Spanish Economic and Financial Outlook

The Financial Sector in Post-Recession Spain

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FEATURES

Letter from the Editors

Since the publication of the previous issue of *Spanish Economic and Financial Outlook* in November 2013, we continue to see improvement in Spain´s real economy and financial sector.

In the January publication of the *SEFO*, we assess Spain´s economic performance and the forecasts for the year ahead. In many ways, 2013 marked a turning point for the global economy, including Spain, although significant risks lie ahead, such as the potential instability arising from the Fed´s change in monetary policy stance, concerns over the stability of China´s financial system, and a possible resurgence of the European debt crisis. If these risks do not materialize, 2014 could be the year in which we will see stability in Spain´s property market, a moderate recovery in credit conditions, and net job creation.

We also take a closer look at recent performance of the Spanish financial sector. Spanish banks continue to demonstrate positive momentum, both in absolute and relative terms compared to other European peers. Overall, the latest review reports from the Troika present a positive evaluation of Spain´s financial reform and considered the implementation process finished, although some long term challenges related to macroeconomic downside risks, and regulatory and supervisory issues remain. Meanwhile, the ECB´s latest available consolidated banking data reveal that the restructuring and recapitalization efforts undertaken within the Spanish banking sector are beginning to show results, with Spanish banks showing improvement in liquidity, solvency, and efficiency ratios compared to their European peers.

In this context, we examine how these more favorable developments in Spain´s real economy and financial sector have helped to increase foreign investor confidence in Spain, as demonstrated by the increase in direct exposure to Spain by foreign banks from mid-2012 to mid-2013 relative to the previous period. Foreign banks have increased their holdings of public and bank debt, while corporate debt exposure continues to decrease, an obvious consequence of the on-going deleveraging process in this sector. Nevertheless, the fact that overall foreign holdings have gone down means additional effort is needed in Spain on an orderly, deleveraging process. To consolidate this incipient recovery, Spanish financial fragmentation must be decreased through progress on the European banking union.

Advances in financial regulation will have additional implications for the Spanish banking sector this year. 2014 marks the year of implementation in many countries of new, greater and more stringent international capital requirements under Basel III, and its subsequent introduction at the EU level. This *SEFO* examines how the transposition to Spain under Spanish law of the new standards should help consolidate the recent positive momentum of the Spanish financial sector by leading to a new Spanish Banking code, which will systematize and unify Spain´s overarching legislation on credit institutions, simplifying the regulatory burden and thus helping to enhance compliance.

On a related note, we highlight that in order to adapt to these new capital requirements and in the context of current deleveraging, many banks are going back to more conservative, traditional banking models. While this trend may improve the liabilities side of banks' balance sheets, Spanish banks, as well as banks in other countries, will have to transform their business models to face a more difficult post crisis operating environment. This will mean that Spanish banks must continue to boost cost and revenue efficiency to improve profitability, including through alternative channels alongside traditional efforts.

Despite the aforementioned advances in the real economy and financial sector, we analyze recent developments in two areas of the Spanish economy which are still experiencing significant problems– the housing and labor markets. New measures have been approved to address the devastating impact of the economic crisis on households through the protection of mortgagors. The main measures include the approval of the Code of Good Practices, the two year moratorium on evictions for particularly vulnerable households, and the creation of a Social Housing Fund for households that have lost their residence in a foreclosure process. Given the high eligibility requirements, there has been little recourse to the measures as a percentage of the outstanding problem. That said, softening these criteria would have adverse implications on banks´ balance sheets.

As regards the Spanish labor market, we study the impact of the 2012 Labor reform two years after its approval. We are finally starting to see some progress in net job creation, supported by wage moderation mostly in the construction and services sector and the decrease in active population. Nevertheless, on the whole, there has been little advancement on tackling the key issues of labor market duality, youth unemployment, and long term unemployment. In order to move forward, further efforts must be aimed at productivity gains through improving Spain's education system, as well as better active labor market policies.

The Spanish economy in 2013 and outlook for 2014

Ángel Laborda and María Jesús Fernández[1]

In a context of global economic stability, the Spanish economy is expected to continue its moderate recovery in 2014. While we expect some improvement in housing and credit market conditions, lack of progress on fiscal consolidation raises concerns over the outlook for public debt.

Following a year of lackluster global economic performance in 2013, looking forward, we see three major risks for the global economy: i) Potential instability arising from the Fed´s change in monetary policy stance, ii) Concerns over China´s financial system; and, 3) a resurgence of the Eurozone debt crisis. In Spain, the economy showed improvement in 2013 in key areas such as growth, employment, external accounts, competitiveness, and private deleveraging. There is still a long way to go in terms of correcting the structural deficit and subsequently public debt reduction. The progress in the financial sector restructuring and recapitalization process has also paved the way for a potential reactivation in lending, although constrained domestic demand and continued private deleveraging will limit potential upside in credit growth. We expect the favorable trends observed in 2013 to continue in 2014.

Introduction

2013 was a turning point for Europe's economies, including Spain's, although significant risks lie ahead in 2014. In Spain, after a faster than expected stabilisation in domestic demand and employment, GDP is projected to gradually recover and to be accompanied by moderate job creation. However, this does not mean that the crisis is over. Adjustments are still underway and the economy's growth capacity will remain limited for some time to come.

The following section of this article reviews the global economy's progress in 2013 and examines the risks it faces in 2014. The next two sections focus on examining Spain's economic performance and the forecasts for the year ahead. If the risks to the global economy do not materialise in the form of serious tensions, 2014 could be the year in which Spain's property market stabilises, there is a moderate recovery in credit, and the economy starts to create jobs. However, it could also be the year in which government debt surpasses the 100% of GDP threshold.

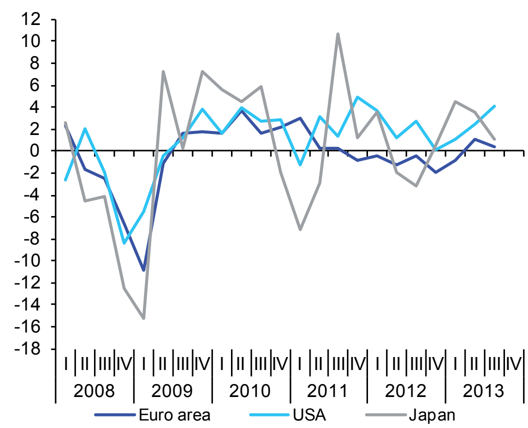
The global economy in 2013 and main risks for 2014

Global economic activity remained weak in 2013, both for developed and emerging economies,

[1] Economic Trends and Statistics Department, FUNCAS.

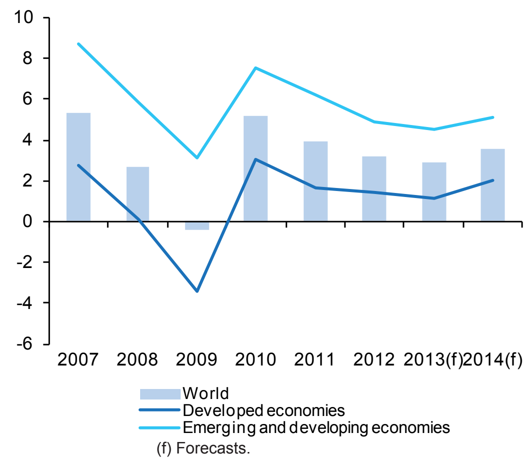
Exhibit 1
World economy

1.1 - GDP
Annualised quarterly change in %



Source: Eurostat.

1.2 - GDP
Change y-o-y in %



Source: IMF.

although in many ways the year was a turning point. Although data on the fourth quarter have not yet been published, the improvement in economic conditions appears to have gained traction in the advanced countries (Exhibit 1.1). The United States managed to sustain satisfactory growth rates–despite the automatic fiscal cuts that came into effect in March–and unemployment dropped to 7%. Japan, which also showed positive growth, changed the slant of its economic policy to make it more expansionary in both fiscal and monetary terms, in an effort to stave off deflation.

For its part, the euro zone emerged from the debt crisis, thanks to the European Central Bank's taking action in September 2012 to avert the possibility of a breakup of the euro. This paved the way for an emergence from recession in the second quarter of 2013, although there have been big differences in countries' performance. Meanwhile, Europe has made progress–albeit slowly–on the construction of a banking union, which includes a single supervisory and resolution mechanism for financial institutions. This mechanism is expected to be a key factor in overcoming the current financial market segmentation.

In the case of the emerging countries, while their capacity for growth still exceeds that of the developed countries, a number of factors seem to be leading to a permanent drop in their growth potential (Exhibit 1.2). China, in particular, is not expected to return to two-digit growth. The country has announced steps towards interest rate liberalisation and introducing an economic model in which market mechanisms play a bigger role.

Another event shaping the course of the year was the Federal Reserve's announcement in May that it might start tapering its monetary stimulus programme. This was subsequently confirmed in December. The announcement led to considerable uncertainty over the potential impact on emerging countries of the reduced global liquidity this measure would entail. The impact was felt in the summer, in the form of capital flight, falling exchange rates, and rising interest rates in the most vulnerable economies–i.e. those with the biggest current account deficits.

The withdrawal of monetary stimulus in the United States has the potential not only to cause instability in emerging economies, but also in global financial markets as a whole, through its impact on long-term interest rates in the advanced economies and on the value of the dollar. In short, the potential instability derived from this fundamental change in US monetary policy's 'great experiment' of recent years is one of the main risks facing the global economy in 2014.

Another risk arises out of the worrying state of China's financial system. This concern is due to the huge scale to which the 'shadow banking' system has grown and China's burgeoning bad debt problem against the background of rising borrowing levels in recent years.

Finally, a third risk is the possibility of a resurgence of the European debt crisis, which can still not be considered to be finally over. Despite 2013's improved scenario, financial markets have not yet returned to normal operation. Segmentation persists and there are lingering doubts about the health of Europe's financial institutions. On this point, the ECB is due to examine the major European banks again this year, and the results could be a fresh source of instability.

The Spanish economy in 2013

The state of the Spanish economy improved considerably over the course of 2013. This was partly due to the easing of the European debt crisis, which helped restore confidence, and the consequent drop in the risk premium and easier access to external financing. This ended the credit squeeze suffered throughout most of 2012. This improvement was also the result of the way economic cycle mechanisms have developed with the support of economic policy measures. Consequently, 2013 saw a stabilisation in domestic expenditure, after the relapse started in the second quarter of 2011, that continued over the eight following quarters.

Although the data on the final months of 2013 are still incomplete, the growth rate for the year as a whole can be estimated to have been -1.2% compared with the -1.6% registered the previous year. Although this performance was still negative, what is significant is that the quarter-on-quarter trend was positive. After a drop of 1.5% (on an annualised basis) in the first quarter, the growth rate turned slightly positive in the final two quarters. This is a key difference from 2012, when the trend became more negative as the year progressed (Exhibit 2.1).

Although in 2013 the performance of Spanish economic growth was still negative, what is significant is that the quarter-on-quarter trend was positive. This is a key difference from 2012, when the trend became more negative as the year progressed.

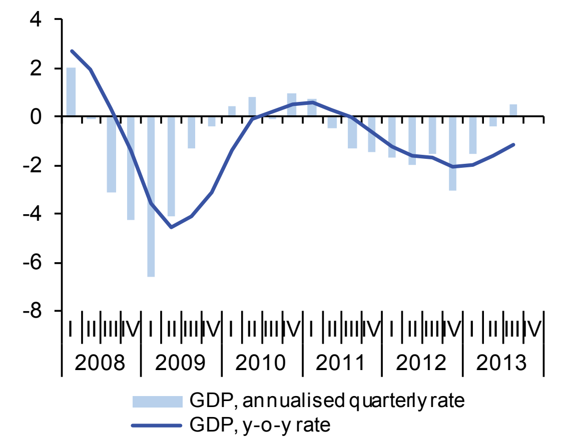
Broadly speaking, this upward quarterly trend has matched the forecasts, although the end result for the year as a whole was better than expected -in late 2012, FUNCAS forecast that GDP would contract by -1.6% in 2013, close to the consensus forecast, which estimated the contraction at -1.5%. The main reason for the forecasts' deviation from the final outcome was that they were made on the assumption that the fiscal adjustment would be more severe than was ultimately the case. Thus, in the forecasting exercises at the end of 2012 a public deficit of 5.6% of GDP was envisaged for 2013, while the final result, although not yet confirmed, is estimated to have been more than one percentage point higher. Another reason for the deviation from the provisions was the strong performance of tourism, which did significantly better than forecast.

Domestic demand's contribution to GDP growth was -2.9 percentage points, and that of the

Exhibit 2

Spanish economy: GDP and components

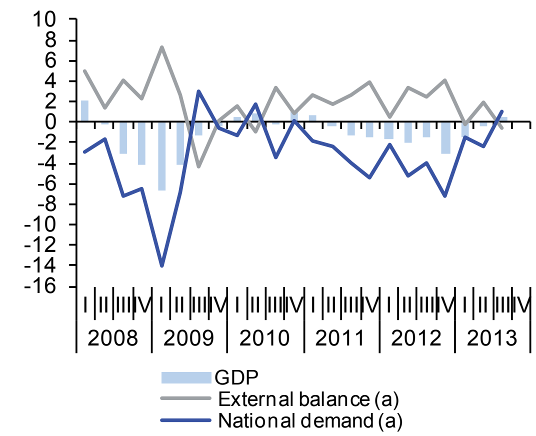
2.1 - GDP



Source: INE (Quarterly National Accounts).

2.2 - GDP, national demand and external balance

Annualised quarterly change in % and contribution in pp

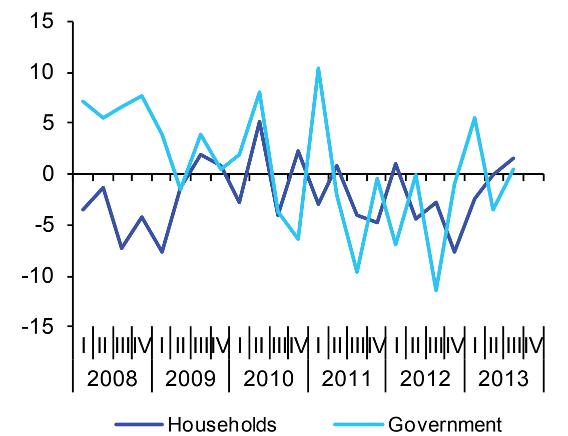


(a) Contribution to GDP growth in percentage points.

Source: INE (Quarterly National Accounts).

2.3 - Consumption

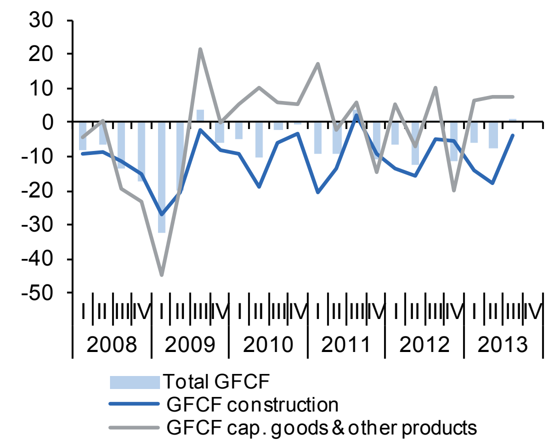
Annualised quarterly change in %



Source: INE (Quarterly National Accounts).

2.4 - Gross Fixed Capital Formation

Annualised quarterly change in %



Source: INE (Quarterly National Accounts).

external sector, 1.7 percentage points (Exhibit 2.2). Here there is a significant deviation from the year-end 2012 forecasts, which anticipated a more negative contribution from domestic demand and a more positive contribution from the external sector.

This difference was due to domestic demand's performing better than expected, as a result of the rapid stabilisation of consumption, which slowed its decline in the second quarter and began to post positive growth in the third. It was also driven by the unexpected recovery in machinery and equipment investments, which began to grow at the start of the year (Exhibits 2.3 and 2.4). The growth in public consumption was also significantly stronger than anticipated, particularly in nominal terms. However, this is not such a good result, as it indicates that efforts to cut the public deficit have ground to a halt. Nevertheless, the growth rates of all the foregoing variables were negative on a year-on-year basis.

Construction investment also stayed on a downward path throughout the year, and real-estate activity continued to contract. According to Ministry of Development figures, home sales over the period up to the third quarter fell by 9.8% compared to the same period the previous year, although the national statistics institute (INE) figures for transfer of property ownership estimated the drop to October at 0.8%. Housing prices also continued to fall, although the INE statistics registered a slight rise in the third quarter.

The continuous decline in property demand has resulted in a significant stock of unsold properties. This stock has hardly shrunk in recent years, although there may be big regional differences, such that while some areas have a substantial excess stock of possibly unsellable housing, in others the imbalance may be close to being corrected.

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Exports grew faster than projected, although imports did too, driven by rising investments in capital goods, and the less negative developments in other demand components. The more rapid than expected growth in imports largely explains why the external sector's contribution to growth fell short of expectations.

In annual terms, export growth outpaced import growth in 2013. Exports grew at an estimated 5.3% while imports grew at an estimated 0.1%. However, the fact that the quarter-on-quarter or month-on-month figures reveal a trend for import growth to outpace export growth since the second quarter is a cause for concern. This trend creates doubts as to the sustainability of the external sector's gains when domestic demand begins to pick up (Exhibit 3.1).

Compared to 2012, gross value added (GVA) in all sectors fell in 2013. However, the trend in quarter-on-quarter terms was positive both in industry and, particularly, in market services. In the case of the latter, the favourable trend in the trade, transport and hotel and catering sub-sector stands out, driven by the rise in foreign tourism - the inflow of tourists grew by 5.9% to November 2013 compared with the same period the preceding year, and tourist spending rose by 8.5%.

GDP's upward trajectory in 2013 was reflected in employment trends. According to National Accounts and Labour Force Survey (LFS) figures, job losses slowed as the year progressed, although data for the fourth quarter are not yet available. Indeed, the number of people registered with the social security system (based on figures for the whole year) began to grow in seasonally adjusted terms in September. In conjunction with the downward trend in the labour force, this has slowed the rise in the unemployment rate (Exhibits 4.1 and 4.2).

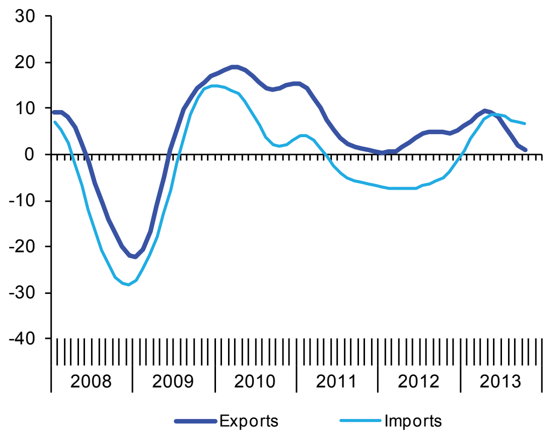
The services sector began to see a rise in social security registrations in May. This was partly due to the change in the trend in public-sector related employment–public administration, health, and education–but also a result of the strong performance of market services. Towards the end

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

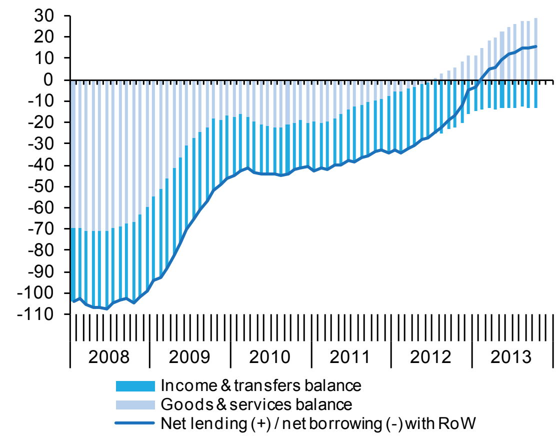
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy and FUNCAS.

3.2 - Balance of payments

EUR billion, cumulative last 12 months



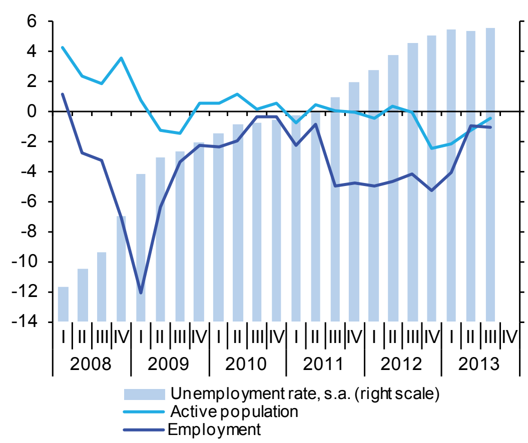
Source: Bank of Spain.

Exhibit 4

Labour market

4.1 - Employment and unemployment (LFS)

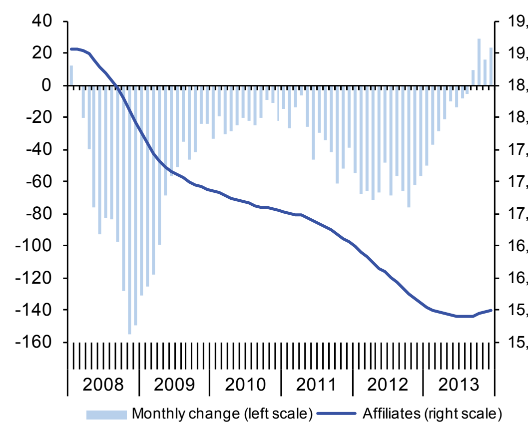
Annualised quarterly change and percentage



Sources: Ministry of Labour and FUNCAS.

4.2 - Social Security affiliates

Thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

of the year a slight month-on-month increase also began to be seen in employment in industry, and more surprisingly, in construction.

What is clear from the data is that employment at least stabilised in the second half of the year, outperforming forecasts, which did not anticipate a stabilisation until the first half of 2014.

These findings need to be interpreted with caution, however, as apart from the usual error margins in the seasonal adjustments, there is also the possibility that the seasonal pattern itself has undergone changes that might distort the figures. In any event, what is clear from the data is that employment at least stabilised in the second half of the year, outperforming forecasts, which did not anticipate a stabilisation until the first half of 2014.

According to the national accounts, compensation per employee rose by 0.5% in 2013. Given that productivity rose by approximately 2.2%, this implies a drop in unit labour costs (ULCs) of 1.7%. Since 2009, ULCs have fallen by 7% across the economy as a whole, and 15.7% in the industrial sector. This has enabled the Spanish economy to continue to regain cost competitiveness relative to the euro area. This process has progressed notably in the last few years: between 2009 and 2012 Spain's industrial sector regained 87% of the competitiveness in labour costs it had lost over the preceding decade (Exhibit 5.1).

Falling labour costs and weak demand explain why consumer price inflation has been moderate. Until June, levels remained relatively high, as a result of the step effect caused by various measures–including the VAT increase–to contain the public deficit, introduced during the summer of the previous year. However, the cancelling out of these effects in later months, together with the drop in the price of certain unprocessed foodstuffs–particularly fruit, which had become significantly more expensive in the first half of the year due to bad weather–caused the inflation rate to drop to -0.1% in October, although it ended the year in positive terrain at 0.3% (Exhibit 5.2).

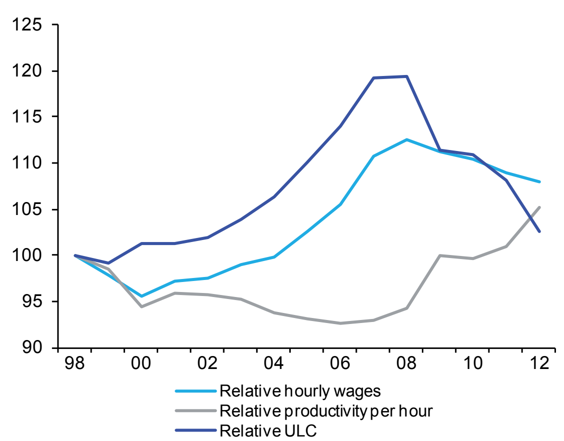
In the period up to October, the current account of the balance of payments posted a surplus of 4.2 billion euros, in contrast with the 15.3 billion euro deficit in the same period of 2012 or, even more so, with the 91.4 billion deficit in 2008. This positive result was due to the change in the sign of the goods and services trade balance, which has been positive and growing since mid 2012, and the reduction in the deficit in the income balance. The external imbalance has therefore been entirely corrected. This process is the main outward sign of the tough adjustment domestic demand has undergone since the start of the crisis (Exhibit 3.2).

Exhibit 5

Costs and prices

5.1 - Relative ULC Spain/Euro Area in manufacturing

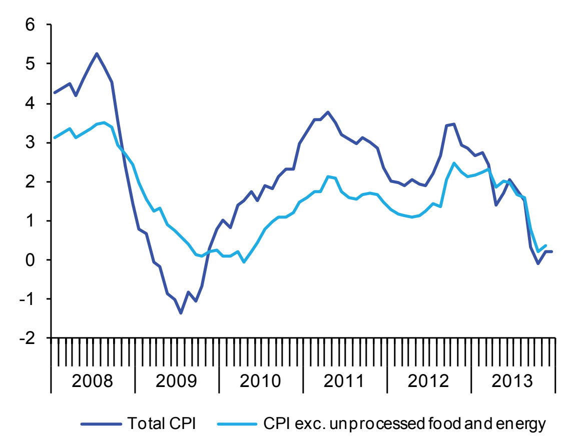
Iindex 1998=100



Sources: Eurostat and FUNCAS.

5.2 - Consumer Prices Index

Change y-o-y in %



Source: INE (CPI).

The financial balance of payments also turned a corner in 2013. As a result of the tensions deriving from the sovereign-debt crisis, the financial account, excluding the Bank of Spain, registered a negative balance of 254 billion euros in the period to August 2012. As of September that year, following the ECB's announcement of OMT operations, the crisis began to abate. This paved the way for a drop in the risk premium and the return of financial flows into the Spanish economy. Between January and October 2013 these inflows amounted to 45 billion euros (Exhibits 6.1 and 6.2).

From the point of view of the savings-investment balance, the correction in the current account deficit was the result of the increase in the savings rate and, above all, the drop in the rate of investment in the economy as a whole. By sectors, according to the data available up to the third quarter of 2013, the increase in the savings rate came from the private sector, particularly non-financial corporations, while public savings declined.

In the period to November, the State registered a deficit of 40,606 million euros, equivalent to 3.96% of GDP. This is almost four tenths of a percentage point more than in the same period the previous year and 0.16 percentage points over the target for 2013 as a whole. With data for the period up to October, the combined deficit of the central government, the social security system, and the autonomous regions–excluding losses on aid to financial institutions–came to almost 50 billion euros, or 4.87% of GDP. The target for 2013 for general government as a whole is 6.5%. However, it has to be taken into account that the seasonality of the last months of the year is highly negative, such that even though local government is expected to run a surplus of around 0.4% of GDP, it is highly likely that the target will be overshot. The final result could be close to the 6.8% registered in 2012, which would mean that almost no progress on fiscal consolidation was made in 2013. This deficit, plus the borrowing requirements deriving from substantial net financial operations, are likely to push up public debt by some ten percentage points of GDP, to 96%.

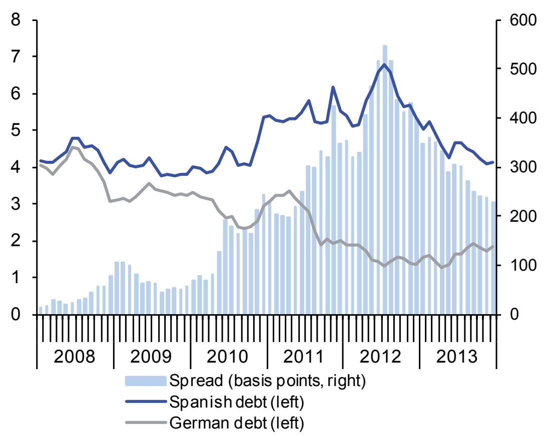
As a consequence of increased savings and reduced investment, households and non-financial corporations have generated a positive net lending position since the start of the crisis. In the case of the former, this net lending position, as a

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

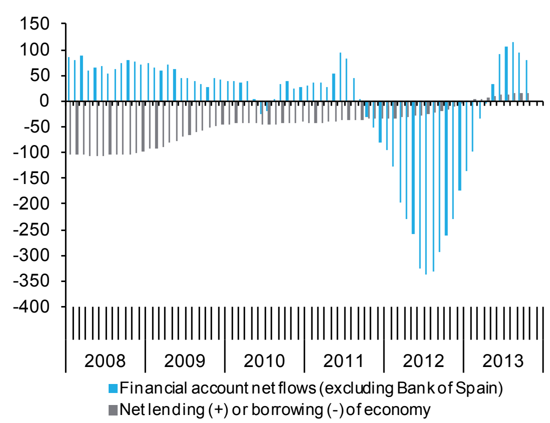
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - Balance of payments

EUR billion, cumulative last 12 months



Source: Bank of Spain.

percentage of GDP, peaked in the last quarter of 2009 –as a moving average of four quarters– and since then has been on downward trend, although it rose again in the first three quarters of 2013. The net lending position of non-financial corporations also followed an upward path until September.

This financial surplus on the part of households and businesses is necessary to correct the high level of private debt, which is one of the biggest imbalances that built up in the Spanish economy during the last growth phase. In the second quarter of 2013, household debt came to 79.9% of GDP, compared with a peak of 87.4% in mid-2010. Non-financial corporations' debt ratio stood at 128.3% of GDP, which is 16 points below the peak, which was also reached in mid 2010 (Exhibit 7.1). By contrast, public debt has risen relentlessly since the start of the crisis, climbing to 93.4% of GDP in the third quarter of 2013 (Exhibit 7.2), making this one of the Spanish economy's most worrying recent trends.

The recovery in cost competitiveness and reduction in private debt over the course of 2013 meant progress continued to be made on correcting some of the most significant imbalances that had built up in the economy. In the case of the adjustment of domestic demand, it is likely that the process has now come to an end, although barely any progress has been made on reducing the stock of unsold housing, and there is still a long way to go in terms of correcting the general government structural deficit.

Noteworthy progress has also been made in the process of cleaning up and reorganising financial institutions. In addition to bringing losses out into the open, increasing provisions and recapitalising banks over the last two years, there has also been a significant reduction in the loan-to-deposit ratio, which came to 1.4 in September, compared to a peak of 2.02 in 2007. Although partly driven by an increase in deposits, this has mainly been due to a reduction in lending, which has allowed institutions to deleverage. This has shown up in the sharp drop in recourse to Eurosystem financing, which had dropped by 35% year-on-year in December 2013.

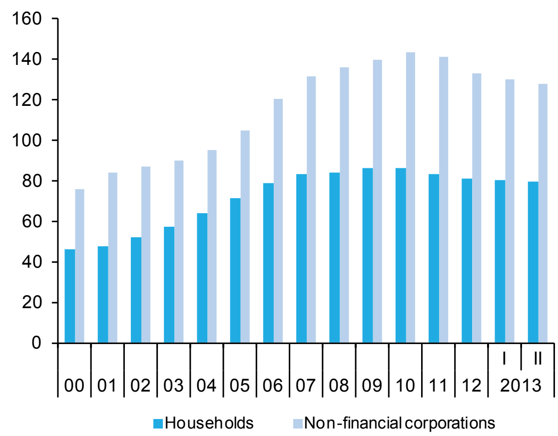
As a result of this progress on cleaning up the financial system, the supply side limitations on credit growth are beginning to ease and financial

Exhibit 7

Financial imbalances

7.1 - Private sector indebtedness

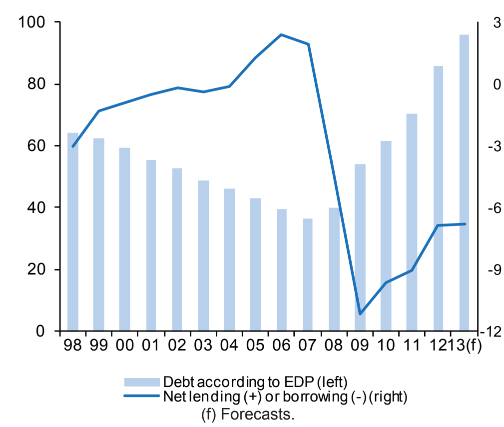
Percentage of GDP



Source: Bank of Spain (Financial Accounts).

7.2 - Government balance (exc. financial entities bail-out) and debt

Percentage of GDP



Sources: Bank of Spain and FUNCAS.

institutions may soon be in a position where they are able to step up their lending. A first sign of this could be the timid growth in new credit to businesses that began to be seen in the third quarter of 2013. However, it is still too early to say whether this represents a permanent trend change.

As a result of this progress on cleaning up the financial system, the supply side limitations on credit growth are beginning to ease and financial institutions may soon be in a position where they are able to step up their lending.

In any event, there are still significant demand side constraints on the capacity for credit growth, as the private sector as a whole still needs to reduce its debt further. Consequently only a moderate increase can be expected, limited to those sectors of the population and businesses that have scope for debt or viable projects.

Outlook for the Spanish economy in 2014

The GDP growth forecast for 2014 is 1% (Table 1 and Exhibits 8.1 and 8.2). Domestic demand will continue to make a negative contribution, but less so than in 2013. Meanwhile, the external sector's contribution will be positive, but significantly smaller than last year.

The conditions are not yet right for a strong recovery in private consumption, although its deterioration has possibly bottomed out. Although job creation in 2014 will be moderate, households' gross disposable income will only rise slightly in real terms. Moderate growth is therefore expected for this component of demand - the forecast for the year as a whole being 0.7%. The progress of public consumption is more uncertain, however, as it depends on government decisions. This forecast scenario has assumed it will drop at an annualised 1.3% (Exhibit 8.3).

Investment in equipment will recover slightly, with growth of 1.4% driven by the need to replace capital and ramp up production capacity in the export sector. Although the availability of credit will improve, it will remain limited. The main source of business finance will continue to be companies' own funds.

The property market may stabilise over the course of the year in terms of both sales and prices. This will make it possible to speed up the process of absorbing the excess stock of unsold housing. Nevertheless, this stock will remain considerable, such that investment in residential construction will continue to contract, although at a slower pace. However, it is possible that in regions where the surplus was smaller the process of absorbing the excess is more advanced. Consequently, residential investment could be close to bottoming out in some areas.

Exports will continue to grow at a similar rate to 2013, while imports will rise by 2% driven by stronger consumption, and investment in equipment, in particular. This will reduce the external sector's contribution to growth.

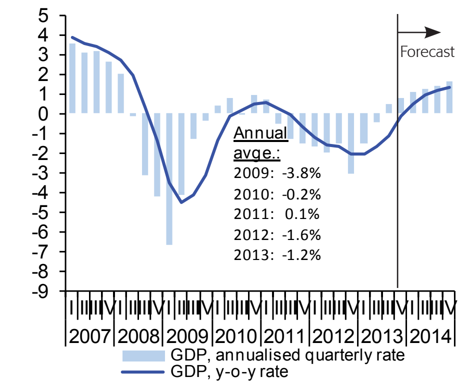
The cutbacks businesses have made to their workforce since the start of the crisis, and the greater labour market flexibility ushered in by the successive reforms, will allow jobs to be created even with moderate GDP growth. Employment is expected to grow, in national accounts terms, in the first quarter of 2014, although only modestly. Nevertheless, the annual growth rate will be negligible. The annual average unemployment rate will drop by around one percentage point, to 25.4% (Exhibit 8.4), as the labour supply will continue to contract, primarily as a result of emigration.

Although productivity will rise much more slowly than in recent years, unit labour costs will continue

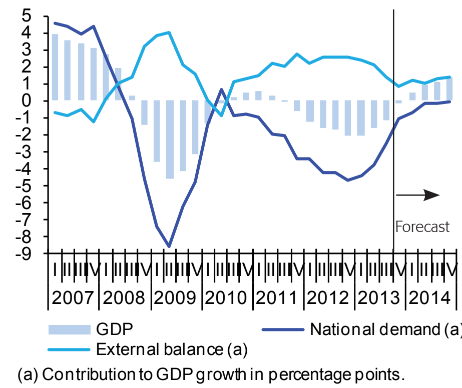
Exhibit 8

Economic forecasts for Spain, 2013-2014
Change y-o-y in %, unless otherwise indicated

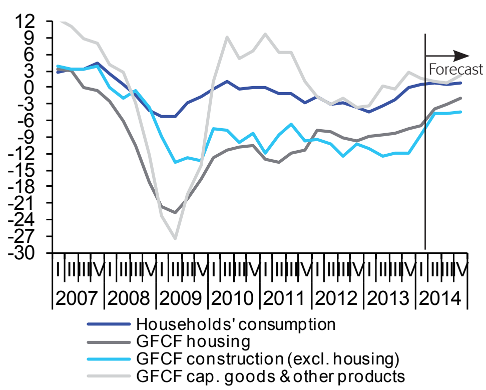
8.1 - GDP



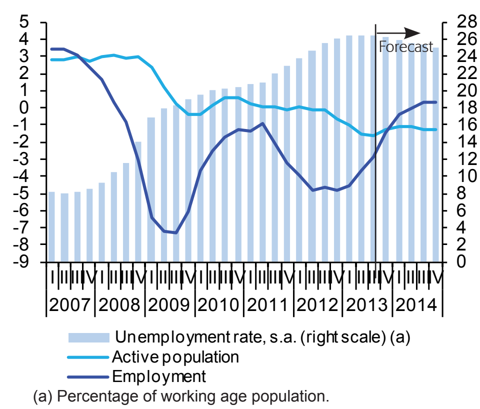
8.2 - GDP, national demand and external balance



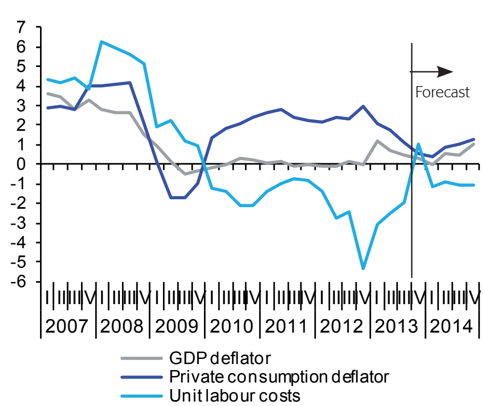
8.3 - National demand aggregates



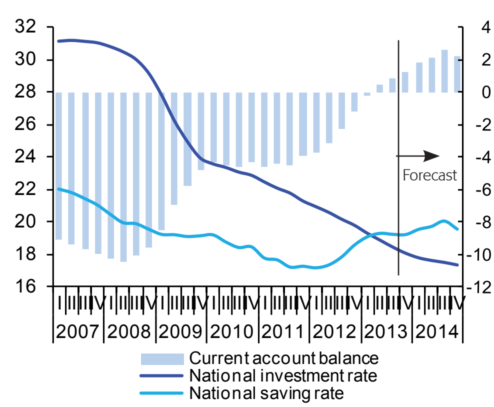
8.4 - Employment and unemployment



8.5 - Inflation



8.6 - Saving, investment and c/a balance (% GDP, 4MA)



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

Table 1

Economic forecasts for Spain, 2013-2014

Annual rates of change in %, unless otherwise indicated

	Actual data			FUNCAS forecasts		Change in forecasts (a)	
	Average 1996-2007	2011	2012	2013	2014	2013	2014
1. GDP and aggregates, constant prices							
GDP	**3.7**	**0.1**	**-1.6**	**-1.2**	**1.0**	**0.0**	**0.0**
Final consumption households and NPISHs	3.8	-1.2	-2.8	-2.5	0.7	0.1	0.4
Final consumption general government	4.3	-0.5	-4.8	-1.2	-1.3	0.9	0.3
Gross fixed capital formation	6.2	-5.4	-7.0	-6.3	-2.2	-0.1	-0.1
Construction	5.6	-10.8	-9.7	-10.3	-4.9	0.0	-0.1
Residential construction	7.3	-12.5	-8.7	-8.4	-4.0	0.0	0.0
Non-residential construction	4.2	-9.2	-10.6	-11.8	-5.6	0.0	-0.1
Capital goods and other products	7.4	5.8	-2.6	-0.3	1.4	-0.2	0.0
Exports goods and services	6.7	7.6	2.1	5.3	5.4	-0.3	-0.6
Imports goods and services	9.3	-0.1	-5.7	0.1	2.0	0.3	0.1
National demand (b)	**4.5**	**-2.1**	**-4.1**	**-2.9**	**-0.3**	**0.2**	**0.2**
External balance (b)	-0.8	2.1	2.5	1.7	1.2	-0.2	-0.3
GDP, current prices: - € billion	--	1,046.3	1,029.0	1,023.2	1,038.3	--	--
- % change	7.4	0.1	-1.7	-0.6	1.5	-0.2	-0.4
2. Inflation, employment and unemployment							
GDP deflator	3.6	0.0	0.0	0.7	0.5	-0.1	-0.4
Household consumption deflator	**3.1**	**2.5**	**2.5**	**1.4**	**0.9**	**-0.1**	**-0.5**
Total employment (National Accounts, FTEJ)	3.3	-2.2	-4.8	-3.4	0.0	0.0	0.4
Productivity (FTEJ)	0.4	2.3	3.3	2.2	1.0	0.0	-0.4
Wages	7.2	-0.7	-5.6	-3.7	-0.3	0.2	0.7
Gross operating surplus	7.3	1.9	1.6	1.8	3.4	-0.6	-1.6
Wages per worker (FTEJ)	3.2	1.3	0.2	0.5	-0.1	0.0	0.1
Unit labour costs	2.8	-1.0	-3.0	-1.7	-1.1	0.0	0.5
Unemployment rate (LFS)	**12.2**	**21.6**	**25.0**	**26.4**	**25.4**	**0.0**	**-0.4**
3. Financial balances (% of GDP)							
National saving rate	22.2	17.3	18.5	19.1	19.5	-0.8	-0.7
- of which, private saving	18.9	22.6	23.1	24.0	23.8	-0.7	-0.5
National investment rate	26.6	21.2	19.8	18.0	17.3	-0.1	0.1
- of which, private investment	23.1	18.3	18.0	16.7	16.2	-0.1	0.0
Current account balance with RoW	**-4.4**	**-4.0**	**-1.2**	**1.1**	**2.2**	**-0.7**	**-0.7**
Nation's net lending (+) / net borrowing (-)	-3.4	-3.5	-0.6	1.8	2.8	-0.7	-0.7
- Private sector	-2.6	6.1	10.1	9.1	8.8	-0.5	-0.7
- Public sector (general government deficit)	**-0.9**	**-9.6**	**-10.6**	**-7.3**	**-6.0**	**-0.2**	**0.0**
- General gov. deficit exc. financial instit. bailouts	**--**	**-9.1**	**-6.8**	**-6.8**	**-6.0**	**0.0**	**0.0**
Gross public debt	53.5	70.4	85.9	95.9	101.2	0.4	0.7
4. Other variables							
Household saving rate (% of GDI)	12.0	12.6	10.4	10.6	10.6	-0.3	-0.2
Household gross debt (% of GDI)	82.5	124.5	122.6	117.8	112.4	0.2	0.2
Non-financial coporates gross debt (% of GDP)	82.1	141.3	133.5	125.3	118.4	-1.1	-4.3
Spanish external gross debt (% of GDP)	92.5	166.7	167.8	162.9	156.5	-1.8	-1.5
12-month EURIBOR (annual %)	3.7	2.0	1.1	0.5	0.6	0.0	-0.1
10-year government bond yield (annual %)	5.0	5.4	5.9	4.6	4.1	0.0	0.0

(a) Change between present and previous forecasts, in percentage points.

(b) Contribution to GDP growth, in percentage points.

Sources: 1996-2012: INE and Bank of Spain; Forecasts 2013-14: FUNCAS.

to fall. As regards inflation, the anticipated modest recovery in consumption will be insufficient to exert upward pressure on prices, while the pressures on the costs side will remain constrained. The rate of price increases is therefore expected to remain low, at below 1% (Exhibit 8.5).

The current account balance, which in 2013 turned a surplus of almost 1% of GDP, will rise by 2.2% in 2014 (Exhibit 8.6). The economy as a whole will present a net lending position vis-à-vis the rest of the world of 2.8% as a result of a private sector financial surplus of 8.8% of GDP and a public sector deficit of 6% of GDP.

Public debt will surpass the 100% of GDP threshold. This is a worrying level not just because of the onerous burden in terms of interest payments it represents, but also because of the rollover risk in the event of a resurgence of the debt crisis, as mentioned, a risk that cannot be entirely ruled out.

The Spanish banking sector: A comparison with its European peers

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

A recent comparison of Spanish banks with their European peers reveals their improvement in key structural and performance indicators. However, as highlighted by the Troika, challenges and downside risks remain.

The end of 2013 represented the end of the financial assistance program to Spain. The IMF, the European Commission and the ECB have published their last review and concluded that the program has been successful, although some remaining challenges, such as macroeconomic downside risks and regulatory and supervisory issues, must still be addressed. Overall, the situation of Spanish banks has improved. They are now among the best performers in European stock markets over the last year. Additionally, Spanish banks (including nationalized lenders) are enjoying improved access to debt markets, thereby reducing their dependence on ECB funding. Finally, a comparison of Spanish banks with their European peers in 2013 reveals that, in the context of improved market conditions and the structural improvements resulting from the restructuring and recapitalization process, Spanish banks are among the most efficient, have shown the largest increase in profitability, and are rapidly converging to the top in terms of liquidity and solvency.

The end of the financial assistance program

There have been very important developments surrounding the Spanish banking sector at the end of 2013 and the beginning of 2014. These months have represented, inter alia, the end of the external review process of the country as part of the financial assistance received by the EU to Spanish banks, the start of the privatization process for some nationalized banks, and a significant improvement in market conditions and subsequently in Spanish banks´ performance.

A first important event took place on December 16th, 2013, when the International Monetary Fund, the European Commission and the European Central Bank issued their final report on the abovementioned assistance program.

As for the IMF,[3] the report highlighted the achievement of all the goals that had been established in the Memorandum of Understanding (MoU) and stressed the relevance of recent advances in supervision, such as the forward-looking analysis of Spanish banks conducted by the Bank of Spain (Carbó and Rodríguez, 2013).

[1] Bangor Business School and FUNCAS.

[2] University of Granada and FUNCAS.

[3] http://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/InformacionInteres/ReestructuracionSectorFinanciero/Arc/Fic/fmi161213en.pdf

The IMF considered that such asset quality analyses are crucial ahead of the comprehensive asset quality review and independent stress tests that the ECB is going to undertake in November 2014.

The IMF valued positively the fact that the implementation of the MoU has been critical to take actions to address actual and potential capital shortfalls. It also suggested that a clearer EU framework be put in place to reduce uncertainty about the necessary backstop to cover these potential shortfalls in Spain, as in other countries, and the role that should be given to the European Stability Mechanism in this respect.

The report also suggested that segregating certain types of real estate-related assets of state-supported Spanish banks into a specialized asset management company (SAREB) has been very important to clean-up balance sheets, as well as to adjust prices in the real estate market. According to the IMF, it will still be necessary to adopt plans to restructure or resolve state-supported banks within a few years. The banking union is considered a preferable means to achieve this objective, in line with the proposals for adopting reforms to Spain's framework for bank resolution, regulation, and supervision to "enhance financial stability and better protect the taxpayer."

The IMF estimates the financial reform in Spain has improved financial stability and investor confidence, and the data presented later on in this note supports this view. As in other areas of Spanish economic policy-making, it seems essential to maintain the "reform momentum" as banks and lending are needed to reinforce the economic recovery process. In order to improve the current situation, the IMF suggested to include continued pro-active monitoring and supervision. It also pointed to a combination of strategies to improve the financial conditions of banks and to accelerate their deleveraging such as adequate provisioning and further asset disposals, "helping to free space on banks' balance sheets for new lending."

Another key challenge noted is the need to keep improving bank solvency, in particular taking advantage of "buoyant equity markets to boost share issuance, restraining cash dividends, and supporting profits through further efficiency gains–rather than relying on credit contraction to support capital ratios."

The IMF acknowledged that all these challenges will be difficult to achieve without significant further progress on banking union and continued monetary policy support to help reduce financial fragmentation, ease credit conditions, and assist the recovery.

As for the statement of the ECB and the EC it was jointly released, also on December 16th, 2013. The report clearly recognizes that Spanish financial markets have further stabilized, stock prices have growth substantially and sovereign bond yields have fallen sharply. This situation should allow Spanish banks to enjoy improved access to funding markets. Like the IMF, the ECB and EC also refer to bank solvency, but they suggest that "the solvency position of banks has remained comfortable after the recapitalization of parts of the banking sector, the transfer of assets to SAREB (the Spanish asset management company) and overall positive earnings results over 2013 so far."

One key issue mentioned in the ECB and EC report was the recent legislation on deferred tax assets that will permit banks to increase their solvency and face the new capital regulations under much better conditions.

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The ECB and the EC –as well as the IMF– also consider that compliance with the horizontal policy requirements in the MoU has been fully achieved. However, they also refer to macroeconomic weakness and uncertainty as one of the main potential downside risks for Spanish banks. Again, deleveraging in the private sector and debt burdens in the public one are mentioned as barriers to further improvement in financial conditions.

In line with the IMF, the ECB and the EC also estimate that the combination of asset deleveraging and higher capital requirements will restrict financial intermediation in Spain over the coming years.

