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The role of domestic demand in Spain's recovery

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FEATURES

Letter from the Editors

The first half of 2014 has been characterized by the strength of global financial markets and increasing risk appetite, explained by the search for yields in an environment of abundant liquidity. In this context, the recovery in Spain is consolidating and spreads on Spanish debt are at their lowest levels since the onset of the Greek crisis in mid-2010. Domestic demand is making a strong contribution to Spain´s recovery, but prompting the external sector´s negative performance. As we point out in this July issue of *Spanish Economic and Financial Outlook,* Spain´s investment abroad too is becoming more negative, due to declining investment flows and valuations as a consequence of the crisis.

Against this backdrop, the July SEFO examines how the reliance on unconventional monetary policy measures by advanced economies´ central banks since the outbreak of the crisis has helped reactivate economic activity and restore proper functioning to financial markets. While more measures could be adopted in some areas, in economies where the recovery is more solid, talk of exit strategies is beginning to generate uncertainty, making central bank communication strategies increasingly important. Despite the potential risks from withdrawal of "Quantitative Easing" in advanced economies, the Spanish recovery is expected to remain on track, although fiscal consolidation efforts need to be reinforced.

The July SEFO also discusses Spain´s fiscal performance at the subnational level – in particular of the autonomous regions and local entities. For the regions, approval of the most recent law on budgetary stability and financial sustainability has given strength to their budgetary framework and improved international perceptions over Spain´s public finances. Most notably, the new law introduces preventive, corrective, and enforcement measures aimed at ensuring compliance with budgetary objectives. The recent legislation has served to reign in regional deficits. At

the same time, however, debt levels have increased, as the new measures have facilitated regional borrowing needed to finance the regional deficits and/or refinance debt.

The fiscal situation of the local entities, which have outperformed the central and regional governments, has resulted in surpluses from 2012 and the lowest level of debt growth. As is the case for the autonomous regions, the government´s new financial support mechanisms have led to an increase in local entity borrowing. Going forward, we expect the economic recovery to continue to improve the entities´ solvency ratios, although increased polarization means that some entities will likely need financial assistance to remain viable.

Finally, this issue assesses the impact from transposition of two European wide directives to Spain: i) the Single European Payment Area (SEPA), designed to offer the same conditions of ease, efficiency and security to all transactions; and, ii) the EU Services Directive, designed to improve how professional services operate. Converging electronic payment standards and creating a single payment market under SEPA is expected to generate significant cost savings for all market participants – in the order of 21.9 billion euros annually, in additional to freeing up 227 billion euros of liquidity. Spain is already making good progress on introduction of anticipated SEPA measures, as evidenced by recent decisions to reduce payment card fees. Although it remains difficult to anticipate the ultimate overall impact on payment systems.

With respect to the implementation of the EU Service Directive, it has already triggered an initial wave of reforms and a second package is underway. Both the implemented and planned reforms represent a major step forward. Nevertheless, the government has recently announced modifications to the draft bill of the Professional Services and Associations Law, which is expected to soon be submitted for parliamentary debate and approval. The authors highlight the importance of maintaining the main points of the draft bill and the introduction of new measures that would make progress to eliminate unjustified restrictions on taking up and pursuing a profession. At the same time, Spain´s territorial map of professional associations still has to be redrawn.

Domestic demand fuels Spain´s economic recovery

Ángel Laborda and María Jesús Fernández[1]

Spain´s recovery is gradually picking up speed. Global risks remain, but in the context of the favorable external financial environment, the outlook for 2014 and 2015 has improved.

The first half of 2014 has been marked by the strength of global financial markets and increased risk appetite in the context of abundant liquidity. A re-assessment of risk and the withdrawal of the Fed´s quantitative easing could cause a fresh bout of instability. In Spain, the economic recovery is gaining strength and risk premiums on Spanish debt are at their lowest levels since the Greek crisis broke out in May 2010. Post-crisis growth drivers have inverted, with domestic demand making a strong contribution, but prompting the external sector´s negative performance – a consequence that is neither desirable nor sustainable. Moreover, employment is on the rise. At the same time, progress on deficit reduction seems inadequate relative to agreed-upon targets for the year. Despite risks, in view of the positive external financing climate, GDP forecasts have been revised upwards for both 2014 and 2015 to 1.4% and 2.2%, respectively.

External context

The external context during the first half of 2014 has been marked by the strength of global financial markets, with stock market indices rising significantly, and public and private debt yields falling, along with the risk premium. This is explained by the search for yields in the context of abundant liquidity resulting from the strongly expansionary monetary policies in place in the United States, the United Kingdom and Japan. On top of this came expectations in the spring that the European Central Bank would also take more aggressive monetary policy measures.

However, this situation is not without its risks. There is a fear that the markets are not assessing risk properly, and that many assets are overpriced. Thus, should an event occur that leads to a re-assessment of these risks, fresh bouts of instability could ensue. There is also uncertainty about the possible destabilising effects of the Federal Reserve's withdrawing its quantitative easing measures, particularly as interest rates start to edge upwards. This could happen sooner than expected –as early as mid-2015– given the ascendant trend in inflation. By contrast, the possibility of a resurgence of the European debt crisis can be almost entirely ruled out after the latest measures announced by the ECB.

The expectations that the ECB would adopt a more aggressive monetary policy stance were finally fulfilled. At its meeting on June 5th, the institution decided, among other things, to cut its interest rate on main refinancing operations, set a negative

[1] Economic Trends and Statistics Department, FUNCAS.

interest rate for deposit facilities, and launch a new programme of so-called TLTROs to supply financial institutions with liquidity conditional upon their granting non-mortgage credit to families and firms. This was all intended to prevent prolonged, excessively low levels of inflation and to reduce the segmentation of Europe's financial markets.

The expectations that the ECB would adopt a more aggressive monetary policy stance were finally fulfilled. This was intended to prevent prolonged, excessively low levels of inflation and to reduce the segmentation of Europe's financial markets.

Moreover, the recovery in developed countries has continued to progress at a moderate pace. The United States suffered a 2.9% drop in GDP in the first quarter (on an annualised basis) due, to a great extent, to the impact of the adverse weather conditions last winter. According to the economic indicators, its economy continued to grow steadily, although the property market lost momentum somewhat and the inflation rate is hovering around 2%. Japan experienced a sharp rise of 6.7%, although this was short-lived, being the product of purchases being brought forward ahead of a consumption tax rise due in April.

In the euro area, where inflation remained extremely low throughout the first half of the year (between 0.5% and 0.8%), GDP growth was a disappointing 0.7% in the first quarter (also on an annualised basis) and the available indicators for the second quarter hardly herald an improvement. The United Kingdom kept up its vigorous growth rate, with quarter-on-quarter rates of around 3% over the last four quarters, which has led the Governor of the Bank of England to warn that interest rates could start to rise earlier than previously anticipated.

The situation in the emerging countries is calm at present, benefiting from global financial markets' optimism following the turbulence in the first few weeks of the year. Nevertheless, uncertainty lingers over the possible impact on their economies of the progressive withdrawal of quantitative easing in the United States, accompanied by the risk of new outbreaks of instability, compounded by the structural decline in emerging countries' growth potential.

Recent developments in the Spanish economy

GDP grew by 0.37% in the first quarter of 2014, equivalent to 1.5% on an annualised basis (the basis on which all growth rates below will be expressed). The year-on-year increase was 0.5%.

This quarter-to-quarter growth was the result of a positive contribution from national demand of 4 percentage points (pp) and a negative contribution from the external sector of -2.5 pp. The latter was the result of a drop in exports in real terms and an increase in imports stimulated by growth in domestic demand. This pattern of contributions to growth represents an inversion of the pattern commonly seen since the start of the crisis, characterised by a negative contribution from national demand and positive contribution from the external sector. This change has also been seen in the year-on-year GDP growth rate, something which has only happened once during the period, namely in the second quarter of 2010.

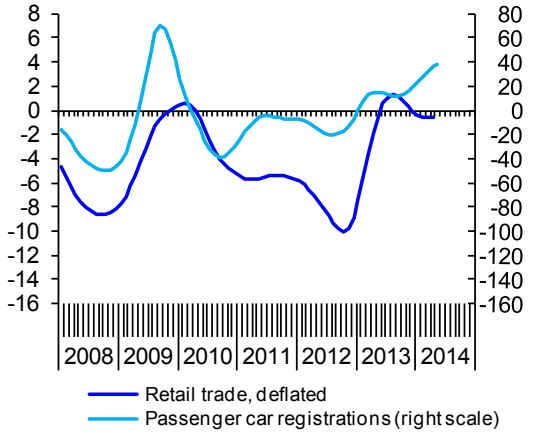
Private consumption rose for the fourth consecutive year, growing by 1.7%. This growth was mainly the result of the upward trend in consumer goods consumption. The indicators available for the second quarter suggest a continuation of the upward trend in this variable. The consumer confidence index made particularly good progress, returning to 2001 levels, as did the consumer goods order book. New vehicle registrations also continued to increase rapidly, influenced by government incentives (Exhibits 1.1 and 1.3).

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption indicators (I)

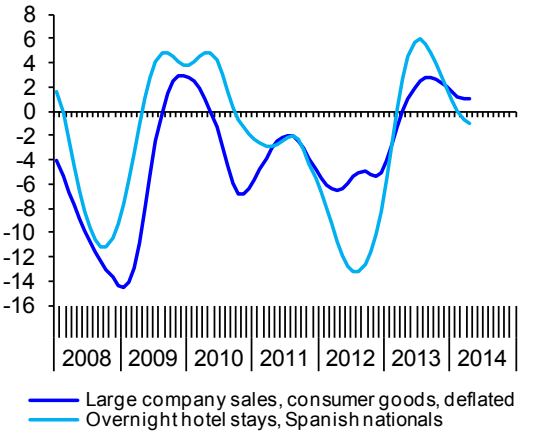
Annualised moving quarterly change in %, smoothed series



Sources: INE, DGT and FUNCAS.

1.2 - Consumption indicators (II)

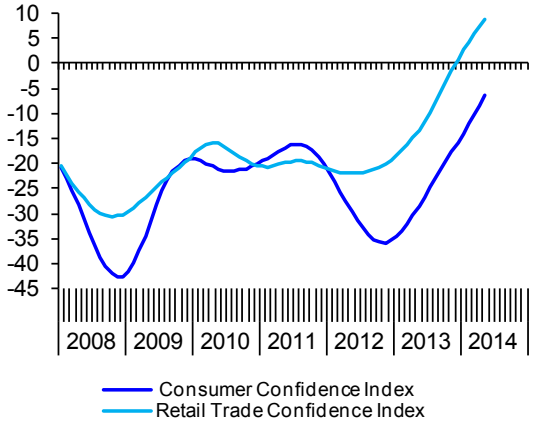
Annualised moving quarterly change in %, smoothed series



Sources: INE, AEAT and FUNCAS.

1.3 - Consumption Indicators (III)

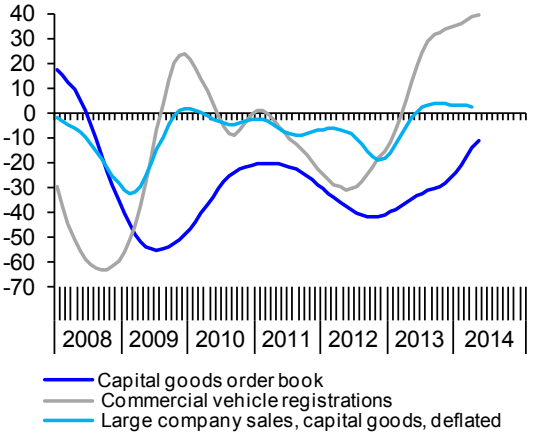
Index, smoothed series



Sources: European Commission and FUNCAS.

1.4 - Capital goods GFCF indicators

Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Industry, AEAT, DGT and FUNCAS.

Public consumption rose by 18.9%. However, quarter-on-quarter rates of seasonally adjusted figures for this latter component of demand should be interpreted with caution, as the seasonal adjustment may be distorted by changes last year in the way current public expenditure is accrued or deferred in the accounts. In fact, this strong increase should offset the sharp drop of 14.6% registered last quarter. The strongest sign of the trend in this aggregate is therefore the year-on-year rate, which stood at -0.2% in the first quarter.

The drop in the construction component of gross fixed capital formation accelerated to -12.5%. The

adjustment in home building continued, although there was a trend towards a slowing in the rate, while investment in other construction was unable to sustain the upturn in the final quarter of 2013 and returned to strongly negative rates. The property market is starting to show signs of stabilization, in terms of both prices and sales: the rate of decline in prices has slowed considerably, and even, according to the INE's price statistics, that of new houses stopped falling in the first quarter of this year; as regards housing transactions, slight growth has already started to be seen.

Investments in capital goods and other products grew by 10.8%, making this the fifth consecutive quarter of growth. Growth in investments in transport equipment stands out in particular, in parallel with the progress of registrations of cargo vehicles, which even picked up speed in April and May. The order book for capital goods has also undergone a substantial improvement over that period, which all suggests that the vigorous growth rate of this component of demand is likely to be maintained during the second quarter (Exhibit 1.4).

Total exports, which over the last two quarters of 2013 had already lost a certain amount of momentum, fell in the first quarter of 2014, although exports of non-tourism services continued to grow vigorously. Imports rose strongly, reflecting the recovery in durable goods consumption and investments in capital goods. Both variables were up in year-on-year terms, but imports rose more than exports for the first time since the second quarter of 2010. In the second quarter, only customs data for April are available. These show a recovery in exports, with their growth outpacing that of imports. Nevertheless, it is still too soon to say whether this means a return to a more positive trend (Exhibit 3.1).

From a supply-side perspective, GVA in farming repeated the good results obtained in the previous quarter. Industry registered a contraction, although this was due to the decline in activity in the energy industry, while manufacturing made good progress. The growth of the latter could even speed up in the second quarter, as heralded by the industrial production index, the turnover index, sales of large industrial enterprises in April, and the PMIs. Even social-security system registrations began to grow in this sector (Exhibits 2.1 and 2.2).

GVA also grew in market services, and PMIs picked up speed in the second quarter, as did the sector's confidence indicators, activity indicator, and social-security registrations (Exhibits 2.3 and 2.4). Construction also contracted further, following the moderation observed in the preceding two quarters, contrasting with the improvement registered by indicators such as cement consumption, which has stabilised, or social security registrations in construction and construction materials IPI, which are now improving (Exhibits 2.5 and 2.6).

Employment, measured in terms of full-time equivalent jobs, grew by 0.5%, making for two quarters of growth. This result is in line with the change in social security registrations, which also grew in the first quarter –although more intensely than suggested by the CNTR figures–, while the Labour Force Survey (LFS), on the other hand, indicated a fresh drop in employment. Whereas the number of social security registrations is a solid and reliable statistic, the LFS, being survey-based, is subject to a margin of error, so, given the modest amount of the fall, in this case, the first quarter result is not inconsistent with employment growth (Exhibits 4.1 and 4.4).

Moreover, according to the social security registration figures, employment continued to rise, with the pace accelerating in April and May across many sectors –including construction–, which is another sign that the rate of GDP growth picked up during the period.

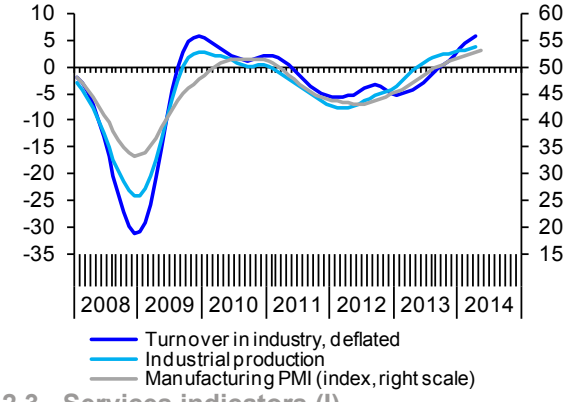
Labour productivity improved by 0.9% across the economy as a whole and 5% in manufacturing, while compensation per employee dropped, such that unit labour costs fell once again across

Exhibit 2

Industrial activity, services and construction indicators

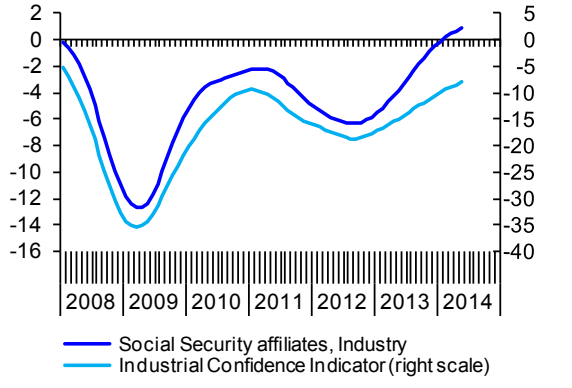
2.1 - Industrial sector indicators (I)

Annualised moving quarterly change in % and index, smoothed series



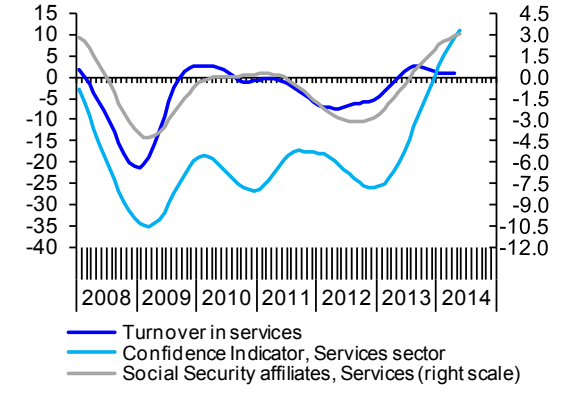
2.2 - Industrial sector indicators (II)

Annualised moving quarterly change in % and index, smoothed series



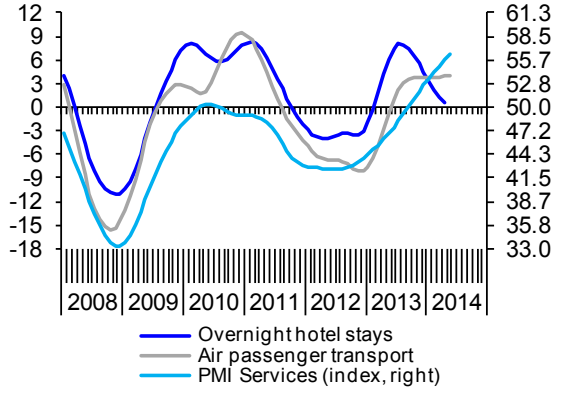
2.3 - Services indicators (I)

Annualised moving quarterly change in % and index, smoothed series



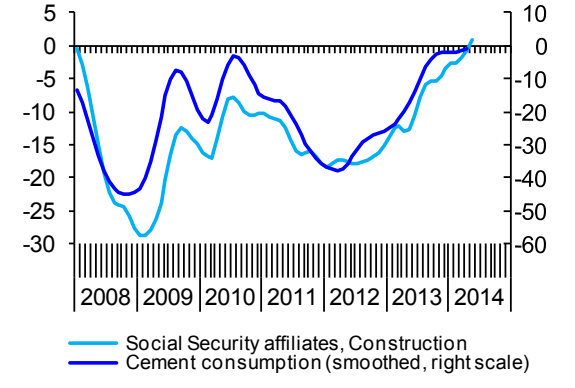
2.4 - Services indicators (II)

Annualised moving quarterly change in % and index, smoothed series



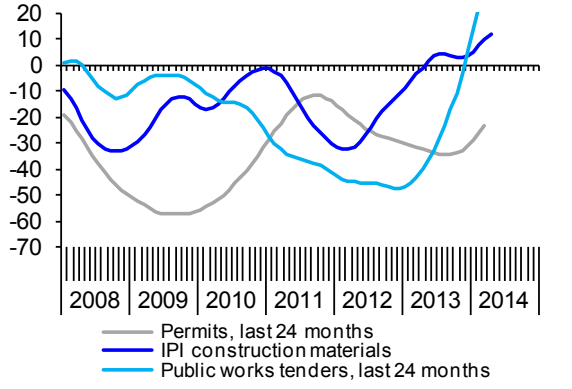
2.5 - Construction sector indicators (I)

Annualised moving quarterly change in %



2.6 - Construction sector indicators (II)

Annualised moving quarterly change in %, and index, smoothed series



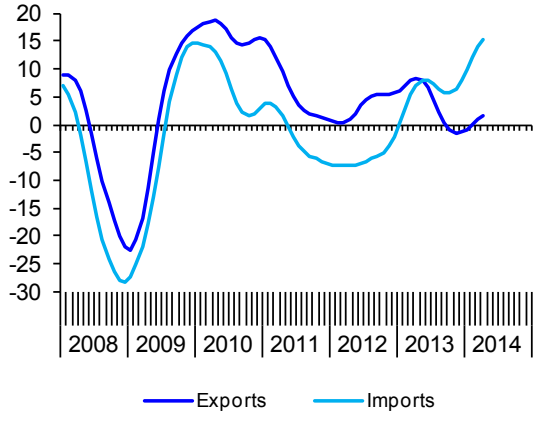
Sources: European Commission, Ministry of Labour, Ministry of Public Works, INE, AENA, Markit Economics Ltd., SEOPAN, OFICEMEN and FUNCAS.

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

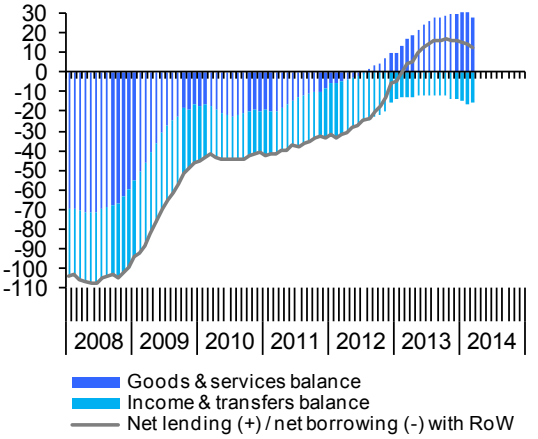
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Industry and FUNCAS.

3.2 - Balance of payments

EUR billion, cumulative last 12 months



Source: Bank of Spain.

the economy as a whole, and particularly in manufacturing.

The trade balance worsened in the first quarter compared with the same period of the previous year, a situation which has not occurred since mid-2010, as a result of the rise in imports linked to the recovery in consumption and capital goods investments. Consequently, the current account balance also worsened. Looked at in terms of the balance between domestic savings and domestic investment, this was the result of the savings rate falling faster than the investment rate (Exhibits 3.2 and 5.1).

The national savings rate held up at the start of the year, prolonging the downward trend that began as the economy began to recover in the third quarter of 2013, which put an end to the upward path maintained throughout 2012 and into the first half of 2013, although each component has progressed very differently. Thus, the increase in the savings rate mainly came from businesses, whose savings rate has grown strongly over the last two years (Exhibit 5.2). Specifically, in 2013 corporates' savings rose by 18.1%, basically as a result of falling salary and wage payments and interest (thanks to both the drop in the interest rate and the shrinking stock of debt).

Businesses' lending capacity almost tripled in 2013, rising from 1.1% of GDP to 4.3% of GDP, as a consequence of the strong growth in their savings and the falling investment rate. As in the previous year, along with the net proceeds of sales of financial assets, this financial surplus was entirely devoted to reducing businesses' debt. At the end of 2013, this debt stood at 129% of GDP, 4.6 pp down from the previous year, and 14.6 pp below its 2010 peak (Exhibit 5.3).

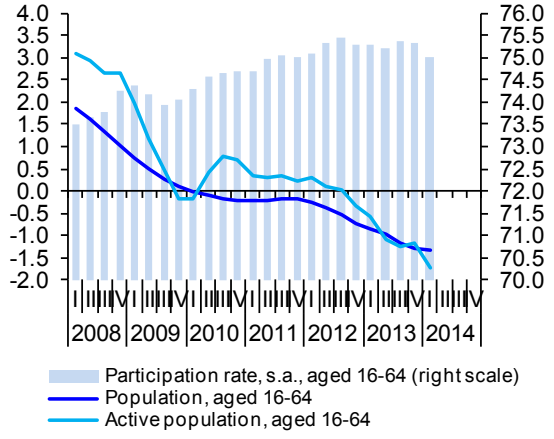
Households also generated a growing financial surplus in 2013, which was mostly used to shrink their stock of debt, and to a lesser extent by making net financial asset purchases. The rate of the reduction in household debt has gained pace over the last three years, such that at the end of 2013, debt was 116.5% of disposable income, 12.1 pp less than the peak reached in 2010 (Exhibit 5.3).

Exhibit 4

Labour market indicators

4.1 - Labour supply

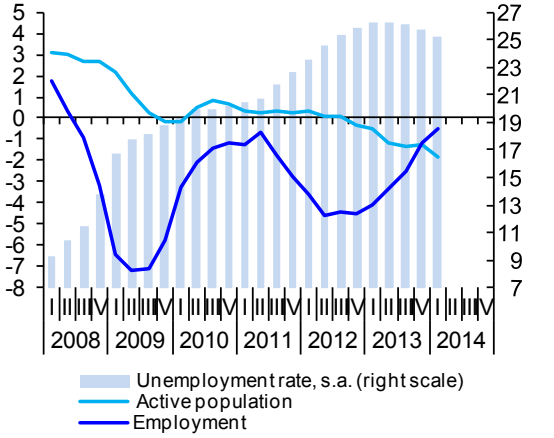
Change y-o-y in % and percentage of population aged 16-64



Sources: INE (LFS).

4.2 - Employment and unemployment (LFS)

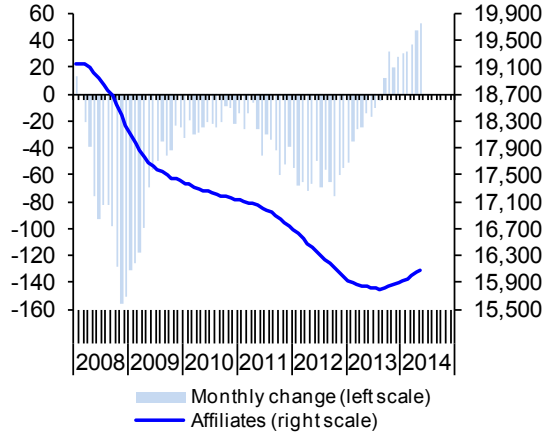
Change y-o-y in % and percentage of working age population



Sources: INE (LFS).

4.3 - Social Security affiliates

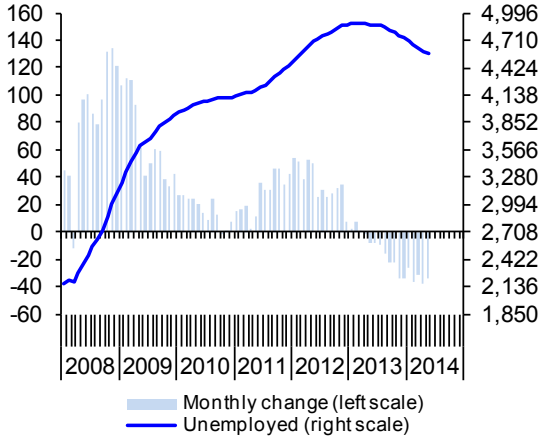
Thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

4.4 - Registered unemployment

Thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

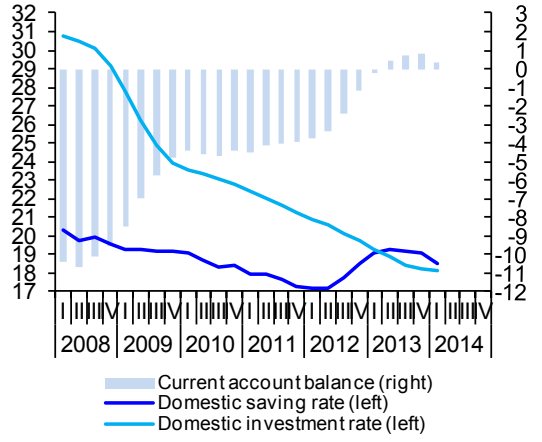
In the case of the general government, excluding local authorities, total tax revenues grew by 2.7% in the first quarter of 2014, compared with the same period of the previous year (in the case of the central government alone, this increase was 5.1%). Total expenditure dropped by 0.1%, due to reduced social-security benefit spending and current transfers to other public administrations, while interest expenses rose at a rate of 5%. The deficit stood at 0.7% of GDP, one tenth of a percentage point lower than in the same period the previous year. The progress made in the first quarter looks inadequate given that the target for the year as a whole is to reduce the deficit (excluding

Exhibit 5

Financial imbalances

5.1 - Domestic saving, investment and current account balance

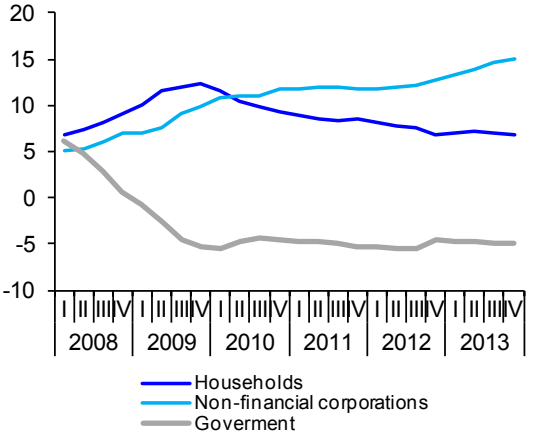
Percentage of GDP, 4-quarter moving average



Source: INE.

5.2 - Saving rates

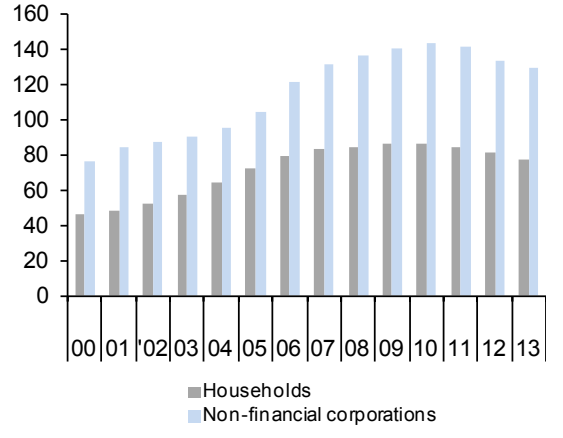
Percentage of GDP, 4-quarter moving average



Source: INE.

5.3 - Gross debt

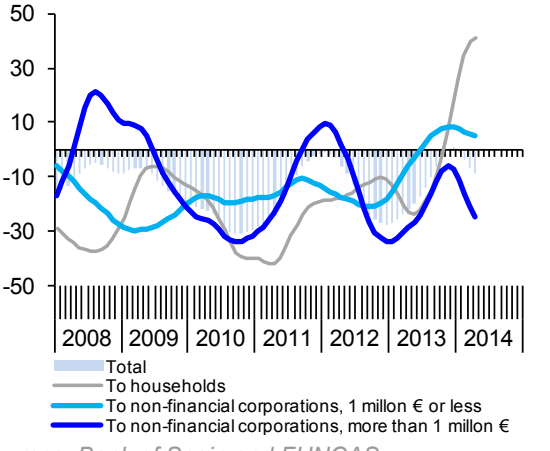
Percentage of GDP



Source: Bank of Spain (Financial Accounts).

5.4 - New business loans

Annualised moving quaterly change in %, smoothed and s.a. series



Sources: Bank of Spain and FUNCAS.

aid to financial institutions) from 6.6% of GDP to 5.5%. Broken down by level of government, this balance is distributed as follows: -0.75% of GDP from the central government, 0.3% from the social security system (entirely seasonal), and -0.25% from the autonomous regions.

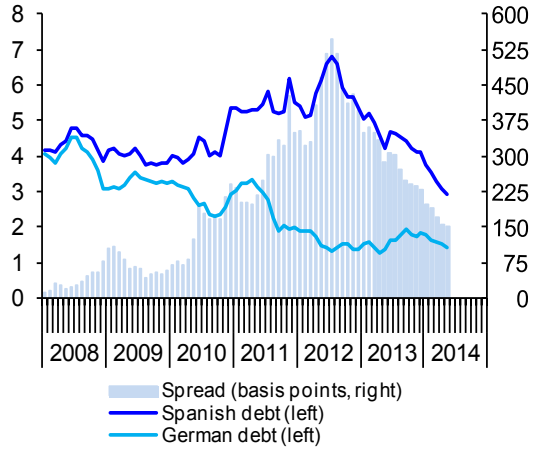
As regards the financial account of the balance of payments, foreign direct investment inflows in the first quarter of the year were less than those in the same period of the previous year, as was the case for other investments, while the investment portfolio progressed more favourably than a year

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

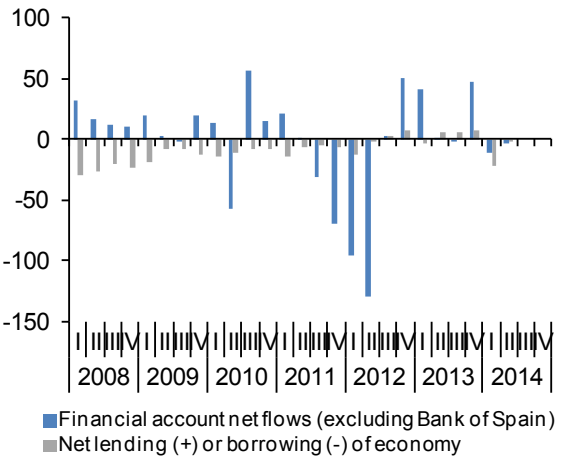
Percentage and basis points



Sources: ECB and FUNCAS.

6.2 - Balance of payments

EUR billion



Source: Bank of Spain.

earlier. The total net balance on the financial account, excluding the Bank of Spain, was -10,500 million euros, compared with a balance of 41,500 million euros registered in the same period of 2013 (Exhibit 6.2).

The return on Spanish sovereign debt has continued to fall, reaching historic lows. In recent weeks, the five-year rate has hovered around 1.4% and the ten-year rate around 2.7%, with the risk premium around 140 bps, its lowest level since the Greek debt crisis broke out in May 2010.

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Inflation also remains at historic lows. In May, the general rate stood at 0.2% and core inflation at 0% (Exhibit 7.1). Over the first five months of the year, the rate of inflation of prices of foodstuffs, particularly unprocessed foodstuffs, dropped fastest, while energy product prices rose, particularly in April and May. Despite the recovery in demand, it was still insufficient to push up prices, and the supply side was free of tensions, due to the spare productive capacity and falling labour costs.

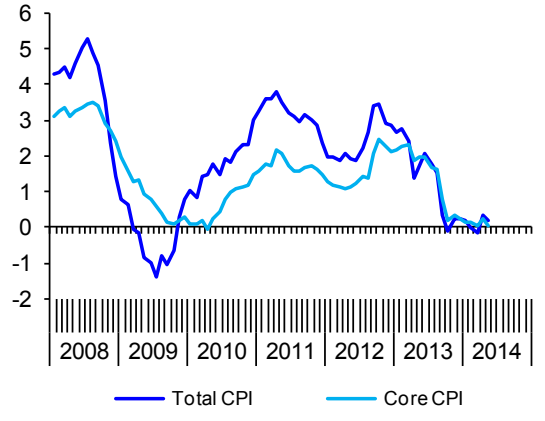
New credit to households and small and medium-sized enterprises continued to grow during the early months of the year. In the case of households, increases were registered in both consumer credit and lending for home purchases. Mortgage lending has grown surprisingly quickly, although admittedly from very low levels: the current volume is just 15% of that attained in 2006 (Exhibit 5.4).

Exhibit 7

Price indicators

7.1 - Consumer Prices Index

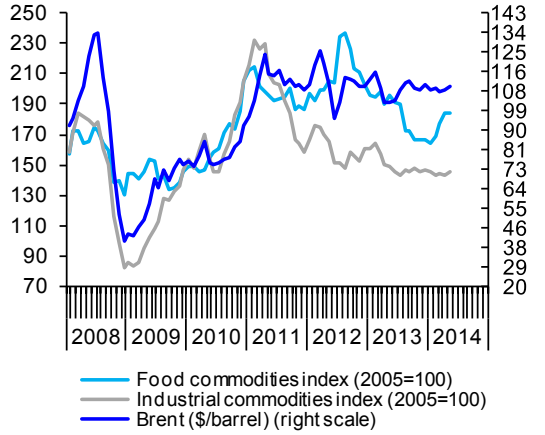
Change y-o-y in %



Source: INE.

7.2 - Commodities prices in $

Dollars and index



Sources: Ministry of Economy and The Economist.

Forecasts for 2014-2015

Performance in the first quarter was broadly as expected, although there was a change in sign in the progress of the external balance, and consequently, in its contribution to GDP growth. This is neither desirable nor sustainable, as the process of reducing debt levels –which is still a long way from being complete– requires a financial surplus to be produced vis-à-vis the rest of the world. Therefore, among other factors, it is envisaged that the various expenditure aggregates will follow the current cyclical phase more closely, making their contributions to domestic demand and the external sector positive in both cases, although the latter will be considerably lower than that registered in the recession years, due precisely to the effect of the growth of national demand on imports.

Additionally, the steady improvement in financial conditions over the first half of the year, reflected in the way returns on public debt have dropped to historic lows, and in the drop in the risk premium, has gained traction since the measures agreed by the European Central Bank at its meeting on June 5th. The result will be easier access to finance, and above all, falling long-term interest rates on credit to households and firms, which are also likely to remain low for an extended period of time. This will considerably favour the Spanish economy's process of recovery, both through the stimulus for investment and reduced borrowing costs for firms, households and government.

The biggest risk comes from abroad, specifically, as mentioned, from the risk of gradual withdrawal of quantitative easing measures in the United States, together with the likely interest rate increase next year. These factors may lead to renewed financial market tensions, compounded by the potential risk of financial market asset bubbles bursting.

In view of recent trends and the external financial environment, the GDP growth forecast for 2014 has been reviewed upwards by two tenths of a percent to 1.4%. The forecast for 2015 has also been revised upwards, to 2.2%, four tenths of a percent higher than in previous forecasts (Table 1). The pattern of quarter-on-quarter change will be relatively stable, with rates in the 0.5%-0.6%

range, which in annualised terms represents a rate of between 2.0% and 2.5% (Exhibit 8.1).

Private consumption is expected to grow by 1.7%, supported by the increase in households' disposable income, which is set to enjoy a modest rise in 2014 for the first time since 2009, thanks to growing employment and rising non-wage income, together with the reduction in debt interest payments (Exhibit 8.3). This income growth will be slightly less than consumption growth, which means that the savings rate will drop to historic lows, at below 10% of disposable income. In 2015, there will be a little more room to increase spending, largely thanks to the recently announced income tax cut, which will make it possible to speed up consumption growth to 2.0% and at the same time enable a slight recovery in the savings rate. Estimated public consumption is set to drop 0.8% in 2014 and 0.5% in 2015.

Gross fixed capital formation in construction will moderate its rate of adjustment of -4.9% and -1.4% in 2014 and 2015, respectively, although this component of demand has been revised downwards –a larger drop than expected in previous forecasts– due to its worse than expected performance in the first quarter (Exhibit 8.3). The property market will bottom out this year, which will allow residential construction investment to start to recover in the second half of 2015. Investment in capital goods and other products, by contrast, has been revised upwards to 8.3% this year and 6.0% the next. This basically involves investment aimed at replacing productive capital, largely financed out of companies' own funds.

In short, national demand as a whole is set to register positive contributions to GDP growth for the first time since 2007, quantified at 1 percentage point in 2014 and 1.6 points in 2015.

In short, national demand as a whole is set to register positive contributions to GDP growth for the first time since 2007, quantified at 1 percentage point in 2014 and 1.6 points in 2015 (Exhibit 8.2).

The growth forecast for exports has risen to 5% this year, primarily as a result of the upward revision of the growth forecast for export services, which are proving more vigorous than expected. The forecast for next year has also been revised upwards slightly to 5.3%.

The faster expected growth in domestic demand has meant import forecasts have been revised upwards, to 4.0% and 3.9% in 2014 and 2015, respectively. The combined changes in exports and imports means the external sector will make a positive overall contribution, although smaller than that seen in recent years (Exhibit 8.2).

In the case of employment, growth of 0.6% is envisaged this year, and 1.4% the next. This represents net creation of 90,000 full-time equivalent jobs in 2014 and 222,000 in 2015 (Exhibit 8.4). This will result in average annual unemployment rates of 24.5% and 22.6%, respectively. This implies a reduction in the number of unemployed of almost a million over these two years (fourth quarter of 2015 over fourth quarter of 2013). Around two thirds of this reduction will be due to the contraction in the working population (as a result of the decline in the number of people of working age) and a third will be due to the increase in the number of people employed.

Labour productivity will slow markedly relative to the rate of growth observed in recent years, but will still outpace increases in wages and salaries, such that unit labour costs will continue to fall, although at more moderate rates.

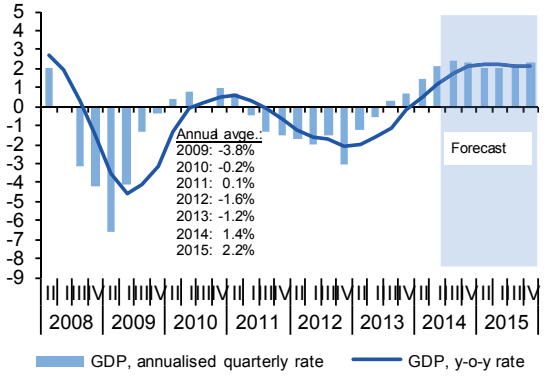
The current account of the balance of payments will generate growing surpluses, although the expected amount has been revised downwards to 1.1% of GDP in 2014 and 1.6% in 2015 (Exhibit 8.6). The public deficit –excluding aid to public financial institutions– will be cut this year to 5.5% of GDP

Exhibit 8

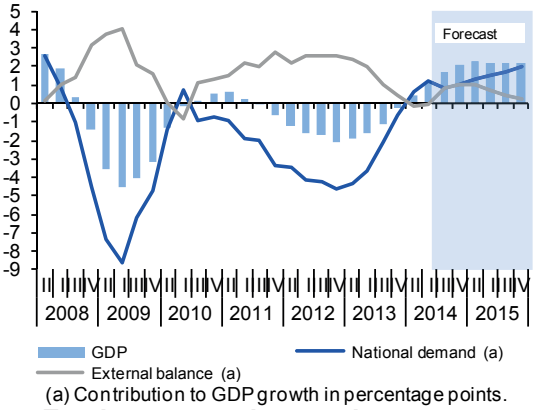
Economic forecasts for Spain, 2014-2015

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

8.1 - GDP

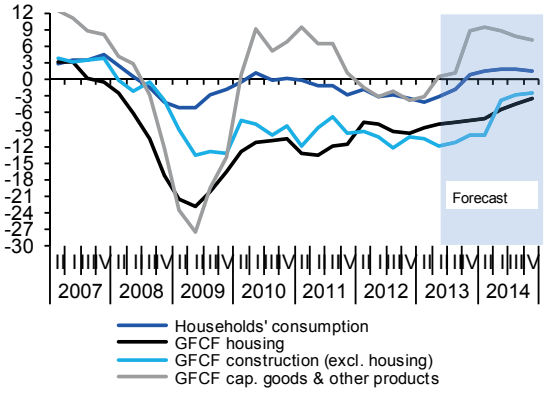


8.2 - GDP, national demand and external balance

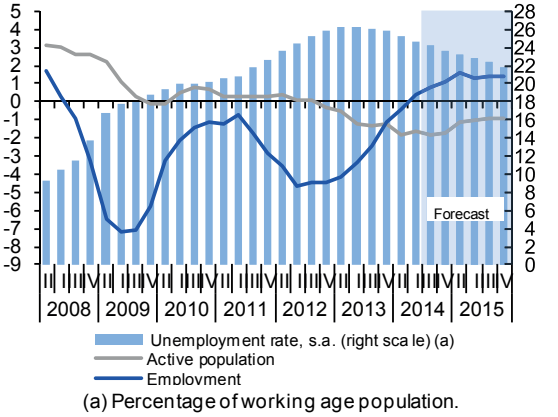


(a) Contribution to GDP growth in percentage points.

8.3 - National demand aggregates

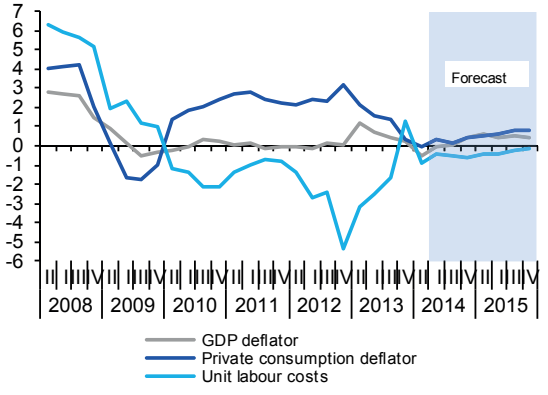


8.4 - Employment and unemployment

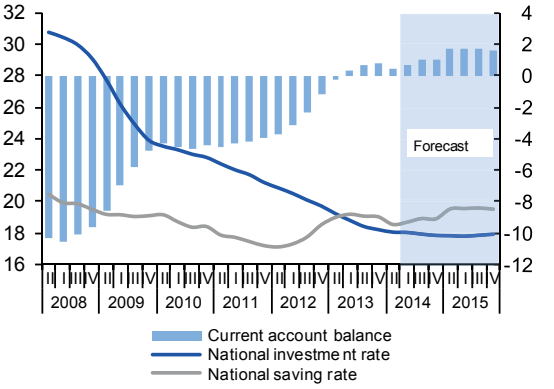


(a) Percentage of working age population.

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, 2014-2015

Annual rates of change in %, unless otherwise indicates

		Actual data		*FUNCAS forecasts*		*Change in forecasts (a)*	
	Average 1996-2007	2012	2013	2014	2015	2014	2015
1. GDP and aggregates, constant prices							
GDP	**3.7**	**-1.6**	**-1.2**	**1.4**	**2.2**	**0.2**	**0.4**
Final consumption households and NPISHs	3.8	-2.8	-2.1	1.7	2.0	0.4	0.5
Final consumption general government	4.3	-4.8	-2.3	-0.8	-0.5	0.5	0.4
Gross fixed capital formation	6.2	-7.0	-5.1	0.8	2.1	0.1	-0.5
Construction	5.6	-9.7	-9.6	-4.9	-1.4	-3.0	-2.5
Residential construction	7.6	-8.7	-8.0	-5.1	-2.2	-0.3	-0.5
Non-residential construction	3.9	-10.6	-10.9	-4.8	-0.7	-5.1	-3.9
Capital goods and other products	7.4	-2.6	1.7	8.3	6.0	4.2	1.7
Exports goods and services	6.7	2.1	4.9	5.0	5.3	1.4	0.4
Imports goods and services	9.3	-5.7	0.4	4.0	3.9	1.7	0.4
National demand (b)	**4.5**	**-4.1**	**-2.7**	**1.0**	**1.6**	**0.3**	**0.4**
External balance (b)	-0.8	2.5	1.5	0.4	0.6	0.0	0.0
GDP, current prices: - € billion	--	1,029.3	1,023.0	1,036.9	1,064.8	--	--
- % change	7.4	-1.6	-0.6	1.4	2.7	-0.3	0.2
2. Inflation, employment and unemployment							
GDP deflator	3.6	0.0	0.6	0.0	0.5	-0.5	-0.2
Household consumption deflator	**3.1**	**2.5**	**1.3**	**0.2**	**0.7**	**-0.2**	**-0.1**
Total employment (National Accounts, FTEJ)	3.3	-4.8	-3.4	0.6	1.4	0.1	0.3
Productivity (FTEJ)	0.4	3.3	2.3	0.8	0.8	0.1	0.1
Wages	7.2	-5.6	-3.5	0.8	1.9	0.0	0.3
Gross operating surplus	7.3	1.6	1.3	1.6	3.2	-0.9	-0.2
Wages per worker (FTEJ)	3.2	0.2	0.7	0.2	0.5	-0.2	0.0
Unit labour costs	2.8	-3.0	-1.6	-0.6	-0.3	-0.3	-0.1
Unemployment rate (LFS)	**12.5**	**24.8**	**26.1**	**24.5**	**22.6**	**-0.7**	**-0.9**
3. Financial balances (% of GDP)							
National saving rate	22.2	18.5	19.0	19.0	19.5	-0.5	-0.4
- of which, private saving	18.9	23.0	23.9	22.7	22.5	-0.7	-0.9
National investment rate	26.6	19.8	18.2	17.9	17.9	-0.2	-0.3
- of which, private investment	23.1	18.0	16.8	16.5	16.6	-0.3	-0.3
Current account balance with RoW	**-4.4**	**-1.2**	**0.8**	**1.1**	**1.6**	**-0.3**	**-0.2**
Nation's net lending (+) / net borrowing (-)	-3.4	-0.6	1.5	1.7	2.2	-0.3	-0.2
- Private sector	-2.6	10.0	8.6	7.2	6.8	-0.8	-1.0
- Public sector (general governm. deficit)	**-0.9**	**-10.6**	**-7.1**	**-5.5**	**-4.6**	**0.5**	**0.9**
- General gov. deficit exc. financial instit. bailout	**--**	**-6.8**	**-6.6**	**-5.5**	**-4.6**	**0.5**	**0.9**
Gross public debt	53.5	86.0	93.9	99.4	103.0	-0.3	-1.3
4. Other variables							
Household saving rate (% of GDI)	12.0	10.3	10.4	9.8	10.0	-0.5	-0.4
Household gross debt (% of GDI)	82.5	122.9	116.5	111.5	106.2	-0.7	-1.2
Non-financial coporates gross debt (% of GDP)	82.1	133.6	129.0	119.2	110.6	0.8	-0.3
Spanish external gross debt (% of GDP)	92.5	167.9	159.7	154.8	149.1	-4.7	-4.8
12-month EURIBOR (annual %)	3.7	1.1	0.5	0.5	0.7	-0.1	-0.2
10-year government bond yield (annual %)	5.0	5.9	4.6	2.9	2.7	-0.3	-0.6

Notes:
(a) Change between present and previous forecasts, in percentage points.
(b) Contribution to GDP growth, in percentage points.
Sources: 1996-2013: INE and Bank of Spain; Forecasts 2014-2015: FUNCAS.

and to 4.6% of GDP in 2015 (the official targets are 5.5% and 4.2%, respectively), above all thanks to the favourable impact of the cycle and the reduction in interest expenditure on the public debt, in conjunction with an increase in the ratio's denominator due to rising nominal GDP. The deficit provision for 2015 has included the effects of a limited personal income tax reform, the scope of which was unknown at the time of making this forecasts, so it should be viewed as being purely tentative.

In short, Spain's economic recovery is gradually gaining traction, with GDP growth picking up speed and, more importantly, jobs starting to be created. Meanwhile, private sector deleveraging is still under way, which is not incompatible with a freer flow of new credit to the sector. Financial conditions for the economy as a whole improved perceptibly as a result of both the balance sheet clean-up and recapitalisation in the domestic financial sector and international markets' greater willingness to lend. Confidence indicators are also showing a marked improvement. This all suggests that the recovery will continue and gain strength over the coming quarters.

