Spanish Economic and Financial Outlook

The return of confidence to Spanish markets

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FEATURES

Letter from the Editors

In the March issue of SEFO, we assess the impact of the Spanish recovery on foreign banks´ exposure to Spain. In contrast to the outflows observed during the crisis years, our analysis shows that the economic recovery has restored confidence in Spanish debt among foreign banks. Since 2012, these banks have increased their exposure to both Spanish bank and public debt, up 13.7% and 30.9%, respectively. At the same time, the decline in exposure to Spanish corporate debt should not be seen as capital flight, but rather a logical consequence of the strong deleveraging efforts underway in Spain´s non-financial corporate sector. Simultaneously, Spanish banks have increased their outward exposure, particularly to countries such as the UK, U.S., Brazil, Mexico, and Italy, while prudently maintaining low exposure to high geopolitical/default risk countries, such as Greece and Russia.

In this context, this SEFO highlights the considerable improvement in the overall short-term outlook for the Spanish economy, paying particular attention to recent evidence of normalization in Spain´s real estate market and financial sector. Spain´s recovery continues to gain speed, prompting us to once again revise upwards our 2015 growth forecast to 3.0%. The strength of this recovery is due in part to the continued correction of imbalances built up during the growth phase, supported by structural reform, together with favorable transitory factors, such as falling oil prices and interest rates. On the downside, the effects of these factors will wear off over time, resulting in lower growth from 2016 onwards. In the meantime, the recovery is exacerbating the deterioration in the balance of payments, which, for the time being, remains in positive territory mainly as a result of the drop in oil prices.

Furthermore, there are signs that point to a gradual comeback of Spain´s real estate market. After six-years of adjustment, the average of leading house price indicators shows an estimated fall from peak to trough prices of between 35%-40%. Recent transactions data, as well as the growth in the amount loaned in the form of mortgages, can be interpreted as improvement. Nevertheless, recovery remains uneven across the regions, and the high level of unemployment and outstanding household debt mitigate the prospects for anything other than a modest recovery, at least over the medium-term.

There is also room for optimism as regards the evolution of the financial sector. The strong provisioning effort undertaken in 2012 and 2013, mostly aimed at covering real-estate exposure, and the economic recovery underway, is helping narrow banks´ cost of risk. In 2014, favorable economic conditions, alongside the drop in non-performing loans, resulted in a narrowing of the cost of risk by 19 basis points. If this trend continues and the cost of risk were to gradually return to 2000-2007 levels, banks could see a noteworthy increase in profitability – helping them to address one of their key remaining challenges.

On a related note, the March SEFO takes a deeper look at some of the recent structural reforms undertaken that have helped to support Spain´s emergence from the crisis, as well as what remains to be done on the reform agenda – whether this be adopting new reforms, or improving those that have already been implemented.

As we show in this SEFO, the Spanish government has pursued an active reform agenda since 2012. Significant improvements have been made to Spain´s insolvency regime, addressing one of the strongest recommendations from international organizations, which now better distributes risks between debtors and creditors. Progress has been limited and/or mixed in other key areas, such as professional services, competition, entrepreneurship, and regulated markets such as transport and the electricity sector. As regards to the latter, the Law on the Electric Sector can already probably be viewed as insufficient to tackle the problems of the electricity tariff system. Moreover, as regards to the renewable energy regime in particular, the reduction in legal certainty and clarity over the remuneration regime in this sector has already had a negative impact on profitability and is increasing the level of returns demanded by investors.

Finally, we take a look at recent changes to Spain´s fiscal regime, starting with 2012 legislation to increase budgetary stability through the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF), which aimed at strengthening Spain´s public finances with particular attention to the regional level. While the measure was clearly a positive first step, recent empirical evidence is already revealing deficiencies and weaknesses in the current legislation and raising the possibility of the need for further modifications to achieve more feasible regional deficit and debt targets, structural deficit targets, and overall debt consolidation path. On a related note, this SEFO presents the results of a survey of tax advisors´ opinions on some of the recent tax reforms enacted in Spain to arrive at a similar view – while the changes indicate a step in the right direction in terms of eliminating distortions, mitigating tax planning, and reducing complexity, additional efforts will be needed. To conclude, we provide a brief analysis of the anticipated impact of changes to the economic cycle on Spanish tax revenue. Our findings suggest that given the sensitivity of Spain´s income and consumption taxes (VAT and excise duties) to the economic recovery, it is likely that revenues from these taxes will rise significantly in the immediate future.

Foreign banks' exposure to Spain and Spanish banks' foreign exposure

Joaquín Maudos[1]

Economic recovery has brought back foreign banks' appetite for Spanish debt, while at the same time supporting growth in Spanish banks' outward investments. Fortunately, Spain´s exposure to countries that currently face heightened geopolitical/default risk remains low.

The Spanish economy's return to GDP growth, which began in mid-2013, has had a positive impact in terms of restoring confidence among foreign banks, which have increased their exposure to both Spanish bank and public sector debt, with France and Germany being the principle holders of Spanish debt. Although exposure to corporate debt has declined, the drop should not be interpreted as a loss of confidence, as it has taken place in a context of intensive deleveraging. Over the same period, Spanish banks have increased the value of their outward investments, concentrating their exposure in the United Kingdom, the U.S, Brazil, Mexico, and Italy. Meanwhile, Spanish banks´ exposure to countries currently experiencing increased geopolitical/default risks (Greece and Russia) is marginal.

The emergence of the Euro Area debt crisis in May 2010 caused capital flight from various EMU countries, in particular from the periphery. The resulting financial instability, coupled with soaring risk premiums, put the Eurozone on the brink of collapse. The strains were so intense that overcoming them required joint commitment by the European Commission, European Parliament and the ECB to support the euro. In particular, as a result of the actions of the ECB, since mid-2012, risk premiums have declined and investor confidence has returned.

In the specific case of the Spanish economy, foreign investors' initial mistrust gave way in 2013 and 2014 to a period of recovery in both FDI and portfolio investment. Confidence among foreign banks has also returned, and since mid-2012, they have increased their exposure to Spanish public debt.

When interpreting the results of the changing exposures of foreign banks to a given country, it is extremely important to bear in mind whether they are taking place in a context of debt growth or

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deleveraging. In the case of the former, if foreign banks increase their exposure, it is a good sign that they have confidence in an economy. However, if foreign banks reduce their exposure in a context of debt reduction, it does not necessarily mean a loss of confidence, as this would be a logical process associated with debt repayment. This point needs to be taken very much into account in the Spanish case, as in the last few years, private sector deleveraging has coexisted with an increase in public sector debt. It is therefore important to analyse foreign banks' exposure on a disaggregated basis, distinguishing exposure to public debt from exposure to private debt (both bank and non-financial corporation debt).

Against this background, this article aims to analyse in disaggregated form the changes that have taken place in the exposure of foreign banks to Spain prior to and since the summer of 2012, distinguishing between public and private debt and across countries. It also examines whether the recovery in GDP since the second half of 2013 is strengthening the recovery of confidence among foreign banks. Additionally, the exposure of Spanish banks abroad is discussed, looking at the countries and the types of debt they hold.

Finally, this article analyses the exposure of international banks to the Greek economy, given the relevance of recent events in Greece following the change of government and the heightened risk of proposed debt restructuring. To this end, this article examines the way foreign (including Spanish) banks' exposure to Greece has changed between December 2010 and September 2014 (the most recent data available from the BIS), as well as provides the most recent snapshot of this exposure.

The return of foreign banks' confidence in Spain

As Table 1 shows, the most severe period of the sovereign-debt crisis, which lasted until mid-2012, led to a reduction of 12.4% (122.2 billion dollars) in foreign banks' total exposure to Spain, with a drop of 25.7% in direct exposure, while other potential exposures (credit commitments, guarantees extended and derivative contracts) rose by 20.9%. By type of debt, the exposure to debt issued by banks fell most sharply (41.7%), and the reduction in exposure to the public sector was also intense (31.6%).

In contrast with capital flight during the sovereign debt crisis, since mid-2012, foreign banks' confidence in Spain has returned. Although total exposure has dropped by almost 15.9%, this is due to the reduction in other potential exposures.

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Conversely, foreign banks have increased their holdings of Spanish public debt considerably (by 30.9%) and also bought more debt issued by banks (13.7%). Holdings of debt issued by the non-financial private sector have dropped, but it is important to bear in mind when interpreting this drop that Spanish companies have been deleveraging intensely, which was necessary to reduce their high levels of debt. Thus, from June 2012 to September 2014, Spanish non-financial corporations reduced their debt by 17.2%, making it logical that foreign banks have reduced their holdings of this type of debt.

The information published by the BIS broken down by countries indicates that in the case of public debt, German and U.S. banks have increased their holdings of Spanish public debt most (5.4 and 4.5 billion dollars, respectively), while British banks have cut their holdings by 3.5 billion dollars. In the case of debt issued by Spanish banks, French banks have increased their exposure to Spain most, with an increase in debt holdings of 20 billion dollars.

Table 1

Change in foreign banks´exposure to Spain

Jun 12 - Sep 14	Belgium	France	Germany	Italy	Japan	Switzerland	Turkey	United Kingdom	United States	Other countries	Total
						Millions of dollar					
Total	**-1,386**	**12,010**	**-17,524**	**-1,737**	**1,621**	**4,638**	**160**	**-379**	**-121,127**	**-14,115**	**-137,839**
Foreign Claims	**-1,361**	**16,108**	**-13,405**	**-741**	**-180**	**117**	**142**	**-20,446**	**639**	**-16,625**	**-35,752**
Banks	-159	19,990	-881	3,951	-293	-3,969	107	5,768	-1,398	-5,244	17,872
Public Sector	927	3,899	5,403	600	2,459	1,581	0	-3,548	4,539	5,756	21,616
Non-bank private sector	-2,131	-6,759	-17,927	-5,298	-2,346	2,654	35	-22,666	-2,502	-16,887	-73,827
Other potential exposures	**-25**	**-4,098**	**-4,119**	**-996**	**1,801**	**4,521**	**18**	**20,067**	**-121,766**	**2,510**	**-102,087**
						Variation (%)					
Total	**-12.7**	**8.3**	**-10.9**	**-4.9**	**6.7**	**18.1**	**842.1**	**-0.3**	**-52.4**	**-12.9**	**-15.9**
Foreign Claims	**-13.8**	**14.1**	**-10.9**	**-3.3**	**-0.8**	**0.7**	**1,092.3**	**-26.3**	**1.5**	**-17.5**	**-6.8**
Banks	-4.6	87.6	-2.3	83.7	-10.3	-44.5	1,783.3	47.0	-9.1	-24.5	13.7
Public Sector	124.6	24.3	22.4	11.4	30.3	123.7	0.0	-78.6	75.0	148.2	30.9
Non-bank private sector	-37.7	-9.1	-29.9	-43.2	-21.7	35.3	500.0	-37.2	-11.6	-24.2	-22.9
Other potential exposures	**-2.4**	**-13.2**	**-10.9**	**-7.6**	**78.7**	**58.8**	**300.0**	**43.6**	**-64.7**	**17.2**	**-29.9**

Dec 10 - Jun 12	Belgium	France	Germany	Italy	Japan	Switzerland	Turkey	United Kingdom	United States	Other countries	Total
						Millions of dollar					
Total	**-11,493**	**-30,024**	**-63,765**	**-7,273**	**-3,082**	**-30**	**-431**	**-18,606**	**55,453**	**-42,961**	**-122,212**
Foreign Claims	**-11,625**	**-26,174**	**-59,367**	**-7,402**	**-1,687**	**-131**	**-427**	**-29,450**	**-1,736**	**-43,364**	**-181,363**
Banks	-7,037	-15,992	-36,955	-3,618	-1,943	1,025	-433	-8,840	-1,693	-17,734	-93,220
Public Sector	-2,658	-14,245	-4,439	21	-726	-1,229	0	-5,075	2,285	-6,246	-32,312
Non-bank private sector	-1,928	2,980	-17,973	-3,586	982	28	6	-15,536	-2,328	-19,567	-56,922
Other potential exposures	**132**	**-3,850**	**-4,398**	**129**	**-1,395**	**101**	**-4**	**10,844**	**57,189**	**403**	**59,151**
						Variation (%)					
Total	**-51.2**	**-17.1**	**-28.5**	**-17.1**	**-11.4**	**-0.1**	**-95.8**	**-13.1**	**31.5**	**-28.1**	**-12.4**
Foreign Claims	**-54.0**	**-18.6**	**-32.6**	**-25.0**	**-7.2**	**-0.7**	**-97.0**	**-27.5**	**-3.9**	**-31.3**	**-25.7**
Banks	-66.9	-41.2	-49.0	-43.4	-40.5	13.0	-98.6	-41.9	-9.9	-45.3	-41.7
Public Sector	-78.1	-47.0	-15.5	0.4	-8.2	-49.0		-52.9	60.7	-61.7	-31.6
Non-bank private sector	-25.4	4.2	-23.1	-22.6	10.0	0.4	600.0	-20.3	-9.7	-21.9	-15.0
Other potential exposures	**14.4**	**-11.0**	**-10.4**	**1.0**	**-37.9**	**1.3**	**-40.0**	**30.8**	**43.6**	**2.8**	**20.9**

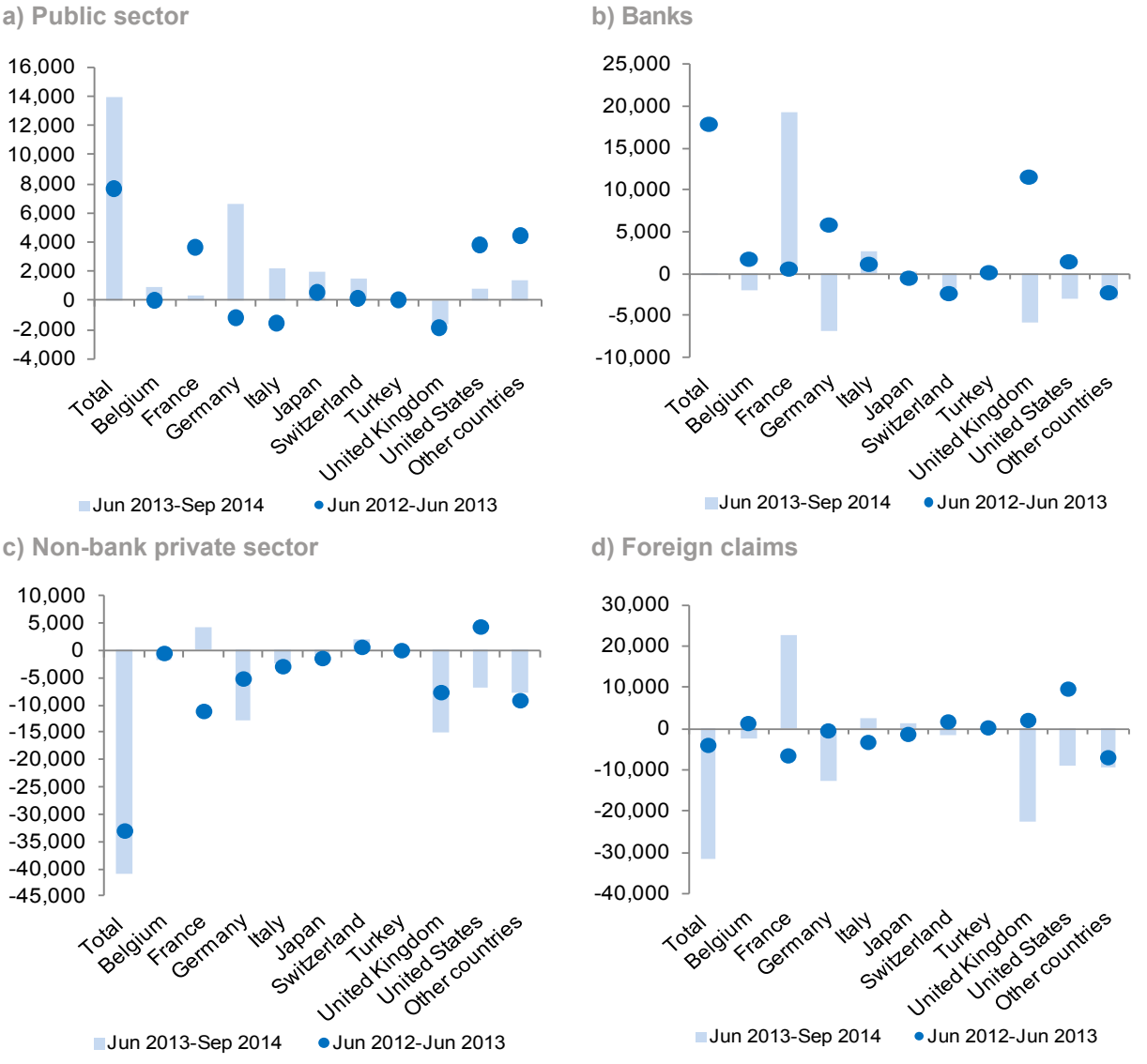
Source: BIS.

Private deleveraging *vs.* public indebtedness

Turning our attention to how foreign banks' exposures to Spain have changed since the ECB gave its support to the euro in mid-2012, it is worth analysing whether confidence in Spanish banks has consolidated with the recovery in the Spanish economy since mid-2013 (the GDP growth rate has been positive since the third quarter of 2013). To do so, we have compared the change in foreign banks' exposures from June 2012 to June 2013 with that taking place between June 2013 and September 2014.

Exhibit 1

Variation in foreign banks' exposure to Spain: Direct exposure
(millions of dollars)



Source: BIS.

As Exhibit 1 shows, in the case of direct exposures in the form of debt purchases, the strong deleveraging undertaken by the Spanish economy's private sector (both companies and households) explains why foreign banks' holdings of Spanish debt have shrunk, a process that has been more intense since June 2013. Specifically, there was a drop of 31.8 billion dollars between June 2013 and September 2014. German and UK banks reduced their exposures to Spain most. By contrast, French banks have substantially increased their exposure to Spain (22.7 billion dollars), and there has been a much smaller increase in the purchase of Spanish debt by Italian banks (2.6 billion dollars).

The strong deleveraging undertaken by the Spanish economy's private sector (both companies and households) explains why foreign banks' holdings of Spanish debt have shrunk, a process that has been more intense since June 2013.

This aggregate behaviour conceals significant differences between types of debt as a result of private sector deleveraging and growing public-sector debt. In the case of the former, debt reduction explains why foreign banks have reduced their holdings of Spanish businesses' debts by almost 74 billion dollars since mid-2012, with the decline being continuous since then. German and British banks reduced their exposures to Spanish companies most, while France has increased its debt holdings.

By contrast, foreign banks have increased their exposure to Spanish public debt, with an increase since June 2012 of 21.6 billion dollars, the biggest increase being concentrated in the period of GDP growth that began in June 2013. Thus, during this period of economic growth, foreign banks added 14 billion dollars of Spanish public debt to their balance sheets. German banks increased their exposures to Spanish public debt most since June 2013, by a wide margin, in contrast to the situation one year earlier, when they reduced their exposures. The UK's banks are the only ones to have gotten rid of Spanish public debt.

By contrast, foreign banks have increased their exposure to Spanish public debt, with an increase since June 2012 of 21.6 billion dollars, the biggest increase being concentrated in the period of GDP growth that began in June 2013.

In the case of debt issued by Spanish banks, the amount of debt held by foreign banks has increased since June 2012 but is unchanged since June 2013. French banks have shown strongest confidence in Spain's banks, having increased their exposure by almost 20 billion dollars since June 2013. By contrast, German and British banks have reduced their exposures.

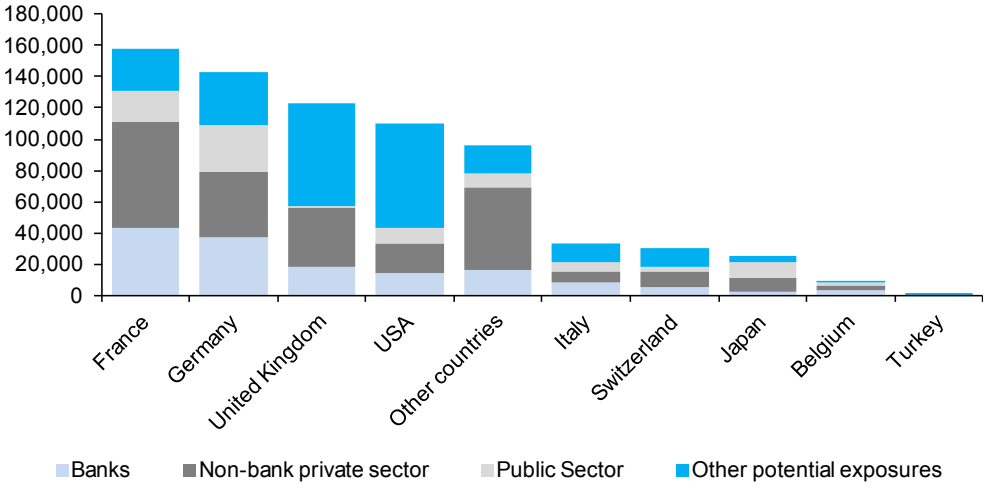
Foreign banks' exposure to Spain: September 2014

The most recent information available, referring to September 2014, shows French banks to have the greatest exposure to Spain: 22% in terms of total exposure and 27% in terms of direct exposure. In this latter case, French banks hold Spanish debt worth 130.5 billion dollars on their balance sheets. The second largest holder of Spanish debt is Germany, whose banks hold 109.1 billion dollars of Spanish debt. Therefore, between them, French and German banks hold almost 50% of Spanish debt.

Turning to the case of public debt, Germany's banks have the biggest exposure to Spain, with 29.5 billion dollars. French banks come second, with 20 billion dollars. These two banking sectors

Exhibit 2

Foreign banks´exposures to Spain. September 2014
(millions of dollars)



Source: BIS.

hold slightly more than half (54%) of all Spanish public debt held by foreign banks, which in September 2014 totalled 91.7 billion dollars. Therefore, Spanish public debt held by foreign banks was 7.3% of the total.

Debt issued by Spanish banks held by foreign banks came to 148 billion dollars, with France and Germany holding 54%. Foreign banks hold 249 billion dollars worth of debt issued by Spanish businesses, 59% concentrated in France, Germany and the United Kingdom. Half of all Spanish debt held by foreign banks is business debt.

Spanish banks' foreign exposure

Where have Spanish banks focused their outward investments? To answer this question, Table 2 shows the breakdown of outward investments in September 2014 for total direct exposure resulting from the purchase of debt, and its breakdown by debt type. This recent snapshot of Spanish banks' direct foreign exposure (at the level of consolidated groups, therefore including the operations of Spanish banks' foreign subsidiaries) shows that, by a wide margin, the United Kingdom is the main destination for investment, with an exposure of 379 billion dollars, representing 24.8% of total outward investment. Exposure to the United States comes second in importance (236 billion dollars or 15.5% of the total).

Spanish banks' exposures to countries that are currently the focus of attention due to their geopolitical/default risks is marginal: just over a billion dollars to Russia and 399 million dollars to Greece, with most investments being in the non-financial business sector.

In Latin America, Brazil and Mexico together concentrate 22.6% of foreign exposure, with a similar volume of investment in each country. Other countries with investments of more than 1% of the total are Portugal (4.8%), Germany (3.5%), Italy (3.2%), Poland (2.6%), France (2.4%) and Turkey (1.5%). Spanish banks' exposures to countries that are currently the focus of attention

Table 2

Spanish banks' exposures to other countries. Direct exposure. September 2014

Public sector			Banks			Non bank private sector			Total Foreign claims		
	Millions $	%		Millions $	%		Millions $	%		Millions $	%
Mexico	68,832	20.4	France	22,941	18.1	United Kingdom	324,407	30.6	United Kingdom	378,568	24.8
Brazil	61,010	18.1	United Kingdom	18,795	14.8	United States	167,353	15.8	United States	236,202	15.5
United States	52,887	15.7	United States	15,962	12.6	Brazil	101,883	9.6	Brazil	175,915	11.5
United Kingdom	35,367	10.5	Brazil	13,023	10.3	Mexico	89,582	8.4	Mexico	168,984	11.1
Italy	29,973	8.9	Mexico	10,570	8.3	Portugal	52,198	4.9	Portugal	73,100	4.8
Portugal	16,583	4.9	China	7,030	5.5	Germany	45,990	4.3	Germany	53,596	3.5
Poland	9,290	2.8	Italy	5,346	4.2	Poland	28,212	2.7	Italy	49,027	3.2
Turkey	6,501	1.9	Portugal	4,320	3.4	Turkey	15,169	1.4	Poland	39,038	2.6
Japan	6,173	1.8	Switzerland	2,956	2.3	Netherlands	13,767	1.3	France	36,463	2.4
France	4,855	1.4	Germany	2,915	2.3	Italy	13,708	1.3	Turkey	22,391	1.5
Germany	4,691	1.4	Hong Kong SAR	2,550	2.0	France	8,667	0.8	Netherlands	16,576	1.1
Switzerland	1,812	0.5	Poland	1,536	1.2	Norway	7,052	0.7	Switzerland	9,306	0.6
Netherlands	1,383	0.4	Austria	1,433	1.1	Luxembourg	5,610	0.5	Norway	8,133	0.5
Belgium	1,164	0.3	Luxembourg	1,428	1.1	Switzerland	4,538	0.4	China	8,099	0.5
Denmark	939	0.3	Netherlands	1,426	1.1	Ireland	4,318	0.4	Luxembourg	7,042	0.5
Sweden	652	0.2	Ireland	1,400	1.1	Hong Kong SAR	3,568	0.3	Japan	6,667	0.4
Austria	475	0.1	Belgium	1,210	1.0	Denmark	2,350	0.2	Hong Kong SAR	6,570	0.4
Hong Kong SAR	452	0.1	Norway	853	0.7	Austria	2,330	0.2	Ireland	5,989	0.4
Ireland	271	0.1	Australia	746	0.6	Finland	2,216	0.2	Austria	4,238	0.3
Norway	228	0.1	Turkey	720	0.6	Cayman Islands	1,619	0.2	Belgium	3,929	0.3
Chinese Taipei	104	0.0	Denmark	510	0.4	Belgium	1,555	0.1	Denmark	3,799	0.2
Finland	60	0.0	Canada	510	0.4	Australia	1,431	0.1	Finland	2,760	0.2
Greece	47	0.0	Sweden	468	0.4	Canada	1,289	0.1	Australia	2,419	0.2
South Korea	29	0.0	Japan	201	0.2	China	1,069	0.1	Canada	2,177	0.1
Canada	12	0.0	South Korea	190	0.1	Russia	935	0.1	Cayman Islands	1,811	0.1
Singapore	11	0.0	New Zealand	149	0.1	Singapore	785	0.1	Sweden	1,668	0.1
Russia	9	0.0	Finland	143	0.1	South Korea	487	0.0	Russia	1,023	0.1
Luxembourg	4	0.0	Singapore	112	0.1	Greece	342	0.0	Singapore	907	0.1
New Zealand	0	0.0	Russia	79	0.1	Japan	293	0.0	South Korea	707	0.0
India	0	0.0	Cayman Islands	49	0.0	Sweden	136	0.0	Greece	399	0.0
Czech Republic	0	0.0	India	47	0.0	India	128	0.0	New Zealand	212	0.0
China	0	0.0	Czech Republic	33	0.0	Czech Republic	99	0.0	India	176	0.0
Cayman Islands	0	0.0	Greece	9	0.0	New Zealand	63	0.0	Czech Republic	132	0.0
Australia	0	0.0	Chinese Taipei	1	0.0	Chinese Taipei	4	0.0	Chinese Taipei	109	0.0
Other countries	33,878	10.0	Other countries	7,101	5.6	Other countries	157,414	14.8	Other countries	196,893	12.9
All countries	**337,692**	**100.0**	**All countries**	**126,762**	**100.0**	**All countries**	**1,060,567**	**100.0**	**All countries**	**1,525,025**	**100.0**

Source: BIS.

due to their geopolitical/default risks is marginal: just over a billion dollars to Russia and 399 million dollars to Greece, with most investments being in the non-financial business sector.

Exposure to corporate debt is the most significant, as it accounts for 71% of Spanish banks' total outward investments (1.1 trillion dollars). The United Kingdom is again the main destination for corporate debt purchases, as the country accounts for 30.6% of the total debt of this type. The United States is second in importance, with an exposure to corporate debt of 167 billion dollars. Together with Brazil, Mexico and Portugal, these five countries account for almost 80% of the foreign business debt held by Spanish banks.

In the case of public debt issued by third countries, Spanish banks' exposure comes to 337.7 billion dollars, with Mexico, Brazil and the U.S. being the main destinations for this investment. In the case of bank debt, Spanish banks hold debt of almost 126.8 billion dollars, with France, the United Kingdom, the United States, Brazil, and Mexico accounting for 60% of the total.

Banks' exposure to Greece

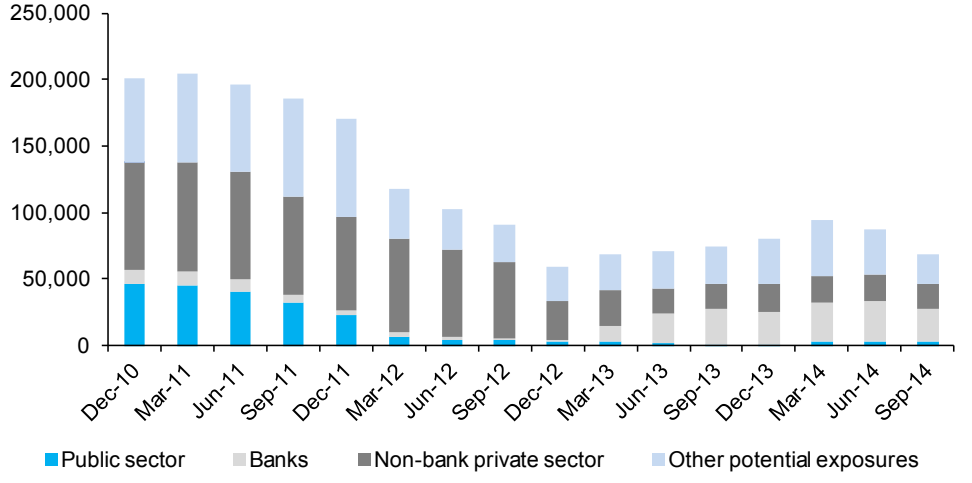
Of particular interest is the analysis of the banks' exposure to Greece, as a consequence of the two bail-outs the country has undergone so far, and the current tension following the formation of the new government, which proposes a restructuring of the debt.

As Exhibit 3 shows, foreign banks' exposure to Greece fell by a third between late 2010 and September 2014, from 201 to 69 billion dollars. The sharpest drop has been in public debt, which in September 2014 was just 5% of foreign banks' 2010 holdings. Thus, the most recent information available indicates that just 2.4 billion dollars of Greek public debt is held by foreign banks.

Capital flight has also been intense in the case of debt issued by non-financial corporations, with holdings having shrunk to a fifth. By contrast, after the capital flight in the wake of the first bail-out, since 2012, foreign banks have increased their exposure to debt issued by Greek banks, although since the third quarter of 2014, exposures have again contracted.

Exhibit 3

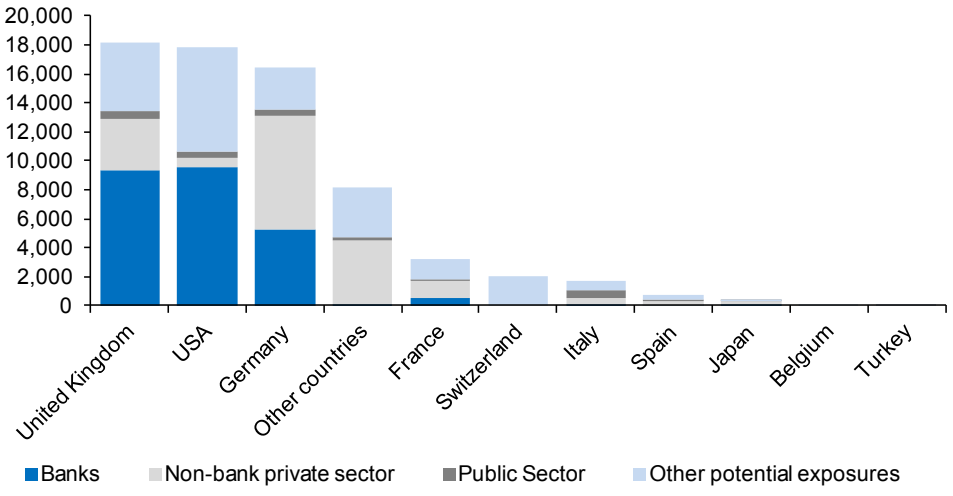
Foreign banks' exposure to Greece. All countries
(millions of dollars)



Source: BIS.

Exhibit 4

Foreign banks' exposure to Greece. September 2014
(millions of dollars)



Source: BIS.

Table 3

Foreign banks' exposure to Greece. September 2014
(millions of dollars)

	Banks	Non-bank private sector	Public Sector	Total direct exposure	Other potential exposures	Total
United Kingdom	9,362	3,521	588	13,472	4,658	18,130
USA	9,608	543	489	10,640	7,181	17,821
Germany	5,255	7,826	434	13,515	2,938	16,453
Other countries	120	4,343	278	4,742	3,418	8,160
France	580	1,179	52	1,812	1,371	3,183
Switzerland	0	0	0	0	2,037	2,037
Italy	108	441	511	1,060	678	1,738
Spain	9	342	47	399	358	757
Japan	134	155	11	300	101	401
Turkey	4	8	22	54	2	56
Belgium	0	38	0	39	9	48

Source: BIS.

Which banking sectors currently have the biggest exposures to Greece? U.S., British and German banks hold, in more or less equal shares, slightly more than three quarters (76%) of Greek debt, with a total exposure of 52.4 billion dollars. They are followed, at some distance, by France (3.2 billion dollars), while Spanish banks' exposure to Greece is marginal (0.8 billion dollars).

In the case of public debt exposures, British banks are the most exposed to Greece, although the figures are small (588 million dollars), followed by Italian banks (511 million dollars), U.S. banks (489 million dollars) and German banks (434 million dollars). Spanish banks have only 47 million dollars of Greek public debt on their balance sheets.

U.S., British and German banks hold, in more or less equal shares, slightly more than three quarters of Greek debt, with a total exposure of 52.4 billion dollars. They are followed, at some distance, by France (3.2 billion dollars), while Spanish banks' exposure to Greece is marginal (0.8 billion dollars).

Foreign banks' exposure to debt issued by Greek banks and businesses is larger. In the former case, of the 25.2 billion dollars of debt, British and U.S. banks are the most exposed, holding 75% of the total. German banks have the third biggest exposure to Greek banks, with 5.2 billion dollars of debt on their balance sheets. Spanish banks' exposure to Greek banks is marginal, at just 9 million dollars. And in the case of the latter, the high exposure of German banks to Greek businesses stands out, as they hold 7.8 billion dollars of debt, or 42.5% of the total held by foreign banks. Spanish banks hold 342 million dollars of debt issued by Greek businesses.

Concluding remarks

From this analysis, we can conclude that the economic recovery has brought back foreign banks' appetite for Spanish public and bank debt, while the reduction in their exposure to private debt issued by non-financial corporations should not be interpreted as capital flight, but is rather the product of the process of intense corporate deleveraging. Additionally, over this same period of growth that began in mid-2013, the value of Spanish banks' outward investments has risen by 4.2% (61 billion dollars), with the growth in investments in the U.S. (29 billion dollars), Brazil (11.3 billion dollars), Mexico (19.4 billion dollars) and Italy (18.8 billion dollars) standing out. Fortunately, Spanish banks' exposures to countries that currently face heightened geopolitical/default risk is marginal, as the presence of Greek and Russian debt on Spanish banks' balances is minimal.

Spain´s economic recovery gains speed, but the external balance worsens

Ángel Laborda and María Jesús Fernández[1]

Correction of imbalances, together with structural reform and exogenous factors, supports an optimistic outlook for Spain´s recovery in 2015 and 2016. Deterioration of the balance of payments, however, reflects the need for further reform in order to achieve strong, sustainable growth in the longer-term.

The Spanish economy's recovery has gained strength as a result of progress on the correction of imbalances built up during the growth phase. Other supportive elements include the effects of labour-market reform and a number of exogenous factors, such as falling oil prices and interest rates, cuts in personal income tax, and increased public spending ahead of various elections this year. These factors are stimulating consumption and residential and non-residential construction to a greater extent than anticipated, leading to the GDP growth forecast for 2015 being raised to 3%. Nevertheless, the effect of these factors will be short-lived, and their impact will start to wear off in 2016, such that the forecast for next year is for a slowdown to 2.8%. The downside to this recovery is the deterioration of the balance of payments, which has only avoided entering negative territory this year and next as a result of the drop in the oil price.

International context

The global economic context continues to be characterised by the contrast between the strength of the United States and the weaknesses of the rest of the world. The U.S. economy grew by 2.2% quarter-on-quarter –on an annualized basis– in the last quarter of 2014. Although this figure represents a notable slowdown on the rate of growth registered in the previous quarters, this should not be interpreted as a loss of dynamism, as it forms part of a still highly positive trend, as is highlighted by the strong job creation observed in the first two months of 2015. Average annual growth in 2014 came to 2.4%. The inflation rate was negative in January, but the core rate remains stable at around 1.6%. The Federal Reserve is expected to start raising interest rates around the middle of the year.

The emerging economies continued to show signs of weakness. China grew by 7.4% in 2014, and the official target for 2015 has been cut to 7%, which will be its lowest growth rate in the last 25 years. The Russian economy was stagnant in 2014 and a recession is forecast for 2015 as a consequence of falling oil prices and international sanctions, while its currency, which lost almost 70% of its value against the dollar in 2014, continued to depreciate in the first few months of this year. GDP growth in Brazil in the first three quarters of last year was zero or negative, and

[1] Economic Trends and Statistics Department, FUNCAS.

its exchange rate has fallen by 27% since the middle of last year. The same trend is evident for the currencies of other emerging economies, such as Turkey, Indonesia and South Africa. One of the main uncertainties this year remains the possible impact of rising U.S. interest rates on macroeconomic stability in these countries.

Growth in the euro area picked up in the third quarter, rising to an annualised rate of 1.3%, yielding annual growth of 0.9% over the year as a whole. The indicators available for the first quarter of 2015 indicate that the European economy has continued to gain strength, although the forecasts are still for modest growth, at around 1.5%. The weak economy, together with inflation's falling to negative rates since December, has prompted the European Central Bank to introduce a programme of monetary expansion consisting of the purchase of government or public institutions' debt, and certain private debt instruments, for a value of 60 billion euros a month, initially until September 2016. The programme was launched in early March. The main risk of instability to the area comes from Greece.

Recent developments in the Spanish economy

Spanish GDP grew by 0.7% in the fourth quarter of 2014, a rate equivalent to 2.7% in annualised terms (all the quarter-to-quarter growth rates below will be expressed in this form) above the 2.1% registered in the two previous quarters. Growth in year-on-year comparative terms was 2%. Over the year as a whole, GDP grew by 1.4% on the previous year.

The quarter's growth came from a positive contribution from domestic demand of 2 percentage points (pp) and a positive contribution from the external sector of 0.7 pp. This was the first time since the start of the recovery when the external sector's contribution to quarterly growth was positive, and was a result of the sharp drop in imports in the period. Over the year as a whole the contribution of domestic demand to growth was 2.2 pp, while the external sector contributed -0.8 pp, as a result of import growth outpacing export growth. It is the first year since 2007 in which the external sector made a negative contribution to growth.

Private consumption rose by 3.8% in the fourth quarter. The dynamism of this expenditure component, which has maintained quarter-to-quarter growth rates comparable to those in pre-crisis years over the course of the year, has been one of the most striking features of how the economy progressed in 2014. This variable's growth over the year as a whole was 2.4%. A large share of this growth was driven by spending on consumer durables, which rose by 10.9% on an annual basis in 2014. Much of this was new vehicle purchases, with registrations rising by almost 19%. Nevertheless, most of this spending filtered through to imports rather than national production, as can be seen in the disappointing performance of the consumer durables IPI, which dropped by 1.6%. This explains the strong growth in imports that took place in 2014, which caused an inversion in the contribution of external demand to GDP growth. New vehicle registrations grew strongly in the first few months of 2015, and the consumer confidence index has returned to levels higher even than those before the crisis, while the retail trade confidence index is at an all-time high (Exhibits 1.1 and 1.2).

The housing sector's adjustment can thus be considered to have ended, and much earlier than expected. The indicators for the property market, specifically house sales and prices, also point in this direction, having begun to rise in 2014.

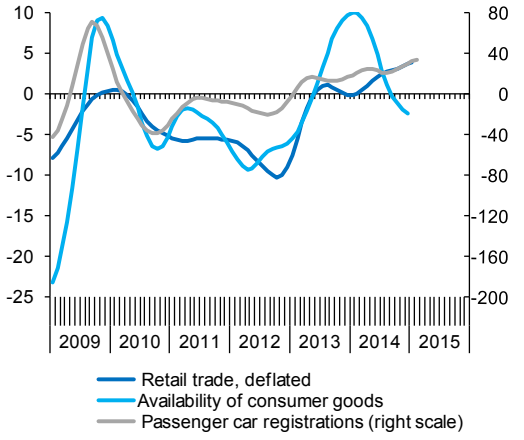
Although government consumption dropped by 3.9% in the last quarter, the result for the year as a whole was a slight increase (0.1%). Nevertheless, the quarter-on-quarter drop was sharper in current

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption indicators (I)

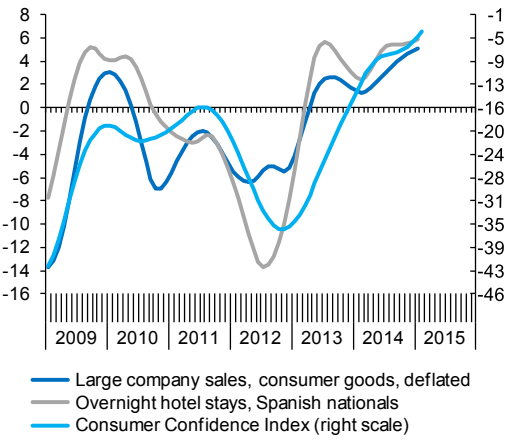
Annualised moving quarterly change in %, smoothed series



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

1.2 - Consumption indicators (II)

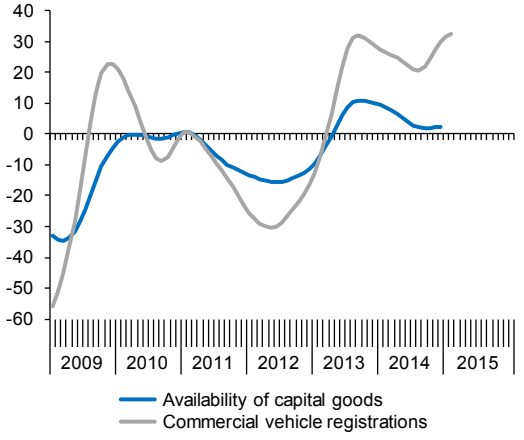
Annualised moving quarterly change in % and index (CCI), smoothed series



Sources: European Commission, INE, AEAT and FUNCAS.

1.3 - Capital goods GFCF indicators (I)

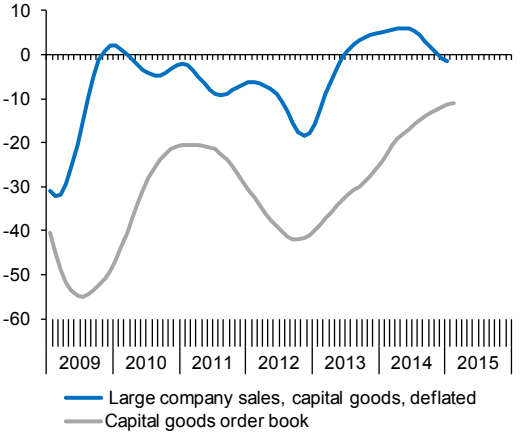
Annualised moving quarterly change in %, smoothed series



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.

prices (15.2%), such that the annual result, in these nominal terms, was a contraction of 0.7%.

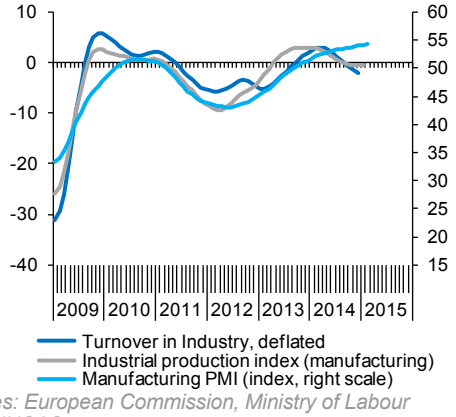
Investment in machinery contracted in the fourth quarter, after seven straight quarters of growth. However, the drop was more than offset by rising investments in transport equipment and other products. Registrations of commercial vehicles continued to grow strongly in January and February 2015, with a recovery in sales by large capital goods companies in January (Exhibits 1.3 and 1.4) following the drop the previous quarter.

Exhibit 2

Industrial activity, services and construction indicators

2.1 - Industrial sector indicators (I)

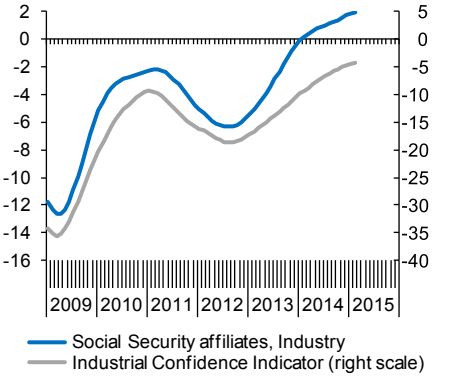
Annualised moving quarterly change in % and index, smoothed series



Sources: European Commission, Ministry of Labour and FUNCAS.

2.2 - Industrial sector indicators (II)

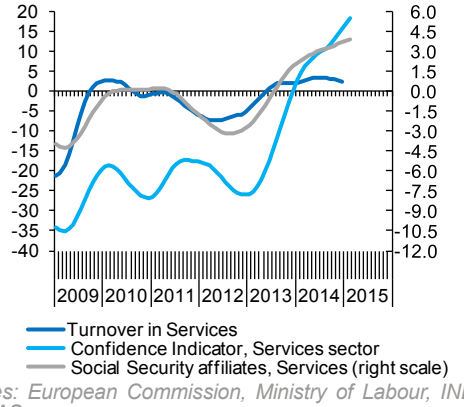
Annualised moving quarterly change in % and index, smoothed series



Sources: European Commission, Ministry of Labour and FUNCAS.

2.3 - Services indicators (I)

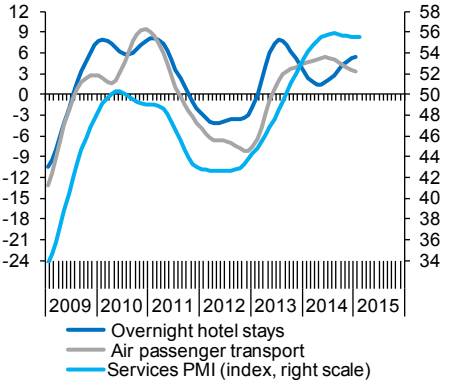
Annualised moving quarterly change in % and index, smoothed series



Sources: European Commission, Ministry of Labour, INE and FUNCAS.

2.4 - Services indicators (II)

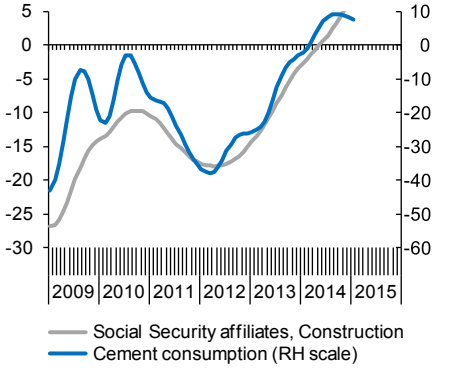
Annualised moving quarterly change in %, smoothed series



Sources: INE, AENA, Markit Economics Ltd. and FUNCAS.

2.5 - Construction sector indicators (I)

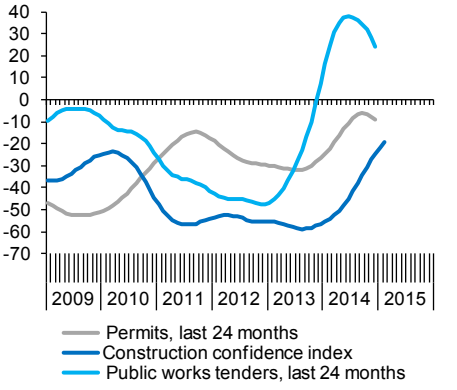
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Labour, OFICEMEN and FUNCAS.

2.6 - Construction sector indicators (II)

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



Sources: Ministry of Industry, SEOPAN and FUNCAS.

Construction investment also grew for the third consecutive quarter. The rise of non-residential construction stands out. This is probably linked mainly to public works, as can be seen from the strong increase in public tenders, although housing construction also grew. The figures for housing construction from the previous quarters have also been revised upwards, such that this component of investment rose, in quarter-on-quarter terms, in all four quarters of 2014. The sector's adjustment can thus be considered to have ended, and much earlier than expected. The indicators for the property market, specifically house sales and prices, also point in this direction, having begun to rise in 2014.

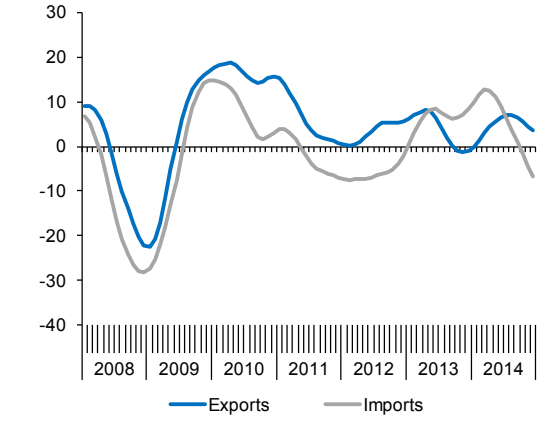
Goods exports declined in the fourth quarter of the year, although this drop was offset by the increase in exports of services, such that total

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

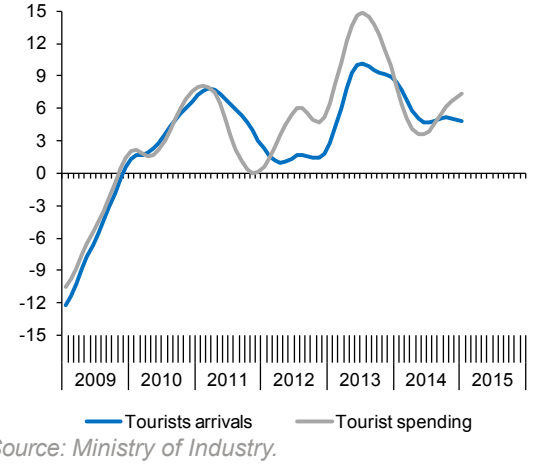
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Economy.

3.2 - Tourist sector

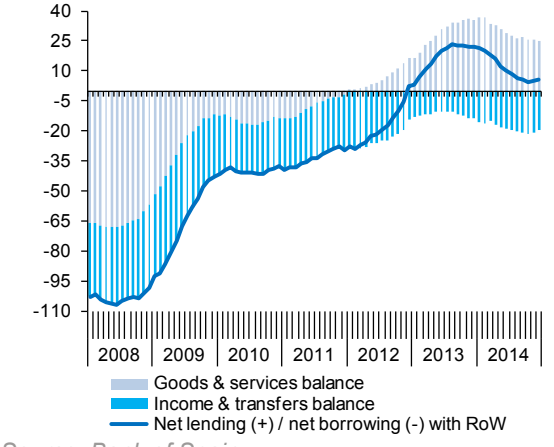
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Industry.

3.3 - Balance of payments

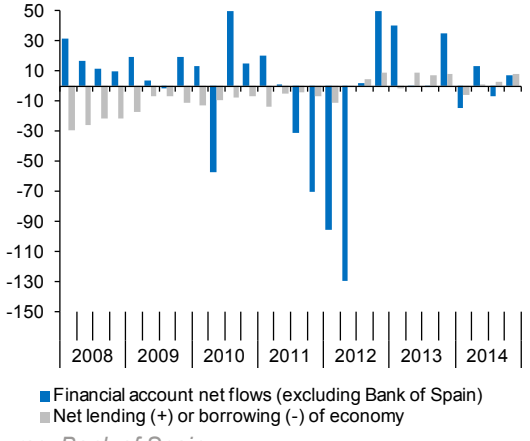
EUR billion, cumulative last 12 months



Source: Bank of Spain.

3.4 - Balance of payments

EUR billions



Source: Bank of Spain.

exports registered virtually no change in the period. Imports of goods and total imports both declined. The decreases in goods exports and imports followed a strong upturn in the previous quarter, such that the result of the last quarter cannot be interpreted as a change in the recent trend. Throughout 2014, exports of goods and services grew by 4.2% and imports by 7.6%. As a consequence, the balance of payments on the current account in 2014 reduced its surplus to 0.1% of GDP from 1.4% in 2013 (Exhibits 3.1 to 3.3).

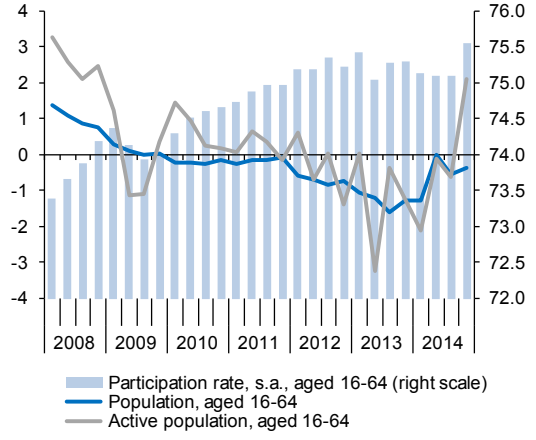
From a supply-side perspective, GVA grew in manufacturing, services not linked to the public administration, and above all, in construction, which posted a quarterly upturn of 13% on

Exhibit 4

Labour market indicators

4.1 - Labour supply

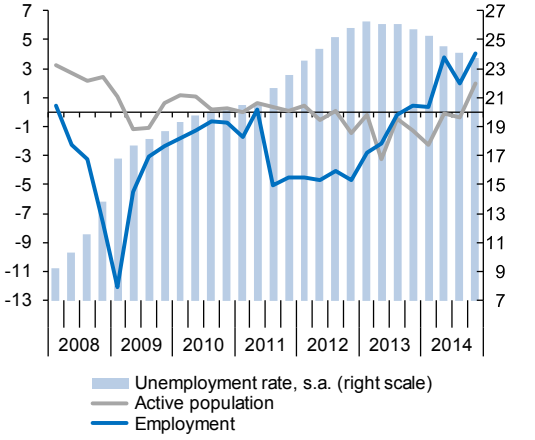
Annualised change q-o-q in % and percentage of population aged 16-64



Source: INE (LFS).

