Spanish Economic and Financial Outlook

Spain in the context of heightened global uncertainty

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FEATURES

Letter from the Editors

In the January issue of *Spanish Economic and Financial Outlook (SEF0)*, we focus on how two highly significant events of 2016 – the election of Donald Trump and Brexit – may unfold in 2017 and what could be their possible implications for the Spanish economy and financial sector over the near to medium term.

Analysing Spain's recent macroeconomic performance, we find that growth has exceeded 3% in the last two years, outperforming the majority of forecasts and approximately doubling average eurozone growth. In contrast to earlier recovery episodes, growth has not generated external imbalances. For 2017, most of the main pillars of the economic recovery remain in place. However, tailwinds supporting the recovery – such as tax cuts, falling oil prices, and a renewed decline in interest rates – have run out of steam and the external environment has become more uncertain.

As regards possible impact from the new Trump administration, at this stage, Trump's policy announcements are both protectionist and fiscally expansive, which could have implications for global trade in the case of the former and translate to higher borrowing costs in the case of the latter. However, the details of his proposed programs remain unclear and it remains to be seen whether or not they will get sufficient political and/or social backing.

Against this backdrop, Spain's growth is expected to slow to 2.4% in 2017, slightly above the previous projection and still one percentage point above the eurozone average. Yet, unemployment and public debt will remain significantly above pre-crisis levels.

On a specific note, regarding the Spanish recovery, this SEFO analyses the current state of play and outlook for a sector that has traditionally made an important contribution to Spain's GDP growth –the construction sector. Recent data point to a slow but solid recovery in construction with demand factors driving increases in prices– specifically, in a few regions, associated with population mobility and rental access. The recovery has been more pronounced in non-residential markets, with a significant presence of foreign investment, which registered increased inflows in 2015. Despite improvement, housing prices are growing slowly due to the existence of barriers such as restrictive credit conditions, insufficient savings and labour market failures.

The current situation points to a sharp contrast to what we have seen in the past – which typically saw construction take off at the first sign of economic recovery. In fact, construction could still take some time to recovery to reach long term levels and thus increase its potential to generate spillover effects for the wider economy.

Nonetheless, the recovery in transactions, positive price growth and the presence of foreign investment are positive signs, which – all being equal – are expected to continue in the upcoming quarters.

Taking a closer look at the issue of US monetary policy normalisation, this month's SEFO provides details over the Federal Reserve's current tightening cycle, including current policy challenges and possible general spillover implications for the global economy overall. On balance, the Federal Reserve's current monetary policy normalisation cycle is expected to be among the slowest of all cycles analysed, complicated by: uncertainty in the actual level of US job market slack, difficulties in estimating the natural interest rate, a shift in supply and demand of 'safe' assets, official rates close to zero, and increased divergence in the economic cycles across the main developed economies. Evidence suggests that international transmission will also be unique. Central banking authorities in the rest of the world will respond to resulting circumstances in their domestic economies. But risks remain given the high degree of global economic uncertainty.

Next, we assess the outlook for the Spanish financial sector ahead of expected implementation of the other game changing event in 2016 – Brexit – set to begin in March 2017. Spain has considerable economic and financial ties to the UK, specifically as regards its banking sector. Direct investment by Spanish banks in the UK stands at over 16 billion euros, while their claims on the UK totalled 377.29 billion euros as of June 2016, made up mostly by claims on non-financial corporates. Despite large UK exposure, we expect the Spanish financial sector to be well prepared to face these upcoming challenges, in part due to the preservation of the EU passport, as well as its experience with international diversification.

Despite increased uncertainty in 2016, thanks to the stability provided by the ECB's asset purchase programs, there has been little contagion to sovereign debt markets. In fact, as we show in our next article, in 2016, both the State and some of Spain's Autonomous Regions have taken advantage of favourable market conditions to improve their liability management profiles, reducing debt servicing costs and extending maturities. For 2017, the State is expected to continue to cover the bulk of its financing needs through long-term debt issuance. Regional bond issuance has increased with financing conditions having also improved, but the majority of financing is still provided by the State through the special liquidity mechanism. The government should take advantage of the current climate to increase financial autonomy for those regions that have still been unable to return to capital markets. Doing so may help the government address other more urgent issues – such as the near depletion of the Social Security Reserve Fund – that may require, at least in the short-term, additional debt issuance.

Apart from the implications of recent political and monetary policy events, we close with an assessment of the potential impact from the entry into force in January 2018 of IFRS 9, the international financial reporting standard which contemplates a new model for provisioning for credit risk projected to have material effects on financial institutions' balance sheets. The new standard changes the current provisioning model, based on the recognition of actual, materialised losses to one based on expected losses at the time loans are granted. While the Basel

Committee on Banking Supervision is currently assessing various arrangements to smooth IFRS 9 implementation, the initial impact study carried out by the EBA points to significant increases in provisioning requirements and decreases in CET1 ratios at financial institutions.

The Spanish economy: Recent developments and forecasts for 2017

Raymond Torres and María Jesús Fernández[1]

Spanish economic growth exceeded expectations over the past two years and remains above the eurozone average. Recovery remains on track for 2017, albeit at a slower pace due to less supportive external and domestic conditions.

The Spanish economy is at a turning point. Growth has exceeded 3% in the last two years, outperforming the majority of forecasts and approximately doubling average eurozone growth. In contrast to earlier recovery episodes, growth has not generated external imbalances. For 2017, most of the main pillars of the economic recovery remain in place. However, tailwinds supporting the recovery – such as tax cuts, falling oil prices, and a renewed decline in interest rates – have run out of steam and the external environment has become more uncertain. In this context, growth is expected to slow to 2.4% in 2017, slightly above the previous projection and still one percentage point above the eurozone average. Yet, unemployment and public debt will remain significantly above pre-crisis levels.

The Spanish economy in 2016

In the absence of a full set of data for the fourth quarter of 2016, the Spanish economy looks to have grown by 3.3% in 2016, 0.1 percentage points faster than the previous year. This outturn, which is the fastest amongst the main eurozone economies, has surpassed growth forecasts, which in September 2015 pointed to a slowdown in growth to 2.8%.

Better than expected growth is primarily the result of the strong performance of the external sector, which instead of shaving off a few tenths from growth, has contributed positively to GDP growth (Exhibit 2.2). Exports have performed well. Goods exports increased by 3.5%, in excess of growth in global trade in goods, enabling the Spanish economy to once again increase its share of global exports. But the main surprise factor has been exports of tourism services. Foreign tourist arrivals rose by 10%, the highest rate of growth since current records began in 1995. The terrorist attacks that took place in various European and Mediterranean countries influenced this exceptional result.

Nonetheless, the most important factor has been more subdued growth in imports, which has been significantly below what would be expected when applying typical domestic demand elasticities. It is still too early to make definitive

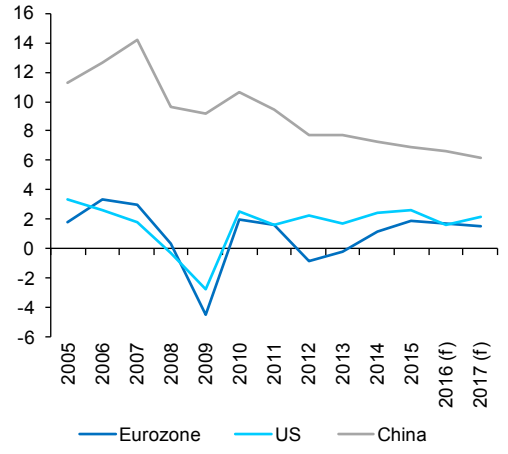
[1] Economic Trends and Statistics Department, Funcas.

Exhibit 1

World economy

1.1 - GDP

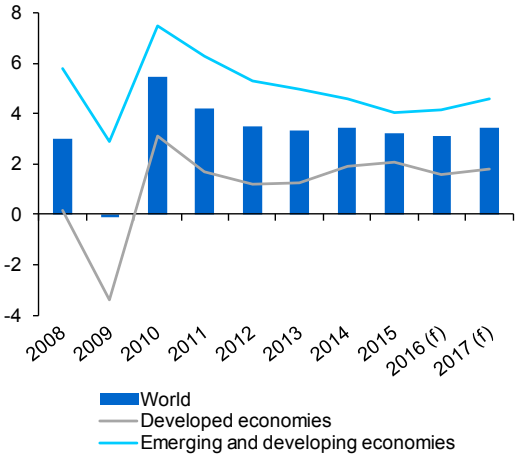
Annual change in %



Note: (f) Forecasts.
Source: IMF.

1.2 - GDP

Annual change in %



Note: (f) Forecasts.
Source: IMF.

conclusions, but this behaviour could be a sign that the elasticity of imports to domestic demand is reducing, which – if confirmed – would imply a significant structural change for the Spanish economy. This moderation of import growth is the main factor explaining the positive contribution from the external sector to GDP growth in 2016 (Exhibit 3.1).

According to preliminary estimates, domestic demand contributed 2.9 percentage points to growth. Private consumption accelerated slightly to around 3% (Exhibit 2.3). As was the case in the previous year, dynamic consumption growth was supported by the labour market recovery, the boost to household purchasing power from the decline in oil prices, the reduction in households' financial burden due to lower debt levels and declining interest rates, and tax cuts.

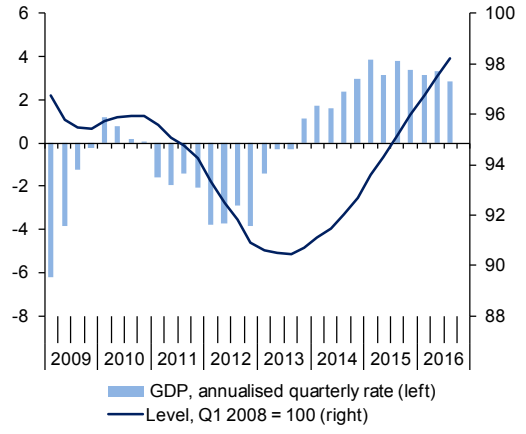
Investment in capital goods slowed in 2016 compared to the strong rates of growth registered in the previous year (Exhibit 2.4). After four consecutive years of growth, this is the only domestic demand component that is now above pre-crisis peaks, both in nominal and real terms. Capital goods investment now accounts for 10% of GDP, one percentage point above its share in GDP in the pre-crisis expansion years. Growth in this component of domestic demand has been based on cost competitiveness gains and a recovery in business profitability rates. In regards to the latter, it is particularly worth highlighting the industrial sector, which according to the Bank of Spain's Central Balance Sheet Data Office, stood at 8.7% during the first three quarters of 2016, representing its highest level since 2007.

Investment in capital goods is the only component of domestic demand that is now above pre-crisis peaks, accounting for 10% of GDP, one percentage point above that of pre-crisis expansion years.

Exhibit 2

Spanish economy: GDP and components

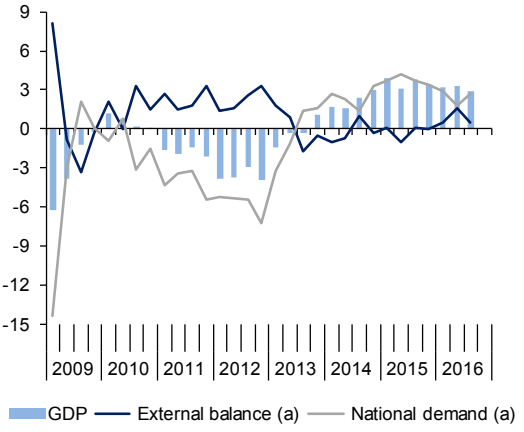
2.1 - GDP



Source: INE.

2.2 - GDP, national demand and external balance

Annualised quarterly change in % and contribution in pp

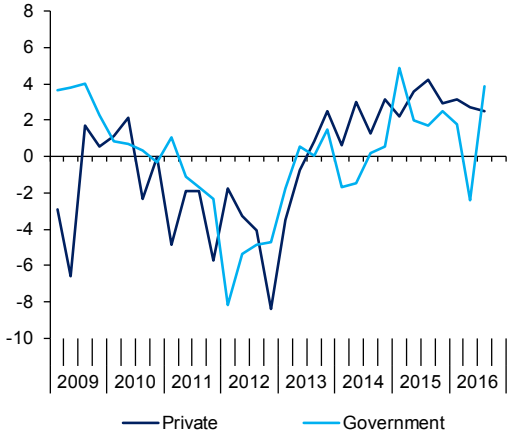


Note: (a) Contribution to GDP growth in percentage points.

Source: INE.

2.3 - Consumption

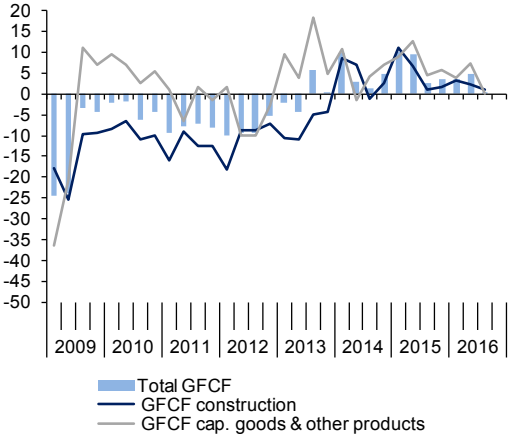
Annualised quarterly change in %



Source: INE.

2.4 - Gross Fixed Capital Formation

Annualised quarterly change in %



Source: INE.

Construction investment also slowed, focused on the non-residential sector and largely a reflection of the slowing in public works procurement after an increase in 2015 associated with the election cycle. By contrast, residential construction grew somewhat more strongly than in the previous year.

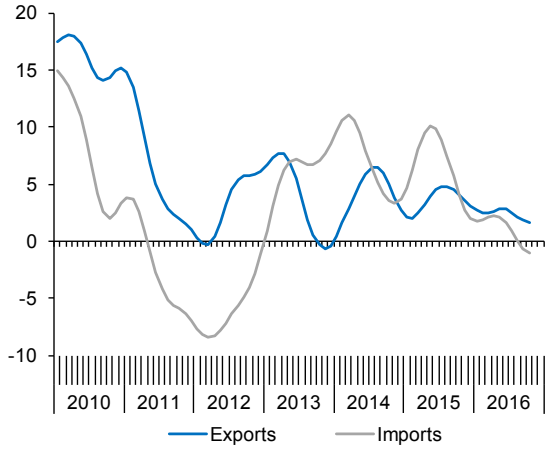
The manufacturing sector registered more modest rates of growth in 2016 in comparison to the previous year's exceptional result. Even so, it was the fastest growing sector, together with market services. The overall recovery in construction GVA, which was barely noticeable in 2015, gained momentum in 2016.

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

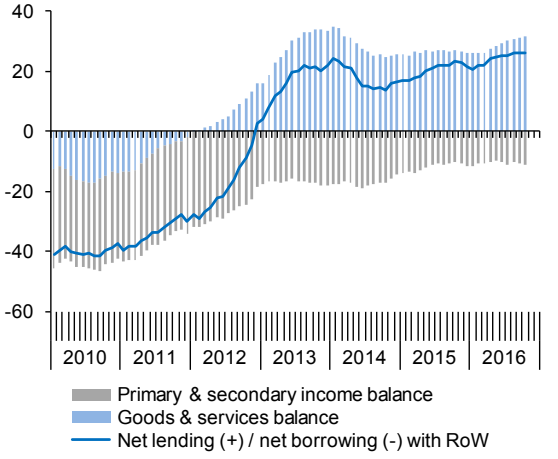
Annualised moving quarterly change in %, smoothed series



Source: Ministry of Economy and Funcas.

3.2 - Balance of payments

EUR billion, cumulative last 12 months



Source: Bank of Spain.

Employment growth, on a full-time equivalent basis, is estimated at around 2.9%, representing an increase in employment of around 495,000. Meanwhile the number of social security registrations increased by 3% on an average annual basis, the equivalent of 513,000 new registrations.

According to the Labour Force Survey, and applying estimates for the fourth quarter, the active population diminished for a fourth consecutive year in 2016. This is the result of a decline in the working age population, given that the activity rate was broadly unchanged compared to the previous year. The number of unemployed fell by 11%, putting the average annual unemployment rate at 19.7%, 2.4 percentage points lower than the previous year. As has been the case in previous years, 2016 saw stronger growth in temporary employment than permanent employment (Exhibits 4.1 and 4.2).

Remuneration per salary earner grew somewhat more slowly than in the previous year at 0.2% and well below the 1.1% agreed through collective bargaining. Even so, salaries did not lose purchasing power, given that consumer price inflation was negative. Growth in salary remuneration was below the increase in productivity, meaning that unit labour costs registered a small reduction, allowing the Spanish economy to continue improving its cost competitiveness (Exhibit 5.1).

Average annual inflation stood at -0.2%, in negative territory for a third consecutive year, reflecting the decline in energy prices, which in turn is a result of the fall in oil prices. Core inflation was 0.8%, above the previous year due to strong consumption and modest Euro depreciation. The last months of the year saw a sharp increase in headline inflation to 1.6% in December, due to a rise in the cost of energy prices over the period (Exhibit 5.2).

