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What changed in the Spanish labour market three years after the reform

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Letter from the Editors

In February 2012, the Spanish government approved one of the country's most exhaustive and comprehensive labour reforms. Three years after the reform's implementation, the May issue of *Spanish Economic and Financial Outlook* (SEFO) takes an in-depth look at its impact primarily on two of the main shortcomings of the Spanish labour market – high labour costs and lack of flexibility.

The principal aspects of the reform essentially target five key areas: (i) internal flexibility, (ii) collective bargaining, (iii) employment protection, (iv) contract type; and, (v) in-company training and active labour market policies. Provisional data suggest that the reform has had a positive impact on accelerating wage adjustment, internal flexibility and collective bargaining, while further measures will be needed to address duality and improve active labour market policies.

As regards the reduction of labour costs, the latest trends all point to an increase in the degree of real wage flexibility in recent years. According to the OECD, together with the January 2012 wage restraint agreement with social partners, the labour-market reform induced a drop in unit labour costs of between 1.2% and 1.9%, *i.e.* around 50% of the drop observed in the months following its adoption. In this context, the May SEFO explores the extent to which the decline in wages has been a result of the reform's impact on collective bargaining and internal flexibility.

Initial evidence demonstrates the 2012 reform is, in fact, driving the emergence of a new collective bargaining model in Spain. The structural changes, however, coexist with a reduction in coverage, weakening the role of collective bargaining in the wage setting process. This new collective bargaining model is characterized mainly by: (i) more decision-making power for employers; and, (ii) increased coverage of non-provincial sectoral agreements. The latter change is in the right direction, as this could help avoid fragmentation and past inefficiencies mostly linked to the provincial level. The former, however, will require additional efforts to limit excess monopsony power, given that collective bargaining coverage of workers is on the decline.

Furthermore, we present evidence of the 2012 reform's success in increasing reliance on internal flexibility as a wage adjustment mechanism. While preliminary data reveal that the bulk of Spain's wage adjustment is still taking place through reliance on external flexibility (*i.e.* dismissals), the acceleration of wage declines post reform for stayers (those sticking to the same employer and the same job throughout the entire period of analysis) can be interpreted as an increase in internal flexibility for firms. In short, roughly two-thirds of the change in wages between 2008 and 2013 was due to external flexibility factors and onethird due to internal flexibility. By contrast, during the last two years, 70% of the total wage adjustment was due to internal flexibility.

Finally, although there has been some progress in introducing a higher degree of flexibility in labour relations, looking at the reform from a legal perspective, in this issue of SEFO we show that new legal guidelines governing modifications of working conditions, redundancies on economic grounds and collective bargaining, have greatly curtailed, if not overruled, the most important changes brought about by the 2012 reform. The resulting legal uncertainty is preventing firms from being able to fully take advantage of the measures to increase flexibility, and thus, benefit from the reform's intended effects.

The May issue of SEFO also explores relevant issues affecting the Spanish financial sector and financial markets, such as: (i) the competitiveness of Spanish banks measured against leading European banking systems, (ii) trends in Spanish banks' dividend policies; and, (iii) the comparative evolution of Spanish mortgage rates.

First, we compare the Spanish banking model to its European peers in terms of liquidity, income generation and operating efficiency, risk profile, and solvency. We find that, on the whole, Spanish banks are outperforming their peers in terms of income generation, but low interest rates, the absence of credit growth, the end of the sovereign carry trade, and finally, the higher cost of risk of the Spanish traditional banking model should all put downward pressure on profit margins going forward. On a positive note, potential changes to measurement of solvency indicators could improve the comparative financial strength of Spanish credit institutions.

Second, we examine the impact of the crisis on Spanish corporate dividends, revealing the strong effort made by the IBEX-35 and, in particular Spanish banks, to maintain stable dividends in the face of earnings contraction brought about by the crisis. Banks' reliance on innovative dividend policies, such as the scrip dividend, allowed them to increase capital, while keeping dividends stable. In the post crisis environment, however, we anticipate a return to traditional cash dividend payments.

Third, we provide a snapshot of the comparative evolution of Spanish mortgage interest rates. Despite the lag in the correction of Spain's mortgage market, recent evidence points to a rapid decline of mortgage interest rates in Spain relative to its euro area peers. Recent factors, such as the progressive removal of interest rate floors and historically low market rates are resulting in more favorable terms for mortgage borrowers.

Finally, we conclude with an overview of the latest fiscal performance at the regional level and the outlook for 2015. The regions have made significant progress on fiscal consolidation from 2010-2014, largely on the basis of spending cuts. That said, the adjustment process appears now to have stabilized, with the effect of recent measures having run its course. Reaching the budgetary stability and debt targets in 2015 does not look possible, although a slight improvement over the 2014 deficit could be achieved. Over the medium-term. correcting outstanding imbalances will require additional measures on the income side, coupled with the implementation of more adequate control mechanisms to ensure regional commitment to fiscal targets.

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José Ignacio García Pérez¹ and Marcel Jansen²

Spain's 2012 labour market reform is undoubtedly the most comprehensive and most exhaustive of the country's latest labour reform efforts. While it remains difficult to fully assess the impact of the reform on the basis of existing data, provisional evidence points to an improvement in collective bargaining and internal flexibility, with more progress still needed to correct duality and improve active labour market policies.

The latest labour market reform, approved in February 2012, introduced changes in five key areas: (i) internal flexibility, (ii) collective bargaining, (iii) the system of employment protection, (iv) the menu of contracts; and, (v) in-company training and active labour market policies. The main objective of the reform is to improve the management of labour relations and to facilitate job creation and security by improving the balance between internal and external flexibility. Yet, provisional evidence on the link between the most recent labour reform and various labour market outcomes reveals limited progress. The reform seems to have had a positive impact on internal flexibility and collective bargaining. Moreover, wage adjustments have accelerated after the reform, but it is unclear to what degree this is due to the reform or to the wage restraint agreement signed in January of 2012. Finally, changes in hiring and dismissals seem insufficient to address the structural problem of duality and the reform failed to introduce necessary improvements of active labour market policies. The 2012 reform was a step in the right direction, but further reforms will need to be implemented to bring Spain's labour market in line with the rest of Europe.

This article presents an initial assessment of the latest labour market reform in Spain. Since its adoption in 2012, wage adjustments have accelerated and employment has recently begun to grow. Nevertheless, the overall balance in terms of jobs remains negative. According to the latest *Labour-Force Survey* (LFS) data, 300,000 more jobs are still needed in order to return to the level of existing employment when the reform was approved (February 2012) and more than 3 million to return to the pre-crisis situation. Moreover, the newly created jobs are highly unstable, with a large share of temporary, short-term contracts.

This article reviews the available evidence on the impact of the labour reform on the evolution 5

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of variables such as employment, unemployment and wages. It also considers whether the reform has corrected the main structural problems inherent to the Spanish labour market before the crisis, namely duality and the lack of adjustment mechanisms other than dismissals. The extreme segmentation of the Spanish labour market is unquestionably the most pernicious of these problems. Before the crisis, Spain was among the OECD countries with the strictest rules for employment protection on permanent contracts. while protection for temporary contracts was virtually non-existent. This sharp divide helps to explain why almost a third of people in work held a temporary contract. Between the onset of the crisis and March 2014, when employment started to grow again, over 3.8 million jobs were lost. The majority of these jobs (around 60%) were temporary jobs, driving unemployment up to unsustainable levels, particularly among the young. However, the dual structure of the labour market is not the only problem the government sought to solve with the 2012 reform. It also aimed to strengthen firms' internal flexibility, with a view to discouraging dismissals, and bring much greater flexibility to the collective bargaining system, as the main route to facilitating wage adjustments.

In the next section, we briefly summarise these measures. This is followed by a review of the available evidence on their effects, supplemented with up-to-date empirical evidence on how the main labour-market indicators have progressed. The final section sets out our principal conclusions.

Main measures of the 2012 labour reform

According to its preamble, the main objective of the labour reform approved in February 2012 by Royal Decree-Law 3/2012, and subsequently ratified in July of that year by Law 3/2012, was to "establish a clear framework contributing to the efficient management of labour relations and to facilitate job creation and security." The law aims to promote "flexicurity" as its ultimate goal, and therefore implements a series of measures seeking to strike a balance between internal and external flexibility; between regulation of permanent and temporary contracts; and between internal mobility within the firm and the mechanisms for termination of employment contracts. The main measures included in the reform are summarised below.

Internal flexibility as an alternative to dismissals

The recent crisis has once again confirmed that Spanish firms mainly react to falling demand by cutting their workforce, rather than by exploring other mechanisms, such as temporary layoffs or changes in working hours or wages. Thus, the first measures approved sought to remove the barriers to using these alternative mechanisms. The main objective was to make job cuts employers' last resort in the event of a drop in demand.

To this aim, the reform facilitates the adoption of unilateral changes to workers' job assignments (functional mobility), place of work (geographical mobility), and working conditions in general, provided that these changes do not infringe upon the minimum standards laid down in the relevant collective agreement. Additionally, the reform expressly recognised the possibility of temporary wage cuts in the presence of objective and verifiable economic, technical, organisational or production grounds.

Lastly, it promoted temporary layoffs and reductions in working hours as an alternative to permanent dismissals, by eliminating the need for prior approval from the authorities and by adopting strong fiscal incentives for temporary layoffs and short-time working schemes (firms are entitled to a 50% reduction in the employer's ordinary social security contributions).

Modernisation and decentralisation of collective bargaining

There is widespread agreement that the slow response of negotiated wages to the worsening

economic climate contributed to the severity of the crisis (Bank of Spain, 2013b). The rigid system of collective bargaining hindered a rapid and proportionate adjustment in working conditions to match the fall in aggregate demand. In addition, it was deemed necessary to decentralise the system of collective bargaining to better align wages with the specific conditions of individual firms, and to strengthen the incentives for workers to move from unprofitable sectors and firms to more profitable ones.

To achieve these goals, Spain adopted a groundbreaking reform whereby collective agreements at the firm level are granted unconditional priority over sectoral agreements in a number of core areas (working hours, wages, etc.). Secondly, the reform places a one-year limit on the tacit extension ("ultra-activity") of expired collective agreements. If the parties do not reach an agreement within this time span, the collective agreement is either replaced by a higher-level agreement or dissolved. Lastly, the reform increases the flexibility of the rules for the temporary non-application ("opt-out") of the conditions provided in the collective agreement. Specifically, the reform introduced a statutory right to opt-out by mutual agreement between the firm and the workers' representatives.

As Dolado (2012) points out, taken together, these changes constitute the most extensive reform Spain's collective bargaining system has undergone since its creation in the nineteeneighties. However, a number of desirable changes are not included in the reform. Firstly, collective agreements are still automatically extended to all the workers in their domain and the reform fails to strengthen the comparatively weak requirements to safeguard the representativeness of negotiating parties. Finally, the reform has not introduced measures to discourage sector/province-level negotiations, thus prolonging the fragmentation of collective bargaining, which has yielded such poor results in the past.

Employment protection

Before the crisis, Spain had some of Europe's strictest employment protection legislation for permanent employees. The 2010 reform introduced considerable flexibility into this legislation, but it was the 2012 reform that went furthest towards making the framework more flexible, to the extent that in 2013, Spain ranked slightly below the OECD average on this indicator.³

The main measure the reform introduced in this respect was the extension of reduction in severance pay for unfair dismissals to 33 days of salary per year of service, with a ceiling of 24 months.⁴ The reform also eliminated the accrual of wages during court proceedings and suppressed the fast-track dismissal procedure whereby employers could dismiss an employee without going through the courts, provided they deposited the maximum level of severance pay corresponding to unfair dismissals and the worker accepted this compensation for dismissal within 48 hours.

Moreover, the reform introduced new criteria for fair dismissals on economic, technical, organisational or production grounds. Specifically, dismissals are automatically deemed fair when the company demonstrates that its level of ordinary income or sales has dropped in year-on-year terms over at least three consecutive quarters. Finally, the requirement to obtain prior administrative approval for collective dismissals was eliminated.

The majority of these measures helped reduce the cost of dismissal for employers, particularly in the case of individual dismissals. Moreover, the

³ In its report assessing the labour market reform, the OECD noted a significant reduction in the rigidity of Spanish legislation on dismissals. In particular, the labour market rigidity index fell by 14.1% between 2008 and 2013, compared with an average change for the OECD area of 3.4%.

⁴ The 2010 reform extended this amount to new permanent contracts signed as of that date, instead of the previously applicable 45 days per year of service. However, the 2012 reform approved the application of 33 days both for new permanent contracts and for those already in force.

gap between the cost of dismissing employees on permanent and temporary contracts has been narrowed by gradually increasing severance pay on temporary contracts from 8 to 12 days per year of service (at a rate of a day per year between 2011 and 2015). Along with the measures on hiring, this should help to reduce the duality of the labour market.

Labour contracts

Three new measures have been introduced affecting labour contracts. Firstly, a new permanent contract with a probationary period of one year-Contrato Indefinido de Apoyo a los Emprendedores - has been created for firms with less than 50 employees. This new permanent contract has the same dismissal costs as the existing ones, but incorporates significant tax incentives and reductions in social security contributions. At the same time, the law reintroduces a 24 month limit on the renewal of temporary contracts. Finally, it makes the regulations on teleworking and parttime employment more flexible, relaxing the rules on working overtime on part-time contracts, and including overtime in the basis of assessment for ordinary social security contributions.

In other words, instead of reducing the number of labour contracts, as various academic experts and institutional organisations had been calling for, the reform has introduced a new form of permanent contract that permits dismissals at zero cost during the first 12 months, making it even less costly to end an employment relationship than in the case of temporary contracts.

Improving labour intermediation and in-company training

In order to address the high unemployment among low-skill workers, the reform tries to make training and apprenticeship contracts more attractive to firms. The training content is reduced, firms are entitled to a social security rebate of up to 100% and the age limit for contracts of this kind has been raised temporarily from 25 to 30 years. Access to in-company training has also been recognised as an individual right of workers. In the future, the public employment service will assign an individual

Many of the measures aiming to improve labour intermediation and workers' training have not been implemented satisfactorily.

training account to each worker with information on all the training received. Finally, private training centres are authorised to take part in the professional training system and a national framework agreement to promote public-private partnerships in intermediation was put in place.

Unfortunately, however, many of these measures have not yet been implemented satisfactorily. For example, the first referrals of unemployed workers to private placement agencies still have not taken place three years after the reform and more than five years after the legal option for public-private partnerships in welfare training programs was created.

The impact of the labour reform to date

Since the labour market reform was ratified in July 2012, there have been several attempts to evaluate its impact. Specifically, in addition to a first report published by the Ministry of Employment referring to empirical evidence from the first few months after the reform, three reports have been published seeking to identify the causal links between the reform and several relevant labourmarket indicators, such as the pace of wage adjustments, and the changes in employment, job creation and job destruction. These reports were prepared by the Bank of Spain (Bank of Spain, 2013a), BBVA Research (BBVA, 2013) and the OECD (2014). In what follows, we summarise their main findings while also offering updated evidence on the recent evolution of the labour market. This review of the evidence on the effects of the reform is grouped into two subsections: (i) hiring, dismissal and labour-market duality; and, (ii) wage trends and collective bargaining.

Hiring, dismissals, and labour market duality

The first study assessing the impact of the reform was published by the Bank of Spain in September 2013. This report sought to isolate the potential impact of the reform from possible confounding factors such as the worsening macroeconomic climate and the agreement between social partners to moderate wage growth during the period between 2012 and 2014. To do so, the report compared the observed trends in employment and wages with the predictions of model estimates for these variables.

The results of the comparison suggest that employment in the private sector behaved somewhat better than expected from the end of 2012 onwards, which, as the report states, could be due to the effects of the wage restraint deriving from the new regulations adopted in February 2012. In a similar, but more complex exercise, De Cea and Dolado (2013) show that the reform seems to have reduced the minimum threshold for GDP growth at which the Spanish economy starts to create employment. Since the adoption of the reform, GDP growth rates of 0.3-1.3% are sufficient to generate a rise in net iob creation. This result seems to be corroborated by the recent performance of the Spanish economy - employment began to grow in the second guarter of 2014, while the GDP growth rate was just 0.5%. At the end of the year, with GDP growth at 1.4%, employment grew by 2.5% in year-on-year terms.

Some months later, BBVA Research published estimation results obtained on the basis of a structural VAR model (BBVA, 2013). This model was used to run a counterfactual exercise estimating the number of additional jobs that would have been destroyed in the absence of the wage restraint process observed in 2012. The results indicate that the reform prevented the destruction of about 60,000 jobs in the short term, reducing the unemployment rate by as much as 0.6 percentage points. More importantly, the report estimates that the long-run impact is more than twice as strong, permitting a reduction in the unemployment rate of about 1.7 percentage points, which is equivalent to about 10% of the maximum rise in unemployment during the crisis.

However, undoubtedly, the most comprehensive impact study is the one performed by the OECD using data for the first eight months after the reform (March-December, 2012). This study aims to identify the true causal effects of the reform. The identification strategy is based on the comparison of the observed change in the relevant indicators just before and after the date when the labourmarket reform was approved (*i.e.* February 2012).

One of the main findings is an alleged increase in the rate of hiring of 8%. This increase is basically due to the reform's impact on permanent contract hiring, which rose by 13% (18% in the case of full-time permanent employment). Second, estimations based on administrative records from the Continuous Sample of Working Histories (Muestra Continua de Vidas Laborales, MCVL) suggest that the effect of the reform on the transition rate from unemployment to permanent employment is also positive and significant. Indeed, due to the reform, this rate may have increased by 24% during the first six months of unemployment. By contrast, the effect on the transition to temporary employment was smaller and not statistically significant. Nevertheless, when interpreting these figures, one should take into account that the transition from unemployment to temporary employment in Spain is approximately ten times more likely than moving to permanent employment. Therefore, this impact of the reform is nuanced by the absolute value of the exit rate (around 2% in monthly terms for the first six months of unemployment). A different regression analysis applied to the same data, again based on regression discontinuity techniques, allows us to draw the conclusion that the reform stimulated the creation of around 25,000 new permanent contracts a month over the period examined.

Moreover, the rise in permanent contracts is concentrated in small and medium-sized enterprises (those with less than 100 employees).

Nevertheless, the results should be treated with caution. When the analysis is repeated, including data for the year 2013, results are not as clear cut. Indeed, when the effect of the reform on the transition from unemployment to permanent employment is estimated adding the transitions observed in 2013 to the sample used in the OECD report, the result is that this transition only increased significantly in the case of firms with less than 25 employees, although this increase is around 10%, with the monthly exit rate rising from an average of 2.85% to 3.14%.5 In any case, 2014 has seen a marked acceleration in hiring, so it is impossible to give a definitive answer about the impact of the reform on this variable until relevant data are available that include this new phase of the economic recovery.

The OECD report also estimates the impact of the reform on the Spanish dismissal rate. As discussed above, the reform facilitates dismissals as well as the alternative of wage cuts or shorter working hours, but the results available to date do not offer any evidence to support an increase in the dismissal rate after one controls for the worsening economic situation in the first few months after the labour-market reform was approved. However, there is empirical evidence of a certain change in the type of dismissals taking place since 2012 with a larger share of the dismissals being recognised as fair dismissals. Moreover, there are strong signs that the new regulation on collective dismissals has had adverse effects. In particular, there has been a significant increase in the number of collective dismissals deemed null and void as a result of procedural errors, forcing the employer to reinstate dismissed workers. According to a recent study by Palomo Balda (2013), litigation affected only 4.37% of collective dismissals proceedings

filed between March 1st, 2012, and March 31st, 2013. However, in 41 of the 111 cases (38.67%), the court ruled the collective dismissals to be null and void due to administrative reasons. This figure contrasts sharply with the fact that in 84.9% of the cases, the actual grounds for dismissal provided by the employer are deemed to be valid. Similarly, a recent study by economists from the Bank of Spain (Jimeno, Martínez-Matuta and Mora-Sanguinetti, 2015) reports a minimal increase in the proportion of cases in which the courts ruled an individual dismissal to be fair.

As regards internal flexibility, an increase in the use of the mechanisms implemented since the 2010 reform and expanded by the 2012 reform has been observed. In particular, as Exhibit 1 illustrates, the percentage of employees affected by collective proceedings to reduce working hours has considerably increased since mid-2010, with a new change in level in 2012, suggesting that firms are making more use of internal flexibility mechanisms after the reform's approval.

Unfortunately, the reforms have not led to a significant reduction in the extent of labour-market

Since 2008, the temporary employment rate has dropped by more than 6.4 percentage points. But this drop has not been a result of temporary workers being replaced by permanent ones, but a consequence of the extremely high destruction rate of temporary jobs.

duality. Since 2008, the temporary employment rate has dropped by more than 6.4 percentage points. However, this drop has not been a result of temporary workers being replaced by permanent

⁵ The estimated effect when distinguishing between firms with more or less than 50 employees, as done in the OECD's report, comes down to 14.1% for firms with less than 50 employees, when considering transitions in 2013 as a whole, compared with an estimated 26% using data just until December 2012. The global effect ceased to be significant if we use data for 2013 as a whole, compared with 15% estimated in OECD (2014).



ones, but is rather a consequence of the extremely high destruction rate of temporary jobs. Indeed, out of the more than three million jobs that have been lost in Spain, more than half of them are temporary jobs. The bulk of this adjustment in temporary employment took place between 2008 and 2012. Since that time, the temporary employment rate has remained stable at around 23.5%.

Another indicator of the marginal effect of the reform on firms' hiring decisions is the proportion of permanent contracts signed each month. This proportion has remained stable at around 9-10% since 2002 and does not seem to have changed much since 2012, at least for firms with more than 25 employees (see Exhibit 2).

Lastly, the *contrato de emprendedores*, which was supposed to become the dominant contract in small firms, does not seem to be working as well as might be expected despite its significant incentives. In 2014, just 7.3 percent of new permanent contracts took this form. Furthermore, the recently published *Annual Labour Survey* reports that 93 percent of firms state that they do not use this new form of contract.

Exhibit 2 shows that the proportion of permanent contracts signed each month has not changed much since 2012. Moreover, in the case of the *contrato de emprendedores*, no increase has been observed in dismissals at the end of this new contract's probationary period. Both facts suggest that this new form of contract is substituting ordinary permanent contracts, particularly in firms that are entitled to the incentives associated with them (*i.e.* firms with fewer than 50 employees). Unfortunately, this substitution is not affecting temporary contracts, which remain the standard form of hiring for both smaller and larger firms in the Spanish economy.

Wages and collective bargaining

The paramount need for a wage adjustment is not mentioned specifically in the text of the reform, but improving competitiveness through a process of internal devaluation was undoubtedly another of its main priorities. In this regard, it is important to highlight that all the available studies have observed an acceleration of the wage adjustment process in the months following the reform. Nevertheless, it is 11

José Ignacio García Pérez and Marcel Jansen

Exhibit 2

Percent permanent contracts as a share of total by company size (data to February each year)



Source: Servicio Público de Empleo Estatal (www.sepe.es).

impossible to distinguish the impact of the reform from that of the signature of the 2nd Agreement on Employment and Negotiation (*II Acuerdo para el*

Together with the 2^{nd} Agreement on Employment and Negotiation (AENC in its Spanish initials), the labour-market reform induced a drop in unit labour costs of between 1.2% and 1.9%, i.e. around 50% of the drop observed in the months following its adoption.

Empleo y la Negociación Colectiva, AENC) in January 2012, given that they overlap in time.

According to the results of the OECD, together with the AENC, the labour-market reform induced a drop in unit labour costs of between 1.2% and 1.9%, *i.e.* around 50% of the drop observed in the months following its adoption. In line with these results, the Bank of Spain pointed out that this was the first period in which wages came down

in real terms since the start of the crisis (Bank of Spain, 2013a). The Bank of Spain based its conclusions on aggregate data from the national accounts. However, in a subsequent report, it acknowledged that the use of aggregate wage data is inappropriate as the selective dismissal of low-paid workers induced substantial changes in the composition of employment. Once these composition effects are controlled for, the estimated drop in real wages in 2012 is slightly over 2%, twice the drop observed in the aggregate data (Bank of Spain, 2014) and real wages started to fall in 2010 rather than in 2012.

In a similar vein, the administrative data from the MCVL reveals significant differences in the pace of wage adjustments among people who kept their job during the crisis (*stayers*) and those who had to change job (*movers*). This latter group accumulated an average drop in real wages of 4.8% between 2008 and 2012, compared to an average rise of 2% for the *stayers*. The explanation for the latter group's increase in real wages was a rise in their real wages in the early years of the crisis, which was only partially offset with the general decline in wages

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from 2010 onwards. In fact, the differences between *movers* and *stayers* become even more marked in 2013. Indeed, according to our own calculations, by the end of this year, the real value of initial wages had dropped to 1993 levels in the case of adults and 1990 levels in that of young entrants, with drops of between 13% (men) and 17% (women) for adults and between 16% (men) and 23% (women) for young entrants.

One of the most visible consequences of these differences in the rate of wage adjustments is a marked increase in the degree of wage inequality. In real terms, the average value of wages in the first

One of the most visible consequences of the differences in the rate of wage adjustments is a marked increase in the degree of pay inequality.

decile of the wage distribution fell by more than 20% between 2008 and 2013, while there were slight gains in purchasing power for those between the sixth and ninth deciles.

These trends all reflect a considerable increase in the degree of real wage flexibility in recent years. The available data do not yet make it possible to determine whether it is a lasting effect or a temporary result of the severity of the crisis and/or wage restraint agreed with social partners. What is clear though is that the labour-market reform has not achieved a comparable increase in the degree of nominal wage flexibility for *job stayers*. Indeed, as the moderation of real wage increased, new and ever clearer signs of nominal rigidities have emerged, as highlighted by the OECD's 2014 Employment Outlook.

The OECD's analysis studies the changes in the distribution of year-on-year wage increments for a sample of people working in the same company for

two consecutive years. Over the period 2008-2012, a relatively modest increase was observed in the percentage of drops in nominal wages (between 15% and 23%), while the percentage of "pay freezes" rose from 2% in 2008 to 17% in 2012. These figures reveal a clear increase in the incidence in which nominal pay rigidity seems to have prevented a drop in nominal wages. Moreover, the nominal rigidities are concentrated in the lower part of the wage distribution. Thus, for example, the percentage of pay freezes for the third of workers earning the lowest wages was twice the percentage for the third earning the highest wages (22% against 11%).

The significant delay in the renewal of collective agreements seems to be one of the factors contributing to the strong rise in pay freezes. In 2008, almost 12 million workers were covered by a timely renewed collective agreement. In 2012, this figure had dropped to 3.2 million workers. These figures indicate that there were millions of workers whose collective agreements had been tacitly extended (so-called "ultra-activity"), which entails an automatic freeze on pay and conditions. A slight recovery in the coverage of collective bargaining has been observed in recent months, but the figures are still a long way short of precrisis levels. The impact of the crisis and the lack of agreement between social partners is making it hard to sign new collective agreements and the changes in the regulations on ultra-activity induced further delays.

Lastly, despite the profound changes in the regulation of collective bargaining, there is limited evidence of changes in its structure, the exception being the modest rise in the number of company level agreements. In 2013, the number of company-level collective agreements rose by 617 to a total of 1,860, but these new agreements affect just 55,000 employees. For small and medium-sized enterprises, however, provincial/sectoral agreements still remain the essential benchmark from which it is still quite hard to escape. Thus, for example, in 2013, a total of 2,512 opt-outs were registered, of which 1,965 affected firms with fewer than 50 employees, but

the number of workers affected by these opt-outs was less than 22,000.

Concluding remarks

information available.

In just two years, between 2010 and 2012, Spain has reformed its labour market on three occasions. The 2012 reform is undoubtedly the most comprehensive and most exhaustive, but we do not yet have a rigorous assessment of its impact. To date, only provisional evidence is available on the effect of some of its key measures. Moreover, experience shows that labour-market reform may have unintended consequences that only emerge vears after its implementation. A significant evaluation effort is therefore crucial in order to identify all the direct and indirect effects that this major set of measures has had on the Spanish economy. In this article, we have summarised the evidence gathered to date. But it is still necessary to make a deeper effort to identify and evaluate the effects of the different measures in the reform as well as to compute the possible macro effects this set of measures may be having on the main labour-market outcomes. To carry out exercises of this kind, it will be necessary to improve the

Based on the results observed so far we can conclude that the measures taken to date in relation to hiring and dismissals are clearly insufficient to eradicate the duality that the Spanish labour market has suffered from for decades. Wide gaps persist between the level of protection given to different types of labour contracts and the reform does not envisage effective restrictions on the use of temporary ones. Indeed, the reform does not attack the root of the problem of duality, namely the use of temporary contracts for activities that are not temporary or seasonal. This objective will only be achieved by effectively restricting the use of temporary contracts and, more effectively, by reducing the gap in severance payments between permanent and temporary contracts. The 2012 reform does not envisage measures of this kind and the contrato de emprendedores

does not seem to be the solution either, as the increase in the cost of dismissal after the first year exceeded the existing gap between temporary and permanent contracts.

By contrast, the record on collective bargaining and internal flexibility is more positive. The decentralisation of collective bargaining and the limits imposed on ultra-activity are appropriate measures to allow working conditions to match employers' needs more closely and make them more consistent with macroeconomic conditions. Similarly, after the reform, companies have more options from which to find alternatives to dismissals. These measures should help reduce cyclical fluctuations as well as the average level of unemployment in Spain. However, the biggest benefits from these measures are undoubtedly for large enterprises, which are better placed to negotiate a company-level collective agreement or a temporary opt-out. Moreover, it is easier for many of them to benefit from the change to Article 41 of the Workers' Statute allowing unilateral changes to working conditions. By contrast, for many SMEs, the opt-out is the only possible route for salary adjustments, but based solely on an agreement with workers' representatives, as the procedures designed to resolve conflicts over a possible opt-out are still excessively complicated.

Finally, another aspect that will limit the effectiveness of the reform is the lack of progress on active labour market policies. Before the reform, Spain had a structural unemployment rate that was significantly higher than the European average, due, among other things, to the lack of measures to get the unemployed back into work. The economic crisis compounded this problem because the slump in the construction sector caused a substantial mismatch between the supply and the demand for labour. High quality active labour market policies could allow these workers to be retrained for activities with growth potential, but so far, such measures have been visibly absent. It therefore seems fairly likely-as most international institutions

suggest-that the Spanish authorities will have to embark on further reform of the labour market. We hope that in this fresh opportunity, all the important issues that remain to be addressed will be considered.

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The impact of Spain's 2012 labour reform on collective bargaining

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The 2012 labour reform profoundly changed collective bargaining in Spain by increasing both employers' decision-making power and the prevalence of non-provincial sectoral agreements. While the second change is in the right direction, the first one requires further action to avoid excessive monopsony power in the context of the overall reduction in collective bargaining coverage.

The 2012 labour reform aimed to reduce dismissals through increasing internal flexibility and improving the response time of collective bargaining to the economic realities of businesses. Preliminary evidence shows that the increase in company level agreements has been small and the trend in the number of workers covered has moved in the opposite direction. However, firms are enjoying greater internal flexibility as a result of more discretionary power following the reform, as demonstrated by a higher reliance on opting-out. At the same time, data point to a one-off increase in negotiation associated with the end of ultra-activity and an overall decline in collective bargaining coverage since the reform. Finally, wages appear to have decreased in the wake of the reform, in particular for the lowest earners, although this appears to a consequence of greater monopsony power rather than a more efficient labour market. On the whole, collective bargaining has more potential to adapt to the business cycle in response to the reform, but additional efforts will be needed to increase coverage and limit the rise of monopsony power.

A number of fundamental aspects of the regulation on collective bargaining were reformed in 2012 (ILO, 2014). The reform's overall purpose was to facilitate firms' capacity for internal adjustment rather than external adjustment through dismissals and non-renewal of contracts. Recourse to external adjustment was believed to be widespread due to the shortage of other adjustment mechanisms. In addition, the response of collective bargaining was believed to be too "slow" to adapt to a negative shock as large and severe as that suffered in the Great Recession. Changes were sought to facilitate wage flexibility (as the cornerstone of internal adjustment) and rapid changes to the outcome of negotiations to adapt to the ups and downs of the economic cycle. This was implemented with an end to the tacit extension of collective labour agreements beyond their expiry date ("ultra-activity"), allowing companies to optout of supra-company agreements and allowing employers to impose unilateral changes to working conditions.

This article aims to review and interpret the available evidence on the legal changes to

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collective bargaining and three crucial issues (Malo 2012a and 2012b): the importance of company agreements; negotiating activity, particularly in connection with the end of "ultraactivity," and wage flexibility. It concludes with some general remarks.

Has there been a shift towards a new type of collective agreement?

The 2012 reform gives renewed importance to the company level collective agreement (an issue touched upon by the 2010 reform) in two ways: i) it gives the company level agreement preference over higher level agreements; and, ii) it allows for the company level agreement to be negotiated before the higher level agreement applicable to the company expires. International organisations (such as the OECD, 2014) have repeatedly promoted company level negotiations, rather than higher level negotiations, as the best way of adapting to swings in the economic cycle, particularly in comparison with intermediate (*e.g.* sectoral and provincial) level agreements.

