Spanish Economic and Financial Outlook

Spain's economic recovery gains speed

2015
Volume 4 ♦ Number 4

July 2015

SEFO

funcas

01 **Letter from the Editors**

05 **Spain's economic growth beats expectations**
Ángel Laborda and María Jesús Fernández

19 **Spanish SMEs in the European context: Measuring access to bank finance**
Joaquín Maudos

31 **Trends in Spanish corporate bond issuance**
Pablo Guijarro, Isabel Gaya and Jorge Pardo, A.F.I.

39 **The growth of non-bank and alternative financing sources in Spain**
Santiago Carbó Valverde and Francisco Rodríguez Fernández

49 **Can the decline of Spanish manufacturing be reversed?**
José Carlos Fariñas and Ana Martín Marcos

63 **The redistributive impact of economic policy reforms: The case of Spain in the EU context**
Ramon Xifré

75 **Will improved economic conditions bring fiscal stability?**
Santiago Lago Peñas

83 **Recent key developments in the area of Spanish financial regulation**
Prepared by the Regulation and Research Department of the Spanish Confederation of Saving Banks (CECA)

89 **Spanish economic forecasts panel: July 2015**
FUNCAS Economic Trends and Statistics Department

Editorial

Contact
publica@funcas.es

Web Site
www.funcas.es

Orders or claims:
Spanish Savings Banks Foundation, publications
Tel.; +34-91-5965481, Fax: +34-91-5965796, e-mail: publica@funcas.es

Electronic edition
An electronic edition of this journal its available at
http://www.funcas.es/Publicaciones/Index.aspx?Id=47&ddg=0

Printed in Spain

Editorial and Production
Spanish Savings Banks Foundation (FUNCAS)
Caballero de Gracia, 28. 28013 Madrid (Spain)

ISSN print edition 2254-3899
ISSN electronic edition 2254-3880
Depósito Legal: M-10678-2012
Prints: Cecabank.

FEATURES

05 **Spain´s economic growth beats expectations**

Ángel Laborda and María Jesús Fernández

Over the last few months, the main challenges facing the international economy include: weakness in the European economy, the loss of dynamism in emerging markets, and risks to global stability posed by upcoming U.S. interest rate hikes and the situation in Greece. In Spain, the recovery is exceeding expectations, but is highly vulnerable to market instability and the long-run growth outlook remains subdued.

19 **Spanish SMEs in the European context: Measuring access to bank finance**

Joaquín Maudos

Latest ECB survey data confirm an improvement in Spanish firms´ access to bank credit —particularly at the SME level— breaking the negative trend in recent years. Progress on banking union, ECB liquidity support measures, and the Spanish financial sector restructuring process have all played a major part in explaining the survey´s positive results.

31 **Trends in Spanish corporate bond issuance**

Pablo Guijarro, Isabel Gaya and Jorge Pardo, A.F.I.

Recent factors, ranging from monetary policy measures, attractive conditions and regulatory considerations, among others, are driving the trend of increased reliance on capital markets financing relative to traditional bank financing in Europe, including in Spain. While the trend largely applies to medium-sized and large firms, small businesses should benefit from the greater availability of previously tied-up bank credit.

39 **The growth of non-bank and alternative financing sources in Spain**

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Despite the continued predominance of bank finance in Spain, in recent years, there has been a notable improvement in the array of funding sources available to firms, including alternative finance. While these new, innovative funding channels are still at a very early stage of their development, their attractiveness relative to traditional finance translates to expectations of considerable growth in the coming years.

49 **Can the decline of Spanish manufacturing be reversed?**

José Carlos Fariñas and Ana Martín Marcos

The crisis has exacerbated the ongoing deindustrialisation trend observed in Spain, further widening the gap relative to other OECD countries. Going forward, in order to maintain a solid manufacturing industry, Spain will need to reshape its industrial policy to take advantage of technological change and the digital transformation of this sector over the coming years.

63 **The redistributive impact of economic policy reforms: The case of Spain in the EU context**

Ramon Xifré

Various EU countries´ economic policy responses to the crisis may have exacerbated their already increasing levels of inequality. Preliminary evidence for the case of Spain shows that the country´s adoption of more ambitious fiscal consolidation and structural reform measures appears to have been in detriment to equity.

75 **Will improved economic conditions bring fiscal stability?**

Santiago Lago Peñas

The latest update of Spain´s Stability Programme contains relevant changes to the central government´s forecasts for economic and fiscal variables. The programme is largely viewed as achievable but ambitious, with the greatest risks of non-compliance on the expenditure side.

83 **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)

89 **Spanish economic forecasts panel: July 2015**

FUNCAS Economic Trends and Statistics Department

95 KEY FACTS

Economic indicators
Financial system indicators

Letter from the Editors

Since the start of the recovery, the Spanish economy has significantly outperformed expectations, leading both public and private institutions to continuously revise upwards their forecasts for this year and next. In March last year, when FUNCAS first published its growth forecasts for 2015, the estimate was 1.8%, in line with the consensus of Spanish private analysts´ forecasts and above that of leading international organisations. In contrast, the most recent consensus growth forecasts now range between a minimum of 2.6% and a maximum of 3.3%.

The economy is being driven by endogenous cyclical factors and structural improvements, together with a series of transitory external shocks, such as the drop in oil prices, the reinstatement of part of public sector employees' extraordinary pay, income tax cuts, a drop in interest rates, and pre-election spending. The agreement reached between Greece and its creditors is also expected to reduce some of the recent tensions in European and Spanish markets. However, the expansionary impact of some of these positive shocks is anticipated to wear off in the near-term, and the growth rate is forecast to slow to 3.0% in 2016. Moreover, taking a long-term perspective, the Spanish economy´s potential growth rate, once the current output gap is eliminated, will probably fall short of the rates we expect to see this year and next.

In this context, the July SEFO examines some of the post-crisis conditions within the Spanish economy today. We take a look at access to both bank and non-bank finance for Spanish corporates. As regards bank credit, according to the latest ECB survey data, referring to the situation between October 2014 and March 2015, access has improved, particularly at the SME level, breaking the negative trend in recent years. Overall, bank credit is more abundant and less expensive. Credit to SMEs for new operations is growing strongly, and the difference between the interest rates Spanish SMEs and their European peers pay for bank loans has dropped by more than half since end-2013. In parallel, the spread that Spanish banks charge for new SME loans has also fallen since mid-2013. Aside from the economic recovery, progress on banking union, ECB liquidity support measures, and Spain´s financial sector restructuring have all supported the latest improvements. While access to bank finance for SMEs has improved on the whole, micro-enterprises are benefiting least from the favourable changes.

The July SEFO also explores recent trends in Spanish corporate bond issuance. In Spain, as in the rest of Europe, the crisis brought to light the excessive reliance of the corporate sector on traditional bank finance. This realisation, together with factors, such as the reduction in benchmark rates in response to ECB intervention, the compression of Spain´s risk premium, and improved financial health of Spanish non-financial corporate issuers, has allowed for a deepening of Spanish debt capital markets in line with the European trend. These developments largely apply to medium-sized and larger firms, but the greater availability of previously tied-up bank funds should help small businesses meet their needs.

Apart from the increased reliance on debt capital markets, Spanish corporates are

witnessing a notable improvement in the array of funding sources available, including new, innovative forms of alternative finance. Recent regulatory measures designed to make bank finance more flexible and accessible, paying more attention to SMEs, at the same time aim to strengthen other sources of non-bank finance. If we look at the broader definition of alternative finance, which includes non-bank funding and market access for SMEs, we find that there has been a relative improvement, with the Alternative Stock Market (MAB in its Spanish initials) and venture capital showing promise. At the same time, while crowdfunding and Peer-to-peer (P2P) business lending remain at a very incipient stage, accounting for only 62 million euros of total funding in 2014, their growth in the coming years is expected to be formidable.

Moreover, the July SEFO takes stock of Spain´s industrial landscape. It is true that the crisis exacerbated the deindustrialisation trend observed in Spain, further widening the gap relative to other OECD countries which began intensifying since 2000. Of the EU´s larger countries, Spain has suffered the worst destruction in manufacturing firms, with losses exceeding those in other peripheral counties, arguably due to the severe adjustment in the construction sector. Nevertheless, the scenario coincides with a profound change in the global structure of the industrial sector in favour of newly industrialised countries. The decline is likely to continue in the coming years, given the expected prevalence of the three main factors behind this trend: structural change, foreign trade and “servitisation” and the outsourcing of service activities. In this context, there has been renewed interest in the industrial policy debate, with both the US and EU introducing measures to support industrialisation goals. In Spain, the focus should be on slowing the country´s pace of deindustrialisation relative to the OECD average through defining priorities in manufacturing and devoting more resources to technology, financing and training policies within the sector.

This SEFO also provides some reflections on one of the socioeconomic impacts of the recent crisis in Spain – the increase in inequality. We analyse how the country´s ambitious fiscal consolidation plans and structural reforms may have avoided the worst of the crisis, but are likely to have further aggravated inequality. As regards fiscal consolidation, pressures in Spain led to a halt in long-term trends of steady increases in health and education spending, supporting some of the empirical evidence regarding Spain´s recent poor performance on various equality indicators. As regards structural reform, preliminary evidence points to the most adverse effects of the latest labour market reform on lower wage earners.

Finally, we close this issue with an assessment of the latest update of Spain´s Stability Programme, which contains relevant changes to the government´s forecasts for economic and fiscal variables. The updated program reflects a more ambitious expenditure reduction effort and more favourable macroeconomic scenario for the first two years from 2015-2016, with greater uncertainty over both elements in the subsequent two year period. On the whole, the government´s fiscal consolidation path is perceived as feasible, although subject to considerable risks on the expenditure side related to effective execution of planned expenditure reduction measures and performance of the social security system and the autonomous regions.

Spain's economic growth beats expectations

Ángel Laborda and María Jesús Fernández[1]

Over the last few months, the main challenges facing the international economy include: weakness in the European economy, the loss of dynamism in emerging markets, and risks to global stability posed by upcoming U.S. interest rate hikes and the situation in Greece. In Spain, the recovery is exceeding expectations, but is highly vulnerable to market instability and the long-run growth outlook remains subdued.

Since the start of the recovery, the Spanish economy has outperformed expectations with its unexpected vigour, leading to constant upward revisions of growth forecasts by public and private institutions. In the first quarter of 2015, the economy grew by 3.8% quarter-on-quarter (on an annualised basis) and economic indicators suggest that there has been an acceleration in the second quarter. Over the coming quarters, a progressive slowdown is expected as the effects of various external shocks wear off. Nevertheless, Funcas has revised upwards its forecasts for 2015 and 2016. Furthermore, the Spanish economy still remains highly vulnerable to episodes of financial market tensions due to its high level of indebtedness. Above all, in the long-term, growth is expected to remain more moderate.

International context

Over the last few months, the international economy could be characterized mainly by the European economy's weakness, emerging economies' loss of dynamism, and the uncertainties and risks to global financial stability posed by rising interest rates in the United States and the situation in Greece.

The U.S. economy contracted by 0.2% on an annualised rate in the first quarter of the year, but this negative performance is assumed to be the result of bad weather during the winter and a strike by port workers, and even weaknesses in the way the national accounts are prepared. Nevertheless, the main economic indicators, such as the industrial production index, PMI, orders, and retail sales, all show signs of weakening since the start of the year. Moreover, average job creation over the first five months of 2015 has been lower than that seen throughout most of 2014. All this has delayed the expected interest rate hike by the Federal Reserve.

China grew at just 7% on a year-on-year basis in the first quarter, its lowest rate in the last seven years. As regards the other emerging economies, the outlook for Brazil, Turkey and Russia has deteriorated markedly. Brazil and Turkey are

[1] Economic Trends and Statistics Department, FUNCAS.

particularly vulnerable to any events that might destabilise the international financial markets, as a result of their macroeconomic instability and current account deficits. Russia is suffering from the impact of the drop in the oil price and international sanctions. As a result, these countries´ currencies have depreciated by 20%-30% against the dollar over the last year.

The eurozone increased momentum somewhat in the first quarter of the year, but its growth remains weak, at 1.6%, and the forecasts for the year as a whole are for growth of a mere 1.5%. Recent months have been marked by the uncertainty caused by the lack of progress on negotiations between the European institutions and the IMF, on the one side, and Greece on the other, in order to release the latest tranche of financial aid to the country. The fear of Greece's possible exit from the euro has increased financial market tensions, leading to capital flight to safer destinations, which has pushed up risk premiums and debt yields in peripheral countries, including Spain.

The fear of Greece's possible exit from the euro has increased financial market tensions, leading to capital flight, which has pushed up risk premiums and debt yields in peripheral countries, including Spain.

Recent developments in the Spanish economy

Spanish GDP grew by 0.9% in the first quarter of 2015 relative to the preceding quarter, equivalent to 3.8% on an annualised basis (the basis on which all growth rates below will be expressed). Growth relative to the same quarter one year earlier was 2.7%. The contribution of domestic demand to annualised quarterly growth was 3.4 percentage points (pp), while the external sector's contribution was 0.4 pp, making two consecutive quarters of positive growth.

Private consumption growth slackened in the first quarter after the high growth rates registered in the preceding quarters, which were comparable to those observed before the crisis. At the start of the second quarter, retail sales continued their strong growth, as did new vehicle registrations, although the pace was more moderate. The consumer confidence index continued its upward trend, reaching its maximum since 2000. The retail trade confidence indicator also rose, reaching its highest level on record. Taken together, all this suggests that the rapid pace of growth in this component of demand will continue in the second quarter of the year (Exhibits 1.1 and 1.2).

Public consumption recovered in real terms after three quarters in negative territory. Growth in nominal terms was 24.6%, which partly resulted from the reinstatement of public-sector employees' extraordinary pay, which was eliminated in December 2012.

Investments in capital goods and other products grew by 4% in the first quarter. At the start of the second quarter, the growth in registrations of goods vehicles slowed somewhat, although it remained strong, while the order book for capital goods improved considerably in April and May (Exhibits 1.3 and 1.4). In the case of construction investment, housing investment growth slowed, while investment in other construction intensified. The recovery in the property market continues, as is indicated by increased housing sales and rising prices. According to the INE's housing price indicator, prices rose by 1.5%, year-on-year in the first quarter, although the Ministry of Public Works' price indicator suggests more of a stabilisation.

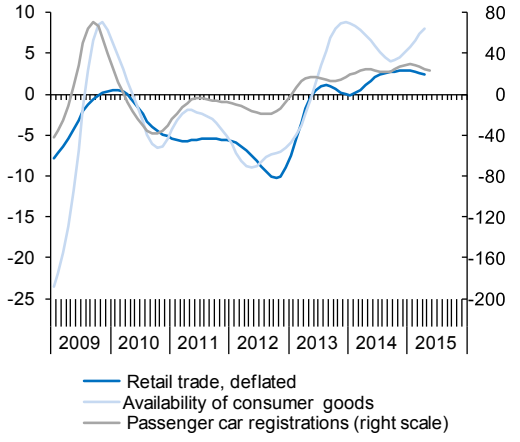
Although goods exports declined, total exports were up by 1% due to strong growth in non-tourism services. This exceptional situation made it possible for the external sector's contribution to quarterly GDP growth to turn positive in the first quarter. However, this was an anomaly and should not be interpreted as a sign of change in the imbalanced pattern of contributions to growth of domestic demand and the external sector that has been habitual since the start of the recovery.

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption indicators (I)

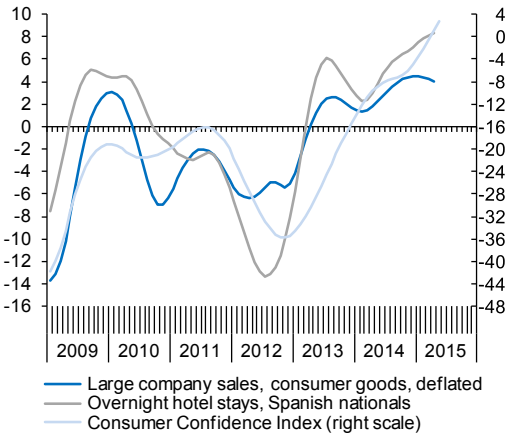
Annualised moving quarterly change in %, smoothed series



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

1.2 - Consumption indicators (II)

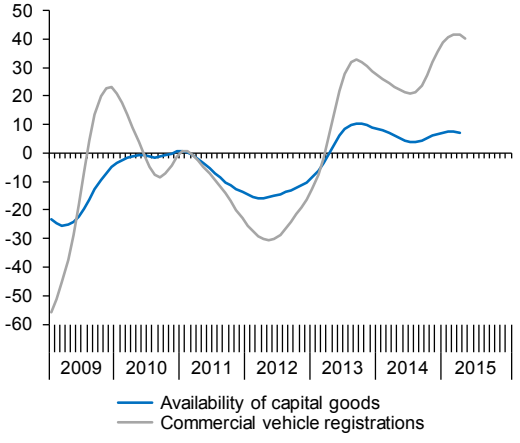
Annualised moving quarterly change in % and index (CCI), smoothed series



Sources: European Commission, INE, AEAT and FUNCAS.

1.3 - Capital goods GFCF indicators (I)

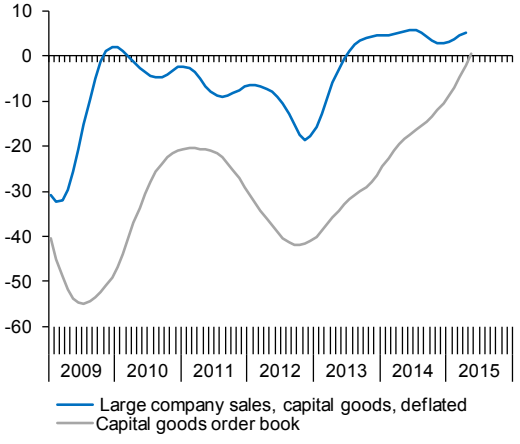
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy, DGT and FUNCAS.

1.4 - Capital goods GFCF indicators (II)

Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Industry, AEAT and FUNCAS.

Imports registered growth, although in the case of goods imports, this growth was less than expected. The April customs data on external trade in goods indicate a trend towards faster growth in imports than exports (Exhibit 3.1).

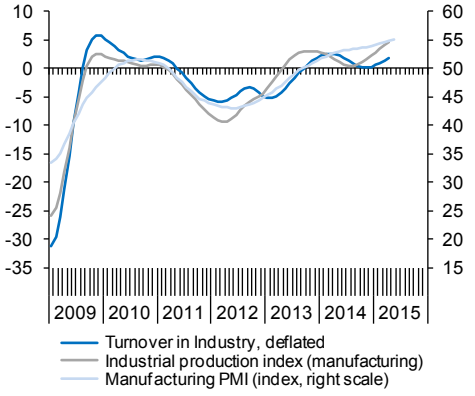
On the supply side, Gross Value Added (VAB) grew in all sectors. The biggest growth was in manufacturing, followed by the construction industry and services. As regards the industrial activity indicators available for the second quarter, the April

Exhibit 2

Industrial activity, services and construction indicators

2.1 - Industrial sector indicators (I)

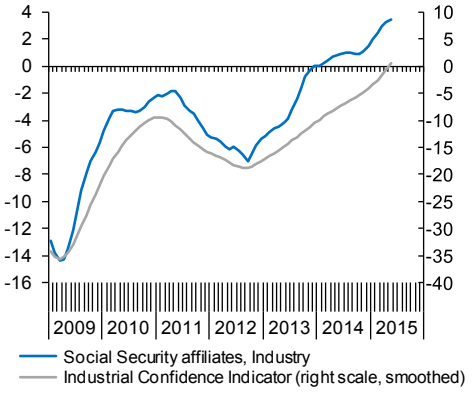
Annualised moving quarterly change in % and index, smoothed series



Sources: INE, Markit Economics Ltd. and FUNCAS.

2.2 - Industrial sector indicators (II)

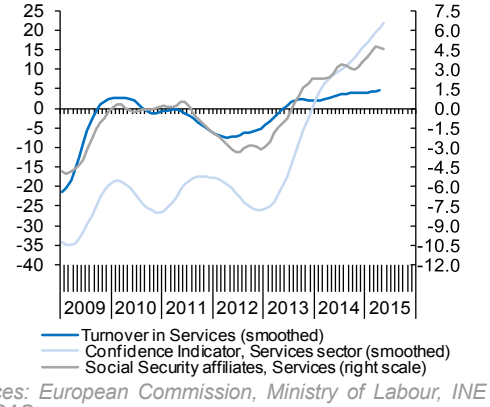
Annualised moving quarterly change in % and index



Sources: European Commission, Ministry of Labour and FUNCAS.

2.3 - Services indicators (I)

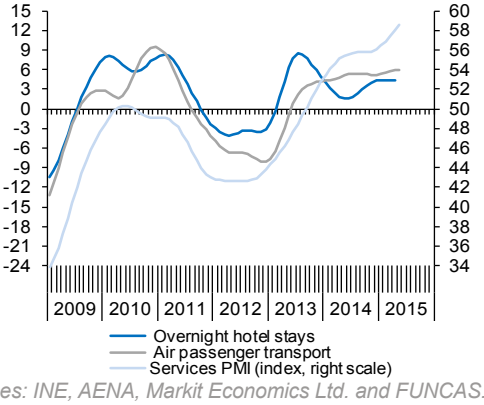
Annualised moving quarterly change in % and index



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

2.4 - Services indicators (II)

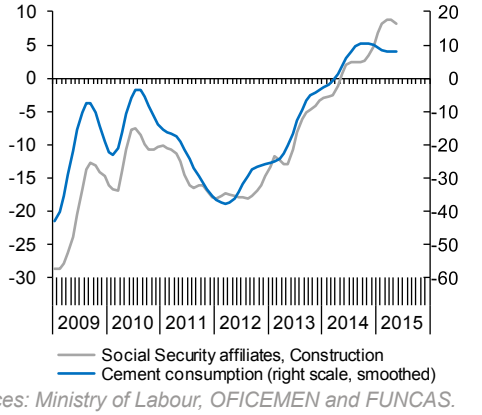
Annualised moving quarterly change in %, smoothed series



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

2.5 - Construction sector indicators (I)

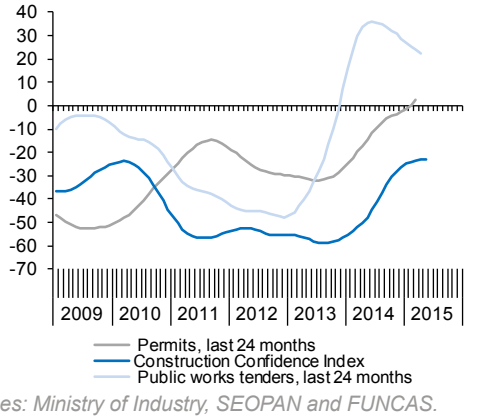
Annualised moving quarterly change in %



Sources: Ministry of Labour, OFICEMEN and FUNCAS.

2.6 - Construction sector indicators (II)

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



Sources: Ministry of Industry, SEOPAN and FUNCAS.

industrial production index remained high following the strong rise in the two previous months, while, in May, the PMI reached its highest level since 2007. The industry confidence index also returned to pre-crisis levels. Based on data to May, the number of social security system affiliates in the sector has grown for 17 consecutive months, something that has not happened since the historical series for this indicator began in 2001. The rates are also the highest in the series (Exhibits 2.1 and 2.2).

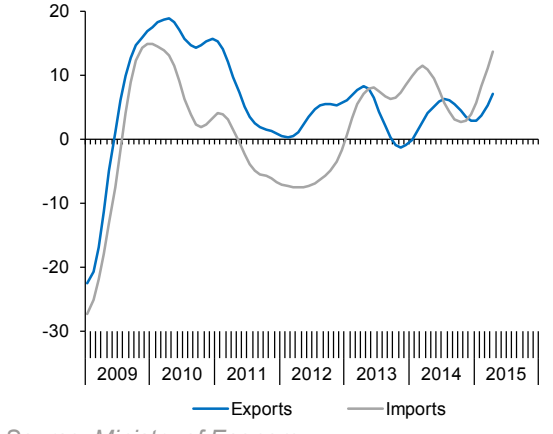
In the case of services, turnover continued to gain speed in April; the PMI shot up to its highest levels since 2000 in April and May, and the confidence index in the sector stood at its maximum since 2002. Growth in inflows of tourists at the start of the second quarter continued to accelerate, and the number of social security system affiliates grew rapidly in April and May, although the pace had moderated somewhat compared to the preceding months (Exhibits 2.3, 2.4 and 3.2).

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

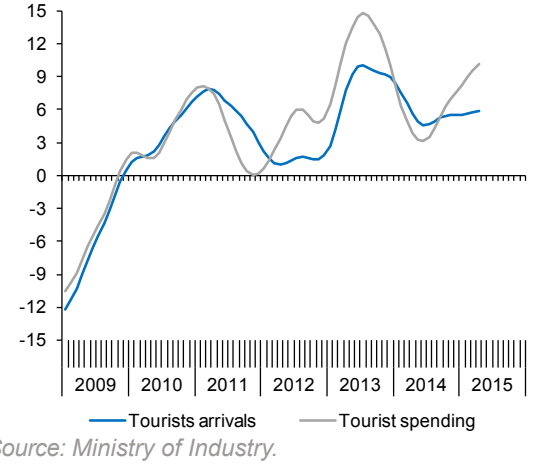
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Economy.

3.2 - Tourist sector

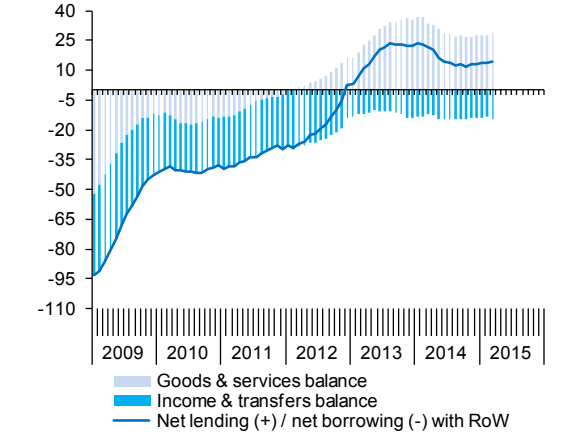
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Industry.

3.3 - Balance of payments

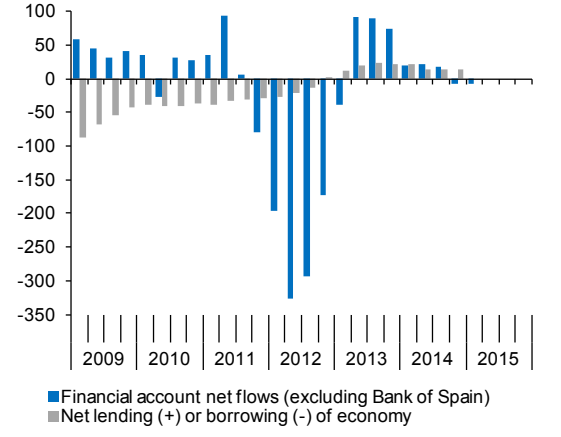
EUR billion, cumulative last 12 months



Source: Bank of Spain.

3.4 - Balance of payments

EUR billions, moving sum 4 quarters



Source: Bank of Spain.

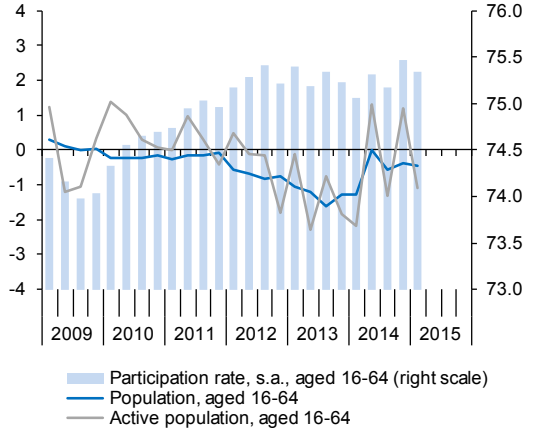
Activity indicators for construction, such as cement consumption, new housing or refurbishment permits, and official tenders suggest a continuation of growth in activity. The sectorial confidence indicator has worsened somewhat recently, but starting from a relatively high level compared to the lows reached during the crisis. The most striking indicator is the growth in the number of social security system affiliates. However, a large part of the strong recovery in construction activity seems to be linked to the increase in public works in the months leading up to the local and regional elections. This can be expected to slacken off in the third quarter, as the social

Exhibit 4

Labour market indicators

4.1 - Labour supply

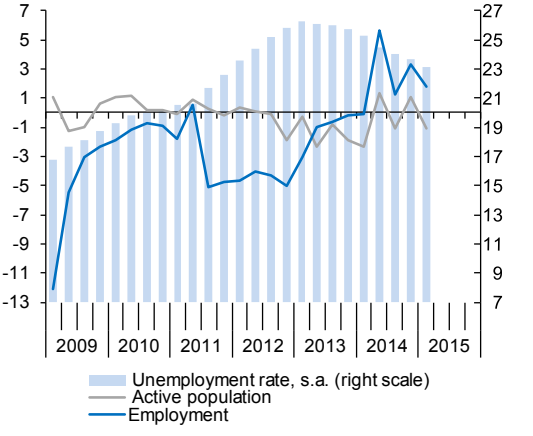
Annualised change q-o-q in % and percentage of population aged 16-64



Source: INE (LFS).

4.2 - Employment and unemployment (LFS)

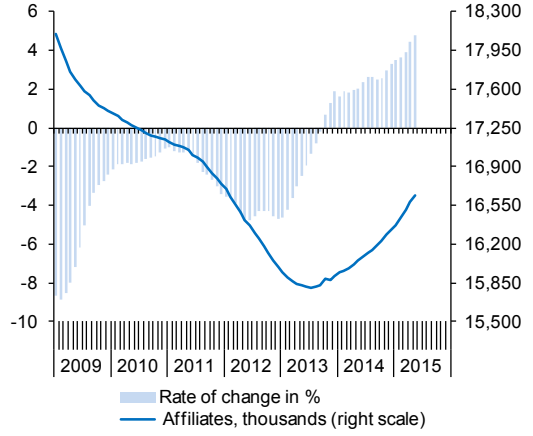
Annualised change q-o-q in % and percentage of working age population



Source: INE (LFS).

4.3 - Social Security affiliates

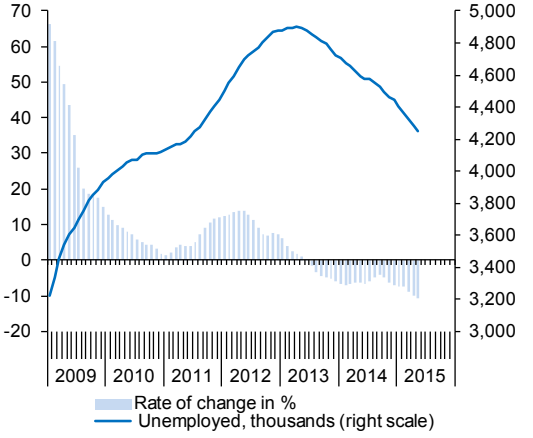
Annualised moving quarterly change in % and thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

4.4 - Registered unemployment

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



Sources: Ministry of Labour and FUNCAS.

security affiliates and official tendering data seem to indicate (Exhibits 2.5 and 2.6).

A large part of the strong recovery in construction activity seems to be linked to the increase in public works in the months leading up to the local and regional elections. This can be expected to slacken off in the third quarter.

Employment, in full-time jobs equivalent terms, increased by 3.1% in the first quarter, with particularly strong growth in the construction industry. This result is in line with the progress of social security affiliation, although the EPA figures for the same period show more modest growth. The seasonally adjusted unemployment rate fell by six tenths of a percent to 23.1%. One of the most striking features of the latest EPA is that youth employment has begun to grow. The employment trend remained favourable in the months of April and May, as can be seen from the number of social security system affiliates and registered unemployment (Exhibits 4.1 to 4.4).

Compensation per employee also rose strongly in the first quarter, but this was due to the reinstatement of public-sector employees' extraordinary pay, referred to above. Excluding services linked to public administration and agriculture, all other sectors', *i.e.* non-agricultural market sectors, compensation per employee rose slightly during the quarter, breaking the slightly downward trend of the last few quarters. Unit labour costs grew for the economy as a whole due to the reinstatement of public-sector employees' extraordinary pay mentioned above. In the third quarter, ULCs fell in the manufacturing industry, although they grew by 1.2% over the past year.

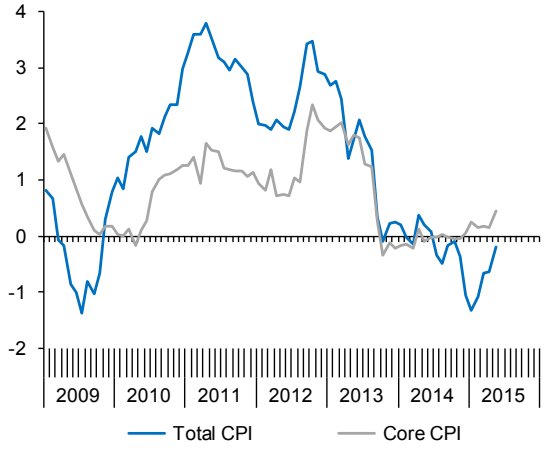
The downward trend in consumer prices bottomed out in January, with a year-on-year rate of -1.3%, which was entirely explained by the fall in the oil price. The subsequent recovery in oil prices raised this rate to -0.2% in May. The underlying rate remained on a modest upward trend from its minimum of -0.1% in November last year to 0.5% in May this year (Exhibits 5.1 and 5.2).

Exhibit 5

Price indicators

5.1 - Consumer Prices Index

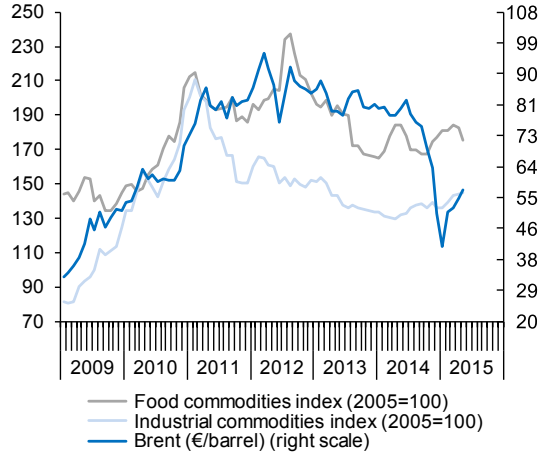
Change y-o-y in %



Source: INE (CPI).

5.2 - Commodities prices in €

Euros and index



Sources: Ministry of Economy and The Economist.

The trade balance surplus in the first quarter of the year was bigger than that in the year-earlier period, helped by falling prices for energy products. By contrast, the trade balance in non-energy goods worsened. The income balance deficit was very similar to that registered in the first quarter of the previous year, such that the current account balance was negative, in the order of 1.5 billion euros, compared with a deficit of 3.7 billion the previous year (Exhibit 3.3).

The financial balance, excluding the Bank of Spain, showed a deficit of almost 15 billion euros in the first quarter, close to the figure obtained in the same period of the previous year. This was despite Spain's outward investment doubling, and is explained by the strong growth in Spanish investments abroad, primarily in the form of portfolio investments (Exhibit 3.4).

The last period for which national savings data are available is the fourth quarter of 2014. The rate for the year as a whole was 20.1% of GDP, three tenths of a percent less than a year earlier, due to the decline in savings by households and non-financial corporations, while the public saving rate rose slightly, turning less negative than in the previous year (Exhibits 7.1 and 7.2).

As a consequence of this slight drop in the national savings rate, in conjunction with an increase in the investment rate, the economy's net lending position (surplus with respect to the rest of the world) dropped from 2.1% of GDP to 1% of GDP. Both households and non-financial corporations registered a financial surplus, albeit a shrinking one. As in previous years, this was largely devoted to reducing debt, particularly by businesses. Thus, household debt ended 2014 at 108.8% of gross disposable income, 6.6 percentage points less than one year earlier. Non-financial corporations' debt stood at 111.1% of GDP, compared with 117.5% of GDP at end-2013 (Exhibit 7.4).

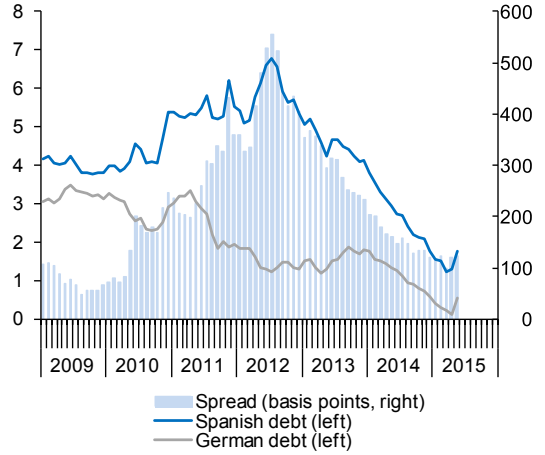
The general government account balance in 2014, excluding aid to financial institutions, was 5.7% of GDP, six tenths of a percent less than the previous year (Exhibit 7.3). In the first quarter of 2015, the consolidated balance excluding local government (*i.e.* central government, autonomous regions,

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

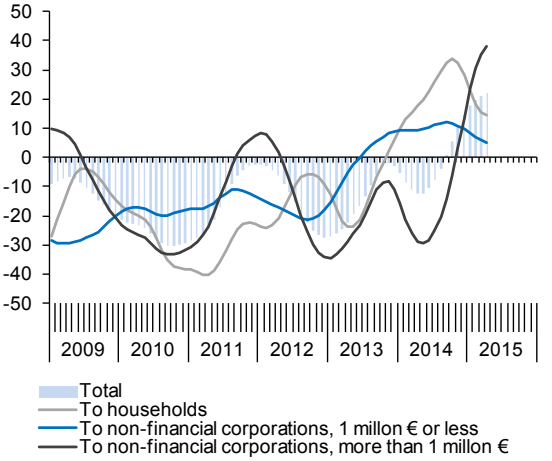
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - New business loans

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



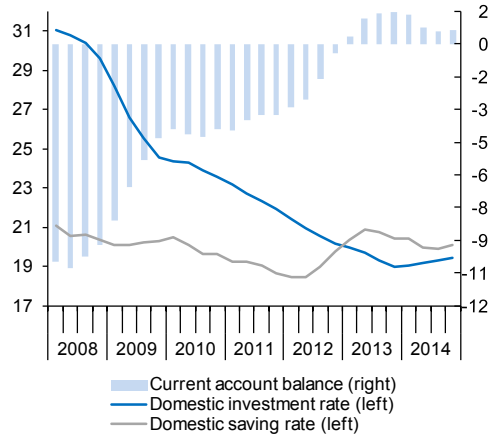
Sources: Bank of Spain and FUNCAS.

Exhibit 7

Financial imbalances

7.1 - Domestic saving, investment and current account balance

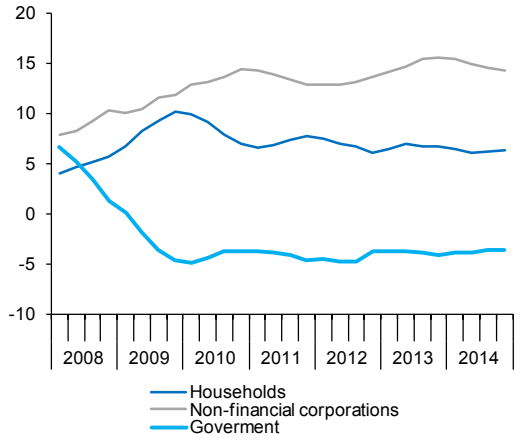
Percentage of GDP, 4-quarter moving average



Source: INE.

7.2 - Saving rates

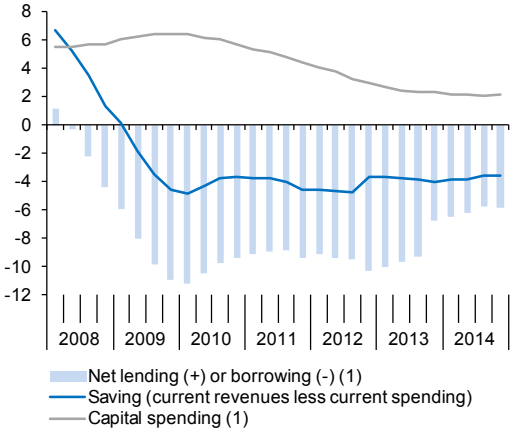
Percentage of GDP, 4-quarter moving average



Sources: INE and IGAE.

7.3 - General Government deficit

Percentage of GDP, 4-quarter moving average

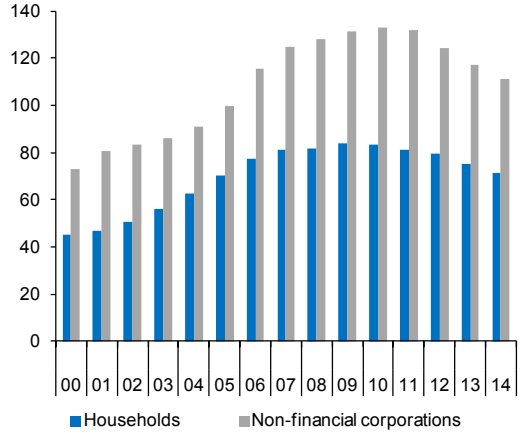


(1) Excluding financial entities bail-out.

Sources: INE and IGAE.

7.4 - Gross debt

Percentage of GDP



Source: Bank of Spain (Financial Accounts).

and social security funds) stood at -0.78% of GDP, compared with -0.69% of GDP in the same period the previous year. The central government increased its deficit and the social security funds reduced their surplus, while the autonomous regions as a whole enjoyed a slight improvement in their results. However, the early months of the year tend not to be very representative.

Financial market tensions caused by uncertainty over the situation in Greece have driven up the yield on Spanish debt from lows of 1.10% in mid-March to 2.45% in mid-June. The risk premium has also risen over this period, from below 100 basis points to around 150 basis points (Exhibit 6.1). Nevertheless, pressures have since eased on both variables.

Although the stock of finance granted to households and businesses continues to decline, as a result of the ongoing process of deleveraging, the flow of new credit grew by 21% in the first quarter of 2015 on an annualised quarter-on-quarter basis, and the figures for April suggest this trend will continue. Lending to households for both home purchases and consumption has been growing since mid-2013, as have loans of less than a million euros to businesses (basically lending to small and medium-sized enterprises). Other lending, *i.e.* loans of more than a million euros to businesses, began to rise later, in the final quarter of last year, although large companies, to which this lending is mainly directed, have used other financing channels as alternatives to bank credit (Exhibit 6.2).

Forecasts for 2015-2016

Although as yet incomplete, the indicators available for the second quarter suggest growth has picked up speed to an annualised 4.3%, which is better than expected in the previous forecast scenario. As a consequence of the better than expected performance, the GDP growth forecast for 2015 has been revised upwards three tenths of a percent to 3.3% (Table 1).

The economy is being driven by endogenous cyclical factors and structural improvements, together with the impact of a series of transitory external shocks. These shocks include the drop in oil prices, the reinstatement of part of public-sector employees' extraordinary pay, which was eliminated in December 2012, income tax cuts, the sharp drop in interest rates, and the relaxation of public spending restraint as a result of the electoral cycle. The expansionary impact of some of these shocks is expected to wear off from the third quarter onwards, such that the growth rate is expected to slow (Exhibit 8.1).

For this same reason, growth of 3.0% is forecast for 2016, which is below the rate expected in 2015, although two tenths of a percent above the rate estimated in previous forecasts. In both years, GDP growth will come entirely from the domestic demand contribution, as the external sector will make a negative contribution of around half a percentage point (Exhibit 8.2).

Due to better than expected performance in the second quarter, the GDP growth forecast for 2015 has been revised upwards three tenths of a percent to 3.3%. Given several favorable shocks are expected to wear off from the third quarter onwards, in 2016, growth is expected to be below that of 2015 at 3.0%.

Since the start of the recovery in the third quarter of 2013, the economy has grown by 3.4%, which means it has recovered 39% of the real GDP destroyed during the recession, and on the basis of the current forecast scenario, it will have recovered all of it by the end of 2016.

Given the Spanish economy's high level of debt and its dependence on external financing, the main risk of the scenario's not being realised comes from a possible rise in the risk premium

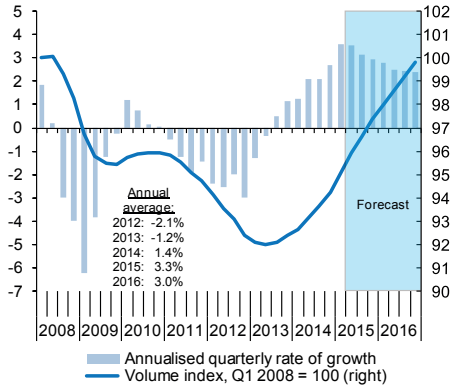
Given the Spanish economy's high level of debt and its dependence on external financing, the main risk of the growth scenario's not being realised comes from a possible rise in the risk premium and constraints on access to finance.

Exhibit 8

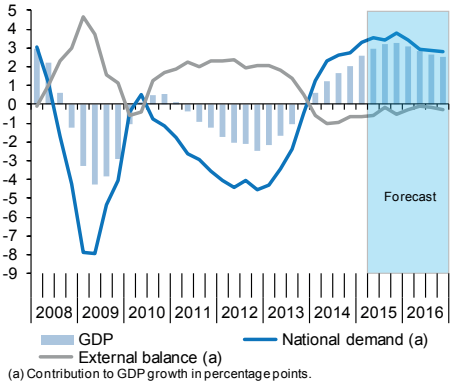
Economic forecasts for Spain, 2015-2016

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

8.1 - GDP

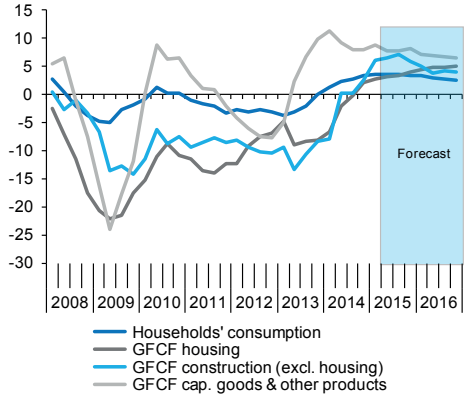


8.2 - GDP, national demand and external balance

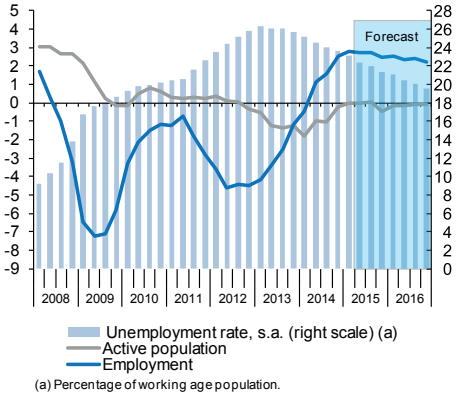


(a) Contribution to GDP growth in percentage points.

8.3 - National demand aggregates

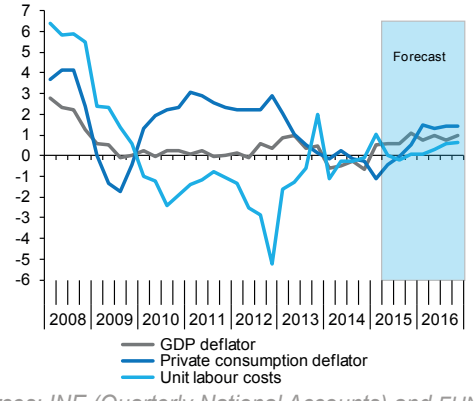


8.4 - Employment and unemployment

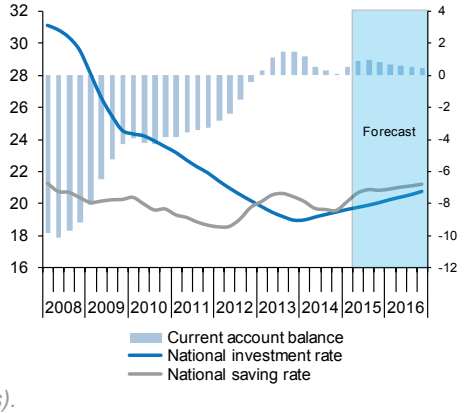


(a) Percentage of working age population.

8.5 - Inflation



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



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

Table 1

Economic forecasts for Spain, 2014-2015

Annual rates of change in %, unless otherwise indicated

	Actual data				FUNCAS forecasts		Change in forecasts (a)	
	Average 1996-2007	Average 2008-2013	2013	2014	2015	2016	2015	2016
1. GDP and aggregates, constant prices								
GDP	**3.8**	**-1.1**	**-1.2**	**1.4**	**3.3**	**3.0**	**0.3**	**0.2**
Final consumption households and NPISHs	3.6	-1.9	-2.3	2.4	3.8	3.5	0.3	0.6
Final consumption general government	4.3	0.8	-2.9	0.1	1.0	0.8	0.4	0.3
Gross fixed capital formation	6.4	-7.3	-3.8	3.4	6.0	5.7	-0.6	0.0
Construction	5.4	-10.3	-9.2	-1.5	4.9	4.4	-0.2	-0.1
Residential construction	7.4	-11.9	-7.6	-1.8	2.7	5.5	-0.6	0.7
Non-residential construction	3.8	-8.4	-10.5	-1.3	6.6	3.6	0.2	-0.7
Capital goods and other products	8.3	-2.3	3.4	9.1	7.0	7.0	-1.0	0.2
Exports goods and services	6.6	1.7	4.3	4.2	4.6	5.4	-0.6	-0.1
Imports goods and services	8.7	-4.1	-0.5	7.6	6.3	7.2	-1.0	0.5
National demand (b)	**4.5**	**-2.8**	**-2.7**	**2.2**	**3.7**	**3.4**	**0.2**	**0.4**
External balance (b)	-0.7	1.8	1.4	-0.8	-0.4	-0.4	0.1	-0.2
GDP, current prices: - € billion	--	--	1,049.2	1,058.5	1,100.7	1,143.2	--	--
- % change	7.4	-0.5	-0.6	0.9	4.0	3.9	0.5	0.6
2. Inflation, employment and unemployment								
GDP deflator	3.5	0.6	0.7	-0.5	0.7	0.9	0.2	0.4
Household consumption deflator	**3.1**	**1.8**	**1.0**	**-0.1**	**-0.3**	**1.4**	**0.4**	**0.6**
Total employment (National Accounts, FTEJ)	3.4	-3.1	-3.3	1.2	3.0	2.5	0.4	0.2
Productivity (FTEJ)	0.4	2.1	2.1	0.2	0.3	0.5	-0.1	0.0
Wages	7.5	-1.0	-2.3	1.3	3.9	3.5	0.6	0.4
Gross operating surplus	6.9	0.3	0.1	-0.1	4.1	3.6	0.3	0.7
Wages per worker (FTEJ)	3.3	2.4	1.7	-0.2	0.5	0.9	0.2	0.2
Unit labour costs	2.9	0.2	-0.4	-0.4	0.2	0.4	0.3	0.2
Unemployment rate (LFS)	**12.5**	**20.2**	**26.1**	**24.4**	**22.2**	**20.2**	**-0.1**	**-0.1**
3. Financial balances (% of GDP)								
National saving rate	22.4	19.9	20.4	20.1	20.6	20.8	-0.8	-1.0
- of which, private saving	18.6	23.1	24.5	23.6	23.0	22.1	-0.8	-1.1
National investment rate	26.9	23.1	19.0	19.5	20.0	20.7	0.0	-0.1
- of which, private investment	23.0	19.4	16.8	17.5	18.0	18.7	0.0	-0.1
Current account balance with RoW	**-4.5**	**-3.3**	**1.5**	**0.6**	**0.6**	**0.2**	**-0.7**	**-0.9**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	2.1	1.0	1.0	0.6	-0.7	-0.9
- Private sector	-2.8	5.7	8.9	6.8	5.6	4.0	-0.8	-1.0
- Public sector (general governm. deficit)	**-0.9**	**-8.6**	**-6.8**	**-5.8**	**-4.6**	**-3.4**	**0.1**	**0.2**
- General gov. deficit exc. financial instit. bailout	**--**	**-7.8**	**-6.3**	**-5.7**	**-4.6**	**-3.4**	**0.1**	**0.2**
Gross public debt	52.2	66.3	92.1	97.7	100.1	100.8	-0.8	-1.7
4. Other variables								
Household saving rate (% of GDI)	10.8	11.2	10.4	9.7	9.9	9.1	-0.1	-0.6
Household gross debt (% of GDI)	81.5	125.0	115.5	108.8	102.0	97.0	-0.6	-1.2
Non-financial coporates gross debt (% of GDP)	80.4	127.8	117.5	111.1	102.8	96.9	-0.4	-0.8
Spanish external gross debt (% of GDP)	90.2	158.4	154.7	160.1	156.9	151.5	-0.2	-0.5
12-month EURIBOR (annual %)	3.7	1.9	0.5	0.5	0.2	0.4	-0.1	-0.1
10-year government bond yield (annual %)	5.0	4.7	4.6	2.7	1.9	2.1	0.7	0.9

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

and constraints on access to finance, whether due to internal or external factors.

