Spanish Economic and Financial Outlook

Spain´s financial sector in a new era of European banking supervision

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FEATURES

Letter from the Editors

The November issue of the SEFO analyzes the latest available macroeconomic and financial sector data to assess the overall outlook for the Spanish economy and financial sector, in addition to the credibility of the 2015 draft General Budget.

Although the latest data point to a deceleration trend in growth over the last two quarters of the year, Spain´s recovery continues. The loss of momentum is probably just a temporary dip, given that in 2015, the growth rate will gain pace as a result of improvements in financial conditions, tax cuts, and falling oil prices. Provided the Eurozone manages to consolidate its recovery, Spain´s average annual growth will be around 2%. We see that the biggest risks to the world economy, and specifically to Spain, in the coming year derive from two factors: i) the possibility of the Eurozone's economy relapsing into recession–or at least becoming mired in a prolonged stagnation; and, ii) the uncertain impact of rising U.S. interest rates on world financial markets and on the emerging economies, in particular.

Longer-term growth prospects for Spain will remain favorable if the country improves innovation performance. In this issue, we show how fiscal consolidation and a suboptimal regulatory climate have left Spain not converging to the EU average R&D+I performance, but rather deviating from it. An immediate and radical change on both fronts −budget and reforms− is needed if Spain is to preserve the knowledge creation capacity that has been so costly to build in the past 20 years.

Looking at the financial sector, we examine the results of the ECB´s comprehensive assessment of the European banking sector, the precursor to the entry into force of the ECB as single banking supervisor of the European Union on November 4th. Spain's performance on the assessment was quite favourable, both in absolute and relative terms. Of the 15 Spanish banks subject to the assessment, 14 passed without any observations. The overall impact of the combination of the asset-quality-review (AQR) and the stress-test under the adverse scenario results in just a 1.6% correction on average in the solvency ratio CET1, compared with 3.5% for the average bank examined in the exercise.

On a related note, we also look at patterns of cross-border activity of the Spanish banking sector in the EU context. Latest ECB data reveal that the crisis led to a new scenario, which broke the European banking market´s trend towards greater openness, internationalisation, and financial integration. Despite this setback, EU cross-border activity in Spain and in Europe has, for the most part, recovered.

Profitability remains the main challenge for Eurozone banks. Moreover, given the regulatory pressures that banks face and the macroeconomic uncertainty, it will be difficult to restore credit growth in the short-term, although the upcoming liquidity programs of the ECB may have a positive impact.

In light of the still challenging liquidity climate, this SEFO explores the emergence of alternative, external financing channels for Spanish corporates. In an environment historically characterized by high likelihood of corporate default, a large share of Spanish companies have become more selective in granting loans to their clients. In addition, companies have been facing more and more roadblocks to discounting commercial notes in traditional banking channels. Although reliance on traditional bank finance remains high in Spain, current conditions are laying the groundwork for the growth of alternative financing sources, although they do not yet present a true opportunity for SMEs.

On the fiscal front, this issue highlights the main features of Spain's draft 2015 General State Budget and attempts to determine its reliability in addition to the probability of meeting fiscal targets agreed-upon with the EU. Although optimistic, the 2015 proposals seems to be a credible one, with revenue forecasts taking into account the expected improvement in economic conditions, together with the anticipated effects of the tax reform that will enter into force in January 2015, with changes applicable, for the most part, to the individual and corporate income tax. On the expenditure side, the Government anticipates an overall cut of 1.5% *versus* 2014, or 0.5% of GDP, supported by decreases in unemployment benefits and other benefits, together with a reduction in debt servicing costs. Uncertainties regarding economic conditions, together with major challenges at the regional level, will be key determinants for achieving the main objective of the budget – fiscal consolidation.

Finally, we take a closer look at what is really happening in the Spanish real estate market, a sector of vital importance for the economy. After seven years of contraction, the latest figures released point to an uptick in this sector, specifically, as regards the recovery in and growing importance of second home purchases, which account for 17.3% of the total in the first half of the year. The possible elimination of the amortisation coefficient in 2015, the chance to obtain a long-stay visa or residence permit by acquiring a home for over 500,000 euros and, above all, the improvement in the economic climate coupled with intense price corrections in the coastal markets could continue to prop up holiday-home transaction volumes in the months to come. This would not only help to absorb the huge overhang of unsold housing, but also to restore financial stability within the sector, for banks operating in these markets and the economy as a whole.

Modest slowdown of Spain´s recovery in the second half of 2014

Ángel Laborda and María Jesús Fernández[1]

Spain´s recovery continues, but at a slower pace. While growth rates should increase in 2015, consolidating the recovery and transitioning to a sustainable growth model in the long-term will require further correction of fiscal and macroeconomic imbalances through structural reform.

The pace of Spain´s economic recovery slowed in the third quarter of the year, and, although the data are still very preliminary, this trend appears to have continued into the fourth quarter. This is a temporary dip, however, and the growth rate is expected to regain momentum in 2015, provided the euro area consolidates its recovery. One worrying feature of recent economic developments though is the deteriorating trade balance caused by the sharp rise in imports, driven by a recovery in consumer spending and equipment investments, and ultimately, highlighting the weaknesses of Spain's manufacturing industry.

External context

The recent international economic context has been characterised by the contrast between the strength of the U.S. economy on the one hand, and the fragility of the Eurozone, which has not managed to consolidate its recovery, on the other. At the same time, the emerging economies have lost momentum. The latter are suffering the impact of the slowdown in the Chinese economy, falling commodity prices, financial market instability, and, in some cases, the emergence of economic/ financial imbalances, together with falling growth potential.

U.S. GDP is growing at a trend rate of around 2.5%, and its unemployment rate is below 6%, while the euro area's economy has been practically stagnant in the second and third quarters, with an unemployment rate of 11.5% and inflation below 0.5%. This uneven economic progress on each side of the Atlantic is reflected in the divergent orientation of monetary policy. Thus, while the U.S. Federal Reserve has ended its "Quantitative Easing" debt purchase scheme and is expected to start raising interest rates in the middle of next year, the European Central Bank has cut interest rates and is implementing a series of extraordinary measures to increase liquidity and reactivate credit.

The impact of these measures will probably be limited, as declining credit in the Eurozone is not being caused by a shortage of liquidity, but rather of demand, in a context of high levels of private debt, and the process of balance-sheet clean-up, restructuring, and recapitalisation currently under way at many European banks. The effect of

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these measures on economic activity may arise from the reduction in interest rates on loans to households and businesses, rather than out of the induced increase in credit volumes, particularly in the peripheral countries.

Another consequence of the divergence between monetary policies in the United States and Europe is the depreciation of the euro, which since its annual high in March, has lost 8% of its value against the dollar. In any event, the impact of this depreciation on exports and economic activity in the Eurozone will be limited.

Looking ahead to 2015, the biggest risks to the world economy, and specifically to Spain's economic recovery gaining traction, derive from the possibility of the Eurozone's economy relapsing into recession–or at least becoming mired in a prolonged stagnation–and the uncertain impact of rising U.S. interest rates on world financial markets and on the emerging economies, in particular.

In 2015, the biggest risks to the world economy, and specifically to Spain, derive from the possibility of the Eurozone's economy relapsing into recession –or at least becoming mired in a prolonged stagnation– and the uncertain impact of rising U.S. interest rates on world financial markets and on the emerging economies, in particular.

The Spanish economy in the second half of 2014

Spain's GDP grew by 0.5% in the third quarter, one tenth of a percentage point less than in the previous quarter. This brought the year-on-year rate to 1.6%. Although the detailed figures are not yet available, the contribution of national demand looks similar to that in the preceding quarter, although with slower growth in consumer spending and equipment investments, and faster growth in construction investment, and a more negative contribution from the external sector.

The indicators suggest a slight deceleration in consumer spending, following the marked 3% increase in annualised terms the previous quarter. However, growth will remain relatively strong, at around 2%. Both the retail trade index and sales of consumer goods declared to the tax collection agency by large corporations registered more moderate growth than in the previous period, as in the case of sales of cars to private individuals and overnight hotel stays by Spanish residents. By contrast, imports of consumer goods in July-August dropped relative to the second quarter. The quarterly average consumer confidence index also deteriorated with respect to its average in the previous quarter (Exhibits 1.1 and 1.2).

A moderation in this component of demand was to be expected, as its growth in the first half of the year was not underpinned by a recovery in household spending capacity, but came at the expense of a drop in the savings rate to historical lows, which could not be sustained for long. Moreover, spending was concentrated on durable consumer goods, particularly cars, sales of which had grown in the period –in part, thanks to the government's incentives– at a rapid pace that was unlikely to be sustainable.

Growth in investments in capital goods may have slowed as a consequence of the drop in investments in transport equipment. Registrations of goods vehicles dropped, as did imports of capital goods, although large corporations' sales of capital goods grew at a rate similar to that in the previous quarter. At the same time, investment goods orders rose slightly, reaching their highest level in six years (Exhibits 1.3 and 1.4).

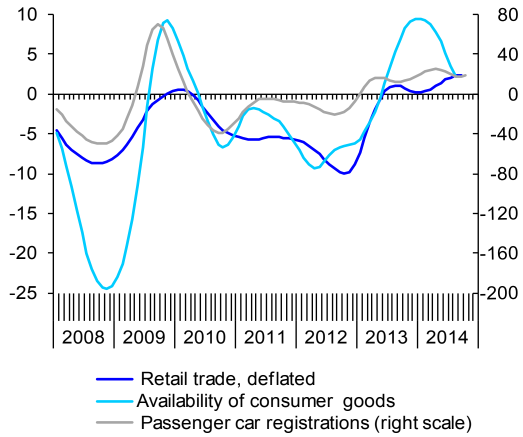
Construction investment, which rose in the second quarter due to the recovery in the non-residential sector and the notable slowing of the decline

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption indicators (I)

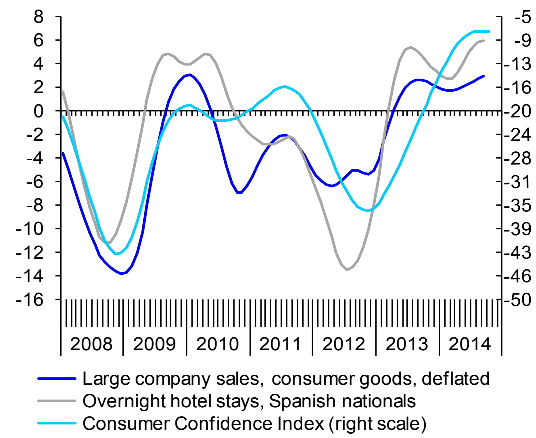
Annualised moving quarterly change in %, smoothed series



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

1.2 - Consumption indicators (II)

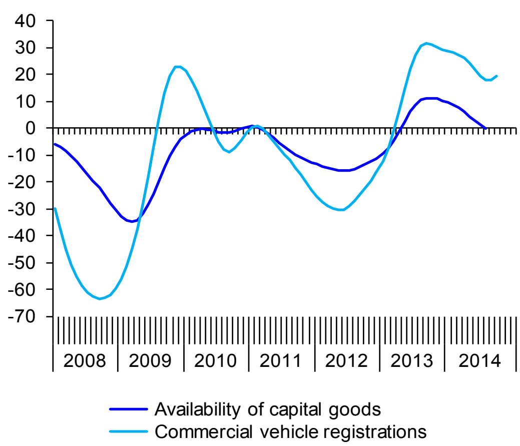
Annualised moving quarterly change in % and index (CCI), smoothed series



Sources: European Commission, INE, AEAT and FUNCAS.

1.3 - Capital goods GFCF indicators (I)

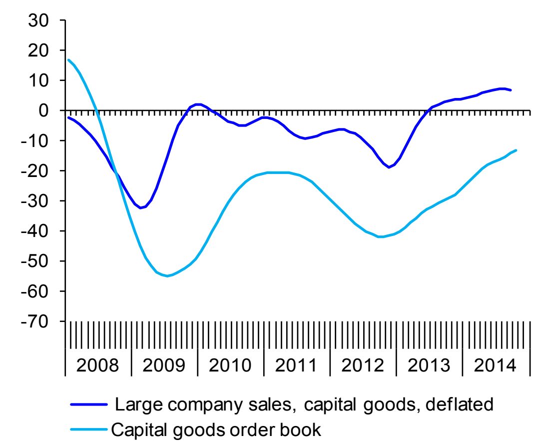
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy, DGT and FUNCAS.

1.4 - Capital goods GFCF indicators (II)

Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Industry, AEAT and FUNCAS.

in the residential sector, may have improved its performance in the third quarter. Official tenders have grown rapidly, while growth rates in new housing permits have also turned positive (Exhibits 2.5 and 2.6). The property market has stabilised and housing sales have begun to pick up, while prices have halted their descent. This all suggests that the sharp adjustment in the residential construction sector since the start of the crisis may be coming to an end.

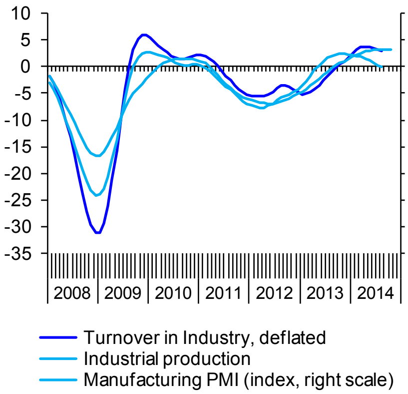
Exports, in real terms, according to customs figures, moderated their growth in the period July-September compared to the previous quarter, although

Exhibit 2

Industrial activity, services and construction indicators

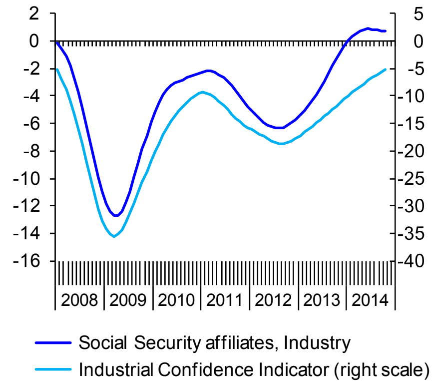
2.1 - Industrial sector indicators (I)

Annualised moving quarterly change in % and index, smoothed series



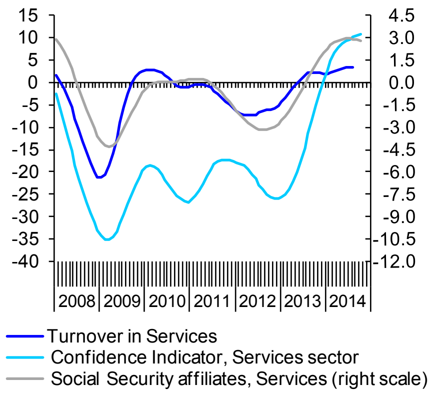
2.2 - Industrial sector indicators (II)

Annualised moving quarterly change in % and index, smoothed series



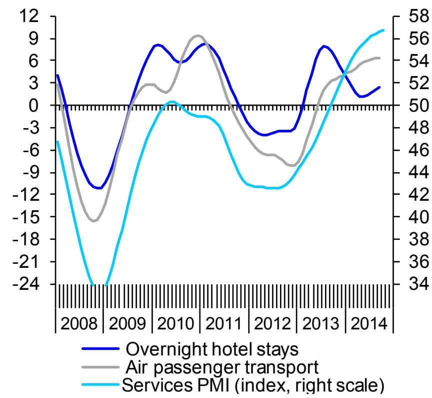
2.3 - Services indicators (I)

Annualised moving quarterly change in % and index, smoothed series



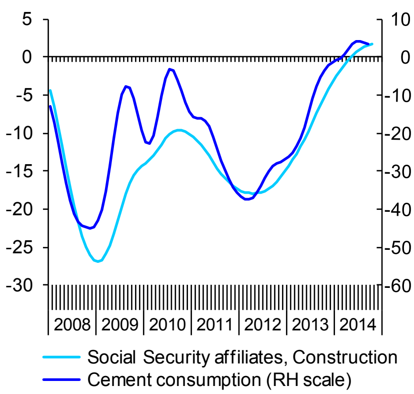
2.4 - Services indicators (II)

Annualised moving quarterly change in % and index, smoothed series



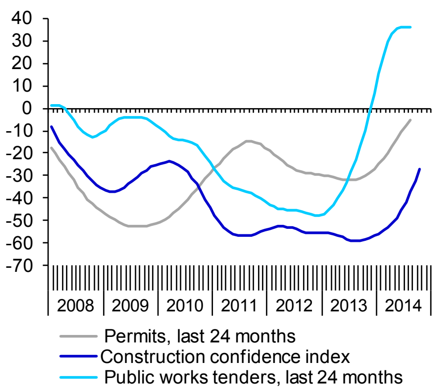
2.5 - Construction sector indicators (I)

Annualised moving quarterly change in %



2.6 - Construction sector indicators (II)

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



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

they maintained a strong trend rate–around 6% in annualised terms–particularly so considering the unfavourable international context. Imports, on the other hand, rose sharply, led by intermediate goods. Purchases of consumer goods and equipment, by contrast, contracted during the period (Exhibit 3.1).

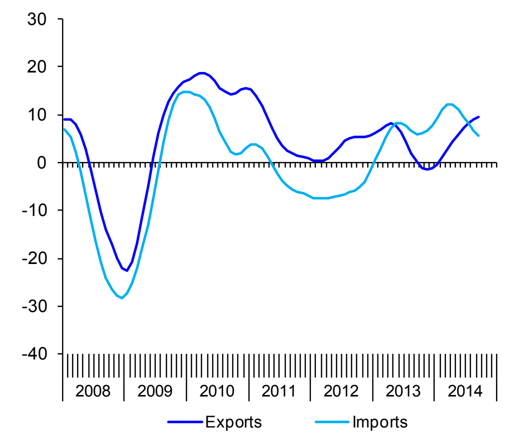
The main indicators of industrial activity, such as the industrial production index (IPI), turnover at constant prices or sales of industrial goods by large corporations, dropped or slowed significantly in the third quarter compared to the preceding quarter, although the data for the period as a whole are still incomplete. However, although the average Purchasing Managers' Index (PMI) was down on the previous quarter, it remained over 50, indicating positive growth rates. Employment in the sector also continued to grow, as shown

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

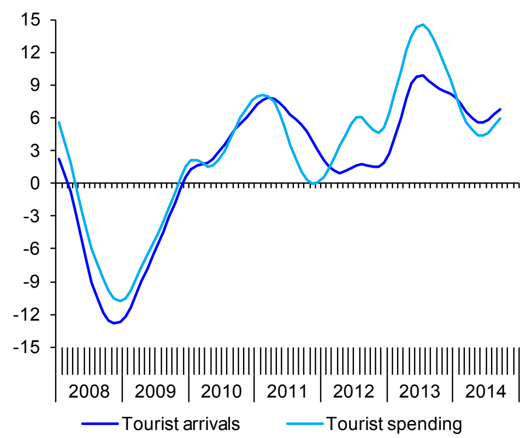
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Economy.

3.2 - Tourism sector

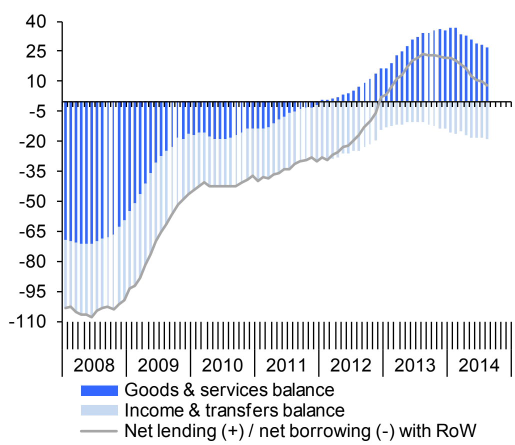
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Economy.

3.3 - Balance of payments

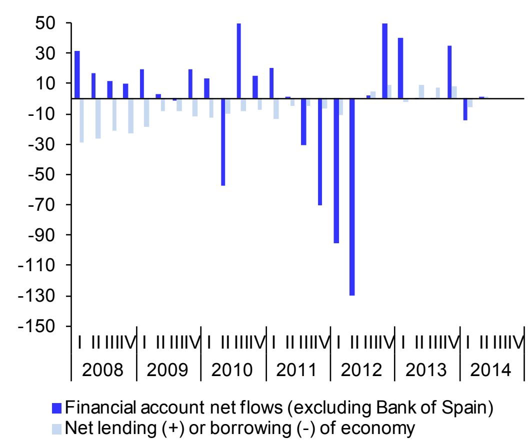
EUR billion, cumulative last 12 months



Source: Bank of Spain.

3.4 - Balance of payments

EUR Billions



Source: Bank of Spain.

by both the Labour-Force Survey (LFS) and the number of social security affiliates, while the confidence indices and order book continued their upward trend (Exhibits 2.1 and 2.2).

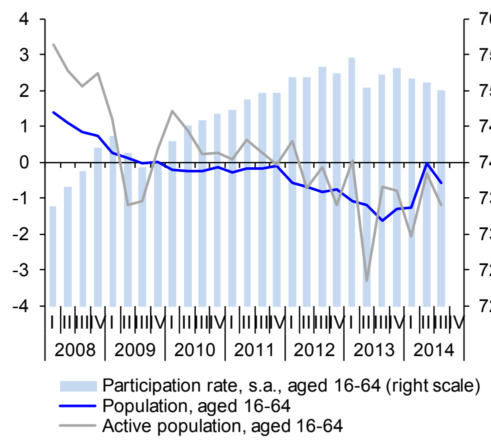
All the indicators concerning the services sector clearly point to a continuation of growth in the third quarter. The sector's turnover grew at a somewhat more moderate pace than in the preceding period, as did overnight hotel stays and the number of social security system affiliates. Nevertheless, sales by large services companies accelerated and the PMI reached a quarterly average higher than in the previous period, which also indicates a faster growth rate (Exhibits 2.3 and 2.4). In the tourism industry (Exhibit 3.2), the

Exhibit 4

Labour market indicators

4.1 - Labour supply

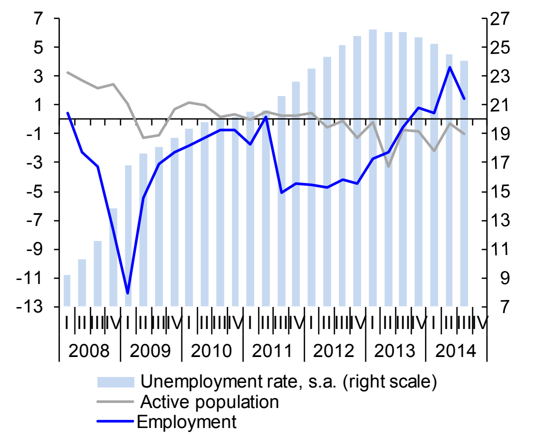
Change q-o-q in % and percentage of population aged 16-64



Source: INE (LFS).

4.2 - Employment and unemployment (LFS)

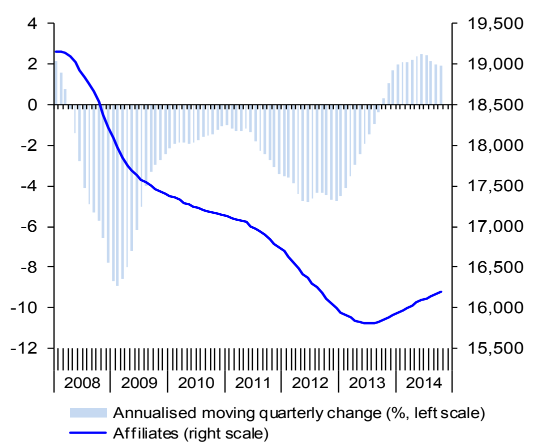
Change q-o-q in % and percentage of working age population



Source: INE (LFS).

4.3 - Social Security affiliates

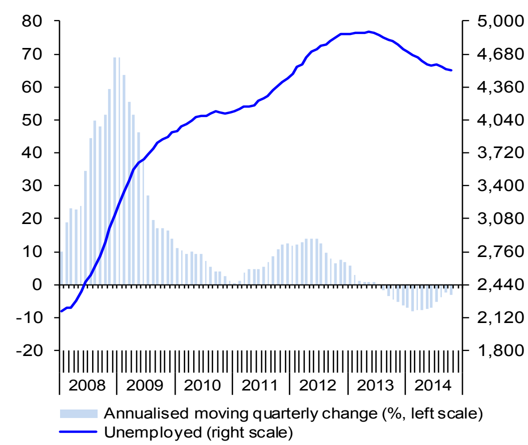
Annualised moving quarterly change in % and thousands



Sources: Ministry of Labour and FUNCAS.

4.4 - Registered unemployment

Annualised moving quarterly change in % and thousands



Sources: Ministry of Labour and FUNCAS.

number of arrivals picked up in the third quarter, as did tourist spending, although growth in overnight hotel stays by foreign nationals was near zero. This is explained by the increasing use of non-hotel accommodation by visitors. In any event, total overnight stays continued to grow, thanks to the increase in overnight stays by Spanish residents.

In the case of the construction sector, the growth in employment stands out, according to figures for both social security affiliations and the LFS. Together with rising cement consumption and the significant increase in confidence in the sector, all the signs are for the trend to be better than expected. The positive Gross Value Added (GVA) growth in the sector registered in the second quarter–for the first time since the start of the crisis–is set to be repeated in the third quarter, such that arguably construction is now recovering after the powerful downturn under way since 2008. At the moment this recovery is linked to non-residential construction, particularly public works, but next year may start to see growth in house building.

According to LFS data, employment grew in the third quarter for the fourth consecutive quarter, although more slowly than in the previous period. Social security affiliates figures also suggest a moderation in the rate of employment growth in the third quarter. Moreover, despite positive labour market growth in the last four quarters, job creation has not yet reached young people, among whom employment continues to contract (Exhibits 4.1 to 4.4).

Correcting the figures for seasonal variations, all the jobs created in the third quarter were full time, whereas part-time employment, the only form that had grown in the last two years, has declined. Similarly, at the start of the recovery, only temporary employment grew, whereas in the third quarter and for the second consecutive quarter, permanent employment has also grown. These are both positive signs, as they may suggest that employers are becoming more confident that the recovery is solid and will be lasting. Nevertheless, the high degree of segmentation between permanent and temporary employees remains a highly negative feature of the Spanish labour market, highlighting one of the main shortcomings of the 2012 labour reform.

As in the preceding quarters, the number of people out of work dropped in the third quarter faster than employment growth. This is explained by the contraction of the labour force, due both to the falling labour force participation rate and, in particular, the shrinking working-age population. In the third quarter, the labour force comprised 240,000 fewer people than a year earlier, and 878,000 people fewer than the peak at the end of 2009. The seasonally adjusted unemployment rate was 24.1%, four tenths of a percent lower than the previous quarter and almost two percentage points lower than the rate one year earlier.

With respect to the fourth quarter, the scant information available regarding the month of October–number of social security system affiliates, PMI and confidence indices–suggests a continuation of the trend towards a deceleration. If the trend persists throughout the quarter, GDP growth could slow to 0.4%. This will situate average annual growth at 1.3%.

Nevertheless, the loss of momentum in the last two quarters of the year is probably just a temporary dip. In 2015, the growth rate will gain pace as a result of improvements in financial conditions, tax

The loss of momentum in the last two quarters of the year is probably just a temporary dip. In 2015, the growth rate will gain pace as a result of improvements in financial conditions, tax cuts, and falling oil prices, such that, –provided the Eurozone manages to consolidate its recovery– average annual growth will be around 2%.

cuts, and falling oil prices, such that, –provided the Eurozone manages to consolidate its recovery– average annual growth will be around 2%.

Consumer price inflation has been negative in recent months, largely as a consequence of the strong drop in food prices–particularly unprocessed foodstuffs–and energy products, the latter being pushed down by falling oil prices (Exhibits 5.1 and 5.2). Additionally, inflation in non-energy industrial goods is negative, while inflation in services is only slightly above zero. This is explained by the limited pressure of consumption on underutilised production capacity, in conjunction with falling unit labour costs and falling import costs–both of energy and non-energy products.

The current account balance worsened significantly over the course of the year. Thus, between January and August, a deficit of almost 4.6 billion euros was posted, compared with a surplus of 8.7 billion euros in the same period the previous year. This basically reflects the drop in the trade surplus as a result, not of falling exports, but of an upturn in imports, driven by the recovery of the two domestic demand components with the biggest imported content: durable goods consumption and capital goods investments. There has also been a marked increase in net investment income payments. As a consequence, the national economy had a borrowing requirement in the first eight months of 900 million euros, compared with a lending capacity of 13.3 billion euros in the same period of 2013. This outcome highlights the persistence of one of the characteristic features of the Spanish economy: the high degree of elasticity of imports with respect to rising domestic demand, which can be ascribed to the small size and uncompetitiveness of Spain's manufacturing industry.

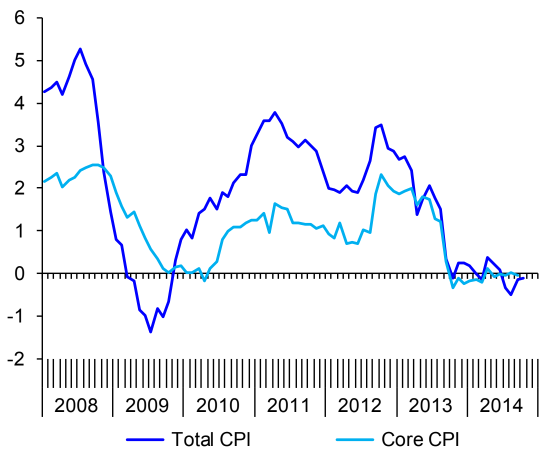
The financial account of the balance of payments to August turned a deficit of 20 billion euros, compared with a surplus of 36 billion euros registered in the same period the previous year. This turnaround in the financial flows to and from the exterior is basically due to the other investments item (mainly loans, repos and deposits). The

Exhibit 5

Price indicators

5.1 - Consumer Prices Index

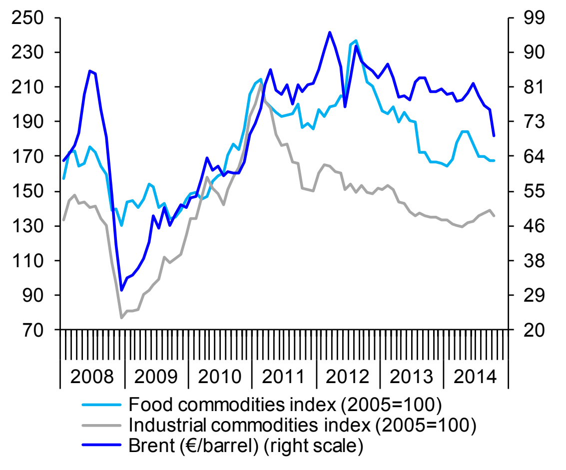
Change y-o-y in %



Source: INE (CPI).

5.2 - Commodities prices in €

Euros and index



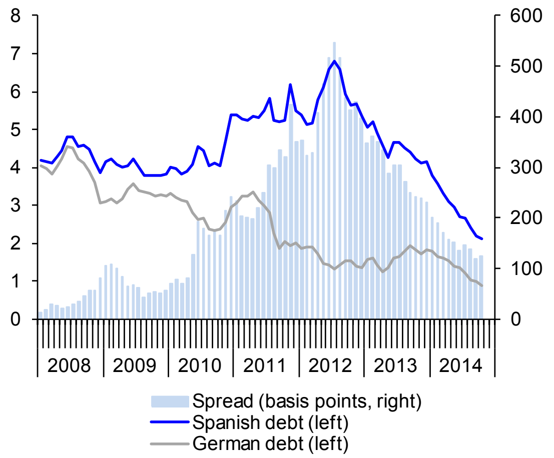
Sources: Ministry of Economy and The Economist.

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

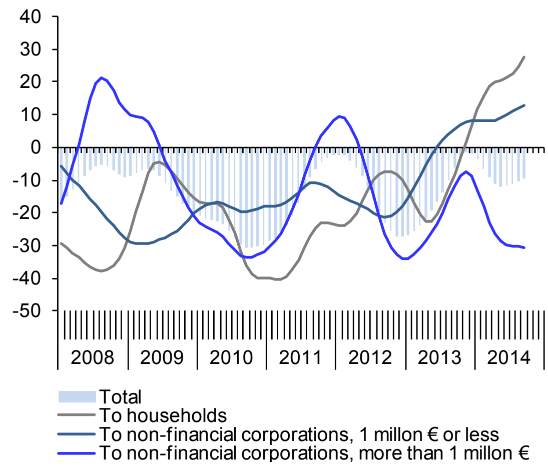
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - New business loans

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



Sources: Bank of Spain and FUNCAS.

direct investments balance is positive. Foreign investments in Spain rose compared to the previous year, but Spain's investments abroad have also risen. In line with the negative trend in the balance of payments, the rate at which Spain's external debt has been shrinking in nominal terms has slowed markedly, standing at 159.1% of GDP in the second quarter.

The deterioration in the economy's net lending position was a result of households' and non-financial corporations' worsening financial balance. Households suffered a drop in their gross disposable income of 1.9% in the first half of 2014 relative to the same period in 2013, while nominal consumption grew by 3%. As a consequence, savings dropped by 35.4%, the net lending position falling from 5.1% of GDP to 2.2% (Exhibit 7.2). Nevertheless, households have managed to continue reducing their debt, which in the second half of the year came to 73.7% of GDP, 4.1 percentage points lower than one year earlier.

In the case of non-financial corporations, their income (as well as their savings) also decreased in the first half of the year compared to the first half of 2013. This drop was bigger than that in gross fixed capital formation, such that the net lending position in this sector contracted to 1.6% of GDP in the first half of the year, from 2.1% in the same period of the previous year. As in the preceding years, companies used this surplus to reduce their debt, which in the second quarter of 2014 stood at 108.4% of GDP, compared with 115.3% of GDP a year earlier.

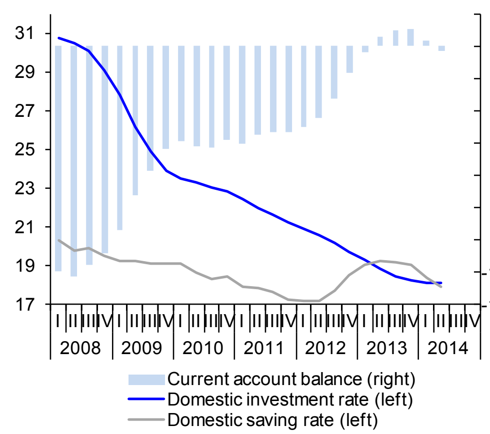
As a reflection of this private sector deleveraging, the outstanding credit balance has continued to contract, although new lending to households and new lending of less than a million euros to businesses –basically to small and medium-sized enterprises– has been growing for several quarters. This positive development is a sign of improving financial conditions in the last year and a half, which constitutes one of the bases on which the Spanish economy's recovery rests, thanks to the process of balance-sheet clean up and restructuring in the banking system, the progressive improvement in the solvency of households and non-financial corporations, and

Exhibit 7

Financial imbalances

7.1 - Domestic saving, investment and current account balance

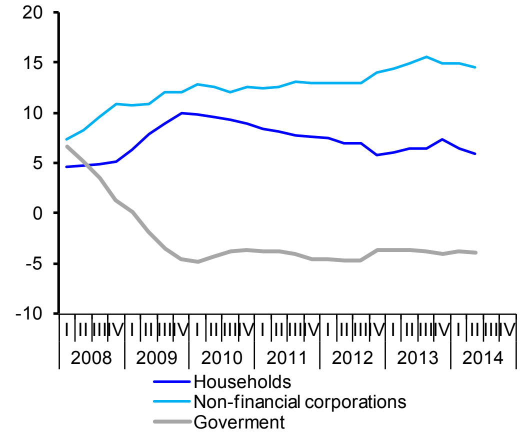
Percentage of GDP, 4-quarter moving average



Source: INE.

7.2 - Saving rates

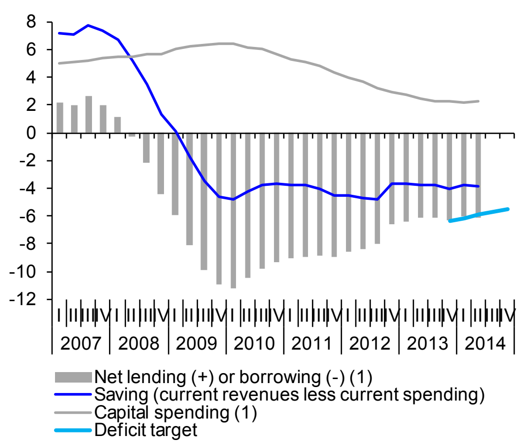
Percentage of GDP, 4-quarter moving average



Sources: INE and IGAE.

7.3 - General Government deficit

Percentage of GDP, 4-quarter moving average

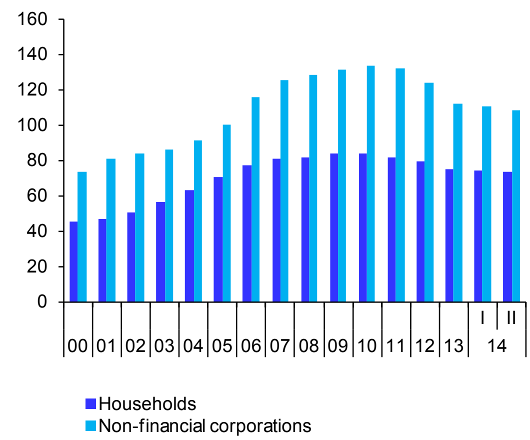


(1) Excluding financial entities bail-out.

Sources: INE and IGAE.

7.4 - Gross debt

Percentage of GDP, 4-quarter moving average



Sources: Ministry of Labour and FUNCAS.

the recovery in market confidence following the dissipation of tensions deriving from the European debt crisis. Nevertheless, financial sector and non-financial sector deleveraging is still ongoing and remains the main brake on the recovery (Exhibit 7.4).

The general government, excluding local authorities, registered a deficit of 4.3% of annual GDP to August, just three tenths lower than the figure obtained in the same period of 2013 –excluding the one-off aid to financial institutions. This tiny improvement comes exclusively from increased VAT and personal income tax collections, as total spending, excluding aid to financial institutions, has barely changed with respect to the same period the previous year. The reduction in social benefit spending –primarily unemployment benefits– and public investment has been offset by the increase in other current expenditure items.

Even supposing that this year local authorities achieve a surplus similar to that of last year –approximately 0.5% of annual GDP– the deficit reduction effort by other areas of the general government over the last four months of the year needed to reach the overall target of 5.5% of GDP will be considerable –much greater than in the first eight months– raising doubts that this will be achieved.

The deviation from the objectives is due to the autonomous regions. Their budgeted deficit for the year as a whole is 1.0% of GDP, 0.5 percentage points less than in 2013, but between January and August their deficit exceeded that in the same period the previous year: 1% of GDP compared with 0.8%, as a consequence of falling income and rising expenses. This meant that by August, they had already used up their deficit margin for the entire year.

The central government deficit to August was 3.1% of annual GDP, representing a drop of six tenths of a percent on the same period of the previous year, excluding aid to financial institutions. This drop was a result of an increase in income and a slight drop in expenses, primarily due, in the case of the latter, to smaller transfers to the National Employment Service, as a result of the sharp drop in unemployment benefit expenditure. In the case of the other expenditure items, the cut-backs have been concentrated in public investment, while interest and miscellaneous expenses have grown. In any event, the 3.4% of GDP deficit target for the year as a whole looks achievable.

As regards the social security funds, the deficit to August came to 0.1% of annual GDP, such that there was apparently a broad margin to achieve the annual objective of 1.1%. However, it should be borne in mind that over the same period the previous year, the deficit was 0.2% and the year ended with a deficit of 1.1% and the pattern this year could be similar. Despite the continuing growth of pension expenditure, spending on benefits has dropped due to the sharp drop in unemployment benefit payments. At the same time, income from social security contributions has risen. As a consequence of all these factors, the central government has reduced the transfers it makes to this segment of the general government.

In short, achieving the 5.5% of GDP deficit target for the general government as a whole will depend on the extent of the non-compliance by the autonomous regions, and whether this amount can be offset by the local authorities' surplus. The objective for local authorities is to balance their books, but, like last year, they will probably end the year with a small surplus (Exhibit 7.3).

In short, achieving the 5.5% of GDP deficit target for the general government as a whole will depend on the extent of the non-compliance by the autonomous regions, and whether this amount can be offset by the local authorities' surplus.

To conclude, the recovery has continued in the third quarter, although the pace was slower than in the previous quarter, mainly as a result of a loss of momentum by consumer spending and equipment investments, and a worsening of the contribution from the external sector, although this was due more to an upturn in imports than a decline in exports. The relatively high rates of consumer spending and equipment investment growth in the previous quarters were not sustainable, and it is likely that the more moderate pace will be continued over the rest of the year, although next year will benefit from the stimulus of the tax cuts, improved financial conditions, and real income gains deriving from lower prices of energy imports. Additionally, the property sector has stabilised. Investment in residential construction may soon start to recover, such that its contribution to growth will again turn positive.

The flipside to the current recovery is the deterioration in the current account balance, which, if it continues, may mean a return to a deficit, which would mean that debt vis-à-vis the rest of the world would start to grow again. This will increase the economy's vulnerability to new episodes of tension in the financial markets. Moreover, servicing this debt –a large portion of which is public– could place a serious brake on growth when interest rates start to rise.

Consolidating the recovery and transitioning to a balanced and sustainable long-term growth model calls for an intensive investment process to raise competitiveness and increase the size of the industrial sector, in order to boost Spain's export capacity and reduce the economy's high propensity to import. This requires internal savings to be made, public sector imbalances to be corrected, and the capacity to attract foreign direct investment to be improved, accompanied by a strategy of structural reforms geared towards these objectives.

R&D+I in Spain: Is the growth engine damaged?

Ramon Xifré[1]

Spain´s innovation performance has been and remains below the EU average. A strong reform effort is needed to stay on the recovery path and improve future growth prospects.

Innovation is crucial for long-term growth but the current economic situation makes it difficult to maintain some pre-crisis R&D+I plans and strategies. In the case of Spain, innovation performance is not only below the EU average, but is not converging to it either. In particular, the main headline indicators on R&D+I, both in the public and the private sector, have been in free fall since 2008. This scenario results not only from financing shortfalls, but also from policy immobility and poses very likely downward risks to recovery in Spain. Short of a radical policy U-turn, the current trend reinforces the risk of the country experiencing a long and deep period of economic stagnation.

Introduction

Economic growth depends on productivity which, especially in advanced economies, in the long-term largely comes from the materialization of successful innovation and the existence of appropriate institutions (Aghion, 2006). Although this empirically proven connection between innovation and growth is widely accepted in business, policy circles and academia, the current economic juncture in some parts of the EU has led many agents, public and private alike, to stop or even dismantle part of their research, development and innovation (R&D+I) strategies.

On the public front, the pressure on governments to quickly reduce their public deficits has eroded their ability to maintain some of their pre-crisis plans in terms of basic R&D investment, research and university funding, staff, etc. On the private side, the weak activity outlook, with high unemployment levels and low propensities to consume, has forced many companies to freeze their R&D+I expenditures and reallocate resources to other activities, not so vital in the long-term, but that require immediate funding. In addition, given that public and private expenditure are complementary in certain R&D+I projects (co-investments, deployment of EU funds, etc.), the depression has been exacerbated in some sectors.

This gloomy evolution of the innovation effort could be, of course, very troubling as it may seriously jeopardize the prospects of future growth and reduce potential output levels. This paper analyzes to what extent these adverse developments are taking place in Spain. The paper also examines some of the most prominent policy recommendations that national and international observers have made to the Spanish R&D+I system and whether or not the Spanish government has accommodated them.

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The performance of Spanish R&D+I in the EU context

The system of R&D+I is a complex one, with multiple critical inputs, outputs and facilitator factors. For this reason, it is very difficult to make a comprehensive assessment that captures the innovative performance of a country or region and that, therefore, can be used as a sensible metric to make cross-country and intertemporal comparisons.

The European Commission has long been advocating for a composite index of innovation based on the Innovation Union Scoreboard (IUS, first known as the European Innovation Scoreboard or EIS) for measuring innovation performance in EU countries. The IUS measures country performance by aggregating 25 individual indicators that are grouped in 8 dimensions of innovation which, in turn, come from 3 main types of indicators: enablers, firm activities and outputs (see European Commission, 2014). Although the IUS aggregate performance score suffers, as all composite indexes, from a number of methodological limitations (see Spanish government 2009 for a discussion of some of them), it has become the EU standard for measuring innovation in a very wide sense.

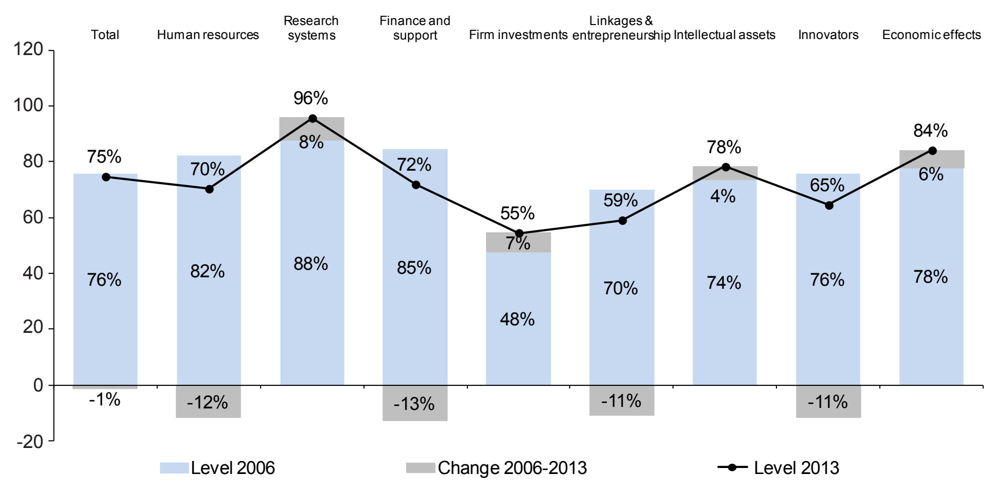
Exhibit 1 represents the IUS scores of Spain, in relative terms to the EU average score, for the aggregate index and for the eight main dimensions of innovation, in 2006 and in 2013 (the latest available data).

