Spanish Economic and Financial Outlook

Spain´s property market post correction: Recovery or stabilisation?

FEATURES

Letter from the Editors

The Spanish recovery remains strong and growth on track for 2015 at 3.2%. We believe the impact of the worsening global outlook will be limited and offset by beneficial factors, such as the drop in oil prices and other commodities, together with income tax cuts being brought forward. Given that the effect of the positive transient factors will have worn off, growth in 2016 has been revised downward modestly by two tenths of a percent, to 2.8%. The main risks to Spain´s forecast scenario will be a worse than expected deterioration in the external context, or a possible intensification of domestic political uncertainties, related to the recent elections in Catalonia and the upcoming general elections before year-end.

In the context of this scenario, the September SEFO takes a detailed look at Spain´s property market: i) current situation and outlook for the sector; ii) progress on the clean-up of Spanish banks´ property market risk; and, iii) recent regulatory measures designed to safeguard homeowners and mortgage borrowers. While undergoing a much-needed correction, latest economic data suggest the Spanish property market has entered a phase of stabilisation, rather than recovery. House price increases have been erratic and uneven, and while the number of mortgage transactions is on the rise, new credit for housing purchases is substantially lower than pre-crisis levels.

The process of reducing the financial sector´s real estate risk is gaining momentum through the adoption of various deleveraging strategies, together with the help of new players in Spain´s property market. Banks are prudently reducing exposure to real estate and construction lending, down 21 points since its peak, to 29% of total lending to productive activities. Financial institutions are also moving forward on cleaning up their real estate assets. Initial risk reduction strategies have included loan refinancing and restructuring operations, together with foreclosures. Subsequent phases of deleveraging included the sale of non-strategic assets and businesses, such as real estate platforms, alongside the sale of loans and foreclosed assets themselves. At a later stage of the process, banks opted to reduce their stock of foreclosed properties through land development initiatives. Going forward, major players, like the SAREB, and new entrants, such as the Real Estate Investment Companies (the SOCIMIs in their Spanish initials), will also play a key role in the ultimate success of the reduction of Spanish banks´ property market exposure and risk.

The scale of households´ exposure to mortgage debt prompted a series of regulatory initiatives aimed to protect homeowners and borrowers from some of the harmful aspects of existing Spanish mortgage law, such as evictions proceedings and interest rate floor clauses. This SEFO explores how, in the case of changes to mortgage regulation, recent measures addressing these issues were adopted in response to key EU and Spanish court rulings.

The September SEFO also provides an analysis on recent financial markets developments with implications for Spanish and EU markets, such as the

upcoming improvement in the Spanish futures market, as well as the ECB´s latest Expanded Asset Purchase Program (EAPP). The fact that Spanish debt has been trading wider to Italian debt in recent months, despite Spain´s favorable macro performance, reflects the impact of political concerns highlighted above. Nevertheless, the recent widening of Spain´s sovereign spreads is being driven by specific, technical factors apart from prevailing political uncertainty, such as the lack of a sufficiently liquid market for natural hedging instruments on the Spanish sovereign. The creation this October of a Eurex-traded futures contract with the Spanish sovereign as the underlying asset should benefit the Spanish debt market and reduce disincentives to invest in Spanish paper.

Recent developments for EU bond markets, such as the introduction of the ECB´s latest asset purchase program, have been unambiguously positive for Europe, and in particular for Spain. The ECB has bought about 5.5 billion euros per month of Spanish bonds, in line with its capital key share, with an average maturity of about 10 years, helping to bring about a sharp reduction in interest rates, stock market rally, and the decline of the euro, which have fueled growth. Because of QE, the softening of the fiscal stance since 2014, which has also supported growth, has not had any negative impact on Spain´s long term rates or sovereign ratings. On the whole, the program is well designed and calibrated for the characteristics of the euro zone bond market, and the ECB could easily relax some of the eligibility restrictions if needed.

In the final section of this month´s SEFO, we look at Spain´s expected fiscal consolidation path through an assessment of the recently presented 2016 General State Budget. Improving macroeconomic conditions support the government´s optimistic revenue forecasts in the face of tax cuts, while cost savings will come largely through reductions in unemployment benefits and debt service payments. Nonetheless, expenditure on general activities will grow by 4.5% to 118.6 billion euros in 2016, including transfers to the autonomous regions and local government bodies (48.79 billion euros), up 3.5%. According to the government´s forecasts, the general government deficit is projected at 2.8% of GDP – converging close to budgetary equilibrium in 2018.

The budgetary targets at the central government level are in line with the 2015-2018 Stability Programme, but budget implementation for the first half of 2015 anticipates the overall general government deficit will deviate slightly from the target. Once again, the autonomous regions emerge as the most disruptive factor, although the most recent deviations in the case of the social security system and the medium-to-long term demographic trends make it necessary to consider new funding mechanisms.

On a related note, we specifically look at regional fiscal consolidation in the area of healthcare spending – in terms of volume of expenditure, the largest function assigned to Spain's regional governments. The autonomous regions´ healthcare spending cuts are a step in the right direction and reflect the central government´s decision to implement much-needed deficit reduction measures. Unfortunately, more could also have been done to improve the overall efficiency of national healthcare services.

Limited impact of the global slowdown on growth expectations

Ángel Laborda and María Jesús Fernández[1]

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Latest data for the second quarter confirm the continued strength of the Spanish recovery, although somewhat below expectations. Slight downward revisions to the 2016 forecast reflect a worsening global economic climate.

The outlook for the global economy has recently deteriorated as a result of the slowdown in the Chinese economy and the devaluation of the yuan, with its subsequent spillover effects, in particular for commodity exporters. The Spanish economy's recovery gained traction in the second quarter of the year, although growth fell slightly short of FUNCAS' forecast. Capital goods investments and industrial activity have been dynamic since the start of the recovery and their continued strength is the key to more –and more balanced and sustainable– future growth. The forecast scenario for the second half of the year and for 2016 remains basically unchanged, although the growth figure for 2015 has been cut by one tenth of a percentage point, and that for 2016 by two tenths, in the latter case partly as a result of the worsening global economic outlook.

International context

The outlook for the global economy worsened over the summer as a result of the slowdown in the Chinese economy. In the first two quarters of the year GDP grew by 7.0%, at the limit of the target set by the government for the year as a whole, although doubts exist as to the reliability of the figures. In the wake of the unexpected devaluation of the yuan in mid-August and the subsequent stock-market crash, the downward pressure on oil and other commodity prices intensified, with a deterioration in emerging economies' growth expectations, particularly in the case of commodity exporters. These countries saw worsening capital outflows and a stronger depreciation of their currencies. Brazil stands out in particular, having now gone into recession.

Despite the strength of the U.S. economy, the worsening economic conditions in the emerging economies, which are likely to affect the growth of

The main risks to the stability of the global economy come firstly from the situation in China, together with the potential impact of the Federal Reserve's rate hikes.

trade and the global economy, raised doubts about the Federal Reserve's expected interest rate rise in September. The outlook for the U.S. has improved following the upward revision of GDP in the second quarter to 3.7% and the June and July employment figures. The unemployment

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rate has fallen to 5.1% and the real-estate sector is gaining momentum.

Growth in the euro area remains modest, although rates have been revised upwards to 2.1% (on an annualised quarter-on-quarter basis) in the first quarter and to 1.4% in the second. This sluggish growth is a result of weak domestic demand, particularly as regards investment. This weakness is reflected in the substantial current account surpluses in some countries, particularly Germany, which indicate considerable excess savings. This situation, combined with a context of a slowdown in the emerging economies, calls for an expansionary fiscal policy in the EMU, although it needs to be selective, based on each country's situation.

The main risks to the stability of the global economy come firstly from the situation in China, which could worsen further as a result of the imbalances that have built up over recent years, such as the strong rise in debt and default, the property bubble, excess production capacity, and loss of competitiveness. Moreover, it is possible that if China ceases to play a leading role in demand for U.S. bonds, this could cause turbulence in international financial markets. A second potential source of instability may derive from the impact of the Federal Reserve's rate rise on emerging economies, although it could also have an influence on long-term rates in the developed countries.

Recent developments in the Spanish economy

Spanish GDP grew by 1.0% in the first quarter of 2015 relative to the preceding quarter, equivalent to 4.0% on an annualised basis (the basis on which all the quarterly growth rates below will be expressed). This was slightly less than the 4.3% forecast by FUNCAS. Growth relative to the same quarter one year earlier was 3.1%. The contribution of domestic demand to annualised quarter-on-quarter growth was 4.7 percentage

points (pp), while the external sector's contribution was -0.7 pp.

Growth in private consumption accelerated to 4%. Some of the indicators available for the start of the third quarter, such as retail sales or new vehicle registrations, show a slight downturn in their growth. Similarly, the July and August indices of consumer confidence and retail trade confidence are slightly lower relative to the previous quarter's averages, although they remain at record highs (Exhibits 1.1 and 1.2). Nevertheless, the renewed drop in the oil price, and the bringing forward of the second part of the individual income tax reduction planned for next year make it seem likely that private consumption will gain strength again towards the end of the third quarter and in the fourth. Public consumption rose by 1.8%.

Investments in capital goods and other products remained strong in the second quarter, growing at a rate of 10.5%. At the start of the third quarter, registrations of goods vehicles and sales by large capital goods enterprises continued to slow (Exhibits 1.3 and 1.4). Construction investment continued to rise, driven by both residential construction, and above all, the other construction component, which is linked to the increase in public works in the run up to the local and regional elections. The recovery in the property market has continued to gain traction, and housing sales in the first seven months of the year grew by 10.5% compared to the year-earlier period, while prices,

Growth in both activity and employment in the industrial sector showed its best performance since 2000. Up until August, there had been 20 consecutive months of growth in the number of Social Security affiliates in the sector, unprecedented for this indicator since the historical series began in 2001.

according to the INE, rose by 4% year-on-year in the second quarter.

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption indicators (I)

Annualised moving quarterly change in %, smoothed series

- Retail trade, deflated
- Availability of consumer goods
- Passenger car registrations (right scale)
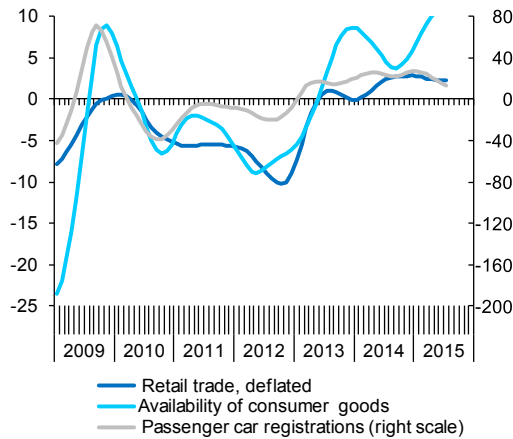
Sources: Ministry of Economy, INE, DGT and FUNCAS.

1.2 - Consumption indicators (II)

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

- Large company sales, consumer goods, deflated
- Overnight hotel stays, Spanish nationals
- Consumer Confidence Index (right scale)
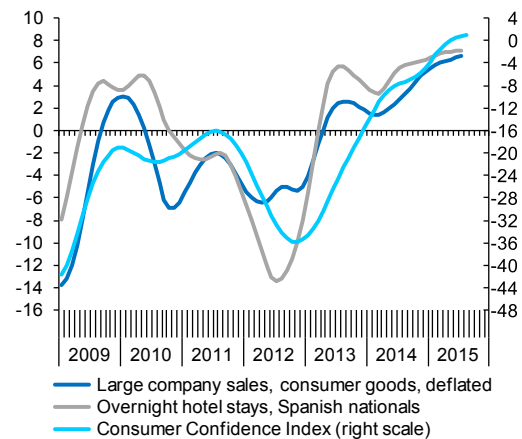
Sources: European Commission, INE, AEAT and FUNCAS.

1.3 - Capital goods GFCF indicators (I)

Annualised moving quarterly change in %, smoothed series

- Availability of capital goods
- Commercial vehicle registrations
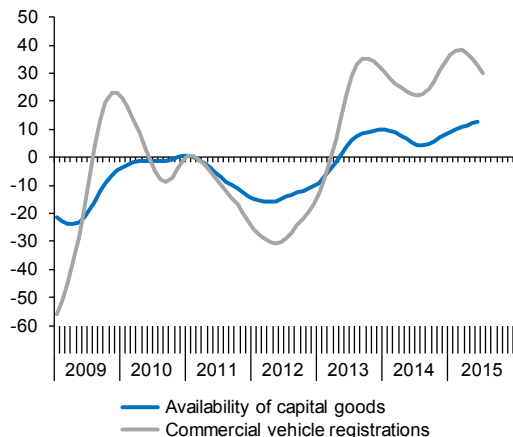
Sources: Ministry of Economy, DGT and FUNCAS.

1.4 - Capital goods GFCF indicators (II)

Annualised moving quarterly change in %, smoothed series

- Large company sales, capital goods, deflated
- Capital goods order book
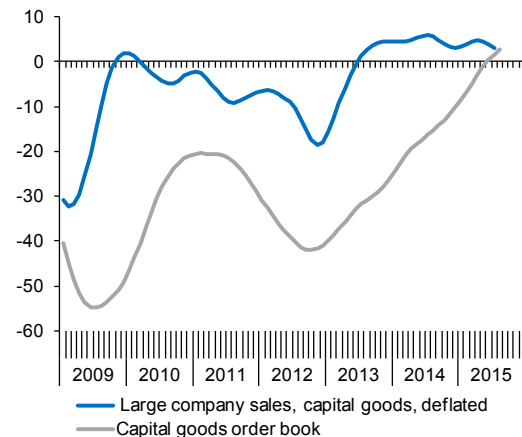
Sources: Ministry of Industry, AEAT and FUNCAS.

Total imports are growing faster than exports. Thus, the contribution of the external sector to quarter-on-quarter growth was negative, returning to the characteristic pattern seen since the start of the recovery, after two consecutive quarters in which its contribution was positive (Exhibit 3.1).

From the supply-side perspective, GVA grew in all sectors, with particularly strong growth in the manufacturing industry, which expanded by 6.6%. The information available for the third quarter indicates that the growth rate has remained healthy, although it has slowed somewhat. The result of the

Exhibit 2

Industrial activity, services and construction indicators

2.1 - Industrial sector indicators (I)

Annualised moving quarterly change in % and index, smoothed series

Turnover in Industry, deflated
Industrial production index (manufacturing)
Manufacturing PMI (index, right scale)
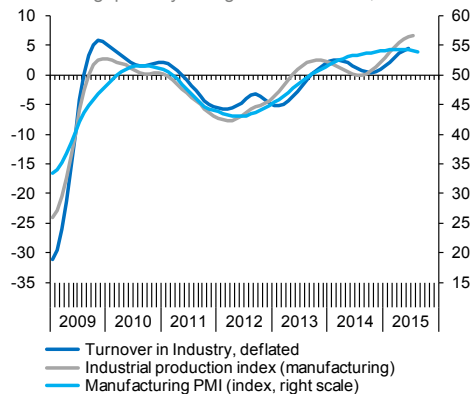
Sources: European Commission, Ministry of Labour and FUNCAS.

2.2 - Industrial sector indicators (II)

Annualised moving quarterly change in % and index, smoothed series

Social Security affiliates, Industry
Industrial Confidence Indicator (right scale, smoothed)
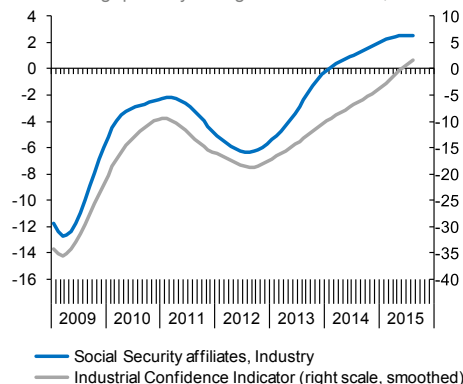
Sources: European Commission, Ministry of Labour and FUNCAS.

2.3 - Services indicators (I)

Annualised moving quarterly change in % and index, smoothed series

Turnover in Services (smoothed)
Confidence Indicator, Services sector (smoothed)
Social Security affiliates, Services (right scale)
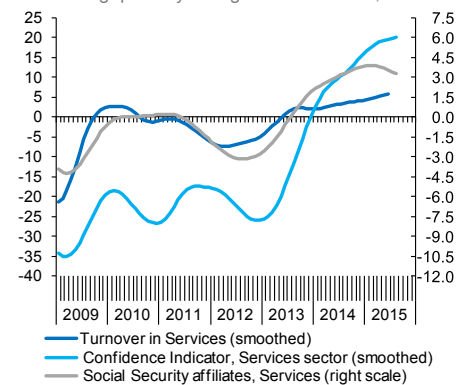
Sources: European Commission, Ministry of Labour, INE and FUNCAS.

2.4 - Services indicators (II)

Annualised moving quarterly change in %, smoothed series

Overnight hotel stays
Air passenger transport
Services PMI (index, right scale)
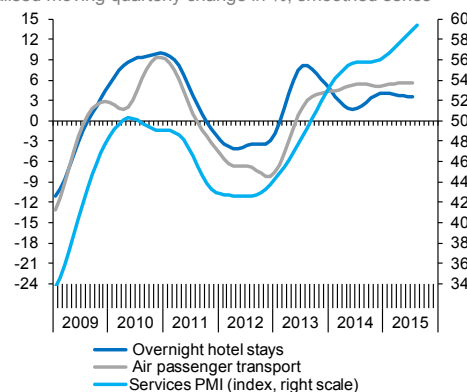
Sources: INE, AENA, Markit Economics Ltd. and FUNCAS.

2.5 - Construction sector indicators (I)

Annualised moving quarterly change in %, smoothed series

Social Security affiliates, Construction
Cement consumption (right scale, smoothed)
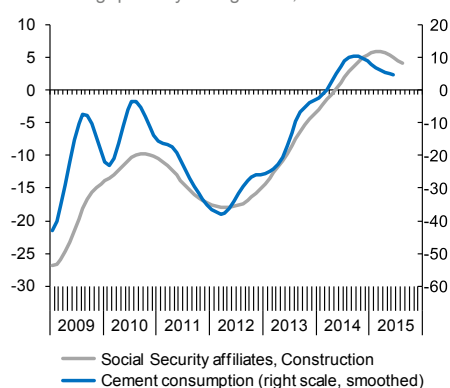
Sources: Ministry of Labour, OFICEMEN and FUNCAS.

2.6 - Construction sector indicators (II)

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

Permits, last 24 months
Construction confidence index
Public works tenders, last 24 months
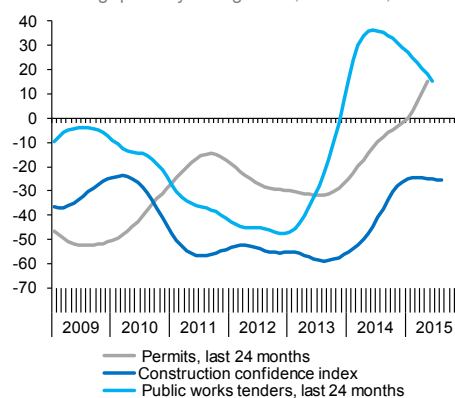
Sources: Ministry of Industry, SEOPAN and FUNCAS.

July industrial production index was favourable, although the July and August PMI and confidence index averaged slightly below the preceding quarter, and growth in Social Security affiliations in the sector also slacked off in both months (Exhibits 2.1 and 2.2). In any event, growth in both activity and employment in the sector showed its best performance since 2000. Thus, up until August, there had been 20 consecutive months of growth in the number of Social Security affiliates in the sector, which was unprecedented for this indicator since the historical series began in 2001.

In the case of services, the July and August PMI was above the previous quarter's average, although growth in the number of Social Security affiliates slowed and the average of the confidence index is slightly below the previous quarter's figure. Tourist arrivals in July continued to rise, although

Exhibit 3
External sector

3.1 - Exports/Imports at constant prices (Customs)
Annualised moving quarterly change in %, smoothed series
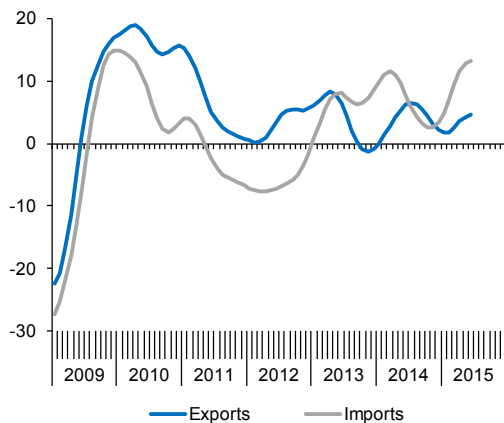
Source: Ministry of Economy.

3.2 - Tourist sector
Annualised moving quarterly change in %, smoothed series
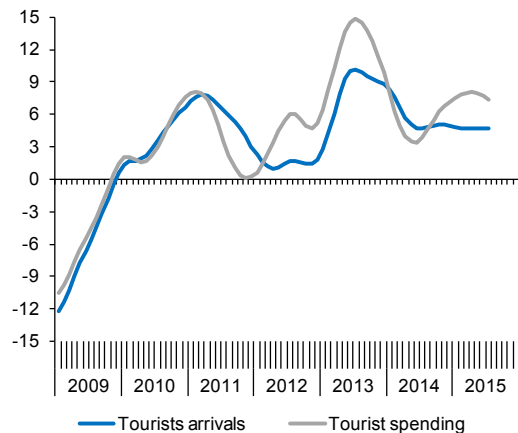
Source: Ministry of Industry.

3.3 - Balance of payments
EUR billion, cumulative last 12 months

Source: Bank of Spain.

3.4 - Balance of payments
EUR billions
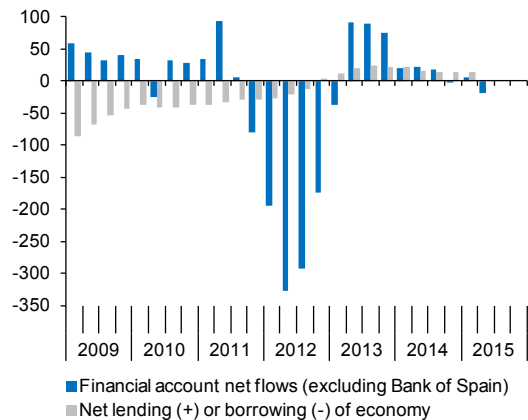
Source: Bank of Spain.

the downward trend in overnight stays by foreign tourists that began at the start of the year persisted. Overnight stays by Spanish residents increased, however (Exhibits 2.3, 2.4 and 3.2).

Recent trends for the number of Social Security affiliates in the construction industry suggests a

sharp slowdown, probably as a result of public works linked to the electoral cycle coming to an end. This impression is confirmed by the drop in official tenders, which, after growing rapidly in 2013 and 2014, fell by 14.4% in the first half of the year. By contrast, new housing permits (building) continued to increase, and the trend is accelerating (Exhibits 2.5 and 2.6).

Exhibit 4
Labour market indicators

4.1 - Labour supply
Annualised change q-o-q in % and percentage of population aged 16-64
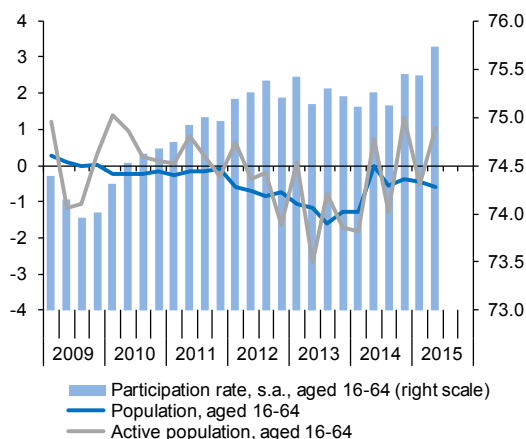
Source: INE (LFS).

4.2 - Employment and unemployment (LFS)
Annualised change q-o-q in % and percentage of working age population
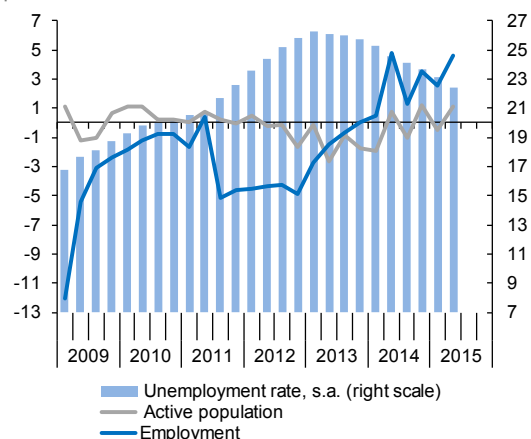
Source: INE (LFS).

4.3 - Social Security affiliates
Annualised moving quarterly change in % and thousands, seasonally-adjusted data
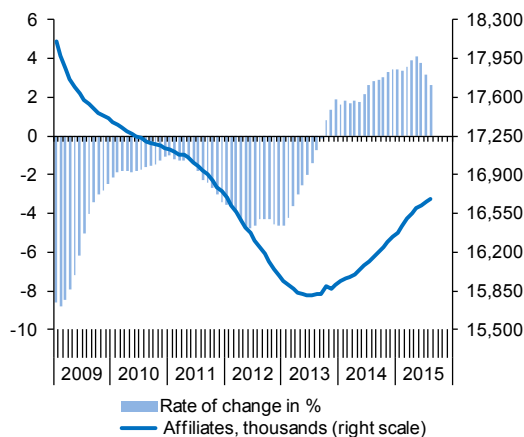
Source: Ministry of Labour and FUNCAS.

4.4 - Registered unemployment
Annualised moving quarterly change in % and thousands, seasonally-adjusted data
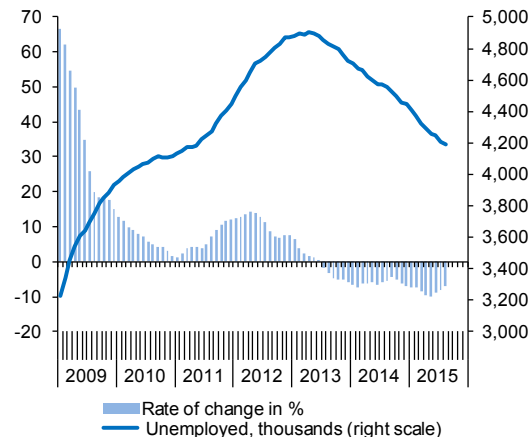
Source: Ministry of Labour and FUNCAS.

Employment, in full-time job equivalent terms, rose by 3.7% in the second quarter, with particularly strong growth in the manufacturing industry. Some of the most significant results of the LFS in the period were an increase in youth employment for the third consecutive quarter, and the fact that all the employment created has been full-time work, although the number of temporary workers has continued to rise faster than that of permanent ones. The seasonally adjusted unemployment rate fell by six tenths of a percent to 22.4% (Exhibits 4.1 and 4.2). The rate of job creation slowed in the third quarter, according to both the change in the number of social security system affiliates in July and August and the unemployment registered at public job centres (Exhibits 4.3 and 4.4).

Earnings per employee dropped by 2.3%, although this decrease was strongly influenced by the contraction in public sector wages. This contraction was the result of the comparison with the previous quarter, in which there was an increase due to the reinstatement of part of the extraordinary payment eliminated in December 2012. This effect caused unit labour costs to

fall sharply in the second quarter. This variable fluctuates widely from one quarter to the next, but the trend suggests that the ongoing reduction over recent years has come to a halt, both in the manufacturing industry and the wider economy. However, its growth remains below that of the GDP deflator and the eurozone average.

The inflation rate, which after eleven months in negative territory rose to 0.1% in June and July this year, dipped below zero again in August as a result of the falling oil price. The core inflation rate has been positive since December 2014, however, and has been on an upward path that reflects an increase, albeit still modest, in the upward pressure on prices driven by the recovery in consumption (Exhibits 5.1 and 5.2).

Although in real terms imports grew faster than exports in the first half of the year, the goods and services surplus was 10% higher than in the year-earlier period, as a result of the drop in the energy bill. This increase in the goods and services surplus was combined with a drop in the transfers and income balance deficit, giving rise to a slight

Exhibit 5
Price indicators

5.1 - Consumer Prices Index
Change y-o-y in %
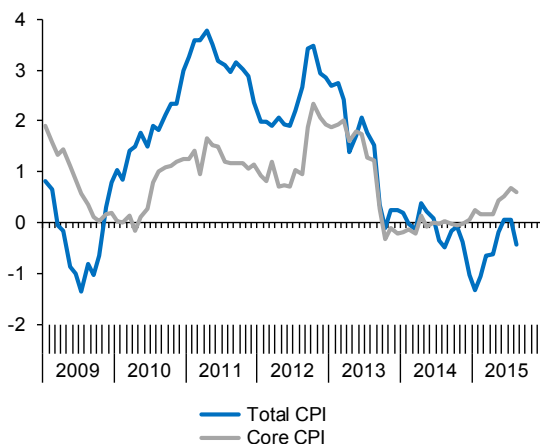
Total CPI
Core CPI

5.2 - Commodities prices in €
Euros and index

Food commodities index (2005=100)
Industrial commodities index (2005=100)
Brent (€/barrel) (right scale)

Source: INE (CPI).
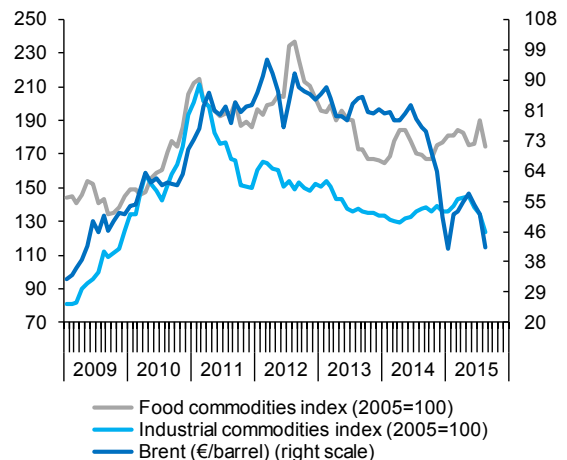
Sources: Ministry of Economy and The Economist.

current-account surplus, contrasting with the negative balance obtained in the same period of the previous year (Exhibit 3.3).

In the case of the financial account, there was a net outflow of 29 billion euros to June, more than twice the deficit recorded in the same period of the previous year, due to the drop in foreign investment flows into Spain, and in particular, the increase in Spanish investments abroad (Exhibit 3.4).

The national saving rate in the first quarter (calculated as the moving sum of four quarters) was 20.4% of GDP, three tenths of a percent more than in the previous quarter, as a result of a larger increase in disposable income than in nominal consumption. The investment rate also rose, although to a lesser extent than savings, giving rise to an increase in the economy's net lending position of two percentage points, rising to 1.2% of GDP. By institutional sectors, this increase in the net lending position derived from an improvement in firms' financial balances, while household and general government

balances (excluding aid to financial institutions) barely changed (Exhibits 7.1 to 7.3).

Data to May shows the general government deficit (excluding local authorities) was 2.2% of GDP, just one tenth of a percentage point less than in

Households' debt dropped in the first quarter to 106.9% of gross disposable income, the lowest ratio since 2005. Non-financial corporations' debt dropped to 110.4% of GDP, which is also its lowest level since 2005. The general government increased its debt to 97.7% of GDP in the second quarter of the year, 1.7 percentage points above its level one year earlier.

the same period in 2014 (the target is to reduce it by 1.5 percentage points by the end of the year). In the case of the autonomous regions, the deficit

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate
Percentage and basis points

Spread (basis points, right)
Spanish debt (left)
German debt (left)

Sources: ECB and Bank of Spain.
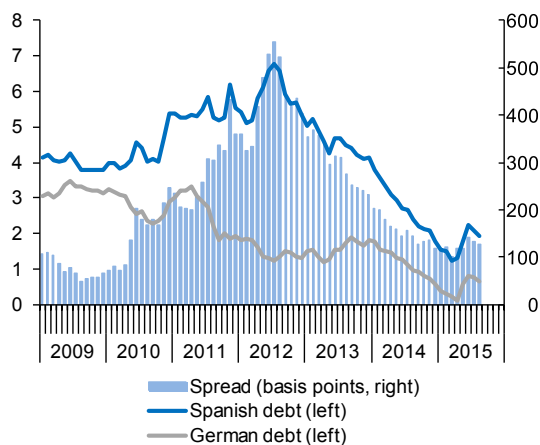
6.2 - New business loans
Annualised moving quarterly change in %, smoothed and s.a. series

Total
To households
To non-financial corporations, 1 millon € or less
To non-financial corporations, more than 1 millon €

Source: 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

- Current account balance (right)
- Domestic investment rate (left)
- Domestic saving rate (left)
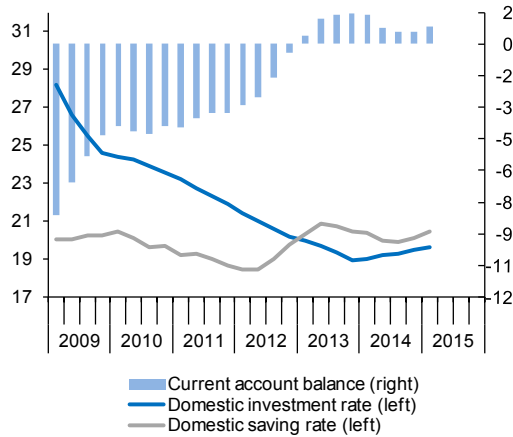
Source: INE.

7.2 - Saving rates

Percentage of GDP, 4-quarter moving average

- Households
- Non-financial corporations
- Goverment
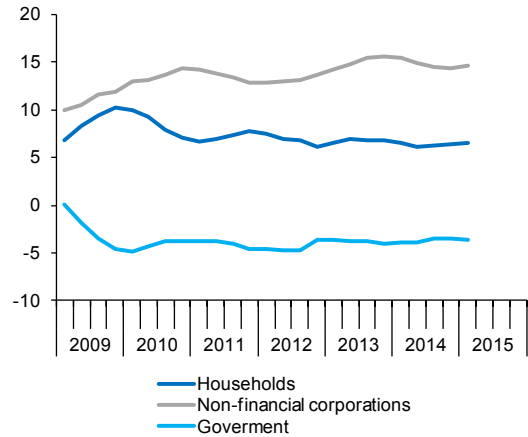
Sources: INE and IGAE.

7.3 - General Government deficit

Percentage of GDP, 4-quarter moving average

- Net lending (+) or borrowing (-) (1)
- Saving (current revenues less current spending)
- Capital spending (1)
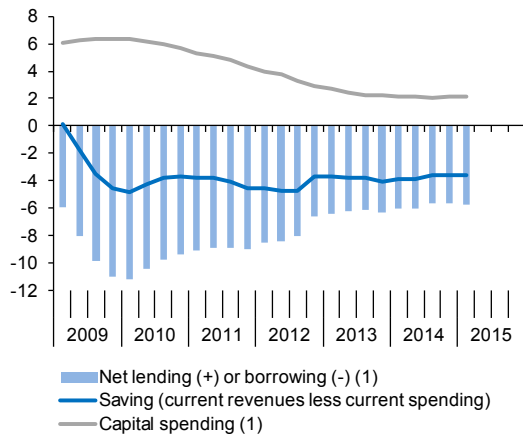
(1) Excluding financial entities bail-out.

Sources: INE and IGAE.

7.4 - Gross debt

Percentage of GDP, 4-quarter moving average

- Households
- Non-financial corporations
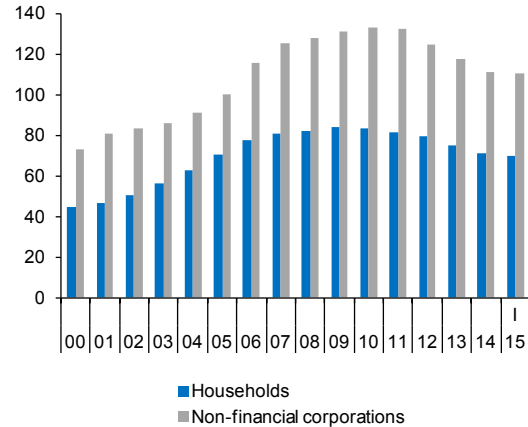
Source: Bank of Spain (Financial Accounts).

up to May was 0.5%, one tenth of a percentage point less than in the year-earlier period, and only two tenths of a percent below its objective for the year as a whole.

Households' debt dropped in the first quarter to 106.9% of their gross disposable income, the lowest ratio since 2005. Non-financial corporations' debt dropped to 110.4% of GDP, which is also its lowest level since 2005. The general government, by contrast, increased its debt, according to the excessive deficit procedure, to 97.7% of GDP in the second quarter of the year, 1.7 percentage points above its level one year earlier (Exhibit 7.4).

Spain's external debt in the first quarter was 167.1% of GDP, compared with 157.9% in the year-earlier period. This increment was largely due to the increase in general government debt held by foreign investors.

In June, the yield on ten-year public debt rose to almost 2.5% as a result of the tensions caused by the negotiations over the Greek bail-out, while the risk premium momentarily passed the 160 basis points level. The tensions subsequently subsided and debt yields returned to below 2%, but since August the turbulence associated with doubts about China has again pushed it above this level, while the risk premium has stood at around 140 basis points (Exhibit 6.1), exceeding Italy's risk premium. This had not happened since early 2014 and is attributed to heightened domestic political uncertainties.

The stock of credit to firms and households continues to decline, as is to be expected given the process of deleveraging under way, although the rates are increasingly modest (2.8% in July). This is not incompatible with the increase in new credit, which in July presented a trend growth rate of 35% on an annualised quarter-on-quarter basis (Exhibit 6.2). However, it should be borne in mind that the volume of this new credit is still small compared with the volumes observed in the years before the crisis.

Forecasts for 2015-2016

The impact of the worsening international context on the growth of the Spanish economy in the second half of 2015 will be limited, and offset by the beneficial effect of the drop in the price of oil and other commodities, together with the income tax cut being brought forward.In any event, the scenario of slower growth in the second half of the year envisaged in earlier forecasts–as a result of the transient effect of the positive shocks that have occurred in the first half wearing off–remains virtually unchanged in the forecasts (Exhibit 8.1). The changes in the economic indicators available

for the third quarter, particularly social security affiliations, confirm this trend.

The impact of the worsening international context on the growth of the Spanish economy in the second half of 2015 will be limited, and offset by the beneficial effect of the drop in the price of oil and other commodities, together with the income tax cut being brought forward.

However, the fact that GDP growth in the second quarter has been somewhat less than expected makes it necessary to revise the forecasts for the year as a whole downward slightly. Thus, growth is expected to be 3.2% in 2015, one tenth of a percentage point less than in earlier forecasts. The forecasts for 2016 have been affected, firstly by the lower expected growth in the current year, and secondly by the global economy's loss of dynamism. Unlike the case this year, this slowdown will not be offset by other effects, as the impact of the income tax cut and falling oil price will have worn off. The effect of these two factors on growth in 2016 will be modest, such that the forecast has been revised downwards by two tenths of a percent, to 2.8% (Table 1).

The main risks to the forecast scenario come from a more serious deterioration than expected in the external and financial context, or a possible intensification of domestic political uncertainties.

The main risks to this forecast scenario come from a more serious deterioration than expected in the external and financial context, or a possible intensification of domestic political uncertainties. These uncertainties could affect the spending plans of households and businesses, in particular,

Exhibit 8

Economic forecasts for spain, 2014-2015
Change y-o-y in %, unless otherwise indicated

8.1 - GDP

Annual average:
2012: -2.1%
2013: -1.2%
2014: 1.4%
2015: 3.2%
2016: 2.8%

Forecast

- Annualised quarterly rate of growth
- Volume index, Q1 2008 = 100 (right)
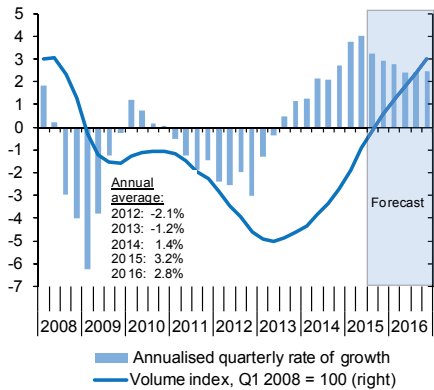
8.2 - GDP, national demand and external balance

Forecast

- GDP — National demand (a) — External balance (a)

(a) Contribution to GDP growth in percentage points.
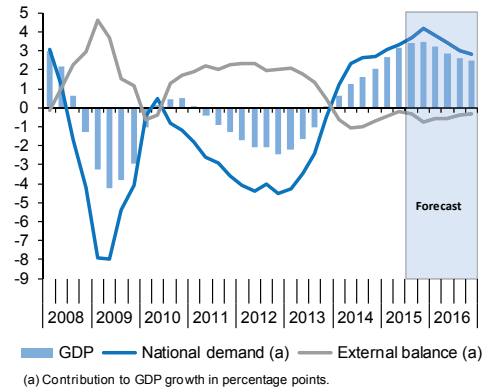
8.3 - National demand aggregates

Forecast

- Households' consumption
- GFCF housing
- GFCF construction (excl. housing)
- GFCF cap. goods & other products

8.4 - Employment and unemployment

Forecast

- Unemployment rate, s.a. (right scale) (a)
- Active population
- Employment

(a) Percentage of working age population.

8.5 - Inflation

Forecast

- GDP deflator
- Private consumption deflator
- Unit labour costs
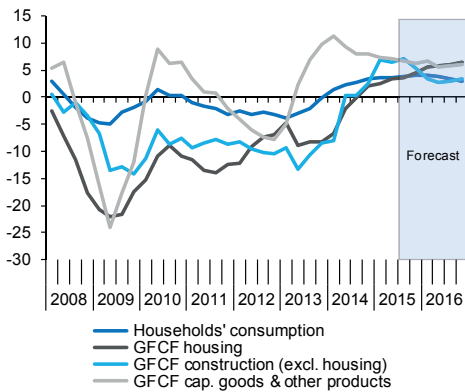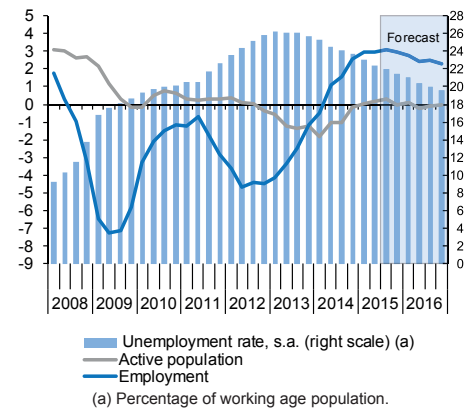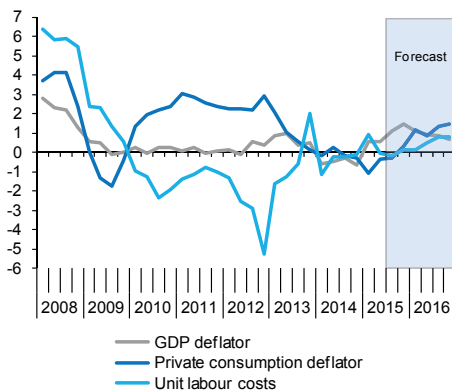
8.6 - Saving, investment and c/a balance (% GDP, 4MA)

Forecast

- Current account balance
- National investment rate
- National saving rate
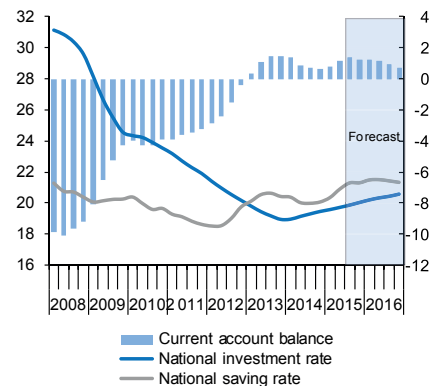
Sources: INE (Quarterly National Accounts) and FUNCAS (forecasts).

Table 1

Economic forecasts for Spain, 2015-2016
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**	**3.2**	**2.8**	**-0.1**	**-0.2**
Final consumption households and NPISHs	3.6	-1.9	-2.3	2.4	3.7	3.5	-0.1	0.1
Final consumption general government	4.3	0.8	-2.9	0.1	1.0	0.8	0.0	0.0
Gross fixed capital formation	6.4	-7.3	-3.8	3.4	6.0	5.2	0.0	-0.5
Construction	**5.4**	**-10.3**	**-9.2**	**-1.5**	**5.1**	**4.3**	**0.2**	**-0.1**
Residential construction	7.4	-11.9	-7.6	-1.8	3.4	6.0	0.7	0.4
Non-residential construction	3.8	-8.4	-10.5	-1.3	6.4	3.1	-0.1	-0.5
Capital goods and other products	8.3	-2.3	3.4	9.1	6.8	6.0	-0.2	-1.0
Exports goods and services	6.6	1.7	4.3	4.2	5.2	4.4	0.5	-1.1
Imports goods and services	8.7	-4.1	-0.5	7.6	7.0	6.3	0.7	-0.9
National demand (b)	**4.5**	**-2.8**	**-2.7**	**2.2**	**3.6**	**3.3**	**-0.1**	**-0.1**
External balance (b)	-0.7	1.8	1.4	-0.8	-0.4	-0.5	0.0	-0.1
GDP, current prices: - € billion	--	--	1,049.2	1,058.5	1,102.3	1,143.1	--	--
- % change	7.4	-0.5	-0.6	0.9	4.1	3.7	0.1	-0.2
2. Inflation, employment and unemployment								
GDP deflator	3.5	0.6	0.7	-0.5	0.9	0.9	0.2	0.0
Household consumption deflator	**3.1**	**1.8**	**1.0**	**-0.1**	**-0.3**	**1.2**	**-0.1**	**-0.2**
Total employment (National Accounts, FTEJ)	3.4	-3.1	-3.3	1.2	2.9	2.5	-0.1	0.0
Productivity (FTEJ)	0.4	2.1	2.1	0.2	0.3	0.3	0.0	-0.2
Wages	7.5	-1.0	-2.3	1.3	3.7	3.5	-0.2	0.0
Gross operating surplus	6.9	0.3	0.1	-0.1	4.5	3.3	0.4	-0.4
Wages per worker (FTEJ)	3.3	2.4	1.7	-0.2	0.5	0.9	0.0	0.0
Unit labour costs	2.9	0.2	-0.4	-0.4	0.2	0.6	0.0	0.2
Unemployment rate (LFS)	**12.5**	**20.2**	**26.1**	**24.4**	**22.3**	**20.3**	**0.1**	**0.1**
3. Financial balances (% of GDP)								
National saving rate	22.4	19.9	20.4	20.1	21.3	21.3	0.7	0.5
- of which, private saving	18.6	23.1	24.5	23.6	24.3	23.2	1.3	1.1
National investment rate	26.9	23.1	19.0	19.5	20.1	20.6	0.1	-0.1
- of which, private investment	23.0	19.4	16.8	17.5	18.0	18.6	0.1	-0.1
Current account balance with RoW	**-4.5**	**-3.3**	**1.5**	**0.6**	**1.2**	**0.7**	**0.7**	**0.6**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	2.1	1.0	1.7	1.2	0.7	0.6
- Private sector	-2.8	5.7	8.9	6.8	6.8	5.2	1.2	1.2
- Public sector (general governm. deficit)	**-0.9**	**-8.6**	**-6.8**	**-5.8**	**-5.2**	**-4.0**	**-0.6**	**-0.6**
- General gov. deficit exc. financial instit. bailout	**--**	**-7.8**	**-6.3**	**-5.7**	**-5.2**	**-4.0**	**-0.6**	**-0.6**
Gross public debt	52.2	66.3	92.1	97.7	100.1	101.3	0.0	0.5
4. Other variables								
Household saving rate (% of GDI)	10.8	11.2	10.4	9.7	10.5	9.5	0.5	0.4
Household gross debt (% of GDI)	81.5	125.0	115.5	108.8	101.3	96.8	-0.6	-0.3
Non-financial coporates gross debt (% of GDP)	80.4	127.8	117.6	111.1	103.6	98.1	0.8	1.2
Spanish external gross debt (% of GDP)	90.2	158.4	154.7	160.6	161.4	157.6	4.5	6.1
12-month EURIBOR (annual %)	3.7	1.9	0.5	0.5	0.2	0.4	0.0	0.0
10-year government bond yield (annual %)	5.0	4.7	4.6	2.7	1.9	2.8	0.0	0.6

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 could trigger a sharp rise in the risk premium, making external financing more expensive or more difficult to obtain.

Private consumption growth, that has been revised downwards by a tenth of a percent to 3.7% this year, will be driven by the upturn in household income and negative inflation. Growth next year will be more moderate, at 3.5%, as the increase in household incomes in real terms will be less than this year as the inflation rate is expected to turn positive (Exhibit 8.3). The forecasts for public consumption remain unchanged from the previous forecasts and are based on the assumption that growth this year will be greater than next as a consequence of the electoral cycle.

Growth of gross capital formation in capital goods has been revised downwards by two tenths this year and one percentage point next, as, along with exports, this variable will be hardest hit by the worsening international scenario and domestic political uncertainties.

Construction investment is expected to grow by 5.1% in 2015, which is slightly up on previous forecasts due to the upward revision of the figures for residential construction. In 2016 this component of demand will slow to 4.3%, despite the acceleration in the residential component, as the non-residential component will register more moderate growth than this year, during which its behaviour is influenced by the electoral cycle.

Exports should grow by 5.2% in 2015, but growth will slacken in 2016 for the reasons already mentioned. Imports will continue to grow faster than exports in both years, such that the net contribution of the external sector will be negative (Exhibit 8.2).

The forecasts for employment are barely changed. Employment is expected to increase by 2.9% in 2015 and 2.5% in 2016, in full-time equivalent job terms, implying 900,000 more jobs over the two years as a whole. The average

annual unemployment rate will drop this year by 2.1 percentage points to 22.3%, and a further two percentage points next year (Exhibit 8.4). Unit labour costs will rise in both years for the first time since 2009, although the increase will be less than is forecast for the euro area.

The Spanish economy's rate of inflation, measured using the GDP deflator, will remain at moderate levels (below 1% in both years), although lower import prices, caused by less expensive oil, will mean consumer price inflation will be negative in 2015 (Exhibit 8.5).

The current account surplus will double this year, reaching 1.2% of GDP, despite the external sector's negative contribution to growth, as a result of the drop in the oil price (Exhibit 8.6). This forecast scenario assumes that crude oil will cost an average of 54.3 dollars (48.8 euros) a barrel in 2015 and 56 dollars (51.7 euros) in 2016.

Finally, the general government deficit has been revised upwards to 5.2% of GDP this year and 4% of GDP next, overshooting the official targets in both cases (4.2% and 2.8%, respectively).

To conclude, the economic recovery in the second quarter has continued to show signs of considerable strength. On the demand side, these include the dynamism of capital investment, and on the supply side, the vibrancy of the manufacturing industry. The outlook for the second half of this year and for next year remains favourable, despite the slowdown expected. The slight downward revision of the forecasts does not respond to a substantial change in scenario, but is simply a technical adjustment with respect to 2015. In the case of 2016 it is also the result of the incorporation of the somewhat less favourable outlook for the external sector, although the impact is expected to be limited.

Nevertheless, it is important that the two features of the Spanish economy's behaviour mentioned– the dynamism of investment and manufacturing–,

which are the result of cost competitiveness gains, are consolidated and sustained over time, as they are the route enabling a transition towards a more balanced and sustainable model of development for the future, and towards the economy's enhanced long-term growth capacity, which is to say, a higher potential growth rate.

The Spanish property sector: Recovery or stabilisation?

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

The Spanish property sector is undergoing a much-needed correction, albeit stabilising rather than significantly recovering. Nevertheless, the construction sector is expected to contribute positively to Spanish GDP and employment over the coming years.

The Spanish property market is undergoing a notable correction. However, a closer look at the sector´s recent performance reveals it is more of a stabilisation than significant recovery. Housing price data suggest that prices rose slightly in early 2015, but the strength of the upturn is questionable, and various sources suggest prices fell back down again in July and August. Similarly, although the number of mortgages rose, the amount of new credit being extended for home purchases is substantially lower than in the years before the crisis. Moreover, there are a number of reasons why transactions are not directly comparable with those taking place in the years of the housing bubble, such as the fact that only around a third of recorded housing sales are being financed with mortgages. While price, transaction and financing indicators remain below pre-crisis levels, the construction sector will likely continue to increase its contribution to GDP and employment in Spain over the years ahead.

Consensus on moderate improvement

The role played by the property sector and its financing in Spain´s recent crisis is already well documented. Its scale and social implications have resulted in a certain stigmatisation of everything related to the construction industry. Moreover, calls for greater diversification of Spain's production model, which had already been widespread before the crisis given the large share of services and property-related activities in GDP, have once again resurfaced.

Diversifying production is both necessary and healthy for the sustainability of growth, but it can only be achieved by pressing ahead with structural reforms. Moreover, diversification does not imply that construction will not have a more significant role to play in the wider economy, or at least a bigger role than in recent years, merely that it will not be anywhere near the contribution made during the property boom.

Several indicators in recent months have hinted at a correction in the property sector, which has

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accounted for a substantial share of job creation. There is also considerable media coverage of increased bank competition in the area of mortgage lending. This information has sometimes led to claims that the sector is in the midst of recovery, and has renewed concerns over reliance on some of the same practices that led to the creation of the property bubble in the past. However, as this article shows, it is difficult to substantiate the existence of these risks at present. Indeed, it is difficult even to talk of a recovery in the property sector, because the data suggest that, at most, we are witnessing a stabilisation. Furthermore, none of the data supporting an improvement in the indicators relating to housing, construction or its financing are comparable to those seen in the run up to the crisis.

Evidence of stabilisation has been highlighted in some of the recent reports by official international and national organisations. For instance, in its report on Spain, the International Monetary Fund (IMF) report n.15/232 (2015) Article IV consultation–Staff report; and statement by the Executive Director for Spain said that "There are also signs that the real estate sector might have begun to turn the corner. After a long period of decline, housing prices started to increase moderately in the second half of 2014–albeit unevenly across regions–and investment and employment in construction have started to recover."

Also, on the financial front, the IMF suggests that the recent upturn in lending flows bears no relation to pre-crisis practices, stating that "new credit is being extended, especially to non-financial corporations outside real estate and construction with healthy financial positions. New household credit is also growing. The improved credit outlook is mostly demand driven."

Additionally, the Bank of Spain, in its July/August *Economic Bulletin*, shares the view that there has been something of a recovery in the sector, but manages expectations by pointing out that

"the most recent data from up-to-date indicators of construction activity suggest the sector's dynamism has been maintained. However, it could be undergoing a slight deceleration. In the case of labour market indicators, year-on-year growth of social security affiliations in the sector moderated to 5.3% in June while among the data on intermediate consumption, the progress of apparent consumption of cement slowed to 8.2% in terms of the seasonally adjusted series. Nevertheless, the faster pace of new building permits in April, for both residential and non-residential construction, confirms the ongoing trend towards a recovery in construction activity." It therefore suggests that the picture has improved, but only moderately and unevenly.

The second quarter national accounts data, provided by the National statistics institute (INE) at the end of August (Table 1), suggest quarter-on-quarter growth in construction activities of 1.6% in the first quarter of 2015 and 1.4% in the second quarter, contrasting with -0.9% and 1.3% in the same quarters of 2014. In year-on-year terms, investment in construction assets went from 5% to 5.1% between the first and second quarter of 2015, well above the changes in GDP analysed for these two periods, which were 2.7% and 3.1%, respectively. The INE considers "the performance of both housing investment and other construction investment" to have made a contribution.