A decline in the importance of provincial/sectoral agreements could therefore be expected, in parallel with an increase in the number and scope of company agreements.

Table 1 shows the number of company agreements as a share of the total, which has varied little since the years immediately preceding the crisis. There was a slight drop, of 2 percentage points, from the approximately 76% at the start of the crisis, rising again in 2013 and reaching 77% in 2014. This increase is small and it is hard to link it to the

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Table 1

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Agreements and workers per year of economic impact and by scope of negotiation

	Total		Company agreements		% Company / total		Agreements at levels higher than company- level	
Year	Agreements	Workers (thousands)	Agreements	Workers (thousands)	Agreements	Workers	Agreements	Workers (thousands)
2000	5,252	9,230.4	3,849	1,083.3	73.3	11.7	1,403	8,147.1
2001	5,421	9,496.0	4,021	1,039.5	74.2	10.9	1,400	8,456.5
2002	5,462	9,696.5	4,086	1,025.9	74.8	10.6	1,376	8,670.6
2003	5,522	9,995.0	4,147	1,074.2	75.1	10.7	1,375	8,920.9
2004	5,474	10,193.5	4,093	1,014.7	74.8	10.0	1,381	9,178.9
2005	5,776	10,755.7	4,353	1,159.7	75.4	10.8	1,423	9,596.0
2006	5,887	11,119.3	4,459	1,224.4	75.7	11.0	1,428	9,894.9
2007	6,016	11,606.5	4,598	1,261.1	76.4	10.9	1,418	10,345.4
2008	5,987	11,968.1	4,539	1,215.3	75.8	10.2	1,448	10,752.9
2009	5,689	11,557.8	4,323	1,114.6	76.0	9.6	1,366	10,443.2
2010	5,067	10,794.3	3,802	923.2	75.0	8.6	1,265	9,871.1
2011	4,585	10,662.8	3,422	929.0	74.6	8.7	1,163	9,733.8
2012	4,376	10,099.0	3,234	925.7	73.9	9.2	1,142	9,173.3
2013	4,136	9,097.9	3,155	892.7	76.3	9.8	981	8,205.2
2014	2,709	6,033.3	2,085	534.7	77.0	8.9	624	5,498.6

Source: Ministry of Employment and Social Security.

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SEFO - Spanish Economic and Financial Outlook

2012 reform, as the number of workers covered by company agreements dropped from almost 11% in 2007 to just under 9% in 2014. Therefore, the change is small, and the trends in the numbers of agreements and workers they cover go in opposite directions.

To examine this issue more closely, it is necessary to disaggregate the supra-company level to determine what is happening to provincial/sectoral agreements. This disaggregation is shown in Table 2. As the definitive data for 2013 and 2014 are not yet available, the breakdown at this level is only available for the provisional data. For this reason, the totals are smaller than those shown in Table 1, and the results must therefore be interpreted with caution.

Table 2 shows a drop in the relative weight of provincial agreements, covering a smaller percentage in 2013 and 2014 than before the reform:² 51% in 2011, 29% in 2013 and 30% in 2014. Bearing in mind that the data are provisional, it does seem that this level of negotiation is losing its formerly central position; however, it is not losing it to company agreements, but rather to sectoral agreements at the national and regional level.

Why has there not been a shift towards company level agreements? Firstly, distribution by agreement type and level is potentially skewed by data quality constraints. Thus, Pérez Infante (2015) points out that the figures for workers (and firms) covered by agreements at the supra-company level suffer from reliability issues, as negotiators often have only approximate information for these figures. The delay in the statistics on collective agreements being made definitive is also a problem. However, these limitations have always been present in the statistics, such that focusing on long-term developments (as is the case) is a reasonable way of mitigating the problems highlighted. Therefore, in the absence of definitive data for 2013 and 2014, there may in fact be a transformation under way in the structure of collective bargaining.

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Moreover, even if a small business finds that the sectoral agreement imposes unacceptable conditions, negotiating a company level agreement, which would take priority over that at the sectoral level, may not be an attractive option. It would have to devote time and effort (with a considerable opportunity cost) to negotiating a series of issues that previously were given. Furthermore, the legal precision a collective agreement requires usually calls for costly specialist legal advice. Thus, contrary to what was originally believed, (Malo 2012a and 2012b) it is possible that employers find it simpler to opt-out from an agreement, despite the redtape this may involve. In theoretical terms, the positive effects that supporters of decentralisation of collective bargaining expect may also result in sectoral negotiations that contain effective opt-out procedures (Jimeno and Thomas, 2013).

The fact that the relative importance of company agreements is not increasing is not at odds with an increase in employers' decision-making power in labour relations. In effect, this increase in

The fact that the relative importance of company agreements is not increasing is not at odds with an increase in employers' decisionmaking power in labour relations. In effect, this increase in power makes negotiating a company level collective agreement less attractive, as the regulatory changes already offer the company more leeway.

power makes negotiating a collective agreement in the company less attractive, as the regulatory

² 2012 has not been included, as being the year in which the changes were introduced, it would include information produced under two different sets of regulations. For example, an agreement could be reached in 2011 (pre-reform) with economic impact in 2012, whereas another could be negotiated in 2012 and come into effect in that same year (post-reform).

Table 2

Agreements, firms and workers per year of economic impact and by level of negotiation

2011	Agreements	Companies	Workers	% of total workers
TOTAL	4,585	1,170,921	10,662,783	
Company level	3,422	3,422	928,995	8.7
Higher level:	1,163	1,167,499	9,733,788	91.3
- Group of companies	99	954	181,667	1.7
- Sector:	1,064	1,166,545	9,552,121	89.6
Province	895	777,512	5,455,261	51.2
Autonomous regions	82	92,222	817,958	7.7
Inter-regional	1	400	9,000	0.1
National	86	296,411	3,269,902	30.7
2013	Agreements	Companies	Workers	% of total workers
TOTAL	2,688	977,058	7,090,195	
Company level	1,957	1,957	508,735	7.2
Higher level:	731	975,101	6,581,460	92.8
- Group of companies	63	299	95,256	1.3
- Sector:	668	974,802	6,486,204	91.5
Province	434	382,129	2,047,582	28.9
Autonomous regions	166	288,793	1,689,899	23.8
Inter-regional	1	320	3,000	0.0
National	67	303,560	2,745,723	38.7
2014	Agreements	Companies	Workers	% of total workers
TOTAL	1,728	723,724	4,755,972	
Company level	1,255	1,255	335,952	7.1
Higher level:	473	722,469	4,420,020	92.9
- Group of companies	42	236	164,923	3.5
- Sector:	431	722,233	4,255,097	89.5
Province	279	270,437	1,425,170	30.0
Autonomous regions	102	196,660	886,890	18.6
Inter-regional	1	320	2,000	0.0
National	49	254,816	1,941,037	40.8

Note: The 2011 data are definitive. Data for 2013 are the preview of the definitive data, and 2014 data are provisional (cumulative to December 2014).

Source: Malo (2015). Ministry of Employment and Social Security.



Number of opt-outs and workers affected by month of filing for opt-out

changes already offer the company more leeway without having to negotiate an agreement with its workers.

Exhibit 1

Exhibit 1 reveals how substantial use of optouts was made in 2013, with a total of 2,512 in the year, affecting 159,550 workers. The figure was particularly high in April and again in June. The figures were lower in 2014, with 2,073 optouts, affecting 66,203 workers. The trend in the number of opt-outs seemed to slow somewhat in 2014, although in 2015 it has fluctuated around 150 a month, equivalent to around 5,000 workers a month.

Are these figures significant? Given that opt-outs imply adaptation to firms' individual circumstances, the appropriate reference for a comparison is the number of workers covered by company level agreements.³ Taking the only two full years for which we have data on opt-outs, it can be seen that in 2013 they represented the addition of 18% of workers covered by a company level agreement and 12% in 2014. These figures are, therefore, significant and highlight the importance of this

exit route from the sectoral agreement in enabling adaptation to firms' specific needs without going through the process of negotiating a company level agreement (and without putting an end to sectoral negotiation).

Finally, the limited data available on changes to working conditions (ILO, 2014) suggest that since the 2012 reform, firms are mostly relying on this option for internal adjustment. This is in line with employers' increased unilateral decisionmaking power in labour relations under the new regulations.

Is there more or less negotiation activity?

One of elements of the 2012 reform generating the most debate has been the end of ultra-activity. Following the reform, once a collective agreement has reached its expiry date, it can remain in force for an additional year if there is no agreement. If no agreement has been reached at the end of the year, the old collective agreement ceases to apply

³ Technically, it is possible to opt-out of a company-level agreement. According to the latest data available, for the period January to April 2015, this happened in just 3.1% of opt-outs.

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and the higher level collective agreement comes into force. However, there is not always a higher level agreement to resort to, and the regulations failed to clarify what to do in this situation. The legislator's lack of foresight was widely criticised, as this gap in the legislation could be interpreted in various ways: either wages and conditions could simply drop to the minimum, which in general means the minimum established in the workers' statute; or they could be incorporated as a part of the individual employment contract (which is a kind of ultra-activity applied individually to each of the workers affected). In late 2014, the Supreme Court ruled along the lines of this second interpretation.⁴

The end of ultra-activity was essentially the cornerstone of the design of the 2012 reform, as it sought to break the inertia of collective bargaining and speed up its progress. At present, it is not possible to empirically confirm this as a long-term outcome, as it is not sufficient to analyse the current outcome of collective bargaining.

Nevertheless, it is possible to assess whether there has been any other type of impact relating to ultra-activity, such as changes in the amount of negotiating activity, and whether the end of ultra-activity has given rise to labour disputes. It was clear that when the transitional period to negotiate new agreements ended in the summer of 2013, negotiating parties felt they were facing an ultimatum. In other words, many agreements were delayed until the deadline approached (ILO, 2014). However, as expected, the rate at which agreements were reached accelerated towards the end of the period. Thus, 1.3 million workers were covered by newly signed agreements in August 2013, compared with 800,000 in August 2012 (Izquierdo *et al.*, 2013).

Much more conflict was anticipated than in fact materialised (ILO, 2014). Disputes seem to have been concentrated in firms and sectors where there was no higher level agreement that could be applied when the relevant collective agreement expired. This shows that the legal grey area was in fact a risk posed by the 2012 labour-market reform, although for now it has been resolved by case-law.⁵

Table 3 shows how collective agreements have developed by year of signing (rather than year of economic impact independently from when they were signed, as in Table 1).Table 3 illustrates

•			•		0 0		
Signature Year		Agreements	6		Workers		
	Total	Company	Level higher than company	Total	Company	Level higher than company	
2011	1,363	1,033	330	2,628,723	251,573	2,377,150	
2012	1,584	1,243	341	3,195,704	289,915	2,905,789	
2013	2,495	1,890	605	5,246,154	375,049	4,871,105	
2014	1,743	1,425	318	2,092,839	240,669	1,852,170	
Source: Ministry of Employment and Social Security.							

⁴ Supreme Court ruling on December 22nd, 2014 (appeal No 264/2014): http://www.poderjudicial.es/search/sentence. jsp?reference=7260028. However, the ruling explains that this only happens in the case of the company's existing workers and is not applicable to new hires (as the old collective agreement did not form part of their employment contract). The sentence included four dissenting opinions, two in favour of the ruling and two against.

⁵ For now, as the Supreme Court's ruling also points out that it is not clear from the legislation what exactly a higher level agreement is (territorial or functional, or a combination of the two, or which should prevail if they both exist, or if it is only the immediately higher level). This doubt is all the more important given that, in terms of the hierarchy of legal instruments, all collective agreements have the same rank regardless of their scope.

how the number of agreements signed increased in the years of the reform, but clearly peaked in 2013: the total number of agreements reached almost 2,500, increasing by 57% compared with 2012. Broken down by level, there were almost 650 more company level agreements than in 2012 (an increase of 52%) and higher level agreements rose from 341 to 605 (77% more). In terms of the number of workers covered, the year-on-year increase between 2012 and 2013 was 64% for the total, 29% for company level agreements, and 68% for higher level agreements. In 2014, the figures returned to levels slightly higher than those in 2012.

Thus, the data suggest that, rather than bring fresh stimulus to negotiating activity across the board, the reform triggered a one-off increase by ending ultra-activity.

Lastly, it is worth asking if, following the reform, collective bargaining covers a larger or smaller percentage of wage earners. The figures in Table 1 shows that collective bargaining is generally covering fewer workers. In this regard, ILO (2014) argues that although there is no direct evidence, all signs point to a decline in the coverage of collective bargaining since the 2012 reform.

In principle, the design of the Spanish legal framework for collective bargaining seems to aim to avoid gaps and to promote broad coverage of agreements, particularly *ex-ante* due to the *erga*

All the data and other signs suggest that the upturn in negotiation associated with the end of ultra-activity is short-lived. Despite the trend towards supra-company agreements, overall coverage of collective bargaining has declined in Spain since the 2012 reform.

omnes principle. However, the reality is always more complex than regulation and despite the

aim of filling gaps, there are workers whose pay and conditions are not laid down in any collective agreement. For this reason, some experts try to calculate a collective bargaining coverage rate that compares those workers with effective protection with those potentially protected. A rate of this kind suffers from the problem that in practice it is necessary to use different sources for the numerator and the denominator. Pérez Infante (2015) presents an attempt at an estimate using data on workers covered obtained from the collective agreement statistics in the numerator and social security affiliations (with some adjustments) for the denominator. Although the author highlights certain caveats regarding the precision of this type of estimate for a particular moment in time, its progress over time would show a slight increase in coverage in the first two vears of the crisis (probably as a result of multiannual agreements). Coverage then drops from 2010 to 2013, with an upturn in the calculations using the provisional 2014 data.

In short, all the data and other signs suggest that the upturn in negotiation associated with the end of ultra-activity is short-lived and that, despite the trend towards supra-company agreements, overall coverage of collective bargaining has declined in Spain since the 2012 reform.

Wage flexibility in agreements or outside of them?

Collective bargaining is the main mechanism for the determination of wages in the Spanish private sector. Thus, the changes to collective bargaining regulations introduced by the 2012 reform have the potential to affect wages and wage trends. The expected effect of these changes would be to make it easier to change wages (particularly downwards) to adapt to the business cycle and avoid adjustments to the number of workers via redundancies and non-renewal of contracts. The reform therefore aims to trade off changes in wages against changes in number of jobs.

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Over such a short period of time, all of which has been in the same phase of the cycle, it is not possible to assess the impact on employment volatility, although the continued widespread recourse to temporary contracts following the 2012 reform is not reassuring (López Mourelo and Malo, 2014).

As regards wage-setting trends, Table 4 shows the wage changes agreed and revised (as percentages),⁶ bearing in mind that wage revisions refer to the application of pay guarantee clauses when they are retroactive (provided these clauses are expressed in terms of a quantifiable variable, normally the consumer price index).

Since 2012, even in revised terms, there has been a significant reduction in changes in wages relative to the early stages of the crisis (a more comparable period than the expansion). The fact that this happened while the most recent labour-market reform was being implemented, which very much intended to achieve this effect, is not merely coincidental. Nevertheless, other additional effects, such as the severity and duration of the employment crisis, may have encouraged, ceteris paribus, concessions by workers during negotiations. The pay freeze for public sector employees may also have had a "demonstration effect" on collective bargaining in the private sector.

Table 4

Change in wages (by agreement or pay review) as a percentage per year of economic impact of collective agreement according to agreement type

	Total		Company ag	Company agreements		Agreements at levels higher than company level	
	Agreement	Pay review	Agreement	Pay review	Agreement	Pay review	
2000	3.09	3.72	2.64	3.49	3.15	3.76	
2001	3.50	3.68	2.84	3.12	3.59	3.75	
2002	3.14	3.85	2.69	3.62	3.19	3.88	
2003	3.48	3.68	2.70	2.94	3.58	3.77	
2004	3.01	3.60	2.61	3.14	3.06	3.65	
2005	3.17	4.04	2.94	3.61	3.19	4.09	
2006	3.29	3.59	2.92	3.15	3.34	3.65	
2007	3.14	4.21	2.70	3.57	3.20	4.28	
2008	3.60	3.60	3.09	3.09	3.65	3.65	
2009	2.25	2.24	2.17	2.17	2.26	2.25	
2010	1.48	2.16	1.26	1.99	1.50	2.18	
2011	1.98	2.29	1.63	1.97	2.02	2.32	
2012	1.00	1.16	1.17	1.48	0.98	1.13	
2013	0.53	0.53	0.55	0.55	0.53	0.53	
2014	0.59	0.59	0.43	0.43	0.60	0.61	

Note: See footnote 6 on the possible overestimation of these percentages due to the treatment of new agreements. Source: Ministry of Employment and Social Security.

⁶ According to the methodology for collective agreements statistics, totally new agreements (not arising from any previous agreement) are not included in this calculation, as this percentage cannot be calculated given the lack of a previous agreement. It is possible that this represents an upward bias in the percentages given.

Moreover, it is possible that the data in Table 4 overestimate the effective change in pay. Firstly, the opt-outs always focus on changing wages or the remuneration system (alone or jointly with other working conditions), such that pay changes do not apply to workers affected by opt-outs. Secondly, the reduction in the general coverage of collective bargaining will inevitably result in wage restraint or cuts relative to the collective agreements that could have covered these workers (at least in times of recession). In these cases, changes in pay are not related to wage negotiations, and are simply excluded from the statistics on collective agreements.

Wage distribution has been seriously affected by the crisis, particularly since 2011. Real cuts in wages have been concentrated in the lowest deciles of wage distribution, which has clearly contributed to widening the spread in wages and income inequality (López Mourelo and Malo, 2015). The quarterly labour costs survey data also suggest relatively moderate changes in wages during the crisis, with the exception of 2008, with zero growth in 2013 and a drop of -0.1 in the first quarter of 2014 (Pérez Infante, 2015). In reality, the wage adjustment was more intense, given the composition effect, as it is only possible to measure the wages (and labour costs) of workers who remained in work, while many low wage workers lost their jobs during the crisis (Puente and Galán, 2014; Pérez Infante, 2015).

If there had not been a drop in the general coverage of collective bargaining, the shift in the structure of negotiation towards collective agreements above the firm level would have reined in wage cuts, which have been intense in the second stage of the recession. However, it seems that what has happened in Spain is that collective bargaining as a wage setting mechanism has lost ground to the

Collective bargaining as a wage setting mechanism in Spain has lost ground to the employer's option to decide unilaterally. This does not necessarily mean that the labour market is more competitive, but that there has been an increase in monopsony power to set wages.

employer's option to decide unilaterally. In other words, it is not that the labour market is more competitive, but that there has been an increase in monopsony power to set wages. This does not necessarily mean the labour market operates

Table 5

Gross average wages in the lowest wage decile (total and full-time employees) and national minimum wage (euros at constant 2006 prices)

*	. ,				
	Total	Full time (FT)	Minimum wage (MW)	FT-MW	
2006	474.2	575.1	540.9	34.2	
2007	488.1	607.5	555.1	52.3	
2008	468.6	612.4	560.9	51.5	
2009	464.9	589.3	585.0	4.3	
2010	444.3	579.7	583.2	-3.5	
2011	414.5	545.1	572.4	-27.2	
2012	370.7	511.8	558.7	-46.9	
2013	356.0	484.0	554.3	-70.3	

Source: INE (Labour Force Survey), Ministry of Employment and Social Security and author's calculations (López Mourelo and Malo (2015).

more efficiently or that there is an unambiguous increase in the volume of employment across the economy as a whole (Falch and Strom, 2007). That said, assuming that the employer has a degree of monopsony power, a significant number of policies can generate efficiency gains, such as a minimum wage, union activity, unemployment benefits, ceilings on working hours, etc. (Manning, 2004).

However, the cut in wages caused or encouraged by the 2012 labour-market reform has reached its limits. With the adjustment falling mostly on workers with the lowest wages, gross average wages in the first wage decile are now close to the minimum wage. Table 5 shows how before the Great Recession, average wages in the lowest decile were above the minimum wage, standing at 52.3 euros/month above it in 2007. However, in 2010, a negative difference emerged with respect to the minimum wage, that in 2013 came to -70.3 euros/month. As these comparisons are based on aggregate figures (rather than individual data), it cannot be argued that on average the minimum wage is not being complied with for these workers. However, they do suggest that this path towards achieving greater competitiveness and reduced aggregate volatility of employment has run its course.

Concluding remarks

Collective bargaining in Spain was profoundly impacted by the 2012 reform. Arguably, a new model of collective bargaining is emerging, with two characteristics: more decision-making power for employers, and increased coverage of nonprovincial sectoral agreements. Although the first characteristic is not surprising, the second is.

Giving priority to company level agreements seems to have eliminated the centrality of provincial-sectoral agreements. The finger has repeatedly been pointed at the predominance of the provincial-sectoral agreement as a source of inefficiencies and obstacles to raising business competitiveness.

From the economic viewpoint, it is worth noting that the inefficiencies the provincial-sectoral level is accused of (as an intermediate level of negotiation) have more to do with its being provincial than sectoral. Collective bargaining is not an administrative act but an economic one, arising out of the will of the parties. New sectoral agreements that are not so closely tied to the provincial level could avoid the fragmentation and lack of coordination resulting from the priority given to company level agreements or excessive use of opt-outs from provincial-sectoral agreements. Therefore, the change observed in terms of the lesser predominance of provincial-sectoral agreements with an increased role for higher level agreements is in the right direction to reduce past inefficiencies while avoiding fragmentation and a lack of coordination in collective bargaining. International empirical evidence highlights the importance of coordination of collective bargaining. For example, Hayter and Weiberg (2011) show that wage dispersion is greater in countries with company-by-companynegotiationsystems, with no coordination between them. What is more, Cazes et al. (2012) show that the aggregate employment rate is higher in countries with high centralisation or high decentralisation, but only when decentralization is coordinated rather than fragmented.

In this context, in a country with as many small businesses and micro-enterprises as Spain, increased reliance on company level negotiations could prove more of a burden than an advantage (García Serrano *et al.*, 2010). Many small businesses would probably prefer their corresponding employers' organisation to handle negotiations (with all the legal guarantees a collective agreement requires) and thus free up their time and effort for the more pressing day-today tasks involved in running a small businesses normally lack representation, which does not seem to be the best way to ensure equitable results.

However, this transformation in the structure of collective bargaining coexists with what seems to be a decline in the coverage of collective bargaining as a whole, *i.e.* a weakening of collective bargaining as a wage-setting mechanism. International evidence also clearly shows that shrinking coverage of collective bargaining is associated with increased inequality, particularly through its impact on low-paid jobs (Bosch, 2015). It is essential to keep in mind that a market with less collective bargaining coverage is not automatically more efficient thanks to greater competition. In practice, it is merely a transition to a market with different degrees of monopsony power in the hands of companies. In fact, the strong wage adjustment in the lower part of the wage distribution is what is to be expected in a labour market in which there has been a shift towards greater monopsony power.

Steps towards avoiding this type of problem would be to prevent the loss of collective bargaining coverage, while avoiding its fragmentation. It will be important to foster negotiations with stronger union presence in firms and more contact between union representatives at the sector level with the sector's workers. This is not something that depends on regulation, but on trade unions' strategies. Another general line of action in the hands of both unions and employers' organisations is to consolidate the current trend towards the predominance of sectoral agreements at supraprovincial levels, or at least with territorial scope that makes economic sense rather than obeying an administrative logic. The interaction between these supra-company agreements and the use of opt-outs could provide the necessary coordination in wage-setting without harming firms that are temporarily unable to pay the wages set in the sectoral collective agreement.

Finally, we must recall that legal changes were largely introduced to stimulate internal adjustments rather than external ones; *i.e.* the aim was to limit

swings in employment in exchange for changes in other variables (wages, working hours, working conditions, etc.). However, although it is still too early to make a firm assessment, there are no signs that this goal is being achieved, as hiring remains strongly reliant on temporary contracts.

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Spanish wages during the Great Recession: Has the 2012 labour reform had an impact?

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The majority of Spain's wage adjustment is still attributable to external flexibility. Nonetheless, internal flexibility is playing an ever-increasing role in the explanation of income changes in the two years following Spain's 2012 labour reform, providing some evidence in support of its success.

This article examines the evolution of Spanish wages during the height of Spain's economic crisis with a particular focus on patterns observed prior to and post the introduction of the 2012 labour reform. Official statistics show that salaries in Spain decreased and part-time work increased after 2012. By disaggregating a sample of Spanish workers into "stayers" and "movers," this article presents empirical evidence of the acceleration in the decrease of "stayers" wages in the wake of the reform, interpreted as an increase in internal flexibility. The bulk of Spain's wage correction is still being achieved through external flexibility. However, the rising contribution of internal flexibility indicates that the 2012 reform succeeded in increasing reliance on this type of wage adjustment mechanism. Unfortunately, temporary workers appear to still bear the brunt of the wage adjustment.

In February 2012, the Spanish government passed one of the most ambitious labour market reforms in decades. The reform was an attempt to bring flexibility to a market characterized by high unemployment, rigid wages and a dual system of job protection.

At the end of 2008, when economic conditions in Spain began to deteriorate, workers on temporary contracts greatly feared the prospect of losing their jobs as a consequence of "external flexibility" – the process by which firms adapt to adverse labour market conditions by firing workers instead of adjusting internal conditions, such as wages and work schedules. At that time, the Spanish unemployment rate was at a record low of less than 9 percent, extremely low for the country's historical standards, with one third of employees working under temporary contracts. The rate of temporary employment in Spain increased abruptly after 1984, following the approval of new legislation, which made it easier for companies to hire on a temporary basis. The intention was to introduce flexibility into a heavily regulated, rigid labour market. The result was the creation of a dual market with approximately one third of workers left unprotected, while two thirds of employees were protected against dismissal by very high severance payments. Hence, temporary workers served as a buffer in the event of an

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Exhibit 1 Spain's unemployment and temporary jobs: 2008-2013

Source: OECD.

economic crisis. From 2007 to 2011, the rate of temporary employment declined by almost ten percentage points, from 35% to 25%, reflecting the massive destruction of temporary jobs (see Exhibit 1).

It was in this context that the 2012 labour market reform was passed. There were changes in many important aspects related to hiring, firing and wage setting. A common goal of these changes was increasing "internal flexibility," the process by which companies adjust employees' working conditions without resorting to dismissals or nonrenewal of contracts. As such, the new norm made it easier for firms to switch employees from full-time to part-time work. It also broadened the scope for firms to adjust wages downward. For example, by allowing for the non-application of an expired wage setting agreement beyond one year if a new one had not yet been established. Finally, by reducing average severance payments, the law lowered the bargaining power of permanent workers who, as a consequence, would accept wage reductions that otherwise would not have even been considered.

After 2012, many official statistics showed that salaries decreased in Spain and that part-time work increase. This was often trumpeted as evidence of greater "internal flexibility" and the success of the 2012 reform. However, at the same time, jobs continued to be destroyed in large numbers, mainly temporary jobs, hence questioning the real impact of the new regulatory landscape. Those that criticized the 2012 reform argued that decreases in wages were a consequence of job displacement, that is, continued external flexibility, rather than internal flexibility.

The question of whether the changes observed in the labour market are caused by external rather than internal flexibility is an important one. However, official statistics often lack the detailed information necessary to distinguish between internal and external flexibility. For example, are average wages declining because workers and firms re-negotiate working conditions, or is this due to the fact that workers are displaced and move to firms that pay lower starting salaries? Is the increase in part-time work the result of adjustments of work schedules within firms or rather the effect of displaced workers finding new job opportunities

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as part-timers? Only datasets that follow workers throughout a period of analysis can answer these types of questions. This article takes advantage of an Administrative Records database to present evidence of the wage adjustment process in Spain during the worst years of the economic crisis, from 2008 to 2013. It looks at wages of 98,960 males aged 18 to 55 who are observed working in wage and salary employment in 2008 and in 2013.² The annual wages of two distinct groups of workers, stayers and movers, are compared. Stayers are those sticking to the same employer and the same job throughout the entire period of analysis, whereas movers change firm and may go through periods of unemployment between 2008 and 2013. The evolution of the wages of stayers offers a good indicator of internal flexibility since jobs and workers are held constant throughout. Conversely, changes affecting movers are an indication of the impact of external flexibility on wages. If internal flexibility is important, we should not see big differences between the first and the second group of workers. However, if external flexibility is still what drives the Spanish labour market, we should see much bigger drops in wages in the case of movers.

The accelerated pace of decreasing wages of stayers after the reform suggests it has contributed to a greater degree of internal flexibility in Spain, with the main mechanism of internal flexibility being the reduction of compensation per hour worked.

Data show that between 2008 and 2013, wages decreased much more in the case of movers

(17% for movers versus 1.6% in the case of stayers). However, wages of stayers decreased at an accelerated rate since 2012, losing 5% in real terms in just two years. Even though the process of decreasing wages precedes the 2012 reform, it gains pace after 2012, suggesting that the February 2012 reform has contributed to a greater degree of internal flexibility in Spain. The main mechanism of internal flexibility is the reduction of compensation per hour worked, rather than a reduction of the amount of time worked. Hence, the increase of the incidence of part-time work among males that we see in aggregate statistics is the result of job shedding and not the effect of an adjustment within firms.

Wages across types of workers

Exhibit 2 shows the evolution of annual wages for individuals according to their position in the wage distribution in the first quarter of 2008. Individuals are divided into 5 groups or quintiles. Quintile 1 corresponds to the 20% of individuals with the lowest wages in 2008, quintile 5 corresponds to the 20% of individuals with the highest wages in 2008, etc.³ Annual wages decreased 17% on average for movers and a mere 1.6% for stayers. Therefore, although wages of stayers are declining at an accelerated rate post reform, if one looks at the entire period of analysis, it seems that external flexibility is driving most of the wage adjustment process in Spain during the economic crisis.

Also interesting, wages of stayers increased between 2008 and 2010, especially for low paid individuals, whereas salaries of movers decreased since the start of the economic recession. However, even though stayers and

² The data come from the Administrative records of the Spanish Social Security (known in Spain as *Muestra Contínua de las Vidas Laborales*, MCVL, hereafter). The MCVL has information on a representative 4% sample of all Spanish individuals who were either employed or receiving a pension during the survey year. This analysis is based on a 60% random sample of all males aged 18 to 55 observed working in 2008 and in 2013 and who have never been self-employed between those years. 2013 is the last year available in the MCVL.

³ The figure omits workers in the 5th quantile due to topcoding (*i.e.*, the data do not capture the changes in the salaries of those workers because the information is topcoded in Social Security records).



Exhibit 2 Annual gross salary* by position (quintile) in the wage distribution: 2008-2013 (Index: 2008=1)

Note: (*) Salaries are expressed in real terms (2008 euro) and deflated using the Consumer Price Index. Source: Author's own elaboration and Social Security database (MCVL).

movers behaved very differently during the first three years of the crisis, their incomes evolved more similarly the years afterwards, especially since 2012. During 2012 and 2013, wages of stayers and movers have decreased on average 5% and 8%, respectively. And even though it is true that stayers' salaries started to drop in 2011, before the 2012 reform, the rate of change has gained pace since 2012, with wages dropping only 1% between 2010 and 2011 as opposed to 2.5% per year during 2012 and 2013. Hence, as stated previously, this reinforces the notion that



the February 2012 reform has contributed to internal flexibility in Spain's labour market.

Moreover, the rate of wage decline of movers does not show the same acceleration after 2012, consistent with the notion that the new regulatory environment mostly affected the wage setting process inside firms.

Exhibit 3 shows the evolution of wages across the two groups of workers and according to the type of contract that the individual held at the start of the period of analysis - 2008. Wages of temporary workers declined more than those of permanent workers, but the difference is notoriously larger in the case of movers. For movers, between 2008 and 2013, wages of temporary workers declined 25% whereas permanent workers experienced a wage decline ten percentage points lower, of 15%. In the case of stayers, once more we see that wages declined at an accelerated rate since 2012, with an accumulated drop of 6% during 2012 and 2013. Consistent with the idea of internal flexibility, the wages of permanent workers that staved with the same firm declined as much as those of their colleagues working under a temporary contract. A parallel not seen in the case of movers, since unprotected workers suffer more intensely the consequences of job displacement.

We turn now to Exhibit 4, which shows the evolution of wages across groups of firms defined by the size of their workforce in 2008. In general, we see that workers in larger firms faced a much better outlook than workers in small firms, regardless of whether those individuals later on switched to another firm or instead stayed working for the same employer. Stayers that in 2008 were working in large firms, of more than 250 employees, did not see any decrease in real wages between 2008 and 2013. Movers working in large firms in 2008 experienced an accumulated drop in wages of 9%. This contrasts with the much larger falls in wages for workers initially employed in small firms, of less than ten employees, with stayers losing 2% and movers 17%. This comparison suggests that small firms were more negatively affected by the economic crisis than larger firms. This is also confirmed by panel (b), in which we can see that movers in large firms did quite well until 2010. If this is so, and if the 2012 reform contributed to internal flexibility, we should see wages dropping more in small firms than in larger





Exhibit 5 Annual gross salary by worker age in 2008: 2008-2013

ones. This is precisely what we see in panel (a) of Exhibit 4, with stayers in small firms losing 4.5% since 2012 compared to just 2.7% in the case of stayers in firms larger than 250 employees.

