Spanish Economic and Financial Outlook

Spain´s internal devaluation: Supporting economic recovery

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FEATURES

Letter from the Editors

The persistence of the crisis and its impact on Spain´s economic model revealed the need for a variety of structural reforms. In this September issue of the SEFO, we focus on the structural reforms recently undertaken in Spain, their resulting impact (in particular on the country´s competitiveness) and the challenges that lie ahead for the Spanish economy.

We start with an examination of the main structural reforms adopted in Spain since the crisis and the subsequent internal devaluation process. Essentially, the recent reform agenda can be divided into 5 pillars: i) modernization of government; ii) competitiveness reform; iii) financial system reform; iv) fiscal reform; and v) labour reform. Many of the legislative changes represent major structural changes in their respective spheres, with the effects of the measures to be felt over time. Nonetheless, some of the initial impact of the reforms is already palpable.

In this context, this SEFO offers a more detailed assessment of how Spain´s recent reforms have helped boost competitiveness, improving exports, reducing imports, reversing the current account from a large deficit to a small surplus, and allowing for a less pronounced drop in GDP than that of domestic demand. We add a word of caution on the current account. As the recovery gains speed, imports will once again pick-up. Moreover, sustaining the surplus depends to a large extent on the behaviour of EU and other economies. The September SEFO analyses these issues even further by deconstructing the Spanish labour market and the impact of Spain´s labour market reform on the external sector, most notably exports, as well as on the profitability of non-financial corporations.

We begin by taking a look at the effects of the recession on Spain´s labour market – specifically trends in the Labour Force Participation rate. We find that the recent crisis has affected the Spanish Labour Force Participation rate through various channels, namely changes in working-age population, in part fuelled by migration, as well as altering patterns in discouraged

workers and students. Trends have recently improved, as a result of more favorable macroeconomic conditions, but it remains difficult to say whether or not these improvements will be permanent or transient.

As regards exports, Spanish exports have outperformed their European competitors over the last few years. For example, since the first quarter of 2012, Spanish exports have increase by 11%, the best performance among big European economies. It is usually assumed that the favorable performance of Spain´s exports during the crisis can be linked to the internal devaluation process – i.e. the drop in unit labour costs. While it is true that unit labour costs have fallen, the internal devaluation has not been passed on to final export prices. Export prices have actually moved upwards throughout practically the duration of the crisis. Nevertheless, the reduction in unit labour costs has increased profits, which to a large part have helped firms to reduce their levels of indebtedness and has made Spain's export industry more attractive in relation to other countries as a destination for domestic and foreign productive investment. As we show in this SEFO, the significant increase in ROA for operating assets of Spanish non-financial corporations is evidence of this increase in profitability. ROA for operating assets in Spain was 8% before taxes in 2013 – a sound basis for a corporate-led recovery of the Spanish economy.

This SEFO also provides our standard analysis of the latest trends for the Spanish economy and financial sector. Consensus forecasts show that the outlook for recovery remains on track and improving. Furthermore, we analyze the health of Spanish financial institutions ahead of important EU-wide events -on the one hand, the upcoming Asset Quality Review (AQR) and stress test and on the other, the launch of the ECB´s TLTRO facility and announcement of the securitized asset purchase program. In line with the ECB´s latest decisions, we highlight the importance of continued EU authority support for reactivation of the securitization market. Once seen as part of the problem as a result of its connection to the latest financial crisis, securitization is quickly being seen as part of the solution to reactivate credit flows to the private sector. A more favorable regulatory climate will be needed for this market to play a bigger role in credit reactivation in European economies, including Spain. The ECB faces a difficult challenge balancing two distinct policy objectives of liquidity provider and supervisor. We believe Spanish banks are well positioned to take advantage of both the upcoming EU liquidity support, as well as meet solvency requirements.

Finally, we explore the impact of central bank extraordinary measures, such as their lowering long-term interest rates to levels way below those justified by economic fundamentals – the Spanish Treasury yield curve a case in point. Such trends should contribute to stabilization of the debt to GDP ratio in peripheral countries, such as Spain.

Four years of economic policy reforms in Spain: An analysis of results from an EU perspective

Ramon Xifré[1]

Spain´s policy response to the crisis seems to have brought about an improvement in competitiveness, with export performance among the best in the EU. Nevertheless, fiscal consolidation efforts are below expectations and worse than EU peers, resulting in an ever-increasing public debt stock and raising questions about future debt sustainability.

The policy response to the 2008 economic and financial crisis in Spain, and elsewhere in the EU, consisted of three main elements: fiscal discipline, structural reforms to improve competitiveness and reforms to stabilize the financial system. In Spain, economic reformism really gained traction in 2010 and this note briefly analyzes how the main country indicators do, or do not, reflect the expected outcome from policy reform since then. This article analyses the first two policy priorities (fiscal discipline and competitiveness) and in relative terms to the other three largest euro area economies (Germany, France and Italy). In terms of fiscal adjustment, the performance of Spain is very disappointing in several respects and therefore the outlook is worrisome. On the competitiveness front, the picture is more mixed. There has been some progress in regaining internal competitiveness and Spain´s high export growth is only comparable to Germany's, but the country still suffers a chronic deficit in merchandise trade.

The main principles of economic policy reform in Spain and the EU

The Spanish Government has since 2010 embraced three main policy objectives in order to respond to the country´s economic and financial crisis in the wider context of the EU and global downturn:

1. Budgetary adjustment and fiscal consolidation measures.
2. Structural reforms to boost competitiveness.
3. Financial stability and bank recapitalization.

These three economic policy principles have been shared by the last two Spanish administrations, each of them of different political orientation (see Spanish Government 2011 and 2012 for official documents). In addition, these lines of action broadly correspond with the EU general principles to tackle the crisis (see European Council 2012).

The goal of this article is to briefly assess the outcome of the top economic policy reforms in Spain since 2010 in comparison with the other three largest economies of the euro area (Germany, France and Italy). In doing so, it seems natural and fair to evaluate economic policy performance with respect to these broad general

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policy priorities. The present article is focused on the first two elements.

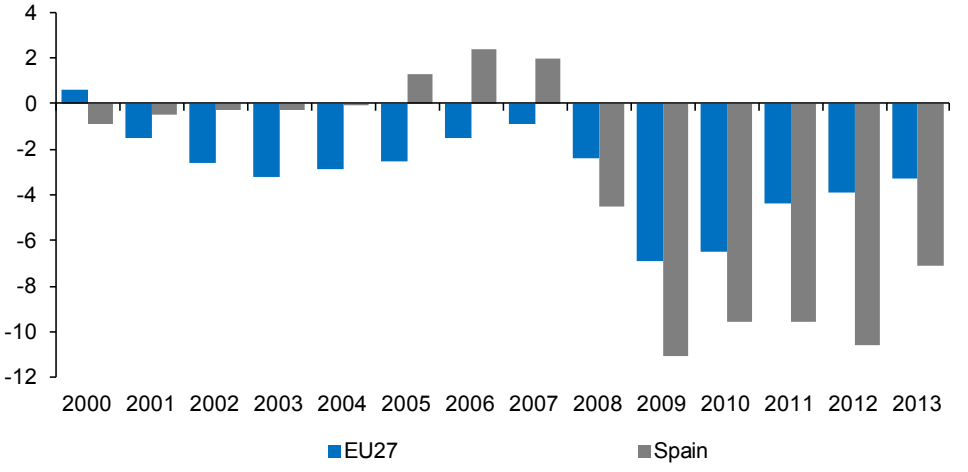
Fiscal consolidation

Spain´s public finances have deteriorated significantly in the aftermath of the crisis.

In terms of flows, the public sector has been running deficits every year since 2008. The Spanish public deficit is contracting over time, but to a much lesser degree than the European Union as a whole (Exhibit 1). In particular, the 2010-2013 average public deficit was 9.2% of the GDP in Spain, which is more than twice the EU27 figure as a whole (4.5% of the block's GDP).

Exhibit 1

Net lending (+) / net borrowing (-) of the General Government (EDP), as % of GDP



Source: Eurostat.

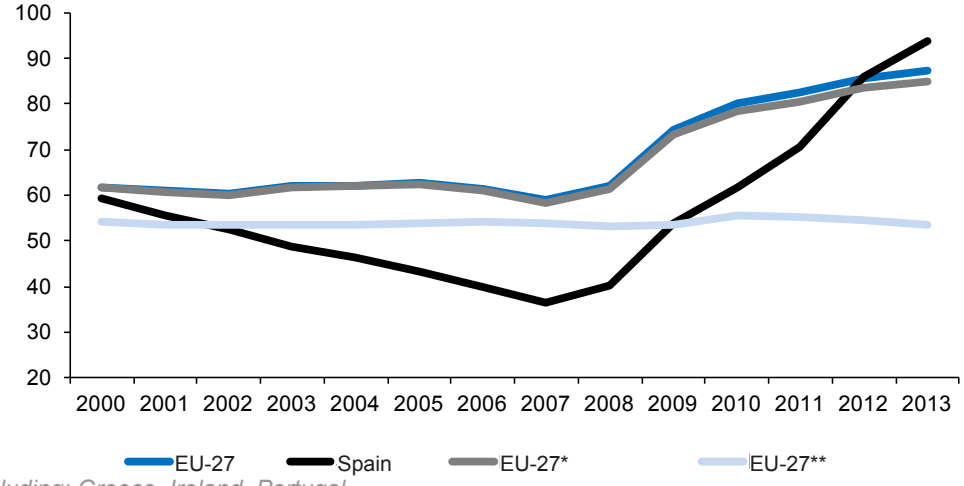
As a result, in terms of stock, Spain´s public debt has been increasing rapidly since 2007, while the debt of the EU as a block appears to be entering into a stabilization phase. Considering only the debt that is included in the Excessive Deficit Procedure (EDP) accounting criterion, Spanish debt peaked at 93.9% of GDP in 2013. This represents an increase of more than 32 percentage points from the level in 2010. In contrast, the combined debt of the EU27 countries has stabilized and it increased only 7 percentage points during the same period of time (Exhibit 2).

The case for stabilization of EU public debt is much stronger if one considers different "core" subsets of EU countries. Firstly, if one excludes from the EU the countries that have received financial support by means of the Economic Adjustment Programmes (EAP) –Greece, Ireland and Portugal– the debt of the 24 remaining EU countries has increased 6.5 percentage points in the period 2010 - 2013. Secondly, if one excludes, in addition to those three EAP countries, the three larger EU countries with the most troubled public finances (Spain, Italy and France), the total debt of the remaining set of 21 EU countries has remained remarkably very stable over time at a level of approximately 55% of GDP (see Exhibit 2).

The lack of convergence of Spain towards the EU debt stabilization trajectory is not the only

Exhibit 2

General Government Debt (EDP) in different sets of EU countries, as % of GDP



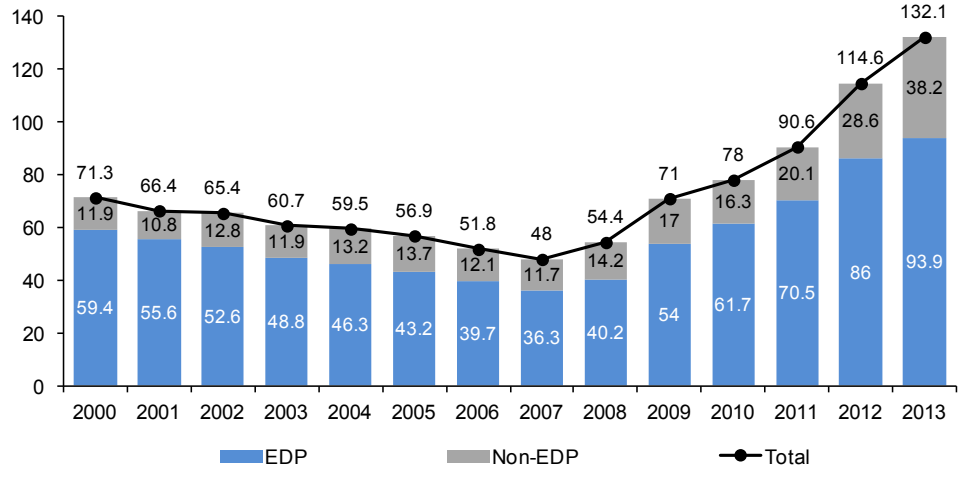
*Note: *Excluding: Greece, Ireland, Portugal.*
***Excluding: Greece, Ireland, Portugal, Spain, Italy, France.*

Source: Eurostat.

worrisome element of the budgetary adjustment process in Spain. Another delicate issue that often goes unnoticed is the increasing share of Spanish public liabilities that are excluded from the Excessive Deficit Procedure (EDP) criterion. Following the EDP definition, the debt of a public sector body which is mainly financed by its own sales or that is not performing a government function is not part of the General Government public debt.

Exhibit 3

Spanish Public Debt included and excluded in the EDP, and total, as % of GDP



Source: Bank of Spain.

The lack of convergence of Spain towards the EU debt stabilization trajectory is not the only worrisome element of the budgetary adjustment process in Spain. Another delicate issue that often goes unnoticed is the increasing share of Spanish public liabilities that are excluded from the Excessive Deficit Procedure (EDP) criterion.

The share of the non-EDP public debt in Spain used to mildly oscillate around 12% of GDP up to 2007 (Exhibit 3). Since 2008, however, this component of public liabilities has been growing and it peaked at 38.2% in 2013. This is troubling because it might be reflecting that the different levels of government in Spain (central, regional, local) are transferring debt towards public bodies and agencies that fall out of the EDP perimeter but that, based on historical standards, should be counted as part of the EDP debt.

Competitiveness and structural reforms

Internal competitiveness

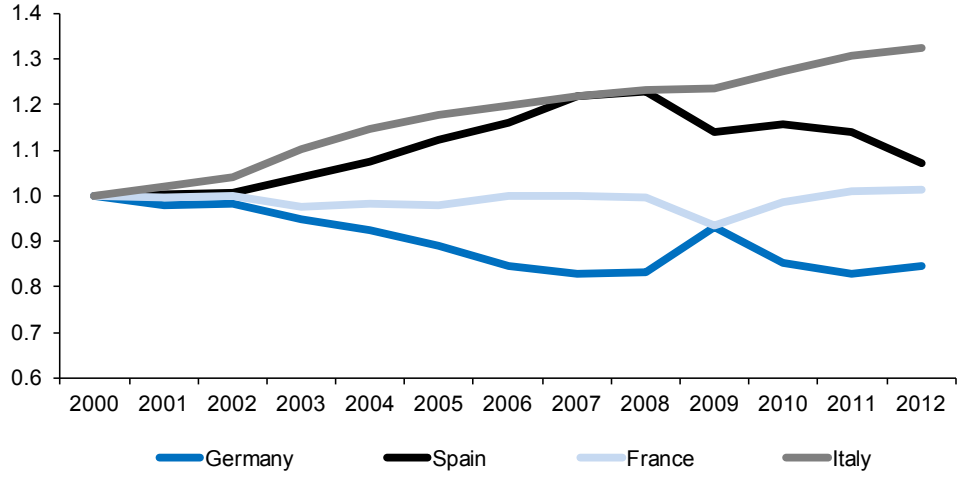
The main headline indicator of internal (or price-cost) competitiveness, the real effective exchange rate (REER) deflated by the unit labour cost (ULC), has improved significantly in Spain between 2008 and 2012 (the latest available data). Exhibit 4 represents this measure for each of the four largest euro area economies, compared with the rest of the euro area countries and in relative terms to 2000. As it is well known, an increase in the REER implies that domestic products become more expensive and, therefore, a competitiveness loss for the country with respect to reference countries.

The price-cost competitiveness conditions dramatically deteriorated in Spain and Italy between 2000 and 2008. Both countries experienced an accumulated 25% competitiveness loss (i.e.

Exhibit 4

Real Effective Exchange Rate *vs.* the rest of the euro area, deflated by the nominal unit wage cost in manufacturing

(index 2000 = 1)



Source: European Commission (Ecfin).

REER appreciation) in this period due to lower productivity gains and higher wage and margin increases than the rest of the euro area. However, both countries have had opposite trajectories since then. While Italy kept losing competitiveness and reached a record-high REER appreciation of more than 30% in 2012, Spain has recovered more than two thirds of the competitiveness loss and by 2012, the REER appreciation was less than 8%.

A substantial part of the competitiveness correction in Spain was caused by the massive labour shedding that occurred in the country. The Spanish unemployment rate increased from 8% in the beginning of 2008 to 26% by the end of 2013 (see Laborda and Fernández 2014 for an overview of the main recent economic developments and perspectives in Spain).

External competitiveness

Spanish exports of goods and services have grown since 2000, and also since 2009, to a rate comparable only to Germany´s within the group of the four largest economies in the EU. Measured in current euros, Spanish exports have almost doubled during this period of 14 years. This applies both to total exports (including services and, therefore, tourists' expenditures in Spain) and also to merchandise exports alone (Exhibit 5), suggesting that there is a healthy and expanding tradable sector in Spain. This observation is relevant because the tradable sector of an economy is generally considered to be superior, in terms of competitiveness, to the non-tradable sector as it faces tougher competition coming from overseas firms.

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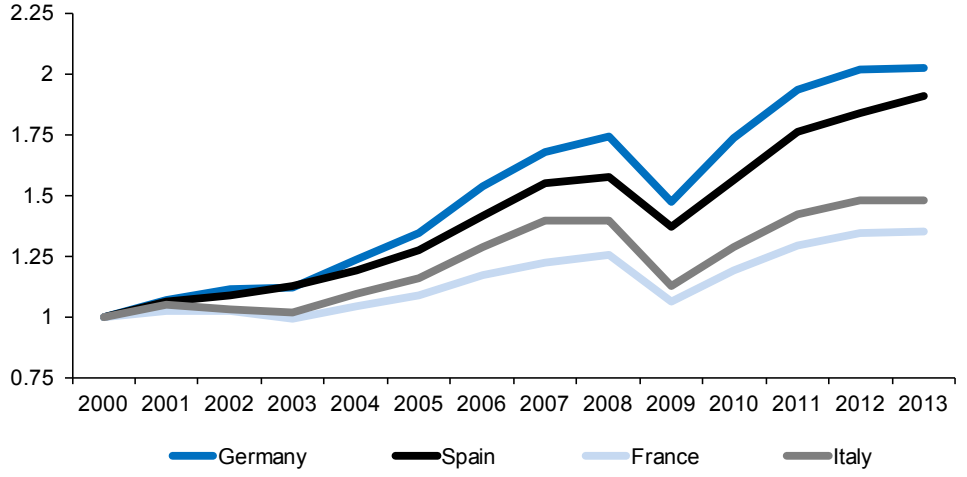
Exhibit 5

Exports of goods, current prices
(index 2000 = 1)



Source: Eurostat.

Despite this successful export trajectory, three caveats must be mentioned regarding external competitiveness in Spanish.

Firstly, following the recent work of Myro (2013), the internationalization of the Spanish economy suffers from three types of structural weaknesses: a) the production in Spain is tilted towards low technological intensity manufacturing; b) the business structure is disproportionally dominated by small-sized companies; and, c) the geographical structure of exports, and international activities as a whole, is still very concentrated in EU destinations.

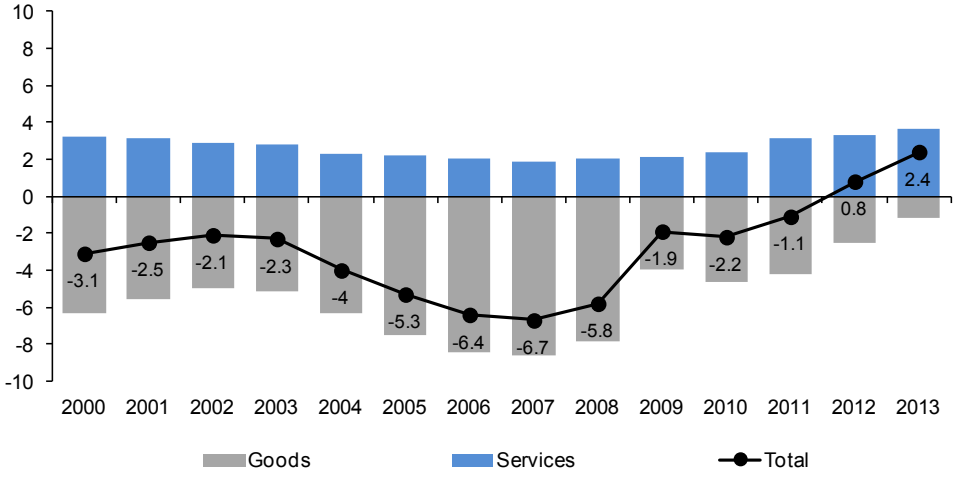
Secondly, another important weakness of Spain´s external competitiveness is the chronic merchandise trade deficit, which is recurrently compensated for by services surpluses. Exhibits 6 and 7 represent the net exports (exports minus imports) of goods, services and total as a percentage of GDP for Spain and Germany, respectively. Exhibit 6 shows that, although the Spanish total trade balance has improved notably since 2009, the goods trade balance has been systematically in deficit. This structural pattern is exactly the opposite of the German one (Exhibit 7).

Thirdly, the real effective exchange rate (REER), deflated by the prices of exports of goods and services, has steadily increased in Italy and Spain between 2000 and 2012 leading to a 10% appreciation. In contrast, the prices of exports of French, and especially German, products and services have decreased during this period (Exhibit 8). The interpretation of this fact is quite open and, in any case, this trend is better accounted for when compared with data represented in Exhibits 4 and 5.

When comparing both REERs, the one adjusted by the nominal unit wage cost in manufacturing and the one deflated by the prices of exports, the idea that emerges is that the internal cost compression that has taken place in Spain has not been transmitted to the goods and services sold in foreign markets. When comparing the price of exports and export performance, it is noteworthy that despite the fact that both Italian and Spanish products have apparently become more expensive over time, Spanish exports have grown twice as much as the Italian ones in the period 2000 - 2013.

Exhibit 6

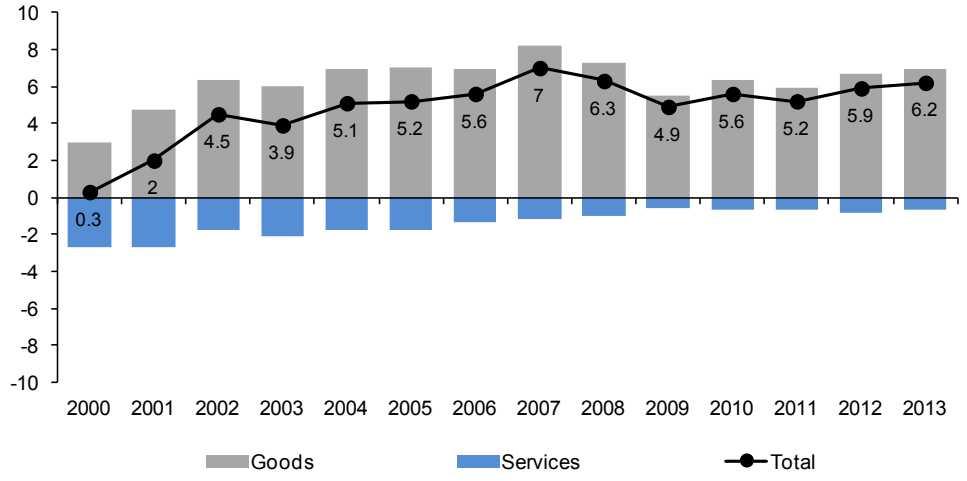
Trade balance (net exports) of Spain by type of trade, as % of GDP



Source: Eurostat.

Exhibit 7

Trade balance (net exports) of Germany by type of trade, as % of GDP

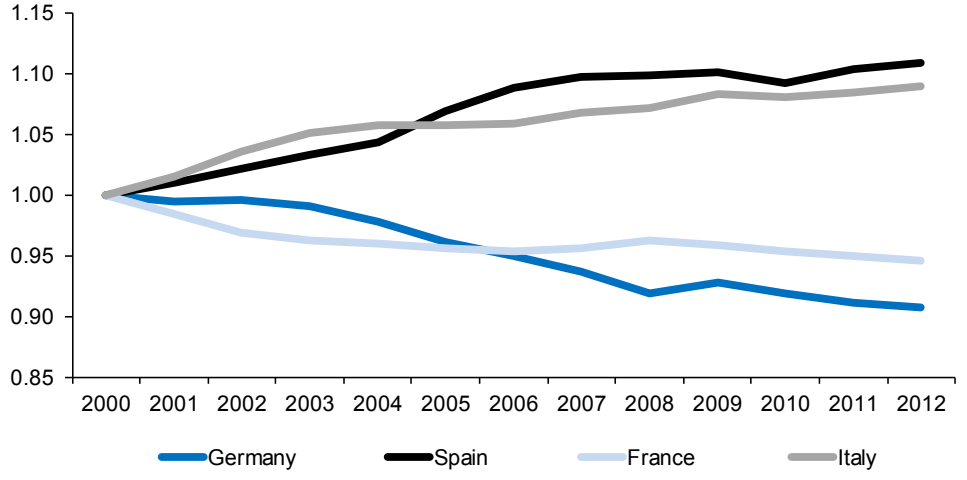


Source: Eurostat.

The combination of these two interpretations may suggest that some "quality upgrading" is occurring within Spanish export products. The internal wage costs of the Spanish economy are declining over time since 2008 but the price of the products the country ships to the rest of the world are not, in relative terms to the rest of euro area countries. A possible reason is that Spanish goods and services are (perceived to be) offering a higher value added to foreign markets, by means of implementing several arguments of vertical differentiation: better product quality,

Exhibit 8

Real Effective Exchange Rate *vs.* the rest of the euro area – Price deflator, exports of goods and services
(index 2000 = 1)



Source: European Commission (Ecfin).

innovative design, larger portfolio of varieties, more comprehensive post-sale service, etc. The relevance of "quality upgrading" has long been recognized in literature as a high-powered explanatory factor of trade and competitiveness (Schott, 2004). However the evidence for Spain is still scarce and partial (Cuadras *et al.,* 2009 and Gordo and Tello, 2011 are one of the few works that calculate some estimates), which makes it difficult to come up with a solid conclusion on this matter. The potential importance of this trend surely demands further work and analysis.

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Financial stability and reform

In terms of financial system reform, restructuring and recapitalization, the available evidence suggests that Spain has undergone a deeper and swifter process relative to the rest of the EU countries. This issue falls beyond the scope of the present note and recent monographic analyses can be found in Carbó Valverde and Rodríguez Fernández (2014a and 2014b).

Conclusions

The top policy priorities in Spain and elsewhere to overcome the crisis have been mainly three: fiscal consolidation, structural reforms to improve competitiveness and financial system reforms and recapitalization. This paper focuses on the first two and analyzes how the main headline indicators reflect the expected outcome from policy reform in relative terms to the other three largest euro area economies (Germany, France and Italy).

As regards public finances, the performance of the Spanish economy has been rather poor. Not only is Spain´s public debt still increasing and likely to represent, in the near future, double that of the "core" EU countries, which has been remarkably stable at 55% of GDP for the last 15 years, but also very worrying is the fact that public liabilities that are not counted under the Excessive Deficit Procedure definition have tripled in comparison with pre-crisis levels and are now approaching 40% of GDP.

On the competitiveness front, the picture is more mixed. On the one hand, since 2008 there has been a significant and idiosyncratic improvement in ULCs in Spain as a result of massive labour shedding. Furthermore, Spanish exports are the only ones of the large euro area countries that grow at the pace of those of Germany. Finally, on an ambivalent note: the prices of the goods and services sold by Spanish companies abroad are increasing over time in relative terms to the rest of euro area countries.

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New regulation of key economic issues: An overview

Antonio Romero Mora and Luis Teijeiro Pita da Veiga[1]

The crisis has served as a catalyst for much needed structural reforms in Spain. Key reforms have been implemented to address imbalances and inefficiencies in the real economy, fiscal accounts, and the financial sector. The impact of these measures will be felt over time, thus, it is difficult to determine at this stage whether or not the reforms will be sufficient to help Spain transition to a more sustainable economic model.

The crisis clearly revealed the need to implement structural reforms in Spain. Essentially, the most important planned and already undertaken reforms can be categorized into five main pillars: i) modernization of government; ii) competitiveness reform; iii) financial system reform; iv) fiscal reform; and, v) labour reform. As regards fiscal efforts, measures to modernize the government are already generating fiscal savings, and recent measures to support local authorities and autonomous regions, such as the Supplier Payments Fund and the Regional Liquidity Facility should also improve public authorities´ financial and budgetary situation. Additionally, tax reforms have been enacted with the aim of making taxation simpler to administer and more efficient. As regards financial reform, measures were put in place to clean-up and recapitalize the financial system, expand private sector credit, and increase borrower protection. Other key structural reforms include labour market reform, aimed at promoting stable hiring and employability of workers. Overall, progress has been made on the reform agenda and more reforms are in the pipeline. That said, only time will tell if enacted and upcoming reforms will be sufficient to ensure Spain´s transition to a new and sustainable economic growth model based on a more flexible and competitive economy.

With much of the current legislative period now behind us, it seems a good time to look back and review the main regulatory changes that have affected the Spanish economy, in particular those aiming to stimulate the recovery. The persistence of the economic crisis and its impact on Spain's model of production clearly revealed the need to embark on a variety of structural reforms. These formed the core of the various national reform programmes implemented in recent years, and an analysis of these programmes reveals five main pillars of action: modernising government; growth and competitiveness; credit and the financial system; fiscal consolidation and tax

[1] CECA.

reform; and labour reform. This article aims to give an overview of these reforms, focusing in particular on those with the biggest impact on the financial system and public accounts. It also tries to identify the challenges for the immediate future that Spain needs to overcome in order to emerge from the crisis in the best shape possible.

Modernising government

Spain's geopolitical structure, the increased independence of its autonomous regions and the gradual transfer of powers over the last few decades has resulted in a striking proliferation of public institutions, enterprises and other bodies whose functions overlap. It is therefore necessary to design a public sector free of overlaps, duplication and unnecessary expenditure, which is fully able to stimulate and support economic development.

On the basis of these premises, a large share of the reform programme has been supervised by the Comisión para la Reforma de la Administración [Public Sector Reform Commission] (CORA), which is subdivided into four subcommissions (in charge of duplication, administrative simplification, managing shared services and resources, and institutional administration). Of the 221 measures identified in CORA's report, 63 have been completed, the rest being in the process of implementation. CORA's efforts are now focused on promoting the regulatory changes that many of the measures identified require before they are implemented.

In any event, the measures are beginning to bear fruit. According to Spain's 2013 National Reform Programme, the measures promoted by CORA have already produced savings of around 1.29 billion euros. On top of this comes the effect of the other measures the government has been backing in this area, which according to this same report are estimated to have brought savings of 9.51 billion euros in the period to March 2014, of which over 57% were in the autonomous regions.

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Of the set of measures adopted in the government reform area, the following merit highlighting given their potential impact on the real economy:

- *Rationalisation and elimination of duplication*. As noted, one of the fundamental concerns guiding government reform lies in the proliferation of government institutions, taking the form of a multitude of agencies of a wide range of types and with areas of competence that sometimes overlap with those of other public bodies. CORA has taken a two-pronged approach: firstly, identifying optimal legal models in order to simplify and harmonise the regulation of the different types of bodies depending on general government; and secondly, an individual analysis of each body to determine whether its legal structure is the most appropriate for its function and whether its activity is in the public interest and deserves protection.

  A first consequence of this work has necessarily been the reduction in the number of state companies and foundations. Thus, in 2014, following the resolutions of the Council of Ministers of March 2012 and September 2012, 18 foundations and one company were wound up. Additionally, in order to avoid future proliferation of institutional bodies, the 2013 National Reform Programme announced an amendment to the Law on the Legal Framework for General Government and Common Administrative Procedures in order to apply stricter rules to the creation of new public bodies.

Under the future reform, the establishment of a new body must be accompanied by a strict justification assessing the existence of overlaps and detailing the human, material and financial resources it will need in order to operate.

- *Improving central government financial management*. The CORA report includes various measures intended to improve the State's treasury management, two of which stand out in particular: (1) centralising the bank accounts held by ministries and state agencies in credit institutions (of which there were more than 4,000 as at December 31st, 2013); and (2) changing the calendar of public income in the treasury (as the reform to the Tax Collection Regulation that sought to balance peak treasury needs of the state coffers is now in force). Along the same lines, the preparation of the 2015 State Budget will start to apply the "zero base" budgeting principle for certain central government operating expense items.

- *More efficient management of public employment*. The draft law on the Civil Service Statute will introduce improvements on issues such as planning public employment, reforming careers, performance evaluation, training, structure and elements of the organisation of public employment, and the extension and measurement of effectiveness and efficiency. Additionally, the Public Professional Executive Statute will regulate posts of this kind in line with OECD-country practices.

- *Local government rationalisation and sustainability*. Law 27/2013 of December 27th, 2013, on local government rationalisation and sustainability, establishes precise mechanisms for the exercise of local government powers under the principles of budgetary stability and financial sustainability. Some of the key measures provided in this law are, for example, the clarification of the distribution of powers according to the principle of "one administration, one competence," and the obligation to calculate and publish the actual cost of municipal services. The government estimates that this law will enable savings of 8.02 billion euros over the period 2014-2020.

- *Transparency and trust in institutions*. One of the backbones of the National Reform Programme as regards the public authorities is rebuilding citizens' trust in the functioning of institutions. The measures envisaged to achieve this goal include the new Law on the financing of political parties; amendment of the Penal Code on transparency and combating tax evasion; the Law on transparency, access to public information and good governance; the draft Organic Law on controlling the economic/financial activities of political parties; and the draft Law regulating the holding of senior central government offices.

Growth and competitiveness

The different reform programmes propose a comprehensive approach to action on the main structural frictions in the Spanish economy. Eliminating these rigidities is the idea behind a set of measures to improve the functioning of markets for goods, services and factors, so as to ensure a framework for continued growth.

Indexing, intended as a mechanism against high and volatile inflation, is one of the practices the National Reform Programmes aim to combat, given its distorting effect, leading to a continuous loss of competitiveness due to the build-up of price differences with the other countries in the European Monetary Union (EMU). The future Law on de-indexing the Spanish economy (currently undergoing parliamentary debate) aims to eliminate this practice in the public sector, so that it serves as a model for the private sector. Following a similar logic to the pension revaluation index, the Law will create what it terms a competitiveness guarantee index, which will serve as a basis for price updates (and will tend to moderate when Spain has accumulated an inflation rate higher than that in the EMU as a whole).

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Law 20/2013 of December 9th, 2013, guaranteeing the *unity of the market* (LGUM) addresses the problems caused by the proliferation of heterogeneous regulations, which is an obstacle for economic operators rolling out their business across the whole of the country. The LGUM lays down the principles to be observed by all levels of government in the exercise of their regulatory and executive powers over economic activity, bolsters administrative cooperation, and provides mechanisms to protect economic operators against possible infringements of the principle of market unity. The Regulation Rationalisation Plan, approved following LGUM, has identified some 7,500 national and regional regulations that may be having a negative impact on market unity. Measures to address over 2,500 regulations are planned.

Support to *entrepreneurship* is another of the priority pillars of action to promote competitiveness and growth. This support revolves around two basic goals: improving finance and promoting international expansion. In the case of finance, the measures include strengthening the role of the Instituto de Crédito Oficial (ICO) as a counter-cyclical agent; the future law to encourage business finance, which will pursue further disintermediation of finance and promote a new model of relationship between SMEs and credit institutions; and improvements in the regulation of venture capital entities. To promote international expansion a 2014-2015 National Strategic Plan has been devised, which has support from the European Regional Development Fund (ERDF). In addition to the foregoing measures, there are initiatives to cut red tape (including "entrepreneur service points" or the new rapid on-line procedures to set up a company) and tax benefits.

The draft Professional Services and Associations Law also aims to eliminate rigidities that may potentially weigh upon the Spanish economy's competitiveness. This draft law aims to cut the number of instances where membership of a professional association is compulsory; improve the transparency of their public statements; clearly delimit the activities that professional associations perform as a public body from those that they conduct as a private entity; stimulate the role of associations in certifying quality; and regulate association fees, including a prohibition on access fees and caps on periodic fees.

Improving the competitiveness of certain *strategic markets* involves a wide range of different measures. The structural reform of the electricity sector stands out, the process of deregulating rail transport, the modification of the management model of the public port system, protection of intellectual property rights in the digital environment, improving the regulation of pension funds and plans, or strengthening certain regulatory bodies such as the National Markets and Competition Commission and the National Securities Market Commission (CNMV). All this is against the backdrop of the aim of environmentally friendly growth and the fight against climate change.

The commitments to *human capital and technology* are the last two focal points of actions to stimulate competitiveness and growth. In the case of human capital, the priority is the educational and training system. In this regard, the gradual reform of the educational system stands out (focused, among other things, on reducing early school leaving); the design of a new model of vocational training that responds to the needs of business and the labour market, and managing public resources more

efficiently; the creation of a Spanish framework of qualifications for life-long learning, which will entail the implementation of a structure of qualifications recognised in Spain and described in a way that is consistent and comparable with the rest of Europe; promoting efficiency, excellence and internationalisation of the Spanish university system, for which a panel of experts has been appointed who have issued a report with proposals for reform and improvement to the quality and efficiency of the Spanish university system ["Propuestas para la reforma y mejora de la calidad y eficiencia del sistema universitario español"]; and promoting digital literacy and skills in the educational setting. In relation to innovation and new technology, the Digital Agenda for Spain constitutes the frame of reference, with initiatives such as the central government's e-Government Action Plan or the Digital Public Services Plan. Another priority objective is to promote R&D as part of the Europe 2020 strategy.

Credit and the financial system

The financial system has perhaps been the main focus of regulatory activity in recent years, both in terms of the number and significance of the provisions enacted and the urgency they were given. The financial origin of the crisis that broke out in 2008 put the financial system, and particularly the banking system, under the regulatory spotlight. Whereas the previous government's main aim was to substantially increase the quantity and quality of institutions' capital, the current government has undertaken an exhaustive clean-up of financial institutions' balance sheets. But its measures went beyond solvency. Thus, within the numerous measures affecting the financial system *three main pillars of action* stand out: firstly, the urgent measures to *recapitalise and clean-up* the financial system, aimed at dispelling doubts as to its health; secondly, initiatives to ease the *flow of credit to the real economy*, by providing alternatives to promote companies' access to capital markets; finally, measures to *alleviate the effects of the crisis on the most vulnerable segments of the population*.

Whereas the previous government's main aim was to substantially increase the quantity and quality of institutions' capital, the current government has undertaken an exhaustive clean-up of financial institutions' balance sheets.

Urgent clean-up and recapitalisation measures

As noted above, whereas the previous government's initiatives opted to *raise credit institutions' capital requirements* significantly, the new government elected in late 2011 focused efforts on *cleaning up banks' balance sheets*. In a challenging international context, with the sovereign-debt crisis raging, the aim was to allay uncertainties about the state of Spanish banks' balance sheets. To this end, two Royal Decree-Laws were passed in quick succession, obliging banks to increase their provisions substantially, particularly in the case of assets associated with the property sector.

Firstly, in February 2012, Royal Decree-Law 2/2012 of February 3rd, 2012, on balance sheet clean-up of the financial sector was passed. The reform, which aimed to improve the credibility of, and trust in, the financial sector took a four-pronged approach: cleaning up credit institutions' portfolios of property assets; creating incentives for integration processes; measures on the corporate governance of the savings banks, and regulation of the remuneration of directors and executives of entities receiving financial aid from the Fund of Orderly Restructuring of the Banking Sector (FROB).

The clean-up focused on exposures linked to the property development segment, applying both to doubtful loans (substandard, doubtful and foreclosed) and those that were up-to-date on payment as of December 31st, 2011. The process involved new generic and specific provisions and the setting aside of an additional core capital buffer.

In order to encourage consolidation in the sector, extra time was given for compliance in the case of institutions that had embarked on integration processes during 2012.

Shortly afterwards, Royal Decree-Law 18/2012 of May 11th, 2012, on write-downs and sales of the financial sector's real-estate assets was passed. The main objective of this piece of legislation was to raise the level of coverage of loans for development land, building and property development and to separate property assets from purely banking assets by compulsory transfer to privately owned asset management companies. This Royal Decree-Law was repealed in October with the promulgation of Law 8/2012 of October 30th, 2012, which retained its fundamental characteristics.

What these pieces of legislation had in common was the limited public money earmarked to support the process (none at all in the case of the first asset management companies) and numerous voices in the sector warned that without public money there would not be a substantial improvement in entities' solvency, and that they would therefore not help solve what had turned into a systemic crisis.

The persistence of the sovereign-debt crisis led the government to sign a Memorandum of Understanding (MoU) with the European Commission (EC) on July 23rd, 2012, whereby the EC undertook to support the recapitalisation of the Spanish financial system in exchange for compliance with a battery of regulatory measures, many of which affected the financial system. This kicked off a new stage in which regulatory activity was oriented towards fulfilling the commitments signed in the MoU.

Thus, Royal Decree-Law 24/2012 of August 31st, 2012, on restructuring and resolution of credit institutions was published in the BOE on August 31st, 2012, and entered into force on the same day, with the purpose of regulating the processes of early action, restructuring and resolution of credit institutions, and establishing a new legal framework for the FROB and its general rules of operation, so as to underpin the stability of the financial system while minimising the use of public funds.

This legislative instrument was subsequently superseded with the passing of Law 9/2012 of November 14th, 2012, on restructuring and resolution of credit institutions. This incorporated some significant new features, such as the creation, as required by the MoU, of the Bank restructuring asset management company, *SAREB*. This therefore introduced the concept of a "bad bank" in Spain's legal framework, something which the sector had been calling for as a key tool for cleaning up institutions' balance sheets. Unlike the Asset management companies (SGAs in their Spanish initials) mentioned above, the SAREB was to be financed with a combination of public and private money, the latter coming exclusively from healthy institutions. This achieved the goal of substantially improving the Spanish financial system's risk profile by markedly reducing its exposure to the property development and construction sector. Arguably, the signing of the MoU and the reforms accompanying it marked a turning point that made it possible for Spain's banking system to embark on the process of recovery on a firm footing.

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Promoting business finance

A second line of action during the current legislative period has focused on *facilitating finance for economic activity outside traditional banking circuits.* There has been an intense process of deleveraging of the Spanish financial system, which in conjunction with the lack of solvent demand, has translated into a considerable contraction in credit since pre-crisis levels.

In this vein, the government recently presented the aforementioned *draft law to promote business finance*, which is currently undergoing parliamentary debate. Its objective is to make bank credit more accessible and flexible for SMEs and also to lay the groundwork for stronger non-bank sources of business finance. To this end, measures have been taken such as implementing a system whereby credit institutions must give SMEs at least three-months' advance notice of any cancellation or significant reduction in their credit, together with various improvements in the securitisation market and alternative stock market. The rules for bond issues have also been simplified to make this form of debt instrument easier to use.

Another of the priority lines of action has been the promotion of the Instituto de Crédito Oficial's credit lines (ICO lines), with a view to giving them a more prominent role as a countercyclical instrument. Thus, the main lines implemented in recent years have aimed at financing companies and suppliers, with a particular emphasis on the export business.

Borrower protection

Finally, the legislation *protecting mortgage borrowers* and promoting *transparency in the marketing of financial products* should be mentioned. A number of significant initiatives were carried out in the previous legislative period, such as Order EHA/2899/2011 of October 28th, 2011, on banking service transparency and customer protection.

With a view to protecting vulnerable customers, Royal Decree-Law 6/2012 on urgent measures to protect mortgage borrowers lacking resources was published in the Official State Bulletin (BOE) on March 10th, 2012. This legislative instrument established mechanisms allowing borrowers in extreme difficulties to restructure their mortgage debt and made foreclosure more flexible. These mechanisms were set out in a voluntary *code of good practice* for credit institutions, and made various tools available, in order to avoid foreclosures, as far as possible, and the accompanying evictions.

This was subsequently complemented by Law 1/2013 of May 14th, 2013, on measures to strengthen the protection of mortgage borrowers, debt restructuring, and rented social housing. The key features of this law were the flexible application of the code of good practice and a *two-year moratorium on evictions of people in situations of particular vulnerability*. It also introduced improvements in the regulation of the mortgage market, limiting interest on arrears and improving the mechanism for out-of-court sales. It also amended the Civil Procedure Law in order to improve the protection of mortgage borrowers during foreclosure proceedings. Lastly, it stated that the government should work with the financial sector in order to create a stock of social housing to meet the needs of people who have been evicted from their principal residence as a result of their defaulting on their mortgage.

Consolidation and tax reform

Fiscal consolidation

The most significant piece of legislation in this area is undoubtedly Organic Law 2/2012 of April 27th, 2012, on Budgetary Stability and Financial Sustainability, originating in the reform of Article 135 of the Constitution in September 2011. This amendment enshrined a spending limit in the Constitution with a threefold aim: ensuring the financial sustainability of all of Spain's levels of

government; bolstering confidence in the stability of the Spanish economy; and underlining Spain's budgetary stability commitments to the European Union (given that, ultimately, the reform aims to comply with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union of March 2nd, 2012).

Another key change in the area of fiscal consolidation (apart from the modernisation and rationalisation initiatives covered in the section on modernizing government above), are the various different measures to support the *financing of local authorities and autonomous regions*.

Firstly, Royal Decree-Law 7/2012 of March 9th 2012 created the Fund for Financing of Supplier Payments as a means of managing this extraordinary financing mechanism for sub-national governments. Its aim was to contribute to providing liquidity for businesses and the self-employed, reducing defaults by public authorities, sustaining basic public services managed by the autonomous regions and local government bodies, and by means of the adjustment programmes associated with the mechanism, improve public authorities' financial and budgetary situation.

Also, in response to the worsening of the market crisis, in July 2012, Royal Decree-Law 21/2012 of July 14th, 2012, on liquidity measures for the General Government and on financial issues was passed, setting up the *Regional Liquidity Fund*. This fund is a line of credit through the ICO whereby the government provides financial support to those autonomous regions that have difficulty tapping the markets for funds, in exchange for commitments to implement a fiscal adjustment plan that will enable them to balance their accounts in the medium-term.

Tax reform

One of the key reforms of this legislative period is undoubtedly that affecting the tax system. Given the complexity of the subject, the government commissioned a report from a panel of experts chaired by Manuel Lagares. Based on the panel's findings, the government put forward reforms to the tax system in the form of four draft bills, which were approved by the Council of Ministers on June 20th, 2014. The objectives of the reform are to stimulate economic growth and create jobs, cut taxes (particularly those for middle and low incomes), improve equity (benefiting families and the disabled in particular), stimulating medium and long-term savings, improving business competitiveness and encouraging the fight against tax evasion.

Three of these draft bills (the reform to the General Tax Law is still pending) were subsequently approved by the government as bills and submitted to the Spanish parliament for debate. In terms of the main taxes, the key changes are as follows:

Personal income tax (IRPF, in its Spanish initials): various changes have been made, with the threefold aim of reducing the tax burden on workers (whether salaried or self-employed), encouraging long-term savings, and improving the tax treatment of families. The specific measures include reducing the number of steps and marginal rates, increasing the personal and family exemptions and improving the tax treatment of certain types of savings instruments. Conversely, a number of exemptions have been eliminated; in particular, severance pay is now taxable when it passes a 180,000 euro threshold.

Company income tax (IS in its Spanish initials): changes have been made to the general tax system affecting the way the tax base is assessed, the treatment of double taxation, tax rates, tax incentives, and special schemes. The cut in the nominal tax rate stands out, having been brought down from 30% to 28% for 2015 and to 25% for 2016 (except for credit institutions), which is partially offset by the elimination of various deductions, with the hope that it will make the tax simpler to administer.