Employment has performed favourably over the last few quarters. The *Labour Force Survey* (LFS) for the second quarter of 2015 showed a quarter-on-quarter increase in employment of 0.7% according to the seasonally adjusted series (0.6% in the first quarter). According to the LFS, with a year-on-year rate of 3%, employment creation was particularly strong in construction (11.6%), which has risen by 16% from the minimum reached in early 2014.

On the aggregate level, national accounts data offer a similar estimate to the annual change in employment in the second quarter of 2015,

Table 1

Gross domestic product at market prices
(Quarter-on-quarter and year-on-year rates of change, 2014-2015)

Quarter-on-quarter rates of change

	2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross domestic product at market prices	0.3	0.5	0.5	0.7	0.9	1.0
Household final consumption expenditure	0.6	1.0	0.8	0.9	0.7	1.0
Final consumption expenditure of non-profit institutions serving households	0.1	0.3	0.2	1.1	0.1	0.2
General government final consumption expenditure	1.0	-0.4	-0.1	-1.0	1.7	0.4
Gross fixed capital formation	0.4	2.0	1.1	1.4	1.4	2.0
Tangible fixed assets	0.3	2.2	1.2	1.6	1.6	2.2
- Construction	-0.9	1.3	0.5	1.4	1.6	1.4
- Capital goods and cultivated assets	2.3	3.6	2.2	1.9	1.6	3.2
Intellectual property products	1.0	1.1	0.7	0.2	0.2	0.9
Exports of goods and services	0.1	0.7	3.9	0.0	0.4	1.6
Imports of goods and services	1.1	2.1	5.0	-0.6	0.4	2.3

Year-on-year rates of change

	2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross domestic product at market prices	0.6	1.2	1.6	2.0	2.7	3.1
Household final consumption expenditure	1.3	2.3	2.8	3.4	3.5	3.5
Final consumption expenditure of non-profit institutions serving households	0.7	0.7	0.8	1.8	1.8	1.6
General government final consumption expenditure	0.3	0.3	0.3	-0.5	0.2	1.0
Gross fixed capital formation	0.8	3.9	3.9	5.1	6.1	6.1
Tangible fixed assets	0.7	4.3	3.9	5.5	6.8	6.8
- Construction	-7.4	-0.7	0.1	2.4	5.0	5.1
- Capital goods and cultivated assets	15.8	12.9	10.2	10.3	9.6	9.2
Intellectual property products	1.8	1.7	3.4	3.1	2.2	2.0
Exports of goods and services	6.4	1.0	4.5	4.7	5.0	6.0
Imports of goods and services	9.4	4.9	8.6	7.7	7.0	7.2

Source: INE and authors' calculations.

situating it at 9.2% (9.1% in the first quarter as shown in Table 2). However, this increase is relative to a very low starting point for employment in the sector. Just one year earlier, the annual change was a drop of 9.2% in the first quarter and 4% in the second.

Housing prices: Erratic and uneven progress

Housing prices are typically viewed as good indicators of the progress of the real estate sector. Statistics vary and in Spain they all have

Table 2
Employment
(Year-on-year change)

	2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2
Persons in employment	-0.4	1.0	1.7	2.4	2.8	2.9
Agriculture, forestry and fishery	8.7	-1.4	-2.8	-4.1	5.5	0.4
Industry	-2.8	-0.4	2.1	2.9	3.4	3.7
- Manufacturing industry	-2.8	-0.3	2.1	2.9	3.4	3.7
Construction	-9.2	-4.0	0.0	3.3	9.1	9.2
Services	0.2	1.8	1.9	2.6	2.7	2.4
- Trade, transport and hospitality	0.0	1.8	1.9	2.3	3.2	2.9
- Information and communication	-3.0	-0.6	1.6	2.0	2.1	3.2
- Financial and insurance activities	-2.6	-2.8	-2.8	-2.4	-1.9	-0.5
- Real estate activities	5.7	6.6	2.8	1.7	2.2	1.8
- Professional activities	-1.6	3.5	2.8	5.9	6.2	4.0
- Public administration, health and education	1.4	1.6	2.0	1.8	1.2	1.3
- Arts, recreation and other services	1.7	1.4	2.2	3.5	1.7	2.3

Source: INE and authors' calculations.

limitations either because they only cover a specific portion of transactions or because they are based on land register or valuation data. Whatever the case, there are three main groups of price statistics. The main indicators based on valuations include the "official" prices from the Ministry of Public Works and Transport, and private valuations by agencies such as Tinsa or other property valuation companies. A second group includes indices based on sale prices, such

Housing price statistics vary and in Spain they all have limitations either because they only cover a specific portion of transactions or because they are based on land register or valuation data.

as those prepared by the INE or private entities, such as Tecnocasa. This group of indicators can also include data from contracts signed at the land register. An additional feature of the latter group is that, for the past few years, they have allowed for corrections using the Case-Schiller method. Specifically, the index is calculated on

the basis of the repeat sales method, which uses data on homes that have been sold at least twice to calculate the rise in value of properties with constant characteristics. The problem, however, is that the prices officially recorded are not necessarily the same as those agreed upon in private. Thirdly, there are indices based on offered prices, particularly those produced by web portals publishing private sellers' offers, such as Idealista or Fotocasa.

As an initial reference, Exhibit 1 shows the change in the value of an average square metre of housing in Spain, according to Ministry of Public Works and Transport data. The latest available

Recent housing price data suggest that most of the adjustment has taken place, but do not offer any evidence of a significant or sustained recovery in prices.

data put the price at 1,457 euros per square metre in the first quarter of 2015, down 0.1% from the

Exhibit 1

**Price per square metre of free-market housing in Spain
(Euros)**
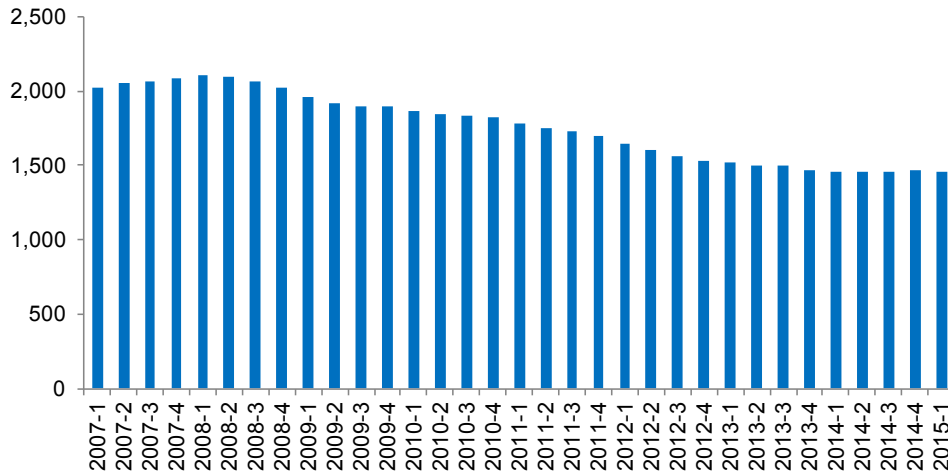
Source: Ministry of Public Works and Transport and authors' calculations.

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first quarter of 2014. The cumulative drop since the first quarter of 2008 –when, according to these data, the price increase peaked– is 30.1%. The data suggest that most of the adjustment has taken place, but do not offer any evidence of a significant or sustained recovery in prices.

The Ministry of Public Works and Transport data are based on surveyors' valuations. That said, the evolution of housing prices over the last few years has been influenced to some extent by speculation over the future tax treatment of homes, mortgage renegotiations and other legal issues, which

Exhibit 2

Number of housing valuations in Spain
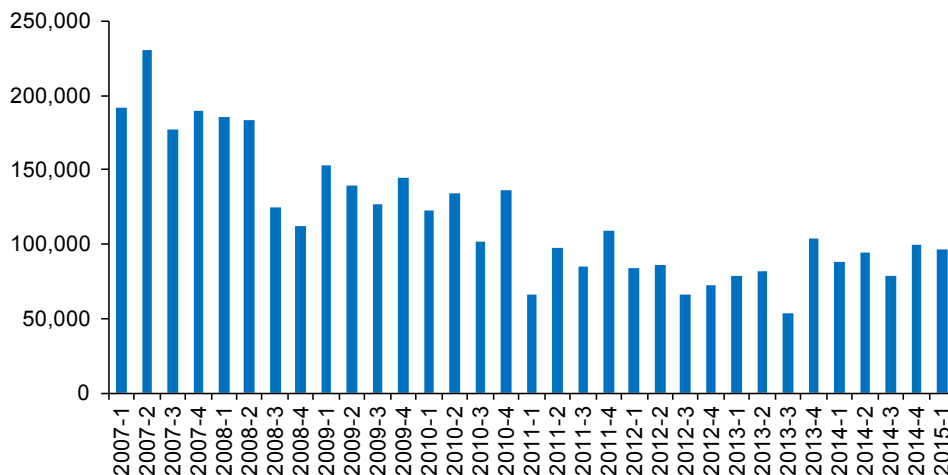
Source: Ministry of Public Works and Transport and authors' calculations.

are discussed throughout this issue of *Spanish Economic and Financial Outlook* (SEFO). As Exhibit 2 shows, the number of valuations has

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The evolution of housing prices over the last few years has been influenced to some extent by speculation over the future tax treatment of homes, mortgage renegotiations and other legal issues.

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increased in the last few quarters, stabilising at around 100,000 valuations per quarter. However, in 2007 and 2008, when prices were still at their peak, there were almost twice as many valuations (around 200,000 per quarter).

If we look at sales rather than valuations (*e.g.*, the INE price index, whose quarter-on-quarter changes are shown in Exhibit 3), recent progress has been uneven. Thus, there was an increase of 2.2% in the first quarter of 2015, after a drop of 0.1% in the last quarter of 2014. Prices went up

4.2% in the second quarter of 2015, the largest rise in eight years.

Some more recent indicators subsequent to the first and second quarter suggest that what has been happening to prices recently is more of a stabilisation than a true or continuous recovery. But there is some disagreement. For example, the College of Property Registrars has reported that housing prices rose by 5.1% on a year-on-year basis in the second quarter of 2015 (with a rise of 2.65% in the first quarter). However, according to the real estate website Idealista, the price of second-hand homes in Spain dropped by 0.6% in the month of August, to an average of 1,577 euros per square metre. However, on this point it also has to be borne in mind that there are numerous local markets that are evolving differently. Thus, taking Idealista's data for August, the month's biggest price rises took place in La Rioja (0.7%), Castile-La Mancha (0.2%), Madrid (0.2%) and Navarre (0.1%). In Andalusia and Castile-Leon there was no change, and in the other 11 regions prices fell, particularly in Aragon (-1.4%), Murcia (-1.2%) and Cantabria (-0.6%).

Exhibit 3

Quarterly change in the new housing price index
(Percentage)
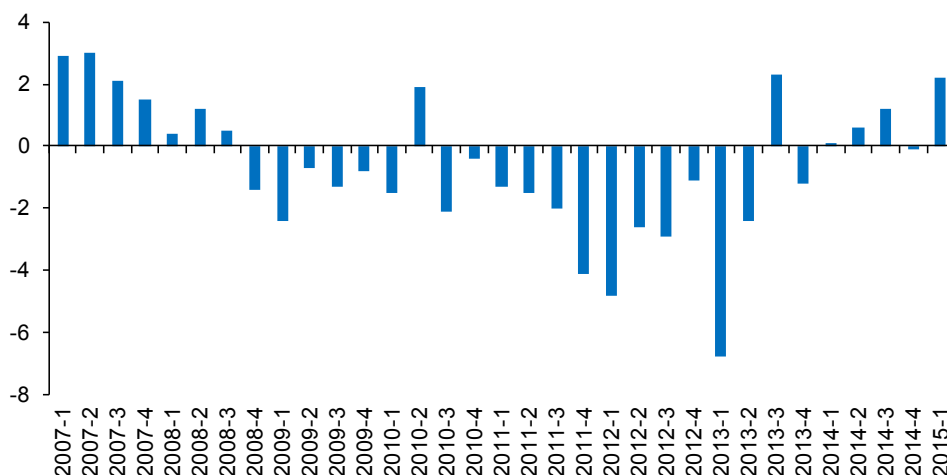
Source: INE and authors' calculations.

The appraiser Tinsa suggests that the drop in prices in August was even bigger, at 0.9% on a year-on-year basis, and indicates that the adjustment since the first quarter of 2008 –where it situates the peak– has been 41.8%. Tinsa also distinguishes between geographical areas, indicating that prices fell by an average of 1.3%

Although the major Spanish cities were an exception, falling prices in urban areas suggest that the adjustment is still continuing in much of the country, although it may be bottoming out.

on the Mediterranean coast, but that the biggest drop was in metropolitan areas (-4%). Although the major Spanish cities were an exception, falling prices in urban areas suggest that the adjustment is still continuing in much of the country, although it may be bottoming out.

Transactions and their financing

Another interesting comparison between the pre-crisis and current environment in the property market relates to transactions and how they are financed. Over extension of credit has been identified as one of the main mechanism by which

Recent news of a recovery in the mortgage market has, at times, caused an overreaction about its potential negative impact, with fears of there being excessive demand for mortgages without proper regard for the risk. However, recent figures do not offer any evidence to substantiate these concerns.

the pre-crisis asset bubble was generated. Thus, recent news of a recovery in the mortgage market has, at times, caused an overreaction about its potential negative impact, with fears of there being excessive demand for mortgages without proper regard for the risk. However, recent figures do not offer any evidence to substantiate these concerns. Exhibit 4 shows the change in the number of mortgages on homes in Spain. In June 2015, the figure was 21,454, 20.6% more than in June 2014. Even though this increase is significant, once again it is the low starting point

Exhibit 4

Number of home mortgages in Spain
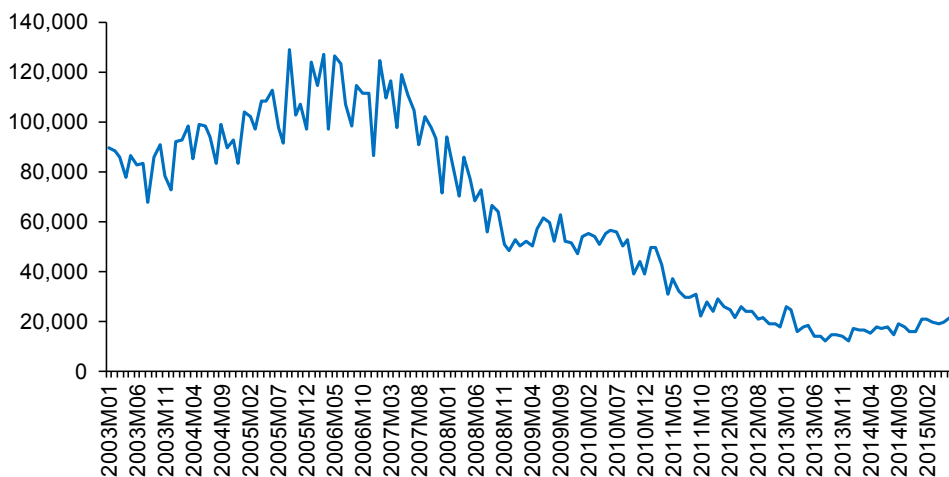
Source: INE and authors' calculations.

Exhibit 5

New credit for home purchases in Spain
(Millions of euros)
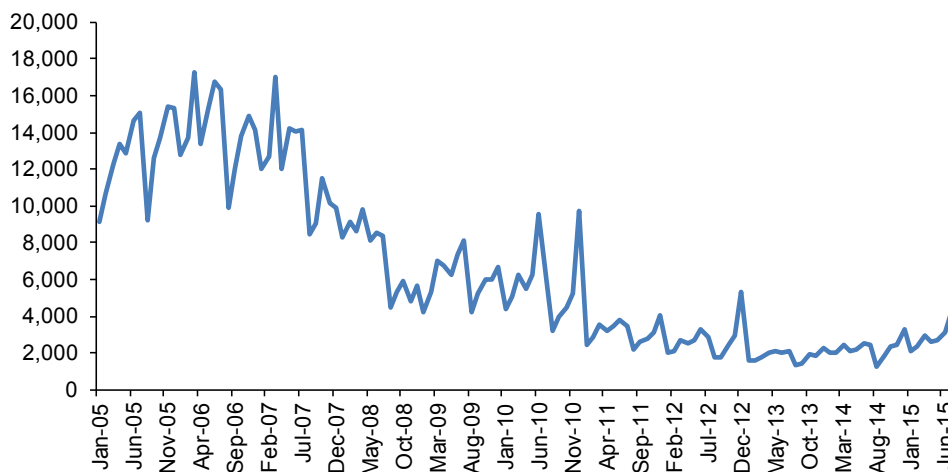
Source: Bank of Spain and authors' calculations.

for the comparison that makes the increment appear bigger. Indeed, looking at Exhibit 4, it can be seen that in 2005 and 2006, the number of mortgages issued was significantly more than 100,000 a month.

A similar trend can be seen in the data published by the Bank of Spain on the flow of new lending for home purchases (Exhibit 5). Comparing the data for July 2015 (4,227 million euros) with that for July 2014 (2,467 million euros) there has been

Exhibit 6

Number of housing sales per month
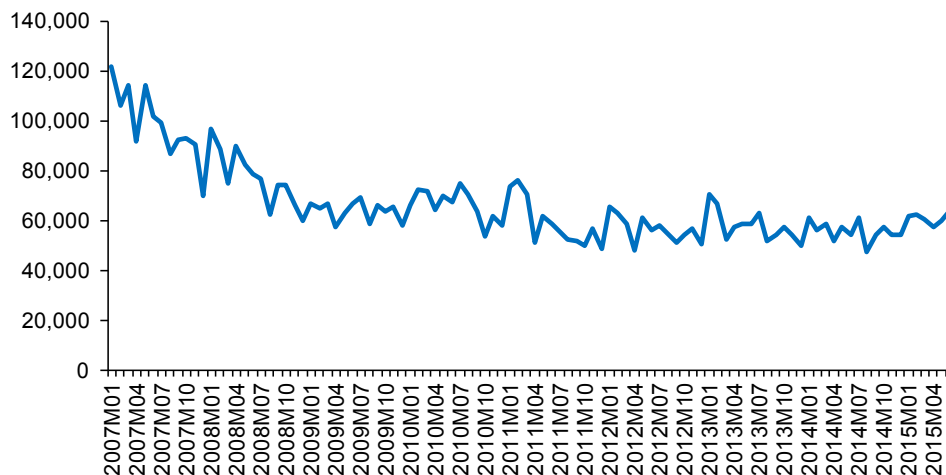
Source: INE and authors' calculations.

an increase of 71.3% in monthly new financing in this month from one year to the next, but as in the previous comparisons, the figures are relatively modest. In 2005 and 2006, monthly lending for housing was in the 13 to 17 billion euro range.

A substantial portion of home purchases in recent years has been paid in cash, and it is likely that many of these purchases are being carried out by specialist investors rather than households.

Housing sales also show more of a stabilisation than sustained growth (Exhibit 6). According to the INE, there were 67,041 housing sales in July 2015 (transfers of property ownership), up 10.2% on that in July 2014 (54,277 transactions) However, these figures are still a long way from the 121,687 transactions in January 2007, while the market was booming.

Comparing the number of new mortgages to the number of homes sold (as shown in Exhibit 7) offers an interesting insight into the nature of these transactions. In the pre-crisis years, the ratio of mortgages to homes sold was close to, or even above, unity, suggesting that mortgage borrowing was being used to finance more than just property purchases. However, this ratio has declined considerably, reaching a minimum of 0.22 in July 2013 and standing at 0.34 in June 2015 (most recent data available). This means that a substantial portion of home purchases in recent years has been paid in cash, and it is likely that many of these purchases are being carried out by specialist investors rather than households.

Conclusion

As a whole, the data analysed here suggest that the Spanish property market has entered a phase of stabilisation. In addition, recent statistics points towards a normalisation that includes a bigger contribution from construction in line with its natural share of the country's production structure. This process will also be gradual, as financing of demand is conditional upon the deleveraging of the economy and is constrained by the very high unemployment rate, which significantly raises credit risk.

Exhibit 7

Ratio of mortgages to housing sales
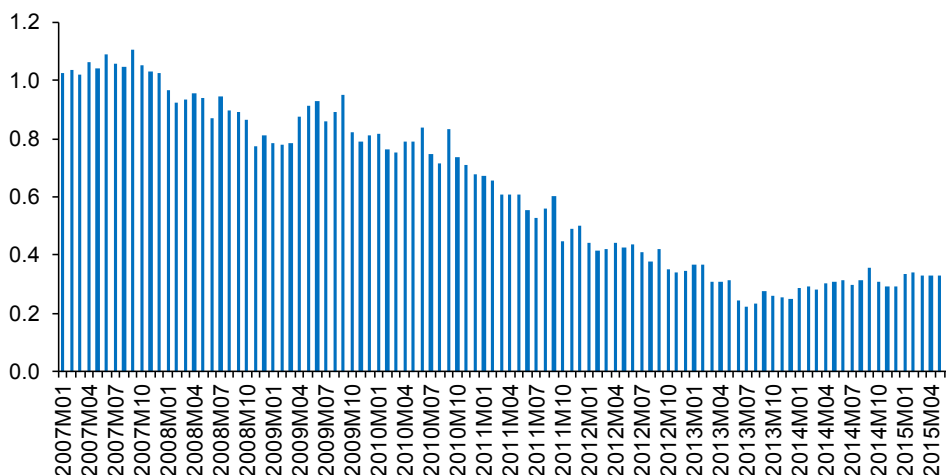
Source: INE and authors' calculations.

Cleaning up the Spanish financial sector´s real estate risk exposure: Situation and outlook

José García Montalvo[1]

Spain´s property market is showing signs of stabilisation after the crisis. At the same time, the process of reducing the financial sector´s real estate risk is gaining momentum through the adoption of various deleveraging strategies, together with the help of new players in Spain´s property market.

Recent indicators point to a stabilisation in Spain´s real estate market, with an increase in house prices as well as sales, albeit from a low starting point. In this context, banks are prudently reducing exposure to real estate and construction lending, which reached 50% of total credit to productive industries at its peak, while at the same time moving forward on cleaning up real estate assets. Initial risk reduction strategies have included loan refinancing and restructuring operations, together with foreclosures, which ended up significantly increasing the number of properties held on Spanish financial institutions´ balance sheets. Subsequent phases of deleveraging included the sale of non-strategic assets and businesses, such as real estate platforms, where institutions concentrated their foreclosed assets, alongside the sale of loans and foreclosed assets themselves. Finally, at a later stage of the process, banks opted to reduce their stock of foreclosed properties through land development initiatives. Going forward, major players, like the SAREB, and new entrants, such as the Real Estate Investment Companies (the SOCIMIs in their Spanish initials), will also play a key role in the ultimate success of the reduction of Spanish banks´ property market exposure and risk.

This article presents an analysis of the status and outlook for the reduction and restructuring of Spanish financial institutions' property risk. The property market expansion which lasted from early 2000 until 2007 significantly increased the Spanish banking sector's concentration of risk in construction and other real estate activities. At the peak of this process, 50% of deposit-taking institutions' lending to productive activities was concentrated in the construction and real estate sectors. When the volume of mortgages for home purchases is also considered, the exposure in 2007 reached a trillion euros. Since the onset of the financial crisis, there has been a significant contraction in financing for construction and real estate activities as a share of total lending to the productive sector, although this process only really gained momentum in late 2012. This article reviews the process of reduction of the real estate exposure that Spanish financial institutions have undergone in recent years. To contextualize this process, the first section describes the situation of the Spanish real estate sector. The second section provides basic facts on Spanish financial

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institutions' property market deleveraging and the main strategies employed in reducing banks´ property risk. The article then provides some concluding remarks.

The property market context

With the slowing of demand for housing and the onset of the financial crisis in Spain, the real estate sector embarked on a painful adjustment that began with a rapid slowdown in property transactions and new housing starts, but with no significant drop in prices. Prices really began to fall in late 2011 and the process accelerated in 2012 and 2013 causing cumulative proportional losses similar to those in other countries (between 30% and 45%, depending on the price index used). Developments in the financial sector played an important role in this slow initial drop and faster decline as of 2012, as will be discussed below.

As can be seen from Exhibit 1, prices stabilised in late 2014 and began to rise steadily in the first half

of 2015. The IPVVR (College of Registrars Index of prices of repeated sales) indicates a rapid price rise in the second quarter of 2015, reaching a rate of 5.1%. Using the same underlying data,[2] the IPV (INE house price index) shows a slightly more

Unlike the situation during the property boom, when valuations were inflated due to the perverse incentives in mortgage financing, restrictions on the ownership of valuation companies are causing the opposite to happen, and valuations now tend to underestimate the value of real estate collateral.

moderate picture, although with a rise of 4.2% at the end of June. The Ministry of Public Works and Transport's appraisals price index (PTAS) shows a complete stabilisation during two quarters and a small increase (1.2%) in the second quarter of 2015. It is worth noting that unlike the situation

Exhibit 1
Changes in housing prices
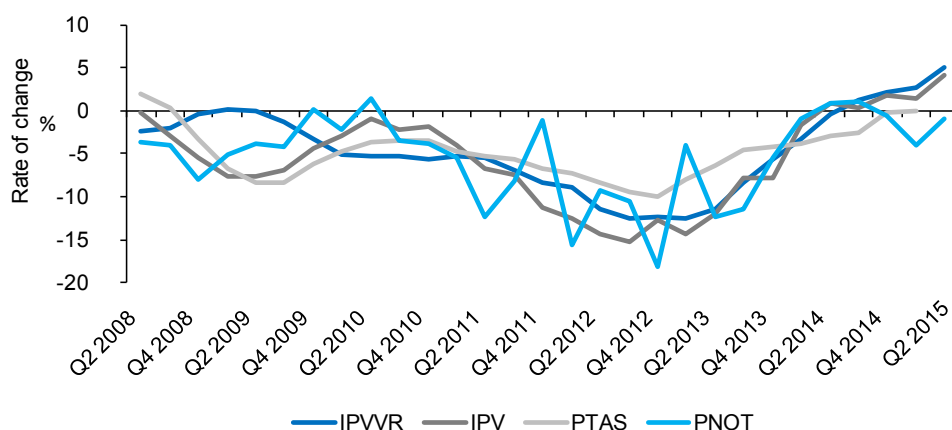
Sources: College of Registrars, General College of Notaries, Ministry of Public Works and Transport, National Statistics Institute (INE).

[2] The IPVVR uses a repeat sales methodology to harmonise the quality of homes included in the calculation of the index, while the IPV uses hedonic methods.

during the property boom, when valuations were inflated due to the perverse incentives in mortgage financing (Montalvo and Raya, 2012), decrees enacted in 2012 placed restrictions on the ownership of appraisal companies, causing the opposite to happen, and valuations now tend to underestimate the value of real estate collateral. Lastly, the General College of Notaries' price index (PNOT) continues to register a drop, albeit a moderate one.

Another important factor in characterising the situation of the Spanish real estate sector is the change in the stock of unsold new housing. The stock is diminishing, but very slowly. According to the Ministry of Public Works and Transport, the stock reached 536,000 units at the end of 2014, with an annual reduction of just 5%. Other estimates increase the stock up to 700,000 units. Many of these homes are located in areas where there is no demand and is unlikely to be any for many years to come. Some estimates situate this share at around 30%. Nevertheless, the rate at which the excess stock of new housing is disappearing has until now been slow, despite the recent increase in sales. García Montalvo (2012) also shows there to be a close correlation between the price drop and the stock of unsold new housing in each province.

In short, the real estate sector is still recovering from its slump. The situation in the sector and the outlook for its future development are of considerable importance in financial institutions' strategies for the management of their property risk exposure. Housing sales are rising by 13%, although prices remain relatively stable, even though some indicators already suggest significant increases.[3] These expectations of improvements in the sector, in particular of future price increases, have led to a debate over whether financial institutions have slowed the rate of their sales of housing while they wait for higher prices. What is clear is that, although the signs are positive, we are still a long way from an excessive expansion

in the real estate sector. Many of the sector's indicators are growing at double-digit rates, nevertheless it seems that the real estate sector is simply returning to normality after a few years of stagnation. Housing sales are rising at slightly more than 10%, but the number of transactions in the first quarter of 2015 was just 41% of that in the first quarter of 2007. New housing starts grew by 15%, but the total number of building permits is only 5% of those issued during the boom. The construction sector and real estate services have created 125,000 jobs over the past year, but they have shed 1.7 million jobs since the start of the crisis. Employment in the sector has dropped from 14% of the total to 7%. And despite the price increase in the last six months, prices are still 33% below their peak. Therefore, the latest property market indicators do not justify talk of a new property boom, but rather a stabilisation.

The evolution of real estate risk exposure in the banking sector

At its peak, the construction and real estate services sector came to concentrate 50% of Spanish deposit-taking institutions' total credit to productive activities. Since the start of the financial crisis, this proportion has been falling, albeit at

2012 marked the start of the significant drop in property risk exposure. In March 2015, lending to construction firms and for real estate activities accounted for 29% of total lending to productive activities, at around 190 billion euros, having dropped by 21 points since its peak.

different rates in the two sectors. The reduction is explained both by banks' desire to reduce their property risk and the commitments made

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[3] The indicators that reflect significant growth rates undoubtedly place more weight on cities such as Madrid, and particularly Barcelona, where there is more pressure on prices.

Exhibit 2

Change in the share of construction and real estate activities in credit to productive activities
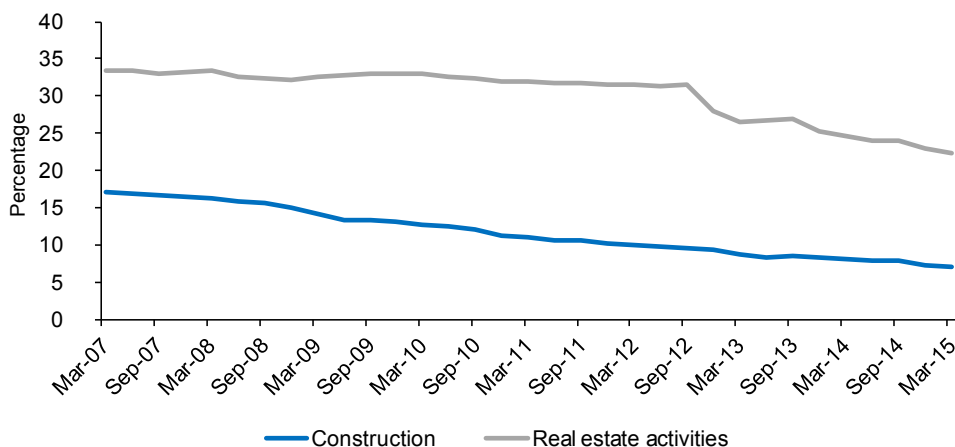
Source: Bank of Spain.

by nationalised institutions in their restructuring plans, which included limits on their exposures to construction firms and property developers.

Exhibit 2 shows how the share of lending to construction and real estate activities in Spanish deposit-taking institutions' credit to productive activities has changed. Lending to the construction industry contracted rapidly with the onset of the property crisis. From 150 billion euros in June 2008 it dropped to 100 billion in September 2011. The reduction in lending for real estate activities was much slower. Indeed, it continued to accumulate up until June 2009, peaking at 320 billion euros. In September 2011, lending for real estate activities still stood at 300 billion euros. 2012 marked the start of the significant drop in property risk exposure. In March 2015, lending to construction firms and for real estate activities accounted for 29% of total lending to productive activities, at around 190 billion euros, having dropped by 21 points since its peak. This implies that at its peak, 40% of lending was for construction and real estate activities.[4]

Lending to households to finance home purchases has also dropped, but to a much lesser extent (13%) and is still at 87% of its peak during the expansion. Overall, lending for construction and real estate activities, and to households to finance home purchases, came to around 100% of GDP in 2008. By March 2015 this proportion had dropped to 70%.

This process underway in the financial sector could be described as a creative destruction of credit, as there is a reorientation of credit towards more productive firms, operating in more dynamic sectors, with higher profits and less debt (Bank of Spain, 2014). It is worth bearing in mind that part of the decline in loans of more than a million euros to non-financial corporations, which is the only segment in which new credit operations are not growing, is due to the substitution of bank financing with resources from the fixed income market or loans from abroad. There is a significant upturn (22%) in the granting of new home loans to households, although total lending for home purchases and refurbishments continued its decline, at a rate of 4.3% at the end of March.

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[4] Correcting for the transfer of loans to SAREB, the contraction would be 50%.

The growth in the granting of new loans coincides with an improvement in the Spanish economy's indicators and growing competition among financial institutions to give mortgages. While it is true that price competition is intense, with spreads that have dropped to around a point or one and a half points, it is also true that this competition does not seem to have extended to loan approval criteria. The data shows that mortgages are granted mostly to workers with an open-ended contract (78%), while at the end of the housing bubble that proportion was only 52%. However, it is true that the average loan to value of new mortgages has increased since 2013 moving from 66% to around 72%.

Evolution of the default rate of real estate exposure

When analysing the process of cleaning up the real estate risk exposure on banks' balance sheets, it is important to look at how the default rate has changed by individual segments. The delinquency of the portfolio of loans to the resident private sector dropped by 24 billion euros in 2014, this being the first year since the start of the crisis in which this trend has been observed.

Total defaults rose by 13.8% in March 2014 while they dropped by 15.4% in March 2015. The bigger drop in defaults corresponds to lending to construction companies and real estate activities, which reduced their doubtful loans by 21.3% .

The reduction in the delinquency rate was generalised among institutions, with the dispersion narrowing compared to the preceding year (Bank of Spain, 2015.) Exhibit 3 shows the evolution of Spanish financial institutions' non-performing loans. Exhibit 3 has at least three distinct phases.

The first phase is characterised by a significant increase in the balance of defaults up until late 2012. The transfer of loans to SAREB is reflected in the drop in defaults at the end of 2012.[5] In early 2014 a reduction in the volume of delinquent loans began, and this can also be clearly seen in the lending to the construction and real estate sector. This reduction in delinquent loans was the result of various processes. A portion of the non-performing loans was written-off, while another portion has been "cured" returning to performing status. Sales of portfolios of non-performing loans and shares in real estate firms, together with the cancellation of debts arising from property foreclosures also reduced the volume of loans classified as non-performing, although the latter case, does not, strictly speaking, reduce the risk exposure to the real estate sector. The evolution of the NPL rate shows a less pronounced drop than in the absolute values due to the contraction in total credit, although the trend has accelerated during 2015 moving from 12.51% in December of 2014 to 10.93% in June of 2015. Secondly, the delinquency rate for construction companies and real estate activities, which peaked at 37% in December of 2013, has dropped to 31.7% at the end of June 2015, although it remains very high. The delinquency rate for home mortgages of households was 5.45% at the end of June 2015.

In order to analyse recent changes in default rates, Exhibit 4 shows the year-on-year change in the rate of doubtful assets by purpose of lending. Total defaults rose by 13.8% in March 2014 while they dropped by 19.9% in June 2015 with respect to June of 2014. The bigger drop in defaults corresponds to lending to construction companies and real estate activities, which reduced their doubtful loans by 26.7% (almost three times the rate of the drop in other lending to non-financial corporations). Doubtful loan rates for households to finance home purchases rose rapidly in March 2014, with a slight year-on-year drop in March 2015 to 3.6% and a faster reduction in June 2015 (18.6%).

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[5] Institutions in Group 1 and 2 transferred 90,765 financial assets with a net value of over 250,000 euros, for a total value of 39.44 billion euros (gross value of 74.74 billion euros).

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Exhibit 3
Evolution of delinquent loans
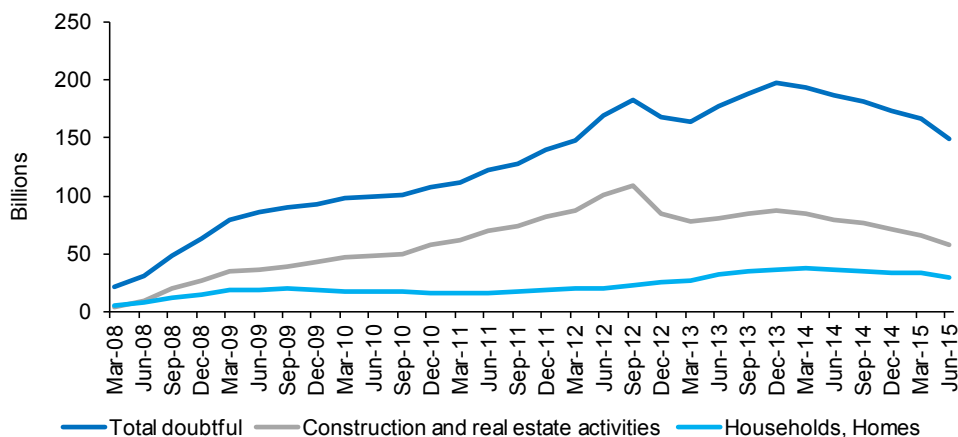
Source: Bank of Spain.

Exhibit 4
Year-on-year change in NPL by purpose of lending
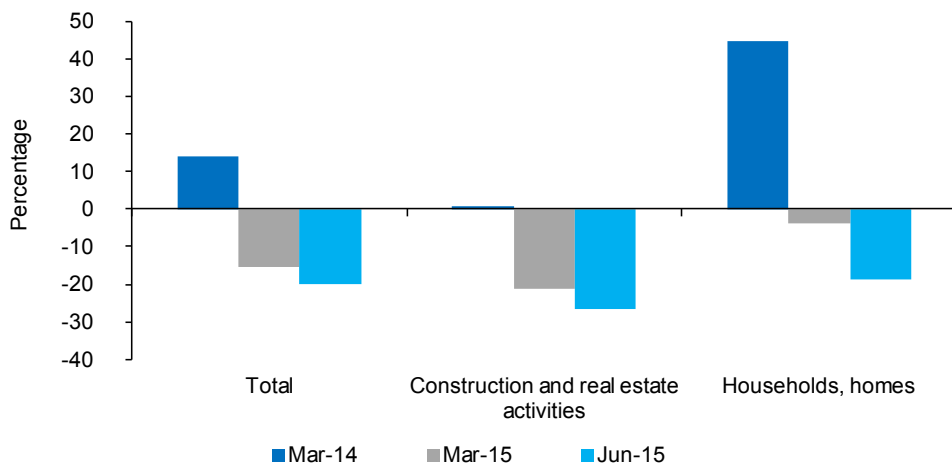
Source: Bank of Spain and own calculations.

Refinancing and restructuring of property risk

During the early stages of the crisis, financial institutions resorted to refinancing many loans. For this reason, one interesting dimension of how the clean-up of Spanish banks' real estate exposure has progressed is an analysis of how

refinancing and restructuring have evolved. As a result of the Memorandum of Understanding signed with the EU by the Spanish authorities, measures were taken to improve the information available on refinancing and restructuring operations. Bank of Spain Circular 6/2012 defines both types of operations precisely and obliges banks to report their amounts, risk classification

(normal, substandard or defaulted) and their purpose and coverage. In December 2013, the amount of refinancing and restructuring reached 211 billion euros, loans for construction and real estate activities representing 27% of the total and loans to households for home purchases a further 27%. In December 2014 total refinancing and restructuring came to 201 billion euros, with loans for construction and real estate activities representing 22.6% of the total and loans to households for home purchases a further 25.9%. Among the refinanced loans to the construction and real estate sectors, 75% were classified as doubtful and 13% as substandard. In the other sector, loans to households for home purchases and refurbishments, 39% were doubtful and 15% substandard.

Foreclosed real estate assets

Another important component of Spanish financial institutions' property risk exposure is the foreclosure of real estate assets. Since the start of the financial crisis, foreclosures have significantly increased the number of properties on Spanish

financial institutions' balance sheets, bringing the gross total to almost 100 billion euros in the first

Since the start of the financial crisis, foreclosures have significantly increased the number of properties on Spanish financial institutions' balance sheets, bringing the gross total to almost 100 billion euros in the first half of 2012. Spanish financial institutions continued to accumulate foreclosed properties even after the transfer of assets to SAREB.

half of 2012 (Exhibit 5). Subsequently foreclosed real estate assets worth 32.2 billion euros (gross value) from the entities in Group 1(BFA-Bankia, Catalunya Banc, NCG Banco-Banco Gallego and Banco de Valencia) and Group 2 (BMN, Ceiss, Liberbank and Caja3) were transferred to SAREB, which explains the drop in foreclosures observed in the second half of 2012[6] and in the first half of 2013.[7] In total, SAREB received 107,446 real

Exhibit 5
Evolution of foreclosures by deposit-taking institutions
(EUR millions)
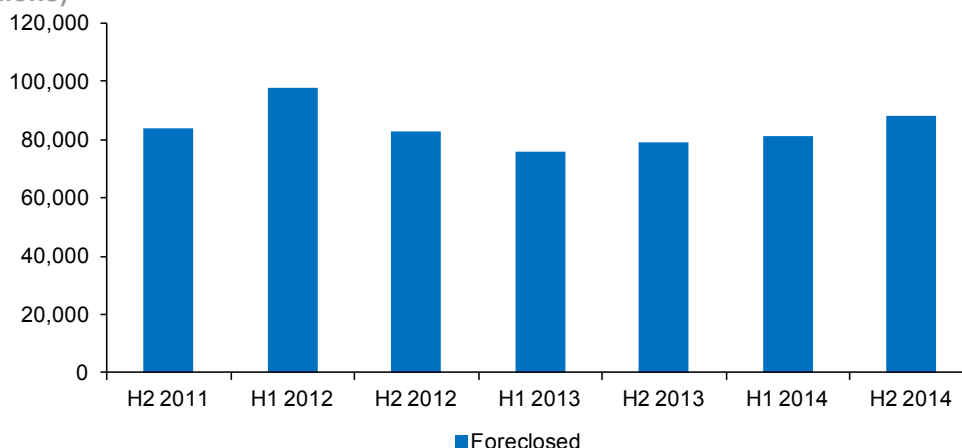
Source: Bank of Spain.

[6] The date on which assets of Group 1 entities were transferred was December 31st, 2012.

[7] The official date on which assets of Group 2 entities were transferred was February 28th, 2013.

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Table 1

Foreclosed assets, by banking group

	H1 2015			2014	
	Acquisition cost	Coverage	% land (*)	Acquisition cost	Coverage
Popular	16,210	6,344	34.16	15,457	6,162
Sabadell (1)	14,438	6,786	43.53	13,949	6,564
BBVA (2)	16,119	8,984	27.23	15,884	8,352
Santander (3)	10,381	5,477	41.54	9,760	5,163
Grupo CaixaBank (4)	17,862	10,087	26.73	16,470	9,007
Abanca	1,009	551	3.80	937	505
Unicaja	2,720	1,556	28.78	2,634	1,512
BFA-Bankia (5)	4,411	1,687	2.12	4,634	1,750
Bankinter	576	222	8.39	586	229
BMN	1,643	633	13.96	1,486	574
Liberbank	2,849	1,247	30.84	2,601	1,188
Kutxabank (6)	1,606	813	50.19	3,108	1,509
Ibercaja	1,883	960	38.89	1,837	922
Total	91,707	45,347		89,343	43,437
Total - excl. Kutxabank	90,101	44,534		86,235	41,928

Notes: Data obtained from financial reports for the first half of 2015.

(*) Percentage of land (in net book value) in property assets deriving from lending to construction and real estate companies relative to the net book value of the foreclosed assets.

(1) Does not include lending to investee companies that are not consolidated.

(2) Includes CX.

(3) Does not include the capital instruments, shareholdings and lending to non-consolidated asset-holding companies heading.

(4) Excludes a part classified as Material assets - real estate investments (3.062 billion euros in H1 2015 and 2.771 billion at end-2014) and includes rights to properties sold at judicial auction (766 million euros in H1 2015 and 745 million euros at end-2014).

The gross value was calculated using the coverage with the same criterion as in the 2014 accounts.

(5) Excludes a part classed as tangible assets - investment properties and other assets - inventories.

(6) Excludes assets transferred to Lone Star in the Neinor Group.

Sources: Financial Report of the companies and own calculations.

estate assets with a value at acquisition cost of 11.34 billion euros.[8] Spanish financial institutions continued to accumulate foreclosed properties even after the transfer of assets to SAREB, and as Table 1 shows, the growth trend in foreclosed assets persisted into the first half of 2015. However, it is difficult to summarise the data on different institutions' foreclosures as, although in theory, there is a uniform format in which this information is to be presented, some institutions

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[8] Gross value of 32.22 billion euros.

have changed the classification criteria for some foreclosures or present data incompatible with that in the 2014 financial report. Table 1 gives estimates for cases in which no straightforward comparison of the six-monthly data and the data in the 2014 annual report is possible. In most cases, we have opted to maintain the information from the comparison between the first half of 2015 and December 31st, 2014, as shown in the report from the first half of 2015.

Table 1 shows that the accumulation of real estate assets on entities' balance sheets continued into the first half of 2015. Eliminating the influence of the transfer of Neinor Group to Lone Star,

which affects the aggregate comparison as it took place during the first half of 2015, a significant increase in foreclosures has been observed. The analysis of the distribution of foreclosures by asset type shows that land accounts for the largest share, reaching a sector average of 38%. Land foreclosures as a proportion of the total vary considerably from one entity to another. Abanca and BFA-Bankia have the lowest proportions (due to the transfer to SAREB), along with Bankinter. Banco Sabadell (due to the impact of its taking over foreclosed land from the former CAM) and Kutxabank (due to the distribution of assets transferred in the sale of Neinor Group to Lone Star) have the largest proportions. Average

Table 2

Real estate platforms

	Sales person	Platform	Price	Proportion (%)	Purchaser	Asset value
Sep-13	Bankia	Bankia Habitat	40-90		Haya Real Estate (Cerberus)	(1) 48,600
Sep-13	Caixabank	Servihabitat	185/125	51	Texas Pacific Group	23,992
Dec-13	Popular	Aliseda (2)	715+100		Kennedy Wilson y Värde Partners	15,850
Jan-14	Santander	Altamira	664	85	Apollo	8,000
Apr-14	CX	CXI Inmobiliaria - Anticipa	40		Blackstone (3)	8,700
Apr-14	BMN	Inmare División Inmobiliaria	50	82	Centerbridge	7,000
Jun-14	Cajamar	Cimenta2	225+20		Haya Real Estate (Cerberus)	(4) 7,300
May-15	Kutxabank	Neinor Group (5)	930		Lone Star	
Jun-15	Popular	Inmobiliaria Portugal - RECBUS	72	80	Quarteira (Carval)	

Notes:
(1) Cerberus initially took over the management of 12.2 billion euros of asset from Bankia and 36.6 billion euros in property and developers' loans transferred to SAREB.
(2) The sale of Popular include 9.35 billion euros in loans and 6.5 billion euros in property.
(3) García-Montalvo (2013) states that the buyers were Kennedy Wilson and Värde Parners. The initial agreement was not finalised.
(4) The value of the loan portfolio for the management of recoveries. The management of real estate assets was also transferred.
(5) Neinor Group accounts for 50% of Kutxabank's real estate assets.
Source: Public information.

coverage of foreclosed assets is 49.4%, although again there are considerable differences between entities. Provision coverage is in the range of 38% to 55%.

Real estate platforms

After rapid initial growth in refinancing and restructuring and foreclosures of property, there was a second phase more focused on transferring non-strategic assets and businesses. This process included transferring the administration and management, or the ownership, of banks' real estate platforms, the sale of foreclosed assets, and the sale of loan portfolios. More recently there has been a conversion of land in prime locations into housing developments, which may be turned into new mortgage lending.

One of the strategies pursued to reduce property risk has been the transfer, whether voluntary or obligatory under the terms of restructuring plans, of the administration and management, or the ownership, of the real estate platforms where institutions concentrated their foreclosed assets. Table 2 shows the most significant operations. Some of these operations were linked to the management of assets transferred by financial institutions in Groups 1 and 2 to SAREB.[9] The last major operation was Lone Star's purchase of Neinor Group (Neinor, Inverlus, CajaSur Inmobiliaria and Valle Romano). With the sale of these platforms there are only two financial institutions that are still managing real estate platforms of a significant size: BBVA (Anida) and Banco Sabadell (Solvia). The conditions of the initial transfer of the management of the assets on some of these platforms were altered by SAREB's change in its strategy for managing its products. This culminated in the assignment of new so-called "servicers" for its financial and real estate

assets as a result of the Ibero project, described below. The future of these platforms involves their consolidation, a process that has begun with the sale of some debt-collection and real estate platforms, but has not yet reached the necessary scale. Moreover, some of the funds that invested in real estate platforms have taken part successfully in the Ibero project and have continued to buy real estate assets and loans to gain volume and improve asset management efficiency.

Sale of loans and foreclosed property

Another mechanism for reducing the weight of real estate risk exposure on the financial sector's balance sheet is the sale of loan and property portfolios. Selling these assets is a quick way of cleaning up the portfolio of non-productive assets. Sales of this kind have taken place in all countries during the process of cleaning up the financial sector. According to PWC (2015), sales of loans in Europe totalled 91 billion euros in 2014, an increase of 40% on the preceding year,[10] and are projected to reach 140 billion in 2015. In the United Kingdom alone, 88 billion euros worth of loans were sold between 2010 and the end of the first half of 2015. In Ireland, the total came to almost 60 billion euros over the same period, while in Spain, it was just over 50 billion euros. In the Spanish case, investment funds initially came on the scene buying debt-collection platforms. Lindorff bought Banco Santander's debt-collection platform (Reintegra) and Centerbridge bought Aktua from Banesto, although it soon began to buy loan portfolios,[11] often associated with real estate collateral. Table 3 shows the main loan portfolio sales since late 2013 (including portfolios comprising only written-off loans). The list does not include subsequent sales of assets bought from financial institutions. For example, in June 2014, Lindorff bought two

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[9] The progress of SAREB and the IBERO project will be discussed below.

[10] This document estimates that investment funds have over 70 billion euros to invest in assets sold by European banks.

[11] They normally comprise non-performing and written-off loans, or a combination thereof. In some cases they may also include "performing" loans. The sale of written-off loans does not reduce the NPL rate as they are off the balance sheet, but it does directly improve the profit and loss account.

Table 3

Financial institutions' main loan portfolio and property asset operations

	Institution	Operation	Nominal value	Purchaser
Nov-13	BMN	Marathon	1,400	
Dec-13	Sabadell	Garbi	632	Aktiv Kapital Portfolio and Elliott Advisors
Jan-14	Liberbank		663	Savia Assets Management and Perry Capital
Apr-14	CX		1,480	Aiqon Capital
May-14	Eurohypo (Commerzbank)	Octopus	4,500	Lone Star - JP Morgan
Jun-14	Caixabank	Flanders	1,070	Savia and Perry Capital and D.E. Shaw
Jun-14	Kutxabank		340	
Jul-14	CX	Hercules	6,392	Blackstone - FROB
Aug-14	Caixabank	Valonia	700	D.E. Shaw
Aug-14	Sabadell	Siroco	554	Aiqon Capital
Sep-14	Bankia-BFA	Somo	895	Lindorff - Cerberus
Sep-14	Ceiss		485	
Oct-14	Bankia-BFA	Amazona	772	Starwood Capital and Sankaty Advisors
Oct-14	Bankia-BFA	Sky	400	Chenavari
Nov-14	Bankia-BFA		1,354	Lindorff and Elliott
Nov-14	BBVA		1,700	Deutsche Bank
Dec-14	Bankia-BFA		355	Goldman Sachs
Jan-15	Sabadell	Triton	435	Deutsche Bank and Hipoges
Apr-15	FMS (Spanish portfolio)	Gaudi	740	Oaktree
Apr-15	Sabadell	Cadi	240	PIMCO and Finsolutia
May-15	Bankia-BFA	Comander	558	Sankaty Advisors
Jun-15	Bankia-BFA	Castle	373	Davidson Kempnes Capital -Bank of America
Jul-15	Bankia-BFA	Wind	1,312	Oaktree and Chenavari
Jul-15	Bankinter	Miras	60	Elliott Management
Jul-15	BMN	Pampa	160	Ellington Management
Jul-15	BMN	Coronas	100	Apollo
Jul-15	Ibercaja		210	Seer Capital
Jul-15	Caixabank	Tourmalet	800	Blackstone

Note: Some operations are pending finalisation or signature of the contract. Some operations listed under Bankia also include BFA assets.

Sources: Press releases by sellers and buyers, financial reports, significant events reported to the CNMV and the media.

billion euros worth of NPLs that had originally belonged to Santander, which had previously sold them to Fortress (Luna project) and TPG (one billion in loans inherited from when it took over the Octavia fund in 2013). Nor does it include the sale of real estate holdings (commercial or hotels), such as Banco Santander's sale in May 2015 of a stake in NH, or the sale of interests in syndicated loans. Group 1 entities, in particular Bankia and Catalunya Banc, have been the most

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Table 4

Sales of loan portfolios planned for the coming months

Institution	Project	Nominal
Bankia	Big Bang	4,800
Caixabank	Eurostars	103
Caixabank	More	800
Ibercaja	Goya	900
Ibercaja	Kite	800
B. Santander	Mamut	799
B. Santander	Formentera	170
Sabadell	Chloe	147
BBVA	Liceo	70
BBVA	Zafiro	n.a.
BBVA	Otelo	n.a.
Sabadell	Empire	600
Popular	Elcano	451
SAREB	Silk	n.a.
SAREB	Birdie	250

Sources: Press releases and media.

active in the sale of loan portfolios as part of the divestment of non-strategic assets as a result of the commitments made by the Spanish authorities to obtain the European Commission's approval of their respective restructuring plans ("Terms Sheets"). The most significant operation was the transfer of Catalunya Banc's Hercules portfolio, with a nominal value of 6.392 billion euros, to an asset securitisation fund (ASF) for its book value in the entity (4.187 billion euros), where Blackstone contributed 3.615 billion and the FROB 572 million. This highly complex operation involved three subportfolios and five tranches and attracted interest from almost all the funds investing in the Spanish loan portfolio market. Table 4 lists the loan portfolio sale operations announced but not completed. These include Bankia's "Big Bang"

project (4.8 billion), which is currently the second largest portfolio[12] up for sale.

Selling off foreclosed assets is another mechanism which banks can use to clean up the real estate exposure on their balance sheets. Table 5 shows housing sales by the main real estate platforms between the first half of 2014 and the first half of 2015.[13] Despite the difficulties of comparing entities due to the differences in their calculation criteria, in general a small increase in sales can be seen, with a significant increase in the pace by some entities (*e.g.* Bankia and Banco Popular), and a slowdown by others. Information about the prices at which these real estate assets have been sold is scarce. In its financial reports, Banco Popular merely states that it is selling its foreclosed properties at prices close to their book value, and therefore avoiding losses. Banco Sabadell is more explicit, and states that the average discount on the gross value of the sale of its foreclosed properties was 60.4% in the first half of 2013, 52.4% in the first half of 2014, and 46.4% in the first half of 2015.

The emergence of certain price tensions in some localities has given rise to controversy over the possibility that some financial institutions were applying a strategy of waiting for prices to rise further before stepping up sales again.

The emergence of certain price tensions in some localities has given rise to controversy over the possibility that some financial institutions were applying a strategy of waiting for prices to rise further before stepping up sales again. Housing sold by the banks accounted for 24.5% of the total housing sales registered in the first quarter of 2014, while in 2015 this percentage had dropped to 23%.

[12] The largest is operation Arrow of Nama (8.4 billion).

[13] The two entities' data are not uniform as some also include sales of developers' properties corresponding to PDVs (Planes de Dinamización de Ventas or agreements of banks with creditors in the construction and development business to accelerate the liquidation of their real estate properties) and others do not.