In aggregate terms, Spain's overall innovation performance has been and remains below the EU average, at an approximate level of 75% of the mean score. This stagnation of Spain´s innovation performance with respect to its EU peers is the result of significant backward leaps in four dimensions of innovation: human resources, finance and support, linkages and entrepreneurship and innovation output. Table 1 reports the values of the variables included in these four dimensions for Spain and the EU average, for 2006 and the latest available data.

The fact that the IUS works with large data sets that need to be homogeneous for all countries means that the latest available data for several

Exhibit 1

Spain's innovation performance (IUS) in relative terms to the EU average



Sources: IUS, European Commission.

Table 1

Spain and EU-average scores (IUS) on selected innovation indicators

	Spain		EU	
	2006	2012	2006	2012
Human Resources				-
New doctorate graduates (ISCED 6) per 1,000 population aged 25-34	0.9	1.7	1.2	1.5
Percentage population aged 30-34 having completed tertiary education	38.1	35.8	40.1	30.0
Percentage youth aged 20-24 having attained at least upper secondary level education	61.6	80.2	62.8	77.9
Finance and support				-
Public R&D expenditures as % of GDP	0.53	0.61	0.65	0.75
Venture capital (early stage, expansion and replacement) as % of GDP	0.104 (2008)	0.037	0.114 (2008)	0.077
Linkages and entrepreneurship				
SMEs innovating in-house as % of SMEs	24.6	N.A.	31.4	N.A.
Innovative SMEs collaborating with others as % of SMEs	5.0	5.8 (2010)	8.6	11.7 (2010)
Public-private co-publications per million population	22.1	28.7 (2011)	44.4	52.8 (2011)
Innovation output				
SMEs introducing product or process innovations as % of SMEs	29.5	28.7 (2010)	33.3	38.4 (2010)
SMEs introducing marketing or organisational innovations as % of SMEs	N.A.	27.7 (2010)	40.5	40.3 (2010)
Employment in fast-growing firms of innovative sectors	N.A.	15.5 (2011)	N.A.	16.2 (2011)

Note: Dates refer to 2006 and 2012 unless otherwise indicated.

Source: IUS (2014).

indicators are from 2011 or even 2010. Therefore, although the IUS is very useful to obtain information about the international context of the Spanish R&D+I system, it is necessary to rely on other data sources to obtain more updated information.

Exhibit 2 depicts the evolution of R&D expenditure as a percentage of GDP, also known as R&D intensity, which is the single most important indicator of technological innovation, for Spain and three well-known categories of EU countries: "innovation leaders," "innovation followers" and "moderate innovators" (see the notes of Exhibit 2 for the list of countries). These categories of countries correspond to descending ranges of the IUS innovation performance aggregate index with Spain being included in the lowest performance group, as a moderate innovator, since the first releases of the IUS/EIS database. Exhibit 2 shows that Spain initiated around 2002 a trend of moving away from the lowest group and catching up to the innovation followers. However, this trend was truncated in 2010 and since then the R&D intensity in Spain has been on the decline. It is noteworthy that the average R&D intensities are growing in all three country groups, including the weakest "moderate innovators", despite the fact that some of those countries are undertaking –like Spain– fiscal consolidation efforts (Veugelers 2014a and 2014b).

It is noteworthy that the average R&D intensities are growing in all three country groups, including the weakest "moderate innovators," despite the fact that some of those countries are undertaking-like Spain-fiscal consolidation efforts.

The downward trajectory of the R&D intensity is confirmed also in other complementary innovation measures, both in the public and private sectors. Consider first the public budget. Exhibit 3 displays the government expenditure in R&D as a percentage of total general government expenditure for Spain and the three country categories mentioned above. Two features characterize the evolution of the importance of R&D in the Spanish public budget: first, its volatility; second, the fact that it is declining after 2007, in sharp contrast with the pattern for the three country groups, which keep increasing the share of R&D in the public budget.

The Spanish R&D+I case is not only worrisome because of its lower R&D intensity and the shrinking public budgets, but also because of the poor contribution of the private sector to total expenditure.

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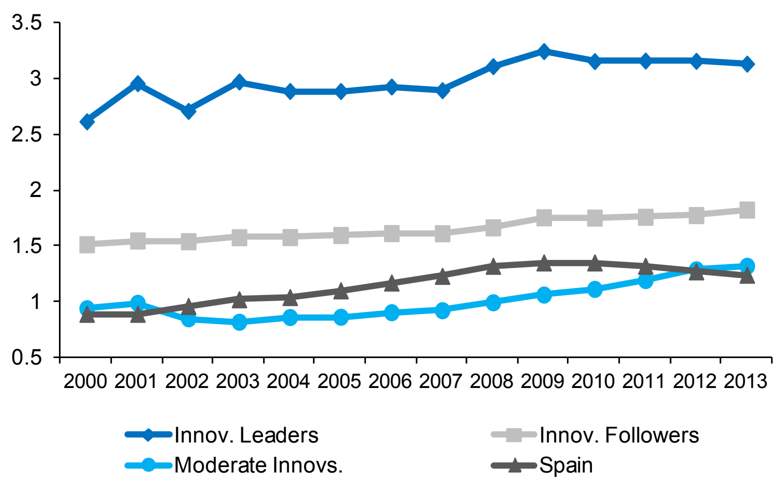
Exhibit 2

Total intramural R&D expenditure (GERD) as a % of GDP

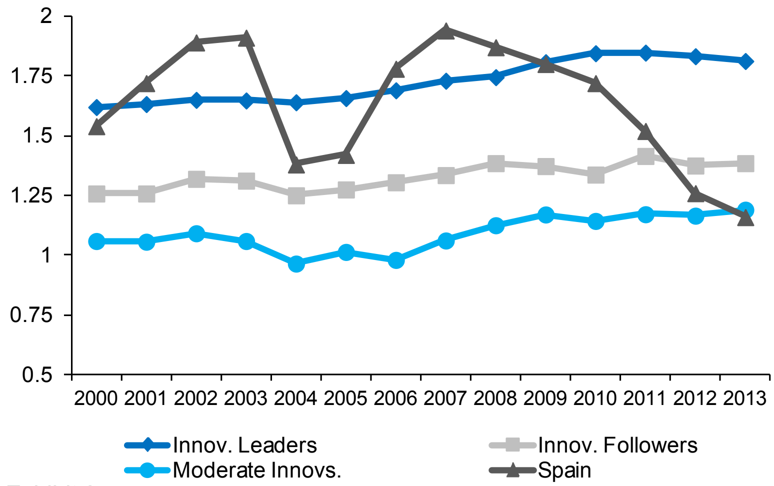


Notes: Innovation Leaders: Sweden, Denmark, Germany, Finland; Innovation Followers: Luxembourg, Netherlands, Belgium, United Kingdom, Ireland, Austria, France, Slovenia, Estonia, Cyprus; Moderate innovators: Italy, Czech Republic, Spain, Portugal, Greece, Hungary, Slovakia, Malta, Croatia, Lithuania, Poland.

Source: Eurostat.

Exhibit 3

Total government expenditure in R&D (GBAORD) as a % of total general government expenditure

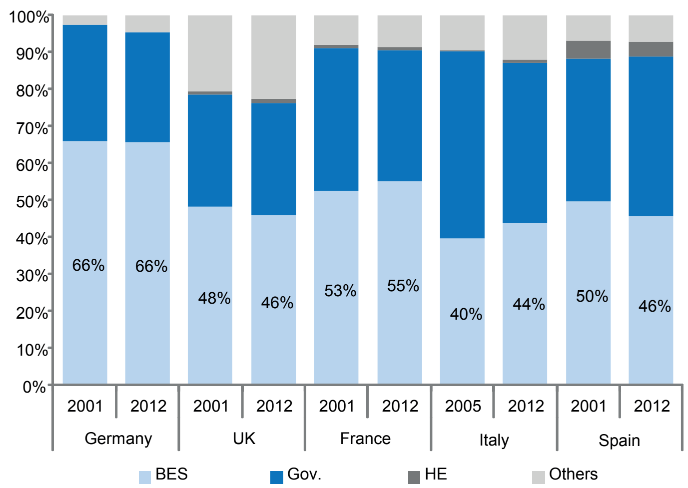


Note: See notes for Exhibit 2.

Source: Eurostat.

Exhibit 4

Total intramural R&D expenditure (GERD) by source of funds



Notes: BES: Business enterprise sector; Gov. Government; HE: Higher Education; Other: Private non-profit institutions and abroad.

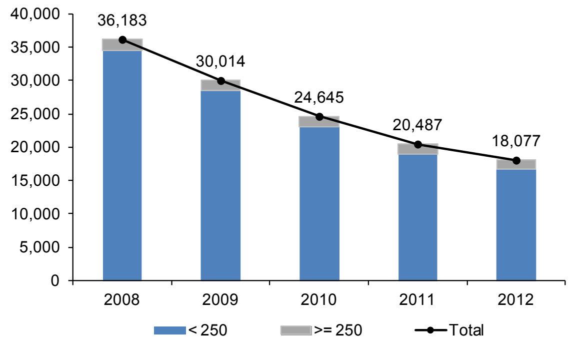
Source: Eurostat.

Exhibit 4 represents the shares of public, private and other funding in the total R&D spending for Spain and the other four largest EU economies. The situation in Spain is unique because it is the only country in the group where this private contribution has decreased significantly between 2001 and 2012. The reasons for this negative singularity are manifold but some of the most prominent are

Exhibit 5

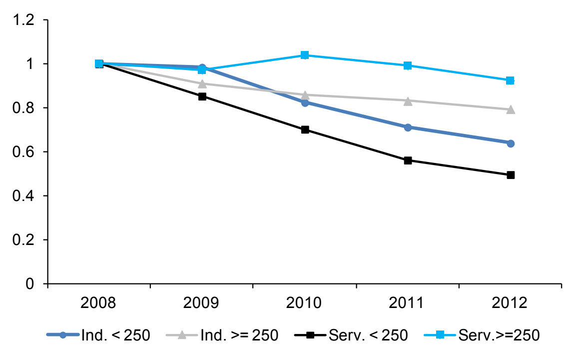
Firms that perform technological innovation activities in Spain

5.a - Number of firms that perform technological innovation activities by firm size



Notes: <250: firms with less than 250 workers; >= 250: firms with 250 or more workers.

5.b - Number of firms that perform technological innovation activities by firm size and main sector of activity, index 2000 = 100%



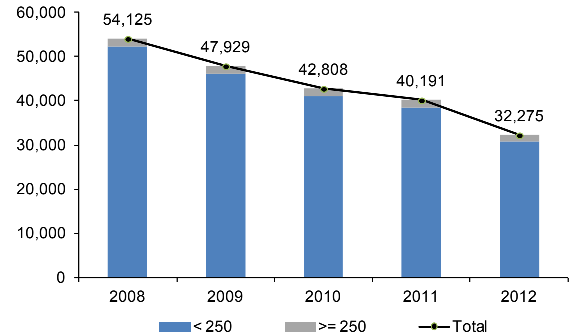
Notes: Ind.<250: firms with less than 250 workers mainly operating in the manufacturing sector; Ind. >= 250: firms with 250 or more workers mainly operating in the manufacturing sector; Serv.<250: firms with less than 250 workers mainly operating in the service sector; Serv. >= 250: firms with 250 or more workers operating mainly in the service sector.

Source: INE.

Exhibit 6

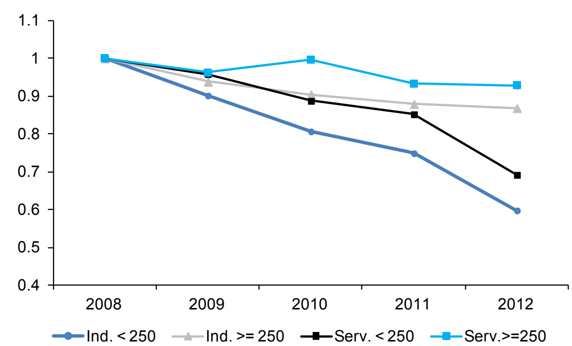
Firms that perform non-technological innovation activities in Spain

6.a - Number of firms that perform non-technological innovation activities by firm size



Notes: <250: firms with less than 250 workers; >= 250: firms with 250 or more workers.

6.b - Number of firms that perform non-technological innovation activities by firm size and main sector of activity, index 2000 = 100%



Notes: Ind.<250: firms with less than 250 workers mainly operating in the manufacturing sector; Ind. >= 250: firms with 250 or more workers mainly operating in the manufacturing sector; Serv.<250: firms with less than 250 workers mainly operating in the service sector; Serv. >= 250: firms with 250 or more workers operating mainly in the service sector.

Source: INE.

the following two: i) in Spain's industry structure, the R&D intensive sectors (typically, high-investment manufacturing industries) are underrepresented; and, ii) there exist some problems of private absorption capacity of R&D funds in the regions of Spain.

Finally, to better characterize how the past years have affected the private side of the R&D+I system, Exhibits 5 and 6 present the number of Spanish companies that, respectively, perform technological and non-technological (mainly marketing and organizational) innovation activities. The message that emerges from both exhibits is consonant and confirms the troubling diagnosis of the Spanish system: the number of innovative firms has been in free fall from 2008. In particular, within the business community that performs technological innovation, in 2012, there were roughly half the number of firms than five years before, with the larger losses corresponding to small companies (with less than 250 employees) that operate mainly in the service sector. With respect to the non-technological innovators, the contraction in the number of active firms is also important but smaller (40% reduction) and in this case it is mainly driven by the exit from the innovation system of small companies in the manufacturing sector.

R&D+I policies: Main recommendations and pending challenges

Two prominent and independent observers have recently issued policy recommendations for the Spanish R&D+I system: the Cotec Foundation and a panel of experts from the European Research Area Committee (ERAC). Cotec releases every year an assessment of innovation in Spain (Cotec, 2014) and it recently produced a list of ten recommendations to improve it (Cotec, 2013). The peer review conducted by the ERAC, at the request of the Spanish Ministry of Economy and Competitiveness (ERAC, 2014), contains a detailed diagnosis of the Spanish R&D+I system, together with certain policy suggestions.

Table 2 summarizes and classifies the policy recommendations of these two institutions in four broad categories, each referring to a distinct element of the R&D+I system: the public sector, the private sector, national-regional synergies and innovation environment.

It is clear that there are many fronts that require a bold policy reaction from the Spanish government. In particular, one could single out one major challenge in each of the four categories mentioned above.

- *Public system*. Probably the single key pending element in the reform of the public system of R&D+I is, as the ERAC report points out, the creation of the Spanish Research Agency. The new Law on Science (passed in 2011) mandated this, but since then there have been no further developments. Most advanced countries have an independent research agency that assigns research funds to researchers and institutions mainly on excellence criteria and that allows for a more flexible, yet fully controlled, management of the research budget. The creation of this agency in Spain is vital as it would likely act as a catalyst to improve the efficiency in the allocation of resources throughout the whole public R&D+I system, including universities.

- *Private system*. Given the free fall in the number of Spanish companies that perform technological and non-technological innovation (Exhibit 5 and Exhibit 6 above) it is critical to stop this trend and encourage the creation and growth of innovative new firms, as the ERAC expert panel notes. Since the problems that companies face are manifold (insufficient financing; poorly developed business plans; lack of expertise of the founders and CEOs) the response to this challenge needs also to be multidimensional. Firstly, it is necessary to modify the laws to further ease credit in the initial stages of firm creation, including seed capital and mezzanine finance. This should be accompanied by establishing new incentives to banks and financial institutions so that they evaluate properly innovative projects. Secondly, it would be of great help to offer (partially subsidized) specialized training to those who need to improve their business plan or upgrade their business abilities. Currently there is no single public agency in Spain with this specific mandate.

Table 2

Recommendations to the Spanish R&D+I system from selected institutions

	ERAC	Cotec
Public system	– Increase public funding for research – Set in motion a reform of the public research system – Improve funding and evaluation mechanisms as well as governance of the system – Better human resources management in the public sector – Create focus and mass in public research – Reinforce system internationalisation – During the transition: allow for experiments under private law – Operationalise a Research Agency	– Universities' and public R&I system participation in solving day-to-day and proximity problems – Make the best use of the public administration as customer and innovation tractor
Private system	– Engage in a catching-up process of public funding for private R&I – Fine-tune the policy mix for R&I in firms – Encourage the creation and growth of innovative new firms – Leverage the potential of public procurement for innovation – Support innovation culture	– Raise firms' awareness that their sustainability depends on their ability to create value – Increase the participation of private capital in innovation – SMEs shall be ready for the global market – Make the best use of large companies as innovation tractors – Make sure SMEs find an ample portfolio of innovation services
National-regional synergies	– Reinforce effectiveness of, and synergies between, innovation support organizations spread over regions – Share research infrastructure – Engage in national-regional and cross-regional coordination and programming – More strategic use of ESIF funding and enhancement of regional planning capacities	
Institutional setup		– Improve the education system – Improve the general public perception of the entrepreneurs that take on risks for the sake of innovation – Avoid laws and rules that pose obstacles to innovation – Attract foreign talent and investment

Sources: Adapted from ERAC (2014) and Cotec (2013).

- *National-regional synergies*. This issue, raised by ERAC's recommendations, is critical to solve some important problems that certain regions of Spain have in order to absorb public (mostly EU) R&D funds. The combination of two facts, that some research funds are earmarked to certain regions on the grounds of facilitating convergence, and that in some cases the public money comes only if accompanied by private funds, finally results in that the Spanish regions with the lowest R&D intensity are the ones with the higher risk of losing (i.e. not being able to absorb) public money. This is of course an unintended effect and there are remedies to it that, in general, call for trans-regional cooperation with the objective of gaining critical mass, launching private medium– and large-scale R&D projects and thus maximizing the absorption capacity.

- *Institutional set-up*. The Cotec expert panel has included this particular category because in advanced economies the business and institutional environment is one of the most important factors for innovation to flourish (Aghion, 2006). In the Spanish case, it seems particularly appropriate to conduct an extensive brush-up and reform of several laws and decrees that may impede firm growth (e.g. by imposing new administrative obligations as firm size increases) or that represent a disproportionate penalization to non-fraudulent insolvencies. Along this line of improving the framework for R&D+I, political representatives should finally be able to reach a stable consensus about an education law that fixes the main long-term problem of the country – the high school and college drop-outs.

The caliber of the Spanish government's response to these policy challenges is, unfortunately, very small. The Spanish government has, in the past, issued grand R&D+I plans and strategies that, on paper, set out an integrated approach to foster innovation but that lack real political will to change the status-quo. The last two documents in the sequence, the Spanish Strategy for Science, Technology and Innovation 2013-2020 and the State Plan for Scientific and Technological Research and Innovation 2013-2016, exemplify this particular way of managing R&D+I in Spain.

The Spanish government has, in the past, issued grand R&D+I plans and strategies that, on paper, set out an integrated approach to foster innovation but that lack real political will to change the status-quo.

They are compendiums of the existing lines of action but their activity projections are based on shorter budgets and do not bring about major reforms of the system.

Conclusions

The current state of the Spanish research, development and innovation (R&D+I) system is worrisome. On the one hand, the main headline indicators, public and private, are in free fall – the public ones as the result of the fiscal consolidation process and the private ones mainly due to the persistent crisis. Given that in some R&D+I projects, public and private investments are direct complements to each other, there appears to be operating a negative dynamic that may engender a sort of "R&D+I poverty trap" from which it will be more difficult to escape as time goes by. It needs to be acknowledged that, in retrospect, excessive volatility in public R&D expenditure in the past probably did not favor the system.

On the other hand, on the policy and regulatory front, the Government's real strategy appears to be resisting without introducing structural reforms that maximize the efficiency of the expenditure in a time of extremely scarce resources. However, most of these reforms (like education reform or excellence-based R&D allocation with minimum administrative intrusion), as controversial as they might be, have been adopted by advanced economies that rely on knowledge to grow.

The combination of these two factors leaves Spain not converging to the EU average R&D+I performance but rather deviating from it. More tellingly, even the set of EU countries that historically have been less intensive in innovation and knowledge creation (known as "innovation followers") are making better progress than Spain. An immediate and radical change on both fronts –budget and reforms– is needed if Spain is to preserve the knowledge creation capacity that has been so costly to build in the past 20 years.

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The Eurozone´s new single bank supervisor: Perspectives from Spain

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

The Spanish banking sector has performed quite favorably on the latest ECB comprehensive assessment, both in absolute terms, as well as relative to the EU average. These results suggest that the financial assistance programme for Spanish banks has had a considerably positive impact on the resilience of the financial sector, generating a comparative advantage.

On November 4th, the ECB became the single bank supervisor in the Eurozone. A comprehensive assessment of banks' balance sheets has preceded this historical event. Some basic comparisons on the overall results of the ECB assessment seem quite favorable for Spanish banks –of the 15 Spanish banks subject to the assessment, 14 passed without any observations. The overall impact of the combination of the asset–quality–review (AQR) and the stress-test under the adverse scenario results in just a 1.6% correction on average in the solvency ratio CET1, compared with 3.5% for the average bank examined in the exercise. Probably, the most significant positive impact for Spanish banks comes from AQR results, supporting the idea that the provisioning, recapitalization and transparency–enhancing measures implemented in Spain have been effective. In any event, profitability remains the main challenge for Eurozone banks. Financial intermediaries are still suffering value corrections in stock markets, mainly due to low profitability expectations. Given the regulatory pressures that banks face and the macroeconomic uncertainty, it will be difficult to restore credit growth in the short-term, although the upcoming liquidity programs of the ECB may have a positive impact.

Post-programme surveillance and the new supervisor

Spain represents quite a unique case in the banking crisis in Europe as regards restructuring and resolution tools. First of all, because there have been a number of countries which have been bailed-out, but in the case of Spain, the intervention was focused on the banking sector. Secondly, Spain is the country where the restructuring of the sector has been substantial both before and during the EU assistance program for the financial sector. These features, of course, imply several costs and sacrifices for the country but, at the same time, they facilitate a better matching of the supply and demand for financial services. This matching is commonly acknowledged as one of the most urgent efforts outstanding in many other European countries. However, many EU members

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in need of bank restructuring have been able to "hide" those restructuring needs because the macroeconomic conditions have been relatively favorable for them.

In this heterogeneous financial environment, there is a major transformation going on in the regulatory and supervisory structure of the banking sectors in the EU –the banking union. And a major historical precursor has taken place this month, with the European Central Bank assuming its role as single supervisor as of November 4th, 2014. Two weeks before that event, on October 26th, a comprehensive assessment of the Eurozone banking sectors was conducted by the ECB in coordination with the European Banking Authority (EBA). This exercise was conceived as a first serious check on the health of the banks under the Single Supervision Mechanism (SSM), just before the ECB took control.

Given that the Spanish banking sector has been subject to a strict restructuring and recapitalization programme under EU financial assistance, it was expected that Spanish banks could pass this comprehensive assessment without major problems. This article demonstrates that this was indeed the case.

Paradoxically, even if Spanish banks have proven to have relatively good solvency conditions compared to other EU peers, post-programme surveillance by the European Commission and the ECB is still part of the conditionality imposed on the country for the financial aid received.

Paradoxically, even if Spanish banks have proven to have relatively good solvency conditions compared to other EU peers, post-programme surveillance by the European Commission and the ECB is still part of the conditionality imposed on the country for the financial aid received. The last post-programme mission was during October 6th-10th. Several aspects were examined including the macroeconomic situation, progress on structural reforms, and, of course financial sector developments. As for the economic conditions, the ECB and EC suggested that economic recovery had gathered momentum during 2014, with GDP growing at a faster pace than the euro area average. They highlighted the larger contribution of domestic demand, although they also observed that the external balance had weakened substantially since exports were less vigorous and imports were growing faster. Various factors were identified as drivers of higher internal demand including growing confidence, employment creation, easier financing conditions and low inflation. Amongst the main challenges for the economy, the deleveraging in the private sector was underlined (as in previous occasions) as a challenging, but necessary trend. Improvements in employment were also recognized although the unemployment rate was (and is) still very high. It should be noted that this analysis was conducted in a moment in which the prospects for the European economy were changing with countries such as Germany or France showing signs of weakness.

Attention is also paid to fiscal consolidation and public debt, since these factors have been closely linked to financial stability, in particular, after the sovereign debt crisis two years ago. The ECB-EC expressed their concern on the increasing public sector debt, although they value positively the possibility that this debt should peek in 2015, "if budget deficit targets for the coming years are met."

As for structural reform, some progress is identified, although considered to be "uneven." Some recent initiatives were viewed as particularly positive, including the revision of the corporate insolvency framework to facilitate corporate debt restructuring. Long overdue reforms, the implementation of the market unity law and the public administration reform, were also considered as advancements, with substantial room for implementation. The recommendations on the reforms front included some action to reduce the high degree of labor market duality.

As regards Spain´s financial developments, the ECB-EC observe that market indicators of systemic risk in the financial sector continued to improve "reflecting positive trends in global financial markets" (which have now turned a bit more uncertain).

Finally, as regards financial developments –which constitute the main purpose of the surveillance analysis– the ECB-EC observe that market indicators of systemic risk in the financial sector continued to improve "reflecting positive trends in global financial markets" (which have now turned a bit more uncertain). For the banking sector in particular, an improvement of the liquidity situation is observed with Spanish banks increasing profits, improving efficiency and reducing impairment costs, which "more than offset the drag on revenues from shrinking credit volumes." A key observation ahead of the stress tests was that "banks' capital levels have been raised further and the stabilization in asset quality has started to be reflected in a marginal decline in the non-performing loans ratio at the system level."

Litigation costs at banks were still considered as a source of concern. Additionally, although the sale of NCG Banco to Banesco Group, Catalunya Banc to BBVA, and the sale of 7.5% of the government's stake in Bankia were considered as significant steps forward in the privatization of publicly-owned banks, much more progress on this front is expected to be achieved. Besides, some urgent measures, such as the implementation of savings bank reform, were also mentioned.

Finally, as for other European banking sectors, a big challenge is on profit generation, In particular, the surveillance report suggests that "for banks, the main challenge going forward appears to be the pressure on their profits from falling volumes of intermediation. The maintenance of adequate provisioning levels and capital buffers will be essential in this respect. SAREB's challenge of divesting its significant asset portfolio while maximizing value also remains significant."

The ECB now directly supervises 120 significant banking groups, which represent 82% of the assets of the euro area banking sector. For all the other 3,500 banks, the ECB will also set and monitor the supervisory standards and work closely with the national competent authorities in the supervision of these banks.

The environment described in the surveillance report is a good summary of the conditions that the Spanish banking sector was facing days before the comprehensive assessment of the ECB was implemented (the results of which we describe in the next section). In a way, this assessment can be considered as a warm-up to a tremendously significant event, the assumption of the single supervisor role by the ECB, which took place on November 4th. Even so, it should be noted that the Single Supervisory Mechanism (SSM) combines the actions of the ECB with some degree of decentralization towards national competent authorities. The ECB now directly supervises 120 significant banking groups, which represent 82% of the assets of the euro area banking sector. Importantly –as this is frequently neglected– for all the other 3,500 banks, the ECB will also set and monitor the supervisory standards and work closely with the national competent authorities in the supervision of these banks.

What was the performance and solvency situation of the European banking sector ahead of these tests? A useful tool for this analysis is the Report on Banking Structures (October 2014 edition) published by the ECB itself.[3] Some interesting findings in this document are as follows:

- Consolidation of the sector and rationalization (mergers, branch closing and, asset sales) continued. The total number of credit institutions decreased further to 5,948 in 2013, down from 6,100 in 2012 and 6,690 in 2008.
- Financial performance and profitability "remain subdued – though banking sectors in all countries avoided an operating loss."
- Improvements are found in the funding mix, as banks are observed to be less dependent on wholesale funding and more on customer deposits. Banks are observed to have been reducing their reliance on central bank funding, mainly reflected by repayments of LTRO funds.
- As mentioned before, profitability remains the main challenge. Importantly, this is not only the result of the low interest rate environment –and the related pressure on margins– but also of the "continuing deterioration in asset quality, and in some cases by restructuring and litigation costs."

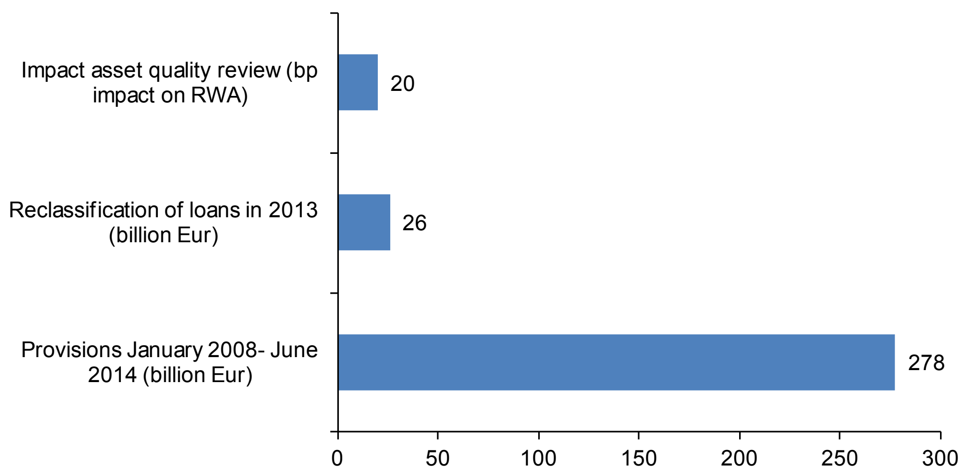
The comprehensive assessment: Some comparative results

The results of the ECB comprehensive assessment were presented on October 26th. The exercise had two parts:

- An Asset Quality Review (AQR): this is mainly a data quality review involving asset valuation, classification of exposures (performing/ non-performing), valuation of collateral and provisions, and impact on capital of incidents detected. After the necessary corrections due to the AQR, the common equity Tier 1 capital ratio (CET1) is expected to remain at least at 8%.
- A stress test: which is basically a forward-looking analysis of the banks' loss-absorption capacity under two scenarios (baseline and adverse). In this case, the projection of capital

Exhibit 1

The starting point for Spanish banks: A strong previous effort



Source: Bank of Spain and own elaboration.

[3] https://www.ecb.europa.eu/pub/pdf/other/bankingstructuresreport201410.en.pdf

ratios is made in both scenarios from 2014 to 2016. A CET1 of 8% is required in the baseline scenario and of 5.5% in the adverse scenario.

The main result of the joint assessment was a gross capital shortfall of 24.6 billion euros – 9.5 billion euros net, after considering the capital augmentations during 2014. Of the 25 banks that had a gross capital shortfall, 12 increased capital sufficiently during 2014, so that now there are only 13 banks with a net capital shortfall.

The exercises were applied to 130 banks from 18 euro area countries plus Lithuania. These banks represent 81.6% of total risk-weighted assets in the euro area. Spain is the second country in terms of the number of banks included in the exercise (15), together with Italy (15 as well).

The main result of the joint implementation of the AQR and the tests was a capital shortfall of 24.6 billion euros (gross, without considering any correction already undertaken during 2014) and 9.5 billion euros (net, after considering the capital augmentations during 2014). Importantly, out of the 130 banks, 25 had a gross capital shortfall in relation to one or more of the thresholds (AQR, baseline scenario and adverse scenario). Of these 25 banks, 12 increased capital sufficiently during 2014 so that now there are only 13 banks with a net capital shortfall.

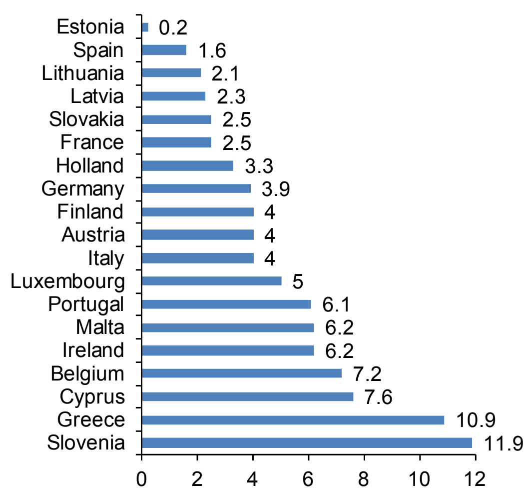
In Spain, only Liberbank has a small gross capital shortfall in the AQR exercise of 32 million euros, although the bank augmented capital for 637 million euros in 2014, thereby covering the gap.

There are some quantitative and qualitative positive outcomes of the comprehensive assessment for Spanish banks. First of all, they show that the financial assistance programme for Spanish banks had a considerably positive impact on the resilience of the banks. Moreover, as shown in Exhibit 1, the financial stability improvements in the Spanish banking sector are not just the result of EU financial aid. The provisions required on the banks both before and after the aid program have been substantial. In particular, Spanish financial institutions have devoted 278 billion euros to provisions from January 2008 to June 2014. By 2013, much of the provisioning effort had been made as Spanish banks “only” set aside 26 billion euros. All this helps to explain that the AQR of the ECB assessment just implied a correction of 20 basis points in the risk-weighted assets (RWAs) of the Spanish banks.

Secondly, some basic comparisons on the overall results of the ECB assessment seem quite favorable for Spanish banks. For example, of the 15 Spanish banks subject to the assessment, 14 passed without any observations. The overall impact of the combination of the AQR and the stress-test under the adverse scenario results in just an average 1.6% correction in the CET1, compared with 3.5% for the average bank examined in the exercise (Exhibit 2). The gap was 3.9% in Germany, 4% in Italy, 6.1% in Portugal, and 6.2% in Ireland.

Exhibit 2

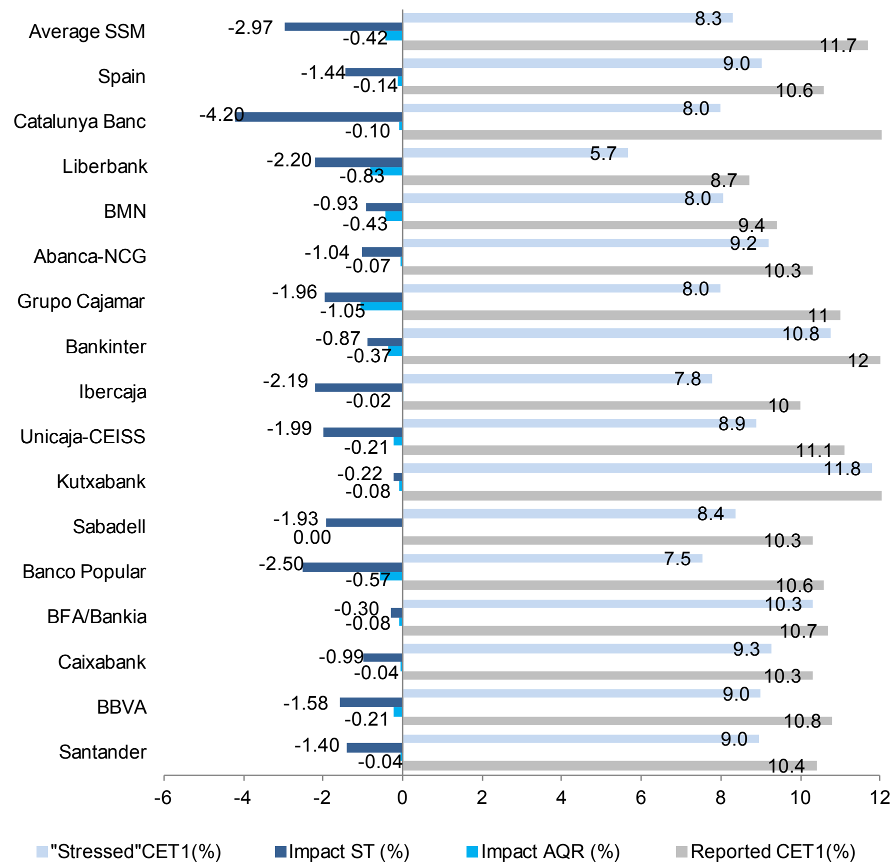
Main results: Impact of the stress test and the AQR on Common Equity Tier 1 (CET1)



Source: Bank of Spain and own elaboration.

Exhibit 3

Reported solvency and "stressed" solvency are quite in line



Source: Bank of Spain and own elaboration.

In any event, one of the most common mistakes in the analysis of the ECB assessment is to make rankings based on their outcomes. For example, the AQR is a detailed analysis of the balance sheets at year-end 2013 to verify that they give a realistic and fair view of these accounts. This should imply some adjustment due to differences in accounting practices across Europe. As for the stress tests, one of the key features is that the scenarios used differ from country to country and this makes comparisons even more complex. This makes the results of the Spanish case particularly valuable, as the adverse scenario conditions were comparably more severe for Spain.

Exhibit 3 shows the detailed results for Spanish financial institutions. It depicts step-by-step the correction in the CET1 ratios for each bank after passing the filter of the AQR and the adverse scenario in the tests. In a way, this is equivalent to a comparison of reported vs. "stressed" solvency. This is interesting in the Spanish case because most analyses of the sector over the last two years have shown that Spanish banks were still making an effort to converge to the average solvency levels of their European peers. However, after the stress tests, the "filtered" solvency of the Spanish institutions improves to a large extent above their European counterparts. As a result, convergence in solvency ratios has accelerated.

Ten reflections for the Spanish and the European banking sector after the assessment

In conclusion, there are, at least, ten relevant reflections on the situation of the Spanish banks after the stress tests:

- First of all, doubts on the solvency of European banks have been reduced to some extent. Nevertheless, concerns will remain over some of the sectors that have less resilience to the assessment, and, in particular, over Italian banks, as 9 of them were amongst those that failed. Deterioration still advances in Italy as the NPL ratio is growing by around 1% per quarter.

- Probably the most significant positive impact for Spanish banks comes from the AQR results. Accounting corrections for the review of assets are minimal and this supports the idea that the provisioning, recapitalization and transparency-enhancing measure implemented in Spain have been effective.

- The ARQ is a game changer, as it has implied a correction in several portfolios of European banks whose accountability was doubtful for investors. Importantly, given that some of the AQR criteria will prevail, this may also imply further correction in some banks –in countries like Germany, Italy or France– over 2014.

- It is important to keep a close watch on macroeconomic conditions. An increase in uncertainty is observed in the Eurozone economic recovery process. The adverse scenario in the stress tests is unlikely to happen, but the current probability of occurrence is not as small as it was when the scenarios were designed.

- German banks will be closely followed in the next few months. Even if only one German bank has failed the tests, many of the most relevant intermediaries have passed by only a small margin.

- Banks should be ready to communicate and to react to further examination of the detailed data published with the tests. Wrong or distorted interpretations of these data by observers can cause damage in the market value of the franchise.

- Elaborating rankings from the tests would be misleading. Results are based on different macroeconomic scenarios and assumptions for each bank and the current solvency levels may be the result of different combinations of capital improvements, from profit generation to State aid.

- Profitability is still the main challenge for the banks in the Eurozone. Profits are also under stress, but the assessment put an emphasis on solvency.

- Overall, European banks are still suffering value corrections in stock markets. Low profitability expectations are one of the main explanations.

- It will be difficult to restore credit growth in the short-term, although the upcoming programs of the ECB may have a positive impact. The announced withdrawal of monetary stimulus from the Fed is a major issue in international financial markets. These markets –in particular, the European banks– are not yet ready to substitute “official” liquidity by private liquidity and the ECB will have to make a significant effort beyond the comprehensive assessment to revitalize banking activity in the Eurozone.

Spanish banks' cross-border activity: An international comparison

Joaquín Maudos[1]

Just as the creation of the Economic Monetary Union and the entry into force of the euro catalyzed a period of strong internationalisation and financial market integration within the European banking sector, the financial crisis was equally powerful in bringing about a reversal of these processes. Despite this setback, current data show EU cross-border activity has, for the most part, recovered.

The important increase in cross-border activity in the EU, and in Spain, from 1999 up until the beginning of the financial crisis experienced a similarly significant contraction due to the impact of the crisis. On the basis of the latest ECB data, it can be concluded that the crisis led to a new scenario, which broke the European banking market´s trend towards greater openness, internationalisation, and financial integration. In some cases, cross-border activity indicators have dropped to levels seen prior to the creation of the Economic Monetary Union (EMU) and the euro, as in the case of openness for the EU banking sector as a whole. Internationalisation and integration levels, however, are currently above those of 1999. The situation of the Spanish banking sector to a large degree mirrored trends observed within other EU countries, although, in most cases, from a significantly lower starting point. Further advances in the process of EU financial integration will require progress on the banking union and single European banking market.

The creation of the Economic and Monetary Union (EMU) and the birth of the euro in 1999 were the major catalysts behind the processes of European financial market integration. The disappearance of exchange rate risk, stronger market competition, measures adopted to create a single market, etc. facilitated growth in cross-border financial flows between EMU member countries, and deepened their financial integration as a result. Moreover, the phenomenon of financial market globalisation, underpinned by developments in information and communications technologies (ICTs), has helped open up economies to the outside world and make them more international.

However, the international financial crisis that began in mid-2007 halted the progress of integration, the clearest sign of which being the diminishing significance of cross-border financial flows. In addition to widening spreads between interest rates in different countries for the same product,

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the unwinding of European financial market integration manifested itself in the contraction of European banks' cross-border business with other EU countries as a share of their total activity, which is a quantitative, measurable indicator of integration.

In addition to widening spreads between interest rates in different countries for the same product, the unwinding of European financial market integration manifested itself in the contraction of European banks' cross-border business with other EU countries as a share of their total activity, which is a quantitative, measurable indicator of integration.

Against this background, the purpose of this article is to analyse recent developments in openness (relative share of finance obtained from the rest of the world), internationalisation (relative importance of foreign investments) and integration (intensity of the banking business among EU countries) of Spanish banks in the European context, using the information the European Central Bank (ECB) publishes on the cross-border business of monetary financial institutions (MFIs). The ECB supplies banking business information broken down by geographical destination: domestic *vs.* rest of the world, distinguishing in the latter case between the euro area, other EU countries, and third-countries. Additionally, it gives information by product type, distinguishing between interbank deposits and other liabilities on the liabilities side, and interbank loans, non-interbank loans, fixed income, and shares and other equities on the assets side. As a result, it is possible to analyse the degree of openness, internationalisation and integration separately.

The availability of information from 2013 going back to the birth of the euro in 1999 allows both the full extent of the progress of Europe's financial internationalisation and integration, and the impact of the crisis, to be explored. The breakdown of information by products shows both the different level of internationalisation/integration, and how the impact of the crisis has differed from country to country.

It is important to note that the data on cross-border activity the ECB provides refer to banks resident in each country, not including the business of their foreign subsidiaries. We are not, therefore, looking at the internationalisation of Spanish banks as such, but of the banks operating in Spain. Clearly, the scale of the two largest Spanish banking groups´ foreign business means that the share of foreign business relative to aggregate assets (30%) far exceeds cross-border business as a share of Spanish-resident banks' balance sheets (11.1%). We are therefore looking at cross-border business proper (non-local activity of the parent). The fact that the assets of Spanish bank's branches abroad exceed cross-border assets demonstrates that the international business model is decentralised. Spanish banks operating abroad do so through independent subsidiaries that are mainly financed domestically in the country where the subsidiary is based.

Openness

Openness is understood here to refer to the levels of finance attracted from the economy's external sector, such that the greater the weight of funds obtained within the country (domestic business), the lesser the openness.

Table 1 shows the trend in the weight of the deposits each banking sector attracts from abroad as a share of total assets. During the period of expansion lasting until 2007, the openness of euro area banks rose by almost three percentage points (pp.), rising to a peak of 21.3%. Conversely, during the crisis, openness plummeted by 7.2 pp. to a minimum of 14.1% in 2013. Indeed, the drop was so sharp as to situate it below the 1999 starting point.

Table 1

External openness of banks in the Euro area. Cross-border activity as a share of total assets
(Percentages)

	Total				Deposits from MFIs				Deposits from Non-MFIs			
	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013
Germany	13.5	13.7	11.3	10.3	30.1	33.3	36.8	30.0	13.0	10.5	7.9	8.5
Austria	17.8	16.5	12.7	12.1	41.4	41.2	29.1	27.5	10.9	15.0	15.1	15.0
Belgium	38.3	46.4	27.2	27.1	73.1	84.3	68.4	75.3	27.5	33.9	24.6	23.6
Spain	**18.2**	**14.7**	**9.5**	**9.8**	**37.2**	**56.5**	**30.9**	**37.4**	**15.9**	**6.0**	**5.2**	**5.1**
Finland	10.6	16.1	29.0	28.4	63.8	73.7	82.0	78.4	1.4	4.4	20.9	24.3
France	13.9	20.8	13.5	13.4	33.2	49.2	31.2	30.9	6.6	14.3	13.5	14.0
Greece	9.4	25.0	17.1	17.4	46.4	69.1	19.6	31.5	4.7	17.6	20.8	16.9
Ireland	42.9	33.1	20.6	20.7	75.8	72.3	47.3	58.7	25.9	42.2	31.5	26.0
Italy	14.7	14.9	8.2	7.9	53.3	49.0	31.5	30.1	5.5	4.9	4.1	4.3
Luxembourg	53.0	40.5	41.9	40.5	71.6	72.4	86.7	85.3	67.2	47.9	45.8	42.1
Netherlands	26.9	33.5	23.3	23.3	64.9	87.4	89.2	91.3	14.5	21.8	22.1	23.2
Portugal	23.2	37.0	16.1	13.6	58.8	87.7	49.4	45.0	6.6	12.5	6.7	6.7
Euro area-12	**18.4**	**21.3**	**14.5**	**14.1**	**42.6**	**53.8**	**40.4**	**39.2**	**13.8**	**14.4**	**12.1**	**12.3**

Source: ECB and author's calculations.