However, recent economic conditions have been showing certain undesirable traits that are unsustainable over the medium term. The strong recovery in durable goods consumption and, particularly, investments in capital goods are driving rapid import growth, while at the same time exports have weakened due to slackening demand from emerging markets. This has translated into net exports making a negative contribution to GDP and the incipient external current account surplus narrowing. If these trends continue, the current account deficit will soon re-emerge, and with it, the tendency for the debt to grow. It is difficult to imagine a genuine recovery taking hold under such conditions. Therefore, economic policy needs to remain focused on boosting exports rather than consumption and on making progress on consolidating the public sector to eliminate the imbalances, with a view to boosting the savings capacity of the economy as a whole. The Spanish economy undoubtedly needs to raise its investment rate in order to consolidate its growth potential and create jobs, but this investment should be financed from domestic savings rather than with more external debt.

Current monetary policies in advanced economies

Juan Carlos Berganza, Ignacio Hernando and Javier Vallés[1]

The reliance on unconventional monetary policy measures by advanced economies´ central banks since the outbreak of the crisis has been crucial to restore financial stability and support the economic recovery. In fact, more measures could be adopted in some areas. In those economies with a more solid improvement, there is a great degree of uncertainty regarding exit strategies and their associated challenges.

The crisis challenged conventional monetary policy, as central banks of the main advanced economies saw their traditional tools insufficient to reactivate the economic recovery and restore proper functioning of financial markets. Central banks were forced to implement a series of unconventional measures, mainly in the form of: i) financial asset purchases, ii) changes in communication policy; and, iii) providing credit facilities to the banking system. Despite the highly accommodative stance in major advanced economies, in many of them, the recovery is not yet settled, unemployment remains high, credit growth remains weak, and disinflationary pressures persist. For example, in Japan and in the euro area, no increases in official rates are being considered in the near future and more expansionary measures could be adopted. However, in some economies, where the recovery is more solid, the persistence of unconventional measures may pose risks, such as the possible emergence of new asset bubbles, delays in deleveraging and recapitalisations for banks, delays in fiscal consolidation and structural reforms, as well as cross-border spillover effects for emerging markets. Given the magnitude of the current stimulus, the effects on financial markets, and the lack of evidence regarding consequences of alternative strategies, the design of exit strategies is a significant challenge. Communication by central banks on how they will proceed with these strategies will be important to reduce uncertainty and prevent unintended consequences for the recovery.

Introduction

The global financial crisis of 2007-2008 represented a formidable challenge for the conduct of monetary policy in advanced economies as most of these economies entered the deepest recession since the Great Depression of the 1930s, while the monetary transmission mechanism was severely damaged. Once the central banks in the major advanced economies –the Federal Reserve (Fed), the Bank of England (BoE), the Bank of Japan (BoJ) and the European Central Bank (ECB)– exhausted the potential reductions in official interest rates shortly after the outbreak of the crisis, they had to resort to a wide arsenal of tools, as the economic recovery

[1] We are grateful for the technical support of Irene Pablos. The views expressed in this article are our own, and do not necessarily represent those of the Bank of Spain.

remained anaemic and some segments of financial markets were still dysfunctional. Central banks modulated their responses depending on their own objectives, the depth of the crisis in each area, and the different nature of their financial systems and institutional structures.

But beyond forcing central banks to introduce a broad array of unconventional measures, the global financial crisis contributed to the questioning of the paradigm built around monetary policy management in previous decades, during the period known as the Great Moderation. Arguably, while this questioning has not shattered the belief that price stability is the best contribution that monetary policy can make to social welfare, it seems clear that the crisis will have implications on how monetary policy will be carried out in the future. Nevertheless, there is still great uncertainty about the duration of the exit phase and the configuration of new strategies both in normal times and under extraordinary circumstances.

The set of unconventional policies introduced since 2007 has managed to dispel some extreme risks for financial instability, to counteract deflationary pressures, restore the operation of certain financial markets and ultimately support economic recovery. However, although the stance of monetary policy still remains highly accommodative in the central banks of the main advanced economies, looking forward, the expected path for monetary policy is increasingly diverging across them. On the one hand, in Japan and in the euro area, no increases in official rates are being considered in the near future. In fact, the ECB introduced in June a further block of expansionary measures and additional steps might be in the pipeline. On the contrary, the cost-benefit analysis of unconventional expansionary measures in the United States and the United Kingdom has been gradually tilting towards a lower marginal profit and a greater potential cost for the extension of these measures or, at least some of them. Thus, in 2014 the beginning of the process of monetary policy normalisation can already be felt in these two countries. In fact, in January 2014, the Federal Reserve initiated a gradual process of reducing the monthly volume of asset purchases. In addition, the progress of recovery in these two economies has led to bringing forward the expected date, according to market expectations, for the first hike in official rates.

The rest of the article is organised as follows. The following section summarises the main lines of action by central banks in the major advanced economies since the beginning of the crisis. The third section assesses the potential risks stemming from the continuation of existing unconventional measures. The fourth section discusses the exit strategies and the challenges associated with them.

Central banks´ unconventional measures

Between the summer of 2007 and autumn of 2008, central banks adopted a series of measures to support liquidity, which reached unexpected limits after the bankruptcy of Lehman Brothers. They included, among others: i) expansion and changes of maturities of the standard lines of liquidity and collateral requirements; ii) extension of liquidity to a broader range of institutions; and, iii) the introduction of new temporary liquidity facilities, including bilateral currency swaps. Additionally, as lenders of last resort, central banks tried to avoid liquidity problems resulting in a solvency crisis in the banking industry.

The manner in which economic agents are financed in each country determines the nature of these measures. In that respect, the ECB started to offer liquidity limited by the quantity of adequate collateral (“fixed-rate full allotment”) and later on extended the maturity of longer-term refinancing operations (LTROs) at the height of the sovereign debt crisis. The rationale of those actions was to ensure the appropriate transmission of the interest rate signal in the context of malfunctioning financial markets.

The extraordinary liquidity provision was accompanied by a reduction in official interest rates by major central banks in order to support activity. Thus, in late 2008 and early 2009, policy rates in general reached the lower limit of 0%. Once the major central banks had reached the zero lower bound for official interest rates and economic recovery remained weak, it became necessary to resort to unconventional instruments.[2] There were three types of measures: i) purchases of financial assets and changes in the balance sheets of central banks; ii) changes in communication policy, including that known as *forward guidance;* and, iii) credit facilities to the banking system.

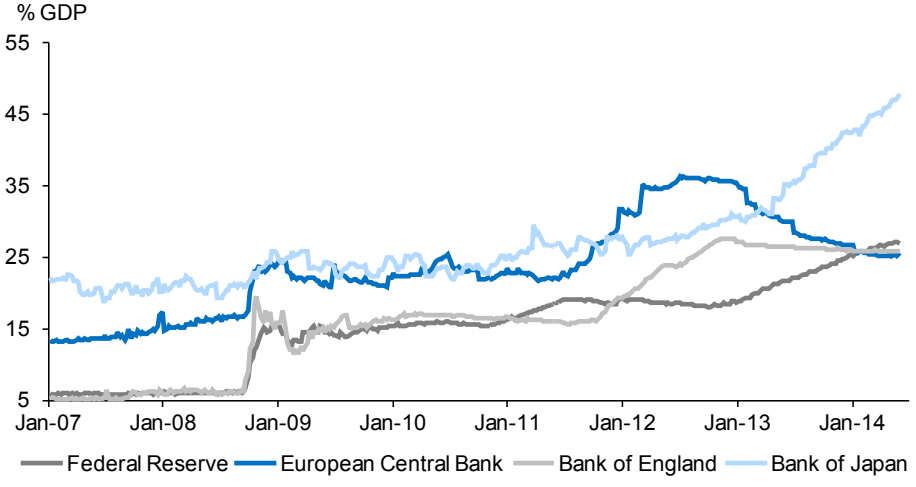
Purchases of financial assets

In the early stages of the crisis, beyond the extraordinary measures to provide liquidity, central banks began to purchase financial assets expanding the size of their balance sheets, the so-called quantitative easing programs ("QE"). The assets that have been acquired have depended on the different circumstances under which each of these institutions operates and the targets pursued by these programs. Their effects are manifested mainly through two channels. Firstly, according to the *portfolio-balance channel,* the increase in demand of the asset acquired by the central bank causes an increase in its price and therefore reduces its yield. Also, by reducing the risk price, the demand for other riskier assets, such as corporate bonds or shares increases, increasing their price. Thus, financing costs are reduced and a positive wealth effect occurs, encouraging spending and nominal demand. Second, the *signalling channel* impacts asset purchases due to the perception that the monetary

Once the major central banks had reached the zero lower bound for official interest rates and economic recovery remained weak, it became necessary to resort to unconventional instruments.

Exhibit 1

Balance sheet of central banks in major advanced economies



Sources: Federal Reserve System, ECB, Bank of England and Bank of Japan.

[2] For a more detailed description of the actions adopted by central banks, see Section III in Berganza, Hernando and Vallés (2014).

policy stance will remain loose for a prolonged period, which affects expectations on short-term interest rates and of long-term asset returns, also favouring aggregate demand.

The asset purchase programs by major central banks have differed in the type of assets acquired, maturity and duration. For example, at the end of 2013, the Fed had 18% of the outstanding U.S. government bonds whereas the Bank of England had 27% and the Bank of Japan 17% of their corresponding public bonds. As a result of these differences, the composition as well as the total amount of the balance sheet of the individual central banks has varied over time (Exhibit 1). In the case of the ECB, the Covered Bond Purchase Program set in 2009 served to revive this market that was an important funding source for banks. Similarly the Securities Markets Program established in 2010 facilitated some governments' access to finance and therefore the bank funding conditions in those countries. The announcement of potentially unlimited purchases of government bonds under strict conditionality under the Outright Monetary Transactions program in 2012 succeeded in putting an end to any doubts about euro area integrity. Finally, in June 2014, the ECB decided to intensify the preparatory work to outright purchases in the ABS market to enhance the functioning of monetary policy transmission.

Forward guidance

Central banks have chosen to offer guidance on future monetary policy to economic agents *(forward guidance)* in addition to the immediate actions that have been taken. Forward policy guidance can be transmitted to the economy through three main channels: i) interest rate curve, since the announcement of the expected official interest rate path affects long term interest rates, the most relevant ones for the financing conditions of agents; ii) reduction of the uncertainty on monetary policy decisions in the future, which may reduce the term premium, volatility and risk premiums; and, iii) reduction in real interest rates when official interest rates are at the zero bound through lower nominal interest rates and higher inflation expectations, provided this is not interpreted as an indication of a worsening economic outlook.

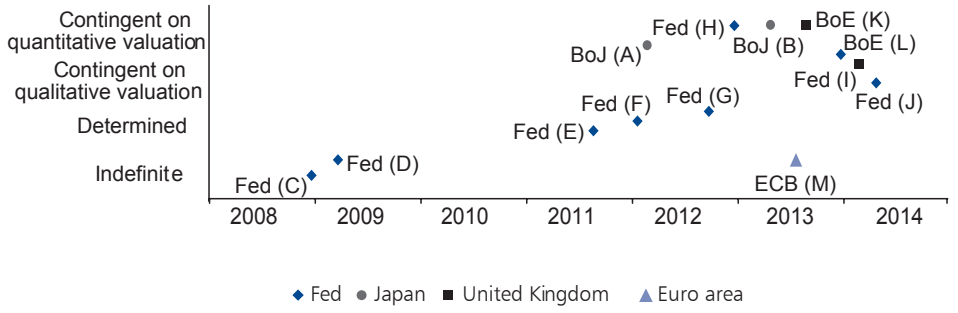
The nature of this commitment has evolved (see López and del Río, 2013) in the big four banks from the signalling of an open-ended period of time to specific dates and finally conditioning to certain economic variables (Exhibit 2). Contingent strategies, in which the monetary authority explicitly determines the future movements of official interest rates to changes in certain variables – for example, the inflation path or the unemployment rate – have the appeal, *a priori,* of preserving some flexibility to react to unexpected events, while reducing the risk of loss of credibility due to acting in a different manner to that announced. This type of contingent strategy was adopted by the Federal Reserve and the Bank of England ("contingent on quantitative valuation").

However, a short period of time has been sufficient to show the design and communication problems of this type of guidance. In particular, in 2014, unemployment rates in both countries reached the thresholds values much earlier than expected, in a context in which employment markets have shown peculiarities that create significant uncertainty about the future evolution of unemployment rates and the relationship of this variable with other macroeconomic variables. This rapid convergence to the thresholds values has prompted a reformulation of existing commitments and both central banks have reintroduced qualitative elements in their strategies to highlight that official rates will remain at their current levels beyond thresholds ("contingent on qualitative valuation" in Exhibit 2).

These two experiences illustrate the complexity of the formulations of forward guidance based on quantitative references, especially if the margin of uncertainty surrounding the projection of the reference variables is very high, as in the current situation. The ECB has also used the management

Exhibit 2

Forward guidance in major central banks following the financial crisis



ANNOUNCEMENTS MADE BY THE CENTRAL BANKS			
Central bank	**Type of forward guidance**	**Date of decision**	**Announcement**
Bank of Japan	Contingent (A)	February 2012	"Until the 1% inflation goal is in sight"
	Contingent (B)	April 2013	"The Bank will continue with the quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner, with a time horizon of about two years"
Federal Reserve System	Indefinite (C)	December 2008	"For some time"
	Indefinite (D)	March 2009	"For an extended period"
	Determined (E)	August 2011	"At least through mid-2013"
	Determined (F)	January 2012	"At least through late 2014"
	Determined (G)	September 2012	"At least through mid-2015"
	Contingent on quantitative valuation (H)	December 2012	"As long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than 2.5% and longer-term inflation expectations continue to be well anchored"
	Contingent on qualitative valuation (I)	December 2013	"Labour market indicators will be considered more and official rates may be maintained well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% target"
	Contingent on qualitative valuation (J)	March 2014	"In determining how long the current 0% - 0.25% official interest rate will be maintained, various measues of labour market conditions, indicators of inflation pressures and inflation expectations and financial developments will be considered"

Exhibit 2 (continued)

ANNOUNCEMENTS MADE BY THE CENTRAL BANKS			
Central bank	**Type of forward guidance**	**Date of decision**	**Announcement**
Bank of England	Contingent on quantitative valuation (K)	August 2013	"At least until the unemployment rate has fallen to a threshold of 7%, subject to three 'knockouts' related to inflation and financial stability"
	Contingent on a higher qualitative valuation (L)	February 2014	"There remains scope to absorb spare capacity further before raising Bank Rate. The path of Bank Rate over the next few years will depend on economic developments, although the rise in Bank Rate is expected to be gradual and the appropriate level is likely to be materially below 5%"
European Central Bank	Indefinite (M)	July 2013	"For an extended period of time. This expectation is based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics"

Sources: Federal Reserve System, ECB, Bank of England and Bank of Japan.

of expectations, but for an indefinite period of time and with vague wording with respect to the case of the Federal Reserve or the Bank of England. In particular, the ECB, at its meeting in July 2013, announced that its Governing Council "expects interest rates to remain at current levels or lower for an extended period of time. This perspective is based on the anticipation of a stable overall inflation rate in the medium term, given the weakness of the real economy and weak monetary dynamics." The decision taken in June 2014 to lower the official rates (including the negative deposit rate) and continue with the fixed-rate full allotment procedure reinforces this forward guidance.

Credit facilities to the banking system

Along with asset purchase programs and strategies of managing expectations, some central banks have implemented specific interventions in order to stimulate activity by means of greater dynamism in bank lending. Thus, the Bank of England, together with the UK Treasury, launched a program called *Funding for Lending Scheme* (FLS) in July 2012 with the purpose of reducing the financing costs of banks and providing incentives to increase credit to the non-financial sector. With this scheme, the Bank of England provides banks with long-term funds that can be used to finance the expansion of their loan portfolios to households and businesses, with both the cost and the amount of funding available to banks being a function of the net credit that they offer. But given the recovery of the housing market and the risks to financial stability, it was decided that from February 2014 this programme would not be available for granting mortgage loans and would apply only to loans for SMEs. Similarly, the Bank of Japan since June 2010 has carried out a series of initiatives to encourage lending to the real economy and has approved their extension until June 2015. And more recently, in June 2014, the ECB decided to conduct a series of targeted long-term refinancing operations (TLTROs)

starting in September 2014 to support new lending, excluding loans for house purchases, to the private sector.

The risks associated with the continuation of unconventional monetary measures

In spite of the highly accommodative monetary policy stance in major advanced economies, in many of them the recovery is not yet settled, the levels of unemployment and idle capacity remain significant, credit growth remains exceptionally weak and, in the last year, some of them faced unexpected disinflationary pressures. Against this background, it is not surprising that public opinion, as well as international financial institutions, still demand further support from monetary policy measures in some cases, most notably in the euro area and Japan *(see, for instance, IMF, 2014)*. However, especially in those economies like the United States or the United Kingdom that are displaying a more solid recovery, the persistence of unconventional monetary policy involves a number of side effects and poses some risks, which may even cause central banks to deviate from their primary target of price stability *(see Rajan, 2013, or Caruana, 2014)*.

Firstly, while extraordinary monetary policy measures have been instrumental to remove some extreme risks for financial stability, their extension over an excessively protracted period could pose significant risks on this front. In particular, asset purchase programs and *forward guidance* strategies might be favouring an excessive risk taking in certain markets (for instance, high-yield corporate debt), even encouraging the formation of new bubbles, without this reduction in funding costs translating into an improvement in real investment. More generally, the attempt of central banks to pre-commit in order to avoid abrupt changes in market interest rates might lead to a situation of financial dominance where the central bank is behind the curve, i.e. delays its reaction to prevent a sharp adjustment. In addition, the liquidity provided by the central bank in some countries has turned it into a major player in the interbank market, which could cause some banks to postpone their necessary deleveraging and recapitalisation. In that case, once systemic risks have been eliminated, liquidity measures in place to support the recovery of these financial institutions could be masking a problem of solvency.

Secondly, the continuation of unconventional monetary policies or the implementation of additional measures may delay the search for fiscal sustainability. The extraordinarily loose monetary stance reduces the cost of government debt and the increase in the balance sheet of central banks through buying government bonds facilitates the work of the national treasuries. There is therefore a risk of monetising debt affecting the price level path, which may therefore lead to a situation of fiscal dominance. More generally, current monetary policy may be "buying time" through a reduced financing cost without being exploited by other economic policymakers to address the structural problems, such as high unemployment rates or an unbalanced sectoral composition.

Thirdly, unconventional monetary policy measures might exacerbate the distributional effects generated by the decisions of central banks altering the price of financial assets, which are unevenly distributed among the agents. Forward guidance policies, in order to be able to maintain interest rates at low levels, contribute to mitigate the negative wealth effects arising from the crisis, but for savers that means a significant loss of income. Similarly, assets purchases by the central bank may favour the holders of such instruments bought by the central bank. This is the case, for example, with the purchase of mortgage-backed securities (MBS) or public debt.

Finally, the consequences of expansionary monetary policies have surpassed the borders of the countries that have carried them out and have generated substantial cross-border spillover effects that have been difficult to manage by

policymakers in emerging market economies. Although, in general, central banks do not internalise the consequences of their policies on other economies as they focus on domestic objectives, one cannot say that the actions taken in recent years by the central banks of advanced countries have pursued a competitive devaluation.

One cannot say that the actions taken in recent years by the central banks of advanced countries have pursued a competitive devaluation. Evidence shows that accommodative monetary policy in advanced economies has helped to sustain higher growth in emerging economies, particularly through trade and the maintenance of favourable financial conditions.

Quite the contrary, the evidence shows that accommodative monetary policy in advanced economies has helped to sustain higher growth in emerging economies, particularly through trade and the maintenance of favourable financial conditions. However, as is the case in advanced countries, the economies of other countries cannot be sustained under the high global liquidity conditions indefinitely but must pursue policies that ensure a more sustainable growth.

Exit strategies: Questions and challenges

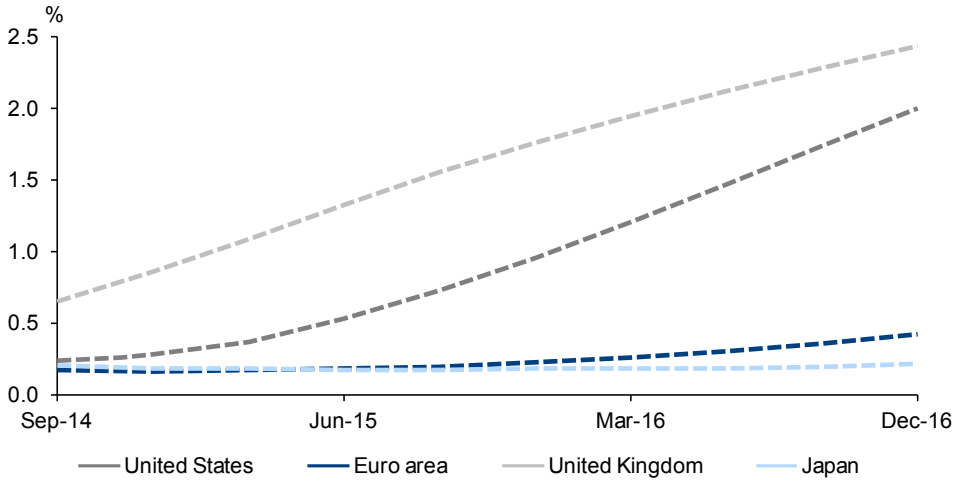
In the baseline scenario for the coming years, developed economies show a sustained recovery and financial stress disappears. In that case, some central banks should stop easing (in fact, the Bank of England stopped the government bond purchases in the second half of 2012) and after that they should gradually remove the extraordinary stimulus measures that have remained in place for an extended period. The design of exit mechanisms constitutes a significant challenge, given the magnitude of the current monetary stimuli, the induced effects on financial markets and other countries, and the scant theoretical foundations and empirical evidence which makes it difficult to anticipate the consequences of alternative strategies. In addition, central banks could return eventually to a different *status quo* than the pre-crisis one. Therefore, public communication about central banks' thinking and planning on when, how and where to exit is essential well in advance and during the process.

Probably the biggest challenge will be the restructuring of central banks' balance sheets in terms of size, composition and average maturity. In most cases, it should be taken into consideration that the assets purchases have increased the maturity imbalance between assets and liabilities and, consequently, interest rate risk. In addition to the difficulty of the process itself, it is very important to adequately communicate the steps that are to be taken as a recent example has shown. In May 2013, the publication of the minutes of a US Federal Reserve's FOMC meeting and a speech by its then Chairman, Bernanke, led the markets to adopt a stance on the possible gradual reduction in the rate of monthly purchases of assets (a process known as *tapering*) starting in September and, in parallel, advance the calendar for raising the official discount rates, a move not desired by the Federal Reserve. In the end, and surprisingly, the FOMC decided in September not to start *tapering*. It was later, at its December meeting, in light of improved economic data and the resolution of certain fiscal uncertainties (and after a remarkable communication effort so that financial markets could distinguish the process of gradual reduction of asset purchases from the process of interest rate hikes) that the FOMC decided to reduce its monthly assets purchases.

The Bank of England has been the first within the major central banks to stop easing (it is the only one that is not expanding its balance sheet through net assets purchases) and the macroeconomic and financial situations suggest that it will be

Exhibit 3

Official interest rates discounted in the markets*



*Note: *Futures for three-month interbank interest rates as of June 26th, 2014.*
Source: Datastream.

the first to move towards the normalisation of monetary policy. As seen in Exhibit 3, according to markets, the first rate hike could be decided as soon as in the last quarter of 2014. Nonetheless, the US Federal Reserve was the first central bank to discuss its exit strategy principles in the minutes of the June 2011 FOMC meeting. In fact, although still expanding the balance sheet, many analysts consider that the reduction of the net purchases of government bonds and mortgage-backed securities of GSEs in the last FOMC meetings could be considered the first step in changing the monetary cycle.

In the baseline scenario, reductions of similar magnitudes would continue in each of the FOMC meetings during 2014 until purchases ceased completely in the last quarter of the year, which would mean that the Fed's balance sheet would reach a size five times the value at the beginning of the crisis. According to the June 2011 exit strategy, the committee felt it needed to reduce reserves through the removal of the reinvestment policy on the balance sheet in advance of any rate hike because it was a necessary measure to give the FOMC confidence that the federal funds market could function in a proper way. But since then, excess reserves have burgeoned, making any rapid draining ahead of a rate hike difficult. As a response, the Fed introduced (in September 2013) and tested a new fixed-rate full-allotment reverse repo facility (ON RRP),[3] which together with the payment of interest on excess reserves (IOER) and the term deposit facility (TDF), should give the Fed the capability to set the overnight risk-free rate for the US economy at a level of its choosing without the need to resort to asset sales and irrespective of the level of bank reserves (see Gagnon and Sack, 2014). In fact, should the federal funds market not recover its prior

[3] This instrument allows money market funds, the GSEs and other institutions besides the banks, to maintain bank reserves at the Federal Reserve in exchange for an interest rate and collateral in the form of assets that the Fed has in its portfolio following the purchases made after these years. This interest rate should equal the remuneration of reserves to which only the banks have access.

prominence, this interest rate could provide an alternative target policy rate for communicating the stance of monetary policy. Other regional Fed Presidents (Dudley, New York; and Williams, San Francisco) have offered additional reasons to start the removal of the reinvestment policy on the balance sheet after the first rate increase: i) it could pull forward perceptions of tightening before the FOMC intends (as markets have healed, Fed balance sheet changes predominantly manifest the signalling effect over the portfolio balance effect); and, ii) getting the official interest rate off the zero lower-bound would create more policy flexibility. As seen in Exhibit 3, this first rate hike is discounted by the markets to take place around mid-2015.

The reordering of the exit strategy does not include MBS sales (active reduction of balance). In this sense, assuming a passive runoff of the balance sheet beginning at the start of 2016 rather than an active one, the balance sheet normalizes (the Fed's balance sheet over nominal GDP ratio is assumed to be 6% as in 2006 before the crisis) only by early next decade as under the Maturity Extension Program ("Operation Twist") the Fed extended notably the maturity of its portfolio.

Given the lack of experience of changing the monetary cycle in such a complex environment and the difficulty of correctly measuring the degree of recovery of both the financial sector and the real economy, communication by central banks on how they will tighten monetary policy will be important. The main risk is a sudden and unexpected increase in long-term interest rates, which can affect financial stability.

As commented above, given the lack of experience of changing the monetary cycle in a complex environment like the present one and, above all, the difficulty of correctly measuring the degree of recovery of both the financial sector and the real economy (for example, the uncertainty about the labour market slack in the US and about the long term productivity growth in the UK are very high), communication by central banks on how they will proceed to tighten monetary policy will be important. To reduce uncertainty and, above all, to prevent recovery from being aborted, it is expected that the introduction of the measures will be gradual (the equilibrium real interest rate could be lower after the financial crisis), anticipated by the economic agents and affected by how incoming data evolve (as persistently repeated by the Fed). The main risk is a sudden and unexpected increase in long-term interest rates, which can affect financial stability and more generally capital flows and global exchange rates. Precisely the announcement in May 2013 by the Fed that it was discussing the decline of the asset purchase process *(tapering talk)* had a great influence on economic agents' expectations, affecting both the valuation of diverse financial assets in the US (the interest rate on 10-year bonds rose more than 1 pp in just over three months) and in markets globally. But it was in emerging countries where the *tapering talk* had a significant and immediate effect (see Gallego and L'Hotellerie-Fallois, 2014). The reversal of capital flows by investors produced a clear worsening of their financial conditions. Between May and August 2013, debt spreads increased, currencies depreciated, and asset prices and the volume of reserves dropped. The first analysis of this period indicates that the effects were greater in countries that accumulated external vulnerabilities in terms of currency appreciation and deteriorating current account balances during the previous period under better financing conditions, although liquidity and market depth and size of investors' holdings also appear to be relevant explanatory variables.

For now, the gradual reduction in asset purchases by the Fed launched in January 2014, the qualitative forward guidance and the approaching earlier than previously projected of the first rate hike by the Bank of England are taking place

in an environment of very calm markets as the recoveries of the US and UK economies strengthen and there do not seem to be mounting wage pressures. Also, it must be taken into account that macroeconomic conditions in emerging countries are now generally more stable than those that caused previous currency crises. But there is a risk of alternative scenarios in which a rapid adjustment of interest rates and capital flows occurs. On the other hand, the Bank of Japan is engaged in an ambitious new phase of quantitative easing and the ECB has recently adopted new unconventional measures to face deflationary risks in the euro area. In this situation, in which there is no synchronisation between the major central banks, the withdrawal of unconventional measures in one country can have spillover effects through financial markets tensions. And concerns about the potential disorderly reaction of financial markets to a possible financial tightening could lead to a situation of financial dominance in which monetary policy could be constrained by the potential market strains. On the other hand, central banks may incur costs if they decide to carry out the sale of a portion of their assets associated with an increase in interest rates or due to the cost related to the payment of bank reserves. In any case, the risk that any of these central banks would temporarily incur losses should not weaken their independence as managers of monetary policy.

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The Spanish retail payment system within the Single Euro Payment Area (SEPA): Implications of implementation

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

The Single Euro Payment Area (SEPA) is a major milestone in the process of European financial integration. Spain is making good progress towards SEPA, with a very advanced adoption of technical standards in debit and credit transfers, as well as on payment card security requirements. However, it remains difficult to anticipate the overall impact on payment systems.

The creation of SEPA represents a major step forward towards increasing the ease, efficiency, and security of domestic and cross border transactions within the European Union. The potential annual savings for all stakeholders are estimated at 21.9 billion euros, with an additional 227 billion euros to be unlocked in credit lines and liquidity. Despite advances through SEPA, there are still significant differences in retail payment systems within the EU in terms of infrastructure and, in particular, related to the use of payment cards. Along these lines, this articles also analyses the impact of the crisis on the payment market and recent advances in this area. For example, the latest decisions taken in Spain, in line with other countries such as the United States and Australia, to reduce the interchange fees for debit and credit cards, with the hope of increasing payment card activity. The ultimate impact of these latest measures remains to be seen. In any event, the reduction in fees in Spain anticipates implementation of elements of EC regulation 260/2012.

Components and implications of SEPA

Integrating financial markets has been one of the major goals of the European Union over the last decades. Payment systems represent an essential part of these efforts, which are particularly relevant within the euro area, where a single currency is shared.

The different legislative initiatives have progressively converged to a more general aim which is the creation of the so-called Single Euro Payment Area (SEPA). The idea behind SEPA is that all transactions (domestic and cross-border) offer the same conditions of ease, efficiency and security.

The SEPA took its first operative steps in January 2008, when SEPA Credit Transfers were put in

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place, so that credit transfers could be done under the same operative and technical standards and conditions within the EU. This was followed by the launch of the SEPA Direct Debit – also setting homogenous standards for these transactions – in 2009. SEPA covers all EU member states, as well as Iceland, Liechtenstein, Monaco, Norway, San Marino and Switzerland.

The idea behind SEPA is that all transactions (domestic and cross-border) offer the same conditions of ease, efficiency and security.

SEPA is a comprehensive project which involves several aspects of efficiency in payment systems, such as common instruments, standards, procedures and infrastructures. It involves mainly three payment instruments: credit transfers, direct debits and payment cards. The European Commission has collaborated with the European Central Bank and all central banks in SEPA countries to achieve the abovementioned goals. A number of heterogeneities in technical, pricing and competitive standards have been identified and the role of SEPA will be to turn them into common standards and practices.

Given the logical involvement of European banks in this initiative, a coordinating body is also needed for the banking industry. This is the European Payments Council (EPC), which in practical terms has been the institution defining the new instruments and standards necessary to guarantee efficiency and security for payments in SEPA. Hence, the EPC develops the payment schemes and frameworks which help to realize SEPA.

The main regulatory initiatives regarding SEPA have been the following:

- The Payment Services Directive (PSD), on the standardized set of rules applicable to all payment services provided in the European Union. The PSD was adopted in Spain by Law 13/2009 on Payment Services.
- Regulation EC 924/2009 (amended by Regulation 260/2012), which establishes equality in the fees charged for domestic and equivalent cross-border payments in euros, except for checks.
- Regulation EC 260/2012, which establishes deadlines for migration to the SEPA instruments by setting a series of technical and business requirements for credit transfers and direct debits in euros.

EC 260/2012 is the most recent regulation and perhaps the most important one to date. The regulation is also referred to as the "SEPA end-date regulation" and defines the deadlines for migration to the new SEPA instruments. The deadline for the euro area is February 1st, 2014, and for non-euro area Member States October 31st, 2016. As of these dates, the existing national euro credit transfer and direct debit schemes will be replaced. Table 1 shows a comprehensive list of SEPA key achievement dates. An amendment to the SEPA Regulation introduced a transition period of six months for euro area countries – until August 1st, 2014 – to ensure minimal disruption for consumers and businesses. During this period, banks and payment institutions will still be able to process payments that differ from the SEPA standard.

The different central banks in the EU elaborate a number of indicators reporting the status of the migration to SEPA. In the case of Spain, the latest figures provided by the Bank of Spain reveal that:

- 86.2% of the direct debits in Spain are already made following a SEPA standard as of May 2014, as compared to 85.7% for the EU average.
- In the case of credit cards, 95% were already adapted to the EMV-security standard (the chip system designed by Europay-MasterCard-Visa) in 2013 while 99% of the electronic fund transfer at the point of sale (EFTPOS) terminals

Table 1
SEPA key dates

March 31st, 2012	Regulation No 260/2012 entered into force; pan-European reach; phasing-out of 50,000 euro ceiling for equal charges to apply.
November 1st, 2012	Cross-border transaction MIFs (multilateral interchange fees) were eliminated for direct debits.
February 1st, 2014	SEPA migration deadline for SEPA credit transfer and SEPA direct debit within the euro area; no BIC (business identifier code) to be required for national payments.
August 1st, 2014	End of six month grace period for migration to SEPA instruments in the euro area.
January 1st, 2015	Migration deadline for SEPA direct debits in Latvia. Latvia joined the euro area on January 1st, 2014. As a new euro area country, Latvia has up to one year to complete the migration. However, the stakeholders have agreed on an earlier end date for migration to SEPA credit transfers in Latvia, which is January 1st, 2014.
February 1st, 2016	No BIC to be required for cross-border payments; niche products migration complete.
October 31st, 2016	SEPA credit transfer and SEPA direct debit deadline for non-euro area countries.
February 1st, 2017	National transaction MIFs (multilateral interchange fees) to be eliminated for direct debits.

Source: European Central Bank.

in merchant stores were also prepared for EMV chip cards.

- Iberpay, which is the system in charge of processing electronic bank transfers in Spain, effectively processed 99.3% of the SEPA transactions by 2013Q2. This implies a significant improvement from the 87% in 2008Q1. Similarly, Iberpay also processed 98.3% of the SEPA transfers received by Spanish banks from abroad.

The SEPA Regulation marks February 1st, 2014 as the point at which all credit transfers and direct debits in euros will be made under the same format: SEPA Credit Transfers and SEPA Direct Debits. In addition to direct debit and credit transfers, payment cards represent a significant area for the application of SEPA in Europe. The main aim on this front is to eliminate all pre-existing legal, technical and business barriers to guarantee the necessary pan-European interoperability of cards. From a technical point of view, the transition to EMV chip cards is one important milestone but perhaps the most important and controversial feature refers to pricing decisions in payment cards. We cover the issues regarding card fees in the last section of this article, including some recent decisions taken in Spain.

From a quantitative point of view, converging to electronic payment standards and creating a single market for payments is expected to generate significant cost savings for all market participants.

Does SEPA pay-off? From a quantitative point of view, converging to electronic payment standards and creating a single market for payments is expected to generate significant cost savings for all market participants. An impact study conducted by PricewaterhouseCoopers (PwC) for the European Commission[3] dated January 16th, 2014, summarizes these benefits as estimated after the full completion of SEPA (see Table 2):

[3] http://ec.europa.eu/internal_market/payments/docs/sepa/140116_study_en.pdf

Table 2
Estimated benefits of SEPA

Panel A. Effects on stakeholders and benefit driver (billion euros)					
	Corporations	Public sector	Banks	Clearing and settlement mechanisms	Total
Price convergence	1.5	0.407	-1.9	-	0
Processing cost	11.7	2.5	7.4	0.34	21.9
Clearing cost	-	-	0.344	0.344	0
Net annual savings	13.2	2.9	5.9	0	21.9
Liquidity unlocked	179.5	38.1	9.4	NA	227

Panel B. Average saving per company and benefit driver (euros)			
	Large multinationals	Small-cap companies	Local business and public companies
Systems	43,200	11,600	120
Account maintenance	15,840	6,120	45
Statement and reporting	13,158	5,202	230
Total	71,838	22,922	395

Source: PwC and own elaboration.

- There are potential annual savings for all stakeholders (corporations, public sector, banks, and clearing and settlement mechanisms) of 21.9 billion euros as a recurring annual benefit resulting from price convergence and process efficiency (Table 2, Panel A). Part of the improvements come from a reduction of up to an estimated 9 million bank accounts, resulting in more efficient corporate euro cash-management infrastructures.

- Importantly, 227 billion euros are estimated to be unlocked in credit lines and liquidity. These benefits are realized from cash pooling and efficient improvements in clearing (Table 2, Panel A).

- If we concentrate on the average benefit per firm (Table 2, Panel B), large companies and small cap companies are expected to enjoy more cost savings from SEPA improvements although the benefits seem to extend also to other firms.

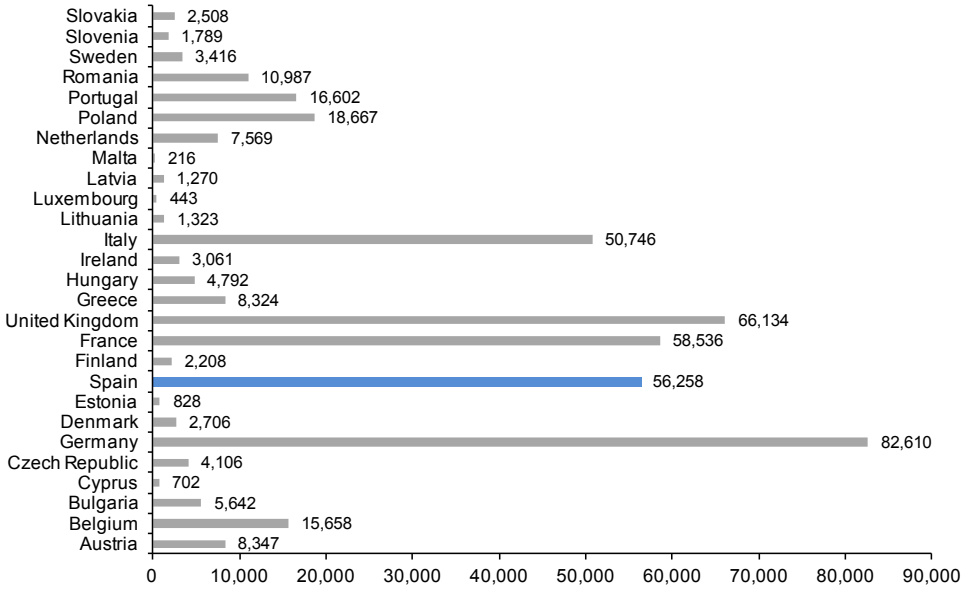
Retail payments in Spain and Europe

The previous section described the single payments area process of homogenization of technical standards. In any event, it is important to bear in mind that there are significant differences remaining in retail payment systems in the EU in terms of the infrastructure and the use of different payment instruments and, in particular, regarding card payments. The Spanish case is an interesting one as it has shown significant development in terms of infrastructure compared to European peers while the transition from paper-based to electronic-based payments is on-going.

Exhibits 1 and 2 show the number of automated teller machine (ATM) and point of sale (POS) terminals for the use of cards in the EU as of 2012. Spain had 56,258 ATMs in 2012 and only Germany (82,610), the United Kingdom (66,134) and France (58,536) have a larger ATM network

Exhibit 1

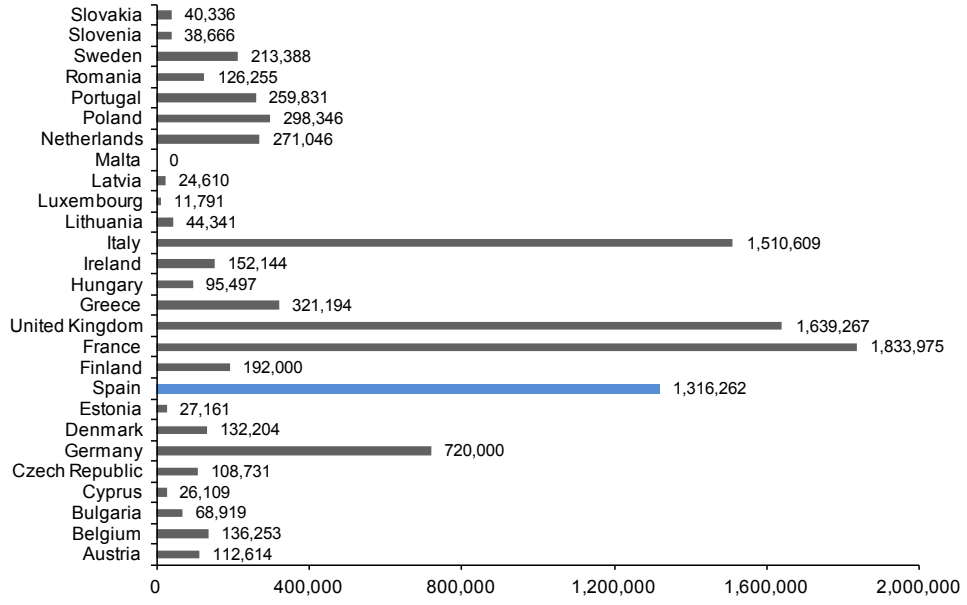
Number of ATMs in the EU (2012)



Source: European Central Bank and own elaboration.

Exhibit 2

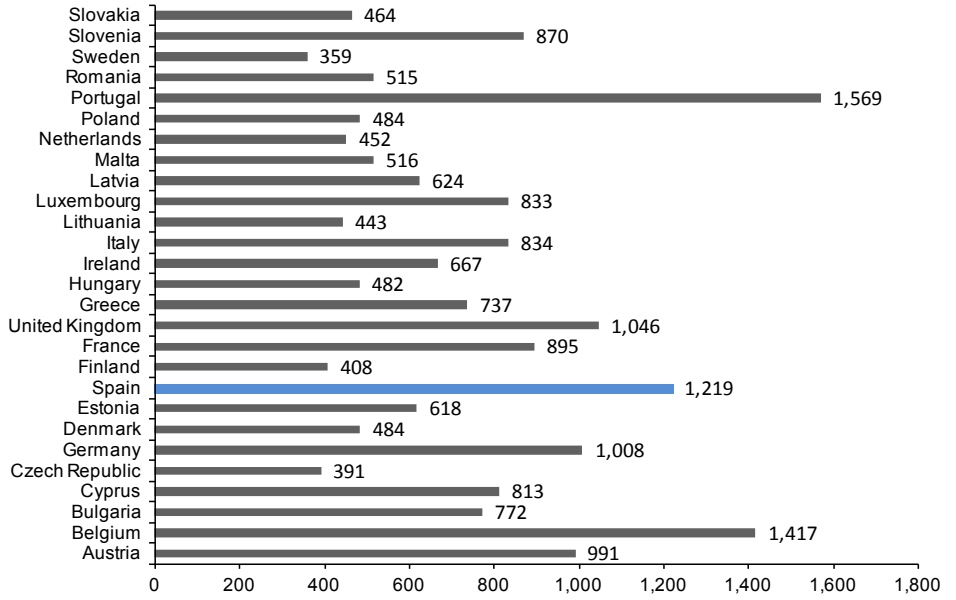
Number of POS in the EU (2012)



Source: European Central Bank and own elaboration.

Exhibit 3

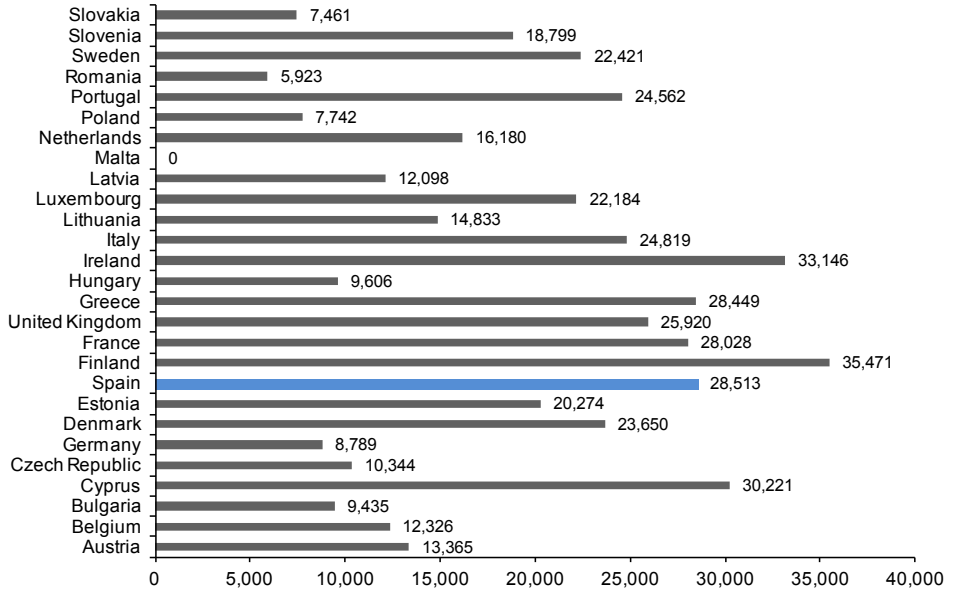
ATMs per million inhabitants in the EU (2012)



Source: European Central Bank and own elaboration.

Exhibit 4

POS per million inhabitants in the EU (2012)



Source: European Central Bank and own elaboration.

in the EU. As for POS terminals, Spain with 1.3 million also has the fourth largest network after France (1.8 million), the United Kingdom (1.6) and Italy (1.5).

The relative importance of the Spanish network of ATM and POS machines can be better observed when these figures are expressed in terms of units per inhabitants. In particular, the ratio ATM per million inhabitants (Exhibit 3) was 1,219 in Spain in 2012 and only Portugal shows a higher ratio (1,569).

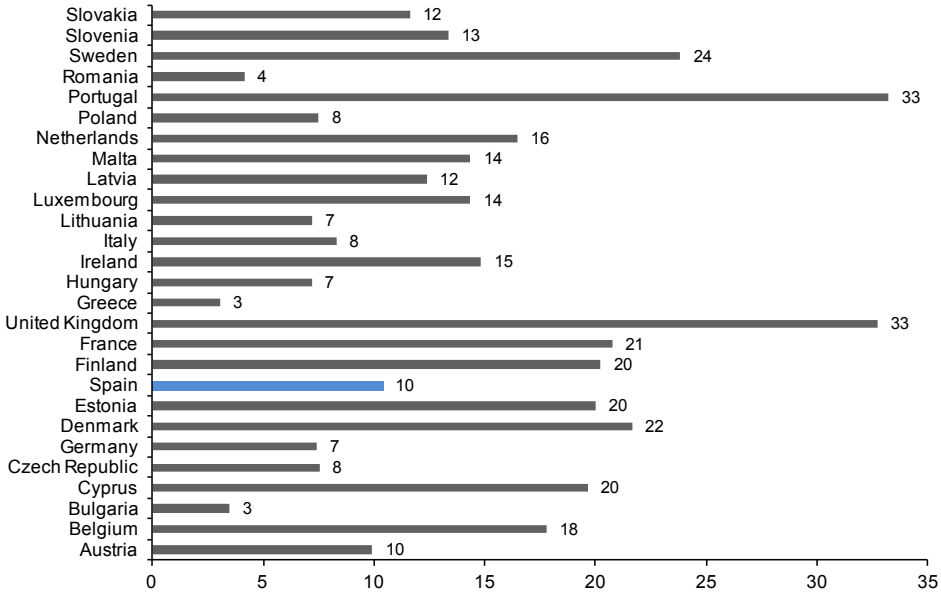
Similarly, the ratio POS per million inhabitants (Exhibit 4) was 28,513 in Spain in 2012, only lower than that of Finland (35,471), Ireland (33,146) and Cyprus (30,221).

However, even if Spain has deployed one of the largest networks for card use in Europe, the use of cards still remain at an average EU level. In particular, the value of card payment transactions as a percentage of GDP was 10% in 2012. In other countries, such as the United Kingdom or Portugal, the use of cards exceeds 30% of GDP while in others such as Sweden, France, Finland or Denmark it is larger than 20% (Exhibit 5).

Spain shows a larger development compared to European peers in the use of banks as conduits for their payments. In particular, where direct debits (mainly to pay receipts) are concerned. Direct debits represented 42% of total bank transfers in Spain in 2012. The ratio is only larger in Germany (48%), another country where the use of other payment instruments (such as cards) is not among the largest in the EU either (Exhibit 6). However, other electronic transactions through banks, such as credit transfers (channeling funds between accounts) are only 15% of bank transfers in Spain. The weight of credit transfers is larger in Eastern EU countries and in particular in Bulgaria where they reached 82% in 2012 (Exhibit 7).

Exhibit 5

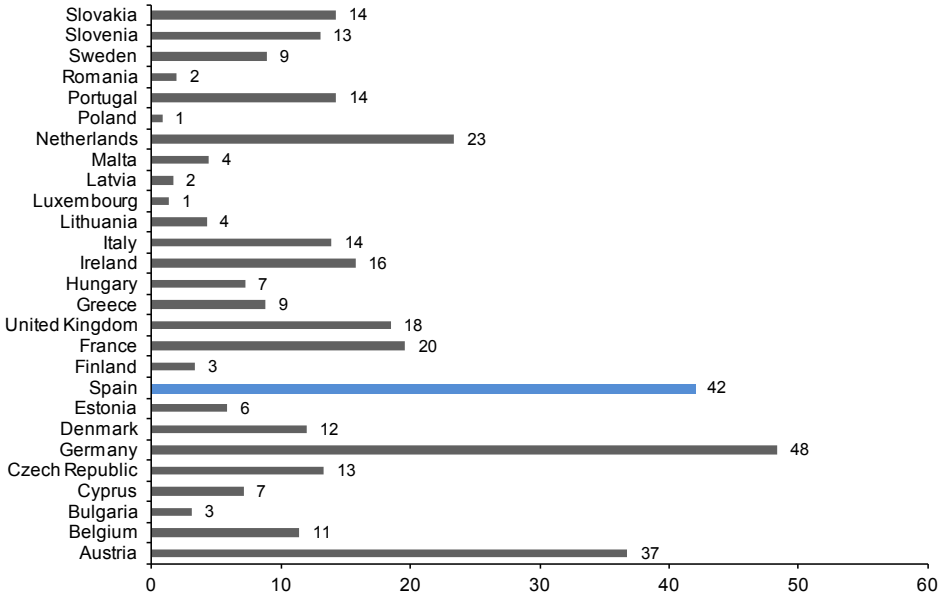
Card transactions in the EU (2012)
(percentage of GDP)



Source: European Central Bank and own elaboration.