Overall, the latest review reports of the Troika (IMF, ECB, EC) made a positive evaluation of the financial reform in Spain and considered the implementation process finished, although some measures and challenges are, of course, established as long-term. Importantly, the implementation of these reforms and financial assistance measures represent a break from the extremely difficult conditions faced by the Spanish financial sector in mid-2012 and the more favorable situation currently enjoyed by Spanish banks today.

Momentum for Spanish banks?

Two excerpts from articles published in the *Financial Times* before and after the EU financial assistance program for Spanish banks are illustrative of the changes in market perception about the Spanish financial system:

May 29th, 2012: *"Investors sold Spanish banking stocks for a second day amid growing concern that Madrid would not be able to prop up the debt-laden sector on its own. Bankia led falls in Spain, dragging the benchmark Ibex 35 index down to a nine-year low."*[4]

January 9th, 2014: *"Shares in Spanish banks have surged over the past year as international investors regained confidence that the eurozone's fourth-largest economy would not have to request a full-scale international rescue to contain its borrowing costs."*[5]

Indeed, the financial situation of Spanish banks has significantly changed for the better. Exhibit 1 shows stock returns for the main listed banks in major Eurozone countries (Germany, France, Italy, and Spain). Even if the starting points may be ones of deterioration in market value for banks in peripheral countries, the increase in stock returns for Spanish banks (with an average improvement of 25% for the top-5 banks), as well as for those in Italy or France, clearly outperforms German banks over the last year.

Naturally, there are downside risks (as noted in the external reviews of the Troika) but as long as this momentum continues, Spanish banks will be in a better position to get funding in capital markets and to face the comprehensive asset quality assessment by the ECB towards the end of 2014. This assessment has been considered as a milestone in European banking and opinions on the final outcome for Spanish banks are diverse. For example, in its latest review of the financial reform in Spain, the IMF mentions "that the Spanish economy still undergoes a process of private-sector deleveraging and fiscal consolidation that can restrain the pace of recovery, with concomitant challenges for bank profitability (…) Other uncertainties for the sector arise from unknowns regarding the methodology of the forthcoming European bank asset quality review and stress test, as well as the unwinding of the state's ownership interest in intervened banks over the next few years."

Similarly, the report of the ECB and the EC suggests that it is also important for Spanish banks

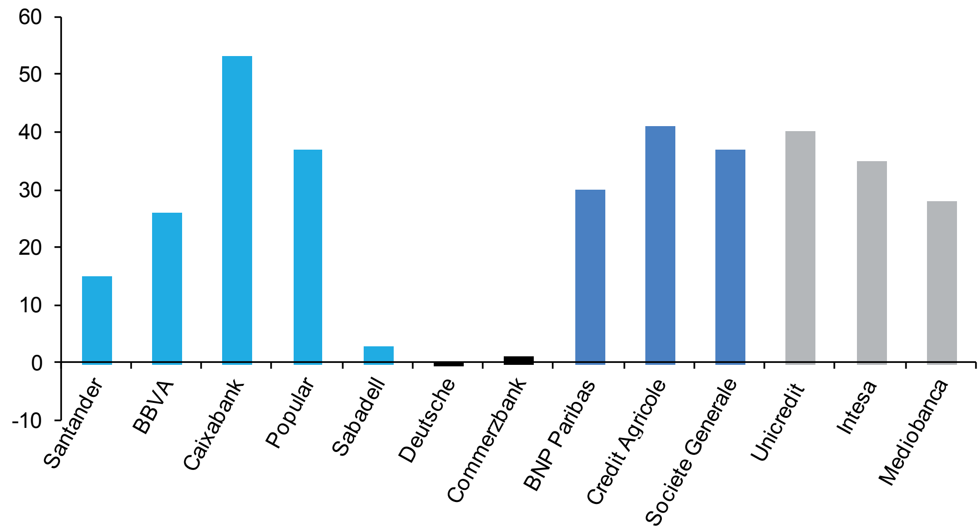
[4] http://www.ft.com/cms/s/0/b4ab767a-a97c-11e1-9972-00144feabdc0.html#ixzz2pzUQ4Jb3

[5] http://www.ft.com/cms/s/0/9587f3c6-7924-11e3-b381-00144feabdc0.html#ixzz2pzUCSWVv

Exhibit 1

One-year return on stock markets of some listed European banks

(Jan 2012-Jan 2013)



Source: Bloomberg and own elaboration.

to ensure a proper preparation of the pending assessment of banks' balance sheets by the ECB and "policy makers and supervisors in particular will need to continue devoting close attention to the banks currently owned by FROB, in order to ensure proper governance and business models for these banks going forward."

The paradox is that given that the Spanish banking sector has gone through the most intensive recapitalization and restructuring process within the EU, it is probably in better shape than some European peers to face the ECB's comprehensive assessment. Moreover, the methodological aspects of the assessment will be determined by the same external consultant (Oliver Wyman) who was in charge of the stress tests conducted on Spanish banks within the MoU. The potential strength of Spanish financial intermediaries lies in the fact that they have already gone through a tough process of scrutiny and have also significantly progressed on restructuring and recapitalization. This is in contrast to most of continental Europe, where partial recapitalization with almost no restructuring has typically been the norm.

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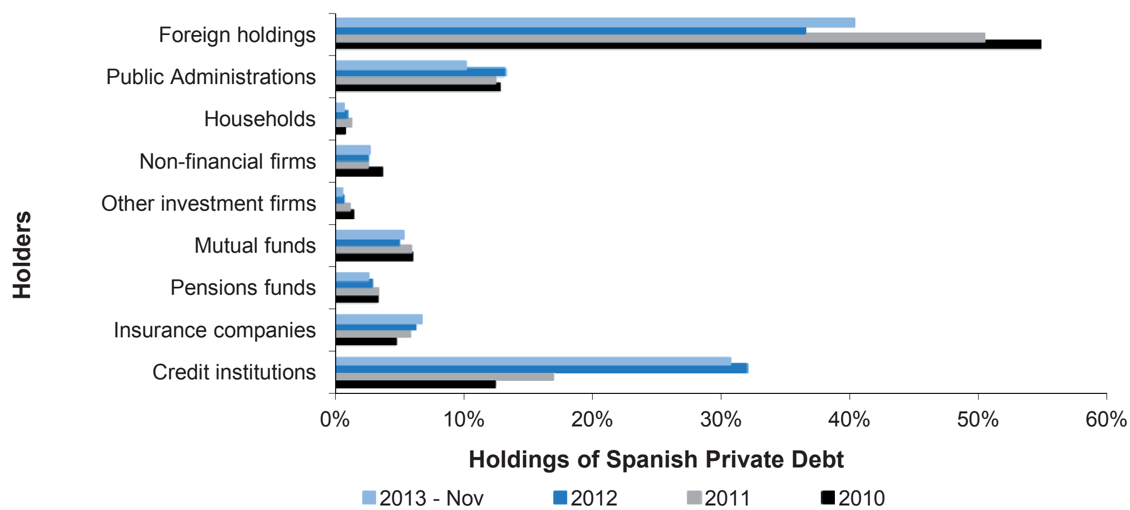
In any case, one of the most common elements of criticism on Spanish banks ahead of the ECB's comprehensive assessment refers to the holdings of public debt. However, these holdings seem to have been declining in 2013 with respect to 2012 from around 34% to 30% of total holdings (Exhibit 2). Importantly, they have declined by

Exhibit 2

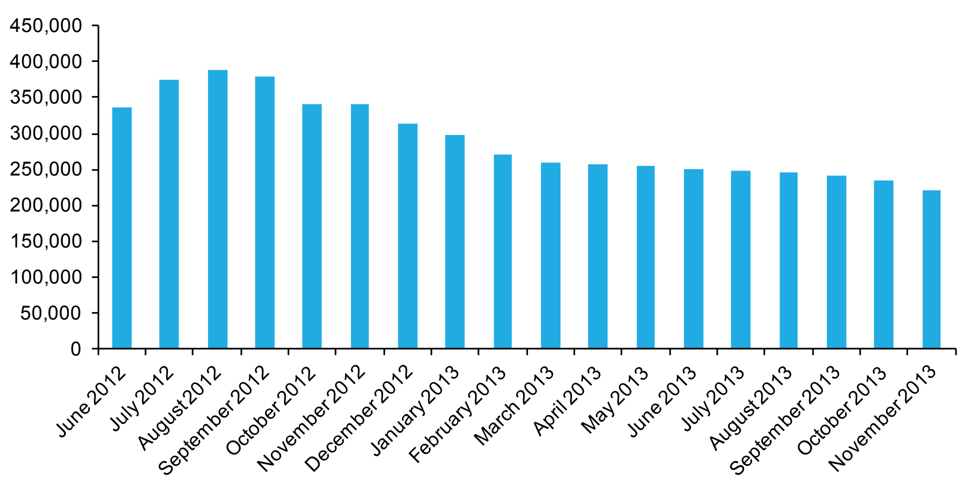
Spanish public debt: % of total holdings by owner



Source: Spanish Treasury and own elaboration.

Exhibit 3

Net borrowing in euro from the Eurosystem
(million of euros)



Source: Bank of Spain and own elaboration.

around 16 billion euros from August to November. Furthermore, the interest in sovereign debt is not exclusive to banks as foreign investors have also augmented their holdings of Spanish public debt from 36% to 41% of total outstanding debt in circulation.

Additionally, the holdings of public debt are closely linked to the refinancing transactions of Spanish and other European banks in the ECB. However, the improved access to external funding by Spanish banks in the recent months has significantly reduced their dependence on ECB financing. As shown in Exhibit 3, from January to November 2013 alone (latest data available) the net borrowing by Spanish banks in the Eurosystem fell by 78 billion euros (from 298.6 to 220.5 billion). From August 2012 to November 2013, the fall has been 168 billion euros.

It should also be noted that it is still unclear how public debt holdings on banks' balance sheets will be treated in the comprehensive assessment conducted by the ECB. However, improved market conditions are helping Spanish banks to diversify their sources of financing with better access to debt markets. One prominent example is the recent issuance of debt by some of the nationalized banks. In particular, Bankia launched in January a senior unsecured bond and allocated 1 billion euros with demand 3.3 times higher than supply. Additionally, BMN also allocated 0.5 billion euros in covered bonds with demand 3 times higher than supply. The case of Bankia is also interesting as improvements in its market valuation are permitting the Spanish Fund for the Orderly Restructuring of Banks (FROB) to significantly reduce the latent losses from the capital injection into Bankia.

Spanish banks *vs.* European peers

In order to better understand how the restructuring and recapitalization process has affected Spanish banks, it is helpful to compare the main structure and performance indicators with their European peers. We make use of the consolidated banking data of the ECB to undertake this analysis. We compare June 2013 (the latest data point available) with June 2012 and compare Spain with 14 other European countries. All banks operating in each country are considered, including the subsidiaries of foreign banks.

Table 1 shows the total number of credit institutions and their total assets. The number of intermediaries has been falling in Spain. In particular, from 200 credit institutions in 2012 to 183 in 2013. There were 68 domestic banking groups in 2012 and 64 in 2013 and foreign-controlled branches and subsidiaries stood at 109 in both years. The number of institutions has been falling in most European countries, although they have generally followed a slower path compared to Spain. Germany has the largest number of credit institutions (1,697 in 2013) given the large number of regional and local banks. In any event, among the countries analyzed, only Austria (along with Germany) has a larger number of credit institutions (692 in 2013) than Spain. Spanish banks represent 15% of the total population of EU-28 banking groups and 19% of the Eurozone groups.

As for size, the Spanish banking sector is the fourth largest of the EU-28 with 3.5 trillion euros in assets in 2013, following the UK (7.2 trillion euros), Germany (7.1 trillion euros), and France (6.5 trillion euros). The assets of Spanish banks represent 10% of total EU-28 banks' assets and 14% of Eurozone banks' assets.

A selection of profitability and efficiency indicators are shown in Table 2. Banks operating in Spain have the largest net interest income in 2013 among the big European banking sectors. In particular, 1.70% of total assets in Spain, 1.40% in Italy, 1.05% in France, 0.90% in the UK and 0.76% in Germany. As for operating expenses, they are in line in Spain with other European counterparts at 1.41% of total assets. The cleaning-up of the Spanish banking sector is expressed by the percentage of impairment losses over total assets. This ratio went from 1.57% in 2012 to 0.98% in 2013. In 2013, impairment losses were also high in Italy (0.84%) and relatively lower in France (0.24%) and Germany (0.15%).

A key competitive feature of banks in Spain is their cost-to-income ratio which is, by far, the lowest among other large sectors in the EU. The ratio was

Table 1

Number of credit institutions and total assets in the European Union

		EU-28	Euro area	BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	FI	SE	UK
Stand alone credit institutions	June 13	4,191	2,969	11	84	1,643	22	23	119	ND	0	36	137	84	648	104	44	166
	June 12	4,249	3,024	11	100	1,663	24	29	132	NC	0	35	136	83	663	102	41	170
Banking groups	June 13	420	330	6	6	54	4	7	64	17	60	3	4	5	44	4	14	11
	June 12	430	351	5	6	56	7	11	68	18	66	4	2	5	45	6	14	11
Credit institutions	June 13	4,611	3,299	17	90	1,697	26	30	183	17	60	39	141	89	692	108	58	177
	June 12	4,679	3,375	16	106	1,719	31	40	200	18	66	39	138	88	708	108	55	181
Domestic credit institutions	June 13	3,593	2,621	11	86	1,622	3	9	74	15	50	5	13	27	629	79	26	89
	June 12	3,651	2,676	10	101	1,640	4	11	91	15	56	6	10	28	641	79	20	91
Foreign-controlled subsidiaries and branches	June 13	1,018	678	6	4	75	23	21	109	2	10	34	128	62	63	29	32	88
	June 12	1,028	699	6	5	79	27	29	109	3	10	33	128	60	67	29	35	90
Total assets of credit institutions in the sample (EUR billions)																		
Domestic credit institutions	June 13	34,426.14	24,654.90	504.94	767.16	7,087.35	281.75	366.38	3,486.54	6,514.41	2,539.73	45.36	88.04	2,345.19	820.72	149.54	1,584.89	7,192.85
	June 12	36,935.67	26,259.18	553.69	814.68	7,806.02	373.43	338.49	3,713.27	6,660.93	2,633.65	83.26	90.68	2,534.12	873.81	147.58	1,640.41	8,007.85
of which:																		
Large	June 13	25,366.18	16,423.53	221.99	634.34	3,723.67	0.00	NA	2,464.90	6,402.09	1,680.36	NA	NA	1,930.52	NA	NA	1,407.46	6,900.86
	June 12	27,292.30	17,437.95	445.63	665.16	4,229.07	0.00	NA	2,514.62	6,370.48	1,784.58	NA	NA	2,093.57	NA	NA	1,479.83	7,709.36
Medium-sized	June 13	7,958.31	7,264.96	279.70	108.92	2,617.00	281.75	364.89	993.88	106.20	847.35	43.71	83.35	411.30	696.61	133.76	161.72	256.42
	June 12	8,515.94	7,820.46	105.64	118.54	2,806.21	373.43	336.10	1,167.70	289.14	834.83	81.00	86.48	437.36	749.33	132.51	149.25	265.12
Small	June 13	1,101.66	966.42	3.26	23.90	746.68	0.00	1.49	27.75	6.13	12.01	1.65	4.70	3.37	124.11	15.79	15.71	35.58
	June 12	1,127.43	1,000.77	2.43	30.98	770.74	0.00	2.38	30.94	1.32	14.23	2.26	4.20	3.19	124.48	15.07	11.33	33.37
Foreign-controlled subsidiaries and branches	June 13	7,499.35	4,017.81	519.96	107.91	295.09	614.78	12.96	268.52	224.88	238.45	31.30	668.79	229.20	304.72	379.85	102.69	2,658.58
	June 12	8,922.48	4,792.39	610.41	117.91	479.33	718.16	70.38	312.95	241.92	259.01	37.08	698.64	302.88	314.71	504.21	100.64	3,345.89

Sources: ECB and national central banks, and own elaboration.

Table 2

Country-level indicators: Profitability and efficiency indicators

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Income (% of total assets)																	
Interest income	June 13	3.94	2.58	2.40	1.54	4.30	3.43	2.38	2.84	5.54	1.69	4.05	3.32	3.57	1.14	2.13	1.84
	June 12	4.58	2.74	2.89	1.76	5.50	3.70	2.66	3.33	5.33	2.25	4.36	3.68	4.52	1.29	2.43	1.86
Net interest income [full sample]	June 13	1.28	1.14	0.76	0.55	1.99	1.70	1.05	1.40	2.33	0.58	1.21	1.66	1.08	0.63	1.01	0.90
	June 12	1.20	1.11	0.71	0.54	2.33	1.78	1.08	1.58	2.31	0.65	1.10	1.64	1.41	0.46	0.96	0.84
Total operating income [full sample]	June 13	2.13	1.68	1.52	1.05	6.07	2.82	2.09	2.84	-0.55	1.49	1.58	3.10	2.17	1.13	1.59	2.10
	June 12	1.50	1.67	1.31	0.71	2.60	2.64	2.12	2.89	2.93	1.32	1.58	3.19	2.70	1.03	1.52	1.77
Expenditure structure (% of total assets)																	
(Total operating expenses)	June 13	-1.21	-1.00	-1.07	-0.67	-1.80	-1.41	-1.41	-1.74	-1.68	-0.71	-1.00	-2.22	-1.46	-0.62	-0.86	-1.33
	June 12	-1.11	-0.99	-0.98	-0.65	-1.80	-1.27	-1.42	-1.74	-1.46	-0.66	-1.00	-2.09	-1.42	-0.51	-0.82	-1.17
Profitability (% of total assets)																	
Operating profits [full sample]	June 13	0.91	0.68	0.44	0.38	4.27	1.41	0.68	1.10	-2.23	0.78	0.58	0.88	0.71	0.51	0.72	0.77
	June 12	0.39	0.69	0.33	0.06	0.80	1.36	0.71	1.15	1.47	0.66	0.58	1.10	1.28	0.51	0.70	0.61
(Provisions) [full sample]	June 13	-0.01	0.00	NC	-0.00	-0.01	-0.14	-0.02	-0.04	-0.02	-0.01	-0.02	-0.02	-0.09	NC	0.01	-0.29
	June 12	0.07	0.00	NC	-0.01	-0.12	-0.15	0.00	-0.03	-0.01	-0.02	-0.01	-0.01	0.06	NC	0.01	-0.32
(Impairment) [full sample]	June 13	-0.17	-0.31	-0.15	-0.69	-2.02	-0.98	-0.24	-0.84	-1.26	-0.09	-0.25	-0.51	-1.30	-0.03	-0.08	NC
	June 12	-0.20	-0.48	-0.12	-0.97	-3.57	-1.57	-0.27	-0.83	-4.23	-0.03	-0.23	-0.38	-1.23	-0.04	-0.09	NC
Profitability and efficiency indicators [full sample]																	
Cost-to-income ratio [%]	June 13	-57.1	-59.3	-70.9	-63.7	-67.3	-50.0	-67.6	-61.0	306.8	-47.9	-63.2	-71.6	-67.2	-54.7	-54.4	-63.4
	June 12	-74.0	-59.0	-74.8	-92.0	-69.3	-48.2	-66.6	-60.3	-49.9	-50.1	-63.3	-65.5	-52.6	-50.1	-53.8	-65.8
Return on equity [%]	June 13	9.4	5.6	5.6	-4.5	ND	8.0	6.8	1.3	-44.2	8.5	5.3	3.3	-7.3	8.5	11.2	7.0
	June 12	3.1	2.7	4.4	-14.2	ND	-4.2	7.1	1.9	-40.4	8.8	5.7	8.3	0.9	9.5	11.8	3.5
Return on assets [%]	June 13	0.56	0.30	0.20	-0.30	ND	0.49	0.35	0.10	-3.56	0.55	0.24	0.25	-0.47	0.37	0.51	0.37
	June 12	0.15	0.13	0.13	-0.85	ND	-0.23	0.34	0.13	-2.16	0.51	0.25	0.58	0.05	0.36	0.50	0.18

Sources: ECB and national central banks, and own elaboration.

A key competitive feature of banks in Spain is their cost-to-income ratio which is, by far, the lowest among other large sectors in the EU. The ratio was 50% in 2013, compared to 70.9% in Germany, 67.6% in France, 63.4% in the UK, and 61% in Italy.

50% in 2013, compared to 70.9% in Germany, 67.6% in France, 63.4% in the UK, and 61% in Italy.

The effects of the restructuring and recapitalization process can also be seen by looking at profitability indicators. The return-on-assets (RoA) of banks in Spain has gone from -0.23% in 2012 to 0.49% in 2013. This is also the largest among similar-size peers with banks in Germany showing an RoA of 0.20%, 0.10% in Italy, 0.35% in France, and 0.37% in the UK. This relative better performance of banks in Spain during 2013 can be explained, inter alia, by the combination of the restructuring and recapitalization process, the financial deleveraging process, and the improvement of market conditions.

As for specialization, Table 3 displays the weight of some balance sheet items as a percentage of total assets. Total loans and advances represent 64.63% of assets in Spain, a level of specialization in lending activities which is comparable to that of Italian banks (66.82%), being a bit lower in Germany (60.67%), France (56.16%) and the UK (40.17%), countries where investment banking has a higher weight in relation to retail activities.

In the previous section, we elaborate on the holdings of public debt by Spanish banks. Table 3 offers some insight on total holdings of debt (private and public) and show that banks in Spain are at similar levels as other EU peers. In particular, total debt instruments were 17.12% of banks' assets in Spain in 2013, being 24.20% in the UK, 18.66% in Germany, 18.06% in Italy, and 12.48% in France.

Another key indicator in Table 3 is the funding base stability ratio, defined as "the ratio of total deposits (other than from credit institutions) to the sum of total deposits and total debt certificates". This ratio measures the liquidity risk by looking at the weight of the more stable funding sources (deposits) over total funding. Interestingly, this ratio was 68.12% in Spain compared to 60.86% in France, 60.46% in the UK, 59.16% in Germany, and 55.01% in Italy.

Table 4 shows a number of asset quality indicators. The main indicator is the ratio "total doubtful and non-performing loans (including debt securities) per total loans and advances and total debt instruments. One interesting feature of this indicator is that it does not only look at non-performing loans but also to the quality of other debt indicators. The ratio was 6.69% in Spain in 2013, lower than in Italy (11.68%) but larger than in France (4.52%), Germany (1.86%) and the UK (1.86%).

Taking as a reference the Tier 1 capital ratio, we observe that banks in Spain have increased their solvency from 9.65% in 2012 to 10.76% in 2013. This shows that the recapitalization process has put banks in Spain at similar solvency levels as other European peers with the Tier 1 ratio being 10.92% in Italy, 12.64% in France, 13.18% in the UK and 14.78% in Germany.

Finally, we compare the solvency status in the EU banking sectors in Table 5. Taking as a reference the Tier 1 capital ratio, we observe that banks in Spain have increased their solvency from 9.65% in 2012 to 10.76% in 2013. This shows that the recapitalization process has put banks in Spain at similar solvency levels as other European peers with the Tier 1 ratio being 10.92% in Italy, 12.64% in France, 13.18% in the UK and 14.78% in

Table 3

Country-level indicators: Selected balance sheet items

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Assets of reporting banks (% of total assets)																	
Total loans and advances [full sample]	June 13	63.99	69.85	60.67	41.45	68.87	64.63	56.16	66.82	79.38	70.04	71.96	71.09	72.48	47.00	70.07	40.17
	June 12	58.20	67.35	60.17	41.80	72.62	67.63	54.02	67.09	77.23	67.83	68.99	70.70	74.07	36.89	62.54	38.06
Total debt instruments [full sample]	June 13	18.29	13.45	18.66	15.17	17.28	17.12	12.48	18.06	9.80	20.13	10.93	15.56	16.71	11.35	10.36	24.20
	June 12	17.28	12.84	17.83	16.38	13.89	13.45	12.55	15.24	11.64	18.05	10.35	15.52	15.54	8.39	10.24	22.66
Total equity instruments [full sample]	June 13	0.52	0.58	3.54	0.17	0.47	0.93	2.94	1.00	0.35	1.73	0.96	1.15	1.03	0.61	1.91	2.13
	June 12	0.45	0.46	2.91	0.33	0.35	0.96	2.06	0.95	0.32	1.47	1.03	1.16	0.78	0.51	1.27	1.70
Value of equity																	
Total equity (as % of total assets) [full sample]	June 13	5.99	5.32	4.42	6.56	7.86	6.14	5.10	7.05	8.04	6.51	4.50	7.52	6.37	4.35	4.57	5.30
	June 12	4.83	4.73	3.86	5.98	ND	5.40	4.81	6.87	5.34	5.76	4.29	7.02	5.95	3.74	4.21	5.00
Tangible Equity / Tangible Total assets	June 13	5.75	4.87	4.17	6.45	7.19	5.01	4.44	5.56	7.96	6.34	4.29	6.93	6.14	4.25	4.10	4.70
	June 12	4.62	4.28	3.62	5.88	ND	4.39	4.08	5.39	4.84	5.59	4.06	6.36	5.71	3.66	4.21	4.44
Liquidity ratios (% of total assets)																	
Cash and trading assets ratio	June 13	14.39	NC	32.85	41.45	5.70	11.97	31.98	9.49	9.28	6.85	14.93	7.95	3.70	NA	26.14	49.15
	June 12	20.29	NC	36.09	39.53	5.66	12.79	31.70	11.32	8.17	10.71	16.49	8.69	3.98	NA	27.22	51.48
Cash	June 13	25.84	NC	39.56	48.66	9.50	22.43	37.72	20.90	11.67	19.94	23.27	16.78	17.27	NA	28.36	NA
	June 12	31.15	NC	41.93	45.62	12.48	20.66	37.27	20.57	11.26	21.02	24.11	17.26	15.16	NA	28.92	51.48
Funding base stability ratio (denominator other than total assets)	June 13	71.99	33.70	59.16	57.11	84.67	68.12	60.86	55.01	66.59	45.24	59.71	58.09	70.27	43.67	44.70	60.46
	June 12	68.81	31.42	55.88	54.23	77.11	66.01	59.54	51.88	76.74	40.55	55.90	55.75	65.59	38.47	42.42	56.57

Sources: ECB and national central banks, and own elaboration.

Table 4

Country-level indicators: Asset quality indicators

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Doubtful and nonperforming loans and loss provisions (%)																	
(Gross) Total doubtful and non-performing loans (loans and debt securities) per Total loans and advances and Total debt instruments	June 13	4.98	3.98	1.86	16.78	21.86	6.69	4.52	11.68	18.83	NA	2.55	4.60	7.57	0.70	0.78	1.86
	June 12	4.62	3.67	1.92	0.00	15.60	5.98	4.57	10.20	13.82	NA	2.63	4.26	6.36	0.81	0.90	2.06
(Net) Total doubtful and non-performing loans (loans and debt securities) per Total own funds for solvency purposes	June 13	47.05	31.44	NA	106.00	143.49	58.29	34.19	86.26	110.66	NA	25.28	13.71	40.61	NA	8.49	6.62
	June 12	44.34	47.98	NA	NA	NA	34.89	35.21	73.65	122.78	NA	26.71	17.54	38.04	NA	9.29	9.36
Total loss provisions per Total (Gross) Doubtful and Non-Performing Loans	June 13	28.28	42.63	NA	51.65	48.67	43.53	48.64	39.53	47.32	NA	35.82	72.34	54.08	NA	38.65	66.42
	June 12	27.31	8.23	NA	NA	50.26	61.12	51.28	38.43	44.89	NA	36.13	64.37	51.34	NA	40.22	61.36

Sources: ECB and national central banks, and own elaboration..

Table 5

Solvency indicators

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Solvency ratios																	
Overall solvency ratio	June 13	18.83	19.29	18.36	20.20	11.67	11.97	14.65	13.85	14.65	22.16	14.73	14.85	13.12	15.83	12.23	18.15
	June 12	17.50	16.93	16.47	19.12	NA	11.43	13.52	13.32	9.72	20.82	14.05	13.73	12.28	15.27	11.84	16.44
Tier 1 ratio	June 13	16.30	17.63	14.78	17.38	11.38	10.76	12.64	10.92	13.24	19.08	12.78	11.53	11.71	15.00	11.18	13.18
	June 12	14.81	15.13	12.82	16.70	NA	9.65	12.52	10.43	8.78	17.61	12.15	10.59	11.04	14.57	11.15	11.75
Capital buffer (%)	June 13	10.83	11.29	10.36	12.20	3.67	3.97	6.65	5.85	6.65	14.16	6.73	6.85	5.12	7.83	4.23	10.15
	June 12	9.50	8.93	8.47	11.12	NA	3.43	5.52	5.32	1.72	12.82	6.05	5.73	4.28	7.27	3.84	8.44
Capital requirements (% of capital requirements)																	
Total capital requirements for credit dilution and delivery risks	June 13	84.53	83.72	85.34	80.92	89.43	85.80	84.42	85.80	88.46	90.47	68.94	88.24	90.51	81.29	55.33	66.68
	June 12	85.65	83.07	85.10	82.66	87.14	87.46	85.63	85.91	90.10	88.80	71.39	88.02	91.26	86.76	60.05	65.97
Total capital requirements for position	June 13	7.01	8.71	5.27	1.16	2.98	3.93	4.69	1.89	1.94	0.88	2.68	2.62	1.63	1.59	3.16	7.75
	June 12	9.07	11.58	9.41	2.70	1.16	4.33	3.30	NA	1.82	8.68	0.22	2.93	1.83	2.89	1.58	3.56
Total capital requirements for operational risks	June 13	10.08	9.33	9.55	4.82	7.59	10.17	9.74	9.54	9.13	6.36	8.86	9.17	7.32	8.48	6.51	10.43
	June 12	0.20	9.18	9.29	5.69	8.94	8.95	9.60	8.89	9.12	6.52	8.35	9.03	7.18	7.57	6.37	10.13
Other capital requirements	June 13	1.14	-0.13	0.02	9.45	0.00	0.19	0.99	2.93	0.00	2.52	19.44	0.12	0.69	4.74	34.84	2.02
	June 12	NA	-0.13	0.01	6.94	0.01	0.36	0.00	3.48	0.00	3.89	17.07	0.04	0.02	0.15	29.86	0.72

Sources: ECB and national central banks, and own elaboration.

Germany. It is important to note that Spanish banks have been able to further increase their solvency ratios beyond the period shown in the exhibit. In particular, with the regulations approved towards the end of 2013 that will permit Spanish banks to increase their own funds by around 30 billion euros after considering the effects of deferred tax assets. Additionally, some anecdotal evidence from the “Banking structures report” published by the ECB in November 2013 suggests that Spain´s banks are reducing the risk profile of their assets at a faster pace. In particular, since the financial assistance program was established in Spain, the decline in risk-weighted assets which took place in Spain was a reduction of 223 billion euros in 2012 alone.

Overall, the indicators reveal that the restructuring and recapitalization of the Spanish banking sector is bearing fruit. Banks in Spain have maintained their competitive advantage, being among the most efficient EU banking sectors, are among the best performers in terms of profitability, and have improved their liquidity and solvency ratios substantially over the last two years. Nevertheless, the post crisis operating environment, characterized by deleveraging and more stringent regulatory requirements, will mean that Spanish banks must continue to boost cost and revenue efficiency to improve profitability.

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Foreign banks' exposure to Spain: The return of investor confidence

Joaquín Maudos[1]

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Recent data point to improved confidence in the Spanish economy and financial sector. In particular, increased direct exposure to Spain by foreign banks from mid-2012 to mid-2013 relative to the previous 12 month period is proof that the country has gone from a situation of capital flight to one in which foreign investor confidence in the Spanish economy is returning.

The episode of capital flight observed in Spain in the wake of the sovereign debt crisis seems to be coming to an end as investors return to the Spanish market. Global banking system exposure to both Spanish public and bank debt appears to have recovered in the twelve months subsequent to the ECB´s pledge to support the euro in mid-2012. The improvement in the outlook for the public debt has translated into a reduction in Spain´s risk premium. Corporate debt exposure, however, continues to decline as a logical consequence of the necessary deleveraging process. While these developments give cause for cautious optimism, foreign banks on the whole have still reduced their exposure to Spain in cumulative terms since the summer of 2011. Moreover, to reduce borrowing rates in a meaningful way, further improvement in investor confidence and rapid progress on banking union are needed.

The Spanish economy has passed a turning point in recent months, allowing it to emerge from the recession in which it had been mired for several years. There is a variety of evidence to support that this change has occurred. For instance: GDP rose in the third and fourth quarters of 2013 after nine consecutive months of contraction; the unemployment rate fell; the current account recorded a surplus after several years of deficit; external debt is down from mid-2013 levels; and the risk premium has fallen to well below its peak in mid-2012.

Alongside these indicators there is one that clearly shows that confidence in the Spanish economy has improved in recent months - the recovery in foreign investment in Spain, in terms of both foreign direct investment and portfolio investment. Thus, compared with a capital flight of 158 billion euros in financial assets between 2010 and 2012, between January and October of 2013, external portfolio investment in Spain was -6.8 billion euros. While remaining negative, this represents a dramatic shift in confidence in Spain. In the case of direct investment, in 2013 the figure to October had risen by 56% on the same month in 2012.

This improvement in confidence in the country's economy can be expected to extend to the banking sector, now that the economy is emerging from

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recession and the financial assistance programme is drawing to a close, against the backdrop of the major restructuring and balance sheet clean-up undertaken. Indeed, as indicated by both the IMF and the European Central Bank/European Commission in their report on the fifth and final review of the financial assistance programme for Spain in December 2013, "Spanish banks are gradually regaining access to financial markets," which is of itself an indicator of investors' improved confidence in the Spanish banking sector. In addition, several Spanish banks recently placed capital with foreign investors and one of the bailed-out institutions managed by the FROB has been sold to a foreign bank. Moreover, in the first days of 2014, even two of the nationalized banks have been able to issue bonds at lower than expected prices.

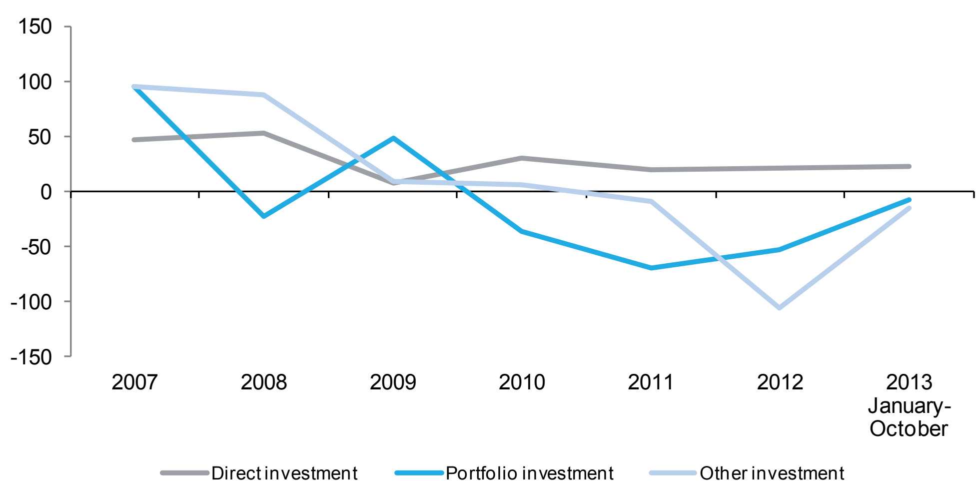
In this context, this article aims to use Bank for International Settlements (BIS) information to analyse recent changes in the world's main banking sectors' exposure to Spain. The BIS has produced quarterly information on third-country debt holdings on bank balance sheets since 2010, allowing banks' exposure to foreign debt to be analysed country by country. It is of particular interest to examine whether the improvement in confidence in the Spanish economy as shown by the data on foreign investment in Spain also shows up in third-country banks' holdings of Spanish debt (issued by companies, banks or the public sector). To do so, the change in foreign banks' exposure to Spain from June 2011 to June 2012 in the wake of the sovereign-debt crisis has been analysed and quantified, and compared with the subsequent period from June 2012 to June 2013. The conclusion drawn from these two sub-periods is that Spain has gone from a situation of capital flight to one in which foreign banks' confidence in the Spanish economy is returning.

Recent trends in foreign investment in Spain

After the outbreak of the crisis in mid-2007 foreign portfolio investment in Spain fell sharply. As Exhibit 1 shows, in 2008 alone, the situation switched from one in which foreign investors held

Exhibit 1

Foreign investment in Spain
Billions of euros



Source: Bank of Spain.

almost 100 billion euros in investments in Spain to a net negative investment position of 22 billion euros, with the consequent capital flight. Foreign portfolio investment recovered in 2009, but only briefly, as the net divestment between 2010 and 2012 was 159 billion euros, equivalent to more than 15% of GDP.

In the case of direct investment, levels since 2009 have hovered around 20 billion euros, slightly less than half their pre-crisis level. It is in 2013 that the trend change became perceptible, with investment from January to October 2013 (23.4 billion euros) 56% up on the same period of 2012 (15 billion euros).

As well as portfolio and direct investment, there is a third type of investment that mainly comprises deposits, loans and repos. The situation for this type of investment also improved in 2013. Thus, from foreign investment in Spain (excluding the Bank of Spain, whose investment basically comprises the banks' recourse to Eurosystem financing) between January and October 2012 of -119.7 billion euros, the figure has improved to -15.2 billion euros in the same period of 2013.

Foreign banks' investments in Spain

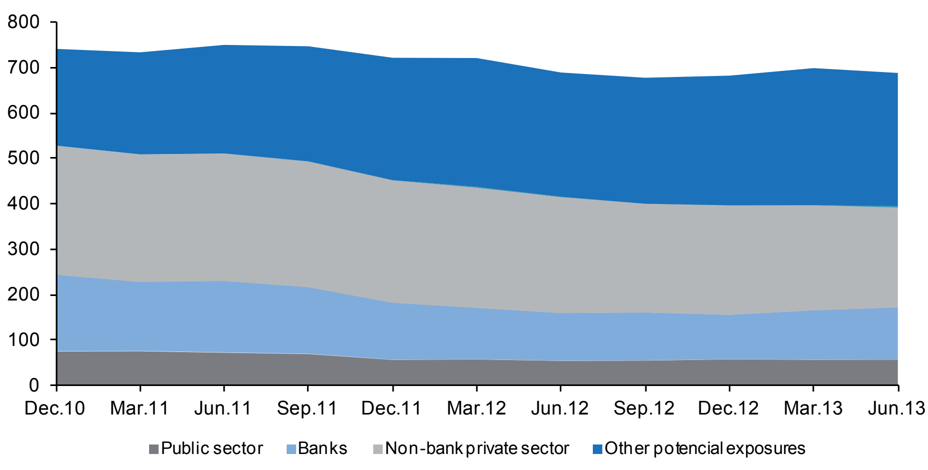
The BIS database on "consolidated foreign claims and other potential exposures-ultimate risk basis" gives information from 2010 to June 2013 (most recent data available) on the exposure of banks in 24 countries (the world's leading economies) to debt issued by third countries. This makes it possible to analyse what banking sectors hold the debt issued by a specific country and what countries a particular banking sector invests in. The BIS data includes direct exposures (foreign claims), with data broken down into debt issued by the public sector, banks, and non-financial corporations, and indirect exposures (other potential claims): derivatives, guarantees and other commitments.

Exhibit 2 shows how the global banking system's exposure to the Spanish economy has changed.[2]

Exhibit 2

Foreign banks' exposure to Spain

Billions of euros



Source: BIS and author's calculations.

[2] The BIS data is denominated in dollars. The monthly exchange rate at the end of the period has been used to convert it to euros.

In the case of direct exposure in the form of the purchase of debt instruments, current values are 25% lower than in 2010, with a drop in absolute terms of 132 billion euros, such that the total Spanish debt held by foreign banks in June 2013 came to 397 billion euros. The decline in the global banking system's exposure to Spain began in 2011 with the outbreak of the sovereign-debt crisis following Greece's first bail-out. Thus, in June 2011 exposure to Spain had dropped by 18%, with a 95 billion euro reduction in the debt –equivalent to almost 10% of GDP– in just a year.

There was a clear turning point in mid-2012, as Europe's financial stability improved after the president of the ECB famously pledged to "do whatever it takes" to save the euro. Thus, between June 2012 and June 2013 the global banking system's exposure to Spain fell by 5% or 20 billion euros, less than a sixth of the drop a year earlier.

The breakdown by debt type shows the steepest drop in exposure to Spain since the start of the sovereign-debt crisis to be in the case of bank debt, as foreign banks' holdings of bank debt fell by 28%. This drop continued until mid-2012. Since then, it has recovered, with an increase of 9.4% (9.7 billion euros).

The world's banks also reduced their holdings of Spanish public debt, with a drop of 25% between June 2011 and June 2012, and a recovery of 5% in 2013. Foreign banks' appetite for Spanish public debt began to return in the summer of 2012, in line with the figures from the Treasury on holdings of Spanish public debt by non-residents, which increased by 25% between August 2012 and June 2013, and have increased by 31% since October 2013. Again, the turning point came in the summer of 2012 with the ECB's firm commitment to the euro.

The global banking system's exposure to Spanish corporate debt has continued to decline steadily since mid-2011, with the contraction accelerating over the last twelve months. This process is logical considering Spanish businesses' high level of debt and the necessary deleveraging underway. The debt issued by Spanish businesses held by foreign banks therefore dropped by 60 billion euros between June 2011 and June 2013.

In the case of indirect exposures to Spain, current levels are 22% higher than before the sovereign debt crisis broke out. This is due to the increase in guarantees, the value of which has grown by slightly more than 50%, to reach 227 billion euros today. These figures put foreign banks' total exposure to Spain at 687 billion euros, 8% less than in June 2011.

Disaggregation by countries

Which banking sectors have the biggest exposures to debt issued by the Spanish economy? To help answer this question, Exhibit 3 shows the ranking of Spain's creditor countries ranked from greatest to least exposure. In terms of total exposure (foreign claims and other potential exposures), US banks have the biggest exposure to Spain, at 196 billion euros, equal to 28.6% of the total. The United States is followed in magnitude by the United Kingdom (120 billion euros), Germany (119.5 billion euros) and France (103 billion euros), with shares of 17.5%, 17.4% and 15%, respectively. These four banking sectors consequently account for 90% of the Spanish economy's foreign debt held by foreign banks.

US banks' high exposure is mainly explained by the guarantees it has vis-à-vis Spanish debt, with other potential exposure representing 90% of its total exposure to Spain.

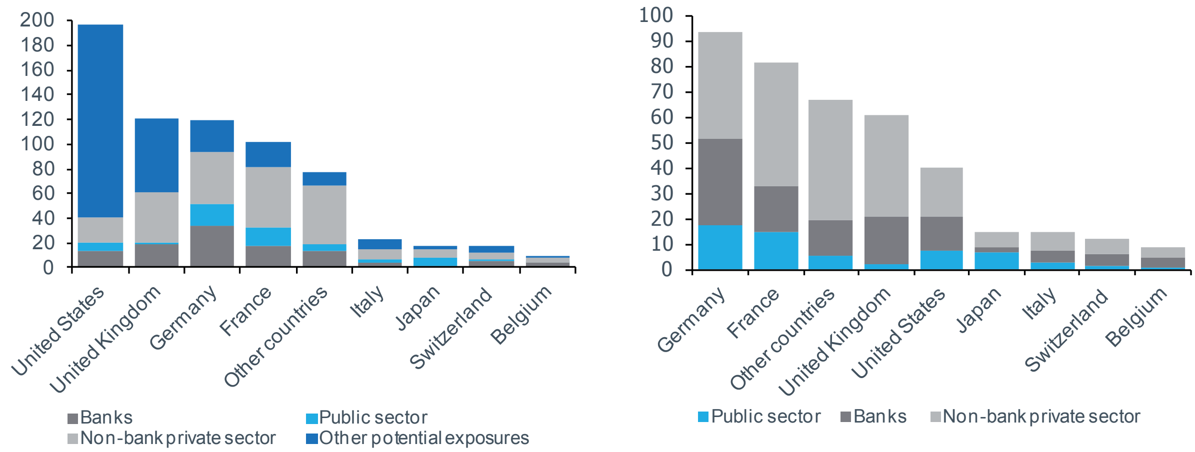
Focusing on direct exposure in the form of debt purchases, panel b of Exhibit 3 shows German banks to be the most exposed to Spain (23.5% of the total), with a debt of 93 billion euros. Banks in France, the United Kingdom and the United States follow Germany's banks in terms of their exposure

Exhibit 3

Foreign banks' exposures to Spain. June 2013

Billions of euros

a) Total (Foreigns claims+other potential exposures) **b) Foreign claims**



Source: BIS and author's calculations.

to Spain, with totals of 82 (20.8%), 61 (15.4%) and 40 (10.1%) billion euros, respectively. These four countries account for 70% of the Spanish economy's foreign debt held by foreign banks.

Looking at the data by debt type, German banks held the bulk of foreign banks' 58.4 billion euros of Spanish public debt, with 17.5 billion euros, or 30% of the total, on their balance sheets. French banks have the second largest exposure (15%), holding 15 billion euros of Spanish public debt. US and Japanese banks are further behind (with 7.5 billion euros and 6.6 billion euros, respectively), and the exposure of Italian banks (2.8 billion euros) and UK banks (2 billion euros) to the Spanish public sector is relatively small.

In terms of direct exposure in the form of debt purchases, German banks are the most exposed to Spain (23.5% of the total), with a debt of 93 billion euros. Banks in France, the United Kingdom and the United States follow Germany's banks in terms of their exposure to Spain, with totals of 82 (20.8%), 61 (15.4%) and 40 (10.1%) billion euros, respectively. These four countries account for 70% of the Spanish economy's foreign debt held by foreign banks.

In the case of foreign banks' holdings of debt issued by Spanish banks, of the total of 113 billion euros, 30% has been bought by German banks (34 billion euros), twice the amount held by British and French banks, and almost three times that held by US banks. Finally, foreign banks have 221 billion euros of debt issued by Spanish businesses on their balance sheets, with French, German and British banks being the main creditors, holding 60% of the total.

Have foreign banks' perceptions of Spain improved?

As noted, the increase in foreign direct and portfolio investment in Spain shows that investors' perception of the Spanish economy has improved in recent months. Europe's more stable financial climate since mid-2012 is primarily due to the ECB's response and its commitment to the euro, which ushered in a new era of falling risk premiums.

In the specific case of foreign banks' perceptions, the BIS data also confirms a recovery in confidence in Spain, in complete contrast to the situation a year earlier following the outbreak of the sovereign debt crisis. As Exhibit 4 and the detailed information in Table 1 show, whereas from June 2011 to June 2012 foreign banks reduced their holdings of Spanish debt by 94.5 billion euros (18%), between June 2012 and June 2013 the drop was 20.2 billion euros (5%), i.e. almost a fifth smaller. The drop in the wake of the sovereign-debt crisis affected all types of debt, although the biggest fall was in bank debt, which dropped 34% in just a year, obliging Spanish banks to draw heavily on ECB funding. There was also a sharp decline in foreign banks' public debt holdings, which fell by 25% (18.1 billion euros) in just a year.

The fact that foreign banks have regained their confidence in the Spanish economy since the summer of 2012 is shown by their increased holdings of public debt, and to a larger extent, bank debt, which have risen by 5% and 9%, respectively.

The fact that foreign banks have regained their confidence in the Spanish economy since the summer of 2012 is shown by their increased holdings of public debt, and to a larger extent, bank debt, which have risen by 5% (2.7 billion euros) and 9% (9.7 billion euros), respectively. By contrast, holdings of private non-financial sector debt has fallen sharply (14% or 35.4 billion euros). However, rather than a loss of foreign banks' confidence in Spain, this should be interpreted as part of the essential deleveraging underway by Spanish businesses. The consequent contraction in foreign banks' Spanish corporate debt holdings is therefore to be expected.

The exposure of foreign banks to Spanish debt under the "other potential exposures" heading continued to rise between June 2012 and June 2013, although much less so than during the preceding year. This increase is explained by the guarantees extended, while the exposure from derivative contracts has reduced.

