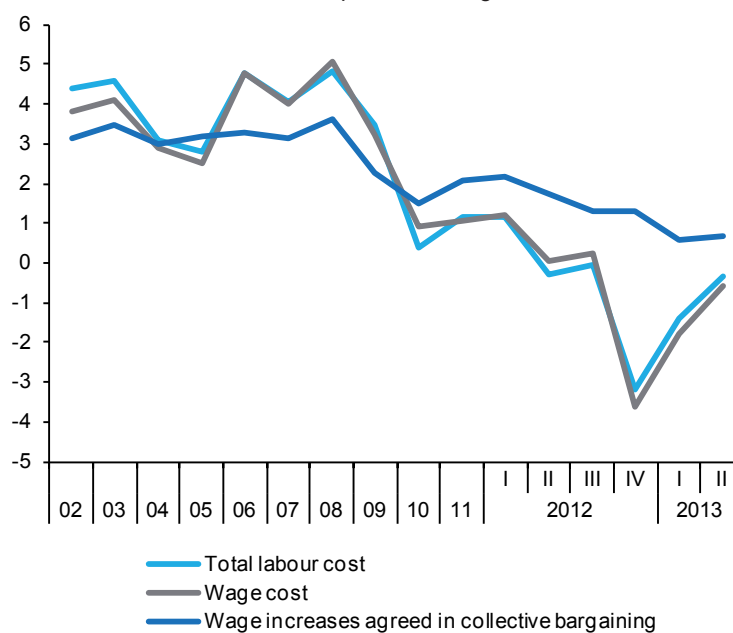


Table 16

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)		118.7	109.4	141.1	124.5	109.8	99.1	73.9	44.8	-5.8	15.7	10.5
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	62.0	109.8	146.0	63.6	107.0	102.7	38.6	23.4	-1.6	8.5	6.0
2013	Apr	21.1	110.2	148.7	22.4	106.4	109.2	12.7	8.4	-1.3	2.8	1.7
	May	20.2	107.9	145.7	20.4	104.9	100.9	12.5	7.7	-0.2	2.6	2.0
	Jun	20.6	111.5	143.7	20.7	109.8	97.8	13.4	7.3	-0.1	3.1	2.4
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	-4.6	-0.4	0.3
2012		3.8	2.0	1.7	-2.8	4.6	-7.1	-1.8	13.6	-3.0	1.5	1.2
2013 (d)		8.0	0.1	7.8	-3.2	-4.3	1.2	4.7	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	-4.2	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	-2.5	2.1	1.1
	IV	7.2	7.1	-0.1	-14.7	-1.0	-13.7	12.1	-0.1	-1.2	2.9	1.9
2013	I	-5.6	-12.3	7.4	3.0	-11.4	16.0	-12.5	6.1	-1.7	2.8	1.5
	II	37.0	3.3	32.4	14.2	-14.0	33.2	56.5	47.0	-0.6	3.3	2.4
2013	Apr	11.7	3.0	8.5	21.1	-3.9	26.0	18.1	3.2	--	--	--
	May	-4.0	-2.1	-2.0	-8.9	-1.4	-7.6	-1.8	-7.3	--	--	--
	Jun	1.9	3.3	-1.4	1.4	4.7	-3.1	7.0	-6.2	--	--	--