Exhibit 6

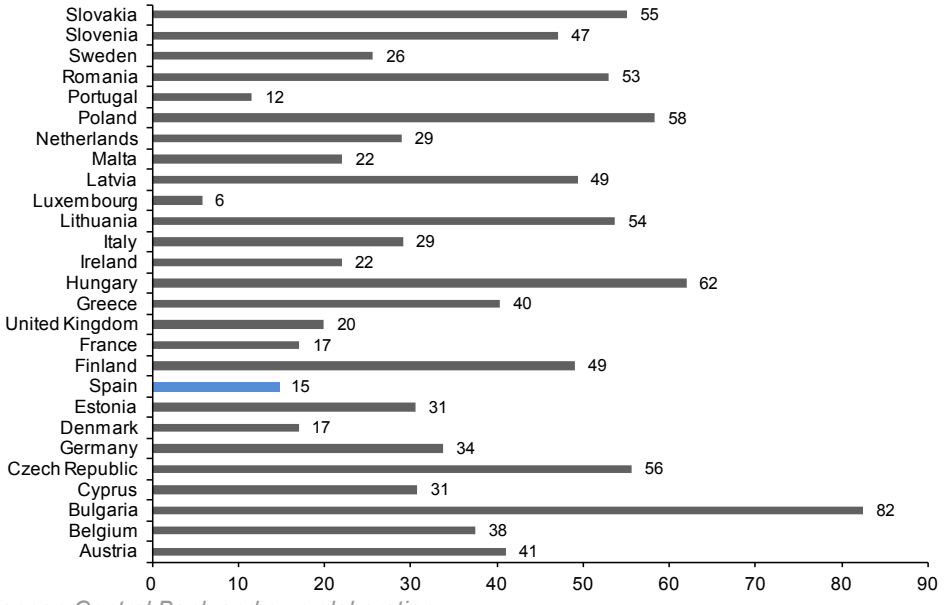
Weight of direct debit on total electronic bank transfers in the EU (2012)
(percentage)



Source: European Central Bank and own elaboration.

Exhibit 7

Weight of credit transfers on total electronic bank transfers in the EU (2012)
(percentage)

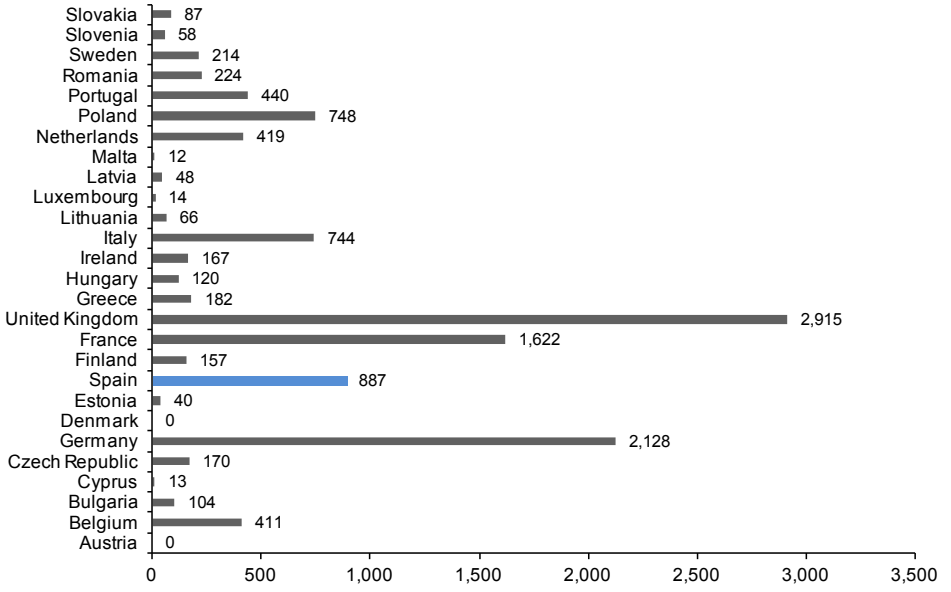


Source: European Central Bank and own elaboration.

Exhibit 8

Number of cash withdrawals at ATMs in the EU (2012)

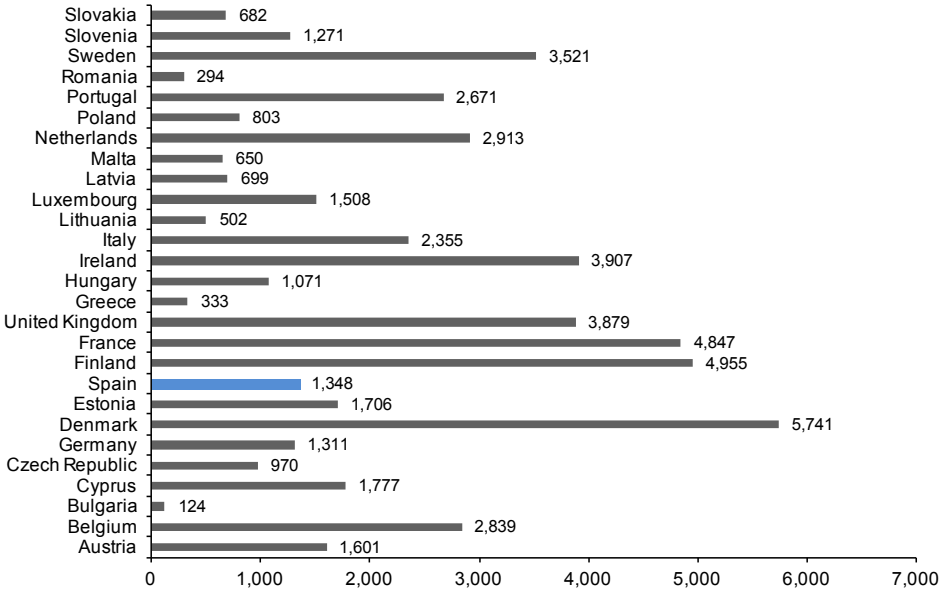
(million)



Source: European Central Bank and own elaboration.

Exhibit 9

Value of POS transactions per card in the EU (2012)



Source: European Central Bank and own elaboration.

One of the reasons to explain the relatively lower weight of card payment transactions in Spain is the alternative use of cards as a device for cash withdrawals at ATMs. Exhibit 8 depicts the number of cash withdrawals at ATMs. There were 887 million transactions in 2012, an absolute figure that was only larger in the United Kingdom (2,915 million), Germany (2,128 million) and France (1,622 million). This explains, to some extent, the relatively lower value of card transactions at the point of sale (Exhibit 9). The total value of POS transactions per card was 1,348 euros in Spain in 2012, considerably lower than in Denmark (5,741), Finland (4,955), France (4,847), Ireland (3,907) and the United Kingdom (3,879). One of the reasons that explain such differences is the importance of bank branches in Spain and the large availability of branches and ATMs in the country. Precisely, ATMs were first deployed as a way of moving some cash-management related bank services out of the branch and they were developed in parallel to POS machines. However, the aim of POS machines is to promote cashless payments and, therefore, these conflicting goals for ATMs and POS may overlap for some time.

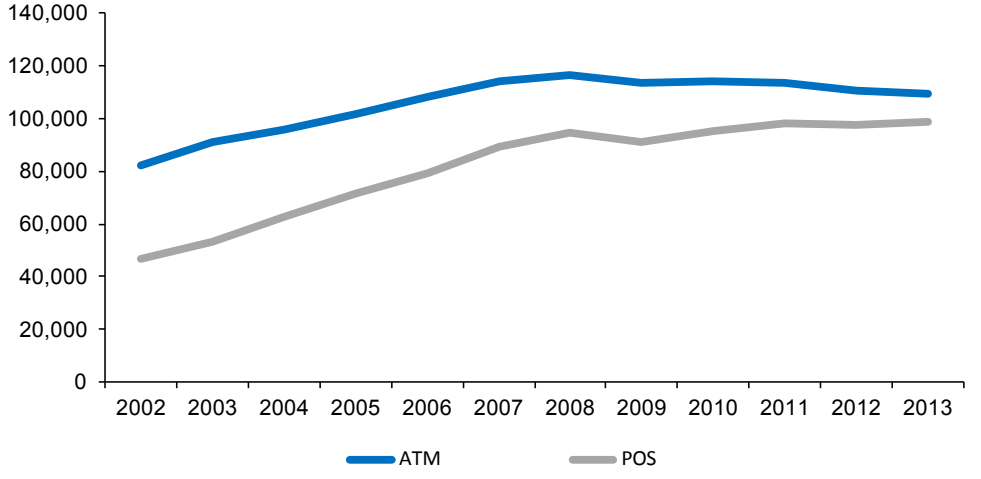
The case of payment cards in Spain: Impact of the crisis and recent developments

In this section, we specifically focus on Spain with the aim of examining the evolution of payment cards in the last few years, including the impact of the crisis and some recent regulatory developments.

Exhibit 10 shows the value of transactions at ATM and POS terminals in Spain from 2002 to 2013. Over this eleven year period, the value of POS transactions has doubled, from 46.8 billion euros to 98.5 billion euros. The value of transactions at ATMs was 1.3 times larger in 2013 than in 2002 and it reached 109.2 billion euros in 2013. While the impact of the crisis seems clear on ATM transactions (continuously falling since 2007), the value of POS purchases with cards only fell in 2009. If the same path continues –and considering the impact of SEPA on card use– one might expect the value of POS transactions to exceed that of cash withdrawals by 2017.

Exhibit 10

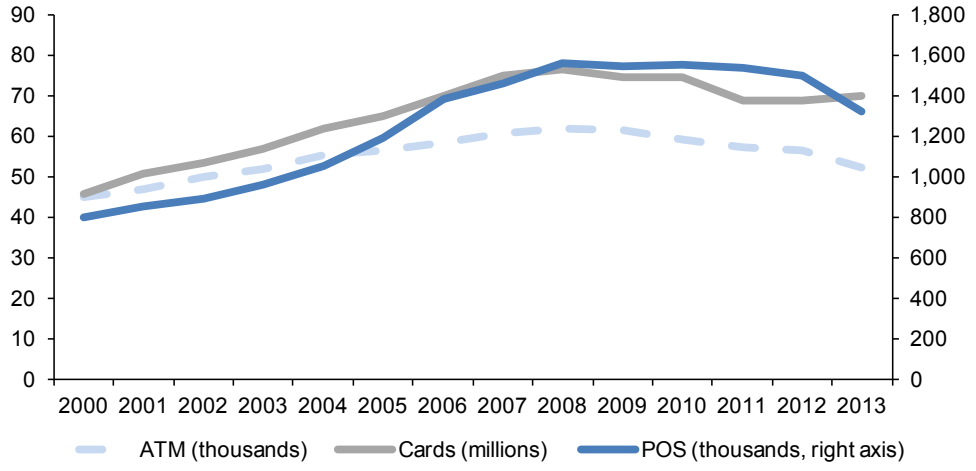
Value of transactions at ATM and POS terminals in Spain (million euros)



Sources: Bank of Spain and own elaboration.

Exhibit 11

Number of ATMs, EFTPOS terminals and cards in Spain
(million euros)



Sources: Bank of Spain and own elaboration.

As for the infrastructure, the intense consolidation and closing of branches during the bank restructuring process since 2009 has also affected the number of cards, ATMs and POS machines (Exhibit 11). In particular, the number of ATMs has decreased from 61,400 in 2009 to 52,200 in 2013. POS terminals reached their peak in 2010 at 1.55 million and have then fallen to 1.32 million in 2013.

One of the main features regarding the setting of incentives for higher card use in Spain has been pricing regulation. Lowering interchange fees may induce more merchants to start accepting payment cards. However, this would also increase cardholder fees, possibly causing a decrease in card use. The level of the interchange fee has thus received substantial international attention.

One of the main features regarding the setting of incentives for higher card use in Spain has been pricing regulation. This is a polemic issue internationally. The main disagreements stem from the network structure of the payment card market, where there is not only one single buyer and seller. Payment card networks are comprised of consumers, their financial institutions (known as issuers), merchants, their financial institutions (known as acquirers) and a network operator or platform. A consumer makes a purchase from a merchant. Generally, the merchant charges the same price regardless of the type of payment instrument used to make the purchase. Consumers often pay annual membership fees to their financial institutions for credit cards and may pay service charges for a bundle of services associated with transactions accounts including debit card services. Merchants pay fees known as merchant discounts. Acquirers pay interchange fees to issuers. Economic theory regarding interchange fees predicts that by lowering the interchange fees, some merchants not currently accepting card payments may start to accept them. However, lowering interchange fees would increase cardholder fees and, consequently, some of them may abandon their payment cards

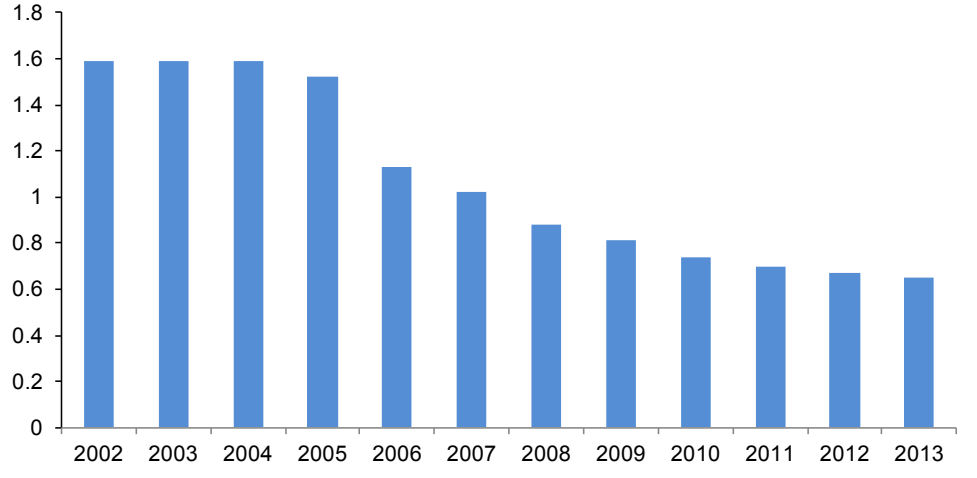
or use them less frequently. In general, there is no consensus in the literature on what is the optimal level of interchange fee. This fact is very relevant because these fees are highly correlated to those charged to merchants and to cardholders. The only consensus is that the optimal interchange fee (and consequently merchant fee) is not zero. The level of the interchange fee has received substantial international attention. For example, the Dodd-Frank Wall Street Reform in the U.S. gives the Federal Reserve the authority to regulate U.S. debit card interchange fees to promote a more efficient retail payment system. The Reserve Bank of Australia regulated interchange fees in 2002 after concluding that consumers did not face the correct incentives to use the most efficient payment instrument. The European Commission in 2007 ruled that MasterCard's interchange fees violated the EU's antitrust laws. Alternatively, the reduction in interchange fees may also occur without regulatory intervention as occurred in the United States when card networks convinced large department stores and grocery stores to accept payment cards by reducing interchange fees which resulted in lower merchant fees. This has also been traditionally the case of Spain. In particular, since December 2005, when the Spanish government promoted an agreement between payment networks and merchant associations to establish a timetable to progressively reduce interchange fees from 2005 to 2009, with different schedules for debit and credit cards. Average debit card interchange fees declined from 0.39 to 0.31 euros/transaction from 2005 to 2009, while the average credit card interchange fee fell from 1.23 to 0.67%.

However, most recently, following the EC 260/2012 SEPA regulation discussed above, the Spanish government has decided to decrease interchange fees on credit and debit cards. In particular, the banks will be limited to charging a maximum of 0.2% in the case of debit cards and 0.3% in the case of credit cards. This should also reduce merchant fees, which currently average 0.65%, as shown in Exhibit 12.

It is unclear what the effect of such reductions will be. In theory, the decision tries to follow the logic that suggests that interchange fees should be close to the marginal costs of the service, but this cost is very difficult to estimate in practice. At the same time, the industry has made

Exhibit 12

Average merchant discount fees for card purchases in Spain (2002-2013)
(percentage)



Sources: Bank of Spain and own elaboration.

substantial investments in payment infrastructure, as shown in this article, and only a significant increase in card use for purchase transactions can compensate the effect of a reduction in fees. However, calculating this effect is also difficult in an environment in which the effects of the crisis on the use of cards cannot be separated from the effect of the reduction of the fees themselves.

In any event, with this reduction in fees, Spain has anticipated implementing the provisions of EC 260/2012 regarding interchange fees.

Spain's external investment: Impact of the crisis

Sara Baliña and Ángel Berges[1]

Decreased new foreign investment flows, together with the falling value of past investments as a result of the crisis, is undermining Spain's external asset position, limiting the improvement in the international investment position, and constraining capital revenue received from the rest of the world.

Since the birth of the euro, Spain's economy has been boosted by a substantial increase in foreign asset purchases, mainly through foreign direct investment (FDI). As a result of the internationalization process, the value of Spain's financial assets abroad rose from 350 billion euros at the end of the nineties to above 1.3 trillion euros in 2007. The recent financial crisis substantially slowed down Spain´s investment flows abroad during two clearly distinct phases: i) the first from 2009-2010; and, ii) the second, which began in early 2013 and continues at present, where divestment, coupled with the negative valuation effect, resulted in the largest downturn of the external investment position in the last two decades. Since 2012, FDI flows have begun to slow down, but the reduction of short term bank financing, affected by financial sector deleveraging, has led the decline. Capital revenues from external investments have also decreased, posing a risk to Spain´s external surplus through a deteriorating income balance. Going forward, the need to rationalize investment decisions in the post-crisis environment will constrain the recovery of Spain´s investment flows abroad. Nonetheless, Spanish corporates should take the lead in reviving external investment, as the domestic market now offers fewer growth opportunities.

The internationalization process before the onset of the crisis

As in most economies, the first phase of Spain's internationalization first manifested itself through a substantial opening up to trade upon the country's accession to the EU in 1986. The total volume of imports and exports of goods and services represented 36% of GDP in that year, but had climbed to 60% by the start of the 21st century.

The birth of the euro, with the resulting gains in the credibility of monetary policy, the convergence of nominal interest rates of member countries of the euro area and the disappearance of exchange rate risk in transactions between euro area countries, were the drivers for the financial internationalization of the Spanish economy.

Between 2000 and 2007, Spain purchased financial assets in the rest of the world amounting to an average of 134 billion euros a year.

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

The fact that the euro area was founded in the midst of intensifying financial globalization at a worldwide level –characterized by the deregulation of financial transactions and an increase in cross-border capital flows– was a further incentive for export firms or firms with a competitive edge domestically to either stake out or expand their positions in the international market. They did so mainly through different forms of foreign direct investment.

The net flows of asset acquisitions of Spain abroad reflect this process. According to data in the Financial Balance Sheet of the Bank of Spain, between the years 2000 and 2007, the Spanish economy purchased an average of 134 billion euros in financial assets a year in the rest of the world (i.e., about 16% of GDP), and these transactions show notable stability throughout the period. Some 40% of investment took the form of FDI decisions carried out mainly by non-financial companies, through the total or partial (yet targeted at gaining control) acquisition of foreign companies.

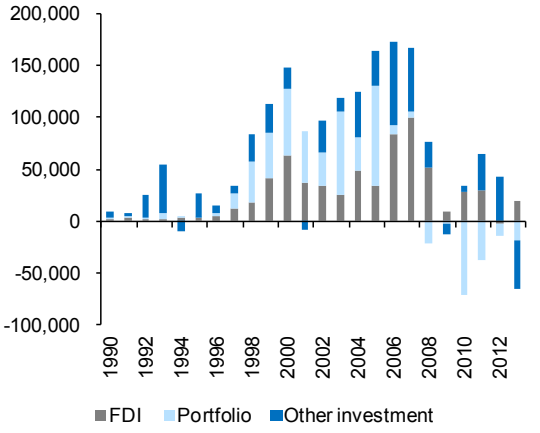
Portfolio investments also accounted for a good deal of Spain's foreign investment flows in the expansion years, with some of these amounting to more than 60% of the total. Even where the financial sector has carried a larger relative weight than FDI in such investment decisions, the corporate sector again generated the bulk of portfolio investments through the purchase of minority shareholdings or stakes (the minority nature of these acquisitions explains why they are not considered an FDI decision).

Short-term bank financing granted to foreign counterparties in the form of either loans or deposits classified as "other investment" show a more volatile profile, but these became emblematic in the years immediately prior to the 2008 financial crisis. Such financing arose from the expansion of interbank lending that went along with the growth of private borrowing.

Exhibit 1a

Investment flows from Spain by type of external financial asset

(millions of EUR)



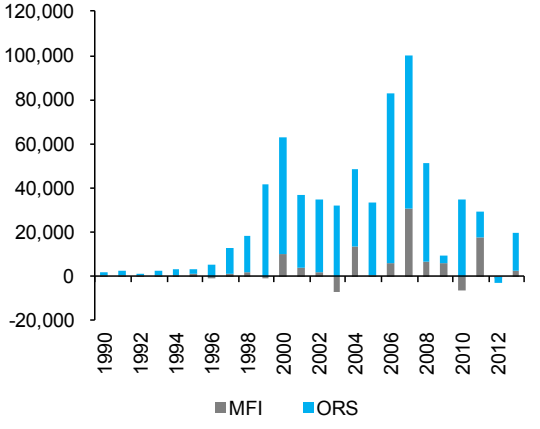
Sources: Bank of Spain, AFI.

As a result of the internationalization process, the value of Spain's financial assets abroad rose from 350 billion euros at the end of the nineties to above 1.3 trillion euros in 2007, where changes

Exhibit 1b

FDI flows from Spain by sector

(millions of EUR)



Notes: MFI: Monetary financial institutions; ORS: other resident sectors (enterprises).

Sources: Bank of Spain, AFI.

in investments' valuations had a minimal impact. This valuation effect is revealed when comparing the net acquisitions of financial assets of the economy as a whole, according to the Financial Accounts, with the year-on-year change in the value of external assets, according to the International Investment Position.

Taking into account the high current account deficit in the decade of 2000 (nearly 10% of GDP), the external borrowing raised by Spain was allocated not only to financing domestic investment spending not covered by national savings, but also a sizable portion of the purchases of financial assets in the rest of the world.

Aside from the reliance on borrowing that often enabled the purchase of equity stakes abroad, in the context of abundant liquidity, easy access to credit and good business expectations, the increasing financial internationalization had the following consequences: (i) an expansion in the stock of FDI abroad; and (ii) capital revenue from these investments that fed the revenue side of the income balance.

With regard to the former, the value of Spain's FDI amounted to nearly 400 billion euros in 2007 (37% of GDP) when it had been barely 52 billion euros in 1998, or less than 10% of GDP. Spain's stock of FDI in proportion to the size of its economy is similar to that of Germany, and larger than that of countries like the US or Italy.

Hence, it is useful to take note of the nature of the FDI flows from Spain in this period. In the first phase of Spanish companies' international expansion – from the late nineties until 2001-2002 – the majority of FDI was destined towards Latin America and, in particular, to the energy and telecommunications sectors (as in the acquisition of the Argentinean firm YPF by Repsol in 1999). Issues of shares and equity holdings, along with the contracting of bank loans, served as the funding basis of FDI in those years.

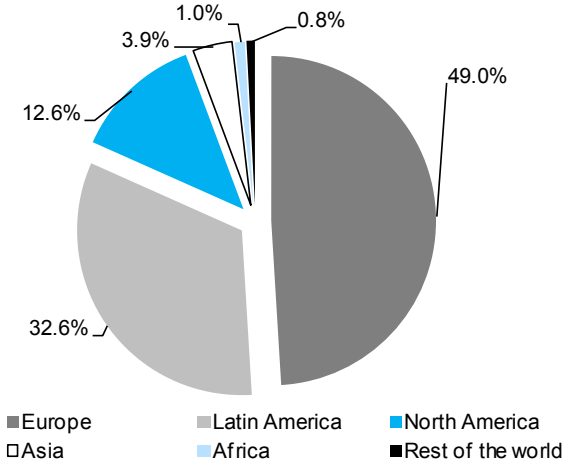
In the second phase between 2002 and 2007, the European Union replaced Latin America as the main destination of Spanish FDI, accounting for 64% of the total stock issued by Spain in 2007, according to Datainvex figures. The sector change was significant: industry and construction gained in relative weight, even though energy and telecommunications continued to account for a significant percentage of total investment. Telefónica's purchase of O2 and Iberdrola's acquisition of Scottish Power took place in those years. Reliance on borrowing, in the form of bond issues or the contracting of loans from the host banking sector, took the place of equity as the main funding source of FDI.

The reason for the persistent deficit in the income balance lies in the sizable amounts paid for the external borrowing undertaken, which nearly doubled the amount of such revenue in some years.

Exhibit 2

Spanish FDI stock in 2012 by geographic region

(% of total)

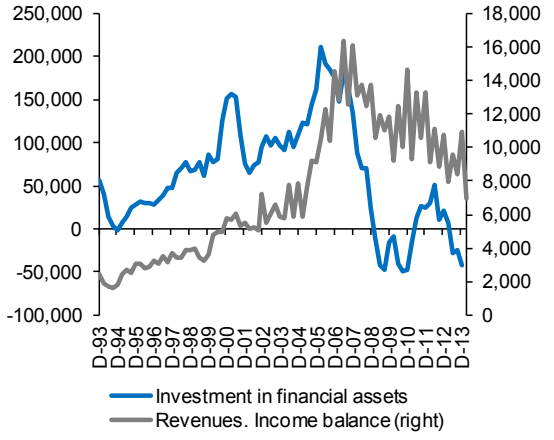


Sources: AFI, Datainvex.

Exhibit 3a

Net acquisition of financial assets by Spain abroad and revenue

(millions of EUR; quarter-on-quarter flows)



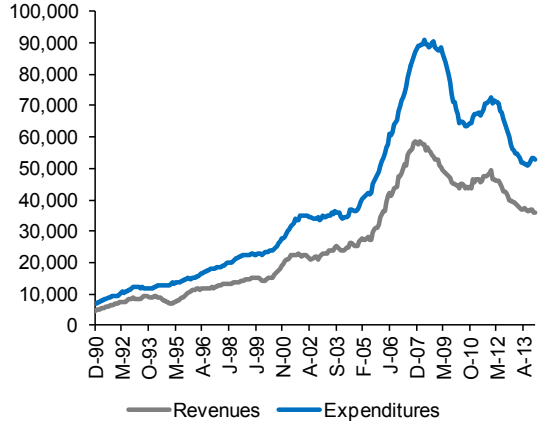
Sources: Bank of Spain, AFI.

With regard to the returns received by Spain on its foreign investments, the increase in capital revenues in parallel with the increase in net investment in financial assets is noteworthy. Given that wage income is minimal, the 42 billion euro increase in income received is reflected in capital returns. The reason for the persistent deficit in the income balance lies in the sizable amounts paid for the external borrowing undertaken, which nearly doubled the amount of such revenue in some years.

Exhibit 3b

Revenue balance of Spain

(millions of EUR; cumulative flows in last 12 months)



Sources: Bank of Spain, AFI.

The impact of the recent crisis on Spain´s external investment decisions

The financial crisis that emerged in 2008 substantially altered the decision-making process of Spanish companies with regard to investments abroad. The systemic nature of the crisis and the fact that two of the crisis' main symptoms were the closure of wholesale funding markets and the collapse of interbank liquidity channels explains the sharp slowdown in Spain's investment flows. As in the expansion period, most economies were affected by this dynamic, but it was much more acute in economies that relied more heavily on bank financing, carried a high current account deficit and that sustained more significant private borrowing levels, as was the case of Spain.

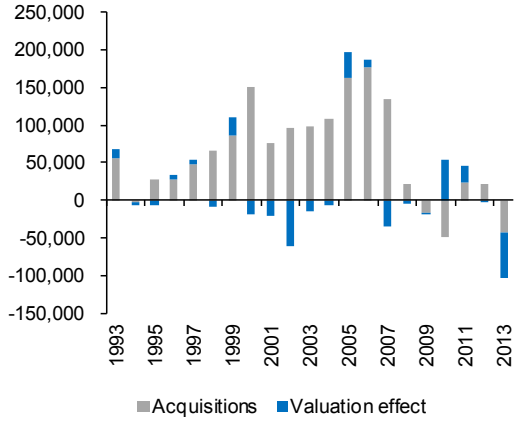
In Spain, the process of declining investment abroad underwent two clearly distinct phases: the first was in 2009-2010, when the cumulative volume of divestments over the two year period amounted to 64.5 billion euros; and, the second which began in early 2013, and is on-going. One of the key differences between them is that, in the first, the rising valuation of assets abroad offset a good deal of the impact of divestment in the total asset position; whereas, in the second, net asset sales have combined with a fall in assets' value (negative "valuation effect"). Indeed, Spain's external investment position registered the largest downturn in the last two decades – 102 billion euros –, thus accounting for the 60% loss in value in the correction.

Another difference between the phases relates to the nature of the divestment flows. In 2009-2010, these mainly took the form of portfolio investment

Exhibit 4a

Change in value of Spain's financial assets abroad: Net acquisition of assets and valuation effect

(millions of EUR)

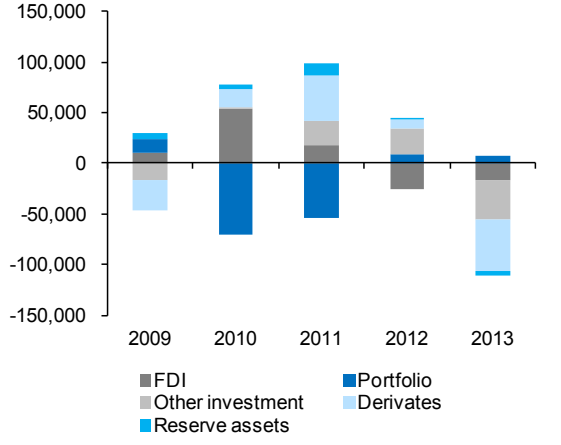


Sources: Bank of Spain, AFI.

Exhibit 4b

Year-on-year change in value of Spain's financial assets abroad, by investment type

(millions of EUR)



Sources: Bank of Spain, AFI.

decisions. Since 2012, FDI flows have begun to slow down, although positions in derivatives and short-term bank financing ("other investment") have led the retreat.

Since 2012, FDI flows have begun to slow down, although positions in derivatives and short-term bank financing have led the way in Spain's divestment abroad.

Again, we must distinguish between the causes of the downturn in Spain's investments in recent quarters. As shown in the exhibits below, the deepening process of deleveraging of the banking sector explains the unwinding of short-term financing positions reflected in "other investment" and that, in the final analysis, are related to deposit or repo operations. Sales of foreign debt portfolios (public or private) by financial institutions also account for a portion of Spain's net divestment abroad.

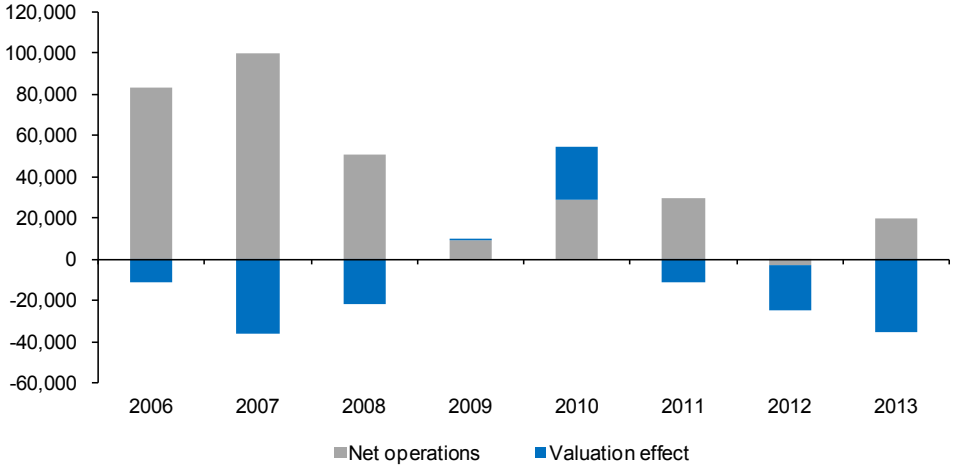
With regard to FDI, the negative valuation effect is determining the value of Spanish such assets: following the 2012 downturn, new flows – mainly non-share ownership interests and withheld profits – have managed to recover, although they remain far below the volumes of 2006-2008. FDI investment will be constrained by delays in decisions on international expansion owing to the duration of the recent crisis and the loss of momentum in some emerging economies receiving Spanish financial flows.

Income from capital revenue is suffering from the slowdown in external investments.

The counterpart to this dynamic is the slowdown in capital revenue received by Spain from its external investments that, at the same time, is affected by the downturn in returns in the bulk of fixed income assets. As against an average of 45 billion euros a year between 2009 and 2012, revenue amounted to 36.8 billion euros in 2013, a trend that is becoming stronger at the start of

Exhibit 5

Year-on-year change in FDI asset position of Spain abroad
(millions of EUR)



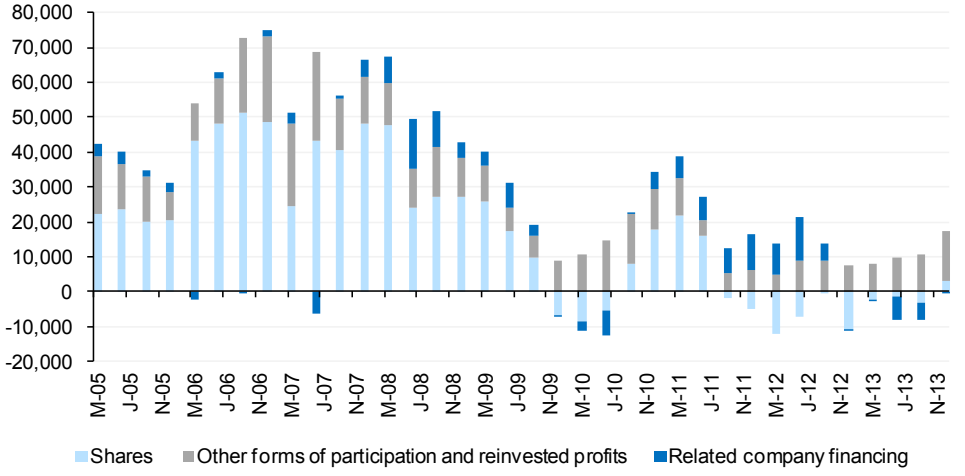
Sources: Bank of Spain, AFI.

2014. In the first quarter of this year, revenues amounted to 6.9 billion euros, which is one billion less than in the same period of 2013. Taking into account that revenue payments abroad are not declining at the same pace, the deficit in the income balance has been increasing since late 2013, and it now stands at about 17 billion euros (1.7% of GDP).

A good performance of the income balance is a key factor in achieving sustainable improvements in Spain's external surplus. The reversal of the

Exhibit 6

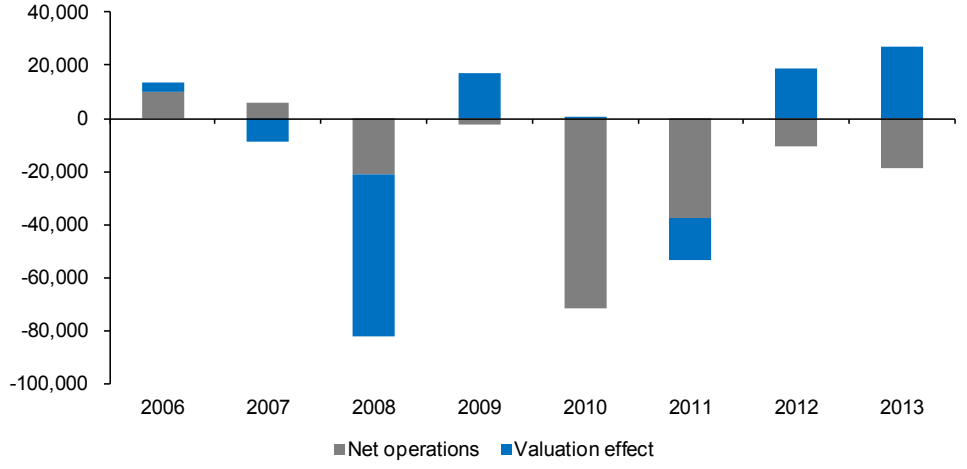
FDI flows of Spain abroad by instrument type
(millions of EUR; cumulative flows in last 12 months)



Sources: Bank of Spain, AFI.

Exhibit 7

Year-on-year change in asset position in Spain's portfolio investment abroad
(millions of EUR)



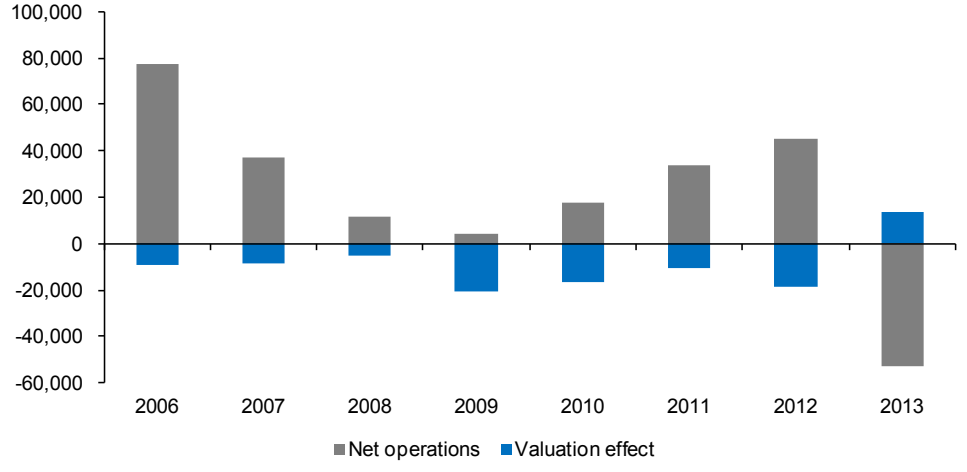
Sources: Bank of Spain, AFI.

current account balance from negative to positive from mid-2013 was the result of strict containment of the trade deficit and an increase in the services surplus brought about by a strong recovery in foreign tourism and the momentum of non-tourist service exports – business, financial and transport services, etc., but it may be hurt by the worsening income balance.

A breakdown of the current account balance into its structural and cyclical components reveals that a good deal of the relative improvement

Exhibit 8

Year-on-year change in asset position in Spain's "other investment" abroad
(millions of EUR)

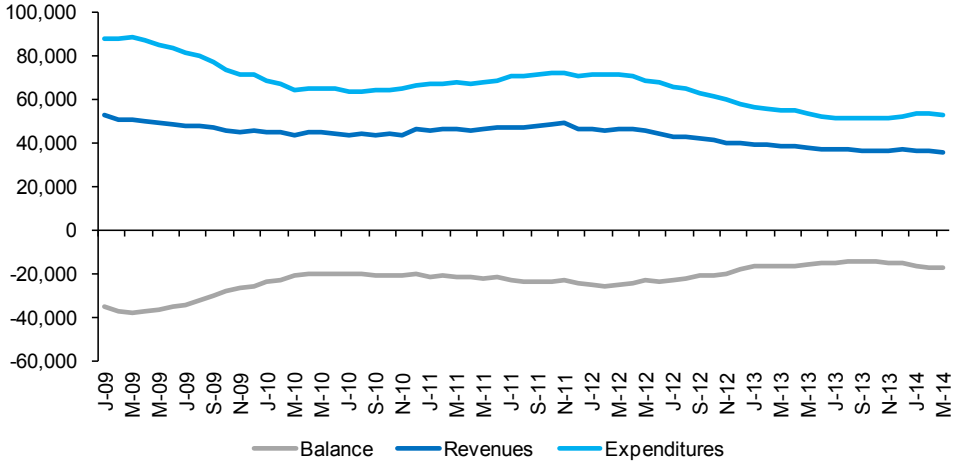


Sources: Bank of Spain, AFI.

Exhibit 9

Income balance of Spain

(millions of EUR; accumulated flows in last 12 months)



Sources: Bank of Spain, AFI.

seen during the crisis was structural, or long-term in nature; that is, it was driven by an ongoing convergence of the investment rate in fixed assets and the bank credit-to-GDP ratio at more sustainable levels. However, the severity of the economic recession also gives the cyclical component a key role in altering Spain's external position. As the upturn in activity that began in late 2013 further consolidates, the trade deficit will tend to deteriorate from current levels owing to the high degree of sensitivity still shown by goods exports to the stabilization of domestic demand and to the growth of exports. The margin for further increases in the services surplus is also limited. Consequently, a steeper downturn in income would tend to undermine the consolidation of the Spanish external surplus.

Conclusions

The need to streamline new investment decisions, in some cases, and – in many others - to reduce the size of the balance sheet, will continue to constrain the recovery in Spain's financial investment flows to the rest of the world, particularly in investments that entail a permanent presence in the destination country. At the same time, the reorientation of banking business strategies at a European-wide level – and especially in Spain – more towards traditional financing and with a lower relative weight of wholesale funding, will continue to determine the performance of investments in the near term. It is foreseeable, moving forward, that the bulk of net acquisitions of financial assets in the rest of the world will rely on the generation of domestic savings, and make less use of external financing as a source of funding for international expansion. In any event, companies in sectors whose presence abroad has already been consolidated and that present a positive business outlook should end up taking the lead in reviving external investment, given that the domestic market will offer fewer growth opportunities than in the recent past.

Budgetary stability in the autonomous regions: Beyond constitutional reform

Violeta Ruiz Almendral[1] and Alain Cuenca[2]

Recent measures taken during the crisis in 2012 and 2013, aimed at fiscal consolidation, have helped rein in the regions' deficits. At the same time, however, they have also facilitated regional borrowing, resulting in higher debt levels and increased risks to future financial sustainability.

The approval of the Organic Law on Budgetary Stability and Financial Sustainability introduced a series of measures, which greatly strengthened the autonomous regions' budgetary stability framework and improved international perceptions of the overall sustainability of Spain's public accounts. The main measures as regards budgetary stability include: i) an increase in the central government's powers; ii) clarification of scope; iii) greater detail on key principles, such as the structural deficit and debt limits; iv) establishment of public expenditure limits; and, perhaps most importantly, enforcement mechanisms. While the new law appears to have been successful in reducing regional deficits, their levels of debt have increased. The excess of regulation and the new bail-out instruments created have facilitated regional borrowing and thus have now become a future cause for concern.

The reform of Article 135 of the Spanish Constitution (CE) on September 27th, 2011, famously enshrined the principle of budgetary stability in the Constitution. This represents the culmination of a budgetary consolidation process that had begun back in the 1990s, and which made further progress with the passing of the first budgetary stability laws in 2001, and their reform in 2006. Organic Law 2/2012, April 27th, on Budgetary Stability and Financial Sustainability (LOEPSF in its Spanish initials) develops Article 135 CE, upholding the existing "internal stability pact". Before the Constitutional reform, the Constitutional Court had already confirmed the compatibility of the previous stability framework with the Constitution, [Opinion 134 - July 20th, 2011] (see Ruiz Almendral, 2013).

Organic Law on Budgetary Stability and Financial Sustainability

The measures included in the LOEPSF grant the status of organic law to a large portion of the agreements of the Fiscal and Financial Policy Council. These agreements, adopted in 2010, had been applied unevenly by the autonomous regions. The agreements did, however pave the way for a new model of regional budgetary stability coordination, which, in hindsight, probably

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[2] University of Zaragoza and FUNCAS.

failed to yield the desired results (see Cuenca, 2012). The LOEPSF's main characteristics and innovations with respect to the preceding legal framework were:

- Reinforcement of the State's powers in relation to budgetary stability. The LOEPSF comes directly under Art. 135 CE, without therefore alluding to the enabling provisions of Art. 149.1 CE that, according to Constitutional Court case law (STC 134/2011, July 20th, 2011, and STC 120/2012, June 5th, 2012, to cite just two recent examples) could support this authority. However, under this same doctrine, Art. 135 CE does not grant authority, but merely upholds the authority of the State on this matter (STC 157/2011, October 18th, 2011, FJ 1).

- Clarification of the scope of application of the rules, with reference to the European System of National and Regional Accounts approved by Regulation (EC) 2223/96 of the Council, June 25th, 1996.

- In terms of the principles, what is new is the greater degree of detail given in the LOEPSF. The new law defines the principle of budgetary stability in the same terms as before, but whereas the previous budgetary stability legislation (LEP) refers expressly to the European legislation, the new law mentions the principle of "structural deficit" (Art. 3). The LOEPSF adds a new principle referred to as the "Principle of financial sustainability" (Art. 4): which *"is understood to be the capacity to finance current and future expenditure commitments within the public debt and deficit limits, as established in this Law and in European legislation."*

  There is now a debt ceiling that, in line with the European legal framework, may not exceed 60% of GDP. This will be spread across the levels of government such that 44% will be available for the central government; 13% for the autonomous regions, both as a whole and individually; and 3% for local authorities. Nevertheless, although not expressly stated in Article 135 of the Constitution, the seventh final provision of the LOEPSF postpones the entry into force of the debt limits until January 1st, 2020.

- Introduction of the limit on the structural deficit. Although it is not due to come into effect until 2020, it is stated as follows (Art. 11.2): *"No public administration may incur a structural deficit, defined as a deficit adjusted over the cycle, net of exceptional and temporary measures. Nevertheless, in the case of structural reforms with long-term budgetary effects, in accordance with European legislation, a structural deficit of 0.4 percent of Gross Domestic Product expressed in nominal term, or that established in the European legislation, if lower, may be reached."*

- Limits on public expenditure. Binding rules applicable to all public bodies have been introduced limiting expenditure so as to contain its growth (Art. 12) and place a limit on non-financial expenditure in the budget (Art. 30).

Perhaps the most significant feature is that Chapter IV of LOEPSF sets out a prevention, correction and enforcement mechanism that is similar in form to the European system. This creates a genuine control framework, with potential penalties. However, as it has yet to be applied, it is too soon to assess its impact.

- Enforcement mechanisms. Perhaps the most significant feature is that Chapter IV of LOEPSF sets out a prevention, correction and enforcement mechanism that is similar in form to the European system. There is therefore a "preventive" phase, which implies a limit on borrowing (Art. 18), as an "automatic" preventive measure, and "warning" of the risk (Art. 19), which will be made public, requiring the administration concerned (regional or local) to adopt "the necessary measures to prevent

the risk" within one month. If it fails to do so, or if these measures are considered inadequate, the "corrective measures" [Arts. 20, 21, and 25(1) a] will come into effect. As in the case of the "preventive" phase, the "correction" phase also begins with the adoption of "automatic" corrective measures (Art. 20), which include the submission of "economic-financial" plans and "rebalancing." Finally, the "enforcement" and "obligatory" measures (Arts. 25 and 26) imply the imposition of penalties. This creates a genuine control framework, with potential penalties. However, as it has yet to be applied, it is too soon to assess its impact.

In addition to the LOEPSF, Art. 135 CE has been implemented by a second law, Organic Law 6/2013, November 14th, 2014, creating the Independent Fiscal Responsibility Authority (LOAIRF).

The connections between the LOEPSF and the European legal framework stand out, comprising on the one hand the Treaty on the Functioning of the European Union (TFEU), and on the other, seven Regulations and a Directive (the so-called "six pack" and "two pack"). However, beyond those mentioned in the preamble to the Organic Law on Stability, the technical articulation of the stability control procedures has little to do with the European legal framework, among other reasons because the latter hinges on a system of checks and balances, applied by the Commission and the Council. In other words, European budgetary discipline is applied by Member States to themselves (although not in all the phases). By contrast, the legal framework envisaged in LOEPSF largely depends on–and is applied by–the Ministry of Financial Affairs and Public Administration, with some participation of the Fiscal and Financial Policy Council (CPFF), and barely any intervention from Parliament[3] (see Fabbrini, 2013).

These reforms merely confirm a process that has been under way since 1992, whereby the economic constitution of the Member States is now the European economic constitution. From that perspective, Art. 135 CE is just the formal culmination of the process of constitutional transformation of Title VII of the Spanish Constitution.

The legal framework just described has had implications for the autonomous regions' deficit and debt. If we compare the situations in 2012 and 2013 with 2011, the year of the constitutional reform, the deficit has been reduced in all the regions. This is largely attributable to the regulatory framework. However, the debt has risen in all of them. As Table 1 shows, after two years of application of the new LOEPSF, only the Madrid region and the Basque Country are complying with the limit set in LOEPSF.

Table 1

Deficit and debt by autonomous region
(% Regional GDP)

		2011	2012	2013	2014 (QI)*
Andalusia	Deficit/Surplus	-3.49	-2.07	-1.55	-0.40
	Debt	10.0	14.8	17.3	18.5
Aragon	Deficit/Surplus	-2.67	-1.46	-2.06	-0.45
	Debt	10.0	14.2	16.6	18.8
Asturias	Deficit/Surplus	-3.66	-1.01	-1.06	0.01
	Debt	9.5	12.2	14.2	15.9

[3] As is the case in other EU countries.

Table 1 (continued)

Deficit and debt by autonomous region
(% Regional GDP)

		2011	2012	2013	2014 (QI)*
Balearic Islands	Deficit/Surplus	-4.26	-1.84	-1.28	0.08
	Debt	16.6	22.3	25.3	27
Canary Islands	Deficit/Surplus	-1.53	-1.11	-1.00	0.10
	Debt	8.9	11.7	13.1	13.9
Cantabria	Deficit/Surplus	-3.66	-1.52	-1.00	-0.12
	Debt	9.9	16.2	17.6	18.5
Castile-Leon	Deficit/Surplus	-2.60	-1.39	-1.10	-0.19
	Debt	9.8	14.0	15.3	17.5
Castile-La Mancha	Deficit/Surplus	-8.11	-1.54	-2.13	-0.44
	Debt	18.5	28.2	31.5	33.5
Catalonia	Deficit/Surplus	-4.12	-2.23	-1.96	-0.37
	Debt	21.7	26.7	29.7	31
Valencia	Deficit/Surplus	-5.12	-3.94	-2.33	0.13
	Debt	21.0	30.2	32.8	34.8
Extremadura	Deficit/Surplus	-4.81	-1.03	-0.99	-0.69
	Debt	11.8	14.9	16.2	18
Galicia	Deficit/Surplus	-2.22	-1.28	-1.10	-0.26
	Debt	12.4	14.9	16.5	18.2
Madrid	Deficit/Surplus	-1.94	-1.06	-1.01	-0.37
	Debt	8.1	10.9	12.1	13.1
Murcia	Deficit/Surplus	-4.68	-3.18	-3.17	-0.36
	Debt	10.1	17.4	21.0	23.1
Navarre	Deficit/Surplus	-2.58	-1.73	-1.55	-0.24
	Debt	13.1	15.8	17.7	20.2
Basque Country	Deficit/Surplus	-2.72	-1.46	-1.08	0.13
	Debt	8.4	11.3	13.1	14.5
Rioja	Deficit/Surplus	-1.46	-1.16	-1.04	-0.24
	Debt	11.2	13.3	14.7	16
Total Autonomous Regions	Deficit/Surplus	-3.41	-1.86	-1.54	-0.25
	Debt	13.6	18	20.2	21.7

*Note: *The deficit data in Table 1 for 2014 refer to the first quarter only, and so are not comparable with the annual data for 2011, 2012, and 2013.*

Source: Ministry of Finance and Public Administration and Bank of Spain.