Value added tax (IVA in its Spanish initials): the changes focus on bringing the law governing this

tax closer into line with European legislation, and fulfilling the obligation to implement various rulings of the Court of Justice of the European Union that have a direct bearing on Spanish legislation. It also introduces measures to strengthen the fight against fraud and to relax the tax rules on certain operations.

Labour reform

Reviving the labour market was another of the priorities of the reforms undertaken in recent years, and efforts included 2012 Royal Decree-Law 3/2012 of February 10th, 2012, on urgent measures to reform the labour market (subsequently ratified as Law 3/2012 of July 6th, 2012). Its main aims were to foster workers' employability, create incentives for permanent contracts (with particular emphasis on hiring of young people and hiring by SMEs), promote internal flexibility in firms as an alternative to job destruction, and improve the efficiency of the labour market as a factor in narrowing the gap between temporary and permanent employees.

This piece of legislation was subsequently complemented with the publication of Royal Decree-Law 16/2013 of December 20th, 2013, of measures to enhance the stable hiring and employability of workers.

One of the main measures adopted is the *limitation on the automatic extension* of collective labour agreements to one year; company agreements being given priority over sector-wide agreements; the possibility of *opt-out clauses* on certain issues (such as wages and hours) promoting companies' internal flexibility as an alternative to redundancies, the reduction in severance pay for unfair dismissal; and measures to encourage hiring on open-ended contracts, particularly of young people and by SMEs, through rebates on social security contributions and other tax incentives. The range of *types of contract* has also been considerably simplified.

Conclusions

Many of the legislative changes reviewed here represent major structural changes in their respective spheres, such that their effects will manifest themselves over the course of the coming years. However, in some of the areas of action looked at it is likely that there will be further changes in the next few months. For instance, the challenges of labour reform to reduce the duality between permanent and temporary workers still need to be faced. There have also been long-standing calls to bring down Spain's social contributions, which are among Europe's highest and represent a barrier to hiring new employees. Nevertheless, it is clear that significant progress has been made in a range of areas. Time will tell whether these reforms are sufficient to ensure the transition to a new economic model based on a more flexible and competitive economy.

Improvements in competitiveness and reduction of imbalances in Spain

Miguel Cardoso Lecourtois[1]

Spain´s competitiveness gains can partly explain why exports have improved, imports have fallen, the current account has gone from a large deficit to a small surplus and GDP has dropped far less than domestic demand. While recent reforms have helped improve competitiveness, adoption of additional measures would clearly help deepen the structural changes observed in Spain over the last few years, supporting the transition towards an export oriented economy.

Spanish exports have outperformed their European competitors in the last few years. While cost competitiveness has been an important factor in this process, other elements, such as diversification of export markets away from the euro area, the high degree of competitiveness of large Spanish firms, and finally, the strong reform efforts directed at improving the performance of Spain´s service sector have also underpinned the robust export growth. Despite the positive impact of this trend on the country´s external accounts, a return to persistent deficits cannot be ruled out due to the remaining structural imbalances. At the same time, despite historical inefficiencies, Spain´s labor market is proving to be more flexible. Recent wage moderation is helping to reduce job destruction, and may even help in job creation in 2014. The upcoming challenge for Spain will be to keep gaining competitiveness under a lower inflationary environment, which is why it is important that the ECB deliver on its inflation targeting mandate. Finally, while the recently implemented measures are a sign of progress, additional structural reforms will be needed to ensure Spain´s transition to a more sustainable, export-led growth.

Introduction

The Spanish economy faced tremendous challenges at the beginning of 2008, as some macroeconomic imbalances were exceedingly high (current account deficit, external private debt, housing oversupply), and some others were just about to become very problematic (unemployment, public deficit/debt). With private domestic demand suffering from adjustments related to a) the deleveraging process; b) the restructuring of the financial sector; and c) the reallocation of resources away from the real estate sector, the Spanish Government embarked on an ambitious countercyclical fiscal policy. Nonetheless, limits to this strategy began to appear as the perception that the public deficit was out of control started to spread, in part due to the uncertainty regarding capital needs of financial institutions (the cajas), but also to the inability of the Central Government to control the Autonomous Regions´ finances. Moreover, these problems

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(and those of a similar nature in other countries) exacerbated deep structural holes in European Governance that ended up causing a full blown sovereign debt crisis in the Eurozone. As capital fled the country, uncertainty settled in again, intensifying the already ongoing adjustment. All in all, from peak to bottom, domestic demand fell by 17%. Yet, although GDP also showed a significant drop of 7.4%, this number compares favorably to the ones observed in other countries that faced similar adjustments.

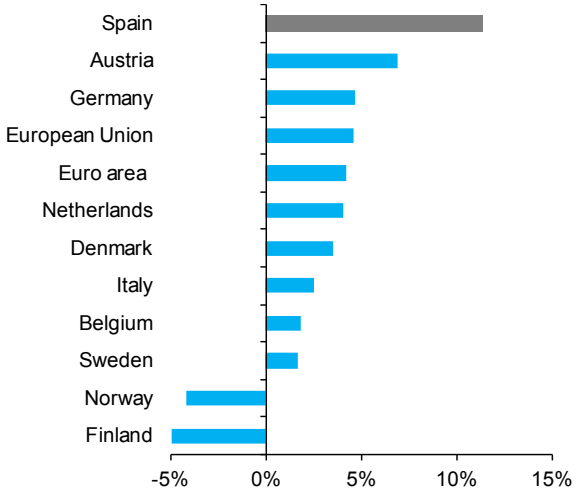
What factors underpin the relatively better performance of the Spanish economy? This article argues that, in part, improvements in cost competitiveness are the reason behind the strong performance of exports and the development of an import substitution process. These two factors have softened the fall in GDP, and have helped reduce important imbalances. At first, the adjustment was based on large increases in labor productivity as a consequence of high job dismissals. Recently, unit labor costs have gone down as a result of more efficient mechanisms, particularly linked to reforms introduced over the last few years. Going forward, some risks remain. On the one hand, inflation is running dangerously low, making it more difficult to gain competitiveness. On the other, the remaining large imbalances point to the need to further push for reforms to increase competition in key sectors, to help firms gain size and to improve efficiency.

Export performance in Spain

Spanish exporters have outperformed their European competitors over the last few years. For example, since the first quarter of 2012, Spanish exports have increased by 11%, the best performance among big European economies, and far above the EMU average (Exhibit 1). In part, this relative success can be accounted for by looking at the improvement in cost competitiveness (Exhibit 2). As BBVA Research (2014a) shows, inflation rates have remained, on average, below European levels over the last 5 years, contrary to what happened in the period before the crisis. As Table 1 illustrates, among large European economies, Spain is the one with the second largest negative inflation differential with respect to the EMU average (below Ireland) over the period 2009-2013. This is the result of

Exhibit 1

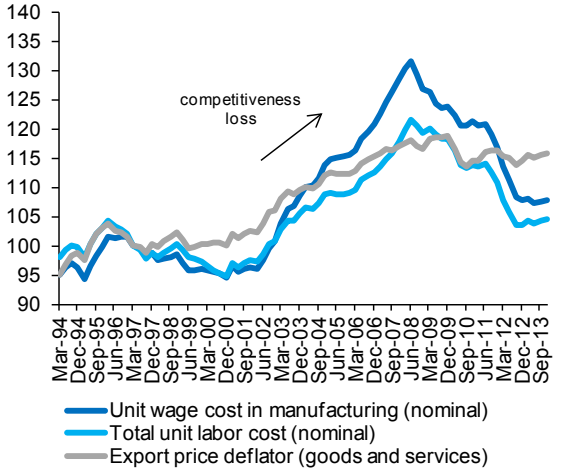
Exports annual growth rate %1Q12-3Q13, volumes swda



Source: BBVA Research using data from Eurostat.

Exhibit 2

Unit Labor Costs



Source: BBVA Research using data from Eurostat.

an uneven adjustment, where labor productivity explains most of the difference in inflation rates, while nominal wages have changed in a relatively similar fashion as in other recession-driven economies. Lower prices, therefore, have been the result of lower labor costs, in part as a consequence of the relatively weaker growth in nominal wages, but mainly due to the strong adjustment in employment and the increase observed in labor productivity.

Nonetheless, as Cardoso, Correa and Doménech (2012) show, a so-called "Spanish paradox" emerged as sales to the rest of the world grew

Table 1

Inflation accounting in EMU-12

GDP Deflator (contributions to percentage change) (average yearly growth rates in percentage)

1999-2008					
	Total	Wages	Productivity	Margins	Taxes
EZ-12	1.93	1.22	0.34	0.84	0.21
In deviation with respect to the average of EMU-12					
Germany	-1.17	-0.60	0.23	-0.35	0.00
Ireland	1.21	1.06	0.29	0.28	0.16
Greece	1.38	0.44	0.05	0.79	0.20
Spain	1.77	0.56	-0.33	0.79	0.08
France	-0.05	0.23	0.02	-0.19	-0.06
Italy	0.45	-0.05	-0.34	0.18	-0.02
Netherlands	0.66	0.71	0.38	0.18	0.15
Portugal	0.98	0.65	-0.03	0.02	0.27
Finland	-0.44	0.38	0.40	-0.29	-0.14
2009-2013					
	Total	Wages	Productivity	Margins	Taxes
EZ-12	1.93	1.22	0.34	0.84	0.21
In deviation with respect to the average of EMU-12					
Germany	0.26	0.09	-0.31	-0.10	-0.04
Ireland	-1.82	-1.31	0.41	0.42	-0.52
Greece	-0.76	-1.84	-0.48	0.78	-0.18
Spain	-1.05	-0.23	1.17	0.24	0.11
France	0.03	0.19	0.08	-0.15	0.06
Italy	0.21	-0.24	-0.28	0.01	0.16
Netherlands	-0.17	-0.18	-0.17	0.04	-0.21
Portugal	-0.48	-0.47	0.43	0.79	-0.37
Finland	0.79	0.43	-0.39	-0.42	0.40

Note: The contribution of the margins is calculated as a residual. The total is the sum of the contributions of wages, margins and taxes minus the contribution of labor productivity. Productivity is measured as output per worker. 2013 is AMECO's forecast.

Source: BBVA Research using AMECO.

at the same rate as world exports in the period previous to the crisis, keeping Spanish export share quotas relatively stable. This happened as price competitiveness deteriorated constantly, contrary to what one would have expected. Also, as the IMF (2013a) shows, during the crisis, export performance has been surprisingly positive, given the behavior of fundamentals, including price competitiveness.

Compared to a scenario of no reforms, almost 50% of the increase in exports of large firms from 1990-2008 can be ascribed to the increased competition and lower monopoly power that were the result of reforms in the services sector.

What could be behind this "Spanish paradox"? One clue lies in the ability of Spanish exporters to diversify destinations away from the euro area where demand has stayed weak. BBVA Research (2014b) finds that 40% of export growth during the crisis can be explained by the effort to geographically diversify exports. Another comes from research that points out that large Spanish firms are as productive as their foreign counterparts and that productivity differentials have appeared as a result of the predominance of small firms in the Spanish economy. Firm size is a strong determinant of export performance as Cardoso, Correa-López and Doménech (2012) show. Therefore, competitiveness among these large exporting firms could be strong. Finally, a stronger reform effort than in other economies pertaining to key sectors of the economy could also be behind the paradox. BBVA Research (2014c) looks at the performance of large manufacturing firms from 1990 until 2008 in Spain and particularly at the impact of improvements in regulation in the services sector. Compared to a scenario of no reforms, the study finds that almost 50% of the increase in exports of large firms during that time period can be ascribed to the increased competition and lower monopoly power that were the result of reforms in the services sector. Moreover, this effort was markedly above what the median economy in the OECD achieved during that time frame.

Import substitution

The gains observed in cost competitiveness are not only important to explain export growth, but also have been key in explaining import performance. As BBVA Research (2013b) shows, the adjustment observed in Spanish demand over the last few years is, for the most part, the result of the drop in revenues recorded in the private and public sectors. A restructuring away from the real estate sector, the need to reduce indebtedness by the private sector and the reduction of the public deficit explain the decrease in domestic demand and in imports. However, the performance of domestic prices against that of foreign prices has also had an impact on expenditure decisions, favoring the acquisition of Spanish produced goods. In particular, not only have import prices gone up for the first time in two decades relative to the domestic ones, but also the responsiveness of demand to changes in those relative prices has changed. As a result, BBVA Research (2013b) finds that 40% of the decrease in non-energy imports over the crisis can be explained by an import substitution mechanism related to the change in relative prices.

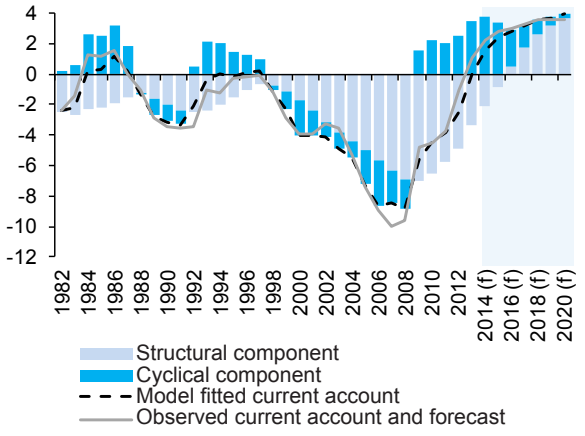
Current account balance

The result of the improvement in export growth and the decrease in imports has been a strong turnaround in the trade and current account deficits. The latter has gone from a deficit above 11% of GDP to a surplus close to 1% of GDP. Going forward, maintaining such a surplus will be key for the Spanish economy as the level of net foreign debt is still very large, and the reliance on capital markets makes the economy especially vulnerable to sudden stops of capital flows. Correa-López and Ugarte (2013) show that an important part of the adjustment seems

Exhibit 3

Spain: Cyclical and structural components of the current account

(% of GDP)



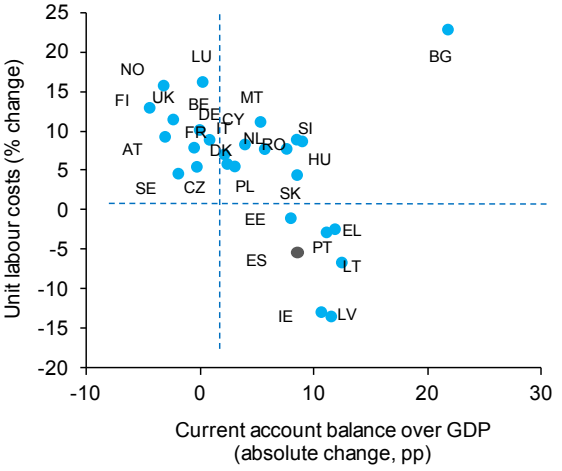
Note: (f) denotes forecast. Forecast values for the explanatory variables are from IMF-WEO. Read text for further detail.

Source: BBVA Research.

Exhibit 4

Nominal unit labour cost and current account balance

variation 2008-2012



Note: Positive values on the horizontal axis correspond to an improvement in the current account balance, and vice versa.

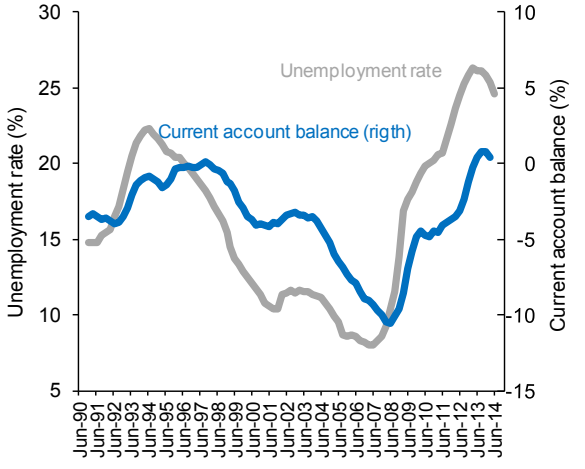
Source: BBVA Research based on Eurostat.

to be permanent (see Exhibit 3), and find that the improvement observed shares several similarities with historical current account reversals. Among those are the improvements in unit labor costs

Exhibit 5

Spain: Current account balance and unemployment rate

(%, SWDA data)

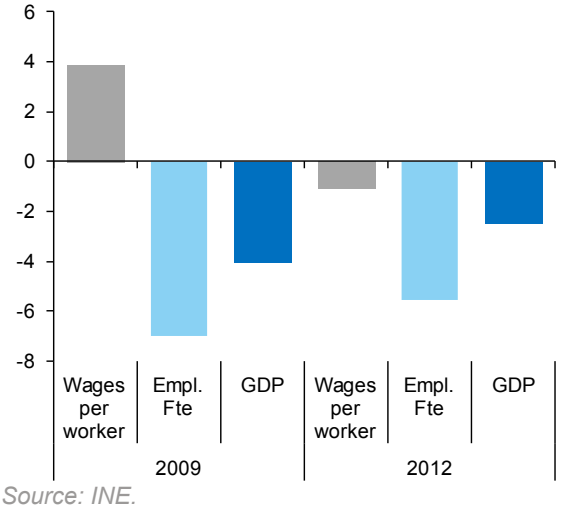


Source: INE.

Exhibit 6

Spain: Real wages and employment in the private sector and GDP

(cumulative % change, SWDA data, %)



Source: INE.

(see Exhibit 4). Nonetheless, key to their analysis is the fact that a still large part of the adjustment can be explained by cyclical factors, due to disappear over the coming years. In fact, recent evidence points toward a deterioration of the current account as the economic outlook has improved (see Exhibit 5). As BBVA Research (2014d) shows, some of the recent worsening of the current account can be traced back to temporary factors, like the introduction of fiscal incentives to the purchases of automobiles, or the one time decrease in precautionary savings due to lower uncertainty. Although some structural reforms (see below) make it more likely that the surplus in the current account will be maintained, a return to persistent deficits cannot be discarded given the structural imbalance that remains.

The response of employment to wage moderation

The adjustment in labor costs in Spain has historically been very inefficient. For example, the OECD (2014) shows the lack of responsiveness that real wages have had to job destruction. Exhibit 6 shows that in 2009, as employment was falling significantly, real wages increased. This intensified job destruction and put the weight of the adjustment of labor costs on employment, and particularly on temporary contracts. These have relatively low dismissal costs, and given the rigidities associated with collective bargaining procedures, firms usually chose to rely on firing this type of worker in order to adjust. Nonetheless, over the last couple of years a change has occurred, and wages fell at the same time that job destruction intensified (due to the European sovereign debt crisis in 2012 and 2013). It is unclear whether the higher responsiveness is the result of the employment and collective bargaining agreement sealed in January 2012 by unions and entrepreneurs, or the consequence of the labor-market reform approved in February of the same year. Nonetheless, both OECD (2013) and BBVA Research (2013b) find that over the last two years, the Spanish labor market seems to have gained flexibility. In particular, the results presented in BBVA Research (2013b) indicate that if salary demands had not moderated in 2012, an additional 60,000 jobs would have been lost in the short-term. In the medium and longer–term, wage moderation in 2012 will save around 300,000 jobs. Furthermore, if the institutions in Spain's labor market had been more appropriate at the start of the crisis, this would have saved 1,000,000 jobs over the longer term. Based on this type of evidence, the IMF (2013b) called for a pact between unions and employers in order to speed up the ongoing adjustment, reducing average wages in exchange for job creation. Overall, it seems that the recent wage moderation has been useful in reducing job destruction, and may also be responsible for higher than expected job creation during the 2014 recovery.

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The problem with deflation

Competitiveness gains can partly explain why exports have improved, imports have fallen, the current account has gone from a large deficit to a small surplus and GDP has dropped far less than domestic demand. Moreover, recent reforms may have improved the functioning of the labor market, making wages more responsive to unemployment. Therefore, as the recovery consolidates, real wages should follow more closely changes in labor productivity, keeping

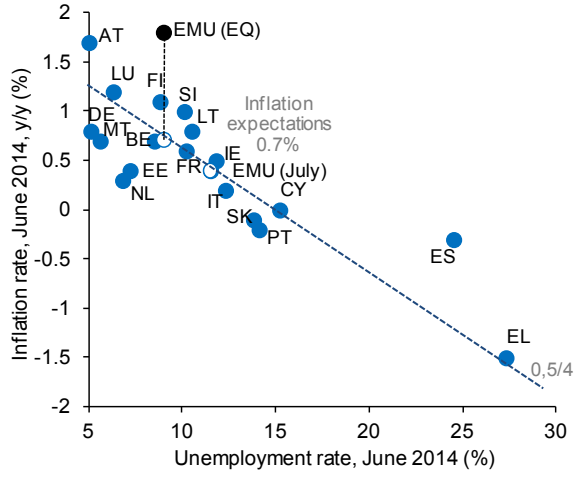
competitiveness gains and allowing for further export growth. This is part of the adjustment that both the Spanish economy and other peripheral economies have to go through. Indeed, as Exhibit 7 shows, competitiveness gains seem to be larger in those economies where unemployment is higher. However, as inflation has gone down in the EMU, the curve in Exhibit 7 has shifted downwards, so much that over the medium-term high unemployment rates would be consistent with very low inflation rates. Considering a structural unemployment rate of 10% for the EMU, if inflation was to remain around current levels, expectations would be around a 0.8% inflation rate, too low according to the ECB mandate.

In the case of Spain, Exhibit 8 from BBVA Research (2014a) shows that trend inflation (as measured by the trimmed mean that better forecasts inflation on a 2 year horizon) has remained around a percentage point per year below that of the EMU over the last few years, more or less the reversal of the situation seen in the period before the crisis. This is in line with the need to recover competitiveness and for exports to become the main engine for growth. However, Exhibit 8 also shows that over the last year or so, there has been a constant downward pressure on Spanish inflation as a result of the downward trend of EMU inflation. Up until now, the difference between EMU and Spanish inflation has remained constant, but note that the Spanish trend is currently at zero. At this point, firms could be finding it difficult to keep gaining competitiveness when facing "the zero bound". As Arellano, Jansen and Jiménez (2013) have demonstrated, as the distribution of nominal wage changes in Spain has shifted to the left, an ever-increasing share of workers are receiving a stagnant wage. Although further adjustments might be needed in order to keep competitiveness gains under a deflationary environment, nominal wages have been shown to be downwardly rigid when facing the zero bound (see for example, Daly and Hobijn (2014)). This lack of flexibility is a threat to the firm's survival as inflation transforms into deflation: real labor costs go up, which given nominal wage rigidity, increases the pressure to adjust employment. The combination of no wage growth and job destruction increases the value of debt in terms of households´ disposable income. This is particularly important in an economy

Exhibit 7

Unemployment and inflation

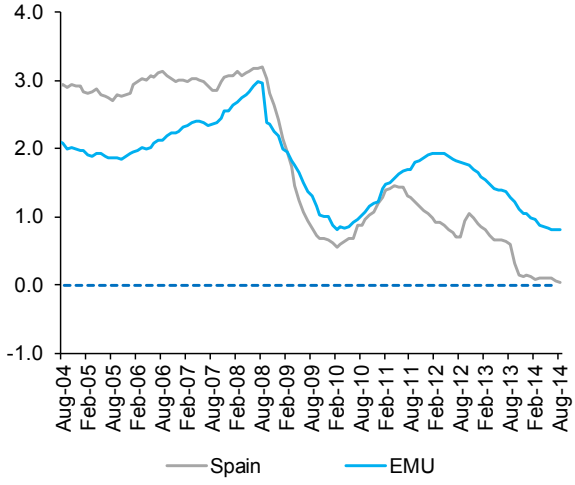
(percentage)



Source: BBVA Research.

Exhibit 8

Trimmed means of CPI



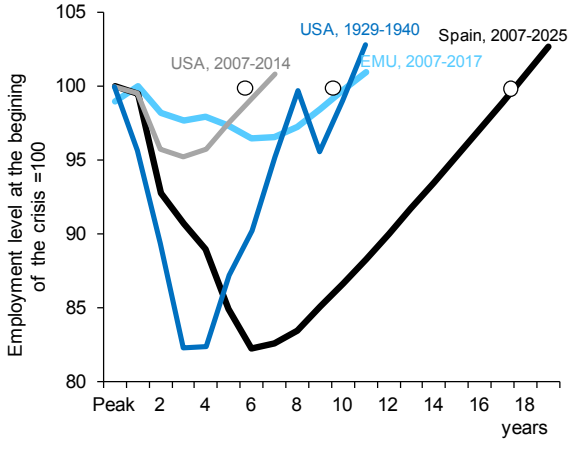
Source: BBVA Research.

where a significant percentage of families remain overindebted, and where leverage is still a drag on domestic demand.

Therefore, although it is expected that the Spanish economy will have to show lower inflation levels than those of its main trade partners, gaining competitiveness would be easier with a higher level of inflation for all members of the Eurozone. This does not require anything more extraordinary from the ECB than to fulfill its mandate of attaining an inflation rate close to, but below 2% on average. Recent measures announced by the ECB (see the introductory statement to the press conference of ECB President, Mario Draghi on September 4th, 2014) are aimed at delivering on this target. They show a commitment to raise inflation expectations, to jumpstart credit in the Eurozone and to trigger a depreciation of the exchange rate. All of this should help. Furthermore, the Governing Council of the ECB has been clear in its intention to act if these actions were not enough.

Exhibit 9

GDP growth and job creation



Note: USA and EMU data for 2014-2017 correspond to BBVA Research forecasts. Regarding Spain, the simulation has been done assuming that output per worker increases by 0.6% per year (as in 1992-2007) and GDP grows at 2.5% per year.

Source: BBVA Research and Lebergott (1964).

The way forward?

Although the Spanish economy has taken steps to correct its outstanding imbalances at the beginning of the crisis, further measures are needed, as some of those imbalances are still very high. As an example, Exhibit 9 shows that the economy has lost around 18% of the jobs that existed at the beginning of the crisis. Assuming a 2.5% GDP growth rate and a labor productivity growth similar to the historical average, it would take the economy around 10 more years to recover those levels. This shows the urgency to act immediately and decisively to improve potential growth and to bring forward that date as much as possible.

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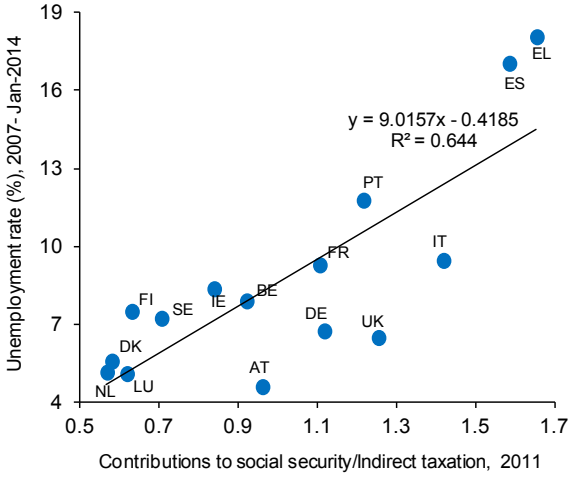
Exhibit 10

EU: Unemployment rate and social security contributions over indirect taxation

(percentage)



Source: BBVA Research.

There are several ways to keep improving competitiveness. First, it is important to pursue a more efficient, transparent tax system that promotes growth and does not jeopardize the fiscal consolidation process. The tax reform the Government has announced improves upon the current system, by making it more simple (reducing tax brackets), more efficient (lowering high marginal rates, reducing the number of tax deductions) and more in line with the needs of the Spanish economy (by shifting the tax burden from direct to indirect taxation). Nonetheless, it could still be improved by further advancing on these issues, including a fiscal devaluation (reducing social security contributions and increasing indirect taxes). There is evidence that European countries with higher ratios of social security contributions to indirect taxes are also those with the highest unemployment rates (see Exhibit 10). In particular, a reduction of 3.5 pp in social security contributions, offset by an increase in indirect taxation of 2pp would bring an increase of 0.7% in GDP and 200,000 more jobs in the short-term (see Boscá, Doménech and Ferri (2012)).

Further advances are needed in order to deepen the labor market reform, so that wages move closer to labor productivity and to encourage the use of permanent contracts. In Spain, the temporary rate represents a larger share of the total employment rate if compared to other European countries (24.3% *vs.* 15.8% in EMU). This affects productivity and competitiveness, as firms are less likely to invest in training workers (given the short duration of their contracts). Correa-López and Doménech (2012) estimate that a 1% fall in the share of temporary contracts for non-exporting firms in the manufacturing sector would increase their probability to export by 1.5%. So, for the median firm, converging to the average temporary rate would increase its probability to export by around 15%.

More investment in human capital is also needed. A third of the labor force does not have a secondary education degree, and two thirds do not have a college degree. Moreover, half of the unemployed used to work in a sector (construction) whose size has permanently shrunk. Pushing forward reforms on active labor market policies for retraining the long–term unemployed according to exporters needs is essential.

It is also necessary to make it easy and attractive for firms to grow. Size is the most important variable that determines export probability: according to Correa-López and Doménech (2012) every time a firm adds 10 workers, its probability of exporting increases by 2%. Although big firms are equally as productive in Spain as in other European countries, small firms are not and represent a larger percent of the total (on average, 99.2% of firms have less than 50 employees which is higher than the 97.1% recorded in Germany). Special tax regimes aimed at small firms could be counterproductive, reducing the incentives to grow and promoting the black economy. Currently, 90% of firms adhere to the special tax regime.

Finally, competition should be increased in key sectors that could become bottlenecks. As explained above, the improvement of the competitiveness of the non-tradable sector (services) will be key going forward to sustain export growth. In the past, a great deal of the higher than average inflation in Spain has come not only from excessive wage growth, but also from firms margins increasing at a very fast pace (see Table 1). Rent seeking is rampant in some sectors. BBVA Research (2014c) shows that if Spain had adopted the best practices in the regulation of services over the 1990s and 2000s, it would have faced the crisis with a volume of manufacturing exports 20% higher, thus being a stronger actor in international markets.

This is not a complete list of reforms needed in order to improve competitiveness, but their adoption would clearly help deepen the structural changes observed over the last few years in Spain, towards an export oriented economy.

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Labour force participation during Spain´s latest recession

Miguel Ángel Malo[1]

The recent crisis has affected Spanish labour force participation through various channels. The improvement in macroeconomic conditions has underpinned more favorable labour market trends, however, it remains difficult to say whether or not these will be transient, or signs of permanent improvement.

The latest recession has had a strong impact on the Spanish labour market. The labour force growth rate has slowed down and eventually declined throughout the crisis and up until the slight improvement in the second quarter of 2014. The underlying forces behind this trend include changes in working-age population, as well as patterns in discouraged workers and students. Recent decreases in working-age population can be explained by the shrinking population of Spaniards born in Spain, together with the decline in the foreign population since the start of the crisis, fuelled by migration in search of employment. As regards discouraged workers, they have been on the rise throughout the crisis, but have decreased recently, reflecting that individuals are interpreting the economic situation as more conducive to finding a job. Finally, there has been an increase in the number of people taking up official studies in response to the crisis. Nevertheless, it is difficult to determine whether or not the current improvement in these trends, as well as labor force participation in general, will be permanent.

Introduction

The impact of the recession on the Spanish labour market has not only manifested itself in the dismal trends in employment and unemployment, but also the general patterns of labour force participation and even population seem to have been affected. Indeed, Spain's total population has begun to shrink, in contrast to the steady increase it had been experiencing, driven by an influx of immigrants, in the run up to the crisis. Spanish society had come to regard this increase as a new and irreversible trend, and one that even brought Spain closer into line with more developed countries.

At the same time, employment's relatively late response –only since 2013– to improvements in a wide range of macroeconomic indicators has sparked renewed interest in labour force participation trends in the Spanish labour market. This article summarizes recent developments in some of these trends, and offers, based on the latest available information, some conjectures on their likely trajectory in the immediate future.

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Changes in labour force participation and the working-age population

The data from the labour force survey[2] (EPA) show a drop in the number of people in employment since the third quarter of 2012 (particularly males). This trend has only slowed in the most recent figure available for the second quarter of 2014. The drop has caused concern, given the uncertainty as to whether it is a short-term symptom that will pass once the second recession of the current crisis ends, or the manifestation of more profound and permanent transformations in Spain's labour market.

As Exhibit 1 shows, the negative impact of the global financial crisis caused a gradual slowing of the labour force growth rate after the third quarter of 2008. The labour force peaked in the third quarter of 2012. Since then, it followed an unbroken downward trend until the upturn in the second quarter of 2014 – the last quarter for which data are available.

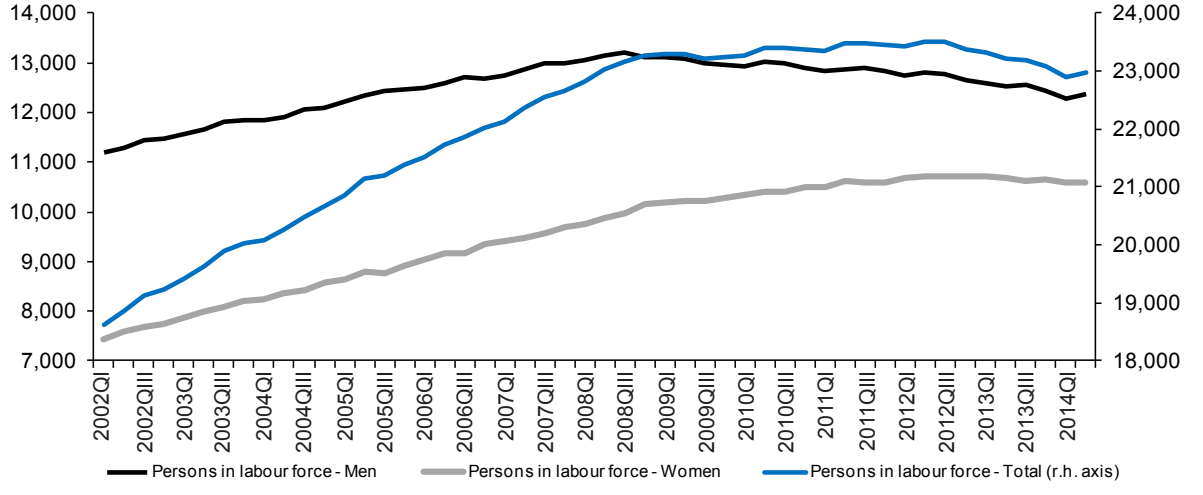
There are significant differences for the sexes, however (Exhibit 1). In the case of males, the labour force has clearly shrunk since the third quarter of 2008 –the quarter in which Lehman Brothers went bankrupt. The trend for women has followed the overall trend more closely, as the increase in the number of women joining the labour force slowed with the onset of the recession, and has more or less levelled off since 2012 at around 10.6-10.7 million women.

The main factor underlying the contraction in the labour force since 2011 has been the change in the population aged 16 to 64 years.

These changes in the labour force may have two types of direct causes: on the one hand, the number of people entering or leaving the labour force, within a given population size; and on the other, changes in the size of the population. As the National Statistics Institute (INE, 2014) has highlighted, the main factor underlying the

Exhibit 1

Spanish labour force (thousands of people). Total and by sex



Source: EPA.

[2] All the data given in this article is drawn from the "Encuesta de Población Activa" *[Labour Force Survey]* (EPA), unless stated otherwise.

contraction in the labour force since 2011 has been the change in the population aged 16 to 64 years. Thus, while the population aged 16 or more living in households peaked in the fourth quarter of 2011 at 38.88 million, and had dropped to 38.53 million in the second quarter of 2014, the population aged 16 to 64 peaked in the fourth quarter of 2009 at 31.1 million, dropping to 30.3 million in the second quarter of 2014, contracting by 834 thousand people.[3]

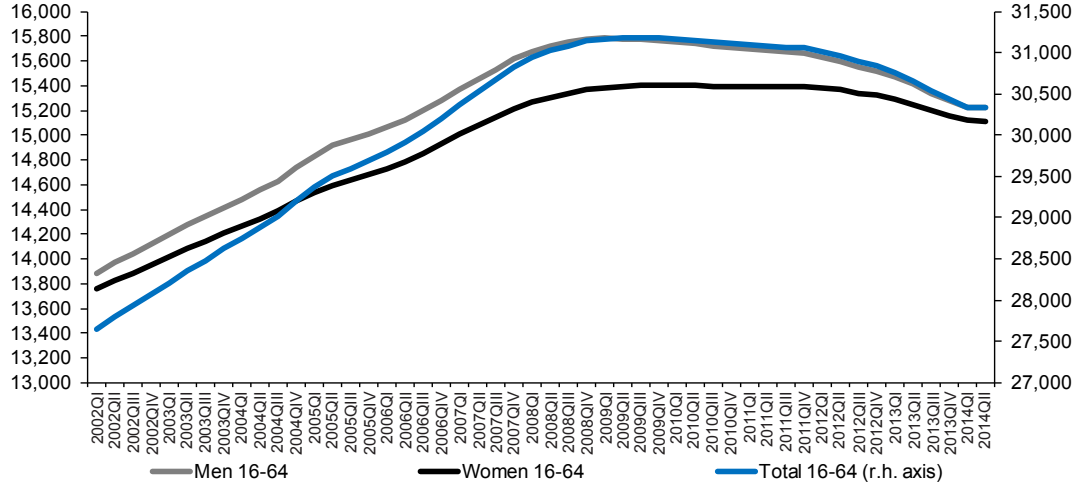
Disaggregated by sex, the number of males aged 16 to 64 has been declining since the fourth quarter of 2008, while the number of women in this age group has been declining since early 2012 (Exhibit 2). Thus, broken down by sex, the change in the population of males aged 16 to 64 matches the overall trend more closely (both falling sharply since late 2011) than is the case for women (the number of women aged 16 to 64 stabilised with the recession and dropped from mid-2012 onwards, while the number of women in this age group in the labour force did not stabilise until 2012 and has been declining somewhat since 2013).

In short, when the analysis is focused on the main range of working-ages (16-64 years), labour force participation among males follows the overall population pattern, and while the process seems to be similar in the case of women, it has occurred later and had a smaller impact. This confirms the very different patterns in the way in which the current recession is affecting men and women in the Spanish labour market.[4]

Another relevant issue is the composition of the trend in the working-age population by country of origin, combined with nationality. This combination makes it possible to understand the changes in terms of three categories: Spaniards born in Spain; Spaniards born outside of Spain; and non-Spaniards. This allows a much more detailed view of what is happening to be obtained than if we analyse nationality alone (Spaniards *versus* foreigners), as nationality can change, whereas

Exhibit 2

Population aged 16 to 64 years (thousands). Total and by sex



Source: EPA.

[3] Comparing the same period (Q4 2009 with Q2 2014) the decline in the total population living in households was 184.9 thousand people.

[4] A more extensive analysis of this issue focused on employment and unemployment can be found in Malo (2014).

place of birth cannot. Given the recent scale of naturalisations in Spain, not taking this fact into account could give a distorted view of international migrations, the composition of the population, and the performance of the labour market.[5]

The EPA data for the population aged 16 to 64 show that there were approximately 25.9 million Spanish-born Spaniards between 2005 and the onset of the crisis, dropping to approximately 25.5 million at the end of 2013. However, the number of Spaniards born outside Spain has almost doubled since 2005 (when there were 600 thousand). Thus, the slight rise in the number of Spanish nationals of working-age actually conceals two contrasting trends and shows that the increase rests solely on the rise in the number of Spaniards born outside Spain (basically, individuals who have become Spanish by naturalisation). The population of working-age foreign nationals stood at around 3 million in 2005 (10% of the population aged between 16 and 64), peaking at 4.4 million in the third quarter of 2009 (15.1% of the population aged between 16 and 64), and dropped to around 3.7 million in late 2013 (around 13% of the population aged between 16 and 64). Thus, there are more foreign nationals in this age range than in the pre-crisis years, but the number has actually been declining since shortly after the crisis. Given that, by definition, naturalisations draw on the pool of foreign nationals, the foreign community seems to show two different dynamics, depending on whether they obtain naturalisation or not: if they are successful, they tend to remain in Spain, while those of working-age who do not obtain nationality, either because they do not want to or are unable to, have declined in number during the recession (due to both fewer arrivals and more departures). The recently observed contraction of the population aged 16 to 64 is therefore related to the conjunction of the decline in the foreign population since the start of the crisis with the shrinking population of Spaniards born in Spain. And these two trends have not been offset by the sustained growth in the population of Spaniards born outside Spain.[6] The patterns have been analysed by sex and found to be very similar, with the proviso that the drop in the foreign population aged 16 to 64 since the end of 2009 has been sharper among men than women.

How can these trends be expected to develop in the immediate future? The change in the number of Spaniards born in Spain is closely linked to the ageing population (fewer births and an increase in the population aged over 65 relative to the 16-64 age group). Consequently, on this side, the changes in the trend will take place relatively slowly. However, the size of this group may also change as a result of migrations abroad, a process that has affected young people during the crisis. This phenomenon of Spanish migration abroad seems to be a matter of great concern to Spanish public opinion. The data published by the INE on the census of Spanish nationals resident abroad allows a certain amount of analysis of new registrations during the crisis. Table 1 shows these new registrations in three countries: Germany, France and the United Kingdom. The data are shown disaggregated in three age groups, to clearly separate out what is happening to the

The phenomenon of Spanish migration abroad seems to be a matter of great concern to Spanish public opinion. According to the German Federal Statistics Office, registered migration of Spaniards to Germany rose by 45% between 2011 and 2012. That said, comparisons with other countries' figures for inflows of foreign nationals from Spain are much higher than those from Spanish sources.

[5] Foreign immigrants have different employment patterns and labour market outcomes than Spaniards (see, for example, Garrido *et al,*. 2010). If the fact that naturalisation affects immigrants' outcomes is taken into consideration (Amuedo-Dorantes *et al*., 2013), using the customary division by nationality, (Spaniards, Spaniards with dual nationality, and non-Spaniards) a heterogeneity is introduced that, depending on the issue concerned, may seriously distort the analysis.

[6] A large share of them previously foreign nationals rather than children of Spaniards born abroad.

Table 1

New registrations in the census of Spanish residents abroad (selected countries)

	Germany			France			United Kingdom		
	< 16	**16 to 64**	**65+**	**< 16**	**16 to 64**	**65+**	**< 16**	**16 to 64**	**65+**
2008	5,229	2,665	193	4,921	5,823	1,242	3,118	4,043	76
2009	2,635	2,856	212	3,553	6,068	1,226	1,945	4,176	162
2010	2,139	2,944	276	3,117	7,513	1,482	1,920	4,729	235
2011	1,947	3,433	189	3,293	9,068	1,175	2,020	5,352	169
2012	2,102	4,239	250	3,354	8,638	1,177	2,193	5,994	201
2013	2,821	5,510	265	3,907	8,163	1,091	2,742	6,837	187

Source: WTO.

working-age population (aged 16 to 64). In both Germany and the United Kingdom, these new registrations by individuals of working-age have grown steadily year after year. New registrations in France, however, rose fairly rapidly until 2011, and then declined in subsequent years. However, the figures remain well above their pre-crisis levels. The number of people these figures represent, while not insignificant, does not seem to tally with society's concern. However, this source underestimates these flows, as, for example, comparisons with other countries' figures for inflows of foreign nationals from Spain are much higher than those from Spanish sources. For example, the pattern of inward migration of foreign nationals shown by German sources suggests a more significant process. According to the German Federal Statistics Office (Statistisches Bundesamt), registered migration of Spaniards to Germany rose by 45% between 2011 and 2012. This phenomenon is not exclusive to Spain, as the same source shows that migration registered from Portugal and Greece increased 43% in the same year, and that from Italy by 40 percent.

This simple analysis reveals that the sources available to analyse the problem of migration relating to the crisis have their limitations and that different (national and international) sources need to be treated with caution in order to determine the true scale of the phenomenon. There is also the issue that it is not only a question of the number of people leaving the country during the crisis, but whether this process affects key sectors of a modern economy (such as the scientific system), or if it will result in a definitive loss of human capital if the migration becomes permanent, etc. In short, analysing the outflows of working-age population caused by the crisis requires a more specific detailed analysis.

As regards the trend in the population of Spanish nationals born outside Spain, there is nothing to indicate that the pattern of a gradual increase is going to change in the immediate future (nor are there any planned legal changes in this respect).

Finally, the mobility of the foreign population should not be underestimated. When their main motivation is to find better job opportunities and living standards, individuals who have already moved from one country to another are more likely to do so again, whether this means returning to their country of origin when conditions have improved, or moving to another country. The bursting of the property-market bubble brought job creation in a wide range of low-skilled jobs to an abrupt halt. And it was precisely such positions requiring little or no prior qualifications or training to which foreign migrants had been attracted in large numbers during the boom. It should not be forgotten that migration prefers to move towards places and sectors were jobs are being created

rather than countries or regions affected by unemployment.

Labour force participation

Labelling individuals who are inside or outside the labour force as "active" and "inactive" seems to contrast those who are doing "something" with those who are "doing nothing." These terms, however, should be understood merely in a technical sense, where inactivity means not performing paid work and that the individual does not intend to form part of the labour market.

However, it is a well known fact that many transitions into employment take place directly from so-called inactivity without passing through unemployment. For this reason, many authors have highlighted the importance of "grey areas" between situations of activity and inactivity, in particular between inactivity and unemployment.[7]

In reality, in relation to activity, the only category that can be determined with true clarity in static and dynamic terms is employment. The remaining categories are basically defined in terms of what happens when an individual is unemployed. The international definition of a person in employment is defined as someone who has worked at least one hour[8] in the reference week, which is usually that prior to the interview. An employed person is considered to be in the labour force. But an unemployed person is also in the labour force. An individual is considered unemployed if he has not worked even an hour in the reference week, but has actively sought work[9] or is available to take up work within a given space of time (normally two weeks). If at least one of these conditions is not met, the individual is counted as inactive or outside the labour force. Thus, inactivity is a residual category where individuals who are not counted as either in work or unemployed end up.[10]

Thus, apart from the effect of changes in the population, the situations underlying trends in labour force participation are full of nuances. Of particular interest are two categories of inactivity that might be expected to evolve in correlation with the intensity and duration of the crisis: discouraged workers and students.

Discouraged workers are unemployed persons who have given up looking for work and so are classified as inactive. If this phenomenon is sufficiently widespread during a crisis, it can even lead to a decrease in the unemployment rate as discouraged individuals drop out of the labour force. However, this decrease needs to be viewed negatively as it would be the result of extremely adverse labour market conditions. This discouragement is usually associated with long-term unemployment and therefore with a worsening of the personal and social problems associated with joblessness.

Exhibit 3 shows how the number of inactive persons classified as discouraged workers clearly increases, but before what is usually considered the official "start" of the crisis (the shock caused by the collapse of Lehman-Brothers, in the third quarter of 2008). For both men and women, the

[7] In this regard, Garrido (1998) proposes a measurement of the "employability" of families and more recently (Garrido, 2010) a proposed measurement of the concept of unemployment to address the problem of the similarity between unemployment and certain types of inactivity. On the similarity of situations of unemployment and inactivity in the United States, see, for example, Jones and Riddell (1998).