On a related note, panel (a) shows a deceleration of the wage adjustment process in larger firms in 2013. This is possibly due to the fact that large firms, being more exposed to international markets, benefitted from the recent Spanish export boom.

Exhibit 5 looks at wage trends of individuals grouped by age in 2008. In general, older workers suffered a bigger drop in wages, but the difference between age groups is much more evident in the case of stayers than movers. The difference has to do with pre-2012 patterns, with younger workers' wages increasing to a larger extent in real terms than wages of older workers. Post-2012, all groups experienced similar drops in wages between 4.7% and 6.6%, combining 2012 and 2013. These magnitudes are quite similar to the drop in wages of movers, which ranges between 6.5% for younger workers and 8.7% for workers aged 31 to 45. The fact that wages of

movers and stayers evolved similarly post-2012, but very differently before 2012, reinforces once again the idea that the 2012 labour market reform increased internal flexibility in Spain.

The fact that wages of movers and stayers evolved similarly post-2012, but very differently before 2012, reinforces once again the idea that the 2012 labor market reform increased internal flexibility in Spain.

Wage adjustment mechanisms

Workers' annual wages can fall because they switch from full-time to part-time work, because individuals are employed during a shorter part of the year or because the compensation that they receive for the same amount of work falls. The difference between internal and external flexibility is that in the former, these changes occur while the worker maintains his job with the same employer, whereas in the latter, work time and compensation fall when the worker changes firm. The objective


Exhibit 6





of the 2012 reform was that jobs be saved in exchange for wage and work-time flexibility within firms. However, it is unclear whether the increase of part-time work among males is the result of the regulatory changes, or instead the consequence of job displacement in the midst of the recession. Since we follow individuals' work trajectories during the years before and after the reform, we can assess the relative importance of each mechanism by comparing the patterns of change of movers and stayers. This is shown in Exhibit 6.

In panel (a) of the exhibit, we see the incidence of part-time work between 2008 and 2013. In 2008, part-time work was slightly less frequent among stayers (3.06%) compared to movers (5.21%). However, that small difference of just two percentage points grew into a much bigger gap at the end of the period. In 2013, the part-time rate of movers (11.63%) is more than three times larger than the rate of stayers (3.84%), which basically did not change during the six years. This suggests that the recent increase of part-time work among males in Spain has been the result of workers losing their jobs, not the effect of the regulatory changes. This is in conflict with the objective of the 2012 reform, which aimed at firms not firing workers but rather asking them to work part-time.

Panel (b) of Exhibit 5 tells a similar story by looking at the amount of time that workers remained employed during the year. Stayers continue to be employed most of the year, with an average of 352 days in 2013 and little change since 2008. Instead, movers experience a constant reduction in the part of the year that they remained employed, with an average of 295 days in 2013, 19% less than at the start of the period in 2008.

Disaggregating the changes in wages into external and internal flexibility

In the preceding sections, we have seen that the wages of stayers evolved very differently from those of movers during the economic recession. The relative importance of internal and external flexibility to explain the observed changes in wages will depend on the evolution of wages of each group of workers and on the relative importance of each group in aggregate employment. In this section, we disaggregate the changes in wages into external and internal flexibility components. For example, the increase in the incidence of part-time work has been responsible for part of the wage deflation process in Spain, however the extent to which this is due to external rather than internal

Exhibit 7



Contribution to the change in wages between 2008 and 2013

flexibility will depend on the evolution of part-time work among stayers compared to movers and on the relative weight of each group of workers in overall employment.

Exhibit 7 shows the results of a disaggregated analysis where wages are estimated as a function of worker and firm characteristics and also the amount of work.⁴ Panel (a) of the exhibit shows the contribution of each factor in explaining the estimated change in wages between 2008 and 2013 for each group of workers, movers and stayers. Panel (b) displays the contribution of each factor in explaining the change in wages for all groups of workers pooled together. Part-time work is the least important factor, explaining at most 10% of the change in wages between 2008 and 2013. This is true if one considers groups individually (panel a) but also if one looks at wages of the pooled sample (panel b). The decrease of days worked is the most important element when it comes to explaining the evolution of wages of movers, accounting for more than 60% of the total. However, because movers are just 37%

of all individuals in the sample, the contribution of days worked by movers to overall wage losses between 2008 and 2013 is 40%. In the case of stayers, days worked is less important, explaining only 40% of their wages trend, and 15% of the total. The story is different when one looks at compensation, the other determinant of wage flexibility. Compensation here refers to annual payment for a job with the same characteristics in 2013 as in 2008. Changes in compensation explain 56% of stayers' loss of wages and 30% in the case of movers. However, the interpretation for the two groups of workers is different. In the case of stayers, these are wage adjustments that occur within the firm and for the same job. This is clearly an example of internal flexibility. In the case of movers, these changes in compensation occur because workers move to other firms where they receive a lower starting wage. In fact, individuals that switch firms tend to go to higher paying firms and industries (the surviving firms), but there, new workers are offered lower starting wages than before the crisis. What this indicates is that firms have been able to adjust wages downwards

⁴ The exhibit shows the results of an Oaxaca decomposition in which yearly earnings are regressed against education, age, type of contract, industry, firm size, a part-time dummy and days worked during the year.



Source: Author's own elaboration and Social Security database (MCVL).

not only because they managed to change the compensation scheme of stable employees, but also, and importantly, because they have lowered the starting salaries of new hires.

Considering the sum of the components from movers and stayers in panel (b) of Exhibit 7, one can get a sense of the proportion of the change

Roughly two thirds of the change in wages between 2008 and 2013 was due to external flexibility factors and one third due to internal flexibility. During the last two years, the picture is completely different, with almost 70% of the total wage adjustment due to internal flexibility.

of wages between 2008 and 2013 that can be attributed to internal flexibility and the proportion that can be attributed to external flexibility. This is shown in panel (a) of Exhibit 8, with roughly two thirds of the change in wages between 2008 and 2013 due to external flexibility factors and one third due to internal flexibility. Considering the adjustment in wages during the last two years, the picture is completely different, with almost 70% of the total wage adjustment due to internal flexibility factors. One could interpret the contrast between the two panels of Exhibit 8 as evidence that the February 2012 reform succeeded in increasing internal flexibility. However, an alternative explanation is that the job destruction process was concentrated in the first years of the economic crisis. For example, between 2008 and 2011, more than 2 million jobs held by males were lost, representing 17% of the total. In the next two years, the Spanish economy destroyed jobs but at a much lower rate, 675 thousand jobs, or 6% of the total. Consistent with this, in the last two years of our dataset, the proportion of movers is only 20%.

Annual wages of permanent *versus* temporary workers

In the previous sections, we have seen that the economic crisis has caused a reduction of

Exhibit 9



labour income for employed individuals in Spain, but that the adjustment process has been unevenly distributed, with movers suffering a disproportionate share of the burden of the adjustment. One distinct feature of the Spanish labour market is its segmentation by type of contract, permanent versus temporary. Because temporary workers have a higher probability to become movers and to be affected by external flexibility, one would expect that this group of workers has suffered a more intense wage adjustment compared to workers that had a permanent contract at the start of the economic recession. In our dataset, the probability of being a mover is 54% if the individual had a temporary contract in 2008, and 33% if he had a permanent contract. Exhibit 9 shows the evolution of median annual wages for these two groups of workers (panel (a)) and the relative importance of each factor in explaining the adjustment of wages (panel (b)).

Not surprisingly, between 2008 and 2013, workers with a temporary contract suffered a larger drop in wages, of 10.3%, compared to workers who had a permanent contract in 2008, with incomes dropping by only 5.2%. Also, consistent with the higher

turnover associated to temporary workers and the different adjustment patterns of movers and stayers that we have seen before, workers with temporary contracts suffered because they work fewer days, whereas in the case of workers with a permanent contract, the adjustment is due to both fewer days worked and lower compensation per hour.

Conclusion

An analysis of the work and wage trajectories of 98,960 males employed between 2008 and 2013 reveals that labour incomes adjusted downwards in Spain due to both external and internal flexibility factors. Although external flexibility still accounts for the lion's share of wage adjustment in Spain, internal flexibility is more important to explain wage adjustment during the last two years and after the implementation of the February 2012 reform. Considering the entire six year period, workers with temporary contracts at the start of the economic crisis have suffered a wage adjustment twice as large as that of workers with a permanent contract. This difference can be attributed to the fact that temporary workers suffer from the more

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negative consequences of external flexibility, mainly because they end up working fewer days a year and because the starting salaries in new jobs are much lower than those before the crisis.

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Spain's post-reform labour market legal framework

Federico Durán López¹

The 2012 labour reform aimed to correct two main shortcomings of the Spanish labour market's legal framework – high labour costs and lack of flexibility. While notable progress has been made to address rising labour costs, legal uncertainty introduced by the reform is preventing firms from taking full advantage of measures to increase flexibility.

The shortcomings of the Spanish labour market's legal framework are well-known. The framework's administration-centric view of labour relations is often insensitive to the needs of the productive system, labour productivity, and competitiveness of businesses and the economy as a whole. The result is a rigid framework with consequences not just for job creation/destruction, but also for job quality. The 2012 reform aimed to address this situation, on the one hand by reducing labour cost pressures for firms, and on the other, by increasing internal flexibility in an effort to reduce adjustment through dismissals. Whereas the labour-cost adjustment goals pursued by the reform have been achieved, the impact on increasing flexibility is not as clear cut. Legal guidelines governing modification of working conditions, redundancies on economic grounds, and collective bargaining have greatly curtailed, if not overruled, the most important changes brought by the 2012 reform, further increasing the legal uncertainty companies face.

The shortcomings of the Spanish labour market's legal framework are well known. There is also ample literature on the consequences for employment, not just in terms of job creation and destruction, but also job quality. The legal framework, which essentially comprises the Workers' Statute, characterized by numerous modifications and implementing regulations, has been largely unaffected by changes in production processes, the economy, companies, and society. It remains anchored in excessive and complex regulation, together with too much intervention by the authorities. The legal framework is therefore a source of rigidity. Moreover, its administration-centric view of labour relations is often times insensitive to the needs of the

productive system, labour productivity, or the competitiveness of businesses or the economy.

Similarly, the collective bargaining system also contributes to rigidity and excess burden on productivity and competitiveness. Collective agreements on working conditions have been given regulatory status rather than contractual status, as would have been preferable. Furthermore, they are applicable in general to all the parties within their scope rather than just those represented by the negotiators. Thus, collective agreements tend to constrain, or override, individual employment contracts, making them one of the biggest sources of rigidity in Spain's labour relations. Moreover, given

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that negotiations have predominantly been sectoral (and, more specifically, provincial), business and union organisations have enjoyed excess powers, being able to make key decisions regarding the scope of application of collective agreements, as well as the regulation of labour relations, leaving little discretionary power for individual contracts or for firms.

Apart from being a source of rigidity, collective bargaining has had an inflationary effect on labour costs. An analysis of the evolution of labour costs before and after the crisis reveals that the much advertised wage restraint has never existed, and that wage agreements resulting from collective bargaining have caused a continuous erosion of Spanish firms' competitiveness. This is a consequence, on the one hand, of wage increases being negotiated primarily at the sector level, without taking the specific situations of firms (or labour productivity changes) into account and, on the other, of regulation determining the validity and applicability of collective agreements. Until the

and applicability of collective agreements. Until the recent reforms, employers were legally required to maintain collective agreements in force, even after they had expired, until a new agreement came into effect. This was the so-called "ultra-activity". As a result, negotiations rarely aimed at renewing the content of the agreement to reflect productivity needs, instead revealing a trend towards continually escalating labour costs and efforts to decrease working hours.

In short, in a context of rising labour costs, and regulatory rigidities, employment became the main instrument for adjustment available to firms to adapt to structural changes or simple downturns in the economy. These dynamics in part explain the volatility and high rate of Spain's unemployment.

Key objectives of the 2012 reform

The reforms passed in recent years, particularly the 2012 reform, aimed to alleviate labour cost pressures on firms' competitiveness, as well as improve labour relations. The goal was to increase flexibility in labour relations in an effort to reduce reliance on redundancies as firms' main adjustment mechanism. In other words, the two principal objectives of the reform were: i) a tacit

The 2012 reform had two major objectives: (i) a tacit understanding to reduce labour costs; and, (ii) a repeatedly expressed aim to increase flexibility of labour relations in an effort to reduce dismissals.

aim of reducing labour costs; and, ii) the openly stated aim of increased discretionary power for employers to increase flexibility and adaptability of labour relations in an effort to reduce dismissals.

We now examine the regulatory measures introduced to achieve these goals and their results to date. The reform was essentially a modest one, limited to making only specific changes to certain aspects of existing regulation in the areas of labour costs and flexibility. One of the problems in the application of the reform is rooted in the behaviour of the courts, which have often failed to uphold the reform, as the recent regulatory changes introduced are at times at odds with the body of existing regulation. This is particularly apparent in the case of the reform of collective bargaining: attempting to alter only certain aspects of collective bargaining to change the negotiating behaviour of the parties involved, without changing the underlying model for negotiating collective agreements. In addition, technical shortcoming of the reform have also hindered the effectiveness of its application.

Cost adjustment measures

That said, the reform has sought to achieve cost adjustment through various measures. Firstly, by allowing substantial changes to working conditions –including wage cuts– to be agreed by the employer with the employee representatives or unilaterally imposed by the employer. This becomes an option if no agreement can be reached, when economic, technical, organisational or production reasons arise

(however, always with subsequent supervision by the courts, which must confirm that these conditions exist). This measure has allowed firms to cut wages (provided they are above the minimum set in the applicable collective agreement). Secondly, by establishing that company-level agreements on wages take precedence over sector-wide agreements. Company-level negotiation has therefore become an escape route from the rigidity of wages set at the sector level. Thirdly, by opening up the possibility for employers to opt-out of the conditions set in the collective agreement, either at the sector level or the company level. This measures offers firms an alternative route (referred to as an opt-out) to escape regulations that, for certain reasons, have become unsustainable. However, prior negotiations with the employee representatives must be respected and a unilateral decision by the employer is ruled out. If no agreement can be reached, the matter will be subject to arbitration by the National Consultative Committee on Collective Agreements (or the equivalent regional body). Fourthly, and finally, by limiting the time an expired agreement is to remain in effect to one year. This measures facilities the renewal of the expired agreement's content, avoiding attempts by unions to entrench themselves in the previous agreement as a starting point for new concessions, such as wage increases.

Three years after the reform came into effect, in terms of adjustment to labour costs, we can say that the goals pursued by the reform have clearly been achieved. Wage restraint has become well established in Spain. The adjustment has been significant and is one of the factors enabling businesses to improve competitiveness and boost exports. At the same time, however, paradoxically, employers and employees are facing increases in the cost of associated social contributions. The increase in the contributions ceiling (5% a year in 2013 and 2014), the inclusion of payments in kind in the contributions calculation, and other related measures have partly counteracted the wage restraint efforts made. Furthermore, wage adjustment has had negative social consequences, and from the

economic viewpoint, has also been a factor in holding back consumption. However, the scope for additional competitiveness gains based on further labour cost reductions is limited. That said, going forward, future wage increases must be in line with

The 2012 labour-market reform led to a significant adjustment in labour costs, which has improved firms' competitiveness. However, there is probably now little leeway for this wage adjustment to continue.

productivity gains and should not take the form of across-the-board sector-wide wage increases. They should, rather, be limited to the specific scope and circumstances of each individual firm. More forceful regulatory measures may well be necessary for Spain's labour relations to move in this direction.

Flexibility measures

The situation regarding flexibility is much more complex. Here we distinguish between three fundamental aspects of the reform: internal flexibility via changes to working conditions, external flexibility through redundancies on economic grounds, and collective bargaining. Each of these aspects merits separate discussion.

Internal flexibility

Initially, it became easier to make substantial changes to working conditions (either through agreement or unilateral decisions imposed by employers if no agreement could be reached), despite the limited regulatory changes. The courts adopted the legislator's intentions to facilitate firms internal adjustment, provided compliance with formal conditions.² Moreover, the requirement to demonstrate economic, technical, organisational

² Formal conditions included negotiations with employee representatives and ensuring these representatives were provided with the relevant information.

or production grounds for a decision was less strict than in the case of collective redundancies. It was argued that the causes, or rather their intensity, were not the same in each case, and therefore the evidentiary requirements were also less stringent. Moreover, having demonstrated the grounds, the business's decision to change working conditions accordingly tended to be respected.

However, as the reform was applied with more frequency, this initial acceptance of the greater ease of implementing substantial changes to working conditions was progressively curtailed. To some degree, government regulations played a part. Indeed, Royal Decree 1362/2012, September 17th, 2012, enacting the Regulations of the National Consultative Committee on Collective Agreements, introduced criteria controlling employers' objectives, making it necessary to confirm that the proposed measures were appropriate and proportional, and not merely confirm the existence of the their alleged grounds. This allowed the National High Court (NHC), for example, to again argue for the need to assess the reasonableness and proportionality of the business decision ruled upon by the court.³

This "reabsorption" of the changes introduced by the reform into the old interpretative patterns was consecrated at the highest level by the Sentence of the Constitutional Court of January 22nd, 2015. Curiously, while endorsing the constitutionality of the reform, this ruling does so on the basis of consideration that the reform has had very little impact, if any at all. The Constitutional Court seemed to be saying that the reform is constitutional because, basically, it has left the regulatory situation unchanged. In relation, in particular, to internal adjustment measures, the Constitutional Court held that employers' authority to make changes to working conditions regulated under Article 41 of the Workers' Statute is a regulated rather than a discretionary power. This is to avoid *misuse* by employers of the authority they have been granted. Thus, Article 41 has to be interpreted in the light of the regulations on collective redundancies (Article 51), suspension of contracts (Article 47), and opting-out of collective agreements (Article 82.3). In all these cases, the grounds are the same, and the court's oversight of the corresponding measures by the employer must be full and effective.

Under these circumstances, if judicial doctrine takes this approach, one of the most significant

Legal obstacles have significantly limited the changes made to internal flexibility, thus creating greater uncertainty among firms as regards its possible application.

changes brought by the reform will be severely constrained, and it will significantly increase firms' insecurity with respect to the possibilities of internal flexibility it allegedly sought to increase.

External flexibility

The same logic applies to external flexibility. If the legislator's intention was to rationalise the functioning of redundancies on economic grounds, allowing relevant decisions to be taken by employers, while demanding compliance with certain formal requirements, we believe the reform has fallen short of its objective. The uncertainties are greater than in the past and the situations arising are more difficult to manage. This is a consequence of the reform's approach (and its technical shortcomings).

The legislator sought to bring the situation of redundancies on economic grounds in Spain closer to that of other European countries and in line with the European community's approach. Thus, the requirement for prior authorisation for dismissals from the authorities was eliminated and

³ Sentence of the NHC of March 11th, 2013, referring to a specific case of dismissal but applying a doctrine to be used as a precedent for cases of modification of working conditions.

the employer was given freedom over the decision to be taken. But, in the wake of the Community directive, a period of consultations with employee representatives was imposed, and employers' duties to provide information to enable or facilitate these consultations was regulated in detail. The European approach of giving employers the power to decide on workforce adjustments configures this decision in a highly proceduralised or formalised way, putting the emphasis on the formal requirements, in particular respect for genuine (informed) negotiations with employee representatives.

Alongside these changes, rather than respecting the employer's decision once the negotiation process has taken place and the established requirements have been complied with, the ultimate ruling remains entirely under the court's control. The courts not only seek to confirm that the formal requirements have been met, but also look at the substance of the case to verify whether the economic, technical, organisational or production grounds claimed by the employer have in fact arisen, and whether these grounds warrant the measures taken. This is in contrast to the preamble to the law, which states that court intervention should to be limited to verifying the facts asserted by the employer, not judging the business decision's appropriateness or scope.

This situation gives rise to two basic issues: the first is that complying with the formalities has turned into a labyrinth employers are finding hard to navigate. The courts have been extremely strict in this regard, and many of the collective redundancies ruled to be null and void by the courts have been excluded on the grounds that they have failed to comply with formal requirements. The legal uncertainty on this point has become extreme.

The second issue derives from the legislator's illusory goal of achieving an objective formulation on which to base redundancies on economic grounds. The way the legal text is drafted is a long way from objective (the basic justification being

a negative economic situation, which is by no means a precise concept.) And legal guidelines, after an initial stage in which they stressed the legal changes adopted and the legislator's wish to avoid court judgment of business management decisions, have reintroduced appropriateness criteria (the alleged grounds) for the business decision, its reasonableness, and its proportionality. With these criteria, we again have courts appraising business management decisions and moving away from the idea that, once the grounds have been confirmed, the decision based on them should be taken by the employer.

The Constitutional Court's ruling alluded to above is also relevant here. The Constitutional Court maintains that, in relation to collective redundancies, the reform neither blurs the grounds for dismissal nor introduces greater discretion for employers, but simply eliminates the room for uncertainty in the interpretation and application of the rule. It neither gives more leeway for the employer's discretion nor eliminates the causal element from the dismissal, but defines these grounds more objectively and with more certainty, by avoiding rulings over the appropriateness and forward-looking assessments. As regards judicial oversight, the Constitutional Court says that the judge is to assess whether real and realistic grounds exist making it just, i.e. reasonable, that the employer decide to terminate the employment relationship.

Collective bargaining

Finally, as regards collective bargaining, despite the changes made to the role of company-level agreements, in terms of the possibilities of opting out of the agreed conditions, and in terms of the limitation on the "ultra-activity" of collective agreements, in general terms, it is safe to say that little has changed. Collective agreements remain a major source of rigidity in Spain's labour relations. They continue to have the aberrant regulatory character mentioned above. Being generally applicable (reaching beyond the parties the negotiators effectively represent), their negotiations remain marked by the tendency to conserve existing conditions, with minimal drive for innovation. Experience shows that efforts to change collective bargaining without changing the regulatory framework underpinning it, as in the case of the latest reform, are unlikely to succeed. And while it is true that numerous opt-outs from collectively agreed conditions have taken place, their quantitative importance, in terms of the number of workers affected, is scant. It is also true that the possibilities opened up for businesses to negotiate have promoted agreements to tailor the conditions agreed upon sector-wide to the business level. However, collective bargaining has not changed substantially and the limitation on the "ultra-activity" of collective agreements to a year has not worked. The lack of ambition of the legislator, the technical errors in the statutory rules and the interpretation of many judges, obstinately refusing to accept that workers might lose the coverage of a collective agreement, has led to a situation in which the regulation has barely had any impact on the reality.

On the one hand, judges have interpreted that the pact against the end of "ultra-activity" may be an agreement prior to the reform. A substantial percentage of collective agreements mirrored the preceding legal regulation. Given that the interpretation of this regulation includes an understood agreement not to limit "ultra-activity," the practical impact of the regulatory change has been severely limited from the outset.

What is more, judicial doctrine has gone further⁴ by interpreting the regulatory change to mean that an expired collective agreement ceases to be applicable after a year (by legislative mandate), but must nevertheless continue to be applied. This is either because it is understood that the conditions of the collective agreement have been incorporated in the individual employment contracts, or because there was a tacit agreement between the employer

and employees for the collective agreement to continue to apply in its entirety.

In this context, if the reform's intention was to modernise Spain's labour relations, making them more sensitive to changes in productivity and competitiveness needs of firms and the economy, a thorough overhaul of the regulatory and negotiations framework is needed.

Conclusion

Thus, as regards internal flexibility, the set of regulations contained in Article 41 of the Workers'

There needs to be scope for discretion in business management as firms cannot be managed as if all possible production and organisational contingencies were foreseen and regulated by law.

Statute needs to be reviewed. The grounds for internal flexibility cannot be the same as those required for dismissal, and discretionary powers of businesses cannot be conceived of as being regulated as if they were administrative measures. Firms must be given leeway for discretion (but not arbitrariness) in their business management, as firms cannot be managed as if all possible organisational and productive changes can been foreseen by law and regulated.

Legal certainty urgently needs to be restored to collective redundancies. Compliance with formal requirements must be subject to approval by the authorities, as it is in France, with the possibility of rectification of any errors or non-compliances, without subsequent judicial oversight. Judicial oversight should be limited to legal aspects of dismissals, leaving economic conflicts and conflicting interests aside. This does not undermine the right to effective legal protection. The work of the courts should focus

⁴ See the ruling of the Supreme Court of December 22nd, 2014.

on individual claims against dismissal, eliminating the nullity of a collective dismissal, which creates more problems than it solves, and leads to almost unmanageable situations. Nullity of dismissal should not be used in the case of collective redundancies. And much less so if possibilities of

Court oversight of redundancies should be limited to legal aspects, leaving economic conflicts or conflicting interests aside. The work of the courts should focus on individual claims and it should not be possible to rule collective redundancies null and void.

collective enforcement of the ruling for nullity of the collective dismissal are opened up, as the legislator has done.

Finally, in relation to collective bargaining, reestablishing the contractual nature of the collective agreement would be a significant step, as would limiting its application to the parties represented in negotiations. Together with this, in any case, legislation should give company-level agreements more prevalence to avoid creative interpretations by the courts. The consequences of the loss of validity and applicability of the agreement should under no circumstances be that the expired agreement should remain in force in its entirety.

In sum, the 2012 labour reform has made progress to address some of the relevant shortcomings of the Spanish labour market's legal framework. For instance, there has been notable progress on reducing competitiveness pressures on business and the economy through moderation of Spain's rising labour cost dynamics. At the same time, however, legislative changes applied to key areas affecting labour relations, such as internal flexibility, external flexibility, and collective bargaining, have introduced greater uncertainty into Spain's legal framework, necessitating further advances in these areas for employers to be able to benefit from the reform's intended effects.

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Spanish banks: Measuring competitiveness against the European banking system

Itziar Sola and David Ruiz¹

With the creation of the European Banking Union, the competitiveness of Spanish banks must be assessed within the context of the new integrated European system. While today Spanish banks both outperform and underperform their peers in certain areas, convergence with the leading comparable European banking systems is expected.

Within the new European banking sector landscape, one of the main challenges, for banks and supervisory authorities alike, is to manage the co-existence of a large number of entities with very different business models. The ability of these entities to generate earnings will depend on their ability to leverage their strengths in an environment of protracted reduced economic growth and low interest rates. In Spain, where the banking model is strongly biased towards financial intermediation, banks today are outperforming many of their European peers in terms of income generation. However, low interest rates, the absence of growth in lending volumes, and the end of the sovereign carry trade should put downward pressure on profit margins going forward. Furthermore, the higher cost of risk associated with the Spanish banking model serves as a counterpart to the higher income margins generated by the Spanish financial system. Lastly, on a comparative basis, at year-end 2014, Spanish banks were somewhat less solvent than their European peers, but potential changes to the methodology for the measurement of financial strength may leave Spain in a more favourable position.

The European Banking Union has several aims, including strengthening of the banking system, standardisation of risk assessment, optimal resolution of banking crises and, above all, the decoupling of banking and sovereign risks. In its short time of existence, the Single Supervisory Mechanism has begun to lay the groundwork for harmonising supervisory functions, although it will have to cope with highly diverse entities, present in a wide range of markets and with very different business models. Full configuration of

the European banking system will take time, which is why it is interesting to study some of the idiosyncrasies of the main banking systems that comprise the Banking Union.

The purpose of this article is to assess the competitive position of Spanish banks against the backdrop of this new European banking landscape. First, we will analyse the weight of the traditional banking business in terms of banks' overall assets and their financial stability, given

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its importance for liquidity management. We devote the second section to an examination of income generation and cost efficiency, measures that are vital to ensure the business's long-term sustainability. We then assess banks' different risk profiles. Lastly, before drawing our conclusions, we will analyse the main European banking systems from the standpoint of capital adequacy and solvency.

Financial equilibrium: Liquidity

One simple way to determine business models among different banking systems or among banks in a given system is to look at the structure of their assets and liabilities, as well as the implicit equilibrium between both. A balance sheet heavily biased towards loans and/or deposits suggests a business model that is skewed towards financial intermediation, as compared to models that are more oriented towards corporate and/or investment banking, which typically present significantly lower levels of loans and/or deposits. At the same time, the proportion of loans to deposits is another good indicator of the financial equilibrium with which the business model (whether wholesale or retail) is pursued.

For the purpose of classifying banks by the aforementioned models, Exhibit 1 presents a broad sample of banks from various European countries classified by the relative weight of loans and deposits in their balance sheet structures.

Unlike German and French banks, Spanish and Italian banks are heavily exposed to the traditional intermediation business, albeit with a substantial loan-to-deposit gap.

Despite substantial dispersion among the entities considered, certain patterns or clusters emerge that enable categorisation of the various systems. The majority of Italian and Spanish banks, for example, present a similar profile. Specifically, significant exposure to financial intermediation (loans and deposits), albeit with an element of financial imbalance, insofar as loans slightly outweigh deposits. British banks also display bias

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Business models of European banks (December 2013)



towards intermediation, in this instance presenting greater balance between loans and deposits.

At the other end of the spectrum lie German and French banks with far less exposure to intermediation, implying greater concentration on capital markets and investment banking activities. French banks are more balanced, while German banks, whose loans outnumber their deposits, are more clearly out of sync. Nevertheless, the gap between loans and deposits has narrowed substantially in all countries, above all in Spain, since the start of the crisis. Recall that at the start of the crisis, the loan-to-deposit ratio in Spain stood at 150%, implying that loans were not fully funded by deposits so that banks were relying heavily on the wholesale funding markets. The collapse of these markets between 2008 and 2012 (indeed, until the ECB reactivated bank liquidity) evidenced the risk entailed by such an imbalanced financial position and drove a shift towards a more balanced loan-to-deposit structure.

Income generation and cost efficiency

Our business model analysis would be incomplete without an assessment of Spanish banks' competitiveness. To this end, we first compare the margins generated by banks on a comparative basis and the costs incurred in doing so. Obviously, these metrics will differ significantly from one entity to the next so that their aggregation across entities must be interpreted with caution, as these figures encompass starkly different realities.

With these caveats in mind, Exhibit 2 compares Spanish banks with their main European peers in terms of two key ratios (as of June 2014, the most recent figures available). On the one hand, the gross operating income² generated by banks, expressed as a percentage of average total assets, and, on the other, the total operating costs³ incurred to manage these assets and generate the corresponding gross margin.

Exhibit 2

Margins and costs across Europe's banking systems (June 2014)



Business profitability (gross operating income/ATA)

1.78



Cost structure (operating costs/ATA)

² Gross operating income is the arithmetic sum of all financial income (that generated by banks' lending activities and from their investments in fixed income securities and equities), less financial costs (the cost of customer deposits and other liabilities issued), plus net fee and commission income, service revenue and net trading gains. In the case of non-financial corporates, the gross margin is equivalent to gross profit.

³ Operating costs refer to the costs incurred to run the business and include personnel costs, other operating costs and depreciation and amortisation charges.

1.16

As the exhibit reveals, the Spanish banking system generates a higher gross operating income than its counterparts in the other major European economies, with the exception of Italy.

Italy is the country with the most costly banking system (measured relative to its asset volumes) among the major European economies, largely eliminating its advantage in terms of margin. In the case of Spain, in contrast, the difference with the other three major economies in terms of costs is very small, which means it leverages its margin advantage. Indeed, the difference between gross

The Spanish banking system presents the highest spread between gross margin and opex (1.48% of ATA) among the large European economies.

52 operating income and operating costs (1.48% of assets) is higher in Spain than in any other large European economy.

However, it would be premature to conclude from this comparative analysis that Spanish banks boast a more favourable competitive position than their peers in Europe's largest economies for several reasons. First of all, their ability to continue to generate such a high gross operating income going forward is questionable in an environment marked by protracted low interest rates and the absence of growth in lending volumes.

Secondly, the gross margins generated in 2014 (as in 2012 and 2013) include very significant sums, most particularly in Spain and Italy, whose recurrence is highly unlikely. Specifically, we refer here to the income generated by the socalled carry trade, namely the profit generated by borrowing money from the European Central Bank at ultra-low rates and investing it in sovereign bonds yielding much higher rates. This phenomenon made a far larger contribution to gross operating income in Spain and Italy for two main reasons. On the one hand, because these two countries' sovereign bonds have been offering far higher yields than those of the other major European economies, translating into a substantially higher unit margin. Moreover, the intensity with which these two nations' banks invested in sovereign bonds was more pronounced, as can be seen in Exhibit 3. Exhibit 3 illustrates the relative weight of sovereign bond investments in the assets of the banks of the major European economies at year-end 2014. Italy and Spain clearly top this particular ranking, presenting weightings slightly above 10% in both cases. We can unequivocally state that the contribution made by these investments to gross operating income in these two countries is much higher than the 10.5% of assets represented by these public debt holdings. This is due to the fact that the unit margin on these investments, financed at a rate of virtually 0%, was considerably higher than that obtained on the banks' other investments, including customer loans.