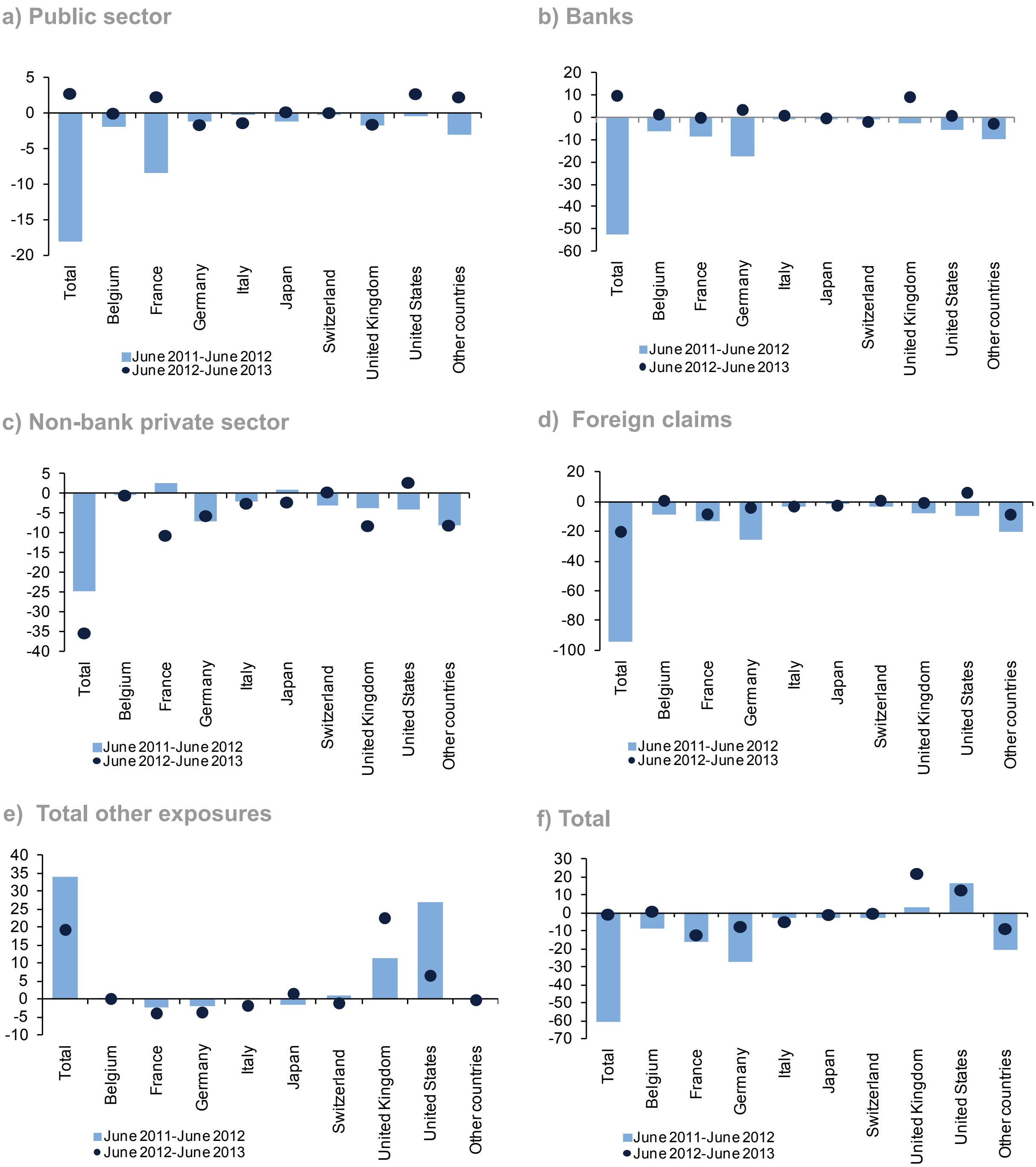
The disaggregated data reveals significant differences between countries in the way their exposures to Spain have changed. Thus in the case of debt holdings (foreign claims), in some countries, such as Belgium, Switzerland, and above all, the United States, the situation has gone from capital flight as the sovereign-debt crisis broke out, to a recovery of investors' confidence. In the case of the US, after a reduction in exposure to Spain of 23% (10 billion euros), between June 2012 and June 2013, debt holdings have risen by 18% (6 billion euros), which is a clear sign of renewed confidence in Spain. Even in a scenario of businesses deleveraging, US banks' exposure to Spain has increased in the case of non-financial public debt, although the strongest growth was in exposure to public debt, which rose by 56% (2.7 billion euros).

Among European banks, the strongest recovery of confidence has been in Germany and the United Kingdom, although overall, total Spanish debt held by these countries' banks has continued to decline. Germany has gone from a position in which its banks reduced their exposure to Spain by 20.7% to one in which the reduction is 4.2%. And in the United Kingdom the reduction has narrowed from 11.6% to 1.3%. Nevertheless, these figures should be interpreted with caution as they include the private debt of the non-financial sector, which is in the midst of a deleveraging process. Thus, excluding non-financial corporate debt, exposures to Spain have risen in France, Germany, the United Kingdom and the United States since June 2012.

Exhibit 4

Variation in foreign banks' exposure to Spain

Billions of euros



Source: BIS and author's calculations.

Table 1

Variation in foreign bank's exposure to Spain

Variation June 2011- June 2012

	Foreign claims	Public sector	Banks	Non-bank private sector	Other potencial exposures	Total
a) Billions of euros						
All countries	-94.5	-18.1	-52.7	-24.7	34.1	-60.4
Belgium	-8.7	-2.0	-6.4	-0.3	0.3	-8.4
France	-13.5	-8.3	-8.6	2.6	-2.3	-15.8
Germany	-25.5	-1.2	-17.3	-6.9	-1.9	-27.4
Italy	-3.1	-0.2	-0.9	-1.9	0.1	-3.0
Japan	-1.3	-1.1	-1.1	0.9	-1.7	-3.0
Switzerland	-3.5	0.0	-0.4	-3.1	1.1	-2.4
United Kingdom	-8.1	-1.7	-2.7	-3.7	11.3	3.2
United States	-10.0	-0.5	-5.4	-4.2	26.9	16.9
Others	-20.8	-3.0	-9.9	-8.0	0.3	-20.5
b) Percentage variation (%)						
All countries	-18.5	-24.6	-33.8	-8.8	14.4	-8.1
Belgium	-52.5	-77.3	-69.7	-6.8	56.4	-49.1
France	-12.9	-39.6	-32.2	4.6	-8.7	-12.1
Germany	-20.7	-5.9	-36.2	-12.7	-6.1	-17.7
Italy	-14.8	-5.3	-19.4	-16.6	0.9	-9.6
Japan	-7.1	-14.6	-33.0	11.6	-48.2	-13.6
Switzerland	-19.8	-0.7	-5.7	-34.4	23.0	-10.5
United Kingdom	-11.6	-32.2	-21.7	-7.1	44.8	3.4
United States	-22.7	-9.0	-30.6	-19.5	21.9	10.1
Others	-58.8	-77.5	-72.8	-45.0	0.3	-13.1

Source: BIS and author's calculations.

Foreign banks' reaction to Spanish public debt exposure is of particular interest given its implications for the risk premium. In this case, the improvements taking place in the two periods examined, going from a reduction of the exposure of 18 billion euros to an increase of 2.7 billion is mainly due to French banks, which have gone from an 8.4 billion euro reduction in their holdings to an increase of 2.3 billion euros. The improvement in US banks' confidence also stands out, as their public debt holdings have risen by 2.7 billion euros since June 2012, compared with a drop in the 12 preceding months. Conversely, German and Italian banks' reduction in their exposure to Spanish public debt has continued, and even accelerated.

Table 1 (Continued)

Variation in foreign bank's exposure to Spain

Variation June 2012- June 2013

	Foreign claims	Public sector	Banks	Non-bank private sector	Other potencial exposures	Total
a) Billions of euros						
All countries	-20.2	2.7	9.7	-35.4	19.3	-0.9
Belgium	0.7	0.0	1.3	-0.6	0.0	0.7
France	-8.4	2.3	-0.2	-10.7	-4.0	-12.5
Germany	-4.0	-1.7	3.4	-5.7	-3.8	-7.8
Italy	-3.2	-1.4	0.8	-2.6	-1.9	-5.1
Japan	-2.6	0.2	-0.4	-2.3	1.4	-1.1
Switzerland	0.7	0.0	-2.0	0.3	-1.2	-0.5
United Kingdom	-0.8	-1.6	9.1	-8.3	22.5	21.7
United States	6.1	2.7	0.7	2.7	6.5	12.5
Others	-8.6	2.2	-2.9	-8.2	-0.3	-9.0
b) Percentage variation (%)						
All countries	-4.8	4.9	9.4	-13.8	7.1	-0.1
Belgium	8.6	-7.9	46.2	-12.4	2.5	8.0
France	-9.3	17.9	-1.1	-18.1	-16.3	-10.8
Germany	-4.2	-8.6	11.0	-12.1	-12.5	-6.1
Italy	-18.1	-32.9	20.8	-26.7	-18.2	-18.1
Japan	-14.9	2.3	-19.1	-26.8	79.1	-6.0
Switzerland	5.2	4.0	-28.5	4.2	-19.6	-2.3
United Kingdom	-1.3	-44.5	93.4	-17.1	61.6	22.1
United States	17.7	56.2	5.6	15.6	4.3	6.8
Others	-22.7	36.3	-21.8	-43.4	-0.2	-4.7

Source: BIS and author's calculations.

In the case of bank debt, there has also been a clear improvement in confidence in Spain, as the situation has quickly changed from a drop in the global banking system's exposure of 34% to a rise of 9%. By a wide margin it is British banks that have increased their holdings of Spanish bank debt most (93% or 9.1 billion euros) since the summer of 2012. German banks have also increased their exposure to Spanish banks, with exposure rising by 17 billion euros from June 2011 to June 2012, and subsequently rising a further 3.4 billion euros in the following twelve months.

From capital flight to recovery

The analysis carried out can be summarised as follows:

1. Although foreign banks reduced their exposure to Spanish public debt by 24.7 billion euros (24.6%) following the sovereign-debt crisis, since mid-2012 exposure has increased by 2.5 billion euros (4.9%).

2. From June 2011 to June 2012 the debt issued by Spanish banks held by foreign banks dropped by 33.8% (52.7 billion euros), while it increased by 9.4% (9.7 billion euros) over the following twelve months.

3. Foreign banks' holdings of Spanish corporate debt have fallen steadily since the end of 2010 (22% to June 2013). This is the logical consequence of deleveraging by businesses with initially high levels of debt.

These figures clearly show that the recovery in investors' confidence in Spain, highlighted by the increase in direct and portfolio investment, has also taken place in the specific case of foreign banks. Since the summer of 2012, with the ECB's giving its solid support to the euro, foreign banks have increased their holdings of debt issued by Spain's banks and public sector, in complete contrast with the capital flight that took place in the preceding months after the outbreak of the sovereign debt crisis in mid-2011. In the twelve months following the start of the crisis alone, foreign banks reduced their holdings of public and bank debt by 70.9 billion euros. By contrast, from June 2012 to June 2013 foreign banks increased their exposure to this type of debt by almost 12.5 billion euros.

This comparison, although it gives some cause for optimism and shows that the Spanish economy has passed a turning point, also obliges us to be cautious, as in cumulative terms, between the summer of 2011 and mid-2013, foreign banks had reduced their holdings of Spanish public debt by slightly more than 15 billion euros, with capital flight of 43 billion euros in the case of bank debt. The drop in foreign banks' exposures to Spanish private non-bank debt has also been significant (60 billion euros), although this reduction is also the product of the necessary deleveraging being undertaken by highly indebted Spanish businesses.

Going forward, this incipient recovery needs to gain traction, as at present, although we have emerged from recession, we have not yet left the crisis behind. Although Spain's deleveraging is necessary, in order to avoid its being excessively rapid and traumatic, foreign investors' confidence (including that of foreign banks) needs to be restored further so as to make it possible to borrow at reasonable rates. However, cutting Spain's cost of financing demands more, particularly that banking union progress rapidly so that Spain's banks, and by extension, its businesses, can obtain financing on better terms than currently available from Europe's fragmented financial market.

Towards a new Banking Code in Spain

Francisco José Valero[1] and María López[2]

The crisis has facilitated progress on Basel III rules related to key standards under the Basel III initiative. Next steps entail their transposition into European and Spanish legislation, in an overall context of the construction of the European Banking Union.

The financial crisis has brought about significant changes in global financial regulation. Such changes aim at preventing, to the extent possible, the recurrence of a crisis of such magnitude in the future, rather than resolving the negative effects already incurred. In the areas of bank solvency and liquidity, at the international level, these efforts have been addressed through Basel III. The majority of these regulatory changes introduced in response to the crisis have yet to be implemented in many countries throughout 2014 in order for their effects to be fully felt in their respective financial systems. In fact, regulatory adaptation to Basel III has just began with the implementation of a number of standards. In Spain, this implementation process will lead to a new Banking Code, which will systematize and unify Spain´s overarching legislation on credit institutions, simplifying regulations and helping to enhance compliance and enforcement.

Introduction

Basel III has been introduced into European Union (EU) legislation through two basic documents, added to which will be the developing regulations envisaged therein,[3] the vast majority of which must be prepared by the European Banking Authority (EBA):

- Directive 2013/36/EU of the European Parliament and of the Council, of June 26th, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, known as the Capital Requirements Directive (CRD) IV, an expression that applies to both documents as a whole, as all previous documents on this matter were directives.

- Regulation (EU) No 575/2013 of the European Parliament and of the Council, of June 26th, 2013, on prudential requirements for credit institutions and investment firms, known as the Capital Requirements Regulation (CRR).

The CRR is directly applicable and need not be transposed to Spanish law. However, the CRD IV

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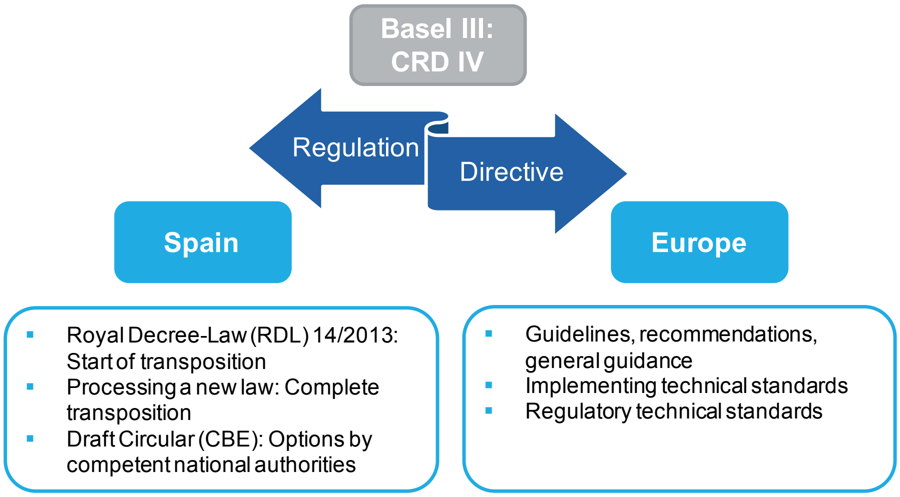
[3] The first has already been published in the Official Journal of the European Union (OJEU): L 355, of 31-12-2013: Commission Implementing Regulation (EU) No 1423/2013, of December 20th, 2013, establishing implementing technical standards with regard to disclosure of own funds requirements for institutions.

Exhibit 1

Incorporation of Basel III into Spanish law



Source: Own elaboration.

must be transposed, which has taken place through the approval of Royal Decree-Law (RDL)

As in the past, Spain is lagging behind in transposing important financial services policy. However, in this case, this is of little significance, since the polices are, in part, directly applicable from EU Regulation.

on urgent measures,[4] and, secondly, through the processing of a new law, which too has already begun. Exhibit 1 summarizes the entire process.

Given that Basel III and its aforementioned basic documents generally come into force on January 1st, 2014, this again means that there will be a delay in Spain in the transposition of an important directive in the field of financial services. Nevertheless, the delay is not of great importance owing to the following:

✓ As noted, the regulation, which contains the majority of Basel III, is directly applicable.

✓ Only the new features of Basel III need to be transposed, as those inherited from Basel I and II have already been incorporated into Spanish law.

Start of transposition

The RDL partially incorporates, in its most urgent aspects, the aforementioned Directive 2013/36/EU, a process that will be completed once the law under processing is approved, which is expected to occur in the first quarter of 2014.

Although, as noted above, the CRR is directly applicable, this does not mean that the RDL does not seek its incorporation into Spanish banking legislation, which it does on three complementary levels:

[4] Royal Decree-Law (RDL) 14/2013, of November 29th, on urgent measures for the adaptation of Spanish law to European Union law on the supervision and solvency of credit institutions.

- By directly incorporating it into Spanish legislation on banking organization and discipline where applicable in existing law, which shall be mentioned below.

- By defining the competent authorities, for the purposes of the CRR, as the Bank of Spain and the National Securities Market Commission (CNMV),[5] in their respective fields of authority. In relation to this, the RDL empowers both to make use of the capacities assigned to competent national authorities in the CRR.

- By repealing all provisions of the law that are not compatible with the CRR, although without expressly naming any of them.

The RDL will also have significant quantifiable effects: allowing certain deferred tax assets (DTA) to continue to count as capital, as other EU States have done, which will amount to some 30 billion euros.

With a view to strengthening banking supervision, the Bank of Spain is assigned new powers, not only to impose obligations on institutions and, in the event of non-compliance, to impose the relevant sanctions, but also for the purpose of prevention, through the elaboration of technical guides or responses to binding consultations,

The Bank of Spain will strengthen both the punitive and preventive aspects of its oversight function.

which is quite common in tax matters. This is due to the growing complexity of regulation and financial supervision. A good example of such preventive measures is the stress test, by means of which the resilience of the banking system is to be assessed at least once a year.

The measures the Bank of Spain might adopt in case of non-compliance by credit institutions on capital requirements, deficiencies in organizational structure, or on internal control procedures and mechanisms include the following:

- Force institutions to maintain additional capital beyond the minimum requirement.

- Restrict or limit institutions' businesses, operations or networks or request the abandonment of activities that pose excessive risks to the institutions' soundness.

- Prohibit or restrict the institutions´ distribution of dividends or interest to shareholders, partners or holders of additional Tier 1 capital instruments.

- Require that credit institutions limit their variable remuneration when inconsistent with the maintenance of a solid capital base.

- Impose specific liquidity requirements, including restrictions on the maturity gap between assets and liabilities.

Corporate governance is also reinforced in the remuneration of key personnel (senior executives or employees who undertake risks or exercise control functions) not only for supervision, but also from the point of view of the procedures for setting variable remuneration above a certain limit (100% of fixed remuneration, without exceeding 200%), for which reinforced majorities are required in institutions' general meetings or assemblies.

In any event, the RDL does not take into account, except for a brief mention in the background presentation, the fact that the banking supervisor of the largest institutions in Spain will change in less than a year. At that time, it will be the single supervisory mechanism (SSM), with a central unit, namely the European Central Bank (ECB), and as many national units as countries become a part of it; in Spain, the Bank of Spain will be the banking supervisor, and not the central bank.

[5] The CRR also affects investment service enterprises, which explains the inclusion of the CNMV.

Although not required under the CRD IV, Spanish lawmakers have decided to simplify the set of Spanish credit institutions, excluding from the category of credit institutions, and consequently, from the EU regulations governing them, financial credit establishments, specialized institutions in some activities such as mortgage credit, leasing, financing of consumer goods and factoring, which will all continue to exist, but subject to Spanish regulation. Hence, the category of credit institutions shall now comprise deposit institutions (banks, credit cooperatives and savings banks) and the official institute of credit, the financial agent of the state, which is excluded from EU regulations on the single banking market. As a result, the degree of homogeneity of Spanish credit institutions increases.

The new Spanish Banking Code

At the end of last year, processing began of a new law that, when approved, will complete the transposition initiated by the RDL of Directive 2013/36/EU and which will represent a new Banking Code that will bring together in a single text all basic banking legislation, with all the advantages this entails for the dissemination and study of the regulation. The law is expected to be fast-tracked to enable it to come into force in the first quarter of 2014.

From our point of view, the law will be of major importance and have significant repercussions on Spanish banking regulations, as it will be an entirely new general regulation of Spanish credit institutions. Furthermore, this unification of banking legislation will help improve comprehension of a legal regime that has been profusely modified throughout history and with numerous regulatory texts, which hindered both compliance and enforcement.

In line with its scope, the law seeks to repeal a number of laws on banking, some of them quite significant in their content. Specifically, and firstly, it will repeal Law 13/1985, emerging after the crisis in the Spanish banking system between the years 1977-1985, that modernized Spanish regulations on bank solvency, establishing norms that would be similar to those adopted in 1988 by Basel I. Secondly, it will repeal Law 26/1988, which modernized regulations on the discipline and public takeover of credit institutions after Spain's accession to the European Community.

In the same way that the laws to be repealed once emerged, the future Banking Code has arisen from the need to overcome the shortcomings observed in the recent financial crisis and to adapt regulation to the new European banking regime. Hence, the law is not only a transposition of Basel II, but also the adoption of harmonized legislation within the European Union that will serve as the basis for implementation of the single supervisory and resolution mechanisms for credit institutions, once it has been enacted.

The content of the new code may be summarized in three main points:

- **Legal regime of credit institutions**: Requirements are laid down for the functioning of credit institutions with regard to the procedure for authorization, suitability and honorability and corporate governance. Specifically, and with respect to establishing efficient corporate governance systems and a remuneration policy that is more aligned with the medium-term risks of an institution:
  - Limits are placed on the number of boards on which a director may serve.
  - Limits are placed on the simultaneous exercise of the post of chair of the board of directors and chief executive officer.
  - Limits are placed on variable remuneration.
  - It will be mandatory for institutions to have a remuneration committee and an appointments committee.

- Institutions are required to publish the total compensation received annually by all the members of the board of directors.

- The requirement of reaching binding decisions on remuneration policy is now extended to all credit institutions.

- **Prudential supervision and solvency of credit institutions:**

The basic norm governing solvency will be the CRR, although provisions as regards matter exist that are to be maintained in national law, such as the evaluation of the capital adequacy of institutions for the risk they undertake (Pillar II of Basel).

The law also contains the criteria to be followed by the Bank of Spain for setting any liquidity requirements, as a complement for those to be required from 2016 under Basel III.

In addition, a series of ordinary Tier 1 capital requirements are set out as a complement to those envisaged in the CRR, such as capital buffers, which are regulated in the CRD IV Directive and whose non-compliance does not carry consequences as severe as the solvency coefficient, as it would mainly affect the freedom of distribution of institutions net earnings.

In supervision, as a consolidation of the present situation, the Bank of Spain is designated as the supervisor of credit institutions and it is granted the power and authority necessary to carry out this function. The scope of supervision is defined, in a context where account must be taken of its relations with other supervisory authorities and, specifically, with the EBA. Among other measures, the Bank of Spain must elaborate stress tests at least once a year.

Further, institutions must publish an Annual Banking Report, which will disclose information on their staff headcounts, taxes payable and the public aid they have received.

- Sanction regime: The amounts of penalties are increased, and the formula for calculating them is modified.

Once the law is approved, basic Spanish banking law will be comprised solely by this law and another two laws governing sectors of institutions with particular features with regard to their legal configuration.

Once the law is approved, basic Spanish banking law will be comprised solely by this law and another two laws governing sectors of institutions with particular features with regard to their legal configuration. The first is to be modified by the new law in only one detail, but the detail is highly significant with regard to how equity is calculated, while the second has recently been approved:

- ✓ Law 13/1989, of May 26th, **on credit cooperatives.**[6]

- ✓ Law 26/2013, of December 27th, **on savings banks** and bank foundations.

National options

Although the CRR is directly applicable and needs no law to transpose it in Spain, it may contain –and, in fact, does contain– provisions that require subsequent national implementation, apart from the necessary implementation at the EU level. Some of these national options are of a

[6] The planned modification means that partner contributions will be reimbursed to the latter under the conditions set out in the regulation and provided it is authorized by the Governing Board. In any event, such a reimbursement may not be approved if it causes insufficient capital coverage of mandatory share capital, reserves and the solvency coefficient. At the same time, no contributions may be privileged over others in their seniority in the event of insolvency or liquidation of the cooperative.

permanent nature and others are transitional, as many provisions would be brought into force on a rolling basis during a transitional period in order to gradually achieve convergence.

Towards this end, and taking account what we have noted above with regard to the RDL, the Bank of Spain opened a consultation period on a draft circular it completed on December 20th.

We emphasize that, within this process, no new circular should be expected to fully replace the circular in force to date on equity, namely CBE 3/2008, which is not expressly repealed. Among other reasons, it will remain applicable to financial credit establishments, at least during a transitional period, that will no longer have the status of credit institutions and that will, therefore, not be affected by the new law on credit institutions, as noted above.

For credit institutions, CBE 3/2008 is replaced by the CRR and its implementing regulation. Accordingly, for these institutions, provisions of CBE 3/2008 that are incompatible with the CRR are repealed, although the provisions that are affected are not specified. CBE 7/2012, on principal capital is repealed, as this concept is not contained in the CRR.

Concerning transitional options, the general criteria of the draft project, in the case of capital deductions, for example, is based on adopting the longest periods allowed by the CRR, and on use of less stringent correction coefficients. In matters where the CBE 3/2008 is less strict than the CRR, the latter is viewed as a floor in terms of exercise of the option.

Further, the draft circular establishes the provisional treatment to be applied in certain matters until the entry into force of the technical regulations to complement the CRR, and which are currently being processed.

Conclusion

For the reasons noted herein, 2014 presents itself as a particularly intense year as regards novelties in banking regulations, both in Spain and in Europe.

For Europe and for Spain, the adaptation of current regulations to Basel III, which will take place through the laws and draft laws discussed in this article, as well as the start-up of the SSM and, if approved, the single resolution mechanism, as well as the new directives on bailouts and restructuring of credit institutions, shall be the most significant matters on which to focus attention.

Technically, the Spanish economy came out of recession in the third quarter of 2013, with reported growth of 0.1%.

However, this does not mean that the crisis is over. As is clear from the current low inflation rate, continuing fall in real estate asset values and wages, credit squeeze, and faster generation of financial surpluses by households and firms to pay down their debts, the adjustment process is still on-going. Similarly, the general government also has yet to complete the major budgetary adjustment it has embarked upon.

Back to “boring banking” in the age of deleveraging and new financial regulation

José García Montalvo[1]

In their effort to reduce overall risk, banks are adopting more boring business models based on lessons learned from the crisis and the pressure of new regulatory requirements. This trend is improving the liabilities side of banks' balance sheets. However, banks in Spain and elsewhere must further transform their business models to include new sources of income and increase the efficiency in provision of financial services.

In response to new financial regulation in the wake of the recent crisis, many banking sectors are embracing more traditional business models, often times referred to as boring banking. The new regulations are expected to impact financial institutions´ funding strategies, reducing reliance on short-term wholesale funding, and prompt a renationalization of activities. The new rules may also generate unintended consequences and contradictory effects, such as the creation of disparities in financing terms across funding instruments and the reduction of banks´ balance sheets in an effort to meet more stringent capital requirements. In the case of Spain, reliance on a more traditional, retail-oriented commercial banking model did not isolate financial institutions from the crisis. While the country´s financial reform has been successful in improving performance on key indicators and facilitating access to capital markets, the outlook for profitability in Spain, and elsewhere, raises concerns. Looking forward, banks in Spain, as well as in other countries, should seek to improve profitability through alternative channels, in addition to traditional efforts.

The banking sector has probably suffered the largest transformation as a consequence of the 2008 crisis. These changes are associated with the intensification of structural tendencies (for instance, the aging of population in developed countries, the impact of Internet and new technologies on the business models of industry, etc.) as well as new regulatory changes to try to overcome the chain of perverse incentives that resulted in the financial crisis. The need to transform business models to the new conditions of competition and regulation in the banking sector remains a key challenge for banks' future profitability and viability. The reaction to the conditions that led to the crisis and to the financial regulation established to avoid new episodes in the future has been summarized as BB (“back to basics”) or BBB (“back to boring banking”).

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But, what do we mean by boring banking? There is no precise definition of this term. In general, boring banking is taken as synonymous to retail or commercial banking although this category is not a properly defined business model. The most commonly accepted interpretation of boring banking makes a distinction between core, or boring, activities, and non-core activities. Although the activities included in each group may not coincide when we compare the strategic plans of different banks or documents of international organizations. In fact, the traditional typology of banking business models (commercial or retail versus investment; national versus international; universal versus specialized) is no longer adequate to characterize many of the changes we are seeing in the business models of banks. The new taxonomies include many different dimensions that have been affected by the consequences of the crisis, and the new competitive and regulatory environment. Those dimensions include size, geographical orientation, income and funding diversification, and capital and legal structure (Montalvo, 2013).

Boring banking can also be defined in function of the business model of the banks that performed well during the financial crisis. Several studies have identified the elements of the business model of banks that had major problems during the financial crisis. They have in common a high level of wholesale funding (repos, brokered deposits, interbank loans and/or commercial paper), a low level of capitalization (measured as the equity-to-asset ratio), a high reliance on short term debt and a high loan-to-deposit ratio. New regulations target most of these problems together with the "too big to fail" issue.

The adjustment towards boring banking, driven mostly by regulation but also by macroeconomic conditions, has taken different paths and rhythms depending on the initial business model of the banks, the specific regulations that affect them, the new competitive environment and the level of deleveraging that has to be accomplished in each economy to go back to a sustainable pattern. It is the interaction between new regulation and the need to deleverage the economy that will shape the specific process towards a new and successful business model.

Obviously, the size of each bank and its current business model will also influence its reaction to

It is the interaction between new regulation and the need to deleverage the economy that will shape the specific process towards a new and successful business model.

the new regulation since some pieces target the "too big to fail" (TBTF) issue like, for instance, structural reform or the extra capital buffers for systemically important banks. In addition, the national specificities of some of these regulations and their implementation periods (even in Europe, despite calling the CRDIV/CRR the "single rule book") or the slow evolution of some parts of that regulation (uncertainty on the effect of bail-in and resolution mechanisms, etc.) generate regulatory uncertainty that may slow down and complicate the adoption of a new business model.

One may think that the Spanish banking sector would be less affected by the impact of the new regulation since it has always been considered a relatively boring one and, therefore, there is less need to search for a new business model. Reality seems to indicate the opposite. The large pre-crisis increase in the leverage rates of households and non-financial corporations, the bail-out of part of the financial system, the weak outlook for profitability in the future and the deep changes in the structure of the industry as a results of support measures (mergers, acquisitions, etc.) provide the bases for an important adjustment of the business model as a reaction to the new regulation and the new competitive environment.

The general context of the process of "borification" of the banking sector is conditioned by two basic factors: the need to deleverage families and firms, and the regulatory requirements for larger, better-quality capital buffers to absorb losses. The reduction of leverage, defined as the debt to GDP ratio, can be achieved in several ways: increasing GDP growth, increasing inflation or reducing the stock of debt. The change in the stock of debt is the result of the change of net lending plus valuation changes plus write-offs. The composition of the deleveraging that is taking place in each country is very different (Garrote, Llopis and Valles, 2013). In the US, most of the deleveraging process is coming from GDP growth and write-offs, especially for families, while net financing is increasing. In the UK, most of the deleveraging process comes from inflation while net lending is increasing although not as much as in the US. In Spain, the situation is quite different: GDP growth has a leverage-increasing impact and inflation is low enough not to contribute to the relaxation of the problem. Therefore, the deleverage driver is basically a drastic reduction in net lending, together with write-offs for non-financial companies. In a low inflation and low economic growth environment, the deleveraging process in the Spanish economy goes through the reduction of net lending.

On the other hand, the requirement of new regulation to hold more high quality capital and more liquidity, in the context of low current and expected RoE, produces a natural tendency towards reducing the risk weighted assets to reduce the need for additional capital. The effect of the introduction of the leverage ratio[2] also pushes towards a reduction in total assets. The reduction of European banks' balance sheets began some time ago but it is now at full throttle in the Spanish financial system.

The new regulatory context

Most of the regulatory changes can be classified into three blocks: changes derived from the application of Basel III; changes associated to structural reform, or measures to deal with the TBTF issue; and changes related to bank resolution reform. The changes derived from the transposition of Basel III are mostly well known. There are still some uncertainties with respect to the specific definition and triggers of the leverage ratio or the liquidity ratio as well as the transition period for application of each requirement. There is also uncertainty about the decision of national authorities with respect to some of the capital buffers that the regulation only defines as an interval of possible values. Most banks have been preparing during several years for the new regulation despite the lack of precise definition of some indicators, even though there is a long transition period. In fact, it is believed that most of the banks had an average liquidity coverage ratio of more than 100% in its 2013 definition (Basel Committee on Banking Supervision, 2013). There is much more uncertainty about the structural reform and the reform of bank resolution, especially in the Euro area.

There are four main areas of new regulation that have an important effect on the future business model of banks, making them boring again: new capital requirements (Basel III and the European CRDIV/CRR), structural reform (separation of commercial and investment banking activities, limitations in the size of institutions, etc.), financial markets reform (for instance OTC reform) and new resolution frameworks.

The **CRDIV/CRR regulation**, which is the application of Basel III to the European financial system, went into effect the first of January of 2014 although the transitional period will last until 2019. The basic components of this regulation are:

- Increase the quality of capital over risk-weighted assets to improve its absorption capacity in

[2] The specific calculation and limit of the leverage ratio is still a source of heated debate and large disparities among different jurisdictions.

case of losses. Add extra capital buffers for systemic entities, cyclical situations and long lasting periods of stress.

- Implementation of the Liquidity Coverage Ratio (the LCR is defined as high-quality liquid assets as a proportion of banks´ net cash outflows over a 30-days period) to improve the resilience to short-term liquidity shocks.

- Implementation of the Net Stable Funding Ratio (The NSFR is defined as long term assets over long term funding) to reduce maturity mismatches and short term funding incentives to use more long term funding and deposits.

- Implementation of the Leverage Ratio (capital over assets) which serves as a backstop to the arbitrage-ridden risk based measures of capital requirements.

- Increased consumption of capital of derivatives and some types of participations and reduction in the consumption of capital of loans to small and medium firms.

The **structural reform** pretends to reduce the impact of the "too-big to fail issue" and eliminate the implicit subsidy to large banks in their investment bank activities. The structural reform (Vickers-Liikanen-Volcker) adopts alternative approaches in different countries[3] and it is not yet fully specified neither operational. It is not even obvious that the Vickers ring-fence and the Liikanen proposal are totally compatible which has led some experts to talk about the possibility of a double fencing.

The most developed proposal is the so-called Volker's rule, which is supposed to be the 21st century's Glass-Steagall act that separated investment banks from commercial banking activities. Since the approval of the Volcker rule by the banking, securities and commodities regulators, there has been an intense debate on its impact on the business model of large banks. The rule is presented in a document of almost 1000 pages by contrast to the 30-something pages of the original Glass-Steagall act. Critics argue that the many exceptions included in the legislation open possibilities to continue business as usual and it relies heavily in policing and enforcing the rule. For instance, proprietary trading is banned except for operations that relate to banks´ liquidity management. Another exception: the amount and types of financial instruments in the trading desk's market maker inventory cannot exceed the "reasonable" expected near-term future demands of clients, costumers and counterparts. There is strong resistance on the part of the financial system to a strict separation of activities. It is claimed that, for instance, the investment bank of a financial institution will not be allowed to take deposits which makes it quite difficult to fulfill the NSFR indicator. In addition, the small size of the investment bank may preclude the possibility of finding capital.

Even without specific regulation on separation of investment and commercial activities, already some banks are feeling the pressure to reorganize along the lines established by structural reforms. For instance, UBS could be considering spinning off its investment bank under the pressure of the Swiss government. UBS and Credit Suisse have already announced plans to "ring fence" parts of their business.

OTC derivatives reform is another regulation that will have important implications for the business model of banks. There are several versions like the EMIR in the European Union, the specific rules of the Dodd-Frank act, the Japanese FIEA, etc. These regulations try to increase the transparency and safety of derivative markets by reducing the counterpart credit risk, having common rules for central counterparties and specific reporting requirement.

Finally, there is the difficult issue of **banking resolution**. The objective of this regulation is to reduce the likelihood of having to inject public

[3] France and Germany have proposed their particular "ring-fencing" mechanisms.

money from the state, or protect the state from losses. This is a basic issue of the process of banking union in Europe. However, there is not a final mechanism and, in fact, the financial rescue of some European countries has shown a very *ad-hoc* approach to banking resolution. The resolution framework may establish the preference of creditors in case of liquidation or their bail-in for continuing activities. Depositors' preference or bail-in bonds can affect the price of senior unsecured bonds and the ability of banks to issue them.

Basic implications of the new regulatory environment

Most of the regulatory changes have a direct implication on the composition of the liabilities structure. Empirical studies show that bank-specific factors, like past choices on funding structures, are very important in the explanation of change in funding sources and their speed, since capital structures are very persistent. Obviously size also matters for the structure of funding.

The changes in the funding strategies of banks are affected largely by regulation and the experience of the financial crisis. The LCR, the NSFR and the run during the crisis will produce a tendency to reduce wholesale short-run funding. Some European banks with a business model that relies heavily on wholesale funding will have to transform their operations substantially with respect to the pre-crisis situation. In some cases it is possible to see a temporal increase in the use of wholesale short-term funding to substitute ECB funding, especially for banks that had problems to access wholesale markets since the beginning of the financial crisis.

In addition, the uncertain application of the ring fencing derived from the structural reform and the slow progress on the resolution regulation has produced a renationalization of banking activity meaning that international banks will tend to match their assets and liabilities country-by-country with subsidiaries self-financing.

But regulatory reform could also have unintended consequences and contradictory effects (IMF, 2013). The improvements in the quality of capital, the capital surcharge for systemic banks (extra buffers) and the better loss-absorbing capacity of junior debt (subordinated debt and CoCos) reduce the probability of default and, therefore, reduce the cost of senior debt. However, there may be a differential effect on secured versus unsecured debt depending on other regulatory changes. Liquidity coverage ratios and OTC reform produce a tendency to increase the degree of encumbrance of banks´ assets.[4] This implies a reduction in the cost of secured senior debt (covered bonds, OTC collateral, etc.) and an increase in the case of unsecured, with the net effect being uncertain. The changes in the resolution framework also have significant effects on the cost of debt. In particular depositor preference in liquidation or the possibility of bail-in powers in resolution (statutory bail-in) increase the cost of unsecured bail-in debt and, therefore, have an important effect on the structure of funding. The size of the effect on the cost of unsecured debt depends on the specific form of depositors' preference (plain or "tiered") and bail-in (minimum bail-in debt, etc). For instance, tiered depositors' preference will concentrate potential losses on a small group of unsecured creditors.

Usually the spread between secured and unsecured bank debt is small, especially when compared with subordinated debt. The IMF estimates that the yield of unsecured debt could increase up to 300 basis points in case of approval of a resolution framework with bail-in power. As a comparison, CoCos have a 500 basis points spread with respect to senior debt.[5]

[4] Central bank funding also implies collateralization although this is a recourse that will not have bearing on the long run business model.

[5] IMF (2013) uses option pricing to calculate the effect of new regulations (increase of capital, asset encumbrance, depositors' preference, etc) on the spread of different sources of banks' funding.

The new regulation requires more and better capital. However, some new regulatory indicators, like the liquidity coverage ratio or the leverage ratio, reduce, or at least limit, the RoE. This pressure adds to the current situation, associated with the increase in impaired assets and delinquency rates caused by the financial crisis: since 2007 the average return on equity has been below the cost of equity.[6] This means that to reach a comfortable regulatory capital ratio the main option is deleveraging. All the strategic plans of large banks adopt the same strategy: reduction of balance sheets and risk weighted assets (RWA).

The actions to reduce balance sheets include selling noncore (legacy) assets and business units (investment bank divisions, etc.), selling business lines in noncore countries, minority stakes in some business, trading portfolios, non-government securities, exposure to some sectors (like real estate and construction), and selling non-performing loans and distressed assets. Banks with large investment banking operations are cutting in nonstandard derivatives, securitized and structured products, proprietary trading and repurchase agreements. Corporate banking also contributes to the process of deleveraging by scaling back in activities that are wholesale-funding intensive, such as syndicated loans, factoring and leasing, project and trade finance, and interbank lending. But the strategic plans also include the reduction in retail banking, especially commercial real estate, bank branches and credit business. The latest data of the ECB (November 2013) show that loans for families and companies are down at 2.3% (annual rate), the largest reduction since the beginning of the crisis and the 19th month of decline.

The reduction of RWA and the process to optimize capital consumption includes the transformation of loan portfolios to increase those assets that consume less capital and reduce categories that have higher risk weight. This could imply a reduction in the mortgage business and an increase in the loans to small and medium size firms. Another example is the reduction of trading books and derivatives (especially for macro coverage) through derivative credit risk optimization. At the same time there has been an increase in government bond holdings since the new regulation continues giving zero-weight to public debt.

Looking at the strategic plans of many European banks for the next 3-5 years we can find many common elements that define the boring banking of the future. The basic objective is to reduce overall risk by transforming the business model to accommodate the lessons learned, the new regulatory requirements and the objective of increasing the RoE. Banks expect to reduce their size relative to the beginning of the financial crisis (except the ones that have grown inorganically during the crisis). In the new steady state assets will be down between 20% and 50% (case of nationalized institutions). The reduction in RWA can amount to 20%-30% with the exception of nationalized banks which can go down as far as 30%-50%. These size reductions, and the need to optimize costs, imply a reduction in branches and workers enough to reach an efficiency ratio between 45 and 50. Another common objective in all the strategic plans is to reduce the loan to deposit ratio. A frequent target is 115-110. Deposits increase their weight among funds reaching 60% and the loan portfolio gains weight among assets. At the same time the proportion of wholesale short term funding will be significantly reduced. The target for a comfortable CET1 ratio is set at 10-10.5% (BIS III fully loaded). Finally, Chief Credit Risk Officers (CCRO) will increase their institutional role and risk committees will increase their responsibility. The final objective is to improve RoE although the target in most banks

[6] Many banks and banking associations claim that 2014 marks the switch from worrying about restructuring the business to concentrating again on profitability. The strategic plans of many banks set the objective of having a return on capital above the cost of capital or a return on capital above 12%.

is 14% or less,[7] when before the crisis the average acceptable RoE was around 20%). Nevertheless, the new regulation on limits to compensation to executives in the financial sector will probably deemphasize RoE as the main performance metric.[8]

Boring banking and the Spanish banks' business model

In principle it may seem that going back to boring banking should be trivial for the Spanish banking sector since, in theory, it had always been a boring financial system. In fact, this was the idea when, at the beginning of the financial crisis, Spanish bankers and government officials claimed that the Spanish banking sector would be isolated from the crisis. Still today one can read in the annual report of some Spanish banks that regulatory changes would affect them less than other international banks, and should not affect their strategy or business model since they were always commercial banks. In a way, it is true that Spanish banks, even the large ones, have never been as focused on capital markets and investment banking as banks in other countries like the UK or even Germany. However, the relevant experience of the Spanish financial crisis indicates that maintaining a retail-oriented commercial banking model does not immunize a business model from problems. For instance, a typical indicator of boring banking is a low loan-to-deposit ratio. That indicator was close to 170 for the Spanish banking system at the beginning of the financial crisis.

In a way, it is true that Spanish banks have never been as focused on capital markets and investment banking as banks in other countries like the UK or even Germany. However, the relevant experience of the Spanish financial crisis indicates that maintaining a retail-oriented commercial banking model does not immunize a business model from problems.

In addition, the significant level of nonperforming loans point to a suboptimal risk management model that, further damaged by very strong competition and low spreads, gave priority to volume as the basic source of income. As argued before, the downsizing of Spanish banks' balance sheets has been fast and the net reduction in customers' loans is an important component of it. For instance, between September of 2012 and September of 2013 the loans to costumers have gone down 8.3% in the banking sector (AEB). In contrast, deposits have increased. Therefore, the loan-to-deposit ratio is going down in a path similar to the one projected by the IMF (Exhibit 1).

During the same period (Sept. 12-Sept. 13) the balance sheet of banks has shrunk 7.7%. Spanish banks have sold noncore assets (minority stakes, non government securities, real estate assets, and asset management arms), debt collection services, real estate management services, and exposure to the real estate and the construction industry, as well as non-performing loans and distressed assets. Most of these deals generated income, reduced capital consumption, and some reduced the number of employees, (like in the case of selling the real estate management service) increasing efficiency ratios.

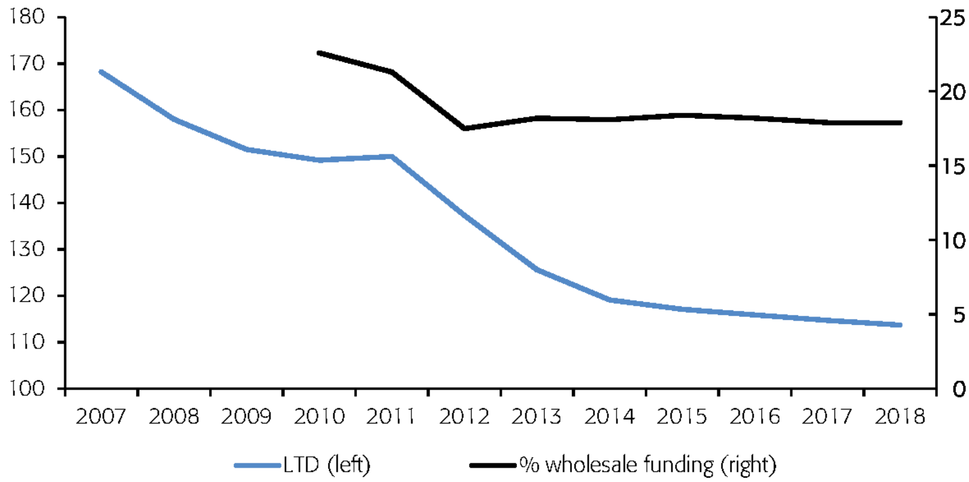
Despite the revenue obtain by these operations, the prospect for recurrent profits in the Spanish banking industry is not bright. The last visit of

[7] The Risk Assessment Questionnaire of the EBA shows a reduction from June-2013 to Dec-2013 in the proportion of respondents that consider a 14-16% long run target for the RoE, and an increase in the ones that target an interval between 12-14% although the mode is still at the 10-12% interval. Most of the respondents to the RAQ consider that the cost of equity is between 10 and 12%.

[8] There are some suggestions to use ROA or even RORWA as the most relevant metrics. This makes sense in a context where leverage will have regulatory limits.

Exhibit 1

Loan-to-deposit ratio and wholesale funding in the Spanish banking system



Source: IMF (2013).

the Troika (EC, IMF and ECB) emphasized the worries about the future profitability of the Spanish banking sector in contrast to the preoccupation about capital and provisions they showed in previous visits. This is not only a problem for Spanish banks. EBA (2013) points out that the risk premium of EU banks remains high “not least because of profitability concerns. Earnings may not be sufficient to cover rising bad loans… persistent low interest rates are also putting pressure on the business model sustainability of banks which find overall net interest margins squeezed contributing to profitability pressures.” Spanish banks are not an exception. The shrinking net interest income, the lack of trust in the banking sector, the legal risks, the impact of the regulatory and macroeconomic situation do not provide reasons for optimism. Non-performing loans will remain high during some time, reducing the size of the interest producing loan portfolio. Low interest rates will not help either to increase net income. Despite the shrinking in total assets of banks, the ratio of net income to total assets has gone down from Sept. 2012 to Sept. 2013 (from 2.2% to 1.95%). This drop translates into a reduction in 0.2 pp in gross income and net operating income. The increase of ordinary profit before taxes (0.2% of total assets) is due only to the reduction of loan-loss provisions. The ordinary consolidated profit reached 0.46% of assets (from 0.24% in Sept. 2012).

The improvement in financial conditions and the reduction of sovereign spreads is producing very good news for Spanish financial institutions in the debt market since the beginning of 2014. Four banks have been able to issue senior debt with a large excess of demand, predominant interest of foreign investors and a small spread.

With respect to the liability side of the balance sheet, the Spanish banking sector is moving towards a normalized situation compatible with a boring funding scheme. Banks are replacing the LTRO provided by the ECB by increasing deposits, unsecured bonds and covered bonds.

Table 1

Issuance of senior debt (first half of January 2014) and a comparative benchmark of 2013

	Date	Year	Issuance	Demand	% foreigners	PB midswap	Coupon
BBVA	Jan-13	5	1500 M	5000 M	90%	295	3.75%
BBVA	Jan-14	5	1000 M	2600 M	81%	118	2.42%
Santander CF	Jan-14	2	1000 M	1900 M		93	1.46%
Bankia	Jan-14	5	1000 M	3000 M	85%	235	3.6%
BMN	Jan-14	3	500 M		72%	190	2.6%

Source: Author’s own elaboration.

The Bank of Spain points out that, through August 2013, deposits had increase 7.7% versus the reduction of 6% during 2012. Given the persistent reduction in balance sheets and the increase in deposits, banks continue to be negative net issuers of senior unsecured bonds and covered bonds. Spanish banks issued 28 billion euros in debt during 2013 including medium and long run senior debt and covered bond. The improvement in financial conditions and the reduction of the spread of the Spanish sovereign is producing very good news for Spanish financial institutions in the debt market since the beginning of 2014. Table 1 shows that four banks have been able to issue senior debt with a large excess of demand, predominant interest of foreign investors and a small spread. By comparison we can see that Bankia has issued debt with a spread smaller than the spread of the first debt emission of BBVA in 2013. In addition BMN, also a nationalized bank, has issued covered bonds (500 million euros) with a midswap of 190 points. During the first 15 days of 2014, there have already been 4 billion euros in emissions of debt by Spanish banks. This means that the Spanish financial reform has been able to generate some confidence among international investors.

With respect to capital requirements, the issuance of the first CoCos by BBVA has opened this market for additional Tier 1 capital. Société Générale, Crédit Suisse, Barclays and Popular have followed the lead of BBVA.

Banks’ profitability under boring banking: The next frontier

While the liabilities side is improving, the profitability indicators generate some concerns. EBA (2013) points out that “the sustainability of some EU banks’ business models remains a cause of concern whilst it is still unclear from where their future profitability drivers will originate”. Identical comments can be applied to Spanish banks. It is necessary to transform their business models finding new sources of income and increasing the efficiency in the provision of financial services.