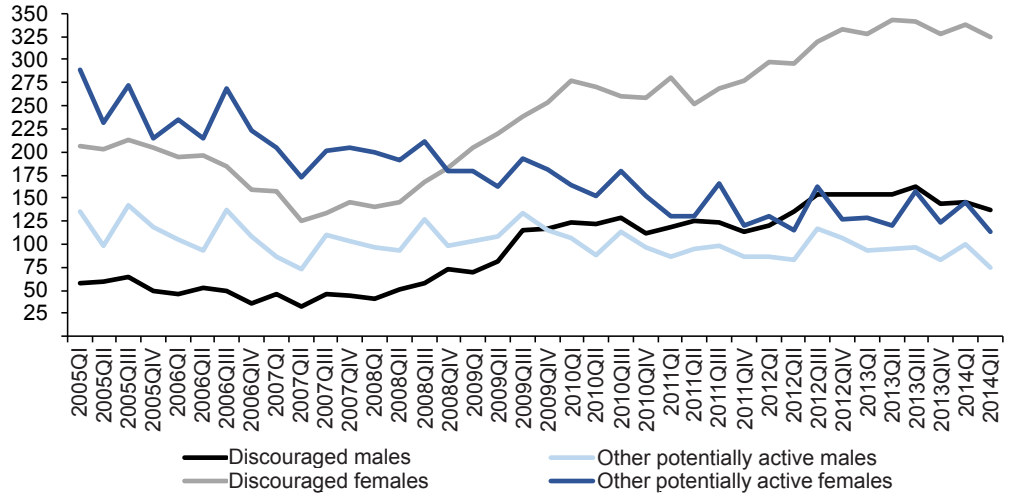
[8] Being employed is defined very broadly, including being self-employed, a wage or salary earner, having any type of contract, or even no contract at all. However, it does not include doing housework, as this is not a paid activity (if it were, it would be classified as domestic service).

[9] Defining what is meant by actively looking for work is not trivial. The usual approach is to ask the respondent to list the ways in which they have looked for work and, subsequently, apply an external definition as to whether this is an active search or not. International definitions usually consider the search to be active if a number of search methods are mentioned in the last four weeks.

[10] There is also the "population counted separately" category. This includes people undertaking obligatory military service (conscription) or a civil social activity that is of the same obligatory nature as military.

Exhibit 3

Thousands of potentially active people who are inactive (discouraged job seekers and other types of potential activity)



Source: EPA.

turning point toward the increase in the number of people giving up looking for a job took place in the second quarter of 2007. This is significant, as it was in the second half of 2007 that the signs that the property boom was running out of steam first began to emerge (Toharia and Malo, 2009; García-Serrano, 2012). Consequently, since the first signs of the economic problems were detected, many individuals (particularly women) became inactive as they became discouraged by their unsuccessful job search. Since then the upward trend has only slowed (women) or stabilised (males) with the intermediate stage of "green shoots" between the two dips of the recession of the latest crisis and the last quarters for which data are available.

Thus, the change in the numbers of people who have given up looking for a job is not related to the length of the crisis, but has more to do with individuals' perceptions of its intensity, particularly in the case of women. In this regard, the decrease seen in the last few quarters would mean that individuals are interpreting the economic situation as more conducive to finding a job.

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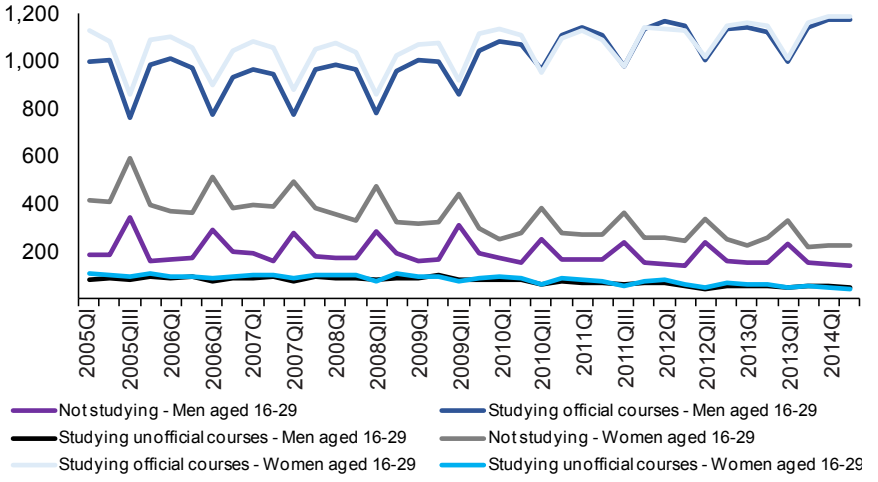
As regards the number of students, the total may change during a crisis along several routes: it may increase, due to the lower opportunity cost of staying in education rather than finding work; it may decrease, because the crisis reduces household incomes and restricts access to post-compulsory education; and it may increase as a strategic response so as to boost both the range of possible occupations in the future and potential productivity in the face of greater competition for the jobs that exist during a crisis and even in the early stages of the post-crisis expansion.

Exhibit 4 shows how the number of people enrolled in official studies increased with the crisis between men and women aged 16 to 29, the increase being somewhat more marked in

Exhibit 4

Thousands of people aged 16 to 29 by educational attainment and sex



Source: EPA.

the case of men.[11] Therefore, the trend matches both what would be expected from a decrease in the opportunity cost of studying and continuing to study in order to be better equipped when job opportunities arise. The drop (more pronounced in the case of women) in taking exclusively unofficial studies when the crisis arrived is also noteworthy. It could be said that individuals do not simply take more studies of any kind, but persist and look for those studies whose content is recognised by the labour market. This would lend further support to the idea that studying during the crisis is more closely related to an effort to be better equipped vis-à-vis the labour market and not simply to fill up one's time at a juncture when it is extremely difficult to find work.

Therefore, it is highly likely that with the arrival of the expansion and after an initial stage of stiff competition for the first jobs available, this higher uptake of official studies reverts to the pre-crisis situation. That is a matter of considerable concern given Spain's high levels of early school leaving during the economic expansion.

Conclusions: What can be expected?

Will the labour force continue to grow as the latest data observed in the second quarter of 2014 suggest? Is it a transient increase or a sign of a permanent improvement? Taking all the information discussed here as a whole, individuals at least seem to judge the change as more conducive to the job search (as revealed by the number of men and women who have given up looking for a job).

The fact that there has been an increase in labour force participation against the backdrop of a general trend in the population aged 16 to 64 apparently driven by long-term processes[12] could

[11] This picture is consistent with the decrease detected in the early school leaving rate during the crisis (Serrano, 2013). Nevertheless, the usual figures for early school leaving are fairly sensitive to changes in calculation methods (Fernández Macías *et al.,* 2010).
[12] The Instituto Nacional de Estadística [National Statistics Institute] (INE) publishes projections of population, activity, and labour-force participation for the period up to 2020 on its website (http://www.ine.es). Although as of the time this article was written, these projections had not been updated with the same population figures as recently used to update the EPA, they offer an overview of the downward trend in labour-force participation for males aged 16 to 64 and a gradual increase in the female participation rate in this age group. The result for the population aged 16 to 64 as a whole is a slight increase in the labour-force participation rate up to 2020.

be judged a sign of the solidity of this increase. However, looking at the so-called "green shoots" period, it would have been possible to arrive at the same conclusion: the number of people giving up their job search stopped rising, with a trend in the population aged 16 to 64 that was almost more favourable than at present. And yet this apparently good set of circumstances did not take hold or leave a permanent trace.

However, it should not be forgotten that the general trend (beyond the cyclical changes) in the labour force is powerfully shaped by the process of the ageing of the population as a whole and the capacity to create jobs for the population aged 16 to 64.

The drop in the number of foreign nationals as the recession worsened was a reminder that international migratory flows can shift rapidly and powerfully with the economic cycle. In turn, the institutional form given to these migratory flows (the possibility of obtaining Spanish nationality) also affects this trend.

In the case of Spaniards born in Spain, the decline in their numbers aged between 16 and 64 (apart from long-term population ageing) has also been potentially affected by this group's outward migration. Quantifying the scale of the process (which has surprised and worried society in Spain and in other countries in similar situations, such as Portugal or Italy) requires analysis of its own that goes beyond the scope of this article. The scarcity, fragmentation of national data sources and their inconsistency with those of other countries is a considerable obstacle to this analysis. It also makes it difficult to know whether the outflow is only affecting certain cohorts of young people and their level of academic attainment, and to identify whether it is a process that will be reversed with the economic cycle, or if, rather, it will leave a permanent mark on the size of these population cohorts.

However, even if we imagine that this migration is significant for some cohorts of today's young people, the impact on the total working-age population may be relatively small if the change in the economic cycle is confirmed. If this change were to happen, it would slow the exit of young people from Spain and of the foreign population resulting from the lack of job creation here. Thus, the generational impact could be significant, even if the population change is small. On the other hand, although the process is finally relatively small scale and basically short-lived, it may leave a mark on the quality of key sectors for the Spanish economy (such as the science and technology system) if the outward migration during the crisis were to be concentrated in these sectors.

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Spain´s internal devaluation and export growth

María Jesús Fernández[1]

Spain´s exports have performed favorably throughout the economic crisis. While the impact of internal devaluation has not been passed on to final export prices, it has improved cost competitiveness, boosting profitability of Spain´s export industry and encouraging the sector´s growth.

Spain´s exports grew sharply during the crisis, outpacing growth by the other main EU economies. It is usually assumed that the internal devaluation – i.e. drop in unit labour costs – in Spain over this period has allowed Spanish exporters to improve their price competitiveness. However, export prices have actually increased in relation to developed countries, partly offset by the depreciation of the euro, and the overall effect on price competitiveness has been almost negligible. Nevertheless, the impact of the internal devaluation has affected exports through the cost competitiveness channel – making Spanish industrial activity more profitable and subsequently a more attractive destination for domestic and foreign productive investment.

Introduction

Spanish exports have behaved relatively well during the years of the economic crisis, with the process of internal devaluation –i.e. the reduction in unit labour costs– under way over the period often being pointed to as one of the key factors underlying this performance.

This article sets out to elucidate the role internal devaluation has played in the progress made by exports between 2009 and 2013. To this end, after briefly describing how exports have performed in recent years, trends in export prices will be examined, in order to determine whether the drop in unit labour costs has effectively been passed on to them. Then, an export function will be estimated in which a variable representing cost competitiveness is used as the explanatory variable, rather than a price competitiveness variable, as is usually the case, in order to explore whether it is possible to establish the existence of a relationship between the reduction in unit labour costs and export growth.

Spanish exports during the crisis

Spain's exports have performed well since the start of the crisis, buffering the impact of plummeting domestic demand on GDP. According to national accounts figures, between 2009, when sales abroad dropped sharply due to the slump in international trade following the collapse of Lehman Brothers, and 2013, Spain's exports of

[1] Economic Trends and Statistics Department, FUNCAS.

goods and services grew by 28.7% and exports of goods alone grew by 37.4%. As a consequence, the weight of exports in GDP rose from about 18% in the pre-crisis years to 23.6% in 2013.

International comparisons made using World Trade Organisation figures show Spain's goods exports to have grown by 38.8% during the period, while global exports rose by 49.6%. The export growth posted by the main EU economies was significantly lower than Spain's: 29.7% in Germany, 19.6% in France, and 27.2% in Italy. The majority of developed countries lost share in the world export market during the period, primarily as a result of the strong expansion of China's overseas trade –China's exports grew by 84%, placing its market share at 11.76%– although Spain was one of the country's losing least market share: dropping from 1.81% to 1.68% (Table 1).

Internal devaluation and export price trends

The favourable performance of Spain's exports is often attributed to the improvement in price competitiveness resulting from the internal devaluation the Spanish economy has undergone since 2010. This process basically consists of gaining competitiveness vis-à-vis the exterior, not through a currency devaluation, as this mechanism is no longer available now that Spain has adopted the euro, but by cutting internal costs, specifically the cost of labour per unit of output.

In 2013, unit labour costs in the manufacturing industry had fallen by 14% from their peak in 2009, due to rising productivity, which grew by 23.9% over the period, while remuneration per employee –measured in full-time equivalent terms–rose over the period by 6.5%– a rate that

Table 1

Share of world goods export markets

(Percentage)

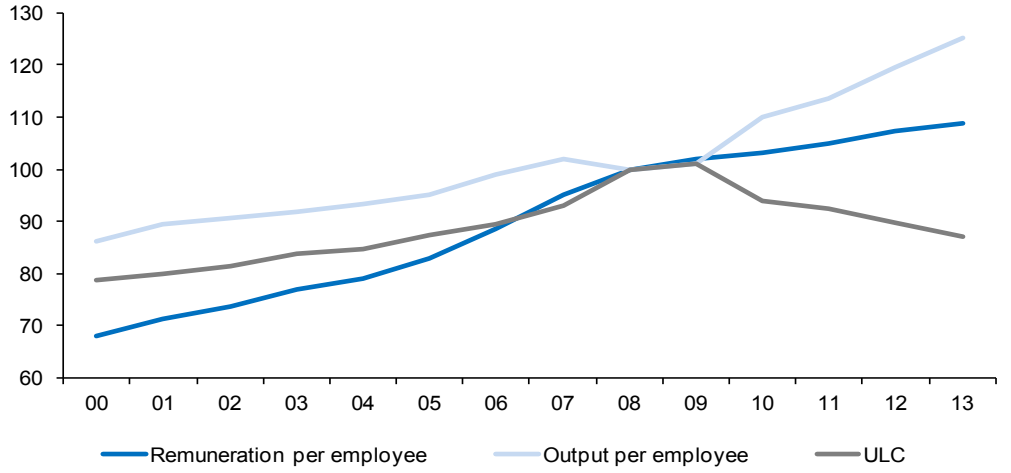
	2009	2010	2011	2012	2013
Germany	8.92	8.23	8.04	7.63	7.73
Austria	1.09	1.00	0.97	0.91	0.93
Belgium	2.95	2.66	2.60	2.42	2.50
China	9.57	10.31	10.36	11.13	11.76
Denmark	0.75	0.63	0.61	0.57	0.59
Spain	1.81	1.66	1.67	1.60	1.68
United States	8.41	8.36	8.08	8.40	8.41
Finland	0.50	0.45	0.43	0.40	0.39
France	3.86	3.42	3.25	3.09	3.09
Greece	0.16	0.18	0.18	0.19	0.19
Netherlands	3.97	3.75	3.64	3.55	3.53
Ireland	0.92	0.76	0.69	0.63	0.61
Italy	3.24	2.92	2.86	2.72	2.76
Portugal	0.35	0.32	0.33	0.32	0.33
United Kingdom	2.83	2.72	2.76	2.57	2.88
Sweden	1.04	1.04	1.02	0.94	0.89
Japan	4.63	5.03	4.49	4.34	3.81

Source: WTO.

Exhibit 1

Unit labour costs in manufacturing in Spain

(2008=100)



Source: INE (National Accounts).

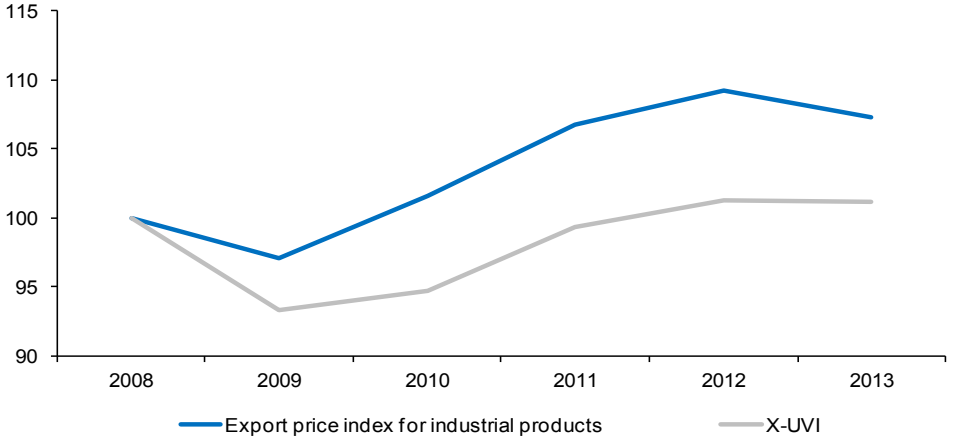
is significantly lower than that observed between 2001 and 2008. As a consequence of this process, unit labour costs in 2013 were approximately back to their 2005 levels (Exhibit 1).

It is usually assumed that this drop in unit labour costs has allowed Spanish exporters to cut the prices they charge on foreign markets, thereby boosting their sales. However, changes in export prices have not been consistent with this hypothesis. Indeed, export prices have moved upwards throughout practically the whole of the period considered (Exhibit 2). According to the export unit value index (X-UVI), after falling sharply

Exhibit 2

Export prices of Spanish goods

(2008=100)



Sources: Ministry of the Economy and INE.

in 2009 in line with the slump in world trade, export prices in the three subsequent years rose continuously, such that although there was a slight drop in 2013, the level that year was 8.4% higher than in 2009. Another indicator is the export price index for industrial products, which has followed the same trend, although the drop in 2009 was smaller than that in X-UVI, and growth in the three following years was greater. On this indicator, price levels in 2013 were 10.4% higher than in 2009.

The reduction in unit labour costs has, therefore, not been passed on to the price of export products. This should come as no surprise, as Spain has a tiny share of international trade, and Spanish producers act as price-takers, i.e. their prices move in line with those of their competitors, rather than using price competition as a means of gaining market share.

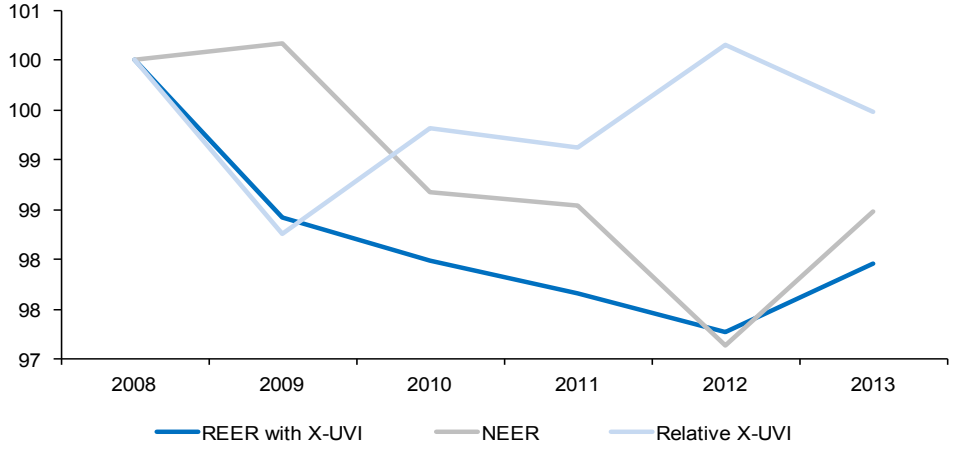
This is confirmed when changes in the relative price of Spanish exports are analysed vis-à-vis international prices. For this purpose, we can use a real effective exchange rate, calculated using the export unit value indices (X-UVI) for Spain in relation to other developed countries prepared by the Bank of Spain. Exhibit 3 represents the trend in this indicator, and that of its components: relative X-UVI of Spanish exports in relation to the developed countries, and the nominal effective exchange rate of the euro, which measures changes in the value of the euro relative to a reference basket of currencies.

As the exhibit shows, the price of Spanish exports in relation to developed countries followed an upward trend after dropping in 2009, such that in 2013 they were 1.2% higher than in 2009, i.e. between 2009 and 2013 Spain's export prices grew by 1.2% more than those of other developed countries. At the same time, the nominal effective exchange rate of the euro lost 1.7% of its value, so although Spanish prices rose slightly more than those of other developed countries, this was partly offset by a depreciation of the euro, the overall effect being a price competitiveness gain of 0.5% relative to 2009.

Over the period from 2009 to 2013 as a whole, there was a minimal gain in price competitiveness, which came from the depreciation of the euro rather than a reduction in prices, which by contrast,

Exhibit 3

Changes in relative prices of Spanish exports relative to those of other developed countries (2008=100)



Source: Bank of Spain.

rose. In other words, Spanish exporters exploited the devaluation of the euro to raise their prices somewhat more than their competitors, such that there was barely any price competitiveness gain. (This is for the period as a whole: it is possible to observe that in 2013 there was a significant rise in the euro, which forced Spanish exporters to moderate their prices relative to those of their competitors, although not sufficiently to offset the rise in the euro, such that in 2013 there was a loss of price competitiveness that partly counteracted the gains made in recent years).

In short, exporters have moved their prices in line with international prices and changes in the exchange rate, not in response to changes in unit labour costs. But this does not mean that the reduction in unit labour costs, i.e. the increase in competitiveness, has not played a role in export growth between 2009 and 2013. Its influence may have come via a route other than the effect on final prices.

In short, Spanish exporters have moved their prices in line with international prices and changes in the exchange rate, not in response to changes in unit labour costs.

The impact of the internal devaluation on exports through its effect on profit margins

To determine whether the increase in cost competitiveness has indeed had an influence on export growth, and quantify its impact, an export function has been constructed using an error correction method, in which export growth is related to the following explanatory variables:

- Growth in demand from Spain's export markets, measured in terms of the weighted average growth of imports by the countries which comprise Spain's main export markets (EXPMRT).

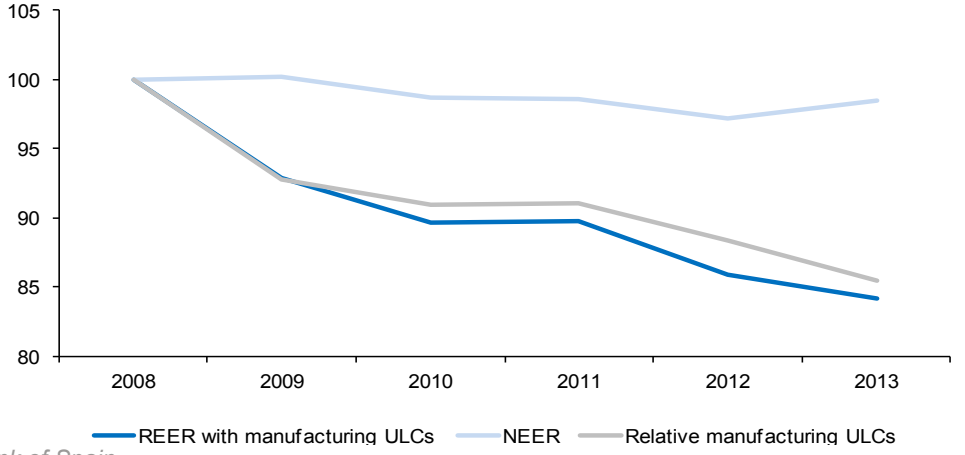
- Change in domestic demand (DDEM). It is often argued that exports rise when domestic demand drops, as producers try to offset the contraction in the domestic market by stepping up their export efforts. By contrast, when domestic demand rises, producers primarily focus on meeting domestic demand. Introducing this variable in the export function allows us to determine whether its effect is significant, and if so, quantify it.

- Instead of a price competitiveness variable as is habitual in export functions, a variable representing cost competitiveness has been introduced here, namely the real effective exchange rate, calculated using unit labour costs in manufacturing (REERULC). This indicator, which is prepared by the Bank of Spain, relates changes in Spain's unit labour costs to those of other developed countries, valued at the nominal effective exchange rate of the euro (NEER). Apart from the immediate interpretation of this indicator as a measure of Spain's cost competitiveness gain or loss relative to other developed countries, if we assume that international prices tend to align themselves with international unit labour costs, this indicator can also be interpreted as a measure of the margin between these prices and unit labour costs in Spain.

Its progress is shown in Exhibit 4, depicting the change in REERULC and its two components: manufacturing ULCs in Spain relative to other developed countries, and the nominal effective exchange rate of the euro relative to other developed countries (NEER). It can be seen that Spain's relative unit labour costs in manufacturing have fallen almost continuously over the period, all the more so bearing in mind the exchange rate, due to the depreciation of the euro over the period as a whole.

Exhibit 4

Changes in Spain's relative ULCs vis-à-vis those of other developed countries (2008=100)



Source: Bank of Spain.

The resulting short-term export function is:

$$\Delta EXP = \underset{(-0.36)}{-0.43}\ \Delta REERULC(-1) + \underset{(11.16)}{1.39}\ \Delta EXPMRT$$

$$\underset{(-2.17)}{-0.40}\ \Delta DDEM - \underset{(-4.32)}{1.15}\ ECM_{-1}$$

$$R^2 = 0.92$$

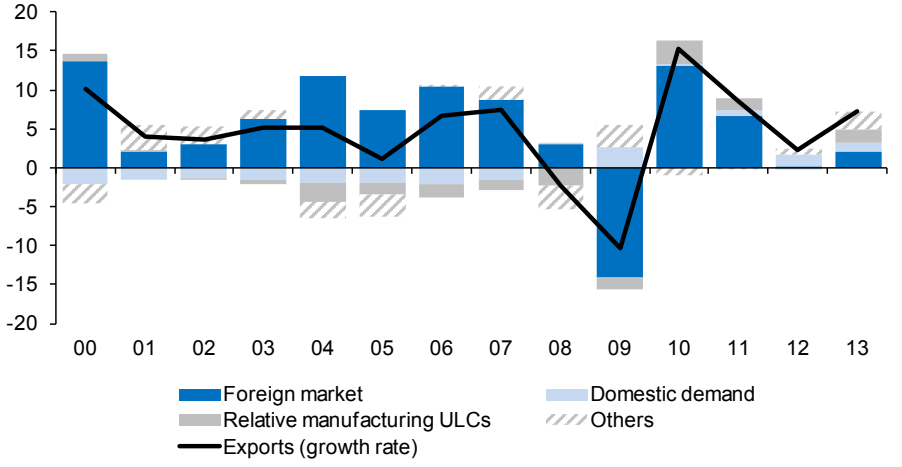
(ECM represents the error correction model).

All the explanatory variables are significant. Cost competitiveness affects exports with a time lag. The coefficients represent export elasticity vis-à-vis a change in the corresponding variable. Based on these elasticities, the contribution of each of the explanatory variables to the change in each year's exports has been calculated, as shown in Exhibit 5. As the exhibit shows, in the years prior to the crisis,

Exhibit 5

Determinants of export growth

Growth rate and contributions to the growth rate in percentage points



Source: Own elaboration.

export growth was basically explained by the increase in external demand, while domestic demand growth and lost cost competitiveness subtracted growth almost continually.

After the drops suffered in 2008 and 2009, exports returned to growth between 2010 and 2013, all the variables considered to be acting in favour. Specifically, the recovery in cost competitiveness has made a positive contribution to growth in overseas sales in this period, except in 2012, when the contribution was negligible. 19.1% of total registered export growth over these four years is due to improved cost competitiveness. The drop in domestic demand explains 12.4% of this growth –due to its encouraging the search for new markets to make up for the drop in the internal market– and the growth in external demand explains 62.3% – the remaining 6.2% being due to other factors that are not explicitly included in the model.

The recovery in cost competitiveness has therefore had a positive effect on the increase in exports, although via a different route than the reduction in final prices. This route may have been on the supply side, through the improved profitability of export-oriented industrial activities, and the consequent reallocation of resources towards them. In other words, the reduction in unit labour costs, although not being passed on to final prices, has benefited profit margins, making Spain's export industry more profitable and so more attractive in relation to other countries as a destination for domestic and foreign productive investment. One example of this is the choice of Spain by various multinationals as the location for manufacturing new models of cars for export. Thus, Spain's greater attractiveness for industrial activities in comparison with other countries has allowed it to benefit from a larger share of the increase in global demand than it would have done otherwise.

Although this analysis focuses on the effect of internal devaluation on exports, the increase in profit margins has not only made export-oriented industry more attractive, but industrial activity in general, including that catering to the domestic market. Not only have export prices increased, but prices for industrial output as a whole have risen, as is shown by the Industrial Price Index (IPRI), which rose by 15.8% between 2009 and 2013 (8.6% if energy products are excluded). This growth in the IPRI was greater even than that in import UVIs over the same period.

Thus, the reduction in unit labour costs in the manufacturing sector has not been passed on to final prices in the domestic market either. The domestic-market oriented industry has not tried to wrest market share from imported products by competing on price, preferring, like the export industry, to increase profits. Nevertheless, as in this latter case, the increase in profitability of industrial activity may stimulate the sector's future growth, by encouraging a reallocation of resources towards it, fostering a gradual substitution of imports by domestic production, and consequently, a reduction in the high level of elasticity of Spain's imports vis-à-vis domestic demand. The positive effect of the internal devaluation on exports, in conjunction with this negative effect on imports, would contribute to transforming the Spanish economy's growth model towards one in which industry has more weight, and at the same time, is more sustainable and less prone to generate imbalances.

The positive effect of the internal devaluation on exports, in conjunction with this negative effect on imports, would contribute to transforming the Spanish economy's growth model towards one in which industry has more weight and is more sustainable and less prone to generate imbalances.

Conclusion

The drop in unit labour costs in the manufacturing sector between 2009 and 2013 has not translated

into an increase in the price competitiveness of Spanish exports. Exporters have not exploited the reduction in costs to gain market share by cutting prices; what is more, export prices have even risen during the period. Exporters behave as price-takers, i.e. their prices move in line with international prices and changes in the exchange rate.

Nevertheless, the reduction in unit labour costs has played a significant role in the growth in goods exports registered during the period. According to the elasticities yielded by the export function, it is possible to estimate that this factor accounts for 19% of the increase. The route by which this internal devaluation may have encouraged exports may have been through an increase in the profitability of exports deriving from an increase in profit margins, and the consequent reallocation of resources towards them.

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Corporate profits and the recovery of the Spanish economy

Vicente Salas Fumás[1]

Spain´s recent internal devaluation policies have helped to decrease labor costs and improve corporate profit margins. The significant increase in ROA in Spain for operating assets is evidence of profitable investment opportunities within the country.

This article assesses the effectiveness of Spain´s internal devaluation policies by examining the evolution of corporate profitability during the crisis. The analysis is based on the Return on Assets (ROA) and Return on Equity (ROE), calculated using official data from the National and Financial Accounts. Returns are considered for capital assets used for production of goods and services in Spain, in order to measure the incentives for capital investment, as well as for financial assets, which for the most part are permanent investments abroad. ROA has increased throughout the crisis largely due to decreased labor costs, providing evidence that internal devaluation policies have been effective. Lower net interest payments and corporate taxes have also supported the rise in corporate profits. ROA for operating assets in Spain was 8% before taxes in 2013 - a sound basis for a corporate-led recovery of the Spanish economy.

Introduction

Corporate profits are an important economic indicator. For given financial and macroeconomic conditions, changes in profits tend to be positively correlated with changes in capital investment and either stimulate or deter economic growth. This article examines the evolution of profitability of Spanish non-financial corporations (NFCs) in the time period from 2006 to 2013, when the Spanish economy experienced the most serious recession of recent times in the context of the international financial and economic crisis. One of the explanations of why the Spanish economy entered into a severe recession, with many jobs lost and high unemployment, is that Spanish firms lost international competitiveness during the years of economic expansion that followed the creation of the Euro.

Presumably, one of the consequences of the loss in competitiveness is a decline in corporate profits, leading firms to close down unprofitable activities, reduce employment and cancel investment projects. In response, some public policies have been put in place to restore competitiveness through internal devaluation, i.e. through wage and price deflation. The labor market reform is an important example of one of the many policies adopted by the Spanish government to achieve the goal of internal devaluation. Internal

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devaluation will be effective in restoring economic growth as long as corporate profits go up and a new virtuous cycle of employment growth and capital investment begins.

The goal of this paper is to assess the effectiveness of the internal devaluation process through an examination of the evolution of corporate profitability and its determinants. From the analysis, it should be possible to conclude whether the Spanish economy is ready or not for a sustainable corporate-led recovery. The two main variables used for this analysis are the rate of return on operating assets (ROA) and the rate of return on equity (ROE). The calculation of the ratios requires information from the income statement (revenues, costs, profits), and from the balance sheet (assets and equity), consolidated for Spanish NFCs. The information for the elaboration of the consolidated income statement is obtained from the National Accounts (published by the INE). The information for the elaboration of the balance sheet comes from the Financial Accounts (published by Banco de España).[2]

The results of the analysis lead to different conclusions depending on whether the focus is on the ROA of operations variable, or on the ROE. According to the ROA, profitability of Spanish NFCs increases over time during the years of the crisis. This occurs because profit margins increase as a result of the reduction in labor costs as a proportion of the value added. The ROA corresponds to profitability of assets deployed in production in Spain so the evidence from this indicator is that internal deflation policy has been effective in reducing labor costs and increasing the gross profit margin. The ROE is lower than the ROA of operations and its time evolution is more erratic. There are two main reasons for this. One is that half of the assets of Spanish NFCs are financial assets, with a lower rate of return than the operating one. The other is the evolution in financial expenses for debt finance, and in corporate taxes, which both reached peak values in the years prior to the crisis. Debt and equity finance are used to finance both operating assets and financial assets in an undistinguishable manner, so the pool of cash-flows generated from both of them is at the disposal of corporations, for example for cancelation of debt, dividend payments, and for new investment decisions. The relatively high ROA of operations in 2013 indicates that conditions are favorable for investment in Spain, supporting a corporate-led recovery. However, some interference from competition in the use of funds in deleveraging operations cannot be excluded.

The rest of the article is organized as follows. The ensuing section shows the evolution of the main items of the income statement consolidated for Spanish NFCs, as elaborated from the National Accounts database. The next section presents the assets and liabilities of the balance sheet also consolidated for the total of NFCs elaborated with data from the Financial Accounts. The subsequent section contains the results from the calculation of rates of return for different groups of assets and for the stock of equity. Finally, the last section contains a discussion of the results and main conclusions and implications.

Income statement

The aggregate income statement for Spanish NFCs in the years from 2006 to 2013, adapted from National Accounts data, is shown in Table 1. An important distinction for the purpose of this analysis is that between operational flows and financial flows. The former include the items from production to EBIT of operations, while the latter include the items interest and dividends received, rents from properties and interest expenses.

Production and Gross Value Added (GVA), reached their maximum value in 2008 and then

[2] For a detailed and more complete description of the sources of data, methodology and actual calculations of the numbers used in this analysis, see the author's publication (http://dx.doi.org/10.2139/ssrn.2436481).

Table 1

Income Statement: Spanish NFCs

Millions	2006	2007	2008	2009	2010	2011	2012	2013
Production at basic prices	1,330,779	1,416,984	1,445,250	1,393,950	1,399,362	1,405,186	1,383,624	1,358,459
- Intermediate consumption	870,693	926,720	923,134	888430	887349	887,949	873,531	855,050
GROSS VALUE ADDED	**460,086**	**490,264**	**522,116**	**505,520**	**512,013**	**517,237**	**510,093**	**503,409**
+ Subsidies and production taxes	-1,613	-939	-1,093	-1,792	-2,006	-2,244	-3,953	-5,728
- Labor costs	294,492	317,289	337,916	321,836	315,103	314,651	299,397	283,473
EBITDA OPERATIONS	**163,981**	**172,036**	**183,107**	**181,892**	**194,904**	**200,342**	**206,743**	**214,208**
- Amortization	78,441	84,817	90,824	93,096	95,549	98,319	100,587	102,169
EBIT OPERATIONS	**85,540**	**87,219**	**92,283**	**88,796**	**99,355**	**102,023**	**106,156**	**112,039**
+ Received interests and dividends	28,411	32,362	36,297	31,609	30,300	30,625	28,353	25,092
+ Other rents from properties	3,248	5,500	1,375	2,046	1,083	630	881	1,100
EBIT	**117,199**	**125,081**	**129,955**	**122,451**	**130,738**	**133,278**	**135,390**	**138,231**
- Interest expenses	36,019	51,984	59,954	32,968	30,477	36,313	32,312	23,015
- Corporate taxes	33,813	41,665	25,449	19,793	15,996	15,786	19,742	18,777
NET PROFIT	**47,367**	**31,432**	**44,552**	**69,690**	**84,265**	**81,179**	**83,336**	**96,439**

Sources: Own elaboration from Informe de la Central de Balances, Chapter 2; Cuentas de los Sectores Institucionales. Sociedades no Financieras de CN.

declined until 2013, so the GVA in 2013 was 4% lower than the GVA in 2008. The GVA as a percentage of the value of production increased from 35% to 37% from 2007 to 2013, probably as a consequence of a reduction in imports and an increase in in-house production. Overall, the GVA of NFCs represents between 45% and 50% of Spanish GDP.

Labor costs reach a maximum in 2008 and decreased since then. In relative terms, labor costs represented 65% of GVA until 2008 and only 57% of GVA in 2013. The EBITDA of operations reached its minimum in 2009 and increased since then in absolute and in relative terms. Seven of the eight percentage points of decrease in labor costs can be attributed to the increased share of EBITDA on GVA; the other point compensates the increase in production taxes. Overall, the EBITDA from operations is approximately 36% of GVA until 2009 and increased until 42% in 2013. Amortization costs increased all along the period and in 2013, they were 30% higher than in 2006, probably reflecting the loss in economic value of operating assets during the crisis. Since amortization increased over time at a higher rate than GVA, the EBIT from operations as a percentage of GVA remained stable around 19% until 2010 and then increased to 22% in 2013.

The non-operating revenues of NFCs include the interests and dividends received from their financial assets and rents from properties, in a lower amount. These revenues represented around 8% of the GVA in 2007 and 5% in 2013. This explains that the EBIT as a proportion of GVA remained rather stable over time, 26% in 2007 and 27% in 2012 and 2013. Interest payments on debt reached a maximum high of almost 60 billion euros in 2008, 11% of the GVA, and a minimum of 23 billion in 2013, 5% of GVA. Corporate taxes reached a maximum high in absolute and relative value in 2007, 8% of GVA, then decreased until 2009 and moderately increased again, so in 2013, corporate taxes represented 4% of GVA.

The changes over time in interest expenses and corporate taxes determine most of the time variation in net profits, from a low value of 31.4 billion in 2007, 6% of GVA, to a three times higher value of 96.4 billion, 19% of GVA in 2013. The increase of 13 percentage points of net profit over GVA from 2007 to 2013 is decomposed as follows: positive contributions of 8, 6 and 4 percentage points from lower labor costs, interest expenses and corporate taxes, respectively; negative contributions of 3 and 2 percentage points from higher amortization and production taxes, and 2 percentage points of GVA from lower interest and dividends.

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Balance sheet

The aggregated balance sheet of Spanish NFCs for the years between 2006 and 2013 are presented in Table 2, both in absolute and relative terms to total assets. On the asset side, a distinction is made between operational assets and financial assets. The operational assets include fixed assets (buildings, equipment machinery) and current assets (cash, inventories, accounts receivable net of accounts payable). They are assets deployed and used for production of goods and services in Spain. The financial assets include long-term and short-term financial investments by NFCs, excluding bank deposits (corporate bank deposits will in part be tied to bank loan operations). The largest part of the remaining financial assets are permanent investments in subsidiaries and other companies abroad. Therefore, the reported debt with cost in the balance sheet of Table 2 is gross debt minus accounts payable and minus bank deposits. The difference between assets and debt with cost is total equity. Debt and equity finance operational and financial assets indistinguishably.

Total assets and liabilities of Spanish NFCs reached a maximum value above 2.8 trillion euros

Table 2

Balance sheet: Spanish NFCs

2a: Absolute values in millions of euros

	2006	2007	2008	2009	2010	2011	2012	2013
Operational assets	1,249,335	1,409,100	1,449,339	1,385,433	1,375,123	1,373,814	1,360,264	1,374,146
Financial assets	1,239,440	1,426,424	1,380,852	1,272,061	1,293,988	1,353,840	1,372,075	1,418,387
Total assets	**2,488,775**	**2,835,524**	**2,830,191**	**2,657,494**	**2,669,111**	**2,727,654**	**2,732,339**	**2,792,533**
Debt with cost	898,616	1,095,492	1,232,029	1,273,325	1,287,669	1,306,971	1,258,921	1,176,044
Equity	1,590,158	1,740,032	1,598,162	1,384,169	1,381,443	1,420,683	1,473,418	1,616,489
Total liabilities	**2,488,774**	**2,835,524**	**2,830,191**	**2,657,494**	**2,669,111**	**2,727,654**	**2,732,339**	**2,792,533**
2b: Relative values								
Financial assets/Assets	50%	50%	49%	48%	48%	49%	50%	51%
Debt with cost/Assets	38%	39%	44%	48%	48%	48%	46%	42%

Sources: Own elaboration from Informe de la Central de Balances 2013 and Cuentas Financieras, several years.

in the years 2007 and 2008, after a period of high growth in both operational, but especially, financial assets. In 2009, with the crisis, total assets decreased 6% with respect to their value in 2008, but increased again afterwards, so total assets in 2013 were only 3% lower than in 2008. The volatility in the value of financial assets over time is higher than that of operational assets. On the liability side, equity of NFCs reached a maximum of 1.74 trillion euros in 2007 and a minimum of 1.38 trillion euros, 20% lower, in 2010. However, in 2013, the value of equity increased again and was closer to the 2007 value.

The total amounts of operational and financial assets of Spanish NFCs are very similar during the period 2006-2013, so each represents around 50% of the total assets with few variations year by year. The debt with cost of Spanish NFCs, as calculated in this paper, represented 36% of total assets and liabilities in 2006, before the crisis, and the ratio reached a maximum of 48% of total assets and liabilities during the years 2009 till 2011. In 2013, the debt with cost relative to total assets was 42%, six percentage points lower than the maximum ratio but still six points above the leverage ratio in 2006. The decrease in debt with cost in 2013, both in absolute and relative terms, is the consequence of the deleveraging process by Spanish NFCs, reflected also in the evolution of debt of non-financial corporations over Spain´s GDP.

Rates of return

We now match the earnings and profits in Table 1 with the assets and liabilities in Table 2 to obtain the rates of return on assets, ROA and the rate of return on equity, ROE. Spanish NFCs obtain earnings from operating activities in Spain, referred to as operating earnings, and receive interests and dividends from their financial investments. Since data is available for the flow of earnings and for the stock separately for each type of asset (operational and financial), first, the rates of return are calculated separately for each type of asset, and next for total assets on the balance sheet. In the calculation of the ROA of operations, we separate the contribution to ROA from margin, EBIT operations/Net Value Added, and from productivity, Net Value Added/ operating assets. Therefore ROA operations = EBIT operations/operating assets. Finally, the financial ROA is equal to received interests and dividends divided by financial assets.

The results of the calculations are shown in the first six lines of Table 3. The ROA of operations is 6.8% in 2006 and decreased 0.4 percentage points in the following three years; after that, it increased again and reached a maximum of 8.2% in 2013. All of the increase in ROA in 2013 with respect to the value in 2007 is explained by the increase in margin, from 21.5% in 2007 to 28.1% in 2013. The Net Value Added per euro of

Table 3

Rates of Return on Assets, ROA, and Equity, ROE. Spanish NFCs

Percentage

	2006	2007	2008	2009	2010	2011	2012	2013
ROA Operations	6.8	6.2	6.4	6.4	7.2	7.3	7.8	8.2
Margin	22.4	21.5	21.4	21.5	23.9	24.4	25.9	28.1
Productivity	30.5	28.8	29.8	29.8	30.3	29.9	29.9	28.5
ROA Financial	2.3	2.3	2.6	2.5	2.3	2.3	2.1	1.8
ROA Total	4.7	4.4	4.6	4.6	4.9	4.8	4.9	5.1
ROA Total after Taxes	3.4	2.9	3.7	3.9	4.3	4.3	4.2	4.5
Average Cost Debt	4.1	4.7	4.9	2.6	2.4	2.8	2.6	2.2
ROE	3.2	1.8	2.8	5.1	6.1	5.6	5.6	6.1

Source: Own elaboration from Tables 1 and 2.

operating assets stays practically stable around 30% over the entire period (keeping in mind that operating assets are valued at their replacement value).

One possible explanation of why the return on financial assets is lower than the return on operational assets is that the interests and dividends received by the Spanish parent company from the subsidiaries only represent part of the profits earned by the corresponding operating assets abroad. The rest of profits may be retained in the subsidiary.

The return on financial assets, financial ROA, is much lower than the ROA from operations and varies from the maximum of 2.6% in 2008 to 1.8% 2013. This figure may only be a lower bound of the return from the financial assets of Spanish NFCs, ignoring changes in market value, because the financial assets held by Spanish parent companies are claims that these companies have on operating assets in foreign firms and subsidiaries. The interests and dividends received from these foreign companies and subsidiaries by the Spanish parent company will only represent part of the profits earned by the corresponding operating assets abroad. The rest of profits may be retained abroad.

The total ROA is the ratio between EBIT and total assets, operational plus financial. Since total assets are practically equally split between operational and financial assets, then the total ROA is the average of the two ROA (Income from property is a low absolute amount). As shown in Table 3, the total ROA is rather stable over time in the range between 4.5% and 5%. If the total ROA is calculated net of corporate taxes then the after tax ROA is particularly low in the year 2007, less than 3%; form Table 1, corporate taxes reached a maximum in the year 2007 and decline over time afterwards.

The last two rows of Table 3 report the average cost of debt, interest expenses/debt with cost, and the ROE, net profit/equity. The average cost of debt increased from 4.1% in 2006 to 4.9% in 2008, and decreased sharply in the years that follow to a minimum of 2.2% in 2013. The relatively high average cost of debt coincides with the years when the ECB tightened monetary policy by increases official interest rates. When the crisis was evident, the ECB changed monetary policy and official interest rates went down to historical minimum values that continue today. The figures on average costs of debt in Table 3 will be affected by interest rates charged between parent and subsidiaries in intra group operations. They are also lower than the interest rates paid by the majority of Spanish small and medium NFCs on new bank loans and debt issues in the years between 2010 and 2013.

Financial leverage and corporate taxes induce high volatility in the evolution of ROE, with a minimum of 1.8% in 2007 to a maximum of 6.1% in 2010 and 2013. The ROE in the years 2006-2008 is lower than the total ROA after taxes, because during these years the total ROA is less than the average cost of debt. From 2009 to 2013 financial leverage is positive and ROE is above total ROA after taxes, with a value around 6% annual return.

Discussion

Net profits of Spanish NFCs reached a minimum of 31.4 billion euros in 2007, when the crisis started, and reached a maximum of 96.4 billion in 2013, coinciding with several quarters of positive GDP growth rates. In terms of generation and use of cash flows, in 2007 the Spanish NFCs had a deficit (difference between generated and use of funds) of 123.6 billion euros, 25% of their GVA; in 2013 the corporate sector contributed to the financing of the rest of the economic sector with 35.8 billion, 7% of their GVA. The gross of this difference comes from a reduction in gross capital formation of 63.0 billion euros and an increase in generated funds, net profit plus amortization,

of 82.0 billion euros. If the assumption that investment is sensible to the evolution of the return on investment is correct, then the lower profits anticipated a fall in investment after 2007, and the increase in profits in recent years anticipates the recovery of corporate investment. Additionally the corporate sector as a whole generates excess cash flows to finance additional capital investment with internally generated funds.

If the assumption that investment is sensible to the evolution of the return on investment is correct, then the lower profits anticipated a fall in investment after 2007, and the increase in profits in recent years anticipates the recovery of corporate investment.

One of the main factors behind the turnaround in corporate profits has been the increase in operational profits i.e. from production and sales activities in Spain and from Spain by NFCs. This increase in operating profits is the consequence of an eight percentage-points loss in the share of labor costs in the Gross Value Added of corporations from 2007 until 2013, and the corresponding increase in the gross profit margin from operations. Price inflation measured by the GDP deflator has been practically zero during the years of the crisis, wages and salaries have experienced zero or moderate increases, and labor productivity has increased steadily. The increase in gross profit margin of operations is then fully explained by a decrease in unit labor costs.

Overall, during the years of the crisis the price inflation of the Spanish economy has been lower than that of the Euro zone and unit labor costs have decreased at a higher pace than in other core euro countries. Thus, the price and unit labor costs indicators of competitiveness have moved in the direction of restoring external competitiveness, at the same time that corporate profits were on an upward trend. The internal devaluation process has delivered the desired results.