Household consumption has been revised upwards and is set to grow by 3.8%, boosted by households' increasing disposable income in both nominal and real terms. This rise will be driven by several factors, primarily job creation, falling interest payments, tax cuts, and lower prices for energy products. This will also allow a slight upturn in the household savings rate. Next year, income growth in real terms will be more moderate than this year, as the impact of the extraordinary shocks in 2015 comes to an end, and inflation rates turn positive, which will slow down private consumption growth (Exhibit 8.3) and reduce the savings rate.

As regards public consumption, it is assumed that the 1% growth expected this year, which is relatively high due to the effect of the electoral cycle, will moderate to 0.8% next year.

The forecast growth in gross fixed capital formation in capital goods for 2015 has been revised down to 7.0%, as this aggregate was lower than expected in the third quarter. Similar growth to that in 2015 is expected in 2016. Construction investment is expected to grow by 4.9% this year, which is somewhat lower than in previous forecasts. This is also due to the housing component performing somewhat worse than expected in the first quarter. In any event, positive growth rates are expected for both this component and the other components of construction. Construction investment will slow in 2016 due to the end of the electoral cycle's effect on the other components of construction. However, growth is expected to remain positive and housing investment is expected to pick up speed.

Exports will grow by 4.6% this year, and imports by 6.3%, such that the external sector will shave four tenths of a percent off of GDP growth. Both variables will accelerate next year, and the combined contribution to growth will be similar to that in 2015. The same pattern as observed since the start of the recovery will therefore be seen this year and next, with import growth outpacing export growth, due to the vigour of domestic demand in a relatively weak international context, resulting in the external sector's making an overall negative contribution to growth.

Employment is forecast to increase by 3% in 2015 and 2.5% in 2016, in full-time equivalent jobs terms, beating previous forecast estimates in both cases. This represents the creation of over 900,000 jobs over the course of the two years (Exhibit 8.4). This means that whereas 13% of the employment lost during the crisis had been recovered by the first quarter of 2015, by the end of 2016, a third will have been recovered. The average annual unemployment rate will drop by 2.2 percentage points of the labour force in 2015 and a further 2 points in 2016, to 22.2% and 20.2%, respectively. Unit labour costs will increase slightly in both years (Exhibit 8.5).

13% of the employment lost during the crisis had been recovered by the first quarter of 2015. By the end of 2016, a third will have been recovered.

The absence of cost and demand pressures will maintain the inflation generated by the Spanish economy at moderate levels, with an increase in the GDP deflator of less than 1% expected in both 2015 and 2016. Import prices are such that consumer price inflation will be significantly below this figure this year (-0.2%) and slightly above it next year.

Despite the external sector's negative contribution to growth, the surplus on the current account of the balance of payments will be 0.6% of GDP in 2015, as in the previous year, as a result of cheaper oil (Exhibit 8.6). Given that the effect of lower oil prices will not be repeated next year, the surplus will shrink. This forecast scenario assumes that

the oil price will average around 62 dollars a barrel this year (up until May the average price was 57 dollars a barrel) and that it will rise to 69 dollars next year. The average annual euro/dollar exchange rate will be 1.112 this year, dropping to 1.063 next year.

The general government deficit will decline to 4.6% of GDP this year and 3.4% of GDP next year, four and six tenths over the figures forecast in the Stability Programme, respectively. Public debt will come to around 100% of GDP this year, rising to slightly over 100% next year.

To sum up, the Spanish economy´s performance continues to surprise on the upsides, obliging both public and private institutions to continually revise upwards their forecasts for this year and next. In March last year, when FUNCAS first published growth forecasts for 2015, the estimate was for 1.8%, which matched Spanish private analysts' consensus forecast. The IMF's forecast in April was 1% and the European Commission forecast in February was 1.7%. More recent consensus forecasts suggest growth of 3.1%, while the IMF and European Commission estimate growth of 3.1% and 2.8%, respectively. The size of these upward revisions is not just a result of the unexpected positive shocks that have occurred, but the surprising strength with which the economy has progressed in the meantime.

Nevertheless, taking a long-term perspective, it should be borne in mind that the Spanish economy's potential growth rate, once the output gap that has arisen in recent years has been eliminated, will probably fall short of the rates we shall see this year and next. It is therefore the time to put forward an economic policy strategy aimed at confronting the weaknesses and shortcomings of the productive system. These are at the root of the Spanish economy's traditional pattern of imbalanced growth, which appears to be returning, albeit in a milder form, since the start of the current recovery.

Spanish SMEs in the European context: Measuring access to bank finance

Joaquín Maudos[1]

Latest ECB survey data confirm an improvement in Spanish firms´ access to bank credit –particularly at the SME level– breaking the negative trend in recent years. Progress on banking union, ECB liquidity support measures, and the Spanish financial sector restructuring process have all played a major part in explaining the survey´s positive results.

The latest ECB data clearly show the improvement that has taken place in Spanish firms' access to bank credit, as firms themselves have acknowledged. Overall, more abundant, and less expensive, financing is now available. Banks are more willing to lend and the rejection rate for loan applications has dropped. Progress is further confirmed by favorable developments at the SME level. Credit to SMEs for new operations is growing strongly, while the cost increment paid compared to their European peers has diminished. In parallel, the spread over the Euribor that Spanish banks charge on new loans to SMEs has fallen since mid-2013. However, while access to credit is better for SMEs as a whole, micro-enterprises have benefited less from the improvement.

The recent financial crisis caused a drastic tightening of credit conditions for bank financing to Spanish businesses. Furthermore, after recording strong growth during the expansionary period, the growth of bank lending turned negative, largely due to firms' need to deleverage, although supply-side restrictions also played a major part. This scenario was compounded by the fragmentation of the European financial market, which led to higher borrowing costs in those countries hardest hit by the sovereign-debt crisis (which included Spain).

The ECB's intervention and the banking union project represented a turning point: (i) reducing financial-market fragmentation; (ii) improving borrowing conditions; and, (iii) stimulating the recovery from recession. Since mid-2013, the difference between the interest rates Spanish firms pay for bank loans and the rates paid by firms elsewhere in the euro area has narrowed. The stock of credit has continued to decline, but the rate has slowed, and new lending has recovered. Therefore, these two variables (quantity and price) are already clearly showing the change in trend taking place in firms' access to bank credit. This trend change has come from both the supply side (banks have relaxed their requirements) and the demand side (in the context of GDP growth, demand is now more solvent).

Against this background, this article aims to take a closer look at the conditions under which firms

[1] Professor of Economic Analysis at the University of Valencia, Deputy Director of Research at Ivie and collaborator with CUNEF. This article was written as part of the Spanish Ministry of Science and Innovation (ECO2013-43959-R) and Generalitat Valenciana PROMETEOII/2014/046 research projects.

are able to access bank finance. The focus will be on SMEs[2] in particular, as, given their size, it is smaller businesses that are most dependent on bank credit. This analysis draws upon the information provided in the ECB's survey on firms' access to finance, which allows the situation of Spanish businesses to be compared with that of firms in other eurozone countries across a range of business sizes.

The most recent round of the ECB survey, published in June 2015, refers to the situation prevailing between October 2014 and March 2015. It therefore allows for an assessment of the impact of the ECB's measures and the implementation of banking union on access to finance conditions. As the preceding rounds of the survey go back to 2009 (a total of 12 have been published), it is possible to examine the impact of both the crisis and the recovery, and so detect any possible structural change in the conditions of access to bank finance.

As discussed below, the findings suggest that although the crisis had a bigger negative impact on access to credit in Spain, since late 2014, the improvement has been stronger, in terms of both the availability of credit and the conditions under which it is granted. What is more, evidence shows that credit to SMEs for new operations is growing strongly and that the cost of borrowing is falling, both in comparison with the interest rate paid by European companies, and the smaller spread over the 12-month Euribor rate charged by Spanish banks.

Although the crisis had a bigger negative impact on access to credit in Spain, since late 2014, the improvement has been stronger, in terms of both the availability of credit and the conditions under which it is granted.

Recent developments in extension of credit and interest rates

Bank credit to the Spanish private sector has fallen by 26% since the peak reached in late 2008, clearly demonstrating the intensity of the deleveraging process taking place. The drop was bigger in the case of credit to businesses (34% by the end of 2014), and it was particularly sharp in the case of lending to construction and real estate activities. Comparing the contraction in credit to firms in Spain with the situation elsewhere in the eurozone, from 2008 to 2014, the drop in Spain was four times the eurozone average, with Spanish businesses facing the third most intensive reduction in the eurozone, behind only Ireland and Slovenia. The available information shows that credit to Spanish businesses fell consistently from late 2010 through September 2014, when there was a reversal in the trend, with a slight increase in credit in the last quarter of 2014.

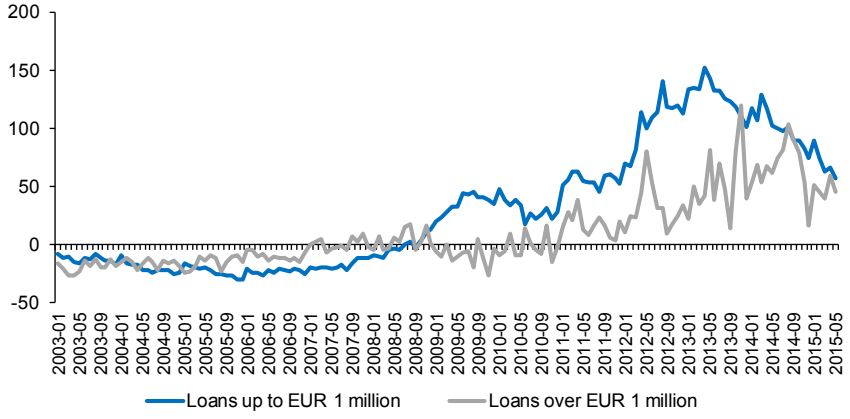
In terms of the interest rates on business lending, until mid-2008, Spanish businesses paid rates below the eurozone average on loans of up to a million euros (the typical size of loans to SMEs). The situation then reversed, with an unfavourable spread widening for Spain, which reached a maximum of 152 basis points (bp) in April 2013. Since then, spreads have gradually narrowed, standing at 57 bp in May 2015. In the case of loans of over a million euros, the difference from the euro area reached 120 bp at year-end 2013, but dropped back to 45 bp in May 2015.

In short, this initial information about how bank lending to firms and interest rates have evolved shows a clear change of trend in 2014, as credit has stopped contracting and the price disparity with the eurozone is being corrected. Furthermore, new credit transactions for less than a million euros are growing strongly, while the interest rate spread on this credit, with respect to the 12-month Euribor, is falling. Specifically, the spread has dropped 91 bp in the last twelve months (from

[2] SMEs comprise a wide range of firms operating under very different conditions, subdivided into micro (less than 10 employees), small (10 to 49 employees) and medium-sized enterprises (50 to 249 employees).

Exhibit 1

Difference between the interest rate on a bank loan to a firm in Spain and the euro area
Basis points



Source: ECB.

May 2014 to May 2015), and it has been falling since May 2013 (down 156 bp).

The importance of access to finance for firms

The ECB survey indicator that sheds some light on the relevance of access to finance to the proper functioning of firms is its greater or lesser importance compared to other variables, such as finding customers, competition, regulation, etc.

As Exhibit 2 shows, Spanish SMEs have always been more worried about the problem of access to finance than larger companies and the majority of their Eurozone peers. Access to finance has even been their predominant concern in the second half of 2009, coming before other concerns such as obtaining customers. In the second half of 2009, the gap separating them from other eurozone businesses reached a peak of 14.7 percentage points, as 34.2% of Spanish SMEs identified access to finance as their main problem, compared to 19.5% of eurozone SMEs.

Since mid-2011, the percentage of Spanish SMEs reporting access to finance as their main problem has dropped much faster than in the eurozone as a whole, such that the differential between them has narrowed. Nevertheless, according to the most recent information, Spain's percentage is still 2 pp above the eurozone average, with a percentage of 13.1% compared to the eurozone's 11.1%. Compared to the major eurozone economies, difficulties obtaining finance were reported by a larger share of SMEs in Spain than in Germany (6.7%) or France (9.4%), but by the same amount as in Italy (13.1%).

Since mid-2011, the percentage of Spanish SMEs reporting access to finance as their main problem has dropped much faster than in the eurozone as a whole.

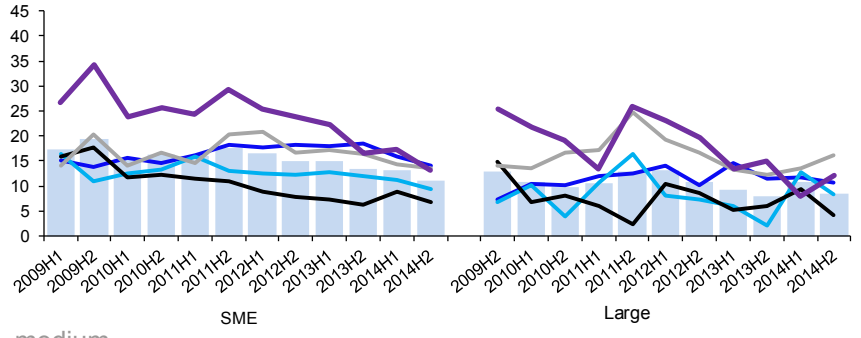
Although not shown in the Exhibit, the most important problem facing Spanish SMEs today is finding customers (27.2% of firms reported this to be a problem), followed by competition (18%). This situation contrasts with that in the second half of 2009, when access to finance was the main problem, overshadowing that of finding customers.

The breakdown by company size reveals that both in Spain and other countries, the problem of access to finance diminishes with increasing size. In the particular case of large firms, except for a one-off

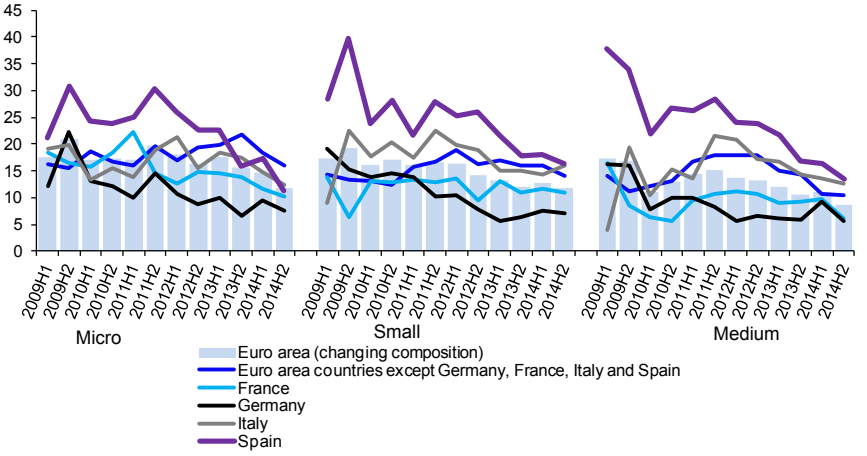
Exhibit 2

Percentage of firms considering that the most important problem they face is access to finance

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

period (the survey in late 2014), Spanish firms have always been above the eurozone average in terms of the percentage identifying access to finance as their main problem, the current difference being 3.5 pp (12.1% compared with 8.6%).

One point that stands out in the Spanish case is that in the most recent survey, the difference between SMEs and large firms in terms of the percentage identifying access to finance as their main problem had practically disappeared, dropping to less than a percentage point, compared with 9.2 pp in the previous survey.

An analysis disaggregated by SME size shows more Spanish firms than European ones in general identifying access to finance as their main problem. However, for all levels of firm size, the differences between Spain and the eurozone have been shrinking and they have disappeared altogether in the case of micro-enterprises. Meanwhile the difference is around 5 pp for other SMEs and a larger percentage of Spain's small firms still identify access to finance as their main problem (16.4%).

Has the availability of bank credit improved?

The ECB's questionnaire asks firms if there have been changes in the availability of finance, *i.e.* if availability

has improved or worsened. Exhibit 3 shows the difference between the percentage of firms that feel it has become more readily available and those that feel it has become scarcer. If this percentage has a positive value, it means that there has been a net improvement in the availability of credit. If it has a negative value, there has been a worsening.

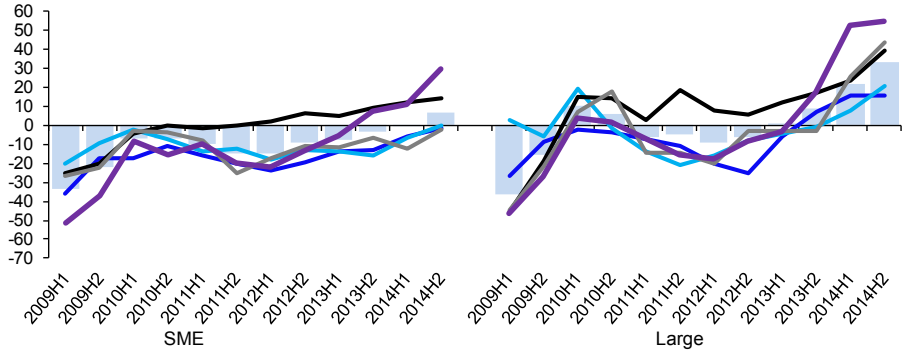
The first thing that stands out in the case of Spanish SMEs is that until mid-2013, the predominant view among firms was that bank credit had become less readily available. There has since been a significant improvement, with a net percentage of 30 pp taking a positive view of credit availability in the most recent survey round, dated June 2015. This perception has improved so much that the net percentage of Spanish SMEs considering credit to be more readily available now exceeds the eurozone average by 23 pp.

Large firms have also seen an improvement in the availability of credit since mid-2013, and their percentage exceeds that of SMEs by a wide margin, with a difference of 32 pp in the June 2015 survey (55 compared with 23 pp). In the latest survey available, large firms also reported a bigger improvement in the availability of finance.

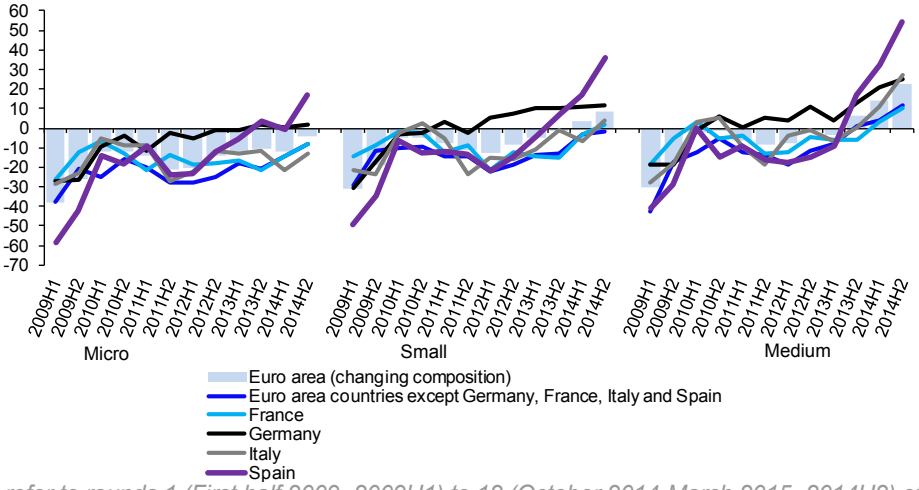
Exhibit 3

Difference between the percentage of firms considering bank credit availability to have increased and those considering it to have decreased

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

For Spanish SMEs, the availability of bank credit is clearly proportional to size. In previous years, when the percentage of firms taking the view that less finance was available predominated, it was micro-enterprises that suffered most from restrictions on access to credit. Similarly, in recent years, during the recovery, micro-enterprises have also perceived a smaller improvement, with a net percentage of 17 pp in the latest survey, compared with 36 and 54 pp for small and medium-sized enterprises, respectively. It is therefore the smallest firms (those with fewer than 10 employees) that have suffered from the restrictions on access to credit most and are benefiting least from the recovery.

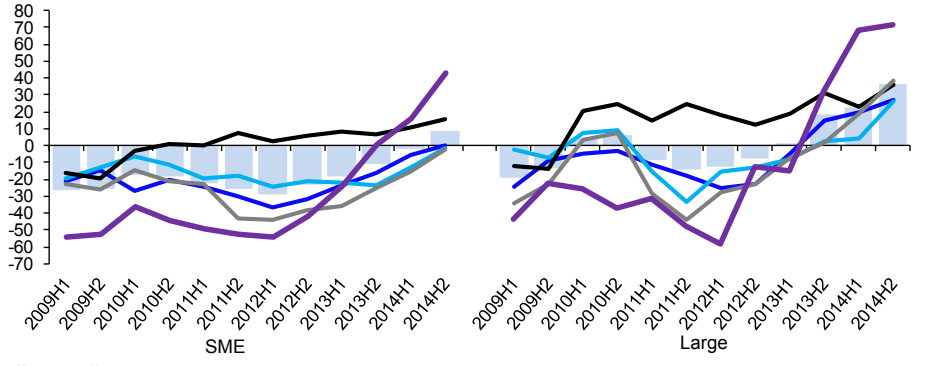
Banks' willingness to lend

The amount of bank financing available has also improved, and firms have the perception that banks have become more willing to lend. The percentage of Spanish SMEs that feel banks are unwilling to give credit no longer predominates. In the second half of 2012, the difference between those reporting an increase in willingness and those reporting a

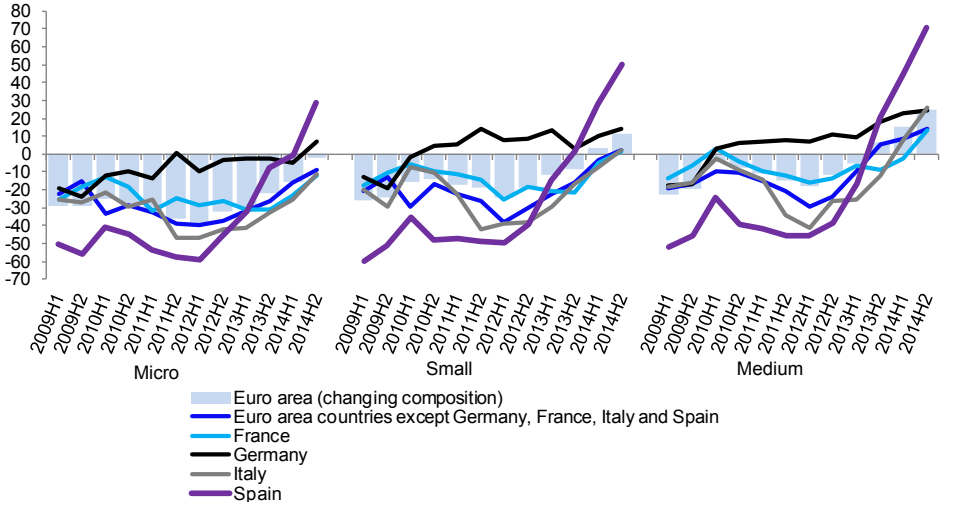
Exhibit 4

Difference between the percentage of firms considering the willingness of banks to lend to have increased and those considering it to have decreased

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

decrease in willingness was -54%. Since mid-2013, the net percentage is positive and higher than that of the euro area, the difference peaking at 42.7% in the most recent survey round. The situation among large Spanish firms is similar, but with higher net percentages, the most recent being 71.9%.

Both large Spanish firms and SMEs of all sizes perceive banks to be more willing to lend, although micro-enterprises have noticed the improvement least.

Among SMEs, firms of all sizes perceive banks to be more willing to lend, although micro-enterprises have noticed the improvement least, as the current net percentage reported is 28.4%, compared with 49.9% among small firms, and 71% among medium-sized ones. In all three groups, the percentages exceed the European averages.

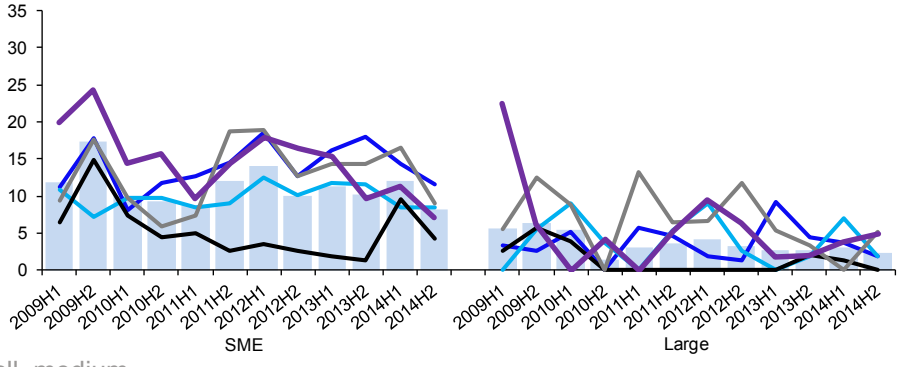
Access to bank credit: Rejection rate

What percentage of applications for credit have banks rejected? As Exhibit 5 shows, since the second half of 2013, the rejection rate for Spanish

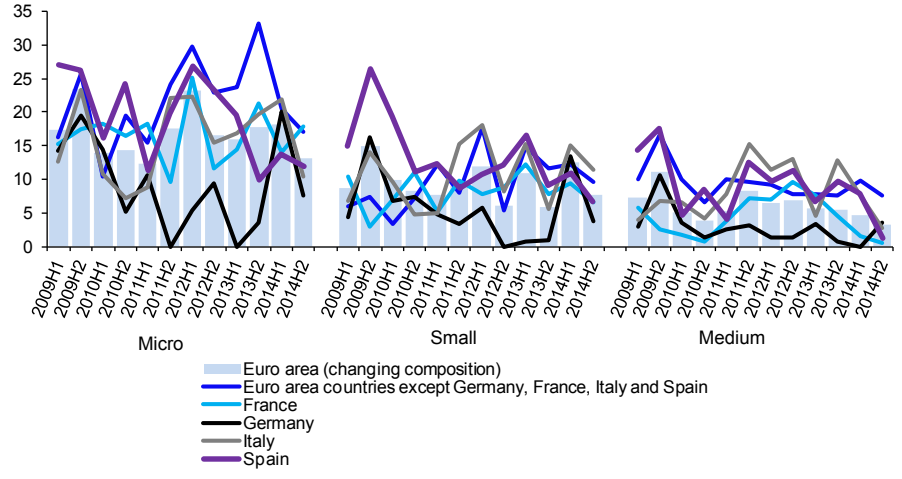
Exhibit 5

Percentage of firms' applications for bank loans that were rejected

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

SMEs has been lower than the eurozone average, and is currently 7% compared to the European average of 8.1%. This is the lowest recorded rejection rate in Spain and the eurozone.

The rejection rate among large firms is much smaller, although the difference with SMEs narrowed to just 2.1 pp in Spain in the last survey. This difference is smaller than that in the eurozone as a whole (5.8 pp). Currently, 4.9% of applications for bank credit by large Spanish firms are rejected, compared with a eurozone average of 2.3%.

Again, there are big differences between the three groups of SMEs, such that the likelihood of obtaining bank credit increases with company size. The rejection rate in Spain is currently 11.9% for micro-enterprises, 6.7% for small firms, and just 1.2% for medium-sized firms. It is striking that the rejection rate for medium-sized firms is lower even than that for large firms (2.6%). Rejection rates for all three types of SMEs in Spain have dropped below the eurozone average in the last survey referring to the period October 2014-March 2015.

Conditions for access to bank credit: Interest rates, fees and collateral requirements

Credit availability is essential to finance consumer spending and investment. Fortunately, as discussed, credit for new operations is growing in Spain in the case of business loans for under a million euros, as well as for consumer credit and household mortgages.

However, it is important not only that bank credit become more widely available, but that lending conditions, particularly in terms of interest rates, fees and collateral requirements, also improve.

In the case of interest rates, the latest information available shows a clear turning point for Spanish SMEs, as, for the first time since the ECB began its survey, a larger percentage of firms report interest rates to have fallen than report them to have risen, -33% in net terms (Exhibit 6). This is worth highlighting as this percentage rose to a positive 80% in net terms in the first half of 2011 and remained high until the second half of 2013. It is also worth noting that it is the first time that the situation in Spain is better than that in the eurozone, as the net percentage reported is currently -33% in Spain compared to a net percentage of -25% in the eurozone.

The latest ECB survey shows a clear turning point for Spanish SMEs as regards to interest rates. For the first time since the survey began, a larger percentage of firms report interest rates to have fallen than report them to have risen.

The reduction in borrowing costs for large Spanish firms began earlier, as since the second half of 2013 the percentage of firms holding the view that interest rates had dropped exceeded that of firms considering them to have risen. The net percentage reported is currently -70.2%, much higher than in the case of SMEs (-33%). More large Spanish firms also perceive there to be a drop in interest rates than do their European peers, with percentages of -70.2% and -56.6% being reported, in net terms, respectively.

Once again, among SMEs, it is the micro-enterprises that have seen a smaller decrease in the cost of financing, as the difference between those considering banks to have raised interest rates and those considering them to have cut them is currently -12.3%, compared to -36.8% among small firms, and -65% among medium-sized firms. Moreover, while among micro-enterprises the net percentage reported is only negative in the most

recent survey, among small and medium-sized firms it was already negative in the survey covering the period April-September 2014. Another point that stands out is that the net negative percentages for the three types of SMEs are higher (in absolute terms) in Spain than the euro area, such that the drop in interest rates on bank loans was felt more intensely by Spanish firms.

As well as a cut in interest rates on bank loans, there has also been an improvement in other borrowing costs, such as bank charges, although this does not mean they have fallen. Indeed, a larger percentage of Spanish SMEs still consider them to have gone up rather than down, although the net percentage seeing a rise has decreased markedly. In particular, after reaching a net value of close to 80% in late 2011 and early 2012, it has now fallen to 12.5%, and is below the European average (26%) for the first time, above only Germany.

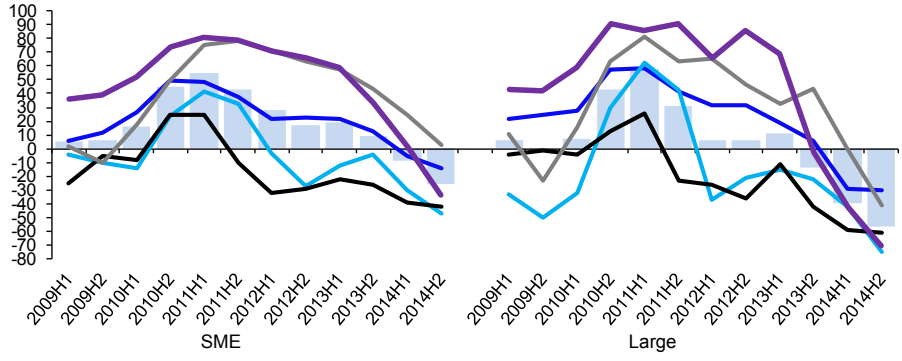
In the case of large firms, there has also been a strong drop in the net percentage reported,

Exhibit 6

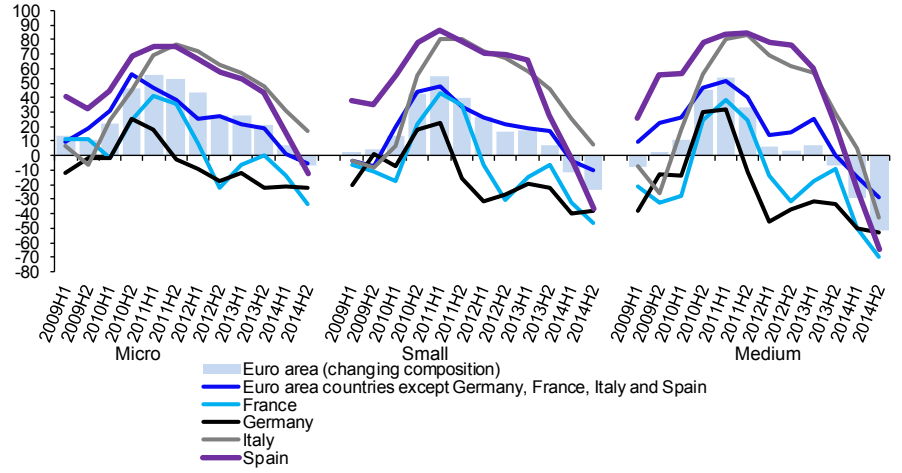
Conditions of access to bank credit. Difference between the percentage of firms considering the variable analysed to have increased and those considering it to have decreased

A) Interest rate

a) SME and large



b) Micro, small, medium



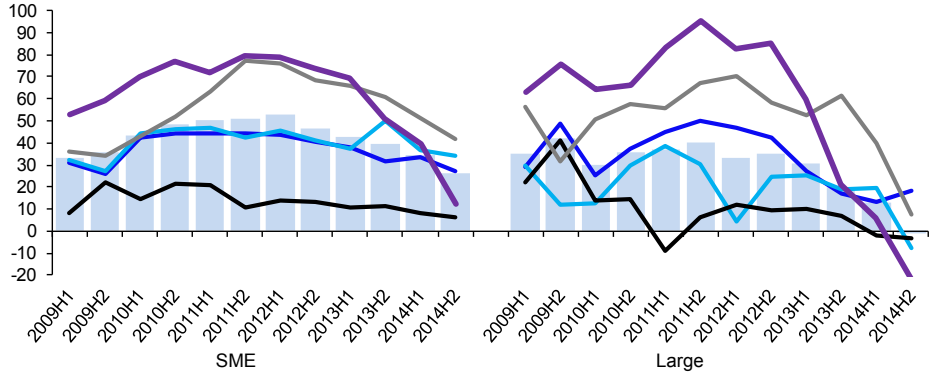
Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

Exhibit 6 (Continued)

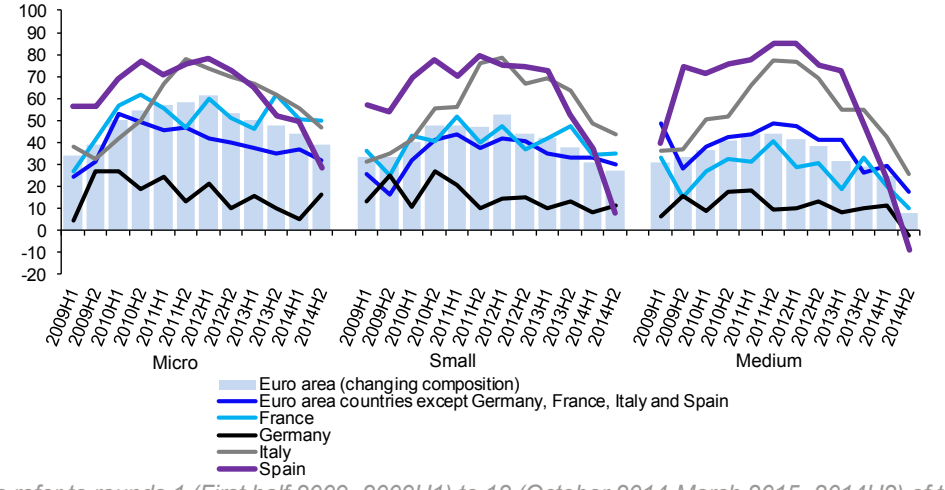
Conditions of access to bank credit. Difference between the percentage of firms considering the variable analysed to have increased and those considering it to have decreased

B) Other borrowing costs

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

with a negative value (-21.5%) which is larger in absolute value than the eurozone (-1%).

All three types of SMEs have seen an improvement, with a net negative percentage among medium-sized firms (-9%) that has an absolute value higher even than among German counterparts. Among micro-enterprises, there are still 28% more firms that consider non-interest borrowing costs to have increased than those considering them to have decreased, although the value of 28% is the lowest at any time in the period analysed.

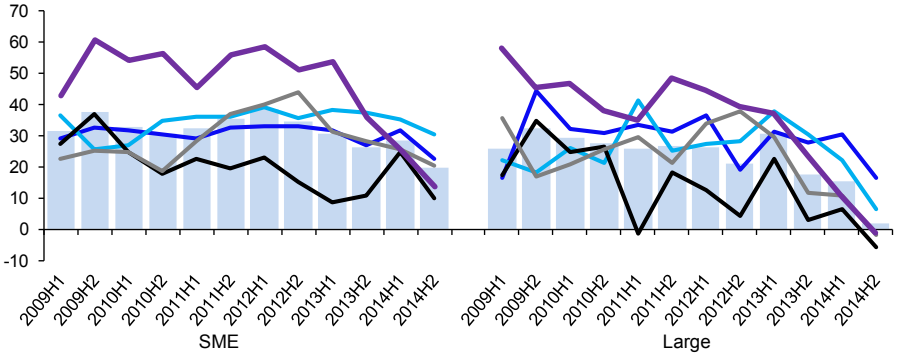
Finally, a similar picture emerges in the case of the collateral requirements to obtain bank credit as that for borrowing costs: a) the situation has improved, although the net percentage reported is positive for Spanish SMEs (13.6% compared to 19.8% for European SMEs); b) the net percentage reported by large Spanish firms has

Exhibit 6 (Continued)

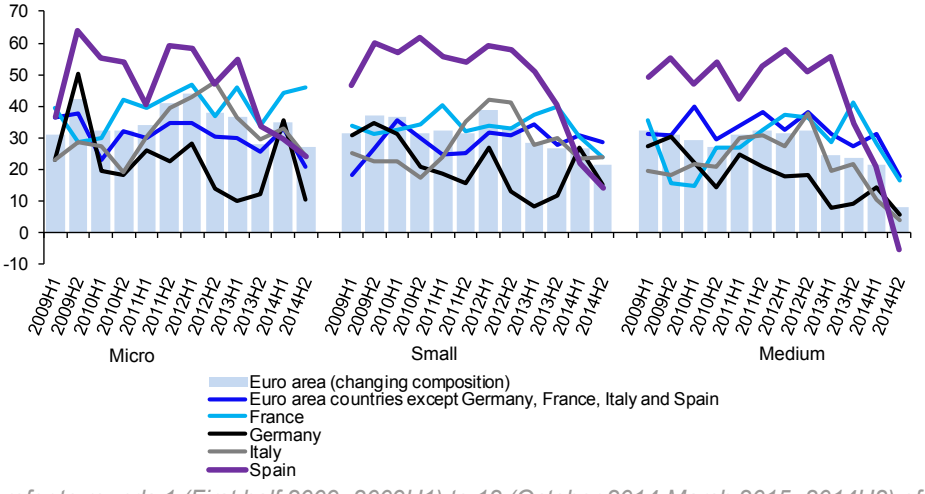
Conditions of access to bank credit. Difference between the percentage of firms considering the variable analysed to have increased and those considering it to have decreased

C) Collateral requeriments

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

turned negative for the first time (-1.1% compared with a positive value of 2% in the eurozone); and c) micro-enterprises perceive the improvement in collateral requirements least, although the current situation is the best recorded.

Bank credit: From collapse to recovery

Based on the overall picture that emerges from the information available for the range of variables relating to Spanish firms' access to bank finance, it can be concluded that:

a) Late 2014 marked a turning point as regards the stock of outstanding business credit, which increased for the first time since 2010.

b) Loans of less than a million euros for new operations (typical of SMEs) have been growing since end-2013. This credit tranche has expanded by 10.3% over the last twelve months

(from June 2013-May 2014 to June 2014-May 2015). Larger transactions have begun to grow since February 2015, and although the cumulative amount has dropped by 9% in the last twelve months, this drop is much smaller than that twelve months earlier (-19.8%).

c) The difference between the interest rates Spanish SMEs and their European peers pay for bank loans has dropped by more than half since end-2013, and currently stands at 57 bp. The spread on loans of more than a million euros has also narrowed, currently standing at 45 bp. In May 2015 (the most recent data available), Spanish SMEs paid an interest rate 142 bp higher than large firms, a similar difference to that existing in the eurozone (130 bp).

d) The spread over the 12-month Euribor Spanish banks charge on a business loan of less than a million euros has dropped 91 bp in the last twelve months (from May 2014 to May 2015), and the spread on larger loans has fallen by 23 bp over the same period. The spread on loans of less than a million euros has been falling since May 2013 (down 156 bp).

e) Despite the improvement in access to finance, it remains the biggest problem faced by 13.1% of Spanish SMEs, a percentage slightly above the European average (11.1%). In the latest survey (referring to the period October 2014 to March 2015), this percentage was the lowest since the ECB's surveys began in 2009. This positive fact merits highlighting, given that at one point, 37.7% of Spanish SMEs reported it to be the main problem they faced, *i.e.* more serious than finding customers.

f) The rejection rate on bank loan applications of Spanish SMEs is currently 7%, a smaller percentage than that reported by European SMEs as a whole (8.1%). The probability of rejection is lower among large companies (4.9% in Spain compared with 2.3% in the euro area). Among SMEs, the rejection rate decreases with size, as micro-enterprises report a rate of 11.9%, small firms, 6.7%, and medium-sized firms, 1.2%. All three rates are currently lower in Spain than the eurozone, which is a clear indicator of the improvement in access to credit in Spain.

g) The perception among Spanish firms is that banks have become more willing to lend. This perception is stronger in Spain than among European firms on average, and emerges more strongly in the latest ECB survey. At present, in the case of Spanish SMEs, the difference between the percentage taking the view that banks are more willing to lend and those taking the opposite view is 42.7% (compared with 9% in the eurozone). This difference rose to 71.9% among large firms (36.4% in the euro area), but dropped to 28.4% (-1.7% in the euro area) among micro-enterprises.

h) As well as reporting that interest rates on bank loans have declined, firms also consider the other conditions on access to finance (fees and collateral requirements) to have improved, although those SMEs considering them to have increased still outnumber those that do not. Conversely, the majority of large firms consider conditions to have improved. It is in this most recent survey that the other financing conditions are reported to have improved most.

In short, putting all the pieces together (progress of lending, interest rates, spreads on Euribor, rejection rate, credit access conditions, banks' willingness to lend, etc.), the most recent information available clearly shows an improvement in Spanish firms' access to bank finance, thus breaking the trend over recent years. The improvement has been driven by progress towards banking union (reducing the differences in borrowing costs between countries), the ECB's measures (which have lowered the cost of credit and made it more widely available), restructuring of the Spanish banking sector (enabling banks to lend more and on better terms), and the economic recovery (fostering more solvent credit demand).

Trends in Spanish corporate bond issuance

Pablo Guijarro, Isabel Gaya and Jorge Pardo[1]

Recent factors, ranging from monetary policy measures, attractive conditions and regulatory considerations, among others, are driving the trend of increased reliance on capital markets financing relative to traditional bank financing in Europe, including in Spain. While the trend largely applies to medium-sized and large firms, small businesses should benefit from the greater availability of previously tied-up bank credit.

The crisis that began in 2007 marked a before and after for the global financial system. The ensuing credit crunch, the prevalence of historically-low rates around the world supported by central banks and the impact of stricter banking regulations have fuelled global, and in particular, European corporate bond issuance. The result has been a deepening of debt capital markets and a reduction in reliance on traditional bank credit. Increased European debt issuance has largely been underpinned by the emergence of two major trends: i) the surge in euro medium term notes; and ii) the increased popularity of the reverse Yankee bond, as more and more US issuers take advantage of favourable conditions in Europe. This evolution in European corporate debt markets has been echoed in Spain, driven by the reduction in benchmark rates in response to ECB intervention, the compression of Spain´s risk premium, and the improved financial health of corporate issuers. While these trends in Europe and in Spain tend to benefit primarily medium to large issuers, smaller companies too can take advantage of the increased availability of bank financing previously earmarked for larger companies.

The crisis that erupted in 2008 and its impact on the global financial system highlighted the importance of diversified sources of funding to sustained economic development. Financial turbulence not only exposed bubbles in certain sectors, such as real estate, it also brought to the surface the structural weaknesses derived from excessive dependence on a single source of financing.

As a result of the crisis, Europe's companies have experienced tremendous difficulties in obtaining the funding needed to sustain their operations and investments in light of the predominance of bank financing as a percentage of their total financing mix. (Even today, nearly 80% of corporate borrowing comes from banks.) In contrast, bank weakness had a more short-lived impact on the Anglo-Saxon economies and a less protracted effect on private sector financing. This is in part due to the fact that based on 2014 figures, virtually 75% of the borrowings secured by companies in these economies came from the capital markets.

In recent months, we have been witnessing the gradual correction of this profound structural

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

gap in the funding market. Continental Europe's companies are increasingly looking to tap the capital markets, diversifying their borrowing sources by issuing bonds which in many instances complement their bank loans and in others (less commonly) have replaced their bank financing altogether. This propensity to issue debt (bonds, debentures, promissory notes) has gathered traction despite the fact that the financing conditions offered by the capital markets are no longer so attractive in price terms. (Corporate spreads have been widening systematically throughout 2015.)

This article details, firstly, with the main factors driving the change underway in private sector financing dynamics, going on to then analyse the general trends shaping the European market and wraps up with an overview of the Spanish market.

General trends in the corporate debt market

In recent years, we have observed a growing propensity on the part of corporates to tap the capital markets in order to raise the funds they need to finance their business activities. This trend is being largely shaped by an effort to diversify sources of financing in order to prevent a repetition of the crunches experienced in the wake of the 2008 crisis.

There has been a structural shift in financing conditions in favour of capital markets. Larger corporates are reducing their massive reliance on bank financing, while smaller companies will remain dependent on traditional sources.

The first caveat related to the growing participation by non-financial corporates in the capital markets is the fact that this alternative is only an option for large companies and not for SMEs. Only larger companies have the capacity to assume the administrative and transparency burden required of them, while demonstrating sufficiently large financing needs as regards customary issuance volumes (250 million euros being the minimum offering size).

Large companies are also better able to absorb the fixed costs typically associated with any issuance, diminishing average costs for these issuers.[2] In order to address this matter, many countries, including Spain, have launched alternative fixed income markets designed to facilitate access to capital markets by medium-sized entities. Small companies, however, remain dependent on bank financing, as they are not big enough to accommodate issuance requirements and costs in any of these markets.

This is why capital market development is crucial. By covering large and medium-sized companies' financing needs, the banks are freer to respond to demand for funds from smaller companies.

Having made this distinction, we list the factors that have been fuelling debt issuance in the capital markets by large companies, for the most part, and, to a lesser extent, by medium-sized enterprises (through multilateral exchange systems):

- *Access to sources of financing that offer repayment-at-maturity structures and generally longer maturities,* in contrast to the bias towards the shorter-dated paper offered by banks and their predominantly bullet-amortisation structures. These characteristics have prompted companies to opt for debt financing even when it may have been more expensive than traditional bank debt.

- *Reinforcement of banks' capital requirements in Europe,* which has led to a reduction in maturity of loans to non-financial corporations, affecting

[2] SMEs' reduced transparency and lack of external credit ratings tend to increase their borrowing costs, ultimately forcing smaller-scale companies to resort to banks.

their capability of funding investment projects with long maturity profiles.

- *Austerity efforts made by most eurozone economies in order to reduce public deficits,* which have reduced public-sector funding costs in capital markets. This reduction has helped to alleviate the crowding-out effect observed between 2009 and 2011, enabling corporates to return to the capital markets on more favourable terms.

- *The search for investment alternatives among risk asset classes against the backdrop of ultra-low rates,* shaped by expansive monetary policy on the part of central banks, particularly the ECB.

- *Renewed confidence on the part of economic agents thanks to recovery in the eurozone coupled with the strength of the US economy* that is reflected in the improvement of activity and consumption indicators, as well as in the labor market.

As a result, we are observing a slow correction in the high levels of dependence on bank financing presented by the European market in 2008. The share of non-bank financing in Europe has climbed eight percentage points to around 20% at present, compared to 12% in 2008. There is still a long way to go, especially if we compare this percentage with that of the US, an economy in which the capital markets were providing the private sector with 60% of its financing needs in 2008, a level which has since risen to 75%.

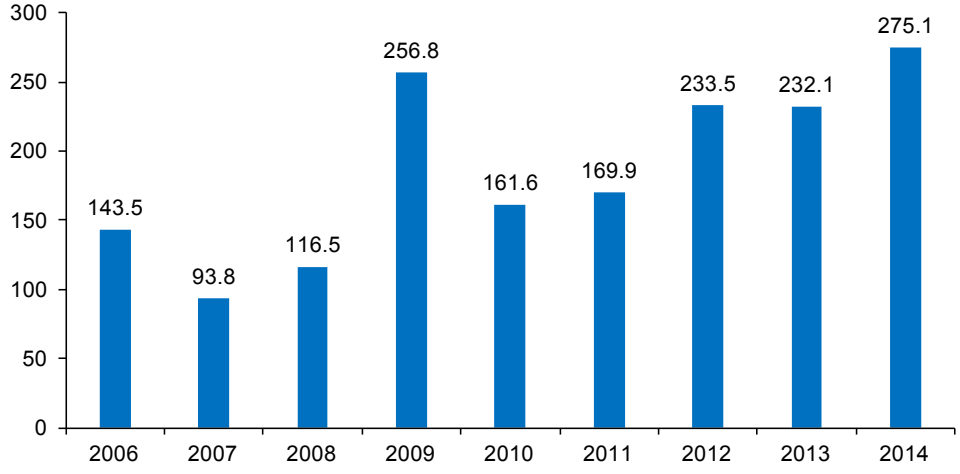
Trends in Europe

As stated previously, the massive bond buyback programme carried out by the ECB has fuelled appetite for corporate bonds. The fall of sovereign bond yields in response to quantitative easing has made private sector issues relatively more attractive. As a result, we have seen a 64% year-on-year surge in euro-denominated corporate bond issuance in Q12015, as well as an increase in the duration of the bonds issued.

As a result, European debt market issuance was higher in the first quarter of 2015 than in the entire history of the series. This general dynamic is underpinned by two major trends: the surge in

Exhibit 1

Debt issuance volume by financial institutions and non-financial corporates in Europe (€ billion)



Sources: Bank of Spain, Dealogic, AFI.

EMTN (euro medium term notes) issuance and the advent of reverse Yankee bonds.

■ *Euro medium term notes*

The major issues carried out by companies such as Gas Natural, Iberdrola and Telefónica have taken the form of euro medium-term note programmes (EMTN), which consist of issuance by multinationals of bonds outside their home markets (via the 'euromarket') on a continuous basis under shelf programmes (which is less expensive than issuing one single larger issue).

These programmes afford issuers much laxer issuance requirements and faster time-to-market, while also offering enhanced liquidity.

■ *Reverse Yankee bonds*

European issuers have long been tapping the US market to raise financing in dollars (Yankee bonds); now we are seeing the reverse trend: US issuers coming to the European markets to issue bonds in euros, a trend that has grown significantly in the past year.

We estimate that, so far, in 2015, US issuers have issued three times more in euros than the previous year, with many US corporates raising money in the European markets for the first time. These issues are known as reverse Yankees, symbolising the reversion of the traditional financing process.

One of the factors driving this trend is the desire to take advantage of Europe's historically-low prevailing interest rates, which are currently below their US counterpart. The economic outlook for both regions and the measures taken by the monetary authorities suggest that the rate differential will persist and may even widen towards the end of 2015 and in the first half of 2016. The draw of euro issues is therefore a factor that could well have a significant influence on capital market trends during the next 12 months.

Table 1

Debt issuance volume by US financial institutions and non-financial corporates in euros
(€ million)

US Financial institutions and Non-financial corporates		US Non-financial corporates (without Financial institutions)	
2014	72,173	2014	37,218
2015 (*)	57,944	2015 (*)	39,463

Note: (*) Data as of May 2015.
Source: Bloomberg, AFI.

In a not unrelated trend, US issuers are fitting their euro financing policy within their exchange rate management strategy, of growing importance in light of the current environment of dollar appreciation. By raising funds in euros, US companies with businesses in Europe can achieve a natural exchange rate hedge as they will repay this debt in the same currency in which they generate profits. Moreover, to the extent that these companies expect dollar appreciation to continue, their effective borrowing costs may come down, as debt service in dollar terms will get cheaper.

Whereas European and Spanish issuers have traditionally issued dollar-denominated bonds, we are now seeing the opposite trend (US corporates issuing bonds in euros). These bonds are known as reverse Yankees.

The arrival of US issuers to the European market is certainly a favourable trend. On the one hand, this will make debt markets deeper and more liquid, one of the objectives of any bank disintermediation process. It also offers euro investors a product with which to diversify their portfolios, access to issuers with high credit ratings and exposure to new geographies. In short, although US bonds placements by European

Exhibit 2

US financial institution and non-financial corporate euro bond issuers, Jan-May 2015 (€ millions)

Source: Bloomberg, AFI.

issuers will continue to outweigh reverse Yankee bonds, the growth in these reverse flows evidences increasingly open European capital markets, which can only be welcome news in terms of financial disintermediation at the global level.

Trends in Spain

The trend observed in the capital markets at the European level has been echoed in Spain, which was hit very hard between 2008 and 2011 by the impact of the crisis on public finances. Deteriorated fiscal accounts, coupled with investors' loss of confidence in the sustainability of the eurozone, drove an unprecedented increase in Spain´s public sector financing costs, which virtually crowded-out the private sector issuers, not only as a result of the costs they had to bear, but also due to lack of supply.