Internet banking is already a well-established alternative business channel to physical branches. But multichannel access to banks is not enough in an interconnected and “datafied” world. While department stores have been using data science to provide highly targeted and relevant offers to their customers, increasing their loyalty, banks are still years behind. This is quite paradoxical if we consider that banks have a unique perspective to understand costumers needs since they know their income and spending patterns, their saving profiles, their leverage levels, etc. The use of data science and big databases allows the analysis of billions of pieces of information to offer clients services and experiences that satisfy their needs. Banks have access to vast amounts of data, allowing them the possibility to offer personalized products and services to customers for covering their financial needs and not just commercial objectives fixed a priori by management. In addition, this type of approach facilitates cross-selling of financial products.

Personalized banking democratizes financial services by offering advice to low net worth costumers using the techniques of data science (data management, statistics and algorithms) that substitute human advisors. Using all the knowledge about the history of investments, expenses, transactions, etc. of clients can help dramatically to offer them products that they find useful to manage their finances. At the same time, these procedures can avoid mistakes in the commercialization of products that are not appropriate to some costumers, which in the past have generated important reputational damage among banks and financial institutions. In essence, it is moving from a bank-centered business model to a client-centered approach. A successful strategy of personalized banking can also help to improve the relationship between banks and retail customers in an age of mistrust of banks.

At this time, the use of these procedures is primitive and quite unsophisticated in many banks: some banks offer automatically approved small loans based on a few indicators or send unsolicited credit cards to specific costumers. There is a world of new possibilities in personalized banking. Another reason why exploiting the huge amount of data generated by financial institutions is critical for their business model is the potential competition of big data firms in the provision of financial services. Using consistent and more granular data can help to price products efficiently in the face of growing competition from non-banks.

Obviously, for some business lines (wealth management, etc.) and costumers, the traditional financial advisor will still be needed. But for the majority - traditionally, low profit costumers - it is possible to have new business lines by tailoring offers and services to address their real needs, priorities, and risk profiles. This strategy would also counterbalance the reduced demand for banking products and services derived from low economic growth and reputational concerns.

Data science can also be critical to improve the internal models of scoring of costumers. The return to emphasis on risk evaluation, management and control implies that a significant improvement in the methodologies of risk evaluation can provide a high return in terms of increasing business and avoiding NPLs in the future. With small spreads, any gain in the procedures of risk evaluation can provide a competitive edge.

In a period of low interest rates, the pressure on net interest income is high but clients are willing to take some risk in search for yield. Therefore, asset management has some good opportunities to generate fees and commissions. It is also important to translate to costumers that financial services are costly to produce and, therefore, some fees cannot routinely be eliminated.

Finally, but also very important, Spanish banks should continue to increase their efficiency as a way to improve profitability. This is a general strategy that financial institutions are using in all countries. In the Spanish case, the sharp contraction of balance sheets of group 1,[9] and some group 2[10] banks, together with the acquisition of insolvent banks by healthy financial entities, has produced an important reduction in employment within the financial sector.

In sum, the pressures to maintain or improve profitability suggest that Spanish banks should concentrate on improving their efficiency, increasing fee and commission income and abandon business lines that do not belong

[9] Banks already owned by the government's Fund for Orderly Bank Restructuring (FROB), including financial institutions such as BFA/Bankia, Catalunya Caixa, NCG Banco, and Banco de Valencia (recently acquired by Caixabank).

[10] Banks with capital shortfalls identified by the Stress test and unable to meet those capital requirements privately without recourse to State aid, including BMN, Banco Caja 3, Liberbank and Ceiss.

to their core business. Funding should be diversified with a high proportion of deposits but a reasonable mix of secured and unsecured debt, avoiding excessive encumbrance of assets. The substitution of ECB funding for wholesale funding could result in a temporary and short lived increase in the proportion of those funds. Since raising capital will continue to be a challenging task, optimizing capital consumption and retaining earnings should provide a buffer large enough to absorb future losses and keep the spread low on unsecured debt. New capital instruments such as CoCos should also be considered in the mix of Tier I capital instruments. And, most importantly, risk evaluation and management should be handled with care and proficiency.

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Initial assessment: The effectiveness of measures for protection of mortgagors

María Romero[1]

The persistence of the financial and economic crisis has brought with it, among other things, the weakening of an ever increasing proportion of household economies. In many cases, this has translated into households' loss of their primary residence. In response, over the past two years, the government has enacted a series of measures aimed at alleviating the pressures faced by mortgagors.

This article provides an initial assessment of the actual effectiveness of the measures to protect mortgagors, approved by the government since 2012, based on the results recently published by the Ministry of Economy and Competitiveness. Although not too much time has passed and public information available, in some cases, is limited, at present, we have not observed much recourse to the measures. Perhaps this can be explained by the somewhat strict requirements in place for the measures to apply. Nevertheless, the relaxation of these criteria would have a negative impact on banks´ balance sheets.

Introduction

According to the EPA labor force survey from the third quarter of 2013 –the latest available at the time this article was written– all active members are unemployed in 10.4% of households and 3.7% of households receive no income at all. As a result, households´ capacity to pay off previously contracted debts is constrained (according to the Bank of Spain, the mortgage loan NPL rate, for example, stood at 5.1% in the third quarter of 2013) and, in some cases, this results in the loss of their primary residence.

For the past two years, the government has been enacting a series of measures aimed at alleviating such dramatic situations. The Code of Good Practices (henceforth, in its Spanish acronym CBP), signed by a majority of credit institutions, the moratorium on evictions for two years for particularly vulnerable households (both economically and socially), and the creation of a Social Housing Fund (henceforth, in its Spanish acronym FSV) for households that have lost their residence in mortgage foreclosure processes are some of the most significant recent measures.

The main objective of this article is to provide a brief overview of the latest measures for mortgagor protection, and an initial assessment of their effectiveness, in light of the results recently

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

published by the Ministry of Economy and Competitiveness.[2]

The Code of Good Practices: Debt restructuring and dation in payment

The Code of Good Practices was approved as part of the Royal Decree-Law 6/2012 of March 9th, for urgent measures to protect mortgagors without funds, and it has been signed by virtually every credit institution operating in Spain that has granted mortgages.

In summary, the protective mechanism it establishes and for which a specific group of mortgagors is eligible[3] consists of three types of solutions, the application of which is individual with the requirement that the non-viability of the immediately preceding measure be demonstrated:

- **Restructuring of mortgage debt** to ensure repayment of the loan. The measures include the following:
  - A five-year grace period for repayment of capital.[4]
  - An extension of the repayment period to up to 40 years following the granting of the loan. It should be noted that, according to the Official Association of Mercantile and Property Registrars, the average term for new mortgage loans is half this duration, or about 20 years.
  - Reduction of the interest rate applicable to the 12-year Euribor + 0.25% during the grace period, when the current average margin of new mortgage loans far exceeds 3%, according to the Bank of Spain.
- **A haircut of up to 25% of the mortgage loan still outstanding**, provided the restructuring plan is not viable: that is, the monthly mortgage payment basis exceeds 50% of the aggregate income of the debtor's household unit.[5]
- **Dation in payment** of the primary residence used to secure the mortgage loan, thus resulting in a write-off of the outstanding debt. Even if no longer the owner of the residence, the debtor may stay on in the residence, paying an annual rent equal to 3% of the total amount of the debt at the time of dation.

According to the first results of the CBP, which cover the period between April 2012 and September 2013, 1,684 debt restructurings were undertaken for mortgaged households that met the pre-established requirements. Although this is a considerable volume in absolute terms, it is not quite as much in relative terms (see Table 1).

Table 1

Estimate of impact of debt restructuring under CBP

Restructurings of mortage debt	1,684
% mortgages for acquisition of residence	0.03%
% mortgage novations	0.47%
Absolute figures:	
No. mortgages for acquisition of residence (31/12/2012)	6,140,645
No. of mortgage novations (Apr12-Sep13)	358,835

Sources: Bank of Spain, Ministry of Economy and Competitiveness, INE and AFI.

[2] For further information, see the following link: http://www.mineco.gob.es/portal/site/mineco/menuitem.ac30f9268750bd56a0b0240e026041a0/?vgnextoid=bc73a4cf7f892410VgnVCM1000001d04140aRCRD&vgnextchannel=864e154527515310VgnVCM1000001d04140aRCRD

[3] For further details, see publication in the Official State Gazette: http://www.boe.es/boe/dias/2012/03/10/pdfs/BOE-A-2012-3394.pdf

[4] Amended by Law 10/2013, of May 14th, of measures to strengthen mortgagor protection, debt restructuring and social rents, available at the following link: http://www.boe.es/boe/dias/2013/05/15/pdfs/BOE-A-2013-5073.pdf

[5] Amended by Law 10/2013.

Hence, if one takes note of the fact that behind each of these operations lies a mortgage, and further notes that there are now some 6 million outstanding mortgage loans in Spain, barely 0.03% of the total have benefited from the measure. If we compare it to the volume of mortgage novations arranged in the same period of time, that is, to the total mortgage loans whose financial conditions have been changed, then these would represent only about 0.5% of the total. This small percentage reveals that the measure was already being used by credit institutions to minimize mortgagors' risk of default and, accordingly, prevent an increase of the NPL rate in this business segment.

Only 0.5% of mortgage novations took place under the new framework approved by the government for the protection of mortgagors without resources. This small percentage reveals that the measure was already being used by credit institutions to minimize mortgagors' risk of default and, accordingly, prevent an increase of the NPL rate in this business segment.

The impact of the haircuts, for their part, is much more modest. According to figures published by the Ministry of Economy and Competitiveness, barely 6 such operations have been approved since this additional measure for the protection of mortgagors came into force.

Lastly, 611 dations in payment have been carried out under the CBP (see Table 2), which represents, according to Bank of Spain data, approximately 4% of the dations in payment of primary residences recorded in all of 2012 (the total number for the first three quarters of the year 2013 is unknown). Although this measure was not ultimately approved with a universal and retroactive character,[6] as a result of its inclusion in the reform of the Mortgage Law (Romero, 2013), the number of dations in payment approved under the CBP would represent barely 0.09% of the number of households that are underwater (that is, the value of their mortgage debt exceeds the value of the asset that is used to secure the mortgage): in other words, of the total potential group eligible for the measure in strictly economic or financial terms, if this option had been available to all types of debtor.

Table 2
Estimate of impact of dation of payment under CBP

Dation in payment of mortgage debt	611
total % of dations in payment of primary residence	4.33%
% underwater mortgages	0.09%
Absolute figures:	
Total dations in payment of primary residence (2012)	14,110
No. of underwater mortgages (3Q13)	672,000

Sources: Ministry of Economy and Competitiveness, INE, the Official Association of Mercantile and Property Registrars and AFI.

Two-year moratorium on evictions

One of the protective measures receiving the most attention in the media was the two-year moratorium on evictions for mortgagors in an especially vulnerable economic and social position. Approved in a Royal Decree-Law 27/2012, of November 15th, of urgent measures to strengthen mortgagors protection,[7] the government gave the measure continuity in Law 10/2013, of May 14th,

[6] Lastly the possibility was considered of applying haircuts to outstanding debt resulting from a mortgage foreclosure of between 20 and 35%, provided there is a repayment commitment in the following 8 and 5 years, respectively. For further information, see Law 10/2013.

[7] For further information, see the following link: http://www.boe.es/boe/dias/2012/11/16/pdfs/BOE-A-2012-14115.pdf

of measures to reinforce mortgagor protection, debt restructuring and social rents.

Taking into account solely the economic and financial requirements to be met by mortgagors who wish to benefit from the measure (the unavailability of statistics on the social requirements makes an estimate impossible), some 157,000 households could have benefited from a moratorium on evictions, which represents 0.96% of all households in Spain (Romero, 2013).

Table 3

Estimate of impact of 2-year moratorium on evictions

2-year moratorium on evictions	1,500
% potential beneficary households	0.96%
% total evictions from homes	3.17%
Absolute figures:	
Potential beneficiary households	157,000
Total evictions from homes (Jan13-Sep13)	47,340

Sources: Bank of Spain, Ministry of Economy and Competitiveness, the General Council of the Judiciary, INE and AFI.

According to data recently published by the Ministry of Economy and Competitiveness, 1,500 evictions have been stopped (see Table 3), which represents nearly 1% of potential beneficiary households (this percentage would likely be lower if the social requirements had been included in the estimate of the ratio´s denominator). If set against the total number of evictions registered from the coming into force of the measure until the end of the third quarter of 2013, the figure would represent barely above 3%. It is true, nonetheless, that the actual proportion may be somewhat larger, since the statistics published by the General Council of the Judiciary refer to all types of residences and not only primary ones, and to all forms of possession, not only ownership.

According to recent data, 1,500 evictions have been stopped, which represents nearly 1% of potential beneficiary households. If set against the total number of evictions registered from the coming into force of the measure until the end of the third quarter of 2013, the figure would represent barely above 3%.

Social Housing Fund

The Social Housing Fund represents another of the more significant measures aimed at protecting mortgagors that have been implemented in recent years. Enacted by the government, it consists of a stock of 6,000 residences held by credit institutions that have been offered for rent to all families that have been evicted and are in a situation of necessity or at risk of social exclusion. To enable access to housing on the part of this segment of the Spanish population, the rent for these residences ranges between 150 and 400 euros a month.

According to data published by the Ministry of Economy and Competitiveness, only 615 residences have been occupied (see Table 4),

Table 4

Estimate impact of FSV

FSV residences occupied	615
% capacity of FSV	10.25%
% deliveries of primary residences	
according to Bank of Spain	1.89%
according to Official Association of Mercantile and Property Registrars	2.05%
Absolute figures:	
No. of FSV residences	6,000
No. of deliveries of primary residences (2012)	
according to Bank of Spain	32,490
according to Official Association of Mercantile and Property Registrars	30,035

Sources: Bank of Spain, Ministry of Economy and Competitiveness and AFI.

that is, barely above 10% of the residences in the FSV. However, according to figures published by the Bank of Spain and the Official Association of Mercantile and Property Registrars, approximately 30,000 Spanish households lost their primary residence in 2012. That is, about 2% of evicted households were covered by this measure.

Conclusion

The results recently published by the Ministry of Economy and Competitiveness of some of the measures for the protection of mortgagors, such as the CBP, the moratorium on evictions or the creation of the FSV, allow for making an initial assessment of the situation. Under the CBP, only 0.03% of mortgaged households have benefited from a restructuring of their debt and barely 0.1% of those who could have applied for dation in payment, if it had been universal, have been allowed to benefit from this measure. Eviction has been suspended for two years for only 1% of potential beneficiary households, while only 2% of the households that have already lost their homes in a mortgage foreclosure have been able to occupy a residence provided by the FSV.

On their own, these percentages reveal the small extent of the impact of the measures to protect mortgagors since their coming into force through the third quarter of 2013, and how restrictive some of the eligibility requirements are. However, although an expansion of the exclusion threshold that defines the potential group of beneficiaries would broaden the social impact of the protective measures, it could also lead to other negative consequences for banks´ balance sheets (above all, with regard to the CBP) and, generally for the economic and financial stability of the country as a whole.

References

Romero, M. (2013), "Desahucios y dación en pago: estimación del impacto sobre el sistema bancario", *Cuadernos de Información Económica*, 223: 23-30.

Spain’s labor market two years after the reform: A good start, but no room for complacency

Daniel Fernández Kranz[1]

The 2012 labor reform was a necessary first step to address the inefficiencies of the Spanish labor market, but further efforts need to be taken to boost productivity, reduce temporary work and improve active labor market policies.

In 2012, the Spanish government approved an ambitious labor reform in an effort to correct the inefficiencies of the country´s labor market, which had devastating consequences for employment during the recent crisis. During the second and third quarters of 2013, the Spanish labor marked reached a turning point, demonstrating signs of a positive trend change. Wage moderation helped underpin modest net job creation, although salary adjustments fell mostly on temporary, unprotected, workers. Part of the reduction in unemployment can also be explained by the decrease in active labor force participants, as immigrants return back to their countries and young nationals migrate to other countries in search of jobs. That said, the reform fell short of addressing the duality of the Spanish labor market and more will need to be done on the two key issues of high youth and long-term unemployment. While the recent reform represents a necessary starting point to tackle the problems of the Spanish labor market, additional measures will need to be approved to boost productivity, reduce temporary employment and provide effective active labor market policies if Spain is to truly emerge from its unemployment crisis.

Almost two years have passed since the Spanish Government approved the most ambitious labor market reform since the start of democracy. The February 2012 reform attempted to correct the high rigidity of the Spanish labor market, in an effort to stop the destruction of jobs and the rapid increase in unemployment since 2008.

Two years after the law was passed, the outlook remains challenging. Since the first quarter of 2012, Spain has destroyed an additional 610,000 jobs. Unemployment has increased by 265,000 individuals (or 1.54 percent), an increase that would have been much larger if the number of individuals working or actively seeking a job would not have decreased by more than 400,000. The number of individuals unemployed for more than one year has increased by 633,000. Many of them are young individuals or prime age adults with low education and living in households where all family members are unemployed. Of the newly signed contracts, more than 90% continued to be temporary contracts. Despite claims that the 2012 reform made it easier for firms to adjust wages,

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salaries have continued to increase in industry during most of 2012 and 2013 and have only modestly decreased in services and construction, particularly in the case of part-time workers. This modest wage moderation has not affected equally all income groups, falling disproportionately among the lowest income earners. So inequality has greatly expanded since February 2012. Spain risks losing a whole generation of young individuals. Individuals younger than 25 have a rate of unemployment of 54%, two percentage points higher than when the 2012 reform was passed.

During the second and third quarters of 2013, however, the labor market reached a turning point. Net job creation has been in the order of 100,000 per quarter. Wage deflation linked to the labor market reform could be part of the reason. Yet, this is not enough. Spain destroyed 3.6 million jobs since 2008 and at this rate of job creation it would take nine years to reach the level of employment in 2008. Furthermore, the wage moderation that we saw at the end of 2012 seems to be slowing down in the second half of 2013 just when the overall economic outlook started to improve slightly. Spain needs to continue to reform its labor market. The gap between workers with temporary and permanent contracts continues almost as large as before the 2012 reform. As long as employers are allowed to hire workers temporarily to fill jobs of a non temporary nature, the Spanish labor market will be inefficient, labor productivity will be low and firms will rely little on internal flexibility measures to adjust to economic shocks. A large number of the unemployed have very low levels of education and qualifications. In the absence of another construction sector boom, these unemployed individuals will find jobs only if they get the new skills that the economy needs. The Spanish system of active labor market policies is not providing this kind of assistance. Instead, it focuses on subsidies for the creation of jobs. New jobs that would have been created anyway or that substitute jobs elsewhere. The Spanish government recently passed a law to reform the education system and this was done in the context of opposition from almost all other groups in Parliament. One third of teenagers don’t finish secondary education in Spain, one of the highest rates in the OECD. The Spanish labor market needs to be reformed further, but its education system as well.

The rest of this article describes in greater detail the evolution of different aspects of the Spanish labor market. The details of the 2012 reform have been discussed elsewhere (Fernández-Kranz, 2013) so in this article the emphasis is placed on comparing the trends before and after the 2012 reform. As stated above, this comparison yields poor results in general, at best just a moderate change of trend, which clearly is not sufficient given the magnitude of the problems that the nation is facing.

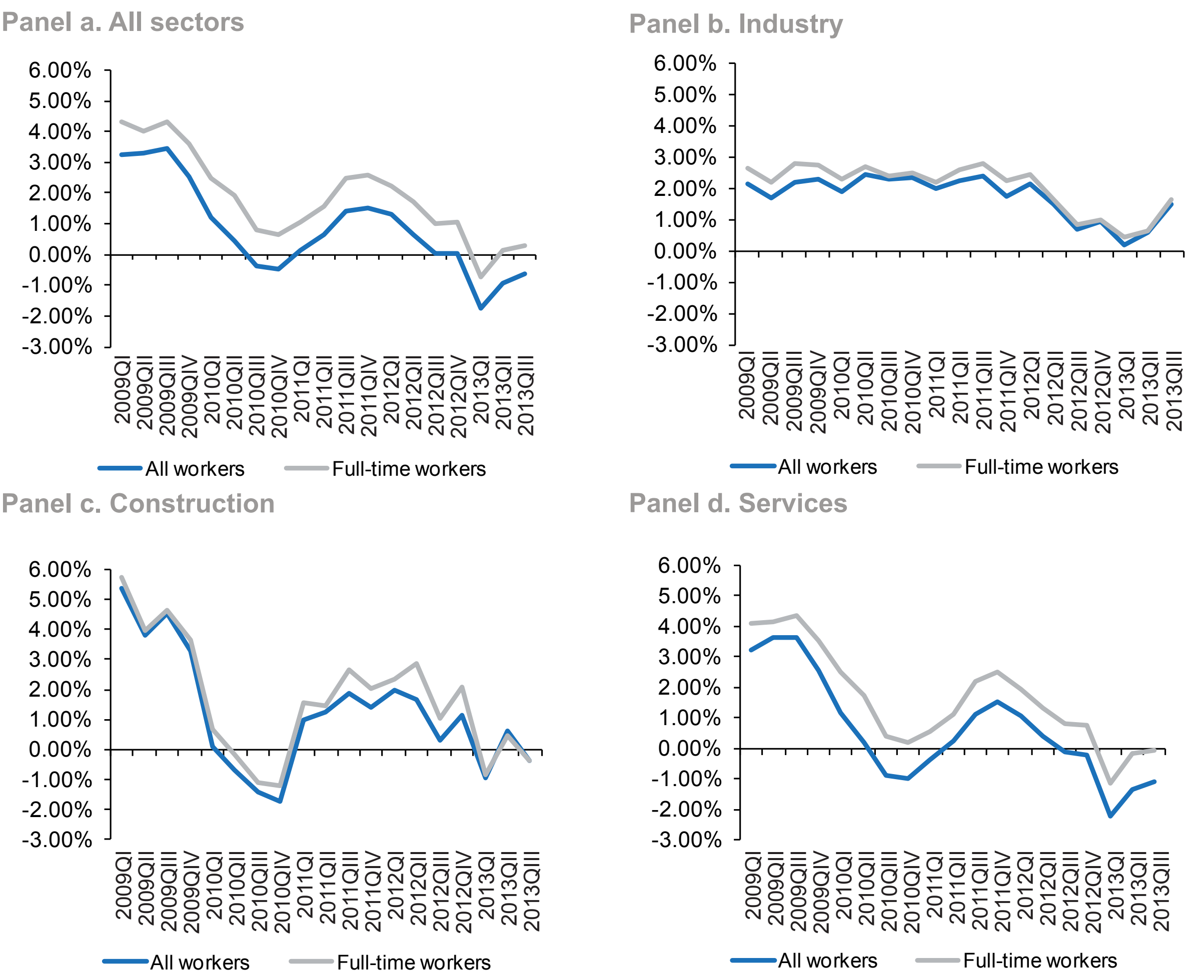
Internal flexibility and wage decreases

One of the most common claims in discussions about the impact of the 2012 reform is that firms can now adjust to adverse economic shocks by modifying wages and other work conditions instead of employment (*internal flexibility*). Furthermore, it has been claimed that wages have fallen since the reform was passed. Exhibit 1 shows the percent change of real salaries in Spain since 2009 and until the third quarter of 2013 (across different sectors going from panels b to d). In the Exhibit, wages are deflated by the GDP deflator and therefore the graph shows the real wage change from year to year at each quarter.

Although it is true that real wages have decreased in the last four quarters, this is mainly driven by the surge of part-time work (see Exhibit 2), the decrease of wages of part-time workers and by workers in the services and construction sectors. These last two sectors concentrate a majority of temporary workers in Spain, so the results in Exhibit 1 suggest that the wage contraction has fallen disproportionately on the unprotected workers. In the industry sector, although there is

Exhibit 1

Percent change in real salaries (YoY change)



Source: Spanish Quarterly Labor Cost Survey (QLCS).

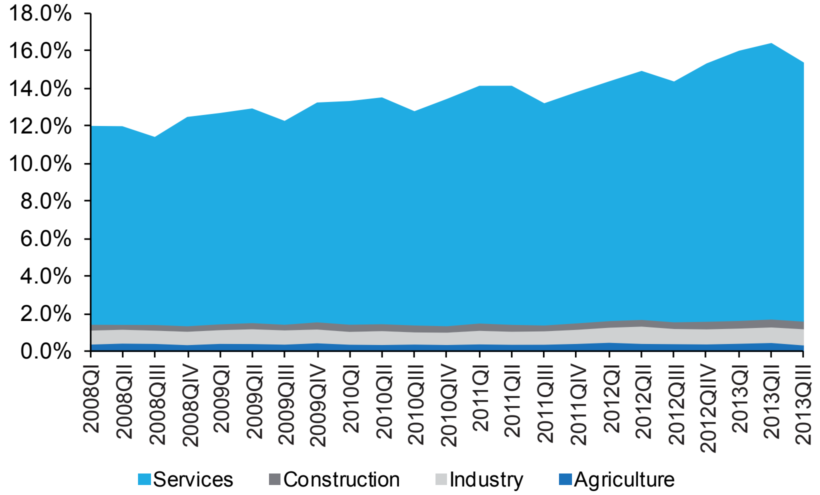
a clear change of trend post-reform, wages have not decreased, they continued to increased albeit at a lower rate than before 2012.

Wages in the construction and services sectors are highly cyclical and they experienced real decreases also before the 2012 reform, during part of 2010 and 2011. In fact, as economic conditions (in terms of GDP growth) have become slightly better towards the end of 2013, real wage deflation has slowed down in general, with increases of more than 1% in industry.

At best, the results in Exhibit 1 suggest that the 2012 reform has had a moderate impact on the wage setting process in Spain. They also suggest that the effects of this are not evenly distributed across various groups of workers. This is more visible in Exhibit 3, which shows the change in the real labor income in the main types of jobs across deciles of the income distribution. Decile 1 represents the lowest income earners, decile 10, the highest income earners, etc. From top to bottom each trend shows the cumulative change in the real labor income since 2008 and up

Exhibit 2

Workers in part-time jobs (%). Contribution by each sector of activity

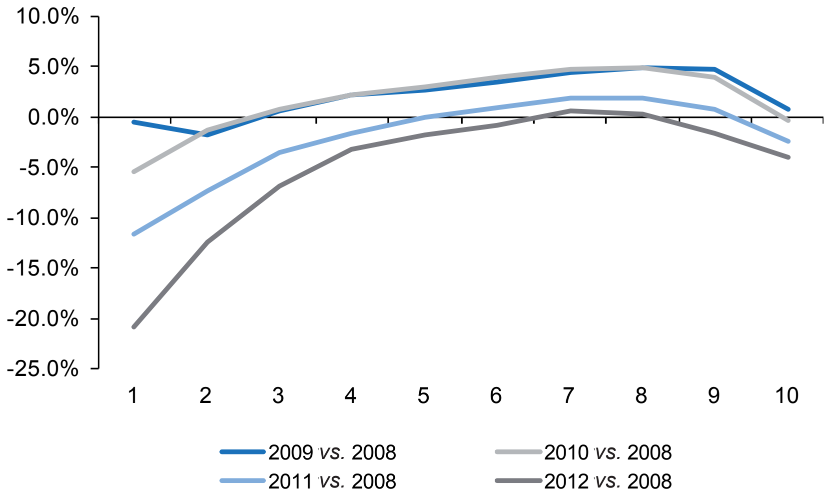


Source: Own calculations using data from the Spanish Labor Force Survey.

to each year post 2008. It is quite shocking to see how real labor incomes increased for the majority of employed individuals in Spain during 2009 and 2010, when thousands of jobs were being destroyed every day. Since then, and starting in 2011, real incomes fell, but mainly for groups in the lowest deciles, implying a large increase of income inequality. Because these are incomes from the main types of jobs, the recent surge in part-time work explains part of this, as well as changes in the wage per hour. Furthermore, for the median worker the decrease in wages has been quite

Exhibit 3

Change in real labor income in main jobs, by decile of the income distribution



Source: Spanish Labor Force Survey (LFS).

The results suggest that the 2012 reform has had a moderate impact on the wage setting process in Spain. They also suggest that the effects of this are not evenly distributed across various groups of workers.

modest with less than a two percent cumulative decrease in four years, since 2008.

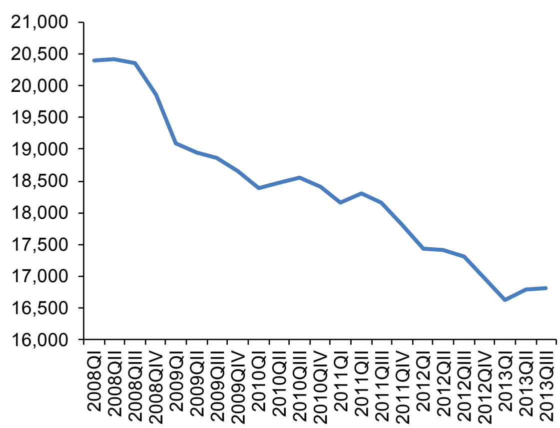
Employment and labor market duality

As mentioned previously, one of the premises of the 2012 reform is that it would induce firms to adjust wages rather that employment in the face of adverse economic conditions. However, job destruction continued to be intense in the quarters after the law was passed (see Exhibit 4, panel a) and only stopped in the second and third quarters of 2013 due to a surge of temporary employment (panels b and c in Exhibit 4). In fact,

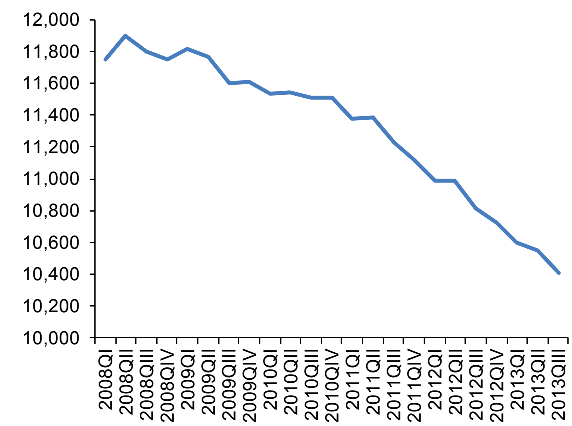
Exhibit 4

Employed individuals (´000s)

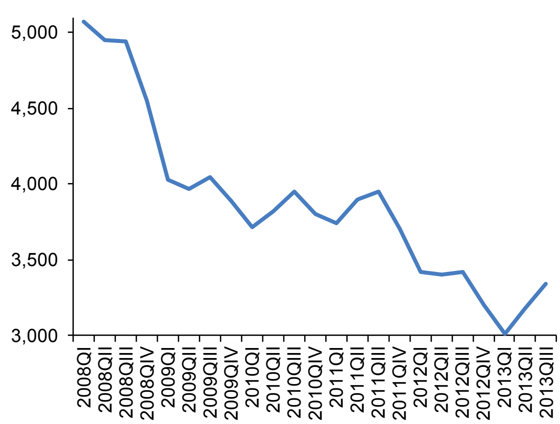
Panel a. All contracts



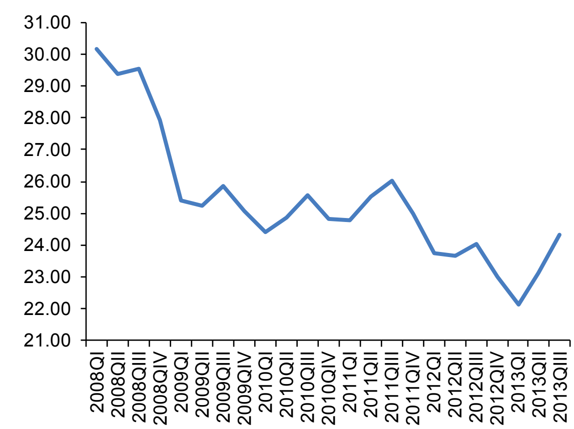
Panel b. Permanent contracts



Panel c. Temporary contracts



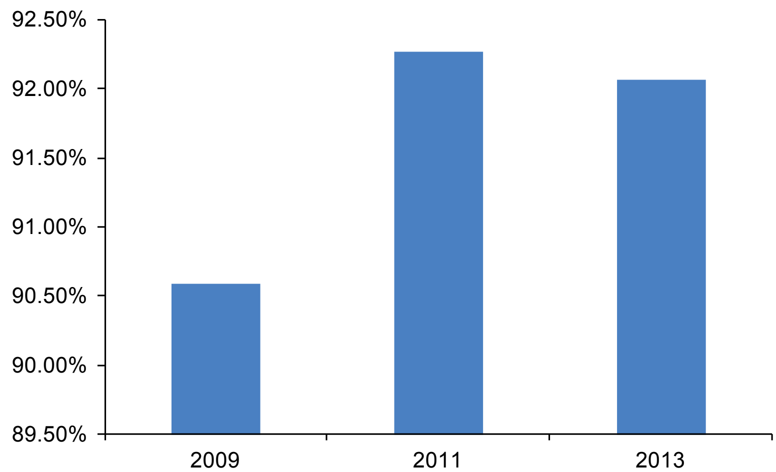
Panel d. Rate of temporary workers



Source: Spanish Labor Force Survey (LFS).

Exhibit 5

Percent of newly signed contracts that are temporary contracts



Source:Spanish Ministry of Employment and Social Security.

of all newly signed contracts in 2013, more than 92% have been temporary contracts (see Exhibit 5). This has always been a feature of the Spanish labor market: the reliance on temporary contracts to adjust both upwards and downwards when economic conditions change. This feature and the corresponding segmentation of the workforce between good jobs (permanent contracts) and bad jobs (temporary contracts), often termed as labor market duality, has always been seen as one of the largest inefficiencies of the Spanish labor market hampering productivity and innovation. According to the data we have available, the 2012 reform has done little to solve this problem. Although the reform reduced the protection of permanent workers, it left basically unchanged the conditions under which firms can hire and fire temporary workers. Therefore, the gap between these two groups of workers continues to be very large and firms continue to rely on temporary workers for any adjustment they need to make. The rate of temporary work, which decreased from 2008 to 2012 due to the massive destruction of these jobs, has increased again in 2013, when hiring started to pick up (see panel d in Exhibit 4).

As long as Spanish firms are allowed to hire temporary workers for jobs of a non temporary nature, the burden of the adjustment will fall disproportionately on temporary workers and firms' use of internal flexibility will be modest.

Unemployment rate and active individuals

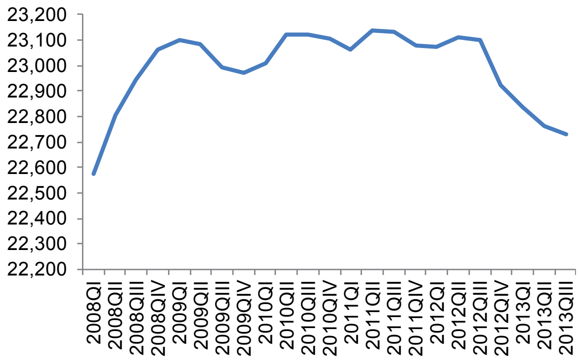
Unemployment continues to be a key problem. If one looks at the six quarters of available data post February 2012, the problem has gotten worse. The unemployment rate went from 24.44% at the end of the first quarter of 2012 to 25.98% in 2013. It is true that there is a change of trend in 2013, with

It is true that there is a change of trend in 2013, with a modest decrease of unemployment, but this is in part due to the fact that Spanish workers have left the labor market in large numbers and they do not qualify as unemployed in official statistics anymore.

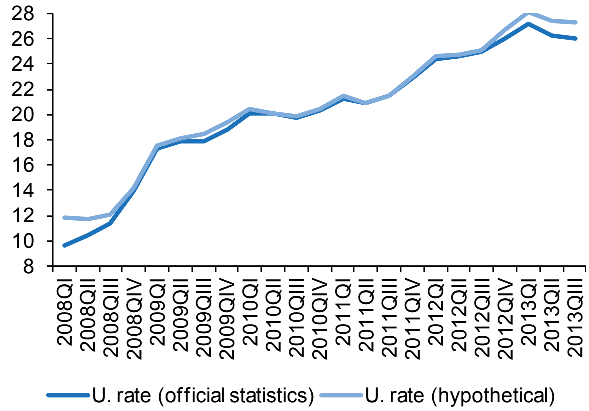
Exhibit 6

Active individuals ('000s) and unemployment rate

Panel a. Active individuals



Panel b. Unemployment rate



Source: Own calculations using data from the Spanish Labor Force Survey (LFS).

a modest decrease of unemployment, but this is in part due to the fact that Spanish workers have left the labor market in large numbers and they do not qualify as unemployed in official statistics anymore. Panel a of Exhibit 6 shows the number of active individuals, that is, those working or actively looking for a job. The number of active individuals usually rises in the initial stages of an economic crisis because relatives of unemployed individuals decide to go back to the labor market in order to find a job that could compensate the negative household income shock. This is true in Spain among women, for example, and especially so in the context of the current crisis when in the initial years, many men lost their jobs in the construction sector. However, as individuals become long-term unemployed, that is, remain unemployed for many quarters or even years, they become discouraged and may decide to leave the labor market. Some leave the country (such as immigrants that return to their countries of origin, or young nationals that migrate to other countries). Others simply stay but refuse to continue to search for a job. Since 2011, when the number of active individuals reached a peak in the second quarter, the number of individuals working or looking for a job has fallen by more than 400,000 (see panel a in Exhibit 6). Panel b of Exhibit 6 compares the official unemployment rate with the one that would result from considering unemployed all those individuals that became inactive between 2011 and 2013. As can be seen from the Exhibit, if one removes from the calculation the effect of the decrease of the number of active individuals, the rate of unemployment during 2013 stays practically constant at 27.29% with little visible effect of the 2012 reform.

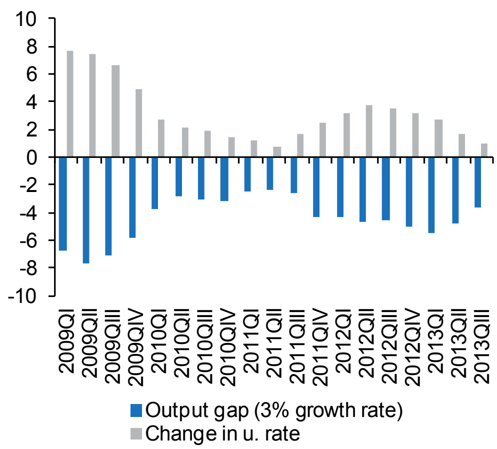
The relationship between employment, unemployment and GDP

Of course much of the trends we see in the Exhibits could be the result not of the labor market reform but of the cyclical evolution of the Spanish economy. In particular they could be the result of changes in the rate of growth of its aggregate output or GDP. One way to try to assess if the 2012 reform has had an effect on the functioning of the Spanish labor market is to see if there has been a change in the relationship between changes

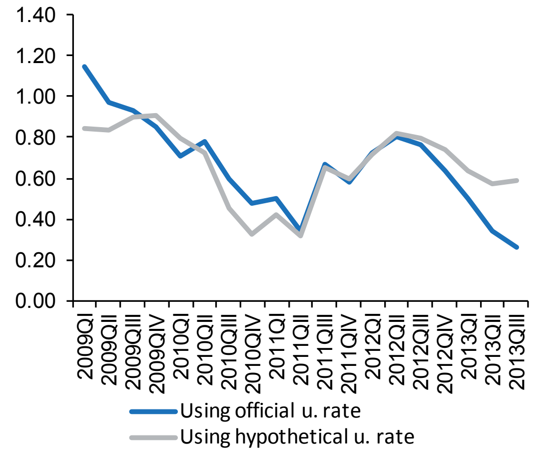
Exhibit 7

Relation between the output gap and the unemployment rate (u. rate) and employment

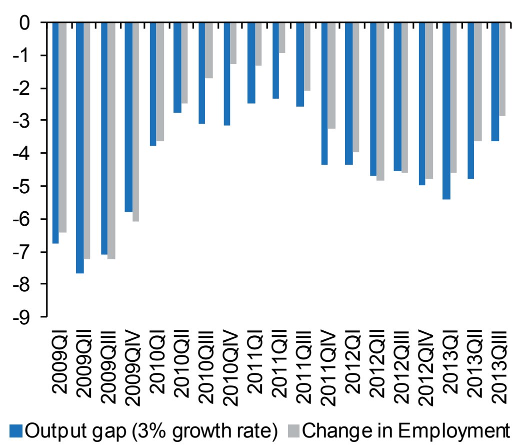
Panel a. Output gap *versus* change in the u. rate



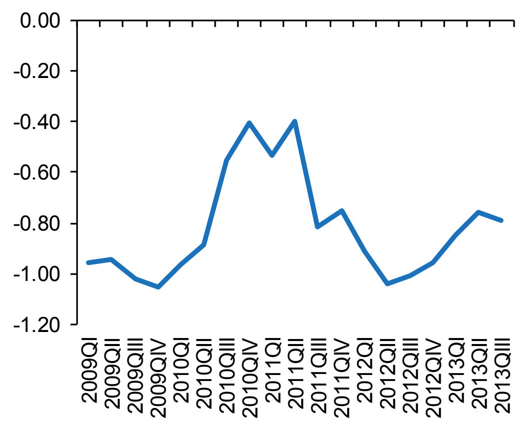
Panel b. Increase in the u. rate per output gap



Panel c. Output gap *versus* change in employment



Panel d. Decrease in employment per output gap



Source: Own calculations using data from the Labor Force Survey and INE.

in the GDP on the one hand and changes in the employment and unemployment rate on the other. Is the Spanish labor market now more resilient to decreases in GDP? Does the level of employment or unemployment respond now differently than before when aggregate demand or GDP changes? Economists traditionally have looked at this issue by considering that an economy creates or destroys jobs (reduces or generates unemployment) when its GDP increases above or below a threshold where employment is stable (Okun's Law). This threshold varies from country to country, usually between 2% to 3%. That is, when GDP grows at 2% to 3% employment is stable, but when it grows above (below) that rate the economy creates (destroys) jobs. Exhibit 7 shows the results of a simplified version of this type of analysis for the period between 2009 and

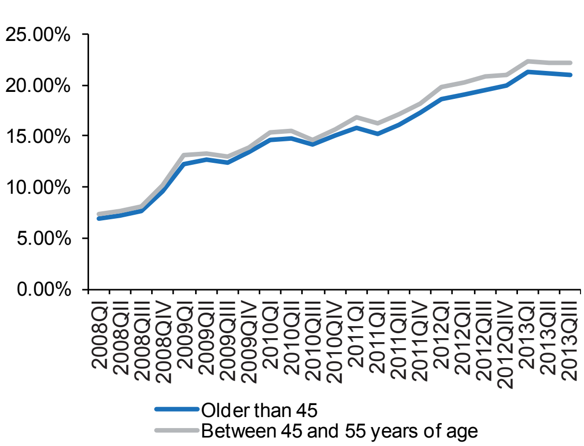
2013. In that analysis, an output gap is defined as the difference between the yearly rate of growth of GDP and a rate of 3% (the analysis could be done using other benchmark rates of GDP growth and the results would be quite similar).

Panels a and b in Exhibit 7 show the results for the unemployment rate. A positive result of the 2012 reform would show up in a lower relation between changes in unemployment and the output gap (panel b). Although it is true that after the reform there is a relatively low increase in the unemployment rate when GDP grows less than 3%, it is also true that this relationship is highly cyclical and it was also low in 2010 and 2011. It is difficult to infer a clear change of trend post 2012, especially when one looks at the unemployment rate assuming that those 400 thousand active individuals that left the labor market between 2012 and 2013 had remained active (that is, using the hypothetical u. rate). If one looks at the relation between the output gap and the level of employment (panels c and d) the conclusion is even less positive. Note that by construction, the

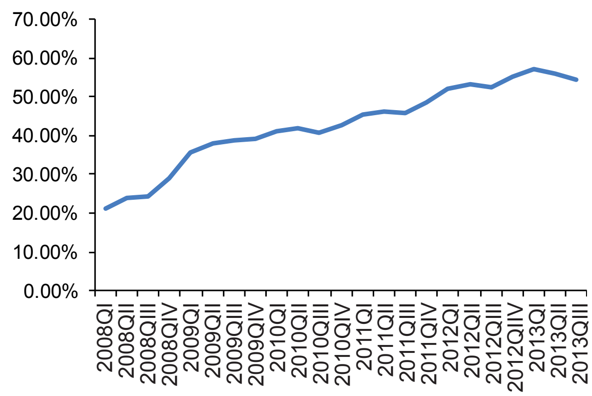
Exhibit 8

Unemployment rate and level of education of the unemployed by age group

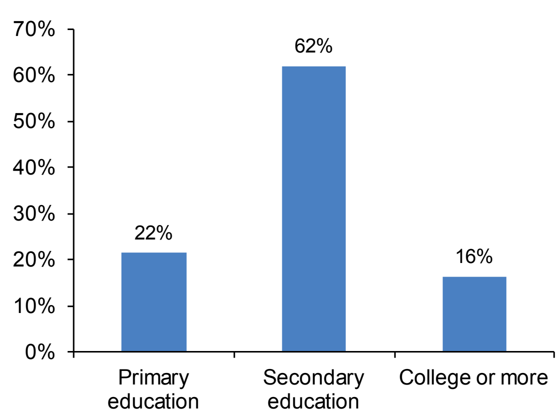
Panel a. Between 45 and 55 years of age



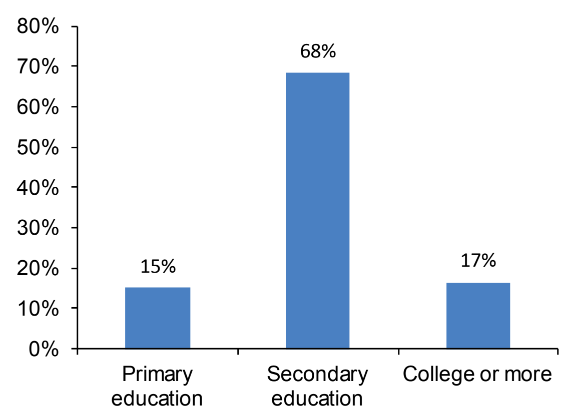
Panel b. Younger than 25



Panel c. Between 45 and 55 years old



Panel d. Younger than 25

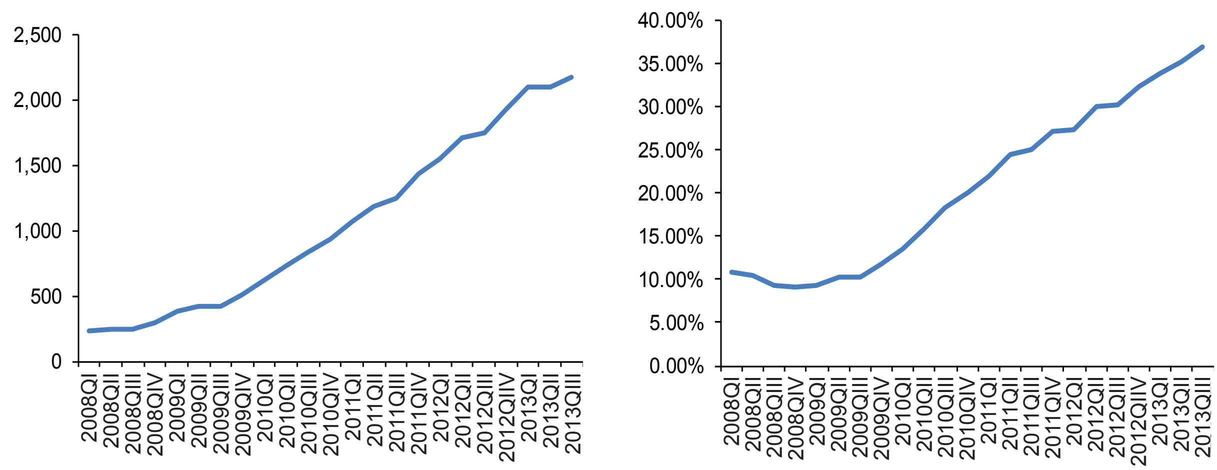


Source: Spanish Labor Force Survey.

Exhibit 9

Long term unemployment (looking for a job more than 2 years)

Panel a. Total Number of individuals | **Panel b. As % of the unemployed**



Source:Spanish Labor Force Survey.

evolution of the level of employment is not affected by changes in the number of active individuals. According to the Exhibit, the rate of job destruction per output gap after 2012 is among the highest in the series although it has improved slightly at the end of 2013.

The two biggest challenges: Youth and long-term unemployment

Apart from the unresolved issue of labor market duality, there are at least two other aspects of the Spanish labor market that need urgent attention and that the 2012 reform seems not to have addressed. One is the extraordinarily high rate of youth unemployment. The other is the increase in long-term unemployment. Youth unemployment remains high after the 2012 reform. Since the law was passed, that rate of unemployment increased from 52% to 54% (Panel b of Exhibit 8). There has been a modest decrease in the last two quarters of 2013, however part of this is due to the fact that thousands of young individuals are migrating to other countries to find better job opportunities. Neither the contract for young entrepreneurs, nor the economic incentives to hire young individuals included in the 2012 reform seem to have helped reduce this very high rate of unemployment.

Long term unemployment, defined as looking for a job during more than two years, has increased significantly since the 2012 reform was passed, from 27.4% of all unemployed in the first quarter of 2012 to 36.8% at the end of 2013 (See Exhibit 9, panels a and b). As opposed to other variables, long-term unemployment shows no change of trend in 2013 since it continued to increase during the first three quarters of the year. More than 80% of these unemployed individuals have just secondary education or less and therefore face a high risk of permanent exclusion from the labor market.