Table 5

Sales of foreclosed assets

	H1 2015	H1 2014
Bankia	4,135	1,919
BBVA (1)	5,465	5,985
CaixaBank	5,907	7,392
Popular	7,576	3,724
Sabadell (2)	5,190	4,968
Santander	5,200	6,300
Sareb (3)	5,400	7,837
Total	38,873	38,125

Notes: Figures not entirely uniform across entities.
(1) Sales of real estate and developers' assets.
(2) Sales of foreclosed assets.
(3) Retail channel.
Source: Entities' reports.

Another way of stimulating the process of reducing the stock of foreclosed properties is to develop the stock of land that financial institutions hold. This is the third phase mentioned earlier. The high level of provisions of these assets implies they have a limited impact on the final housing price, which therefore ensures that the new housing is competitively priced. These new developments would obviously be on land in areas in which demand is strong. Many entities have announced they plan to develop the land they hold. Neinor's projection is to build around 3,000 homes a year. BBVA has announced 2,000 new homes and Solvia 1,000. SAREB has 1,109 homes in progress as a result of developing 13 plots of land.

SAREB and the new "servicers"

SAREB is a key player in the cleaning up of the Spanish real estate market risk exposure. SAREB's portfolio was valued at 44.2 billion euros at the end of 2014. Real estate accounted for 13% of the value of the foreclosed properties

on the balance sheet of the banks. The loans on SAREB's balance sheet amount to 50% of the non-performing loans to construction and real estate activities of the financial institutions. SAREB began its activity in 2012 when it took over the assets of the financial institutions referred to as Group 1. When it took over the assets of Group 2 on February 28th, 2013, SAREB completed a portfolio of 50.781 billion euros (at acquisition cost) including financial assets (78%) and real estate assets (22%). Over the period 2013-14 it sold 24,000 properties, undertook 25 wholesale operations, and obtained total income of 9 billion euros. By end-2014 it had amortised 5.7 billion euros of debt from its balance sheet.

In 2014 SAREB sold 15,298 properties via its retail channel, with a significant increase in the contribution from the sale of land (rising from 15% in 2013 to 26% in 2014) and a reduction in the contribution of residential property sales (from 80% in 2013 to 63% in 2014). As regards the retail lending channel, there has been a significant increase in the number of sale promotion plans, with 5,278 proposals managed (45.6% of the total proposals including dations in payment and foreclosures, and restructuring and refinancing) and 800 plans. It is worth noting that the retail channel generated 80% of SAREB's income of 5.115 billion euros in 2014. Income from the wholesale channel, 1.115 billion euros, was concentrated in December 2014 (708 million euros) (SAREB, 2015). Table 6.a shows the bank asset funds (BAFs) created by SAREB since it began operating, and its stake in them. Table 6.b lists the portfolios and BAFs sold by SAREB in 2014, both of REOS (Real Estate Owned by lenders) and loans.[14]

Since coming into operation, SAREB has been caught up in various controversies concerning the feasibility of the business plans it has presented, possible conflicts of interest on its board of directors, and various changes to its top executives and corporate structure. It has also

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[14] Three operations were concluded in 2013, referred to as Elora, Abacus and Bermudas.

Table 6a

Bank asset funds (BAF) created by SAREB

Date	Name	SAREB holding %
Dec-13	Bull	49
Dec-13	Teide	15
Dec-13	Krona	100
Jul-14	May	5
Dec-14	Crossover	20

Source: SAREB.

Table 6b

Sales of portfolios

Date	Portfolios	Purchaser%	Price	
Feb-14	Dorian		39.5	REOS
Dec-14	Agatha REOS	D.E. Shaw	36	
Dec-14	FAB Corona	Blackstone	81.3	
Mar-14	Klauss		172.7	LOANS
Aug-14	Pamela	Canyon Capital Advisor	158.9	
Dec-14	Agatha Loans	Hayfin	148.1	
Dec-14	Aneto	Blackstone	52.7	
Dec-14	Kaplan	Deutsche Bank	47.7	

Source: SAREB.

been criticised for its management style, which on occasions is somewhat authoritarian, bureaucratic and inflexible in its asset management contracts. Perhaps the most significant recent event has been the change in the system for assigning so-called "servicers" in charge of the administration and management of its assets. Annual agreements were initially signed with the real estate platforms of certain entities that had transferred their assets for the administration and management of SAREB's assets. In 2014, SAREB launched the IBERO project to select the managers for the administration and sale of the company's assets as of January 1st, 2015. Table 7 shows the results of the process of awarding the asset management contract. In the first round, Solvia was put in charge of the assets in block 4, comprising loans and property transferred by Ceiss and Banco Gallego, and the property transferred by Bankia. The second round was concluded with the selection of Haya Real Estate, Altamira Asset Management and Servihabitat. This means that since end-2014, Blackstone and Centerbridge, which had acquired the Catalunya Banc and BMN platforms, respectively, are no longer managing SAREB assets.

The emergence of the SOCIMIs

Spanish property consulting group CBRE estimates that sales of offices, shopping centres, logistics centres, hotels, and residential assets totalled 8.434 billion euros in the first half of 2015.[15] As discussed above, financial institutions, international funds and SAREB are currently the leading players in the Spanish real estate market.[16] However, over the past year, other players have gained a more central role: Real Estate Investment Companies (Sociedades Anónimas de Inversión en el Mercado Inmobiliario, SOCIMIs). SOCIMIs

Financial institutions, international funds and SAREB are currently the leading players in the Spanish real estate market. However, over the past year, other players have gained a more central role: Real Estate Investment Companies (Sociedades Anónimas de Inversión en el Mercado Inmobiliario, SOCIMIs).

are regulated by Law 11/2009, as amended by Law 16/2012, and are obliged to invest at least 80% of their asset value in urban real estate

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[15] Including the purchase of the real estate company Testa.

[16] Alongside these entities are companies such as Ponte Gadea, which are highly active in asset purchases in both Spain and elsewhere, and investors such as Carlos Slim.

Table 7

The IBERO proyect

Contractor	Lot	Asset of	Nominal value	N° of assets	Types	%	Residential %	Tertiary	Land	Under construction %	Miscellaneous %
Haya Real Estate	1	Bankia (loans)	18,000	52,168	Loans	100	57.10	5.50	6.60	2.30	28.60
Altamira Asset Management	2	Catalunya Bank				43	59.30	9.30	16.80	5.20	9.40
		BMN	14,000	44,089	Loans Buildings	57	91.00	3.70	5.30		
		Cash 3									
Servihabitat	3	Banco de Valencia				31	51.60	15.00	15.60	4.50	13.40
		NCG	9,200	30,342	Loans Buildings	69	92.70	2.70	4.40		
		Liberbank									
Solvia	4	Ceiss				23	64.40	4.60	25.10	2.90	2.90
		Banco Gallego	11,500	42,862		77	92.00	2.90	4.70		
		Bankia (33,133 properties)			Loans Buildings						

Source: SAREB.

intended for lease or in land for the development of property for subsequent lease provided that development is begun within three years of acquisition. Moreover, at least 80% of their income, excluding that derived from the sale of holdings or of properties once the retention period (3 years) has elapsed, must draw from the lease of property and dividends or shares in the profits on these stakes. One of the big attractions of these companies is their tax treatment: their corporate tax rate is 0% except when the dividends they distribute to one of the partners holding a stake of more than 5% are taxed at less than 10%, in which case they pay a special tax of 19%.

SOCIMIs must be listed on Spanish or other European markets. After the amendment of the law in 2012, the minimum capital required has dropped from 15 to 5 million euros, and the restriction on the maximum debt of the investment vehicle has been eliminated. They are also subject to strict rules on the obligatory distribution of dividends from rental income and the transfer of properties and company holdings: as of January 1st, 2013, the obligation is for 90%.

There are currently 21 real estate companies on the Madrid Stock Exchange, although some of them, such as Martin Fadesa or Reyal Urbis, are currently suspended from trading. The majority of new investments, totalling almost 5 billion euros, have been in SOCIMIs (Axiare Patrimonio, Lar España Real Estate and Merlin Properties) and Hispania Activos Inmobiliarios.[17] The biggest of the SOCIMIs is Merlin Properties, which was first listed on June 30th, 2014, with a capital of 1.25 billion euros. Since then, it has increased its capital by 614 million euros and is preparing another capital increase of 1.034 billion euros to enable it to take over Testa Inmuebles en Renta SA from SACYR. Together with these SOCIMIs listed on the Madrid Stock Exchange, there is also URO Property Holdings SOCIMI (listed on MAB) which owns 755 offices it leases to Santander, and Saint Croix Hoding Immobilier SOCIMI, based in Spain but listed in Luxembourg.

Concluding remarks

The property crisis hit the Spanish financial system at a time when it had a huge exposure to the property market. This exposure was initially reduced only slowly. In 2012, the process of cleaning up the banking sector gained momentum, with the sale of non-strategic assets such as debt-collection firms and real estate platforms. In its second phase the process developed with the sale of portfolios of problematic loans, shareholdings in real estate businesses, interests in syndicated loans, or individual loans, and included real estate companies with financial difficulties, and the sale of foreclosed assets. While the sale of loans is significantly reducing entities' property risk,[18] sales of property are progressing more slowly, such that the stock of foreclosed properties continues to grow. In the third phase, which began in late 2014, some financial institutions have slowed the pace of property sales and are trying to mobilise foreclosed land, which represents a large share of foreclosed real estate. They are therefore initiating property developments in locations where demand is strong, so as to convert these hard to realise assets into future mortgages.

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[17] The new SOCIMIs Gmp and Zambal are likely to be floated on the stock market in late 2015.

[18] 2015 could be a record year for this type of transaction.

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Spanish mortgage market: Court rulings´ implications for regulation

María Romero and Ángel Berges[1]

Spanish households' large exposure to mortgage debt prompted a series of regulatory initiatives in an attempt to mitigate certain negative aspects of Spanish mortgage law, such as eviction proceedings and the so-called mortgage 'floor causes'. In most instances, precedents established by both Spanish and European courts have had an impact on fostering regulatory changes in favour of borrowers´ rights.

The mortgage act reform of 2013, on measures to reinforce protection of mortgagors, factored in prior court decisions on evictions and 'floor clauses' embedded into mortgage agreements. In the case of evictions, court hearings to determine the existence of unfair terms in such agreements were given the power to suspend foreclosure proceedings and halt ongoing evictions. In the case of floor-rate clauses, subsequent to a decision by the Spanish Supreme Court, a series of new requirements were introduced to mortgage arrangement processes with a view to protecting the borrower and ensuring full familiarity with agreed-upon terms. In contrast to the sequence of events as regards other areas of regulation, these recent measures affecting Spanish mortgage regulation were adopted in response to court rulings and not as a precursor to them.

Introduction

Over the course of the last few years, several aspects of Spanish mortgage law have been questioned before the Spanish and European courts. However, the two most important, on account of their social, economic and regulatory ramifications, are probably eviction proceedings and the so-called 'floor clauses'. Court rulings in some of these cases have been of such significance that they have led to mortgage law reforms and other complimentary regulatory changes designed, among other things, to comply with these court sentences.

Alongside the regulatory changes introduced by the 2013 mortgage act, other changes include the limitation on the repayment period of mortgages included in the qualifying portfolio or the guaranteed independence of valuation firms (Romero, 2013). However, as these changes were not explicitly made in direct response to court rulings, they will not be examined in this article.

This article briefly overviews the scale of each of those issues, evictions and 'floor clauses', which have been deliberated in some of the most important court rulings to date and their impact on Spanish mortgage law.

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

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Evictions

Spanish households' high levels of indebtedness have often been highlighted as one of the Spanish economy's greatest imbalances. The ratio of gross household debt to disposable income surpassed 130% in 2007, one of the highest levels in Europe. Although this ratio has since come down, it still stood at well over 100% of disposable gross income at year-end 2014.

Focusing the analysis on the ability to pay off the debt more than on the aggregate amount of debt per se, the picture in Spain is still worse relative to neighbouring countries, as revealed by the European Central Bank study on European household borrowing, using data from 2010 and 2011. Specifically, the ratio of debt payments to gross income stood at 18.0% in Spain compared to the eurozone average of 13.9%.

The difference was even more pronounced in the case of lower-income households (measured as those falling within the 20th percentile of income distribution). In this percentile, the debt burden

in Spain rose to 46.2% in 2011, compared to the eurozone average of 26.5% in 2010.

This high level of Spanish household indebtedness, against the backdrop of a crisis that drove a sharp rise in unemployment, was one of the key factors behind the growing incidence of house evictions. According to the General Council of the Judiciary, over 600,000 foreclosures were set in motion between 2007 and 2014, with one quarter of these resulting in the eviction of the debtors. It is worth noting that this statistic does not take into account whether the property is rural or urban, nor whether it is a dwelling.

In the case of households, the intensification of the crisis in Spain in 2011 further accelerated the volume of non-performing loans and, consequently, the pace of evictions, which is why most of the legal initiatives and proceedings attempting to bring them to a halt were concentrated in that year.

The first court ruling on evictions was in early 2013 and came at the highest level, specifically

Exhibit 1

Ratio of debt payments / gross household income

(Median, %)

Spain (2011)   Euro Area (2010)
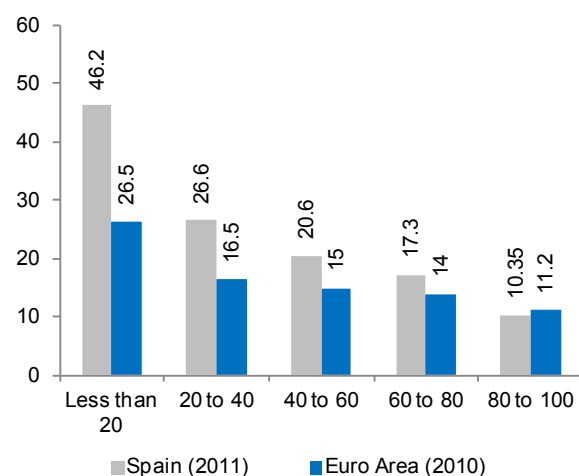
Sources: European Central Bank, Bank of Spain, AFI.

Exhibit 2

Estimated evictions resulting from mortgage foreclosures, 2008-2014

(Thousands of units)
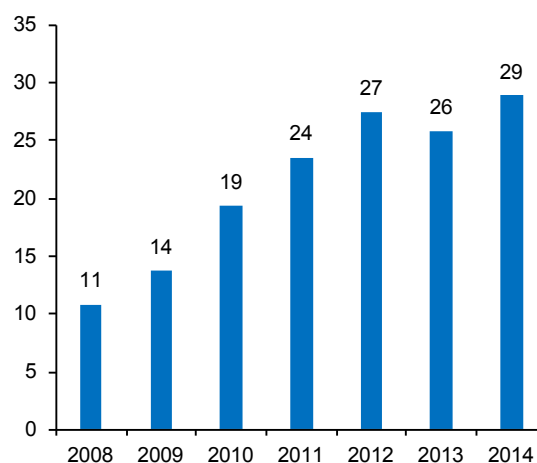
Source: General Council of the Judiciary, AFI.

the Court of Justice of the European Union (hereinafter, CJEU). THE CJEU´s ruling marked a watershed event for Spanish mortgage law as it determined that certain aspects of the then-prevailing regulations were not compatible with Directive 93/13/EEC of the Council of April 5th, 1993, on unfair terms in consumer contracts.

In 2013, the Court of Justice of the European Union empowered judges investigating the existence of unfair terms in mortgage agreements to suspend foreclosure proceedings and halt ongoing evictions.

Firstly, it gave judges examining whether a mortgage contract contains unfair terms the power to issue an injunction against foreclosure proceedings and prevent the related eviction. Secondly, it set a series of principles governing how judges should interpret what constitutes an unfair term (see Table 1 below). And thirdly and lastly, the ruling requires these judges to compare the default interest being charged by the lender bank in question with the statutory rate of interest

in order to determine its appropriateness in terms of bringing about the objectives sought by the late-payment charges themselves.

The Spanish government responded swiftly and in just three months had drafted and passed a new law with amendments to different regulations to bring them in line with the CJEU's ruling and findings. Some of the most important structural changes introduced by Spanish Law[2] 1/2013 include:

- Additional powers were granted to judges and notaries by empowering them to halt mortgage enforcement proceedings and suspend out-of-court sales of foreclosed assets in cases in which the related mortgage agreements were found to include unfair terms.

- The rate of default interest on principal residences was capped at three times the statutory rate of interest. This had the effect of capping the rate at 12%, compared to rates of 20% or more that some of the banks had been charging, and of facilitating the repayment of outstanding debts. Capitalisation of default interest was also outlawed.

Table 1

Determination of fairness of terms

Principles established by the CJEU in order to determine what constitutes an unfair term
Contractual terms which have not been individually negotiated and practices which have not been expressly agreed to that, contrary to the requirement of good faith and to the detriment of the consumer and user, result in a significant imbalance in the parties' rights and obligations arising under the contract.
Terms that make the agreement dependent on the will of the seller or supplier.
Terms that limit consumer or user rights.
Terms that have the effect of violating the principle of contractual reciprocity.
Terms that impose disproportionate guarantees or an undue burden of proof upon the consumer or user.
Terms that prove disproportionately onerous with respect to contract performance.
Terms that violate jurisdiction rules and applicable law.

Source: CJEU, AFI.

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[2] For more information on the other regulatory changes introduced by Law 1/2013, see Romero (2013).

Impact

Thanks to the initial legislative reforms and the temporary paralysis of evictions for the most vulnerable groups in society[3] championed by the central government, the rise in the initiation of foreclosure proceedings witnessed in recent years has been stemmed. Between June 2013 and December 2014, some 13,000 evictions have been halted; this figure represents 24% of all evictions arising from mortgage enforcement proceedings. In terms of the government's initiative for the socially vulnerable, the number of related evictions halted accounts for 9.1% of the total.

Despite these results, the eviction issue remains high on the economic and social agenda. For this reason, and with the aim of solving the housing need faced by evicted families, various regional administrations[4] have been passing laws that follow a similar pattern: introduction of the compulsory expropriation of the right to use vacated dwellings foreclosed on by the banks, their real estate subsidiaries and real estate asset management companies (including SAREB, Spain's so-called bad bank) for a certain period of time on the grounds of special social emergency circumstances.

The international authorities, against the backdrop of their supervisory remit under the European Stability Mechanism ("ESM"), have expressed their concern regarding the potential impact on

In 2014, the Constitutional Court ruled against the regional laws passed in an attempt to force the expropriation of the right to use homes foreclosed on by the banks.

the Spanish financial system of regional mortgage holder protection regulations such as these. The state government appealed them before the Constitutional Court, which immediately issued an injunction against some of their terms. To date this tribunal has outlawed some of these terms, making the following arguments:

■ Determination that it is illegal to expropriate vacant homes owned by the banks.

■ Invasion of the state's exclusive power to 'coordinate general planning of the country's economic activity'.

Table 2
Estimation of halted house evictions

Temporary halting of evictions	13,000
% households that are potential beneficiaries	*9.12*
% evictions due to mortgage enforcement	*23.77*
Note:	
Households that are potential beneficiaries	142,620
Evictions due to mortgage enforcement (2013+2014)	54,690

Sources: Spanish Ministry of the Economy and Competitiveness, the Bank of Spain, the National Statistics Bureau (INE) and the General Council of the Judiciary Power and AFI.

[3] Spanish Royal Decree-Law 27/2012 on urgent measures designed to protect mortgage holders was initially introduced with a two-year term but has since been extended for a further two years so that it will now apply for four years. Further information is available at the following link: http://www.boe.es/boe/dias/2015/02/28/pdfs/BOE-A-2015-2109.pdf

[4] To date, and in chronological order, such measures have been passed in Andalusia (Law 4/2013), Navarra (Regional Law 24/2013) and the Canary Islands (Law 2/2014).

■ Rendering ineffective the measures introduced by the state government, particularly those related to bank restructuring and home-owner protection.

As a result, the Constitutional Court ruling has the effect of curtailing development of these kinds of regional initiatives and preventing, by extension, the potential adverse effects for the banking system in particular and the Spanish economy in general.

'Floor clauses'

Besides evictions, the other area of mortgage legislation that has resulted in many court hearings is that of the so-called 'floor clauses', which establish a minimum rate of interest in floating-rate mortgage loans, such that borrowers are prevented from benefitting from declines in the agreed-upon benchmark rate. The initiatives taken against these clauses intensified as

benchmark rates (mainly 12-month Euribor) tumbled, bottoming out at around 0.20%, a level at which they have remained for many months.

According to the School of Property Registrars, over 90% of the new mortgages taken out in Spain were arranged at floating interest rates and were benchmarked against the 12-month Euribor. The drastic drop in this interest rate since 2009 unveiled the existence of 'floor clauses' in some of the mortgages arranged beforehand. According to a study compiled by the Bank of Spain at the request of the Senate in 2010,[5] close to 30% of the mortgage portfolio outstanding at the end of 2009 contained clauses of this nature and the average 'floor' rate was around 3%.

The fact that indebted households were being prevented from benefitting from the drop in benchmark rates, coupled with increasing difficulties in servicing their debts as a result of growing unemployment, had the effect of doubling the number of claims and complaints received

Exhibit 3

Mortgage loan interest rates
(Percentage)
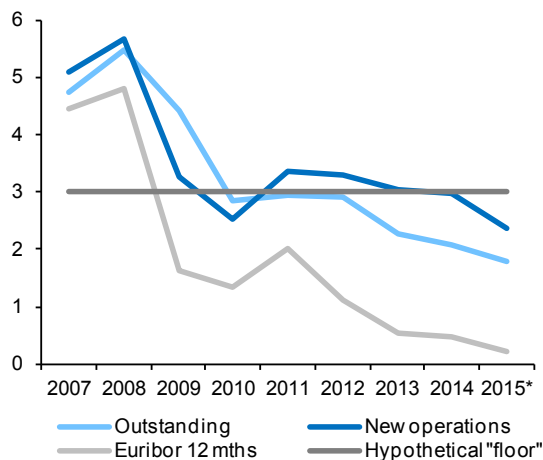
Note: *2015 represents the average for the first half of the year.
Source: Bank of Spain, AFI.

Exhibit 4

Claims and complaints received by the Bank of Spain
(Thousands)
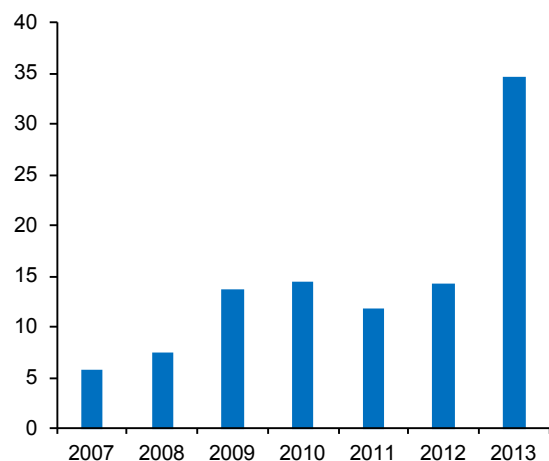
Source: Bank of Spain, AFI.

[5] For further information, go to the following link: http://www.senado.es/legis9/publicaciones/pdf/senado/bocg/I0457.PDF

Table 3

Validity of mortgage 'floor clauses'

Conditions rendering mortgage 'floor clauses' null and void according to the Spanish Supreme Court
Lack of sufficiently clear information about the fact that this term constitutes a defining element of the main object of the contract.
Justification of its existence by reference to the inclusion of a 'ceiling clause' (a maximum rate of interest on mortgage loans arranged at floating rates limiting borrower payments when the benchmark rate rises above the previously agreed-upon cap).
The failure to simulate scenarios analysing the implications of foreseeable trends in interest rates.
The failure to provide prior clear and readily comprehensible information about the cost of other loan formulae on offer by the same bank.
Burying the 'floor clauses' within an overwhelming amount of information, which ultimately distracts the consumer or user.

Source: Supreme Court, AFI.

by the Bank of Spain and marked the start of a proliferation of court cases.

In addition to the CJEU court ruling of early 2013 on unfair terms in general (analysed above), Spain's Supreme Court, in the case of Ausbanc against certain banks, declared the mortgage 'floor clauses' null and void on the basis that they breached certain contractual requirements. In fact, the Supreme Court introduced criteria designed to serve as a guide for determining when these clauses should be declared null and void (see Table 3).

Through Law 1/2013, the central government introduced a series of changes designed to cater to the Supreme Court's findings with respect to the so-called 'floor clauses':

■ It made mandatory the inclusion in the public mortgage deed, alongside the customer's signature, a handwritten statement by which the borrower warrants that he or she has been adequately warned of the potential risks under the mortgage loan agreement, insofar as the said agreement:

● establishes floors or caps with respect to exposure to the movement in benchmark interest rates;

● comes with the requirement to arrange an interest rate hedging instrument; and

● is granted in one or more foreign currencies.

In this manner, the financial conditions of the borrower and his or her full familiarity with the terms of the mortgage loan agreement are set down in writing.

■ The court further asked the Bank of Spain to prepare and distribute a manual on bank loans in order to contribute to bank service transparency and customer protection. Among other things, this manual addresses 'floor clauses'. This official mortgage user guide was published two months after the law was passed and has been available for download since then from the Bank of Spain's website.[6]

Impact

This Supreme Court ruling meant that the banks affected by it had to eliminate these

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[6] Further information is available at the following link: http://www.bde.es/f/webbde/Secciones/Publicaciones/Folletos/Fic/Guia_hipotecaria_2013.pdf

'floor clauses' from their mortgage books; however, it did not apply on a widespread basis to the entire banking system nor did it apply retroactively to other court rulings issued or payments already made. However, it did set a precedent for future claims. This is evidenced by

In 2013, the Supreme Court declared the 'floor clauses' imposed by certain banks null and void, although this ruling did not apply across the board and was not retroactive with respect to other court cases or payments already made.

the fact that that same year (2013), the number of claims and complaints received by the Bank of Spain exceeded 34,600, more than twice the number received the prior year and the largest annual number received to date. Some 53.1% of these complaints and claims related to 'floor clauses' and the Bank of Spain's Department of Market Conduct and Claims upheld the claimant's case over 80% of the time.

Conclusions

In other areas of regulation, the courts have had no influence at all on regulatory design, and only once legislation has been passed and implemented have they clearly backed one party or another, at times potentially reducing its efficacy. In the case of mortgages, new legislation has taken into account court rulings challenging the regulations existing up until the start of the crisis, generally because it failed to comply with regulation at the supranational level. It is therefore not expected that the courts will take a discretionary attitude following the entry into force of recent measures.

On the evictions front, the Court of Justice of the European Union ruled in early 2013 that judges investigating the existence of unfair terms in

mortgage agreements had the power to suspend foreclosure proceedings and halt ongoing evictions. Law 1/2013 transposed this ruling into Spanish law. On the other hand, the legislation passed recently by certain regional governments has not prospered as the Constitutional Court has ruled the compulsory expropriation of vacant dwellings in the hands of the banks contemplated in these measures illegal.

As for the 'floor clauses' included by some banks in their mortgage agreements, the Supreme Court ruled them null and void in 2013; however, this ruling did not apply to all the banks or retroactively to other case law or payments already satisfied. Law 1/2013 introduced new mortgage arrangement requirements and called on the Bank of Spain to publish a mortgage user guide in order to foster transparency and protect banking service users.

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Spanish sovereign debt markets: Developments in hedging strategies and recent trends in risk premium

José Manuel Amor and Víctor Echevarría[1]

The recent widening in Spanish sovereign spreads is being driven by specific factors apart from prevailing political uncertainty. The lack of liquid hedging instruments in the futures market has played a part.

Against the backdrop of a relatively benign medium-term economic outlook, the spike in the Spanish risk premium in recent months appears largely related to the political uncertainty generated by the electoral climate in Catalonia and the Spanish state as a whole. However, the relative underperformance of Spanish bonds is also attributable to the lack of liquidity and depth in their natural and perfect hedge (MEFF/BME-traded futures contracts with the sovereign or 'notional' bond as the underlying asset). This is a crucial factor for principal sovereign bond investors. It is likely that the creation of a Eurex-traded futures contract over the Spanish bond at the end of October 2015 will reduce this disincentive to invest in Spanish debt, driving an improvement (assuming no changes in the other key drivers) in yields relative to other markets.

Renewed but moderate pressure on Spanish sovereign debt

Having narrowed continually for over two and a half years, in recent months, particularly since the start of the summer, the Spanish sovereign bond spread has come under renewed pressure relative to its German counterpart. Although the widening has been far less pronounced than during the worst episodes of the sovereign debt crisis (which was at its height in the summer of 2012), and is confined to medium– and long-term maturities (the yields on short-dated paper have barely moved), it does constitute a turn of events warranting analysis of the underlying factors.

One noteworthy aspect of this reversal in spread tightening relative to the Bund is the fact that the

One noteworthy aspect of the reversal in spread tightening relative to the Bund is the fact that the Spanish spread is also widening with respect to other eurozone sovereign issuers, such as Italy.

Spanish spread is also widening with respect to other eurozone sovereign issuers, such as Italy, relative to which it had been trading at far

Exhibit 1

Spread (basis points, yield) between the Spanish 10Y bond and its German and Italian counterparts
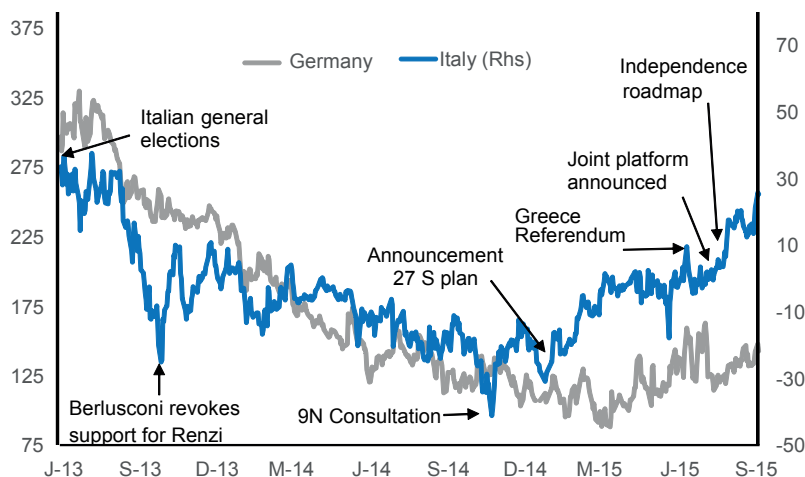
Source: AFI, based on Bloomberg figures.

narrower spreads until a few months ago. Italian bonds were trading at a marked premium to Spanish bonds at the end of 2014; however, in recent months, the Italian treasury has been financing itself on better terms than its Spanish counterpart. At the beginning of September, the spread between Spanish and Italian bonds stood at around 20bp, marking the highest level since mid-2013.

Political uncertainty driving increasing spreads

Analyzing the factors behind the trend in the 10Y Spanish bond yield sheds compelling light on what could be dictating the spread widening phenomenon. The model used breaks the 10Y yield down into a component tied to the trend in benchmark rates in the eurozone (German sovereign debt), another which captures the risk attributable to episodes of stress in the periphery (concentrated in Greece in recent months) and a third and residual factor associated with idiosyncratic factors that are specific to Spain. As

shown in Exhibits 2 and 3, it is precisely this third 'idiosyncratic' factor which has gained explanatory power in recent months, particularly since the start of the summer (although this factor has been clearly pushing Spanish 10Y spreads wider since the start of the year).

In the absence of major macroeconomic risks (at least over the short and medium term, defined as the next 24 months), we need to look at other variables to pinpoint the source of the specific risk behind (or at least largely behind) the underperformance of Spanish bonds. The political uncertainty surrounding regional Catalan elections that took place on the 27th of September – a *'de facto'* referendum – and the lack of visibility on how a stable government will be formed in Spain in the wake of the general elections in December (given vote fragmentation), are the most likely underlying causes of the spike in idiosyncratic risk.

A good proxy for this Spain-specific factor can be found in the trend in the spread between benchmark Catalan bonds due June 2020 and those issued by the Spanish Treasury. The

Exhibit 2

Breakdown of the Spanish 10Y bond yield into its component factors
(Percentage of total)
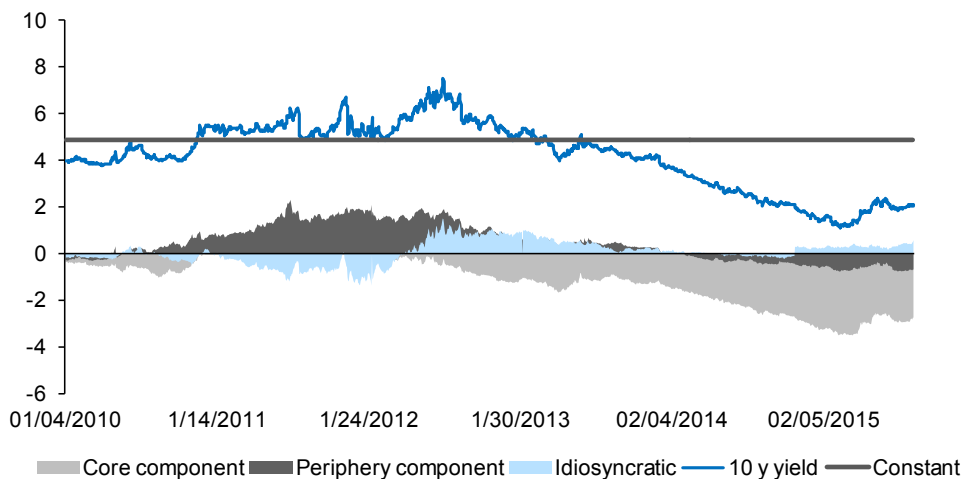
Source: AFI from Bloomberg data.

Catalan bonds have gone from trading at similar spreads to those of other regions (at equivalent maturities) until mid-2014 to a premium of close to 200 basis points today. Despite the reduced liquidity of most regional bonds, the divergence in the price of Catalan bonds compared to those

Exhibit 3

Shift in the components explaining the 10Y Spanish bond yield over time
(bp, yield)

Source: AFI from Bloomberg data.
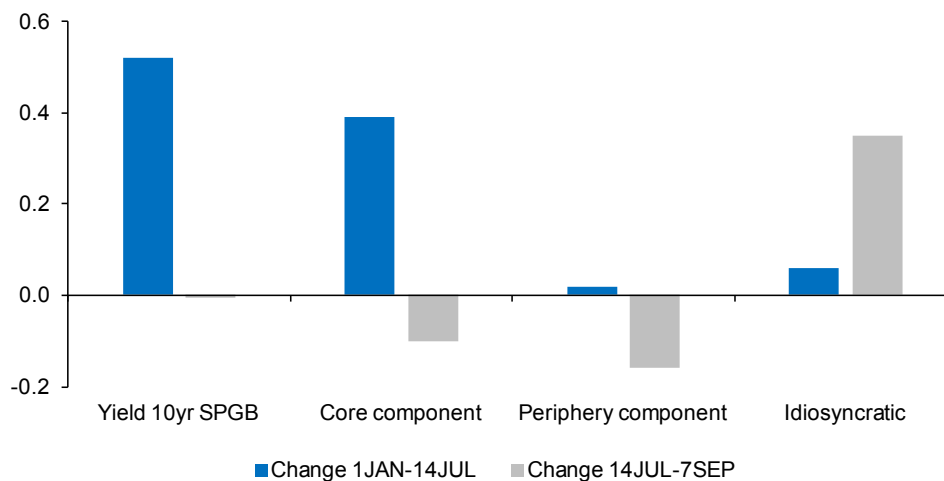
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Exhibit 4

Autonomous Regions debt, spread over equivalent Spanish Treasury bonds
(bps)
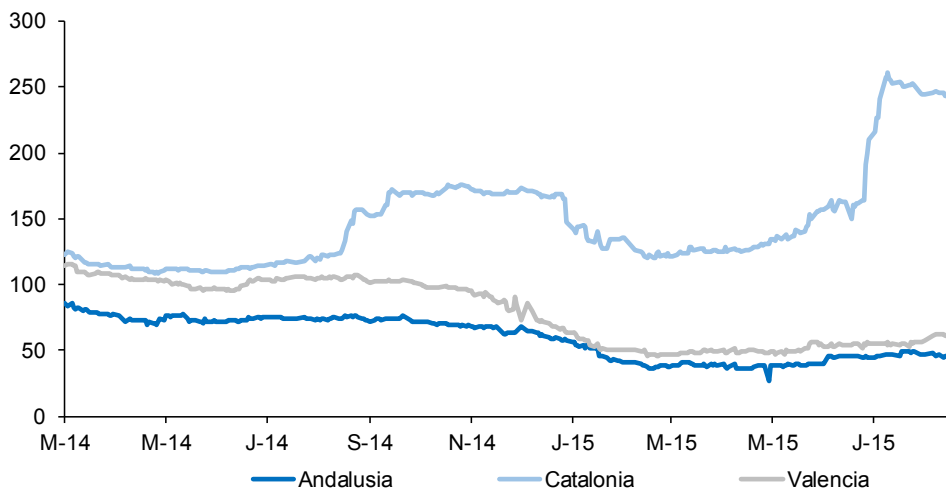
Source: AFI from Bloomberg data.

of other regional issuers with similar credit ratings (Andalusia or Valencia) reflects this element of idiosyncratic risk.

Illiquid hedging factors into widening spreads

The underpeformance of Spanish bonds in the secondary markets versus Italian paper, which had already begun before the Spanish spread started to widen relative to the Bund (Exhibit 1), may also be driven by more technical issues, which could be luring investors towards the Italian market. As shown in Exhibit 5, the balance of debt holdings by non-resident investors has increased far more significantly in the Italian market than in the Spanish market since the end of 2014. This trend clearly illustrates the fact that the marginal buyer of peripheral EMU debt has been more inclined to build exposure to Italian rather than Spanish debt.

The shift into Italian debt initiated during the fourth quarter of 2014 may have been boosted by

dominant market sentiment that the ECB would become more active in terms of its monetary policy, as was later borne out by the start of the

The shift into Italian debt initiated during the fourth quarter of 2014 may have been boosted by dominant market sentiment that the ECB would become more active in terms of its monetary policy.

massive debt buyback programme announced in January 2015, scheduled to remain in place until at least September 2016. Against this backdrop, investors have displayed a clear-cut preference to buy, within a given credit-rating bracket, the public debt of issuers offering a little bit extra on yield (known as yield pick-up strategies).

In addition to the other factors described above, the availability of a liquid market for a natural hedge (understood as a perfect hedge),

Exhibit 5

Cumulative change in non-resident investor holdings of Spanish and Italian state debt since December 2013

(EUR millions)
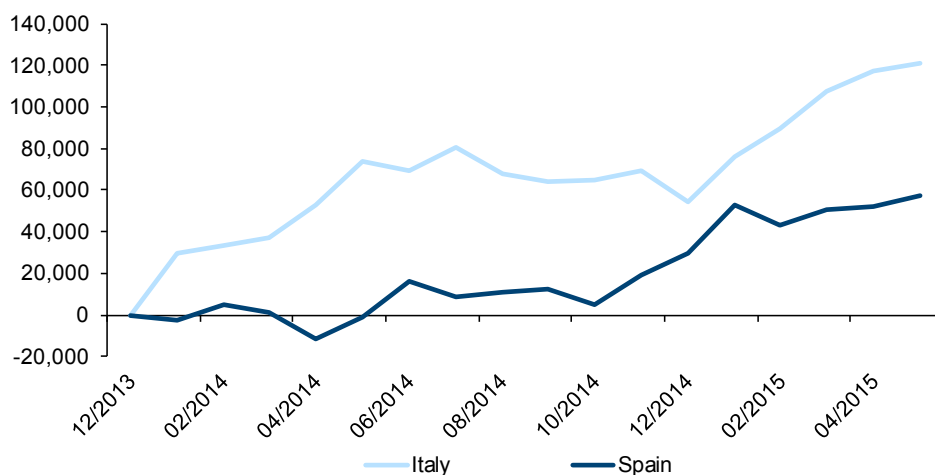
Sources: AFI, Spanish and Italian central bank.

specifically long-term bond futures, may have played a meaningful role in the underperformance of Spanish debt relative to that of other issuers. In short, for a similar level of credit risk in the underlying asset (the debt in the form of fixed-coupon bonds), institutional investors, from banks to asset managers and insurance companies, generally prefer to build positions in assets which enjoy a liquid and perfect hedge against adverse movements in interest rates (movements which have an adverse impact on bond prices).

In Spain, such a hedge does exist in the form of a futures contract over the National Bond (traded on MEFF/BME), but the market lacks the liquidity and depth needed to make it the option of choice for these investors. This forces investors to hedge their exposure to Spanish debt by writing futures contracts over underlying assets from other markets, mainly Italian (known as BTPs) and German (Bund, Bobl and Schätze for 2, 5 and 10Y German paper, respectively) bonds.

The domestic banking sector's exposure (volume of holdings) to Spanish public debt is worth

highlighting: as of July 2015 (the last ECB figure available), the domestic banks on aggregate still held close to 300 billion euros of public debt, most of which was issued by Spanish government bodies, and this exposure represented 10% of their total assets (Exhibit 6). Non-resident investors are the other major institutional holders of Spanish debt, with 350 billion euros according to Bank of Spain data as of June 2015 (held to maturity portfolio).

As shown in Exhibit 7, the trend in the trading volume, measured by the number of contracts written, in the Italian BTP on Eurex *versus* the Notional Bond on MEFF/BME makes it clear which instrument investors prefer when it comes to hedging their Spanish debt positions. Trading in the futures contract over the Italian BTP has surged in the last 12 months (growing at an average annual rate of 100% with monthly averages of over 2 million contracts on occasion). In contrast, trading in the futures contract over the notional Spanish bond remains very slim. Having plummeted by 65% between 2013 and 2014, trading volumes recovered considerably during the first half of 2015

in terms of the average annual rate, but from levels which are infinitely lower than those of its Italian equivalent on the Eurex (average monthly trading volumes of barely over 700 contracts).

Exhibit 6

Trend in the public debt portfolio of Spanish banks relative to their total assets

Fixed income portfolio, general government (LHS)
General government debt as % of total assets
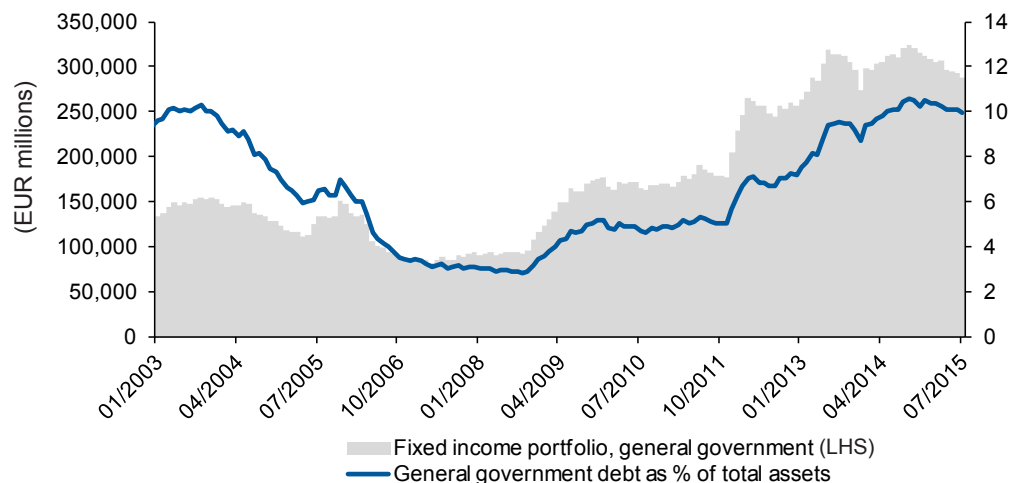
Sources: AFI based on ECB and Bank of Spain statistics.

Exhibit 7

Trading volumes (no. of contracts): Futures over the Italian BTP *vs.* the Spanish Notional Bond Future

BTP futures Eurex (10yr)   Spanish bond futures (RHS)
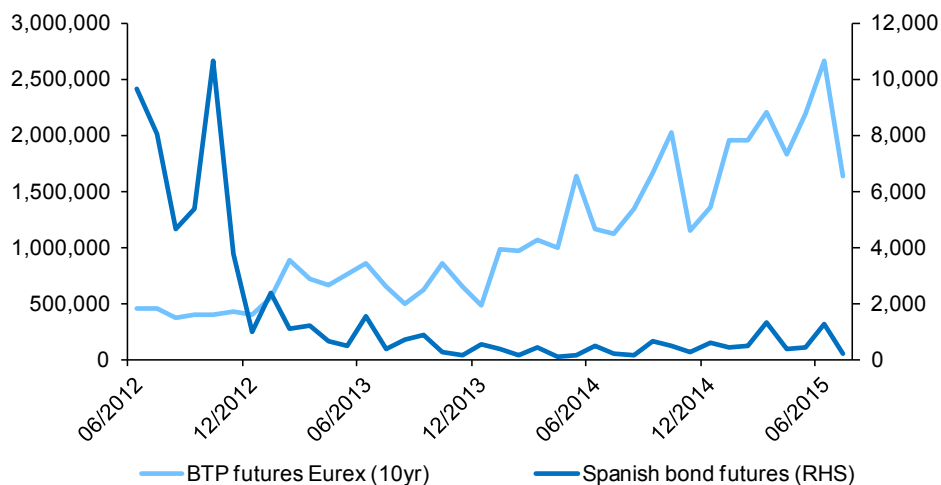
Sources: AFI based on Eurex and BME figures.

Although there are no official figures to confirm this hypothesis, the market consensus is that roughly 30-40% of Eurex trading in futures over the Italian BTP comes from Spanish counterparties using this instrument to hedge their exposure to Spanish debt instead of the contract over the Notional Bond traded on MEFF/BME.

The sale of bond futures is not the only hedging method used by national and international holders of Spanish debt, who also resort to swaps, options and forward contracts. However, the sale of futures sets up hedges that are more dynamic over time since, as long as the market where they are traded is liquid and deep, the costs of getting in and out of the market are low, enabling investors to fine-tune the percentage of their portfolios they want to hedge depending on the asset manager's outlook or need to control and/or limit interest rate exposure.

The risks of an imperfect hedge

Movements in the spreads between Spanish bonds and their German and Italian counterparts mean that hedges arranged using futures written over the latter underlying issues are not optimal. For example, hedging a Spanish debt position using the contract over the Italian BTP will be (quasi) perfect, and therefore optimal, so long as the spreads between the two markets remain the same throughout the term of the hedge. Spread widening in favour of Spain will render the hedge inefficient by default, while spread narrowing will trigger a mismatch in the other direction (in this instance, favourable).

As illustrated by Exhibit 8, the correlation between Spanish prices and Italian and German prices has been wildly volatile in recent months. (Indeed, instability in the correlation factor has often times been the dominant trend since the start of sovereign debt crisis in 2010.)

Spanish debt markets, as well as their main investors, urgently need a liquid and deep

futures market over Spanish bonds. Spanish debt investors, whether national or non-resident, should not be exposed to basis risk as a result of volatility in the spread between Spanish bonds and German and Italian paper. The lack of such a market is costing the country a good few basis points in terms of the cost of borrowing.

Spanish debt investors, whether national or non-resident, should not be exposed to basis risk as a result of volatility in the spread between Spanish bonds and German and Italian paper.

There is little validity to the argument, which has been made in the past, that the sharp drop in the volume of trading in the contract over the notional bond since 2012 is attributable to investors' reduced need to hedge as a result of the narrowing in the spread versus the German bond. The trend in trading in Italian bond futures over the same period of time, during which the Italian spread also narrowed relative to the German bond, undermines this line of reasoning.

Although the domestic sovereign bond futures market's failure to take off may be the result of a wide variety of reasons, there is a significant level of consensus among a broad spectrum of market agents that the main reasons for the lack of liquidity and depth in this market are the following:

■ The perceived lack of involvement by the various bulge-bracket Spanish financial institutions since its launch as either market makers or end users of the product.

■ The virtual absence of non-residents as market makers or end users of the futures contract over the Notional Bond, the main reason for which being the existence of a three-fold concentration of 'Spain risk': underlying asset, counterparty and clearinghouse.

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Exhibit 8

Correlation between the price (ex-coupon) of 7-10Y Spanish debt *vs.* Italian and German bonds (20-day moving average)

Spain *vs.* Germany   Spain *vs.* Italy (RHS)
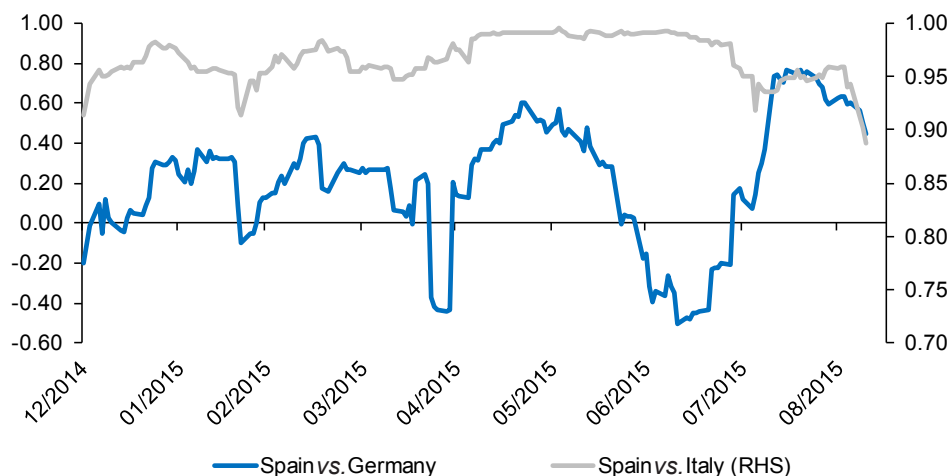
Source: AFI based on Bank of America Merrill Lynch indices.

■ Trading requirements for market makers removed from the reality and needs of the spot market in the underlying asset, specifically high bid-ask spreads and prices for low volumes (few contracts).

Upcoming changes to the futures market positive for Spain

Fortunately, and in response to demand from the bulk of the national and international investor community, at the end of October 2015, Eurex[2] is going to launch a futures contract with long-term Spanish government bonds as underlying assets.

There are reasons to believe that this product launch will be rapidly successful and will inject depth and liquidity into the Spanish debt market, helping to bring down the Treasury's borrowing costs relative to other markets and in absolute terms, all other drivers and systemic risk, whether via contagion or idiosyncratic, being equal.

In addition to the expectation that trading in Italian BTP and German Bund futures corresponding to (imperfect) hedges of positions in Spanish bonds in the spot market will shift to the new market immediately in the wake of its launch, there are other reasons to believe this market will flourish quickly. We highlight the following:

■ The number of market makers and trading requirements (volume and price) on Eurex will translate into optimal liquidity, depth and price conditions.

■ The scope for relative value plays among Spanish, German and Italian bonds, until now mainly confined to the spot bond market, should drive growth in trading in Eurex Bund, BTP and Spanish bond futures.

■ The public bonds bought back by the Bank of Spain under the umbrella of the QE programme rolled out by the ECB in March 2015 have made this entity one of the biggest players in

[2] https://www.eurexchange.com/blob/1935218/08a29b5b3e3f04027817e20b240424db/data/er15158e.pdf

the Spanish debt market. The risk management strategies which the central banks are permitted to pursue (within the QE programme) make it likely that the Bank of Spain will use the Eurex futures contract over the Spanish bond to mitigate its exposure to risk on account of its Spanish debt portfolio.

Summary and conclusions

The Spanish country risk premium has come under renewed pressure in recent months. While not comparable to the episodes experienced during the worst of the eurozone sovereign debt crisis, an analysis of the underlying factors contributing to the spread widening reveals that the Spain-specific component has re-emerged.

Given the current economic climate and performance, and notwithstanding structural imbalances still in need of correction (albeit of reduced scale compared to those existing pre-crisis), the underperformance of Spanish bonds cannot be attributed to current or near-term growth prospects. In our opinion, one that is shared among many market players, the cause of the recent underperformance lies with the political uncertainty associated with the elections in Catalonia and the subsequent general elections.

However, it is possible that Spanish bonds are also suffering from more technical issues, such as the lack of a sufficiently liquid market for their natural hedge. The scant use of the domestic Spanish bond futures market has driven reliance, increasingly so in recent months, on hedges using more liquid futures contracts over other sovereign issuers (principally Germany and Italy). Given the instability in the correlation between Spanish bond yields and those of Germany and Italy, this has resulted in sub-optimal hedging arrangements over the medium term. In a nutshell, the creation of a futures contract over the Spanish bond to be traded on Eurex, a product which seems pre-destined to succeed, should benefit the Spanish

debt market and enable investors to benefit from a liquid hedging option.

Sovereign bond purchases and risk sharing arrangements: Implications for euro-area monetary policy

Ángel Ubide[1]

The ECB´s asset purchase program has been successful from a macroeconomic standpoint for the euro area as a whole, and in particular for Spain. Under most scenarios, the program is expected to generate positive profits, while potential losses should be limited due to adequate loss absorption capabilities and risk sharing agreements.

The ECB's asset purchases program has been an unambiguous success, quickly improving the euro area's macroeconomic outlook. It has been particularly positive for Spain, leading to a sharp decline in interest rates across the yield curve, lower bank lending rates, a weaker currency, and protecting Spanish assets from contagion during the recent Greek crisis. This has sparked an acceleration of growth, facilitating the easing of the fiscal stance, and leading to an upward revision in growth forecasts. The program's design has raised some doubts about the potential scarcity of bonds eligible for purchase and the likelihood of losses derived from purchases executed at very low yields. This paper argues that the program is well designed and calibrated for the characteristics of the euro zone bond market, and the ECB could easily relax some of the eligibility restrictions if needed. The program is likely to generate profits and the risk sharing and accounting arrangements, as well as the ECB loss absorption capabilities, look adequate for the potential risks of the program. Should losses materialize, a prompt recapitalization would be desirable to maintain the credibility of monetary policy and the independence of the European Central Bank.

Introduction

At its meeting on January 22nd, 2015, the ECB announced the EAPP (Expanded Asset Purchase Program), a program of secondary market purchases of euro-denominated investment-grade securities issued by euro area governments and agencies and European institutions, to complement

the monetary policy measures adopted in the second half of 2014, which included the TLTRO and the programs of purchases of private assets (the Covered Bond Purchase Program (CBPP3) and the Asset Backed Securities Purchase Program (ABSPP). The intent was to address the heightened risks of too prolonged a period of too low inflation. The purchases started in March, and

the combined purchases of public and private sector securities will amount to 60 billion euros per month. The ECB intends to purchase private and public securities until end-September 2016 and, in any case, until it sees a sustained adjustment in the path of inflation which is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. There is clear evidence that the policy measures are effective,

The ECB intends to purchase private and public securities until end-September 2016 and, in any case, until it sees a sustained adjustment in the path of inflation which is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

as financial market conditions and the cost of external finance for the private sector have eased considerably over the past months and borrowing conditions for firms and households have improved notably, with a pick-up in the

demand for credit. As a result, consensus forecasts for growth and inflation in the euro area have been revised upwards. It has been particularly positive for Spain, leading to a sharp decline in interest rates across the yield curve, lower bank lending rates, and a weaker currency. This has sparked an acceleration of growth and of growth expectations (Exhibit 1), facilitating the easing of the fiscal stance, and leading to an upward revision in growth forecasts. In addition, the program has been very effective in containing contagion and spillovers from the Greek crisis into periphery spreads.