The above framework changed in 2012 and 2013, as the LOEPSF was amended on three occasions, by the following laws:

- Organic Law 4/2012, September 28th, 2012, amending Organic Law 2/2012, April 27th, 2012, on Budgetary Stability and Financial Sustainability (referred to here as LO 4/2012).
- Organic Law 6/2013, November 14th, 2013, creating the Independent Fiscal Responsibility Authority (referred to here as LO 6/2013).
- Organic Law 9/2013, December 20th, 2013, controlling public sector commercial debt (referred to here as LO 9/2013).

These amendments have substantially altered some of the aspects of the LOEPSF, making it worth briefly describing them here.

The aim of LO 4/2012 was to incorporate the financial support measures for the autonomous regions and local authorities that had been enacted (described in the next section of this article). Amendments were introduced to apply stricter fiscal discipline, together with mechanisms that imposed enhanced disclosure obligations for autonomous regions that decide to take part in what Law 4/2012 defines as "extraordinary liquidity mechanisms." These regions must submit monthly information on their accounts (rather than quarterly information as initially established in the LOEPSF). These mechanisms are only relatively "extraordinary", as the Law states, considering how the fourth transitional provision of the LOEPSF has been amended to allow the extraordinary liquidity mechanisms to be extended beyond 2012. They will, very likely, become permanent.

As a result of Organic Law 4/2012, the penalty system has also been made stricter. Thus, a mere risk of default on the payment of financial debt may be considered as seriously harming the public interest for the purposes of Art. 26 of LOEPSF, which in turn refers to the mechanism established by Art. 155 CE; an option by which the central government may in practice suspend autonomy. It has never been employed.

When the autonomous regions request access to the extraordinary support and liquidity measures from the State, they will have to accept an adjustment plan with the Ministry of Finance and Public Administration to ensure compliance with the budgetary stability and public debt targets. A genuine global bail-out mechanism has been put into place for the autonomous regions, in exchange for this control.

The cited additional financing mechanisms have a number of consequences. Firstly, they have increased net debt, as they will be included in the debt limit calculation. Secondly, they come with a lot of conditions attached, established in the new first additional provision of the LOEPSF. Thus, when the autonomous regions request access to the extraordinary support and liquidity measures from the central government (or if they did in 2012), they will have to accept an adjustment plan with the Ministry of Finance and Public Administration to ensure compliance with the budgetary stability and public debt targets.

A genuine global bail-out mechanism has been put into place for the autonomous regions, in exchange for enhanced control from the central government. All elements of this bail-out plan are to be made public, along with the timetable for its application, notwithstanding the autonomous regions' obligation to send information to the Ministry of Finance and Public Administration.

Failure to provide this information, an unfavourable opinion on it (presumably by the Minister of the Treasury) or the breach of the adjustment plan "will trigger the application of the enforcement

measures under Articles 25 and 26 envisaged in cases of breach of the Economic and Financial Plan." These penalty measures have been questioned by some critics, as well as by the Council of State, which in its opinion 164/2012, March 1st, 2012, on the draft bill for LOEPSF, has even questioned its compatibility with the Constitution.

LO 6/2013, has slightly modified the budgetary discipline control process, introducing checks at the various stages. This has meant an amendment to three articles of the Law (16, 17 and 23). Thus, the Independent Fiscal Responsibility Authority takes part in setting individual targets for autonomous regions (Art. 16), once approved by parliament in accordance with the procedure in Art. 15. It will also take part in preparing reports on the fulfilment of the budgetary stability, public debt and expenditure rule objectives referred to in Art. 17 of LOEPSF, and the approval and monitoring of economic and financial plans and rebalancing plans as referred to in Art. 23, which must now be presented "following a report by the Independent Fiscal Responsibility Authority."

LO 9/2013 substantially widens the scope of the application of the control and discipline framework. This law broadens the concept of sustainability, as stated by its preamble: "financial sustainability is not just the control over public financial debt, but control over commercial debt," focusing on public sector creditor protection, such that, it continues, "this reform expands the concept of public debt to enhance the protection of all creditors."

The main consequence is that a large part of LOEPSF's control and discipline framework will now also apply when the average time taken to pay autonomous regions' suppliers exceeds the maximum period in default regulations by more than 30 days, which may also trigger the application of the penalty framework in Arts. 25 and 26 of LOEPSF.

New financing mechanisms for the autonomous regions

As mentioned, in its first additional provision the LOEPSF envisages the creation of extraordinary financing mechanisms for regional and local administrations. When an autonomous region resorts to the extraordinary financing mechanism, it will be subjected to an adjustment plan to ensure the stability and public debt targets are met. Failure to comply with this plan will trigger the enforcement measures envisaged in Art. 25 of LOEPSF. Specifically, two extraordinary financing mechanisms have been created:

- First, the supplier payment finance fund (FFPP), established in Royal Decree-Law 7/2012, created as a public legal body, with its own legal personality and capacity to tap the capital markets with a government guarantee.

  This Royal Decree-Law extends the mechanism to the autonomous regions and, as envisaged, Royal Decree-Law 7/2012 establishes a financing mechanism to pay local authorities' suppliers.

  RDL 7/2012 sets a term of 10 years, with a two-year grace period, for loans to subnational governments. Moreover, direct payments to suppliers by the central government are provided for in the case of all pending debts that are matured, liquidated and due and were submitted before January 1st, 2012.[4] Finally, in the case of local entities, the loans are guaranteed by the possibility of withholding the local authority's share of State taxes.

- The second extraordinary financing measure is the regional liquidity fund (FLA), which was created by Royal Decree-Law 21/2012 on liquidity measures for public administrations and in the financial area. This involves a fund without its own legal personality, financed from

[4] On renewing the supplier payment plan, this limit was subsequently extended.

State debt and implemented through the Official Credit Institute (ICO in its Spanish initials).

It must be stressed that its creation was described as being "temporary and voluntary" (Art. 1). In parallel, the financial instruments the regions can use for their borrowing outside the FLA have been limited, and such borrowing requires the submission of an adjustment plan. A new feature of this plan is that it includes a liquidity plan enabling the liquidity situation in the autonomous regions to be monitored at all times.

In short, the promulgation and application of the LOEPSF coincides with the implementation of the supplier payment fund, of which there have been three phases, as well as with the regional liquidity fund (FLA), which has been extended at least until 2014.[5]

Moreover, the ICO opened a series of credit lines for autonomous regions and local governments that function as extraordinary financing mechanisms for local governments.[6] Legally, putting into place the Suppliers Fund and the FLA has required the introduction of an exception to the no bail-out clause stated in Art. 8.2, according to which: *"The State shall not assume or answer for the commitments of the autonomous regions, local authorities, and bodies envisaged in Article 2.2 of this Law linked or dependent on them, without prejudice to the mutual financial guarantees for the joint realisation of specific projects."* This confirms that the described mechanisms represent an exception to the no bail-out clause.

Impact of new State financing measures on public debt

A the end of 2011, Spain's total public debt reached 70.5% of GDP, which means that fulfilling the 60% limit in 2020, which is only eight years away, would require considerable discipline. Moreover, at the end of 2013 the public debt had reached 93.9% of GDP, due to the autonomous regions' debt, as will be explained below. Table 2 shows the change in the autonomous regions' debt since the second quarter of 2011.

Table 2

Regional debt
(% GDP and millons of euros)

	% GDP	Total debt	FFPP	FLA
II-2011	13.0	136,587	-	-
III-2011	13.2	138,488	-	-
IV-2011	13.6	142,342	-	-
I-2012	14.1	147,358	-	-
II-2012	16.3	169,218	17,692	-
III-2012	16.3	168,407	17,692	-
IV-2012	18.0	185,456	17,689	16,641
I-2013	18.6	190,525	17,689	19,884
II-2013	19.0	194,088	17,689	27,535
III-2013	19.2	196,687	18,627	30,739
IV-2013	20.2	206,768	22,428	39,063
I-2014	21.7	221,997	30,410	43,947

Source: Bank of Spain.

The autonomous regions' debt has risen by 8.7 percentage points of GDP since 2011. At the end of the first quarter of 2014, the supplier payment fund (FFPP) had already accumulated 30,410 million euros, 13.7% of the regions' debt. For its part, FLA came to 43,947 million euros, 19.8% of the debt. Thus, the total increase in regional debt amounts to 74,639 million euros since the LOEPSF was enacted (in the second quarter of 2012), and can be attributed, almost exclusively, to the new extraordinary financing mechanisms, which provided a total of 73,357 million euros.

[5] Law 13/2014, July 15th has integrated the Suppliers' Payment Fund into the central government's treasury, without altering its economic consequences. Thus, the Fund will no longer be an independent Fund, but be directly managed by the central government.

[6] In 2012, the ICO granted loans for the sum of 5,397 million euros to six autonomous regions: Andalusia (597); Balearic islands (71); Castile-La Mancha (469); Catalonia (1,304); Murcia (175); and the Valencia region (2,781).

It should be noted that part of this increase in regional debt in 2012 originated in expenditures undertaken in previous fiscal years. Although it is difficult to be precise, by definition, at least the 17,692 million euros of the supplier fund in 2012 derived from bills presented before January 1st, 2012. That is to say, commercial debt predating December 31st, 2011, and not reflected as such in the EDP, was brought to light and, consequently, turned into public debt.

The total increase in regional debt of 74,639 million euros since the LOEPSF was passed (in the second quarter of 2012) was possible almost exclusively due to the new State financing mechanisms, which provided a total of 73,357 million euros.

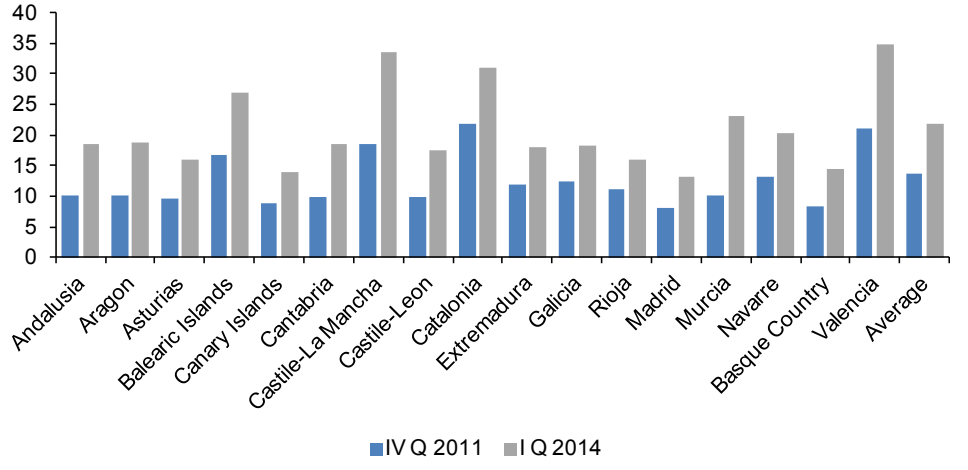
Furthermore, the performance of the autonomous regions should not be looked at in the aggregate, as there are considerable differences among them. Exhibit 1 shows how borrowing grew, asymmetrically, between 2012 and 2013.

Four autonomous regions –Balearic Islands, Castile-La Mancha, Catalonia and Valencia– had an above-average debt-to-GDP ratio at the end of 2011. At the end of the first quarter of 2014, the same autonomous regions remained above the average, with the Murcia region joining the group of the most heavily indebted regions. It is worth highlighting that although average regional debt has grown by 8.7 points of GDP, in five regions this growth has been faster than average: Balearic Islands (10.4 pp), Castile-La Mancha (15 pp), Catalonia (9.3 pp), Valencia (13.8 pp) and Murcia region (13 pp). This pattern suggests that these regions' debt could continue to grow significantly and become unsustainable. However, not all the autonomous regions have received money from the suppliers' fund and the FLA. In particular, the regions of Galicia, La Rioja, Navarre, and the Basque Country have no debts with the State.

Exhibit 2 shows the differences in the degree of dependence on State financing. The most heavily indebted regions also have the highest degree of dependence, with the exception of Andalusia, which has 50.5% of its debt in the hands of the State without belonging to the most indebted

Exhibit 1

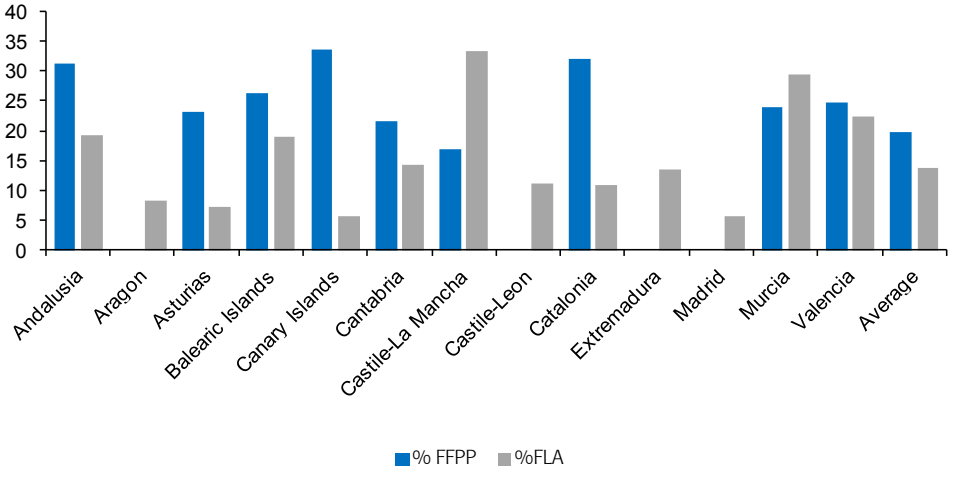
Regional debt
(% Regional GDP)



Source: Bank of Spain.

Exhibit 2

Regional debt
(% Regional GDP)



Source: Bank of Spain.

group. Aragon (8.4%), Castile-Leon (11.2%), Extremadura (13.5%), and Madrid (5.6%), have a low degree of dependence.

On the one hand, by constituting a source of finance for certain autonomous regions, the central government obtains effective control over the level of expenditure and even over the political spending priorities of the regions it supports. On the other, a region's outstanding debt with the FLA gives it a degree of bargaining power if it is unlikely to be able to meet its debt.

This situation raises two questions: first, how transitional or permanent these financing mechanisms are. Officially, the suppliers financing fund ends this year (2014), so it should, in fact, be transitional, as is consistent with itsorigins and purpose.[7] From this point of view, the system's credibility entails restoring the effectiveness of Art. 8 of LOEPSF. To that end, it is necessary to create a "no bail-out" reputation. And in order to do that, it is essential not to repeat bail-outs of this kind.

Second, in the plausible hypothesis that the FLA turns into a permanent mechanism, it is worth reflecting on the effect this new state of affairs might have on the regions' financial autonomy. Here, two contrary effects emerge. On the one hand, by constituting a source of finance for certain autonomous regions, the central government obtains effective control over the level of expenditure and even over the political spending priorities of the regions it supports. On the other, a region's outstanding debt with the FLA gives it a higher degree of bargaining power if it is unlikely to be able to meet its debt. This hypothetical situation would have a political impact in terms of the relationship between the

[7] On April 24th, 2014, the conditions of loans through the supplier fund for local government bodies were modified, extending the repayment period or grace period (see Resolution of the Secretary General for Regional and Local Coordination, published in the BOE on May 14th, 2014). It is foreseeable that something similar will apply to the autonomous regions.

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two levels of government, in contrast to a default on debt in international bond markets.

There should be a thorough assessment of exactly what the medium-to-long-term impact of the State's assuming a portion of the regions' debt may be. Moral hazard cannot be ruled out, and it may encourage greater indebtedness.

Conclusions

The budgetary stability framework of the autonomous regions in 2012 and 2013 has been significantly strengthened, yielding positive results in terms of deficit reduction. This has undoubtedly improved the international perception of the sustainability of Spain's public accounts.

However, there is a certain excess of regulation. Despite the strict corrective mechanisms, bail-out instruments have been created that have facilitated regional debt. This could pose a future risk to financial sustainability, at least until the annual deficits are eliminated.

In a recent paper, Charles Wyplosz (2013) criticises the budgetary discipline supervision system adopted by the European Union, pointing out the inconsistency the over-centralisation of this budgetary discipline represents. In the case of Spain, the data reflect that the supervision of the regions' budgetary discipline was not credible until 2011, so that a reform (even a constitutional reform) was indeed necessary. It would nevertheless be desirable, notwithstanding the framework described, for the autonomous regions to comply with the mandate stated in article 135.6 CE and design their budgetary discipline frameworks in coordination with those of the State. That way, they would consider budgetary discipline as part of their "own" rules, and not something purely external, imposed by the central government. This would also increase their fiscal responsibility.

In any event, high debt levels preclude financial autonomy, whether at the regional or State level. In short, an indebted State is not free. German's Federal Constitutional Court has expressed this clearly most recently in its judgment of March 18th, 2014 [BVerfG, 2 BvR 1390/12],[8] in which it gave its endorsement to the EU's bail-out mechanisms and the Six Pack in the following terms (par. 169): "A constitutional commitment on the part of the parliaments and thus a palpable restriction of their budgetary power to act may be necessary precisely in order to preserve the democratic power to shape affairs in the long term. Even if such a commitment restricts democratic legislative discretion in the present, it guarantees it for the future. Admittedly, even a worrisome long-term development of the level of debt is not a constitutionally relevant impairment of the legislature's power to decide on fiscal policy at its discretion, and dependent on the situation. Nevertheless, this results in a *de facto* constriction of discretion. To avoid such a constriction is a legitimate aim of the (constitutional) legislature." Therefore, the autonomous regions' new financing mechanisms, and in particular the regional liquidity fund will perhaps require an overall rethinking as part of an institutional reform that consolidates the progress made by the "State of Autonomies" and its financing system.

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Overview of local entities´ debt: Evolution and expectations

Iker Goicoechea Bilbao and Carmen López Herrera[1]

The level of local entities´ debt has evolved quite differently relative to other levels of government. Nevertheless, regulatory restrictions on borrowing requirements have led to an increase in financing through the government´s newly created supplier financing mechanism. Economic recovery is expected to continue improving local entities´ solvency, although city councils have become even more polarized, with some entities likely to need financial assistance to remain viable.

In contrast to the nearly daily scrutiny over the fiscal and debt dynamics of the central government, the autonomous regions and social security, local entities are quite possibly the least well-known public sector entities. However, in view of their fiscal consolidation efforts, as the sole administrative level to register a surplus in their accounts (from 2012), and with the lowest pace of debt growth (41% between 2007 and 2013, as against 163% at the central government level and nearly 240% at the autonomous regions level) they now merit a more in-depth analysis. Due to their heterogeneity and atomization, it is hard to draw conclusions about local entities in general. However, in this article, we provide an overview of the evolution of Spain´s local entities´ debt, based on individual data from year-end 2013, provided by the Ministry of Treasury and Public Administrations (MINHAP).

How is debt distributed across local entities?

At present, there are 8,685 local entities – mainly city councils – representing 84.6% of local debt, along with 52 provincial governments, councils and boards, which hold 14.4% of the outstanding debt. There is also a group of territorial entities below the municipal level, in local regions or other entities, that group together several municipalities, whose relative weight is quite small (less than 1%).

The limited information available –outstanding balances only – constrains the ability to analyze the local sector's financing portfolio, although we estimate that it is mainly long-term (average

Refinancing of trade debt with financial instruments has significantly increased outstanding debt levels of local entities that had previously not registered notably high debt levels.

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

term of 4-5 years) and virtually comprised by euro-denominated loans with high exposure to interest rate risk. In absolute terms, the published information allows for identifying municipalities with the largest volume of debt. Due to the varying sizes of local entities, a discriminatory range must be established on the basis of population, and our analysis will therefore focus on entities with a population greater than 75,000 inhabitants.[2]

Within this aggregate, the following are the local entities with the largest and smallest debt levels at year-end 2013:

Table 1

Local entities´ debt levels at December 2013: Largest to smallest

Local Government	Debt (thousand €)	Local Government	Debt (thousand €)
Madrid	7,035,765	Council of El Hierro	5,765
Vizcaya	1,255,857	Bilbao	7,319
Barcelona	1,110,000	Soria	11,807
Valencia	872,000	Barakaldo	14,377
Zaragoza	860,755	San Sebastian de los Reyes	14,756
Malaga	701,305	La Gomera	15,332
Jerez de la Frontera	563,614	Ciudad Real	15,464
Guipuzcoa	544,731	Arona	16,212
Alava	533,028	Alcobendas	18,001
Seville	439,000	Pontevedra	19,135

Source: MINHAP.

However, the same classification will yield different municipalities if it is based on year-on-year changes in the outstanding balance. This difference is due to borrowing from the Fund for the Financing of Payments to Suppliers (FFPP), the impact of which will be seen throughout the

Table 2

Local entities´ debt level increases in yoy terms at December 2013: Largest to smallest

Greatest yoy increase			Greatest yoy reduction		
Local Government	Debt (thousand €)	YoY (%)	Local Government	Debt (thousand €)	YoY (%)
Parla	125,634	813.9	Salamanca	30,868	-45.7
Cornella de Llobregat	86,687	788.2	Barcelona	133,812	-38.1
Bilbao	349,356	240.3	A Coruña	43,345	-36.0
Leganes	186,995	107.0	Council of El Hierro	5,765	-28.9
Rivas-Vaciamadrid	78,133	72.3	Vigo	297,355	-28.3
Terrassa	215,055	70.8	Lugo	98,457	-27.2
Arona	80,987	57.6	Alcobendas	111,040	-27.0
Chiclana de la Frontera	82,212	57.2	Tenerife	315,183	-26.5
Santa Coloma de Gramenet	120,029	54.0	Pontevedra	67,546	-25.9
Reus	106,790	46.9	Caceres	33,732	-25.3

Source: MINHAP.

[2] Municipalities with more than 75,000 inhabitants are used because, under the Revised Text of the Law Regulating Local Treasuries (TRLRHL), they must submit for final approval – following the approval of the plenum – their Economic and Financial Plan to the financial oversight body (the autonomous region or the Ministry of Treasury, depending on whether the region has assumed financial oversight power over its municipalities).

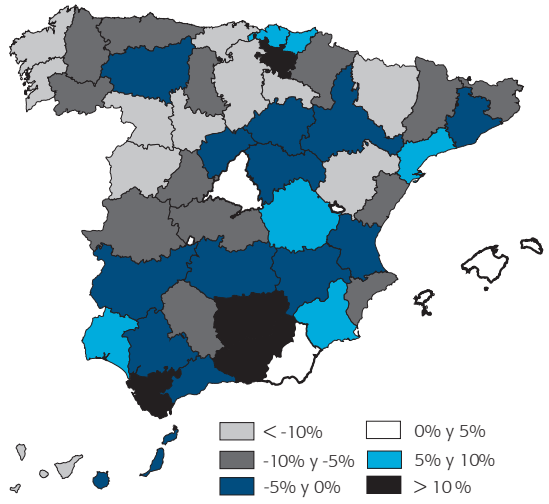
analysis herein. The use of financial instruments to refinance trade debt has resulted in steeper increases in the outstanding debt balance under the Excessive Debt Procedure (EDP) for local entities that did not register the largest volumes of debt.

How is local debt distributed across Spanish territory?

The distribution of changes in the debt balance by provinces, aggregating the debt balances of provincial authorities and the municipal bodies located therein, would situate the largest year-on-year increases in the south of the country, mainly coastal areas. Notable increases were also recorded in Basque municipalities and provincial councils[3] in 2013, with net indebtedness increasing in the provincial councils of the three Basque provinces. Nevertheless, only one fourth of the provinces overall registered an increase in debt, where the majority saw a decrease of between 0% and 5% in 2012.

Exhibit 1

2013 *vs.* 2012 change of local debt by province



Source: MINHAP.

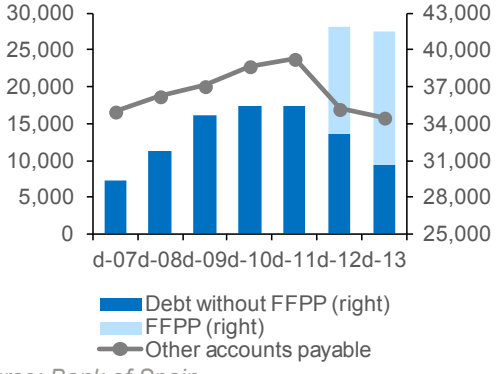
Sustainability of debt

Absolute values and changes in the period provide information on the strategy employed during the year, but a comparison with other figures allows for an analysis of the more significant issue: the weight and sustainability of the financial debt, and the impact of assistance for the financing of the trade debt, where the government´s new supplier funding mechanism – the FFPP – has granted some 11 billion euros to local entities to date (i.e., more than one fourth of their total debt).

The FFPP has made a very significant impact: not because of its large relative weight, or because it is currently the second largest source of funding for local entities, but because it provides a solution to address the shortfall of funds, which was translating into delays in supplier payments.

Exhibit 2

Outstanding accounts *vs.* financial debt (mill.€)



Source: Bank of Spain.

[3] The basque provincial authorities and Navarre (the so called foral territories) have authority over nearly all the taxes that are collected in the territory, giving to the central government a portion of them in order to compensate for the expenses incurred in providing non transfered services.This amount is set every five years and updated annually by applying an index. This index is the increase in net revenue obtained by the central government in taxes agreed from the base year to each year.

Accordingly – and with regard to city councils – it becomes particularly important to weigh the outstanding debt balance in terms of population and current revenue.

City councils´ solvency positions have become more polarized due to the FFPP's implicit financing mechanism in the form of trade debt.

Historically, the distribution of solvency among city councils has been sharply polarized: a majority of councils register low debt levels, while a smaller, although noticeable number, carry elevated outstanding balances.

A comparison of the distribution of debt per capita and against current revenue in the last three years clearly demonstrates this result. At year-end 2013, the number of city councils with debt levels at less than 50% of current revenue declined, whereas there are more municipalities with a higher ratio of debt per inhabitant and of relative weight over current revenue, exceeding the threshold of 110%.[4] The refinancing of trade debt with financial debt has become an implicit financing mechanism and brought about an impairment of city councils' solvency, especially in relation to current revenue.

In accordance with the limits of 75%[5] and 110% of debt to current revenue, and based on a distribution by provinces, the following map identifies the relative weight in the total of municipalities that are unable to immediately borrow, i.e., municipalities with a ratio above 75%.

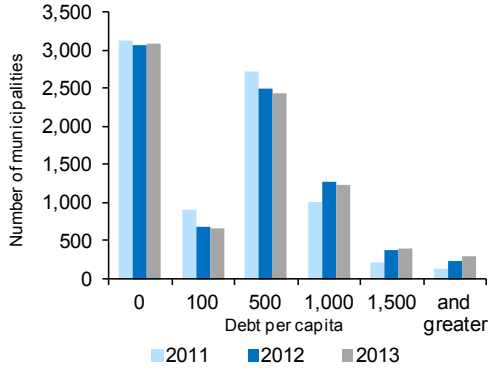
A comparison between the map for 2008 and that for year-end 2013 illustrates the worsening position of local entities. At the outset of the financial crisis, the majority of municipalities were in a solvent position, with a debt-to-current revenue ratio below 75%.

This profile contrasts with the situation five years later. The breakdown shows that the Mediterranean provinces have been most severely affected by the economic and financial

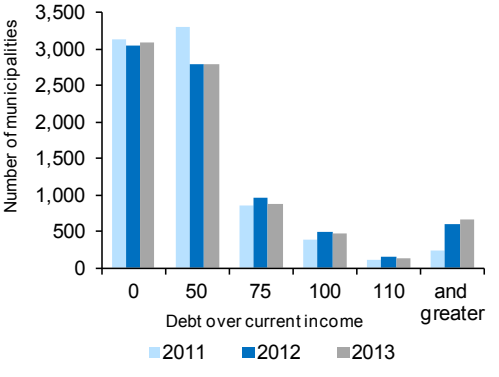
Exhibit 3

City councils' debt ratios

Debt per capita



Debt to current revenue



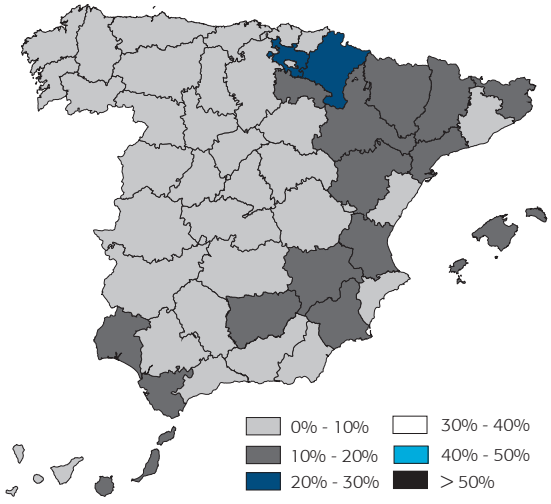
Sources: MINHAP, INE.

[4] Legal limit set out in Article 43 of the TRLRHL.

[5] On the basis of this ratio of debt to current revenue, local entities must draw up an adjustment plan prior to any new borrowing, under Additional Provision Fourteen of Royal Decree-Law 20/2011, of March 3rd, on urgent budgetary, tax and financial measures to correct the public deficit, modified by Final Provision Thirty-One of Law 17/2012, of December 27th of General State Budgets for 2013.

Exhibit 4

Percentage of city councils with a debt-to-current revenue ratio above 75% in 2008

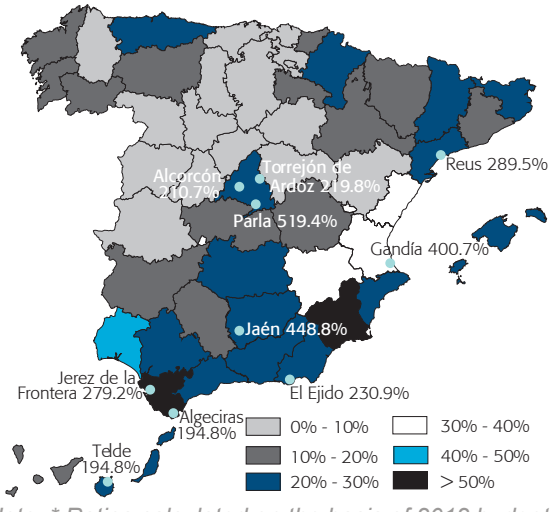


Source: MINHAP.

crisis (all Mediterranean regions have enrolled in the regional liquidity fund, and three failed to meet the 2013 deficit target), where the weight of city councils with high relative debt levels is greater. The map also shows the ten municipalities with a population of more than 75,000 inhabitants that have the largest relative weight of debt to current revenue.

Exhibit 5

Percentage of city councils with debt-to-current revenue ratio* above 75% in 2013



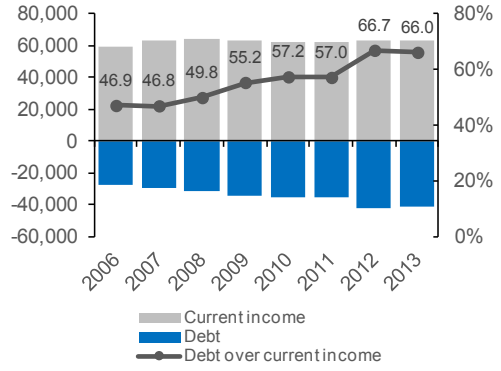
*Note: * Ratios calculated on the basis of 2012 budgets, latest available figures.*

Source: MINHAP.

This worsening was foreseeable, given aggregate trends in both debt and current revenue. Local entities have increased their aggregate debt levels by nearly one third, while revenues have fallen by 1.5% relative to 2008. This map merely reflects that trend and the variation among local entities, demonstrating that entities already in a more weakened position were more greatly affected.

Exhibit 6

Debt to current revenue (mill. € and %)



Sources: MINHAP, Bank of Spain.

The impact of regulation on the evolution and composition of local debt

Unlike the autonomous regions and the central government, local entities have had to cope with regulatory changes aimed essentially at limiting their ability to borrow, in addition to an extremely tight financial environment. Accordingly, the control and rigidity to which local entities have been subject has, undoubtedly, been more stringent.

The initial framework defined by the Revised Text of the Law Regulating Local Treasuries (TRLRHL) in 2010 tried to prevent local entites[6] from undertaking new borrowing, while the limitation was eased in 2011,[7] as entities with a final balance of net savings and level of debt below 75% of current revenue were again allowed to borrow. These conditions were extended in 2012,[8] and made open-ended in 2013.[9]

Regulation for 2014, therefore, allows local entities with positive net savings to undertake new long-term borrowing provided the total amount of outstanding debt does not exceed 75% of current revenues. If they exceed this level, but fall short of 110%, they may borrow subject to the authorization of the competent body responsible for financial oversight. Any entity with net negative savings or a debt level above 110% cannot borrow.

However, as an exception, long-term refinancing is authorized if arranged prior to the entry into force of the Royal Decree-Law regulating the FFPP mechanism,[10] provided the purpose is to reduce the financial burden and/or to extend the repayment period. Local entities with negative net savings or debt levels above 75% of current revenue must approve, in their respective plenums, a financial repair or debt reduction plan to correct the imbalance within a maximum of five years.

Moreover, borrowing undertaken through the FFPP mechanism carries the second largest weight in the portfolio of local debt, as the FFPP is the largest lender to local entities. Consequently, decisions implemented relating to the mechanism are of special significance to the performance of the outstanding balance of local debt.

Unlike the autonomous regions and the central government, the local entities have had to cope with stricter regulatory requirements, in addition to a highly restrictive financing environment, resulting in smaller debt increases.

In principle, an extension of the mechanism is not to be expected, as per the announcements made by the Spanish government. But the government has unveiled a series of measures, approved in 2013, to assist the local sector through the FFPP, aiming to supplement aid to local entities in financial difficulties.[11] The reduction of the Treasury's current cost of funding has encouraged interest in compensating public entities that have made greater progress in fiscal consolidation and have had to face a more restrictive regulatory framework.

The recently-approved measures apply to the first of the phases developed by the FFPP, to loans formalized in 2012, for a total volume of 8.75 billion euros and that represent the bulk of the outstanding balance of local entities with

[6] Article 14.2 of Royal Decree-Law 8/2010, of May 20th, adopting extraordinary measures for reduction of the public deficit.

[7] Final Provision Fifteen of Law 39/2010, of December 22nd, of the General State Budget for 2011.

[8] Additional Provision Fourteen of Royal Decree-Law 20/2011, of December 30th, of urgent budgetary, tax and financial measures for the correction of the public deficit.

[9] Final Provision Thirty-One of Law 17/2012, of December 27th, 2012, of the General State Budget for 2013.

[10] Recently, the Council of Ministers approved the possibility of refinancing local entities´ operations with the FFPP, provided that this implies, among other things, a savings for the entity.

[11] Title II of Royal Decree-Law 8/2013, of June 28th, of urgent measures against late payment of the public administration and in support of local entities with financial problems. Local entities with financial problems are defined as those which meet one of the following conditions, *inter alia:* negative net savings and cash surplus in the two previous years, a debt to public creditors ratio above 30% of non-financial revenue, a debt balance of more than a million euros with the FFPP and non-compliance with periodic quotas, or a combination of the foregoing. Assistance is based on the possibility of consolidating short-term debt into long-term debt, bridge loans, financing a cash surplus or extending the repayment period of negative cash positions.

the mechanism. They involve reductions in the credit spreads, extensions of the grace period with a smaller reduction in the spread, or in some extreme cases, the latter with an extension of financing terms to 20 years.[12]

All these possibilities have an impact on both the level of debt and its future evolution. The extension of the grace period and of the repayment period slow the pace of reduction of the outstanding balance of debt from the FFPP. Meanwhile, the application of a lower spread relieves the financial burden and financnial expenditure. This increases municipalities' capacity for fiscal consolidation and reduces the risk of slippage on budgetary objectives.

It must also be borne in mind that there may be yet another factor that affects the pace of repayment. As noted above, local entities are the only level of public entities to register a surplus. The allocation of the surplus is regulated by the Organic Law on Budget Stability and Financial Sustainability (LOEPSF). Under Additional Provision Six, local entities that comply with or do not exceed their borrowing authorization limits and that have a surplus and positive cash surplus for expenditure in 2014 must allocate the surplus or, if lower, the cash surplus,[13] in this order, to meet outstanding budget obligations, to repay outstanding borrowings and to finance investments, provided that the latter are financially sustainable over the useful life of the investment.

Therefore, entities with a surplus and liquidity can reduce their debt levels. Allocation of the surplus is one of the reasons underlying the 16% reduction of the ex-FFPP aggregate debt of local entities from their peak in 2010, along with limitations in borrowing in past years that made it impossible to refinance maturities.

Conclusion

The analysis herein shows that, given the inelasticity of local expenditure, the legal limits placed on local entities funding resulted in financing that involved an extension of payment periods to suppliers. Given the rapid growth of average payment periods to enterprises and self-employed that provided services to the public sector, it became necessary to deal with non-payment through extraordinary measures, namely through the FFPP. The secondary effects of this extraordinary measure facilitated the determination of local entities' total debt and real solvency levels, however, fostered greater polarization among them.

Unlike the central government and the autonomous regions, which are able to incur deficits up to a specific target in the 2014-2016 period, local entities as a whole are expected to maintain the downward trend in their outstanding debt balance for the coming years. The budgetary stability targets set for the medium term, the obligation to maintain a lower debt-to-current revenue ratio than the aggregate of regional governments (156.6%, individually within a range of 67.5% to 288.2%) and the obligation – albeit eased to a certain extent – to allocate surpluses to the early repayment of commitments leave very little margin for new debt increases.

Again, regulation will play an important role. The LOEPSF and its regulatory implementation are especially strict with regard to local budgetary policy. Hence, the expenditure rule, combined with the budgetary stability demanded of local entities, will generate fresh surpluses allowing the early repayment of loans, where FFPP debt is among the most likely to be repaid. Its wide credit spread and the lack of an obligation to pay compensation for early repayment make this option financially attractive. This is the view

[12] Order PRE/966/2014, of June 10th, publishing the principal characteristics of borrowing operations charged against the mechanism for financing of payments of suppliers to local entities.

[13] The unaffected cash surplus.

taken by a number of regions and local entities which, to date, have refinanced their outstanding FFPP debts, adjusting terms to current market conditions. Thus, a new contrast arises among local entities – those able to prepay their debts and those which need an extension. This lends great importance to the financial assistance measures implemented by the central government for local entities in a situation of distress, as the measures have become a method for injecting viability into city councils currently facing the most difficult conditions.

Solvency indicators will improve along with the economic recovery, but the polarization of local entities will continue to worsen, as in previous years. Therefore, extraordinary financial assistance measures will be necessary for the most distressed city councils to remain viable.

As the economic recovery begins to take shape, solvency indicators will improve, albeit not uniformly. As in recent years, the polarization of the local sector will intensify, and divergences among local entities will widen, as they move towards the extremes in the distribution: local entites with better solvency levels and entities with worse levels.

Reform of Spain´s professional services market: Implementation of the EU Services Directive

Aitor Ciarreta, María Paz Espinosa and Aitor Zurimendi[1]

Recent reforms prompted by the transposition of the EU Services Directive to Spanish law have improved how professional services operate in Spain. However, further action is needed to remove existing guidelines, as well as improve the functioning of professional associations themselves, in order to increase the efficacy of the reform.

The implementation of the European Commission Services Directive initiated the modernization process of services markets within the European Union. The objective was to guarantee the creation of a single market by ensuring the freedom of establishment and circulation. The transposition of the Directive in Spain triggered an initial wave of reforms in the Spanish legal system. A second package of reforms is currently underway, following recommendations by the EC, IMF and OECD, which highlight the relative lack of competition in Spain's services as one of the major imbalances in its economy, alongside the public deficit and unemployment. Both the implemented and planned reforms represent a major step forward. Nevertheless, the government has recently announced modifications to the draft bill of the Professional Services and Associations Law, which is expected to soon be submitted for parliamentary debate and approval. Taking into consideration modifications already introduced, together with anticipated further changes, it will be important to maintain the main points of the draft bill and to introduce a deeper review of the legal framework for professional services, of the professional associations themselves, and for the activities that are subject to compulsory membership within a professional association. Spain's territorial map of professional associations must too be redrawn.

Introduction

A study of professional services in the EU found Spain to be one of the Member States in which professions are subject to most control and regulation.[2] This excess of regulation is nothing new. There is a long tradition of over-regulation in Spain, manifesting itself in unnecessary barriers and red tape, making it harder to set up businesses and slowing job creation. The situation is compounded by the wide disparity in regulations across the autonomous regions, as well as a series of restrictions specific to certain professions.

The progressive deregulation of professional services in Spain has been part of the liberalisation process initiated at the European level against the

[1] University of the Basque Country, UPV/EHU.

[2] See Paterson, Fink and Ogus (2003) – data cited in executive summary.

backdrop of increased international competition. However, the peculiarities of the structure of Europe's market for professional services have led to considerable pressure to raise the level of regulation in order to protect professionals from increased competition (Garoupa, 2014). This resistance has considerably slowed progress and hampered the necessary reforms.

There is, however, ample evidence of the negative impact of excess regulation on the functioning of the economy, sector employment, productivity, and profit margins (Conway and Nicoletti, 2006; Paterson, Fink and Ogus, 2003; and Lusynian and Muir, 2013). The transposition of the EU Services Directive to national law aims to lighten the regulatory burden in certain service sector activities, with the objective of stimulating investment, creating skilled jobs, and accelerating economic growth. It is worth noting that the service sector (including financial services and trade) accounts for 73.5% of EU-27 GDP according to 2010 data (Eurostat, 2010) and in Spain's case, it accounts for 68.37% of GDP (INE, 2013).

The professional services sector in Spain

Spain's professional services market is very fragmented, with a high concentration of micro-enterprises (see Table 1). This structure suggests that potential competition issues in the sector do not arise from the supply-side. However, this extremely small business size (an average of 2.7 employees per firm in Spain and 3 per firm in the EU-27, according to 2010 Eurostat data), prevents possible economies of scale and cost reductions. This is due to the fact that although micro-enterprises as a whole (companies with fewer than 10 employees) generate a large share of the sector's value added (more than 50%), their labour productivity is lower (50,700 euros, as against 65,500 euros for large companies, Eurostat, 2010).

Restrictions on the form of company organisation have contributed to the Spanish professional services market's idiosyncratic structure. In this respect, the amendments to the Law on Professional Associations and the Law on Professional Societies through the Omnibus Law represent a relative step forward. These changes established the principle of freedom of company organisation, making it harder to constrain opportunities for collaboration or impose restrictions on the way in which businesses are organised, unless constraints are imposed by legislation justified by the need to protect users. Nevertheless, further progress needs to be made towards ensuring the reforms are implemented effectively, given that the rules governing professional associations have generally not been adapted to the new legislation. Larger business size would allow for productivity gains and more job creation in the sector. For this reason, mergers and inter- and intra-professional cooperation should be fostered in order to exploit economies of scale.

The transposition of the EU Services Directive to national law aims to lighten the regulatory burden in certain service sector activities, with the objective of stimulating investment, creating skilled jobs, and accelerating economic growth.

As well as affecting costs in the sector itself, the reach and intensity of regulation in the professional services sector impacts costs in other sectors using these professional services as a factor of production. This interrelation means that inefficiencies in this sector raise the prices of other goods and services. Additionally, regulations restricting entry to professional services reduce the level of competition and affect the cost of entry for new firms in other sectors that depend on these services as inputs, and hence productivity and the allocation of resources to businesses. The impact analysis accompanying the draft bill of the Law on Professional Services and Associations estimated a long-term effect on GDP of +0.7%, with an

Table 1

Contribution of the professional services sector to employment by company size and country, 2010

Country	All companies	Micro-enterprises (<10)	Small enterprises (10 to 49)	Medium-sized enterprises (50 to 249)	Large enterprises (>250)
EU-27	11,062.9	49.1	19.8	13.1	18.0
Belgium	226.4	61.5	14.8	11.9	11.8
Bulgaria	90.0	66.0	21.7	9.2	3.2
Czech Republic	238.3	61.1	19.2	13.5	6.2
Denmark	134.2	29.6	22.3	19.6	28.5
Germany	2,005.8	36.9	27.5	13.1	22.5
Estonia	22.6	62.8	25.5	11.6	0.0
Ireland	102.7	47.9	22.9	12.1	17.1
Spain	979.3	58.1	17.5	11.0	13.4
France	1,292.8	41.7	21.9	15.3	21.1
Italy	1,233.8	78.6	9.8	5.6	5.9
Cyprus	20.4	51.2	24.2	15.5	9.2
Latvia	31.8	64.1	22.3	11.4	2.2
Lithuania	44.5	53.8	27.7	12.5	6.0
Luxembourg	26.0	35.1	23.2	17.4	24.3
Hungary	205.8	72.3	14.4	8.5	4.8
Netherlands	603.1	48.7	18.8	14.0	18.5
Austria	209.5	52.9	26.8	13.4	6.9
Poland	480.7	66.8	11.1	10.6	11.4
Portugal	225.9	70.7	14.7	8.7	6.0
Romania	189.8	50.7	19.5	17.1	12.7
Slovenia	48.7	67.6	--	10.8	--
Slovakia	104.0	65.6	17.0	8.4	9.0
Finland	105.2	44.9	24.6	16.1	14.5
Sweden	269.6	42.6	22.2	16.2	19.0
United Kingdom	1,938.3	28.0	22.6	18.2	31.3
Norway	117.6	40.2	23.3	16.0	20.5
Switzerland	237.5	31.5	35.2	16.2	17.0

Note: Malta and Greece not included due to lack of 2010 data. Norway and Switzerland are included as EFTA members.

Source: Eurostat, 2010.

overall reduction in prices (between -0.14% and -0.23%) and productivity gains (1%).

The impact analysis accompanying the draft bill of the Law on Professional Services and Associations estimated a long-term effect on GDP of +0.7%, with an overall reduction in prices (between -0.14% and -0.23%) and productivity gains (1%).

Are professional services in Spain over-regulated?

The OECD has developed a series of indicators measuring the impact of regulations on the sector's development (see Conway and Nicoletti, 2006). These regulatory impact indicators facilitate a quantitative analysis of how regulation is evolving, and enable comparisons to be made between countries with similar regulatory frameworks. This allows us to analyse the extent to which regulatory changes have been introduced following the EU Services Directive and its transposition to Member States' national law, and whether the liberalisation recommended by the IMF and OECD is on track.

Table 2 summarises progress of the professional service indicators and the aggregate index of energy, transport, and communication regulation (ETCR) between 1998 and 2013, as calculated by the OECD for a representative group of countries. The regulatory indices in these latter sectors take into account the regulation on entry, degree of

Table 2

Aggregate of professional services and energy, transport, and communications regulation indicators. 1998, 2003, 2008 and 2013

Indices and Regulation		Professional services			Energy, Transport Communications
		Entry	Year	Total	
Austria	1998	4.20	3.28	3.74	3.88
	2003	4.21	1.78	2.99	2.64
	2008	4.19	3.28	2.86	3.07
	2013	1.78	0.88	2.49	1.65
Belgium	1998	1.53	3.74	2.33	3.76
	2003	2.99	1.88	2.33	3.13
	2008	2.86	3.88	2.35	2.38
	2013	2.64	2.00	2.35	2.11
Canada	1998	3.07	2.69	3.30	2.12
	2003	3.89	2.56	3.22	1.77
	2008	4.11	2.38	3.24	1.87
	2013	4.10	2.19	3.15	1.82
Denmark	1998	1.33	1.00	1.17	3.25
	2003	1.24	0.50	0.87	2.19
	2008	1.24	0.31	0.78	1.77
	2013	1.33	0.31	0.82	1.63
Finland	1998	0.52	0.47	0.49	3.19
	2003	0.67	0.56	0.61	2.67
	2008	0.86	0.56	0.71	2.58
	2013	0.86	0.38	0.62	2.46
France	1998	2.63	1.75	2.19	4.38
	2003	2.90	1.50	2.20	3.32
	2008	3.11	1.78	2.45	2.78
	2013	3.09	1.59	2.34	2.39

Table 2 (continued)

Aggregate of professional services and energy, transport, and communications regulation indicators. 1998, 2003, 2008 and 2013

Indices and Regulation		Professional services			Energy. Transport Communications
		Entry	Year	Total	
Germany	1998	4.43	4.13	4.28	2.71
	2003	3.12	2.94	3.03	2.06
	2008	3.23	2.41	2.82	1.52
	2013	3.18	2.06	2.62	1.45
Greece	1998	3.96	3.63	3.78	5.07
	2003	3.91	1.81	2.86	4.26
	2008	3.82	1.81	2.82	3.38
	2013	3.82	0.88	2.35	2.55
Romania	1998	1.99	1.25	1.62	2.94
	2003	2.01	1.13	1.57	2.05
	2008	1.99	0.56	1.28	1.62
	2013	1.90	0.56	1.23	1.49
Norway	1998	1.63	1.03	1.33	3.18
	2003	1.29	0.38	0.83	2.46
	2008	1.47	0.38	0.92	2.17
	2013	1.47	0.38	0.92	2.20
Portugal	1998	3.39	2.81	3.10	4.60
	2003	3.55	1.63	2.59	3.04
	2008	3.81	1.59	2.70	2.55
	2013	3.63	1.47	2.55	2.13
Spain	1998	3.24	3.72	3.48	3.80
	2003	3.03	2.06	2.55	2.17
	2008	3.33	1.41	2.37	1.85
	2013	3.43	0.69	2.06	1.75
Sweden	1998	0.59	1.38	0.98	2.66
	2003	0.53	1.00	0.77	2.30
	2008	0.53	0.56	0.55	2.00
	2013	0.53	0.56	0.55	1.71
United Kingdom	1998	2.02	0.63	1.32	1.80
	2003	1.54	0.19	0.86	1.30
	2008	1.26	0.50	0.88	1.13
	2013	1.26	0.50	0.88	0.91
USA	1998	3.51	0.17	1.84	2.05
	2003	1.96	0.75	1.35	1.95
	2008	1.77	0.94	1.35	1.69
	2013	--	--	--	--
UE-12+Norway	1998	2.48	2.10	2.29	3.48
	2003	2.37	1.34	1.85	2.58
	2008	2.43	1.18	1.81	2.22
	2013	2.41	0.94	1.67	1.88

Note: No data available for the United States in 2013.

Source: OECD, Indicators of regulation in professional services, and Aggregate Index of Energy, Transport, and Communications Regulation in 1998, 2003, 2008 and 2013.

vertical integration, concentration, price control, and extent of public ownership.