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This explanation of the operating profit margin hides, however, an important composition effect. In 2007, the value added and employment in Construction activities represented 15% of value added and employment in the Spanish economy. In 2013, these percentages had been reduced by half. The 1.5 million jobs lost in the Construction sector during this period represented around 15% of the total employment in the corporate sector. In the steady state equilibrium, the gross profit margin of operations will be determined by technological factors (more or less labor intensive production technologies), market power of firms, and bargaining power of employers in the labor market. If the activities discontinued in the construction sector are more labor intensive than the average activities of the rest of the economy, then the important contraction in the construction sector alone would explain part of the increase in corporate profits from pure composition effects.

But the increase in the gross profit margin of operations due to lower unit labor costs is not the only factor behind the increase in net corporate profits. On the one hand, the increase in margin was compensated for by higher amortization and depreciation of operating assets, probably also as a reflection of loss in their economic value during the crisis, so the contribution from the net margin was less than from the gross one. On the other, compared to their values in 2007, the sum of interest expenses and corporate taxes in 2013 had been reduced by 52 billion euros, the

same amount as the reduction in labor costs from 2008 to 2013 (Table 1). When the crisis started, the ECB, and other Central Banks, were in a process of increasing the official interest rates that translated into higher cost of debt for corporations. The highly leveraged Spanish NFCs experienced a substantial increase in interest expenses and a corresponding decrease in net profits. The increase in interest of debt also coincided with record high years of corporate taxes.

One important point that follows from the previous discussion is the difference in the conclusions on the dynamics of profitability of Spanish NFCs from the ROA of operations and from the ROA on total assets, operational and financial together. The National Accounts only report as a contribution to output of the NFCs the interests and dividends received from the financial assets held by the Spanish parent companies on their balance sheets. The value added produced by the subsidiaries and the earnings retained there are not included as part of the value added of corporations to the GDP of the Spanish economy. The final result is that the ROA of total assets underestimates the return on assets deployed in production and sales activities in Spain and from Spain. In other words, in the assessment of the attractiveness of investing to produce in Spain and sell from Spain, the relevant indicator is the ROA of operations, not the ROA on total assets. In 2013, the former is substantially higher than the latter and the 8.2% value for this year and the time trend provide a sound basis for a sustained recovery.

The duality between operational and financial assets of NFCs also has implications for the right assessment of leverage ratios. The standard indicator of debt of NFCs over GDP or GVA of the corporate sector excludes from the denominator value added from operations in the subsidiaries and the profits retained there, while the debt in the numerator contributes to finance assets that contribute to production, value added and profits of the subsidiaries. Debt over total assets is a preferable leverage indicator to debt over GDP, with assets valued at market prices, because debt and assets result from investment and financing decisions taken at the same time. The corporate debt over GDP of Spanish NFCs shows an increasing trend and reaches absolute values above those observed in other countries, highlighting the need for rapid deleveraging. In recent years, the ratio of debt over total assets, Table 2, is above historical values but the increase in the ratio over time is much less pronounced than the increase in the ratio of corporate debt over GVA.

Looking forward, the expectation from an analysis of profitability of Spanish NFCs is that investment in capital formation will increase again. The National Accounts figures give a maximum of gross capital formation of 180.0 billion euros in 2007 and a minimum of 118.0 billion in 2013, barely above the amortization for the year. For the whole economy, corporate and non-corporate sectors, the National Accounts show a positive growth rate in investment in equipment and machinery in the past year and a half. Capital investment data for NFCs does not separate investment in machinery and equipment from the other investments, but it is reasonable that most of this investment has taken place in the corporate sector.

Conclusion

Internal devaluation policies will succeed in their goal of contributing to the economic recovery if the lower labor costs and the higher business profits increase corporate investment and employment. The evolution of corporate profits will then be an important indicator to assess the effectiveness of internal devaluation policies and the prospects for capital investment. The consolidated income statement and balance sheet data on Spanish NFCs in the period 2006-2013 examined in this paper suggest that the internal devaluation policies have succeeded in their goals and the Spanish economy is on the path to a corporate-led recovery. The analysis also confirms the relevance of properly separating the returns from operations

in Spain from the total returns from operations in Spain and abroad, when assessing the prospects of corporate investment in Spain using National Accounts data. The distinction is also relevant for the assessment of the leverage of the corporate sector of the economy using the ratio corporate debt over GDP, or using the ratio debt over total assets. In this respect, the analysis presented suggests that the current ratio of debt over total assets for Spanish NFCs is compatible with using the excess of generated funds to increase investment instead of reducing leverage by canceling outstanding debt.

Corporate profitability is a necessary condition for investment and growth. Profits are a source of finance that, together with debt, provide the needed funds for investment. Credit availability is important to finance profitable investment projects but the reported evidence on excess of generated funds over used funds by Spanish NFCs, in 2013, indicates that the corporate sector has at its disposal internally generated funds to increase corporate investment by over 30.0 billion euros. The estimated ROA of 8% for operating assets in Spain is considered sufficiently high to anticipate profitable investment opportunities in Spain financed with retained earnings and additional debt if necessary. Notice that deleverage of the Spanish corporate sector will continue as long as the leverage ratio of new investment projects is lower than the average leverage ratio of the stock of invested assets.

Fostering lending and promoting asset quality in Spain: The difficult task of reconciling overlapping policy objectives

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

The ECB now faces the challenge of promoting the goals of bank solvency, while reactivating euro area credit flows. For the latter to be successful, Europe will need more risk-sharing mechanisms in the context of continued improvement in economic conditions.

The ECB is effectively assuming its role as single supervisor in November, at a time when its obligations as monetary authority are particularly relevant. This has resulted in the difficult task of simultaneously reconciling two distinct, overlapping policy objectives. On the one hand, the ECB will be promoting bank solvency and will be conducting stress tests and asset quality reviews. On the other hand, it is trying to stimulate lending by, inter alia, setting targeted long-term refinancing operations (TLTRO) and announcing a purchase program for securitized assets. The case of Spain is particularly interesting in this context, as the country has recently implemented a number of measures for bank restructuring and recapitalization, which leave it well prepared to face the European-wide stress tests and could favor the use of the TLTRO mechanism. The estimations on Spanish banks´ use of the TLTROs range from 30 to 50 billion euros. As for the asset purchase program, 13.81% of the outstanding value of one of the most important securities, residential mortgage backed securities (RMBS), were issued by Spanish banks and the potential for liquidity generation is more significant than initially expected. However, the establishment of some risk-sharing controls could help make both programs more effective. At the same time, unemployment remains high and there is uncertainty on the strength of the economic recovery process in the entire euro area. These factors may further affect the quality of loan demand.

Overlapping policy aims

Fall 2014 represents an inflection point for the European banking sector. The information requirements for the ECB's comprehensive assessment of the euro area banks will be completed. A first reference will be the stress tests coordinated by the European Banking Authority. The results will be presented in the second half of October before the full assessment is conducted by the single supervisor in November. At the same time, the European economy still shows signs of

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weakness and inflation remains too low. These circumstances have moved the ECB to act as monetary policy authority combining standard and extraordinary actions aimed both to push prices up and to stimulate bank lending.

Hence there are two faces of the ECB as single supervisor and monetary authority that have caused the overlapping of two relatively difficult to reconcile policy objectives. On the one hand, the ECB will be promoting bank solvency which, in practical terms should accelerate bank deleveraging and, therefore, shrink banks' balance sheets. On the other hand, the most favorable lending conditions created with the recent monetary policy actions –including targeted long-term refinancing operations (TLTRO) specifically designed to foster bank lending to the private sector– will also be taking place. This creates an unprecedented and particularly interesting framework of analysis. Spain is a good laboratory to explore the outcomes for various reasons. First of all, it is a country where unemployment remains high and this creates problems for both loan supply –as lending filters should prevent banks from too risky transactions– and loan demand – as solvent applicants are not abundant. Second, the Spanish economy is currently undergoing a process of economic recovery precisely when most of the other large single currency members are not at their best in terms of GDP growth and are putting the entire euro area at the risk of a triple-dip recession. Third, Spain has recently completed the implementation of a number of bank restructuring and recapitalization measures, and some of them include some long-term actions that will also overlap with the two policy objectives of the ECB. They include, inter alia, the privatization of State-owned banks, and transactions of the asset management company created to deal with troubled bank loans and assets (the so-called Sareb).

This article surveys the aforementioned trends from the Spanish perspective. It first looks at the recent development in the restructuring process of the Spanish banking sector. It follows with an analysis of the latest developments regarding the EBA-ECB stress tests and the situation of the Spanish banking sector in terms of deleveraging, solvency, and profitability. It also analyses the first TLTRO conducted by the ECB in September and tries to assess how this action could affect loan growth at Spanish banks. Finally, it studies the potential impact of the ECB asset purchase program in a country like Spain where some of the targeted securities are particularly relevant.

Recent developments in the restructuring of the Spanish banking sector

The remaining duties of the restructuring process of the Spanish banking sector include the privatization of State-owned banks where the Spanish resolution fund (the FROB) still has a majority stake. This was the case of the sale of Catalonia Banc by the FROB, a decision that was adopted on July 21st, 2014. The Governing Committee of the FROB, after studying the binding bids received in the process to sell Catalonia Banc, decided to award this institution to BBVA. The bid by BBVA was for 1.18 billion euros, for 100% of the capital of Catalonia Banc. The bid envisages the possibility of limiting the transfer to 98.4% of the shares, which are those corresponding to the FROB and to the Deposit Guarantee Fund, with the price being duly adjusted.

The FROB made clear that no special guarantees were provided to BBVA with this sale. In particular, it notes that "the terms of the sale agreement essentially observed the package of basic assurances offered by the FROB in the process, which does not include the granting of an asset protection scheme."

The bid by BBVA exceeded the thresholds set by the FROB for the sale. As a consequence, it was not necessary to go to a second round of offers by interested bidders. The FROB also mentions that the sale was approved following the standard conditions agreed with European authorities. In

particular, the note released mentioned that "the objectives and principles of the restructuring and resolution of credit institutions set by the national and European authorities, and aimed at minimising State aid, have been observed. In turn, the stability of the financial system as a whole is ensured."

As for other relevant developments in this context, the FROB has also confirmed that another round of sales for the partial privatization of another of the State-owned banks, Bankia, will take place in October.

Stress test guidelines and the situation of the Spanish banking sector

A first big challenge for euro area banks this fall will be the stress tests coordinated by the European Banking Authority (EBA) as one of the main ingredients of the asset quality review (AQR) conducted by the European Central Bank (ECB). On August 8th, 2014, the ECB published a manual detailing how it will incorporate findings from its AQR into stress test projections. It also described the stress test quality assurance process, which, according to the ECB "is vital to ensuring that the exercise is robust and credible." Recall that the ECB's comprehensive assessment differs from previous EU-wide stress test exercises in that it comprises a thorough asset quality review and includes a "join-up" of the AQR and stress test outcomes.

The ECB's comprehensive assessment differs from previous EU-wide stress test exercises in that it comprises a thorough asset quality review and includes a "join-up" of the AQR and stress test outcomes.

The quality assurance of the stress test focuses on delivering results that are "accurate, consistent and credible." This involves various relatively complex information management processes. In particular, several quality checks will be performed in cooperation with national authorities. The ECB will compare findings for individual banks with those of their peers and will apply its own top-down stress test model. Banks may be required to provide further evidence as part of a "comply or explain" approach. The manual underlines that the impact of the AQR on the stress test calculations works through multiple channels. For example, findings from the portfolios examined in the AQR will be used to determine the starting point of the stress test and, for the purpose of the exercise, and this may even lead to an adjustment to the year-end 2013 balance sheet. This was one of the main issues that were announced with the publication of the manual.

Additionally, where evidence from the AQR points to a bank having insufficient provisions, this will be reflected in adjustments to the bank's simulated projected losses in 2014, 2015 and 2016 for both the baseline and adverse scenarios. In addition, it will have an impact on the simulated profits and losses under stress test scenarios. It was also confirmed that the final results from the comprehensive assessment will be published in the second half of October.

On August 20th, 2014, the EBA published final templates for the stress test, showing the type and the format of data that will be disclosed on a bank by bank basis. The level of detail in the templates is high so that the EBA pointed out that, "in its role of coordinator of the stress test, it will be publishing up to 12,000 data points per bank across the entire EU, acting as the single hub for all information related to stress test outcomes of EU banks, as determined by competent authorities."

Amongst the information required from banks by the EBA, the templates include the composition of capital, risk weighted assets (RWAs), profit and loss (P&L), exposures to sovereigns, credit risk and securitisation. Importantly, for the first time, the EBA will disclose an illustrative fully loaded

Common Equity Tier 1 (CET1) capital ratio for each bank, which complies with the most recent EU Directives (CRR/CRD4). The time framework covered in the stress test will go from end 2013 to end 2016.

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How are Spanish banks preparing for the stress test and AQR challenge? As noted in previous volumes of the *Spanish Economic and Financial Outlook* (SEFO), the restructuring and recapitalization process has been particularly intense in Spain and has included its own supervision from EU authorities including asset quality reviews and stress test. This has created the expectation that Spanish banks will be ready to face these assessments in particularly good conditions. However, this involves a substantial effort. The final list of "significant credit institutions" that will be subject to the AQR and the stress test was published by the ECB on September 4th and includes 15 Spanish institutions (see Table 1).

A first and obvious way in which Spanish banks are facing the regulatory scrutiny challenge is a combination of asset deleveraging and equity increase. This is illustrated in Exhibit 1. The assets of the Spanish banking sector have recently fallen, and particularly since the implementation of the terms for the Memorandum of Understanding signed with EU authorities and containing the conditions for the financial assistance to the Spanish banking sector. Total assets have fallen from 3.25 trillion euros in 2012 to 2.84 trillion euros in

Table 1

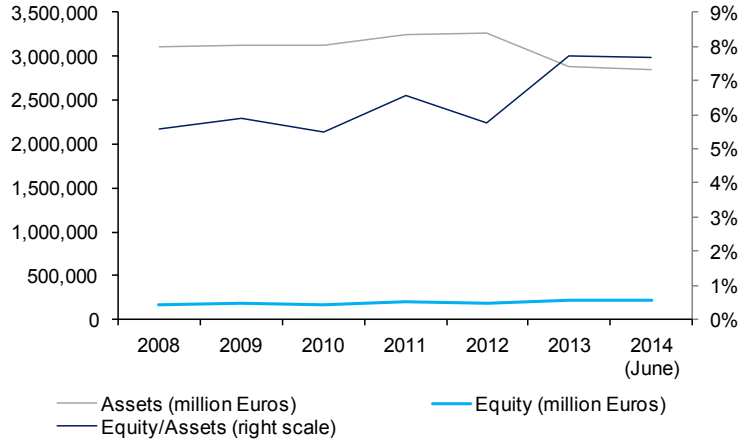
List of Spanish significant credit institutions for the ECB comprehensive assessment (asset category in parentheses)

Banco Bilbao Vizcaya Argentaria, S.A Size (total assets EUR 500-1,000 bn)
Banco de Sabadell, S.A. Size (total assets EUR 150-300 bn)
Banco Financiero y de Ahorros, S.A. Size (total assets EUR 150-300 bn)
Banco Mare Nostrum, S.A. Size (total assets EUR 50-75 bn)
Banco Popular Español, S.A. Size (total assets EUR 100-125 bn)
Banco Santander, S.A. Size (total assets above EUR 1,000 bn)
Bankinter, S.A. Size (total assets EUR 50-75 bn)
Caja de Ahorros y M.P. de Zaragoza, Aragón y Rioja Size (total assets EUR 50 -75 bn)
Caja de Ahorros y Pensiones de Barcelona, S.A. Size (total assets EUR 300-500 bn)
Banco de Crédito Social Cooperativo Size (total assets EUR 30-50 bn)
Catalonia Banc Size (total assets EUR 50-75 bn)
Kutxabank, S.A. Size (total assets EUR 50-75 bn)
Liberbank, S.A. Size (total assets EUR 30-50 bn)
Banesco Holding Hispania Size (total assets EUR 50-75 bn)
Unicaja Banco, S.A. Size (total assets EUR 75-100 bn)

Source: European Central Bank and own elaboration.

Exhibit 1

Assets and equity in the Spanish banking sector



Source: Bank of Spain and own elaboration.

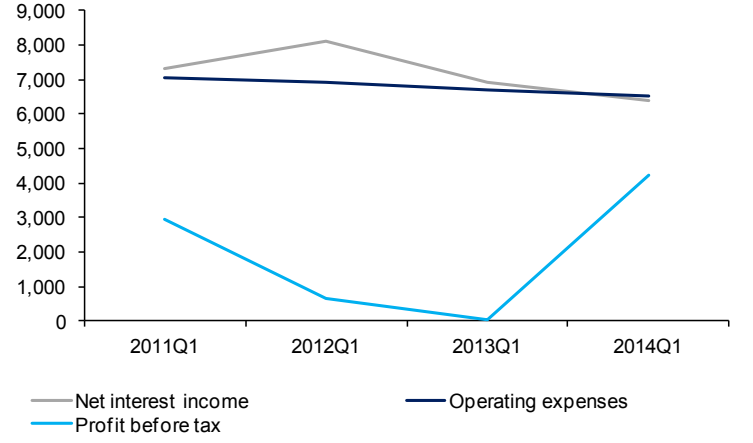
June 2014. This represents a 12.6% fall in two and a half years. However, equity has increased by 17.1% in the same period, from 186.8 billion euros in 2012 to 218.7 billion euros in June 2014.

Taking both trends –deleveraging and equity growth– together, this has resulted in an improvement of the equity/assets ratio from 5.7% in 2012 to 7.7% in 2014.

Pressure is not only being placed on solvency but also on margins. As shown in Exhibit 2, taking 2014Q1 as the most recent reference, the net interest margin has fallen by 21.1% since 2012Q1 (8.1 billion euros) to 2014Q1 (6.4 billion euros). This has led Spanish banks to make an extra effort in terms of efficiency improvements, reducing operating expenses by more than 6% in the same period. Given that most of the asset impairment

Exhibit 2

Bank margins and profits at Spanish banks (million Euros)



Source: Bank of Spain and own elaboration.

and related provisions were already accounted for in 2012 and 2013 –and the relatively improved market conditions in 2014– Spanish banks have been able to increase their profits substantially. Quarterly profit before tax has grown from 0.6 billion euros in 2012Q1 to 4.2 billion euros in 2014Q1.

Given that most of the asset impairment and related provisions were already accounted for in 2012 and 2013 –and the relatively improved market conditions in 2014– Spanish banks have been able to increase their profits substantially. Quarterly profit before tax has grown from 0.6 billion euros in 2012Q1 to 4.2 billion euros in 2014Q1.

All in all, it seems that the Spanish banking sector has already passed the inflection point and it is well prepared to face the challenges ahead. However, as we will show in the next section, this will not imply an immediate and complete recovery of lending growth rates.

The ECB's TLTRO: Is lending back?

In this section, we turn to the second policy objective –the promotion of bank lending as a tool to stimulate economic growth in Europe. A first relevant decision was adopted by the Governing Council of the ECB on June 5th, 2014. In particular, it announced the targeted longer-term refinancing operations (TLTROs). As noted by the ECB, the TLTROs "are designed to enhance the functioning of the monetary policy transmission mechanism by supporting bank lending to the real economy."

The TLTRO works as a sequence of linked programs. Banks will initially be able to borrow an amount equivalent to up to 7% of a specific part of their loans in two operations in September and December 2014. Additional amounts can be borrowed in further TLTROs, depending on the evolution of the banks' eligible lending activities in excess of the so-called "bank-specific benchmarks." In particular, additional borrowing allowance is limited to three times the difference between the net lending since April 30th, 2014, and the benchmark at the time it is claimed.

The benchmarks were set as follows: for banks that exhibited positive eligible net lending in the twelve-month period to April 30th, 2014, the benchmarks are always set at zero. For banks that exhibited negative eligible net lending in the year to April 30th, 2014, different benchmarks apply. First, the average monthly net lending of each bank in the year to April 30th, 2014, is extrapolated for 12 months until April 30th, 2015. Second, for the year from April 30th, 2015, to April 30th, 2016, the benchmark monthly net lending is set at zero.

Banks that borrow in the TLTROs and fail to achieve their benchmarks as at April 30th, 2016, will be required to pay back their borrowings in full in September 2016.

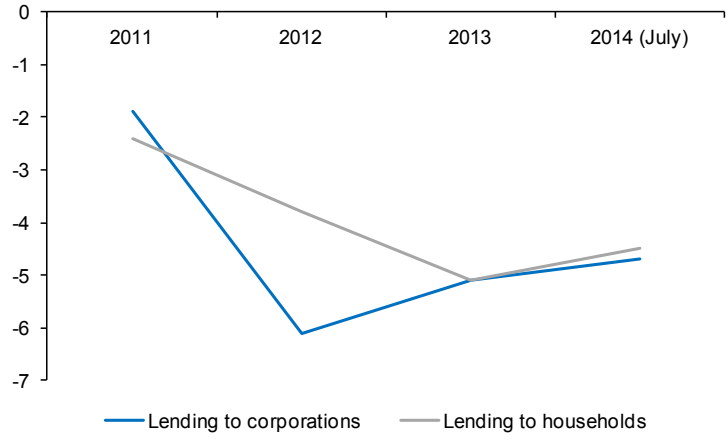
The initial operations were conducted on September 18th. The total allocation in the entire euro area was 82.6 billion euros. Spanish banks tapped 15 billion euros in this first TLTRO. This was 18% of the total allocation. It was less than expected by most analysts, but the demand is also expected to be larger in the coming rounds. The main reason is that the regulatory pressure from the stress tests and AQR may have conditioned the demand in the first round, but both will be completed by the time the second round is undertaken. Another reason is that the details of the ECB´s upcoming asset purchase program are yet to be announced and banks may be waiting to know them before defining their liquidity strategies.

The second TLTRO will take place on December 11th, 2014. The additional TLTROs will be carried out in March, June, September and December 2015 and in March and June 2016.

The TLTRO should help Spanish banks to change from negative lending rates to positive ones and to

Exhibit 3

Financing to the private sector in Spain. Annual growth rates



Source: Bank of Spain and own elaboration.

consolidate the recovery of the financing of the real economy by 2015. As for the projected outcomes, a positive feature is the particularly convenient way in which banks can access the targeted ECB liquidity. On the negative side, risks are still high and solvent demand is still scarce, in particular in a country like Spain with high and persistent unemployment levels. Up to now, the only relative progress made in financing to the private sector in the country has been to progressively achieve less negative annual growth rates (see Exhibit 3) although loan growth was still in negative territory by July 2014, the latest figures available.

Monetary policy decisions and the asset purchase program: Opportunities for Spanish banks

Further relevant decisions were adopted by the ECB on September 4th, 2014, with potential significant consequences for bank lending. The Governing Council decided to lower the interest rate on the main refinancing operations of the Eurosystem by 10 basis points to 0.05% and the rate on the marginal lending facility by 10 basis points to 0.30%. The rate on the deposit facility was lowered by 10 basis points to -0.20%. These are relevant measures since they make access to liquidity even cheaper and since the even more negative rate applied to the deposit facility may contribute to re-establish interbank markets.

In addition, the Governing Council decided to start purchasing non-financial private sector assets. In particular, the ECB note mentions the "purchase of a broad portfolio of simple and transparent asset-backed securities (ABSs) with underlying assets consisting of claims against the euro area non-financial private sector under an ABS purchase programme (ABSPP). This reflects the role of the ABS market in facilitating new credit flows to the economy and follows the intensification of preparatory work on this matter, as decided by the Governing Council in June. In parallel, the Eurosystem will also purchase a broad portfolio of euro-denominated covered bonds issued by MFIs domiciled in the euro area under a new covered bond purchase programme (CBPP3)."

The asset purchase program will start in October 2014 and the main details are still to be revealed. On the positive side, expectations for the program have improved since the inclusion of residential mortgage-backed securities (RMBS) will make this program potentially larger. As shown in Table 2, Spain concentrates 13.81% of the

Table 2
Securitization in European markets
Outstanding values (billion Euro) as of 2014Q1

	ABS	CDO	CMBS	RMBS	SME
France	19.5	0.0	2.0	9.7	1.7
Germany	36.3	1.8	9.5	14.8	3.0
Italy	47.7	1.7	10.1	81.5	27.7
Netherlands	2.6	0.7	2.5	248.4	7.6
Spain	24.1	0.5	0.3	115.3	29.0
United Kingdom	34.1	12.5	57.6	231.9	5.9
European total	190.4	126.4	95.9	834.5	108.2

Source: The Association for Financial Markets in Europe (AFME) and own elaboration.

outstanding amounts issued in the European RMBS market although this does not mean that all the issuances are allocated among Spanish counterparts. In any event, the size of the RMBS market is large enough as to make the effect of the program significant. On the negative side, however, what the program lacks –and the ECB itself acknowledges it– is a risk-sharing option that distributes the risk of acquiring the securities between the ECB and the national governments.

On the positive side, expectations for the asset purchase program have improved, since the inclusion of residential mortgage-backed securities (RMBS) will potentially make this program larger and the effect more significant. On the negative side, the program lacks a risk-sharing option that distributes the risk of acquiring the securities between the ECB and the national governments.

Overall assessment

Overall, it seems that all the policy objectives that the ECB is trying to achieve at the same time are compatible but it is uncertain that the transmission mechanism could effectively stimulate lending as much as it has been estimated. The main limitation is demand. In order to solve such a limitation, it would be necessary to set a risk-sharing mechanism between the ECB, the banks and the fiscal authorities in each euro area country.

In any event, a significant effect can also be expected from these monetary policy actions. Different private estimations point at Spanish banks borrowing between 30 and 50 billion euros with the TLTROs. If a high percentage of this borrowing is effectively transmitted to the real economy, the effect should be significant over the next two years but it is still too early to estimate such a long-term effect. As for the asset purchase program, it is still early to say to what extent the mechanism will have a significant impact as the technical details (which were not yet available at the time this article was written) will be very relevant.

Securitisation: The key to credit reactivation

Oscar Ibáñez-Velasco[1]

Despite the fact that Europe's banks now have greater liquidity, the reactivation of credit to the economy remains slow in Spain and in the rest of Europe. Both the ECB and the Bank of England agree that in order to get credit flowing again, it is vital to revive the European securitisation market.

Issuance of securitized bonds in Spain, as in the rest of Europe, essentially came to a halt with the outbreak of the financial crisis. The reduction in Spain in the outstanding bond balance has become palpable, having dropped from almost 300 billion euros in 2008 to 170 billion euros in June 2014. Nevertheless, funds continued to be set up with a view of amassing collateral for ECB credit operations. Today, despite European banks´ increased liquidity, private sector lending remains low. After searching for the right mechanism for alleviating the lingering credit crunch in Europe, the main European central banks seem to agree that securitization, once viewed as part of the problem, may now be part of the solution. This is evidenced by the recent announcement of new ECB measures, such as the ABS buyback programme. Despite the latest shift in policy stance, there are existing obstacles to the successful reactivation of European securitization markets, which need to be overcome with the help of regulatory support from European authorities.

Introduction

After a seven-year drought in the securitisation market, stigmatised by the US subprime crisis and hindered, in part, by the introduction of regulatory measures, global authorities are now focused on its revival. Securitisations have gone from being viewed as part of the problem to being part of a potential solution – now seen as an important channel for getting banks to start lending again to the private sector. This shift in policy stance has been shaped by recognition that securitisations, in and of themselves, are not harmful for the economy. While it is true that widespread and unchecked use of this instrument, using opaque structures, can be potentially harmful to the economy, controlled and transparent reliance on this instrument, using simple structures and high-quality underlying assets, can generate substantial benefits for the economy overall. In particular: (i) securitisations can help stabilise prices by injecting liquidity into credit and from there into consumption; (ii) they act as a financial stabiliser by sharing a known risk among various financial players, thereby reducing correlation with the financial health of the agents exposed to these risks in times of crisis; and, (iii) they help reduce borrowing costs and channel bank liquidity into the private sector. In Spain, reactivation of the securitisation market is increasingly seen as

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

an imperative to ending the recession. However, it appears unlikely that the climate will become favourable so as to make securitisations an efficient financing instrument and/or risk mitigation tool for banks in the absence of unambiguous support from the European authorities. This article examines the state of the securitisation market in Spain today, its performance in the past and the outlook in Spain and Europe.

The idiosyncrasies of Spain´s securitisation market

The idiosyncrasy of the Spanish economy means that the local securitisation market has been traditionally highly dependent on trends in the real estate market. In fact, securitisations were first created in Spain in 1992 with a view to facilitating access to the housing market. Securitisation of mortgage loans brought down the cost of mortgages taken on by Spanish households to finance their home purchases. Subsequent legislation made room for the securitization of other classes of underlying assets, which had the effect of expanding the spectrum of issuers beyond banks to other entities in possession of cash-flow producing financial assets.

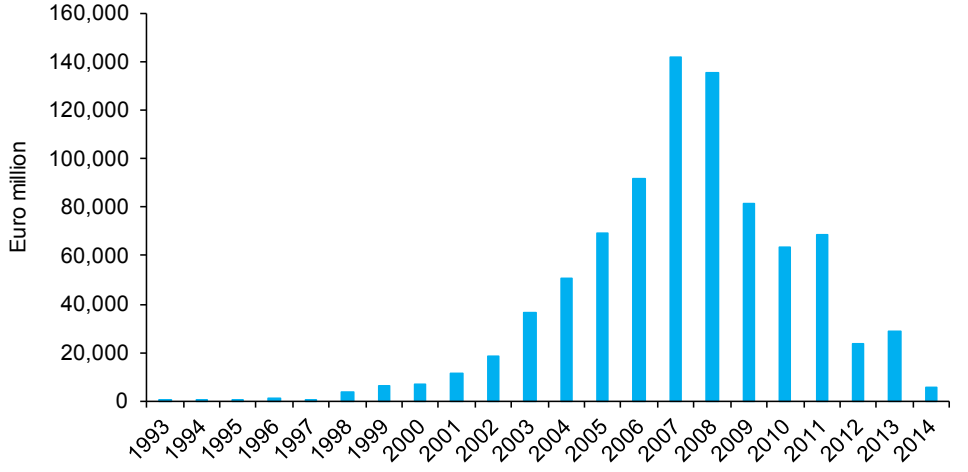
However, it was not until the creation of the euro, and the arrival of potential investors from Europe (funds, banks, insurers, etc.) that Spanish banks began to actively securitise their assets, triggering a boom in issuance in the early years of the 21st century.

The take-off of the Spanish securitisation market was, accordingly, closely linked to the real estate market and clearly dominated by the banks.

The take-off of the Spanish securitisation market was, accordingly, closely linked to the real estate market and clearly dominated by the banks.[2] Residential mortgage backed securities (RMBSs) constituted the bulk of the bonds issued and placed in Spain. This situation has not changed dramatically; the role of non-bank issuers has been

Exhibit 1

Trend in securitised bond issuance in Spain

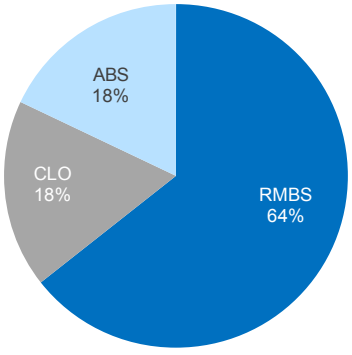


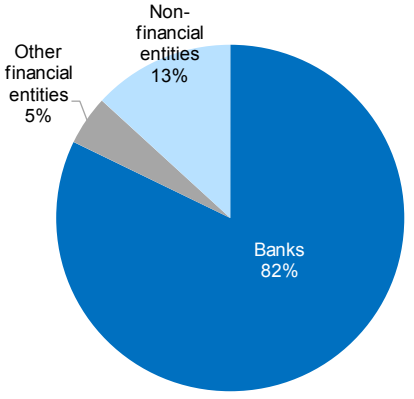
Sources: CNMV, AFI.

[2] Banks, savings banks (the so-called cajas) and credit cooperatives.

Exhibits 2 & 3

Outstanding securitised bonds in Spain, broken down by asset and issuer classes (as of June 2014)





Sources: CNMV, AFI.

marginal, the banks' grip on the product being nuanced only by the securitisation of the Spanish electricity tariff deficit (accounting for issuance of almost 25 billion euros) and the occasional public sector issuance for example by the Official Credit Institute (ICO in its Spanish initials).

As a result, it is meaningless to analyse the state of the securitisation market in Spain and its development without analysing the state and performance of the Spanish banks and how the crisis has affected these entities and their assets.

Securitisation in Spain during the crisis

In Spain, as was the case in the rest of Europe, the eruption of the financial crisis had the effect of closing down the primary securitised bond market, with the exception of the occasional private placement and the placement of the bonds securitising Spain's electricity tariff deficit (by FADE, the acronym in Spanish for the electricity deficit amortisation fund). The last public placement of Spanish securitised bonds took place in July 2007. Since then, neither the various attempts at issuing public security guarantee programmes (FTPYME, FTGENCAT and FTVPO, for funds issuing securities backed by SME loans and protected housing mortgages, among others) nor the efforts made by the successive securitisation panels set up have found the magic formula for reactivating the securitisation market. Nonetheless, new securitisation funds continued to be created, particularly in the years following the start of the crisis (in 2008 funds created surpassed the 60 billion euro mark) with the sole aim of amassing collateral for Eurosystem credit operations and other facilities designed

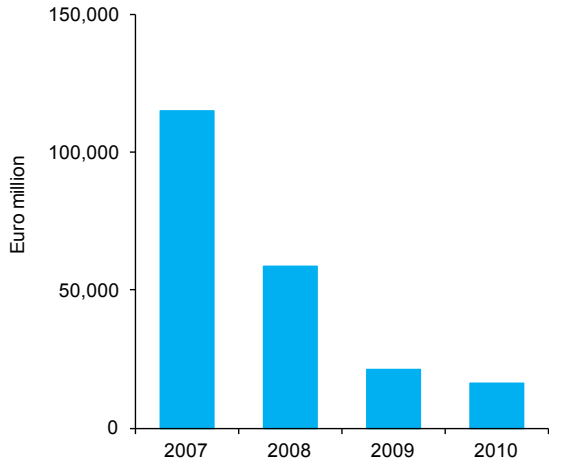
In Spain, as was the case in the rest of Europe, the eruption of the financial crisis had the effect of closing down the primary securitised bond market. Despite this, the balance of outstanding bonds available to the Spanish banks remained constant in the early years of the crisis due to the 'pass-through' structure of the bonds, giving them a stable source of collateral for discounting vis-à-vis the ECB.

to inject liquidity into the banks. In Spain, the FAAF (acronym in Spanish for the financial asset acquisition fund created in 2008) bought a total of 19.34 billion euros of top-rated mortgage-backed and other securitised bonds in a series of auctions held between the end of 2008 and beginning of 2009.

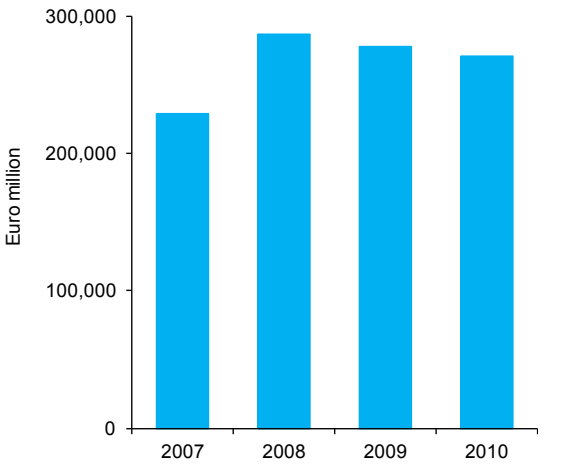
The downward trend in issuance, however, became more and more pronounced year after year, with the balance placed (and retained) in 2010 barely surpassing 16 billion euros (not including securitisation of multiseller covered bonds). Despite this, the balance of outstanding bonds available to the Spanish banks remained constant in the

Exhibits 4 & 5

Securitisation issuance and outstanding amount during the early years of the crisis



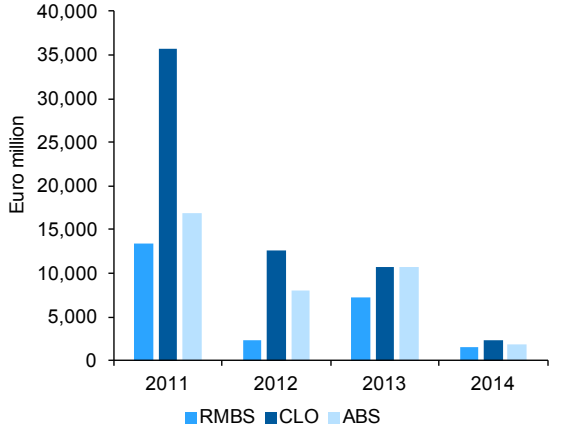
Sources: CNMV, AFI.



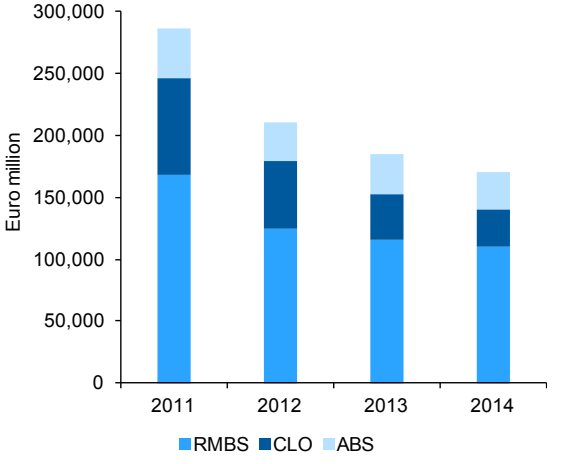
Sources: CNMV, AFI.

Exhibits 6 & 7

Securitisation issuance and outstanding amount from 2011



Sources: CNMV, AFI.



Sources: CNMV, AFI.

early years of the crisis due to the 'pass-through' structure of the bonds, giving them a stable source of collateral for discounting vis-à-vis the ECB.

This situation continued throughout the following years. The effective lack of a primary market, coupled with the ECB's stringent requirements for discounting securitised products (senior tranche discounting, higher and higher ratings thresholds and the application of steep valuation haircuts), as well as the rating agencies' stricter hurdles (lower allowed senior tranche percentage, higher reserve fund requirement and steep ratings requirement for acting as swap counterparty or accounts provider), drove the costs of originating securitisation funds higher, making them unprofitable for banks. The reduction in the outstanding bond balance has become palpable, having dropped from almost 300 billion euros in 2008 to 170 billion euros in June 2014 (including the bonds issued by the FADE).

Securitisation in other jurisdictions

Spain is not the only country to have seen its securitisation market freeze. The market also ground to a halt in the rest of the world even though each market's idiosyncrasies have translated into different uses of securitisations and varying types of collateral in each jurisdiction.

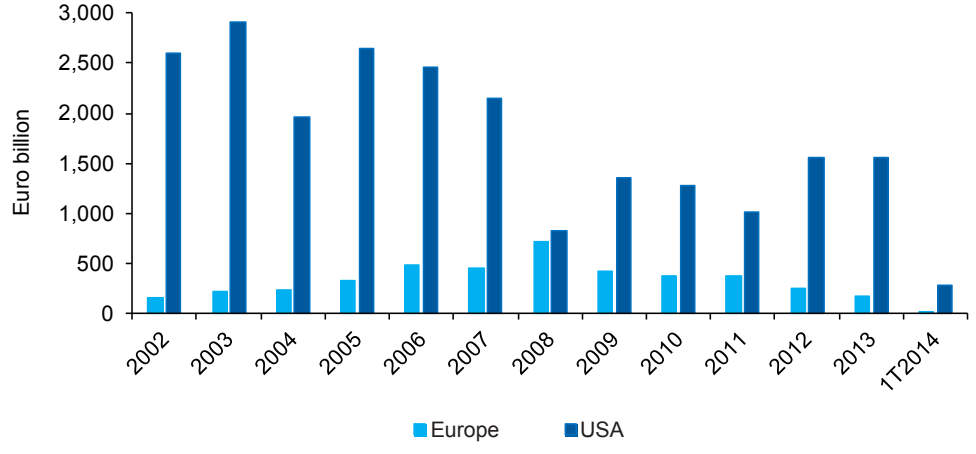
In the US, for example, the 'home' of securitisations, the market reeled from the stigma effect of the subprime crisis in 2007 and 2008. However, the market's recovery, while not total, has been significant in comparison with Europe.

In Europe, although the common denominator is the lack of an efficient primary market in securitisations since the start of the crisis, each country has performed differently depending on home market idiosyncrasies.

- The French securitisation market was traditionally dominated by the issuance of RMBSs and consumer ABSs. However, the crisis has changed the shape of the market. The volume of issuance of mortgage-backed securities has declined as mortgage loans were earmarked for covered bond issuance purposes, a trend echoed in other European markets.
- In Germany, the subprime crisis put an end to new RMBS issues. As was the case in France,

Exhibit 8

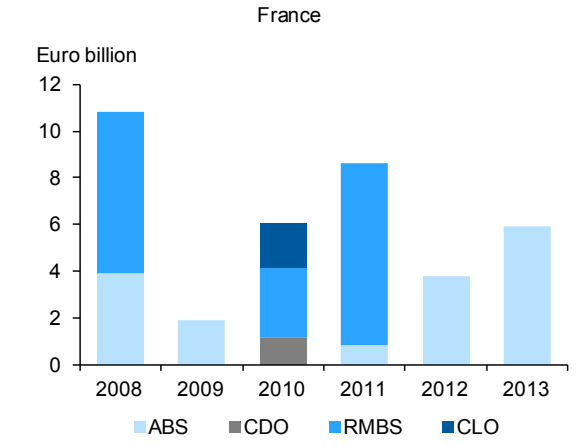
Securitisation issuance in the US *vs.* Europe



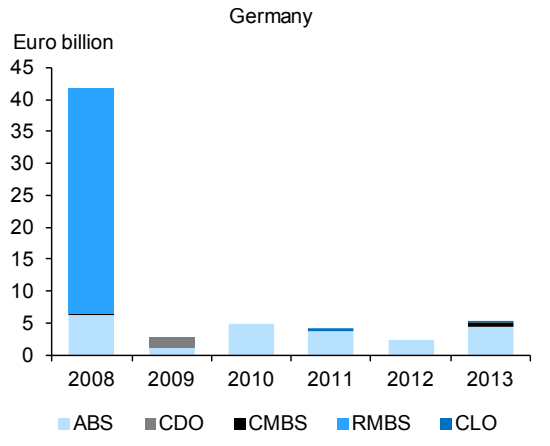
Sources: CNMV, AFI.

Exhibit 9

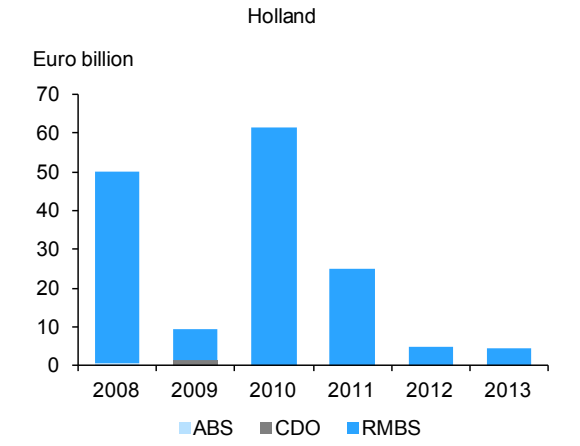
Securitisation issuance in Europe by country



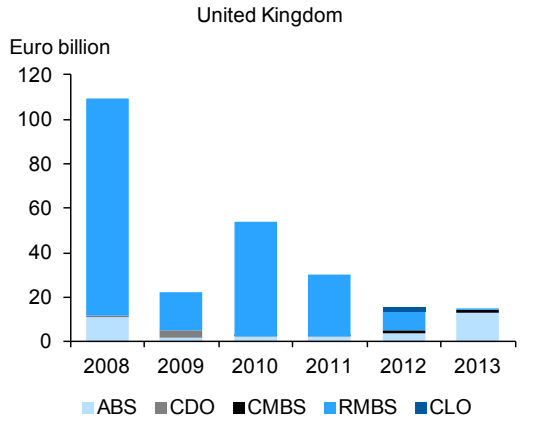
Source: AFME, AFI.



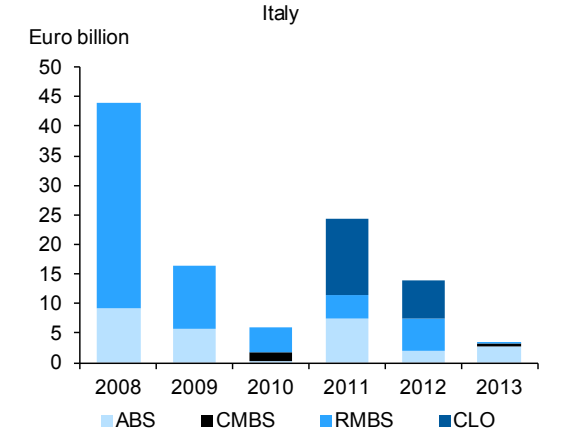
Source: AFME, AFI.



Source: AFME, AFI.



Source: AFME, AFI.



Source: AFME, AFI.

there was a sharp shift out of mortgage-backed bond issuance into other lower-risk and lower-cost collateralised products.

- In the Netherlands and the UK, countries with a strong tradition in RMBS issuance, the crisis had a significant impact in 2009. However, these markets managed to stage a partial recovery in 2010 thanks to the securitisation of high-quality loan portfolios. Nevertheless, the market remains far from its peak and the risks lingering in the European housing market may undermine the tentative recovery.

- The patterns in Italy and Portugal are similar to those seen in Spain. These markets were also highly dependent on the real estate sector and dominated by RMBS issuance. The advent of the crisis paralysed the placement of securitised bonds but not the creation of funds, which continued to be set up with a view to retaining collateral for ECB discounting purposes. However, there is one clear difference between the three and that is the incidence of the corporate debt securitisation segment. Italy, like France, has a strong tradition of asset-backed commercial paper (ABCP) conduit programmes, whereas these structures are virtually non-existent in Spain.

Reactivation of credit and the future for securitisation

After months of looking for a mechanism for restarting credit flows in Europe, there seems to be widespread consensus that the very instruments that played a part in creating and spreading the crisis, securitisations, may well be part of the solution. In the wake of the recent announcement by the ECB of an ABS buyback programme, securitisation has regained the attention of the entire financial community and is being increasingly viewed as the most efficient way to get credit flowing once again. The Bank of England, no less, has joined the ECB in emphasising the importance of securitisations in remedying the credit crunch lingering in Europe.

And what is the key to reactivating the securitisation market? The idiosyncratic nature of the various member state securitisation markets in Europe makes it hard to find universal, one-size-fits-all measures for stimulating the market. The downward trend in spreads on securitised bonds in recent months is unquestionably a clear sign of initial market recovery. However, much lost ground still has to be recovered. Originators are not ready to issue securitised bonds to the market for two main reasons: (i) the spread demanded by investors, which is still high compared to the returns generated by the collateralised assets and/or what the banks are willing to pay; and, (ii) the reduced supply of collateral due to the deleveraging phenomenon (particularly among Spanish banks), with issuers still preferring to use their assets as collateral for less expensive and more easy to place products such as covered bonds. Herein lies the securitisation conundrum: in order to securitise, the banks need collateral. However, the banks are not willing to grant more loans without an efficient risk transfer and funding mechanism such as securitisation.

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Reactivation of the European securitisation market

The market needs a trigger to jump start the securitisation circuit in Europe in general and in Spain in particular, with the overriding goal of reactivating credit. This trigger could be the ECB's ABS buyback programme. However, it seems improbable that this programme will achieve its stated aims if it is not bolstered by the buyback of mezzanine tranches in order to facilitate risk transfer and give the banks some capital relief.