The program will encompass investment grade euro-denominated bonds from euro area central governments, agencies, and supranational or international institutions located in the euro area. The ECB intends to allocate 88% of the total purchases to government bonds and agencies, and 12% to bonds of supranational and international institutions. The purchases of the supranational and international institutions will be performed by a few selected NCBs. The residual maturity range will be 2-30 years at the time of purchase and purchases will be allocated along this maturity spectrum in a market neutral way via weights on nominal outstanding

Exhibit 1

Spain: Sovereign spread *vs.* growth forecast
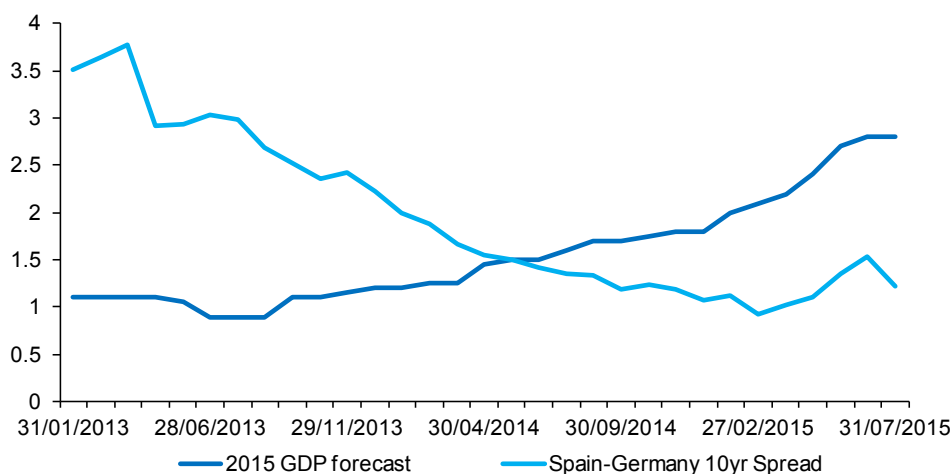
Source: Bloomberg.

amounts. The purchases will be allocated across issuers of the various countries on the basis of the ECB's capital key.

In order to limit the market interference of the purchases and to better manage the risk across national central banks, the ECB introduced a series of restrictions to the program. The ECB decided to apply a limit of 25% per issue (including pre-existing holdings from the SMP program and other portfolios of eurosystem central banks) to avoid obstructing the application of collective action clauses in an eventual case of debt restructuring, as this could be construed as monetary financing of governments. It also decided to apply a 33% limit per issuer to preserve market functioning and avoid becoming a dominant creditor to any country.[2] These percent limits apply to nominal, not market values. It also decided to exclude from the universe of eligible securities those with a yield below the current deposit rate (-0.2%) in order to avoid ex-ante losses (see below).

The ECB had bought about 300 billion euros worth of assets by June 30th, with an average maturity of about 8 years. The rhythm of purchases accelerated in May and June in anticipation of a slowdown during the summer months, when liquidity dries up. The ECB has bought about 5.5 billion euros/month of Spanish bonds, in line with its capital key share, with an average maturity of about 10 years.

The ECB had bought about 300 billion euros worth of assets by June 30th, with an average maturity of about 8 years. As regards Spanish debt, the ECB has bought about 5.5 billion euros/month of

Spanish bonds, in line with its capital key share, with an average maturity of about 10 years.

Accounting and risk sharing arrangements

The ECB follows a prudent accounting approach. This applies particularly to the differing treatment of unrealised gains and losses for the purpose of recognising income, and to the prohibition on netting unrealised losses on one asset against unrealised gains on another. Unrealised gains are transferred directly to revaluation accounts. Unrealised losses exceeding the related revaluation account balances are treated as expenses at the end of the year. Impairment losses are taken to the profit and loss account in their entirety.

The distribution of profits and losses of the ECB follows the following rule: (1) at the discretion of the Governing Council, up to 20% of the net profit may be transferred to the general reserve fund, subject to a limit equal to 100% of the capital; (b) the remaining net profit may be distributed to the shareholders of the ECB in proportion to their paid-up shares. In the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks.

Because the size of the EAPP program is expected to be large, reaching around 1.1 trillion euros by September 2016, and in view of potential quasi fiscal implications of the program in the event of a debt restructuring, the ECB decided to adopt a specific risk sharing agreement for the EAPP program. Based on this agreement, 92% of

[2] The ECB cannot hold more than 25% of an issuer without holding more than 25% of some issues. Thus, the 33% per issuer limit was driven by the fact that the ECB already holds more than 25% of some issues on its balance sheet as a result of the SMP program.

the net profit from the purchases of central government bonds and agencies will be kept at the NCB level, while the remaining 8% will be shared according to the capital key. On the other hand, the net profits of the purchases of bonds of supranational and international institutions, and of the private sector assets programs (CBPP3 and ABSPP), will be fully shared according to the capital key.

Potential losses from the ECB´s three programs, in the worst case scenario, could be in the range of 19-53 billion euros, or between 0.2 and 0.9 % of GDP, depending on the country.

Table 1 shows the details of the risk sharing agreement. Based on these calculations, on average about 17% of the net profit of the comprehensive asset purchases program will be shared. Table 2 shows the expected distribution of purchases, in billions of EUR and as share of GDP per country.[3] This allows the calculation of the potential losses from an eventual debt restructuring. Imagine, in an extreme case, that the

debt of the 4 countries that were under pressure during the crisis (Italy, Spain, Portugal and Ireland), suffers a haircut of 50%. (The haircut in the Greek restructuring was 53.5%.) That would imply losses of about 140 billion euros. Assuming no losses on the purchases of European institutions' assets and on the CP/ABS programs, the risk sharing agreement would imply shared losses of about 15 billion euros. Of course, in that case, one would need to assume some default ratio for the ABS/CP program, although this need not be high. The historical default rate in European ABS is very low, a mere 2% over the last 10 years (see Financial Times 2014), which would imply losses of about 4 billion euros. For the sake of argument, one could assume the historical default rate of ABS in the U.S., which is about 20%. In that pessimistic case, a 20% haircut applied to the CP/ABS program would then yield total shared losses of about 38 billion euros. Therefore, potential losses from the three programs could be in the range of 19-53 billion euros, or between 0.2 and 0.9% of GDP, depending on the country.

In theory, in addition to a potential debt restructuring, losses could arise from valuation changes. By its nature, the portfolio of government bonds purchased under a successful quantitative easing

Table 1

Risk sharing arrangement

	Expected pace of purchases		Risk sharing	
	Monthly	Thru Sept 2016	(%)	€ billion
Covered Bonds/ABS	10	190	100	190
EAPP	50	950	--	--
European Institutions	6	114	100	114
Central Governments and Agencies	44	836	8	67
Central governments	42	798	8	64
Agencies	2	38	8	3
Total	60	1,140	17	190

Source: ECB.

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[3] Some of the smaller euro area countries will hit the 25% limit fairly soon and thus the amount of purchases shown is smaller than what the capital key allocation would suggest. For Greece, the 33% limit will be binding and thus its share is also smaller.

Table 2

Distribution of potential shared losses

	Allocation of purchases	GDP	Purchases/ GDP	19b shared losses	53b shared losses	19b shared losses	53b shared losses
	€ billion	€ billion	%	€ billion	€ billion	% GDP	% GDP
Germany	213	2,810	8	3.8	12.8	0.1	0.5
France	170	2,114	8	3.0	10.1	0.1	0.5
Italy	146	1,610	9	2.6	8.7	0.2	0.5
Spain	105	1,049	10	1.9	6.3	0.2	0.6
Netherlands	48	643	7	0.9	2.8	0.1	0.4
Belgium	29	395	7	0.5	1.8	0.1	0.4
Austria	23	323	7	0.4	1.4	0.1	0.4
Portugal	21	169	12	0.4	1.2	0.2	0.7
Finland	15	202	8	0.3	0.9	0.1	0.4
Ireland	13	175	8	0.2	0.8	0.1	0.5
Estonia	3	19	16	0.0	0.1	0.2	0.7
Greece	2	182	1	0.4	1.4	0.2	0.8
Cyprus	2	18	13	0.0	0.1	0.2	0.6
Latvia	2	23	9	0.1	0.2	0.3	0.9
Lithuania	1	35	3	0.1	0.3	0.2	0.8
Malta	1	8	13	0.0	0.0	0.2	0.6
Luxembourg	3	45	7	0.0	0.1	0.1	0.3
Slovenia	4	36	10	0.1	0.2	0.2	0.7
Slovakia	10	74	14	0.2	0.5	0.2	0.7

Source: ECB and own calculations.

program should have an expected negative value on a mark to market basis, because the intention of the central bank is to improve the growth and inflation outlook and restore inflation expectations back up to the desired level. This should lead to an appreciation of risky assets and, eventually, to an increase in long term yields to reflect the better nominal growth outlook. Because bond prices move inversely to yields, a successful bond buying program implies buying government bonds when they are expensive (their yield is lowest) hoping they will become cheap (their yield will increase, or at a minimum stabilize and stop declining). Note that this would not be the case if the assets purchased were risky assets, as the central bank would be buying them when they are cheap and would appreciate if the program is successful.

The probability of incurring mark to market losses increases the closer bond yields are to zero. Bond pricing is a function of maturity and the coupon yield and, because all the bonds that can be purchased have been issued with positive coupon yields, bonds purchased at negative yields will deliver with certainty a capital loss at expiry. However, because the purchase of the bond also generates an increase in reserves, and those reserves are "remunerated" at -0.2% (the ECB charges -0.2% on deposits), the ECB ensures that there is no ex-ante loss if bonds are purchased at -0.2% or higher.

In addition, the accounting convention of the ECB distinguishes securities held for monetary policy purposes from other securities. Those held for monetary policy purposes are valued at amortized

cost subject to impairment. The rest of securities are valued at amortized cost if they are expected to be held to maturity or marked to market otherwise. Thus, assets purchased under the EAPP, CBPP3 and ABSPP programs are valued at amortized cost and will not be at risk of mark to market losses unless they are sold. The ECB has not disclosed whether it plans to sell these assets at some point or keep them to maturity. The Federal Reserve has announced that it plans to hold to maturity the assets purchased in the context of its quantitative easing programs, and it should be expected that the ECB do the same as the size of the balance sheet is not an impediment for the effective conduct of monetary policy.

This accounting convention plus the likely hold to maturity of the purchased assets implies that losses arising from the ECB's quantitative easing program would only arise from default.[4] The restriction not to buy securities below -0.2% ensures that no valuation driven losses are incurred; moreover, because the weighted yield of the purchases is materially above the ECB's funding cost of -0.2%, the ECB ensures that it makes a profit

with the QE program. For illustrative purposes, the weighted yield of the bonds purchased under the EAPP program during March-May has been about 0.6%. If this were to become the average yield of the full program, 1 trillion euros worth of asset purchases would generate a minimum profit of about 7.5 billion euros.

Finally, it is important to clarify that central banks do at times incur losses (see, for example, the discussion in Dalton and Dziobek (2005)), and have built-in buffers to absorb these potential losses. For example, in 2003 and 2004, the ECB incurred significant losses in its holdings of foreign exchange as a result of the steady appreciation of the euro (Exhibit 2). The ECB has a loss absorbing capability that includes capital, provisions, and revaluations accounts (see Exhibit 3). Provisions for foreign exchange, interest rate credit and gold price risk have been accumulated to offset future realized and unrealized losses, in particular valuation losses not covered by the revaluation accounts. The provision was created in 2000 and its size is assessed annually based on an assessment of exposure to risks, and cannot exceed the value of

Exhibit 2
ECB profit and loss
(€ millions)
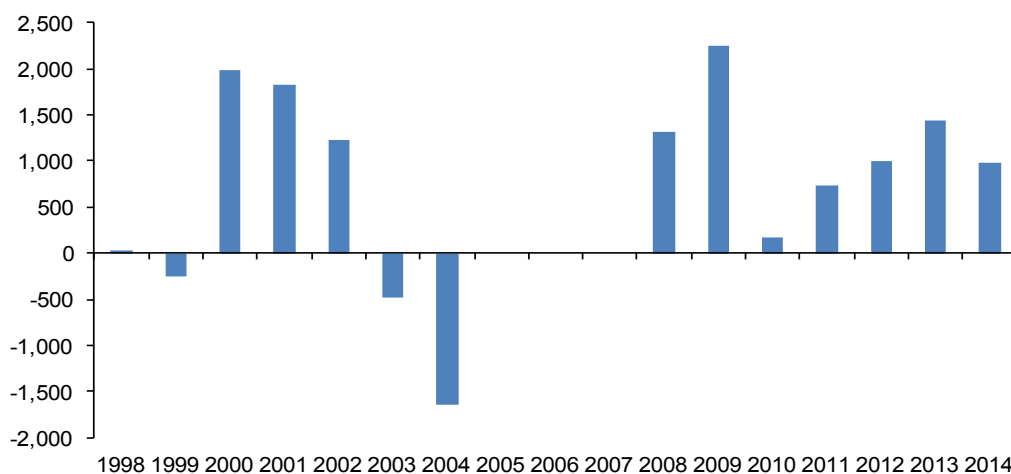
Source: ECB.

[4] A very sharp increase in short term interest rates could also lead to losses, very unlikely over the life of the program.

Exhibit 3
Loss absorbing capability of ECB
(€ millions)
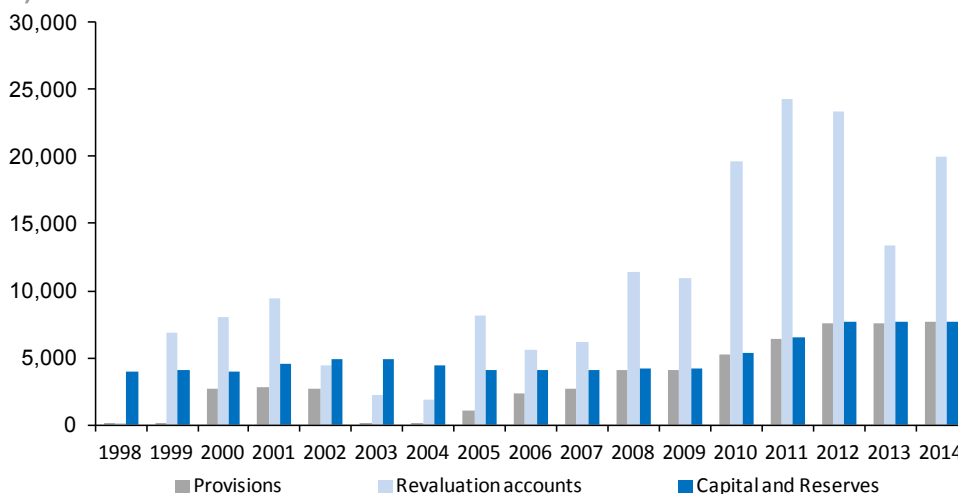
Source: ECB.

paid up capital. In 2003 and 2004, the provision was depleted as a result of the losses incurred and was replenished in the subsequent years. The revaluation accounts arise from unrealized gains on assets, liabilities and off balance sheet instruments. These accounts have increased in parallel to the increase in the size of the ECB's balance sheet and show, at the moment, a sizable surplus of 19.9 billion euros.

As of end 2014, the total loss absorption capacity of the ECB amounted to about 35 billion euro. Any future losses from the EAPP program would have to be set against the profits generated by the program (in an accounting sense) and the major macroeconomic improvement that it has generated.[5] The euro area GDP forecasts for 2015 are being revised upwards steadily, in part due to the positive effect of the quantitative easing program, inflation expectations have shifted upwards and closer to the ECB's definition of price stability, and the reduction in interest expenditure in 2015 due to the reduction in bond yields amounts to about 0.6% of GDP. As a result, the fiscal outlook of the euro area has improved.

In the case of Spain, the impact of the ECB's quantitative easing program has been particularly positive. The associated sharp reduction in interest rates, the rally in the stock market, and the decline

In the case of Spain, the impact of the ECB's program has been particularly positive. The sharp reduction in interest rates, stock market rally, and the decline of the euro have fueled growth. Because of QE, the softening of the fiscal stance since 2014, which has also supported growth, has not had any negative impact on long term rates or sovereign ratings.

in the euro, at a time when the banking system had been recapitalized and thus no longer presented a headwind to growth, have been a major determinant of the acceleration in growth. Because of the ECB's QE program, the softening of the fiscal stance since 2014, which has also supported growth, has not had any negative impact on long term interest rates or sovereign ratings.

[5] See Ubide (2014) for a detailed discussion of the need and likely impact of the ECB's QE program.

The euro area bond market

The face value of the outstanding amount of euro area government bonds is over 6.5 trillion euros. Taking into account the ECB self-imposed maturity restrictions, eligible securities in the 2-30 yr range have a face value of about 5 trillion euros. Because many of these bonds are trading at above par, the market value of eligible bonds is closer to 6 trillion euros. In addition, the face value of outstanding debt of eligible agencies and supranational European institutions in the 2-30 yr maturity range is about 825 billion euros.

Table 3 shows the relative size of the ECB's program vs each national bond market for the main euro area countries. The ECB's asset purchases program is small from a stock perspective –it is small relative to the total stock of outstanding euro area bonds– compared to those of the Fed, the Bank of Japan or the Bank of England, but it is aggressive from a flow perspective, as it is expected to buy more than the net issuance on a monthly basis (Table 4). In addition, it is large as a share of German bonds, both stock and net issuance, because the capital key allocation gives German bunds a disproportionate share

Table 4

Comparative QE programs
(Percentage)

	QE/GDP	QE/total stock	QE/net issuance
Fed	22	15	28
ECB	12	9	189
BoJ	39	21	206
BoE	21	26	75

Source: Bloomberg and own calculations.

in the total amount of purchases (Table 5). This has raised worries about the ability of the ECB to execute the program.

The ECB's asset purchases program is small from a stock perspective compared to those of the Fed, the Bank of Japan or the Bank of England, but it is aggressive from a flow perspective, as it is expected to buy more than the net issuance on a monthly basis.

In addition, the restriction not to buy bonds with yields below -0.2% has the potential to further

Table 3

Euro area bond markets

(Face value; € billion)

	Total	2-30yr	Eligible (25%)	Agencies	2-30yr	Bonds+Agencies Total eligible	Target purchases
Germany	1,140	863	216	199.43	184.83	262	212.8
France	1,580	1,185	296	115.73	93.53	320	169.1
Italy	1,852	1,384	346	0	0	346	146.3
Spain	874	632	158	34.78	14.4	162	104.5
Netherlands	350	288	72	0	0	72	47.5
Belgium	357	280	70	0	0	70	28.5
Austria	215	180	45	0	0	45	22.8
Portugal	124	98	24	0	0	24	20.9
Finland	103	83	21	0	0	21	15.2
Ireland	125	115	29	0	0	29	13.3

Source: Bloomberg.

Table 5

Estimated monthly ECB purchases *vs.* issuance

(€ billion)

	ECB Purchases	Gross Issuance	Net Issuance	Gross issuance - ECB	Net issuance - ECB
Germany	11.1	13.3	0.3	2.2	-10.8
France	8.8	17	7.1	8.2	-1.7
Italy	7.6	22.7	6.3	15.1	-1.3
Spain	5.5	11.9	4.7	6.4	-0.8
Netherlands	2.5	4.2	1.1	1.7	-1.4
Belgium	1.5	2.8	0.9	1.3	-0.6
Austria	1.2	1.6	0.5	0.4	-0.7
Portugal	1.1	1.9	1.4	0.8	0.3
Finland	0.8	0.8	0.7	0	-0.1
Ireland	0.7	1.3	0.8	0.6	0.1
Total	40.8	77.5	23.8	36.7	-17

Sources: ECB, National Treasuries, JPM.

reduce the universe of eligible bonds, although the recent back up in yields has lowered that risk. At the recent low point in yields during April-May 2015, over 7% of euro area bonds were trading below -0.2%, affecting bonds in Germany, Austria, the Netherlands and Finland.

Two additional factors make the ECB's quantitative easing program different from those of the Fed, the *BoE* or the *BoJ*, both in the direction of pushing long term yields closer to zero. First, the ownership structure of euro area bond holdings is such that there are more constraints to sales by large domestic holders such as insurance companies and pension funds, domestic banks, and foreign central banks. In addition, the combination of QE and negative deposit rates is pushing investors further out the curve. This is making the portfolio rebalancing effect more effective but also raises the probability of hitting the -0.2% constraint.

The bond scarcity problem

Quantitative easing affects long term interest rates via three main channels: (1) the signalling effect of market expectations of short term interest rates; (2) the duration effect, via the general reduction of the term premium across maturities and assets; and (3) the scarcity effect, via the reduction in term premium of the specific assets being purchased, due to reduction of the available local supply (associated with the preferred habitat literature, see Vayanos and Vila (2009)).

The combination of smaller fiscal deficits (and thus smaller net issuance), low yields, and the ECB limits could exacerbate the scarcity of eligible bonds in some countries. This would amplify the positive impact of the QE program, but it has also raised worries that the ECB may not be able to fully execute the program. Because of the combination of lower net issuance and a higher percentage of bonds trading close to or, at times, below -0.2%, the market where the ECB may encounter more difficulties at the time of achieving its objectives is German bunds.

Based on the program size and the capital key, the objective is to buy about 210 billion euros worth of German bonds by September 2016. The market value of eligible securities fluctuates

depending on market pricing. Exhibit 4 shows that at the lows in yields in mid-April, bonds up to the 4 year maturity had become ineligible (their yields had fallen below -0.2%). That reduced the pool of available German bonds to about 225 billion, once the ownership limits are taken into account, creating a very small buffer with respect to the target purchases. However, the recent bond sell off has rendered eligible all German bonds across the maturity spectrum, increasing the size of the available pool of bonds to about 260 billion, well above the 210 billion target. In addition, the Bundesbank can use these market fluctuations to opportunistically buy at different points of the curve that could become ineligible again, to alleviate the potential for bond shortages. In fact, in May the Bundesbank took advantage of the increase in yields to dramatically shorten the maturity of its purchases –from an average of 8.1 years in March to an average of 5.8 years in May. Furthermore, the Bundesbank's securities lending program should also alleviate the potential scarcity problem, as it should reduce the banks' concern that by selling bunds to the Bundesbank they could run out of collateral needed for repo operations. The securities lending program is currently limited to overnight transactions, but it is expected to be expanded later in the year to weekly and monthly maturities.

The scarcity problem could over time apply to other countries, and become more severe if purchases were to be extended beyond September 2016. In the case of Greece, the ECB already holds more

Smaller fiscal deficits, low yields, and ECB limits could exacerbate the scarcity of eligible bonds in some countries, with greatest difficulties in achieving program objectives foreseen in German bunds. However, the ECB could change the rules of the program to alleviate scarcity constraints.

than 33% of its bonds, and thus would be unable to buy Greek bonds (assuming other conditions, such as participation in a program, are met) until August 2015 at the earliest, when some of the holdings of Greek bonds mature. For many of the smaller euro area countries, the 25% issue limit

Exhibit 4
German government bonds
(yield, in percent)
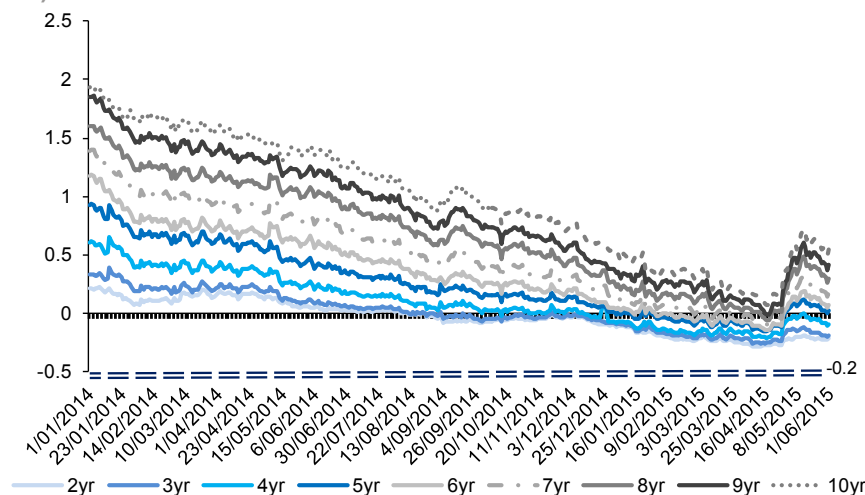
Source: Bloomberg.

could be reached well before September 2016 and, in the case of Portugal, by December 2016. For the larger euro area countries, the timing of reaching the limit will depend on the level of yields. In the case of Spain, it is unlikely to happen before end 2016. If the -0.2% limit is not binding, the 25% limit would be reached in Germany in late 2017.

To alleviate these scarcity constraints, the ECB could change the rules of the program. For example, the set of eligible issuers could be expanded to include other agencies or even state-level German debt. The ECB has announced that the 25% limit on individual issues will be reviewed after 6 months, and could be increased if needed, for example for issues with very low risk (*i.e* rated AA or AAA) or without collective action clauses. And the ECB could decide to change the allocation of purchases from the capital key weighted to the more efficient market weighted, thus transferring some of the allocation of the Bundesbank to other NCBs.

Does capital matter for central banks?

We have shown that the risk sharing arrangements, the ECB's accounting convention and loss absorption capability, and the structure of the euro area bond market all bode well for a successful quantitative easing program that does not generate any losses (absent an unexpected shock) that could lead to a depletion of the ECB's capital. But even if that were to be the case, it should not become an impediment for the operations of the ECB. In fact, capital may not be the best concept to assess the strength of a central bank.

Central banks are not commercial banks. Central banks pursue the maximization of national welfare, not profits. Therefore their financial success is a poor, and many times misguided, indication of their overall success. Central banks can always create money to earn seigniorage and pay their bills, and cannot be declared bankrupt by a court. They do not need capital to cover start-up costs

or buttress their credibility to borrow in markets (unless they have to borrow in foreign exchange). In abstract, central banks do not need capital to operate.

There is, however, ample empirical evidence, mostly for less developed countries (see Stella (1997), Ize (2005), Schobert (2008), Stella and Lonnberg (2008)) showing a negative correlation between inflation performance and financial strength of central banks. This has led to a view that central banks need a certain level of capital in order to achieve their monetary policy objectives. It is an issue worth exploring, as the explanations of the causation and exact nature of the relationship have often remained vague. In its simplest form, a central bank earns a return on its monetary policy operations, on its assets, and on its issuance of base money (banknotes and reserves) and incurs operational costs. Thus, in principle, a central bank will steadily generate profits for as long as people are willing to hold central bank liabilities at no interest and base money grows at least as fast as operating expenses.

Therefore, under most macroeconomic scenarios and central bank balance sheet structures, a temporary shock creating a loss-making situation (as a result of operating expenses exceeding operating income or net valuation losses) that leads to negative capital would always be reversed in the medium run with the central bank returning to profitability and a positive level of capital. There are two possible theoretical exceptions, though: when the economy falls into a persistent deflationary trap and the growth rate of banknotes falls below the growth rate of operating costs; and when the growth rate of the demand for banknotes falls short of nominal interest rates (see Bindseil, Manzanares and Weller, 2004).

But even a negative long term profitability outlook should not necessarily lead to failure to conduct monetary policy in an effective way.[6] For that to

[6] For example, the Central Bank of Chile incurred significant losses during the 1990s from sterilization and bank recapitalization activities and recorded negative net worth as late as 1997.

happen, a relationship between central bank capital and other institutional factors, such as credibility or independence, is needed. It can be argued that, regardless of the tightness of the legal arrangements, a central bank can never achieve a bullet-proof, guaranteed institutional independence. Changes in the exchange rate regime, such as dollarization, could hamper the central bank's solvency. But, more importantly, no government can commit future governments not to change the central bank law or abolish its exclusive right to issue legal tender.

From a conceptual standpoint, a better concept than capital to assess the soundness of a central bank would be net worth, or financial strength (Stella (1997)). Net worth takes into account the central bank's "franchise value" –its monopoly over

Central banks can be run with persistently negative capital, but if losses were to materialize, prompt recapitalization would be desirable to maintain monetary policy credibility and the independence of the European Central Bank.

the issuance of money and the right to impose reserve requirements on commercial banks– and its off balance sheet obligations, such as the potential need to bail out banks during crisis or defend an exchange rate regime. Net worth will depend on the functions for which the central bank has independent responsibility, and will vary over time. Therefore, the optimal size of a central bank's capital will vary across countries and depend on its risk exposure (including currency, interest rate, and credit risks), profit sharing and accounting arrangements, institutional strength, and crisis management responsibilities. The bigger the risk exposure and crisis management responsibilities, and the weaker the institutional strength and profit sharing arrangements, the bigger the capital buffers the central bank should build during good times.

Central banks can be run with persistently negative capital, but over time this could create perverse incentives. On the central bank side, a loss making central bank may attempt to restore profitability by easing monetary policy in order to accelerate the demand for banknotes – and this could be incompatible with its price stability objective. This is what Stella and Lonnberg (2008) defined as "policy insolvency." On the government side, the government may be tempted to put conditions on recapitalization that could jeopardize the credibility and independence of monetary policy, leading to fiscal dominance.

Thus, a condition for a credible central bank is to have positive net worth (its future stream of profits), regardless of whether current profits and capital are positive, and recapitalization arrangements must focus on the rapid rebuilding of equity. Most modern central bank laws require that, in case of negative capital, the government issue to the central bank interest bearing securities at market rates to restore capital levels and provide a level of core earnings that covers operating expenses, thus reducing the scope for further operational losses. A fully automated and fully credible rule of recapitalisation by the government of the central bank in case of losses can be regarded as a substitute for positive capital. Since such rules are however difficult to implement in practice, positive capital levels remain a key tool to ensure that independent central bankers always concentrate on achieving their mandate.

This link between net worth and credibility has become even more critical as central banks have reached the zero lower bound (ZLB) and have had to resort to tools that are highly dependent on the ability to do whatever it takes for as long as it takes, such as QE or foreign exchange intervention. If market participants doubt the resolve of the central bank because of its reluctance to incur losses (as it has happened recently in the case of the Swiss National Bank and its exchange rate floor) then the policy may fail. Therefore, there is an argument that central banks should have higher levels of capital (or stronger arrangements

for recapitalization) as the risk of hitting the ZLB increases. This creates a trade-off between a lower inflation target (which increases the odds of hitting the ZLB) and the level of capital. On the other hand, this desirability to have higher levels of capital has to be offset by the heightened democratic requirements needed to conduct quasi fiscal activities. There is a strong argument to keep capital levels of central banks at minimum levels, so that any central bank action that increases risks above normal levels is accountable democratically and not the decision of an independent body. This is the basis for the Bank of England (*BoE*) strategy, where there was a specific authorization by the Chancellor for each stage of the *BoE's* asset purchases program.

Conclusion

The ECB's asset purchase program has been successful from a macroeconomic standpoint, leading to higher inflation expectations, higher asset prices, and better growth prospects. It has been particularly positive for Spain, leading to a sharp decline in yields across the yields curve, lower bank lending rates, a weaker currency, and protecting Spanish assets from contagion during the recent Greek crisis. This has sparked an acceleration of growth, facilitating the easing of the fiscal stance, and leading to an upward revision in growth forecasts.

The program has been calibrated based on the capital key and it is expected to buy a bit over 100 billion euros of Spanish bonds, equivalent to about 10% of Spanish GDP and similar in magnitude to the net issuance of Spanish bonds over the life of the program. The use of the capital key implies that purchases of German government bonds are too large with respect to its market share in the total stock of government bonds. This has created a worry that there may not be enough bonds available for purchase.

One of the channels of transmission of quantitative easing is the reduction in the term premium

via the so-called scarcity effect. Therefore, the creation of scarcity is a positive development that will boost the portfolio rebalancing effect and the program's impact on the economy. The current design should be successful in its implementation, although the restrictions imposed by the ECB on the eligibility of bonds could become binding for Germany if yields were to decline abruptly from current levels or the program had to be extended further beyond September 2016. In that case, the ECB could easily modify the rules to be able to ease monetary policy as much as needed. The restrictions should not become binding for Spanish bonds at least until end 2016.

Under most scenarios, the asset purchase program should generate positive profits. The restriction not to purchase bonds yielding below -0.2% ensures that there will not be ex-ante valuation losses and, if the bonds purchased are held to maturity, the ECB's accounting standards imply no mark to market losses.

The ECB's loss absorption capacity and the risk sharing agreement limit the amount of potential losses that could be shared across countries in the case of default. Even under the very extreme assumption of a debt restructuring in several countries similar in size and extent to that of Greece in 2012, the losses and potential ECB recapitalization needs would be small. Although central banks can operate with negative capital, if losses were to materialize, a prompt recapitalization would be desirable to maintain the credibility of monetary policy and the independence of the European Central Bank.

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Key features of the 2016 General State Budget

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

The goals of the 2016 budget are to stimulate growth and continue on the path of fiscal consolidation. Improving macroeconomic conditions support the government´s optimistic revenue forecasts in the face of tax cuts, while cost savings will come largely through reductions in unemployment benefits and debt service payments.

The government has recently presented its draft 2016 General State Budget for parliamentary debate, ahead of schedule. The main objective of this year´s proposal is fiscal consolidation. According to the government´s forecasts, the general government deficit is projected at 2.8% of GDP – converging close to budgetary equilibrium in 2018. Although optimistic, revenue forecasts take into account the expected improvement in economic conditions, together with the anticipated effects of the 2015 tax reform applied to income and corporate taxation. On the expenditure side, the government anticipated an overall cut of 3.0% versus 2015, supported by decreases in unemployment benefits, economic activities, and a reduction in debt servicing costs.

Fiscal consolidation and growth

On July 31st, the Council of Ministers passed the 2016 draft General State Budget. The approval came somewhat ahead of the usual schedule to ensure the budget is duly debated and passed before the end of the current legislative period, given that general elections must be held no later than December 20th, 2015. Final approval of the budget is scheduled for the week of October 19th-23rd, at least two months earlier than usual. Given that the People's Party is currently governing with an absolute majority, few amendments are expected to the draft to be debated in the two legislative houses.

The execution of the budget under the terms in which it is passed will, however, depend on the results of the forthcoming general elections. The results of surveys of voting intentions have so far suggested a climate of political uncertainty, in terms of the sign and composition of the next national government. This poses a not insignificant risk for the growth forecast scenario, recently revised down by FUNCAS, which has cut its forecast by one and two tenths of a percent for 2015 and 2016, respectively, to 3.2% in 2015 and 2.8% in 2016.

Against this background, this article aims to give an overview of the main features of the 2016 State Budget.[3] The draft contains the details of estimated revenue and expenditure of the State, Social Security Fund, and the autonomous and state agencies.[4] The goals of the 2016 budget, drafted under the auspices of the 2015-2018

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[3] See the "yellow book" of the draft State Budget 2016 for more details.

[4] The 17 autonomous regions, 2 autonomous cities, and more than 8,000 municipalities in Spain are not included in the General State Budget, except as regards the transfers they receive.

Table 1
Macroeconomic scenario

	2014	2015	2016
Economic environment			
Global GDP (Δ)	3.4	3.5	3.9
Eurozone GDP (Δ)	0.9	1.5	1.9
Dollar-euro exchange rate	1.33	1.1	1.1
Price of Brent crude (euros per barrel)	99.4	61.5	68.8
Short-term interest rate (3 months)	0.2	0.0	0.0
Long-term interest rate (10 years)	2.7	2.1	2.6
Spanish economy			
Domestic final consumption (Δ)	1.8	2.6	2.3
Household consumption (Δ)	2.4	3.4	3.0
Gross capital formation (Δ)	4.2	6.2	5.4
Domestic demand (Δ)	2.2	3.3	2.9
Exports (Δ)	4.2	5.5	6.0
Imports (Δ)	7.6	6.0	6.4
GDP at market prices (€ billions)	1,058.5	1,098.2	1,142.5
GDP (Δ)	1.4	3.3	3.0
GDP deflator (Δ)	-0.5	0.5	1.1
Unemployment rate (%)	24.4	22.0	19.7
Unemployed (thousands)	5,610.4	5,061.7	4,537.7

(Δ) growth in percentage terms.
Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

Stability Programme update and the National Reform Plan,[5] are to stimulate growth and continue on the path of fiscal consolidation. The macroeconomic scenario used to prepare the budget presented in Table 1 assumes moderate growth of both the global economy and the euro area, although tending towards acceleration.[6] In the case of the euro area –Spain's main trading partner, taking 65% of its exports– growth is expected to rise from 1.5% in 2015 to 1.9% in 2016 as a result of the European Central Bank's expanded public and private debt purchase programme (quantitative easing), the depreciation of the euro and the progress of the oil price. A dollar-euro exchange rate of 1.10 is expected, alongside an average oil price of 68.8 euros a barrel (compared with 61.5 euros in 2015). In this context, the 2016 GDP growth forecast is for 3% compared with 3.3%

[5] Both sent to the European Commission as part of Member States' obligations.

[6] The scenario in which the budget has been prepared has been endorsed by the Independent Fiscal Responsibility Authority (AIReF).

Table 2

Forecast public deficit trends 2016-2018
(As a percentage of GDP)

	2016	2017	2018
1. Central Government	-2.2	-1.1	-0.2
2. Autonomous Regions	-0.3	-0.1	0.0
3. Local Authorities	0.0	0.0	0.0
4. Social Security Fund	-0.3	-0.2	-0.1
TOTAL General Government	**-2.8**	**-1.4**	**-0.3**

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

in 2015 and 1.4% in 2014, confirming the Spanish economy's recovery.[7] A key factor in this growth will be the behaviour of domestic demand, for which a growth of 3% in household consumption and 5.4% in investment is estimated–after seven years of adjustment, investment in housing is set to grow by 3.2% in 2015 and 5.2% in 2016. Economic growth will make it possible to continue bringing down the unemployment rate, which for the first time since the crisis will drop to below 20% (19.7%).

The goals of the 2016 budget, drafted under the auspices of the 2015-2018 Stability Programme update and the National Reform Plan, are to stimulate growth and continue on the path of fiscal consolidation.

Table 2 shows the deficit forecasts for the total general government over the period 2016 to 2018. This reflects the fact that the process of fiscal consolidation will make it possible to come close to budgetary equilibrium in 2018 (with a deficit of 0.3% of GDP). For 2016, the maximum deficit is set at 2.8% of GDP, which implies a drop of 1.4 points with respect to the previous year –a

long way, therefore from the -11.0% reached in 2009 at the height of the economic crisis. The limit set for 2016 coincides with the excessive deficit recommendations drawn up by the European Union in June 2013. The growth threshold for the

The deficit forecasts for the total general government over the period 2016 to 2018 reflect the fact that the process of fiscal consolidation will make it possible to come close to budgetary equilibrium in 2018 (with a deficit of 0.3% of GDP).

central government deficit will be 2.2%, reaching 0.3% in both the autonomous regions and social security –local authorities will remain in budgetary equilibrium. One key feature of the 2016 budget is the existence of a primary surplus (of 0.35% of GDP) for the first time since the start of the crisis. As Table 3 shows, the debt level set for the general government as a whole is 98.5% of GDP in 2016. The debt of the central government and the Social Security Fund comes to 72.6% of GDP, that of the autonomous regions 22.5%, and the remainder corresponds to local authorities. The government

[7] These growth rates are in line with those published by the IMF, OECD and FUNCAS. Thus, last July the IMF raised its growth forecasts to 3.1% in 2015 and 2.5% in 2016. These estimates put Spain in the lead among developed countries. The review of the forecasts by the OECD in June 2015 put GDP growth at 2.9% in 2015 and 2.8% in 2016. The September FUNCAS panel forecast estimated GDP growth at 3.2% in 2015 and 2.8% in 2016.

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Table 3
Forecast public debt trends 2016-2018
(As a percentage of GDP)

	2016	2017	2018
1. Central Govt. and Social Security Fund	72.6	71.5	69.2
2. Autonomous Regions	22.5	21.8	20.9
3. Local Authorities	3.4	3.2	3.1
TOTAL General Government	**98.5**	**96.5**	**93.2**

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

expects the level of debt to fall by two points in 2017 and 5.3 points in 2018, with the appearance of a primary surplus across the general government as a whole. Alongside the debt and deficit figures, the 2015-2018 Stability Programme offers estimates of public expenditure and fiscal pressure. Here, the government is confident that fiscal pressure will remain at 38% of GDP, despite the impact of the reform to personal income tax (IRPF in its Spanish initials) and corporate tax (IS), which will be discussed in more detail below. Indeed, growth in revenues from indirect taxes and the tax base for personal income tax are expected to offset the effect of the reform. Similarly, the weight of public expenditure in GDP will be reduced by five points, from 43.5% in 2014 to 38.4% in 2018, on the hypothesis that public expenditure will grow less than GDP.

One key feature of the 2016 budget is the existence of a primary surplus (of 0.35% of GDP) for the first time since the start of the crisis.

Revenue forecasts

The revenue forecasts assume nominal GDP growth of 4% and an increase of close to 1% in the tax base. In this macroeconomic scenario, the State's non-financial revenue in 2016 is expected to come to 214.06 billion euros, which

is 3.91% more than the initial budget for 2015. Tax revenues are expected to total 193.52 billion euros, representing 90.4% of non-financial revenue, which is a similar figure to that for 2015. As regards the 2015 advance settlement, the latest data available (Table 4) show that tax revenues will grow by 6.2% in 2016 (direct taxes by 6.8% and indirect taxes by 5.6%). However, it should be noted that the 2015 advance settlement forecasts slightly lower revenues than those initially budgeted for. To be precise, the deviation will be 1.49 billion euros from IRPF, 340 million euros from VAT, 973 million euros from corporate tax, and 765 million euros from excise duties, making a total deviation of 3.57 billion euros. For its part, the government estimates that non-tax revenue will fall by 32.5% in 2016, with a particularly sharp drop in public fee revenues (-56.8%).

Broken down by tax types, revenue from income tax will grow by 5.5%, that from VAT by 4.6%, corporate tax 10%, and excise duties 4.8%. The government bases its estimated strong growth in personal income tax revenues on the positive trend in wage income, where growth of 3% in paid employment and 1.4% in wage income is expected. The forecast for VAT is based on an acceleration in prices and an improvement in the residential property market. The government explains its strong forecast growth in corporate tax revenue through the favourable progress of company profits and the broadening of the tax base. Lastly, the increase in excise duties is basically explained by strong growth in the consumption of fuels and

Table 4
Forecast collections in 2016
(Million euros)

	Advance settlement 2015	Budget 2016	Change	
			%	Euros
1. TAX REVENUES	182,256	193,520	6.2	11,264
Personal income tax	71,467	75,432	5.5	3,965
Non-resident income tax	1,711	1,988	16.2	277
Corporate tax	22,604	24,868	10.0	2,264
VAT	59,920	62,663	4.6	2,743
Excise duties	19,129	20,053	4.8	924
Other tax revenues	7,425	8,516	14.7	1,091
2. NON-TAX REVENUES	30,421	20,535	-32.5	-9,886
3. TOTAL NON-FINANCIAL INCOME (1+2)	**212,677**	**214,055**	**0.6**	**1,378**

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

natural gas. The growth forecasts for tax revenues in 2016 look somewhat optimistic when compared with the 3% growth in GDP expected. Indeed, as we have discussed elsewhere (Sanz and Romero, 2014), this increase in revenues is only possible with a very high elasticity of revenue collection relative to the economic cycle, something that has not been shown by available empirical evidence.

Tax revenue growth in 2016 looks somewhat optimistic when compared with the 3% growth in GDP expected. This increase in revenues is only possible with a very high elasticity of revenue collection relative to the economic cycle, something that has not been shown by available empirical evidence.

The 2015 tax reform affecting income tax and corporate tax was taken into account in the revenue forecasts (the structures of VAT and excise duties are unchanged in 2015 and 2016). As regards the timing of these reforms, the government's plans were to implement the reform of these two taxes in two phases (for more details, see Sanz and Romero, 2014). The first of these two phases was due to come into effect on January 1st, 2015, as was the case (Law 26/2014). The second phase was due to come into force on January 1st, 2016, after the end of the current legislative period. However, the government decided to bring forward the second phase of the income tax reform to July 2015, on the basis of arguments such as the good progress of the economy, backed as we have seen by the IMF and OECD, and tax revenues, which rose by 7.4% in the period up to May. The second phase of the income tax reform was almost exclusively focused on cutting the tax rates in both the general and savings tax bases (Sanz and Romero, 2014).[8] Consequently, there are now four income tax scales in 2015, two general

[8] In this context all the withholdings have been adjusted. In the case of the self-employed, the withholding has gone from 19% to 15%. According to the government, this modification will make it possible to boost self-employed persons' liquidity by an average of 263 euros.

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Table 5

Changes in the income tax scales

Scales	2014	As of 2015
General[1]	(7 brackets)	(5 brackets)
	Minimum: 24.75%; Maximum: 52%	Minimum: 19.5%; Maximum: 46%
Saving	(3 brackets)	(3 brackets)
	21% from 1 to 6,000 euros	19.5% from 1 to 6,000 euros
	25% from 6,001 to 24,000 euros	21.5% from 6,001 to 50,000 euros
	27% for > 24,000 euros	23.5% for > 50,000 euros

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

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

and two for savings, which will apply depending on the date on which taxpayers obtained their earnings. However, to make things simpler, the government has revoked the two scales existing before the reform, to create a new general scale and savings scale applicable to income earned over the whole year. The marginal rates for these two new scales are half way between those in force up until July 2015 and those due to be implemented in 2016 (Sanz and Romero, 2014). For the purposes of illustration, Table 5 shows the rates in effect in 2014 and those that will apply in both 2015 and 2016. As can be seen, the number of brackets in the general scale has been cut from seven to five, while the lowest and highest marginal rates have been reduced (from 24.75% to 19.5%, and from 52% to 46%, respectively). For its part, the savings scale has kept the same number of brackets, but the marginal rates in all of them have been lowered. For instance, for small savers, with earnings of less than 6,000 euros, the rate has been cut from 21% to 19.5%.

After the second phase of the corporate tax reform, the general tax rate will have dropped by 5 points, thus coming closer to the rates in effect in neighbouring countries.

The second phase of the corporate tax reform will be implemented in 2016, continuing the cut in rates begun in 2015. As of 2016, the tax rate applicable, both generally and to small and medium-sized enterprises (SMEs)[9], will be 25%.[10] As can be seen in Table 6, after the two phases of the reform, the general tax rate will have dropped by 5 points, thus coming closer to the rates in effect in neighbouring countries, the EU-28 average being 22.9% in 2004 (Eurostat, 2014).[11] This rate cut was bigger than that in other European countries such as Finland (from 24.5% to 20%), the United Kingdom (from 23% to 21%), Slovakia (from 23% to 22%) and Denmark (from 25% to 24.5%). Moreover, equalising the rate

[9] In Spain, SMEs are firms with fewer than 250 employees and a turnover of less than 50 million euros.

[10] Newly created firms are an exception to this rule as they will be liable for a rate of just 15% on the first 300,000 euros of their tax base.

[11] It should be recalled that in 2014 Spain was among the EU-15 countries with the highest statutory tax rates, along with Belgium, France, Germany and Italy.

Table 6

Changes in corporate tax rates

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

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

for SMEs with that applicable to other firms may help increase firms' size by softening the negative tax impact of their scale. This is important in a country like Spain, where 92.4% of firms have fewer than 10 employees (micro-enterprises), 6.4% have between 10 and 50 employees (small) and just 1% have between 50 and 250 employees (medium sized) (Ministry of Industry, Energy and Tourism, 2015).

Following the constitutional mandate, the General State Budget includes the Budget for Fiscal Benefits (PBF in its Spanish initials), the

aim of which is to offer estimates of the loss of revenue caused by the existence of exemptions, reductions, reduced rates, etc. For illustration, Table 7 compares the fiscal benefits in 2015 and 2016 in the four main taxes (income tax, corporate tax, VAT and excise duties). In 2016, the reduction in revenue resulting from fiscal benefits totalled 32.49 billion euros, close to a fifth (17.8%) of the expected revenue. Nevertheless, the government estimates that the fiscal benefits will drop by 15.5% in 2016, equivalent to 5.944 billion euros. This reduction is basically explained by the changes in the structure of income tax,

Table 7

Fiscal benefits budget for the main taxes

	2015 budget			2016 budget			Change (%)
	Tax revenues (1)	Fiscal benefits (2)	Share (%) (2)/(1)	Tax revenues (3)	Fiscal benefits (4)	Share (%) (4)/(3)	(4)/(2)
Income tax	73,415	15,217	20.7	75,432	8,309	11.0	-45.4
Corporate[a]	23,577	3,950	16.8	24,868	3,841	15.4	-2.8
Value Added Tax	60,260	18,383	30.5	62,663	19,421	31.0	5.6
Excise duties	19,894	886	4.5	20,053	920	4.6	3.8
Total	177,146	38,435	21.7	183,016	32,491	17.8	-15.5

Note: [a] Excludes the "foral" territories of the Basque Country and Navarre.

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

which came into effect on January 1st, 2015, but will have an impact on the 2016 settlement (note that the PBF is prepared on a cash rather than accruals basis). Specifically, the fiscal benefits applicable to income tax will be reduced by 6.91 billion euros, basically as a result of the change in the design of the reduction for employment income, which will reduce the fiscal benefits by 6.18 billion euros. By contrast, the fiscal benefits applicable to VAT will increase by 1.04 billion euros, reaching 31% of the expected revenue in 2016 (19.42 billion euros). The fiscal benefits applicable to VAT are the result of various exemptions (8.07 billion euros), the existence of a reduced rate of 10% (7.92 billion euros) and the super-reduced rate of 4% (3.25 billion euros). The fiscal benefits applicable to the corporate tax come to 3.84 billion euros, as a consequence of the various deduction, provisions, accelerated depreciation, or reduced rates for SMEs.

Estimated expenditure

Table 8 summarises the consolidated expenditure of the central government, the Social Security Fund, and autonomous and state agencies. Its figures give an overview of the objectives and priorities pursued by the government both as a whole and through its five main expenditure blocks: (i) basic services; (ii) social protection; (iii) merit goods; (iv) economic activities; and (v) general activities. Consolidated State expenditure will be 351.86 billion euros in 2016 (Chapters I to VIII), with growth of 1.2%, equivalent to 4.015 billion euros (0.35% of GDP in 2016).[12] The central government will manage 46.7% of consolidated spending, the social security system 40.0%, autonomous agencies 11.4%, and the remaining 1.9% will be managed by state agencies, and other public sector bodies.

The basic services offered by the State–justice, defence, public security, and foreign policy–will

grow by 1.4% in 2016 (230.1 million euros). 41% of this increase will be devoted to implementing e-government in the justice system, with the aim of gradually eliminating the use of paper. This modernisation programme will cost about 95 million euros.

Social spending includes social protection and promotion policies, essentially pensions and unemployment benefits, and spending on merit goods, such as health, education and housing. Note that the spending on merit goods is much less than that on social protection and promotion, as competences for these services have been transferred to the autonomous regions. Social spending will increase by 720 million euros, with an increase of 0.4%. The behaviour of the items accounting for the largest share of social spending, namely pensions and unemployment benefits, will diverge in 2016. Specifically, pensions, which account for 71.9% of social spending, will increase by 3.79 billion euros. For their part, unemployment benefits, which account for 10.5%, will drop by 5.48 billion euros.

The estimated expenditure on unemployment protection is expected to drop by 5.48 billion euros in 2016 thanks to the improvement in the job market.

Table 8 shows pension payments, including both contributory pensions and non-contributory pensions, civil service pensions, and survivors' and orphans' pensions. Overall, pensions will absorb 38.5% of the State's consolidated expenditure in 2016, totalling 135.45 billion euros, with growth of 2.9%. This change is a consequence of the increase in the number of pensioners, the increase in average pensions (new pensions are on average 37% higher than those of pensioners who die) and a pension increase of 0.25%. Total pension

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[12] The limit on non-financial State expenditure for 2016 is 123,394 million euros, with a drop of 4.4% relative to the previous year's budget. This reduction is due to the smaller financial burden of interest on debt, and the reduction in expenditure on unemployment benefits.

expenditure comprises 118.941 billion euros in Social Security contributory pensions (87.8% of the total), 13.46 billion euros in civil service pensions (9.9%), and the rest in the form of non-contributory pensions.

Unemployment benefit payments will come to 19.82 billion euros in 2016, 60% in the form of contributory benefits, and with an estimated 751,440 beneficiaries. The remaining 40% will be devoted to non-contributory benefits, including farm income support. Overall, the estimated expenditure on unemployment protection is expected to drop by 5.48 billion euros in 2016 thanks to the improvement in the job market.[13] Thus, the Labour Force Survey data for the second quarter of 2015 recorded 437,000 fewer unemployed persons and 513,500 more employed persons than in 2014 as a whole. For this reason it is expected that the unemployment rate will drop to 19.7% in 2016, this being the first time since the fourth quarter of 2010 in which it has dropped below 20% (the unemployment rate peaked at 26.94% in the first quarter of 2013).

The economic activities include a wide variety of policies in productive sectors of the economy such as agriculture, industry, tourism, energy, transport, infrastructure and R&D. These expenditures came to 28.37 billion euros in 2016, a drop of 6.6% (2.0 billion euros). The budgetary allocation will decrease in agriculture and fisheries (1.141 billion euros), industry and energy (572 million euros) and infrastructure (167 million euros). The reduction in agriculture spending (13.3%) is the result of the termination of the EAGF and ERDF (88% of these policies is financed with European funds). Public investment in infrastructure, a basic instrument for stimulating growth and productivity, will drop by 2.7% relative to 2015. This figure will be virtually unchanged, however, if the investments of state-owned companies are taken into account. Conversely, the budgetary allocation to trade, tourism and SMEs (19.3 million euros), transport subsidies (84.6 million euros), and investment in research, development and innovation (29.7 million euros) will rise. In the case of civilian R&D and innovation, the budgetary allocation will be increased by 125 million euros, while its military counterpart will be cut by 95.8 million euros. This group includes, in particular, the 3.9 billion euros devoted to financing the costs of the electricity system (part of which is financed from a tax on electricity generation created in 2012 and another part from an auction of greenhouse gas emission rights).

The 2 billion euro reduction in the cost of interest on public debt, a drop of 5.6% is basically explained by the reduction in the debt level. For the general government as a whole, the drop will be from 101.7% to 98.5% and is anticipated to keep falling over the coming years.

Finally, expenditure on general activities will grow by 4.5% to 118.64 billion euros in 2016. This group includes transfers to the autonomous regions and local government bodies (48.79 billion euros) and the financial expenses on the public debt (33.49 billion euros), State staff and consulting costs (633 million in 2016), general services, comprising a total of 25 different programmes[14] (34.07 billion euros) and tax and financial administration costs[15] (1.66 billion euros). One issue to highlight in this group is the 2 billion euro reduction in the cost of interest on public debt,

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[13] However, it should be borne in mind that there has been a transfer of beneficiaries from unemployment benefit programmes to other programmes such as 'renta activa de inserción' (active insertion income), which is aimed at unemployed persons facing economic hardship who agree to take part in labour integration programmes (or the activation for employment programme) aimed at the long-term unemployed.

[14] Such as, for example, training public administration staff, publicising legislation, ministerial transport, managing national assets, preparing and publishing statistics, elections and political parties, etc.

[15] This new item includes, among other expenses, expenditure on economic forecasting, the public accounts, application and management of the taxation system, management of the property register, and resolution of economic/administrative complaints.