4.2 - Employment and unemployment (LFS)

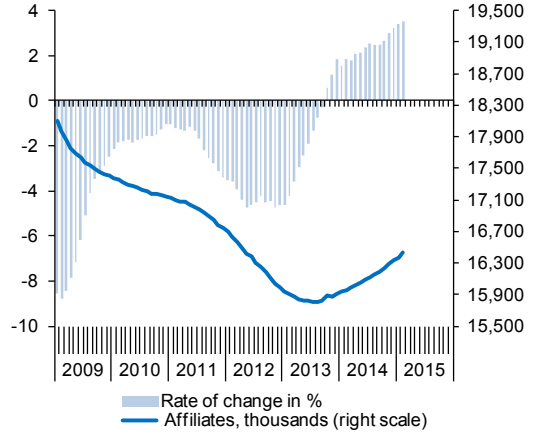
Annualised change q-o-q in % and percentage of working age population



Source: INE (LFS).

4.3 - Social Security affiliates

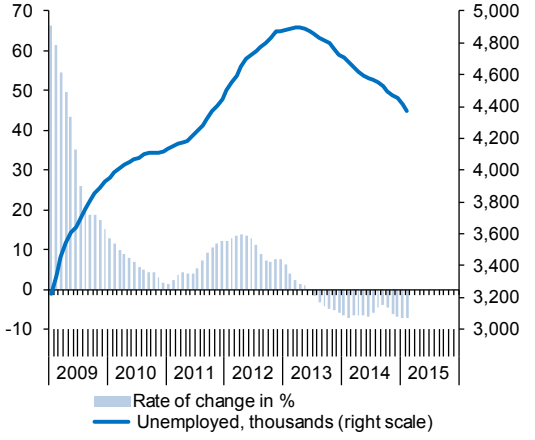
Annualised moving quarterly change in % and thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

4.4 - Registered unemployment

Annualised moving quarterly change in % and thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

an annualised basis, although its year-on-year performance from 2013 to 2014 was negative. The primary sector's GVA dropped, although quarter-to-quarter variations in this sector are highly erratic, and the picture for the year as a whole was one of growth. The indicators for industrial activity and services maintained a positive trend in the first few months of the year, particularly as regards the number of social security system affiliates in each sector, confidence indexes and PMIs, and the strong job creation in the construction sector is particularly striking (Exhibits 2.1 to 2.6).

The number of full-time equivalent jobs accelerated its quarterly growth rate to 2.8% in the last quarter of the year, giving rise to an increase of 1.2% over the year as a whole, this being the first year since 2008 in which employment had increased. The unemployment rate dropped to 23.7% in the last quarter, two percentage points lower than a year earlier. Job creation gained strength in January and February of 2015, according to figures showing an acceleration in the rise in the number of social security system affiliates (Exhibits 4.1 to 4.4).

Productivity dropped slightly in the fourth quarter, both in the manufacturing industry and across the wider economy, although the change in this variable over the year as a whole was positive. Wage increases, also on an annual average basis, were negative in services, particularly those linked to the public administration, and positive in industry. As a result of the trends in productivity and wages, unit labour costs fell by 0.4% in 2014 across the economy as a whole and 0.3% in the manufacturing industry (the fifth consecutive year of decreases, in both cases).

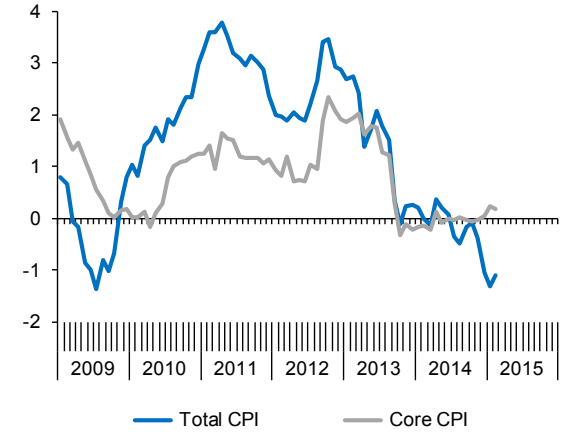
Towards the third quarter of the year, households had produced a net lending position of 1.3% of GDP, well below the 2.8% in the year-earlier period, as a consequence of a drop in savings, which in turn derived from growth in nominal consumption in a context of falling gross disposable income. This surplus was largely devoted to debt reduction, with debt in the third quarter of the year standing at 111.6% of households' gross disposable income, a ratio 5.6 pp lower than that reached a year earlier, and 17 pp lower than its peak in 2010 (Exhibits 7.2 and 7.4).

Exhibit 5

Price indicators

5.1 - Consumer Prices Index

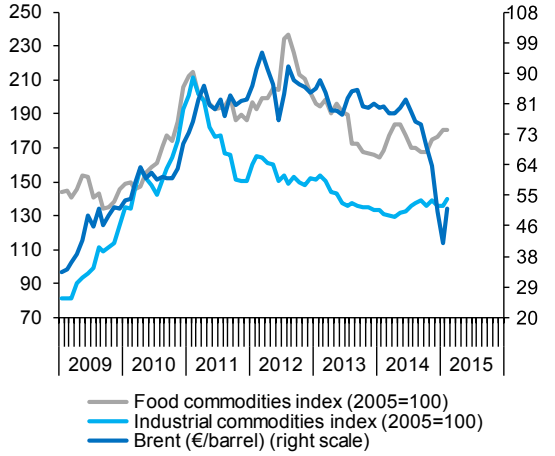
Change y-o-y in %



Source: INE (CPI).

5.2 - Commodities prices in €

Euros and index



Sources: Ministry of Economy and The Economist.

For their part, non-financial corporations posted a financial surplus of 1.7% of GDP for the period to the third quarter of the year, 2.8 pp less than in the year-earlier period. Firms devoted their entire surplus, along with the proceeds of the sale of financial assets, to reducing their debt, which stood at 109.7% of GDP in the third quarter, 5.5 pp less than a year earlier, and 24.4 pp down from its peak (Exhibits 7.2 and 7.4).

In contrast to the private sector's financial surplus, the public sector posted a deficit in the first three quarters of the year. Excluding aid to financial institutions, this came to 4.9% of GDP compared with 5.7% of GDP in the same period the previous year (Exhibit 7.3). Through November, the deficit of all levels of government excluding local authorities –*i.e.,* central government, autonomous regions, and social security funds– came to 4.62% of annual GDP –excluding aid to financial institutions– compared with 5.15% in the same period the previous year. The improvement mainly came from increased revenues, which grew by 1.7%, while expenditure dropped by just 0.9%. The central government and the social security funds reduced their deficit, while the autonomous regions increased theirs. In the case of social security, the improvement in its balance came from the increase in the National Employment Service surplus –unemployment benefits–, while the Social Security System –basically the pensions system– worsened its deficit.

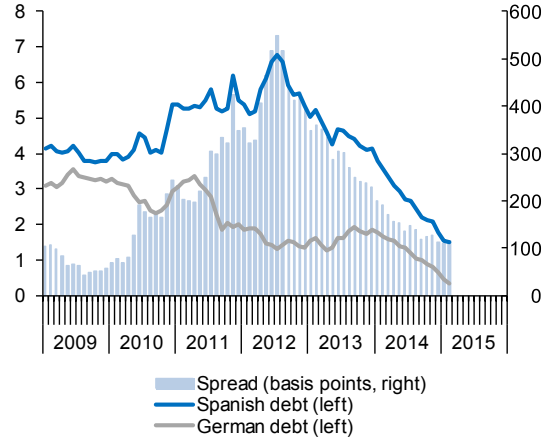
The financial account of the balance of payments –excluding the Bank of Spain– reduced its surplus from the 7.2% of GDP reached in 2013 to 0.1% of GDP in 2014 (on the basis of provisional figures) (Exhibit 3.4). This was not a consequence of a decrease in inflows of resources from foreign investors, which, on the contrary, doubled, but a change in sign in Spanish investors' operations abroad, which turned from negative in 2013 –*i.e.* net inflows from divestments– to positive in 2014 –net outflows. The fact that foreign investors have kept their appetite for Spanish financial assets is shown by the downward slope of yields and risk premiums on Spanish debt over the year, a trend that continued into the start of the current year (Exhibit 6.1).

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

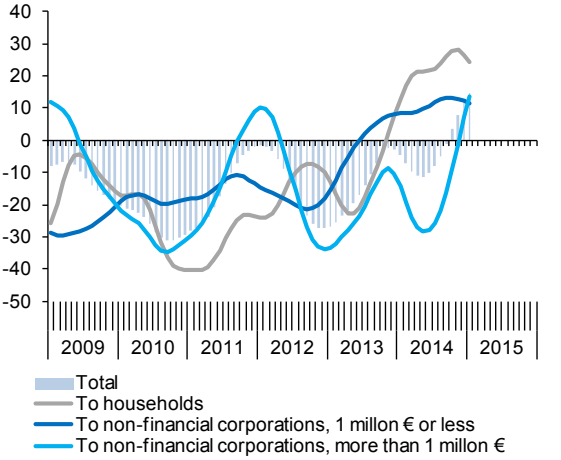
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - New business loans

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



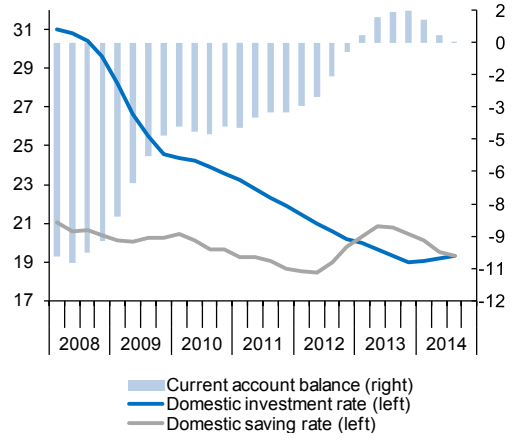
Sources: Bank of Spain and FUNCAS.

Exhibit 7

Financial imbalances

7.1 - Domestic saving, investment and current account balance

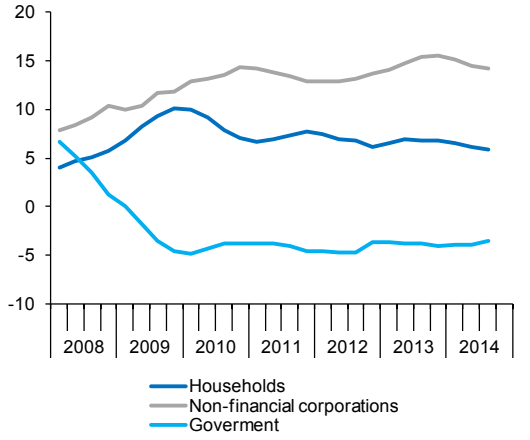
Percentage of GDP, 4-quarter moving average



Source: INE.

7.2 - Saving rates

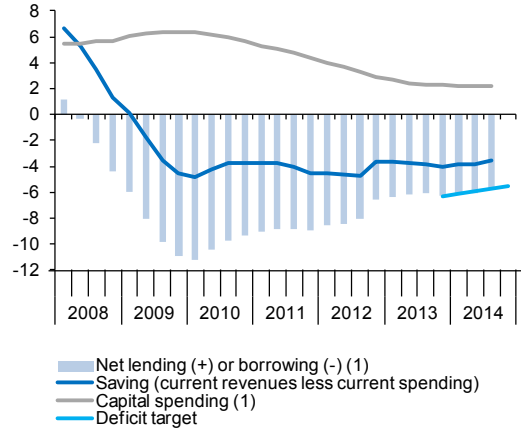
Percentage of GDP, 4-quarter moving average



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

Source: Bank of Spain (Financial Accounts).

The consumer price inflation rate, which since last July has been negative almost every month, dropped to a minimum of -1.3% in January and rose to -1.1% in February. The negative rate is basically the result of falling energy product prices (Exhibits 5.1 and 5.2). Core inflation, *i.e.* the inflation rate excluding foodstuffs and energy related products, is positive, although low, and slowly climbing. This implies a very much incipient and still very slight upturn in inflationary tensions,

and therefore a move away from the deflationary scenario, which is in any case inconsistent with the current context of strong consumption growth.

In January of this year, new lending to small businesses and households, for both house purchases and consumption, remained on the growth trend observed in 2014 (Exhibit 6.2). This positive trend is the result of both the favourable change in conditions on both the supply side, thanks to the recapitalisation and cleaning up of the Spanish financial system, and demand side, with the progressive recovery of solvent demand. Nevertheless, the total stock of credit continues to drop, which is only to be expected given the economy's being in a process of deleveraging.

Forecasts for 2015-2016

The available data for the start of the first quarter of 2015 (including social security affiliates, PMI indexes, confidence indicators, sales by large companies, and vehicle registrations) suggest faster GDP growth than expected, which could reach 3.5% on an annualised basis. Various external and internal shocks, such as the drop in the oil price and interest rates, improved access to credit, the cut in personal income tax, and increased public spending ahead of the various elections due this year, are stimulating consumption and residential and non-residential construction to a greater extent than forecast.

As a consequence of the more vigorous performance of consumption and construction than expected, the GDP growth forecast for 2015 has been revised upwards six tenths to 3.0%.

As a consequence of this more vigorous performance of consumption and construction, the GDP growth forecast for 2015 has been revised upwards six tenths to 3.0%. In the third quarter of the year, the quarter-on-quarter rate will begin to slow slightly due to the progressive moderation of the expansionary impact of the aforementioned shocks, although it will remain vigorous (Exhibit 8.1) In 2016, these effects will continue to lose strength, such that expected growth next year is 2.8%, *i.e.* less than that expected for 2015 (Exhibit 8.1). In both years domestic demand will make a positive contribution while the contribution of the external sector will be negative (Table 1).

Given the Spanish economy's high debt levels and its dependence on external financing, the main risk of this scenario's not being realised comes from the impact on Spain's risk premium and access to external finance due to possible turbulence in financial markets, whether deriving from increased interest rates in the United States or a credit event relating to Greece. Nevertheless, the fact that recent events surrounding the Greek problem have had no impact suggests that the risk is contained. Another risk derives from internal political instability in an election year, bearing in mind the changes that are taking place in the traditional balance of power that have governed the country since the transition to democracy.

Given the Spanish economy's high debt levels and its dependence on external financing, the main risk comes from the impact on Spain's risk premium and access to external finance due to possible turbulence in financial markets.

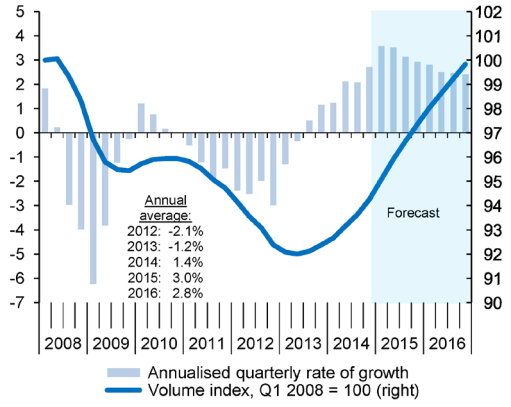
Consumer spending growth in 2015 has been revised upwards to 3.5%. Slower progress is expected in 2016 than is forecast for 2015, reflecting the exhaustion of the expansionary effect of the extraordinary factors affecting this variable this year. Public consumption will

Exhibit 8

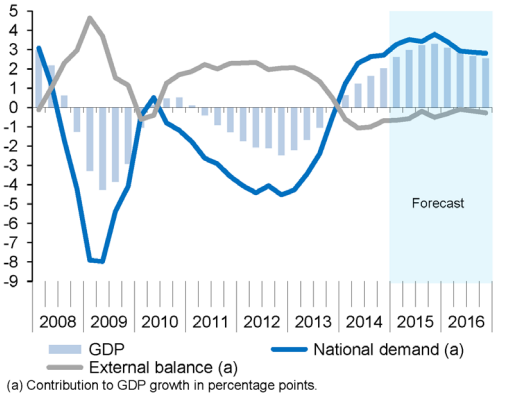
Economic forecasts for spain, 2014-2015

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

8.1 - GDP

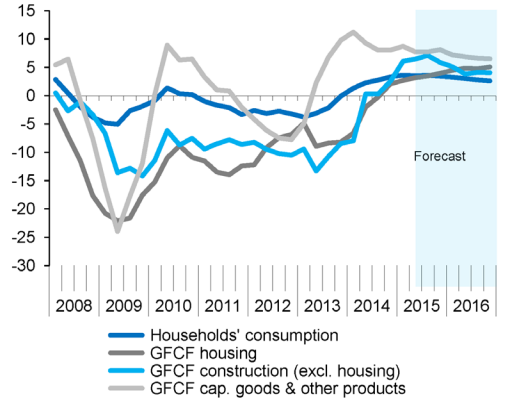


8.2 - GDP, national demand and external balance

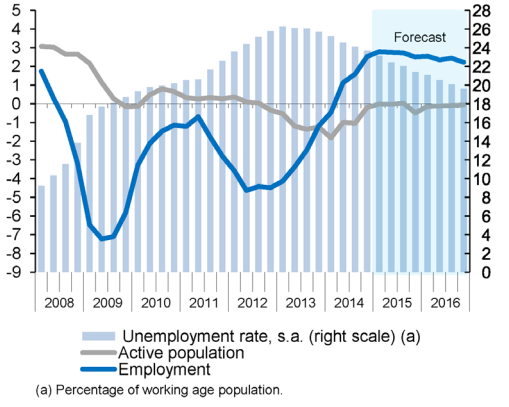


(a) Contribution to GDP growth in percentage points.

8.3 - National demand aggregates

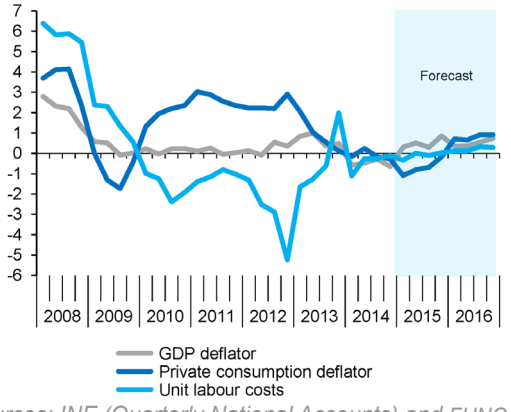


8.4 - Employment and unemployment

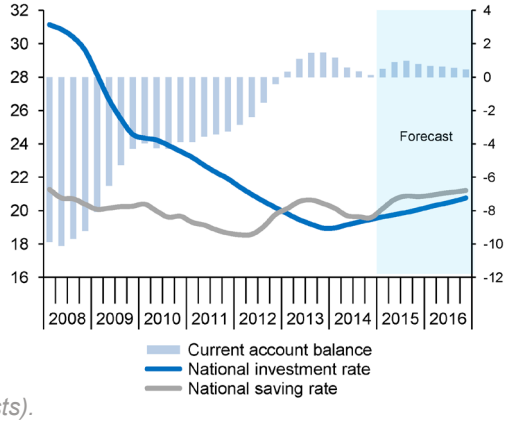


(a) Percentage of working age population.

8.5 - Inflation



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



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

Table 1

Economic Forecasts for Spain, 2014-2015

Annual rates of change in %, unless otherwise indicates

	Actual data				*FUNCAS forecasts*		*Change in forecasts (a)*
	Average 1996-2007	Average 2008-2013	2013	2014	2015	2016	2015
1. GDP and aggregates, constant prices							
GDP	**3.8**	**-1.1**	**-1.2**	**1.4**	**3.0**	**2.8**	**0.6**
Final consumption households and NPISHs	3.6	-1.9	-2.3	2.4	3.5	2.9	0.5
Final consumption general government	4.3	0.8	-2.9	0.1	0.6	0.5	0.0
Gross fixed capital formation	6.4	-7.3	-3.8	3.4	6.6	5.6	2.2
Construction	5.4	-10.3	-9.2	-1.5	5.1	4.5	3.3
Residential construction	7.4	-11.9	-7.6	-1.8	3.3	4.8	1.4
Non-residential construction	3.8	-8.4	-10.5	-1.3	6.4	4.3	4.7
Capital goods and other products	8.3	-2.3	3.4	9.1	8.1	6.8	1.2
Exports goods and services	6.6	1.7	4.3	4.2	5.2	5.5	0.6
Imports goods and services	8.7	-4.1	-0.5	7.6	7.3	6.7	1.0
National demand (b)	**4.5**	**-2.8**	**-2.7**	**2.2**	**3.5**	**3.0**	**0.7**
External balance (b)	-0.7	1.8	1.4	-0.8	-0.5	-0.2	-0.1
GDP, current prices: - € billion	--	--	1,049.2	1,058.5	1,095.7	1,131.9	--
- % change	7.4	-0.5	-0.6	0.9	3.5	3.3	0.5
2. Inflation, employment and unemployment							
GDP deflator	3.5	3.5	3.5	-0.5	0.5	0.5	-0.1
Household consumption deflator	**3.1**	**3.1**	**3.1**	**-0.1**	**-0.7**	**0.8**	**0.1**
Total employment (National Accounts, FTEJ)	3.4	3.4	3.4	1.2	2.6	2.3	0.6
Productivity (FTEJ)	0.4	0.4	0.4	0.2	0.4	0.5	0.0
Wages	7.5	7.5	7.5	1.3	3.3	3.1	0.6
Gross operating surplus	6.9	6.9	6.9	-0.1	3.7	2.9	0.4
Wages per worker (FTEJ)	3.3	3.3	3.3	-0.2	0.3	0.7	-0.1
Unit labour costs	2.9	2.9	2.9	-0.4	-0.1	0.2	-0.1
Unemployment rate (LFS)	**12.5**	**12.5**	**12.5**	**24.4**	**22.3**	**20.4**	**-0.2**
3. Financial balances (% of GDP)							
National saving rate	22.4	19.9	20.4	19.6	20.8	21.2	0.5
- of which, private saving	18.6	23.1	24.5	22.9	22.9	22.3	0.1
National investment rate	26.9	23.1	19.0	19.5	20.1	20.8	0.9
- of which, private investment	23.0	19.4	16.8	17.5	18.0	18.7	0.8
Current account balance with RoW	**-4.5**	**-3.3**	**1.5**	**0.1**	**0.8**	**0.5**	**-0.4**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	2.1	0.5(c)	1.2	0.9	-0.4
- Private sector	-2.8	5.7	8.9	6.1(c)	5.6	4.1	-0.6
- Public sector (general governm. deficit)	**-0.9**	**-8.6**	**-6.8**	**-5.5(c)**	**-4.4**	**-3.3**	**0.2**
- General gov. deficit exc. financial instit. bailou	**--**	**-7.8**	**-6.3**	**-5.5(c)**	**-4.4**	**-3.3**	**0.2**
Gross public debt	52.2	66.3	92.1	97.7	100.6	102.0	-1.0
4. Other variables							
Household saving rate (% of GDI)	10.8	11.2	10.4	8.7(c)	9.2	9.0	-0.3
Household gross debt (% of GDI)	81.5	125.0	115.4	110.5(c)	104.3	99.7	-0.5
Non-financial coporates gross debt (% of GDP)	80.4	126.8	111.9	107.1(c)	101.1	95.1	-0.3
Spanish external gross debt (% of GDP)	90.2	158.1	153.0	159.2(c)	156.6	151.8	-0.3
12-month EURIBOR (annual %)	3.7	1.9	0.5	0.5	0.3	0.5	-0.1
10-year government bond yield (annual %)	5.0	4.7	4.6	2.7	1.2	1.2	-0.6

Notes:
(a) Change between present and previous forecasts, in percentage points.
(b) Contribution to GDP growth, in percentage points.
Sources: 1996-2014 except for (c): INE and Bank of Spain; Forecasts 2015-2016 and (c): Funcas.

maintain a moderate rate of growth in both periods (Exhibit 8.3).

The effect of the electoral cycle will mainly be felt in public investment, as may be anticipated from the trend throughout last year in official tenders. This is the main reason explaining the turn-around in investment in other construction in 2015, which is set to grow by 6.4%. Its growth will moderate in 2016 as the cycle comes to an end. The forecast for residential construction investment this year has been raised considerably, due to the more dynamic than expected growth being seen in this sector. Unlike other components of demand it will gain momentum in 2016 as a result of the progress of the economic cycle, as heralded by the trend in new housing permits, which rose in 2014 for the first time since 2006, and particularly permits for renovation and restoration work, which were up by 9.6%.

As regards capital goods investments, expected growth in 2015 has also been revised upwards, largely as a consequence of the improved forecasts for all the preceding variables. In 2016, it will slow due to the foreseeable exhaustion of one of its main components: investment in transport equipment. This made exceptional progress in 2014 and is expected to continue to do so in 2015, partly thanks to the scrappage schemes to replace old vehicles, which this scenario assumes will cease to operate next year.

Export growth will accelerate in 2015 and 2016 as the European economy's recovery gains traction and as a result of the depreciation of the euro. The rate of import growth, on the other hand, will slow due to the change in the composition of domestic expenditure, in which components with the greatest propensity to import, *i.e.* durable consumer goods and capital goods investments, will occupy a smaller share, while non-durable consumer goods and construction investment, with a lower propensity to import, will increase their share.

In line with forecast faster economic growth, the trend in employment has also been revised upwards (Exhibit 8.4). The number of full-time equivalent jobs will grow by 2.6% and 2.3% in 2015 and 2016, respectively. In terms of the number of people in work according to the LFS, over the two-year period around 890,000 jobs will be created. The average annual unemployment rate will drop to 22.3% this year and 20.4% the next (19.6% in the last quarter). Productivity will continue its moderate growth seen in 2014, which, together with the expected slight rise in wages, will slow the drop in unit labour costs in 2015. In 2016, they may rise slightly, although at a rate below the GDP deflator (Exhibit 8.5).

Despite the external sector's negative contribution to growth, the surplus on the current account of the balance of payments will be larger than in 2014 both this year and next as a result of the smaller energy bill. The economy's net lending position will also remain positive. The surplus will derive from private agents, including households and non-financial corporations. Although consumption has picked up, the household saving rate will recover in 2015 thanks to the positive impact on real disposable income of the income tax cut and the drop in the price of energy products. It will drop in 2016, but will remain above the 2014 level (Exhibit 8.6).

The general government deficit will fall to 4.4% of GDP in 2015 and 3.3% in 2016, entirely as a consequence of the favourable effect of the cycle and the increase in the ratio's denominator due to the growth of nominal GDP. However, in structural terms the balance will worsen in both years.

Finally, as regards inflation, the recovery in demand and the depreciation of the euro could exert a degree of upward pressure on prices, although this effect will be partly offset by the reduction in pressure on the supply side deriving from lower labour and energy costs. On the hypothesis that oil prices remain close to current levels, the overall rate will remain negative throughout almost the whole of 2015, while the underlying rate will continue to move slowly upwards, although it will remain low and will not

exceed 1% at any time over the period covered by the forecast.

To conclude, the short-term outlook for the Spanish economy has improved considerably. This has partly been a result of the operation of the mechanisms inherent to the cycle, *i.e.* progress made on correcting the imbalances generated during the growth phase, supported by certain economic policy measures, such as labour-market and financial sector reform. It has also been partly the result of transitory exogenous factors, such as falling oil prices and interest rates, and the cut in personal income tax. The impact of these will wear off in time, resulting in lower growth from 2016 onwards. The downside is the deterioration of the balance of payments, which will only avoid a deficit again this year and next thanks to lower oil prices. This highlights the fact that the Spanish economy still has a long way to go in terms of structural change in order to arrive at a more balanced growth model.

Spain´s real estate market: An incipient, gradual recovery

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

The latest housing market indicators point to an incipient recovery in Spain´s real estate market. However, given the current level of unemployment, together with outstanding household debt, recovery should be moderate at best at least over the medium-term.

Most indicators suggest that the Spanish real estate market stabilized towards the end of 2014 and the beginning of 2015. After six years of adjustment, the peak-to-trough fall in house prices is estimated to be around 35%-40%, based on an average of leading sources. According to the index of the Ministry of Public Development (2005=100), house prices reached their peak in 2008Q1, at 124.7, and have steadily fallen to 87.3 in 2014Q3, albeit growing again in 2014Q4 to 87.6. The recovery is still incipient, but seems to be supported by some emerging improvements in transactions, as well as the growth in mortgage contracts, where the total amount loaned increased from 37.4 billion in 2013 to 41.2 billion in 2014. In any event, territorial disparity in Spain´s real estate market remains high. Moreover, although it is plausible to expect that house prices will increase during 2015 and beyond, growth will be moderate, given the level of unemployment and the amount of deleveraging that still needs to be done by households. Overall, an improvement in house price statistics in Spain –at least compared to those of other countries- would be a welcome development to better monitor this market.

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SEFO - Spanish Economic and Financial Outlook

Measuring house prices in Spain

While the financial crisis was the result of various factors, housing bubbles were a common feature among countries that suffered the most as a consequence of their imbalances. Spain is one of the most prominent examples. The fall in house prices had a significant negative impact on both the banking sector and the economy as a whole. This has given rise to several analyses and opinions suggesting, inter alia, that the Spanish economy should be more diversified and rely less on the construction sector. There have also been a number of voices criticizing the existence of legal incentives on housing and land prices and the need for more proactive and preventive regulations that avoid excessive speculation.

[1] Bangor Business School and FUNCAS.

[2] University of Granada and FUNCAS.

In any event, regardless of the need for correction, the real estate and construction sectors are very relevant for economic growth in Spain. Now that the economy is recovering, the role of construction will sooner or later be a significant one. A recent example has been the registered unemployment figures of February 2015. There were 96,909 new jobs created -the best result for job creation in the month of February since 2007- and construction contributed the greatest number of jobs to the economy with 26,068.

Despite the importance of the construction and housing sectors, information quality for house price indicators is not comparable to those used in other countries, such as the United States. The Standard and Poor's Case-Shiller index in the US, or the HM Land Registry in the UK, are based on repeated sales. Therefore, they put the focus on specific transactions. Other indicators, such as the Census Bureau Constant Quality House Price Index in the US, take the hedonic approximation, thereby considering differences in the quality of the properties sold.

In Spain, the official price index published by the Ministry of Public Development is based on the appraisal price computed for the purposes of requesting a mortgage. This excludes purchases made in cash or other forms apart from mortgages. Additionally, it takes some time to make valuations and this causes a lag so prices do not reflect the current market evolution.

Valuation companies, such as Tinsa or Sociedad de Tasación, also publish their indices, but they are obviously based on valuations and, therefore, they have the same problems.

Spain's Statistical Office (INE) has recently started to publish a price index based on transactions registered on public deeds. The index uses a hedonic correction, which represents an improvement. However, there are a number of reasons –such as, for example, tax reporting– to believe that transactions in public registries do not reflect the true prices agreed by the parties in the agreement.

All the official indices have, therefore, a number of disadvantages preventing them from reflecting accurate transaction prices. In the absence of other official indicators, interesting complementary information is provided by buy-and-sell web pages, such as Idealista.com or Fotocasa. Their indices

Despite the importance in Spain of the construction and housing sectors, information quality for house price indicators is not comparable to those used in other countries. All of Spain´s official indices have a number of disadvantages preventing them from reflecting accurate transaction prices.

are built upon prices posted by sellers. Here the problem is the opposite to that of the public deeds: prices are usually discounted when the transaction is agreed and, therefore the estimated value could be overstated.

As happened in the past –for example with the Spanish crisis of the 1970s– the adjustment of house prices after the bubble seems to take a longer time in Spain than in other countries, as is also the case for the adjustment of the economy itself. As shown in Table 1, a significant fall in house prices did not take place in Spain until 2011, when the annual decrease was 12.7%. However, other EU members that also experienced significant housing bubbles already suffered accumulated falls in house prices of around 40% from 2008 to 2010.

If we take the index of the Ministry of Public Development, as shown in Exhibit 1 (2005=100), house prices reached their peak in 2008Q1, when the index was 124.7 and have steadily fallen to 87.3 in 2014Q3, growing in 2014Q4 to 87.6.

Table 1

Year-on-year change in house prices in the EU

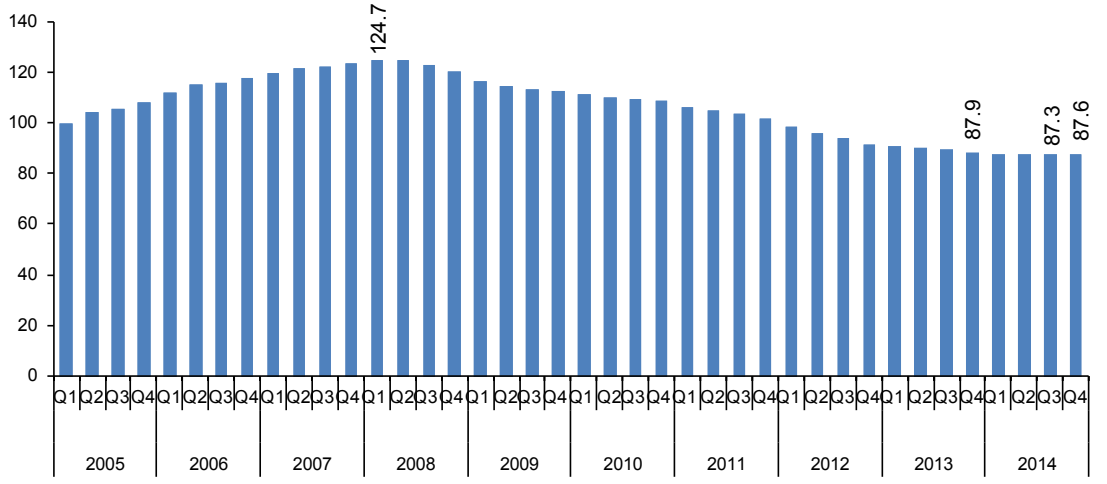
(2014 as of Q3)

	2008	2009	2010	2011	2012	2013	2014
Euro Area	-1.1	-1.1	1.1	-0.2	-2.1	-1.8	0.5
European Union	-2.5	-1.8	1.1	-0.7	-1.4	-0.4	2.3
Belgium	3.3	-0.9	4.6	3.5	1.1	1.1	-0.8
Bulgaria	11.7	-25.7	-5.0	-5.8	-1.3	-1.2	1.8
Czech Republic	--	-6.7	-0.1	-0.9	-0.7	0.2	2.9
Denmark	-11.0	-4.8	2.5	-5.6	1.3	3.6	3.3
Germany	0.3	2.9	-0.5	4.2	5.0	1.5	--
Estonia	-19.6	-33.6	12.9	11.8	5.8	15.6	13.2
Ireland	-12.4	-18.6	-10.5	-16.7	-4.5	6.4	15.0
Greece	7.4	-0.9	-3.6	--	--	--	--
Spain	**-5.2**	**-4.4**	**-1.4**	**-12.7**	**-12.8**	**-6.3**	**0.3**
France	-3.4	-3.3	7.0	3.7	-2.0	-1.6	-1.2
Croatia	1.9	-4.3	-8.9	-1.6	-4.4	-14.4	2.6
Italy	--	--	--	0.3	-5.2	-5.3	-3.8
Cyprus	-0.9	-6.2	-5.1	-8.3	6.4	-8.5	-1.7
Latvia	-17.8	-29.3	-2.4	3.6	7.4	8.2	11.7
Lithuania	-2.5	-31.1	1.4	5.6	-1.2	3.0	10.1
Luxembourg	2.3	-0.4	5.4	5.4	3.8	4.2	4.9
Hungary	-1.7	-7.9	-0.5	-2.9	-5.2	-0.6	3.8
Malta	9.3	-7.7	-0.5	1.5	6.1	-2.5	3.9
Netherlands	-0.6	-4.8	-0.9	-3.4	-7.0	-4.4	1.2
Austria	--	--	--	6.4	6.5	3.3	0.7
Poland	--	--	--	--	--	--	--
Portugal	--	2.3	-0.9	-7.5	-4.0	0.6	4.9
Romania	--	--	-13.4	-17.1	-1.3	0.2	-2.3
Slovenia	-0.2	-8.1	-0.2	1.4	-8.8	-4.4	-5.4
Slovakia	1.0	-11.2	-1.8	-2.3	-2.9	2.2	1.2
Finland	-3.2	7.7	4.4	1.9	3.1	0.5	-0.3
Sweden	-3.8	11.4	6.1	-1.3	3.8	7.0	10.3
United Kingdom	-8.7	0.3	3.9	-0.5	2.3	5.4	11.7
Iceland	-1.9	-8.5	-1.5	7.2	4.7	7.8	7.6
Norway	-6.9	11.6	6.6	8.0	7.4	0.5	3.4

Source: Eurostat.

Exhibit 1

House price index in Spain (2005-2014)
(2005=100)



Source: Spain's Ministry of Public Development and own elaboration.

If the inflection point is confirmed, it has taken six years for the market to adjust in Spain. Similarly, the information recently released by the INE suggests that house prices have risen 1.8% in 2014.

As happened in the past –for example with the Spanish crisis of the 1970s– the adjustment of house prices after the bubble seems to take a longer time in Spain than in other countries, as is also the case for the adjustment of the economy itself.

Is the market really recovering?

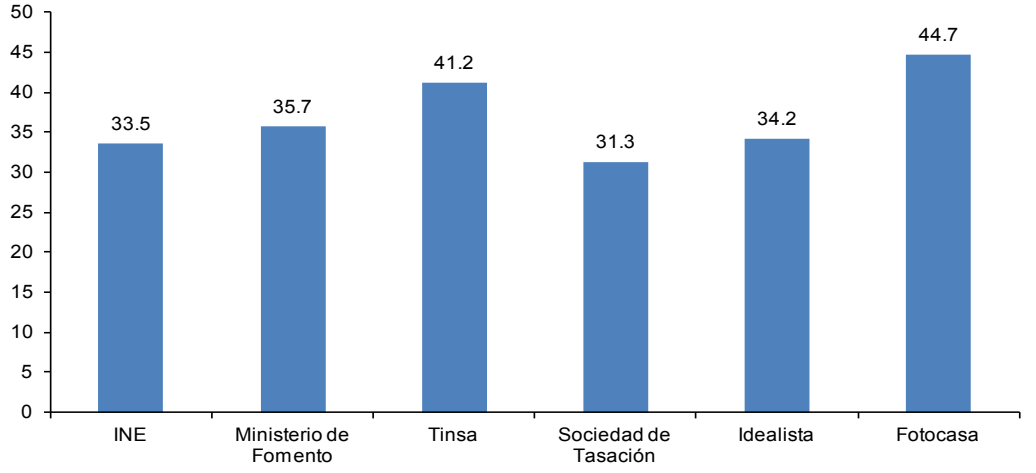
The latest figures from different public and private sources suggest that the adjustment in house prices was completed by the end of 2014. At least where average prices are concerned. However, there are significant divergences in the estimation of the fall peak-to-trough. Exhibit 2 shows the accumulated decrease in prices. The official figures (Ministry of Public Works/Ministerio de Fomento, and INE) suggest the peak was reached by 2008Q1 and those of private sources may slightly vary but are overall comparable. The total fall ranges from the 44.7% estimated by Fotocasa to the 31.3% by Sociedad de Tasación.

No matter the source, the figures are in line with the expectation of a 35%-40% adjustment needed to start the recovery in the real estate market. In this vein, the *Global Housing and Mortgage Outlook – 2015* published by Fitch Ratings on January 14th, 2015, states, "economic growth, low interest rates, and improved affordability are among the supporting factors for mortgage and housing markets in some Eurozone peripheral markets. In Spain, for example, we expect house prices to stabilize this year after nearly seven years of declines that have seen nominal prices fall 40%. We expect housing NPLs in both Spain and Portugal to stabilize in 2015 and fall next year."

Economic recovery appears to be a stabilizing factor, although the rating agency also suggest there are some threats to the completion of the adjustment in the housing market, such as

Exhibit 2

Peak-to-trough fall in house prices

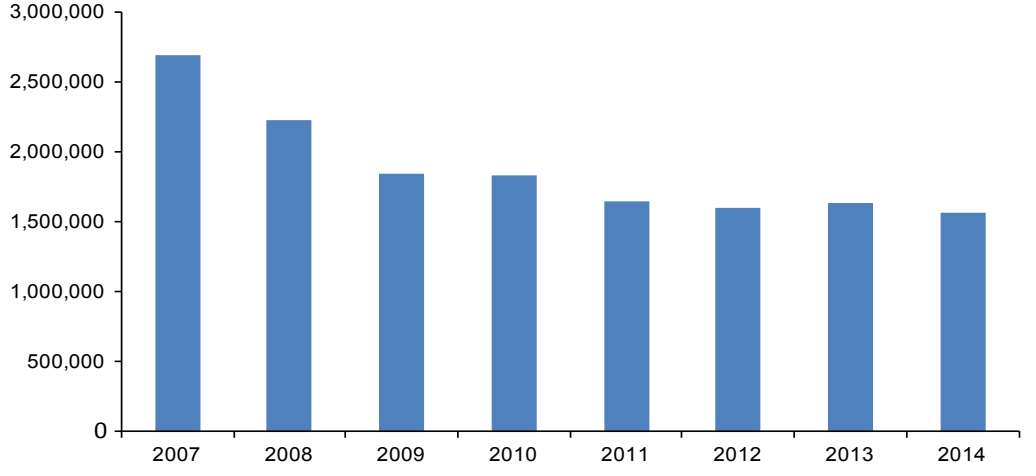


Sources: Computed from INE, Ministerio de Fomento, Tinsa, Sociedad de Tasación, Idealista and Fotocasa data.

the possible underperformance of mortgages. Specifically, Fitch suggests that "a persistently weak labor market and return to recession could see Italian arrears rise modestly this year and house prices continue to fall. Long-term joblessness presents a risk to recovering mortgage performance in Spain and Portugal. A new risk to Eurozone mortgage markets is the possibility of persisting deflation. Spain and the Netherlands are the most exposed markets due to high household debt in the former and the number of interest only mortgages in the latter."

Exhibit 3

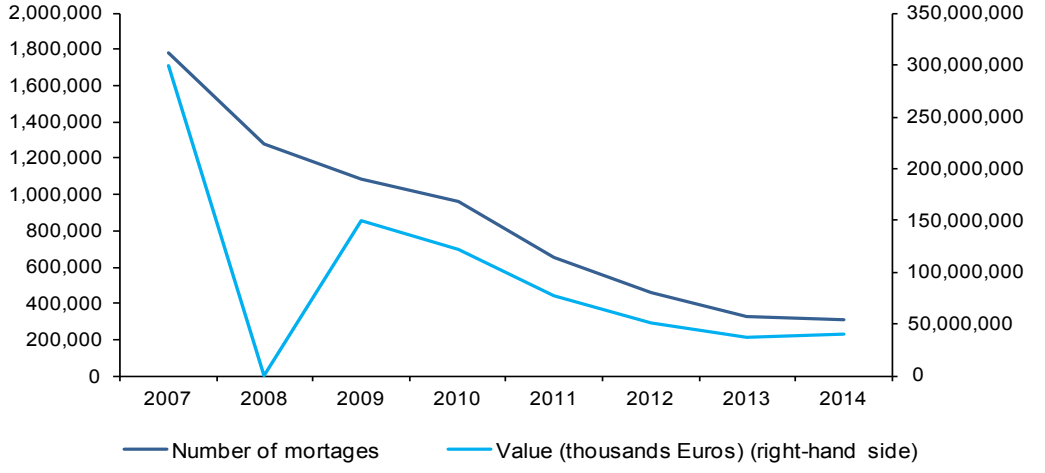
Transfers of property rights



Source: Spain's Statistical Office (INE) and own elaboration.

Exhibit 4

Mortgages constituted: Amount and value



Source: Spain's Statistical Office (INE) and own elaboration.

If one looks at the transactions in the real estate market, as well as at mortgage funding, the recovery seems to be confirmed, but is incipient and weak. In particular, the provisional INE figures suggest the transfers of property rights (as a proxy of real estate transactions) increased from 1,602,633 in 2012 to 1,636,496 in 2013, but fell to 1,561,287 in 2014 (Exhibit 3). This does not necessarily mean demand fell in 2014 as the increase in 2013 may have been driven by the end of a more favorable tax treatment on house purchase transactions.

Actually, according to the latest monthly data published by INE, the number of property transfers registered in January 2015 was 140,904 properties. This is 2% less than in January 2014. However, if we focus on dwellings, the registered transfers increased by 9.6% in the same period.

As for mortgages, the total number of mortgages fell from 326,978 in 2013 to 314,018 in 2014. However, the total amount loaned increased from 37.4 billion euros to 41.2 billion euros in the same period. Consequently, the average mortgage amount has increased from 114,637 euros in 2013 to 131,127 euros in 2014.

Taking the most recent monthly data, the total number of mortgages constituted on dwellings recorded in the land registries was 15,962 in December 2014, 28.9% more than in December 2013.

Unequal stabilization

Even if an overall stabilization of the real estate market seems to be in place, there are significant differences across markets.

Free-market house prices actually showed their first quarterly increase in 2014Q4 (0.5%), according to the Public Development Ministry. The

Even if an overall stabilization of the real estate market in Spain seems to be in place, there are significant differences across territories.

average price of a free-market house in the 2014Q4 was 1,463.10 euros a square meter. However, the General Price Index revealed some differences across regions. Prices increased in seven Spanish

regions in 2014, including Cantabria (+3.6%), the Balearic Islands (+2.3%), the Canary Islands (+0.5%), Valencia (+0.5%), Madrid (+0.4%) and Andalusia (+0.1%). However, they fell in Asturias (-5.2%), Castile-Leon (-3.6%) and Castile-La Mancha (-3.2%).

Prices across provinces vary significantly ranging from 774.1 euros a square meter in Ciudad Real to 2,701.7 euros in Gipuzkoa by the end of 2014.

The adjustment is also unequal in terms of the effort necessary to acquire a house, measured by the number of wages required to pay the full price. Using average salary information from INE and the price of free housing provided by the Ministry of Public Development, the average number of salaries to acquire a house of 90 square meters was 6.1 in Spain in 2014, but ranges regionally from 4.1 in Castile-La Mancha to 8.8 in the Balearic Islands.

It is also important to note that, despite the economic recovery, the level of unemployment is still very high and it is having a persistent impact on foreclosures. The INE figures as of 2014Q4 (Table 2) reveal some interesting facts. Although the registration of certifications of foreclosures in the land registries was 30,677 in 2014Q4, this represents a 4.4% decrease in the annual rate, meaning that the reduction in foreclosures is still too nascent to be confirmed.

Table 2
Foreclosures in Spain (2014Q4)

	Foreclosures in 2014Q4	Quarterly change %	Annual change %
Total properties	30,677	32.0	-4.4
Urban properties	29,354	32.6	-4.0
Urban properties -dwellings	18,211	32.5	-1.0
Solar	1,285	24.4	-36.9
Other	9,858	33.9	-2.7
Rustic properties	1,323	19.7	-12.8

Source: Spain's Statistical Office (INE) and own elaboration.

Interestingly, 61.6% of the certifications of foreclosures in 2014Q4 corresponded to mortgages set up between 2005 and 2008, suggesting that the years prior to the peak involved particularly high risk in house purchase transactions.

Recent regulatory measures affecting the housing sector

The impact of foreclosures and mortgage payments on a significant number of households is still noteworthy. Some measures recently approved by the government on the Council of Ministers held on February 27th are oriented to some extent to alleviate these problems. The Royal Decree Law on second chance mechanisms and the reduction in the financial burden, and other measures of a social nature was approved. A specific system is established to resolve the insolvency of individuals. Out-of-court payment agreements are extended and made more flexible, as is the possibility of making arrangements with creditors so that it becomes faster and simpler to restructure debts.

A judicial restructuring mechanism is also established that will allow individuals to be released from outstanding debts by employing assets they own at the time an agreement is reached, with the intervention of a judge. Additionally, prescription periods for personal debts are reduced from 15 to 5 years.

Another measure under this new legislation is related to the Code of Best Practices for mortgage debtors. The new criteria will now be made more flexible for accessing these properties and cases of particular vulnerability will be extended to include those over the age of 60. The new legislation also removes 'floor clauses' on mortgages for debtors below the new threshold established in the Code and extends the moratorium on evictions from primary residences of the most vulnerable groups until 2017.

Conclusions

Several indicators towards the end of 2014 and the beginning of 2015 suggest that the real estate market is completing its adjustment. However, some risk remains given the high level of unemployment and the overall downside risks that affect European economies.

The recovery has been unequal and, to some extent, a number of transactions still suggest that there are price adjustment in some territories, while increases in others.

It is plausible to expect that house prices will increase during 2015 and in subsequent years, but the growth will be moderate for various reasons. The most obvious one is that the level of unemployment prevents many Spaniards from access to housing. Even if foreigners represent around 13% of sales, most of the market depends on domestic conditions. Additionally, Spanish households still face a substantial deleveraging effort ahead and this imposes a limit on the new debt they can assume. It is also important to have in mind that the stock of empty houses is around 1 million –1.4 million, depending on different estimations, with new, unsold houses being more than 0.5 million.

In any event, even if the real estate and construction markets are still important for Spanish economic growth, a sustainable evolution should be achieved in order to avoid the recurrence of problems suffered during recent years.

The decline in loan-loss provisions: A step towards the new normal

María Romero and Itziar Sola[1]

Since 2008, the Spanish banking sector recognized aggregate provisions of 290 billion euros, or some 29% of GDP, for non-performing assets. Looking forward, the gradual decline in new loan-loss provisions, underpinned by the economic recovery, should contribute to the normalisation of the cost of risk and, ultimately, banking sector profitability.

The provisioning effort undertaken in 2012 and 2013, targeting primarily real estate exposures, coupled with the pick-up in economic momentum, has helped to kick start the process of bringing the cost of risk in line with more 'normal' levels. The drop in provisions recognised in 2014 has placed the cost of risk at 0.75% of total average assets —TAA—, 19 basis points less than in 2013. If the cost of risk were to gradually revert to the average observed in 2000-2007, banks' ROE could increase by around 6.5 percentage points.

Introduction

In addition to the entry into force of the Single Supervisory Mechanism (SSM), 2014 was marked by an inflexion point in the trend in the Spanish retail banking business's key performance indicators, evidencing clear-cut improvement in the metrics that track asset quality, returns and capital adequacy. A large part of the recovery in the sector's profitability indicators is attributable to 'normalisation' of the cost of risk, *i.e.*, the pace of provisions for asset impairment, in the wake of the heavy losses recognised against non-performing loans in prior years.

The purpose of this article is to take a look at loan-loss provision figures for the Spanish banking system, analyse their impact on profitability and capital adequacy, and attempt to quantify the potential upside from additional reductions in the cost of risk. To this end, the article is divided into five sections. In the first section, we take a look at the provisions recognised during the last seven years. In light of the importance of the real estate provisioning effort, we devote the second section to analysing the metrics tracking exposure to this sector and recent trends. Thirdly, we assess the reasons for the downtrend in the cost of risk in 2014 and look at projections for this cost in the years to come. Fourthly, before stating our conclusions, we analyse other factors driving earnings momentum in the banking sector in 2014.

The loan-loss provisioning effort in review

The consequences of the financial crisis in the banking sector were significant and highly varied.

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

As well as triggering intense sector consolidation and a sharp reduction in supply, a large number of entities had to modify their business models more than once and introduce stiffer internal governance controls. However the most significant consequence in quantitative terms was probably the large asset provisioning effort and the related sector recapitalisation process.

This article focuses on the banking sector's provisioning effort. In practice, the extraordinary provisions required under successive pieces of legislation can be considered a thing of the past, other than some potential additional requirements related to the bank inspection processes. Meanwhile, ordinary or recurring loan-loss provisions have already begun to reverse course, although there is still some way to go before we reach pre-crisis NPL ratios.

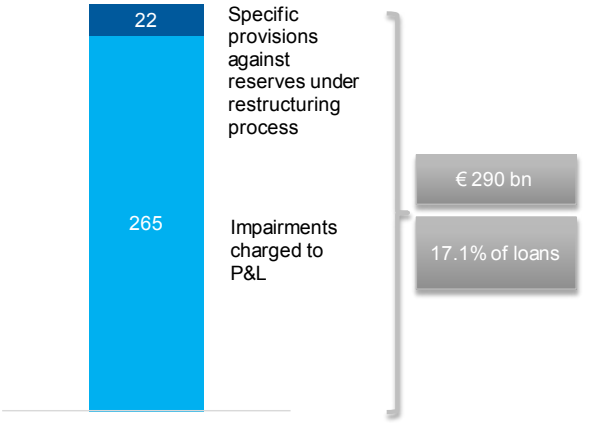
Between 2008 and the third quarter of 2014 (last available data), Spain's deposit-takers recognised 265 billion euros of loan-loss provisions against profit or loss, *i.e.*, 26.5% of GDP or 15.7% of the credit outstanding at the start of the crisis. In terms of capital, these 265 billion euros of provisions are equivalent to 1.6x equity as of December 2007. In addition, the banks that underwent restructuring recognised 22 billion euros of impairment provisions against reserves. As a result, the Spanish banking system recognised aggregate asset impairment provisions of close to 290 billion euros (17.1% of the outstanding credit balance) in the seven years following the start of the crisis. However, these figures mask highly uneven performances among the various banks, with a range between 4% and 48% of loans.

The asset impairment provisions recognised by the Spanish banking system since 2008 amount to 290 billion euros, 17.1% of the credit outstanding at the start of the crisis.

Nor were the provisions recognised evenly over time. Forty-four per cent were recognised in 2012, under the regulatory requirements stipulated in Royal Decree-Laws 2/2012 and 18/2012 on financial system restructuring. Those regulations emphasised the need to heavily provision

Exhibit 1

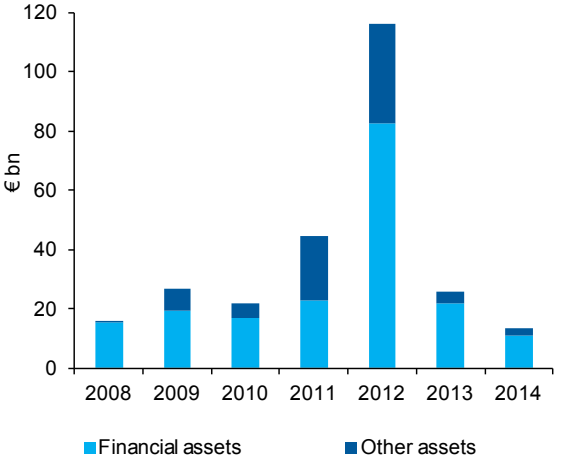
Provisions by origin (EUR billions)



Source: AFI based on Bank of Spain figures.

Exhibit 2

Distribution in time of provisions against earnings



Source: AFI estimates based on Bank of Spain and sector entity figures.

exposure to the real estate sector, hardest hit by the economic crisis. In total, these pieces of legislation obliged the recognition of 65 billion euros of provisions, most of which were charged against 2012 earnings, triggering sizeable sector losses, to the tune of close to 74 billion euros.

In order to anticipate other potential sources of uncertainty regarding credit risk, in 2013, new provisioning requirements were introduced with respect to refinanced and restructured loans. These loans totalled around 180 billion euros at the time, equivalent to around 13% of outstanding credit. Generally speaking, these loans had to be classified as substandard although they could also be reclassified as doubtful or even as performing under certain conditions. The impact of this measure on earnings was around 8.7 billion euros, significantly smaller than the hit taken in 2012 with respect to real estate exposures.

The breakdown of impairment losses by loan segment was similarly skewed. As is to be expected, NPL coverage ratios are by far the highest in the construction and property development segment in the wake of the hefty provisions recognised in 2012 (more on this later on in this report). NPL coverage ratios in other segments such as consumer credit and loans to other non-financial corporations are very low (6% and 4%, respectively). However, the segment carrying the lowest level of specific loan-loss provisions is the home mortgage segment (2%) (although the value of the collateral needs to be factored in to give a fairer picture of coverage in this segment).