Today, the strong recovery in Spain´s fixed-income market is evident through: i) the drop in average yields from 6.3% in 2011 to 2.4% in Q22015 (which translates into a decline in cumulative terms of 62.4%); and ii) growth in issuance volumes (a cumulative 42.3% between Q22011 and Q22015). The growth in corporate bond issuance contrasts with the correction in loans extended to large companies, which have shrunk by 37.3% between 2011 and 2015.[3]

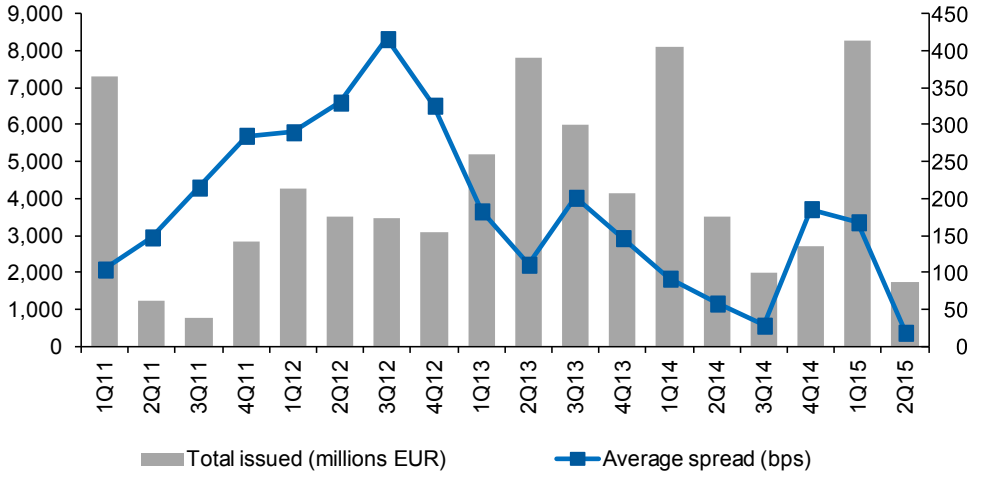
Strong growth in corporate debt issuance in Spain has been driven by: i) the downward trend in benchmark rates, in part shaped by ECB intervention; ii) the sharp drop in the Spanish risk premium; and iii) the improved financial health of non-financial corporate issuers.

As alluded to previously, the strong performance by the Spanish corporate debt market has a lot to do with its relationship to the public bond market, as corporate financing rates are ultimately the

[3] Data as of April 2015.

Exhibit 3

Total issuance (€ m) and average issue spread (bp)



Sources: Bank of Spain, Bloomberg, AFI.

sum of the benchmark rates and spreads applied on the basis of issuers' creditworthiness.

Against this backdrop, considering an average issuance spread of 142 basis points and an average term of 12.4 years in 2015, the yield demanded by investors has fallen to 2.4%, compared to a yield in 2011, at a similar spread and for an average term of 6.1 years, of 6.3%. In addition to consolidating expectations for economic recovery, which is translating into higher corporate profitability and solvency, the reduction in the Spanish country risk premium, which has dropped from 630bp to 115bp today, has undeniably had a hugely positive effect on the re-opening of the capital markets.

This investor appetite for corporate bonds has encouraged newcomers to enter the market and not necessarily only listed or private sector companies. At the end of 2014, El Corte Inglés issued bonds for the first time, while public entities such as Adif and Canal de Isabel II have also made their bond market débuts. This trend has also paved the way for longer maturities and even unrated issues (*e.g.,* ACS, which issued 500 million euros of unrated 5-year bonds at a yield of 2.7%).

Table 2

Trend in the characteristics of the debt issued by Spanish issuers

	2011	2012	2013	2014	2015	Average
Amount (millions of euros)	12,125	10,800	23,161	16,317	10,025	72,428
Average life (years)	6.07	6.15	7.15	7.84	12.41	7.72
Average Yield To Maturity (%)	6.28	4.73	3.36	3.06	2.36	3.92
Average Spread (bp)	157.91	340.42	156.74	92.32	141.97	167.77

Source: Bloomberg, AFI.

Table 3
Debt issuance volume by issuer type
(€ billion)

Issue date	Issuer	Sector	Maturity	Amount issued	Spread	YTM	Rating
14-Jan-15	ARCELORMITTAL	Iron/Steel	14-Jan-22	750	265.00	3	BB+
21-Jan-15	GAS NATURAL FENOSA FINAN	Electric	21-Jan-25	500	75.00	1	BBB
27-Jan-15	IBERDROLA INTL BV	Electric	27-Jan-23	600	65.00	1	BBB+
28-Jan-15	ADIF ALTA VELOCIDAD	Transportation	28-Jan-25	1,000	119.40	2	BBB
6-Feb-15	ENAGAS FINANCIACIONES S.A.	Gas	6-Feb-25	600	65.00	1	A-
19-Jan-15	HIPERCOR SA	Retail	19-Jan-22	600	-	3	NR
26-Feb-15	CANAL ISABEL II GESTION	Water	26-Feb-25	500	98.00	2	BBB
13-Mar-15	CAMPOFRIO FOOD GROUP S.A.	Food	15-Mar-22	500	-	0	BB-
25-Mar-15	ENAGAS FINANCIACIONES S.A.	Gas	25-Mar-23	400	53.00	1	NR
1-Apr-15	ACS ACTIVIDADES CONS Y S.	Engineering & Construction	1-Apr-20	500	271.70	3	NR
31-Mar-15	OBRASCÓN HUARTE LAIN S.A.	Engineering & Construction	15-Mar-23	325	-	6	B+
25-Mar-15	REPSOL INTL FINANCE	Oil&Gas		1,000	356.00	4	BB+
25-Mar-15	REPSOL INTL FINANCE	Oil&Gas	25-Mar-75	1,000	395.00	5	BB+
24-Apr-15	RED ELÉCTRICA FIN SA UNI	Electric	24-Apr-25	500	65.00	1	BBB+
5-Jun-15	INMOBILIARIA COLONIAL S.A.	Real Estate	5-Jun-19	750	-	2	BBB-
5-Jun-15	INMOBILIARIA COLONIAL S.A.	Real Estate	5-Jun-23	500	-	0	BBB-

Source: Bloomberg, AFI.

It is also important to highlight the role being played by Spain's alternative bond market, known as MARF by its Spanish acronym, in fostering the market's development. In its first year in existence, it supported trading in the order of 231 million euros of bonds and debentures[4] and two promissory note programmes, totalling 130 million euros. The advent of the MARF has improved direct access to certain financial resources on the part of companies which, due to their specific circumstances, were not able to tap the official secondary markets (*e.g.,* medium-sized companies). MARF listing requirements are more flexible and less costly than those of their official secondary market counterpart (AIAF).

Outlook and conclusions

The corporate fixed-income market has sustained sharp growth in recent months at both the European and Spanish levels, reducing non-financial corporate issuers' traditional dependence on bank financing in Continental Europe.

Despite this trend, the structural differences between the financing markets in Anglo-Saxon

[4] Average issue size: 42.5 million euros.

economies and Continental Europe persist, with non-bank financing accounting for just one-fifth of the funding raised by non-financial corporates in Europe compared to nearly 80% in the US. There is, therefore, still room for additional growth in capital market funding in Europe.

Note that this diversification phenomenon is benefitting large and medium-sized companies, while smaller companies face structural constraints that prevent access to capital markets and alternative fixed-income markets. That being said, the opening up of the fixed-income market not only benefits larger issuers by providing protection against financial system instability, it is also important for small companies, as it frees up bank lending to better address their funding needs.

The growth of non-bank and alternative financing sources in Spain

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

Despite the continued predominance of bank finance in Spain, in recent years, there has been a notable improvement in the array of funding sources available to firms, including alternative finance. While these new, innovative funding channels are still at a very early stage of their development, their attractiveness relative to traditional finance translates to expectations of considerable growth in the coming years.

Alternative finance is generated significant interest in many economies. This is in part due to the realization that diversification of funding sources may alleviate firms´ financial pressures during a credit crunch, particularly in the case of SMEs. While the Spanish private sector still depends to a large extent on bank funding, there has been a relative improvement in the array of funding sources accessible to firms (including SMEs) in recent years. The latest regulations in Spain further aim to diversify the types of available funding as well as to incentivize banks to pay more attention to SME lending. Some of these sources —such as debt financing, the alternative stock market and venture capital— are showing promise. At the same time, it is still too soon to assess the evolution of newer, more innovative channels —such as crowdfunding or Peer-to-peer (P2P) business lending, which are at a very incipient stage of development. Although total funding from these sources amounted to only 62 million euros in 2014, their growth over the coming years is expected to be considerable.

Banking and alternative finance

The realization that diversification of funding sources helps alleviate financial tensions at times of crisis has elevated the importance alternative funding sources. That said, the novelty of the topic has generated some confusion as to what the term alternative finance really means. Traditionally, it described the funding of firms and individuals beyond banks and standard debt and equity markets. In the current business environment, there are more restrictive definitions that just refer to financial activities that are developed through entirely new channels, such as business-to-business (B2B) online lending or crowdfunding.

This article defines alternative finance as the non-bank funding alternatives for individuals and SMEs. These are the economic agents that depend to a larger extent on bank financing

[1] Bangor Business School and FUNCAS.

[2] University of Granada and FUNCAS.

in a country like Spain. This definition thus makes alternative financing synonymous with disintermediation. At the beginning of the 1990s, the concept of disintermediation became popular in a business environment in which US banks faced increasing competition from mutual and pension funds, insurance companies and other non-bank financial competitors. There was even concern that banks would rapidly lose their predominant role in the financial system as other intermediaries gained importance. However, the repeal of the Glass–Steagall Act and the approval of the Gramm-Leach-Bliley Act in the US permitted commercial banks to get involved in many activities that had been forbidden or restricted before (*i.e.* securities trading, industrial stakes). As a result, banks maintained their position as leading intermediaries in the US financial system.

Rather than disintermediation, Spanish banks have enjoyed a "reoriented intermediation." Instead of facing increasing competition from other intermediaries, they became big players in insurance, pension funds and other related businesses.

In countries like Spain (and also Germany and Japan), banks have been allowed to offer a wider range of services under what is called a "universal banking model." Therefore, rather than disintermediation, Spanish banks have enjoyed a "reoriented intermediation." In particular, instead of facing increasing competition from other intermediaries, they became big players in insurance, pension funds and other related businesses. This increased the dependence of the private sector on bank financing. Twenty years later, the Spanish private sector still depends to a significant extent on bank funding. Analysts and policy makers have traditionally advocated for a wider array of funding sources for households and firms, in particular in private equity and debt markets.

The restructuring of the Spanish banking system during the recent crisis has also focused attention on alternative finance. The surveillance of the Spanish financial sector under the financial aid program to Spanish banks includes some recommendations from the European Commission, the IMF and the ECB on this front. A recent example is given in the IMF report "Spain: Concluding Statement of the 2015 Article IV Mission" where one of the statements reads: "efforts should continue to strengthen SMEs´ access to market-based financing. Bank lending will remain dominant, and initiatives such as the Juncker plan [a pan-European plan for investment] will be helpful in this regard. However, non-bank financing should be developed further, including via alternative exchanges, venture capital, and securitization, while improving transparency and accuracy of financial reporting."

In line with the IMF´s recommendations, from the demand perspective, alternative financing refers to the availability of non-standard funding channels for firms. These channels are connected to a new environment in the services industry where marginal costs are rapidly falling, and where digitalization and social interaction are dominating the transformation of many sectors. In this sense, Allen *et al.* (2012) suggest that financing from non-market, non-bank external sources will likely become as important as bank funding globally. Moreover, alternative finance appears to be the dominant source of funds for firms in fast-growing economies.

Considering this emphasis from private and public sources on the growing importance of alternative financing channels, it could be argued that banks will have a diminishing role in the economy in the near future. However, this is not necessarily true. Alternative financing may emerge as a complement rather than a substitute for bank lending. A revealing reference is Berger and Udell (2006), which suggest that lending relies

on different technologies and that the structure of these technologies is often oversimplified. A common oversimplification is the treatment of some of these bank lending technologies as a homogeneous group, unsuitable for lending to less transparent SMEs. A frequent misleading conclusion is that large institutions are at a disadvantage in lending to SMEs. The anecdotal evidence suggest that banks have been finding new ways of building lending relationships with firms and also that the same banks have developed technologies such as factoring, leasing and other forms of financing that are not frequently attributed to them.

Given the growing importance of alternative finance, it could be argued that banks will have a diminishing role in the economy in the near future. However, this is not necessarily true. Alternative financing may emerge as a complement rather than a substitute for bank lending.

If we reinterpret these lessons from Berger and Udell (2006) in the post-crisis context of the Spanish financial system, we observe that new forms of non-bank funding are emerging in the country but also that there is now a challenge for Spanish banks to find new and more specialized ways of providing financing to SMEs. In this sense, alternative finance also presents a challenge for banks to transform the way they do business.

There is now a challenge for Spanish banks to find new and more specialized ways of providing financing to SMEs. In this sense, alternative finance also presents a challenge for banks to transform the way they do business.

In this note, we analyse some of the recent regulations that aim to promote new funding sources in Spain as well as the evolution of some of these new channels.

The regulatory environment

There are various regulatory initiatives related to the promotion of alternative funding sources in Spain. Most of them were approved in 2014 and are being implemented in 2015. The main one is the Law on Promoting Business Finance, which was approved in April 2014. The law is both directly and indirectly related to bank business as it aims to make bank financing more flexible and more accessible, and, at the same time, to strengthen other sources of non-bank financing. It also seeks to reinforce the supervisory powers of the Spanish Securities Market Commission. The law tries to address the fact that, according to the government, 75% of SME financing in Spain comes from banks. The law states that any bank or credit institution wishing to reduce the financing it provides to an SME —that is fully up-to-date with its payment obligations— will be required to notify the SME three months in advance. Additionally, the SME is entitled to request its payment history from the bank, including a credit score.

Furthermore, regulation governing securitisations has been reformed to simplify them and make them more transparent. Importantly, banks are encouraged to securitize not only mortgages and large corporate loans but also loans to SMEs.

The Law on Promoting Business Finance also aims at fostering new financing instruments. In particular, the Alternative Stock Market (Mercado Alternativo Bursátil, MAB) is strengthened. Specifically, the law adds flexibility to the requirements for companies wishing to move from the MAB to the official Spanish Stock Market. For

instance, when the share capital of a company listed on the MAB reaches a threshold of 500 million euros.

The law also seeks to help limited liability companies issue fixed-income securities by simplifying the mechanisms and the requirements to do so. Moreover, it strengthens the supervisory, inspection and penalization powers assigned to the National Securities Market Commission (Comisión Nacional del Mercado de Valores, CNMV).

A particularly innovative feature of the Law on Promoting Business Finance is its first time ever attempt at introducing regulation of crowdfunding[3] in Spain. The idea is to ensure these platforms are transparent, and to provide and/or facilitate a connection between investors and the investment projects in such a way for them to require authorization and supervision by the CNMV with support —especially in terms of loan activity— from the Bank of Spain. Two different types of investors for crowdfunding are defined: accredited and non-accredited. Accredited investors are institutions, companies with over 1 million euros of assets, a turnover of 2 million euros or 300,000 euros of equity and any individual or legal entity whose income level exceeds 50,000 euros per annum or have an asset value in excess of 100,000 euros and expressly request to be treated as such. The rest are non-accredited investors and will not be permitted to globally invest more than 10 billion euros per year.

From the supervision side, crowdfunding platforms fall under the authorisation, supervision, inspection and sanction of the CNMV. The Law restricts the range of services that these platforms may provide. In particular, they are not allowed to offer investment advice or process payments (unless they apply for a license as hybrid payment institutions). An important aspect of the crowdfunding regulation is that it protects non-professional investors. Platforms are required to publish certain information on applicants and their projects.

Another representative aspect of alternative funding sources is venture capital, the funds created to pool resources to finance investments in newly created projects and start-ups. On November 12th, 2014, the Spanish Parliament enacted new law 22/2014, regulating venture capital and private equity entities, other closed-ended investment entities and investment managers for closed-ended investment entities (Law 22/2014). This law harmonizes the Spanish regulation with Directive 2011/61/EU, of the European Parliament on alternative investments fund managers (AIFMD).

Law 22/2014 derogates former law 25/2005, which until now regulated Spanish venture capital and private equity and establishes a new legal framework for venture capital and investment managers and other closed-ended investment entities. It introduces important measures to promote fundraising among investors (including tax advantages) and provides alternatives to bank financing. With this law, closed-ended investment entities are distinguished from open-ended entities in two ways. First, in closed-ended investment entities, the divestment takes place simultaneously with respect to all of the investors. Second, in closed-ended entities, each investor will be remunerated on an individualized basis, in accordance with the regulations and by-laws applicable to each class of shares. In this sense, venture capital and private equity entities are deemed to be closed-ended investment entities. These entities may either be incorporated as companies ("sociedades de capital riesgo") or funds ("fondos de capital riesgo)."

Recent evolution

Considering the new regulatory initiatives, to what extent is the Spanish financial system

[3] The activity of the Internet platforms that promote so-called participatory funding.

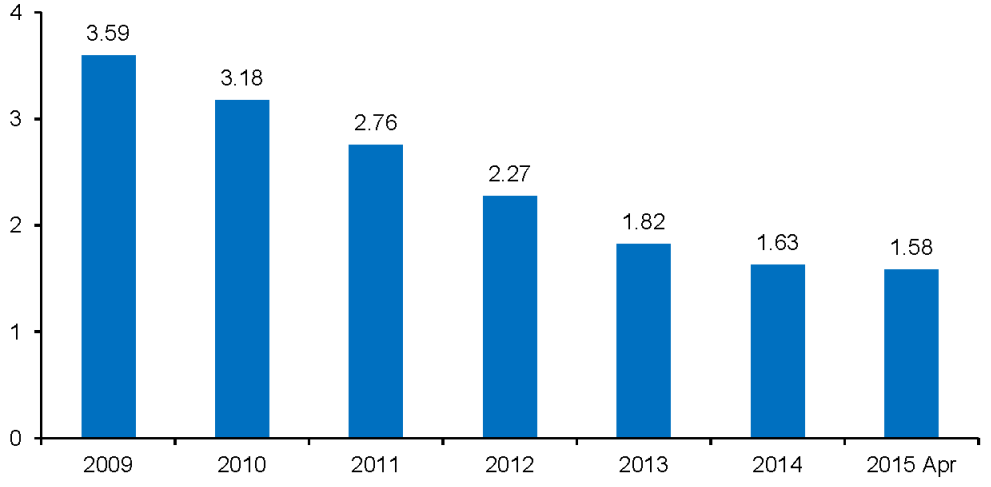
internalizing alternative finance and how are the perceptions changing in Spain compared to other European countries? The consulting company Allen and Overy (2014) undertook a survey among top financial executives at Western European companies and found some interesting answers at the European level on perceptions about the current and future penetration of alternative finance. The findings show that while bank lending remains the single biggest source of funding on average, alternative finance accounts for an average 41% of their total funding mix, slightly more than in 2009 (39%) and just behind bank lending (43% in 2014 and 44% in 2009). Public capital markets represent 16% (17% in 2009). The survey was biased towards large firms and this may make non-bank funding sources look more representative but the figures are quite illustrative as regards the ongoing changes.

As for Spain, a first interesting analysis refers to the relative size of bank funding compared to equity funding. A simple –although not necessarily comprehensive– measure is the ratio of credit institutions´ lending to the private sector to the market capitalization of the Madrid Stock Exchange. As shown in Exhibit 1, this ratio has considerably fallen from 2009 (3.59) to April 2015 (1.58). This does not necessarily mean that equity markets have taken the lead in financing the private sector in Spain because bank lending has been particularly negatively affected during the crisis. However, it looks like the Spanish financial markets are becoming more balanced in securing financing from markets and institutions.

The Bank of Spain publishes a monthly analysis on the evolution of financing to the private sector that offers a closer look at bank lending *versus* other funding alternatives. Exhibit 2 shows the annual change in loans and in securities (other than shares) as sources of financing for Spanish households and firms. Bank lending growth rates remained negative during the crisis years. The annual change in loans was -5.8% in 2012 and it reached -7.1% in 2013. It has been slowly improving since then and, in April 2015, the rate was -3.8%. The year-on-year growth of loans is expected to be positive by the end of 2015. In any event, as described in previous issues of *Spanish Economic and Financial Outlook*, these figures refer to outstanding amounts and it is worth

Exhibit 1

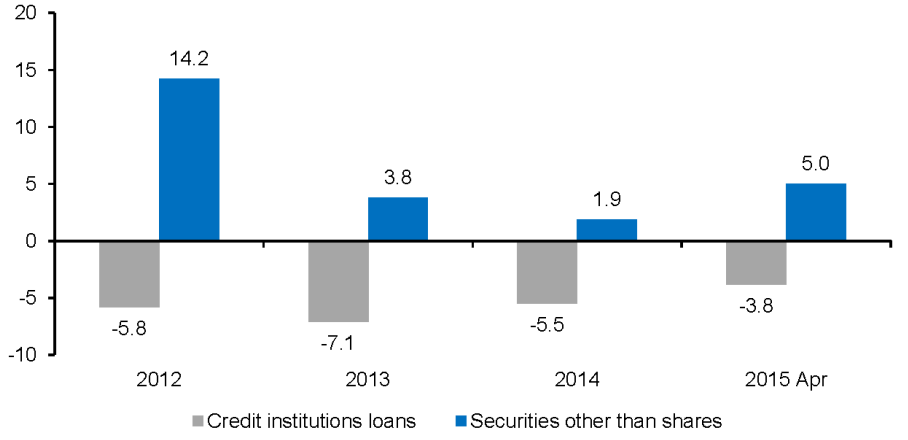
Credit institutions´ lending/market capitalization of the Madrid Stock Exchange



Source: Bank of Spain and own elaboration.

Exhibit 2

Sources of financing for the private sector. Credit institutions loans and securities other than shares. Annual growth rates



Source: Bank of Spain and own elaboration.

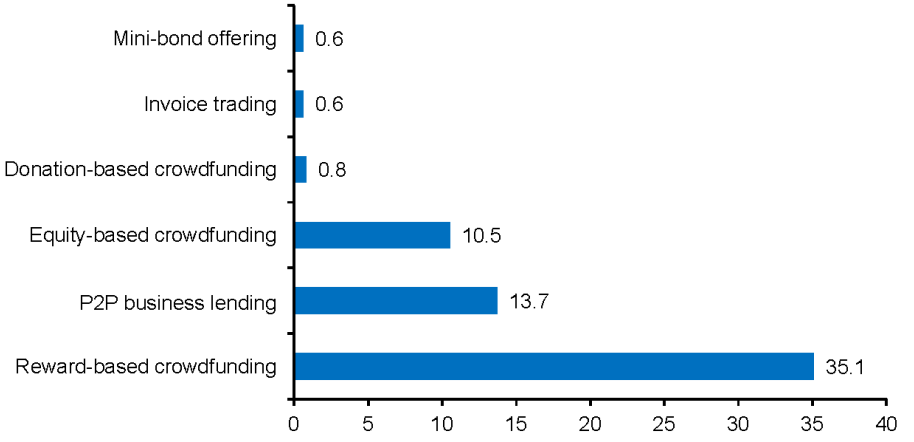
noting that the growth rate of new loans has been increasing since the beginning of 2015.

As for securities other than shares (mostly debt), they grew by 14.2% in 2009. Although their growth has been more modest in recent years, it has always been positive and was 5.0% in April 2015.

The figures in Exhibits 1 and 2 suggest that sources of funding other than loans may be gaining importance in the Spanish corporate sector. However, it is difficult to determine if these new sources represent the most innovative ways of alternative finance available today. Some figures from Statista suggest that the new alternative finance markets are still underdeveloped in Spain

Exhibit 3

New alternative finance market in Spain. 2014 (€ millions)



Source: Statista and own elaboration (http://www.statista.com/).

(Exhibit 3). The outstanding amount of reward (product reward-related) crowdfunding and equity (share participation-related) crowdfunding together reached 45.6 million euros in Spain in 2014. Peer-to-peer (P2P) online business lending reached 13.7 million euros. Other sources of new

Sources of funding other than loans may be gaining importance in the Spanish corporate sector. However, the most innovative ways of alternative financing are still very limited in Spain.

alternative finance are much more limited. Donation-based crowdfunding, invoice trading and mini-bond offering amounts were below 1 million euros in 2014. These numbers reveal that the most innovative ways of alternative financing are still very limited in their quantitative scope in Spain.

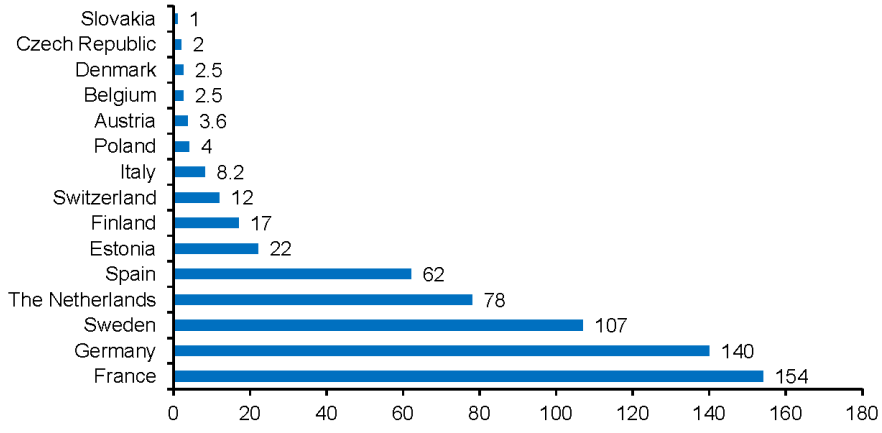
Cambridge University and Ernst and Young provide a similar estimate of the new alternative finance channels in Spain, totalling 62 million euros in 2014. This figure is still low compared to the UK (2.3 billion euros, not shown in the exhibit given the much larger comparative size), and also lower than in France (154 million euros) Germany (140 million euros), Sweden (107 millions euros) or the Netherlands (78 million euros). However, it is larger than in Finland (17 million euros) or Italy (8.2 million euros).

Considering the relatively low size of the newer funding channels, we relax the definition of alternative finance to include possibilities of funding for firms (in particular, for SMEs) beyond bank lending and trade credit. Exhibit 5 shows the evolution of market funding by non-Ibex 35 firms in the Spanish stock markets. Evolution has been irregular over the last few years. It grew from 2008 to 2011, when it reached 4 billion euros. It then fell amid the market tensions related to the sovereign debt crisis, but it has grown again in 2014 to 3.1 billion euros.

The funding in Exhibit 5 refers mainly to large firms as SMEs have no access to the main stock markets. Exhibit 6 shows the evolution of the

Exhibit 4

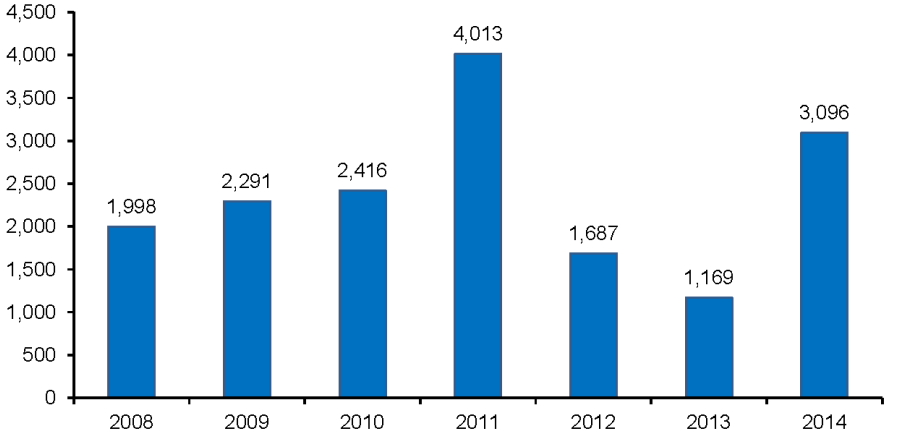
European online alternative finance market. 2014
(€ millions)



Source: The European Alternative Finance Benchmarking Report (Robert Wardrop, Bryan Zhang, Raghavendra Rau and Mia Gray), February 2015, Cambridge University and Ernst and Young.

Exhibit 5

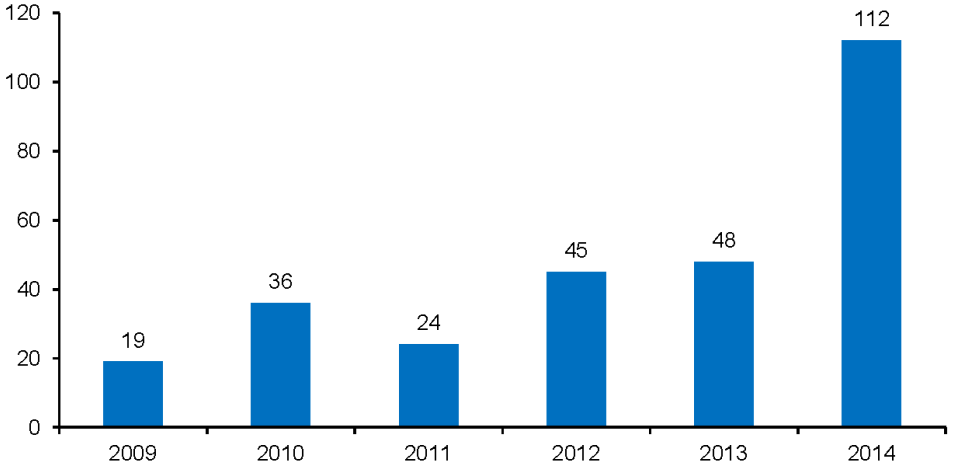
Market funding of non-Ibex 35 firms
(€ millions)



Source: Bolsas y Mercados Españoles (BME) and own elaboration.

Exhibit 6

Funding for the alternative stock market (MAB) firms
(€ millions)



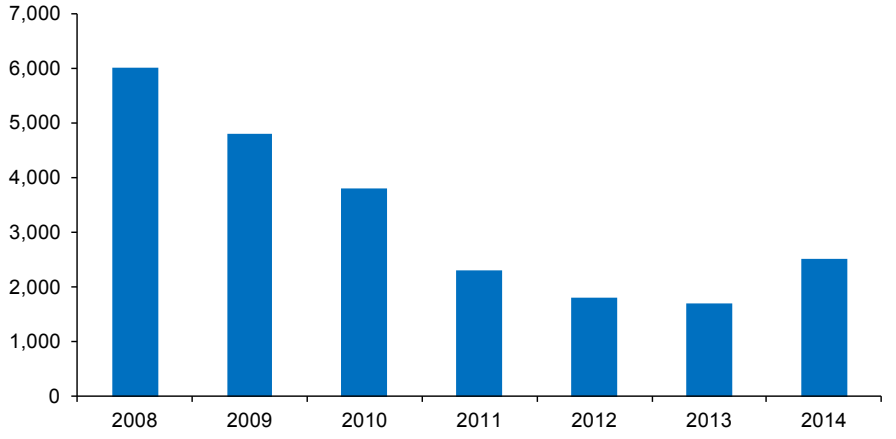
Source: Bolsas y Mercados Españoles (BME) and own elaboration.

financing in the Spanish alternative stock market MAB. It has been growing since 2009, with the exception of 2011. The growth was particularly substantial in 2014, where MAB funding increased to 112 million euros.

As for venture capital, this market has been operating in Spain for some time and the new regulations are aimed at fostering this channel. As shown in Exhibit 7, the funds available (the so-called "dry powder") for investment from venture capital funding fell from 6 billion euros in 2008 to 1.7 billion euros in 2013. However, funding started to grow again in 2014, when it reached 2.5 billion euros.

Exhibit 7

Funds available for investment from Spanish national venture capital firms



Source: ASCRI and own elaboration.

Conclusions

The assessment of the situation as well as the prospects for alternative finance in Spain depend on its definition. If we refer to the more restrictive concept which only accounts for the newer funding channels (*i.e.* crowdfunding, P2P) the development has been quite limited. This does not mean the outlook is poor, as these sources are expected to grow considerably in the coming years.

A broader definition of alternative finance, which includes non-bank funding and market access for SMEs, reveals that there has been a relative improvement in the array of funding sources in recent years. The alternative stock market (MAB) and venture capital represent particularly promising alternatives for Spanish firms in the near future. The recently approved regulations promoting these alternative channels should help increase the heterogeneity of financing sources available for firms in Spain. Importantly, this will not necessarily mean a diminishing role for banks, as they will also have to find new ways of servicing SMEs, exploiting their informational advantages in the intermediation business.

References

Allen, F.; Carletti, E.; Qian, J. "QJ", and P. Valenzuela (2012), "Financial Intermediation, Markets, and Alternative Financial Sectors," *EUI Working Papers,* ECO 2012/11, Department of Economics, European University Institute; http://cadmus.eui.eu/bitstream/handle/1814/21455/ECO_2012_11.pdf?sequence=1

Allen and Overy (2014), *Funding European business: What's the alternative?*, November 2014.

Berger, A., and G. Udell (2006), "A More Complete Conceptual Framework for SME Finance," *Journal of Banking and Finance*, 30: 2945–2966.

Can the decline of Spanish manufacturing be reversed?

José Carlos Fariñas[1] and Ana Martín Marcos[2]

The crisis has exacerbated the ongoing deindustrialisation trend observed in Spain, further widening the gap relative to other OECD countries. Going forward, in order to maintain a solid manufacturing industry, Spain will need to reshape its industrial policy to take advantage of technological change and the digital transformation of this sector over the coming years.

The crisis has had a strong, negative impact on Spain´s manufacturing industry, arguably due in part to the severe adjustment in the construction sector. This scenario coincided with a profound change in the global structure of the manufacturing sector, with world manufacturing output shifting away from developed countries in favour of newly industrialized ones. Statistical evidence highlights that the deindustrialisation process in Spain has followed a similar path to that of other OECD countries, although intensifying since 2000. Overall, the decline of industrial production is expected to continue over the coming years, given the three main factors behind this phenomenon (structural change, foreign trade, and 'servitisation' of manufacturing) are anticipated to remain in place. In this context, there has been a renewed interest in industrial policy aimed at promotion of stable manufacturing jobs and specialization in sectors with high value added per unit of output. In both the U.S. and the EU, measures have been introduced to either directly support reindustrialisation goals, or backing policies defining vertical objectives, and therefore seeking to promote innovation in advanced manufacturing, or, in EU terminology, key enabling technologies. In Spain, the focus should be on slowing the country´s pace of deindustrialization relative to the OECD average through defining priorities in the manufacturing industry and devoting resources to technology, financing and training policies targeted to the sector.

The title of a recent report from the French Council of Economic Analysis, which advises the French Prime Minister on matters of economic interest, was quite telling: *No industry, no future?* The report's authors were three European economists, Lionel Fontagné, Pierre Mohnen and Gustram Wolff, who acknowledge that the answer to this question is far from simple and call for a redefinition of the concept of industry and industrial policy (Fontagné, Mohnen and Wolff, 2014). There has been a proliferation of reports of this kind in recent years, as the crisis

[1] Complutense University of Madrid.

[2] National University of Distance Education.

has triggered renewed interest on the topic. The ongoing decline in industrial activity relative to services calls for a reassessment of the industrial sector and industrial policy in particular. As Rodrik (2010) highlights in his work *The Return of Industrial Policy,* there is a large group of countries and organisations setting out to change this type of policy´s direction. In this context, this article examines some of the recent trends in Spain's manufacturing sector.

Manufacturing during the crisis

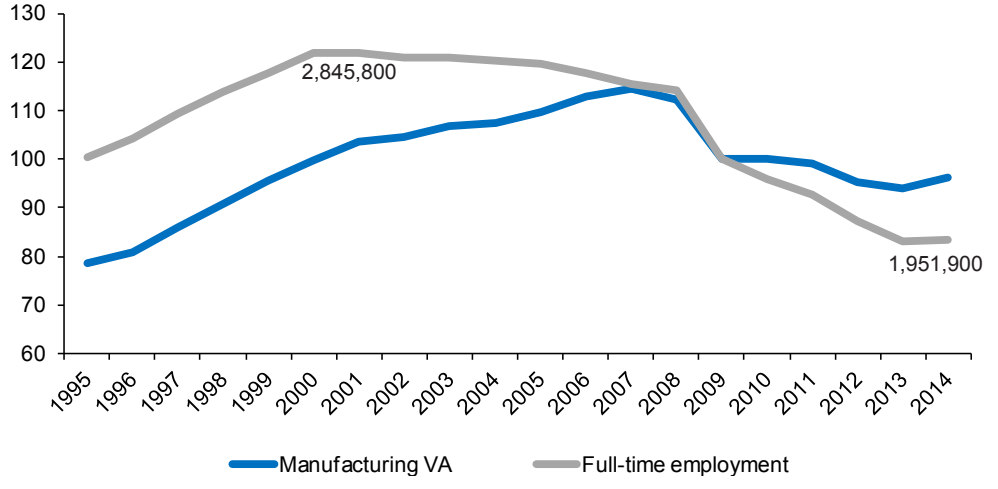
The manufacturing sector was the second hardest hit by the economic crisis in Spain, following the construction industry. Exhibit 1, which shows the real value added and employment series recently published by the National statistics institute (INE) national accounts (2010 base year), gives an idea of the scale of the crisis in the sector. Manufacturing activity slumped in 2009, with a drop in real value added of over 10%. Between 2007, when the previous cycle peaked, and 2013, full-time manufacturing employment shed 750,000 jobs. This reduction was equivalent to almost 30% of manufacturing employment existing in 2007.

For a more uniform comparison, two years at similar points in the cycle should be taken as the reference, for instance 1995 and 2014. In both these years, there was a slight recovery in manufacturing employment, as it began the climb out of the trough of the two preceding recessions. If we compare the level of full-time employment in each of the two years, the drop affected 400,000 jobs, around 20% of the existing total in 1995. This figure is also indicative of the intensity of the crisis in the manufacturing industry in recent years.

The scale of the industrial crisis Spain has suffered becomes even more apparent when comparing changes in the sector with those at the EU level. Taking the industrial production index data Eurostat publishes on all EU countries as a reference, Spain's index at end-2014 was 30% lower than in 2007. In the eurozone countries, the drop was 7%, and many countries had a higher level of output than in 2007 (Germany, for example, is up 5% relative to its 2007 level). In

Exhibit 1

Evolution of employment and real value added indices of manufacturing. Spain 1995-2014 (2010=100)



Note: Figures reported correspond to the total number of full time employees in years 2000 and 2014.
Source: Spanish national accounts (2010 base year).

the EU as a whole, only Greece and Malta lag behind Spain in terms of how their manufacturing industry has performed.

The Central Business register´s (DIRCE in its Spanish initials) records of company data shed additional light on the situation in the industrial sector. Data show the number of manufacturing firms to have declined by almost 30%, with the severest impact being among firms with 10 to 49 employees. The European Commission (2014a) highlights that of the EU's larger countries, Spain has suffered the worst destruction of manufacturing firms, with losses exceeding those in other peripheral countries, such as Portugal and Italy.

Of the EU's larger countries, Spain has suffered the worst destruction of manufacturing firms, with losses exceeding those in other peripheral countries, such as Portugal and Italy. The severe adjustment in the construction sector arguably contributed to the drop in manufacturing output.

All the data, including output, employment, and the number of firms, are indicative of a significant loss of productive fabric in the manufacturing sector. The scale of the deterioration has been much greater than the EU average. Although the factors behind the sector's worse performance in Spain have not been fully explained, the severe adjustment in the construction sector, which generates substantial demand for manufactured goods, arguably contributed to the drop in manufacturing output (Tiana, 2012).

Data from 2014 and the first quarter of 2015 show a significant trend change in the sector. 2014 was the first year since the onset of the crisis in which manufacturing output and employment registered positive growth. Moreover, somewhat exceptionally, the sector's growth of 2.3% exceeded the 1.4% growth of the economy as a whole. The strong performance is due in part to the low level of manufacturing output in recent years, but is nevertheless significant in the context of the last fifteen years. Since 2000, manufacturing has consistently grown more slowly than the economy as a whole, making 2014 a year of exceptional performance in a historical context.

Despite the strong performance of manufacturing over the last year and a half, the sector's long-term trend remains worrisome. Spain has continuously slid down the rankings of the world's largest manufacturers. In 1990, Spain was ranked 9th for its share of the world's manufacturing output, and in 2010 it was 14th, having been overtaken during this period by Brazil, South Korea, India, Russia, Mexico and Indonesia (see OECD, 2013).

These shifts in the world rankings reflect major changes taking place in the global distribution of activity over the last few decades. Since 1970, the EU has lost 15 percentage points of its share of world manufacturing output, the U.S. has reduced its relative share by 7 percentage points, while the newly industrialised countries (Brazil, Russia, India, China, South Africa, Indonesia, and Turkey)

The 2008-2009 global crisis had a strong, negative impact on Spanish manufacturing output, employment, and business demography. This impact coincided with a profound change in the global structure of the sector in favour of newly industrialized countries.

have increased their share by 20 points, and these trends accelerated over the period 2000-2014. The situation in Spain forms part of this overall trend: in 1970, it produced 2.3% of world manufacturing output, and its share has now dropped to 1.7% (see Fariñas, Martín Marcos and Velázquez, 2015).

Therefore, there exist two overlapping phenomena. On the one hand, the 2008-2009 global crisis had a strong, negative impact on Spanish manufacturing output, employment, and business demography. And on the other, this impact coincided with a profound change in the global structure of the sector in favour of newly industrialized countries, which has been particularly intense since 2000.

The process of Spain´s deindustrialisation

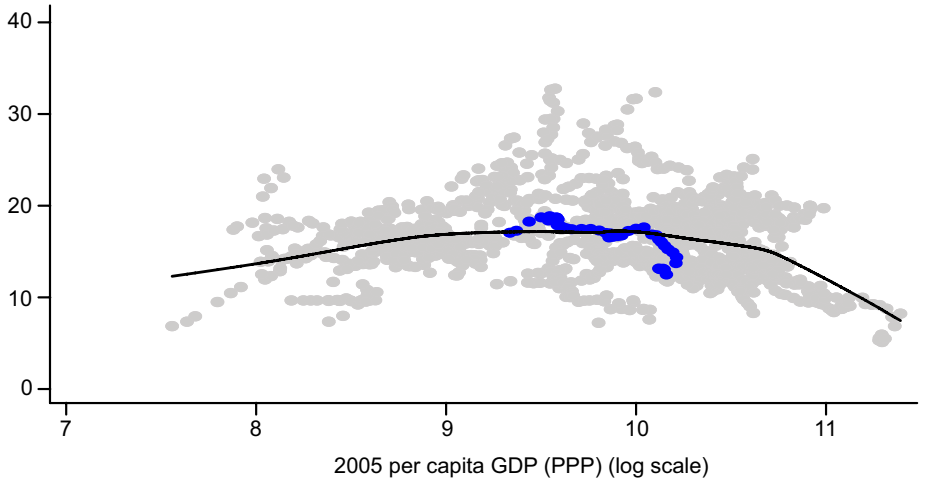
This section looks at changes in manufacturing's share of GDP in the most developed countries. In relative terms, manufacturing has declined over the last few decades as a share of GDP and employment, in a process that has come to be termed deindustrialisation (Rowthorn and Ramaswamy, 1997). This process has also emerged prematurely in developing countries in recent years (Rodrik, 2015).

In Spain, manufacturing came to account for 22% of employment and around 30% of GDP in nominal terms in the first half of the 1970s. Since then, its share of economic activity has declined continuously. According to National Accounts data (base year 2010), in 2013, manufacturing represented 13% of GDP at basic prices and employed around 2 million people, 12% of the total workforce. Is this decline in line with the pattern observed in other OECD countries or does Spain have specific features that set it apart from its peers?

Economic literature has analysed the phenomenon of deindustrialisation in the context of the process of structural transformation that accompanies economic growth. The literature has described an inverted U-curve relationship between the relative weight of the sector and countries' per capita income levels. The relative importance of the sector grows in the early stages of development until it reaches a peak after which its share of economic activity descends (McKinsey Global Institute, 2012 and Sposi and Grossman, 2014).

Exhibit 2

Ratio of share of real manufacturing value added to per capita GDP in OECD countries, 1970-2013



Note: Values for Spain in blue.

Source: The authors, based on United Nations, National Accounts Main Aggregates Database.

Exhibit 2 represents the paths of the OECD countries over the period 1970 to 2013. The set of grey points represents the OECD countries. The black line is the approximate average based on an estimator that smooths out the average value of the point cloud. The blue points represent the path followed by Spain. The variable used to measure manufacturing's relative share is the sector's value added relative to GDP (both in real terms).[3] The main features of this exercise can be summarised as follows:

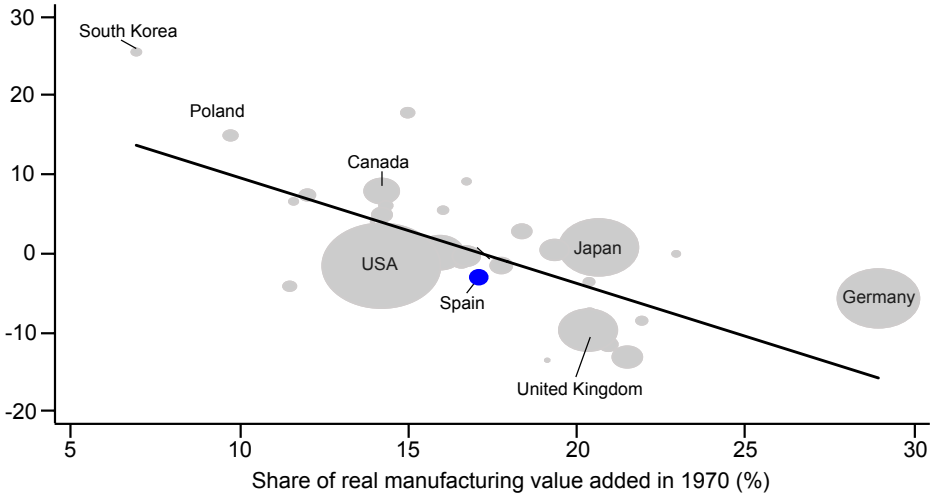
- The average path follows an inverted U-curve.
- Spain has followed a path tracking the OECD average very closely.
- Throughout most of the period, Spain has been on the downward part of the curve, with its industry losing weight in relative terms. Since around 2000, there was a widening divergence, indicating that Spain, bearing in mind its per capita income, is deindustrialising faster than the OECD-country average.

Exhibit 3 gives more details over the differences between countries, comparing the initial level of relative share and the variation in that share between 1970 and 2013. The area of the circle representing each country is proportional to the size of its manufacturing sector relative to the OECD total. The relationship between the two variables is negative: countries with a larger initial share of manufacturing lose more of their share, and countries with a smaller initial share lose less or even gain share. However, beyond this negative relationship, which is to be expected, some interesting differences between countries emerge. These include:

- The countries that have increased their share of manufacturing include Korea (18%), a large group of countries from Eastern Europe

Exhibit 3

Relationship between share of manufacturing value added in 1970 and its change over the period 1970-2013 in OECD countries (value added in real terms)



Source: The authors, based on United Nations, National Accounts Main Aggregates Database.

[3] Employment is most often used to measure the sector's relative share. This is the case in Fariñas, Martín-Marcos and Velázquez (2015) and the result obtained is very similar.

(Poland, Hungary, the Czech Republic, etc.) and a small group of countries including Canada (8%), Turkey (7%), Ireland (7%), Finland (6%), Sweden (5%) and Japan (1%).

- All the other countries have seen a reduction in their manufacturing sector's share. Spain's manufacturing sector has contracted more (-4%) than would be expected given its initial level (it lies below the straight line indicating the average). This pattern confirms what Exhibit 2 shows, namely that Spain's trajectory has represented a more intense deindustrialisation than the OECD country average.

- In terms of the intensity of its deindustrialisation, Germany may be seen as the counterpoint to Spain. Like Spain, its manufacturing sector's share has dropped (-6%), but it remains above the average. That is to say, its deindustrialisation, given its starting point, is less intense in relative terms with respect to the average.

The findings referred to above reveal a measure of non-uniformity in the intensity of the processes of deindustrialisation in Spain when compared with the OECD country average.

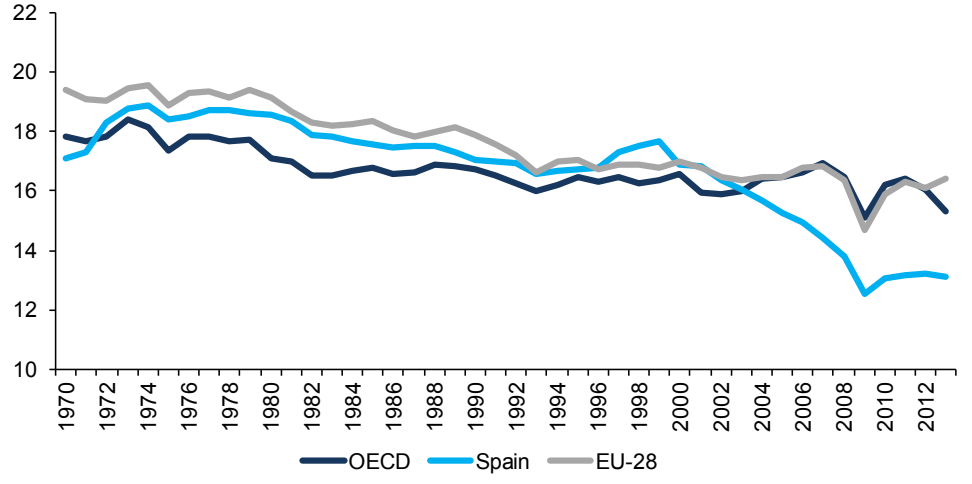
To confirm whether the trajectories of Spain and the OECD countries as a group diverge after 2000, Exhibit 4 shows these trajectories since 1970 (also including the EU-28). As can be seen from the exhibit, since 2000, Spain has been on a much steeper path of deindustrialisation than the OECD countries as a whole. This is, therefore, confirming the conclusions drawn from the previous statistical analyses.

Since 2000, Spain has been on a much steeper path of deindustrialisation than the OECD countries as a whole.

Three factors stand out in the explanation of the process of deindustrialisation. Firstly, industry's declining share of GDP is being driven by rising relative productivity. This factor has been widely reported in literature (Rowthorn and Ramaswamy,

Exhibit 4

Trend in share of manufacturing value added as a ratio of total value added (real terms). 1970-2013



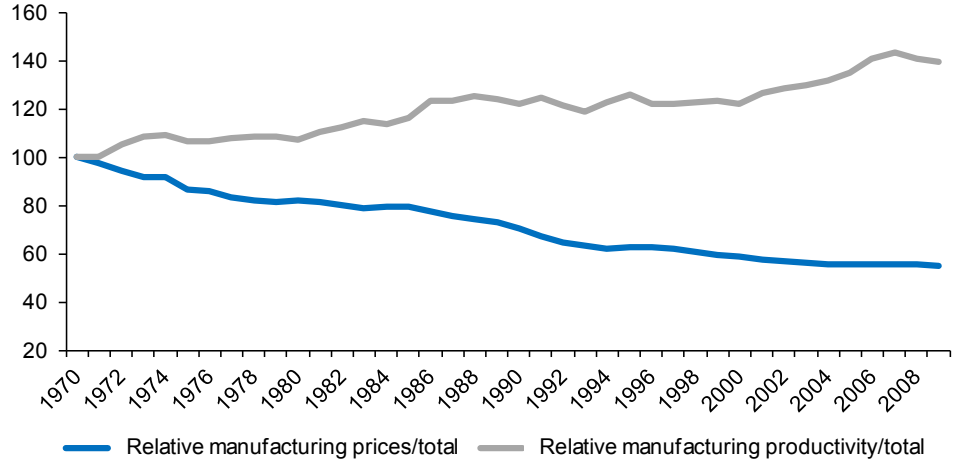
Source: The authors, based on United Nations, National Accounts Main Aggregates Database.

1997; Lawrence and Edwards, 2013; Veugelers, 2013) and could be identified with the process of structural change that accompanies economic growth and the composition of productive activity. The faster productivity growth in industry than in other sectors makes it likely that relative prices fall over the long term (see Lawrence and Edwards, 2013 for a more detailed analysis of this association). If demand for goods does not increase relative to services, as has been the case in recent years, the inevitable consequence is that the manufacturing industry's share of economic activity will shrink, in terms of both employment and output. Exhibit 5 shows how relative productivity and relative prices of the Spanish manufacturing sector have progressed over the long-term. The data confirms the upward trend in productivity and falling relative prices.

Secondly, foreign trade (Lawrence and Edwards, 2013 and Veugelers, 2013) has also been highlighted as another factor in industry's loss of relative weight. If domestic demand is increasingly met from imports, the activity of the sector based in the domestic market will be gradually eroded. This is, however, a more controversial factor and the object of the discussion alluded to above. The article by Autor, Dorn and Hanson (2013) has lent empirical support to this hypothesis. These authors analyse the impact of Chinese imports on the structure of productive specialisation in 741 metropolitan areas in the U.S., which have relatively uniform labour markets. Their findings suggest that imports from China over the period 1990-2007 were a significant factor in the loss of manufacturing jobs, explaining 25% of the drop in manufacturing employment. This finding should be interpreted as a partial equilibrium analysis. It does not, therefore, indicate how much additional manufacturing employment there would be in the absence of Chinese imports. Nevertheless, the study establishes a quantitatively significant link between the observed reduction in manufacturing employment and the penetration of Chinese imports. In the U.S., this has often been linked to the phenomenon of "offshoring," whereby business activities are relocated to China. It is worth noting that a similar study by Donoso, Martín and Minondo (2014) exists for Spain, which examines manufactured imports from China, using information disaggregated by provinces, and obtains very similar findings.

Exhibit 5

Relative productivity and relative prices of manufactured goods in Spain (1970-2009; index 1970=100)



Source: The authors, based on EU KLEMS Growth and Productivity Accounts.