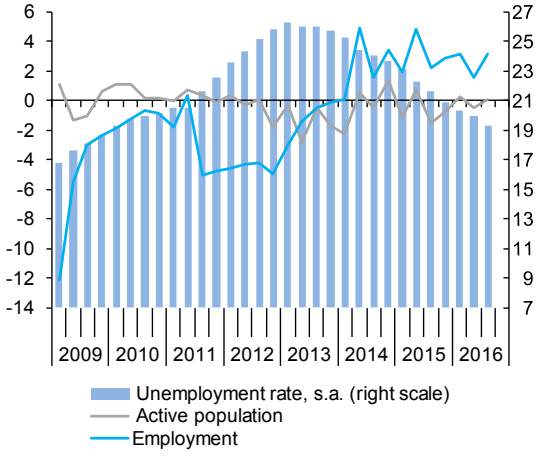
The current account registered a surplus of 15.6 billion euros between January and October, compared to 9.6 billion euros recorded for the same

Exhibit 4

Labour market

4.1 - Employment and unemployment (LFS)

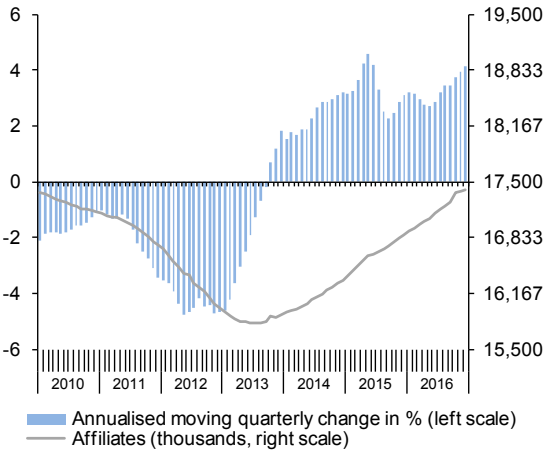
Annualised quarterly change and percentage



Source: INE and Funcas.

4.2 - Social Security affiliates

Seasonally-adjusted data



Source: Ministry of Labour and Funcas.

period last year. It is likely that the current account surplus reached 1.8% of GDP at the end of the year (Exhibit 3.2). By contrast, the financial account deteriorated from January to October in comparison with the same period last year (Exhibit 6.2).

The consolidated Public Sector accounts, excluding local corporations, registered a deficit of 29.9 billion euros between January and October this year – excluding support to financial institutions – or 2.68% of GDP. This is 5.4 billion euros less than the same period last year. The overall end of year target for the Public Sector as a whole is 4.6% of GDP, which suggests the target could be met, even taking into account negative seasonal effects in the last months of the year. However, it is important to bear in mind that the original target was 2.8%, which was subsequently relaxed by the European Commission in July.

The year-end target for the overall Public Sector deficit is 4.6% of GDP, which suggests the target could be met. However, it is important to bear in mind that the original target of 2.8% was relaxed by the European Commission in July.

Particularly notable is the good performance of the Regions, which registered an aggregate deficit of 0.3% of GDP to October, significantly below the 0.7% of GDP target for the year as a whole. This is due to the increase in revenues resulting from the favourable ex-post liquidation of the 2014 regional financing system, as well as an increase in payments on account for 2016. It is also worth highlighting the increase in social security contributions to the Social Security Fund, which were up 3.4% to October, compared to last year when they grew by just 1.8%. Meanwhile, public debt is estimated to have reached nearly 101% of GDP at the end of the year (Exhibit 7.2).

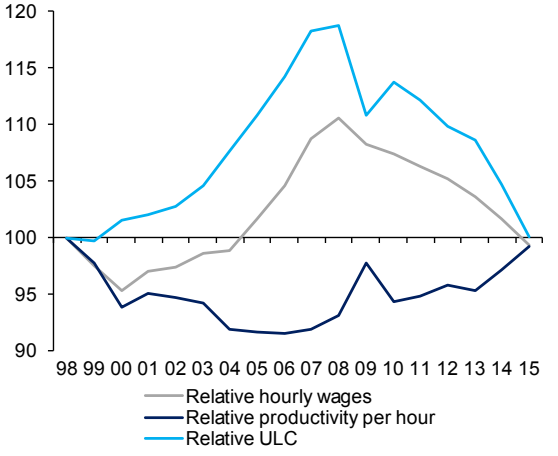
Household gross disposable income rose 2.6% to the third quarter of 2016 in comparison to the same period last year, thanks to an increase in the wage bill – due to higher employment – and

Exhibit 5

Costs and prices

5.1 - Relative ULC Spain/Euro Area in manufacturing

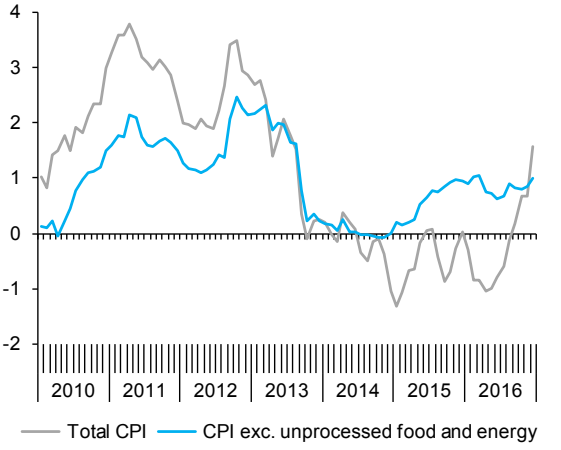
Index 1998=100



Source: Eurostat and Funcas.

5.2 - Consumer Prices Index

Change y-o-y in %



Source: INE.

a reduction in household debt interest payments. Household savings once again exceeded investment, meaning that households registered a financial surplus of 1.2% of GDP over the period.

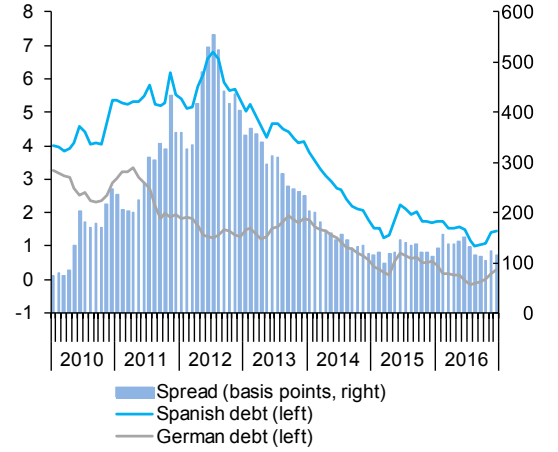
As in previous years, this surplus was partly used to acquire financial assets and partly to reduce debt, with the latter standing at 103.5% of gross disposable income in the third quarter, almost

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

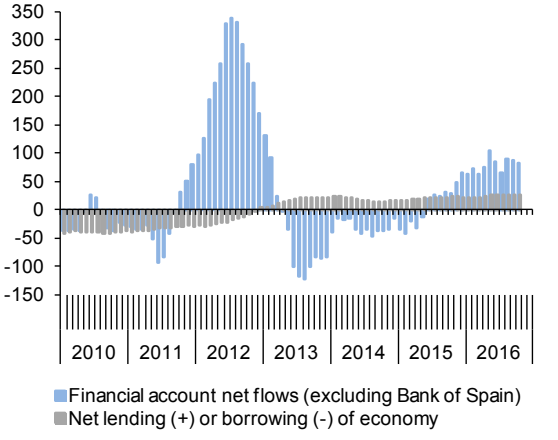
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - Balance of payments

EUR billion, cumulative last 12 months



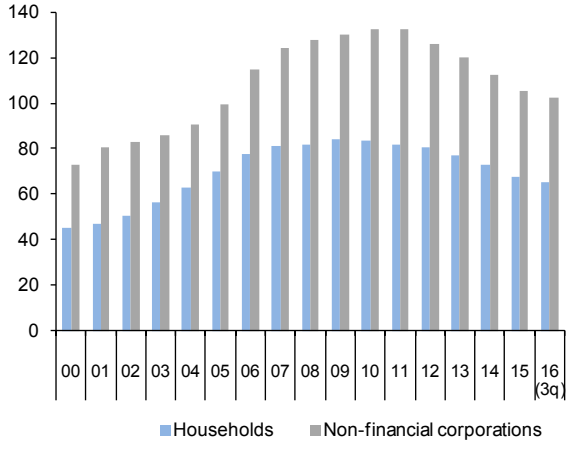
Source: Bank of Spain.

Exhibit 7

Financial imbalances

7.1 - Private sector indebtedness

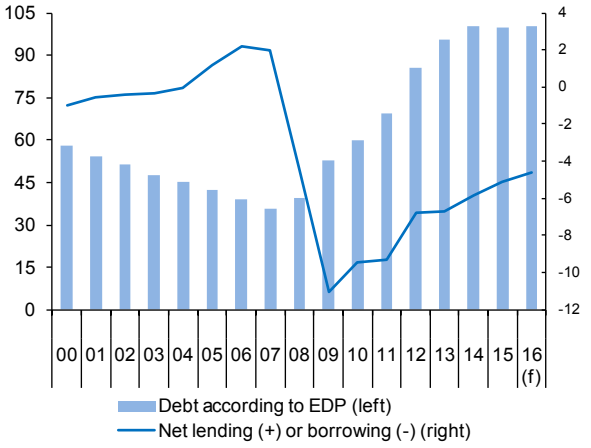
Percentage of GDP



Source: Bank of Spain.

7.2 - Government balance (exc. financial entities bail-out) and debt

Percentage of GDP



Note: (f) Forecast.

Source: Bank of Spain.

four percentage points below the previous year (Exhibit 7.1).

Non-financial corporations also posted a net lending position, equivalent to 2.9% of GDP, and in excess of the same period last year, despite the increase in investment. Company indebtedness fell to 102.3% of GDP in the third quarter, five percentage points below the previous year. In other words, investment was financed entirely from company profits, instead of through debt.

Yields on 10-year sovereign debt fell from an annual average of 1.74% in 2015 to 1.39%, while the risk premium increased slightly to 125.5 basis points. The first months of the year saw debt yields rise in line with tensions on international financial markets, but then drop back following the European Central Bank's decision to expand its asset purchase programme both in quantitative and qualitative terms. However, Trump's victory in the American elections has exerted upward pressure on long-term rates in the United States in anticipation of a more expansive fiscal policy. This may, in turn, translate into higher borrowing costs in Europe. Spanish yields closed the year at around 1.35% (Exhibit 6.1). Short-term interest rates also declined in 2016; specifically, 3-month Euribor fell to an annual average of -0.26%.

Trump's victory in the American elections has exerted upward pressure on long-term rates in the United States in anticipation of a more expansive fiscal policy. This may, in turn, translate into higher borrowing costs in Europe.

Overall, growth in GDP in 2016, as was the case in 2015, was driven by a series of one-off factors, such as tax cuts, falling oil prices and a renewed decline in interest rates. In contrast to pre-crisis boom years, growth has not generated imbalances. Growth has not led to an external deficit, nor an increase in private debt, nor a loss of cost competitiveness. Another important aspect is

the key role played by the industrial sector in this recovery. The relatively limited growth in imports in the context of a vigorous recovery in domestic demand is particularly encouraging. However, a more worrying aspect is the continual rise in public debt, which is above 100% of GDP. Finally, economic growth is very job-intensive, but the pattern of strong temporary job creation, with very negative productivity and social implications, continues to be one of the defining characteristics of the Spanish labour market.

Economic growth is employment-intensive, but the pattern of strong temporary job creation, with negative productivity and social implications, continues to be one of the defining characteristics of the Spanish labour market.

2017 forecasts

The main pillars of the recovery remain in place in 2017. Companies are facing better financing and competitiveness conditions, which is enabling them to take advantage of export and investment opportunities. The non-financial sector, in particular, has deleveraged and is posting relatively significant operating surpluses. Unit labour costs have declined with respect to other countries such as Germany, closing the gap that emerged between 2000 and 2007. A cleaned-up banking sector is in a position to provide lending to support growth, while avoiding the emergence of new bubbles. Meanwhile, households have a growing capacity to consume and purchase houses, thanks to labour income and deleveraging over the last six years.

Furthermore, the current account registered a significant surplus to the end of the year, which suggests that stronger growth in Spain than in other European countries is sustainable. This favourable situation is in sharp contrast to previous recovery phases, which were hampered by a current account deficit.

Even so, a deceleration in growth is expected for next year. Firstly, the external environment has become more uncertain. Export market growth is set to be weaker. And there are downside risks, depending on the trade policy adopted by American President Trump (*see box*). Moreover, oil prices are increasing and they are expected to increase further as a result of the recent agreement between OPEC countries. The average price of a barrel of Brent is set to be 58 dollars in 2017, 15 dollars more than in 2016. The result is a significant deterioration in the terms of trade, a rebound in inflation and a decline in consumer purchasing power.

Secondly, the budgetary stance will be moderately restrictive, so as to comply with deficit targets. Revenue-to-GDP is expected to rise in contrast to the decline registered in the last two years. The forecasts reflect new measures to tighten corporation tax and increase excise duties.

Meanwhile, monetary policy should remain ultra-expansive, in line with the ECB's decision to extend the public and corporate debt purchasing programme (TRLTRO II) and negative interest rates. However, the reduction in the volume of TRLTRO II and, especially, rebounding inflation foreshadow a gradual increase in long-term interest rates. As such, yields on 10-year sovereign debt will reach 1.7% in 2017, 0.3 percentage points above 2016. The euro-dollar exchange rate will remain at current levels of 1.08.

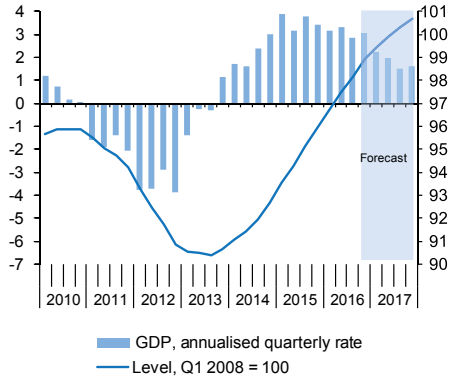
Overall, GDP will grow by 2.4% in 2017, 0.1 percentage points more than previously forecast and one percentage point above the eurozone average. The slowdown will come primarily from domestic demand, especially private consumption. Public consumption will also grow more slowly than in 2016. However, investment will continue to provide conflicting signals: on the

Exhibit 8

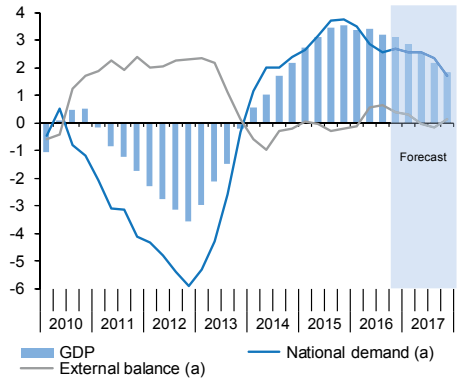
Economic forecasts for Spain, 2016-2017

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

8.1 - GDP

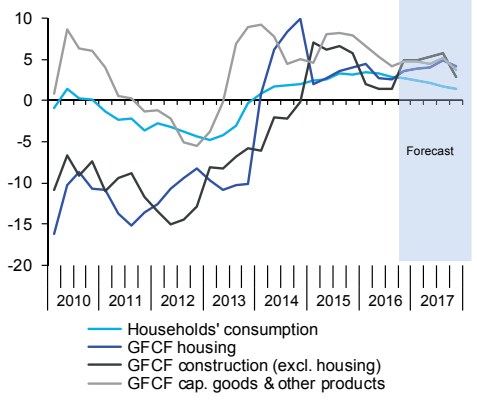


8.2 - GDP, national demand and external balance

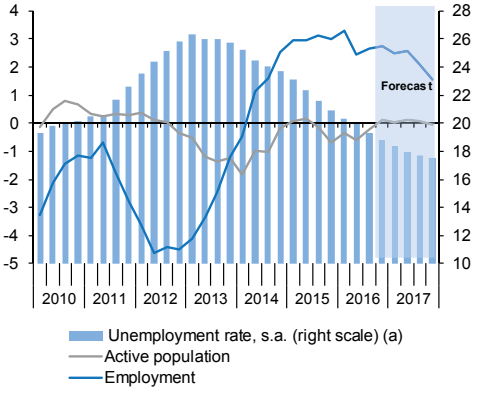


(a)Contribution to GDP growth in percentage points.

8.3 - National demand aggregates

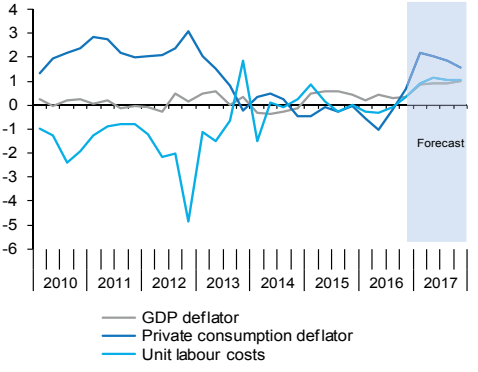


8.4 - Employment and unemployment

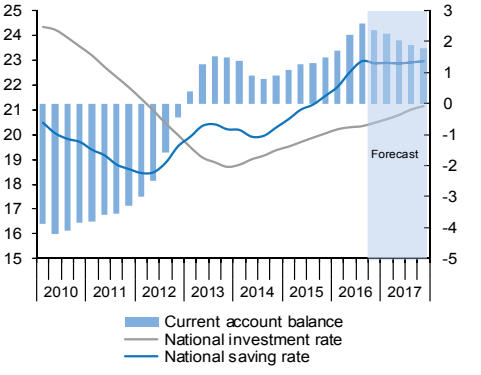


(a) Percentage of working age population.

8.5 - Inflation



8.6 - Saving, investment and c/a balance (% GDP, 4qt moving averages)



Source: INE (Quarterly National Accounts) and Funcas (forecasts).