(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

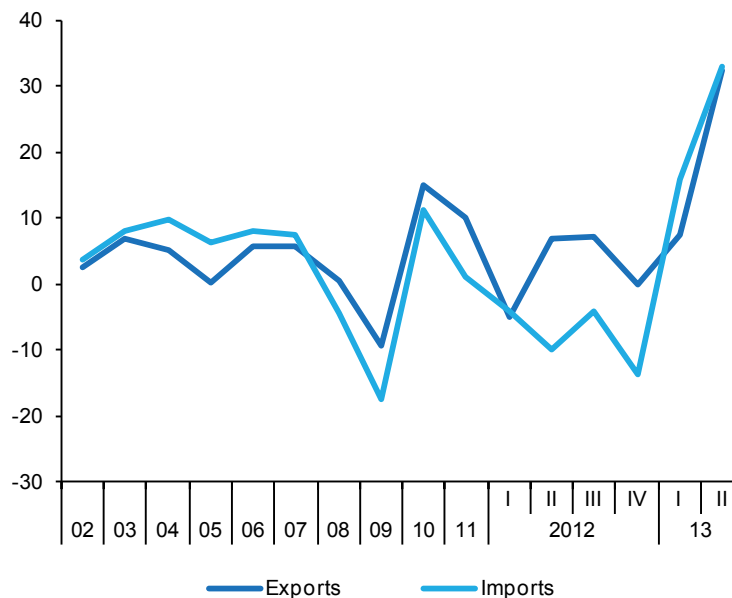


Chart 16.2.- Trade balance
EUR Billions, moving sum of 4 quarters

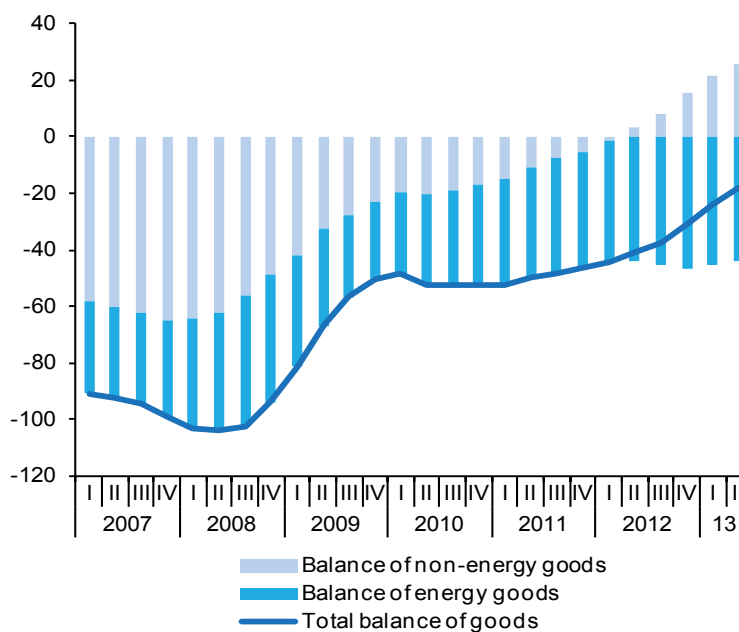


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions	
	Total	Goods	Services	Income	Tansfers			Financial account, excluding Bank of Spain					Bank of Spain		
								Total	Direct investment	Portfolio investment	Other investment	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)		1.36	-2.71	17.06	-6.94	-6.06	3.89	5.25	39.80	6.99	-11.62	42.47	1.96	-50.51	5.45
2011	III	-6.80	-10.87	13.18	-7.80	-1.31	1.25	-5.55	-31.46	1.73	-14.22	-17.68	-1.29	39.02	-2.01
	IV	-8.59	-10.56	7.37	-5.94	0.53	1.31	-7.29	-70.27	2.38	-16.43	-55.97	-0.26	75.29	2.27
2012	I	-13.82	-9.06	5.80	-6.28	-4.28	0.67	-13.15	-97.65	6.82	-39.85	-67.41	2.78	105.57	5.23
	II	-3.16	-6.59	9.39	-4.70	-1.25	1.72	-1.44	-127.47	-2.55	-46.64	-77.87	-0.40	131.22	-2.31
	III	1.28	-6.51	14.51	-4.45	-2.26	1.52	2.79	0.77	2.98	4.16	-11.09	4.72	-3.27	-0.29
	IV	4.18	-3.51	7.29	-3.28	3.67	2.68	6.86	50.02	16.98	26.50	5.33	1.21	-60.01	3.13
2013	I	-3.27	-2.56	6.82	-3.88	-3.64	1.38	-1.89	43.44	4.16	-0.17	39.00	0.45	-38.77	-2.79
	II	4.62	-0.15	10.25	-3.06	-2.41	2.52	7.14	-3.64	2.83	-11.45	3.47	1.51	-11.74	8.24
2013	Apr	-0.34	-0.91	2.42	-0.94	-0.92	0.94	0.60	1.96	1.90	-3.78	2.77	1.07	-6.49	3.93
	May	2.40	0.70	3.51	-0.90	-0.91	1.38	3.78	-5.06	0.47	3.75	-8.59	-0.69	-3.30	4.58
	Jun	2.57	0.06	4.31	-1.22	-0.58	0.20	2.76	-0.54	0.46	-11.41	9.29	1.12	-1.95	-0.27
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		-3.8	-4.0	3.3	-2.5	-0.6	0.5	-3.3	-7.7	-0.7	-2.6	-4.2	-0.2	10.4	0.5
2012		-1.1	-2.5	3.6	-1.8	-0.4	0.6	-0.5	-16.9	2.4	-5.4	-14.7	0.8	16.9	0.6
2011	III	-2.7	-4.3	5.2	-3.1	-0.5	0.5	-2.2	-12.5	0.7	-5.7	-7.0	-0.5	15.5	-0.8
	IV	-3.2	-3.9	2.8	-2.2	0.2	0.5	-2.7	-26.2	0.9	-6.1	-20.9	-0.1	28.1	0.8
2012	I	-5.4	-3.6	2.3	-2.5	-1.7	0.3	-5.2	-38.5	2.7	-15.7	-26.6	1.1	41.6	2.1
	II	-1.2	-2.5	3.5	-1.8	-0.5	0.6	-0.5	-48.1	-1.0	-17.6	-29.4	-0.2	49.6	-0.9
	III	0.5	-2.6	5.9	-1.8	-0.9	0.6	1.1	0.3	1.2	1.7	-4.5	1.9	-1.3	-0.1
	IV	1.6	-1.3	2.8	-1.2	1.4	1.0	2.6	19.0	6.5	10.1	2.0	0.5	-22.8	1.2
2013	I	-1.3	-1.0	2.7	-1.6	-1.5	0.6	-0.8	17.4	1.7	-0.1	15.6	0.2	-15.5	-1.1
	II	1.8	-0.1	3.9	-1.2	-0.9	1.0	2.7	-1.4	1.1	-4.4	1.3	0.6	-4.5	3.1

(a) Period with available data.

Source: Bank of Spain.