Thirdly, there is a final set of factors, including manufacturing firms outsourcing activities to services firms and the 'servitisation' of manufacturing firms that increasingly perform service activities. These factors, which are related to profound organisational changes in manufacturing, and with changes in its nature, also help explain some of the loss in its relative importance. As regards outsourcing, this is a process that has been emerging for some time, and affects a wide range of services, from cleaning and security, to the subcontracting of IT systems. To the extent that this phenomenon of subcontracting services in the form of intermediate consumption represents a growing share of total output (Falk and Jarrocinska, 2010), it reduces industrial value added and the size of the sector.

The second element that needs to be included in this organisational change category is the growing 'servitisation' of manufacturing firms. Manufacturing companies produce an increasing quantity of services. The boundary between manufacturing and services is becoming blurred, and in extreme cases, firms whose main activity was manufacturing have become services companies because services account for over 50% of the company's value chain. A recent study of the process of deindustrialisation in Denmark finds that half of the country's loss of manufacturing as a share of GDP is explained by this 'servitisation' process, whereby some companies come to produce more services than manufacturing output (Bernard, Smeets and Warzynski, 2014).

It is not easy to measure the contribution of these three factors –structural change, foreign trade, and outsourcing and the switch to services– to deindustrialisation. Fariñas, Martín Marcos and Velázquez (2015) have performed a correlation analysis to confirm some of the foregoing interpretations. Their findings are summarised below.

At the sector level, a negative correlation is observed between productivity growth (in deviations from the manufacturing industry mean) and the change in the relative share of employment: the manufacturing sub-sectors in which productivity has risen most are those in which the relative share of employment has fallen most. At the same time, the sub-sectors that have increased their share of final demand most (approximated by apparent consumption) are those which have also increased their relative share of employment. The sign of these two correlations is therefore consistent with the explanation of structural change. As mentioned, this explanation is based on the idea that the fastest productivity growth, combined with relatively unfavourable demand trends for industrial goods, lead to deindustrialisation or loss of the sector's relative share. Although correlation does not imply causality, in this case the sign of the correlation is consistent with the explanation and therefore supports its validity. Evidence has also been obtained on the role of foreign trade in explaining deindustrialisation. The sectors with the biggest increase in the penetration of imports relative to apparent consumption and in which the ratio of imports/exports has risen furthest, are those sectors whose relative share of employment has suffered the biggest decline. These correlations are therefore also consistent with foreign trade being an explanatory factor.

In the case of the explanation emphasising outsourcing and the switch to services, it has not been possible to conduct a sector-by-sector correlation analysis.

In short, structural change is a reflection of how basic variables, such as the sector's relative productivity, prices, and relative demand, behave. This factor explains a large portion of the phenomenon of deindustrialisation and is likely to continue to erode manufacturing's relative share of GDP and employment. Also, the extent to which domestic demand is met from imports will be another factor that remains active while globalisation continues. Lastly, outsourcing of service activities and 'servitisation' are phenomena

that are not only unlikely to reverse, but are likely to intensify in the future. It is foreseeable that deindustrialisation, understood as manufacturing's loss of relative weight among economic activities as a whole, will continue over the coming years.

Structural change, foreign trade, and organizational changes such as 'servitisation' and the outsourcing of service activities explain a large portion of deindustrialization observed today and are likely to continue over the coming years.

The return of industrial policy

The Great Recession of 2008-2009 triggered a return to, and a certain revitalisation, of industrial policy. The crisis has led to renewed interest in industry and manufacturing in particular. The sector's decline in many countries has encouraged the idea of developing policies to promote stable manufacturing jobs and specialisation in sectors with high value added per unit of output.

Rodrik (2010) writes explicitly about the "return of industrial policy." Stiglitz, Lin and Monga (2013) point to the need to "rejuvenate industrial policy" and cite numerous examples of countries that have changed policy direction in this area. Through its Committee on Industry, Innovation and Entrepreneurship, the OECD has recently fostered discussion on the evaluation of industrial policies, dealing in depth with the methodological problems associated with this evaluation (Warwick and Nolan, 2014). This section reviews some of these initiatives and discusses Spain's position, drawing in part from the work of Fariñas (2015).

The U.S. has made some significant changes to its industrial policy in recent years. In his 2012 State of the Union address, President Barack Obama said that his "agenda for the economic recovery began with manufacturing" and went on to propose a series of measures aiming to promote the relocation of manufacturing activities back to the U.S. Offshoring of manufacturing has been intense in the U.S., and it has been proposed that tax relief be withdrawn from companies that outsource jobs abroad and that companies relocating their production in the U.S. be given financial support.

These measures were fleshed out in President Obama´s 2013 State of the Union address with a broader industrial policy framework, consisting of the creation of a network of institutes to promote innovation and advanced manufacturing (National Network for Manufacturing Innovation). With public and private participation, and the support of the federal budget, this initiative aims to promote innovation in advanced manufacturing by setting up 45 institutes over the next few years, each focused on a different technology and manufacturing activity (for more details see the Advanced Manufacturing Portal: http://www.manufacturing.gov/welcome.html).

The above initiatives have no recent precedents in the U.S. and resulted in the passing of the Revitalize American Manufacturing and Innovation Act in December 2014. This law sanctions an approach to industrial policy that represents a 180 degree turn in the design of policies of this type in the United States.

There have also recently been changes in the direction of industrial policy in the EU. If we look back to the 1990s and the 2000s, which takes into account the period in which the Lisbon Agenda was in force, European industrial policy has been a perfect example of what has been called the "integrated horizontal approach" (Vives, 2013). However, in 2012, the European Commission document COM2012-582 described a new industrial policy model that began from the premise that: "Europe needs to reverse the declining role of industry in Europe for the 21st century. This is the only way to deliver sustainable growth." The communication defines the goal of "reindustrialising Europe" and quantifies it by

stating the need to increase manufacturing "from its current level of around 16% of GDP to as much as 20% by 2020." The Commission insists on its traditional horizontal approach with the customary instruments linked to the "single market, SME-support policies, competition policy, and research." However, it changes direction by identifying objectives closer to a vertical industrial policy and calls to: "focus investment and innovation on six priority action lines: advanced manufacturing technologies, key enabling technologies, bio-based products, sustainable industrial and construction policy and raw materials, clean vehicles, and smart grids."

Through the current president of the Commission, the EU has renewed this reindustrialising approach with the presentation of its policy guidelines to the European Parliament in July 2014, insisting on the objective of increasing the relative weight of industry in 2020 to 20%.

Although perhaps not as radical as that in the U.S., this is a substantial change, and the goal of reindustrialisation will be pursued through horizontal policies, of which the Commission highlights three. The first driver will be innovation policy, targeting R&D funding. The Horizon 2020 Programme will devote 80 billion euros to innovation on key enabling technologies, among others.

The second driver comprises access-to-finance policies. These are an essential part of the toolkit with which to achieve the industrial policy objectives. Financing is a key issue, particularly for SMEs, which are more dependent than large firms on bank finance. The crisis has fragmented the internal bank lending market, such that Spanish firms pay interest rates 2-3 points higher than SMEs in core eurozone countries.

The third driver to which the Commission gives priority in its 2020 Agenda is improving the education and professional training systems. The mismatch between the skills supply and the professional skills the labour market demands is one of the main difficulties industry faces in the EU. Moreover, this situation is set to persist over the years ahead, as technological progress will stimulate demand for specific skills and training.

In Spain, in July 2014, the Ministry of Industry, Energy and Tourism presented an Agenda for strengthening industry in Spain, which subscribes to the idea that industry needs to "increase its share of GDP," but unlike the European Commission, it does not quantify the target. The Agenda has a long list of measures, with 97 actions in the horizontal policies area (R&D, internationalisation support, SMEs, etc.). These measures are not quantified in terms of resources, rather the Agenda only states that 745 million euros will be set aside in 2015 for loans for reindustrialisation and to stimulate industrial competitiveness. Thus, until the General Secretariat for Industry prepares a progress report on the Agenda's measures, the precise scope of the measures and their degree of fulfilment remain unknown.

One major difference between the Spanish government's industrial policy and that at the EU level is that the Spanish Agenda does not formulate any sectoral or priority technology objectives.

One major difference between the document defining the Spanish government's policy and that defining the EU's industrial policy is that, unlike document COM(2012) 582, the Spanish Agenda does not formulate any sectoral or priority technology objectives.

Recap of some of the changes in manufacturing

This final section takes stock of the points addressed and provides some additional thoughts on the changes taking place in the manufacturing sector.

The Great Recession has had a strong, negative impact on the Spanish manufacturing industry's output, employment, and business demography. If we compare 2014 and 1995, two very similar years in terms of their position in the economic cycle, in terms of employment, manufacturing has lost almost 20% of its productive fabric.

OECD countries are undergoing a process of deindustrialisation, understood to be the loss of the relative importance of the manufacturing industry, in terms of both employment and value added. If this is compared with countries' per capita income, the average pattern of deindustrialisation follows an inverted U-curve. This process is basically a reflection of how basic variables, such as the sector's relative productivity, its prices, and relative demand, behave. This behaviour will persist and is likely to continue to shrink the sector's share of GDP and employment. The fact that imports are meeting a growing share of domestic demand is another factor driving deindustrialization. And thirdly, the outsourcing of certain services and the increasing tendency towards 'servitisation' among manufacturing firms are also contributing to manufacturing's loss of relative importance.

Over the period 1970-2013 as a whole, Spain's deindustrialisation followed a similar path to the OECD country average. However, a growing gap between Spain and the pattern for the OECD countries opened up, with Spain experiencing more intense deindustrialisation since the early 2000s. This phenomenon may be seen in the trajectory followed by both employment and value added in the sector.

The decline in industrial production will continue over the coming years, because the factors responsible will continue to be in place, particularly the structural change associated with the manufacturing industry's productivity and relative demand. The decline will affect high and low technology sectors equally. To illustrate this point, the electronics industry's loss of share in the EU is a sign that technological sophistication *per se* is insufficient protection against deindustrialisation (Veuglers, 2013). The loss of employment will affect lower skilled jobs in particular. Even in low-tech sectors, such as footwear or clothing, new jobs tend to be concentrated in activities demanding high skill levels. Deindustrialisation is a phenomenon that affects all manufacturing sectors, and those activities with least value-added per unit produced within each sector most.

The interplay between services and industry will be a key feature of future trends in manufacturing. The pursuit of higher value-added in industry is closely correlated with growing 'servitisation' (Veugelers, 2013). This is a two-way process, with many manufacturing sectors increasingly buying and selling services, while many services companies, by making intensive use of ICTs, are increasingly organising themselves as manufacturers (De Backer, Desnoyers-James and Moussiegt, 2015). The boundary between manufacturing and services is increasingly blurred, making setting goals for each type of activity separately ever more difficult.

In recent years, there has been a turnaround in how industrial policy is regarded, with a renewed interest or a "return" to industrial policy, as Dani Rodrik put it. In both the U.S. and the EU, measures have been introduced to either directly support reindustrialisation goals, or backing policies defining vertical objectives, and therefore seeking to promote innovation in what is termed advanced manufacturing or, in EU terminology, key enabling technologies. In short, this is an industrial policy that seeks to target its impact on innovations able to generate greater technological externalities.

To maintain a solid manufacturing industry, Spain needs to apply more active industrial policies that follow the trend set in other countries. To do so, it should define priorities in the manufacturing industry and devote more resources to technology, financing and training policies targeting the sector. This new industrial policy should be embedded in a reinterpretation of the changing role of manufacturing in the economic system, above all

in terms of the relationship between manufacturing and services, and should be less concerned with reindustrialisation targets, which as this article has discussed, are extremely difficult to achieve.

The answer to the question of whether Spain can be reindustialised is no. It is not possible to reindustrialise Spain in the sense of increasing the role of manufacturing as a share of GDP again. Efforts should be devoted to promoting the development of new activities linked to technological change taking place in the sector. Spain needs to slow its deindustrialisation so it is no longer outpacing the OECD average. This is more important than setting unattainable reindustrialisation goals.

Spain's industrial policy execution has moved away from the model defined by the EU. The biggest sign of this is Spain's widening divergence in terms of the intensity of resources dedicated to innovation. Innovation policies are undoubtedly the key to the EU's new industrial policy. Nevertheless, the intensity of R&D spending in 2013 was 1.2%, with a drop of two tenths from the peak reached in 2010. Moreover, Spain has reduced its R&D spending target to 2% of GDP by 2020, against an EU target of 3%. With these targets, over the next five years, the gap between Spain and the rest of the EU will widen (European Commission, 2014b) and Spain's relative deindustrialisation is likely to increase.

Lastly, it is worth noting that digitisation will affect manufacturing more intensely over the years ahead. This effect will operate in three directions. Firstly, new production technology will be created in the sector. Secondly, it will allow new materials and products to be developed, and thirdly, it will enable the development of new business models linked to new relations with customers and supplier networks. All together this constitutes a good opportunity for the sector, which Spain should grasp.

References

Autor, D.; Dorn, D., and G. Hanson (2013), "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review,* 103(6), 2121–2168.

Bernard, A.; Smeets, V., and F. Warzynski (2014), "Rethinking Deindustrialization", in http://www.valeriesmeets.com/webpage/Rethinking.pdf

De Backer, K.; Desnoyers-James, I., and L. Moussiegt (2015), "Manufacturing or services – That is (not) the question: the role of manufacturing and services in OECD countries," *OECD Science, Technology and Industry Policy Papers,* no. 19.

Donoso, V.; Martín, V., and A. Minondo (2014), "Do Differences in the Exposure to Chinese Imports Lead to Differences in Local Labour Market Outcomes? An Analysis for Spanish Provinces," *Regional Studies.*

European Commission (2012), "A Stronger European Industry for Growth and Economic Recovery" COM(2012) 582.

— (2014a), "Business Demography in the EU," *Monthly update on industrial policy indicators and analysis,* 4/2014.

— (2014b), *Research and innovation performance in Spain. Country profile.* 2014.

Falk, M., and E. Jarocinska (2010), "Linkages between Services and Manufacturing in EU countries," *SERVICEGAP Review Paper,* 1, en http://www.servicegap.org/

Fariñas, J.C. (2015), *La industria española entre el cambio tecnológico y la competencia global,* (mimeo).

Fariñas, J.C.; Martín Marcos, A., and F.J. Velázquez (2015), "La desindustrialización de España en el contexto europeo," *Papeles de Economía Española,* No. 145

Fontagné, L.; Mohnen, P., and G. Wolff (2014), "No industry, no future?" *French Council of Economic Analysis,* Note no. 13, June 2014 .

Lawrence R.Z., and L. Edwards (2013), "US Employment Deindustrialization: Insights from History and International Experience," Policy Brief, no. PB13-27, Peterson Institute for International Economics.

McKinsey Global Institute (2012), "Manufacturing the future: the next era of global growth and innovation," McKinsey and Co.

OECD (2013), *Perspectives on Global Development 2013. Industrial Policies in a Changing World,* Development Center.

Rodrik, D. (2010), "The Return of Industrial Policy," *Project Syndicate,* 13 April 2010.

— (2015), "Premature Deindustrialization," *NBER Working Paper,* No. 20935, February 2015.

Rowthorn, R., and R. Ramaswamy (1997), "Deindustrialization: Its causes and implications," Economic Issues, n. 10, International Monetary Found.

Sposi, M., and V. Grossman (2014), "Deindustrialization Redeploys Workers to Growing Service Sector," *Economic Letter,* vol. 9, no. 11. Dallas Fed.

Stiglitz, J.; Lin, J., and C. Monga (2013), "The Rejuvenation of Industrial Policy," *Policy Research Working Paper,* 6628. The World Bank

Tiana, M. (2012), "El impacto de la crisis económica sobre la industria española," *Boletín Económico,* Bank of Spain, November 2012.

Veugelers, R., ed. (2013), *Manufacturing Europe's future,* Bruegel Blueprint 21.

Vives, X. (2013), "Globalización, crisis y política industrial," *Economía Industrial,* number 387.

Warwick, K., and M. Nolan (2014), "Evaluation of industrial policy: methodological issues and political lessons," *OECD Science, Technology and Policy Papers,* no. 16, OECD Publishing.

The redistributive impact of economic policy reforms: The case of Spain in the EU context

Ramon Xifré[1]

Various EU countries´ economic policy responses to the crisis may have exacerbated their already increasing levels of inequality. Preliminary evidence for the case of Spain shows that the country´s adoption of more ambitious fiscal consolidation and structural reform measures appears to have been in detriment to equity.

The relationship between income inequality and economic performance has long been studied. It seems clear that inequality has increased in most Western countries since the 1970s. However, in response to the crisis, some EU countries, and Spain in particular, have since 2010 adopted economic policy reforms (fiscal consolidation plans and structural reforms) that are likely to have further aggravated the increase in income inequality. This article assesses the redistributive consequences of the aforementioned economic policy reforms by reviewing available evidence to present two basic findings: (a) Public expenditure on education and health is found to be both growth and equity friendly in the short and in the long-term. In 2009, the countries facing the strongest fiscal consolidation pressures, Spain included, halted their long-term trends of steady increases in education and health spending. As a result, by 2012, some EU governments' public per capita expenditure on education and health is half that of others'. This supports some of the empirical evidence regarding low spending countries´, such as Spain´s, poorer recent performance on various equality indicators; and, (b) In terms of the impact of structural reforms on inequality, it is still too soon for a comprehensive assessment. However, there is preliminary evidence that the 2012 labour market reform in Spain is likely to have had a regressive impact on lower-wage earners that switched jobs, "movers", experiencing the largest wage reductions. All in all, it seems that Spain and other EU countries that were hardest hit by the crisis have suffered three waves of inequality: (i) the global trend of increasing inequality since the 1970s; (ii) the 2008 crisis, which was particularly hard on these countries as regards labour shedding; and, (iii) the economic policy responses that followed, which might have avoided the worst, but have exacerbated inequality.

Introduction

Income inequality is becoming more relevant on global leaders´ economic, political and social agendas, as evidenced by President Obama recently referring to it as "the defining challenge of our times."

There exists a long standing debate on the causal link between inequality and growth in the broader

[1] ESCI – Universitat Pompeu Fabra and Public-Private Research Center, IESE Business School.

context of examining the possible effects of capitalism. The recent work of Piketty (2014) has brought about a revival of this historical debate by claiming that in economies where the rate of return on capital exceeds the rate of output growth, inherited wealth will always grow faster than earned income.

The latest crisis has also refocused attention on this longstanding issue, as some EU countries, and Spain in particular, have since 2010 adopted economic policy reforms and fiscal consolidation plans which have had an impact on existing income inequality. For instance, governments have passed a series of reforms (labour market, social security, housing regulation, etc.) or have adopted more stringent fiscal policy stances with clear impact on citizens' living conditions.

The purpose of this article is to provide a basic framework for analyzing the redistributive consequences of policy reforms in general as well as to review available evidence on this topic as regards the case of Spain. Two types of policy reforms are considered: fiscal consolidation and structural reforms. With respect to the latter, the analysis for the case of Spain focuses on the impact of the labour market reform, as most of the other structural reforms have been adopted only recently and it is not possible to measure their impact. The paper also overviews existing literature on the impact of economic policy on inequality.

Inequality facts and conceptual framework

Inequality facts, causes and consequences

The relationship between income inequality and economic performance has been long studied. Some of the most recent academic contributions to this debate include Piketty (2014) and Atkinson (2015) and, from policy circles, the OECD [(Cingano, 2014) and OECD (2015)], the IMF (Dabla-Norris *et al.,* 2015) and the European Commission (Pichelmann, 2015).

Certain basic facts stem from this literature. First, inequality appears to have increased in most Western countries since 1970s, irrespectively of the indicators examined (Piketty, 2014; Cingano, 2014; Atkinson, 2015; OECD 2015). Second, inequality trends have been less clear in emerging and developing countries with some large countries, most notably China, experiencing declining inequality (Dabla-Norris *et al.,* 2015).

The main explanations behind these trends in inequality are also somewhat generally accepted. To begin with, technological progress and the resulting skill premium, coupled with the erosion of certain labour market conditions, are likely to be the major drivers in advanced economies, while financial deepening is associated more with the rising inequality in emerging and developing countries. In fact, as Rognlie (2015) notes, wealth dispersion is likely to have many other determinants apart from the difference between output growth and capital returns, as mentioned in Piketty (2014). Just to name a few, these include, according to Pichelmann (2015), educational institutions, globalization, changes in the structure of capital markets, and the functioning of housing markets.

Technological progress and the resulting skill premium, coupled with the erosion of certain labour market conditions, are likely to be the major drivers of rising inequality in advanced economies, while financial deepening is associated more with inequality increases in emerging and developing countries.

Concerning the much-debated issue of the economic relevance of inequality, available evidence suggests that income distribution matters for growth. In particular, Dabla-Norris *et al.* (2015)

find that for a set of 159 advanced, emerging and developing countries, the impact of increasing income shares on growth qualitatively depends on the income quintile. When the income share of the top 20 percent of the wealthiest people increases, GDP declines over the medium-term. However, increases in the income share of the bottom 20 percent are associated with higher GDP growth. This finding is consistent with the empirical results for OECD countries, in which the rise of income inequality between 1985 and 2005 is estimated to have subtracted almost 5 percentage points of cumulative growth between 1990 and 2010 (OECD, 2015).

The mechanisms that channel the impact between income inequality and poor growth are different across different groups of countries. In the developing world, income inequality is a symptom of material (food, health, education, housing) deprivation which, in turn, jeopardizes people's fundamental development. In advanced economies, the connections are likely to be more indirect: it is likely that high wealth concentration limits the investment opportunities for the broader society (OECD, 2015), it may engender the preconditions for financial crisis by intensifying leverage and overextending credit (Rajan, 2010), and it might even allow lobbyists to push for financial deregulation (Acemoglu, 2011). Finally, in extreme cases, income inequality may contribute (coupled with other social evils, such as corruption) to damaging trust, social cohesion and lead to costly conflict.

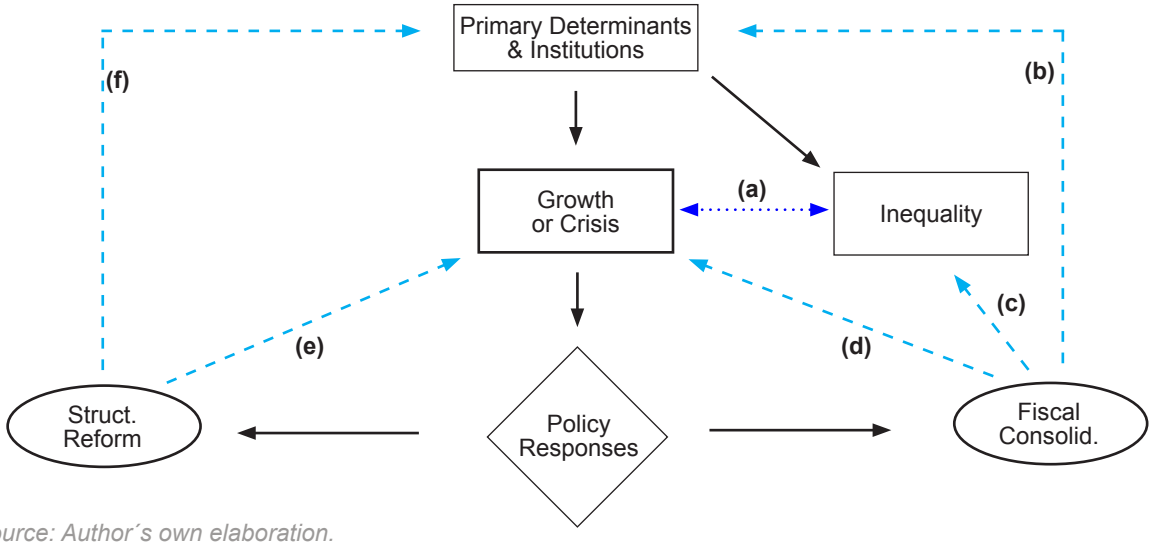
Conceptual framework

Based on a review of existing literature, Exhibit 1 depicts the likely relationships between economic policy reforms and income inequality.

The beginning of the cycle are the primary or fundamental determinants of economic growth: the amount and quality of several types of capital (human, physical, technological), the fundamental institutions and regulations that create the conditions for sustainable growth (ease of doing business, health and education systems, etc.) and even more intangible, but very important inputs such as the rule of law, trust and social cohesion. This fundamental block has two

Exhibit 1

Conceptual framework for the relationships between economic policy responses and inequality



Source: Author´s own elaboration.

types of impacts on inequality: one direct, closely related to the human capital of the country; and the other indirect, mainly through economic growth which, if properly distributed, may reduce income inequality.

For the cases in which growth needs to be re-stimulated, such as in the wake of a crisis, there are two broad types of policy interventions to undertake: fiscal consolidation (spending cuts and/or revenue increases) and structural (*i.e.* regulatory) reforms.

This simple framework generates six types of relationships, labeled from **(a)** to **(f)** in Exhibit 1, briefly discussed below.

The relationship between growth and income distribution is a much-debated issue (see above) and it is represented in Exhibit 1 by Relationship **(a)**.

Fiscal consolidation policies may have three different effects. Certain spending cuts (or revenue increases) have a structural impact on the proper functioning of the health, education or judiciary systems (just to name a few). These policies may increase inequality in the medium or long-run by jeopardizing growth - Relationship **(b)**. Even if fiscal consolidation instruments do not have structural effects on the fundamental determinants of growth, they end up having an impact either on inequality –Relationship **(c)**– or on growth -Relationship **(d)**.

Table 1

Summary assessment of growth and equity effects of fiscal consolidation instruments in OECD countries

	Growth		Equity	
	Short-term	Long-term	Short-term	Long-term
Spending cuts				
Education	- -	- -	-	- -
Health	- -	-	-	-
Other government consumption	- -	+	-	
Pensions		++		
Sickness and disability payments	-	+	- -	-
Unemployment benefits	-	+	-	
Familiy-related expenditure	-	-	- -	- -
Subsidies	-	++	+	+
Public investment	- -	- -		
Revenue increases				
Personal income taxes	-	- -	+	+
Social security contributions	-	- -	-	-
Corporate income taxes	-	- -	+	+
Enviromental taxes	-	+	-	
Consumption taxes	-	-	-	
Recurrent taxes on immovable property	-			
Other property taxes	-		++	+
Sales of goods and services	-	+	-	-

Source: Cournède et al. *(2013).*

The impact of structural reforms on income inequality tends to be more indirect through their impact on the growth model. Some reforms, like those of the labour and product markets (including the housing market), the business environment and certain areas of the public administration, have a direct impact on growth - Relationship **(e)**. Some other policy reforms aim at addressing more structural determinants of economic activity, like the schooling and education system, as well as certain welfare, health and family-support plans - Relationship **(f)**.

For examples of these relationships, Barkbu et al. (2012) and Varga and Veld (2014) provide estimations of the impact of structural reforms on growth in the EU. On the fiscal consolidation front, Cournède et al. (2013) present a taxonomy of the fiscal consolidation instruments and assess their likely impact on growth and equity, both in the short and the long-term, for the OECD countries (Table 1).

Table 1 offers several key takeaways. In the short-run, most fiscal consolidation plans are harmful to growth and in some instances, this adverse effect extends over the medium and long-run. This is the case, most notably, as regards cuts in education and public investment as well as increases in income taxes (personal and corporate) and increases in social security contributions. In the long-run, there are a series of fiscal adjustments that may enhance growth, but each fiscal instrument requires a separate analysis. For instance, for the pro-growth effects of reducing unemployment benefits to materialize, there can be no structural lack of demand and the reform should not prompt inefficient employee-job matches. Similarly, cuts in disability expenditure are conducive to growth only to the extent that there is scope for improvement in the corresponding national disability protection system (e.g. reducing the scope for relatively able workers receiving disability assistance). The case for the reduction in public subsidies is clearer as this removes distortions. In general, however, it is important to emphasize that there is no theoretical or empirical basis as to what is the optimal size of the public sector in the economy.

In the short-run, most fiscal consolidation plans are harmful to growth and in some instances, this adverse effect extends over the medium and long-run. Income inequality also tends to increase after fiscal consolidation episodes.

With respect to the implications of fiscal consolidation policies on equity, the most adverse effects correspond to expenditure cuts in basic services, like health, education and family-related expenditure. Therefore, on the basis of OECD work, pursuing these types of polices does not generate a growth-fairness tradeoff, but rather a worsening on both fronts. In contrast, the tradeoff is faced when considering increasing personal and income taxes: they have a positive and strong impact on equity but harm growth. This is in line with the findings of Darvas and Tschekassin (2015), who reach the conclusion that income inequality tends to increase after fiscal consolidation episodes.

The situation in Spain in the EU context

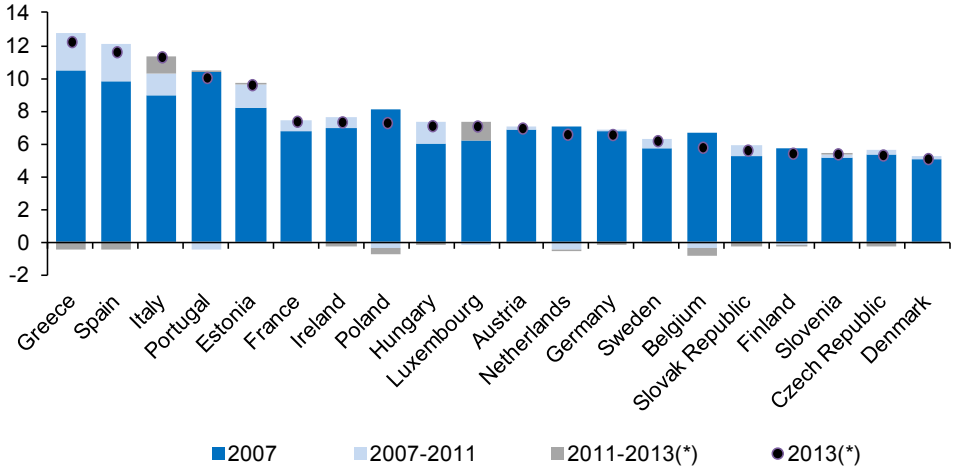
The situation before the crisis and reforms

Exhibit 2 represents the 90/10 share ratio, that is, the ratio of the average income in the top 10% of the income distribution to the average income in the bottom 10% for the set of EU countries for which the OECD reports data. The 90/10 share ratio is considered one of the basic indicators of income inequality and polarization.

Following this metric, Exhibit 2 shows that Spain was the second most unequal country by 2007,

Exhibit 2

Income share ratio (90/10): The ratio of average income of the top 10% income distribution to the average income of the bottom 10% of the income distribution

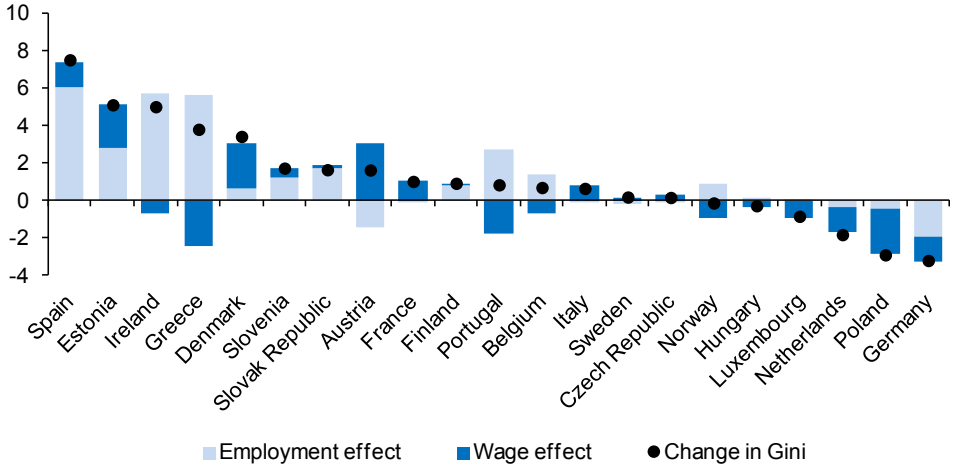


Note: (*) Represents the latest available year.The latest available data refer to 2014 for Hungary; 2013 for Finland and Netherlands and 2012 for the other countries. Data shown for 2011 refer to 2012 for Hungary. Data shown for 2007 refer to 2008 for France, Germany, Spain and Sweden.

Source: OECD (2015).

Exhibit 3

Decomposition of changes in the Gini coefficient of labour income: Percentage point change in Gini coefficient, 2007-2011, working-age individuals (*)



Note: (*) Gini coefficient of labour income among the entire working-age population estimated by assigning zero earnings to non-workers. Residuals excluded.

Source: OECD (2015).

only after Greece and that it is the country where income polarization expanded more in the period 2007 – 2011. Since 2011, in Spain and in most countries, there has been a slight correction of income polarization.

In Spain, the functioning of the labour market, which is a primary determinant of households' income, has significantly contributed to this increase in inequality. Exhibit 3 decomposes the increase in the Gini coefficient of labour income between 2007 and 2011 into two categories: the inequality increase due to job losses (employment effect) and the one due to reduction in wages (wage effect).

In line with the previous result, Spain is the country where labour income inequality grew most between 2007 and 2011 and the majority of this increase is the result of the surge in unemployment after the 2008 crisis.

The situation after the crisis and reforms

Fiscal consolidation

As mentioned above, the reduction in government spending in education and health is generally believed to hurt both economic growth and equity, in the short, medium and long-term alike. It is therefore important to monitor what happened to this type of expenditure as a result of the fiscal consolidation that several EU countries have undertaken since 2010.

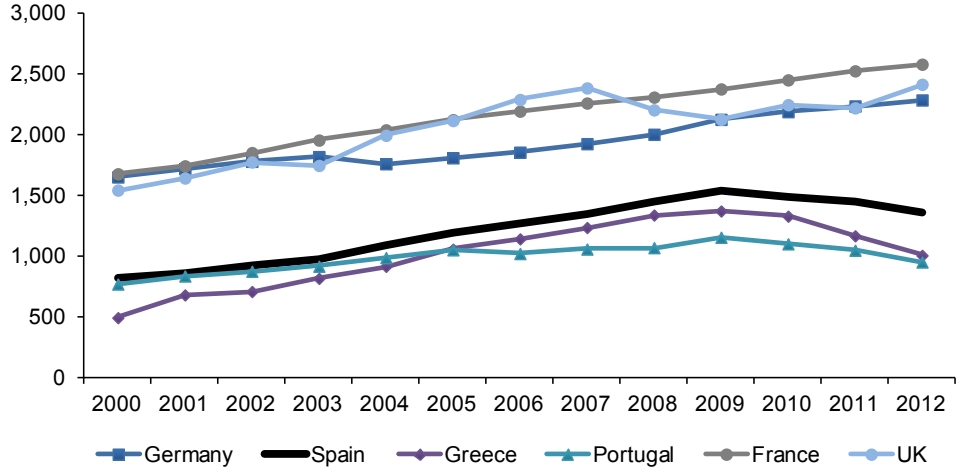
Exhibit 4 and Exhibit 5 represent total general government per capita expenditure in current prices, for health and education, respectively, from 2000 to 2012 in the three largest EU economies (Germany, the United Kingdom and France) and in the three EU countries that have adopted the most ambitious fiscal consolidation plans (Greece, Portugal and Spain).

Although countries in the second group have been systematically spending less than those in the first group, particularly on health, in all six countries (except in the UK), public expenditure steadily increased from 2000 to 2009 in both areas. However, since 2009 the two groups of countries followed different trajectories.

The three largest EU countries have continued expanding expenditure in these areas, while

Exhibit 4

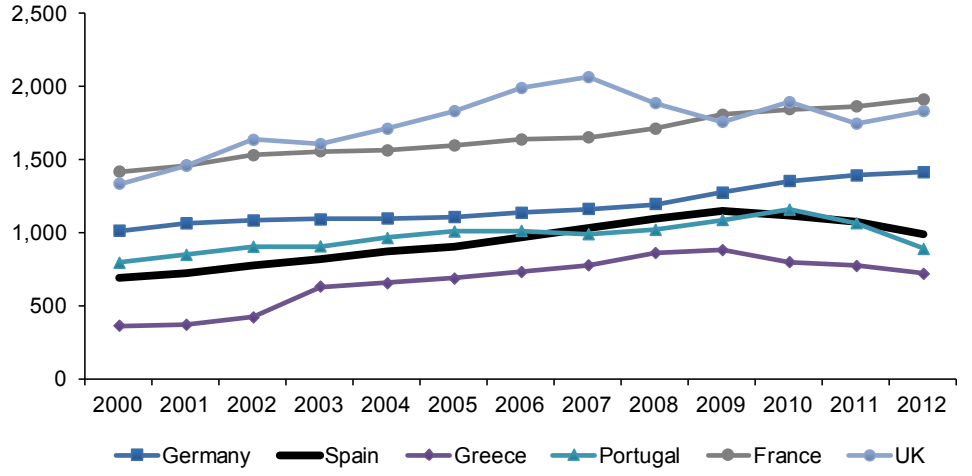
General government total expenditure per capita on health in current prices for selected EU countries



Source: Eurostat.

Exhibit 5

General government total per capita expenditure on education in current prices for selected EU countries



Source: Eurostat.

the three countries facing fiscal consolidation pressures have reduced it. This has resulted in the governments of Greece and Portugal spending nearly half the amount per capita on health and education than the governments of France and the UK in 2012, with Spain in the middle, but converging towards to lower spending group.

Focusing on the post-crisis period, and in a similar vein to Darvas and Tschekassin (2015), Table 2 shows the variation in public expenditure in health and education, from 2009 to 2012, in all EU-27 countries and for the EU-27 and EU-15 as a whole. Expenditure variations are reported in current prices and adjusted for population. Table 2 also includes the cumulative inflation rate in the 2009-2012 period.

Public expenditure on education and health has decreased in only 5 of the EU-15 countries between 2009 and 2012: Greece, Portugal, Ireland, Spain and Italy. In Spain, the reductions have been larger in education (-14.1% in population adjusted spending and -13% in current prices) than in health (-12.3% and -11.2%, respectively). To place these variations in context, it is useful to benchmark them with changes in two indicators. Firstly, in the EU-15 block, there has been an increase of 5.5% in health and 3% in education (in population-adjusted terms). So there is a marked divergence between Spain and the EU-15 and EU-27. Secondly, the cumulative inflation rate in Spain between 2009 and 2012 was 7.7%, so the reduction in public expenditure in real terms in health and education is underestimated by the variation in current prices.

As regards to cuts in health and education expenditure, there is a marked divergence between Spain and the EU-15 and EU-27.

Table 2

Variation in general government expenditure on health and education, 2009-2012, in current prices and adjusted for population. Pro-memoria: Variation in prices (HICP) 2009-2012

Percentage

	Health		Education		Memo. Price variation
	Current prices	Population adjusted	Current prices	Population adjusted	
EU-27*	6.6	5.6	4.2	3.5	8.0
EU-15	6.7	5.5	4.1	3.0	7.0
Belgium	14.1	10.6	11.9	8.4	8.5
Bulgaria	24.5	26.9	-7.3	-5.5	9.1
Czech Republic	9.2	8.3	8.0	7.2	7.0
Denmark	8.0	6.6	8.4	7.1	7.5
Germany	7.3	7.5	10.8	11.0	5.9
Estonia	15.1	16.0	12.2	13.1	12.5
Ireland	-13.4	-14.5	-2.5	-3.8	1.5
Greece	-27.3	-26.6	-19.3	-18.5	9.1
Spain	-11.2	-12.3	-13.0	-14.1	7.7
France	10.1	8.6	7.3	5.8	6.4
Italy	-0.1	-0.7	-7.8	-8.4	8.0
Cyprus	4.6	-3.3	-2.9	-10.3	9.4
Latvia	-1.5	4.2	-2.9	2.7	5.3
Lithuania	9.2	15.8	1.4	7.4	8.7
Luxembourg	13.7	6.9	23.4	16.1	9.7
Hungary	10.0	11.1	-4.4	-3.5	15.0
Malta	26.1	24.1	26.0	24.0	8.0
Netherlands	12.7	11.0	3.0	1.5	6.4
Austria	7.2	6.2	7.8	6.8	8.0
Poland	10.6	10.8	20.1	20.3	10.6
Portugal	-17.8	-17.6	-18.4	-18.3	7.9
Romania	-9.7	-8.2	-18.0	-16.5	16.0
Slovenia	-1.7	-2.8	-2.1	-3.2	7.2
Slovakia	-10.4	-10.8	0.3	-0.1	8.7
Finland	14.9	13.4	7.7	6.2	8.4
Sweden	34.2	31.0	31.5	28.4	4.3
United Kingdom	16.2	13.5	6.6	4.2	11.0

Note: (*) EU-27 excludes Croatia from EU-28 due to lack of data for this county. EU-15 includes Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, United Kingdom, Austria, Finland and Sweden.

Source: Eurostat.

Structural reforms

It is well known that it takes time for structural reforms to deliver expected results. One of the most relevant structural reforms undertaken in Spain has been the labour market reform adopted in 2012 (see García Perez and Jansen (2015) for a general assessment of the reform and Fernández Kranz (2015) for an specific evaluation of the impact of the reform on wages).

The initial assessment by Fernandez Kranz (2015) suggests that the group of workers known as "movers," *i.e.* those workers who have changed employer and might be unemployed for some time, have suffered most of the adjustment. In particular, on average, between 2008 and 2013, wages have decreased 17% for movers and 1.6% for "stayers" (*i.e.* workers that have remained in the same company throughout the period). These are the average changes across the entire wage distribution, but the variation between quintiles shows that the wages for the lowest quintile of "movers," *i.e.* the 20% of "movers" that earn the lowest wages, have decreased by more than 20% between 2008 and 2013. Although this evidence is preliminary and limited, it suggests that the labour market reform is likely to have had an adverse redistributive effect.

Preliminary evidence suggests the labour market reform is likely to have had an adverse redistributive effect.

Conclusions

The severe economic crisis that hit Spain and a number of other EU countries in 2008 required a bold policy response, both in terms of fiscal discipline and pro-growth structural reforms. It seems the worst-case scenarios have been avoided, but now it is time to begin assessing the redistributive "side-effects" of the actions taken since 2010, when the reformist agenda gained momentum. It is a well-established fact that Western societies are becoming more unequal since the 1970s, and therefore, it is relevant to know whether the crisis and the policy reaction it prompted have smoothed or exacerbated this long-run trend.

In terms of fiscal consolidation plans, it is clear that the policy reaction in Spain and in some other EU countries has been regressive. There is robust evidence that public spending on health and education achieves both growth and fairness goals. However, the long-term trend that many "peripheral" EU governments have followed of steadily increasing funds in these two areas was abruptly stopped after 2009. In 2012, the latest year for which data are available, the expenditure per capita on health and education in Greece and Portugal is half that of France and the UK, with Spain somewhere in the middle but converging to the lowest values. This supports some of the empirical evidence regarding Spain´s poor recent performance on various equality indicators.

Regarding the redistributive impact of structural reforms, the evidence is much more limited because not enough time has passed since the reforms´ adoption. For this reason, in Spain, we focus on measuring the impact of the labour market reform. And even for this particular instance, the available information is scarce. As recent work by Fernández Kranz (2015) suggests, the reform has placed most of the burden of the adjustment on the lower-wage "movers" (*i.e.* workers that change employer). Although this is only an initial and partial exploration of the phenomenon, and more research in this field is clearly justified, the results are not encouraging in terms of the redistributive impact of the labour market reform in Spain.

References

Acemoglu, D. (2011), "Thoughts on Inequality and the Financial Crisis". Presentation at the American Economic Association Annual Meeting. January 7.

Atkinson, A.B. (2015), *Inequality. What Can Be Done?.* Harvard University Press.

Barkbu, B.; Rahman, J., and R. Valdés (2012), Fostering Growth in Europe Now, IMF *Staff Discussion Note,* SDN/12/07.

Cingano, F. (2014), "Trends in Income Inequality and Its Impact on Economic Growth," OECD Social, Employment and Migration *Working Papers* No. 163.

Cournède, B.; Goujard, A., and Á. Pina (2013), "How to Achieve Growth- and Equity-friendly Fiscal Consolidation? A Proposed Methodology for Instrument Choice with an Illustrative Application to OECD Countries," OECD Economics Department *Working Papers,* No. 1088.

Dabla-Norris, E.; Kochlar, K.; Suphaphiphat, N; Ricka, F., and E. Tsounta. "Causes and Consequences of Income Inequality: A Global Perspective," IMF *Staff Discussion Note,* SDN/15/13.

Darvas, Z., and O. Tschekassin (2015), "Poor under pressure: The Social Impact of Europe's Fiscal Consolidation," *Bruegel Policy Contribution,* Issue 2015/04.

Fernández Kranz, D. (2015), "Spanish wages during the Great Recession: Has the 2012 labour reform had an impact," *Spanish Economic and Financial Outlook (SEFO),* Vol. 4, No. 3: pp. 29–39.

García Pérez, J.I., and M. Jansen (2015), "Assessing the impact of Spain's latest labour market reform," *Spanish Economic and Financial Outlook (SEFO),* Vol. 4, No. 3: pp. 5–15.

OECD (2015), *In It Together. Why Less Inequality Benefits All.*

Pichelmann, K. (2015), "When 'Secular Stagnation' meets Piketty's capitalism in the 21st century. Growth and inequality trends in Europe reconsidered," *Economic Papers* 551.

Piketty (2014), Capital in the Twenty-First Century. Harvard University Press.

Rajan, S. (2010), Fault Lines. Princeton University Press.

Rognlie, M. (2015), Deciphering the fall and rise in the net capital share. Brookings Papers in Economic Activity. Conference Draft.

Varga, J., and J.I. Veld (2014). The potential growth impact of structural reforms in the EU. A benchmarking exercise, *Economic Papers* 541.

Will improved economic conditions bring fiscal stability?

Santiago Lago Peñas[1]

The latest update of Spain´s Stability Programme contains relevant changes to the central government´s forecasts for economic and fiscal variables. The programme is largely viewed as achievable but ambitious, with the greatest risks of non-compliance on the expenditure side.

The latest update of Spain´s Stability Programme for the period 2015-2018 reflects more ambitious expenditure reduction efforts and a more favourable macroeconomic scenario for the first two years of the period than in the previous version. However, the following period, from 2017-2018, is characterized by greater uncertainty over the ability to execute deficit reduction plans due to the disappearance of favourable external shocks, the current output gap, and uncertainty surrounding upcoming general elections. The updated programme reflects a fiscal adjustment centred mainly on expenditure reduction through an increase in the denominator, the drop in items such as debt interest and unemployment payments, and the virtual freezing of expenditures on most items. On the whole, the government´s proposed deficit figures are more optimistic than those published by international organizations and institutions for 2015-2016. Nevertheless, there is consensus that the fiscal consolidation path adopted by the government is feasible, although ambitious and subject to considerable risks related to effective execution of planned expenditure measures and the fiscal performance of the social security system and the autonomous regions. Finally, expenditure cuts should be applied with careful consideration given to minimizing their potential negative impact on the provision of public services.

Introduction

The update of Spain´s Stability Programme (Ministry of Finance and Public Administration, 2015) envisions substantial changes to the central government´s forecasts for economic and fiscal variables. This paper critically assesses the new scenario. Firstly, it analyses the macroeconomic framework outlined to 2018. It subsequently evaluates how this fits in with the evolution of public revenues and expenditure, in light of the discretionary measures envisaged in the document itself, which affect both sides of the budget. Finally, it examines the fiscal implications between now and 2018 on the management of public services and their quality, taking a comparative view relative to other European Union countries.

[1] Professor of Applied Economics and Director of GEN University of Vigo.

The new macroeconomic scenario

The stability programme update includes a macroeconomic framework for the four-year period from 2015 to 2018, summarised in Table 1. For analytical purposes, two two-year periods can be distinguished. For 2015-2016, various estimates are available from international organisations and private analysts. In general, the central government outlook is in line with the OECD, IMF, and European Commission forecasts and the FUNCAS consensus forecasts panel (Table 2). Indeed, FUNCAS' latest estimates indicate higher real GDP growth (3.3% in 2015 and 3.0% in 2016). The international economic situation appears to be more favourable now than just six months ago. The Spanish economy is also supported by low oil prices, depreciation of the euro, the European Central Bank's expansionary monetary policy, and the cut in personal income tax (IMF, 2015).

This scenario is in contrast to the period from 2017-2018, when the majority of the favourable shocks referenced above will no longer apply; forecasts become more uncertain; and political will and government targets become more important relative to the strictly technical components of the forecast calculations. In this regard, the solution the central government has opted for is understandable. The severe recession experienced by the Spanish economy during the five-year period from 2009-2014 now requires a sustained period of economic expansion to: normalise employment indicators; substantially reduce public debt and external debt ratios (as percentages of GDP), and help meet fiscal consolidation aims. Having to choose between prudence and ambition, the Spanish government has opted for the latter in an effort to stimulate recovery in the very short term by improving expectations. However, the deficit reduction plans for 2017-2018 are subject to much greater uncertainty over their effective execution. They essentially depend on whether the favourable economic climate continues, despite the disappearance of the aforementioned exogenous positive shocks and the current output

Having to choose between prudence and ambition, the Spanish government has opted for the latter in an effort to stimulate recovery in the very short term by improving expectations.

Table 1
Macroeconomic outlook

	2014	2015	2016	2017	2018
1. Real GDP	1.4	2.9	2.9	3.0	3.0
2. Nominal GDP. Billion euros	0.9	3.6	3.8	4.2	4.6
Components of real GDP					
3. Private national final consumption expenditure (*)	2.4	3.3	2.9	2.7	2.5
4. General government final consumption expenditure	0.1	0.1	0.1	1.0	1.5
5. Gross fixed capital formation	3.4	6.3	5.8	5.9	5.9
6. Changes in inventories (% GDP)	0.2	0.0	0.0	0.0	0.0
7. Exports of goods and services	4.2	5.4	6.0	5.8	5.7
8. Imports of goods and services	7.6	6.7	6.4	6.3	6.2

Note: (*)Comprises households and NPISHs (non-profit institutions serving households).
Source: The author, based on Ministry of Finance and Public Administration (2014 and 2015).

gap (Fernández-Sánchez, 2015; AIReF, 2015). Furthermore, general elections are due to be held in late 2015, which could lead to a change of government and, consequently, possible modifications to the strategy of fiscal consolidation for the rest of the decade.

Table 2
Real GDP growth outlook for Spain. International organisations and FUNCAS

	2015	2016
European Commission (May 2015)	2.8	2.6
IMF (June 2015)	3.1	2.5
OECD (June 2015)	2.9	2.8
Bank of Spain (June 2015)	3.1	2.7
FUNCAS (July 2015)	3.3	3.0
FUNCAS consensus (July 2015)	3.1	2.7

Source: The author.

The new paths for public income and expenditure

Table 3 shows two paths of public expenditure and non-financial income expressed as a percentage of GDP. The path forecast by the current 2015-2018 Programme and the one found in the 2014-2017 Stability Programme. The public deficit that would arise if the government failed to carry out envisaged income and expenditure adjustment measures is also included in the new stability programme document.

The table allows several comparisons to be made. The first centres on the effect of the government´s planned discretionary measures. For the period as a whole, the forecast drop in the public deficit is 5.4 points of GDP, of which 31% would be a direct consequence of the government's measures and the remaining 69% associated with the improvement in economic conditions and other factors that are expected to have a greater impact on expenditure than on revenues. Exhibit 1 shows the breakdown of the fiscal adjustment. The automatic component of the adjustment centres basically on the expenditure ratio. While revenues stabilise at 38% of GDP, disbursements would fall

The forecast drop in the public deficit is 5.4 points of GDP, of which 31% would be a direct consequence of the government's measures and the remaining 69% associated with the improvement in economic conditions and other factors that are expected to have a greater impact on expenditure than on revenues.

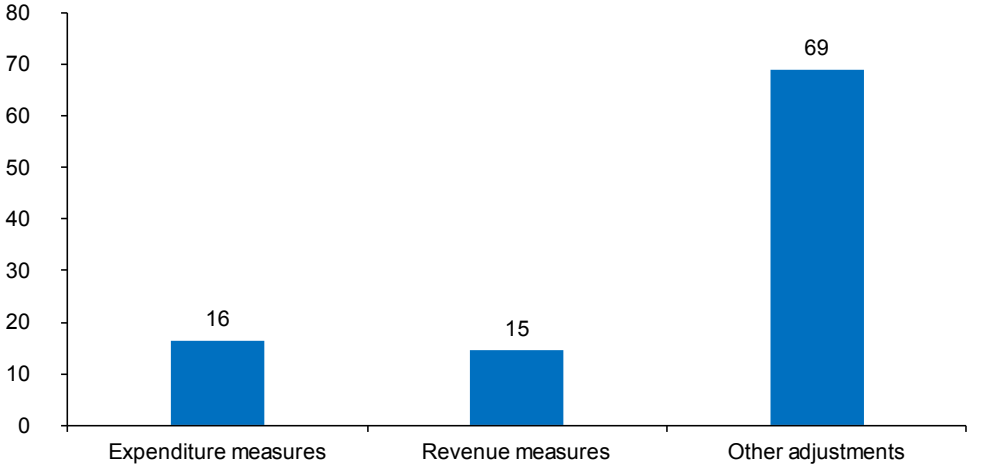
Table 3
Expenditure, revenue and deficit forecasts 2014-2018

		2014	2015	2016	2017	2018
2015-2018 Stability programme	Total revenue	37.8	37.8	37.8	38.0	38.1
	Total expenditure	43.5	42.0	40.6	39.5	38.4
	Balance	-5.7	-4.2	-2.8	-1.4	-0.3
	Balance without measures	-5.7	-4.8	-3.9	-3.0	-2.0
2014-2017 Stability programme	Total revenue	38.5	38.8	38.9	39.0	
	Total expenditure	44.0	43.0	41.7	40.1	
	Balance	-5.5	-4.2	-2.8	-1.1	

Source: The author, based on Ministry of Finance and Public Administration (2014 and 2015).