In this context, Spanish banks' openness to the rest of the world has always been below the European average, with the gap widening to its maximum in the year the crisis broke out. During the crisis years, the relative weight of the financing received from abroad also fell, dropping to 9.8% in 2013. Spain is one of the few Euro area countries in which the banks' degree of openness actually declined during the expansion. In 2013, Spain ranked second after Italy among the countries studied in terms of its having the lowest degree of openness to the exterior.

The breakdown of finance received from abroad as interbank and non-interbank deposits reveals a much higher degree of openness in the former than the latter. Moreover, the increase in external openness during the expansion leading up to 2007 was much lower in the case of non-interbank deposits. In 2007, 53.8% of all interbank deposits in each country were drawn from abroad. In the non-financial sector, for example, the maximum percentage was 14.4%.

The biggest impact of the 2007 crisis was on the interbank deposit market, to the extent that each country's share of funds attracted from abroad dipped to below the 1999 figure. Cross-border non-interbank deposits also shrank in relative terms between 2007 and 2013, ending the period below their starting-point level.

In the case of Spanish banks, focusing attention on the last year available, although the importance of cross-border activity in interbank deposits is fairly similar to the European average (37.4% *vs.* 39.2%), there was much less openness in other deposits, as only 5.1% of financing came from abroad, which is less than half the euro area average. Indeed, Spain's banks attracted the smallest share of deposits from abroad of any country except Italy.

Internationalisation

A banking sector is more internationalised the greater the relative weight of its foreign investments in relation to total assets. As Table 2 shows, between the creation of the EMU in 1999 and the start of the crisis in 2007, European banks' degree of internationalisation rose considerably, as each country's business invested abroad rose from 21.5% to 31.9%. In Spain, although it also increased, it rose by only 1.7 pp., reaching a level well below the European average (13.9% compared with 31.9%).

Just as the banks became less open to the rest of the world during the crisis, their internationalisation also suffered its effects. In particular, from 2007 to 2013, the relative weight of foreign investment dropped 8.4 pp., falling to 23.5% in 2013. The internationalisation of the banks in Spain also decreased, dropping from 13.9% to 11.1% –a percentage higher only than that of Italy.

In the specific case of interbank loans, the degree of internationalisation is high, as in 2013, 43% of European banks' interbank loans were destined for banks in other countries. This percentage rose to 52.3% just as the crisis began, up 15 pp. from 1999. The crisis therefore exacerbated the domestic bias of interbank loans as a result of the mistrust prevailing in the markets.

Compared with the Eurozone banks, Spanish banks devote a smaller share of their interbank loans to banks in third-countries. Internationalisation is also lower in the loans to the non-financial sector market.

Compared with these values, Spanish banks devote a smaller share of their interbank loans to banks in third-countries, with the trend being similar to that in other European countries. The adoption of the euro increased interbank lending abroad, while during the crisis, precisely the opposite occurred.

Analysis of loans to the non-financial sector reveals a much lower degree of internationalisation, as currently only 4.6% of Euro area banks' lending is to foreign borrowers. Internationalisation has barely progressed since 1999, although it has not dropped during the crisis either. In Spain, the percentage of non-interbank loans granted to non-residents is tiny (1.5% in 2013), although it is almost twice what it was in 1999.

There was strong growth in the relative importance of external investment in fixed-income securities over the period 1999-2007, with the Eurozone banks' average rising from 35% of the total in 1999, to 58.4% in 2007. However, in subsequent years the drop was almost as intense, losing 21 of the 23 pp. gained previously. Developments in Spain were similar (international expansion until 2007 and subsequent contraction), although the weight of the investment in securities issued by non-residents was always below that of other European banking sectors. The progress in internationalisation was always much more limited in Spain, such that it was precisely in 2007 that the gap separating it from the Euro area was widest. That year, the internationalisation indicator for Spain's banks was 18 pp below the average. In 2013, the weight of Spanish banks' investment in debt issued by other countries was 12.6%, a third of that of Eurozone banks as a whole, and 6 pp. below its initial level in 1999. Over the course of the crisis the percentage has been halved.

Finally, in equities, European banks hold 37.2% of their total equities investments abroad, 13 pp. more than in 1999. The period of expansion brought about a rapid increase in the internationalisation of investments, which was truncated by the crisis. In Spain, the weight of foreign investment today has almost recovered to pre-crisis levels. On the other hand, the current level of equity investment is below the peak reached in 2007, and is almost 5 pp. below the Eurozone average (32.6% *vs.* 37.2%).

Table 2

Extent of internationalisation of banks in the Euro area. Weight of the external sector in total assets
(Percentages)

	Total				Loans to MFIs				Loans to Non-MFIs				Securities other than shares				Shares and other equity			
	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013
Germany	15.5	32.1	22.7	24.0	26.3	46.2	37.3	38.7	2.0	3.4	4.3	5.6	21.9	50.6	41.7	42.5	21.5	32.0	33.6	33.0
Austria	21.7	37.7	29.4	29.3	35.1	49.0	34.7	35.0	3.7	5.8	7.6	9.4	37.8	67.3	47.4	45.3	12.9	41.2	30.6	29.3
Belgium	39.5	57.5	38.5	38.8	73.4	91.1	82.0	83.0	6.4	8.4	7.3	7.7	41.4	76.4	38.5	39.1	68.5	62.7	56.2	57.5
Spain	**12.2**	**13.9**	**11.4**	**11.1**	**28.0**	**44.3**	**37.1**	**36.3**	**0.8**	**1.0**	**1.5**	**1.5**	**18.6**	**24.6**	**13.9**	**12.6**	**25.8**	**44.6**	**35.0**	**32.6**
Finland	18.6	26.5	24.7	32.0	61.5	72.0	37.2	56.7	0.3	0.8	2.8	4.9	22.0	55.9	85.1	83.5	9.5	7.9	12.2	9.6
France	20.5	28.3	20.7	20.9	29.6	39.4	29.4	30.2	1.5	2.6	2.3	3.3	36.7	57.3	41.5	37.6	23.2	38.1	31.7	37.4
Greece	11.2	23.4	28.2	26.3	29.1	69.5	90.5	81.1	0.2	0.0	0.9	1.0	2.2	35.1	82.5	85.3	5.6	53.2	65.1	67.0
Ireland	50.7	60.5	56.9	57.5	64.2	65.5	75.0	72.7	16.5	6.9	6.8	7.7	84.5	95.6	80.0	80.1	32.8	47.3	50.0	44.0
Italy	11.2	11.4	8.2	7.5	40.9	28.6	31.8	28.4	1.5	1.3	1.5	1.3	12.0	18.0	6.0	6.1	19.7	35.1	33.0	33.3
Luxembourg	80.7	81.5	80.5	81.3	75.4	80.5	82.5	85.5	43.0	24.8	30.1	37.1	97.5	96.6	96.3	95.5	69.8	63.5	50.0	54.6
Netherlands	28.4	38.3	25.9	28.8	59.4	90.4	59.9	73.6	2.1	5.4	6.4	7.7	59.9	42.5	32.7	31.7	41.6	35.4	62.1	75.1
Portugal	19.2	21.3	15.8	13.9	48.5	69.3	61.8	56.2	2.1	2.0	1.4	1.2	22.2	44.0	13.0	13.4	19.0	26.9	39.4	42.3
Euro area-12	**21.5**	**31.9**	**23.0**	**23.5**	**37.4**	**52.3**	**41.9**	**43.0**	**3.0**	**3.4**	**3.7**	**4.6**	**35.0**	**58.4**	**38.6**	**37.4**	**24.3**	**38.2**	**35.5**	**37.2**

Source: ECB and author's calculations.

European financial integration

Apart from analysing the impact of the crisis on the openness and internationalisation of the Spanish banking sector in the European context, it is also of interest to analyse how cross-border activity has evolved in other EU countries, as its relative importance as a share of total business is a measure of Europe's financial integration. Thus, the greater the weight of a country's banking business with its EU partners, the higher its degree of financial integration.

Taking the position of each banking sector with respect to the rest of Europe as its reference, Table 3 shows this indicator of integration with the rest of Europe for each of the Eurozone's banking sectors. In the case of Eurozone bank assets, the relative weight of cross-border business with EU countries increased by 6.9 pp. from 1999 to 2007, reaching 22.4% at the end of the period, the level of financial integration consequently increasing.

On the other hand, during the crisis, the retreat from integration caused a loss of banking business with EU partners, with the integration indicator dropping by 3.3 pp. Nevertheless, the relative

The relative importance of cross border business with other EU countries was higher in 2013 (19.1%) than in 1999 (15.5%). It is worth noting that specifically in 2013, financial integration recovered, no doubt helped by the strong support for the euro given by the ECB with the measures adopted as of mid-2012.

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Table 3

Degree of financial integration with the EU. Eurozone banks' business with other EU countries as a share of total assets

(Percentages)

	Assets				Liabilities			
	1999	2007	2012	2013	1999	2007	2012	2013
Germany	10.0	20.5	16.6	19.6	12.1	13.7	12.1	10.2
Austria	11.5	24.8	18.3	22.8	14.5	16.8	13.7	13.4
Belgium	34.1	52.3	32.7	31.6	30.1	42.0	25.7	25.1
Spain	**8.5**	**10.9**	**9.7**	**8.9**	**11.7**	**16.2**	**11.2**	**11.5**
Finland	16.3	22.2	21.7	27.3	11.4	14.2	30.9	35.4
France	13.5	18.8	13.9	17.1	12.8	20.1	15.5	15.4
Greece	8.4	18.2	28.7	26.9	7.3	27.7	18.9	20.5
Ireland	39.5	39.1	42.4	43.5	42.3	47.0	34.1	36.7
Italy	9.6	10.1	7.6	7.4	16.8	20.7	12.1	11.2
Luxembourg	66.3	55.1	54.5	57.9	45.4	37.5	47.0	43.7
Netherlands	20.7	31.2	20.1	21.4	20.3	31.8	25.7	24.4
Portugal	11.6	16.6	13.3	11.9	16.7	25.5	14.6	11.1
Euro area-12	**15.5**	**22.4**	**17.1**	**19.1**	**16.4**	**22.1**	**16.6**	**15.8**

Source: ECB and author's calculations.

The trend in Spanish banks' business with other EU countries was upward until 2007, although the gap relative to the evermore integrated banks in other European countries widened. Thus, whereas in 1999 the weight of investments in other EU countries was 7 pp. lower in Spain than elsewhere in the Eurozone (8.5 *vs.* 15.5%), in 2007 the difference was 11.5 pp. In subsequent years there was a retreat in the integration of Spanish banks with their European partners, with the weight of cross-border activity with the EU dropping to 8.9% in 2013, a value almost identical to that in 1999.

On the liabilities side, the relative weight of Eurozone banks' deposits from EU countries grew by 5.7 pp. between 1999 and 2007, rising to a peak of 22.1% just before the crisis. However, when the crisis broke out, the relative weight of cross-border business with other EU countries dropped by 6.3 pp., such that in 2013 integration was even lower than when the EMU was created. It is also noteworthy that from 1999 to 2007, with the exception of Luxembourg, there was an increase in the relative weight of cross-border business with other EU countries, while in the post-crisis period, European integration decreased in all EU countries except Luxembourg and Finland.

In the case of Spanish banks, the degree of integration with Europe rose until 2010, with an increase in the relative weight of business with their European partners of 5.3 pp. However, even in this year of maximum integration, the importance of business with other EU countries was below the average for European banks, with a difference of 2.3 pp. In subsequent years, the impact of the crisis on Spanish banks was much greater, with a drop in the relative weight of business with the EU of 5.4 pp. In 2013, the value of the financial integration indicator was 11.5% (compared with a Eurozone average of 15.8%), greater than that of Germany, Italy and Portugal.

The information on deposits given in Table 4 shows the very different level of integration in interbank and non-interbank deposits. In the former case, the wholesale nature of the market shows a larger and growing share of cross-border activity. Specifically, during the period of expansion, the weight of business with other EU countries grew by an average of 10 pp. for Eurozone banks as a whole, reaching 37.6% in 2007. Conversely, although non-interbank deposits grew with integration, they accounted for just 8.1% in 2007. The importance of Spanish banks' interbank financing from other EU countries developed further in this context, as it came to account for 50% of financing in 2007. By contrast, in previous years, there was a bigger step backwards in terms of integration, with the indicator dropping by 19 pp., almost twice the Euro area average. Non-interbank deposits taken by Spanish banks from the rest of the EU barely changed over the period examined, and were below the European average in 2013 (2.9% *vs.* 7.6%), situating Spain among those EU countries obtaining least financing in the form of non-interbank deposits. Notable differences exist between countries, with non-interbank deposits ranging from a minimum of 2.3% (Italy) to a maximum of 26% (Luxembourg), and interbank deposits from a minimum of 18.8% (Austria) to a maximum of 68.1% (Netherlands) in 2013.

The pattern on the assets side has progressed similarly, with an increase in the weight of investments from EU countries between 1999 and 2007 and a decrease in subsequent years. The level of integration in non-interbank loans is much smaller, with just 7.5% of exposure being from other EU countries in 2013, compared with

Table 4

European financial integration in terms of bank liabilities. Eurozone banks' business with other EU countries as a share of total assets
(Percentages)

	Interbank deposits				Non-interbank deposits			
	1999	2007	2012	2013	1999	2007	2012	2013
Germany	19.6	24.5	27.0	21.6	6.5	5.3	4.1	4.7
Austria	25.0	26.3	18.9	18.8	5.6	9.1	10.1	10.2
Belgium	43.9	57.2	41.8	47.3	17.3	26.6	18.9	17.8
Spain	**28.2**	**49.9**	**27.9**	**33.9**	**2.6**	**2.9**	**2.7**	**2.9**
Finland	49.2	33.6	44.7	53.9	0.5	2.4	15.8	20.2
France	19.8	28.1	20.5	20.8	3.0	7.1	9.5	9.3
Greece	32.2	66.6	18.5	30.2	1.1	15.5	19.1	15.5
Ireland	59.5	58.6	42.9	54.2	18.2	25.9	22.3	20.6
Italy	40.5	43.0	29.3	28.2	2.0	2.1	2.1	2.3
Luxembourg	46.5	42.7	61.2	60.5	43.6	29.2	29.8	26.0
Netherlands	35.8	63.4	66.1	68.1	8.0	10.2	10.7	11.7
Portugal	35.2	46.5	33.8	27.8	3.7	8.0	2.3	2.5
Euro area-12	**27.5**	**37.6**	**29.7**	**29.3**	**6.9**	**8.1**	**7.5**	**7.6**

Source: ECB and author's calculations.

Table 5

European financial integration in terms of bank assets. Eurozone banks' business with other EU countries as a share of total assets
(Percentages)

	Interbank loans				Non-interbank loans				Securities other than shares				Shares and other equity			
	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013
Germany	18.5	35.9	27.3	28.1	3.3	6.0	6.1	8.1	16.2	40.8	34.2	34.5	12.4	18.2	22.1	22.1
Austria	19.1	38.4	24.1	26.5	4.3	10.8	12.1	17.4	25.2	54.7	38.0	37.3	4.6	20.1	12.1	16.6
Belgium	62.3	79.3	59.4	55.0	8.7	19.3	12.2	12.8	32.6	63.8	33.0	33.6	56.0	55.1	48.8	50.5
Spain	**22.3**	**39.9**	**32.7**	**28.2**	**1.0**	**2.0**	**2.3**	**2.4**	**12.0**	**20.3**	**12.1**	**11.0**	**10.7**	**26.2**	**16.8**	**16.9**
Finland	53.1	54.8	21.3	26.7	1.7	2.1	9.4	15.2	16.8	50.0	76.8	74.1	4.8	6.3	10.8	8.4
France	19.0	28.7	21.2	20.5	2.2	3.4	4.7	6.9	24.1	43.5	32.5	34.2	11.2	20.5	18.0	20.3
Greece	24.4	63.8	85.4	75.9	0.4	0.9	1.2	1.2	0.7	27.1	79.0	83.5	1.9	16.2	25.9	27.3
Ireland	50.8	55.9	62.1	60.3	24.2	11.3	14.4	16.9	59.4	55.6	52.2	50.7	22.4	25.2	41.9	37.0
Italy	34.2	26.9	28.0	23.8	2.7	1.7	1.8	1.7	6.3	15.0	5.3	5.2	14.4	32.5	31.3	31.8
Luxembourg	62.2	58.2	57.2	61.5	56.6	31.7	36.9	45.9	79.0	68.5	64.9	61.0	54.2	44.2	27.7	30.6
Netherlands	44.2	79.2	41.4	47.9	3.5	7.7	10.6	11.2	48.6	35.8	26.3	25.5	19.9	11.1	31.5	42.6
Portugal	27.8	54.8	48.2	39.3	2.4	2.5	1.8	1.6	12.7	34.5	12.2	12.8	12.4	18.2	31.8	35.5
Euro area-12	**27.5**	**42.0**	**31.2**	**30.7**	**4.4**	**5.5**	**6.0**	**7.5**	**25.5**	**43.3**	**29.8**	**29.4**	**13.9**	**23.4**	**22.1**	**23.5**

Source: ECB and author's calculations.

a percentage of 30.7% in loans to European MFIs. In the case of fixed-income investment, the relative importance of foreign investment in the EU (29.4%) is currently similar to that of interbank loans, while that of equity investment is somewhat less (23.5%).

Spanish banks' integration with the EU is similar to the Eurozone average in the interbank lending market (28.2% *vs.* 30.7% in 2013). Conversely, the importance of exposure to other EU countries is much smaller in the case of non-interbank loans (2.4% *vs.* 7.5% in 2013), situating Spain at the bottom of the table on the integration rankings. In the case of exposure to debt, the relative weight of investments in other EU countries by Spanish banks is currently below even the 1999 level (11% *vs.* 12%), at a value that is a third of the Eurozone average (29.4%). Finally, in the case of equity investment, the trend in Spain's exposure to the EU as a share of the total was the most volatile in the Eurozone, with a bigger increase during the expansion and a bigger drop during the crisis.

Concluding remarks

The disappearance of exchange rate risk with the advent of the euro, and the multiple measures passed to achieve a single financial market in Europe, bore fruit in terms of increased cross-border activity by European banks, which increased their exposure to other EU countries. Thus, domestic business lost weight in favour of cross-border activity. As Table 6 summarises, investments in other EU countries grew in importance on banks' balance sheets, with domestic business dropping by 7.4 pp.; something similar happened to liabilities, although the relative weight of domestic business dropped less.

Spanish banks also benefited from the integration process, with growth in their business with other

Table 6

Geographical distribution of Eurozone banking sectors' balance sheets
(Percentages)

a) Assets

	1999			2007			2012			2013		
	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World
Germany	83.9	10.0	6.1	71.8	20.5	7.7	76.9	16.6	6.4	72.9	19.6	7.6
Austria	77.3	11.5	11.2	65.9	24.8	9.3	73.2	18.3	8.5	69.4	22.8	7.8
Belgium	57.7	34.1	8.2	38.1	52.3	9.6	56.3	32.7	11.0	55.3	31.6	13.1
Spain	**86.9**	**8.5**	**4.5**	**86.4**	**10.9**	**2.7**	**87.0**	**9.7**	**3.2**	**87.5**	**8.9**	**3.7**
Finland	80.0	16.3	3.7	71.9	22.2	5.9	71.2	21.7	7.1	61.8	27.3	10.9
France	77.0	13.5	9.5	72.7	18.8	8.6	79.9	13.9	6.3	74.8	17.1	8.1
Greece	87.3	8.4	4.3	76.1	18.2	5.7	67.4	28.7	3.9	69.6	26.9	3.5
Ireland	45.9	39.5	14.6	40.4	39.1	20.5	40.9	42.4	16.7	38.4	43.5	18.1
Italy	87.3	9.6	3.1	88.8	10.1	1.1	91.5	7.6	1.0	91.5	7.4	1.2
Luxembourg	15.7	66.3	18.0	22.8	55.1	22.1	21.8	54.5	23.7	16.4	57.9	25.7
Netherlands	70.4	20.7	8.9	60.1	31.2	8.8	70.4	20.1	9.5	67.5	21.4	11.1
Portugal	79.4	11.6	9.0	78.5	16.6	4.9	83.2	13.3	3.5	84.3	11.9	3.7
Euro area	**76.9**	**15.5**	**7.6**	**69.5**	**22.4**	**8.0**	**76.2**	**17.1**	**6.6**	**73.1**	**19.1**	**7.8**

a) Liabilities

	1999			2007			2012			2013		
	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World
Germany	79.7	12.1	8.2	79.6	13.7	6.8	82.0	12.1	5.9	84.4	10.2	5.3
Austria	75.1	14.5	10.4	73.4	16.8	9.9	79.1	13.7	7.2	80.4	13.4	6.2
Belgium	50.6	30.1	19.3	40.8	42.0	17.2	62.5	25.7	11.9	63.5	25.1	11.4
Spain	**76.6**	**11.7**	**11.8**	**79.6**	**16.2**	**4.1**	**86.1**	**11.2**	**2.7**	**85.9**	**11.5**	**2.6**
Finland	84.6	11.4	4.0	69.4	14.2	16.4	47.3	30.9	21.8	51.4	35.4	13.3
France	77.9	12.8	9.4	64.1	20.1	15.8	76.9	15.5	7.6	77.2	15.4	7.5
Greece	87.0	7.3	5.6	70.1	27.7	2.2	79.7	18.9	1.4	78.1	20.5	1.4
Ireland	45.0	42.3	12.7	38.4	47.0	14.7	59.4	34.1	6.5	58.3	36.7	5.0
Italy	76.1	16.8	7.1	75.0	20.7	4.3	85.9	12.1	2.0	86.8	11.2	2.0
Luxembourg	30.1	45.4	24.5	37.1	37.5	25.4	31.7	47.0	21.3	35.7	43.7	20.6
Netherlands	63.4	20.3	16.4	51.6	31.8	16.6	59.7	25.7	14.6	61.4	24.4	14.2
Portugal	71.8	16.7	11.5	53.2	25.5	21.2	76.6	14.6	8.8	80.2	11.1	8.7
Euro area	**72.9**	**16.4**	**10.7**	**66.9**	**22.1**	**11.0**	**76.4**	**16.6**	**7.0**	**77.6**	**15.8**	**6.6**

Source: ECB and author's calculations.

Table 7

Weight of Spanish and Eurozone banks' cross-border activity with other EU countries
(% of assets)

	1999		2007		2012		2013	
	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain
Assets								
Loans to MFIs	27.5	22.3	42.0	39.9	31.2	32.7	30.7	28.2
Loans to Non-MFIs	4.4	1.0	5.5	2.0	6.0	2.3	7.5	2.4
Securities other than shares	25.5	12.0	43.3	20.3	29.8	12.1	29.4	11.0
Shares and other equity	13.9	10.7	23.4	26.2	22.1	16.8	23.5	16.9
Liabilities								
Deposits from MFIs	27.5	28.2	37.6	49.9	29.7	27.9	29.3	33.9
Deposits from Non-MFIs	6.9	2.6	8.1	2.9	7.5	2.7	7.6	2.9

Source: ECB and author's calculations.

EU countries. Nevertheless, the greater relative weight of this activity was not due to the loss of domestic business (which grew strongly as a result of intensive credit growth), but the drop in activity outside the EU. The pattern was the same on the liabilities side, where not only did domestic business not drop, but it actually grew from 1999 to 2007, such that the increased weight of business with the EU was due to the declining importance of financing raised from the rest of the world.

The mid-2007 financial crisis led to a new scenario which broke the European banking market's trend towards greater internationalisation, openness and integration. Between 2007 and 2013 the importance of domestic business grew, representing a step backwards in integration with the EU and a decline in internationalisation and openness. The pattern was similar in Spain, with a smaller share of business with the EU in 2013 than in 2007.

Analysis by banking products (Table 7) also clearly shows the impact of the crisis on banks' cross-border activity with other EU countries. For Eurozone banks, the interbank lending and fixed income markets were hit hardest by the crisis, with drops of 11.4 and 13.8 pp. in their share of business with EU countries as a whole. The interbank deposits market also suffered from the lack of confidence that spread through markets with the crisis, with a drop of 8.2 pp. in the weight of business with other EU banks. On the other hand, the integration of non interbank loans and deposits has barely been affected, although it should be borne in mind that cross-border activity in other EU countries is relatively small scale.

In this context, Spanish banks also underwent a drop in the weight of business with other EU countries, this weight being less than the average for other Eurozone banks, except in the case of interbank deposits. The biggest difference with European banks as a whole as far as cross-border business with the EU is concerned was in fixed income investments, where the EU accounts for just 11% of the total, compared with a European average of 29.4%.

In this context, the priority of the banking union project must be to make up for lost ground as regards financial integration. As progress is made towards the single banking market, the differences that currently exist between the cost of access to finance can be expected to diminish, and the domestic bias in the composition of investment and origin of bank finance, which rose so considerably during the crisis, should decrease.

Non-bank finance in Spain: A growing alternative in response to tougher bank funding channels

José A. Herce and Pablo Hernández[1]

Default risk in commercial relationships between Spanish companies is among the highest in Europe, resulting in tighter restrictions by banks on lending and consequently reducing companies´ opportunities to tap commercial discounting. In this context, non-bank financing is emerging as an alternative, albeit not yet a true opportunity for Spanish SMEs.

Prevailing economic uncertainty and historical experience with defaults have led a large share of companies to be much more selective when granting commercial loans to their clients. In addition, companies have been facing more and more roadblocks to discounting commercial notes in traditional banking channels. Although bank financing still plays a much more dominant role in the capital structure of Spanish companies than for their European peers, there is growing room for other SME financing alternatives to take hold. While non-bank financing sources are emerging as a viable alternative for Spanish companies, reliance on this type of capital remains limited within the Spanish productive fabric, and especially in the case of SMEs.

B2B default in Spain

Non-payment, or delays in settling commercial obligations, result in a series of distortions in the administrative and operational activities of companies. Firstly, it means companies have to fund their defaulted working capital by using capital generated in the company or externally, the latter either through banking channels or by "passing on" the delay or non-payment to suppliers. This second option is especially damaging, in that it moves the culture of delayed or defaulted payments along the value chain of the activity in question (spreading the "default culture"). Secondly, it entails opportunity costs for the company granting the financing, which are not necessarily offset by the costs saved in default with third parties. In addition, although it is difficult to estimate actual figures, legal costs and penalties also arise in the event of default, as do reputational and brand-image costs derived from improper payment practices, both for the company in question and for the country at large.

According to the Business Financing and Default Gazette (*Boletín de Morosidad y Financiación Empresarial*),[2] in the second quarter of 2014, the annual cost of commercial debt in arrears was 993 million euros (0.1% of GDP). This cost results from applying the legal interest rate to the commercial

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

[2] Published by CEPYME (http://www.cepyme.es/es/documentos/boletin-de-morosidad-y-financiacion-empresarial_23.html).

Table 1
Cost of default
(€ million)

	2Q11	2Q12	2Q13	1Q14	2Q14
Financial cost of commercial debt	2,631.3	2,174.5	1,850.4	1,690.1	1,572.3
Commercial debt in arrears	307,145.1	274,161.7	221,766.8	216,699.4	211,146.3
Cost of debt in arrears	1,891.7	1,475.4	1,115.5	1,092.3	992.7
Legal interest rate (%)	4.0	4.0	4.0	4.0	4.0
Legal delay interest rate (%)	8.0	8.1	8.5	8.3	8.3
Weighted legal interest rate (%)	6.9	6.9	7.0	7.0	7.0

Sources: Boletín de Morosidad y Financiación Empresarial.

loan balance in arrears, and is equal to two-thirds of the cost attributed to commercial loans granted by companies. The costs companies incur upon definitive default of notes they issue must also be taken into account.

According to the European Payment Index published by Intrum Justitia, Spain, Greece, Portugal and the Balkan countries are far from keeping with good collection and payment practices, which are more respected in certain Nordic countries. In effect, the likelihood of default in Spain is very high. This finding is backed by the *Business Financing and Default Survey (Encuesta de Morosidad y Financiación Empresarial, EMFE).* Nearly one-quarter of companies believe they will never recover 10% or more of their outstanding billings; this rises to over 20% in the case of companies with less than 50 employees.

Nevertheless, the most recent analyses point to a trend in Spain, a priori a counter-intuitive one, whereby during the economic downturn, corporate default has actually decreased from the high levels seen when the crisis first hit.

Spain is among the European countries with the highest risk of default. Companies and banks have tightened selection criteria when approving operations.

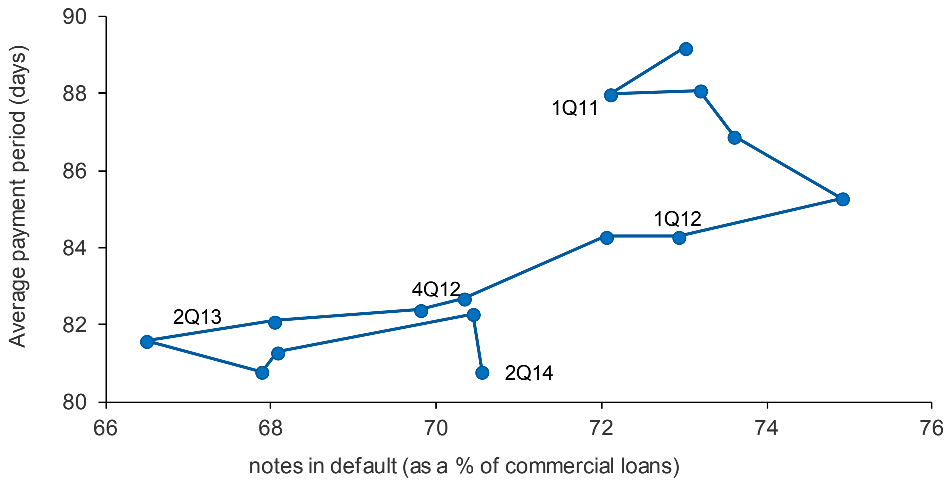
In effect, the most representative aggregate default indicators (average payment period and the percentage of commercial loans in arrears) have fallen steadily since the onset of the downturn. Although this trend responds to a more

Table 2
Likelihood of default [1] by size of creditor
(% of replies) June 2014

	Less than 1%	1%-2%	2%-4%	4%-10%	Over 10%
1-9 employees	32.1	19.3	14.8	9.7	24.1
10-49 employees	41.9	14.9	9.5	8.1	25.7
50-249 employees	52.9	11.8	11.8	11.8	11.8
TOTAL	33.7	18.6	14.1	9.6	24.0

Note: [1] Proportion of the value of outstanding invoices that will never be collected.
Sources: Boletín de Morosidad y Financiación Empresarial.

Exhibit 1
Amounts and duration of corporate default in Spain



Sources: Boletín de Morosidad y Financiación Empresarial.

complex process and not necessarily because of improved behaviour, the fact that regulations governing payment periods have become more strict and that agents have adapted to these regulations (albeit to varying degrees) has indeed had an influence.

During the financial crisis, companies and banks began applying much more demanding criteria when approving loan operations (financial and commercial). Banks – first and foremost in response to the need to restructure their balance sheets and to make allowances to cover potential defaults – raised their requirements for granting new loans. Yet they also tightened their requirements for commercial discounting, based, among other indicators, on default indicators which, when all is said and done, are a proxy for the credit risk of companies. Businesses, finding it more difficult to secure funding by discounting receivables from other companies, also tightened their selection criteria for clients and/or required higher cash payments, down payments, etc. These new trends also responded to the climate of uncertainty in which asymmetrical information problems became more prevalent, such as the adverse selection of customers.

Another experience observed (and one in line with what economic theory would suggest) is that the size of the company is a determining factor. Normally, the smaller the company, the smaller its negotiating power and its capacity to access credit, and the higher the costs it must bear in the case of default.

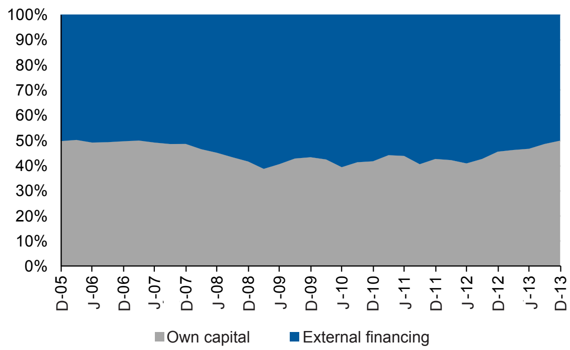
Financing profile of productive activities

SMEs are the cornerstone of the Spanish productive fabric. According to DIRCE, Spain's central business directory, of the 3.11 million companies in Spain, 99.6% are SMEs. This structure is highly fragmented: 96% have fewer than 10 salaried workers, or none at all. Moreover, one of the most characteristic features of the capital structure of Spanish companies, as reflected in the accompanying charts, is their high dependence on bank financing compared to their European peers. External financing accounts for 50% of total capital of Spanish non-financial companies.

Despite the lengthy restructuring process carried out in the Spanish banking sector, new loan

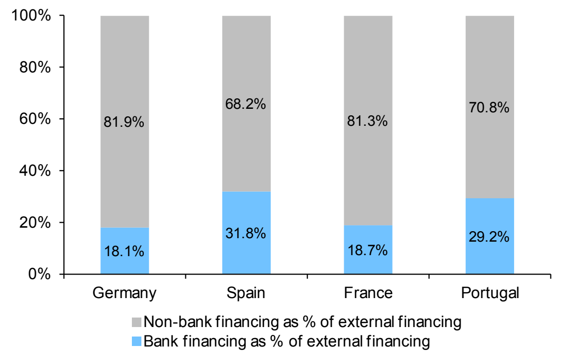
Exhibit 2

2.a - Capital structure of non-financial companies in Spain 2013



Sources: Bank of Spain and AFI.

2.b - Distribution of external financing in certain European countries (% total)



Sources: Bank of Spain and AFI.

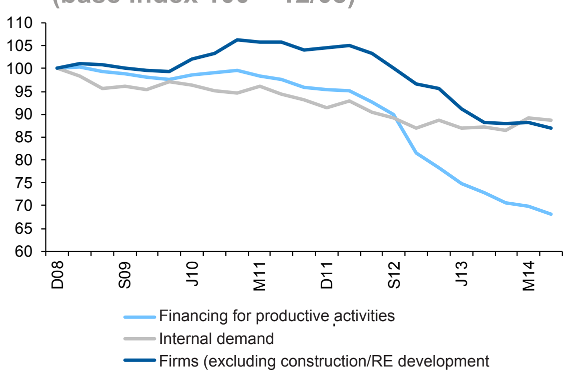
approval indicators continue to show a deep weakness. In all of 2013, new loans granted totalled only one-third of the amount extended in 2007.

SMEs comprise the bulk of the productive fabric, and are highly dependent on bank loans for funding their activities.

According to the *Business Financing and Default Survey,* 26% of companies have attempted to access financing facilities from credit institutions in the past six months. This percentage is similar to that reported in the survey on access to financing among Eurozone SMEs, published by the European Central Bank (ECB). The report places Spain among the countries whose companies have the greatest funding needs, behind only France (31%) and Italy (29%). The following charts show how loan approval for productive activities has decreased, especially since mid-2012. By way of a benchmark, the figures also show that internal demand had been falling until the third quarter of 2013.

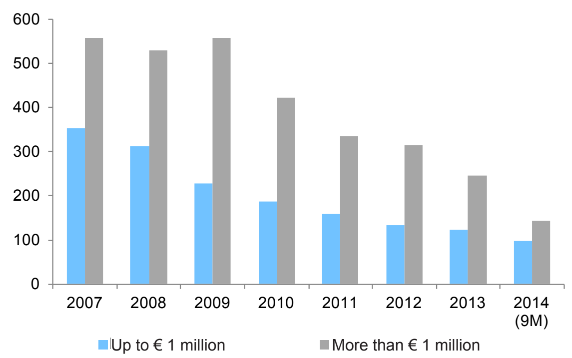
Exhibit 3

3.a - Domestic demand and bank loans for companies (base index 100 = 12/08)



Sources: Bank of Spain and AFI.

3.b - New loans granted to companies in Spain (€ thousand million)



Sources: Bank of Spain and AFI.

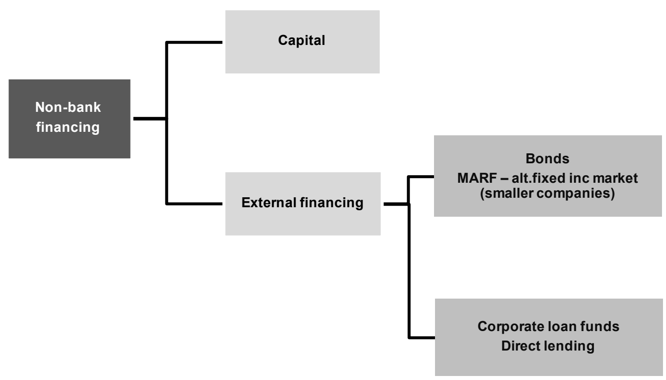
The role of non-bank financing and SMEs

In the context described above, companies have started to turn to alternative funding sources. Nevertheless, in Spain the scope of these financing sources – whether carried out through debt or through own capital – is very limited. This contrasts with the situation in the US, where companies tap capital markets for funding to a much higher degree.

According to the EMFE, financing channels other than own capital and bank financing still play a discreet role, as reflected in the table below. One funding mechanism that is relatively significant in Spain is the Instituto de Crédito Oficial (ICO, Spain's state finance agency). Funds from the remaining channels, however, such as loans from non-banking entities and guarantees from mutual guarantee companies, are still negligible.

Although non-financial entities stepped up their issues of bonds and debentures in 2013 and

Exhibit 4
Non-bank financing channels



Source: AFI.

Table 3
Financing channels June 2014

	No. of responses	%
Capital (contributions, regulated markets, alternative markets (MAB))	438	49.1
Bank financing	278	31.2
Instituto de Crédito Oficial (ICO) funding	94	10.5
Other	40	4.5
Supplier payment programme	21	2.4
Loans from non-bank entities (shadow banking)	10	1.1
Guarantee from a mutual guarantee company	10	1.1
Securitise collection rights in alternative markets	1	0.1

Sources: Boletín de Morosidad y Financiación Empresarial.

2014, non-bank financing is still not an effective alternative for smaller-sized companies. Funding through organised markets (non-bank external funding) is designed for investment undertakings, not to fund working capital. Accordingly, small and micro-companies are, due to their size, less likely to rely on these funding instruments. This is essentially because the costs entailed in accessing this type of financing (such as issue costs) represent a considerable portion of the business margin. Small and medium-sized companies are therefore obliged to carry out capital increases against own funds for CapEx operations of a certain size or to fund their working capital through suppliers.

Although non-bank financing has begun to take off, small and micro-companies have yet to tap these disintermediation instruments.

Conclusions

Default in commercial relationships between companies curbs growth in their activity. In Spain, this problem directly and indirectly affects the funding capacity of companies and has a considerable knock-on effect on the business fabric. In addition, default entails costs that must be borne above and beyond those already inherent in productive activity. This added cost directly erodes the competitive edge of the business fabric, as well as the reputation of companies and of the country at large, when establishing new business relationships. Another effect derived from default is the mistrust it generates between lending institutions and companies, given that the lenders, against a backdrop such as the current economic downturn, find it difficult to correctly screen potential borrowers and to optimally assign their services. In other words, banks have rolled out tighter loan criteria, to streamline their already high costs. Spanish companies, which are highly dependent on bank financing, have fewer opportunities to access commercial discounting, and therefore have also become more selective when extending credit to their customers. Spain´s regulatory bodies must design incentive systems in order to minimise or, to the extent possible, eradicate default in commercial relationships. Otherwise, default will continue to impede a healthy flow in economic activity between financial institutions and companies, and between companies themselves.

Consequently, given the more difficult climate for financing through banking channels, the conditions are present for non-bank financing to emerge, covering the needs not met by the traditional channel. Nevertheless, the presence of these banking desintermediation instruments is still only modest, and has had limited acceptance among large and medium-sized companies. Funds secured through this channel are used for CapEx projects and not to fund companies' working capital. In that regard, it does not pose a true opportunity for small and micro-companies, which continue to be in a vicious cycle of default and dependence on commercial loan funding, resorting to funding through suppliers and/or using commercial discounting or own capital.

Key features of the draft General State Budget for 2015

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

The 2015 draft budget supports fiscal consolidation efforts in the coming year. More favorable economic conditions, together with tax reform, are the major factors underpinning the assumptions of the current proposal.

The Popular Party has recently presented its 2015 budget proposal for parliamentary debate. As in previous years, the main objective of this year´s draft is fiscal consolidation. Despite existing challenges, fiscal performance has shown some improvement and is projected to remain on a consolidation path, given international consensus on an improved growth outlook. By 2016, the projected deficit is 2.8% of GDP – below the upper limit set by the EU. Although optimistic, revenue forecasts take into account the expected improvement in economic conditions, together with the anticipated effects of the tax reform that will enter into force in January 2015, with changes applicable, for the most part, to the individual and corporate income tax. On the expenditure side, the Government anticipates an overall cut of 1.5% versus *2014, or 0.5% of GDP, supported by decreases in unemployment benefits and other benefits, together with a reduction in debt servicing costs.*

Fiscal consolidation as the main objective

On Friday, September 30th, the Council of Ministers passed the draft 2015 General State Budget. This document sets out the distribution of the State's expenses and revenues, including those of the various ministerial departments, the social security system, autonomous agencies, and state-owned companies. As required by law, the figures in the draft are subject to debate in the two houses of parliament, the Congress and the Senate, during the final quarter of the year. After this process of discussion by parliamentary groups, the draft law should be passed in both houses before the end of 2014, incorporating any modifications to the original text arising from the debate. However, given the Popular Party's absolute majority in both houses, no substantial changes to the draft are expected. This article aims to give an overview of public income and expenditure projections for the coming year.

The 2015 budget is the third the People's Party government has prepared since the elections held on November 20th, 2011. As in previous years, the budget's stated priority is to consolidate the public accounts. After several years of effort, the general government deficit dropped from 8.9% to 6.3% between 2011 and 2013 (measured in SEC-2010 terms). In 2013, the objective of meeting the 6.5% target set by the European Union

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was achieved. Although the policies applied continue to yield fruit in terms of shoring up public finances, consolidation is turning out to be very challenging for three main reasons. Firstly, the economic situation in the last few years. GDP growth from 2011 to 2013 was 0.1%, -1.6%, and -1.2%. Secondly, the sharp drop in the tax base.

As required by law, the figures in the draft are subject to debate in the two houses of parliament during the final quarter of the year. Given the Popular Party's absolute majority in both houses, no substantial changes to the draft are expected.

Households' gross income changed by 0.4%, -4.4%, and -1.2% in the years 2011 to 2013. Over this same period, the change in final spending, subject to VAT, was -5.8%, -4.5%, and -4.6%. And finally, the sharp rise in unemployment benefits and debt interest. Budgeted unemployment benefit payments for 2015 come to 25,300 million euros (the figure in 2007 was 14,470 million euros). Likewise, debt interest is forecast to cost 35,490 million euros in 2015 (compared with 15,925 million euros in 2007). The scale of these two items, which in 2015 accounted for 5.56% of GDP, will be directly related to the Spanish economy's high unemployment rate (22.9% in 2015 compared with 8.3% in 2007), and the rising general government debt (which is set to reach 101.7% of GDP in 2015, compared to 36.2% in 2007).

Table 1 shows the deficit targets for all levels of government –central government, autonomous regions, local government, and the social security system– for the coming years. The forecasts set a target of -4.2% in 2015, -2.8% in 2016 and -1.1% in 2017. As can be seen, most of the 2015 deficit corresponds to the central government, as local authorities are projected to balance their budgets. The information in the table suggests that in 2016, a public deficit of less than 3% will be reached, thus complying with the upper limit set in the convergence criteria. Similarly, the forecasts suggest that 2016 will be the first year since the start of the crisis in which the level of public debt begins to fall, dropping from 101.7% in 2015 to 101.5% in 2016 and 98.5% in 2017. The growth forecasts set in the macroeconomic table support this process of fiscal consolidation, with expected GDP growth rates of 1.3% in 2014 and 2.0% in 2015. The expected improvements in the Spanish economy have been noted by the International Monetary Fund (IMF), which has doubled its growth forecast for the Spanish economy in just six months. Its latest estimates for 2014 and 2015, included in the October edition of *World Economic Outlook,* are 1.3% and 1.7%, respectively. The government's forecasts have been backed by the Independent Fiscal Responsibility Authority (AIREF), which considers them, overall, to be realistic.[3] The aforementioned official estimates

Table 1

Forecast public deficit trends 2014-2017

	2014	2015	2016	2017
1. Central Government	-3.5	-2.9	-2.2	-1.1
2. Autonomous Regions	-1.0	-0.7	-0.3	0.0
3. Local Authorities	0.0	0.0	0.0	0.0
4. Social Security System	-1.0	-0.6	-0.3	0.0
TOTAL General Government	-5.5	-4.2	-2.8	-1.1

Source: Draft General Budget 2015.

[3] Since 2013, the Independent Fiscal Responsibility Authority (AIREF) has been responsible for supervising the budget cycle and the Spanish economy's growth forecasts.

are identical to the Funcas´ (Spanish Savings Banks Foundation) panel estimates, based on an average of the projections by 18 reputable research departments from academia and the corporate world.

Income forecasts

The government estimates total non-financial revenues of 205,988 million euros in 2015, 90.3% of which will be tax revenue. Tax revenue is expected to grow compared to the 2014 settlement preview by 5.4% (186,112 million euros). As Table 3 shows, tax revenue is expected to rise by 5.4% in 2015, or 9,485 million euros.[4] Of this figure, 4,044 million euros (42.5%) will come from VAT, 3,988 million euros (42.0%) from corporate income tax, and 837 million euros from excise duties (8.8%). Particularly noteworthy is the fact that VAT collection is expected to reach a record since this tax was introduced in the Spanish tax system in 1986. In the case of personal income tax (IRPF, in its Spanish initials), the government anticipates a drop of 0.6% in revenues, as against an increase of 20% in corporate income tax (as we shall see below, both of these taxes are due to be reformed in 2015).