Table 1 summarises the trend in the main asset quality indicators, such as the cost of risk, non-performance ratios, foreclosed assets and NPL coverage ratios.

Table 1

Asset quality metrics
(Percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(1) NPL ratio	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.8	3.3	5.0	5.8	7.9	10.6	13.8	12.6
(2) Damaged assets ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.9	14.9	18.3	17.9
(3) Coverage doubtful loans ratio	228.1	266.8	268.3	326.3	383.5	308.8	324.9	246.0	75.5	62.0	69.9	61.4	76.0	59.7	59.9
(4) Coverage loans ratio	2.2	2.5	2.5	2.7	2.7	2.1	2.0	2.1	2.5	3.1	4.0	4.9	8.0	8.2	7.6
(5) Coverage foreclosed assets ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42.2	48.0	48.3	48.5
(6) Cost of risk (% TAA)	0.2	0.3	0.3	0.3	0.3	0.2	0.3	0.4	0.5	0.9	0.7	1.4	3.5	0.8	0.5
(7) Cost of risk (% loans)	0.3	0.5	0.4	0.5	0.5	0.3	0.4	0.4	0.7	0.9	0.8	1.1	4.2	1.2	0.7

(1) Doubtful loans to private sector / loans to private sector, gross.
(2) (Doubtful loans to private sector + foreclosed assets, gross) / (loans to private sector, gross + foreclosed assets, gross).
(3) Impairment allowances / Doubtful loans to private sector.
(4) Impairment allowances / Loans to private sector, gross.
(5) Impairment allowances for foreclosed assets / Foreclosed assets, gross.
(6) Assets impairments / Total average assets.
(7) Financial assets impairments / Average loans to private sector, gross.

Sources: AFI based on Bank of Spain, CNMV and sector entity figures.

Provisions in the real estate sector

Banks' exposure to the real estate sector has virtually been halved as a result of the crisis, boosted by the transfer of around 100 billion euros of toxic assets to SAREB, Spain's so-called bad bank, between 2012 and 2013. According to the latest figures published in the 2014 financial statements presented by the eight listed banks (which represent 67% of overall banking sector assets), exposure to the construction and property development sector fell by around 10 billion euros in 2014 (by 7% year-on-year) to 147 billion euros.

Banks' exposure to the real estate sector has virtually been halved as a result of the crisis.

This drop is mainly attributable to a shrinking loan book, particularly loans classified as doubtful (these declining from 56 billion euros in 2013 to 46 billion euros in 2014); this pattern echoes the trend witnessed in other sectors of the banking business and is consistent with the improvement seen in construction sector activity indicators and employment for the first time since the start of the crisis. This sharp drop in real estate loans offset the 10% year-on-year increase in foreclosed assets, which stand at 76.6 billion euros in 2014 (equivalent to 8.8% of the total customer loan book).

In addition to this reduction in 'problematic' assets, it is worth highlighting the provisioning effort made to date, albeit heavily concentrated in 2012, as a result of legally-mandated impairment provisioning requirements in this segment. By the end of 2014, over 40% of these eight banks' exposure to the construction and property development sector had been provisioned; this percentage rises even higher in the case of doubtful loans or foreclosed assets, averaging 50% in these instances. These coverage levels can be considered reasonable and even sufficient at present as the impairment of real estate assets seems to have run its course. According to the Ministry of Development, housing prices, for example, rose in the fourth quarter of 2014, after 26 consecutive quarters of declines, prices having corrected by 30% since the start of the crisis.

By the end of 2014, over 40% of the banks' exposure to the construction and property development sector had been provisioned. NPL coverage ratios for doubtful loans and foreclosed assets average an even higher 50%.

Table 2

Bank exposure(*) to the construction and property development sector

	2014				Var. 2014-13
	Gross	Allowances		Net	Gross
	€ Million	€ Million	% coverage	€ Million	€ Million
Loans	71,081	24,930	35.1	46,151	-17,617
Normal	18,307	712	3.9	17,595	-4,133
Doubtful	46,151	22,505	48.8	23,646	-10,206
Substandard	6,623	1,713	25.9	4,910	-3,278
Foreclosed assets	76,661	37,169	48.5	39,492	7,092
TOTAL	147,741	62,099	42.0	85,643	-10,525

Note: (*) These figures represent the aggregate for the seven listed Spanish banks: Santander, BBVA, Caixabank, Bankia, Sabadell, Popular, Bankinter and Liberbank.

Source: AFI, based on the banks' annual reports.

Normalisation of the cost of risk

For the first time since the start of the crisis, in 2014 the balance of doubtful credit[2] of deposit-takers as a whole narrowed by some 24.3 billion euros to 167.47 billion euros. The NPL ratio ended the year at 12.6%, 116 basis points below the peak of December 2013. The improvement in the macroeconomic situation, evidenced by annual GDP growth of 1.4% in 2014 and modest recovery in the job market, was key to the reduction in additions to non-performing loans in 2014, driving a reduction in loan impairment losses.

In our opinion, the provisioning efforts made in 2012 and 2013, in addition to being totally necessary, crystallised future provisioning requirements and accelerated the start of the cost of risk normalisation process. However, some banks, either out of caution or due to accounting requirements, increased provisions with respect to 2013 in order to increase their foreclosed asset coverage ratios. In total, the cost of risk, measured as the ratio of impairment losses on all assets to total average assets, fell by 19 basis points to around 0.75%.

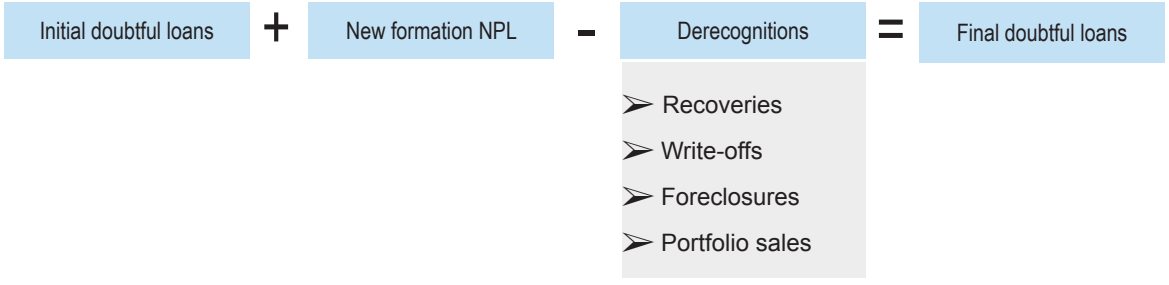
In 2014, the cost of risk narrowed by 19 basis points as a result of the drop in non-performance and the incipient economic recovery. The increase in sector profits is explained mainly by the decline in loan-loss provisions.

Although provisions were substantially lower than in 2012-13, they remain high, which is why they should gradually revert to pre-crisis levels as the economic situation improves. During 2000-2007, the average cost of risk was 0.30% in terms of TAA, rising to 0.43% when relativized on lending.

This process is correlated to asset quality and, in short, the trend in non-performing debt, which in turn depends on exogenous and endogenous factors. As for the former, the crisis which erupted in the summer of 2007 has highlighted the tight correlation between the economic cycle and the quality of bank assets, so that the trend in non-performing debt should be largely dictated by cyclical factors. In addition, in the current phase of economic recovery, the banks may well accelerate, on their own initiative, the pace of impaired asset reduction by selling portfolios of doubtful loans or similar transactions.

Exhibit 3

Flow of doubtful loans



Source: AFI.

[2] This article uses the terms 'doubtful' and 'non-performing' interchangeably, even though according to the Bank of Spain, the former is a broader concept than the latter as it includes, in addition to non-performance, arrears of over 90 days and other events, such as borrower credit protection filings.

In order to determine whether the reduction in the cost of risk observed in 2014 as a result of the drop in the balance of doubtful credit really reflects an improvement in asset quality, we need to analyse doubtful loan flows, *i.e*. additions to and reversals of loan losses.

- *New formation of non-performing loans*: new formation of non-performing loans declined, approximately, by 47% in 2014, due mainly to the improvement in the economic situation. It is worth recalling the non-performing loans inflows in 2013 reflected an extraordinary impact arising from the refinanced loans review process, forcing reclassification of part of them as doubtful. The contribution of the risk management effort to the decline in new inflows of non-performing loans in 2014 is considered marginal.

- *Derecognitions from non-performing*: here cyclical and internal management factors come into play.

  - Recoveries: in the majority of Spanish listed banks, recoveries were higher than new formation in 2014. This growth in recoveries is attributable mainly to the improved economic outlook, but also to effective management of the recovery process.

  - Write-offs: according to our estimates, around 10 billion euros of bad loans were written off in 2014. Loans are written off when they are fully provisioned and within a timeframe of 48 months, making it an internal decision taken by the banks.

  - Foreclosures: foreclosures are the last stage in the process of calling in a mortgage guarantee and therefore depend on a court ruling.

  - Portfolio sales: in 2014 several banks carried out transactions of this kind, most notably Catalunya Banc in terms of the transaction size —3 billion euros— and the importance of the deal (a prerequisite for its subsequent acquisition by BBVA). In total, transactions of this nature amounted to 5 billion euros. Going forward, portfolio sales will depend on the banks' strategies and investor appetite for Spanish credit risk. Recall that one of the recommendations issued by international organizations in this area is that of fostering the development of an international market for non-performing credit portfolios.

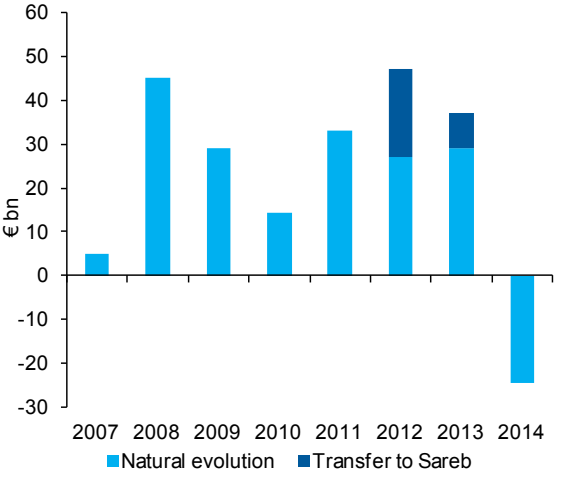
Looking forward, we anticipate a gradual reduction in the pace of new loan-loss provisions and an improvement in recovery rates underpinned by the outlook for economic recovery, all of which will contribute to the normalisation of the cost of risk and, ultimately, growth in sector profitability.

The feasible cost of risk target and the year by which it can be achieved will depend on each entity's starting position and strategic planning. That being said, the average cost of risk between

If the cost of risk were to gradually return to the 2000-2007 average, banks' ROE could increase by around 6.5 percentage points.

Exhibit 4

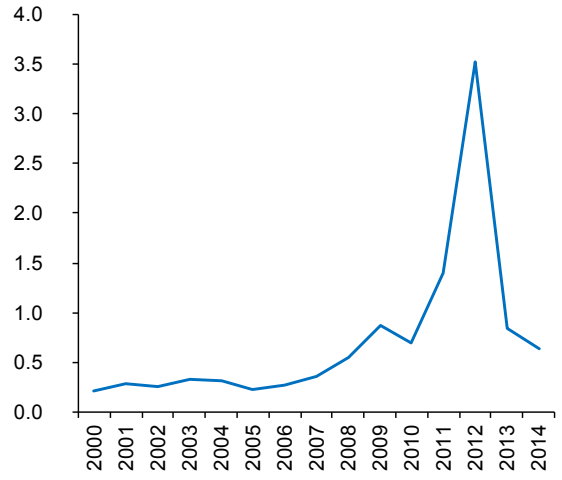
Doubtful loans (YoY)



Source: AFI based on Bank of Spain figures.

Exhibit 5

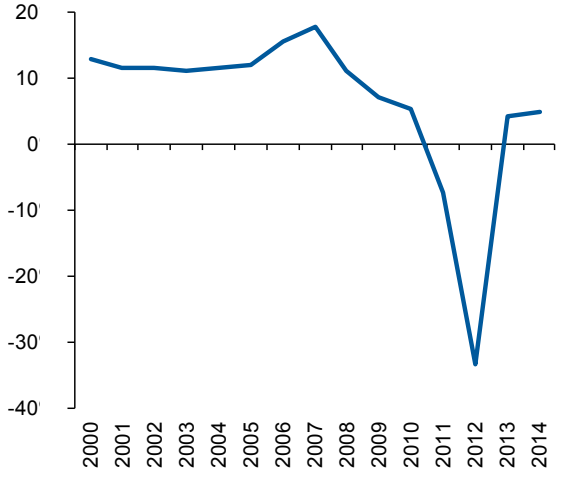
Cost of risk
(% TAA)



Source: AFI based on Bank of Spain figures.

Exhibit 6

ROE



Source: AFI based on Bank of Spain figures.

2000 and 2007 (0.3% of TAA or 0.43% over loan book) can be considered a good proxy for the sector target. This suggests significant upside with respect to the 0.75% cost estimated at year-end 2014. If the cost of risk were to return to the 2000-2007 average, the sector's ROE stands to increase by 6.5 percentage points.

The trend in the cost of risk will also be shaped by the trend in the volume of foreclosed assets. Although this balance increased by 10% in 2014, as seen earlier, the volume of foreclosed assets can be expected to decline in the months to come in the wake of economic recovery in general and the sale of properties and other real estate assets in particular.

Other earnings drivers in 2014

In addition to the downtrend in the cost of risk, other factors can be attributed to driving earnings momentum in the Spanish banking sector last year:

- *Growth in net interest income*. Net interest income staged a clear-cut recovery quarter after quarter in 2014. The main source of this growth was the 73 basis point annual reduction in the average cost of term deposits held by households and companies, which represent almost 20% of system funding, mainly thanks to beneficial repricing of the long-term deposits captured in 2012. Switches from term deposits into demand deposits in light of the low returns offered by the former, coupled with the drop in interest rates, helped lower funding costs.

  On the asset side of the equation, despite an annual drop in interest rates of around 20 basis points, the average return on the loan book only narrowed by 12 basis points to 3.08% as loan repricing tends to lag deposit repricing. The drop in NPL ratios also helped prop up interest income. Elsewhere on the lending front, competition picked up in the second half of 2014, exerting downward pressure on asset margins; while this helps to reduce financial fragmentation, it will not help banks' income statements in the years to come.

The most telling credit statistic, however, is unquestionably the fact that, even though the aggregate loan book continues to shrink (logical in light of Spanish economic agents' leverage levels), 2014 was marked by a turnaround (double-digit growth) in new lending activity in most segments (other than large companies). Although the new loan figures provided by the Bank of Spain include refinancings, we believe that this shift in trend should be read positively insofar as it implies more dynamic lending activity.

Against the backdrop of scant growth in credit, intense competition and abundant liquidity via ECB injections, management of asset and liability spreads will be crucial to generating net interest income.

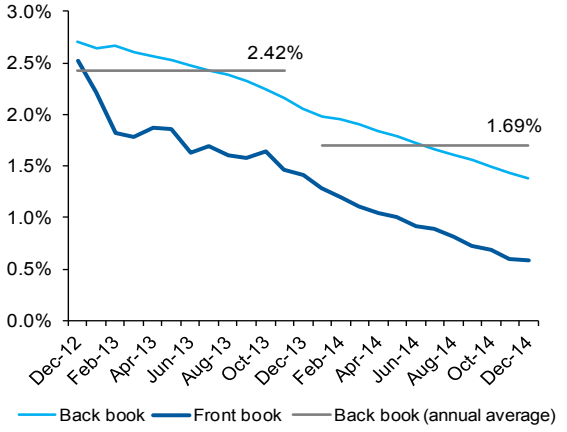
- *Lower operating expenses*. Intense supply-side contraction, marked by the closure of around 13,400 branches (approx. 30%) and the loss of more than 58,000 jobs (approx. 22%) between 2008 and 2014, characteristic of a mature sector, drove a reduction in aggregate sector operating expenses in 2014. However, some banks saw their expenditure increase on the back of new process launches.

- *Other non-recurring factors.* In addition, many entities continued to generate income from financial transactions, mainly monetising gains on fixed-income portfolios via their sale in order to offset trends in other income statement headings. While these transactions boost income in the year in which they are realised, they also jeopardise trading income going forward. In our opinion, they evidence the difficulties faced by the banks in generating recurring profits.

Another factor that had a positive impact on sector earnings growth in 2014 was a change in accounting regulations: specifically application of IFRIC 21, which requires recognition of levies in the year in which the obligation is assumed. This change required the restatement of the 2013 financial statements, increasing the operating charges recognised with respect to contributions to the Deposit Guarantee Fund that year. This effect had an impact on aggregate profit (after tax) of 35%.

Exhibit 7

Average cost of retail deposits



Source: AFI based on Bank of Spain figures.

Table 3

New loans

€ Million	2011	2012	2013	2014	2014 (YoY)
Housing purchase	36,065	31,242	21,367	26,228	22.8%
Consumption and other	29,486	24,867	22,812	26,434	15.9%
SME	158,172	132,202	121,931	134,369	10.2%
NFC, other than SME	335,701	313,664	245,494	202,816	-17.4%
TOTAL	559,424	501,975	411,604	389,847	-5.3%

Source: AFI based on Bank of Spain figures.

Conclusions

The reduction in the cost of risk in 2014 fuelled banks' earnings momentum. The trend in asset impairment provisions going forward will be shaped by the economic environment as well as internal decision-making with a view to offloading impaired assets. The economic situation will affect new loan-loss provisions above all. Accordingly, to the extent that the economic recovery gathers traction, the pace of new loan losses will slow, lowering the cost of risk in the process.

Using the 2000-2007 average (0.3% of TAA) as a proxy for the cost of risk target implies scope for additional improvement of around 45 basis points. In terms of shareholder returns, normalisation of the cost of risk could boost banks' ROE by 6.5 percentage points.

In addition to the improvement in the economic situation, the legally-mandated real estate and refinanced/restructured asset provisions recognised by the banks in 2012 and 2013, respectively, have also played a role in accelerating the start of a downtrend in the cost of risk.

Recent reforms in Spain´s business climate: Assessment and pending issues

Ramon Xifré[1]

The Spanish government has actively pursued a structural reform agenda since 2012. While notable progress has been made in some areas, such as improving the insolvency regime, reforms in other key areas have yet to be adopted, or in some cases, seem insufficient to address existing challenges.

The Spanish government has adopted a number of structural reforms aimed to improve the business climate since 2012. The most significant progress has been made with the reform of the insolvency regime, which has improved the risk sharing balance between creditors and debtors and includes new provisions for personal insolvency. In contrast, not enough has been done to reform professional services – despite commitments from the past two administrations. In the remaining policy areas, progress has been mixed. Reform of the competition and regulatory authorities offers some prospects of improved decision-making. However, the changes raise concerns over the independence and accountability of the new regime. In the area of entrepreneurship, the Government has focused efforts on reducing start-up costs, but still lacks a comprehensive strategy. Finally, there have been some market specific reforms in the electricity sector and reforms to increase openness and competition in the management of railways and airports, but it is not yet clear that these reforms will be sufficient to address pending issues.

Introduction

Optimal business climate regulation is an essential condition for companies and countries to prosper. In the EU/Euro Area context, where countries have transferred monetary sovereignty to the European Central Bank and domestic fiscal policy is increasingly under greater EU supervision, structural reforms remain one of few major areas of economic policy under domestic discretionary power. For this reason, it is important to examine whether there has been adequate progress on this front.

In November 2011, following Spain´s general elections, there was a change in the central government, which many viewed as an opportunity to introduce bold, pro-competitive changes in the main lines of business climate regulation. Now, just a few months before the end of the four-year term, it seems appropriate to look at the progress achieved since the beginning of 2012, as well as at the main pending reforms.

[1] ESCI–UPF and Public-Private Sector Research Center, IESE.

In this context, this paper focuses on regulatory (*i.e.* legal modifications) in the following five policy areas: entrepreneurship, competition enforcement, regulation of product and service markets, the insolvency regime and professional services.

Monitoring progress on reforming Spain´s business climate

Scope of policy reform

The scope for policy reform is very large and therefore one needs to work with a certain conceptual structure to single out which policy issues are included in the analysis. In an effort to do so, this paper follows the methodology of the *Spanish Reforms* project.[2] This project classifies economic policy into six broad areas, which in turn are divided into 18 policy subareas (see Table 1).

This classification was designed to be compatible with those that appear in the Spanish National Reform Programs (NRP) and in the main economic policy documents prepared by major international economic institutions (the European Commission, the IMF and the OECD).

On the basis of this classification, it is possible to select five policy areas that are more closely related to business climate policy reforms. These are presented in Table 2 and they will be covered in detail in the following section:

Table 1

Classification of economic policy areas
***(Spanish Reforms* nomenclature for policy areas and subareas)**

Area	Subarea
1. GROWTH AND COMPETITIVENESS	1.1. R&D and the knowledge society 1.2. Internationalization 1.3. Entrepreneurship 1.4. Education
2. COMPETITION AND REGULATION	2.1. Competition enforcement 2.2. Regulation of product and service markets 2.3. Red tape and business climate regulation, including the insolvency law 2.4. Professional services
3. LABOUR MARKET	3.1. Labour market regulations 3.2. Active labour market policies
4. FINANCIAL SYSTEM	4.1. Recapitalization and Restructuring 4.2. Other financial measures
5. FISCAL POLICY AND PUBLIC ADMINISTRATION	5.1. Economic governance 5.2. Fiscal consolidation and fiscal reform 5.3. Reform of the public administration
6. WELFARE STATE	6.1. Social Security and pensions 6.2. Health system 6.3. Other welfare state reforms

Source: SpanishReforms project.

[2] *Spanish Reforms* is an academic, non-governmental project that aims to be a useful reference for those interested in independent, rigorous and up-to-date information about the Spanish economy and its economic policy reforms. The main element of the project is a webpage (http://www.spanishreforms.com) that regularly monitors progress on the economic reforms adopted by the Spanish government, as well as provides analysis of the Spanish economy undertaken by the major international institutions. *Spanish Reforms* is an initiative of the Public-Private Sector Research Center (PPSRC) at IESE Business School and it has as partners FUNCAS, Everis and ESCI-UPF.

Table 2

Main business climate reforms passed and in force since 2012, by policy area
***(Spanish Reforms* nomenclature for policy subareas)**

Policy subarea	Policy reform
Entrepreneurship	■ Royal Decree Law 4/2013 on entrepreneurship and job creation. February 22nd, 2013. ■ Law 14/2013 on entrepreneurship and internationalization. September 28th, 2013. ■ Royal Decree Law 3/2014 on employment and permanent hiring. March 1st, 2014.
Competition enforcement	■ Law 3/2013 on the Creation of the National Markets and Competition Commission (CNMC), June 4th, 2013.
Regulation of product and service markets	■ Law 20/2013 on the Spanish single market. December 9th, 2013. ■ Law 24/2013 on the Electric Sector. December 27th, 2013. ■ Reforms in Passenger Railway Sector and the Airport Operator. June 13th, 2014.
Insolvency law	■ Royal Decree Law 4/2014 refinancing and restructuring of corporate debt, March 7th, 2014. ■ Royal Decree Law 11/2014 on urgent insolvency measures. September 5th, 2014. ■ Law 17/2014 on refinancing and restructuring of corporate debt (modifies RDL 4/2014). September 30th, 2014. ■ Royal Decree Law 1/2015 on fresh start mechanism. February 28th, 2015.
Professional services	None.(*)

Note (*): Recent reforms prompted by the transposition of the EU services directive to Spanish law have improved how professional services operate in Spain. However, further action is needed to remove existing guidelines, as well as improve the functioning of professional associations themselves, in order to increase the efficacy of the reforms (Spanish Economic and Financial Outlook 2014).

Source: SpanishReforms project.

1. Entrepreneurship

2. Competition enforcement

3. Regulation of product and service markets

4. The insolvency law

5. Professional services

This selection is obviously subjective in nature and it is fair to mention that there are other important policy dimensions that might be relevant for the business climate and that are not covered in detail here. Some of the most important ones are listed below and, for each one, there is a brief mention of the main developments since 2012.

■ *Labour market reform*. The Spanish government introduced major changes to labour market regulation in three dimensions: i) collective bargaining, making it easier for firms to opt-out from higher-level agreements; ii) internal flexibility, removing obstacles to, or protection from, functional changes within the company; and, iii) contract design, reducing the severance pay for existing contracts and introducing new types of contracts for entrepreneurs that allow

for firing without severance payment for the first year. It is still too soon to make a comprehensive assessment of the reform. The OECD (OECD, 2013), in a preliminary assessment, finds that the reform has contributed to wage moderation and fostered hiring on permanent contracts. The main concern, however, is the macroeconomic impact the reform may have on the disposable income of low-skilled workers and the extension of poverty in Spain.

- *Financial sector reform*. There has been an intense reform agenda since 2009 along the lines of clean-up and recapitalization. The 2014 ECB Comprehensive Assessment has examined 15 Spanish banks, accounting for 90% of the assets of the Spanish financial system and only one of those has been found to have a significant capital shortfall.

- *Suppliers' payment system.* The Spanish government set up in 2012, in conjunction with the new Budget Sustainability Law, a new scheme to provide liquidity to suppliers of local and regional governments (FFPP). The funding of this programme between 2012 and 2014 (when it was closed) has amounted to more than 42 billion euros.

Adopted reforms

Table 2 reports the main legal reforms in the five policy areas mentioned above that the Spanish government has approved and that are already in force. The main changes in the Spanish business climate as a result of these reforms are explained below.

Entrepreneurship

The main approach of the Spanish government in supporting entrepreneurship has been basically seeking cost reductions for start-ups. For instance, one of the main measures in RDL 4/2013 was a drastic reduction in the amount of social contributions a young entrepreneur needs to pay, down from the previous amount of 256 euros per month to 50 euros per month. In the same vein, Law 14/2013 introduced mild reforms in the regulations of entrepreneurship, with several ad-hoc measures, like the creation of a special VAT regime, R&D tax subsidies and a new legal status for entrepreneurs with limited liability aimed at facilitating fresh-start. Along the same line of cost-saving, RDL 3/2014 reduces the social security contribution that companies pay when hiring new workers on permanent contracts. In particular, if a company hires a worker with a permanent contract and this increases both the total employment and the number of workers with permanent contracts in the company, the social security contributions payable by the firm are limited to 100 euros per month.

However, this sort of "low cost" model for stimulating entrepreneurship contrasts with the international mainstream approach, which tends to be more ambitious, structural and comprehensive. International policy best practices in favour of entrepreneurs and young SMEs tend to be linked to internationalization and innovation. They pay particular attention to facilitate companies' high-growth and they try to make sure that the overall business climate is competition-friendly (see OECD 2014 for a review of the situation in Spain in relative terms to other OECD countries).

The "low cost" model for stimulating entrepreneurship contrasts with the international mainstream approach, which tends to be linked to internationalization and innovation.

Competition enforcement

The reform of the Competition Authority and the Sector Regulatory Bodies has been a long-standing issue in Spain since 2011. The current and the previous Spanish governments included in

the corresponding National Reform Programmes successive commitments to reform the institutional framework of regulatory and competition systems in Spain. Finally, Law 3/2013, creating the CNMC, entered into force in June 2013. The new Commission integrates the function of the former Competition Commission (CNC), together with those of all the regulatory authorities in Spain, except the Financial Sector Regulator. The new authority became fully operational in October 2013 and in November, new Director Generals were appointed.

One of the main concerns with the reform is that it might have been taken by the Government as an opportunity to devolve some regulatory and competition competences back to the Ministries in detriment to the independent bodies (the CNC and the sector regulators). There have even been formal calls from the European Commission to the Spanish government to preserve the independence of the new macro regulatory and competition authority. At present, the degree of independence and accountability of the CNMC remains yet to be established. Finally, in terms of staffing, it appears that the reform has not changed the common practice of relying mainly on civil servants to fill key positions. As a result, prominent lawyers and business executives, as well as distinguished academics, have to date not had access to the board of the new CNMC (see Xifré 2014 for a more detailed account of the CNMC reform).

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Regulation of product and service markets

Single market law

The Spanish Constitution establishes that no Spanish public administration is allowed to adopt measures that, directly or indirectly, impede the free movement of people and goods in Spain or that represent an obstacle to setting up a new business. The country, as the Constitution establishes, is administratively organized as a relatively decentralized state with some regulatory competences being attributed to regional governments or local authorities. As a result, the possibility of formally regulating market unity in Spain (*i.e.* explicitly removing barriers to the operation and the setting-up of business) has been a highly politically-loaded issue for a long time.

Law 20/2013 on the Spanish Single Market seeks to reduce the alleged market segmentation in Spain and to allow Spanish companies to profit from economies of scale. To do so, the core of the Law establishes the principle that any business entity (or good) operating (or being distributed) in one part of Spain shall be entitled to move to another part without further restrictions. The Law also includes requirements on how authorization permits shall work all over Spain, independently of the level of the administration (central, regional, local) in charge of granting the permit.

The central issue for the Single Market Law is to strike the right balance between respect for the normative competencies and legislative powers attributed by the Spanish Constitution to sub central governments and the need to protect the Spanish single market.

The central issue for this Law is to strike the right balance between respect for the normative

competencies and legislative powers attributed by the Spanish Constitution to sub central (regional and local) governments and the need to protect the Spanish single market. Should this "loyalty between administrations" principle be violated, the law would be exposed to a high risk of being overturned. In this respect, the Catalan government has challenged the law before Spain's Constitutional Court on the ground that it invades regional legal competences granted by the Constitution.

Product and service markets

Since 2012, there have been major changes in two markets: the electric sector and passenger transportation (railways and airports).

Electricity

The Government approved in December 2013, Law 24/2013 on the Electric Sector, which introduced a "flexible" model in the remuneration of, mainly, renewable energies subject to revision every six years with the final goal of cutting payments to this market segment. The Law mandates that the electricity system revenues will be sufficient to cover all the costs; therefore, an increase of costs in the system or a reduction in revenues (due to decreased demand from companies and households) shall entail a reduction in payments to operators. In addition, the Law introduces a compulsory toll on self-consumption (*i.e.*, users of the system that generate part of the electricity they consume) and creates a voluntary price regime for small consumers that could replace the old last-resort tariff (TUR).

The prevailing view is that the Law on the Electric Sector can probably already be viewed as insufficient to tackle the problems of the electricity tariff system. Indeed, the same week that the Law was finally approved by the Spanish parliament, the Government announced that it would modify the current electricity price setting mechanism, which the new Law endorsed.

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Transportation

The Spanish government announced in June 2014 the initiation of two separate processes that should improve the functioning of the transport market and open it to private sector participation.

In the railway system, the Government will allow a private operator to provide passenger railway services, in competition with the public one (Renfe). The new operator shall set freely travel times, prices and it will have the right to rent the rolling stock from a Renfe subsidiary. There will be an initial term of seven years for this license; following this term, the corridor will be fully opened up to free competition. With respect to the airport operator (AENA), the Government allowed private capital to enter the company. In February 2015, the company went public with the Government retaining 51% of the capital.

The direction of both moves seems appropriate but the scope, on both fronts, is too limited. With respect to the railway system, the liberalization of passenger transport affects only one relatively small segment of the network. Furthermore, the real bottleneck for railway transport in Spain,

The direction of both the changes affecting railways and airports seems appropriate, but the scope, on both fronts, is too limited.

freight transportation, appears not to be on the Government's reform agenda. Regarding the privatization of AENA, some experts consider that the real possibility for the Spanish airport system to grow and generate added value depends not so much on the nature of ownership (private or public) but on the mode of management (centrally organized *vs.* competition-driven). The reform proposed by the Government makes no progress on this second dimension.

The insolvency law

In this area, there have been a large number of changes since 2012. Back in 2009, the reforms began by extending the scope for the simplified insolvency procedures, reducing their costs and simplifying the pre-insolvency procedures. This has been one of the reform avenues post 2012, in particular by means of RDL 4/2014, RDL 11/2014 and Law 17/2014. RDL 4/2014 extended the available options for restructuring in pre-insolvency procedures. RDL 11/2014 (modified later on by Law 17/2014) revised in-court debt restructuring procedures and offered options to promote liquidation as an integrated solution rather than piecemeal liquidation. Finally, a recent reform, RDL 1/2015 introduced the possibility of a fresh start for individuals under certain limitations and when certain circumstances apply. The need to establish legal provisions for a fresh start for individuals was one of the strongest recommendations that international organizations made to the Spanish government (see IMF, 2014).

The need to establish legal provisions for a fresh start for individuals was one of the strongest recommendations by international organizations. While assessment of the new insolvency reforms is difficult, there appears to be a consensus that they incentivize creditors to absorb more risk in business operations.

Assessment of these insolvency reforms is difficult. The original insolvency Law, passed in 2003, has been amended by 12 reforms since then and interpretations are probably not yet final. However, there appears to be a consensus that, in essence, the reforms allow –and provide appropriate incentives– for creditors to absorb more risk in business operations. Given that the Spanish insolvency law is strongly biased in favour of creditors, the reforms appear to set the rules for a more even playing field (see Celentani and Gómez, 2014 for an extended analysis).

Professional services

There have been multiple calls from international institutions to reform the professional services regulations in Spain, for instance, one of the last ones by the IMF (2014) and the European Commission (2014b). These recommendations in general agree on the direction of the change: the number of professions that require compulsory registration requirements should be reduced and the transparency and accountability of professional bodies should improve with the overarching goal of opening up unjustifiably reserved activities in Spain. According to the Spanish government, this sector of activity concentrates 30% of graduate employment in Spain.

On the actual policy front, the Spanish government released a draft reform of the professional services law in August 2013, but since then there has been no progress and therefore the regulation of professional services remains without changes and it is most likely to remain this way until the end of the current administration. The delay is in part due to the pressures and lobbying efforts that various interest groups potentially affected by the new regulations (engineers of various fields —in some case with conflicts between fields–, architects, lawyers, pharmacists, etc.) have exerted against the reform. It is only fair to say, however, that the previous Spanish government also made an attempt to liberalize this sector of

activity but it was also unable to do so in the end. The Spanish competition authority (CNMC) issued an assessment of the draft reform and it produced an exhaustive and comprehensive analysis of the situation (CNMC, 2013).

Reforms in the pipeline

In addition to the above reforms, the Government has approved a few more which are still in the legislative pipeline and that, in principle, should be in force by the end of the legislature. Table 3 outlines these reforms, which are focused on further improving the framework for entrepreneurship in Spain.

The text of the new laws is not yet finished as amendments can be introduced during the legislative procedure and therefore it is not possible to assess them. However, the main orientation of the two reforms pending approval is to improve business financing and to streamline the functioning of the one-stop service points for entrepreneurs.

Regarding the new law to improve business financing, there is a publicly available draft which was approved by the Congress in January 2015. On the basis of this tentative text, the law will advance on two fronts: on the one hand, making banking financing more flexible and feasible for companies and on the other hand, establishing the regulatory fundamentals to further develop non-banking (or direct) business finance by means of alternative markets.

The new law to improve business finance will advance on two fronts: on the one hand, making banking financing more flexible and feasible for companies and on the other hand, establishing the regulatory fundamentals to further develop non-banking business finance by means of alternative markets.

With respect to the plans for streamlining the one-stop service points for start-ups, the draft text of the RDL has not yet been submitted to the Congress. In its current form, it is basically a development of Law 14/2013 and it establishes that the network to support early business developers will be a single

Table 3

Main business climate reforms initiated since 2012 by policy area, approved but not yet in force (*Spanish Reforms* nomenclature for policy subareas)

Policy subarea	Policy reform	Last milestone accomplished	Next step
Entrepreneurship	■ Draft Law for the promotion of the Business Financing.	Approved by the Congress. January, 2015.	Approval by the Senate pending.
	■ Draft Royal Decree Law for streamlining one-stop service points for entrepreneurs.	Draft presented by Government. February 2015.	Discussion in the Parliament.
Competition enforcement	None.		
Regulation of product and service markets	None.		
Insolvency Law	None.		
Professional services	None.		

Source: SpanishReforms project.

one in Spain, with the same name, corporate image, and portfolio of services in the territory.

Assessment and conclusion

The Spanish government has been active in reforming the business climate with part of the motivation for doing so resulting from the recommendations by international organizations like the European Commission and the IMF. These reforms, usually referred to as structural reforms, have been stronger in certain policy areas than others (see European Commission, 2014a).

The reform agenda of the Spanish government has been particularly ambitious regarding the insolvency regime. On this issue, the Government has adopted a large number of the main recommendations proposed by the international institutions. The resulting insolvency law, which has been frequently amended since its inception in 2003, is likely to strike a better balance between the risks that creditors and debtors take, which represents much-needed progress in Spain.

On the contrary, the Government has not done enough regarding the modernization of the professional service sector, where international recommendations are equally clear and coherent. In this dimension, there has been little progress in the last four years. To aggravate the issue, the performance of the previous Spanish government, of a different political orientation, was similar in that it tried but did not succeed in approval of legislation due to its politically sensitive nature.

Between these two extremes, the reform outcome in the other main elements of business climate is mixed. The reform of the competition and regulatory authorities is imperfect, as it is not clear that the new mega-regulator (CNMC) represents an improvement on the previous architecture, as regards independence and technical ability. The efforts to enhance entrepreneurship appear to be headed towards cost reduction rather than pursuing a comprehensive, ambitious and truly structural reform. On the regulation of product and service markets, there have been some important positive steps ahead to open certain sectors to the entry of private capital, but the airport model still remains too centrally organized.

Overall, the reforms of Spain´s business climate appear not to have the caliber that the country´s difficult situation demands. A worrisome conclusion, given that structural reforms are likely to be one of the last policy areas for governments to exert their national economic sovereignty.

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Spain´s renewable energy regime: Challenges and uncertainties

Arturo Rojas and Belén Tubío[1]

Recent regulatory changes affecting the renewable energy sector have radically changed remuneration for generation of power from these energy sources, significantly eroding the profitability of most renewable energy facilities.

The legal certainty and revenue visibility afforded by the old remuneration regime prompted a boom in renewable energy development in Spain, with these sources accounting for 42.8% of total output in 2014, according to Red Eléctrica de España (Spain's grid operator). According to the International Renewable Energy Agency (IRENA), this ranks Spain fourth worldwide in terms of installed wind capacity and number one in terms of installed Concentrating Solar Power (CSP). Under the new renewable energy remuneration regime, power produced from renewable sources no longer benefits from a pre-established long-term tariff, as premiums are now subject to review every six years. Changes in remuneration will now be shaped by potential mismatches between the system's regulated income and costs. The introduction of uncertainty in renewable remuneration has had a negative impact on the sector´s profitability, and as a consequence increased the level of returns demanded by investors in this sector.

Electricity system imbalances

The boom in renewable energy drove electricity system costs higher, exacerbating pressure on the system's structural revenue shortfall, the so-called tariff deficit. The Ministry of Industry, Energy and Tourism (hereinafter, the Ministry of Industry) transferred some of the increase in system costs through increasing consumer prices, which rose by 63% between 2003 and 2011, and another portion to the regulated system, in the form of cuts to remuneration, including remuneration for producing from renewable sources.

Since 2012, the Ministry of Industry has passed a series of measures designed to reduce sector costs, some of which have affected renewable energy remuneration directly: reduction in the number of equivalent hours of solar photovoltaic (PV) output entitled to premiums, elimination of the 'pool + premium' remuneration option and a moratorium on the incentives for building 'special regime' facilities (RD Law 1/2012).

The annual tariff deficit was finally corrected in 2014 under Law 24/2013, which had been designed precisely to make the system financially sustainable. Compared to a tariff deficit of 3.54 billion euros in 2013, the latest data available (Settlement 11/2014 by the energy sector watchdog, hereinafter the CNMC, according to its Spanish acronym) put the 2014 deficit at

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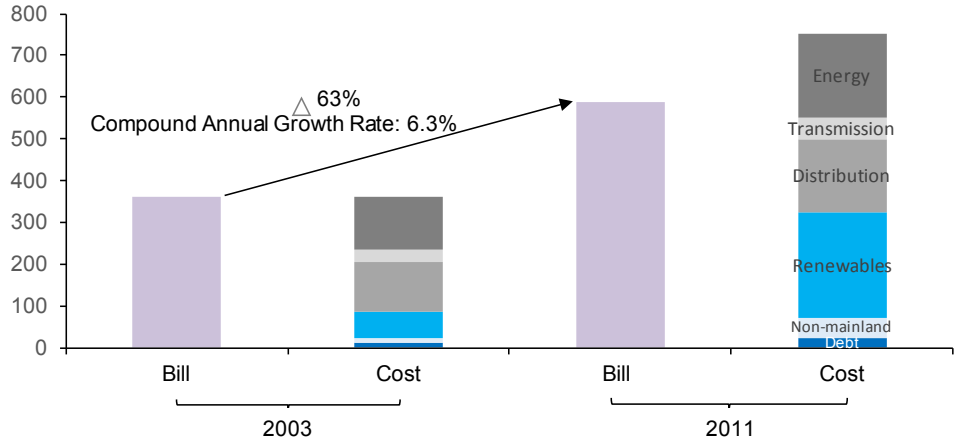
Exhibit 1

Annual average consumer bill

€/MWh



Source: AFI based on Ministry of Industry data.

Table 1

Energy system costs

Cost	2003	2011	Increase %	Average increase %
Debt	12	24	100	9.1
Non-mainland stranded costs	12	47	292	18.6
Renewable premiums	60	253	322	19.7
Distribution	120	176	47	4.9
Transmission	31	52	68	6.7
Energy	125	199	59	6.0
Total	**360**	**751**	**109**	**9.6**

Source: AFI based on Ministry of Industry data.

369 million euros, due mainly to lower demand than was forecast at the time of calculating the regulated portion of electricity tariffs (tolls).

Prevailing regulatory framework

Today's renewable remuneration regime pivots around the 'Reasonable Return' concept, which is applied to a theoretical 'Initial Investment' value and calculated from when the facility was commissioned. Each class of technology is assigned a 'Regulatory Useful Life' during which a facility is entitled to a remuneration supplement for investment that is incremental to the revenue obtained by selling electricity in the market at pool prices. This supplement is designed to deliver the targeted Reasonable Return.

For technologies with higher operating costs-essentially solar PV, solar CSP and co-generation the regime also provides for an operating

remuneration supplement designed to cover the portion of a facility's operating costs that cannot be recovered by means of sales at pool prices.

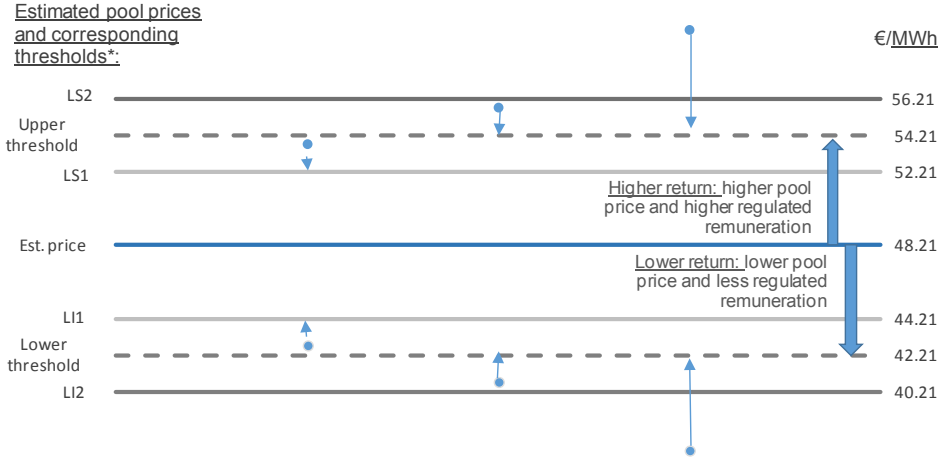
The facilities penalised the most by the regulatory changes with respect to the last sector-special regime (RD 661/2007) are, firstly, the more efficient wind farms, those with the highest output per installed MW, as their Initial Investments are remunerated using the same Reasonable Return criteria, regardless of actual operating hours. Also adversely affected are the oldest wind farms (those commissioned before 2005). Since these facilities have enjoyed more years under the old regime, they do not need the remuneration supplement to deliver the Reasonable Return from their date of commissioning to the end of their Regulatory Useful Lives. These facilities are no longer entitled to remuneration for upfront investments. Their remuneration is generated exclusively by sales of energy at pool prices. These farms have seen their income fall by more than 50% in some instances.

The new regulations introduce another risk in terms of facility returns related to the specific hourly profile of their output. To calculate the amount of regulated investment still to be recouped, or the Net Asset Value, the average pool price is corrected by an "adjusting coefficient", which is unique to each class of technology. The adjusting coefficient reflects the difference between the average pool price and the hourly prices effectively collected by the facilities.

For example, in the case of wind power, this coefficient is less than 1 (0.8889) as these facilities typically produce electricity at times of the day at which the pool price is below the average, in part precisely because of the downward pressure exerted on pool prices by the wind power being produced. However, the real adjusting coefficient does not depend only on the class of technology employed but also on the site. Accordingly, some facilities benefit from the use of a single coefficient, while others are negatively impacted by it, seeing their profitability fall as a result.

Exhibit 2

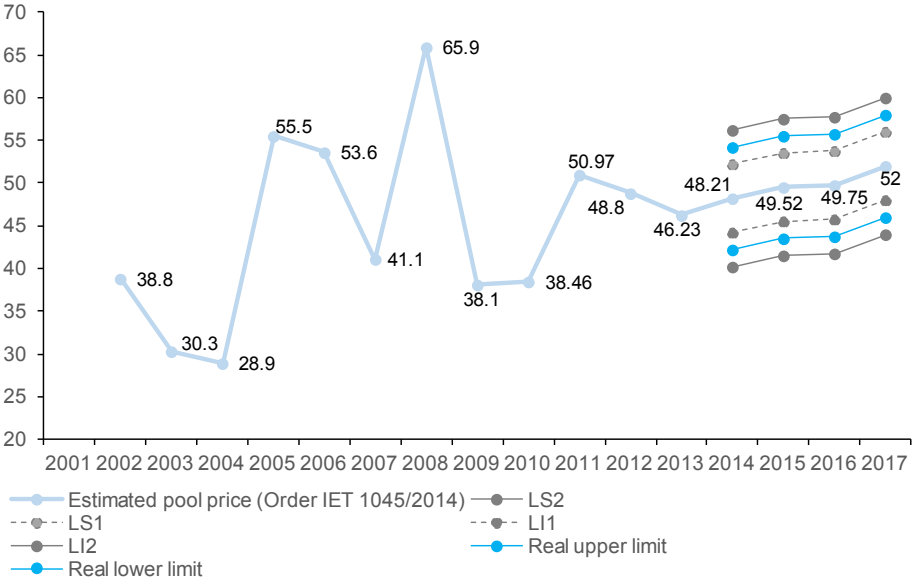
Price adjustment mechanism



*Note: *Defined for each regulatory stub period.*
Source: AFI based on RD 413/2014.

Exhibit 3

Historical average price in the daily and intra-day market: Estimated pool prices and thresholds defined in Ministerial Order IET/1045/2014



Source: AFI based on OMEI quotes and Ministerial Order 1045/2014.

Regulated remuneration will be revised every three years to reflect estimated revenue from energy sales valued at the average annual daily and intraday market price as a function of the trend in market prices and forecast operating hours. The higher the estimated pool price, the lower the regulated remuneration the renewable energy facilities will receive, as higher pool prices reduce the portion of investment costs that the facilities cannot recoup by means of market sales.

In the short term, renewable energy facilities' liquidity situation will be affected by fluctuations in pool prices.

Some of the ex-post difference between the estimated pool price and actual prices will be made up for by means of future remuneration parameters. To quantify this adjustment, the Ministry of Industry has established upper (LS1 and LS2) and lower (LI1 and LI2) limits or thresholds on either side of the estimated price. If the actual price falls outside the narrower limits (LS1 and LI1) on either side, an adjustment is triggered that will be compensated by means of the facility's remuneration over the rest of its Regulatory Useful Life, as shown in the Exhibit 2.

In keeping with the estimated price and limits set for 2014 - 2016, the facilities' exposure to price fluctuation risk is limited to a maximum of 12% above or below the estimated price. However, the adjustment for deviations in excess of or less than 12% is asymmetric in terms of liquidity as the adjustment is staggered over the entire remaining Regulatory Useful Life. If the pool price is higher than estimated, the facility will receive the full market value of its output and the adjustment will translate into a lower regulated investment value pending recovery (Net Asset Value). If, on the other hand, the market price is lower than estimated, the facilities will receive lower income, although they will benefit from a higher investment value

with respect to the remuneration not received via the market, outside of the 12% exemption band.

While the last set of sector regulations protected renewable facilities from variation in pool prices, the new regulations expose them to price trends. For example, in 2014, the average price in the daily market was 42.13 euros /MWh, which is 6.38 euros/MWh below the price estimated by the CNMC for 2014, reducing forecast revenue in the short term and placing a strain on liquidity. The corresponding remuneration adjustment will be applied from the beginning of the next regulatory stub period (which begins in 2017) until the end of the facilities' Regulatory Useful Lives. Estimated prices are in line with average pool prices in recent years.

Stagnation in capacity additions

RD 1/2012 had the effect of suppressing the financial incentives for new power generation facilities using renewable sources, co-generation and waste and of suspending the pre-allocation registration process. The result was a sudden end to the boom in investment in new capacity using these technologies, which posted average annual growth since 2004 of 14%.

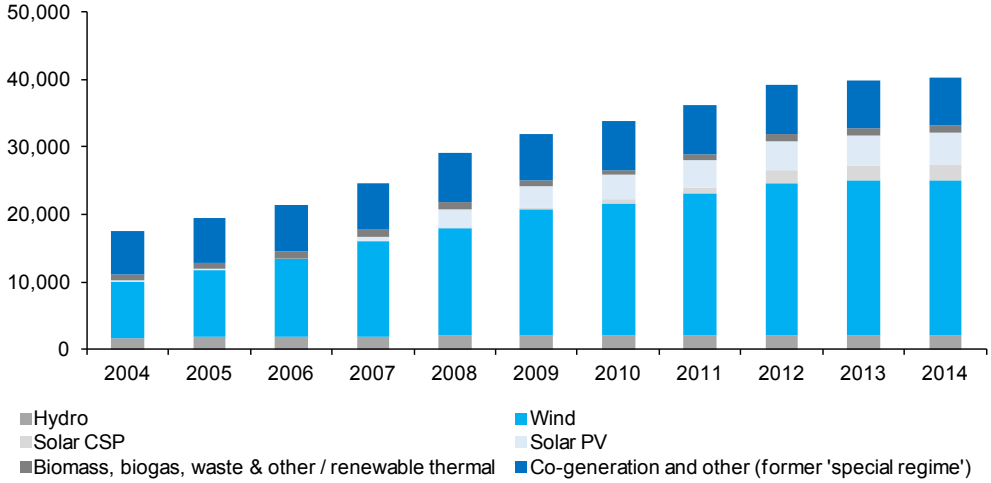
Going forward, the adjudication of the current specific remuneration regime will take the form of competitive tenders (RD 413/2014 and Law 24/2013). However, current legislation provides for certain exceptions: (i) a quota of 120 MW for facilities that are neither wind nor solar powered (mainly co-generation); and (ii) a tender for wind farms with aggregate capacity of 450 MW in the Canary Islands.

Future financial investments for renewable energy facilities will be awarded on the basis of competitive tenders with a view to reducing generation costs.

In order to meet the energy targets laid down in the Energy Efficiency Directive (2012/27/EU) by 2020, Spain needs to install between 6,600 MW

Exhibit 4

Trend in installed renewable power generation and co-generation capacity



Source: AFI based on Red Eléctrica de España (Annual Report).

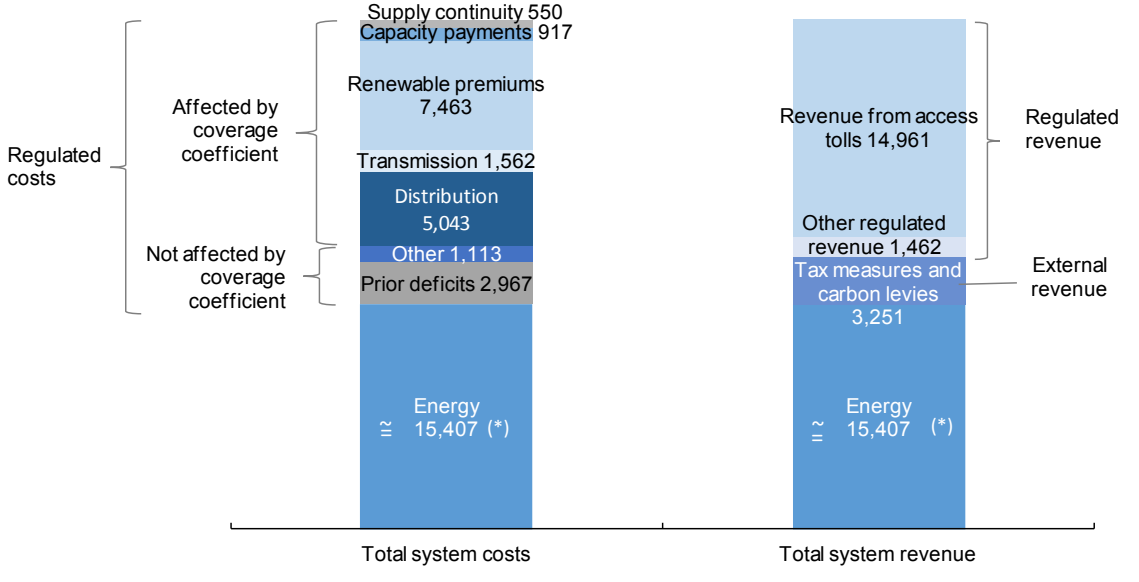
and 8,500 MW of renewable energy capacity (76% wind and 16% solar PV) which, coupled with other energy efficiency measures, would reduce final energy intensity by 1.6%, according to the Ministry of Industry's 2015-2020 plan for development of the electricity transmission grid, dated November 2014.

The addition of this new capacity should not imply as substantial an increase as in the past in system costs, insofar as the levelized cost of energy of most renewable energy sources has fallen, particularly in the last four years, to far more competitive levels, approaching grid parity. According to the Renewable Energy Generation Costs report prepared by IRENA in January 2015, the large-scale development of the various renewable technologies has helped to significantly reduce their generation costs between 2010 and 2014.

With installed worldwide capacity of over 179 GW, the cost of large-scale solar PV energy has fallen by half since 2009 to 100-255 euros/MWh (depending on location, using an exchange rate of USD/EUR of 1.1), thanks to a 75% drop in module costs and also lower installation costs. With installed worldwide capacity of over 350 GW, wind power generation costs have fallen by between 7% and 12% to 55-82 euros/MWh. Solar CSP technology development is less advanced than the other technologies, with worldwide installed capacity standing at 5 GW. As seen in the wind and solar PV segments, solar CSP generation costs are expected to continue to fall as development of this technology accelerates.

Exhibit 5

Regulated electricity system revenue and costs, 2014
(million €)



Note: (*) Using the final price according to OMEI of €57.7/MWh (source: OMEI) and power generation of 267,012 GWh (source: REE), 2014.

Sources: AFI based on CNMC Settlement Forecasts for 2014, OMEI and REE.

Electricity system sustainability: Balance between system income and costs

The continuity of the current remuneration model depends to a large degree on sustained system equilibrium. The system's sources of revenue are the electricity tariff and external sources (tax mechanisms supporting system income). This revenue has to be sufficient to cover the system's costs (cost of energy and regulated costs).