Exhibit 1

Percentage breakdown of budgetary adjustment 2015-2018



Source: Bank of Spain.

nearly four points over the 2015-2018 period as a result of the increase in the denominator, the drop in expenditure items such as debt interest payments or unemployment benefits, and the virtual freezing of expenditure on most items, as we shall see in the following section.

Also of interest is a comparison of the budgetary stability programme update itself to the previous programme. Although the deficit targets for 2015 and 2016 are identical, there is a significant change in the path of public spending and revenue. The reference for the latter drops from 39% to 38%, while spending intensifies its fall to stand one point below the percentage forecast in the 2014-2017 programme for 2015 and to come to reach slightly above 38% in 2018. The change on the spending side can be explained by the fact that faster economic growth is anticipated to have a greater impact on the relevant items than forecast last year and intensifies the ratio's drop. On the revenues side, the new path could be anticipating new tax cuts over and above those already approved.[2] These cuts would cancel out the effect generated by a tax system that is elastic to GDP growth; and the commitment to strengthening the fight against tax evasion. Indeed, AIReF (2015) classes the revenue forecasts to 2018 as very prudent, above all in the case of direct taxes, bearing in mind the pattern of cyclical recovery in tax collection.

Finally, the forecast deficit for 2017 has been increased by three tenths from the previous version of the stability programme, entirely as a result of reduced public revenues. This relaxation of fiscal consolidation contrasts with the significant improvement of the macroeconomic picture.

The government´s proposed public deficit figures for 2015-2016 are more optimistic than those published by international organisations and institutions. The recent FUNCAS forecast[3] situates the public deficit at 4.6% of GDP in 2015 and 3.4% in 2016, figures 4 and 6 tenths of a percent higher than those in the 2015-2018 stability programme. The FUNCAS consensus forecasts panel published in July 2015 reports

[2] Bankia also takes this view (2015).

[3] http://www.funcas.es/prensa/NotasPrensa.aspx?file=170

slightly lower figures, but higher than those of the government: 4.4% and 3.2% For its part, the European Commission considers that the deficit will stand at 4.5% and 3.5% for 2015 and 2016, respectively (European Commission, 2015).

Particularly illustrative is AIReF's disaggregated analysis of the period 2015-2018 as a whole (2015). AIReF takes the view that the deficit reduction is achievable but ambitious. It is on the spending side that it sees the risks of non-compliance, particularly as regards the adoption of budget policy measures and decisions. Summarising:

- The measures envisaged in the Program (not replacing all workers who retire) will not be sufficient to produce the forecast drop in the employee compensation budget item (-1.3% of GDP).

- AIReF expresses some doubts about the effectiveness of the spending rationalisation measures adopted in the framework of the Commission for the Reform of the Public Administration (CORA in its Spanish initials) and the new health-spending rationalisation instrument (currently at the approval stage) in bringing down intermediate consumption and transfers in kind on the scale forecast (-1% of GDP).

- Gross fixed capital formation would be situated at historic lows (2% of GDP), which could cause a problem given the deferral of investments previously committed to during the crisis years.

- In comparison with the adjustment that took place in 1995-1999, on a relatively similar scale, there are various elements that make the current adjustment more demanding and harder to apply. Nominal GDP growth will be much lower (an annual average rate of 6.7% *vs* 4.0%), public revenues previously helped the adjustment substantially more than now forecast (1.3% *vs* 0.4% of GDP), the cut in public investment in 1995-1999 was much greater than that for 2015-2018 (-1.2% *vs* 0.3%), due to the starting point being much higher. And the same is true of the reduction in the interest burden (-1.5% *vs* -0.8%). All this increases the relevance of uncertainty over the impact of measures affecting employee compensation, intermediate consumption, and transfers in kind mentioned above, which are a central pillar of the current process of fiscal consolidation.

- Finally, from an institutional perspective, the biggest risks are at the social security system and regional government levels.

The recent European Commission evaluation (European Commission, 2015) basically agrees with AIReF's conclusions, but is less detailed. The Commission insists that the consolidation strategy is based in particular on a substantial and sustained improvement in the economic situation, neglecting the risks that increase over the medium-longer term, which can be construed as an implicit criticism. It also considers that the improvement in the structural deficit is insufficient and that there is no guarantee that the savings envisaged up to 2018 will materialise, given the lack of detail on some of the measures announced.

Finally, the International Monetary Fund (IMF, 2015) again refers to the need to provide greater detail over the measures announced, and focuses its attention on the regional level of government and the challenges it poses for fiscal consolidation. Firstly, it points to the existence of scope for savings and for the introduction of co-payments for health and education. Secondly, it advocates reforming regional financing so as to bolster the autonomous regions' capacity and incentives to consolidate their accounts. Thirdly, it recommends improving supervision and control over fulfilment of fiscal objectives. And fourthly, it suggests exploring the idea of setting asymmetrical regional deficit targets, depending on structural differences in capacities and needs for adjustment[4].

[4] For more on reforms at the regional level in Spain, see Lago-Peñas (2015).

In short, the fiscal consolidation horizon to 2018 in Spain is seen as feasible but ambitious and subject to considerable risks. Firstly, because it is particularly dependent on GDP growth and correction of the wide output gap that opened up over the period 2009-2013. Although the outlook is very good, some of the drivers benefiting the Spanish economy today could start to lose momentum in 2016. Secondly, because consolidation does not focus on increasing public revenues but is based on adjustments to employee compensation, intermediate consumption, and investment to a much larger degree than in Spain's previous fiscal consolidation efforts (1995-1999). Thirdly, because a large part of the measures announced under the spending headings referred to are not clearly defined and the savings are uncertain. And fourthly, because concerns over the autonomous regions have re-emerged with the deviations in the execution of the 2014 budget in a sizeable number of regions. There is undoubtedly still much to be done.

The fiscal consolidation horizon to 2018 in Spain is seen as feasible but ambitious and subject to considerable risks.

Further reflections on 2018 fiscal targets

Table 4 compares real spending in per capita terms in 2013 and 2018 from a functional perspective. Data are given in terms of GDP and the cumulative percentage variation in real GDP and per capita terms, which are virtually the same in nominal and absolute terms, because the variation in the GDP deflator and the population cancel one another out.[5] The cut in general public services stands out, linked to public administration reform and the forecast drop in debt

Table 4

Structure of expenditure by functions in 2013 and 2018

	Expenditure/ GDP 2013(*) (1)	Expenditure/ GDP 2018 (2)	(1)-(2)	Change in real per capita expenditure as a cumulative percentage
General public services	6.9	5.5	-1.3	-7.1
Defence	0.9	0.8	-0.1	1.2
Public order and security	2.0	1.7	-0.3	-1.7
Economic affairs	4.0	3.7	-0.3	6.7
Environmental protection	0.8	0.7	-0.1	-2.9
Housing and community services	0.5	0.4	-0.1	-2.3
Health	6.0	5.3	-0.8	0.6
Recreational, cultural and religious activities	1.1	1.0	-0.2	-0.7
Education	4.0	3.7	-0.4	4.0
Social protection	17.6	15.7	-1.9	2.7
Total expenditure	**43.8**	**38.4**	**-5.4**	**0.9**

Note: (*)The 2013 figure does not include financial aid to the banks.

Source: Ministry of Finance and Public Administration (2015).

[5] Specifically, for 2014 to 2018, the series forecast by the Ministry for the public consumption deflator is: -0.9%; 0.0%; 0.1%; 0.7%; and, 0.7%. The cumulative variation would be 0.6%. According to National Statistics Institute (INE) forecasts, in 2018, Spain's population will be 46,237,861, which represents a change of -0.8% from the population in 2013 (46,593,236).

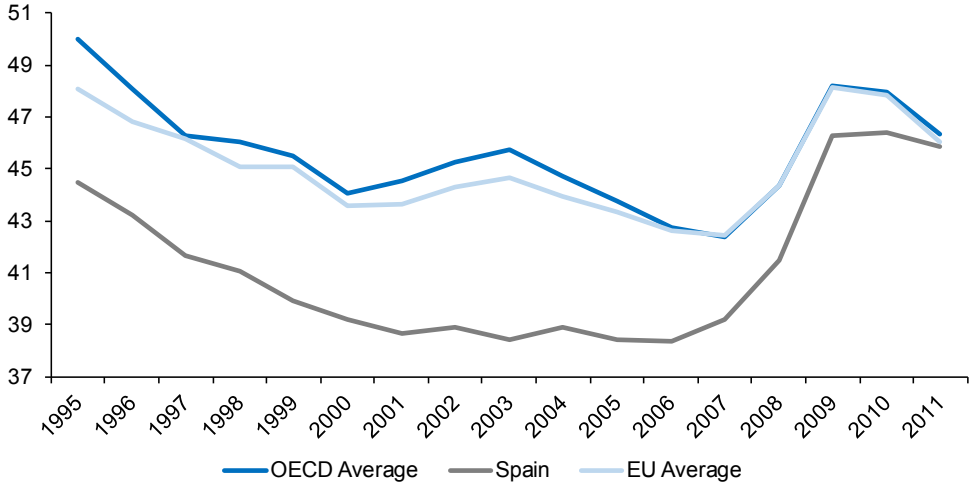
service payments; and public health spending, which will contract substantially in GDP terms and stagnate in absolute terms. Social protection spending will also drop significantly, mainly due to the expected reduction in unemployment benefits. Finally, education emerges as one of the most expansionary categories of public expenditure, but loses four tenth of its weight in GDP terms.

What are the implications of the foregoing? Firstly, the government's targets situate public expenditure at the minima reached during the last decade, such that the 38.4% announced should not be seen as an anomaly in historical terms (Exhibit 2). Nevertheless, it is true that returning to this level will probably lead again to a wide gap (of around four percentage points) with respect to the average for OECD and EU countries.

Table 5 shows the preceding public expenditure series broken down by functions. Looked at in conjunction with Table 4, the outlook for spending on education, health, and economic affairs is particularly striking. An investment of 3.7% of GDP in education would put Spain near the bottom of the table in both the EU and the OECD. Bearing in mind that there is also empirical evidence suggesting that resources are used less efficiently than in other countries (Lago-Peñas and Martínez-Vázquez, 2015), the picture is bleak and inconsistent with the importance the European Commission attaches to investment in education. In the case of health spending, on the other hand, studies suggest resources are being used highly efficiently, but the plans for 2018 entail a spending freeze in current terms and a notable gap with comparable countries. Finally, the disbursement on economic affairs is at historic lows. This heading includes significant items such as R&D spending and infrastructure investment. In the case of R&D, Spain's negative differential is well known. The progress made in the last decade was largely lost as a result of the cuts. Conversely, Spain has been strongly committed to public investment since the eighties, enabling it to make up for historical deficits, but unfortunately has also engaged in many projects with doubtful social returns. Consequently, the internal distribution of expenditure on economic affairs over the next four years should emphasise intangible (R&D) over physical investments, and unquestionably be more selective in what it does through a more

Exhibit 2

Total public expenditure as a percentage of GDP in Spain, the OECD, and the EU, 1995-2011



Sources: Lago-Peñas and Martínez-Vázquez (2015) based on OECD National Accounts at a Glance *(2014), Eurostat* General Government Expenditure by Function *(2015).*

Table 5

Public expenditure: Total and by functions as a percentage of GDP. Averages for period 1995-2011

Percentage

	Total expenditure	General public services	Defence	Public order and security	Economic affairs	Environmental protection	Housing and community services	Health	Recreational activities, culture and religion	Education	Social protection
OECD	45.6	6.8	1.7	1.7	4.9	0.7	0.9	6.2	1.3	5.7	15.9
Spain	41.2	5.6	1.1	1.9	5.0	0.9	1.0	5.6	1.4	4.5	14.0
European Union	45.1	6.7	1.5	1.8	5.0	0.7	0.3	5.8	1.2	5.5	15.9

Sources: Lago-Peñas and Martínez-Vázquez (2015) based on OECD National Accounts at a Glance *(2014), Eurostat* General Government Expenditure by Function *(2015).*

widespread use of ex-ante analysis of social rates of return. Given that when it comes to public resources, austerity continues to dominate the horizon, it should be taken more seriously so that fiscal consolidation has the lowest possible cost in terms of quality of public services delivered to businesses and the public.

References

AIReF (2015), *Informes sobre el proyecto de actualización del Programa de Estabilidad del reino de España 2015-2018,* 5-5-2015.

Bankia (2015), "España: programa de Estabilidad 2015-2018", https://www.bankiabancaprivada.es/Ficheros/CMA/ficheros/BPR_PDF_Programa_Estabilidad_2015-2018.PDF, 7-5-2015.

European Commission (2015), Assessment of the 2015 Stability Programme for Spain, http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2015/09_es_scp_en.pdf, 27-5-2015.

Fernández-Sánchez, M.J. (2015), *Un programa difícil de cumplir,* http://blog.funcas.es/un-programa-dificil-de-cumplir/, 18-5-2015.

IMF (2015), *Spain: Concluding Statement of the 2015 Article IV Mission,* http://www.imf.org/external/np/ms/2015/060815.htm, 8-6-2015.

Lago-Peñas, S. (2015), "Remaining challenges to budgetary stability", *SEFO 4* (2): 53-60.

Lago-Peñas, S., and J. Martínez-Vázquez (2015), "El gasto público en España en perspectiva comparada: ¿Gastamos lo suficiente? ¿Gastamos bien?", *Papeles de Economía Española,* forthcoming.

Ministry of Finance and Public Administration (2015), *Actualización del Plan de Estabilidad del Reino de España 2015-2018 [Update to the Kingdom of Spain's Stability Plan 2015-2018] page.*

Recent key developments in the area of Spanish financial regulation

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

Law on recovery and resolution of credit institutions and investment firms (Law 11/2015, published in the BOE on June 19th, 2015)

The purpose of Law 11/2015 is to regulate the early intervention and resolution processes for credit institutions and investment firms established in Spain, thereby transposing into Spanish legislation Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms. The Law will be applicable as of the day following its publication in the BOE (Official State Gazette), except in the case of the rules on internal recapitalisation and Deposit Guarantee Fund stress tests, which will come into force on January 1st, 2016, and July 3rd, 2017, respectively.

The Law will apply to:

- credit institutions and investment firms established in Spain,
- certain financial institutions established in Spain, other than insurance and reinsurance undertakings,
- financial holding companies, mixed financial holding companies, and mixed-activity holding companies established in Spain.
- financial holding companies and mixed financial holding companies from other European Union Member States whose supervision on a consolidated basis corresponds to one of the national supervisors, and
- branches of institutions established outside the EU.

The **main features** of the Law are described in what follows.

I. EARLY INTERVENTION

- **Planning early intervention: Recovery plan**

As a preventive measure, all institutions are to prepare and keep up-to-date a **recovery plan** envisaging the measures and actions to be adopted to restore their financial position if any of them suffer a serious deterioration.

The Law also requires the signature of agreements between institutions and their integrated subsidiaries under consolidated supervision for the provision of financial aid in the case any of them find themselves in any of the situations in which early intervention is envisaged.

The obligation to prepare a **general feasibility plan,** as referred to by Law 10/2014 and Law 24/1988 will be deemed to have been complied with when a recovery plan has been prepared.

■ **Early intervention**

When an institution **breaches or it is reasonably likely,** in the near future, **that it will breach** the solvency, organisation and discipline regulations, but is in a position to **return to compliance by its own means,** the relevant supervisor will declare the start of early intervention.

The Law establishes the **early intervention measures** that the relevant supervisor may adopt. These measures will require **monitoring**, which shall consist of the institution's sending (at least) quarterly reports on its level of compliance with the measures.

The relevant supervisor may decide to take **control of the institution or provisionally replace its administrative or management body.** These measures shall remain in place for a year. Exceptionally, this period may be renewed for further periods of equal length while the conditions justifying the provisional control or replacement persist.

During this early intervention phase, the Fund for Orderly Restructuring of the Banking Sector (FROB) may also take all the necessary steps to prepare the evaluation of the institution's assets and liabilities, and require that the institution contact possible buyers in order to prepare for its resolution.

II. PREVENTIVE PHASE OF RESOLUTION

■ **Planning resolution**

As a preventive measure, the preventive resolution authority will prepare and adopt, following a report from the FROB and the relevant supervisor, and following consultations with the resolution authorities, **a resolution plan for each institution that is not part of a group subject to supervision on a consolidated basis.** This plan will contain the resolution measures the FROB may apply if the institution complies with the envisaged conditions. When impediments to the institution's resolvability are detected, the obligation to draw up a resolution plan will be suspended until these impediments are eliminated.

Resolution plans will be **updated** at least annually and in the following cases: (i) whenever there is a change in the institution's legal or organisational structure that may significantly affect the plan's effectiveness or require changes to it; or (ii) whenever the preventive resolution authority sees fit, on its own initiative or at the request of the FROB.

■ **Resolvability assessment**

On drawing up a resolution plan, the preventive resolution authority will deem an institution to be resolvable if, should the circumstances requiring its resolution arise, it would be possible to liquidate it through insolvency proceedings or resolve it under this Law, in such a way that the continuity of the essential functions performed by the institution are guaranteed and that the process does not result in significant adverse effects on the Spanish financial system or that of the EU. The Law mentions the alternative measures that may be adopted to eliminate the impediments that may arise.

III. RESOLUTION

■ **Conditions for resolution**

Action will be taken to resolve an institution when all the following conditions are **met simultaneously:**

a) The institution is **failing** or is likely to fail in the near future.

b) There is no **reasonable prospect** that any private sector measures, supervisory action, or the write-down or conversion of relevant capital instruments would prevent the failure of the institution within a reasonable timeframe.

c) A resolution action is necessary or advisable in the **public interest** to achieve any of the objectives stated in the Law, insofar as the liquidation of the institution under insolvency proceedings would not reasonably enable these objectives to be achieved to the same extent.

■ **Start of the resolution process**

The relevant supervisor will decide if the institution is failing or is likely to fail in the near future and will inform the FROB and the relevant preventive resolution authority.

The FROB will ascertain whether the circumstances envisaged for the institution's resolution exist, and if so, decide to start the resolution procedure immediately.

■ **Replacement of the management body or senior management or similar as a resolution measure**

After starting the resolution process, the FROB will decide and make public the **replacement** of the management body or senior management or similar and the appointment of legal or natural persons, acting in its name and under its control, as the institution's administrators, who will exercise the powers and functions of this role. In certain extraordinary circumstances, the FROB may decide not to replace the institution's management in this way.

The replacement of the institution's management will remain in effect for a **period of up to one year.** However, exceptionally, the FROB may extend this period when it considers it appropriate in order to complete the resolution process.

The FROB will approve the special administrator's framework of action, including the periodic information to be prepared on the administrator's performance of his functions, and his appointment will be published immediately in the BOE.

■ **Resolution tools:**

The FROB may adopt the following **tools** to carry out resolution:

- ✓ Sale of the institution's business.
- ✓ Transfer of assets/liabilities to a bridge institution.
- ✓ Transfer of assets/liabilities to an asset management company.
- ✓ Internal recapitalisation, also known as a bail-in.

IV. WRITE-DOWN AND CONVERSION OF CAPITAL TOOLS AND BAIL-IN MECHANISM

One of the new tools made available by this new law is the **bail-in** mechanism, whereby the institution's shareholders and creditors **absorb the institution's losses.** This measure may be adopted to:

a) **Recapitalise the institution** such that it is able to remain in business and retain market confidence.

b) Convert into capital or reduce the principal of loans or debt instruments transferred on **applying resolution tools** comprising the creation of a bridge institution, sale of business or asset separation.

In order to internally recapitalise the institution undergoing resolution, the FROB will decide on the write-down of any of the institution's liabilities or their conversion into shares or other equity instruments. The FROB will conduct a prior **valuation of the assets and liabilities,** which will form the basis for calculating the amount needed to recapitalise the institution.

The FROB will **implement the write-down or conversion of capital instruments** in

accordance with the priority of claims in the insolvency proceedings:

a) Items of **Common Equity Tier 1** (CET1) will be written-down first, in proportion to losses, and to the extent possible.

b) If the above amount is not sufficient to recapitalise the institution, the principal amount of **Additional Tier 1 capital instruments** (AT1) will be written down or they will be converted into CET1 instruments, or both, insofar as is necessary to achieve resolution objectives, or if the amount is less, to the extent possible.

c) If the above amounts are not sufficient to recapitalise the institution, the principal amount of the **Tier 2 capital instruments** (T2) will be written down or they will be converted into CET1 instruments, or both, insofar as is necessary to achieve resolution objectives, or if the amount is less, to the extent possible.

Mechanisms are also provided to **compensate creditors and shareholders** if it is found that, after the bail-in, the level of write-down based on the preliminary valuation exceeds the requirements resulting from the definitive valuation.

All **liabilities not expressly excluded** or not excluded by the FROB's decision, will be eligible for write-off or conversion into capital in order to internally recapitalise the affected institution.

- **Minimum requirement for own funds and eligible liabilities (MREL)**

Institutions must comply with the MREL laid down by the preventive resolution authority at all times. This will be calculated as the **amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution.**

- **Business reorganisation plan**

The FROB will require that the institution's administrative and management body, or the person or persons appointed for this purpose, submit a **business reorganisation plan** containing the measures to restore the **long-term viability of the institution** or a part of its activities within a reasonable timeframe.

- **Contribution to the National Resolution Fund**

When the shareholders and creditors of the institution under resolution have contributed to the absorption of the losses and internal recapitalisation for an amount of, **at least, 8% of the total liabilities,** and this is insufficient, recourse to the **National Resolution Fund** will be possible for an amount not exceeding **5% of the total liabilities.**

Fulfilment of the above condition (8% of total liabilities) may be replaced by that of the following conditions:

a) that the contribution to the absorption of losses and internal recapitalisation is for an amount not less than **20% of the institution's risk-weighted assets.**

b) that the National Resolution Fund has available to it at least **3% of the amount of the deposits guaranteed by the DGF** obtained in the form of ex-ante contributions, which will not include the contributions made to a deposit guarantee system, and

c) that the institution have assets below **900 billion euros** on a consolidated basis.

V. OTHER POINTS

- Changes have been made to the **composition of the FROB,** with an increase in the number of members of the governing committee. The office of president has been created, as the body's highest representative, and a member of the National Securities Market Commission (CNMV) has been added as a result of the scope of application of the law.

- As regards the Deposit Guarantee Fund, its legal status has been modified as a result of the transposition of Directive 2014/49/EU. The changes include:

  ✓ Credit institutions will contribute to the **Investment Guarantee Fund** for holdings of customers' securities.

  ✓ Resources will be assigned to one of the following separate accounting categories into which the Fund will be divided:

    - The financial resources available from the **deposit guarantee section** must come to at least **0.8%** of the amount of the guaranteed deposits.

    - Annual contributions to the **securities guarantee section** will not exceed **0.3%** of the securities guaranteed.

  ✓ Stress tests will be conducted on the Fund at least every **three years.**

- Law 9/2012 of November 14th, 2012, on Credit Institution Restructuring and Resolution is repealed, with the exception of its provisions modifying other laws and certain additional provisions.

Bank of Spain Circular on the rules for the submission to the Bank of Spain of payments and payments systems statistics covered by Regulation (EU) 1409/2013, of the European Central Bank, of November 28th, 2013, on payment statistics (Circular 2/2015, published in the BOE on May 26th, 2015)

The Circular establishes the procedures for the presentation of information on payments and payments systems that are to be followed by reporting agents, who are to send information annually to the Bank of Spain, the first reporting period being from July 1st to December 31st, 2014, such that the relevant information must be submitted no later than the last working day of May 2015.

Regulation (EU) 1409/2013 established the European Central Bank's new reporting requirements on payments and payments systems, concerning the information payment service providers and payments systems operators are to provide to national central banks. Under this Regulation, Bank of Spain Circular 2/2015 states that the **reporting obligation** applies to: payment service providers established in Spain on the official registers of the Bank of Spain and payments systems operators established in Spain.

Royal Decree amending Royal Decree 217/2008, February 15th, 2008, on the legal rules applicable to investment firms and other entities providing investment services and Collective investment institutions, and partially amending Regulation implementing Law 35/2003, November 4th, 2003, on Collective investment institutions, enacted by Royal Decree 1309/2005, November, 4th, 2005 (Royal Decree 358/2015, published in the BOE on May 9th, 2015).

The aim of the Royal Decree is, firstly, to complete the transposition of CRD IV (Directive 2013/36/EU) and, secondly, convert Royal Decree 217/2008 into the main piece of legislation at the regulatory level on the organisation, supervision and solvency of investment firms.

The amendments envisaged for Royal Decree 217/2008 may be grouped into the following blocks:

1. The **suitability requirements** that the members of the board of directors, general managers and other key officers of investment firms are to comply with are established.

2. The **functions of the three committees** investment firms are to have under the Securities Market Law (nomination committee, remuneration committee, and risk committee) are defined. The public disclosure requirements concerning corporate governance and remuneration policy are also set out.

3. The bulk of the amendments are additional provisions on the **solvency** of investment firms to complement those of CRR (Regulation (EU) 575/2013). It also covers the ordinary Common Equity Tier 1 buffers in addition to ordinary buffers established in CRR.

4. Provisions regulating the **supervisory function** of the **National Securities Market Commission** (CNMV) are also included.

Spanish economic forecasts panel: July 2015[1]

FUNCAS Economic Trends and Statistics Department

The growth forecast for 2015 has been raised two tenths of a percent to 3.1%

Economic indicators suggest that GDP growth in the second quarter of the year was slightly higher than expected. According to the consensus forecast, this growth was 0.9%, one tenth higher than anticipated in the previous Forecast Panel (Table 2). As a consequence of this better than expected performance two months ago, the consensus GDP growth forecast for 2015 has been revised upwards two tenths of a percentage point to 3.1% (Table 1).

This figure is higher than that forecast by the relevant international organisations (except the IMF), and also higher than the government's forecast. The panel participants' range of forecasts oscillates between a minimum of 2.6% and a maximum of 3.3%.

Growth in 2015 will be driven by domestic demand, which will contribute 3.1 percentage points of growth, while the external sector will not make any contribution. Household consumption is expected to grow by 3.3% and gross fixed capital formation (GFCF) by 5.7%. The marked upward revision of the construction investment forecast, by one percentage point to 4.5%, stands out. The forecast for exports has risen to 5.6% and that for imports has been cut to 6.5%.

The forecast for 2016 remains unchanged at 2.7%

The consensus forecast for 2016 remains unchanged from the previous Panel at 2.7%. Domestic demand will contribute 2.8 pp to this growth, while external demand will subtract 0.1 pp. This differs from previous consensus forecasts, which pointed to a positive contribution from the external sector.

As in previous Panels, a slight moderation in growth is expected over the course of the quarter, with quarter-on-quarter growth dropping to 0.6% in 2016 (Table 2).

Industrial activity will gain momentum in 2015 and 2016

At the start of the second quarter, industrial activity maintained the acceleration trend observed in the first quarter, according to indicators such as the industrial production index, the sector PMI, and growth in the number of social security system affiliates.

The consensus forecast for IPI growth in 2015 has been raised four tenths of a percent to 2.6%, while for 2016 an increase of 3.0% is foreseen.

[1] The Spanish Economic Forecasts Panel is a survey run by FUNCAS which consults the 17 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 17 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.

Expected inflation has been revised upwards

The inflation rate continued its upward trend in May, rising from the low of -1.3% reached in January. The general rate stood at -0.2% and core inflation at 0.5%. The average annual inflation rate has been revised upwards to -0.2% for 2015, and to 1.3% for 2016. The year-on-year rate is expected to stand at 1.1% in December of this year, and 1.3% next year, both these figures also having been revised upwards since the previous survey (Table 3).

The employment forecast has improved

According to the social security registration data, job creation has remained buoyant in the second quarter. The job creation forecast for 2015 has been revised upwards to 2.9% and that for 2016 to 2.5%. The average annual unemployment rate forecast for this year and next remains unchanged at 22.2%, while that for 2016 is expected to be 20.4%.

The consensus estimates for GDP, employment and wage growth can be used to deduce the implicit productivity and unit labour cost growth estimates. On this basis, productivity per worker is expected to grow by 0.1% in 2015 and 0.2% in 2016, while ULCs, are expected to change by 0.3% this year and 0.7% next year.

Cheaper oil has slowed the deterioration of the balance of payments

The balance of payments on the current account in the first quarter of 2015 registered a current account deficit of 1.5 billion euros, compared with a balance of -3.7 billion euros in the year-earlier period. This improvement was due to lower oil prices, as, according to Customs data, the goods trade balance excluding energy products worsened in the period.

The consensus forecast for the current account balance is for a surplus of 0.7% of GDP in both 2015 and 2016.

The government deficit will slightly overshoot the target

In the first quarter of 2015, the consolidated general government balance excluding local government (*i.e.* central government, autonomous regions, and social security funds) stood at -0.78% of GDP, compared with -0.69% of GDP in the year-earlier period. The central government increased its deficit and the social security funds reduced their surplus, while the autonomous regions as a whole enjoyed a slight improvement in their results. However, the early months of the year tend not to be very representative.

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. These figures are two and four tenths of a percent, respectively, higher than the government's targets.

The situation in the EU is expected to improve

U.S. GDP contracted by 0.2% in the first quarter of 2015, largely as a result of bad weather conditions and a port strike. This unexpected weakening, together with the loss of vibrancy of other economic indicators, has pushed back the expectations of an interest rate hike 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.

Panellists opinions on the current situation in the EU have gradually shifted from neutral to favourable, with panellists now split between the

two views. The majority still think that the situation will improve over the coming months.

As regards the situation outside the EU, most panellists consider it to be neutral, but unlike the previous Panel, the majority do not expect an improvement, rather that it remain unchanged over the coming months.

The consensus view is that long-term interest rates are 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.

As regards the long-term rate (10 years), the financial market tensions caused by uncertainty over the situation in Greece drove up the yield on Spanish debt to 2.45% in mid-June from lows of 1.10% in mid-March. The risk premium also rose over this period, from below 100 basis points to around 150 basis points. Nevertheless, in subsequent days, there was a moderation in both variables.

In any event, the view remains that the interest rates in Spain are low for the Spanish economy's current state. However, they are expected to remain stable over the coming months.

The euro is no longer overvalued against the dollar

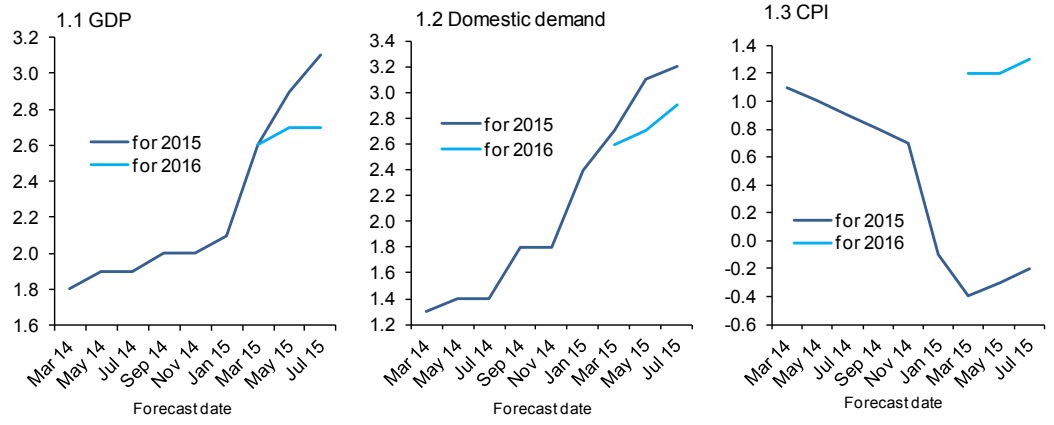
After a slight recovery in May, as a result of the delay to the expected rise in interest rates by the Federal Reserve, the euro has remained close to 1.12 in June. The common currency is still considered to be undervalued, and is expected to continue to lose value over the coming months.

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 classed current monetary policy as expansionary, and the almost 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 – July 2015

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

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF Construction		Domestic demand	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	3.0	2.5	3.5	2.5	1.3	0.9	6.0	5.6	9.0	7.7	5.1	5.1	3.4	2.8
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	3.2	2.8	3.4	3.0	0.6	0.8	6.2	5.5	9.5	8.2	4.9	4.0	3.4	3.1
Cemex	3.0	2.5	3.3	2.4	1.6	1.2	5.5	5.7	8.0	5.5	3.5	5.9	3.3	2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	2.9	3.2	2.9	0.9	0.8	5.5	5.6	6.7	6.3	5.3	5.7	3.1	2.9
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	3.0	2.7	3.3	2.6	0.5	0.2	6.1	4.3	9.8	5.9	4.9	4.1	3.0	2.4
ESADE	2.6	--	2.5	--	1.0	--	4.5	--	7.3	--	0.3	--	2.6	--
Fundación Cajas de Ahorros (FUNCAS)	3.3	3.0	3.8	3.5	1.0	0.8	6.0	5.7	8.4	7.9	4.9	4.4	3.7	3.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.0	2.8	3.3	2.6	0.6	1.3	5.3	4.0	8.9	8.0	4.3	4.8	3.0	2.7
Instituto de Estudios Económicos (IEE)	3.2	2.9	3.7	3.4	1.1	0.9	6.9	5.3	8.9	7.9	5.8	4.9	3.7	3.3
Instituto Flores de Lemus (IFL-UC3M)	3.1	2.9	3.2	3.3	1.2	0.2	5.6	6.5	8.6	11.1	4.9	4.7	3.2	2.9
Intermoney	3.3	2.9	3.6	3.1	1.4	0.8	5.6	5.7	7.1	6.5	4.4	4.8	3.3	3.0
La Caixa	2.8	2.5	2.9	2.1	1.6	0.1	4.9	4.2	7.2	5.3	4.1	3.4	2.8	2.1
Repsol	3.3	2.9	3.1	2.9	1.4	0.5	5.7	5.6	9.1	8.1	4.6	4.5	3.2	2.9
Santander	3.1	2.8	3.4	2.8	1.0	1.0	6.2	5.7	7.7	5.1	5.9	6.2	3.3	3.0
Solchaga Recio & asociados	3.2	2.7	3.3	2.8	0.9	0.7	6.0	5.4	8.5	6.6	5.2	5.5	3.4	2.9
CONSENSUS (AVERAGE)	3.1	2.7	3.3	2.8	1.0	0.7	5.7	5.5	8.3	7.2	4.5	4.9	3.2	2.9
Maximum	3.3	3.0	3.8	3.5	1.6	1.3	6.9	6.5	9.8	11.1	5.9	6.2	3.7	3.4
Minimum	2.6	2.4	2.5	2.1	0.5	0.1	4.5	4.0	6.7	5.1	0.3	3.4	2.6	2.1
Change on 2 months earlier[1]	0.2	0.0	0.0	0.1	0.2	0.1	0.3	0.2	0.5	0.4	1.0	0.5	0.1	0.2
- Rise[2]	10	10	6	6	9	6	8	8	7	9	13	7	9	8
- Drop[2]	0	1	6	3	3	2	5	2	5	3	1	4	4	2
Change on 6 months earlier[1]	1.0	--	0.8	--	0.5	--	1.6	--	1.6	--	2.3	--	0.8	--
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 (June 2015)	3.1	2.7	3.4	2.3	0.1	0.1	5.9	6.1	8.8	8.9	4.8	4.5	--	--
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 (June 2015)	3.1	2.5	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2015)	2.9	2.8	3.8	2.6	-0.8	0.0	5.4	6.3	--	--	--	--	3.1	2.9

[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 – July 2015

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

	Exports of goods & services		Imports of goods & services		Industrial output		CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[7]	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	5.7	5.9	7.4	7.3	--	--	-0.2	1.3	--	--	3.1	2.0	22.1	20.7	0.1	-0.2	-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	6.7	6.0	7.6	7.3	2.2	--	-0.2	1.3	0.4	0.6	2.9	2.3	22.0	20.0	1.5	1.2	--	--
Cemex	5.0	5.4	6.7	7.0	--	--	0.0	1.6	--	--	2.7	2.7	22.8	21.4	--	--	-4.2	-2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.7	6.1	6.1	6.4	--	--	-0.2	0.7	--	--	3.0	2.6	21.9	19.8	0.8	1.3	-4.1	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	6.2	6.3	7.9	8.6	2.2	2.6	-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	6.1	5.6	6.7	5.2	2.0	1.5	-0.2	1.3	0.4	0.7	2.8	2.4	22.3	20.5	0.9	1.1	-4.2	-3.5
ESADE	5.5	--	5.5	--	--	--	0.2	--	0.5	--	2.5	--	21.5	--	0.1	--	-4.0	--
Fundación Cajas de Ahorros (FUNCAS)	4.6	5.4	6.3	7.2	3.1	4.0	-0.2	1.3	0.5	0.9	3.0	2.5	22.2	20.2	0.8	0.3	-4.6	-3.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.8	6.6	6.8	7.1	2.6	2.6	-0.3	1.1	--	--	3.1	2.9	22.3	20.6	1.2	1.2	-4.3	-3.0
Instituto de Estudios Económicos (IEE)	5.8	5.7	7.9	7.5	2.6	2.6	-0.3	1.2	1.0	0.8	3.4	3.0	22.0	20.0	0.5	0.4	-4.4	-3.4
Instituto Flores de Lemus (IFL-UC3M)	4.6	4.2	5.2	6.1	2.9	4.5	-0.3	1.0	--	--	3.0	2.9	21.8	20.2	--	--	--	--
Intermoney	5.8	6.0	6.0	6.5	3.0	4.3	-0.3	1.1	--	--	3.0	2.7	22.2	20.2	0.9	0.8	-4.4	-2.9
La Caixa	5.1	5.9	5.5	5.0	3.0	3.0	0.0	1.9	-0.1	1.1	2.9	2.4	22.4	20.9	1.1	1.1	-4.8	-3.3
Repsol	6.3	6.3	6.2	7.0	2.2	2.2	-0.2	1.1	0.3	-0.2	3.2	2.9	22.7	20.6	0.6	0.0	-4.3	-3.0
Santander	4.9	4.5	5.6	5.4	--	--	-0.3	1.1	0.7	1.0	2.9	2.5	21.9	19.6	0.7	0.5	-4.2	-2.8
Solchaga Recio & asociados	5.4	5.1	6.4	6.3	--	--	0.0	1.3	--	--	3.1	2.8	22.1	19.8	1.3	1.6	-4.5	-3.4
CONSENSUS (AVERAGE)	5.6	5.8	6.5	6.7	2.6	3.0	-0.2	1.3	0.4	0.9	2.9	2.5	22.2	20.4	0.7	0.7	-4.4	-3.2
Maximum	6.7	7.5	7.9	8.6	3.1	4.5	0.2	1.9	1.0	1.7	3.4	3.0	22.8	21.4	1.5	1.6	-4.0	-2.8
Minimum	4.6	4.2	5.2	5.0	2.0	1.5	-0.3	0.7	-0.1	-0.2	2.1	1.7	21.5	19.6	-0.2	-0.6	-4.8	-3.8
Change on 2 months earlier[1]	0.2	-0.1	-0.1	0.1	0.4	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0
- Rise[2]	9	3	2	5	8	4	11	6	6	3	10	6	2	1	6	4	3	3
- Drop[2]	2	7	10	3	1	2	0	3	0	2	1	3	8	8	4	6	1	1
Change on 6 months earlier[1]	0.6	--	0.0	--	0.6	--	-0.1	--	0.1	--	1.2	--	-0.6	--	-0.1	--	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 (June 2015)	5.1	5.7	5.3	5.9	--	--	-0.2	1.3	--	--	2.9	2.6	--	--	1.2[(6)]	1.1[(6)]	--	--
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 (June 2015)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2015)	5.4	6.1	6.2	6.5	--	--	-0.7	0.7	--	--	2.9	2.8	22.3	20.3	1.3	1.3	-4.4	-3.0

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).
[2] Number of panellists revising their forecast upwards (or downwards) since two months earlier.
[3] Average earnings per full-time equivalent job.
[4] In National Accounts terms: full-time equivalent jobs.
[5] Current account balance, according to Bank of Spain estimates.
[6] Net lending position vis-à-vis rest of world.
[7] Excluding financial entities bail-out expenditures.

Table 2

Quarterly Forecasts - July 2015[1]

	Quarter-on-quarter change (percentage)							
	15-Q1	15-Q2	15-Q3	15-Q4	16-Q1	16-Q2	16-Q3	16-Q4
GDP[2]	0.9	0.9	0.7	0.7	0.7	0.7	0.6	0.6
Household consumption[2]	0.7	0.9	0.7	0.8	0.7	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 – July 2015[1]

Monthly change (%)				Year-on-year change (%)	
May-15	Jun-15	Jul-15	Aug-15	Dec-15	Dec-16
0.3	0.0	-0.6	0.2	1.1	1.3

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

Table 4

Opinions – July 2015

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	8	8	1	10	7	0
International context: Non-EU	3	14	0	7	8	2
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	11	6	0	1	16	0
Long-term interest rate[3]	11	5	1	5	9	3
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	4	4	9	0	3	14
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	3	8	6	4	10	3
Monetary policy assessment[1]	0	0	17	0	1	16

[1] In relation to the current state of the Spanish economy.

[2] Three-month Euribor.

[3] Yield on Spanish 10-year public debt.

[4] Relative to theoretical equilibrium rate.

KEY FACTS:

- ECONOMIC INDICATORS ..... *Page 96*
- FINANCIAL SYSTEM INDICATORS ..... *Page 145*

Table 1

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

Forecasts in blue

		GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)
						Construction							
					Total	Total	Housing	Other construction	Equipment & other products				
Chain-linked volumes, annual percentage changes													
2008		1.1	-0.7	5.9	-3.9	-6.1	-9.7	-1.7	0.7	-0.8	-5.6	-0.4	1.6
2009		-3.6	-3.6	4.1	-16.9	-16.5	-20.6	-11.8	-17.7	-11.0	-18.3	-6.4	2.8
2010		0.0	0.3	1.5	-4.9	-10.1	-11.6	-8.5	5.4	9.4	6.9	-0.5	0.5
2011		-0.6	-2.0	-0.3	-6.3	-10.6	-12.8	-8.6	0.7	7.4	-0.8	-2.7	2.1
2012		-2.1	-2.9	-3.7	-8.1	-9.3	-9.0	-9.6	-6.4	1.2	-6.3	-4.3	2.2
2013		-1.2	-2.3	-2.9	-3.8	-9.2	-7.6	-10.5	3.4	4.3	-0.5	-2.7	1.4
2014		1.4	2.4	0.1	3.4	-1.5	-1.8	-1.3	9.1	4.2	7.6	2.2	-0.8
2015		3.3	3.8	1.0	6.0	4.9	2.7	6.6	7.0	4.6	6.0	3.6	-0.3
2016		3.0	3.5	0.8	5.7	4.4	5.5	3.6	7.0	5.5	6.6	3.2	-0.2
2014	I	0.6	1.3	0.3	0.8	-7.4	-6.6	-8.0	11.2	6.4	9.4	1.2	-0.6
	II	1.2	2.3	0.3	3.9	-0.7	-2.0	0.3	9.3	1.0	4.9	2.3	-1.1
	III	1.6	2.7	0.3	3.9	0.1	-0.2	0.3	8.0	4.5	8.6	2.6	-1.0
	IV	2.0	3.3	-0.5	5.1	2.4	2.1	2.6	8.0	4.7	7.7	2.7	-0.7
2015	I	2.7	3.4	0.1	6.0	4.9	2.3	6.8	7.1	5.7	7.4	3.0	-0.3
	II	3.2	3.8	1.2	5.8	4.9	2.6	6.5	6.8	4.2	5.2	3.4	-0.2
	III	3.6	4.0	0.7	6.0	5.2	2.5	7.1	6.9	3.8	4.5	3.7	-0.1
	IV	3.7	4.0	2.1	6.0	4.8	3.4	5.8	7.2	4.9	6.8	4.1	-0.5
2016	I	3.4	4.2	0.8	6.1	4.2	4.6	3.9	7.9	4.4	6.8	4.0	-0.6
	II	3.0	3.6	0.2	5.5	4.1	5.3	3.1	7.0	6.0	7.3	3.3	-0.3
	III	2.8	3.3	1.1	5.6	4.5	5.9	3.5	6.6	5.6	6.1	2.8	0.0
	IV	2.6	3.0	1.0	5.6	4.8	6.2	3.7	6.5	5.8	6.2	2.6	0.0
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2014	I	1.2	2.4	4.0	1.8	-3.5	0.1	-6.2	7.6	0.4	4.3	2.3	-1.1
	II	2.1	4.0	-1.5	8.4	5.3	1.9	7.9	11.8	2.9	8.7	3.7	-1.5
	III	2.1	3.2	-0.5	4.7	2.2	4.7	0.3	7.3	16.7	21.5	2.9	-0.8
	IV	2.7	3.8	-3.9	5.7	5.8	1.7	9.1	5.6	-0.2	-2.3	2.0	0.7
2015	I	3.8	2.7	6.5	5.1	6.2	0.9	10.3	4.0	4.2	3.2	3.3	0.4
	II	4.3	5.4	3.2	7.8	5.3	3.2	6.8	10.3	-2.9	0.1	5.9	-1.6
	III	3.5	4.2	-2.5	5.5	3.3	4.3	2.6	7.8	15.0	18.0	3.7	-0.2
	IV	3.1	3.8	1.5	5.6	4.4	5.4	3.6	7.0	3.9	6.6	4.0	-1.0
2016	I	2.8	3.4	1.0	5.3	4.0	5.7	2.8	6.6	2.6	3.2	3.7	-0.9
	II	2.7	3.1	1.0	5.5	4.6	6.0	3.5	6.5	2.9	2.0	3.2	-0.5
	III	2.6	2.9	1.0	5.7	5.0	6.4	4.0	6.4	13.6	13.0	3.0	-0.4
	IV	2.4	2.8	1.0	5.9	5.5	6.7	4.6	6.4	4.6	7.1	3.2	-0.8
		Current prices (EUR billions)	**Percentage of GDP at current prices**										
2008		1,116.2	56.8	18.8	29.2	19.5	10.4	9.1	9.7	25.3	30.4	105.1	-5.1
2009		1,079.0	56.1	20.5	24.3	16.2	8.1	8.1	8.2	22.7	23.8	101.2	-1.2
2010		1,080.9	57.2	20.5	23.0	14.3	6.9	7.4	8.7	25.5	26.8	101.3	-1.3
2011		1,075.1	57.9	20.4	21.4	12.5	5.7	6.8	8.9	28.8	29.0	100.2	-0.2
2012		1,055.2	58.6	19.6	19.7	11.2	5.0	6.2	8.5	30.3	28.8	98.4	1.6
2013		1,049.2	58.2	19.5	18.5	9.9	4.3	5.6	8.7	31.6	28.1	96.6	2.1
2014		1,058.5	59.0	19.2	18.9	9.6	4.1	5.4	9.3	32.0	29.6	97.6	2.4
2015		1,100.7	58.7	18.7	19.4	9.7	4.1	5.6	9.7	32.6	30.1	97.5	2.5
2016		1,143.2	59.4	18.2	20.0	9.8	4.2	5.7	10.1	33.4	31.8	98.4	1.6

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

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

Chart 1.1.- GDP
Percentage change

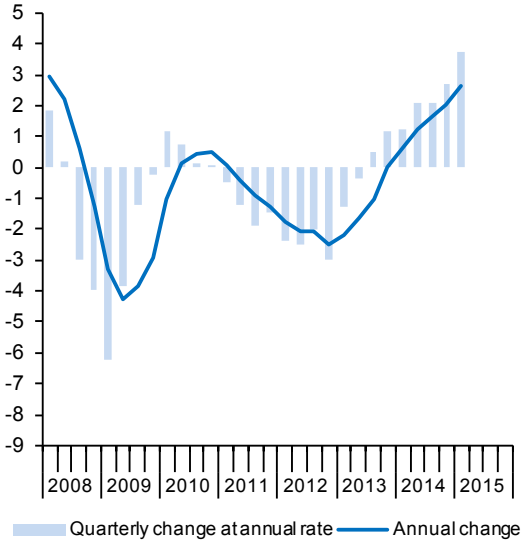


Chart 1.2.- Contribution to GDP annual growth
Per cent points

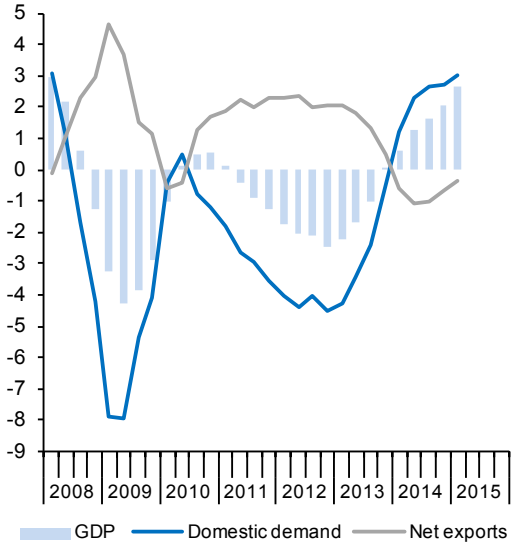


Chart 1.3.- Final consumption
Annual percentage change

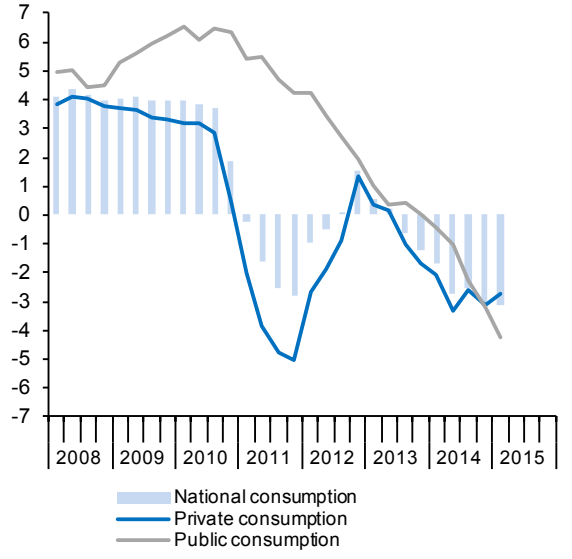


Chart 1.4.- Gross fixed capital formation
Annual percentage change

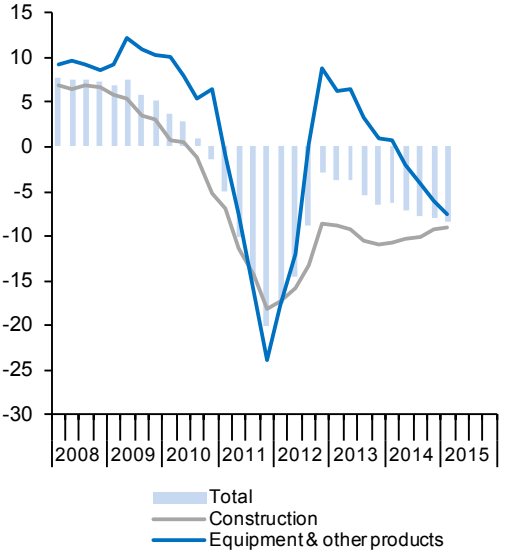


Table 2

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

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Services								
					Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
Chain-linked volumes, annual percentage changes													
2008	1.3	-2.7	-0.8	0.2	2.3	-0.1	2.5	3.2	2.4	1.8	5.0	3.0	-0.9
2009	-3.4	-3.6	-10.0	-7.6	-1.0	-3.7	0.6	-6.1	3.4	-3.7	2.3	0.7	-5.9
2010	0.0	2.1	3.6	-14.5	1.3	1.5	3.9	-3.3	2.0	-1.4	2.4	1.4	0.1
2011	-0.2	4.2	0.1	-12.7	1.1	1.3	-0.5	-2.0	3.0	2.7	0.5	0.8	-5.2
2012	-1.9	-12.8	-3.8	-14.3	0.2	0.4	2.6	-3.4	2.4	-0.5	-0.6	-0.3	-4.4
2013	-1.2	15.6	-1.8	-8.1	-1.0	-0.7	-2.8	-7.8	1.1	-1.1	-1.3	1.5	-1.5
2014	1.5	3.3	1.5	-1.2	1.6	2.8	1.6	-5.5	2.0	2.6	0.5	2.9	0.6
2015	3.2	-1.9	3.2	6.1	3.2	5.3	2.5	-0.9	2.6	5.3	1.2	2.8	3.8
2016	2.9	2.4	2.9	4.9	2.8	3.4	2.9	2.3	3.7	3.4	1.0	2.9	3.6
2014 I	0.7	10.3	0.5	-6.2	0.9	1.9	1.3	-6.5	1.3	1.4	0.2	3.6	0.0
II	1.3	1.6	1.9	-1.7	1.4	2.6	0.8	-5.3	1.9	2.0	0.6	2.4	0.5
III	1.7	5.3	1.5	0.0	1.7	3.0	2.0	-5.4	2.5	2.3	0.6	2.5	1.1
IV	2.1	-3.4	2.1	3.4	2.3	3.7	2.4	-4.6	2.3	4.8	0.5	3.0	1.0
2015 I	2.7	-2.6	2.7	5.8	2.6	4.3	2.4	-4.5	2.0	5.8	1.2	2.7	2.4
II	3.2	-1.7	2.7	6.5	3.2	5.6	2.6	-1.3	2.2	5.8	0.9	3.3	3.1
III	3.5	-3.9	3.3	7.0	3.5	5.8	2.4	0.6	2.8	5.7	1.2	2.8	4.7
IV	3.6	0.7	4.0	5.1	3.4	5.3	2.4	1.9	3.3	4.2	1.6	2.4	4.9
2016 I	3.3	1.2	2.8	4.7	3.4	5.2	2.7	2.7	3.9	3.3	1.4	2.6	4.3
II	3.0	3.1	2.8	4.6	2.9	3.8	3.2	2.5	3.8	3.5	0.9	2.8	3.6
III	2.7	2.6	3.0	5.0	2.5	2.7	2.9	2.2	3.6	3.3	0.9	3.1	3.4
IV	2.6	2.8	3.1	5.3	2.2	2.0	2.7	2.0	3.5	3.4	1.0	3.0	3.2
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2014 I	1.3	-1.6	4.6	-3.4	1.1	1.6	0.5	-1.4	2.7	1.4	-0.9	3.7	0.3
II	2.0	-7.7	3.0	2.8	2.0	3.0	-0.5	-9.7	2.8	0.9	4.1	-0.3	3.9
III	2.6	15.2	0.6	1.8	2.6	4.7	5.4	-4.7	1.8	6.4	-0.4	4.0	-3.1
IV	2.7	-16.9	0.0	13.0	3.4	5.6	4.4	-2.2	2.0	10.8	-0.7	4.7	2.8
2015 I	3.5	1.7	7.4	5.8	2.5	4.0	0.6	-1.0	1.2	5.1	1.8	2.4	6.1
II	4.1	-4.0	3.0	5.8	4.4	8.3	0.1	2.8	4.0	1.0	3.0	2.0	7.0
III	3.6	5.1	2.7	3.8	3.7	5.4	4.4	2.9	4.2	6.0	0.8	2.1	3.0
IV	3.1	0.4	2.8	4.9	3.1	3.7	4.6	3.0	4.0	4.6	0.7	3.3	3.4
2016 I	2.7	3.6	2.9	4.5	2.4	3.4	1.6	2.0	3.5	1.5	1.0	3.0	4.0
II	2.6	3.2	3.0	5.1	2.3	2.7	2.2	2.0	3.5	1.8	1.0	3.0	4.0
III	2.6	3.4	3.2	5.5	2.2	1.2	3.4	2.0	3.5	5.5	1.0	3.0	2.4
IV	2.4	1.0	3.3	6.0	2.0	0.6	3.6	2.0	3.5	5.0	1.0	3.0	2.4
Current prices (EUR billions)	**Percentage of value added at basic prices**												
2008	1,025.7	2.5	17.9	11.0	68.5	21.9	4.3	5.4	9.0	7.3	16.9	3.8	8.8
2009	1,006.1	2.3	16.6	10.6	70.4	22.0	4.4	5.7	8.9	7.3	18.2	4.0	7.2
2010	989.9	2.6	17.2	8.8	71.4	22.5	4.4	4.4	10.2	7.2	18.7	4.1	9.2
2011	988.3	2.5	17.4	7.5	72.6	23.1	4.3	4.1	10.8	7.4	18.6	4.2	8.8
2012	969.3	2.4	17.2	6.3	74.0	23.8	4.4	4.2	11.6	7.4	18.4	4.2	8.9
2013	958.5	2.8	17.6	5.7	73.9	23.8	4.1	3.7	11.9	7.4	18.6	4.3	9.5
2014	965.1	2.5	17.5	5.6	74.4	24.1	4.0	3.9	12.2	7.4	18.6	4.3	9.7
2015	1,003.5	2.4	17.5	5.7	74.4	24.5	3.8	3.9	12.1	7.6	18.2	4.3	9.7
2016	1,039.7	2.5	17.6	5.8	74.2	24.6	3.8	3.9	12.2	7.6	17.8	4.3	10.0