The revenue forecasts have taken into account the interrelation between the following two factors: (i) the improved economic situation; and, (ii) the tax reform that will come into effect in January 2015, although it will not be completed until 2016. As regards the economic cycle, aggregate demand is expected to grow by 2.5% in 2015, compared with 1.6% in 2014 and -2.3% in 2013. Thus, as Table 2 shows, both the unemployment rate (dropping by 1.8 points from 24.7% to 22.9%) and compensation of employees will improve in 2015. Nevertheless, the aforementioned 5.4% increase in tax revenue looks optimistic if we bear in mind that it is twice the forecast growth in aggregate demand or GDP, which would suggest that the Spanish tax system's revenues are highly elastic

The aforementioned 5.4% increase in tax revenue looks optimistic if we bear in mind that it is twice the forecast growth in aggregate demand or GDP, which would suggest that the Spanish tax system's revenues are highly elastic with respect to the economic cycle – a conclusion not currently supported by existing empirical work.

Table 2

Forecasts and macroeconomic context on which the state budget for 2015 is based

Real change in %	2013	2014	2015
Nominal GDP	-1.2	1.3	2.0
Private final consumption	-2.3	2.0	2.1
Internal demand	-2.3	1.6	2.5
Exports of goods and services	4.3	3.6	5.2
Imports of goods and services	-0.5	4.4	5.0
Compensation per employee	1.7	0.8	1.0
Unemployment rate	26.1	24.7	22.9
GDP deflator	0.7	0.1	0.6

Source: Draft General Budget 2015.

[4] In the absence of fiscal reform, the growth in tax revenues would be 7.6% compared with the 5.4% envisaged in the budget.

Table 3
Forecast collections in 2015
(million euros)

	Advance settlement 2014	Budget 2015	Change (%)	Change (Euros)
1. **TAX REVENUES**	176,627	186,112	5.4	9,485
Personal income tax	73,415	72,957	-0.6	-458
Non-resident income tax	1,332	1,530	14.9	198
Corporate income tax	19,589	23,577	20.4	3,988
VAT	56,216	60,260	7.2	4,044
Excise duties	19,057	19,894	4.4	837
Other tax revenue	7,018	7,894	12.4	876
2. **NON-TAX REVENUES**	25,034	19,876	-20.6	-5,158
3. **TOTAL NON-FINANCIAL INCOME**	201,661	205,988	2.1	4,327

Source: Draft General Budget 2015.

with respect to the economic cycle – a conclusion not currently supported by existing empirical work. The second factor noted is the entry into force of the personal income and corporate income tax reform, the outlines of which are sketched out below.[5] The aim of this reform is to help consolidate the change in cycle begun in 2014, thereby reducing the burden on taxpayers of both taxes in order to stimulate economic growth.[6]

As Table 4 shows, the total cost of the reform during its two years of implementation will be 9,059 million euros. Of this figure, a third corresponds to corporate income tax (IS in its Spanish initials) and the remainder to personal income tax (IRPF). IRPF reform will cost 3,366 million euros in 2015 and 2,615 million euros in 2016. In the case of corporate income tax, the cost to revenues is basically concentrated in the second year, rising from 437 million euros in 2015 to 2,641 million euros in 2016. However, a slightly lower impact on revenues may be expected if we take into account the fact that the tax cut will boost growth through household consumption and business investment. In this respect the government has estimated that the overall cost of the reform could be reduced to 6,900 million euros.

Table 4
Distribution of expected cost of the tax reforms
(millions of euros)

Tax types / years	2015	2016	Total
Personal income tax	3,366	2,615	5,981
Corporate income tax	437	2,641	3,078
Total	3,803	5,256	9,059

Source: Draft General Budget 2015.

[5] In addition, the government has postponed the abolition of the wealth tax, which was due to take place in 2015.

[6] The structure of the value-added tax and excise duties will remain unchanged. However, as a result of the ruling by the European Court of Justice, as of January 2015, the tax rate on intermediate goods used in the production of medicinal products, diagnostic medical equipment, and medical apparatus will be raised from 10% to 21%.

IRPF reform will basically operate on four fronts. Firstly, the system will be changed and the amounts applicable as deductions for earned income will be modified. Secondly, the number of tax brackets for earnings will be cut from seven to five. Thus, as Table 5 shows, the minimum marginal rate taxpayers will pay will drop from 24.75% to 19% in 2016.[7] The highest marginal rate will also be cut, from 52% in 2014 to 45% in 2016. The number of earned income tax brackets will remain unchanged, but they will be made wider and the marginal rates will be cut. Table 4 shows how the distribution of the marginal rate for small savers will drop over two years from 21% to 19%. At the same time, the marginal rate for large savers will go from 27% to 23%. Thirdly, the value of the individual and family exemptions will increase, although this will not produce a fiscal saving, as the lowest marginal rate for both earned and unearned income has been cut. For example, the individual exemption will rise by 30%, although the fiscal saving produced is just 164.87 euros, as this goes from 1,274.87 euros (0.2475 x 5,151 euros) to 1,110 euros (0.20 x 5,550 euros). Finally, the reform aims to encourage long-term saving. The effects of IRPF reform and its impact on household incomes will begin to be noticeable in 2015 through the reduction in the withholdings on earned income and investment income.

Table 5

Changes in IRPF tax rates and individual and family exemption allowances

	2015	2016	Total
Rates			
General[1]	(7 brackets) Minimum: 24.75%; Maximum: 52%	(5 brackets) Minimum: 20%; Maximum: 47%	(5 brackets) Minimum: 19%; Maximum: 45%
Saving	(3 brackets) 21% from 1 to 6,000 25% from 1 to 24,000 27% for >24,000	(3 brackets) 20% from 1 to 6,000 22% from 1 to 50,000 24% for >50,000	(3 brackets) 19% from 1 to 6,000 21% from 1 to 50,000 23% for >50,000
Allowances			
Individual	5,151		5,550
First child	1,836		2,400
Second child	2,040		2,700
Third child	3,672		4,000
Subsequent children	4,182		4,500
Child < 3 years	2,244		2,800
Relative >65	918		1,150
Relative >75	2,020		2,550
Disability >33% <65%	2,316		3,000
Disability <65% and reduced mobility	4,632		6,000
Disability >65%	9,354		12,000

Note: [1] As sum of State and regional rates.

Source: Draft General Budget 2015.

[7] Adding the State and regional rates.

Table 6
Changes in corporate income tax rates

Categories	2014	2015	2016
Standard rate	30%	28%	25%
SME rate	25% (Tax base up to €300,000) 30% (Remaining tax base)	25% (Tax base up to €300,000) 28% (Remaining tax base)	25%
Rate for new start-ups	15% (Tax base up to €300,000) 20% (Remaining tax base)		

Source: Draft General Budget 2015.

In the case of corporate income tax, the reform's changes basically comprise: (i) lower tax rates, to bring the nominal rate closer to the effective average rate, while at the same time eliminating most of the deductions; (ii) creation of two reserves, allowing companies to reduce their tax burden; and, finally, (iii) limiting the offsetting of losses. As Table 6 shows, the general rate will be cut by five points over two years, from 30% in 2014 to 25% in 2016. As of 2016, there will be no special scheme for SMEs (net turnover less than 10 million euros such that the general 25% rate will apply to them. The reform envisages creating two new reserves referred to as the capitalisation and balancing reserves. The capitalisation reserve is the result of applying a reduction to the tax base equivalent to 10% of the increase in equity–this reserve will be unavailable for five years unless there are losses. Additionally, SMEs can make use of the balancing reserve, setting aside an annual maximum of 10% of the tax base up to a maximum of a million euros. The purpose of the reserve is to offset tax losses in the following five years. If there are no losses, the reserve will be taxed along with the rest of the company's earnings. Lastly, the reform changes how losses are offset by establishing a general system of 60% of the tax base, up to a maximum of 1 million euros, although with no time limit on application (the limit in 2014 is 18 years).[8]

Public spending: On the path to fiscal consolidation

Table 7 shows the consolidated general state budget, containing the forecast expenditures of the central government, the social security system, the autonomous agencies, and state agencies. The 2015 budget will continue along the path of fiscal consolidation, reducing spending from 353,218 million euros in 2014 to 347,839 million euros in 2015. This reduction is equivalent to 0.5% of GDP (5,379 million euros). The total for chapters I to VII (current and capital expenditures) is set to rise by 1,412 million euros in 2015, although this figure is largely offset by the variation in financial assets, which will be reduced by 8,147 million euros. The central government will account for 45.7% of consolidated spending, the social security system for 39.1%, and the remaining 15.2% will be managed by autonomous agencies, state agencies, and other public sector bodies. The biggest items are pensions (131,658 million), transfers to the autonomous

Specifically, pensions, debt interest, and unemployment benefits make up 55.3% of the consolidated expenditure budget.

[8] This limitation on both the amounts and timing for the compensation of tax loss carryforwards deepens the changes introduced in 2011 and 2012.

Table 7

Consolidated state expenditure budget (Chapters I to VIII) Breakdown by spending policy

(millions of euros)

Chapters	Initial budget 2014	Weight (%)	Initial budget 2015	Weight (%)	Change (%)
1. Basic public services					
Total	**16,355.0**	**4.6**	**16,476.3**	**4.7**	**121 (0.7)**
(Justice, defence, citizen security, and foreign policy)					
2. Social protection and welfare					
Total	**179,340**	**50.8**	**180,524.1**	**51.9**	**1,184 (0.7)**
Pensions	127,483.8	36.1	131,658.9	37.9	3.3
Unemployment	29,727.5	8.4	25,300.0	7.3	-14.9
Other benefits,	22,128.7	11.3	23,565.2	6.7	-41.2
3.Public and merit goods					
Total	**6,710.0**	**1.9**	**6,883.6**	**2.0**	**173 (2.6)**
Health	3,817.1	1.1	3,861.5	1.1	1.2
Education	2,175.0	0.6	2,273.0	0.7	4.5
Culture	717.9	0.2	749.0	0.2	4.3
4. Economic measures					
Total	**28,030.1**	**7.9**	**30,374.3**	**8.7**	**2,344 (8.4)**
Farming, fishing and food	7,680.5	2.2	8,579.9	2.5	11.7
Energy and industry	5,777.7	1.6	6,027.7	1.7	4.3
Tourism, trade and SMEs	936.2	0.3	963.3	0.3	2.9
Transport subsidies	1,255.7	0.4	1,339.4	0.4	6.7
Infrastructure	5,453.5	1.5	6,141.0	1.8	12.6
R&D and innovation	6,104.2	1.7	6,395.4	1.8	4.8
Remainder	822.0	0.2	927.4	0.3	12.8
5. General measures					
Total	**114,978.5**	**32.6**	**113,580.7**	**32.7**	**-1,398 (-1.2)**
Transfers to other public administrations	45,988.7	13.0	47,161.8	13.6	2.6
General Government Debt	36,590.0	10.4	35,490.0	10.2	-3.0
Remainder	32,399.8	8.8	30,928.9	8.8	-4.5
TOTAL CHAPTERS I to VIII	**353,218.8**	**100.0**	**347,839.2**	**100.0**	**-5,379 (-1.5)**

Source: Draft General Budget 2015.

regions[9] and local authorities (47,161 million euros), debt interest (35,490 million euros), and unemployment benefits (25,300 million euros). Specifically, pensions, debt interest, and unemployment benefits make up 55.3% of the consolidated expenditure budget.

[9] In Spain, the autonomous regions are responsible for health and education spending.

Staff costs account for 6.2% of consolidated state expenditure and are set to grow by 1.4% in 2015 (294 million euros). This change is against the backdrop of a five-year salary freeze. The rise is partly due to the fact that the courts have ordered Christmas bonuses to be repaid to employees. The increase in the replacement rate in certain public services, such as education, health, police, the armed forces, fire-brigade, tax inspectorate, will also push staff costs up slightly. Total investment by the central government grew for the first time since the start of the crisis, rising from 12,090 million euros in 2014 to 13,103 million euros in 2015. This latter figure is a long way short of public investment in 2008, which came to 31,503 million euros. A large share of investment in 2015 was devoted to rail infrastructure, with a disbursement of 3,999 million euros (30% of total investment).

State budget

In 2015, central government expenditure under Chapters I to VIII will be 190,918 million euros (54.8% of consolidated spending). A 5.9% spending cut is being aimed for in 2015, totalling 12,065 million euros. As Table 8 shows, 38.9% of this figure is spending through all ministries, while the remaining 62.2% basically corresponds to debt interest payments (21.9%), transfers from the central government to the autonomous regions and local authorities (20.3%), civil service pensions (8.1%), and European Union financing (8.0%). The total spending managed by the ministries will continue to fall. The cut in 2015 will be 5.1%, with a drop from 66,335 million euros to 62,946 million euros. This is an adjustment of 3,389 million euros, on top of an approximately 19 billion euros cumulative cut in the 2012 to 2014 budgets. This adjustment to the 2015 State budget has played a key role in reducing the expenditure of the Ministry of Employment and Social Security (MESS), which is responsible for paying unemployment benefits through the State employment service (4,118 million euros). To this end it should be borne in mind, as Table 8 shows, that it is the MESS that is in charge of managing the largest volume of public resources (35.6%), followed at a distance by the Ministries of the Interior (11.7%), Defence (9.15%), Industry, Energy, and Tourism (9.1%), and Public Works (7.9%). The ministries in which spending has grown most are Agriculture, Food and Environment (14.0%), Industry, Tourism and Energy (11.3%), and Foreign Affairs (4.9%). By contrast, the biggest reductions are in Employment and Social security (-15.5%) and Public Works (-14.2%). In 2015, debt interest will account for spending of 35,490 million euros, equivalent to 3.24% of GDP (3.43% in 2014). Financial charges in 2015 have been calculated in a scenario where total general government debt will reach a record figure of 101.7% (97.6% in 2014). The government expects the level of debt to start falling from 2016 onwards, dropping below 100% in 2017. Nevertheless, the volume of debt will grow more slowly than between 2010 and 2013, as it will not be affected by payments into funds, such as the electricity system deficit amortisation fund, the financial assistance program for bailed-out countries, or the recapitalisation of the Spanish financial system. In any event, the Public Treasury's net debt will come to 47 billion euros in 2015, basically met by issuing bonds (93.6%).

The volume of debt will grow more slowly than between 2010 and 2013, as it will not be affected by payments into funds, such as the electricity system deficit amortisation fund, the financial assistance program for bailed-out countries, or the recapitalisation of the Spanish financial system.

The downward trend in debt yields has limited the growth in interest. Specifically, the nominal yield on ten-year Spanish government bonds traded on the secondary market has dropped between January and September 2014 by 200 basis points, to 2.04%.[10]

[10] After reaching a record spread over the German bond, at a maximum of 630 basis points in July 2012, in late October 2014, the spread was around 120 basis points.

Table 8
State expenditure budget (Chapters I to VII) Breakdown by sections
(millions of euros)

Chapters	Initial budget 2014	Weight (%)	Initial budget 2015	Weight (%)	Change (%)
Constitutional bodies					
Royal household, Parliament, National audit office, Constitutional court, etc.	361.6	0.2	358.5	0.2	-0.9
General Government Debt					
Debt interest	36,590	22.2	35,490.0	21.9	-3.0
Civil Service Pensions					
Civil service pensions	12,643.0	7.7	13,184.89	8.1	4.3
Ministries					
Foreign Affairs	994.5	0.6	1,043.3	0.6	4.9
Justice	1,460.95	0.9	1,474.9	0.9	1.0
Defence	5,739.8	3.5	5,764.8	3.6	0.4
Treasury and other public administration bodies	2,139.7	1.3	2,184.7	1.3	2.1
Interior	7,294.9	4.4	7,421.2	4.6	1.7
Public Works and Transport	5,805.0	3.5	4,979.5	3.1	-14.2
Education, Culture and Sport	2,680.2	1.6	2,759.6	1.7	3.0
Employment and Social Security	26,539.9	16.1	22,421.4	13.8	-15.5
Industry, Energy and Tourism	5,157.1	3.1	5,740.5	3.5	11.3
Agriculture, Food and Environment	1,613.0	1.0	1,839.5	1.1	14.0
Prime minister's office	422.4	0.3	442.0	0.3	4.6
Health, Social Services and Equality	1,907.4	1.2	1,919.4	1.2	0.7
Economy and Competitiveness	2,338.7	1.4	2,314.7	1.4	-1.0
Spending by various ministries	2,241.9	1.4	2,640.2	1.6	17.8
Total for all Ministries	66,335.7	40.2	62,946.5	38.9	-5.1
Other financial relationships with territorial bodies	997.9	0.6	994.1	0.5	-0.4
Inter-territorial compensation fund	582.4	0.4	582.4	0.4	0.0
Financial relationships with the EU	13,083.2	7.9	12,921.9	8.0	-1.1
Contingency fund	2,665.1	1.6	2,581.2	1.6	-3.2
System of financing for local and regional authorities	31,589.5	19.2	32,932.6	20.3	4.3
Total for Chapters I to VII	164,848.6	100.0	161,992.2	100.0	-1.7

Source: Draft General Budget 2015.

Social Security budget

Continuing the trend from previous years, social security spending will continue to rise until it reaches 136,117 million euros. The figure will increase by 3.3% from its 2014 level due to the rising numbers of pensioners, new pensioners' larger average pension, and the 0.25% rise in existing pensions.[11] The main expense items in the 2015 social security budget are those for contributory retirement pensions, which consume 89.9% of total resources. Contributions make up the main source of finance, paying for 80.7% of the total budget (109,833 million euros). The central government contributes to financing the Social Security System's spending, through a contribution of 13,186 million euros (9.7%). The bulk of this contribution (7,563 million euros) is earmarked to cover top-ups for minimum pensions. For example, in 2015 the minimum monthly pension for people over 65 with a spouse will be 782.5 euros and the survivor's pension for those over 65 will be 634.5 euros.

The government anticipates a sharp rise in social security contribution revenue in 2015, with a change of 6.8%. Three hypotheses have been used to formulate these estimates. Firstly, the growth in the number of social security contributors (both employees and self-employed) over the course of 2014 will be sustained through 2015. In the general scheme, 457,124 new members were registered between January and September 2014, compared with 154,681 during the same period in 2013. Secondly, it is anticipated that workers' average compensation in 2015 will be somewhat more favourable than in 2014 (the expected growth for 2015 is 1%, compared with 0.8% forecast for 2014). And finally, the unemployment rate is expected to drop from 24.7% in 2014 to 22.9% in 2015. In short, the expected growth in contributions revenue is based on improvements in employment and wages, as there will be no substantial changes in contributions (only a 0.25% increase in the contributions ceiling).

Budget for autonomous and state agencies

Alongside the central government and the Social Security System, there is another group of entities (autonomous agencies and state agencies) whose budgets form part of the general state expenditure budget. These are bodies that provide a wide range of services, and include the tax collections agency, the public employment

Table 9

Breakdown of the main social security expenditure items

Items	Initial budget 2014	Weight (%)	Initial budget 2015	Weight (%)	Change (%)
Sum total of revenues under Chapters I to VIII	131,831.4	--	136,117.0	--	3.3
Current transfers	125,318.8	100.0	128,615.4	100.0	2.6
Contributory pensions	112,102.6	89.5	115,669.2	89.9	3.2
Non-contributory pensions	2,166.1	1.7	2,242.5	1.7	3.5
Temporary incapacity	4,878.3	3.9	4,942.7	3.9	1.3
Maternity, pregnancy and breastfeeding	2,177.9	1.7	2,098.2	1.6	-3.7
Care for dependent adults	1,092.5	0.9	1092.2	0.8	0.0
Other transfers	2,901.2	2.3	2570.4	2.0	-11.4

Source: Draft General Budget 2015.

[11] The number of pensioners grew by 69.4 thousand between December 2013 and September 2014. Likewise, in August 2014, the average monthly retirement pension passed the 1,000 euros barrier for the first time (1,001.9 euros with a year-on-year growth of 2%).

Table 10

Budget for state employment service programmes

Programmes	Budget Initial 2014	Weight (%)	Initial budget 2015	Weight (%)	Change (%)
Benefits for termination of activity (self-employed persons)	23.5	0.1	19.8	0.1	-15.7
Promoting labour market access and job stability	4,041.5	11.9	4,712.1	15.6	16.6
Unemployment benefits	29,727.5	87.6	25,300.0	83.6	-14.9
Internal transfers	124.17	0.4	213.7	0.7	72.2
TOTAL	33,916.8	100.0	30,245.7	100.0	-10.8

Source: Draft General Budget 2015.

service, and the national meteorological office. In 2015, the aggregate expenditure of this group of bodies came to 55,652 million euros, with an increase of 3% between 2014 and 2015. The national employment office will be in charge of managing the bulk of these resources, which are basically used to pay both contributory unemployment insurance and welfare benefits. The 2015 budget will devote a total of 25,300 million euros to this item (around 4.4 billion euros less than in 2014 due to the 1.8 point drop in the unemployment rate). Contributory unemployment insurance will come to 16,385 million euros (1.010 million beneficiaries), while spending on non-contributory benefits will be 6,482 million euros (1.148 million beneficiaries).

Spain´s draft 2015 General Budget: Balancing constraints and credibility

Santiago Lago-Peñas[1]

The government´s 2014 deficit targets and 2015 draft budget proposal are largely viewed as credible. Nonetheless, uncertainties regarding economic conditions, together with major challenges at the regional level, will be key determinants for meeting fiscal consolidation goals.

The deficit targets outlined in the 2015 draft budget are perceived as being generally realistic. Meeting these targets will require the balancing of three main factors: external commitments, political commitments and risks. On the internal political front, the adjustment strategy to be executed is largely expenditure based. Still, projected increases in revenues must be compatible with the promised tax cuts to be implemented in the run up to general elections in 2015. As regards other factors, while the macroeconomic assumptions that underpin the budgetary proposal are largely in line with consensus estimates, the risk of worse than anticipated performance at the European level could jeopardize Spain´s consolidation efforts. Moreover, the government´s forecasts for the deficit overestimate expenditure on items such as debt service as well as unemployment benefits, while potentially overestimating social security revenues. Furthermore, the ultimate response of revenues to tax reform remains to be seen. Where there is overall agreement is on the fact that the major challenge to fiscal consolidation is at the regional level, where recent performance by the regions as a whole reflects slippage from agreed-upon targets, likely requiring compensation by other government subsectors.

Introduction

The content and credibility of the draft 2015 General State Budget (PGE-2015 in its Spanish initials) depend on the conjunction of three vectors: external commitments, internal/political commitments and finally exogenous and endogenous risks.

Firstly, Spain has made a commitment to the European authorities and the financial markets to continue efforts to reduce the deficit. The government´s borrowing requirement in 2015 is 4.2% of GDP, in line with the recommendations of the Council of the European Union, and the path established in Spain's Stability Programme. This path has been defined for the general government as a whole, and for each subsector (Ministry of Finance and Public Administration, 2014b).

Secondly, Spain must meet the internal and political commitments that determine the way

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in which the deficit is intended to be reduced in 2015 and subsequent years. Fundamentally, this entails reducing the weight of public expenditure as a share of GDP. The ability to effectively implement proposed tax cuts depends on economic conditions and their subsequent impact on tax revenues, both in absolute terms and as a percentage of GDP. This is combined with the always uncertain outcome of the fight against tax evasion.

Thirdly, the country faces both exogenous and endogenous risks which will have an impact on year-end 2014, and consequently, will serve as the point of reference for consolidation in the year ahead. Main risks include: i) the international economic situation, which shapes the government's macroeconomic framework; ii) the elasticity of the various taxes to growth in the tax base in a scenario of fiscal reform; and finally, iii) how the autonomous regions perform in 2015.

The aim of this article is to analyse the draft 2015 General State Budget by focusing on the three vectors referred to above, as well as to assess proposed 2015 budget implementation in order to ultimately determine whether or not next year´s budget is credible.

Constraints on the 2015 budget

Tables 1 and 2 set out the main budgetary objectives for the Spanish general government as a whole over the period 2014-2017. These figures represent the main inputs and assumptions of the 2015 budget proposal. In particular, the central government and social security system budgets, the objective scope of the PGE-2015, dovetail to produce these balances.

Table 1

Forecast change in the deficit and its main components for 2014-2017
(Figures as a percentage of GDP)

	2014	2015	2016	2017
Total public deficit	-5.5	-4.2	-2.8	-1.1
Interest	3.5	3.6	3.7	3.8
Primary deficit (–) or surplus (+)	-2.0	-0.6	0.9	2.7
Non-financial income	38.5	38.8	38.9	39.0
Non-financial expenses	44.0	43.0	41.7	40.1

Note: The expenditure and deficit figures exclude the one-off cost of the financial reform.

Source: Ministry of Finance and Public Administration, 2014b.

Table 2

Change in the deficit over the period 2014-2017: Kingdom of Spain Stability Plan
(Figures as a percentage of GDP)

	2014	2015	2016	2017
Central government	-3.5	-2.9	-2.2	-1.1
Autonomous regions	-1.0	-0.7	-0.3	0.0
Local authorities	0.0	0.0	0.0	0.0
Social security system	-1.0	-0.6	-0.3	0.0
TOTAL	-5.5	-4.2	-2.8	-1.1

Source: Ministry of Finance and Public Administration, 2014b.

The probability of a deviation from the targets is greater in a country as decentralised as Spain, in which subnational treasuries manage half of the total public resources. However, in the subnational context, it is necessary to draw a clear distinction between the local and regional levels. On the whole, Spain's local authorities have not had significant deficit or debt problems in the recent past. In fact, debt aggregates have moderated substantially upon excluding certain large municipal authorities with significant liabilities, such as Madrid. If we add the fact that a significant share of municipal spending immediately prior to the crisis was on services that were not legally mandatory, it is easy to see how local authorities have rapidly switched to posting budget surpluses and thus contribute to reining in the overall public sector deficit.

The autonomous regions are in a very different situation. Deficits and rising debt-to-GDP ratios have been the norm, even in the past decade, when nominal GDP was growing rapidly. Their spending includes basic items for the welfare state, characterised by their being on an expansionary trend that is hard to hold back, either because of their high income elasticity (health spending), or the application of expensive reforms (education), and new laws (such as the law on long-term care). Cut-backs at the regional level are therefore more difficult, particularly when they take place repeatedly. In real terms, regional spending underwent an average cumulative cut-back of 20% between 2009 and 2012 (Lago-Peñas and Fernández, 2013). Meanwhile, the adjustment on the income side has accounted for less than a tenth of the overall adjustment as most regions chose not to raise taxes to close the spending gap. Moreover, the 2015 regional elections are encouraging promises of tax cuts rather than increases.

The 2015 budget is not only subject to the external restrictions alluded to in the introduction above. Internally, the central government elected in 2011 has opted for a formula primarily based on spending cuts to close the deficit. Broadly speaking, four fifths has come from reducing public expenditure as a share of GDP and one fifth from an increase in revenues. This increase must also be compatible with the promised tax cuts that will start to be implemented in the run up to the general elections in 2015.

Ideological reasons undoubtedly weigh more heavily than technical ones in the choice of deficit reduction measures. Although there is recent empirical evidence that recessions tend to be softer and shorter when consolidation is based on spending cuts, the exact composition of the adjustment can be extremely important (de Mello, 2013). By contrast, the cuts in Spain have tended to be relatively unselective and have fallen most heavily on items that are fundamental for long-term economic growth (R&D, education, etc.). Finally, there are no precise estimates on the effect of the chosen combination in the extraordinary increase in inequality in Spain since the crisis broke out. According to a recent Eurostat report using 2012 data, Spain is the second most unequal country in the European Union after Latvia.

Risks for year-end 2014

The figures for year-end 2014 are crucial, because they are a proxy for the credibility of the fiscal consolidation process and because they will define the starting point for meeting the objectives in 2015. Any excess deficit over the planned 5.5% of GDP will mean an additional consolidation effort in 2015, and vice versa.

The execution data available to date and various projection exercises reveal the existence of factors that point in opposing directions. The general government ended the first half of 2014 with a deficit of approximately 3.43% of GDP, half a point lower than the previous year, in which the deficit ultimately reached 6.6% of GDP.[2] The figures

[2] The change in methodology from SEC-95 to SEC-2010 raised 2013 GDP and reduced the deficit-to-GDP ratio from 6.6% to 6.3%. The reduction in terms of GDP between 2013 and 2014 is just 8 tenths of a point.

available up until August, which do not include local authorities, show the same trend: 4.26% of GDP in 2014 compared with 4.64% of GDP in 2013. The Bank of Spain considers achieving the 2014 deficit target to be feasible, but this means stepping up the pace of the adjustment in the second half of the year (Bank of Spain, 2014). The Independent Fiscal Responsibility Authority (AIReF, 2014b) has expressed a similar opinion, considering the target for the general government as a whole to be achievable.

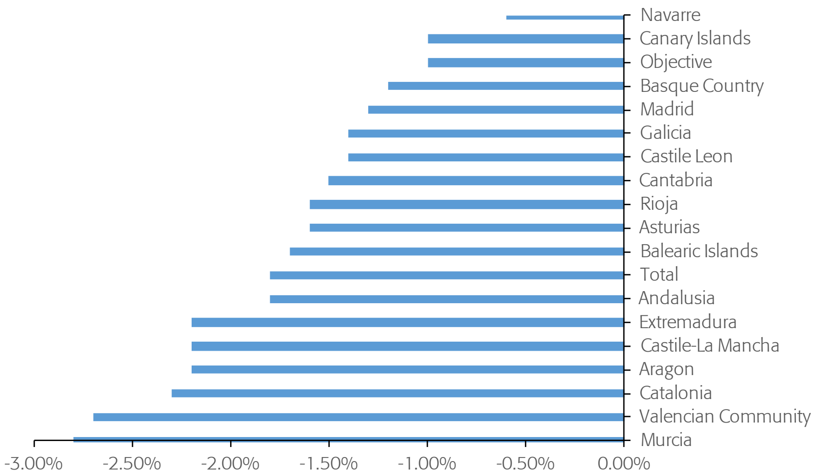
At the autonomous region´s level, looking at both 2013 results as well as data through the end of August, doubts remain over whether or not the regions will meet their deficit targets. The regions reached the limit for the year as a whole by the end of August (1.01%). Taking into account that traditionally, the last quarter of each budget year raises the regional deficit, as well as the fact that most regions will hold elections in May 2015, there will be a need for other subsectors to compensate for the likely slippage at the regional level. The central government is already attempting to making an additional effort, while the social security fund's figures are slightly worse than in 2013 and the local authorities have a slight surplus, similar to that accumulated the previous year. Specifically, the AIReF (2014b) estimates that the regional deficit could end the year at 1.5% of GDP, i.e. at the same level as in 2013.

Taking into account that traditionally, the last quarter of each budget year raises the regional deficit, as well as the fact that most regions will hold elections in May 2015, there will be a need for other subsectors to compensate for the likely slippage at the regional level.

Fedea's projections (Conde-Ruiz *et al.*, 2014) raise this figure to 1.8% of GDP, which would not just mean a stagnation in the fiscal consolidation process at the regional level, but a return to 2012 figures. Exhibit 1 represents these simulations for each of the autonomous regions, clearly depicting the heterogeneity across the regions. The three biggest deviations (Murcia, Valencian Community, and Catalonia) correspond to

Exhibit 1

Autonomous Regions' deficit forecasts for 2014
(As a percentage of GDP)



Note: Synthetic deficit taken into account.
Source: Conde-Ruiz et al. *(2014).*

the three regions that have failed to meet the deficit targets systematically since 2011. Moreover, the large relative size of the latter two pushes the average upwards for the regions as a whole.

In short, the 2014 deficit target is perceived as being generally realistic, thanks to better than expected improvements in central government expenses and income. However, it is a matter of concern that we may be witnessing a step backwards that worsens the figures for the aggregate Spanish public sector in 2014, following the progress in fiscal consolidation at the regional level in 2013, and this raises serious doubts about the regions' ability to achieve a 0.7% deficit in 2015, and puts them back under the international analysts' spotlight (Lago-Peñas, 2014).

Assessing 2015 budget credibility in the context of risks

The macroeconomic scenario included in the 2015 budget fits, overall, with the average October 2014 forecasts of independent experts (the consensus of analysts in the Funcas Panel for September 2014), the Bank of Spain (2014), and the AIReF's in-depth analysis (2014a). Moreover, they are in line with the estimates by the International Monetary Fund (IMF) and the European Central Bank. Nevertheless, it is true that in recent weeks, the uncertainty and concern over stagnation in the European Union[3] has grown, which could significantly affect the Spanish economy's external demand through both the reduction in exports of goods and flows of tourists. On the other hand, the expansionary effect of the tax cuts due to come into effect in 2015, and the improved financial conditions, may play a compensating role, by stimulating internal demand (Laborda, 2014). In any event, if the European economy were to be headed for a lengthy stagnation, the risk that the Spanish economy would again record an external deficit would be large, with all of the negative consequences for sustainability, difficulties achieving GDP growth and the subsequent increase in public deficit forecasts for 2016.

Having said that, the only point on which the government's forecasts can be described as being somewhat optimistic is precisely in the case of the public deficit. Compared with the 2015 budget's objective of 4.2% of GDP, the Funcas panel of experts arrived at an average of 4.7% of GDP, in line with the IMF's July 2014 estimate. In September, the OECD forecast 4.5% of GDP.[4] For its part, AIRef (2014b) has opted to take a cautious line. It considers the deficit target to be very demanding, requiring strict adherence to the budgets, and the revenue scenario to be very ambitious, although feasible if the scenario of the cyclical recovery of the economy is confirmed.

Looking closer at the details of the budget reveals expense and income items that generate doubts about the deficit, both on the upside and the downside. We will first look at those which may be overestimating the imbalance between income and expenses in the 2015 budget, and then we will review those that would lead to an underestimation.

Debt interest and unemployment benefits could be overestimated by as much as 8 billion euros (Laborda, 2014). In the former case, the drastic cut in the risk premium is reducing the average cost of debt, and the combination of falling unemployment and the exhaustion of benefits is providing a cushion, offsetting other items.

[3] The Bank of Spain (2014) warns that: "the risks of a downward deviation from this core scenario have increased in recent months due to the worsening prospects for the world economy, in particular in the euro area." The IMF's estimate of the likelihood of a recession in the euro area in the next nine months rose from 20% in April to almost 40% in October 2014 (*World Economic Outlook*, October 2014).

[4] By contrast, BBVA Research's analysts take a much more optimistic view (Cardoso, 2014). They consider that, thanks to the stronger economic recovery and the falling debt interest bill, the deficit could even dip below 4% at the end of 2015.

By contrast, anticipated income from social security contributions is giving rise to considerable doubts. Strong expected growth centres mainly on the new system of direct settlement of social security contributions based on billing by the social security system (CRETA) and the value of compensation in kind being taken into account at full value on the basis of assessment. Overall, Laborda (2014) indicates that the social security deficit could be 9 billion euros higher than forecast. On top of this are the inflated tax revenue estimates, particularly in the case of VAT, of 3.3 billion euros. In total, 12.3 billion euros which, net of savings from latent expenses, would increase the consolidated deficit of the social security system and central government by 4.3 billion euros (0.4% of GDP). AIReF (2014b) is somewhat less pessimistic. In the case of taxes, it does not detect significant deviations with respect to the results of the projections derived from quantitative models. Only for social security contributions does it flag the presence of uncertainties as to whether they will be met, given the scale of budgetary growth. In practice, the budget may grow even further, as execution so far in 2014 suggests it is likely that 2014 will end below the initial budget. In any event, it warns that it has not attempted to quantify the impact of the management measures and the full inclusion of benefits in kind (as it “lacks the capacity to do so”) and ends up accepting that, if the central government’s forecasts are met, the social security fund’s accounts could balance. What appears clear, as the government concedes in the 2015 budget, is that the fiscal reform currently underway will drain resources from the public treasury and make it difficult to square the accounts in 2015 and 2016.

Where there is a broad consensus among analysts is that the regions are the main source of risk. The way budget implementation has progressed so far in 2014 has set off alarm bells and again turned the spotlight on this level of government in the discussions about fiscal consolidation. But the situation today is different from that just two years ago. The legislative framework on budgetary stability passed in 2012 is now very strict and equips the central government with mechanisms and tools with which to rein in regional finances externally (Lago-Peñas, 2013). Specifically, the design, execution, monitoring and control over this stability has been recentralised, expanding the information obligations regarding budget management and enabling control missions’ full powers to review the regions’ fiscal management. Targets have been set unilaterally by the central government, with zero margin for negotiation, and capacity to demand application of spending cuts and tax increases deemed appropriate. In short, enforcement mechanisms have been introduced, in the form of penalties, exclusion from financing lines and access to credit, and even the suspension of autonomous government. Therefore, unlike the situation in 2012, the adoption of further legislative measures to ensure fiscal stability is no longer an option.

The legislative framework on budgetary stability passed in 2012 is now very strict and equips the central government with mechanisms and tools with which to rein in regional finances externally.

An immediate alternative is to utilise these legal possibilities more fully, stepping up the intervention and control by the central government yet further. One advantage of this approach is that it could allow attention to be focused on those regions in which non-compliance is greatest, without further penalising those that are complying. In any event, this second route would represent a further ratcheting up of the pressure on the *de facto* federal system that exists in Spain. And it should not be overlooked that Catalonia, whose autonomy is a particularly politically sensitive topic, is among the regions that systematically fail to meet their targets.

The third route is to consider the centrality of the services the autonomous regions provide and the succession of deep cuts they have suffered since 2009 –exceeding those of the central government– in order to discuss the vertical balance of resources and the deficit targets between levels of government. In this case, the reform to the regional financing system needs to be sped up. A reform should allow the autonomous regions to access more fiscal resources while at the same time solving some of the system's problems. In parallel, and in a non-exclusive way, the distribution of the deficit targets between the levels of government based on their share of total spending could be explored. This would lead to a quota for the autonomous regions of at least a third of the total. It would mean doubling the target for 2015 (1.4% *vs* 0.7%).

Concluding remarks

The reduction in Spain's public deficit envisaged in the 2015 budget requires four conditions to be met. First, that 2014 ends without significant upward deviation of the deficit from the forecast (5.5% of GDP). Second, that macroeconomic developments in 2015 do not differ substantially from the forecast macroeconomic framework. Third, the forecast performance of social security contributions is close to the high increase projected, which is a genuine challenge. And fourth, that the autonomous regions' deficit is contained or its ceiling is raised at the cost of the central government. For their part, the doubts that might arise from the use of high income elasticities in the case of the system's main taxes would be entirely offset with the certainty that there are spending items (debt interest and unemployment benefits) that would conclude the fiscal year with a relatively low execution rate.

Thus, the central government has to work on three fronts: press for expansionary measures at the European level to reduce the risk of recession in the EU; ensure that the regional deficit does not come to be viewed as an out-of-control risk factor again; and finally, watch closely the implementation of budget management measures that may result in a reduction in expenditure or substantial increase in income – in particular, the reforms under way in the Spanish public administration and the system for collection of social security contributions.

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Demand for second homes in Spain

María Romero[1]

The Spanish housing sector has been one of the hardest hit since the economic crisis first erupted. After seven years of contraction, the latest figures released point to an uptick in this sector of vital importance to the Spanish economy.

Holiday home purchases are increasingly important in Spain. This article provides a brief overview of the trend in this segment in recent months: who is buying, which are the most attractive markets and what measures may be fuelling the current momentum. The potential elimination of the "amortisation coefficient" in 2015, the chance to obtain a long-stay visa or residence permit by acquiring a home for over 500,000 euros and, above all, the improvement in the economic climate coupled with intense price corrections in the coastal markets, could continue to prop up second home transaction volumes in the months to come. If this forecast proves accurate, this development could help absorb the huge overhang of unsold housing in these markets, while contributing to the financial stability of the key players in the sector, the banks supporting these entities and markets, as well as the economy in general.

Introduction

The Spanish housing sector has unquestionably been one of the hardest hit since the economic crisis first erupted. After seven years of contraction, the latest figures released point to an uptick in this sector of vital importance to the Spanish economy. The most important indicator, the one with the ability to kick-start the entire process, relates to housing demand. Although real estate transactions remain far below pre-crisis levels, it is worth highlighting the upward trend witnessed in recent months. Within this general improvement, the recovery in and growing importance of second home purchases by both Spanish residents and buyers whose main residence is not Spain stands out. The purpose of this article is to identify: (i) the trend in transactions of this nature in recent months; (ii) the second home buyer profile; (iii) the geographic markets proving most attractive to second home buyers; and (iv) the measures recently passed, (including the potential elimination of the so-called 'amortisation coefficient' [the coeficiente de abatamiento, a tax break for the capital gains generated by selling your house] in 2015 for home sellers and the granting of long-stay or residence permits to non-EC investors since September 2013) which may be fuelling recent momentum.

Demand for housing and drivers

Before turning to the trend in demand for second homes in Spain, it is worth pausing to define what

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is meant by demand for housing and identify what is driving it.

Potential demand for housing refers to all the people who intend to purchase or change homes over a defined period of time. This potential demand becomes effective demand when a house is actually purchased. There are many ways to group or split demand but they all result, albeit with nuances, from the following drivers:

- **New household formation**: this is the result of adult children leaving home and couples setting up households, as well as the division of existing households following divorce or separation.
- **Second homes**: demand for a non-primary residence used during the weekends or holidays from local and foreign residents.
- **Replacement, refurbishment, upgrade or change of location of an existing home**: this category encompasses demand pursued with the aim of enhancing or modifying housing conditions, such as conditions corresponding to the house itself or its neighbourhood, the cost of housing (rent or mortgage payment), the rent *vs*. ownership equation, etc.
- **Investment**: demand for houses for investment purposes in order to obtain financial returns as a result of their revaluation, rental or via tax breaks, as the case may be.

In a balanced residential market, the majority of demand for housing will be driven by demographics in general and new household formation in particular. The economic and financial crisis has prompted a decrease in the number of new households from an average of 425,000 between 2002 and 2007 to a scant 84,000 in 2014. This level, according to the estimates for household formation recently published by Spain's statistics bureau, the INE,[2] is likely to hover at around 60,000 units in the years to come.

The drop in demand for primary residences, coupled with a significant house price correction, most notably along the Mediterranean coast and the two archipelago systems (the Canary and Balearic islands),[3] has had the effect of increasing the weight of demand for second homes or investment housing in Spain.[4] Specifically in the first half of 2014, second home transactions accounted for 17.3% of the total. This is why it is worth analysing the trend in this segment of demand in recent months in greater depth – who is buying these houses and what are the reasons behind this phenomenon?

Demand for second homes is growing in importance in Spain. In the first half of 2014, this segment accounted for 17.3% of all real estate transactions.

Recent trends in demand for second homes

In the first half of 2014, demand for housing amounted to just shy of 173,000 units, year-on-year growth of 26.8%. This favourable trend is underpinned by the recovery underway in demand for second houses from foreigners

[2] For further information, please see the following press release: http://www.ine.es/prensa/np871.pdf

[3] On average, housing prices were down 40% as of first half of 2014; however, along the Mediterranean coast and the two archipelagos, prices were down by more than half.

[4] In the case of demand for houses for investment purposes, the amendment of the law regulating REITs in Spain (known by their Spanish acronym as SOCIMIs) (Law 16/2012 of December 27th, 2012) has also played a part, as it has not only resulted in an increase in the number of entities of this type in Spain (nine are currently traded on the continuous and alternative stock markets compared to just two one year ago), but has also meant that a substantial percentage of their leased assets are residential assets (houses).

not resident in Spain. Although second home purchases by residents[5] outweighed purchases by non-residents (accounting for 93.1% of the total in the first half of 2014), they registered a decline in year-on-year terms (of 2.8%). At any rate, it is worth noting that some 30,000 houses bought in the first half were purchased with the purpose of turning them into second homes. As noted earlier, this figure accounted for 17.3% of all first-half home purchases.

Demand from residents

Although the upward trend in second home purchases by Spanish residents was interrupted in the first half of 2014, it is worth emphasising the fact that resident buyers remain a significant source of demand. Ownership of one's primary residence has become an identity badge in Spanish culture[6] (despite the fact that in the middle of the last century the percentage of households renting their homes was far more significant) and it is possible that the same can be increasingly said of having a second home which the family can enjoy on the weekend or during the holidays.

This cultural driver has been shored up by a sharp housing price correction which has grabbed the attention of the segment of potential second homebuyers with enough savings or credit standing –a virtual must in the prevailing credit climate– to make an investment of this nature.

In addition, albeit still at the drafting stage, the potential elimination of the amortisation coefficient contemplated in the draft amendments to Spain's Personal Income Tax Act (Law 35/2006 of November 28th, 2006), the consolidated text of the Non-Resident Income Tax Act (enacted by Legislative Royal Decree 5/2004, of March 5th, 2004) and other tax legislation[7] could boost house purchases towards the end of this year, as the legislative changes will imply substantially lower tax bills for the seller if the sale goes through before the end of 2014. We would not rule out additional price cuts, including on second homes, in order to attract potential buyers in an attempt to speed up sales.

Second home purchases by residents, which are concentrated in coastal areas, remain in line with 2013 averages. Residents of Madrid and Catalonia account for two-thirds of these buyers and are also more inclined to invest beyond their region of residence.

According to the data of the first half of 2014, house purchases by residents totalled 27,700. Despite the dip in year-on-year terms, this level is in line with the semi-annual average observed throughout 2013 and even 2011.

Residents of Madrid and Catalonia are the most active in this segment of the market, in keeping with their relatively higher purchasing power and GDP per capita and, probably, their lower initial indebtedness levels. In the first half of 2014, these regions accounted for almost 66% of second homes purchased by Spanish residents. These buyers are also more likely to invest outside their region of residence. In the first half of 2014, two out of every 10 real estate transactions were inter-regional purchases, i.e., the purchase of houses in other regions of Spain.