The current regulations include mechanisms for balancing system deviations that will affect renewable energy remuneration:

Coverage coefficient: One of the most important novelties introduced under the new Electricity Sector Act (Law 24/2013) is the elimination of the distinction between the special regime and the ordinary regime applied to legacy utilities. The special or renewable regime has lost its entitlement to revenue protection and the former exemption from having to finance the tariff deficit, although it retains its dispatch priority status (the order of priority with which the various technologies' output is uploaded into the grid).

When regulated revenue is not sufficient to cover all system costs, a 'coverage coefficient' comes into play, defined as the ratio between regulated system costs and revenue.

This coverage coefficient is used to lower the amount of regulated revenue collected (including renewable energy remuneration earned). These deviations may be ad-hoc or may persist until the end of a given year. If they persist at year-end, producers become entitled to claims that will be collected over the next five years. As a mitigating measure, there is a limit to the amount of the potential deficit that can be financed by the system players. It may not exceed 2% of annual remuneration and the debt generated may not exceed 5% of estimated system revenue for the year in question. In the event that these limits are breached, tolls and charges must be revised to cover at least the amount by which these thresholds have been surpassed. The revenue erosion implied by application of the coverage coefficient is another source of liquidity stress for the renewable energy generators, which cannot be financed as they lack the certification confirming related receivables.

Modification of renewable energy remuneration parameters: The Ministry of Industry can adjust renewable remuneration in accordance with the "cyclical state of the economy, demand for electricity and appropriate remuneration for these business activities (article 14.4 of Law 24/2013)," to which end it has the power to amend all remuneration parameters except for the Initial Investment and Useful Life values.

The Reasonable Return for facilities entitled to premium remuneration currently stands at 7.389% pre-tax. This figure is the result of adding 300bp to the yield on 10-year Spanish sovereign bonds. The Reasonable Return can be revised every six-year regulatory period based on the yield on the benchmark government bonds during the 24 months prior to the May before the start of the new regulatory period.

For the next regulatory period, if the 300bp spread were left intact, the Reasonable Return could fall to 5.2%, judging by the forward rates for 10-year government bonds (the forward curve implies a yield of 2.2% at the start of the regulatory period beginning in 2020 and of 2.7% at the start of the regulatory period beginning in 2026).

Renewable energy remuneration risks

Pool price fluctuation risk: An increase in pool prices above the estimates used to calculate regulated remuneration (49.5 euros/MWh in 2015) would imply a direct increase in renewable facilities' revenue. Part of such an increase (at least the portion of the increase in excess of 12%

of the estimate) would be offset in the future by means of a reduction in Net Asset Values.

Nevertheless, an intense and protracted increase in pool prices would put pressure on the system –particularly if it is caused by an external shock (and not growth in demand for electricity)– by forcing an increase in end consumer prices. And there is always the risk that politicians will lack the willpower to pass the increase in pool prices on to consumers in full. If this were to happen, two mechanisms would come into play: firstly, the coverage coefficient, designed to allocate the financing of the tariff deficit among all the system players by reducing their revenue by up to 2%; and, secondly, the tariff deficit would force a reduction in system costs, including, in all likelihood, cuts to renewable remuneration premiums.

An increase in prices driven by growth in demand would not necessarily put pressure on tariffs as system revenue would increase by the same token, alleviating the risk of mismatches between revenue and costs.

The best-case scenario for the renewable energy facilities would be a moderate increase in pool prices towards the limits at which the increase in pool prices does not trigger the adjustment mechanism, a level which, moreover, would not put too much pressure on electricity prices.

The most competitive technologies stand to benefit the most from growth in pool prices as their remuneration depends to a greater extent on market prices (leaving them less exposed to the abovementioned regulatory/political risk).

The more competitive technologies, namely wind power, are more exposed to pool price variation, as their revenue depends on pool prices to a relatively greater extent.

In fact, if the increase in pool prices were of sufficient scale, some of these technologies would no longer need additional remuneration as they would be able to cover their operating costs and investments from the revenue obtained from sales in the market. Note that under no circumstances does an increase in market remuneration, even if it means losing entitlement to regulated remuneration, require a facility to return remuneration already received.

In contrast, a drop in pool prices would trigger a direct reduction in facility revenue, causing liquidity stress for the renewable producer, albeit partially offset in the long term by means of entitlement to remuneration with respect to a higher Net Asset Value. The least competitive technologies would

Table 2

Contribution by market revenue *vs.* regulated remuneration to total remuneration (*)

%	Wind		Solar	
Technology	Oldest (up to 2003)	Newest (after 2008)	PV	CSP
Revenue from sale of energy at pool prices	100	<50	13	17
Investment remuneration supplement	0	>50	81	70
Operating remuneration supplement	0	0	6	13
	100	100	100	100

Note: (*) Average percentages based on 2014 remuneration using estimated pool prices.

Sources: AFI based on CNMC Settlement Forecasts for 2014, OMEI and REE.

be better placed in this scenario, as they depend on pool prices to a lesser degree.

Renewable energy facility remuneration is no longer insulated from market developments.

Drop in demand for electricity: The power produced by facilities using renewable sources, co-generation or waste enjoys priority dispatch status, which means that all of the energy produced is sold in the market. However, under the new regulatory framework, the renewable energy facilities are indirectly exposed to demand risk. A drop in demand for electricity would reduce system revenue (tolls and charges), while costs would stay largely constant, generating a deficit. This imbalance would be financed by the system agents in the short term, up to the mentioned limits (of 2% and 5%); beyond these limits, access tolls would have to be modified. In light of possible political reluctance to do so, the sector would again face the threat of renewable remuneration cuts by means of a reduction in the Reasonable Return.

A drop in demand could be accompanied by a decline in pool prices, reducing the facilities' revenue two-fold, as happened in 2014, albeit moderately. In the specific case of 2014, the renewable facilities' revenue was not especially affected as, exceptionally, they had been collecting premiums corresponding to the prior regime (although they have had to return these sums over the course of 2014). This surplus liquidity means that they did not suffer the revenue restrictions caused by the drop in demand and prices in 2014.

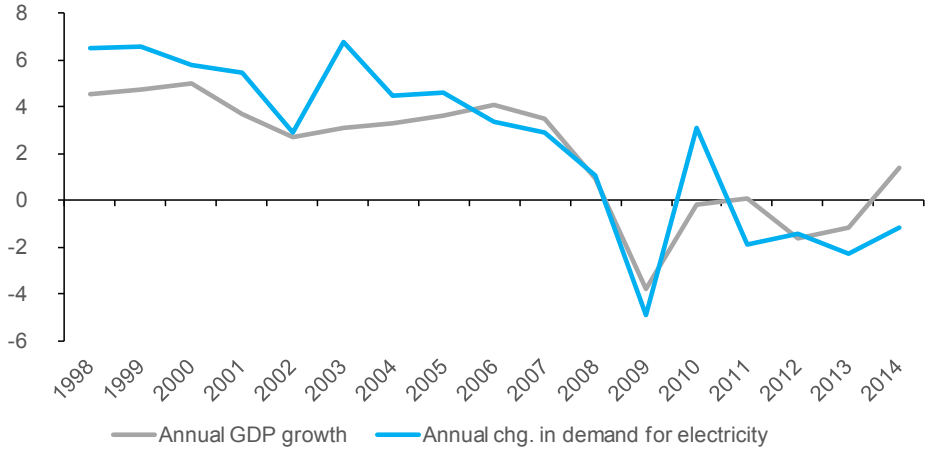
The growth in GDP estimated for 2015 should drive a recovery in demand for electricity. Prior to the crisis of 2008, growth in GDP was accompanied by relatively higher growth in electricity demand (elasticity: >1). Similarly, demand contracted by less than GDP in the ensuing years. In the long term, electricity demand elasticity to GDP may fall below one due to energy efficiency gains and/or a shift in the productive structure towards a less energy intensive mix, *i.e.,* one that is less dependent on industry, construction and transportation and more dependent on services.

In 2014, Spanish GDP rose by 1.4%, whereas demand for electricity narrowed by 1.2% (-0.2%

Exhibit 6

Demand for electricity and GDP

(percentage)



Source: Red Eléctrica de España.

correcting for seasonality and temperatures, according to Red Eléctrica de España). The trend in demand in 2015, a year in which economic momentum is expected to gain strength, will be illustrative in terms of a potential change in the structure of demand. Tellingly, in January 2015, demand rose by 2.8% year-on-year, indicating elasticity of >1 once again.

Investor appetite

The new regulatory framework generates enough uncertainty, albeit ring-fenced, in terms of remuneration as to warrant a return that is higher than the so-called Reasonable Return.

The recent Saeta Yield, S.A. IPO provides a good benchmark for the returns demanded by investors for this class of regulated assets. ACS listed 51% of a company holding a portfolio of 538.5 MW of wind farms and 149.8 MW of solar CSP farms, all operational and all entitled to the current renewable energy regime. At the IPO price, its enterprise value (market value plus net debt) was higher –at 1.96 billion euros– than its valuation for remuneration purposes (NAV: 1.56 billion euros). Assuming continuation of the current regulatory regime, investors are expecting a return on the IPO price of 6.3% plus the return the facility is able to generate by selling its output at pool prices at the end of its Regulatory Useful Life.

Table 3

SAETA IPO and return expectations

Market value	852
Net debt (*)	1,108
Enterprise value (€ m)	1,961
Regulatory value (NAV) (€ m)	1,560
Reasonable Return on regulatory value (%)	7.398
Reasonable Return x NAV/(enterprise value) (%)	5.9
Implied cost of capital (AFI estimate)	
Cost of debt (current average) (%)	4.5
Cost of equity before tax (%)	7.8
Cost of equity after tax (%)	6.3
Weighted average cost of capital before tax (%)	5.9

Note: (*) Factoring in the debt reduction notified to the CNMV on 12/02/15 and the disclosures made in the prospectus dated 30/1/2015.

Source: AFI estimates.

Summary and conclusions

The financial incentives afforded under previous regulatory regimes fuelled a boom in renewable energy development in Spain. Once the facilities producing power from renewable sources started to generate over 40% of the electricity demanded in Spain, it became untenable to continue to protect the sector from broader sector developments for remuneration purposes.

The new remuneration framework has been endowed with several remuneration adjustment mechanisms: the price adjustment mechanism, the financing of potential mismatches by means of the coverage coefficient and the modification of the reasonable return.

New facility financing arrangements can be structured on the basis of current cash flows but will need to factor in debt service coverage ratios and formulae capable of accommodating potential downward revisions to remuneration in the future.

As for existing capacity, the room for manoeuvre is slim beyond the possible integration of facilities in order to achieve economies of scale.

The current low interest rate environment will spark investor appetite in regulated assets that offer a reasonable level of visibility in terms of cash generation and, against the backdrop of electricity sector stability (underpinned by the anticipated recovery in demand for electricity), offer long-term returns on officially-recognised investment levels in excess of 5%.

Remaining challenges to budgetary stability in Spain

Santiago Lago Peñas[1]

Regulation to strengthen Spain´s fiscal stability, approved in 2012, was clearly a positive first step. However, design shortcomings, difficulties in implementation, and the subsequent approval of extraordinary liquidity mechanisms open the door for improvement upon existing measures.

Legislation on budgetary stability, approved in 2012, aimed to strengthen Spain´s public finances, with particular attention paid to the autonomous regions. Nevertheless, breaches to established targets have already taken place and further slippage is expected. Given the widespread nature of the problem across the regions, the degree of spending cuts already applied, and the "political economy" constraints to further enforcement of the law´s available control mechanisms, changes in both the legal framework and its implementation seem necessary. Moreover, recent empirical results highlight some other deficiencies and weaknesses in the current legislation and raise the possibility of introducing modifications related to some of its key pillars. Specifically, there may be room for improving the methodology for calculation of regional deficit and debt targets, structural deficit targets at the central and regional government level, and the overall path of Spanish public debt convergence. Consideration should also be given to reform of the regional financing system. The introduction of such modifications would closer align fiscal targets with the real financial capacity of Spain´s regions in addition to the actual economic outlook.

Introduction

The reform of Article 135 of the Spanish Constitution in September 2011 kicked off a profound revision of the legislation on budgetary stability, which was implemented by Organic Law 2/2012 of April 27th, 2012, on Budgetary Stability and Financial Sustainability (LOEPSF). This article sets out to examine those aspects of the law that have proven to be off-target and consequently need to be revised and to detect shortcomings in its implementation. Based on these findings, the article provides recommendations particularly targeting the regional government level, where the most pressing challenges and problems are concentrated.

Main features and weaknesses of the current budgetary stability framework

The LOEPSF introduced significant changes aimed to increase the budgetary stability of

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the general government as a whole, and the autonomous regions in particular. The four main pillars of the law include: i) the establishment of a ceiling on public expenditures that will prevent them from outpacing nominal medium-term GDP;[2] the establishment of a limit on public debt as a percentage of GDP (60%), with a rigid distribution across the levels of government; iii) the substitution of the concept of total deficit by that of structural deficit, with a target of zero set for 2020; and finally, iv) greater attention to the control and supervision of sub-national treasuries, including severe penalties and a requirement for more transparent budget management.[3]

As is typically the case with legislative changes, the LOEPSF was designed taking into consideration key issues at the time and based on a series of assumptions about how relevant agents would react, as well as how the external context would develop. If these agents react unexpectedly and/or external conditions differ from projections, the legislation will not achieve the expected results. Time pressure often times too complicates the legislative process.

In the case of the LOEPSF, time pressures were intense. The severe financial strains affecting the Spanish economy made it necessary to act rapidly and decisively to halt speculation about Spanish public debt and reaffirm the country's commitment to budgetary stability. Pressure from the European Union, led by Germany, and the European Central Bank, were key to understanding the constitutional reform of the summer of 2011 and its subsequent legislative implementation. This pressure explains the importance attached to confirming Spain´s commitment to budgetary stability and the excessive rigidity/ambition of some of the law´s articles and provisions. The emphasis on debt payments being a priority budgetary obligation, when this has been the practice since the last Spanish public debt arrangement by Minister José Larraz in 1939 (Comín, 1996), provides an example of the former. As regards the latter, excessive rigidity/ambition are evident in the establishment of precise quantitative targets for public debt, both in terms of the time horizon and the distribution across levels of government.[4]

Breaches by sub-national treasuries

Data at the sub-national treasury level reveal that the local level is not a problem for budgetary stability, and on the whole never has been (Fernández Llera, 2014). The regional level, however, is another matter.

Good progress on fiscal consolidation at the regional level was made in 2012 and 2013, but performance in fiscal year 2014 has again put the autonomous regions at the centre of Spanish and foreign analysts' attention.

In the case of the regions, the evolution of the deficit since 2012 has been volatile. Good progress on fiscal consolidation at the regional level was made in 2012 and 2013, but performance in fiscal year 2014 has again put the autonomous regions at the centre of Spanish and foreign analysts' attention. The budgetary execution data published for the period to November (Table 1) confirm the forecasts of the Independent Fiscal Responsibility Authority (AIReF) and Fedea. AIReF (2014a) estimated that the regional deficit

[2] Although the expenditure rule had been introduced a year earlier by Royal Decree-Law 8/2011 for the central government and its agencies, and for local government bodies receiving funding from transfers of national taxes.

[3] A detailed analysis of the LOEPSF can be found in Hernández de Cos and Pérez (2013) and in Ruiz Almendral (2013). Additionally, Cuenca and Ruiz Almendral (2014) expand the review of the subsequent regulations amending and implementing the LOEPSF; in particular, the regulations creating the Independent Fiscal Responsibility Authority (AIReF) and specifying control over "extraordinary liquidity mechanisms", such as the Regional Liquidity Fund (FLA in its Spanish initials), created in July 2012.

[4] It is noteworthy that the recent ruling by the Constitutional Court in January 2015 on constitutional challenge no. 557-2013 filed by the Government of the Canary Islands has upheld the law.

Table 1

Autonomous regions' net lending (+) or net borrowing (-)

Data at November of each year

Autonomous Regions	2014 % GDP	2013 % GDP
Andalusia	-1.73	-1.39
Aragon	-1.41	-1.61
Asturias	-0.53	-0.36
Balearic Islands	-1.21	-0.65
Canary Islands	-0.47	-0.62
Cantabria	-1.05	-0.63
Castile-La Mancha	-1.40	-1.20
Castile and Leon	-0.98	-0.61
Catalonia	-1.95	-1.66
Extremadura	-2.45	-0.90
Galicia	-1.17	-1.18
Madrid region	-1.25	-0.94
Murcia region	-2.54	-2.27
Navarre	-0.99	-2.20
La Rioja	-1.03	-0.48
Valencian Community	-1.87	-1.74
Basque Country	0.64	0.49
Total for Autonomous Regions	**-1.37**	**-1.16**

Source: Ministry of Finance and Public Administration.

could end the year at 1.5% of Spanish GDP; Fedea's estimate is 1.8% (Conde-Ruiz *et al.*, 2014). Fiscal consolidation prospects for 2015 are less than promising, with a deficit target that is again being cut – from 1.0% of Spanish GDP in 2014 to 0.7%.[5] Tightening legislation appears to have been insufficient by itself, and going beyond the existing legal possibilities appears difficult (Lago Peñas, 2013). The government faces a dilemma: it could either make full use of the deficit control mechanisms under the current legislation, or it could seek alternatives.

The first route would be the most attractive for the central government if there was clear evidence that there was scope for savings and more rigid budget management, or if it was certain that the problem was limited to one or two badly managed regions. However, the sharp cuts to regional spending already applied since the peak in 2009 (Lago Peñas and Fernández Leiceaga, 2013) and the large number of regions likely to miss their targets limit additional recourse to existing measures. That said, the fact that the catalogue of preventive, corrective and coercive measures envisaged in the LOEFSP has not been exhausted, a point recently raised by AIReF (2014b), could also reveal its limitations from a political economy standpoint. For example, it is one thing to enshrine in law the possibility of suspending regional autonomy when regional governments breach their targets, but it is another thing to actually enforce that decision. It is also necessary to reflect on Chapter IV of the LOEFSP and eliminate the parts that cannot be applied in practice due to political constraints, so as to generate credible expectations that what remains will be applied effectively and automatically.

The government´s alternatives, previously alluded to, include two, not incompatible approaches. The first, with immediate effects, is to revise the vertical and horizontal split in the debt and deficit targets. The second, the effects of which will be slower but more significant in the medium-to-long term, is to reform the regional financing system in the common regime regions (*i.e.* all of Spain except the foral communities).

The vertical split in deficit and debt targets

The current distribution of budgetary targets does not match the budgetary weight of the different

[5] The AIReF considers the stability target for the regions in 2015 to be very difficult to meet. Its analysis of the regional budgets concludes that there is a risk of non-compliance in Aragon, the Balearic Islands, Madrid and La Rioja and that this risk in the case of Andalusia, Catalonia, Extremadura, Murcia and the Valencia region is "very high" (AIReF, 2014b).

levels of government or the significance of their respective spending powers. In particular, the regions could be given more space and their percentage of the total increased to be more in line with their share of consolidated expenditure –around a third.[6] In the case of the distribution of the 60% debt target across all levels of government,

The current distribution of budgetary targets does not match the budgetary weight of the different levels of government or the significance of their respective spending powers.

it does not seem reasonable to have simply taken the actual figures observed in 2011 as an optimal value and objective rule. Targets should better reflect economic reality.

The horizontal split in deficit and debt targets across regions

The LOEPSF does not specify what formula to apply to establish individual deficit targets for the autonomous regions, over and above the fact that the aggregated individual targets should coincide with the deficit target for the regional level as a whole. In practice, what has been done is to imitate the application of ratios in terms of regional GDP. That is to say, for each autonomous region, the same percentage is set as for the country as a whole. The difference is that the individual targets refer to each region's GDP and the overall target to total Spanish GDP. The slight deviations from this rule in the last two years have responded to the need to give more leeway to those regions farthest from the target.

This methodology for determination of regional deficit targets lacks a solid basis. As Fernández Leiceaga and Lago Peñas (2013) explain, leaving the foral communities aside, Spain's strong inter-territorial levelling means there is no positive correlation between GDP per capita and fiscal capacity, on the one hand, and total per capita non-financial revenues (or current revenues) on the other. It is not each region's GDP that solely supports regional finances, as happens at the national level, or in countries where the inter-territorial levelling has little relevance, such as in the United States. This explains why the Madrid region's budget is around 10% of regional GDP, whereas Extremadura's is well in excess of 20% of its GDP. Consequently, the financial capacity sustaining a given volume of debt expressed as a percentage of regional GDP is not the same in each case. For example, a debt equivalent to 20% of Extremadura's GDP is easier for the region's finances to bear than 15% of GDP is for the Madrid region's finances. The same also applies to the deficit, which is essentially just the flow variable that determines the stock of debt. In the opposite direction, the targets for surpluses in terms of a percentage of regional GDP ought to be lower in the case of those regions with higher regional GDPs in order for them to match up in terms of the degree of ambition and difficulty.

The solution to this blurring is to use the variable that matches the regions' real financial capacity to meet their deficit/surplus targets as the basis of the split.

If the aim is to achieve symmetrical distribution across the regions, the denominator of the deficit and the debt should be each region's income and not its GDP, as is already the case for local government bodies.

Thus, if the aim is to achieve symmetrical distribution across the regions, the denominator of the deficit and the debt should be each region's

[6] Fernández Llera and Monasterio (2010), referring to the previous legislative framework, also concluded with a proposal for the regions' share of the total deficit of between a quarter and a third, depending on the state of the economic cycle.

revenue (current or non-financial) and not its GDP, as is already the case for local government bodies.

Reform of the regional taxation system

It is imperative that the regional tax system be substantially strengthened, the budgetary restrictions hardened, and the overall distribution of resources better matched to spending requirements.[7] The first two elements are what would make it possible to hold regional governments accountable for their income in a dialogue with their citizens, bringing together both sides of the budget. International experience shows that in decentralised countries, such as Spain, the degree of autonomy or fiscal co-responsibility of sub-national governments is as or more important than rules. Fiscal discipline increases with fiscal decentralisation. (Eyraud and Lusinyan, 2011; Foremny, 2014). As regards the distribution of resources between territorial units, it is essential to calculate spending needs better and not deviate from them arbitrarily *ex post,* as is currently the case.

It is also necessary to find a solution for the disruptions generated by the system of advances and partial payments around which the financing system in the common regime revolves. Firstly, because it distorts the use of fiscal capacity, particularly in the case of personal income tax. Unlike the case of the national portion of the tax, any changes made to the regional portion are not reflected in withholdings. Therefore, taxpayers only notice them a year and a half after they have come into force, when they settle their tax. Something similar also happens with regional treasuries. Secondly, because unexpected changes in income are not offset in the implementation phase given that they will not be reflected in the end-of-year deficit, as they are in the case of the central government. In this regard, Hernández de Cos and Pérez (2015) propose the application of an adaptive mechanism in which income forecasts are updated over the course of the year and affect the partial payments.

Lastly, it is necessary to gradually integrate the foral communities of the Basque Country and Navarre into the inter-territorial levelling mechanisms.

Structural equilibrium and the expenditure ceiling: Are they sufficient to guarantee budgetary stability?

Substituting the total deficit for the structural deficit as a target is clearly a positive move. However, there are practical problems that arise, such as the difficulty of estimating the exact position in the economic cycle, of doing so in advance (the output gap) and the sensitivity of the budget to the cycle (Hernández de Cos and Perez, 2013). The legislation in force settles the issue by stipulating that the European Commission's methodology is to be used for all these calculations, a solution backed by the Constitutional Court.[8] Nevertheless, the available estimates of sensitivity vary substantially, depending on the method and the period analysed, and also on the current phase of the cycle. As Castro *et al*. (2008) show, at the peak of the cycle, methodologies based on the concept of output gap, such as that of the European Commission, tend to underestimate the cyclical effect; that is to say, they underestimate the transitional component of public revenues. The opposite is the case at the bottom of the cycle. A fiscal policy centred on the structural deficit estimated in this way would therefore have a procyclical bias.

The introduction of an expenditure rule such as that provided in Article 12 of the LOEPSF, which

[7] See the recently published issue 143 of the journal *Papeles de Economía Española* for more on reform of the regional financing system.

[8] http://ec.europa.eu/economy_finance/economic_governance/sgp/data_methods/index_en.htm.system

ties its dynamics to the medium-term nominal GDP growth rate,[9] may help remedy this bias in practice, as it smooths out the variations in expenditure. However, it should not be overlooked that between 2000 and 2007, the expenditure/GDP ratio grew at a similar rate to nominal GDP, rising from 39.1% to 39.2%, fluctuating between 38% and 39% the remaining years.

In short, given the methodology selected to calculate the structural deficit, the combination of the zero structural deficit rule with the expenditure rule could prove imprudent in the case of a future recession. One possible solution would be to utilise the independence and technical capacity of the AIReF and the Bank of Spain to define and apply a more sophisticated methodology for calculating the structural deficit. This calculation would be preferred when it supports more sensible deficit or surplus targets than those estimated using the European Commission's methodological framework. Finally, and in a way complementary to the expenditure rule, the creation of stabilisation funds ("rainy day funds") could be considered, allowing room for manoeuvre to be built up during expansionary times (Hernández de Cos and Pérez, 2015): the occasional "excess" tax collection, as happened in Spain in the last decade, would thus not be used to pay for procyclical tax cuts or lead to a slackening of efforts to combat tax evasion.

Moreover, the LOEPSF states that "no public administration may incur a structural deficit, defined as a cyclically-adjusted deficit" (Art. 11.2). In addition, Article 16 refers to setting individual targets for the autonomous regions. In order to truly adhere to the law, each region's position in the cycle should be calculated, rather than applying a weighted average for them all as a whole. This would be impossible for municipalities, but statistically feasible at the regional level.

It is true that there is a high degree of convergence between the regions' economic cycles, as a result of the close commercial, financial and fiscal links between them. And transfers to the regions from the central government depend on how the Spanish economy as a whole is performing, which reduces the sensitivity of regional income to the performance of the regional economy. However, the cycles and characteristics of recessions in Spanish regions are not identical (Bandrés and Gadea, 2013). Moreover, the dependence on transfers varies widely between regions, due to the existence of significant differences in fiscal capacity; and it is practically zero in the case of the foral communities. Although these calculations would entail greater complexity,[10] per-community structural deficit estimates should at least be explored and the size of the divergence from the national average over the last decade, for instance, be determined. This would make it possible to combine years of strong growth with others of recession in the sampling period and help in the determination of an appropriate fiscal effort.

The first transitional provision of the LOEPSF

It is difficult to envision compliance with the first transitional provision of the LOEPSF (Marín, 2014). The strong increase in public debt over the last three years makes it necessary to revise the path of Spain´s public debt consolidation to 60% of GDP by 2020 to ensure it is feasible and credible. Achieving this objective would mean maintaining combinations of GDP growth and budgetary surpluses between now and 2020 that are overly ambitious even under the most optimistic economic projections available.[11] For example, it would require nominal economic growth of 5%

[9] Defined in a subsequent ministerial order in December 2012 as the ten-year average of the potential real GDP estimates -those corresponding to the five previous years, the estimate for the reference year, and the projections for the four coming years.

[10] In this regard, Hernández de Cos and Pérez (2013) warn of the difficulty of harmonising the regions´ output gaps with Spain's as a whole. However, they also warn that the dispersion in the regional growth rates may in some years be considerable.

[11] We should not lose sight of the negative multiplier effects when trying to switch suddenly from the current deficit to a surplus (Estrada and Vallés, 2013).

and a total surplus equivalent to 3% of GDP, or growth of 8% and a surplus of 1%, which is the combination closest to that experienced in the years prior to the recession.

Achieving current public debt consolidation targets would mean maintaining combinations of GDP growth and budgetary surpluses between now and 2020 that are overly ambitious even under the most optimistic economic projections available.

In sum, with a debt to GDP ratio of 70% of GDP, the level recorded when the transitional provision was drafted, the 60% target may have seemed reasonable over a nine-year horizon and consistent with the other fiscal objectives set out in the law. However, with debt approaching 100%, it no longer appears possible to reach this target.

Given that the provision should be reviewed in 2015 to ensure deficit and debt targets remain on track to reaching their objectives for 2020, this could serve as an opportunity to make substantial modifications. In this regard, Marín (2014) offers a series of reasonable alternatives that, basically, extend the transitional period beyond 2020 (to at least 2025) and sidestep the strict expenditure dynamics requirements in order to reduce the debt volume.

In any event, it should be made clear that the public debt to GDP ratio will come down automatically and rapidly with the consolidation of the recovery underway. The structural deficit will approach zero and the average cost of debt will drop to levels that are low, or at least reasonable in a historical perspective. The exception to this corrective process is the part of the debt that does not derive from the deficit. The bail-out of both the financial sector and sub-national treasuries has contributed to the large increase in public debt over the last five years. What is more, as Cuenca and Ruiz Almendral (2014) rightly point out, the way in which extraordinary liquidity mechanisms are being managed is helping create expectations of a financial bail-out for the autonomous regions and worsening the soft budget constraint problem; a problem that goes back to the origins of the regional financing model. This problem has been exacerbated, rather than solved, by the recent Royal-Decree Law 17/2014 of December 26th, 2014, on additional financial sustainability measures for the regions and local bodies. This is undoubtedly a front on which the specific application of the legislation does not entirely encourage consolidation of a medium and long-term budgetary stability framework.

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An evaluation of the 2014 fiscal reform: Insights from a survey of professional tax advisors

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A review of tax advisers' opinions over the recent tax reform indicates that changes are headed in the right direction in terms of eliminating distortions, mitigating tax planning, and reducing complexity. While the reform has not addressed all of the Spanish tax system´s shortcomings, the hope is that it will help sustain the Spanish economy's recovery and greater stability in the fiscal system.

There have been recurrent demands for fiscal reform in Spain in recent years, strengthened by the economic crisis. A reform was passed in late 2014, which entered into force in 2015 and 2016, and was concentrated on changes to the personal income tax and corporate tax regime. This article reviews the main features of this reform and attempts to identify the main shortcomings highlighted by tax advisors. In general, it is possible to conclude that the reform was a step in the right direction as regards addressing existing distortions/shortfalls, although there are areas that have not yet been addressed, such as the VAT and wealth tax.

Introduction

The Spanish fiscal system, like any other, is far from being perfectly fair, efficient and simple, with taxes that are exactly coordinated to finance public expenditure. Faced with this impossibility, economic analysis primarily focuses on applying taxes that can improve economic efficiency and, at the same time, foster a more just income distribution. This is because, although fiscal systems cannot be perfect, "the way in which they are designed is very important for economic well-being" (Mirrlees *et al.*, 2011, page 1).

Theoretical and empirical economic analysis offers an extremely useful toolkit with which to estimate the impact of taxes on the behaviour of economic agents. For example, public economy traditionally points to the importance of economic activities being taxed in the same way by the corporate tax and personal income tax (*e.g.,* Crawford and Freedman, 2010). The same applies in the case of business financing decisions, as interest on debt is tax deductible, whereas the opportunity cost of equity is not. Indeed, this lack of neutrality may have worsened the recent financial crisis (*e.g.* Slemrod, 2009; and Keen *et al*., 2010).

Consequently, academic literature shows there to be broad scope to achieve a fairer, more efficient and simpler fiscal system. However, if the aim is to achieve a better fiscal system, it would also seem worthwhile to consider the opinions of tax advisers. Drawing on their professional experience, how do they rate the possible sources

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of inefficiency in major taxes, such as the income tax and corporate tax? From their knowledge of the fiscal system, would they conclude that it is simple? Is the tax burden distributed fairly? In short, do they believe the Spanish fiscal system needs reform?[2]

With the aim of capturing their views, we prepared a questionnaire, which was distributed among tax advisers in late 2012. The answers received gave us their perspective on fundamental aspects of taxes, such as efficiency, simplicity and equity of the fiscal system as a whole, and in particular the system's two main taxes: the income tax and corporate tax. These are not regulatory opinions and may reflect certain biases, but they are of interest in studying taxation and can stimulate the debate on tax policies, with a view to improving them.[3] The responses can also be used as a benchmark against which to judge the recent tax reform.

Between 2015 and 2016 significant changes to the income tax and corporate taxes are due to come into force. These modifications affect the tax rates, and other relevant features with an impact on how tax bases and final tax liabilities are calculated. How should the changes brought by Laws 26/2014 and 27/2014 of November 27th, 2014, be viewed?

The rest of this article is organised as follows: The next section presents the findings of the survey of professional tax advisers. Subsequently, we discuss the main features of the tax reform passed in late 2014, and assess it in light of the survey findings. Finally, we offer some conclusions.

A survey of tax advisers on the Spanish fiscal system

The Spanish fiscal system mainly operates through a self-assessment mechanism, that is to say, taxpayers themselves report the taxable event giving rise to the tax (*e.g*. earned income), analyse the regulations and calculate their tax liability (*i.e.* settle their tax). For this reason, tax advisers play a particularly important role in the Spanish fiscal system, as they often help taxpayers comply with tax legislation. Their first-hand knowledge of the system makes their opinion of how it operates very relevant. To this end, in late 2012, we surveyed tax professionals throughout Spain, asking them questions that had traditionally been reserved for academia.[4] Our aim was not to ascertain tax advisers' individual preferences, but to draw upon the knowledge they have obtained from their daily professional practice to infer the extent to which some of the issues identified by academia should or should not be considered deficiencies or shortcomings, and, therefore, merit reform. We describe the content of the survey and discuss its main findings below.

The efficiency of the Spanish fiscal system

The questionnaire included a number of questions aimed at ascertaining Spanish tax advisers' opinions about the efficiency of Spain´s fiscal

[2] The academic literature includes examples of surveys sent to professional tax advisers in order to gather their opinions on tax policy. For example, the *American National Tax Association* sent its members a survey in 1994 that included a subset of questions on the U.S. fiscal system that university professors specialising in public finances had been asked back in 1934. (Slemrod, 1994). More recently, the same association again sent its members a similar survey in 2013.

[3] This same hope was expressed by Slemrod (1994) when analysing the results of the survey of U.S. tax professionals by the *National Tax Association*.

[4] The survey was conducted in collaboration with the two main Spanish associations in the tax advisory field, the *Asociación Española de Asesores Fiscales* (AEDAF) and the *Registro de Economistas Asesores Fiscal* (REAF). Nevertheless, the survey stated that its aims were academic and that it was being run and analysed by the Instituto de Economía de Barcelona (IEB), a research institute. The questionnaires were distributed on-line (www.EncuestaFacil.com) and the replies were anonymous, although the IP address was used as a filter to avoid multiple replies being sent from the same computer. A total of 272 completed replies were obtained. To identify possible bias, questions were also asked about respondents' personal characteristics and aspects of their work directly relating to the firm they work for. For more information about the survey, see Durán Cabré and Esteller Moré (2014).

system. Unlike the case of fairness, where it is the *set* of taxes that should be progressive, from the point of view of efficiency, it is socially desirable that each tax be efficient individually.[5] With this in mind, we asked about the possible distortions in the two main direct taxes, income tax and corporate taxes.

- Specifically, the questionnaire asked about the possible impact of the corporate tax on the following business decisions:
  - Source of *financing* chosen (debt or equity).
  - Type of *investment* to be made (depending on tax-deductible depreciation).
  - *Country* in which to invest (differences in tax rates).
  - Company legal *structure* (manner in which business is legally organised).
  - Tax *planning* to pay less (tax avoidance practices).
- In the case of income tax, the questionnaire includes the following topics relating to taxpayers' decisions:
  - Legal *structure* of the activity (creation of companies).
  - Autonomous region of *residence* (mobility).
  - *Home* purchasing rather than lease (to obtain the tax deductions on purchase of principal residence).
  - Types of *assets* used for savings.
- In the case of income tax, various questions were also included on the objective estimate or flat-rate scheme envisaged by legislation for small-scale economic activities, which also has an impact on the efficiency of the fiscal system:
  - Module-based objective estimation facilitates tax *fraud* (in income tax and other taxes).
  - Business owners who pay tax under this system *benefit* (as they pay less tax than they should according to their actual income).
  - Objective estimation is *simpler* than direct assessment.
  - *Elimination* of objective estimation and application of direct assessment as the sole assessment criterion would increase tax evasion.

There were four possible replies to each question, assigning each one a value: totally disagree, with a value of 1; agree somewhat, value 2; generally agree, value 3; and strongly agree, value 4. Table 1 shows the descriptive statistics for the responses given on efficiency, with items ordered from greater to lesser degree of agreement with the statement.

The average score for five of the questions was over 3, indicating a high degree of agreement with the issue raised. In these five cases, it is the fiscal system itself that is the source of the distortion, either because it facilitates tax evasion or because it allows taxpayers to pay less than they should based on their real income (modules), or because it gives rise to tax planning (organisation and planning of economic activities in income tax and corporate tax), or because it encourages people to buy their home (rather than rent). As a consequence, in relation to these five aspects, tax advisers' professional experience leads them to suggest that these two taxes represent a source of distortions, due to the features of the legislation governing these two taxes.

[5] A tax may sometimes be intended to correct negative externalities, in which case what is sought is an improvement in efficiency by correcting a socially harmful behaviour.

Table 1
Significance of distortions in the Spanish fiscal system

Variable	Observ.	Mean	Std. Dev.	Min.	Max.	Opinion
Income tax: Fraud using modules	272	3.500	0.778	1	4	
Income tax: Legal structure	272	3.379	0.778	1	4	
Corporate tax: Planning	272	3.316	0.756	1	4	AGREE STRONGLY
Income tax: Benefit from modules	272	3.140	0.894	1	4	
Income tax: Housing	272	3.051	1.000	1	4	
Corporate tax: Legal structure	272	2.923	0.928	1	4	QUITE AGREE
Corporate tax: Country	272	2.710	0.976	1	4	
Income tax: Simplicity of modules	272	2.651	1.136	1	4	
Income tax: Residence	272	2.632	0.963	1	4	
Corporate tax: Financing	272	2.426	0.934	1	4	
Corporate tax: Investment	272	2.404	0.858	1	4	
Income tax: Assets	272	2.312	0.856	1	4	
Income tax: Δ Fraud if modules eliminated	272	1.901	0.984	1	4	DO NOT AGREE

Source: Own elaboration.

The level of agreement on the other eight issues varies widely. In particular, there is a reasonable level of agreement that the corporate tax encourages the adoption of business legal structures, such that the legislation would again be a source of inefficiency. There is fairly strong agreement that the corporate tax determines what country to invest in, and Spanish income tax influences what autonomous region taxpayers choose to live in. These distortions are caused by the mobility factors, together with the decentralisation of income tax in the case of the latter. The degree of conformity is similar, *i.e.* more or less in agreement, when considering that the application of modules is simpler than direct assessment.

There is less agreement, with a tendency towards neutrality, that the corporate tax shapes the degree of financing from debt or equity and the types of investments made, or that the income tax determines the form of savings. These three issues are relevant precisely because they have been analysed in considerable detail by academic literature as sources of distortion. Finally, there was little agreement that eliminating the objective estimation system and applying direct assessment universally would result in an increase in tax evasion.

As a result, it is difficult to conclude how efficient the Spanish fiscal system is, but tax advisers' replies suggest that changes in the legislation –by eliminating distortions– may increase its efficiency, either by eliminating tax planning practices or discouraging changes in behaviour.

The complexity of the Spanish fiscal system (as a potential source of inefficiencies)

The very complexity of the fiscal system may indirectly constitute another source of inefficiency, insofar as it facilitates tax planning, for example, to exploit loopholes or inconsistencies in

the fiscal system, of which there tend to be more the more complex the rules. However, complexity can cause efficiency losses directly, to the extent that it generates uncertainty (Giertz, 2012), or rather, adds greater certainty to that already existing in a market economy. For this reason, the survey also addressed the issue of the complexity of the fiscal system.

Specifically, tax advisors were asked: *Do you consider the Spanish fiscal system to be more complex than it was 5, 10, 15 or 20 years ago?* The answers in each case could be only Yes (=1) or No (=0). In this respect, whatever the time frame (5, 10, 15 or 20), the answers overwhelmingly reported greater complexity (the range was from 0.87 (taking the last five years) to 0.91 (when the range was the last 15 years)). Consequently, tax advisers are almost unanimously agreed that the fiscal system has become more complex in recent years.

What kind of factors are driving this greater complexity? It is particularly interesting to analyse whether the factors are exogenous to the legislation, such that complexity is an intrinsic feature of today's fiscal systems that has to be borne. Or alternatively, that the factors behind it are endogenous and, therefore, it is legislation that is causing increased complexity. The response to each of these factors is again a dichotomy: Yes (=1) or No (=0). The factors are not mutually exclusive, as increased complexity may come from a combination of the two. The results are shown in Table 2.

By a wide margin, tax advisers consider the origin of the complexity to be endogenous, and almost 100% of respondents consider the main factor to be to continual amendment of the legislation, which, moreover, leads to legal uncertainty. The interpretation of the legislation and the terms in which it is drafted are the two other endogenous factors that over 60% of advisers felt cause greatest complexity, while decentralisation of legislative authority to the autonomous regions was only considered a cause of complexity by 40% of respondents. Moreover, the results clearly indicate that

Tax advisers almost unanimously agree that the Spanish fiscal system is highly complex, mainly as a result of the continuous changes made to the legislation, which also lead to legal uncertainty. The way in which the legislation is drafted and interpreted are two more factors adding to its complexity.

Table 2

Source of greater complexity: Endogenous factors/exogenous factors

Variable	Observ.	Mean	Std. Dev.	Min.	Max.
Endogenous Factors					
Continual changes to the regulations	272	0.982	0.135	0	1
Interpretation of laws by the administration	272	0.684	0.466	0	1
Deficient legislative drafting	272	0.614	0.488	0	1
Attribution of legislative power to the regions	272	0.408	0.492	0	1
Exogenous Factors					
Internationalisation of the economy and mobility of tax bases	272	0.191	0.394	0	1
Growing market complexity	272	0.191	0.394	0	1

Source: Own elaboration.

only a minority of tax advisers (19%) consider complexity to be caused by exogenous factors,such as internationalisation and mobility of tax bases and growing market complexity.

The equity of the Spanish fiscal system

Having ascertained the tax advisers' views on issues related to the efficiency and complexity of the fiscal system, they were also asked how they rated the system from the equity point of view, based on their professional experience. Specifically, the question asked was: *Do you think that those who contribute most are the wealthiest, or the middle and working classes?* Here the question was strictly positive, leaving normative issues to one side –as suggested at the start of this section. The result of the answers was overwhelming: 93.4% considered that the middle and working classes made the biggest contribution, and only 4.4% that the richest did, while 2.2% did not know the answer. As a result, based on this finding, it may be concluded that tax advisers' professional experience teaches them that the fiscal system as a whole is regressive.

To conclude, do they believe the Spanish fiscal system needs reform?

The survey's findings show the Spanish fiscal system to suffer from significant inefficiencies and that it is considered overly complex and unfair. But, looking back to late 2012, did they think the Spanish fiscal system needed reform? Almost 90% of the tax advisers surveyed considered that the Spanish fiscal system did indeed require an overall reform. The estimate by ordinary least squares (see Table 3) does not suggest significant bias resulting from characteristics of respondents or the firms in which they work, although it should be noted that there was a big difference between advisers based in the "foral" communities of Navarre and the Basque Country and those elsewhere in Spain.

Table 3

Analysis of biases in responses on the need for an overall reform of the fiscal system

Variables	Need for reform
Years of experience	0.0066
	(0.041)
Age	0.0011
	(0.003)
Sex	-0.0020
	(0.061)
Educational attainment	-0.0283
	(0.036)
Professional grade	-0.0049
	(0.031)
Size of firm	0.0081
	(0.034)
Average income in region	-0.0411
	(0.056)
Wealthy region	-0.0387
	(0.045)
Foral region	-0.4329***
	(0.094)
Constant	0.9260***
	(0.201)
Observations	272
R2	0.091

Standard errors in brackets

*** p<0.01, ** p<0.05, * p<0.1

Source: Own elaboration.

The 2014 fiscal reform: An assessment based on tax advisers' opinions

The 2014 fiscal reform focused particularly on the personal income tax and the corporate tax, and was enacted through Laws 26/2014 and 27/2014, respectively, on November 27th, 2014.[6]

[6] While it is true that Law 28/2014 was also passed, making changes to the VAT and other indirect taxes, the scope and interest of the reform is much smaller for the purposes of our objective, so the changes introduced will not be discussed here.

Both legislative instruments have introduced tax cuts, and have modified a number of aspects of both how the tax base and liability are calculated, so may therefore have an impact on how the tax burden is distributed and the efficiency of the system. In this section, we will discuss and analyse those changes we consider most significant for these purposes and which relate to the issues raised in the survey of professional tax advisers.

Objective estimation by modules in income tax

Small and medium-sized enterprises can opt to apply the objective estimate arrangements for their personal income tax, based on certain signs, indices and modules, under which they pay a flat rate. Law 26/2014 retains this system, although it significantly reduces its scope of application by making the limits that have been set over time more restrictive. Moreover, the new legislation expressly excludes certain activities that could previously opt for objective estimation.

Specifically, one of the limits derives from the net earnings obtained the previous year. The threshold has been reduced from 450,000 euros to 150,000 euros for the taxpayer's economic activities as a whole.[7] Additionally, contrary to the previous situation, when calculating this amount, all the transactions carried out need to be taken into account, regardless of whether there is the obligation to issue an invoice or not. In any event, a specific lower limit of 75,000 euros is set in the case of transactions for which an invoice is to be given. Another limit envisaged takes into account the volume of purchases of goods and services, excluding fixed assets, in the previous year. In this case, the amount has been reduced significantly, from 300,000 euros to 150,000 euros.

The reform also eliminates the cause of extinction established for other activities.[8] The elimination is justified by the fact that the Thirty-sixth additional provision of Law 26/2014 establishes the exclusion of a large share of these activities from objective estimate arrangements. Specifically, this affects activities related to the rates of the municipal business tax, mainly corresponding to the manufacturing and construction industries. It is also envisaged that the specific amount for other activities not directly excluded be reduced in order to further curtail the application of objective estimation.

Consequently, the new more restrictive limits and the exclusion of certain activities aim to significantly reduce the activities that can use this approach, limiting them mainly, as the preamble to Law 26/2014 states, to activities that entail dealing directly with end consumers.

How can this legislative change be judged based on the survey's findings? As Table 1 shows, a large portion of tax advisers have concluded that objective estimation by modules facilitates tax evasion in the case of income tax and other taxes. They also strongly agree that the amount estimated on the objective estimate approach is less than would be the case if actual earnings were assessed, which obviously benefits this group of business owners. Finally, professional tax advisers do not believe that eliminating objective estimation would increase fraud. Consequently,

The new legislation reducing the scope of application of the objective estimate arrangements should lead to a fairer and more efficient distribution of the tax burden, and a reduction in tax evasion.

[7] In the case of agricultural and forestry activities, the earnings-based exclusion limit has been cut from 300,000 euros to 250,000 euros.

[8] Specifically, point (e) of Article 31.1.3 of the tax law for certain activities when the net earnings from them in the immediately preceding year collected from parties obliged to make withholdings or advance payments exceeds a certain threshold. This scenario was introduced by Law 7/2012, October 29th, 2012, on the prevention of and the fight against fraud.

based on tax advisers' judgement, the new legislation's restricting the scope of application of objective estimate arrangements may be viewed favourably. It may also be considered that the reduced scope of application of objective estimation will enable a fairer and more efficient distribution of the tax burden, and a reduction in tax evasion. On the other hand, does it imply greater complexity in the application of the tax? Again, based on their professional experience, tax advisers generally agree that objective estimate arrangements are simpler to apply, although the view is not overwhelming.

In short, this measure is in line with that advocated by academia (*e.g.* see the Decalogue for a reform of the fiscal system in Esteller and Durán, 2013, signed by 50 Spanish university lecturers; or Paredes, 2010), although we should still consider whether it would not be more advisable to eliminate objective estimation entirely and replace it by a simplified method that would ensure small business owners paid tax more in line with their real economic capacity. Indeed, the Lagares Report (Comisión de Expertos para la Reforma del Sistema Fiscal Español, 2014) proposes the total elimination of objective estimation. Moreover, it is surprising that the changes to objective estimation described above do not come into force until 2016, except that the intention is to give more time to business owners affected to adapt to the extra formal obligations arising out of taxation by direct assessment.

Tax rates, estimating the tax base and deductions for economic activities in income tax and corporate tax

When analysing the income tax and corporate tax, it is important to look at them both together, as they both affect income and there may, therefore, be a certain transfer of income from one tax to the other.

The tax scale of each tax is the first element to consider, and tends to be the element on which public opinion focuses. In this regard, the reform introduces a cut in the tax rates applied in the case of both taxes. In the case of the income tax, as of 2015, the complementary scale applied since 2012 has lapsed, which entails a reduction in total marginal rates of between 0.75 and 7 percentage points. Additionally, the tax rates on the general state scale will drop by between 1 and 2.5 percentage points in 2016 (0.5 points in 2015), although with the change in the number and width of the brackets (reduced to five), marginal rates may go up for some taxpayers.[9]

In the case of the corporate tax, the general rate has been reduced to 28% in 2015 and 25% from 2016 onwards.[10] This reduction means that as of 2016, the lower rate for small businesses will be eliminated. The preamble to Law 27/2014 justifies this on the grounds that the difference in rate is a "disincentive or obstacle to business growth." The rate of tax that has been in effect for "micro-enterprises" to maintain or create employment will also be eliminated as of 2016. Lastly, reform to corporate tax maintains and expands the reduced rate envisaged for newly created firms established since 2013, such that firms established as of 2015 pay tax at a rate of 15% of total profits in the first two years in which they obtain positive earnings.

Consequently, in terms of nominal tax rates, the difference between the maximum marginal rates of the personal income tax and the general rate of corporate tax has narrowed with the reform. Whereas in 2014, the maximum marginal rate of personal income tax was between 46.9% and 56%, depending on the autonomous region in which the taxpayer lives, in 2015, it is between 44.5% and 49%. By cutting the general corporate tax rate to 28% in 2015, the difference between the two taxes has dropped from 26 percentage points to 21 points in 2015 and 23 points in 2016.[11] With

[9] On top of this reduction, changes in the regional brackets need to be added, depending on the rate each autonomous region sets.

[10] However, the tax rate has been kept at 30% for credit institutions.

[11] The lowest marginal rate is in Madrid and the highest in Catalonia. The comparison for 2016 has been made assuming that the regional rates do not change with respect to 2015.

the fiscal reform, therefore, it seems that the gap between the maximum rate of personal income tax and corporate tax has narrowed somewhat, although a considerable difference remains. However, the reduced rate of 15% envisaged for newly created firms means that when starting a new business or professional activity, the difference in income tax and corporate tax rates is very large, reaching up to 33 percentage points, although this difference will only persist for the first two years of profits.

If we take into account the additional tax burden a shareholder in a company faces in the form of the tax on the dividends received, the result of comparing the nominal tax rates certainly changes. Indeed, elimination of the exemption on the first 1,500 euros of dividend payments in force until 2014 implies the full adoption of the classic approach to taxing dividends. This means that the total taxation as of 2016 will be 42.25%, if we add the upper marginal tax rate of the savings scale of 23% to the corporate tax rate. Consequently, the total value is much closer to the higher marginal income tax rates an individual business owner may have to pay. However, if the company refrains from distributing dividends, the level of taxation will be only that of the corporate tax. The taxpayer can therefore decide when and at what rate he pays income tax on this income.[12]

Income tax has led to company structures being set up to reduce tax charges. Some of the changes introduced by the reform of corporate tax may help avoid this, although the impact of other changes may act in the opposite direction.

Is the difference between the income tax and corporate tax rates significant for tax advisers? As Table 1 shows, the second question that generates the highest degree of agreement among tax advisers (an average value of 3.379) is precisely that personal income tax leads to the creation of company structures in order to reduce tax charges.[13] In any event, when comparing income tax and corporate tax, it is not just nominal tax rates that are relevant, as we also need to take into account differences in the calculation of the respective tax bases and deductions.

In this regard, in the direct assessment of the earnings from economic activities, the personal income tax legislation refers mainly to corporate tax legislation, thus guaranteeing a degree of neutrality.[14] However, certain specific features of simplified assessment should be noted. In particular, tax-deductible depreciation is calculated on a straight-line basis from a simplified depreciation table and there is a reduction of 5% of net earnings for expenses that are difficult to substantiate. With the reform under Law 26/2014, a ceiling of 2,000 euros is imposed on expenses that are difficult to substantiate.[15] The limit will therefore affect taxpayers declaring net earnings of more than 40,000 euros.

[12] From the academic point of view, it would be more appropriate to talk of marginal rates or effective average rates. Nevertheless, nominal rates are also relevant, indeed they are the focus of public debate, so are therefore likely to be those professionals take into account when they are asked if income tax leads to company structures being created.

[13] The academic literature highlights that it is important to avoid the legal form an economic activity takes affecting how it is taxed. For example, De Mooij and Nicodème (2008) observe that between 1997 and 2003 in 17 EU countries there was a transfer of income from personal income tax to corporate tax. Specifically, they estimate that the differences in the rules on the two taxes lead to a transfer to corporate tax accounting for between 10% and 17% of this tax's total tax collection. In the case of Spain, Domínguez *et al.* (2005) find, on the other hand, fiscal factors not to be significant in Spanish firms' organisational decisions, although the authors are cautious about the results in view of the short time period available in their study.

[14] Objective estimation was analysed in the previous section, so will not be discussed again here.

[15] This figure coincides with the fact that the new deduction for other expenditure was introduced with the reform in the calculation of employment income.

In the case of corporate tax, the special arrangements for small businesses have been retained, although some important changes have been made. As of 2016, they will no longer benefit from a lower tax rate, as the general rate is set at 25%. The flexible depreciation provided for small value investments has also been eliminated, as it has been made available to all businesses, as we shall see. Accelerated depreciation for reinvestment of extraordinary income has also been eliminated, in line with the elimination of the similar deduction that until 2014 had been applied to the tax due. And finally, the deduction for investment of profits that small entities have been able to apply for their earnings obtained in the financial years beginning in 2013 and 2014 has also been eliminated.

Therefore, from now on, the special arrangements for small businesses will be limited to flexible depreciation for investments creating jobs, accelerated depreciation of new fixed asset items and impairment of credit for possible insolvencies. As an important new feature, the reform introduces a tax concession that, indirectly, allows tax losses to be offset with profits from past years, similar to the retroactive offsetting of losses in past years, known as loss carryback.

Specifically, the so-called levelling reserve allows a small entity to reduce its positive tax base in a given year by up to 10%, up to a maximum of a million euros. This negative adjustment must be reversed in the following five years provided the company has a negative tax base. In other words, it is possible to offset losses incurred in the five following years. If insufficient losses have been incurred in this period, the remaining amount must be added to the tax base in the last year of the period. The company is required to constitute a non-available reserve for the amount of the reduction to the tax base. This non-availability ceases when the adjustment is backed out, *i.e.* within five years.

Consequently the new reserve allows the taxation in a tax period to be reduced against the losses incurred in the subsequent five years, thus bringing forward the application of future negative tax bases. If these losses are not incurred during the five year period, the adjustment is reversed in the fifth year, such that finally a deferral of taxation on the reserve has been obtained.

As a result, the new corporate tax retains the special arrangements for small entities, which in practice means they can defer a portion of the tax. These arrangements are also applicable to business owners who are subject to direct assessment for personal income tax, with the exception of the levelling reserve, which of its nature, does not apply to natural persons conducting a business activity.