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

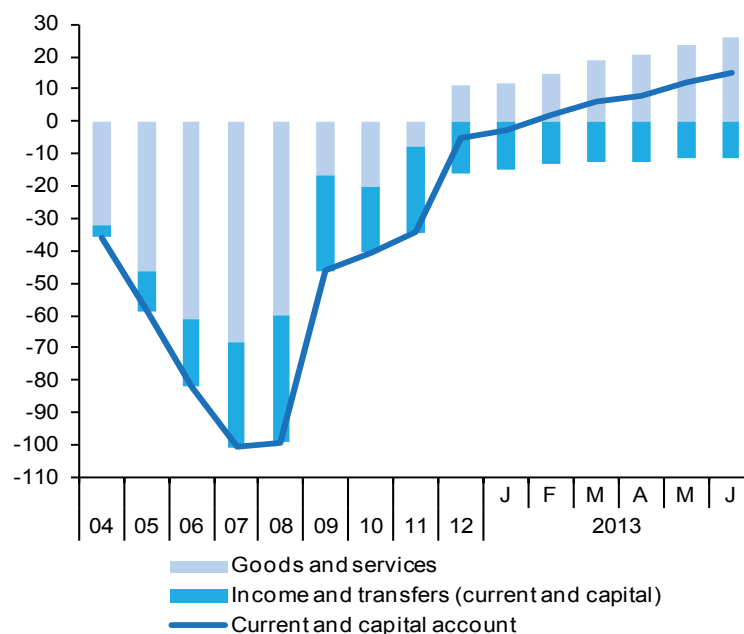


Chart 17.2.- Balance of payments: financial account
EUR Billions, 12-month cumulated

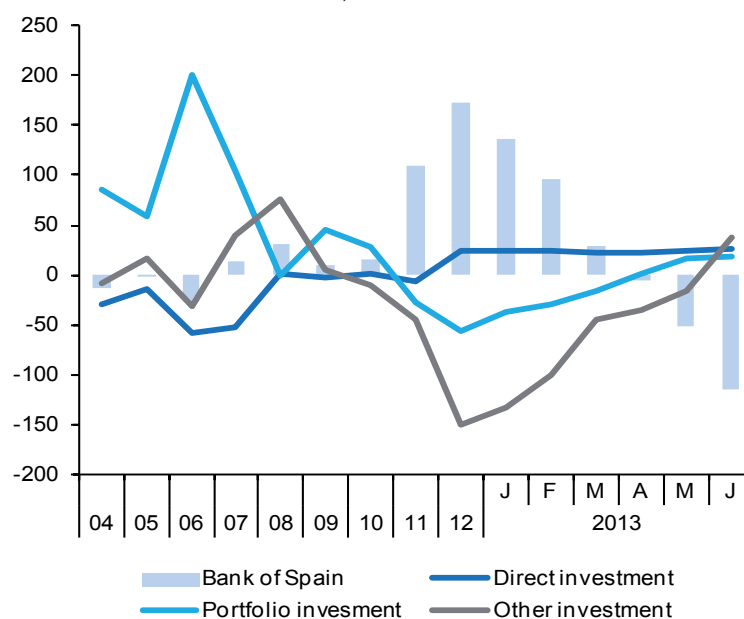


Table 18

State and Social Security System budget

	State							Social Security System					
	National accounts basis			Revenue, cash basis (a)				Surplus or deficit	Accrued income		Expenditure		
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others		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)		-45.1	60.7	105.8	108.0	50.3	45.1	12.6	4.2	76.6	57.7	72.4	63.0
2013	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
	Jun	-40.2	128.0	168.1	212.5	92.1	73.4	47.0	-4.5	121.4	99.2	125.9	107.7
	Jul	-40.6	131.2	171.8	189.6	93.0	74.4	22.2	-4.0	122.6	98.9	126.5	108.3
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 (d)		--	16.3	5.4	-19.3	-5.9	6.7	-67.0	--	5.4	-3.6	3.0	4.7
2013	May	--	-7.3	-5.3	20.3	4.4	4.5	150.3	--	-2.4	-4.9	1.6	4.1
	Jun	--	-5.0	-7.7	18.9	2.2	7.8	129.7	--	-1.3	-4.9	1.9	4.2
	Jul	--	-3.9	-3.4	-8.1	0.7	10.2	-52.4	--	-0.3	-5.0	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	19.6	15.5	8.4	5.3	1.8	0.8	11.8	10.3	11.0	8.8
2010		-4.9	13.6	18.5	16.7	8.3	6.9	1.6	0.2	11.7	10.1	11.5	9.3
2011 (b)		-3.0	13.1	16.2	16.9	8.6	6.8	1.5	0.0	11.6	10.1	11.7	9.7
2012 (b)		-4.3	11.9	16.2	20.9	9.3	7.0	4.6	-0.6	11.5	9.8	12.1	10.3
2013		-4.4	5.9	10.4	10.6	4.9	4.4	1.2	0.4	7.5	5.6	7.1	6.2
2013	May	-4.0	12.3	16.3	20.8	9.1	7.0	4.7	-0.6	11.7	9.7	12.3	10.5
	Jun	-3.9	12.5	16.4	20.8	9.0	7.2	4.6	-0.4	11.9	9.7	12.3	10.5
	Jul	-4.0	12.8	16.8	18.5	9.1	7.3	2.2	-0.4	12.0	9.7	12.4	10.6

(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) Cumulated since January. (d) Percent change over the same period of the previous year.