A trend towards deregulation can be observed between 1998 and 2013, along the lines pursued by the EU Services Directive. European countries started out from levels of regulation that were high in comparison with the United States, and in most countries, the index levels dropped. However, the rate of progress varied across countries and sectors. For example, in Spain, as in some other countries, such as France and Portugal, the barriers to entry index rose between 1998 and 2013, while there has tended to be more of a drop in barriers to pursuing a profession. Comparing these indicators with the aggregate energy, transport, and communications regulation indicator shows Spain had high levels of regulation in comparison with other European countries, but liberalisation in these sectors has lowered its regulatory indices to below the average, despite their higher starting point.

Notwithstanding these reforms, and the elimination of legal restrictions, it is readily apparent that existing guidelines infringe on the new legislation on rules governing professional associations and their codes of conduct. Although these guidelines are in theory no longer applicable, the fact that they remain in the regulatory texts, and that associations exercise a high degree of control, means that service providers generally abide by them. To avoid this, it would be advisable to adopt vigorous measures to force professional bodies to adapt their regulations to the new situation within a specified time frame, with subsequent checks by the administration and the relevant competition authority. If the deadline is not met, there should be consequences. For example, there should be compulsory removal of the entire content of their regulations or professional codes of conduct, or face penalties. Subsequently, these should be replaced by a generic standard alternative drawn up by the government for professional bodies whose membership is compulsory to carry out professional activities. Bodies whose membership is not compulsory would be required to become straightforward professional associations, without regulatory powers.

Spain has high levels of regulation in comparison with other European countries, but liberalisation in the energy, transport, and communications sectors has lowered its regulatory indices to below the average, despite their higher starting point.

There are also cases where regional legislation does not comply with mandatory basic state legislation. Although rules that are incompatible with state legislation are inapplicable, they can lead to confusion among the parties concerned. To dispel any doubts, it would be appropriate to give the autonomous regions a deadline to adapt their regulations, with the Council for Market Unity –recently created under the Law to Guarantee Market Unity– driving the process.

The start of the liberalisation process: Implementing the EU Services Directive in Spain

Directive 2006/123/EC, or the EU Services Directive, was largely implemented in Spanish legislation through Law 17/2009 on Free Access to Service Activities and their Exercise (Umbrella Law) and Law 25/2009 amending various laws to adapt them to the latter (Omnibus Law). The main objective was to **eliminate unnecessary and disproportionate barriers to entry** that partitioned markets and prevented them extending across national boundaries. Implementing the Directive in Spain has led to reforms to a whole range of restrictions on professional services activities. For example, the practice whereby professional associations recommended prices has been eliminated, as has the practice of endorsement being conditional upon submission of the price and other contractual conditions

(see Ciarreta *et al*., 2010 and 2014). Eliminating these requirements represented substantial progress in terms of reducing the restrictions on professional services activities. The obligation to inform users of the price of services and give them an estimate if requested is particularly significant. Nevertheless, there are areas which still need to be addressed, such as eliminating Article 5.*p* of the Law on Professional Associations, regarding the association's role in managing collections of its members' fees. Blanket bans on advertising have also now been ruled out and the restrictions established in associations' rules cannot go beyond those laid down in the law, in particular in the General Law on Advertising, Law on Unfair Competition, Law Protecting Personal Data, and the General Law Defending Consumers' and Users' Rights. Nevertheless, more needs to be done to ensure effective compliance with these measures, as association rules that classify certain advertising content as unfair or illicit still apply to advertising that is legal under the above laws. Indeed, advertising professional services remains uncommon.

The Directive pays particular attention to **restrictions on entry to professions**, requiring Member States to review these restrictions in their entirety so as to retain only those strictly necessary to protect the public interest, and ensure that they are proportionate and non-discriminatory. Moreover the Umbrella Law requires that this be implemented through a legal instrument with the status of a law. If restrictions are maintained, the new rules make it obligatory that there be clear procedures in place, which must be accessible online through a 'point of single contact', and that obstacles are not imposed to deter free movement and the freedom of establishment. Particularly good news is the ongoing review of national barriers to entry established in the Directive, in a process that involves both the European Commission and the Member States.

In line with the principles laid down in the Directive, the fourth transitional provision of the Omnibus Law urges the government to submit a bill establishing a single **list of professions subject to compulsory registration**, reserving this power to a law passed by the Spanish parliament. Fulfilment of this provision will, in principle, lead to a rationalisation of Spain's patchwork of professional bodies (some 1860 bodies, with membership being compulsory in some professions and not others, and worse still, compulsory in some regions and not others, within the same profession). Nevertheless, although more than four years have passed, this mandate has not been fulfilled. Likewise, given that high registration fees may be a deterrent to new entrants, and that the real costs are minimal, the Omnibus Law has limited these fees to the costs actually incurred in registering a member, and made it compulsory that it be possible to register online. For its part, the Umbrella Law has eliminated the requirement to notify or register with the association in the destination area prior to activity in a region other than that in which the professional person concerned was originally registered. Nevertheless, the rules of many associations continue to include this requirement, so it should be eliminated.

Professional reserved activities constitute the weakest point of the regulatory reform. Restrictions of this kind have increased in recent years, putting Spain near the top of the rankings on the OECD's regulatory indicators. Although the Services Directive does not cover free circulation, referring to Directive 2005/36 on this point, which is also applicable to the recognition of professional qualifications, it does oblige Member States to review the professions for which a specific qualification is required from the viewpoint of freedom of establishment. Nevertheless, as Spain has implemented other aspects of the Directive in a more than satisfactory way, in relation to professions for which specific qualifications are required, the Omnibus Law has barely removed any of the existing obstacles and a review of them is still pending. This review is urgently required given the complexity of the system of qualifications in force, in which over-qualification is the norm

and markets and activities are divided between different professions. This confusing picture is further complicated by professional associations' rules requiring specific qualifications for certain activities even though these requirements are not supported by law. The system of qualifications needs to be adapted to the reform of the university system within the European Higher Education Area in which the emphasis is placed on the skills acquired during a course of study rather than the name of the qualification.

The second wave of reforms: The Law Guaranteeing Market Unity and the draft bill for a Professional Services and Associations Law

Successive reports by the European Commission, IMF and OECD have reiterated the need to reform professional services markets in Spain to open them up to competition, in view of the low productivity and competitiveness arising from the numerous barriers to entry, which, moreover, vary from one part of Spain to another (across autonomous regions and municipalities). In order to address this situation, Spain is embarking on a fresh series of legislative reforms. The first took place with the recent passing of the Law to Guarantee the Unity of the Market. Thus, the diversity of regulations and lack of coordination between different subnational governments in Spain's domestic market has left it fragmented and hinders mobility. To overcome this drawback, this law has established the **principle of nationwide effectiveness**, whereby, starting from the recognition of political independence, security is given to all national players regardless of where they are established, granting nationwide validity to authorisations or communications by one local or regional authority, except in exceptional circumstances circumscribed to a specific installation or establishment.

The European Commission, IMF and OECD have reiterated the need to reform professional services markets in Spain to open them up to competition, in view of the low productivity and competitiveness arising from the numerous barriers to entry, which, moreover, vary from one part of Spain to another. In order to address this situation, Spain is embarking on a fresh series of legislative reforms.

Moreover, a possible reform to professional services is currently being discussed that would have a bigger impact on **removing disproportionate barriers to entry** and so open up markets to freer competition. The draft bill on the Professional Services and Associations Law (APLSCP in its Spanish initials), prohibits professional bodies from offering collection management or other specifically commercial services. It also seems that the Omnibus Law's mandate will finally be completed by establishing a closed list of professions subject to **compulsory registration** with the relevant professional body in its first additional provision. The proposed list should be welcomed not only because it represents a big step forward from the current situation, but also because it associates professional registration with specific functions and not with professions as such. However, it seems that professionals classified as civil servants should be excluded from compulsory registration, as in this case the administration directly supervises their activity, making it unnecessary for this control function to be delegated to a professional association. As regards fees, as well as eliminating the registration fee, the APLSCP requires regular subscription fees not to exceed the amount necessary to cover the cost of essential services, i.e. those services the association is required to provide by law. All other services are to be voluntary for members and must be paid for separately from the subscription. As a whole, these changes will have a positive impact in terms of reducing barriers to entry. However, it does not seem advisable to set a ceiling of 240 euros a year, as the APLSCP does, as this figure

may simply become a reference for associations to latch on to. An annual review of subscriptions by the authorities might be more effective.

Particularly good news is the fact that the APLSCP aims to make further headway in relation to **professional reserved activities** (i.e. those requiring specific qualifications for their activities) by bringing the requirements closer to those in other European countries. To this end, a Professional Reform Committee will be set up, which will review and assess the existing requirements and submit a report to the government for them to be updated. This review is somewhat urgent as until it takes place, the APLSCP 's Single Repealing Provision repeals all the regulated professions that are not included on its lists. The existence of restrictions limiting certain professions to specific market segments has a similar effect to compulsory registration. For example, article 5.*h* of the current Professional Associations Law gives associations the task of drawing up lists from which experts may be appointed, and who are given priority by articles 340 and 341 of the Code of Civil Procedure. Given that as well as registration, associations demand additional requirements be met in order to be included on the list, although there is no legal basis for this, the outcome is that even in professions for which association membership is voluntary, service providers have to join if they wish to avoid being excluded from this market. The passing of APLSCP would overcome this inefficient situation by creating a register of experts drawn up by the ministry on which any suitably qualified professional could be included if they wish.

Reforms to the legal status of the compulsory professional associations

The fact that there are significantly more restrictions to taking up and pursuing a profession in Spain than in neighbouring countries is largely the result of the lobbying power of the professional associations. This arose with the growth of these associations at a time before the existence of the right of association, and made it possible to create trade unions - the only way of achieving a degree of independence outside of government structures. The traditional social prestige of the professional associations, and the lack of a culture of competition in Spain, have delayed until only recently the necessary adaptation of their role to a social democratic state characterised by the rule of law and a free market economy. The two packages of reforms have also made –or attempted to make– certain changes in this direction, although the pressure from the associations has delayed or halted some of the necessary changes.

The traditional social prestige of the professional associations, and the lack of a culture of competition in Spain, have delayed until only recently the necessary adaptation of their role to a social democratic state characterised by the rule of law and a free market economy.

The role of the professional associations is to defend **social rights and the public interest** by delegation from government. It is therefore logical that limits and mechanisms controlling this delegation be established, all the more so given that public and private interests converge on them. However, under the current system the only control measure is the approval by regulation of the associations´ statutes, and this is not always the case, which is clearly inadequate. To start with, it is essential that all associations' statutes and the codes of conduct be approved by the competent authorities following an obligatory and binding opinion by the relevant competition authorities. These checks are currently hampered by the proliferation of associations covering a province or smaller area, making it desirable to **encourage mergers** and prevent associations from splitting. However, neither the Professional Associations Law nor the APLSCP solve this

problem satisfactorily. What is more, the APLSCP allows approval of associations' statutes by administrative silence if consent is not given within six months of their submission, which seems questionable.

As regards ex *post checks*, it is advisable that the administration reserve the option of appointing a member of the association's governing body in advisory capacity, as happens in some other European countries. However, this is not envisaged in either the Law on Professional Associations or the APLSCP. By contrast, Article 37 of the APLSCP, which gives the authorities the power to take control of associations that are inactive or operating poorly should be welcomed. The bill also proposes a series of obligatory disclosure and management transparency measures.

It is also essential that all the **constitutional guarantees** regarding **associations' disciplinary powers** be extended. However, the majority of the infringements set out in associations' statutes and codes of conduct still lack any legal basis. The APLSCP does, however, establish a basic framework for infringements, but refers to the statutes of each association for the definition of their factual basis and consequences. It also refers to the disciplinary proceedings under Law 30/1992 or applicable regional law. Nevertheless, in contrast to the situation in other countries, there is no requirement for persons outside the association to sit on its disciplinary body. In view of the significance of these disciplinary powers and association members' convergence of public and private interests, it would seem advisable for there to be a majority presence of non-members on these bodies to ensure their impartiality, as happens in other European countries.

Finally, the essence of the compulsory professional associations is their contribution to a significant social right or public interest, for which registration with a professional association is essential. Voluntary membership is therefore of itself evidence that this need to control professional activity for the public good does not exist, and therefore there is no need to grant the association public powers, such as disciplinary powers. In short, regulation by professional bodies of which membership is voluntary is meaningless, so the APLSCP would have done better to downgrade their status. Failure to do so leads to discrimination between professionals depending on whether they belong to one type of body or another. What is more, some associations make membership a prerequisite for using the name of the profession. This discriminatory measure, which is of doubtful legality, also creates a perverse incentive to register with the association even though it is not compulsory. The APLSCP is right to prohibit this practice among associations in which membership is voluntary.

Concluding remarks

Together, the legislation passed to implement the EU Directive and that currently being debated represent significant progress towards improving how the professional services sector operates in Spain. However, their promulgation has in some cases not had immediate practical effects due to the numerous existing guidelines in the statutes and codes of conduct of the professional associations that maintain unjustified restrictions on taking up and pursuing a profession. These unjustified restrictions are also enshrined in certain regional laws.

Moreover, despite the major steps taken, the legislation passed and in the pipeline has only scratched the surface in terms of revising the legal status of the compulsory professional associations, allowing registration to remain voluntary, rather than making them ordinary professional associations, and failing to establishing effective control over associations' statutes by the competition authorities or any ex post checks in the event of any inappropriate exercise of functions that the administration delegates to them.

Spain's patchwork of professional bodies needs to be rationalised by adapting their territorial scope and clarifying the activities that should be

subject to compulsory registration. A similar problem arises in the case of professional reserved activities, which need to be reviewed and tested for necessity and proportionality. As regards restrictions on the pursuit of a profession, any indirect measures facilitating price control and limitations on the use of advertising should be eliminated. It would also be desirable to encourage mergers, given the excessively fragmented structure of the professional services market, and inter- and intra-professional collaboration, and to this end the restrictions on business organisation and structure impeding them should be eliminated.

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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)

Royal Decree approving the Regulation of the Law to prevent money laundering and terrorist financing (Royal Decree 304/2014, published in the BOE on May 6th, 2014)

This Royal Decree develops and gives detail to the risk-based approach already set out in the Law to prevent money laundering and terrorist financing. Bearing in mind the limited resources available to entities subject to AML/TF regulations, the new legislation requires them to adopt measures to enhance the efficiency and the effectiveness with which these resources are used by focusing on situations, products and customers with higher levels of risk.

It also responds to the FATF Recommendations of February 2012, which have not yet been incorporated in an EU Directive, but for which Spain has decided to bring forward implementation. Additionally, this new regulation also seeks to make the model of prevention more efficient by incorporating a risk-focused approach applicable to both the public and private sectors.

The main new features this Royal Decree introduces are:

- **Due diligence:** the regulation finally includes certain rules already being applied by certain credit institutions. Specifically:
  - It establishes the point in time at which each of the parties must be **formally identified.**
  - It defines what is understood to constitute valid **documentary evidence.**
  - In the case of the identification of the **beneficial owner,** it will be mandatory to take measures appropriate to the risk in order to verify the party's identity prior to entering into business dealings, executing electronic transactions involving sums of more than 1,000 euros or occasional transactions involving more than 15,000 euros. Additional documentation or information from reliable independent sources must be obtained when either the risk represented by the customer, beneficial owner, business relationship or the transaction is above average.

    Additionally, regulated entities are given permission to access the **General Council of Notaries database of beneficial owners** in order to comply with the obligation to identify and confirm the identity of the beneficial owner.
  - In relation to the **purpose and type of business relationship,** the obligation to check the declared activity when the customer or business relationship represents an above-average risk has been added.
  - When the level of risk allows, regulated entities may apply **simplified due diligence measures** in relation to certain customers and in relation to certain products or transactions.
  - **Enhanced due diligence measures are defined,** and the new features include the

option of requiring that payments or deposits be made into an account in the customer's name, held at a credit institution in the EU or equivalent country.

- **Reporting obligations:** The regulated entities that must have an **automated alert generating and prioritising model are defined.**

- **Control measures:**

  - Small regulated entities are exempt from the **obligation to have written procedures.** Another new feature is that these procedures must be **approved by entities' governing bodies.**

  - The regulation lists the factors that need to be analysed in the **risk assessment,** and highlights the need to **review them periodically.**

  - Entities covered by the regulation with an annual turnover of more than 50 million euros or whose general annual balance sheet exceeds 43 million euros, are to have a **technical unit responsible for information analysis.**

  - The regulation creates the obligation to terminate the **agency agreement** with any agent not complying with AML/TF obligations and requires there to be procedures in place to verify agents' good repute.

  - Considerable importance is attached to the need for **training,** obliging entities to approve an annual training plan on AML/TF issues.

  - The suitability criteria laid down in the applicable sector regulations are to be applied during the hiring of employees, executives and agents.

- **Other provisions:**

  - Action is to be taken when the **means of payment** are suspected or proven to be related to AML/TF activities following reporting of the transaction.

  - In the case of international financial sanctions and counter-measures, the power to authorise funds transfers subject to counter-measures lies with the General Secretariat for the Treasury and Financial Policy. Authorisation must be applied for by the financial institution sending or receiving the funds.

  - In relation to the **financial ownership filings,** it is provided that credit institutions are to report the opening or closing of current accounts, savings accounts, securities accounts or term deposits to the SEPBLAC[1] regardless of the commercial description of the account and changes in the parties' details registered in the immediately previous calendar month.

  - The **National Tax Administration Agency may require and obtain information held or managed** by entities covered by this regulation arising out of their due diligence obligations under the AML/TF Law.

Draft Royal Decree implementing the Law on the organisation, supervision and solvency of credit institutions

The **main features** of this Royal Decree are:

1. **Measures concerning authorisation, registration and activity:**

- This establishes the **requirements** to be met in order to **conduct banking business.** These include: (i) incorporation as a joint-stock company; (ii) having a fully paid-up share capital of at least 18 million euros in the form

[1] Commission on Prevention of Money Laundering and other Monetary Infractions.

of registered shares; (iii) that shareholders with significant stakes meet suitability criteria; and (iv) having a board of directors comprising persons of recognised good repute and professional standing, with the necessary knowledge and experience to perform their duties, and are willing and able to exercise good governance.

- It sets out the regulations for **cross-border activity** concerning the opening of branches and the freedom to provide services in other EU Member States and in non-EU States, and for the provision of services in Spain by credit institutions from other EU Member States and non-EU States. It also lays down the rules applicable to the opening of representative offices in Spanish entities, whose authorisation depends on the Bank of Spain.

- It regulates the relationship between credit institutions and their **agents and the delegation of the provision of services.**

2. Significant shareholdings:

- It maintains the treatment given to significant shareholdings in the previous regulations (Royal Decree 1245/1995).

- The **Bank of Spain will assess proposed acquisitions** of significant shareholdings based on a series of criteria. These include the good repute and professional standing of the potential acquirer or compliance with the suitability requirements applicable to members of the board of directors and general managers and similar who will be running the entity's business.

3. Corporate governance measures and remuneration:

- It incorporates the **suitability requirements** applicable to the members of the administrative and management body already envisaged in national and EU legislation.

- In the following cases, authorisation by the Bank of Spain is not required in order to **obtain credits, sureties and guarantees:**

  - Those covered under collective labour agreements between the entity and its employees.

  - Those under contracts with standardised terms that do not exceed 200,000 euros.

- The board of directors is given responsibility for ensuring that the **corporate governance and remuneration policy information on the entity's website** is kept up to date and authorises the Bank of Spain to specify the terms of the configuration of the website.

- The Bank of Spain is also authorised to make the necessary checks to ensure that the appointments committee has **practices in place to promote gender diversity.**

4. Solvency of credit institutions

- As regards requirements for organisation, risk management and internal control, it lays down that entities must have an **internal audit function** and a **regulatory compliance function** independent from other areas, units or functions.

- The board of directors must have unimpeded access to information on the entity's risk status.

- Entities are to have **policies and procedures to control credit, counterparty, residual, and concentration risk, risks deriving from securitisation transactions, reputational risk, market risk, risks arising out of activities separate from the trading book, operational risk, liquidity risk, and risk of excessive leverage.**

- **Capital buffers.** The **powers given to the Bank of Spain** include: (i) setting the percentages of countercyclical buffers; (ii) identifying global systemically important financial institutions;

(iii) identifying other systemically important financial institutions; and (iv) rules on systemically important financial institutions' buffers against systemic risks.

5. Supervisory measures

- The Bank of Spain will **review the systems, strategies, procedures and mechanisms** that institutions apply to comply with the solvency standards, and **assess the risks.**

- **Internal methods.** The Bank of Spain will ensure that institutions do not depend solely or mechanically on external credit ratings when assessing the solvency of an entity or financial instrument. To this end it may publish technical guides. Moreover:

  - Entities authorised to apply internal models will **notify the Bank of Spain of the results of applying these internal models to their exposures** included on **reference portfolios** drawn up by the EBA, and where applicable, on the **specific portfolios** prepared by the Bank of Spain, in order to **identify possible divergences** in the risk-weighted exposures or the capital requirements so as to **take corrective measures.**

  - The **Bank of Spain will regularly review** (at least once every three years) institutions' **compliance** with the requirements of models whose use to calculate capital requirements is subject to prior authorisation.

6. Other points

- **It establishes the percentage** of members of the board of trustees of **banking foundations** that must have specific knowledge and experience of financial matters.

- It repeals the following laws:

  - **Royal Decree 1245/1995,** July 14th, 1995, on the creation of banks, cross-border activity and other points regarding the legal framework governing credit institutions.

  - **Royal Decree 216/2008,** February 15th, 2008, on financial institutions' capital requirements, except the provisions concerning investment firms.

Draft law amending the Share Capital Companies Law to improve corporate governance

This draft law **incorporating the proposed regulatory changes put forward by the experts´ committee on corporate governance in December 2013** aims to improve corporate governance practices among Spain's companies, avoid abuses by administrative and management bodies, and, in short, to give more control over business to the general shareholders' meeting.

The changes affect listed companies in particular, although there are also important changes affecting all types of companies. These relate mainly to three areas: the powers of the general meeting of shareholders, the administration of the company, and remuneration of board members.

Draft Bank of Spain Circular on the SAREB's criteria for estimating the value of its assets

This draft circular implements the authority granted to the Bank of Spain under Law 9/2012, November 14th, 2012, on the restructuring and resolution of credit institutions whereby the Management Company for Assets Arising from the Banking Sector Reorganisation (SAREB) is to comply with its general obligations to prepare annual accounts.

The draft Circular establishes that after initial recognition of its assets, the SAREB must **justify its methods of estimating value corrections,** and that its methodology is to be approved and

reviewed by its board of directors. Moreover, it must keep an **itemised inventory of its financial and real estate assets** stating a **fair value for each** asset item, such that the sum of the fair values of all the assets acquired is equal to the transfer value of the assets transferred both as a whole and with an individual price for each transferring institution.

In order for the SAREB's balance sheet to state realisable prices, the draft stipulates that **the need to make value corrections to "asset units" will be assessed when there is evidence that their value,** taking both the accrued interest and cumulative impairment into account, **is less than the estimated value of the "asset unit" as a whole,** in accordance with the methodology developed by the SAREB, charging the impairment to the profit and loss account in the period in which it arises.

In terms of the **timetable,** the Bank of Spain requires that at least 30% of the total property and financial assets must be appraised before December 31st, 2014, 60% before December 31st, 2015, and the remainder before December 31st, 2016.

Spanish economic forecasts panel: July 2014[1]

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2014 has been raised a tenth of a percent to 1.2%

The indicators available for the second quarter suggest that the upward trend in GDP will continue. The most significant of these indicators is the accelerating rate of new social security system registrations, together with qualitative indicators (confidence indicators and PMIs), which are almost all back to pre-crisis levels for the first time.

The consensus forecast for GDP growth in 2014 has risen by a tenth of a percentage point (pp), to 1.2%, as a consequence of the increased expected contribution of domestic demand to 0.8 percentage points, while the expected contribution of the external sector has dropped to 0.4 pp due to lower forecast export growth and higher expected import growth. A quarter-on-quarter increase of 0.4% is anticipated in the second quarter.

The forecast for 2015 remains unchanged at 1.9%

The consensus forecast for 2015 remains unchanged at 1.9%. Domestic demand is expected to contribute 1.4 pp, and the external sector 0.5 pp. Construction investment is set to grow again for the first time since 2007. A stable quarter-to-quarter growth rate of between 0.4% and 0.5% is expected for the rest of 2014 and throughout 2015.

Further improvement in the industrial activity forecast

The industrial production index remained on its upward path in April and May, as did the other indicators of industrial activity.

The consensus forecast for this indicator's growth in 2014 has been revised upwards again, to 2.2%, while in 2015 a 2.9% increase is expected (one tenth of a percentage point higher than in the previous Panel).

Expected inflation has been revised downwards again

The inflation rate remains at historic lows. In June it dropped to 0.1%. Falling labour costs, limited pressure from domestic demand, and the surplus production capacity, will keep inflation low for some time to come. An annual average of 0.3% is forecast for this year and 0.9% for the next.

The year-on-year rate for the end of the year (Table 3) has also been revised downwards, to 0.6% in December 2014 and 1.1% in December 2015.

[1] The Spanish Economic Forecasts Panel is a survey run by FUNCAS which consults the 18 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 18 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.

Little change in the employment projections

New social security system registrations continued to pick up speed in the second quarter. The outlook for employment has remained virtually unchanged, with growth of 0.5% this year and 1.3% next year. The forecast for the unemployment rate now stands at 24.9% and 23.7% in 2014 and 2015, respectively.

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 0.6% in both 2014 and 2015, while ULCs are expected to drop by 0.6% this year, and rise marginally (by 0.1%) next year. This suggests that the rate at which cost competitiveness is being recovered is moderating.

The trade surplus will increase in 2014 and 2015

The worse than expected performance of the external sector in the first quarter has led to the expected current account surplus being cut to 1.2% of GDP in 2014 and 1.5% of GDP in 2015. In any event, these figures represent an increase on the 0.8% registered in 2013.

The public deficit will exceed the government's forecast

Up to April, the combined deficit of the central government, the autonomous regions, and the social security fund was 1.16% of GDP, compared with 1.43% registered in the same period the previous year. Both the central government and the social security fund improved their results compared with the same period in 2013, while the position of the autonomous regions taken as a whole worsened.

The consensus forecast for 2014 has improved by one tenth of a percentage point since the previous Panel, rising to 5.7% of GDP. The consensus forecast for 2015 remains unchanged at 4.8% of GDP. In both cases the deficit exceeds the government's objective (5.5% and 4.2% in 2014 and 2015, respectively).

The external context is expected to improve

U.S. GDP fell by 2.9% on an annualised basis in the first quarter of 2014, largely due to adverse weather conditions. The indicators for the second quarter suggest a return to a sustained rate of growth. The euro area disappointed with sluggish growth of 0.2%, without a significant improvement being perceptible in the second quarter. In the case of the emerging economies, the perception remains that of a loss of momentum. Additionally, in financial markets the climate of euphoria prevailing for several months now has been boosted by the measures adopted by the ECB at its meeting on June 5th.

The panellists' opinion on the current state of play in the EU and elsewhere is that it is neutral, although an improvement is expected over the coming months.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) have edged downwards since the recent ECB meeting, as the decisions made guarantee that rates will remain low for some considerable time. As in previous Forecast Panels, rates are still viewed as being too low, but are expected to remain stable over the coming months.

In the case of long-term rates, the downward trend in yields on Spanish debt also became more pronounced in the wake of the ECB's decisions, although it has since stabilised at around 2.7%

(ten years). As a result of its continuing drop, in conjunction with the improved economic conditions, this Forecast Panel is the first since 2008 to consider the long-term rates to be too low. Rates are expected to remain stable over the coming months.

The euro is still overvalued

The dollar-euro exchange rate, which is around 1.36 –down from the year's peak at 1.39– has barely been affected by the measures adopted by the ECB on June 5th. All the participants in the Forecast Panel take the view that the euro remains overvalued, and the majority view is that it will fall in value over the coming months.

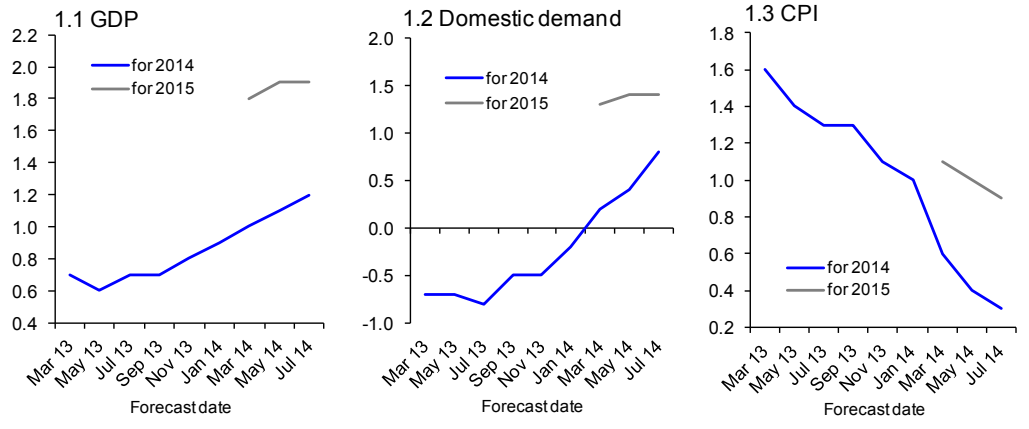
Fiscal policy should be restrictive

The majority view is that fiscal policy is restrictive, and that this orientation should be maintained. Almost all the panellists regard current monetary policy to be expansionary, and the almost unanimous view was that it should stay that way.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – July 2014

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

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF Construction		Domestic demand	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Analistas Financieros Internacionales (AFI)	1.1	1.5	1.5	1.3	-1.1	-1.4	0.1	2.7	7.7	5.8	-4.6	0.8	0.7	1.0
Banco Bilbao Vizcaya Argentaria (BBVA)	1.1	1.9	1.4	1.3	-1.6	1.4	1.0	4.7	7.9	6.9	-3.8	2.8	0.7	1.9
Bankia	1.3	1.8	1.5	1.6	-0.9	-0.5	0.2	3.0	8.5	7.6	-4.7	0.3	0.7	1.5
CatalunyaCaixa	1.1	1.8	1.6	1.5	0.9	-0.5	0.6	2.7	8.8	5.9	-6.0	-1.1	1.2	1.3
Cemex	1.1	1.7	1.4	1.5	-1.2	-0.2	1.2	3.1	6.6	5.5	-4.0	0.0	0.8	1.4
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.4	2.1	1.3	1.7	-1.1	-0.6	0.9	4.0	6.6	6.3	-3.2	2.1	0.7	1.6
Centro de Predicción Económica (CEPREDE-UAM)	1.3	2.2	1.1	1.3	-1.4	1.1	0.1	3.2	4.9	3.6	-3.4	2.7	0.5	1.6
CEOE	1.2	1.8	1.7	1.8	-1.2	-1.3	-0.1	3.6	8.8	7.7	-6.8	0.4	0.7	1.5
ESADE	1.1	--	1.4	--	-1.7	--	1.0	--	7.5	--	3.5	--	0.5	--
Fundación Cajas de Ahorros (FUNCAS)	1.4	2.2	1.7	2.0	-0.8	-0.5	0.8	2.1	9.6	6.4	-4.9	-1.4	1.0	1.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.1	1.8	1.4	1.4	-1.3	0.6	0.8	3.0	6.8	6.9	-3.5	0.5	0.7	1.6
Instituto de Estudios Económicos (IEE)	1.4	--	1.6	--	-1.2	--	0.9	--	7.7	--	-4.3	--	0.9	--
Instituto Flores de Lemus (IFL-UC3M)	0.8	1.3	1.7	2.1	-1.3	-1.9	0.8	1.5	10.7	9.5	-6.1	-3.7	0.9	1.1
Intermoney	1.2	2.1	1.6	1.7	-1.1	-0.8	0.3	2.6	7.0	6.1	-4.5	0.4	1.3	2.0
La Caixa	1.2	1.7	1.7	1.4	-1.1	-2.1	0.1	2.3	8.1	5.5	-5.4	0.2	0.7	0.8
Repsol	1.2	1.8	1.7	1.3	0.9	-0.9	-0.5	1.5	7.2	6.3	-5.9	-1.4	1.1	0.8
Santander	1.1	2.0	2.0	1.8	1.3	-0.2	1.2	3.9	10.2	10.8	-4.8	0.3	1.7	1.8
Solchaga Recio & asociados	1.3	2.1	1.2	1.6	-1.4	-0.5	0.4	3.3	5.7	6.6	-3.3	1.0	0.4	1.4
CONSENSUS (AVERAGE)	1.2	1.9	1.5	1.6	-0.9	-0.5	0.5	2.9	7.8	6.7	-4.2	0.2	0.8	1.4
Maximum	1.4	2.2	2.0	2.1	1.3	1.4	1.2	4.7	10.7	10.8	3.5	2.8	1.7	2.0
Minimum	0.8	1.3	1.1	1.3	-1.7	-2.1	-0.5	1.5	4.9	3.6	-6.8	-3.7	0.4	0.8
Change on 2 months earlier[1]	0.1	0.0	0.3	0.1	1.0	-0.1	0.2	0.1	2.3	0.8	-0.6	-0.4	0.4	0.0
- Rise[2]	6	3	15	7	14	6	9	5	15	7	2	3	15	6
- Drop[2]	1	1	0	1	1	4	6	3	0	2	12	6	0	3
Change on 6 months earlier[1]	0.3	--	0.9	--	0.7	--	1.4	--	4.2	--	0.0	--	1.0	--
Memorandum ítems:														
Government (April 2014)	1.2	1.8	1.4	1.8	-1.3	-1.9	0.5	3.0	5.5	4.5	-3.3	1.8	--	--
Bank of Spain (March 2014)	1.2	1.7	1.1	1.2	-1.5	-2.5	0.0	4.2	6.3 [3]	7.5 [3]	-4.4	1.7	--	--
EC (Mary 2014)	1.1	2.1	1.3	1.6	-0.8	-0.7	-1.4	4.2	6.5 [3]	8.2 [3]	--	--	0.4	1.6
IMF (April 2014)	0.9	1.0	1.2	0.9	-1.7	-2.2	0.6	1.2	--	--	--	--	0.5	0.3
OECD (May 2014)	1.0	1.5	1.0	1.0	-3.6	-2.5	0.3	2.0	--	--	--	--	-0.1	0.5

[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 – July 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]	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Analistas Financieros Internacionales (AFI)	4.8	6.1	3.9	5.0	--	--	0.2	0.7	--	--	0.8	1.2	25.0	24.1	1.5	1.8	-5.5	-5.2
Banco Bilbao Vizcaya Argentaria (BBVA)	6.0	5.1	5.4	5.4	--	--	0.3	0.9	-1.0	1.2	0.2	1.1	25.1	24.2	1.3	1.5	-5.8	-5.1
Bankia	6.5	6.0	5.1	5.4	1.4	2.2	0.2	0.8	0.5	0.7	0.4	1.0	24.8	23.2	1.6	1.9	--	--
CatalunyaCaixa	4.3	5.4	5.7	5.4	--	--	0.3	1.1	--	--	0.8	1.2	24.9	24.0	--	--	--	--
Cemex	6.1	6.2	5.7	5.9	--	--	0.2	1.0	--	--	0.5	1.0	25.5	24.7	1.0	1.5	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	6.0	3.8	5.1	--	--	0.3	0.7	--	--	0.9	1.5	25.0	23.8	1.4	1.9	-5.7	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	5.5	6.5	3.5	5.0	1.9	2.5	0.2	0.7	0.3	0.5	0.4	1.3	24.9	23.5	1.0	0.5	-5.9	-4.3
CEOE	6.6	5.7	5.4	4.8	3.4	3.0	0.3	1.1	0.3	0.4	0.4	1.4	24.7	23.3	1.1	1.8	-5.6	-5.4
ESADE	5.5	--	4.4	--	--	--	0.5	--	0.3	--	0.3	--	25.0	--	1.9	--	-5.7	--
Fundación Cajas de Ahorros (FUNCAS)	5.0	5.3	4.0	3.9	2.6	3.0	0.1	0.7	0.2	0.5	0.6	1.4	24.5	22.6	1.1	1.7	-5.5	-4.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.7	5.8	4.8	5.4	1.8	2.8	0.4	1.1	--	--	0.3	1.1	25.2	24.1	1.4	1.4	-5.9	-5.0
Instituto de Estudios Económicos (IEE)	5.1	--	3.7	--	--	--	0.2	--	0.3	--	0.7	--	24.5	--	1.2	--	-5.6	--
Instituto Flores de Lemus (IFL-UC3M)	3.6	4.8	4.0	4.6	2.1	3.2	0.2	1.1	--	--	--	--	24.6	22.9	--	--	--	--
Intermoney	4.3	5.0	5.0	4.9	1.5	3.0	0.3	1.1	--	--	0.5	1.3	25.0	24.1	0.7	1.0	-5.9	-4.4
La Caixa	5.3	5.5	4.5	3.0	1.0	2.4	0.4	1.1	-0.9	0.8	0.8	1.4	24.8	23.6	1.1	1.4	-5.6	-4.2
Repsol	4.7	7.3	4.9	5.0	2.7	3.2	0.2	1.0	0.0	0.4	0.6	1.0	25.0	23.9	1.3	1.7	-5.5	-5.0
Santander	3.1	4.3	5.0	3.6	3.1	3.4	0.3	0.9	0.0	0.7	0.6	1.7	24.6	23.2	0.6	1.1	-5.5	-4.2
Solchaga Recio & asociados	5.5	6.4	3.5	5.1	--	--	0.2	0.8	--	--	0.5	1.5	24.6	23.1	1.4	1.5	-5.7	-6.0
CONSENSUS (AVERAGE)	5.2	5.7	4.6	4.8	2.2	2.9	0.3	0.9	0.0	0.6	0.5	1.3	24.9	23.7	1.2	1.5	-5.7	-4.8
Maximum	6.6	7.3	5.7	5.9	3.4	3.4	0.5	1.1	0.5	1.2	0.9	1.7	25.5	24.7	1.9	1.9	-5.5	-4.2
Minimum	3.1	4.3	3.5	3.0	1.0	2.2	0.1	0.7	-1.0	0.4	0.2	1.0	24.5	22.6	0.6	0.5	-5.9	-6.0
Change on 2 months earlier[1]	-0.1	0.0	1.1	0.0	0.5	0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.1	-0.1	0.0	-0.2	-0.2	0.1	0.0
- Rise[2]	5	3	14	9	6	3	1	3	0	0	6	4	0	0	1	0	7	3
- Drop[2]	8	6	1	2	1	3	13	8	2	2	1	0	6	4	10	8	0	0
Change on 6 months earlier[1]	-0.6	--	1.6	--	1.4	--	-0.7	--	-0.1	--	0.5	--	-0.7	--	-0.6	--	0.2	--
Memorandum items:																		
Government (April 2014)	5.0	6.1	3.6	5.0	--	--	--	--	0.2	0.6	0.6	1.2	24.9	23.3	1.4	1.7	-5.5	-4.2
Bank of Spain (March 2014)	5.1	6.1	3.0	4.4	--	--	--	--	--	--	0.4	0.9	25.0	23.8	2.1[6]	2.5[6]	-5.8	-5.5
EC (May 2014)	5.5	6.7	3.4	5.8	--	--	0.1	0.8	0.2	0.3	0.4	1.2	25.5	24.0	1.4	1.5	-5.6	-6.1
IMF (April 2014)	5.4	5.6	4.5	4.1	--	--	0.3	0.8	--	--	0.3	0.4	25.5	24.9	0.8	1.4	-5.9	-4.9
OECD (May 2014)	5.6	6.3	2.6	3.8	--	--	0.1	0.5	0.1	0.3	0.3	0.8	25.4	24.4	1.6	2.0	-5.5	-4.5

[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 - July 2014[1]

	Quarter-on-quarter change (percentage)							
	14-Q1	14-Q2	14-Q3	14-Q4	15-Q1	15-Q2	15-Q3	15-Q4
GDP[2]	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5
Household consumption[2]	0.4	0.3	0.3	0.3	0.4	0.4	0.5	0.5

[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 – July 2014[1]

Monthly change (%)				Year-on-year change (%)	
Jun-14	Jul-14	Aug-14	Sep-14	Dec-14	Dec-15
0.1	-0.4	0.2	0.1	0.6	1.1

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

Table 4

Opinions – July 2014

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	16	1	14	4	0
International context: Non-EU	4	14	0	12	5	1
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	10	7	1	0	16	2
Long-term interest rate[3]	10	6	2	2	14	2
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	18	0	0	0	5	13
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	13	4	1	8	7	3
Monetary policy assessment[1]	0	3	15	0	1	17

[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:

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	-2.1	-2.3	-5.1	-9.6	-8.0	-10.9	1.7	4.9	0.4	-2.7	1.5
2014		1.4	1.7	-0.8	0.8	-4.9	-5.1	-4.8	8.2	5.0	4.0	0.9	0.4
2015		2.2	2.0	-0.5	2.1	-1.3	-2.2	-0.7	6.0	5.3	3.9	1.6	0.6
2013	I	-1.9	-4.2	-2.3	-7.2	-9.8	-8.8	-10.6	-3.2	2.9	-4.9	-4.3	2.4
	II	-1.6	-3.0	-3.4	-5.8	-10.1	-8.1	-11.9	0.6	9.5	3.2	-3.6	2.0
	III	-1.1	-1.7	0.2	-5.3	-9.8	-7.8	-11.4	1.1	3.5	0.6	-2.1	1.0
	IV	-0.2	0.7	-3.5	-1.7	-8.6	-7.2	-9.8	8.7	3.7	2.7	-0.6	0.4
2014	I	0.5	1.6	-0.2	-1.1	-8.7	-7.1	-9.9	9.5	8.1	9.3	0.7	-0.2
	II	1.2	1.8	-0.9	1.2	-4.5	-5.3	-3.9	8.9	3.0	3.5	1.2	-0.1
	III	1.7	1.7	-1.3	1.5	-3.4	-4.3	-2.6	7.6	4.2	1.8	0.8	0.9
	IV	2.1	1.7	-0.9	1.6	-2.8	-3.4	-2.4	7.1	4.8	1.9	1.0	1.1
2015	I	2.3	1.7	-0.8	1.8	-2.0	-2.9	-1.2	6.3	4.9	2.2	1.3	1.0
	II	2.2	2.0	-0.2	1.9	-1.7	-2.5	-1.0	6.0	5.3	3.5	1.5	0.7
	III	2.2	2.1	-1.0	2.1	-1.1	-2.0	-0.5	5.9	5.4	4.4	1.7	0.5
	IV	2.2	2.2	0.1	2.4	-0.6	-1.4	-0.1	5.8	5.5	5.4	2.0	0.2
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2013	I	-1.2	-1.6	4.1	-4.8	-12.4	-4.3	-18.8	7.6	-16.7	-17.3	-1.1	-0.1
	II	-0.5	0.4	-4.5	-7.3	-17.1	-13.3	-20.3	8.4	31.2	26.7	-2.3	1.7
	III	0.3	2.1	2.3	2.8	-3.6	-5.4	-2.0	11.9	2.5	8.5	2.2	-1.9
	IV	0.7	2.1	-14.6	2.7	-0.4	-5.6	4.2	7.0	3.2	-2.2	-1.2	1.9
2014	I	1.5	1.7	18.9	-2.5	-12.5	-3.9	-19.0	10.8	-1.5	6.2	4.0	-2.5
	II	2.2	1.2	-7.1	2.0	-1.1	-6.2	3.1	5.9	7.8	1.7	0.2	2.0
	III	2.5	1.8	0.5	3.7	1.1	-1.5	3.2	6.8	7.4	1.7	1.7	0.8
	IV	2.3	2.0	-13.3	3.5	2.1	-1.8	5.2	5.1	5.9	-1.8	0.0	2.4
2015	I	2.0	2.0	19.4	-1.8	-9.5	-1.9	-15.0	7.5	-1.2	7.4	4.2	-2.1
	II	2.0	2.3	-4.5	2.4	0.2	-4.8	4.1	4.7	9.6	7.0	1.2	0.8
	III	2.2	2.3	-2.8	4.6	3.2	0.5	5.2	6.2	7.6	5.3	2.0	0.2
	IV	2.3	2.4	-9.3	4.5	4.4	0.8	7.0	4.7	6.4	2.1	1.1	1.2
		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		1,029.3	59.3	20.2	19.2	11.5	5.2	6.3	7.7	32.6	31.9	99.3	0.7
2013		1,023.0	59.2	20.1	17.7	10.1	4.4	5.6	7.7	34.1	31.7	97.6	1.5
2014		1,036.9	59.6	19.7	17.4	9.3	4.0	5.3	8.1	34.9	32.0	97.1	2.9
2015		1,064.8	59.6	19.2	17.3	8.9	3.7	5.2	8.4	35.9	32.7	96.7	3.3

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

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

Chart 1.1.- GDP
Percentage change

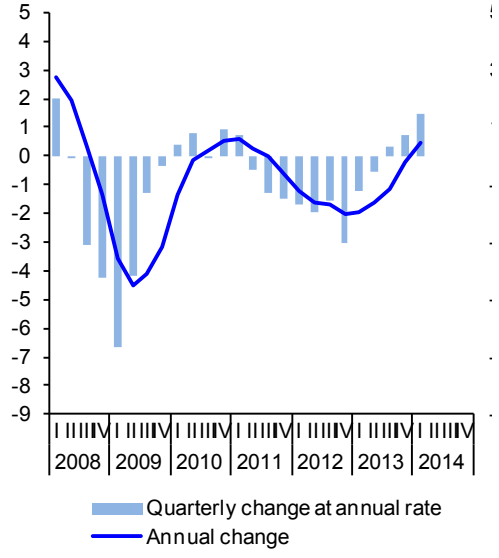


Chart 1.2.- Contribution to GDP annual growth
Percentage points

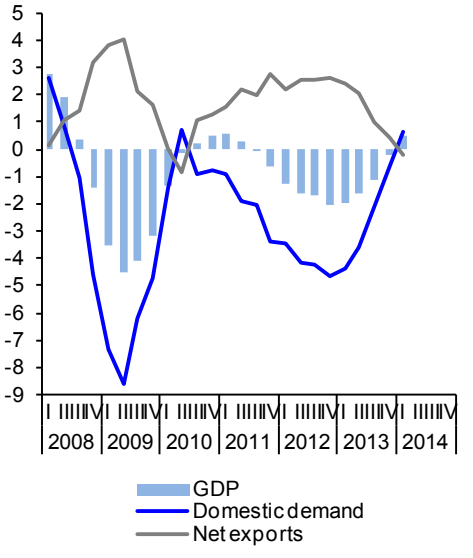


Chart 1.3.- Final consumption
Annual percentage change

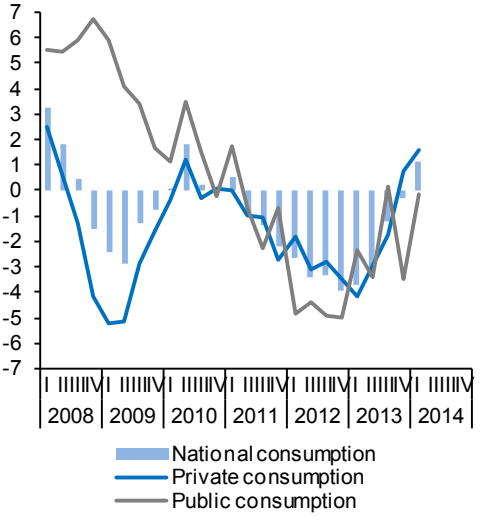


Chart 1.4.- Gross fixed capital formation
Annual percentage change

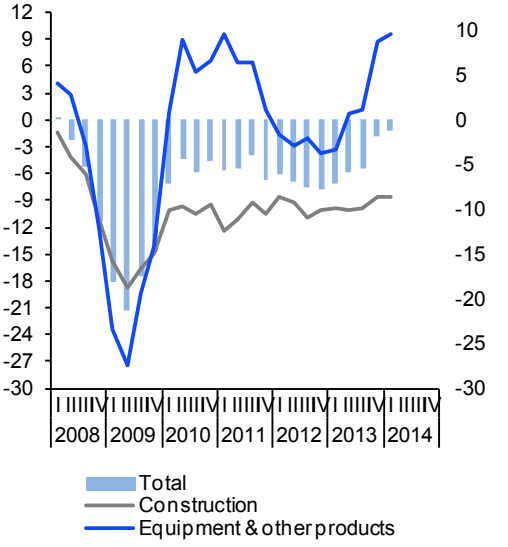


Table 2

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	1.1	-1.2	-7.7	-0.5	-0.2	-0.3	-3.3	-0.2	0.0	-0.6	-0.9	-1.2	
2014	1.4	4.7	1.4	-4.1	1.9	4.2	0.3	-1.7	0.9	1.5	0.2	1.8	1.2	
2015	2.2	1.0	2.7	-0.3	2.4	4.2	1.6	0.7	1.8	2.7	0.5	2.3	1.8	
2013 I	-1.9	-4.1	-2.5	-7.0	-1.1	-1.9	-0.7	-3.7	-0.3	-0.8	0.4	-2.7	-2.0	
II	-1.6	3.9	-2.1	-8.3	-0.9	-0.2	1.0	-4.1	-0.6	-0.7	-2.0	-0.6	-1.0	
III	-1.2	0.9	-0.8	-7.8	-0.6	0.2	-1.6	-2.7	-0.7	-0.5	-0.8	-0.7	-0.8	
IV	-0.1	4.1	0.3	-7.7	0.5	1.3	-0.1	-2.4	0.6	1.9	-0.2	0.5	-1.2	
2014 I	0.2	6.8	0.7	-8.4	0.8	1.8	0.0	-2.2	0.7	1.2	0.2	1.6	3.3	
II	1.2	4.7	1.1	-4.2	1.7	3.7	0.1	-2.0	0.8	1.6	0.4	1.7	0.8	
III	1.8	5.0	1.7	-2.3	2.2	5.0	0.6	-1.5	1.0	1.5	0.2	1.9	0.3	
IV	2.3	2.2	2.1	-1.1	2.7	6.3	0.6	-1.1	1.1	1.8	0.1	1.9	0.5	
2015 I	2.4	-0.5	2.4	-0.7	2.9	6.1	1.2	-0.6	1.5	2.3	0.4	1.9	0.6	
II	2.2	0.5	2.7	-0.5	2.4	4.4	1.4	0.3	1.7	2.6	0.6	2.2	2.2	
III	2.1	2.0	2.8	-0.1	2.2	3.6	1.9	1.4	1.9	2.8	0.3	2.5	2.3	
IV	2.1	2.0	3.0	0.4	2.1	2.9	1.9	1.6	2.2	3.0	0.7	2.7	2.3	
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate														
2013 I	-1.8	2.5	-3.0	-7.5	-1.0	1.1	-0.8	9.8	-8.6	-0.5	-3.8	5.4	5.2	
II	-0.7	6.1	2.3	-16.1	0.2	3.3	6.4	-1.2	4.5	-3.9	-4.3	-3.7	1.4	
III	0.9	-5.1	2.3	-5.0	1.5	2.8	-12.8	-18.4	5.2	8.6	4.5	-1.3	-6.2	
IV	1.2	13.7	-0.1	-1.7	1.4	-2.0	8.5	2.4	2.0	4.0	3.2	1.6	-4.7	
2014 I	-0.6	13.6	-1.8	-10.0	0.3	3.1	-0.8	10.9	-8.1	-3.1	-2.2	10.1	25.6	
II	3.3	-2.0	4.1	0.4	3.5	11.5	7.0	-0.4	4.7	-2.4	-3.8	-3.0	-7.9	
III	3.6	-4.0	4.9	2.6	3.6	7.8	-11.2	-16.9	6.0	8.2	3.7	-0.6	-8.2	
IV	3.0	2.1	1.3	3.1	3.4	2.9	8.8	4.1	2.3	4.8	3.0	1.7	-4.0	
2015 I	0.0	2.0	-0.4	-8.5	0.9	2.4	1.4	13.5	-6.4	-1.2	-1.2	10.0	26.0	
II	2.4	2.0	5.2	1.2	1.9	4.6	8.1	3.2	5.4	-1.0	-3.0	-1.8	-1.6	
III	3.3	2.0	5.2	4.2	2.8	4.6	-9.6	-13.4	7.0	8.8	2.5	0.4	-8.0	
IV	2.9	2.0	2.0	5.4	3.0	0.0	9.0	5.0	3.2	5.6	4.7	2.6	-4.0	
	Current prices (EUR billions)	**Percentage of value added at basic prices**												
2007	946.0	2.7	17.3	13.9	66.1	23.0	4.2	5.3	6.9	7.2	16.1	3.4	11.3	
2008	997.0	2.5	16.9	13.6	67.0	23.1	4.1	5.4	6.9	7.4	16.7	3.4	9.1	
2009	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	933.2	2.6	17.5	7.8	72.1	25.9	4.0	3.9	8.4	7.8	18.3	3.8	9.6	
2014	944.3	2.6	17.4	7.4	72.5	26.4	3.8	3.7	8.3	7.8	18.6	3.9	9.8	
2015	968.2	2.7	17.6	7.2	72.6	27.0	3.7	3.7	8.4	7.9	18.2	3.9	10.0	