Table 8

Consolidated State Expenditure Budget (Chapters I to VIII). Distribution by expenditure policy

Policies	Initial budget 2015 (€ million)	Weight (%)	Initial budget 2016 (€ million)	Weight (%)	Change (€ million)	Change (%)
1. Basic public services						
Total (Justice, defence, public security and foreign policy)	**16,485.4**	**4.7**	**16,715.5**	**4.8**	**230.1**	**1.4**
2. Social protection and welfare						
Total	**180,524.1**	**51.9**	**180,840.9**	**51.4**	**316.8**	**0.2**
Pensions	131,658.9	37.9	135,448.9	38.5	3,790.0	2.9
Unemployment	25,300.0	7.3	19,820.9	5.6	-5,479.1	-21.7
Other services	23,565.2	6.7	25,571.1	7.3	2,005.9	8.5
3.Public and merit goods						
Total	**6,883.6**	**2.0**	**7,289.1**	**2.1**	**405.5**	**5.9**
Health	3,861.5	1.1	4,001.6	1.1	140.1	3.6
Education	2,273.0	0.7	2,483.9	0.7	210.9	9.3
Culture	749.0	0.2	803.5	0.2	54.5	7.3
4. Economic activities						
Total	**30,374.3**	**8.7**	**28,373.3**	**8.1**	**-2,001.0**	**-6.6**
Farming, fishing and food	8,579.9	2.5	7,438.2	2.1	-1,141.7	-13.3
Energy and industry	6,027.7	1.7	5,455.0	1.6	-572.7	-9.5
Tourism, trade and SMEs	963.3	0.3	982.6	0.3	19.3	2.0
Transport subsidies	1,339.4	0.4	1,424.0	0.4	84.6	6.3
Infrastructure	6,150.0	1.8	5,982.8	1.7	-167.2	-2.7
R&D and innovation	6,395.4	1.8	6,425.1	1.8	29.7	0.5
Remainder	927.4	0.3	665.6	0.2	-261.8	-28.2
5. General activities						
Total	**113,563.9**	**32.7**	**118,640.1**	**33.7**	**5,076.2**	**4.5**
Transfers to other public administrations	47,161.8	13.6	48,794.0	13.9	1,632.2	3.5
General Government Debt	35,490.0	10.2	33,490.0	9.5	-2,000.0	-5.6
Remainder	30,928.9	8.8	33,656.1	10.3	5,427.2	17.5
TOTAL CHAPTERS I to VIII	**347,843.4**	**100.0**	**351,859.0**	**100.0**	**4,015.60**	**1.2**
Social expenditure (2+3)	**187,409.8**	**53.9**	**188,130.0**	**53.5**	**720.2**	**0.4**
Social spending excl. unemployment	**162,109.8**	**46.6**	**168,309.1**	**47.8**	**6,199.3**	**3.8**

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

a drop of 5.6%. This drop is basically explained by the reduction in the debt level. For the central government and the social security system, the level of debt will drop from 76.3% of GDP to 72.6% in 2016. For the general government as a whole, the drop will be from 101.7% to 98.5%. The government expects that the joint debt of the central government and social security system will continue to fall over the coming years, dropping to 69.2% of GDP in 2018 (93.2% for general government as a whole).

State budget

As can be seen in Table 9 (Chapters I to VII), 36.9% of State spending will go to the ministerial departments, 21.5% to transfers to the autonomous regions and local authorities, 21.3% to interest on the debt, and 8.7% to civil servants' pensions. As a result of the process of fiscal consolidation, the budget for the ministerial departments has been cut from 79.208 billion euros in 2011 to 58.15 billion euros in 2016, a reduction of almost 21.058 billion euros (a drop of 26.5%). The financial expenses in the budget have risen from 27.40 billion euros in 2012 to an expected 33.49 billion euros in 2016, with an increase of 6.070 billion euros (an increase of 22.13%). The ministry managing the largest volume of resources in 2016 will be Employment and Social Security (10.6%), as it is responsible for paying unemployment benefits through the State Employment Service. It is followed by the ministries of the Interior (4.8%), Defence (3.8%) and Public Works (3.3%). Spending by most ministries will rise in 2016, with Economy (24.2%), Justice (10.8%) and Foreign Affairs (10%) being those receiving the biggest increases. Spending will drop in 2016 in the ministries of Employment and Social Security (26%), and Industry, Energy and Tourism (14.7%).

Social Security budget

Social security spending will come to 140.95 billion euros in 2016, an increase of 3.5% (Table 10). As mentioned above, this change is due to the rising numbers of pensioners, new pensioners' larger average pension, and the 0.25% rise in existing pensions. 94.1% of Social Security spending corresponds to current transfers to households, including contributory and non-contributory pensions, temporary disability, pregnancy and maternity, family protection, cessation of activity of self-employed persons, and other economic benefits. Contributory pensions make up the bulk of current transfers, with estimated expenditure of 118.94 billion euros in 2016, an annual increment of 2.8%. The biggest contributory pensions item is retirement pensions (83.56 billion euros), followed at some distance by survivors' pensions (21.04 billion euros), disability (12.23 billion euros) and orphans' pensions (2.10 billion euros).

The Social Security Fund's main source of financing is employees' and employers' contributions, which represent 83.2% of total revenues. The biggest share of contributions are those of Social Security contributors in the general system. Employers contribute an amount equivalent to 23.6% of employees' gross salary, while employees' contributions represent 4.7% of their salary. Revenue from contributions in 2016 is expected to come to 117.24 billion euros, with an increase of 6.7% with respect to the preceding year. The government justifies this sharp rise with the interaction of four factors. Firstly, the rising number of social security system affiliates observed since 2014, in both the general system and the special system for self-employed persons: it is estimated that improvement in the employment situation will boost social security contributions by 8.3%. Second, the favourable evolution of the economic growth forecasts (4% nominal growth) and employment levels (3%) and the maximum contribution limit (1%). Third, the expected increase in average wages (1.4%). And finally, improvements in combating fraud. It should also be noted that the Social Security Fund is topped up with contributions from the State. These contributions will come to 13.16 billion euros in 2016, an increase of 0.7%. This sum is mainly used to cover minimum pension complements, which will come to 7.41 billion euros in 2016.

Table 9

State Expenditure Budget (Chapters I to VII) Distribution by sections.

Chapters	Initial budget 2015 (€ million)	Weight (%)	Initial budget 2016 (€ million)	Weight (%)	Change (€ million)	Change (%)
Constitutional bodies						
Royal household, Parliament, National audit office, Constitutional court, etc.	358.5	0.2	313.5	0.2	-45.0	-12.5
General Government Debt						
Debt interest	35,490.0	21.9	33,490.0	21.3	-2,000.0	-5.6
Civil Service Pensions						
Civil service pensions	13,184.89	8.1	13,651.43	8.7	466.5	3.5
Ministries						
External Affairs and Cooperation	1,028.6	0.6	1,131.6	0.7	103.0	10.0
Justice	1,470.6	0.9	1,628.7	1.0	158.1	10.8
Defence	5,759.8	3.6	5,962.0	3.8	202.2	3.5
Treasury and other public administration bodies	2,168.0	1.3	2,337.5	1.5	169.5	7.8
Interior	7,409.2	4.6	7,482.2	4.8	73.0	1.0
Public Works and Transport	4,970.9	3.1	5,158.7	3.3	187.8	3.8
Education, Culture and Sport	2,756.0	1.7	2,918.6	1.9	162.6	5.9
Employment and Social Security	22,416.4	13.8	16,592.4	10.6	-5,824.0	-26.0
Industry, Energy and Tourism	5,736.8	3.5	4,894.9	3.1	-841.9	-14.7
Agriculture, Food and Environment	1,841.5	1.1	1,868.9	1.2	27.4	1.5
Prime minister's office	437.2	0.3	467.4	0.3	30.2	6.9
Health, Social Services and Equality	1,914.7	1.2	2,029.1	1.3	114.4	6.0
Economy and Competitiveness	2,300.8	1.4	2,858.7	1.8	557.9	24.2
Spending by various ministries	2,734.4	1.7	2,820.2	1.8	85.8	3.1
Total for all Ministries	**62,946.5**	**38.9**	**58,150.9**	**36.9**	**-4,794.0**	**-7.6**
Other financial relationships with territorial bodies	995.1	0.6	923.6	0.6	-71.5	-7.2
Inter-territorial compensation fund	582.4	0.4	582.4	0.4	0.0	0.0
Financial relations with the EU	12,921.9	8.0	13,757.6	8.8	835.7	6.5
Contingency fund	2,581.2	1.6	2,467.8	1.6	-113.4	-4.4
System of financing for local and regional authorities	32,932.6	20.3	33,796.7	21.5	864.1	2.6
Total for Chapters I to VII	**161,992.2**	**100.0**	**157,190.7**	**100**	**-4,800.7**	**-3.0**

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

Table 10

Breakdown of the main social security expenditure items

Items	Initial budget 2015 (€ million)	Weight (%)	Initial budget 2016 (€ million)	Weight (%)	Change (%)
Sum total of revenues under Chapters I to VIII	**136,117.0**	---	**140,945.7**	---	**3.5**
Current transfers	128,615.4	100.0	132,751.1	100.0	3.2
Contributory pensions	115,669.2	89.9	118,941.7	89.6	2.8
Non-contributory pensions	2,242.5	1.7	2,290.8	1.7	2.2
Temporary incapacity	4,972.7	3.9	5,397.9	4.1	8.6
Maternity, pregnancy and breastfeeding	2,098.2	1.6	2,203.9	1.7	5.0
Care for dependent adults	1,092.2	0.8	1,167.2	0.9	6.9
Other transfers	2,570.3	2.0	2,749.6	2.0	7.0

Source: State Budget for 2016, Ministerio de Hacienda y Administraciones Públicas [Ministry of Finance and Public Administration] (2015).

Budget for autonomous and state agencies

The State Budget includes a total of 59 Autonomous Agencies (operating in a wide range of spheres of public activity) and 9 State Agencies (differentiated by their degree of autonomy and management flexibility). In terms of the volumes of resources they manage, the largest Autonomous Agencies are the Public State Employment Service (responsible for paying unemployment benefits) with a budget of 25.18 billion euros, the Agricultural Guarantee Fund (6.91 billion euros) and the State Civil Service Pensioners' Mutual Fund (1.67 billion euros). The largest of the State Agencies by volume of resources is the Spanish National Research Council (CSIC), with a budget of 630 million euros, the Spanish International Development Cooperation Agency (AECID) with a budget of 252 million euros, and the National Meteorology Office (AEMET) with a budget of 122 million euros. Overall, the budget allocated to Autonomous and State Agencies will come to 41.84 billion euros in 2016, a reduction of 13.04%. 80.7% of this reduction is basically explained by the decrease in unemployment benefits.

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The 2016 General State Budget: Balancing fiscal consolidation and the electoral cycle

Santiago Lago Peñas[1]

The 2016 budget envisions deficit reduction at the central government level in line with the 2015-2018 Stability Programme, but budget implementation for the first half of 2015 anticipates the overall general government deficit will slightly deviate from the target. In any event, existing fiscal pressures at the regional level and on the social security system highlight the need for exploring new funding mechanisms.

The 2016 General State Budget (PGE2016) seeks to balance fiscal consolidation with typical pre-election budgetary measures. However, modifications to the budget are possible if the general elections bring a change in government. A slight drop in public expenditure, in conjunction with a rise in revenues, would enable the central government deficit to be brought down in line with the foreseen objectives. Nonetheless, budget implementation in the first half of 2015 seems to anticipate a combined general government deficit that slightly deviates from the target. Once again, the autonomous regions emerge as the most disruptive factor, although the most recent deviations in the case of the social security system and the medium-to-long term demographic trends make it necessary to consider new funding mechanisms.

The 2016 General State Budget (PGE 2016) is the first since the transition to democracy to have been significantly brought forward (by a quarter). This fact and the government's decision to govern right up until the end of the legislative period, with general elections in December 2015, have shaped and determined the content of both the political debate and of the budget itself. There are two reasons for this. Firstly, the incumbent is obliged to match necessary fiscal consolidation with budgetary measures that boost its popularity, against the backdrop of a scenario in which the opinion polls suggest it will be impossible for the government to win another absolute majority in the Congress of Deputies, making substantial loss of electoral support look likely. Secondly, if there is a change of government, the PGE2016 could be significantly modified as early as the first quarter of next year. While the first point detracts from the credibility of balancing income and expenditure, the second raises uncertainty as to budget implementation. On the other hand, the sharp acceleration in economic growth in 2015 and 2016 will help balance the accounts and make the deficit targets more feasible.

This article is sub-divided into three sections. The following section gives an overview of the budget's key figures and examines their consistency. The second section analyses how the budget fits into the 2015-2018 Stability Programme for the Kingdom of Spain. Finally, the article identifies

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certain critical factors for budget execution, and in general, for compliance with the public deficit targets set for the general government as a whole.

The budget's key figures

Table 1 shows the percentage changes in various public expenditure and revenue items.[2] The figures refer to the consolidated central government budget, which includes the social security system and a part of the autonomous regions' and local authorities' budgets, associated with the various intergovernmental grant programs. Regional revenues from totally or partially devolved taxes (VAT, income tax, excise duties) collected by the National Tax Administration Agency (AEAT) are not included. Relative to GDP, budgeted non-financial expenditure (314.49 billion euros) is equivalent to 27.5% of Spain's GDP and accounts for slightly more than half of public expenditure, after discounting transfers to sub-national levels of government, to avoid problems of double counting. Therefore, although it is true that this leaves out a substantial part of the Spanish public sector, the

Table 1

Changes in various consolidated budgetary aggregates. Initial budget
(Percentage)

Budgetary aggregate	Change 2016/2015
Taxes	0.3
Social-security contributions	6.5
Total non-financial income	2.8
Payroll expenses	4
Financial expenses	-5.6
Current expenses	0.3
Capital expenditure	-11.4
Total non-financial expenditure	-0.3
Memorandum entry: Nominal GDP	4

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

PGE2016 allows us to approximate the overall budgetary dynamics and their consistency with the total public deficit target.

The budget is not expansionary. Quite the opposite. With nominal GDP growth of 4% envisaged (3% real growth and 1.1% from the GDP deflator), total non-financial expenditure will drop by 0.3%, due to a combination of a sharp drop in capital spending (-11.4%) and a slight rise in current expenditure (0.3%). What stands out in the case of the latter is the increase in workers' wages (4%), due to projected pay increases of 1%, the disbursement of the remaining half of public sector employees' extraordinary payments withheld in 2012, and an increase in the rate at which civil servants are replaced. For their part, interest payments will drop considerably (-5.6%) as a consequence of lower rates on new debt issues. On the revenue side, there is a contrast between the slight rise in tax collection projected (0.3%) and the expected stronger growth in social security contributions (6.5%). The split between the trend in central government revenues and those collected by the tax collection agency (AEAT), rising by 4%, also stands out. The explanation cannot be found in the corporate tax, which exclusively accrues to the central government, and is set to grow by 5.5%. The tax cuts passed by the central government and already implemented could be an explanatory factor, but not the only one. As Lago-Peñas (2015b) points out, opting for an income forecast at the lower end of the confidence interval could indicate future tax cuts not expressly included in the PGE2016. The remarks made by the Finance Minister when presenting the budget support this hypothesis.[3]

Overall, non-financial income is set to rise by 2.8%, significantly less than nominal GDP, but substantially more than expenditure. As a result, the central government public deficit will be cut by the amount envisaged in the 2015-2018 Stability Programme, from 2.9% to 2.2% of GDP.

[2] For a detailed analysis of the PGE2016, see the article by Romero-Jordán and Sanz-Sanz (2015) in this issue.

[3] http://economia.elpais.com/economia/2015/08/04/actualidad/1438679903_965091.html.

In short, the popular measures aimed at the general public (such as the income tax cut) or targeting

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The 2016 budget is not expansionary. Quite the opposite. With forecast nominal GDP growth of 4%, total non-financial expenditure will drop by 0.3%, while non-financial income will rise by 2.8%. As a consequence, the central government deficit will be reduced from 2.9% to 2.2% of GDP.

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particular groups (for example, wage increases and other benefits for public-sector employees), are made to fit in with the budget so that the overall contractionary stance of fiscal policy is maintained, the deficit targets are met and spending relative to GDP remains on a rapid downward trend.

The PGE2016 and the 2015-2018 Stability Programme

Although we have already mentioned that the PGE2016 complies with the central government

deficit targets contained in the scenario envisioned in the 2015-2018 Stability Programme, it is interesting to analyse whether the path is that envisaged or if there are significant deviations, bearing in mind that the PGE2016 does not include the budgets for sub-national levels of government. Exhibit 1 includes the expected change in various public income and expenditure aggregates between 2015 and 2016. The estimated deficit reduction is of 1.4% of GDP, falling exclusively on the expenditure side. Both taxes and social security contributions will remain stable as a share of GDP. The two main items undergoing adjustment would be staff costs and social benefits, which would each drop by 0.4 percentage points. In the case of the latter, the main explanation lies in the decrease in unemployment benefits, due to the falling unemployment rate and end of benefit pay-out. The third most significant items for the downward adjustment would be debt interest (-0.3%); capital expenditure remains unchanged, and the remaining 0.3% would be explained by current spending's growing more slowly than nominal GDP.

Comparing Exhibit 1 with Table 1, the overall non-financial income and expenses match. With

Exhibit 1

Breakdown of 2015 and 2016 budgetary adjustment envisaged in the Stability Programme for the Kingdom of Spain 2015-2018
(As a percentage of GDP)
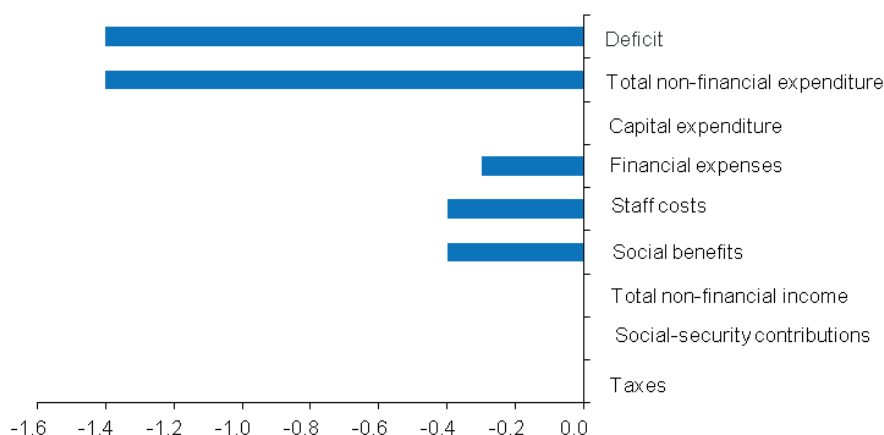
Source: The author, based on Ministry of Finance and Public Administration data (2015a).

nominal GDP growth of 4%, the non-financial expenses drop and the non-financial income rises by close to 3%. Bearing in mind the point mentioned regarding the taxes managed by the AEAT for sub-national treasuries, the projected growth in general government income will be close to this 4%. The debt interest item also fits in. Social security contributions will increase as a share of GDP if the government's forecasts are met. Where the deviations from the published figures are biggest is in capital expenditure and the remuneration of public-sector employees. While growth in the latter should be similar to that of GDP, the PGE2016 envisages a substantial drop in capital expenditure. Investments and capital transfers will decrease by 11.4%. And, in the

Compensating for the planned wage increases with additional cuts in public investment, which has already suffered severe cutbacks since 2010, raises medium and long-term challenges for the fundamentals of the Spanish economy.

opposite direction, against a marked drop in the weight of staff costs envisaged in the 2015-2018 Stability Programme, the central government envisages this item growing at a similar rate to nominal GDP in 2016. Although it is true that public-sector employment in sub-national levels of government is larger in volume, and it remains to be seen what decisions will be taken, the signal sent by PGE2016 is clearly expansionary.

The staff cost reduction targets in the 2015-2018 Stability Programme are probably excessive and difficult to reconcile with maintaining quality public services, above all without a thorough civil service reform that reallocates resources and improves incentives. However, compensating for the planned wage increases with additional cuts in public investment, which has already suffered severe and repeated cutbacks since 2010, also

raises medium and long-term challenges for the fundamentals of the Spanish economy. Revision of the Stability Programme seems unavoidable, at least on this point.

On budget implementation: Forecasts for 2015 and outlook for 2016

The macroeconomic scenario for compliance with the 2016 deficit targets is favourable. The government's forecasts for 2015 and the coming year are in line with those of international organisations and official and private entities in Spain and independent Spanish public bodies consider them reasonable (Bank of Spain, 2015; AIReF, 2015b). This is particularly so given the acceleration in GDP growth, in those cases where the revisions are more recent. As Table 2 shows, real GDP growth in 2015 (3.3%) is similar to Funcas' latest estimate and the Funcas consensus forecast (3.2%) and close to the figure given by the International Monetary Fund (IMF) and the Bank of Spain. For 2016 the differences are similar, and only the IMF and the European Commission (2.5% and 2.6%, respectively) deviate significantly from the government's estimate of 3%. However, once again, it is to be expected that the difference will become narrower when the figures are revised in the third quarter of 2015. This real GDP growth and increase in the GDP deflator of 0.5% in 2015, and of 1.1% in 2016, will help compliance with the targets through its positive effect on automatic stabilisers (such as unemployment insurance), on tax collection and social security contributions (although to a lesser extent, as we shall see below) and on the denominator of the public deficit and debt objectives, which are expressed as a percentage of GDP.

Nevertheless, this clearly positive component is accompanied by other factors that give rise to doubts and uncertainties. First, the closing of the current fiscal year. Second, the conduct and budgetary control of sub-national levels of government and the social security system. And third, the possibility of a change in government

as a consequence of the general elections in December.

Table 2

Real GDP growth outlook for Spain. International organisations and FUNCAS consensus
(Percentage)

	2015	2016
2015 budget	3.3	3
European Commission (May 2015)	2.8	2.6
IMF (July 2015)	3.1	2.5
OECD (June 2015)	2.9	2.8
Bank of Spain (June 2015)	3.1	2.7
FUNCAS (September 2015)	3.2	2.8
FUNCAS consensus (September 2015)	3.2	2.8

Source: The author.

Doubts exist as to the fulfilment of the deficit targets for 2015 and, consequently, as to the scale of the adjustment in 2016 to achieve the deficit commitment for that year. In this case, the fundamental reference is AIReF's (2015a) report on expected compliance. In short, it will be extremely difficult to meet the 2015 deficit target. Basically, things are turning out as expected (Lago-Peñas, 2014). A substantial number of regional governments are set to deviate from their targets for 2015, such that the deviation for the subsector as a whole could end up at around half a percentage point. Fortunately, local authorities will achieve a surplus of the same order of magnitude, rather than the equilibrium set as their target, which will offset the worse performance by the autonomous regions. In the case of the social security system, the possibility of non-compliance is also projected, estimated at around four tenths of a percent, which cannot be offset by the central government, which will comply with its obligations, but without offering a margin of security to other sub-sectors. The poor outlook for the social security system arises from over-optimism about the results of changing the system for managing contribution payments and the measures to create incentives for affiliation,

which reduce the collection elasticity of new jobs. Finally, the financial buffer envisaged in the central government's financial accounts thanks to the acceleration of economic activity, has been narrowed by various measures put into practice since the budget's approval.

Extrapolating from budget implementation in the first half of 2015 would put the overall general government deficit at around 4.6% of GDP, in excess of the 4.2% target.

Specifically, AIReF (2015a) estimates that the joint effect of the measures to support sub-national governments (*Fondo de Liquidez Autonómica* [Regional Liquidity Fund] and the *Fondo de Financiación de Pagos a Proveedores* [Supplier Payments Financing Fund]), bringing forward the income-tax reform planned for 2016 to July 2015, the final settlement of the financing of the autonomous regions for 2013 and a smaller than expected quota and financial compensation from the Basque Country will reduce the central government's revenues by around five tenths of a percentage point. In short, extrapolating from what has been seen in the first half of the year would situate the overall deficit around 4.6%, which is slightly above the Funcas' consensus in September 2015 and the most recent forecast available from the European Commission (4.5%). In any event, it should be noted that AIReF itself, at the presentation of its report, warned that the deviation is not inevitable, provided that budget execution by the four sub-sectors in what remains of 2015 is better than average and remains in the most favourable part of the confidence interval estimated by the organisation.

Secondly, there is broad convergence over the assessment that there is a problem at the autonomous region level. The international organisations agree on this point as one of the most disruptive factors to fiscal stability in Spain (IMF, 2015; European Commission, 2015). In this

sense, Spain is an interesting case to study given the high degree of budgetary decentralisation and the depth and duration of the recession, which has subjected the public finances to a severe

The most recent deviations in the social security system's deficit and the medium to long-term outlook should trigger reflection on the need to explore financing mechanisms drawing upon the General State Budget.

stress test. In fact, a variety of different formulas have been tried out over the last seven years (Lago-Peñas, 2015a). These have ranged from the laissez-faire of the early years of the crisis, to the tightening of legislation in 2012, which was interpreted –not without some justification– as a move towards recentralisation, but which was accompanied by a clear improvement in compliance with the deficit targets in 2012 and 2013, allowing for the renunciation of legislative mechanisms available and the introduction of extraordinary financing mechanisms, softening regional budgetary restrictions. It will probably be necessary to find a new solution based on a four-pronged approach. First, to allow the autonomous regions a larger share of the deficit, which is justified in view of the competencies they have acquired, and the size of their budgets. What makes little sense is to aim for demanding cut-backs and systematically fail to meet them. Second, to reform the regional financing system so as to make the regions' income more autonomous, but also significantly harden regional budget constraints. Extraordinary liquidity mechanisms, which are detrimental to achieving this rigidity, should be rolled back as the economic situation normalises. Third, revise the budgetary stability regulations to eliminate supervision, control and penalty mechanisms that are not applicable from an economic policy perspective. Fourth, apply mechanisms to ensure the legislation is followed automatically and rigorously.

In addition to the above, the most recent deviations in the case of the social security system and the medium-to-long term demographic outlook make it necessary to think about exploring financing mechanisms drawing on the PGE, as AIReF (2015b) recommends. It is also worth noting that the figure for the expansion of social security contributions envisaged for 2016 might be excessive, particularly if the starting point turns out to be a long way short of that budgeted in 2015. On this point the government has just raised the possibility that certain pensions (survivors' and orphans' pensions) be financed

The possibility of a change of government could significantly alter the 2016 budget, thus increasing uncertainty over its execution and altering the composition of public income and expenses.

via taxes, a solution that had already been put on the table by the trade union Comisiones Obreras during the debate on the recent reform to the pensions system. Whether it is this or some other mechanism that is introduced, such as the special-purpose tax proposed by the Socialist Party (PSOE) during the current budget debate, the Toledo Pact should deal with the issue in the coming legislative period.

Finally, the possibility of a change of government in the coming months merits consideration. The available voting intentions surveys suggest a sharp drop in votes for the two main parties (the People's Party and the Socialist Party) and the rise of two new parties (Podemos and Ciudadanos). Specifically, the Centre for Sociological Research (CIS) highlights that the two traditional parties have been able to attract around 80% of votes over the course of the series, but that this figure has dropped to 50% in the last year, benefiting the two new players on the political stage. Although this scenario may change over the coming months, the likelihood of an absolute majority

appears limited. A weak minority government or a coalition seem more likely, bringing concessions and pacts that may significantly alter both the PGE2016, which is still at the early stages of implementation, and the fiscal Stability Programme over what is left of the decade. Even assuming that the debt and deficit targets agreed with Brussels are met, it is to be expected that the combination of income and expenditure and the composition of both sides of the budget will be modified.

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The impact of fiscal consolidation on regional healthcare expenditure during the crisis

Eduardo Bandrés[1] and Rosa González[2]

The autonomous regions´ healthcare spending cuts are a step in the right direction and reflect the central government´s decision to implement much-needed deficit reduction measures. Unfortunately, more could also have been done to improve the overall efficiency of national healthcare services.

In terms of the volume of expenditure, healthcare is the largest function assigned to Spain's regional governments. Consequently, the process of fiscal consolidation on the spending side over the last few years has had a particularly strong impact on public healthcare benefits and services provided by the regions. Over the four-year period from 2010 to 2013, costs were cut by 12% from 2009 levels, when they had reached a record high. However, not all autonomous regions, services or expenditure items have been affected by cuts in the same way. This paper aims to analyse the cost reductions, main challenges, and differences in the activities, functions and services across the seventeen autonomous regions. Overall, slightly more than three quarters of the spending adjustment between 2009 and 2013 took place in the two-year period 2012-2013, and almost a quarter in the preceding two-year period. The areas in which expenditure was cut back most were outpatient drug spending, staff costs (through cuts in both wages and hospital staff numbers), and investments. However, many of the measures adopted during the crisis can be characterised as simple cutbacks rather than adjustments, and it is therefore possible that once their immediate fiscal impact has worn off, additional measures will be needed to improve the efficiency of healthcare services at the national level.

In the context of ongoing fiscal consolidation in the Spanish public sector, the autonomous regions have considerably reduced public expenditure. Given the structure of their competencies, this has had a powerful impact on the main areas of social policy. In aggregate terms, the autonomous regions' total non-financial expenditure peaked in absolute terms at 193.5 billion euros in 2011,

18.0% of national GDP. This ratio rose by another tenth of a percent to 18.1% in 2012 as a result of the contraction in nominal GDP. However, to understand the intensity of the consolidation process on the expenditure side, we have discounted interest payments (which have also been affected by the new extraordinary financing mechanisms adopted by the government in 2012) and current transfers

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Table 1

Autonomous regions' total public expenditure
(Million euros)

	Total expenditure	Interest	Current transfers to the State	Net primary spending	
				Total	% of GDP
2008	178,911	2,855	1,860	174,196	15.6
2009	188,248	2,825	1,233	184,190	17.1
2010	188,118	3,409	5,475	179,234	16.6
2011	193,522	5,135	16,518	171,869	16.0
2012	190,645	5,894	31,339	153,412	14.5
2013	162,242	7,273	7,613	147,356	14.0
2014	163,356	7,411	8,341	147,604	13.9

Source: Non-financial operations of the public administration and its subsectors, SEC-2010, Base 2010, IGAE (National Audit Office).

to the central government, which correspond to the settlements of the regional financing system, and so are more closely related to the revenue than expenditure side (*i.e.* they represent a reduction in revenue). This gives a more complete picture of how the autonomous regions have behaved with regard to the provision of public goods and services within the competencies conferred upon them.

As can be seen from Table 1, current transfers to the central government rose sharply in 2011 and 2012. The fact that advance payments had been much higher than final revenues meant the regional financing system's settlement payments were larger than usual. In turn, interest payments are linked to the debt stock, fluctuations in interest rates, and the government's bail-out mechanisms implemented in 2012 in response to the difficulty many autonomous regions had in tapping financial markets. Eliminating both items leaves "net primary spending", which more precisely mirrors regional public expenditure adjustments.

This shows that regional spending (excluding interest and current transfers to the State) peaked at 184.2 billion euros, or 17.1% of GDP, in 2009.

The adjustment process has gone through two two-year periods, and its severity has differed in each.[3] In 2010 and 2011, expenditure dropped by 12.3 billion euros, 6.7% of that in 2009, to 16.0% of GDP. Conversely, in the following two-year period, the reduction was practically doubled to 24.5 billion euros, 14.3% of spending relative to 2011, or 14.0% of GDP. The adjustment process seems to have been concluded in 2014, when spending stabilised at figures similar to those in the previous financial year. Overall, therefore, the reduction in autonomous regions' spending between 2009 and 2013 came to 36.8 billion euros, a drop of 20% relative to spending in 2009.

Overall, the reduction in autonomous regions' spending between 2009 and 2013 came to 36.8 billion euros, a drop of 20% relative to spending in 2009.

Based on a functional classification of expenditure, the three items with the greatest weight in regional

[3] For a review of regional treasuries during the crisis and the time sequence of adjustments, see Lago Peñas and Fernández Leiceaga (2013).

budgets are healthcare, education and economic affairs: overall representing three quarters of net primary spending. Consequently, the scope of the spending cuts between 2009 and 2013 was also concentrated in these three functions: a cut of 11.0 billion euros in economic affairs, mainly investments and capital transfers; 8.7 billion euros in healthcare; and 6.4 billion euros in education. As the regions are at the front line of the provision of essential services for the welfare state, the controversy over the spending adjustment process mainly surrounds healthcare, education and social protection.

Public healthcare spending cuts: Two stages

The culmination of the process of transferring healthcare services and functions from the central public sector (specifically, from the Social Security system) to the autonomous regions gave rise to the transfer of public healthcare spending to the regional government level, which accounted for 92% of the total in 2013. The provision of healthcare services in Spain is therefore basically a function of the intermediate level of government, namely the autonomous regions.

There are two main sources of information that can be used to examine regional governments' healthcare spending: the reports prepared by the National Audit Office (IGAE) in national accounts terms, applying the valuation criteria of the European System of National and Regional Accounts (SEC-2010) and *Public Healthcare Spending Statistics* (EGSP), based on the data in the satellite health accounts. Although the latter

The provision of healthcare services in Spain is therefore basically a function of the intermediate level of government, namely the autonomous regions.

start out from a set of rules that are consistent with the national accounts framework (although in the period studied here the data are based on SEC-1995), as can be seen in Table 2, the figures from the two statistical sources are not entirely equivalent.[4] The main differences are in gross fixed capital formation (GFCF) and, to a lesser extent, intermediate consumption. One of the changes introduced by SEC-2010 is precisely that it records government research and development (R&D)

Table 2

Autonomous regions' public healthcare expenditure
(Million euros)

	Current expenses		Capital expenditure		Total expenditure	
	IGAE-2010	EGSP	IGAE-2010	EGSP	IGAE-2010	EGSP
2009	63,192	62,386	3,521	2,001	66,713	64,387
2010	62,313	61,876	3,117	1,842	65,430	63,718
2011	61,037	61,360	2,778	1,232	63,815	62,593
2012	57,581	58,201	1,935	894	59,516	59,094
2013	56,308	56,050	1,653	696	57,961	56,746

Sources: Non-financial operations of the public administration and its subsectors, SEC-2010, Base 2010, IGAE (National Audit Office) and public healthcare spending statistics (EGSP) Ministry of Health, Social Services and Equality.

[4] For a review of the methodological issues concerning public health spending statistics, see Ministry of Health, Social Services and Equality (2013).

for its own use as GFCF, and in parallel reduces final consumption by the amount associated with R&D. In fact, as regards current expenditure, the differences between the two series are minimal. In what follows, the expenditure analysis will be based on the EGSP, as the satellite accounts allow a much more disaggregated valuation of the different expenditure items, and therefore give a more detailed interpretation of the scope of the adjustments made during the period under study.[5]

Given that the aim of this article is to look at the components of the reduction in healthcare spending in the various different autonomous regions, we have worked exclusively with figures expressed in current prices. As we shall see, a major part of the decrease in spending is due to a reduction in the labour cost (*i.e.* wages) and intermediate consumption (pharmaceuticals and medical supplies). However, the aim here is not to make a valuation of real services provided, bearing in mind that price changes affect almost all the autonomous regions to the same extent.

For regional spending as a whole, in 2010 and 2011, the average annual drop in healthcare spending was just 1.4%, while in 2012 and 2013, the annual average drop was 4.8%.

Therefore, using the EGSP data from now on, we can also see how healthcare spending varied in the two sub-periods mentioned above for regional spending as a whole. In 2010 and 2011, the average annual drop in healthcare spending was just 1.4%, while in 2012 and 2013, the annual average drop was 4.8%.

The first spending adjustment measures were adopted in January 2010 when the government approved the update to the Stability and Growth Programme with a set of fiscal consolidation measures implemented through the 2010 Rapid

Action Plan and the Central Government Austerity Plan, 2011-2013. Soon afterwards, in March 2010, the Fiscal and Financial Policy Council (CPFF in its Spanish initials) approved a Framework Agreement on the sustainability of public finances, 2010-2013, which was updated three months later. This agreement proposed a public deficit reduction commitment based on wage restraint, a strategy of limiting public-sector employment, and a policy of rationalisation of human resources. Additionally, in March, a drug spending rationalization plan was approved, aiming to save 1.5 billion euros by cutting manufacturers' prices for generic drugs and simplifying the reference price system.

More far-reaching measures were adopted in May 2010, with the enactment of Royal Decree-Law 8/2014, which cut salaries by 5% throughout the public sector. To this end, since June 1st, 2010, annual compensation for all public-sector employees was reduced by this percentage relative to salaries on May 31st of that same year, except in the case of those earning less than 1.5 times the full-time minimum wage. The Royal Decree also envisaged drug spending reduction measures: a cut of 7.5% in the regulated price of pharmaceuticals, both those sold to the public and those purchased by hospitals or health centres; and other measures to rationalise consumption and centralised procurement of supplies.

These measures were obviously reflected in autonomous regions' spending as of mid-2010, although their ultimate effect was still limited. Indeed, in 2010 it would be more appropriate to talk of cost containment than reduction, probably because despite the stricter deficit targets, the advance payments made under the regional financing system compensated for the slump in tax revenues. In practice, in this first year, investment dropped sharply and the first cuts began to be made to staffing, intermediate consumption (hospital pharmacies, medical supplies) and administration. The moderate adjustment in staff costs continued in 2011. This was felt more in primary healthcare than

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[5] For an examination of the relationships between health expenditure and regional finance, see Cuenca and González (2015).

Table 3

Autonomous regions' public healthcare expenditure, by chapters
(Million euros)

	2009	2010	2011	2012	2013
Staff costs	29,361	29,073	28,536	26,286	26,133
Intermediate consumption	13,529	13,270	14,318	15,233	13,737
Consumption of fixed capital	260	271	295	293	284
Total public production	**43,150**	**42,614**	**43,149**	**41,813**	**40,153**
Procurement	5,790	5,759	5,801	5,662	5,407
Pharmaceuticals and prosthesis	13,027	13,047	11,988	10,361	10,112
Total private production	**18,817**	**18,805**	**17,789**	**16,023**	**15,519**
Current transfers	420	457	423	365	378
Capital expenditure	2,001	1,842	1,232	894	696
Total expenditure	**64,387**	**63,718**	**62,593**	**59,094**	**56,746**

Source: Public healthcare spending statistics (EGSP), Ministry of Health, Social Services and Equality.

in hospital services, but the increase in intermediate consumption in hospitals ended up leaving public healthcare production costs in virtually the same position as two years earlier: 43.1 billion euros in 2011, compared with 43.1 billion euros in 2009 (Table 3). Nor were arrangements with the private sector much affected in this first two-year period, with only spending on pharmaceutical services (-8.1%) and investment (-33.6%) affected, with overall spending in 2011 at 1.7% below its level a year earlier. Overall, therefore, in the two-year period from 2010 to 2011, although the path towards a certain degree of control over healthcare spending was begun, with cuts in staff costs, investments and drug spending, the increase in intermediate consumption in hospital services left total healthcare spending just 2.8 percentage points less than two years earlier.

Over the two years from 2012 to 2013, however, there was a much steeper drop in healthcare spending. The incoming government after the November 2011 elections rapidly took a series of measures to address the spending sustainability problems. Continuing the policy of staff cost containment, public employees' salaries were frozen in 2012 and new public sector employment was halted, limiting the replacement rate in national healthcare system centres to 10% and setting strict restrictions on the hiring of temporary staff.

Royal Decree-Law 16/2012, April 20th, 2012, amended the regulations on insurance coverage, excluding foreigners not authorised and registered as resident in Spain from publicly-funded healthcare, allowing only emergency and prenatal care. Similarly, the contribution criteria for beneficiaries of outpatient pharmaceutical provision (corresponding to drug prescriptions) were changed, including pensioners for the first time, and linking payments to income levels.[6] Shortly afterwards, Royal Decree-Law 20/2012, July 13th, 2012, eliminated the December

[6] For people in paid employment, the general contribution, which had been 40%, remained at this percentage only for people on an annual income of less than 18,000 euros, rising to 50% for anyone earning between 18,000 and 100,000 euros, and rising to 60% for those earning over 100,000 euros a year. For pensioners there are two brackets for contributions: 10% or 60%, depending on whether or not they have an income of 100,000 euros, but with a ceiling of 8 euros a month for those earning less than 18,000 euros a year, 18 euros a month for those between 18,000 and 100,000 euros, and 60 euros a month for those receiving over 100,000 euros. Finally, certain groups receiving social welfare benefits are exempted.

extraordinary payment and public-sector employees' entitlement to take days off, while extending the working week to 37.5 hours. And finally, the 2013 Budget Law again froze all staff compensation, even if it restored the December extraordinary payment.

The autonomous regions have taken various cost containment measures of their own that have had an uneven impact on health care professionals. These include freezing promotions or salary cuts, reducing allowances for staff while on call, or limits on the number of training days.

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The comparative result of four years of adjustment, in terms of the economic classification of expenditure, can be summarised as follows: over the period 2010-2011 the cuts fell on staff costs (-2.8% over the two years), pharmaceutical costs (-8.0%) and capital expenditure (-38.4%); while in the period 2012-2013 the items most directly affected were the same, but the scale of the cuts much greater: 8.4% in staff costs, 15.6% in pharmaceuticals and prosthesis, and 43.51% in capital expenditure.

Differences between autonomous regions and distinctive features

The pattern followed by the seventeen autonomous regions differed between the two sub-periods. Overall, just over three quarters of the spending adjustment between 2009 and 2013 took place in the last two years (2012-2013). However, three communities, Andalusia, the Canary Islands and Galicia, in particular, adopted an early cost reduction strategy, with 2010-2011 bearing the brunt of the cutbacks. Andalusia presented a more stable downward path, with fewer fluctuations. Indeed, Galicia and the Canary Islands were the only two regions with positive growth in 2013. At the other end of the spectrum, five regions, namely the Balearic Islands, Madrid, Valencia, Murcia and Aragon, maintained a level of spending in 2011 that was equal to, or even slightly higher than, that two years earlier. The other nine regions began adjustment processes that were similar in intensity to the national average.

There are also significant differences in the final outcome of the cost reduction process (Table 4). In 2013, compared with the situation prevailing four years previously, the autonomous regions had reduced spending by almost 12 percentage points, on average. Castile-La Mancha and Aragon led the cuts, with over 20 percentage points, followed by Valencia, the Canary Islands, and Andalusia, with 15 points. By contrast, in Cantabria and Castile-Leon, spending only dropped by 1.4 and 4.2 points, respectively. The Basque Country (-5.9 points), Murcia (-7.6) and Madrid (-8.0) also had a smaller than average drop. In the other regions, the final figures are very similar to the national total. In any event, some of the EGSP data referring to intermediate consumption differ from equivalent data from IGAE, especially in the cases of Aragon and Cantabria. This could be due to difference in the processes of recording budgetary expenditure data corresponding to other years, which could lead to over or undervaluation of the figures in a given year. This factor merits consideration as regards to analyzing the results of these two regions.[7]

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[7] In the case of Aragon, the sum of intermediate consumption spending in the years 2012 and 2013 is practically the same according to both EGSP and IGAE data, but the distribution between the two years shows a sharp decline in 2013 on the basis of EGSP data, that nevertheless, is much smaller on the basis of IGAE data. In Cantabria, the difference is observable in 2012, with a figure much larger in terms of EGSP data, due to the recording in the budget of payments immediately made through the service provider payment mechanism, which was applied for the first time that year.

Table 4

Adjustment to healthcare spending by items, 2009-2013
(% change between 2009 and 2013)

	TOTAL	Staff	Intermediate consumption	Sum of Public Prod.	Private prod.	Pharmaceuticals and prosthesis	Capital expenditure
Andalusia	-14.25	-16.45	-0.50	-11.80	-21.15	-13.27	-72.77
Aragon	-19.28	-8.52	-37.47	-15.33	-29.99	-26.85	-46.17
Asturias	-13.04	-10.08	-4.43	-8.24	-19.00	-27.96	-22.56
Balearic Islands	-10.36	-13.66	-6.73	-12.15	87.85	-18.64	-56.35
Canary Islands	-14.73	-10.14	-16.25	-12.04	-8.05	-22.62	-60.84
Cantabria	-1.36	-10.36	52.92	6.42	1.59	-26.09	-15.37
Castile-Leon	-4.21	-5.56	44.44	6.00	5.28	-24.21	-14.53
Castile-La Mancha	-20.89	-19.08	0.67	-14.02	-36.59	-24.69	-88.12
Catalonia	-11.99	-9.11	3.04	-4.26	-10.87	-29.30	-44.14
Valencia Region	-14.72	-10.10	0.29	-5.79	-10.18	-31.69	-81.06
Extremadura	-11.82	-7.13	1.15	-5.25	2.89	-19.47	-93.62
Galicia	-12.44	-9.65	2.10	-6.08	-6.81	-20.65	-64.38
Madrid	-7.95	-12.58	-1.83	-8.90	29.35	-12.56	-78.34
Murcia	-7.61	-8.02	15.41	-1.70	-15.00	-22.50	-30.64
Navarre	-11.30	-6.52	-2.59	-5.37	-1.13	-31.42	-49.82
Basque Country	-5.89	-3.49	8.39	0.37	-5.92	-18.63	-65.15
La Rioja	-11.33	-13.66	3.83	-8.43	11.27	-24.49	-88.10
TOTAL	**-11.87**	**-11.00**	**1.53**	**-6.95**	**-6.60**	**-22.38**	**-65.24**

Source: Public healthcare spending statistics (EGSP), Ministry of Health, Social Services and Equality.

Adjustments in service costs

There are three major components to autonomous regions' healthcare spending: public production of healthcare services, comprised mainly of hospital and specialised services and primary healthcare services; the purchase of private services under agreements, aimed mainly at specialist and hospital care; and finally, outpatient pharmaceutical services. Together, these three items account for 97% of healthcare spending by the autonomous regions, with primary care accounting for more than 13%, specialised and hospital care 49%, the purchase of private services 9% (of which over 7% is for hospital and specialised services), and drug prescriptions 21% (Table 5).

The reduction in expenditure on the public production of healthcare services was particularly intense in the case of primary healthcare services, in which there was a continual drop between 2010 and 2013, ending the four-year period with a cumulative decrease of 16.2%. In the case of hospital and specialised care, the drop was smaller (4.8%), particularly due to the difficulties stabilising intermediate consumption expenditure, which in fact rose over the course of the period.

Table 5

Autonomous regions' public healthcare expenditure, by services
(Million euros)

	2009	2010	2011	2012	2013
Hospital and specialised services	31,393	31,151	31,953	31,219	29,895
Primary health-care services	8,694	8,541	8,209	7,634	7,284
Student doctor teaching	973	979	1,001	992	1,003
Public health services	695	638	628	572	558
Sum of individual services	**41,754**	**41,309**	**41,792**	**40,416**	**38,739**
Research and training	166	174	254	263	254
General administrative expenses	1,230	1,131	1,104	1,133	1,160
Sum of collective services	**1,396**	**1,305**	**1,357**	**1,396**	**1,414**
Sum of public production	**43,150**	**42,614**	**43,149**	**41,813**	**40,153**
Primary health-care services	181	191	196	193	195
Specialised services	902	970	970	1,160	1,054
Hospital services	3,691	3,528	3,556	3,352	3,288
Patient transport	1,017	1,070	1,079	958	869
Sum of private production	**5,790**	**5,759**	**5,801**	**5,663**	**5,407**
Pharmaceuticals	12,856	12,873	11,836	10,225	9,994
Prosthesis and therapeutic appliances	170	174	152	136	118
Spending on pharmaceuticals and prosthesis	**13,027**	**13,047**	**11,988**	**10,361**	**10,112**
Current transfers	420	457	423	365	378
Gross fixed capital formation	1,959	1,807	1,201	873	677
Capital transfer between private bodies	43	35	32	21	19
Sum of capital expenditure	2,001	1,842	1,233	894	696
Total expenditure	**64,387**	**63,718**	**62,593**	**59,094**	**56,746**

Source: Public healthcare spending statistics (EGSP), Ministry of Health, Social Services and Equality.

Procurement was barely affected until 2012, when there was a slight drop in spending on hospital services and patient transport. The final adjustment in private production over the four-year period is therefore slightly lower than that applied to publicly-produced individual services: -6.6% and -6.9%, respectively.

However, the biggest adjustment in absolute terms was in spending on outpatient drugs, prosthesis and therapeutic devices, which dropped by 22.4% between 2009 and 2013, mainly as a result of the measures taken regarding regulated prices of medicinal products and the reduced consumption of prescriptions, following the increase in the share of prescription costs paid by users.

Cost-cutting measures have included closing surgeries and ongoing care facilities, limiting opening hours at healthcare centres, reducing the number

of hospital beds, doctor´s offices and operating rooms, etc. Thus, for example, the number of beds in operation in national healthcare system hospitals went from 115,418 in 2010 to 109,484 in 2013, a reduction of 5.2%. The decrease relative to the peak year in each region was proportionally higher in Castile-La Mancha (-13.6%), Catalonia (-8.2%), Cantabria (-7.3%) and Navarre (-6.8%), and much more limited in the Canary Islands (-1.6%), Murcia (-2.1%), Asturias (-2.3%), Extremadura (-3.3%) and Andalusia (-3.3%), increasing only in La Rioja.[8]

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However, in absolute terms, more than three quarters of the spending adjustment affected staff and drug prescriptions, two factors that will be discussed below.

Staff and human resource spending

The cut in staff costs relied partly on wage cuts and freezes dictated by the central government, and various control measures adopted by the autonomous regions, along with a cut in the workforce (temporary workers, retirement at 65). In the case of the former, there are no *a priori* grounds for deducing negative effects on healthcare, except possible impacts on productivity that are difficult to quantify. However, it is much more plausible that cuts in the workforce have had an impact on the quality of healthcare,

waiting lists, etc., such that it is possible to detect the regions in which the cuts may have had a more negative impact.

Among staff associated with the national healthcare system, staff reductions have been concentrated in hospital and specialised care, with a lesser impact on primary healthcare, despite which, as we have seen, the effects in terms of spending were proportionately greater in primary than specialised care. The number of staff in primary healthcare was 85,267 in 2009 and, after a slight drop in 2010, it peaked at 85,852 in 2011, dropping to 84,651 in 2013. The changes were therefore relatively minor and mainly targeted non-medical personnel (the changes in general practitioners, pediatricians and nursing staff were minimal), although in some autonomous regions the adjustments were bigger. However, there is no common pattern for the change in healthcare personnel numbers over the period analysed. Only in the cases of Asturias, Castile-Leon, the Basque Country and La Rioja was a somewhat larger drop observed in the number of primary healthcare staff relative to the peak reached by each of them at various points during the period.

Conversely, in hospital and specialised care there was a significant reduction in staff in almost all the autonomous regions. Due to the break in the series in 2010, when the *Estadística de Establecimientos Sanitarios en Régimen de Internado* [In-patient Health Establishment Statistics] (ESCRI) was replaced by the *Sistema de Información de Atención Especializada* [Specialised Care Information System] (SIAE), it is only possible to make uniform comparisons taking the period 2010-2013 as the reference. Over this interval, the drop in total staff employed at public centres or similar in the national healthcare system was 21,011 people, 4.5% of those employed in 2010. Differences between the autonomous regions are apparent here too. Taking as a reference the year in which there was a peak in staff numbers (2009 in ten regions, and 2010 in the other seven), the biggest

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[8] See Ministry of Health, Social Services and Equality (2015 a,b,c,d).

adjustments took place in Castile-La Mancha, Navarre, Madrid, Andalusia and Catalonia, while the smallest took place in the Basque country (where there was even an increase in staffing), La Rioja, Extremadura and Galicia.

In both primary healthcare and hospital and specialised care, the lower staff grades have borne the brunt of the autonomous regions' staff cuts in the area of healthcare.

A more detailed examination of the professional categories of hospital and specialised care staff yields interesting findings on where the staff cuts were concentrated. Thus, there has hardly been any reduction in the number of doctors, which went from 76,691 in 2010 to 76,481 in 2013, with the specific exceptions of Castile-La Mancha and Catalonia. Instead, the cuts have targeted nursing staff, medical technicians, and non-medical personnel. In the case of the former, from a maximum of 135,921 employees in 2010, there was a drop of 4,110 (3.0%) to 131,811 in 2013. The regions most affected relative to their peak staff numbers in 2010 or 2011 were Andalusia, Castile-La Mancha, Madrid, Catalonia, and Murcia. The least affected were the Basque Country, where there was growth, La Rioja, the Balearic Islands, Cantabria, and Extremadura. The cut in the number of medical technicians (auxiliary and higher technicians) was 5,936 (4.8%), with Castile-La Mancha, Valencia, Andalusia, and Madrid making the largest cuts, and Galicia, the Basque Country, the Canary Islands, and the Balearic Islands making the smallest cuts. In the case of non-medical personnel, the reduction was 8,898 staff (7.4%) relative to 2010, leaving a final total of 111,548 in 2013. In this case, the regions making the biggest cuts in relative terms were Navarre, Castile-La Mancha, the Balearic Islands, Madrid, Murcia, Andalusia, and Asturias, while the Basque Country, Valencia, La Rioja, and Galicia were least affected. It can therefore be concluded that in both

primary healthcare and hospital and specialised care, the lower staff grades have borne the brunt of the autonomous regions' staff cuts in the area of healthcare.

Outpatient drug spending

Outpatient drug spending was one of the items hardest hit by the adjustment process. Over the period studied as a whole, drug spending, including spending on prosthesis and therapeutic appliances, dropped by 22.4%, following a similar trajectory to overall expenditure: an initial drop of 8.0% in the period 2010-2011 (in reality the adjustment appears in the 2011 figures, as in 2010 there was barely any change) and then a subsequent, stronger drop of 15.6% in 2012-2013, mainly concentrated in 2012. The regions with the biggest drop in spending over the four years were Valencia (-31.7%), Navarre (-31.4%), Catalonia (-29.3%), and Asturias (-28.0%). The smallest drops took place in Madrid (-12.6%) and Andalusia (-13.3%).

The significant reduction in drug spending was linked to two factors: the number of prescriptions invoiced and the average cost per prescription. The number of prescriptions peaked in 2011 at 970.9 million, after positive, but ever slower, growth in the preceding years. Between 2012 and 2013, there was a drop of close to 12% in the number of prescriptions invoiced, spread evenly over the two years. However, there were differences between the regions. Although the pattern was close to the national average in most cases, there was a bigger drop in Valencia (16.3%) and Catalonia (14.7%), while the Canary Islands (7.6%) and Extremadura (8.3%) experiences smaller drops.

The average cost per prescription also fell slightly in 2009, then falling more strongly in 2010-2011, with a drop of 1.95 euros/prescription, *i.e.* 14.6% in comparison with 2009. Subsequently, in 2012-2013, the cumulative drop was smaller (0.76 euros), 6.6% compared with 2011, practically all of which was concentrated in 2012. Overall, spending per prescription went from 13.39 euros

in 2009 to 10.68 euros in 2013 (20.6%). The biggest drops from each region's peak in 2008 or 2009 took place in the Balearic Islands (26.0%), Asturias (24.3%), the Canary Islands (24.2%), Castile-Leon (24.2%) and La Rioja (24.0%); the smallest, in the Basque Country (15.0%), Cantabria (16.7%) and Andalusia (17.4%). The final outcome is that the national healthcare system's average spending per prescription invoiced in 2013 is above average in the Basque Country, Valencia, Galicia and Cantabria, and clearly below average in Andalusia and Catalonia.

Concluding remarks

To sum up, healthcare spending adjustments have been concentrated in four areas: wage cuts, staff cuts among the lower professional grades, cuts in drug prices, and the virtual elimination of investments. In general terms, the autonomous regions with the biggest deficit problems had to make the biggest cuts to their healthcare services: Castile-La Mancha, Valencia, Catalonia and Andalusia therefore had the biggest reductions on most of the indicators examined. By contrast, the Basque Country, Madrid, Castile-Leon, and Galicia were able to make much milder adjustments.

However, a simple analysis of the spending figures does not give any insight into possible organisational reforms or innovations that some regions may have put in place to improve the efficiency of their healthcare services. It is also true that, ultimately, the analysis here only accounts for the inputs, without addressing their effects on intermediate healthcare outputs, or more difficult still, the final output in terms of the population's health. A simple description of the facts and figures, however, clearly reflects that the majority of the reduction in autonomous regions´ healthcare spending came from the central government´s decision to implement much-needed fiscal consolidation measures (salaries, public employment, pharmaceutical prices, etc.) Thus, unfortunately many of the measures adopted during the crisis can be characterised more as simple cutbacks rather than adjustments, and therefore once their immediate fiscal impact has worn off, additional measures will be needed to improve the efficiency of healthcare services at the national level.