In short, corporate tax includes special treatments that may influence the choice of company legal structure. On this point, when tax advisers were asked if the tax influences decisions on the legal structure of companies, we obtained a relatively high degree of agreement, with 2.923. Eliminating the reduced rate and reinvestment deductions for small businesses could help make the tax more efficient, but in turn, the general application of a reduced rate for new entities, together with the maintenance and creation, in the case of the levelling reserve, of certain tax benefits seems to go in the opposite direction.

The treatment of debt and equity in the corporate tax

In most countries, the corporate tax allows interest on debt to be deducted, whereas the opportunity cost of equity is not deductible. This bias in favour of debt has been given more attention in the wake of the recent crisis. Thus, empirical studies (*e.g.* Slemrod, 2009; Keen et al., 2010) show that this distortion, while not being the main cause of the financial crisis, has nevertheless contributed to its spread.

In response, countries such as Germany, France, the United Kingdom, and Spain since 2012, have

introduced limits on the deductibility of debt. Specifically, in the Spanish case, net financial expenses are fully deductible up to a million euros, with a limit of 30% of operating profit over this threshold. Financial expenses arising on transactions within a business group have also been made non-deductible, unless these transactions are reasonable from an economic viewpoint. However, the intended purpose of these limitations has not been to ensure neutrality between debt and equity financing, but to combat international tax planning by multinationals.

A significant new feature introduced by Law 27/2014 was a capitalisation reserve with the aim, as expressed in the preamble, of "having an impact on the neutrality of how business finance is raised, stabilising a balance that has for a long time been inclined in favour of debt." Specifically, companies can apply a reduction in their tax base of 10% of the increase in equity during the financial year, up to a limit of 10% of the tax base. If this limit is exceeded, the pending reduction can be used in the tax periods ending in the two following years. In order to apply this reduction, the increase in equity must be maintained over five years and a reserve, which is to be unavailable for the period, set aside for the value of the reduction. Consequently, as of 2015 entities that increase their equity benefit from a tax incentive equal to 10% of the increase, which will certainly improve the neutrality of the tax for companies' financial decisions. This incentive, combined with the retention of the limits on the deduction of financial expenses, reduces the traditional asymmetry between debt and equity financing.

Do tax advisers believe that corporate tax's asymmetry influences the way in which companies are financed? The survey suggests that they take a somewhat sceptical view, with an average value of 2.426. Therefore, they do not consider corporate tax to be the most important factor when deciding how to raise finance, or at least not universally. To conclude, although the change introduced in 2015 should be viewed favourably insofar as it reduces the bias in favour of debt, tax advisers' view is that financing decisions depend at the margin on factors unrelated to tax treatment, such as access to credit, investment opportunities or expected returns.

For tax advisers, corporate taxation has not been the most important factor in choosing between debt and equity finance, which is more dependent on other factors. However, the changes introduced in 2015 should be viewed positively as they reduce the fiscal bias towards debt.

Neutrality in investment decisions

Depreciation reflects the deterioration suffered by capital goods over time as a result of their operation, use and obsolescence. From the theoretical point of view, when calculating economic profit, the real deterioration of capital goods should be deductible. Nevertheless, in practice, when calculating the tax base, effective depreciation is calculated using officially approved depreciation tables, in order to simplify tax compliance. Specifically, the implementing regulations for corporate tax, Royal Decree 1777/2004, of July 30th, 2004, set out the official depreciation tables in an annex following the National Classification of Economic Activities´ (CNAE) structure. That means setting the maximum coefficient and maximum depreciation period for more than 650 depreciable items.

The tax reform introduced a significant new feature, as the coefficients and maximum depreciation period are now regulated by Law 27/2014, Article 12, and the number of items has been considerably reduced, with just 33 now regulated. This is a clear example of a trade-off between efficiency and simplicity. As they regulated so many depreciable items, the tables applied previously took sector specificities

into account better, such that depreciation could be kept closer to its effective rate. However, as explained in the preamble to the law, the legislator considers it important to "simplify the depreciation tables, reduce their complexity, and provide more up-to-date tables that can be better applied in practice."

As regards depreciation, the new legislation also introduces the new feature of flexible depreciation of low value goods, the precedent for this being the arrangements that existed for small entities, which, as mentioned above, have now been eliminated. Specifically, there is freedom over the depreciation of new fixed assets worth under 300 euros, up to a maximum of 25,000 euros. Although this change is not mentioned in the preamble, it clearly also aims to be a simplification, as the low value of the items concerned makes the administrative cost of calculating their annual depreciation somewhat unreasonable.

Does the corporate tax influence decisions about the types of investments to make? Tax advisers' opinions are somewhat contrary on this point, suggesting that the changes made by the new legislation are unlikely to have much impact on decisions of this kind, and it therefore looks positive that priority has been given to simplicity over efficiency.

The neutrality of assets in which to hold savings

The Spanish personal income tax enacted by Law 35/2006 represented a significant change in the income tax model by explicitly introducing a dual rate, whereby a substantial share of income from savings forms a separate tax base that is taxed at lower tax rates. The purpose alluded to in the preamble to the law was to give "neutral treatment to income from savings, eliminating the unjustified differences that currently exist between the instruments in which they are held," as well as improving "Spain's position in the international context of free movement of capital and strong competition." However, Law 35/2006 did not introduce absolute neutrality, insofar as other investment income is not included in the savings tax base (*e.g.* income from real estate and earnings from economic activities arising from the capital allocated to them), nor does it eliminate the special treatment that for various reasons the law establishes in favour of certain assets (*e.g.* tax credit for the purchase of a main residence or the reduction in the tax base for contributions to pension schemes).

Subsequently, the deduction for taxpayers' investments in their home ceased to apply as of 2013, although on a transitional basis, it remains in effect for all taxpayers purchasing their home before that time. The new individual income tax law maintains these transitional arrangements. What is new is the elimination of the tax credit for renting of the main residence, which had been introduced in 2008, under similar terms to the deduction for purchase, although conditional upon taxpayers' income levels. The reform therefore unifies the tax treatment of main residences that are rented or owned.[16]

As Table 1 shows, tax advisers strongly agree that personal income tax has encouraged taxpayers to purchase their homes rather than rent them. The average value of the replies is 3.051. The elimination of the deduction for rent may certainly improve the neutrality of the tax as regards taxpayers' decisions to buy or rent their home, but it is worth noting that other significant features of the law on personal income tax and other taxes continue to offer highly favourable tax treatment of home purchases. The non-imputation of income for use of the main residence and exemption of possible capital gains on the sale of the main residence by taxpayers aged over 65 are two clear examples of aspects of personal income tax that favour home purchasing. Likewise, the exemption of the main residence from wealth tax and the reduction provided by gifts and inheritance tax are

[16] On a transitional basis it also allows application to leases entered into before 2015.

two major examples of tax advantages favouring home purchase, contrary to the supposed neutrality vis-à-vis renting.

In relation to savings, however, the new tax reform introduces other significant changes such as the favourable treatment given to long-term savings plans (PALP in their Spanish initials). In order to encourage long-term saving, the new rules allow taxpayers to pay up to 5,000 euros a year into individual long-term life-insurance policies or long-term individual savings accounts. The yields produced by these savings mechanisms are exempt provided the taxpayer receives them as capital and five years have passed since the payment was made into the policy or account. The aim here is basically to encourage savings by small investors.

In this regard, another noteworthy change is that all capital losses and gains are incorporated in the tax base, regardless of the period over which they accrued. This had been the case since the introduction of the current tax in 2007, but during 2013 and 2014 they were included in the general tax base when the accrual period was less than a year.

What is tax advisers' opinion about the neutrality of the personal income tax regarding the types of assets in which people invest? The average value of the answers, 2.312, shows a certain degree of agreement that the tax is not neutral with regard to savings, although the opinion is not so clear cut as in the case of homes. The new PALPs imply favourable tax treatment for a certain type of saving by means of a tax concession, namely the exemption of their earnings, with the aim of fostering long-term saving, although this means distorting tax neutrality.

Conclusions

This article set out to assess the content of the tax reform passed in late 2014. To perform this assessment, we have described the most important legal changes, specifically those affecting the income tax and corporate tax. The assessment has drawn on the results of a survey of professional tax advisers. Their responses should be viewed as a first-hand check on the shortcomings of Spain's fiscal system, focusing on aspects, such as efficiency, tax planning, equity and complexity. We believe this type of analysis helps ascertaining the real view that the tax consultancy world has of our fiscal system.

The recent reform of income tax and corporate tax is headed in the right direction in that it removes distortions and mitigates tax planning, as well as reduces complexity. The assessment of the cut in marginal rates, on the other hand, is a matter of individual preferences.

Based on our review of the changes and tax advisers' opinions, we believe that the reform is headed in the right direction in terms of eliminating distortions and mitigating tax planning *(e.g.* the treatment of debt and equity in the corporate tax, limiting the application of objective estimation by modules in personal income tax, or eliminating the distinction between long- and short-term capital gains), and reducing complexity (e.g. depreciation in the corporate tax), and therefore, certain trade-offs have been achieved. Any possible assessment of the cuts in marginal rates –leaving efficiency issues to one side– is a subjective matter. Finally, we note that it would be desirable –as the survey findings also suggest– to avoid legislative hyperactivity and that the results of this reform underpin the start of the Spanish economy's recovery and greater stability in our fiscal system.

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The impact of the economic cycle on Spanish tax revenue

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Calculations show Spain´s income and consumption taxes (VAT and excise duties) to be relatively sensitive to the economic cycle. Thus, it is likely that revenues from these taxes will rise significantly in the immediate future in response to the economic recovery.

The optimal design of a fiscal system requires an understanding of its endogenous tax collection capacity, *i.e.* its revenue-raising power in the absence of discretionary changes. Ever since Musgrave and Thin (1948) popularised the progression of the tax burden as a measure of progressiveness, the notion of revenue elasticity has been the perfect means to quantify a tax's "automatic" revenue-raising capacity.[4] As well as providing information about the expected impact of the economic cycle on tax revenue, this built-in response reveals other important structural properties of the tax: its (local) progressiveness, its power as an automatic stabiliser, and the real increase in fiscal burden associated with fiscal drag. Therefore, there is no doubt that the elasticity of tax revenue in response to changes in pre-tax income is an extremely useful concept in relation to a country's fiscal policy. The attached annex shows the elasticities of tax revenue in the case of income tax and two consumption taxes (VAT + excise duties) in Spain. Details of the modelling and empirical calculation of these elasticities can be found in Sanz *et al.* (2014).

Tax revenue elasticity is a synthetic measure that describes the relative change in the amount of tax collected when there are changes in the tax's base, or a proxy for it. As mentioned, this metric synthesises, among other things, the automatic sensitivity –*i.e*. in the absence of discretionary measures– of a tax's revenue to changes in the economic cycle. Based on the calculations obtained for Spain, it can be said that the progressive design of personal income tax makes its collection relatively sensitive to the cycle, with a national weighted average elasticity of 1.48. However, in terms of tax collection, a potential upturn in the economic cycle will not be equally profitable for all the autonomous regions. In fact, the same relative increase in household income will produce a bigger relative increase in tax collection in the poorer regions than the wealthier ones.

Moreover, the calculation of the revenue from consumption taxes in Spain refutes the widely held idea –deeply entrenched in public opinion– that indirect taxation on consumption in Spain is highly regressive. In this case, a clear proportionality

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[4] This concept is very popular in academic literature. For example, see: Hutton (1980), Hutton and Lambert (1980, 1982(a), 1982(b) and 1983), Creedy and Gemmell (2002, 2004(a), 2004(b) 2006), and Creedy and Sanz (2010).

is found. The unit elasticity of consumption tax revenue confirms that as Spain emerges from the economic crisis, consumption tax revenue will increase with rising household incomes in a proportion of 1:1. Unlike the case of income tax, the impact of an economic recovery on tax revenue from consumption taxes does not show much regional variation, being distributed uniformly across Spain's regions.

Table 1

Estimated automatic increase in tax revenue for 2015 and 2016 in the event of an upturn in the economic cycle

(calculation for national total*)

Expected increase in tax collection (in million euros)	2015	2016
Personal income tax	3,880	4,062
Consumption taxes	2,858	2,972
Total income tax + Consumption taxes	6,739	7,040

Note: (*) Autonomous regions in the common system.
Source: Own elaboration.

These elasticities therefore suggest that it is likely that Spain's revenues from income tax and consumption taxes will rise significantly in the immediate future without any additional discretionary measures being necessary. Specifically, assuming that FUNCAS' estimates for the expected rate of growth in households' nominal disposable income for 2015 and 2016 hold (*i.e.* 3.3% and 3.5%, respectively), the automatic revenue gains associated solely with the upturn in the economic cycle will be as shown in Table 1. As can be seen, over the course of 2015 and 2016, an automatic increase in collection from the two taxes of more than 13.7 billion euros can be expected.

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Annex

Table A1

Aggregate elasticity of income tax revenue with respect to pre-tax income $\eta_{R,Y}$
(Calculated for autonomous regions and income deciles)

	Decile										
Autonomous Region	1	2	3	4	5	6	7	8	9	10	Regional total
Andalusia	-	-	6.4053	3.4655	2.4611	2.0011	1.7892	1.6159	1.4975	1.3497	**1.5598**
Aragon	-	12.3469	3.9844	2.4001	1.8395	1.6797	1.6390	1.4779	1.4897	1.3118	**1.4938**
Asturias	-	10.2263	3.9925	2.3855	1.8509	1.7466	1.6641	1.4864	1.5040	1.3269	**1.5170**
Balearic Islands	-	9.0183	3.8793	2.5583	2.0167	1.7189	1.6959	1.5114	1.5102	1.2803	**1.4795**
Canary Islands	-	27.7352	5.1391	3.1126	2.3091	1.8769	1.7397	1.5745	1.4724	1.3320	**1.5335**
Cantabria	-	10.9478	3.8733	2.5502	1.9382	1.7426	1.6841	1.5087	1.4916	1.3098	**1.5090**
Castile and Leon	-	18.2407	4.9894	2.8715	2.0925	1.7551	1.7028	1.5389	1.4740	1.3523	**1.5413**
Castile-La Mancha	-	219.0799	6.0887	3.3113	2.3664	1.9430	1.7431	1.6074	1.4640	1.3587	**1.5608**
Catalonia	-	6.5032	3.0916	2.0902	1.7448	1.7032	1.5643	1.4177	1.5349	1.2579	**1.4438**
Community of Valencia	-	28.3627	5.5550	3.0916	2.2222	1.8749	1.7239	1.5818	1.4757	1.3101	**1.5134**
Extremadura	-	-	15.5104	4.8638	3.1363	2.3606	1.9466	1.7458	1.4797	1.3905	**1.6076**
Galicia	-	-	6.4156	3.4978	2.4026	1.9301	1.7333	1.6349	1.4618	1.3453	**1.5456**
Madrid	-	4.7391	2.5674	1.9107	1.6941	1.6334	1.4720	1.4727	1.4861	1.2091	**1.3850**
Murcia	-	187.8676	5.6507	3.3410	2.3796	2.0061	1.8200	1.6528	1.5209	1.3480	**1.5671**
La Rioja	-	13.2076	4.0488	2.5031	1.9068	1.6944	1.6795	1.5075	1.4757	1.2819	**1.4746**
Ceuta and Melilla	-	3.8043	2.3782	2.0159	1.7877	1.6496	1.4699	1.5460	1.5470	1.2842	**1.4860**
National Total	-	12.9959	4.3017	2.6747	2.0194	1.7350	1.6946	1.4911	1.5099	1.2828	**1.4788**

Source: Own elaboration.

Table A2

Aggregate elasticity of consumption tax revenue with respect to pre-tax income $\eta_{R_C,Y}$
(Calculated for autonomous regions and income deciles)

	Decile										
Autonomous Region	1	2	3	4	5	6	7	8	9	10	Regional total
Andalusia	1.1376	1.1389	1.0304	0.9926	0.9972	1.0101	1.0110	1.0111	1.0143	1.0152	**1.0151**
Aragon	1.1170	1.0765	0.9719	0.9800	1.0082	1.0096	0.9942	1.0169	0.9963	1.0193	**1.0088**
Asturias	1.1310	1.0830	0.9768	0.9903	1.0168	1.0126	1.0014	1.0240	0.9933	1.0183	**1.0115**
Balearic Islands	1.1259	1.0730	0.9830	0.9784	0.9944	1.0161	0.9990	1.0119	0.9865	1.0105	**1.0043**
Canary Islands	1.1273	1.1056	0.9858	0.9695	0.9795	1.0040	0.9986	1.0028	1.0041	1.0004	**1.0015**
Cantabria	1.1322	1.0812	0.9887	0.9856	1.0105	1.0128	0.9990	1.0198	1.0055	1.0121	**1.0104**
Castile and Leon	1.1305	1.1046	0.9954	0.9849	0.9992	1.0235	1.0105	1.0225	1.0116	1.0121	**1.0140**
Castile-La Mancha	1.1331	1.1291	1.0149	0.9936	0.9957	1.0096	1.0117	1.0074	1.0187	1.0115	**1.0133**
Catalonia	1.1193	1.0313	0.9695	0.9889	1.0087	0.9914	1.0029	1.0206	0.9600	1.0169	**1.0017**
Community of Valencia	1.1364	1.1186	1.0037	0.9813	0.9931	1.0069	1.0037	1.0067	1.0029	1.0162	**1.0095**
Extremadura	1.1479	1.1463	1.0988	1.0173	1.0055	1.0062	1.0219	1.0171	1.0308	1.0186	**1.0245**
Galicia	1.1276	1.1299	1.0210	0.9799	0.9969	1.0134	1.0177	1.0103	1.0202	1.0074	**1.0132**
Madrid	1.1158	0.9979	0.9720	0.9970	1.0051	0.9939	1.0114	0.9912	0.9661	1.0272	**1.0036**
Murcia	1.1410	1.1399	1.0217	0.9982	1.0071	1.0148	1.0100	1.0074	1.0097	1.0100	**1.0141**
La Rioja	1.1349	1.0886	0.9928	0.9929	1.0094	1.0261	0.9986	1.0177	1.0058	1.0472	**1.0252**
Ceuta and Melilla	1.1181	1.0215	0.9991	1.0012	0.9928	0.9883	1.0121	0.9781	0.9504	1.0089	**0.9932**
National Total (Common Tax System Territory)	1.1302	1.0941	0.9930	0.9833	1.0019	1.0159	0.9960	1.0177	0.9873	1.0174	**1.0087**

Source: Own elaboration.

Table A3

Aggregate elasticity of total tax revenue with respect to pre-tax income $\eta_{R_T,Y}$
(Calculated for autonomous regions and income deciles)

	Decile										
Autonomous Region	1	2	3	4	5	6	7	8	9	10	Regional total
Andalusia	1.1376	1.1388	1.9939	1.9582	1.7388	1.5888	1.5105	1.4347	1.3760	1.2906	**1.4084**
Aragon	1.1170	1.7005	2.3240	1.8354	1.5674	1.4880	1.4760	1.3755	1.3977	1.2691	**1.3912**
Asturias	1.1307	1.5980	2.1529	1.7520	1.5292	1.5011	1.4706	1.3670	1.3943	1.2763	**1.3922**
Balearic Islands	1.1259	1.6990	2.1265	1.8330	1.6285	1.4868	1.4879	1.3879	1.4022	1.2436	**1.3744**
Canary Islands	1.1272	1.3326	2.1058	1.9418	1.7182	1.5362	1.4891	1.4111	1.3592	1.2781	**1.3945**
Cantabria	1.1314	1.6104	2.0496	1.7948	1.5764	1.5016	1.4816	1.3834	1.3835	1.2667	**1.3893**
Castile and Leon	1.1305	1.4339	2.2601	1.9514	1.6693	1.5108	1.5012	1.4092	1.3784	1.3004	**1.4161**
Castile-La Mancha	1.1327	1.1602	2.1711	2.0190	1.7539	1.5940	1.5117	1.4480	1.3623	1.3026	**1.4219**
Catalonia	1.1189	2.0820	2.0752	1.6848	1.5131	1.5094	1.4300	1.3343	1.4374	1.2279	**1.3596**
Community of Valencia	1.1361	1.2737	2.1835	1.9752	1.7006	1.5605	1.5018	1.4324	1.3748	1.2656	**1.3935**
Extremadura	1.1479	1.1463	1.5305	2.0557	1.8814	1.7159	1.5616	1.5002	1.3589	1.3218	**1.4336**
Galicia	1.1276	1.1299	2.0925	2.0578	1.7521	1.5751	1.4919	1.4562	1.3593	1.2912	**1.4088**
Madrid	1.1154	2.1194	1.8506	1.5829	1.4854	1.4676	1.3669	1.3790	1.3980	1.1871	**1.3161**
Murcia	1.1402	1.1786	1.9886	1.9007	1.7035	1.5877	1.5301	1.4607	1.3965	1.2924	**1.4162**
La Rioja	1.1349	1.5696	2.1744	1.8222	1.5821	1.4765	1.4984	1.3894	1.3822	1.2404	**1.3685**
Ceuta and Melilla	1.1181	1.8475	1.7050	1.5956	1.5005	1.4634	1.3571	1.4117	1.4292	1.2447	**1.3742**
National Total (Common Tax System Territory)	1.1299	1.4987	2.1323	1.8607	1.6205	1.4947	1.4958	1.3751	1.4046	1.2452	**1.3738**

Source: Own elaboration.

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 implementing the Law on regulation, supervision and solvency (Royal Decree 84/2015, published in the official gazette on February 14th, 2015)

Royal Decree 84/2015, of February 13th, 2015, implementing Law 10/2014 of June 26th, 2014, on the regulation, supervision and solvency of credit institutions (hereinafter, RD 84/2015), completes the implementation of Law 10/2014 and consolidates the rules on the regulation and discipline of credit institutions in a single text. The Royal Decree also forms part of the transposition of Directive 2013/36/EU (CRD IV).

The **main features** of RD 84/2015 are:

1. Measures concerning authorisation, registration and activity

- The authorisation arrangements are limited to **banks**, while savings banks and credit unions will be governed by their own specific regulations.

- The RD establishes the **requirements** to be met in order to **conduct banking business.** These include: (i) incorporation as a joint-stock company; (ii) having a share capital of at least 18 million euros, fully paid-up in cash and in the form of registered shares; (iii) that shareholders with significant stakes meet suitability criteria; and (iv) having a board of directors comprising at least five members who must meet the suitability requirements (recognised good repute and professional standing, with the necessary knowledge and experience to perform their duties, and able to exercise good governance).

- It sets out the requirements for the **application for authorisation** to create a bank and the reasons for **refusal**, and the rules for amendments to the articles of association and structural changes.

- It sets out the regulations for **cross-border activity** concerning the opening of branches and the freedom to provide services in other EU Member States and in non-EU States, and for the provision of services in Spain by credit institutions from other EU Member States and non-EU States. It also establishes the rules applicable to the opening of **representative offices** of Spanish institutions abroad, of which the Bank of Spain must be notified in advance, and the rules applicable to credit institutions authorised in other EU Member States wishing to open a representative office in Spain, authorisation of which corresponds to the Bank of Spain.

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

2. Significant shareholdings

- It maintains the treatment of significant shareholdings laid down in **Royal Decree 1245/1995**, July 14th, 1995, on the creation of banks, cross-border activity and other points regarding the legal framework governing credit institutions, repealing the latter Royal Decree.

- **The Bank of Spain will evaluate proposed acquisitions** of significant shareholdings to ensure certain criteria are met (including the good repute and professional standing of the potential acquirer or compliance with the suitability requirements applicable to members of the board of directors and general managers and similar who will be running the entity's business).

3. Corporate governance measures and remuneration

- RD 84/2015 incorporates the **suitability requirements** envisaged in Royal Decree 256/2013, of April 12th, 2013, including the criteria of the European Banking Authority of November 22nd, 2012, on the assessment of the suitability of members of the governing body and holders of key positions. It also adds the following:

  ✓ In addition to the **assessment of the suitability requirements,** conducted by the Bank of Spain (or, by the ECB, where applicable), an evaluation will also be conducted by the acquirer of a significant shareholding when fresh appointments derive from this acquisition.

  ✓ The **deadlines for the suitability assessment** by the Bank of Spain will depend on the reason for the assessment.

  ✓ In the case of the **requirement for good repute and professional standing**, the holding of posts of responsibility in credit institutions that have been subjected to a process of early intervention or resolution will be taken into account.

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

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

  ✓ By virtue of contracts with standard conditions, applied en masse and on a habitual basis to a large number of customers and which do not exceed 200,000 euros.

- Certain aspects of **variable remuneration components** are clarified.

- The following provisions are laid down regarding the constitution of **appointments and remunerations committees**:

  ✓ This obligation will be deemed to have been fulfilled: (i) in the case of subsidiary credit institutions that have been exempted from application of prudential requirements on an individual basis; and (ii) provided that the parent institution constitutes these committees and exercises their functions for its subsidiaries.

  ✓ The **functions** of the appointments committee and the remuneration committee are specified.

  ✓ The Bank of Spain is authorised to make comparisons of **practices to promote diversity** and trends and practices regarding remuneration.

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

- Implements the provisions of Law 20/2014 regarding the **risk function and the risk committee**.

4. Solvency of credit institutions

- As regards requirements for organisation, risk management and internal control, RD 84/2015 lays down that entities must (i) have an organisational structure suited to the nature of their business; (ii) have an **internal audit function;** and (iii) have a **regulatory compliance function** independent from other areas, units or functions.

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

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

- For the purpose of calculating risk-weighted exposures for credit risk, exposures to the Spanish autonomous regions and local government bodies shall be treated in the same way as **exposures to the central government.** It also lists the **public sector bodies** that will be treated in the same way as **exposures to the level of government to which they belong.**

- The following points stand out regarding **capital buffers**:

  ✓ **Bank of Spain authorisation** to (i) set the percentages of countercyclical buffers; (ii) identify global systemically important institutions (G-SII); (iii) identify other systemically important institutions (O-SII); and (iv) define the rules for joint implementation on G-SIIs buffer, O-SIIs buffer and systemic risk buffer.

  ✓ Establishment of the rules for calculating the **maximum distributable amount.**

  ✓ Content of the **capital conservation plan** that institutions not complying with the combined buffer requirement are to submit to the Bank of Spain.

5. Supervisory measures

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

  ✓ The risks to which institutions are or might be exposed.

  ✓ The risks an institution poses for the financial system.

  ✓ The risks that have been revealed in the stress tests.

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

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

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

- **Consolidated basis supervision** includes financial holding companies and mixed financial holding companies and institutional protection systems.

- It establishes the criteria for **collaboration between supervisory authorities** and sets out the criteria upon which the Bank of Spain **will establish and preside over colleges of supervisors**.

6. Other points

- The **calculation of credit institutions' Additional Tier 1 and Tier 2 instruments** will be subject to prior approval by the Bank of Spain under CRR.

- **Integration of the Bank of Spain in the Single Supervisory Mechanism (SSM)**: The Bank of Spain's powers of authorisation and supervision envisaged in this RD will be applied in the framework of those assigned to the ECB and the SSM. In particular, the ECB will be responsible for issuing and revoking the authorisation of credit institutions, and possible opposition to the acquisition of a significant shareholding; without prejudice to the functions assigned to the Bank of Spain as the competent national authority for these matters. Additionally, the powers assigned to the Bank of Spain over corporate governance and remunerations, solvency and supervision will be exercised by the ECB in those cases where the latter is considered the competent authority.

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

- It defines the **representatives of the member institutions of the Deposit Guarantee Fund.**

- **Entry into force.** On the **day following that of its publication** in the official gazette (BOE), with the exception of the obligation to provide information on corporate governance and remuneration policy on institutions' websites. For this it will have a period of **three months** starting on **the date when the Bank of Spain publishes the envisaged developments**.

Royal Decree amending the Regulation implementing the Law on collective investment institutions (Royal Decree 83/2015, published in the official gazette on February 14th, 2015)

Royal Decree 83/2015, of February 13th, 2015, amending Royal Decree 1082/2012, of July 13th, 2012, enacting the Regulation implementing Law 35/2003, of November 4th, 2003, on collective investment institutions, transposes the Alternative Investment Fund Managers Directive (AIFMD) and takes the opportunity to introduce new improvements to the existing legal rules applicable to collective investments, particularly as regards depositaries.

The transposition of the AIFMD began with Law 22/2014, November 12th, 2014, regulating venture capital firms, other closed-ended collective investment undertakings, and amending Law 35/2003, of November 4th, 2003, on collective investment institutions (CII). This Directive affects **unharmonised CII management companies**, that is to say, those not authorised under the rules envisaged in Directive 2009/65/EC, of the European Parliament and of the Council, of July 13th, 2009, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). New requirements are introduced for the authorisation of the aforementioned management companies and the commercialisation of the CIIs they manage. The RD also establishes in more detail the rules of conduct to which they are subject, and the operational, organisational and transparency requirements they are to meet, with particular attention being paid to risk management, liquidity and conflicts of interest.

It also covers other issues that **complete the transposition of the AIFMD**, including:

- Additional information to be included in the prospectus of non-harmonised CIIs.
- The periodic information that CII management companies are to submit to the National Securities and Exchange Commission on the main markets and instruments in which they trade on behalf of the alternative CIIs they manage.
- The limits to the investments in securitisations and clarification of the concept of investment management as established in the AIFMD, which includes portfolio management and risk control.
- The requirements for the delegation of functions by management companies, the adjustments to own resources required of management companies with respect to the minimum required by European law, and appropriate and consistent procedures allowing correct and independent evaluation of the CII's assets.
- The strengthening of the **risk management function**, which must be functionally and hierarchically separate from the operational units.
- A **liquidity management** system is included.
- The aspects concerning the **remuneration policy**, applicable to management companies, **and the depositary regime**, stand out, applying to depositaries for all types of CII, bearing in mind that the treatment given to these issues in the European Directives (including UCITS) as regards the functions of the depositary, the remuneration policy and penalties, is practically identical. The regime for depositaries defines and regulates depositaries' functions and responsibilities. Some of these features of the regime for depositaries were already regulated in Spanish legislation by **Order EHA/596/2008**, of March 5th, 2008, which regulates certain aspects of the legal framework for CII depositaries (now repealed). Nevertheless, Royal Decree 83/2015 has opted to **integrate in a single title the regulatory provisions concerning depositaries** to enhance their regulation by making it more consistent and systematic.

The key new features of the **regime applicable to depositaries** include:

- ✓ The Regulation incorporates the updated content of Order EHA/596/2008, thereby raising the rank of their obligations. Nevertheless, the incorporation is partial, as certain points have been left for subsequent implementation. The specificities and exceptions applicable to depositaries of venture capital firms, closed-ended collective investment undertakings, and free investment collective investment institutions are also pending implementation.
- ✓ The rules for the delegation of the deposit function and strict liability rules are established.
- ✓ The minimum content of the depositary's written agreement with the CII's management company, for each CII it manages or with the investment firm.

A second block of **new features** concerns the **permanent development of the Spanish collective investment market**. The emergence of new marketing instruments and mechanisms makes it advisable to adjust the regulations to ensure an appropriate balance between their development and investor protection. In particular, these new features include **the following**:

- The **active marketing of free investment CIIs to qualified retail customers** is allowed provided they make a minimum disbursement of 100,000 euros and state in writing that they are aware of the risks inherent in the investment. Accordingly, the minimum disbursement whereby a retail customer may buy or subscribe shares in a free investment CII has been set at 100,000 euros.

- **Various types of free investment CII are regulated** to enable investments in invoices, loans, commercial bills in habitual use in commercial matters and other similar assets, in financial assets linked to investment strategies with a time horizon of more than a year and derivative financial instruments, irrespective of the type of underlying asset.

- Certain provisions of the regulation have been adapted to allow the use of **omnibus accounts**, the assets in which harmonised CII may invest have been adapted to include those considered suitable by the ESMA, and the range of instruments and derivatives in which non-harmonised open-ended collective investment schemes and non-harmonised financial investment funds can invest has been widened. Moreover, the rules governing agents and representatives of investment services companies have been harmonised.

Finally, the Royal Decree contains an amendment to **Royal Decree 1310/2005**, of November 4th, 2005, partially implementing the Securities Market Act, as regards the listing of securities on official secondary markets, public offers of sale or subscription and the prospectus required for these purposes, with a **dual objective**:

- To correctly transpose Directive 2003/71/EC of the European Parliament and of the Council of November 4th, 2003, on the **prospectus** to be published when securities are offered to the public or admitted to trading. To this end, it is stated that when the final offered price and the number of securities that are going to be offered to the public cannot be included in the prospectus, the prospectus is to state the criteria or conditions for determining these points, or in the case of the price, the maximum price.

- To make an **adjustment** to adapt the aforementioned Royal Decree to the content of Directive 2014/51/EU regarding the powers of the ESMA.

Spanish economic forecasts panel: March 2015[1]

FUNCAS Economic Trends and Statistics Department

The growth forecast for 2015 has been raised to 2.6%

GDP grew by 1.4% in 2014. The quarterly trend was upward, from a rate of 0.3% in the first quarter of the year to 0.7% in the last quarter. This growth was driven by domestic demand, which contributed 2.2 percentage points (pp) to GDP growth overall, while the contribution of the external sector was -0.8 pp. In turn, the rise in domestic demand was supported by private consumption and capital goods investments. One of the key features of the 2014 figures was the recovery in construction investment, in both the residential and non-residential subsectors, which grew on a quarter-to-quarter basis practically throughout all the year, although average annual growth with respect to 2013 was negative.

The average or consensus forecast for GDP growth in 2015 has risen by five tenths of a percentage point to 2.6%. The consensus forecast is markedly higher than the figure given by international organisations. The panel participants' range of forecasts oscillates between a minimum of 2% and a maximum of 3%.

Growth in 2015 will be driven entirely by domestic demand, which will contribute all 2.6 percentage points of growth, with the external sector making no contribution. Household consumption is expected to progress by 2.9% and construction investment by 2.8%, while exports are expected to grow by 5.4%.

The forecast for 2016 also stands at 2.6%

This Panel presents forecasts for 2016 for the first time. The consensus forecast is for GDP growth also of 2.6%. According to this forecast, the contribution from domestic demand will be 2.5 pp and that from the external sector 0.1 pp. The rate of quarter-to-quarter growth will remain stable at around 0.6% in 2015 and 2016 (Table 2).

Industrial activity will pick up speed in 2015 and 2016

The industrial production index grew by 1.2% in 2014, although the index for manufacturing grew somewhat faster, at 1.9%. This is basically the result of the growth registered in the first half of the year, as the performance of industrial activity measured by this indicator in the second half was negative. A slight upturn was seen in January of this year, with growth of 0.2% on the previous month, but the manufacturing index remained as weak as in the preceding months.

The consensus forecast for growth in the IPI in 2015 has been raised one tenth of a percent to 2.1%, while for 2016 an increase of 2.6% is foreseen.

[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 taken place 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.

Expected inflation has been revised downwards again

The inflation rate, which since last July has been negative almost every month, dropped to a minimum of -1.3% in January and rose to -1.1% in February. The core rate, however, remains positive, albeit very low.

The consensus forecast for 2015's average annual rate has been cut by four tenths of a percent to -0.5%, while an average annual rate of 1.2% is forecast for 2016. A year-on-year rate of 0.7% is foreseen in December 2015 and a rate of 1.2% in December 2016 (Table 3).

The employment forecast has improved

The number of social security affiliates continued to grow rapidly in the first two months of 2015. The sharp rise in the number of affiliates in the construction industry stands out, as does growth in permanent and full-time contracts.

The forecast increase in employment in 2015 has been raised considerably in line with the revision of the GDP growth figure to 2.3%. An increase of 2.2% is forecast for 2016.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost growth estimates. On this basis, productivity is expected to grow by 0.3% in 2015 and 0.4% in 2016, while ULCs are expected to decrease by 0.1% this year and rise by 0.5% the next.

The upturn in demand has worsened the balance of payments

The provisional figures for the 2014 balance of payments show a surplus of 1.2 billion euros, compared with 15 billion euros the previous year. This deterioration is due to the worsening trade balance, resulting from the upturn in imports driven by the recovery in durable goods consumption and investments in capital goods. The income account also worsened.

The consensus forecast for the 2015 current account balance has been revised downward from previous forecasts, to a surplus of 0.7% of GDP, while a surplus of 0.6% of GDP is expected for 2016.

The government deficit will slightly overshoot the target

The combined deficit of the central government, the Social Security system and the autonomous regions to November 2014, excluding aid to the financial system, came to 4.62% of annual GDP, compared with 5.15% in the same period the previous year. The improvement basically came from increased income, which grew by 1.7%, while expenditure, excluding aid to financial institutions, dropped by just 0.9%. The central government and the social security funds reduced their deficit, while the autonomous regions increased theirs. In the case of Social Security, the improvement in its balance came from the increase in the National Employment Service surplus –unemployment benefits–, while the Social Security System –basically the pensions system– worsened its deficit.

The consensus forecasts for the general government deficits for 2015 and 2016 are 4.4% and 3.2% of GDP, respectively.

The opinion on the situation in the EU has improved

U.S. GDP growth slowed in the last quarter of 2014, although the trend remains dynamic, while in the euro area the recovery picked up somewhat, with quarter-to-quarter growth of 0.3%. At the start of the year the confidence and PMI indicators suggested a continuation of the upward trend. For

their part, the emerging economies also continue to show signs of weakness.

The panellists' view of the current situation in the EU has moved from unfavourable to neutral (Table 4) and there has also been a change of opinion about how things will develop over the coming months, with an improvement now expected. The context outside the EU continues to be considered neutral, but unlike the case in previous panels, an improvement is now foreseen over the coming months.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) dropped in recent weeks to around 0.04%. As in previous Forecast Panels, the rate is still felt to be too low, but is expected to remain unchanged over the months ahead.

Long-term rates (10 years) rose slightly in mid-February due to the uncertainty generated by the new negotiations over Greece's bail-out, but they immediately resumed their downward trend, reaching new lows of around 1.3%. The majority opinion among respondents is that this level is too low but that it will remain stable over the coming months.

The euro is no longer overvalued against the dollar

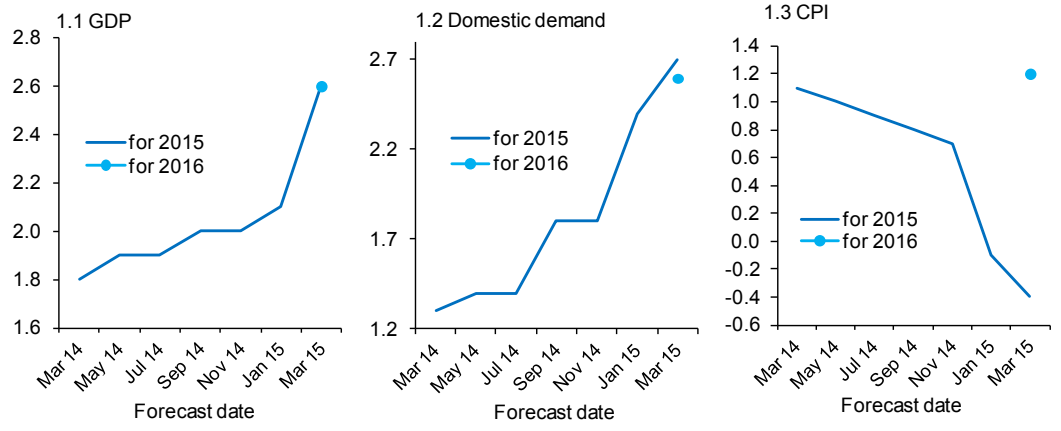
The euro's exchange rate against the dollar has continued to head downward, falling to below 1.10 in the last few days. After the depreciation seen in recent months, the majority of panellists now consider the current level to be appropriate. The euro is expected to depreciate further over the next few months.

Fiscal policy should be neutral

Fiscal policy is now considered neutral rather than restrictive, and this is the orientation most panellists considered appropriate. All the panellists classified current monetary policy as expansionary, and the unanimous view was that this was the appropriate stance.

Exhibit 1

Change in forecasts (Consensus values)
Percentage annual change



Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – March 2015

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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	2.5	2.2	3.1	2.3	1.4	0.9	4.9	4.6	8.1	7.1	3.2	3.4	3.0	2.4
Banco Bilbao Vizcaya Argentaria (BBVA)	2.7	2.7	2.5	1.7	1.5	1.4	5.2	6.2	7.2	6.3	3.2	5.6	2.7	2.4
Bankia	2.7	2.6	3.6	3.2	0.4	1.0	5.0	5.4	9.8	9.3	2.3	2.9	3.3	3.2
CatalunyaCaixa	2.5	2.7	2.8	2.0	0.1	0.8	4.8	3.8	7.6	5.9	2.8	1.6	2.7	2.1
Cemex	2.5	2.5	2.7	2.4	1.5	1.2	5.3	5.7	8.0	5.5	3.0	5.9	2.9	2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.5	2.7	2.6	2.3	0.9	1.0	4.2	4.5	5.5	5.7	3.6	3.8	2.5	2.3
Centro de Predicción Económica (CEPREDE-UAM)	2.0	2.2	1.7	2.3	-0.2	0.4	3.0	4.6	3.0	4.6	2.3	4.9	1.5	2.2
CEOE	2.8	2.6	3.1	2.5	0.6	0.2	5.5	4.4	8.4	5.0	3.9	4.2	2.9	2.1
ESADE	2.2	--	2.3	--	0.7	--	4.2	--	6.6	--	2.0	--	2.0	--
Fundación Cajas de Ahorros (FUNCAS)	3.0	2.8	3.5	2.9	0.6	0.5	6.6	5.6	9.7	7.7	5.1	4.5	3.5	3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	2.5	3.0	2.9	0.4	1.1	3.2	5.2	7.6	8.7	0.8	2.8	2.6	3.0
Instituto de Estudios Económicos (IEE)	2.8	2.8	3.2	3.1	0.8	0.5	4.4	5.0	7.9	8.1	2.3	3.2	2.9	2.9
Instituto Flores de Lemus (IFL-UC3M)	3.0	2.8	3.4	4.3	0.1	-1.0	3.7	4.8	7.1	7.2	1.4	3.1	2.6	2.5
Intermoney	2.6	2.8	2.4	2.5	0.7	1.1	6.0	6.7	6.7	5.9	2.8	4.5	2.8	2.8
La Caixa	2.5	2.3	2.6	1.6	0.5	0.1	4.6	4.2	7.7	5.3	2.9	3.4	2.6	1.8
Repsol	2.8	2.7	3.0	2.7	0.4	0.0	5.6	4.4	3.1	7.9	1.9	2.1	2.8	2.6
Santander	2.5	2.6	3.1	2.6	0.1	1.4	4.6	3.7	7.3	4.8	2.5	2.6	2.7	2.6
Solchaga Recio & asociados	2.8	2.6	3.2	2.7	0.7	0.8	5.2	5.3	7.6	5.9	4.1	5.4	3.1	2.9
CONSENSUS (AVERAGE)	2.6	2.6	2.9	2.6	0.6	0.7	4.8	4.9	7.2	6.5	2.8	3.8	2.7	2.6
Maximum	3.0	2.8	3.6	4.3	1.5	1.4	6.6	6.7	9.8	9.3	5.1	5.9	3.5	3.2
Minimum	2.0	2.2	1.7	1.6	-0.2	-1.0	3.0	3.7	3.0	4.6	0.8	1.6	1.5	1.8
Change on 2 months earlier[1]	0.5	--	0.4	--	0.1	--	0.7	--	0.5	--	0.6	--	0.3	--
- Rise[2]	16	--	16	--	9	--	13	--	12	--	13	--	13	--
- Drop[2]	1	--	1	--	5	--	4	--	5	--	4	--	3	--
Change on 6 months earlier[1]	0.6	--	1.0	--	0.6	--	1.4	--	0.2	--	1.8	--	0.9	--
Memorandum ítems:														
Government (September 2014)	2.0	--	2.1	--	-1.0	--	--	--	6.0	--	3.1	--	--	--
Bank of Spain (July 2014)	2.0	--	1.6	--	-1.5	--	4.2	--	7.7 [3]	--	1.7	--	--	--
EC (November 2014)	2.3	2.5	2.7	2.6	0.3	0.1	4.7	5.2	4.7 [3]	5.2 [3]	--	--	2.6	2.6
IMF (January 2015)	2.0	1.8	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2014)	1.7	1.9	1.9	1.7	-1.1	-0.5	3.6	4.9	--	--	--	--	1.6	1.9

[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 – March 2015

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

	Exports of goods & services		Imports of goods & services		Industrial output		CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[7]	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	5.3	5.8	7.4	6.9	--	--	-0.8	1.1	--	--	2.3	1.6	22.6	21.5	0.0	-0.6	-4.5	-4.0
Banco Bilbao Vizcaya Argentaria (BBVA)	6.1	7.2	6.8	7.1	--	--	-0.4	1.4	-0.9	0.6	2.6	2.3	22.5	20.9	0.9	1.0	-4.2	-2.8
Bankia	5.6	5.4	7.9	7.9	1.5	--	-0.6	1.1	0.1	0.6	2.5	2.3	22.5	20.6	0.8	0.7	--	--
CatalunyaCaixa	4.9	5.2	5.5	4.1	--	--	-0.4	1.4	--	--	2.7	2.5	22.6	20.8	--	--	--	--
Cemex	4.9	5.4	6.8	7.0	--	--	-0.5	1.6	--	--	2.7	2.7	22.8	21.4	--	--	-4.2	-2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	6.1	5.9	5.5	--	--	-0.7	0.7	--	--	2.4	2.4	22.5	20.5	0.9	1.4	-4.3	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	6.1	6.2	5.0	6.4	2.5	3.0	-0.7	1.6	0.4	1.7	1.4	1.5	23.1	21.6	0.5	0.3	-4.9	-3.8
CEOE	5.8	5.6	6.8	5.2	2.0	1.5	-0.3	1.4	0.4	0.6	2.6	2.4	22.1	20.0	0.6	0.9	-4.3	-3.5
ESADE	5.0	--	5.5	--	--	--	0.7	--	0.5	--	1.5	--	20.5	--	1.5	--	-4.2	--
Fundación Cajas de Ahorros (FUNCAS)	5.2	5.5	7.3	6.7	2.6	2.9	-0.7	0.6	0.3	0.7	2.6	2.3	22.3	20.4	0.8	0.5	-4.4	-3.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	7.0	7.7	8.2	1.6	2.6	-0.3	1.2	--	--	1.3	2.0	23.1	22.2	0.7	0.0	-4.5	-3.5
Instituto de Estudios Económicos (IEE)	5.7	6.0	6.2	6.5	1.9	2.2	-0.4	1.0	0.5	1.0	2.0	2.1	22.2	20.0	0.4	0.8	-4.4	-3.0
Instituto Flores de Lemus (IFL-UC3M)	4.7	4.5	4.7	4.2	1.4	3.0	-0.5	1.1	--	--	2.4	2.1	23.0	--	--	--	--	--
Intermoney	5.5	5.8	6.3	6.2	2.0	3.5	-0.3	1.1	--	--	2.4	2.5	22.6	20.8	0.5	0.8	-4.2	-2.9
La Caixa	5.2	6.0	5.5	4.9	2.4	2.8	-0.1	1.9	0.4	1.4	2.3	2.0	22.7	21.5	0.6	0.6	-4.8	-3.3
Repsol	5.5	5.9	6.3	5.4	2.2	2.5	-0.7	1.4	-0.5	0.2	2.4	1.8	22.9	21.8	0.6	0.2	-4.3	-2.8
Santander	4.9	4.5	5.7	4.7	2.9	1.6	-0.8	0.8	0.5	1.0	2.1	2.2	22.7	20.3	0.8	1.0	-4.2	-2.8
Solchaga Recio & asociados	5.1	5.4	6.6	6.5	--	--	-0.7	1.0	--	--	3.0	2.7	22.3	20.2	0.5	0.7	-4.5	-3.4
CONSENSUS (AVERAGE)	5.4	5.7	6.3	6.1	2.1	2.6	-0.5	1.2	0.2	0.9	2.3	2.2	22.5	20.9	0.7	0.6	-4.4	-3.2
Maximum	6.1	7.2	7.9	8.2	2.9	3.5	0.7	1.9	0.5	1.7	3.0	2.7	23.1	22.2	1.5	1.4	-4.2	-2.8
Minimum	4.7	4.5	4.7	4.1	1.4	1.5	-0.8	0.6	-0.9	0.2	1.3	1.5	20.5	20.0	0.0	-0.6	-4.9	-4.0
Change on 2 months earlier[1]	0.4	--	-0.2	--	0.1	--	-0.4	--	-0.1	--	0.6	--	-0.3	--	-0.1	--	0.1	--
- Rise[2]	12	--	7	--	3	--	4	--	4	--	14	--	5	--	5	--	9	--
- Drop[2]	5	--	10	--	5	--	13	--	3	--	2	--	13	--	8	--	2	--
Change on 6 months earlier[1]	-0.2	--	1.0	--	-0.5	--	-1.3	--	-0.2	--	0.8	--	-0.7	--	0.0	--	0.3	--
Memorandum items:																		
Government (September 2014)	5.2	--	5.0	--	--	--	--	--	1.0	--	1.4	--	22.9	--	1.1	--	-4.2	-2.8
Bank of Spain (July 2014)	5.9	--	4.5	--	--	--	0.7	--	--	--	1.4	--	--	--	1.6[6]	--	--	--
EC (November 2014)	5.4	6.0	6.9	6.7	--	--	-1.0	1.1	0.7	0.8	1.8	2.0	22.5	20.7	0.6	0.5	-4.5	-3.7
IMF (January 2015)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2014)	4.9	5.4	4.9	5.5	--	--	0.1	0.5	--	--	1.3	1.4	23.1	21.9	0.8	0.9	-4.4	-3.3

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).
[2] Number of panelists revising their forecast upwards (or downwards) since two months earlier.
[3] 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 - March 2015[1]

	Quarter-on-quarter change (percentage)							
	15-Q1	15-Q2	15-Q3	15-Q4	16-Q1	16-Q2	16-Q3	16-Q4
GDP[2]	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Household consumption[2]	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6

[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 – March 2015[1]

Monthly change (%)				Year-on-year change (%)	
Feb-15	Mar-15	Apr-15	May-15	Dec-15	Dec-16
0.2	0.4	0.8	0.2	0.7	1.2

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

Table 4
Opinions – March 2015
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	3	9	6	15	3	0
International context: Non-EU	5	11	2	11	6	1
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	10	8	0	0	16	2
Long-term interest rate[3]	12	5	1	1	12	5
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	9	7	0	4	14
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	7	9	2	4	11	3
Monetary policy assessment[1]	0	0	18	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.