**Seasonally and Working Day Adjusted.*

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

Chart 2.1.- GVA by sectors
Annual percentage change

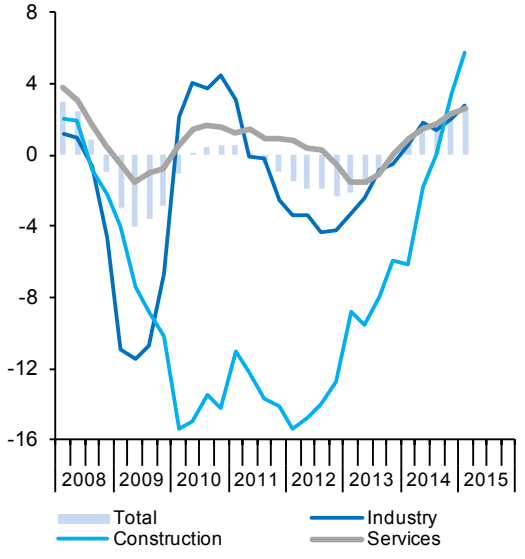


Chart 2.2.- GVA, services (I)
Annual percentage change

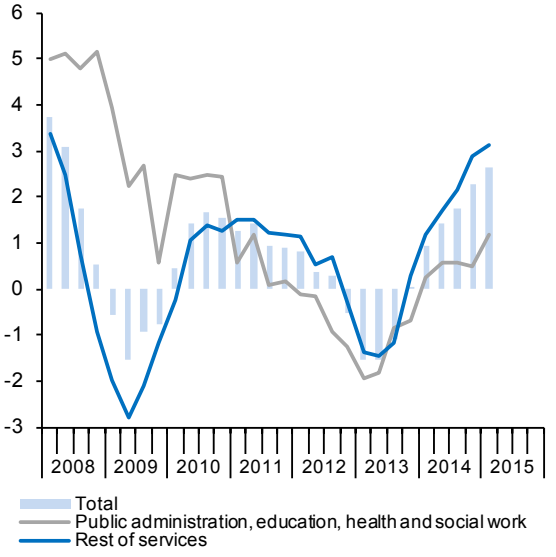


Chart 2.3.- GVA, services (II)
Annual percentage change

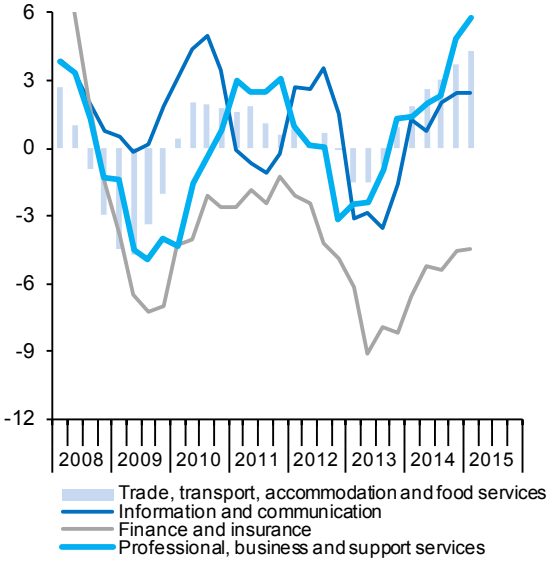


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

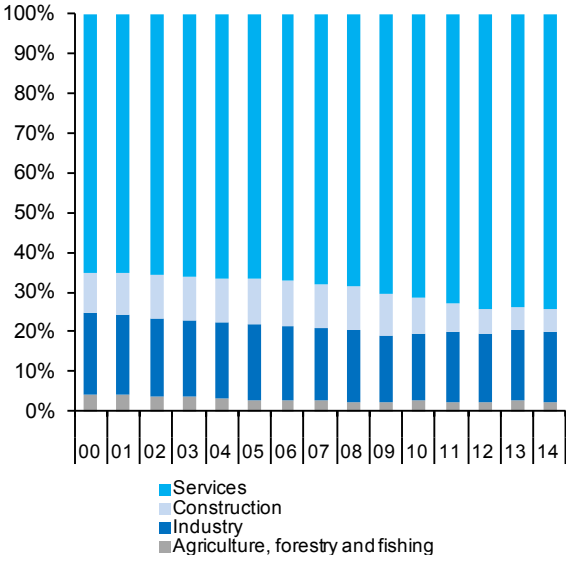


Table 3a

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

Forecasts in blue

		Total economy						Manufacturing industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
2008		129.1	124.7	103.6	138.3	133.5	99.8	112.4	93.9	119.7	149.3	124.7	98.5
2009		124.5	117.1	106.4	144.4	135.7	101.2	100.1	82.2	121.8	152.6	125.3	99.0
2010		124.5	114.0	109.3	145.9	133.5	99.4	100.1	78.9	126.9	155.6	122.6	97.7
2011		123.8	111.1	111.4	147.1	132.0	98.2	99.2	76.3	130.1	159.0	122.2	95.3
2012		121.2	106.1	114.2	146.3	128.1	95.1	95.3	71.6	133.1	161.4	121.3	94.7
2013		119.7	102.7	116.6	148.7	127.6	94.0	94.2	68.4	137.8	163.9	118.9	92.7
2014		121.4	103.9	116.8	148.4	127.0	94.1	96.4	68.7	140.3	166.5	118.6	93.9
2015		125.3	107.0	117.2	149.1	127.3	93.7	99.7	--	--	--	--	--
2016		129.1	109.7	117.7	150.4	127.8	93.2	102.9	--	--	--	--	--
2013	II	119.5	102.6	116.5	148.6	127.6	94.0	94.1	68.6	137.2	162.7	118.6	92.6
	III	119.7	102.5	116.8	148.7	127.3	93.9	94.4	67.6	139.7	163.9	117.4	91.5
	IV	120.0	102.4	117.2	149.0	127.2	93.8	94.2	67.6	139.4	164.1	117.7	91.6
2014	I	120.4	102.8	117.1	148.5	126.8	94.0	95.7	67.8	141.1	165.1	116.9	93.0
	II	121.0	103.6	116.8	148.5	127.2	94.2	96.3	68.4	140.9	165.1	117.2	92.9
	III	121.6	104.2	116.8	148.3	127.0	94.0	96.5	69.0	139.9	167.1	119.5	94.3
	IV	122.4	104.9	116.7	148.3	127.0	94.3	97.0	69.6	139.5	166.1	119.1	94.1
2015	I	123.6	105.7	116.9	149.8	128.1	94.5	98.3	70.2	140.2	167.5	119.5	95.3
Annual percentage changes													
2008		1.1	0.2	0.9	6.8	5.9	3.7	-2.1	-1.0	-1.1	5.5	6.7	2.3
2009		-3.6	-6.1	2.7	4.4	1.6	1.4	-10.9	-12.4	1.8	2.2	0.5	0.5
2010		0.0	-2.7	2.7	1.1	-1.6	-1.8	0.0	-4.0	4.2	1.9	-2.1	-1.3
2011		-0.6	-2.5	2.0	0.9	-1.1	-1.2	-0.9	-3.3	2.5	2.2	-0.3	-2.4
2012		-2.1	-4.4	2.4	-0.6	-3.0	-3.2	-4.0	-6.1	2.3	1.6	-0.7	-0.6
2013		-1.2	-3.3	2.1	1.7	-0.4	-1.1	-1.1	-4.5	3.6	1.5	-2.0	-2.2
2014		1.4	1.2	0.2	-0.2	-0.4	0.1	2.3	0.5	1.8	1.5	-0.3	1.3
2015		3.3	3.0	0.3	0.5	0.2	-0.5	3.4	--	--	--	--	--
2016		3.0	2.5	0.5	0.9	0.4	-0.5	3.3	--	--	--	--	--
2013	II	-1.7	-3.9	2.3	1.0	-1.3	-2.2	-1.2	-4.6	3.6	0.8	-2.7	-3.6
	III	-1.0	-3.0	2.0	1.4	-0.6	-1.0	-0.6	-5.2	4.8	1.1	-3.5	-3.8
	IV	0.0	-1.8	1.8	3.8	2.0	1.5	0.4	-3.5	4.0	2.2	-1.7	0.1
2014	I	0.6	-0.4	1.1	-0.1	-1.1	-0.5	1.5	-2.8	4.5	2.1	-2.3	-0.3
	II	1.2	1.0	0.2	0.0	-0.3	0.2	2.4	-0.3	2.7	1.5	-1.1	0.2
	III	1.6	1.7	0.0	-0.3	-0.3	0.0	2.3	2.1	0.1	1.9	1.8	3.1
	IV	2.0	2.4	-0.4	-0.5	-0.1	0.5	3.0	2.9	0.1	1.2	1.1	2.7
2015	I	2.7	2.8	-0.1	0.9	1.0	0.5	2.8	3.5	-0.7	1.5	2.2	2.6

(a) Nominal ULC deflated by GDP/GVA deflator.

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

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

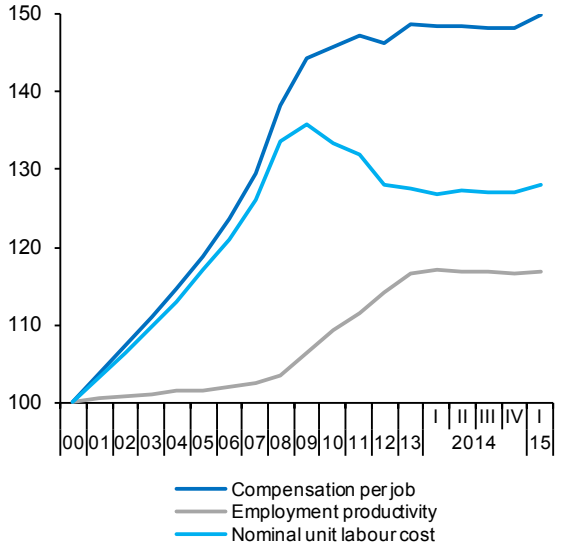
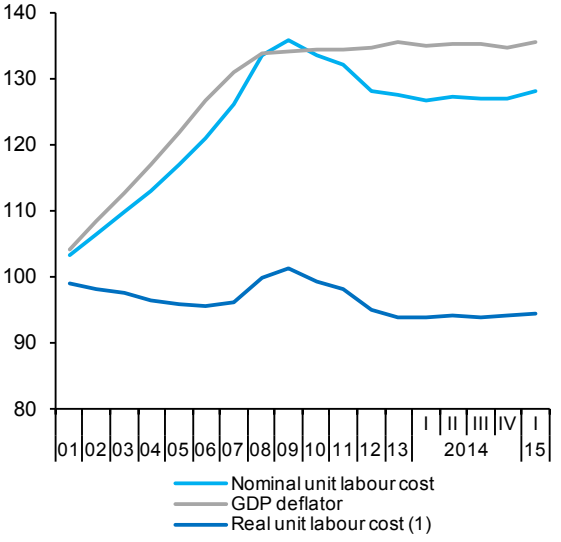


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

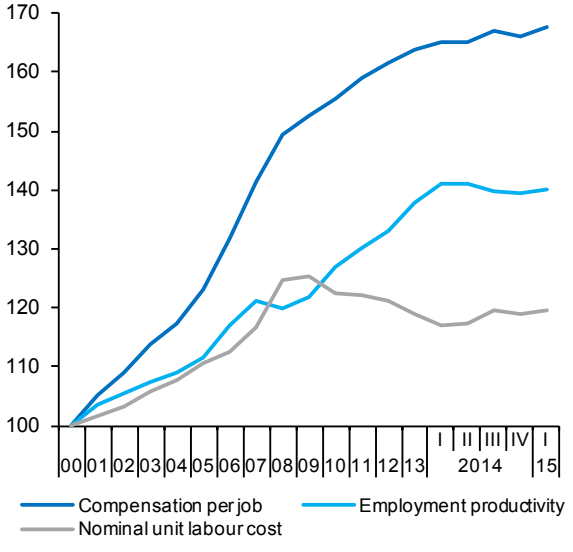
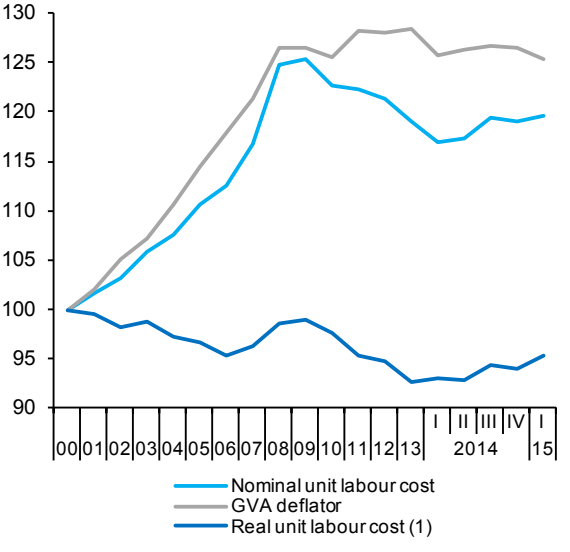


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

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

Forecasts in blue

		Construction						Services					
		Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
2008		118.3	126.5	93.5	154.8	165.5	102.3	137.1	137.0	100.1	132.4	132.2	98.5
2009		109.4	99.1	110.4	170.0	154.0	93.6	135.8	133.6	101.6	137.7	135.5	99.2
2010		93.5	85.2	109.7	172.1	156.9	99.2	137.5	132.0	104.2	139.1	133.4	99.1
2011		81.6	72.3	112.9	170.3	150.9	98.2	139.1	130.8	106.3	140.2	131.8	97.6
2012		69.9	58.7	119.2	172.0	144.3	98.2	139.4	127.1	109.7	138.4	126.2	93.6
2013		64.3	51.5	124.8	173.8	139.3	96.2	138.0	124.0	111.2	140.9	126.6	94.2
2014		63.5	50.1	126.6	174.1	137.5	96.2	140.2	126.1	111.2	140.1	126.0	93.9
2015		67.4	54.3	124.1	--	--	--	144.7	129.7	111.6	--	--	--
2016		70.7	56.3	125.5	--	--	--	148.7	132.9	111.8	--	--	--
2013	II	64.1	51.5	124.5	174.8	140.5	97.6	137.7	123.7	111.3	140.8	126.5	94.3
	III	63.2	50.4	125.4	173.6	138.5	96.5	138.1	124.0	111.3	140.8	126.4	94.1
	IV	63.1	50.1	126.0	175.9	139.6	96.8	138.5	124.1	111.6	140.9	126.2	94.2
2014	I	62.5	49.0	127.6	171.2	134.1	92.7	138.9	124.6	111.5	141.0	126.5	93.9
	II	63.0	49.4	127.4	173.8	136.4	96.2	139.6	125.9	110.9	141.0	127.1	94.7
	III	63.3	50.5	125.4	174.4	139.1	97.9	140.5	126.4	111.1	140.3	126.2	94.0
	IV	65.2	51.7	126.2	176.9	140.2	98.1	141.7	127.4	111.3	139.9	125.8	94.3
2015	I	66.1	53.7	123.1	168.5	136.9	95.2	142.6	127.9	111.4	139.4	125.1	92.4
Annual percentage changes													
2007		1.8	5.3	-3.4	2.4	6.0	2.2	5.0	4.0	0.9	4.6	3.7	-0.3
2008		0.2	-11.8	13.6	12.9	-0.6	-3.9	2.3	3.0	-0.7	5.9	6.7	2.5
2009		-7.6	-21.7	18.0	9.8	-6.9	-8.6	-1.0	-2.4	1.5	4.0	2.5	0.7
2010		-14.5	-14.0	-0.6	1.3	1.9	6.0	1.3	-1.2	2.5	1.0	-1.5	-0.1
2011		-12.7	-15.2	2.9	-1.1	-3.9	-1.0	1.1	-0.9	2.0	0.8	-1.2	-1.6
2012		-14.3	-18.8	5.6	1.0	-4.4	0.0	0.2	-2.8	3.2	-1.3	-4.3	-4.1
2013		-8.1	-12.3	4.7	1.1	-3.5	-2.1	-1.0	-2.4	1.4	1.8	0.4	0.7
2014		-1.2	-2.6	1.5	0.1	-1.3	0.1	1.6	1.6	0.0	-0.5	-0.5	-0.3
2015		6.1	8.3	-2.0	--	--	--	3.2	2.9	0.3	--	--	--
2016		4.9	3.7	1.1	--	--	--	2.8	2.5	0.2	--	--	--
2013	II	-9.6	-15.1	6.6	1.7	-4.5	-2.5	-1.6	-3.1	1.6	0.3	-1.3	-0.6
	III	-8.0	-11.8	4.4	0.9	-3.3	-2.5	-1.1	-2.0	1.0	1.1	0.1	0.6
	IV	-6.0	-8.7	3.0	1.0	-1.9	-1.5	0.0	-1.0	1.0	1.3	0.3	0.1
2014	I	-6.2	-9.2	3.3	0.0	-3.2	-1.4	0.9	0.2	0.7	4.6	3.8	4.0
	II	-1.7	-4.0	2.4	-0.6	-2.9	-1.4	1.4	1.8	-0.3	0.1	0.5	0.4
	III	0.0	0.0	0.0	0.4	0.4	1.5	1.7	1.9	-0.2	-0.3	-0.1	-0.1
	IV	3.4	3.3	0.1	0.5	0.4	1.3	2.3	2.6	-0.3	-0.7	-0.4	0.1
2015	I	5.8	9.7	-3.5	-1.6	2.1	2.7	2.6	2.7	0.0	-1.1	-1.1	-1.6

(a) Nominal ULC deflated by GVA deflator.

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

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

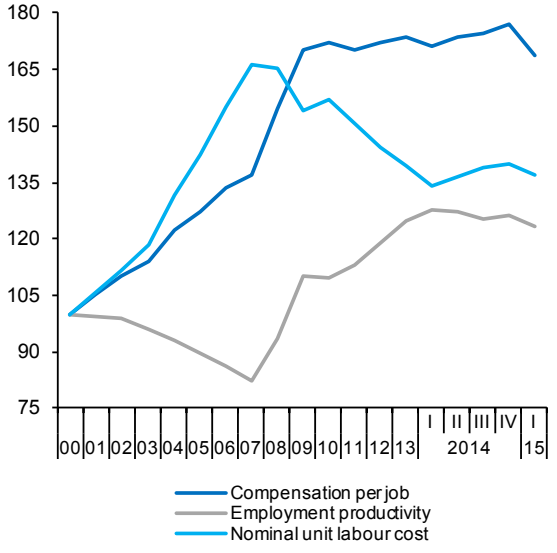
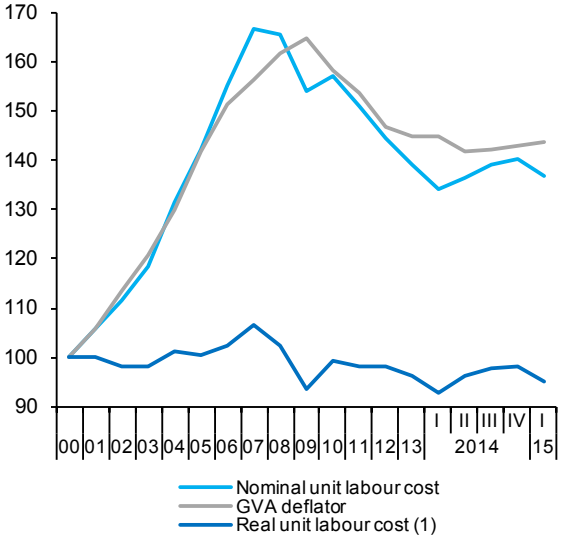


Chart 3b.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

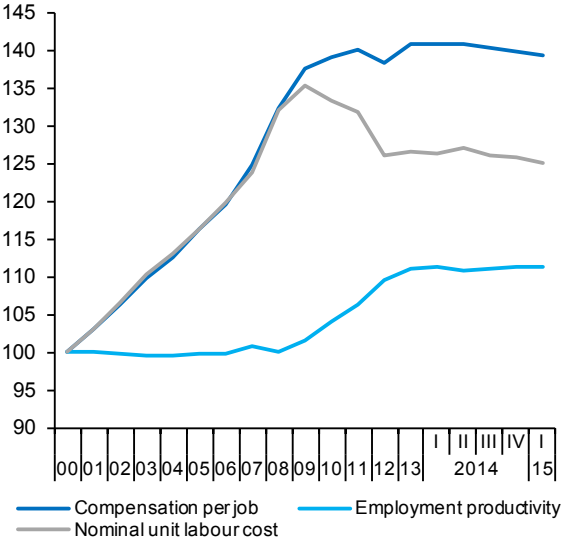
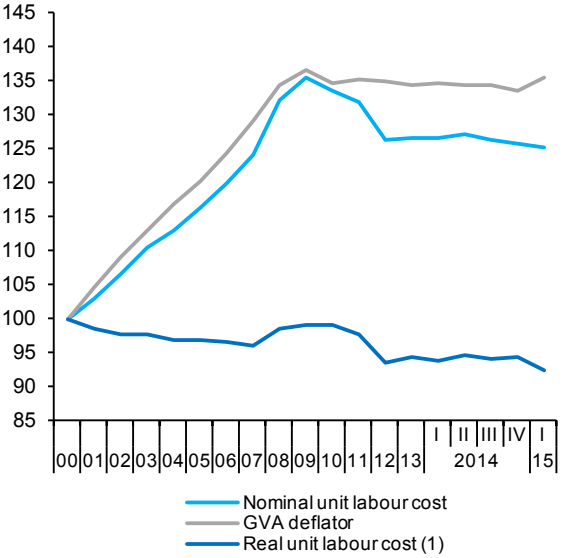


Chart 3b.4.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

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

Forecasts in blue

		Gross domestic product	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsi-dies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross national income	Final national consumption	Gross national saving (a)	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsidies
		1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12	13
		EUR Billions, 4-quarter cumulated transactions										**Percentage of GDP**		
2008		1,116.2	559.8	465.2	91.2	-30.0	1,086.3	-15.7	1,070.6	843.1	227.5	50.1	41.7	8.2
2009		1,079.0	549.2	455.2	74.7	-19.8	1,059.2	-14.3	1,045.0	826.4	218.6	50.9	42.2	6.9
2010		1,080.9	541.5	445.9	93.6	-15.2	1,065.8	-12.7	1,053.0	840.5	212.6	50.1	41.3	8.7
2011		1,075.1	531.9	453.4	89.9	-18.2	1,056.9	-14.1	1,042.8	842.2	200.6	49.5	42.2	8.4
2012		1,055.2	501.9	458.3	94.9	-8.9	1,046.3	-12.1	1,034.2	825.7	208.5	47.6	43.4	9.0
2013		1,049.2	490.3	458.6	100.3	-7.2	1,041.9	-13.1	1,028.8	814.5	214.3	46.7	43.7	9.6
2014		1,058.5	496.9	458.1	103.5	-6.2	1,052.2	-12.5	1,039.8	827.3	212.5	46.9	43.3	9.8
2015		1,100.7	516.2	476.7	107.9	-9.7	1,091.0	-12.7	1,078.4	852.1	226.2	46.9	43.3	9.8
2016		1,143.2	534.2	494.0	114.9	-6.4	1,136.8	-12.8	1,124.0	886.3	237.7	46.7	43.2	10.1
2013	II	1,048.3	490.7	459.1	98.5	-5.9	1,042.4	-12.4	1,030.0	811.4	218.5	46.8	43.8	9.4
	III	1,047.7	488.3	460.2	99.2	-6.4	1,041.3	-13.1	1,028.2	810.8	217.4	46.6	43.9	9.5
	IV	1,049.2	490.3	458.6	100.3	-7.2	1,041.9	-13.1	1,028.8	814.5	214.3	46.7	43.7	9.6
2014	I	1,049.4	489.6	458.3	101.4	-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
2015	I	1,067.6	501.7	462.3	103.5	-5.2	1,062.4	-12.7	1,049.7	831.6	218.2	47.0	43.3	9.7
		Annual percentage changes										**Difference from one year ago**		
2008		3.3	7.1	3.3	-15.6	14.6	3.0	19.1	2.8	4.5	-3.0	1.8	0.0	-1.8
2009		-3.3	-1.9	-2.2	-18.1	-33.9	-2.5	-9.1	-2.4	-2.0	-3.9	0.7	0.5	-1.3
2010		0.2	-1.4	-2.0	25.3	-23.4	0.6	-10.9	0.8	1.7	-2.8	-0.8	-0.9	1.7
2011		-0.5	-1.8	1.7	-3.9	20.1	-0.8	11.2	-1.0	0.2	-5.6	-0.6	0.9	-0.3
2012		-1.9	-5.6	1.1	5.6	-51.3	-1.0	-14.6	-0.8	-2.0	3.9	-1.9	1.3	0.6
2013		-0.6	-2.3	0.1	5.7	-18.3	-0.4	8.4	-0.5	-1.4	2.8	-0.8	0.3	0.6
2014		0.9	1.3	-0.1	3.2	-14.0	1.0	-4.8	1.1	1.6	-0.8	0.2	-0.4	0.2
2015		4.0	3.9	4.1	4.2	55.4	3.7	1.5	3.7	3.0	6.4	0.0	0.0	0.0
2016		3.9	3.5	3.6	6.6	-33.9	4.2	1.5	4.2	4.0	5.1	-0.2	-0.1	0.3
2013	II	-1.6	-5.7	1.1	8.9	-65.0	-0.6	-11.2	-0.4	-3.2	11.3	-2.1	1.2	0.9
	III	-1.3	-4.9	1.0	7.7	-49.5	-0.7	-2.3	-0.7	-2.8	7.9	-1.8	1.0	0.8
	IV	-0.6	-2.3	0.1	5.7	-18.3	-0.4	8.4	-0.5	-1.4	2.8	-0.8	0.3	0.6
2014	I	-0.1	-1.3	-0.1	5.9	-25.5	0.1	19.0	-0.1	-0.2	0.2	-0.6	0.0	0.5
	II	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
	III	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
2015	I	1.7	2.5	0.9	2.1	-9.9	1.8	-6.8	1.9	1.9	1.9	0.3	-0.4	0.0

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

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

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

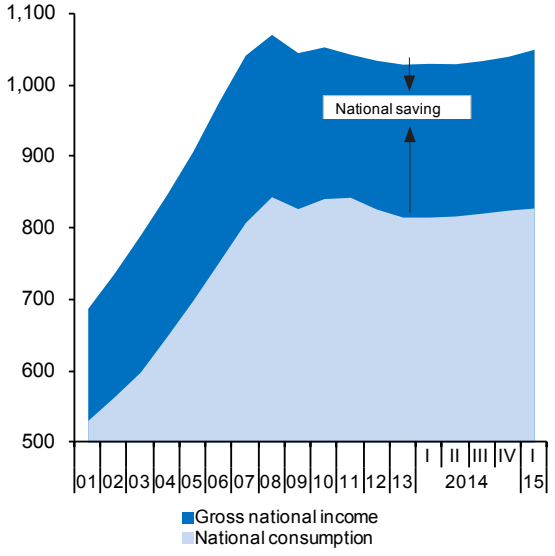


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

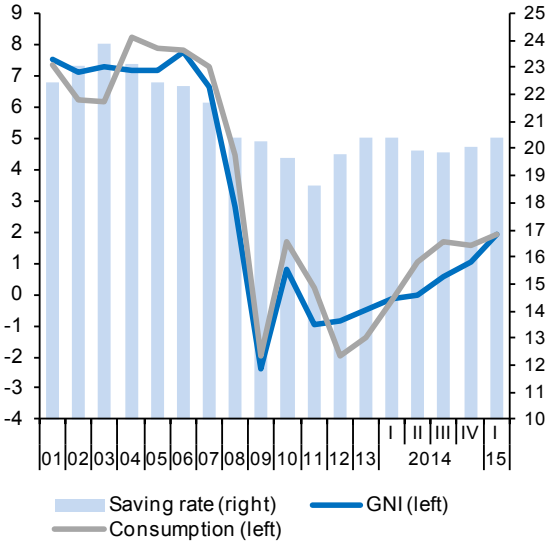


Chart 4.3.- Components of National income
Annual percentage change

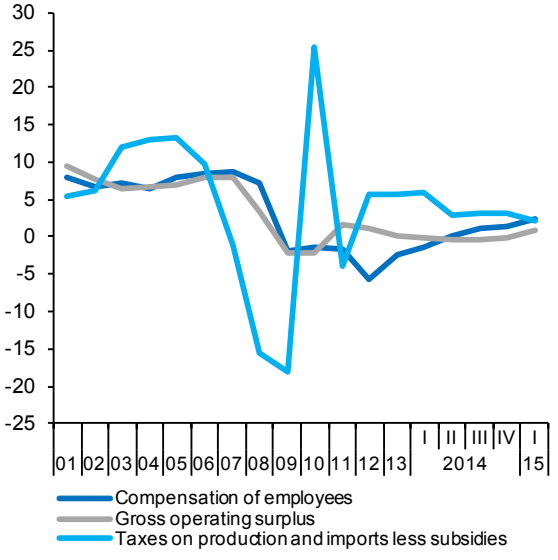


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

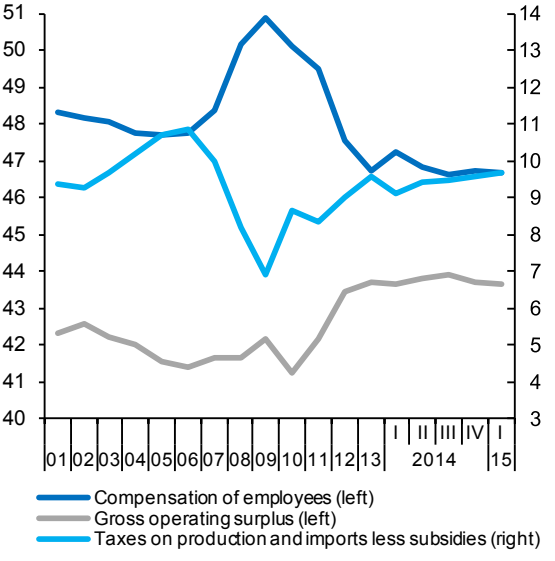


Table 5

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

Forecasts in blue

		Goods and services				Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account deficit
		1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR Billions, 4-quarter cumulated transactions													
2008		-57.2	-87.0	24.0	5.9	-30.0	-15.7	-102.9	4.3	-98.5	227.5	330.4	-102.9
2009		-12.4	-41.5	22.4	6.6	-19.8	-14.3	-46.5	2.9	-43.6	218.6	265.1	-46.5
2010		-14.1	-47.8	23.0	10.7	-15.2	-12.7	-42.0	4.9	-37.1	212.6	254.5	-42.0
2011		-2.6	-44.5	26.2	15.6	-18.2	-14.1	-35.0	4.1	-30.9	200.6	235.6	-35.0
2012		16.5	-28.2	27.1	17.6	-8.9	-12.1	-4.5	5.3	0.8	208.5	212.9	-4.5
2013		35.8	-12.6	28.3	20.1	-7.2	-13.1	15.4	6.8	22.2	214.3	198.9	15.4
2014		25.2	-21.4	28.8	17.8	-6.2	-12.5	6.5	4.5	10.9	212.5	206.0	6.5
2015		28.4	-19.1	29.0	18.5	-9.7	-12.7	6.1	4.9	11.0	226.2	220.2	6.1
2016		20.8	-29.8	29.9	20.7	-6.4	-12.8	1.6	5.0	6.6	237.7	236.2	1.6
2013	II	30.7	-14.8	27.7	17.8	-5.9	-12.4	12.4	7.1	19.5	218.5	206.2	12.4
	III	34.3	-12.5	28.1	18.8	-6.4	-13.1	14.9	6.9	21.7	217.4	202.6	14.9
	IVI	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
	II	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
2015	I	26.8	-20.5	28.5	18.7	-5.2	-12.7	8.9	3.7	12.6	218.2	209.2	8.9
Percentage of GDP, 4-quarter cumulated transactions													
2008		-5.1	-7.8	2.1	0.5	-2.7	-1.4	-9.2	0.4	-8.8	20.4	29.6	-9.2
2009		-1.2	-3.8	2.1	0.6	-1.8	-1.3	-4.3	0.3	-4.0	20.3	24.6	-4.3
2010		-1.3	-4.4	2.1	1.0	-1.4	-1.2	-3.9	0.5	-3.4	19.7	23.5	-3.9
2011		-0.2	-4.1	2.4	1.5	-1.7	-1.3	-3.3	0.4	-2.9	18.7	21.9	-3.3
2012		1.6	-2.7	2.6	1.7	-0.8	-1.1	-0.4	0.5	0.1	19.8	20.2	-0.4
2013		3.4	-1.2	2.7	1.9	-0.7	-1.2	1.5	0.7	2.1	20.4	19.0	1.5
2014		2.4	-2.0	2.7	1.7	-0.6	-1.2	0.6	0.4	1.0	20.1	19.5	0.6
2015		2.6	-1.7	2.6	1.7	-0.9	-1.1	0.6	0.4	1.0	20.6	20.0	0.6
2016		1.8	-2.6	2.6	1.8	-0.6	-1.1	0.1	0.4	0.6	20.8	20.7	0.1
2013	II	2.9	-1.4	2.6	1.7	-0.6	-1.2	1.2	0.7	1.9	20.8	19.7	1.2
	III	3.3	-1.2	2.7	1.8	-0.6	-1.2	1.4	0.7	2.1	20.8	19.3	1.4
	IV	3.4	-1.2	2.7	1.9	-0.7	-1.2	1.5	0.7	2.1	20.4	19.0	1.5
2014	I	3.2	-1.4	2.7	1.9	-0.6	-1.3	1.4	0.7	2.0	20.4	19.0	1.4
	II	2.8	-1.8	2.7	1.8	-0.8	-1.3	0.8	0.6	1.4	19.9	19.2	0.8
	III	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
2015	I	2.5	-1.9	2.7	1.8	-0.5	-1.2	0.8	0.3	1.2	20.4	19.6	0.8

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

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

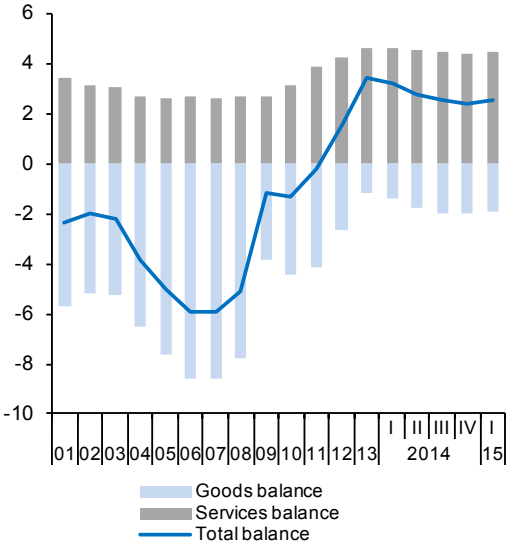


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

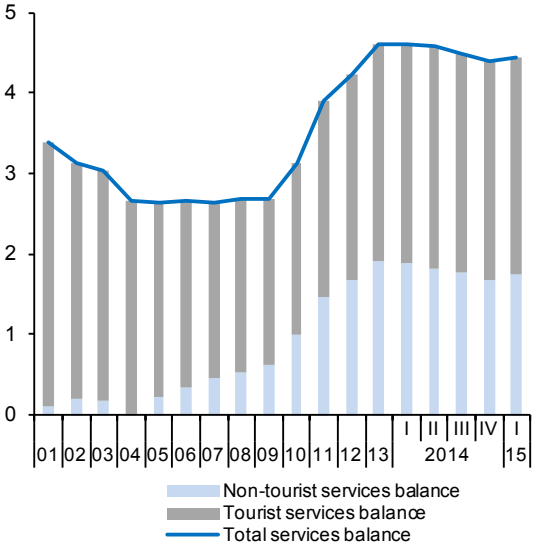


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

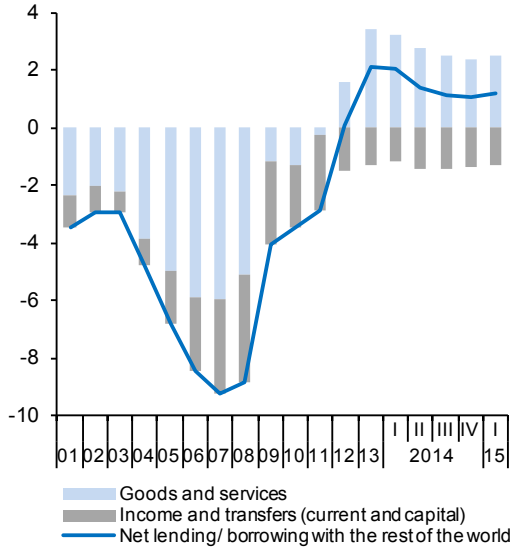


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

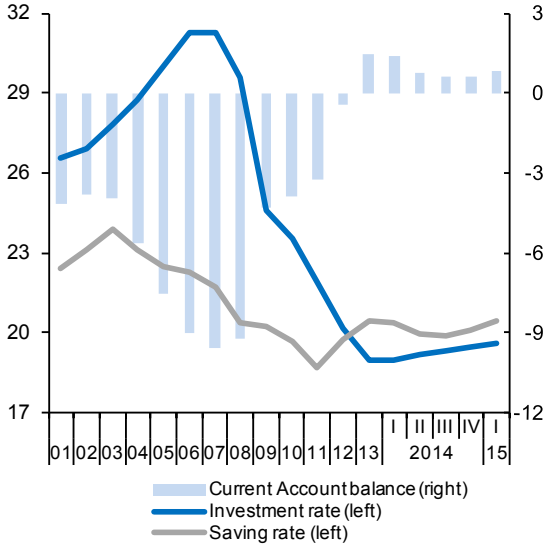


Table 6

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

Forecasts in blue

		Gross disposable income (GDI)						Final consumption expenditure	Gross saving (a)	Saving rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP
		Total	Compensation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contributions and other current transfers (paid)	Personal income taxes							
		1=2+3+4-5-6	2	3	4	5	6	7	8=1-7	9=8/1	10	11	12=8+10-11	13
EUR Billions, 4-quarter cumulated operations														
2008		692.8	560.5	219.7	217.0	219.7	84.8	633.5	63.6	9.2	5.2	90.2	-21.3	-1.9
2009		715.0	549.9	215.2	235.9	209.7	76.2	605.3	109.7	15.3	4.6	69.0	45.4	4.2
2010		694.7	542.3	202.6	239.3	209.6	79.9	618.8	75.8	10.9	6.3	63.0	19.1	1.8
2011		707.0	532.8	225.3	243.0	212.0	82.0	622.6	83.8	11.9	3.1	55.0	31.9	3.0
2012		685.6	503.3	222.4	247.6	204.4	83.2	618.8	64.8	9.5	2.5	42.6	24.7	2.3
2013		683.4	492.3	226.0	249.6	201.3	83.1	610.3	71.1	10.4	0.4	33.4	38.2	3.6
2014		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		719.1	518.3	246.2	242.9	204.9	83.4	646.7	71.3	9.9	0.3	35.9	35.7	3.2
2016		748.0	536.5	261.3	245.4	210.9	84.3	678.7	68.3	9.1	0.3	37.9	30.6	2.7
2013	II	684.2	492.3	225.4	250.2	202.1	81.6	609.0	73.0	10.7	2.1	40.7	34.4	3.3
	III	682.2	490.1	226.0	249.7	201.0	82.5	609.7	70.8	10.4	1.4	37.5	34.7	3.3
	IV	683.4	492.3	226.0	249.6	201.3	83.1	610.3	71.1	10.4	0.4	33.4	38.2	3.6
2014	I	681.3	491.8	226.4	247.1	200.4	83.7	611.9	67.8	10.0	0.2	33.5	34.6	3.3
	II	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
	III	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
2015	I	698.1	503.8	232.7	242.5	196.7	84.2	627.4	69.1	9.9	-0.1	34.5	34.5	3.2
Annual percentage changes, 4-quarter cumulated operations										**Difference from one year ago**	**Annual percentage changes, 4-quarter cumulated operations**			**Difference from one year ago**
2008		5.5	7.1	-5.4	9.8	4.9	-2.4	2.9	43.3	2.4	67.4	-8.7	--	2.8
2009		3.2	-1.9	-2.1	8.7	-4.5	-10.1	-4.5	72.4	6.2	-11.0	-23.5	--	6.1
2010		-2.8	-1.4	-5.9	1.4	0.0	4.8	2.2	-30.9	-4.4	36.5	-8.7	--	-2.4
2011		1.8	-1.8	11.2	1.5	1.1	2.7	0.6	10.6	0.9	-51.6	-12.7	--	1.2
2012		-3.0	-5.5	-1.3	1.9	-3.5	1.4	-0.6	-22.7	-2.4	-18.2	-22.5	--	-0.6
2013		-0.3	-2.2	1.6	0.8	-1.5	-0.1	-1.4	9.7	1.0	-82.7	-21.7	--	1.3
2014		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		3.7	3.9	6.0	0.3	4.2	-0.2	3.5	5.7	0.2	-15.0	5.5	--	0.0
2016		4.0	3.5	6.1	1.0	2.9	1.1	4.9	-4.3	-0.8	-11.0	5.6	--	-0.6
2013	II	-1.8	-5.6	0.9	2.2	-3.7	-1.9	-2.1	-1.7	0.0	-26.2	-15.0	--	0.5
	III	-1.6	-4.8	1.8	1.0	-3.0	-1.0	-1.7	-1.7	0.0	-32.8	-17.1	--	0.6
	IV	-0.3	-2.2	1.6	0.8	-1.5	-0.1	-1.4	9.7	1.0	-82.7	-21.7	--	1.3
2014	I	-0.3	-1.1	1.5	-0.8	-1.6	1.2	-0.2	-0.7	0.0	-89.7	-20.2	--	0.6
	II	-0.3	0.3	0.1	-1.7	-1.5	2.8	1.2	-11.4	-1.2	-98.7	-17.7	--	-0.3
	III	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
2015	I	2.5	2.4	2.8	-1.9	-1.8	0.6	2.5	1.9	-0.1	-132.9	3.0	--	-0.1

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

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

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

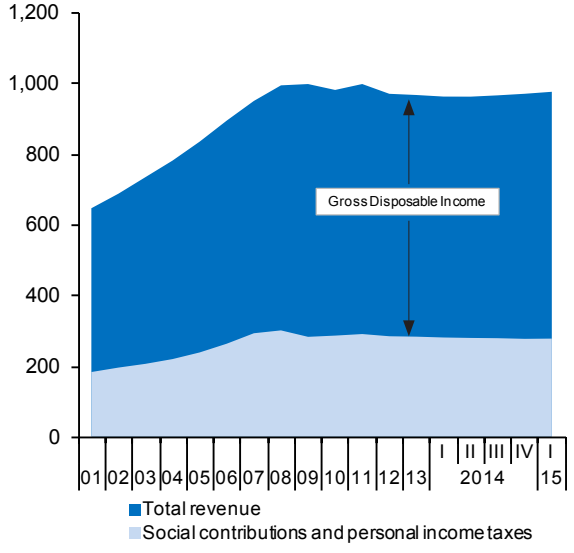
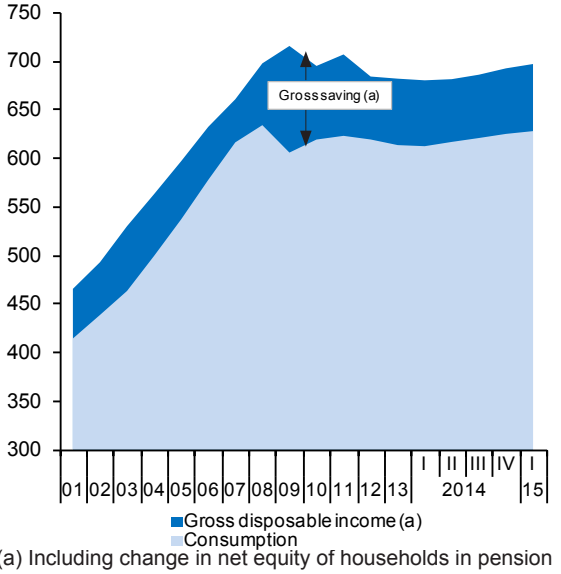


Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



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

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

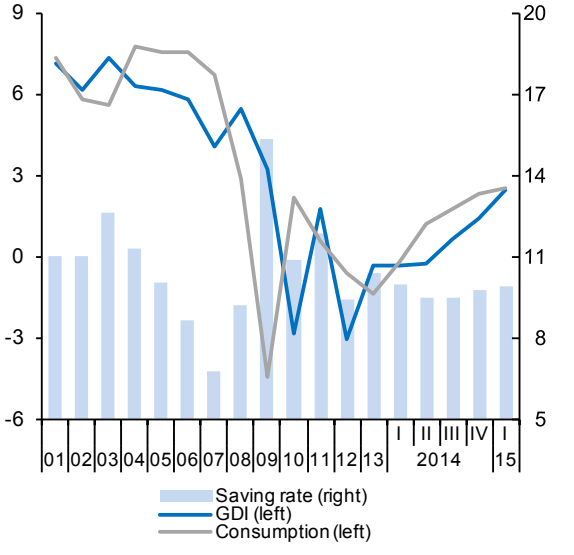
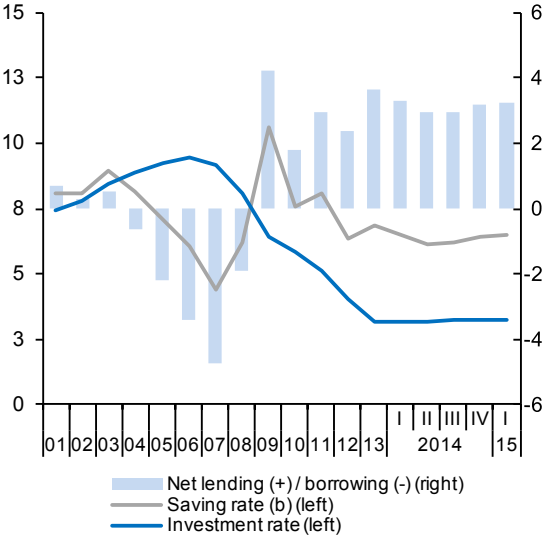


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 7

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

Forecasts in blue

		Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
		1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR Billions, 4-quarter cumulated operations														
2008		604.0	375.2	228.8	-78.8	-8.9	25.5	115.7	11.8	178.7	-51.2	-4.6	37.9	29.6
2009		580.2	360.0	220.2	-59.9	-13.3	19.0	128.0	11.9	130.1	9.8	0.9	38.0	22.4
2010		581.4	351.9	229.5	-49.2	-8.6	16.2	155.5	10.6	132.0	34.0	3.1	39.5	22.7
2011		568.9	346.9	222.0	-60.9	-7.1	16.2	137.9	10.5	131.7	16.7	1.6	39.0	23.1
2012		557.1	327.8	229.2	-57.8	-7.7	19.9	143.8	9.0	138.4	14.4	1.4	41.2	24.8
2013		549.7	317.0	232.6	-45.4	-6.6	17.7	163.0	7.2	136.5	33.6	3.2	42.3	24.8
2014		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		574.6	340.4	234.2	-45.3	-7.3	21.4	160.3	7.0	158.0	9.3	0.8	40.8	27.5
2016		595.6	356.6	239.0	-34.9	-7.5	21.7	174.8	7.0	171.5	10.4	0.9	40.1	28.8
2013	II	552.4	320.0	232.3	-51.3	-7.0	19.8	154.1	9.3	138.9	24.6	2.3	42.1	25.1
	III	552.0	318.4	233.7	-47.3	-6.6	18.5	161.3	8.6	140.0	30.0	2.9	42.3	25.4
	IV	549.7	317.0	232.6	-45.4	-6.6	17.7	163.0	7.2	136.5	33.6	3.2	42.3	24.8
2014	I	548.6	316.3	232.3	-45.6	-6.6	17.6	162.5	6.9	139.1	30.3	2.9	42.3	25.4
	II	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
	III	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
2015	I	557.4	327.2	230.2	-48.3	-7.2	18.9	155.8	6.6	149.4	13.1	1.2	41.3	26.8
Annual percentage changes, 4-quarter cumulated operations												**Difference from one year ago**		
2008		9.5	7.4	13.0	19.3	6.4	-38.7	33.6	19.2	-5.5	--	4.0	1.2	-4.7
2009		-3.9	-4.1	-3.7	-23.9	49.4	-25.4	10.7	0.4	-27.2	--	5.5	0.1	-7.2
2010		0.2	-2.2	4.2	-17.9	-35.0	-15.0	21.4	-10.8	1.5	--	2.2	1.5	0.3
2011		-2.1	-1.4	-3.3	23.8	-18.1	0.1	-11.3	-0.8	-0.3	--	-1.6	-0.4	0.4
2012		-2.1	-5.5	3.3	-5.0	9.3	23.0	4.3	-14.0	5.1	--	-0.2	2.1	1.7
2013		-1.3	-3.3	1.5	-21.5	-14.5	-11.1	13.3	-20.6	-1.4	--	1.8	1.2	0.0
2014		0.5	2.1	-1.7	13.6	6.8	6.7	-7.2	-1.9	7.6	--	-2.1	-0.9	1.8
2015		4.0	5.2	2.4	-12.2	3.0	13.6	6.0	0.0	7.5	--	-0.2	-0.6	0.9
2016		3.6	4.8	2.0	-22.9	3.5	1.3	9.1	0.0	8.5	--	0.1	-0.6	1.3
2013	II	-1.6	-5.3	4.0	-17.2	8.5	15.2	12.0	-2.0	3.1	--	1.2	2.3	1.2
	III	-1.2	-4.3	3.5	-23.9	-14.9	10.7	15.8	3.6	2.7	--	1.8	1.9	1.0
	IV	-1.3	-3.3	1.5	-21.5	-14.5	-11.1	13.3	-20.6	-1.4	--	1.8	1.2	0.0
2014	I	-1.0	-2.1	0.6	-18.1	-9.3	-10.0	9.5	-27.6	1.1	--	0.9	0.7	0.5
	II	-0.6	-0.6	-0.7	-3.9	-4.2	-7.5	1.4	-30.1	-0.5	--	0.0	0.0	0.0
	III	-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
2015	I	1.6	3.5	-0.9	5.8	8.7	7.5	-4.1	-3.3	7.4	--	-1.7	-1.1	1.4