Meanwhile, various market players are calling for further measures to unlock potential benefits in the European securitisation market:

- A more flexible regulatory framework, very harsh on securitisations to date. In this respect, the ultimate inclusion of securitisations as a high quality liquid asset for the banks' LCR calculation purposes could prove a step in the right direction, albeit not decisive. Recall that in the US, securitisations will not qualify as high quality assets.

- Inter-country standardisation (to the extent possible) of the information to be provided to investors or of prospectus templates would bring new investors into the market; as would definition of a 'qualifying securitisation' as a form of quality certification for investors.

- More favourable treatment by the credit rating agencies by reducing credit enhancement requirements for high quality securitisation funds or eliminating the rating cap derived from the sovereign rating of the country originating the collateralised assets.

Measures such as these are needed to reactivate the securitisation market in Europe with a view to ultimately getting credit flowing back into the real economy.

Distortions in rate curves: The Spanish Treasury curve, a case in point

David Cano and Miguel Arregui[1]

Monetary authorities´ reactions in response to the Great Recession have altered the path of financial variables, including exchange rates and, most particularly, interest rates. The resulting financing environment should ultimately improve the debt sustainability outlook for Spain.

Unconventional monetary policy measures pursued by central banks in response to the failure of the monetary transmission mechanism have distorted financial variables. The most notable effect has been on long-term interest rates, which have been driven down below levels justified by economic fundamentals and into negative territory. At present, the ECB´s extraordinary lax monetary conditions, coupled with a more positive outlook for the Eurozone and subsequently debt/GDP stabilisation, have reduced financing costs for public debt, despite record high levels. Moreover, given that price and volatility are traditionally negatively correlated in the sovereign debt market, the sharp reduction in price volatility, coupled with the extensive liquidity facilities guaranteed by the ECB, is now fuelling the purchase of peripheral sovereign bonds, driving yields south, especially now that GDP has ceased contracting. All of this should contribute to stabilisation of the ratio of debt-to-GDP in these countries, Spain included.

Introduction

In recent decades, the main tool available to central banks has been the interest rates charged to banks for the provision of very short-term funding. In the structural liquidity deficit environment triggered by the reserve requirement, the monetary base barely moved, which meant that in practice, this mechanism did not perform its role as a monetary policy tool. The banking system took care of transmitting monetary policy by increasing the monetary supply and altering its cost by means of the money multiplier and the interbank interest rate. However, the solvency problems engulfing the credit system –across the US, Eurozone and UK– since the end of 2008, and the limited scope for further benchmark rate cuts, have prompted the central banks to take direct aim at the monetary base in an attempt to sway longer term interest rates.

10-year rates, below nominal growth. The US and German cases

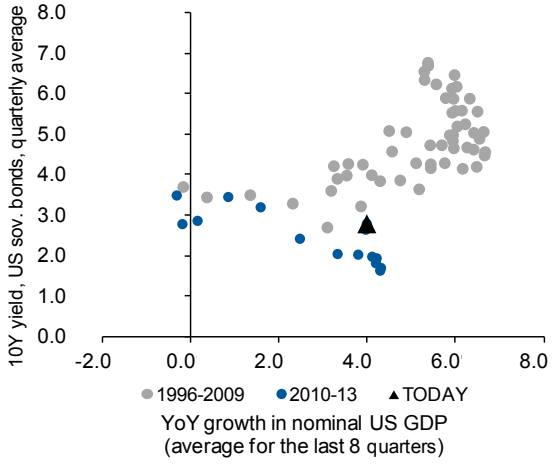
There is abundant literature underpinning the thesis that long-terms rate should match nominal

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

GDP growth, i.e., the rate of real growth plus the rate of inflation. This figure then has to be grossed up, as warranted, by risk premiums, such as the liquidity risk premium and, above all, the credit risk premium. Since the outstanding balance of sovereign issues in developed countries is very high, the liquidity risk premium can be disregarded in determining 10-year sovereign rates. And, to an extent, at least for treasuries with high credit standing, the credit risk premium can be similarly omitted. Accordingly, the long-term sovereign interest rate should coincide with nominal GDP growth. This has been largely the case until the start of the Great Recession, as depicted in Exhibits 1 and 2 below (for the US and Germany, respectively).

Exhibit 1

Growth in nominal GDP and 10-year rates in the US

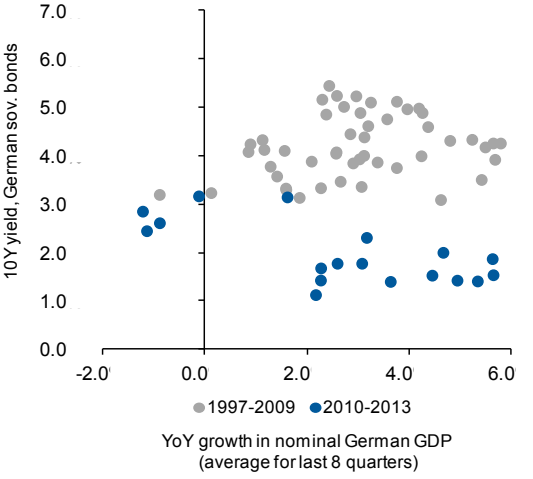


Sources: Bloomberg and AFI.

However, since 2008, central bank reliance on non-conventional monetary policy, the main tool being the direct buyback of debt (in the form of successive quantitative easing programmes by the Federal Reserve in the US) or the injection of liquidity into the banks, mainly for the purpose of facilitating their purchase of sovereign bonds (the ECB's 3-year LTRO facilities), has clearly distorted this relationship. This distortion is evident in the two Exhibits: the readings corresponding to recent years are far removed from the regression line and well below theoretical yield levels for a given nominal GDP figure.

Exhibit 2

Growth in nominal GDP and 10-year rates in Germany



Sources: Bloomberg and AFI.

Central bank intervention is shaping the long end of the interest rate curve, thereby expanding the monetary authorities' scope of intervention, which until 2008 had been substantially limited to the short end of the curve. In short, the drop in the money multiplier, and the associated interference with monetary policy transmission, is obliging the monetary authorities to act on other financial variables (and not just rate curves, as their interventions are affecting stock market prices) and this has emerged as the crux of the current debate about the role of the central banks.

Negative interest rates: An anathema?

Not only has central bank intervention driven nominal long-term rates below the levels justified by economic fundamentals, it has resulted in extraordinary circumstances, such as negative

interest rates. This anomaly is forcing economists to revisit certain economic theories and conventions which held that rates could not go below 0.0%. While it was perhaps possible in the summer of 2012, i.e. at the height of the Eurozone sovereign debt crisis with the economic bloc's survival in doubt, to justify negative rates on German paper as a result of its undeniable role as safe haven, the fact that a good number of sovereign issuers are looking at below-zero rates today is more surprising. Moreover, another unique factor has come into play: the rate on the ECB's marginal deposit facility is also in negative territory.

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Since June 6th, the ECB has been remunerating the overnight deposits it accepts from banks at -0.10%, unquestionably distorting overnight rates. As illustrated in Exhibit 3, the EONIA rate is trading at around 0.0%, i.e., not at negative levels, in contrast to a fair number of euro area sovereign issues (e.g. German bonds out to the 3-year maturity). The reason for these negative interest rates, in addition to the abundance of liquidity injected by the ECB, lies with the outlook for low inflation in the short term. The negative rates are no longer really shaped by the risk of the break-up of the EMU or economic uncertainty, as equities have been notably bullish in recent months. Regardless of the causes, the convention that interest rates were subject to an unbreakable floor of 0.0% needs to be rethought.

Table 1

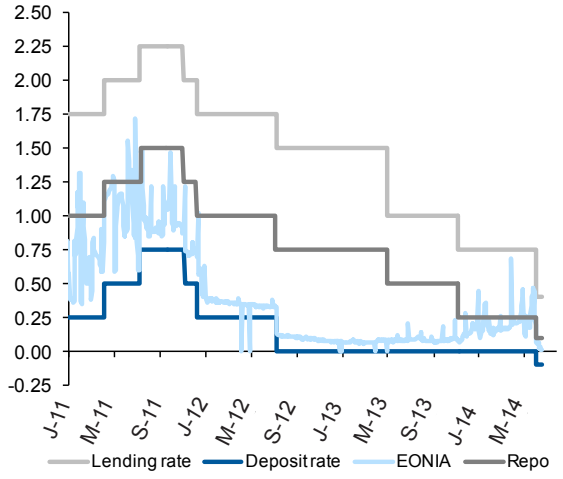
Sovereign interest rates (data as of August 28th, 2014) (percentage)

	1Y	2Y	3Y	4Y
Germany	-0.04	-0.04	-0.03	0.04
Ireland	-0.12	-0.02	0.24	0.43
Austria	-0.02	-0.01	0.05	0.14
Belgium	-0.01	0.00	0.05	0.15
Netherlands	-0.03	-0.01	0.01	0.07
Finland	-0.13	-0.03	0.02	0.08
Denmark	-0.13	-0.01	0.00	0.00
France	-0.01	0.01	0.06	0.19
Spain	0.09	0.11	0.35	0.59
Italy	-0.02	0.44	0.00	1.03
Portugal	0.05	0.61	0.93	1.29

Source: Bloomberg.

Exhibit 3

Benchmark ECB rates *vs.* EONIA (percentage)



Source: ECB.

When interest rates and sovereign debt balances head in opposite directions: The case of Spain

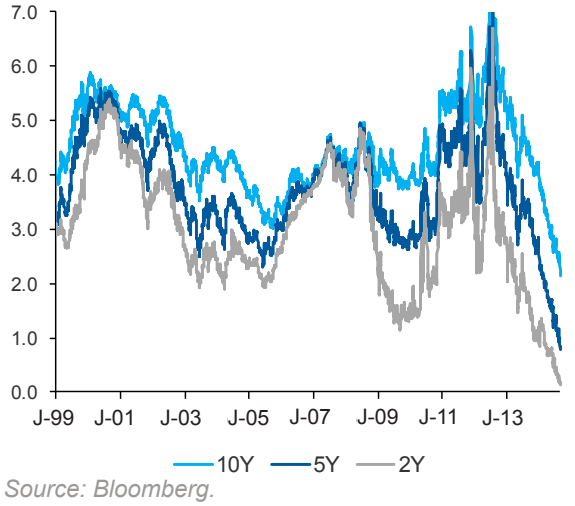
As is well known, Spain, along with the rest of the EMU periphery, saw its cost of borrowing rise sharply from early 2010 (Exhibit 4).

Until that juncture, sovereign debt had reliably provided safe haven during the periods of

Exhibit 4

Trend in Spanish sovereign yields (several maturities)

(percentage)



Source: Bloomberg.

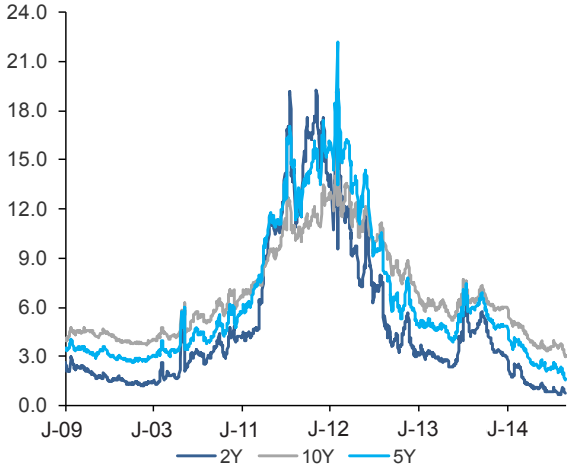
financial market turbulence sparked by the Great Recession. However, Greece's admission that its public debt was higher than previously reported unleashed a wake of investor jitters with respect to all the more vulnerable economies. The subsequent bailouts of Ireland and Portugal had the effect of sending peripheral sovereign rates spiralling higher, even as yields in core issuer nations tightened (Exhibit 5).

This rate upswing was exacerbated by the disclosure of solvency issues at Bankia (May 2012) as well as murmurings by certain national authorities about their possible exit from the euro area. All this until the ECB chairman, Mario Draghi, made his now famous speech on July 23rd, 2012, ("whatever it takes") and the subsequent announcement, in September, of the OMT programme.[2] Indications signalling the possible end of the recession, the first signs of GDP growth and a slew of ratings upgrades have since driven a reduction in peripheral sovereign rates that can only be described as extraordinary, just as the upward spiral had been similarly unprecedented.

Exhibit 5

Trend in Portuguese sovereign yields (several maturities)

(percentage)

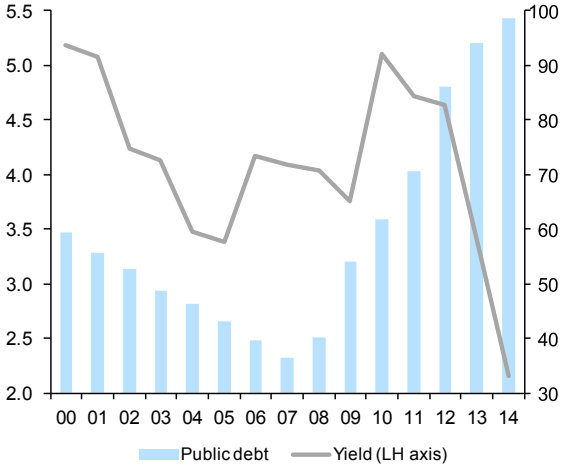


Source: Bloomberg.

Exhibit 6

Trend in Spanish sovereign interest rates (yield, %) and Spanish sovereign debt levels

(debt/GDP, percentage)



Sources: Spanish Treasury, Bank of Spain and AFI.

[2] A monetary policy tool as yet unused.

Indications signalling the possible end of the recession, the first signs of GDP growth and a slew of ratings upgrades have since driven a reduction in peripheral sovereign rates that can only be described as extraordinary, just as the upward spiral had been similarly unprecedented.

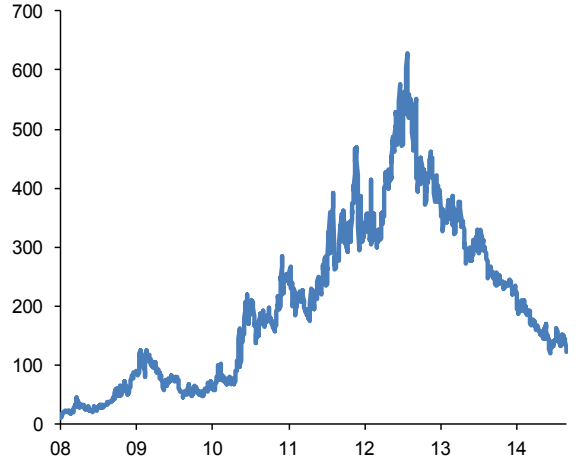
And here we stumble upon fresh evidence challenging another of the precepts of basic financial theory: the relationship between outstanding debt and its interest rate. Exhibit 6 illustrates the trend in both variables in the case of the Spanish Treasury, evidencing the fact that the positive correlation has decoupled since 2012. Unquestionably, the extraordinarily lax monetary conditions imposed by the ECB, coupled with the growth in the monetary base, explain the fact that the cost of financing has fallen back to historical lows despite record levels of public debt. Dissipation of the fear of a euro area break-up and, more recently, the outlook for renewed economic growth and, therefore the prospect of stabilisation in the ratio of debt/GDP (all of which are reflected in the spread between the Spanish and German 10Y bond yields, Exhibit 7), are the main factors explaining the breakdown of the traditionally positive correlation between outstanding debt and borrowing costs.

Relationship between curve movements and volatility: Impact on public debt portfolio management

There is evidence of negative correlation between the trend in financial asset prices and their volatility. To measure this correlation, we resort to the unbiased estimator, i.e., the sample quasi standard deviation of daily returns. In the absence of consensus regarding the size of the moving average sample window, the most common approach is to take a 6 month window, which is what is used to prepare Exhibit 8, which depicts the Eurostoxx 50 and its volatility. The symmetry is obvious: index gains are accompanied by reductions in volatility and vice versa.

Exhibit 7

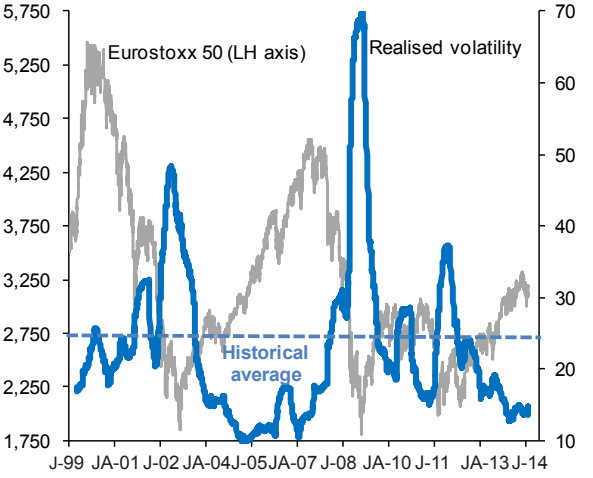
Trend in the 10Y Spanish risk premium
(basis points)



Source: Bloomberg.

Exhibit 8

Trend in the Eurostoxx (level) and volatility
(6m sample window, percentage)



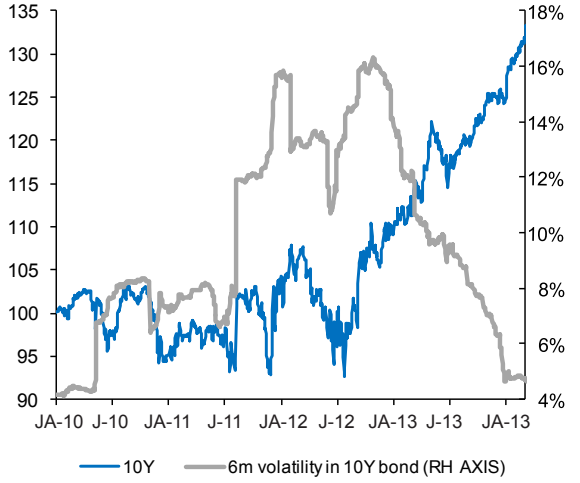
Sources: Bloomberg and AFI.

Accordingly, during periods of price corrections, there tends to be greater volatility, which may condition the actions of portfolio managers restricted by certain market risk parameters. It is increasingly common to encounter portfolio VaR (value-at-risk) limitations, an indicator which is closely linked to market risk, as is well known. Imagine a portfolio manager operating with a portfolio VaR limit of 5.0%. If volatility increases during episodes of price correction, he or she will be obliged to modify the composition of the portfolio, unwinding positions in more volatile assets in order to replace them with less volatile (more liquid) assets.

There are additional risk control techniques which factor in not only portfolio volatility as a whole but also that of the underlying assets so that a spike in the volatility of a specific asset above the stipulated threshold will force the portfolio manager to unwind the position. This risk control methodology is not exclusive to equities; it is also used in managing public debt portfolios, albeit obviously using lower volatility thresholds.

Exhibit 9

Trend in the Afi 10Y Spanish sovereign bond index (total return) versus its volatility
(6m sample window)



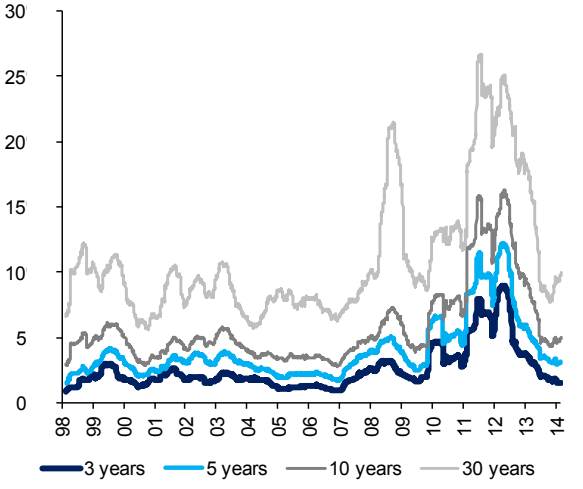
Sources: www.afi.es and AFI.

Exhibit 9 shows the trend in the Afi 10Y Spanish sovereign bond index versus its volatility. Once again in this instance, we note that price corrections (increases in yields), as we saw at the end of 2011 and 2012, drove spikes in the VaR of portfolios invested in Spanish public debt to levels that were significantly above long-run averages and certainly above the levels permitted to many fixed income portfolio managers.

Exhibit 10 illustrates the trend in the volatility of Afi's various Spanish sovereign debt indices, revealing that risk intensified sharply over all maturities. Table 2 compares the historical average volatility of the various sections of the sovereign rate curve with the highs of 2012 and the averages for other financial asset classes. Note that volatility doubled, unquestionably prompting a large number of players to automatically unwind their sovereign debt positions, irrespective of their opinions as to the likelihood of a default by the Spanish Treasury. The 10-year bond experienced volatility akin to that of equities. These forces

Exhibit 10

Trend in the volatility (6m sample window) of Afi's Spanish sovereign debt indices at various maturities
(total return)



Sources: www.afi.es and AFI.

combined to generate price corrections which, in turn, drove volatility higher, creating a vicious circle which hindered the public deficit reduction process, which in practice derived from restrictive monetary policy for a country in the throes of recession.

Volatility doubled, unquestionably prompting a large number of players to automatically unwind their sovereign debt positions, irrespective of their opinions as to the likelihood of a default by the Spanish Treasury.

Table 2

Volatility of the Afi Spanish sovereign debt indices and the Afi investment fund indices (6m sample window). Historical average, average between June and September 2012 and record high (*)

Category	Historical	Jun-Oct. 12	High
1d repos	0.1%	0.0%	0.0%
Bills	1.3%	2.5%	3.3%
3Y bonds	3.1%	7.7%	8.9%
5Y bonds	4.6%	10.6%	12.2%
10Y bonds	6.5%	14.2%	16.3%
30Y bonds	12.1%	22.7%	26.7%

Category	Historical	High
High yield	4.2%	11.4%
Convertible fixed income	5.0%	10.7%
Emerging market fixed income	7.8%	14.5%
USD/EUR	9.7%	19.8%
Commodities	12.3%	23.1%
Euro equities	15.8%	35.6%

Note: (*) In the case of Afi's sovereign debt indices, these highs were reached in the summer of 2012, compared to the end of 2008, in the wake of the Lehman Brothers bankruptcy, as in the case of Afi's investment fund indices.

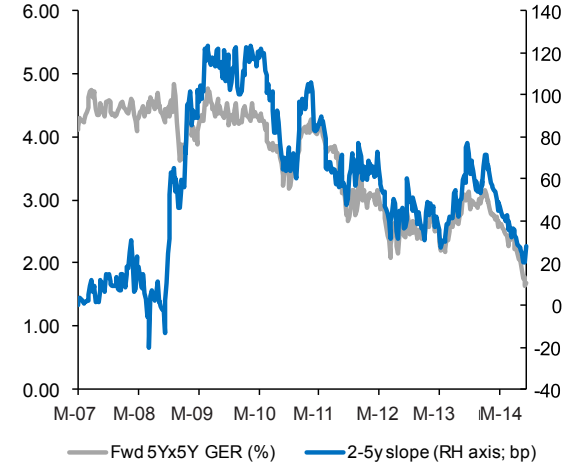
Sources: www.afi.es and AFI.

Curve slopes

The unconventional monetary policy pursued by the central banks has had the effect of depressing rates at the long end of the sovereign rate curves. Forecasts for low growth and inflation, coupled with an abundance of liquidity, are the prime causes. Exhibit 11 illustrates the market's outlook, using the German rate curve, for low 5-year rates five years out as a result of the delicate health of the euro area economy as a whole.

Exhibit 11

5 year, 5-year forward rate (5-year rates discounted by the market for 5 years' time) and 2-5 year slope (German curve)



Sources: Bloomberg and AFI.

These two factors - low expectations coupled with short-term rates of zero - have shifted investors further out along the yield curve in search of higher returns. The upshot: significant curve flattening for both core and non-core sovereign issuers.

This trend could well continue, especially if prevailing macro and financial constraints persist. The phenomenon could even become more pronounced if the ECB announces any additional monetary stimulus measures (quantitative easing

Exhibit 12

2Y-10Y slopes across euro area countries (basis points)

Sources: Reuters and AFI.

in the form of public bond buybacks), particularly in peripheral countries. In fact, the 2Y-10Y slopes for Spanish and Italian sovereign paper are currently around 50 basis points above their long-run average, whereas core sovereign issuers' slopes are broadly in line with historical levels.

Conclusions

Interest rate curve yields have settled at all-time lows. The intense bout of benchmark rate cutting by the central banks accounts for the drop, especially at the short end of the curve, in sovereign yields. However, at the long end, the downward trend in yields is also being shaped by sharp growth in the monetary base. Yields have dipped below the levels dictated by economic fundamentals, i.e., nominal GDP growth or the outlook for the trend in benchmark rates. The existence of negative rates provides further evidence of the extraordinary times being lived by the fixed-income market, a market which has also sustained sharp increases in volatility, particularly along the euro area's periphery. This phenomenon coincided in time with the surge in sovereign yields (summer 2012), proving that in this market, as in the equities market, prices and volatility are negatively correlated. The increasingly frequent risk control mechanisms used in portfolio management may have exacerbated the sell-off by institutional investors of the sovereign debt of countries such as Spain when volatility peaked well above long-run averages. Working the other way, the sharp reduction in price volatility, coupled with the extensive liquidity facilities guaranteed by the ECB (most recently the TLTRO facilities), is now fuelling the purchase of peripheral sovereign bonds, driving yields south, especially now that GDP has ceased contracting. All of this should contribute to stabilisation of the ratio of debt-to-GDP in these countries, Spain included.

Recent key developments in the area of Spanish financial regulation

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

Law on regulation, supervision and solvency of credit institutions (Law 10/2014, published in the BOE on June 27th, 2014)

The purpose of Law 10/2014 is to adapt Spanish national legislation to incorporate legislative changes at the international and EU level, in particular following the publication of Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV), thus continuing the process begun by Royal Decree-Law 14/2013. It also significantly recasts the main regulatory and disciplinary provisions to which credit institutions are subject. The Law came into force the day after its publication, with the exception of certain provisions due to be phased in later.

The **Law on regulation, supervision and solvency of credit institutions** regulates general requirements for access to the activity of credit institutions, the rules on the functioning of their governing bodies, and the supervisory and disciplinary instruments that the competent authority have available to enforce the regulations. Capital and solvency requirements, and risk management obligations, are established in CRR.

As the Law **recasts existing legislation** on banking regulation and discipline, among other things, it covers the following: general provisions of the legal framework, the rules for authorisation of credit institutions, rules on qualifying holdings and suitability standards.

The main changes brought about by the Law are in the areas of:

- **Governance.** The Law builds on the work on the subject of remuneration begun by Royal Decree-Law 14/2013. Specific topics it deals with include:

  - **Incompatibilities.** It transposes CRD IV's rules on incompatible activities, under which directors of credit institutions may not hold more than one of the following combinations of directorships at the same time:(i) one executive directorship and two non-executive directorships; (ii) four non-executive directorships. However, the Bank of Spain may authorise the holding of one additional non-executive directorship. Institutions will have until October 31st, 2014, to comply with these rules. Also, the **chairman of the management body** will be incompatible with that of **chief executive**, unless expressly authorised by the Bank of Spain.

  - **Governance arrangements.** Credit institutions' management bodies shall define governance arrangements that ensure effective and prudent management of the institution, with an appropriate distribution of functions in the organisation and measures to prevent conflicts of interest. The management body will oversee and be accountable for its implementation. The functions of the management body that may **not be delegated**

are also defined. Credit institutions are to disseminate information about their corporate governance and remuneration policy on their **websites.**

- **Committee structure.** Credit institutions are to establish a nomination **committee** and a **remuneration committee**, both made up of members of the management body who do not perform any executive function in the institution. At least one-third of these members and the Chair must be independent directors. The Bank of Spain will also decide which institutions, on the basis of their size and internal organisation, and the nature, the scope and complexity of their activities, need to establish a risk committee. Those institutions which, in the opinion of the Bank of Spain, do not have to establish a **risk committee**, are to set up **mixed audit committees** to assume its functions.

■ **Solvency of credit institutions.**

- **Scope.** The solvency regulations will apply to:

  ✓ Credit institutions.

  ✓ Consolidable groups and subgroups of credit institutions, including financial institutions, together with any asset management companies that they include.

  ✓ Financial holding companies and mixed holding companies.

- **Capital adequacy assessment.** Institutions are to determine whether the capital adequacy requirements laid down in CRR are sufficient, or if they need additional capital.

- **Liquidity.** To set liquidity requirement levels appropriately, the Bank of Spain will assess the business model, corporate governance procedures, systems and mechanisms, the supervision and evaluation findings, and all systemic risks. This power is a tailored complement to each institution's liquidity requirements under CRR applicable as of 2016.

- **Capital buffers.** CRD IV's treatment of the four Common Equity Tier 1 (CET 1) capital buffers additional to those required to meet the capital requirements established in the CRR has been left unchanged. Two of the buffers are non-discretionary, namely those for capital conservation and global systemically important institutions (G-SIIs). Moreover:

  ✓ In the case of the countercyclical capital buffer, the calculation procedure, the process of setting the percentages buffer on exposures by the Bank of Spain and their periodicity, the mechanism of recognition by the competent authority of a European Union Member State or third country, and the communication process, will be defined by regulations.

  ✓ The **Bank of Spain will identify credit institutions** authorised in Spain that are G-SIIs on a consolidated basis and other systemically important institutions (O-SIIs) on an individual, subconsolidated or consolidated basis.

  ✓ The Bank of Spain may introduce a **systemic risk buffer** in order to prevent or avoid long term non-cyclical systemic or macroprudential risks not covered by CRR.

  ✓ Failure to meet with the buffer requirement will entail **restrictions** on **distributions** and the obligation to prepare a **capital conservation plan**.

The period over which the various buffers are to be phased in is the same as in CRD IV, with national options to bring them forward not having been applied (they will therefore not be applied until January 1st, 2016).

■ **Supervision**. The Bank of Spain has been given the necessary powers to supervise credit

institutions, the scope of its supervisory actions has been delimited and it has been granted the authority to take measures to guarantee compliance with the solvency regulations. A **system for cooperation** between supervisory authorities has also been established, in particular this covers cooperation with the European Banking Authority (EBA), and as of the entry into force of the Single Supervisory Mechanism in the European Union, with the European Central Bank.

- **Prudential supervision.** The Bank of Spain has been given powers to intervene in the entity's business in the event of breach of the regulations on solvency or on the suitability of the organisational structure or internal risk control. The measures it is authorised to take include introducing stricter capital or provisions requirements, or restricting the distribution of dividends. If the situation is exceptionally serious, the Bank of Spain may even take control of the institution and replace its governing bodies.

- **Stress tests.** The Bank of Spain will subject the credit institutions it supervises to stress tests at least annually.

■ **Reporting and disclosure requirements**. By transposition of CRD IV, it will be mandatory for all credit institutions to prepare country-by-country reporting for submission to the Bank of Spain and publication.

■ **Penalty system**. In order to harmonise Spanish law with CRD IV, penalties for very serious, serious, and slight infringements have been raised.

■ **Other points:**

- **Rules for eligibility of preference shares as own funds**. Preference shares will be eligible as Additional Tier 1 capital for the purposes of CRR, provided the conditions laid down therein are met. The tax treatment remains unchanged.

- **Liability of the members of a savings bank´s oversight committee.** The members of a savings bank´s oversight committee who are responsible for infringements of the types listed in the eleventh additional provision of Law 10/2014 will be subject to administrative liability.

- **Fee for conducting the comprehensive assessment.** A fee has been created that credit institutions subject to the comprehensive assessment provided under the Regulation of the Single Supervisory Mechanism will be charged to cover the cost of the Bank of Spain's carrying out the associated tasks.

  ✓ The **basis of assessment** for this fee will comprise the consolidated total assets which belonged to taxable entities declared to the Bank of Spain as of December 31st, 2013.

  ✓ The fee will be applied to this tax base at a rate of **0.01048 per 1,000.**

  ✓ The fee will accrue on a one-off basis on **December 31st, 2014.**

- The rules applicable to **institutional protection schemes**, and the **transitional legal provisions** for the phasing in of certain rules, such as those for capital buffers, are also covered.

■ **Legislative amendments.** The main changes are:

- **Securities Market Law.** Law 24/1998 has been amended in order to transpose the rules envisaged in CRD IV that are also applicable to investment firms. These amendments include an update to the regulations on central counterparties. Improvements have also been made to the penalty system applicable in the case of breach of European regulations on short selling.

- **Savings Banks and Banking Foundations Law.** The following aspects of Law 26/2013 have been amended:

  ✓ The regulations for the **"protectorate"** control system for banking foundations have been defined based on the banking foundation's share of ownership of the credit institution and the territorial distribution of the deposits of those credit institutions in which it is a shareholder. Thus, the protectorate of banking foundations will be under the control of the **Ministry of Economic Affairs and Competitiveness** in the case of foundations whose main activity extends beyond a single Autonomous Region, provided the individual foundation has a direct or indirect share of at least 10% of the credit institution or institutions' capital or voting rights, or while having a smaller percentage, the banking foundation is the main shareholder.

  ✓ The Law now stipulates that individuals who are **simultaneously** members both of the management body of a savings bank and of the management body of the banking institution through which the latter exercises its activity as a credit institution **may continue to hold both posts** simultaneously **until no later than June 30th, 2016.**

■ **Derogation of existing legislation.** The following legal instruments and provisions have been derogated:

- The **Banking Law** of December 31st, 1946.
- **Law 31/1968** of July 27th, 1968, on incompatibilities and restrictions for the chairmen, directors and senior executives of private banks.
- **Law 13/1985** of May 25th, 1985, on investment ratios, own funds and reporting requirements for financial intermediaries.
- **Legislative Royal Decree 1298/1986** of June 28th, 1986, on adaptation of current legislation on credit entities to the European Community law.
- **Law 26/1988** of July 29th, 1988 on the discipline and intervention of credit institutions.
- Article 29(2) **of Law 2/2011** of March 4th, 2011, on sustainable economy.
- Subsection (g) of the Thirteenth final provision **of Law 14/2013** of September 27th, 2013, on support to and internationalisation of business.

Royal Decree-Law promulgating urgent measures for growth, competitiveness and efficiency (Royal Decree-Law 8/2014, published in the BOE on July 5th, 2014)

This Royal-Decree Law (RDL) introduces in Spanish legislation various urgent measures necessary for the execution of the Plan of measures for growth, competitiveness and efficiency, enacted by the Council of Ministers on June 6th, 2014. The Circular will come into general effect on July 5th, 2014.

The content of Titles I and V, which include the provisions on financial and fiscal topics, respectively, are summarised below:

Title I: Measures to stimulate economic activity

■ **Chapter I:** Financing economic activity

This covers various financial measures, in particular:

- **FONPYME:** Law 66/1997 of December 30th, 1997, on fiscal, administrative and social measures has been amended to adapt the Fund for foreign investment operations by small

and medium-sized enterprises (FONPYME). The aim of this measure is to extend to SMEs this type of instrument, which is already available to larger firms since the creation of the Foreign Investments Fund (FIEX) in 2013 under the Law to support entrepreneurs and their internationalisation.

- **Instituto de Crédito Oficial (ICO):** a programme of ICO guarantees has been launched to encourage support from multilateral agencies and international financial institutions for the internationalisation of Spanish firms. The programme has a budget of up to 1.2 billion euros and will be in force for one year as of the entry into force of the RDL.

- **Supplier Payment Fund:** as an exception for 2014 the possibility that local government bodies arrange new debt to cancel some or all of their outstanding debt with the Supplier Payment Fund has been created, provided certain requirements are met.

■ **Chapter II:** Retail trade and market unity

- **Areas with a large influx of tourists:** Law 1/2004 of December 21st, 2004, on opening hours has been amended as regards the requirements and procedure for determining areas with a large influx of tourists.

- **Retail establishments:** Law 7/1996 of January 15th,1996, regulating retail trade has been amended in order to simplify the rules on opening, relocating or expanding retail establishments.

■ **Chapter III:** Limits on interchange fees charged on card transactions

- **Purpose and scope:**

  ✓ Upper limits have been set on the interchange fees that may be charged on debit and credit card payments at retail outlets in Spain, regardless of the distribution channel used.

  ✓ The measure does not cover transactions using company cards and cash withdrawals from cash dispensers (ATMs). These limits will also not apply to three party arrangements, except in cases where the parties grant licences to other payment services providers to issue or acquire payment cards.

- The **limits** established are as follows:

  ✓ **Debit card transactions:** the interchange fees per transaction may not exceed 0.2% of the transaction value, up to a maximum of 7 cents of a euro. If the transaction value is not more than 20 euros, the maximum charge may not exceed 0.1% of the value of the transaction.

  ✓ **Credit card transactions:** the interchange fees per transaction may not exceed 0.3% of the transaction value. If the transaction value is not more than 20 euros, the maximum charge may not exceed 0.2% of the value of the transaction.

- For the purpose of calculating these limits, any net commission, remuneration or compensation received by the card issuing payment services provider in respect of payment operations or ancillary activities will be considered part of the interchange fee.

- The beneficiaries of payment transactions in which the interchange fees have been limited **may not demand any additional fees or sums from the payee for the use of the credit or debit card**.

- A system has been established whereby payment services providers are to **inform the Bank of Spain** of the discount rate and interchange fees received from card transactions. The Bank of Spain has been given responsibility for establishing the form, content, and periodicity of the report. This information will be made available on the Bank of Spain's website.

- The application of this chapter will be **monitored** by the Ministry of Economic Affairs and Competitiveness through its Electronic Card Payments Observatory.

- **Penalty system:** non-compliance, except in isolated cases, with these provisions will be considered a very serious infringement.

- The date of **entry into force** of this measure is September 1st, 2014.

Title V: Tax measures

This incorporates urgent measures to stimulate economic activity, aimed at alleviating the effects of the crisis, bringing forward some of the announced tax reform measures.

Bank of Spain Circular to credit institutions and certified appraisal services companies, establishing measures to foster the independence of appraisal activities (Circular 3/2014, published in the BOE on July 31st, 2014)

This Circular aims to overcome some of the obstacles to the appropriate appraisal of real estate posted as collateral for loans and mortgages granted by credit institutions. This goal is pursued by the incorporation of new rules in Circular 7/2010 and the amendment of Circular 4/2004.

A key feature is the addition of a new rule in Circular 7/2010 on the minimum content of the mandatory internal rules of conduct for credit institutions' own internal appraisal departments and other appraisal companies, as this regulation is intended as the core of efforts to promote the independence of the appraisal business.

The opportunity has also been taken to make certain technical improvements, again within the asset appraisal field, to the statements envisaged in Circular 3/1998, setting out the information certified appraisal companies and departments are required to provide to the Bank of Spain.

Additionally, further content is added to Circular 4/2004 in order to unify the references to the mandatory content of the annual activity report, and to complete the implementation of the recommendations of the European Systemic Risk Board on September 21st, 2011, on the granting of loans in foreign currency.

Circular 6/2010 has also been amended to refer appropriately to the rules on the calculation of APR.

Finally, Circular 2/2014 has been amended in order to harmonise the treatment of intangible asset deductions during the transitional period under CRR.

Spanish economic forecasts panel: September 2014[1]

FUNCAS Economic Trends and Statistics Department

The growth estimate for 2014 has been raised a tenth of a percent to 1.3%

GDP grew by 0.6% in the second quarter, beating the previous Forecast Panel consensus forecast estimate. As in the first quarter, this rise came entirely from domestic demand –specifically, private consumption, and investments, both in capital goods and in non-residential construction– while the external sector's contribution was again negative. This imbalanced composition is the most striking, as well as unexpected, feature of the current recovery.

The consensus forecast for GDP growth in 2014 has been raised one tenth of a percentage point to 1.3%, although what is most important is the change in the expected composition of this growth. In line with the pattern seen since the first quarter, the forecast for the contribution of national demand has been raised to 1.3 percentage points (compared with 0.8 pp in the previous Panel) and that of the external sector has been reduced to 0 pp (from 0.4).

The forecast for 2015 has been raised a tenth of a percent to 2.0%

The consensus GDP-growth forecast for 2015 has been raised one tenth of a percent to 2%. In this case too there has been a significant change in the composition of growth: the expected contribution from domestic demand has been revised upwards to 1.8 pp (four tenths higher than in the previous forecasts) and that of the external sector downwards to 0.2 pp (three tenths lower).

Additionally, growth rates of 0.4% are expected from the third quarter of the year through to the first quarter of the next, and from 0.5%-0.6% in the subsequent quarters (Table 2).

Industrial activity is growing moderately

The industrial production index continued to grow in the second quarter, although in the case of manufacturing, the rate was slower than in the previous period. In July, both total and manufacturing activity registered a drop from the average in the second quarter. In the cumulative period from January to July, growth was 1.8% in comparison with the same period the previous year, a rate that, although modest, represents the best progress since 2006.

The consensus forecast for this indicator's growth in 2014 and 2015 has been revised downwards to 2.1% and 2.6%, respectively.

Expected inflation has been revised downwards again

The inflation rate has stayed low or even negative. In recent months the price of foodstuffs has

[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.

dropped in particular, although this has just been the correction of the rises in the first half of last year; electricity prices have also come down. The forecast for the annual average has again been cut, this time to 0.1% for this year and 0.8% for the next.

The year-on-year rate at the end of the year (Table 3) is estimated at 0.2% for December 2014 (four tenths lower than in the previous Panel) and 1.0% for December 2015 (down one tenth).

The employment forecast has improved

In the second quarter, the number of full-time equivalent jobs grew by 0.6% in comparison with the previous quarter, and the number of people in employment according to the Labour Force Survey, rose by 0.8%. Employment continued to rise in the third quarter according to the figures for social security registrations in July-August, although the rate slowed somewhat.

The consensus forecasts for the progress of employment in 2014 and 2015 have been revised upwards to 0.7% and 1.5%, respectively. At the same time, the forecasts for the unemployment rate have been revised downwards to 24.6% and 23.2%.

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 0.5% in both 2014 and 2015, while ULCs, are expected to drop by 0.6% this year and 0.1% next year.

The external surplus forecast has been downgraded sharply

As a reflection of the negative contribution of the external sector to growth, the current account of the balance of payments continued worsening in the second quarter. Thus, in the second half of the year as a whole, the current account deficit (not seasonally adjusted) rose to 1.9% of the period's GDP, compared with a deficit of 0.2% in the first half of 2013.

Consistent with this, and the new composition of expected growth, the forecast for the current account balance has been revised down sharply for this year and next, to 0.5% and 0.7% of GDP, seven and eight tenths of a percent lower than in the previous consensus.

The public deficit will exceed the government's forecast

In the period to May, the combined deficit of the central government, the autonomous regions, and the social security fund was 2.3% of GDP, compared with 2.7% 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 autonomous regions as a whole worsened.

The consensus forecast for 2014 has improved by one tenth of a percentage point since the previous Panel, to 5.6% of GDP. The consensus forecast for 2015 is now 4.7% of GDP. In both cases the deficit overshoots the government's targets (5.5% and 4.2% in 2014 and 2015, respectively).

The external context is expected to improve

U.S. GDP posted very solid growth in the second quarter of 2014, and the available indicators suggest this trend will continue into the third quarter. By contrast, the economy of the euro area as a whole remained stagnant, with zero or negative growth in the main countries. The emerging economies, for their part, have also posted disappointing results.

The panellists' opinion on the current state of play in the EU and elsewhere is that it is neutral,

although the number of panellists considering it to be unfavourable has grown. Moreover, whereas in previous Panels most respondents expected the situation to improve, opinions are now divided between those expecting an improvement and those expecting things to remain unchanged.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) have accentuated their downward trend since Draghi's statements in late August, anticipating the further measures the ECB subsequently took in the first week of September. As in previous Forecast Panels, rates are still regarded as being too low, but are expected to remain stable over the coming months.

In the case of long-term rates (10 years), the downward trend in yields on Spanish debt also became more pronounced following Draghi's comments, dipping below 2% at times. As a result of their continuing decline, against the backdrop of improved economic conditions, long-term rates are considered to be too low. Rates are expected to remain stable over the coming months, however.

The euro is still overvalued

The euro-dollar exchange rate moved downwards sharply following the ECB meeting on September 4th, dropping to an annual low of 1.30. Almost all the participants in the Forecast Panel take the view that the euro is still overvalued, and the majority considering that it will continue to depreciate over the coming months has increased.