Sources: M. of Economy and M. of Labour.

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

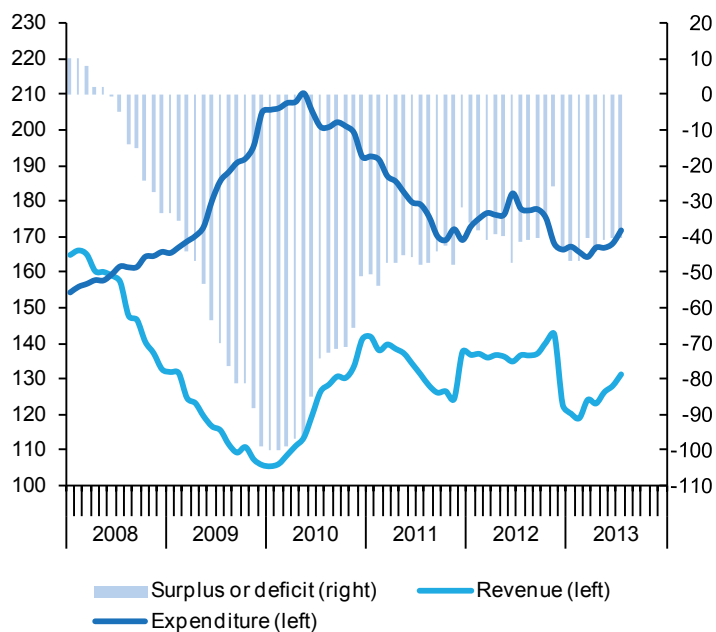


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

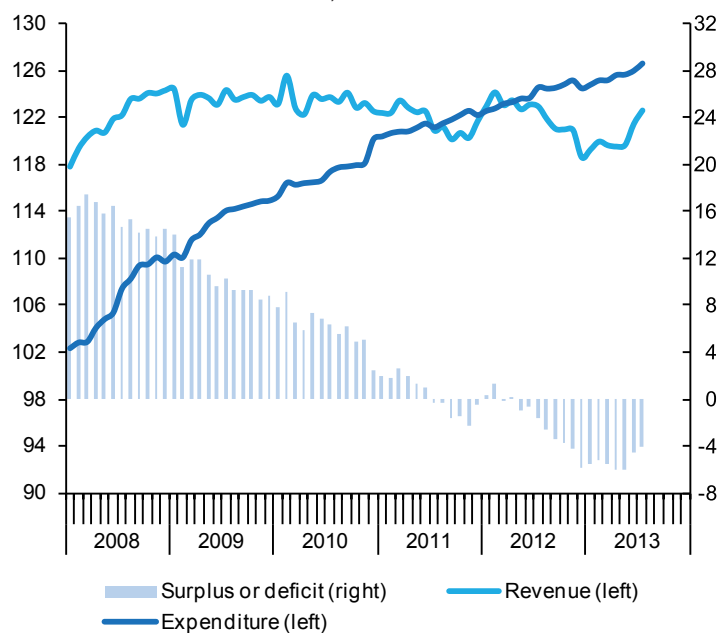


Table 19

Monetary and financial indicators

		Interest rates (percentage rates)					Credit stock (EUR billion)				Contribution of Spanish MFI to M3	Stock market (IBEX-35)
		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		
		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	2,862.4	736.5	1,255.0	871.0	--	8,563.3
2012		5.8	427.9	3.4	9.1	5.6	2,854.2	883.8	1,136.5	833.8	--	8,167.5
2013 (a)		4.7	320.1	3.2	9.6	5.7	2,849.8	943.7	1,082.6	807.4	--	8,290.5
2011	IV	5.7	365.1	3.7	9.1	5.4	2,862.4	736.5	1,255.0	871.0	--	8,563.3
2012	I	5.2	334.7	3.8	9.7	5.5	2,885.9	774.9	1,252.2	858.7	--	8,008.0
	II	6.2	462.8	3.5	8.7	5.7	2,892.7	804.6	1,232.4	855.7	--	7,102.2
	III	6.4	500.5	3.3	9.2	5.7	2,867.6	817.2	1,209.6	840.8	--	7,708.5
	IV	5.6	413.6	3.1	8.8	5.5	2,854.2	883.8	1,136.5	833.8	--	8,167.5
2013	I	5.1	353.5	3.2	9.5	5.6	2,852.8	922.8	1,110.6	819.4	--	7,920.0
	II	4.5	308.9	3.2	9.6	5.7	2,849.8	943.7	1,091.8	814.4	--	7,762.7
	III (a)	4.6	286.9	3.2	9.8	5.6	--	--	1,082.6	807.4	--	8,290.5
2013	Jun	4.7	305.0	3.2	9.5	5.5	2,849.8	943.7	1,091.8	814.4	--	7,762.7
	Jul	4.7	303.2	3.2	9.8	5.6	--	--	1,082.6	807.4	--	8,433.4
	Aug	4.5	270.5	--	--	--	--	--	--	--	--	8,290.5
							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)		--	--	--	--	--	0.8	17.3	-6.4	-4.2	0.8	1.5
2011	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	-6.8	-4.0	-0.5	-3.0
	II	--	--	--	--	--	0.8	17.3	-6.5	-4.3	-0.4	-2.0
	III (c)	--	--	--	--	--	--	--	-6.4	-4.2	0.8	--
2013	Jun	--	--	--	--	--	0.8	17.3	-6.5	-4.3	-0.4	-6.7
	Jul	--	--	--	--	--	--	--	-6.4	-4.2	0.8	8.6
	Aug	--	--	--	--	--	--	--	--	--	--	-1.7