Exhibit 3

Public debt holdings as a % of assets. European banking systems (2014)



In order to ring-fence to the extent possible the caveats mentioned in terms of the cross-country comparability of margins, we have tried to break down gross operating income further in an attempt to indirectly pinpoint business specialisation in one or another area. As shown in Exhibit 4, the Spanish banking system presents the margin structure (by component) that most closely resembles that of a business model based on traditional financial intermediation. Spanish banks' margin structure is far less exposed to trading and derivative related income (the main components of 'Other'); on the other hand, Spain is the country with the highest weight of both financial income (interest income) and financial costs (interest expense). The relatively higher incidence of financial income and costs in gross income can reflect a business structure more heavily weighted towards loans and deposits and/or the assumption of higher risk in their business activities, whether retail or wholesale.

Exhibit 4

Breakdown of gross margin across Europe's banking systems (June 2014)

1.6 3.0 1.9 3.0 2.1 0.8 1.0 0.3 0.5 0.7 0.7 0.4 0.7 0.1 3.3 2.8 2.3 2.2 1.7 -1.2 -1.3 Italy France UK Germany Spain Interest income Interest expense Net fees & commissions Other income

Operating income / ATA (Percentage)

Source: ECB, AFI.

Risk profile and risk-adjusted returns

The comparative analysis of the profitability and cost metrics relative to assets would be incomplete without taking into account the different risk profiles assumed by the various entities in pursuing their business models. The system encompasses markedly different business models and a broad range of attendant risks that need to be correctly identified, measured and managed.

Under the prevailing regulatory framework, these different risks have to be measured by each entity using different approaches –standard or based on internal ratings– albeit with a common objective, that of synthesising each entity's risk profile, expressed as the percentage of riskweighted assets (RWA) relative to that entity's total assets. The higher this ratio, the higher an entity's risk exposure insofar as they present a relatively higher weighting of risky assets for RWA calculation purposes, which in turn is the basis for a firm's capital requirements.

Exhibit 5 illustrates the aggregate risk profile as of June 2014 of the banking systems of the Eurozone's four largest economies, along with the United Kingdom, clearly evidencing two welldifferentiated lines of specialisation. Spain and Italy also top this ranking, with RWA ratios close to 50%, while Germany and France present far less risky profiles, with RWA ratios around 35% of total assets. The UK stands closer to France's and Germany's levels of risk.



Unquestionably, as we will demonstrate further on, the less risky profile of banks in Germany and France is largely influenced by the business specialisation of their major global banks. This specialization is characterised by a very low incidence of traditional financial intermediation and relatively high exposure to capital markets activities, which carry reduced weightings for capital adequacy calculation purposes.

We must consider the argument that the coefficients used to weight assets for RWA purposes are debatable and the international debate is moving in favour of requiring banks to hold capital as a function of their total assets and not only their risk-adjusted assets (*i.e.*, requiring a leverage ratio in addition to a minimum capital ratio). Nonetheless, it is true that the different risk profiles of the Spanish and Italian banks and the German and French banks most likely reflect higher exposure to lending activities in the

The differences in the risk profiles of Spanish and Italian banks (50%) relative to their German and French counterparts (35%) probably reflect higher relative exposure to lending activities in the former.

former. Against the backdrop of the recent crisis, this exposure will have translated into higher provisions for risks in general and for loan losses in particular.

This is evident if we analyse Exhibit 6, which depicts the year-on-year trend since the start of the crisis in the cost of risk assumed by the main European banking systems. This cost of risk is primarily reflected in the provisions recognised by banks in each year, expressed as a percentage of total assets. We have taken a period spanning several years, as well as the year-onyear snapshot, because the various banking systems, and even the various banks within a given system, may have timed their recognition of this cost differently. This could be due to respective prudential requirements (different in each country albeit identical for each entity within a given system), or as a result of the kinds of risks predominating in each bank's asset structure.

These different timing patterns explain the markedly different trend in terms of when each country recognised this cost of risk for accounting purposes (asset impairment losses charged against profits). Whereas these losses were largely recognised at the start of the crisis (2008 and 2009) in Germany, France and the UK, in Spain and Italy, they were recognised much further into the crisis (2011 and 2012 in Spain and a year later still in Italy).

This same exhibit presents the annual trend in net income (*i.e.*, after deduction of this cost of risk), similarly expressed as a percentage of total assets, namely, the return on assets (ROA) ratio. As might be expected, the trend in banks' ROA is clearly inversely related to the cost of risk: when this increases, it exerts downward pressure on returns. In fact, in nearly all the countries analysed, with the sole exception of France, the year in which the cost of risk peaked translated into aggregate losses for the banking system as a whole (negative ROA). This occurred in Germany and the UK in 2008 and 2009, in Spain in 2012, and in Italy in 2011, 2012 and 2013.

In addition to the timing differences with respect to recognition of these provisions for accounting purposes, Exhibit 6 shows that the impact was

Beyond the timing differences, the annual cost of risk averaged around 1.15% of total assets in Spain and Italy, compared to an average of 0.3% in France and Germany.

much higher in Spain and Italy than in Germany or France. In the first two countries, this cost of risk averaged around 1.15% of total assets per



Source: ECB Banking Consolidated Data, AFI.

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annum compared to an a

annum, compared to an average of around 0.30% in the cases of Germany and France. This higher cost of risk in Spain throughout the crisis years is consistent with —or better said the consequence of—the system's far riskier profile, which in turn serves as a counterpart to the higher income margins generated by the Spanish financial system.

Against this backdrop, in order to confirm the correlation between business profitability and risk profile, we took our analysis of the banking systems as a whole and of certain individual banks a little further. Exhibit 7 presents risk profiles (RWA as a percentage of total assets) and gross margins, similarly expressed as a percentage of assets, of a large sample of banks across the major European countries.

This analysis yields several conclusions. Firstly, the correlation between risk profile and margin generation is positive and highly significant, consistent with the risk-return trade-off. Secondly, looking at banks' business presence by country of origin, there is a clear pattern of specialisation: most of the Spanish and Italian banks feature in the upper right-hand quadrant (high risk profile, high margin), while the French, British and German banks tend to cluster in the lower quadrant, albeit evidencing far greater dispersion in the case of the German banks. In their case, there is really no correlation between risk profile and margin generation in this instance. This anomaly among the German banks, which are precisely the entities that systematically evidence lower risk profiles, coupled with criticism regarding their excessive sensitivity to highly subjective internal models, is behind the growing clamour for the use of total assets (and not just risk-adjusted assets) for determining capital requirements in Europe.

Solvency and leverage

The most important indicator of banks' financial health is their capital adequacy. In fact, the major mistake made during the early stages of the banking crisis in general, and in Spain in particular, was the belief that the crisis was largely a liquidity issue, when the real problem was one of capital shortage.

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Exhibit 8

Solvency and leverage - European banks (December 2014)

(Percentage)



Leverage (CET1/total assets)



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This is why in addition to the public recapitalisation exercises undertaken across Europe, a large number of European banks had to take internal measures (whether to increase capital or reduce loan exposure and RWAs) in order to boost their solvency and pass the stress tests performed prior to the introduction of the Single Supervision Mechanism.

On a comparative basis, at year-end 2014, Spanish banks were somewhat less solvent than their peers in the other large European economies. Specifically, as illustrated in the bar exhibit on the left within Exhibit 8, banks' Common Equity Tier 1, or CET1, ratio, expressed as a percentage of total risk weighted assets as of that date, was 11.6% in Spain, slightly lower than in Italy but well below the average in France and, above all, Germany. However, if financial strength is not measured in terms of RWA but rather in proportion to total assets, in line with the emerging international trend, particularly in the US, Spain and Italy clearly fare better than France and Germany, as is evident in the right-hand bar exhibit.

Conclusions

Banking Union implies above all an irreversible commitment to building a fully-integrated banking system. The competitive landscape in which Europe's banks are going to operate under must begin to factor in the new integrated system to which the Banking Union aspires and commits.

Despite substantial dispersion among Europe's banks, certain patterns emerge that enable categorisation of the various systems. Against this backdrop, the majority of the Spanish and Italian banks present very similar characteristics, strongly biased towards financial intermediation and marked by a gap between loans and deposits in the process of being corrected. In contrast, the traditional intermediation business holds much less weight among the French and German banks, whose models are more heavily dominated by capital markets and investment banking activities.

Our analysis of Spanish banks' competitive positioning relative to their peers in the other

large European economies begins with an examination of their ability to generate gross operating income. Spain ranks towards the top of this particular European league table, although income in recent years has included significant sums whose recurrence is considered highly unlikely. Specifically, we refer here to the income generated by the so-called carry trade, namely the profit generated by borrowing money from the European Central Bank at ultra-low rates and investing it in sovereign bonds yielding far higher rates.

The significant correction already sustained in Spanish sovereign bond yields suggests that it will be far more challenging to pull off such carry trades in the future without incurring excessive risk. Moreover, the ability to continue to generate such high gross income margins may similarly be jeopardised by the protracted period of low interest rates and absence of growth in loan books. This will unquestionably exert downward pressure on Spanish banks' net interest margins as part of clear-cut convergence with the leading comparable European banking systems.

Irrespective of the sustainability of the marginderived competitive advantage boasted by the Spanish banking system, it is true that Spain's banks generate their profits using a cost structure (relative to total assets) that is very similar to that of the other main European banking systems. This implies a degree of elbow room in terms of absorbing potential additional margin contraction. Indeed, the difference between gross operating income and operating costs is higher in Spain than in any other large European economy.

The annual trend in net income (*i.e.*, after deducting the cost of risk), also expressed as a percentage of total assets, a measure known as the return on assets (ROA), clearly presents inverse correlation with the cost of risk: when the provisioning effort increases, ROA comes under heavy pressure. In fact, in most of the countries analysed, the year in which the cost of risk peaked translated into aggregate losses for the banking

system as a whole (negative ROA). This occurred in Germany and the UK in 2008 and 2009, in Spain in 2012, and in Italy in 2011, 2012 and 2013.

Beyond different timing patterns with respect to recognition of provisions for accounting purposes, the cost of risk has been systematically higher in Spain and Italy than in Germany or France. This higher cost of risk in Spain throughout the crisis years is consistent with —or better said the consequence of— the system's riskier profile, which in turn serves as the counterpart to the higher income margins generated by the Spanish financial system.

Lastly, at year-end 2014, Spanish banks were somewhat less solvent than their peers in the other large European economies. However, if financial strength is not measured in terms of RWA but rather in proportion to total assets, in line with the emerging international trends, Spain and Italy clearly fare better on solvency than France and Germany.

Dividend policies in the Spanish banking sector

Miguel Arregui and Ángel Berges¹

The severe impact of the crisis on Spain and its financial sector led to a notable increase in corporate dividend payout ratios, with the greatest effort made by banks. Innovative dividend policies allowed banks to achieve the dual objective of maintaining stable dividends, while boosting capital ratios, but traditional cash payment should re-emerge as the main form of dividend remuneration post crisis.

Generally speaking, listed companies go to great lengths to keep their dividends stable. Against the backdrop of earnings contraction, this stability is achieved at the cost of higher payout ratios. The IBEX is one of the stock indices most sensitive to dividend variability, as its dividend yield is higher than that of comparable indices. The same can be said of the Spanish banks, which during the crisis years saw their payout ratios rise above 100%, covered largely in the form of scrip dividends. This payment formula enabled Spanish banks to maintain high dividend yields, while increasing capital, in sharp contrast to what would have happened if they had paid these dividends in cash.

Dividend policy: Some considerations

The dividend payment policy of listed companies has been one of the issues most intensely debated in both academic and empirical financial papers. In contrast to the traditional academic theories regarding the financial irrelevance of paying or not paying dividends, empirical observations reveal that dividend policy does affect share price performance, and significantly so.

This is evident in the stability that most companies try to imprint on their dividend policies, preventing wide swings and trying to keep their dividends constant or growing moderately over time, but trying at all costs to avoid cutting them. The search for a stable dividend in monetary terms translates into a markedly pro-cyclical trend in the payout ratio, *i.e.*, the percentage of the companies' profits that is paid out to its shareholders. In fact, certain listed companies' payout ratios have peaked at over 100% at times of sharp earnings compression, as was the case at the height of the last crisis.

Listed companies try to maintain a stable dividend policy. This is particularly true of listed banks.

Additional evidence points to variability in dividend remuneration by sector. By way of example, high-

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growth sectors or companies tend to pursue more austere dividend policies. On the other hand, mature companies or those faced with reduced growth prospects are typically far more generous with their dividend payments.

In the specific case of banks, another factor comes into play related to their regulated nature (regulations may impose restrictions on dividend payments and/or the need to reinforce capital). Furthermore, the perception that dividend payments are a sign of an entity's financial health is yet another factor that has historically driven banks to keep their dividends stable or even increase them. This symbolic message value, by virtue of which a dividend cut could be interpreted as a sign of financial weakness, is important for all kinds of companies; however, it is particularly important in the case of banks. An adverse message may impact not only their shareholders, but also their creditors and depositors, thereby affecting not only capital, but also other assets and liabilities.

In light of these considerations regarding the importance of corporate dividend policy,

above all in the case of banks, we have analysed dividend policy at financial institutions compared to the rest of the listed companies in Spain. We pay special attention to the trends in policy before, during and after the crisis, which has affected all listed companies, but has had a more devastating effect on credit institutions.

An area of particular significance within this comparative analysis is the role played by scrip dividends (dividends paid in shares instead of cash), which have grown enormously in importance in recent years. Again, this is particularly true in the case of banks, as scrip dividends allow for remunerating shareholders while at the same time reinforcing capital.

Dividends on the Spanish stock exchange: An international comparison

From the standpoint of an equities investor, the two main sources of returns are the share price performance and the yield obtained via dividends.

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Table 1

Shareholder remuneration in Spain

Dividends and other payments made by listed companies. Pre-tax amounts (millons of euros)

	Dividends	Distribution of share premium reserve	Return of shareholder contributions (nominal capital)	Total
2005	14,436	4,464	224	19,123
2006	21,810	513	761	23,084
2007	23,339	220	-	23,559
2008	28,065	347	-	28,412
2009	33,115	763	4	33,882
2010	24,288	295	9	24,593
2011	28,213	5,433	14	33,659
2012	26,769	384	-	27,153
2013	23,263	133	19	23,414
2014	43,261	146	3	43,409

Note: Since 2009, the dividend figure includes the total amount paid out using the scrip dividend formula and that collected by shareholders by selling their pre-emptive subscription rights to the company or on the market (cash) plus the equivalent monetary value of the bonus share rights exercised (shares).

Source: Bolsas y Mercados Españoles (BME).

As already noted, classical academic theory holds that in the absence of differing tax treatments of dividend payments versus reinvestment thereof, investors should be indifferent as to whether or not they receive dividends.

Dividends have been the main source of return for Spanish equity investors during the crisis years.

Nevertheless, listed companies are curiously committed to their dividend payments. This commitment is all the more noteworthy in the case of the Spanish stock exchange, which offers a higher percentage of shareholder remuneration in the form of dividends versus capital gains than many global stock exchanges.

In 2014, according to *Bolsas y Mercados Españoles* (BME), Spain's listed companies paid out 43 billion euros in dividends, some 85% more than in 2013 (although the 2014 figure is

Trend in the IBEX 35 vs. the IBEX 35 including gross dividends

somewhat distorted by a special dividend payment totalling 14.5 billion euros made by Endesa in the wake of a major disposal effort). Apart from that special dividend, Spain's listed companies paid out around 28 billion euros, marking year-on-year growth of 20%.

The dividend yield, expressed as a percentage of market value, was just over 5% (3.4% excluding the special Endesa dividend). Either way, this constitutes one of the highest dividend yields among the leading global stock exchanges.

The importance of dividends relative to other source of shareholder remuneration, share price gains, is evident in Exhibit 1 below. It reveals a negative cumulate return excluding dividends (*i.e.*, only reflecting share price performance) for IBEX 35 investors during the last five years of 10%. Factoring in dividends, however, the return jumps to a positive 20%.

Dividends emerged, therefore, as the main source of shareholder remuneration for Spanish equity investors during the crisis years, this phenomenon

Exhibit 1



Note: *TR: total return, i.e. including dividends before withholding tax. Source: Bloomberg. presenting a double interpretation. On the one hand, it reflects management concern towards shareholders, attempting to preserve their capital against the backdrop of generally depressed asset valuations. However, it may also be read as a lack of organic growth opportunities.

Dividends and profits: 100% Payout

The above observation leads us to another interesting reflection on the link between dividends and corporate earnings, as measured by the payout concept alluded to earlier.

Throughout the crisis, Spanish banks paid out more in dividends than they generated in net profits.

Between 2007 and 2014, and excluding the impact of the Endesa dividend, overall payments moved in a tight range between 23 and 28 billion euros. Such dividend stability throughout a period of marked earnings volatility unquestionably implies a significant pro-cyclical bias to the payout ratio, something we analyse next. Firstly, comparing the IBEX with the Eurostoxx, and secondly, comparing banks with non-financial corporates traded on the IBEX.

In the pre-crisis years (we take 2004 - 2008 as the reference period), against the backdrop of sharp economic growth, the IBEX was paying out an average dividend of close to 3%, with little difference between banks and non-financial corporates.

The 'effort' made to undertake this payment, measured using the payout ratio (dividend divided by net profit), was reasonably reduced. The IBEX components were paying out a little under 50% of net profit. The non-financial corporates were stretching themselves even less, paying out barely 40% of net profit. In contrast, banks were earmarking a higher percentage of their net profits to dividend payments, presenting payout ratios of close to 55%.



Source: AFI, based on Bloomberg figures.

Exhibit 2

Exhibit 3 Payout

(dividends over net profit, percentage)



The situation changed radically between 2009 and 2013, particularly in the banking sector. From their stock market highs to their lows, listed Spanish banks saw almost 50% of their market value, around 100 billion euros, wiped out. Their net profits fell by similar percentages.

Both the EuroStoxx and the IBEX, and within the latter, banks and non-financial corporates, increased their payouts. Against the backdrop of profit contraction, a sharp economic slowdown and heightened risk aversion, listed companies had to make a bigger effort to maintain their dividend remuneration.

In the case of the EuroStoxx companies, the payout rose to 65%, some 20 percentage points below that of the IBEX. The reasons the IBEX had to make a bigger effort were two-fold. On the one hand, the crisis hit Spain harder, so that net profits contracted by more than in other countries. Secondly, because the relative weight of the banking sector, which was particularly hard hit, is higher in the case of the IBEX than other stock exchanges. Banks' payout ratios during the crisis years topped 100%. This means banks were earmarking more resources to dividends than they were generating in profits during the year, which was hardly surprising given the fact that banks lost money for several years in a row.

Scrip dividends in the banking sector

In addition to earmarking more to dividends than the net profit generated, banks innovatively resurrected another mechanism: the payment of dividends in shares, known as a scrip dividend scheme.

The scrip dividend has emerged as a common form of dividend payment.

Although this payment formula is not new, it was not until 2009 that its use became widespread, peaking in 2014. Scrip dividends amounted to 13 billion euros in 2014, which is equivalent to 30% of



Payment in cash and shares in millions of euros*



*Note: *Share-based payments include scrip dividends and payments charged against share premium reserves. Source: Bolsas y Mercados Españoles (BME).*

all dividends paid out by listed Spanish companies that year. If we strip out the special dividend paid by Endesa, this figure rises to 50%. Around one dozen companies paid dividends using the scrip formula in 2014. Of these, banks embraced the scheme most whole-heartedly. Of



Sources: AFI, based on data obtained from the CNMV, banks and Bloomberg.

the 13 billion euros paid out in the form of shares by listed Spanish companies, 9 billion euros was distributed by banks. Indeed, the scrip dividend formula has overwhelmingly dominated cash dividends in the case of banks in recent years.

Against the backdrop of deleveraging, earnings contraction, risk aversion and growing capital requirements, Spanish banks opted *en masse* to pay their dividends in the form of shares. This enabled them to maintain high dividend yields, while increasing capital, in sharp contrast to what would have happened if they had paid these dividends in cash.

In tandem, the scrip formula was boosted by the Bank of Spain's recommendation, urging banks to limit shareholder remuneration, specifically recommending that cash dividends not exceed 25% of profit for the year. The effort to recapitalise and clean up banks' balance sheets helped, at the aggregate level, to drive a recovery in their market values to pre-crisis levels (market value recovery but not full share price recovery), as well as liquidity gains.

Conclusions

Without detracting from the importance of scrip dividends for Spanish banks in recent years, we believe cash dividends will gradually re-emerge as the main form of dividend remuneration. In fact, several of the leading listed Spanish banks have already announced plans to abandon their scrip dividends and reinstate cash dividends as their main form of remuneration.

The scrip dividend proved a very effective vehicle at a time of heightened market uncertainty, allowing banks to meet a dual objective: (i) fuelling shareholders' 'expectation' of generous remuneration, largely immune to earnings contraction; and (ii) reinforcing banks' capital by means of the shares delivered in the form of dividends. In essence, the scrip dividend formula was tantamount to a concealed rights issue, which was especially well-suited at a time when the markets were not ready to absorb major equity placements. They were still digesting the largest financial and stock market crisis in a very long time.

However, with market conditions largely normalised, we believe that these masked rights issues will give way to a far more transparent capital management policy. Such transparency would translate into the payment of dividends in cash and, in parallel, should a bank need to reinforce its capital, the upfront presentation of a rights issue, with shareholders free to decide whether or not to participate, *i.e.*, decoupling the two decisions (dividend payment versus rights issue).

European mortgage interest rates: A comparative analysis of the case of Spain

Santiago Carbó Valverde¹ and Francisco Rodríguez Fernández²

The correction of Spain's mortgage market lagged behind most other euro area countries, but recent evidence points to rapidly declining interest rates since 2013, as well as an incipient recovery in this market overall. Current monetary policy, together with recent regulatory changes, should continue to support the persistence of improved borrowing conditions.

After the burst of the housing bubble, the real estate market in Spain suffered a substantial correction, with mortgage contracts being no exception. While the number of contracts fell significantly, mortgage interest rates have followed a more erratic pattern. In the case of Spain, bank competition and low market rates led to too lax mortgage pricing policies relative to most other euro area countries prior to the crisis. However, market and competitive pressures on bank margins have not been a major determinant of mortgage rates during the crisis. In fact, rates increased faster in Spain than in other euro area peers during the crisis, in particular, in 2011 and 2012 amid sovereign debt tensions. Mortgage rates have been falling significantly since 2013 and in 2015, the mortgage market is showing signs of an incipient recovery. Recent factors, such as the progressive removal of interest rate floors on mortgage contracts, and the achievement of historically-low market rates, are increasing bank customers' leverage at the time of negotiating rates on new and existing mortgages. The result has been more favorable terms for borrowers.

The European mortgage market: A comparison of rates

Credit conditions across borders in Europe are supposed to become more and more homogenous over time as the single market for financial services advances with common rules and regulation. The reality, however, is that the financial crisis has interrupted the trend towards financial integration in Europe, as prices and access conditions have become more divergent in the last few years. There are several reasons for this, including the varying impact of the crisis on risk and financial stability across European countries. Where mortgage markets are concerned, cross country differences in rates and access conditions are also explained by the unequal evolution of real estate markets in

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Europe. In some countries, such as Spain, Ireland and the United Kingdom, real estate markets were severely affected by the burst of the housing bubble, while in others, like Germany there was no evidence of a housing boom. Additionally, the effect of the crisis on country-risk indicators –such as sovereign spreads– has also had a negative impact on mortgage rates.

The rates applied on loans for house purchase are one of the main indicators of household access to funding. Comparing different rates in loans for house purchase across Europe is a difficult task, due to the variety of loan contracts across countries in terms of the type of rate (fixed, floating or mixed), the fees, other implicit rates that can apply, the horizon of the mortgage, vesting periods and other contract terms.

The basic reference for cross-country comparisons in Europe is the Manual on Monetary Financial Institutions (MFI) Interest Rate Statistics, provided by the European Central Bank (ECB, 2003). There are two main ways of computing rates on loans for home purchase according to the ECB. The methodology is explained in the Banking statistics quidelines and customer classification under the section "MFI interest rate statistics." Either the Annualized Agreed Rate (AAR) or the Narrowly Defined Effective Rate (NDER) are reported. The only difference between these two calculation methods is their underlying process of annualizing interest payments. The AAR is based on a formula that can only be applied to loans with regular interest payment capitalization. However, the NDER is calculated repeatedly, and can therefore be applied to all types of loans. Both calculation methods include all interest payments on deposits and loans but no other costs associated with the loan, such as the costs for enquiries, administration, preparation of documents, guarantees and credit insurance.

The AAR is the interest rate agreed between the reporting agent and the household or nonfinancial corporation on a loan, and is converted to an annual basis and quoted as a percentage per annum. For an interest rate with a maturity of less than one year, the agreed interest rate is to be annualized. The NDER is the interest rate which, on an annual basis, equalizes the present values of all commitments (loans, payments or repayments, interest payments), future or existing, agreed between the reporting agent and the household or non-financial corporation.

In both the AAR and NDER, the interest rates are to be compiled in gross terms before taxes, as the pre-tax interest rate reflects that which the reporting agent receives for loans. In addition, subsidies from third parties granted to households and non-financial corporations should not be considered during the interest payment calculation, as these are neither received nor paid by the reporting agent. Consequently, only the interest components which the reporting institution charges as interest will be included in the interest rate statistics, and not the part which the borrower pays to the reporting agent.

Other methodological caveats refer to what loans are comparable. The MFI of the ECB provides





Source: European Central Bank and own elaboration.

what they call the interest rate for "comparison of cost of borrowing purposes." In this case, the comparable item is the "Lending for house purchase excluding revolving loans and overdrafts, convenience and extended credit card debt." It is important to note that choosing this rate for comparison of cost of borrowing is important, as other similar rates published by the ECB may vary significantly and are not as homogenous as this one for comparative purposes. The rate is calculated by weighting the volumes with a moving average following the AAR (for regular interest payments) and NDER (for non-regular interest payments) methodologies described above. This rate is shown in Exhibit 1 for Germany, Spain, France, Italy and the euro area as of February 2015.

Rates in Spain were slightly higher than the Eurozone average (2.51% vs. 2.38%) in February 2015. Rates in France were at exactly the same level (2.51%) as in Spain, while they are higher in Italy (2.69%). At 2%, Germany shows the lowest average rate among the countries analyzed.

Exhibit 2

Eurozone house purchase lending rates (for comparison of cost of borrowing purposes): Loans with a horizon up to 1 year (February 2015)



Source: European Central Bank and own elaboration.

A breakdown by loan maturity reveals further differences across countries. This is shown in Exhibits 2 and 3 for loans up to 1 year, and loans of more than 10 years, respectively. The rates in short-term loans are found to be smaller in Spain

Exhibit 3

Eurozone house purchase lending rates (for comparison of cost of borrowing purposes): Loans with a horizon of more than 10 years (February 2015)



Source: European Central Bank and own elaboration.

(2.27%) than in Germany (2.32%). The average rate for the euro area is 2.09% meaning that other members of the single currency area offer even lower rates in short-term loans for home purchasing. However, in the case of loans of at least 10 years, rates in Spain are again higher than in Germany (3.44% vs. 2.03%) and the euro area average is 2.50%, with 2.57% in France and 3.53% in Italy.

Recent evolution of European mortgage rates

It is important to keep in mind that all of the rates reported in Exhibits 1 to 3 refer to those offered on new loans for home purchase and, therefore, do not show the rates on outstanding loans. "New business" is what the ECB considers relevant for comparison of "cost of borrowing purposes." If outstanding rates were chosen, the picture would be a different one. For example, the rate in Spain would be 1.8%, much lower than the 2.4% Eurozone average.

New rates in Spain were slightly higher than the Eurozone average (2.51% vs. 2.38%) in February 2015. If outstanding rates were chosen, the rate in Spain would be 1.8%, much lower than the 2.4% Eurozone average.

Using the same baseline source as that in Exhibit 1 (for comparison of cost of borrowing purposes), Exhibit 4 shows the evolution of interest rates on loans for home purchase in Spain, Germany, France, Italy and the euro area as a whole from January 2003 to February 2015. The exhibit suggests that mortgage rates were lower in Spain

at the beginning of the 2000s. In particular, the average rate in Spain was 4.21% in February 2003 and it was 4.81% for the Eurozone. This situation remained until 2005 and then rates started to increase. They reached 6% in Spain in February 2009. Official liquidity boosting measures by the ECB underpinned a decline in rates during

The sovereign debt crisis exacerbated the increase in mortgage rates even more significantly during 2012. Although there is no perfect correlation between sovereign bond yields and mortgage rates, the countries where risk premiums increased to a larger extent, such as Spain, were particularly affected.

2009 and 2010, but the Central Bank's decision to raise rates in 2011 drove further increases in the price of mortgages. The sovereign debt crisis exacerbated this increase in mortgage rates even more significantly during 2012. The



Source: European Central Bank and own elaboration.
SEFO - Spanish Economic and Financial Outlook

countries where risk premiums increased to a larger extent, such as Spain, were particularly affected. Subsequently, rates fell again, but still remained a bit higher in Spain that in other EU countries at the beginning of 2015.

There could be several factors affecting the evolution of mortgage interest rates during the crisis years. If we take Spain as a reference, country risk-premiums may have had an effect on rates as shown in Exhibit 5, although there is no perfect correlation between sovereign bond yields

Exhibit 5

Mortgage rates and sovereign bond yields in Spain







and mortgage rates. Rates on loans for house purchase in Spain increased in 2010, fell in 2011 and increased again in 2012.

Sørensen and Lichtenberger (2007) analyze the process of convergence of mortgage interest rates for house purchase in the euro area, and find that supply and demand factors only partially explain interest rates, while a fundamental role is given to institutional factors specific to each country. The ECB itself acknowledges that standard economic theory suggests that the interest ratesetting behavior of banks can be influenced by a large number of other factors, such as "the

Supply and demand factors only partially explain mortgage interest rates, while a fundamental role is given to institutional factors specific to each country.

degree of competition between banks, market contestability, competition from market-based financing and investment possibilities, perceived credit and interest rate risk, the cost of refinancing, the cost of switching banks, the existence of information asymmetries between MFIs and their customers and the strength of the bank customer relationship. Significant differences across countries in these factors may give rise to differences in national MFI interest rates, just as they may also explain differences within countries. Finally, some influence may also be expected from differences in the economic cycle."









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

Many of these particular features have been present in Spain during the crisis years. The situation of the real estate market itself (with declining house prices and volumes) should have had a considerable effect. Similarly, some recent decisions taken by banks and regulators –such as the removal of interest rate floors or regulation preventing foreclosures– have also probably had an impact on mortgage pricing.

The latest data for Spain –using mortgage contractlevel information– show that lending standards were softer in the real estate boom than in the bust. Too soft lending standards and excessive risk-taking were observed during the boom years. For example, mortgage spreads for non-employed were found to be identical to those of employed borrowers during the boom.

Along with institutional factors, mortgage rates could have also been affected by pressure on bank margins. When the evolution of mortgage rates and interest margins are compared (Exhibit 6), we observed that when rates have increased (decreased) in the years of the crisis, net interest income has fallen (risen). During the crisis, banks seem to have priced mortgages following the perceived market risk, while competitive forces of business generation opportunities have had a more limited influence. This is also the case because the market for mortgages collapsed during the crisis years, as shown by the evolution of the number of mortgage contracts (Exhibit 7), which fell from 124,826 in January 2007 to 15,962 in December 2014. However, mortgages are starting to grow again in 2015. The number of mortgages constituted on dwellings was 21,298 in February 2015, 29.2% higher than that registered in February 2014. The average value of mortgages constituted on dwellings increased 6.1% yearon-year.

Overall assessment and status of European mortgage rates

The different indicators shown in this note suggest that:

Mortgage rates increased in Spain during 2011 and 2012, faster than in other euro area

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	Original interest rate structure (no. of mortgages)	Original interest rate structure %	Original average interest on loan	Final interest rate structure (no. of mortgages)	Final interest rate structure %	Final average interest on loan
Total interest rate changes	8,573	100		8,573	100	
Fixed	479	5.6	4.57	299	3.5	3.68
Variable	7,969	93	4.34	8,219	95.9	3.32
Variable - Euribor	6,737	78.6	4.26	7,432	86.7	3.25

Table 1 Changes agreed in the rates of mortgage contracts (February 2015)

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

countries, but have been rapidly falling in 2013 and 2014.