Table 1

Economic Forecasts for Spain, 2016-2017

Annual rates of change in %, unless otherwise indicates

	Actual data				*Funcas forecasts*	
	Average 1996-2007	Average 2008-2013	2014	2015	2016	2017
1. GDP and aggregates, constant prices						
GDP	**3.8**	**-1.3**	**1.4**	**3.2**	**3.3**	**2.4**
Final consumption households and NPISHs	3.6	-2.2	1.6	2.9	3.0	1.9
Final consumption general government	4.3	0.7	-0.3	2.0	1.2	1.1
Gross fixed capital formation	6.4	-7.4	3.8	6.0	4.0	4.5
Construction	5.9	-10.7	1.2	4.9	2.9	4.5
Residential construction	7.8	-12.5	6.2	3.1	3.4	4.3
Non-residential construction	4.2	-8.7	-2.6	6.4	2.4	4.6
Capital goods and other products	7.5	-2.2	6.6	7.2	5.2	4.5
Exports goods and services	6.6	1.7	4.2	4.9	4.0	3.1
Imports goods and services	8.7	-4.1	6.5	5.6	3.1	3.2
National demand (a)	**4.5**	**-3.1**	**1.9**	**3.3**	**2.9**	**2.3**
External balance (a)	-0.7	1.8	-0.5	-0.1	0.4	0.1
GDP, current prices: - € billion	--	--	1,037.0	1,075.6	1,114.8	1,151.9
- % change	7.4	-0.8	1.1	3.7	3.6	3.3
2. Inflation, employment and unemployment						
GDP deflator	3.5	0.5	-0.3	0.5	0.3	0.9
Household consumption deflator	**3.1**	**1.8**	**0.2**	**-0.2**	**-0.2**	**1.9**
Total employment (National Accounts, FTEJ)	3.4	-3.3	1.1	3.0	2.9	2.0
Productivity (FTEJ)	0.4	2.0	0.3	0.2	0.4	0.4
Wages	7.5	-1.1	1.3	3.8	3.5	3.5
Gross operating surplus	6.9	-0.3	0.1	2.7	3.9	2.6
Wages per worker (FTEJ)	3.3	2.3	0.0	0.4	0.2	1.4
Unit labour costs	2.9	0.3	-0.3	0.2	-0.1	1.0
Unemployment rate (LFS)	**12.5**	**20.2**	**24.4**	**22.1**	**19.7**	**18.1**
3. Financial balances (% of GDP)						
National saving rate	22.4	19.8	20.4	21.4	22.3	22.3
- of which, private saving	18.6	23.0	23.9	24.0	24.7	23.4
National investment rate	26.9	23.1	19.4	20.1	20.5	21.2
- of which, private investment	23.0	19.2	17.2	17.6	18.2	18.9
Current account balance with RoW	**-4.5**	**-3.3**	**1.0**	**1.3**	**1.8**	**1.1**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	1.5	2.0	2.3	1.7
- Private sector	-2.8	5.9	7.5	7.1	7.1	5.0
- Public sector (general governm. deficit)	**-0.9**	**-8.6**	**-6.0**	**-5.1**	**-4.8**	**-3.3**
- General gov. deficit exc. financial instit. bailout	**--**	**-7.9**	**-5.9**	**-5.1**	**-4.6**	**-3.3**
Public debt according to EDP	52.2	67.1	100.4	99.8	100.5	100.9
4. Other variables						
Household saving rate (% of GDI)	10.2	10.1	9.0	8.2	8.1	7.9
Household gross debt (% of GDI)	82.1	127.3	112.6	106.9	101.0	94.5
Non-financial coporates gross debt (% of GDP)	80.0	128.0	112.6	105.4	99.2	92.9
Spanish external gross debt (% of GDP)	90.8	158.6	167.7	168.5	166.0	162.2
12-month EURIBOR (annual %)	3.7	1.9	0.5	0.2	0.0	0.0
10-year government bond yield (annual %)	5.0	4.7	2.7	1.7	1.4	1.7

Note:
(a) Contribution to GDP growth, in percentage points.
Sources: 1996-2015: INE and Bank of Spain; Forecasts 2016-17: Funcas.

one hand, residential investment, which collapsed during the crisis, is set to accelerate and take advantage of improved credit conditions. On the other hand, investment in capital goods is set to slow. The external sector will continue to make a slightly positive contribution to growth, despite the slowdown in exports - resulting from a weak international environment and a relatively more modest increase in tourism inflows after a record year.

The slowdown will have a knock-on effect for the labour market in 2017. Employment will grow by 2% after 2.9% in 2016. The unemployment rate will continue its downward path, albeit more slowly, reaching an annual average of 18.1%.

Inflation will touch 2% due to the increase in oil prices and depreciation of the euro against the dollar. Unit labour costs are forecast to remain contained, facilitating continued cost competitiveness gains.

The current account should remain in surplus albeit shrinking due to an increase in the price of imports. External debt will slowly reduce, but remain a key vulnerability.

The approved adjustment measures do not appear to be sufficient to bring the public deficit down to the agreed target of 3.1% of GDP in 2017.

Finally, whilst the public sector looks largely on track to comply with the deficit target agreed upon with the European authorities, the approved adjustment measures do not look to be sufficient to reduce the deficit to a target of 3.1% of GDP in 2017. In the absence of new measures, with the State Budget still to be adopted, a 0.2 percentage points deviation from target is forecast for 2017.

Box. The anticipated economic impact of the Trump administration

During his campaign, the President promised public infrastructure investments and tax cuts aimed at increasing competitiveness and reindustrialisation. Top rate income tax is expected to be lowered, as well as corporation tax, which at 35% at the federal level is relatively high. Tax advantages will be offered to companies that bring activity back on shore and repatriate profits. Furthermore, as a candidate, Trump set out a protectionist stance – a hardening of trade policy in relation to low-cost countries such as China and Mexico; incentives to produce and export from the United States; immigration barriers and evictions of already established immigrants.

The programme is far from clear-cut, for example, budgetary incentives conflict with the target of reducing public debt. Likewise, it appears difficult to reconcile fiscal and social cuts with promises to fight inequality. And the introduction of tariff barriers would provoke retaliatory measures, undermining exports.

In the short-run, it is probable that fiscal stimulus measures will raise growth in the US by a few tenths. Further out, the impact of Trump's measures is much more uncertain. Public debt looks certain to rise, which could provoke a reaction from a Congress seeking to rein in debt. Inflation is set to increase, which will raise potential tensions between Trump's stimulus policies and Federal Reserve objectives. Interest rates will rise this year.

Unemployment, currently around 4.7%, has little room to fall. Restrictions on immigration

Box. The anticipated economic impact of the Trump administration (*continued*)

will not help. Immigrants hold jobs in sectors such as personal services, hospitality, catering and retail, where local manpower is relatively scarce.

Meanwhile, significant changes are expected to access conditions for social protection. Proof of this has been the questioning of the Obamacare health reform and support programmes for families with children. It remains to be seen how public opinion, sensitive to inequalities, will respond.

There is a real risk of the American economy overheating. The increase in oil prices, the low rate of unemployment together with incipient salary pressures, and economic stimulus measures, as well as immigration restrictions point to a spike in inflation. This could reach around 3%, a level which would require the Federal Reserve to act with a degree of forcefulness, potentially provoking new financial market turbulence.

It remains to be seen whether Trump's statements on foreign affairs will moderate as President. If not, a period of de-globalization could be about to begin. In all probability, the majority of protectionist measures will ultimately not be enacted and political activism will instead bear down on fiscal and immigration policy. All of this would lead to an increase in US interest rates, increased capital inflows and dollar appreciation. Emerging Latin American and Asian economies are the most vulnerable to these changes. The impact for Europe will be relatively limited.

However, the European and global economy would be deeply affected by a trade war provoking the application of protectionist measures.

In this context, it would be desirable to reinforce the eurozone, which continues to flag in the face of concerns about the state of the Italian banking system, anaemic domestic demand growth and the absence of real capacity to act at the European level to tackle possible crises. In Spain, a broad consensus around pensions, regional financing and employment policy would be particularly useful in such an uncertain environment.

Spain's real estate sector: Slow path to recovery and future outlook

Paloma Taltavull[1]

The Spanish real estate sector is slowly recovering in the wake of the crisis and its contribution to Added Value (AV) is due to an increase in activity in public works rather than residential construction. However, even though recovery has taken place in a favourable macro context of low inflation and low interest rates, this has failed to stimulate residential markets due to credit constraints and still weak demand.

This article focuses on the momentum in the real estate and construction sector in Spain, based on analysis of available supply, demand and investment indicators. The data point to a slow recovery in construction with demand factors driving increases in prices – specifically, there have been increases in transactions and localised prices in a few regions, associated with population mobility and rental access. Non-residential markets, on the contrary, show higher transaction activity with a significant presence of foreign investment, which registered increased inflows in 2015. Housing prices are growing slowly due to the existence of barriers affecting affordability, such as restrictive credit conditions, insufficient savings and labour market failures. Nonetheless, the recovery in transactions, positive price growth and the presence of foreign investment point to signs of a recovery in the sector, which – all being equal – is expected to continue in the upcoming quarters.

The construction sector has traditionally been important for the economy due to its contribution to Added Value, the significant investment it entails and because it is also a capital goods producer. Furthermore, the spillover effects of construction activity make it a vital sector for supporting economic growth. The collapse in housing activity after the Global Financial Crisis (GFC) and the above mentioned spillover effects could explain the modest growth in the Spanish economy (and in a good proportion of western economies) in the previous years. Very weak, or almost non-existent, activity in some branches of construction activity is a direct consequence of the sector's role at the center of the financial crisis. As a result, the sector has experienced the most significant credit constraints since Spanish post-war years. The lack of construction seems to have reduced the sector's ability to catalyse other areas of economic activity and, as such, an analysis of the momentum is key to identifying the sector's potential for recovery and ability to augment future economic growth.

The construction sector is the supply side of the real estate market. Spain's real estate markets

[1] University of Alicante.

have developed to differing degrees. The residential market is the most well-known and has played the biggest role in growth in the last two decades, both in terms of economic growth as well urban expansion. This importance stems from a period of intense construction activity, which led to the second largest cycle of building in recent history, during the period 1994 to 2007. The role played by house-building during this period has been a major factor behind the current configuration of Spanish cities and metropolitan areas. This cycle has been the largest in intensity since the sixties and it came about as the result of an overlapping of different sources of demand and a strong and prolonged construction response (to some degree unique in Europe), which supplied the different residential real estate markets: Primary housing, which absorbed the bulk of the units constructed in the last 15 years; second homes; temporary residences, demanded by both resident and non-residents; and tourism units. The combination of diverse residential markets, together with the Spanish geographic location (with a pleasant climate), specialisation in tourism and a flexible and ample supply of land, were the main factors – amongst others – behind this major upswing. Such diversification was symptomatic of the development of a mixed use of housing stock associated with higher levels of economic growth, as has occurred in other economies around the world.

In relation to non-residential sectors, such as offices, high levels of consolidation have been reached in Madrid and Barcelona [2].These are both cities with mature markets in direct competition with other European cities. The market for retail and warehouse space is expanding, especially for shopping centres, as well as the logistics market, linked to economic growth, firm creation and the proliferation of new urban areas, amongst other factors.

The whole sector experienced a major shock following the impact of the Global Financial Crisis (GFC). During the second phase of the crisis (2011-14), the sector received a range of economic stimulus, which varied according to the particular sub-sector. Non-residential activities have been subject to successive inflows of foreign investment, which have entered into and driven activities, such as logistics, shopping centres and the office market, amongst others. International investment inflows into the sector (less obvious in official aggregate figures than in international company statistics[3]) have been significant and have tended to be more associated with specialised investments rather than opportunistic transactions, helping to spur competition in these markets in Spain. Meanwhile, the residential sector was the most affected by the crisis, with a generalised lack of investment, which still remains the case.

This report analyses the current state of the real estate sector from a market perspective, both from a supply side point of view (evaluating the state of the production response to market drivers), as well as a demand side perspective (profiling the development of factors underpinning demand). The analysis focuses to a large extent on the constraints to growth in the residential sector, although it also makes an allusion to other sectors with available data. The role played by the public sector as an investor in infrastructures is also addressed so as to provide a full explanation of the final figures on contributions to Spanish GDP.

The construction sector's role in the Spanish economy and recent developments

The contribution to GDP made by the construction sector in Spain is significant, as set out in Table 1. The sector accounts for a long-term average of between 60% and 65% of total investment in the economy (15%-17% of total GDP on average).

[2] See reports from the main management companies in the sector, such as, JLL.

[3] See Real Capital Analytics, http://www.ranalytics.com

Table 1
Importance of construction in aggregate accounts

(% of average GDP)	1995-2000	2001-2007	2008-2011	2012-2016*
Demand				
Final consumption spending	77.29	74.98	77.07	77.89
Final consumption of public sector	17.11	17.04	20.04	19.40
Gross fixed capital formation (GFCF)	23.41	28.70	24.52	19.43
GFCF. Tangible fixed assets. Construction	**14.52**	**19.32**	**15.63**	**10.03**
Housing	**6.83**	**10.75**	**7.79**	**4.49**
Other building and construction	**7.69**	**8.57**	**7.85**	**5.54**
GFCF. Tangible fixed assets. Capital goods	7.19	7.22	6.25	6.40
Supply				
AV Industrial Manufacturing	16.21	14.59	12.54	12.16
AV Construction	**8.55**	**10.01**	**8.75**	**5.17**
Pro-Memoria: % average real GDP growth	4.09	3.56	-0.85	0.53

*Note: * 2016 up to third quarter.*
Source: National Accounts, INE.

Although this proportion can increase very significantly in expansive construction phases (as was the case in 2001-07).

During the most recent period from 2012-16, the sector barely accounted for 52% of total investment, which points to a still very serious crisis. Investment into construction is distributed between three large sub-sectors: Housing, non-residential building and infrastructures (civil engineering). National Accounting aggregates the latter two into the 'other building and construction' category. Table 1 shows that both groups make a similar contribution to the economy of between 7-8% of investment GDP. The investment data also show that during 2001-07 private investment in housing was the main determinant of the investment cycle, reaching more than 37% of total investment in the Spanish economy. The collapse of the housing market and infrastructure construction is reflected in the decline in investment until a half of its long-term contribution. Similarly, construction adds between 8% and 9% of total AV, exceeding over 10% in expansionary periods, generally linked to growth in the residential market.

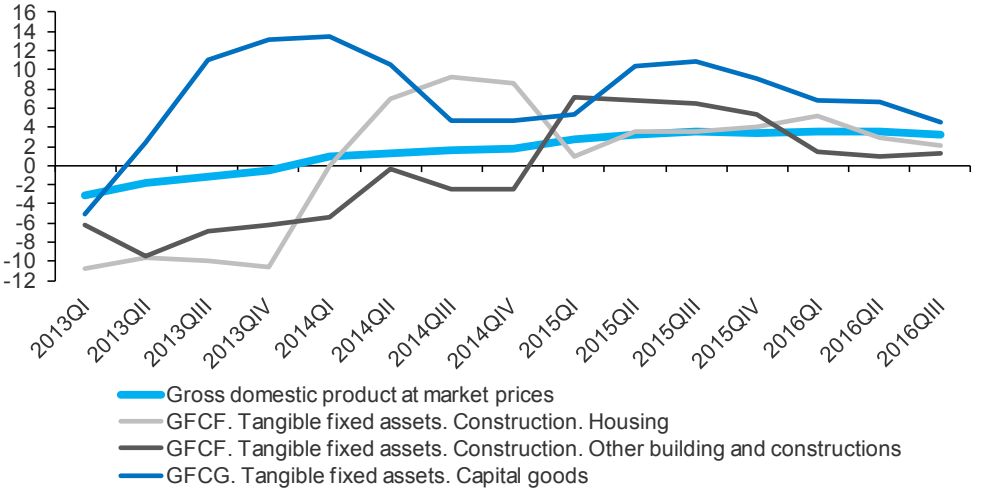
The situation in 2016 is consistent with a very tepid recovery following the deep crisis experienced since 2007. Exhibit 1 places the end of the construction AV decline in 2014, although positive growth rates (recovery from maximum crisis levels) were not registered until well into 2016, with both construction and real estate services appearing to record stable real growth rates of around 2%. This development is in clear contrast to the rest of industry, which has been growing and leading the Spanish economic recovery since 2013.

During 2001-07 housing was one of the main drivers of the investment cycle, reaching more than 37% of total investment in the Spanish economy.

Such evolution is in contrast to the apparent revival in investment in the two construction sub-sectors (Exhibit 2), which have been growing since 2013 (first housing and then other building and construction), although this is not reflected in

Exhibit 1

Contribution of gross capital formation to economic growth
(% annual growth in real terms)



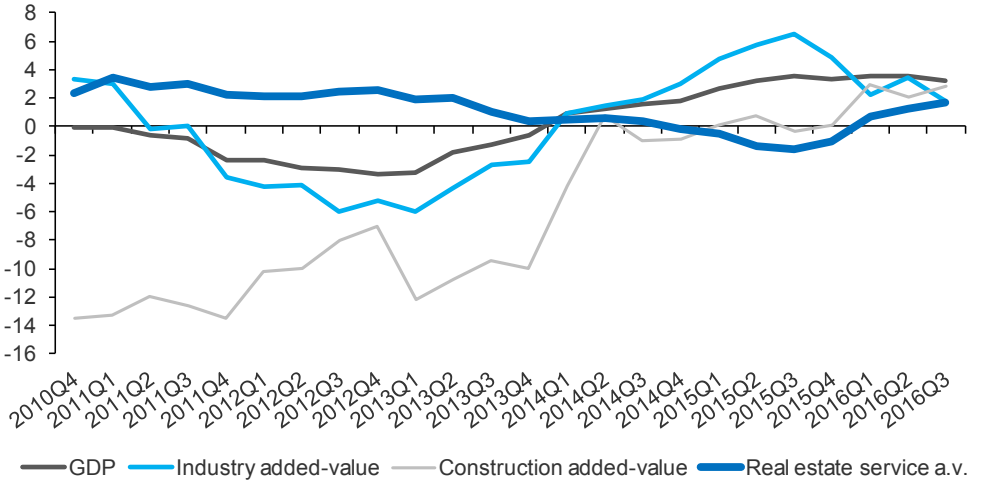
Source: National Accounts, INE.

effective activity until well into 2015. During 2016 investment has moderated to growth rates of 2%, pointing to lower construction growth in the medium-term.