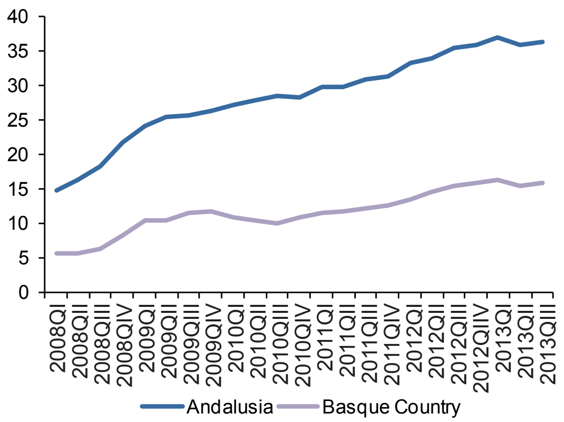
Conclusion: The solution must come from improvements in productivity

Spain faces a difficult situation. Of the six million unemployed individuals, more than two million have been jobless for more than two years, almost one million have less than 25 years of age and a large

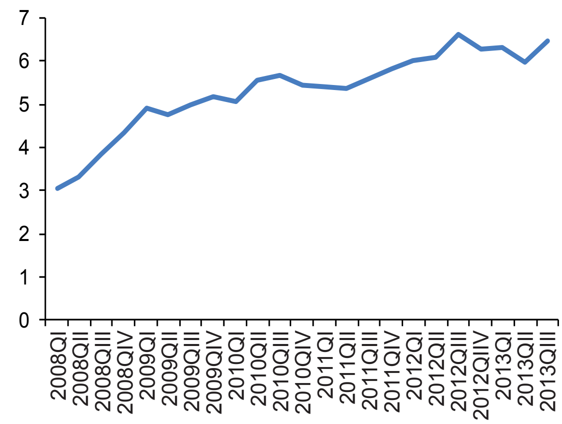
Exhibit 10

Large disparities in unemployment rates across regions

Panel a. Unemployment rate in Andalusia and Basque Country



Panel b. Standard deviation of rates of unemployment across Spanish regions



Source: Spanish Labor Force Survey.

percent lack the skills and qualifications that the market demands.

The solution cannot come only from internal flexibility measures and wage moderation. And yet this seems to be the strategy that the 2012 reform has emphasized, with modest results. A more comprehensive solution must target improvements in labor productivity. In the long run, Spain needs to reform and improve its education system. In the short term, it needs to improve its active labor market policies. So far, this set of policies has failed to redirect jobless workers to the few vacancies that exist in the Spanish labor market. Only two percent of the new contracts signed are the result of the intermediation services of public employment agencies. The large disparities in the rates of unemployment across Spanish regions is inconsistent with a flexible and efficient labor market (see Exhibit 10, panel a). The fact that there are 17 different public employment agencies (one for each region) is not helping and disparities in unemployment rates across regions have increased significantly since 2008 (see Exhibit 10, panel b). The Spanish government approved this past summer the Annual Plan of Employment Policies. One key measure is that the budget of public employment agencies will now depend to a large extent on the success of each of these agencies in achieving their objectives. We do not know, however, how the government will measure this rate of success. Other measures include a bigger role for private employment agencies in coordination with public ones and a bigger emphasis on individual itineraries for training and education. These are steps in the right direction, but, again, more needs to be done. In its recent report about the Spanish labor market reform (OECD 2013), the OECD recommends that active labor market policies be more closely linked to passive labor market policies (mainly, unemployment benefits). Spain needs to improve not only the regulation of its labor market but also those policies that have a direct effect on labor productivity, such as active labor market policies and education. The 2012 reform is a good first step but more needs to be done.

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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 Savings Banks and Banking Foundations (Law 26/2013, published in the official gazette (BOE) on December 28th, 2013)

This Law sets out the legal framework for the savings banks and the new regulation on banking foundations:

I. Savings banks

- Their business is limited to one Autonomous Region or up to ten contiguous provinces.
- Their main business is deposit-taking and lending.
- A focus on community welfare activities.
- Their governing bodies are defined as being the general assembly, the board of directors, and the steering committee. Membership of a savings bank's governing bodies will be incompatible with the holding of elected political office or any other government position for a period of two years.
- Savings banks are to prepare and submit an annual corporate governance report and a compensation report.

II. Banking foundations

- **Banking foundations** are foundations with a direct or indirect interest of at least **10% of a credit institution's share capital** or voting rights, or which have voting power enabling them to appoint or dismiss a member of its governing body.
- The main function of these foundations is to manage their **community welfare activities** and their shareholding in the credit institution.
- The foundation's **registered name** must include the words "fundación bancaria" (banking foundation) and they may use the names of the savings banks from which they derive.
- Banking foundations will be governed by the **legal framework** established in this law, as well as the general legislation on foundations.
- Their governing bodies will be their Board of Trustees and its delegate commissions, the Director, and other bodies provided for by the foundation's charter.

➢ **Conversion of savings banks into banking foundations.** If a savings bank exceeds either of the following thresholds at the consolidated group level, it will be obliged to transfer the

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assets associated with its financial business to a credit institution:

- total consolidated assets of more than **10 billion euros**, or

- market share in its autonomous region, in terms of deposits, of more than **35%.**

➢ **Interests in credit institutions**

- If a foundation (or a number of foundations acting in concert) holds **more than 30%** of the shares in a credit institution, or exercises **control** over it as defined in the Commercial Code, it must comply with certain additional requirements:

  ✓ Preparation of a protocol for the management of its financial interest, which includes the basic criteria of this strategic shareholding, describes the relationships between the trustees and the institution's governing bodies, establishes the operational criteria for the relationship between them, and defines how to prevent possible conflicts of interest. This plan must be made public, and will be subject to the prior approval of the Bank of Spain, which will define its minimum content.

  ✓ Preparation of an annual financial plan describing how to address the credit institution's possible capital needs, and the foundation's criteria and strategy for its investments in the financial institution.

- If the shareholding of the foundation (or foundations) in the credit institution **exceeds 50% or represents a controlling interest**, as defined in the Commercial Code, the financial plan must also include:

  ✓ An **investment diversification and risk management plan**.

  ✓ The **endowment of a reserve fund**. This will **not be necessary** if the diversification plan includes a divestment programme to reduce its holding in the credit institution to below 50% over not more than five years. The Bank of Spain will be responsible for deciding the minimum content of the financial plan.

- The relevant Autonomous Region will be responsible for the **supervisory authority** for those banking foundations (the "*protectorado*") operating in just one Autonomous Region. This responsibility will lie with the Ministry of Economic Affairs and Competitiveness in the case of banking foundations extending over more than one Autonomous Region.

- Banking foundations will be required to draw up an **annual corporate governance report**.

- They will be **liable for tax** under the general corporate tax system and will not be eligible for the special tax treatment applicable to ordinary foundations.

- Within six months of the entry into force of this law, **special foundations** will be turned into banking foundations if the relevant requirements are met, or into ordinary foundations otherwise. **Ordinary foundations** that already have a shareholding of more than 10% will only be converted into banking foundations if that percentage is increased.

- **Montes de Piedad** (charitable pawnbrokers): may be assigned to the community welfare activities of savings banks, banking foundations or the credit institutions they control, and to ordinary foundations.

- Savings banks, banking foundations and credit institutions linked to them may be grouped into territorial **federations**.

- Credit institutions which have taken over a savings bank's financial business may use their **well-known commercial names or brands**, provided they own these brands or commercial names or have the owners' prior consent to use them.

Adaptation of CRR-CRD IV through Royal Decree-Law on urgent measures to adapt Spanish legislation to European regulations on the supervision and solvency of financial institutions (Royal Decree-Law 14/2013, published in the state gazette (BOE) on November 30th) and of the draft bill on credit institution supervision and solvency

Royal Decree-Law 14/2013 adapts Spain's legislation to implement the essential changes necessary for European regulations to come into effect on January 1st, 2014. Specifically, it amends the package of legislation known as CRR-CRD IV[1] to adapt the national standards on credit institution supervision.

The main features of RD-L 14/2013 are:

- The CRR is now classified as a **banking discipline and organisation rule**.
- The Bank of Spain and the CNMV (National Securities Market Commission) are designated as the competent national authorities for discretionary application.
- The Bank of Spain's and CNMV's **supervisory measures** have been strengthened.
- **Corporate Governance**. Key points concern remunerations of credit institutions and certain investment firms.
- **Approval of fiscal rules on the monetisation of deferred tax assets (DTAs)**. The implementation of the CRR in national legislation **avoids the possibility that deferred tax assets arising from temporary differences do not have to be discounted from capital provided the member state's internal tax regulations provide for their monetisation**.
- **Other points**:
  - **Preference shares will be eligible as own funds under the terms of the CRR** (additional tier 1 capital or common equity tier 1 capital).
  - **The core capital requirement** established in RD-L 2/2011 has been eliminated so as to converge with the definition in the CRR. However, in order to meet the **MoU's requirement** that a minimum capital of 9% be kept until December 31st, 2014, the **Bank of Spain may prevent or restrict any distribution of tier 1 capital components** that would have been eligible to comply with the minimum core capital requirements under the aforementioned Royal-Decree Law, if, in 2014, in absolute terms, these distributions exceed the excess capital with respect to the legally required minimum on December 31st, 2013.
  - **Finance companies are no longer classified as credit institutions**.

The **draft bill on supervision and solvency** aims to continue the transposition of CRR-CRD IV and consequently recasts the main rules on credit institution organisation and discipline.

[1] Regulation 575/2013 of the European Parliament and the Council, June 26th, 2013, on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (CRR) and Directive 2013/36/EU of the European Parliament and of the Council of June 26th, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV).

The **main changes** the bill introduces are:

1. **Corporate Governance**. It includes part of the work begun by Royal Decree-Law 14/2013 on remunerations, and:

   - It implements the rules on incompatible activities applicable to credit institutions' directors.
   - The office of chairman of the board will be incompatible with that of chief executive, unless authorised by the Bank of Spain.
   - All institutions are to have an appointments committee, a compensation committee, and a risk committee.
   - Institutions are to disclose the total remuneration paid to each member of the board of directors.
   - All credit institutions will be required to publish an "annual banking report."

2. **Solvency of credit institutions**:

   - **Capital buffers**. The CRD IV treatment of the four capital buffers in addition to those required to meet the capital requirements established in the CRR has been left unchanged. Three of them are non-discretionary, namely those for capital conservation, institutions of global systemic relevance, and other systemically relevant institutions.
   - **Transitional periods**. Those for capital and the various buffers are **unchanged from CRD IV**, with national options to bring them forward not having been applied. Thus, the CET 1 ratio will be 4% in 2014 and 4.5% in 2015.
   - **Liquidity**. To set liquidity requirement levels appropriately, the Bank of Spain will assess the business model, corporate governance procedures and systems, supervision and evaluation findings, and all systemic risks.
   - At least once a year, the Bank of Spain will subject those credit institutions under its supervision to a **stress test** to facilitate the envisaged supervisory review and assessment process.
   - **If solvency regulations are not complied with**, the Bank of Spain will be empowered to intervene in the entity's activities, and if the situation is particularly serious, it may take control of the entity and replace its governing bodies.

3. **Penalty system**. The changes primarily concern the inclusion of new penalty rates and the modification of the amount and form of the calculation of the applicable infringements and their publication.

4. The rules for eligibility as own funds of **preference shares**, rules applicable to **institutional protection systems**, and other legal rules on the transitional application of certain precepts while they are being phased in are also defined.

Law on transparency, public access to information, and good governance (Law 19/2013, published in the official gazette (BOE) on December 10th, 2013)

This Law seeks to improve transparency in public life, recognising and guaranteeing access to information, and establishing good governance obligations public officials are to abide by.

It also **amends Law 10/2010 of April 28th, 2010, on the prevention of money laundering and terrorist financing**:

- **Application of due diligence measures**, establishing exceptions in the case of occasional transactions that do not exceed **a quantitative threshold**.
- Simplified due diligence measures, with products or transactions to which reporting entities are

entitled not to apply due diligence measures being exempt from the regulations.

- Application of simplified due diligence measures that are graduated in line with the level of risk.

- The concept of persons with public responsibilities in Spain has been broadened to include their family members and relatives.

Bank of Spain Circular amending accounting circular and the Central Credit Register (CIRBE) (Circular 5/2013, published in the BOE on November 9th, 2013)

The following rules have been amended:

- **Accounting circular** (Bank of Spain Circular 4/2004): together with a number of technical improvements, the changes aim to adapt the Spanish accounting framework to International Accounting Standards and International Financial Reporting Standards.

  - The **definition of control** has been adapted to avoid possible conflicts in the formulation of consolidated public and confidential statements where no majority of voting rights is held or agency relationships exist, by recasting the joint agreements by eliminating the method of proportional consolidation for the consolidation of joint businesses.

  - In the case of **defined-benefit pension plans** the possibility of deferring the actual results in accordance with an interval of fluctuation has been eliminated and certain clarifications have been added regarding the estimate and accounting impact of instruments measured at fair value.

  - New requirements have been added regarding information on the **transfers of financial assets and netting of balances**, including replacement of the current statement of classification of credit by purpose by a new, broader, monthly statement.

- **Bank of Spain Central Credit Register (CIRBE)** (Bank of Spain Circular 1/2013): requiring information from entities on the financing of small businesses and micro-enterprises in order to be able to assess financing policy for this type of enterprise, while slightly lengthening the time allowed for the first data to be sent to the central credit register, due to the complexity of its implementation.

Spanish economic forecasts panel: January 2014[1]

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2013 has been raised a tenth of a percent to -1.2%

The economic indicators continued the trend shown over the course of 2013 into the fourth quarter, pointing to a modest recovery in consumption and investments in capital goods. In general, the industry and services activity indicators also improved, as did employment. Particularly noteworthy was the rise in the qualitative indicators, such as the PMI and the confidence indicators, especially in December. According to consensus estimates, GDP growth in the quarter was 0.2%. This yields a rate for the year as a whole of -1.2%, a tenth of a percentage point higher than the November panel forecast.

Domestic demand's expected contribution to growth has been revised upwards to -3.0 percentage points, and the contribution from the external sector has been revised downwards to 1.8 pp. The origin of the change in the domestic demand forecast is the expected growth correction for public consumption, which is now projected to drop by 1.6%, rather than the 2.7% decrease forecast in November. The change is because new data is now available on the progress of public expenditure from both the third quarter national accounts and the budgetary execution figures. These data confirm that the government's process of public deficit adjustment has stalled.

The forecast for 2014 has been revised upwards a tenth of a point to 0.9%

The growth forecast for 2014 has also been raised by one tenth of a percentage point, to 0.9%. This is significantly above both the government's and international organisations' forecasts. As in the previous panel, expected growth in household consumption has been revised upwards, and is now projected to reach 0.6%. The growth forecast for public consumption and investment in equipment has also been corrected upwards.

The quarterly profile derived from the consensus figures (Table 2) continues to indicate positive growth for the coming quarters at rates slightly higher than those in the previous panel.

Further improvement in the industrial activity forecast

Industrial activity, as measured by the industrial production index, showed a modest trend towards recovery over the course of 2013, although growth rates were negative in year-on-year terms. The annual change in 2013 is estimated to have been -2.0%, while the consensus forecast for 2014 is growth of 0.8%.

Inflation was lower than expected

After falling to -0.1% in October, inflation returned to positive terrain in the following months, confirming

[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.

the drop to have been a transitory phenomenon. December's result was a rise of 0.2%, such that the average rate over the year as a whole came to 1.4%, which is one tenth of a percentage point lower than in the last Forecast Panel.

Inflationary pressures on both the supply and demand sides will remain very weak in 2014, such that the forecast average rate is 1%, which is a tenth of a percentage point lower than in the previous panel. The consensus forecast for the December year-on-year rate is 1.1% (Table 3).

The employment forecast has improved

Employment continued to improve in the last quarter of 2013, as shown by the social security registration figures, which showed positive quarter-on-quarter growth for the first time since early 2008.

Consensus estimates for 2013 as a whole point to a drop in employment (measured in full-time equivalent jobs) of 3.1%, while no change is now expected for 2014, in comparison with -0.2% expected in the previous Panel. The average annual unemployment rate is also expected to drop in 2014: to 25.6%, from the 26.4% estimated for 2013.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost (ULC) growth estimates. On this basis, productivity is expected to grow by 2% in 2013 and 0.9% in 2014, while ULCs are expected to drop by 1.8% and 0.8% this year and next, respectively. The process of recovering cost-competitiveness is, therefore, expected to continue.

The trade balance in 2013 and 2014 will be positive

The current account of the balance of payments, which has been in surplus since August 2013, posted a positive balance of 4.2 billion euros between January and October. This contrasts with the deficit of 15.3 billion euros over the same period of the previous year, and even more so with the 91.4 billion euro deficit in this period of 2008.

The consensus forecast for this variable continues to suggest a surplus, although its size has been revised downwards in both 2013 and 2014, in line with the anticipated more favourable behaviour of domestic demand, for which the forecasts are now 1.1% of GDP in 2013 and 1.8% in 2014.

The government deficit targets will not be met

The general government deficit to September came to 4.4% of the whole year's estimated GDP. Given that the last quarter of the year is always strongly in deficit, the expectation for meeting the 6.5% target is low. Indeed, the data for the period to November show the central government to have already overshot its target for 2013 by 0.16 percentage points.

Consequently, the consensus forecast for the 2013 general government deficit has worsened by a tenth of a percentage point to 6.7% of GDP –two tenths of a percentage point over the target. The forecast for 2014 remains 5.9% of GDP, one tenth of a percentage point higher than the target for the year.

The external context is expected to improve

In recent weeks, perceptions over the outlook for the world's developed economies have become more optimistic. Key data include the revised third quarter GDP growth in the United States of 4.1%, and the PMI and euro zone confidence indicators, which improved markedly in the fourth quarter. In the case of the emerging economies, however, the perception remains that of a loss of momentum.

Panellists' view of the current situation in the EU is now neutral, compared with a negative majority view in November. As regards the situation outside the EU, as in previous panels, the view remains neutral. In both instances, the situation is expected to improve over the coming months.

Interest rates on government debt are not expected to rise further

Short-term interest rates (three-month EURIBOR) have moved upwards reaching 0.29% in recent weeks, which is slightly higher than the monetary policy benchmark rate of 0.25%. However, panellists think its current level could be considered low for the current state of the Spanish economy. Rates are still expected to remain stable over the coming months.

In the case of long-term rates, the downward trend has become more pronounced in recent weeks, and since early January they have been below 4%, which has made it possible to narrow the spread over German debt, which has dropped to less than 200 basis points. The view in the preceding panel forecasts that long-term rates are currently at levels that are too high for the needs of the Spanish economy remains unchanged, but few panellists expect to see any change over the next few months.

The euro is overvalued

The euro's exchange rate against the dollar, which most panellists have considered to be overvalued for some time, has remained stable in the last few weeks at over 1.36 dollars.

In contrast to previous panel forecasts, the majority view on the progress of exchange rates over the coming months is now for a drop in the euro, which may be a reflection of the expected impact of the change in direction of US monetary policy.

Fiscal policy should be restrictive

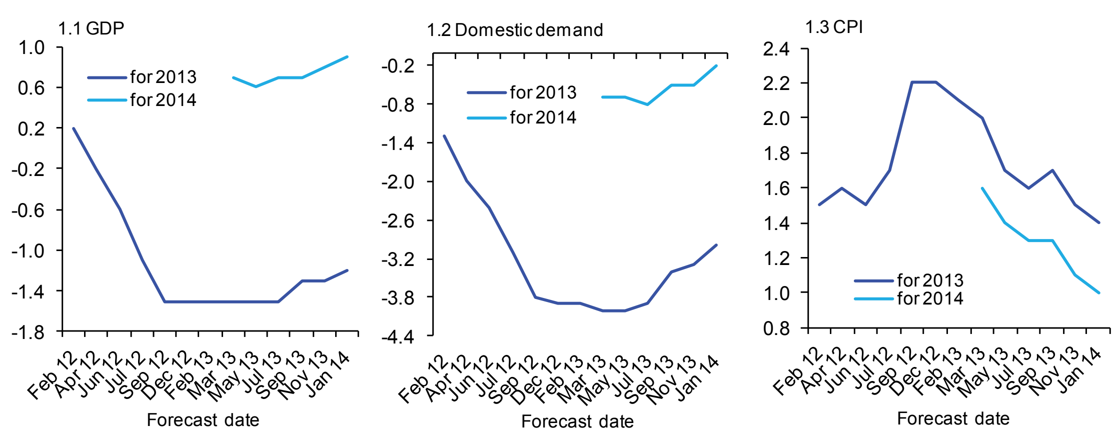
The panel still views fiscal policy to be restrictive, although not unanimously as in previous forecasts. This is a result of the perception that the fiscal adjustment process has stalled. The majority view is still that fiscal policy should be restrictive.

Almost all the panellists also consider current monetary policy to be expansionary. This is unanimously seen to be the right monetary policy stance to follow.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – January 2014

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

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery capital goods		GFCF Construction		Domestic demand	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	-1.2	0.8	-2.5	0.6	-1.1	-1.3	-6.0	-1.4	0.7	2.6	-10.3	-4.4	-2.9	-0.2
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.3	0.9	-2.6	0.1	-1.7	-1.6	-6.4	0.7	1.1	6.5	-11.0	-3.2	-3.1	-0.1
Bankia	-1.2	1.1	-2.5	0.6	-1.2	-0.7	-6.4	-1.0	0.1	5.4	-10.3	-4.7	-3.1	0.0
CatalunyaCaixa	-1.3	0.8	-2.5	0.9	-1.3	-2.1	-6.0	-1.3	0.8	3.9	-10.5	-5.6	-2.9	-0.1
Cemex	-1.3	0.8	-2.6	0.4	-1.9	-2.4	-6.0	0.1	0.2	3.2	-11.0	-3.8	-3.1	-0.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.2	1.2	-2.5	0.4	-3.5	-2.0	-6.6	-0.4	-3.6	2.5	-9.0	-2.2	-3.4	-0.2
Centro de Predicción Económica (CEPREDE-UAM)	-1.2	1.0	-2.7	0.2	-2.5	-0.7	-6.2	-0.8	-0.3	1.5	-10.1	-2.4	-3.2	-0.7
CEOE	-1.2	0.9	-2.5	0.8	-1.3	-1.3	-6.1	-1.2	0.7	6.2	-10.5	-6.6	-2.9	-0.1
ESADE	-1.2	0.8	-2.5	0.8	-3.0	-2.3	-6.0	-1.2	--	-0.9	--	-3.6	-3.3	-0.6
Fundación Cajas de Ahorros (FUNCAS)	-1.2	1.0	-2.5	0.7	-1.2	-1.3	-6.3	-2.2	-0.3	1.2	-10.3	-4.9	-3.0	-0.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.3	0.7	-2.5	0.2	-2.0	-1.5	-6.8	-1.2	0.5	3.4	-10.0	-4.0	-3.5	-0.6
Instituto de Estudios Económicos (IEE)	-1.2	0.9	-2.5	0.3	-1.5	-1.8	-6.3	-1.4	0.1	4.3	-10.3	-5.2	-3.0	-0.5
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.2	1.0	-2.5	0.2	-1.6	-1.9	-6.2	1.3	-0.1	7.6	-10.2	-2.3	-3.0	0.0
Instituto Flores de Lemus (IFL-UC3M)	-1.3	0.7	-2.4	1.4	-1.4	-2.5	-5.8	-1.1	1.0	5.9	-10.3	-5.6	-2.8	0.1
Intermoney	-1.3	0.9	-2.5	0.8	-1.4	-1.5	-6.0	-1.6	0.7	3.5	-10.4	-5.5	-2.8	0.5
La Caixa	-1.2	0.8	-2.5	0.6	-1.1	-1.3	-5.9	-0.5	0.7	3.4	-10.2	-3.0	-2.9	0.0
Repsol	-1.3	0.7	-2.4	0.6	-1.1	-1.5	-5.9	-0.7	1.2	4.4	-10.5	-5.0	-2.8	-0.1
Santander	-1.2	0.9	-2.5	0.5	-1.0	-2.1	-6.0	-1.2	1.1	2.5	-10.4	-3.6	-2.8	-0.4
Solchaga Recio & asociados	-1.2	1.1	-2.4	0.9	-1.4	-1.5	-6.4	-1.5	0.2	2.1	-10.1	-4.1	-3.0	0.0
CONSENSUS (AVERAGE)	-1.2	0.9	-2.5	0.6	-1.6	-1.6	-6.2	-0.9	0.3	3.6	-10.3	-4.2	-3.0	-0.2
Maximum	-1.2	1.2	-2.4	1.4	-1.0	-0.7	-5.8	1.3	1.2	7.6	-9.0	-2.2	-2.8	0.5
Minimum	-1.3	0.7	-2.7	0.1	-3.5	-2.5	-6.8	-2.2	-3.6	-0.9	-11.0	-6.6	-3.5	-0.7
Change on 2 months earlier[1]	0.1	0.1	0.1	0.4	1.1	0.6	0.1	-0.1	0.5	0.4	-0.1	-0.4	0.3	0.3
- Rise[2]	6	12	12	14	17	11	9	5	9	8	7	3	14	13
- Drop[2]	1	0	1	0	0	1	5	6	5	3	6	11	0	0
Change on 6 months earlier[1]	0.3	0.2	0.3	0.7	2.6	0.7	1.0	0.3	5.3	2.3	-1.0	-1.3	0.9	0.6
<u>Memorandum ítems:</u>														
Government (September 2013)	-1.3	0.7	-2.6	0.2	-2.3	-2.9	-6.1	0.2	--	--	--	--	-3.2	-0.4
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 (November 2013)	-1.3	0.5	-2.6	0.1	-3.0	-2.1	-6.6	-2.4	-0.3[3]	2.6[3]	-10.5	-5.8	-3.4	-0.8
IMF (October 2013)	-1.3	0.2	-2.8	-0.4	-2.0	-2.9	-7.3	-2.8	--	--	--	--	-3.5	-1.4
OECD (November 2013)	-1.3	0.5	-2.6	-0.4	-2.3	-2.9	-6.2	-1.6	--	--	--	--	-3.2	-1.2

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).
[2] Number of panelists revising their forecast upwards (or downwards) since two months earlier.
[3] Investment in capital goods.

Table 1 (Continued)

Economic Forecasts for Spain – January 2014

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

	Exports goods & services		Imports goods & services		Industrial output		CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[7]	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Analistas Financieros Internacionales (AFI)	5.5	5.6	0.4	3.2	--	--	1.4	0.5	--	--	-3.1	0.6	26.4	25.7	1.0	1.5	-6.8	-5.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.6	6.3	-1.0	3.4	--	--	1.4	1.1	--	--	-3.3	-0.1	26.3	25.6	1.2	1.8	-6.8	-5.8
Bankia	5.5	6.0	0.2	3.0	-1.8	1.0	1.4	0.8	-0.3	0.3	-3.3	0.0	26.4	25.6	1.6	2.8	--	--
CatalunyaCaixa	5.3	6.2	0.4	4.9	--	--	1.4	1.5	--	--	-3.2	0.2	26.4	25.7	--	--	--	--
Cemex	5.1	6.2	-0.4	3.6	--	--	1.4	1.3	--	--	-3.0	0.1	26.2	25.3	0.8	1.4	-6.7	-5.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.8	5.7	-1.1	2.0	--	--	1.4	0.8	--	--	-2.8	0.2	26.1	25.2	1.6	2.1	-6.5	-5.7
Centro de Predicción Económica (CEPREDE-UAM)	5.5	5.4	-0.7	2.4	-3.0	-0.7	1.4	1.1	-0.1	0.3	-3.1	-0.2	26.4	26.1	0.5	1.7	-6.9	-6.4
CEOE	5.3	5.5	0.1	2.8	-1.8	2.1	1.4	1.1	0.6	0.1	-3.3	0.1	26.4	25.6	0.5	1.4	-6.5	-6.1
ESADE	5.5	4.5	-1.9	1.0	--	--	1.4	1.0	--	--	-2.5	-0.3	26.0	25.5	1.8	1.5	--	-5.9
Fundación Cajas de Ahorros (FUNCAS)	5.3	5.4	0.1	2.0	-1.5	1.8	1.4	0.6	0.5	-0.1	-3.4	0.0	26.4	25.4	1.1	2.2	-6.8	-6.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.8	6.0	-1.1	2.5	-2.1	0.6	1.4	1.2	--	--	-3.1	0.0	26.4	25.7	1.0	1.5	-6.4	-5.7
Instituto de Estudios Económicos (IEE)	5.8	6.1	0.4	2.1	--	--	1.4	1.0	0.6	0.3	-3.4	0.1	26.8	26.0	1.2	2.1	-6.5	-5.8
Instit. Macroec.y Finanzas (Univ. CJC)	5.3	4.5	-0.1	1.6	-1.6	0.9	1.4	0.9	-0.6	-0.9	-3.2	-0.5	26.4	25.4	1.1	2.0	-7.0	-5.8
Instituto Flores de Lemus (IFL-UC3M)	5.0	6.8	0.2	4.9	-1.9	0.3	1.4	1.1	--	--	--	--	26.5	26.0	--	--	--	--
Intermoney	4.9	5.3	0.5	4.3	--	--	1.4	1.2	--	--	-3.1	0.1	26.4	25.2	1.5	2.2	-6.6	-5.8
La Caixa	5.4	6.1	0.4	3.8	-1.4	1.1	1.4	0.8	0.0	0.3	-3.3	0.3	26.4	25.5	1.1	1.6	-6.6	-5.8
Repsol	5.6	6.6	0.8	4.8	-2.5	0.5	1.4	0.7	0.4	-0.1	-3.3	-0.2	26.3	25.7	1.1	1.4	-6.7	-5.9
Santander	5.5	5.7	0.6	2.0	--	--	1.4	1.1	-0.2	0.4	-3.1	0.0	26.4	26.0	1.0	1.5	--	--
Solchaga Recio & asociados	5.2	5.5	-0.5	2.2	--	--	1.4	0.7	--	--	-3.1	0.2	26.2	25.1	1.3	2.0	-6.6	-5.8
CONSENSUS (AVERAGE)	5.3	5.8	-0.1	3.0	-2.0	0.8	1.4	1.0	0.1	0.1	-3.1	0.0	26.4	25.6	1.1	1.8	-6.7	-5.9
Maximum	5.8	6.8	0.8	4.9	-1.4	2.1	1.4	1.5	0.6	0.4	-2.5	0.6	26.8	26.1	1.8	2.8	-6.4	-5.5
Minimum	4.6	4.5	-1.9	1.0	-3.0	-0.7	1.4	0.5	-0.6	-0.9	-3.4	-0.5	26.0	25.1	0.5	1.4	-7.0	-6.4
Change on 2 months earlier[1]	-0.1	0.1	0.9	0.6	0.2	0.4	-0.1	-0.1	0.0	0.0	0.1	0.2	0.0	-0.2	-0.2	-0.3	-0.1	0.0
- Rise[2]	6	6	14	13	6	5	1	3	1	3	7	10	2	1	2	0	0	1
- Down[2]	6	5	2	0	2	1	14	9	2	1	2	0	7	10	6	8	3	1
Change on 6 months earlier[1]	1.7	0.6	4.1	1.8	1.4	1.0	-0.2	-0.3	-0.1	0.0	0.3	0.4	-0.5	-1.0	0.1	0.1	-0.2	-0.2
Memorandum items:																		
Government (September 2013)	5.7	5.5	-0.3	2.4	--	--	--	--	0.5	0.3	-3.4	-0.2	26.6	25.9	1.7	2.8	-6.5	-5.8
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 (November 2013)	4.5	5.2	-1.9	1.5	--	--	1.8	0.9	1.0	0.1	-3.6	-0.7	26.6	26.4	1.4	2.6	-6.8	-5.9
IMF (October 2013)	5.7	5.8	-1.0	1.8	--	--	1.8	1.5	--	--	-3.9	-0.7	26.9	26.7	1.4	2.6	-6.7	-5.8
OECD (November 2013)	4.8	5.4	-1.1	0.7	--	--	1.6	0.5	--	--	-3.2	-0.6	26.4	26.3	0.6	0.1	-6.7	-6.1

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

[2] Number of panelists 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 .

[7] Excluding financial entities bail-out expenditures.

Table 2

Quarterly Forecasts - January 2014[1]

Quarter-on-quarter change (percentage)

	13-Q1	13-Q2	13-Q3	13-Q4	14-Q1	14-Q2	14-Q3	14-Q4
GDP[2]	-0.4	-0.1	0.1	0.2	0.2	0.3	0.4	0.4
Household consumption[2]	-0.6	-0.1	0.4	0.2	0.1	0.2	0.3	0.3

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

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

Table 3

CPI Forecasts – January 2014[1]

Monthly change (%)				Year-on-year change (%)	
Jan-14	Feb-14	Mar-14	Apr-14	Dec-13	Dec-14
-0.9	0.0	0.4	0.8	0.2	1.1

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

Table 4

Opinions – January 2014

Number of responses

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

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	-2.5	-1.2	-6.3	-10.3	-8.4	-11.8	-0.3	5.3	0.1	-2.9	1.7
2014		1.0	0.7	-1.3	-2.2	-4.9	-4.0	-5.6	1.4	5.4	2.0	-0.2	1.2
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	-4.3	-2.0	-7.5	-10.2	-9.0	-11.1	-3.5	3.1	-4.7	-4.4	2.4
	II	-1.6	-3.3	-2.8	-6.3	-10.7	-8.6	-12.4	0.2	9.1	2.5	-3.7	2.1
	III	-1.1	-2.2	0.3	-6.3	-10.3	-8.3	-12.0	-0.4	4.7	0.7	-2.5	1.4
	IV	-0.2	-0.1	-0.1	-4.9	-9.9	-7.6	-11.9	2.6	4.3	2.0	-1.0	0.9
2014	I	0.5	0.6	-1.1	-3.9	-7.8	-7.0	-8.5	1.6	9.0	5.7	-0.7	1.2
	II	0.9	0.8	-1.0	-2.1	-4.4	-3.9	-4.8	1.0	4.1	1.2	-0.1	1.0
	III	1.1	0.6	-1.4	-1.8	-3.9	-3.0	-4.7	0.8	4.0	0.4	-0.1	1.3
	IV	1.4	0.7	-1.5	-0.9	-3.4	-2.1	-4.4	2.2	4.7	0.8	-0.1	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	-2.3	5.4	-6.1	-13.9	-5.4	-20.5	6.6	-16.3	-16.7	-1.4	-0.1
	II	-0.4	-0.1	-3.5	-7.8	-17.7	-14.2	-20.5	7.7	28.3	22.5	-2.4	2.0
	III	0.5	1.6	0.5	0.9	-3.8	-5.5	-2.2	7.3	9.0	11.6	1.1	-0.6
	IV	0.8	0.6	-2.4	-6.4	-3.6	-4.8	-2.5	-10.0	1.2	-5.1	-1.3	2.1
2014	I	1.1	0.5	1.0	-2.0	-5.4	-2.9	-7.4	2.5	-0.4	-3.8	0.1	1.0
	II	1.2	0.7	-3.1	-0.6	-4.9	-2.4	-6.9	5.1	7.0	3.0	-0.2	1.5
	III	1.4	0.8	-1.2	1.8	-1.8	-1.8	-1.8	6.4	8.3	8.0	0.9	0.6
	IV	1.6	1.0	-2.6	-2.9	-1.4	-1.2	-1.5	-4.7	4.0	-3.8	-0.8	2.4
		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		1,023.2	59.0	20.2	17.5	9.9	4.4	5.5	7.5	34.4	31.5	97.2	1.5
2014		1,038.3	59.0	19.5	16.8	9.1	4.0	5.1	7.6	36.0	31.8	95.9	4.1

**Seasonally and Working Day Adjusted.*
(a) Contribution to GDP growth.

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

Chart 1.1.- GDP
Percentage change

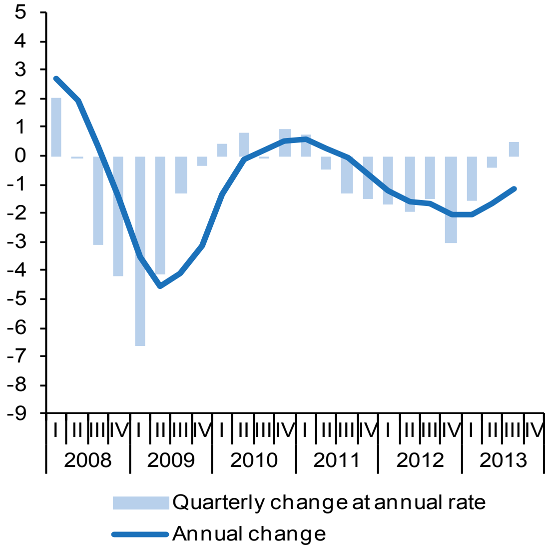


Chart 1.2.- Contribution to GDP annual growth
Percentage points

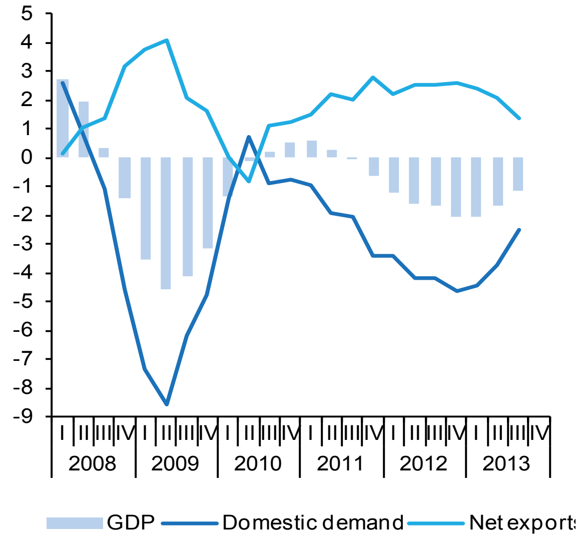


Chart 1.3.- Final consumption
Annual percentage change

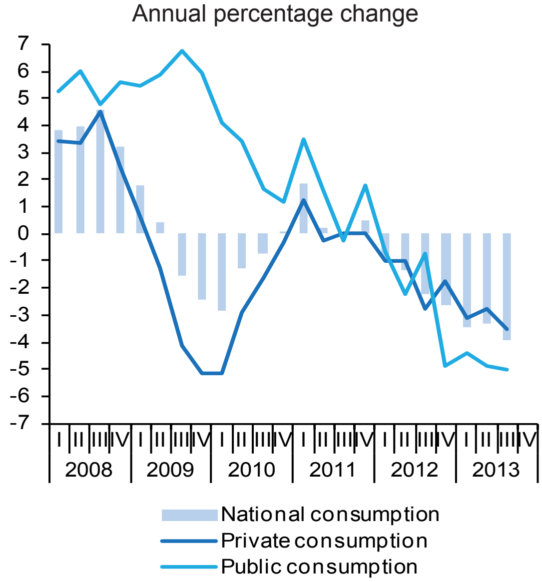


Chart 1.4.- Gross fixed capital formation
Annual percentage change

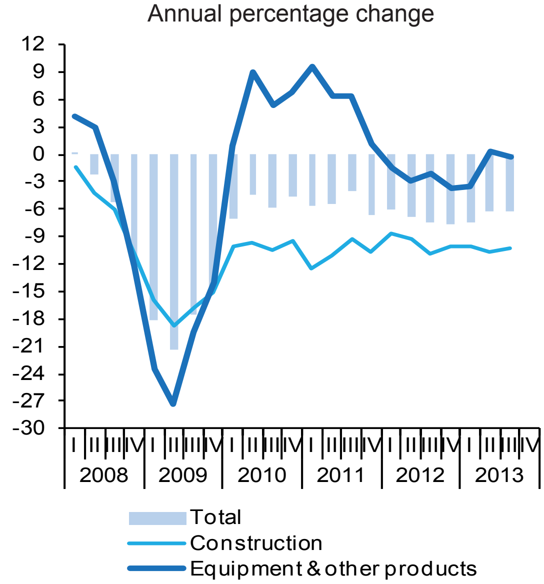


Table 2

National accounts: Gross value added by economic activity SWDA*

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
					Services								
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	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	-1.2	-2.5	-1.5	-6.2	-0.5	-0.2	-1.0	-3.3	0.0	-0.1	-0.8	0.2	-1.3
2014	1.0	0.5	1.8	-4.0	1.4	2.3	1.0	-0.2	2.9	2.4	-0.6	2.0	0.4
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	-6.3	-3.0	-6.0	-1.1	-1.7	-1.0	-3.8	-0.3	-0.9	0.1	-2.3	-2.4
II	-1.7	0.5	-2.6	-6.5	-0.9	-0.4	0.4	-4.0	-0.5	-0.5	-1.8	-0.4	-1.3
III	-1.1	-2.1	-1.0	-6.2	-0.5	0.0	-2.0	-2.7	-0.4	-0.4	-0.7	1.3	-1.6
IV	-0.2	-1.9	0.6	-6.3	0.4	1.3	-1.5	-2.6	1.1	1.4	-0.9	2.3	0.2
2014 I	0.6	0.0	1.7	-6.5	1.1	1.7	-0.6	-3.3	4.0	2.3	0.0	1.4	-0.3
II	1.1	-0.4	1.5	-4.2	1.6	2.4	-0.7	-2.7	3.3	3.4	0.1	2.9	-0.7
III	1.1	1.1	1.8	-2.9	1.4	2.2	3.0	2.7	2.3	2.0	-1.2	1.9	1.4
IV	1.4	1.1	2.0	-2.4	1.6	2.9	2.3	2.8	2.1	2.1	-1.3	2.0	1.3
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	-2.0	-6.3	-4.9	-3.3	-0.9	2.2	-1.9	9.5	-8.5	-1.3	-4.9	7.0	3.3
II	-0.6	1.4	2.2	-13.1	0.2	1.4	5.0	-0.3	4.7	-2.5	-2.3	-4.5	2.0
III	1.3	-3.8	3.3	-5.8	1.9	2.8	-12.3	-18.6	6.1	8.2	4.1	6.2	-8.3
IV	0.5	1.4	2.1	-2.6	0.4	-1.1	4.2	1.5	2.9	1.5	-0.2	1.0	4.3
2014 I	1.1	1.2	-0.6	-4.4	2.1	3.9	1.6	6.4	2.2	2.2	-1.6	3.2	1.1
II	1.3	-0.3	1.4	-3.9	1.9	4.1	4.5	2.0	2.0	2.0	-1.8	1.2	0.7
III	1.6	2.2	4.4	-0.8	1.2	1.9	1.6	1.1	2.1	2.2	-1.0	2.1	-0.3
IV	1.4	1.5	2.8	-0.4	1.2	1.7	1.7	1.8	2.3	2.1	-0.6	1.4	3.9
	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	935.1	2.5	17.5	7.9	72.1	25.6	4.1	4.1	8.4	7.8	18.3	3.9	9.4
2014	949.5	2.4	17.7	7.4	72.4	25.9	4.0	4.2	8.7	8.0	17.7	4.0	9.4

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

Chart 2.1.- GVA by sectors
Annual percentage change

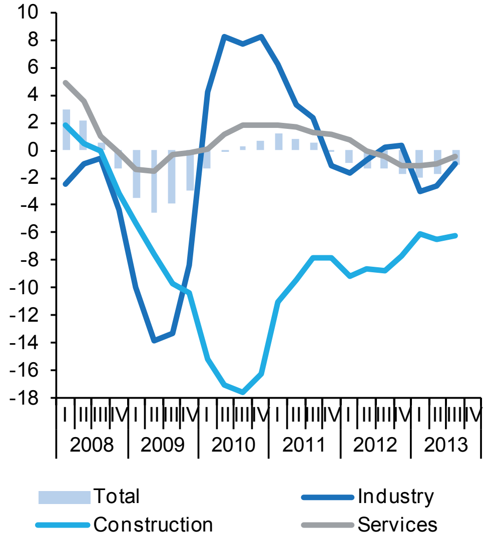


Chart 2.2.- GVA, services (I)
Annual percentage change

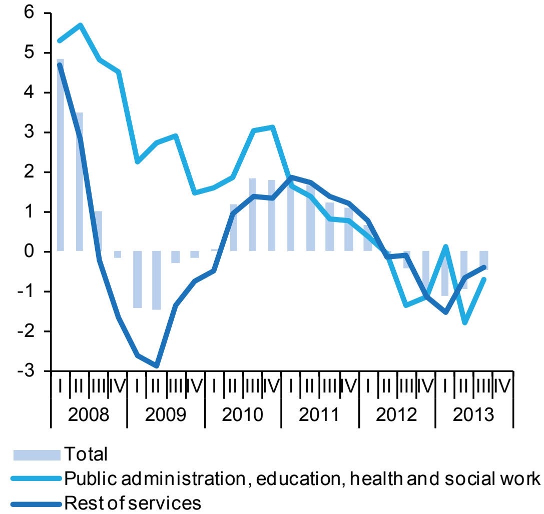


Chart 2.3.- GVA, services (II)
Annual percentage change

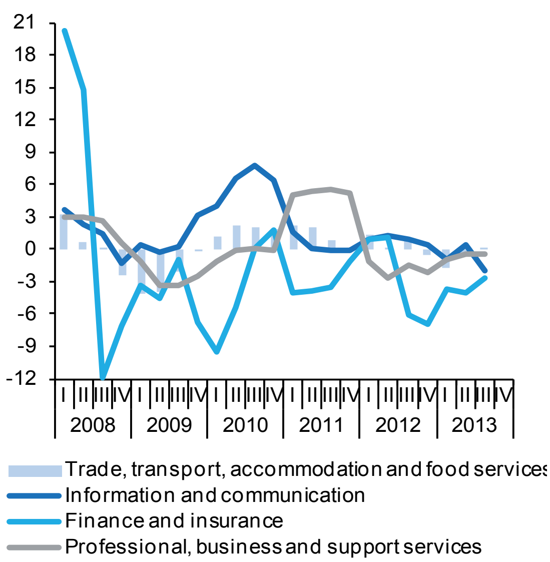


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

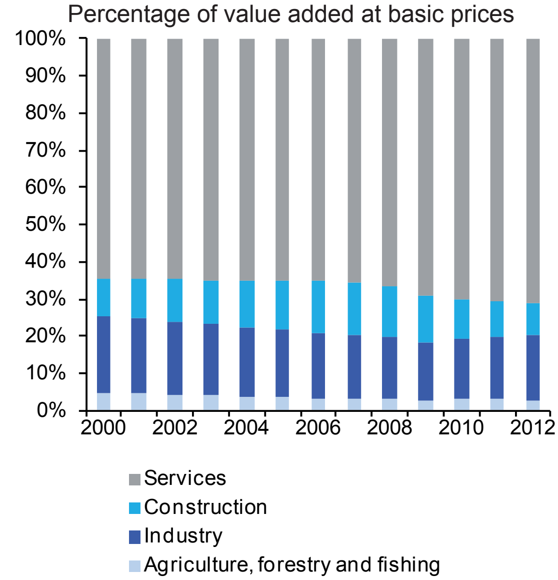


Table 3a

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	117.5	146.2	124.4	91.1	94.3	--	--	--	--	--
2014		120.2	101.2	118.7	146.1	123.1	89.7	96.0	--	--	--	--	--
2011	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	146.6	127.7	94.2	96.2	69.3	138.7	159.0	114.6	89.1
	III	120.3	104.4	115.2	146.4	127.1	93.6	95.8	68.8	139.3	158.7	113.9	89.5
	IV	119.4	102.8	116.2	142.7	122.8	90.6	93.8	67.7	138.6	158.0	114.0	85.4
2013	I	118.9	101.7	117.0	145.7	124.5	90.8	93.8	66.2	141.7	158.0	111.5	86.9
	II	118.8	101.1	117.5	146.3	124.5	91.2	94.4	65.8	143.4	160.9	112.2	86.8
	III	119.0	101.1	117.7	146.6	124.6	91.4	94.3	65.0	145.2	161.8	111.4	87.2
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	-2.3	-1.4	--	--	--	--	--
2014		1.0	0.0	1.0	-0.1	-1.1	-1.6	1.8	--	--	--	--	--
2011	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	-1.3	-2.8	-4.9	2.3	2.6	0.4	0.6
	II	-1.6	-5.1	3.7	0.8	-2.7	-2.6	-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	-2.4	-5.3	-5.3	0.1	-6.3	6.9	1.4	-5.1	-5.4
2013	I	-2.0	-4.6	2.7	-0.5	-3.1	-4.2	-3.1	-5.8	2.9	0.8	-2.0	-3.5
	II	-1.6	-3.9	2.4	-0.2	-2.5	-3.2	-1.9	-5.1	3.4	1.2	-2.1	-2.5
	III	-1.1	-3.2	2.1	0.1	-1.9	-2.4	-1.5	-5.5	4.2	2.0	-2.2	-2.6