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KEY FACTS:

Table 1

National accounts: GDP and main expenditure components SWDA* (ESA 2010, Base 2010)

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													
2008		1.1	-0.7	5.9	-3.9	-6.1	-6.1	-9.7	0.7	-0.8	-5.6	-0.4	1.6
2009		-3.6	-3.6	4.1	-16.9	-16.5	-16.5	-20.6	-17.7	-11.0	-18.3	-6.4	2.8
2010		0.0	0.3	1.5	-4.9	-10.1	-10.1	-11.6	5.4	9.4	6.9	-0.5	0.5
2011		-0.6	-2.0	-0.3	-6.3	-10.6	-10.6	-12.8	0.7	7.4	-0.8	-2.7	2.1
2012		-2.1	-2.9	-3.7	-8.1	-9.3	-9.3	-9.0	-6.4	1.2	-6.3	-4.3	2.2
2013		-1.2	-2.3	-2.9	-3.8	-9.2	-9.2	-7.6	3.4	4.3	-0.5	-2.7	1.4
2014		1.4	2.4	0.1	3.4	-1.5	-1.5	-1.8	9.1	4.2	7.6	2.2	-0.8
2015		3.0	3.5	0.6	6.5	5.1	5.1	3.3	8.1	5.2	7.3	3.5	-0.5
2016		2.8	2.9	0.5	5.6	4.5	4.5	4.8	6.8	5.5	6.7	3.0	-0.2
2014	I	0.6	1.3	0.3	0.8	-7.4	-7.4	-6.6	11.2	6.4	9.4	1.2	-0.6
	II	1.2	2.3	0.3	3.9	-0.7	-0.7	-2.0	9.3	1.0	4.9	2.3	-1.1
	III	1.6	2.7	0.3	3.9	0.1	0.1	-0.2	8.0	4.5	8.6	2.6	-1.0
	IV	2.0	3.3	-0.5	5.1	2.4	2.4	2.1	8.0	4.7	7.7	2.7	-0.7
2015	I	2.6	3.6	-0.5	6.6	4.6	4.6	2.7	8.7	5.2	8.0	3.3	-0.7
	II	3.0	3.5	0.9	6.4	5.1	5.1	3.2	7.7	5.1	7.5	3.5	-0.6
	III	3.2	3.6	0.4	6.6	5.5	5.5	3.5	7.7	4.9	5.9	3.4	-0.2
	IV	3.3	3.4	1.7	6.6	5.1	5.1	4.0	8.1	5.7	7.8	3.8	-0.5
2016	I	3.1	3.3	0.8	6.0	4.8	4.8	4.5	7.2	5.7	7.3	3.4	-0.3
	II	2.8	3.0	-0.1	5.6	4.3	4.3	4.9	6.9	5.5	6.3	2.9	-0.1
	III	2.7	2.8	0.7	5.5	4.4	4.4	4.8	6.6	5.2	6.3	2.9	-0.2
	IV	2.5	2.6	0.5	5.5	4.5	4.5	5.1	6.5	5.6	7.1	2.8	-0.3
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2014	I	1.2	2.4	4.0	1.8	-3.5	-3.5	0.1	7.6	0.4	4.3	2.3	-1.1
	II	2.1	4.0	-1.5	8.4	5.3	5.3	1.9	11.8	2.9	8.7	3.7	-1.5
	III	2.1	3.2	-0.5	4.7	2.2	2.2	4.7	7.3	16.7	21.5	2.9	-0.8
	IV	2.7	3.8	-3.9	5.7	5.8	5.8	1.7	5.6	-0.2	-2.3	2.0	0.7
2015	I	3.6	3.4	4.1	7.7	5.1	5.1	2.4	10.3	2.3	5.3	4.7	-1.2
	II	3.5	3.6	4.2	7.5	7.2	7.2	4.0	7.7	2.5	6.8	4.9	-1.4
	III	3.1	3.6	-2.7	5.7	3.9	3.9	5.8	7.4	15.6	14.4	3.1	0.0
	IV	2.9	3.2	1.5	5.5	4.0	4.0	3.7	7.0	2.9	5.0	3.7	-0.8
2016	I	2.8	2.8	0.5	5.4	4.2	4.2	4.4	6.6	2.5	3.2	3.2	-0.4
	II	2.5	2.6	0.5	5.7	4.9	4.9	5.6	6.5	1.7	2.9	3.1	-0.6
	III	2.5	2.5	0.5	5.5	4.5	4.5	5.4	6.4	14.3	14.6	2.7	-0.3
	IV	2.4	2.5	0.5	5.5	4.4	4.4	4.9	6.5	4.5	7.9	3.0	-0.6
		Current prices (EUR billions)	**Percentage of GDP at current prices**										
2008		1,116.2	56.8	18.8	29.2	19.5	10.4	9.1	9.7	25.3	30.4	105.1	-5.1
2009		1,079.0	56.1	20.5	24.3	16.2	8.1	8.1	8.2	22.7	23.8	101.2	-1.2
2010		1,080.9	57.2	20.5	23.0	14.3	6.9	7.4	8.7	25.5	26.8	101.3	-1.3
2011		1,075.1	57.9	20.4	21.4	12.5	5.7	6.8	8.9	28.8	29.0	100.2	-0.2
2012		1,055.2	58.6	19.6	19.7	11.2	5.0	6.2	8.5	30.3	28.8	98.4	1.6
2013		1,049.2	58.2	19.5	18.5	9.9	4.3	5.6	8.7	31.6	28.1	96.6	2.1
2014		1,058.5	59.0	19.2	18.9	9.6	4.1	5.4	9.3	32.0	29.6	97.6	2.4
2015		1,095.7	58.6	18.6	19.4	9.7	4.1	5.6	9.8	32.4	29.6	97.2	2.8
2016		1,131.9	58.8	18.1	20.1	9.9	4.2	5.7	10.2	33.4	31.2	97.7	2.3

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

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

Chart 1.1.- GDP
Percentage change

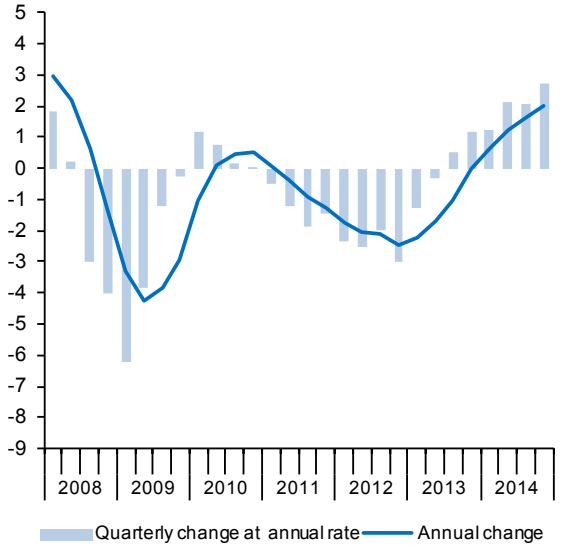

Chart 1.2.- Contribution to GDP annual growth
Per cent points

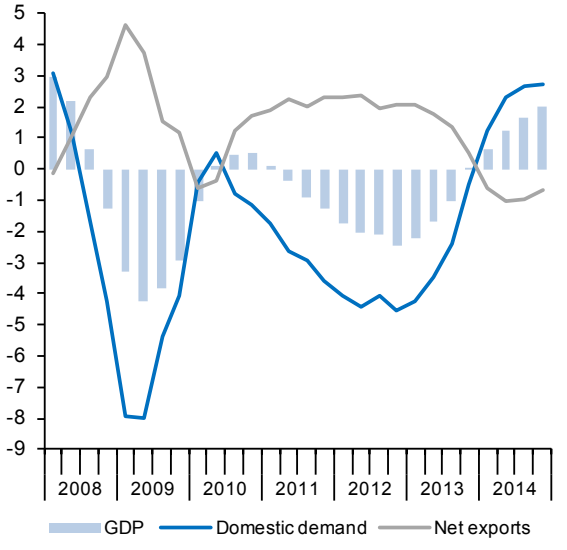

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Chart 1.3.- Final consumption
Annual percentage change

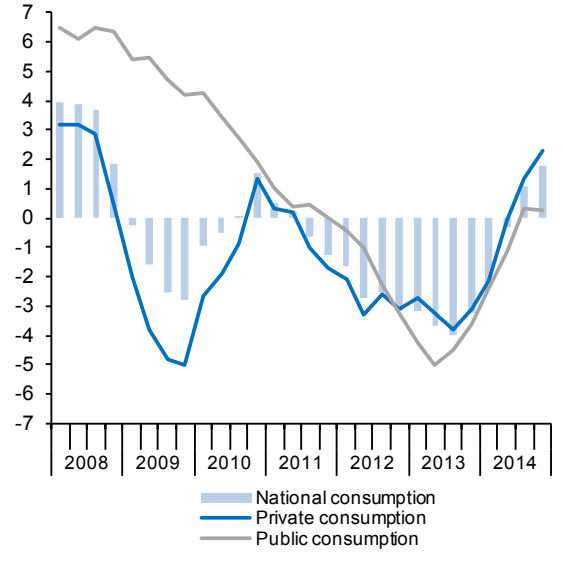

Chart 1.4.- Gross fixed capital formation
Annual percentage change

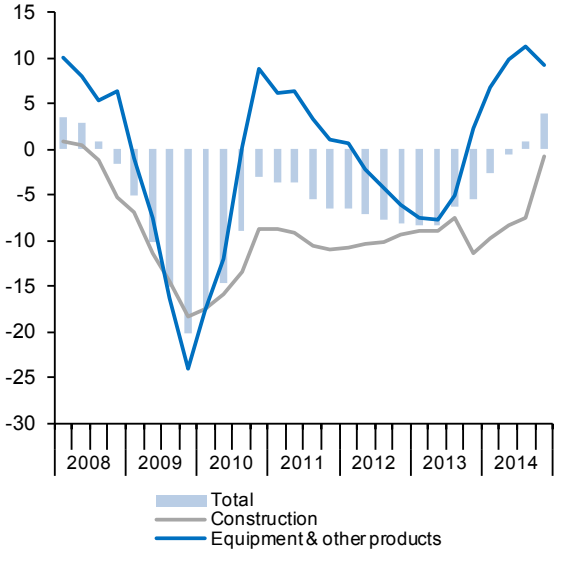

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Table 2

National accounts: Gross value added by economic activity SWDA* (ESA 2010, Base 2010)

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													
2008	1.3	-2.7	-0.8	0.2	2.3	-0.1	2.5	3.2	2.4	1.8	5.0	3.0	-0.9
2009	-3.4	-3.6	-10.0	-7.6	-1.0	-3.7	0.6	-6.1	3.4	-3.7	2.3	0.7	-5.9
2010	0.0	2.1	3.6	-14.5	1.3	1.5	3.9	-3.3	2.0	-1.4	2.4	1.4	0.1
2011	-0.2	4.2	0.1	-12.7	1.1	1.3	-0.5	-2.0	3.0	2.7	0.5	0.8	-5.2
2012	-1.9	-12.8	-3.8	-14.3	0.2	0.4	2.6	-3.4	2.4	-0.5	-0.6	-0.3	-4.4
2013	-1.2	15.6	-1.8	-8.1	-1.0	-0.7	-2.8	-7.8	1.1	-1.1	-1.3	1.5	-1.5
2014	1.5	3.3	1.5	-1.2	1.6	2.8	1.6	-5.5	2.0	2.6	0.5	2.9	0.6
2015	3.0	-0.8	2.6	6.5	2.9	3.7	2.9	0.1	3.4	4.6	1.4	3.3	3.5
2016	2.8	2.6	2.9	5.0	2.6	3.1	2.6	2.3	3.7	3.4	0.6	2.9	3.1
2014 I	0.7	10.3	0.5	-6.2	0.9	1.9	1.3	-6.5	1.3	1.4	0.2	3.6	0.0
II	1.3	1.6	1.9	-1.7	1.4	2.6	0.8	-5.3	1.9	2.0	0.6	2.4	0.5
III	1.7	5.3	1.5	0.0	1.7	3.0	2.0	-5.4	2.5	2.3	0.6	2.5	1.1
IV	2.1	-3.4	2.1	3.4	2.3	3.7	2.4	-4.6	2.3	4.8	0.5	3.0	1.0
2015 I	2.6	-3.3	2.1	5.7	2.7	4.0	2.9	-3.6	2.8	5.0	1.3	3.2	2.4
II	3.0	-0.4	2.3	7.0	2.9	4.0	3.0	-0.4	3.1	5.1	1.1	3.8	3.0
III	3.1	-2.4	2.7	7.6	3.1	3.8	2.8	1.5	3.7	5.0	1.4	3.3	4.3
IV	3.2	3.0	3.4	5.6	2.9	3.2	2.9	2.8	4.2	3.5	1.7	3.0	4.4
2016 I	3.0	3.9	2.9	5.3	2.9	3.6	2.5	2.7	3.9	3.4	1.1	2.6	3.8
II	2.8	3.2	2.7	4.8	2.7	3.4	3.0	2.5	3.8	3.5	0.5	2.8	3.3
III	2.7	1.9	2.9	4.9	2.5	3.0	2.6	2.2	3.6	3.3	0.4	3.1	2.7
IV	2.5	1.4	3.1	5.0	2.3	2.5	2.3	2.0	3.5	3.4	0.4	3.0	2.6
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2014 I	1.3	-1.6	4.6	-3.4	1.1	1.6	0.5	-1.4	2.7	1.4	-0.9	3.7	0.3
II	2.0	-7.7	3.0	2.8	2.0	3.0	-0.5	-9.7	2.8	0.9	4.1	-0.3	3.9
III	2.6	15.2	0.6	1.8	2.6	4.7	5.4	-4.7	1.8	6.4	-0.4	4.0	-3.1
IV	2.7	-16.9	0.0	13.0	3.4	5.6	4.4	-2.2	2.0	10.8	-0.7	4.7	2.8
2015 I	3.3	-1.0	4.7	5.6	2.9	2.9	2.6	2.7	4.6	2.0	2.4	4.5	6.0
II	3.2	4.0	3.9	7.7	2.7	2.9	-0.1	2.8	4.0	1.4	3.0	2.0	6.4
III	3.2	6.1	2.4	4.4	3.2	3.8	4.4	2.9	4.2	6.0	0.8	2.1	2.2
IV	2.9	3.0	2.6	4.5	2.9	3.1	4.6	3.0	4.0	4.6	0.7	3.3	3.0
2016 I	2.7	2.6	2.8	4.7	2.5	4.5	1.2	2.0	3.5	1.5	0.1	3.0	3.7
II	2.3	1.0	3.1	5.4	2.0	2.2	1.8	2.0	3.5	1.8	0.5	3.0	4.2
III	2.7	1.2	3.3	5.0	2.4	2.3	3.0	2.0	3.5	5.5	0.5	3.0	0.1
IV	2.4	1.0	3.3	4.9	2.0	1.2	3.2	2.0	3.5	5.0	0.5	3.0	2.4
	Current prices (EUR billions)	**Percentage of value added at basic prices**											
2008	1025.7	2.5	17.9	11.0	68.5	21.9	4.3	5.4	9.0	7.3	16.9	3.8	8.8
2009	1,006.1	2.3	16.6	10.6	70.4	22.0	4.4	5.7	8.9	7.3	18.2	4.0	7.2
2010	989.9	2.6	17.2	8.8	71.4	22.5	4.4	4.4	10.2	7.2	18.7	4.1	9.2
2011	988.3	2.5	17.4	7.5	72.6	23.1	4.3	4.1	10.8	7.4	18.6	4.2	8.8
2012	969.3	2.4	17.2	6.3	74.0	23.8	4.4	4.2	11.6	7.4	18.4	4.2	8.9
2013	958.5	2.8	17.6	5.7	73.9	23.8	4.1	3.7	11.9	7.4	18.6	4.3	9.5
2014	965.1	2.5	17.5	5.6	74.4	24.1	4.0	3.9	12.2	7.4	18.6	4.3	9.7
2015	998.8	2.5	17.3	5.7	74.5	24.4	3.9	4.0	12.2	7.4	18.3	4.3	9.7
2016	1,031.4	2.5	17.3	5.8	74.3	24.3	3.8	4.0	12.4	7.5	17.9	4.4	9.8

**Seasonally and Working Day Adjusted.*

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

Chart 2.1.- GVA by sectors
Annual percentage change

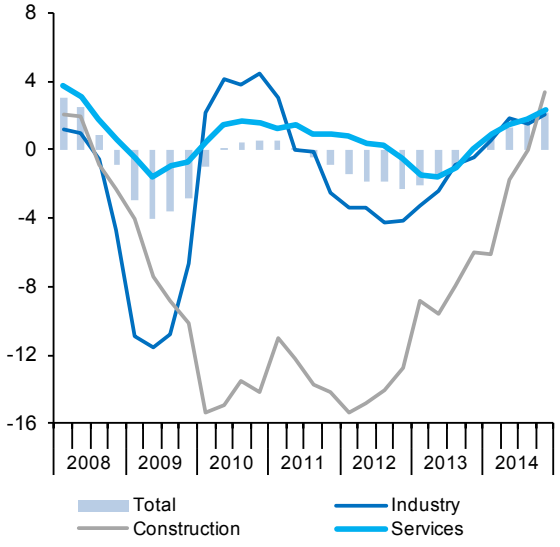


Chart 2.2.- GVA, services (I)
Annual percentage change

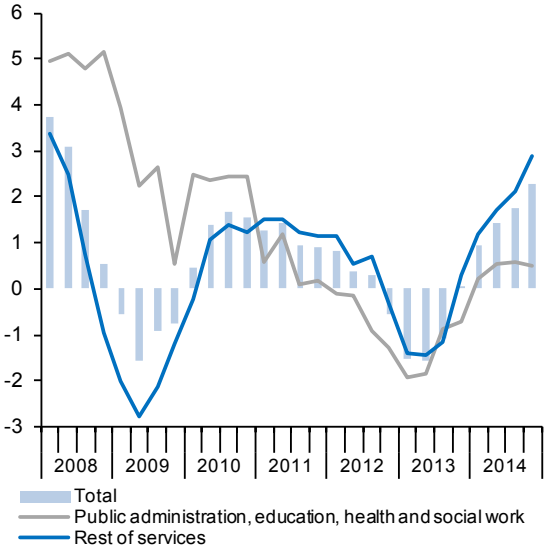


Chart 2.3.- GVA, services (II)
Annual percentage change

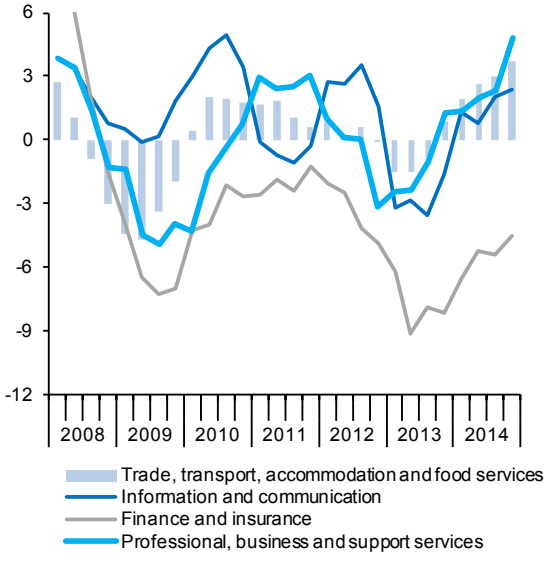


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

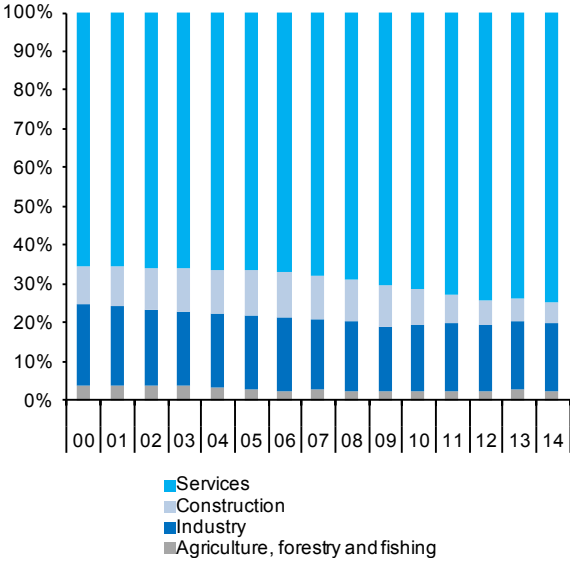


Table 3a

National accounts: Productivity and labour costs (I) (ESA 2010, Base 2010)

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													
2008		129.1	124.7	103.6	138.3	133.5	99.8	112.4	93.9	119.7	149.3	124.7	98.5
2009		124.5	117.1	106.4	144.4	135.7	101.2	100.1	82.2	121.8	152.6	125.3	99.0
2010		124.5	114.0	109.3	145.9	133.5	99.4	100.1	78.9	126.9	155.6	122.6	97.7
2011		123.8	111.1	111.4	147.1	132.0	98.2	99.2	76.3	130.1	159.0	122.2	95.3
2012		121.2	106.1	114.2	146.3	128.1	95.1	95.3	71.6	133.1	161.4	121.3	94.7
2013		119.7	102.7	116.6	148.7	127.6	94.0	94.2	68.4	137.8	163.9	118.9	92.7
2014		121.4	103.9	116.8	148.4	127.0	94.1	96.4	68.7	140.3	166.5	118.6	93.9
2015		125.0	106.6	117.3	148.8	126.9	93.6	99.5	--	--	--	--	--
2016		128.5	109.0	117.9	149.9	127.1	93.3	102.6	--	--	--	--	--
2013	I	119.6	103.2	115.9	148.6	128.2	94.5	94.2	69.7	135.1	161.7	119.7	93.2
	II	119.5	102.6	116.5	148.6	127.6	94.0	94.1	68.6	137.2	162.7	118.6	92.6
	II	119.7	102.5	116.8	148.7	127.3	93.9	94.4	67.6	139.7	163.9	117.4	91.5
	IV	120.0	102.4	117.2	149.0	127.2	93.8	94.2	67.6	139.4	164.1	117.7	91.6
2014	I	120.4	102.8	117.1	148.5	126.8	94.0	95.7	67.8	141.1	165.1	116.9	93.0
	II	121.0	103.6	116.8	148.5	127.2	94.2	96.3	68.4	140.9	165.1	117.2	92.9
	III	121.6	104.2	116.8	148.3	127.0	94.0	96.5	69.0	139.9	167.1	119.5	94.3
	IV	122.4	104.9	116.7	148.3	127.0	94.3	97.0	69.6	139.5	166.1	119.1	94.1
Annual percentage changes													
2008		1.1	0.2	0.9	6.8	5.9	3.7	-2.1	-1.0	-1.1	5.5	6.7	2.3
2009		-3.6	-6.1	2.7	4.4	1.6	1.4	-10.9	-12.4	1.8	2.2	0.5	0.5
2010		0.0	-2.7	2.7	1.1	-1.6	-1.8	0.0	-4.0	4.2	1.9	-2.1	-1.3
2011		-0.6	-2.5	2.0	0.9	-1.1	-1.2	-0.9	-3.3	2.5	2.2	-0.3	-2.4
2012		-2.1	-4.4	2.4	-0.6	-3.0	-3.2	-4.0	-6.1	2.3	1.6	-0.7	-0.6
2013		-1.2	-3.3	2.1	1.7	-0.4	-1.1	-1.1	-4.5	3.6	1.5	-2.0	-2.2
2014		1.4	1.2	0.2	-0.2	-0.4	0.1	2.3	0.5	1.8	1.5	-0.3	1.3
2015		3.0	2.6	0.4	0.3	-0.1	-0.6	3.2	--	--	--	--	--
2016		2.8	2.3	0.5	0.7	0.2	-0.3	3.2	--	--	--	--	--
2013	I	-2.2	-4.3	2.2	0.5	-1.6	-2.5	-2.9	-4.7	1.9	0.4	-1.4	-2.9
	II	-1.7	-3.9	2.3	1.0	-1.3	-2.2	-1.2	-4.6	3.6	0.8	-2.7	-3.6
	III	-1.0	-3.0	2.0	1.4	-0.6	-1.0	-0.6	-5.2	4.8	1.1	-3.5	-3.8
	IV	0.0	-1.8	1.8	3.8	2.0	1.5	0.4	-3.5	4.0	2.2	-1.7	0.1
2014	I	0.6	-0.4	1.1	-0.1	-1.1	-0.5	1.5	-2.8	4.5	2.1	-2.3	-0.3
	II	1.2	1.0	0.2	0.0	-0.3	0.2	2.4	-0.3	2.7	1.5	-1.1	0.2
	III	1.6	1.7	0.0	-0.3	-0.3	0.0	2.3	2.1	0.1	1.9	1.8	3.1
	IV	2.0	2.4	-0.4	-0.5	-0.1	0.5	3.0	2.9	0.1	1.2	1.1	2.7

(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

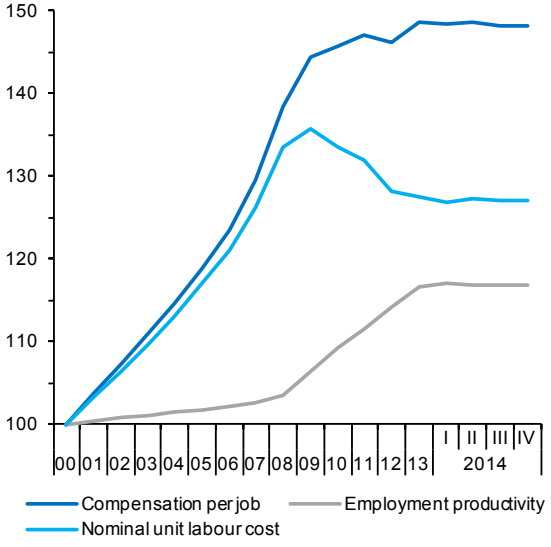
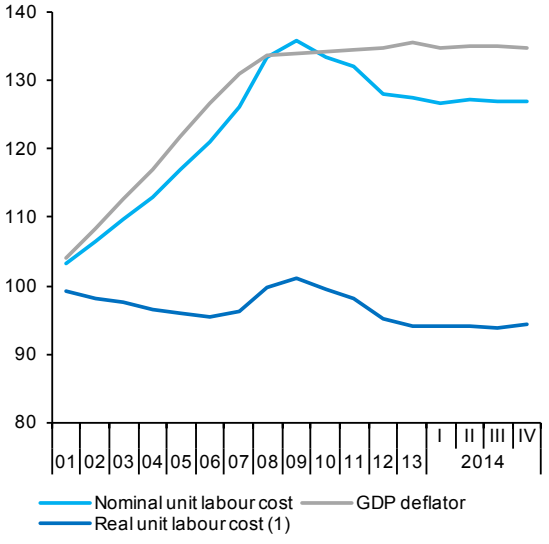


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

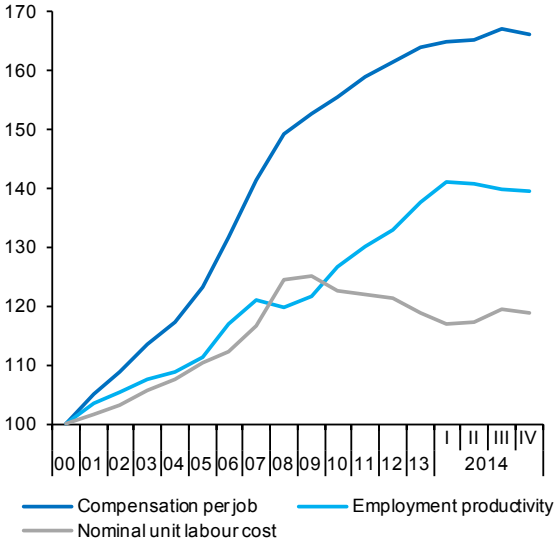
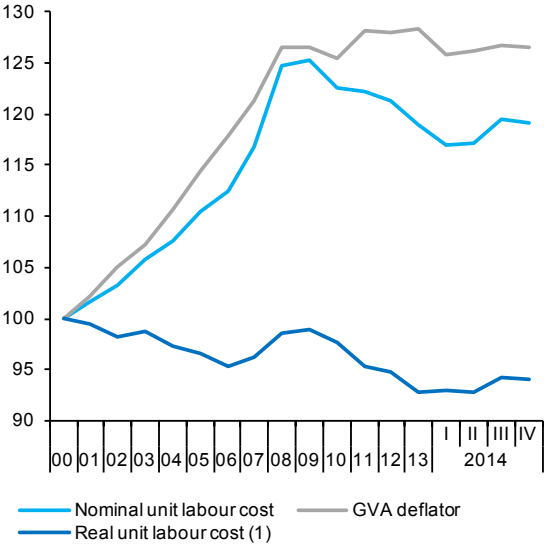


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

National accounts: Productivity and labour costs (II) (ESA 2010, Base 2010)

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													
2008		118.3	126.5	93.5	154.8	165.5	102.3	137.1	137.0	100.1	132.4	132.2	98.5
2009		109.4	99.1	110.4	170.0	154.0	93.6	135.8	133.6	101.6	137.7	135.5	99.2
2010		93.5	85.2	109.7	172.1	156.9	99.2	137.5	132.0	104.2	139.1	133.4	99.1
2011		81.6	72.3	112.9	170.3	150.9	98.2	139.1	130.8	106.3	140.2	131.8	97.6
2012		69.9	58.7	119.2	172.0	144.3	98.2	139.4	127.1	109.7	138.4	126.2	93.6
2013		64.3	51.5	124.8	173.8	139.3	96.2	138.0	124.0	111.2	140.9	126.6	94.2
2014		63.5	50.1	126.6	--	--	--	140.2	126.1	111.2	--	--	--
2015		67.6	53.2	127.1	--	--	--	144.3	129.4	111.5	--	--	--
2016		71.0	55.6	127.7	--	--	--	148.0	132.3	111.9	--	--	--
2013	I	66.6	53.9	123.5	171.2	138.6	93.9	137.6	124.4	110.7	134.8	121.8	90.2
	II	64.1	51.5	124.5	174.8	140.5	97.6	137.7	123.7	111.3	140.8	126.5	94.3
	III	63.2	50.4	125.4	173.6	138.5	96.5	138.1	124.0	111.3	140.8	126.4	94.1
	IV	63.1	50.1	126.0	175.9	139.6	96.8	138.5	124.1	111.6	140.9	126.2	94.2
2014	I	62.5	49.0	127.6	171.2	134.1	92.7	138.9	124.6	111.5	141.0	126.5	93.9
	II	63.0	49.4	127.4	173.8	136.4	96.2	139.6	125.9	110.9	141.0	127.1	94.7
	III	63.3	50.5	125.4	174.4	139.1	97.9	140.5	126.4	111.1	140.3	126.2	94.0
	IV	65.2	51.7	126.2	176.9	140.2	98.1	141.7	127.4	111.3	139.9	125.8	94.3
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	-11.8	13.6	12.9	-0.6	-3.9	2.3	3.0	-0.7	5.9	6.7	2.5
2009		-7.6	-21.7	18.0	9.8	-6.9	-8.6	-1.0	-2.4	1.5	4.0	2.5	0.7
2010		-14.5	-14.0	-0.6	1.3	1.9	6.0	1.3	-1.2	2.5	1.0	-1.5	-0.1
2011		-12.7	-15.2	2.9	-1.1	-3.9	-1.0	1.1	-0.9	2.0	0.8	-1.2	-1.6
2012		-14.3	-18.8	5.6	1.0	-4.4	0.0	0.2	-2.8	3.2	-1.3	-4.3	-4.1
2013		-8.1	-12.3	4.7	1.1	-3.5	-2.1	-1.0	-2.4	1.4	1.8	0.4	0.7
2014		-1.2	-2.6	1.5	--	--	--	1.6	1.6	0.0	--	--	--
2015		6.5	6.1	0.4	--	--	--	2.9	2.7	0.2	--	--	--
2016		5.0	4.5	0.5	--	--	--	2.6	2.2	0.4	--	--	--
2013	I	-8.8	-13.0	4.8	0.6	-4.0	-2.0	-1.5	-3.4	2.0	-4.1	-6.0	-5.8
	II	-9.6	-15.1	6.6	1.7	-4.5	-2.5	-1.6	-3.1	1.6	0.3	-1.3	-0.6
	III	-8.0	-11.8	4.4	0.9	-3.3	-2.5	-1.1	-2.0	1.0	1.1	0.1	0.6
	IV	-6.0	-8.7	3.0	1.0	-1.9	-1.5	0.0	-1.0	1.0	1.3	0.3	0.1
2014	I	-6.2	-9.2	3.3	0.0	-3.2	-1.4	0.9	0.2	0.7	4.6	3.8	4.0
	II	-1.7	-4.0	2.4	-0.6	-2.9	-1.4	1.4	1.8	-0.3	0.1	0.5	0.4
	III	0.0	0.0	0.0	0.4	0.4	1.5	1.7	1.9	-0.2	-0.3	-0.1	-0.1

(a) Nominal ULC deflated by GVA deflator.

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

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

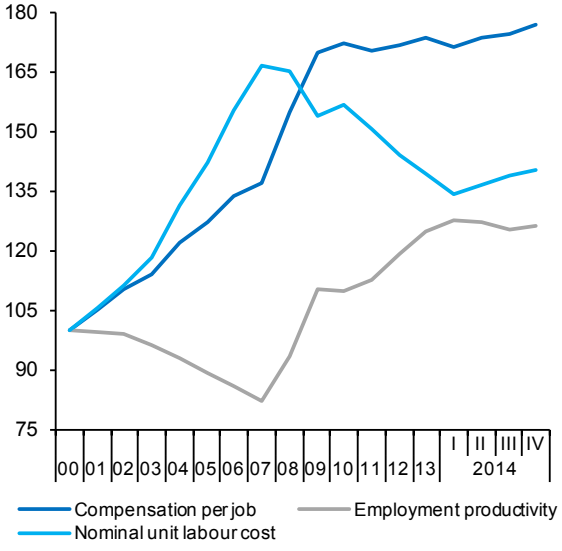
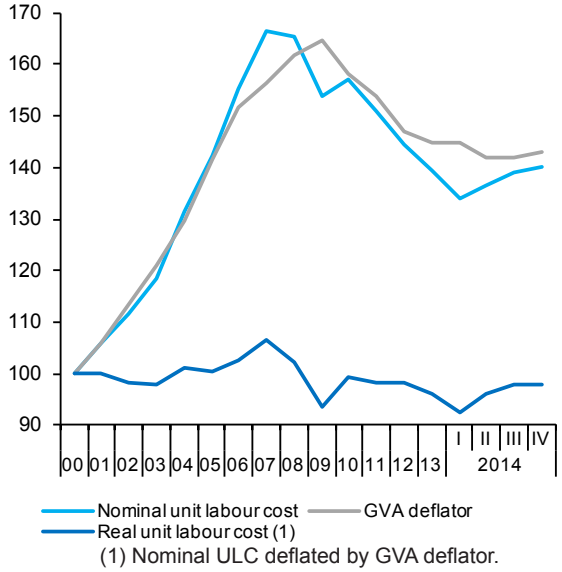


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

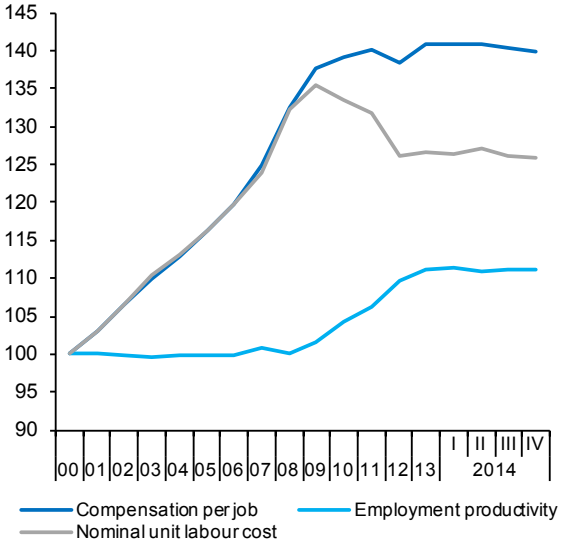
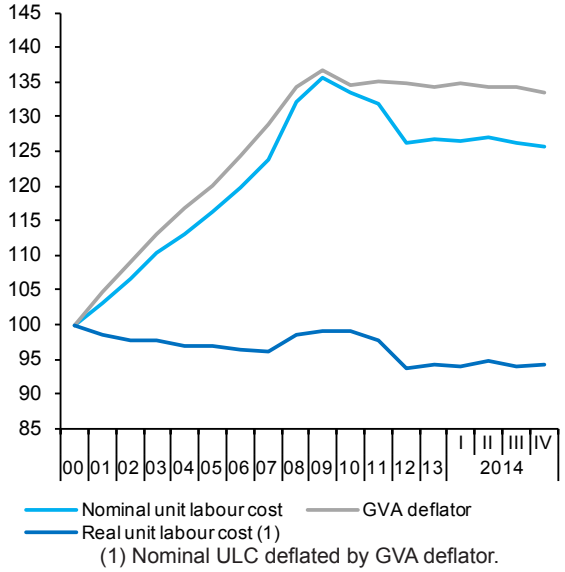


Chart 3b.4.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

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

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**		
2008	1,116.2	559.8	465.2	91.2	-30.0	1,086.3	-15.7	1,070.6	843.1	227.5	50.1	41.7	8.2
2009	1,079.0	549.2	455.2	74.7	-19.8	1,059.2	-14.3	1,045.0	826.4	218.6	50.9	42.2	6.9
2010	1,080.9	541.5	445.9	93.6	-15.2	1,065.8	-12.7	1,053.0	840.5	212.6	50.1	41.3	8.7
2011	1,075.1	531.9	453.4	89.9	-18.2	1,056.9	-14.1	1,042.8	842.2	200.6	49.5	42.2	8.4
2012	1,055.2	501.9	458.3	94.9	-8.9	1,046.3	-12.1	1,034.2	825.7	208.5	47.6	43.4	9.0
2013	1,049.2	490.3	458.6	100.3	-7.2	1,041.9	-13.1	1,028.8	814.5	214.3	46.7	43.7	9.6
2014	1,058.5	496.9	458.1	103.5	-11.9	1,046.5	-12.0	1,034.5	827.3	207.3	46.9	43.3	9.8
2015	1,095.7	513.2	475.2	107.3	-9.9	1,085.8	-12.0	1,073.8	845.7	228.1	46.8	43.4	9.8
2016	1,131.9	529.3	489.1	113.6	-7.9	1,124.0	-12.2	1,111.8	871.6	240.2	46.8	43.2	10.0
2013 I	1,050.4	496.0	458.7	95.7	-7.8	1,042.7	-11.4	1,031.3	817.7	213.5	47.2	43.7	9.1
II	1,048.3	490.7	459.1	98.5	-5.9	1,042.4	-12.4	1,030.0	811.4	218.5	46.8	43.8	9.4
III	1,047.7	488.3	460.2	99.2	-6.4	1,041.3	-13.1	1,028.2	810.8	217.4	46.6	43.9	9.5
IV	1,049.2	490.3	458.6	100.3	-7.2	1,041.9	-13.1	1,028.8	814.5	214.3	46.7	43.7	9.6
2014 I	1,049.4	489.6	458.3	101.4	-8.8	1,040.6	-13.5	1,027.1	816.0	211.1	46.7	43.7	9.7
II	1,050.6	491.6	457.6	101.4	-12.2	1,038.4	-13.2	1,025.2	819.9	205.3	46.8	43.6	9.7
III	1,054.3	493.9	458.1	102.3	-14.1	1,040.2	-12.2	1,028.0	824.2	203.8	46.8	43.5	9.7
IV	1,058.5	496.9	458.1	103.5	-11.9	1,046.5	-12.0	1,034.5	827.3	207.3	46.9	43.3	9.8
	Annual percentage changes										**Difference from one year ago**		
2008	3.3	7.1	3.3	-15.6	14.6	3.0	19.1	2.8	4.5	-3.0	1.8	0.0	-1.8
2009	-3.3	-1.9	-2.2	-18.1	-33.9	-2.5	-9.1	-2.4	-2.0	-3.9	0.7	0.5	-1.3
2010	0.2	-1.4	-2.0	25.3	-23.4	0.6	-10.9	0.8	1.7	-2.8	-0.8	-0.9	1.7
2011	-0.5	-1.8	1.7	-3.9	20.1	-0.8	11.2	-1.0	0.2	-5.6	-0.6	0.9	-0.3
2012	-1.9	-5.6	1.1	5.6	-51.3	-1.0	-14.6	-0.8	-2.0	3.9	-1.9	1.3	0.6
2013	-0.6	-2.3	0.1	5.7	-18.3	-0.4	8.4	-0.5	-1.4	2.8	-0.8	0.3	0.6
2014	0.9	1.3	-0.1	3.2	65.0	0.4	-8.4	0.6	1.6	-3.3	0.2	-0.4	0.2
2015	3.5	3.3	3.7	3.6	-17.2	3.8	0.0	3.8	2.2	10.1	-0.1	0.1	0.0
2016	3.3	3.1	2.9	5.9	-20.3	3.5	1.5	3.5	3.1	5.3	-0.1	-0.2	0.2
2013 I	-1.9	-5.9	1.4	4.8	-56.7	-1.0	-20.5	-0.7	-2.7	7.9	-2.0	1.4	0.6
II	-1.6	-5.7	1.1	8.9	-65.0	-0.6	-11.2	-0.4	-3.2	11.3	-2.1	1.2	0.9
III	-1.3	-4.9	1.0	7.7	-49.5	-0.7	-2.3	-0.7	-2.8	7.9	-1.8	1.0	0.8
IV	-0.6	-2.3	0.1	5.7	-18.3	-0.4	8.4	-0.5	-1.4	2.8	-0.8	0.3	0.6
2014 I	-0.1	-1.3	-0.1	5.9	13.5	-0.2	18.2	-0.4	-0.2	-1.2	-0.6	0.0	0.5
II	0.2	0.2	-0.3	2.9	105.1	-0.4	6.5	-0.5	1.0	-6.1	0.0	-0.2	0.3
III	0.6	1.2	-0.4	3.1	120.3	-0.1	-6.7	0.0	1.7	-6.3	0.2	-0.5	0.2
IV	0.9	1.3	-0.1	3.2	65.0	0.4	-8.4	0.6	1.6	-3.3	0.2	-0.4	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

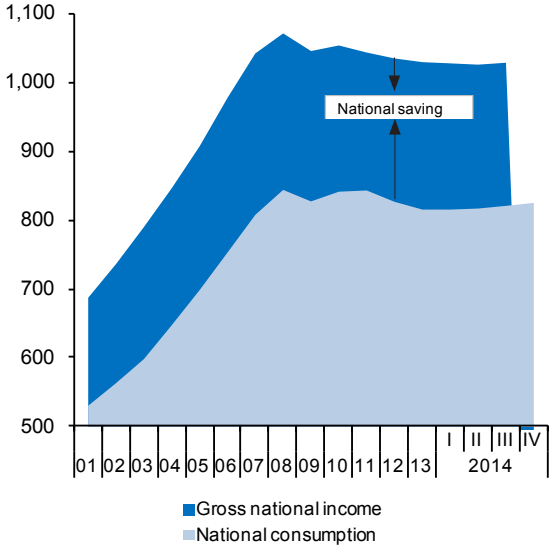


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

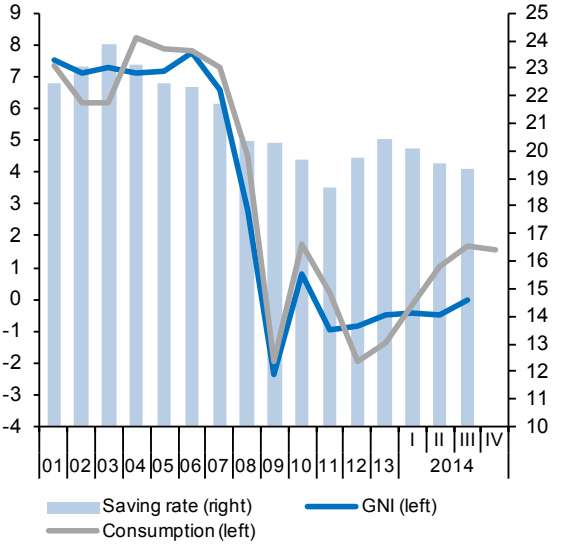


Chart 4.3.- Components of National income
Annual percentage change

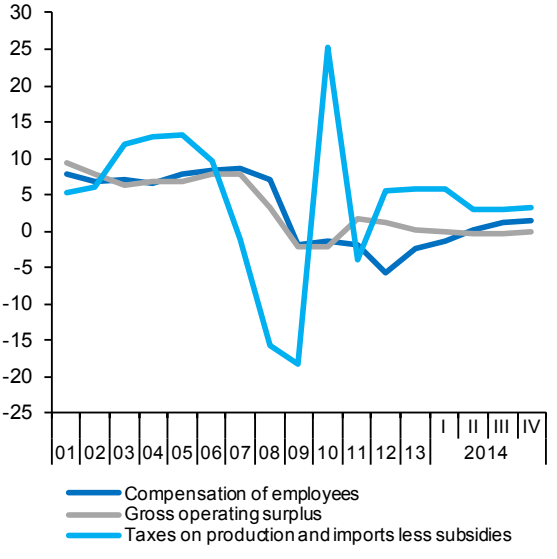


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

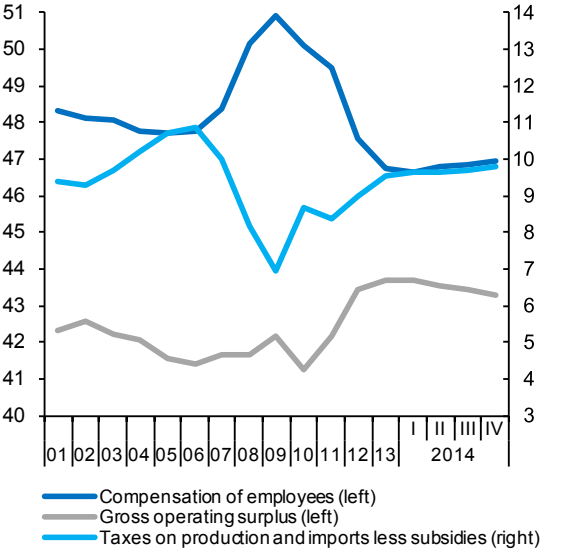


Table 5

National accounts: Net transactions with the rest of the world (ESA 2010, Base 2010)

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													
2008		-57.2	-87.0	24.0	5.9	-30.0	-15.7	-102.9	4.3	-98.5	227.5	330.4	-102.9
2009		-12.4	-41.5	22.4	6.6	-19.8	-14.3	-46.5	2.9	-43.6	218.6	265.1	-46.5
2010		-14.1	-47.8	23.0	10.7	-15.2	-12.7	-42.0	4.9	-37.1	212.6	254.5	-42.0
2011		-2.6	-44.5	26.2	15.6	-18.2	-14.1	-35.0	4.1	-30.9	200.6	235.6	-35.0
2012		16.5	-28.2	27.1	17.6	-8.9	-12.1	-4.5	5.3	0.8	208.5	212.9	-4.5
2013		35.8	-12.6	28.3	20.1	-7.2	-13.1	15.4	6.8	22.2	214.3	198.9	15.4
2014		25.2	-21.4	28.8	17.8	-11.9	-12.0	1.2	4.4	5.6	207.3	206.0	1.2
2015		30.3	-16.2	29.5	17.0	-9.9	-12.0	8.4	4.8	13.3	228.1	219.7	8.4
2016		25.2	-22.8	30.5	17.4	-7.9	-12.2	5.1	4.8	10.0	240.2	235.1	5.1
2013	I	23.1	-21.9	27.3	17.7	-7.8	-11.4	3.9	6.2	10.1	213.5	209.6	3.9
	II	30.7	-14.8	27.7	17.8	-5.9	-12.4	12.4	7.1	19.5	218.5	206.2	12.4
	III	34.3	-12.5	28.1	18.8	-6.4	-13.1	14.9	6.9	21.7	217.4	202.6	14.9
	IV	35.8	-12.6	28.3	20.1	-7.2	-13.1	15.4	6.8	22.2	214.3	198.9	15.4
2014	I	33.8	-14.7	28.6	19.9	-8.8	-13.5	11.5	7.0	18.5	211.1	199.6	11.5
	II	29.2	-18.8	28.8	19.2	-12.2	-13.2	3.8	6.4	10.1	205.3	201.5	3.8
	III	26.7	-20.6	28.7	18.6	-14.1	-12.2	0.4	5.8	6.2	203.8	203.4	0.4
	IV	25.2	-21.4	28.8	17.8	-11.9	-12.0	1.2	4.4	5.6	207.3	206.0	1.2
Percentage of GDP, 4-quarter cumulated transactions													
2008		-5.1	-7.8	2.1	0.5	-2.7	-1.4	-9.2	0.4	-8.8	20.4	29.6	-9.2
2009		-1.2	-3.8	2.1	0.6	-1.8	-1.3	-4.3	0.3	-4.0	20.3	24.6	-4.3
2010		-1.3	-4.4	2.1	1.0	-1.4	-1.2	-3.9	0.5	-3.4	19.7	23.5	-3.9
2011		-0.2	-4.1	2.4	1.5	-1.7	-1.3	-3.3	0.4	-2.9	18.7	21.9	-3.3
2012		1.6	-2.7	2.6	1.7	-0.8	-1.1	-0.4	0.5	0.1	19.8	20.2	-0.4
2013		3.4	-1.2	2.7	1.9	-0.7	-1.2	1.5	0.7	2.1	20.4	19.0	1.5
2014		2.4	-2.0	2.7	1.7	-1.1	-1.1	0.1	0.4	0.5	19.6	19.5	0.1
2015		2.8	-1.5	2.7	1.6	-0.9	-1.1	0.8	0.4	1.2	20.8	20.1	0.8
2016		2.2	-2.0	2.7	1.5	-0.7	-1.1	0.5	0.4	0.9	21.2	20.8	0.5
2013	I	2.2	-2.1	2.6	1.7	-0.7	-1.1	0.4	0.6	1.0	20.3	20.0	0.4
	II	2.9	-1.4	2.6	1.7	-0.6	-1.2	1.2	0.7	1.9	20.8	19.7	1.2
	III	3.3	-1.2	2.7	1.8	-0.6	-1.2	1.4	0.7	2.1	20.8	19.3	1.4
	IV	3.4	-1.2	2.7	1.9	-0.7	-1.2	1.5	0.7	2.1	20.4	19.0	1.5
2014	I	3.2	-1.4	2.7	1.9	-0.8	-1.3	1.1	0.7	1.8	20.1	19.0	1.1
	II	2.8	-1.8	2.7	1.8	-1.2	-1.3	0.4	0.6	1.0	19.5	19.2	0.4
	III	2.5	-2.0	2.7	1.8	-1.3	-1.2	0.0	0.5	0.6	19.3	19.3	0.0
	IV	2.4	-2.0	2.7	1.7	-1.1	-1.1	0.1	0.4	0.5	19.6	19.5	0.1

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

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

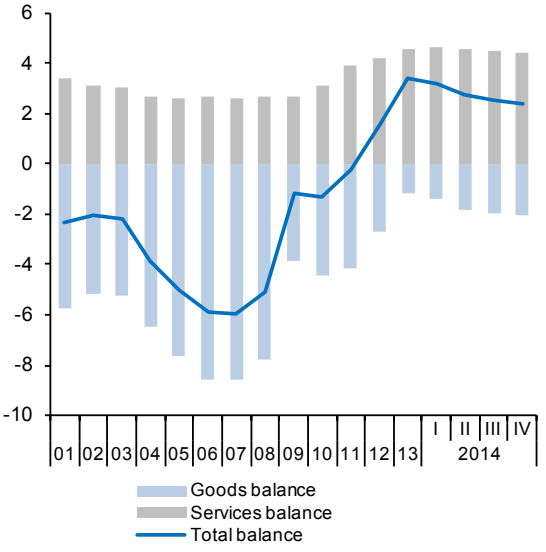


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

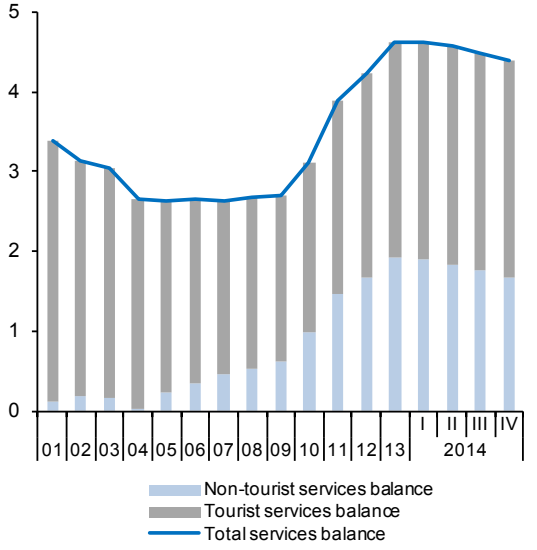


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

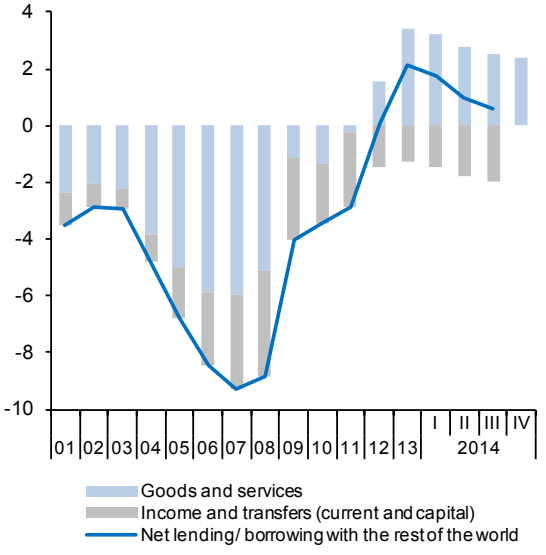


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

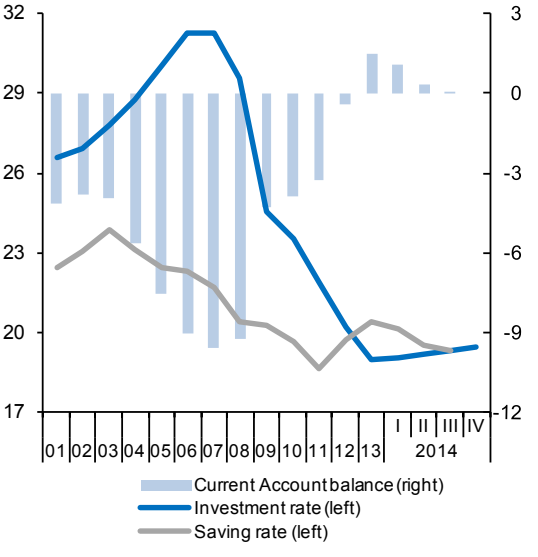


Table 6

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													
2008	692.8	560.5	219.7	217.0	219.7	84.8	633.5	63.6	9.2	5.2	90.2	-21.3	-1.9
2009	715.0	549.9	215.2	235.9	209.7	76.2	605.3	109.7	15.3	4.6	69.0	45.4	4.2
2010	694.7	542.3	202.6	239.3	209.6	79.9	618.8	75.8	10.9	6.3	63.0	19.1	1.8
2011	707.0	532.8	225.3	243.0	212.0	82.0	622.6	83.8	11.9	3.1	55.0	31.9	3.0
2012	685.6	503.3	222.4	247.6	204.4	83.2	618.8	64.8	9.5	2.5	42.6	24.7	2.3
2013	683.4	492.3	226.0	249.6	201.3	83.1	610.3	71.1	10.4	0.4	33.4	38.2	3.6
2014	685.6	498.9	226.3	246.0	200.6	85.0	624.6	59.9	8.7	0.4	36.2	24.1	2.3
2015	708.3	515.3	237.0	248.4	208.0	84.4	642.2	64.9	9.2	0.4	39.1	26.1	2.4
2016	733.3	531.4	248.3	251.9	213.4	84.9	666.2	65.9	9.0	0.3	41.6	24.5	2.2
2012 IV	685.6	503.3	222.4	247.6	204.4	83.2	618.8	64.8	9.5	2.5	42.6	24.7	2.3
2013 I	683.4	497.5	223.2	249.2	203.7	82.8	613.0	68.3	10.0	2.4	42.0	28.7	2.7
II	684.2	492.3	225.4	250.2	202.1	81.6	609.0	73.0	10.7	2.1	40.7	34.4	3.3
III	682.2	490.1	226.0	249.7	201.0	82.5	609.7	70.8	10.4	1.4	37.5	34.7	3.3
IV	683.4	492.3	226.0	249.6	201.3	83.1	610.3	71.1	10.4	0.4	33.4	38.2	3.6
2014 I	681.4	491.9	226.0	248.2	201.3	83.3	611.6	68.2	10.0	0.3	34.1	34.5	3.3
II	682.1	494.0	224.6	247.6	200.5	83.6	616.0	64.6	9.5	0.2	34.3	30.5	2.9
III	683.2	496.1	225.5	245.8	200.2	84.1	620.0	61.9	9.1	0.0	35.8	26.0	2.5
Annual percentage changes, 4-quarter cumulated operations									**Difference from one year ago**	**Annual percentage changes, 4-quarter cumulated operations**			**Difference from one year ago**
2008	5.5	7.1	-5.4	9.8	4.9	-2.4	2.9	43.3	2.4	67.4	-8.7	--	2.8
2009	3.2	-1.9	-2.1	8.7	-4.5	-10.1	-4.5	72.4	6.2	-11.0	-23.5	--	6.1
2010	-2.8	-1.4	-5.9	1.4	0.0	4.8	2.2	-30.9	-4.4	36.5	-8.7	--	-2.4
2011	1.8	-1.8	11.2	1.5	1.1	2.7	0.6	10.6	0.9	-51.6	-12.7	--	1.2
2012	-3.0	-5.5	-1.3	1.9	-3.5	1.4	-0.6	-22.7	-2.4	-18.2	-22.5	--	-0.6
2013	-0.3	-2.2	1.6	0.8	-1.5	-0.1	-1.4	9.7	1.0	-82.7	-21.7	--	1.3
2014	0.3	1.3	0.1	-1.4	-0.3	2.2	2.3	-15.8	-1.7	-10.0	8.5	--	-1.4
2015	3.3	3.3	4.7	1.0	3.7	-0.6	2.8	8.4	0.4	-10.0	8.1	--	0.1
2016	3.5	3.1	4.7	1.4	2.6	0.6	3.7	1.5	-0.2	-8.0	6.4	--	-0.2
2012 IV	-3.0	-5.5	-1.3	1.9	-3.5	1.4	-0.6	-22.7	-2.4	-18.2	-22.5	--	-0.6
2013 I	-2.9	-5.8	-1.0	2.0	-3.7	0.1	-1.6	-14.8	-1.4	-6.4	-18.2	--	-0.2
II	-1.8	-5.6	0.9	2.2	-3.7	-1.9	-2.1	-1.7	0.0	-26.2	-15.0	--	0.5
III	-1.6	-4.8	1.8	1.0	-3.0	-1.0	-1.7	-1.7	0.0	-32.8	-17.1	--	0.6
IV	-0.3	-2.2	1.6	0.8	-1.5	-0.1	-1.4	9.7	1.0	-82.7	-21.7	--	1.3
2014 I	-0.3	-1.1	1.2	-0.4	-1.2	0.7	-0.2	-0.1	0.0	-87.2	-18.9	--	0.6
II	-0.3	0.3	-0.4	-1.0	-0.8	2.5	1.2	-11.4	-1.2	-92.8	-15.7	--	-0.4
III	0.1	1.2	-0.2	-1.6	-0.4	1.9	1.7	-12.6	-1.3	-100.3	-4.5	--	-0.8