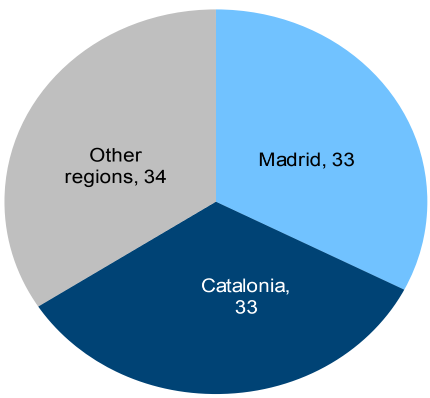
[5] For the purpose of defining second-home transactions, it was assumed that all houses purchased outside of the province in which the buyer is resident were second-home purchases.

[6] According to the INE, 77.7% of Spanish households owned their homes in 2013.

[7] At the time this article was written, the tax reforms presented by the Spanish government were still being processed by Parliament, specifically by the Senate. For further information, please visit the following link: http://www.senado.es/legis10/publicaciones/pdf/senado/bocg/BOCG_D_10_415_2810.PDF

Exhibit 1

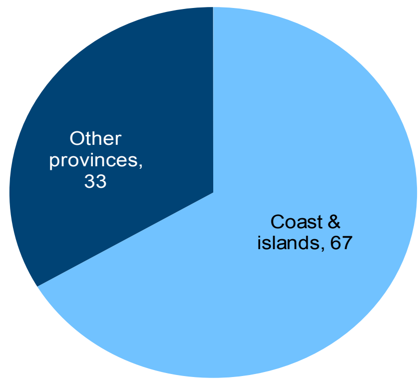
Source of second home purchases by Spanish residents by region of residence
(% of total), H114



Sources: AFI, Ministry of Development.

Exhibit 2

Geographic location of second homes purchased by Spanish residents
(% of total), H114



Sources: AFI, Ministry of Development.

As for the geographic markets receiving the bulk of this demand, as might be expected, the coastal provinces, particularly those along the Mediterranean coast and two main archipelagos, are the biggest recipients. Two out of every three second homes purchased by Spanish residents in the first half of 2014 were located in these tourist regions.

Demand from non-residents

The demand for housing from non-Spanish residents is hardly surprising considering that Spain is the third largest tourist destination according to the World Tourism Organisation (in 2013, 60 million foreign tourists visited Spain, while the government's estimates point to a new record of 63 million in 2014), coupled with the fact that, according to the Spanish Ministry for Industry, Energy and Tourism, one-third of incoming tourists lodge in houses, either owned or rented. The preference for this less conventional form of tourist accommodation probably reflects enhanced satisfaction of these travellers' needs, particularly in the case of long or more frequent stays, which would otherwise push costs up significantly.

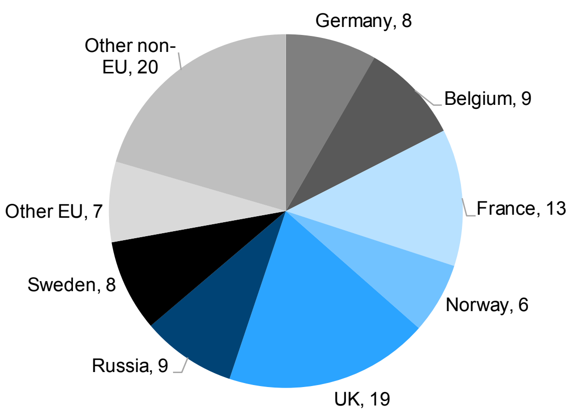
However, a legislative change may also be underpinning demand for housing by non-residents. Since September 2013, following implementation of Law 14/2013, of September 27th, 2013, on support for entrepreneurs and their international expansion,[8] foreigners not resident in Spain[9] who purchase a house for 500,000 euros or more can apply for a long-stay or residence permit for investors by virtue of the fact that they have made a significant capital investment in the country. Since an investment in real estate is less liquid than investments in other financial assets, it is assumed that the investor will stay in Spain for a relatively extended period of time. Nevertheless, the related long-stay or residence

[8] For further information, go to the following link: http://www.boe.es/boe/dias/2013/09/28/pdfs/BOE-A-2013-10074.pdf

[9] This measure is more attractive for citizens who are not residents in any European Union member state as, thanks to the freedom of movement for European citizens throughout the European Community, a visa is not required for such travel.

Exhibit 3

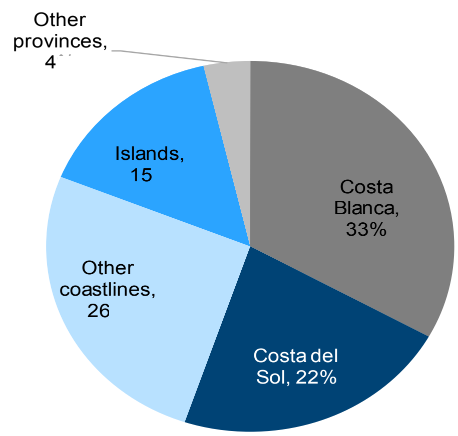
Nationality of non-resident foreigners purchasing homes in Spain
(% of total), H114



Sources: Afi, CIEN-Notariado.

Exhibit 4

Geographic location of second homes purchased by non-residents
(% of total), H114



Sources: AFI, Ministry of Development.

permits are not given on a permanent basis but rather for a maximum period of two years. This mismatch between the usual investment period and period of time for which the visa is granted suggests that these home-buyers are not looking to establish residence in Spain so much as to take advantage of the incipient recovery in the housing sector in Spain to generate returns on relatively high-ticket real estate investments within a short timeframe.

Regardless of the reasons underpinning the intention to purchase a property in Spain, the fact is that the recent sector figures reveal that real estate transactions by non-resident foreigners have been growing consistently since 2009. In the first half of 2014, 2,000 such transactions were registered, marking year-on-year growth of 12.0% and twice the market trough level.

Buyers are mainly EU residents, mostly from the countries which generate the highest flows of tourism into Spain. In the first half of 2014, the English and French accounted for one-third of the houses sold to non-resident foreigners. However, it is worth highlighting other countries such as Belgium, Sweden and Russia. Although they each account for roughly 8.7% of transaction volumes, investor appetite from these nations has risen the fastest in recent months.

Purchases by non-residents, which are concentrated along Spain's Costa Blanca and Costa del Sol, have doubled from the lows of 2009. English and French buyers account for one-third of the total but investor appetite is growing fastest among Belgian, Swedish and Russian buyers.

It is particularly worth flagging the growth in buying activity by Russians, which may well be related to the legislative reforms regarding long-stay or residence permits. According to the School of Property Registrars, 4.7% of homes purchased by foreigners in 2013 exceeded the 500,000 euros mark and 42.1% of these were made by non-EC citizens. Although there are no official figures depicting the trend in house purchases in this price segment in 2014, several of the real estate portals are saying that Russians are dominating property purchases in the >500,000 euros price segment.

As might be expected, the markets proving most attractive to non-resident buyers are: (i) the coastlines with the most stable favourable weather conditions; (ii) the areas in which prices have corrected the most from their highs; and, (iii) the areas offering an abundant supply of unsold homes for every type of buyer, no matter their purchasing power. It is therefore not surprising to note that half of the sales registered in recent months are concentrated in Spain's Costa Blanca and Costa del Sol, i.e., in the provinces of Alicante and Malaga, respectively. These are the same markets that have seen the greatest growth in second home sales since 2009 and are likely to continue to do so in the months to come.

In the case of non-EU residents, the statistics published by the School of Property Registrars suggest that home purchases in the >500,000 euros price segment are concentrated in the Basque region, to the tune of 7% of sales in 2013. As well as being an attractive tourist destination for foreigners with high purchasing power, this region boasts the most expensive cities in Spain. Residential property prices per square meter are higher in San Sebastian, for example, than anywhere else in Spain. In the second quarter of 2014, the last figure available, this metric stood at around 3,300 euros, compared to an average of 2,000 euros across the major Spanish cities.

Conclusions

The modest pace of growth in household formation post-crisis, coupled with a sharp price correction, have put demand for second homes or investment homes in Spain somewhat back in the limelight. Of all house sales registered in the first half of 2014, 17.3% were second homes.

Although second home purchases by residents slowed somewhat year-on-year in the early part of 2014, residents continued to account for nearly all transactions in this segment. Purchases by non-resident foreigners, however, have been growing consistently and by the first half of 2014 had doubled the low registered in mid-2009.

The possible elimination of the amortisation coefficient in 2015, the chance to obtain a long-stay visa or residence permit by acquiring a home for over 500,000 euros and, above all, the improvement in the economic climate coupled with intense price corrections in the coastal markets, where investor appetite for second homes is concentrated, could continue to prop up holiday-home transaction volumes in the months to come.

Any recovery in housing demand should be welcomed, particularly if focused on the markets where the glut of unsold housing is highest, such as those proving attractive to the second home buyer. As a result, growth in transaction volumes in these markets would not only help absorb the huge overhang of unsold housing, it would also contribute to restoring the financial stability of the sector players, the banks operating in these markets and the economy in general.

Recent key developments in the area of Spanish financial regulation

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

Royal Decree-Law on urgent measures on bankruptcy (Royal Decree-Law 11/2014, published in the official gazette (BOE) on September 6th, 2014)

The aim is to facilitate agreements enabling businesses that are in bankruptcy proceedings to survive. This legal instrument complements the measures already implemented for the pre-bankruptcy phase by Royal Decree-Law 4/2014 of March 7th, 2014.

Royal Decree-Law 11/2014 amends various precepts of Law 22/2003 of July 9th, 2003, on Bankruptcy, as regards the following points:

As regards the **creditors' agreement**, the following points stand out:

- Analogous provisions related to the valuation of guarantees to which special preference is given are introduced.
- Increasing the quorum at the creditors' meeting, assigning voting rights to creditors acquiring their credit claims subsequent to the declaration of bankruptcy (always excluding those with special ties to the debtor).
- Agreements on capital increases required in the case of capitalisation will be adopted with the same majorities as provided for in the additional provision.
- Transfer of assets in lieu of payment has been facilitated, with certain precautionary measures to avoid fraud.
- The main new features of the legislation include changes in voting and majorities in the agreement, together with greater capacity to pull in dissenting creditors under certain circumstances.
- A mechanism is established to allow the measures in this Royal Decree-Law to be applied, once only, to agreements adopted under the previous legislation, provided that an enhanced majority (greater than that required to approve the agreement) is obtained and it is approved by the court.

As regards **winding-up**:

- The subrogation of the acquirer to contracts and administrative permits held by the assignor is introduced, and the mechanisms for exemption from liability for previous liabilities are arbitrated.
- Additional provisions are introduced regarding the transfer of assets in lieu of payment, such that the court may decide to withhold 10% of the assets to meet future challenges, so as to speed up the winding-up process.
- The sale of production units with assets given in guarantee is allowed, where creditor consent is eliminated, if the acquirer occupies the debtor's

place or receives the value of the guarantee and, otherwise, majorities binding dissenters are envisaged.

- The necessary legislative amendments to comply with the ruling of the Court of Justice of the European Union of July 17th, 2014, have been introduced. This entails amendments to the Code of Civil Procedure, such that the mortgage borrower may appeal against the writ overturning his opposition to foreclosure, if it is based on the existence of an unfair contractual clause that constitutes the grounds for foreclosure or the sum demanded.

Other noteworthy points:

- Clarification that the measures deriving from the precontractual phase will be considered clean-up measures for the purposes of Royal Decree-Law 5/2005 of March 11th, 2005, it being expressly envisaged that the same effects shall apply to these measures as are established in Royal Decree-Law 5/2005 for the commencement of bankruptcy proceedings.

- The creation of an online portal to facilitate the sale of companies or production units in liquidation is envisaged.

- A monitoring committee on refinancing and debt overhang reduction practices is set up, with the task of verifying compliance with the measures adopted by this Royal Decree-Law.

Draft law regulating venture capital firms and closed-ended collective investment undertakings

The draft law transposes Directive 2011/61/EU of the European Parliament and of the Council of June 8th, 2011, on Alternative Investment Fund Managers.

Firstly, the financial rules on venture capital (VC) firms are loosened, allowing them to use a wide range of financial instruments, such as equity loans, thus giving greater flexibility to the calculation of timeframes for compliance with the mandatory investment ratio and allowing funds to distribute periodic earnings.

The concept of an **SME-VC firm** is established, consistent with Regulation (EU) 345/2013, of April 17th, 2013, allowing these entities to invest 70% of their assets in minority shareholdings in SMEs, participating in their management and playing an advisory role. The regulation aims to promote the venture capital sector geared to the early stages of business development, which has seen less growth, and offer this type of firm an alternative to bank financing.

Also, by imperative of Directive 2011/61/EU, **the scope of application of the Law is expanded**, subjecting to the regulations all collective investment undertakings of the closed-ended type with a predefined investment policy and distribution of earnings to investors. Consequently, entities that may have been operating in Spain as a firm governed by commercial law investing in unlisted shares, but which did not comply with the rules on investment and diversification of venture capital, come under its scope.

It is noteworthy that **the system of administrative intervention of the CNMV in VC firms or closed-ended collective investment undertakings is almost entirely eliminated**. Under European Union rules, the authorisation for management companies is retained, while investment companies and funds whose management has been delegated to a management company will merely be registered. Moreover, in line with the goal of reducing the administrative burden, the rules for linked operations between venture capital firms and their partners have been relaxed.

Lastly, a new objective liability regime has been established for depositaries affecting all investment vehicles (VC firms, closed-ended Collective Investment Undertakings (CIUs), and

Collective Investment Institutions (CIIs), whether harmonised or not). This is due to the legislator's bringing forward application to all Undertakings for Collective Investment in Transferable Securities (UCITS) depositaries of the objective liability regime envisaged for depositaries of VC firms and closed-ended CIUs through an amendment of the Law on collective investment institutions.

Under this new regime, in the case of a loss of the financial instruments held in custody, the depositary must return without undue delay a financial instrument of identical characteristics or the corresponding sum.

Consequently, once all the necessary legislative formalities for its approval have been completed, there will be a new objective liability regime for depositaries applicable to all deposited assets:

- For open-ended collective investment institutions, whether harmonised (UCITS) or not (alternative investments), regulated in the law on collective investment institutions.

- For closed-ended investment undertakings (VC firms and collective investment undertakings of the closed-ended type) regulated under the new Law regulating venture capital firms and collective investment undertakings of the closed-ended type.

Draft Bank of Spain Circular amending Circulars 4/2004, 1/2010 and 1/2013

The draft aims to incorporate the **new statistical and supervisory information requirements** to comply with the Bank of Spain's obligations to provide information to the European Central Bank, and adapt the content of confidential and public financial information and the data reported to the central credit register to the data preparation criteria, terminology, definitions and formats of the statements known as **FINREP**. These statements are obligatory for consolidated financial supervisory information applying International Financial Reporting Standards adopted by the EU or assimilated national accounting standards.

The **main points** of the draft are as follows:

- **Circular 4/2004**. The amendments affect the rules on (i) other individual and consolidated public information; (ii) elements of the annual accounts; (iii) recognition and valuation criteria; (iv) business combinations and consolidation; (v) content of financial statements; (vi) confidential statements; (vii) internal accounting implementation and management control; and (vii) presentation of statements and other information to the Bank of Spain.

- The rules on confidential statements by finance companies, consolidated confidential statements of sector information, have also been repealed, and a third additional provision has been added updating the terminology.

- In the case of the annexes to Circular 4/2004, Annexes I (Individual public statements of credit institutions), II (Public statements of foreign credit institutions, headquartered in a member state of the European Economic Area), III (Consolidated public statements), VII (Confidential statements regarding the statistical requirements of the Economic and Monetary Union) and VIII (Sectorisation) are replaced by the annexes of the draft Circular, Annex VI (Consolidated confidential statements of sectoral information) is eliminated, and Annexes IV (Individual confidential statements), IX (Risk analysis and coverage) and X (Special records of mortgage activity) are amended.

- **In Circular 1/2010**, the amendments refer, among other things, to the statements in the annex which are replaced by the "Interest rate statistics" annex in the draft Circular.

- **In Circular 1/2013**, on the central credit register, the changes include amendments to Annex I (Personal data and code application), Annex 2 (instructions on preparing the data modules) and Annex 3 (Information on risks that will be furnished to reporting entities).

The Circular **will come into force** according to the following schedule:

- The amendments made to Circular 4/2004, on **May 31st, 2015**, except the following provisions, which will enter into force prior to that date:

  - (i) Confidential statements regarding the statistical requirements of the Economic and Monetary Union; (ii) amendments made to Annexes VII, VIII.3. IX and X; and (iii) elimination of statements T.17, T.18, C.2, C.4, C.8, C.11, C.12, C.13, C.15, C.16, C.19 and C.20, on **December 31st, 2014**.

  - Elimination of statements C.1, C.3, C.6, C.7, C.14, C.17 and C.18, on **March 31st, 2015**.

- The modifications will be introduced in Circular 1/2010 and 1/2013 on **December 31st, 2014.**

Spanish economic forecasts panel: November 2014[1]

FUNCAS Economic Trends and Statistics Department

Growth forecasts for 2014 remain at 1.3%

According to provisional data, GDP grew 0.5% in the third quarter: one tenth of a point less than in the previous quarter. The breakdown of the figures has not yet been published, but the indicators for the period suggest a slowdown in consumer spending and equipment investments, an improvement in construction, and a deteriorating contribution from the external sector.

The consensus growth forecast for 2014 has not changed, but there has been a slight change in its composition: the estimated contribution of domestic demand has been increased by a tenth of a percentage point to 1.4 percentage points (pp), as a consequence of the upward revision of growth in investment and private and public consumption; this has been offset by a cut in the expected contribution of the external sector to -0.1 pp.

The forecast for 2015 is also unchanged

There has been no change in the forecast for 2015 GDP growth since the previous panel forecast, which estimated 2% growth, slightly exceeding international organisations' forecasts. There have been no changes in the composition of growth: the expected contribution of domestic demand remains 1.8 pp and that of the external sector 0.2 pp.

A further slowdown is expected in growth in the fourth quarter of the year, for which growth of 0.4% is estimated, although the growth rate is expected to pick up speed from the first quarter of 2015, with rates of 0.5% and 0.6% over the course of the year (Table 2).

Industrial activity slowed in the third quarter

The industrial production index fell by 2.1% in the third quarter in comparison with the previous quarter (on an annualised basis), despite which, it grew by 1.6% in the first nine months of the year compared with the same period the preceding year (its best performance since 2007). The consensus forecasts for this indicator's growth in 2014 and 2015 have been revised downwards to 1.8% and 2.4%, respectively.

Expected inflation has been revised downwards again

The inflation rate remains negative. On top of the year-on-year drops in food prices seen since April, there is now the impact of falling oil prices, which has resulted in a slight downward revision of the inflation forecast. The estimate for the average annual rate has been cut by one tenth of a percentage point for this year and the next, to 0% and 0.7%, respectively.

[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.

The year-on-year rate at the end of the year (Table 3) is estimated at 0% for December 2014 (two tenths lower than in the previous Panel) and 1.0% for December 2015 (unchanged from the previous consensus).

The employment forecast has improved

According to the Labour Force Survey, quarter-on-quarter employment growth moderated in the third quarter to 0.4%. The increase in the number of social security system affiliates also slowed during the period, while the data for October also point to a modest growth rate at the start of the last quarter of the year.

The forecast for employment growth in 2014 has been revised upwards by one tenth of a percentage point to 0.8% and unemployment has been revised downwards to 24.5%. The growth forecast for 2015 remains 1.5%, although the expected unemployment rate has been cut by two tenths to 23%.

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 2014 and 0.4% in 2015, while ULCs, are expected to drop by 0.3% this year, with no change anticipated next year.

The upturn in demand has worsened the balance of payments

Thus, between January and August, the current account of the balance of payments posted a deficit of almost 4.6 billion euros, compared with a surplus of 8.7 billion euros in the same period the previous year. This worsening of the balance of payments is due to the deteriorating trade balance, resulting from an upturn in imports, driven by the recovery in consumption and investments in capital goods, rather than a drop in exports.

The consensus forecast for the current account balance is barely changed, after the sharp downward correction in the previous Panel forecast. For 2014, a surplus of 0.5% of GDP is expected, whereas the projected balance for 2015 is a surplus of 0.8% of GDP.

The government deficit will slightly overshoot the target

In the period to August, the combined deficit of the central government, the autonomous regions, and the social security fund was 4.3% of annual GDP, just three tenths of a point lower than that registered in the same period the previous year. The autonomous regions have performed the worst, with a deficit of 1% of GDP; two tenths of a percent higher than the same period the previous year, which means the limit set as a target for the year as a whole has been reached.

The consensus forecast for 2014 remains unchanged at 5.6% of GDP, although that for 2015 has improved by two tenths of a percent to 4.5%; in both cases the forecast is above the government's target (5.5% and 4.2% in 2014 and 2015, respectively).

The opinion on the situation in the EU has worsened

U.S. GDP has kept up its solid growth in the second and third quarters of the year, in contrast to the fragility of the eurozone, where the recovery has failed to gain traction. The emerging economies also continue to show signs of weakness.

Panellists' opinions on the current situation in the EU have gone from being neutral (the last five panel forecasts) to unfavourable (Table 4), while the context outside the EU continues to be considered neutral. No change is expected in either area in the next six months.

Long-term interest rates are considered to be too low

After the significant drops in August and September, the short-term interest rate (Three-month EURIBOR) has stabilised in recent weeks at 0.08%. As in previous panel forecasts, the rate is still felt to be too low, but is expected to remain stable over the coming months.

In the case of the long-term rate (ten years), after a slight upturn in mid-October in the wake of the turbulence caused by fears of a recession in the Eurozone, in subsequent weeks it has hovered around 2.1%. This is also felt to be very low, but is expected to remain stable over the coming months.

The euro is still overvalued

The euro-dollar exchange rate has been falling below 1.25. Although most of the panellists consider that the euro is still overvalued, the trend in recent months means that this majority has shrunk and an increasing number of participants think it is at an appropriate level. The majority believe that the depreciation will continue over the coming months.

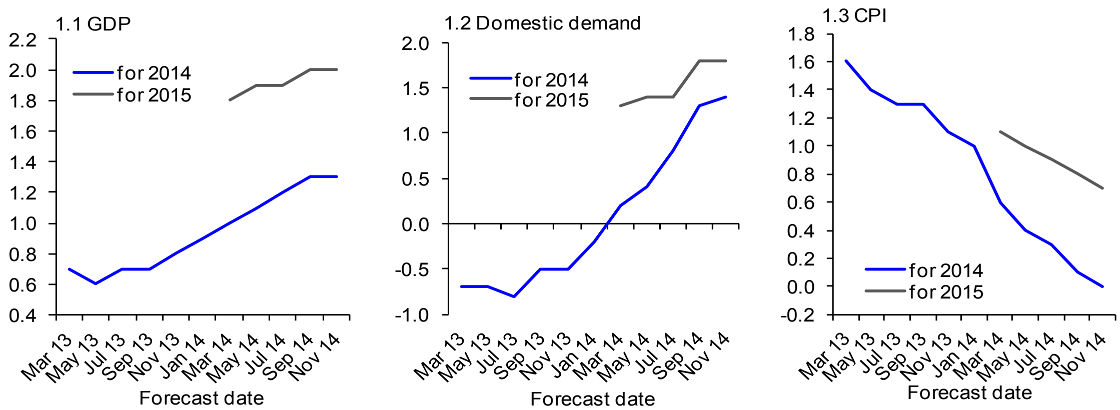
Fiscal policy should be neutral

As for fiscal policy, the majority continue to consider it restrictive, although most panellists think it should be neutral. Almost all the panellists classified current monetary policy as expansionary, and the unanimous view was that this stance should be maintained.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – November 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	2.0	2.1	1.8	1.0	0.9	0.6	4.3	8.2	6.5	-3.9	2.9	1.6	2.0
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	1.3	2.0	2.1	1.7	1.1	0.4	1.0	3.6	8.9	6.6	-3.8	0.8	1.6	1.8
Cemex	1.3	1.8	1.9	1.8	0.5	1.1	1.1	3.5	9.1	5.5	-4.0	1.0	1.4	1.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.3	2.1	1.8	2.1	-0.3	0.2	0.9	4.4	6.6	7.2	-3.2	2.3	1.1	2.0
Centro de Predicción Económica (CEPREDE-UAM)	1.3	2.0	2.0	1.7	-0.1	-0.2	1.1	3.3	7.9	3.7	-3.2	2.7	1.5	1.6
CEOE	1.3	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	1.3	1.8	1.4	1.6	0.1	-1.0	1.2	4.2	7.5	6.6	-3.5	2.0	1.4	1.8
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	1.9	1.8	2.0	0.1	0.0	1.0	3.3	8.2	7.1	-4.0	1.4	1.3	2.0
Instituto de Estudios Económicos (IEE)	1.4	1.9	1.7	1.9	-0.7	-0.2	1.2	3.6	7.9	7.3	-3.9	0.9	1.1	1.8
Instituto Flores de Lemus (IFL-UC3M)	1.1	1.9	2.2	2.9	-0.4	-2.0	0.2	2.0	8.1	6.6	-4.8	-0.9	1.2	1.7
Intermoney	1.3	2.2	2.1	2.1	-0.4	-0.3	0.3	2.8	8.2	6.5	-4.2	0.8	1.6	2.3
La Caixa	1.3	1.7	2.1	1.6	0.1	-1.6	0.8	4.1	9.1	7.4	-4.0	2.3	1.4	1.4
Repsol	1.3	2.0	2.0	1.6	1.0	0.4	1.1	3.2	8.6	8.2	-3.1	0.9	1.6	1.6
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	1.9	2.0	1.9	0.0	0.0	0.5	3.6	7.7	6.7	-3.5	1.8	1.3	1.8
CONSENSUS (AVERAGE)	1.3	2.0	2.0	1.9	0.3	0.0	0.8	3.5	8.4	6.9	-3.9	1.2	1.4	1.8
Maximum	1.4	2.2	2.2	2.9	1.5	1.2	1.2	4.4	9.7	11.0	-3.1	2.9	1.8	2.3
Minimum	1.1	1.7	1.4	1.5	-0.7	-2.0	0.2	2.0	6.6	3.7	-4.8	-0.9	1.1	1.4
Change on 2 months earlier[1]	0.0	0.0	0.1	0.0	0.3	0.0	0.1	0.1	0.2	-0.1	-0.3	0.2	0.1	0.0
- Rise[2]	0.0	0.0	0.1	0.0	0.3	0.0	0.1	0.1	0.2	-0.1	-0.3	0.2	0.1	0.0
- Drop[2]	2.0	6.0	0.0	2.0	2.0	2.0	3.0	6.0	3.0	5.0	2.0	4.0	0.0	3.0
Change on 6 months earlier[1]	0.2	0.1	0.8	0.4	2.2	0.4	0.5	0.7	2.9	1.0	-0.3	0.6	1.0	0.4
Memorandum ítems:														
Government (September 2014)	1.3	2.0	2.0	2.1	0.2	-1.0	--	--	7.0	6.0	-3.3	3.1	--	--
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 (November 2014)	1.2	1.7	2.0	2.2	0.4	-1.4	1.1	4.2	8,8 [3]	7,1 [3]	-3.8	1.8	1.5	1.7
IMF (October 2014)	1.3	1.7	2.0	1.6	0.0	-0.7	--	--	--	--	-5.9	-0.3	1.3	1.2
OECD (November 2014)	1.3	1.7	--	--	--	--	--	--	--	--	--	--	--	--

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

Table 1 (Continued)

Economic Forecasts for Spain – November 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)	3.7	5.3	4.8	5.5	--	--	0.0	1.0	--	--	0.8	1.5	24.4	23.1	1.2	2.1	-5.5	-4.2
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	4.1	5.4	5.9	5.6	--	--	-0.1	0.6	--	--	0.9	1.4	24.4	23.0	--	--	--	--
Cemex	4.5	4.7	5.2	5.5	--	--	-0.1	0.8	--	--	0.9	1.5	24.4	23.0	0.0	0.0	-5.5	-4.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.7	4.5	4.5	4.6	--	--	0.0	0.6	--	--	0.9	1.5	24.5	22.8	0.9	0.9	-5.6	-4.8
Centro de Predicción Económica (CEPREDE-UAM)	4.1	4.6	4.8	5.2	2.0	2.6	0.1	0.7	0.2	0.3	0.7	1.5	24.5	23.0	0.1	0.3	-6.1	-4.8
CEOE	4.1	4.8	5.0	4.8	1.5	1.5	0.0	0.6	0.3	0.4	0.8	1.9	24.5	22.4	-0.3	0.5	-5.5	-4.5
ESADE	4.4	5.0	5.0	5.2	--	--	0.0	0.8	0.3	0.5	0.8	1.4	24.5	23.0	1.9	2.0	-5.7	-4.2
Fundación Cajas de Ahorros (FUNCAS)	4.4	5.4	5.5	5.3	1.5	1.9	-0.1	0.4	0.2	0.5	0.7	1.5	24.5	22.5	0.0	0.0	-5.5	-4.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.2	4.5	4.2	4.8	1.7	2.3	0.0	0.6	0.0	0.4	1.0	1.7	24.6	22.9	0.4	0.7	-5.6	-4.6
Instituto de Estudios Económicos (IEE)	4.7	5.4	4.2	5.2	--	--	0.1	0.5	0.1	0.4	0.7	1.5	24.5	23.0	0.7	1.0	-5.5	-4.3
Instituto Flores de Lemus (IFL-UC3M)	3.9	5.0	4.5	4.7	1.8	2.9	0.0	0.7	--	--	--	--	24.5	22.7	--	--	--	--
Intermoney	3.8	4.7	5.0	5.3	1.9	2.8	0.0	0.7	--	--	0.7	1.6	24.5	23.2	0.3	0.2	-5.8	-4.4
La Caixa	3.7	4.9	4.5	4.0	1.0	2.4	0.1	1.0	-0.1	0.5	1.0	1.4	24.5	23.1	0.3	0.8	-5.6	-4.2
Repsol	4.2	6.9	5.5	6.1	1.7	2.2	0.0	0.7	0.1	0.4	0.8	1.4	24.6	23.3	0.3	0.6	-5.5	-4.8
Santander	3.3	4.6	4.8	5.0	2.9	3.1	-0.1	0.4	0.0	0.3	0.6	1.7	24.2	23.0	1.2	1.3	-5.5	-4.2
Solchaga Recio & asociados	4.8	5.7	5.0	5.8	--	--	0.0	0.6	--	--	0.8	1.7	24.5	23.0	0.3	0.7	-5.8	-5.0
CONSENSUS (AVERAGE)	4.2	5.1	4.9	5.2	1.8	2.4	0.0	0.7	0.1	0.5	0.8	1.5	24.5	23.0	0.5	0.8	-5.6	-4.5
Maximum	4.8	6.9	5.9	6.1	2.9	3.1	0.1	1.0	0.4	0.8	1.1	1.9	24.6	23.5	1.9	2.1	-5.5	-4.2
Minimum	3.3	4.5	4.2	4.0	1.0	1.5	-0.1	0.4	-0.1	0.3	0.6	1.4	24.2	22.4	-0.3	0.0	-6.1	-5.0
Change on 2 months earlier[1]	-0.2	-0.5	0.2	-0.1	-0.3	-0.2	-0.1	-0.1	0.2	0.1	0.1	0.0	-0.1	-0.2	0.0	0.1	0.0	0.2
- Rise[2]	2.0	2.0	6.0	5.0	1.0	3.0	0.0	1.0	2.0	2.0	6.0	5.0	0.0	0.0	4.0	5.0	4.0	5.0
- Drop[2]	7.0	7.0	3.0	5.0	5.0	4.0	10.0	10.0	2.0	2.0	1.0	2.0	10.0	9.0	5.0	6.0	1.0	1.0
Change on 6 months earlier[1]	-1.1	-0.6	1.4	0.4	0.1	-0.4	-0.4	-0.3	0.0	-0.2	0.3	0.3	-0.5	-0.7	-0.9	-0.9	0.2	0.3
<u>Memorandum items:</u>																		
Government (September 2014)	3.6	5.2	4.4	5.0	--	--	--	--	0.8	1.0	0.7	1.4	24.7	22.9	0.9	1.1	-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 (November 2014)	3.8	4.9	4.8	5.1	--	--	-0.1	0.5	0.5	0.9	0.7	1.1	24.8	23.5	0.5	0.7	-5.6	-4.6
IMF (October 2014)	4.1	5.5	4.2	4.5	--	--	0.0	0.6	--	--	0.6	0.8	24.6	23.5	0.1	0.4	-5.7	-4.7
OECD (November 2014)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

[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 - November 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	0.5	0.4	0.5	0.5	0.6	0.6
Household consumption[2]	0.5	0.7	0.4	0.4	0.5	0.5	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 – November 2014[1]

Monthly change (%)				Year-on-year change (%)	
Nov-14	Dec-14	Jan-14	Feb-14	Dec-14	Dec-15
0.2	0.1	-0.5	0.0	0.0	1.0

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

Table 4

Opinions – November 2014

Number of responses

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

[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* (ESA 95, Base 2008)

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		1,053.2	57.4	18.3	30.7	21.9	12.2	9.7	8.8	26.9	33.6	106.7	-6.7
2008		1,087.8	57.2	19.5	28.7	20.2	10.8	9.4	8.4	26.5	32.3	105.8	-5.8
2009		1,046.9	56.6	21.4	23.6	16.8	8.5	8.3	6.8	23.9	25.8	101.9	-1.9
2010		1,045.6	57.9	21.5	22.2	14.9	7.3	7.7	7.3	27.4	29.5	102.2	-2.2
2011		1,046.3	58.6	21.2	20.7	12.9	6.0	6.9	7.8	30.8	31.9	101.1	-1.1
2012		1,029.3	59.3	20.2	19.2	11.5	5.2	6.3	7.7	32.6	31.9	99.3	0.7
2013		1,023.0	59.2	20.1	17.7	10.1	4.4	5.6	7.7	34.1	31.7	97.6	1.5
2014		1,030.5	60.0	20.0	17.5	9.4	4.0	5.4	8.0	34.9	33.0	98.1	1.9
2015		1,057.0	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

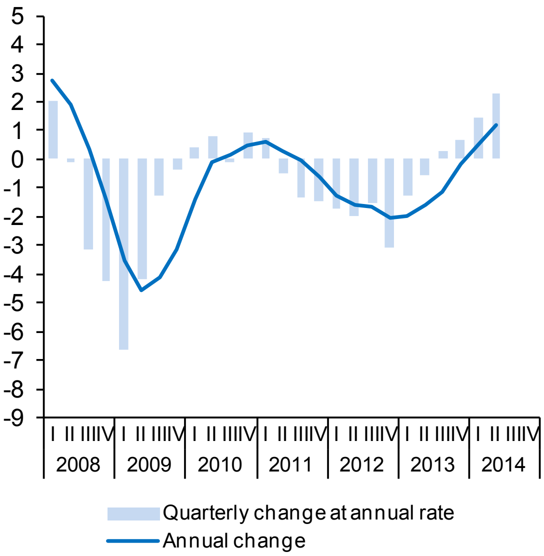


Chart 1.2.- Contribution to GDP annual growth
Percentage points

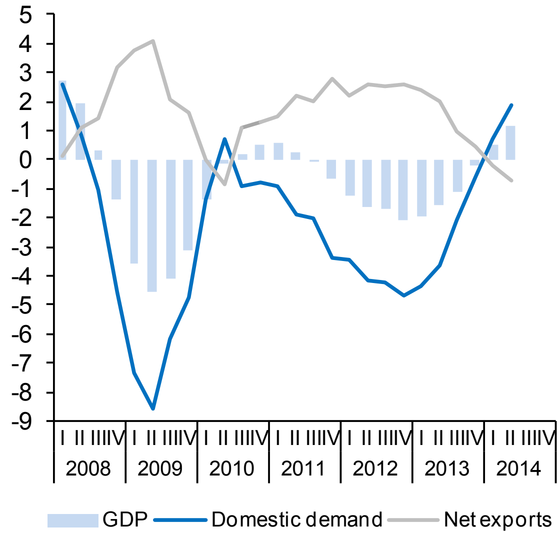


Chart 1.3.- Final consumption
Annual percentage change

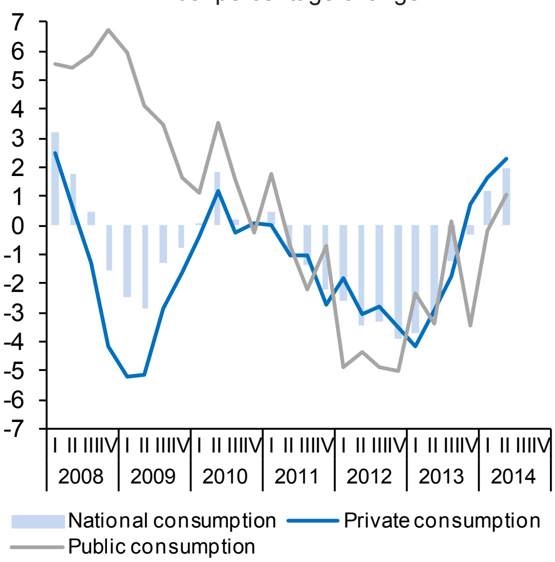


Chart 1.4.- Gross fixed capital formation
Annual percentage change

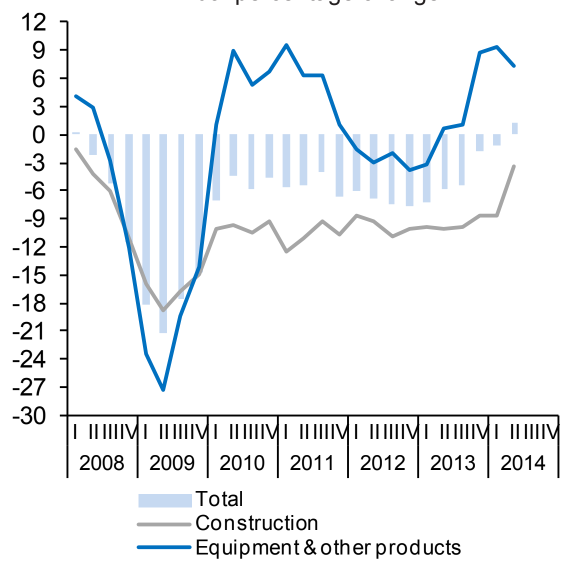


Table 2

National accounts: Gross value added by economic activity SWDA* (ESA 95, Base 2008)

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

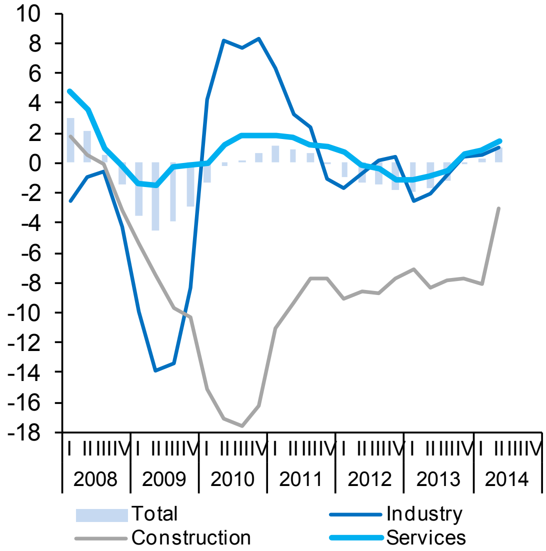


Chart 2.2.- GVA, services (I)
Annual percentage change

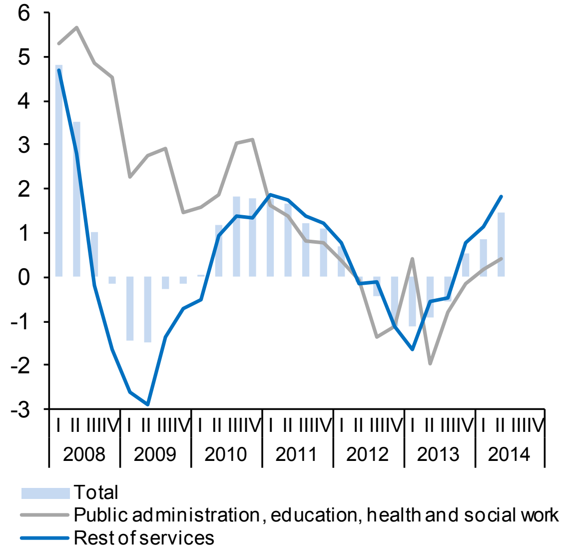


Chart 2.3.- GVA, services (II)
Annual percentage change

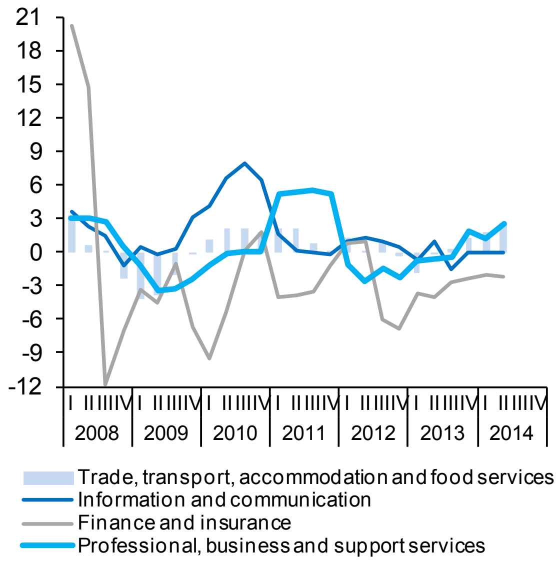


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

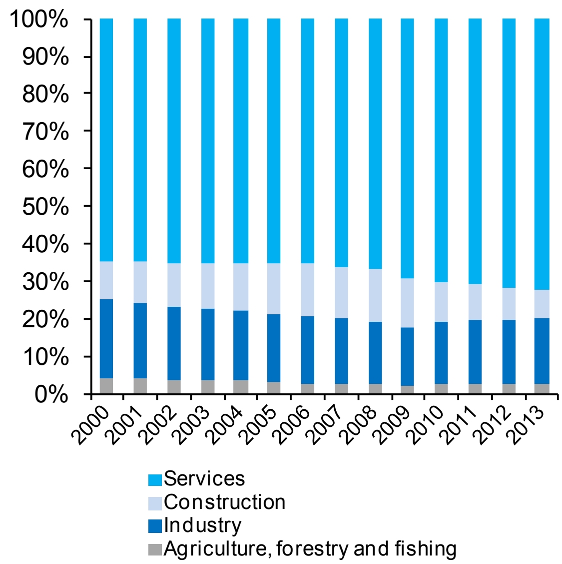


Table 3a

National accounts: Productivity and labour costs (I) (ESA 95, Base 2008)

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

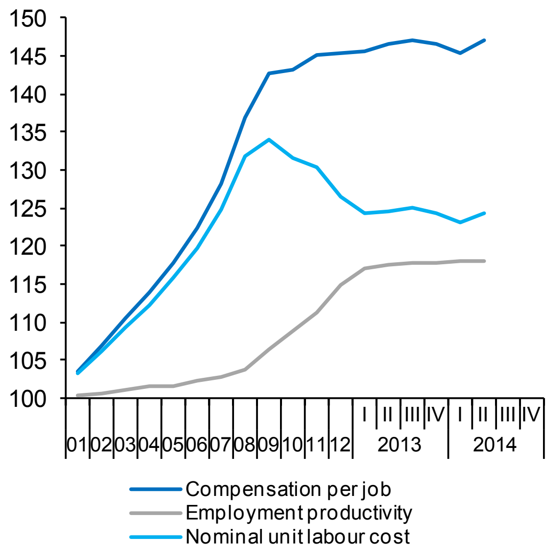
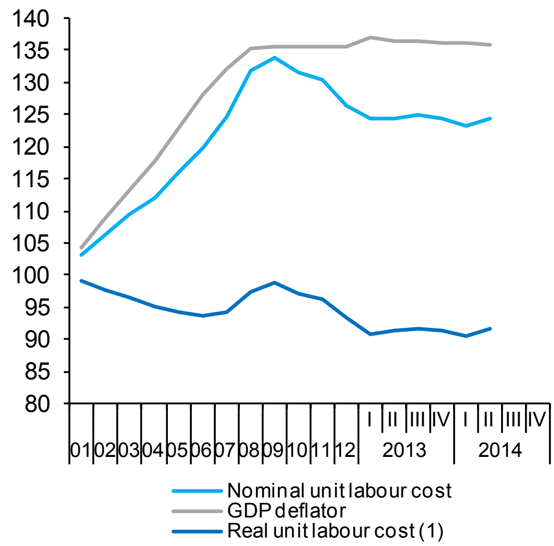


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

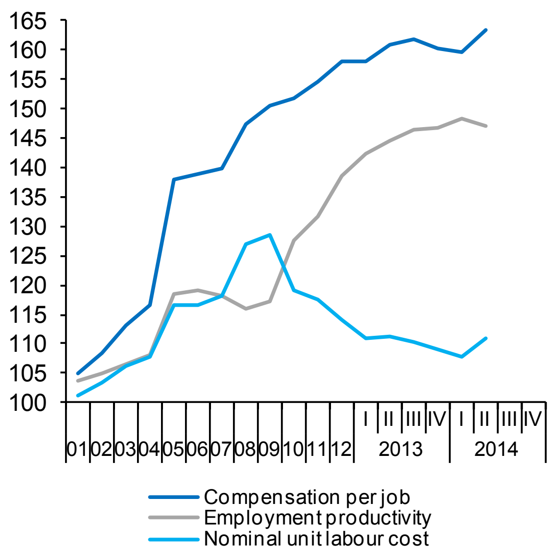
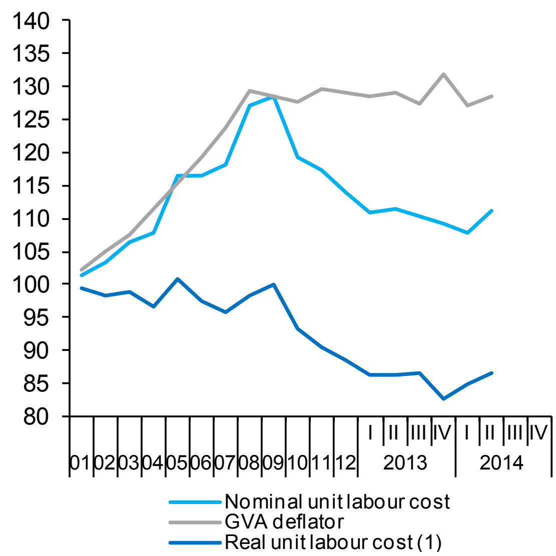