(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

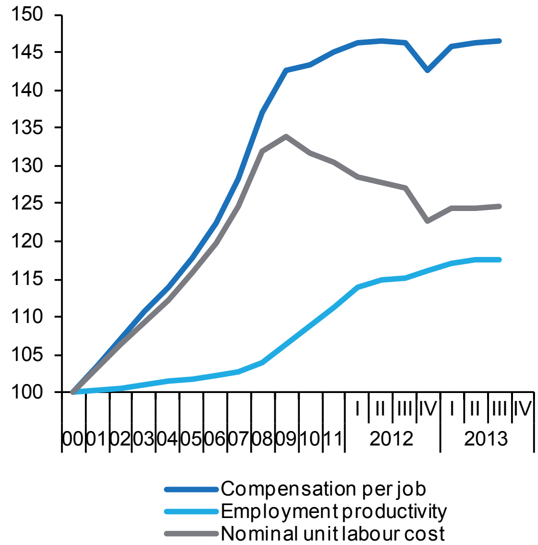
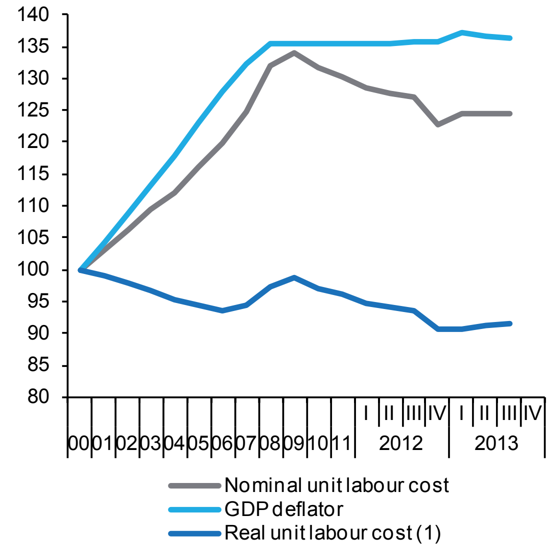


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

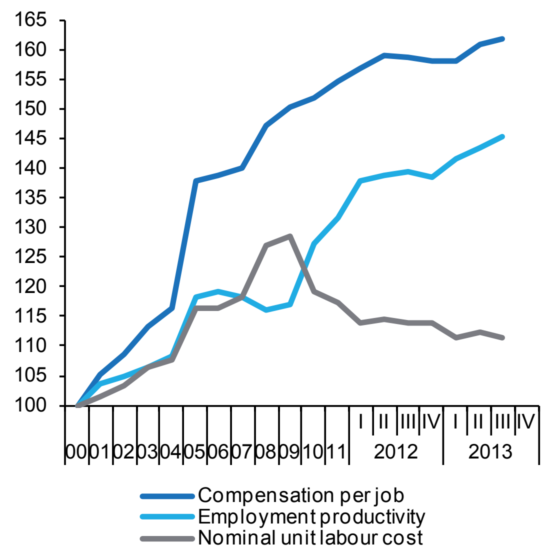
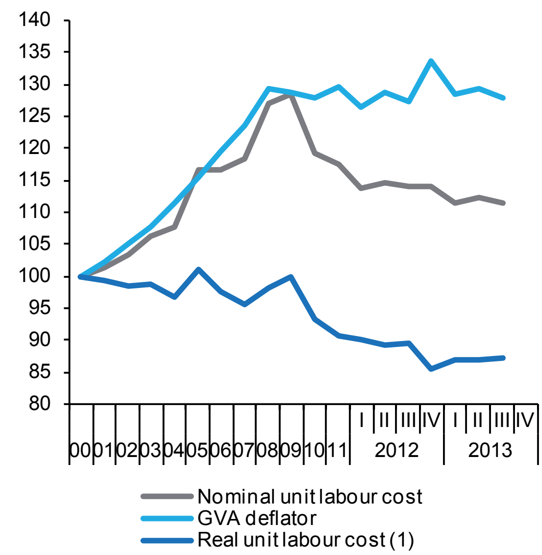


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(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		83.9	52.7	159.3	--	--	--	134.7	122.8	109.6	--	--	--
2014		80.5	49.8	161.7	--	--	--	136.6	123.7	110.4	--	--	--
2011	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	139.7	131.2	96.6
	II	89.7	61.9	144.9	180.1	124.3	80.4	135.6	126.0	107.6	139.3	129.4	95.6
	III	88.1	58.8	149.9	177.9	118.7	77.9	135.6	125.5	108.0	139.3	128.9	95.0
	IV	87.6	55.8	157.1	178.3	113.5	74.2	134.6	123.7	108.8	134.8	123.9	91.5
2013	I	86.9	54.9	158.3	173.3	109.5	71.5	134.3	123.0	109.1	138.6	127.0	92.7
	II	83.9	53.0	158.2	182.4	115.3	76.6	134.3	122.3	109.9	138.7	126.2	93.9
	III	82.7	51.9	159.2	179.0	112.5	75.1	134.9	122.9	109.8	139.1	126.6	93.2
Annual percentage changes													
2007		1.8	5.3	-3.4	2.4	6.0	2.2	5.0	4.0	0.9	4.6	3.7	-0.3
2008		-0.2	-11.7	12.9	12.6	-0.2	-3.9	2.3	2.7	-0.4	6.0	6.4	1.9
2009		-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		-6.2	-12.2	6.8	--	--	--	-0.5	-2.3	1.8	--	--	--
2014		-4.0	-5.5	1.5	--	--	--	1.4	0.7	0.7	--	--	--
2011	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	1.3	-1.9	-1.8
	II	-8.6	-18.1	11.6	3.5	-7.3	-5.0	-0.1	-3.8	3.8	0.4	-3.3	-3.8
	III	-8.7	-18.9	12.6	3.3	-8.3	-4.9	-0.4	-3.4	3.1	0.3	-2.7	-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	-6.0	-13.7	8.9	-0.8	-8.9	-7.3	-1.1	-3.5	2.5	-0.8	-3.2	-4.1
	II	-6.5	-14.4	9.2	1.3	-7.3	-4.8	-0.9	-3.0	2.1	-0.4	-2.5	-1.8
	III	-6.2	-11.6	6.2	0.6	-5.2	-3.5	-0.5	-2.1	1.6	-0.2	-1.8	-1.9

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

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

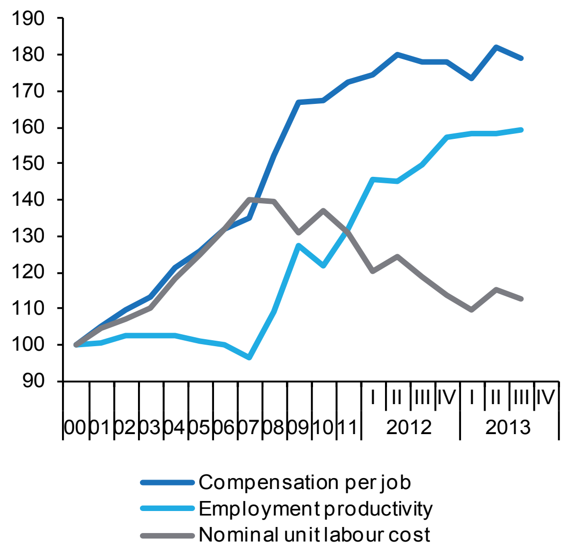
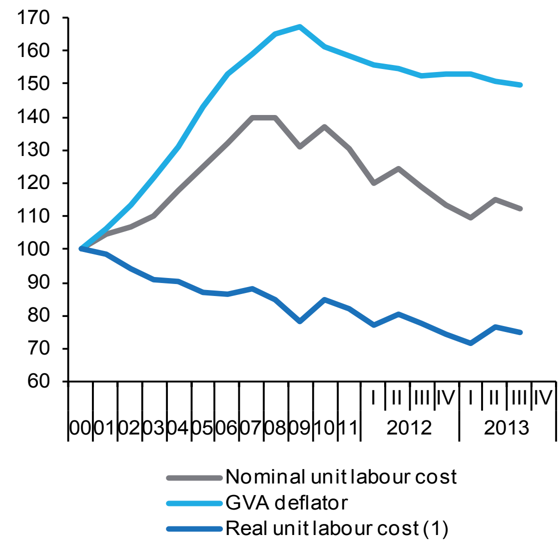


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

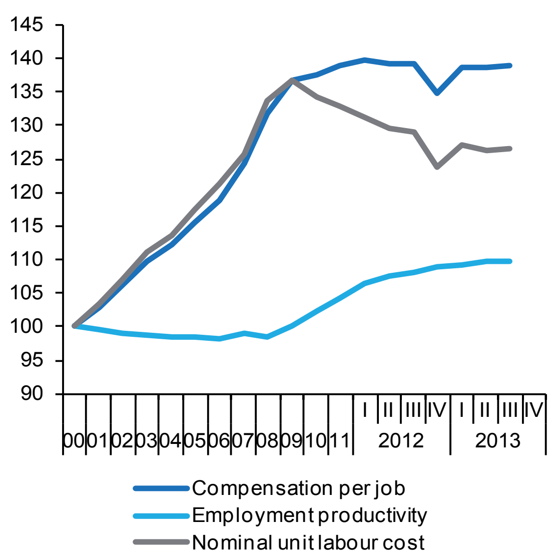
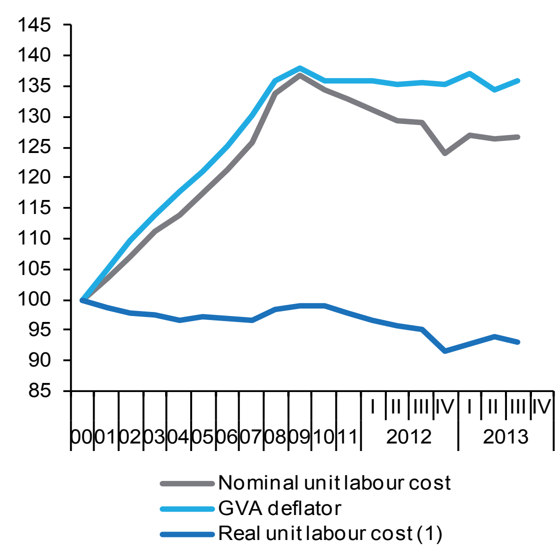


Chart 3b.4.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in blue

		Gross domestic product	Compen-sation of employees	Gross opera-ting surplus	Taxes on production and imports less subsi-dies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross natio-nal income	Final national consumption	Gross national saving (a)	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsidies
		1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12	13
		EUR Billions, 4-quarter cumulated transactions										Percentage of GDP		
2007		1,053.2	504.1	441.2	107.8	-27.4	1,025.7	-7.0	1,018.7	797.7	221.0	47.9	41.9	10.2
2008		1,087.8	537.6	458.1	92.0	-31.8	1,056.0	-9.2	1,046.8	834.4	212.4	49.4	42.1	8.5
2009		1,046.9	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		1,023.2	464.8	460.6	97.8	-12.5	1,010.7	-5.8	1,004.9	809.7	195.2	45.4	45.0	9.6
2014		1,038.3	463.2	476.4	98.7	-14.2	1,024.1	-6.1	1,018.0	815.5	202.5	44.6	45.9	9.5
2011	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	1,025.9	475.3	455.8	94.8	-13.6	1,012.3	-4.0	1,008.3	813.1	195.2	46.3	44.4	9.2
	II	1,023.1	468.5	456.9	97.6	-13.0	1,010.1	-4.7	1,005.4	808.6	196.9	45.8	44.7	9.5
	III	1,022.5	464.4	459.9	98.2	-13.1	1,009.4	-5.1	1,004.4	808.6	195.8	45.4	45.0	9.6
		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		-0.6	-3.7	1.8	4.1	-18.3	-0.3	20.0	-0.4	-1.0	2.3	-1.5	1.0	0.4
2014		1.5	-0.3	3.4	0.9	13.7	1.3	5.0	1.3	0.7	3.7	-0.8	0.9	-0.1
2011	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	-1.6	-6.3	2.6	3.5	-43.4	-0.6	-44.9	-0.3	-2.3	9.0	-2.3	1.8	0.5
	II	-1.4	-6.4	2.2	7.9	-41.6	-0.5	-38.7	-0.3	-2.5	10.2	-2.4	1.6	0.8
	III	-1.1	-6.0	2.5	6.9	-28.5	-0.7	-28.5	-0.5	-2.0	6.7	-2.3	1.6	0.7

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

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

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

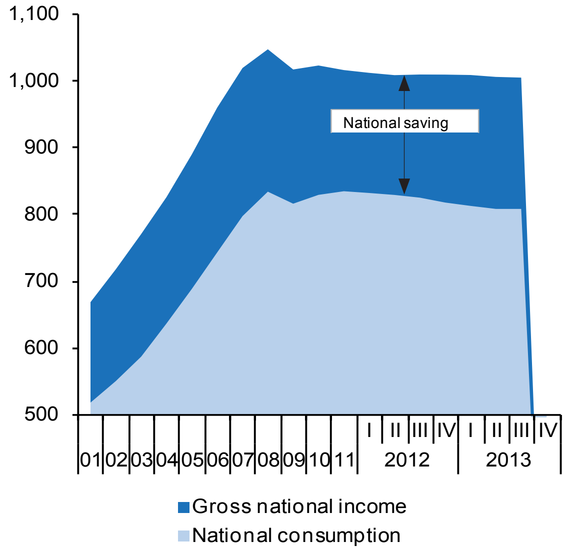


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

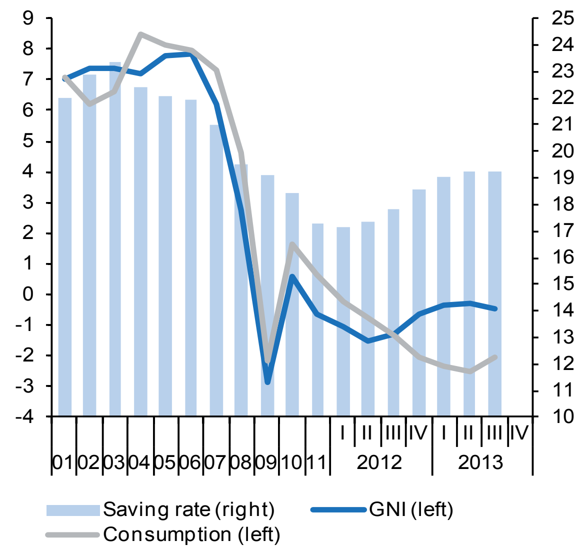


Chart 4.3.- Components of National Income (I)
Annual percentage change

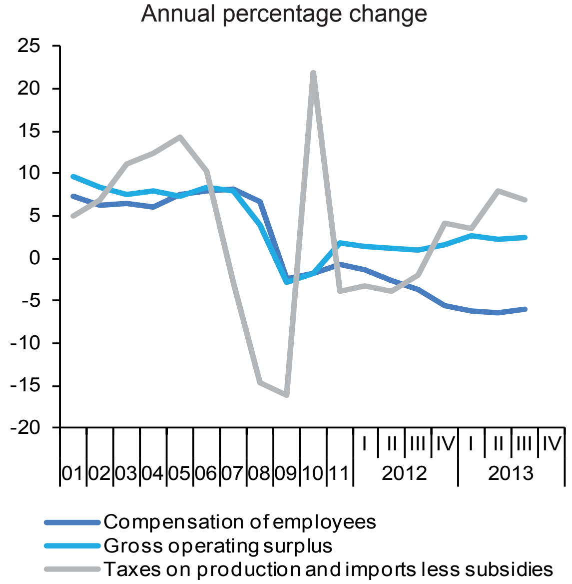


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

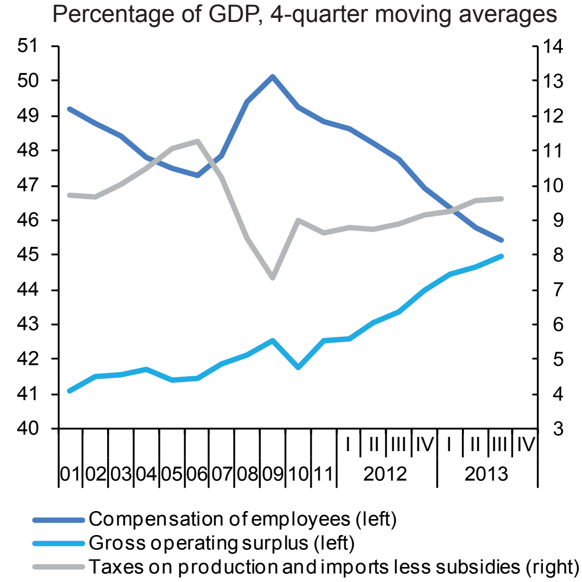


Table 5

National accounts: Net transactions with the rest of the world

Forecasts in blue

		Goods and services				Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account deficit
		1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR Billions, 4-quarter cumulated transactions													
2007		-70.8	-90.8	30.4	-10.4	-27.4	-7.0	-105.2	4.3	-100.9	221.0	326.2	-105.2
2008		-63.3	-85.4	30.6	-8.5	-31.8	-9.2	-104.3	4.4	-99.9	212.4	316.7	-104.3
2009		-19.7	-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	4.7	-37.0	180.6	222.3	-41.6
2012		7.7	-25.8	33.8	-0.4	-15.3	-4.8	-12.5	5.8	-6.7	190.8	203.3	-12.5
2013		29.1	-7.7	35.3	1.5	-12.5	-5.8	10.8	7.5	18.3	195.2	184.4	10.8
2014		43.3	2.8	36.9	3.5	-14.2	-6.1	23.0	6.5	29.5	202.5	179.5	23.0
2011	IV	-11.0	-43.7	33.0	-0.3	-23.7	-7.0	-41.6	4.7	-37.0	180.6	222.3	-41.6
2012	I	-7.7	-41.1	33.2	0.2	-24.0	-7.3	-39.0	4.2	-34.7	179.1	218.1	-39.0
	II	-5.1	-38.1	33.2	-0.1	-22.2	-7.6	-34.9	4.0	-30.9	178.6	213.5	-34.9
	III	0.4	-33.6	33.8	0.2	-18.3	-7.1	-24.9	4.5	-20.4	183.6	208.6	-24.9
	IV	7.7	-25.8	33.8	-0.4	-15.3	-4.8	-12.5	5.8	-6.7	190.8	203.3	-12.5
2013	I	14.8	-19.1	34.1	-0.1	-13.6	-4.0	-2.8	6.2	3.4	195.2	198.0	-2.8
	II	21.8	-12.6	34.4	0.0	-13.0	-4.7	4.2	7.3	11.5	196.9	192.7	4.2
	III	25.5	-10.0	34.8	0.7	-13.1	-5.1	7.4	7.1	14.5	195.8	188.4	7.4
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	0.4	-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		2.8	-0.8	3.4	0.1	-1.2	-0.6	1.1	0.7	1.8	19.1	18.0	1.1
2014		4.2	0.3	3.6	0.3	-1.4	-0.6	2.2	0.6	2.8	19.5	17.3	2.2
2011	IV	-1.1	-4.2	3.2	0.0	-2.3	-0.7	-4.0	0.4	-3.5	17.3	21.2	-4.0
2012	I	-0.7	-3.9	3.2	0.0	-2.3	-0.7	-3.7	0.4	-3.3	17.2	20.9	-3.7
	II	-0.5	-3.7	3.2	0.0	-2.1	-0.7	-3.4	0.4	-3.0	17.2	20.6	-3.4
	III	0.0	-3.3	3.3	0.0	-1.8	-0.7	-2.4	0.4	-2.0	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	1.4	-1.9	3.3	0.0	-1.3	-0.4	-0.3	0.6	0.3	19.0	19.3	-0.3
	II	2.1	-1.2	3.4	0.0	-1.3	-0.5	0.4	0.7	1.1	19.2	18.8	0.4
	III	2.5	-1.0	3.4	0.1	-1.3	-0.5	0.7	0.7	1.4	19.2	18.4	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

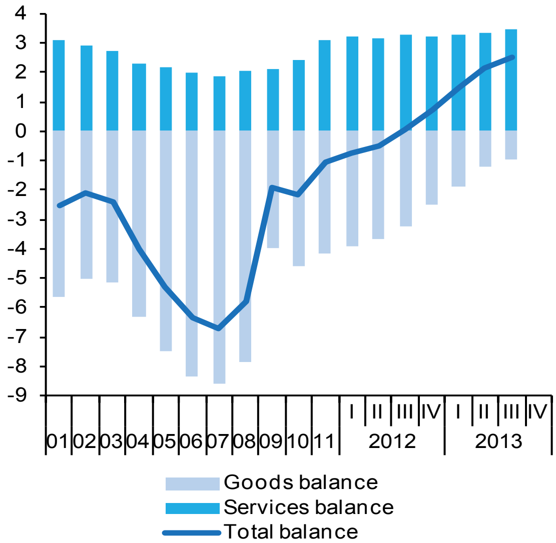


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

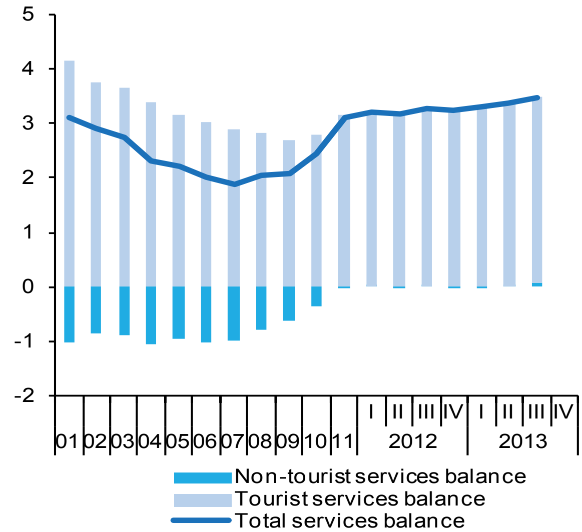


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

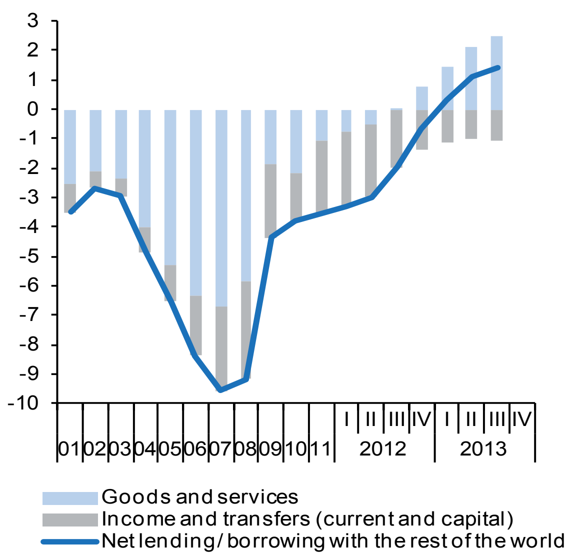


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

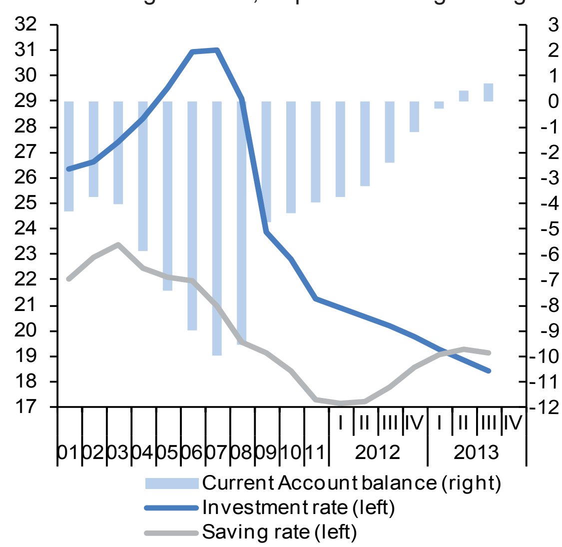


Table 6

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		717.1	537.6	264.2	217.0	216.9	84.6	622.4	99.2	13.8	5.4	91.1	13.5	1.2
2009		721.0	524.5	248.0	233.8	209.2	76.1	592.8	128.3	17.8	5.6	67.7	66.2	6.3
2010		702.6	514.8	236.0	238.5	207.2	79.4	605.1	97.3	13.9	7.1	60.7	43.7	4.2
2011		702.3	510.8	239.3	240.4	206.5	81.7	612.8	88.8	12.6	3.4	53.1	39.1	3.7
2012		682.4	482.6	238.3	245.0	201.0	82.6	610.4	70.7	10.4	2.7	48.2	25.1	2.4
2013		676.9	464.8	243.7	246.8	195.3	83.2	603.4	71.5	10.6	2.0	43.8	29.8	2.9
2014		688.4	463.2	256.3	248.3	194.8	84.7	613.1	73.2	10.6	1.7	41.7	33.2	3.2
2011	IV	702.3	510.8	239.3	240.4	206.5	81.7	612.8	88.8	12.6	3.4	53.1	39.1	3.7
2012	I	699.3	506.9	239.0	241.9	206.1	82.4	613.0	85.8	12.3	3.1	52.2	36.6	3.5
	II	693.2	500.4	238.0	242.1	204.5	82.8	612.7	80.2	11.6	3.0	51.7	31.5	3.0
	III	690.1	494.0	238.1	245.0	203.9	83.1	611.2	77.8	11.3	2.3	50.1	30.0	2.9
	IV	682.4	482.6	238.3	245.0	201.0	82.6	610.4	70.7	10.4	2.7	48.2	25.1	2.4
2013	I	679.4	475.4	239.4	246.5	199.6	82.2	606.0	72.0	10.6	2.6	48.5	26.1	2.5
	II	677.2	468.5	240.7	246.8	197.3	81.5	603.6	72.0	10.6	2.6	46.9	27.7	2.7
	III	674.5	464.5	241.4	246.8	195.9	82.2	603.0	70.5	10.5	2.0	45.8	26.8	2.6
		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	0.6	9.9	5.2	-2.1	2.9	41.7	3.4	55.7	-10.2	--	3.9
2009		0.5	-2.4	-6.1	7.7	-3.6	-10.1	-4.8	29.4	4.0	4.8	-25.7	--	5.1
2010		-2.5	-1.9	-4.8	2.0	-1.0	4.4	2.1	-24.1	-3.9	25.2	-10.3	--	-2.1
2011		0.0	-0.8	1.4	0.8	-0.4	2.8	1.3	-8.7	-1.2	-51.9	-12.5	--	-0.4
2012		-2.8	-5.5	-0.4	1.9	-2.7	1.1	-0.4	-20.4	-2.3	-21.7	-9.3	--	-1.3
2013		-0.8	-3.7	2.3	0.7	-2.8	0.7	-1.1	1.2	0.2	-25.0	-9.3	--	0.5
2014		1.7	-0.3	5.2	0.6	-0.3	1.8	1.6	2.4	0.1	-15.0	-4.7	--	0.3
2011	IV	0.0	-0.8	1.4	0.8	-0.4	2.8	1.3	-8.7	-1.2	-51.9	-12.5	--	-0.4
2012	I	-0.5	-1.4	1.1	0.8	-0.9	3.5	0.6	-8.0	-1.0	-55.3	-10.6	--	-0.5
	II	-1.3	-2.5	0.3	0.5	-1.9	2.7	0.2	-10.9	-1.2	-57.9	-7.2	--	-0.9
	III	-1.9	-3.6	-0.1	1.5	-1.8	2.4	-0.4	-12.0	-1.3	-66.4	-7.9	--	-1.0
	IV	-2.8	-5.5	-0.4	1.9	-2.7	1.1	-0.4	-20.4	-2.3	-21.7	-9.3	--	-1.3
2013	I	-2.9	-6.2	0.2	1.9	-3.1	-0.2	-1.1	-16.1	-1.7	-15.7	-7.2	--	-1.0
	II	-2.3	-6.4	1.1	1.9	-3.5	-1.6	-1.5	-10.2	-0.9	-13.1	-9.2	--	-0.3
	III	-2.3	-6.0	1.4	0.7	-3.9	-1.0	-1.4	-9.4	-0.8	-13.2	-8.7	--	-0.3

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

Chart 6.1.- Households: Gross disposable income
EUR Billions, 4-quarter cummulated

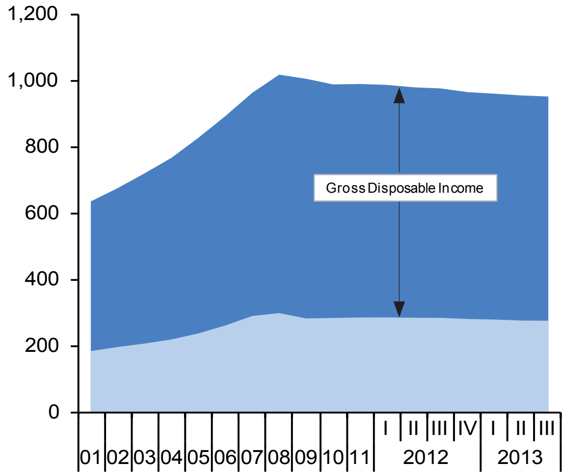
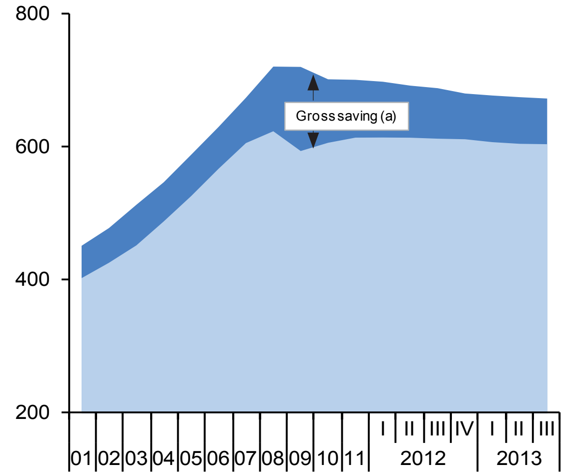


Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



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

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

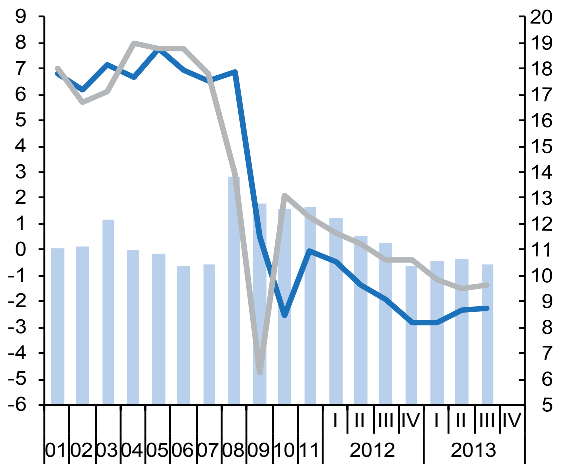
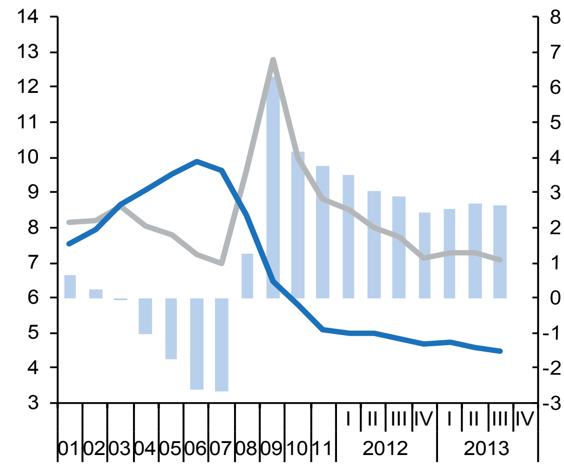


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 7

National accounts: Non-financial corporations income and its disposition

Forecasts in blue

		Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
		1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR Billions, 4-quarter cumulated operations														
2007		490.3	318.2	172.0	-62.9	-9.9	41.7	57.5	10.0	181.1	-113.6	-10.8	35.1	36.9
2008		522.1	339.0	183.1	-71.2	-10.6	25.4	75.9	12.2	171.8	-83.7	-7.7	35.1	32.9
2009		505.5	323.6	181.9	-49.4	-10.3	19.8	102.4	12.7	124.6	-9.5	-0.9	36.0	24.6
2010		512.0	317.1	194.9	-45.3	-10.1	16.0	123.5	11.2	127.2	7.5	0.7	38.1	24.8
2011		517.2	316.9	200.3	-51.3	-10.1	15.8	123.2	11.0	130.5	3.7	0.3	38.7	25.2
2012		510.1	303.4	206.7	-47.3	-9.6	19.7	130.2	9.3	127.9	11.5	1.1	40.5	25.1
2013		503.8	290.0	213.8	-36.7	-8.9	18.0	150.2	10.4	117.8	42.8	4.2	42.4	23.4
2014		513.1	291.3	221.8	-39.1	-8.7	19.0	155.0	10.6	116.6	49.0	4.7	43.2	22.7
2011	IV	517.2	316.9	200.3	-51.3	-10.1	15.8	123.2	11.0	130.5	3.7	0.3	38.7	25.2
2012	I	515.3	314.4	200.9	-52.5	-10.0	16.2	122.2	9.9	130.0	2.1	0.2	39.0	25.2
	II	512.9	311.0	201.9	-51.4	-9.7	17.0	123.8	9.8	130.9	2.6	0.3	39.4	25.5
	III	510.6	307.5	203.2	-51.3	-9.6	16.4	125.9	8.8	130.7	4.0	0.4	39.8	25.6
	IV	510.1	303.4	206.7	-47.3	-9.6	19.7	130.2	9.3	127.9	11.5	1.1	40.5	25.1
2013	I	508.1	298.2	209.9	-43.2	-9.4	19.5	137.8	9.7	122.4	25.1	2.4	41.3	24.1
	II	505.8	294.6	211.2	-38.7	-9.3	20.2	143.0	10.0	120.9	32.1	3.1	41.8	23.9
	III	505.5	291.5	214.0	-34.6	-9.1	19.1	151.3	9.6	118.2	42.8	4.2	42.3	23.4
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	-38.9	31.9	22.0	-5.1	--	3.1	0.0	-4.0
2009		-3.2	-4.5	-0.7	-30.6	-2.5	-22.2	34.9	4.1	-27.5	--	6.8	0.9	-8.3
2010		1.3	-2.0	7.2	-8.4	-1.8	-19.2	20.6	-12.2	2.1	--	1.6	2.1	0.2
2011		1.0	-0.1	2.8	13.4	-0.7	-1.3	-0.3	-1.5	2.6	--	-0.4	0.7	0.4
2012		-1.4	-4.3	3.2	-7.9	-4.8	25.1	5.7	-15.8	-2.0	--	0.8	1.8	-0.2
2013		-1.2	-4.4	3.4	-22.4	-6.8	-8.8	15.4	12.0	-7.9	--	3.1	1.9	-1.7
2014		1.9	0.4	3.8	6.7	-2.1	5.4	3.2	2.0	-1.0	--	0.5	0.8	-0.7
2011	III	2.5	-0.3	7.3	13.9	-0.4	-14.9	8.8	-6.8	3.6	--	0.5	1.7	0.3
	IV	1.0	-0.1	2.8	13.4	-0.7	-1.3	-0.3	-1.5	2.6	--	-0.4	0.7	0.4
2012	I	0.4	-0.8	2.2	10.5	-0.8	0.7	-0.6	-8.7	1.7	--	-0.4	0.7	0.3
	II	-0.7	-2.0	1.3	5.7	-6.2	11.9	-1.0	-15.1	2.3	--	-0.6	0.8	0.8
	III	-1.4	-3.2	1.4	3.8	-6.2	12.1	-0.1	-25.6	0.5	--	-0.4	1.1	0.5
	IV	-1.4	-4.3	3.2	-7.9	-4.8	25.1	5.7	-15.8	-2.0	--	0.8	1.8	-0.2
2013	I	-1.4	-5.2	4.5	-17.7	-6.3	20.8	12.8	-1.6	-5.8	--	2.2	2.3	-1.1
	II	-1.4	-5.3	4.6	-24.7	-4.1	18.7	15.5	1.5	-7.7	--	2.9	2.4	-1.6
	III	-1.0	-5.2	5.4	-32.6	-5.7	16.6	20.2	9.1	-9.6	--	3.8	2.6	-2.2

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

Chart 7.1.- Non-financial corporations: Gross operating surplus

EUR Billions, 4-quarter cummulated

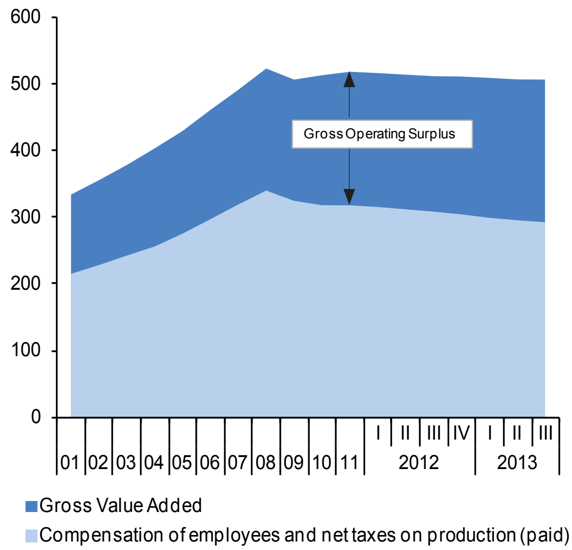


Chart 7.2.- Non-financial corporations: GVA, GOS and saving

Annual percentage change, 4-quarter moving averages

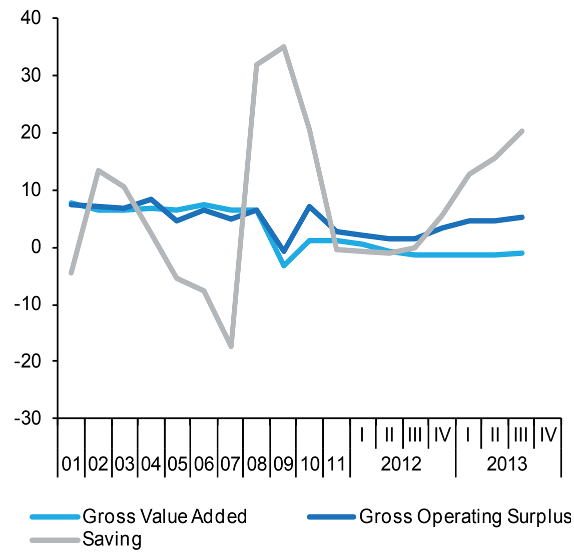
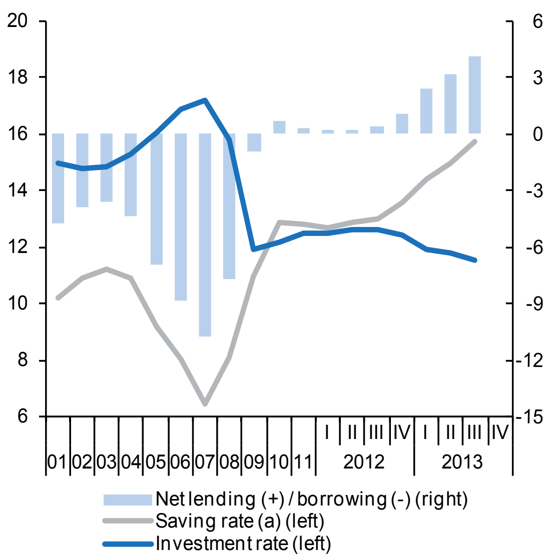


Chart 7.3.- Non-financial corporations: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

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

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

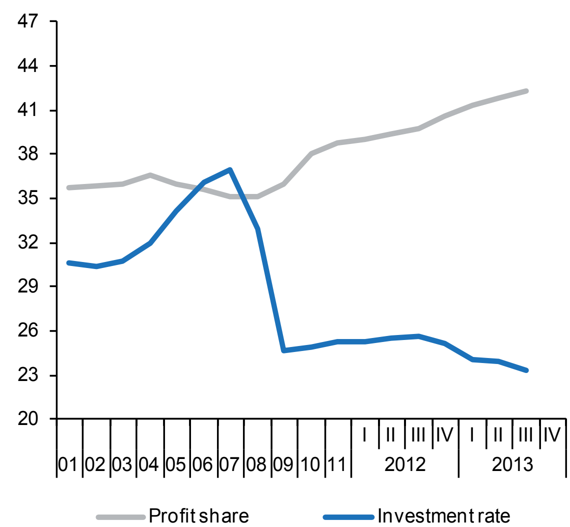


Table 8

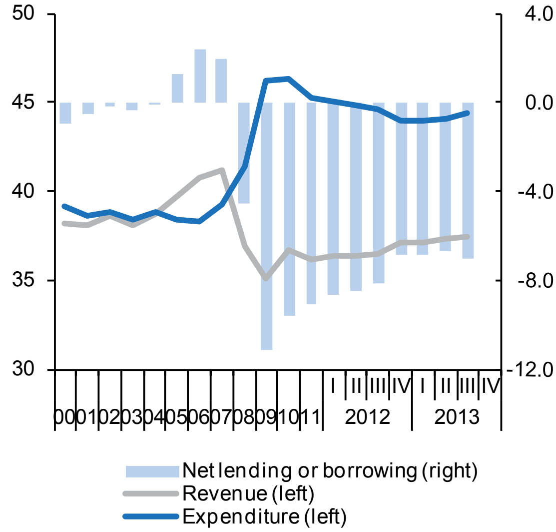
National accounts: Public revenue, expenditure and deficit

Forecasts in blue

	Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out
	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	136.9	136.8	107.8	6.6	122.7	18.9	264.7	193.1	71.7	50.9	20.7	20.7
2008	136.9	106.6	115.8	143.1	118.5	6.1	136.3	22.7	218.8	212.0	6.8	55.9	-49.1	-49.1
2009	144.5	92.4	100.8	140.1	125.7	8.1	153.7	22.4	168.0	223.6	-55.6	60.7	-116.4	-116.4
2010	145.7	109.6	99.8	140.3	125.7	10.9	161.6	20.7	176.4	224.5	-48.1	52.5	-100.5	-100.5
2011	144.0	104.5	101.2	139.5	123.6	16.2	163.2	20.2	166.0	222.2	-56.2	43.8	-100.0	-94.9
2012	135.9	107.5	105.5	133.8	115.2	20.8	167.7	17.8	161.2	207.7	-46.4	63.0	-109.4	-70.3
2013	135.5	111.1	104.0	131.5	114.1	24.3	170.2	17.5	156.1	206.2	-50.2	24.3	-74.5	-69.7
2014	134.5	111.7	106.7	132.4	112.2	25.8	172.1	17.0	158.2	202.5	-44.2	17.9	-62.2	-62.2
2011 IV	144.0	104.5	101.2	139.5	123.6	16.2	163.2	20.2	166.0	222.2	-56.2	43.8	-100.0	-94.9
2012 I	143.3	105.5	101.9	138.6	122.9	17.8	164.3	20.1	164.2	219.4	-55.2	40.4	-95.6	-90.5
II	142.1	103.7	102.8	137.8	121.6	19.3	165.7	20.0	159.9	216.8	-56.9	41.5	-98.4	-87.8
III	140.9	104.3	102.4	136.5	120.3	20.7	167.4	18.9	156.8	214.2	-57.3	41.5	-98.8	-83.7
IV	135.9	107.5	105.5	133.8	115.2	20.8	167.7	17.8	161.2	207.7	-46.4	63.0	-109.4	-70.3
2013 I	135.4	107.7	105.0	132.9	114.7	21.4	168.3	17.8	158.9	207.0	-48.1	60.8	-108.9	-69.8
II	133.4	110.1	104.9	131.1	112.7	22.3	168.9	18.0	157.6	205.0	-47.4	57.6	-105.0	-68.5
III	133.0	111.1	104.9	130.6	112.4	22.7	170.5	19.0	154.9	205.6	-50.6	54.7	-105.4	-71.4
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	10.6	13.2	10.9	0.6	12.5	2.1	20.1	19.5	0.6	5.1	-4.5	-4.5
2009	13.8	8.8	9.6	13.4	12.0	0.8	14.7	2.1	16.0	21.4	-5.3	5.8	-11.1	-11.1
2010	13.9	10.5	9.5	13.4	12.0	1.0	15.5	2.0	16.9	21.5	-4.6	5.0	-9.6	-9.6
2011	13.8	10.0	9.7	13.3	11.8	1.6	15.6	1.9	15.9	21.2	-5.4	4.2	-9.6	-9.1
2012	13.2	10.4	10.2	13.0	11.2	2.0	16.3	1.7	15.7	20.2	-4.5	6.1	-10.6	-6.8
2013	13.2	10.9	10.2	12.8	11.1	2.4	16.6	1.7	15.3	20.2	-4.9	2.4	-7.3	-6.8
2014	13.0	10.8	10.3	12.7	10.8	2.5	16.6	1.6	15.2	19.5	-4.3	1.7	-6.0	-6.0
2011 IV	13.8	10.0	9.7	13.3	11.8	1.6	15.6	1.9	15.9	21.2	-5.4	4.2	-9.6	-9.1
2012 I	13.7	10.1	9.8	13.3	11.8	1.7	15.8	1.9	15.7	21.0	-5.3	3.9	-9.2	-8.7
II	13.7	10.0	9.9	13.3	11.7	1.9	16.0	1.9	15.4	20.9	-5.5	4.0	-9.5	-8.5
III	13.6	10.1	9.9	13.2	11.6	2.0	16.2	1.8	15.2	20.7	-5.5	4.0	-9.6	-8.1
IV	13.2	10.4	10.2	13.0	11.2	2.0	16.3	1.7	15.7	20.2	-4.5	6.1	-10.6	-6.8
2013 I	13.2	10.5	10.2	13.0	11.2	2.1	16.4	1.7	15.5	20.2	-4.7	5.9	-10.6	-6.8
II	13.0	10.8	10.3	12.8	11.0	2.2	16.5	1.8	15.4	20.0	-4.6	5.6	-10.3	-6.7
III	13.0	10.9	10.3	12.8	11.0	2.2	16.7	1.9	15.2	20.1	-5.0	5.4	-10.3	-7.0

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

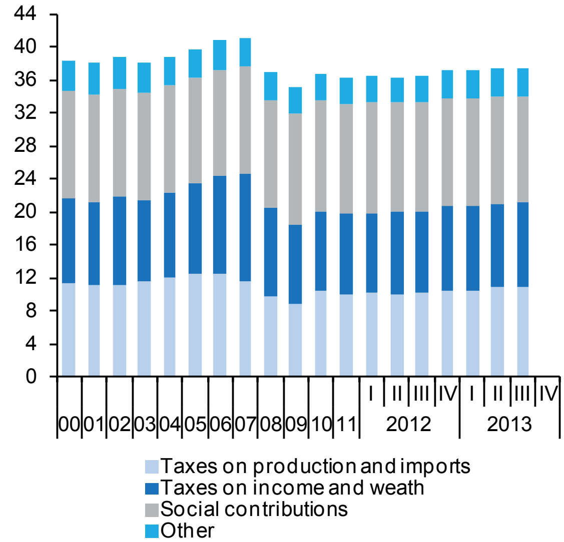


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

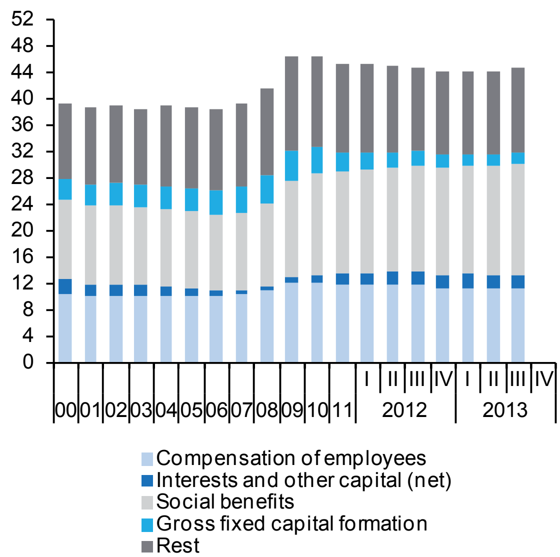
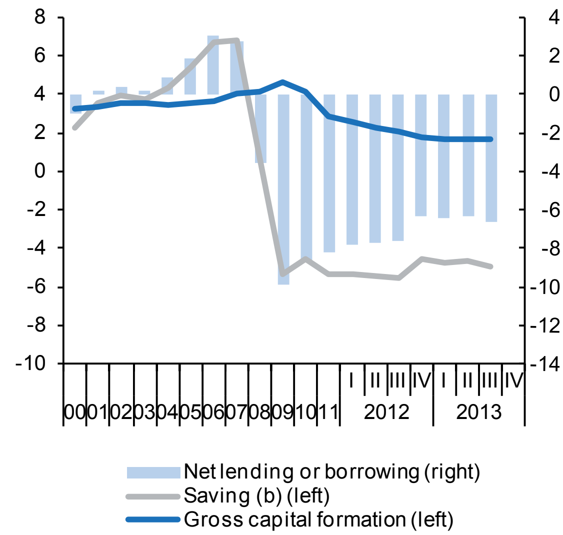


Chart 8.4.- Public sector: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 9