The apparent contradiction in these figures (strong investment that is not reflected in AV contributions for nearly two years), suggests the idea of very weak output, consistent with

Exhibit 2

Spanish added value by economic sectors
(% annual growth in real terms)

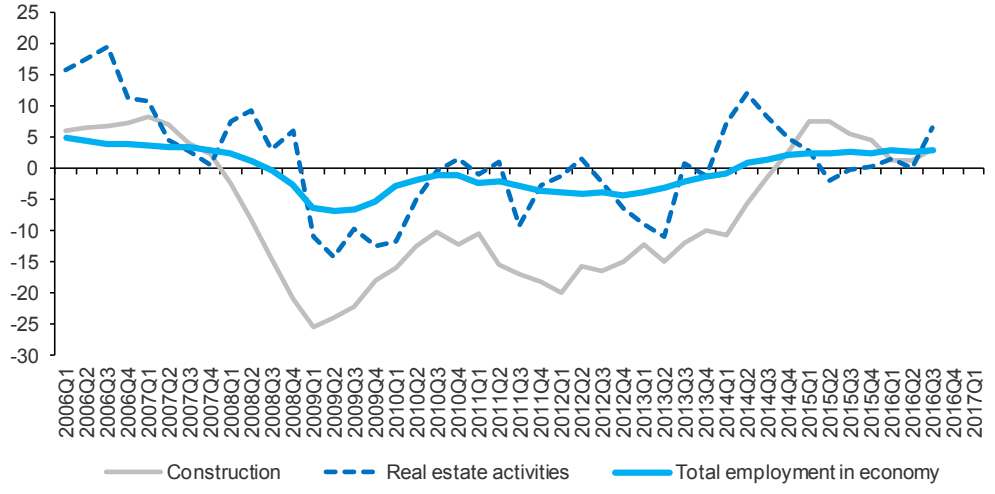


Source: National Accounts, INE.

Exhibit 3

Spanish employment in construction

(% annual change)



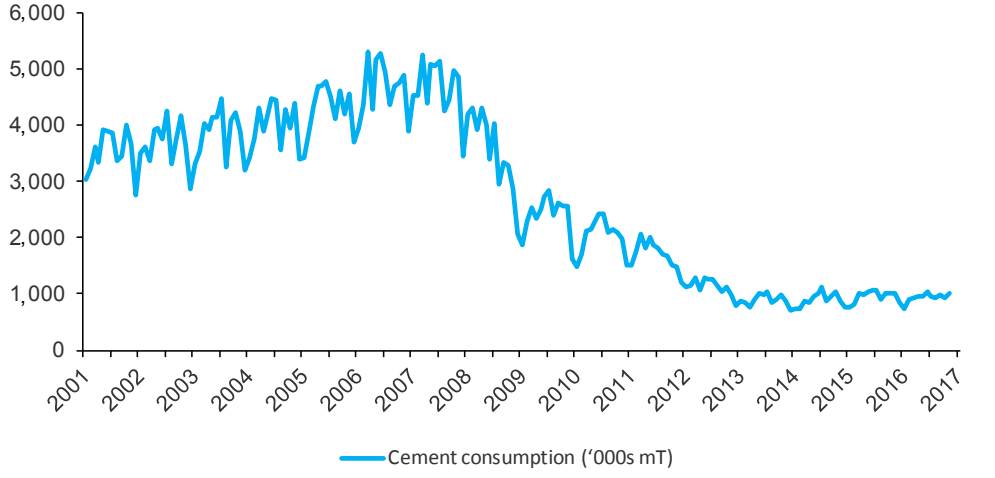
Source: National Accounts, INE.

spending, employment, and consumption of basic construction materials (such as cement) data. In terms of employment (Exhibit 3), the apparent recovery in 2014 has slowed down, coming to a standstill in 2016. The same cannot be said for the consumption of the most basic construction material, cement, which remains anchored at historic lows without showing any signs of

Exhibit 4

Cement consumption

('000s mT)



Source: INE.

recovery. These figures suggest that effective production, if there is any at all, is either very recent, or is taking place in services rather than construction *per se.*

Recent data suggest that this is one of the few periods in the history of the Spanish economy when economic growth is not being accompanied by an expansion in the construction sector.

Given the expansion of GDP during the last year and a half, these data suggest that this is one of the few periods in the history of the Spanish economy when economic growth is not being accompanied by an expansion in the construction sector. The reasons behind this development are set out below, analysing the two main activity segments: Public works and related infrastructure spending, and building, mainly private investment in housing or non-residential buildings.

Construction from the supply side: Public works and building

Public works

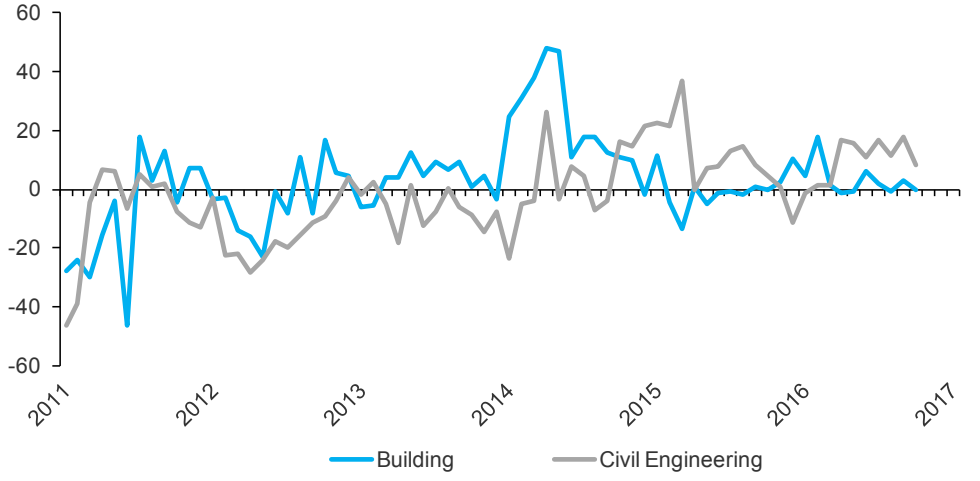
Output related to civil engineering accounts for around 40% on average of total AV in construction (Taltavull, 2015: 201) meaning that it is important to understanding the evolution of the sector as a whole. Spending on civil engineering can be traced through the Ministry of Public Works situation survey (Exhibit 5) and public procurement data (as a leading indicator of spending, Exhibit 6).

In both cases data clearly show how civil engineering is experiencing a significant rate of recovery (possibly in activities that do not require intensive use of cement, such as rail infrastructures) in 2015 and 2016. Specifically, public procurement has been rising since 2014 which would explain the increase in activity (registered in the Added Value) from the end of that year onwards. The latest data do not provide any signs of a further recovery in public works

Exhibit 5

Companies construction output by sector

(Index, 1 January 2009=100)

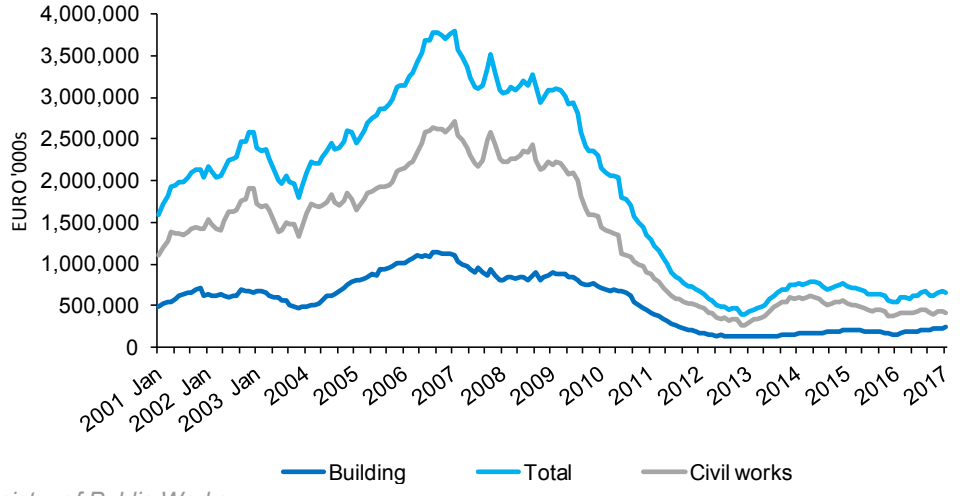


Source: Ministry of Public Works.

Exhibit 6

Public construction tenders

('000s of current euros, 12-mth moving average)



Source: Ministry of Public Works.

procurement, meaning that public works are unlikely to make a significant contribution to AV this year.

Exhibit 6 is especially illustrative of how this group of activities suddenly stopped contributing to construction AV in the years following the crisis with the total volume of investment falling by 17% from 2010 levels in only two years.

The building market: Supply-side response of housing and other buildings

As set out in Exhibit 6, indicators of works carried out have been consistently negative reflecting the dramatic evolution of the residential construction sector in Spain as the evolution of housing starts (indicator of new work initiated) in Exhibit 7 shows, which plummeted from 2007 (three years ahead of public works) to current levels. The deterioration in the residential market has been the most severe on record, with a dramatic adjustment in housing starts in two years (2007-09) from a high point of slightly more than 60,000 starts per month to around 10,000. This decline continued after 2010, reaching the lowest point since the 1950s, with 26,000 housing starts taking place in the entire 2014. Although the latest data point to a slight recovery, this appears to be far too weak to have any relevant impact on reactivating the sector in the medium-term.

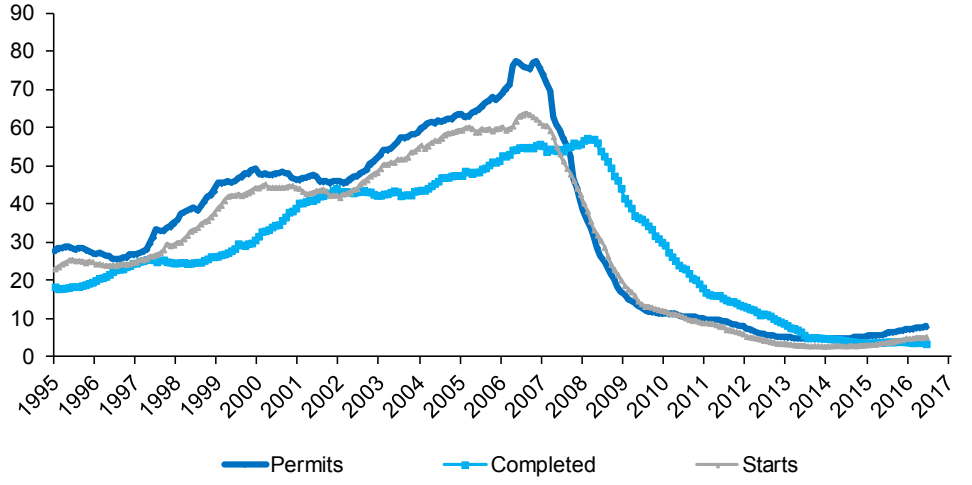
The deterioration in the residential market has been the most severe on record, with a dramatic adjustment in housing starts in two years (2007-09).

Other than residential building has seen a similar collapse in construction as a result of the crisis, particularly in the leading industrial construction sector. Sectors associated with logistics and distribution (warehouses, services) and agriculture have been less affected, registering relatively better activity rates. This data suggest that the strong industrial investment recorded in National Accounts since 2013 has not been related to building on adapted spaces (but rather warehouses and transport, amongst others).

Exhibit 7

Housing cycle in Spain

(% annual growth in real terms)



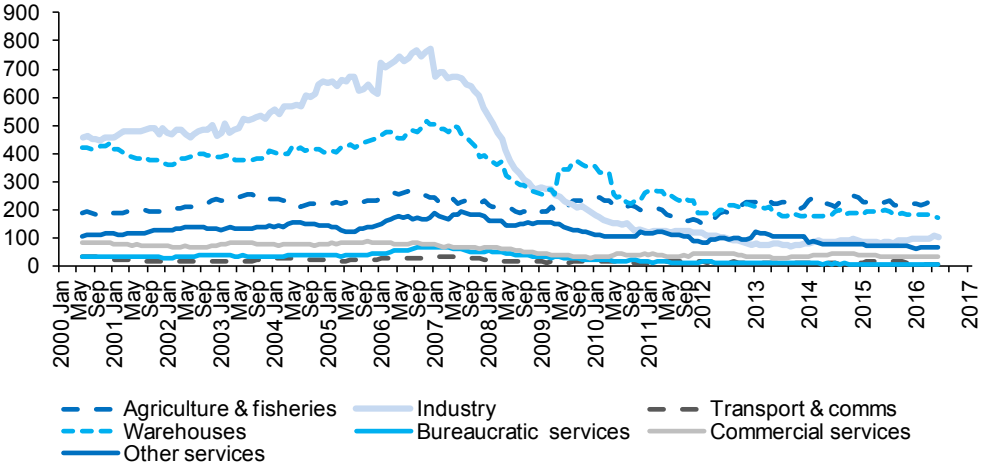
Source: Ministry of Public Works.

As such, the increase in construction Added Value looks to be the result of public infrastructure investment, as a sign of a counter-cyclical policy muted by public spending constraints, and of building in some very specific real estate sectors. The lack of a strong market reaction through increased construction puts a limit on the extent of the economic recovery, as well as

Exhibit 8

Building permits non-residential buildings construction

(Number of buildings, moving average)



Source: Ministry of Public Works.

foreshadowing a change in the way the market is assigning resources. Thus the question arises, how is it possible that, in an environment of 3% growth in GDP and employment, construction has not recovered as would usually be the case? A response to this question can be found by looking at the constraints on the two main sources of demand: The fundamental (household) housing demand and the investment drivers.

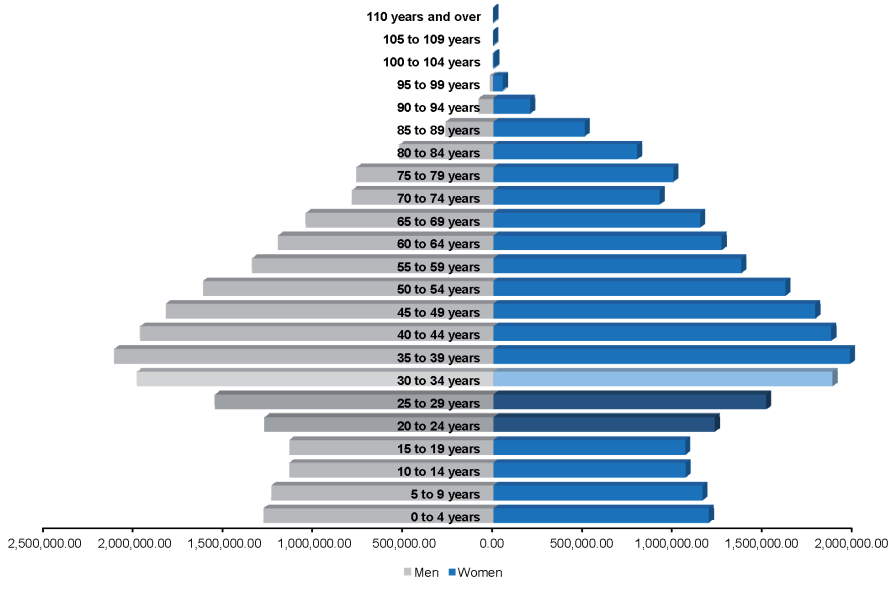
Fundamental demand drivers

The main fundamental housing demand drivers are those related to the coverage of basic housing needs (demographics, income and financial factors), which determine the intensity and dynamic within each residential market. Empirical experience suggests that basic potential demand is associated with demographics and that this changes in line with: (1) the life-cycle of the population (with specific demands according to age group and household sizes); (2) changes to models of household formation and (3) population mobility. Factors (1) and (2) are not always easy to observe. Even so, the age structure provides an approximation of basic primary housing needs. The population pyramid contained in Exhibit 9 highlights the age cohorts that could form new households (and need a house) in the near future. This Exhibit shows that such demand in Spain will continue growing (albeit with fading intensity, see cohorts between 25 to 35 years old) over the next decade[4]. The bulge in the upper cohorts points to the existence of a still strong pool of demand for replacement housing in the segment older than 35[5].

Population mobility (migration) modifies these figures as a result of the territorial relocation of

Exhibit 9

Spanish population pyramid in 2012



Source: INE.

[4] The estimated difference in the potential formation of new households, counting shaded cohorts at 50% (25% for those aged 30-34 years), would suggest that the number of households fell from 2.154 million to 1.905 million between 2002 and 2012 for the Spanish economy as a whole.

[5] Opportunity for energy-related rehabilitation and retrofitting in replacement demand.

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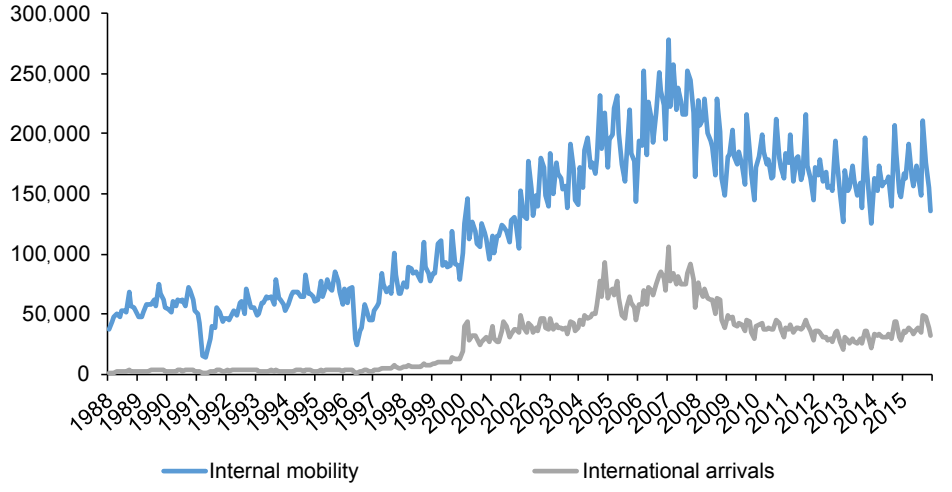
Exhibit 10

Population mobility: Residential registrations and foreign arrivals
(Number of people per month)



Source: INE.

households. Exhibit 10 points to the existence of elevated internal mobility within Spain[6] and the continuation of immigration flows even in the recession years. These figures show that since 2007 an average of 160,000 people register each month in a given city in Spain, which undoubtedly creates a significant volume of transactions in the housing market where they relocate.