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

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

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

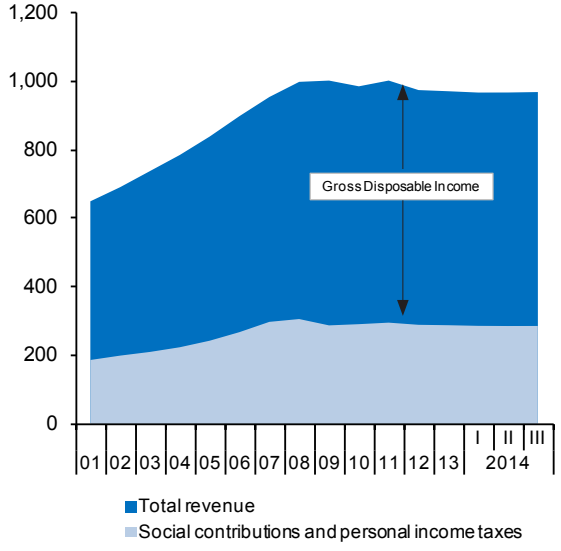
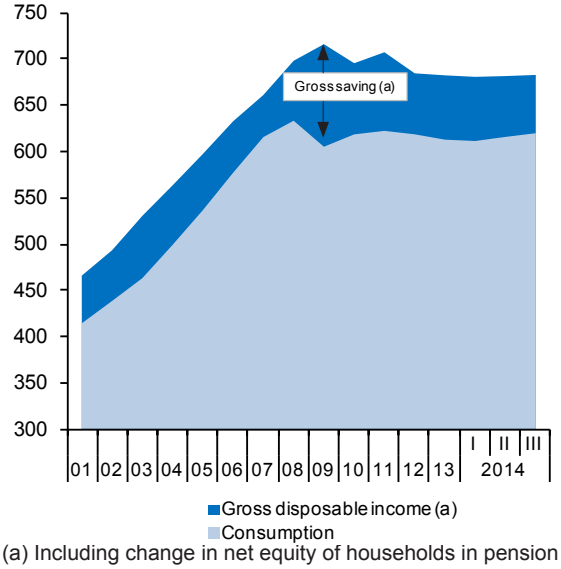


Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



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

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

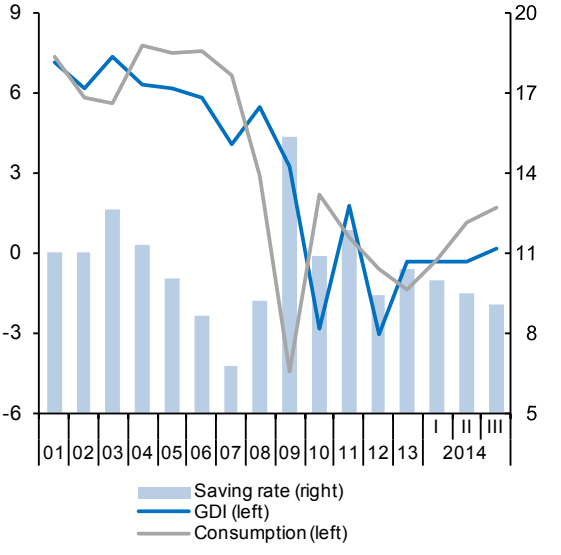
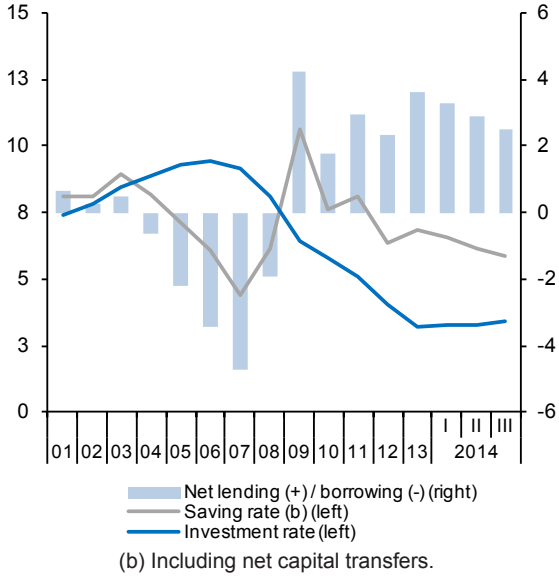


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

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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														
2008		604.0	375.2	228.8	-78.8	-8.9	25.5	115.7	11.8	178.7	-51.2	-4.6	37.9	29.6
2009		580.2	360.0	220.2	-59.9	-13.3	19.0	128.0	11.9	130.1	9.8	0.9	38.0	22.4
2010		581.4	351.9	229.5	-49.2	-8.6	16.2	155.5	10.6	132.0	34.0	3.1	39.5	22.7
2011		568.9	346.9	222.0	-60.9	-7.1	16.2	137.9	10.5	131.7	16.7	1.6	39.0	23.1
2012		557.1	327.8	229.2	-57.8	-7.7	19.9	143.8	9.0	138.4	14.4	1.4	41.2	24.8
2013		549.7	317.0	232.6	-45.4	-6.6	17.7	163.0	7.2	136.5	33.6	3.2	42.3	24.8
2014		554.5	326.7	227.8	-50.6	-6.8	18.1	152.2	6.8	141.3	17.7	1.7	41.1	25.5
2015		577.0	341.5	235.5	-44.6	-7.0	21.3	162.6	6.8	150.3	19.1	1.7	40.8	26.0
2016		595.5	355.6	239.9	-35.2	-7.3	21.4	176.0	6.8	162.5	20.3	1.8	40.3	27.3
2012	IV	557.1	327.8	229.2	-57.8	-7.7	19.9	143.8	9.0	138.4	14.4	1.4	41.2	24.8
2013	I	554.2	323.2	230.9	-55.7	-7.3	19.5	148.5	9.5	137.6	20.4	1.9	41.7	24.8
	II	552.4	320.0	232.3	-51.3	-7.0	19.8	154.1	9.3	138.9	24.6	2.3	42.1	25.1
	III	552.0	318.4	233.7	-47.3	-6.6	18.5	161.3	8.6	140.0	30.0	2.9	42.3	25.4
	IV	549.7	317.0	232.6	-45.4	-6.6	17.7	163.0	7.2	136.5	33.6	3.2	42.3	24.8
2014	I	548.3	317.6	230.7	-47.1	-6.8	17.8	159.1	7.2	138.4	27.9	2.7	42.1	25.2
	II	549.0	320.1	228.9	-51.3	-6.9	18.7	152.0	7.0	136.8	22.2	2.1	41.7	24.9
	III	550.8	322.0	228.8	-53.1	-7.1	18.9	149.7	6.7	137.1	19.3	1.8	41.5	24.9
Annual percentage changes, 4-quarter cumulated operations												**Difference from one year ago**		
2008		9.5	7.4	13.0	19.3	6.4	-38.7	33.6	19.2	-5.5	--	4.0	1.2	-4.7
2009		-3.9	-4.1	-3.7	-23.9	49.4	-25.4	10.7	0.4	-27.2	--	5.5	0.1	-7.2
2010		0.2	-2.2	4.2	-17.9	-35.0	-15.0	21.4	-10.8	1.5	--	2.2	1.5	0.3
2011		-2.1	-1.4	-3.3	23.8	-18.1	0.1	-11.3	-0.8	-0.3	--	-1.6	-0.4	0.4
2012		-2.1	-5.5	3.3	-5.0	9.3	23.0	4.3	-14.0	5.1	--	-0.2	2.1	1.7
2013		-1.3	-3.3	1.5	-21.5	-14.5	-11.1	13.3	-20.6	-1.4	--	1.8	1.2	0.0
2014		0.9	3.1	-2.1	11.5	3.5	2.1	-6.6	-5.0	3.5	--	-1.5	-1.2	0.6
2015		4.1	4.5	3.4	-11.9	3.0	17.9	6.8	0.0	6.4	--	0.1	-0.3	0.6
2016		3.2	4.1	1.9	-21.1	3.5	0.7	8.2	0.0	8.1	--	0.0	-0.5	1.2
2012	IV	-2.1	-5.5	3.3	-5.0	9.3	23.0	4.3	-14.0	5.1	--	-0.2	2.1	1.7
2013	I	-2.0	-5.7	3.7	-10.4	5.3	20.0	8.1	3.5	4.1	--	0.6	2.3	1.4
	II	-1.6	-5.3	4.0	-17.2	8.5	15.2	12.0	-2.0	3.1	--	1.2	2.3	1.2
	III	-1.2	-4.3	3.5	-23.9	-14.9	10.7	15.8	3.6	2.7	--	1.8	1.9	1.0
	IV	-1.3	-3.3	1.5	-21.5	-14.5	-11.1	13.3	-20.6	-1.4	--	1.8	1.2	0.0
2014	I	-1.1	-1.8	-0.1	-15.5	-7.1	-8.6	7.1	-24.2	0.6	--	0.7	0.4	0.4
	II	-0.6	0.0	-1.5	-0.1	-1.6	-5.7	-1.4	-24.6	-1.5	--	-0.2	-0.4	-0.2
	III	-0.2	1.1	-2.1	12.4	6.8	2.1	-7.2	-22.1	-2.0	--	-1.0	-0.8	-0.5

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

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

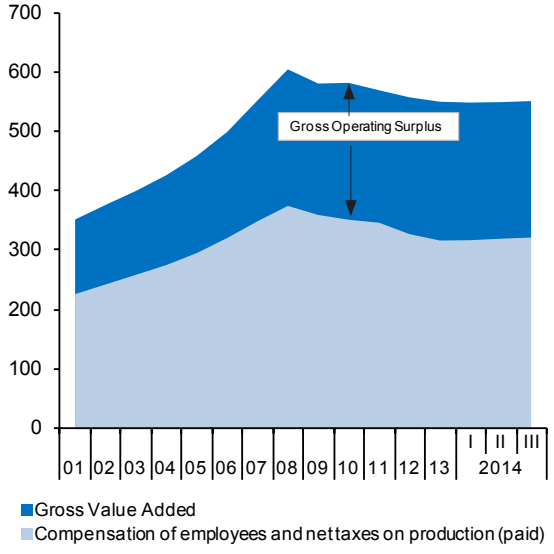


Chart 7.2.- Non-financial corporations: GVA, GOS and saving
Annual percentage change, 4-quarter moving averages

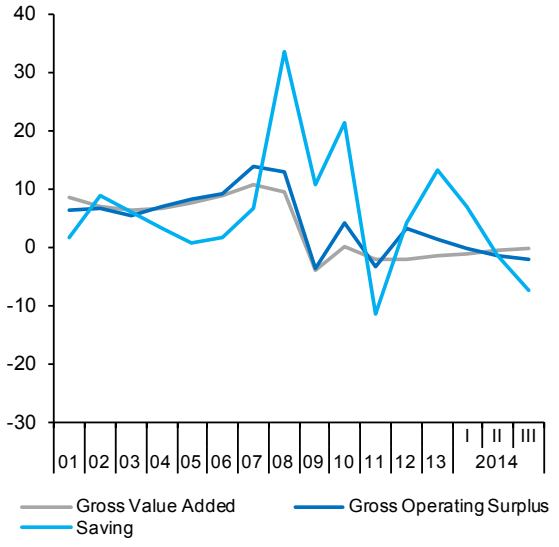
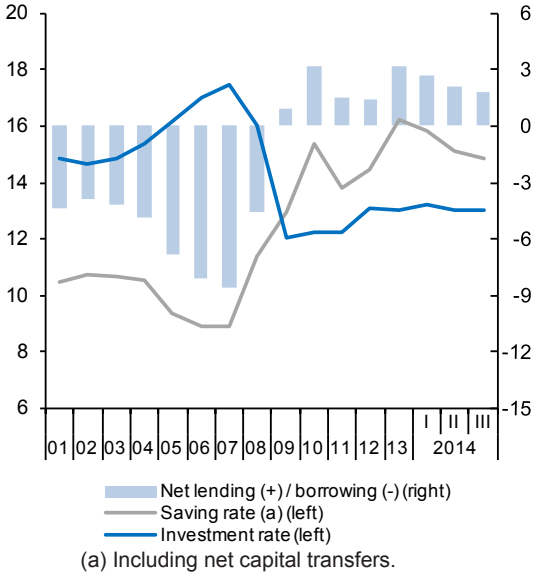


Chart 7.3.- Non-financial corporations: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(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

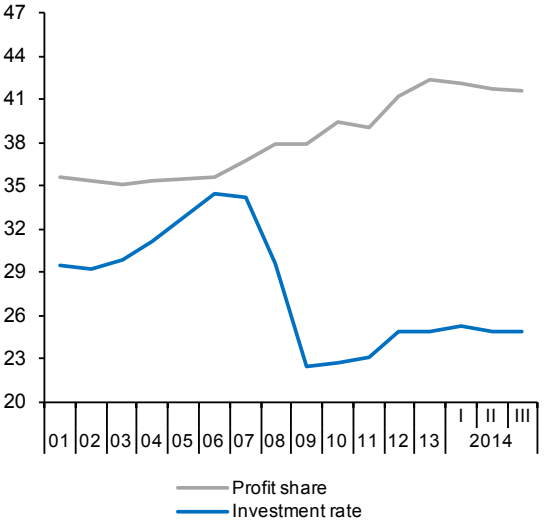


Table 8

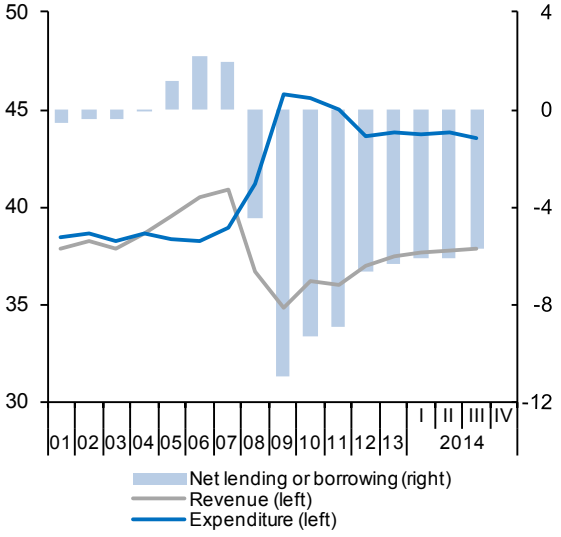
National accounts: Public revenue, expenditure and deficit (ESA 2010, Base 2010)

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														
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	-101.4
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	141.5	119.2	107.4	129.1	112.8	24.4	169.1	23.3	167.6	202.7	-35.1	23.6	-58.7	-57.9
2015	143.0	123.4	110.8	134.5	113.7	23.0	170.7	24.1	180.3	203.5	-23.3	24.9	-48.1	-48.1
2016	144.6	129.6	111.5	138.3	114.7	20.5	172.4	23.0	193.4	205.4	-12.0	25.0	-37.0	-37.0
2012 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	142.5	116.5	105.7	128.5	114.3	24.2	170.2	21.0	163.5	204.4	-40.9	27.9	-68.8	-63.9
II	142.5	117.5	106.0	128.5	114.3	24.3	169.8	22.5	163.6	204.5	-40.8	25.3	-66.2	-64.0
III	142.5	118.5	106.4	129.3	114.3	24.4	169.1	21.6	167.2	204.7	-37.5	23.6	-61.1	-60.3
Percentage of GDP, 4-quarter cumulated operations														
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	-9.4
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	13.4	11.3	10.1	12.2	10.7	2.3	16.0	2.2	15.8	19.2	-3.3	2.2	-5.5	-5.5
2015	13.1	11.3	10.1	12.3	10.4	2.1	15.6	2.2	16.5	18.6	-2.1	2.3	-4.4	-4.4
2016	12.8	11.5	9.9	12.2	10.1	1.8	15.2	2.0	17.1	18.1	-1.1	2.2	-3.3	-3.3
2012 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	16.3	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	19.5	-3.9	2.7	-6.6	-6.1
II	13.6	11.2	10.1	12.2	10.9	2.3	16.2	2.1	15.6	19.5	-3.9	2.4	-6.3	-6.1
III	13.5	11.2	10.1	12.3	10.8	2.3	16.0	2.0	15.9	19.4	-3.6	2.2	-5.8	-5.7

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

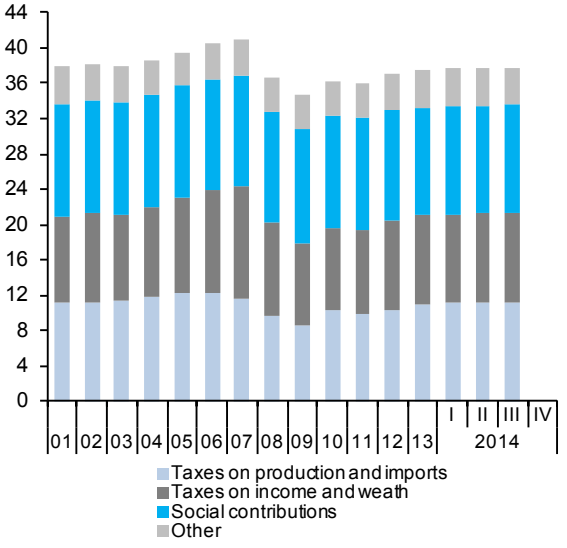


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

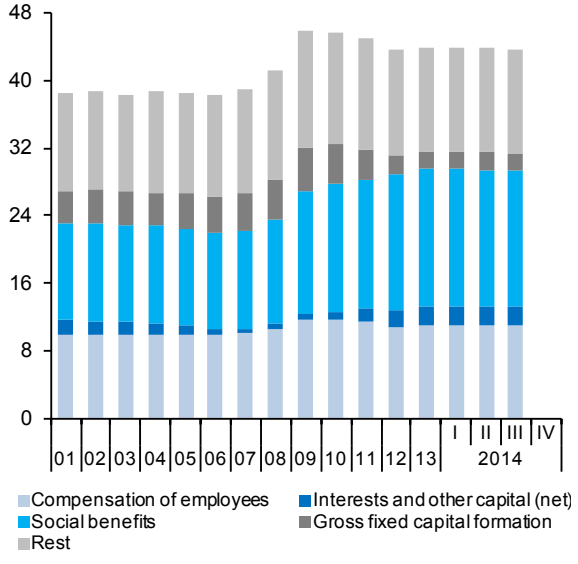
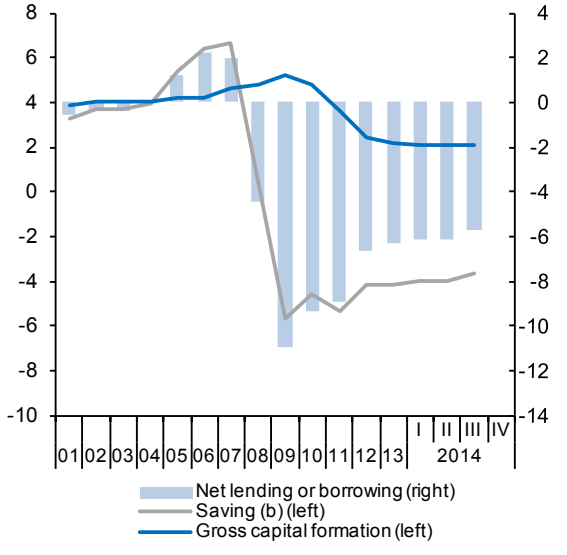


Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages



(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**				
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		-35.7	-18.0	5.3	-9.5	-57.9	--	--	--	--	1,034.0
2015		-26.8	-14.2	2.2	-9.3	-48.1	--	--	--	--	1,102.6
2016		-20.0	-10.2	2.3	-9.1	-37.0	--	--	--	--	1,154.6
2012	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	-41.9	-16.7	5.6	-10.8	-63.9	866.1	225.0	41.9	17.2	995.8
	II	-36.9	-18.4	5.3	-14.0	-64.0	885.2	228.2	42.0	17.2	1,012.6
	III	-39.5	-18.6	6.3	-8.6	-60.3	891.9	232.0	40.8	17.2	1,020.2
		Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
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		-3.4	-1.7	0.5	-0.9	-5.5	--	--	--	--	97.7
2015		-2.4	-1.3	0.2	-0.9	-4.4	--	--	--	--	100.6
2016		-1.8	-0.9	0.2	-0.8	-3.3	--	--	--	--	102.0
2012	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	76.1	18.4	4.3	1.6	88.6
	II	-3.7	-1.8	0.4	-1.1	-6.2	78.3	18.8	4.2	1.6	90.7
	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	0.5	-1.0	-6.1	82.5	21.4	4.0	1.6	94.9
	II	-3.5	-1.7	0.5	-1.3	-6.1	84.3	21.7	4.0	1.6	96.4
	III	-3.7	-1.8	0.6	-0.8	-5.7	84.6	22.0	3.9	1.6	96.8

(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

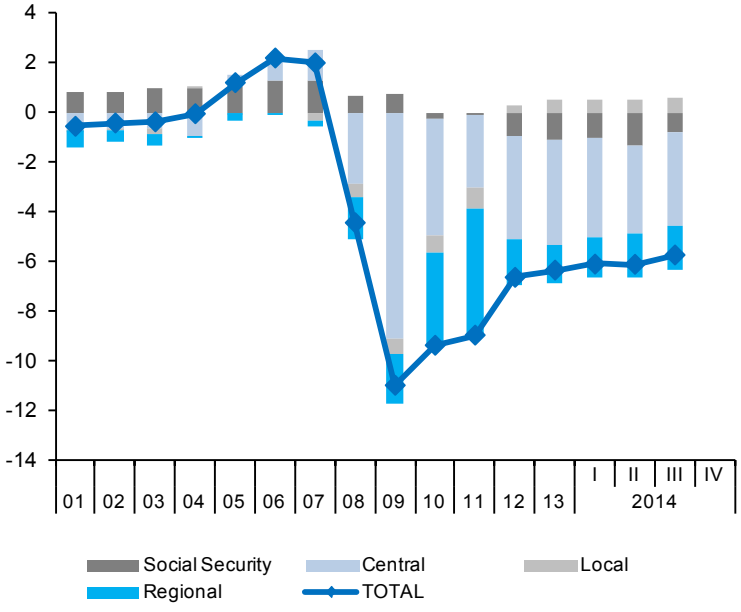


Chart 9.2.- Government debt
Percent of GDP

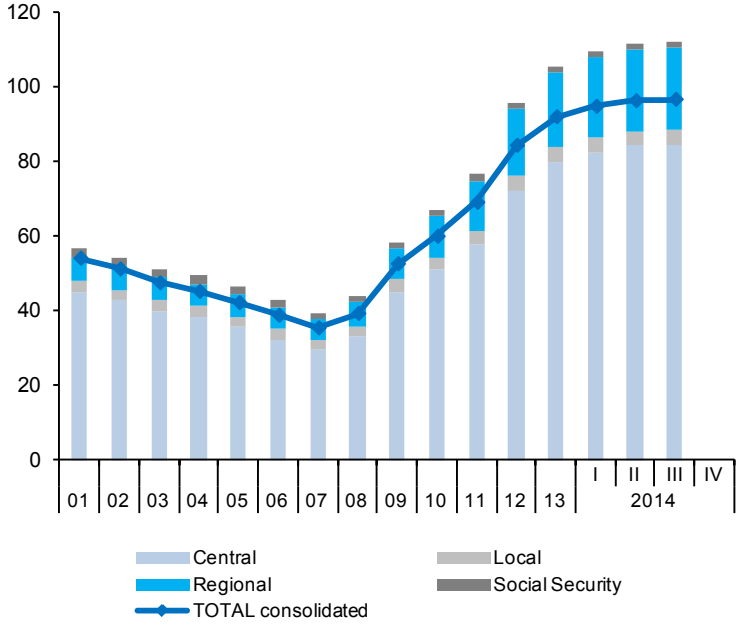


Table 10

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		87.1	38.5	18,834	269.5	117.8	2,696	40.4	-18.0	120.4	-24.0
2009		83.1	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	97.1	-54.5
2010		93.5	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.9
2011		93.5	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	100.3	-30.7
2012		88.9	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	95.6	-36.9
2013		92.9	48.3	15,855	250.1	90.5	2,022	48.5	-13.9	92.3	-30.6
2014		102.8	55.1	16,111	249.5	91.6	2,023	53.2	-7.1	93.7	-16.8
2015 (b)		107.0	56.4	16,183	47.6	89.2	2,023	54.5	-4.4	--	-14.8
2013	II	90.7	46.4	15,828	62.4	90.0	2,021	47.6	-15.4	92.2	-32.2
	III	95.0	49.7	15,816	62.3	91.0	2,013	50.5	-12.8	92.5	-27.9
	IV	97.1	51.6	15,887	63.1	91.1	2,013	50.1	-11.6	92.5	-26.9
2014	I	101.0	54.3	15,959	62.2	91.6	2,015	52.5	-9.1	93.6	-20.5
	II	102.4	55.7	16,052	62.9	92.2	2,019	53.4	-8.2	94.6	-17.6
	III	103.6	56.0	16,151	62.6	91.6	2,024	53.1	-5.7	94.0	-14.4
	IV	104.3	54.6	16,281	62.2	91.5	2,032	53.7	-5.3	93.3	-14.6
2015	I(b)	107.0	56.4	16,401	42.2	91.6	2,044	54.5	-4.4	--	-14.8
2014	Dec	105.6	54.3	16,327	20.7	91.4	2,035	53.8	-5.8	93.3	-15.9
	Jan	106.6	56.9	16,369	21.2	91.6	2,042	54.7	-4.5	--	-15.4
	Feb	107.4	56.0	16,433	21.0	--	2,047	54.2	-4.3	--	-14.2
		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	--	--	3.0	--
2011		--	--	-1.6	-0.9	-1.6	-2.7	--	--	0.3	--
2012		--	--	-3.7	-2.2	-6.7	-5.3	--	--	-4.8	--
2013		--	--	-2.9	-2.2	-1.5	-4.4	--	--	-3.4	--
2014		--	--	1.6	-0.2	1.3	0.1	--	--	1.5	--
2015	(d)	--	--	2.7	2.4	0.4	1.3	--	--	--	--
2013	II	--	--	-1.9	-0.4	-0.9	-3.8	--	--	-2.6	--
	III	--	--	-0.3	-0.5	4.5	-1.7	--	--	1.1	--
	IV	--	--	1.8	4.8	0.4	0.1	--	--	-0.2	--
2014	I	--	--	1.8	-5.4	2.0	0.4	--	--	5.0	--
	II	--	--	2.4	4.5	2.6	0.8	--	--	4.3	--
	III	--	--	2.5	-1.9	-2.3	1.0	--	--	-2.6	--
	IV	--	--	3.3	-2.6	-0.6	1.6	--	--	-3.0	--
2015	I(e)	--	--	3.0	7.6	0.7	2.4	--	--	--	--
2014	Dec	--	--	0.3	-0.3	0.1	0.2	--	--	-0.2	--
	Jan	--	--	0.3	2.5	0.2	0.3	--	--	--	--
	Feb	--	--	0.4	-1.3	--	0.3	--	--	--	--

(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

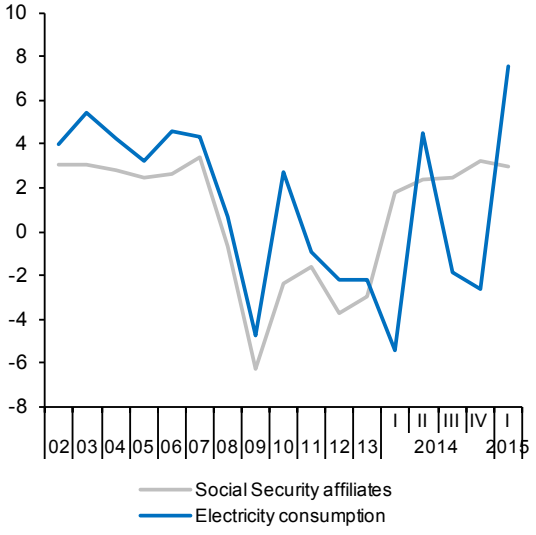


Chart 10.2.- General activity indicators (II)
Index

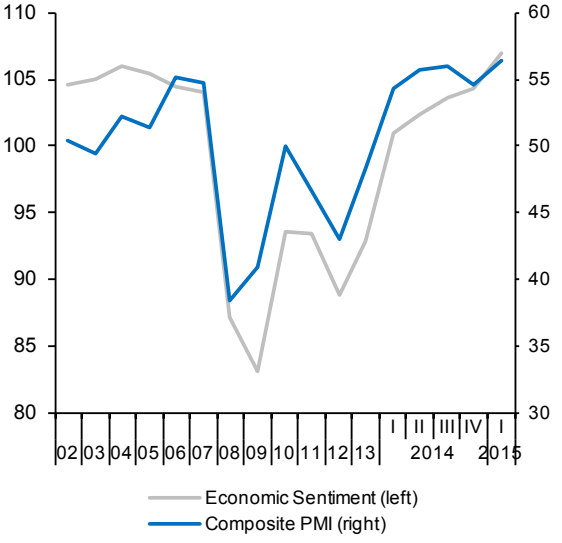


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

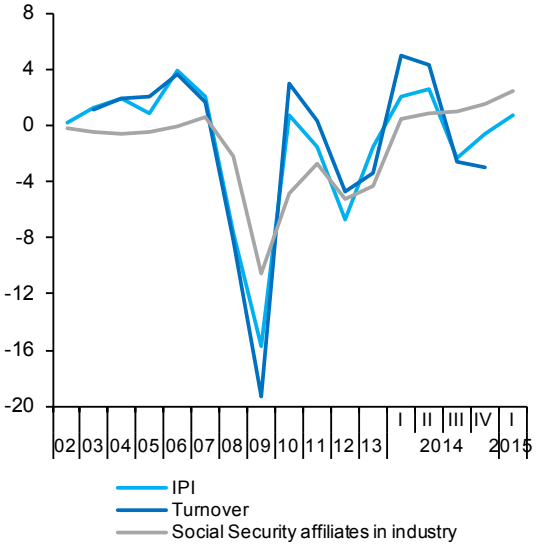


Chart 10.4.- Industrial sector indicators (II)
Index

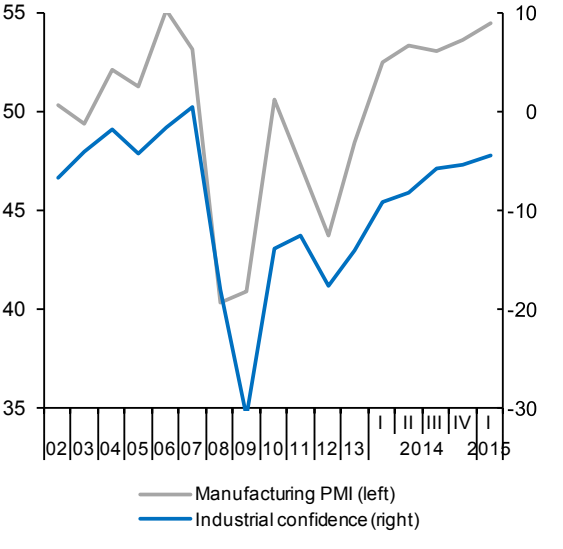


Table 11

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	980	10.8	62.1	-41.4	13.1	6.9	11,995	93.3	55.2	294.4	195.0	9.9
2015 (b)	988	0.8	52.6	-24.0	0.7	--	12,073	--	56.4	13.3	11.5	17.6
2013 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	2.7	63.9	-60.6	2.5	1.6	11,721	91.1	49.3	71.4	46.5	-10.2
IV	978	2.6	63.9	-57.4	2.9	1.6	11,788	91.6	51.8	72.2	47.0	-3.1
2014 I	973	2.6	63.7	-52.3	3.7	1.7	11,855	92.2	54.2	72.5	47.5	7.5
II	974	2.7	62.6	-55.8	3.2	1.8	11,946	93.0	55.7	72.8	48.2	9.1
III	980	2.7	61.2	-35.0	3.4	1.9	12,038	93.7	56.7	73.5	48.7	8.8
IV	994	2.8	60.8	-22.6	2.9	1.5	12,144	94.3	54.3	74.4	49.2	14.0
2015 I (b)	1,016	0.9	60.9	-24.0	0.7	--	12,260	--	56.4	25.0	16.5	17.6
2014 Dec	1,001	0.9	60.8	-25.1	0.9	0.6	12,181	94.4	54.3	24.9	16.4	20.7
Jan	1,011	0.9	60.9	-25.8	0.7	--	12,239	--	56.7	25.0	16.5	16.4
Feb	1,022	--	--	-22.2	--	--	12,281	--	56.2	--	--	18.7
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	-20.7	-5.7	--	23.3	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	0.3	-1.4	--	42.9	2.2	2.3	2.6	--	2.9	4.6	--
2015 (d)	4.2	5.2	-2.5	--	-39.7	--	3.4	--	--	4.1	5.4	--
2013 II	-11.0	-15.7	5.3	--	-12.0	-23.5	-0.7	0.8	--	7.4	0.8	--
III	-5.1	-2.7	5.1	--	48.3	-16.8	0.9	2.2	--	7.1	3.4	--
IV	-3.0	-1.9	0.1	--	87.1	-8.3	2.3	2.0	--	4.2	4.2	--
2014 I	-2.1	-9.6	-1.2	--	129.2	-12.6	2.3	2.7	--	1.8	4.9	--
II	0.7	13.6	-6.6	--	48.2	11.2	3.1	3.5	--	1.8	5.4	--
III	2.3	10.0	-8.7	--	32.7	21.2	3.1	3.2	--	3.5	4.7	--
IV	6.0	13.9	-2.6	--	0.3	-8.0	3.6	2.3	--	5.2	3.5	--
2015 I (e)	9.2	-7.9	0.4	--	-19.4	--	3.9	--	--	3.7	2.1	--
2014 Dec	0.7	-1.2	0.1	--	-38.6	-30.5	0.3	0.2	--	0.5	0.3	--
Jan	0.9	-1.3	0.1	--	-39.7	--	0.5	--	--	0.5	0.3	--
Feb	1.1	--	--	--	--	--	0.3	--	--	--	--	--

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

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

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

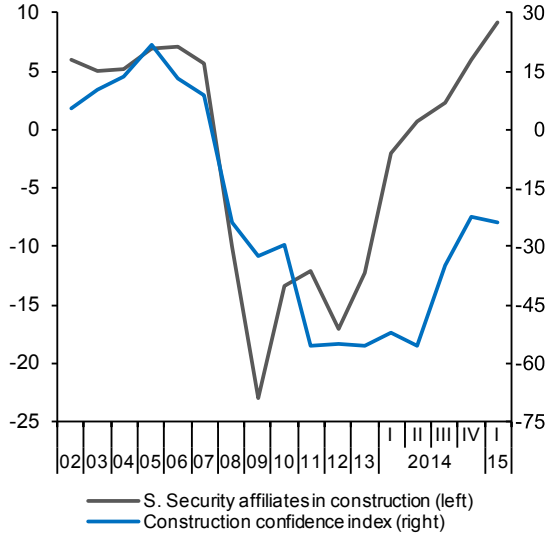


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

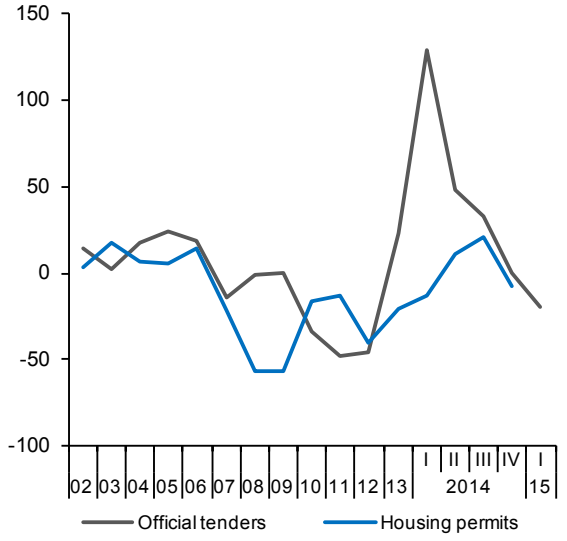


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Chart 11.3.- Services indicators (I)
Percentage changes from previous period

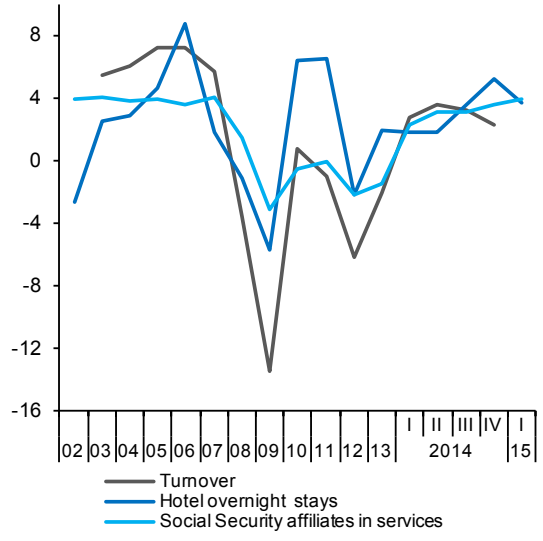
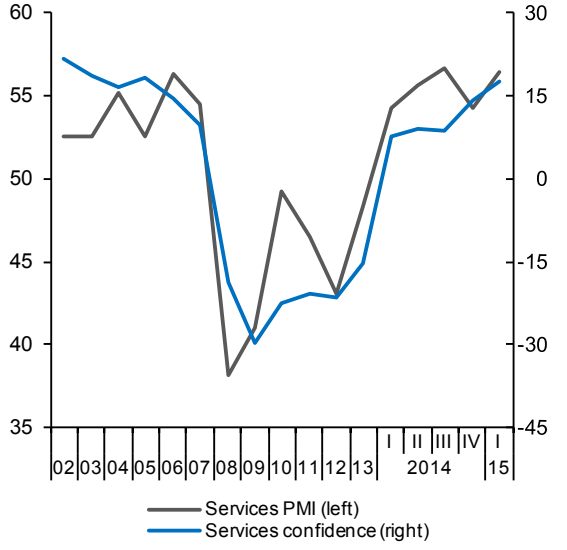


Chart 11.4.- Services indicators (II)
Index



SEFO - Spanish Economic and Financial Outlook

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	84.9	878.8	-8.9	104.2	-9.2	135.3	-16.1	83.1
2015 (b)	90.3	965.0	-1.8	59.9	-5.4	23.9	-11.1	--
2013 II	83.9	178.9	-28.7	24.7	-24.6	25.7	-33.1	68.6
III	84.1	184.4	-20.5	25.0	-21.2	27.5	-26.8	72.3
IV	83.9	191.6	-19.4	25.2	-19.5	29.3	-35.7	76.1
2014 I	83.9	201.8	-11.8	25.3	-11.7	31.0	-20.1	80.8
II	84.4	212.4	-6.1	25.6	-8.2	32.6	-16.9	84.1
III	85.1	223.0	-7.9	26.0	-7.6	34.3	-15.8	84.0
IV	86.2	238.3	-9.6	26.3	-9.5	36.6	-11.3	81.6
2015 I (b)	86.9	169.0	-1.8	8.9	-5.4	25.9	-11.1	--
2014 Dec	86.5	81.4	-7.1	8.8	-13.0	12.5	-14.9	80.5
Jan	86.9	83.4	-1.5	8.9	-5.3	12.8	-7.2	--
Feb	--	85.6	-2.1	--	-5.5	13.1	-15.0	--
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	1.1	18.8	--	3.6	--	26.1	--	18.7
2015 (d)	4.2	29.4	--	9.8	--	26.2	--	--
2013 II	0.9	16.0	--	5.3	--	22.0	--	26.0
III	0.7	13.0	--	4.9	--	32.2	--	23.2
IV	-0.8	16.4	--	3.1	--	28.5	--	22.5
2014 I	0.0	23.0	--	2.7	--	25.6	--	27.1
II	2.3	22.8	--	4.8	--	22.3	--	17.3
III	3.7	21.5	--	5.5	--	21.7	--	-0.4
IV	4.8	30.4	--	5.7	--	29.8	--	-11.0
2015 I (e)	3.6	28.0	--	4.0	--	26.6	--	--
2014 Dec	0.4	2.5	--	0.5	--	2.4	--	-1.3
Jan	0.4	2.6	--	0.5	--	2.4	--	--
Feb	--	2.5	--	--	--	2.4	--	--

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

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

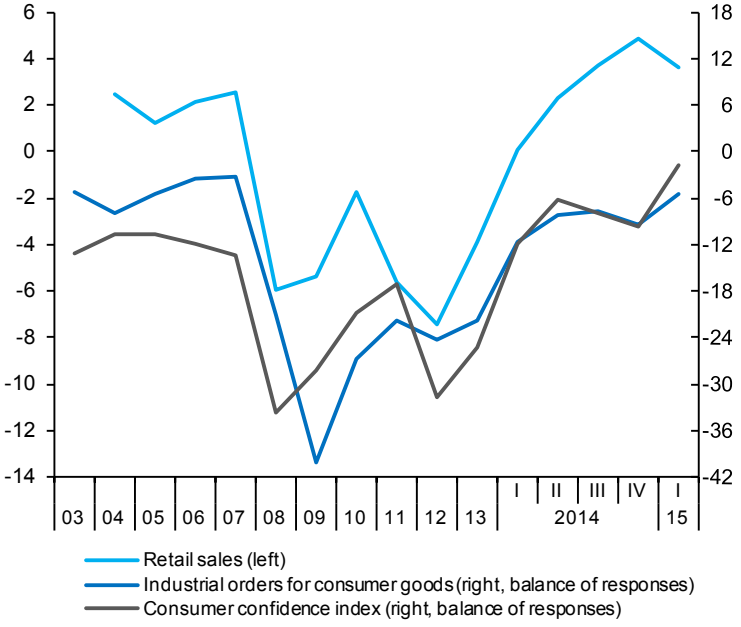


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

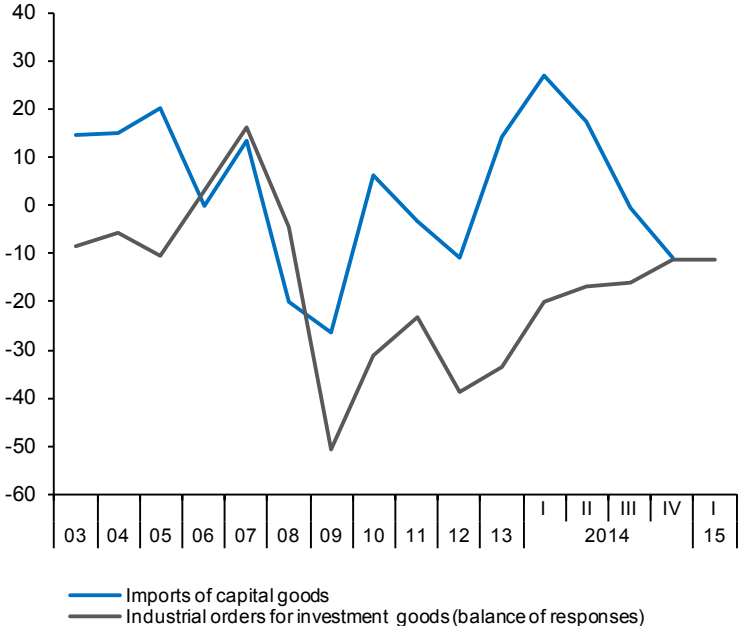


Table 13a

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					
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	23.0	--	17.3	--	5.6	--	75.3	56.8	24.4	53.2	23.0	34.5
2015		30.3	22.9	--	17.8	--	5.1	--	75.4	58.5	22.3	--	--	--
2016		30.3	22.9	--	18.2	--	4.7	--	75.6	60.1	20.4	--	--	--
2013	I	30.8	23.3	23.3	17.0	17.2	6.3	6.1	75.4	55.5	26.3	55.8	24.5	37.7
	II	30.7	23.2	23.2	17.2	17.1	6.0	6.0	75.0	55.4	26.1	55.5	24.6	36.0
	III	30.5	23.2	23.1	17.2	17.1	5.9	6.0	75.3	55.6	26.0	55.1	24.3	37.6
	IV	30.4	23.1	23.1	17.1	17.1	5.9	5.9	75.3	55.8	25.7	55.0	24.2	36.4
2014	I	30.3	22.9	22.9	17.0	17.1	5.9	5.8	75.1	56.1	25.2	54.2	23.7	36.1
	II	30.3	23.0	22.9	17.4	17.3	5.6	5.6	75.1	56.6	24.5	53.0	23.1	34.4
	III	30.3	22.9	22.9	17.5	17.4	5.4	5.5	75.1	56.9	24.1	53.3	22.7	33.8
	IV	30.3	23.0	23.0	17.6	17.6	5.5	5.5	75.6	57.6	23.7	51.8	22.4	33.2
		Percentage changes (d)							Difference from one year ago					
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		-0.9	-1.0	--	1.2	--	-7.3	--	0.0	1.2	-1.7	--	--	--
2015		0.0	-0.1	--	2.7	--	-8.8	--	0.2	1.7	-2.1	--	--	--
2016		0.0	-0.1	--	2.4	--	-8.8	--	0.2	1.6	-1.9	--	--	--
2013	I	-0.8	-0.5	-0.2	-4.1	-2.8	10.8	7.5	0.2	-1.9	2.7	5.3	2.9	2.3
	II	-1.0	-1.2	-3.2	-3.4	-2.2	5.5	-6.2	-0.2	-1.4	1.7	3.1	2.0	0.2
	III	-1.2	-1.4	-0.4	-2.5	-0.2	2.0	-1.0	-0.1	-0.7	0.9	2.0	0.8	1.9
	IV	-1.3	-1.2	-1.2	-1.2	0.4	-1.4	-5.8	0.1	0.1	-0.1	-0.1	0.1	-0.1
2014	I	-1.3	-1.8	-2.2	-0.5	0.3	-5.5	-9.4	-0.3	0.6	-1.0	-1.6	-0.8	-1.5
	II	-1.0	-1.0	-0.1	1.1	3.8	-7.0	-11.0	0.1	1.2	-1.5	-2.5	-1.4	-1.6
	III	-0.8	-1.0	-0.4	1.6	2.0	-8.7	-7.5	-0.2	1.3	-2.0	-1.8	-1.6	-3.7
	IV	-0.6	-0.2	2.0	2.5	4.0	-8.1	-4.3	0.3	1.7	-2.0	-3.2	-1.8	-3.2

(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.

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

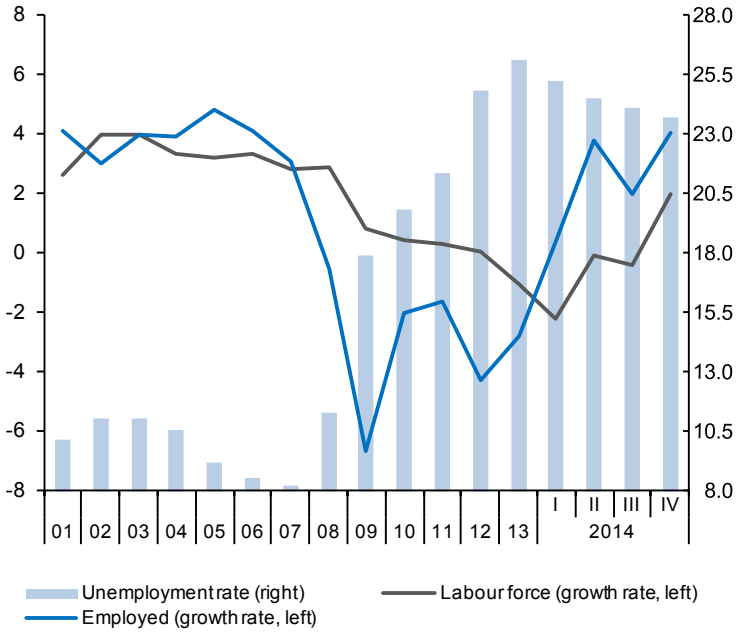


Chart 13a.2.- Unemployment rates, SA
Percentage

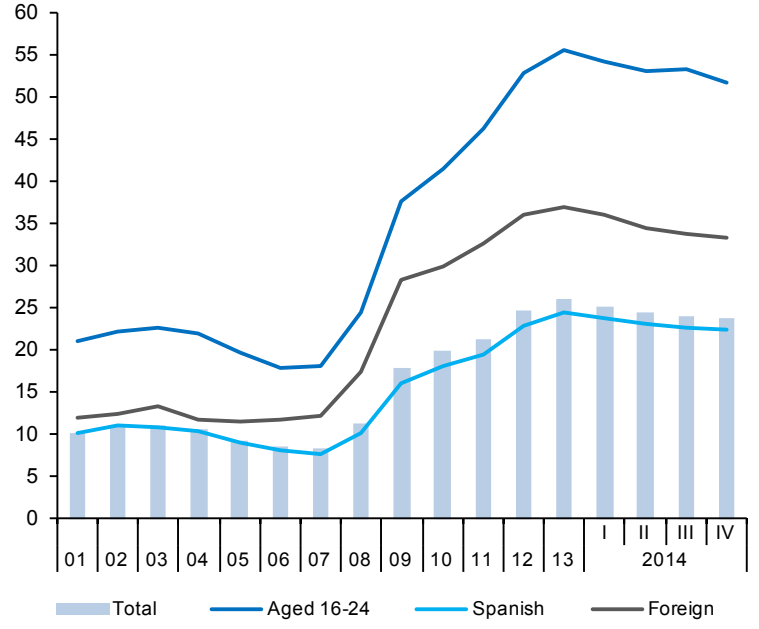


Table 13b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees				Self- employed			
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Temporary	Indefinite	Temporary employment rate (a)		Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)													
2007		0.87	3.28	2.76	13.67	16.97	5.35	11.61	31.6	3.61	18.20	2.38	11.6
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	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.9
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
	IV	0.73	2.44	1.03	13.37	14.48	3.51	10.97	24.2	3.09	14.75	2.82	16.1
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)		-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
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
	IV	-6.2	4.2	4.0	2.6	2.8	5.3	2.0	0.6	1.4	2.6	2.4	0.0

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

Source: INE (Labour Force Survey).

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

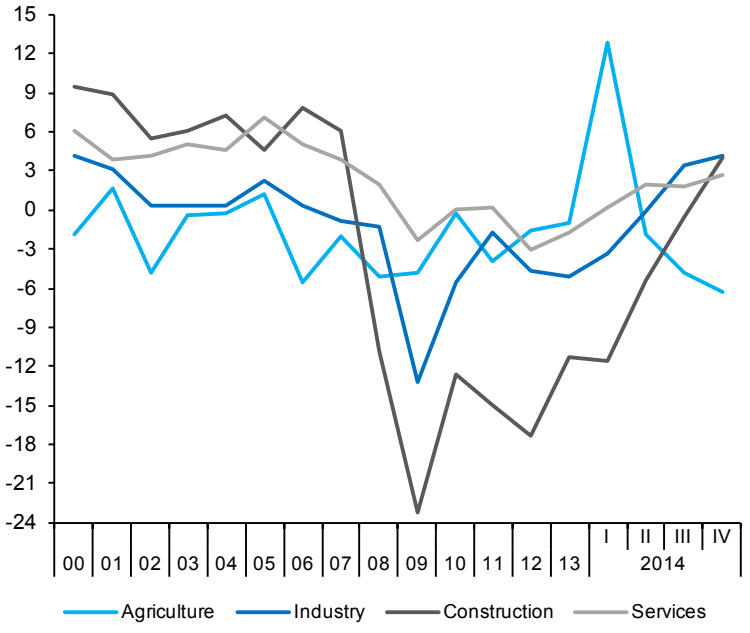


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

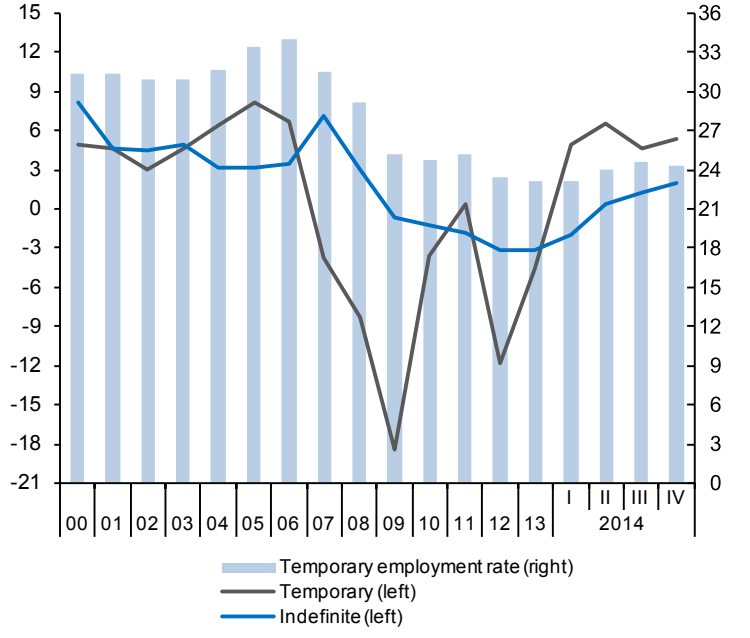


Table 14

Index of Consumer Prices

Forecasts in blue

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 20145		100.0	66.09	81.21	26.42	39.67	15.13	6.64	12.14	21.77
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		103.7	102.3	103.1	101.0	103.1	106.6	104.6	108.0	106.0
2015		102.5	102.6	103.4	101.1	103.4	107.5	105.6	97.5	107.0
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		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.3	0.3	0.0	0.4	0.7	1.9	-7.3	1.0
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	-0.4	0.0	-0.1	-0.3	0.2	-0.2	1.2	-3.2	0.2
	Dec	-1.0	0.1	0.0	-0.2	0.3	-0.2	-0.4	-8.5	-0.2
2015	Jan	-1.3	0.2	0.2	-0.1	0.5	-0.1	-0.7	-11.4	-0.3
	Feb	-1.1	0.2	0.2	-0.1	0.3	0.1	0.9	-10.2	0.3
	Mar	-0.7	0.2	0.2	-0.1	0.4	0.2	1.5	-7.8	0.6
	Apr	-0.6	0.2	0.2	-0.1	0.3	0.5	1.6	-7.8	0.8
	May	-0.6	0.2	0.3	0.0	0.3	0.6	2.4	-8.0	1.2
	Jun	-0.5	0.2	0.3	0.0	0.3	0.9	2.5	-7.9	1.4
	Jul	-0.4	0.3	0.4	0.1	0.4	0.8	2.8	-7.7	1.4
	Aug	-0.4	0.3	0.4	0.0	0.4	1.0	2.7	-7.5	1.5
	Sep	-0.5	0.3	0.4	0.1	0.5	0.9	2.8	-8.5	1.5
	Oct	-0.4	0.3	0.4	0.1	0.5	0.9	1.4	-6.8	1.1
	Nov	0.1	0.4	0.5	0.2	0.5	0.9	2.0	-3.9	1.2
	Dec	0.7	0.4	0.5	0.2	0.5	1.0	3.0	1.1	1.6

Sources: INE and FUNCAS (Forecasts).