Public sector balances, by level of Government

Forecasts in blue

		Deficit (a)					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		12.9	-2.5	-3.3	13.7	20.7	317.4	61.0	29.4	17.2	382.3
2008		-32.2	-19.1	-5.4	7.6	-49.1	367.1	72.6	31.8	17.2	437.0
2009		-97.0	-21.6	-5.9	8.1	-116.4	485.5	91.0	34.7	17.2	565.1
2010		-51.8	-39.7	-7.1	-1.9	-100.5	549.7	120.8	35.4	17.2	644.7
2011		-36.5	-54.6	-8.2	-0.7	-100.0	622.3	142.3	35.4	17.2	737.3
2012		-82.8	-18.8	2.4	-10.2	-109.4	760.2	185.4	41.9	17.2	884.7
2013		-46.9	-17.4	5.1	-15.3	-74.5	--	--	--	--	981.0
2014		-39.3	-12.5	3.1	-13.5	-62.2	--	--	--	--	1,050.8
2011	IV	-36.5	-54.6	-8.2	-0.7	-100.0	622.3	142.3	35.4	17.2	737.3
2012	I	-41.8	-45.8	-7.8	-0.2	-95.6	655.3	147.3	36.9	17.2	775.8
	II	-53.2	-43.2	-4.6	2.6	-98.4	680.2	169.1	45.0	17.2	805.5
	III	-51.2	-41.4	-2.5	-3.8	-98.8	695.5	168.3	43.8	17.2	818.0
	IV	-82.8	-18.8	2.4	-10.2	-109.4	760.2	185.4	41.9	17.2	884.7
2013	I	-79.3	-19.9	2.0	-11.6	-108.9	796.7	190.4	42.8	17.2	923.6
	II	-76.9	-19.0	2.1	-11.1	-105.0	818.3	194.0	43.2	17.2	943.4
	III	-77.2	-18.3	1.9	-11.8	-105.4	831.3	197.0	41.8	17.2	954.9
		Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
2007		1.2	-0.2	-0.3	1.3	2.0	30.1	5.8	2.8	1.6	36.3
2008		-3.0	-1.8	-0.5	0.7	-4.5	33.7	6.7	2.9	1.6	40.2
2009		-9.3	-2.1	-0.6	0.8	-11.1	46.4	8.7	3.3	1.6	54.0
2010		-5.0	-3.8	-0.7	-0.2	-9.6	52.6	11.6	3.4	1.6	61.7
2011		-3.5	-5.2	-0.8	-0.1	-9.6	59.5	13.6	3.4	1.6	70.5
2012		-8.0	-1.8	0.2	-1.0	-10.6	73.9	18.0	4.1	1.7	86.0
2013		-4.6	-1.7	0.5	-1.5	-7.3	--	--	--	--	95.9
2014		-3.8	-1.2	0.3	-1.3	-6.0	--	--	--	--	101.2
2011	IV	-3.5	-5.2	-0.8	-0.1	-9.6	59.5	13.6	3.4	1.6	70.5
2012	I	-4.0	-4.4	-0.7	0.0	-9.2	62.8	14.1	3.5	1.6	74.4
	II	-5.1	-4.2	-0.4	0.2	-9.5	65.5	16.3	4.3	1.7	77.6
	III	-4.9	-4.0	-0.2	-0.4	-9.6	67.2	16.3	4.2	1.7	79.1
	IV	-8.0	-1.8	0.2	-1.0	-10.6	73.9	18.0	4.1	1.7	86.0
2013	I	-7.7	-1.9	0.2	-1.1	-10.6	77.7	18.6	4.2	1.7	90.0
	II	-7.5	-1.9	0.2	-1.1	-10.3	80.0	19.0	4.2	1.7	92.2
	III	-7.5	-1.8	0.2	-1.2	-10.3	81.3	19.3	4.1	1.7	93.4

(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

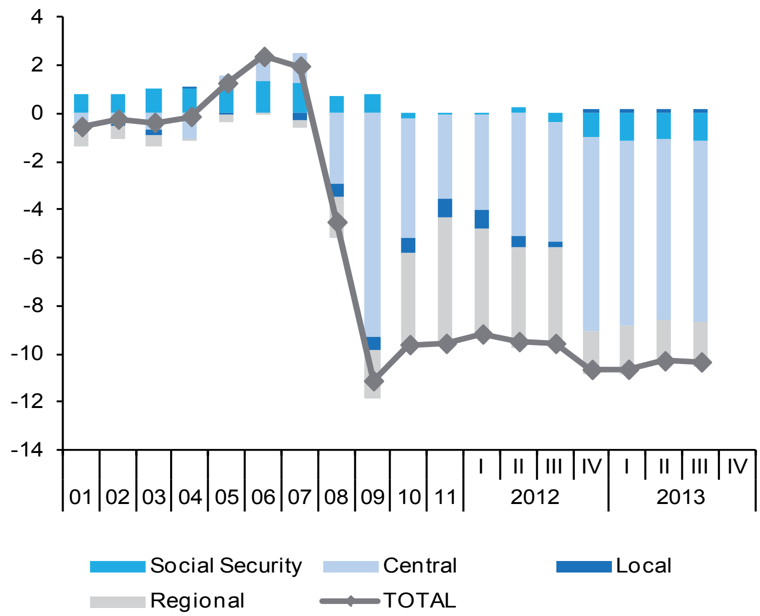


Chart 9.2.- Government debt
Percent of GDP

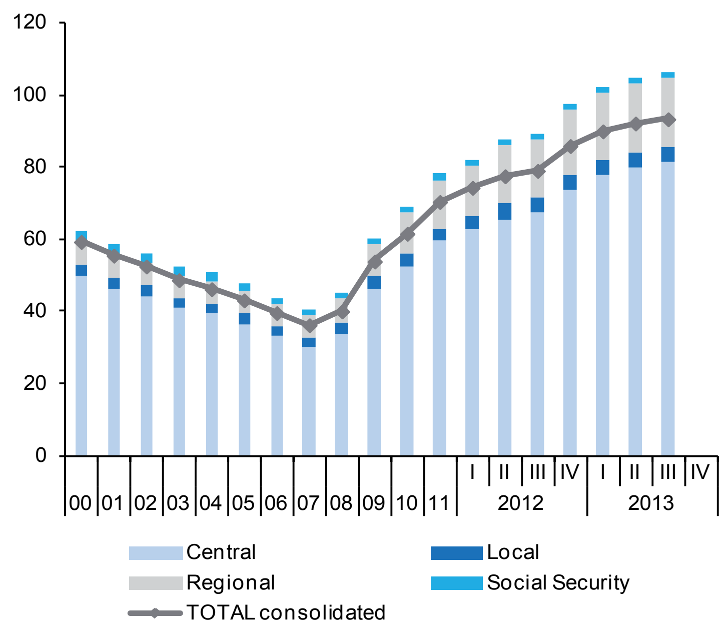


Table 10

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	**Index**	**Thousands**	**1000 GWH**	**2010=100**	**Thousands**	**Index**	**Balance of responses**	**2010=100 (smoothed)**	**Balance of responses**
2008		87.2	38.5	18,834	269.5	117.8	2,696	40.4	-18.0	120.4	-24.0
2009		83.3	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	97.1	-54.5
2010		93.4	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.9
2011		93.4	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	100.3	-30.7
2012		88.8	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	95.6	-37.0
2013 (b)		92.8	48.3	15,855	250.1	91.0	2,022	48.5	-13.9	92.3	-31.0
2012	I	92.5	45.0	16,626	64.9	94.0	2,165	44.9	-14.8	97.4	-35.3
	II	89.6	41.7	16,428	64.2	92.6	2,133	42.2	-17.4	96.2	-36.5
	III	85.8	42.6	16,245	63.8	91.7	2,094	43.6	-20.0	95.4	-38.7
	IV	87.3	42.9	16,045	62.8	89.7	2,065	44.5	-17.9	94.3	-37.4
2013	I	88.9	45.5	15,903	62.4	90.3	2,041	45.7	-15.9	93.4	-35.0
	II	90.6	46.4	15,839	62.6	90.3	2,023	47.6	-15.4	92.6	-32.2
	III	94.9	49.7	15,818	62.3	90.8	2,013	50.5	-12.8	91.7	-28.4
	IV (b)	96.9	51.6	15,870	62.8	90.6	2,011	50.1	-11.6	90.9	-28.6
2013	Oct	94.6	50.1	15,852	20.9	90.1	2,011	50.9	-14.2	90.9	-29.0
	Nov	96.0	50.8	15,867	20.9	91.1	2,013	48.6	-11.7	--	-29.0
	Dec	100.0	53.9	15,891	21.1	--	2,009	50.8	-8.8	--	-27.9
Percentage changes (c)											
2008		--	--	-0.6	0.7	-7.6	-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	-1.6	-2.7	--	--	0.4	--
2012		--	--	-3.7	-2.2	-6.7	-5.3	--	--	-4.8	--
2013 (d)		--	--	-2.9	-2.2	-1.8	-4.4	--	--	-3.9	--
2012	I	--	--	-3.9	3.8	-8.5	-5.6	--	--	-5.4	--
	II	--	--	-4.7	-4.2	-6.1	-5.8	--	--	-4.8	--
	III	--	--	-4.4	-2.6	-3.6	-7.2	--	--	-3.5	--
	IV	--	--	-4.8	-5.8	-8.5	-5.5	--	--	-4.3	--
2013	I	--	--	-3.5	-2.6	2.7	-4.6	--	--	-4.0	--
	II	--	--	-1.6	1.5	-0.1	-3.5	--	--	-3.4	--
	III	--	--	-0.5	-1.9	2.4	-1.8	--	--	-3.8	--
	IV (e)			1.3	3.3	-1.1	-0.5	--	--	-3.2	--
2013	Oct	--	--	0.2	0.3	-1.1	0.0	--	--	-0.4	--
	Nov	--	--	0.1	-0.1	1.1	0.1	--	--	--	--
	Dec	--	--	0.1	0.9	--	-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-profesional 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

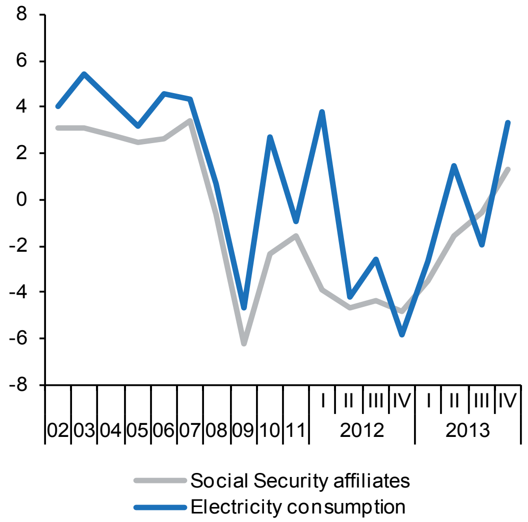


Chart 10.2.- General activity indicators (II)
Index

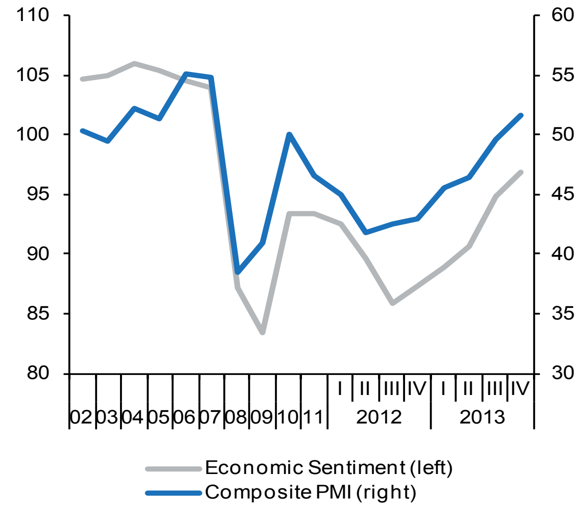


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

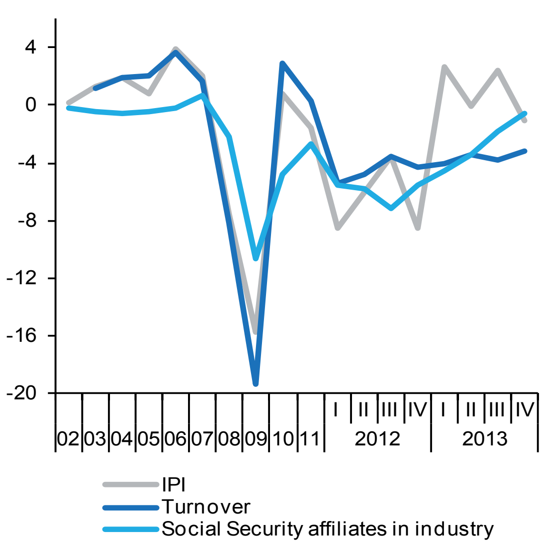


Chart 10.4.- Industrial sector indicators (II)
Index

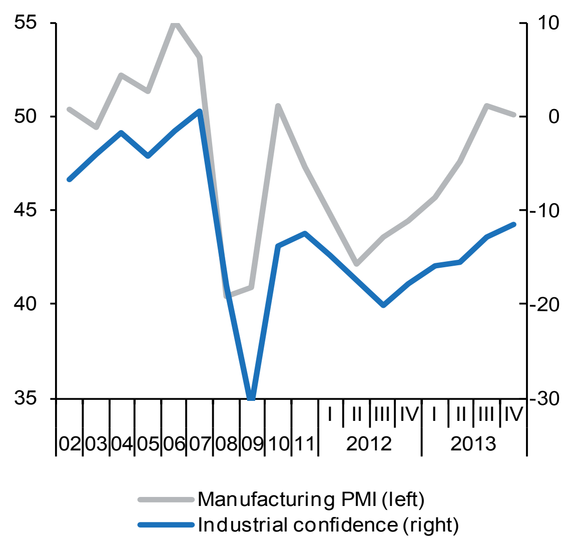


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	Consump-tion of cement	Construction confidence index	Official tenders (f)	Housing starts (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	**Million Tons**	**Balance of responses**	**EUR Billions**	**Thou-sands**	**Million m²**	**Thousands**	**2010=100 (smoothed)**	**Index**	**Million (smoo-thed)**	**Million (smoothed)**	**Balance of res-ponses**
2008	2,340	42.7	-23.6	39.8	328.5	45.1	12,644	114.6	38.2	268.6	202.3	-18.9
2009	1,800	28.9	-32.3	39.6	159.3	19.5	12,247	99.2	41.0	253.2	186.3	-29.6
2010	1,559	24.5	-29.7	26.2	123.6	16.4	12,186	100.0	49.3	269.4	191.7	-22.4
2011	1,369	20.4	-55.4	13.7	86.2	14.2	12,176	98.9	46.5	286.8	203.3	-20.8
2012 (b)	1,136	13.6	-54.9	7.4	54.2	8.6	11,907	92.8	43.1	280.7	193.2	-21.5
2013 (b)	997	10.2	-55.6	7.2	--	7.0	11,728	90.1	48.3	272.4	190.7	-15.3
2012 I	1,218	3.9	-50.4	1.7	17.0	2.7	12,051	95.4	44.8	70.4	49.3	-15.5
II	1,159	3.5	-52.2	2.4	11.9	2.2	11,952	93.7	42.4	69.7	48.5	-19.6
III	1,104	3.3	-55.5	1.7	11.7	1.9	11,865	92.2	42.6	69.2	47.6	-26.6
IV	1,064	2.9	-61.4	1.5	--	1.7	11,769	90.9	42.6	68.6	46.5	-24.4
2013 I	1,027	2.8	-46.7	1.6	--	2.0	11,709	90.4	45.7	68.8	46.0	-26.8
II	997	2.7	-57.8	2.2	--	1.7	11,701	90.8	46.5	70.0	46.2	-21.0
III	985	2.7	-60.6	2.9	--	1.6	11,726	91.4	49.3	71.4	46.6	-10.2
IV (b)	980	1.8	-57.4	0.6	--	0.6	11,780	91.7	51.8	48.4	31.2	-3.1
2013 Oct	979	0.9	-64.8	0.6	--	0.6	11,757	91.7	49.6	24.1	15.6	-7.2
Nov	980	0.9	-60.4	--	--	--	11,792	--	51.5	24.3	15.6	-4.9
Dec	981	--	-46.9	--	--	--	11,792	--	54.2	--	--	2.9
Percentage changes (c)												
2008	-10.0	-23.8	--	-1.3	-46.7	-56.5	1.5	-3.7	--	-1.2	-3.0	--
2009	-23.1	-32.3	--	-0.4	-51.5	-56.8	-3.1	-13.4	--	-5.7	-7.9	--
2010	-13.4	-15.4	--	-33.9	-22.4	-16.0	-0.5	0.8	--	6.4	2.9	--
2011	-12.2	-16.4	--	-47.9	-30.2	-13.3	-0.1	-1.1	--	6.4	6.0	--
2012 (d)	-17.0	-33.6	--	-45.5	-40.2	-39.7	-2.2	-6.2	--	-2.1	-5.0	--
2013 (d)	-12.2	-20.3	--	10.7	--	-21.9	-1.5	-2.6	--	1.6	-3.9	--
2012 I	-17.7	-40.5	--	-50.7	-25.9	-30.4	-2.6	-7.1	--	-4.0	-6.2	--
II	-18.0	-34.5	--	-37.2	-56.0	-42.6	-3.2	-7.2	--	-3.9	-6.2	--
III	-17.5	-20.1	--	-53.4	-34.5	-45.2	-2.9	-6.3	--	-3.2	-7.3	--
IV	-13.9	-34.9	--	-39.6	--	-41.5	-3.2	-5.4	--	-3.0	-8.9	--
2013 I	-13.1	-17.9	--	-9.1	--	-28.0	-2.0	-2.0	--	1.3	-4.8	--
II	-11.0	-9.9	--	-11.3	--	-23.3	-0.3	1.4	--	7.0	1.9	--
III	-5.1	-5.6	--	67.1	--	-16.5	0.9	2.9	--	8.2	3.4	--
IV (e)	-1.8	2.4	--	-4.3	--	-6.5	1.9	1.4	--	6.5	2.2	--
2013 Oct	-0.2	-0.5	--	24.1	--	-6.5	0.2	0.2	--	0.6	0.2	--
Nov	0.2	-0.6	--	--	--	--	0.3	--	--	0.6	0.2	--
Dec	0.0	--	--	--	--	--	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-profesional caregivers.

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

Chart 11.1.- Construction indicators (I)
Annualized percentage changes from previous period and index

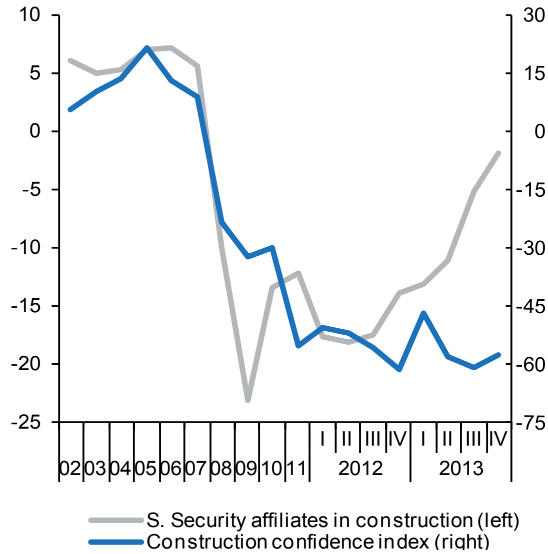


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

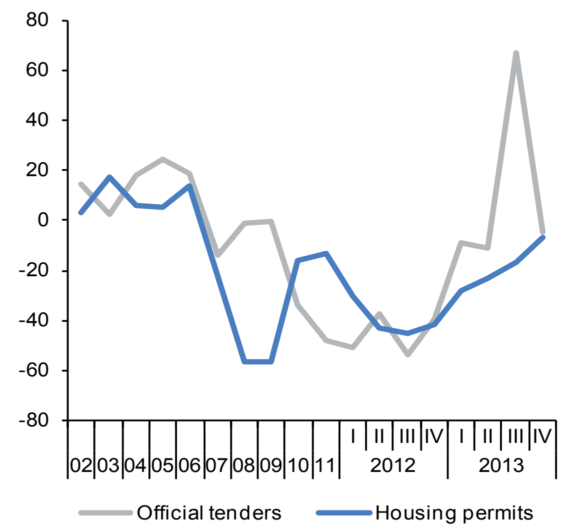


Chart 11.3.- Services indicators (I)
Percentage changes from previous period

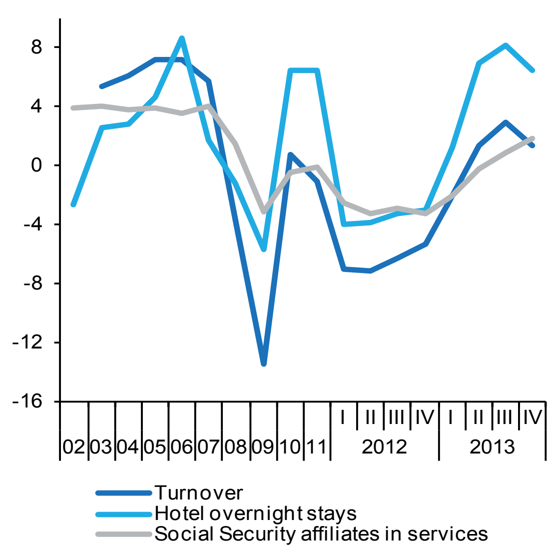


Chart 11.4.- Services indicators (II)
Index

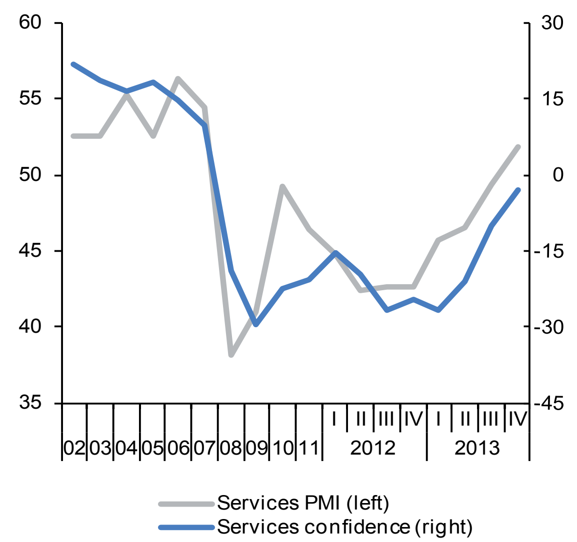


Table 12
Consumption and investment indicators (a)

	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)
	2010=100 (smoothed)	**Thousands (smoothed)**	**Balance of responses**	**Million**	**Balance of responses**	**Thousands (smoothed)**	**Balance of responses**	**2005=100 (smoothed)**
2008	107.5	1,185.3	-33.7	113.2	-21.0	236.9	-4.4	89.6
2009	101.8	971.2	-28.2	110.1	-40.3	142.1	-51.0	65.5
2010	100.0	1,000.1	-20.9	113.6	-26.7	152.1	-31.1	58.4
2011	94.4	808.3	-17.1	111.5	-21.7	142.0	-23.0	54.1
2012	87.4	710.6	-31.7	102.1	-24.3	107.7	-38.6	48.2
2013 (b)	82.8	677.8	-25.3	94.8	-21.9	96.9	-33.6	46.1
2012 I	90.8	190.9	-24.6	27.0	-26.1	30.1	-31.1	49.3
II	88.7	181.8	-29.0	25.6	-20.8	27.6	-38.0	47.7
III	86.4	173.2	-35.2	25.0	-23.7	25.7	-43.5	46.9
IV	84.4	169.5	-37.8	24.0	-26.4	24.5	-41.6	45.8
2013 I	83.6	173.7	-32.6	24.2	-21.5	24.5	-38.8	45.0
II	83.9	180.8	-28.7	24.9	-24.4	25.9	-32.9	46.3
III	84.5	188.4	-20.5	25.1	-20.9	27.8	-27.3	49.2
IV (b)	84.9	130.6	-19.4	17.0	-20.8	19.7	-35.5	--
2013 Oct	84.8	64.8	-20.7	8.2	-23.0	9.7	-34.5	--
Nov	84.9	65.8	-20.5	8.7	-22.4	9.9	-39.3	--
Dec	--	--	-17.1	--	-17.0	--	-32.6	--
				Percentage changes (c)				
2008	-6.0	-27.5	--	-2.9	--	-43.6	--	-21.0
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	--	-7.3
2012	-7.4	-12.1	--	-8.5	--	-24.2	--	-11.0
2013 (d)	-4.2	2.9	--	-2.1	--	-3.1	--	-0.1
2012 I	-7.3	-12.1	--	-2.3	--	-29.1	--	-14.6
II	-8.9	-17.7	--	-18.5	--	-29.1	--	-12.5
III	-9.9	-17.7	--	-9.7	--	-24.5	--	-6.6
IV	-9.1	-8.2	--	-15.3	--	-17.4	--	-8.5
2013 I	-3.5	10.3	--	4.5	--	-1.4	--	-7.5
II	1.6	17.2	--	10.6	--	25.1	--	12.3
III	2.8	18.0	--	4.4	--	34.1	--	28.1
IV (e)	1.6	17.0	--	4.9	--	26.1	--	--
2013 Oct	0.1	1.6	--	-1.0	--	2.4	--	--
Nov	0.1	1.6	--	6.2	--	2.3	--	--
Dec	--	--	--	--	--	--	--	--

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

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

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

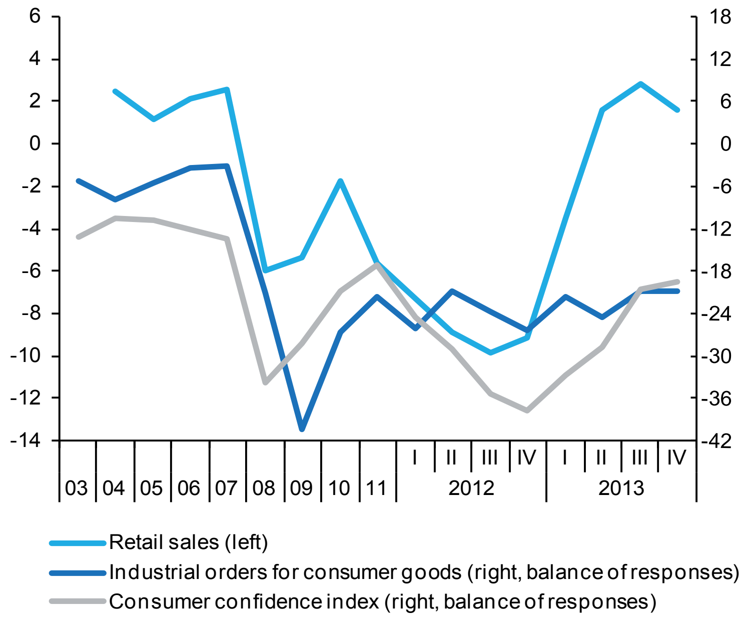


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

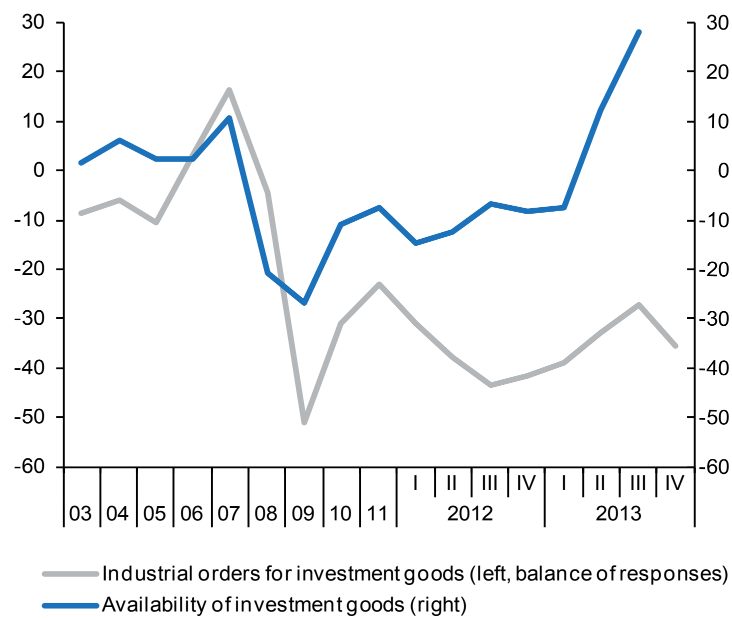


Table 13a

Labour market (I)

Forecasts in blue

		Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							**Percentage**					
2007		30.4	22.2	--	20.4	--	1.8	--	72.6	66.6	8.3	18.2	7.6	12.2
2008		30.8	22.8	--	20.3	--	2.6	--	73.7	65.3	11.3	24.6	10.2	17.5
2009		30.9	23.0	--	18.9	--	4.1	--	74.0	60.6	18.0	37.8	16.0	28.4
2010		30.8	23.1	--	18.5	--	4.6	--	74.4	59.4	20.1	41.6	18.2	30.2
2011		30.7	23.1	--	18.1	--	5.0	--	74.7	58.5	21.6	46.4	19.6	32.8
2012		30.5	23.1	--	17.3	--	5.8	--	75.1	56.2	25.0	53.2	23.1	36.0
2013		30.1	22.7	--	16.7	--	6.0	--	75.0	55.2	26.4	--	--	--
2014		29.8	22.5	--	16.8	--	5.7	--	75.1	56.0	25.3	--	--	--
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	35.7
	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	75.2	56.0	25.5	53.8	23.7	35.9
	IV	30.3	22.9	22.9	17.0	17.0	6.0	6.0	75.1	55.4	26.1	55.3	24.3	36.5
2013	I	30.2	22.8	22.8	16.6	16.8	6.2	6.0	75.0	55.0	26.5	56.2	24.5	37.9
	II	30.2	22.8	22.8	16.8	16.7	6.0	6.0	74.9	55.0	26.4	55.5	24.8	36.0
	III	30.1	22.7	22.7	16.8	16.7	5.9	6.0	75.1	55.2	26.4	55.8	24.6	37.8
	IV	30.0	22.7	22.7	16.8	16.8	5.9	5.9	75.1	55.4	26.1	55.3	24.4	36.6
		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	-1.3	--	-3.1	--	3.9	--	0.0	-1.0	1.3	--	--	--
2014		-1.1	-1.0	--	0.4	--	-5.0	--	0.1	0.9	-1.1	--	--	--
2012	I	-0.6	0.0	-0.5	-4.0	-5.0	14.9	15.8	0.4	-2.0	3.1	6.5	2.8	4.9
	II	-0.5	-0.1	0.2	-4.8	-4.6	17.8	17.1	0.3	-2.6	3.8	7.2	3.8	4.0
	III	-0.7	-0.2	-0.2	-4.6	-4.0	16.1	12.1	0.4	-2.4	3.5	6.6	3.9	2.0
	IV	-1.0	-0.7	-2.3	-4.8	-5.6	13.1	7.6	0.3	-2.2	3.2	6.5	3.5	1.7
2013	I	-1.2	-1.0	-2.1	-4.6	-4.1	10.0	3.6	0.1	-1.9	2.7	5.3	2.8	2.2
	II	-1.2	-1.5	-1.3	-3.6	-0.9	5.0	-2.5	-0.2	-1.4	1.6	2.8	2.0	0.0
	III	-1.3	-1.6	-0.6	-2.9	-0.9	2.2	0.0	-0.1	-0.8	1.0	2.0	0.9	2.0
	IV	-1.2	-1.2	-0.6	-1.2	1.2	-1.2	-5.5	0.0	0.1	0.0	-0.1	0.1	0.1

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

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

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

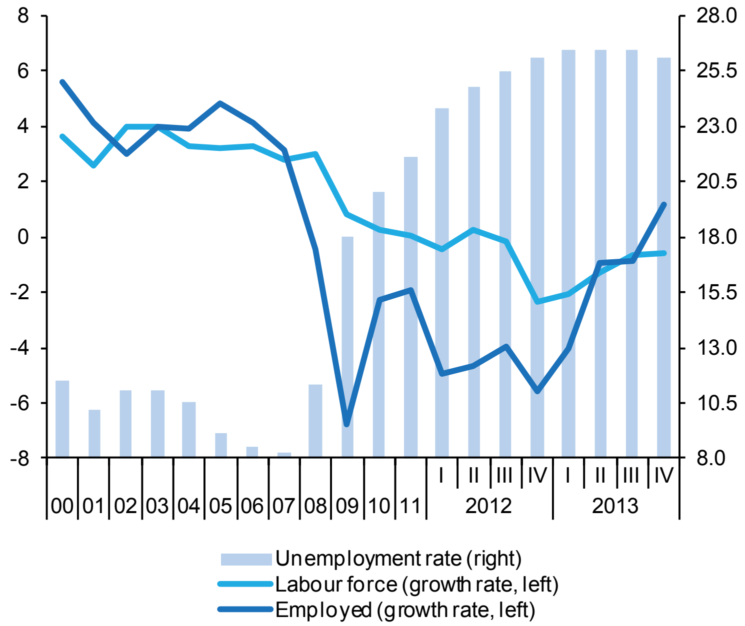


Chart 13a.2.- Unemployment rates, SA
Percentage

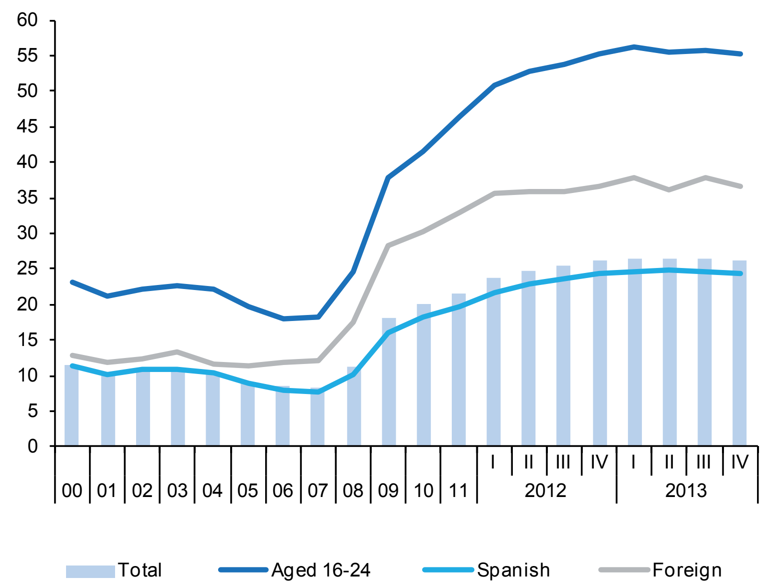


Table 13b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees							
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Temporary	Indefinite	Temporary employment rate (a)	Self- employed	Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)													
2007		0.87	3.24	2.75	13.50	16.76	5.31	11.45	31.7	3.60	17.96	2.40	11.78
2008		0.82	3.20	2.45	13.79	16.68	4.88	11.80	29.3	3.58	17.83	2.43	11.97
2009		0.79	2.78	1.89	13.44	15.68	3.98	11.70	25.4	3.21	16.47	2.42	12.79
2010		0.79	2.61	1.65	13.40	15.35	3.82	11.52	24.9	3.11	16.01	2.45	13.27
2011		0.76	2.56	1.39	13.40	15.11	3.83	11.28	25.3	3.00	15.60	2.50	13.82
2012		0.75	2.43	1.15	12.95	14.24	3.36	10.88	23.6	3.04	14.73	2.55	14.75
2013 (c)		0.75	2.29	1.02	12.70	13.71	3.20	10.50	23.37	3.04	14.06	2.69	16.03
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
	III	0.71	2.28	1.01	12.82	13.75	3.34	10.41	24.3	3.08	14.24	2.59	15.37
	IV	0.79	2.27	0.98	12.71	13.74	3.29	10.45	23.9	3.02	14.02	2.74	16.34
		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)		-1.1	-5.7	-11.4	-2.0	-3.8	-4.8	-3.4	-0.3	0.1	-4.5	5.4	1.3
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
	III	-2.1	-6.6	-10.8	-1.5	-3.4	-2.3	-3.8	0.3	-0.4	-4.0	3.9	1.0
	IV	0.9	-4.6	-8.9	0.0	-1.4	2.5	-2.5	0.9	-0.3	-2.4	5.4	1.0

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

Source: INE (Labour Force Survey).

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

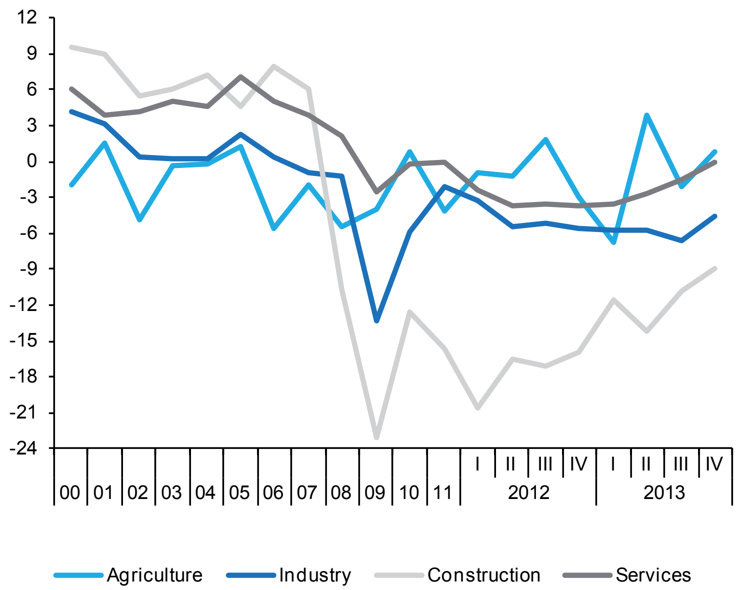


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

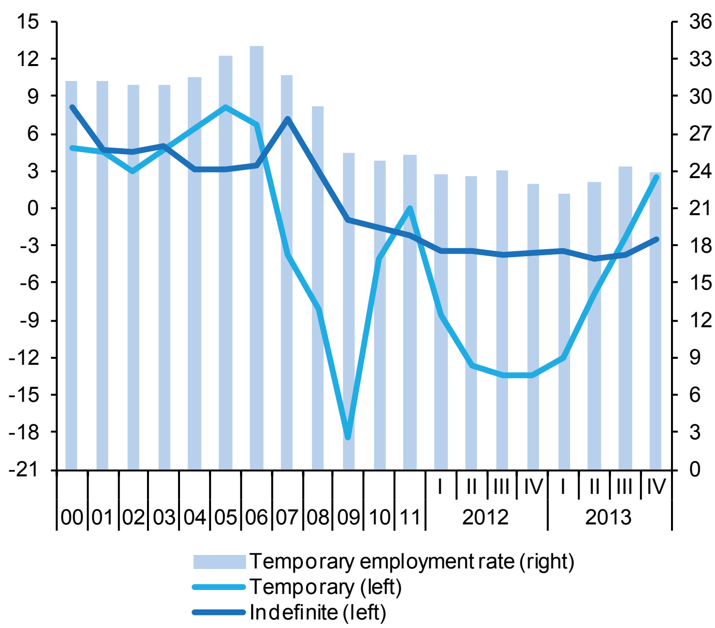


Table 14

Index of Consumer Prices

Forecasts in blue

		Total	Total excluding food and energy	Excluding unprocessed food and energy: Total	Non-energy industrial goods	Services	Processed food	Unprocessed food	Energy	Food
% of total in 2013		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		102.4	101.3	101.6	100.8	101.5	103.1	102.3	108.9	102.8
2013		103.9	102.4	103.0	101.4	102.9	106.2	105.9	108.9	106.1
2014		104.4	102.5	103.5	101.4	103.1	108.0	106.3	109.8	107.5
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		2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		0.5	0.1	0.4	0.0	0.2	1.7	0.4	0.8	1.3
2013	Jan	2.7	1.9	2.2	1.3	2.2	3.6	4.3	5.3	3.8
	Feb	2.8	1.9	2.3	1.4	2.2	3.6	3.1	5.9	3.5
	Mar	2.4	2.0	2.3	1.4	2.4	3.6	2.5	3.2	3.3
	Apr	1.4	1.6	1.9	1.5	1.7	3.1	2.7	-2.5	3.0
	May	1.7	1.8	2.0	1.5	2.0	2.9	4.9	-1.8	3.5
	Jun	2.1	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
	Sep	0.3	0.3	0.8	-0.8	1.0	3.0	2.8	-3.7	3.0
	Oct	-0.1	-0.3	0.2	-0.8	0.0	2.7	0.9	-2.7	2.2
	Nov	0.2	-0.1	0.4	-0.4	0.1	2.5	0.4	-0.7	1.9
	Dec	0.3	-0.2	0.2	-0.5	0.0	2.3	0.6	0.2	1.8
2014	Jan	0.4	0.0	0.4	-0.2	0.2	2.0	0.5	0.4	1.6
	Feb	0.1	0.0	0.3	-0.2	0.2	1.9	0.7	-1.4	1.5
	Mar	0.2	-0.1	0.2	-0.1	-0.1	1.8	1.2	-0.8	1.6
	Apr	0.7	0.2	0.5	-0.1	0.4	1.8	0.8	2.1	1.5
	May	0.7	0.1	0.4	-0.1	0.1	1.7	-0.4	3.3	1.1
	Jun	0.5	0.0	0.3	-0.1	0.1	1.7	-1.4	3.0	0.8
	Jul	0.3	0.1	0.3	-0.1	0.1	1.6	-2.4	1.3	0.3
	Aug	0.1	0.1	0.3	-0.1	0.2	1.6	-2.8	0.1	0.2
	Sep	0.4	0.2	0.4	0.1	0.2	1.6	1.1	-0.4	1.4
	Oct	0.6	0.3	0.5	0.3	0.3	1.5	2.6	0.5	1.8
	Nov	0.8	0.3	0.6	0.3	0.3	1.6	2.7	1.3	1.9
	Dec	0.7	0.3	0.6	0.4	0.3	1.8	2.4	0.6	2.0

Sources: INE and FUNCAS (Forecasts).

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

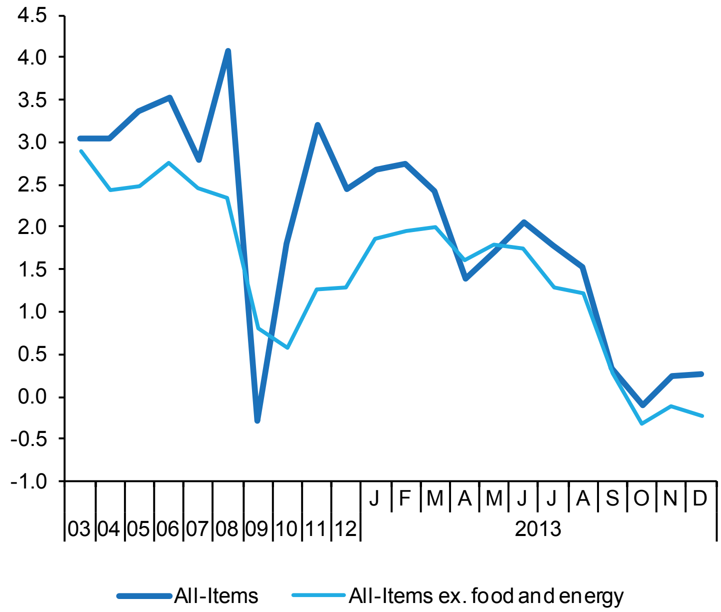


Chart 14.2.- Inflation rate (II)
Annual percentage changes

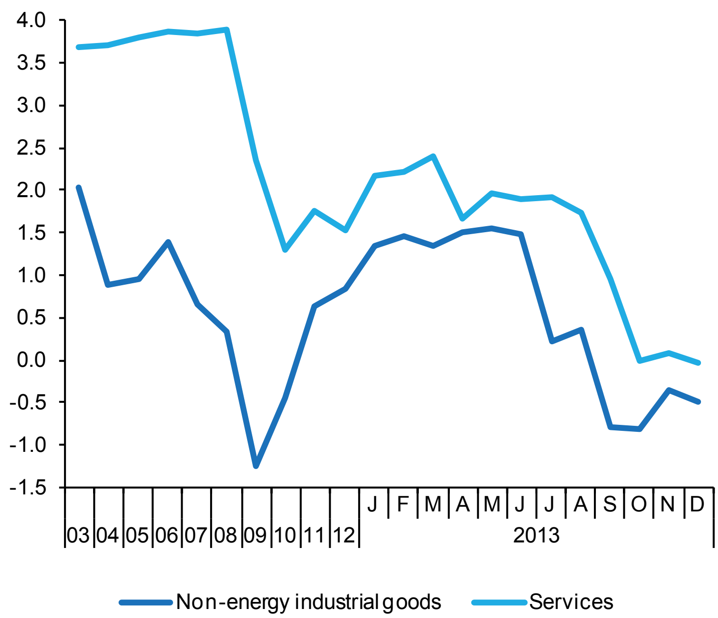


Table 15
Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices: Total	Industrial producer prices: Excluding energy	Housing prices: Housing Price Index (INE)	Housing prices: M² average price (M. Public Works)	Urban land prices (M. Public Works)	Labour Costs Survey: Total labour costs per worker	Labour Costs Survey: Wage costs per worker	Labour Costs Survey: Other cost per worker	Labour Costs Survey: Total labour costs per hour worked	Wage increases agreed in collective bargaining
		2000=100	2010=100		2007=100			2000=100				
2008		135.4	99.8	100.5	98.5	100.7	91.1	137.5	134.8	145.6	142.6	--
2009		135.5	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.9	150.0	--
2010		135.6	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.3	--
2011		135.6	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.7	--
2012		135.6	111.0	105.9	72.0	77.2	65.4	143.6	141.1	151.3	154.6	--
2013 (b)		136.6	111.6	106.7	64.5	73.2	55.8	141.8	138.3	152.5	152.6	--
2011	IV	135.6	107.7	104.2	79.4	82.8	65.5	151.7	151.3	153.0	163.4	--
2012	I	135.5	110.5	104.9	75.4	80.2	63.7	142.1	137.9	154.9	146.3	--
	II	135.5	110.2	105.7	73.0	78.1	70.2	146.5	145.3	150.4	153.0	--
	III	135.7	111.7	106.4	70.2	76.1	60.4	138.8	135.2	149.7	159.8	--
	IV	135.6	111.5	106.8	69.2	74.5	67.3	146.9	145.8	150.3	159.2	--
2013	I	137.1	112.2	107.3	64.7	73.7	56.4	140.3	135.5	154.9	145.5	--
	II	136.5	110.7	106.9	64.2	73.1	58.0	145.9	144.4	150.6	151.9	--
	III	136.3	112.2	106.5	64.7	72.7	53.0	139.1	134.9	151.9	160.4	--
2013	Sep	--	112.3	106.4	--	--	--	--	--	--	--	--
	Oct	--	111.7	106.1	--	--	--	--	--	--	--	--
	Nov	--	110.6	105.9	--	--	--	--	--	--	--	--
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	5.2	2.3
2010		0.1	3.7	1.8	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.9	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	0.6	0.8	-11.5	-6.4	-13.9	-0.5	-0.9	0.5	-0.3	0.6
2012	I	-0.1	4.6	1.4	-12.6	-7.2	-16.4	1.1	1.2	0.8	2.6	2.2
	II	-0.1	3.1	1.2	-14.4	-8.3	-8.6	-0.3	0.1	-1.3	0.0	1.7
	III	0.2	3.9	1.7	-15.2	-9.5	-0.7	-0.1	0.3	-1.0	0.3	1.3
	IV	0.0	3.5	2.5	-12.8	-10.0	2.7	-3.2	-3.6	-1.8	-2.6	1.3
2013	I	1.2	1.6	2.3	-14.3	-8.1	-11.5	-1.3	-1.7	0.0	-0.5	0.6
	II	0.7	0.5	1.1	-12.0	-6.4	-17.4	-0.4	-0.6	0.2	-0.7	0.7
	III	0.4	0.4	0.1	-7.9	-4.5	-12.4	0.2	-0.2	1.4	0.3	0.6
2013	Sep	--	0.1	-0.4	--	--	--	--	--	--	--	0.6
	Oct	--	-0.2	-0.7	--	--	--	--	--	--	--	0.6
	Nov	--	-0.6	-0.8	--	--	--	--	--	--	--	0.6

(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)

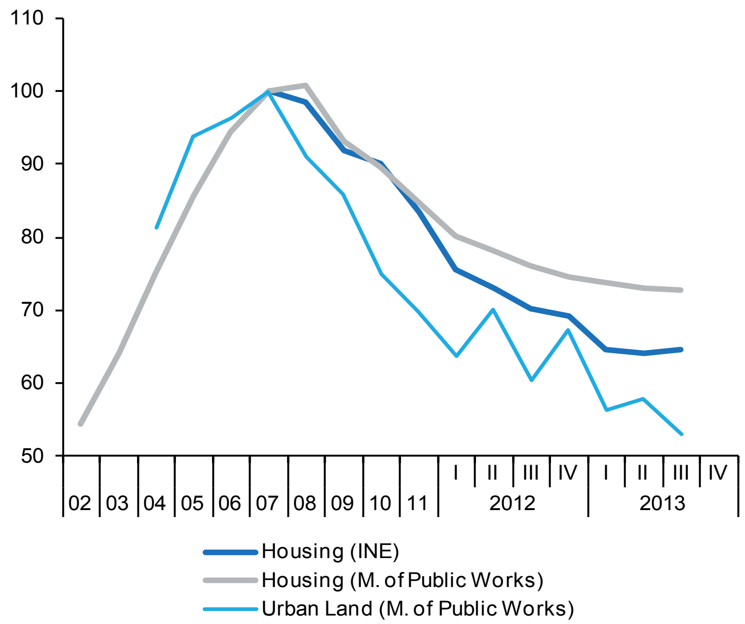


Chart 15.2.- Wage costs
Annual percent change

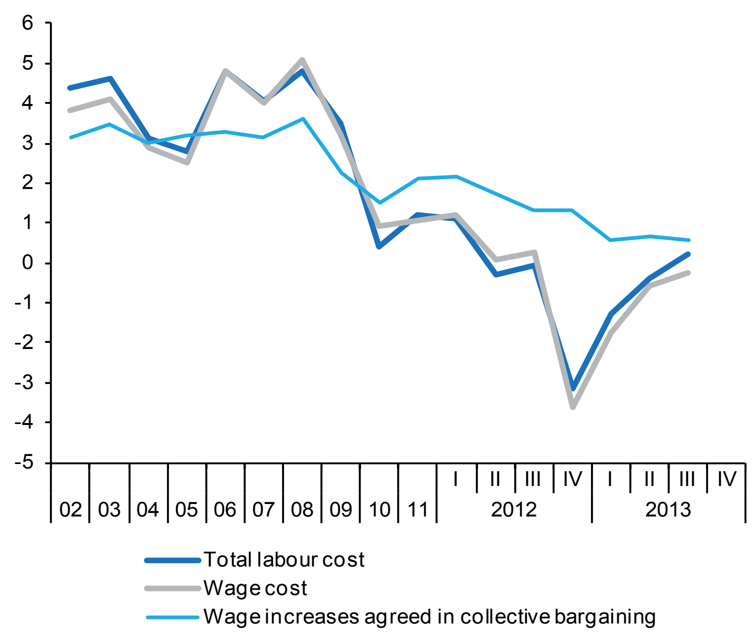


Table 16

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	131.0	58.2	-94.2	-50.7	-26.0
2009		159.9	101.6	101.5	206.1	96.2	92.0	110.7	49.2	-46.2	-18.8	-8.9
2010		186.8	103.2	116.7	240.1	100.6	102.4	126.5	60.3	-53.3	-17.9	-4.8
2011		215.2	108.2	128.4	263.1	109.1	103.5	142.6	72.6	-47.9	-4.0	3.6
2012		226.1	110.4	132.2	257.9	114.2	97.0	143.2	82.9	-31.8	14.3	12.2
2013 (b)		196.6	110.1	140.4	209.0	109.2	99.4	122.6	74.0	-12.4	23.4	16.0
2011	IV	55.7	110.1	130.9	65.2	112.3	100.2	36.4	19.3	-9.5	-0.2	1.5
2012	I	55.0	110.1	129.3	65.9	114.8	99.1	35.2	19.8	-10.9	1.5	2.0
	II	55.0	108.3	131.5	63.0	112.8	96.6	34.6	20.4	-8.1	3.8	2.9
	III	57.1	110.6	133.7	63.6	114.8	95.6	34.7	22.4	-6.4	5.5	3.0
	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	34.6	22.7	-4.2	7.2	3.8
	II	62.0	109.8	146.0	63.6	107.0	102.7	38.6	23.3	-1.6	8.5	6.1
	III	59.6	110.8	139.2	63.1	110.1	99.1	37.1	22.4	-3.6	7.2	4.4
2013	Aug	21.0	111.9	145.5	21.3	109.3	101.2	13.6	7.4	-0.4	3.3	2.2
	Sep	19.6	109.3	139.0	21.4	112.0	99.0	12.4	7.2	-1.8	1.8	1.2
	Oct	20.3	112.5	140.0	21.4	108.5	102.3	12.5	7.7	-1.1	2.3	1.5
		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	-15.4	-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		5.1	2.0	3.0	-2.0	4.6	-6.3	0.5	14.1	-3.1	1.4	1.2
2013 (d)		6.2	0.2	6.1	-2.0	-4.5	2.6	5.4	7.5	--	--	--
2011	IV	8.6	5.4	2.9	0.4	7.3	-6.4	8.9	8.0	-3.6	-0.1	0.6
2012	I	-4.9	-0.2	-5.0	4.5	9.1	-4.2	-13.3	12.4	-4.2	0.6	0.8
	II	-0.2	-6.5	7.0	-16.1	-6.9	-9.9	-6.6	12.0	-3.1	1.5	1.1
	III	16.5	9.0	7.1	3.2	7.4	-4.0	1.7	45.0	-2.5	2.1	1.1
	IV	7.2	7.1	-0.1	-14.7	-1.0	-13.7	11.9	0.2	-1.2	2.9	1.9
2013	I	-5.6	-12.3	7.4	3.0	-11.4	16.0	-12.4	5.9	-1.7	2.8	1.5
	II	37.0	3.3	32.4	14.2	-14.0	33.2	56.5	10.9	-0.6	3.3	2.4
	III	-14.5	3.7	-17.4	-2.8	12.1	-13.3	-14.8	-14.1	-1.4	2.8	1.7
2013	Aug	9.9	0.7	9.2	4.6	0.4	4.3	21.1	-6.0	--	--	--
	Sep	-6.7	-2.3	-4.5	0.3	2.5	-2.2	-8.7	-3.0	--	--	--
	Oct	3.7	2.9	0.7	0.1	-3.1	3.3	1.2	7.9	--	--	--

(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 over the same period of the previous year.