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Recent key developments in the area of Spanish financial regulation

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

Law on the second-chance mechanism, reduction of financial burden, and other social measures (Law 25/2015, published in the State Official Gazette (BOE) on July 29th, 2015)

This Law, which confirms Royal-Decree Law 1/2015, February 27th, 2015, on the second-chance mechanism, reduction of financial burden, and other social measures (discussed in the May 2015 edition of *SEFO*), aims to allow parties that have liquidated their entire estate to settle their debts to their creditors to be released from the bulk of any debts remaining after this process.

I. URGENT MEASURES TO REDUCE FINANCIAL BURDEN

■ **Amendment of Law 22/2003 of July 9th, 2003, on insolvency**

● **Amendments regarding the second-chance mechanism**:

In cases of **insolvency ending in liquidation or insufficient assets**, where the debtor is a natural person, the outstanding debt will be cancelled provided the debtor has acted in good faith. The Law defines the requirements for the debtor to be considered to have acted in **good faith**.

Creditors' rights remain intact vis-à-vis other parties jointly and severally bound with the bankrupt and vis-à-vis his/her guarantors, who may not invoke the benefit of cancellation of the outstanding liabilities obtained by the bankrupt or subrogate the rights that the creditor may have against the bankrupt over the subsequent payment of the settlement, unless the cancellation granted is revoked.

Moreover, if the bankrupt is married and holds **property in common** with his/her spouse and this joint ownership arrangement has not been dissolved, the benefit of cancellation of the outstanding liabilities shall extend to the bankrupt's spouse, even if not personally declared bankrupt, in respect of the debts prior to the declaration of bankruptcy to be settled out of the common assets.

Nevertheless, there exists the possibility that any creditor in the bankruptcy proceedings may apply for the **revocation of the benefit of cancellation of the outstanding** liabilities when, during the five years subsequent to its being granted, the existence of concealed income, assets or rights of the debtor emerge (with the exception of assets that may not be seized).

● **Amendments regarding the out-of-court payments agreement**:

The cases in which **proceedings to reach an out-of-court payments agreement** may be

begun have been modified: such proceedings may be begun not only by business-people that are natural persons, but also by other natural persons finding themselves insolvent, or envisage that they will be unable to meet their obligations, provided the initial estimate of their liabilities does not exceed five million euros. It is also provided that parties having been convicted by a final judgement of certain crimes, and persons who have reached an out-of-court payments agreement, legal endorsement of a refinancing agreement, or been declared bankrupt in the last five years, may not apply for an out-of-court payments agreement.

It should be noted that the application for the **appointment of a bankruptcy mediator in proceedings to reach an out-of-court payments agreement** must be made using standard forms, accompanied by an inventory of assets and expected regular income, and the list of creditors.

Once the **opening of the dossier** has been applied for, the debtor may continue his/her employment but must refrain from any act of management or disposal exceeding the operations intrinsic to his/her occupation. Similarly, from the time of the notification of opening of the negotiations at the court competent to declare bankruptcy, creditors that may be affected by the possible out-of-court payments agreement may not commence or continue foreclosure proceedings against the debtor's assets while the agreement is being negotiated, up to a maximum period of three months.

The **mediator in bankruptcy must send** the creditors, with the debtor's consent, a **proposed out-of-court payments agreement**, with the measures he/she wishes to propose.

In order for the **out-of-court payments agreement to be considered accepted**, it needs to be adopted by majorities of 60% or 75%, as applicable, calculated according to the volume of the liabilities.

Creditors who have not accepted or who have expressed their **disagreement with the out-of-court payments agreement** and who are affected, will maintain their rights vis-à-vis other parties jointly and severally bound with the debtor and vis-à-vis their guarantors, who may not invoke the approval of the out-of-court payments agreement to their detriment. In the case of creditors who have **signed the out-of-court payments** agreement, the maintenance of their rights vis-à-vis other debtors or guarantors will depend on what has been agreed in the respective legal relationship.

In the case of so-called **consecutive bankruptcy proceedings**, it is established that these will be governed by the summary procedure, with the special features established in the law.

It is also provided that, in the case of debtors who are natural persons, if the bankruptcy is classed as fortuitous, the judge concluding the bankruptcy proceedings will declare the cancellation of the outstanding liabilities, provided that the requirements are met, in the terms envisaged in the Bankruptcy Law. In the case of **natural persons not engaged in business**, there are certain special features in the out-of-court payments agreement.

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

Law 25/2015 **expands the definition of the exclusion threshold** provided in Royal Decree-Law 6/2012.

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

The **moratorium on evictions** of persons belonging to vulnerable groups from their primary

residence as defined in Law 1/2013 has been extended from two to four years, *i.e.* until 2017.

II. OTHER SOCIAL MEASURES

Title II of the Law introduces various tax measures applicable as of January 1st, 2015, affecting, in particular, personal income tax, corporate tax and legal expenses.

III. ADDITIONAL, TRANSITIONAL AND FINAL PROVISIONS

● Bankruptcy intermediation functions

The Official Chamber of Commerce, Industry, Services and Navigation and the Official Chamber of Commerce, Industry, Services and Navigation of Spain can provide bankruptcy mediation services and additional services supporting merchants' activities.

This mediation system must be transparent and ensure that there are no conflicts of interest. The possibility of setting up an **Over-indebtedness Commission** is envisaged.

● Remuneration of the bankruptcy mediator

The bankruptcy mediator's remuneration will be calculated on the basis of assets and liabilities applying certain percentages with certain reductions depending on whether the debtor is a natural person not exercising an economic activity, natural person engaged in business, or a company. If the out-of-court payments agreement is approved, a complementary compensation will be applied.

● Representation of the debtor in consecutive bankruptcy proceedings

Debtors who are natural persons need not be represented by a lawyer in consecutive bankruptcy proceedings.

● Solvency gauge

The Ministry of Economic Affairs and Competitiveness will set up a free application on its website allowing confidential access where any interested parties may determine their **solvency status** with regard to the application of urgent financial burden reduction measures.

Bank of Spain Circular amending central credit register (CIRBE) Circular and Circular 5/2014 (amending the accounting Circular, Circular on interest rate statistics and on the CIRBE) (Circular 3/2015, published in the BOE on August 12th, 2015)

The forwarding and receipt of financial statements as provided in Circular 5/2014 (FINREP), in relation to the statistical requirements of the Economic and Monetary Union, has presented operational difficulties both for the Bank of Spain and reporting credit institutions. On top of this must be added the risk of future ECB regulations on credit risk information (AnaCredit), and the amendment of the accounting Circular, causing the statements and modules to differ from those that entities will be required to send under the current Bank of Spain regulations.

Therefore, Circular 3/2015 **modifies, postpones and, in some cases, even repeals the criteria for the adoption and submission of accounting statements and of some modules of CIRBE**, in order to conduct an in-depth analysis of certain conceptual, technical and operational issues allowing measures to reinstate the information currently abrogated as soon as possible, facilitating the tasks of financial institutions and the Bank of Spain and reducing their costs.

Moreover, it reminds significant groups of the date by which they are to submit individual financial information on subsidiaries established in European Union Member States not belonging

to the Single Supervisory Mechanism or in third countries. Lastly, it modifies the periodicity of certain statements in the accounting Circular.

Bank of Spain Circular amending the accounting Circular, CIRBE and the transparency Circular (Circular 4/2015, published in the BOE on August 13th, 2015)

The main changes introduced by this Circular come from the technical competences conferred upon the Bank of Spain by Royal Decree 579/2014, July 4th, 2014, implementing certain aspects of Law 14/2013, September 27th, 2013, supporting entrepreneurs and their internationalisation, on the subject of internationalisation bonds.

Broadly, the modifications are the **following**:

✓ The accounting Circular is modified in order to establish: (i) the minimum content of the special accounting record of territorial bonds and the special accounting register of internationalisation bonds; and (ii) the information that should be published and incorporated in the report accompanying the annual accounts of the issuing institution. Certain errors detected have also been corrected.

✓ CIRBE has been modified to incorporate financing business internationalisation among operational objectives.

✓ The amendment of the t**ransparency Circular** concerns the definition and means of calculating the official reference rate in the mortgage market referred to as the "Average mortgage lending rate over terms of one to five years for the purchase of free-market housing granted by credit institutions in the euro area" as the two sources that were previously used to obtain it are no longer available.

The timetable for the entry into force of this Circular will depend on the timetable set for each of the amendments mentioned here.

Spanish economic forecasts panel: September 2015[1]

FUNCAS Economic Trends and Statistics Department

The growth forecast for 2015 has been raised one tenth of a percent to 3.2%

Driven by domestic demand, GDP grew by 1% in the second quarter compared with the previous quarter. Private consumption was highly dynamic, as was investment in both construction and capital goods. Exports progressed rapidly, although they were outpaced by imports, such that the net contribution of the external sector to GDP growth was negative, thus resuming the habitual pattern seen since the start of the recovery, after two consecutive quarters in which it made a positive contribution.

The consensus forecast for 2015 has been raised one tenth of a percent to 3.2%. This revision derives from an increase in the expected contribution of domestic demand, which will be 3.4 percentage points, while the contribution of the external sector will be -0.2 pp.

Growth in the third and fourth quarters will slow to 0.8% and 0.7%, respectively (Table 2).

The forecast for 2016 has been revised upwards a tenth of a point to 2.8%

The consensus forecast for GDP growth in 2016 is 2.8%, one tenth of percentage point higher than in the previous Panel. In this case too, the upward revision has been the outcome of greater than expected growth in domestic demand. As in 2015, the external sector is expected to make a negative contribution.

The quarterly profile is for a stable growth rate of 0.6% throughout the year.

The outlook for the industrial sector is very positive

The rise in the industrial production index accelerated in the second quarter of the year. The positive trend in industrial activity has also been reflected in GVA, which is higher than in other sectors –excluding agriculture– and the positive trend in employment.

The consensus forecast for IPI growth in 2015 has been raised considerably to 3.1%, five tenths of a percent higher than in the previous Panel. That for 2016 has also been revised upwards, to 3.3%.

Falling oil prices have again pushed inflation into negative territory

The inflation rate, which in June and July turned positive after almost a year in negative territory, dropped again to -0.4% in August, due to falling

[1] The *Spanish Economic Forecasts Panel* is a survey run by FUNCAS which consults the 16 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 16 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.

oil prices. The consensus forecast for the 2015 average rate has dropped by a tenth of a point to -0.3%, and that for 2016 has also been revised downwards to 1.1%. The year-on-year rate expected for December this year is 0.9% and that for December 2016 is 1.2%.

The employment forecast has improved

Employment, in full-time job equivalent terms, increased by 0.9% in the second quarter. In line with better growth forecasts for the economy, the forecast for job creation in 2015 has been revised upwards to 3% and that for 2016 to 2.7%. The average annual unemployment rate forecast for this year is 22.3%, while that for 2016 is 20.5%.

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 0.2% in 2015 and 0.1% in 2016, while ULCs, are expected to change by 0.4% this year and 0.9% next year.

Cheaper oil has improved the current account balance

The balance of payments on the current account in the first half of 2015 registered a slight surplus, compared with a deficit of 3.5 billion euros in the year-earlier period. This improvement was partly due to lower oil prices, as, according to Customs data, the goods trade balance excluding energy products worsened in the period. An additional factor was the reduction in the deficit on the income and transfers balance.

The consensus forecast for the current account balance is for a surplus of 1% of GDP in 2015 and 0.9% in 2016.

The government deficit will overshoot the target by a few tenths of a percent

The overall balance of the central government, social security and autonomous regions to May was 2.2% of GDP, just one tenth of a percentage point less than in the same period in 2014. The autonomous regions' deficit up to May was 0.5%, one tenth of a percentage point less than in the year-earlier period, and only two tenths of a percent short of its objective for the year as a whole.

The consensus forecasts for the general government deficits for 2015 and 2016 are 4.5% and 3.2% of GDP, respectively. These figures are three and four tenths of a percent, respectively, over the government's targets.

The state of the global economy is perceived to have worsened

Growth expectations for the global economy deteriorated over the summer as a result of the doubts about the state of the Chinese economy, particularly after the devaluation of its currency in mid-August. By contrast, the outlook for the United States has improved with the surprising upward revision of GDP growth in the second quarter to 3.7% and the drop in the unemployment rate to 5.1%. Growth in the euro area remains weak, despite the slight upward revision in the results of the first and second quarters.

Panellists' view of the current situation in the EU has worsened somewhat since the last panel, although the majority continue to think it will improve in the months ahead.

As regards the situation outside the EU, the worsening perception has been more pronounced, with a significant shift in opinions from favourable and neutral to unfavourable.

The consensus view is that long-term interest rates are too low

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

In the case of the long-term rate (10 years), yields have risen to over 2% in recent weeks, and Spain's risk premium has also risen, now exceeding Italy's. This is likely to be due to concerns over domestic political uncertainties.

In any event, the view remains that interest rates on Spanish debt are very low, and they are expected to remain stable over the next few months.

The euro continues to depreciate

The euro has traded at around 1.11 dollars in recent months. Most panellists consider this exchange rate to be neither over nor undervalued, but expect the euro to lose value over the next few months.

Fiscal policy is too expansionary

After the recent measures announced by the government, most panellists consider fiscal policy to be expansionary relative to the state of the Spanish economy, although opinions differ as to the appropriate stance. All the panellists classed current monetary policy as expansionary, and the unanimous view was that this was the appropriate stance.

Exhibit 1
Change in forecasts (Consensus values)
Percentage annual change
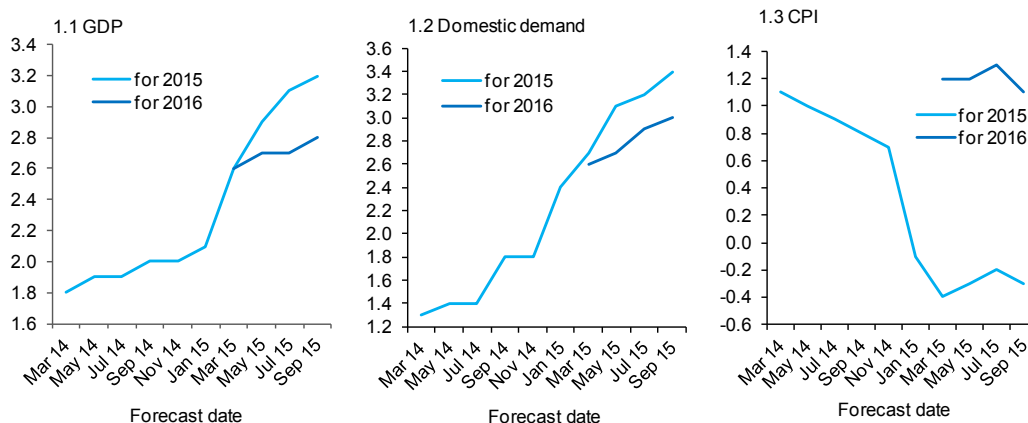
Source: FUNCAS Panel of forecasts.

Table 1

Economic Forecasts for Spain – September 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)	3.2	2.8	3.5	3.0	1.2	1.1	5.8	5.0	8.6	7.1	5.3	4.9	4.4	3.7
Banco Bilbao Vizcaya Argentaria (BBVA)	3.2	2.7	3.4	2.5	1.3	0.6	6.0	6.1	8.6	7.2	5.1	4.8	3.3	2.8
Bankia	3.2	2.8	3.4	3.0	0.8	0.6	6.2	5.3	9.6	8.2	5.1	3.8	3.4	3.0
Cemex	3.1	2.5	3.4	2.5	1.4	1.2	5.7	5.6	8.2	5.3	4.8	5.9	3.3	2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.2	2.7	3.4	2.7	1.0	0.8	5.5	5.6	6.7	6.1	5.4	5.8	3.2	2.8
Centro de Predicción Económica (CEPREDE-UAM)	2.9	2.3	3.4	2.7	0.8	0.9	6.2	5.7	9.6	7.9	5.0	4.8	3.4	3.1
CEOE	3.3	2.9	3.4	2.8	1.0	0.7	6.1	4.9	9.3	6.0	5.1	4.7	3.3	2.8
Fundación Cajas de Ahorros (FUNCAS)	3.2	2.8	3.7	3.5	1.0	0.8	6.0	5.2	8.6	6.6	5.1	4.3	3.6	3.3
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)	3.3	3.0	3.6	3.7	1.5	1.0	6.2	5.4	9.5	8.4	5.4	4.9	3.5	3.0
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	3.4	3.0	3.5	2.9	1.6	0.4	6.2	5.6	8.1	6.5	5.3	4.7	3.6	3.2
La Caixa	3.1	2.6	3.5	2.4	1.3	-0.1	6.0	4.4	8.8	5.6	5.0	3.7	3.4	2.3
Repsol	3.2	3.0	3.4	2.9	1.4	0.8	6.4	5.3	10.0	7.9	5.4	4.0	3.4	2.9
Santander	3.1	2.9	3.5	3.0	1.1	1.0	6.3	5.9	8.9	5.4	5.4	6.4	3.4	3.2
Solchaga Recio & asociados	3.2	2.7	3.4	3.0	0.9	1.0	6.4	5.5	8.8	6.9	5.4	5.5	3.5	3.1
CONSENSUS (AVERAGE)	3.2	2.8	3.4	2.9	1.1	0.8	6.0	5.4	8.8	7.1	5.1	4.9	3.4	3.0
Maximum	3.4	3.0	3.7	3.7	1.6	1.3	6.4	6.5	10.0	11.1	5.4	6.4	4.4	3.7
Minimum	2.9	2.3	3.2	2.4	0.6	-0.1	5.3	4.0	6.7	5.3	4.3	3.7	3.0	2.3
Change on 2 months earlier[1]	0.1	0.1	0.1	0.1	0.1	0.1	0.3	-0.1	0.5	-0.1	0.6	0.0	0.2	0.1
- Rise[2]	9	7	9	9	7	5	8	5	11	6	12	4	10	8
- Drop[2]	2	3	3	2	3	3	2	8	2	6	2	7	2	4
Change on 6 months earlier[1]	0.6	0.2	0.5	0.3	0.5	0.1	1.2	0.5	1.6	0.6	2.3	1.1	0.7	0.4
Memorandum ítems:														
Government (July 2015)	3.3	3.0	3.4	3.0	0.1	0.3	6.4	5.6	9.3	6.6	5.5	5.5	3.4	3.0
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 (July 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 – September 2015
Average year-on-year change, as a percentage, unless otherwise stated

	Exports of goods & services		Imports of goods & services		Industrial output		CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[7]	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Analistas Financieros Internacionales (AFI)	5.3	5.6	6.4	6.9	--	--	-0.2	1.3	--	--	3.0	2.5	22.4	20.9	0.4	0.4	-4.7	-3.5
Banco Bilbao Vizcaya Argentaria (BBVA)	4.6	6.9	5.5	7.5	--	--	-0.4	1.2	0.8	1.7	3.0	2.5	22.2	20.5	1.3	1.4	-4.5	-3.0
Bankia	6.1	5.9	7.1	6.9	2.9	2.8	-0.3	1.0	0.4	0.6	2.9	2.4	22.2	20.5	1.8	2.0	--	--
Cemex	4.9	5.4	6.2	7.0	--	--	-0.2	1.6	--	--	2.7	2.7	22.4	20.8	1.0	0.5	-4.2	-2.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.6	5.5	6.1	6.2			-0.3	1.0	--	--	3.1	2.6	21.9	19.7	0.8	0.8	-4.1	-3.0
Centro de Predicción Económica (CEPREDE-UAM)	5.3	4.7	7.2	7.4	2.5	2.7	-0.2	1.0	0.4	1.1	2.6	1.7	22.5	21.8	0.4	-0.5	-4.9	-3.9
CEOE	6.1	5.9	6.7	5.9	--	--	-0.4	1.2	0.5	1.0	3.0	2.7	22.2	20.2	1.4	1.2	-4.2	-3.0
Fundación Cajas de Ahorros (FUNCAS)	5.2	4.4	7.0	6.3	4.1	4.9	-0.4	1.0	0.5	0.9	2.9	2.5	22.3	20.3	1.4	0.9	-5.2	-4.0
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)	4.5	4.1	5.3	5.5	3.5	3.0	-0.2	0.7	0.5	0.6	3.2	3.0	22.0	20.8	0.5	0.2	-4.4	-3.4
Instituto Flores de Lemus (IFL-UC3M)	4.6	4.2	5.2	6.1	2.9	3.8	0.1	1.2	--	--	3.1	3.3	22.4	20.9	--	--	--	--
Intermoney	5.0	5.6	6.2	6.7	--	--	-0.3	1.0	--	--	3.1	2.8	22.1	20.2	0.9	0.8	-4.5	-3.0
La Caixa	4.8	6.0	5.8	5.3	3.0	3.0	-0.2	1.3	0.6	1.8	3.0	2.5	22.4	20.8	1.7	1.5	-4.8	-3.3
Repsol	4.7	5.0	5.9	5.3	3.2	3.6	-0.3	1.0	0.8	0.6	3.2	2.9	22.7	20.6	1.1	0.7	-4.3	-3.0
Santander	4.6	4.6	5.8	5.9	--	--	-0.4	0.6	0.7	1.0	3.1	2.5	22.2	20.0	0.5	0.2	-4.5	-2.8
Solchaga Recio & asociados	5.3	4.7	6.8	6.4	--	--	0.0	1.4	--	--	3.0	2.8	22.1	19.9	1.3	1.6	-4.7	-3.6
CONSENSUS (AVERAGE)	5.1	5.3	6.2	6.4	3.1	3.3	-0.3	1.1	0.6	1.0	3.0	2.7	22.3	20.5	1.0	0.9	-4.5	-3.2
Maximum	6.1	6.9	7.2	7.5	4.1	4.9	0.1	1.6	0.8	1.8	3.2	3.3	22.7	21.8	1.8	2.0	-4.1	-2.8
Minimum	4.5	4.1	5.2	5.3	2.5	2.6	-0.4	0.6	0.4	0.6	2.6	1.7	21.9	19.7	0.4	-0.5	-5.2	-4.0
Change on 2 months earlier[1]	-0.5	-0.5	-0.3	-0.3	0.5	0.3	-0.1	-0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.3	0.2	-0.1	0.0
- Rise[2]	1	3	5	5	5	4	3	3	5	3	8	7	6	8	8	8	0	1
- Drop[2]	12	10	7	8	0	1	9	10	1	2	4	0	4	5	1	3	6	4
Change on 6 months earlier[1]	-0.3	-0.4	-0.1	0.3	1.0	0.7	0.2	-0.1	0.4	0.1	0.7	0.5	-0.2	-0.4	0.3	0.3	-0.1	0.0
Memorandum items:																		
Government (July 2015)	5.5	6.0	6.0	6.4	--	--	--	--	--	--	3.0	3.0	22.0	19.7	1.2	1.2	-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 (July 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 - September 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	1.0	0.8	0.7	0.6	0.6	0.6	0.6
Household consumption[2]	0.7	1.0	0.8	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 – September 2015[1]

Monthly change (%)				Year-on-year change (%)	
Sep-15	Oct-15	Nov-15	Dec-15	Dec-15	Dec-16
0.0	0.5	0.3	0.2	0.9	1.2

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

Table 4
Opinions – September 2015
Number of responses

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

Table 1

National accounts: GDP and main expenditure components SWDA* (ESA 2010, Base 2010)(1)

Forecasts in blue

| | | GDP | Private consumption | Public consumption | Gross fixed capital formation | | | | | Exports | Imports | Domestic Demand (a) | Net exports (a) |
| | | | | | Total | Construction | | | Equipment & other products | | | | |
						Total	Housing	Other construction					
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		3.2	3.7	1.0	6.0	5.1	3.4	6.4	6.8	5.2	7.0	3.6	-0.4
2016		2.8	3.5	0.8	5.2	4.3	6.0	3.1	6.0	4.4	6.3	3.3	-0.5
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	3.5	0.2	6.1	5.0	2.4	6.9	7.4	5.0	7.0	3.1	-0.4
	II	3.1	3.5	1.0	6.1	5.1	3.3	6.5	7.0	6.0	7.2	3.3	-0.2
	III	3.4	3.9	0.9	6.1	5.5	3.5	7.0	6.6	4.5	5.9	3.7	-0.3
	IV	3.5	4.0	2.1	5.6	5.0	4.5	5.3	6.3	5.1	7.9	4.2	-0.7
2016	I	3.2	4.0	0.7	5.5	4.3	5.6	3.4	6.7	5.9	8.4	3.8	-0.6
	II	2.8	3.8	0.5	4.8	4.0	5.8	2.6	5.6	4.8	7.2	3.4	-0.6
	III	2.6	3.4	1.0	5.0	4.3	6.0	3.0	5.7	3.3	4.8	3.0	-0.4
	IV	2.5	3.0	1.0	5.3	4.6	6.4	3.3	6.1	3.6	4.9	2.8	-0.3
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2014	I	1.2	2.4	4.0	1.8	-3.5	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	3.0	7.0	5.8	6.6	1.4	10.6	4.9	1.5	1.4	3.7	0.1
	II	4.0	4.0	1.8	8.1	5.8	5.3	6.2	10.5	6.6	9.5	4.7	-0.6
	III	3.2	4.6	-1.0	4.6	3.7	5.8	2.2	5.6	10.6	15.7	4.0	-0.8
	IV	2.9	4.3	0.7	4.0	3.7	5.5	2.4	4.3	2.1	5.6	3.8	-0.9
2016	I	2.8	3.2	1.2	5.3	4.1	5.8	2.8	6.5	4.5	3.1	3.2	-0.5
	II	2.4	3.1	1.0	5.3	4.5	6.2	3.2	6.2	2.2	4.7	3.4	-1.0
	III	2.4	2.9	1.0	5.4	4.8	6.6	3.5	5.9	4.4	5.9	3.1	-0.7
	IV	2.4	2.7	1.0	5.4	5.1	7.0	3.7	5.7	3.2	6.0	3.1	-0.6
		Current prices (EUR billions)	Percentage of GDP at current prices										
2008		1,116.2	56.8	18.8	29.2	19.5	10.4	9.1	9.7	25.3	30.4	105.1	-5.1
2009		1,079.0	56.1	20.5	24.3	16.2	8.1	8.1	8.2	22.7	23.8	101.2	-1.2
2010		1,080.9	57.2	20.5	23.0	14.3	6.9	7.4	8.7	25.5	26.8	101.3	-1.3
2011		1,075.1	57.9	20.4	21.4	12.5	5.7	6.8	8.9	28.8	29.0	100.2	-0.2
2012		1,055.2	58.6	19.6	19.7	11.2	5.0	6.2	8.5	30.3	28.8	98.4	1.6
2013		1,049.2	58.2	19.5	18.5	9.9	4.3	5.6	8.7	31.6	28.1	96.6	2.1
2014		1,058.5	59.0	19.2	18.9	9.6	4.1	5.4	9.3	32.0	29.6	97.6	2.4
2015		1,102.3	58.6	18.7	19.4	9.8	4.1	5.6	9.6	32.6	29.9	97.3	2.7
2016		1,143.1	59.2	18.4	19.9	10.0	4.3	5.7	10.0	33.3	31.4	98.2	1.8

*Seasonally and Working Day Adjusted.
(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.
(a) Contribution to GDP growth.
Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

Chart 1.1.- GDP
Percentage change

Quarterly change at annual rate — Annual change
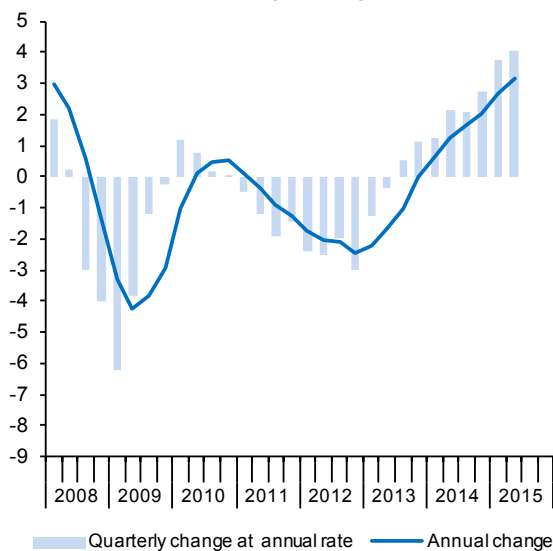
Chart 1.2.- Contribution to GDP annual growth
Per cent points

GDP — Domestic demand — Net exports
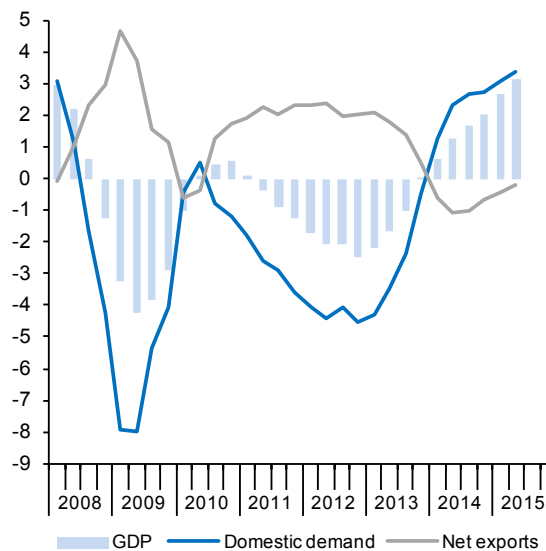
Chart 1.3.- Final consumption
Annual percentage change

National consumption
Private consumption
Public consumption
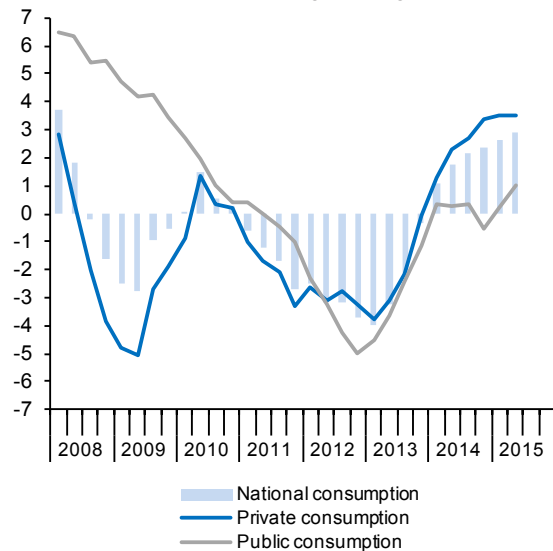
Chart 1.4.- Gross fixed capital formation
Annual percentage change

Total
Construction
Equipment & other products
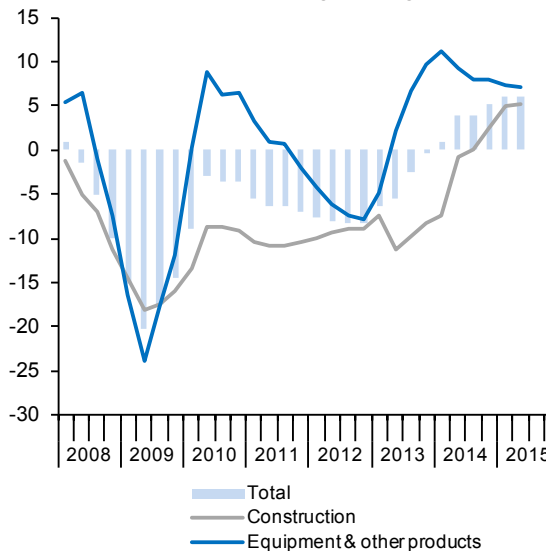
Table 2
National accounts: Gross value added by economic activity SWDA* (ESA 2010, Base 2010)(1)
Forecasts in blue

| | | | | | Gross value added at basic prices | | | | | | | | Taxes less subsidies on products |
| | | | | | | Services | | | | | | | |
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
					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	-0.9
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	-5.9
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	0.1
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	-5.2
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	-4.4
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	-1.5
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	0.6
2015	3.2	3.7	1.0	6.0	5.1	3.4	6.4	6.8	5.2	7.0	3.6	-0.4	3.7
2016	2.8	3.5	0.8	5.2	4.3	6.0	3.1	6.0	4.4	6.3	3.3	-0.5	3.7
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	0.0
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	0.5
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	1.1
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	1.0
2015 I	2.7	3.5	0.2	6.1	5.0	2.4	6.9	7.4	5.0	7.0	3.1	-0.4	1.9
II	3.1	3.5	1.0	6.1	5.1	3.3	6.5	7.0	6.0	7.2	3.3	-0.2	2.0
III	3.4	3.9	0.9	6.1	5.5	3.5	7.0	6.6	4.5	5.9	3.7	-0.3	5.1
IV	3.5	4.0	2.1	5.6	5.0	4.5	5.3	6.3	5.1	7.9	4.2	-0.7	5.9
2016 I	3.2	4.0	0.7	5.5	4.3	5.6	3.4	6.7	5.9	8.4	3.8	-0.6	5.0
II	2.8	3.8	0.5	4.8	4.0	5.8	2.6	5.6	4.8	7.2	3.4	-0.6	4.7
III	2.6	3.4	1.0	5.0	4.3	6.0	3.0	5.7	3.3	4.8	3.0	-0.4	3.0
IV	2.5	3.0	1.0	5.3	4.6	6.4	3.3	6.1	3.6	4.9	2.8	-0.3	2.2
					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	3.7	2.0	8.0	5.5	2.6	4.1	1.1	-2.2	1.8	5.0	2.1	2.4	4.1
II	4.0	11.8	5.7	3.2	3.4	3.9	6.5	-1.4	1.9	3.9	4.1	2.4	4.3
III	2.7	-15.1	2.3	4.2	3.3	3.9	4.4	2.9	4.2	6.0	0.8	2.1	9.2
IV	2.6	-1.4	2.5	4.2	2.7	2.4	4.6	3.0	4.0	4.6	0.7	3.3	6.0
2016 I	3.0	8.6	2.7	4.6	2.8	4.6	1.5	1.9	3.3	1.3	1.1	2.8	0.6
II	2.4	8.2	2.9	5.0	1.9	1.6	2.0	1.9	3.3	1.6	1.1	2.8	3.0
III	2.4	3.4	3.1	5.3	2.0	0.6	3.2	1.9	3.3	5.3	1.1	2.8	2.6
IV	2.4	1.0	3.2	5.6	2.1	1.0	3.4	1.9	3.3	4.8	1.1	2.8	2.5
	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	1,004.6	2.4	17.6	5.6	74.3	24.5	3.9	3.6	12.0	7.6	18.4	4.3	9.7
2016	1,039.3	2.5	17.7	5.7	74.1	24.3	3.8	3.5	12.2	7.6	18.4	4.3	10.0

*Seasonally and Working Day Adjusted.
(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.
Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

Chart 2.1.- GVA by sectors
Annual percentage change

Legend:
- Total
- Industry
- Construction
- Services
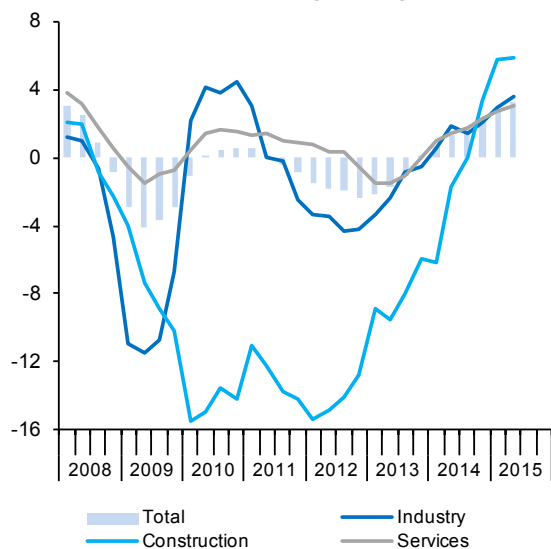
Chart 2.2.- GVA, services (I)
Annual percentage change

Legend:
- Total
- Public administration, education, health and social work
- Rest of services

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

Legend:
- Trade, transport, accommodation and food services
- Information and communication
- Finance and insurance
- Professional, business and support services
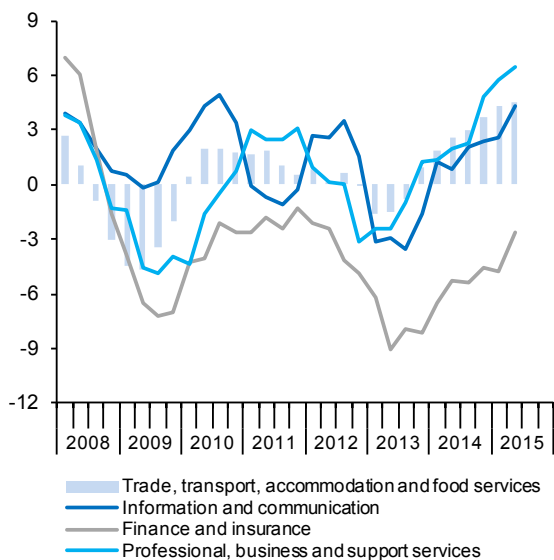
Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

Legend:
- Services
- Construction
- Industry
- Agriculture, forestry and fishing
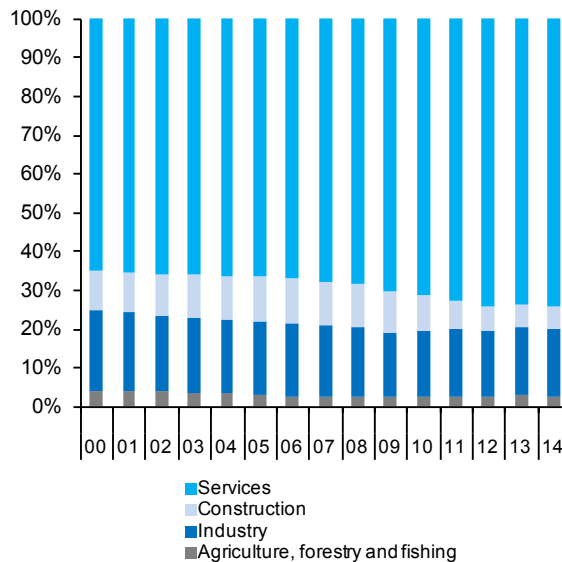
Table 3a
National accounts: Productivity and labour costs (I) (ESA 2010, Base 2010) (1)
Forecasts in blue

		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		125.2	106.9	117.2	149.1	127.3	93.4	100.0	--	--	--	--	--
2016		128.7	109.5	117.5	150.4	128.0	93.1	103.2	--	--	--	--	--
2013	III	119.7	102.5	116.8	148.7	127.3	93.9	94.4	67.6	139.7	164.1	117.5	91.5
	IV	120.0	102.4	117.2	149.0	127.2	93.8	94.2	67.6	139.4	165.1	118.4	92.1
2014	I	120.4	102.8	117.1	148.5	126.8	94.0	95.7	67.8	141.1	165.1	117.0	93.0
	II	121.0	103.6	116.8	148.5	127.2	94.2	96.3	68.4	140.9	167.1	118.6	94.0
	III	121.6	104.2	116.8	148.3	127.0	94.0	96.5	69.0	139.9	166.1	118.8	93.8
	IV	122.4	104.9	116.7	148.3	127.0	94.3	97.0	69.6	139.5	167.5	120.1	94.9
2015	I	123.6	105.7	116.9	149.7	128.0	94.4	98.4	70.1	140.4	165.9	118.2	94.1
	II	124.8	106.6	117.0	148.8	127.1	93.5	100.0	70.9	140.9	166.7	118.3	93.4
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		3.2	2.9	0.3	0.5	0.2	-0.7	3.8	--	--	--	--	--
2016		2.8	2.5	0.3	0.9	0.6	-0.3	3.2	--	--	--	--	--
2013	III	-1.0	-3.0	2.0	1.4	-0.6	-1.0	-0.6	-5.2	4.8	2.2	-2.5	-2.7
	IV	0.0	-1.8	1.8	3.8	2.0	1.5	0.4	-3.5	4.0	2.1	-1.9	0.0
2014	I	0.6	-0.4	1.1	-0.1	-1.1	-0.5	1.5	-2.8	4.5	1.5	-2.8	-0.8
	II	1.2	1.0	0.2	0.0	-0.3	0.2	2.4	-0.3	2.7	1.9	-0.7	0.6
	III	1.6	1.7	0.0	-0.3	-0.3	0.0	2.3	2.1	0.1	1.2	1.1	2.4
	IV	2.0	2.4	-0.4	-0.5	-0.1	0.5	3.0	2.9	0.1	1.5	1.4	3.0
2015	I	2.7	2.8	-0.1	0.8	0.9	0.4	2.8	3.4	-0.5	0.5	1.0	1.1
	II	3.1	2.9	0.2	0.2	-0.1	-0.6	3.8	3.7	0.0	-0.2	-0.3	-0.6

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.

(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

- Compensation per job
- Employment productivity
- Nominal unit labour cost

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

- Nominal unit labour cost
- GDP deflator
- Real unit labour cost (1)

(1) Nominal ULC deflated by GDP deflator.
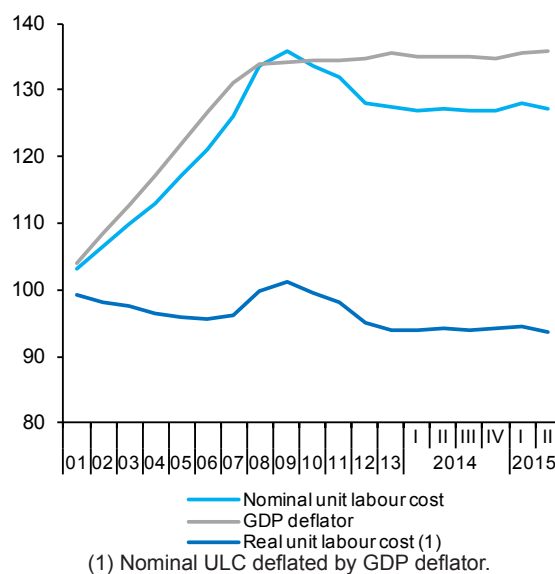
Chart 3a.3.- Nominal ULC, manufacturing industry
Index, 2000=100

- Compensation per job
- Employment productivity
- Nominal unit labour cost
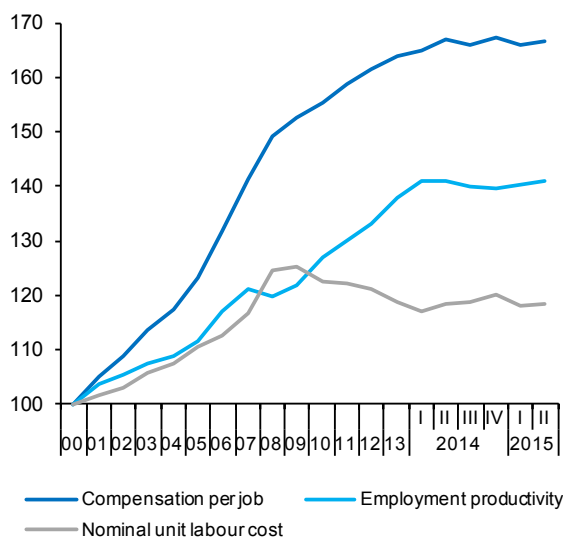
Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100

- Nominal unit labour cost
- GVA deflator
- Real unit labour cost (1)

(1) Nominal ULC deflated by industrial sector GVA deflator.
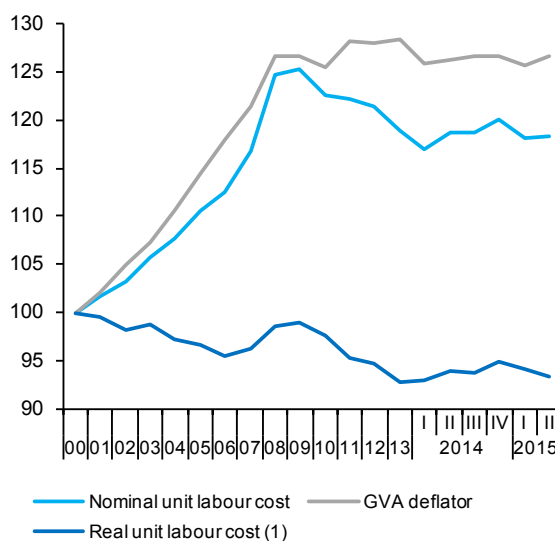
Table 3b

National accounts: Productivity and labour costs (II) (ESA 2010, Base 2010) (1)
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		67.0	54.1	123.8	--	--	--	144.3	129.3	111.6	--	--	--
2016		70.1	56.2	124.9	--	--	--	148.0	132.4	111.8	--	--	--
2013	III	63.2	50.4	125.4	173.6	138.5	96.5	138.1	124.0	111.3	140.9	126.5	94.2
	IV	63.1	50.1	126.0	175.9	139.6	96.8	138.5	124.1	111.6	141.0	126.3	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	140.3	126.5	94.2
	III	63.3	50.5	125.4	174.4	139.1	97.9	140.5	126.4	111.1	139.9	125.9	93.8
	IV	65.2	51.7	126.2	176.9	140.2	98.1	141.7	127.4	111.3	139.4	125.3	94.0
2015	I	66.1	53.5	123.7	170.5	137.9	95.9	142.6	128.0	111.4	142.0	127.5	94.0
	II	66.6	54.0	123.4	172.5	139.7	98.6	143.8	128.9	111.5	140.8	126.2	94.0
Annual percentage changes													
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		5.5	7.9	-2.2	--	--	--	3.0	2.6	0.4	--	--	--
2016		4.6	3.8	0.8	--	--	--	2.5	2.4	0.1	--	--	--
2013	III	-8.0	-11.8	4.4	0.9	-3.3	-2.5	-1.1	-2.0	1.0	1.3	0.4	0.8
	IV	-6.0	-8.7	3.0	1.0	-1.9	-1.5	0.0	-1.0	1.0	4.6	3.5	3.3
2014	I	-6.2	-9.2	3.3	0.0	-3.2	-1.4	0.9	0.2	0.7	0.1	-0.6	-0.4
	II	-1.7	-4.0	2.4	-0.6	-2.9	-1.4	1.4	1.8	-0.3	-0.3	0.0	0.0
	III	0.0	0.0	0.0	0.4	0.4	1.5	1.7	1.9	-0.2	-0.7	-0.5	-0.4
	IV	3.4	3.3	0.1	0.5	0.4	1.3	2.3	2.6	-0.3	-1.1	-0.8	-0.3
2015	I	5.7	9.1	-3.1	-0.4	2.8	3.5	2.7	2.7	0.0	0.7	0.8	0.1
	II	5.8	9.2	-3.1	-0.8	2.4	2.5	3.0	2.4	0.6	0.4	-0.2	-0.2

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.
(a) Nominal ULC deflated by GVA deflator.
Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

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

- Compensation per job
- Employment productivity
- Nominal unit labour cost
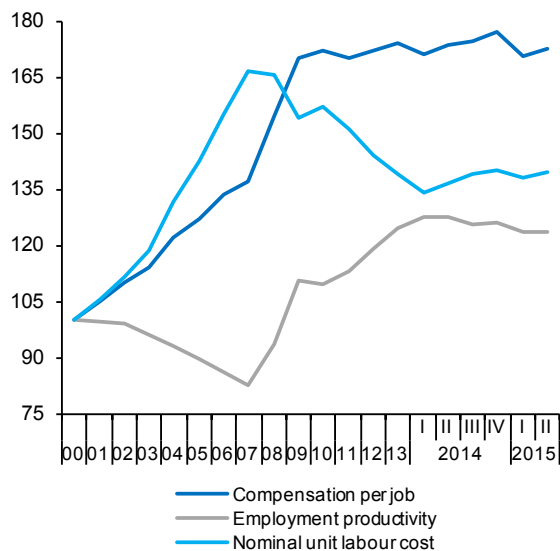
Chart 3b.2.- Real ULC, construction
Index, 2000=100

- Nominal unit labour cost
- GVA deflator
- Real unit labour cost (1)

(1) Nominal ULC deflated by construction sector GVA deflator.

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

- Compensation per job
- Employment productivity
- Nominal unit labour cost
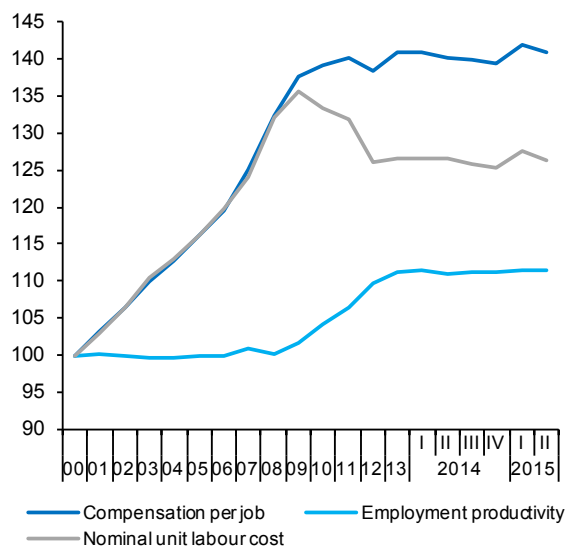
Chart 3b.4.- Real ULC, services
Index, 2000=100

- Nominal unit labour cost
- GVA deflator
- Real unit labour cost (1)
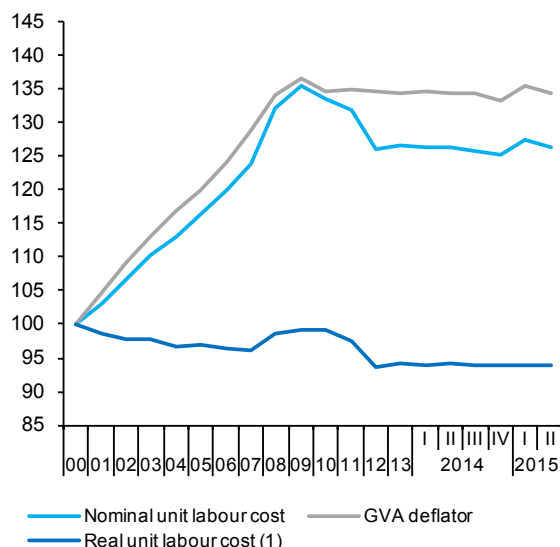
(1) Nominal ULC deflated by sector GVA deflator.