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

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

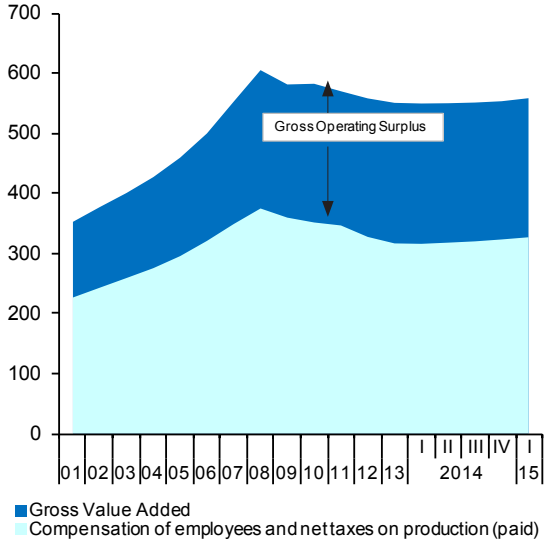


Chart 7.2.- Non-financial corporations: GVA, GOS and saving
Annual percentage change, 4-quarter moving averages

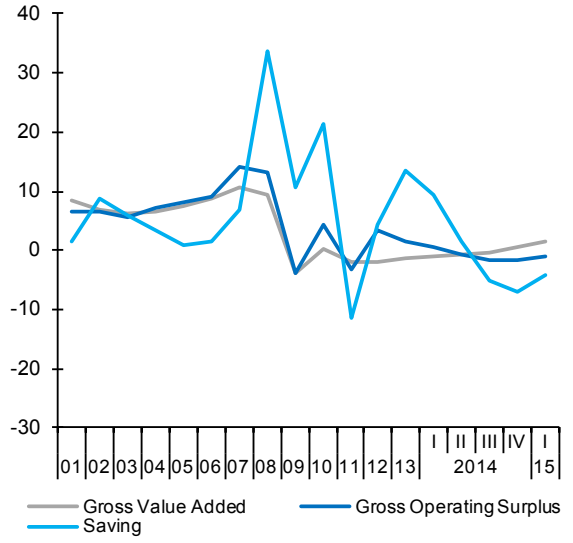
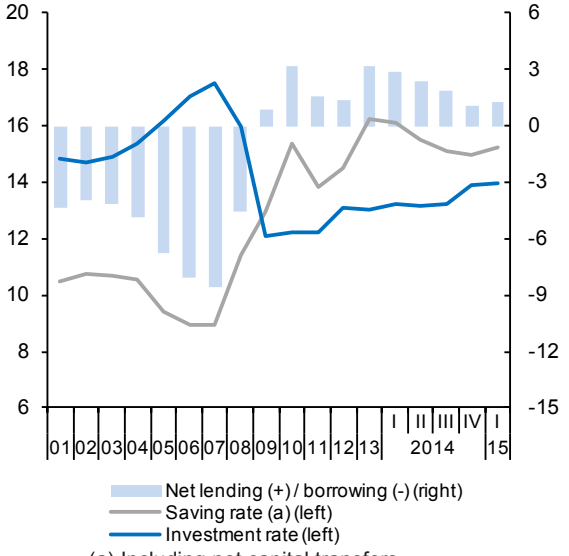


Chart 7.3.- Non-financial corporations: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

Chart 7.4.- Non-financial corporations: Profit share and investment rate
Percentage of non-financial corporations GVA, 4-quarter moving averages

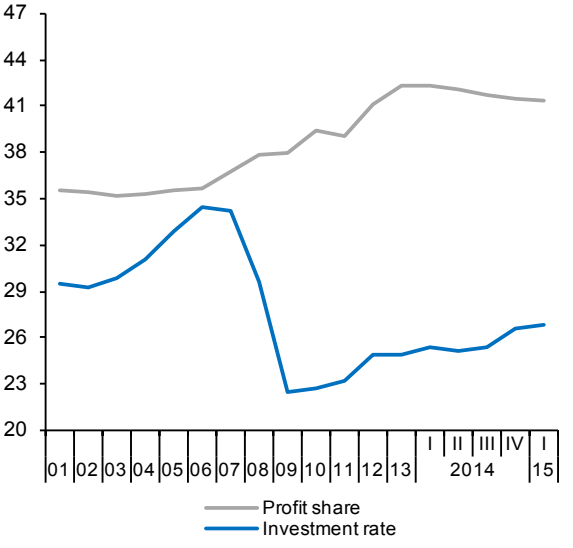


Table 8

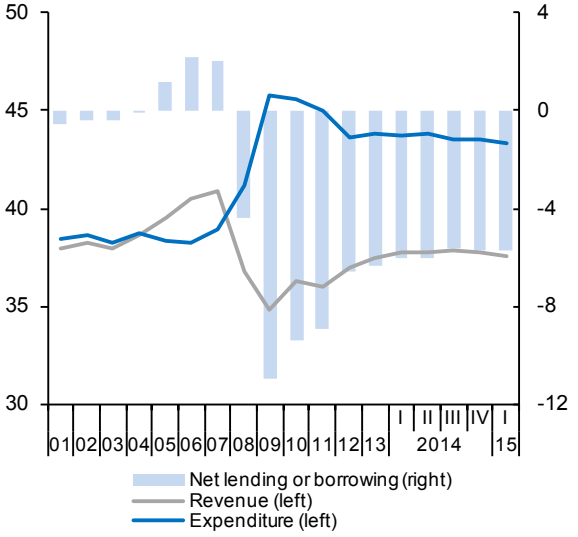
National accounts: Public revenue, expenditure and deficit (ESA 2010, Base 2010)

Forecasts in blue

	Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out
	1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
EUR Billions, 4-quarter cumulated operations														
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	145.2	122.9	108.1	136.2	116.5	24.5	170.9	21.5	179.0	205.4	-26.4	24.0	-50.5	-50.5
2016	147.0	130.3	109.4	140.5	117.7	23.1	171.9	21.6	192.9	207.6	-14.6	24.2	-38.9	-38.9
2013 II	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
III	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 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
II	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
III	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
2015 I	143.7	119.1	106.3	130.1	115.5	25.4	170.7	22.0	165.6	204.2	-38.6	24.0	-62.5	-61.3
Percentage of GDP, 4-quarter cumulated operations														
2008	12.8	9.7	10.4	12.7	10.6	0.5	12.3	2.2	20.0	18.8	1.3	5.7	-4.4	-4.4
2009	14.0	8.5	9.4	12.9	11.6	0.7	14.4	2.2	15.9	20.5	-4.6	6.4	-11.0	-11.0
2010	14.1	10.2	9.3	12.8	11.6	1.0	15.1	2.0	16.8	20.5	-3.7	5.7	-9.4	-9.4
2011	14.0	9.9	9.5	12.8	11.4	1.5	15.3	2.1	15.9	20.4	-4.6	4.9	-9.4	-8.9
2012	13.5	10.3	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	10.6	2.2	15.5	2.0	16.3	18.7	-2.4	2.2	-4.6	-4.6
2016	12.9	11.4	9.6	12.3	10.3	2.0	15.0	1.9	16.9	18.2	-1.3	2.1	-3.4	-3.4
2013 II	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
III	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 I	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
II	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
2015 I	13.5	11.2	10.0	12.2	10.8	2.4	16.0	2.1	15.5	19.1	-3.6	2.2	-5.9	-5.7

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

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



(a) Excluding financial entities bail-out expenditures.

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

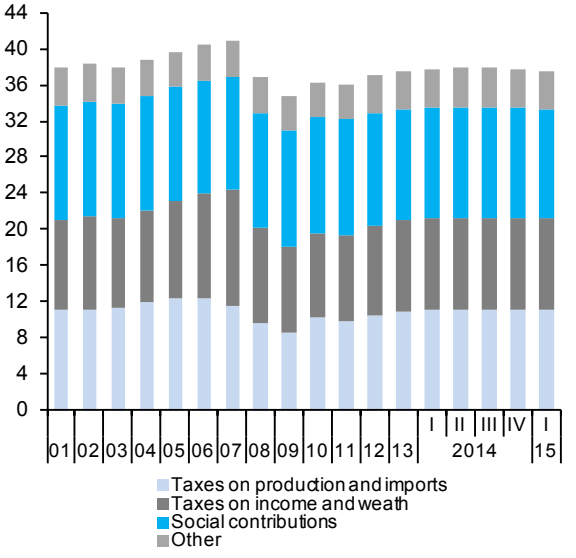


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

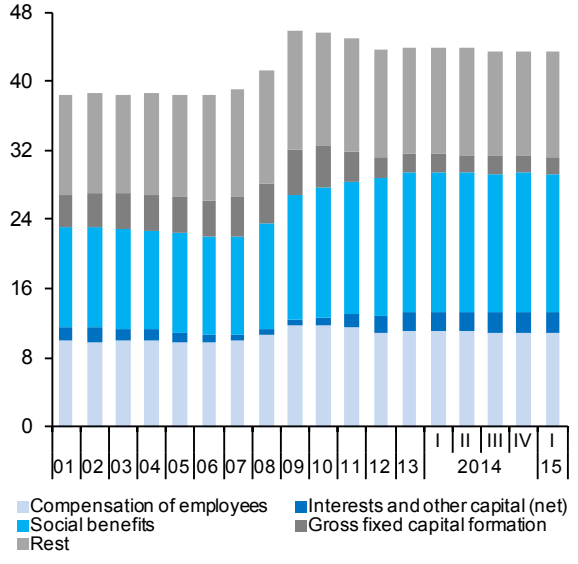
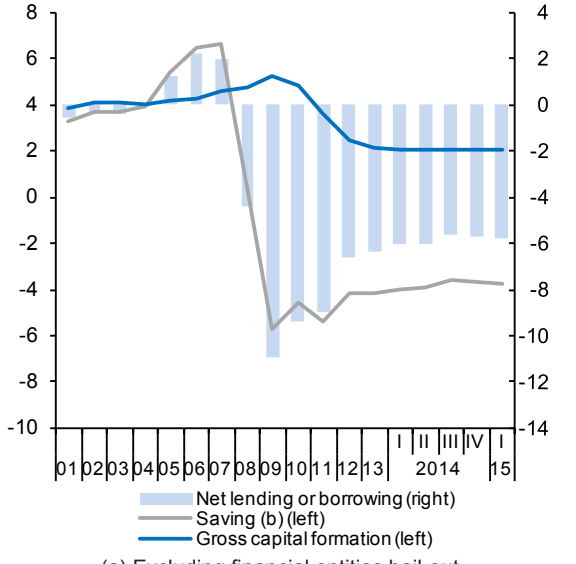


Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages



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

Table 9

Public sector balances, by level of Government

Forecasts in blue

		Deficit					Debt				
		Central Government (a)	Regional Governments	Local Governments	Social Security	TOTAL Government (a)	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					**EUR Billions, end of period**				
2008		-32.3	-19.1	-5.4	7.4	-49.4	368.9	73.6	31.8	17.2	439.8
2009		-98.4	-21.7	-5.9	7.8	-118.2	487.7	92.4	34.7	17.2	568.7
2010		-51.8	-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	-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	1,033.8
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	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	-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	1,033.8
2015	I	--	--	--	--	--	907.2	240.4	38.3	17.2	1,046.2
		Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
2008		-2.9	-1.7	-0.5	0.7	-4.4	33.0	6.6	2.8	1.5	39.4
2009		-9.1	-2.0	-0.5	0.7	-11.0	45.2	8.6	3.2	1.6	52.7
2010		-4.8	-3.7	-0.7	-0.2	-9.4	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
2012		-4.1	-1.8	0.3	-1.0	-6.6	72.2	17.9	4.2	1.6	84.4
2013		-4.2	-1.5	0.5	-1.1	-6.3	79.9	20.0	4.0	1.6	92.1
2014		-3.5	-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	--	--	--	--	100.4
2016		-2.1	-0.9	0.3	-0.9	-3.5	--	--	--	--	101.6
2013	II	-3.7	-1.8	0.4	-1.1	-6.2	78.3	18.8	4.2	1.6	90.7
	III	-3.9	-1.6	0.5	-1.1	-6.1	79.6	19.1	4.1	1.6	91.7
	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	0.5	-1.0	-6.0	82.5	21.4	4.0	1.6	94.9
	II	-3.5	-1.6	0.5	-1.3	-6.0	84.3	21.7	4.0	1.6	96.4
	III	-3.7	-1.6	0.5	-0.8	-5.6	84.6	22.0	3.9	1.6	96.8
	IV	-3.5	-1.7	0.5	-1.1	-5.7	84.6	22.4	3.6	1.6	97.7
2015	I	--	--	--	--	--	85.0	22.5	3.6	1.6	98.0

(a) Excluding financial entities bail-out expenditures.

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

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

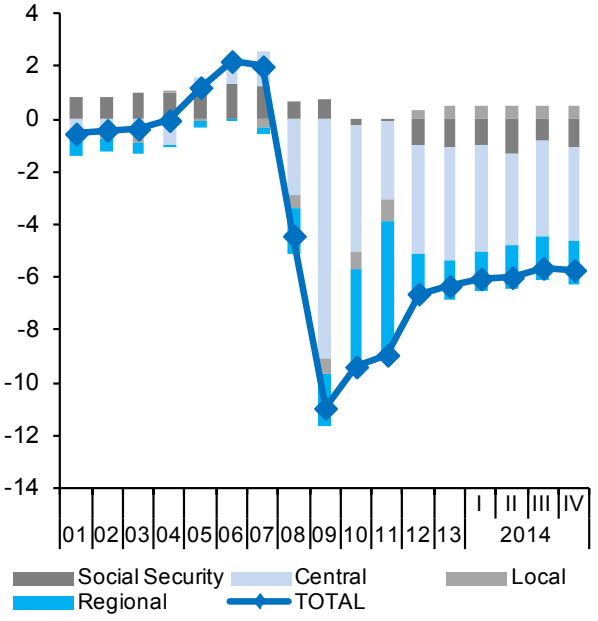


Chart 9.2.- Government debt
Percent of GDP

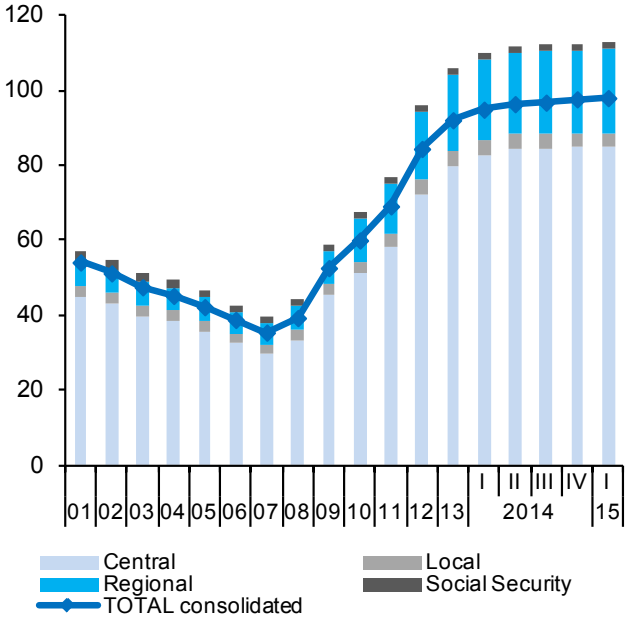


Table 10

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	**Index**	**Thousands**	**1000 GWH (smoothed)**	**2010=100**	**Thousands**	**Index**	**Balance of responses**	**2010=100 (smoothed)**	**Balance of responses**
2008		87.1	38.5	18,834	269.5	117.8	2,696	40.4	-18.0	120.4	-24.0
2009		83.1	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	97.1	-54.5
2010		93.5	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.9
2011		93.5	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	100.3	-30.7
2012		88.9	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	95.5	-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)		108.7	57.2	16,484	127.5	94.6	2,046	54.6	-1.2	93.9	-5.7
2013	III	95.0	49.7	15,818	62.4	91.0	2,013	50.5	-12.8	92.6	-27.9
	IV	97.1	51.6	15,890	62.6	91.3	2,013	50.1	-11.6	92.5	-26.9
2014	I	101.0	54.3	15,957	62.6	91.6	2,015	52.5	-9.1	93.3	-20.5
	II	102.4	55.7	16,044	62.7	91.8	2,020	53.4	-8.2	94.6	-18.3
	III	103.6	56.0	16,159	62.6	91.6	2,024	53.1	-5.7	94.1	-14.5
	IV	104.3	54.6	16,291	62.6	91.9	2,031	53.7	-5.3	93.6	-13.1
2015	I	107.7	56.6	16,435	62.6	93.1	2,047	54.4	-3.2	94.7	-10.3
	II (b)	109.7	57.7	16,595	62.7	94.5	2,061	54.8	0.9	94.5	-1.1
2015	Apr	110.4	59.1	16,553	20.9	94.2	2,057	54.2	0.2	94.5	-2.9
	May	110.4	58.3	16,599	20.9	94.9	2,062	55.8	1.4	--	-1.6
	Jun	108.4	55.8	16,634	20.9	--	2,067	54.5	1.2	--	1.1
		Percentage changes (c)									
2008		--	--	-0.6	0.7	-7.6	-2.2	--	--	-8.2	--
2009		--	--	-6.2	-4.7	-15.8	-10.6	--	--	-19.3	--
2010		--	--	-2.3	2.7	0.8	-4.8	--	--	2.9	--
2011		--	--	-1.6	-0.9	-1.6	-2.7	--	--	0.3	--
2012		--	--	-3.7	-2.2	-6.7	-5.3	--	--	-4.8	--
2013		--	--	-2.9	-2.2	-1.5	-4.4	--	--	-3.4	--
2014		--	--	1.6	-0.2	1.3	0.1	--	--	1.5	--
2015	(d)	--	--	3.3	0.5	2.2	1.8	--	--	1.1	--
2013	III	--	--	-0.2	0.3	5.0	-1.6	--	--	0.1	--
	IV	--	--	1.9	0.8	1.2	0.0	--	--	1.8	--
2014	I	--	--	1.7	0.4	1.3	0.4	--	--	2.7	--
	II	--	--	2.2	0.1	1.0	0.8	--	--	1.9	--
	III	--	--	2.9	-0.4	-0.8	1.2	--	--	0.5	--
	IV	--	--	3.3	-0.1	1.3	1.5	--	--	0.3	--
2015	I	--	--	3.6	0.4	5.2	2.8	--	--	1.4	--
	II (e)	--	--	3.9	0.3	6.2	3.0	--	--	1.3	--
2015	Apr	--	--	0.3	0.0	0.1	0.2	--	--	0.2	--
	May	--	--	0.3	0.0	0.8	0.3	--	--	--	--
	Jun	--	--	0.2	0.0	--	0.2	--	--	--	--

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

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

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

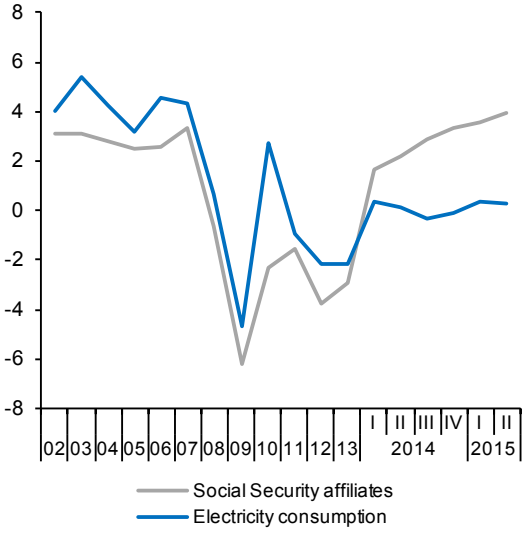


Chart 10.2.- General activity indicators (II)
Index

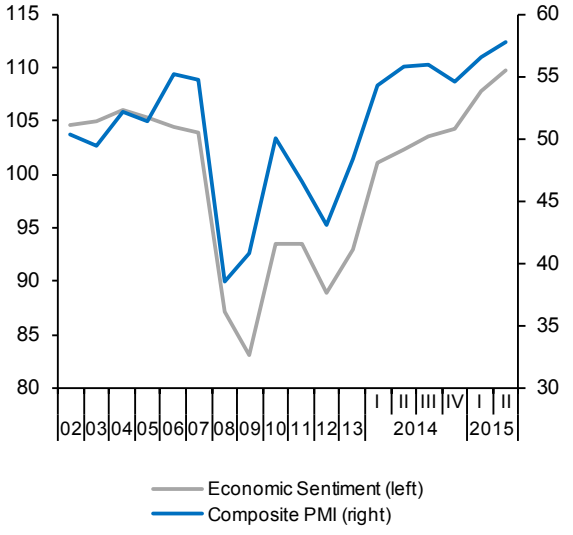


Chart 10.3.- Industrial sector indicators (I)
Annualized percent change from previous period

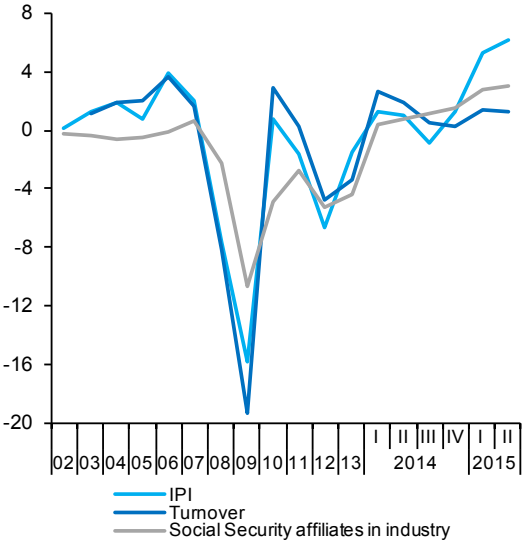


Chart 10.4.- Industrial sector indicators (II)
Index

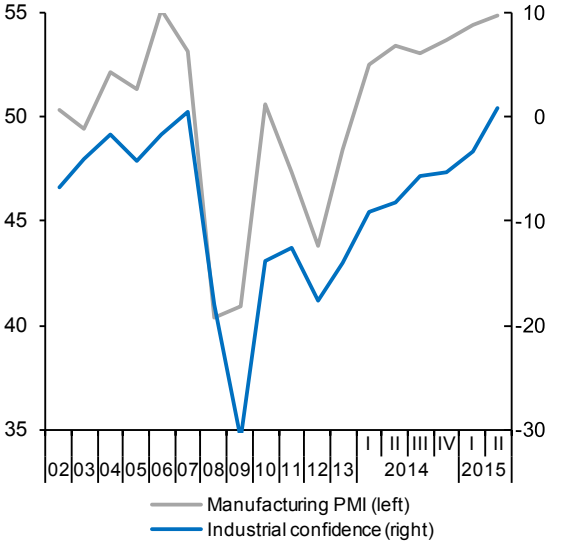


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security affiliates in construction	Consumption of cement	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	**Million Tons**	**2010=100 (smoothed)**	**Balance of responses**	**EUR Billions**	**Million m²**	**Thousands**	**2010=100 (smoothed)**	**Index**	**Million (smoothed)**	**Million (smoothed)**	**Balance of responses**
2008	2,340	42.7	154.7	-23.6	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)	1,017	4.5	65.2	-25.5	5.1	3.0	12,303	91.8	57.5	97.5	72.6	18.8
2013 III	986	2.6	65.2	-60.6	2.5	1.6	11,722	91.8	49.3	71.5	46.5	-10.2
IV	978	2.6	62.6	-57.4	2.9	1.6	11,789	91.4	51.8	72.4	47.0	-3.1
2014 I	971	2.6	64.3	-52.3	3.7	1.7	11,853	91.8	54.2	72.8	47.5	7.5
II	974	2.6	63.1	-55.8	3.2	1.8	11,943	93.0	55.7	73.1	48.1	9.1
III	983	2.7	59.8	-35.0	3.4	1.9	12,042	94.0	56.7	73.6	48.8	8.8
IV	996	2.8	61.3	-22.6	2.9	1.5	12,149	94.5	54.3	74.4	49.4	14.0
2015 I	1,014	2.8	64.2	-23.3	2.8	2.1	12,282	95.7	56.7	75.2	50.1	17.5
II (b)	1,026	1.9	65.2	-27.7	2.3	0.9	12,386	96.7	58.3	50.6	33.8	20.1
2015 Apr	1,023	1.0	64.4	-29.0	11.6	0.9	12,357	96.7	60.3	25.3	16.9	23.5
May	1,026	1.0	66.0	-25.0	11.5	--	12,388	--	58.4	25.4	16.9	20.4
Jun	1,028	--	--	-29.0	--	--	12,415	--	56.1	--	--	16.5
Percentage changes (c)												
2008	-10.0	-23.8	-17.8	--	-1.3	-56.6	1.5	-3.7	--	-1.2	-3.0	--
2009	-23.1	-32.3	-25.1	--	-0.4	-56.8	-3.1	-13.4	--	-5.7	-7.9	--
2010	-13.4	-15.4	-13.7	--	-33.9	-16.1	-0.5	0.8	--	6.4	2.9	--
2011	-12.2	-16.4	-8.4	--	-47.9	-13.2	-0.1	-1.1	--	6.4	6.0	--
2012	-17.0	-33.6	-27.0	--	-45.5	-39.9	-2.2	-6.2	--	-2.1	-5.0	--
2013	-12.2	-20.7	-5.7	--	23.3	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	0.1	-1.4	--	42.9	2.2	2.3	2.6	--	3.2	4.6	--
2015 (d)	5.1	8.7	0.1	--	-15.7	28.7	3.7	4.2	--	3.9	5.8	--
2013 III	-4.7	-1.8	11.2	--	48.3	-16.8	1.0	6.5	--	7.6	3.5	--
IV	-3.3	-0.4	-15.0	--	87.1	-8.3	2.3	-1.9	--	5.0	4.2	--
2014 I	-2.9	-12.2	10.9	--	129.2	-12.6	2.2	1.8	--	2.3	4.6	--
II	1.4	11.1	-7.2	--	48.2	11.2	3.1	5.5	--	1.5	5.3	--
III	3.7	13.9	-18.9	--	32.7	21.2	3.4	4.3	--	2.9	5.3	--
IV	5.1	16.2	10.3	--	0.3	-8.0	3.6	2.1	--	4.4	5.2	--
2015 I	7.8	-2.5	20.3	--	-24.5	23.6	4.4	5.1	--	4.6	5.7	--
II (e)	4.5	11.2	6.2	--	8.4	43.3	3.5	4.3	--	3.9	5.0	--
2015 Apr	0.3	4.1	-2.1	--	42.1	43.3	0.3	0.2	--	0.4	0.5	--
May	0.3	-0.6	2.4	--	-25.3	--	0.3	--	--	0.4	0.5	--
Jun	0.1	1.4	--	--	--	--	0.2	--	--	--	--	--

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

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

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

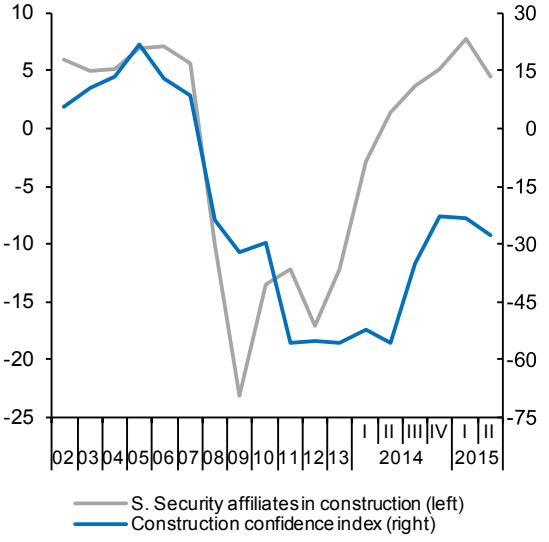


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

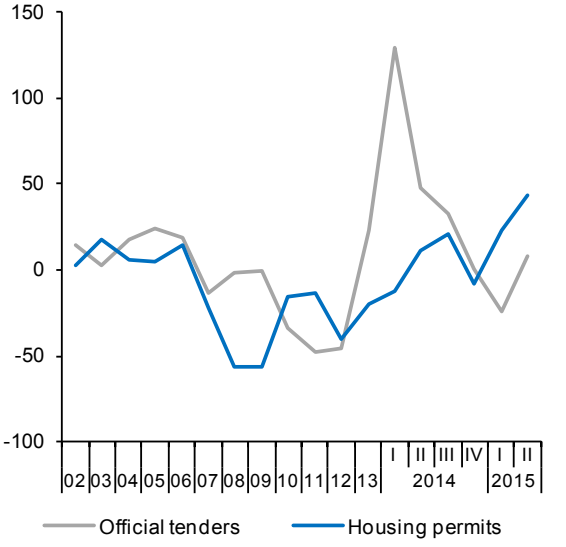


Chart 11.3.- Services indicators (I)
Percentage changes from previous period

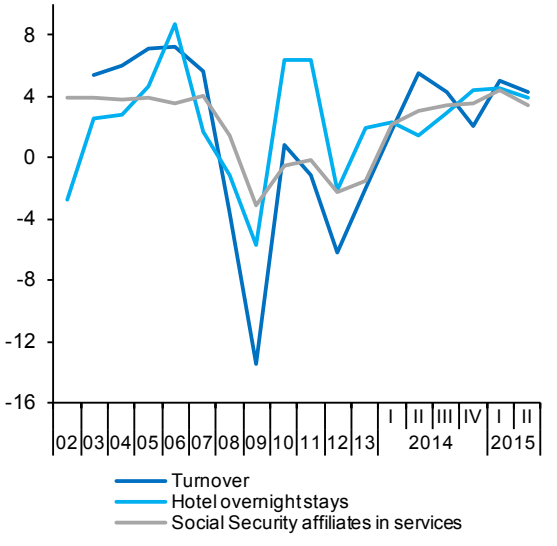


Chart 11.4.- Services indicators (II)
Index

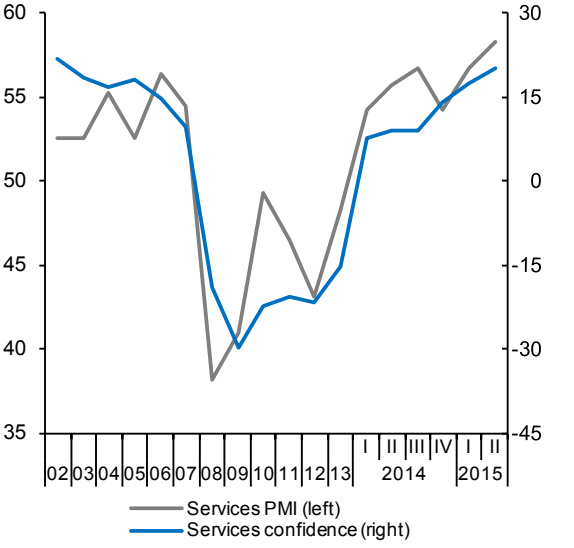


Table 12

Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Import of capital goods (volume)
	2010=100 (smoothed)	**Thousands (smoothed)**	**Balance of responses**	**Million (smoothed)**	**Balance of responses**	**Thousands (smoothed)**	**Balance of responses**	**2005=100 (smoothed)**
2008	107.5	1,185.3	-33.8	113.2	-21.0	236.9	-4.5	90.4
2009	101.8	971.2	-28.3	110.1	-40.2	142.1	-50.8	66.6
2010	100.0	1,000.1	-20.9	113.6	-26.7	152.1	-31.1	70.9
2011	94.4	808.3	-17.1	111.5	-21.7	142.0	-23.0	68.7
2012	87.4	710.6	-31.7	102.1	-24.2	107.7	-38.6	61.3
2013	84.0	740.0	-25.3	100.6	-21.8	107.3	-33.5	70.0
2014	84.9	878.8	-8.9	104.3	-9.2	135.3	-16.1	83.1
2015 (b)	83.9	576.2	0.5	36.9	-5.3	89.5	-1.7	90.2
2013 III	84.1	184.4	-20.5	25.0	-21.1	32.8	-26.8	72.0
IV	83.9	191.7	-19.4	25.2	-19.5	28.9	-35.7	75.7
2014 I	84.0	201.9	-11.8	25.4	-11.9	24.6	-20.1	79.9
II	84.4	212.9	-6.1	25.7	-8.1	21.3	-16.9	82.9
III	85.1	223.8	-7.9	26.1	-7.4	23.6	-15.8	84.2
IV	85.9	238.2	-9.6	26.5	-9.5	35.8	-11.3	86.8
2015 I	86.8	252.7	-0.6	26.9	-4.6	41.0	-9.1	91.9
II (b)	87.4	264.3	1.6	18.1	-6.0	37.3	5.7	95.5
2015 Apr	87.3	86.9	3.6	9.0	-6.3	14.2	0.8	95.5
May	87.6	88.1	1.5	9.1	-4.7	14.6	4.0	--
Jun	--	89.3	-0.4	--	-7.0	14.9	12.3	--
				Percentage changes (c)				
2008	-6.0	-27.5	--	-2.9	--	-43.6	--	-20.1
2009	-5.4	-18.1	--	-2.7	--	-40.0	--	-26.3
2010	-1.7	3.0	--	3.1	--	7.0	--	6.5
2011	-5.6	-19.2	--	-1.8	--	-6.6	--	-3.1
2012	-7.4	-12.1	--	-8.5	--	-24.2	--	-10.7
2013	-3.9	4.1	--	-1.4	--	-0.4	--	14.1
2014	1.1	18.8	--	3.7	--	26.1	--	18.7
2015 (d)	3.5	23.7	--	6.5	--	33.3	--	16.0
2013 III	0.7	13.1	--	5.4	--	27.5	--	23.3
IV	-0.7	16.6	--	3.3	--	29.4	--	22.3
2014 I	0.2	23.3	--	2.5	--	31.0	--	24.1
II	2.1	23.5	--	5.0	--	32.5	--	16.0
III	3.3	22.0	--	6.1	--	34.3	--	6.5
IV	4.0	28.5	--	6.4	--	37.0	--	12.6
2015 I	4.0	26.6	--	6.4	--	40.4	--	25.7
II (e)	3.2	19.7	--	4.8	--	43.7	--	16.6
2015 Apr	0.3	1.4	--	0.5	--	2.6	--	1.9
May	0.3	1.4	--	0.4	--	2.6	--	--
Jun	--	1.4	--	--	--	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

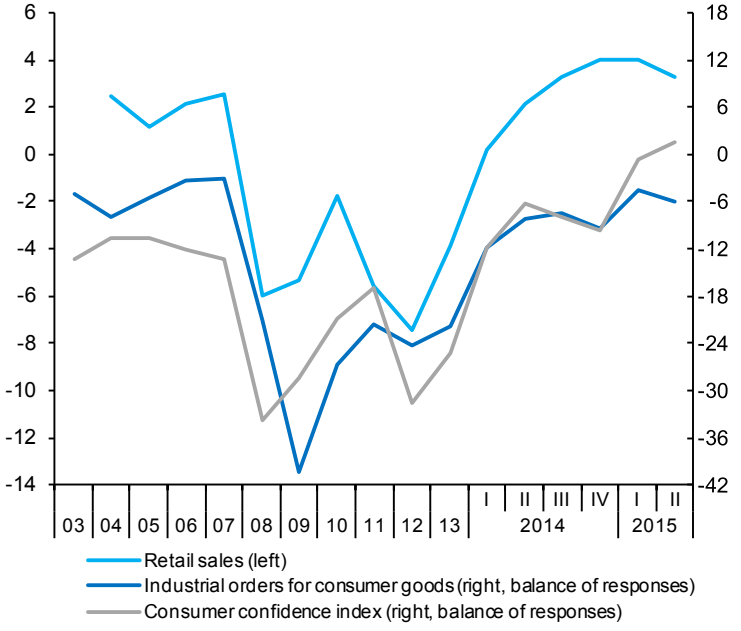


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

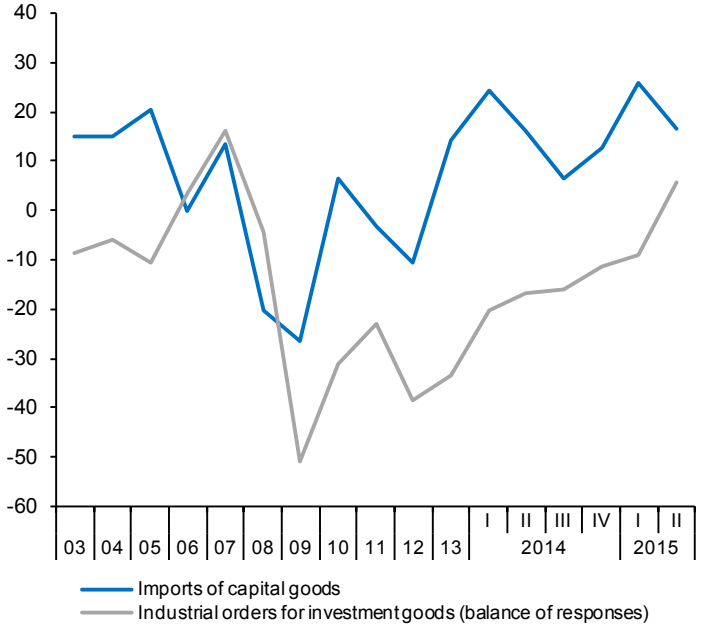


Table 13a

Labour market (I)

Forecasts in blue

		Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
2008		31.0	23.1	--	20.5	--	2.6	--	73.8	65.4	11.3	24.5	10.2	17.4
2009		31.2	23.3	--	19.1	--	4.2	--	74.1	60.8	17.9	37.7	16.0	28.2
2010		31.1	23.4	--	18.7	--	4.6	--	74.6	59.7	19.9	41.5	18.1	29.9
2011		31.1	23.4	--	18.4	--	5.0	--	74.9	58.8	21.4	46.2	19.5	32.6
2012		30.9	23.4	--	17.6	--	5.8	--	75.3	56.5	24.8	52.9	23.0	35.9
2013		30.6	23.2	--	17.1	--	6.1	--	75.3	55.6	26.1	55.5	24.4	37.0
2014		30.3	23.0	--	17.3	--	5.6	--	75.3	56.8	24.4	53.2	23.0	34.5
2015		30.2	22.9	--	17.8	--	5.1	--	75.4	58.6	22.2	--	--	--
2016		30.1	22.9	--	18.3	--	4.6	--	75.6	60.2	20.2	--	--	--
2013	II	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
	III	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	I	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
	II	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
	III	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
		Percentage changes (d)							Difference from one year ago					
2008		1.5	2.9	--	-0.5	--	40.6	--	1.0	-1.3	3.0	6.4	2.6	5.3
2009		0.4	0.8	--	-6.7	--	60.0	--	0.3	-4.6	6.6	13.3	5.8	10.8
2010		-0.1	0.4	--	-2.0	--	11.7	--	0.4	-1.2	2.0	3.8	2.1	1.7
2011		-0.2	0.3	--	-1.6	--	8.0	--	0.4	-0.9	1.5	4.7	1.4	2.7
2012		-0.5	0.0	--	-4.3	--	15.9	--	0.4	-2.3	3.4	6.7	3.5	3.3
2013		-1.1	-1.1	--	-2.8	--	4.1	--	0.0	-0.9	1.3	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	--	2.8	--	-9.2	--	0.2	1.8	-2.2	--	--	--
2016		-0.3	-0.1	--	2.5	--	-9.0	--	0.2	1.6	-2.0	--	--	--
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
	III	-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	I	-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

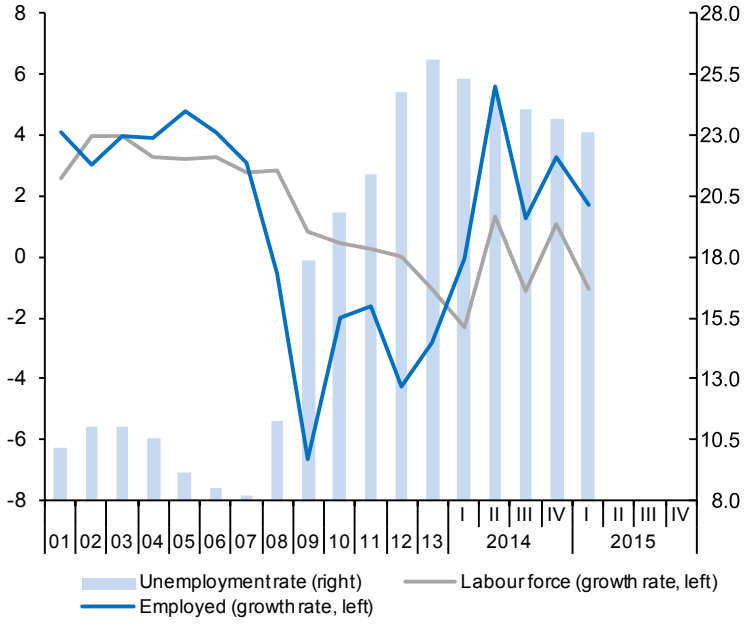


Chart 13a.2.- Unemployment rates, SA
Percentage

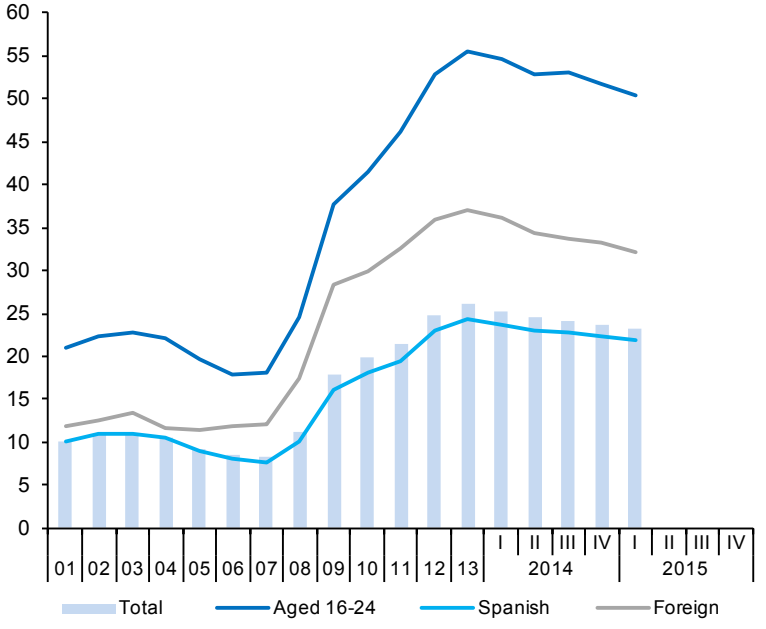


Table 13b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees				Self- employed			
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Temporary	Indefinite	Temporary employment rate (a)		Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)													
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	II	0.75	2.36	1.03	13.02	14.07	3.22	10.85	22.9	3.09	14.39	2.77	16.1
	III	0.70	2.35	1.03	13.16	14.12	3.40	10.73	24.1	3.11	14.62	2.61	15.2
	IV	0.78	2.34	0.99	13.03	14.09	3.33	10.76	23.7	3.04	14.38	2.75	16.1
2014	I	0.81	2.30	0.94	12.90	13.93	3.22	10.71	23.1	3.02	14.20	2.75	16.2
	II	0.74	2.36	0.98	13.28	14.32	3.43	10.89	24.0	3.04	14.51	2.84	16.4
	III	0.67	2.43	1.02	13.39	14.41	3.55	10.86	24.6	3.09	14.88	2.62	15.0
	IV	0.73	2.44	1.03	13.37	14.48	3.51	10.97	24.2	3.09	14.75	2.82	16.1
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
Annual percentage changes									**Difference from one year ago**	**Annual percentage changes**			**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	II	4.3	-5.3	-14.1	-2.4	-4.4	-6.6	-3.7	-0.5	1.7	-5.0	6.3	1.5
	III	-2.1	-6.1	-10.6	-1.1	-3.0	-2.2	-3.2	0.2	0.0	-3.7	4.7	1.0
	IV	0.4	-4.0	-9.1	-0.1	-1.4	2.3	-2.4	0.8	-0.3	-2.3	5.3	1.0
2014	I	12.9	-3.4	-11.6	0.2	-0.4	5.0	-1.9	1.2	-0.7	-0.9	2.1	0.4
	II	-1.8	-0.1	-5.3	2.0	1.7	6.5	0.3	1.1	-1.7	0.8	2.6	0.2
	III	-4.8	3.5	-0.5	1.8	2.0	4.6	1.3	0.6	-0.5	1.8	0.4	-0.2
	IV	-6.2	4.2	4.0	2.6	2.8	5.3	2.0	0.6	1.4	2.6	2.4	0.0
2015	I	-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

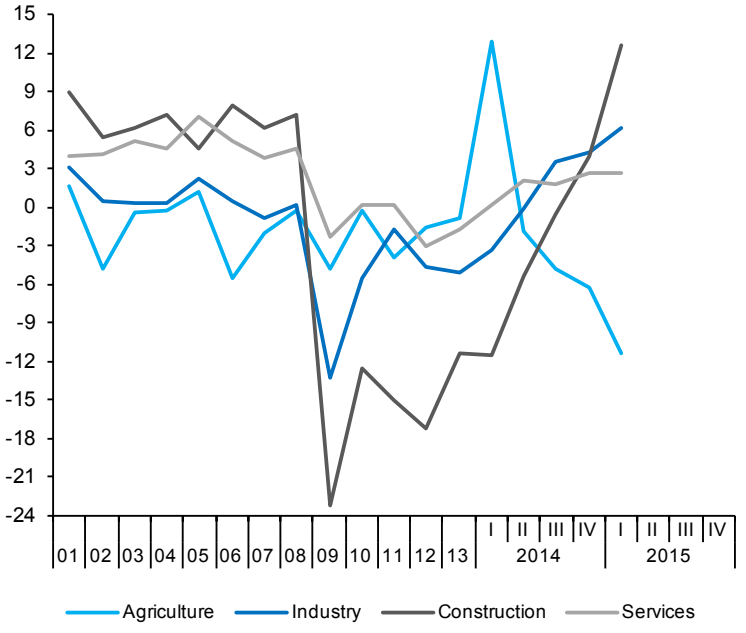


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

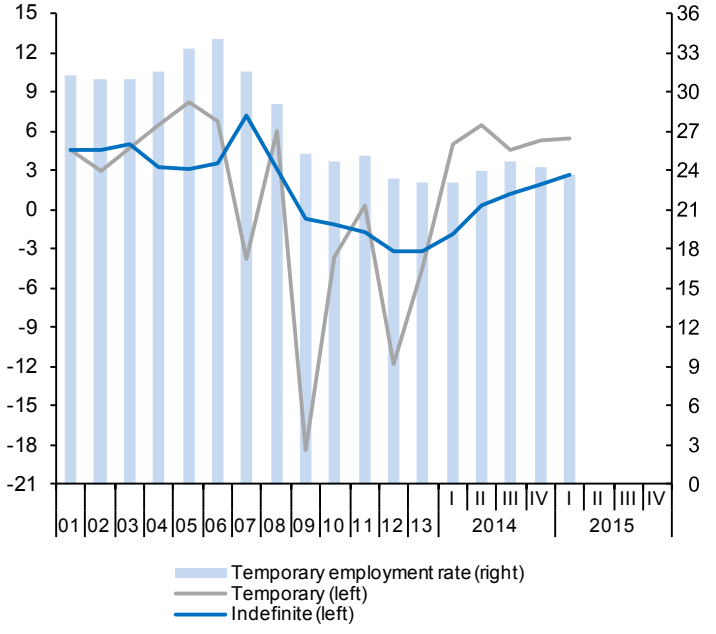


Table 14

Index of Consumer Prices

Forecasts in blue

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2015		100.0	66.09	81.21	26.42	39.67	15.13	6.64	12.14	21.77
Indexes, 2011 = 100										
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		103.6	102.8	103.6	101.2	103.7	107.6	106.4	101.6	107.2
2016		104.9	103.4	104.5	101.5	104.6	109.5	108.9	105.2	109.3
Annual percentage changes										
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		-0.2	0.4	0.5	0.1	0.6	0.9	1.7	-5.9	1.2
2016		1.3	0.6	0.8	0.3	0.8	1.8	2.3	3.5	1.9
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
	May	-0.2	0.4	0.5	0.1	0.6	0.9	2.3	-6.4	1.3
	Jun	-0.1	0.4	0.6	0.2	0.6	1.2	2.4	-6.0	1.6
	Jul	0.0	0.5	0.6	0.2	0.7	1.2	2.7	-5.9	1.7
	Aug	0.1	0.5	0.7	0.2	0.8	1.3	2.7	-5.7	1.8
	Sep	0.0	0.6	0.7	0.3	0.8	1.3	2.8	-6.7	1.8
	Oct	0.1	0.6	0.7	0.2	0.8	1.3	1.4	-4.8	1.3
	Nov	0.6	0.6	0.8	0.4	0.8	1.3	2.0	-1.8	1.5
	Dec	1.3	0.6	0.8	0.3	0.8	1.5	3.0	3.4	1.9
2016	Jan	1.7	0.6	0.8	0.3	0.8	1.6	3.0	7.3	2.0
	Feb	1.5	0.7	0.9	0.4	0.8	1.7	1.2	6.0	1.5
	Mar	1.4	0.8	1.0	0.4	1.1	1.7	2.6	3.5	2.0
	Apr	1.2	0.5	0.7	0.4	0.6	1.7	3.3	3.2	2.2
	May	1.1	0.6	0.8	0.4	0.8	1.7	2.3	2.4	1.9
	Jun	1.1	0.6	0.8	0.4	0.8	1.8	2.3	2.1	1.9
	Jul	1.2	0.6	0.8	0.3	0.8	1.8	2.3	3.0	1.9
	Aug	1.2	0.6	0.9	0.3	0.8	1.8	2.3	3.0	1.9
	Sep	1.2	0.6	0.9	0.3	0.9	1.8	2.3	2.9	1.9
	Oct	1.2	0.6	0.9	0.3	0.9	1.8	2.3	3.1	2.0
	Nov	1.2	0.6	0.9	0.3	0.9	1.8	2.3	3.1	2.0
	Dec	1.2	0.7	0.9	0.3	0.9	1.8	2.3	3.1	2.0

Sources: INE and FUNCAS (Forecasts).