Source: Ministry of Economy.

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

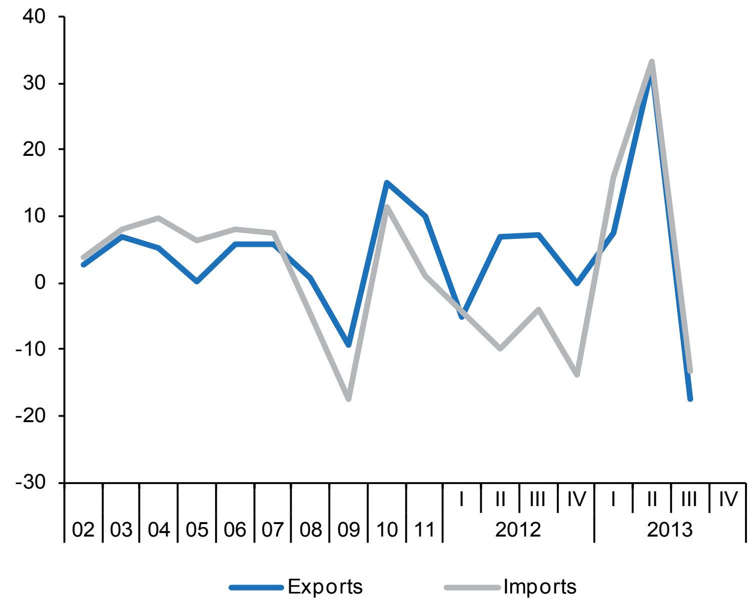


Chart 16.2.- Trade balance
EUR Billions, moving sum of 4 quarters

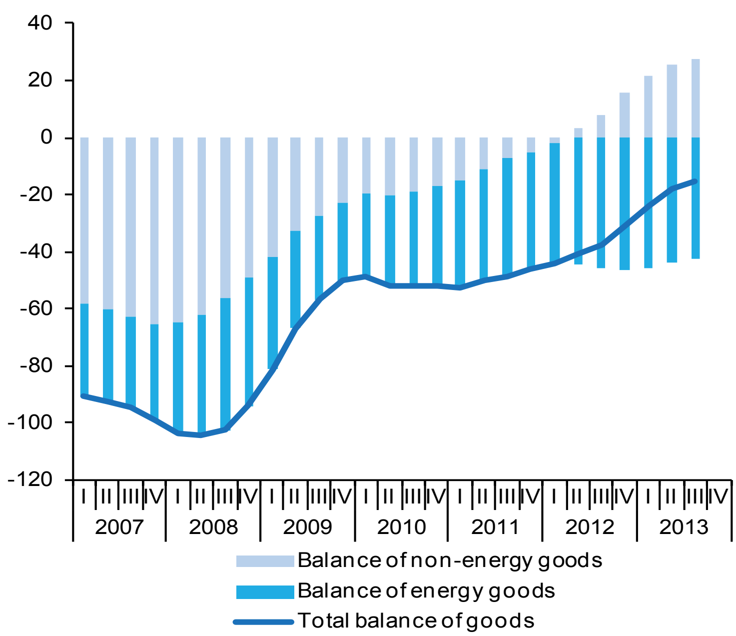


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account							Financial account						
		Total	Goods	Services	Income	Transfers	Capital account	Current and capital accounts	Financial account, excluding Bank of Spain: Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives	Bank of Spain	Errors and omissions
		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															
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)		4.18	-8.40	36.06	-14.41	-9.06	5.80	9.98	45.00	18.30	5.24	17.88	3.58	-64.76	9.78
2011	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	-4.68	-2.49	6.43	-4.79	-3.83	1.38	-3.30	41.20	4.41	0.47	36.28	0.04	-38.77	0.87
	II	3.05	-0.71	9.94	-3.72	-2.46	2.53	5.58	0.68	4.96	-10.22	4.75	1.19	-11.74	5.48
	III	4.10	-4.29	15.15	-4.18	-2.58	1.27	5.37	2.10	4.28	14.67	-18.41	1.56	-10.51	3.04
2013	Aug	2.44	-1.41	5.25	-0.53	-0.87	0.63	3.07	-2.66	0.81	0.24	-4.40	0.69	1.10	-1.52
	Sep	0.15	-2.60	4.43	-1.12	-0.56	0.13	0.28	10.26	2.13	10.27	-2.62	0.48	-11.88	1.35
	Oct	1.71	-0.92	4.54	-1.72	-0.19	0.62	2.33	1.02	4.65	0.32	-4.73	0.79	-3.75	0.39
Percentage of GDP															
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	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	-1.9	-1.0	2.6	-1.9	-1.5	0.5	-1.3	16.4	1.8	0.2	14.5	0.0	-15.5	0.3
	II	1.2	-0.3	3.8	-1.4	-0.9	1.0	2.1	0.3	1.9	-3.9	1.8	0.5	-4.5	2.1
	III	1.7	-1.7	6.1	-1.7	-1.0	0.5	2.2	0.8	1.7	5.9	-7.4	0.6	-4.3	1.2

(a) Period with available data.
Source: Bank of Spain.

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

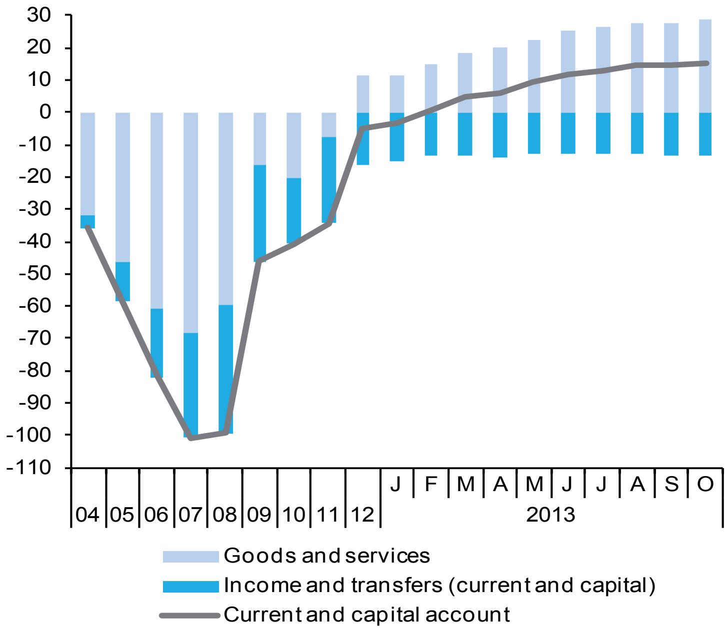


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

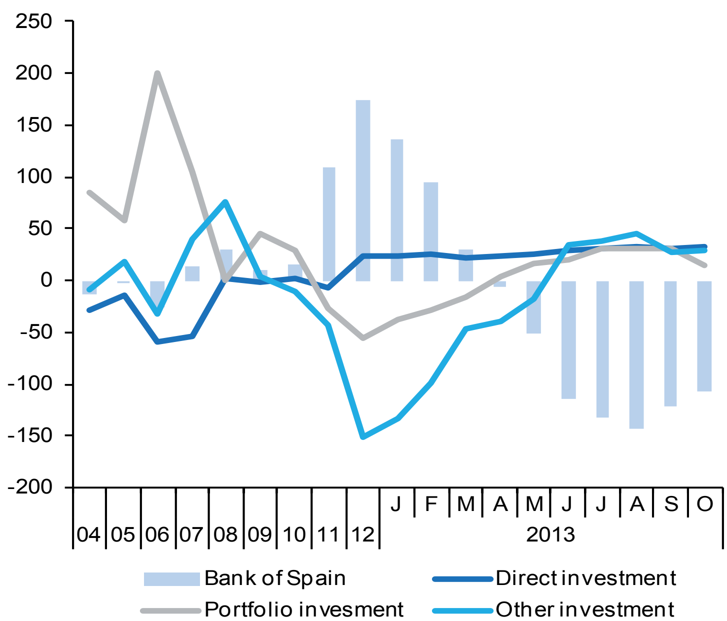


Table 18

State and Social Security System budget

	State							Social Security System				
	National accounts basis			Revenue, cash basis (a)					Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others	Surplus or deficit	Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
2008	-32.4	131.8	164.2	188.7	102.0	70.7	16.0	14.6	124.2	108.7	109.7	86.9
2009	-98.0	105.4	203.4	162.5	87.5	55.7	19.3	8.8	123.7	107.3	114.9	92.0
2010	-50.4	141.6	192.0	175.0	86.9	71.9	16.3	2.4	122.5	105.5	120.1	97.7
2011	-31.5	135.9	167.4	177.0	89.6	71.2	16.1	-0.5	121.7	105.4	122.1	101.5
2012	-44.4	121.5	165.9	215.4	96.2	71.6	47.7	-5.8	118.6	101.1	124.4	105.5
2013 (b)	-40.6	111.1	151.7	171.8	84.2	69.7	17.9	0.9	112.4	90.1	111.5	95.4
2013 Sep	-44.3	127.5	171.8	190.4	93.4	74.3	22.7	-6.2	122.7	98.7	128.9	109.5
Oct	-47.1	127.8	174.9	192.0	94.2	74.5	23.2	-7.2	122.0	98.6	129.2	109.8
Nov	-47.6	127.9	175.5	192.1	94.3	74.7	23.2	-7.6	121.6	98.5	129.3	110.2
Annual percentage changes												
2008	--	-20.2	8.1	-11.9	-15.7	-10.4	11.1	--	6.5	4.8	7.6	6.2
2009	--	-20.1	23.9	-13.9	-14.2	-21.2	20.4	--	-0.5	-1.3	4.7	5.9
2010	--	34.4	-5.6	7.7	-0.7	29.1	-15.7	--	-1.0	-1.7	4.5	6.2
2011	--	-4.0	-12.8	1.1	3.1	-0.9	-0.8	--	-0.7	-0.1	1.7	3.9
2012	--	-10.6	-0.9	21.7	7.3	0.5	195.9	--	-2.5	-4.0	1.9	3.9
2013 (c)	--	6.1	6.8	-12.0	-2.2	4.6	-57.8	--	2.8	-2.8	4.5	5.2
2013 Sep	--	-8.0	-2.1	-7.0	3.8	8.4	-51.0	--	1.4	-4.5	3.6	4.7
Oct	--	-8.7	1.4	-7.1	2.5	8.3	-49.3	--	0.8	-4.5	3.5	4.5
Nov	--	-9.5	6.2	-7.7	1.4	7.3	-49.1	--	0.6	-4.3	3.3	4.7
Percentage of GDP, 12-month cumulated												
2008	-3.0	12.1	15.1	17.3	9.4	6.5	1.5	1.3	11.4	10.0	10.1	8.0
2009	-9.4	10.1	19.4	15.5	8.4	5.3	1.8	0.8	11.8	10.3	11.0	8.8
2010	-4.8	13.5	18.4	16.7	8.3	6.9	1.6	0.2	11.7	10.1	11.5	9.3
2011	-3.0	13.0	16.0	16.9	8.6	6.8	1.5	0.0	11.6	10.1	11.7	9.7
2012	-4.3	11.8	16.1	20.9	9.3	7.0	4.6	-0.6	11.5	9.8	12.1	10.3
2013 (b)	-4.0	10.9	14.8	16.8	8.2	6.8	1.8	0.1	11.0	8.8	10.9	9.3
2013 Sep	-4.3	12.5	16.8	18.6	9.1	7.3	2.2	-0.6	12.0	9.7	12.6	10.7
Oct	-4.6	12.5	17.1	18.8	9.2	7.3	2.3	-0.7	11.9	9.6	12.6	10.7
Nov	-4.7	12.5	17.2	18.8	9.2	7.3	2.3	-0.7	11.9	9.6	12.6	10.8

(a) Including the regional and local administrations share in direct and indirect taxes. (b) Cumulated since January. (c) 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

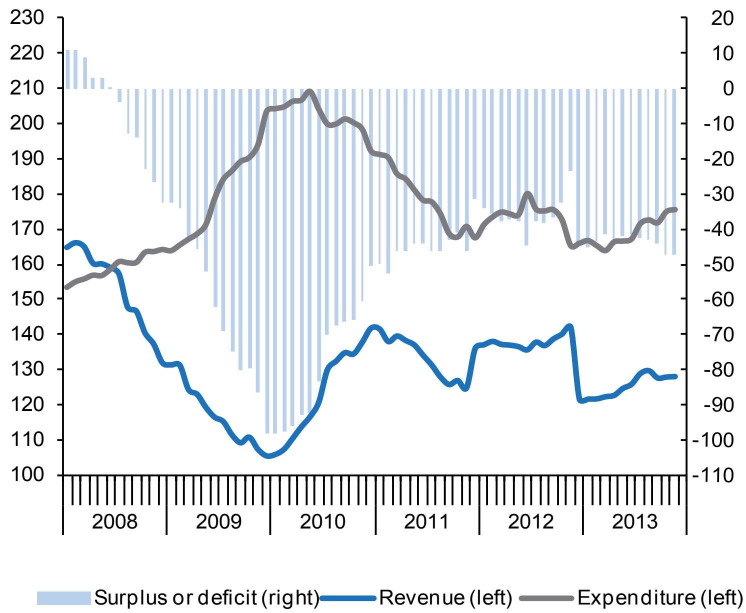


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

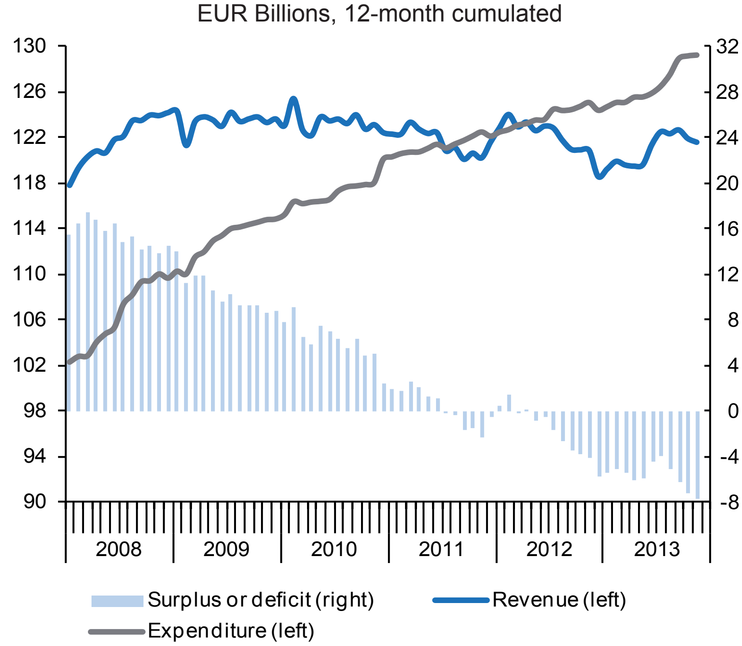


Table 19

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	2,655.2	436.8	1,307.1	911.3	--	9,195.8
2009		4.0	70.5	3.4	10.5	4.7	2,767.2	565.1	1,298.8	903.3	--	11,940.0
2010		4.2	146.5	2.6	8.6	4.3	2,845.9	644.7	1,303.1	898.1	--	9,859.1
2011		5.4	277.4	3.5	8.6	5.1	2,866.6	737.3	1,258.3	871.0	--	8,563.3
2012		5.8	427.9	3.4	9.1	5.6	2,860.1	884.7	1,141.6	833.8	--	8,167.5
2013 (a)		4.6	293.4	3.2	9.7	5.6	2,836.3	952.0	1,084.9	798.0	--	9,916.7
2012	I	5.2	334.7	3.8	9.7	5.5	2,890.5	775.8	1,255.9	858.7	--	8,008.0
	II	6.2	462.8	3.5	8.7	5.7	2,898.0	805.5	1,236.8	855.7	--	7,102.2
	III	6.4	500.5	3.3	9.2	5.7	2,872.7	818.0	1,214.0	840.8	--	7,708.5
	IV	5.6	413.6	3.1	8.8	5.5	2,860.1	884.7	1,141.6	833.8	--	8,167.5
2013	I	5.1	353.5	3.2	9.5	5.6	2,858.7	923.6	1,115.7	819.4	--	7,920.0
	II	4.5	308.9	3.2	9.6	5.7	2,854.6	943.4	1,096.9	814.3	--	7,762.7
	III	4.5	274.2	3.2	9.9	5.5	2,833.1	954.9	1,081.1	797.1	--	9,186.1
	IV	4.2	236.9	3.2	9.8	5.3	--	--	--	--		9,916.7
2013	Oct	4.2	241.0	3.1	9.9	5.4	2,836.3	952.0	1,090.3	793.9	--	9,907.9
	Nov	4.1	238.8	3.2	9.8	5.2	--	--	1,084.9	798.0	--	9,837.6
	Dec	4.2	231.0	--	--	--	--	--	--	--	--	9,916.7
							Percentage change from same period previous year					**(b)**
2007		--	--	--	--	--	12.3	-2.2	17.7	12.5	15.1	7.3
2008		--	--	--	--	--	7.8	14.2	8.2	4.4	7.7	-39.4
2009		--	--	--	--	--	4.0	29.7	-1.4	-0.3	-0.8	29.8
2010		--	--	--	--	--	3.3	14.1	0.7	0.2	-2.2	-17.4
2011		--	--	--	--	--	1.7	14.4	-1.8	-2.4	-1.6	-13.1
2012		--	--	--	--	--	1.4	20.0	-5.9	-3.8	0.1	-4.6
2013		--	--	--	--	--	1.0	16.3	-5.2	-4.6	-2.6	21.4
2012	I	--	--	--	--	--	1.7	13.0	-1.4	-2.7	-0.9	-6.5
	II	--	--	--	--	--	1.3	14.0	-2.7	-3.1	-2.6	-11.3
	III	--	--	--	--	--	0.9	15.3	-4.0	-3.6	-3.6	8.5
	IV	--	--	--	--	--	1.4	20.0	-5.9	-3.8	0.1	6.0
2013	I	--	--	--	--	--	1.0	19.1	-6.7	-4.0	-0.5	-3.0
	II	--	--	--	--	--	0.8	17.1	-6.4	-4.3	-0.4	-2.0
	III	--	--	--	--	--	0.9	16.7	-6.0	-4.6	0.2	18.3
	IV	--	--	--	--	--	--	--	--	--	--	8.0
2013	Oct	--	--	--	--	--	1.0	16.3	-5.5	-4.7	-1.8	7.9
	Nov	--	--	--	--	--	--	--	-5.2	-4.6	-2.6	-0.7
	Dec	--	--	--	--	--	--	--	--	--	--	0.8

(a) Period with available data. (b) Percent change from preceeding period.

Source: Bank of Spain.

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

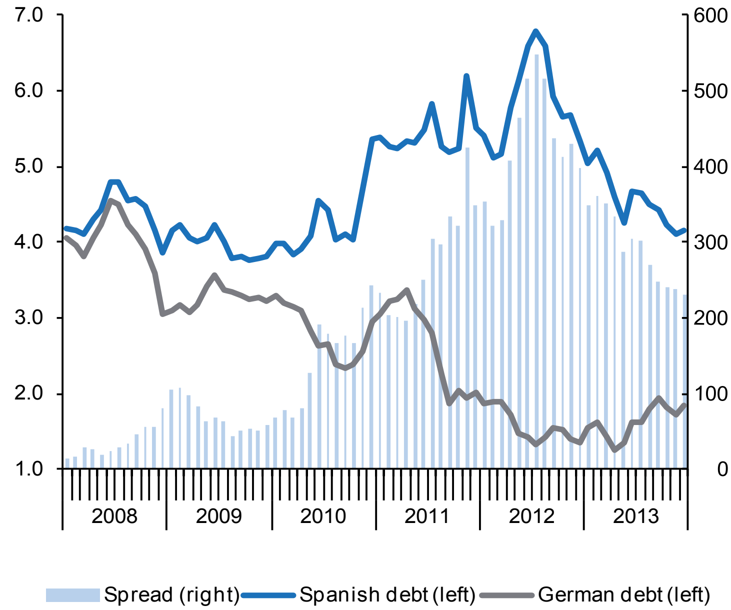


Chart 19.2.- Credit stock growth
Annual percentage change

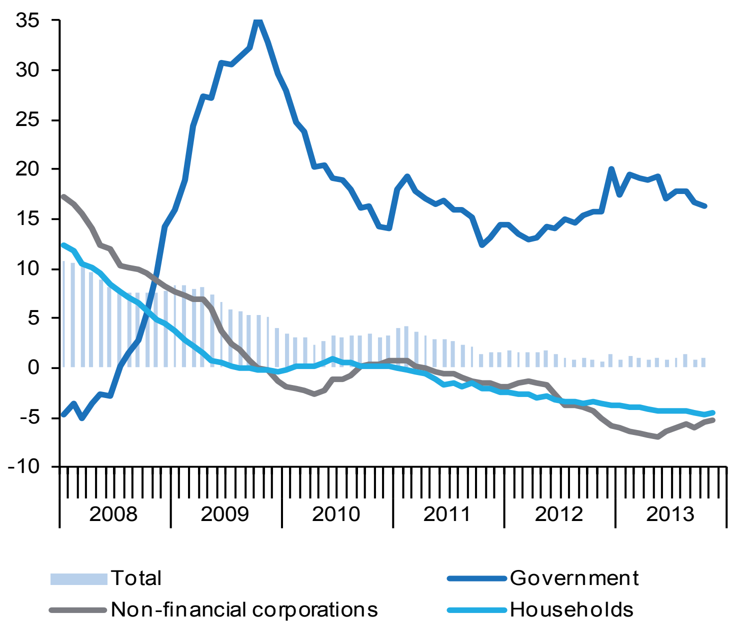


Table 20

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**			**2010=100**			**1999 I =100**
2007		93.0	110.8	119.1	106.5	104.4	102.1	94.1	96.8	97.2	111.9
2008		94.2	112.5	119.4	110.9	107.8	102.9	99.5	101.6	98.0	114.5
2009		99.9	111.3	111.3	110.6	108.1	102.4	96.2	97.0	99.2	114.0
2010		99.6	110.5	110.9	112.9	109.8	102.8	100.0	100.0	100.0	112.9
2011		100.9	109.0	108.1	116.3	112.8	103.1	106.5	105.2	101.2	113.1
2012		105.2	107.9	102.6	119.2	115.6	103.1	110.1	107.9	102.0	111.7
2013 (a)		--	--	--	121.0	117.2	103.2	110.0	107.4	102.4	113.4
2012	I	--	--	--	116.7	114.3	102.1	109.6	107.4	102.0	110.8
	II	--	--	--	119.4	115.9	103.1	109.5	107.7	101.7	111.8
	III	--	--	--	119.3	115.7	103.1	110.7	108.2	102.3	111.1
	IV	--	--	--	121.4	116.7	104.0	110.4	108.2	102.1	113.1
2013	I	--	--	--	119.9	116.4	103.0	110.9	108.1	102.5	112.7
	II	--	--	--	121.6	117.5	103.5	109.3	107.2	101.9	113.7
	III	--	--	--	120.9	117.3	103.1	110.3	107.3	102.8	113.2
	IV(a)	--	--	--	121.6	117.6	103.4	109.4	106.8	102.4	114.0
2013	Oct	--	--	--	121.6	117.6	103.5	109.8	106.9	102.7	114.0
	Nov	--	--	--	121.6	117.5	103.5	108.9	106.8	102.0	114.0
	Dec	--	--	--	121.7	117.9	103.2	--	--	--	--
		Annual percentage changes					**Differential**	**Annual percentage changes**		**Differential**	
2007		0.4	4.9	4.5	2.8	2.1	0.7	3.2	2.1	1.1	--
2008		1.3	1.6	0.2	4.1	3.3	0.8	5.7	4.9	0.8	--
2009		6.0	-1.1	-6.8	-0.2	0.3	-0.5	-3.3	-4.5	1.2	--
2010		-0.3	-0.7	-0.4	2.0	1.6	0.4	3.9	3.1	0.9	--
2011		1.3	-1.3	-2.6	3.1	2.7	0.3	6.5	5.2	1.3	--
2012		4.3	-1.0	-5.1	2.4	2.5	-0.1	3.4	2.5	0.8	--
2013 (b)		--	--	--	1.5	1.4	0.1	0.0	0.0	0.0	--
2012	I	--	--	--	1.9	2.7	-0.8	4.1	3.4	0.6	--
	II	--	--	--	1.9	2.5	-0.6	2.9	2.3	0.6	--
	III	--	--	--	2.8	2.5	0.2	3.5	2.4	1.1	--
	IV	--	--	--	3.2	2.3	0.9	3.1	2.1	1.0	--
2013	I	--	--	--	2.8	1.9	0.9	1.2	0.7	0.5	--
	II	--	--	--	1.8	1.4	0.4	-0.2	-0.4	0.2	--
	III	--	--	--	1.3	1.3	0.0	-0.4	-0.9	0.5	--
	IV(b)	--	--	--	0.2	0.8	-0.6	-1.0	-1.2	0.3	--
2013	Oct	--	--	--	0.0	0.7	-0.7	-0.9	-1.4	0.5	--
	Nov	--	--	--	0.3	0.9	-0.6	-1.2	-1.3	0.1	--
	Dec	--	--	--	0.3	0.8	-0.5	--	--	--	--

(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

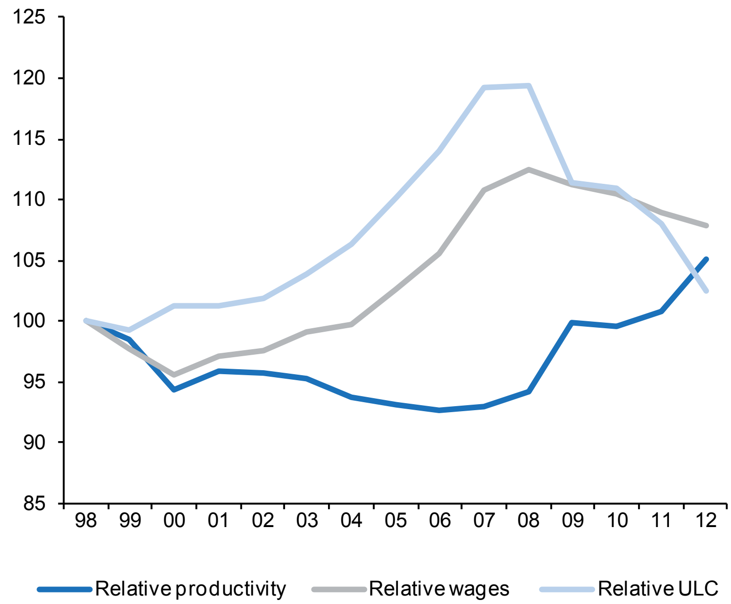


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

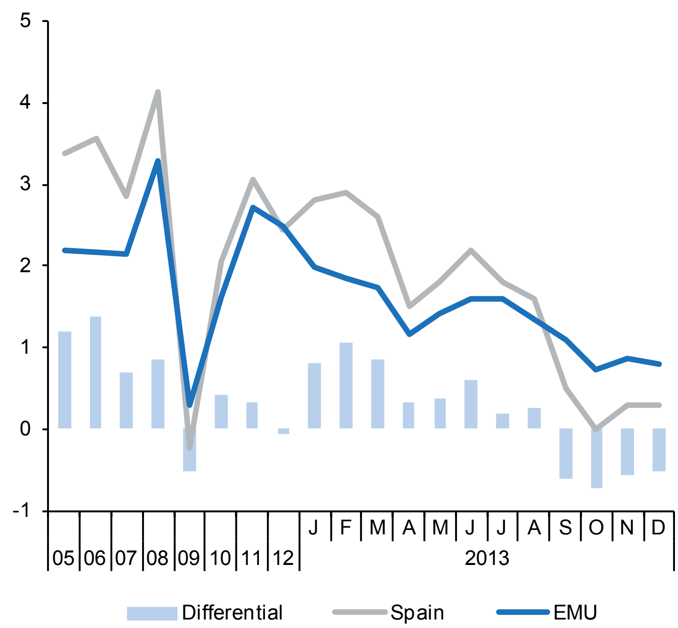


Table 21a

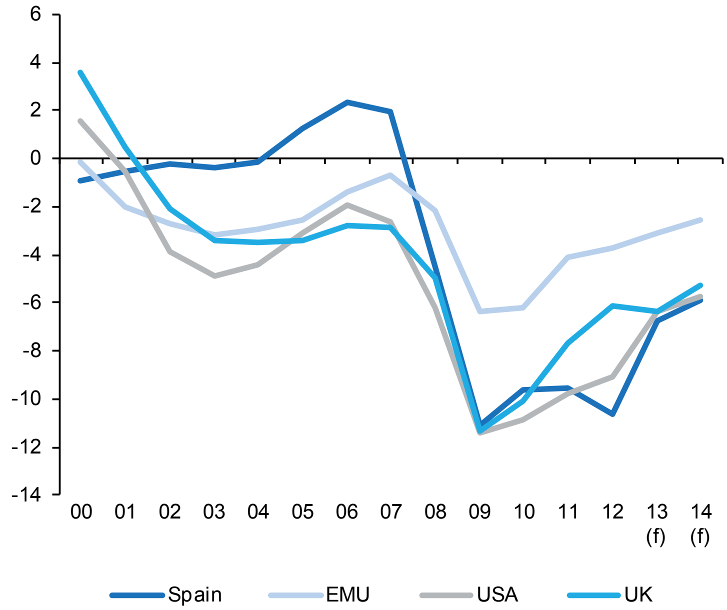
Imbalances: International comparison (I)

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	11.6	-207.6	-402.9	-43.6	392.5	5,749.0	8,502.9	533.0	-67.8	36.4	-703.4	-23.6
2006	23.2	-118.7	-272.8	-37.9	391.1	5,887.0	8,837.5	577.0	-88.9	42.4	-580.4	-38.3
2007	20.7	-61.9	-385.1	-40.5	382.3	5,994.5	9,328.4	624.6	-105.2	38.7	-729.2	-31.2
2008	-49.1	-197.4	-913.4	-72.7	437.0	6,490.3	10,797.1	758.9	-104.3	-64.2	-777.5	-13.8
2009	-116.4	-566.6	-1,647.4	-160.6	565.1	7,138.5	12,445.4	951.0	-50.0	7.1	-453.4	-20.1
2010	-100.5	-568.7	-1,626.6	-149.3	644.7	7,854.1	14,235.8	1,165.4	-45.7	30.0	-497.6	-40.0
2011	-100.0	-390.7	-1,517.3	-118.0	737.3	8,297.3	15,442.7	1,295.9	-41.6	37.8	-403.3	-22.5
2012	-109.4	-349.4	-1,475.0	-95.3	884.7	8,789.6	16,688.5	1,387.8	-12.5	168.5	-422.0	-59.8
2013	-69.1	-296.8	-1,070.4	-102.2	966.6	9,174.3	17,524.3	1,513.6	14.7	264.3	-430.2	-68.3
2014	-61.0	-248.5	-994.6	-87.9	1,030.0	9,444.9	18,284.2	1,613.0	26.4	286.7	-477.3	-73.1
Percentage of GDP												
2005	1.3	-2.5	-3.1	-3.4	43.2	70.6	64.9	41.7	-7.5	0.4	-5.4	-1.8
2006	2.4	-1.4	-2.0	-2.8	39.7	68.7	63.8	42.8	-9.0	0.5	-4.2	-2.8
2007	2.0	-0.7	-2.7	-2.8	36.3	66.4	64.4	43.7	-10.0	0.4	-5.0	-2.2
2008	-4.5	-2.1	-6.2	-5.0	40.2	70.2	73.3	51.9	-9.6	-0.7	-5.3	-0.9
2009	-11.1	-6.4	-11.4	-11.3	54.0	80.0	86.3	67.1	-4.8	0.1	-3.1	-1.4
2010	-9.6	-6.2	-10.9	-10.1	61.7	85.7	95.2	78.4	-4.4	0.3	-3.3	-2.7
2011	-9.6	-4.1	-9.8	-7.7	70.5	88.0	99.4	84.3	-4.0	0.4	-2.6	-1.5
2012	-10.6	-3.7	-9.1	-6.1	86.0	92.7	102.7	88.7	-1.2	1.8	-2.6	-3.8
2013	-6.8	-3.1	-6.4	-6.4	94.8	95.7	104.7	94.3	1.4	2.8	-2.6	-4.3
2014	-5.9	-2.5	-5.7	-5.3	99.9	96.1	105.2	96.9	2.6	2.9	-2.7	-4.4

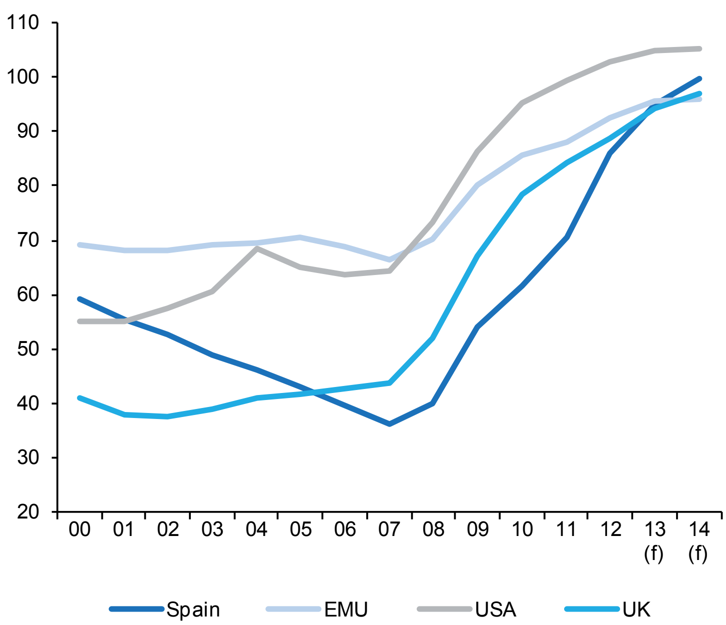
Source: European Commission.

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	653.485	4,845.2	11,721.0	1,157.4	951.5	6,949.2	8,683.4	1,128.4	535.0	8,272.2	12,957.7	2,403.7
2006	780.745	5,307.8	12,946.3	1,276.0	1,191.4	7,682.3	9,651.8	1,226.4	774.1	9,300.7	14,261.1	2,644.4
2007	876.630	5,672.4	13,829.8	1,388.6	1,386.4	8,466.1	10,975.5	1,309.4	1,015.6	10,694.6	16,204.8	3,161.0
2008	913.385	5,887.1	13,847.5	1,437.2	1,477.4	9,057.8	11,660.5	1,508.6	1,065.4	11,647.5	17,101.3	3,613.8
2009	906.137	5,961.5	13,579.2	1,437.6	1,465.2	8,953.8	11,320.6	1,457.3	1,140.8	12,046.2	15,688.7	3,558.8
2010	901.690	6,135.8	13,197.7	1,439.4	1,501.0	9,251.8	11,418.6	1,435.8	1,131.1	12,140.2	14,485.7	3,706.6
2011	874.283	6,195.3	13,016.6	1,448.6	1,478.3	9,398.9	11,965.9	1,444.6	1,151.3	12,585.6	14,045.4	3,598.7
2012	836.815	6,184.6	12,980.5	1,468.0	1,374.4	9,493.4	12,732.0	1,454.9	1,181.1	12,704.8	13,909.7	3,675.0
Percentage of GDP												
2005	71.9	60.2	89.5	90.6	104.6	86.3	66.3	88.4	58.8	102.8	98.9	188.3
2006	79.2	62.8	93.4	94.6	120.9	90.9	69.6	90.9	78.5	110.0	102.9	196.0
2007	83.2	63.5	95.5	97.2	131.6	94.7	75.8	91.7	96.4	119.6	111.9	221.4
2008	84.0	64.3	94.1	98.3	135.8	98.9	79.2	103.2	97.9	127.1	116.2	247.2
2009	86.6	66.9	94.2	101.4	140.0	100.5	78.5	102.8	109.0	135.2	108.8	251.1
2010	86.2	67.0	88.2	96.9	143.6	101.1	76.3	96.6	108.2	132.6	96.8	249.5
2011	83.6	65.7	83.8	94.3	141.3	99.7	77.0	94.0	110.0	133.5	90.4	234.1
2012	81.3	65.2	79.9	93.7	133.6	100.1	78.4	92.8	114.8	134.0	85.6	234.5

(a) Loans and securities other than shares, excluding financial derivatives.

Sources: European Central Bank and Federal Reserve.

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

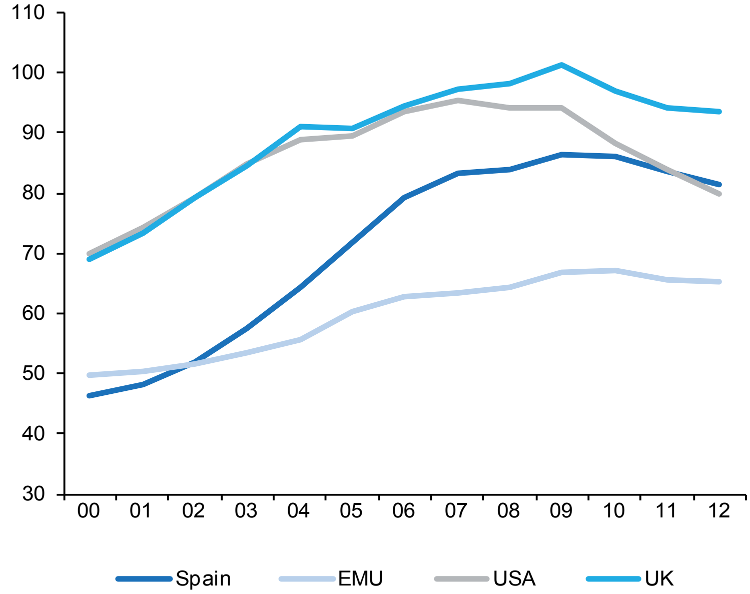
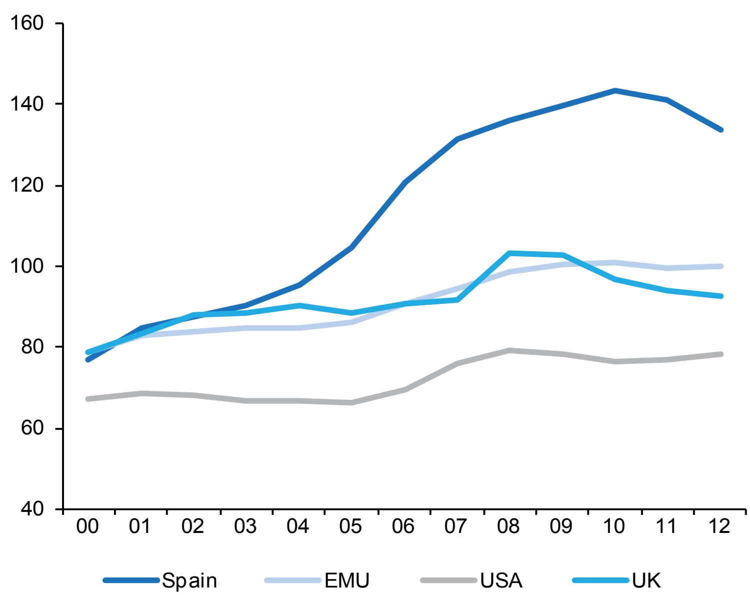


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS

Updated: January 15th, 2014

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.8	October 2013
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.9	October 2013
Doubtful loans (monthly % var.)	1.9	October 2013
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	665,894	December 2013
Recourse to the Eurosystem (Spanish financial institutions, million euros)	201,865	December 2013
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main L/T refinancing operations	19,893	December 2013
"Operating expenses/gross operating income" ratio (%)	46.73	September 2013
"Customer deposits/employees" ratio (thousand euros)	5,035.92	September 2013
"Customer deposits/branches" ratio (thousand euros)	33,068.17	September 2013
"Branches/institutions" ratio	221.62	September 2013

A. Money and interest rates

Indicator	Source:	Average 1997-2010	2011	2012	2013	2014 January 15th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	6.4	1.5	3.0	2.3	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	3.1	1.4	0.6	0.28	0.29	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.2	2.0	1.1	0.56	0.56	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.6	5.4	5.8	4.11	3.76	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.6	5.0	4.8	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": The 3-month and 1-year Euribor rates have remained stable in January at 0.29% and 0.56% respectively, after declining in the previous weeks. In any event, the expectation is that monetary policy will continue to be expansionary in the foreseeable future. As for the Spanish 10-year bond yield, it has fallen significantly to 3.76%.

B. Financial markets

Indicator	Source:	Average 1997-2010	2011	2012	2013 October	2013 November	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	20.1	81.6	84.7	79.7	67.8	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	78.1	112.6	64.8	68.5	62.7	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.4	2.2	1.7	0.9	0.1	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.5	3.3	2.2	2.9	1.5	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	3.0	1.6	0.6	0.1	0.3	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	503.9	684.4	751.1	834.4	851.3	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	0.9	-0.8	3.9	9.1	-0.2	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	4.7	1.6	-24.8	90.6	-26.6	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	987.7	857.7	824.7	1,009.3	1,075.7(a)	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,748.3	8,566.7	7,583.2	9,907.9	10,526.0(a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	16.8	9.7	18.2	33.8	71.6(a)	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1997-2010	2011	2012	2013 October	2013 November	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	2.8	15.1	-15.1	77.6	-33.7	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.8	59.24	73.9	-1.7	-1.5	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.2	1.9	2.3	2.3	1.9	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.3	-15.8	-10.8	23.6	2.0	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	8.3	-25.9	54.1	63.6	-24.1	IBEX-35 shares concluded transactions

(a) Last data published: January 15th, 2014.

Comment on "Financial Markets": During the last month there has been a reduction of 67.8% in transactions with outright spot and forward T-bills and with forward government bonds and debenture transactions, and of spot government bonds transactions of 62.7%. The stock market has gained momentum with the IBEX-35 closing at 10,525 points on January 15th, and the General Index of the Madrid Stock Exchange at 1,075. Additionally, there was a 2% increase in financial IBEX-35 future transactions and a 24.1% fall in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2004-2010	2011	2012	2013 Q 1	2013 Q 2	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.7	-3.4	-0.2	1.1	0.4	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	0.6	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	256.1	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 2004-2010	2011	2012	2013 Q 1	2013 Q 2	Definition and calculation
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	79.3	82.2	78.9	80.3	79.9	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	5.0	-0.1	2.9	0.3	0.2	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	9.9	-0.5	-0.7	-1.6	-0.9	Total liabilities percentage change (financial balance)

Comment on “Financial Savings and Debt”: During 2013Q2, there was a 0.4% increase in financial savings to GDP in the overall economy. There was also an increase in households´ financial deleveraging, with the debt to GDP ratio standing at 79.9%. Finally, the stock of financial assets on households’ balance sheets registered a slight increase of 0.2%, while there was a 0.9% drop in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source:	Average 1997-2010	2011	2012	2013 September	2013 October	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.1	-3.8	-10.4	-0.5	-0.8	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	11.0	-5.3	-1.8	-0.3	-0.9	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	9.3	5.2	23.2	-0.9	-0.3	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	15.1	41.0	3.1	0.2	0.5	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	-7.5	-7.5	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 1997-2010	2011	2012	2013 September	2013 October	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	30.8	28.3	20.0	3.9	1.9	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	-1.2	-15.7	0.3	-1.3	-5.2	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	10.1	37.9	-10.6	0.5	1.2	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 October 2013 show a 0.8% decrease in bank credit to the private sector and also a 0.9% decrease in financial institutions deposit-taking, from the previous month. Also, there was a 1.9% growth in doubtful loans compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1997-2010	2011	2012	2013 June	2013 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	215	189	173	160	159	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	66	86	85	85	85	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	249,013	243,041	231,389	-	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,987	39,843	37,903	36,115	35,238	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	374,777	394,459	884,094	712,189	665,894(a)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	33,956	118,861	337,206	241,089	201,865(a)	Open market operations and ECB standing facilities. Spain total

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

Indicator	Source:	Average 1997-2010	2011	2012	2013 June	2013 September	Definition and calculation
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	18,808	47,109	44,961	18,528	19,893(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2013.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In December 2013, the recourse to Eurosystem funding by Spanish credit institutions accounted for 30.32% of net total funds borrowed from the ECB by the Eurozone. It was 32.66% in September.

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

Indicator	Source:	Average 1997-2010	2011	2012	2013 June	2013 September	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	54.53	49.85	47.18	44.67	46.73	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	2,721.97	4,512.30	4,701.87	5,601.33	5,035.92	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	16,424.04	29,171.23	30,110.18	32,427.99	33,068.17	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	193.19	205.38	219.09	225.72	221.62	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.08	6.5	6.9	6.4	6.6	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.10	0.40	-0.12	1.18	0.11	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.88	0.06	-1.93	0.24	0.16	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	13.23	3.28	-18.74	1.28	2.20	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": In September 2013 most of the profitability and efficiency indicators improved for Spanish banks although they still face a tough business and macroeconomic environment. Productivity indicators have also improved due to the restructuring process of the Spanish banking sector.

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