- It is difficult to identify the main determinants of mortgage rates as different market-level, institutional and regulatory factors have been in play. However, it seems that mortgage pricing has been significantly affected by the general evolution of market rates following ECB decisions.
- The pressure on bank margins has not seemed to be a major determinant of mortgage rates during the crisis. Recent research, however, suggests that both competition and too low market rates led to too lax mortgage pricing policies before the crisis.
- Even if rates have varied significantly, the number of mortgage contracts fell considerably amid the burst of the property bubble and banking crisis, and subsequent restructuring and resolution of the financial sector. However, mortgage contracts are starting to increase again in 2015, although they are still far from pre-crisis year levels and it seems that any growth will be low and moderate in the coming years.
- Even if the market is not yet too deep in terms of volume, there are interesting changes taking place. In particular, as shown in Table 1, many borrowers are bargaining with banks to modify

the interest rate on their mortgage contracts. Factors such as the progressive removal of mortgage interest rate floors and historically-low market rates are motivating such bargaining practices. As shown in Table 1, in February 2015 alone, 8,573 contracts were renegotiated with average rates applied falling by around 1 percentage point and most of the contracts being resettled as variable-rate ones (96% of them as of February 2015).

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Spain's autonomous regions in 2015: Budgetary stability and financial sustainability

Alain Cuenca¹

Expenditure cuts, together with improved economic conditions, have resulted in noteworthy fiscal consolidation at the regional level since 2010. In order to reach equilibrium in the medium-term, further measures affecting current income dynamics and budgetary compliance at the regional level will be needed.

This article examines the fiscal performance of the autonomous regions in 2014 and assesses the outlook for 2015 on the basis of available data. Overall, fiscal consolidation in Spain is still ongoing, although the pace has slackened somewhat in 2013 and 2014 relative to the rapid progress made in 2010-2012. As the second most relevant subsector in terms of public expenditure, surpassed only by the social security system, Spain's autonomous regions have also played their part - largely through expenditure cuts. The fiscal adjustment process at the regional level now appears to have stabilised at around 1.5% of GDP, with the effect of the measures taken having run its course. Correcting the outstanding imbalance will require additional economic growth to boost revenues, while containing expenditures. Additional measures should be taken on the income side, together with the implementation of more adequate control mechanisms to ensure regional commitment to fiscal/financial sustainability.

In order to explain changes in the public accounts, it is necessary to take a brief look at the prevailing economic climate. 2014 was characterised by economic growth at a rate of 2.7% in the fourth quarter (in annualised terms) supported by a strong recovery in domestic demand. This was driven by several factors, including falling oil prices, expansionary monetary policy, and improved credit conditions for households and businesses (Laborda and Fernández, 2015). Economic recovery has undoubtedly boosted the immediate outlook for public accounts at all levels of government. However, due to the characteristics

of the financing system, autonomous regions in the common regime experience a slight lag in income fluctuations in response to changes in the economic cycle. The National Tax Administration Agency (AEAT) manages the financing of the autonomous regions in the common regime through a system of advance payments of assigned taxes, such that each year's forecast is independent of its tax revenues. The current economic recovery will therefore take time to show up in the regional accounts, except in the two "foral" regions (the Basque Country and Navarre), which manage all of their taxes directly.

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Autonomous regions' deficit

As Table 1 shows, since 2010, the autonomous regions have cut their borrowing requirement almost in half, which is an outstanding achievement considering that nominal GDP was 2.1% lower in 2014 than in 2010. What is more, this consolidation effort exceeds that of the general government as a whole, where the deficit has dropped by almost 40%. However, in 2014, the autonomous regions' borrowing requirement rose relative to the previous year for the first time since 2011, which could indicate that, on the current income and expenditure structure, the adjustment has run its course. All the autonomous regions made a

substantial adjustment (a reduction of more than 70% in some cases) over the period as a whole, except Madrid, where the deficit is slightly worse

Since 2010, the autonomous regions have cut their borrowing requirement almost in half. However, recent slippage in 2014 could indicate that the adjustment has run its course.

than in 2010, and Extremadura, which ended 2014 with the same deficit as it began.

Regional Government Net Lending (+) / Net Borrowing (-)

(ESA* 2010. Base 2010)

Autonomous Regions	Excluding of final se	balance ettlement	2012	2013	2014	Change 2013-2014	Difference 2010-2014
	2010	2011				(% GDP)	(%)
Andalusia	-3.1	-3.4	-2.1	-1.5	-1.2	-0.36	-63.1
Aragon	-2.9	-2.6	-1.6	-2.2	-1.7	-0.52	-42.7
Asturias	-2.7	-3.6	-1.0	-1.1	-1.3	0.24	-51.9
Balearic Islands	-4.4	-4.3	-2.0	-1.2	-1.7	0.47	-61.1
Canary Islands	-2.4	-1.5	-1.1	-1.0	-0.9	-0.10	-62.0
Cantabria	-3.9	-3.7	-1.9	-1.2	-1.5	0.22	-62.5
Castile-La Mancha	-6.3	-7.6	-1.3	-2.0	-1.8	-0.26	-72.0
Castile and Leon	-2.6	-2.7	-1.5	-1.2	-1.1	-0.07	-56.8
Catalonia	-4.5	-4.1	-2.2	-2.0	-2.6	0.62	-42.4
Extremadura	-2.4	-4.6	-1.0	-0.9	-2.4	1.58	-0.1
Galicia	-2.3	-2.2	-1.3	-1.1	-1.0	-0.12	-55.9
Madrid region	-1.0	-1.8	-1.0	-0.9	-1.3	0.40	31.8
Murcia region	-4.9	-4.7	-3.2	-3.2	-2.8	-0.34	-42.1
Navarre	-3.8	-3.1	-1.7	-1.5	-0.7	-0.71	-80.4
La Rioja	-3.8	-1.5	-1.1	-1.0	-1.2	0.16	-68.4
Valencia region	-4.6	-4.9	-3.8	-2.2	-2.4	0.19	-48.0
Basque Country	-2.4	-2.7	-1.5	-1.2	-1.0	-0.16	-59.0
Regional government total	-3.17	-3.34	-1.84	-1.52	-1.66	0.14	-47.8
General government total	-9.35	-8.94	-6.62	-6.33	-5.69	-0.64	-39.2

Note: (*) European System of National and Regional Accounts.

Source: Intervención General de la Administración del Estado (IGAE), updated April 15th, 2015.

In 2014, only four autonomous regions met the 1% deficit target set by the government under Organic Law 2/2012 on Budgetary Stability and Financial Sustainability (LOEPSF). These were the two foral regions (the Basque Country and Navarre), the Canary Islands (which also have special financing arrangements), and finally Galicia, a region that traditionally meets its target. At the other end of the spectrum, the deficits of the Murcia region, Catalonia, Extremadura, and the Valencia region were in the 2.4% to 2.8% range. This apparently widespread non-compliance should be nuanced, as the problem is not just a lack of discipline, but that the targets set were somewhat unrealistic, being the same for all regions regardless of their starting point (Fernández Leiceaga and Lago Peñas, 2013). Examining the 2014 effort from a different perspective, nine autonomous regions have reduced their deficit with respect to 2013 (with the best performance in Navarre, Andalusia, and Aragon), while eight have increased it (with the greatest slippage in Extremadura, Catalonia, and the Balearic Islands).

On April 24th, 2015, the government approved the mandatory report on compliance with the stability objectives for 2014, which reflected the previous deficit figures. This report also confirmed compliance with the "expenditure rule" provided in the LOEPSF. Thus, the autonomous regions can be seen to have complied overall in 2014, but expenditure in the Basque Country, Catalonia, Extremadura and the Balearic Islands grew by more than 1.5%, thus breaking the rule at the individual level.

Table 2 shows how, over the period 2010-2014, the adjustment was largely on the expenditure side, which dropped by 2 points of GDP, while income grew very slightly (0.1% of GDP). Moreover, expenditure adjustment was largely achieved through a reduction in capital expenditure, which dropped by 1.4 points. As is well known, the autonomous regions manage health-care, education and social services expenditure, which tends to rise either as a result of technological change (in the case of health-care) or upward pressure from citizens. Therefore, any reduction in this expenditure, no matter how small (0.54% of GDP), represents a significant fiscal consolidation effort. The central government has also made a noteworthy effort by way of: a salary cut of 5% in 2010, which, due to the subsequent pay freeze, has not been recovered; low staff replacement rates; and measures in April 2012 affecting education (Royal Decree-Law 1472012) and health care (Royal Decree-law 16/2012).

Table 2 also shows that the difference between current resources and current expenditure has remained stable at around 1% of GDP since 2012. This means that –like the central

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Autonomous regions' non-financial operations (ESA* 2010, % of GDP)

	2010	2011	2012	2013(P)	2014(P)
Non-Financial Resources	13.68	12.90	16.22	13.95	13.78
Current Resources	12.81	12.18	15.54	13.31	13.13
Capital Resources	0.88	0.72	0.68	0.64	0.65
Non-Financial Expenditure	17.40	18.00	18.07	15.46	15.43
Current Expenditure	14.70	15.80	16.53	14.15	14.16
Capital Expenditure	2.71	2.20	1.54	1.31	1.27

Notes (*) European System of National and Regional Accounts. (P) Provisional data. Source: Intervención General de la Administración del Estado (IGAE), Updated April 15th, 2015. government- the autonomous regions finance a portion of their current expenditure with debt. This is unsustainable over the medium term and efforts to correct it have not yet succeeded. The economic recovery begun in 2014 should eliminate this structural imbalance, provided that the improvement in revenues is not accompanied by a corresponding rise in spending.

Like the central government, the autonomous regions finance a portion of their current expenditure with debt. The economic recovery begun in 2014 should eliminate this structural imbalance, provided that the improvement in revenues is not accompanied by a rise in spending.

Autonomous regions' debt

Exhibit 1 shows the change in the autonomous regions' debt since 2010, in comparison with total general government debt in Spain based on

Regional and General Government debt

data for the Excessive Deficit Procedure (EDP). Regional debt is a quarter of the total, although it is the fastest growing segment, having almost doubled, compared with a 62.6% increase in total debt over the period.

The main public debt figures need to be analysed at the level of the individual regions, given the wide divergences between them shown in Exhibit 2. There are five regions with a volume of debt exceeding the national average, revealing a continuous deficit path over the years, even before the crisis in some cases. These are the Valencia region, Castile-La Mancha, Catalonia, the Balearic Islands, and the Murcia region. Conversely, Madrid, the Basque country, and the Canary Islands have debt of less than 15% of GDP.

The sustainability of these debt levels cannot be assessed simply by comparing them with GDP. A more appropriate indicator is the region's ratio of debt to current revenues, as shown in Exhibit 3. The regions' debt comes to 170.4% of their current resources in national accounts terms. The five most indebted regions obviously have the

Exhibit 1

(% GDP)

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Source: Bank of Spain.



highest levels on Exhibit 3, although the relative positions of some of them change. For instance, the Madrid region is no longer in the best position, although it remains below the average. Two regions stand out: Catalonia and the Valencia

Now that international financial markets are not suffering the stresses of 2010 and 2012, it will be possible to roll over high regional debt without serious difficulty and at low interest rates. Moreover, the institutionalisation of State liquidity mechanisms insulates the regions from market tensions.

region, which exceed even the ratio of public debt to current resources of Spain as a whole (262.3%). Now that international financial markets are not suffering the stresses of 2010 and 2012, it will be possible to roll over these high levels of debt without serious difficulty and at low interest rates. Moreover, the institutionalisation of State

liquidity mechanisms insulates the regions from market tensions. As discussed below, in late 2014 the exceptional funding mechanism introduced in 2012 was made permanent.

Under LOEPSF, the Fiscal and Financial Policy Council (CPFF) and the government set the overall and individual debt targets the autonomous regions are to meet in the following year. Although this target was corrected in July 2014, being set at 21.1% of GDP, the regions have only been able to meet it thanks to a series of exceptions the Council of Ministers applied to the calculations. Thus, the report on compliance with the LOEPSF (Ministry of Finance and Public Administration, 2015) states that the target with exceptions was 22.5%, such that it would be met with a debt of 22.4%. Nevertheless, the regions of Aragon, Castile-Leon, Catalonia, and La Rioja have a regional debt-to-GDP ratio that exceeds their target. Given the peculiarity of this result it is worth quoting the report of the Independent Fiscal Responsibility Authority (AIReF, 2015) on this point: "The AIReF cannot assess the autonomous regions' compliance with the target as there



Sources: Intervención General de la Administración del Estado (IGAE), (National Audit Office) current resource data (2015) and Bank of Spain EDP debt data (2015).

are uncertainties as to the operations that are ultimately to be included in the calculation, given the possibility that the Ministry of Finance and Public Administration determines the existence of circumstances that need to be taken into account in the achievement of the target." This being the case, the debt target is proving irrelevant and needs to be improved in the future. However, on a positive note, it is now different for each region, depending on its initial level.

Exceptional funding mechanisms

Since 2012, various mechanisms have been put in place by the central government to help finance

With the creation of various State run regional financing and liquidity mechanisms, the structure of regional debt has changed and the Treasury is playing an increasingly important role as the "regions' bank."

the regions and provide liquidity. Three editions of the Fund for Financing Payments to Suppliers

(FFPP in its Spanish initials) were created and a Regional Liquidity Mechanism (FLA in its Spanish initials) was set up, changing the structure of regional debt. Table 3 shows how at year-end 2014, 37.5% of regional debt was now in the hands of the Spanish treasury. This debt totalled 88,724.9 million euros, 8.4% of GDP.

These exceptional mechanisms were made available in exchange for severe adjustment plans. The regions making most use of the mechanisms have been Murcia, Castile-La Mancha, Andalusia, Valencia, and Catalonia, three of which had a deficit exceeding 2% in 2014. It cannot be argued that the stricter control to which the regions drawing on these mechanisms have been subject has led to stronger budgetary discipline. Conversely, the two foral regions, Galicia, Castile-Leon, and La Rioja, have not resorted to any of the mechanisms and their deficit in 2014 was very small (see Table 1).

In each of the three years of application, State funding has increased its relative share, such that the Treasury is playing an increasingly important role as the "regions' bank". These measures finally

Table 3 Percentage State financing (FFPP + FLA)

Autonomous Regions	2012	2013	2014
Andalusia	26.1	43.6	55.7
Aragon	9.2	8.1%	1.2
Asturias	18.9	28.5	29.1
Balearic Islands	21.4	36.5	48.4
Canary Islands	24.3	34.8	43.2
Cantabria	22.8	32.1	42.6
Castile-La Mancha	38.8	45.3	56.9
Castile and Leon	13.3	12.3	0.0
Catalonia	16.6	37.3	49.3
Extremadura	9.4	8.9	10.4
Galicia	0.0	0.0	0.0
Madrid region	6.2	6.1	0.4
Murcia region	34.0	48.2	61.4
Navarre	0.0	0.0	0.0
La Rioja	6.8	0.0	0.0
Valencia region	27.2	37.9	54.3
Basque Country	0.0	0.0	0.0
Total	18.2	29.3	37.5

Source: Bank of Spain.

lost their exceptional character with the passing of Royal Decree Law 17/2014, which implemented new mechanisms and recast the existing ones. Although in December 2014, the financial markets were no longer closed to the autonomous regions, which had been the initial justification, it was decided that this liquidity system be consolidated, confirming a structural change in the Spanish regional financing model.

Thus, in 2015, an Autonomous Regions Financing Fund was created, comprising four sub-funds:

 Financial facility: aimed at regions meeting their budgetary stability, public debt, and commercial debt payment period objectives. Access to this sub-fund does not require the adoption of an adjustment plan.

- Regional liquidity fund: in principle, made available to regions already belonging to the liquidity fund (FLA), and to those not meeting the average supplier payment period target. The requirement for an adjustment plan and strict control by the Ministry of Finance and Public Administration has been maintained.
- Social fund: finances the regions' commitments to local government bodies through agreements for the provision of social services. Only applicable in 2015.²

² It has been endowed with 683.4 million euros so that the eight regions accessing it can pay the outstanding sums to local authorities. These are ten-year loans with a two year grace period and a zero interest rate in 2015. See http://www.minhap.gob.es/Documentacion/Publico/GabineteMinistro/Notas%20Prensa/2015/S.E.%20ADMINISTRA CIONES%20P%C3%9ABLICAS/28-04-15%20NP%20FLA%20SOCIAL.pdf

 Liquidation fund for the financing of supplier payments, which holds the assets the Treasury has acquired from the autonomous regions from the three previous supplier funds, but it will not grant new loans.

Technically, membership of the various subfunds is voluntary, but in the case of a region's not choosing to join the social fund, the State may withhold the financing system's payments so as to credit the corresponding amounts to the local government bodies. Also, if the budgetary stability or debt objectives are not met in the terms established in the LOEPSF, the Ministry of Finance and Public Administration (MINHAP) may require the region sign up to the FLA. A significant feature of the new Fund is that, at least in 2015, the interest rate will be 0% and the operations entered into in previous years have an additional year's grace period, such that no principal has yet been repaid on any of them (Seventh and eighth additional provisions of RDL 17/2014).

Finally, at the time this article was written, a draft law is being debated by parliament to reform Organic Law 22/1980 on Financing of the autonomous regions (LOFCA) to incorporate some of the instruments necessary for the operation of the financing fund. In particular, this consolidates the withholding of resources from the regional financing system to guarantee collection by the State of sums it has lent to the regions. This draft law also creates a new fund, termed the "Instrument to support the sustainability of pharmaceutical and health-care spending," which is expected to come into force in 2015, unless the Government Delegate Commission for Economic Affairs decides to extend it.3 The amounts and conditions for the financing of pharmaceutical and health-care spending loans are pending implementation.

All the regions except the two foral regions and the Madrid region, which have maintained their ability to tap the markets, have joined the regional financing fund. The regions included in the liquidity fund (FLA) to date have had the option of joining the financial facility sub-fund if they meet the conditions. In 2015, the only regions remaining in the FLA are: Cantabria, Castile-La Mancha, Catalonia, Murcia and Valencia. The regions of Andalusia, Aragon, Asturias, the Canary Islands, Castile-Leon, Extremadura, Galicia, the Balearic Islands, and La Rioja are in the "financial facility" subfund,⁴ which does not require an adjustment plan.

The passing of RDL 17/2014 was presented as generating savings for the regions it covered, thanks to the zero interest rates they would benefit from. However, it is not possible to quantify the savings exactly, as the Ministry of Finance has given varying figures. The latest figures published situate the savings in 2015 at 3,019 million euros for the 14 regions in the FLA.⁵ It should be noted that the savings for the regions will be a cost for the State, which pays less interest on its debt, but will forgo the income it previously received from the regions. In effect, it represents a transfer of resources between levels of government.

RDL 17/2014 and the financial bail-out policy targeting the regions since 2012 have important consequences:⁶

Firstly, it is worth asking whether the exceptional financing mechanisms have not led to an increase in the deficit and the debt. The total increase in regional debt over the three years (2012-14) was 91,661 million euros, of which 88,725 million euros were from the Treasury. In 2012, with the financial markets closed, State intervention was perhaps inevitable to avoid one or more regional defaults on international debt, but putting the mechanism on institutional

³ Given that the FLA was created in 2012 with an identical formula, it is expected that the instrument will remain in place.

⁴ In view of non-compliance in the 2014 financial year, some of these regions may pass to the FLA.

⁵ Update to the 2015-2018 stability programme approved by the government on April 30th, 2015 (page 58).

⁶ Without prejudice to the macroeconomic effects, which are not considered here. On this point, see Delgado et al. (2015).

footing could be encouraging the regions to take on debt.

- Moreover, the various sub-funds within the Financing Fund address debt maturities of past debt and financing of the deficit incurred in each year, without fulfilment of the established deficit target being an operational restriction. This was underlined by the AIReF: "With this Royal Decree-Law, a norm with the status of law envisages, on a permanent basis, the financing by the State of the deficit deviations of past financial years at a low rate of interest (in the short term the interest rate is zero)." This has softened the budgetary constraints on the autonomous regions considerably.
- The reference of market discipline controlling the behaviour of most autonomous regions has been lost. From now on, both financial institutions and suppliers know that no autonomous region will stop paying, as the State has committed itself to paying if necessary. This commitment comes at the price of a degree of loss of independence, but regional governments in non-compliance are not at risk of being denied access. Thus, financial markets no longer exert pressure on the autonomous regions to dissuade irresponsible conduct.

Institutionalising the Treasury's position as the autonomous regions' financier poses significant risks to future budgetary stability and financial sustainability, not just of the autonomous regions but the Kingdom of Spain as a whole.

In short, institutionalising the Treasury's position as the autonomous regions' financier poses significant risks to future budgetary stability and financial sustainability, not just of the autonomous regions but the Kingdom of Spain as a whole. Bear in mind that when an autonomous region owes large sums to the central government, the risk of default rises to the extent that it is only a political question. This risk is formally covered by the withholdings of payments from the funding system, but this lacks credibility as there is little likelihood that this withholding will be made in practice if a region were to allege that it was unable to meet its statutory expenditures if it repaid its debts to the State.

Outlook for 2015

The starting point for an assessment of the outlook for the regional accounts in 2015 is a deficit of 1.7% of GDP in 2014. The target set by the Fiscal and Financial Policy Council (CPFF) and the government for 2015 is 0.7%. The current year therefore represents a significant consolidation challenge for the subsector as a whole, with the aim of cutting the borrowing requirement by at least half. Again, the analysis should distinguish between regions, as they are starting out from different positions and face different conditions. Firstly, the foral regions receive the totality of the tax revenues collected in their territories, such that the improvement in the economic situation should be clearly reflected in their revenues. The Canary Islands also obtain a larger share of tax revenue linked to economic activity, such as the Canary Islands general indirect tax (IGIC) and other taxes of their own. Moreover, in 2014, these three regions, along with Galicia, started with a deficit of 1% or less.

In the case of autonomous regions in the common system, advances under the financing system grew by 2.9% compared to 2014. Other income, accounting for approximately a quarter of non-financial resources, can be expected to improve as the economy picks up. However, the revenues from duty on transfers of assets and documented legal transactions (ITP and AJD), inheritance and gift tax (ISD), and income from property divestments, seem to be overestimated, as the AIReF points out (AIReF, 2015). Income

from the financing system, paid by the Ministry of Finance and Public Administration, is also reported at above its real value, as recognised in the update to the 2015-2018 stability programme. Overall, budgeted income is 8.8% higher than the recognised obligations in 2014.⁷ An overoptimistic income forecast makes it possible to budget for more spending in the deficit target framework, unless the spending rule is applied to initial budgets.⁸ If real income is significantly less than budgeted, the deficit will overshoot that budgeted unless non-availability agreements or similar measures are adopted.

One factor to take into account in 2015 is that elections are under way in fifteen regions. This situation makes it impossible to adopt unpopular measures before the election, but may also mean more non-execution of spending than usual, as a change of government tends to slow activity. Nevertheless, the post-election political instability foreseeable in some parliaments and the incentives for new governments to frontload as much spending as possible in their first year in office could act in the opposite direction. Similarly, if further backlogs of invoices have built up, pending recognition on the accounts, as happened in the previous legislative period (2007-2011), these could emerge in late 2015 in an attempt to lay the blame on the outgoing government. This strategic behaviour can be seen in Table 1 in the case of Castile-La Mancha, Extremadura, Asturias, or even Madrid in 2011.

Nevertheless, the regional budgets for the current year did not take into account the savings in interest obtained from the passing of Royal Decree-Law 17/2014 of December 26th 2014, or the aid that the creation of the new "instrument" for financing pharmaceutical spending might imply. Moreover, almost all the autonomous regions will need to present or update financial/ economic plans, having failed to meet their deficit, debt or spending rule targets in 2014, and this will be a good time to adopt containment measures to bring the deficit close to meeting the goal of 0.7%.

Reaching the budgetary stability and debt targets overall does not look possible in 2015, although a slight reduction from the 2014 deficit could be achieved.

In essence, reaching the budgetary stability and debt targets overall does not look possible, although a slight reduction from the 2014 deficit could be achieved. The AIReF (AIReF, 2015) does not believe the overall objective will be met because "a high risk of non-compliance with the 2015 stability objective is apparent in Andalusia, Aragon, the Balearic Islands, Cantabria, Castile-La Mancha, Catalonia, Extremadura, Murcia and the Valencia region."

Concluding remarks

In the context of the current economic recovery, this article concludes with a look at the mediumterm trends in regional budgets in the aftermath of the crisis. The stability programme update envisages the autonomous regions reaching budgetary equilibrium in 2018, which means achieving an adjustment of 1.7% of GDP over the next four years. Moreover, as we have seen in Table 2, there is still a negative gross saving pending correction. The consolidation of the public accounts therefore has to continue, on both the income and expenditure sides.

The government envisages that total public resources will rise from 37.8% of GDP in 2014 to 38.1% in 2018. If this is so, the regions' current gap between resources and uses can only be closed on the income side through an increase in the autonomous regions' share of total resources.

⁷ Update to the Kingdom of Spain's Stability Plan 2015-2018, page 53.

⁸ To date, the spending rule has been confirmed only at the time of settlement.

This is difficult to predict, but if the central government has substantially reduced its portion of income tax and corporation tax, it is feasible that as the economy grows, the weight of indirect tax (of which the regions receive slightly more than half) and the regional portion of income tax would account for a larger share of the tax burden. Nevertheless, some regions have followed the State's lead on cutting income tax, which will have an impact on their revenues in 2016 onwards. Moreover, in its stability programme update, the government envisages that the regions will raise the rates of ITP, AJD and ISD. However, these taxes are regional competences, making it hard to be sure whether this will happen, unless the national parliament adopts far-reaching reform, such as setting a common floor for these taxes nationwide. The only conclusion we can draw is that the increase in income looks unlikely to allow the autonomous regions to achieve budgetary equilibrium on its own.

On the spending side, almost half of current expenditure goes to compensation of employees. The regions' payroll accounted for 7% of GDP in 2010 and now stands at 6.5% of GDP. In the years 2004-2006, this spending was 5.8% of GDP, which means that if the intention is to return to these levels, we are still only half way through the adjustment. Admittedly, if the limitation on replacement rates and pay freezes continues, rising GDP will reduce salaries' relative share by itself. The doubt that arises is whether, with the economy growing at a rate in real terms close to 3%, the national government --which has competence for public sector pay- will be able to resist the pressure to expand the workforce and restore purchasing power. As in 2010, the remainder of the autonomous regions' current expenditures was 7.7%. This reveals this component's considerable resistance to downward pressure. These expenditures include debt interest (rising to 0.7% in 2014 from 0.3% in 2010), health and education agreements, current transfers funding service delivery and other levels of government. Current expenditure other than staff costs came to 6% of GDP in the period 2004-2006. The positive

outlook in this area is that debt interest is falling and the government has announced fresh controls on pharmaceutical spending, which have yet to be defined. Nevertheless, total debt continues to grow, making interest expenditure highly sensitive to possible future rate rises.

Finally, as already mentioned, capital expenditure has dropped from 2.7% to 1.3% of GDP. In the 2015-2018 stability programme update, the government forecasts public investment of around 2% of GDP at the end of the period. Additionally, it should be noted that tenders for public works at all levels of government started to grow as economic activity began to recover in 2014 (Laborda and Fernández (2015). This suggests that it will not be easy to keep down the regions' capital expenditure levels.

The autonomous regions were unable to turn a surplus in the previous growth cycle. Therefore, taking into consideration the trends just described, it remains to be seen whether or not the central government has the right mechanisms to ensure that the increase in regional income from the upturn in the economic cycle translates into surpluses earmarked for debt reduction rather than more expenditure. Following the numerous reforms undertaken since 2012, the LOEPSF is the right tool, but, as the AIReF reports (AIReF, 2015), its prevention, correction and coercion measures are not being applied. Perhaps the time has come to set different stability targets for each region. And applying the spending rule to initial budgets seems indispensable.

It remains to be seen whether or not the central government has the right mechanisms to ensure that the increase in regional income from the upturn in the economic cycle translates into surpluses earmarked for debt reduction rather than more expenditure.

In more general terms, the government also has the opportunity to reform the financing system for the

regions in the common system, and link this reform to long-term commitments to budgetary stability and fiscal sustainability. The next few months could be a good time to renew the territorial agreement in three major directions: first, a solid commitment to the fiscal rule on budgetary stability and debt; second, a new regional financing system aimed at joint fiscal responsibility; and finally, an automatic penalty mechanism for breaches, with a stronger market focus. This agreement should be based on a cooperative approach reflecting the will of the parties involved, as happens at the European Union level between nation states, and not imposed top-down, which creates incentives for subsequent non-compliance (Ruiz Almendral and Cuenca, 2014). In short, in order to reach equilibrium in 2018, measures need to be taken affecting the regions. The current dynamics of income and control mechanisms could prove inadequate.

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Recent key developments in the area of Spanish financial regulation

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

Royal Decree-Law on the second-chance mechanism, reduction of financial burden, and other social measures (Royal Decree-Law 1/2015, published in the BOE on February 28th, 2015)

The second-chance mechanism aims to allow individuals who have lost everything after having sold off all their assets to repay their creditors to be released from the majority of their remaining debts, while at the same time making it possible to quantify the debtor's asset recovery, such that the benefit can be revoked for reasons of fairness to creditors.

The second-chance mechanism basically comprises the following measures:

I. Urgent measures to reduce the financial burden:

1. Amendment of Law 22/2003 of July 9th, 2003, on bankruptcy

In cases of bankruptcy ending in liquidation or insufficient assets, where the debtor is a natural person, the outstanding debt will be cancelled provided the debtor has acted in good faith (the requirements to be met to demonstrate the debtor's good faith are defined).

- Creditors' rights against the debtor's joint and several obligors and guarantors are unaffected, and the latter may not invoke the benefit of cancellation of the outstanding liabilities available to the bankrupt.
- Moreover, if the bankrupt is married and his or her property is owned jointly with his or her spouse, and the joint estate has not been liquidated, the benefit of cancellation of the outstanding liabilities will also apply to the bankrupt's spouse.
- Nevertheless, for a five-year period after the benefit of cancellation of outstanding liabilities is granted, any creditor in the bankruptcy proceedings may apply for it to be revoked.
- The cases in which proceedings to reach an out-of-court payments agreement may be begun have been modified: such proceedings may be begun by any debtor who is a natural person finding himself or herself insolvent, provided the initial estimate of his or her liabilities does not exceed five million euros.
- The application for the appointment of a bankruptcy mediator in proceedings to reach an out-of-court payments agreement must be made using standard forms, accompanied by an inventory of assets and expected regular

income, and the list of creditors. The content of the application will be determined by an Order issued by the Ministry of Justice. In the case of both legal and natural persons, the bankruptcy mediator may be a Chamber of Commerce or the Official Chamber of Commerce, Industry, Services and Navigation of Spain.

- The out-of-court payments proposal, may consist of: (i) a grace period of up to ten years; (ii) write-offs; (iii) transfer of assets to the creditors as partial or total repayment of loans; (iv) conversion of debt into shares or other equity in the debtor company; and (v) conversion of debt into equity loans with a maturity of no more than ten years.
- In order for the out-of-court payments agreement to be considered accepted it needs to be adopted by various majorities, calculated according to the volume of the liabilities. Outof-court payments agreements accepted by these majorities may not be revoked under bankruptcy law.
- Subsequent arrangements with creditors will be governed by the rules for summary proceedings, with specific requirements for formalisation, documentation accompanying the application, and the appointment of the insolvency mediator as the receiver in bankruptcy.
- The Ministry of Economic Affairs and Competitiveness will set up a free application on its website allowing confidential access where any interested parties may determine their solvency status with regard to the application of urgent financial burden reduction measures.

2. Amendment of Royal Decree-Law 6/2012 of March 9th, 2012, on urgent measures to protect mortgage debtors without resources

Broader definition of the exclusion threshold. The main changes are:

- The public multipurpose income indicator (IPREM) is now defined as having 14 rather than 12 payments.
- Inclusion of debtors aged over 60.
- The way in which the maximum price of mortgaged property covered by the Code of Good Practice is determined has been changed, such that it now depends on the house price index published by the Ministry of Development. Properties whose purchase price does not exceed the result of multiplying the property's floor area by the price per square metre according to the index, with an **upper limit of 250,000 euros**, may benefit from **dation in payment**.
- The measures the financial institution must offer the debtor in the restructuring include the permanent non-application of clauses limiting the drop in interest rates (floor clauses).
- Adherence to the Code will be considered automatic if the institution had signed up to an earlier version of it, unless it expressly communicates its wish not to adhere to it within one month.

3. Amendment of Law 1/2013 of May 14th, 2013, on measures to strengthen the protection of mortgage borrowers, debt restructuring, and rented social housing.

The **moratorium on evictions** of persons belonging to vulnerable groups from their primary residence as defined in Law 1/2013 has been extended from **two to four years**.

- II. Other social and tax-law measures
- 1. Personal income tax:
- Expansion of the application of deductions for large families or those including disabled persons.

SEFO - Spanish Economic and Financial Outlook

Exemption of nominal earnings deriving from debt write-offs and dation in payment established in an agreement with creditors, out-of-court payments agreement, or as a consequence of debt relief.