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

National accounts: Productivity and labour costs (II) (ESA 95, Base 2008)

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

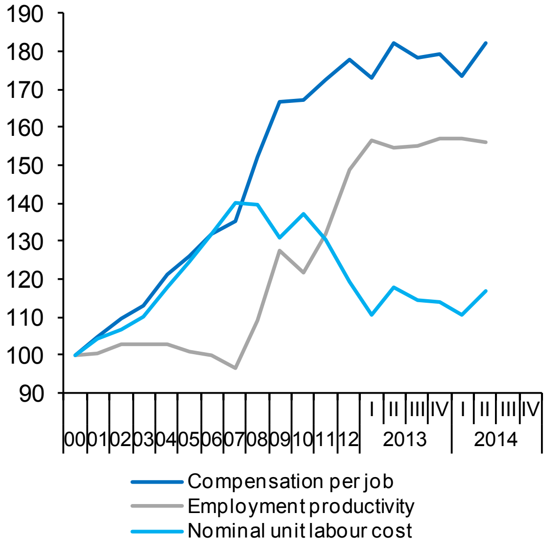
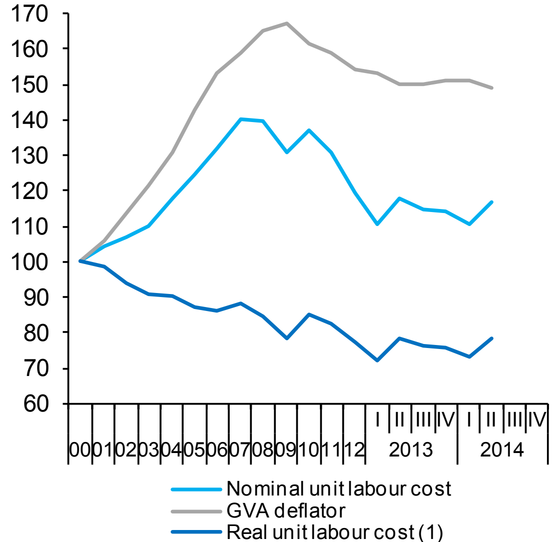


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

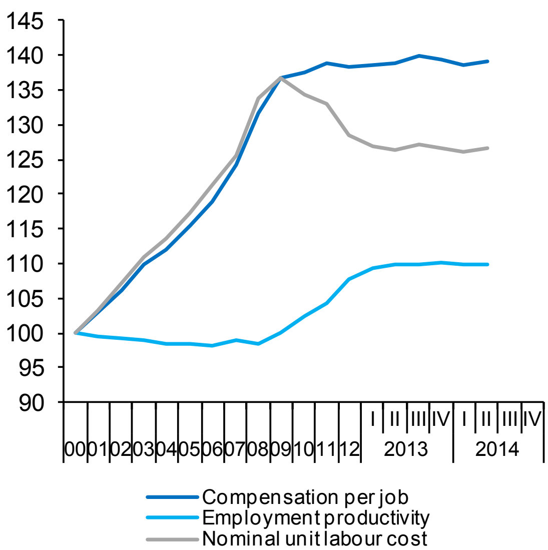
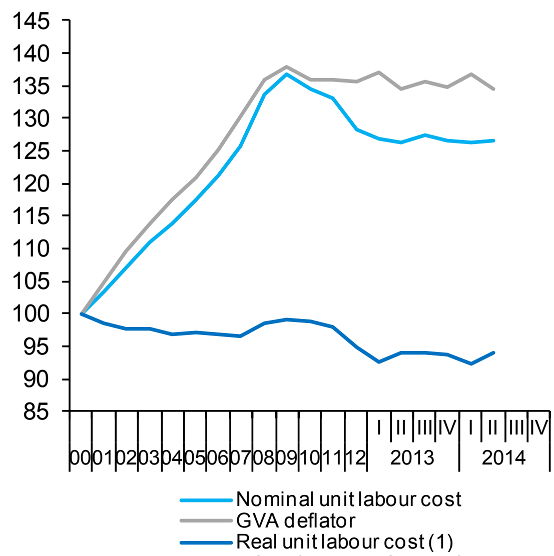


Chart 3b.4.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

National accounts: National income, distribution and disposition (ESA 95, Base 2008)

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

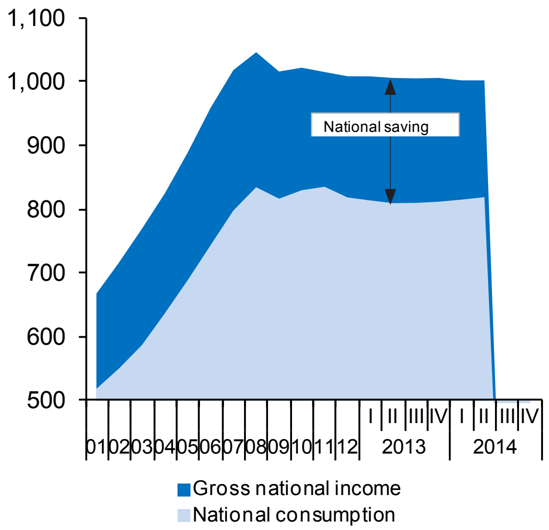


Chart 4.2.- National income, consumption and saving rate

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

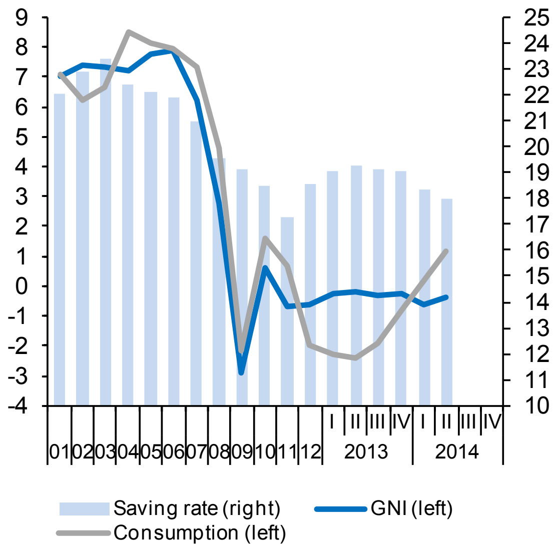


Chart 4.3.- Components of National income (I)

Annual percentage change

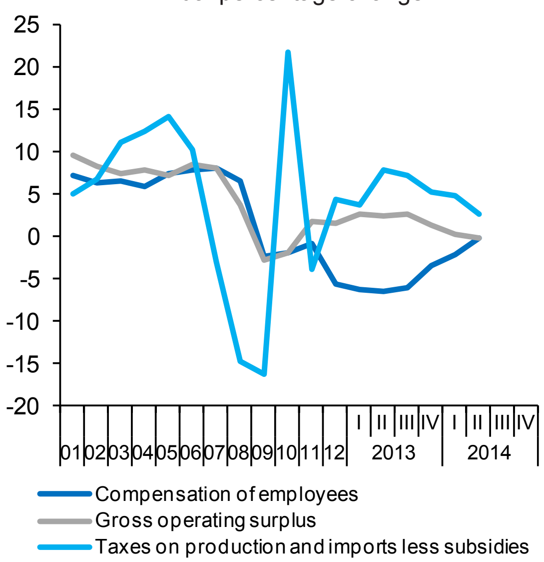


Chart 4.4.- Functional distribution of income

Percentage of GDP, 4-quarter moving averages

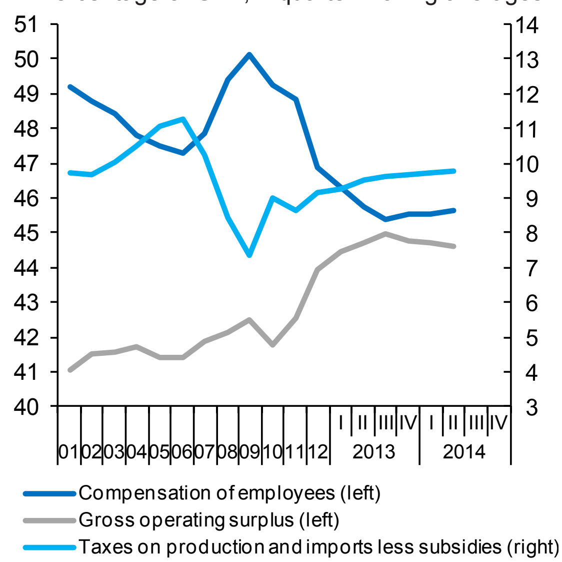


Table 5

National accounts: Net transactions with the rest of the world (ESA 95, Base 2008)

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

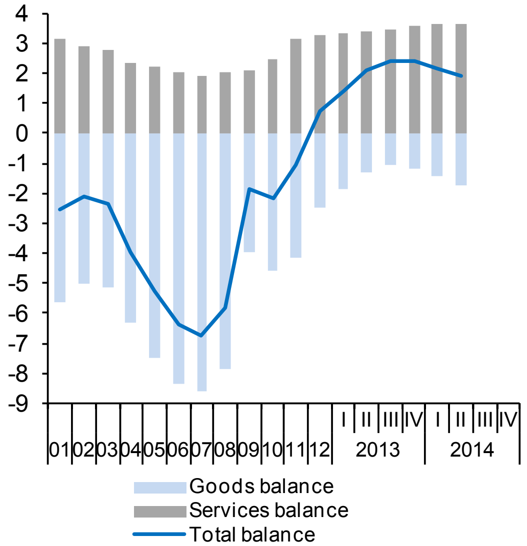


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

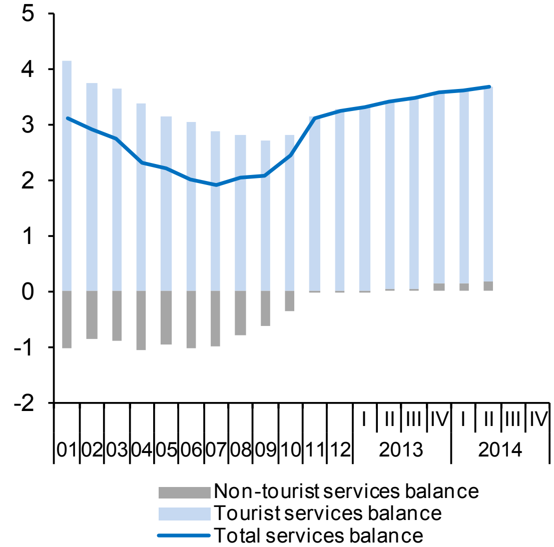


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

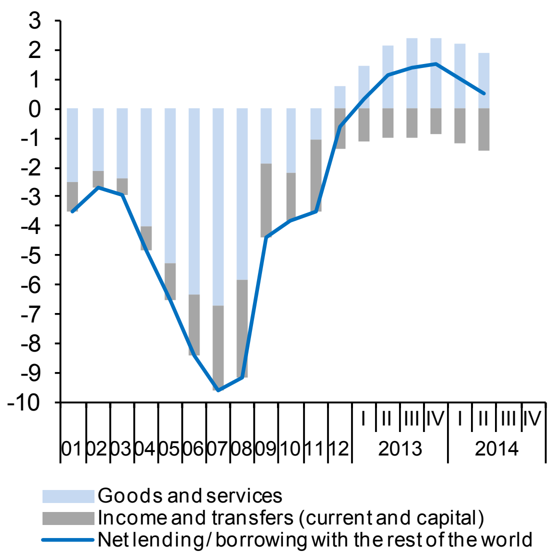


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

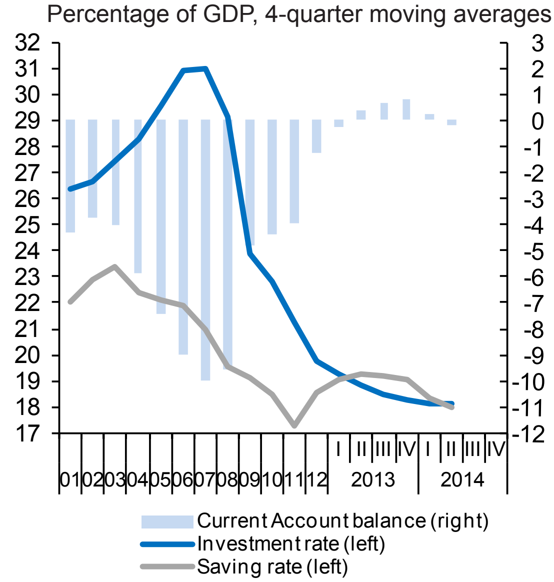


Table 6

National accounts: Household income and its disposition (ESA 2010, Base 2010)

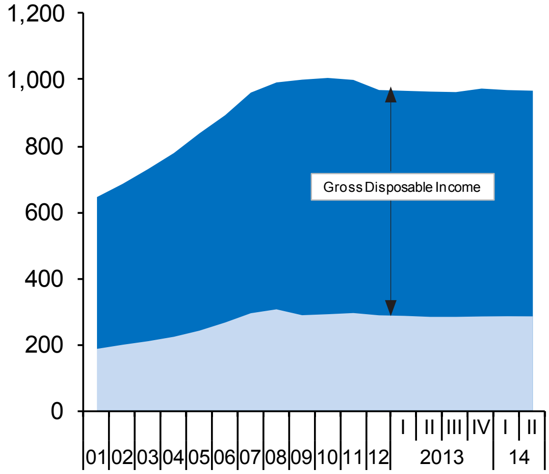
Forecasts in blue

	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	667.4	523.1	240.5	198.1	207.7	86.5	615.8	55.1	8.3	3.4	99.3	-40.9	-3.8
2008	686.4	560.5	212.9	219.0	220.6	85.5	633.5	57.3	8.3	5.2	91.0	-28.5	-2.6
2009	712.6	549.9	214.3	236.7	211.5	76.8	605.3	107.4	15.1	5.1	69.3	43.1	4.0
2010	714.9	542.3	222.5	241.2	211.0	80.2	618.8	95.9	13.4	6.3	64.8	37.5	3.5
2011	705.3	532.8	223.6	243.8	212.3	82.5	622.6	82.1	11.6	3.1	56.3	28.9	2.7
2012	681.6	503.3	217.5	248.8	204.7	83.2	618.8	60.8	8.9	2.5	44.2	19.2	1.8
2013	689.4	492.3	229.7	251.9	201.3	83.1	610.3	77.1	11.2	0.4	34.8	42.8	4.1
2014	682.4	498.3	222.0	249.7	202.0	85.5	622.6	58.8	8.6	0.4	34.1	25.1	2.4
2015	699.8	510.5	229.0	252.8	208.2	84.3	639.5	58.6	8.4	0.4	35.3	23.7	2.2
2012 III	695.3	514.3	224.1	248.3	207.6	83.9	620.1	73.8	10.6	2.1	47.2	28.6	2.7
IV	681.6	503.3	217.5	248.8	204.7	83.2	618.8	60.8	8.9	2.5	44.2	19.2	1.8
2013 I	680.9	497.0	219.9	250.3	203.4	82.8	615.2	63.6	9.3	2.4	41.9	24.2	2.3
II	681.6	491.6	221.9	251.2	201.6	81.6	611.4	67.9	10.0	2.1	39.5	30.5	2.9
III	680.1	489.5	222.6	251.2	200.6	82.6	611.4	67.0	9.9	1.5	37.4	31.1	3.0
IV	689.4	492.3	229.7	251.9	201.3	83.1	610.3	77.1	11.2	0.4	34.8	42.8	4.1
2014 I	684.3	492.8	226.0	250.5	201.6	83.5	614.5	68.2	10.0	0.3	34.1	34.5	3.3
II	682.7	495.1	222.3	250.0	201.2	83.6	619.4	61.8	9.1	0.2	34.4	27.7	2.6
Annual percentage changes, 4-quarter cumulated operations									**Difference from one year ago**	**Annual percentage changes, 4-quarter cumulated operations**			**Difference from one year ago**
2007	6.4	8.6	5.4	7.9	8.7	15.4	6.7	8.3	0.1	-48.3	3.9	--	0.0
2008	2.8	7.1	-11.5	10.6	6.2	-1.2	2.9	4.0	0.1	54.0	-8.4	--	1.2
2009	3.8	-1.9	0.7	8.1	-4.1	-10.2	-4.5	87.4	6.7	-2.8	-23.8	--	6.5
2010	0.3	-1.4	3.8	1.9	-0.2	4.5	2.2	-10.6	-1.6	25.0	-6.5	--	-0.5
2011	-1.3	-1.8	0.5	1.1	0.6	2.9	0.6	-14.4	-1.8	-51.6	-13.1	--	-0.8
2012	-3.4	-5.5	-2.7	2.0	-3.6	0.9	-0.6	-25.9	-2.7	-18.2	-21.5	--	-0.9
2013	1.1	-2.2	5.6	1.3	-1.6	-0.1	-1.4	26.8	2.3	-82.7	-21.3	--	2.3
2014	-1.0	1.2	-3.4	-0.9	0.3	2.9	2.0	-23.8	-2.6	-5.0	-2.0	--	-1.7
2015	2.5	2.4	3.2	1.2	3.1	-1.4	2.7	-0.3	-0.2	-5.0	3.7	--	-0.2
2012 III	-1.5	-4.0	1.2	2.0	-2.4	2.2	-0.3	-11.2	-1.2	-64.5	-19.0	--	-0.1
IV	-3.4	-5.5	-2.7	2.0	-3.6	0.9	-0.6	-25.9	-2.7	-18.2	-21.5	--	-0.9
2013 I	-3.1	-5.8	-2.2	2.1	-4.0	-0.4	-1.1	-20.3	-2.0	-6.4	-21.9	--	-0.4
II	-2.2	-5.6	-1.1	2.1	-4.1	-2.4	-1.7	-9.3	-0.8	-24.4	-22.2	--	0.4
III	-2.2	-4.8	-0.7	1.1	-3.3	-1.6	-1.4	-9.2	-0.8	-29.7	-20.7	--	0.3
IV	1.1	-2.2	5.6	1.3	-1.6	-0.1	-1.4	26.8	2.3	-82.7	-21.3	--	2.3
2014 I	0.5	-0.8	2.8	0.1	-0.9	0.9	-0.1	7.2	0.6	-87.2	-18.6	--	1.0
II	0.2	0.7	0.2	-0.5	-0.2	2.4	1.3	-8.9	-0.9	-90.6	-13.0	--	-0.3

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

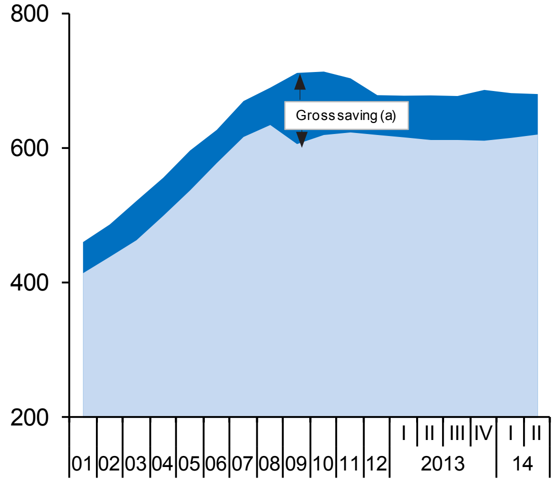
Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

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



Total revenue
Social contributions and personal income taxes

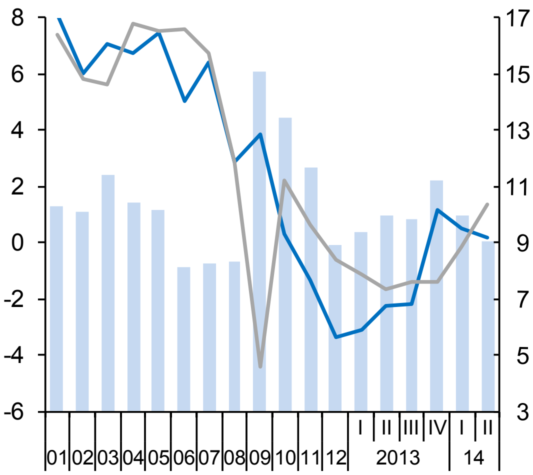
Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



Gross disposable income (a) Consumption

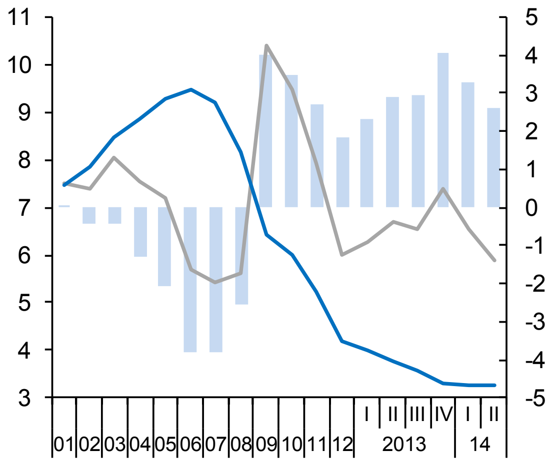
(a) Including change in net equity of households in pension funds reserves.

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



Saving rate (right) GDI (left)
Consumption (left)

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



Net lending (+) / borrowing (-) (right)
Saving rate (b) (left)
Investment rate (left)

(b) Including net capital transfers.

Table 7

National accounts: Non-financial corporations income and its disposition (ESA 2010, Base 2010)

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		542.0	343.0	199.1	-70.8	-10.6	41.9	75.8	9.9	188.5	-102.8	-9.5	36.7	34.8
2008		608.9	372.4	236.5	-79.7	-10.0	24.8	122.0	12.2	177.9	-43.7	-3.9	38.8	29.2
2009		584.9	366.0	218.9	-57.7	-12.3	18.5	130.4	11.9	129.8	12.5	1.2	37.4	22.2
2010		571.8	361.1	210.7	-50.4	-9.2	15.8	135.3	10.6	130.2	15.7	1.5	36.9	22.8
2011		573.5	354.7	218.8	-56.0	-7.5	15.7	139.6	10.5	130.4	19.7	1.8	38.1	22.7
2012		566.7	337.0	229.8	-53.5	-8.6	19.9	147.8	9.0	136.8	19.9	1.9	40.5	24.1
2013		554.1	330.6	223.5	-39.9	-8.9	17.7	157.0	7.2	135.1	29.1	2.8	40.3	24.4
2014		555.1	333.5	221.5	-39.1	-8.7	18.5	155.2	7.4	137.9	24.6	2.3	39.9	24.8
2015		570.5	345.4	225.1	-37.7	-9.0	20.8	157.6	7.4	144.8	20.1	1.9	39.5	25.4
2012	III	563.3	343.2	220.1	-57.8	-8.5	16.2	137.6	8.3	134.4	11.6	1.1	39.1	23.9
	IV	566.7	337.0	229.8	-53.5	-8.6	19.9	147.8	9.0	136.8	19.9	1.9	40.5	24.1
2013	I	564.0	333.3	230.6	-51.1	-8.6	19.5	151.4	9.4	136.0	24.9	2.4	40.9	24.1
	II	562.1	330.0	232.0	-46.5	-8.6	19.8	157.2	9.2	138.0	28.3	2.7	41.3	24.6
	III	561.2	328.8	232.5	-42.2	-8.5	18.5	163.3	8.6	138.3	33.7	3.2	41.4	24.6
	IV	554.1	330.6	223.5	-39.9	-8.9	17.7	157.0	7.2	135.1	29.1	2.8	40.3	24.4
2014	I	553.3	331.0	222.3	-38.9	-8.9	17.8	156.7	7.3	137.0	27.0	2.6	40.2	24.8
	II	554.2	332.8	221.4	-41.0	-8.6	18.8	153.0	7.1	134.0	26.1	2.5	40.0	24.2
Annual percentage changes, 4-quarter cumulated operations												**Difference from one year ago**		
2007		8.0	8.6	7.1	23.4	3.1	23.4	-10.1	11.9	10.1	--	-1.8	-0.3	0.7
2008		12.3	8.6	18.8	12.5	-5.9	-40.8	61.0	22.5	-5.6	--	5.6	2.1	-5.6
2009		-3.9	-1.7	-7.4	-27.6	23.0	-25.5	6.9	-2.3	-27.0	--	5.1	-1.4	-7.0
2010		-2.2	-1.3	-3.7	-12.6	-25.4	-14.3	3.8	-10.8	0.3	--	0.3	-0.6	0.6
2011		0.3	-1.8	3.8	11.2	-18.2	-0.9	3.1	-0.8	0.1	--	0.4	1.3	0.0
2012		-1.2	-5.0	5.0	-4.5	14.9	26.6	5.9	-14.2	4.9	--	0.1	2.4	1.4
2013		-2.2	-1.9	-2.7	-25.4	3.2	-11.0	6.2	-19.8	-1.2	--	0.9	-0.2	0.2
2014		0.2	0.9	-0.9	-1.9	-2.1	4.3	-1.1	2.0	2.1	--	-0.4	-0.4	0.5
2015		2.8	3.5	1.6	-3.6	3.0	12.8	1.5	0.0	5.0	--	-0.5	-0.4	0.5
2012	III	-2.1	-3.9	0.7	5.3	13.1	13.2	-2.9	-24.3	2.8	--	-1.0	1.1	1.1
	IV	-1.2	-5.0	5.0	-4.5	14.9	26.6	5.9	-14.2	4.9	--	0.1	2.4	1.4
2013	I	-1.1	-5.1	5.4	-10.5	16.9	23.5	9.2	3.2	3.9	--	0.8	2.5	1.2
	II	-0.7	-5.0	6.0	-18.7	20.7	18.4	13.9	-2.3	4.1	--	1.3	2.6	1.1
	III	-0.4	-4.2	5.6	-26.9	0.1	13.9	18.7	3.7	2.9	--	2.1	2.3	0.8
	IV	-2.2	-1.9	-2.7	-25.4	3.2	-11.0	6.2	-19.8	-1.2	--	0.9	-0.2	0.2
2014	I	-1.9	-0.7	-3.6	-24.0	2.7	-8.4	3.5	-22.5	0.8	--	0.2	-0.7	0.7
	II	-1.4	0.8	-4.6	-11.8	0.3	-5.0	-2.6	-22.9	-2.9	--	-0.2	-1.3	-0.4

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

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

EUR Billions, 4-quarter cummulated

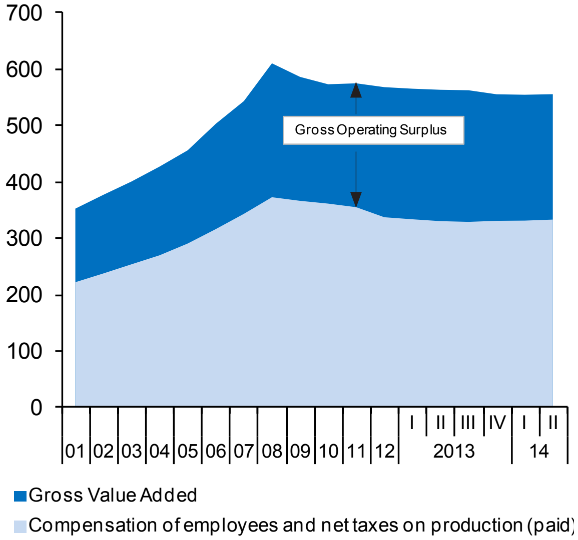


Chart 7.2.- Non-financial corporations: GVA, GOS and saving

Annual percentage change, 4-quarter moving averages

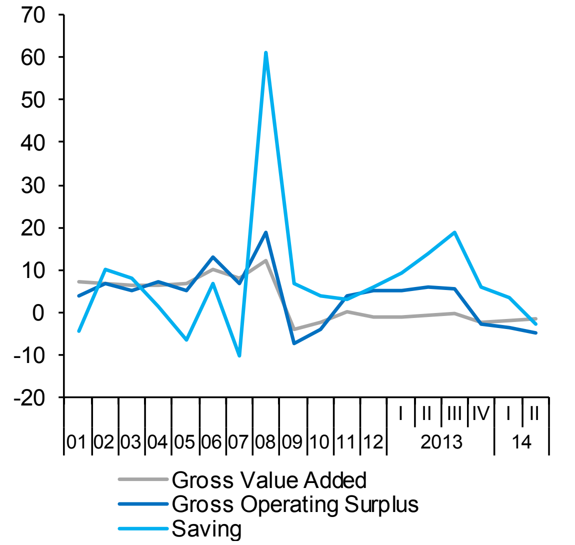
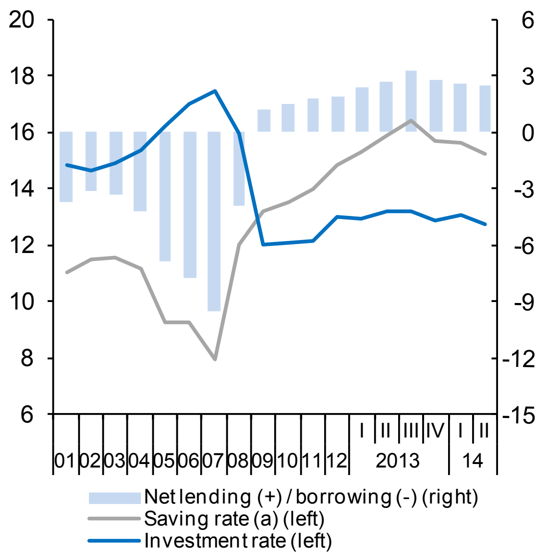


Chart 7.3.- Non-financial corporations: Saving, investment and deficit

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

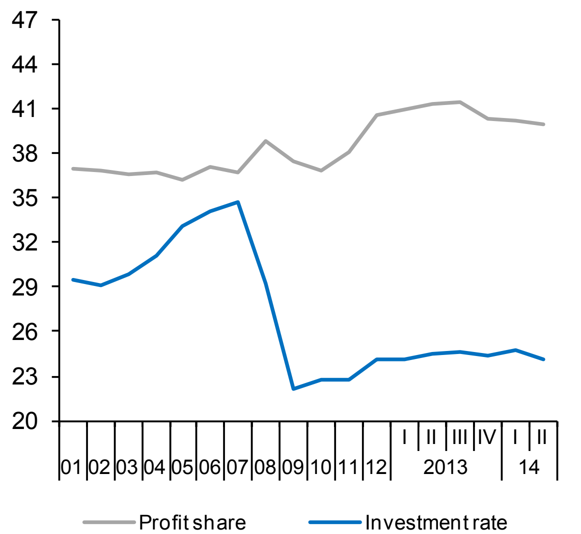


Table 8

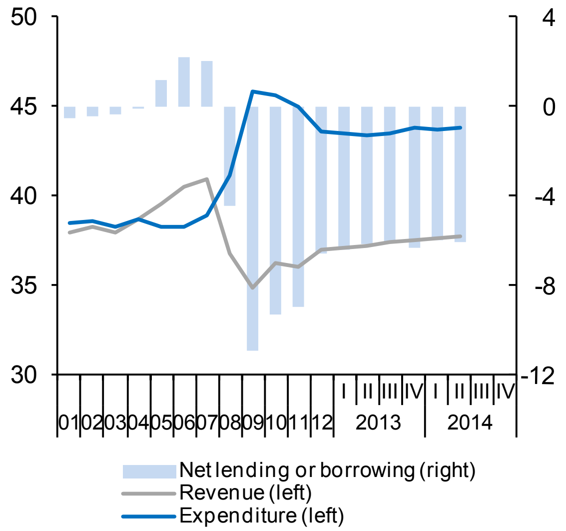
National accounts: Public revenue, expenditure and deficit (ESA 2010, Base 2010)

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	130.5	124.6	137.6	136.4	107.4	6.5	123.8	21.0	270.5	191.0	79.4	57.8	21.6	21.6
2008	142.8	108.1	116.6	142.0	118.1	5.9	137.1	24.7	223.8	209.5	14.3	63.6	-49.4	-49.4
2009	151.0	92.2	101.6	139.7	125.6	8.0	155.1	24.2	171.7	221.0	-49.3	68.9	-118.2	-118.2
2010	152.0	110.4	100.6	138.6	124.9	10.8	162.7	21.7	181.5	221.7	-40.2	61.3	-101.4	-101.1
2011	150.3	106.5	102.0	137.8	122.6	16.2	164.2	22.9	170.7	219.7	-49.0	52.3	-101.3	-96.1
2012	142.2	109.5	106.3	131.9	113.9	20.3	168.5	19.1	168.0	206.9	-38.9	70.0	-108.9	-69.8
2013	142.8	115.4	105.1	128.2	114.5	23.5	170.6	20.9	161.8	204.2	-42.5	28.8	-71.3	-66.4
2014	143.8	119.8	108.4	130.0	115.0	25.2	169.7	22.1	169.9	205.0	-35.1	23.2	-58.3	-58.3
2015	144.7	124.7	110.2	135.0	115.3	26.3	171.9	21.6	179.4	204.8	-25.4	23.9	-49.2	-49.2
2012 III	147.9	106.9	103.2	134.8	119.8	20.3	168.2	21.3	163.3	213.8	-50.5	49.6	-100.2	-85.1
IV	142.2	109.5	106.3	131.9	113.9	20.3	168.5	19.1	168.0	206.9	-38.9	70.0	-108.9	-69.8
2013 I	141.5	109.6	105.7	130.9	113.1	20.9	169.1	18.7	165.8	204.7	-38.9	66.6	-105.5	-67.4
II	139.8	111.9	105.2	129.2	111.5	22.0	170.4	19.0	163.4	202.5	-39.1	61.9	-101.1	-64.7
III	139.3	113.0	105.2	128.7	111.0	22.6	171.3	20.1	161.1	201.0	-39.9	57.8	-97.8	-63.8
IV	142.8	115.4	105.1	128.2	114.5	23.5	170.6	20.9	161.8	204.2	-42.5	28.8	-71.3	-66.4
2014 I	142.4	116.5	105.9	128.5	114.3	24.2	170.2	21.0	163.7	203.5	-39.9	28.1	-68.0	-63.1
II	142.2	117.5	106.1	128.5	114.3	24.3	169.8	22.5	163.5	204.3	-40.7	25.7	-66.4	-64.3
Percentage of GDP, 4-quarter cumulated operations														
2007	12.1	11.5	12.7	12.6	9.9	0.6	11.5	1.9	25.0	17.7	7.3	5.3	2.0	2.0
2008	12.8	9.7	10.4	12.7	10.6	0.5	12.3	2.2	20.0	18.8	1.3	5.7	-4.4	-4.4
2009	14.0	8.5	9.4	12.9	11.6	0.7	14.4	2.2	15.9	20.5	-4.6	6.4	-11.0	-11.0
2010	14.1	10.2	9.3	12.8	11.6	1.0	15.1	2.0	16.8	20.5	-3.7	5.7	-9.4	-9.3
2011	14.0	9.9	9.5	12.8	11.4	1.5	15.3	2.1	15.9	20.4	-4.6	4.9	-9.4	-8.9
2012	13.5	10.4	10.1	12.5	10.8	1.9	16.0	1.8	15.9	19.6	-3.7	6.6	-10.3	-6.6
2013	13.6	11.0	10.0	12.2	10.9	2.2	16.3	2.0	15.4	19.5	-4.0	2.7	-6.8	-6.3
2014	13.6	11.3	10.3	12.3	10.9	2.4	16.1	2.1	16.1	19.4	-3.3	2.2	-5.5	-5.5
2015	13.4	11.5	10.2	12.5	10.7	2.4	15.9	2.0	16.6	18.9	-2.3	2.2	-4.6	-4.6
2012 III	13.9	10.1	9.7	12.7	11.3	1.9	15.8	2.0	15.4	20.1	-4.8	4.7	-9.4	-8.0
IV	13.5	10.4	10.1	12.5	10.8	1.9	16.0	1.8	15.9	19.6	-3.7	6.6	-10.3	-6.6
2013 I	13.5	10.4	10.1	12.5	10.8	2.0	16.1	1.8	15.8	19.5	-3.7	6.3	-10.0	-6.4
II	13.3	10.7	10.0	12.3	10.6	2.1	16.2	1.8	15.6	19.3	-3.7	5.9	-9.6	-6.2
III	13.3	10.8	10.0	12.3	10.6	2.2	16.4	1.9	15.4	19.2	-3.8	5.5	-9.3	-6.1
IV	13.6	11.0	10.0	12.2	10.9	2.2	16.3	2.0	15.4	19.5	-4.0	2.7	-6.8	-6.3
2014 I	13.6	11.1	10.1	12.2	10.9	2.3	16.2	2.0	15.6	19.4	-3.8	2.7	-6.5	-6.0
II	13.5	11.2	10.1	12.2	10.9	2.3	16.1	2.1	15.6	19.4	-3.9	2.4	-6.3	-6.1

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

Chart 8.1.- Public sector: Revenue, expenditure and deficit (a)
Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.

Chart 8.2.- Public sector: Main revenues
Percentage of GDP, 4-quarter moving averages

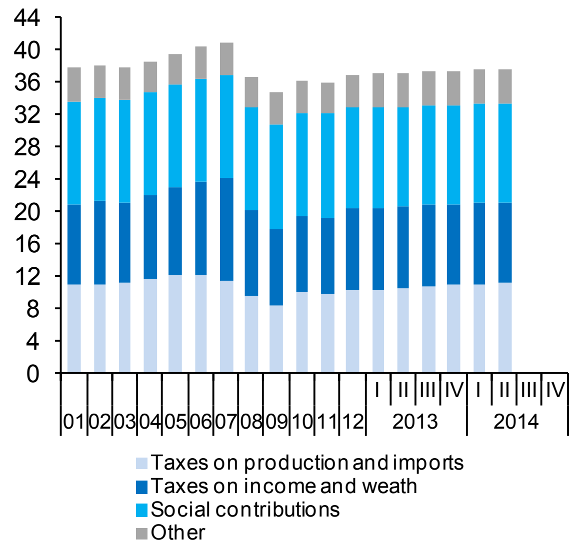


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

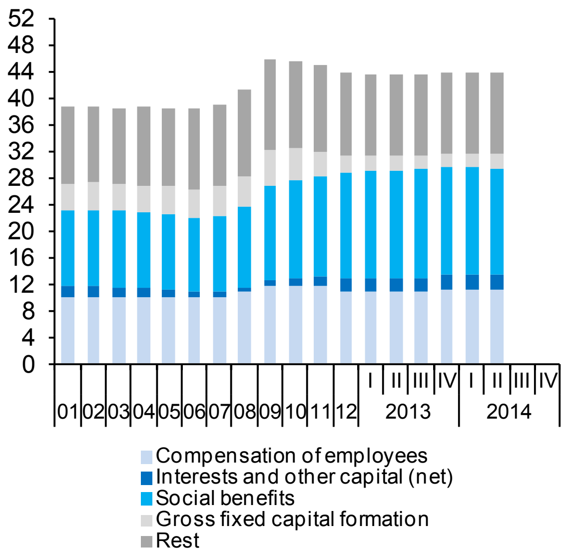
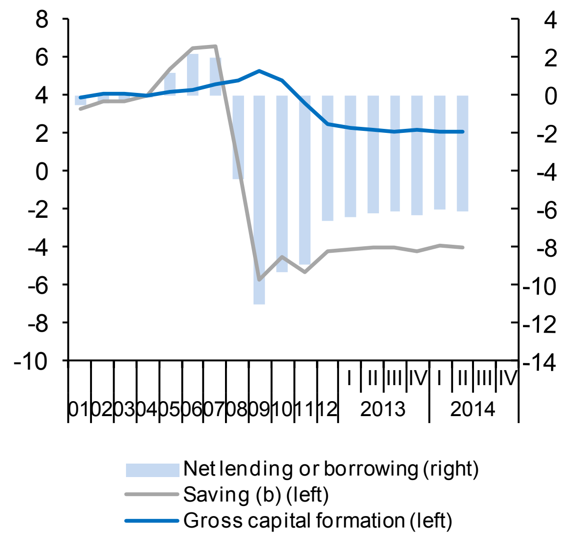


Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages



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

Table 9
Public sector balances, by level of Government
Forecasts in blue

		Deficit					Debt				
		Central Government (a)	Regional Governments	Local Governments	Social Security	TOTAL Government (a)	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					**EUR Billions, end of period**				
2007		13.9	-2.6	-3.3	13.7	21.6	318.9	61.1	29.4	17.2	383.8
2008		-32.3	-19.1	-5.4	7.4	-49.4	368.9	73.6	31.8	17.2	439.8
2009		-98.4	-21.7	-5.9	7.8	-118.2	487.7	92.4	34.7	17.2	568.7
2010		-51.4	-40.2	-7.1	-2.4	-101.1	551.6	123.4	35.5	17.2	649.3
2011		-31.7	-54.8	-8.5	-1.1	-96.1	624.2	145.1	36.8	17.2	743.5
2012		-43.5	-19.4	3.3	-10.2	-69.8	762.1	188.4	44.0	17.2	891.0
2013		-44.3	-15.9	5.5	-11.6	-66.4	838.1	209.8	42.1	17.2	966.2
2014		-34.0	-13.7	3.2	-13.7	-58.3	--	--	--	--	1,031.0
2015		-25.4	-10.9	2.2	-15.2	-49.2	--	--	--	--	1,095.9
2012	III	-32.5	-43.6	-4.9	-4.0	-85.1	697.5	171.3	45.2	17.2	824.3
	IV	-43.5	-19.4	3.3	-10.2	-69.8	762.1	188.4	44.0	17.2	891.0
2013	I	-39.8	-20.2	4.1	-11.5	-67.4	799.1	193.5	45.0	17.2	930.4
	II	-38.8	-18.8	4.6	-11.7	-64.7	820.8	197.2	44.5	17.2	950.4
	III	-40.6	-16.5	4.9	-11.6	-63.8	833.6	199.7	43.1	17.2	961.2
	IV	-44.3	-15.9	5.5	-11.6	-66.4	838.1	209.8	42.1	17.2	966.2
2014	I	-42.0	-16.9	6.7	-10.8	-63.1	866.1	225.0	41.9	17.2	995.8
	II	-36.8	-18.6	5.1	-14.0	-64.3	885.2	228.2	42.0	17.2	1,012.6
		Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
2007		1.3	-0.2	-0.3	1.3	2.0	29.5	5.7	2.7	1.6	35.5
2008		-2.9	-1.7	-0.5	0.7	-4.4	33.0	6.6	2.8	1.5	39.4
2009		-9.1	-2.0	-0.5	0.7	-11.0	45.2	8.6	3.2	1.6	52.7
2010		-4.8	-3.7	-0.7	-0.2	-9.3	51.0	11.4	3.3	1.6	60.1
2011		-3.0	-5.1	-0.8	-0.1	-8.9	58.1	13.5	3.4	1.6	69.2
2012		-4.1	-1.8	0.3	-1.0	-6.6	72.2	17.9	4.2	1.6	84.4
2013		-4.2	-1.5	0.5	-1.1	-6.3	79.9	20.0	4.0	1.6	92.1
2014		-3.2	-1.3	0.3	-1.3	-5.5	--	--	--	--	97.5
2015		-2.3	-1.0	0.2	-1.4	-4.6	--	--	--	--	101.3
2012	III	-3.1	-4.1	-0.5	-0.4	-8.0	65.7	16.1	4.3	1.6	77.6
	IV	-4.1	-1.8	0.3	-1.0	-6.6	72.2	17.9	4.2	1.6	84.4
2013	I	-3.8	-1.9	0.4	-1.1	-6.4	76.0	18.4	4.3	1.6	88.5
	II	-3.7	-1.8	0.4	-1.1	-6.2	78.3	18.8	4.2	1.6	90.6
	III	-3.9	-1.6	0.5	-1.1	-6.1	79.6	19.1	4.1	1.6	91.8
	IV	-4.2	-1.5	0.5	-1.1	-6.3	79.9	20.0	4.0	1.6	92.1
2014	I	-4.0	-1.6	0.6	-1.0	-6.0	82.5	21.4	4.0	1.6	94.9
	II	-3.5	-1.8	0.5	-1.3	-6.1	84.2	21.7	4.0	1.6	96.3

(a) Excluding financial entities bail-out expenditures.

Sources: Bank of Spain (Financial Accounts of the Spanish Economy) and FUNCAS (Forecasts).