Such stable mobility trends suggest that demand tensions in residential markets which are recipients of new arrivals will be sustained for the medium-term, stemming both from mobility and the (slowing) formation of new households.

Potential demand becomes effective demand if it is has ability to pay, *i.e.* if it meets solvency requirements and has sufficient income to cover housing costs from buying/renting a property. Economic growth conditions have supported job creation and increased the new buyers' ability to pay. Nonetheless, as can be seen in Exhibit 11, the increase in employment has been selective, penalising younger cohorts (precisely those who need a first house) whose employment rate has been declining systematically throughout most of the period analysed (1995-2015). Furthermore, the capacity of salary income to cover housing costs has also decreased (Exhibit 12), further reducing the affordability of potential homeowner-occupied households.

Difficulty to enter the Spanish housing market appears paradoxical given that conditions are ripe for access: with prices having declined to very competitive levels and low interest rates.

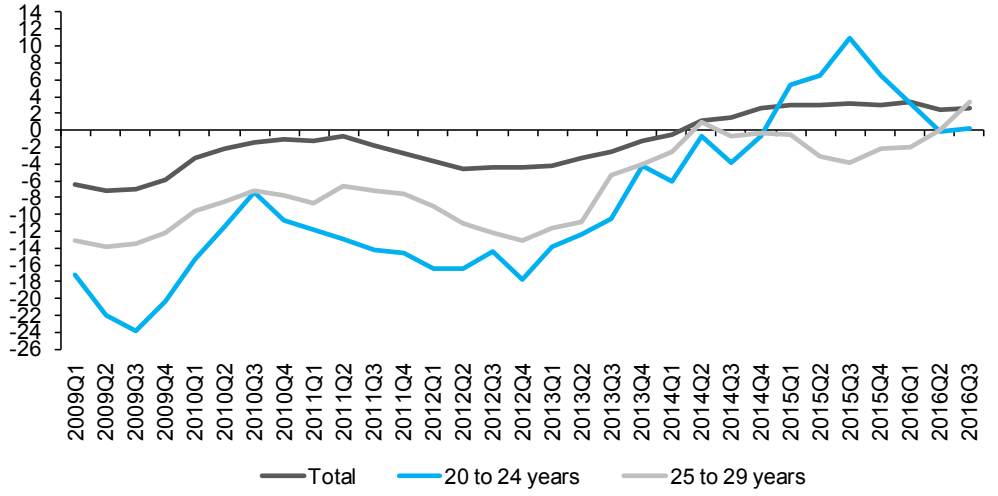
The overall result is that the Spanish residential market has strong potential

[6] The data capture the number of people that change residence at each point in time. On an annual basis, since 2009 an average of around 1.9 million people changed their residence every year within Spain, of which around 400,000 came directly from a foreign country.

Exhibit 11

Employment in Spain by age

(% annual growth)



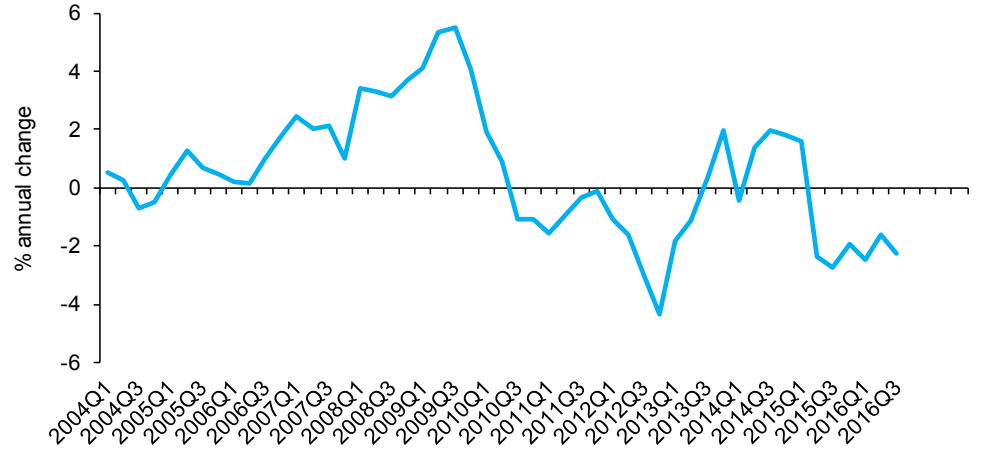
Source: LFS, INE.

demand but the groups with highest housing need have little access capacity due to the stymieing effect of labour market and income conditions. Prospects for improvement in the medium-term look to be limited. This difficulty to enter the market appears paradoxical given

Exhibit 12

Work income in Spain

(% annual real change adjusted using the GDP deflator)



Source: National Accounts, INE.

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Table 2
Accessibility ratios in Spain

	1995 2000	2001 2005	2006 2007	2008 2010	2011 2013	2014 2016
Affordability ratio (quarters) with loan maturity at 30 years (%)	30.6	32.1	45.5	37.4	24.9	23.01
Loan-to-value ratio - LTV (%)	65.8	63.4	65.3	55.3	48.5	50.6
Solvency (price to income) ratio	8.2	12.7	15.9	15.3	13.7	13.2

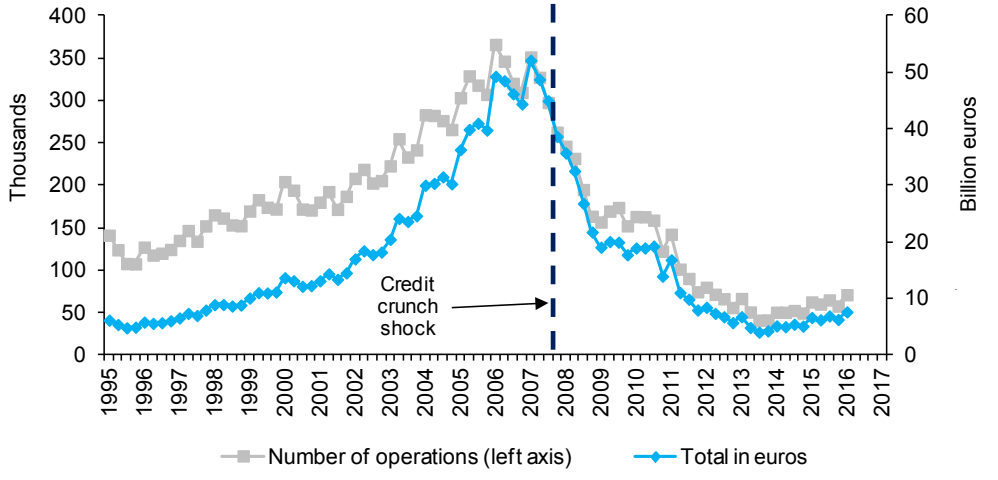
Source: Prepared by author using INE and BoS raw data.

that conditions in the Spanish housing market are ripe for access: With prices having declined to very competitive levels and low interest rates.

Indeed, it is precisely the current price and interest rate environment, which gives Spain a high level of accessibility even taking account of current income. However, affordability is a necessary but not sufficient condition for households to become homeowners. A combined analysis of three accessibility indicators shows the reason why. Table 2 contains an average estimate of each of the three ratios.

The first indicator, the affordability ratio[7], oscillates around 30% throughout the period, pointing to elevated capacity for ownership. The ratio only exceeded 35-40% in the period 2006-10, reflecting payment difficulties and loss of demand-side purchasing capacity (mainly due to the increase in interest rates); in recent years, the rate has fallen to levels that represent unprecedented affordable

Exhibit 13
Housing mortgages in Spain: 1995-2016
(Number and nominal euros)



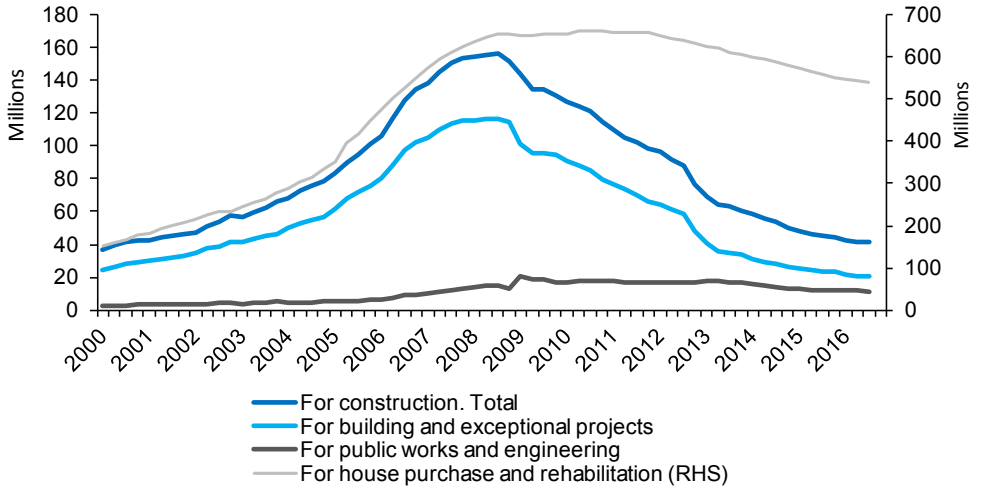
Source: INE.

[7] Also known as the debt/income ratio (30%), which measures a household's capacity to pay back a loan with current income and in the absence of a change in economic conditions.

Exhibit 14

Credits for construction and related activity. Outstanding balance

(In current Euros)



Source: Bank of Spain.

conditions for households with stable income, as previously mentioned.

The solvency ratio[8] shows the amount of debt that households must face in order to become home-owners. The long-term average in Spain (since the seventies to the late nineties) used to be between 6 and 8 (it is usually 5 in other countries), but it has experienced a strong increase since the early XXI Century. The new expansion period is associated to a rise in Spanish households' debt propensity per dwelling (on average) shifting the solvency ratio until 15.9 in the 2006-2007 period, followed by a subsequent reversion in this trend in recent years, which implies a fall in household average leverage (for housing purposes).

The LTV ratio[9] points to average lending of around 65-70% of property values over the course of the period. This rate fell sharply in 2008 indicating that households wanting to buy a house had to contribute upfront savings of around 50% of the price, with lending only being granted to households (if they pass scoring) at 50.6% of property value on average (latest period). Underpinning this figure are severe credit constraints (also proven in Scanlon *et al.,* 2011) which limit the ability of solvent demand to access housing.

The sharp reduction in lending as a result of tight credit conditions is reflected in sharp declines in overall lending for house purchase, which started in the first years of the crisis and accelerated from 2010 onwards (Exhibit 13) The same was true for the construction sector as a whole, as can be seen in Exhibit 14, with a collapse in total lending for all activities since the start of the crisis, reaching a historical minimum for outstanding lending volumes. The scale of the credit crunch reached implies an absence of minimum funding necessary for the market to perform, distorting normal operating mechanisms and constituting an unresolved market failure, with no alternative

[8] Or price/income ratio, is an indicator of excessive indebtedness.

[9] Or LTV, % loan/price is a ratio that measures the risk of default.

financing sources having been made available to date.

Overall, the analysis of the ratios indicates the existence of extremely favourable access conditions but only for households with stable income and available savings – given the lack of lending – and the ability to borrow. In an environment characterised by still high unemployment, an eroded salary purchasing power and credit constraints, it is difficult to maintain or recover home-ownership. The only housing available to meet the needs of households without savings is rental properties. As a result, young Spanish households are not in a position to take advantage of the favourable conditions in Spain's post-crisis residential housing market and they have to deal with a rental market that is insufficiently organized.

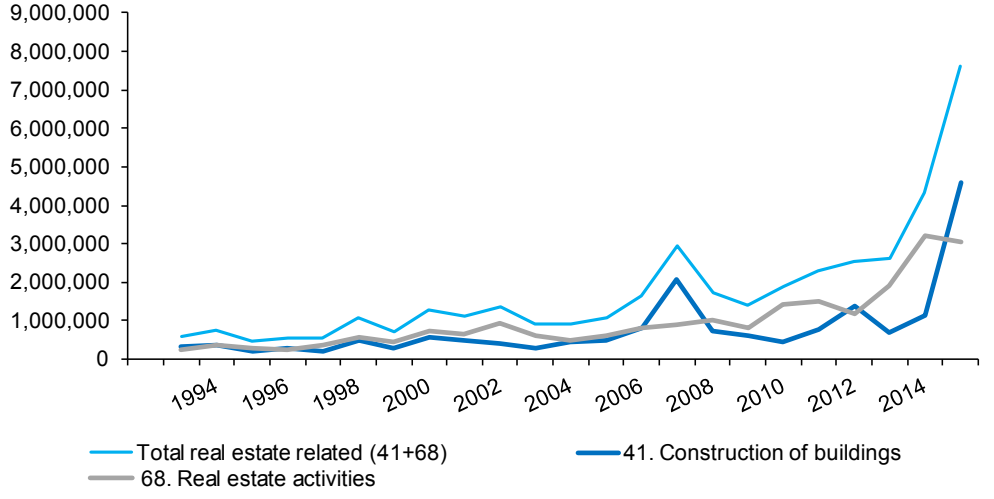
Reasons for investment[10]

The evolution of real estate investment in Spain has responded to different factors during the period. On the one hand, the period of declining house prices has been sufficiently long, dissuading investors from investing in new projects, but on the other hand it has created purchase opportunities. The previously mentioned house market distortion has created negative incentives for domestic investors, while the overall economic situation has increased the need to unwind investments (selling real estate assets) to reduce company leverage ratios.

These apparent contradictions have been partly solved through the appearance of international actors, both in large-scale transactions in the non-residential sector, as well as through single purchases in the housing market. Since the start of the crisis, the non-residential housing market has been receiving investment flows going to very specific sectors, such as logistics, with potential for development in Spain. A large part of these investments are not observable, but some of them are registered in investment statistics (Exhibit 15), which point to a growing international investor position in real estate activities (since 2012) and

Exhibit 15

Foreign investment in the real estate market
(in '000s of current Euros)



Sources: DataInvex, MINECO.

[10] Investment considered here does not take account of demand for buildings for business headquarters in non-real estate sectors.

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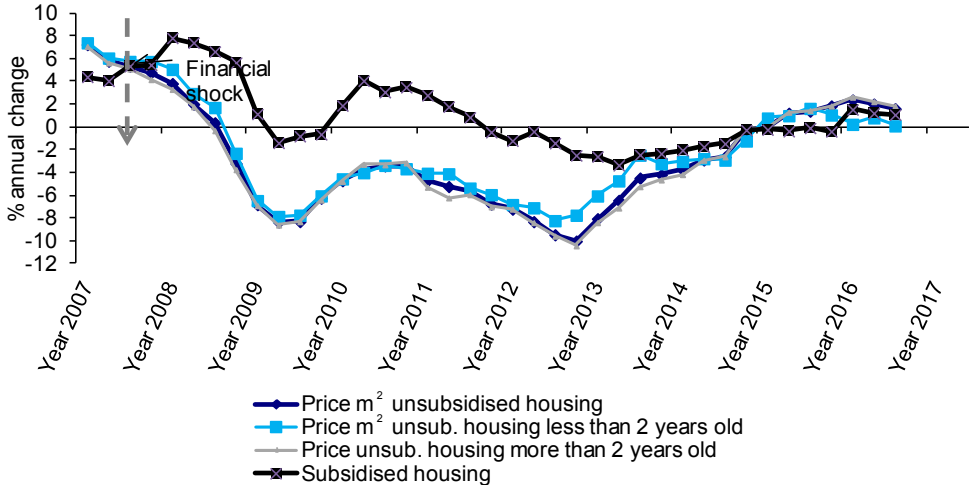
Exhibit 16

Housing price dynamics

(Yearly % growth in current prices)



Source: Ministry of Public Works/ Housing DG.

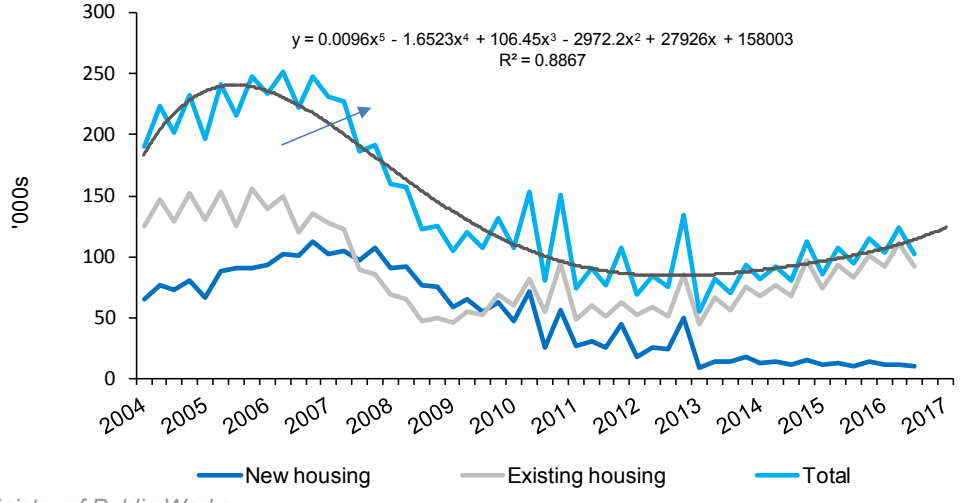
direct investment in construction (since 2015). The acceleration in foreign investment towards the non-residential sector seen in recent years (Exhibit 15) is a reflection of expected return from this sector in Spain in the future.