**Seasonally and Working Day Adjusted.*

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

Chart 2.1.- GVA by sectors
Annual percentage change

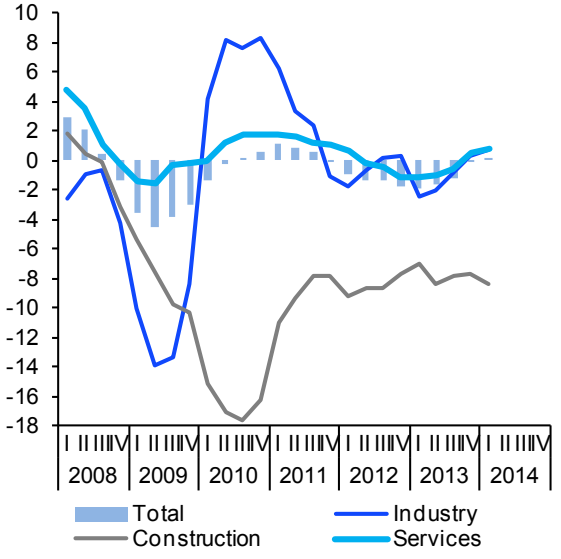


Chart 2.2.- GVA, services (I)
Annual percentage change

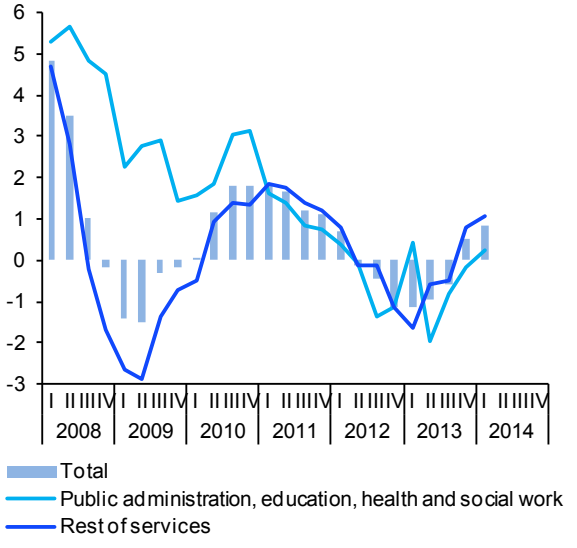


Chart 2.3.- GVA, services (II)
Annual percentage change

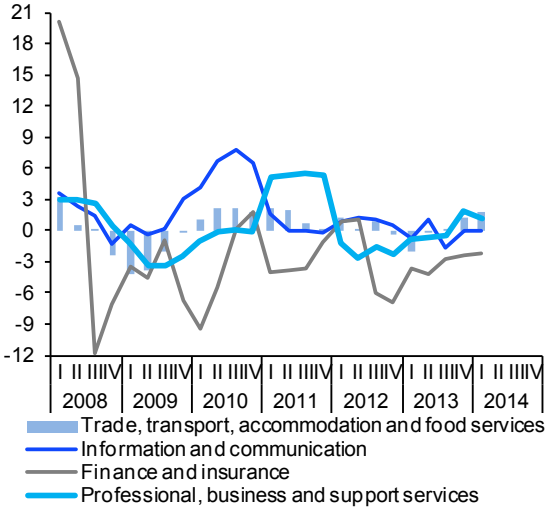


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

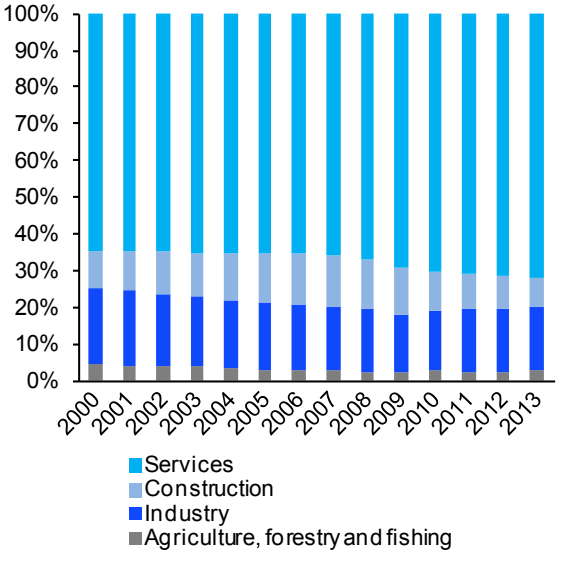


Table 3a

National accounts: Productivity and labour costs (I)

Forecasts in blue

		Total economy						Manufacturing industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
2007		126.4	123.1	102.7	128.2	124.7	94.3	107.8	91.1	118.3	139.9	118.3	95.7
2008		127.6	122.8	103.9	137.0	131.9	97.4	104.1	89.7	116.0	147.4	127.0	98.2
2009		122.7	115.2	106.5	142.7	133.9	98.9	91.3	78.0	117.1	150.4	128.5	99.9
2010		122.4	112.5	108.8	143.3	131.7	97.1	95.5	74.9	127.4	151.9	119.2	93.3
2011		122.5	110.0	111.4	145.2	130.4	96.1	96.7	73.4	131.7	154.6	117.4	90.5
2012		120.5	104.8	115.0	145.5	126.5	93.3	95.7	69.0	138.6	158.1	114.1	88.5
2013		119.0	101.2	117.6	146.5	124.5	91.3	94.8	65.4	145.1	160.2	110.5	85.5
2014		120.6	101.8	118.6	146.7	123.8	90.7	97.2	--	--	--	--	--
2015		123.3	103.2	119.5	147.4	123.4	90.0	100.5	--	--	--	--	--
2012	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	90.5	93.8	67.7	138.6	158.0	114.0	85.4
2013	I	119.0	101.6	117.2	145.7	124.3	90.7	94.4	66.3	142.3	157.9	111.0	86.3
	II	118.9	101.0	117.7	146.5	124.5	91.2	95.1	65.8	144.6	161.0	111.3	86.3
	III	119.0	101.0	117.8	147.2	125.0	91.7	95.0	64.8	146.6	161.8	110.4	86.6
	IV	119.2	101.1	117.9	146.6	124.3	91.4	94.9	64.7	146.8	160.3	109.2	82.8
2014	I	119.6	101.2	118.2	145.6	123.2	90.4	95.9	64.5	148.6	159.5	107.3	84.1
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	-3.0	-1.1	-6.0	5.2	2.3	-2.8	-2.3
2013		-1.2	-3.4	2.3	0.7	-1.6	-2.2	-0.9	-5.3	4.7	1.3	-3.2	-3.4
2014		1.4	0.6	0.8	0.2	-0.6	-0.6	2.5	--	--	--	--	--
2015		2.2	1.4	0.8	0.5	-0.3	-0.8	3.4	--	--	--	--	--
2012	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	-5.4	0.1	-6.3	6.9	1.4	-5.1	-5.4
2013	I	-1.9	-4.7	2.9	-0.5	-3.2	-4.3	-2.5	-5.7	3.3	0.7	-2.5	-4.1
	II	-1.6	-4.0	2.5	-0.1	-2.5	-3.1	-1.2	-5.2	4.2	1.2	-2.8	-3.2
	III	-1.1	-3.3	2.2	0.5	-1.6	-2.1	-0.8	-5.7	5.2	2.0	-3.1	-3.2
	IV	-0.2	-1.6	1.5	2.7	1.2	1.0	1.2	-4.5	5.9	1.4	-4.2	-3.0
2014	I	0.5	-0.3	0.8	-0.1	-0.9	-0.3	1.7	-2.6	4.4	1.0	-3.3	-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

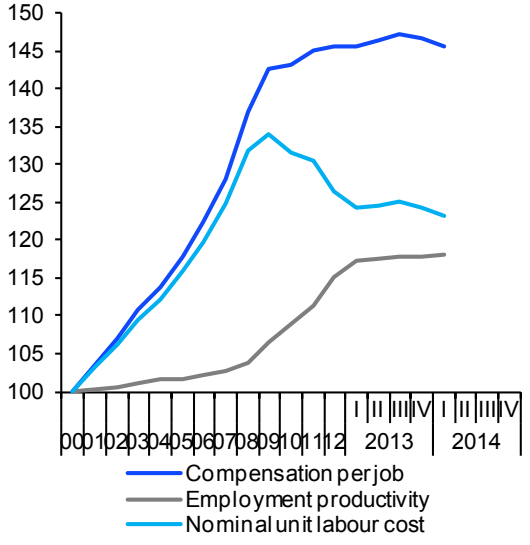
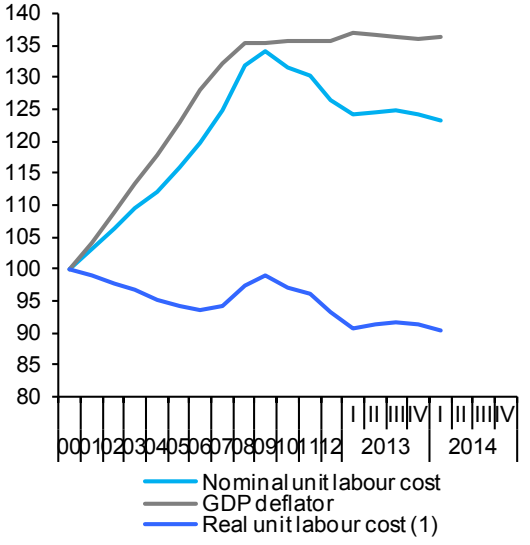


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

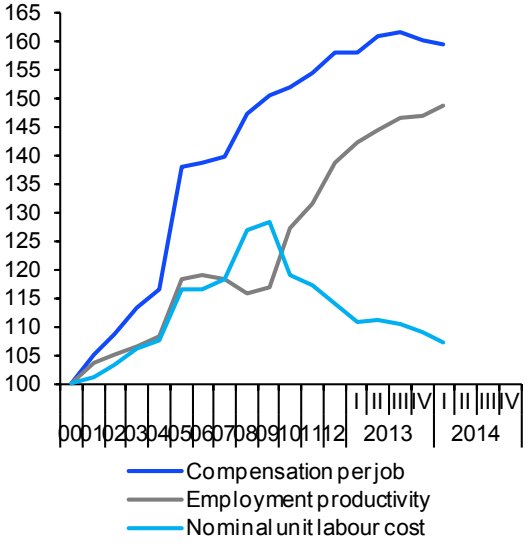
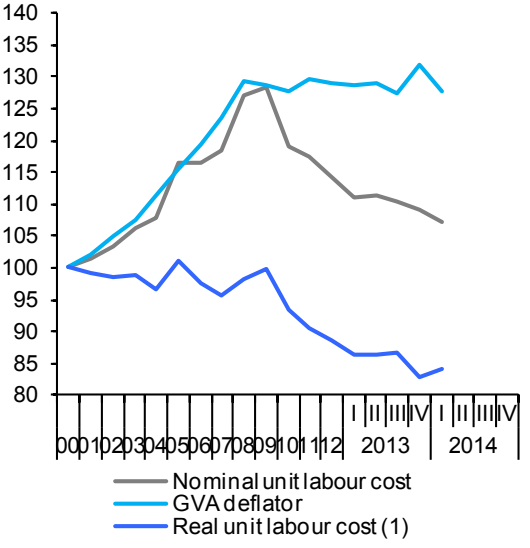


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(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		82.6	52.9	156.0	178.2	114.2	75.6	134.7	122.7	109.8	139.2	126.8	93.5
2014		79.2	49.7	159.3	--	--	--	137.2	123.9	110.7	--	--	--
2015		79.0	49.2	160.7	--	--	--	140.5	125.9	111.6	--	--	--
2012	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	85.9	54.9	156.6	173.0	110.5	72.2	134.3	122.9	109.3	138.6	126.9	92.5
	II	82.3	53.1	154.8	182.4	117.8	78.5	134.3	122.1	110.0	139.0	126.3	93.8
	III	81.2	52.3	155.3	178.2	114.7	76.5	134.8	122.8	109.8	139.8	127.3	93.9
	IV	80.9	51.4	157.3	179.6	114.2	75.5	135.3	122.9	110.1	139.3	126.5	93.8
2014	I	78.8	49.9	157.9	174.0	110.2	73.0	135.4	123.3	109.9	138.7	126.3	92.5
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		-7.7	-11.8	4.6	0.3	-4.2	-2.3	-0.5	-2.4	1.9	0.6	-1.3	-1.3
2014		-4.1	-6.0	2.1	--	--	--	1.9	1.0	0.9	--	--	--
2015		-0.3	-1.2	0.9	--	--	--	2.4	1.6	0.8	--	--	--
2012	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	-7.0	-13.7	7.7	-1.0	-8.1	-6.4	-1.1	-3.6	2.6	-0.8	-3.3	-4.3
	II	-8.3	-14.2	6.9	1.3	-5.2	-2.4	-0.9	-3.1	2.2	-0.2	-2.4	-1.9
	III	-7.8	-11.0	3.6	0.2	-3.3	-1.8	-0.6	-2.2	1.7	0.4	-1.3	-1.2
	IV	-7.7	-7.8	0.1	0.7	0.6	1.8	0.5	-0.6	1.2	3.3	2.1	2.5
2014	I	-8.4	-9.1	0.8	0.6	-0.2	1.2	0.8	0.3	0.5	0.1	-0.5	0.0

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

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

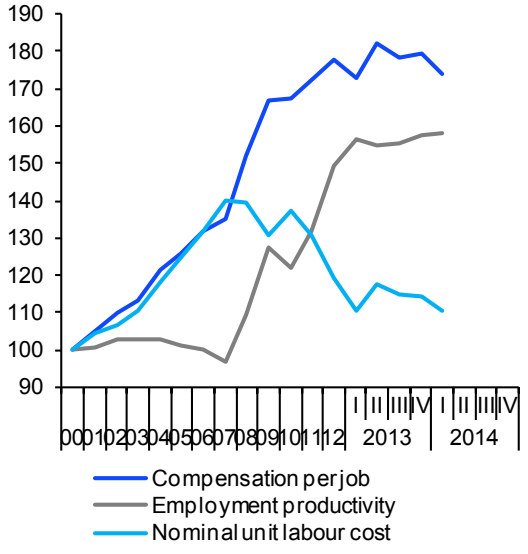
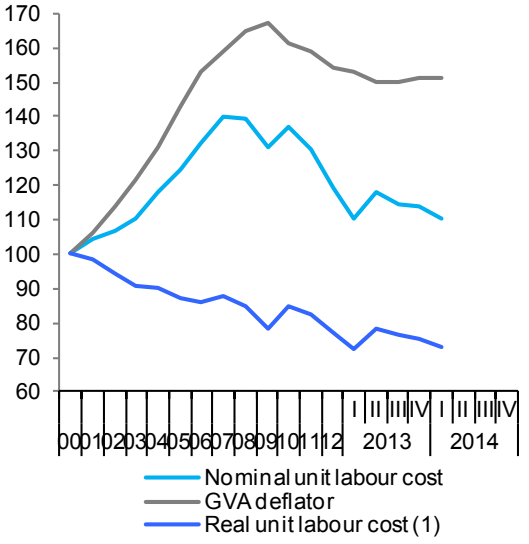


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

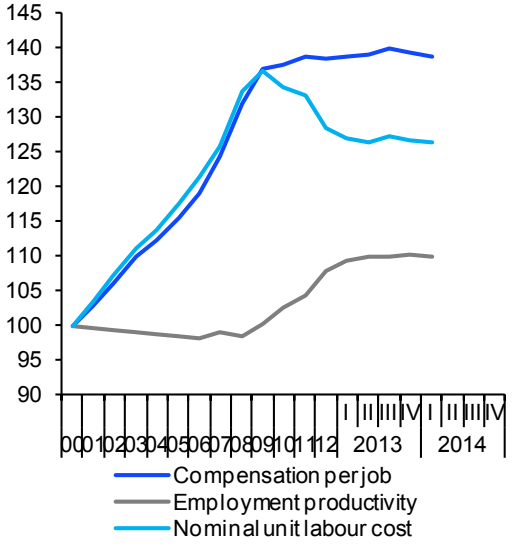
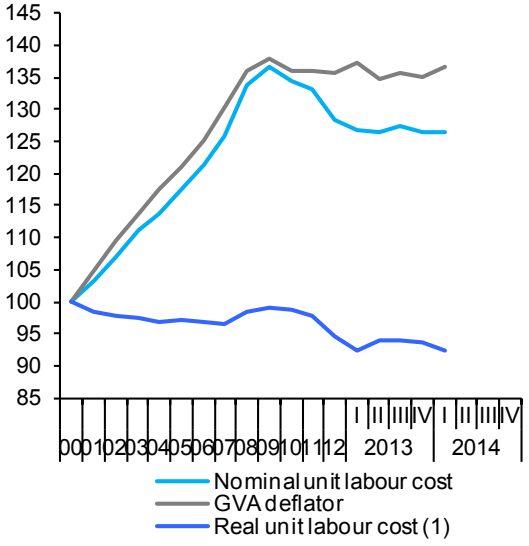


Chart 3b.4.- Real ULC, services
Index, 2000=100



(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	1,029.3	482.6	452.4	94.3	-15.3	1,014.0	-4.8	1,009.2	818.3	190.8	46.9	44.0	9.2
2013	1,023.0	465.8	458.1	99.1	-11.4	1,011.6	-5.1	1,006.5	811.6	194.9	45.5	44.8	9.7
2014	1,036.9	469.6	465.4	101.9	-13.3	1,023.7	-5.5	1,018.2	821.7	196.6	45.3	44.9	9.8
2015	1,064.8	478.4	480.1	106.3	-12.5	1,052.3	-5.8	1,046.5	838.6	207.9	44.9	45.1	10.0
2012 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	1,029.3	482.6	452.4	94.3	-15.3	1,014.0	-4.8	1,009.2	818.3	190.8	46.9	44.0	9.2
2013 I	1,026.4	475.3	456.0	95.1	-13.6	1,012.8	-3.9	1,008.9	813.6	195.3	46.3	44.4	9.3
II	1,023.9	468.4	457.9	97.7	-12.9	1,011.0	-4.6	1,006.4	809.3	197.1	45.7	44.7	9.5
III	1,023.3	464.6	460.3	98.4	-12.6	1,010.7	-4.9	1,005.8	809.8	196.0	45.4	45.0	9.6
IV	1,023.0	465.8	458.1	99.1	-11.4	1,011.6	-5.1	1,006.5	811.6	194.9	45.5	44.8	9.7
2014 I	1,023.1	465.3	457.9	99.8	-13.6	1,009.4	-6.0	1,003.4	814.4	189.0	45.5	44.8	9.8
	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	-1.6	-5.6	1.6	4.4	-35.5	-0.8	-30.5	-0.6	-2.0	5.7	-1.9	1.4	0.5
2013	-0.6	-3.5	1.3	5.2	-25.2	-0.2	5.4	-0.3	-0.8	2.1	-1.4	0.8	0.5
2014	1.4	0.8	1.6	2.8	16.2	1.2	7.0	1.2	1.2	0.9	-0.2	0.1	0.1
2015	2.7	1.9	3.2	4.3	-6.1	2.8	6.0	2.8	2.1	5.8	-0.4	0.2	0.2
2012 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	-1.6	-5.6	1.6	4.4	-35.5	-0.8	-30.5	-0.6	-2.0	5.7	-1.9	1.4	0.5
2013 I	-1.6	-6.3	2.7	3.8	-43.4	-0.6	-46.3	-0.3	-2.3	9.0	-2.3	1.8	0.5
II	-1.3	-6.4	2.5	7.9	-41.9	-0.5	-39.7	-0.2	-2.4	10.4	-2.5	1.7	0.8
III	-1.1	-6.0	2.6	7.1	-30.8	-0.5	-31.2	-0.3	-1.9	6.8	-2.4	1.6	0.7
IV	-0.6	-3.5	1.3	5.2	-25.2	-0.2	5.4	-0.3	-0.8	2.1	-1.4	0.8	0.5
2014 I	-0.3	-2.1	0.4	5.0	0.4	-0.3	52.9	-0.5	0.1	-3.2	-0.8	0.3	0.5

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

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

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

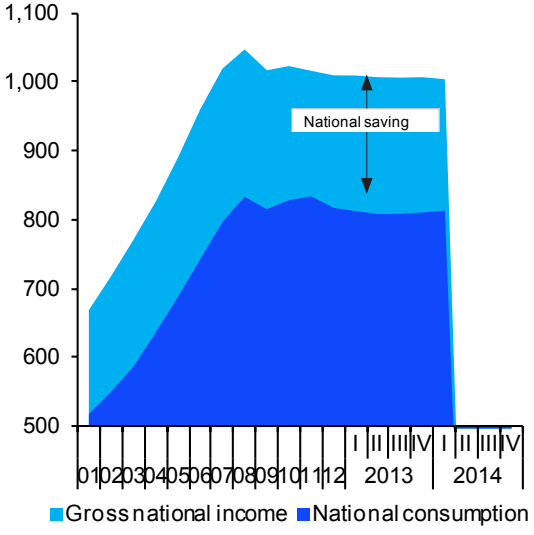


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

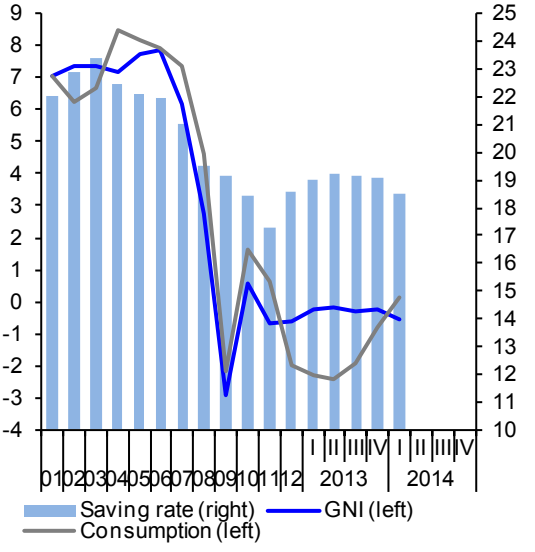


Chart 4.3.- Components of National income (I)
Annual percentage change

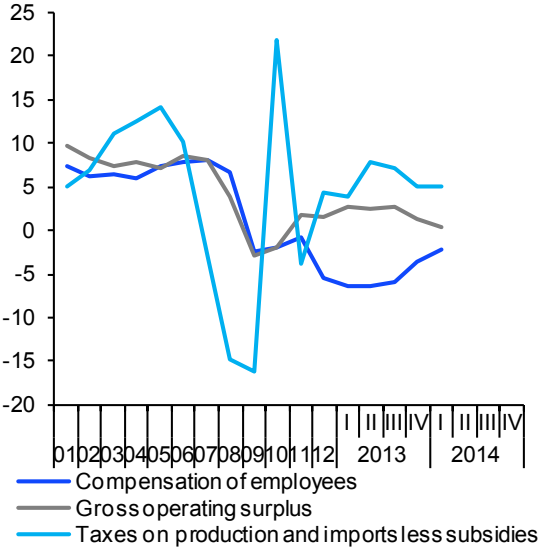


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

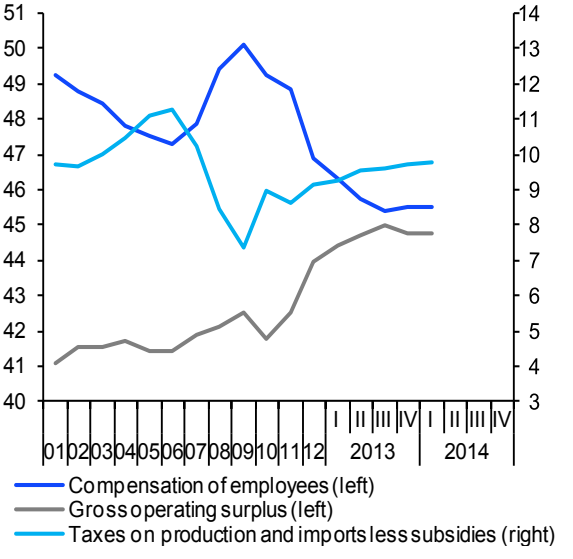


Table 5

National accounts: Net transactions with the rest of the world

Forecasts in blue

		Goods and services				Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account deficit
		1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR Billions, 4-quarter cumulated transactions													
2007		-70.8	-90.8	30.4	-10.4	-27.4	-7.0	-105.2	4.3	-100.9	221.0	326.2	-105.2
2008		-63.3	-85.4	30.6	-8.5	-31.8	-9.2	-104.3	4.4	-99.9	212.4	316.7	-104.3
2009		-19.7	-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		24.7	-11.9	35.3	1.3	-11.4	-5.1	8.2	7.5	15.7	194.9	186.7	8.2
2014		29.9	-13.0	37.3	5.5	-13.3	-5.5	11.1	6.8	17.9	196.6	185.4	11.1
2015		35.5	-11.5	39.4	7.6	-12.5	-5.8	17.2	6.7	23.9	207.9	190.7	17.2
2012	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	-19.2	34.1	-0.1	-13.6	-3.9	-2.7	6.2	3.5	195.3	198.0	-2.7
	II	21.7	-13.1	34.5	0.3	-12.9	-4.6	4.2	7.3	11.5	197.1	192.9	4.2
	III	24.7	-10.8	34.9	0.6	-12.6	-4.9	7.2	7.1	14.3	196.0	188.8	7.2
	IV	24.7	-11.9	35.3	1.3	-11.4	-5.1	8.2	7.5	15.7	194.9	186.7	8.2
2014	I	23.4	-14.7	35.6	2.5	-13.6	-6.0	3.8	7.9	11.7	189.0	185.3	3.8
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		2.4	-1.2	3.4	0.1	-1.1	-0.5	0.8	0.7	1.5	19.0	18.2	0.8
2014		2.9	-1.3	3.6	0.5	-1.3	-0.5	1.1	0.7	1.7	19.0	17.9	1.1
2015		3.3	-1.1	3.7	0.7	-1.2	-0.5	1.6	0.6	2.2	19.5	17.9	1.6
2012	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	-1.3	3.4	0.0	-1.3	-0.4	0.4	0.7	1.1	19.3	18.8	0.4
	III	2.4	-1.1	3.4	0.1	-1.2	-0.5	0.7	0.7	1.4	19.2	18.5	0.7
	IV	2.4	-1.2	3.4	0.1	-1.1	-0.5	0.8	0.7	1.5	19.0	18.2	0.8
2014	I	2.3	-1.4	3.5	0.2	-1.3	-0.6	0.4	0.8	1.1	18.5	18.1	0.4

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

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

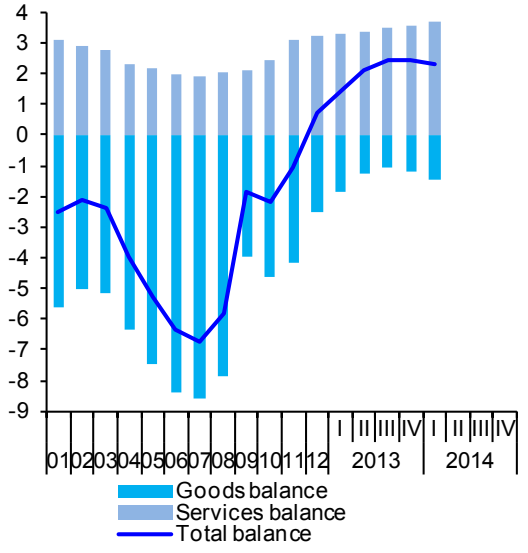


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

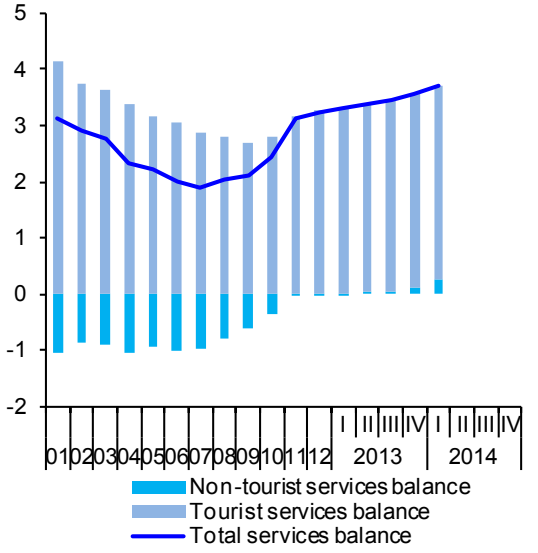


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

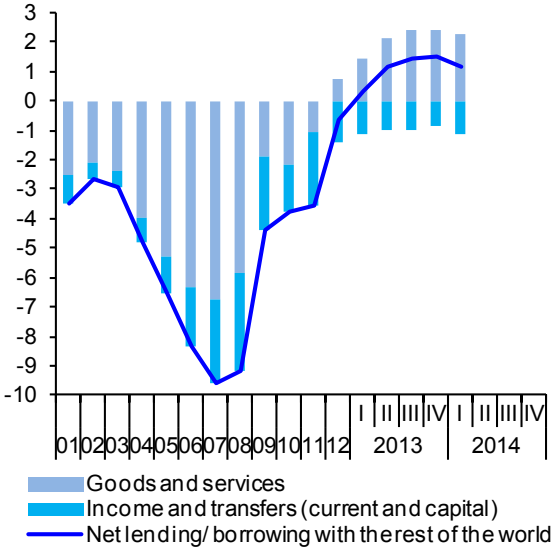


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

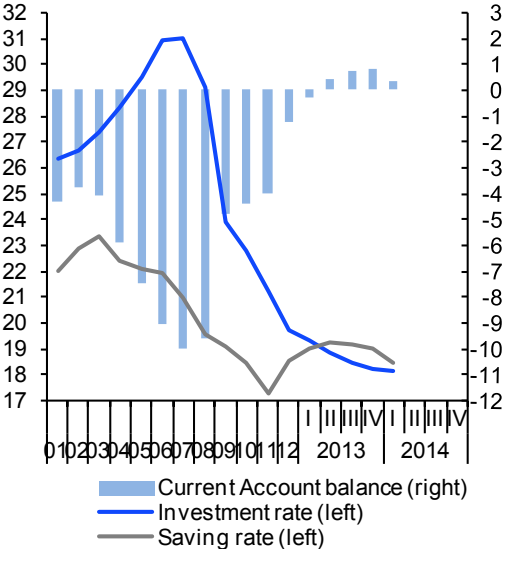


Table 6

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	682.5	482.6	238.5	245.0	201.0	82.6	610.6	70.6	10.3	2.7	48.2	25.0	2.4
2013	677.6	465.8	243.8	248.6	197.5	83.2	606.1	70.1	10.4	0.9	45.8	25.2	2.5
2014	686.3	469.7	252.7	247.0	198.7	84.4	617.5	67.4	9.8	0.8	43.3	24.8	2.4
2015	706.1	478.4	265.9	248.6	202.8	84.1	634.3	70.3	10.0	0.7	43.2	27.7	2.6
2012 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	682.5	482.6	238.5	245.0	201.0	82.6	610.6	70.6	10.3	2.7	48.2	25.0	2.4
2013 I	680.4	475.3	240.6	246.3	199.6	82.2	606.5	72.5	10.7	2.5	48.4	26.6	2.6
II	679.7	468.4	242.7	247.2	197.5	81.1	604.0	74.1	10.9	2.3	47.1	29.3	2.9
III	677.1	464.7	243.5	247.4	196.4	82.2	604.0	72.0	10.6	1.7	45.8	27.9	2.7
IV	677.6	465.8	243.8	248.6	197.5	83.2	606.1	70.1	10.4	0.9	45.8	25.2	2.5
2014 I	673.2	465.4	241.5	247.4	198.1	83.1	609.0	63.1	9.4	0.8	44.1	19.7	1.9
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	-20.6	-2.3	-21.7	-9.3	--	-1.3
2013	-0.7	-3.5	2.2	1.5	-1.7	0.7	-0.7	-0.6	0.0	-66.5	-5.0	--	0.0
2014	1.3	0.8	3.6	-0.6	0.6	1.4	1.9	-3.9	-0.5	-15.0	-5.5	--	-0.1
2015	2.9	1.9	5.2	0.7	2.0	-0.3	2.7	4.3	0.1	-10.0	-0.2	--	0.2
2012 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	-20.6	-2.3	-21.7	-9.3	--	-1.3
2013 I	-2.7	-6.2	0.7	1.8	-3.1	-0.2	-1.1	-15.4	-1.6	-19.9	-7.3	--	-0.9
II	-1.9	-6.4	2.0	2.1	-3.4	-2.0	-1.4	-7.6	-0.7	-21.8	-8.9	--	-0.2
III	-1.9	-5.9	2.3	1.0	-3.7	-1.2	-1.2	-7.5	-0.6	-29.0	-8.6	--	-0.2
IV	-0.7	-3.5	2.2	1.5	-1.7	0.7	-0.7	-0.6	0.0	-66.5	-5.0	--	0.0
2014 I	-1.1	-2.1	0.4	0.4	-0.8	1.1	0.4	-13.0	-1.3	-69.3	-8.9	--	-0.7

(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

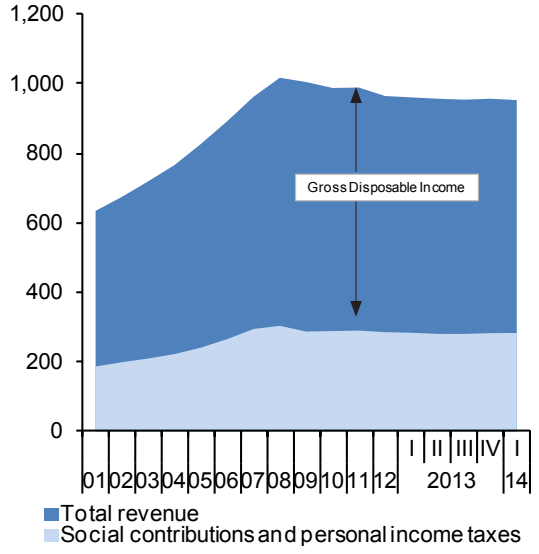
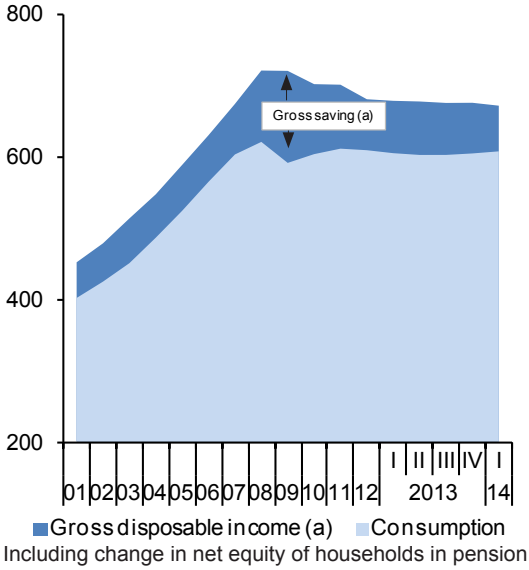


Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



(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

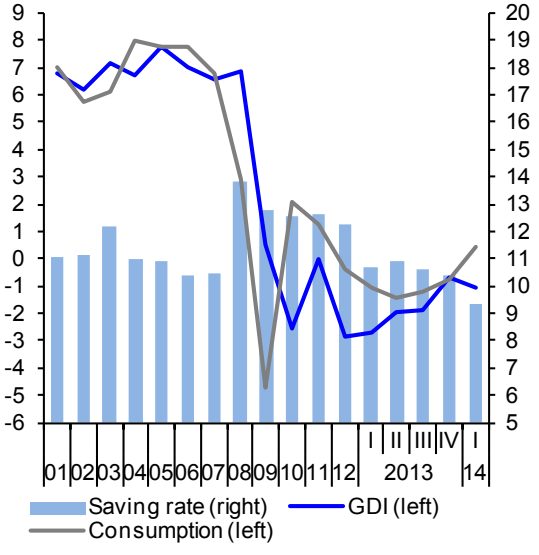
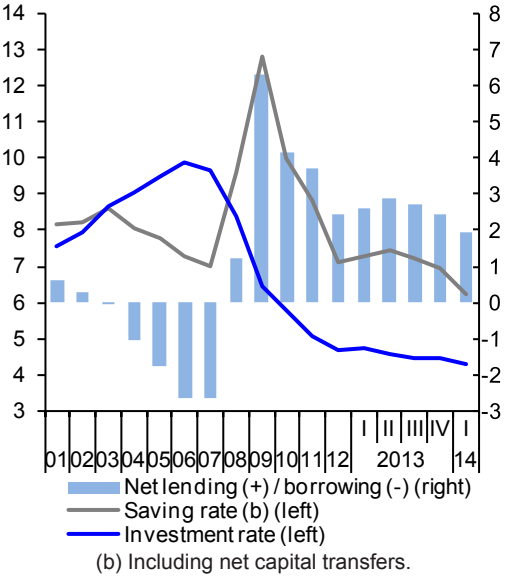


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(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	-47.2	-9.6	19.8	130.1	9.3	127.8	11.6	1.1	40.5	25.1
2013		503.4	289.2	214.2	-32.0	-9.7	18.8	153.7	8.2	117.9	43.9	4.3	42.6	23.4
2014		508.9	294.1	214.8	-30.9	-9.5	19.8	154.5	8.3	120.7	42.2	4.1	42.2	23.7
2015		521.4	303.2	218.2	-30.7	-9.8	20.4	157.3	8.3	126.7	38.9	3.7	41.9	24.3
2012	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	-47.2	-9.6	19.8	130.1	9.3	127.8	11.6	1.1	40.5	25.1
2013	I	508.2	298.1	210.1	-43.7	-9.4	19.6	137.4	9.5	122.9	24.0	2.3	41.4	24.2
	II	506.0	294.1	211.8	-39.8	-9.4	20.3	142.4	9.5	121.9	30.0	2.9	41.9	24.1
	III	505.7	291.3	214.4	-35.4	-9.3	19.1	150.7	8.9	120.3	39.2	3.8	42.4	23.8
	IV	503.4	289.2	214.2	-32.0	-9.7	18.8	153.7	8.2	117.9	43.9	4.3	42.6	23.4
2014	I	502.5	288.9	213.6	-31.9	-9.6	18.8	153.4	8.2	120.5	41.1	4.0	42.5	24.0
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	-8.0	-4.8	25.5	5.6	-15.8	-2.1	--	0.8	1.8	-0.2
2013		-1.3	-4.7	3.6	-32.2	1.6	-5.2	18.1	-12.0	-7.8	--	3.2	2.0	-1.6
2014		1.1	1.7	0.3	-3.3	-2.1	5.4	0.6	2.0	2.3	--	-0.2	-0.3	0.3
2015		2.5	3.1	1.6	-0.8	3.0	3.1	1.8	0.0	5.0	--	-0.4	-0.4	0.6
2012	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	-8.0	-4.8	25.5	5.6	-15.8	-2.1	--	0.8	1.8	-0.2
2013	I	-1.4	-5.2	4.6	-16.7	-6.1	21.2	12.4	-4.2	-5.4	--	2.1	2.4	-1.0
	II	-1.3	-5.4	4.9	-22.7	-2.8	19.0	15.0	-3.1	-6.9	--	2.7	2.5	-1.4
	III	-1.0	-5.3	5.6	-31.0	-3.4	16.6	19.7	0.6	-7.9	--	3.4	2.6	-1.8
	IV	-1.3	-4.7	3.6	-32.2	1.6	-5.2	18.1	-12.0	-7.8	--	3.2	2.0	-1.6
2014	I	-1.1	-3.1	1.6	-27.2	1.5	-4.0	11.6	-13.1	-1.9	--	1.7	1.2	-0.2

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

Chart 7.1.- Non-financial corporations: Gross operating surplus
EUR Billions, 4-quarter cummulated

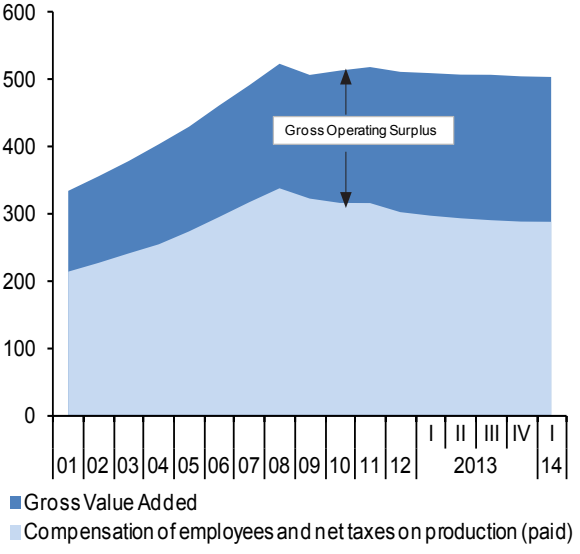


Chart 7.2.- Non-financial corporations: GVA, GOS and saving
Annual percentage change, 4-quarter moving averages

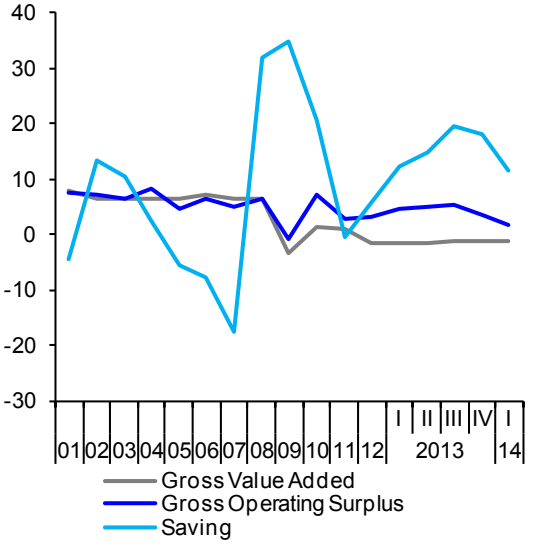
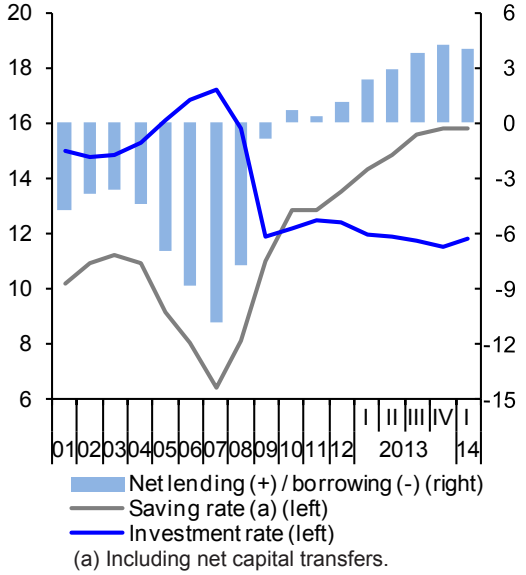


Chart 7.3.- Non-financial corporations: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(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

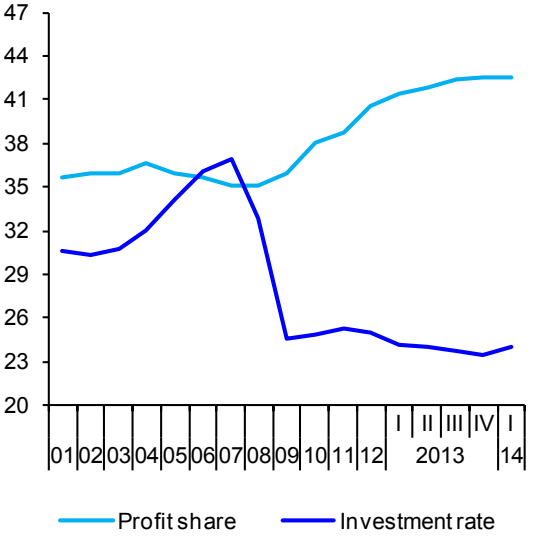


Table 8

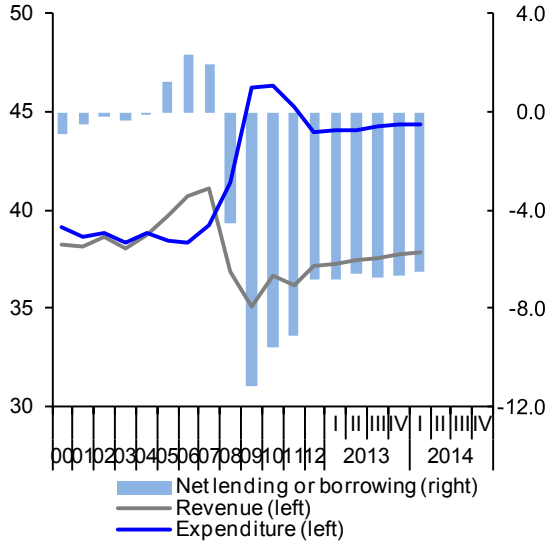
National accounts: Public revenue, expenditure and deficit

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	108.0	105.5	133.8	115.2	20.9	167.7	18.0	161.4	207.7	-46.2	63.1	-109.3	-70.2
2013	136.6	112.9	105.1	130.4	116.1	24.1	170.0	19.3	155.6	205.5	-49.9	22.5	-72.4	-67.6
2014	136.5	115.9	107.5	132.7	115.6	24.0	168.5	19.5	165.1	204.2	-39.1	17.7	-56.8	-56.8
2015	137.0	120.7	107.9	135.7	115.6	24.4	170.0	18.8	172.4	204.3	-31.9	17.1	-49.1	-49.1
2012 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	108.0	105.5	133.8	115.2	20.9	167.7	18.0	161.4	207.7	-46.2	63.1	-109.3	-70.2
2013 I	135.5	108.3	105.1	132.8	114.8	21.4	168.3	17.8	159.4	207.1	-47.7	59.9	-107.5	-69.5
II	133.9	110.4	104.6	131.1	113.3	22.2	169.2	18.0	157.4	205.3	-47.9	55.9	-103.9	-67.5
III	133.7	111.5	104.8	130.6	113.1	22.8	170.5	19.0	155.2	205.7	-50.5	51.8	-102.3	-68.4
IV	136.6	112.9	105.1	130.4	116.1	24.1	170.0	19.3	155.6	205.5	-49.9	22.5	-72.4	-67.6
2014 I	136.5	113.5	105.4	130.8	115.9	24.8	169.6	19.4	156.5	205.4	-48.9	22.4	-71.2	-66.4
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	10.5	10.3	13.0	11.2	2.0	16.3	1.7	15.7	20.2	-4.5	6.1	-10.6	-6.8
2013	13.4	11.0	10.3	12.8	11.3	2.4	16.6	1.9	15.2	20.1	-4.9	2.2	-7.1	-6.6
2014	13.2	11.2	10.4	12.8	11.1	2.3	16.2	1.9	15.9	19.7	-3.8	1.7	-5.5	-5.5
2015	12.9	11.3	10.1	12.7	10.9	2.3	16.0	1.8	16.2	19.2	-3.0	1.6	-4.6	-4.6
2012 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	10.5	10.3	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	12.9	11.2	2.1	16.4	1.7	15.5	20.2	-4.6	5.8	-10.5	-6.8
II	13.1	10.8	10.2	12.8	11.1	2.2	16.5	1.8	15.4	20.1	-4.7	5.5	-10.1	-6.6
III	13.1	10.9	10.2	12.8	11.0	2.2	16.7	1.9	15.2	20.1	-4.9	5.1	-10.0	-6.7
IV	13.4	11.0	10.3	12.8	11.3	2.4	16.6	1.9	15.2	20.1	-4.9	2.2	-7.1	-6.6
2014 I	13.3	11.1	10.3	12.8	11.3	2.4	16.6	1.9	15.3	20.1	-4.8	2.2	-7.0	-6.5

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

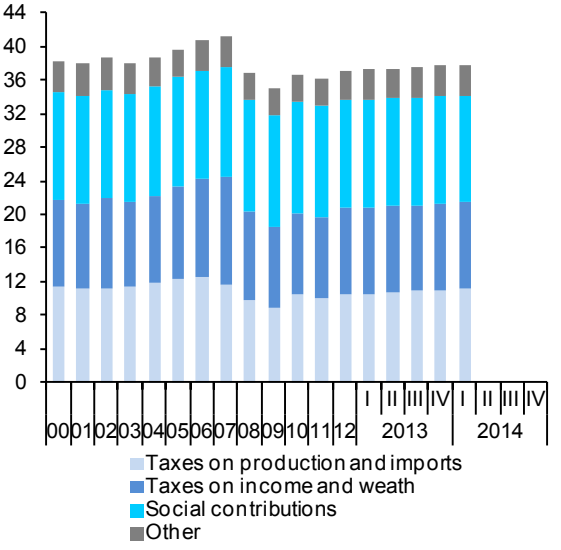


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

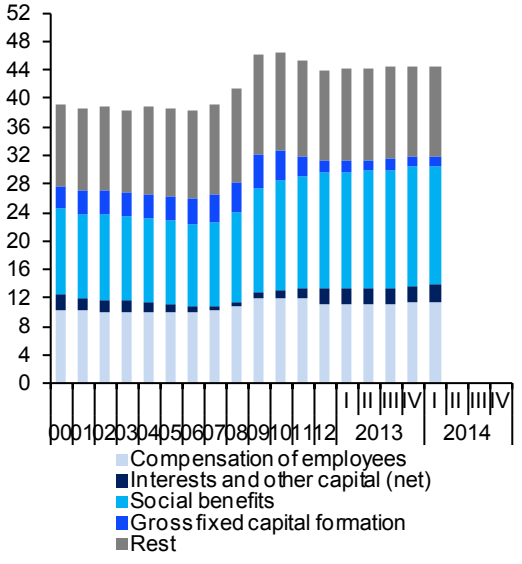
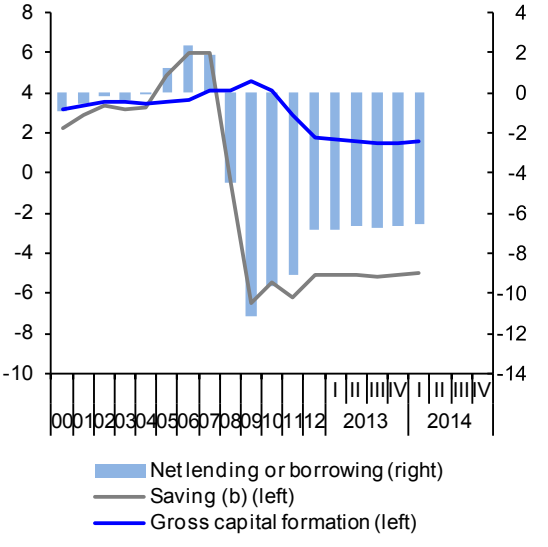


Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.
(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	737.4
2012		-82.5	-19.0	2.4	-10.2	-109.3	760.2	185.5	41.9	17.2	884.7
2013		-49.0	-15.6	4.3	-11.9	-72.2	836.1	206.8	41.5	17.2	960.6
2014		-36.7	-11.4	3.1	-13.5	-58.6	--	--	--	--	1,032.6
2015		-35.4	-8.5	2.1	-9.6	-51.5	--	--	--	--	1,101.1
2012	II	-53.2	-43.2	-4.6	2.6	-98.4	680.2	169.2	45.0	17.2	805.5
	III	-51.2	-41.4	-2.5	-3.8	-98.8	695.5	168.4	43.8	17.2	818.1
	IV	-82.5	-19.0	2.4	-10.2	-109.3	760.2	185.5	41.9	17.2	884.7
2013	I	-78.4	-19.9	2.2	-11.5	-107.5	797.2	190.5	42.8	17.2	924.1
	II	-76.3	-18.8	2.5	-11.3	-103.9	818.7	194.1	43.2	17.2	943.9
	III	-75.9	-17.5	2.8	-11.7	-102.3	831.7	196.7	41.8	17.2	954.9
	IV	-49.0	-15.6	4.3	-11.9	-72.2	836.2	206.8	41.5	17.2	960.7
2014	I	--	--	--	--	--	864.2	222.0	40.9	17.2	989.9
		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		-4.8	-1.5	0.4	-1.2	-7.1	81.7	20.2	4.1	1.7	93.9
2014		-3.5	-1.1	0.3	-1.3	-5.6	--	--	--	--	99.6
2015		-3.3	-0.8	0.2	-0.9	-4.8	--	--	--	--	103.4
2012	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	-7.6	-1.9	0.2	-1.1	-10.5	77.7	18.6	4.2	1.7	90.0
	II	-7.4	-1.8	0.2	-1.1	-10.1	80.0	19.0	4.2	1.7	92.2
	III	-7.4	-1.7	0.3	-1.1	-10.0	81.3	19.2	4.1	1.7	93.3
	IV	-4.8	-1.5	0.4	-1.2	-7.1	81.7	20.2	4.1	1.7	93.9
2014	I	--	--	--	--	--	84.5	21.7	4.0	1.7	96.8

(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

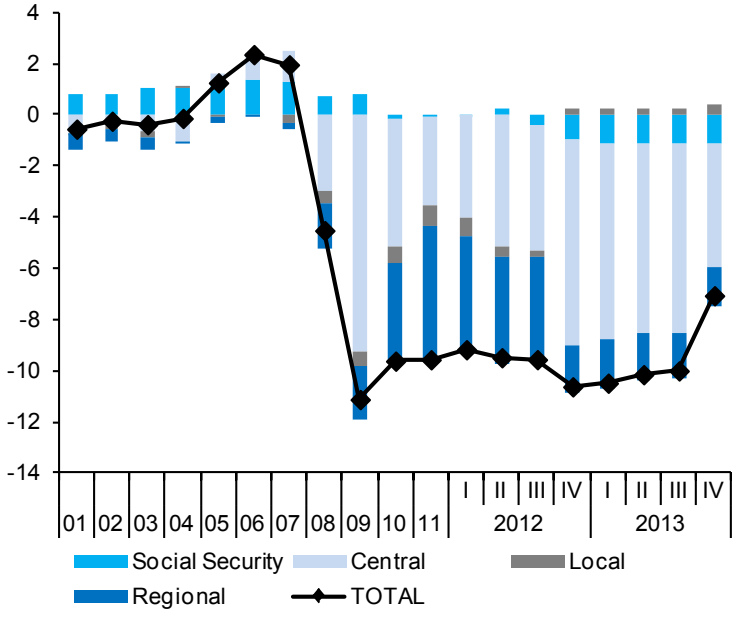


Chart 9.2.- Government debt
Percent of GDP

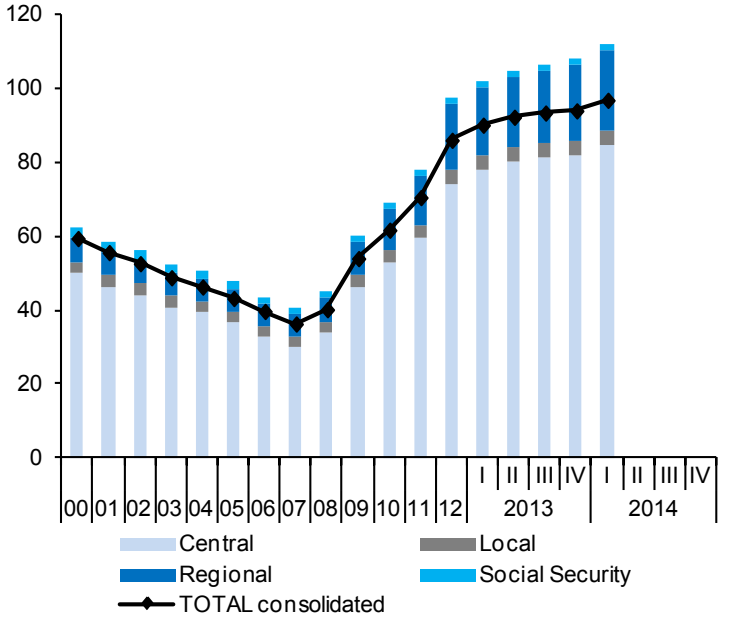


Table 10

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		87.5	38.5	18,834	269.5	117.8	2,696	40.4	-18.0	120.4	-24.0
2009		83.6	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	97.1	-54.5
2010		93.8	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.9
2011		93.7	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	100.3	-30.7
2012		89.2	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	95.6	-36.9
2013		93.2	48.3	15,855	250.2	90.5	2,022	48.5	-13.9	92.3	-30.5
2014 (b)		101.8	55.0	15,960	107.0	91.6	2,009	53.0	-8.7	93.2	-19.5
2012	III	86.1	42.6	16,244	63.7	91.8	2,096	43.6	-20.0	95.4	-38.6
	IV	87.7	42.9	16,047	62.8	89.9	2,065	44.5	-17.9	94.2	-37.4
2013	I	89.2	45.5	15,905	62.6	90.3	2,040	45.7	-15.9	93.1	-35.3
	II	91.0	46.4	15,832	62.5	90.0	2,021	47.6	-15.4	92.4	-32.3
	III	95.3	49.7	15,816	62.3	90.9	2,014	50.5	-12.8	92.3	-27.6
	IV	97.3	51.6	15,876	62.8	91.1	2,011	50.1	-11.6	92.8	-27.0
2014	I	101.0	54.3	15,960	62.4	91.8	2,014	52.5	-9.1	94.0	-21.0
	II (b)	102.5	55.7	16,070	41.9	93.3	2,021	53.4	-8.2	95.0	-17.9
2014	Apr	101.5	56.3	16,031	20.9	93.3	2,019	52.7	-9.3	95.0	-18.6
	May	101.9	55.6	16,072	21.1	--	2,021	52.9	-8.0	--	-17.2
	Jun	104.1	55.2	16,106	--	--	2,024	54.6	-7.4	--	-17.9
		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		--	--	-2.9	-2.2	-1.5	-4.4	--	--	-3.5	--
2014 (d)		--	--	1.0	0.0	2.3	-0.6	--	--	2.2	--
2012	III	--	--	-4.3	-2.5	-2.9	-6.6	--	--	-3.4	--
	IV	--	--	-4.8	-5.8	-8.1	-5.8	--	--	-4.9	--
2013	I	--	--	-3.5	-1.4	2.1	-4.6	--	--	-4.8	--
	II	--	--	-1.8	-0.2	-1.5	-3.7	--	--	-2.8	--
	III	--	--	-0.4	-1.8	4.1	-1.4	--	--	-0.4	--
	IV	--	--	1.5	3.5	0.9	-0.6	--	--	2.2	--
2014	I	--	--	2.1	-2.4	3.1	0.6	--	--	5.3	--
	II (e)	--	--	2.8	2.9	6.5	1.4	--	--	4.3	--
2014	Apr	--	--	0.3	-0.1	1.6	0.1	--	--	0.5	--
	May	--	--	0.3	1.0	--	0.1	--	--	--	--
	Jun	--	--	0.2	--	--	0.2	--	--	--	--

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

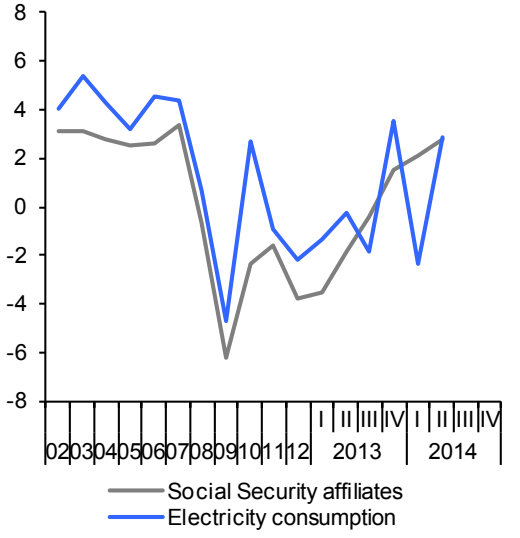


Chart 10.2.- General activity indicators (II)
Index

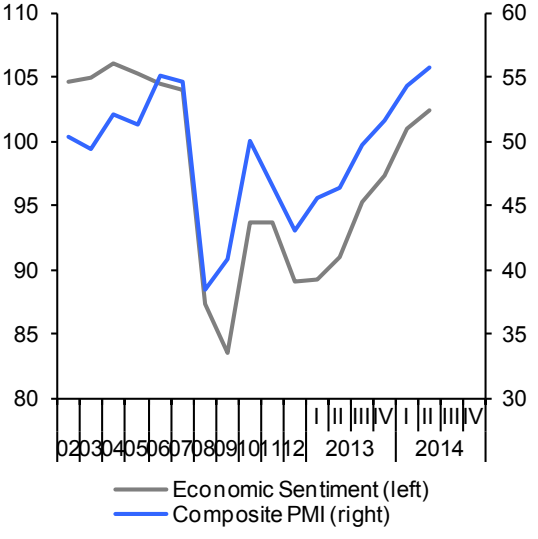


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

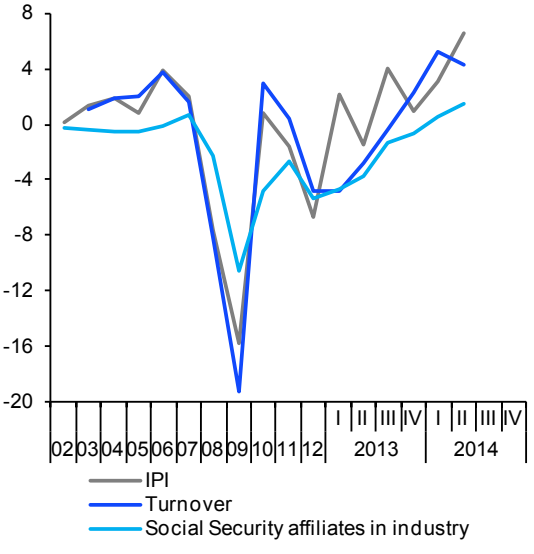


Chart 10.4.- Industrial sector indicators (II)
Index

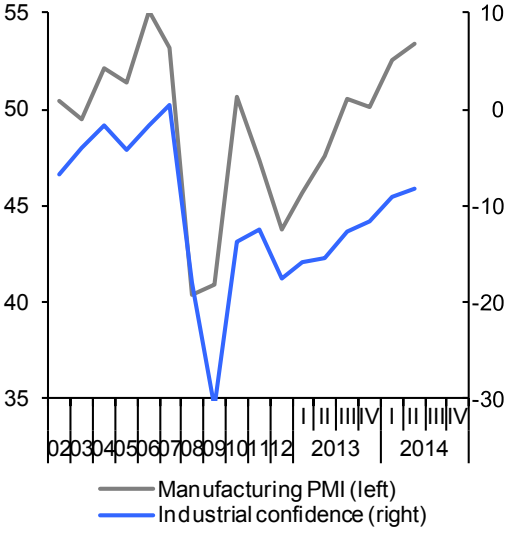


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	Consump-tion of cement	Industrial pro-duction index construction materials	Cons-truction confiden-ce index	Official tenders (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**	**2010=100 (smoothed)**	**Balance of res-ponses**	**EUR Billions**	**Million m²**	**Thousands**	**2010=100 (smoothed)**	**Index**	**Million (smoo-thed)**	**Million (smoothed)**	**Balance of res-ponses**
2008	2,340	42.7	154.7	-23.8	39.8	44.9	12,644	114.6	38.2	268.6	202.3	-18.8
2009	1,800	28.9	115.9	-32.3	39.6	19.4	12,247	99.2	41.0	253.2	186.3	-29.7
2010	1,559	24.5	100.0	-29.7	26.2	16.3	12,186	100.0	49.3	269.4	191.7	-22.4
2011	1,369	20.4	91.6	-55.4	13.7	14.1	12,176	98.9	46.5	286.8	203.3	-20.8
2012	1,136	13.6	66.8	-54.9	7.4	8.5	11,907	92.8	43.1	280.7	193.2	-21.5
2013	997	10.9	63.1	-55.6	9.2	6.7	11,728	91.0	48.3	286.0	186.4	-15.3
2014 (b)	967	4.2	63.6	-54.0	4.4	1.7	11,860	88.1	55.0	93.1	68.6	8.3
2012 III	1,105	3.3	64.7	-55.5	1.7	1.9	11,862	92.2	42.6	69.2	47.6	-26.6
IV	1,062	3.0	62.9	-61.4	1.5	1.7	11,766	90.9	42.6	68.6	46.6	-24.4
2013 I	1,027	2.8	62.3	-46.7	1.6	2.0	11,718	90.4	45.7	69.0	46.0	-26.8
II	999	2.6	62.8	-57.8	2.1	1.7	11,698	90.7	46.5	70.2	46.1	-21.0
III	985	2.7	63.3	-60.6	2.5	1.6	11,720	91.2	49.3	71.5	46.5	-10.2
IV	977	2.7	63.9	-57.4	2.9	1.5	11,778	91.5	51.8	72.3	46.9	-3.1
2014 I	973	2.6	65.4	-52.3	3.6	1.7	11,857	91.8	54.2	72.6	47.4	7.5
II (b)	977	1.8	66.9	-55.8	0.8	--	11,961	91.9	55.7	48.5	31.9	9.1
2014 Apr	976	0.9	66.1	-54.4	0.8	--	11,927	91.9	56.5	24.3	15.9	8.4
May	976	0.9	66.9	-48.3	--	--	11,961	--	55.7	24.3	16.0	6.4
Jun	978	--	--	-64.6	--	--	11,995	--	54.8	--	--	12.5
Percentage changes (c)												
2008	-10.0	-23.8	-17.8	--	-1.3	-56.6	1.5	-3.6	--	-1.2	-3.0	--
2009	-23.1	-32.3	-25.1	--	-0.4	-56.8	-3.1	-13.4	--	-5.7	-7.9	--
2010	-13.4	-15.4	-13.7	--	-33.9	-16.1	-0.5	0.8	--	6.4	2.9	--
2011	-12.2	-16.4	-8.4	--	-47.9	-13.2	-0.1	-1.1	--	6.4	6.0	--
2012	-17.0	-33.6	-27.0	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013	-12.2	-20.0	-5.7	--	23.3	-20.9	-1.5	-2.0	--	1.9	-3.5	--
2014 (d)	-3.8	-3.5	8.1	--	108.4	-12.4	1.8	2.1	--	4.3	4.1	--
2012 III	-17.6	-13.7	-17.8	--	-53.4	-45.7	-3.0	-6.1	--	-3.4	-7.3	--
IV	-14.8	-32.7	-11.0	--	-39.6	-41.5	-3.2	-5.4	--	-2.9	-8.2	--
2013 I	-12.3	-26.5	-3.7	--	-8.6	-27.7	-1.6	-2.3	--	1.9	-4.8	--
II	-10.4	-17.1	3.2	--	-12.0	-23.5	-0.7	1.2	--	7.4	1.0	--
III	-5.5	10.4	3.7	--	48.3	-16.8	0.8	2.5	--	7.3	3.5	--
IV	-3.4	1.0	3.5	--	87.1	-11.6	2.0	1.3	--	4.8	3.7	--
2014 I	-1.7	-16.9	9.9	--	127.6	-12.4	2.7	1.0	--	1.9	3.8	--
II (e)	1.7	7.7	9.1	--	50.8	--	3.5	0.8	--	0.7	3.5	--
2014 Apr	0.0	-1.6	1.1	--	50.8	--	0.4	0.1	--	0.1	0.3	--
May	0.1	1.4	1.1	--	--	--	0.3	--	--	0.1	0.3	--
Jun	0.2	--	--	--	--	--	0.3	--	--	--	--	--

(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

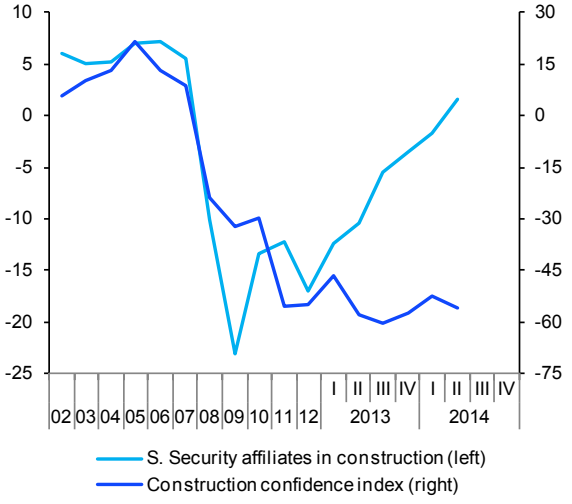


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

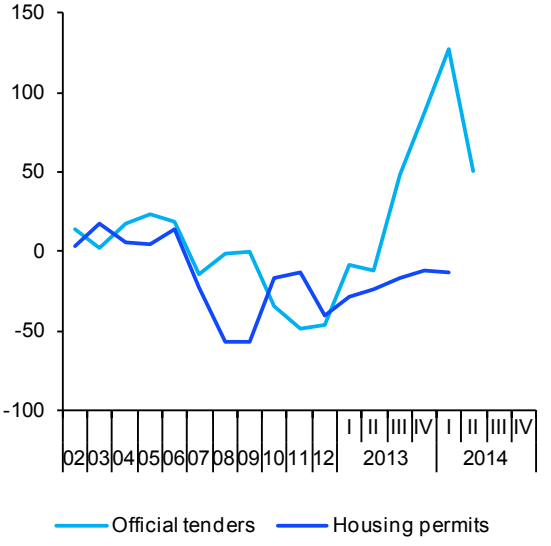


Chart 11.3.- Services indicators (I)
Percentage changes from previous period

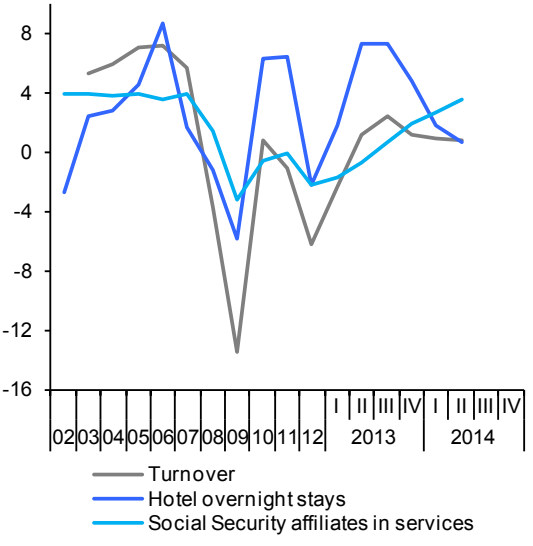


Chart 11.4.- Services indicators (II)
Index

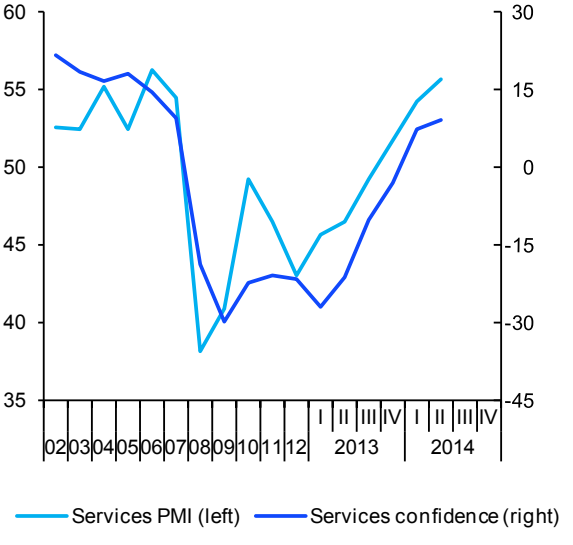


Table 12

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	Import of capital goods (volume)
	2010=100 (smoothed)	**Thousands (smoothed)**	**Balance of responses**	**Million (smoothed)**	**Balance of responses**	**Thousands (smoothed)**	**Balance of responses**	**2005=100 (smoothed)**
2008	107.5	1,185.3	-33.8	113.2	-21.0	236.9	-4.5	90.4
2009	101.8	971.2	-28.3	110.1	-40.2	142.1	-50.8	66.6
2010	100.0	1,000.1	-20.9	113.6	-26.7	152.1	-31.1	70.9
2011	94.4	808.3	-17.1	111.5	-21.7	142.0	-23.0	68.7
2012	87.4	710.6	-31.7	102.1	-24.2	107.7	-38.6	61.3
2013	84.0	740.0	-25.3	100.5	-21.8	107.3	-33.5	70.0
2014 (b)	81.1	373.3	-9.0	34.4	-9.7	55.2	-18.5	77.7
2012 III	87.0	170.5	-35.2	24.9	-23.5	25.6	-44.3	60.7
IV	85.0	167.4	-37.8	24.4	-25.9	24.5	-41.1	61.9
2013 I	84.2	172.5	-32.6	24.4	-21.7	24.5	-38.5	64.7
II	84.3	178.3	-28.7	24.7	-24.4	25.5	-33.1	68.4
III	84.5	183.3	-20.5	25.0	-21.1	27.3	-26.8	71.8
IV	84.5	191.6	-19.4	25.2	-20.1	29.4	-35.7	75.3
2014 I	84.6	205.4	-11.8	25.4	-11.4	31.8	-20.1	80.3
II (b)	84.8	146.7	-6.1	17.1	-8.0	22.8	-16.9	84.1
2014 Apr	84.7	72.3	-7.8	8.5	-10.5	11.2	-9.9	84.1
May	84.9	74.3	-6.7	8.5	-6.6	11.5	-9.2	--
Jun	--	--	-3.9	--	-6.8	--	-31.7	--
Percentage changes (c)								
2008	-5.9	-27.5	--	-2.9	--	-43.6	--	-20.1
2009	-5.4	-18.1	--	-2.7	--	-40.0	--	-26.3
2010	-1.7	3.0	--	3.1	--	7.0	--	6.5
2011	-5.6	-19.2	--	-1.8	--	-6.6	--	-3.1
2012	-7.4	-12.1	--	-8.5	--	-24.2	--	-10.7
2013	-3.9	4.1	--	-1.4	--	-0.4	--	14.1
2014 (d)	0.2	16.8	--	2.8	--	34.0	--	26.8
2012 III	-9.8	-19.7	--	-12.5	--	-24.6	--	-3.1
IV	-9.0	-7.1	--	-8.0	--	-15.5	--	8.2
2013 I	-3.7	12.8	--	0.1	--	-1.3	--	19.3
II	0.4	14.1	--	5.2	--	18.9	--	25.2
III	1.1	11.6	--	5.1	--	31.2	--	21.6
IV	0.0	19.4	--	3.3	--	34.2	--	20.8
2014 I	0.3	32.2	--	2.3	--	37.3	--	29.4
II (e)	1.2	31.6	--	3.3	--	32.3	--	20.5
2014 Apr	0.1	2.8	--	0.4	--	2.9	--	2.3
May	0.2	2.8	--	0.4	--	2.8	--	--
Jun	--	--	--	--	--	--	--	--

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

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

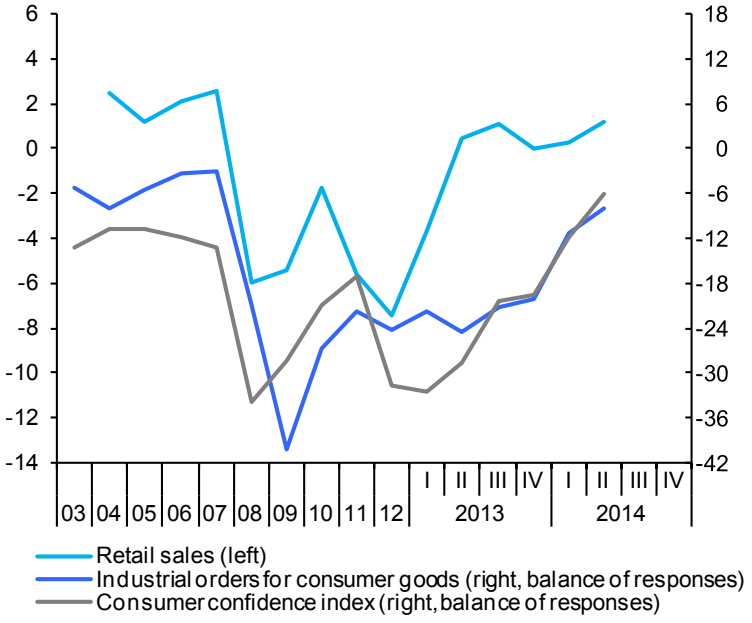


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

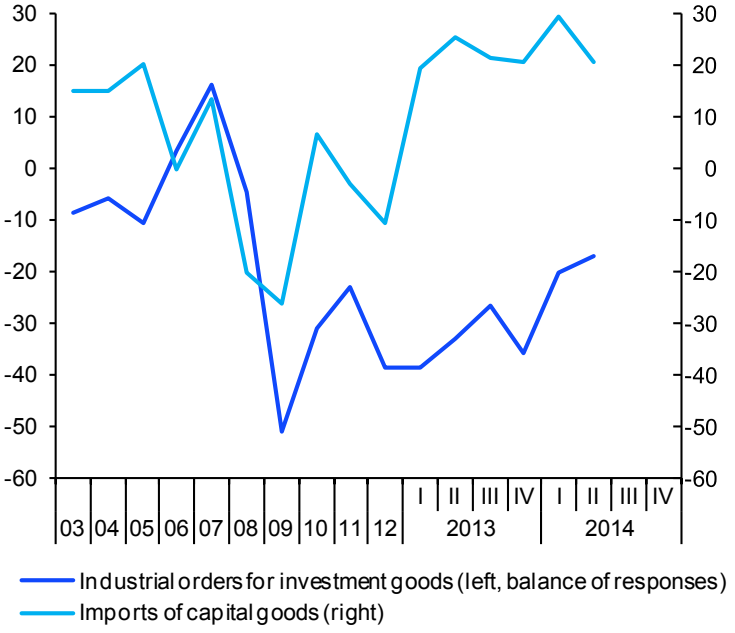


Table 13a

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		30.6	22.4	--	20.6	--	1.8	--	72.8	66.8	8.2	18.1	7.6	12.2
2008		31.0	23.1	--	20.5	--	2.6	--	73.8	65.4	11.3	24.5	10.2	17.4
2009		31.2	23.3	--	19.1	--	4.2	--	74.1	60.8	17.9	37.7	16.0	28.2
2010		31.1	23.4	--	18.7	--	4.6	--	74.6	59.7	19.9	41.5	18.1	29.9
2011		31.1	23.4	--	18.4	--	5.0	--	74.9	58.8	21.4	46.2	19.5	32.6
2012		30.9	23.4	--	17.6	--	5.8	--	75.3	56.5	24.8	52.9	23.0	35.9
2013		30.6	23.2	--	17.1	--	6.1	--	75.3	55.6	26.1	55.5	24.4	37.0
2014		30.2	22.8	--	17.2	--	5.6	--	75.0	56.6	24.5	--	--	--
2015		30.2	22.6	--	17.5	--	5.1	--	75.0	58.0	22.6	--	--	--
2012	II	31.0	23.5	23.5	17.8	17.7	5.7	5.8	75.3	56.7	24.5	52.3	22.7	36.0
	III	30.9	23.5	23.5	17.7	17.5	5.8	5.9	75.5	56.3	25.3	53.2	23.6	35.7
	IV	30.8	23.4	23.4	17.3	17.3	6.0	6.0	75.3	55.7	25.8	55.2	24.1	36.6
2013	I	30.8	23.3	23.3	17.0	17.2	6.3	6.1	75.3	55.4	26.3	56.0	24.4	37.7
	II	30.7	23.2	23.2	17.2	17.1	6.0	6.1	75.2	55.4	26.2	55.3	24.7	36.1
	III	30.5	23.2	23.2	17.2	17.1	5.9	6.1	75.4	55.6	26.1	55.3	24.4	37.6
	IV	30.4	23.1	23.1	17.1	17.1	5.9	5.9	75.3	55.8	25.8	55.3	24.2	36.5
2014	I	30.3	22.9	22.9	17.0	17.1	5.9	5.8	75.0	56.0	25.3	54.6	23.7	36.3
		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		1.5	2.9	--	-0.5	--	40.6	--	1.0	-1.3	3.0	6.4	2.6	5.3
2009		0.4	0.8	--	-6.7	--	60.0	--	0.3	-4.6	6.6	13.3	5.8	10.8
2010		-0.1	0.4	--	-2.0	--	11.7	--	0.4	-1.2	2.0	3.8	2.1	1.7
2011		-0.2	0.3	--	-1.6	--	8.0	--	0.4	-0.9	1.5	4.7	1.4	2.7
2012		-0.5	0.0	--	-4.3	--	15.9	--	0.4	-2.3	3.4	6.7	3.5	3.3
2013		-1.1	-1.1	--	-2.8	--	4.1	--	0.0	-0.9	1.3	--	--	--
2014		-1.3	-1.7	--	0.4	--	-7.9	--	-0.3	1.0	-1.6	--	--	--
2015		0.0	-1.0	--	1.4	--	-8.5	--	0.0	1.4	-1.9	--	--	--
2012	II	-0.4	0.1	0.6	-4.6	-4.4	18.3	18.1	0.4	-2.6	3.8	7.2	3.8	4.3
	III	-0.5	0.0	0.0	-4.4	-3.9	16.5	12.7	0.4	-2.4	3.5	6.5	3.9	2.2
	IV	-0.7	-0.3	-1.8	-4.5	-4.8	13.9	7.3	0.3	-2.2	3.2	6.7	3.5	2.0
2013	I	-0.8	-0.5	-1.2	-4.1	-3.4	10.8	5.5	0.2	-1.9	2.7	5.2	2.9	2.3
	II	-1.0	-1.2	-1.6	-3.4	-1.3	5.5	-2.5	-0.1	-1.3	1.7	3.0	2.0	0.1
	III	-1.2	-1.4	-0.8	-2.5	-0.3	2.0	-1.9	-0.1	-0.7	0.9	2.1	0.8	1.9
	IV	-1.3	-1.2	-1.5	-1.2	0.4	-1.4	-6.7	0.1	0.1	-0.1	0.0	0.1	0.0
2014	I	-1.3	-1.8	-3.2	-0.5	-0.6	-5.5	-10.6	-0.3	0.5	-1.0	-1.4	-0.7	-1.5

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

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

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

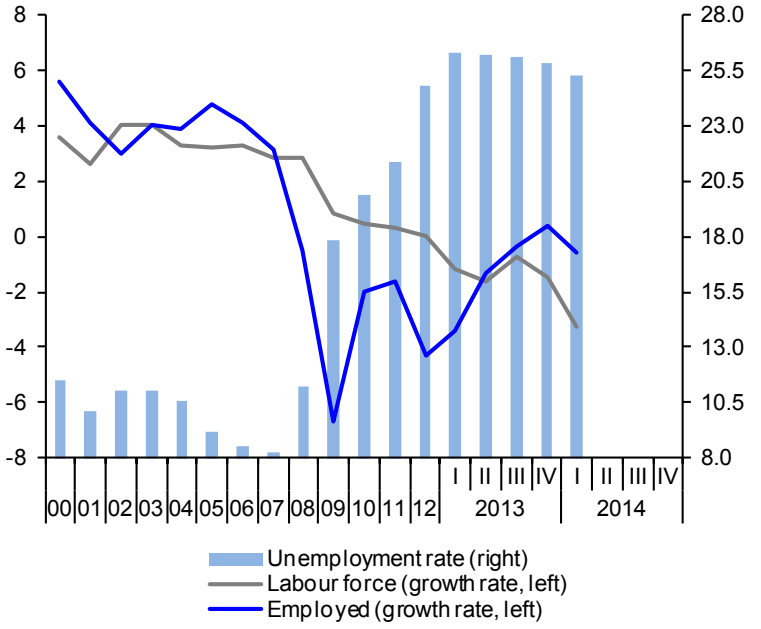


Chart 13a.2.- Unemployment rates, SA
Percentage

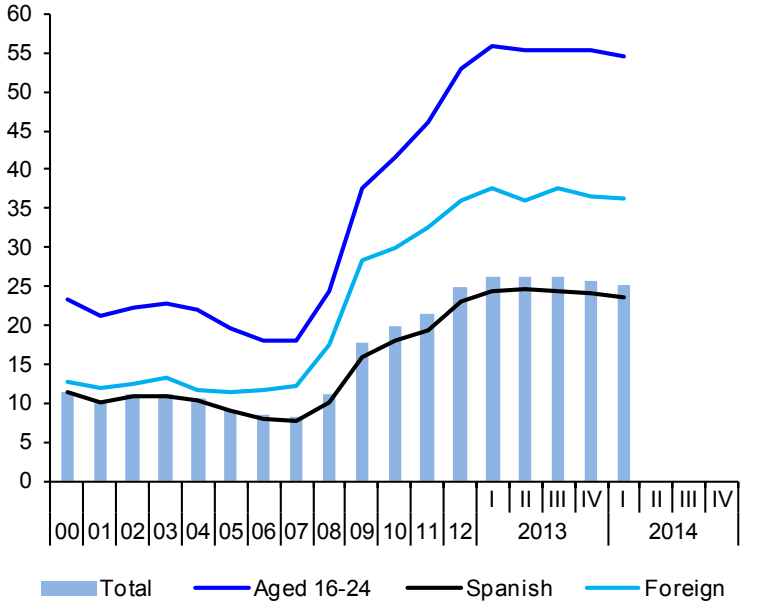


Table 13b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees				Self- employed			
					Total	By type of contract						
	Agriculture	Industry	Construction	Services		Temporary	Indefinite	Temporary employment rate (a)		Full-time	Part-time	Part-time employment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)												
2007	0.87	3.28	2.76	13.67	16.97	5.35	11.61	31.6	3.61	18.20	2.38	11.59
2008	0.83	3.24	2.46	13.94	16.86	4.91	11.95	29.1	3.61	18.06	2.41	11.75
2009	0.79	2.81	1.89	13.62	15.88	4.00	11.88	25.2	3.23	16.71	2.40	12.54
2010	0.79	2.65	1.65	13.64	15.59	3.86	11.73	24.7	3.13	16.29	2.44	13.02
2011	0.76	2.60	1.40	13.66	15.39	3.87	11.52	25.1	3.03	15.92	2.50	13.56
2012	0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.49
2013	0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.80
2014 (c)	0.78	2.32	0.96	13.05	14.08	3.35	10.72	23.82	3.03	14.39	2.72	15.88
2012 II	0.73	2.49	1.20	13.30	14.69	3.45	11.24	23.5	3.04	15.18	2.54	14.35
III	0.75	2.48	1.14	13.18	14.46	3.35	11.10	23.2	3.09	14.96	2.59	14.77
IV	0.76	2.43	1.09	13.06	14.28	3.25	11.02	22.8	3.06	14.72	2.61	15.08
2013 I	0.69	2.40	1.08	13.01	14.13	3.19	10.94	22.6	3.05	14.52	2.66	15.48
II	0.76	2.36	1.03	12.98	14.04	3.22	10.82	22.9	3.09	14.42	2.70	15.79
III	0.74	2.33	1.02	13.03	14.02	3.28	10.75	23.4	3.09	14.40	2.71	15.85
IV	0.76	2.33	0.99	13.05	14.08	3.32	10.75	23.6	3.05	14.38	2.75	16.06
2014 I	0.78	2.32	0.96	13.05	14.08	3.35	10.72	23.8	3.03	14.39	2.72	15.88
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	-5.2	-1.2	-10.8	2.0	-0.6	-8.4	2.9	-2.5	-0.1	-0.7	0.9	0.2
2009	-4.8	-13.3	-23.2	-2.3	-5.8	-18.4	-0.6	-3.9	-10.6	-7.5	-0.4	0.8
2010	-0.3	-5.6	-12.6	0.1	-1.8	-3.6	-1.2	-0.5	-2.9	-2.5	1.7	0.5
2011	-3.9	-1.7	-15.0	0.2	-1.3	0.3	-1.8	0.4	-3.3	-2.2	2.5	0.5
2012	-1.6	-4.6	-17.3	-3.0	-5.3	-11.8	-3.1	-1.7	1.1	-5.3	2.3	0.9
2013	-0.9	-5.2	-11.4	-1.7	-3.5	-4.6	-3.1	-0.3	0.4	-4.3	6.0	1.3
2014 (d)	12.8	-3.3	-11.5	0.3	-0.4	5.0	-2.0	1.2	-0.7	-0.9	2.1	0.4
2012 II	-1.8	-5.1	-16.4	-3.5	-5.5	-12.6	-3.1	-1.9	-0.2	-5.5	0.7	0.8
III	1.6	-5.2	-17.0	-3.4	-5.9	-13.4	-3.5	-2.0	3.3	-5.8	4.1	1.2
IV	-3.7	-5.7	-15.5	-3.3	-5.7	-13.2	-3.2	-2.0	1.6	-6.2	6.6	1.6
2013 I	-6.2	-5.2	-11.3	-3.1	-5.0	-11.1	-3.0	-1.6	0.1	-6.0	7.7	1.7
II	4.2	-5.3	-14.1	-2.4	-4.4	-6.7	-3.7	-0.6	1.6	-5.0	6.4	1.4
III	-1.8	-6.1	-10.6	-1.1	-3.0	-2.3	-3.2	0.2	-0.1	-3.7	4.7	1.1
IV	0.4	-4.0	-9.2	-0.1	-1.4	2.3	-2.5	0.8	-0.3	-2.3	5.2	1.0
2014 I	12.8	-3.3	-11.5	0.3	-0.4	5.0	-2.0	1.2	-0.7	-0.9	2.1	0.4

(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

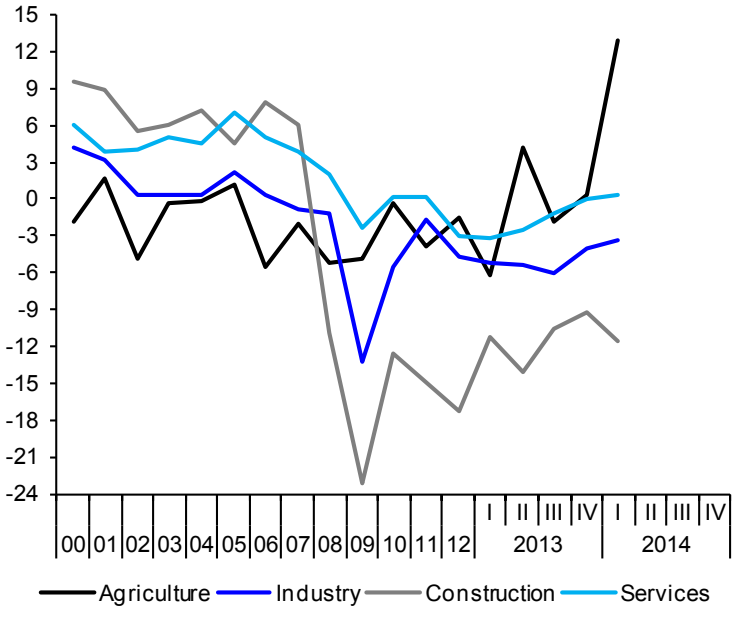


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

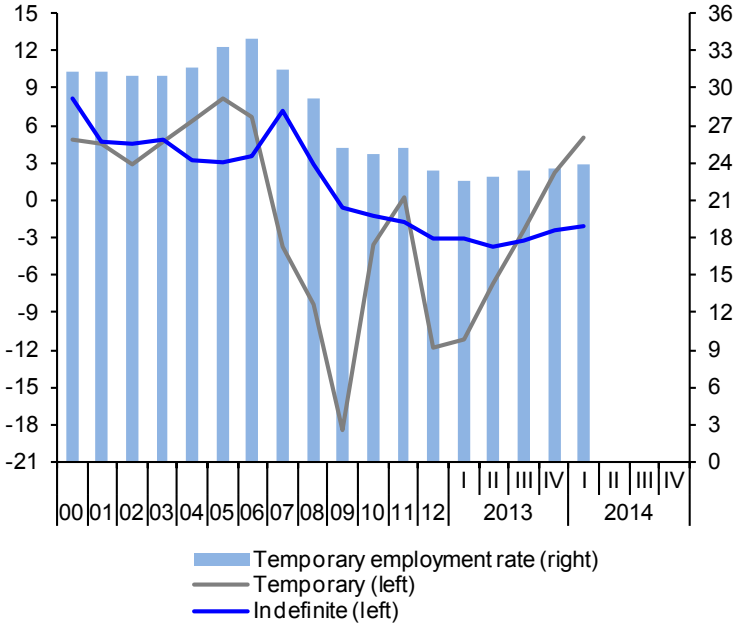


Table 14

Index of Consumer Prices

Forecasts in blue

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2014		100.0	66.14	81.21	26.33	39.81	15.07	6.68	12.11	21.75
Indexes, 2011 = 100										
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		104.0	102.4	103.2	101.1	103.2	107.0	104.4	109.1	106.2
2015		104.7	102.8	103.9	101.3	103.7	108.7	105.6	110.1	107.7
Annual percentage changes										
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		0.1	0.1	0.2	-0.3	0.2	0.7	-1.4	0.2	0.0
2015		0.7	0.4	0.6	0.2	0.5	1.6	1.1	0.9	1.5
2014	Jan	0.2	-0.2	0.2	-0.3	-0.1	1.7	0.9	0.0	1.4
	Feb	0.0	-0.1	0.1	-0.4	0.0	1.3	1.2	-1.7	1.3
	Mar	-0.1	-0.2	0.0	-0.3	-0.2	1.2	0.0	-1.4	0.8
	Apr	0.4	0.1	0.3	-0.4	0.5	0.8	-0.5	1.6	0.4
	May	0.2	-0.1	0.0	-0.5	0.2	0.6	-2.7	3.0	-0.4
	Jun	0.1	0.0	0.0	-0.5	0.2	0.5	-3.7	2.7	-0.8
	Jul	-0.1	0.1	0.1	-0.3	0.3	0.3	-4.9	0.9	-1.3
	Aug	-0.3	0.2	0.2	-0.2	0.3	0.3	-5.2	-0.7	-1.4
	Sep	-0.1	0.2	0.2	-0.1	0.3	0.3	-1.4	-1.3	-0.2
	Oct	0.1	0.2	0.2	-0.1	0.4	0.2	0.0	-0.4	0.1
	Nov	0.2	0.2	0.2	0.0	0.4	0.3	0.1	0.4	0.2
	Dec	0.2	0.3	0.3	0.0	0.5	0.4	-0.2	-0.2	0.2
2015	Jan	0.3	0.4	0.4	0.1	0.5	0.6	-0.6	0.1	0.3
	Feb	0.3	0.3	0.5	0.1	0.5	0.9	-0.8	0.2	0.4
	Mar	0.5	0.3	0.5	0.1	0.5	1.1	0.6	0.6	1.0
	Apr	0.6	0.3	0.5	0.2	0.4	1.4	0.7	0.5	1.2
	May	0.7	0.4	0.6	0.3	0.5	1.6	1.6	0.5	1.6
	Jun	0.7	0.4	0.7	0.3	0.5	1.8	1.6	0.5	1.7
	Jul	0.8	0.4	0.7	0.2	0.5	1.9	1.7	0.7	1.8
	Aug	0.8	0.4	0.7	0.2	0.6	1.9	1.7	1.2	1.9
	Sep	0.9	0.4	0.7	0.2	0.5	2.0	1.7	1.5	1.9
	Oct	0.9	0.4	0.7	0.2	0.6	2.0	1.7	1.6	1.9
	Nov	0.9	0.5	0.8	0.3	0.6	2.1	1.7	1.5	2.0
	Dec	0.9	0.5	0.8	0.3	0.6	2.1	1.7	1.6	2.0

Sources: INE and FUNCAS (Forecasts).