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

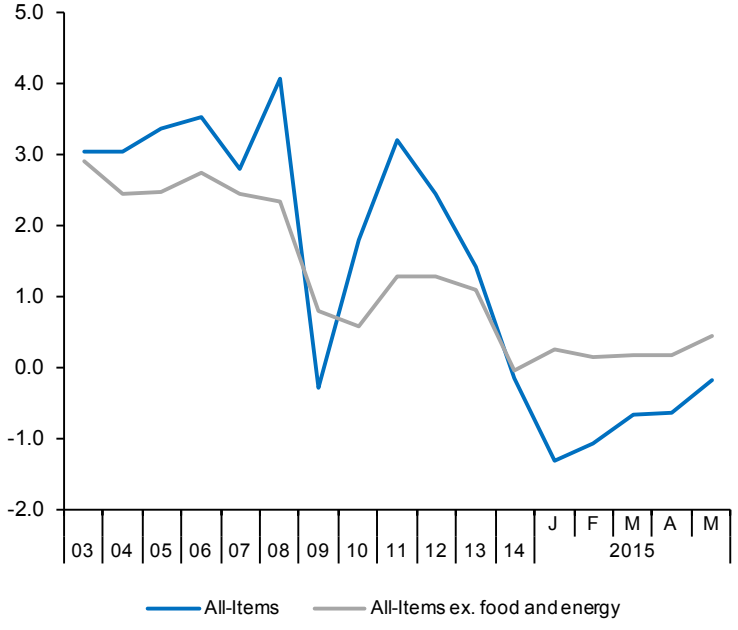


Chart 14.2.- Inflation rate (II)
Annual percentage changes

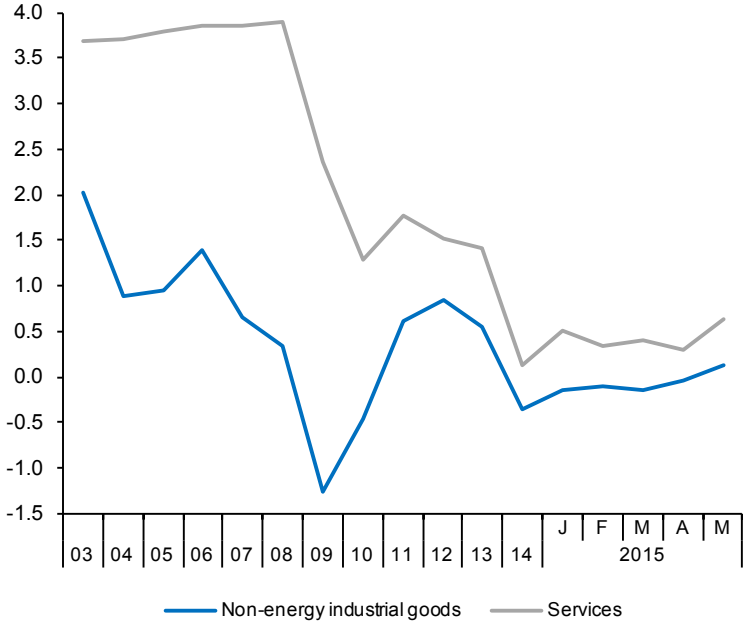


Table 15

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	M² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2010=100	2010=100		2007=100			2000=100				
2008		99.6	99.8	100.5	98.5	100.7	91.1	137.4	134.8	145.6	142.8	--
2009		99.8	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.8	150.0	--
2010		100.0	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.5	--
2011		100.1	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.9	--
2012		100.3	111.0	105.9	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013		101.0	111.7	106.7	64.3	72.7	55.1	143.8	141.1	152.2	155.3	--
2014		100.5	110.2	105.9	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015	(b)	101.0	108.2	106.1	64.6	70.9	53.8	140.6	137.2	151.1	146.8	--
2013	III	100.9	112.2	106.5	64.7	72.7	53.0	139.1	134.9	151.9	160.6	--
	IV	101.0	111.5	106.0	63.8	71.3	53.1	149.9	149.5	151.3	162.7	--
2014	I	100.4	109.8	105.7	63.6	71.0	50.8	139.8	135.2	154.0	145.6	--
	II	100.6	110.6	105.8	64.7	71.0	52.5	145.9	144.5	150.2	153.8	--
	III	100.6	111.2	106.0	64.8	70.8	51.2	138.5	134.8	149.7	160.3	--
	IV	100.3	109.1	105.8	65.0	71.2	55.9	149.1	149.2	148.9	162.2	--
2015	I	101.0	107.7	105.9	64.6	70.9	53.8	140.6	137.2	151.1	146.8	--
	II (b)	--	108.8	106.5	--	--	--	--	--	--	--	--
2015	Mar	--	108.1	106.1	--	--	--	--	--	--	--	--
	Apr	--	108.6	106.4	--	--	--	--	--	--	--	--
	May	--	109.0	106.6	--	--	--	--	--	--	--	--
						Annual percent 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)	0.5	-1.6	0.3	1.5	-0.1	5.9	0.5	1.4	-1.9	0.8	0.7
2013	III	0.4	0.4	0.1	-7.9	-4.5	-12.4	0.2	-0.2	0.4	0.0	0.6
	IV	0.5	0.0	-0.8	-7.8	-4.2	-21.1	2.1	2.5	2.2	2.7	0.5
2014	I	-0.6	-2.2	-1.5	-1.6	-3.8	-10.0	-0.3	-0.2	0.3	0.4	0.6
	II	-0.5	-0.1	-1.0	0.8	-2.9	-9.3	0.0	0.1	0.8	0.8	0.5
	III	-0.3	-0.9	-0.4	0.3	-2.6	-3.3	-0.4	-0.1	-0.2	0.1	0.6
	IV	-0.6	-2.1	-0.1	1.8	-0.3	5.2	-0.5	-0.2	-0.3	0.1	0.6
2015	I	0.5	-1.9	0.2	1.5	-0.1	5.9	0.5	1.4	0.8	1.7	0.7
	II (c)	--	-1.6	0.6	--	--	--	--	--	--	--	0.7
2015	Mar	--	-1.3	0.4	--	--	--	--	--	--	--	0.7
	Apr	--	-0.9	0.6	--	--	--	--	--	--	--	0.7
	May	--	-1.4	0.7	--	--	--	--	--	--	--	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).

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

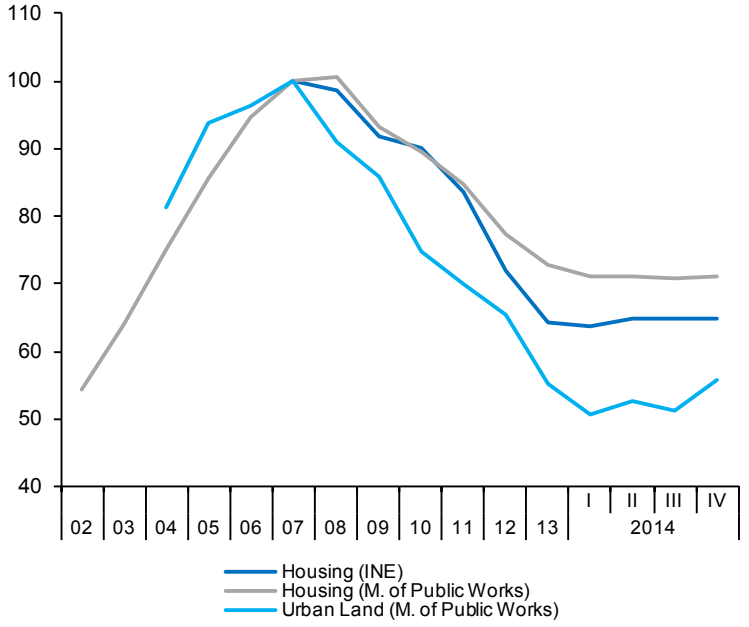


Chart 15.2.- Wage costs
Annual percent change

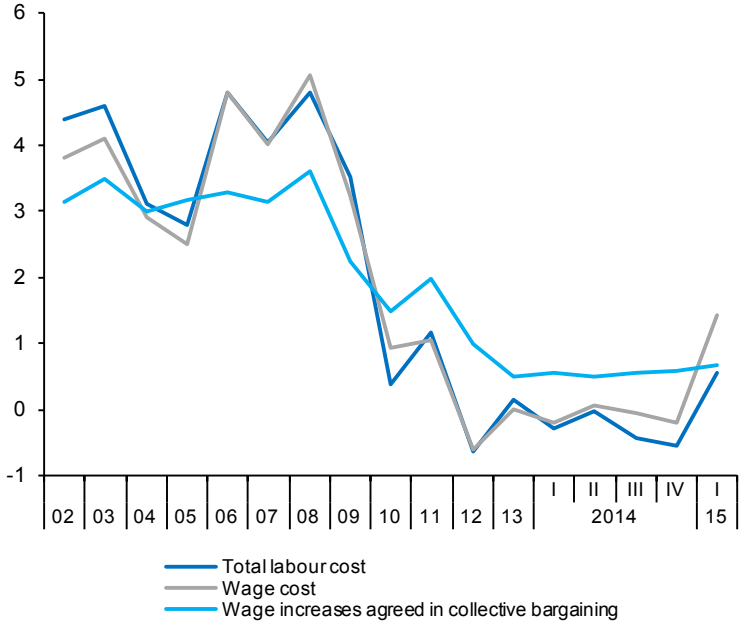


Table 16

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries	Exports to non-EU countries	Total Balance of goods	Balance of goods excluding energy	Balance of goods with EU countries
		Nominal	Prices	Real	Nominal	Prices	Real					
		EUR Billions	**2005=100**		**EUR Billions**	**2005=100**		**EUR Billions**				
2008		189.2	109.0	112.0	283.4	109.1	111.5	131.0	58.2	-94.2	-50.7	-26.0
2009		159.9	101.6	101.5	206.1	96.2	92.0	110.7	49.2	-46.2	-18.8	-8.9
2010		186.8	103.2	116.7	240.1	100.6	102.4	126.5	60.3	-53.3	-17.9	-4.8
2011		215.2	108.2	128.4	263.1	109.1	103.5	142.6	72.6	-47.9	-4.0	3.6
2012		226.1	110.4	132.2	257.9	114.2	97.0	143.2	82.9	-31.8	14.3	12.2
2013		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)	81.9	109.4	146.5	89.7	104.3	112.7	53.2	28.7	-7.8	1.9	3.5
2013	II	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	I	58.7	109.0	139.5	65.5	105.5	107.1	37.5	21.2	-6.8	4.6	3.1
	II	60.2	108.7	143.2	65.8	106.6	106.6	37.7	22.5	-5.7	4.2	2.5
	III	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	I	61.0	109.7	143.8	67.2	104.1	111.5	39.6	21.3	-6.2	0.3	2.3
2015	Feb	20.1	109.8	142.0	22.6	104.3	112.2	13.3	6.8	-2.5	0.0	0.7
	Mar	21.5	110.7	150.8	23.3	105.9	113.8	13.6	7.9	-1.8	0.8	1.4
	Apr	21.5	108.3	154.4	23.6	105.1	116.5	13.8	7.7	-2.1	0.4	0.6
		Percentage changes (c)								**Percentage of GDP**		
2008		2.3	1.6	0.7	-0.6	4.1	-4.5	-0.1	8.0	-8.4	-4.5	-2.3
2009		-15.5	-6.8	-9.4	-27.3	-11.8	-17.5	-15.5	-15.4	-4.3	-1.7	-0.8
2010		16.8	1.6	15.0	16.5	4.6	11.3	14.3	22.5	-4.9	-1.7	-0.4
2011		15.2	4.8	10.0	9.6	8.4	1.1	12.7	20.5	-4.5	-0.4	0.3
2012		5.1	2.0	3.0	-2.0	4.7	-6.3	0.5	14.1	-3.0	1.4	1.2
2013		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	3.8	5.7	-2.4	8.1	3.1	-0.4	-2.3	1.5	1.1
2015	(d)	4.9	0.5	4.4	3.4	-1.4	4.9	6.9	1.4	--	--	--
2013	II	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
	II	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	I	-4.2	0.7	-5.1	8.1	-11.4	22.3	16.2	-31.5	-2.3	0.1	0.9
2015	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	--	--	--
	Apr	0.1	-2.2	2.4	1.6	-0.8	2.4	2.1	-3.3	--	--	--

(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. (d) Growth of available period over the same period of the previous year.

Source: Ministry of Economy.

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

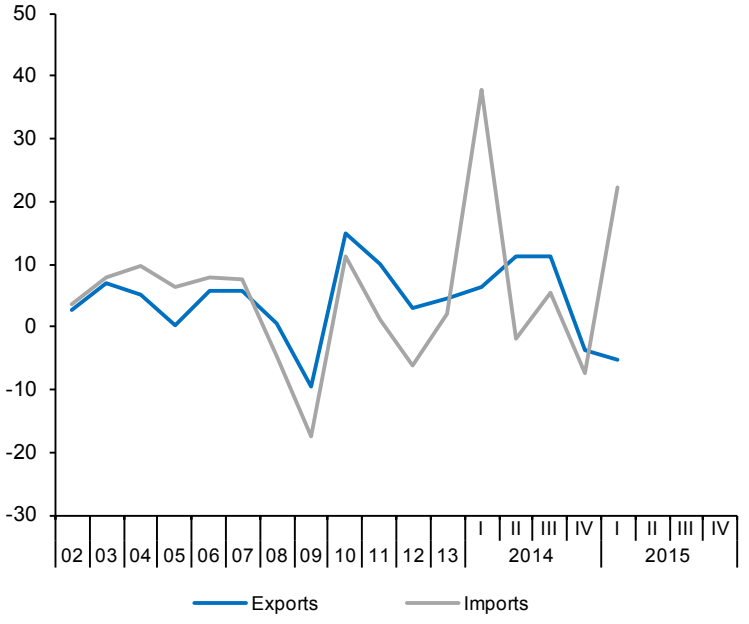


Chart 16.2.- Trade balance
EUR Billions, moving sum of 12 months

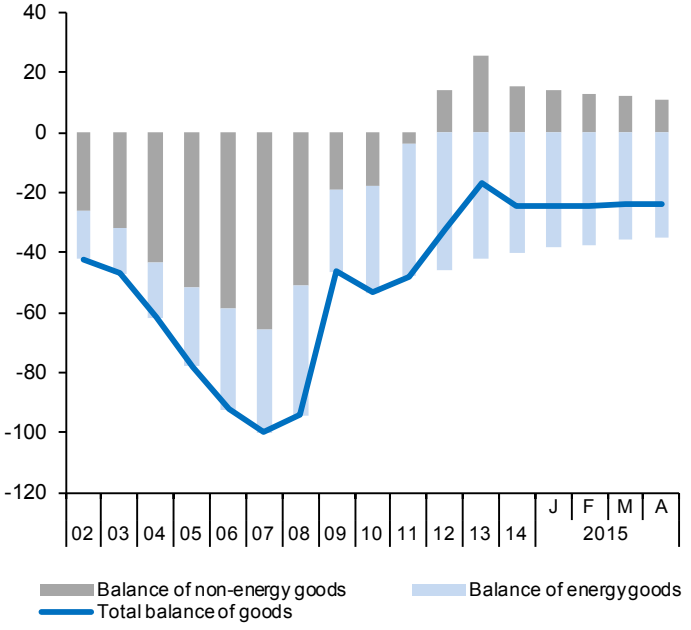


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
									Financial account, excluding Bank of Spain					Bank of Spain	
		Total	Goods	Services	Income	Transfers			Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives		
		1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
EUR billions															
2008		-103.25	-87.04	29.82	-30.49	-15.55	4.67	-98.58	69.23	1.53	-0.96	75.72	-7.07	-30.22	198.03
2009		-46.19	-41.47	29.54	-19.62	-14.64	3.33	-42.86	40.70	-1.94	44.04	4.66	-6.05	-10.46	94.02
2010		-42.39	-47.80	33.93	-15.13	-13.38	4.89	-37.49	27.24	1.46	28.40	-11.23	8.61	-15.70	-5.44
2011		-34.04	-44.48	42.59	-18.36	-13.79	4.06	-29.98	-79.51	-9.23	-26.25	-41.96	-2.07	-109.23	0.26
2012		-2.99	-28.24	44.69	-8.94	-10.49	5.24	2.26	-173.67	23.10	-55.40	-149.71	8.35	-173.51	-2.10
2013		15.08	-12.61	48.34	-7.56	-13.09	6.88	21.96	73.60	11.98	34.85	27.81	-1.04	114.18	18.62
2014		8.43	-21.44	48.35	-6.25	-12.24	4.46	12.88	-2.29	-6.85	-2.62	8.81	-1.63	24.33	13.74
2013	II	6.58	-0.71	12.47	-2.25	-2.93	2.42	9.00	-0.58	3.45	-10.95	5.78	1.14	11.76	3.34
	III	5.82	-4.50	16.87	-3.31	-3.23	1.05	6.87	-0.36	0.88	12.10	-12.46	-0.88	10.52	4.01
	IV	5.82	-4.06	10.51	1.88	-2.51	2.23	8.05	34.68	4.05	35.37	-3.40	-1.33	53.30	10.57
2014	I	-3.68	-5.41	8.52	-2.35	-4.44	1.49	-2.19	-14.51	-4.11	-15.96	5.76	-0.20	-12.93	3.77
	II	0.11	-4.87	12.09	-4.28	-2.83	1.70	1.81	1.53	-0.35	24.51	-22.73	0.12	15.30	11.96
	III	4.73	-6.33	17.09	-3.82	-2.21	0.42	5.15	-3.75	7.68	-32.33	20.97	-0.07	-3.61	-5.00
	IV	7.27	-4.83	10.66	4.19	-2.76	0.84	8.11	14.44	-10.07	21.17	4.81	-1.48	25.56	3.02
2015	I	-1.79	-4.01	8.47	-1.64	-4.61	0.72	-1.07	-7.36	2.55	0.35	-11.02	0.77	-15.28	-6.86
			Goods and Services		Income and Transfers										
2015	Feb	-2.14	1.01		-3.15		-0.01	-2.15	5.89	-0.09	0.86	5.17	-0.05	2.66	-1.08
	Mar	0.94	2.40		-1.46		0.67	1.60	-19.06	0.79	-19.28	-1.12	0.55	-16.58	0.88
	Apr	-0.23	1.39		-1.62		0.72	0.49	1.63	1.63	3.76	-3.98	0.22	5.91	3.79
Percentage of GDP															
2008		-9.3	-7.8	2.7	-2.7	-1.4	0.4	-8.8	6.2	0.1	-0.1	6.8	-0.6	-2.7	17.7
2009		-4.3	-3.8	2.7	-1.8	-1.4	0.3	-4.0	3.8	-0.2	4.1	0.4	-0.6	-1.0	8.7
2010		-3.9	-4.4	3.1	-1.4	-1.2	0.5	-3.5	2.5	0.1	2.6	-1.0	0.8	-1.5	-0.5
2011		-3.2	-4.1	4.0	-1.7	-1.3	0.4	-2.8	-7.4	-0.9	-2.4	-3.9	-0.2	-10.2	0.0
2012		-0.3	-2.7	4.2	-0.8	-1.0	0.5	0.2	-16.5	2.2	-5.3	-14.2	0.8	-16.4	-0.2
2013		1.4	-1.2	4.6	-0.7	-1.2	0.7	2.1	7.0	1.1	3.3	2.7	-0.1	10.9	1.8
2014		0.8	-2.0	4.6	-0.6	-1.2	0.4	1.2	-0.2	-0.6	-0.2	0.8	-0.2	2.3	1.3
2013	II	2.5	-0.3	4.7	-0.8	-1.1	0.9	3.4	-0.2	1.3	-4.1	2.2	0.4	4.4	1.3
	III	2.3	-1.7	6.5	-1.3	-1.3	0.4	2.7	-0.1	0.3	4.7	-4.8	-0.3	4.1	1.6
	IV	2.1	-1.5	3.9	0.7	-0.9	0.8	3.0	12.7	1.5	13.0	-1.3	-0.5	19.6	3.9
2014	I	-1.5	-2.1	3.4	-0.9	-1.8	0.6	-0.9	-5.7	-1.6	-6.3	2.3	-0.1	-5.1	1.5
	II	0.0	-1.8	4.5	-1.6	-1.1	0.6	0.7	0.6	-0.1	9.1	-8.5	0.0	5.7	4.5
	III	1.8	-2.4	6.5	-1.5	-0.8	0.2	2.0	-1.4	2.9	-12.4	8.0	0.0	-1.4	-1.9
	IV	2.6	-1.7	3.9	1.5	-1.0	0.3	2.9	5.2	-3.6	7.7	1.7	-0.5	9.3	1.1
2015	I	-0.7	-1.5	3.2	-0.6	-1.8	0.3	-0.4	-2.8	1.0	0.1	-4.2	0.3	-5.8	-2.6

Source: Bank of Spain.

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

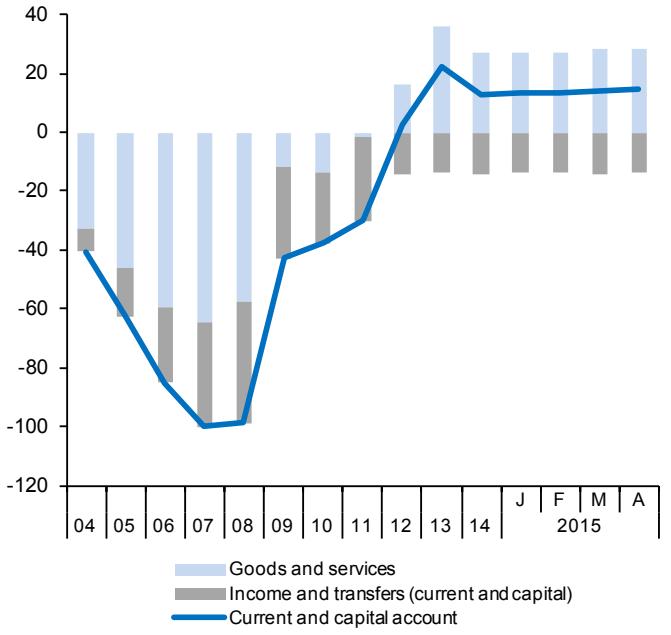


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

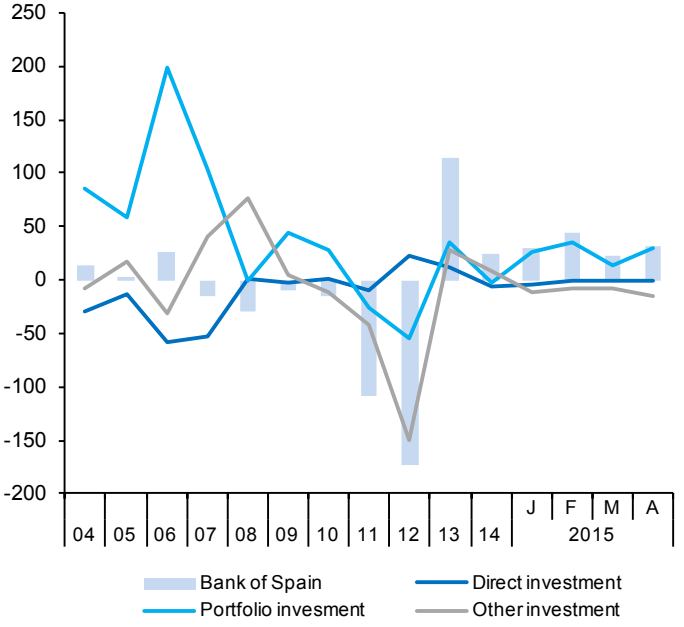


Table 18

State and Social Security System budget

	State							Social Security System (b)				
	National accounts basis			Revenue, cash basis (a)					Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others	Surplus or deficit	Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
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)	-22.0	64.4	86.4	88.6	33.6	36.7	18.3	3.5	51.5	41.8	48.0	42.0
2015 Mar	-39.7	175.8	215.5	213.7	95.6	79.1	38.9	-14.3	119.5	99.4	133.8	115.2
Apr	-37.3	176.5	213.8	221.5	98.9	82.3	40.3	-14.4	119.7	99.6	134.1	115.4
May	-35.5	177.3	212.9	216.0	96.3	80.3	39.4	-15.9	118.4	99.5	134.3	115.7
Annual percentage changes												
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 (d)	--	4.6	-1.5	12.9	2.2	6.1	66.0	--	-1.8	1.0	2.2	3.1
2015 Mar	--	2.5	0.1	9.7	1.4	4.0	59.4	--	0.0	1.2	1.6	2.9
Apr	--	2.1	-0.7	15.6	8.1	9.7	60.7	--	-0.1	1.6	1.8	2.9
May	--	3.4	-1.7	9.6	1.2	4.5	57.1	--	-1.9	1.5	1.8	2.8
Percentage of GDP, 12-month cumulated												
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 Mar	-3.7	16.5	20.2	20.0	9.0	7.4	3.6	-1.3	11.2	9.3	12.5	10.8
Apr	-3.5	16.5	20.0	20.7	9.3	7.7	3.8	-1.4	11.2	9.3	12.6	10.8
May	-3.3	16.6	19.9	20.2	9.0	7.5	3.7	-1.5	11.1	9.3	12.6	10.8

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

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

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

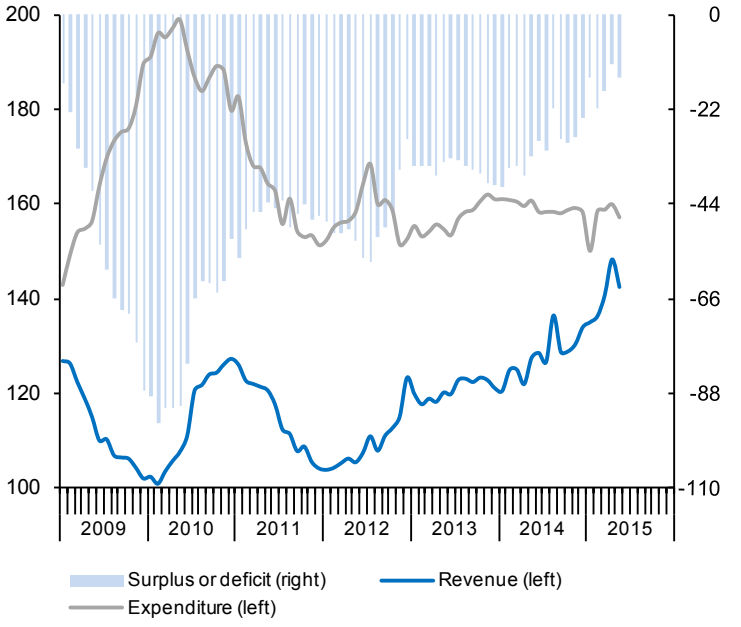


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

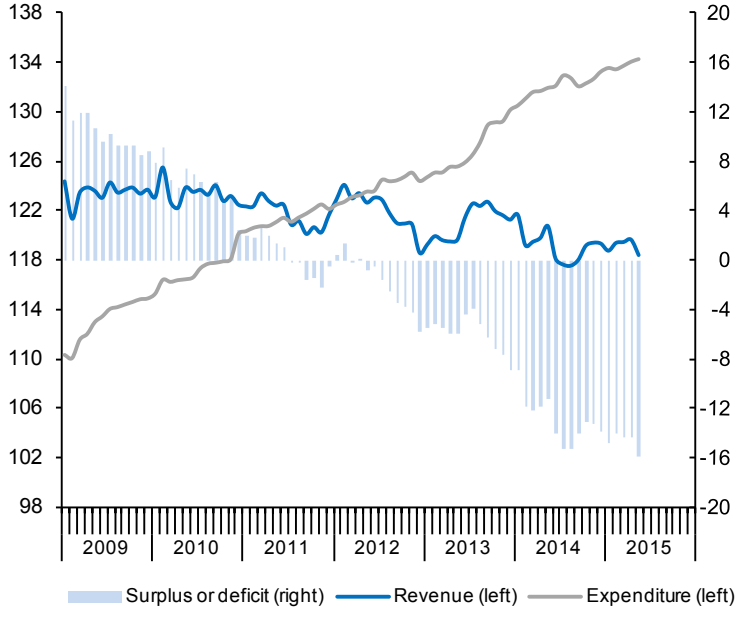


Table 19

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)				Contribution of Spanish MFI to Eurozone M3	Stock market (IBEX-35)
	10 year Bonds	Spread with German Bund (basis points)	Housing credit to households	Consumer credit to households	Credit to non-financial corporations (less than 1 million)	TOTAL	Government	Non-financial corporations	Households		
	Average of period data					**End of period data**					
2007	4.3	7.4	5.3	9.8	5.8	2,432.2	383.8	1,175.8	872.6	--	15,182.3
2008	4.4	36.0	5.8	10.9	6.4	2,609.0	439.8	1,261.1	908.2	--	9,195.8
2009	4.0	70.4	3.4	10.5	4.7	2,715.6	568.7	1,246.5	900.4	--	11,940.0
2010	4.2	146.6	2.6	8.6	4.3	2,788.5	649.3	1,244.0	895.2	--	9,859.1
2011	5.4	277.8	3.5	8.6	5.1	2,805.5	743.5	1,194.0	867.9	--	8,563.3
2012	5.8	427.9	3.4	9.1	5.6	2,804.7	891.0	1,082.9	830.9	--	8,167.5
2013	4.6	293.3	3.2	9.7	5.5	2,742.5	966.2	993.3	783.0	--	9,916.7
2014	2.7	148.2	3.1	9.6	4.9	2,731.5	1,033.8	948.6	748.5	--	10,279.5
2015 (a)	1.6	118.6	2.6	9.3	4.1	2,716.5	1,032.5	941.3	736.1	--	10,769.5
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
III	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	2,731.5	1,033.8	948.6	748.5	--	10,279.5
2015 I	1.4	112.3	2.6	9.4	4.2	2,736.6	1,046.2	950.9	740.2	--	11,521.1
II (b)	1.8	124.9	2.5	9.1	3.9	2,716.5	1,032.5	941.3	736.1	--	10,769.5
2015 Apr	1.3	115.8	2.5	8.9	4.0	2,716.5	1,032.5	947.9	738.0	--	11,385.0
May	1.8	117.7	2.6	9.2	3.8	--	--	941.3	736.1	--	11,217.6
Jun	2.2	141.3	--	--	--	--	--	--	--	--	10,769.5
						Percentage change from same period previous year					**(b)**
2007	--	--	--	--	--	12.5	-2.1	18.4	12.5	15.1	7.3
2008	--	--	--	--	--	8.0	14.6	8.5	4.3	7.7	-39.4
2009	--	--	--	--	--	4.1	29.3	-1.4	-0.3	-0.8	29.8
2010	--	--	--	--	--	3.4	14.2	0.7	0.2	-2.2	-17.4
2011	--	--	--	--	--	1.7	14.5	-2.0	-2.4	-1.6	-13.1
2012	--	--	--	--	--	1.3	19.8	-6.4	-3.8	0.1	-4.6
2013	--	--	--	--	--	-1.4	8.4	-6.6	-5.1	-4.4	21.4
2014	--	--	--	--	--	-0.1	7.0	-4.3	-3.8	3.4	3.7
2015 (a)	--	--	--	--	--	-0.2	4.4	-2.7	-3.1	5.8	8.9
2013 III	--	--	--	--	--	0.7	16.6	-6.9	-4.7	0.2	18.3
IV	--	--	--	--	--	-1.4	8.4	-6.6	-5.1	-4.4	8.0
2014 I	--	--	--	--	--	-1.6	7.0	-6.7	-4.9	-5.1	4.3
II	--	--	--	--	--	-1.1	6.5	-5.4	-4.4	-1.5	5.6
III	--	--	--	--	--	-0.8	6.1	-4.7	-4.1	0.5	-0.9
IV	--	--	--	--	--	-0.1	7.0	-4.3	-3.8	3.4	-5.0
2015 I	--	--	--	--	--	0.0	5.1	-2.4	-3.4	4.6	12.1
II (b)	--	--	--	--	--	-0.2	4.4	-2.7	-3.1	5.8	-6.5
2015 Apr	--	--	--	--	--	-0.2	4.4	-2.4	-3.1	5.1	-1.2
May	--	--	--	--	--	--	--	-2.7	-3.1	5.8	-1.5
Jun	--	--	--	--	--	--	--	--	--	--	-4.0

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

Source: Bank of Spain.

Chart 19.1.- 10 year bond yield
Percentage rates and basis points

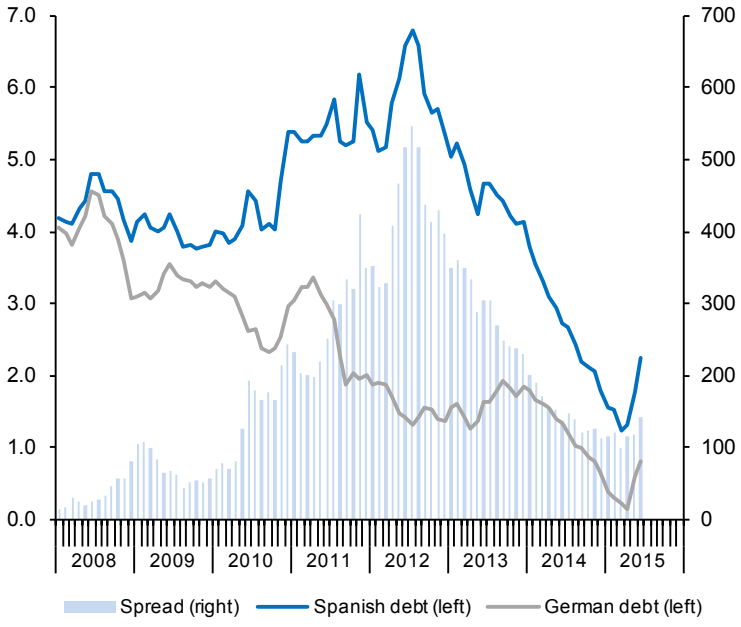


Chart 19.2.- Credit stock growth
Annual percentage change

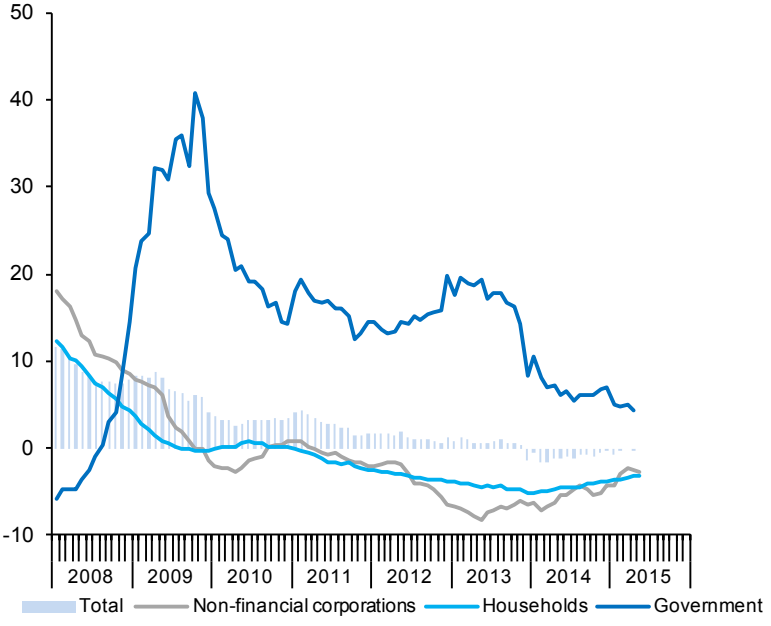


Table 20

Competitiveness indicators in relation to EMU

	Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
	Relative productivity	Relative wages	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
	1998=100			**2005=100**			**2010=100**			**1999 I =100**
2008	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	115.6	103.1	110.1	107.9	102.0	111.7
2013	96.4	104.0	107.9	121.0	117.4	103.1	110.0	107.4	102.4	113.4
2014	97.0	103.8	107.0	120.8	117.8	102.6	108.4	105.9	102.4	112.4
2015 (a)	--	--	--	119.6	117.6	101.7	107.0	104.5	102.4	109.0
2013 III	--	--	--	120.9	117.5	102.9	110.3	107.3	102.7	113.2
IV	--	--	--	121.6	117.8	103.2	109.6	106.9	102.5	114.0
2014 I	--	--	--	119.9	117.4	102.2	108.0	106.5	101.4	112.6
II	--	--	--	121.9	118.3	103.0	108.6	106.1	102.4	113.3
III	--	--	--	120.4	117.9	102.1	109.3	106.1	103.0	111.7
IV	--	--	--	120.9	118.0	102.4	107.7	105.3	102.3	111.8
2015 I	--	--	--	118.6	117.0	101.4	106.6	104.2	102.3	108.7
II (a)	--	--	--	121.3	118.5	102.3	107.7	104.9	102.6	109.4
2015 Mar	--	--	--	120.2	118.1	101.8	107.0	104.8	102.2	108.7
Apr	--	--	--	121.0	118.4	102.2	107.6	104.9	102.5	109.1
May	--	--	--	121.5	118.7	102.4	107.8	104.9	102.8	109.7
	Annual percentage changes					**Differential**	**Annual percentage changes**		**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	2.5	-0.1	3.4	2.6	0.8	-1.3
2013	1.5	-1.1	-2.5	1.5	1.5	0.0	-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	-1.0	-1.7	0.8	-3.5
2013 III	--	--	--	1.3	1.5	-0.2	-0.4	-0.8	0.5	2.0
IV	--	--	--	0.2	1.0	-0.8	-0.8	-1.2	0.4	0.8
2014 I	--	--	--	0.0	0.6	-0.6	-2.6	-1.5	-1.1	-0.1
II	--	--	--	0.2	0.6	-0.4	-0.6	-1.1	0.5	-0.2
III	--	--	--	-0.4	0.4	-0.7	-0.9	-1.2	0.3	-1.3
IV	--	--	--	-0.6	0.2	-0.8	-1.7	-1.5	-0.2	-1.9
2015 I	--	--	--	-1.1	-0.3	-0.8	-1.3	-2.1	0.9	-3.4
II (b)	--	--	--	-0.5	0.2	-0.6	-0.9	-1.1	0.3	-3.5
2015 Mar	--	--	--	-0.8	-0.1	-0.7	-0.6	-1.4	0.8	-3.9
Apr	--	--	--	-0.7	0.0	-0.7	-0.2	-1.1	0.9	-4.0
May	--	--	--	-0.3	0.3	-0.6	-0.8	-1.1	0.3	-3.3

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

Sources: Eurostat, Bank of Spain and FUNCAS.

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

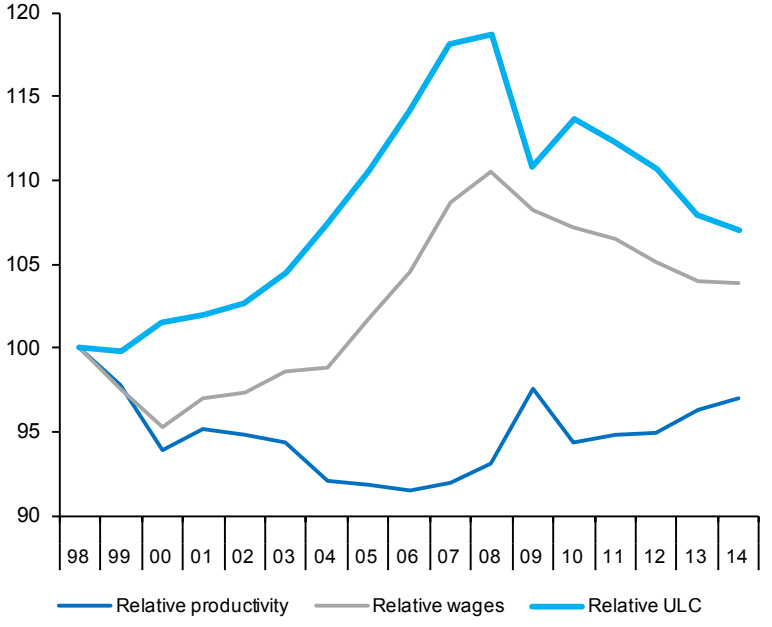


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

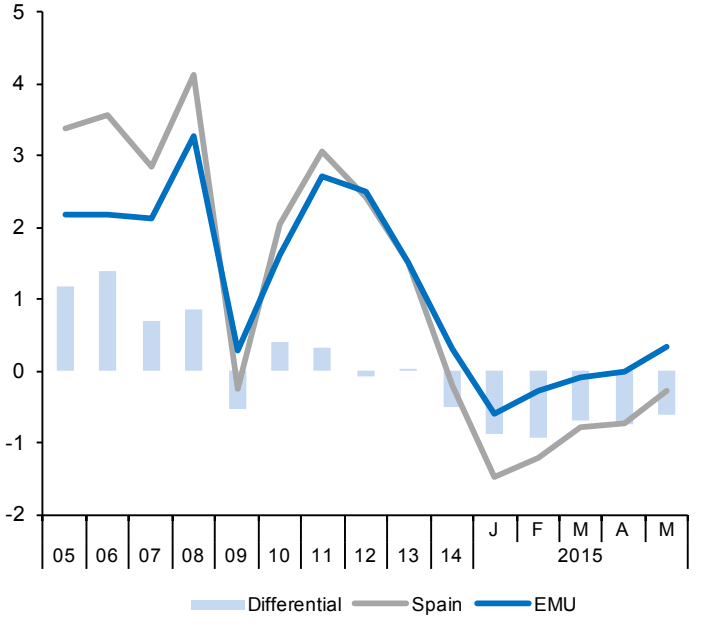


Table 21a

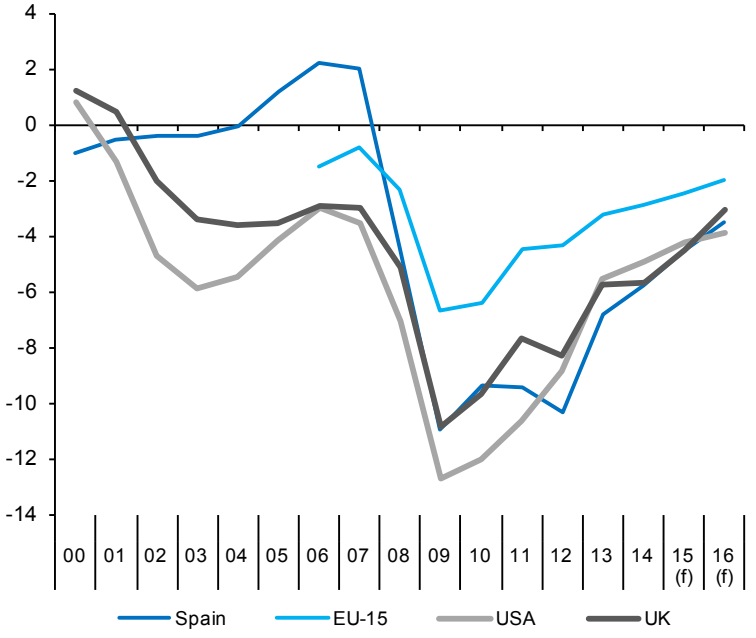
Imbalances: International comparison (I)

In blue: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK
Billions of national currency												
2005	11.2	--	-543.4	-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
Percentage 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

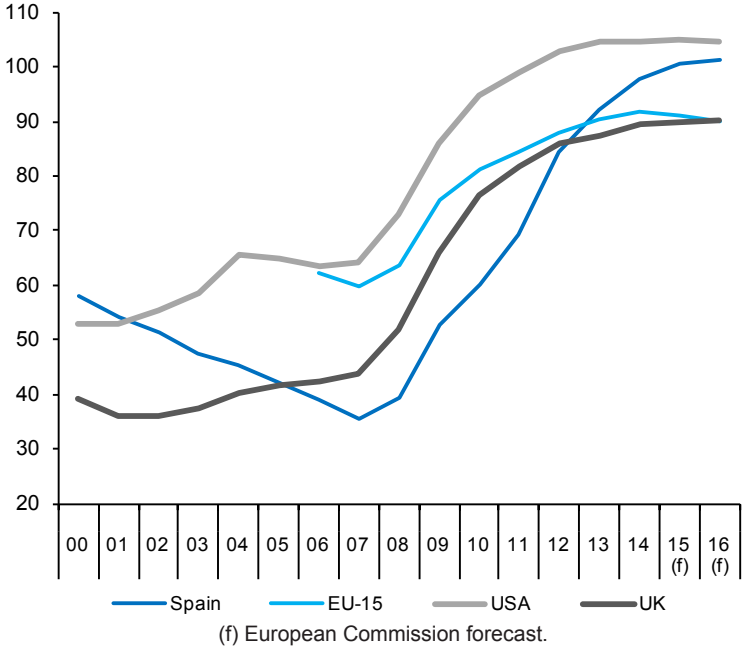
Source: European Commission.

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



(f) European Commission forecast.

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



(f) European Commission forecast.

Table 21b

Imbalances: International comparison (II)

	Household debt (a)				Non-financial corporations debt (a)				Financial corporations debt (a)			
	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK	Spain	EMU-18	USA	UK
Billions of national currency												
2005	653.5	4,838.9	11,721.3	1,189.8	930.3	7,826.2	8,166.5	1,121.7	541.5	8,731.5	12,958.0	2,381.7
2006	780.7	5,249.0	12,946.5	1,310.9	1,164.2	8,467.1	8,991.0	1,219.6	771.2	9,633.1	14,261.5	2,619.8
2007	876.6	5,614.0	13,831.4	1,426.4	1,351.4	9,273.2	10,111.7	1,299.9	1,000.0	10,860.9	16,206.5	3,125.7
2008	914.0	5,859.3	13,850.8	1,477.0	1,432.3	9,893.3	10,687.7	1,500.7	1,068.2	11,868.4	17,104.6	3,614.5
2009	906.2	5,988.3	13,559.6	1,473.8	1,416.8	9,839.3	10,136.3	1,434.2	1,145.7	12,412.2	15,715.6	3,593.5
2010	902.5	6,123.0	13,230.6	1,476.9	1,438.3	10,091.7	9,964.0	1,401.7	1,136.3	12,456.4	14,455.7	3,728.5
2011	875.2	6,213.8	13,057.8	1,486.7	1,418.4	10,225.2	10,254.6	1,423.8	1,157.6	12,846.3	14,036.3	3,645.7
2012	838.2	6,208.4	13,055.1	1,509.2	1,314.1	10,248.6	10,782.3	1,486.9	1,177.9	13,089.8	13,802.4	3,707.4
2013	789.2	6,160.9	13,170.4	1,525.5	1,232.6	10,197.3	11,298.0	1,374.8	990.7	12,301.0	13,949.2	3,586.3
2014	754.4	6,171.3	13,512.1	1,567.0	1,175.9	10,421.0	11,979.1	1,396.9	914.2	12,518.3	14,201.8	3,672.1
Percentage of GDP												
2005	70.2	57.2	89.5	89.7	100.0	92.5	62.4	84.5	58.2	103.2	99.0	179.5
2006	77.5	58.9	93.4	93.4	115.5	95.1	64.9	86.9	76.5	108.2	102.9	186.6
2007	81.1	59.7	95.5	96.3	125.0	98.7	69.8	87.8	92.5	115.5	111.9	211.1
2008	81.9	60.8	94.1	97.3	128.3	102.7	72.6	98.8	95.7	123.3	116.2	238.0
2009	84.0	64.5	94.0	99.4	131.3	106.0	70.3	96.8	106.2	133.7	109.0	242.5
2010	83.5	64.2	88.4	94.8	133.1	105.8	66.6	89.9	105.1	130.6	96.6	239.3
2011	81.4	63.4	84.1	91.9	131.9	104.3	66.1	88.0	107.7	131.1	90.5	225.4
2012	79.4	63.1	80.8	91.2	124.5	104.1	66.7	89.8	111.6	133.0	85.4	224.0
2013	75.2	62.1	78.5	89.0	117.5	102.7	67.4	80.3	94.4	123.9	83.2	209.3
2014	71.3	61.0	77.6	87.5	111.1	103.0	68.8	78.0	86.4	123.8	81.5	205.0

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

Sources: Eurostat,European Central Bank and Federal Reserve.

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

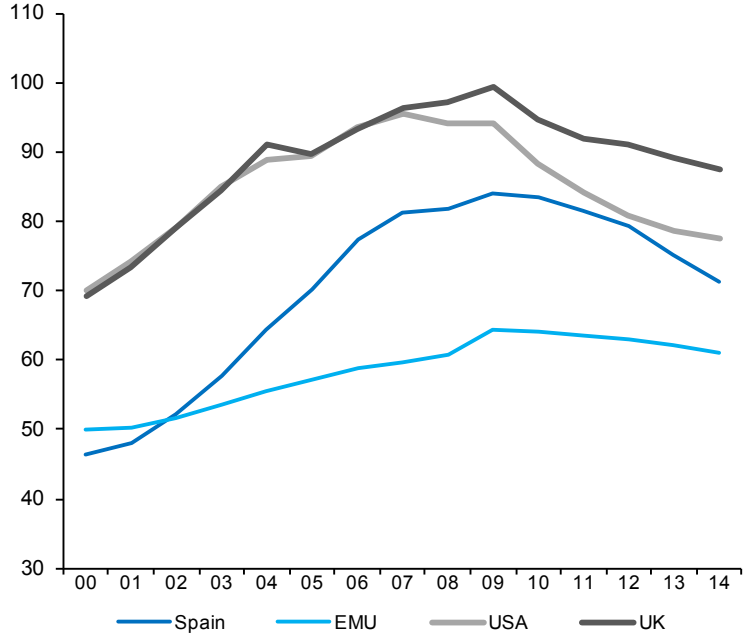
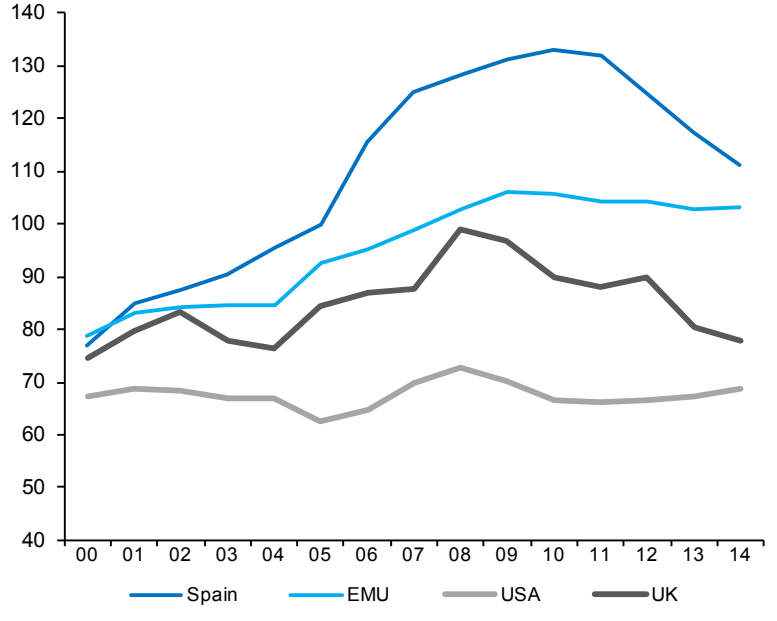


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: June 30th, 2015

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-1.7	April 2015
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.1	April 2015
Doubtful loans (monthly % var.)	-2.8	April 2015
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	399,967	May 2015
Recourse to the Eurosystem (Spanish financial institutions, million euros)	132,595	May 2015
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	28,836	May 2015
Operating expenses/gross operating income ratio (%)	47.36	March 2015
Customer deposits/employees ratio (thousand euros)	6,266.54	March 2015
Customer deposits/branches ratio (thousand euros)	40,058.42	March 2015
Branches/institutions ratio	145.89	March 2015

A. Money and interest rates

Indicator	Source:	Average 1999-2012	2013	2014	2015 May	2015 June	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.8	2.3	1.9	2.3	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.68	0.22	0.21	-0.012	-0.016	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.95	0.54	0.48	0.16	0.16	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.6	4.6	2.7	1.78	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	1.81	2.35	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 June 30th, the 3-month Euribor rate fell to -0.016% from -0.012% in May and the 1-year Euribor rate stands at 0.16%. The ECB assures its bond-buying strategy is having the expected results in terms of inflation. As for the Spanish 10-year bond yield, it has remained at 1.78%.

B. Financial markets

Indicator	Source:	Average 1999-2012	2013	2014	2015 April	2015 May	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	29.6	82.9	75.6	54.3	56.2	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	78.9	61.2	73.2	70.5	63.4	(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	0.4	1.0	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.4	3.2	4.6	4.2	1.9	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	2.4	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	1,081.6	1,037.0	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	-0.4	0.1	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	1.4	-2.9	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	1,153.1	1,093.3[(a)]	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,864.5	8,715.6	10,528.8	11,385.0	10,769.5[(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	20.9	19.1[(a)]	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1999-2012	2013	2014	2015 April	2015 May	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	3.7	10.6	7.4	-26.4	-15.5	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.3	10.9	-1.3	0.6	1.2	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.8	2.4	0.6	0.1	0.1	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.7	6.4	4.3	4.5	-8.7	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	9.0	6.7	6.4	-54.2	15.2	IBEX-35 shares concluded transactions

(a) Last data published: June 30th, 2015.

Comment on "Financial Markets:" During the last month, there has been an increase in transactions with outright spot T-bills, and a decrease of spot government bonds transactions, which stood at 56.2% and 63.4%, respectively. The stock market has lost about 6% in June, with the IBEX-35 down to 10,769 points, and the General Index of the Madrid Stock Exchange to 1,093. Additionally, there was a decrease of 8.7% in financial IBEX-35 futures transactions and an increase of 15.2% 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

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 slight fall in the financial saving rate of the 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 same 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	2015 March	2015 April	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	10.8	-9.5	-4.6	0.8	-1.7	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	-0.8	-0.1	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	11.3	-5.1	1.2	0.5	-3.2	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	15.5	8.9	-6.8	0.5	1.4	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	-6.2	-6.0	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 1999-2012	2013	2014	2015 March	2015 April	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	37.9	17.8	-12.7	-2.5	-2.8	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	20.5	-22.3	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	-0.2	0.4	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 April 2015 show a fall in bank credit to the private sector and in financial institutions deposit-taking from the previous month of 1.7% and 0.1%, respectively. Holdings of debt securities fell by 3.2%, while shares and equity grew by 1.4%. Also, doubtful loans decreased 2.8% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1999-2011	2012	2013	2014 December	2015 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	210	173	155	138	133	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	68	85	86	86	85	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	249,054	231,389	212,998	203,305	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	41,145	37.903	33,527	31,999	31,804	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	506,285	399,967 [(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	141,338	132,595[(a)]	Open market operations and ECB standing facilities. Spain total

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

Indicator	Source:	Average 1999-2011	2012	2013	2014 December	2015 March	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	21,115	28,836[(a)]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: May 2015.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing:" In May 2015, recourse to Eurosystem funding by Spanish credit institutions accounted for 33.15% of net total funds borrowed from the ECB by the Eurozone. This means a 3.16 billion euro decrease in the recourse to the Eurosystem by Spanish banks from April.

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

Indicator	Source:	Average 1999-2011	2012	2013	2014 December	2015 March	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	53.50	47.18	48.25	47.27	47.36	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	5,892.09	6,266.54	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	17,955.99	30,110.18	34,472,09	40,119.97	40,058.42	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	197.62	219.09	216.30	142.85	145.89	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.06	6.10	6.35	6.8	6.4	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	-0.12	0.16	0.07	0.02	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.77	-1.93	0.13	0.49	0.50	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	11.61	-18.74	1.88	6.46	6.92	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability:" In March 2015, most of the profitability and efficiency indicators improved for Spanish banks. Productivity indicators have also improved since the restructuring process of the Spanish banking sector was implemented.

Orders and information:

SPANISH SAVINGS BANKS FOUNDATION
Caballero de Gracia, 28
28013 Madrid
Spain
Phone: 91 596 54 81
Fax: 91 596 57 96
publica@funcas.es
www.funcas.es