Meanwhile, investment in new housing is determined by the evolution of house prices and rental yields. Empirical evidence shows that price increases have been the leading factor affecting construction decisions in a large part of Spain

Exhibit 17

Housing transactions in Spain

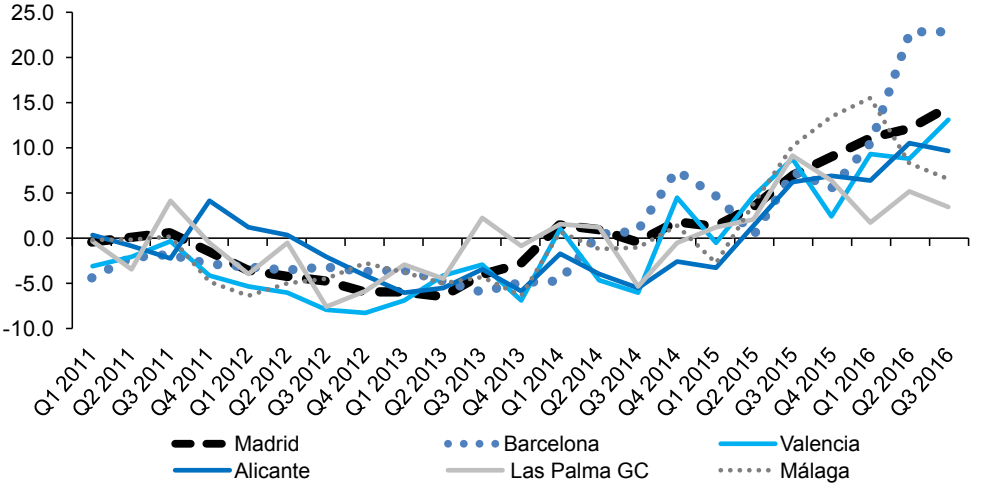
(Number of transactions per quarter)



Source: Ministry of Public Works.

Exhibit 18

Rental prices offered by m² and month
(Year to year percent change)



Source: http://www.idealista.com

(see Taltavull, 2014), and Italy, (see Taltavull and Gabrielli, 2015), as well as purchase decisions. As such, until house prices stopped falling (end of 2014), this incentive had been unable to reignite[11]. Exhibit 16 indicates how residential house prices in Spain began to recover at the end of 2014 and are sustaining a moderate rate of recovery of around 2% in nominal terms (4% in real terms, given negative inflation), which should serve as an incentive for building new units.

Residential transactions have responded to price changes with modest growth in the last year, compared to average transactions recorded during the crisis (Exhibit 17), but with signs of being on a clear upward path. Meanwhile, the lack of affordable conditions has increased rental demand with knock on impacts for prices as the economy recovers. Exhibit 18 shows the evolution of rental prices per m² in some cities where this seems to be happening[12]; rental prices are registering stronger and more sustained growth than property prices since the end of 2014 which is a reflection of strong demand in the rental market since 2015.

The increase in transactions and rental prices, and the acceleration in foreign investment, are indicators of a demand-side recovery in the sector, although a pick-up in construction activity itself has yet to materialise.

Outlook and forecast

Given the data cited, it is possible to confirm that real estate sectors registered a slow but solid recovery over the course of 2016. So far this recovery does not appear to have given rise to generalised increases in property prices, although

[11] To the extent that a fall in prices implies a loss of value of the final asset, investment will tend to exit when assets enter into a systematic devaluation both due to price expectations as well as difficulties in estimating future prices and their adjustment to current construction costs.

[12] The recovery in prices is not generalised, but is only happening in specific cities from amongst which examples have been selected to appear in this exhibit.

this has been the case for rental prices. The data also underline that the recovery is selective, taking place in economically dynamic areas, without extending to all markets.

The current situation points to a different type of market to what we have seen in the past, which typically saw construction (works) take off at the first sight of economic recovery. At the current point in time, Spanish residential housing markets are more mature and would have sufficiently large amounts of units to adjust the existing stock to demand tensions. This means that real estate demand could be met without the need for new construction, at least in the beginning. This is what price indicators appear to be showing. For the time being, available vacancies are sufficient to guarantee demand coming from increased mobility, which is much more intense in some geographic areas than in others. This demand is potentially being met through mixed access, with an increasingly important role for renting.

Solvent demand is focusing on refurbishment, replacement transactions or pure investment (for rental), but less so for speculative motives given that price incentives remain insufficient[13].

The recovery in homeownership demand requires addressing two important market failures. The first is credit constraints and the lack of alternative options for financing purchases of a primary residence. Any alternative system which enables new households to become homeowners could have an important stimulus effect on market activity. Other countries are applying and creating new instruments to deal with this realignment, given that this problem is not unique to Spain.

The second market failure affects the land market. Following the demise of lending to property developers (and the way in which this financing dried up at the start of the GFC), a very significant proportion of land now belongs to the financial system and is consequently tied up. As a result, any market incentive for construction faces limited access to land, which constitute a barrier for small developers likely impossible to overcome, although this is not the case for large investors[14].

In terms of the non-residential real estate market, large investment transactions (office buildings, shopping centres, logistics, etc.) are leading to systematic changes in ownership within the largest real estate segment. But the recovery of profitability in non-prime office areas, for example, is still slow and associated with the overall improvement in economic activity, meaning that it is unlikely that there will be new space constructions in the medium-term. The outlook in this sense is positive (given the out performance of the Spanish economy in Europe) but strongly dependent on global developments and more closely associated with the real estate mechanism than new building.

As a matter of fact, in general terms construction activity could still take some time to recover to reach long-term levels and thus increase its potential to generate spillover effects for the wider economy. Nonetheless, more pronounced new building activity could take place in areas with higher demand (main regional capitals and some coastal areas).

Conclusion

This article has assessed available indicators to provide an idea of the current state of play in the construction sector and the outlook for the medium-term.

[13] Speculative investment appears when expected benefit exceeds transaction costs in the short-run. Given that the latter can be 10% greater than the price, revaluation has to be significant to attract these types of transactions.

[14] We have to remember that the dynamism of housing construction in the past decade was due to the large amount of small developer companies building across Spanish housing markets.

The indicators reveal that the registered recovery in the contribution of construction to AV is a result of public works rather than residential construction, with the latter only initiating a very tepid recovery a few quarters ago. Meanwhile, demand factors are driving the recovery in prices through an increase on transactions within the real estate market itself. However, this is happening only in some regions (from 2015 onwards) and is associated with population mobility and focused only on some rental markets. Indeed, the increased recourse to renting (an element which is difficult to observe due to the lack of statistics) is in itself an important change for Spanish society. The increase in rental prices in some regions supports this interpretation.

By contrast, more muted growth in property prices could be a result of access limitations that still apply to young households in particular. This is not so much due to lack of payment capacity but rather due to very tight credit conditions, insufficient savings and the lack of a "steady" job. Housing prices will not robustly recover until basic demand is met for becoming a homeowner, which is the corollary of the lack of residential construction activity. This underlines the importance of addressing barriers to access. Nonetheless, the recovery in transactions, positive price growth and the presence of foreign investment, are signs of a recovery in the sector, which has now been going for the last year and a half.

Finally, non-residential markets have suffered a lesser impact from the crisis – with the exception of industrial construction – with international financing taking on a bigger role in some activities (logistics, offices, shopping centres).

The entire process of crisis and recovery has taken place in an environment of low inflation and interest rates, which have often been negative. But these conditions have failed to stimulate residential housing markets due to credit constraints and weak demand. The inflation environment is set to move towards more normal territory in which positive inflation will drive growth in the current value of assets while lowering the value of debt; but which could also precipitate increases in interest rates which will disincentive part of solvent demand. Depending on which effect prevails, there might be scope for a quicker recovery in prices.

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The normalisation of US monetary policy and its spillover implications

Juan Carlos Berganza and Javier Vallés[1]

In the US, the economic recovery and the new president's fiscal policy will determine the pace of monetary tightening, which is expected to be more gradual than that of earlier episodes. Other central banking authorities will respond to their domestic conditions taking into account the spillovers of US monetary policy. Risks remain, however, in a context of heightened uncertainty regarding the pace of recovery and economic policy at the global level.

Despite the sharp difference between the real federal funds rate and that predicted by traditional monetary policy rules, the Federal Reserve's monetary policy normalisation cycle is expected to be among the slowest of all cycles analysed. There are several factors that set the current episode of monetary policy normalisation apart from earlier ones, making the accurate calibration of US monetary tightening more challenging. These include: uncertainty in the actual level of US job market slack, difficulties in estimating the natural interest rate, a shift in supply and demand of 'safe' assets, official rates close to zero, and increased divergence in the economic cycles across the main developed economies. Evidence suggests that international transmission will also be unique. Central banking authorities in the rest of the world will respond to resulting circumstances in their domestic economies. But risks remain given the high degree of global economic uncertainty.

Expansionary monetary policy across the leading developed economies has played a very significant role in the response to the global financial crisis and the ensuing Great Recession. In the US, the Federal Reserve kept its federal funds rate at close to zero for seven years, from December 2008 to December 2015. In addition, it embraced a battery of unconventional monetary policies which led its balance sheet to balloon to all-time record levels: US public debt and mortgage-backed securities held by the Federal Reserve amounted to 23.8% of US GDP at year-end 2014, when it concluded its third financial asset purchase programme.

In December 2015, the Federal Reserve was the first major central bank in the developed world to increase its official rate since the crisis. The difficulty implicit in correctly measuring the degree of recovery after a crisis of the scale of the global financial crisis meant that it did not hike its benchmark rate again until December 2016. Moreover, several factors outside of the US are creating a complex and uncertain backdrop for this normalisation process. In addition to the slow recovery in the developed economies and more sluggish growth in the emerging economies, particularly China, uncertainty regarding economic

[1] Bank of Spain.

The authors would like to thank Patricia Sánchez for her excellent research assistance. The opinions and analyses featured in this paper are the responsibility of its authors and therefore do not necessarily reflect those of the Bank of Spain or the Eurosystem.

policy intensified in 2016 on the back of the United Kingdom's decision to depart the European Union ('Brexit') and the unexpected election of Donald Trump in the US, all coupled with heightened geopolitical tensions. The potential ramifications of all these events, particularly for monetary policy, were palpable in the financial markets in the latter weeks of 2016. More specifically, changes were observed in the yields and volatility of various financial asset classes in the US, including the exchange rate, with a knock-on effect in other geographic regions.

The keen interest in analysing the factors behind the gradual monetary policy normalisation process unfolding in the US and its repercussions at the international level is only logical against this backdrop. The next section of this paper analyses the idiosyncrasies of the current period of monetary tightening in the US relative to earlier episodes. Subsequently, we review the main channels of international transmission or spillover during the period of unconventional policies and since 2015, when the Federal Reserve began to increase its official rates. The paper ends with a section devoted to reviewing the recent phenomenon of widening cyclical and monetary policy divergence among the world's leading economies and flags some of the risks implied.

Keys to the slow process of monetary tightening

The Federal Open Market Committee (FOMC) raised the target range for its federal funds rate by 25bp, from 0.25% to 0.50% in December 2015. Following this initial move, the next increase, of the same magnitude, did not take place until December 2016 (Exhibit 1.1). As illustrated in Exhibit 1.2, this lag between rate hikes is unprecedented in prior cycles. Moreover, the most recent projections released by the FOMC for the coming years point to a much more gradual and considerably more protracted official rate tightening process compared to earlier episodes of tightening.

Exhibit 1.1

Federal funds target rate (a)

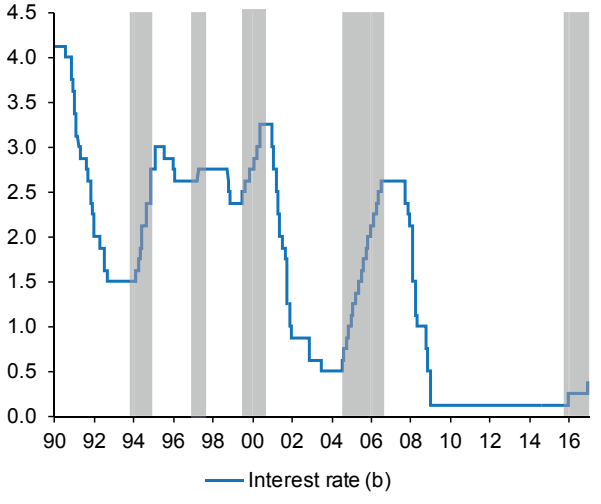
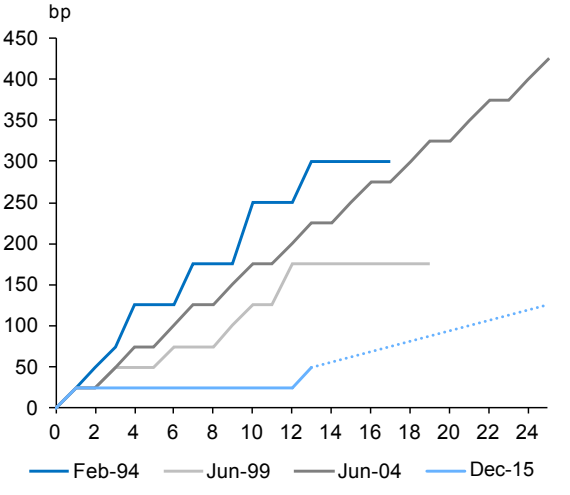


Exhibit 1.2

Changes in the federal funds target rate in earlier rate tightening episodes and in the cycle currently underway (c)



Notes: (a) The shaded areas correspond to episodes of monetary tightening. (b) Upper end of the target range for the federal funds rate from December 2008. (c) Dotted line: FOMC projections (Dec-16).

Sources: Federal Reserve, Datastream Thomson-Reuters and authors.

As is well known, the Federal Reserve has the dual mandate of maximising employment and maintaining price stability over the medium term. Table 1 provides the unemployment gap (observed unemployment rate less the long-term unemployment rate), the inflation gap (inflation rate less 2%) and the core inflation gap (core inflation less 2%)[2] figures at the start of the last four monetary normalisation cycles. Regarding the full employment objective, at the start of the ongoing cycle of monetary tightening, in December 2015, the unemployment gap was virtually zero.

In December 2015, the core PCE reading was well below the target rate of 2%, as had been consistently the case since May 2012. Moreover, general inflation was very close to 0%, in contrast to the situation observed at the start of prior monetary normalisation cycles, dragged down, primarily, by the correction in oil prices sustained since mid-2014. The baseline scenario used by members of the FOMC assumes that, if inflation expectations are well anchored, inflation will tend to converge towards the target rate as job market slack gets mopped up and the effects of the above transitory factors dissipate, a pattern which has gradually materialised over the course of 2016. Accordingly, the anchoring role of inflation expectations is essential to return to the inflation target. As is evident in Table 1,[3] survey-measured inflation expectations were not far off those prevailing at the start of earlier monetary

Table 1

Macroeconomic conditions at the time of the first rate hike in different tightening cycles

	Feb-94	Jun-99	Jun-04	Dec-15
Federal funds target rate (%)	3.0	4.8	1.0	0-0.25
Unemployment rate	6.6	4.2	5.6	5.0
Long-term unemployment rate (FOMC estimate)	6.5	5.3	5.0	4.9
"Unemployment gap" (pp)	0.1	-1.1	0.6	0.1
Labour conditions index (Federal Reserve Board)	-51.9	100.5	-22.3	93.8
Nominal wages (% YoY)	2.6	3.5	2.0	2.0
Headline inflation (PCE) (% YoY)	2.2	1.4	2.1	0.2
Core inflation (PCE) (% YoY)	2.5	1.3	1.9	1.3
Inflation target (PCE) (% YoY)	2.0	2.0	2.0	2.0
"Inflation gap" (pp)	0.2	-0.6	0.1	-1.8
"Core inflation gap" (pp)	0.5	-0.7	-0.1	-0.7
Inflation expectations (long term) (% YoY) (Univ. of Michigan)	3.3	2.8	2.9	2.6
Federal funds target rate derived from Taylor (1999) with core inflation	4.55	5.05	2.65	2.75

Sources: Taylor (1999), Datastream Thomson-Reuters and the Federal Reserve Board (most recent data available at the time of the corresponding FOMC meeting).

[2] The FOMC specifies the inflation objective in terms of the general personal consumption expenditures (PCE) index, but pays particular attention to core PCE when considering monetary policy decisions. Core PCE excludes food and energy prices, which are more exposed to supply-side disruption (climate conditions and/or OPEC cartel decisions, for example), and are unrelated to the inflationary pressures driven by trends in demand and over which the FOMC has no control.

[3] These inflation expectations refer to the consumer price index (CPI). Historically, the inflation rate calculated on the basis of the CPI has trended around 40bp above that calculated using the PCE index.

normalisation cycles. In 2016, having dropped in the first half of the year, expectations rebounded in the last quarter, as detailed in the last section.