(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

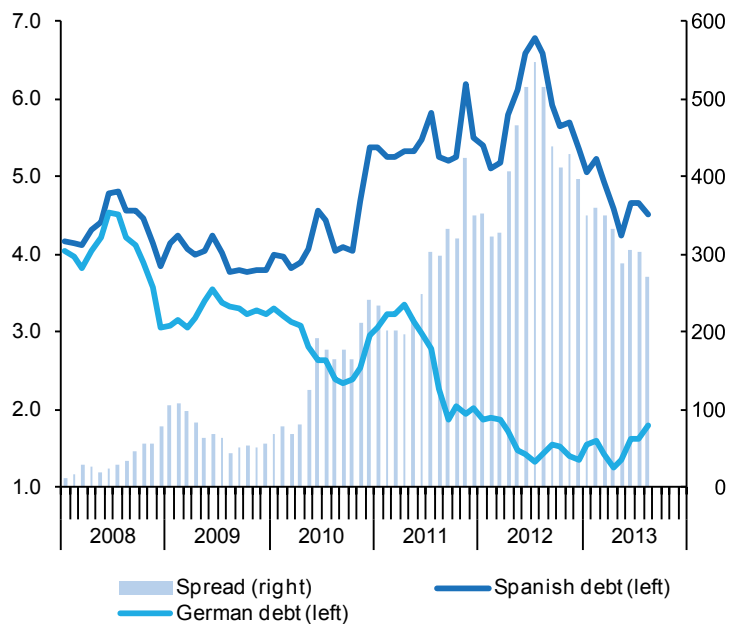


Chart 19.2.- Credit stock growth
Annual percentage change

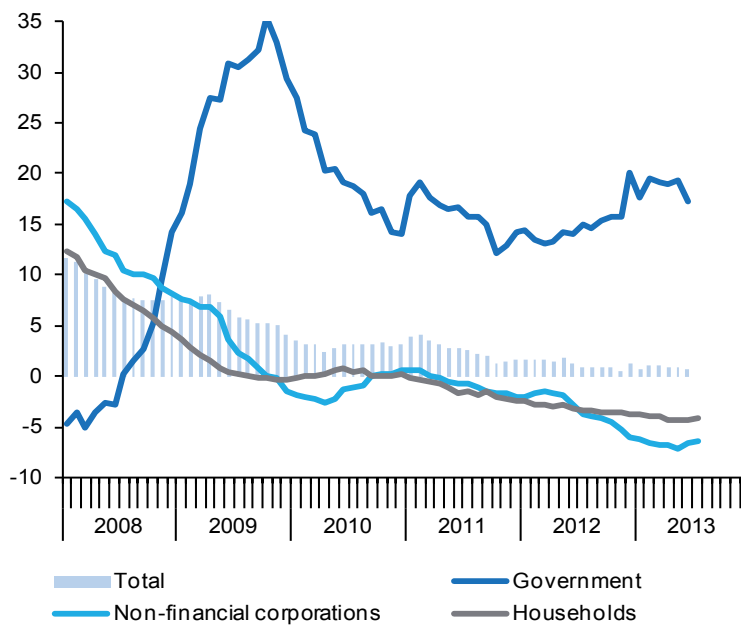


Table 20

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	109.2	107.8	101.3	111.9
2008	93.0	110.9	119.3	110.9	107.8	102.9	116.3	114.2	101.8	114.5
2009	102.6	114.5	111.7	110.6	108.1	102.3	112.4	108.7	103.4	114.0
2010	101.1	112.3	111.0	112.9	109.9	102.7	116.5	111.6	104.4	112.9
2011	102.4	110.4	107.8	116.3	112.9	103.1	124.6	118.1	105.5	113.1
2012	107.1	109.7	102.4	119.2	115.7	103.0	129.3	121.6	106.3	111.7
2013 (a)	--	--	--	120.7	117.0	103.1	129.9	121.8	106.7	113.2
2011 IV	--	--	--	117.6	114.1	103.1	125.5	119.2	105.3	112.8
2012 I	--	--	--	116.7	114.4	102.0	128.7	120.9	106.5	110.8
II	--	--	--	119.4	115.9	103.0	128.4	121.3	105.8	111.8
III	--	--	--	119.3	115.8	103.0	130.2	122.0	106.7	111.1
IV	--	--	--	121.4	116.8	104.0	129.9	122.2	106.3	113.1
2013 I	--	--	--	119.9	116.5	102.9	130.8	122.4	106.8	112.7
II	--	--	--	121.6	117.6	103.5	129.0	121.3	106.4	113.7
III (a)	--	--	--	120.5	117.1	102.9	130.1	121.5	107.1	--
2013 Jun	--	--	--	121.7	117.7	103.5	129.5	121.2	106.9	113.8
Jul	--	--	--	120.4	117.1	102.8	130.1	121.5	107.1	113.0
Aug	--	--	--	120.7	117.2	103.0	--	--	--	--
Annual percentage changes						Differential	Annual percentage changes		Differential	
2007	-0.8	4.1	4.9	2.8	2.1	0.7	3.6	2.5	1.1	--
2008	1.9	1.9	0.0	4.1	3.3	0.8	6.5	6.0	0.6	--
2009	10.3	3.3	-6.4	-0.2	0.3	-0.5	-3.4	-4.8	1.4	--
2010	-1.4	-2.0	-0.5	2.0	1.6	0.4	3.7	2.7	1.0	--
2011	1.3	-1.7	-2.9	3.1	2.7	0.3	6.9	5.8	1.1	--
2012	4.6	-0.6	-5.0	2.4	2.5	-0.1	3.8	3.0	0.8	--
2013 (b)	--	--	--	2.2	1.6	0.6	1.0	0.5	0.4	
2011 IV	--	--	--	2.7	2.9	-0.2	5.9	5.3	0.7	--
2012 I	--	--	--	1.9	2.7	-0.8	4.6	4.0	0.6	--
II	--	--	--	1.9	2.5	-0.6	3.1	2.7	0.4	--
III	--	--	--	2.8	2.5	0.2	3.9	2.7	1.3	--
IV	--	--	--	3.2	2.3	0.9	3.5	2.4	1.0	--
2013 I	--	--	--	2.8	1.9	0.9	1.6	1.2	0.4	--
II	--	--	--	1.8	1.4	0.4	0.5	0.0	0.5	--
III (b)	--	--	--	1.8	1.5	0.3	0.8	0.2	0.6	
2013 Jun	--	--	--	2.2	1.6	0.6	1.3	0.3	1.0	--
Jul	--	--	--	1.9	1.6	0.3	0.8	0.2	0.6	--
Aug	--	--	--	1.6	1.3	0.3	--	--	--	--