2. Corporate income tax:

An exclusion has been established for institutions whose total earnings in the tax period do not exceed 50,000 euros, provided that the total amount of earnings corresponding to nonexempted earnings do not exceed 2,000 euros a year, and that all non-exempted earnings are subject to withholdings, provided that they are not subject to Law 49/2002 of December 23rd, 2002, or political parties.

3. Court fees:

Natural persons are deemed exempt in all courts.

Bank of Spain Circular, addressed to payment service providers, on information regarding discount rates and interchange fees charged (Circular 1/2015, published in the BOE on March 30th, 2015)

Royal Decree-Law 8/2014 had regulated the ceiling on the interchange fees chargeable on payment transactions as of September 1st, 2014, using debit or credit cards at point-of-sale terminals in Spain. Subsequently, Law 18/2014 was passed on October 15th, 2014 (amended by Law 22/2014), specifying that the limitation on fees will be applicable when payment service providers (both payer and recipient) are established in Spain. The Law also states:

Payment service providers' obligation to inform the Bank of Spain of the discount rate and interchange fees effectively applied to payment transactions using debit or credit cards at point-of-sale terminals in Spain;

- That the manner and the content and frequency of reports is to be determined by the Bank of Spain; and
- Publication on the Bank of Spain's and the payment service provider's website.

Circular 1/2015 aims to comply with the Bank of Spain's requirements as regards determining the content and other aspects of the **reporting and publication obligations** for the data referred to above.

As regards the **publication of discount rates and interchange fees**, the Bank of Spain is required to publish on its website in aggregate form all the information received quarterly from institutions, except that on discount rates charged on threeparty card payment systems.

Reports must be sent to the Bank of Spain no later than the 15th of the second month after the calendar quarter to which the data refer. Exceptionally, reports referring to the third and fourth calendar quarters of 2014 and first calendar quarter of 2015 may be sent on the **last working day of May 2015**.

Law to promote business financing (Law 5/2015, published in the BOE on April 28th, 2015)

The law contains a series of measures to enhance access and flexibility of bank finance for SMEs and stimulate a recovery in bank credit. It also incorporates measures to promote the development of alternative means of financing.

The main issues regulated by the Law are:

Improvements in bank financing of SMEs: Credit institutions are required to give notice of at least three months when they intend not to extend credit to an SME or reduce it by 35% or more. After giving notice, the credit institution will provide the SME, free of charge, with a document called "SME financial information," drawn up based on the credit information obtained during its relationship with the client.

Regardless of whether or not financing flows may be reduced or terminated, SMEs will be entitled to request this "SME financial information" document at any time unconditionally. The Bank of Spain will be responsible for specifying the content and format of this document, and for providing a standard template. The Bank of Spain will also oversee compliance with the obligations set out in this Law.

The **functioning of mutual guarantee societies is to be enhanced** through the capitalisation visà-vis the creditor of the Compañía Española de Reafianzamiento's re-guarantee, in the case of default by the mutual guarantee society on first demand. Additionally, to enhance mutual guarantee societies' management, professionalism and good governance, the requirements of good repute, knowledge and experience applicable to directors of credit institutions will extend to them.

Legal framework for finance companies (FCs): The new legal framework applicable to finance companies as a result of their loss of the status of credit institutions under Law 10/2014 (deriving from CRR and CRD IV) is defined. This lays down that firms other than credit institutions engaged professionally in the following activities may establish themselves as finance companies: (i) granting loans and credit; (ii) factoring; (iii) finance leasing; (iv) granting guarantees; and (v) granting reverse mortgages.

The aim is to provide FCs with a legal framework so as to maintain and promote their activity, which is geared towards corporate and consumer finance through alternative channels to traditional banks.

Legal framework for asset securitisation: The framework has been improved with three goals: firstly, unifying the regulatory dispersion on the subject to ensure consistency; secondly, to bring Spain's legal framework closer to that of comparable countries; and, finally, offering maximum legal security and legal support to customary operations in the securitisation area, strengthening requirements in terms of transparency and investor protection.

- Improvements in capital market access and functioning: Firms' access to capital markets has been improved. Firstly, the Securities Market Law has been amended to encourage the transition of firms from a multilateral trading facility to an official secondary market. Secondly, the rules on bond issues have been improved by introducing various measures in mercantile regulation to facilitate direct access to debt markets by Spanish firms by eliminating issue limits.
- Legal framework for crowdfunding platforms: Peer-to-peer business financing platforms or "crowdfunding" platforms have been regulated in Spain for the first time. The aim is to regulate the conditions under which this system operates, in which investors and projects seeking funding are put in direct contact with one another via electronic platforms. The objective is to promote this new tool for direct financing of business projects in their early stages of development, while protecting investors. To this end, these platforms are required to be transparent and to provide investors with adequate information. Investor limits have therefore been set on investments per project (3,000 euros) and crowdfunding platforms as a whole (10,000 euros a year).
- Strengthening the CNMV's supervisory capacity: The powers of the National Securities Market Commission (CNMV) have been modified by a reform to the Securities Market Law to enhance its functional independence and strengthen its supervisory powers. The goal is to ensure market transparency, proper price formation, and investor protection.

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Spanish economic forecasts panel: May 2015¹

FUNCAS Economic Trends and Statistics Department

The growth forecast for 2015 has been raised three tenths of a percent to 2.9%

According to preliminary INE data, GDP grew by 0.9% in the first quarter of 2015, beating expectations. Consequently, in conjunction with the recent trends in demand, output and employment indicators, the average or consensus GDP growth forecast for 2015 has been raised by three tenths of a percent to 2.9%. This forecast is above those of international organisations and in line with the government's. The panel participants' range of forecasts oscillates between a minimum of 2.6% and a maximum of 3.1%.

Growth in 2015 will be driven by domestic demand, which will contribute 3 percentage points, while the external sector will make a contribution of -0.1 percentage points. Household consumption is expected to expand by 3.3% and gross fixed capital formation (GFCF) by 5.4%. The strong upward revision of the construction investment forecast, by seven tenths of a percent to 3.5%, stands out. The forecast for exports is unchanged, but imports are predicted to rise, in line with the expected acceleration in domestic demand.

The forecast for 2016 has been raised a tenth of a percent

The consensus forecast for 2016 has been revised upwards one tenth of a percentage point to 2.7%,

which is also above international organisations' estimates, although two tenths short of the government's forecast. National demand will contribute 2.6 pp to this growth, while external demand will contribute 0.1 pp.

A slight moderation in growth is expected over the course of the quarter, dropping to quarter-onquarter growth of 0.6% in 2016 (Table 2).

Industrial activity will pick up speed in 2015 and 2016

There was an upturn in the industrial production index in the first quarter of the year, after the dip in the second half of last year, and, according to social security and labour-force survey data, employment creation in the sector has been solid.

The consensus forecast for growth in IPI in 2015 has been raised one tenth of a percent to 2.2%, while an increase of 2.8% is foreseen for 2016.

Expected inflation has been revised upwards

The inflation rate has remained on an upward trend since the low of -1.3% reached in January, standing at -0.6% in April, and the recovery in

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.

the oil price suggests this trend will strengthen. Consequently, the average annual inflation rate forecast has been revised upwards to -0.3% for 2015, and kept at 1.2% for 2016. The year-on-year rate is expected to stand at 0.9% in December of this year, and 1.1% next year (Table 3).

The employment forecast has improved

According to the social security membership figures, employment growth picked up speed gradually over the first four months of the year. However, the results of the first quarter's LFS were somewhat disappointing, suggesting a more modest increase than in the previous quarter, although this survey's figures for trends in the labour force have been somewhat erratic recently, which may be distorting the employment and unemployment figures.

The job creation forecast for 2015 has been revised upwards to 2.6% and that for 2016 to 2.4%. The forecast average annual unemployment rates for this year and the next have been revised downwards to 22.2% and 20.5%, respectively, three and four tenths of a percentage point lower than in the previous panel forecast.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost (ULC) growth estimates. On this basis, productivity is expected to grow by 0.2% in both 2015 and 2016, while ULCs, are expected to remain unchanged this year, and rise by 0.6% next year.

Cheaper oil has stemmed the deterioration of the balance of payments

The current account of the balance of payments in 2014 has been revised upwards to a surplus of almost 8.5 billion euros, although this figure is a considerable drop from the 15 billion euro surplus the previous year. According to provisional data, there was a deficit of almost 2.5 billion euros in the first two months of 2015, compared with 3 billion euros in the year-earlier period. This improvement was due to the oil price.

The consensus forecast for the 2015 current account balance has been revised upwards from previous forecasts, to a surplus of 0.8% of GDP, and the same figure is expected for 2016.

The government deficit will slightly overshoot the target

The combined deficit of central government, the Social Security system and the autonomous regions to February 2015 came to 10.285 billion euros, a deficit 420 million euros smaller than in the year-earlier period. The improvement is due to the autonomous regions, whose deficit was a billion euros less than that in the yearearlier period, while the central government increased its deficit by 300 million euros, and the social security system reduced its surplus by 300 million euros.

The consensus forecast for the general government deficits for 2015 and 2016 are unchanged from the last panel forecast, at 4.4% and 3.2% of GDP, respectively.

The situation in the EU is expected to improve

U.S. GDP stagnated in the first quarter of 2015, largely as a result of bad weather conditions and a port strike. This unexpected weakening has pushed back the expectations of an interest rate rise by the Federal Reserve. The indicators in the euro area suggest that the recovery has gained traction, although the rate of growth remains modest, while in emerging economies the situation remains weak and vulnerable to the expected change in U.S. monetary policy.

The panellists' view of the current situation in the EU is neutral (Table 4) and an improvement is now expected in the coming months. The context outside the EU continues to be seen as neutral, and it is also expected to improve over the coming months.

Long-term interest rates are considered to be too low

Short-term interest rates (three-month EURIBOR) have been slightly negative since mid-April. As in previous Forecast Panels, the rate is still felt to be too low, but is expected to remain unchanged over the months ahead.

In the case of long-term rates (10 years), there was a sharp upturn in yields on international markets in the last two weeks of April and first week of May, rising from record lows which, in the case of Spanish debt, meant an increase in yield of 0.65 percentage points, and an increase in the risk premium. In any event, levels remain very low in historical terms, and in relation to the current state of the Spanish economy, in the view of most of the panellists. They are expected to remain stable over the coming months, however.

The euro is no longer overvalued against the dollar

The poor performance of the U.S. economy in the first quarter has delayed the expected timing of the Federal Reserve's monetary-policy interest rate rise, resulting in a slight recovery in the exchange rate of the euro. Nevertheless, for the first time in many years, the panel considers the euro to be undervalued. Meanwhile, 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 classifieded 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 – May 2015

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

	G	DP	Hous consu	ehold mption	Pub consur	olic nption	Gross fixed capital formation		GFC machine capital (CF ary and goods	GF Consti	CF ruction	Dom dem	estic and
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	3.0	2.5	3.5	2.5	1.5	0.9	6.3	5.5	9.5	7.6	4.4	5.2	3.5	2.7
Banco Bilbao Vizcaya Argentaria (BBVA)	3.0	2.7	3.1	2.4	0.8	0.6	5.7	6.4	7.8	6.7	4.3	5.4	3.0	2.7
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	2.9	2.7	3.3	2.2	0.1	0.6	5.3	5.4	7.6	7.0	3.7	3.8	3.1	2.5
Cemex	3.0	2.5	3.3	2.4	1.6	1.2	5.4	5.7	8.0	5.5	3.3	5.9	3.3	2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.0	2.8	3.1	2.7	0.9	0.8	5.5	4.1	6.8	5.1	5.2	3.6	3.0	2.5
Centro de Predicción Económica (CEPREDE-UAM)	2.6	2.4	3.0	2.5	0.8	0.9	5.2	6.4	8.8	8.3	3.6	5.6	2.9	3.0
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	2.6		2.5		1.0		4.5		7.3		0.3		2.6	
Fundación Cajas de Ahorros (FUNCAS)	3.0	2.8	3.5	2.9	0.6	0.5	6.6	5.7	9.7	7.7	5.1	4.5	3.5	3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.9	2.6	3.0	2.8	0.7	0.7	5.5	5.8	7.6	7.0	3.6	4.5	2.9	2.7
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)	2.8	2.6	3.3	3.5	0.1	-1.0	4.0	4.3	7.1	7.2	2.6	3.0	2.9	2.6
Intermoney	3.0	2.8	3.5	2.8	1.2	0.8	5.7	5.4	7.1	6.3	3.4	5.3	3.0	2.9
La Caixa	2.8	2.5	3.5	2.1	0.5	0.1	4.6	4.2	7.7	5.3	2.9	3.4	3.0	2.1
Repsol	3.1	2.8	3.3	2.7	0.1	0.2	6.5	5.1	4.2	8.9	2.9	2.8	3.3	2.6
Santander	3.1	2.9	4.0	2.8	0.7	1.5	5.6	5.6	7.2	5.0	4.9	6.1	3.6	3.1
Solchaga Recio & asociados	2.8	2.6	3.4	2.8	0.6	0.5	5.7	5.4	8.0	6.5	4.8	5.5	3.3	2.9
CONSENSUS (AVERAGE)	2.9	2.7	3.3	2.7	0.7	0.6	5.4	5.3	7.8	6.9	3.5	4.4	3.1	2.7
Maximum	3.1	2.9	4.0	3.5	1.6	1.5	6.6	6.4	9.8	9.3	5.2	6.1	3.6	3.2
Minimum	2.6	2.4	2.5	2.1	0.1	-1.0	4.0	4.1	4.2	5.0	0.3	2.8	2.6	2.1
Change on 2 months earlier ¹	0.3	0.1	0.4	0.1	0.1	-0.1	0.6	0.4	0.6	0.4	0.7	0.6	0.4	0.1
- Rise ²	12	7	12	9	7	3	12	9	8	8	12	8	14	9
- Drop ²	1	1	1	2	3	6	1	3	1	2	1	3	0	1
Change on 6 months earlier ¹	0.9		1.4		0.7		1.9		0.9		2.3		1.3	
Memorandum ítems:														
Government (April 2015)	2.9	2.9	3.3	2.9	0.1	0.1	6.3	5.8	9.2	7.5	5.3	5.4	3.1	2.8
Bank of Spain (March 2015)	2.8	2.7	3.3	2.4	-0.4	-0.1	5.9	6.7	9.1 ³	9.1 ³	4.1	5.1		
EC (May 2015)	2.8	2.6	3.5	2.8	0.4	0.3	5.5	5.1	8.8 ³	7.9 ³			3.3	2.8
IMF (April 2015)	2.5	2.0	3.9	2.5	0.3	-1.1	4.5	3.1					3.1	1.7
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 – May 2015

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

	Expo goo serv	orts of ds & vices	Impo goo serv	orts of ds & vices	Indu out	strial put	C (an a	PI nual v.)	PI Labour nual costs ³ v.)		Jobs⁴		Une (% la for	mpl. Ibour ce)	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)	5.6	6.1	7.8	7.2			-0.4	1.1			3.1	2.2	22.2	20.8	0.1	0.1	-4.7	-3.5
Banco Bilbao Vizcaya Argentaria (BBVA)	6.1	7.5	6.6	7.8			-0.2	1.4	0.3	1.7	2.6	2.4	22.3	20.7	0.9	1.0	-4.4	-3.0
Bankia	5.6	5.4	7.9	7.9	1.9		-0.4	1.0	0.1	0.6	2.5	2.3	22.2	20.4	0.8	0.7		
CatalunyaCaixa	5.4	5.5	6.1	5.8			-0.2	1.5			2.5	2.5	22.4	20.6				
Cemex	5.0	5.4	6.7	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)	5.7	6.3	6.2	5.8			-0.5	0.7			2.9	2.6	22.0	19.9	0.9	1.4	-4.1	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	6.2	6.3	7.9	8.6	2.5	3.0	-0.3	1.4	0.3	1.2	2.1	1.7	22.2	21.3	-0.2	-0.6	-4.7	-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	5.5		5.5				0.2		0.5		2.5		21.5		0.1		-4.0	
Fundación Cajas de Ahorros (FUNCAS)	5.2	5.5	7.3	6.7	2.9	4.1	-0.5	0.9	0.3	0.7	2.6	2.3	22.3	20.4	1.5	1.2	-4.7	-3.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.6	7.0	7.0	7.7	2.0	2.6	-0.3	1.2			2.5	2.3	22.4	20.8	0.7	0.8	-4.5	-3.1
Instituto de Estudios Económicos (IEE)	5.7	6.0	6.2	6.5	1.9	2.1	-0.4	1.0	0.5	1.0	2.0	1.9	22.2	20.0	0.4	0.8	-4.4	-3.3
Instituto Flores de Lemus (IFL-UC3M)	4.6	4.5	5.1	5.3	1.9	3.6	-0.5	1.0			3.2	3.3	21.8	20.2				
Intermoney	5.7	5.9	6.2	6.7	2.5	3.5	-0.3	1.1			2.8	2.9	22.2	20.2	0.7	0.8	-4.2	-2.9
La Caixa	5.3	5.9	6.1	5.0	2.4	2.8	0.0	1.9	-0.3	0.8	2.9	2.4	22.4	20.9	1.1	1.1	-4.8	-3.3
Repsol	5.7	6.9	6.7	7.0	1.9	2.2	-0.6	1.2	-0.2	0.0	2.8	2.6	22.2	20.8	1.0	0.5	-4.3	-3.2
Santander	4.3	4.5	6.1	5.4			-0.7	0.8	0.5	1.0	2.4	2.2	22.4	20.3	1.8	1.2	-4.2	-2.8
Solchaga Recio & asociados	4.5	4.9	6.4	6.3			-0.4	1.1			3.0	2.7	22.2	20.1	1.2	1.5	-4.5	-3.4
CONSENSUS (AVERAGE)	5.4	5.8	6.6	6.6	2.2	2.8	-0.3	1.2	0.2	0.8	2.6	2.4	22.2	20.5	0.8	0.8	-4.4	-3.2
Maximum	6.2	7.5	7.9	8.6	2.9	4.1	0.2	1.9	0.5	1.7	3.2	3.3	22.8	21.4	1.8	1.5	-4.0	-2.8
Minimum	4.3	4.5	5.1	5.0	1.9	1.5	-0.7	0.7	-0.3	0.0	2.0	1.7	21.5	19.9	-0.2	-0.6	-4.8	-3.8
Change on 2 months earlier ¹	0.0	0.1	0.3	0.5	0.1	0.2	0.2	0.0	0.0	-0.1	0.3	0.2	-0.3	-0.4	0.1	0.2	0.0	0.0
- Rise ²	9	7	8	10	5	2	11	3	2	1	10	9	1	0	7	7	3	2
- Drop ²	3	2	5	2	1	2	1	4	2	3	1	1	13	11	2	1	3	4
Change on 6 months earlier ¹	0.3		1.4		-0.2		-1.0		-0.3		1.1		-0.8		0.0		0.1	
Memorandum items:																		
Government (April 2015)	5.4	6.0	6.7	6.4							3.0	3.0	22.1	19.8	1.3	1.3	-4.2	-2.8
Bank of Spain (March 2015)	5.2	5.8	6.2	6.3			-0.2	1.2			2.7	2.6	22.2	20.5	1.06	0.8 ⁶	-4.5	-3.9
EC (May 2015)	5.5	6.2	7.2	7.1			-0.6	1.1	0.3	0.4	2.7	2.5	22.4	20.5	1.2	1.0	-4.5	-3.5
IMF (April 2015)	6.3	5.8	8.7	5.0			-0.7	0.7			2.0	1.5	22.6	21.1	0.3	0.4	-4.3	-2.9
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 - May 2015¹

Quarter-on-quarter change (percentage)

	15-Q1	15-Q2	15-Q3	15-Q4	16-Q1	16-Q2	16-Q3	16-Q4
GDP ²	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.6
Household consumption ²	0.9	0.8	0.7	0.7	0.6	0.7	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 – May 2015¹

	Monthly o	Year-on-year change (%)			
 May-15	Jun-15	Jul-15	Aug-15	Dec-15	Dec-16
0.0	0.0	-0.7	0.1	0.9	1.1

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

Table 4 Opinions – May 2015

Number of responses

		Currently	/	Trend	for next six	months
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	5	11	2	16	2	0
International context: Non-EU	4	13	1	9	8	1
	Low ¹	Normal ¹	High ¹	Increasing	Stable	Decreasing
Short-term interest rate ²	13	5	0	0	16	2
Long-term interest rate ³	14	4	0	3	12	3
	Overvalued ⁴	Normal ^₄	Undervalued ^₄	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	2	6	10	0	6	12
		Is being	<u> </u>		Should be	
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	4	12	2	5	9	4
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: ECONOMIC INDICATORS

Table 1

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

Forecasts in blue

					Gross fixed capital formation								Net
		GDP	Private	Public			Constru	ction		Exports	Imports	Domestic	exports
			consumption	consumption	Total	Total	Housing	Other construction	Equipment & other products	·	·	Demand (a)	(a)
				Chain-l	inked v	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	1	0.6	1.3	0.3	0.8	-7.4	-7.4	-6.6	11.2	6.4	9.4	1.2	-0.6
	Ш	1.2	2.3	0.3	3.9	-0.7	-0.7	-2.0	9.3	1.0	4.9	2.3	-1.1
		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-lin	ked volume	s, quar	ter-on-q	uarter p	ercentage ch	anges, at ann	ual rate	•		
2014	1	1.2	2.4	4.0	1.8	-3.5	-3.5	0.1	7.6	0.4	4.3	2.3	-1.1
	Ш	2.1	4.0	-1.5	8.4	5.3	5.3	1.9	11.8	2.9	8.7	3.7	-1.5
		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)				Per	centage	of GDP at cu	irrent 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 1.3.- 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 adde	d at basic prices						
									S	Services				Taxaa laaa
		Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	subsidies on products
					Chain-	linked	l volumes, an	nual perce	ntage c	hange	5			
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	1	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
	Ш	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
	Ш	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	1	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
	Ш	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
	ш	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	2.0	3.2	2.0	2.8	4.2	3.5	17	3.0	4.4
2016	1	3.0	3.0	2.4	5.0	2.0	3.6	2.5	2.0	3.0	3.4	1.7	2.6	3.8
2010		2.8	3.2	2.5	4.8	2.5	3.0	3.0	2.7	3.8	3.5	0.5	2.0	3.3
		2.0	19	2.0	4.0	2.5	3.0	2.6	2.0	3.6	3.3	0.4	3.1	27
	IV	2.5	1.0	3.1	5.0	2.3	2.5	2.0	2.0	3.5	3.4	0.4	3.0	2.6
		2.0		Chain-link	ed volume	s. qu	arter-on-quar	ter percent	age cha	inges.	at annual ra	te	0.0	2.0
2014	1	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
		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
	Ш	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	1	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
	Ш	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
	ш	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	1	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
	Ш	23	10	31	54	2.0	22	18	2.0	3.5	18	0.5	3.0	42
		2.0	12	3.3	5.0	2.0	23	3.0	2.0	3.5	5.5	0.5	3.0	0.1
	11/	2.1	1.2	3.3	4.0	2.4	1.2	3.2	2.0	3.5	5.0	0.5	3.0	2.4
	IV	2.4	1.0	5.5	4.5	2.0	1.2	5.2	2.0	5.5	5.0	0.5	5.0	2.4
	C	Current price (EUR billions	s ;)				Percentage	of value ad	Ided at I	basic p	orices			
0000		4 005 7	0.5	47.0	44.0	00.5	01.0	4.0	5.4	0.0	7.0	40.0	0.0	0.0
2008		1,025.7	2.5	17.9	11.0	08.5	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	/1.4	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./	73.9	23.8	4.1	3.7	11.9	7.4	18.6	4.3	9.5
2014		905.1	2.5	17.5	0.0 E 7	74.4	24.1	4.0	3.9	12.2	7.4	10.0	4.3	9.7
2015		990.0 1 031 4	2.5	17.3	5.8	74.3	24.4	3.8	4.0	12.2	7.4	17.0	4.5	9.7

*Seasonally and Working Day Adjusted.

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



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	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	
	Ш	119.5	102.6	116.5	148.6	127.6	94.0	94.1	68.6	137.2	162.7	118.6	92.6	
	Ш	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	
	Ш	121.0	103.6	116.8	148.5	127.2	94.2	96.3	68.4	140.9	165.1	117.2	92.9	
	Ш	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 p	ercentag	e 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	
	11	-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.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 = 1	00, 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		
	Ш	64.1	51.5	124.5	174.8	140.5	97.6	137.7	123.7	111.3	140.8	126.5	94.3		
	Ш	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	Ι	62.5	49.0	127.6	171.2	134.1	92.7	138.9	124.6	111.5	141.0	126.5	93.9		
	Ш	63.0	49.4	127.4	173.8	136.4	96.2	139.6	125.9	110.9	141.0	127.1	94.7		
	Ш	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 p	ercentage	e 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		
		-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	1	-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		



Chart 3b.1.- Nominal ULC, construction

Index, 2000=100





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



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	I,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	-6.2	1,052.2	-12.5	1,039.8	827.3	212.5	46.9	43.3	9.8	
2015	1	,095.7	513.2	475.3	107.2	-3.6	1,092.1	-12.7	1,079.4	845.7	233.7	46.8	43.4	9.8	
2016	1	,131.9	529.3	489.2	113.4	-0.9	1,131.0	-12.8	1,118.2	871.6	246.6	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	Ι1	,049.4	489.6	458.3	101.4	-5.8	1,043.6	-13.6	1,030.0	816.0	214.0	46.7	43.7	9.7	
	II 1	,050.6	491.6	457.6	101.4	-7.9	1,042.7	-13.2	1,029.5	819.9	209.5	46.8	43.6	9.7	
	III 1	,054.3	493.9	458.1	102.3	-8.4	1,045.9	-12.1	1,033.8	824.2	209.5	46.8	43.5	9.7	
	IV 1	,058.5	496.9	458.1	103.5	-6.2	1,052.2	-12.5	1,039.8	827.3	212.5	46.9	43.3	9.8	
					Annual pe	ercentage	e change	s				Difference	e from or	ne 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	-14.0	1.0	-4.8	1.1	1.6	-0.8	0.2	-0.4	0.2	
2015		3.5	3.3	3.8	3.5	-42.2	3.8	1.5	3.8	2.2	10.0	-0.1	0.1	0.0	
2016		3.3	3.1	2.9	5.8	-76.2	3.6	1.5	3.6	3.1	5.5	-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	
		-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	Ι	-0.1	-1.3	-0.1	5.9	-25.5	0.1	19.0	-0.1	-0.2	0.2	-0.6	0.0	0.5	
	Ш	0.2	0.2	-0.3	2.9	33.3	0.0	6.6	-0.1	1.0	-4.1	0.0	-0.2	0.3	
	Ш	0.6	1.2	-0.4	3.1	31.5	0.4	-7.2	0.5	1.7	-3.6	0.2	-0.5	0.2	
	IV	0.9	1.3	-0.1	3.2	-14.0	1.0	-4.8	1.1	1.6	-0.8	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

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 a	nd services			Current	Quant	Ormital	Net lending/	Savi	ng-Investment	-Deficit
		Total	Goods	Tourist services	Non-tourist services	Income	transfers	account	transfers	borrowing with rest of the world	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 E	Billions, 4	-quarter c	umulated	transact	ions			
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	-6.2	-12.5	6.5	4.5	10.9	212.5	206.0	6.5
2015		30.3	-16.2	29.5	17.0	-3.6	-12.7	14.0	4.9	18.9	233.7	219.7	14.0
2016		25.2	-22.8	30.5	17.4	-0.9	-12.8	11.5	5.0	16.5	246.6	235.1	11.5
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
	Ш	30.7	-14.8	27.7	17.8	-5.9	-12.4	12.4	7.1	19.5	218.5	206.2	12.4
	Ш	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	-5.8	-13.6	14.4	7.1	21.5	214.0	199.6	14.4
	Ш	29.2	-18.8	28.8	19.2	-7.9	-13.2	8.0	6.4	14.4	209.5	201.5	8.0
	III	26.7	-20.6	28.7	18.6	-8.4	-12.1	6.1	5.8	11.9	209.5	203.4	6.1
	IV	25.2	-21.4	28.8	17.8	-6.2	-12.5	6.5	4.5	10.9	212.5	206.0	6.5
					Percenta	ge of GD	P, 4-quarte	er cumula	ted trans	actions			
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	-0.6	-1.2	0.6	0.4	1.0	20.1	19.5	0.6
2015		2.8	-1.5	2.7	1.6	-0.3	-1.2	1.3	0.4	1.7	21.3	20.1	1.3
2016		2.2	-2.0	2.7	1.5	-0.1	-1.1	1.0	0.4	1.5	21.8	20.8	1.0
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
	Ш	2.9	-1.4	2.6	1.7	-0.6	-1.2	1.2	0.7	1.9	20.8	19.7	1.2
	Ш	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	Т	3.2	-1.4	2.7	1.9	-0.6	-1.3	1.4	0.7	2.0	20.4	19.0	1.4
	Ш	2.8	-1.8	2.7	1.8	-0.8	-1.3	0.8	0.6	1.4	19.9	19.2	0.8
	Ш	2.5	-2.0	2.7	1.8	-0.8	-1.2	0.6	0.5	1.1	19.9	19.3	0.6
	IV	2.4	-2.0	2.7	1.7	-0.6	-1.2	0.6	0.4	1.0	20.1	19.5	0.6

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



Chart 5.1.- Balance of goods and services



Chart 5.2.- Services balance

Percentage of GDP, 4-quarter moving averages

5

4

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



Chart 5.4.- Saving, investment and current account balance



Table 6

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

Forecasts in blue

			Gr	oss disposab	le income (GDI	l)				Soving				Notlonding
		Total	Compen- sation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contri- butions and other current transfers (paid)	Per- sonal income taxes	Final con- sumption expen- diture	Gross saving (a)	rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borro- wing (-)	or borrowing as a per- centage of GDP
		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-qu	arter c	umulated	operatio	ons				
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		693.1	498.9	232.2	242.2	196.6	83.6	624.6	67.5	9.7	0.4	34.1	33.8	3.2
2015		714.7	515.3	241.6	244.6	204.0	82.9	642.2	71.5	10.0	0.3	35.8	36.0	3.3
2016		739.1	531.5	252.2	248.0	209.3	83.2	666.2	71.8	9.7	0.3	37.7	34.3	3.0
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
	П	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
		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	681.3	491.8	226.4	247.1	200.4	83.7	611.9	67.8	10.0	0.2	33.5	34.6	3.3
	П	682.3	493.8	225.5	245.9	199.0	83.8	616.3	64.6	9.5	0.0	33.5	31.2	3.0
		686.8	496.1	229.4	243.4	198.0	84.1	620.3	65.2	9.5	-0.1	34.2	30.8	2.9
	IV	693.1	498.9	232.2	242.2	196.6	83.6	624.6	67.5	9.7	0.4	34.1	33.8	3.2

		Ann	ual percenta	ge change	es, 4-quarter	cumulate	d operatio	ons		Differen- ce from one year ago	Annual 4-qu	percentage uarter cumu operations	changes lated	, 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		1.4	1.4	2.7	-2.9	-2.3	0.6	2.3	-5.1	-0.7	-19.1	2.1		-0.4
2015		3.1	3.3	4.1	1.0	3.7	-0.9	2.8	5.9	0.3	-15.0	5.1		0.1
2016		3.4	3.1	4.4	1.4	2.6	0.4	3.7	0.4	-0.3	-11.0	5.5		-0.3
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
	П	-1.8	-5.6	0.9	2.2	-3.7	-1.9	-2.1	-1.7	0.0	-26.2	-15.0		0.5
	Ш	-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	1.5	-0.8	-1.6	1.2	-0.2	-0.7	0.0	-89.7	-20.2		0.6
	П	-0.3	0.3	0.1	-1.7	-1.5	2.8	1.2	-11.4	-1.2	-98.7	-17.7		-0.3
	Ш	0.7	1.2	1.5	-2.6	-1.5	1.9	1.7	-7.9	-0.9	-109.0	-8.7		-0.4
	IV	1.4	1.4	2.7	-2.9	-2.3	0.6	2.3	-5.1	-0.7	-19.1	2.1		-0.4

(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



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



Table 7National accounts: Non-financial corporations income and its disposition (ESA 2010, Base 2010)