Table 4

National accounts: National income, distribution and disposition (ESA 2010, Base 2010) (1)

Forecasts in blue

	Gross domestic product	Compensation of employees	Gross operating surplus	Taxes on production and imports less subsidies	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)	Compensation 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	1,102.3	515.2	478.7	108.3	-2.9	1,099.4	-12.7	1,086.8	852.1	234.7	46.7	43.4	9.8
2016	1,143.1	533.5	494.3	115.3	0.5	1,143.6	-12.8	1,130.8	887.1	243.7	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	1,067.3	501.6	461.4	104.3	-5.2	1,062.1	-12.7	1,049.4	831.4	218.1	47.0	43.2	9.8
	Annual percentage changes										**Difference from one year ago**		
2008	3.3	7.1	3.3	-15.6	14.6	3.0	19.1	2.8	4.5	-3.0	1.8	0.0	-1.8
2009	-3.3	-1.9	-2.2	-18.1	-33.9	-2.5	-9.1	-2.4	-2.0	-3.9	0.7	0.5	-1.3
2010	0.2	-1.4	-2.0	25.3	-23.4	0.6	-10.9	0.8	1.7	-2.8	-0.8	-0.9	1.7
2011	-0.5	-1.8	1.7	-3.9	20.1	-0.8	11.2	-1.0	0.2	-5.6	-0.6	0.9	-0.3
2012	-1.9	-5.6	1.1	5.6	-51.3	-1.0	-14.6	-0.8	-2.0	3.9	-1.9	1.3	0.6
2013	-0.6	-2.3	0.1	5.7	-18.3	-0.4	8.4	-0.5	-1.4	2.8	-0.8	0.3	0.6
2014	0.9	1.3	-0.1	3.2	-14.0	1.0	-4.8	1.1	1.6	-0.8	0.2	-0.4	0.2
2015	4.1	3.7	4.5	4.6	-54.1	4.5	1.5	4.5	3.0	10.4	-0.2	0.2	0.0
2016	3.7	3.5	3.3	6.4	-117.4	4.0	1.5	4.0	4.1	3.8	-0.1	-0.2	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	2.4	0.7	2.9	-9.9	1.8	-6.8	1.9	1.9	1.9	0.3	-0.4	0.1

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.
(a) Including change in net equity in pension funds reserves.
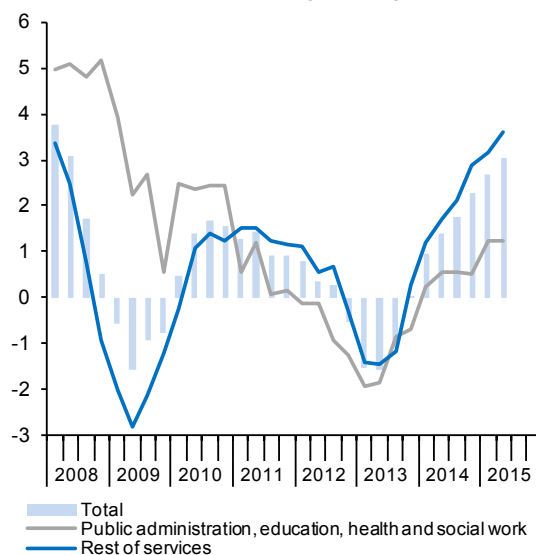Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

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

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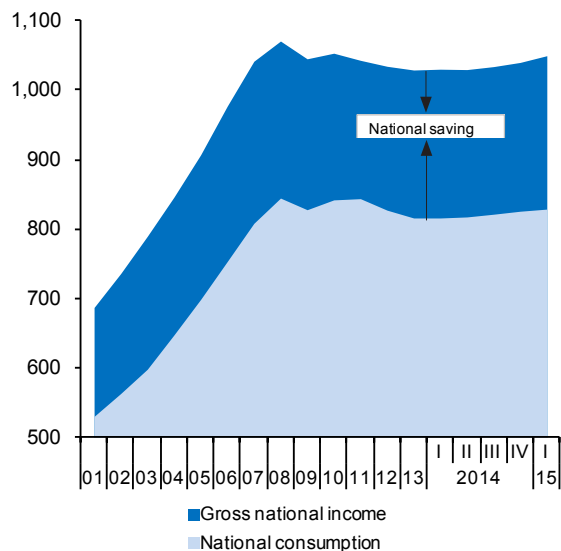
Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

- Saving rate (right)
- Consumption (left)
- GNI (left)
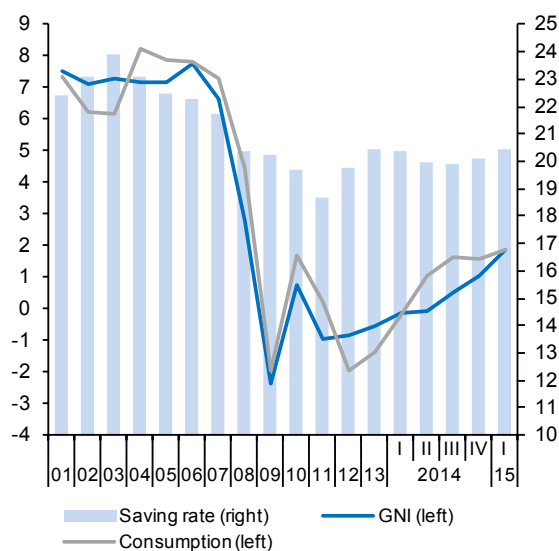
Chart 4.3.- Components of National income
Annual percentage change

- Compensation of employees
- Gross operating surplus
- Taxes on production and imports less subsidies
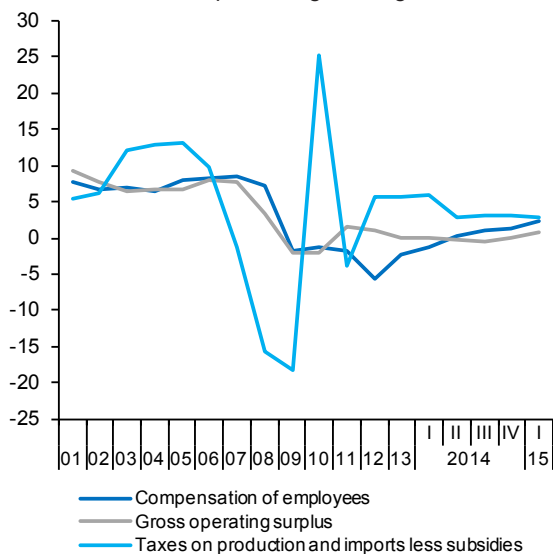
Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

- Compensation of employees (left)
- Gross operating surplus (left)
- Taxes on production and imports less subsidies (right)
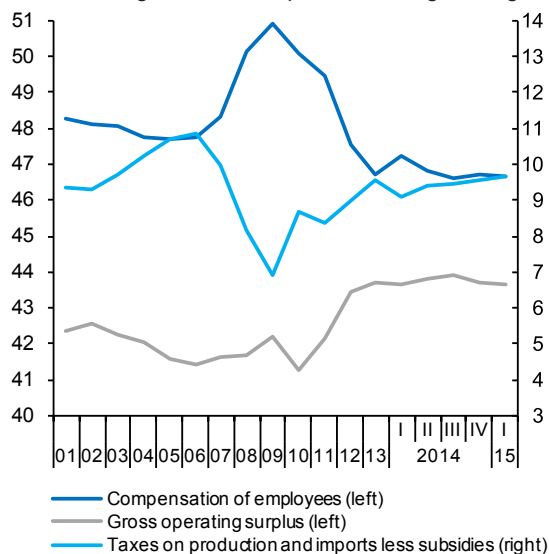
Table 5
National accounts: Net transactions with the rest of the world (ESA 2010, Base 2010) (1)
Forecasts in blue

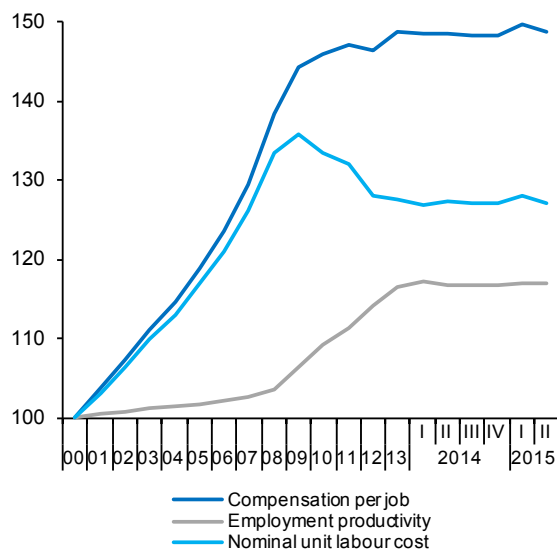|		Goods and services			Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account deficit
		1=2+3+4	2	3	4	5	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		29.1	-20.5	28.4	21.2	-2.9	-12.7	13.6	4.9	18.5	234.7	221.1	13.6
2016		20.6	-30.8	29.6	21.8	0.5	-12.8	8.2	5.0	13.2	243.7	235.4	8.2
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
	IV	35.8	-12.6	28.3	20.1	-7.2	-13.1	15.4	6.8	22.2	214.3	198.9	15.4
2014	I	33.8	-14.7	28.6	19.9	-5.8	-13.6	14.4	7.1	21.5	214.0	199.6	14.4
	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	26.6	-20.0	28.5	18.1	-5.2	-12.7	8.7	3.7	12.4	218.1	209.3	8.7
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	-1.9	2.6	1.9	-0.3	-1.1	1.2	0.4	1.7	21.3	20.1	1.2
2016		1.8	-2.7	2.6	1.9	0.0	-1.1	0.7	0.4	1.2	21.3	20.6	0.7
2013	II	2.9	-1.4	2.6	1.7	-0.6	-1.2	1.2	0.7	1.9	20.8	23.5	-2.6
	III	3.3	-1.2	2.7	1.8	-0.6	-1.2	1.4	0.7	2.1	20.8	23.0	-2.2
	IV	3.4	-1.2	2.7	1.9	-0.7	-1.2	1.5	0.7	2.1	20.4	22.5	-2.0
2014	I	3.2	-1.4	2.7	1.9	-0.6	-1.3	1.4	0.7	2.0	20.4	21.8	-1.5
	II	2.8	-1.8	2.7	1.8	-0.8	-1.3	0.8	0.6	1.4	19.9	21.3	-1.3
	III	2.5	-2.0	2.7	1.8	-0.8	-1.2	0.6	0.5	1.1	19.9	20.7	-0.8
	IV	2.4	-2.0	2.7	1.7	-0.6	-1.2	0.6	0.4	1.0	20.1	20.1	0.0
2015	I	2.5	-1.9	2.7	1.7	-0.5	-1.2	0.8	0.3	1.2	20.4	19.6	0.8

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.
Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

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

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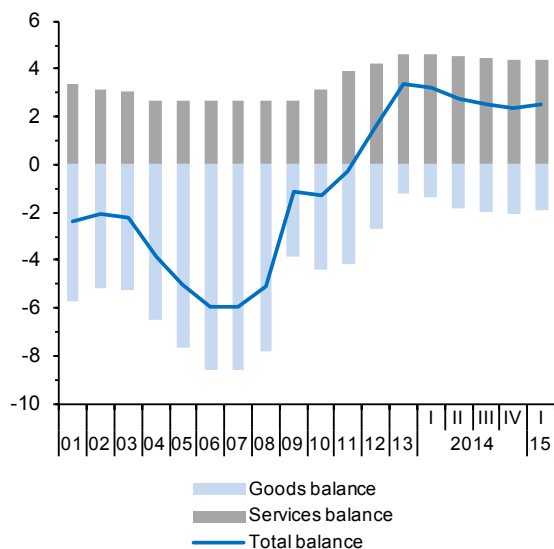
Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

- Non-tourist services balance
- Tourist services balance
- Total services balance

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

- Goods and services
- Income and transfers (current and capital)
- Net lending/ borrowing with the rest of the world

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

- Current Account balance (right)
- Investment rate (left)
- Saving rate (left)
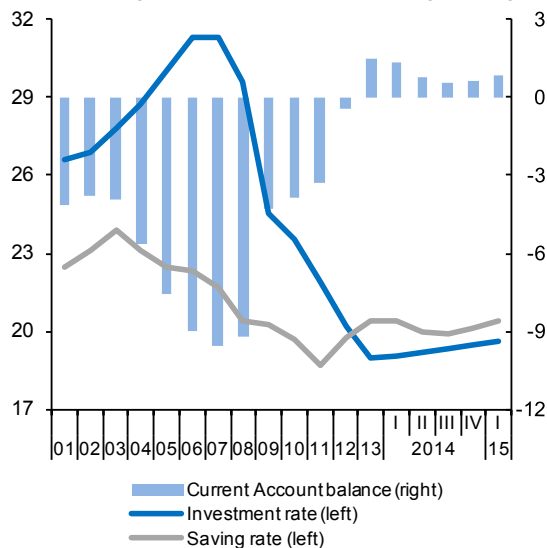
Table 6

National accounts: Household income and its disposition (ESA 2010, Base 2010) (1)

Forecasts in blue

		Gross disposable income (GDI)					Final con-sumption expen-diture	Gross saving (a)	Saving rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borro-wing (-)	Net lending or borrowing as a per-centage of GDP
	Total	Compen-sation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contri-butions and other current transfers (paid)	Per-sonal income taxes							
	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	722.1	517.4	244.4	242.8	200.1	82.3	645.5	75.5	10.5	0.3	36.3	39.6	3.6
2016	748.7	535.7	259.0	244.9	205.9	85.0	676.4	71.2	9.5	0.3	38.3	33.1	2.9
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							Differen-ce 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	4.2	3.7	5.2	0.2	1.8	-1.5	3.4	11.9	0.7	-15.0	6.5	--	0.4
2016	3.7	3.5	6.0	0.9	2.9	3.3	4.8	-5.7	-0.9	-11.0	5.7	--	-0.7
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
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

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.
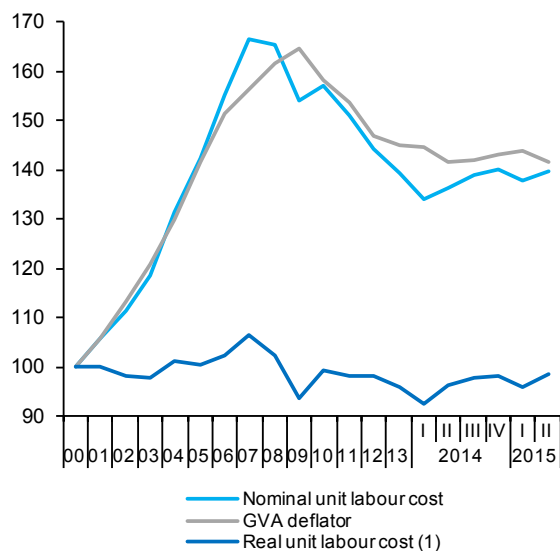*(a) Including change in net equity of households in pension funds reserves.*
Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).

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

■ Total revenue
■ Social contributions and personal income taxes
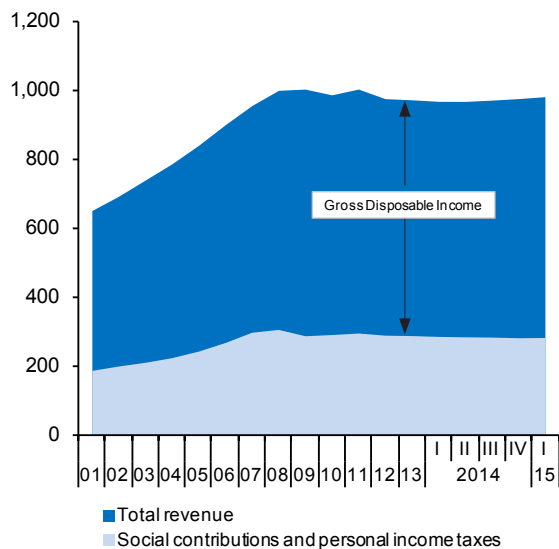
Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated

■ Gross disposable income (a)
■ Consumption

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

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

■ Saving rate (right)
— GDI (left)
— Consumption (left)
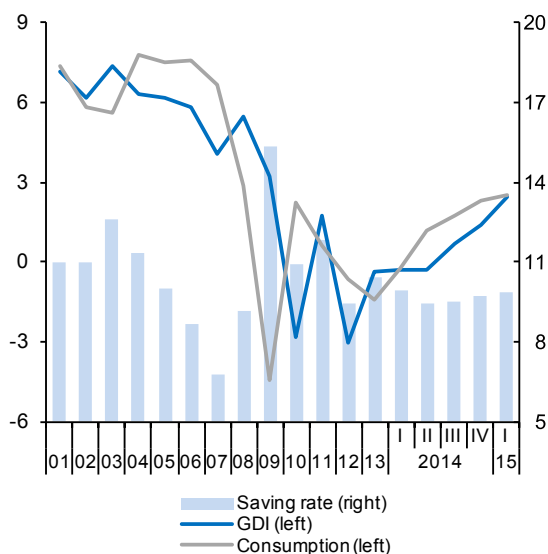
Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages

■ Net lending (+) / borrowing (-) (right)
— Saving rate (b) (left)
— Investment rate (left)
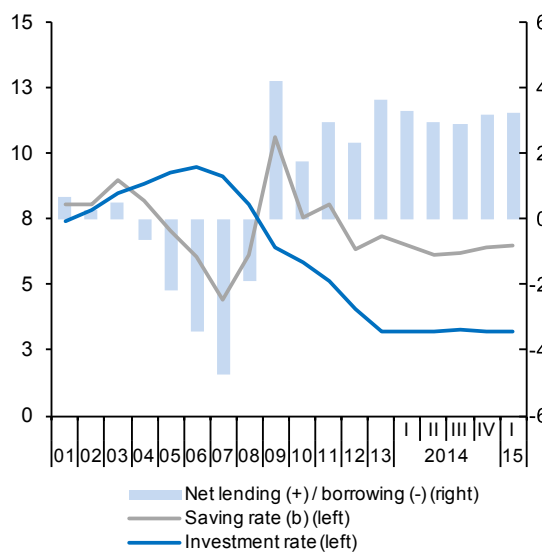
(b) Including net capital transfers.

Table 7

National accounts: Non-financial corporations income and its disposition (ESA 2010, Base 2010) (1)
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		574.5	338.7	235.8	-44.8	-7.3	20.8	163.0	7.0	158.5	11.5	1.0	41.0	27.6
2016		592.4	353.2	239.2	-34.9	-7.5	21.8	175.0	7.0	170.1	12.0	1.0	40.4	28.7
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	4.7	3.1	-13.2	3.0	10.1	7.8	0.0	7.9	--	0.0	-0.4	1.0
2016		3.1	4.3	1.4	-22.1	3.5	5.1	7.4	0.0	7.3	--	0.0	-0.7	1.1
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

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.

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

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

EUR Billions, 4-quarter cummulated

- Gross Value Added
- Compensation of employees and net taxes on production (paid)
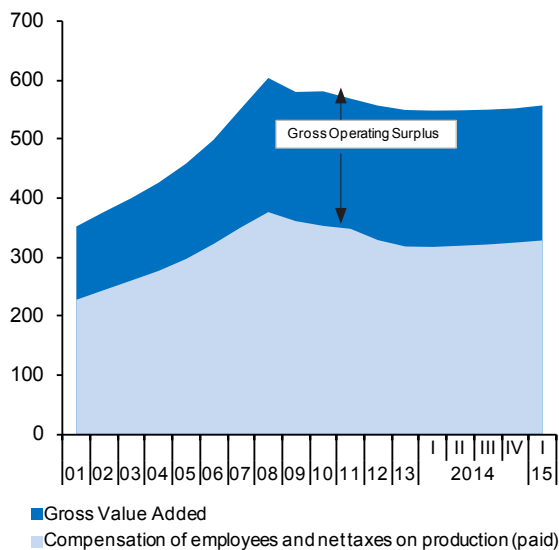
Chart 7.2.- Non-financial corporations: GVA, GOS and saving

Annual percentage change, 4-quarter moving averages

- Gross Value Added
- Gross Operating Surplus
- Saving
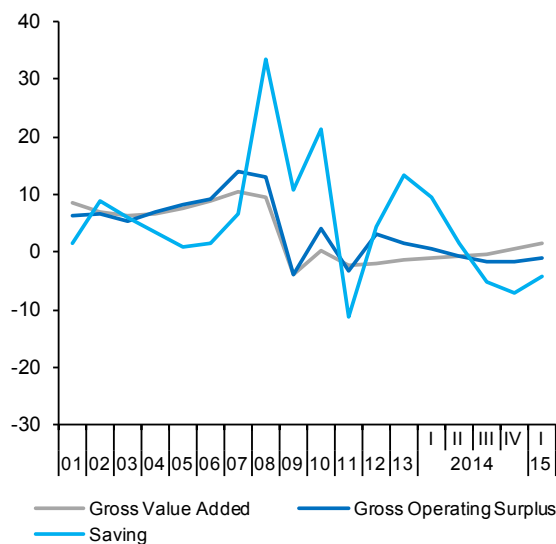
Chart 7.3.- Non-financial corporations: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages

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

(a) Including net capital transfers.
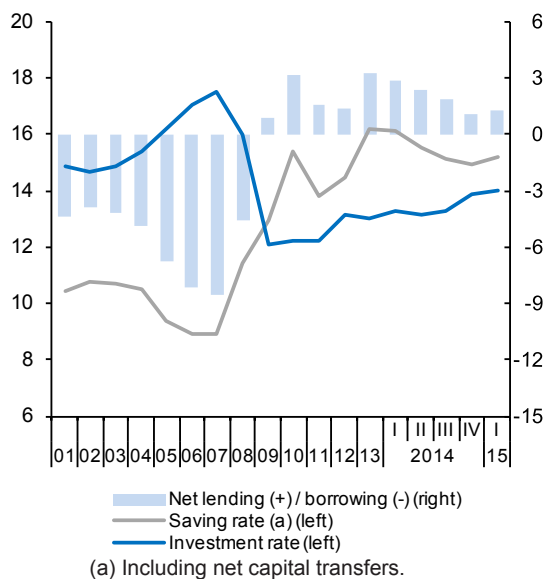
Chart 7.4.- Non-financial corporations: Profit share and investment rate

Percentage of non-financial corporations GVA, 4-quarter moving averages

- Profit share
- Investment rate
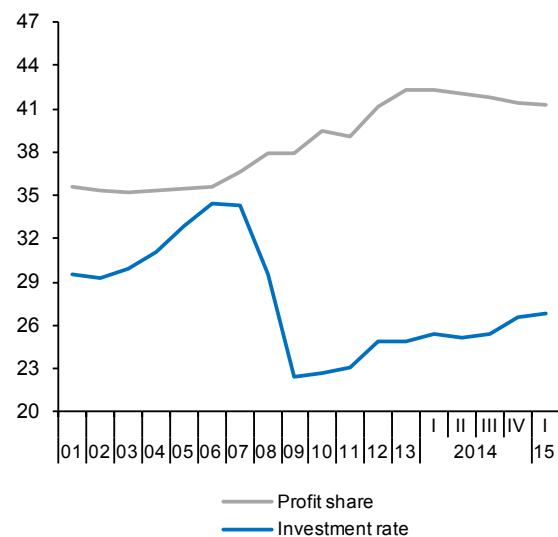
Table 8

National accounts: Public revenue, expenditure and deficit (ESA 2010, Base 2010) (1)

Forecasts in blue

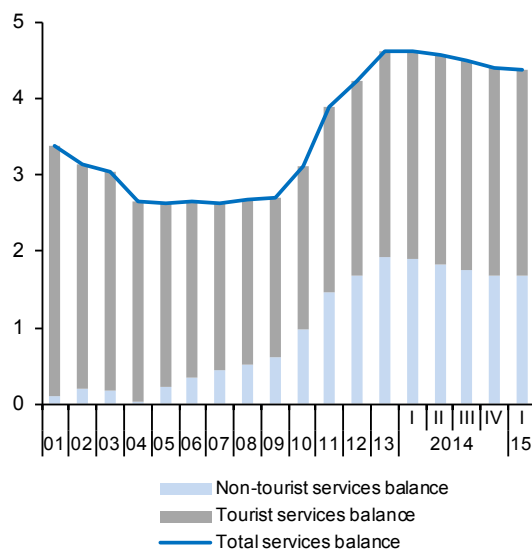|	Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final 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	146.1	123.4	106.8	132.2	117.4	25.0	170.8	21.5	173.8	206.5	-32.7	24.2	-56.9	-56.9
2016	149.7	130.7	110.7	136.5	120.5	24.7	171.4	21.6	189.4	210.7	-21.3	24.5	-45.7	-45.7
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	13.3	11.2	9.7	12.0	10.6	2.3	15.5	2.0	15.8	18.7	-3.0	2.2	-5.2	-5.2
2016	13.1	11.4	9.7	11.9	10.5	2.2	15.0	1.9	16.6	18.4	-1.9	2.1	-4.0	-4.0
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

(1) Recently, the National Statistics Institute (INE in its Spanish initials), has published a revision of the annual National Accounts figures, but these revised figures have not been published on a quarterly basis, therefore the figures that appear in this table are not consistent with the new annual figures.

Sources: INE (Quarterly National Accounts) and FUNCAS (Forecasts).
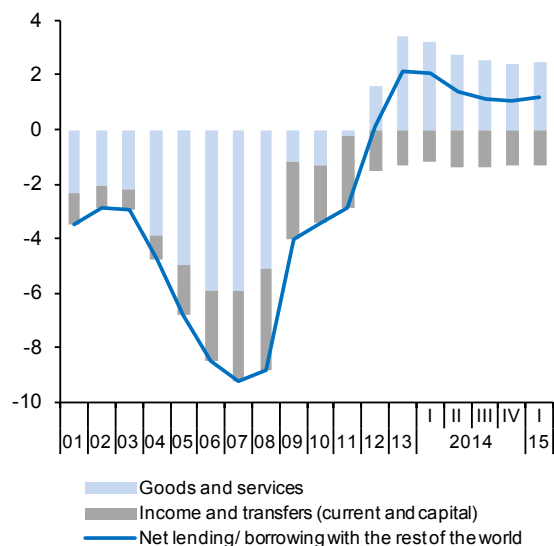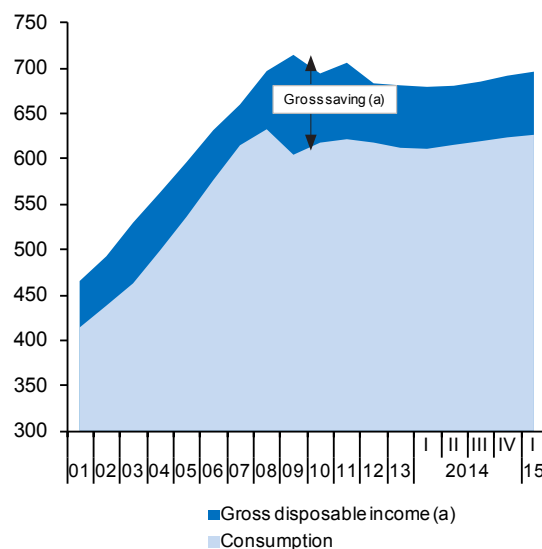
Chart 8.1.- Public sector: Revenue, expenditure and deficit (a)
Percentage of GDP, 4-quarter moving averages

Net lending or borrowing (right)
Revenue (left)
Expenditure (left)
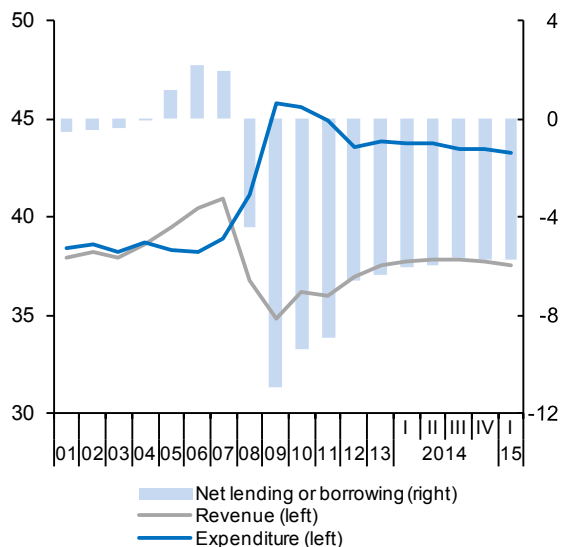
(a) Excluding financial entities bail-out expenditures.

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

Taxes on production and imports
Taxes on income and weath
Social contributions
Other
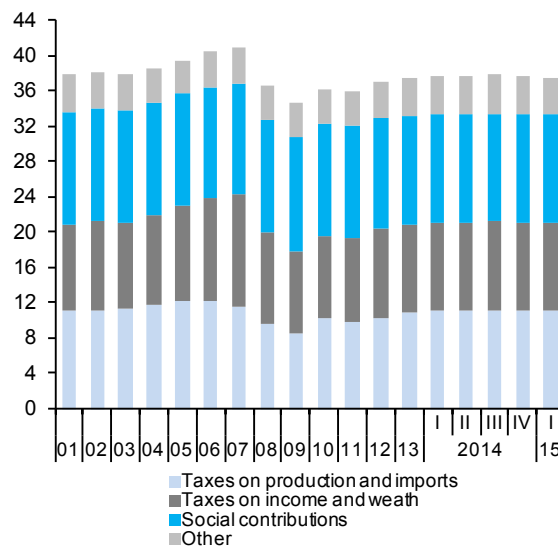
Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

Compensation of employees   Interests and other capital (net)
Social benefits   Gross fixed capital formation
Rest
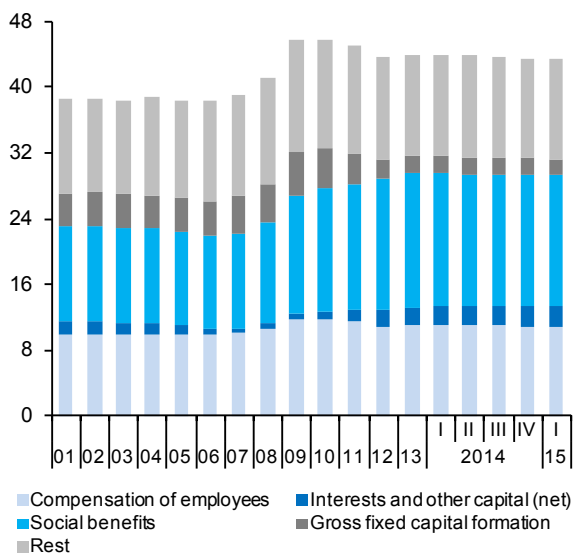
Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages

Net lending or borrowing (right)
Saving (b) (left)
Gross capital formation (left)
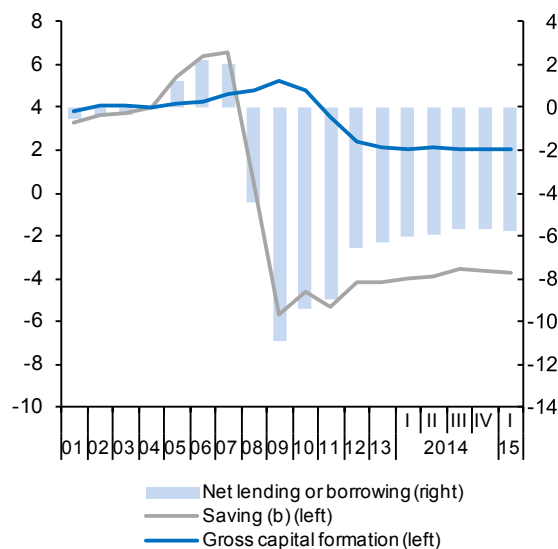
(a) Excluding financial entities bail-out expenditures.
(b) Including net capital transfers.

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		-29.0	-15.4	4.4	-16.9	-56.9	--	--	--	--	1,103.1
2016		-19.5	-11.4	3.4	-18.3	-45.7	--	--	--	--	1,157.9
2013	III	-40.6	-16.5	4.9	-11.6	-63.8	833.3	199.7	43.1	17.2	961.0
	IV	-44.3	-15.9	5.5	-11.6	-66.4	837.8	209.8	42.3	17.2	966.1
2014	I	-41.9	-16.1	5.3	-10.7	-63.5	865.8	225.0	42.1	17.2	995.8
	II	-36.8	-17.2	4.8	-13.9	-63.0	885.0	228.2	42.2	17.2	1,012.5
	III	-39.0	-17.2	5.1	-8.4	-59.5	891.7	232.1	41.0	17.2	1,020.3
	IV	-37.1	-17.5	5.6	-11.2	-60.2	895.6	236.8	38.5	17.2	1,033.8
2015	I	-38.4	-16.8	6.0	-11.9	-61.0	907.0	240.5	38.5	17.2	1,046.2
	II	--	--	--	--	--	917.8	250.2	37.9	17.2	1,052.8
		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		-2.6	-1.4	0.4	-1.5	-5.2	--	--	--	--	100.1
2016		-1.7	-1.0	0.3	-1.6	-4.0	--	--	--	--	101.3
2013	III	-3.9	-1.6	0.5	-1.1	-6.1	79.5	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	84.2	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	-3.6	-1.6	0.6	-1.1	-5.7	85.0	22.5	3.6	1.6	98.0
	II	--	--	--	--	--	85.2	23.2	3.5	1.6	97.7

(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
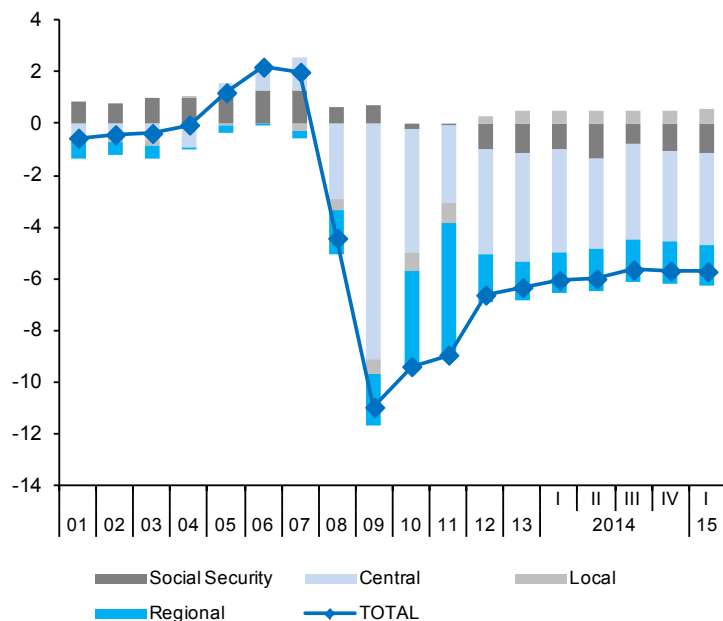
Chart 9.2.- Government debt
Percent of GDP
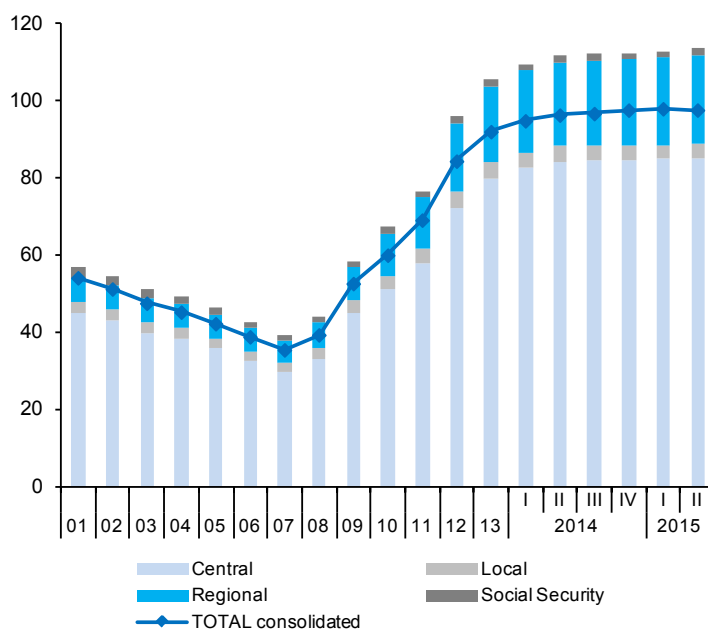
Table 10
General activity and industrial sector indicators (a)

		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**	**Thou-sands**	**Index**	**Balance of responses**	**2010=100 (smoothed)**	**Balance of responses**
2008		87.1	38.5	18,834	269.5	117.8	2,696	40.4	-18.0	120.4	-24.0
2009		83.1	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	97.1	-54.5
2010		93.5	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.9
2011		93.5	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	100.3	-30.7
2012		88.9	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	95.5	-36.9
2013		92.9	48.3	15,855	250.2	90.5	2,022	48.5	-13.9	92.3	-30.6
2014		102.8	55.1	16,111	249.8	91.6	2,023	53.2	-7.1	93.7	-16.5
2015 (b)		108.9	57.5	16,565	169.8	96.8	2,056	54.3	-0.8	96.8	-6.3
2013	IV	97.1	51.6	15,891	62.6	91.3	2,013	50.1	-11.6	92.9	-27.0
2014	I	101.0	54.3	15,957	62.7	91.6	2,015	52.5	-9.1	93.5	-20.5
	II	102.4	55.7	16,043	62.6	91.9	2,019	53.4	-8.2	93.8	-18.4
	III	103.6	56.0	16,157	62.5	91.5	2,025	53.1	-5.7	93.9	-14.0
	IV	104.3	54.6	16,295	62.6	91.9	2,034	53.7	-5.3	94.2	-13.0
2015	I	107.7	56.6	16,438	62.8	93.2	2,047	54.4	-3.2	94.9	-11.2
	II	109.7	57.7	16,592	63.3	94.8	2,060	54.8	0.9	95.9	-2.6
	III (b)	109.6	58.6	16,671	42.5	95.9	2,070	53.4	0.4	--	-4.5
2015	Jun	108.4	55.8	16,626	21.2	95.3	2,064	54.5	1.2	96.3	-1.0
	Jul	108.7	58.3	16,659	21.2	95.9	2,068	53.6	-0.9	--	-5.1
	Aug	110.4	58.8	16,683	21.3	--	2,071	53.2	1.6	--	-3.9
Percentage changes (c)											
2008		--	--	-0.6	0.7	-7.6	-2.2	--	--	-8.1	--
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	1.4	3.0	2.0	--	--	1.8	--
2013	IV	--	--	1.9	1.0	1.4	0.1	--	--	2.0	--
2014	I	--	--	1.7	0.5	1.5	0.3	--	--	2.6	--
	II	--	--	2.2	-0.2	1.2	0.7	--	--	1.6	--
	III	--	--	2.9	-0.7	-1.7	1.2	--	--	0.5	--
	IV	--	--	3.5	0.3	1.7	1.7	--	--	0.9	--
2015	I	--	--	3.5	1.7	5.7	2.6	--	--	3.0	--
	II	--	--	3.8	2.9	7.3	2.7	--	--	4.4	--
	III (e)	--	--	1.9	3.1	4.6	1.8	--	--	--	--
2015	Jun	--	--	0.2	0.3	0.4	0.2	--	--	0.4	--
	Jul	--	--	0.2	0.3	0.6	0.2	--	--	--	--
	Aug	--	--	0.1	0.3	--	0.1	--	--	--	--

(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

Social Security affiliates

Electricity consumption
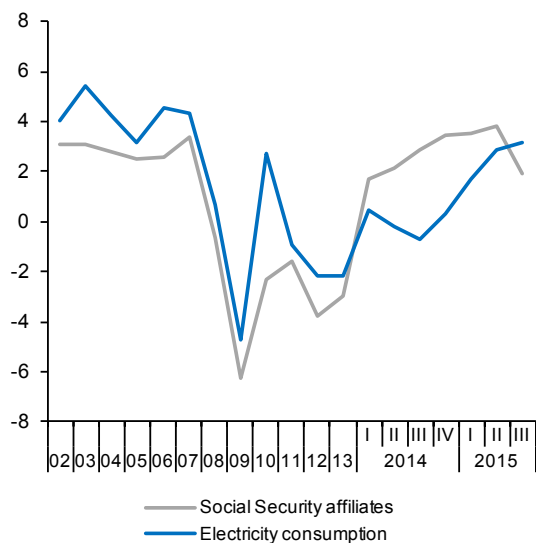
Chart 10.2.- General activity indicators (II)
Index

Economic Sentiment (left)

Composite PMI (right)

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

IPI

Turnover

Social Security affiliates in industry
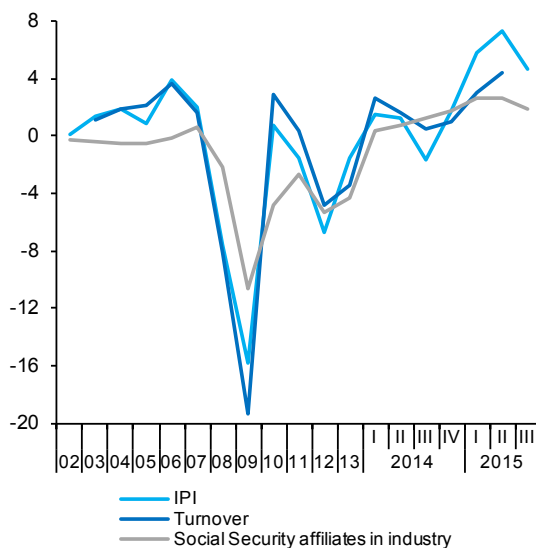
Chart 10.4.- Industrial sector indicators (II)
Index

Manufacturing PMI (left)

Industrial confidence (right)
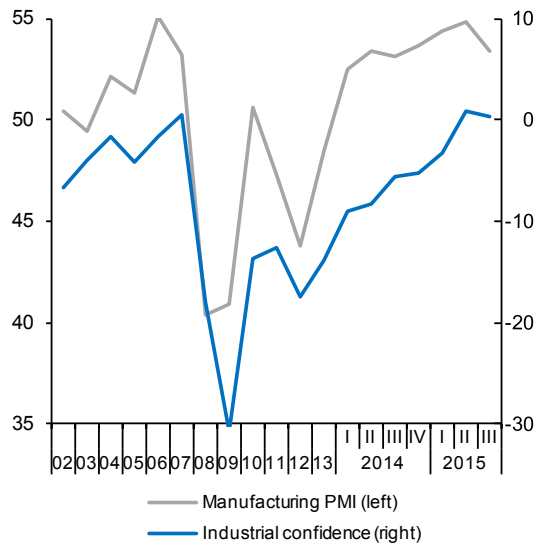
Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security affiliates in construction	Consumption of cement	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	**Million Tons**	**2010=100 (smoothed)**	**Balance of responses**	**EUR Billions**	**Million m²**	**Thousands**	**2010=100 (smoothed)**	**Index**	**Million (smoothed)**	**Million (smoothed)**	**Balance of responses**
2008	2,340	42.7	154.7	-23.8	39.8	44.9	12,644	114.6	38.2	268.6	202.3	-18.8
2009	1,800	28.9	115.9	-32.3	39.6	19.4	12,247	99.2	41.0	251.0	186.3	-29.7
2010	1,559	24.5	100.0	-29.7	26.2	16.3	12,186	100.0	49.3	267.2	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	295.3	195.0	9.9
2015 (b)	1,022	5.6	67.8	-25.6	6.7	3.7	12,377	94.7	58.0	169.4	115.7	18.9
2013 IV	978	2.6	63.8	-57.4	2.9	1.6	11,790	91.6	51.8	72.6	47.0	-3.1
2014 I	970	2.6	63.5	-52.3	3.7	1.7	11,854	92.1	54.2	73.1	47.5	7.5
II	974	2.7	62.4	-55.8	3.2	1.8	11,943	92.8	55.7	73.4	48.1	9.1
III	983	2.7	61.2	-35.0	3.4	1.9	12,040	93.7	56.7	73.9	48.8	8.8
IV	996	2.8	61.7	-22.6	2.9	1.5	12,151	94.7	54.3	74.7	49.4	14.0
2015 I	1,014	2.8	63.5	-23.3	2.8	2.1	12,285	95.8	56.7	75.4	50.0	17.5
II	1,026	2.9	65.7	-27.7	3.1	1.6	12,386	97.2	58.3	76.0	50.7	20.1
III (b)	1,029	--	67.3	-25.8	0.8	--	12,453	--	59.7	25.5	17.1	19.4
2015 Jun	1,027	0.9	66.5	-29.0	0.8	--	12,412	97.6	56.1	25.4	17.0	16.5
Jul	1,028	--	67.3	-30.0	0.8	--	12,443	--	59.7	25.5	17.1	18.7
Aug	1,030	--	--	-21.5	--	--	12,463	--	59.6	--	--	20.0
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	--	-6.5	-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	--	7.3	6.0	--
2012	-17.0	-33.6	-27.0	--	-45.5	-39.9	-2.2	-6.2	--	-2.1	-5.0	--
2013	-12.2	-20.7	-5.7	--	23.3	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	0.3	-1.4	--	42.9	2.2	2.3	2.6	--	3.2	4.6	--
2015 (d)	5.0	8.6	3.8	--	-19.4	27.0	3.7	4.5	--	3.9	5.4	--
2013 IV	-3.3	-0.4	0.0	--	87.1	-8.3	2.4	2.1	--	5.4	4.2	--
2014 I	-3.0	-13.0	-2.0	--	129.2	-12.6	2.2	2.3	--	2.8	4.6	--
II	1.5	16.8	-7.2	--	48.2	11.2	3.0	3.1	--	1.7	5.3	--
III	3.9	9.5	-7.3	--	32.7	21.2	3.3	3.8	--	2.7	5.3	--
IV	5.2	16.1	3.2	--	0.3	-8.0	3.7	4.2	--	4.0	5.1	--
2015 I	7.5	-2.4	12.2	--	-24.6	23.6	4.5	5.0	--	3.9	5.5	--
II	4.7	7.3	15.0	--	-3.1	31.3	3.3	5.7	--	3.6	5.6	--
III (e)	1.4	--	10.1	--	-25.8	--	2.2	--	--	2.3	3.6	--
2015 Jun	0.1	-3.0	1.2	--	-5.7	--	0.2	0.5	--	0.3	0.4	--
Jul	0.1	--	1.2	--	-41.8	--	0.2	--	--	0.3	0.4	--
Aug	0.1	--	--	--	--	--	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

- S. Security affiliates in construction (left)
- Construction confidence index (right)
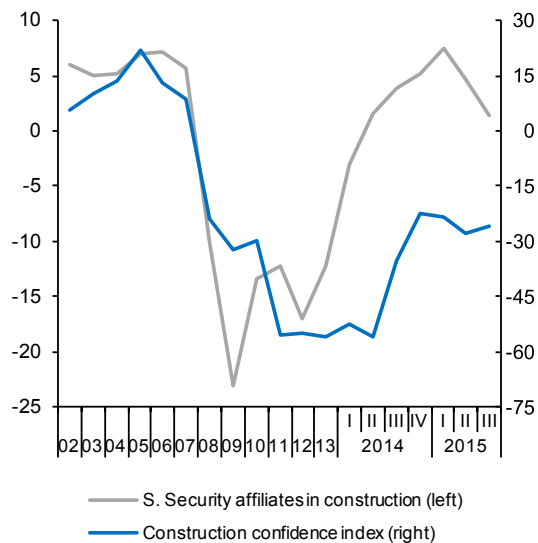
Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

- Official tenders
- Housing permits
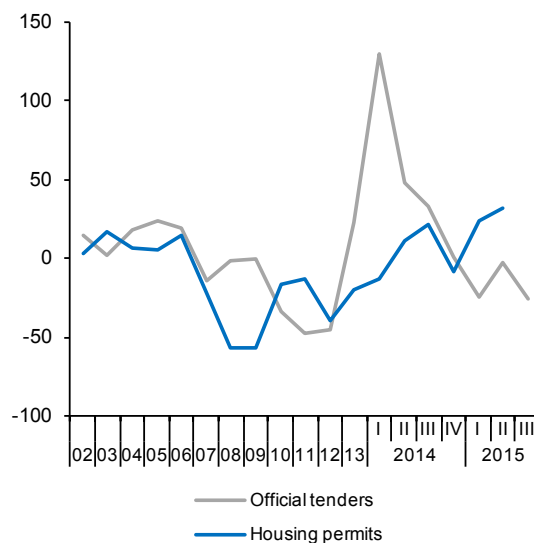
Chart 11.3.- Services indicators (I)
Percentage changes from previous period

- Turnover
- Hotel overnight stays
- Social Security affiliates in services
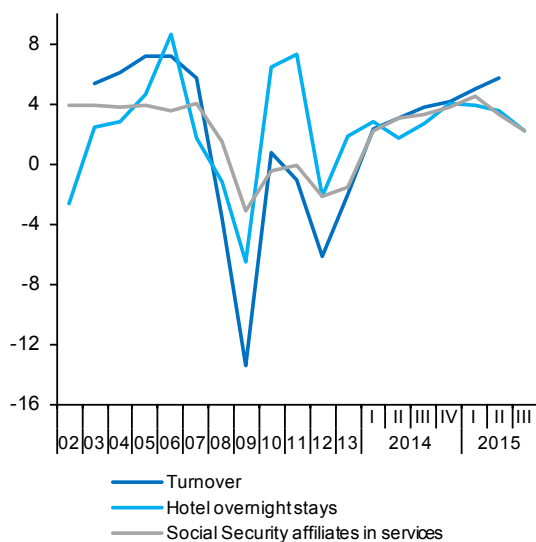
Chart 11.4.- Services indicators (II)
Index

- Services PMI (left)
- Services confidence (right)
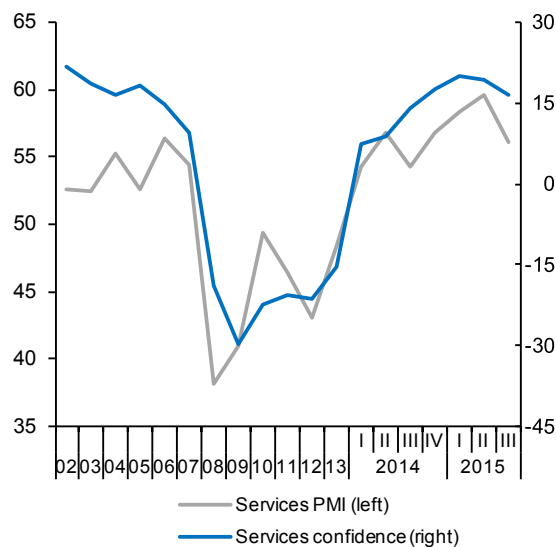
Table 12

Consumption and investment indicators (a)

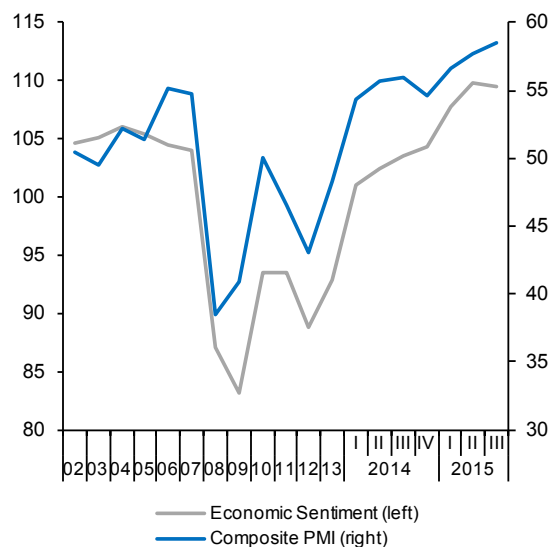| | Consumption indicators | | | | | Investment in equipment indicators | | |
| | Retail sales deflated | Car registrations | Consumer confidence index | Hotel overnight stays by residents in Spain | Industrial orders for consumer goods | Cargo vehicles registrations | Industrial orders for investment 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	109.8	-40.2	142.1	-50.8	66.6
2010	100.0	1,000.1	-20.9	113.2	-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	742.3	-25.3	100.6	-21.8	107.6	-33.5	70.0
2014	84.9	890.1	-8.9	104.7	-9.2	137.5	-16.1	83.1
2015 (b)	85.9	687.9	0.2	61.2	-5.6	107.2	-2.2	91.9
2013 IV	83.9	193.5	-19.4	25.3	-19.5	29.7	-35.7	75.9
2014 I	84.0	204.4	-11.8	25.5	-11.9	31.5	-20.1	80.1
II	84.4	215.9	-6.1	25.8	-8.1	33.1	-16.9	83.2
III	85.1	227.0	-7.9	26.2	-7.4	35.0	-15.8	84.5
IV	85.9	240.8	-9.6	26.6	-9.5	37.6	-11.3	87.0
2015 I	86.6	254.1	-0.6	27.1	-4.6	40.8	-9.1	91.7
II	87.3	263.2	1.6	27.5	-6.1	43.8	5.7	96.1
III (b)	87.7	89.3	-0.7	9.3	-6.3	15.2	-3.8	--
2015 Jun	87.5	88.5	-0.4	9.2	-7.1	14.9	12.3	97.4
Jul	87.7	89.3	0.0	9.3	-3.3	15.2	-8.4	--
Aug	--	--	-1.3	--	-9.4	--	0.9	--
Percentage changes (c)								
2008	-6.0	-27.5	--	-2.9	--	-43.6	--	-20.1
2009	-5.4	-18.1	--	-3.0	--	-40.0	--	-26.3
2010	-1.7	3.0	--	3.2	--	7.0	--	6.5
2011	-5.6	-19.2	--	-1.5	--	-6.6	--	-3.1
2012	-7.4	-12.1	--	-8.4	--	-24.2	--	-10.7
2013	-3.9	4.5	--	-1.4	--	-0.1	--	14.1
2014	1.1	19.9	--	4.1	--	27.8	--	18.7
2015 (d)	3.4	23.8	--	6.6	--	32.8	--	14.1
2013 IV	-0.7	19.0	--	4.1	--	32.4	--	22.3
2014 I	0.2	24.6	--	3.3	--	26.4	--	24.2
II	2.2	24.4	--	5.1	--	22.5	--	16.2
III	3.3	22.3	--	6.0	--	24.3	--	6.6
IV	3.8	26.6	--	6.3	--	34.0	--	12.2
2015 I	3.5	23.9	--	6.8	--	38.3	--	23.3
II	3.0	15.1	--	7.1	--	32.6	--	20.6
III (e)	1.9	7.2	--	4.6	--	17.4	--	--
2015 Jun	0.2	0.9	--	0.6	--	2.1	--	1.4
Jul	0.2	0.8	--	0.6	--	2.0	--	--
Aug	--	--	--	--	--	--	--	--

(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

Retail sales (left)
Industrial orders for consumer goods (right, balance of responses)
Consumer confidence index (right, balance of responses)
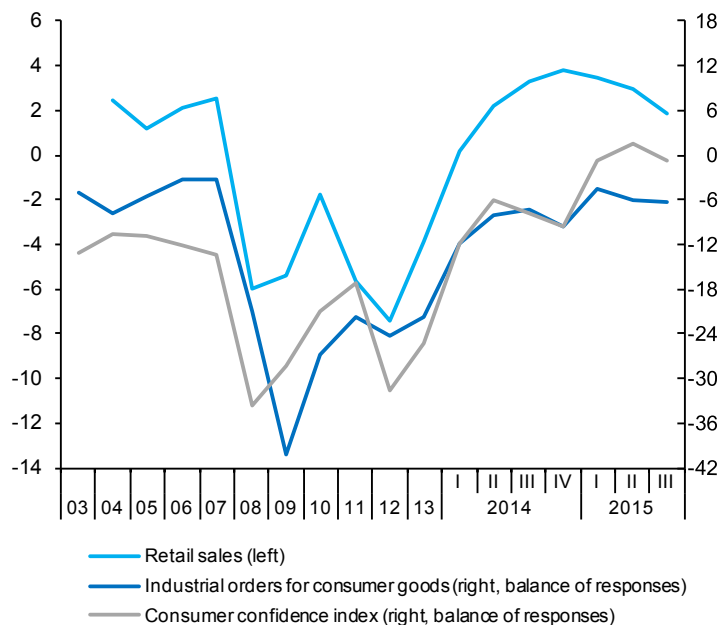
Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

Imports of capital goods
Industrial orders for investment goods (balance of responses)
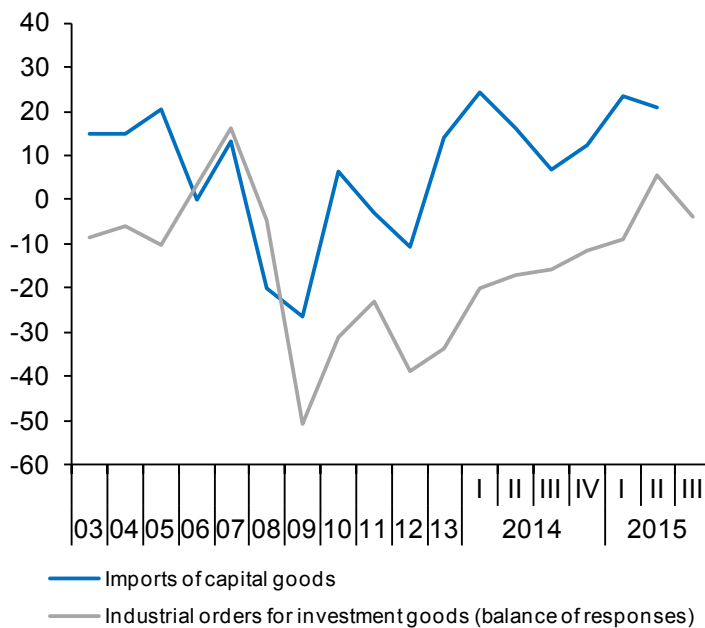
Table 13a
Labour market (I)
Forecasts in blue

	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign
										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	23.0	--	17.9	--	5.1	--	75.7	58.7	22.3	--	--	--
2016	30.1	23.0	--	18.3	--	4.7	--	75.9	60.4	20.3	--	--	--
2013 III	30.5	23.2	23.1	17.2	17.1	5.9	6.0	75.3	56.0	26.0	55.0	24.3	37.5
IV	30.4	23.1	23.0	17.1	17.1	5.9	5.9	75.2	55.9	25.7	54.9	24.1	36.5
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	17.3	5.6	5.6	75.3	56.8	24.5	53.0	23.1	34.4
III	30.3	22.9	22.9	17.5	17.4	5.4	5.5	75.1	57.3	24.1	53.2	22.7	33.7
IV	30.3	23.0	23.0	17.6	17.5	5.5	5.4	75.4	57.6	23.7	51.6	22.3	33.2
2015 I	30.2	22.9	22.9	17.5	17.7	5.4	5.3	75.4	57.3	23.1	50.4	21.8	32.2
II	30.2	23.0	23.0	17.9	17.8	5.1	5.2	75.7	58.7	22.4	49.1	21.0	33.0
	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	--	3.0	--	-8.7	--	0.4	1.9	-2.2	--	--	--
2016	-0.3	-0.1	--	2.5	--	-8.9	--	0.2	1.7	-2.0	--	--	--
2013 III	-1.2	-1.4	-0.8	-2.5	-0.7	2.0	-1.4	-0.1	-0.7	0.9	2.0	0.8	1.8
IV	-1.3	-1.2	-1.7	-1.2	0.0	-1.4	-6.5	0.0	0.1	-0.1	-0.2	0.1	-0.1
2014 I	-1.3	-1.8	-2.0	-0.5	0.4	-5.5	-8.7	-0.3	0.5	-1.0	-1.4	-0.8	-1.5
II	-1.0	-1.0	0.8	1.1	4.8	-7.0	-10.4	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	-8.1	-0.2	1.3	-2.0	-1.8	-1.6	-3.8
IV	-0.6	-0.2	1.2	2.5	3.5	-8.1	-5.7	0.2	1.7	-2.1	-3.3	-1.8	-3.2
2015 I	-0.4	0.1	-0.5	3.0	2.5	-8.2	-9.7	0.3	1.8	-2.2	-4.1	-1.9	-4.1
II	-0.5	0.2	1.1	3.0	4.6	-8.4	-9.8	0.5	1.9	-2.1	-3.9	-2.2	-1.4