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

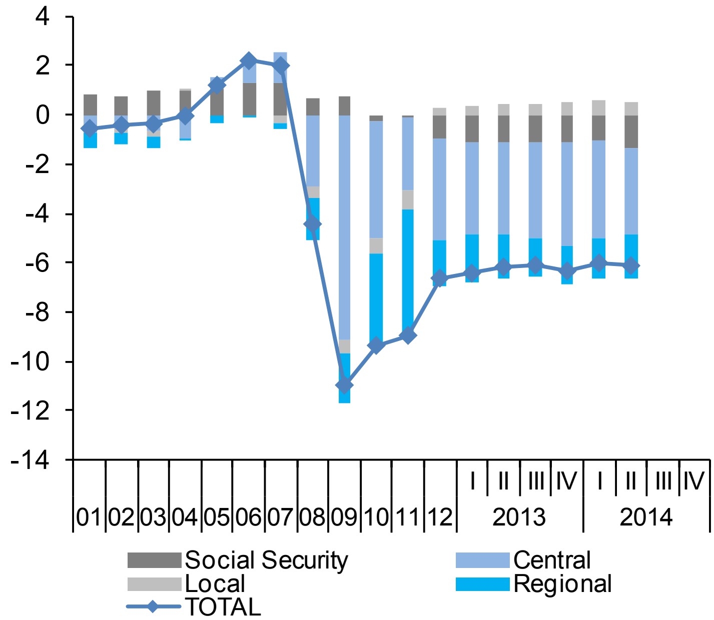


Chart 9.2.- Government debt
Percent of GDP

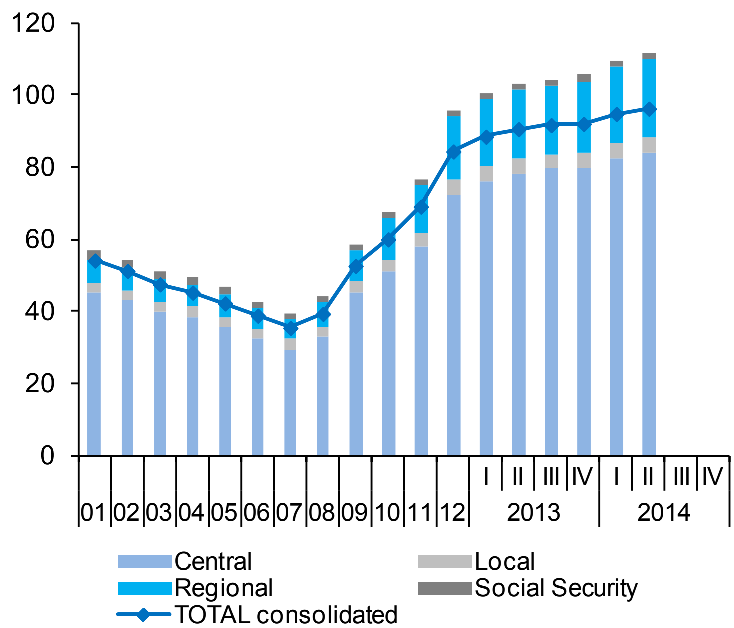


Table 10

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	**Index**	**Thousands**	**1000 GWH**	**2010=100**	**Thousands**	**Index**	**Balance of responses**	**2010=100 (smoothed)**	**Balance of responses**
2008		87.5	38.5	18,834	269.5	117.8	2,696	40.4	-18.0	120.4	-24.0
2009		83.6	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	97.1	-54.5
2010		93.8	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.9
2011		93.7	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	100.3	-30.7
2012		89.2	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	95.6	-36.9
2013		93.2	48.3	15,855	250.0	90.5	2,022	48.5	-13.9	92.3	-30.6
2014 (b)		102.5	55.3	16,075	205.7	91.8	2,020	53.0	-7.5	93.8	-17.1
2013	I	89.2	45.5	15,906	62.6	90.2	2,042	45.7	-15.9	93.1	-35.3
	II	91.0	46.4	15,829	62.4	90.0	2,022	47.6	-15.4	92.5	-32.2
	III	95.3	49.7	15,814	62.2	91.0	2,013	50.5	-12.8	92.4	-27.9
	IV	97.3	51.6	15,882	62.8	91.0	2,012	50.1	-11.6	92.9	-26.9
2014	I	101.0	54.3	15,965	62.4	91.6	2,016	52.5	-9.1	93.6	-20.7
	II	102.5	55.7	16,064	62.8	92.2	2,021	53.4	-8.2	94.2	-17.5
	III	103.7	56.0	16,143	62.4	91.7	2,024	53.1	-5.7	94.5	-14.1
	IV (b)	102.9	55.5	16,195	20.7	--	2,024	52.6	-6.0	--	-13.7
2014	Aug	103.5	56.9	16,141	20.8	91.5	2,024	52.8	-5.7	94.5	-13.3
	Sep	104.0	55.3	16,171	20.9	92.0	2,024	52.6	-5.7	94.5	-13.8
	Oct	103.3	55.5	16,195	20.7	--	2,024	52.6	-6.0	--	-13.7
Percentage changes (c)											
2008		--	--	-0.6	0.7	-7.6	-2.2	--	--	-8.2	--
2009		--	--	-6.2	-4.7	-15.8	-10.6	--	--	-19.3	--
2010		--	--	-2.3	2.7	0.8	-4.8	--	--	2.9	--
2011		--	--	-1.6	-0.9	-1.6	-2.7	--	--	0.4	--
2012		--	--	-3.7	-2.2	-6.7	-5.3	--	--	-4.8	--
2013		--	--	-2.9	-2.2	-1.5	-4.4	--	--	-3.4	--
2014 (d)		--	--	1.4	0.1	1.6	-0.1	--	--	1.9	--
2013	I	--	--	-3.5	-1.6	1.8	-4.5	--	--	-4.8	--
	II	--	--	-1.9	-1.1	-0.9	-3.9	--	--	-2.6	--
	III	--	--	-0.4	-1.0	4.5	-1.8	--	--	-0.1	--
	IV	--	--	1.7	3.7	0.0	-0.1	--	--	1.9	--
2014	I	--	--	2.1	-2.9	2.5	0.7	--	--	3.3	--
	II	--	--	2.5	3.0	2.6	1.1	--	--	2.6	--
	III	--	--	2.0	-2.5	-2.1	0.6	--	--	1.1	--
	IV (e)	--	--	1.3	-2.9	--	0.0	--	--	--	--
2014	Aug	--	--	0.2	0.4	0.0	0.0	--	--	0.1	--
	Sep	--	--	0.2	0.6	0.5	0.0	--	--	0.0	--
	Oct	--	--	0.1	-1.3	--	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-profesional caregivers.

Sources: European Commission, Markit Economics Ltd., M. of Labour, M. of Industry, National Statistics Institute, REE and FUNCAS.

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

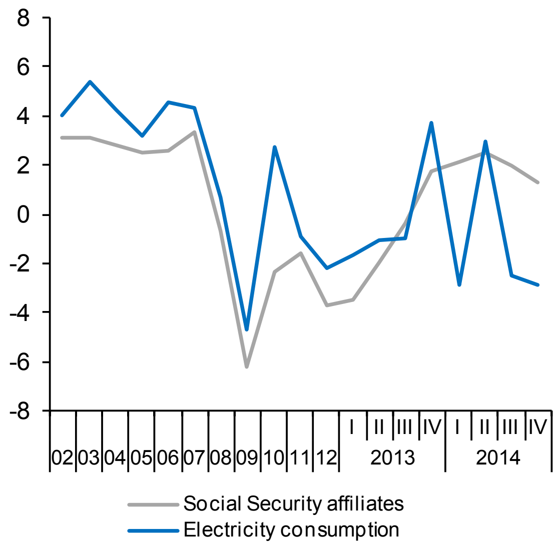


Chart 10.2.- General activity indicators (II)
Index

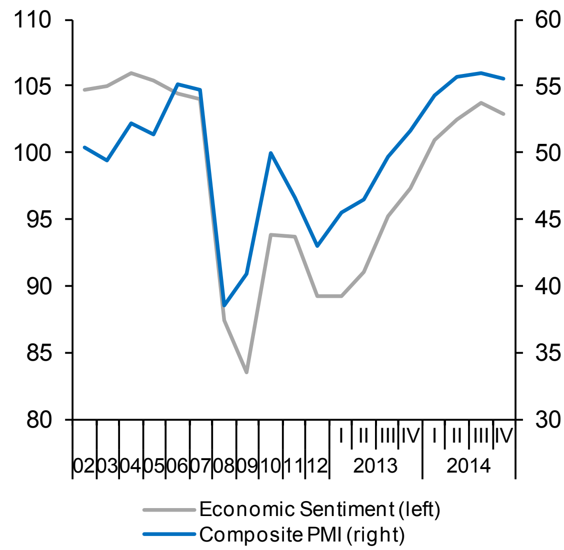


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

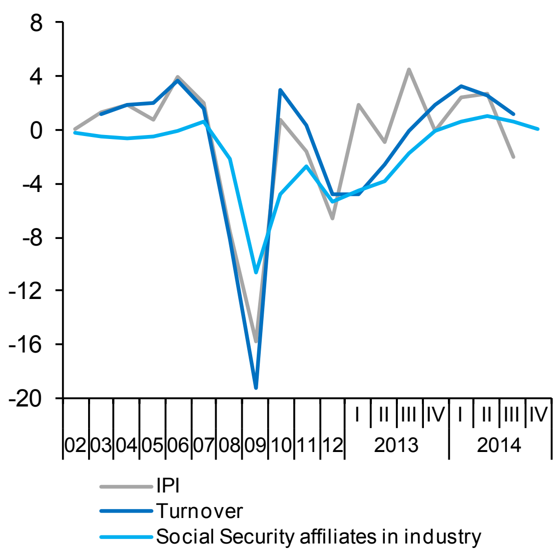


Chart 10.4.- Industrial sector indicators (II)
Index

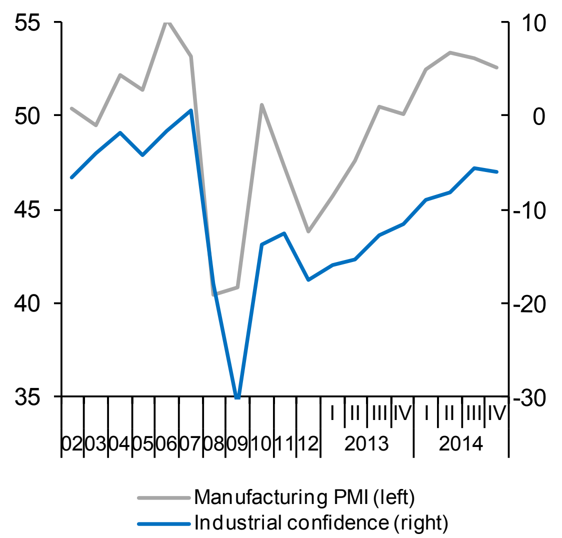


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security affiliates in construction	Consumption of cement	Industrial production index construction materials	Construction confidence 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 responses**	**EUR Billions**	**Million m²**	**Thousands**	**2010=100 (smoothed)**	**Index**	**Million (smoothed)**	**Million (smoothed)**	**Balance of responses**
2008	2,340	42.7	154.7	-23.8	39.8	44.9	12,644	114.6	38.2	268.6	202.3	-18.8
2009	1,800	28.9	115.9	-32.3	39.6	19.4	12,247	99.2	41.0	253.2	186.3	-29.7
2010	1,559	24.5	100.0	-29.7	26.2	16.3	12,186	100.0	49.3	269.4	191.7	-22.4
2011	1,369	20.4	91.6	-55.4	13.7	14.1	12,176	98.9	46.5	286.8	203.3	-20.8
2012	1,136	13.6	66.8	-54.9	7.4	8.5	11,907	92.8	43.1	280.7	193.2	-21.5
2013	997	10.8	63.1	-55.6	9.2	6.8	11,728	91.0	48.3	286.0	186.5	-15.3
2014 (b)	976	8.1	63.0	-44.9	10.3	4.9	11,969	91.9	55.6	239.1	152.6	8.5
2013 I	1,028	2.8	62.3	-46.7	1.6	2.0	11,717	90.4	45.7	69.0	46.0	-26.8
II	998	2.7	63.1	-57.8	2.1	1.7	11,695	90.6	46.5	70.2	46.1	-21.0
III	985	2.6	63.9	-60.6	2.5	1.6	11,720	91.1	49.3	71.5	46.5	-10.2
IV	977	2.7	63.9	-57.4	2.9	1.6	11,782	91.6	51.8	72.2	46.9	-3.1
2014 I	973	2.6	63.8	-52.3	3.7	1.7	11,861	92.1	54.2	72.5	47.5	7.5
II	976	2.7	62.6	-55.8	3.2	1.8	11,955	93.0	55.7	72.8	48.2	9.1
III	980	2.7	60.4	-35.0	3.4	1.3	12,032	93.9	56.7	73.2	49.0	8.8
IV (b)	984	--	--	-19.6	--	--	12,079	--	55.9	--	--	8.5
2014 Aug	980	0.9	60.4	-33.5	0.8	0.4	12,032	93.9	58.1	24.4	16.3	6.4
Sep	981	0.9	59.7	-31.5	1.1	--	12,055	94.2	55.8	24.5	16.4	13.1
Oct	984	--	--	-19.6	--	--	12,079	--	55.9	--	--	8.5
	Percentage changes (c)											
2008	-10.0	-23.8	-17.8	--	-1.3	-56.6	1.5	-3.6	--	-1.2	-3.0	--
2009	-23.1	-32.3	-25.1	--	-0.4	-56.8	-3.1	-13.4	--	-5.7	-7.9	--
2010	-13.4	-15.4	-13.7	--	-33.9	-16.1	-0.5	0.8	--	6.4	2.9	--
2011	-12.2	-16.4	-8.4	--	-47.9	-13.2	-0.1	-1.1	--	6.4	6.0	--
2012	-17.0	-33.6	-27.0	--	-45.5	-39.9	-2.2	-6.2	--	-2.1	-5.0	--
2013	-12.2	-20.4	-5.7	--	23.3	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014 (d)	-2.4	-1.1	-1.1	--	63.7	3.1	2.1	2.4	--	2.9	4.6	--
2013 I	-12.3	-24.0	-3.6	--	-8.6	-27.7	-1.7	-2.2	--	2.0	-4.8	--
II	-10.9	-11.0	5.2	--	-12.0	-23.5	-0.8	0.8	--	7.5	0.8	--
III	-5.3	-8.4	5.0	--	48.3	-16.8	0.8	2.2	--	7.2	3.3	--
IV	-3.1	9.2	0.6	--	87.1	-8.3	2.2	1.9	--	4.4	4.1	--
2014 I	-2.0	-13.5	-0.7	--	130.7	-12.6	2.7	2.6	--	1.7	5.0	--
II	1.4	13.5	-7.4	--	49.0	11.2	3.2	3.6	--	1.3	6.0	--
III	1.5	3.0	-13.3	--	34.1	19.6	2.6	4.0	--	2.4	6.3	--
IV (e)	1.7	--	--	--	--	--	1.6	--	--	--	--	--
2014 Aug	0.2	-5.5	-1.2	--	12.2	21.9	0.2	0.3	--	0.2	0.5	--
Sep	0.1	2.0	-1.2	--	129.5	--	0.2	0.3	--	0.3	0.5	--
Oct	0.3	--	--	--	--	--	0.2	--	--	--	--	--

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

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

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

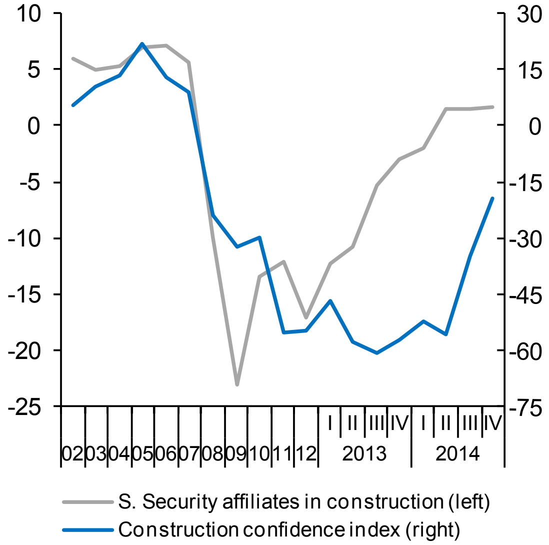


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

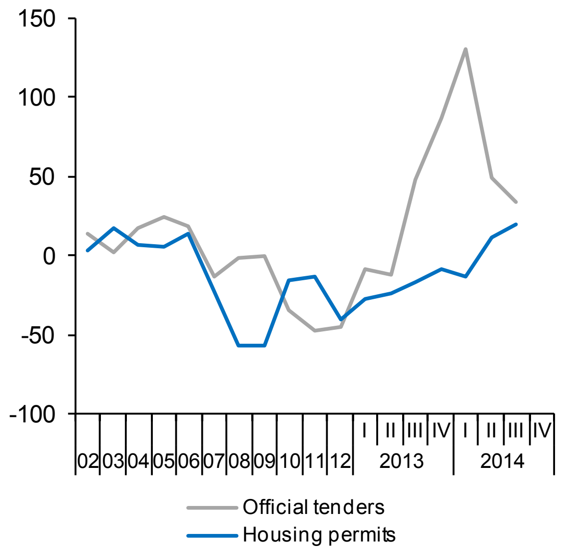


Chart 11.3.- Services indicators (I)
Percentage changes from previous period

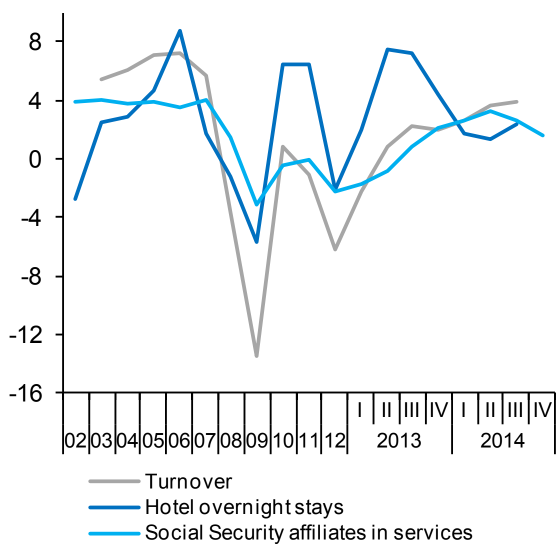


Chart 11.4.- Services indicators (II)
Index

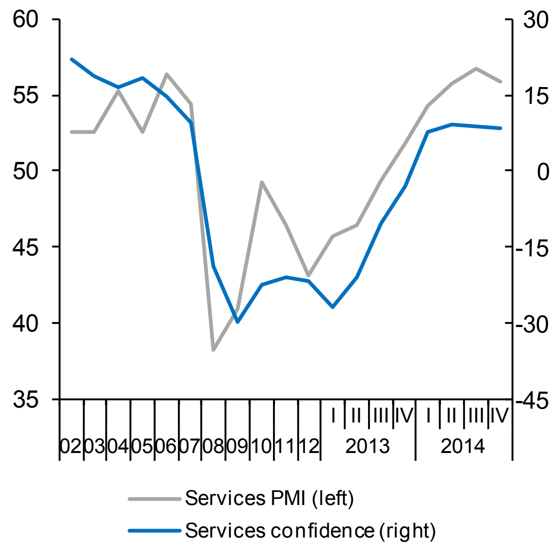


Table 12

Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Import of capital goods (volume)
	2010=100 (smoothed)	**Thousands (smoothed)**	**Balance of responses**	**Million (smoothed)**	**Balance of responses**	**Thousands (smoothed)**	**Balance of responses**	**2005=100 (smoothed)**
2008	107.5	1,185.3	-33.8	113.2	-21.0	236.9	-4.5	90.4
2009	101.8	971.2	-28.3	110.1	-40.2	142.1	-50.8	66.6
2010	100.0	1,000.1	-20.9	113.6	-26.7	152.1	-31.1	70.9
2011	94.4	808.3	-17.1	111.5	-21.7	142.0	-23.0	68.7
2012	87.4	710.6	-31.7	102.1	-24.2	107.7	-38.6	61.3
2013	84.0	740.0	-25.3	100.6	-21.8	107.3	-33.5	70.0
2014 (b)	83.3	734.0	-8.8	84.0	-8.7	110.7	-16.9	77.6
2013 I	83.7	172.5	-32.6	24.4	-21.8	24.5	-38.5	64.8
II	83.9	178.9	-28.7	24.7	-24.5	25.7	-33.1	68.7
III	84.1	184.2	-20.5	25.0	-21.0	27.5	-26.8	72.3
IV	83.9	191.7	-19.4	25.2	-20.1	29.3	-35.7	76.0
2014 I	83.9	202.5	-11.8	25.4	-11.5	31.2	-20.1	80.5
II	84.5	213.0	-6.1	25.7	-8.0	32.7	-16.9	83.4
III	85.2	221.9	-7.9	26.1	-7.3	34.1	-15.8	83.4
IV (b)	--	76.5	-10.0	--	-6.3	11.8	-10.5	--
2014 Aug	85.2	73.9	-6.4	8.7	-5.9	11.4	-10.5	83.3
Sep	85.5	75.1	-9.6	8.7	-4.8	11.6	-20.2	--
Oct	--	76.5	-10.0	--	-6.3	11.8	-10.5	--
				Percentage changes (c)				
2008	-6.0	-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)	0.3	17.9	--	3.5	--	26.7	--	22.2
2013 I	-3.2	13.1	--	0.3	--	-0.6	--	19.5
II	0.9	15.6	--	5.2	--	21.7	--	26.1
III	0.8	12.5	--	4.8	--	31.6	--	23.2
IV	-0.8	17.2	--	3.4	--	29.4	--	22.0
2014 I	0.2	24.5	--	2.8	--	27.3	--	25.6
II	2.4	22.3	--	4.9	--	21.8	--	15.2
III	3.6	17.9	--	6.0	--	18.0	--	0.3
IV (e)	--	14.3	--	--	--	14.0	--	--
2014 Aug	0.3	1.5	--	0.5	--	1.5	--	-0.4
Sep	0.3	1.7	--	0.5	--	1.6	--	--
Oct	--	1.8	--	--	--	1.7	--	--

(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

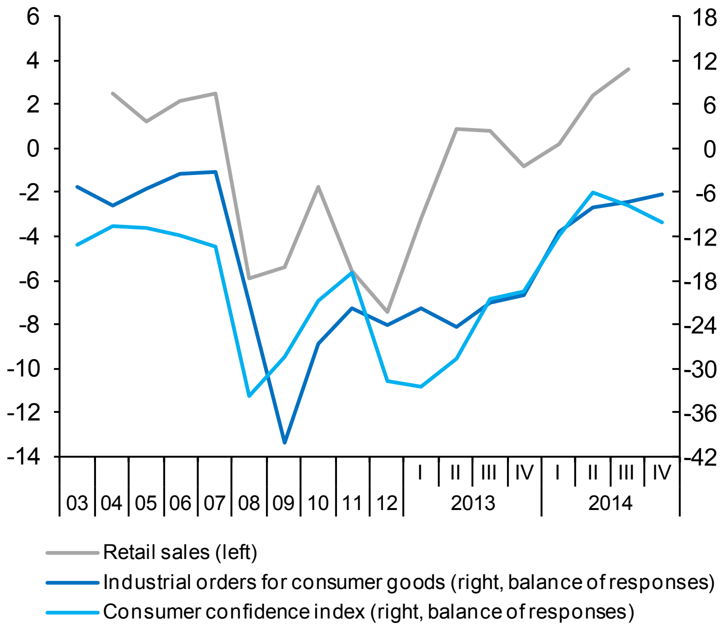


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

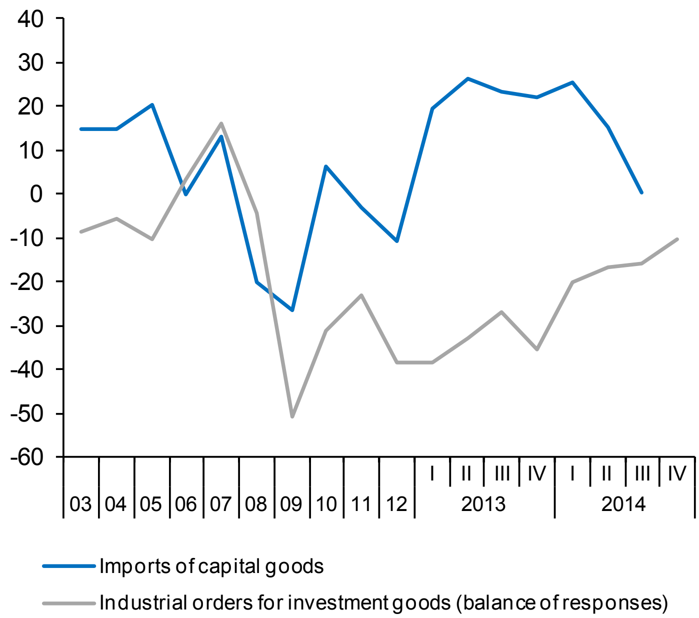


Table 13a

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	IV	30.8	23.4	23.4	17.3	17.3	6.0	6.0	75.2	55.7	25.8	54.8	24.0	36.7
2013	I	30.8	23.3	23.4	17.0	17.2	6.3	6.1	75.5	55.5	26.3	55.8	24.5	37.4
	II	30.7	23.2	23.2	17.2	17.1	6.0	6.0	75.0	55.4	26.1	55.3	24.6	36.0
	III	30.5	23.2	23.1	17.2	17.1	5.9	6.0	75.2	55.5	26.0	55.6	24.3	37.6
	IV	30.4	23.1	23.1	17.1	17.1	5.9	5.9	75.3	55.9	25.7	54.8	24.1	36.6
2014	I	30.3	22.9	22.9	17.0	17.2	5.9	5.8	75.2	56.1	25.2	54.0	23.7	35.8
	II	30.3	23.0	22.9	17.4	17.3	5.6	5.6	75.1	56.6	24.5	52.8	23.1	34.5
	III	30.3	22.9	22.9	17.5	17.4	5.4	5.5	75.0	56.9	24.1	53.9	22.7	33.9
		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	IV	-0.7	-0.3	-1.2	-4.5	-4.5	13.9	8.8	0.3	-2.2	3.2	6.5	3.5	2.0
2013	I	-0.8	-0.5	-0.2	-4.1	-2.8	10.8	7.5	0.3	-1.9	2.7	5.3	2.9	2.2
	II	-1.0	-1.2	-3.3	-3.4	-2.2	5.5	-6.3	-0.1	-1.4	1.7	2.9	2.1	0.2
	III	-1.2	-1.4	-0.8	-2.5	-0.5	2.0	-1.4	-0.1	-0.7	0.9	2.2	0.8	1.9
	IV	-1.3	-1.2	-0.8	-1.2	0.8	-1.4	-5.3	0.1	0.1	-0.1	0.0	0.1	-0.1
2014	I	-1.3	-1.8	-2.2	-0.5	0.4	-5.5	-9.4	-0.3	0.6	-1.0	-1.8	-0.8	-1.6
	II	-1.0	-1.0	-0.3	1.1	3.6	-7.0	-11.1	0.1	1.2	-1.5	-2.5	-1.4	-1.6
	III	-0.8	-1.0	-1.0	1.6	1.4	-8.7	-8.2	-0.2	1.3	-2.0	-1.7	-1.6	-3.7

(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

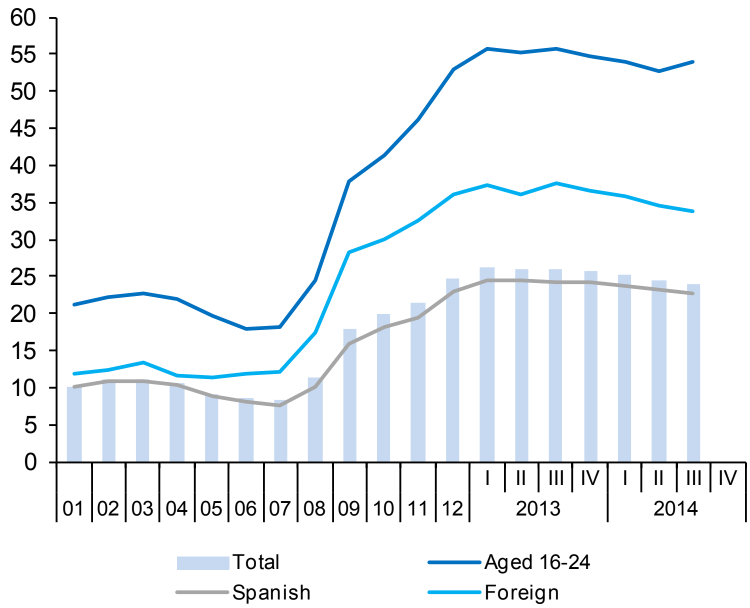


Table 13b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees				Self- employed	Full-time	Part-time	Part-time employment rate (b)
						Total	By type of contract						
		Agriculture	Industry	Construction	Services		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	11.6
2008		0.83	3.24	2.46	13.94	16.86	4.91	11.95	29.1	3.61	18.06	2.41	11.8
2009		0.79	2.81	1.89	13.62	15.88	4.00	11.88	25.2	3.23	16.71	2.40	12.5
2010		0.79	2.65	1.65	13.64	15.59	3.86	11.73	24.7	3.13	16.29	2.44	13.0
2011		0.76	2.60	1.40	13.66	15.39	3.87	11.52	25.1	3.03	15.92	2.50	13.6
2012		0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.5
2013		0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.8
2014 (c)		0.74	2.36	0.98	13.19	14.22	3.40	10.82	23.9	3.05	14.53	2.74	15.9
2012	IV	0.77	2.44	1.09	13.04	14.29	3.26	11.03	22.8	3.05	14.72	2.62	15.1
2013	I	0.72	2.38	1.07	12.87	13.99	3.07	10.92	21.9	3.04	14.34	2.69	15.8
	II	0.75	2.36	1.03	13.02	14.07	3.22	10.85	22.9	3.09	14.39	2.77	16.1
	III	0.70	2.35	1.03	13.16	14.12	3.40	10.73	24.1	3.11	14.62	2.61	15.2
	IV	0.78	2.34	0.99	13.03	14.09	3.33	10.76	23.7	3.04	14.38	2.75	16.1
2014	I	0.81	2.30	0.94	12.90	13.93	3.22	10.71	23.1	3.02	14.20	2.75	16.2
	II	0.74	2.36	0.98	13.28	14.32	3.43	10.89	24.0	3.04	14.51	2.84	16.4
	III	0.67	2.43	1.02	13.39	14.41	3.55	10.86	24.6	3.09	14.88	2.62	15.0
		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)		2.1	0.0	-5.9	1.3	1.1	5.3	-0.1	0.9	-1.0	0.6	1.7	0.2
2012	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
	III	-4.8	3.5	-0.5	1.8	2.0	4.6	1.3	0.6	-0.5	1.8	0.4	-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

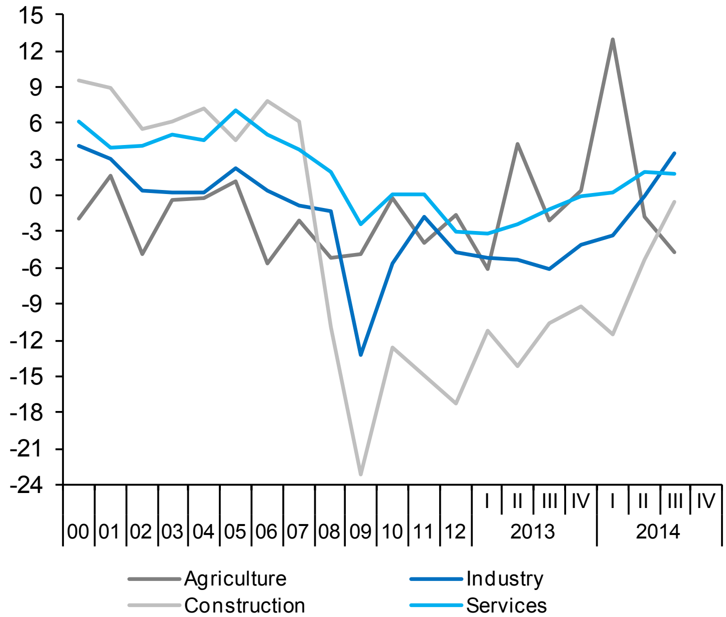


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

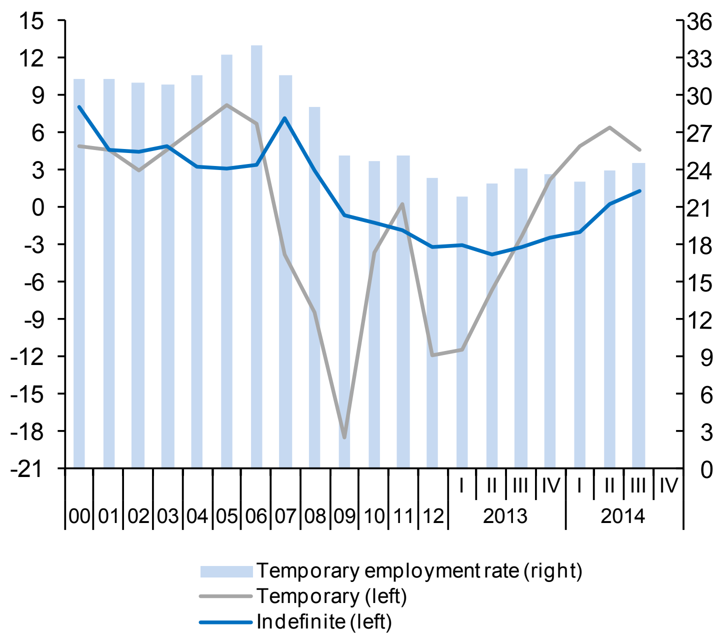


Table 14

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		103.8	102.3	103.1	101.0	103.1	106.7	104.8	108.5	106.1
2015		103.9	102.5	103.5	101.1	103.4	108.2	107.8	104.9	108.1
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		-0.1	0.0	0.0	-0.4	0.1	0.4	-1.0	-0.4	0.0
2015		0.1	0.2	0.4	0.0	0.3	1.4	2.8	-3.3	1.9
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	-0.1	-0.3	0.1	-0.2	-1.5	0.0	-0.6
	Oct	-0.1	0.0	-0.1	-0.3	0.1	-0.2	1.7	-1.1	0.4
	Nov	-0.2	0.0	0.0	-0.3	0.1	-0.1	1.8	-2.5	0.5
	Dec	-0.3	0.0	0.0	-0.3	0.2	0.1	1.7	-3.9	0.6
2015	Jan	-0.3	0.1	0.2	-0.2	0.3	0.3	1.4	-4.1	0.7
	Feb	-0.2	0.1	0.2	-0.1	0.3	0.6	1.1	-4.0	0.8
	Mar	-0.1	0.1	0.2	-0.1	0.3	0.8	2.5	-3.6	1.4
	Apr	-0.1	0.1	0.3	-0.1	0.2	1.2	2.7	-4.0	1.6
	May	0.0	0.2	0.4	0.0	0.3	1.4	3.4	-4.1	2.0
	Jun	0.1	0.2	0.4	0.0	0.3	1.7	3.5	-4.0	2.3
	Jul	0.2	0.2	0.5	0.1	0.3	1.7	3.8	-3.7	2.4
	Aug	0.3	0.2	0.5	0.0	0.4	1.9	3.7	-3.6	2.5
	Sep	0.1	0.3	0.6	0.1	0.4	1.9	3.8	-4.8	2.5
	Oct	0.3	0.3	0.6	0.1	0.4	1.9	2.4	-3.0	2.1
	Nov	0.6	0.3	0.6	0.1	0.4	1.8	2.7	-0.8	2.1
	Dec	0.7	0.3	0.6	0.1	0.5	1.8	2.6	0.0	2.0

Sources: INE and FUNCAS (Forecasts).

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

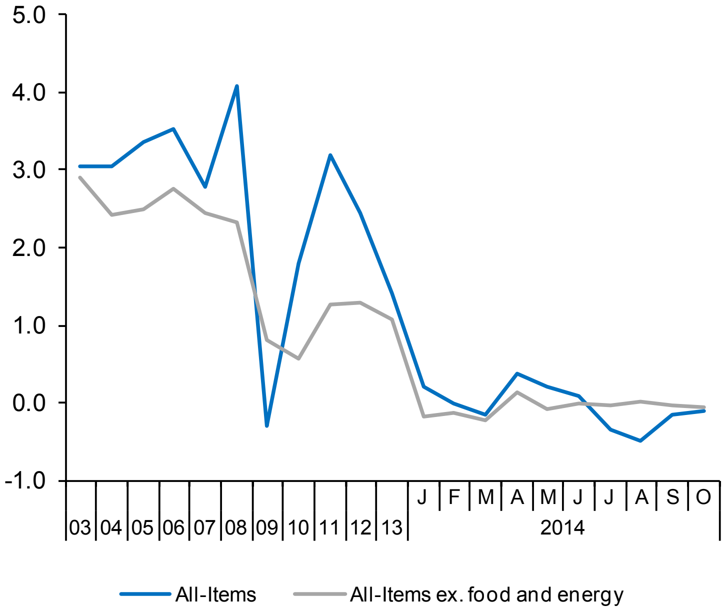


Chart 14.2.- Inflation rate (II)
Annual percentage changes

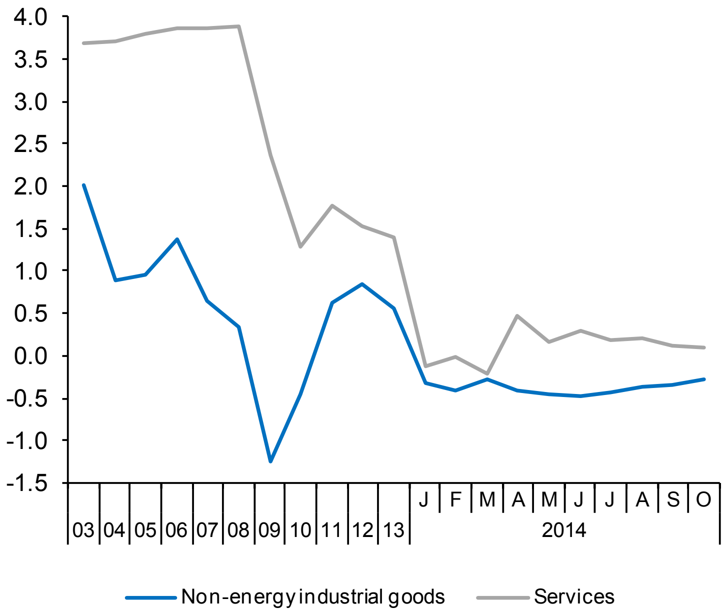


Table 15

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	M^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2000=100	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	110.7	105.9	64.2	71.0	53.7	142.9	139.9	152.0	150.4	--
2012	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	135.9	110.6	105.8	64.7	71.0	52.5	145.9	144.5	150.2	153.8	--
	III (b)	--	111.7	106.0	--	--	--	--	--	--	--	--
2014	Jul	--	111.6	106.0	--	--	--	--	--	--	--	--
	Ago	--	111.4	106.0	--	--	--	--	--	--	--	--
	Sep	--	112.0	106.0	--	--	--	--	--	--	--	--
Annual percent changes												
2008		2.4	6.5	4.5	-1.5	0.7	-8.9	4.8	5.1	4.0	5.2	3.6
2009		0.1	-3.4	-2.3	-6.7	-7.4	-5.8	3.5	3.2	4.3	5.1	2.3
2010		0.1	3.7	1.8	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.9	1.5
2011		0.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.1
2012		0.0	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.3
2013		0.6	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.6
2014 (c)		-0.5	-0.9	-1.0	-0.4	-3.3	-9.7	-0.2	-0.1	-0.4	0.6	0.5
2012	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	-0.4	-0.1	-1.0	0.8	-2.9	-9.3	0.0	0.1	-0.3	0.8	0.5
	III (c)	--	-0.5	-0.4	--	--	--	--	--	--	--	0.6
2014	Jul	--	-0.5	-0.5	--	--	--	--	--	--	--	0.6
	Ago	--	-0.6	-0.4	--	--	--	--	--	--	--	0.6
	Sep	--	-0.3	-0.4	--	--	--	--	--	--	--	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)

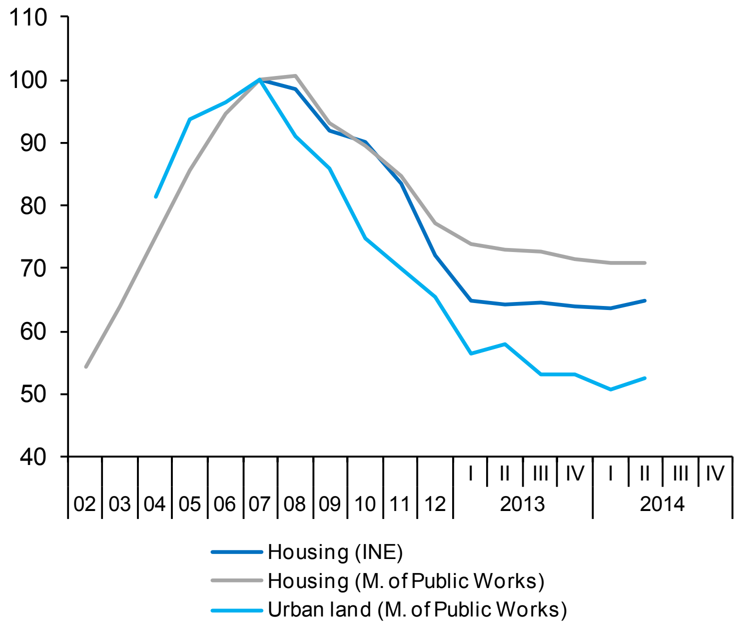


Chart 15.2.- Wage costs
Annual percent change

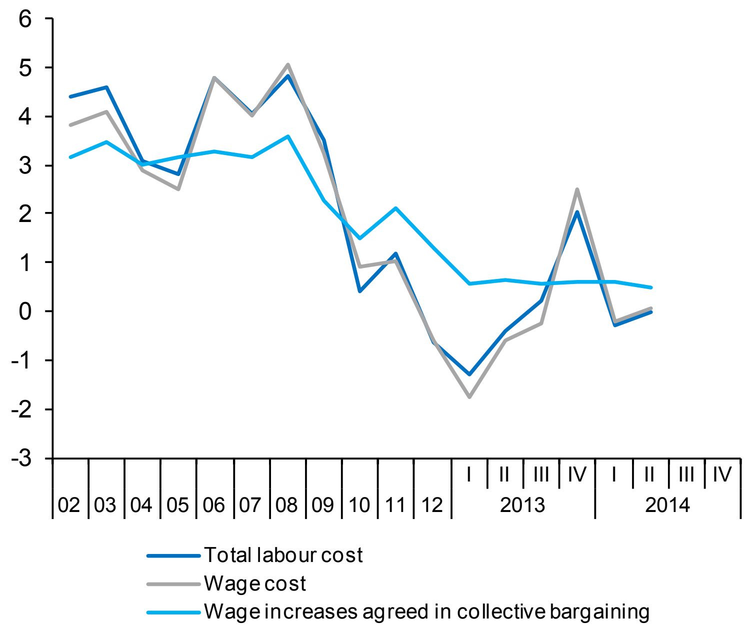


Table 16

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)	157.2	108.7	142.6	173.7	106.4	107.4	99.8	57.4	-16.5	10.9	7.4
2012	IV	58.6	112.5	134.8	61.1	114.5	92.2	35.6	22.9	-2.5	7.8	4.7
2013	I	57.1	108.9	135.6	61.4	111.1	95.4	35.0	22.1	-4.3	7.1	4.2
	II	61.6	109.8	145.2	63.4	107.0	102.4	38.4	23.2	-1.8	8.3	5.1
	III	59.4	110.8	138.8	63.3	110.1	99.3	36.8	22.5	-3.9	6.9	4.9
	IV	59.0	111.4	137.2	62.3	109.5	98.2	36.7	22.4	-3.2	6.4	3.7
2014	I	58.8	109.0	139.7	65.6	105.5	107.4	37.7	21.1	-6.8	4.5	2.9
	II	60.3	108.7	143.5	65.9	106.6	106.7	37.6	22.7	-5.6	4.3	2.4
	III (b)	40.6	108.2	145.6	45.1	107.5	108.7	25.9	14.7	-4.5	0.8	0.5
2014	Jun	20.1	108.6	144.0	21.6	107.5	104.1	12.7	7.4	-1.5	1.4	0.9
	Jul	21.0	109.1	149.4	23.6	107.5	113.8	13.2	7.8	-2.6	1.4	1.0
	Aug	19.6	107.3	141.7	21.5	107.4	103.5	12.7	6.9	-1.9	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	-1.3	-4.2	3.1	2.4	5.7	-1.6	2.5	1.7
2014	(d)	0.9	-1.0	1.9	5.8	-2.4	8.3	3.6	-3.5	--	--	--
2012	IV	11.8	7.1	4.2	-15.4	-1.3	-14.4	13.8	8.8	-1.0	3.0	1.9
2013	I	-9.9	-12.3	2.6	1.6	-11.5	14.5	-7.5	-13.6	-1.7	2.8	1.6
	II	35.8	3.3	31.4	13.9	-13.7	32.6	45.6	21.4	-0.7	3.3	2.0
	III	-13.7	3.7	-16.5	-0.7	11.8	-11.4	-15.3	-11.0	-1.5	2.7	1.9
	IV	-2.3	2.2	-4.4	-6.3	-1.9	-4.4	-1.8	-3.2	-1.3	2.5	1.5
2014	I	-1.4	-8.3	7.4	23.4	-14.0	43.1	11.7	-20.3	-2.6	1.8	1.1
	II	10.2	-1.1	11.3	1.7	4.2	-2.6	-1.6	33.7	-2.2	1.7	0.9
	III (e)	3.8	-1.8	5.8	10.8	3.2	7.5	14.4	-12.2	--	--	--
2014	Jun	0.6	-0.6	1.3	-2.4	1.7	-4.0	2.2	-2.0	--	--	--
	Jul	4.3	0.5	3.8	9.4	0.0	9.3	3.7	5.4	--	--	--
	Aug	-6.8	-1.6	-5.2	-9.2	-0.1	-9.1	-4.0	-11.5	--	--	--