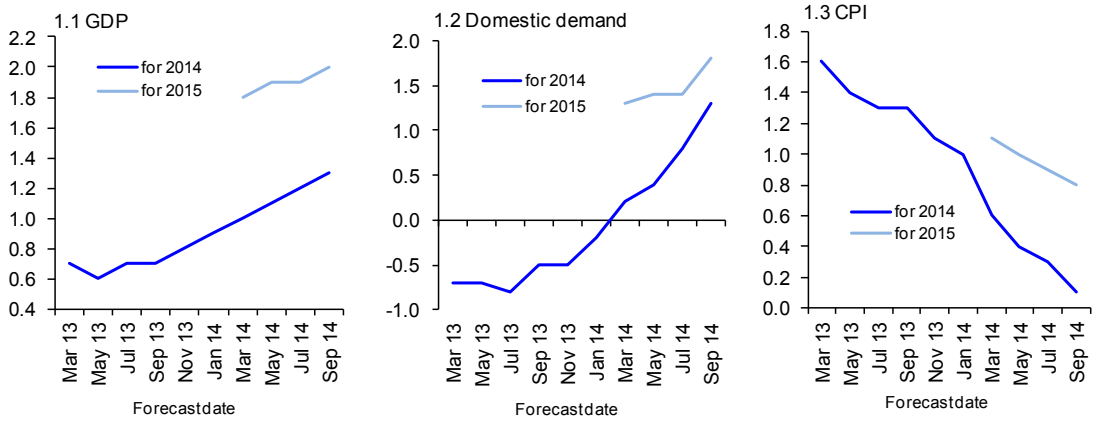
Fiscal policy should be neutral

On the subject of fiscal policy, the majority view still considers it to be restrictive, but for the first time since April 2010, this is no longer felt to be the appropriate stance; the majority of panellists now consider that it should be neutral. Almost all the panellists classified current monetary policy as expansionary, and the unanimous view was that it should stay so.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – September 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)	1.3	1.9	2.1	1.5	0.6	0.6	0.6	3.0	8.5	6.0	-4.0	1.2	1.4	1.5
Banco Bilbao Vizcaya Argentaria (BBVA)	1.3	2.3	1.9	2.0	0.1	0.6	1.2	4.7	8.5	7.3	-4.3	2.8	1.4	2.2
Bankia	1.3	2.0	2.0	2.1	0.1	0.6	0.7	3.1	8.7	7.5	-4.2	0.4	1.3	2.0
CatalunyaCaixa	1.2	1.9	2.0	1.6	1.4	0.4	0.4	2.6	8.6	6.0	-4.7	-0.6	1.5	1.5
Cemex	1.3	2.0	1.9	2.0	0.5	1.1	1.1	4.0	9.1	6.6	-4.0	1.0	1.4	2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.4	2.2	1.8	2.1	-0.8	0.2	0.9	3.7	6.6	6.4	-3.2	1.5	1.0	1.9
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	1.9	2.0	1.8	0.7	1.2	0.7	2.9	9.2	7.1	-4.4	0.0	1.5	1.8
ESADE	1.1	--	1.4	--	-1.7	--	1.0	--	7.5	--	3.5	--	0.5	--
Fundación Cajas de Ahorros (FUNCAS)	1.3	2.2	2.1	2.6	0.2	-0.7	0.8	3.0	8.6	7.3	-4.0	-0.1	1.5	2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.3	2.2	1.8	2.0	0.1	0.4	1.0	3.9	8.2	7.3	-4.0	1.7	1.3	2.0
Instituto de Estudios Económicos (IEE)	1.4	1.9	1.6	1.9	-1.2	-0.5	0.9	3.4	7.7	7.5	-4.3	0.6	0.9	1.7
Instituto Flores de Lemus (IFL-UC3M)	1.1	1.9	2.2	2.9	-0.4	-2.0	0.2	2.0	8.2	6.6	-4.8	-0.9	1.2	1.7
Intermoney	1.2	2.2	2.0	1.9	-0.9	-1.1	0.4	3.1	8.2	6.5	-4.2	1.3	1.4	2.1
La Caixa	1.2	1.7	2.1	1.6	-0.1	-1.8	0.7	4.3	8.8	7.7	-4.0	2.4	1.3	1.3
Repsol	1.4	2.0	2.0	1.5	1.5	0.1	1.0	2.8	9.4	8.2	-3.9	0.0	1.6	1.4
Santander	1.3	2.1	2.1	2.0	1.5	0.4	0.9	4.3	9.7	11.0	-4.1	1.1	1.8	2.1
Solchaga Recio & asociados	1.3	2.1	1.9	1.9	-0.5	0.0	0.8	3.9	7.3	6.7	-3.1	2.0	1.2	1.9
CONSENSUS (AVERAGE)	1.3	2.0	1.9	1.9	0.0	0.0	0.7	3.4	8.2	7.0	-3.6	1.0	1.3	1.8
Maximum	1.4	2.3	2.2	2.9	1.5	1.2	1.2	4.7	9.7	11.0	3.5	2.8	1.8	2.2
Minimum	1.1	1.7	1.1	1.3	-1.7	-2.0	0.1	2.0	4.9	3.6	-4.8	-0.9	0.5	1.3
Change on 2 months earlier[1]	0.1	0.1	0.4	0.3	0.9	0.5	0.2	0.5	0.4	0.3	0.6	0.8	0.5	0.4
- Rise[2]	8	12	15	14	15	10	9	11	10	12	11	12	15	15
- Drop[2]	1	0	0	0	0	5	4	3	4	3	2	2	0	0
Change on 6 months earlier[1]	0.3	0.2	0.9	0.5	2.0	0.3	0.6	0.9	3.0	1.3	0.2	0.7	1.1	0.5
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 (July 2014)	1.3	2.0	1.6	1.6	-0.8	-1.5	1.8	4.2	8.7[3]	7.7[3]	-3.2	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 (July 2014)	1.2	1.6	1.6	1.3	-1.0	-0.7	-0.5	2.1	7.2	5.4	-5.9	-0.3	0.7	1.0
OECD (September 2014)	1.2	1.6	2.1	1.8	-0.3	-1.5	0.6	2.9	--	--	--	--	1.4	1.3

[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 – September 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)	3.5	5.4	4.3	4.7	--	--	-0.1	0.5	--	--	1.1	1.7	24.6	23.3	0.6	1.2	-5.5	-4.8
Banco Bilbao Vizcaya Argentaria (BBVA)	4.7	6.5	5.1	6.4	--	--	0.1	0.9	-1.4	0.3	0.8	1.7	24.5	23.1	0.3	1.1	-5.5	-4.5
Bankia	4.7	5.5	5.2	6.0	1.8	2.2	0.0	0.7	0.4	0.8	0.7	1.4	24.6	23.5	0.1	0.5	--	--
CatalunyaCaixa	3.3	5.3	5.1	5.4	--	--	0.0	0.8	--	--	0.8	1.2	24.5	23.8	--	--	--	--
Cemex	4.5	6.0	5.2	6.8	--	--	0.0	0.8	--	--	0.9	1.5	24.6	23.5	0.0	0.0	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.3	6.1	4.7	5.8	--	--	0.1	0.7	--	--	0.9	1.5	24.5	22.8	1.1	1.6	-5.7	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	5.5	6.5	3.5	5.0	2.0	2.6	0.1	0.7	0.3	0.5	0.4	1.3	24.9	23.5	1.0	0.5	-5.9	-4.3
CEOE	4.1	4.8	5.0	4.8	3.4	3.0	0.0	0.9	0.3	0.4	0.8	1.9	24.5	22.4	-0.3	0.0	-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)	4.4	5.4	5.5	5.3	1.6	2.0	-0.1	0.5	0.2	0.5	0.7	1.5	24.5	22.5	-0.3	-0.2	-5.5	-4.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.2	6.2	4.2	6.0	1.7	2.2	0.1	1.0	-0.8	0.4	0.7	1.6	24.6	23.2	0.4	1.0	-5.6	-4.6
Instituto de Estudios Económicos (IEE)	5.1	5.5	3.7	5.0	--	--	0.2	0.5	0.3	0.3	0.7	1.5	24.5	23.0	0.8	1.2	-5.6	-4.8
Instituto Flores de Lemus (IFL-UC3M)	3.9	5.0	4.5	4.7	2.0	2.6	0.0	0.9	--	--	--	--	24.5	22.7	--	--	--	--
Intermoney	3.8	4.7	4.7	4.8	2.0	3.1	0.0	0.7	--	--	0.6	1.5	24.6	23.3	0.7	1.0	-5.9	-4.4
La Caixa	4.0	4.8	4.6	4.0	1.0	2.4	0.2	1.1	-0.3	0.2	1.1	1.6	24.6	23.3	0.4	0.9	-5.6	-4.2
Repsol	4.0	6.9	5.0	5.3	2.2	2.7	0.2	1.0	0.1	0.4	0.8	1.2	24.9	23.7	0.3	0.6	-5.5	-5.0
Santander	3.3	4.6	4.8	5.0	2.8	3.0	0.0	0.7	0.0	0.7	0.6	1.7	24.6	23.2	0.5	0.6	-5.5	-4.2
Solchaga Recio & asociados	5.0	6.2	5.0	5.9	--	--	0.0	0.7	--	--	0.7	1.7	24.6	23.1	0.0	0.5	-5.8	-5.3
CONSENSUS (AVERAGE)	4.4	5.6	4.7	5.3	2.1	2.6	0.1	0.8	-0.1	0.4	0.7	1.5	24.6	23.2	0.5	0.7	-5.6	-4.7
Maximum	5.5	6.9	5.5	6.8	3.4	3.1	0.5	1.1	0.4	0.8	1.1	1.9	25.0	23.8	1.9	1.6	-5.5	-4.2
Minimum	3.3	4.6	3.5	4.0	1.0	2.0	-0.1	0.5	-1.4	0.2	0.3	1.2	24.5	22.4	-0.3	-0.2	-5.9	-5.4
Change on 2 months earlier[1]	-0.8	-0.1	0.1	0.5	-0.1	-0.3	-0.2	-0.1	-0.1	-0.2	0.2	0.2	-0.3	-0.5	-0.7	-0.8	0.1	0.1
- Rise[2]	2	6	8	11	3	2	0	0	2	1	11	11	0	1	0	0	2	4
- Drop[2]	13	9	7	2	5	5	15	11	2	2	0	0	12	12	13	12	1	0
Change on 6 months earlier[1]	-1.0	-0.3	1.4	0.4	0.7	-0.2	-0.5	-0.3	-0.2	-0.3	0.3	0.4	-0.8	-1.0	-1.2	-1.3	0.3	0.3
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 (July 2014)	4.6	5.9	4.7	4.5	--	--	0.1	0.7	--	--	0.4	1.4	--	--	1.3[6]	1.6[6]	--	--
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 (July 2014)	4.7	5.1	3.6	3.9	--	--	0.1	0.8	--	--	0.2	0.8	24.9	23.8	0.6	0.7	-5.7	-4.7
OECD (September 2014)	3.7	5.9	4.3	5.2	--	--	0.1	0.5	--	--	0.8	1.1	24.6	23.6	0.6	0.7	-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 - September 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	0.6	0.4	0.4	0.4	0.5	0.6	0.6
Household consumption[2]	0.5	0.7	0.3	0.4	0.5	0.6	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 – September 2014[1]

Monthly change (%)				Year-on-year change (%)	
Sep-14	Oct-14	Nov-14	Dec-14	Dec-14	Dec-15
0.1	0.6	0.3	0.2	0.2	1.0

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

Table 4

Opinions – September 2014

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	12	6	9	9	0
International context: Non-EU	3	11	4	9	8	1
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	12	4	2	0	15	3
Long-term interest rate[3]	12	4	2	0	15	3
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	16	2	0	0	2	16
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	13	5	0	5	9	4
Monetary policy assessment[1]	1	0	17	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		1.3	2.1	0.2	0.8	-4.0	-4.3	-3.8	7.2	4.4	5.5	1.5	-0.2
2015		2.2	2.6	-0.7	3.0	-0.1	-1.0	0.5	6.6	5.4	5.3	2.1	0.1
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	1.7	-0.2	-1.2	-8.6	-7.2	-9.8	9.3	7.4	8.6	0.7	-0.2
	II	1.2	2.3	1.1	1.2	-3.4	-4.2	-2.7	7.3	1.7	3.9	1.9	-0.7
	III	1.6	2.2	0.1	1.4	-2.3	-3.4	-1.4	6.0	4.2	4.7	1.6	0.0
	IV	1.8	2.1	-0.1	1.9	-1.6	-2.4	-1.1	6.2	4.5	5.0	1.9	0.0
2015	I	2.0	2.2	0.2	2.5	-0.4	-1.6	0.6	5.8	5.1	5.8	2.1	-0.1
	II	2.0	2.3	-1.1	2.9	-0.6	-1.4	0.0	7.0	5.6	5.7	2.0	0.1
	III	2.2	2.7	-1.4	3.2	0.0	-0.8	0.5	7.1	5.0	4.5	2.0	0.3
	IV	2.5	3.0	-0.5	3.3	0.5	-0.3	1.1	6.5	5.7	5.3	2.2	0.3
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	2.0	18.8	-2.8	-12.3	-4.0	-18.6	9.9	-4.1	3.7	4.2	-2.7
	II	2.3	3.0	0.5	2.2	3.6	-1.5	7.9	0.6	5.3	5.9	2.3	-0.1
	III	1.9	1.6	-1.6	3.4	0.7	-2.5	3.2	6.8	13.0	11.8	1.5	0.4
	IV	1.7	1.8	-15.3	4.8	2.5	-1.4	5.7	7.6	4.4	-1.0	0.0	1.7
2015	I	2.1	2.5	20.4	-0.6	-8.0	-1.0	-13.0	8.5	-1.8	7.1	4.8	-2.7
	II	2.4	3.4	-4.5	3.9	2.6	-0.8	5.2	5.3	7.2	5.5	2.2	0.2
	III	2.7	3.2	-2.8	4.9	3.1	0.0	5.5	6.9	10.6	6.8	2.5	0.3
	IV	2.8	2.9	-12.3	5.0	4.8	0.5	8.0	5.2	7.4	1.9	1.1	1.6
		Current prices (EUR billions)	**Percentage of GDP at current prices**										
2007		1053.2	57.4	18.3	30.7	21.9	12.2	9.7	8.8	26.9	33.6	106.7	-6.7
2008		1087.8	57.2	19.5	28.7	20.2	10.8	9.4	8.4	26.5	32.3	105.8	-5.8
2009		1046.9	56.6	21.4	23.6	16.8	8.5	8.3	6.8	23.9	25.8	101.9	-1.9
2010		1045.6	57.9	21.5	22.2	14.9	7.3	7.7	7.3	27.4	29.5	102.2	-2.2
2011		1046.3	58.6	21.2	20.7	12.9	6.0	6.9	7.8	30.8	31.9	101.1	-1.1
2012		1029.3	59.3	20.2	19.2	11.5	5.2	6.3	7.7	32.6	31.9	99.3	0.7
2013		1023.0	59.2	20.1	17.7	10.1	4.4	5.6	7.7	34.1	31.7	97.6	1.5
2014		1030.5	60.0	20.0	17.5	9.4	4.0	5.4	8.0	34.9	33.0	98.1	1.9
2015		1057.0	60.3	19.4	17.6	9.2	3.8	5.4	8.4	35.9	34.0	98.1	1.9

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

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

Chart 1.1.- GDP
Percentage change

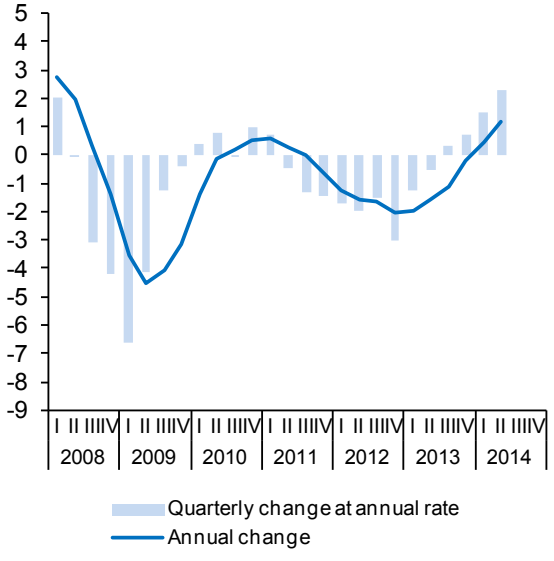


Chart 1.2.- Contribution to GDP annual growth
Percentage points

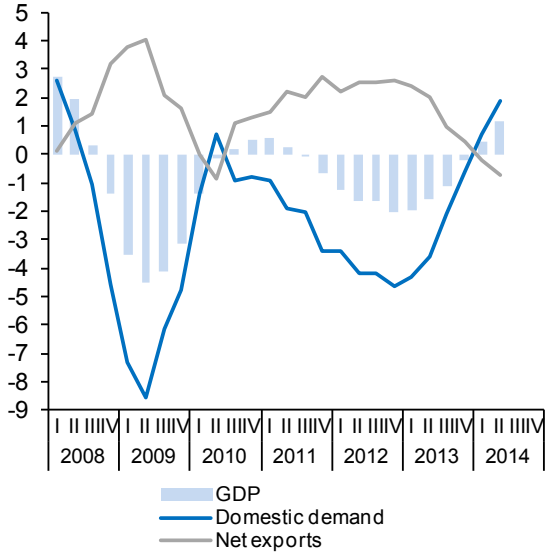


Chart 1.3.- Final consumption
Annual percentage change

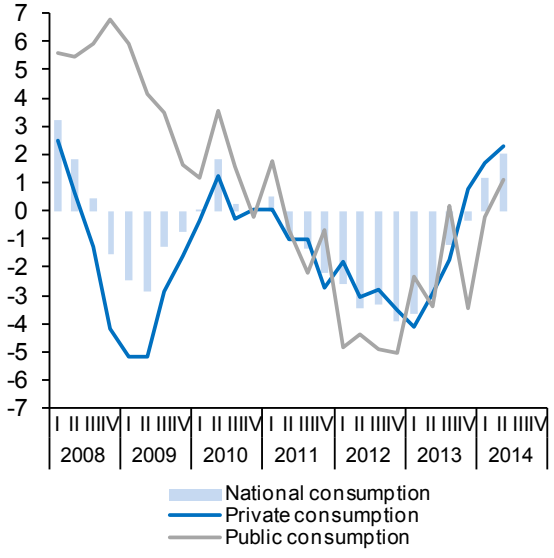


Chart 1.4.- Gross fixed capital formation
Annual percentage change

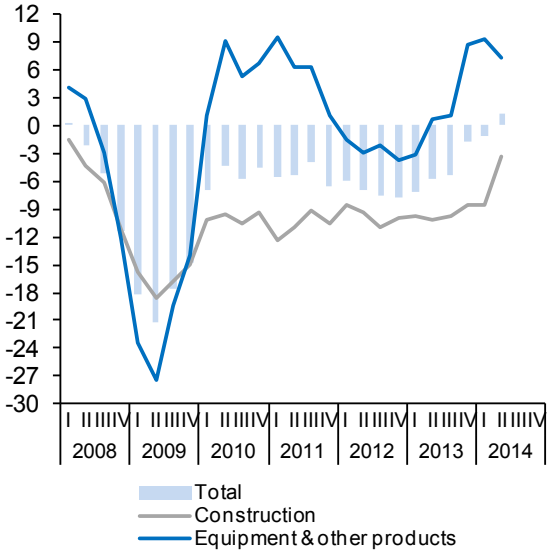


Table 2

National accounts: Gross value added by economic activity SWDA*

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Services								
					Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
Chain-linked volumes, annual percentage changes													
2007	3.8	7.0	0.5	1.8	5.0	4.3	3.4	11.9	2.8	8.0	4.5	2.2	1.0
2008	1.0	-2.7	-2.1	-0.2	2.3	0.4	1.5	2.8	2.1	2.3	5.1	2.0	-0.3
2009	-3.7	-3.3	-11.4	-8.2	-0.8	-2.6	0.9	-4.0	0.0	-2.6	2.3	0.2	-5.4
2010	-0.2	1.9	7.1	-16.5	1.2	1.8	6.2	-3.5	-1.2	-0.3	2.4	0.3	-0.6
2011	0.6	5.6	2.7	-9.0	1.4	1.3	0.3	-3.2	3.0	5.3	1.1	0.2	-6.1
2012	-1.3	-10.9	-0.5	-8.6	-0.3	0.5	0.9	-2.8	1.1	-1.9	-0.5	-1.7	-4.9
2013	-1.2	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	1.1	0.9	1.1	-3.2	1.6	3.0	0.2	-1.9	1.7	2.2	0.3	1.9	2.8
2015	2.1	0.8	2.1	0.9	2.3	3.7	1.2	0.6	2.4	2.7	0.5	2.4	3.2
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	7.4	0.5	-8.1	0.9	1.8	0.0	-2.1	1.0	1.1	0.2	1.9	2.9
II	1.0	-0.5	1.1	-3.1	1.5	2.6	-0.1	-2.3	1.8	2.6	0.4	1.7	3.0
III	1.5	-0.4	1.3	-1.3	1.9	3.6	0.3	-1.8	2.0	2.5	0.3	1.9	2.5
IV	1.8	-2.6	1.6	0.0	2.1	4.1	0.4	-1.4	2.1	2.7	0.3	1.9	2.6
2015 I	1.9	-4.8	1.9	0.5	2.3	4.1	0.8	-0.9	2.3	3.0	0.6	2.0	2.7
II	1.9	1.7	1.7	0.5	2.1	3.5	1.1	0.3	2.2	2.5	0.5	2.4	3.1
III	2.1	3.5	2.2	1.0	2.2	3.4	1.4	1.4	2.4	2.6	0.3	2.6	3.5
IV	2.4	3.0	2.5	1.5	2.5	3.9	1.3	1.6	2.6	2.8	0.6	2.7	3.5
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	-0.4	16.1	-2.3	-8.8	0.4	3.1	-0.6	11.4	-7.1	-3.6	-2.5	11.8	23.6
II	2.3	-21.6	4.5	3.7	2.6	6.8	5.8	-1.9	7.8	1.8	-3.3	-4.5	2.0
III	3.0	-5.0	3.2	2.2	3.3	6.6	-11.2	-16.9	6.0	8.2	4.0	-0.6	-8.3
IV	2.2	4.0	1.0	3.5	2.3	-0.2	8.8	4.1	2.3	4.8	3.4	1.7	-4.0
2015 I	0.2	6.1	-0.9	-7.0	1.0	3.1	1.0	13.5	-6.4	-2.4	-1.6	12.2	24.0
II	2.3	2.0	3.3	3.6	2.0	4.6	7.1	3.2	7.4	-0.3	-3.4	-3.2	3.6
III	3.8	2.0	5.3	4.1	3.4	6.1	-10.0	-13.4	6.9	8.8	3.0	0.4	-7.1
IV	3.4	2.0	2.2	5.8	3.5	1.8	8.2	5.0	3.2	5.6	4.5	2.0	-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	938.1	2.4	17.5	7.5	72.5	26.3	3.8	3.8	8.4	7.9	18.3	3.9	9.9
2015	960.4	2.4	17.6	7.4	72.6	26.7	3.7	3.8	8.5	7.9	18.1	3.9	10.1

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

Chart 2.1.- GVA by sectors
Annual percentage change

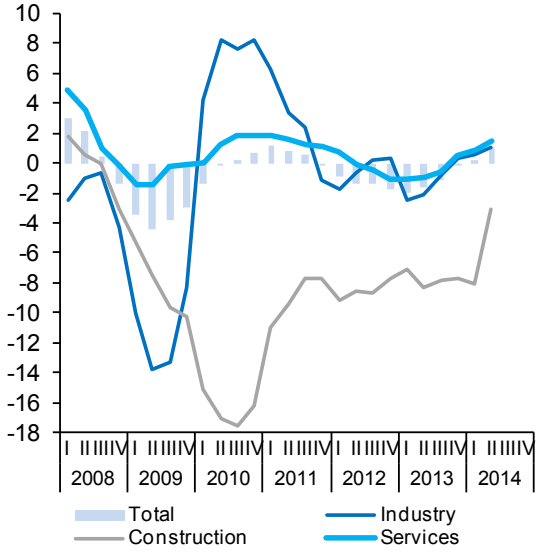


Chart 2.2.- GVA, services (I)
Annual percentage change

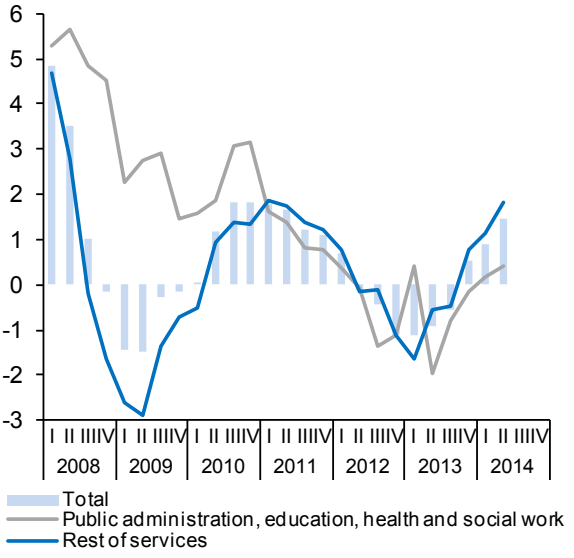


Chart 2.3.- GVA, services (II)
Annual percentage change

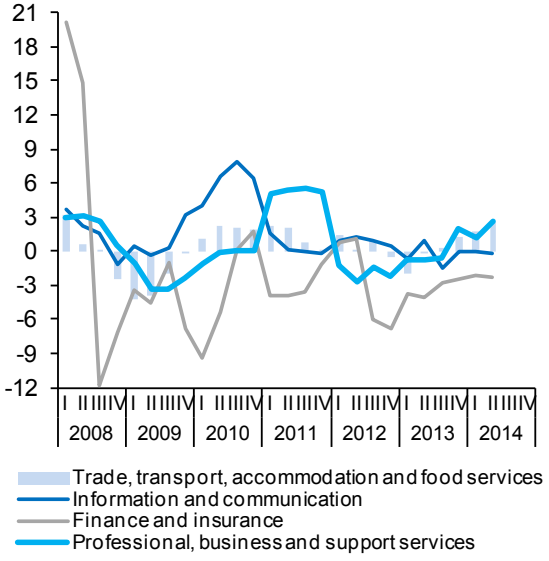


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

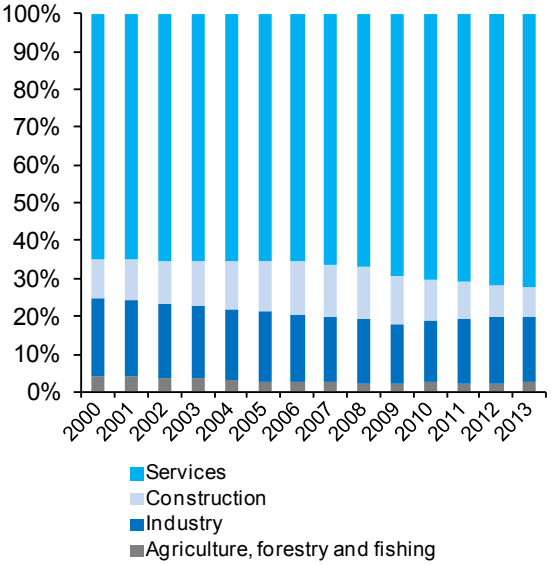


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Table 3a

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		120.5	101.9	118.3	146.8	124.1	91.4	96.4	--	--	--	--	--
2015		123.2	103.4	119.1	147.5	123.8	90.8	98.8	--	--	--	--	--
2012	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	145.5	123.1	90.4	95.8	64.6	148.2	159.6	107.7	84.8
	II	120.3	101.8	118.1	147.0	124.4	91.5	96.4	65.6	147.0	163.3	111.1	86.4
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		1.3	0.7	0.6	0.2	-0.4	0.2	1.6	--	--	--	--	--
2015		2.2	1.5	0.7	0.5	-0.2	-0.6	2.5	--	--	--	--	--
2012	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	-0.4	0.8	-0.1	-0.9	-0.3	1.5	-2.5	4.1	1.1	-2.9	-1.8
	II	1.2	0.8	0.4	0.3	0.0	0.3	1.4	-0.2	1.7	1.4	-0.2	0.2

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

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

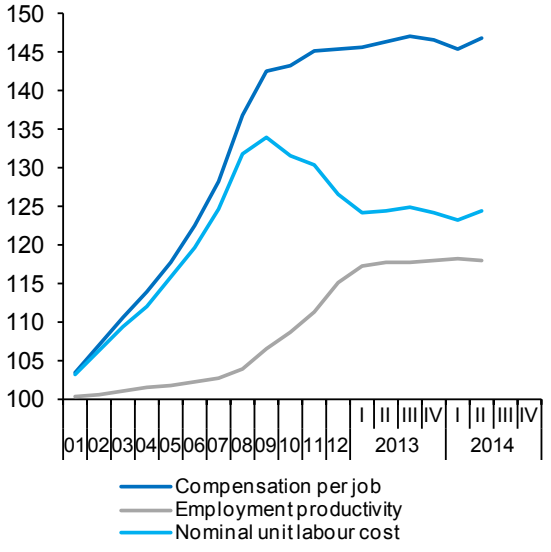
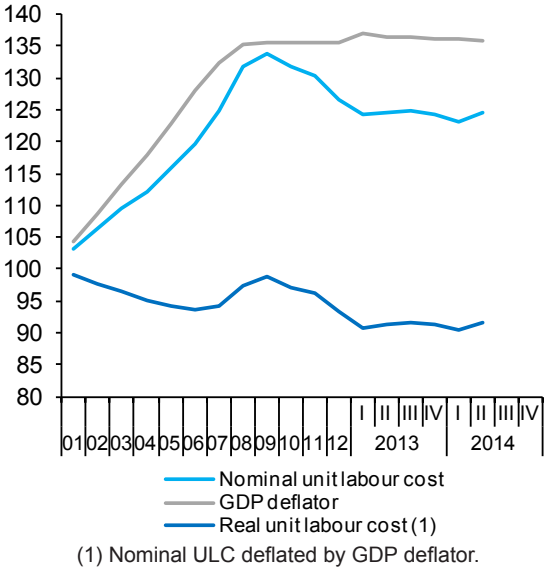


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

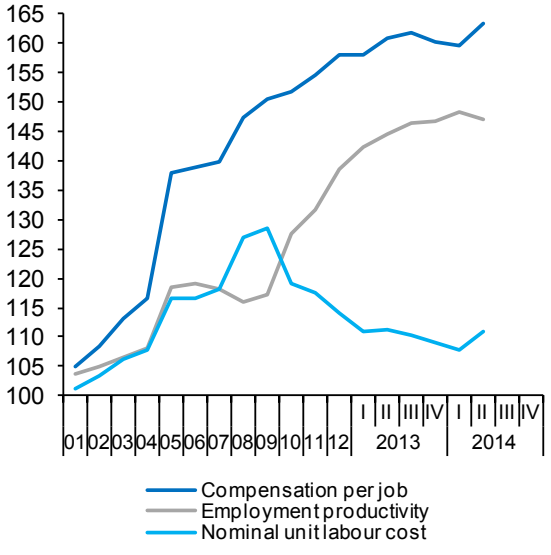
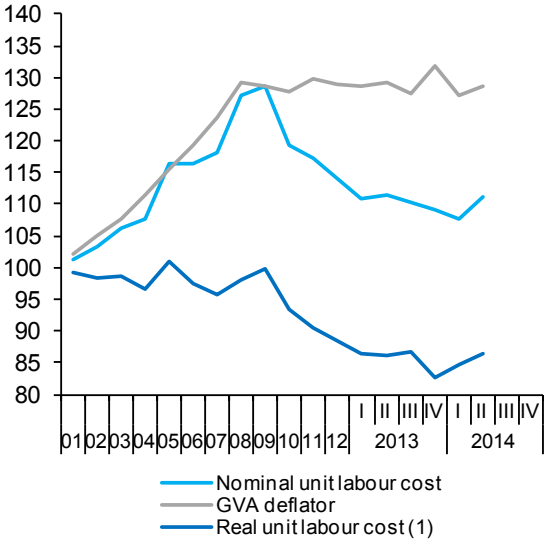


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

National accounts: Productivity and labour costs (II)

Forecasts in blue

		Construction						Services					
		Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
2007		140.6	145.5	96.6	135.2	139.9	88.1	130.4	131.7	99.0	124.4	125.7	96.6
2008		140.3	128.5	109.1	152.3	139.6	84.7	133.3	135.3	98.6	131.8	133.7	98.4
2009		128.8	101.0	127.6	166.9	130.9	78.3	132.2	132.0	100.1	136.8	136.6	99.0
2010		107.6	88.2	122.0	167.3	137.2	85.0	133.8	130.7	102.4	137.6	134.4	98.9
2011		97.9	74.2	132.0	172.4	130.7	82.3	135.7	130.1	104.4	138.8	133.0	97.8
2012		89.5	60.0	149.1	177.7	119.2	77.4	135.4	125.7	107.7	138.3	128.4	94.7
2013		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		79.9	50.9	157.2	--	--	--	136.8	124.2	110.2	--	--	--
2015		80.6	50.8	158.9	--	--	--	140.0	126.4	110.8	--	--	--
2012	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	79.0	50.3	157.2	173.7	110.5	73.1	135.4	123.2	109.9	138.6	126.1	92.3
	II	79.7	51.1	156.0	182.2	116.8	78.3	136.3	123.9	110.0	139.2	126.6	94.0
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		-3.2	-3.9	0.7	--	--	--	1.6	1.2	0.4	--	--	--
2015		0.9	-0.2	1.1	--	--	--	2.3	1.8	0.5	--	--	--
2012	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	-8.1	-8.4	0.4	0.4	0.0	1.3	0.9	0.3	0.6	0.0	-0.6	-0.2
	II	-3.1	-3.8	0.8	-0.1	-0.9	-0.2	1.5	1.5	0.0	0.2	0.2	0.2

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

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

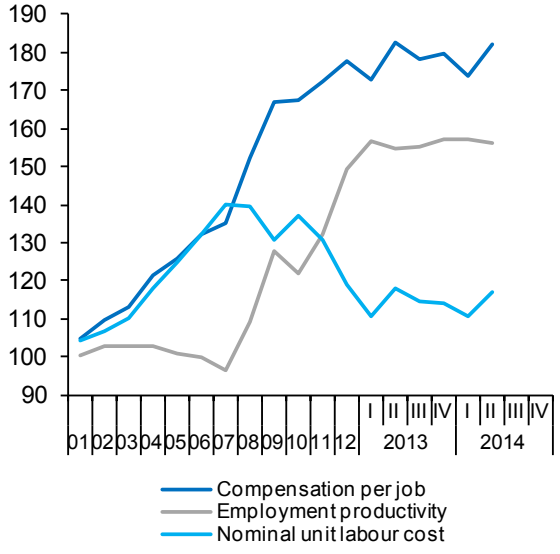
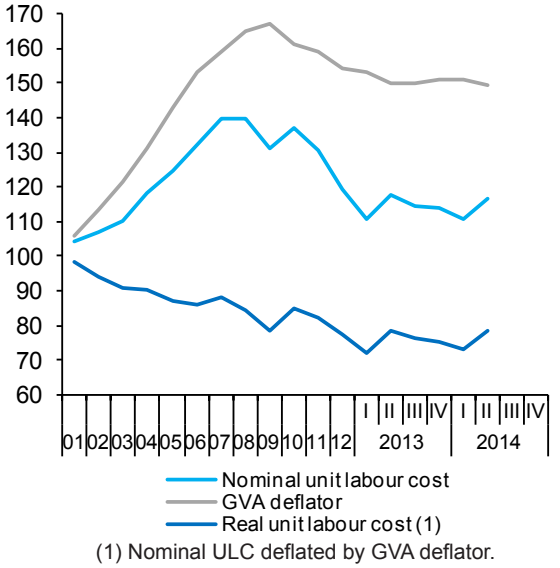


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

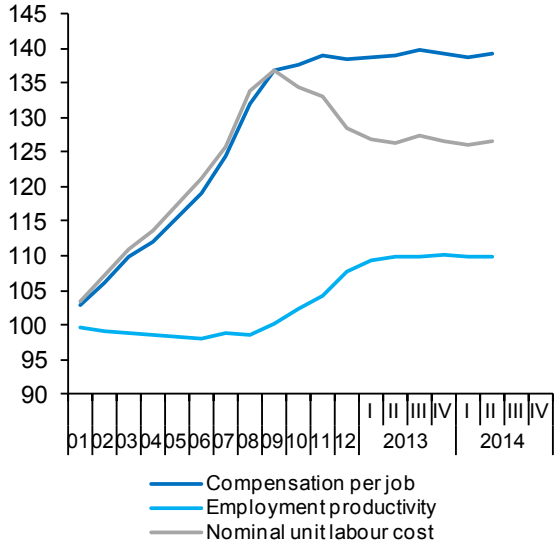
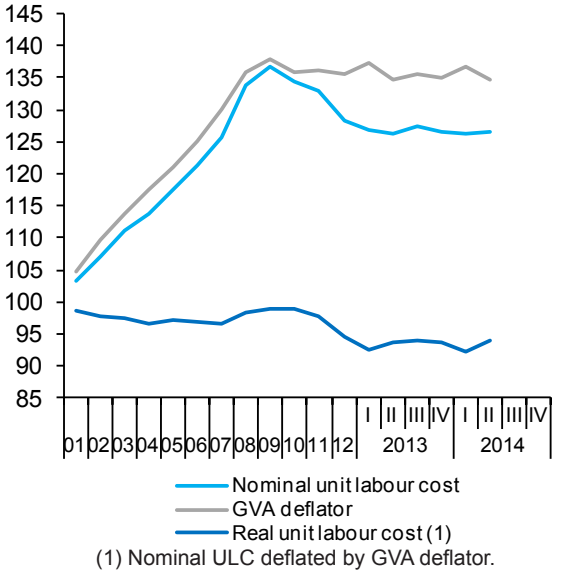


Chart 3b.4.- Real ULC, services
Index, 2000=100



(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 operating 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 national 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	1,030.5	471.4	455.8	103.3	-18.0	1,012.5	-4.8	1,007.7	824.5	183.2	45.8	44.2	10.0
2015	1,057.0	481.6	466.7	108.8	-18.0	1,039.0	-4.8	1,034.2	843.6	190.6	45.6	44.2	10.3
2012 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	1,022.5	465.4	457.4	99.7	-13.2	1,009.3	-6.6	1,002.7	814.8	187.8	45.5	44.7	9.7
II	1,024.3	467.4	456.7	100.2	-15.5	1,008.9	-6.2	1,002.7	818.8	183.9	45.6	44.6	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	0.7	1.2	-0.5	4.2	57.0	0.1	-5.0	0.1	1.6	-6.0	0.2	-0.6	0.3
2015	2.6	2.1	2.4	5.3	0.3	2.6	0.0	2.6	2.3	4.0	-0.2	-0.1	0.3
2012 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	-0.4	-2.1	0.3	4.9	-2.5	-0.3	68.0	-0.6	0.2	-3.8	-0.8	0.3	0.5
II	0.0	-0.2	-0.2	2.6	19.8	-0.2	35.5	-0.4	1.2	-6.7	-0.1	-0.1	0.2

(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

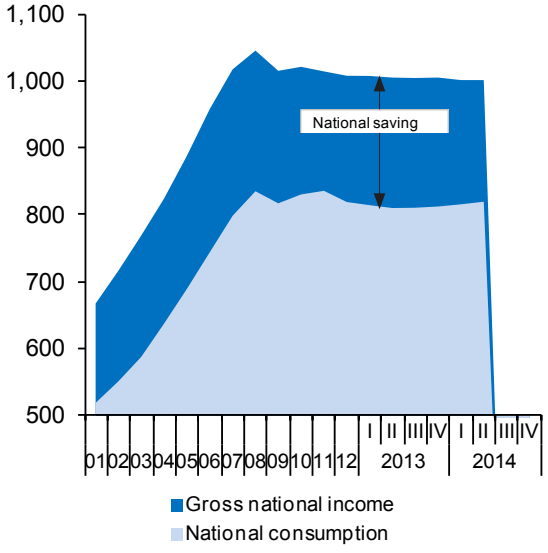


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

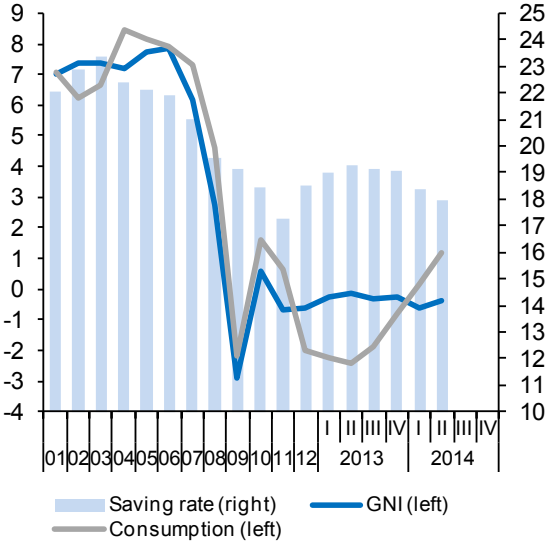


Chart 4.3.- Components of National income (I)
Annual percentage change

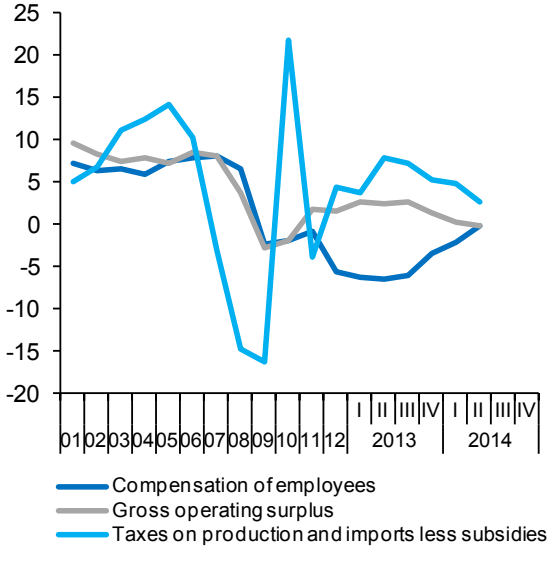


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

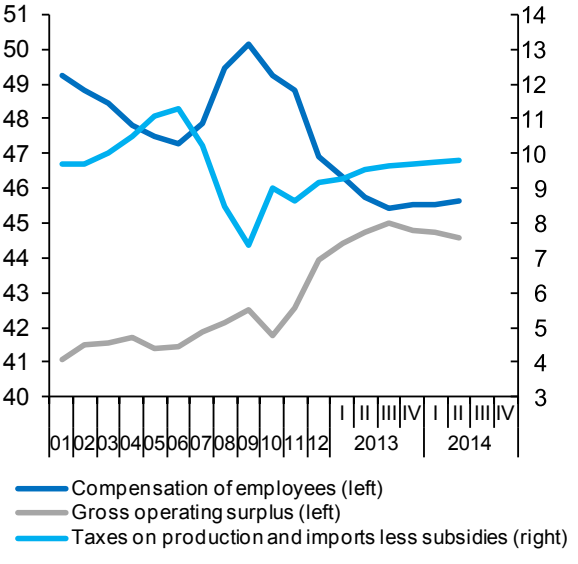


Table 5

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		19.5	-20.2	36.7	3.0	-18.0	-4.8	-3.3	7.5	4.2	183.2	186.5	-3.3
2015		19.7	-23.6	38.4	4.9	-18.0	-4.8	-3.2	7.4	4.2	190.6	193.8	-3.2
2012	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	22.3	-14.7	35.6	1.4	-13.2	-6.6	2.5	7.9	10.4	187.8	185.3	2.5
	II	19.6	-18.0	35.9	1.7	-15.5	-6.2	-2.1	7.2	5.1	183.9	185.9	-2.0
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		1.9	-2.0	3.6	0.3	-1.7	-0.5	-0.3	0.7	0.4	17.8	18.1	-0.3
2015		1.9	-2.2	3.6	0.5	-1.7	-0.5	-0.3	0.7	0.4	18.0	18.3	-0.3
2012	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	2.2	-1.4	3.5	0.1	-1.3	-0.6	0.2	0.8	1.0	18.4	18.1	0.2
	II	1.9	-1.8	3.5	0.2	-1.5	-0.6	-0.2	0.7	0.5	18.0	18.2	-0.2

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

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

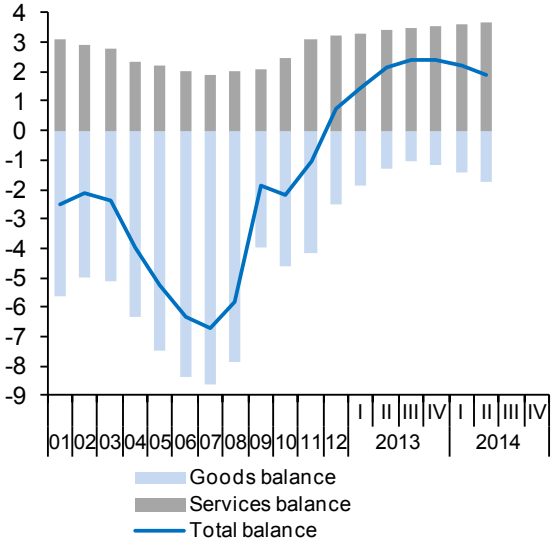


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

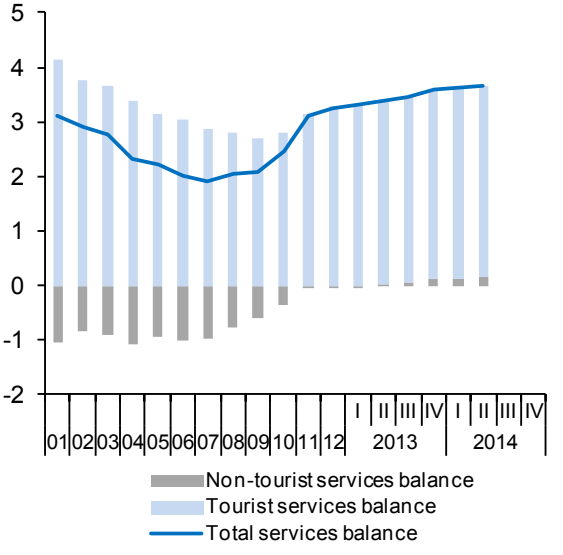


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

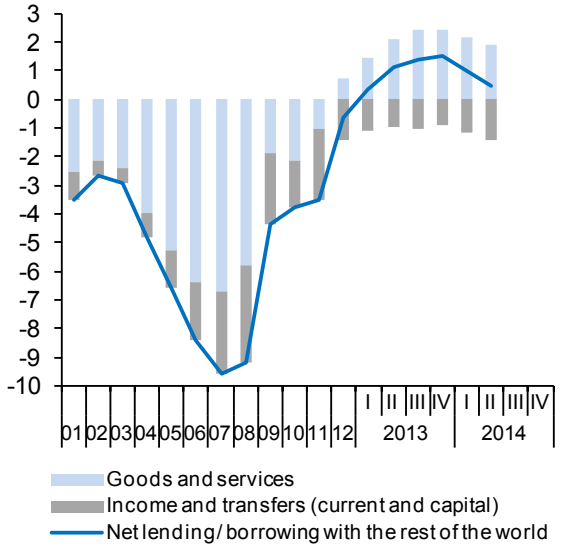


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

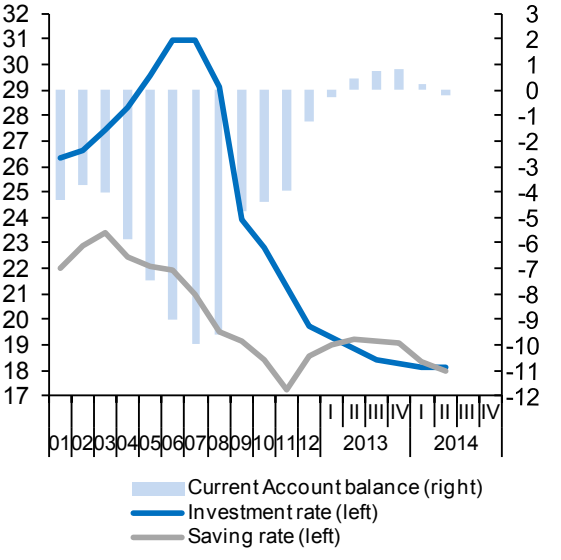


Table 6

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	685.6	471.5	250.4	247.2	197.8	85.8	618.2	66.0	9.6	0.8	43.8	22.9	2.2
2015	709.6	481.6	263.5	249.1	201.5	83.3	637.9	70.2	9.9	0.7	44.2	26.6	2.5
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	1.2	1.2	2.7	-0.6	0.1	3.1	2.0	-5.9	-0.7	-15.0	-4.4	--	-0.2
2015	3.5	2.1	5.2	0.8	1.9	-2.9	3.2	6.3	0.3	-10.0	1.0	--	0.3
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

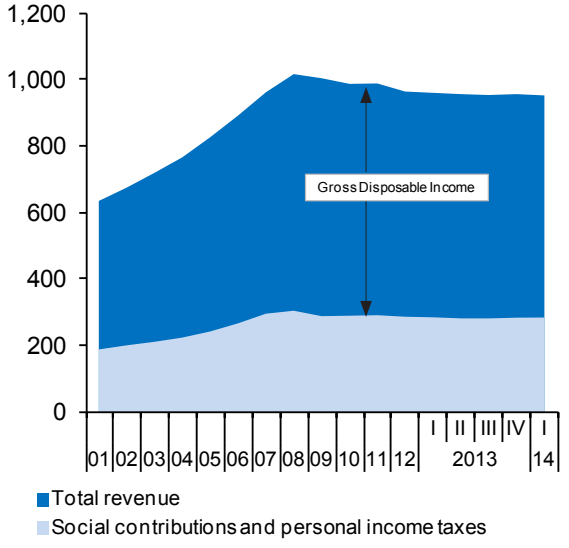
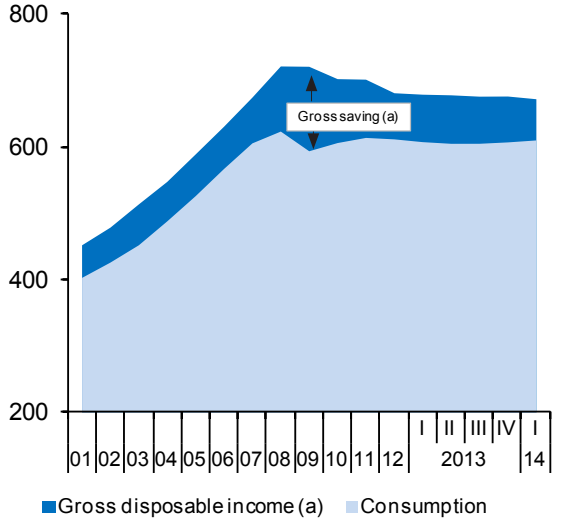


Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



(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

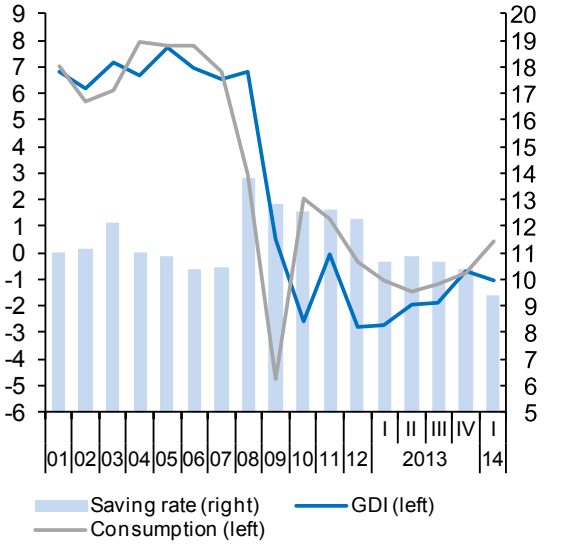
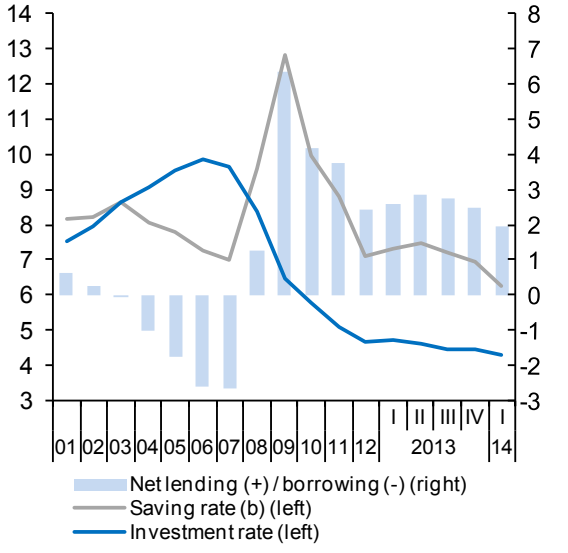


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(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		501.9	294.7	207.1	-30.7	-9.5	19.8	147.1	8.3	121.3	34.2	3.3	41.3	24.2
2015		513.0	305.6	207.4	-29.9	-9.8	20.4	147.3	8.3	128.6	27.0	2.6	40.4	25.1
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		-0.3	1.9	-3.3	-4.0	-2.1	5.4	-4.3	2.0	2.8	--	-1.0	-1.3	0.7
2015		2.2	3.7	0.1	-2.7	3.0	3.1	0.1	0.0	6.0	--	-0.8	-0.8	0.9
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

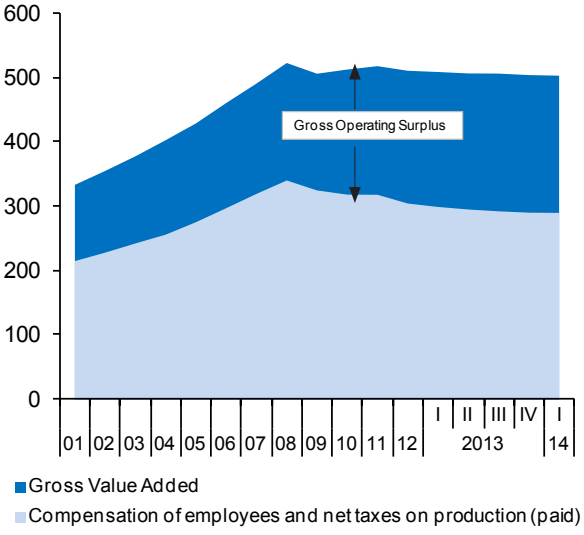


Chart 7.2.- Non-financial corporations: GVA, GOS and saving
Annual percentage change, 4-quarter moving averages

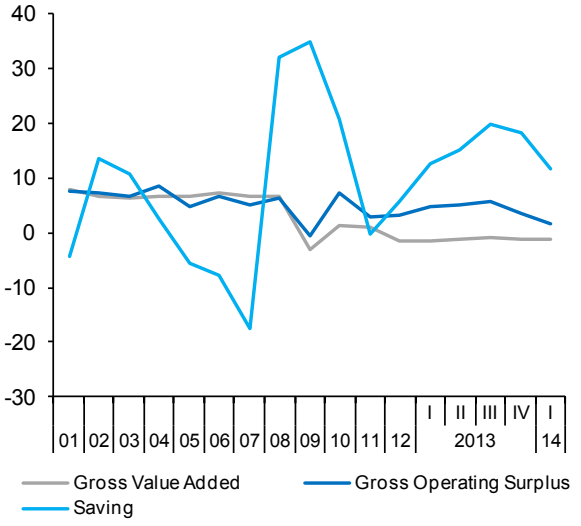
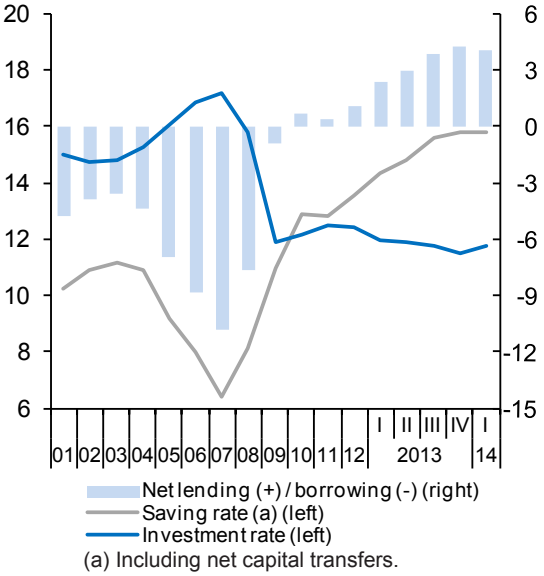


Chart 7.3.- Non-financial corporations: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(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

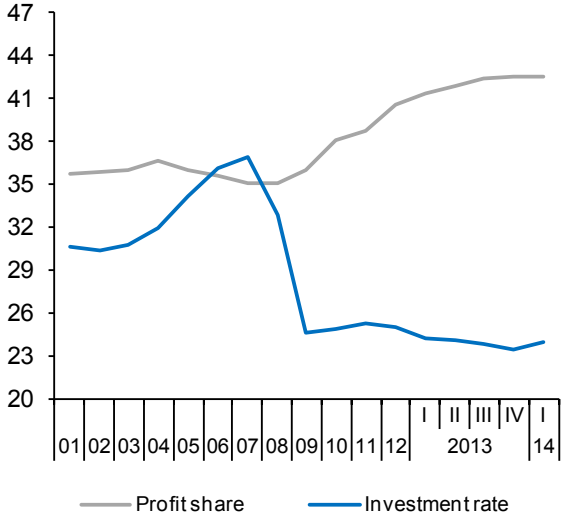


Table 8

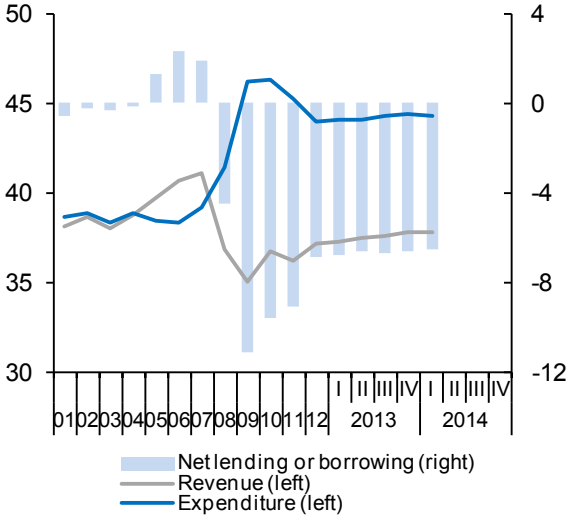
National accounts: Public revenue, expenditure and deficit

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	137.7	117.3	108.8	132.0	116.8	23.7	168.6	19.7	167.1	206.3	-39.2	17.6	-56.8	-56.8
2015	137.7	123.2	107.1	134.6	116.4	22.4	170.4	19.0	174.4	205.6	-31.3	17.4	-48.6	-48.6
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	13.4	11.4	10.6	12.8	11.3	2.3	16.4	1.9	16.2	20.0	-3.8	1.7	-5.5	-5.5
2015	13.0	11.7	10.1	12.7	11.0	2.1	16.1	1.8	16.5	19.5	-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

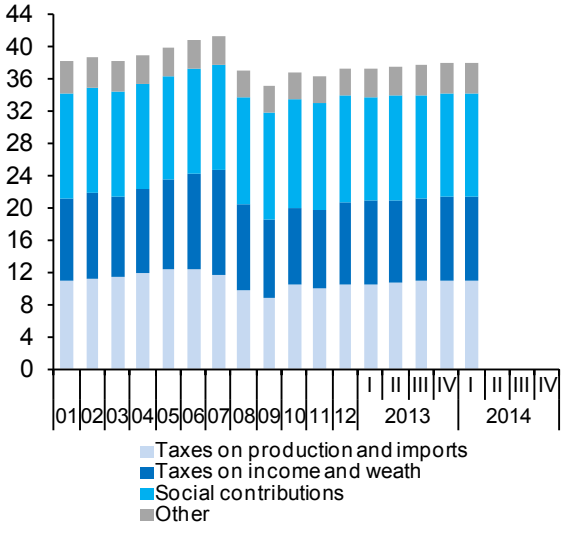


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

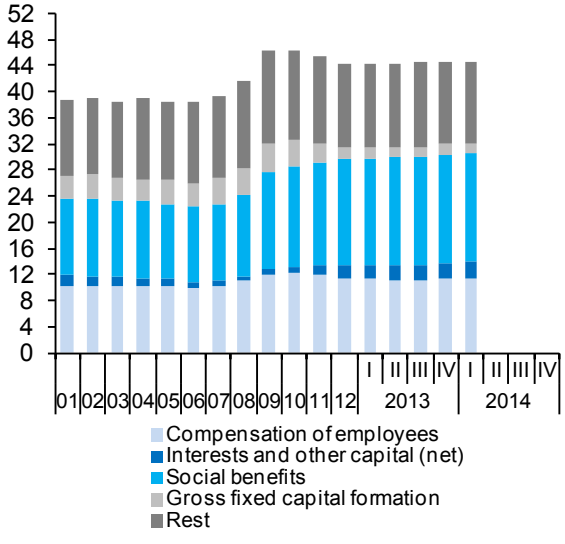
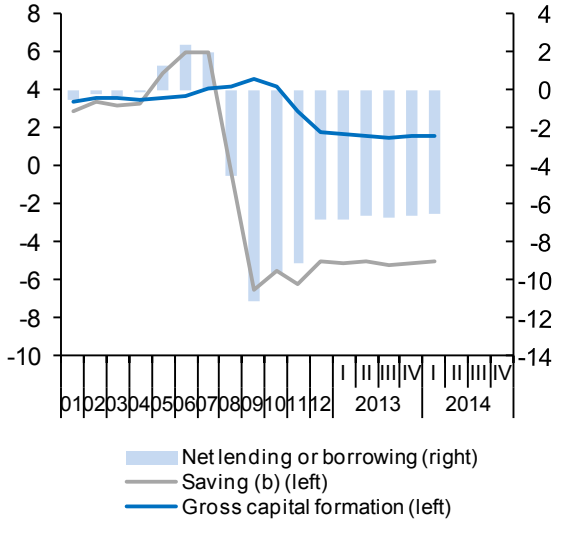


Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.
(b) Including net capital transfers.

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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		-34.1	-12.4	3.1	-13.4	-56.8	--	--	--	--	1,031.0
2015		-31.7	-9.5	2.1	-9.5	-48.6	--	--	--	--	1,095.9
2012	III	-51.2	-41.4	-2.5	-3.8	-98.8	697.5	171.3	45.2	17.2	824.3
	IV	-82.5	-19.0	2.4	-10.2	-109.3	762.1	188.4	44.0	17.2	891.0
2013	I	-78.4	-19.9	2	-11.5	-107.5	799.1	193.5	45.0	17.2	930.4
	II	-76.3	-18.8	2.5	-11.3	-103.9	820.8	197.2	44.5	17.2	950.4
	III	-75.9	-17.5	2.8	-11.7	-102.3	833.6	199.7	43.1	17.2	961.3
	IV	-49.2	-15.6	4.3	-11.9	-72.4	838.1	209.8	42.1	17.2	966.2
2014	I	-47.5	-16.9	4.2	-11.0	-71.2	866.1	225.0	41.9	17.2	995.9
	II	--	--	--	--	--	885.2	228.2	42.0	17.2	1,012.6
		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		-3.3	-1.2	0.3	-1.3	-5.5	--	--	--	--	100.1
2015		-3.0	-0.9	0.2	-0.9	-4.6	--	--	--	--	103.7
2012	III	-4.9	-4.0	-0.2	-0.4	-9.6	67.4	16.6	4.4	1.7	79.7
	IV	-8.0	-1.8	0.2	-1.0	-10.6	74.0	18.3	4.3	1.7	86.6
2013	I	-7.6	-1.9	0.2	-1.1	-10.5	77.9	18.8	4.4	1.7	90.6
	II	-7.4	-1.8	0.2	-1.1	-10.1	80.2	19.3	4.3	1.7	92.8
	III	-7.4	-1.7	0.3	-1.1	-10.0	81.5	19.5	4.2	1.7	93.9
	IV	-4.8	-1.5	0.4	-1.2	-7.1	81.9	20.5	4.1	1.7	94.4
2014	I	-4.6	-1.7	0.4	-1.1	-7.0	84.7	22.0	4.1	1.7	97.4
	II	--	--	--	--	--	86.4	22.3	4.1	1.7	98.9

(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

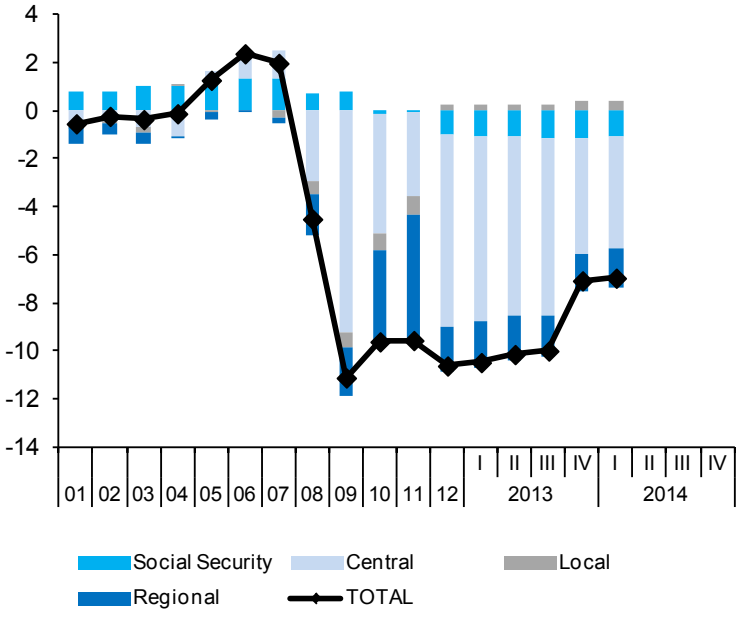


Chart 9.2.- Government debt
Percent of GDP

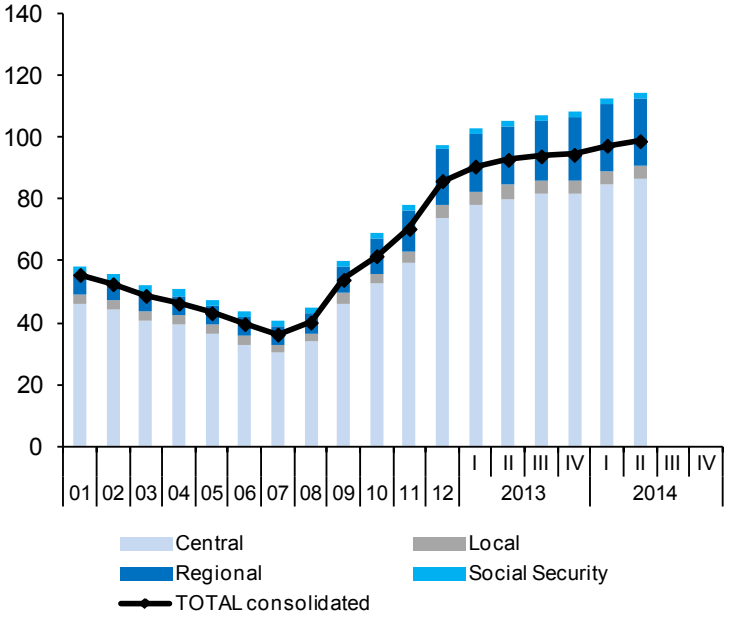


Table 10

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	-17.9	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	-30.6
2014 (b)		102.2	55.3	16,034	167.4	93.9	2,017	53.0	-7.9	95.4	-17.6
2012	IV	87.7	42.9	16,049	62.8	89.9	2,065	44.5	-17.9	94.2	-37.3
2013	I	89.2	45.5	15,906	62.6	90.2	2,041	45.7	-15.9	93.1	-35.3
	II	91.0	46.4	15,828	62.5	90.0	2,022	47.6	-15.4	92.4	-32.2
	III	95.3	49.7	15,815	62.3	91.1	2,013	50.5	-12.8	92.4	-27.9
	IV	97.3	51.6	15,883	62.8	91.1	2,012	50.1	-11.6	92.9	-27.1
2014	I	101.0	54.3	15,965	62.4	91.6	2,015	52.5	-9.1	93.8	-20.6
	II	102.5	55.7	16,059	62.9	92.1	2,021	53.4	-8.2	94.7	-17.2
	III (b)	103.5	56.3	16,124	41.6	91.4	2,024	53.3	-5.7	--	-13.7
2014	Jun	104.1	55.2	16,088	20.9	91.4	2,022	54.6	-7.4	95.0	-16.9
	Jul	103.5	55.7	16,113	20.8	91.4	2,024	53.9	-5.7	--	-14.8
	Aug	103.5	56.9	16,135	20.8	--	2,024	52.8	-5.7	--	-12.6
		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	--	--	0.3	--
2012		--	--	-3.7	-2.2	-6.7	-5.3	--	--	-4.8	--
2013		--	--	-2.9	-2.2	-1.5	-4.4	--	--	-3.4	--
2014 (d)		--	--	1.2	0.1	1.8	-0.3	--	--	2.2	--
2012	IV	--	--	-4.7	-6.0	-8.4	-5.4	--	--	-4.9	--
2013	I	--	--	-3.5	-1.5	1.7	-4.5	--	--	-4.9	--
	II	--	--	-2.0	-0.7	-1.0	-3.8	--	--	-2.6	--
	III	--	--	-0.3	-0.8	4.7	-1.7	--	--	-0.1	--
	IV	--	--	1.7	3.1	0.1	-0.1	--	--	2.0	--
2014	I	--	--	2.1	-2.6	2.2	0.5	--	--	3.9	--
	II	--	--	2.4	3.2	2.3	1.2	--	--	4.1	--
	III (e)	--	--	1.6	-3.0	-3.2	0.6	--	--	--	--
2014	Jun	--	--	0.2	-1.1	-0.9	0.1	--	--	0.3	--
	Jul	--	--	0.2	-0.5	0.0	0.1	--	--	--	--
	Aug	--	--	0.1	0.4	--	0.0	--	--	--	--

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

Chart 10.1.- General activity indicators (I)
Annualized percent change from previous period

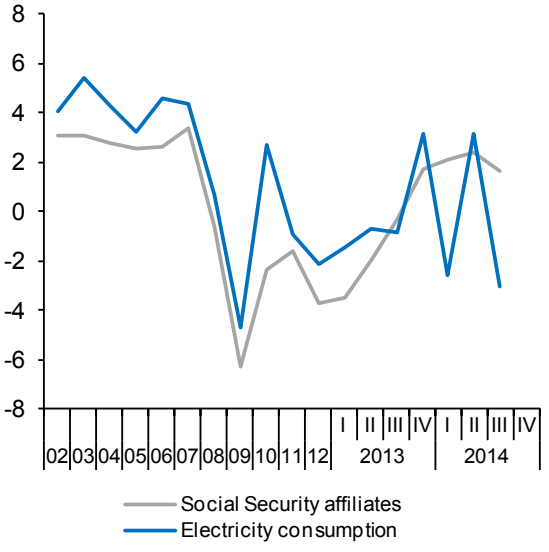


Chart 10.2.- General activity indicators (II)
Index

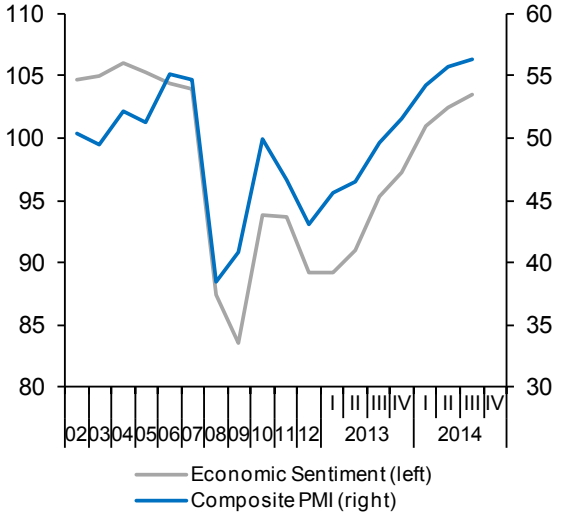


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

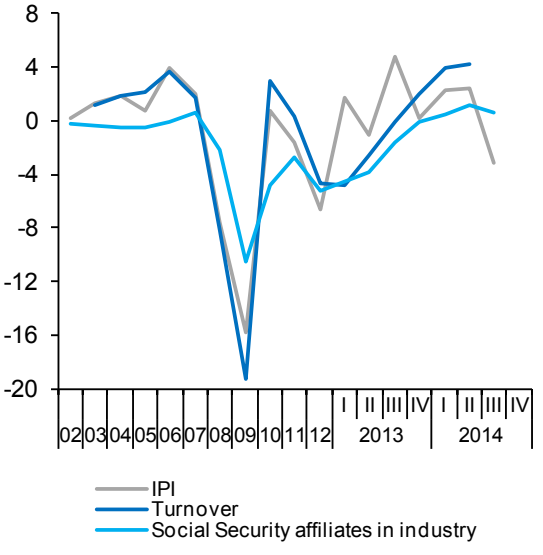


Chart 10.4.- Industrial sector indicators (II)
Index

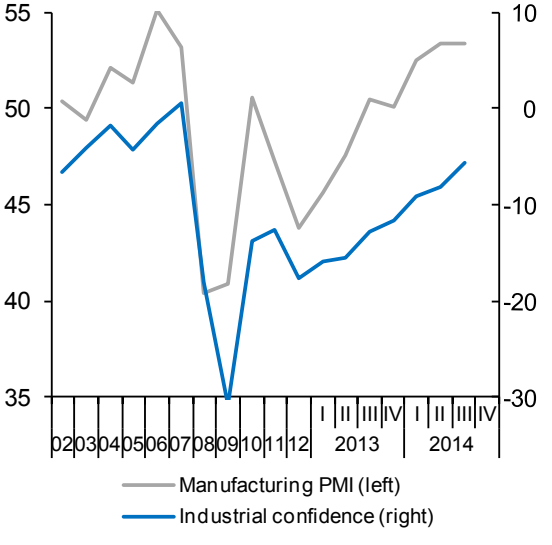


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	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	-22.5
2011	1,369	20.4	91.6	-55.4	13.7	14.1	12,176	98.9	46.5	286.8	203.3	-21.0
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	6.8	11,728	91.0	48.3	286.0	186.5	-15.3
2014 (b)	973	5.2	65.4	-49.7	6.6	2.9	11,934	90.6	55.5	162.2	132.6	7.9
2012 IV	1,061	3.0	62.8	-61.4	1.6	1.7	11,768	90.9	42.6	68.6	46.6	-24.3
2013 I	1,028	2.8	62.3	-46.7	1.7	2.0	11,717	90.4	45.7	68.9	46.0	-26.8
II	999	2.7	63.0	-57.8	2.1	1.7	11,694	90.6	46.5	70.2	46.1	-21.0
III	985	2.7	63.8	-60.6	2.5	1.6	11,720	91.2	49.3	71.5	46.5	-10.2
IV	977	2.7	64.0	-57.4	2.9	1.6	11,784	91.6	51.8	72.3	47.0	-3.1
2014 I	973	2.6	63.9	-52.3	3.2	1.7	11,861	92.0	54.2	72.5	47.5	7.5
II	976	2.6	62.6	-55.8	3.2	1.2	11,952	92.6	55.7	72.4	48.2	9.1
III (b)	981	--	61.1	-36.8	--	--	12,016	--	57.2	24.1	32.5	6.7
2014 Jun	977	0.9	61.9	-64.6	0.6	--	11,980	92.8	54.8	24.1	16.1	12.5
Jul	979	--	61.1	-40.0	--	--	12,006	--	56.2	24.1	16.2	7.0
Aug	982	--	--	-33.5	--	--	12,026	--	58.1	--	16.3	6.4
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	-6.2	--	-2.1	-5.0	--
2013	-12.2	-19.9	-5.7	--	23.3	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014 (d)	-3.0	-3.2	0.4	--	76.1	-3.6	2.0	2.2	--	2.8	4.5	--
2012 IV	-14.7	-32.6	-11.4	--	-39.6	-41.5	-3.2	-5.3	--	-3.0	-8.1	--
2013 I	-11.9	-26.3	-3.6	--	-8.6	-27.7	-1.7	-2.3	--	1.8	-4.8	--
II	-11.1	-16.1	5.1	--	-12.0	-23.5	-0.8	1.0	--	7.6	0.8	--
III	-5.4	8.6	5.2	--	48.3	-16.8	0.9	2.6	--	7.7	3.4	--
IV	-3.4	1.2	0.9	--	87.1	-8.3	2.2	1.8	--	4.6	4.1	--
2014 I	-1.4	-16.7	-0.7	--	128.1	-12.6	2.6	1.9	--	1.0	4.8	--
II	1.2	6.2	-7.7	--	37.3	12.7	3.1	2.5	--	-0.8	5.6	--
III (e)	1.8	--	-9.4	--	--	--	2.2	--	--	-0.9	4.8	--
2014 Jun	0.1	-1.8	-1.2	--	-61.6	--	0.2	0.2	--	-0.1	0.5	--
Jul	0.2	--	-1.3	--	--	--	0.2	--	--	-0.1	0.5	--
Aug	0.3	--	--	--	--	--	0.2	--	--	--	0.5	--

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

Sources: European 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

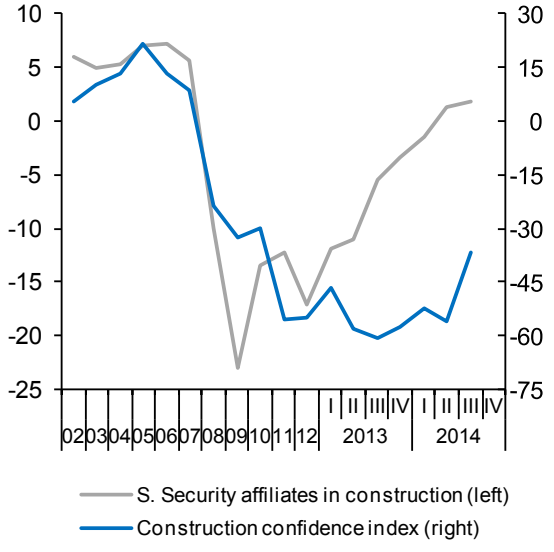


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

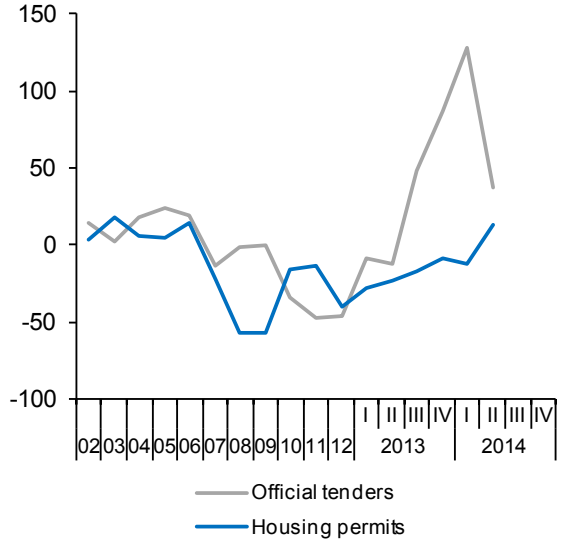


Chart 11.3.- Services indicators (I)
Percentage changes from previous period

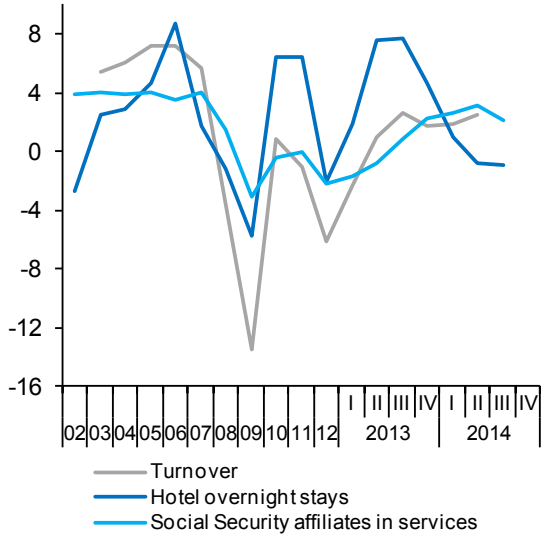


Chart 11.4.- Services indicators (II)
Index

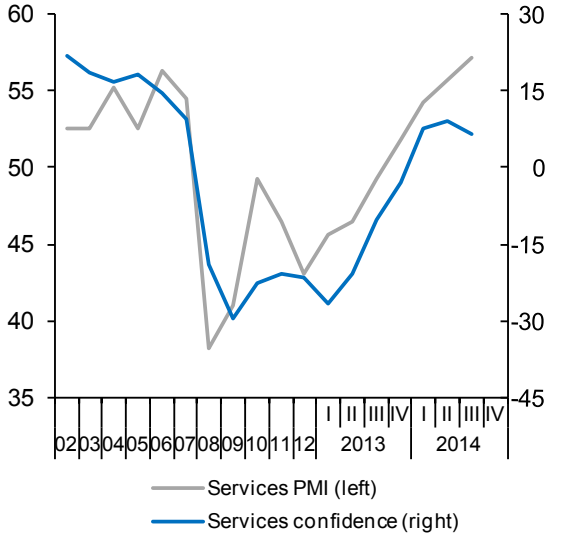


Table 12

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	100.6	-21.9	107.3	-33.5	70.0
2014 (b)	83.1	594.6	-8.5	57.0	-9.5	86.3	-17.3	80.6
2012 IV	84.4	167.4	-37.8	24.4	-25.8	24.5	-41.1	62.0
2013 I	83.7	172.4	-32.6	24.4	-21.8	24.4	-38.5	64.8
II	83.9	178.7	-28.7	24.7	-24.6	25.6	-33.1	68.5
III	84.2	184.7	-20.5	25.0	-21.1	27.5	-26.8	72.0
IV	83.9	192.9	-19.4	25.2	-20.1	29.5	-35.7	75.5
2014 I	83.8	203.1	-11.8	25.4	-11.5	31.3	-20.1	80.7
II	84.0	210.4	-6.1	25.6	-8.1	32.5	-16.9	86.5
III (b)	84.2	141.1	-7.1	8.6	-8.7	21.9	-13.7	--
2014 Jun	84.1	70.5	-3.9	8.6	-6.9	10.9	-31.7	88.4
Jul	84.2	70.5	-7.7	8.6	-11.4	10.9	-16.8	--
Aug	--	70.6	-6.4	--	-6.0	11.0	-10.5	--
	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)	0.1	15.8	--	3.0	--	26.3	--	24.4
2012 IV	-9.3	-7.3	--	-8.0	--	-15.8	--	8.1
2013 I	-3.4	12.5	--	0.1	--	-1.1	--	19.3
II	1.4	15.4	--	5.2	--	21.0	--	25.2
III	1.3	14.0	--	5.0	--	33.1	--	21.7
IV	-1.4	19.0	--	3.4	--	31.7	--	21.1
2014 I	-0.8	23.0	--	2.4	--	26.2	--	30.2
II	1.0	15.1	--	4.0	--	16.0	--	32.2
III (e)	1.0	2.5	--	3.0	--	5.5	--	--
2014 Jun	0.1	0.4	--	0.4	--	0.6	--	2.2
Jul	0.1	0.1	--	0.4	--	0.5	--	--
Aug	--	0.0	--	--	--	0.4	--	--

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

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

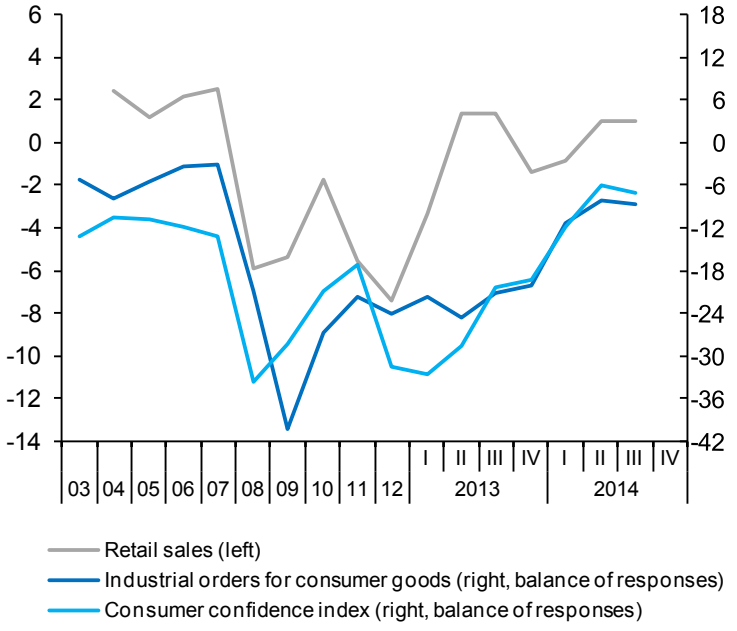


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

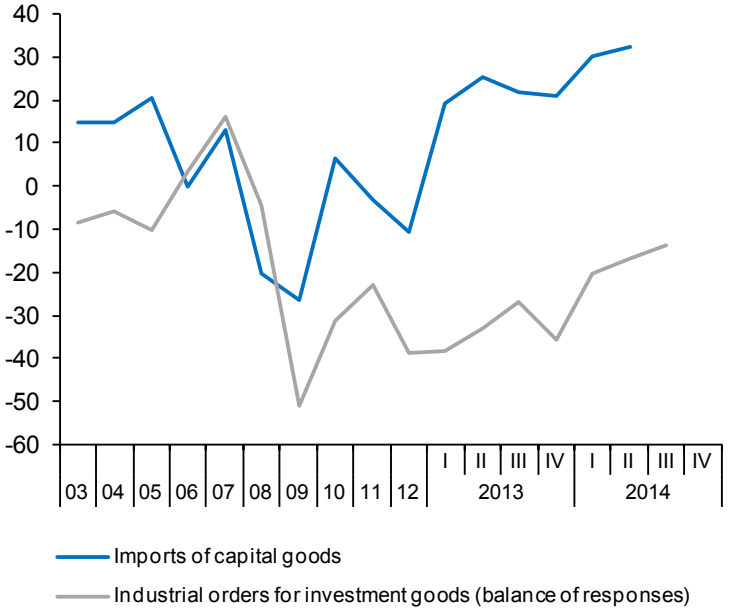


Table 13a

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		30.3	22.9	--	17.3	--	5.6	--	75.1	56.7	24.5	--	--	--
2015		30.3	22.6	--	17.5	--	5.1	--	75.2	58.2	22.5	--	--	--
2012	III	30.9	23.5	23.5	17.7	17.5	5.8	5.9	75.4	56.3	25.3	53.3	23.6	35.8
	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	55.5	26.2	55.7	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	55.5	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	55.4	24.4	37.7
	IV	30.4	23.1	23.1	17.1	17.1	5.9	5.9	75.3	55.8	25.8	55.2	24.2	36.6
2014	I	30.3	22.9	22.9	17.0	17.1	5.9	5.8	75.1	56.0	25.2	54.2	23.7	36.2
	II	30.3	23.0	22.9	17.4	17.3	5.6	5.7	75.1	56.5	24.7	52.7	23.3	34.6
		Percentage changes (d)							Difference from one year ago					
2007		1.8	2.8	--	3.1	--	-0.2	--	0.7	0.8	-0.2	0.1	-0.4	0.4
2008		1.5	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		-1.1	-1.4	--	0.8	--	-7.6	--	-0.2	1.1	-1.6	--	--	--
2015		0.0	-1.0	--	1.5	--	-8.8	--	0.1	1.5	-1.9	--	--	--
2012	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	-1.7	-4.5	-4.6	13.9	7.3	0.3	-2.2	3.2	6.7	3.5	2.0
2013	I	-0.8	-0.5	-0.9	-4.1	-3.1	10.8	5.5	0.2	-1.9	2.7	5.2	2.9	2.2
	II	-1.0	-1.2	-2.0	-3.4	-1.8	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	-0.4	2.0	-1.9	-0.1	-0.7	0.9	2.1	0.8	1.9
	IV	-1.3	-1.2	-1.4	-1.2	0.6	-1.4	-6.7	0.1	0.1	-0.1	0.0	0.1	0.0
2014	I	-1.3	-1.8	-2.9	-0.5	-0.1	-5.5	-10.6	-0.3	0.6	-1.0	-1.5	-0.7	-1.5
	II	-1.0	-1.0	0.2	1.1	3.1	-7.0	-8.1	-0.1	1.1	-1.5	-2.8	-1.4	-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

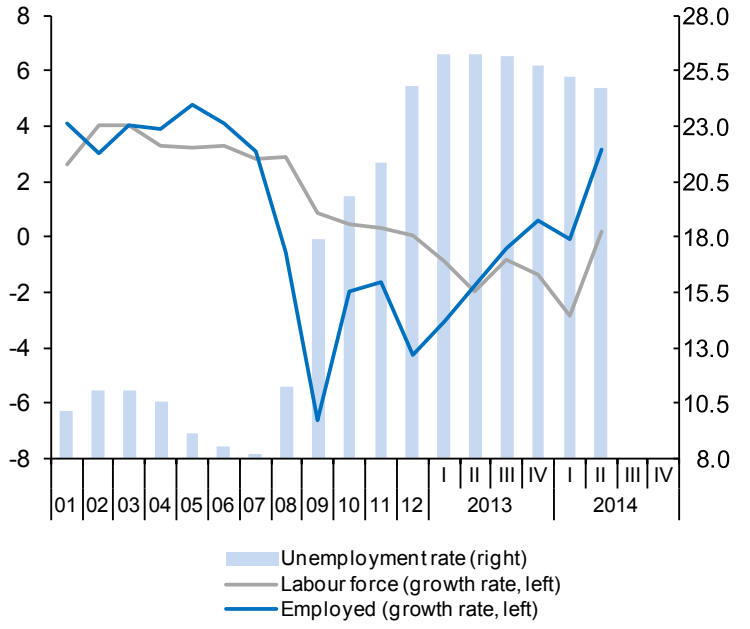


Chart 13a.2.- Unemployment rates, SA
Percentage

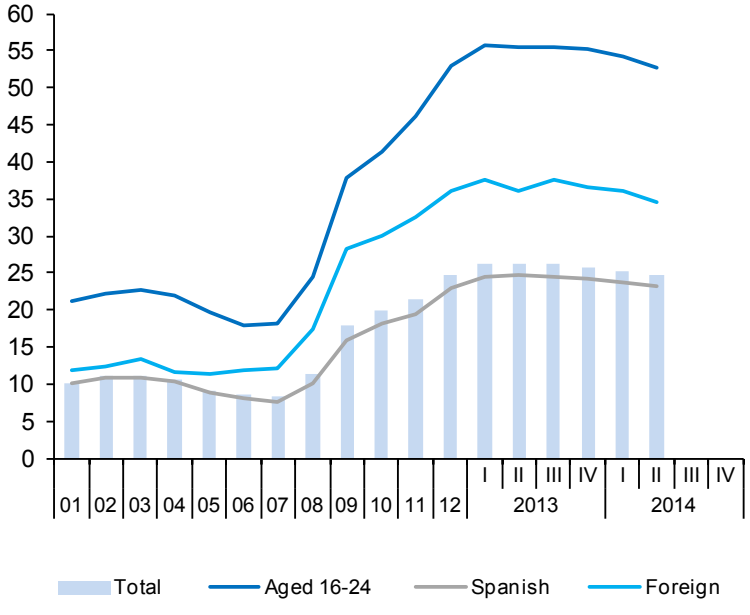


Table 13b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees				Self- employed			
		Agriculture	Industry	Construction	Services	Total	By type of contract				Full-time	Part-time	Part-time employment rate (b)
							Temporary	Indefinite	Temporary employment rate (a)				
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)													
2007		0.87	3.28	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)		0.77	2.33	0.96	13.09	14.12	3.33	10.80	23.54	3.03	14.36	2.80	16.30
2012	III	0.71	2.50	1.15	13.31	14.56	3.47	11.09	23.9	3.11	15.17	2.50	14.12
	IV	0.77	2.44	1.09	13.04	14.29	3.26	11.03	22.8	3.05	14.72	2.62	15.09
2013	I	0.72	2.38	1.07	12.87	13.99	3.07	10.92	21.9	3.04	14.34	2.69	15.80
	II	0.75	2.36	1.03	13.02	14.07	3.22	10.85	22.9	3.09	14.39	2.77	16.15
	III	0.70	2.35	1.03	13.16	14.12	3.40	10.73	24.1	3.11	14.62	2.61	15.17
	IV	0.78	2.34	0.99	13.03	14.09	3.33	10.76	23.7	3.04	14.38	2.75	16.07
2014	I	0.81	2.30	0.94	12.90	13.93	3.22	10.71	23.1	3.02	14.20	2.75	16.20
	II	0.74	2.36	0.98	13.28	14.32	3.43	10.89	24.0	3.04	14.51	2.84	16.39
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)		5.4	-1.7	-8.5	1.1	0.7	5.7	-0.8	1.1	-1.2	-0.1	2.4	0.3
2012	III	1.3	-5.2	-17.0	-3.3	-5.9	-13.2	-3.4	-2.0	3.4	-5.7	4.2	1.2
	IV	-3.5	-5.6	-15.5	-3.3	-5.7	-13.2	-3.2	-2.0	1.6	-6.2	6.7	1.6
2013	I	-6.1	-5.2	-11.3	-3.2	-5.0	-11.4	-3.0	-1.6	0.1	-6.1	7.6	1.7
	II	4.3	-5.3	-14.1	-2.4	-4.4	-6.6	-3.7	-0.5	1.7	-5.0	6.3	1.5
	III	-2.1	-6.1	-10.6	-1.1	-3.0	-2.2	-3.2	0.2	0.0	-3.7	4.7	1.0
	IV	0.4	-4.0	-9.1	-0.1	-1.4	2.3	-2.4	0.8	-0.3	-2.3	5.3	1.0
2014	I	12.9	-3.4	-11.6	0.2	-0.4	5.0	-1.9	1.2	-0.7	-0.9	2.1	0.4
	II	-1.8	-0.1	-5.3	2.0	1.7	6.5	0.3	1.1	-1.7	0.8	2.6	0.2

(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

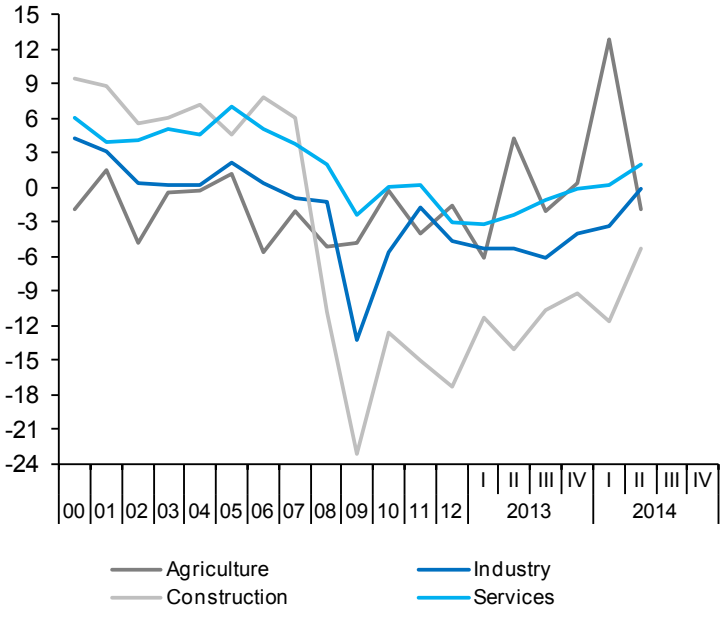


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

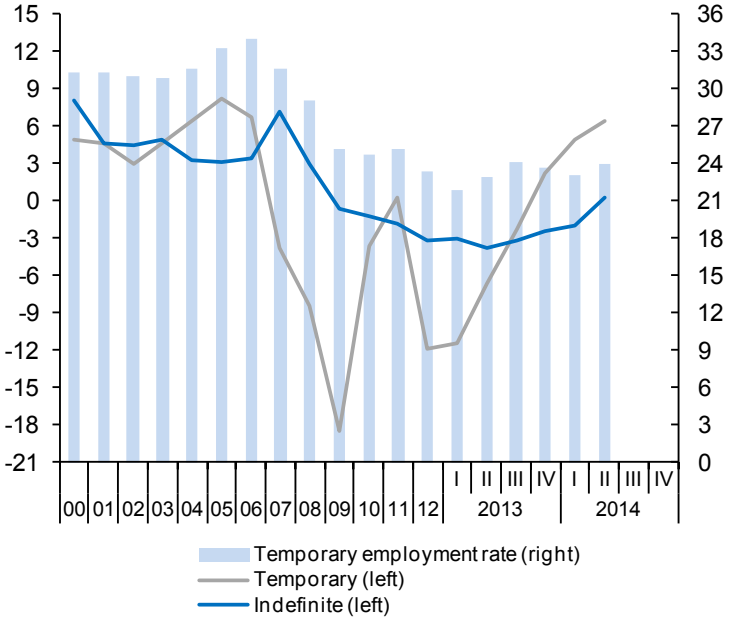


Table 14

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		103.9	102.4	103.1	101.1	103.1	106.6	104.3	109.1	105.9
2015		104.4	102.7	103.6	101.3	103.5	107.9	105.3	109.7	107.1
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		0.0	0.0	0.1	-0.3	0.2	0.4	-1.5	0.2	-0.2
2015		0.5	0.3	0.5	0.2	0.4	1.2	1.0	0.5	1.1
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	0.3	0.2	-3.8	2.6	-1.0
	Jul	-0.3	0.0	0.0	-0.4	0.2	-0.1	-5.2	0.3	-1.6
	Aug	-0.5	0.0	0.0	-0.4	0.2	-0.2	-5.4	-0.9	-1.8
	Sep	-0.2	0.0	0.0	-0.2	0.2	-0.2	-1.6	-0.9	-0.6
	Oct	-0.1	0.1	0.0	-0.2	0.2	-0.3	-0.2	-0.5	-0.3
	Nov	0.0	0.1	0.0	-0.1	0.2	-0.3	-0.1	0.4	-0.2
	Dec	0.0	0.2	0.1	-0.1	0.3	-0.2	-0.4	-0.2	-0.2
2015	Jan	0.1	0.3	0.2	0.1	0.4	0.0	-0.7	-0.1	-0.2
	Feb	0.1	0.3	0.3	0.1	0.3	0.2	-1.0	0.0	-0.1
	Mar	0.3	0.3	0.3	0.1	0.4	0.5	0.4	0.4	0.4
	Apr	0.4	0.3	0.4	0.2	0.3	0.8	0.5	0.2	0.7
	May	0.5	0.3	0.4	0.3	0.4	0.9	1.4	0.1	1.1
	Jun	0.5	0.3	0.5	0.3	0.4	1.3	1.5	0.2	1.3
	Jul	0.7	0.4	0.6	0.3	0.4	1.5	1.7	0.8	1.6
	Aug	0.7	0.4	0.6	0.3	0.5	1.7	1.7	1.0	1.7
	Sep	0.7	0.4	0.6	0.3	0.4	1.8	1.6	0.6	1.7
	Oct	0.8	0.4	0.7	0.3	0.5	1.8	1.6	1.0	1.7
	Nov	0.8	0.4	0.7	0.3	0.5	1.9	1.6	1.0	1.8
	Dec	0.8	0.4	0.7	0.3	0.5	1.9	1.6	1.0	1.8

Sources: INE and FUNCAS (Forecasts).