Forecasts in blue

		Gross value added	Compen- sation of emplo- yees and net taxes on pro- duction (paid)	Gross ope- rating surplus	Net property income	Net current trans- fers	Income taxes	Gross saving	Net capital trans- fers	Gross capital formation	Net lending (+) or borro- wing (-)	Net lending or bo- rrowing as a per- centage of GDP	Profit share (per- cen- tage)	Investment rate (percen- tage)
		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
					E	UR Billio	ons, 4-qua	arter cumula	ated ope	rations				
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		552.4	323.6	228.7	-51.6	-7.1	18.9	151.2	7.0	147.0	11.3	1.1	41.4	26.6
2015		574.9	338.3	236.6	-44.9	-7.3	21.7	162.7	7.0	157.3	12.4	1.1	41.2	27.4
2016		593.4	352.4	241.0	-34.2	-7.5	22.0	177.4	7.0	170.3	14.1	1.2	40.6	28.7
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
	П	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
	Ш	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	- 1	548.6	316.3	232.3	-45.6	-6.6	17.6	162.5	6.9	139.1	30.3	2.9	42.3	25.4
	П	549.0	318.3	230.8	-49.3	-6.7	18.4	156.3	6.5	138.1	24.7	2.3	42.0	25.2
	Ш	550.2	320.4	229.7	-51.0	-6.9	18.6	153.2	6.2	139.7	19.7	1.9	41.8	25.4
	IV	552.4	323.6	228.7	-51.6	-7.1	18.9	151.2	7.0	147.0	11.3	1.1	41.4	26.6
			Annua	al percent	tage chan	ges, 4-qı	larter cui	nulated ope	rations			Differenc	e from o	ne 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		0.5	2.1	-1.7	13.6	6.8	6.7	-7.2	-1.9	7.6		-2.1	-0.9	1.8
2015		4.1	4.5	3.4	-12.8	3.0	14.8	7.6	0.0	7.1		0.1	-0.3	0.8
2016		3.2	4.2	1.9	-23.9	3.5	1.4	9.0	0.0	8.3		0.1	-0.5	1.3
2013	1	-2.0	-5.7	3.7	-10.4	5.3	20.0	8.1	3.5	4.1		0.6	2.3	1.4
	П	-1.6	-5.3	4.0	-17.2	8.5	15.2	12.0	-2.0	3.1		1.2	2.3	1.2
	Ш	-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
201	4 I	-1.0	-2.1	0.6	-18.1	-9.3	-10.0	9.5	-27.6	1.1		0.9	0.7	0.5
	П	-0.6	-0.6	-0.7	-3.9	-4.2	-7.5	1.4	-30.1	-0.5		0.0	0.0	0.0
	Ш	-0.3	0.7	-1.7	7.9	4.5	0.9	-5.0	-28.5	-0.2		-1.0	-0.6	0.0
	IV	0.5	2.1	-1.7	13.6	6.8	6.7	-7.2	-1.9	7.6		-2.1	-0.9	1.8



Chart 7.1.- Non-financial corporations: Gross

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

Percentage of GDP, 4-quarter moving averages



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

Annual percentage change, 4-quarter moving averages



Chart 7.4.- Non-financial corporations: Profit share and investment rate Percentage of non-financial corporations GVA,



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

Forecasts in blue

Table 8

			-	·	·	·			·	-					·
		Gross value added	Taxes on produc- tion and imports receiva- ble	Taxes on income and weath receiva- ble	Social contribu- tions receiva- ble	Com- pen- sation of emplo- yees	Interests and other capital incomes payable (net)	Social be- nefits paya- ble	Sub- sidies and net current transfers payable	Gross disposable income	Final consump- tion expendi- ture	Gross saving	Net capital expendi- ture	Net len- ding(+)/ net borro- wing(-)	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 E	Billions, 4-	quarter	cumulate	d operation	S				
2008		142.8	107.9	116.6	142.0	118.1	5.9	137.1	24.4	223.8	209.5	14.3	63.6	-49.4	-49.4
2009		151.0	91.9	101.6	139.7	125.6	8.0	155.1	23.9	171.7	221.0	-49.3	68.9	-118.2	-118.2
2010		152.0	110.1	100.6	138.6	124.9	10.8	162.7	21.4	181.5	221.7	-40.2	61.3	-101.4	-101.4
2011		150.3	106.2	102.0	137.8	122.6	16.2	164.2	22.6	170.7	219.7	-49.0	52.3	-101.3	-96.1
2012		142.2	109.1	106.3	131.9	113.9	20.3	168.5	18.7	168.0	206.9	-38.9	70.0	-108.9	-69.8
2013		142.8	115.0	105.1	128.2	114.5	23.5	170.6	20.5	161.8	204.2	-42.5	28.8	-71.3	-66.4
2014		142.7	118.1	105.6	129.9	114.5	25.0	170.8	20.8	165.1	202.7	-37.6	24.2	-61.7	-60.5
2015		144.1	122.2	107.9	135.4	115.4	23.6	172.5	21.6	176.6	203.5	-27.0	24.4	-51.4	-51.4
2016		145.8	128.4	108.7	139.2	116.5	21.5	174.2	20.6	189.3	205.4	-16.1	24.5	-40.6	-40.6
2013	Т	141.5	109.2	105.7	130.9	113.1	20.9	169.1	18.4	165.8	204.7	-38.9	66.6	-105.5	-67.4
	Ш	139.8	111.5	105.2	129.2	111.5	22.0	170.4	18.6	163.4	202.5	-39.1	61.9	-101.1	-64.7
	Ш	139.3	112.6	105.2	128.7	111.0	22.6	171.3	19.7	161.1	201.0	-39.9	57.8	-97.8	-63.8
	IV	142.8	115.0	105.1	128.2	114.5	23.5	170.6	20.5	161.8	204.2	-42.5	28.8	-71.3	-66.4
2014	L I	142.6	116.0	105.7	128.5	114.5	24.2	170.2	20.6	163.3	204.1	-40.8	27.5	-68.3	-63.5
	Ш	142.5	116.7	105.9	128.5	114.3	24.2	169.8	22.1	163.3	203.6	-40.4	24.8	-65.1	-63.0
	Ш	142.8	117.5	106.2	129.2	114.6	24.3	169.2	21.2	166.4	203.9	-37.5	22.9	-60.4	-59.5
	IV	142.7	118.1	105.6	129.9	114.5	25.0	170.8	20.8	165.1	202.7	-37.6	24.2	-61.7	-60.5
						Percenta	ge of GDF	, 4-quar	ter cumul	ated operat	ions				
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	10.3	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		13.5	11.2	10.0	12.3	10.8	2.4	16.1	2.0	15.6	19.2	-3.6	2.3	-5.8	-5.7
2015		13.2	11.2	9.8	12.4	10.5	2.2	15.7	2.0	16.1	18.6	-2.5	2.2	-4.7	-4.7
2016		12.9	11.3	9.6	12.3	10.3	1.9	15.4	1.8	16.7	18.1	-1.4	2.2	-3.6	-3.6
2013	Т	13.5	10.4	10.1	12.5	10.8	2.0	16.1	1.7	15.8	19.5	-3.7	6.3	-10.0	-6.4
	П	13.3	10.6	10.0	12.3	10.6	2.1	16.3	1.8	15.6	19.3	-3.7	5.9	-9.6	-6.2
	Ш	13.3	10.7	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	1	13.6	11.1	10.1	12.2	10.9	2.3	16.2	2.0	15.6	19.5	-3.9	2.6	-6.5	-6.0
	Ш	13.6	11.1	10.1	12.2	10.9	2.3	16.2	2.1	15.5	19.4	-3.8	2.4	-6.2	-6.0
	III	13.5	11.1	10.1	12.3	10.9	2.3	16.0	2.0	15.8	19.3	-3.6	2.2	-5.7	-5.6
	IV	13.5	11.2	10.0	12.3	10.8	2.4	16.1	2.0	15.6	19.2	-3.6	2.3	-5.8	-5.7

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



Chart 8.1.- Public sector: Revenue, expenditure

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



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



Chart 8.4.- Public sector: Saving, investment and deficit (a)

Percentage of GDP, 4-quarter moving averages



Table 9 Public sector balances, by level of Government

Forecasts in blue

Central GovernmentsRegional GovernmentsLocal GovernmentsSocial GovernmentsTOTAL GovernmentsRegional GovernmentsLocal GovernmentsSocial SecurityTOTAL GovernmentsRegional GovernmentsLocal GovernmentsSocial SecurityTOTAL GovernmentsRegional GovernmentsLocal GovernmentsSocial SecurityTOTAL GovernmentsRegional GovernmentsLocal GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial SecurityTOTAL GovernmentsSocial Security2010-S4<					Deficit			Debt				
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 -51.8 -40.2 -7.1 -2.4 -101.4 551.6 123.4 35.5 17.2 649.3 2011 -31.7 -54.8 -8.5 -1.1 -96.1 624.2 145.1 36.8 17.2 699.0 2014 -44.3 -15.9 5.5 -11.6 -66.4 838.1 209.8 42.1 17.2 966.2 2014 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1033.9 2015 -42.6 -10.2 3.4 -10.2 -40.6 - - 1,161.6 2014 -3.9.8			Central Government (a)	Regional Governments	Local Governments	Social Security	TOTAL Government (a)	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government (consolidated)
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 -51.8 -40.2 -7.1 -2.4 -101.4 551.6 123.4 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 2014 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,03.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 -67.4 79.1 193.5 45.0 17.2 930.4 2014 -39.8 -10.2 3.4 -10.2 -40.6 -64.7 799.1 193.5 45.0 17.2 930.4 17.2 950.4			EUR Billi	ons, 4-quarter	r cumulated op	erations			EUR I	Billions, end of	period	
2009 -98.4 -21.7 -5.9 7.8 -118.2 487.7 92.4 34.7 17.2 568.7 2010 -51.8 40.2 -7.1 -2.4 -101.4 551.6 123.4 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 17.2 990.0 2013 -44.3 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,03.9 2014 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,03.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 - - - - 1,161.1 2014 -39.8 -20.2 4.1 -11.5 -67.4 799.1 193.5 45.0 17.2 990.4 101 -39.8 -10.2 4.1 </td <td>2008</td> <td></td> <td>-32.3</td> <td>-19.1</td> <td>-5.4</td> <td>7.4</td> <td>-49.4</td> <td>368.9</td> <td>73.6</td> <td>31.8</td> <td>17.2</td> <td>439.8</td>	2008		-32.3	-19.1	-5.4	7.4	-49.4	368.9	73.6	31.8	17.2	439.8
2010 -51.8 -40.2 -7.1 -2.4 -101.4 551.6 123.4 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 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,03.9 2014 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,03.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 1,105.6 2016 -23.6 -10.2 3.4 -10.2 -40.6 1,116.6 - 1,161.1 2014 -39.8 -20.2 4.1 -11.6 -63.8 833.6 199.7 43.1 17.2 966.2	2009		-98.4	-21.7	-5.9	7.8	-118.2	487.7	92.4	34.7	17.2	568.7
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 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,03.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 1,105.6 2016 -23.6 -10.2 3.4 -10.2 -40.6 1,161.1 2014 -39.8 -20.2 4.1 -11.5 -67.4 799.1 193.5 45.0 17.2 930.4 1 -38.8 -18.8 4.6 -11.7 -64.7 820.8 199.7 43.1 17.2 966.2 11 -40.6 -16.5	2010		-51.8	-40.2	-7.1	-2.4	-101.4	551.6	123.4	35.5	17.2	649.3
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 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 1,105.6 2016 -23.6 -10.2 3.4 -10.2 40.6 1,105.6 2016 -39.8 -20.2 4.1 -11.5 -67.4 799.1 193.5 45.0 17.2 930.4 10 -38.8 -16.5 4.9 -11.6 -63.8 833.6 199.7 43.1 17.2 966.2 10 -40.6 -16.5 4.9 -11.6 -63.5 866.1 225.0 41.9 17.2 966.2 2014 1 -41.9 <t< td=""><td>2011</td><td></td><td>-31.7</td><td>-54.8</td><td>-8.5</td><td>-1.1</td><td>-96.1</td><td>624.2</td><td>145.1</td><td>36.8</td><td>17.2</td><td>743.5</td></t<>	2011		-31.7	-54.8	-8.5	-1.1	-96.1	624.2	145.1	36.8	17.2	743.5
213 -44.3 -15.9 5.5 -11.6 -66.4 838.1 209.8 42.1 17.2 966.2 2014 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 1,105.6 2016 -23.6 -10.2 3.4 -10.2 40.6 1,105.6 2016 -38.8 -10.2 4.1 -11.5 -67.4 79.1 193.5 45.0 17.2 930.4 2014 -38.8 -16.5 4.9 -11.6 -63.8 833.6 199.7 43.1 17.2 966.2 2014 -41.9 -16.1 5.3 -11.6 -63.8 838.1 209.8 42.1 17.2 966.2 2014 -41.9 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 1,012.6 2014 -41.9 -17.2 5.5	2012		-43.5	-19.4	3.3	-10.2	-69.8	762.1	188.4	44.0	17.2	891.0
2014 -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 2015 -29.5 -14.2 3.3 -11.0 -51.4 1,105.6 2016 -23.6 -10.2 3.4 -10.2 -40.6 1,161.1 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 -64.7 820.8 197.1 44.5 17.2 950.4 IV -44.3 -15.9 5.5 -11.6 -63.8 833.6 199.7 43.1 17.2 966.2 2014 I -41.9 -16.1 5.3 -11.6 -63.8 838.1 209.8 42.1 17.2 966.2 2014 I -41.9 -16.1 5.3 -11.6 -63.5 866.1 225.0 41.9 1,012.6 III -30.0	2013		-44.3	-15.9	5.5	-11.6	-66.4	838.1	209.8	42.1	17.2	966.2
2015 -29.5 -14.2 3.3 -11.0 -51.4 1,105.6 2016 -23.6 -10.2 3.4 -10.2 -40.6 1,161.1 2013 1 -39.8 -20.2 4.1 -11.5 -67.4 799.1 193.5 45.0 17.2 930.4 10 -38.8 -18.8 4.6 -11.7 -64.7 820.8 197.1 44.5 17.2 950.4 11 -40.6 -16.5 4.9 -11.6 -63.8 833.6 199.7 43.1 17.2 966.2 2014 -41.9 -16.1 5.3 -11.6 -66.4 838.1 209.8 42.1 17.2 966.2 2014 -41.9 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 10 -36.8 -17.2 4.8 -13.9 -63.5 891.9 232.1 40.8 17.2 1,020.3 11 -37.4 -17.5 <t< td=""><td>2014</td><td></td><td>-37.4</td><td>-17.5</td><td>5.6</td><td>-11.2</td><td>-60.5</td><td>895.9</td><td>236.7</td><td>38.4</td><td>17.2</td><td>1,033.9</td></t<>	2014		-37.4	-17.5	5.6	-11.2	-60.5	895.9	236.7	38.4	17.2	1,033.9
2016 -23.6 -10.2 3.4 -10.2 -40.6 - - - - 1,161.1 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 -64.7 820.8 197.1 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 V -44.3 -15.9 5.5 -11.6 -66.4 838.1 209.8 42.1 17.2 966.2 2014 I -41.9 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 2014 I -41.9 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 1020.3 II -36.8 -17.2 4.8 -13.9 -63.5 891.9 232.1 40.8 17.2 1,020.3 IV -37	2015		-29.5	-14.2	3.3	-11.0	-51.4					1,105.6
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 -64.7 820.8 197.1 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 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 2014 I -41.9 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 1I -36.8 -17.2 4.8 -13.9 -63.0 885.2 228.2 42.0 17.2 1,012.6 III -39.0 -17.2 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,020.3 IV	2016		-23.6	-10.2	3.4	-10.2	-40.6					1,161.1
II -38.8 -18.8 4.6 -11.7 -64.7 820.8 197.1 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 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 II -36.8 -17.2 4.8 -13.9 -63.0 885.2 228.2 42.0 17.2 1,012.6 III -39.0 -17.2 5.1 -84 -59.5 891.9 232.1 40.8 17.2 1,020.3 IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 2008 -2.9 -1.7	2013	I	-39.8	-20.2	4.1	-11.5	-67.4	799.1	193.5	45.0	17.2	930.4
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 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 II -36.8 -17.2 4.8 -13.9 -63.0 885.2 228.2 42.0 17.2 1,012.6 III -39.0 -17.2 5.1 -8.4 -59.5 891.9 232.1 40.8 17.2 1,020.3 IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 Percentage of GDP, 4-quarter cumulated operations Percentage of GDP, 4-quarter cumulated operations 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.		П	-38.8	-18.8	4.6	-11.7	-64.7	820.8	197.1	44.5	17.2	950.4
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 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 II -36.8 -17.2 4.8 -13.9 -63.0 885.2 228.2 42.0 17.2 1,012.6 III -39.0 -17.2 5.1 -8.4 -59.5 891.9 232.1 40.8 17.2 1,020.3 IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 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		111	-40.6	-16.5	4.9	-11.6	-63.8	833.6	199.7	43.1	17.2	961.2
2014 i -41.9 -16.1 5.3 -10.7 -63.5 866.1 225.0 41.9 17.2 995.8 ii -36.8 -17.2 4.8 -13.9 -63.0 885.2 228.2 42.0 17.2 1,012.6 iii -39.0 -17.2 5.1 -8.4 -59.5 891.9 232.1 40.8 17.2 1,020.3 iv -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 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		IV	-44.3	-15.9	5.5	-11.6	-66.4	838.1	209.8	42.1	17.2	966.2
II -36.8 -17.2 4.8 -13.9 -63.0 885.2 228.2 42.0 17.2 1,012.6 III -39.0 -17.2 5.1 -8.4 -59.5 891.9 232.1 40.8 17.2 1,020.3 IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 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	2014	I	-41.9	-16.1	5.3	-10.7	-63.5	866.1	225.0	41.9	17.2	995.8
III -39.0 -17.2 5.1 -8.4 -59.5 891.9 232.1 40.8 17.2 1,020.3 IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 Percentage of GDP, 4-quarter cumulated operations Percentage of GDP, 4-quarter cumulated operations 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		П	-36.8	-17.2	4.8	-13.9	-63.0	885.2	228.2	42.0	17.2	1,012.6
IV -37.4 -17.5 5.6 -11.2 -60.5 895.9 236.7 38.4 17.2 1,033.9 Percentage of GDP, 4-quarter cumulated perations 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		111	-39.0	-17.2	5.1	-8.4	-59.5	891.9	232.1	40.8	17.2	1,020.3
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		IV	-37.4	-17.5	5.6	-11.2	-60.5	895.9	236.7	38.4	17.2	1,033.9
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			Percentage	of GDP, 4-quar	ter cumulated	operation	15		Per	centage of GDI	•	
2009 -9.1 -2.0 -0.5 0.7 -11.0 45.2 8.6 3.2 1.6 52.7	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 -9.4 51.0 11.4 3.3 1.6 60.1	2010		-4.8	-3.7	-0.7	-0.2	-9.4	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	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	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	2013		-4.2	-1.5	0.5	-1.1	-6.3	79.9	20.0	4.0	1.6	92.1
2014 -3.5 -1.7 0.5 -1.1 -5.7 84.6 22.4 3.6 1.6 97.7	2014		-3.5	-1.7	0.5	-1.1	-5.7	84.6	22.4	3.6	1.6	97.7
2015 -2.7 -1.3 0.3 -1.0 -4.7 100.9	2015		-2.7	-1.3	0.3	-1.0	-4.7					100.9
2016 -2.1 -0.9 0.3 -0.9 -3.6 102.6	2016		-2.1	-0.9	0.3	-0.9	-3.6					102.6
2013 I -3.8 -1.9 0.4 -1.1 -6.4 76.1 18.4 4.3 1.6 88.6	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		11	-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 91.7		111	-3.9	-1.6	0.5	-1.1	-6.1	79.6	19.1	4.1	1.6	91.7
IV -4.2 -1.5 0.5 -1.1 -6.3 79.9 20.0 4.0 1.6 92.1		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 -1.5 U.5 -1.0 -6.0 82.5 21.4 4.0 1.6 94.9	2014	1	-4.0	-1.5	0.5	-1.0	-6.0	82.5	21.4	4.0	1.6	94.9
II -3.5 -7.6 U.5 -7.3 -6.U 84.3 27.7 4.U 1.6 96.4		11	-3.5	-1.6	0.5	-1.3	-6.0	84.3	21.7	4.0	1.6	96.4
IV -3.5 -1.7 0.5 -1.1 -5.7 84.6 22.4 3.6 1.6 97.7		III IV	-3.7	-1.0	0.5	-0.8	-5.0	04.0 84.6	22.0	3.9	1.0	90.8 97.7

(a) Excluding financial entities bail-out expenditures.

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



Chart 9.2.- Government debt Percent of GDP



Table 10 General activity and industrial sector indicators (a)

	General activity indicators Industrial sector indicators										
		Economic Senti- ment Index	Composite PMI index	Social Security affiliates (f)	Electricity consumption (temperature adjusted)	Industrial pro- duction index	Social Secu- rity affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	Index	Thousands	1000 GWH (smoothed)	2010=100	Thou- sands	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	95.5	-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	249.7	91.6	2,023	53.2	-7.1	93.7	-16.6
2015 (b)		108.4	57.2	16,329	89.3	93.3	2,033	54.4	-2.4	89.5	-8.8
2013	III	95.0	49.7	15,814	62.4	91.0	2,013	50.5	-12.8	92.4	-27.9
	IV	97.1	51.6	15,888	62.6	91.2	2,013	50.1	-11.6	92.8	-26.9
2014	I	101.0	54.3	15,962	62.6	91.5	2,015	52.5	-9.1	93.5	-20.5
	II	102.4	55.7	16,054	62.6	92.0	2,020	53.4	-8.2	93.9	-18.3
		103.6	56.0	16,145	62.6	91.7	2,024	53.1	-5.7	94.0	-14.4
0045	IV	104.3	54.6	16,277	62.6	91.8	2,031	53.7	-5.3	93.8	-13.2
2015	1	107.7	50.0	16,446	62.7	92.8	2,047	54.4	-3.2	93.8	-10.6
2014	II (D)	107.4	59.1	16,598	20.9		2,001	54.2	0.2		-3.4
2014	Mar	107.4	56.0	16,443	20.9	92.7	2,047	54.2	-4.3	93.0	-11.5
	Anr	110.4	50.9	16,522	20.9	95.0	2,055	54.3	-0.9		-0.0
	7 qu	110.4	55.1	10,000	Perc	entage chan	ges (c)	54.2	0.2		-0.4
2008				-0.6	0.7	-7.6	_2.2			8.2	
2000				-0.0	0.7	-7.0	-2.2			-0.2	
2009				-0.2	-4.7	-15.8	-10.0			-19.5	
2010				-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)			3.1	1.2	1.5	1.6			0.5	
2013	III			-0.3	0.3	4.8	-1.7			0.0	
	IV			1.9	0.8	0.9	0.1			1.8	
2014	I			1.9	0.3	1.0	0.5			2.8	
	II			2.3	0.2	2.4	0.9			1.9	
	III			2.3	-0.2	-1.4	0.7			0.2	
	IV			3.3	0.1	0.5	1.5			-0.5	
2015	I			4.2	0.7	4.2	3.2			-0.2	
	II (e)			3.7	0.4		2.6				
2014	Feb			0.4	0.1	0.7	0.3			0.0	
	Mar	·		0.5	0.1	1.0	0.3				
	Apr	·		0.5	0.1		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 10.3.- Industrial sector indicators (I) Annualized percent change from previous period







Table 11 Construction and services sector indicators (a)

			C	onstruction indi	cators		Service sector indicators						
		Social Security affiliates in construction	Consump- tion of cement	Industrial pro- duction index construction materials	Cons- truction confiden- ce index	Official tenders (f)	Housing permits (f)	Social Security affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
		Thousands	Million Tons	2010=100 (smoothed)	Balance of res- ponses	EUR Billions	Million m ²	Thousands	2010=100 (smoothed)	Index	Million (smoo- thed)	Million (smoothed)	Balance of res- ponses
2008		2,340	42.7	154.7	-23.6	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	295.0	195.0	9.9
2015	(b)	1,004	2.6	61.5	-24.8	2.7	1.5	12,185	87.8	57.6	46.4	37.2	19.0
2013	111	986	2.7	63.9	-60.6	2.5	1.6	11,720	91.1	49.3	71.5	46.5	-10.2
	IV	977	2.6	63.8	-57.4	2.9	1.6	11,788	91.6	51.8	72.4	47.0	-3.1
2014	1	971	2.6	63.5	-52.3	3.7	1.7	11,858	92.2	54.2	72.8	47.5	7.5
	Ш	976	2.7	62.4	-55.8	3.2	1.8	11,949	93.0	55.7	73.1	48.1	9.1
	Ш	982	2.7	61.2	-35.0	3.4	1.9	12,032	93.7	56.7	73.6	48.8	8.8
	IV	994	2.8	61.6	-22.6	2.9	1.5	12,139	94.4	54.3	74.3	49.3	14.0
2015	1	1,015	2.8	63.1	-23.3	2.7	1.5	12,291	94.9	56.7	74.8	49.9	17.5
	ll (b)	1,028			-29.0			12,391		60.3			23.5
2014	Feb	1,015	0.9	63.1	-22.2	0.9	0.8	12,290	95.0	56.2	24.9	16.6	18.7
	Mar	1,022	1.0	63.7	-22.0	0.9		12,341		57.3	25.0	16.7	17.3
	Apr	1.028			-29.0			12.391		60.3			23.5
		,				Perc	entage cl	nanges (c)					
2008		-10.0	-23.8	-17.8		-1.3	-56.6	1.5	-3.7		-12	-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	0.1	-1.4		42.9	2.2	2.3	2.6		3.1	4.6	
2015	(d)	4.9	8.5	-0.7		-25.3	43.5	3.7	3.4		3.5	6.4	
2013	III	-5.2	-2.1	5.3		48.3	-16.8	0.9	2.3		7.5	3.5	
	IV	-3.3	-1.2	-0.2		87.1	-8.3	2.3	2.0		4.8	4.2	
2014	1	-2.6	-13.1	-2.0		129.2	-12.6	2.4	2.6		2.4	4.7	
		2.1	16.2	-6.8		48.2	11.2	3.1	3.5		1.8	5.4	
		2.4	11.1	-7.2		32.7	21.2	2.8	3.5		2.8	5.3	
0045	IV	5.0	15.1	2.2		0.3	-8.0	3.6	2.8		3.5	4.7	
2015	ا (م) اا	ö./	-3.0	10.2		-20.3	43.4	0. I 3 3	2.0		2.8	4.9	
2014	Feb	0.2	-0.3	0.0		-38 5	53.8	0.4	0.2		0.2	0.4	
2014	Mar	0.0	4.0	1.0		-30.5	55.6	0.4	0.2		0.2	0.4	
	Apr	0.5						0.4					
	- P. C.							-					

(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.

2014

15



150 100 50 -50 -100

09

Official tenders
Housing permits

12|13

02 03 04 05

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



Table 12 Consumption and investment indicators (a)

				Consumption in	dicators		In	vestment in equipment	indicators
		Retail sales deflated	Car registrations	Consumer confi- dence 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	104.3	-9.2	135.3	-16.1	83.1
2015	(b)	83.1	362.9	0.4	18.5	-4.9	56.5	-6.7	89.2
2013	Ш	84.1	184.5	-20.5	25.0	-21.2	27.6	-26.8	72.2
	IV	83.9	191.6	-19.4	25.2	-19.5	29.3	-35.7	75.9
2014	I	84.0	201.9	-11.8	25.3	-11.8	31.0	-20.1	80.0
	Ш	84.5	212.9	-6.1	25.6	-8.1	32.6	-16.9	82.9
	Ш	85.1	223.7	-7.9	26.0	-7.5	34.4	-15.8	84.3
	IV	85.8	238.0	-9.6	26.4	-9.5	37.0	-11.3	87.5
2015	I	86.3	252.7	-0.6	26.8	-4.5	40.1	-9.1	93.1
	ll (b)		87.0	3.6		-6.1	14.1	0.8	
2014	Feb	86.3	84.3	-2.1	8.9	-5.3	13.4	-15.0	94.5
	Mar	86.5	85.7	1.7	9.0	-3.1	13.7	-5.2	
	Apr		87.0	3.6		-6.1	14.1	0.8	
					Percentage	e 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)	1.1	18.8		3.6		26.1		18.7
2015	(d)	3.1	25.8		8.7		31.5		26.4
2013	111	0.6	13.1		5.3		32.8		23.3
2014	10	-0.8	10.4		3.2		28.4		22.2
2014		0.5	23.2		2.4		24.0		23.7
		2.4	23.8		4.8		22.2		6.7
	IV	3.1	28.2		6.4		34.0		16.2
2015	10	2.5	26.9		6.2		38.5		28.3
2015	ll (e)	2.5	14 1				22.7		
2014	Feb	0.2	1.9		0.5		2.8		2.9
-014	Mar	0.2	1.7		0.5		2.7		
	Apr		1.6				2.5		-

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





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Table 13a

Labour market (I)

Forecasts in blue

									Participation	Employment		Unemployme	nt rate (c)	
	F	Population	Labou	ir force	Empl	oyment	Unemp	oloyment	rate 16-64 (a)	rate 16-64 (b)	Total	Aged 16-24	Spanish	Foreign
	d	igeu 10-04	Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted		Sea	asonally ac	djusted		
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
				Milli	on					1	Percenta	ige		
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		30.2	22.9		17.8		5.1		75.4	58.6	22.3			
2016		30.1	22.9		18.2		4.7		75.6	60.1	20.4			
2013	Ш	30.7	23.2	23.2	17.2	17.2	6.0	6.0	75.2	55.5	26.0	55.4	24.5	36.0
	Ш	30.5	23.2	23.2	17.2	17.1	5.9	6.0	75.3	56.0	26.0	54.9	24.3	37.4
	IV	30.4	23.1	23.0	17.1	17.1	5.9	5.9	75.2	55.9	25.7	55.0	24.1	36.4
2014	Т	30.3	22.9	22.9	17.0	17.1	5.9	5.8	75.1	55.4	25.3	54.5	23.7	36.2
	Ш	30.3	23.0	23.0	17.4	17.4	5.6	5.6	75.3	56.8	24.5	52.9	23.1	34.4
	Ш	30.3	22.9	22.9	17.5	17.4	5.4	5.5	75.2	57.3	24.1	53.1	22.7	33.7
	IV	30.3	23.0	23.0	17.6	17.5	5.5	5.4	75.5	57.6	23.7	51.7	22.3	33.3
2015	I	30.2	22.9	22.9	17.5	17.6	5.4	5.3	75.3	57.3	23.1	50.4	21.9	32.1
			Pe	ercentage o	changes	(d)				Difference	from on	e 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	2.6	1.5	1.0
2014		-0.9	-1.0		1.2		-7.3		0.0	1.2	-1.7	-2.3	-1.4	-2.5
2015		-0.4	-0.1		2.7		-9.0		0.2	1.8	-2.2			
2016		-0.3	-0.1		2.4		-8.5		0.2	1.6	-1.9			
2013	II	-1.0	-1.2	-2.3	-3.4	-1.0	5.5	-6.0	-0.1	-1.4	1.7	3.1	2.0	0.3
	III	-1.2	-1.4	-0.8	-2.5	-0.7	2.0	-1.3	-0.1	-0.7	0.9	2.0	0.8	1.8
	IV	-1.3	-1.2	-1.9	-1.2	-0.2	-1.4	-6.5	0.0	0.1	-0.1	-0.1	0.1	-0.2
2014	I	-1.3	-1.8	-2.3	-0.5	-0.1	-5.5	-8.6	-0.3	0.5	-1.0	-1.5	-0.7	-1.6
	II	-1.0	-1.0	1.3	1.1	5.6	-7.0	-10.5	0.1	1.3	-1.5	-2.5	-1.4	-1.6
	Ш	-0.8	-1.0	-1.1	1.6	1.3	-8.7	-8.0	-0.2	1.3	-2.0	-1.8	-1.6	-3.7
	IV	-0.6	-0.2	1.1	2.5	3.3	-8.1	-5.6	0.2	1.7	-2.1	-3.3	-1.8	-3.1
2015	1	-0.4	0.1	-1.0	3.0	1.7	-8.2	-9.7	0.3	1.8	-2.2	-4.1	-1.8	-4.1

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



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





Table 13b Labour market (II)

		Employe	d by sector			Employed	l by professi	onal situation		Employed by	duration o	f the working-day
						Emp	oloyees					
	A	la duata i	Construc-	Orminer		В	y type of co	ntract	Self- emplo-	Eull times	De et fins e	Part-time employ-
	Agriculture	Industry	tion	Services	Total	Temporary	Indefinite	Temporary employment rate (a)	yed	Full-time	Part-time	ment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
					N	lillion (orig	inal data)					
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	0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.9
2015 (c)	0.72	2.44	1.06	13.24	14.39	3.40	11.00	23.6	3.06	14.62	2.84	16.3
2013	0.75	2.36	1.03	13.02	14.07	3.22	10.85	22.9	3.09	14.39	2.77	16.1
	0.70	2.35	1.03	13.16	14.12	3.40	10.73	24.1	3.11	14.62	2.61	15.2
P	/ 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
	0.74	2.36	0.98	13.28	14.32	3.43	10.89	24.0	3.04	14.51	2.84	16.4
I	0.67	2.43	1.02	13.39	14.41	3.55	10.86	24.6	3.09	14.88	2.62	15.0
ľ	/ 0.73	2.44	1.03	13.37	14.48	3.51	10.97	24.2	3.09	14.75	2.82	16.1
2015	I 0.72	2.44	1.06	13.24	14.39	3.40	11.00	23.6	3.06	14.62	2.84	16.3

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			Ann	ual percei	ntage chai	nges		Difference from one year ago	Annual p	Difference from one year ago			
2008		-0.3	0.2	7.1	4.6	4.0	6.0	3.1	0.6	2.8	3.2	10.8	0.5
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		-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015 (d)		-11.3	6.2	12.6	2.6	3.3	5.4	2.7	0.5	1.3	2.9	3.3	0.1
2013	Ш	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	1	12.9	-3.4	-11.6	0.2	-0.4	5.0	-1.9	1.2	-0.7	-0.9	2.1	0.4
	Ш	-1.8	-0.1	-5.3	2.0	1.7	6.5	0.3	1.1	-1.7	0.8	2.6	0.2
	Ш	-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
2015	1	-11.3	6.2	12.6	2.6	3.3	5.4	2.7	0.5	1.3	2.9	3.3	0.1

(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





Table 14Index of Consumer Prices

Forecasts in blue

			Total avaluding food and		Excluding unprocessed	I food and en	ergy	Upproceed		
		Total	energy	Total	Non-energy industrial goods	Services	Processed food	food	Energy	Food
% of total in 2015		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		103.4	102.6	103.5	101.1	103.5	107.7	105.2	102.1	106.9
				Ann	ual percentage chang	jes				
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		-0.3	0.2	0.4	0.1	0.4	1.0	0.6	-5.5	0.8
2014	Jan	0.2	-0.2	0.2	-0.3	-0.1	1.7	0.9	0.0	1.4
I	Feb	0.0	-0.1	0.1	-0.4	0.0	1.3	1.2	-1.7	1.3
I	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
ſ	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
1	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	-0.2	0.4	0.3	0.9	-7.4	0.5
	Apr	-0.6	0.2	0.3	0.0	0.3	0.7	0.2	-7.2	0.5
1	May	-0.4	0.2	0.3	0.1	0.3	0.9	0.8	-6.1	0.9
	Jun	-0.3	0.2	0.4	0.1	0.3	1.2	0.8	-5.5	1.1
	Jul	-0.2	0.2	0.4	0.1	0.3	1.2	1.0	-5.2	1.2
1	Aug	-0.1	0.2	0.5	0.1	0.4	1.4	1.0	-4.9	1.3
:	Sep	-0.2	0.3	0.5	0.1	0.4	1.4	1.1	-6.0	1.3
	Oct	-0.1	0.3	0.5	0.1	0.4	1.4	-0.3	-4.1	0.8
	Nov	0.4	0.4	0.5	0.2	0.4	1.4	0.3	-1.0	1.0
	Dec	1.1	0.4	0.6	0.2	0.4	1.5	1.3	4.2	1.4
I Sources: IN	Oct Nov Dec IE an	-0.2 -0.1 0.4 1.1 d FUNCAS	0.3 0.4 0.4 (Forecasts).	0.5 0.5 0.6	0.1 0.2 0.2	0.4 0.4 0.4 0.4	1.4 1.4 1.5	-0.3 0.3 1.3	-4.1 -1.0 4.2	



Table 15

Other prices and costs indicators

			Industri P	ial producer prices	Housi	ng prices			Labour Costs	Survey		Maga ineres
		GDP deflator (a)	Total	Excluding energy	Housing Price Index (INE)	M ² average price (M. Public Works)	Urban land pri- ces (M. Public Works)	Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	ses agreed in collective bargaining
		2000=100	20	10=100		2007=100			2000=10	00		
2008		133.7	99.8	100.5	98.5	100.7	91.1	137.4	134.8	145.6	142.8	
2009		134.1	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.8	150.0	
2010		134.3	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.5	
2011		134.4	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.9	
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	152.2	155.3	
2014		135.0	110.2	105.9	64.5	71.0	52.6	143.3	140.9	150.7	155.5	
2015	(b)		107.7	105.9								
2013	I	135.8	110.7	106.9	64.2	73.1	58.0	145.9	144.4	150.6	152.6	
	Ш	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	
	I	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))	107.7	105.9								
2015	Jan		107.4	105.8								
	Feb		107.6	105.8								
	Mar	·	108.2	106.0								
						Annual percen	t changes					
2008		2.1	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	1.0	1.5
2011		0.1	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.0
2012		0.2	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.0
2013		0.7	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.5
2014		-0.5	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.1	0.6
2015	(C)		-2.2	0.0								0.7
2013	I	1.0	0.5	1.1	-12.0	-6.4	-17.4	-0.4	-0.6	0.2	-0.3	0.7
	Ш	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
	I	-0.5	-0.1	-1.0	0.8	-2.9	-9.3	0.0	0.1	-0.3	0.8	0.5
	11	-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))	-1.9	0.1								0.7
2015	Jan		-2.8	-0.1								0.6
	Feb		-1.6	0.1								0.7
	Mar	·	-1.2	0.4								0.7

(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).