(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

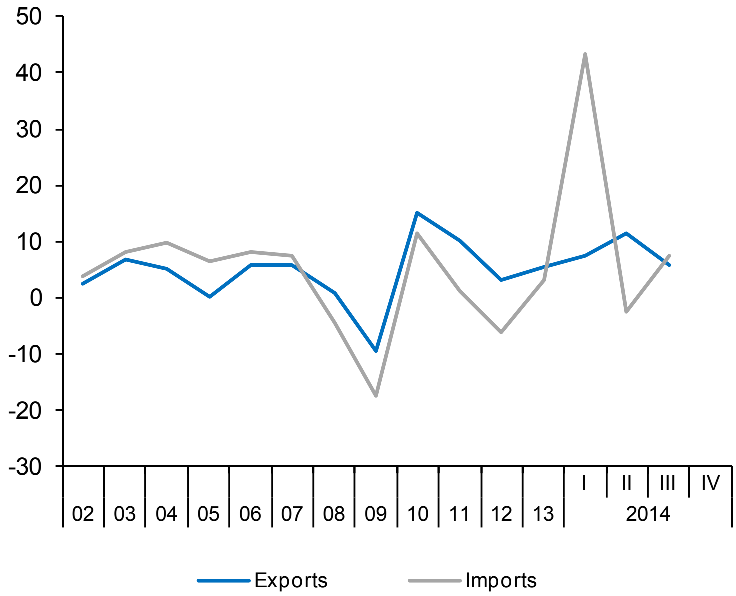


Chart 16.2.- Trade balance
EUR Billions, moving sum of 4 quarters

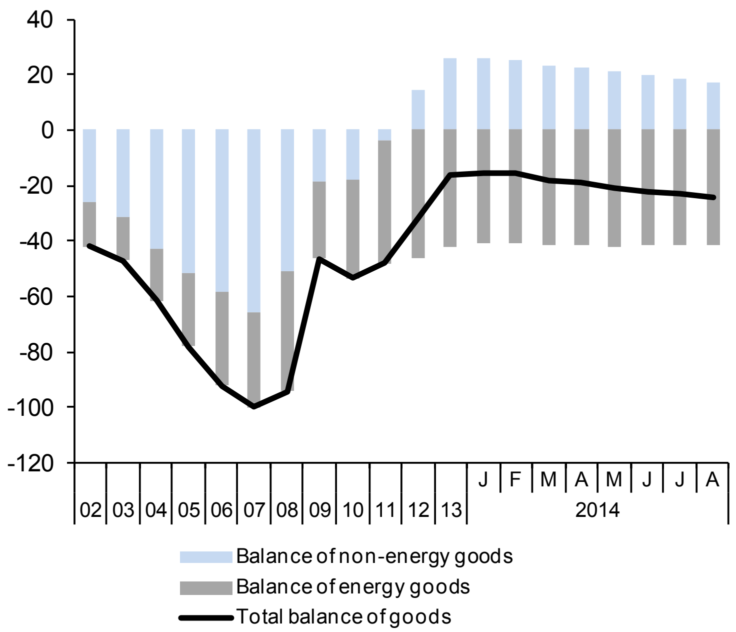


Table 17

Balance of Payments (according to IMF manual) (a)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						
									Financial account, excluding Bank of Spain					Bank of Spain	Errors and omissions
		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		-42.39	-47.80	33.93	-15.13	-13.38	4.89	-37.49	27.24	1.46	28.40	-11.23	8.61	15.70	5.44
2011		-34.04	-44.48	42.59	-18.36	-13.79	4.06	-29.98	-79.51	-9.23	-26.25	-41.96	-2.07	109.23	-0.26
2012		-2.99	-28.24	44.69	-8.94	-10.49	5.24	2.26	-173.67	23.10	-55.40	-149.71	8.35	173.51	2.10
2013		15.08	-12.61	48.34	-7.56	-13.09	6.88	21.96	73.60	11.98	34.85	27.81	-1.04	-114.18	-18.62
2014 (b)		-7.28	-10.00	20.32	-10.12	-7.49	3.21	-4.07	-20.05	7.48	-18.14	-10.03	0.65	2.60	-21.53
2012	III	3.15	-6.76	15.48	-2.95	-2.62	1.24	4.39	38.09	2.56	5.55	25.21	4.78	-3.27	39.21
	IV	6.58	-3.98	9.02	2.97	-1.43	2.25	8.83	37.74	17.18	26.94	-7.57	1.19	-60.01	-13.44
2013	I	-3.14	-3.33	8.49	-3.88	-4.42	1.19	-1.96	6.58	3.60	-1.67	4.61	0.03	-38.60	-33.98
	II	6.58	-0.71	12.47	-2.25	-2.93	2.42	9.00	7.89	3.45	-10.95	14.25	1.14	-11.76	5.13
	III	5.82	-4.50	16.87	-3.31	-3.23	1.05	6.87	42.89	0.88	12.10	30.79	-0.88	-10.52	39.24
	IV	5.82	-4.06	10.51	1.88	-2.51	2.23	8.05	44.30	4.05	35.37	6.21	-1.33	-53.30	-0.96
2014	I	-7.05	-5.39	8.42	-5.40	-4.67	1.45	-5.59	-18.19	-3.15	-17.44	2.17	0.24	12.93	-10.85
	II	-0.23	-4.60	11.90	-4.72	-2.82	1.75	1.52	3.64	0.41	24.30	-21.67	0.59	-15.30	-10.15
			Goods and Services		Income and Transfers										
2014	Jun	1.16	3.12		-1.96		0.46	1.61	5.12	-2.86	25.14	-17.23	0.07	-14.73	-8.00
	Jul	1.40	4.32		-2.92		0.09	1.49	-1.34	7.17	-12.22	3.86	-0.16	7.65	7.80
	Aug	1.29	3.27		-1.98		0.38	1.67	-4.98	3.05	-12.79	4.78	-0.03	-2.68	-5.99
Percentage of GDP															
2008		-9.4	-7.7	2.3	-3.2	-0.8	0.5	-8.9	6.3	0.1	0.0	6.8	-0.6	2.7	-0.1
2009		-4.7	-3.9	2.3	-2.4	-0.7	0.4	-4.3	3.8	-0.2	4.2	0.4	-0.6	1.0	-0.5
2010		-3.9	-4.4	3.1	-1.4	-1.2	0.5	-3.5	2.5	0.1	2.6	-1.0	0.8	1.5	0.5
2011		-3.2	-4.1	4.0	-1.7	-1.3	0.4	-2.8	-7.4	-0.9	-2.4	-3.9	-0.2	10.2	0.0
2012		-0.3	-2.7	4.2	-0.8	-1.0	0.5	0.2	-16.5	2.2	-5.3	-14.2	0.8	16.4	0.2
2013		1.4	-1.2	4.6	-0.7	-1.2	0.7	2.1	7.0	1.1	3.3	2.7	-0.1	-10.9	-1.8
2012	III	1.2	-2.6	6.0	-1.1	-1.0	0.5	1.7	14.7	1.0	2.1	9.7	1.8	-1.3	15.1
	IV	2.4	-1.5	3.3	1.1	-0.5	0.8	3.3	14.0	6.4	10.0	-2.8	0.4	-22.2	-5.0
2013	I	-1.3	-1.3	3.4	-1.6	-1.8	0.5	-0.8	2.6	1.4	-0.7	1.9	0.0	-15.5	-13.7
	II	2.4	-0.3	4.6	-0.8	-1.1	0.9	3.3	2.9	1.3	-4.0	5.3	0.4	-4.3	1.9
	III	2.3	-1.7	6.5	-1.3	-1.3	0.4	2.7	16.6	0.3	4.7	11.9	-0.3	-4.1	15.2
	IV	2.1	-1.5	3.9	0.7	-0.9	0.8	3.0	16.3	1.5	13.0	2.3	-0.5	-19.6	-0.4
2014	I	-2.8	-2.2	3.4	-2.2	-1.9	0.6	-2.2	-7.3	-1.3	-7.0	0.9	0.1	5.2	-4.3
	II	-0.1	-1.7	4.4	-1.7	-1.0	0.6	0.6	1.3	0.1	8.9	-8.0	0.2	-5.6	-3.7

(a) The Bank of Spain has revised balance of payments data from 2010 onwards according to the VI IMF Manual. Data for 2008 and 2009 are calculated according to the V IMF Manual. (b) Period with available data.

Source: Bank of Spain.

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

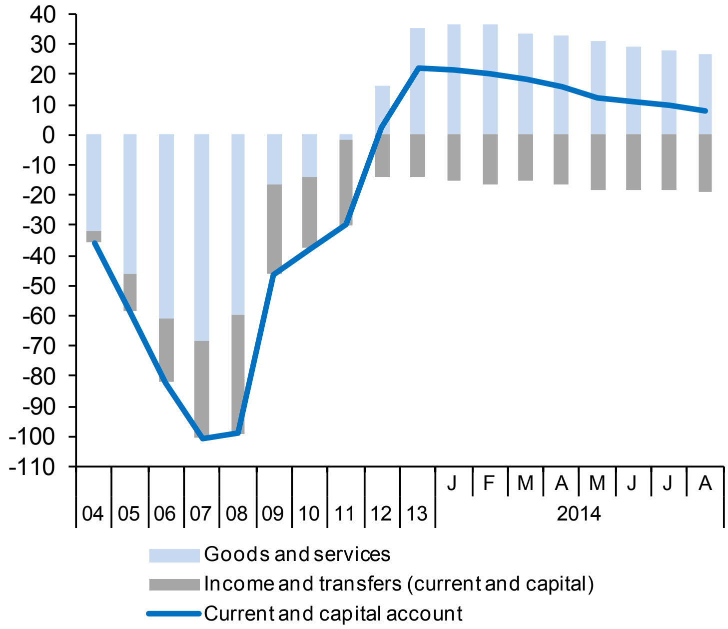


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

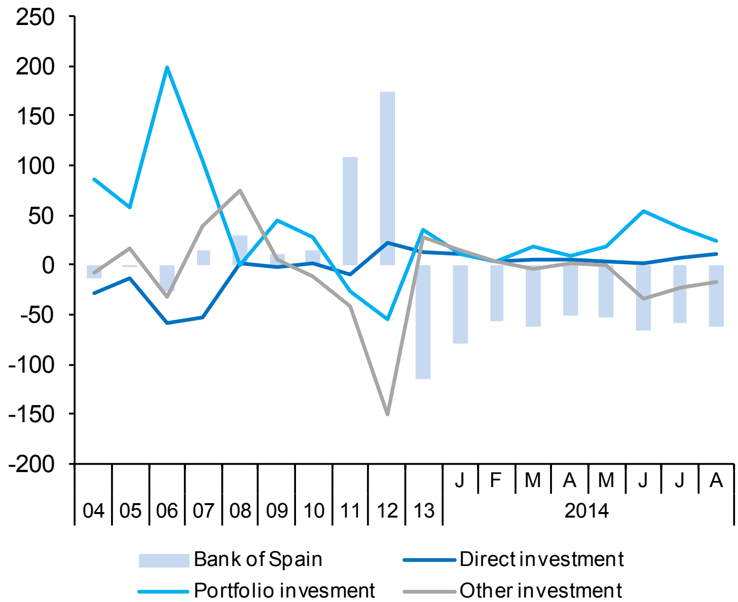


Table 18
State and Social Security System budget

	State							Social Security System				
	National accounts basis			Revenue, cash basis (a)				Surplus or deficit	Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others		Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
2008	--	--	--	188.7	102.0	70.7	16.0	14.6	124.2	108.7	109.7	86.9
2009	--	--	--	162.5	87.5	55.7	19.3	8.8	123.7	107.3	114.9	92.0
2010	--	--	--	175.0	86.9	71.9	16.3	2.4	122.5	105.5	120.1	97.7
2011	--	--	--	177.0	89.6	71.2	16.1	-0.5	121.7	105.4	122.1	101.5
2012	-44.1	173.0	217.1	215.4	96.2	71.6	47.7	-5.8	118.6	101.1	124.4	105.5
2013	-45.3	169.5	214.8	191.1	94.0	73.7	23.3	-8.9	121.3	98.1	130.2	111.1
2014 (c)	-41.9	174.9	216.8	141.1	63.2	58.6	19.3	-3.1	91.3	74.5	94.4	81.5
2014 Jul	-40.6	173.8	214.4	199.0	94.0	77.4	27.5	-15.3	117.7	98.4	133.0	113.2
Aug	-41.1	173.6	214.7	208.7	100.3	81.1	27.2	-15.2	117.6	98.5	132.8	113.2
Sep	-41.9	174.9	216.8	200.9	95.7	77.6	27.6	-14.1	118.0	98.7	132.1	113.4
Annual percentage changes												
2008	--	--	--	-11.9	-15.7	-10.4	11.1	--	6.5	4.8	7.6	6.2
2009	--	--	--	-13.9	-14.2	-21.2	20.4	--	-0.5	-1.3	4.7	5.9
2010	--	--	--	7.7	-0.7	29.1	-15.7	--	-1.0	-1.7	4.5	6.2
2011	--	--	--	1.1	3.1	-0.9	-0.8	--	-0.7	-0.1	1.7	3.9
2012	--	--	--	21.7	7.3	0.5	195.9	--	-2.5	-4.0	1.9	3.9
2013	--	-2.0	-1.1	-11.3	-2.2	3.0	-51.1	--	2.3	-3.0	4.6	5.3
2014 (d)	--	4.4	1.2	25.1	20.0	26.2	40.9	--	-3.4	0.8	2.1	2.9
2014 Jul	--	3.4	2.6	4.9	1.1	4.0	24.3	--	-4.0	-0.5	5.1	4.5
Aug	--	2.4	2.1	9.6	7.6	8.8	20.3	--	-3.9	-0.5	4.1	3.7
Sep	--	4.1	3.1	5.5	2.5	4.4	21.3	--	-3.8	-0.1	2.5	3.6
Percentage of GDP, 12-month cumulated												
2008	--	--	--	16.9	9.1	6.3	1.4	1.3	11.1	9.7	9.8	7.8
2009	--	--	--	15.1	8.1	5.2	1.8	0.8	11.5	9.9	10.6	8.5
2010	--	--	--	16.2	8.0	6.7	1.5	0.2	11.3	9.8	11.1	9.0
2011	--	--	--	16.5	8.3	6.6	1.5	0.0	11.3	9.8	11.4	9.4
2012	-4.2	16.4	20.6	20.4	9.1	6.8	4.5	-0.6	11.2	9.6	11.8	10.0
2013	-4.3	16.2	20.5	18.2	9.0	7.0	2.2	-0.8	11.6	9.3	12.4	10.6
2014 (c)	-3.9	16.4	20.4	13.3	5.9	5.5	1.8	-0.3	8.6	7.0	8.9	7.7
2014 Jul	-3.8	16.3	20.1	18.7	8.8	7.3	2.6	-1.4	11.1	9.2	12.5	10.6
Aug	-3.9	16.3	20.2	19.6	9.4	7.6	2.6	-1.4	11.0	9.3	12.5	10.6
Sep	-3.9	16.4	20.4	18.9	9.0	7.3	2.6	-1.3	11.1	9.3	12.4	10.7

(a) Including the regional and local administrations share in direct and indirect taxes. (b) Not included unemployment benefits and wage guarantee fund (c) Cummulated since January. (d) Percent change over the same period of the previous year.

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

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

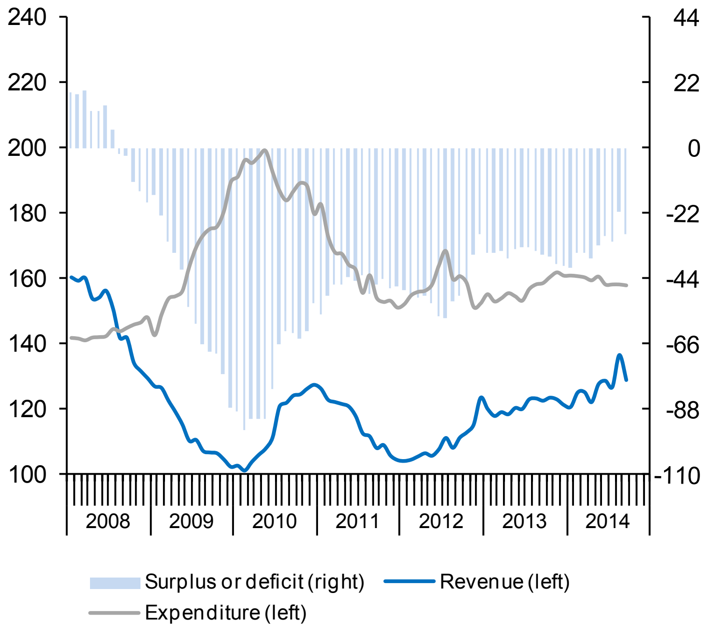


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

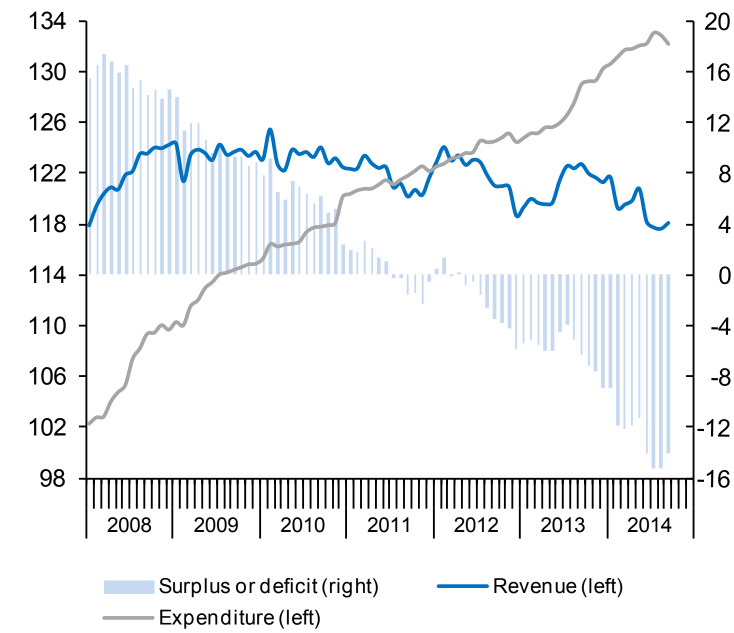


Table 19

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)				Contribution of Spanish MFI to 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	2,432.2	383.8	1,175.7	872.6	--	15,182.3
2008	4.4	36.0	5.8	10.9	6.4	2,609.0	439.8	1,261.1	908.2	--	9,195.8
2009	4.0	70.4	3.4	10.5	4.7	2,715.6	568.7	1,246.5	900.4	--	11,940.0
2010	4.2	146.6	2.6	8.6	4.3	2,788.5	649.3	1,244.0	895.2	--	9,859.1
2011	5.4	277.8	3.5	8.6	5.1	2,805.5	743.5	1,194.0	867.9	--	8,563.3
2012	5.8	427.9	3.4	9.1	5.6	2,804.7	891.0	1,082.9	830.9	--	8,167.5
2013	4.6	293.3	3.2	9.7	5.5	2,743.2	966.2	994.1	783.0	--	9,916.7
2014 (a)	2.9	153.7	3.2	9.7	5.1	2,748.9	1,020.7	970.9	757.3	--	10,477.8
2012 IV	5.6	413.6	3.1	8.8	5.5	2,804.7	891.0	1,082.9	830.9	--	8,167.5
2013 I	5.1	353.5	3.2	9.5	5.6	2,806.2	930.4	1,059.4	816.4	--	7,920.0
II	4.5	308.9	3.2	9.6	5.7	2,796.3	950.4	1,034.7	811.3	--	7,762.7
III	4.5	274.2	3.2	9.9	5.5	2,774.3	961.2	1,019.0	794.1	--	9,186.1
IV	4.2	236.6	3.2	9.7	5.3	2,743.2	966.2	994.1	783.0	--	9,916.7
2014 I	3.6	186.8	3.3	9.7	5.4	2,752.6	995.8	985.2	771.5	--	10,340.5
II	2.9	148.4	3.2	9.6	5.1	2,759.6	1,012.6	976.9	770.1	--	10,923.5
III (a)	2.4	135.7	3.1	9.7	4.8	2,748.9	1,020.7	970.9	757.3	--	10,825.5
2014 Aug	2.4	139.5	3.1	9.8	4.8	2,740.5	1,010.2	971.8	758.5	--	10,728.8
Sep	2.2	120.0	3.1	9.9	4.5	2,748.9	1,020.7	970.9	757.3	--	10,825.5
Oct	2.1	123.9	--	--	--	--	--	--	--	--	10,477.8
						Percentage change from same period previous year					**(b)**
2007	--	--	--	--	--	12.5	-2.1	18.4	12.5	15.1	7.3
2008	--	--	--	--	--	8.0	14.6	8.5	4.3	7.7	-39.4
2009	--	--	--	--	--	4.1	29.3	-1.4	-0.3	-0.8	29.8
2010	--	--	--	--	--	3.4	14.2	0.7	0.2	-2.2	-17.4
2011	--	--	--	--	--	1.7	14.5	-2.0	-2.4	-1.6	-13.1
2012	--	--	--	--	--	1.3	19.8	-6.4	-3.8	0.1	-4.6
2013	--	--	--	--	--	-1.3	8.4	-6.5	-5.1	-4.4	21.4
2014 (a)	--	--	--	--	--	-0.8	6.2	-4.9	-4.0	0.7	5.7
2012 IV	--	--	--	--	--	1.3	19.8	-6.4	-3.8	0.1	6.0
2013 I	--	--	--	--	--	0.9	19.0	-7.4	-4.0	-0.5	-3.0
II	--	--	--	--	--	0.5	17.1	-7.4	-4.3	-0.4	-2.0
III	--	--	--	--	--	0.7	16.6	-6.9	-4.7	0.2	18.3
IV	--	--	--	--	--	-1.3	8.4	-6.5	-5.1	-4.4	8.0
2014 I	--	--	--	--	--	-1.6	7.0	-6.6	-4.8	-5.1	4.3
II	--	--	--	--	--	-1.2	6.5	-5.8	-4.5	-1.5	5.6
III (a)	--	--	--	--	--	-0.8	6.2	-4.9	-4.0	0.7	-0.9
2014 Aug	--	--	--	--	--	-1.1	6.2	-5.1	-4.5	-0.2	0.2
Sep	--	--	--	--	--	-0.8	6.2	-4.9	-4.0	0.7	0.9
Oct	--	--	--	--	--	--	--	--	--	--	-3.2

(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

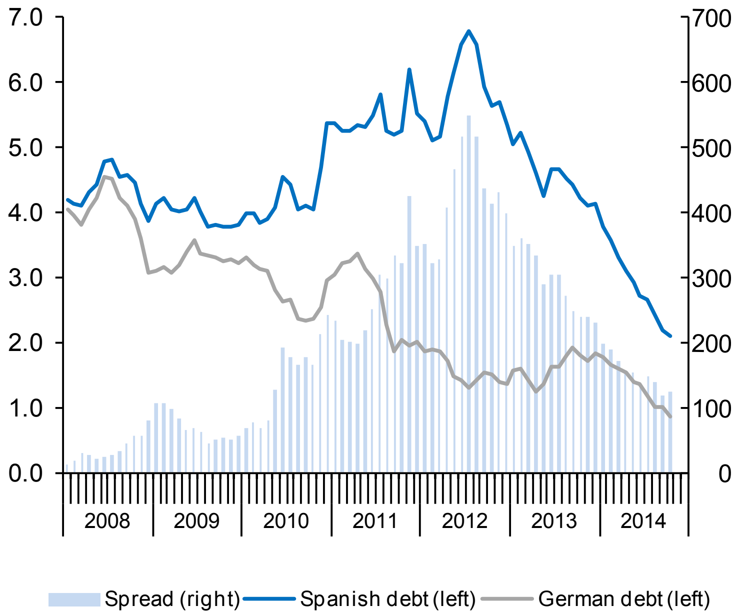


Chart 19.2.- Credit stock growth
Annual percentage change

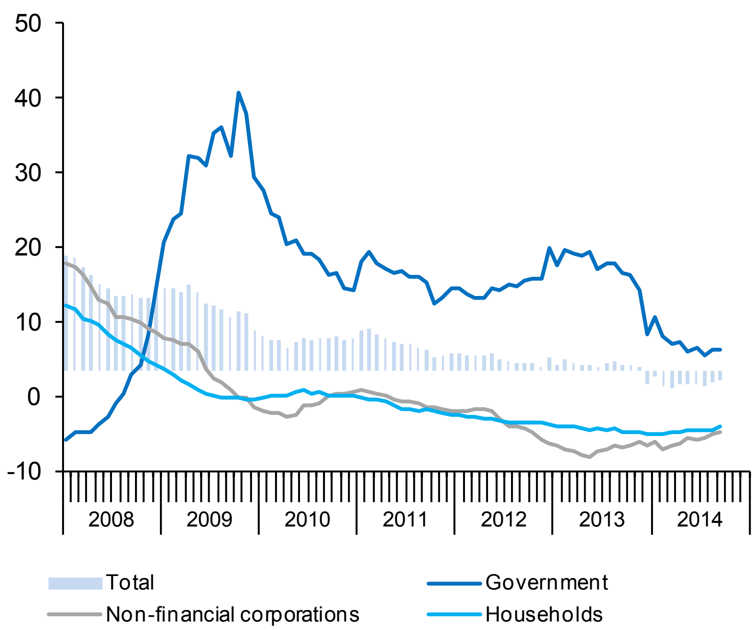


Table 20

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)		--	--	--	120.8	117.7	102.6	108.7	106.2	102.4	112.6
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	108.6	106.1	102.4	113.4
	III (a)	--	--	--	120.4	117.7	102.3	109.6	106.0	103.4	111.7
2014	Aug	--	--	--	120.0	117.6	102.1	109.4	105.9	103.3	111.4
	Sep	--	--	--	121.3	118.1	102.7	109.9	106.1	103.6	112.1
	Oct	--	--	--	121.4	118.0	102.8	--	--	--	--
		Annual percentage changes					**Differential**	**Annual percentage changes**		**Differential**	
2007		0.4	4.9	4.5	2.8	2.1	0.7	3.2	2.1	1.1	1.4
2008		1.4	1.6	0.2	4.1	3.3	0.9	5.7	4.9	0.8	2.3
2009		5.9	-1.2	-6.8	-0.2	0.3	-0.5	-3.3	-4.5	1.2	-0.4
2010		-0.4	-0.7	-0.3	2.0	1.6	0.4	3.9	3.1	0.9	-1.0
2011		1.4	-1.4	-2.7	3.1	2.7	0.3	6.5	5.2	1.3	0.2
2012		4.4	-1.0	-5.1	2.4	2.5	-0.1	3.4	2.6	0.8	-1.3
2013		3.4	-1.3	-4.5	1.5	1.4	0.2	-0.1	-0.4	0.4	1.5
2014 (b)		--	--	--	-0.1	0.5	-0.6	-1.3	-1.3	0.0	-0.6
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	-0.6	-1.1	0.5	-0.2
	III (b)	--	--	--	-0.4	0.4	-0.7	-0.6	-1.2	0.6	-1.3
2014	Aug	--	--	--	-0.5	0.4	-0.9	-0.7	-1.3	0.6	-1.5
	Sep	--	--	--	-0.3	0.3	-0.6	-0.3	-1.1	0.8	-1.3
	Oct	--	--	--	-0.2	0.4	-0.6	--	--	--	--

(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

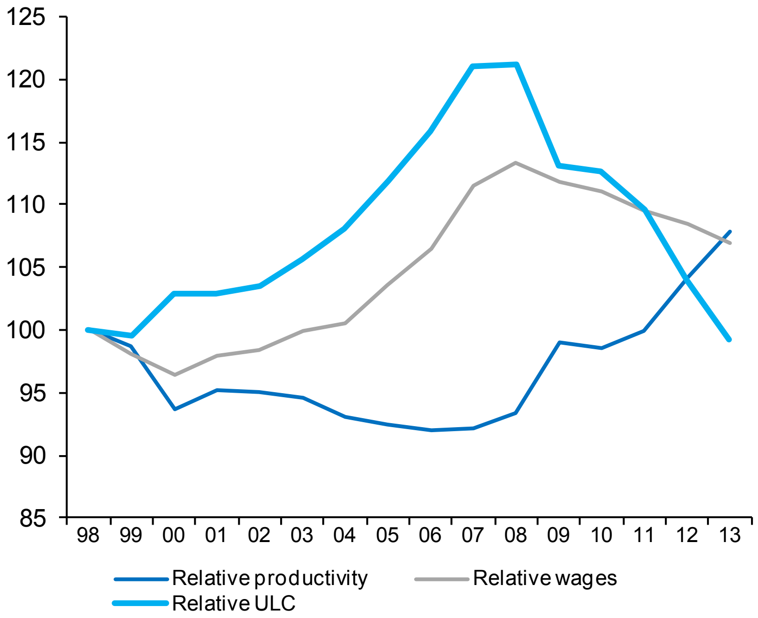


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

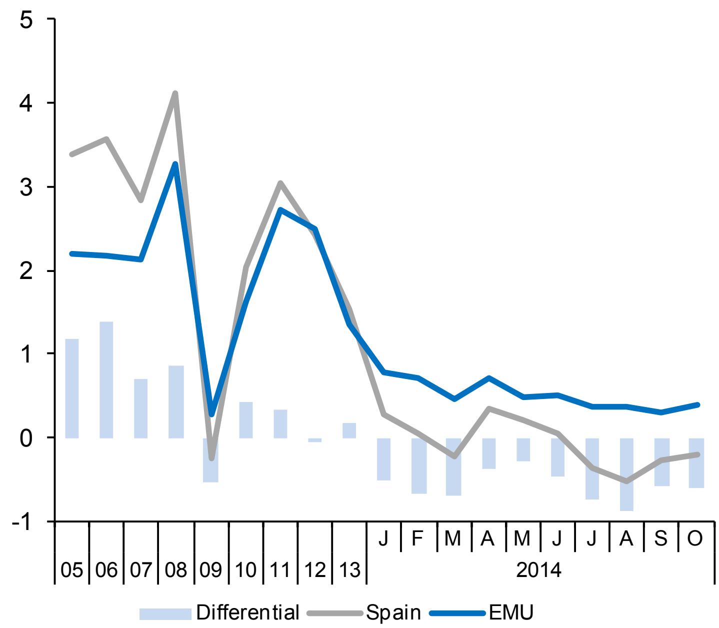


Table 21a

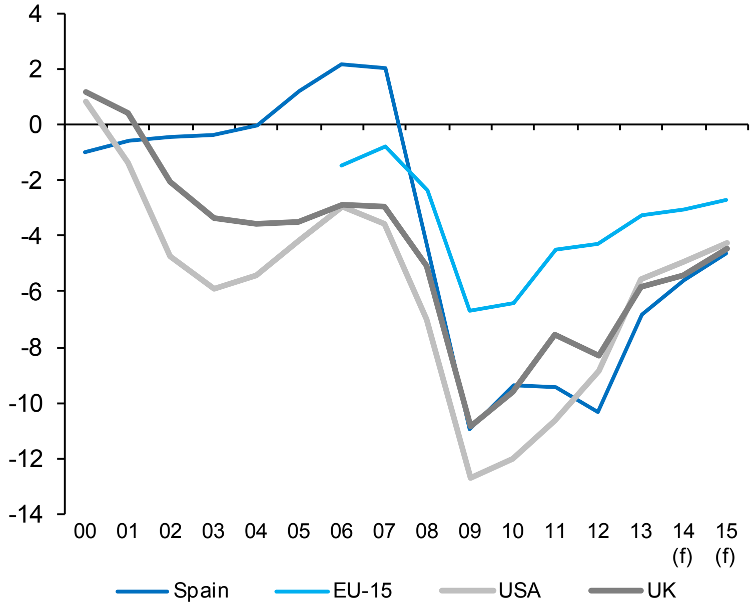
Imbalances: International comparison (I)

In blue: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK
Billions of national currency												
2005	11.2	--	-543.4	-46.7	393.5	--	8,496.6	550.9	-70.4	39.7	-742.9	-16.8
2006	22.1	-167.5	-411.6	-40.5	392.2	7,046.7	8,818.5	595.9	-91.2	23.2	-804.0	-31.4
2007	21.6	-97.2	-513.6	-44.0	383.8	7,124.4	9,268.2	645.1	-104.2	16.8	-717.6	-40.6
2008	-49.4	-281.0	-1,033.2	-77.0	439.8	7,559.3	10,721.2	783.0	-102.9	-84.1	-686.1	-56.4
2009	-118.2	-752.6	-1,827.4	-160.2	568.7	8,523.2	12,407.2	976.3	-46.5	15.3	-377.3	-41.4
2010	-101.4	-755.1	-1,797.7	-150.0	649.3	9,550.1	14,181.5	1,191.3	-42.0	33.9	-447.9	-40.6
2011	-101.3	-541.4	-1,646.9	-122.3	743.5	10,224.4	15,379.2	1,324.2	-35.0	63.9	-480.5	-27.0
2012	-108.9	-532.2	-1,434.2	-137.3	891.0	10,862.6	16,627.2	1,421.1	-4.5	152.8	-482.2	-61.9
2013	-71.3	-400.8	-933.3	-99.3	966.2	11,209.8	17,558.5	1,494.7	15.4	199.7	-422.2	-72.4
2014	-59.5	-392.4	-853.7	-97.9	1,039.0	11,688.1	18,285.4	1,601.5	5.1	205.9	-451.0	-71.4
2015	-50.4	-361.3	-779.5	-83.6	1,101.1	12,074.7	19,144.9	1,682.8	7.7	220.5	-489.7	-69.3
Percentage of GDP												
2005	1.2	--	-4.2	-3.5	42.3	NA	64.9	41.5	-7.6	0.4	-5.7	-1.3
2006	2.2	-1.5	-3.0	-2.9	38.9	62.0	63.6	42.5	-9.0	0.2	-5.8	-2.2
2007	2.0	-0.8	-3.5	-3.0	35.5	59.5	64.0	43.6	-9.6	0.1	-5.0	-2.7
2008	-4.4	-2.4	-7.0	-5.1	39.4	63.4	72.8	51.6	-9.2	-0.7	-4.7	-3.7
2009	-11.0	-6.7	-12.7	-10.8	52.7	75.4	86.0	65.9	-4.3	0.1	-2.6	-2.8
2010	-9.4	-6.4	-12.0	-9.6	60.1	81.1	94.8	76.4	-3.9	0.3	-3.0	-2.6
2011	-9.4	-4.5	-10.6	-7.6	69.2	84.4	99.1	81.9	-3.3	0.5	-3.1	-1.7
2012	-10.3	-4.3	-8.9	-8.3	84.4	87.9	102.9	85.8	-0.4	1.2	-3.0	-3.7
2013	-6.8	-3.2	-5.6	-5.8	92.1	90.2	104.7	87.2	1.5	1.6	-2.5	-4.2
2014	-5.6	-3.1	-4.9	-5.4	98.1	91.3	105.1	89.0	0.5	1.6	-2.6	-4.0
2015	-4.6	-2.7	-4.3	-4.4	101.2	91.5	104.6	89.5	0.7	1.7	-2.7	-3.7

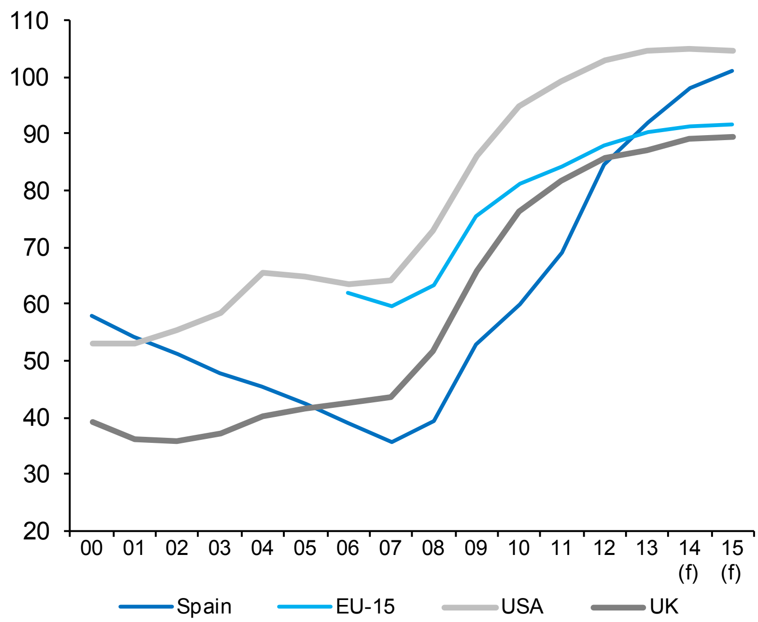
Source: European Commission.

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-18	USA	UK	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK
Billions of national currency												
2005	653.5	4,777.6	11,721.3	1,157.4	930.3	7,106.4	8,158.8	1,128.4	541.5	8,242.8	12,958.0	2,403.7
2006	780.7	5,198.3	12,946.5	1,276.0	1,164.2	7,780.4	8,983.1	1,226.4	771.2	9,231.3	14,261.3	2,644.4
2007	876.6	5,565.9	13,830.4	1,388.6	1,351.4	8,605.4	10,102.8	1,309.4	1,000.0	10,587.9	16,205.1	3,161.0
2008	914.0	5,820.2	13,850.0	1,437.2	1,432.3	9,234.4	10,678.9	1,508.6	1,067.7	11,547.1	17,103.4	3,613.8
2009	906.2	5,949.1	13,558.9	1,437.6	1,416.8	9,214.6	10,127.5	1,457.3	1,145.7	12,137.7	15,714.5	3,558.8
2010	902.5	6,120.3	13,229.8	1,439.4	1,441.7	9,464.7	9,955.2	1,435.8	1,136.3	12,196.7	14,455.3	3,706.6
2011	875.2	6,210.3	13,060.9	1,448.6	1,415.3	9,616.5	10,250.9	1,444.6	1,157.1	12,653.6	14,036.1	3,598.7
2012	838.2	6,198.2	13,063.5	1,467.6	1,308.0	9,688.6	10,782.8	1,515.1	1,177.4	12,918.6	13,802.5	3,677.8
2013	789.0	6,154.4	13,179.2	1,473.4	1,175.6	9,681.5	11,298.0	1,513.8	989.8	12,229.2	13,948.4	3,586.1
Percentage of GDP												
2005	70.2	56.7	89.5	87.2	100.0	84.3	62.3	85.1	58.2	97.8	99.0	181.2
2006	77.5	58.6	93.4	90.9	115.5	87.7	64.8	87.4	76.5	104.1	102.9	188.4
2007	81.1	59.4	95.5	93.8	125.0	91.9	69.8	88.4	92.5	113.1	111.9	213.4
2008	81.9	60.7	94.1	94.6	128.3	96.2	72.6	99.3	95.7	120.4	116.2	238.0
2009	84.0	64.3	94.0	97.0	131.3	99.5	70.2	98.3	106.2	131.1	109.0	240.1
2010	83.5	64.3	88.4	92.4	133.4	99.5	66.5	92.1	105.1	128.2	96.6	237.9
2011	81.4	63.6	84.2	89.5	131.6	98.4	66.1	89.3	107.6	129.5	90.5	222.5
2012	79.4	63.1	80.8	88.7	124.0	98.6	66.7	91.5	111.6	131.5	85.4	222.2
2013	75.2	62.1	78.6	86.0	112.1	97.7	67.4	88.4	94.3	123.5	83.2	209.3

(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

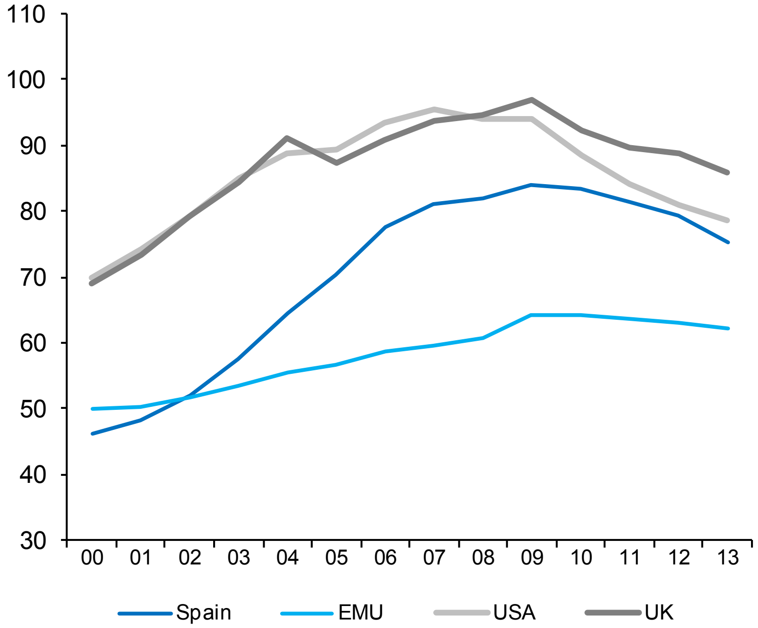
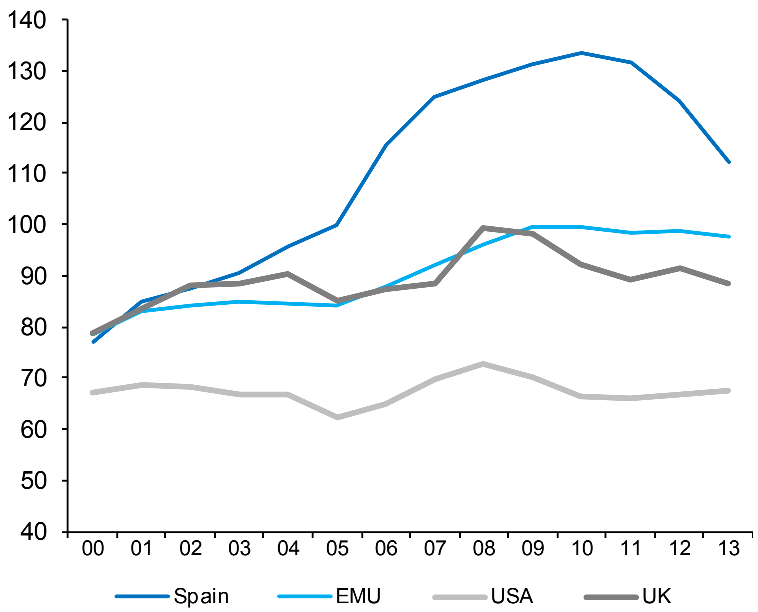


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: November 15th, 2014

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.8	August 2014
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.1	August 2014
Doubtful loans (monthly % var.)	-0.1	August 2014
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	480,000	October 2014
Recourse to the Eurosystem (Spanish financial institutions, million euros)	154,788	October 2014
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	27,338	October 2014
Operating expenses/gross operating income ratio (%)	48.23	June 2014
Customer deposits/employees ratio (thousand euros)	5,461.23	June 2014
Customer deposits/branches ratio (thousand euros)	35,737.87	June 2014
Branches/institutions ratio	215.56	June 2014

A. Money and interest rates

Indicator	Source:	Average 1998-2011	2012	2013	2014 October	2014 Nov. 15th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	6.0	3.0	2.3	3.1	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.9	0.6	0.22	0.08	0.08	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.1	1.1	0.54	0.34	0.34	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.5	5.8	4.6	2.11	2.12	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.5	5.8	3.9	1.86	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates:" The level of interbank rates has remained unchanged during the first fortnight of November. The 3-month Euribor rate stood at 0.08% while the 1-year Euribor rate decreased to 0.34%. Volatility has increased in European markets as economic recovery has become more uncertain, even if 2014Q3 data has revealed that Germany and France are not yet in recession. As for the Spanish 10-year bond yield, it has increased during this period to 2.12%.

B. Financial markets

Indicator	Source:	Average 1998-2011	2012	2013	2014 August	2014 September	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	24.5	84.7	82.9	50.6	65.1	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	79.8	64.8	61.2	66.2	74.6	(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	1.8	2.4	(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	4.8	2.9	(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	1,011.9	1,009.6	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	0.5	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	-50.9	40.41	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	1,094.63	1,029.15 [(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	10,728.8	10,148.00 [(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	28.1	20.0 [(a)]	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 August	2014 September	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	3.4	-15.1	-23.5	-45.5	8.0	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.0	73.9	80.7	-0.3	1.2	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.9	2.4	2.4	0.4	0.4	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.8	-10.8	15.8	-7.4	7.6	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	7.8	54.1	-22.8	33.4	15.0	IBEX-35 shares concluded transactions

(a) Last data published: November 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 65.1% and 74.6%, respectively. The stock market has kept on falling in the first fortnight of November, with the IBEX-35 falling to 10,148 points, and the General Index of the Madrid Stock Exchange at 1,029. Additionally, there was growth of 7.6% in financial IBEX-35 future transactions and a 15% increase in transactions with 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 July	2014 August	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	12.8	-10.4	-9.5	-1.2	-0.8	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	10.6	-1.8	1.3	-0.8	-0.1	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	-1.7	2.4	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	16.4	3.1	8.9	0.1	-0.1	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-0.8	-9.0	-5.9	-6.8	-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)

D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 July	2014 August	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	34.9	20.0	17.8	-0.9	-0.1	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	-5.1	-10.0	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	0.6	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 August 2014 show a 0.8% fall in bank credit to the private sector and also a 0.1% decrease in financial institutions deposit-taking from the previous month. Holdings of debt securities have increased by 2.4%, while shares and equity have fallen by 0.1%. Also, doubtful loans decreased 0.1% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1997-2010	2011	2012	2014 March	2014 June	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	215	189	173	154	151	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	84	84	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	249,013	243,041	231,389	-	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,987	39,843	37,903	33,414	32,733	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	480,000[(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	154,788[(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	2014 March	2014 June	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	27,338[(a)]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: October 2014.

Comment on “Credit institutions. Market Structure and Eurosystem Refinancing:” In October 2014, recourse to Eurosystem funding by Spanish credit institutions accounted for 33.25% of net total funds borrowed from the ECB by the Eurozone. This means a 10 billion euro decrease in the recourse to the Eurosystem by Spanish banks from September.

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

Indicator	Source:	Average 1997-2010	2011	2012	2014 March	2014 June	Definition and calculation
43. “Operating expenses/gross operating income” ratio	Bank of Spain	54.53	49.85	47.18	46.86	48.23	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	5,428.87	5,461.23	Productivity indicator (business by employee)
45. “Customer deposits/ branches” ratio (Euro thousands)	Bank of Spain	16,424.04	29,171.23	30,110.18	34,800.14	35,737.87	Productivity indicator (business by branch)
46. “Branches/ institutions" ratio	Bank of Spain	193.19	205.38	219.09	215.77	215.56	Network expansion indicator
47. “Employees/ branches” ratio	Bank of Spain	6.08	6.5	6.9	6.4	6.5	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.10	0.40	-0.12	2.03	1.7	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.88	0.06	-1.93	0.29	0.31	Profitability indicator, defined as the “pre-tax profit/average total assets”
50. ROE	Bank of Spain	13.23	3.28	-18.74	3.69	4.03	Profitability indicator, defined as the “pre-tax profit/equity capital”

Comment on “Credit institutions. Efficiency and Productivity, Risk and Profitability:” In June 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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