(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

Unemployment rate (right)	Labour force (growth rate, left)
Employed (growth rate, left)	
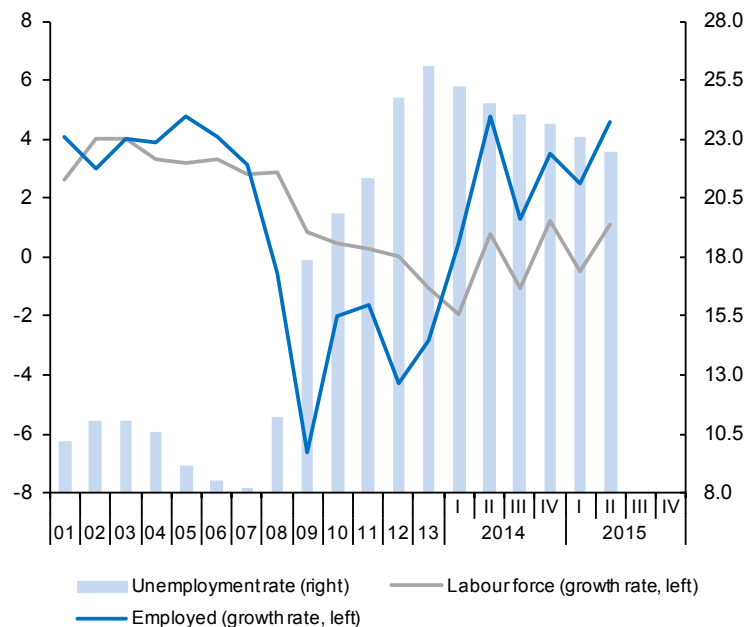
Chart 13a.2.- Unemployment rates, SA

Percentage

Total	Aged 16-24	Spanish	Foreign
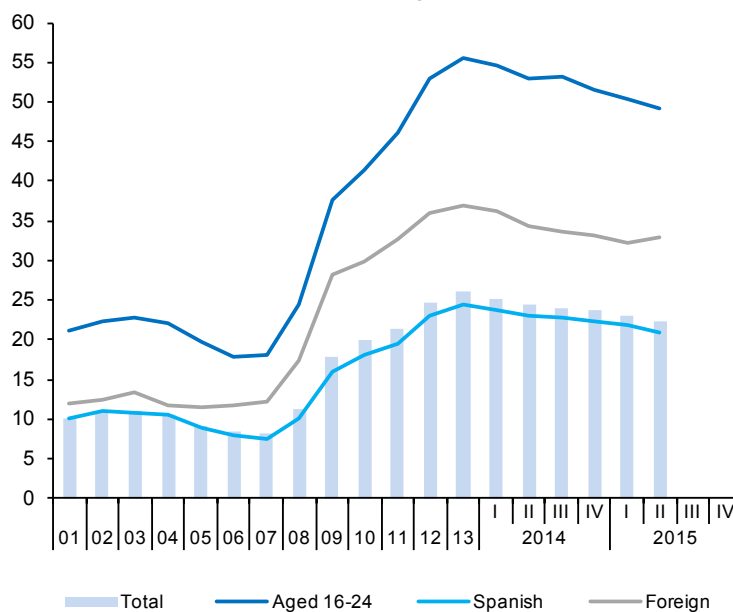
Table 13b
Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
							Employees						
								By type of contract		Self- emplo-yed			Part-time employ-ment rate (b)
		Agriculture	Industry	Construc-tion	Services	Total	Temporary	Indefinite	Temporary employment rate (a)		Full-time	Part-time	
		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	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
	II	0.74	2.51	1.09	13.53	14.76	3.70	11.06	25.1	3.10	15.05	2.82	15.8
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)		-5.9	6.3	12.1	2.2	3.2	6.8	2.1	0.8	1.8	3.3	1.2	-0.3
2013	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
	II	0.1	6.4	11.6	1.9	3.1	8.0	1.6	1.1	2.3	3.7	-0.9	-0.6

(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

Agriculture — Industry — Construction — Services
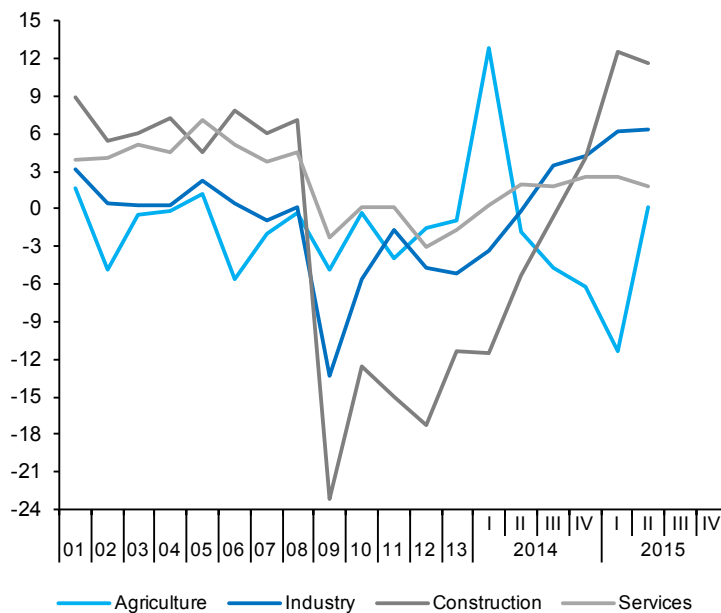
Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

Temporary employment rate (right)
Temporary (left)
Indefinite (left)
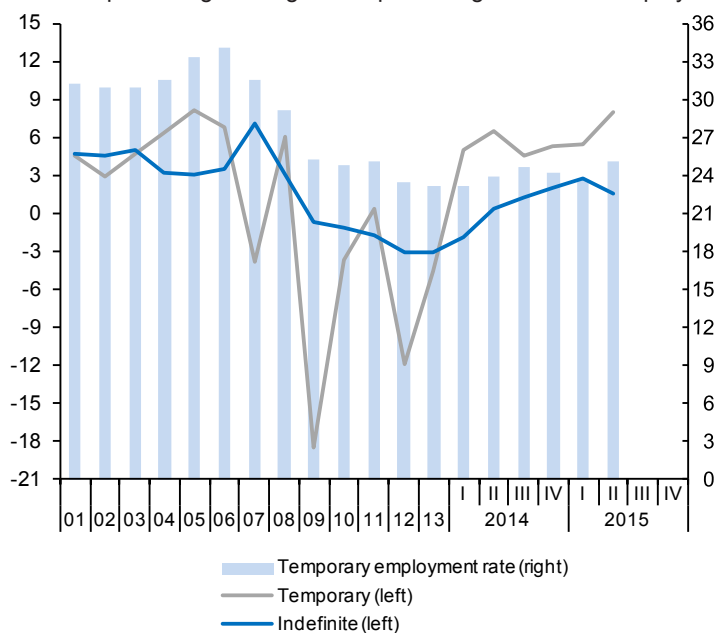
Table 14
Index of Consumer Prices
Forecasts in blue

| | 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	103.3	102.8	103.6	101.2	103.8	107.6	106.3	99.3	107.2
2016	104.4	103.5	104.5	101.8	104.7	109.2	108.6	100.7	109.0
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	-0.4	0.5	0.6	0.2	0.7	0.9	1.6	-8.0	1.1
2016	1.0	0.7	0.9	0.5	0.9	1.5	2.2	1.4	1.7
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	0.5	0.6	0.3	0.7	1.2	3.2	-5.7	1.8
Jul	0.1	0.7	0.8	0.4	0.9	1.2	1.7	-5.8	1.4
Aug	-0.4	0.6	0.7	0.3	0.8	1.4	2.7	-9.8	1.8
Sep	-0.8	0.6	0.8	0.4	0.8	1.3	2.6	-12.6	1.7
Oct	-0.6	0.7	0.8	0.4	0.9	1.2	1.2	-10.3	1.2
Nov	-0.1	0.7	0.8	0.5	0.9	1.2	1.8	-7.1	1.4
Dec	0.6	0.7	0.8	0.5	0.8	1.3	2.8	-1.9	1.7
2016 Jan	1.1	0.7	0.8	0.5	0.8	1.4	2.8	1.8	1.8
Feb	0.9	0.7	0.9	0.5	0.9	1.5	1.0	0.9	1.3
Mar	0.8	0.9	1.0	0.6	1.2	1.5	2.4	-1.2	1.8
Apr	0.6	0.6	0.7	0.5	0.6	1.4	3.1	-1.4	1.9
May	0.6	0.7	0.8	0.5	0.8	1.4	2.1	-2.0	1.6
Jun	0.4	0.6	0.8	0.4	0.8	1.4	1.5	-2.4	1.4
Jul	0.7	0.7	0.8	0.5	0.8	1.4	2.9	-1.6	1.9
Aug	1.2	0.7	0.9	0.5	0.9	1.5	2.0	3.2	1.6
Sep	1.5	0.7	0.9	0.5	0.9	1.5	2.2	5.4	1.7
Oct	1.5	0.7	0.9	0.5	0.9	1.6	2.2	5.1	1.7
Nov	1.5	0.7	0.9	0.5	0.9	1.6	2.2	4.8	1.8
Dec	1.4	0.7	0.9	0.5	0.9	1.6	2.2	4.6	1.8

Sources: INE and FUNCAS (Forecasts).

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

All-Items ——— All-Items ex. food and energy
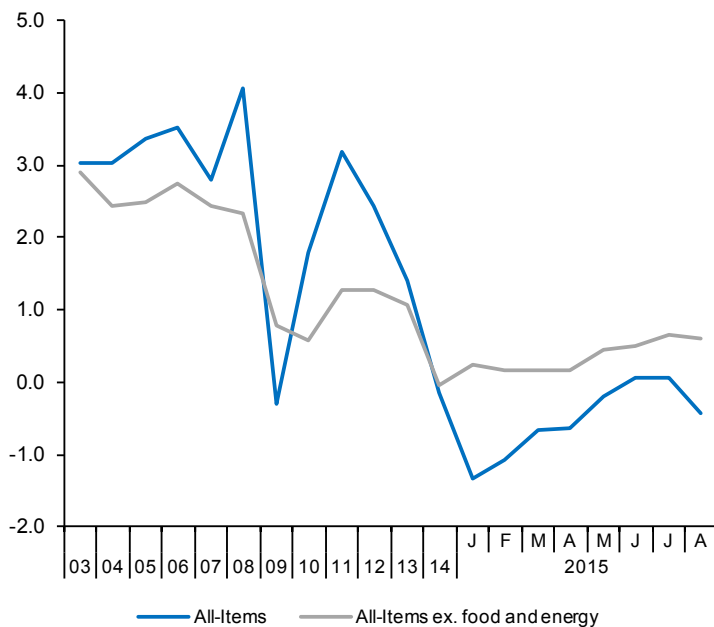
Chart 14.2.- Inflation rate (II)
Annual percentage changes

Non-energy industrial goods ——— Services
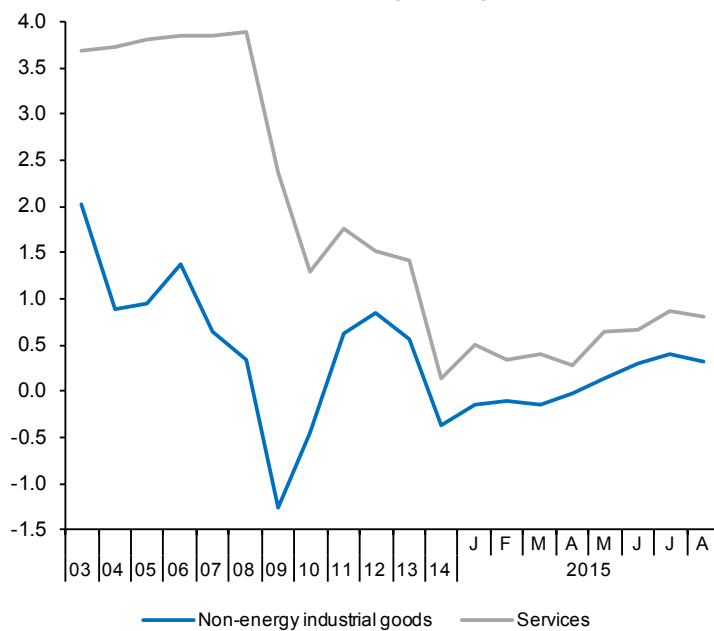
Table 15

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	M² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2000=100	2010=100		2007=100			2000=100				
2008	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	154.8	--
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)	101.1	108.7	106.3	66.0	71.4	54.4	143.6	141.3	150.5	150.8	--
2013 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	160.2	--
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	147.0	--
II	101.2	109.2	106.6	67.3	71.8	55.0	146.5	145.4	149.8	154.5	--
III (b)	--	110.2	106.7	--	--	--	--	--	--	--	--
2015 Jun	--	110.0	106.7	--	--	--	--	--	--	--	--
Jul	--	110.2	106.7	--	--	--	--	--	--	--	--
Aug	--	--	--	--	--	--	--	--	--	--	--
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	0.9	1.5
2011	0.1	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.0
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)	0.6	-1.3	0.4	2.8	0.5	3.4	0.5	1.0	-1.1	0.7	0.7
2013 IV	0.5	0.0	-0.8	-7.8	-4.2	-21.1	2.1	2.5	0.7	2.2	0.5
2014 I	-0.6	-2.2	-1.5	-1.6	-3.8	-10.0	-0.3	-0.2	-0.6	0.3	0.6
II	-0.5	-0.1	-1.0	0.8	-2.9	-9.3	0.0	0.1	-0.3	0.8	0.5
III	-0.3	-0.9	-0.4	0.3	-2.6	-3.3	-0.4	-0.1	-1.4	-0.2	0.6
IV	-0.6	-2.1	-0.1	1.8	-0.3	5.2	-0.5	-0.2	-1.6	-0.3	0.6
2015 I	0.5	-1.9	0.2	1.5	-0.1	5.9	0.5	1.4	-1.9	0.9	0.7
II	0.6	-1.2	0.7	4.0	1.2	4.7	0.4	0.6	-0.2	0.5	0.7
III (c)	--	-0.9	0.6	--	--	--	--	--	--	--	0.7
2015 Jun	--	-1.3	0.7	--	--	--	--	--	--	--	0.7
Jul	--	-1.3	0.7	--	--	--	--	--	--	--	0.7
Aug	--	--	--	--	--	--	--	--	--	--	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)

Housing (INE)
Housing (M. of Public Works)
Urban Land (M. of Public Works)
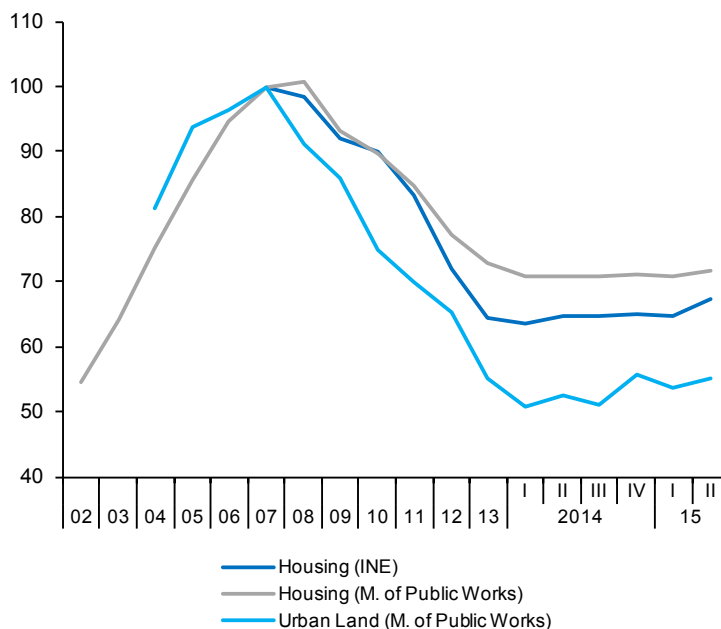
Chart 15.2.- Wage costs
Annual percent change

Total labour cost
Wage cost
Wage increases agreed in collective bargaining
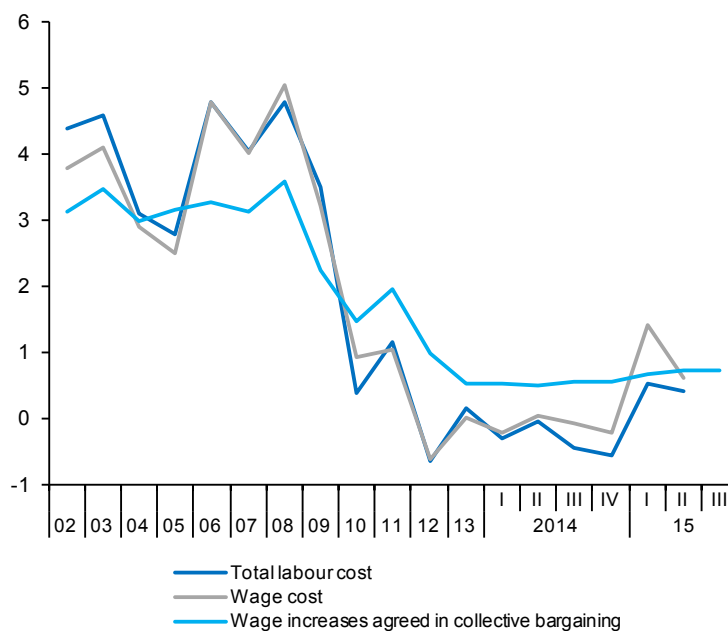
Table 16
External trade (a)

		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)		125.1	110.0	146.3	136.6	104.5	113.0	81.0	44.1	-11.5	3.2	5.0
2013	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
	II	63.4	110.2	148.8	69.6	104.9	114.6	40.5	22.8	-6.3	0.4	2.0
2015	Apr	21.5	108.3	154.4	23.6	105.1	116.5	13.8	7.7	-2.1	0.4	0.9
	May	20.5	112.5	141.9	22.4	105.5	110.1	13.1	7.5	-1.9	0.5	0.6
	Jun	21.3	110.2	150.2	23.6	104.2	117.1	13.6	7.7	-2.3	0.3	0.5
Percentage changes (c)										**Percentage of GDP**		
2008		2.3	1.6	0.7	-0.6	4.1	-4.5	-0.1	8.0	-8.4	-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		2.5	-1.0	3.5	5.7	-2.4	8.3	3.1	-0.4	-2.3	1.5	1.1
2015 (d)		4.9	1.1	3.8	4.2	-1.5	5.7	6.8	1.4	--	--	--
2013	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
	II	16.7	1.8	14.6	15.5	3.1	11.7	9.5	30.9	-2.3	0.1	0.7
2015	Apr	0.1	-2.2	2.4	1.6	-0.8	2.4	2.1	-3.3	--	--	--
	May	-4.6	3.9	-8.1	-5.1	0.4	-5.5	-5.5	-2.8	--	--	--
	Jun	3.7	-2.0	5.8	5.1	-1.2	6.4	4.0	3.1	--	--	--

(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

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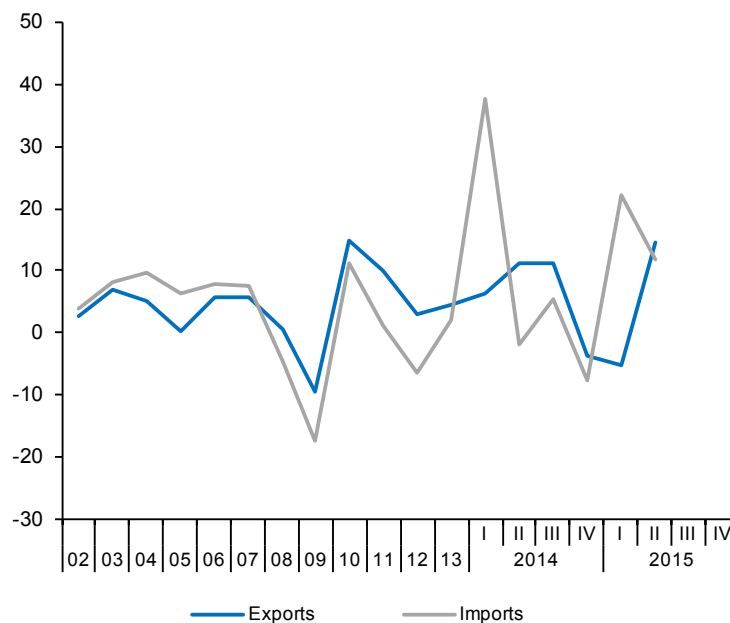
Chart 16.2.- Trade balance
EUR Billions, moving sum of 12 months

Balance of non-energy goods   Balance of energy goods
Total balance of goods

Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

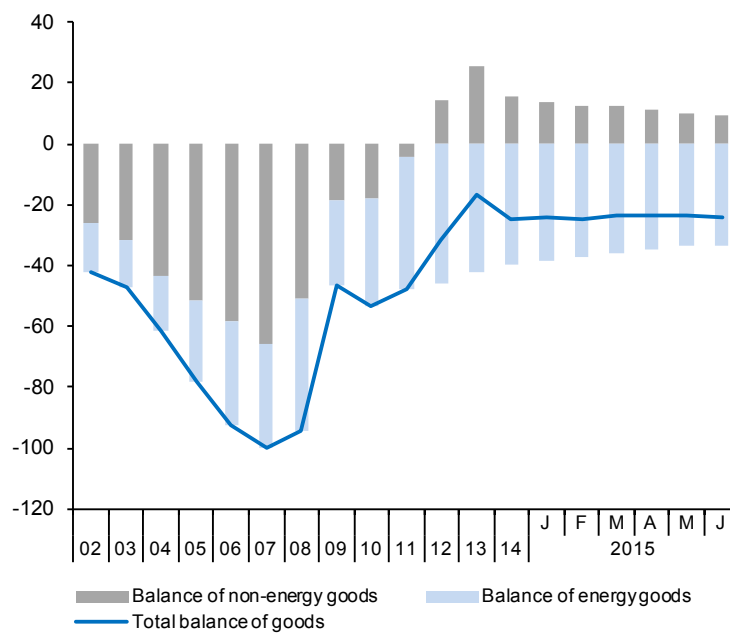|		Current account					Capital account	Current and capital accounts	Financial account						Bank of Spain	Errors and omissions
									Financial account, excluding Bank of Spain							
		Total	Goods	Services	Income	Transfers			Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives		
		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	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
	May	1.15	3.10		-1.95		1.03	2.18	-2.07	-11.67	-4.43	13.93	0.09	-2.02	-2.12
	Jun	1.34	2.42		-1.08		0.51	1.84	-21.71	-6.31	-5.19	-10.35	0.15	-12.87	6.99
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

Goods and services
Income and transfers (current and capital)
Current and capital account
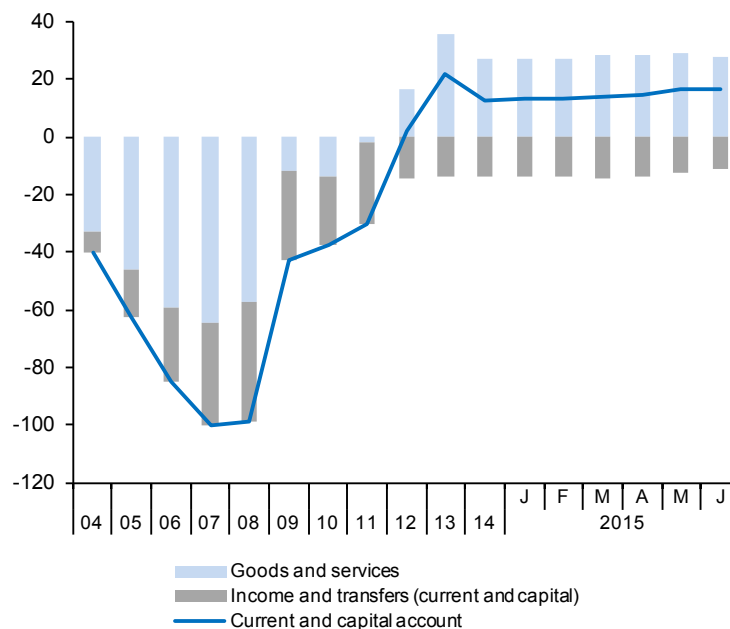
Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

Bank of Spain
Portfolio invesment
Direct investment
Other investment
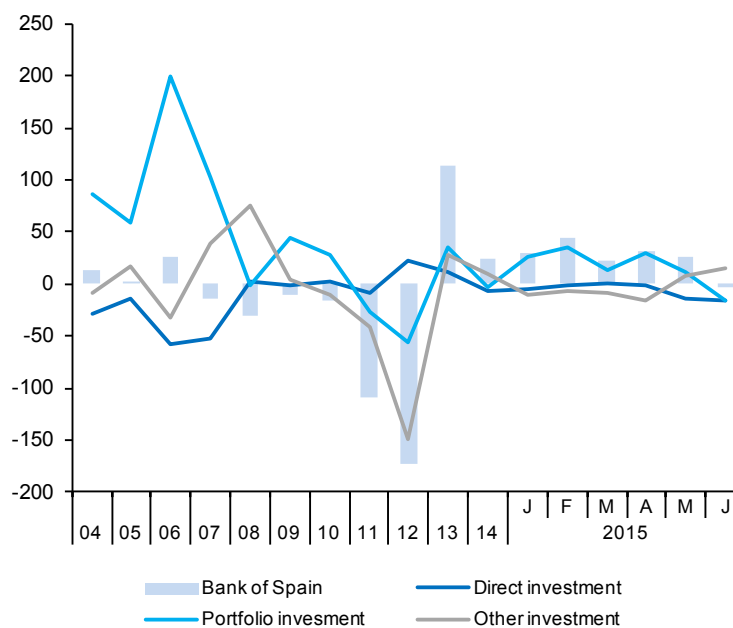
Table 18

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)		-26.8	100.8	127.6	126.0	51.7	51.2	23.0	-4.4	75.9	58.5	80.3	67.0
2015	May	-36.8	176.1	212.9	216.0	96.3	80.3	39.4	-15.9	118.4	99.5	134.3	115.7
	Jun	-36.5	176.6	213.1	215.9	96.4	80.0	39.5	-16.0	121.9	99.5	137.9	115.9
	Jul	-34.2	178.4	212.6	216.0	97.0	80.7	38.3	-16.2	122.3	99.6	138.4	116.4
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)		--	4.0	-1.2	8.7	2.9	5.1	36.9	--	4.0	0.7	6.9	3.0
2015	May	--	2.7	-1.7	9.6	1.2	4.5	57.1	--	-1.9	1.5	1.8	2.8
	Jun	--	2.1	0.5	9.0	0.7	4.5	53.0	--	3.2	1.3	4.3	2.8
	Jul	--	2.8	-0.6	8.6	3.2	4.2	39.1	--	3.9	1.2	4.1	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	May	-3.4	16.3	19.8	20.0	8.9	7.5	3.7	-1.5	11.0	9.2	12.5	10.7
	Jun	-3.4	16.4	19.8	20.0	8.9	7.4	3.7	-1.5	11.3	9.2	12.8	10.8
	Jul	-3.2	16.6	19.7	20.0	9.0	7.5	3.6	-1.5	11.3	9.2	12.8	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

Surplus or deficit (right) — Revenue (left)
Expenditure (left)
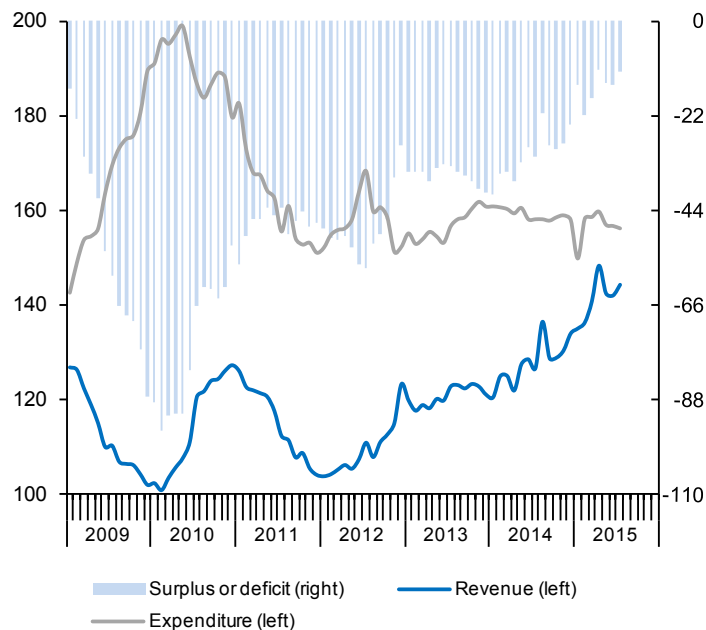
Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

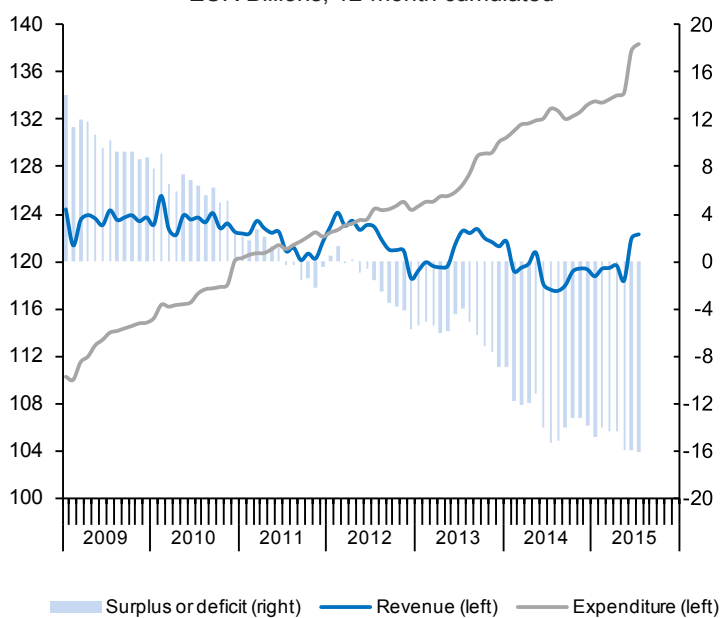Surplus or deficit (right) — Revenue (left) — Expenditure (left)

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	7.3	5.3	9.8	5.8	2,432.2	383.8	1,175.8	872.6	--	15,182.3
2008	4.4	38.3	5.8	10.9	6.4	2,609.0	439.8	1,261.1	908.2	--	9,195.8
2009	4.0	75.7	3.4	10.5	4.7	2,715.6	568.7	1,246.5	900.4	--	11,940.0
2010	4.3	150.8	2.6	8.6	4.3	2,788.5	649.3	1,244.0	895.2	--	9,859.1
2011	5.4	283.3	3.5	8.6	5.1	2,805.5	743.5	1,194.0	867.9	--	8,563.3
2012	5.8	435.1	3.4	9.1	5.6	2,804.7	891.0	1,082.9	830.9	--	8,167.5
2013	4.6	299.2	3.2	9.7	5.5	2,742.5	966.2	993.3	783.0	--	9,916.7
2014	2.7	156.0	3.1	9.6	4.9	2,731.5	1,033.8	948.6	749.1	--	10,279.5
2015 (a)	1.7	122.2	2.5	9.1	3.9	2,728.3	1,053.0	932.6	733.2	--	10,259.0
2013 IV	4.2	240.3	3.2	9.7	5.3	2,742.5	966.2	993.3	783.0	--	9,916.7
2014 I	3.6	194.3	3.3	9.7	5.4	2,763.4	995.8	996.0	771.5	--	10,340.5
II	2.9	157.0	3.2	9.6	5.1	2,769.0	1,012.6	985.9	770.5	--	10,923.5
III	2.4	143.7	3.1	9.7	4.8	2,754.3	1,020.3	977.6	756.5	--	10,825.5
IV	2.0	129.0	2.8	9.5	4.3	2,731.5	1,033.8	948.6	749.1	--	10,279.5
2015 I	1.4	112.3	2.6	9.3	4.2	2,737.5	1,046.2	950.4	740.9	--	11,521.1
II	1.8	126.0	2.5	8.9	3.7	2,728.3	1,053.0	933.1	742.2	--	10,769.5
III (b)	2.0	131.1	2.4	9.1	3.7	--	--	932.6	733.2	--	10,259.0
2015 Jun	2.2	141.3	2.5	8.8	3.5	2,728.3	1,053.0	933.1	742.2	--	10,769.5
Jul	2.1	133.4	2.4	9.1	3.7	--	--	932.6	733.2	--	11,180.7
Aug	1.9	128.8	--	--	--	--	--	--	--	--	10,259.0
						Percentage change from same period previous year					(b)
2007	--	--	--	--	--	12.5	-2.1	18.4	12.5	15.1	7.3
2008	--	--	--	--	--	8.0	14.6	8.5	4.3	7.7	-39.4
2009	--	--	--	--	--	4.1	29.3	-1.4	-0.3	-0.8	29.8
2010	--	--	--	--	--	3.4	14.2	0.7	0.2	-2.2	-17.4
2011	--	--	--	--	--	1.7	14.5	-2.0	-2.4	-1.6	-13.1
2012	--	--	--	--	--	1.3	19.8	-6.4	-3.8	0.1	-4.6
2013	--	--	--	--	--	-1.4	8.4	-6.6	-5.1	-4.4	21.4
2014	--	--	--	--	--	-0.2	7.0	-4.3	-3.7	3.4	3.7
2015 (a)	--	--	--	--	--	-0.3	4.0	-2.7	-2.8	3.5	-4.4
2013 IV	--	--	--	--	--	-1.4	8.4	-6.6	-5.1	-4.4	21.4
2014 I	--	--	--	--	--	-1.6	7.0	-6.7	-4.9	-5.1	30.6
II	--	--	--	--	--	-1.1	6.5	-5.4	-4.4	-1.5	40.7
III	--	--	--	--	--	-0.8	6.1	-4.7	-4.1	0.5	17.8
IV	--	--	--	--	--	-0.2	7.0	-4.3	-3.7	3.4	3.7
2015 I	--	--	--	--	--	0.0	5.1	-2.4	-3.3	4.6	11.4
II	--	--	--	--	--	-0.3	4.0	-2.9	-2.8	3.6	-1.4
III (b)	--	--	--	--	--	--	--	-2.7	-2.8	3.5	-4.4
2015 Jun	--	--	--	--	--	-0.3	4.0	-2.9	-2.8	3.6	-1.4
Jul	--	--	--	--	--	--	--	-2.7	-2.8	3.5	4.4
Aug	--	--	--	--	--	--	--	--	--	--	-4.4

(a) Period with available data. (b) Percent change from preceeding period.
Source: Bank of Spain.

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

Spread (right) — Spanish debt (left) — German debt (left)
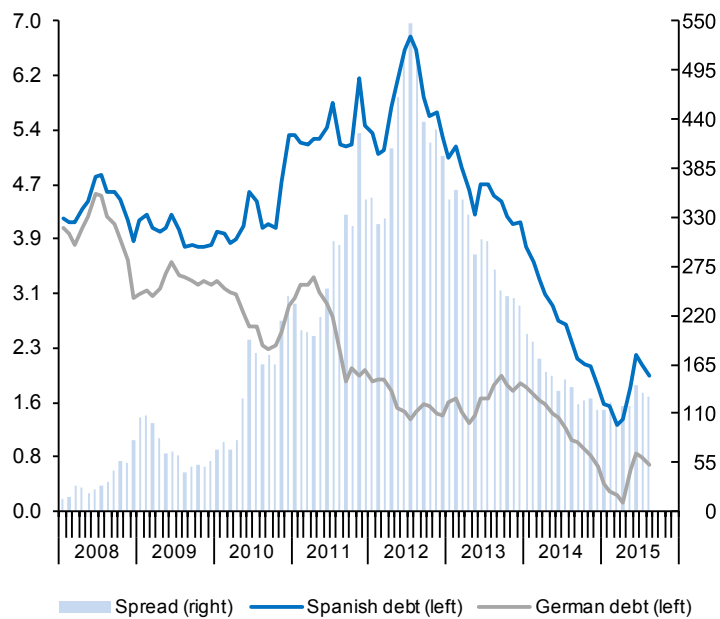
Chart 19.2.- Credit stock growth
Annual percentage change

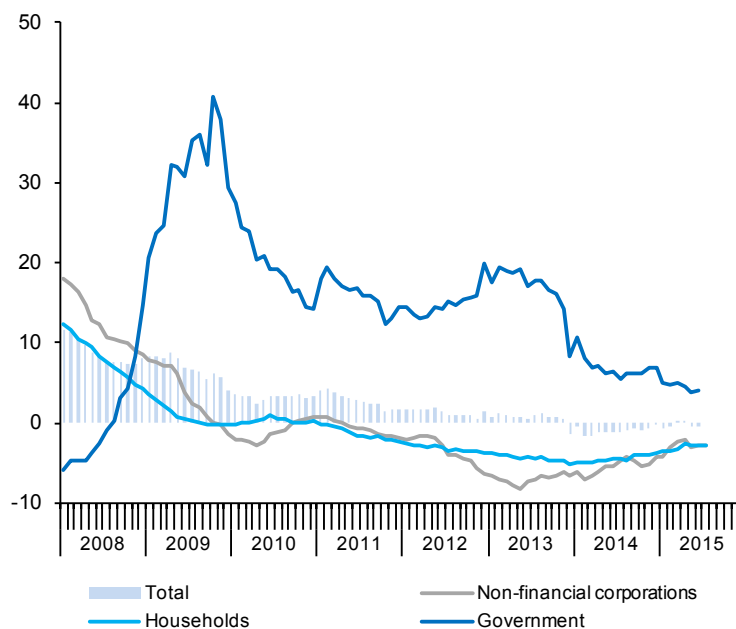Total — Non-financial corporations
Households — Government

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	110.6	93.1	118.7	110.9	107.8	102.9	99.5	101.6	98.0	114.5
2009	108.2	97.6	110.8	110.6	108.1	102.4	96.2	97.0	99.2	114.0
2010	107.3	94.4	113.6	112.9	109.8	102.8	100.0	100.0	100.0	112.9
2011	106.5	94.9	112.3	116.3	112.8	103.1	106.5	105.2	101.2	113.1
2012	105.3	95.1	110.7	119.2	115.6	103.1	110.1	107.9	102.0	111.7
2013	103.8	96.5	107.6	121.0	117.4	103.1	110.0	107.4	102.4	113.4
2014	103.5	97.6	106.0	120.8	117.8	102.6	108.4	105.8	102.4	112.4
2015 (a)	--	--	--	119.9	117.8	101.8	107.5	104.6	102.8	109.1
2013 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	--	--	--	121.4	118.6	102.4	108.0	104.9	102.9	109.6
III (a)	--	--	--	119.7	117.9	101.5	108.9	104.8	103.9	108.5
2015 Jun	--	--	--	121.8	118.7	102.6	108.6	104.9	103.5	110.1
Jul	--	--	--	119.9	117.9	101.7	108.9	104.8	103.9	108.5
Aug	--	--	--	119.4	117.9	101.3	--	--	--	--
	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	-2.1	4.8	-6.6	-0.2	0.3	-0.5	-3.3	-4.5	1.2	-0.4
2010	-0.9	-3.3	2.5	2.0	1.6	0.4	3.9	3.1	0.9	-1.0
2011	-0.7	0.5	-1.2	3.1	2.7	0.3	6.5	5.2	1.3	0.2
2012	-1.2	0.3	-1.4	2.4	2.5	-0.1	3.4	2.6	0.8	-1.3
2013	-1.4	1.5	-2.8	1.5	1.5	0.0	-0.1	-0.4	0.4	1.5
2014	-0.3	1.1	-1.4	-0.2	0.3	-0.5	-1.5	-1.5	0.0	-0.9
2015 (b)	--	--	--	-0.6	0.0	-0.6	-0.9	-1.6	0.7	-3.3
2013 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	--	--	--	-0.3	0.2	-0.5	-0.6	-1.1	0.6	-3.3
III (b)	--	--	--	-0.6	0.0	-0.6	-0.6	-1.3	0.7	-2.8
2015 Jun	--	--	--	0.0	0.2	-0.2	-0.7	-1.3	0.5	-2.6
Jul	--	--	--	0.0	0.2	-0.3	-0.6	-1.3	0.7	-2.7
Aug	--	--	--	-0.5	0.1	-0.7	--	--	--	--

(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

Relative productivity — Relative wages — Relative ULC
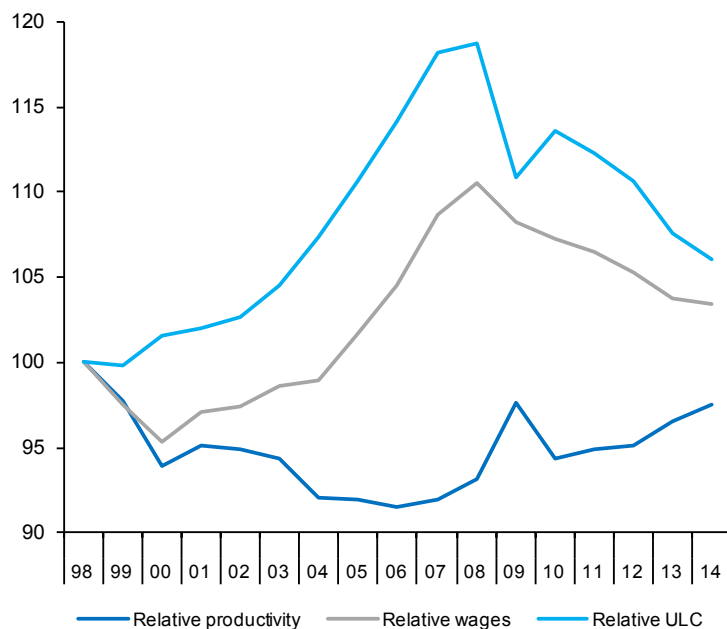
Chart 20.2.- Harmonized Consumer Prices
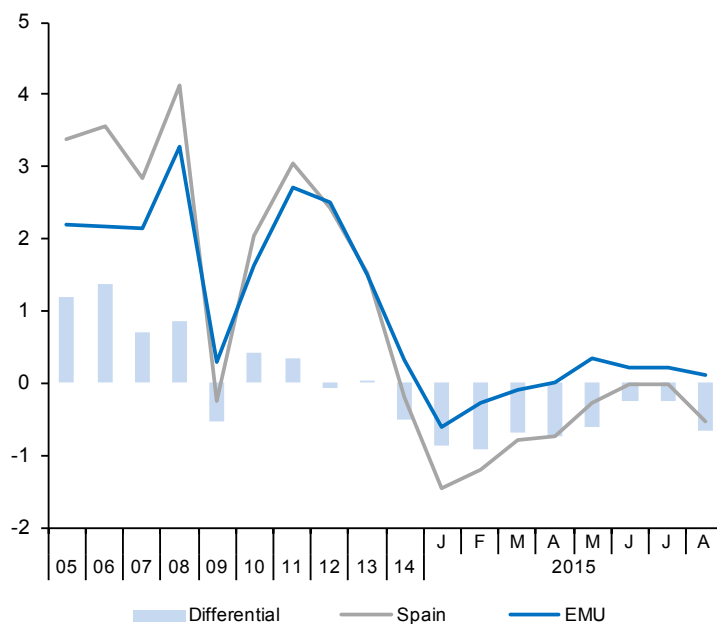Annual growth in % and percentage points


Differential — Spain — EMU

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
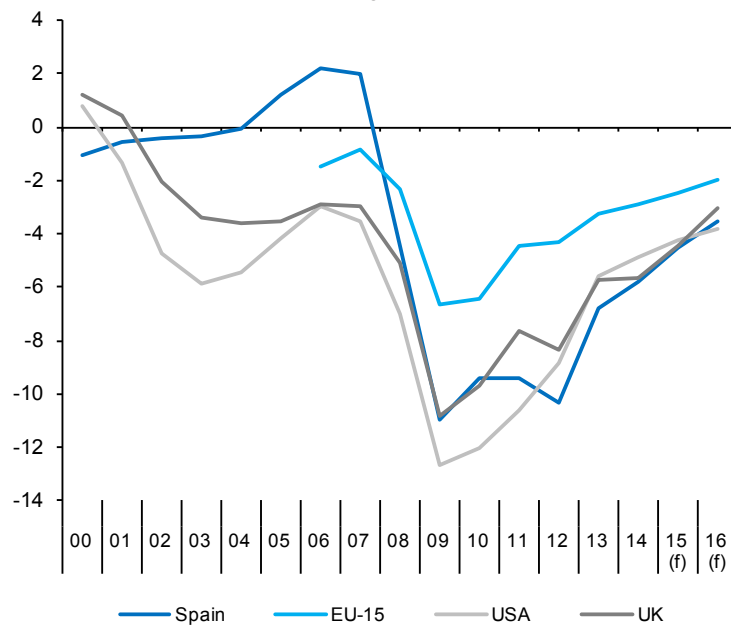
(f) European Commission forecast.

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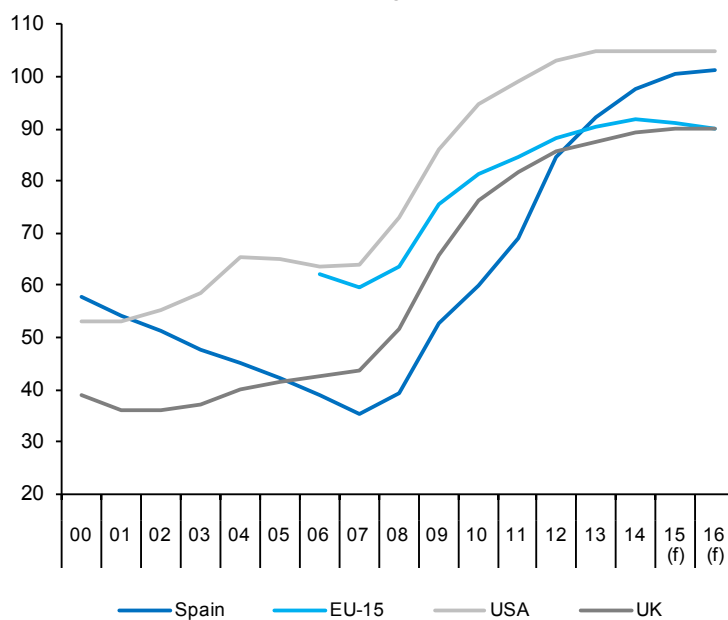

(f) European Commission forecast.

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	4,851.4	11,721.3	1,189.8	930.3	7,622.7	8,166.5	1,121.7	541.5	8,378.9	12,958.0	2,381.7
2006	780.7	5,261.5	12,946.5	1,310.9	1,164.2	8,271.1	8,991.0	1,219.6	771.2	9,278.7	14,261.5	2,619.8
2007	876.6	5,626.5	13,831.4	1,426.4	1,351.4	9,079.6	10,111.7	1,299.9	1,000.0	10,498.2	16,206.5	3,125.7
2008	914.0	5,871.7	13,850.8	1,477.0	1,430.5	9,707.7	10,687.7	1,500.7	1,068.0	11,497.8	17,104.6	3,614.5
2009	906.2	6,000.8	13,559.6	1,473.8	1,414.6	9,611.0	10,136.3	1,434.2	1,147.5	12,004.9	15,715.6	3,593.5
2010	902.5	6,135.5	13,230.6	1,476.9	1,437.0	9,903.9	9,964.0	1,401.7	1,141.4	12,232.7	14,455.7	3,728.5
2011	875.2	6,226.3	13,057.8	1,486.7	1,422.4	10,086.2	10,254.6	1,423.8	1,153.8	12,785.3	14,036.3	3,645.7
2012	838.2	6,214.0	13,055.1	1,509.2	1,315.6	10,214.5	10,782.3	1,486.9	1,182.1	13,074.5	13,802.4	3,707.4
2013	789.2	6,160.6	13,170.4	1,525.5	1,233.4	10,176.8	11,298.0	1,374.8	992.9	12,233.9	13,949.2	3,586.3
2014	754.4	6,191.8	13,512.1	1,567.0	1,176.2	10,477.8	11,979.1	1,396.9	915.6	12,406.8	14,201.8	3,668.4
2015 Q1	746.2	6,190.8	13,568.4	1,574.6	1,179.0	10,738.8	12,176.8	1,371.2	915.7	12,665.1	14,110.2	--
Percentage of GDP												
2005	70.2	57.3	89.5	89.7	100.0	90.1	62.4	84.5	58.2	99.0	99.0	179.5
2006	77.5	59.1	93.4	93.4	115.5	92.9	64.9	86.9	76.5	104.2	102.9	186.6
2007	81.1	59.8	95.5	96.3	125.0	96.6	69.8	87.8	92.5	111.7	111.9	211.1
2008	81.9	60.9	94.1	97.3	128.2	100.8	72.6	98.8	95.7	119.3	116.2	238.0
2009	84.0	64.6	94.0	99.4	131.1	103.5	70.3	96.8	106.3	129.3	109.0	242.5
2010	83.5	64.3	88.4	94.8	132.9	103.8	66.6	89.9	105.6	128.2	96.6	239.3
2011	81.4	63.5	84.1	91.9	132.3	102.9	66.1	88.0	107.3	130.4	90.5	225.4
2012	79.4	63.1	80.8	91.2	124.7	103.7	66.7	89.8	112.0	132.7	85.4	224.0
2013	75.2	61.9	79.0	89.0	117.6	102.3	67.8	80.3	94.6	122.9	83.7	209.3
2014	71.3	61.1	77.9	87.4	111.1	103.5	69.1	78.0	86.5	122.5	81.9	204.7
2015 Q1	70.5	61.1	78.2	87.9	111.4	106.0	70.2	76.5	86.5	125.1	81.3	--

(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

Spain — EMU — USA — UK
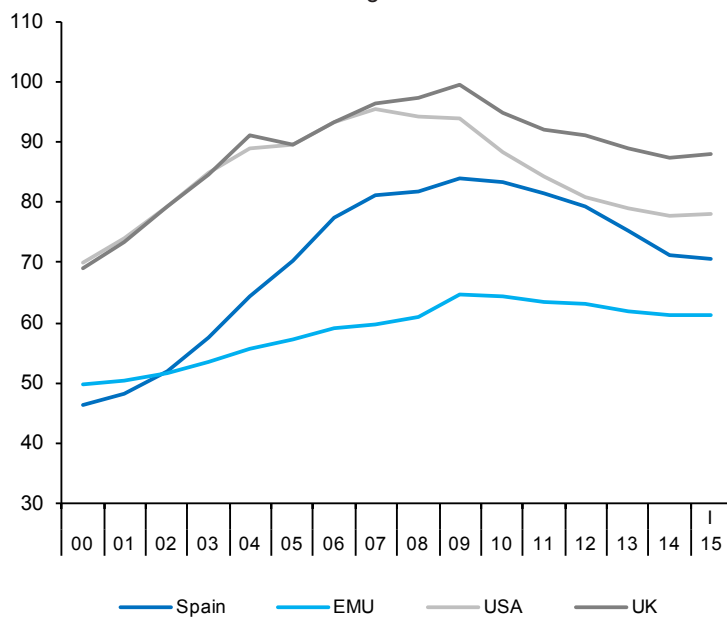
Chart 21b.2.- Non-financial corporations debt
Percentage of GDP

Spain — EMU — USA — UK
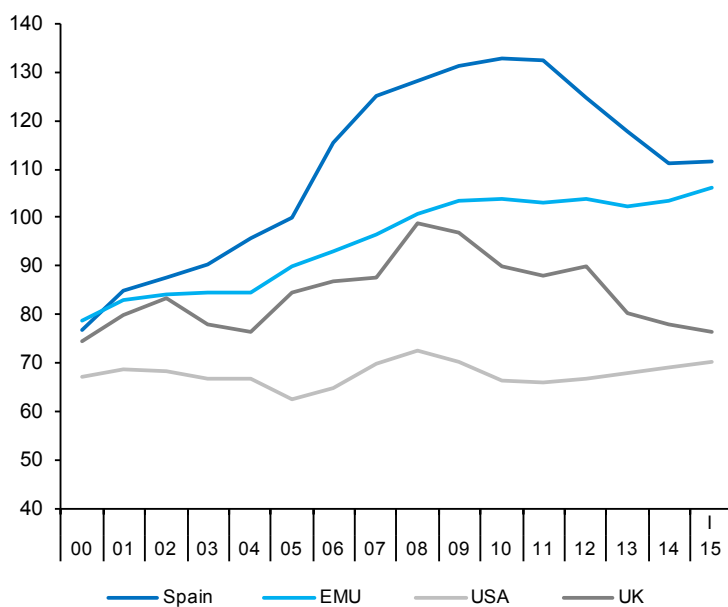
Updated: September 15th, 2015

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.6	June 2015
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.7	June 2015
Doubtful loans (monthly % var.)	-3.2	June 2015
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	382,082	August 2015
Recourse to the Eurosystem (Spanish financial institutions, million euros)	137,919	August 2015
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	15,804	August 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 August	2015 Sept. 15th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.8	2.3	1.9	–	–	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.68	0.22	0.21	-0.033	-0.038	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	2.14	2.11	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.6	3.9	2.3	2.32	–	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates:" The 3-month interbank rate has fallen to -0.038% in the first fortnight of September. The 1-year Euribor stands at 0.16%. The ECB has assured it will continue its expansionary monetary policy and its willingness to take further action if necessary, although it believes its bond-buying strategy is having the expected results in terms of inflation. As for the Spanish 10-year bond yield, it has reached 2.11% as of September 15th from 2.14% in August.

B. Financial markets

Indicator	Source:	Average 1999-2012	2013	2014	2015 June	2015 July	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	29.6	82.9	75.6	92.4	91.0	(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	67.2	65.7	(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	0.7	0.6	(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	3.5	1.2	(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	1,016.8	1,035.3	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	3.8	3.9	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	9.0	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	1,093.3	990.1[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	10,769.5	9,782.5[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	19.6	15.6[a]	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial markets (continued)

Indicator	Source:	Average 1999-2012	2013	2014	2015 June	2015 July	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	3.7	10.6	7.4	33.8	-69.7	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.3	10.9	-1.3	-1.2	0.1	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.8	2.4	0.6	0.3	0.1	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.7	6.4	4.3	30.9	-14.9	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	9.0	6.7	6.4	73.7	-22.7	IBEX-35 shares concluded transactions

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

Comment on "Financial Markets:" During the last month, there has been a decrease in transactions with outright spot T-bills, and of spot government bonds transactions, which stood at 91% and 65.7%, respectively. The stock market has continued losing ground in the first half of September, with the IBEX-35 down to 9,782 points, and the General Index of the Madrid Stock Exchange to 990. Additionally, there was a decrease of 14.9% in financial IBEX-35 futures transactions and a 22.7% fall in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2005-2011	2012	2013	2014 Q 4	2015 Q 1	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.4	-0.2	-1.4	1.0	1.2	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	3.1	4.0	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	267.4	305.7	307.1	317.4	312.2	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 4	2015 Q 1	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	71.3	69.9	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	3.5	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	-0.4	-0.8	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt:" During 2015Q1 there was an increase in financial savings to GDP in the overall economy of 1.2%. There was also an increase in the financial savings rate of households from 3.1% in 2014Q4 to 4% in 2015Q1. The debt to GDP ratio fell to 69.9% from 71.3% in the same period. Finally, the stock of financial assets on households' balance sheets registered a growth of 3.5%, while there was a 0.8% drop in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source:	Average 1999-2012	2013	2014	2015 May	2015 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	10.8	-9.5	-4.6	-0.2	0.6	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	9.9	1.3	-1.5	0.1	0.7	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	-0.5	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	-1.1	0.1	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-1.3	-5.9	-5.9	-5.8	-6.1	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 May	2015 June	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	37.9	17.8	-12.7	-4.7	-3.2	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	8.3	-0.1	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	10.1	19.6	-1.1	-1.1	-1.8	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development:" The latest available data as of June 2015 show an increase in bank credit to the private sector and in financial institutions deposit-taking from the previous month of 0.6% and 0.7%, respectively. Holdings of debt securities fell by 0.5%, while shares and equity grew by 0.1%. Also, doubtful loans decreased 3.2% 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	382,082 [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	137,919 [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	15,804 [a]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: August 2015.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing:" In August 2015, recourse to Eurosystem funding by Spanish credit institutions accounted for 36.1% of net total funds borrowed from the ECB by the Eurozone. This means a 1.71 billion euro decrease in the recourse to the Eurosystem by Spanish banks from July.

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.

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