Table 16 External trade (a)

		Expo	rts of goods		Imp	orts of good	ds		Exports to	Total	Balance	Balance of
		Nominal	Prices	Real	Nominal	Prices	Real	countries	non-EU countries	Balance of goods	excluding energy	goods with EU countries
		EUR Billions	2005	=100	EUR Billions	2005=	=100			EUR Billion	IS	
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		235.8	110.2	138.1	252.3	109.3	99.1	147.7	88.1	-16.5	25.4	17.1
2014		240.0	109.1	143.3	264.5	106.7	107.1	152.3	87.7	-24.5	15.4	11.2
2015	(b)	61.0	109.7	143.8	66.5	104.1	111.5	39.8	21.2	-5.5	1.7	2.9
2013	Ш	61.6	109.8	145.1	63.4	107.0	102.3	38.6	23.0	-1.8	8.3	6.0
	III	59.5	110.8	139.1	63.0	110.1	98.8	36.5	23.0	-3.5	7.3	4.1
	IV	59.1	111.4	137.3	62.7	109.5	98.9	37.1	22.0	-3.7	5.9	3.7
2014	1	58.7	109.0	139.5	65.5	105.5	107.1	37.5	21.2	-6.8	4.6	3.1
	П	60.2	108.7	143.2	65.8	106.6	106.6	37.7	22.5	-5.7	4.2	2.5
	Ш	62.0	109.1	147.1	67.4	107.6	108.1	38.9	23.1	-5.4	1.5	3.5
	IV	61.6	109.5	145.7	65.9	107.3	106.0	38.2	23.5	-4.2	1.5	2.2
2015	1	61.0	109.7	143.8	67.2	104.1	111.5	39.6	21.3	-6.2	0.3	2.3
2015	Jan	19.4	108.7	138.7	21.3	102.0	108.4	12.8	6.6	-1.9	0.2	0.8
	Feb	20.1	109.8	142.0	22.6	104.3	112.2	13.3	6.8	-2.5	0.0	0.6
	Mar	21.5	110.7	150.8	23.3	105.9	113.8	13.6	7.9	-1.8	0.8	0.9
				Percenta	ge change	es (c)				Per	centage 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		4.3	-0.2	4.5	-2.2	-4.3	2.2	3.1	6.3	-1.6	2.4	1.6
2014		1.8	-1.0	3.5	5.7	-2.4	8.3	3.1	-0.4	-2.3	1.5	1.1
2015	(d)	4.4	0.7	3.7	2.5	-1.3	3.9	5.8	2.0	0.0	0.0	0.0
2013	Ш	36.2	3.3	31.7	14.9	-13.7	33.7	50.6	15.8	-0.7	3.2	2.3
	III	-12.6	3.7	-15.5	-2.6	11.8	-13.1	-19.6	0.3	-1.3	2.8	1.6
	IV	-3.1	2.2	-5.1	-1.6	-1.9	0.3	6.5	-16.9	-1.4	2.3	1.4
2014	I	-2.3	-8.3	6.5	18.7	-14.0	37.7	5.0	-13.9	-2.6	1.7	1.2
	П	10.1	-1.1	11.1	2.3	4.2	-1.9	1.4	27.1	-2.2	1.6	1.0
	III	12.9	1.5	11.4	9.6	3.8	5.6	14.0	11.0	-2.0	0.5	1.3
	IV	-2.4	1.5	-3.7	-8.6	-1.1	-7.5	-7.5	6.7	-1.6	0.6	0.8
2015	1	-4.2	0.7	-5.1	8.1	-11.4	22.3	16.2	-31.5	-2.3	0.1	0.9
2015	Jan	-6.6	-0.4	-6.2	-2.2	-6.4	4.6	-1.4	-15.2			
	Feb	3.4	1.0	2.4	5.8	2.3	3.4	3.8	2.7			
	Mar	7.1	0.8	6.2	3.0	1.5	1.4	2.2	16.9			

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



Chart 16.1.- External trade (real)



Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

			Curre	ent accou	nt			Quinart	Financial account						
							Canital	Current	Finar	ncial accoun	t, excluding	Bank of S	Spain		Errors and
		Total	Goods	Services	Income	Transfers	account	capital accounts	Total	Direct investment	Porfolio investment	Other invest- ment	Financial derivatives	Bank of Spain	omissions
		1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
								EUR bi	illions						
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		8.49	-21.44	48.68	-6.17	-12.58	4.46	12.95	-8.24	-5.87	-8.07	7.32	-1.63	24.33	19.63
2013	1	-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
	Ш	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
	111	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	1	-3.68	-5.41	8.52	-2.35	-4.44	1.49	-2.19	-14.47	-3.15	-17.44	5.89	0.24	-12.93	3.73
	Ш	0.11	-4.87	12.09	-4.28	-2.83	1.70	1.81	12.84	0.00	35.74	-23.02	0.12	15.30	0.65
	111	4.73	-6.33	17.09	-3.82	-2.21	0.42	5.15	-6.55	9.91	-32.99	16.59	-0.07	-3.61	-2.21
	IV	7.33	-4.84	10.99	4.27	-3.10	0.84	8.17	7.40	-10.00	15.67	2.78	-1.05	25.57	9.99
			Good Ser	ds and vices	Inco Tra	me and nsfers									
2014	Dec	3.80	0.	.96	2	2.83	0.37	4.17	11.53	-3.13	29.09	-14.12	-0.32	4.67	-11.02
2015	Jan	-0.43	1.	.04	-	1.47	0.07	-0.36	5.25	-0.31	19.22	-13.71	0.05	-1.37	-6.26
	Feb	-2.03	1.	.12	-:	3.15	0.00	-2.04	-0.83	-0.38	-8.51	8.55	-0.48	2.66	5.53
							Pe	ercentad	e of GDP						
2008		-9.3	-7.8	27	-27	-14	0.4	-8.8	62	0.1	-0.1	6.8	-0.6	-27	17 7
2000		-4.3	-3.8	2.7	_1.8	-1.4	0.4	-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	-2.0	-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	10.1	1.8
2014		0.8	-2.0	4.6	-0.6	-1.2	0.4	12	-0.8	-0.6	-0.8	0.7	-0.2	2.3	1.0
2013	1	-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
2010		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
		2.3	-1 7	6.5	-1.3	-1.3	0.4	27	-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	1	-1.5	-2.1	3.4	-0.9	-1.8	0.6	-0.9	-5.7	-1.2	-6.9	2.3	0.1	-5.1	1.5
_0.1		0.0	-1.8	4.5	-1.6	_1 1	0.6	0.7	4.8	0.0	13.3	-8.6	0.0	5.7	0.2
	11	1.0	2.4	6.5	1.0	0.9	0.0	2.0	2.5	2.0	10.0	6.0	0.0	1.4	0.0
		1.8	-2.4	0.5	-1.5	-0.8	0.2	2.0	-2.5	3.8	-12.0	0.3	0.0	-1.4	-0.8
	IV	2.7	-1.8	4.0	1.5	-1.1	0.3	3.0	2.7	-3.6	5.7	1.0	-0.4	9.3	3.6









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Table 18State and Social Security System budget

					State				Social Security System (b)					
		Nation	al account	s basis		Revenue, cas	h basis (a)			Accr	ued income	Ex	penditure	
		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	
					1	EUR billions	s, 12-mon	th cumu	lated					
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		-39.7	174.5	214.2	205.9	95.6	78.2	32.1	-14.0	119.3	99.2	133.3	114.4	
2015 (c)	-39.9	175.6	215.5	213.7	95.6	79.1	38.9	-14.3	119.5	99.4	133.8	115.2	
2015	Jan	-40.0	174.3	214.3	207.3	95.8	78.6	32.9	-14.8	118.8	99.2	133.6	114.7	
	Feb	-38.9	175.6	214.5	208.9	95.8	79.0	34.1	-14.1	119.4	99.3	133.5	114.9	
	Mar	-39.9	175.6	215.5	213.7	95.6	79.1	38.9	-14.3	119.5	99.4	133.8	115.2	
						Annual p	ercentag	e chang	es					
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			3.0	-0.3	7.7	1.6	6.1	37.6		-1.6	1.1	2.4	3.0	
2015 (c)		2.3	0.1	9.7	1.4	4.0	59.4		0.0	1.2	1.6	2.9	
2015	Jan		2.8	0.1	8.8	3.8	5.9	37.2		-2.4	1.3	2.3	2.9	
	Feb		3.2	0.3	7.2	1.6	4.5	36.7		0.2	1.4	1.8	2.9	
	Mar		2.3	0.1	9.7	1.4	4.0	59.4		0.0	1.2	1.6	2.9	
					Per	centage of	GDP, 12-m	nonth cu	mulated					
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		-3.7	16.5	20.2	19.5	9.0	7.4	3.0	-1.3	11.3	9.4	12.6	10.8	
2015	Jan	-3.7	16.4	20.1	19.4	9.0	7.4	3.1	-1.4	11.1	9.3	12.5	10.8	
	Feb	-3.7	16.5	20.1	19.6	9.0	7.4	3.2	-1.3	11.2	9.3	12.5	10.8	
	Mar	-3.7	16.5	20.2	20.0	9.0	7.4	3.7	-1.3	11.2	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 18.2.- Social Security System: Revenue, expenditure and deficit EUR Billions, 12-month cumulated



Table 19 Monetary and financial indicators

			Interest ra	ates (percent	tage rates)			Credit stock				
		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	Contribution of Spanish MFI to Eurozone M3	Stock market (IBEX-35)
			Avera	ge of perio	od data				End of p	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	2,731.2	1,033.9	948.9	748.4		10,279.5
2015	(a)	1.4	109.5	2.6	9.4	4.2	2,729.3	1,047.2	941.7	740.5		11,385.0
2013	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	2,763.4	995.8	996.0	771.5		10,340.5
	II	2.9	148.5	3.2	9.6	5.1	2,769.0	1,012.6	985.9	770.5		10,923.5
		2.4	135.7	3.1	9.7	4.8	2,754.7	1,020.3	977.9	756.5		10,825.5
	IV	2.0	121.7	2.8	9.6	4.3	2,731.2	1,033.9	948.9	748.4		10,279.5
2015	1	1.4	107.3	2.6	9.4	4.2	2,729.3	1,047.2	941.7	740.5		11,521.1
	ll (b)	1.3	116.1									
2014	Feb	1.5	116.0	2.7	9.6	4.2	2,724.0	1,040.9	940.7	742.4		11,178.3
	Mar	1.2	96.7	2.5	9.2	3.9	2,729.3	1,047.2	941.7	740.5		11,521.1
	Apr	1.3	116.1									11,385.0
							Percenta	age change	from same	period pre	evious 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)						0.0	52	-2.7	-3.3	4 4	8.9
2013	()						0.7	16.6	-6.9	-4 7	0.2	18.3
2010	IV						-1.4	8.4	-6.6	-5.1	_4 4	8.0
2014	1						-1.4	7.0	-6.7	_4.9	-5.1	4.3
2014							-1.0	6.5	5.4	4.0	-5.1	-F.6
							-1.1	0.0	-0.4	-4.4	-1.5	0.0
	111						-0.8	0.1	-4.7	-4.1	0.5	-0.9
0045	IV.						-0.2	7.0	-4.4	-3.7	3.4	-5.0
2015							0.0	5.2	-2.7	-3.3	4.4	12.1
	II (b)											
2014	Feb						-0.4	4.7	-3.0	-3.4	3.4	-4.6
	Mar						0.0	5.2	-2.7	-3.3	4.4	1.2
	Apr											7.4

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

Source: Bank of Spain.







Table 20 Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices				Producer pric	es	Real Effective Exchange Rate in relation	
		Relative productivity	Relative wages	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	to developed countries	
			1998=100			2005=	100		2010=100)	1999 I =100	
2008		93.1	110.6	118.7	110.9	107.8	102.9	99.5	101.6	98.0	114.5	
2009		97.6	108.2	110.8	110.6	108.1	102.4	96.2	97.0	99.2	114.0	
2010		94.4	107.3	113.6	112.9	109.8	102.8	100.0	100.0	100.0	112.9	
2011		94.8	106.5	112.3	116.3	112.8	103.1	106.5	105.2	101.2	113.1	
2012		95.0	105.1	110.7	119.2	115.8	103.0	110.1	107.9	102.0	111.7	
2013		96.4	104.0	107.9	121.0	117.3	103.1	110.0	107.4	102.4	113.4	
2014		97.0	103.8	107.0	120.8	117.7	102.6	108.4	105.9	102.4	112.4	
2015 (a)				119.2	117.2	101.7	106.6	104.2	102.3	108.7	
2013	Ш				121.6	117.5	103.5	109.3	107.3	101.9	113.7	
	III				120.9	117.3	103.1	110.3	107.3	102.7	113.2	
	IV				121.6	117.6	103.4	109.6	106.9	102.5	114.0	
2014	1				119.9	117.2	102.4	108.0	106.5	101.4	112.6	
	Ш				121.9	118.2	103.1	108.6	106.1	102.3	113.3	
	III				120.4	117.7	102.3	109.3	106.1	103.0	111.7	
	IV				120.9	117.8	102.6	107.7	105.3	102.3	111.8	
2015	1				118.6	116.8	101.5	106.6	104.2	102.3	108.7	
2015	Feb				117.8	116.6	101.0	106.5	104.3	102.1	108.2	
	Mar				120.2	117.9	101.9	107.0	104.7	102.2	108.8	
	Apr				121.0	118.2	102.4					
		Annual	l percentage	e changes			Differential	Annua	l percentage hanges	Differential	Annual	
2008		2.3	2.6	0.3	4.1	3.3	0.9	5.7	4.9	0.8	2.3	
2009		4.8	-2.1	-6.6	-0.2	0.3	-0.5	-3.3	-4.5	1.2	-0.4	
2010		-3.3	-0.9	2.5	2.0	1.6	0.4	3.9	3.1	0.9	-1.0	
2011		0.5	-0.7	-1.1	3.1	2.7	0.3	6.5	5.2	1.3	0.2	
2012		0.1	-1.3	-1.4	2.4	2.6	-0.2	3.4	2.6	0.8	-1.3	
2013		1.5	-1.1	-2.5	1.5	1.3	0.2	-0.1	-0.4	0.4	1.5	
2014		0.7	-0.1	-0.8	-0.2	0.3	-0.5	-1.5	-1.4	0.0	-0.9	
2015 (b)				-1.0	-0.2	-0.8	-1.3	-2.1	0.9	-3.4	
2013	Ш				1.8	1.4	0.4	-0.2	-0.4	0.2	1.7	

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

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1.3

0.2

0.0

0.2

-0.4

-0.6

-1.1

-1.2

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-0.7

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-0.3

-0.3

-0.1

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-0.6

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-0.4

-0.8

-2.6

-0.6

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-1.7

-1.3

-1.0

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-0.8

-1.2

-1.5

-1.1

-1.2

-1.5

-2.1

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0.9

1.1

0.8

2.0

0.8

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-1.4

-1.9

-3.4

-3.4

-3.9

Sources: Eurostat, Bank of Spain and FUNCAS.

III

IV

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IV

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Feb

Mar

Apr

2014

2015

2015



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

	Governme	Government net lending (+) or borrowing (-				Governme	Currer	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	-47.0	393.5		8,496.6	552.0	-70.3	41.2	-742.9	-16.8
2006	22.1	-168.2	-411.6	-41.0	392.2	7,057.9	8,818.5	597.1	-90.7	24.9	-804.0	-31.4
2007	21.6	-97.9	-513.6	-44.5	383.8	7,136.2	9,268.2	646.2	-104.1	17.9	-717.6	-40.6
2008	-49.4	-281.7	-1,033.2	-77.6	439.8	7,572.7	10,721.2	786.3	-102.9	-83.0	-686.1	-56.4
2009	-118.2	-753.0	-1,827.4	-160.4	568.7	8,532.1	12,407.2	975.3	-46.5	16.2	-377.3	-41.4
2010	-101.4	-756.2	-1,797.7	-150.8	649.3	9,560.2	14,181.5	1,190.4	-42.0	35.8	-447.9	-40.6
2011	-101.3	-543.5	-1,646.9	-123.5	743.5	10,235.0	15,379.2	1,323.7	-35.0	64.8	-480.5	-27.0
2012	-108.9	-530.8	-1,434.2	-137.6	891.0	10,870.4	16,627.2	1,420.6	-4.5	155.6	-482.2	-61.9
2013	-71.3	-401.3	-933.3	-98.3	966.2	11,219.9	17,558.5	1,495.7	15.4	200.0	-422.2	-76.7
2014	-61.4	-370.9	-854.9	-101.8	1,033.9	11,766.3	18,249.8	1,600.9	6.5	222.5	-457.2	-97.9
2015	-49.4	-330.4	-772.9	-83.3	1,094.8	12,214.9	19,122.7	1,675.8	12.8	271.6	-401.3	-92.0
2016	-39.8	-275.2	-739.2	-59.4	1,142.5	12,504.4	20,111.9	1,748.8	11.0	290.0	-462.6	-80.2
					Per	centage of	GDP					
2005	1.2		-4.2	-3.5	42.3		64.9	41.6	-7.6	0.4	-5.7	-1.3
2006	2.2	-1.5	-3.0	-2.9	38.9	62.1	63.6	42.5	-9.0	0.2	-5.8	-2.2
2007	2.0	-0.8	-3.5	-3.0	35.5	59.6	64.0	43.6	-9.6	0.1	-5.0	-2.7
2008	-4.4	-2.4	-7.0	-5.1	39.4	63.5	72.8	51.8	-9.2	-0.7	-4.7	-3.7
2009	-11.0	-6.7	-12.7	-10.8	52.7	75.5	86.0	65.8	-4.3	0.1	-2.6	-2.8
2010	-9.4	-6.4	-12.0	-9.7	60.1	81.2	94.8	76.4	-3.9	0.3	-3.0	-2.6
2011	-9.4	-4.5	-10.6	-7.6	69.2	84.5	99.1	81.8	-3.3	0.5	-3.1	-1.7
2012	-10.3	-4.3	-8.9	-8.3	84.4	88.0	102.9	85.8	-0.4	1.3	-3.0	-3.7
2013	-6.8	-3.2	-5.6	-5.7	92.1	90.3	104.7	87.3	1.5	1.6	-2.5	-4.5
2014	-5.8	-2.9	-4.9	-5.7	97.7	91.9	104.8	89.4	0.6	1.7	-2.6	-5.5
2015	-4.5	-2.5	-4.2	-4.5	100.4	91.2	104.9	89.9	1.2	2.0	-2.2	-4.9
2016	-3.5	-2.0	-3.8	-3.1	101.4	90.0	104.7	90.1	1.0	2.1	-2.4	-4.1

Source: European Commission.


(f) European Commission forecast.

Table 21b Imbalances: International comparison (II)

		Househo	ld debt (a)		Non	-financial cor	porations de	ebt (a)	F	Financial corporations debt (a)			
	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK	
					Billions	of nationa	l currency	у					
2005	653.5	4,838.9	11,721.3	1,189.6	930.3	7,754.3	8,166.7	1,121.7	541.5	8,838.2	12,958.0	1,610.1	
2006	780.7	5,249.0	12,946.5	1,309.5	1,164.2	8,399.6	8,991.1	1,219.6	771.2	9,736.1	14,261.5	1,769.8	
2007	876.6	5,614.0	13,832.0	1,424.7	1,351.4	9,210.8	10,111.8	1,299.9	1,000.0	10,958.8	16,206.5	2,125.8	
2008	914.0	5,859.3	13,851.4	1,475.1	1,432.3	9,827.9	10,687.9	1,500.7	1,068.2	11,969.4	17,104.6	2,462.1	
2009	906.2	5,988.3	13,560.1	1,472.5	1,416.8	9,792.3	10,136.5	1,434.2	1,145.7	12,505.7	15,715.6	2,370.4	
2010	902.5	6,123.0	13,231.1	1,475.6	1,438.3	10,038.2	9,964.3	1,401.7	1,136.3	12,557.9	14,455.7	2,554.5	
2011	875.2	6,213.8	13,060.6	1,485.3	1,418.4	10,187.9	10,258.7	1,423.8	1,157.6	12,929.3	14,036.3	2,550.3	
2012	838.2	6,208.4	13,060.3	1,507.9	1,314.1	10,357.0	10,789.0	1,486.9	1,177.9	13,148.8	13,802.4	2,663.4	
2013	789.2	6,160.9	13,169.4	1,523.8	1,232.6	10,201.9	11,303.6	1,374.8	990.7	12,372.4	13,948.3	2,659.2	
2014	754.4	6,171.3	13,496.9	1,568.7	1,175.9	10,365.2	11,972.6	1,353.6	914.2	12,120.8	14,161.2	2,694.1	
					Pe	rcentage o	f GDP						
2005	70.2	57.3	89.5	89.7	100.0	91.8	62.4	84.5	58.2	104.6	99.0	121.4	
2006	77.5	59.0	93.4	93.3	115.5	94.4	64.9	86.9	76.5	109.5	102.9	126.1	
2007	81.1	59.8	95.5	96.2	125.0	98.1	69.8	87.8	92.5	116.7	111.9	143.5	
2008	81.9	60.9	94.1	97.1	128.3	102.1	72.6	98.8	95.7	124.3	116.2	162.1	
2009	84.0	64.5	94.0	99.3	131.3	105.5	70.3	96.8	106.2	134.7	109.0	159.9	
2010	83.5	64.2	88.4	94.7	133.1	105.2	66.6	89.9	105.1	131.6	96.6	163.9	
2011	81.4	63.4	84.2	91.8	131.9	104.0	66.1	88.0	107.7	131.9	90.5	157.7	
2012	79.4	63.1	80.8	91.1	124.5	105.2	66.8	89.8	111.6	133.6	85.4	160.9	
2013	75.2	62.1	78.5	89.0	117.5	102.8	67.4	80.3	94.4	124.6	83.2	155.2	
2014	71.3	61.0	77.5	87.6	111.1	102.5	68.7	75.6	86.4	119.8	81.3	150.4	

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

Sources: Eurostat, European Central Bank and Federal Reserve.







KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: May 15th, 2015

Highlights										
Indicator	Last value available	Corresponding to:								
Bank lending to other resident sectors (monthly average % var.)	-0.3	February 2015								
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.4	February 2015								
Doubtful loans (monthly % var.)	-0.7	February 2015								
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	431,994	April 2015								
Recourse to the Eurosystem (Spanish financial institutions, million euros)	135,763	April 2015								
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	30,903	April 2015								
Operating expenses/gross operating income ratio (%)	47.27	December 2014								
Customer deposits/employees ratio (thousand euros)	5,892.09	December 2014								
Customer deposits/branches ratio (thousand euros)	40,119.97	December 2014								
Branches/institutions ratio	142.85	December 2014								

A. Money and interest rates

Indicator	Source:	Average 1999-2012	2013	2014	2015 April	2015 May 15 th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.8	2.3	1.9	2.1	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.68	0.22	0.21	-0.004	-0.009	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.95	0.54	0.48	0.17	0.17	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.6	4.6	2.7	1.43	1.78	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.6	3.9	2.3	1.60	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates:" Interbank rates have reached record-low levels. As of May 15th, the 3-month Euribor rate fell to -0.009% from -0.004% in April and the 1-year Euribor rate stands at 0.17%. The ECB assures its bond-buying strategy is having the expected results, in particular reducing the cost of debt. As for the Spanish 10-year bond yield, it has increased to 1.78% from 1.43% in April.

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B. Financial markets

Indicator	Source:	Average 1999-2012	2013	2014	2015 February	2015 March	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	29.6	82.9	75.6	67.5	67.5	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot governmen bonds transactions trade ratio	t Bank of Spain	78.9	61.2	73.2	76.4	75.4	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.7	1.8	2.6	1.0	0.3	(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	3.2	4.6	5.2	3.0	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	2.4	0.2	0.1	0.1	0.1	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	565.2	846.3	1,037.9	1,064.7	1,092.8	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	0.4	2.3	0.6	9.4	8.8	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	4.2	6.9	7.0	-13.7	5.3	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	1,026.5	1,012.0	1,042.5	1,194.6	1,147.2 ^(a)	Base 1985=100
15. lbex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,864.5	8,715.6	10,528.8	11,778.4	11,317.3 ^(a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	15.6	33.1	26.1	21.5	20.4 ^(a)	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial markets (continued)

Indicator	Source:	Average 1999-2012	2013	2014	2015 February	2015 March	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	3.7	10.6	7.4	9.8	8.6	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.3	10.9	-1.3	-1.7	-1.9	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.8	2.4	0.6	0.1	0.3	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.7	6.4	4.3	-26.5	12.8	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	9.0	6.7	6.4	94.5	-33.5	IBEX-35 shares concluded transactions

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

Comment on "Financial Markets:" During the last month, there has been no change in transactions of outright spot T-bills, and a decrease in spot government bonds transactions, which stood at 67.5% and 75.4%, respectively. The stock market has lost some momentum in May, with the IBEX-35 down to 11,317 points, and the General Index of the Madrid Stock Exchange to 1,147. Additionally, there was an increase of 12.8% in financial IBEX-35 futures transactions and a decrease of 33.5% in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2005-2011	2012	2013	2014 Q III	2014 Q IV	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.4	-0.2	-1.4	1.1	1.0	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	3.2	3.1	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	320.4	317.4	Public debt, non- financial companies debt and households and non-profit institutions debt over GDP

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C. Financial Savings and Debt (continued)

Indicator	Source:	Average 2005-2011	2012	2013	2014 Q III	2014 Q IV	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	72.3	71.3	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	-0.5	-0.5	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	-1.4	-0.4	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt:" During 2014Q4, there was an increase in financial savings to GDP in the overall economy of 1%. There was a small decline in the financial saving rate of households from 3.2% in 2014Q3 to 3.1% in 2014Q4. The debt to GDP ratio fell to 71.3% from 72.3% in the previous period. Finally, the stock of financial assets on households' balance sheets registered a fall of 0.5%, while there was a 0.4% drop in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source:	Average 1999-2012	2013	2014	2014 January	2014 February	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	10.8	-9.5	-4.6	-0.8	-0.3	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	9.9	1.3	-1.5	0.1	0.4	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	11.3	-5.1	1.2	-2.1	-0.7	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	15.5	8.9	-6.8	-7.9	0.9	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	-1.3	-5.9	-5.9	-6.0	-5.8	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

Credit institutions. Business Development (continued)									
Indicator	Source:	Average 1999-2012	2013	2014	2015 January	2015 February	Definition and calculation		
33. Doubtful loans (monthly average % var.)	/Bank of Spain	37.9	17.8	-12.7	-0.5	-0.7	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	-2.1	6.5	-6.1	-28.6	4.2	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.		
35. Equity capital (monthly average % var.)	Bank of Spain	10.1	19.6	-1.1	-1.1	1.4	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 February 2015 show a 0.3% fall in bank credit to the private sector and a 0.4% increase in financial institutions deposit-taking from the previous month. Holdings of debt securities fell by 0.7%, while shares and equity grew by 0.9%. Also, doubtful loans decreased 0.7% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1999-2011	2012	2013	2014 September	2014 December	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	210	173	155	147	138	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreigr credit institutions operating in Spain	Bank of Spain	68	85	86	85	86	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	32,428	31,999	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	470,990	431,994 ^(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	154,798	135,763 ^(a)	Open market operations and ECB standing facilities. Spain total

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

Indicator	Source:	Average 1999-2011	2012	2013	2014 September	2014 December	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	31,401	30,903 ^(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: April 2015.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing:" In April 2015, recourse to Eurosystem funding by Spanish credit institutions accounted for 31.43% of net total funds borrowed from the ECB by the Eurozone. This means an 11.94 billion euro increase in the recourse to the Eurosystem by Spanish banks from March.

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

Indicator	Source:	Average 1999-2011	2012	2013	2014 September	2014 December	Definition and calculation
43. "Operating expenses/gross operating income ratio	Bank " of Spain	53.50	47.18	48.25	48,.46	47.27	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	5,390,34	5,892.09	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	17,955.99	30,110.08	34,472.09	35,602.10	40,119.97	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	197.62	219.09	216.30	219.38	142.85	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.06	6.10	6.35	6.6	6.8	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	-0.12	0.16	0.10	0.07	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.77	-1.93	0.13	0.32	0.49	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	11.61	-18.74	1.88	4.18	6.46	Profitability indicator, defined as the "pre-tax profit/equity capital"

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