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

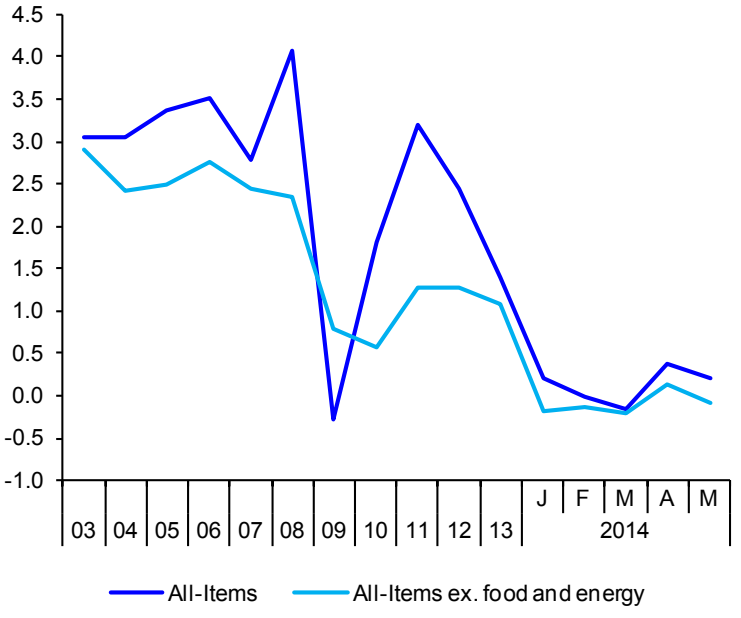


Chart 14.2.- Inflation rate (II)
Annual percentage changes

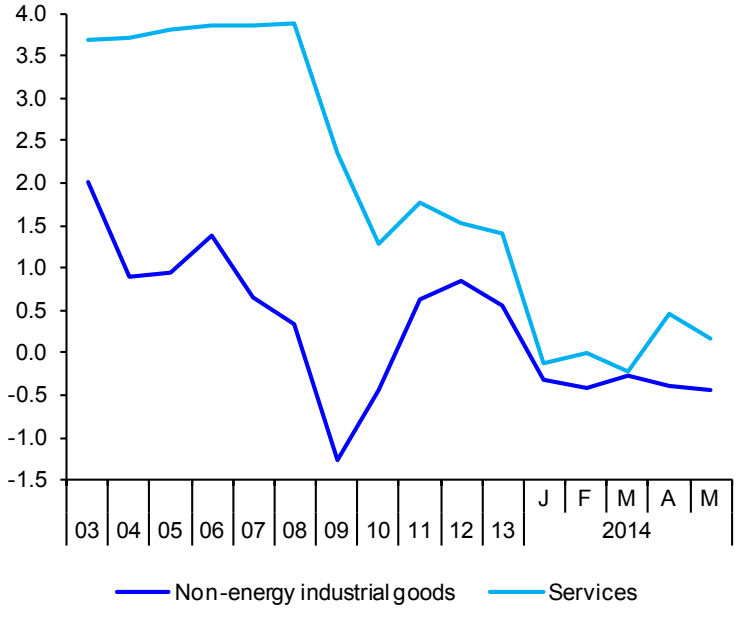


Table 15

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	M² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2000=100	2010=100		2007=100			2000=100				
2008	135.4	99.8	100.5	98.5	100.7	91.1	137.4	134.8	145.6	142.8	--
2009	135.5	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.8	150.1	--
2010	135.6	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.4	--
2011	135.6	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012	135.6	111.0	105.9	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	136.5	111.7	106.7	64.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014 (b)	136.3	109.9	105.8	63.6	72.0	53.7	139.8	135.2	154.0	145.6	--
2012 III	135.7	111.7	106.4	70.2	76.1	60.4	138.8	135.2	149.7	159.9	--
IV	135.8	111.5	106.8	69.2	74.5	67.3	146.9	145.8	150.2	159.2	--
2013 I	137.1	112.2	107.3	64.7	73.7	56.4	140.3	135.5	154.9	145.1	--
II	136.4	110.7	106.9	64.2	73.1	58.0	145.9	144.4	150.6	152.4	--
III	136.3	112.2	106.5	64.7	72.7	53.0	139.1	134.9	151.9	160.6	--
IV	136.0	111.5	106.0	63.8	71.3	53.1	149.9	149.5	151.3	162.8	--
2014 I	136.3	109.8	105.7	63.6	71.0	50.8	139.8	135.2	154.0	145.6	--
II(b)	--	110.2	105.8	--	--	--	--	--	--	--	--
2014 Mar	--	109.5	105.6	--	--	--	--	--	--	--	--
Apr	--	109.7	105.8	--	--	--	--	--	--	--	--
May	--	110.7	105.8	--	--	--	--	--	--	--	--
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	5.1	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	0.6	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.6
2014 (c)	-0.6	-1.4	-1.3	-1.6	-3.8	-10.0	-0.3	-0.2	-0.6	0.3	0.5
2012 III	0.2	3.9	1.7	-15.2	-9.5	-0.7	-0.1	0.3	-1.0	0.4	1.3
IV	0.1	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	-0.8	0.6
II	0.7	0.5	1.1	-12.0	-6.4	-17.4	-0.4	-0.6	0.2	-0.4	0.7
III	0.4	0.4	0.1	-7.9	-4.5	-12.4	0.2	-0.2	1.4	0.4	0.6
IV	0.2	0.0	-0.8	-7.8	-4.2	-21.1	2.1	2.5	0.7	2.2	0.6
2014 I	-0.6	-2.2	-1.5	-1.6	-3.8	-10.0	-0.3	-0.2	-0.6	0.3	0.6
II(c)	--	-0.5	-1.0	--	--	--	--	--	--	--	0.5
2014 Mar	--	-1.5	-1.5	--	--	--	--	--	--	--	0.6
Apr	--	-0.2	-1.2	--	--	--	--	--	--	--	0.5
May	--	-0.4	-0.9	--	--	--	--	--	--	--	--

(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

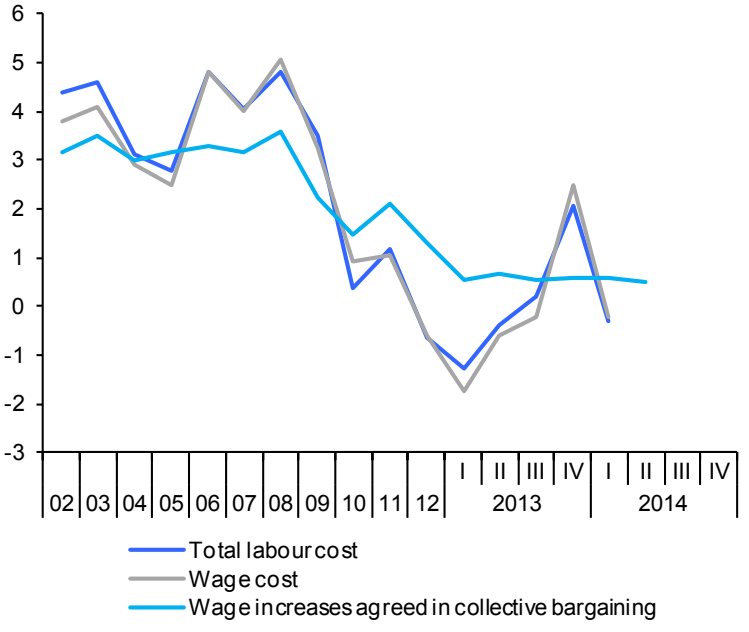


Table 16

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	234.2	110.2	138.5	250.2	109.3	98.9	146.6	87.6	-16.0	26.0	17.7
2014 (b)	78.0	108.8	140.9	86.7	105.8	107.5	49.7	28.3	-8.7	6.2	3.9
2012 III	57.0	110.6	133.4	63.7	114.9	95.9	34.5	22.5	-6.8	5.2	2.9
IV	58.6	112.5	134.8	61.1	114.5	92.2	35.6	22.9	-2.5	7.8	4.7
2013 I	57.1	108.9	135.6	61.4	111.1	95.4	35.0	22.1	-4.3	7.1	4.3
II	61.6	109.8	145.2	63.4	107.0	102.4	38.4	23.2	-1.8	8.3	5.8
III	59.4	110.8	138.8	63.3	110.1	99.3	36.8	22.5	-3.9	6.9	4.4
IV	59.0	111.4	137.2	62.3	109.5	98.2	36.7	22.4	-3.2	6.4	3.4
2014 I	58.8	109.0	139.7	65.6	105.5	107.4	37.7	21.1	-6.8	4.5	3.2
II(b)	20.2	108.4	144.4	22.2	106.7	107.7	12.4	7.8	-2.0	1.5	0.4
2014 Feb	19.8	108.5	142.0	21.6	106.5	105.3	12.8	7.1	-1.8	1.8	1.5
Mar	19.0	110.0	134.2	21.7	105.3	107.0	12.2	6.8	-2.7	1.4	0.9
Apr	20.2	108.4	144.4	22.2	106.7	107.7	12.4	7.8	-2.0	1.5	0.4
	Percentage changes (c)								**Percentage of GDP**		
2008	2.3	1.6	0.7	-0.6	4.1	-4.5	-0.1	8.0	-8.7	-4.7	-2.4
2009	-15.5	-6.7	-9.4	-27.3	-11.8	-17.5	-15.5	-15.4	-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	3.6	-0.2	5.4	-3.0	-4.2	3.1	2.4	5.7	-1.6	2.5	1.7
2014 (d)	1.4	-0.3	1.7	4.9	-3.6	8.5	5.0	-4.4	--	--	--
2012 III	17.2	9.0	7.8	5.5	7.7	-1.9	0.8	49.4	-2.6	2.0	1.1
IV	11.8	7.1	4.2	-15.4	-1.3	-14.4	13.8	8.8	-1.0	3.0	1.8
2013 I	-9.9	-12.3	2.6	1.6	-11.5	14.5	-7.5	-13.6	-1.7	2.8	1.7
II	35.8	3.3	31.4	13.9	-13.7	32.6	45.6	21.4	-0.7	3.3	2.3
III	-13.7	3.7	-16.5	-0.7	11.8	-11.4	-15.3	-11.0	-1.5	2.7	1.7
IV	-2.3	2.2	-4.4	-6.3	-1.9	-4.4	-1.8	-3.2	-1.3	2.5	1.3
2014 I	-1.4	-8.3	7.4	23.4	-14.0	43.1	11.7	-20.3	-2.6	1.8	1.3
II(e)	11.5	-2.2	14.2	5.8	4.6	1.1	-6.8	50.6	--	--	--
2014 Feb	-0.7	0.0	-0.7	-2.6	1.6	-4.2	0.5	-2.8	--	--	--
Mar	-4.2	1.4	-5.5	0.4	-1.1	1.6	-4.2	-4.1	--	--	--
Apr	6.0	-1.5	7.6	2.0	1.3	0.7	0.9	15.1	--	--	--

(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. (e) Annualized growth of the average of available months over the monthly average of the previous quarter.

Source: Ministry of Economy.

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

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

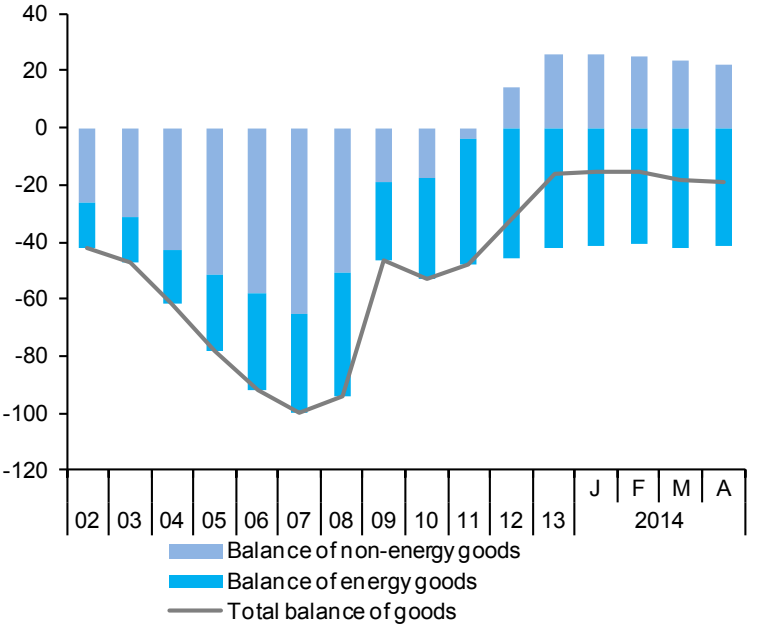


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
									Financial account, excluding Bank of Spain					Bank of Spain	
		Total	Goods	Services	Income	Transfers			Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives		
		1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
EUR billions															
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		-38.97	-43.45	35.28	-24.33	-6.47	5.43	-33.54	-78.92	-9.20	-25.70	-41.96	-2.07	109.23	3.23
2012		-12.43	-27.80	37.55	-17.92	-4.27	6.59	-5.83	-173.19	23.10	-54.93	-149.71	8.35	173.52	5.51
2013		7.96	-11.64	40.87	-15.28	-5.99	7.83	15.80	88.98	9.89	40.36	35.25	3.48	-114.27	9.49
2014	(a)	-8.23	-5.10	7.46	-6.30	-4.29	2.04	-6.19	-10.43	-4.25	-13.26	10.84	-3.76	13.29	3.33
2012	II	-3.52	-7.02	9.43	-4.62	-1.31	1.72	-1.80	-129.47	-2.86	-48.58	-77.63	-0.40	131.22	0.06
	III	0.82	-7.20	14.66	-4.26	-2.38	1.52	2.34	2.20	2.56	5.64	-10.77	4.78	-3.27	-1.28
	IV	4.14	-3.92	7.37	-3.00	3.69	2.68	6.82	49.81	17.17	27.07	4.37	1.19	-60.01	3.38
2013	I	-4.28	-2.80	6.77	-4.40	-3.85	1.38	-2.90	41.50	3.22	-1.47	39.72	0.03	-38.77	0.17
	II	3.32	-0.64	9.90	-3.31	-2.63	2.53	5.85	1.76	4.07	-10.15	6.73	1.11	-11.74	4.13
	III	4.54	-4.18	15.31	-3.89	-2.70	1.25	5.79	-1.08	4.10	11.05	-18.14	1.91	-10.51	5.79
	IV	4.38	-4.03	8.89	-3.68	3.19	2.67	7.06	46.80	-1.50	40.94	6.94	0.42	-53.25	-0.60
2014	I	-8.23	-5.10	7.46	-6.30	-4.29	2.04	-6.19	-10.43	-4.25	-13.26	10.84	-3.76	13.29	3.33
2014	Feb	-2.80	-1.00	2.39	-1.86	-2.33	0.11	-2.69	-8.71	-3.87	-5.91	2.10	-1.03	10.95	0.44
	Mar	-1.85	-2.04	2.41	-1.35	-0.87	1.61	-0.23	2.62	-2.03	2.40	3.26	-1.01	-4.64	2.25
	Apr	-1.64	-1.42	2.71	-2.01	-0.92	0.58	-1.06	-3.89	-0.15	-17.25	6.79	6.72	3.42	1.53
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		-3.7	-4.2	3.4	-2.3	-0.6	0.5	-3.2	-7.5	-0.9	-2.5	-4.0	-0.2	10.4	0.3
2012		-1.2	-2.7	3.6	-1.7	-0.4	0.6	-0.6	-16.8	2.2	-5.3	-14.5	0.8	16.9	0.5
2013		0.8	-1.1	4.0	-1.5	-0.6	0.8	1.5	8.7	1.0	3.9	3.4	0.3	-11.2	0.9
2012	II	-1.3	-2.7	3.6	-1.7	-0.5	0.6	-0.7	-48.9	-1.1	-18.3	-29.3	-0.2	49.6	0.0
	III	0.3	-2.9	5.9	-1.7	-1.0	0.6	0.9	0.9	1.0	2.3	-4.3	1.9	-1.3	-0.5
	IV	1.6	-1.5	2.8	-1.1	1.4	1.0	2.6	18.9	6.5	10.3	1.7	0.5	-22.8	1.3
2013	I	-1.7	-1.1	2.7	-1.8	-1.5	0.5	-1.2	16.5	1.3	-0.6	15.8	0.0	-15.5	0.1
	II	1.3	-0.2	3.8	-1.3	-1.0	1.0	2.2	0.7	1.6	-3.9	2.6	0.4	-4.5	1.6
	III	1.8	-1.7	6.2	-1.6	-1.1	0.5	2.3	-0.4	1.7	4.5	-7.3	0.8	-4.3	2.3
	IV	1.7	-1.5	3.4	-1.4	1.2	1.0	2.7	17.8	-0.6	15.6	2.6	0.2	-20.3	-0.2
2014	I	-3.3	-2.0	3.0	-2.5	-1.7	0.8	-2.5	-4.2	-1.7	-5.3	4.3	-1.5	5.3	1.3

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

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

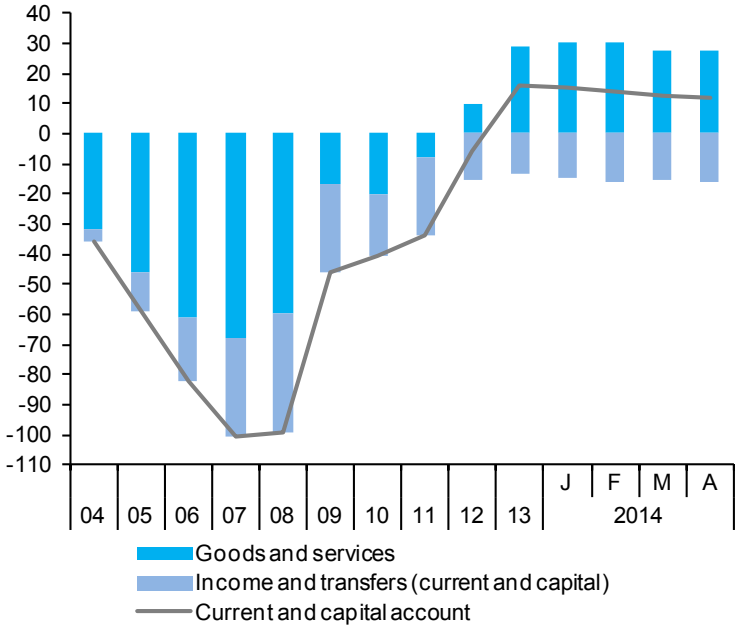


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

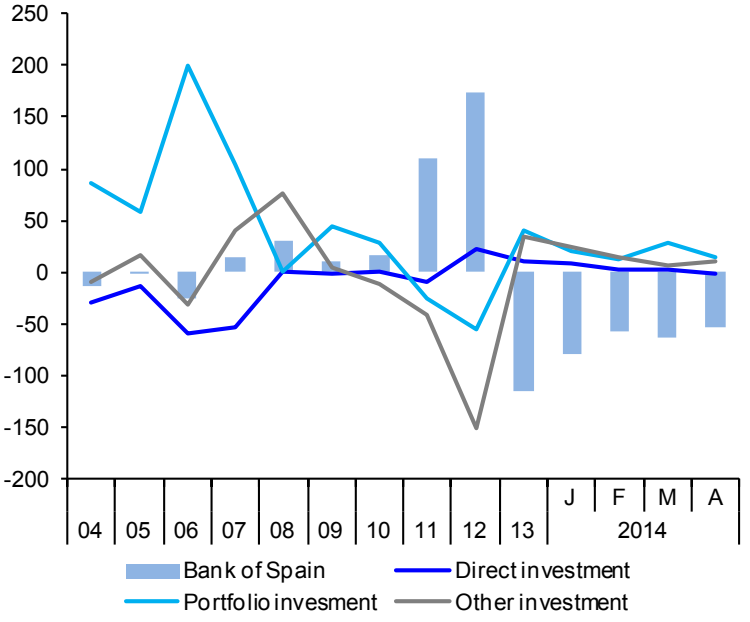


Table 18

State and Social Security System budget

	State							Social Security System				
	National accounts basis			Revenue, cash basis (a)					Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others	Surplus or deficit	Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
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	-44.1	122.0	166.2	215.4	96.2	71.6	47.7	-5.8	118.6	101.1	124.4	105.5
2013	-45.4	128.4	173.8	191.1	94.0	73.7	23.3	-8.9	121.3	98.1	130.2	111.1
2014 (b)	-45.1	130.8	175.8	197.0	95.1	76.9	25.1	-11.2	120.7	98.1	132.0	112.5
2014 Mar	-44.7	129.8	174.4	194.8	94.3	76.1	24.4	-12.1	119.5	98.2	131.6	112.0
Apr	-42.3	132.2	174.5	191.6	91.5	75.0	25.1	-11.9	119.8	98.0	131.7	112.2
May	-45.1	130.8	175.8	197.0	95.1	76.9	25.1	-11.2	120.7	98.1	132.0	112.5
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	--	-10.2	-0.7	21.7	7.3	0.5	195.9	--	-2.5	-4.0	1.9	3.9
2013	--	5.2	4.6	-11.3	-2.2	3.0	-51.1	--	2.3	-3.0	4.6	5.3
2014 (c)	--	4.3	5.6	-7.4	2.1	7.4	-47.8	--	0.9	-1.5	5.1	4.8
2014 Mar	--	5.6	6.5	-7.8	1.0	7.0	-47.8	--	-0.1	-2.0	5.2	5.1
Apr	--	7.1	4.9	-9.1	-1.7	6.6	-46.9	--	0.2	-1.8	4.9	4.9
May	--	4.3	5.6	-7.4	2.1	7.4	-47.8	--	0.9	-1.5	5.1	4.8
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	11.9	16.1	20.9	9.3	7.0	4.6	-0.6	11.5	9.8	12.1	10.3
2013	-4.4	12.6	17.0	18.7	9.2	7.2	2.3	-0.9	11.9	9.6	12.7	10.9
2014 (b)	-4.4	12.8	17.2	19.3	9.3	7.5	2.5	-1.1	11.8	9.6	12.9	11.0
2014 Mar	-4.4	12.7	17.0	19.0	9.2	7.4	2.4	-1.2	11.7	9.6	12.9	10.9
Apr	-4.1	12.9	17.1	18.7	8.9	7.3	2.4	-1.2	11.7	9.6	12.9	11.0
May	-4.4	12.8	17.2	19.3	9.3	7.5	2.5	-1.1	11.8	9.6	12.9	11.0

(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

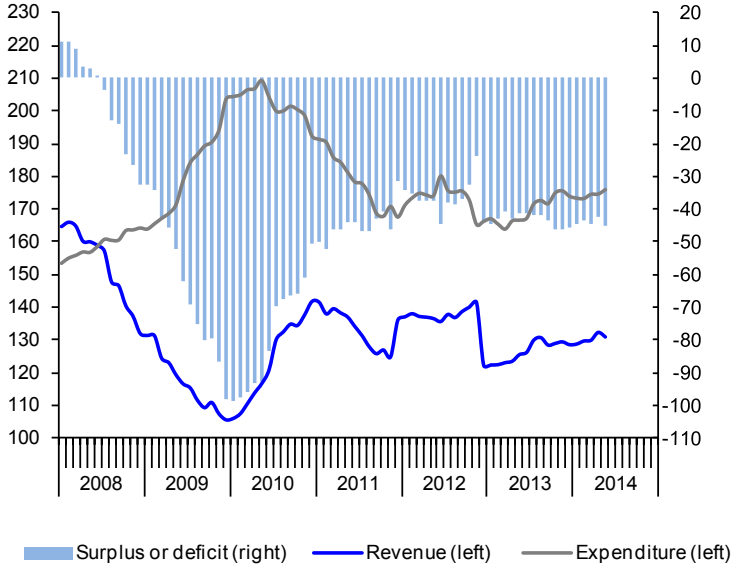


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

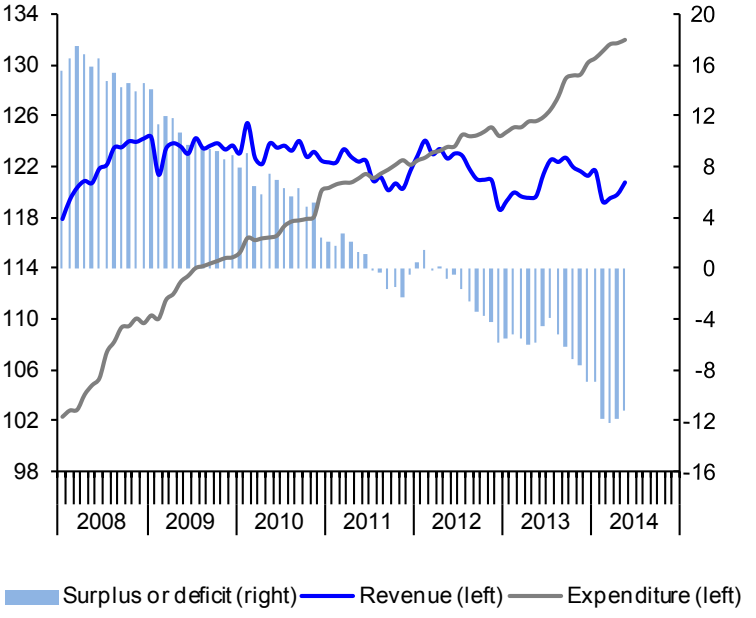


Table 19

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)				Contribution of Spanish MFI to Eurozone 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	70.4	3.4	10.5	4.7	2,767.2	565.1	1,298.8	903.3	--	11,940.0
2010	4.2	146.6	2.6	8.6	4.3	2,845.9	644.7	1,303.1	898.1	--	9,859.1
2011	5.4	277.8	3.5	8.6	5.1	2,866.1	737.4	1,258.0	870.6	--	8,563.3
2012	5.8	427.9	3.4	9.1	5.6	2,866.7	884.7	1,148.2	833.8	--	8,167.5
2013	4.6	293.3	3.2	9.7	5.5	2,815.4	960.7	1,068.7	786.0	--	9,916.7
2014 (a)	3.2	167.6	3.3	9.7	5.3	2,803.3	982.8	1,044.2	769.5	--	10,923.5
2012 III	6.4	500.5	3.3	9.2	5.7	2,871.3	818.1	1,212.5	840.8	--	7,708.5
IV	5.6	413.6	3.1	8.8	5.5	2,866.7	884.7	1,148.2	833.8	--	8,167.5
2013 I	5.1	353.5	3.2	9.5	5.6	2,867.2	924.1	1,123.7	819.4	--	7,920.0
II	4.5	308.9	3.2	9.6	5.7	2,863.0	943.9	1,104.9	814.2	--	7,762.7
III	4.5	274.2	3.2	9.9	5.5	2,840.5	954.9	1,088.5	797.0	--	9,186.1
IV	4.2	236.6	3.2	9.7	5.3	2,815.4	960.7	1,068.7	786.0	--	9,916.7
2014 I	3.6	186.8	3.3	9.7	5.3	2,815.9	989.9	1,051.6	774.3	--	10,340.5
II(a)	2.9	148.4	3.2	9.7	5.3	2,803.3	982.8	1,044.2	769.5	--	10,923.5
2014 Apr	3.1	156.3	3.3	9.6	5.4	2,803.3	982.8	1,046.6	771.5	--	10,459.0
May	2.9	152.9	3.2	9.7	5.3	--	--	1,044.2	769.5	--	10,798.7
Jun	2.7	136.0	--	--	--	--	--	--	--	--	10,923.5
						Percentage change from same period previous year					**(b)**
2007	--	--	--	--	--	12.3	-2.2	17.7	12.5	15.1	7.3
2008	--	--	--	--	--	7.8	14.2	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	--	--	--	--	--	1.6	14.4	-1.9	-2.4	-1.6	-13.1
2012	--	--	--	--	--	1.3	20.0	-6.1	-3.8	0.1	-4.6
2013	--	--	--	--	--	-0.9	8.6	-5.1	-5.1	-4.3	21.4
2014 (a)	--	--	--	--	--	-1.1	7.4	-4.9	-4.6	-4.1	24.2
2012 III	--	--	--	--	--	0.9	15.3	-4.2	-3.6	-3.6	8.5
IV	--	--	--	--	--	1.3	20.0	-6.1	-3.8	0.1	6.0
2013 I	--	--	--	--	--	1.1	19.1	-6.7	-4.0	-0.5	-3.0
II	--	--	--	--	--	0.8	17.2	-6.3	-4.3	-0.4	-2.0
III	--	--	--	--	--	1.0	16.7	-5.8	-4.6	0.2	18.3
IV	--	--	--	--	--	-0.9	8.6	-5.1	-5.1	-4.4	8.0
2014 I	--	--	--	--	--	-1.2	7.1	-5.7	-4.8	-5.1	4.3
II(a)	--	--	--	--	--	-1.1	7.4	-4.9	-4.6	-4.1	5.6
2014 Apr	--	--	--	--	--	-1.1	7.4	-5.6	-4.7	-4.1	1.1
May	--	--	--	--	--	--	--	-4.9	-4.6	--	3.2
Jun	--	--	--	--	--	--	--	--	--	--	1.2

(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

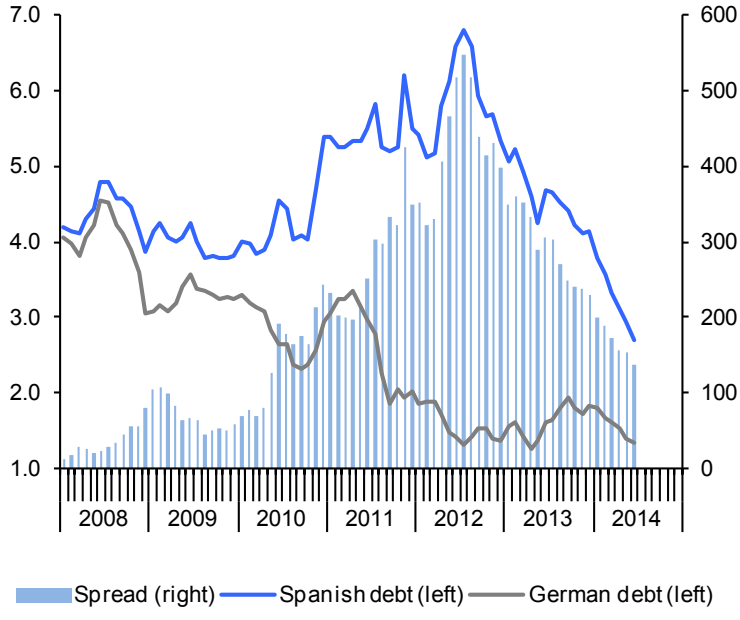


Chart 19.2.- Credit stock growth
Annual percentage change

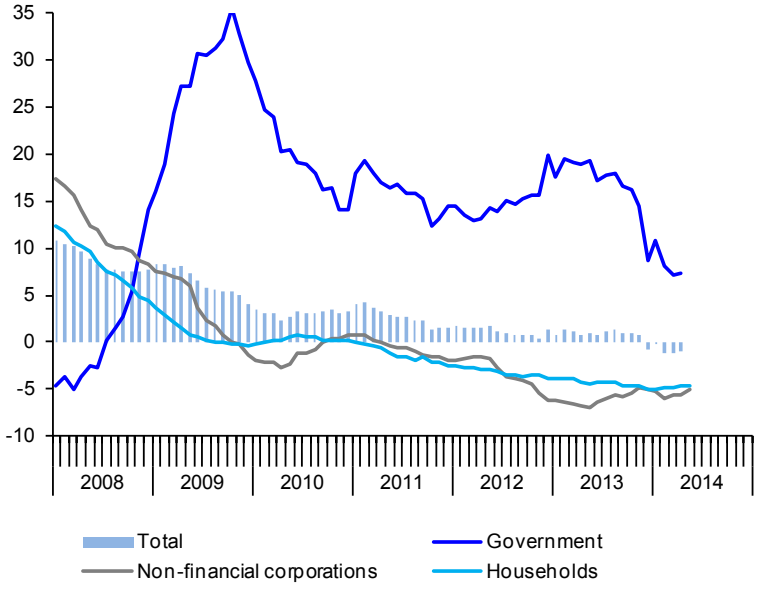


Table 20

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	92.2	111.5	121.0	106.5	104.4	102.1	94.1	96.8	97.2	111.8
2008	93.4	113.3	121.2	110.9	107.8	102.9	99.5	101.6	98.0	114.5
2009	98.9	111.9	113.1	110.6	108.1	102.4	96.2	97.0	99.2	114.0
2010	98.6	111.1	112.7	112.9	109.8	102.8	100.0	100.0	100.0	112.9
2011	99.9	109.5	109.6	116.3	112.8	103.1	106.5	105.2	101.2	113.1
2012	104.2	108.4	104.0	119.2	115.6	103.1	110.1	107.9	102.0	111.7
2013	107.8	107.0	99.3	121.0	117.2	103.2	110.0	107.4	102.4	113.4
2014 (a)	--	--	--	120.7	117.6	102.7	108.1	106.4	101.6	113.0
2012 III	--	--	--	119.3	115.7	103.1	110.7	108.2	102.3	111.0
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	--	--	--	121.6	117.6	103.4	109.6	106.9	102.5	114.0
2014 I	--	--	--	119.9	117.2	102.4	108.1	106.5	101.5	112.6
II (a)	--	--	--	121.9	118.1	103.2	108.0	106.2	101.7	113.5
2014 Mar	--	--	--	121.1	118.0	102.6	107.9	106.2	101.6	113.2
Apr	--	--	--	121.9	118.2	103.1	108.0	106.2	101.7	113.6
May	--	--	--	121.9	118.1	103.2	--	--	--	113.5
	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	1.4
2008	1.4	1.6	0.2	4.1	3.3	0.9	5.7	4.9	0.8	2.3
2009	5.9	-1.2	-6.8	-0.2	0.3	-0.5	-3.3	-4.5	1.2	-0.4
2010	-0.4	-0.7	-0.3	2.0	1.6	0.4	3.9	3.1	0.9	-1.0
2011	1.4	-1.4	-2.7	3.1	2.7	0.3	6.5	5.2	1.3	0.2
2012	4.4	-1.0	-5.1	2.4	2.5	-0.1	3.4	2.6	0.8	-1.3
2013	3.4	-1.3	-4.5	1.5	1.4	0.2	-0.1	-0.4	0.4	1.5
2014 (b)	--	--	--	0.1	0.6	-0.5	-2.1	-1.4	-0.7	-0.1
2012 III	--	--	--	2.8	2.5	0.2	0.6	0.8	-0.1	-1.5
IV	--	--	--	3.2	2.3	0.9	2.2	1.7	0.5	0.2
2013 I	--	--	--	2.8	1.9	0.9	1.2	0.7	0.5	1.8
II	--	--	--	1.8	1.4	0.4	-0.2	-0.4	0.2	1.7
III	--	--	--	1.3	1.3	0.0	-0.4	-0.8	0.4	2.0
IV	--	--	--	0.2	0.8	-0.6	-0.8	-1.2	0.4	0.8
2014 I	--	--	--	0.0	0.7	-0.6	-2.5	-1.5	-1.0	-0.1
II (b)	--	--	--	0.3	0.6	-0.3	-1.2	-1.0	-0.2	-0.1
2014 Mar	--	--	--	-0.2	0.5	-0.7	-1.9	-1.7	-0.2	-0.1
Apr	--	--	--	0.3	0.7	-0.4	-0.7	-1.2	0.5	0.1
May	--	--	--	0.2	0.5	-0.3	--	--	--	-0.1

(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

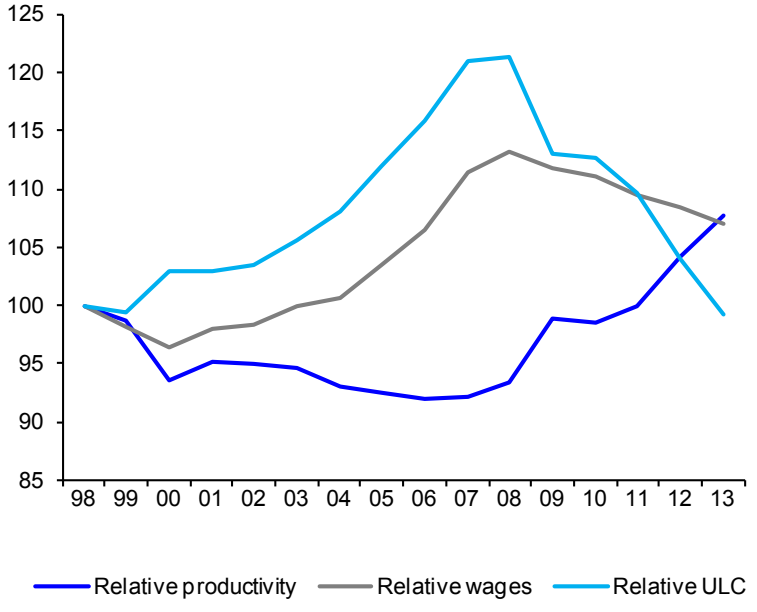


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

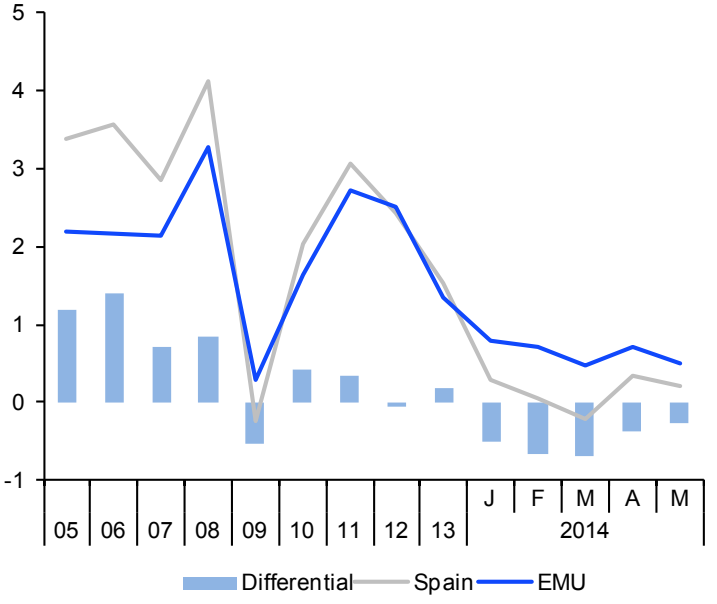


Table 21a

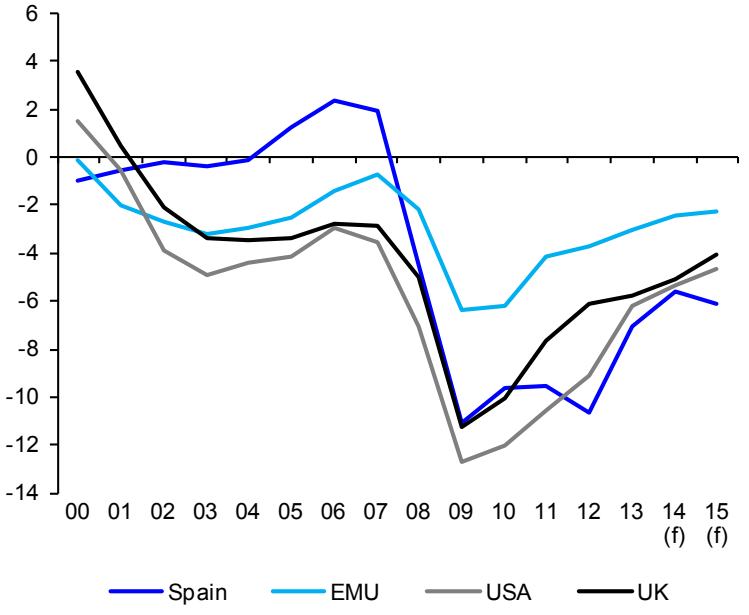
Imbalances: International comparison (I)

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	-544.2	-43.6	392.5	5,750.7	8,502.9	532.3	-67.8	34.8	-737.1	-23.6
2006	23.2	-119.2	-412.9	-37.9	391.1	5,888.8	8,837.5	576.3	-88.9	38.8	-795.7	-38.3
2007	20.7	-62.1	-515.4	-40.5	382.3	5,996.5	9,328.4	624.3	-105.2	34.0	-709.1	-31.2
2008	-49.1	-198.5	-1,035.1	-72.6	437.0	6,494.9	10,797.1	758.7	-104.3	-67.2	-678.5	-13.8
2009	-116.4	-566.8	-1,829.0	-159.9	565.1	7,145.3	12,445.9	951.1	-50.0	8.7	-381.2	-20.1
2010	-100.5	-570.4	-1,798.6	-149.0	644.7	7,875.1	14,236.9	1,165.5	-45.7	30.3	-454.5	-40.0
2011	-100.0	-388.0	-1,645.6	-117.1	737.4	8,320.8	15,457.3	1,295.9	-41.6	37.2	-457.0	-22.5
2012	-109.3	-351.0	-1,486.4	-95.4	884.7	8,813.3	16,708.2	1,387.9	-12.5	171.1	-439.0	-59.7
2013	-72.4	-290.3	-1048.0	-93.4	960.7	9,121.3	17,558.5	1461.0	8.2	251.0	-392.0	-71.1
2014	-58.2	-243.5	-941.1	-85.3	1,039.7	9,440.0	18,589.7	1,548.1	14.3	286.2	-385.3	-63.3
2015	-65.2	-229.4	-863.3	-71.6	1,107.3	9,668.7	19,453.0	1,637.5	15.7	289.1	-443.8	-57.8
Percentage of GDP												
2005	1.3	-2.5	-4.2	-3.4	43.2	70.5	64.9	41.7	-7.5	0.4	-5.6	-1.8
2006	2.4	-1.4	-3.0	-2.8	39.7	68.6	63.8	42.7	-9.0	0.5	-5.7	-2.8
2007	2.0	-0.7	-3.6	-2.8	36.3	66.2	64.4	43.7	-10.0	0.4	-4.9	-2.2
2008	-4.5	-2.1	-7.0	-5.0	40.2	70.1	73.3	51.9	-9.6	-0.7	-4.6	-0.9
2009	-11.1	-6.3	-12.7	-11.3	54.0	79.9	86.3	67.1	-4.8	0.1	-2.6	-1.4
2010	-9.6	-6.2	-12.0	-10.0	61.7	85.7	95.2	78.4	-4.4	0.3	-3.0	-2.7
2011	-9.6	-4.1	-10.6	-7.6	70.5	88.1	99.5	84.3	-4.0	0.4	-2.9	-1.5
2012	-10.6	-3.7	-9.2	-6.1	86.0	92.7	102.9	89.1	-1.2	1.8	-2.7	-3.8
2013	-7.1	-3.0	-6.2	-5.8	93.9	95.0	104.5	90.6	0.8	2.6	-2.3	-4.4
2014	-5.6	-2.5	-5.4	-5.1	100.2	96.0	105.9	91.8	1.4	2.9	-2.2	-3.8
2015	-6.1	-2.3	-4.7	-4.1	103.8	95.4	105.4	92.7	1.5	2.9	-2.4	-3.3

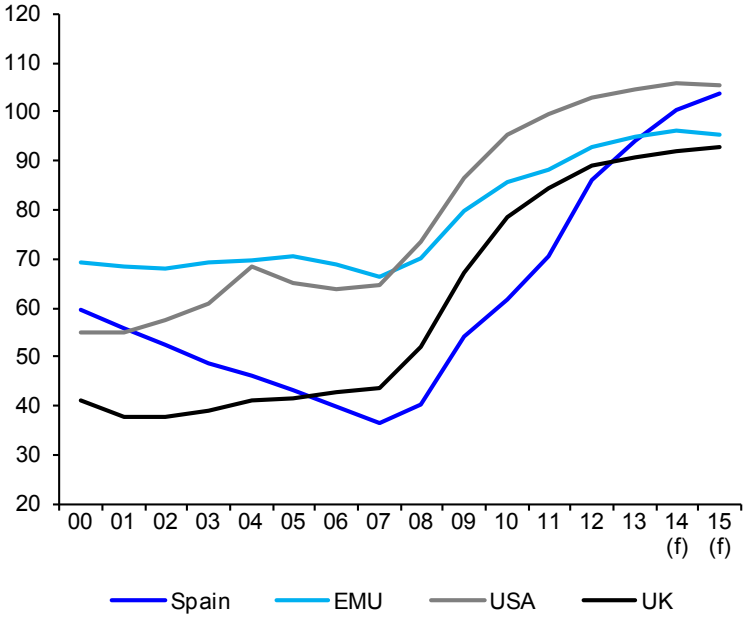
Source: European Commission.

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-17	USA	UK	Spain	EMU-17	USA	UK	Spain	EMU-17	USA	UK
Billions of national currency												
2005	653.5	4,769.8	11,721.4	1,157.4	951.5	7,019.3	8,683.4	1,128.4	528.3	8,313.6	12,958.0	2,403.7
2006	780.7	5,187.8	12,946.5	1,276.0	1,191.4	7,690.6	9,651.8	1,226.4	753.9	9,297.3	14,261.3	2,644.4
2007	876.6	5,552.5	13,830.0	1,388.6	1,386.4	8,509.4	10,975.5	1,309.4	980.4	10,652.2	16,204.9	3,161.0
2008	913.4	5,806.0	13,848.7	1,437.2	1,477.4	9,143.6	11,660.5	1,508.6	1,042.5	11,608.7	17,102.5	3,613.8
2009	906.7	5,936.0	13,574.2	1,437.6	1,466.1	9,123.4	11,320.5	1,457.3	1,121.1	12,199.4	15,689.8	3,558.8
2010	903.0	6,110.2	13,198.3	1,439.4	1,501.1	9,368.8	11,419.8	1,435.8	1,107.1	12,253.8	14,487.0	3,706.6
2011	875.8	6,205.4	13,017.3	1,448.6	1,478.3	9,519.2	11,966.9	1,444.6	1,125.0	12,713.4	14,046.5	3,598.7
2012	838.8	6,195.8	12,979.6	1,467.6	1,375.5	9,642.2	12,733.3	1,515.1	1,154.7	12,955.3	13,910.7	3,677.8
2013	789.2	6,151.8	13,105.1	1,475.8	1,319.2	9,546.8	13,621.8	1,521.7	967.4	12,291.0	14,081.1	3,542.3
Percentage of GDP												
2005	71.9	58.6	89.5	90.6	104.6	86.2	66.3	88.4	58.1	102.1	99.0	188.3
2006	79.2	60.6	93.4	94.6	120.9	89.8	69.6	90.9	76.5	108.6	102.9	196.0
2007	83.2	61.5	95.5	97.2	131.6	94.2	75.8	91.7	93.1	118.0	111.9	221.4
2008	84.0	62.8	94.1	98.3	135.8	98.9	79.2	103.2	95.8	125.6	116.2	247.2
2009	86.6	66.5	94.1	101.4	140.0	102.3	78.5	102.8	107.1	136.7	108.8	251.1
2010	86.4	66.6	88.2	96.9	143.6	102.2	76.3	96.6	105.9	133.7	96.8	249.5
2011	83.7	65.8	83.8	94.3	141.3	101.0	77.0	94.0	107.5	134.9	90.4	234.1
2012	81.5	65.3	79.9	94.2	133.6	101.7	78.4	97.2	112.2	136.6	85.6	236.0
2013	77.1	64.2	78.0	91.5	129.0	99.7	81.1	94.3	94.6	128.3	83.8	219.6

(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

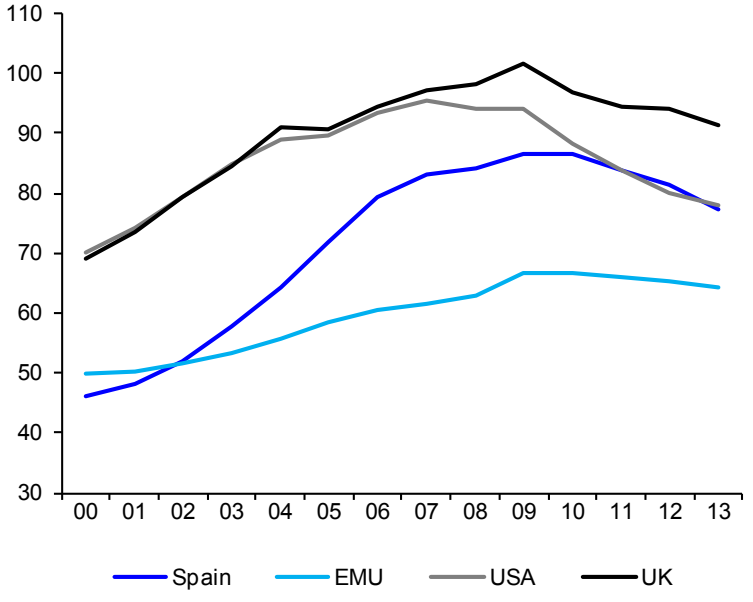
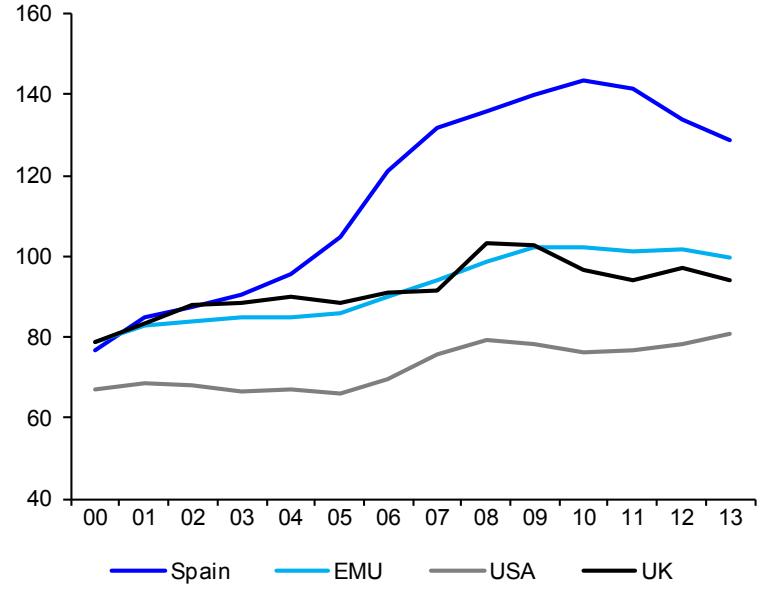


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS

Updated: June 30th, 2014

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.1	April 2014
Other resident sectors' deposits in credit institutions (monthly average % var.)	-1.3	April 2014
Doubtful loans (monthly % var.)	-0.5	April 2014
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	628,409	May 2014
Recourse to the Eurosystem (Spanish financial institutions, million euros)	185,514	May 2014
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main L/T refinancing operations	26,898	May 2014
"Operating expenses/gross operating income" ratio (%)	46.86	March 2014
"Customer deposits/employees" ratio (thousand euros)	5,428.87	March 2014
"Customer deposits/branches" ratio (thousand euros)	34,800.14	March 2014
"Branches/institutions" ratio	215.77	March 2014

A. Money and interest rates

Indicator	Source:	Average 1998-2011	2012	2013	2014 May	2014 June	Definition and calculation
1. Monetary Supply (% chg.)	ECB	6.0	3.0	2.3	2.5	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.9	0.6	0.22	0.31	0.21	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.1	1.1	0.54	0.57	0.49	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.5	5.8	4.6	2.85	2.65	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.5	5.8	3.9	2.27	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": The reduction of interest rates by the ECB has had an effect on both the 3-month Euribor rate -which fell to 0.49%- and the 1-year Euribor rate - which decreased to 0.21% in June. As for the Spanish 10-year bond yield, it has fallen significantly to 2.65%.

B. Financial markets

Indicator	Source:	Average 1998-2011	2012	2013	2014 April	2014 May	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	24.5	84.7	82.9	78.6	88.6	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	79.8	64.8	61.2	69.6	76.5	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.6	1.7	1.9	0.8	2.7	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.4	2.2	3.2	3.3	2.7	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	2.7	0.6	0.2	0.2	0.2	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	593.8	751.1	846.3	930.7	939.9	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.5	0.6	2.3	1.1	3.6	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	4.2	-24.8	0.4	21.7	-8.2	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	1,029.6	824.7	1,011.98	1,070.05	1,116.05(a)	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,989.3	7,583.2	8,715.6	10,459.0	10,923.50(a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	16.1	18.2	33.1	28.0	23.5(a)	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 April	2014 May	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	3.4	-15.1	-23.5	-11.8	-18.4	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.0	73.9	80.7	-1.8	-2.2	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.9	2.4	2.4	0.5	0.5	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.8	-10.8	15.8	-3.9	-4.3	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	7.8	54.1	-22.8	20.4	-25.4	IBEX-35 shares concluded transactions

(a) Last data published: June 2014.

Comment on "Financial Markets": During the last month, there has been an increase in transactions of outright spot T-bills, and of spot government bonds transactions of 88.6% and 76%, respectively. The stock market has gained some momentum in June, with the IBEX-35 increasing to below 10,923 points, and the General Index of the Madrid Stock Exchange at 1,116. Additionally, there was a 4.3% fall in financial IBEX-35 future transactions and a 25.4% decrease in transactions of IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2004-2010	2011	2012	2013 Q 3	2013 Q 4	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.7	-3.4	-0.2	1.5	1.5	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	4.0	3.4	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	327.0	328.6	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP

C. Financial Savings and Debt (continued)

Indicator	Source:	Average 2004-2010	2011	2012	2013 Q 3	2013 Q 4	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	78.2	77.1	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	3.2	4.2	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	-2.1	-1.3	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2013Q4, there was a 1.5% 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 falling to 77.1%. Finally, the stock of financial assets on households' balance sheets registered an increase of 4.2%, while there was a 1.3% drop in the stock of financial liabilities, thereby increasing households' financial wealth.

D. Credit institutions. Business Development

Indicator	Source:	Average 1998-2011	2012	2013	2014 March	2014 April	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	12.8	-10.4	-9.5	-0.7	-1.1	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	10.6	-1.8	1.3	0.7	-1.3	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	10.0	23.2	-5.1	0.3	-0.1	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	16.4	3.1	8.9	2.2	0.3	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-0.8	-9.0	-5.9	-6.9	-7.2	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

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D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 March	2014 April	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	34.9	20.0	17.8	-1.3	-0.5	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	-3.3	0.3	6.5	-1.1	-11.5	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	11.3	-12.1	19.6	0.1	1.1	Equity percentage change for the sum of banks, savings banks and credit unions

Comment on "Credit institutions. Business Development": The latest available data as of April 2014 show a 1.1% decrease in bank credit to the private sector and also a 1.3% decrease in financial institutions deposit-taking from the previous month. Holdings of debt securities have decreased by 0.1% while shares and equity have increased by 0.3%. Also, doubtful loans decreased 0.5% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1997-2010	2011	2012	2013 December	2014 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	215	189	173	155	154	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	86	84	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	249,013	243,041	231,389	212,998	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,987	39,843	37,903	33,713	33,414	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	665,849	628,409(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	201,865	185,514(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 December	2014 March	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	19,833	26,898(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: May 2014.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In May 2014, the recourse to Eurosystem funding by Spanish credit institutions accounted for 29.52% of net total funds borrowed from the ECB by the Eurozone. In April, recourse to the Eurosystem by Spanish banks represented 29.93%.

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

Indicator	Source:	Average 1997-2010	2011	2012	2013 December	2014 March	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	54.53	49.85	47.18	48.25	46.86	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	5,025.81	5,428.87	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	16,424.04	29,171.23	30,110.18	34,494.65	34,800.14	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	193.19	205.38	219.09	217.50	215.77	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.08	6.5	6.9	6.9	6.4	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.10	0.40	-0.12	1.63	2.03	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.88	0.06	-1.93	0.14	0.29	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	13.23	3.28	-18.74	1.87	3.69	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": In March 2014, most of the profitability and efficiency indicators improved for Spanish banks although they still face a tough business and macroeconomic environment as in most of the Euro area countries. Productivity indicators have also improved due to the restructuring process of the Spanish banking sector.

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