(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

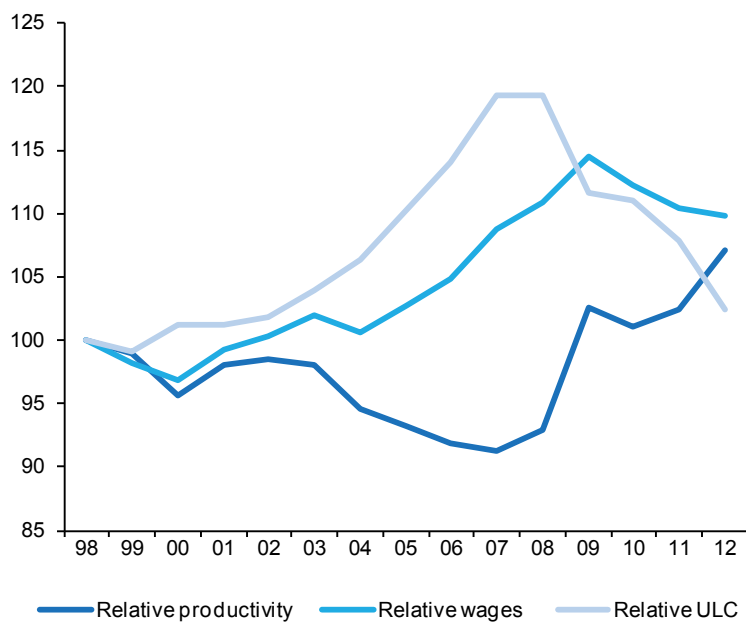


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

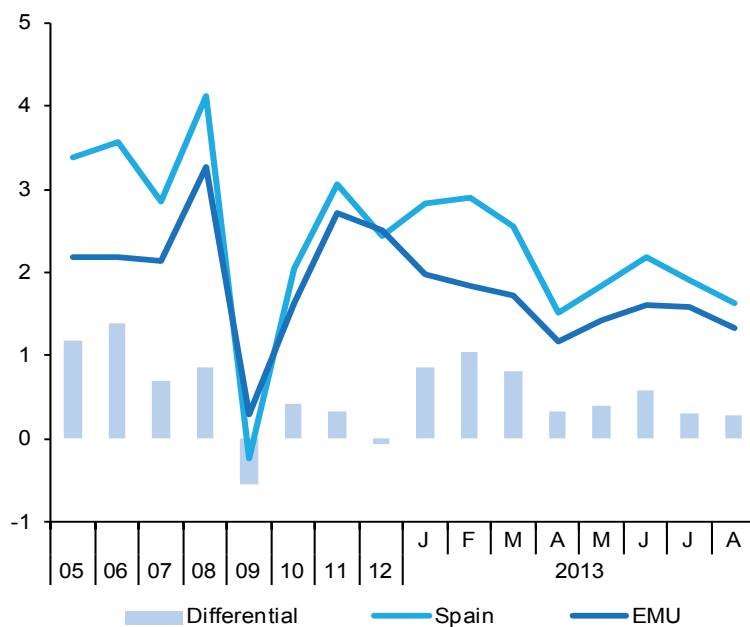


Table 21a

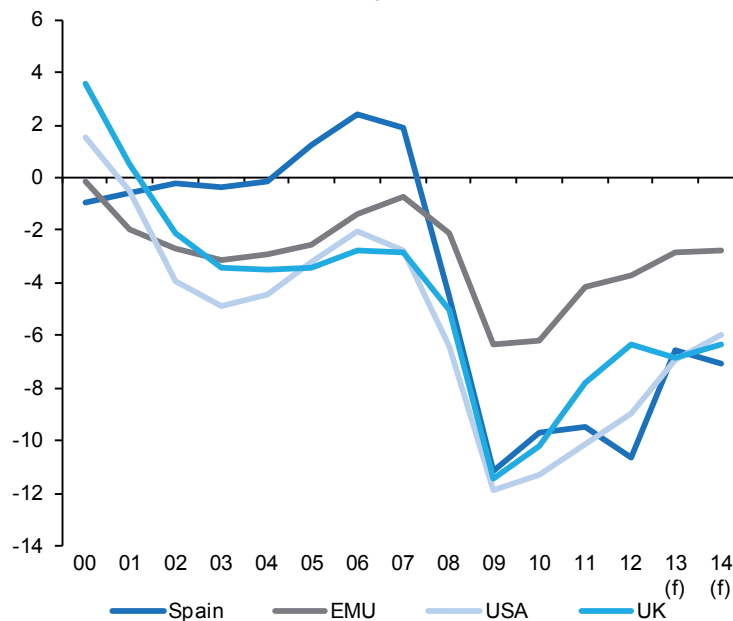
Imbalances: International comparison (I)