The Taylor rule (1999) provides a very succinct approximation of a central bank's decision-making process. This rule embodies a simple relationship between the variables comprising the FOMC's dual mandate and the federal funds interest rate. In its most common form, the formula is as follows:

$$i_t = \rho\, i_{t-1} + (1-\rho)\,[r^* + \pi_t + \alpha\,(\pi_t - \pi^*) - \beta\,(u_t - u^*)]$$

where i_t is the target federal funds rate in period *t; r** is the real federal funds equilibrium rate or the natural interest rate, defined as the real interest rate that is consistent with full employment and the central bank's medium-term target inflation rate, such that it is not affected by temporary shocks that affect the economy.[4] Historically, the value assigned to this equilibrium real interest rate has been 2%. π_t is the inflation rate in period *t;* π^* is the target inflation rate (the difference between the two is the inflation gap, depicted in Table 1); u_t is the unemployment rate in period *t* and u^* is the long-term structural unemployment rate (the difference between the two is the unemployment gap, similarly depicted in Table 1). The coefficient ρ defines the degree of policy inertia, while coefficient α measures the response to deviations of inflation from target and coefficient β measures the response to deviations of unemployment from the long-term rate. The last two chairs of the FOMC have regularly used a version of this rule in their speeches and presentations,[5] establishing the following values for these coefficients: $\rho=0$; $\alpha=0.5$; and $\beta=2$.

Taking these parameters and values, and the core inflation and unemployment rates at the start of each monetary normalisation cycle analysed, it is possible to calculate the appropriate federal funds rates according to the Taylor rule. As shown in Table 1, which provides these calculations, at the start of each of the normalisation cycles, the federal funds rate effectively set by the FOMC at the time was below that indicated by the Taylor rule; however, at the start of the ongoing cycle this difference is higher (even without factoring in the fact that the quantitative easing measures deployed imply an even lower rate). Why is it, therefore, that, despite this sharp difference, the actual and forecast pace of rate hikes for the tightening cycle initiated in December 2015 is the slowest of all the cycles analysed?

Despite the sharp difference between the current versus the fed funds rate obtained from a traditional Taylor rule, the actual and forecast pace of rate hikes for the tightening cycle initiated in December 2015 is the slowest of all the cycles analysed.

The current monetary policy cycle presents a series of idiosyncrasies which help explain the low federal funds rate and the distance between it and the rate implied by a traditional Taylor rule. We identify five factors, some of which are of a more temporary nature, worth taking into consideration: i) uncertainty regarding the level of economic slack, particularly in the job market; ii) the decline in the natural interest rate *(r*);* iii) shifts in 'safe' asset supply and demand, driving the yields on these products very low; iv) the proximity of benchmark rates to the zero lower bound (ZLB) rate, generating specific risks in the event that the rate tightening process has to be reversed; and v) outside of the US, divergence with respect to the monetary policies being pursued in other developed economies and the indirect effects on the US economy itself via the spillover effects of its monetary policy decisions on the global economy *(i.e.,* spillbacks).

[4] Economic theory holds that this interest rate varies over time, shaped by changes in economic agents' preferences (discount rate), in technology and in the rate of population growth.

[5] J. Yellen, symposium in Jackson Hole (August 2016) (http://www.federalreserve.gov/newsevents/speech/yellen20160826a.htm).

Uncertainty regarding the level of job market slack

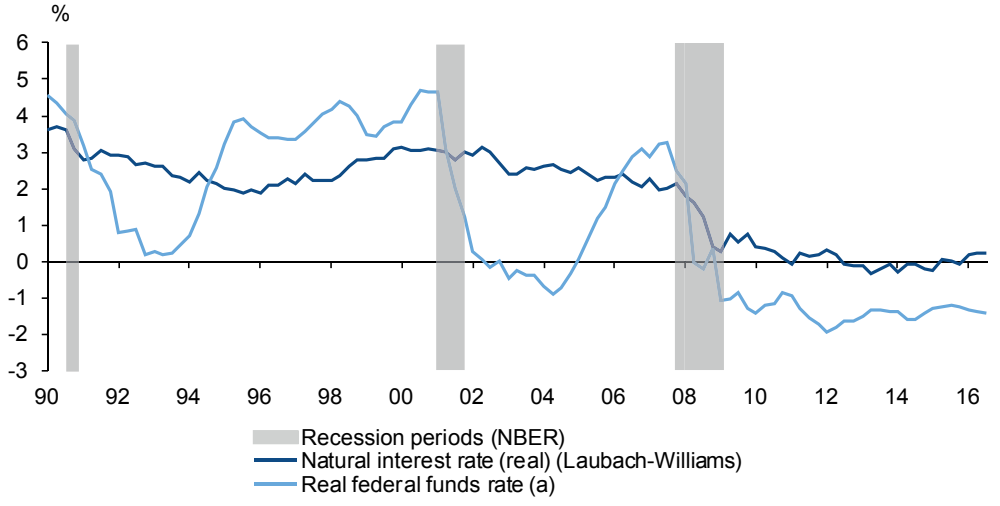
The ongoing recovery is marked by significant uncertainty as to whether the unemployment rate is accurately measuring the degree of utilisation of resources in the job market. There are several reasons for this uncertainty. Firstly, the drop in the unemployment rate is partially attributable to a decline in the labour force participation rate which, to the extent driven by cyclical factors, could revert as the recovery gathers traction, boosting the supply of labour. Another factor working in the same direction is the existence of an unusually high number of people working part-time who would like to work full-time. For these reasons, the Federal Reserve often uses an index of labour market conditions which summarises a broad spectrum of labour market variables as an additional measure of job market slack. According to this index, which is similarly included in Table 1, there is less slack in the labour market now than in prior episodes of monetary tightening, with the exception of the cycle initiated in June 1999 (a higher reading indicates a labour market with less slack). Some analysts maintain that the low pace of growth in nominal wages is the most reliable indicator that there is still a degree of slack in the labour market. However, taking into account the low inflation rates, growth in real wages is close to modest productivity gains. That being said, in 2016, the unemployment rate fluctuated around its long-term structural value even ending the year slightly below; meanwhile, the labour conditions index continued to improve and growth in nominal wages accelerated, topping 2.9% at the end of the year.

Drop in the natural interest rate

Calculation of the Taylor rule requires approximating a variable – the natural interest rate – which is not directly observable. As noted earlier, this variable has traditionally been

Exhibit 2

Real federal funds rate and natural interest rate (real) (Laubach-Williams)



Note: (a) Calculated as the difference between the federal funds rate (quarterly average) and the four-quarter moving average annualised quarter-on-quarter core inflation rate (calculated using the PCE price deflator).

Sources: Laubach and Williams (2016), Federal Reserve, Bureau of Economics Analysis and Datastream Thomson-Reuters.

assigned a value of 2%; however, certain authors, such as Laubach and Williams (2016), estimate that the natural interest rate[6] has been shifting in the United States, moving from a range of between 2% and 3% from the start of the 90s until the irruption of the Great Recession, when it dropped sharply, and hovering at around zero (even falling into negative territory) since the end of 2010, as is illustrated in Exhibit 2.

This drop, which may prove to be structural, is attributable to the low rate of growth in productivity and the population, population ageing and low investment levels, *i.e.,* a lower trend growth rate which also needs to be factored in to the monetary policy rule calculation via the unemployment or output gap. Summers (2014), meanwhile, notes that the developed economies are suffering a mismatch between a growing propensity to save and a decreasing propensity to invest, fuelling surplus savings which drag on demand and reduce the natural interest rate (secular stagnation). Other research *(e.g.,* Hamilton *et al.,* 2015) agrees on the downward trend in the natural interest rate but flags significant uncertainty in the estimates and outlook for this variable, making it harder to pin down the right monetary policy.

Shifts in 'safe asset' supply and demand

One remarkable aspect of the recent trend in the global economy is the growing scarcity of safe assets,[7] *i.e.,* the supply of safe assets has not been able to keep up with global demand for such products, exerting downward pressure on their yields. Indeed, some authors suggest that this asset shortage can lead to a liquidity trap when interest rates reach their lower bound, so that the market for safe assets can only recalibrate via a drop in income (see Caballero and Farhi, 2016).

Between 2000 and 2007, the international reserves of the emerging economies increased sharply as a form of self-insurance in the wake of the various balance of payments crises of 1998-2000. In addition, China and other commodity exporters presented ample current account surpluses at the time, which translated into heady growth in their international reserves, a lot of which were invested in the above-mentioned assets. On the supply side, those years of improvement in the developed economies' public finances led to slower growth in public borrowings relative to global GDP, albeit offset by the creation of new financial instruments such as mortgage-backed securities (MBSs), which had the effect of increasing the supply of the assets deemed safe. So, the globalisation phenomenon, coupled with financial developments, fuelled imbalances between savings and investment in emerging markets, on the one hand, and in the advanced economies, on the other, creating a 'savings glut' (Bernanke, 2005) at the aggregate level.

In the wake of the global financial crisis of 2008, assets such as MBSs in the US (other than those underwritten by government-sponsored enterprises) and the sovereign debt of certain eurozone issuers lost their status as "safe assets". On the demand side, although the emerging economies' international reserves began to decline in 2014, this was more than offset by the accumulation of safe assets by many developed economies out of precaution – in response to heightened uncertainty – and by the banks, for regulatory reasons. These factors have continued to shift the safe asset supply and demand curves, driving yields lower.

Therefore, just as the emerging economies' surplus savings enabled long-term rates to remain stable during the last cycle of monetary

[6] These authors use a multivariate model which factors in changes in inflation, GDP and interest rates.

[7] Although the precise definition of a "safe financial asset" can vary, this category typically includes highly-liquid assets with a low probability of default and low exchange rate risk, such as the public debt securities of many developed economies' sovereign issuers. In addition to facilitating financial transactions (by serving as collateral), safe assets are essential for highly risk-averse public and private investors such as pension funds and insurance companies. US Treasury bonds, on account of the breadth of supply and level of market development and depth, constitute the quintessential safe asset.

normalisation (Greenspan's conundrum), the continued shortage of safe assets in the current environment is keeping the term premium[8] and the yield curve persistently low or even negative at present.

Official interest rates close to zero

The zero lower bound (ZLB) on nominal interest rates constrains central banks' ability to respond to negative shocks in the real economy or to deflationary processes.[9] Prior to the crisis, ZLB episodes were not considered to be of practical relevance. Structural models of the US economy and the shocks observed in the past suggested that simple monetary policy rules with a 2% inflation target ensured that federal funds rates would only hit zero on a small number of occasions and that these episodes would be short-lived. However, the fact that rates have been kept at near zero for a protracted period of time in the recent past, partly as a result of the drop in the natural interest rate, mentioned earlier, has called past findings into question, making it conceivable that ZLB episodes could become more frequent and longer-lasting (Chung *et al.,* 2011).

An environment of heightened uncertainty, marked by a negative output gap, persistently below-target inflation and official rates still close to their lower bound, warrants a more accommodating monetary policy than under other circumstances, given the asymmetry of its effectiveness. This is particularly true at a time when inflation expectations are close to all-time lows. In these circumstances, there is more room to respond to inflationary pressures (by tightening monetary policy) than deflationary pressures: with rates hovering at the ZLB, unconventional measures may not be perfect substitutes for interest rate policies. Indeed, the costs and benefits of unconventional instruments are uncertain and their effect seems to diminish as a central bank's balance sheet grows or the longer official interest rates remain close to the ZLB. Therefore, a comparative delay in raising interest rates would lead to higher growth and higher inflation than using a Taylor rule that did not take this uncertainty into account (Evans *et al.,* 2015).

Economies cyclically out of sync: Spillovers and spillbacks

One final aspect worth noting, one which will be developed further in the last section, relates to the fact that the main developed economies are cyclically out of sync, which has translated into divergent monetary policy stances. Thus, while monetary tightening has begun in the US, it has continued to become more expansionary in the eurozone and Japan over the past two years and also in the UK during the second half of 2016. These discrepancies reflect rates of growth in excess of 2% in the US, where GDP has returned to pre-crisis levels, compared to weaker growth – punctuated by sharp swings – in Japan, ongoing sluggish recovery in the eurozone –accompanied by unemployment levels considered high relative to structural levels–, and heightened uncertainty and reduced momentum in the UK in the wake of the Brexit referendum.

The United States is a cornerstone of the international financial system and the dollar plays the role of reserve currency, which is why its monetary policy influences financial variables all over the world. Thus, US monetary policy, including its unconventional measures, has a clear spillover effect by influencing the so-called global financial cycle (Rey, 2013). By the same token, the international situation exerts an influence on the US economy, creating an indirect channel of

[8] The term premium is defined as the compensation agents demand to invest in a fixed-income security over a long period rather than investing in shorter-term instruments (reinvesting over the remaining maturity of the longer-term instrument).

[9] In reality, the concept of effective lower bound (ELB) has come to be used instead of ZLB, as in recent years several central banks, including the ECB, have set their official interest rates at negative levels, demonstrating that the cost of holding cash is greater than previously thought.

transmission for the Federal Reserve's monetary policy decisions (spillback). According to the IMF, the expansionary measures implemented in the eurozone in 2014 and 2015 and the deterioration in its outlook for growth put downward pressure

US monetary policy has a clear spillover effect by influencing the so-called global financial cycle; however, the international situation exerts an influence on the US economy, creating an indirect channel of transmission for the Federal Reserve's monetary policy decisions (spillback).

on long-term rates in the US by means of flows into its public debt market (IMF, 2015). The global context is accordingly complex and uncertain, making it harder to duly manage monetary normalisation, a task which has, moreover, been further complicated in recent months by the plans announced by the US president, Donald Trump, during his election campaign, as will be seen in more detail in the last section.

US monetary policy: International spillover

The monetary policy decisions taken in the major economic blocs have implications that go beyond their borders. Given the weight of the US economy and the role of the dollar as reserve currency, the measures taken by the Federal Reserve have noteworthy repercussions in other geographic regions.

Economic theory typically distinguishes three channels by which the monetary policy of a given economy is transmitted to other economies: (i) the exchange rate channel, due to the expenditure-shifting effect under which changes in the value of the national currency trigger changes in foreign relative to home-market demand and due to the impact on foreign-currency debt holdings, which is particularly relevant in emerging markets; (ii) the trade channel, due to the effect expansionary or restrictive monetary policy has on domestic demand, in turn affecting demand for foreign goods and services; and (iii) the financial channel, due to the correlation between movements in US interest rates and global financial asset prices. The relative importance of each will depend on country-specific factors such as its degree of financial openness, trade ties with the US and the weight of exports relative to their GDP.

Between the end of 2008 and 2015, the Federal Reserve embraced unconventional monetary policy measures once official interest rates reached their zero lower bound. The various financial asset purchase programmes sought, having exhausted the scope for additional short-term rate cuts, to exert downward pressure on the medium– and long-term yields of public and private instruments. More specifically, this prompted investors to reallocate their portfolios, switching among instruments with varying levels of liquidity, risk and maturity profiles. The purchase of assets, coupled with the provision of 'forward guidance' regarding the outlook for official interest rates clearly signalled that the expansionary stance of monetary policy would continue in the future. Combined, conventional and unconventional policies contributed to a historical decline in the long-term interest rate term premium, even to negative values, by reducing uncertainty surrounding the outlook for short-term rates.

These signals had an effect domestically but also globally. By increasing the size of its balance sheet, the Federal Reserve had the effect of driving long-term rates lower in emerging and developed economies alike by boosting demand for higher-yielding assets. Similarly, the increase in liquidity and the persistent interest rate differentials triggered carry trades, nudging significant capital flows towards other economies.

The role of the unconventional monetary policies adopted in the US in driving output back to pre-

crisis levels remains the subject of much debate. Nor is there consensus about the reach these initiatives had internationally. In particular, the direction and intensity of the impact of the Federal Reserve's policies on the exchange rate and on the long-term interest rates of other countries and their ultimate impact on economic activity is much discussed. It is difficult to correctly isolate the impact these measures had on these variables because of macroeconomic developments on the home front and abroad. Against this backdrop, the research conducted by the Federal Reserve itself (Ammer *et al.,* 2016) estimates that the overall impact of the package of expansionary monetary measures implemented between 2008 and 2015 caused significant dollar depreciation relative to the other currencies, coupled with growth in demand for goods and services produced abroad and a reduction in the yields on the sovereign bonds of other advanced economies. Quantitatively, the impacts via the trade and financial channels outweighed that of the exchange rate channel, so that US monetary policy had a net positive spillover effect abroad. More specifically, a persistent reduction in long-term interest rates of 0.25bp is estimated to increase US GDP by 0.6pp and the rest of the world's GDP by 0.3pp over a three-year horizon.

The spillover effects of US monetary easing were not equal over time as the Federal Reserve continued to fine-tune the type of unconventional measures rolled out until 2014 on the basis of its unfolding assessment of the economic situation at each given point in time. Nor were they transmitted equally by country. In emerging economies, the spillover effect was affected by the significant changes in capital flows and cyclical and structural disparities (Bowman *et al.,* 2014). Further, in some countries, economic policy makers reacted in an attempt to prevent unwanted currency appreciation.[10] However, among the developed economies, the spillover effect is believed to have been more homogeneous across the various countries, with the transmission more akin to that of "normal periods"[11].

The positive exchange rate spillover on global GDP is expected to be offset by the negative impact of lower domestic demand in the US and the increase in interest rates, which has somewhat of a tightening effect on financial conditions abroad. Thus, rate tightening in the US can be expected to have a contractionary effect on global GDP.

In December 2015, as already noted, the US started the normalisation of monetary conditions to those consistent with price stability and trend growth. To date, this monetary normalisation has driven dollar appreciation, reflecting the relative draw of dollar-denominated assets, in part due to the expectation that rates will be hiked on a staggered basis. Relative to a basket of currencies, the dollar appreciated by 26% between mid-2014 and the end of 2016 (4.5% in 2016), as shown in Exhibit 3. This increase in the value of the dollar affects the competitiveness of goods produced outside the US and, by extension, boosts GDP in the rest of the world.