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

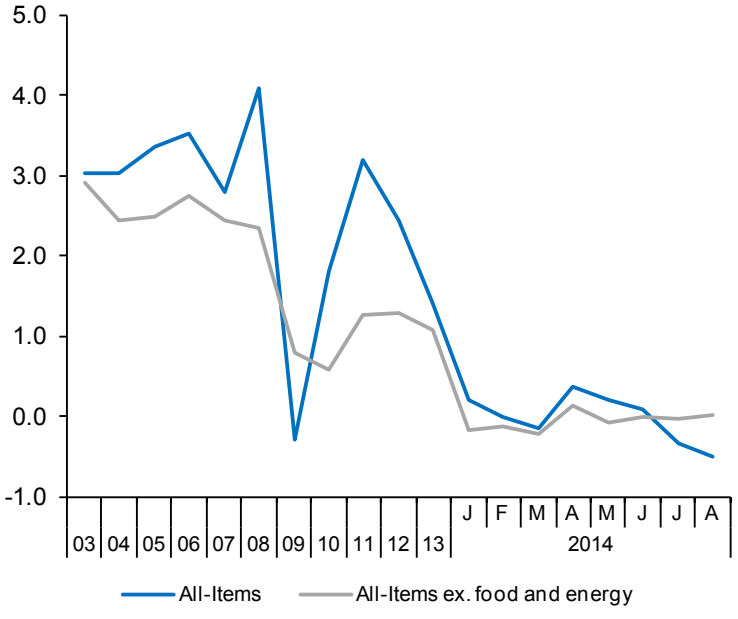


Chart 14.2.- Inflation rate (II)
Annual percentage changes

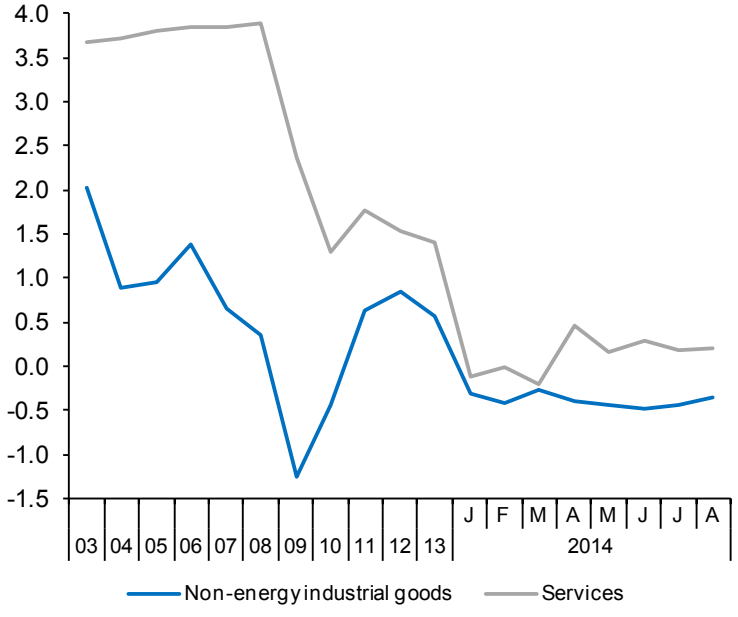


Table 15

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	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	137.5	134.8	145.6	142.5	--
2009	135.5	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.8	150.5	--
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	152.1	155.4	--
2014 (b)	136.1	110.4	105.8	64.2	71.0	53.7	142.9	139.9	152.0	150.4	--
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	152.6	--
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	136.2	109.8	105.7	63.6	71.0	50.8	139.8	135.2	154.0	145.6	--
II (b)	135.9	110.7	105.8	64.7	71.0	--	145.9	144.5	150.2	153.8	--
2014 May	--	110.7	105.9	--	--	--	--	--	--	--	--
Jun	--	111.7	105.9	--	--	--	--	--	--	--	--
Jul	--	111.8	106.0	--	--	--	--	--	--	--	--
Annual percent changes											
2008	2.4	6.5	4.5	-1.5	0.7	-8.9	4.8	5.1	4.1	4.6	3.6
2009	0.1	-3.4	-2.3	-6.7	-7.4	-5.8	3.5	3.2	4.3	5.6	2.3
2010	0.1	3.7	1.8	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.6	1.5
2011	0.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.1
2012	0.0	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.3
2013	0.6	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.5	0.6
2014 (c)	-0.5	-1.0	-1.1	-0.4	-3.3	-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	-1.8	0.0	-1.1	0.6
II	0.7	0.5	1.1	-12.0	-6.4	-17.4	-0.4	-0.6	0.2	-0.3	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)	-0.4	0.0	-1.0	0.8	-2.9	--	0.0	0.1	-0.3	0.8	0.5
2014 May	--	-0.4	-0.9	--	--	--	--	--	--	--	0.5
Jun	--	0.5	-0.8	--	--	--	--	--	--	--	0.5
Jul	--	-0.4	-0.6	--	--	--	--	--	--	--	0.6

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

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

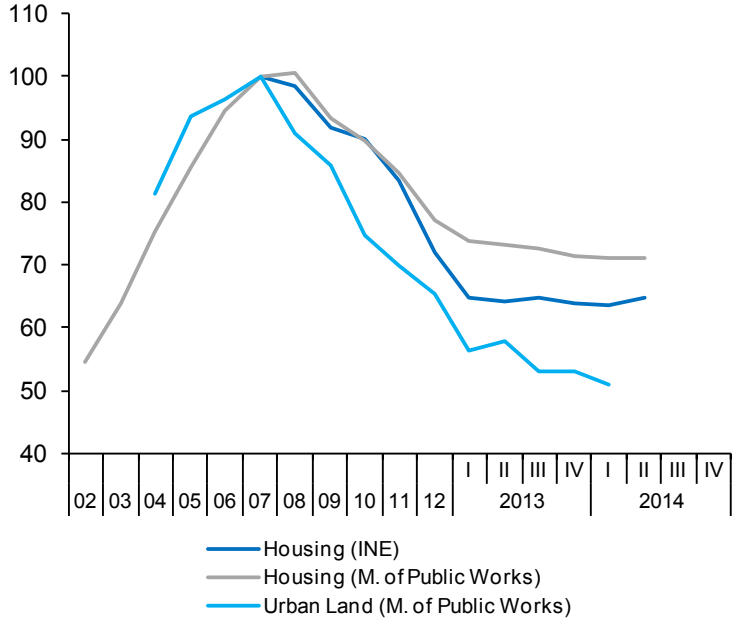


Chart 15.2.- Wage costs
Annual percent change

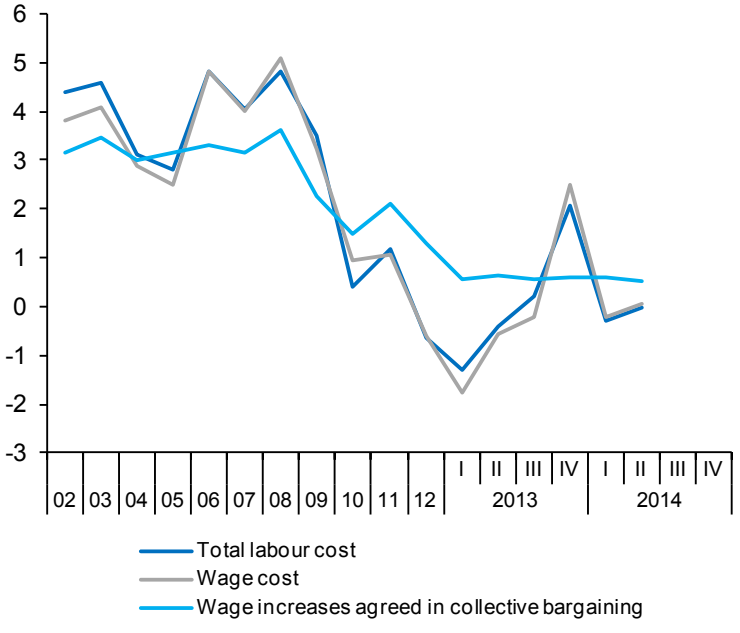


Table 16

External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries	Exports to non-EU countries	Total Balance of goods	Balance of goods excluding energy	Balance of goods with EU countries
	Nominal	Prices	Real	Nominal	Prices	Real					
	EUR Billions	**2005=100**		**EUR Billions**	**2005=100**		**EUR Billions**				
2008	189.2	109.0	112.0	283.4	109.1	111.5	131.0	58.2	-94.2	-50.7	-26.0
2009	159.9	101.6	101.5	206.1	96.2	92.0	110.7	49.2	-46.2	-18.8	-8.9
2010	186.8	103.2	116.7	240.1	100.6	102.4	126.5	60.3	-53.3	-17.9	-4.8
2011	215.2	108.2	128.4	263.1	109.1	103.5	142.6	72.6	-47.9	-4.0	3.6
2012	226.1	110.4	132.2	257.9	114.2	97.0	143.2	82.9	-31.8	14.3	12.2
2013	234.2	110.2	138.5	250.2	109.3	98.9	146.6	87.6	-16.0	26.0	17.7
2014 (b)	140.9	108.9	142.7	154.6	106.3	108.0	89.6	51.3	-13.7	10.9	7.4
2012 IV	58.6	112.5	134.8	61.1	114.5	92.2	35.6	23.0	-2.5	7.8	4.7
2013 I	57.1	108.9	135.6	61.4	111.1	95.4	35.5	21.6	-4.3	7.1	4.2
II	61.6	109.8	145.2	63.4	107.0	102.4	37.2	24.4	-1.8	8.3	5.1
III	59.4	110.8	138.8	63.3	110.1	99.3	37.6	21.8	-3.9	6.9	4.9
IV	59.0	111.4	137.2	62.3	109.5	98.2	36.9	22.1	-3.2	6.4	3.7
2014 I	58.8	109.0	139.7	65.6	105.5	107.4	37.5	21.4	-6.8	4.5	2.9
II	60.3	108.7	143.5	65.9	106.6	106.7	37.7	22.6	-5.6	4.3	2.4
III (b)	21.0	109.1	149.4	23.6	107.5	113.8	13.1	7.9	-2.6	0.8	0.5
2014 May	20.0	109.3	142.1	22.1	105.7	108.4	12.5	7.5	-2.1	1.4	0.9
Jun	20.1	108.6	144.0	21.6	107.5	104.1	12.8	7.4	-1.5	1.4	1.0
Jul	21.0	109.1	149.4	23.6	107.5	113.8	13.1	7.9	-2.6	0.8	0.5
	Percentage changes (c)								**Percentage of GDP**		
2008	2.3	1.6	0.7	-0.6	4.1	-4.5	-0.1	8.0	-8.7	-4.7	-2.4
2009	-15.5	-6.7	-9.4	-27.3	-11.8	-17.5	-15.5	-15.4	-4.4	-1.8	-0.9
2010	16.8	1.6	15.0	16.5	4.6	11.3	14.3	22.5	-5.1	-1.7	-0.5
2011	15.2	4.8	10.0	9.6	8.5	1.1	12.7	20.5	-4.6	-0.4	0.3
2012	5.1	2.0	3.0	-2.0	4.6	-6.3	0.5	14.1	-3.1	1.4	1.2
2013	3.6	-0.2	5.4	-3.0	-4.2	3.1	2.4	5.7	-1.6	2.5	1.7
2014 (d)	1.6	-0.6	2.3	6.5	-2.4	9.1	4.5	-3.0	--	--	--
2012 IV	11.8	7.1	4.2	-15.4	-1.3	-14.4	6.1	21.4	-1.0	3.0	1.9
2013 I	-9.9	-12.3	2.6	1.6	-11.5	14.5	-1.1	-22.4	-1.7	2.8	1.6
II	35.8	3.3	31.4	13.9	-13.7	32.6	21.3	62.6	-0.7	3.3	2.0
III	-13.7	3.7	-16.5	-0.7	11.8	-11.4	4.5	-36.7	-1.5	2.7	1.9
IV	-2.3	2.2	-4.4	-6.3	-1.9	-4.4	-7.5	7.0	-1.3	2.5	1.5
2014 I	-1.4	-8.3	7.4	23.4	-14.0	43.1	5.9	-12.6	-2.6	1.8	1.1
II	10.2	-1.1	11.3	1.7	4.2	-2.6	2.7	24.2	-2.2	1.7	0.9
III (e)	19.1	1.5	17.5	33.7	3.4	29.4	18.3	20.3	--	--	--
2014 May	-0.8	0.8	-1.6	-0.3	-0.9	0.6	1.1	-3.7	--	--	--
Jun	0.6	-0.6	1.3	-2.4	1.7	-4.0	1.9	-1.6	--	--	--
Jul	4.3	0.5	3.8	9.4	0.0	9.3	2.6	7.2	--	--	--

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

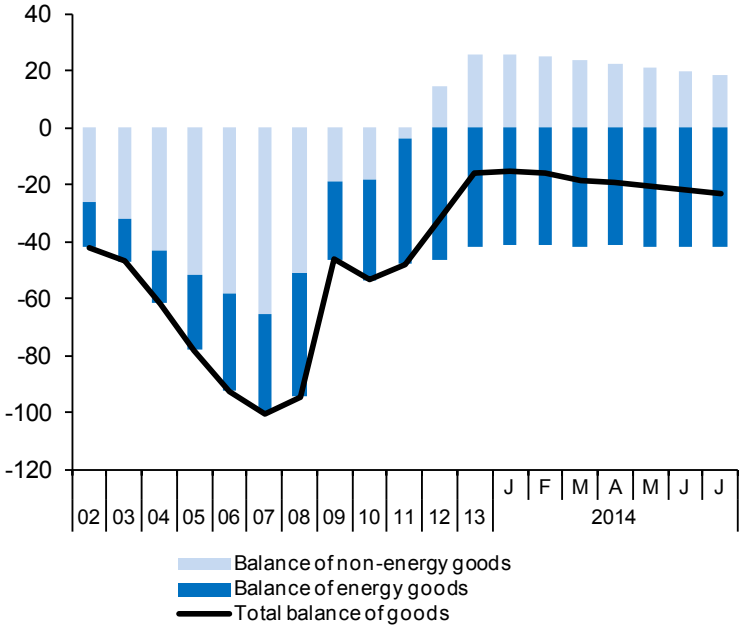


Table 17

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)	-9.93	-8.99	18.33	-12.67	-6.61	4.00	-5.93	-5.97	-5.29	5.31	-10.10	4.11	-3.04	14.94
2012 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
II	-1.70	-3.89	10.88	-6.37	-2.32	1.97	0.26	4.46	-1.04	18.57	-20.94	7.87	-16.33	11.61
2014 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
May	-0.58	-1.06	3.88	-2.69	-0.72	0.87	0.29	1.65	0.64	11.58	-11.21	0.64	-5.05	3.11
Jun	0.52	-1.41	4.29	-1.67	-0.69	0.52	1.03	6.70	-1.53	24.25	-16.52	0.50	-14.70	6.96
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 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
II	-0.6	-1.5	4.1	-2.4	-0.9	0.7	0.1	1.7	-0.4	7.0	-7.9	3.0	-6.2	4.4

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

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

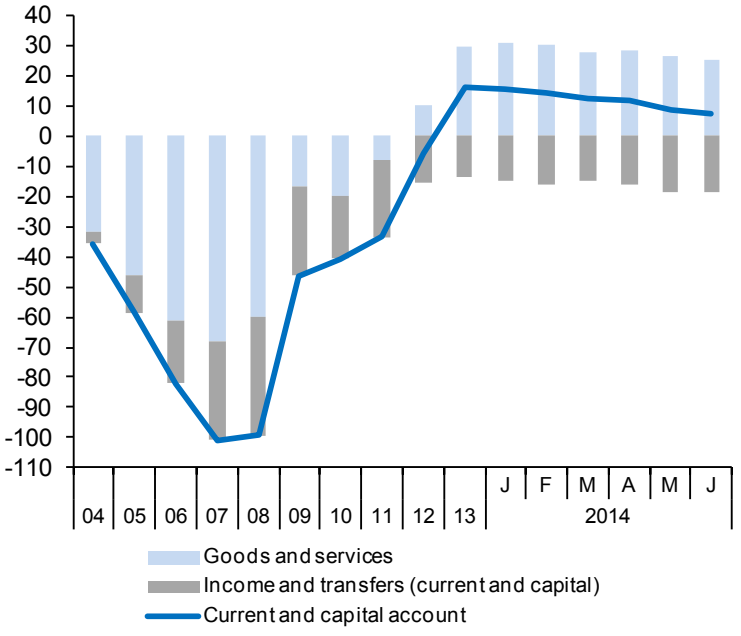


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

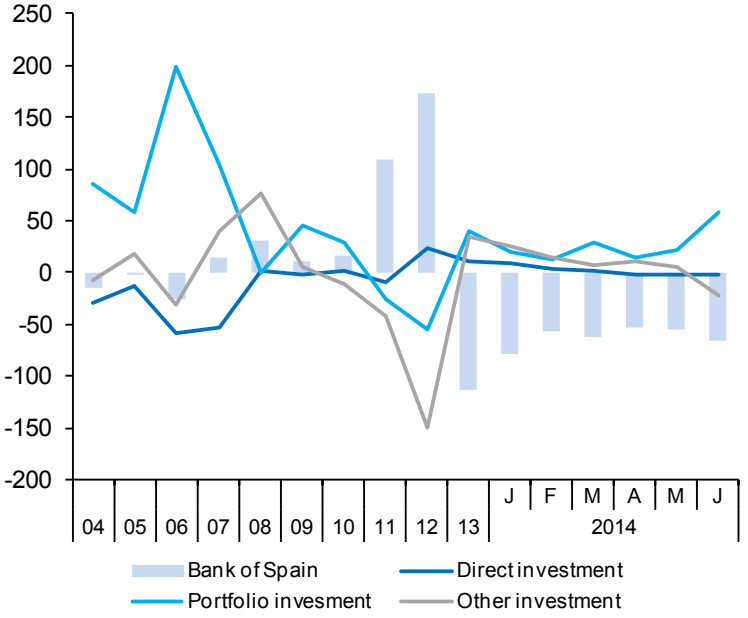


Table 18

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)	-32.0	70.5	102.5	115.8	50.3	48.7	16.8	-2.2	73.0	58.0	75.2	65.1
2014 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
Jun	-39.2	132.2	171.5	198.0	95.7	76.5	25.8	-14.0	118.1	98.3	132.1	112.7
Jul	-40.6	130.4	171.1	199.0	94.0	77.4	27.5	-15.3	117.7	98.4	133.0	113.2
Annual percentage changes												
2008	--	-20.2	8.1	-11.9	-15.7	-10.4	11.1	--	6.5	4.8	7.6	6.2
2009	--	-20.1	23.9	-13.9	-14.2	-21.2	20.4	--	-0.5	-1.3	4.7	5.9
2010	--	34.4	-5.6	7.7	-0.7	29.1	-15.7	--	-1.0	-1.7	4.5	6.2
2011	--	-4.0	-12.8	1.1	3.1	-0.9	-0.8	--	-0.7	-0.1	1.7	3.9
2012	--	-10.2	-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)	--	3.0	-2.6	7.3	0.0	8.2	33.4	--	-4.7	0.6	3.9	3.3
2014 May	--	4.3	5.6	-7.4	2.1	7.4	-47.8	--	0.9	-1.5	5.1	4.8
Jun	--	4.9	2.6	-6.8	3.9	4.3	-45.0	--	-2.7	-0.9	4.9	4.7
Jul	--	0.5	-0.3	4.9	1.1	4.0	24.3	--	-4.0	-0.5	5.1	4.5
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)	-3.1	6.9	10.0	11.3	4.9	4.8	1.6	-0.2	7.1	5.7	7.3	6.4
2014 May	-4.4	12.8	17.2	19.2	9.3	7.5	2.4	-1.1	11.8	9.6	12.9	11.0
Jun	-3.8	12.9	16.7	19.3	9.3	7.5	2.5	-1.4	11.5	9.6	12.9	11.0
Jul	-4.0	12.7	16.7	19.4	9.2	7.6	2.7	-1.5	11.5	9.6	13.0	11.1

(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

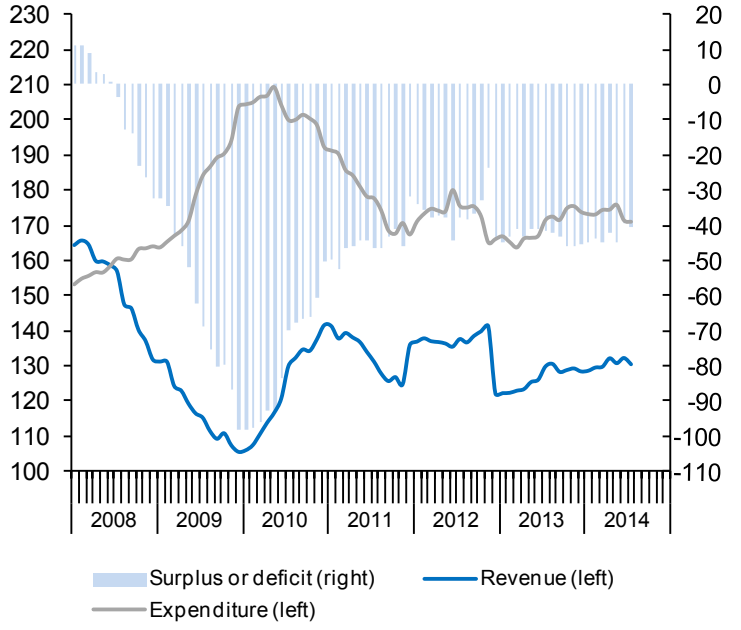


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

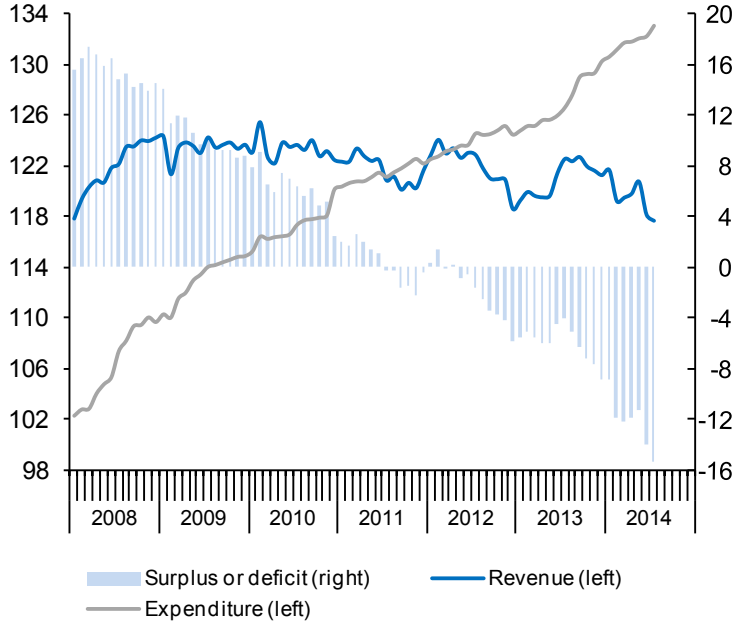


Table 19

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	2,472.0	383.8	1,213.8	874.4	--	15,182.3
2008	4.4	36.0	5.8	10.9	6.4	2,658.2	439.8	1,307.1	911.3	--	9,195.8
2009	4.0	70.4	3.4	10.5	4.7	2,770.8	568.7	1,298.8	903.3	--	11,940.0
2010	4.2	146.6	2.6	8.6	4.3	2,850.5	649.3	1,303.1	898.1	--	9,859.1
2011	5.4	277.8	3.5	8.6	5.1	2,872.2	743.5	1,258.0	870.6	--	8,563.3
2012	5.8	427.9	3.4	9.1	5.6	2,873.0	891.0	1,148.2	833.8	--	8,167.5
2013	4.6	293.3	3.2	9.7	5.5	2,820.9	966.2	1,068.7	786.0	--	9,916.7
2014 (a)	3.0	159.4	3.2	9.6	5.2	2,824.9	1,012.6	1,031.6	765.1	--	10,728.8
2012 IV	5.6	413.6	3.1	8.8	5.5	2,873.0	891.0	1,148.2	833.8	--	8,167.5
2013 I	5.1	353.5	3.2	9.5	5.6	2,873.4	930.4	1,123.7	819.4	--	7,920.0
II	4.5	308.9	3.2	9.6	5.7	2,869.6	950.4	1,104.9	814.2	--	7,762.7
III	4.5	274.2	3.2	9.9	5.5	2,846.8	961.3	1,088.5	797.0	--	9,186.1
IV	4.2	236.6	3.2	9.7	5.3	2,820.9	966.2	1,068.7	786.0	--	9,916.7
2014 I	3.6	186.8	3.3	9.7	5.4	2,819.5	995.9	1,049.1	774.5	--	10,340.5
II	2.9	148.4	3.2	9.6	5.1	2,824.9	1,012.6	1,039.1	773.2	--	10,923.5
III (a)	2.5	134.9	3.1	9.4	4.9	--	--	1,031.6	765.1	--	10,728.8
2014 Jun	2.7	136.0	3.3	9.5	4.9	2,824.9	1,012.6	1,039.1	773.2	--	10,923.5
Jul	2.7	145.9	3.1	9.4	4.9	--	--	1,031.6	765.1	--	10,707.2
Aug	2.3	123.9	--	--	--	--	--	--	--	--	10,728.8
						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	-4.4	21.4
2014 (a)	--	--	--	--	--	-0.9	6.7	-4.7	-4.5	0.6	19.4
2012 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	--	--	--	--	--	-1.3	7.1	-5.6	-4.8	-5.1	4.3
II	--	--	--	--	--	-0.9	6.7	-4.8	-4.4	-1.5	5.6
III (a)	--	--	--	--	--	--	--	-4.7	-4.5	0.6	-1.8
2014 Jun	--	--	--	--	--	-0.9	6.7	-4.8	-4.4	-1.5	1.2
Jul	--	--	--	--	--	--	--	-4.7	-4.5	0.6	-2.0
Aug	--	--	--	--	--	--	--	--	--	--	0.2

(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

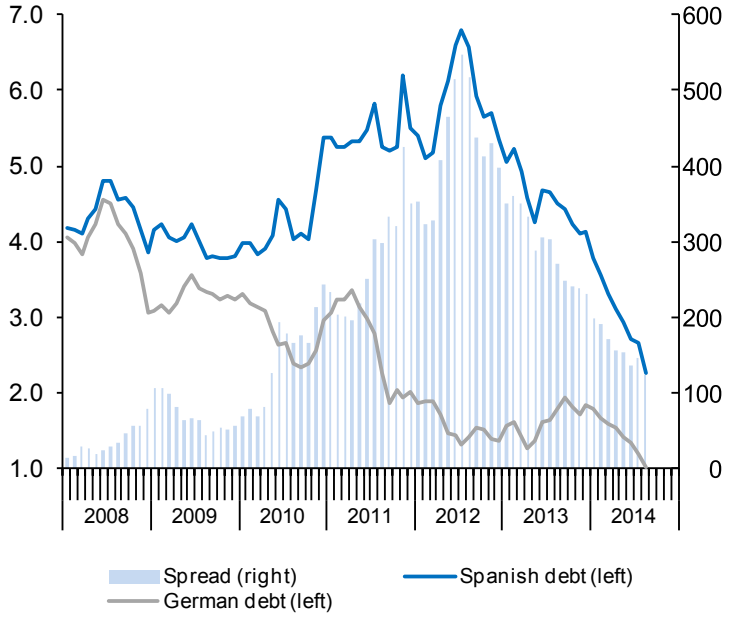


Chart 19.2.- Credit stock growth
Annual percentage change

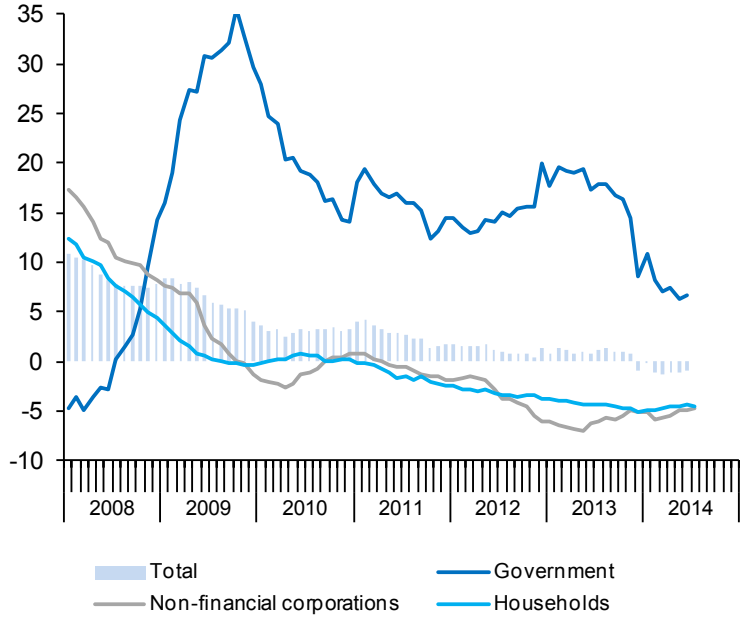


Table 20

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	102.6	108.5	106.3	102.1	112.8
2012 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	108.0	106.5	101.4	112.6
II	--	--	--	121.9	118.2	103.1	108.7	106.2	102.4	113.4
III (a)	--	--	--	120.0	117.5	102.1	109.7	106.2	103.3	111.6
2014 Jun	--	--	--	121.8	118.2	103.0	109.5	106.3	103.0	113.0
Jul	--	--	--	119.9	117.4	102.1	109.7	106.2	103.3	111.6
Aug	--	--	--	120.1	117.5	102.1	--	--	--	--
	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)	--	--	--	0.0	0.5	-0.5	-1.5	-1.2	-0.2	-0.3
2012 IV	--	--	--	3.2	2.3	0.9	1.8	1.8	0.0	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	-2.6	-1.5	-1.1	-0.1
II	--	--	--	0.2	0.6	-0.4	-0.5	-1.0	0.4	-0.2
III (b)	--	--	--	-0.7	0.2	-0.9	-0.6	-1.0	0.5	-1.4
2014 Jun	--	--	--	0.0	0.5	-0.5	0.0	-0.7	0.7	-0.7
Jul	--	--	--	-0.4	0.4	-0.7	-0.6	-1.0	0.4	-1.2
Aug	--	--	--	-0.5	0.3	-0.8	--	--	--	--

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

Sources: Eurostat, Bank of Spain and Funcas.

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

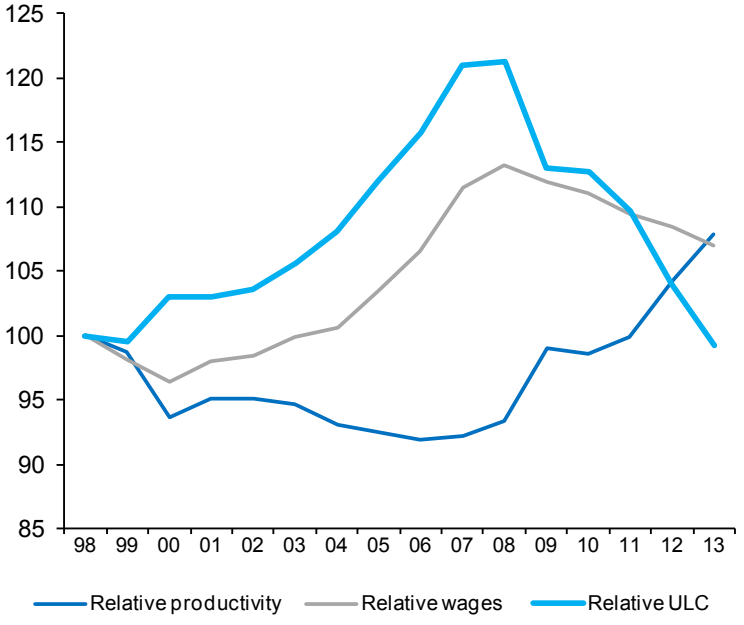


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

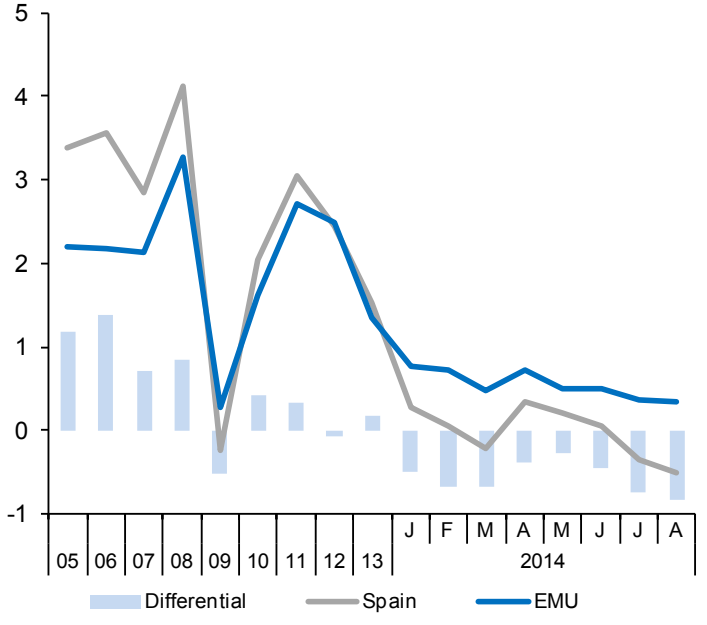


Table 21a

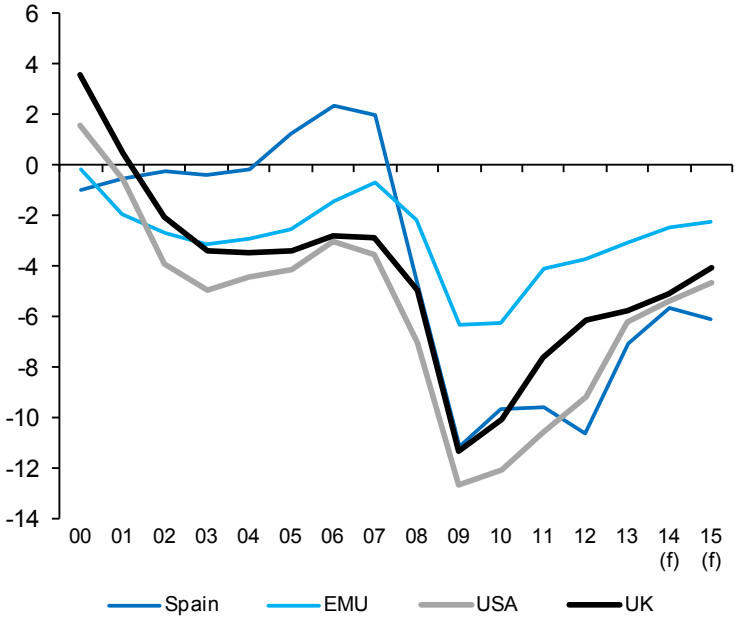
Imbalances: International comparison (I)

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	-1,048.0	-93.4	960.7	9,121.3	17,558.5	1,461.0	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

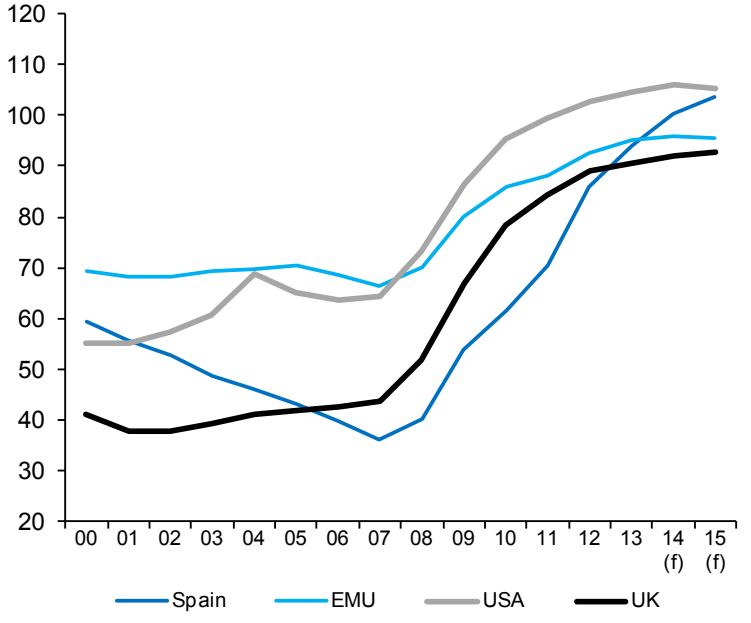
Source: European Commission.

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	4,777.6	11,721.3	1,157.4	951.5	7,106.4	8,683.4	1,128.4	528.3	8,242.8	12,958.0	2,403.7
2006	780.7	5,198.3	12,946.4	1,276.0	1,191.4	7,780.4	9,651.8	1,226.4	753.9	9,231.3	14,261.3	2,644.4
2007	876.6	5,565.9	13,830.1	1,388.6	1,386.4	8,605.4	10,975.6	1,309.4	980.4	10,587.9	16,204.9	3,161.0
2008	913.4	5,820.2	13,849.6	1,437.2	1,477.4	9,234.4	11,660.5	1,508.6	1,042.5	11,547.1	17,103.3	3,613.8
2009	906.7	5,949.1	13,546.3	1,437.6	1,466.1	9,214.6	11,317.0	1,457.3	1,121.1	12,137.7	15,714.4	3,558.8
2010	903.0	6,120.3	13,214.8	1,439.4	1,501.1	9,464.7	11,404.8	1,435.8	1,107.1	12,196.7	14,454.9	3,706.6
2011	875.8	6,210.3	13,052.9	1,448.6	1,478.3	9,616.5	11,943.0	1,444.6	1,125.0	12,653.6	14,035.8	3,598.7
2012	838.8	6,198.2	13,044.2	1,467.6	1,375.5	9,688.6	12,734.0	1,515.1	1,154.7	12,918.6	13,804.0	3,677.8
2013	789.4	6,154.4	13,146.1	1,473.4	1,319.0	9,681.5	13,604.4	1,513.8	967.5	12,229.2	13,947.1	3,586.1
Percentage of GDP												
2005	71.9	58.6	89.5	90.6	104.6	87.1	66.3	88.4	58.1	101.0	99.0	188.3
2006	79.2	60.6	93.4	94.6	120.9	90.7	69.7	90.9	76.5	107.6	102.9	196.0
2007	83.2	61.5	95.5	97.2	131.6	95.1	75.8	91.7	93.1	117.0	111.9	221.4
2008	84.0	62.8	94.1	98.3	135.8	99.7	79.2	103.2	95.8	124.6	116.2	247.2
2009	86.6	66.5	93.9	101.4	140.0	103.1	78.5	102.8	107.1	135.8	109.0	251.1
2010	86.4	66.6	88.3	96.9	143.6	103.0	76.2	96.6	105.9	132.8	96.6	249.5
2011	83.7	65.8	84.1	94.3	141.3	101.8	77.0	94.0	107.5	134.0	90.4	234.1
2012	81.5	65.2	80.7	94.2	133.7	101.9	78.8	97.2	112.2	135.9	85.4	236.0
2013	77.2	64.1	78.4	91.4	128.9	100.8	81.1	93.9	94.6	127.4	83.2	222.3

(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

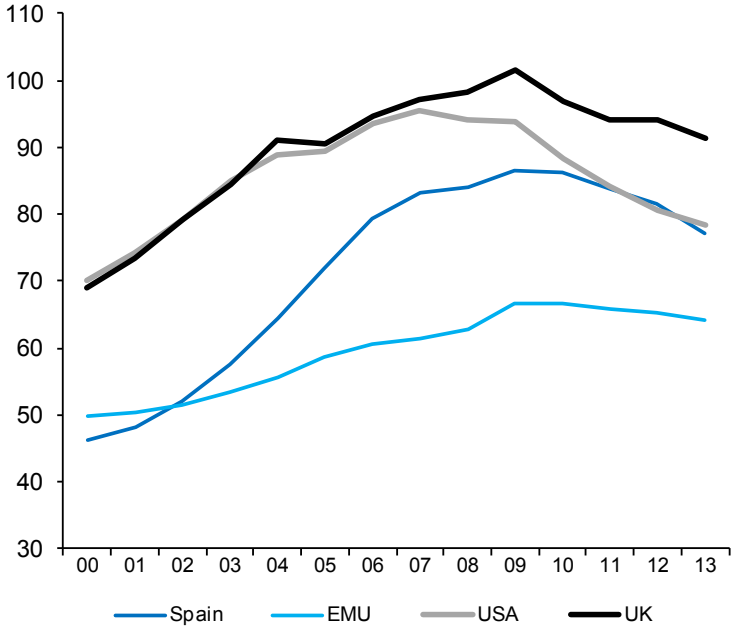
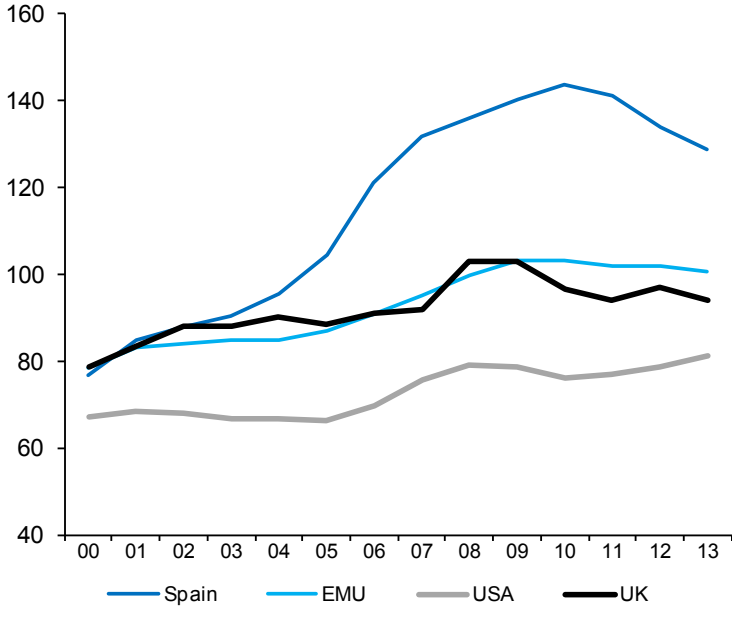


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: September 15th, 2014

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.5	June 2014
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.9	June 2014
Doubtful loans (monthly % var.)	-2.0	June 2014
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	483,061	August 2014
Recourse to the Eurosystem (Spanish financial institutions, million euros)	162,54	August 2014
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	37,585	August 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 August	2014 September	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	0.18	0.10	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.1	1.1	0.54	0.46	0.38	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.5	5.8	4.6	2.14	5.6	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.5	5.8	3.9	2.04	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": There has been a significant reduction in interbank rates during the first fortnight of September. The 3-month Euribor rate fell to 0.10% while the 1-year Euribor rate decreased to 0.38%. This evolution is mainly explained by the surprising action undertaken by the European Central Bank by reducing the reference rates, and also by announcing non-standard monetary policy actions such as a (securitized) asset purchase program. As for the Spanish 10-year bond yield, it has increased during this period to 2.33%.

B. Financial markets

Indicator	Source:	Average 1998-2011	2012	2013	2014 June	2014 July	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	24.5	84.7	82.9	77.4	68.4	(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	73.4	87.6	(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	1.9	0.7	(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	7.1	3.7	(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	0.1	0.1	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	957.6	966.6	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	0.9	-0.8	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	4.5	19.4	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	1,116.05	1,105.3[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	10,923.5	10,841.3[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	28.6	21.2	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 June	2014 July	Definition and calculation
17. Long-term bonds. Stock trading volume (%chg.)	Bank of Spain and Madrid Stock Exchange	3.4	-15.1	-23.5	-9.2	65.1	Variation for all stocks
18. Commercial paper. Trading balance (%chg.)	Bank of Spain and AIAF	2.0	73.9	80.7	-4.9	-1.3	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	0.9	-8.3	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	7.8	54.1	-22.8	88.6	-45.8	IBEX-35 shares concluded transactions

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

Comment on "Financial Markets": During the last month, there has been an increase in transactions with outright spot T-bills, and of spot government bonds transactions of 68.4% and 87.6%, respectively. The stock market has lost some momentum in the first fortnight of September, with the IBEX-35 falling to 10,841 points, and the General Index of the Madrid Stock Exchange at 1,105. Additionally, there was an 8.3% fall in financial IBEX-35 future transactions and a 45.8% decrease in transactions of IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2004-2010	2011	2012	2013 Q IV	2014 Q I	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.7	-3.4	-0.2	1.5	1.1	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	0.6	3.1	1.3	3.4	2.6	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	328.6	332.7	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 IV	2014 Q I	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	77.1	76.0	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	4.2	1.6	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average %chg.)	Bank of Spain	9.9	-0.5	-0.7	-1.3	-1.3	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2014Q1, there was a 1.1% 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 76.0%. Finally, the stock of financial assets on households' balance sheets registered an increase of 1.6%, 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 May	2014 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	12.8	-10.4	-9.5	-0.8	0.5	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	10.6	-1.8	1.3	1.0	0.9	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	1.2	-1.2	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	-0.8	-6.2	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	-6.6	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 May	2014 June	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	34.9	20.0	17.8	-1.2	-2.0	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	-10.4	19.0	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	11.3	-12.1	19.6	-0.1	-3.9	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development": The latest available data as of June 2014 show a 0.5% increase in bank credit to the private sector and also a 0.9% growth in financial institutions´ deposit-taking from the previous month. Holdings of debt securities have decreased by 1.2% while shares and equity have fallen by 6.2%. Also, doubtful loans decreased 2% 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	483,061[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	162,546[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	37,585[a]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: August 2014.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In August 2014, the recourse to Eurosystem funding by Spanish credit institutions accounted for 33.64% of net total funds borrowed from the ECB by the Eurozone. This means a 1,852 million increase in the recourse to the Eurosystem by Spanish banks from July.

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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