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

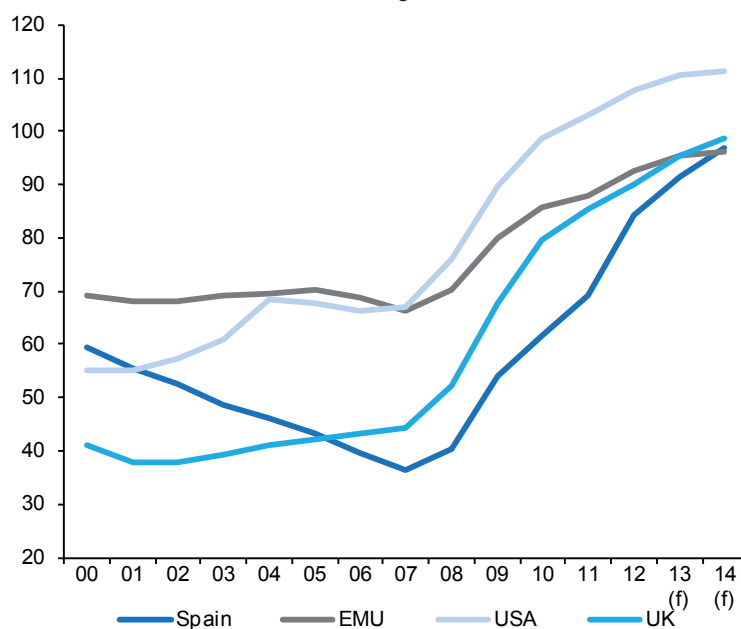
Source: European Commission.

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

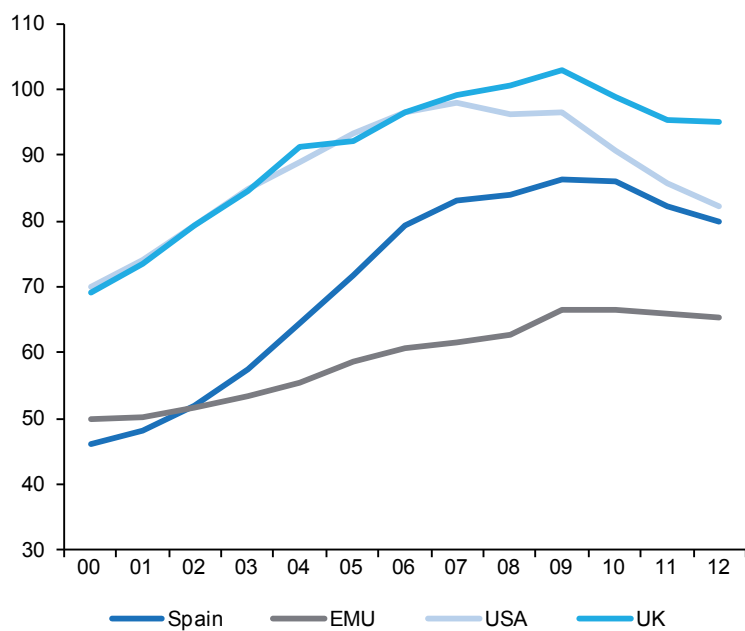
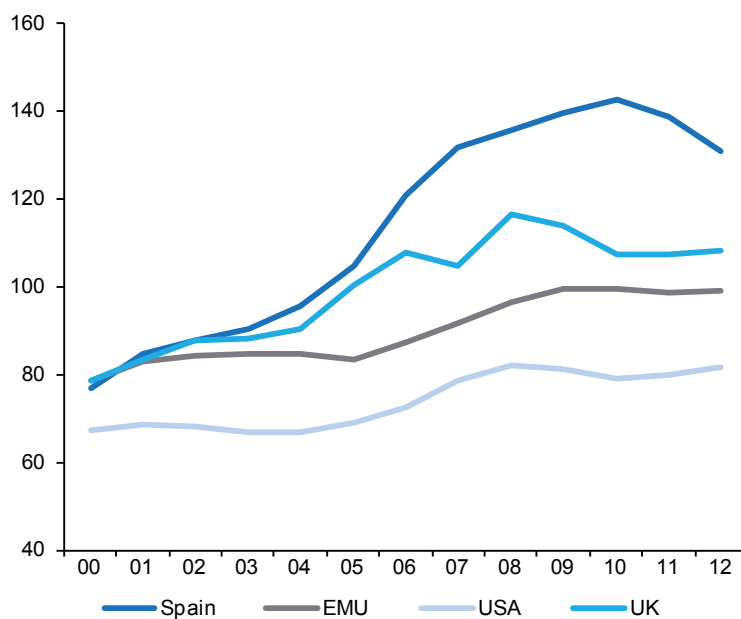