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

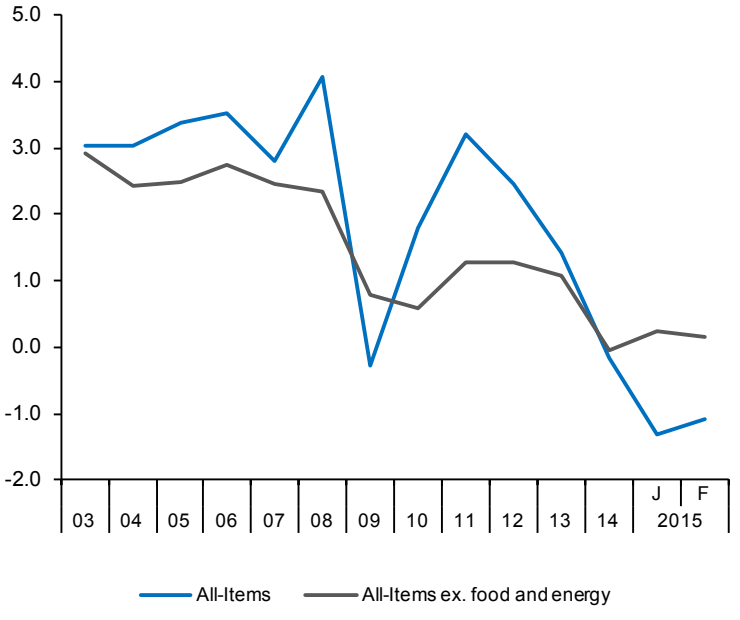


Chart 14.2.- Inflation rate (II)
Annual percentage changes

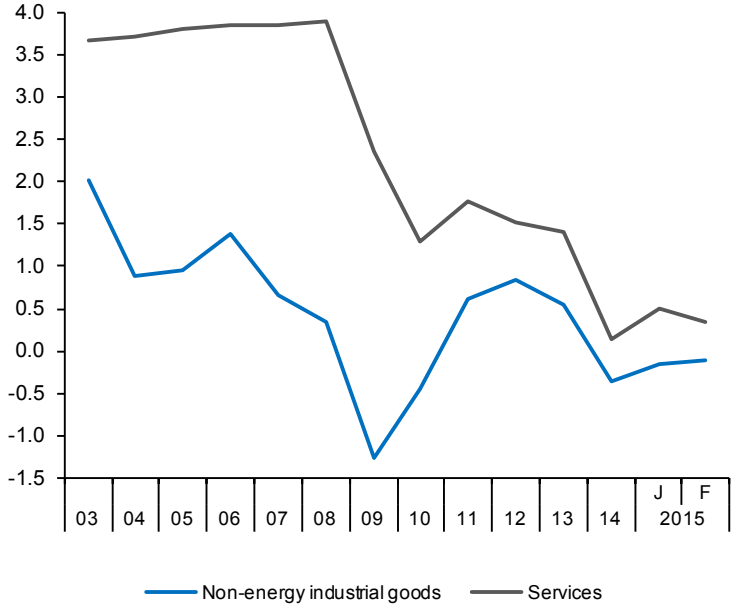


Table 15

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	M² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2000=100	2010=100		2007=100			2000=100				
2008		133.7	99.8	100.5	98.5	100.7	91.1	137.5	134.8	145.6	142.5	--
2009		134.1	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.8	150.5	--
2010		134.3	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.4	--
2011		134.4	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012		134.7	111.0	105.9	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013		135.6	111.7	106.7	64.3	72.7	55.1	143.8	141.1	152.1	155.3	--
2014		135.0	110.2	105.9	64.4	70.9	51.5	141.4	138.2	151.3	153.2	--
2015	(b)	--	107.4	105.8	--	--	--	--	--	--	--	--
2013	II	135.8	110.7	106.9	64.2	73.1	58.0	145.9	144.4	150.6	152.6	--
	III	135.5	112.2	106.5	64.7	72.7	53.0	139.1	134.9	151.9	160.6	--
	IV	135.6	111.5	106.0	63.8	71.3	53.1	149.9	149.5	151.3	162.7	--
2014	I	134.9	109.8	105.7	63.6	71.0	50.8	139.8	135.2	154.0	145.6	--
	II	135.1	110.6	105.8	64.7	71.0	52.5	145.9	144.5	150.2	153.8	--
	III	135.1	111.2	106.0	64.8	70.8	51.2	138.5	134.8	149.7	160.3	--
	IV	134.7	109.1	105.8	65.0	71.2	55.9	149.1	149.2	148.9	162.2	--
2015	I (b)	--	107.4	105.8	--	--	--	--	--	--	--	--
2014	Nov	--	109.1	105.8	--	--	--	--	--	--	--	--
	Dec	--	107.9	105.7	--	--	--	--	--	--	--	--
2015	Jan	--	107.4	105.8	--	--	--	--	--	--	--	--
						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		0.3	-3.4	-2.3	-6.7	-7.4	-5.8	3.5	3.2	4.3	5.1	2.3
2010		0.2	3.7	1.8	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.9	1.5
2011		0.1	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.1
2012		0.2	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.3
2013		0.7	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.6
2014		-0.5	-1.3	-0.8	-0.2	-3.1	-7.7	-0.2	-0.1	-0.8	0.3	0.5
2015	(c)	--	-2.8	0.0	--	--	--	--	--	--	--	--
2013	II	1.0	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	0.5	0.0	-0.8	-7.8	-4.2	-21.1	2.1	2.5	0.7	2.2	0.5
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	-0.5	-0.1	-1.0	0.8	-2.9	-9.3	0.0	0.1	-0.3	0.8	0.5
	III	-0.3	-0.9	-0.4	0.3	-2.6	-3.3	-0.4	-0.1	-1.4	-0.2	0.6
	IV	-0.6	-2.1	-0.1	1.8	-0.3	5.2	-0.5	-0.2	-1.6	-0.3	0.6
2015	I(c)	--	-2.2	0.1	--	--	--	--	--	--	--	0.6
2014	Nov	--	-1.5	-0.2	--	--	--	--	--	--	--	0.6
	Dec	--	-3.6	0.0	--	--	--	--	--	--	--	0.6
2015	Jan	--	-2.8	0.0	--	--	--	--	--	--	--	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)

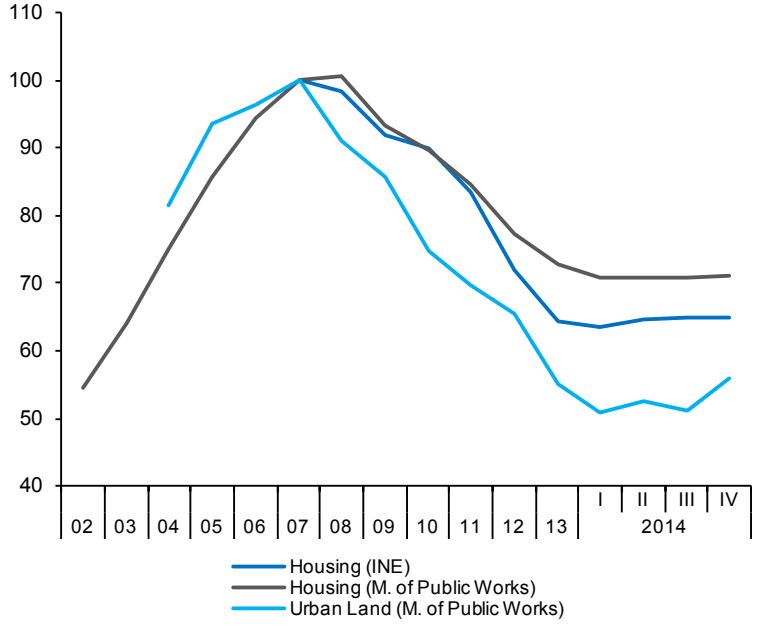


Chart 15.2.- Wage costs
Annual percent change

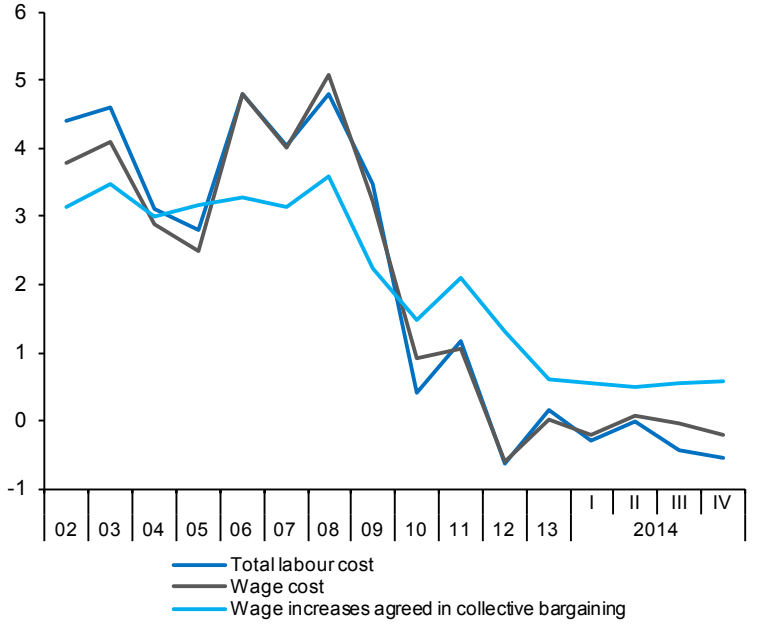


Table 16

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	138.1	250.2	109.3	99.1	146.6	87.6	-16.0	26.0	17.7
2014		240.0	109.1	143.9	264.5	106.8	107.0	152.3	87.7	-24.5	15.4	11.2
2013	I	57.0	108.9	135.6	61.2	111.1	95.4	34.8	22.2	-4.2	7.1	4.3
	II	61.6	109.8	145.2	63.4	107.0	102.4	38.6	23.0	-1.8	8.3	5.8
	III	59.5	110.8	138.8	63.0	110.1	99.3	36.5	23.0	-3.5	6.9	4.4
	IV	59.1	111.4	137.2	62.7	109.5	98.2	37.1	22.0	-3.7	6.4	3.4
2014	I	58.7	109.0	139.7	65.5	105.5	107.4	37.5	21.2	-6.8	4.5	3.2
	II	60.2	108.7	143.5	65.8	106.6	106.7	37.7	22.5	-5.7	4.3	2.4
	III	62.0	109.1	146.8	67.4	107.6	108.8	38.9	23.1	-5.4	1.3	1.3
	IV	61.6	109.5	145.6	65.9	107.3	105.1	38.2	23.5	-4.2	1.7	0.6
2014	Oct	21.1	109.9	149.2	23.1	106.4	112.5	12.8	8.3	-2.0	1.6	0.6
	Nov	19.8	109.6	140.6	20.9	106.7	101.4	12.1	7.7	-1.1	1.6	0.5
	Dec	20.7	109.1	147.1	21.3	109.0	101.4	12.7	7.9	-0.7	1.9	0.8
		Percentage changes (b)								**Percentage of GDP**		
2008		2.3	1.6	0.7	-0.6	4.1	-4.5	-0.1	8.0	-8.4	-4.5	-2.3
2009		-15.5	-6.8	-9.4	-27.3	-11.8	-17.5	-15.5	-15.4	-4.3	-1.7	-0.8
2010		16.8	1.6	15.0	16.5	4.6	11.3	14.3	22.5	-4.9	-1.7	-0.4
2011		15.2	4.8	10.0	9.6	8.4	1.1	12.7	20.5	-4.5	-0.4	0.3
2012		5.1	2.0	3.0	-2.0	4.7	-6.3	0.5	14.1	-3.0	1.4	1.2
2013		3.6	-0.2	4.5	-3.0	-4.3	2.2	2.4	5.7	-1.5	2.5	1.7
2014		2.5	-1.0	4.2	5.7	-2.3	8.0	3.9	0.2	-2.3	1.5	1.1
2013	I	-10.5	-12.3	2.6	0.7	-11.5	14.5	-9.2	-12.4	-1.6	2.7	1.6
	II	36.2	3.3	31.4	14.9	-13.7	32.6	50.6	15.8	-0.7	3.2	2.2
	III	-12.6	3.7	-16.5	-2.6	11.8	-11.4	-19.6	0.3	-1.3	2.6	1.7
	IV	-3.1	2.2	-4.4	-1.6	-1.9	-4.4	6.5	-16.9	-1.4	2.4	1.3
2014	I	-2.3	-8.3	7.4	18.7	-14.0	43.1	5.0	-13.9	-2.6	1.7	1.2
	II	10.1	-1.1	11.3	2.3	4.2	-2.6	1.4	27.1	-2.2	1.6	0.9
	III	12.9	1.5	9.5	9.6	3.8	8.1	14.0	11.0	-2.0	0.5	0.5
	IV	-2.4	1.5	-3.2	-8.6	-1.1	-12.9	-7.5	6.7	-1.6	0.6	0.2
2014	Oct	-1.1	-0.9	-0.1	1.6	-1.5	3.1	-4.6	5.0	--	--	--
	Nov	-6.1	-0.3	-5.8	-9.6	0.3	-9.9	-5.6	-6.8	--	--	--
	Dec	4.2	-0.5	4.6	2.2	2.2	0.0	4.8	3.2	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data.

Source: Ministry of Economy.

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

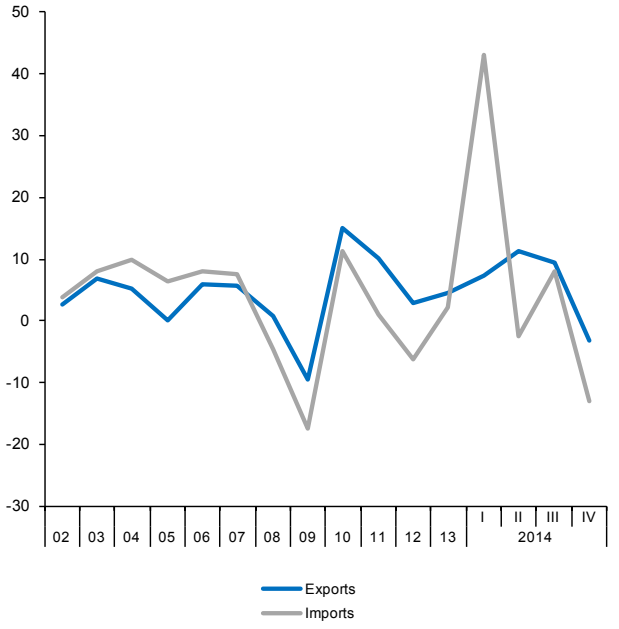


Chart 16.2.- Trade balance
EUR Billions, moving sum of 12 months

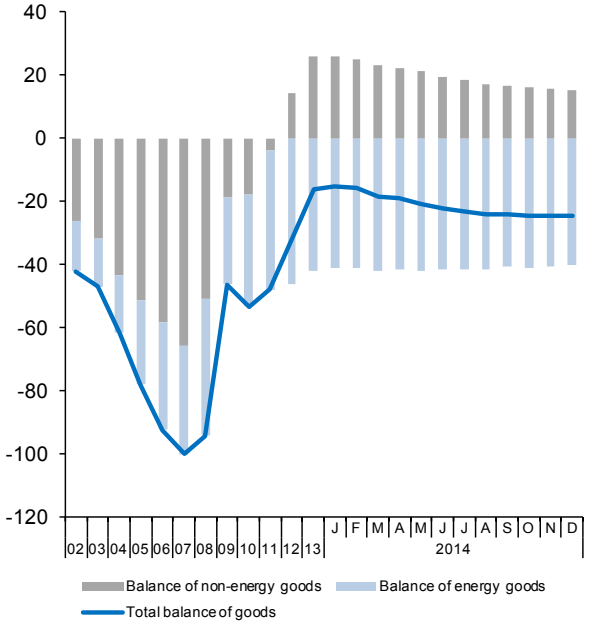


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
								Financial account, excluding Bank of Spain					Bank of Spain	
	Total	Goods	Services	Income	Transfers			Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives		
	1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
EUR billions														
2008	-103.25	-87.04	29.82	-30.49	-15.55	4.67	-98.58	69.23	1.53	-0.96	75.72	-7.07	-30.22	198.03
2009	-46.19	-41.47	29.54	-19.62	-14.64	3.33	-42.86	40.70	-1.94	44.04	4.66	-6.05	-10.46	94.02
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 (a)	1.20	-16.57	36.83	-16.16	-9.79	4.41	5.61	-0.78	-3.25	0.98	2.25	-0.76	24.33	27.18
2013 I	-3.14	-3.33	8.49	-3.88	-4.42	1.19	-1.96	39.86	3.60	-1.67	37.89	0.03	38.60	0.69
II	6.58	-0.71	12.47	-2.25	-2.93	2.42	9.00	-0.58	3.45	-10.95	5.78	1.14	11.76	3.34
III	5.82	-4.50	16.87	-3.31	-3.23	1.05	6.87	-0.36	0.88	12.10	-12.46	-0.88	10.52	4.01
IV	5.82	-4.06	10.51	1.88	-2.51	2.23	8.05	34.68	4.05	35.37	-3.40	-1.33	53.30	10.57
2014 I	-7.05	-5.39	8.42	-5.40	-4.67	1.45	-5.59	-14.47	-3.15	-17.44	5.89	0.24	-12.93	7.13
II	-1.12	-4.88	12.03	-5.44	-2.84	1.73	0.61	12.84	0.00	35.74	-23.02	0.12	15.30	1.85
III	2.48	-6.31	16.38	-5.32	-2.28	0.43	2.91	-6.55	9.91	-32.99	16.59	-0.07	-3.61	0.03
IV	6.89	--	--	--	--	0.80	7.68	7.40	-10.00	15.67	2.78	-1.05	25.57	10.48
		Goods and Services		Income and Transfers										
2014 Oct	0.31	2.66		-2.35		0.19	0.50	2.02	-1.69	-14.52	18.48	-0.26	8.62	6.10
Nov	1.73	1.77		-0.04		0.24	1.97	-1.41	-3.39	3.96	-1.63	-0.35	12.28	11.72
Dec	4.85	0.45		4.40		0.37	5.22	6.80	-4.92	26.23	-14.07	-0.44	4.67	-7.34
Percentage of GDP														
2008	-9.3	-7.8	2.7	-2.7	-1.4	0.4	-8.8	6.2	0.1	-0.1	6.8	-0.6	-2.7	17.7
2009	-4.3	-3.8	2.7	-1.8	-1.4	0.3	-4.0	3.8	-0.2	4.1	0.4	-0.6	-1.0	8.7
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
2014	0.1	--	--	--	--	0.4	0.5	-0.1	-0.3	0.1	0.2	-0.1	2.3	2.6
2013 I	-1.2	-1.3	3.4	-1.5	-1.8	0.5	-0.8	15.8	1.4	-0.7	15.0	0.0	15.3	0.3
II	2.5	-0.3	4.7	-0.8	-1.1	0.9	3.4	-0.2	1.3	-4.1	2.2	0.4	4.4	1.3
III	2.3	-1.7	6.5	-1.3	-1.3	0.4	2.7	-0.1	0.3	4.7	-4.8	-0.3	4.1	1.6
IV	2.1	-1.5	3.9	0.7	-0.9	0.8	3.0	12.7	1.5	13.0	-1.3	-0.5	19.6	3.9
2014 I	-2.8	-2.1	3.3	-2.1	-1.8	0.6	-2.2	-5.7	-1.2	-6.9	2.3	0.1	-5.1	2.8
II	-0.4	-1.8	4.5	-2.0	-1.1	0.6	0.2	4.8	0.0	13.3	-8.6	0.0	5.7	0.7
III	0.9	-2.4	6.3	-2.0	-0.9	0.2	1.1	-2.5	3.8	-12.6	6.3	0.0	-1.4	0.0
IV	2.5	--	--	--	--	0.3	2.8	2.7	-3.6	5.7	1.0	-0.4	9.3	3.8

(a) Period with available data.

Source: Bank of Spain.

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

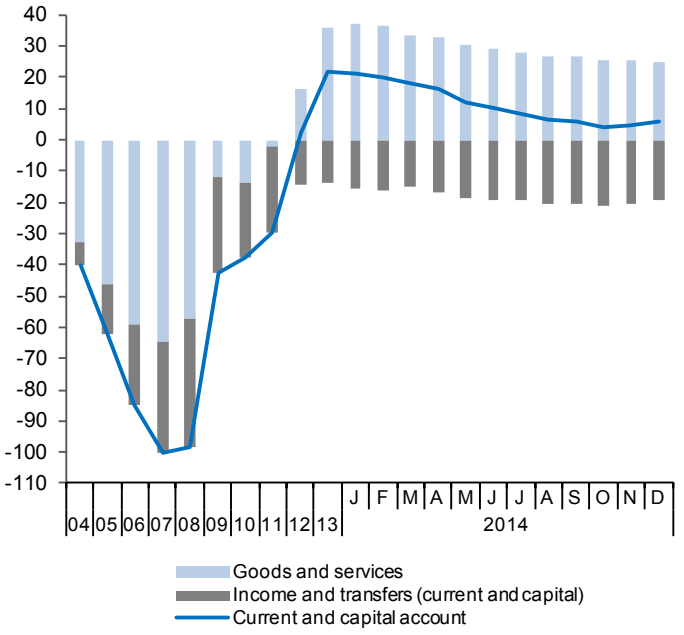


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

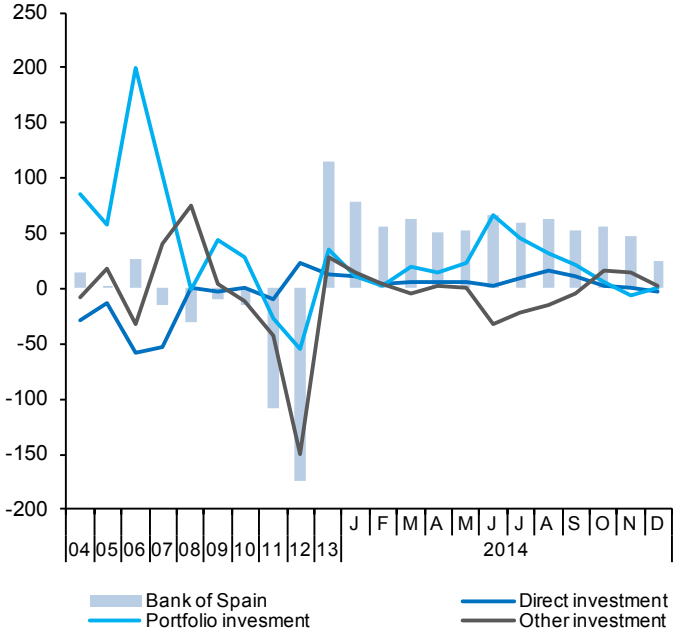


Table 18

State and Social Security System budget

	State							Social Security System (b)				
	National accounts basis			Revenue, cash basis (a)					Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others	Surplus or deficit	Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
2008	--	--	--	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)	-35.6	156.8	192.4	183.1	86.0	74.4	22.7	-3.4	110.6	90.9	114.0	98.3
2014 Sep	-41.9	175.1	217.0	200.9	95.7	77.6	27.6	-14.1	118.0	98.7	132.1	113.4
Oct	-39.7	175.7	215.4	201.0	95.3	78.1	27.7	-13.2	119.2	98.8	132.3	113.7
Nov	-41.3	176.0	217.3	202.4	95.9	78.4	28.1	-13.3	119.4	98.9	132.7	113.9
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)	--	4.3	1.3	6.6	2.2	6.7	26.8	--	-1.7	0.9	2.3	3.0
2014 Sep	--	4.2	3.3	5.5	2.5	4.4	21.3	--	-3.8	-0.1	2.5	3.6
Oct	--	3.9	0.8	4.7	1.1	4.8	19.1	--	-2.3	0.2	2.4	3.5
Nov	--	3.5	1.2	5.4	1.7	5.0	21.3	--	-1.8	0.4	2.7	3.4
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)	-3.4	14.8	18.2	17.3	8.1	7.0	2.1	-0.3	10.4	8.6	10.8	9.3
2014 Sep	-4.0	16.5	20.5	19.0	9.0	7.3	2.6	-1.3	11.2	9.3	12.5	10.7
Oct	-3.8	16.6	20.4	19.0	9.0	7.4	2.6	-1.2	11.3	9.3	12.5	10.7
Nov	-3.9	16.6	20.5	19.1	9.1	7.4	2.7	-1.3	11.3	9.3	12.5	10.8

(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 (cash basis)
EUR Billions, 12-month cumulated

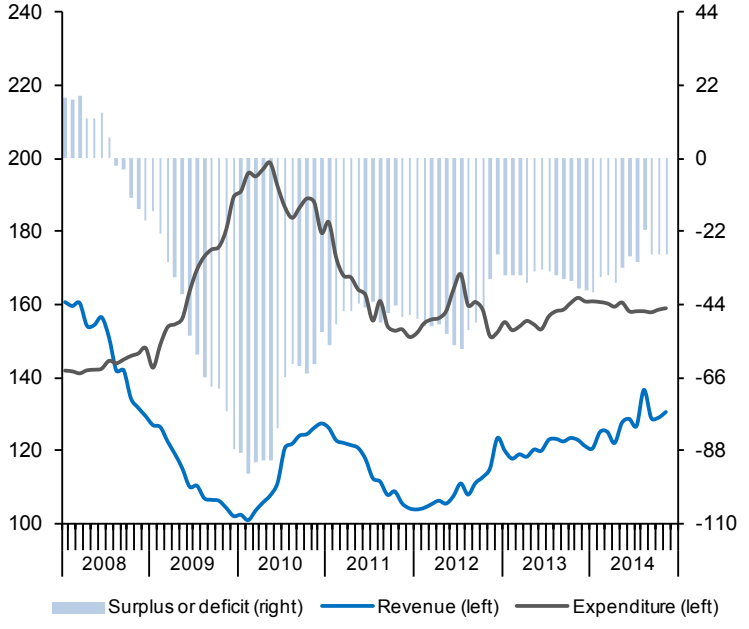


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

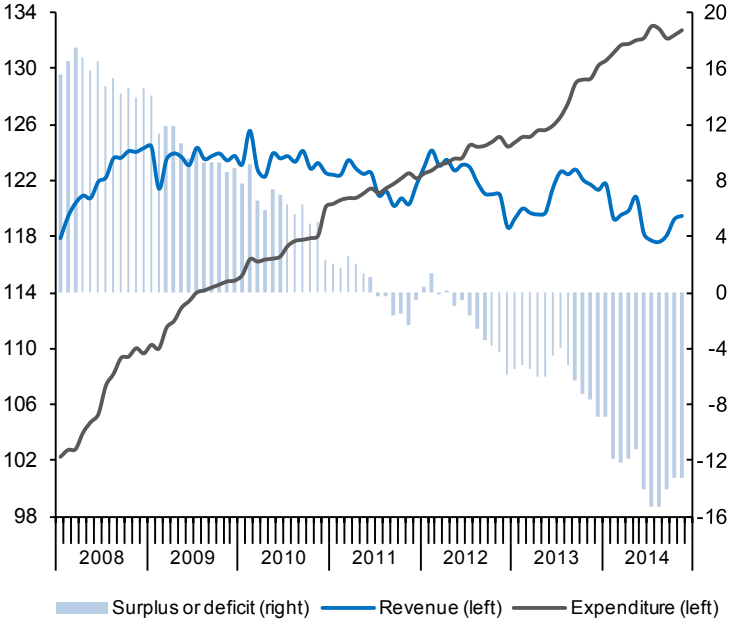


Table 19

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	1,175.8	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	2,742.5	966.2	993.3	783.0	--	9,916.7
2014	2.7	148.2	3.1	9.6	4.9	2,725.7	1,033.9	943.5	748.4	--	10,279.5
2015 (a)	1.5	112.6	2.7	9.5	4.5	2,717.1	1,035.5	936.2	745.4		11,178.3
2013 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	236.7	3.2	9.7	5.3	2,742.5	966.2	993.3	783.0	--	9,916.7
2014 I	3.6	187.0	3.3	9.7	5.4	2,751.6	995.8	984.3	771.5	--	10,340.5
II	2.9	148.5	3.2	9.6	5.1	2,768.1	1,012.6	985.0	770.5	--	10,923.5
III	2.4	135.7	3.1	9.7	4.8	2,754.2	1,020.3	977.4	756.5	--	10,825.5
IV	2.0	121.7	2.8	9.6	4.3	2,725.7	1,033.9	943.5	748.4	--	10,279.5
2015 I (a)	1.5	112.6	2.7	9.5	4.5	2,717.1	1,035.5	936.2	745.4		11,178.3
2014 Dec	1.8	114.1	2.6	9.1	4.2	2,725.7	1,033.9	943.5	748.4	--	10,279.5
Jan	1.5	109.2	2.7	9.5	4.5	2,717.1	1,035.5	936.2	745.4	--	10,403.3
Feb	1.5	116.0	--	--	--	--	--	--	--	--	11,178.3
						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	--	--	--	--	--	-1.4	8.4	-6.6	-5.1	-4.4	21.4
2014	--	--	--	--	--	-0.2	7.0	-4.4	-3.7	3.4	3.7
2015 (a)						-0.9	5.1	-4.8	-3.5	2.0	10.5
2013 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	--	--	--	--	--	-1.4	8.4	-6.6	-5.1	-4.4	8.0
2014 I	--	--	--	--	--	-1.6	7.0	-6.7	-4.9	-5.1	4.3
II	--	--	--	--	--	-1.1	6.5	-5.4	-4.4	-1.5	5.6
III	--	--	--	--	--	-0.8	6.1	-4.8	-4.1	0.5	-0.9
IV	--	--	--	--	--	-0.2	7.0	-4.4	-3.7	3.4	-5.0
2015 I(a)	--	--	--	--	--	-0.9	5.1	-4.8	-3.5	2.0	8.7
2014 Dec	--	--	--	--	--	-0.2	7.0	-4.4	-3.7	3.4	-4.6
Jan	--	--	--	--	--	-0.9	5.1	-4.8	-3.5	2.0	1.2
Feb	--	--	--	--	--	--	--	--	--	--	7.4

(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

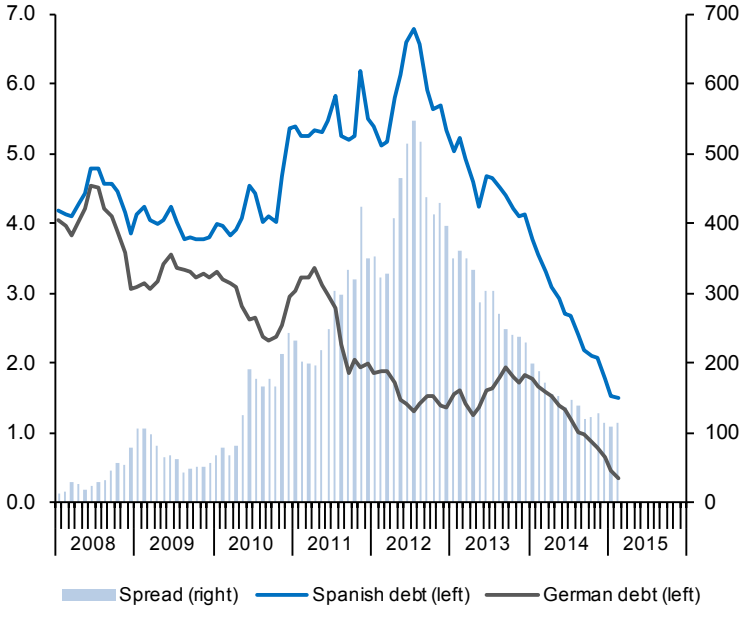


Chart 19.2.- Credit stock growth
Annual percentage change

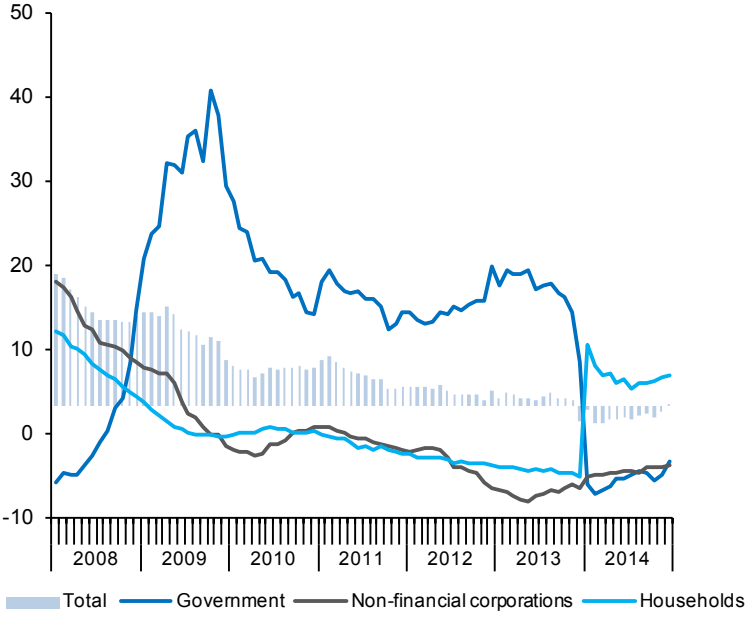


Table 20

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**
2008		96.2	113.9	118.4	110.9	107.8	102.9	99.5	101.6	98.0	114.5
2009		105.9	117.5	110.9	110.6	108.1	102.4	96.2	97.0	99.2	114.0
2010		101.6	115.4	113.6	112.9	109.8	102.8	100.0	100.0	100.0	112.9
2011		102.0	114.3	112.0	116.3	112.8	103.1	106.5	105.2	101.2	113.1
2012		103.1	113.8	110.3	119.2	115.8	103.0	110.1	107.9	102.0	111.7
2013		104.9	112.6	107.4	121.0	117.3	103.1	110.0	107.4	102.4	113.4
2014		104.8	111.6	106.5	120.8	117.7	102.6	108.4	105.9	102.4	112.4
2015 (a)		--	--	--	117.7	116.3	101.2	106.3	103.9	102.3	109.2
2013	II	--	--	--	121.6	117.6	103.4	109.3	107.2	101.9	113.7
	III	--	--	--	120.9	117.4	103.0	110.3	107.3	102.8	113.2
	IV	--	--	--	121.6	117.7	103.3	109.6	106.9	102.5	114.0
2014	I	--	--	--	119.9	117.3	102.3	108.0	106.5	101.3	112.6
	II	--	--	--	121.9	118.3	103.0	108.6	106.2	102.3	113.4
	III	--	--	--	120.4	117.8	102.2	109.3	106.1	103.0	111.7
	IV	--	--	--	120.9	117.9	102.5	107.7	105.3	102.2	111.9
2015	I(a)	--	--	--	117.7	116.3	101.2	106.3	103.9	102.3	109.2
2014	Dec	--	--	--	120.3	117.8	102.1	106.7	104.6	102.1	111.5
2015	Jan	--	--	--	117.7	116.0	101.5	106.3	103.9	102.3	109.2
	Feb	--	--	--	117.8	116.7	101.0	--	--	--	--
		Annual percentage changes					**Differential**	**Annual percentage changes**		**Differential**	
2008		2.3	2.6	0.3	4.1	3.3	0.9	5.7	4.9	0.8	2.3
2009		10.1	3.1	-6.3	-0.2	0.3	-0.5	-3.3	-4.5	1.2	-0.4
2010		-4.1	-1.7	2.4	2.0	1.6	0.4	3.9	3.1	0.9	-1.0
2011		0.4	-1.0	-1.4	3.1	2.7	0.3	6.5	5.2	1.3	0.2
2012		1.1	-0.4	-1.5	2.4	2.6	-0.2	3.4	2.6	0.8	-1.3
2013		1.7	-1.0	-2.7	1.5	1.3	0.2	-0.1	-0.4	0.4	1.5
2014		-0.2	-0.9	-0.8	-0.2	0.3	-0.5	-1.5	-1.4	0.0	-0.9
2015 (b)		--	--	--	-1.3	-0.4	-0.9	-2.1	-2.7	0.6	-3.1
2013	II	--	--	--	1.8	1.4	0.5	-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	0.6	-0.6	-2.6	-1.5	-1.1	-0.1
	II	--	--	--	0.2	0.6	-0.4	-0.6	-1.0	0.4	-0.2
	III	--	--	--	-0.4	0.4	-0.7	-0.9	-1.2	0.2	-1.3
	IV	--	--	--	-0.6	0.2	-0.8	-1.7	-1.4	-0.3	-1.9
2015	I(b)	--	--	--	-1.8	-0.8	-1.0	-2.1	-2.7	0.6	-3.1
2014	Dec	--	--	--	-1.1	-0.2	-1.0	-2.9	-2.2	-0.7	-1.7
2015	Jan	--	--	--	-1.5	-0.6	-0.8	-2.1	-2.7	0.6	-2.2
	Feb	--	--	--	-1.2	-0.3	-0.9	--	--	--	-3.1

(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

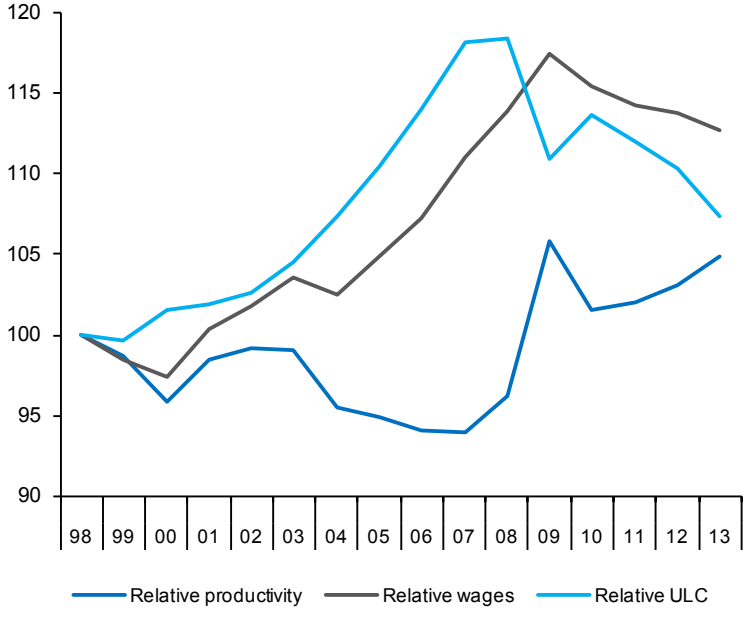


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

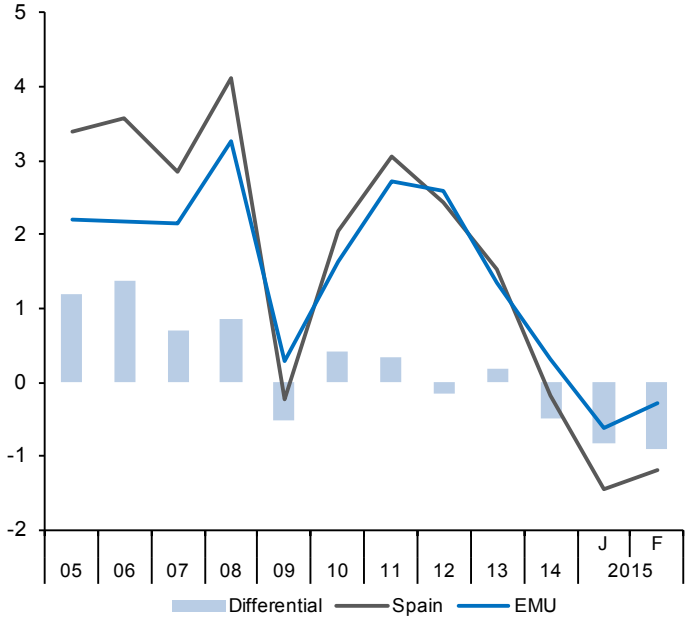


Table 21a

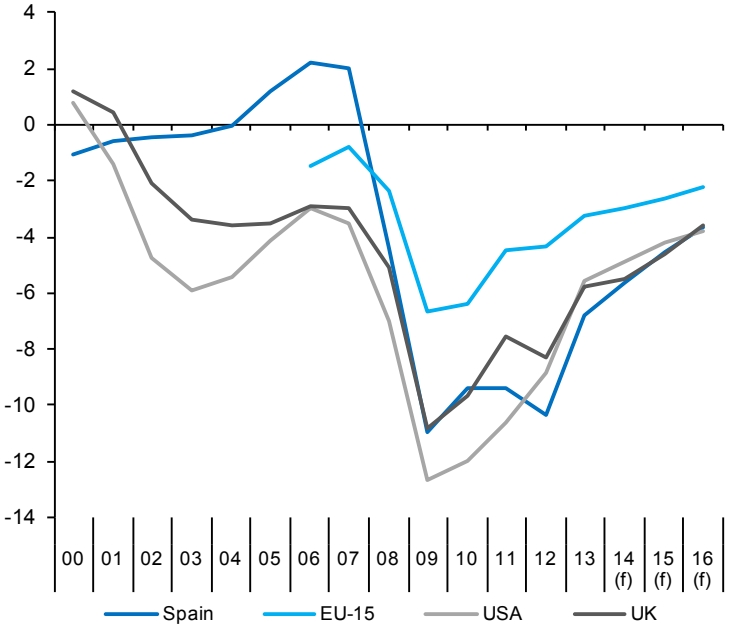
Imbalances: International comparison (I)

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	23.3	-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	16.6	-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	-85.1	-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	14.6	-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	34.9	-447.9	-40.6
2011	-101.3	-541.3	-1,646.9	-122.3	743.5	10,224.4	15,379.2	1,324.2	-35.0	63.8	-480.5	-27.0
2012	-108.9	-531.6	-1,434.2	-137.3	891.0	10,862.6	16,627.2	1,421.1	-4.5	151.8	-482.2	-61.9
2013	-71.3	-401.7	-933.3	-99.3	966.2	11,209.8	17,558.5	1,494.7	15.4	196.5	-422.2	-76.7
2014	-59.5	-380.1	-854.2	-98.1	1,039.0	11,742.4	18,285.9	1,593.5	-1.0	229.2	-438.3	-73.8
2015	-49.2	-345.1	-758.3	-86.0	1,099.8	12,096.1	18,984.1	1,684.3	7.0	276.3	-425.2	-71.0
2016	-41.3	-300.0	-730.6	-69.3	1,149.0	12,415.3	19,914.7	1,767.9	5.6	281.6	-502.0	-64.7
Percentage of GDP												
2005	1.2	--	-4.2	-3.5	42.3	--	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	87.8	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	-4.5
2014	-5.6	-3.0	-4.9	-5.5	98.3	91.7	104.9	88.7	-0.1	1.8	-2.5	-4.1
2015	-4.5	-2.6	-4.2	-4.6	101.5	91.5	104.3	90.1	0.6	2.1	-2.3	-3.8
2016	-3.7	-2.2	-3.8	-3.6	102.5	90.7	103.9	91.0	0.5	2.1	-2.6	-3.3

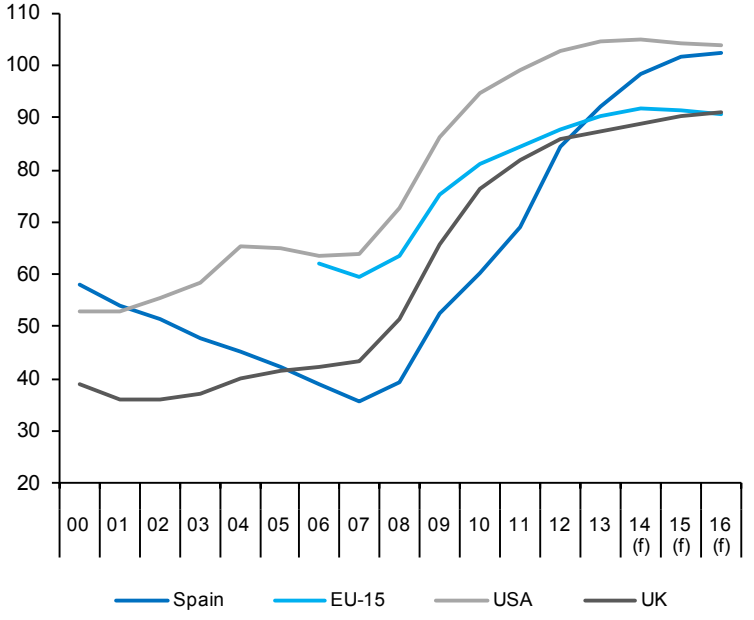
Source: European Commission.

Chart 21a.1.- Government deficit
Percentage of GDP



(f) European Commission forecast.

Chart 21a.2.- Government gross debt
Percentage of GDP



(f) European Commission forecast.

Table 21b

Imbalances: International comparison (II)

	Household debt (a)				Non-financial corporations debt (a)				Financial corporations debt (a)			
	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK
Billions of national currency												
2005	653.5	4,830.7	11,721.3	1,189.6	930.3	7,782.1	8,166.7	1,121.7	541.5	8,663.5	12,958.0	2,367.9
2006	780.7	5,240.8	12,946.5	1,309.5	1,164.2	8,424.0	8,991.1	1,219.6	771.2	9,561.6	14,261.5	2,629.2
2007	876.6	5,605.8	13,832.0	1,424.7	1,351.4	9,234.9	10,111.8	1,299.9	1,000.0	10,778.6	16,206.5	3,003.4
2008	914.0	5,851.1	13,851.4	1,475.1	1,432.3	9,850.1	10,687.9	1,500.7	1,068.2	11,774.0	17,104.6	2,934.3
2009	906.2	5,980.0	13,560.1	1,472.5	1,416.8	9,796.0	10,136.5	1,434.2	1,145.7	12,296.4	15,715.6	2,619.7
2010	902.5	6,118.7	13,231.1	1,475.6	1,441.7	10,043.6	9,964.3	1,401.7	1,136.3	12,368.8	14,455.7	2,972.3
2011	875.2	6,209.5	13,060.6	1,485.3	1,415.3	10,180.7	10,258.7	1,423.8	1,157.6	12,734.5	14,036.3	2,974.9
2012	838.2	6,203.5	13,060.3	1,507.9	1,308.0	10,227.9	10,789.0	1,486.9	1,177.9	12,987.4	13,802.4	3,298.7
2013	789.0	6,156.3	13,169.4	1,523.8	1,174.0	10,035.7	11,303.6	1,374.8	990.7	12,158.2	13,948.5	3,163.0
2014 (b)	762.6	6,148.0	13,496.9	1,557.9	1,155.8	10,139.4	11,972.6	1,348.3	911.5	12,289.9	14,161.2	3,379.8
Percentage of GDP												
2005	70.2	57.3	89.5	89.7	100.0	92.3	62.4	84.5	58.2	102.8	99.0	178.5
2006	77.5	59.1	93.4	93.3	115.5	95.0	64.9	86.9	76.5	107.8	102.9	187.3
2007	81.1	59.9	95.5	96.2	125.0	98.6	69.8	87.8	92.5	115.1	111.9	202.8
2008	81.9	61.0	94.1	97.1	128.3	102.7	72.6	98.8	95.7	122.7	116.2	193.2
2009	84.0	64.6	94.0	99.3	131.3	105.8	70.3	96.8	106.2	132.8	109.0	176.7
2010	83.5	64.3	88.4	94.7	133.4	105.6	66.6	89.9	105.1	130.0	96.6	190.7
2011	81.4	63.6	84.2	91.8	131.6	104.2	66.1	88.0	107.7	130.4	90.5	183.9
2012	79.4	63.2	80.8	91.1	124.0	104.2	66.8	89.8	111.6	132.4	85.4	199.3
2013	75.2	62.2	78.5	89.0	111.9	101.4	67.4	80.3	94.4	122.9	83.2	184.6
2014 (b)	72.0	61.0	77.5	87.1	109.2	100.6	68.7	75.4	86.1	122.0	81.3	189.0

(a) Loans and securities other than shares, excluding financial derivatives, (b) Third quarter, except for USA (fourth quarter).
Sources: Eurostat,European Central Bank and Federal Reserve.

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

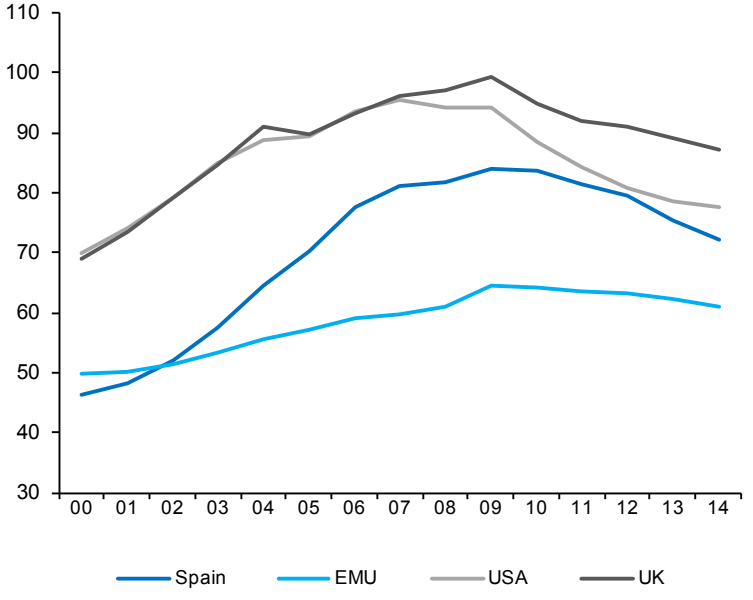
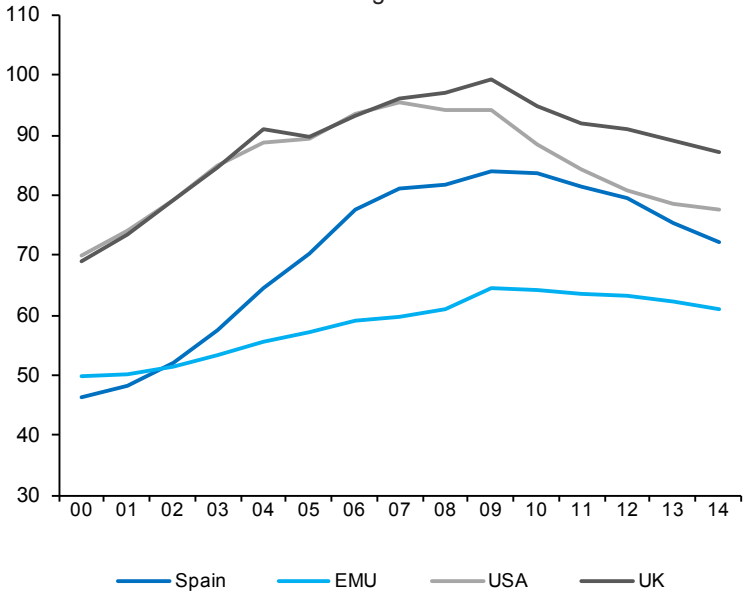


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: March 15th, 2015

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.6	December 2014
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.3	December 2014
Doubtful loans (monthly % var.)	-2.3	December 2014
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	481,684	February 2015
Recourse to the Eurosystem (Spanish financial institutions, million euros)	132,010	February 2015
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	48,280	February 2015
Operating expenses/gross operating income ratio (%)	48.46	September 2014
Customer deposits/employees ratio (thousand euros)	5,390.34	September 2014
Customer deposits/branches ratio (thousand euros)	35,602.10	September 2014
Branches/institutions ratio	219.38	September 2014

A. Money and interest rates

Indicator	Source:	Average 1999-2012	2013	2014	2015 February	2015 March 15th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.8	2.3	1.9	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.68	0.22	0.21	0.04	0.02	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.95	0.54	0.48	0.23	0.21	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.6	4.6	2.7	1.25	1.14	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.6	3.9	2.3	1.68	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates:" The fall in interbank rates continues, particularly after the start of the sovereign bond purchase program of the ECB that started in March. The 3-month Euribor rate fell to 0.02% by mid-March, while the 1-year Euribor rate decreased to 0.21%. The ECB has assured the stance of monetary policy will remain expansionary for a significant amount of time. As for the Spanish 10-year bond yield, it has fallen to 1.14% within a context of generalized improvement in financial conditions.

B. Financial markets

Indicator	Source:	Average 1998-2011	2012	2013	2014 December	2015 January	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	24.5	84.7	82.9	68.9	68.1	(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	53.5	76.0	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.6	1.7	1.9	0.9	1.0	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.4	2.2	3.2	3.4	3.1	(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	1.037.8	1.068.4	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	-2.3	3.4	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	-14.2	16.2	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec1985=100)	Bank of Spain and Madrid Stock Exchange	1,029.6	824.7	1,011.98	1.042.5	1.120.5[(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	10.279.5	11.033.8[(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	26.1	21.4[(a)]	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 December	2015 January	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	3.4	-15.1	-23.5	37.2	-33.9	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.0	73.9	80.7	7.6	-3.5	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.9	2.4	2.4	0.1	0.1	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.8	-10.8	15.8	1.3	22.4	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	7.8	54.1	-22.8	18.4	-37.9	IBEX-35 shares concluded transactions

(a) Last data published: March 15th, 2015.

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, which stood at 68.1% and 76%, respectively. The stock market has continued to recover in the first fortnight of March, with the IBEX-35 up to 11,033 points, and the General Index of the Madrid Stock Exchange to 1,121 Additionally, there was an increase of 22.4% in financial IBEX-35 futures transactions and a decrease of 37.9% in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2005-2011	2012	2013	2014 Q II	2014 Q III	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.4	-0.2	-1.4	1.0	0.5	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	1.1	1.3	3.7	3.0	3.9	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	267.4	305.7	307.1	317.0	315.5	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP

C. Financial Savings and Debt (continued)

Indicator	Source:	Average 2005-2011	2012	2013	2014 Q II	2014 Q III	Definition and calculation
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	81.8	79.4	75.2	73.9	72.4	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	3.7	-0.6	7.8	4.0	-0.6	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	7.0	-4.3	-5.6	0.1	-1.3	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt:" During 2014Q3, there was an increase in financial savings to GDP in the overall economy of 0.5%. There was an improvement in the financial saving rate of households from 3% in 2014Q2 to 3.9% in 2014Q3. The debt to GDP ratio fell to 72.4% from 73.9% in the same period. Finally, the stock of financial assets on households' balance sheets registered a fall of 0.6%, 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 November	2014 December	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	12.8	-10.4	-9.5	0.5	-0.6	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	0.6	-0.3	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	10.0	23.2	-5.1	-1.0	-2.9	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	-0.2	-0.8	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	-6.1	-5.9	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

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D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 1998-2011	2012	2013	2014 November	2014 December	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	34.9	20.0	17.8	-0.9	-2.3	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	35.1	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	0.7	-0.9	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development:" The latest available data as of December 2014 show a 0.6% fall in bank credit to the private sector and also a 0.3% decrease in financial institutions deposit-taking from the previous month. Holdings of debt securities decreased by 2.9%, while shares and equity have fallen by 0.8%. Also, doubtful loans decreased 2.3% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1999-2011	2012	2013	2014 June	2014 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	210	173	155	151	147	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	68	85	86	84	84	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	249,054	231,389	212,998	-	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	41,145	37,903	33,527	32,733	32,249	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	376,291	884,094	665,849	581,427	481,684[(a)]	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	40,487	337,206	201,865	173,088	132,010[(a)]	Open market operations and ECB standing facilities. Spain total

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

Indicator	Source:	Average 1999-2011	2012	2013	2014 June	2014 September	Definition and calculation
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	20,985	44,961	19,833	24,701	48,280[(a)]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: February 2015.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing:" In February 2015, recourse to Eurosystem funding by Spanish credit institutions accounted for 27.41% of net total funds borrowed from the ECB by the Eurozone. This means a 9.48 billion euro decrease in the recourse to the Eurosystem by Spanish banks from January.

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

Indicator	Source:	Average 1999-2011	2012	2013	2014 June	2014 September	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	53.50	47.18	48.25	48.23	48.46	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	2,978.26	4,701.87	5,426.09	5,461.23	5,390.34	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	17,955.99	30,110.08	34,472.09	35,737.87	35,602.10	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	197.62	219.09	216.30	215.56	219.38	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.06	6.10	6.35	6.5	6.6	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	-0.12	0.16	1.7	0.1	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.77	-1.93	0.13	0.31	0.32	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	11.61	-18.74	1.88	4.03	4.18	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability:" In September 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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