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS

Updated: September 15th, 2013

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.2	June 2013
Other resident sectors' deposits in credit institutions (monthly average % var.)	1.3	June 2013
Doubtful loans (monthly % var.)	3.7	June 2013
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	718,506	July 2013
Recourse to the Eurosystem (Spanish financial institutions, million euros)	248.29	July 2013
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main L/T refinancing operations	22,744	July 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 August	2013 September	Definition and calculation
1. Monetary Supply (% chg.)	ECB	6.9	2.2	3.5	6.2(a)	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	3.4	1.4	0.18	0.22	0.22	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.3	2.0	0.54	0.54	0.54	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.9	5.4	5.3	4.52	4.48	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.0	5.0	4.8	5.02(a)	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

(a) Last data published: July 31st, 2013.

Comment on "Money and Interest Rates": The 3-month and 1-year Euribor rates have remained stable at 0.22% and 0.54% as of September 15th, 2013, the same level registered in the month of August. This evolution is in line with the messages from the ECB that monetary policy interest rates will remain low in the foreseeable future due to the still weak recovery observed in the Eurozone. The Spanish 10-year bond yield has decreased from 4.52% in August to 4.48% as of September 15th.

B. Financial markets

Indicator	Source:	Average 1996-2009	2011	2012	2013 June	2013 July	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.3	81.6	84.7	85.7	75.1	(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	60.4	61.4	(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	2.0	1.5	(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	3.7	2.4	(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	0.4	0.2	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	781.9	801.9	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	-6.1	7.3	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	22.9	30.1	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	781.8	905.09(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	7,762.7	8,941.6(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	33.9	56.5	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial markets (continued)

Indicator	Source:	Average 1996-2009	2011	2012	2013 June	2013 July	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	2.8	15.1	-15.1	-54,9	13,7	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	45.2	59.24	73.9	-3,8	-0,7	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.6	1.9	2.3	2,5	2.4	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	2.1	-15.8	-10.8	17.9	-16.6	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	-2.7	-25.9	54.1	67.7	-32.7	IBEX-35 shares concluded transactions

(a) Last data published: September 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 with forward government bonds and debenture transactions, whereas a small increase has been observed in spot government bonds transactions. The stock market has shown a recovery with the IBEX-35 reaching 8,941 points in June and the General Index of the Madrid Stock Exchange to 941 points as of September 15th, which represents a record-high since October 2011. Additionally, there was a 16.6% decrease in financial IBEX-35 future transactions and a 32.7% fall in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2003-2009	2010	2011	2012 Q IV	2013 Q I	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.6	1.9	-3.4	-0.2	1.1	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	1.3	1.5	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	311.9	313.4	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 Q IV	2013 Q I	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	78.9	78.6	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	2.9	0.3	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	-0.7	-1.6	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During the first quarter of 2013, there was a 1.1% increase in financial savings to GDP in the overall economy. As for household financial savings, they have experienced a slight increase from 1.3% in 2012Q4 to 1.5% in 2013Q1. Additionally, there was also a reduction in households' financial deleveraging, with the debt to GDP ratio standing at 78.6%. Finally, the stock of financial assets on households' balance sheets registered a slight increase of 0.3%, while there was a 1.6% drop in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source:	Average 1996-2009	2011	2012	2013 May	2013 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.7	-3.8	-10.4	-0.9	0.2	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	0.9	1.3	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	0.2	2.4	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	4.5	0.1	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	-7.7	-7.7	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 May	2013 June	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	28.3	28.3	20.0	1.8	3.7	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	-4.2	11.5	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	8.8	1.0	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 June 2013 show a 0.2% increase in bank credit to the private sector and also a 1.3% increase in financial institutions deposit-taking, from the previous month. Also, there was a 3.7% growth in doubtful loans compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1996-2009	2010	2011	2012 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	718,506(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	248,293(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	22,744(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: July 2013.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In July 2013, the recourse to Eurosystem funding by Spanish credit institutions accounted for 34.56% of net total funds borrowed from the ECB by the Eurozone. It was 34.23% in June.

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.

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