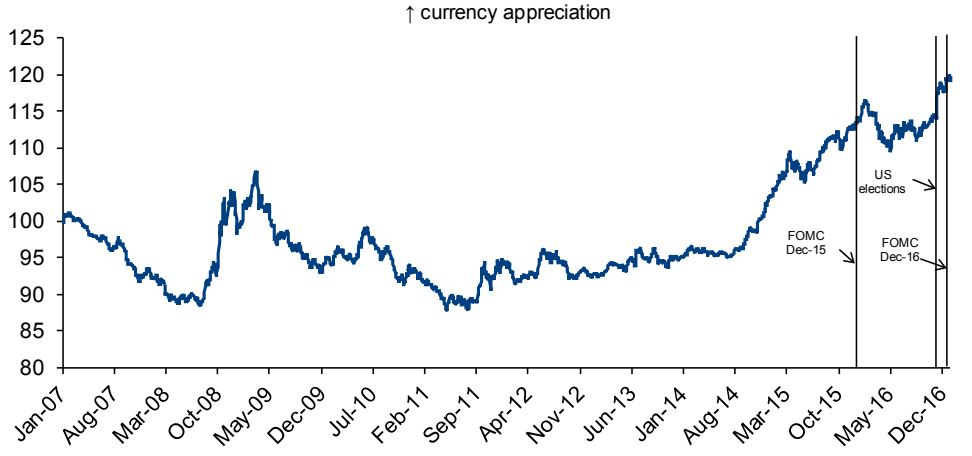
Foreseeably, the positive exchange rate spillover on GDP in the rest of the world will be more than offset by the other two channels of transmission of US monetary tightening which have a negative impact: lower domestic demand in the US also reduces its demand for foreign goods and services; and the increase in interest rates has somewhat of a knock-on effect abroad by tightening financial conditions in other countries.

[10] Bernanke (2015) talked about potential "currency wars" and the policy *"trilemma"* (exchange rate control; monetary policy independence; free capital flows) faced by the emerging markets' monetary authorities during those years.

[11] For example, Gilchrist *et al.* (2014) identify a similar spillover effect on sovereign bond yields during the period of unconventional monetary policy compared to the prior period of conventional policy, albeit marked by differences in transmission along the yield curve.

Exhibit 3

Effective nominal exchange rate of the dollar



Source: Datastream Thomson-Reuters.

Thus, rate tightening in the US can be expected to have a contractionary effect on global GDP. Although there is no definitive evidence about the scale of its effects on economic activity, research does tend to point out that the effects are usually more significant in emerging markets than in the advanced economies, particularly Europe (IMF, 2013).

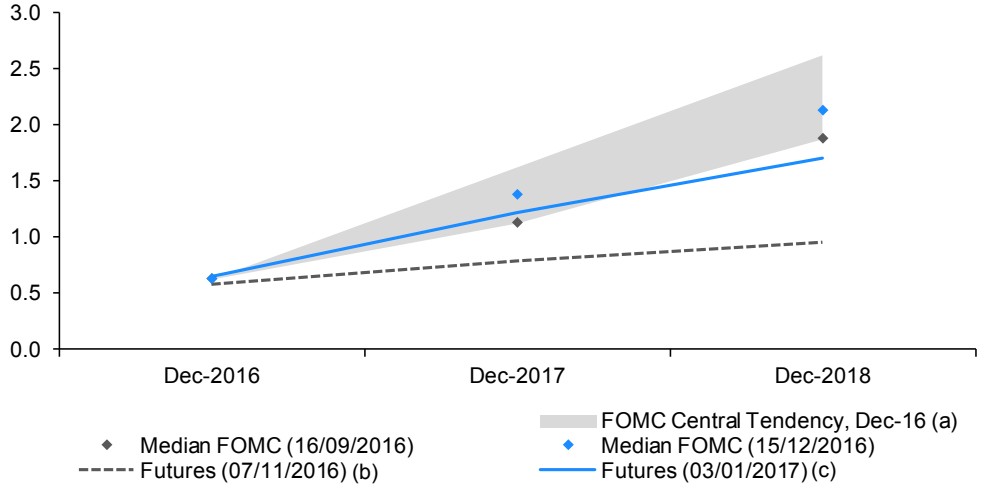
Regardless, as outlined in the previous section, the current path of monetary normalisation is marked by idiosyncrasies that set it apart from earlier episodes. And the evidence suggests that its international transmission will also be unique on account of the circumstances affecting the developed economies in this instance. For example, during the 1994-96 tightening cycle, spillover via the financial channel was high. The impact on the asset markets was unexpected and significant: bond yields rose not only in Germany and the other eurozone nations but also in other markets such as the UK and Japan. This transmission took place at a time when most of these economies were at an early stage of recovery, there were no signs of inflation and monetary policies were expansionary. In contrast, during the period of monetary tightening of 2004-06, the upbeat macroeconomic prospects had the effect of dissipating uncertainty, which, coupled with surplus savings in emerging markets, drove long-term interest rates abnormally low *(e.g.,* German bond yields). And instead of appreciating as expected, the dollar weakened. In the next section, we analyse the current cyclical and policy differences between the US and the other developed economies.

Global monetary outlook

The outcome of the presidential and legislative elections held in the US on November 8th, which resulted in an unexpected victory for Donald Trump and majorities for the Republican Party in both the Senate and the House of Representatives, has changed the outlook for monetary policy in the US for the coming quarters, as is evident in the financial markets' performance. As illustrated in Exhibit 4, the federal funds rate discounted in the futures market has shifted higher, approaching

Exhibit 4

Federal funds rate: Expectations (futures market) *vs* FOMC projections
(Median & range)



Notes: (a) Excludes the three highest and the three lowest projections. (b) Day before US elections. (c) Latest available data upon writing of this article.

Source: Datastream Thomson-Reuters.

the projections made by the FOMC, which implicitly foresee a gradual recovery in real interest rates which are expected to reach 1% over the medium term. Similarly, government bond yields have risen, to a greater extent in the US but also in other developed economies (Exhibit 5.1), mainly driven by the spike in the term premium (Exhibit 5.2), as well as an upward shift in the yield curve. The currency markets have bid the dollar notably higher (Exhibit 3), particularly with respect to the yen among the developed world currencies and against the Mexican peso among emerging market currencies, to levels which mark a high since 2002 in nominal effective terms.

These financial market trends would appear to price in the materialisation of some of the proposals made by President Trump during his electoral campaign. Although many of them are notably vague, most observers have highlighted the changes foreshadowed in fiscal policy (more expansionary), trade policy (greater protectionism) and immigration policy (more belligerent towards immigrants). Many analysts agree that such changes in US economic policy could translate into a positive demand shock in the short term and a negative supply shock in the short and long term. In a nutshell, in terms of the Federal Reserve's dual mandate, the changes would translate into a narrowing of the unemployment gap and higher inflation (already anticipated judging by the shift in inflation expectations calculated from the financial markets) and, by extension and in response, more restrictive monetary policy. If the Federal Reserve were indeed to take this path, the divergences between the various developed economies' monetary policy stances would widen in the coming quarters.

The spillovers from the new policies applied in the US on other economies would likely be diverse in nature. Firstly, the short-term spike in growth, driven mainly by more expansionary fiscal policy, coupled with dollar appreciation, would boost exports by America's trading partners. Greater protectionism would have adverse consequences at the global level by reducing trade flows; however, there would be winners and losers via

Exhibit 5.1

10-Year bond yields

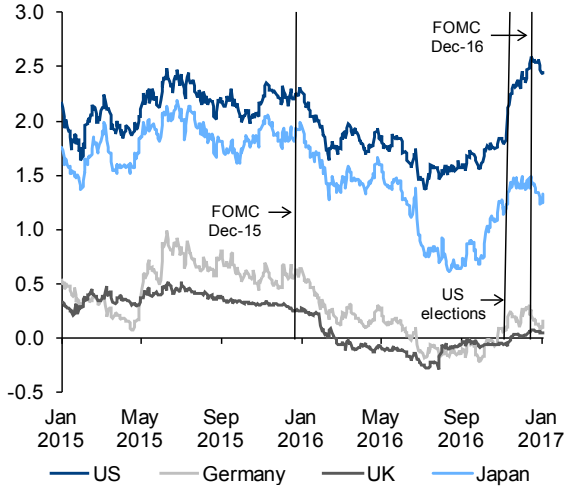
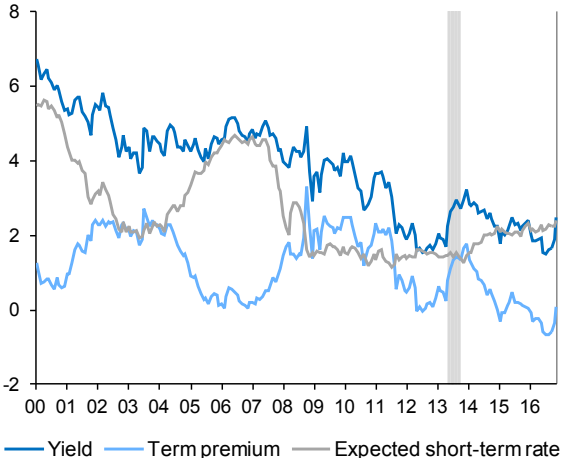


Exhibit 5.2

Components of the 10-year treasury bond yield (a)



Note: (a) The shaded area corresponds to the 'taper tantrum' *episode.*

Sources: Datastream Thomson-Reuters, Federal Reserve Bank of New York using the methodology of Adrian et al. *(2014).*

the substitution of imports from the countries subjected to higher tariffs (Trump cited China and Mexico during his election campaign). Against this backdrop, the eurozone could benefit from higher US demand for its products and the euro depreciation against the dollar, which would also fuel inflationary pressures. However, the eurozone could also be affected by an increase in interest rates, as was the case during the episode known as the 'taper tantrum' of spring-summer 2013. On that occasion, some central banks, including the ECB, used communication and forward guidance to stave off unwanted US-driven tightening of financial conditions.

In 2016, the divergence between the monetary policies pursued by the Federal Reserve and the rest of the developed world's most important central banks widened. As already noted, at its December 2016 meeting, the Federal Reserve decided to increase its target federal funds range by a quarter of a point (to 0.50%-0.75%), marking the second hike in the normalisation cycle initiated in December 2015. In addition, in its December quarterly projections, the FOMC projected a higher number of expected rate hikes in 2017 (three), as well as a slight increase in the neutral or natural rate of interest.

The ECB, meanwhile, announced[12] the extension of its asset purchase programme (APP) for at least another nine months (from April to December 2017) after its November meeting, albeit scaling back the monthly purchase volumes (returning to the level of 60 billion euros it bought monthly between March 2015 and February 2016, before stepping its purchasing activity up to 80 billion euros from March 2016).[13] In addition, the press release put

[12] At its prior meeting in March, it had decided to introduce four quarterly financing facility (TLTROs II) auctions (between March 2016 and March 2017).

[13] The ECB's Governing Council also decided to expand the universe of securities it could purchase to include securities maturing within 12 to 24 months and those yielding less than the deposit facility rate.

out by the European Central Bank was adamant that this paring back in no way constitutes the start of monetary policy normalisation as the ECB's inflation forecasts had not changed (remaining below target even in 2019) and that there is scope for stepping up the pace of purchasing or duration of the APP in the event of an economic downturn.

In December 2016, the Federal Reserve decided to increase its target range by a quarter of a point (to 0.50%-0.75%) and projected a higher number of expected rate hikes in 2017 (three), as well as a slight increase in the neutral or natural rate of interest.

With the same objective of achieving its inflation target, the Bank of Japan announced a change in its monetary policy stance after its September meeting comprising a quantitative easing regime with 'yield curve control'. The new orientation of its quantitative easing framework combines two elements: (i) yield curve control, keeping the short term rate at -0.1% for a portion of the bank deposits held at the central bank and calibrating its purchase of assets of various maturities in an attempt to keep 10-year rates at around 0%; and (ii) an inflation overshooting commitment under which the Bank of Japan commits to expand the monetary base until the year-on-year rate of CPI consistently exceeds 2%, with the aim of boosting inflation expectations.

In the wake of the Brexit victory in June, the Bank of England, meanwhile, took a series of measures at its August meeting designed to ease monetary policy in an attempt to mitigate the expected slowdown in the UK's economy. Specifically, it cut its benchmark rate by 25bp to 0.25%, introduced a credit facility for banks called the Term Funding Scheme, embarked on the purchase of up to 10 billion pounds sterling of British corporate bonds and increased the stock of purchases under its Asset Purchase Facility by 60 billion pounds sterling to 435 billion. However, at its recent meetings, the Monetary Policy Committee has adopted a neutral stance on monetary policy for the time being, suggesting that it could go in any direction depending on how economic prospects unfold.

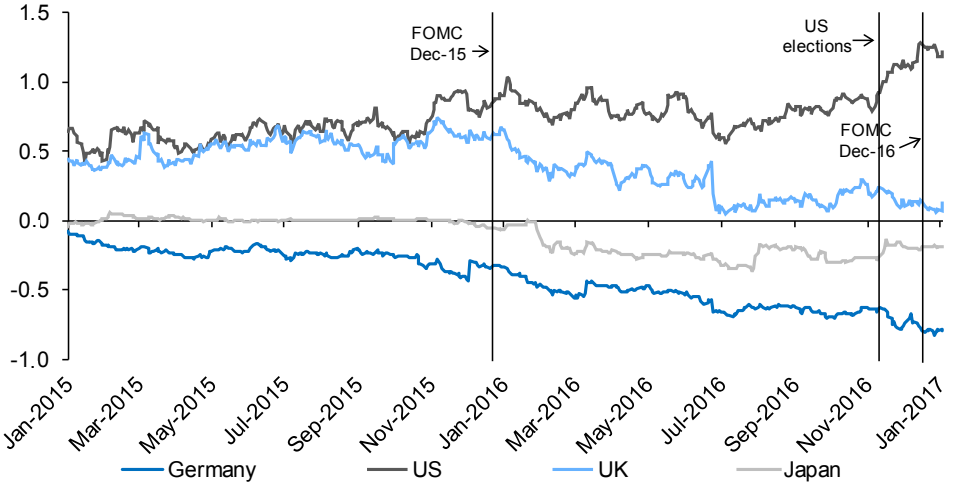
Increased monetary policy divergence between the Federal Reserve and the rest of the developed world's most important central banks has translated into dollar appreciation and wider spreads at the short end of the yield curve (Exhibit 6), although in Germany the more recent contraction in short-term rates owes largely to the decision taken by the ECB's Governing Council in December to broaden the spectrum of assets eligible for its APP to include securities with residual maturities of more than one year. In light of prevailing economic forecasts for the next two years, it is foreseeable that the current divergences will persist.

The challenge posed by a more restrictive monetary policy in the US has affected emerging market authorities, which are facing and will continue to face an economic scenario marked by lower net capital inflows, tighter financial conditions and currency depreciation at a time when some agents are indebted in dollars (balance sheet effect). These economies include China, whose authorities intervened in the currency markets in 2016, changed the currencies and their weightings in the basket used to establish the exchange rate and introduced certain capital controls to counter the downward pressure on the renminbi relative to the dollar. Mexico, where the authorities have reacted with pro-cyclical monetary and fiscal policies, is another case in point.

In sum, from the standpoint of the US, how the economic recovery and the new president's fiscal policy play out will determine the shape of monetary tightening which is nevertheless expected to be far more gradual than on prior occasions. The desire to prevent sharp changes in the financial markets, particularly in long-term interest rates, inflation expectations and exchange rates, make

Exhibit 6

2-Year public debt yields



Source: Datastream Thomson-Reuters.

it likely that the authorities in the rest of the world, particularly the central banks, will be able to respond to circumstances in their respective domestic economies without heightening global imbalances. Against this backdrop, one important lesson from the *taper tantrum* episode of 2013 was that effective communication and initiatives by the developed economies' central banks, including the European Central Bank, helped to forge financial conditions to better suit their economic realities. This constitutes a risk at a time of heightened uncertainty regarding the pace of recovery and economic policy at the global level.

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Outlook for the Spanish financial sector ahead of Brexit

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

Uncertainties surrounding Brexit and its upcoming implementation are expected to bring a series of challenges for Spain – a country with strong economic and financial ties to the UK, in particular as regards its banking sector. Spanish banks are expected to be well prepared to weather the upcoming changes, some of which may also present opportunities to attract additional business to Spain.

The UK's exit from the EU, or Brexit, was one of the big surprises on the economic front in 2016, with Brexit implementation set to be one of the major challenges for 2017. Spain has considerable economic and financial ties to the UK, specifically as regards its banking sector – both direct investment and exposure in terms of credit and claims held by Spanish financial institutions in the UK are very substantial. Direct investment in the UK by Spain's financial sector stands at over 16 billion euros. Spanish banks' exposure to the UK is high: claims totalled 377.29 billion euros as of June 2016, made up of 18.6 billion euros of claims on banks, 38.51 billion euros on the official sector and 320.19 billion euros on non-financial corporates (mainly in the form of loans and equity investments). The triggering of Brexit and its implementation is expected to bring about a host of scenarios and challenges. However, we expect Spanish banks with economic interests in the UK to be prepared to affront these challenges, in part due to the preservation of the EU passport (as they will probably maintain their main headquarters in EU territory and keep their business in the UK through subsidiaries), as well as their experience with international diversification. At the same time, Spanish regulators and government authorities are also taking steps for Spain to potentially benefit from some of the expected changes anticipated from Brexit, specifically as regards the possible relocation of European regulators or institutions.

Economic estimates conditioned by political scenarios

This article attempts to analyse the state of the Spanish financial sector ahead of the UK's exit from the European Union in 2017, or Brexit. Although it tries to focus on the economic aspects and, above all, the financial dimension, it is virtually impossible not to refer to the political arena. The main reason is the fact that an economic assessment of the consequences of Brexit is contingent upon political scenarios, as assumptions regarding the possible negotiations

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[2] University of Granada and Funcas.

and the level of 'tension' surrounding them are crucial to evaluating the potential impact on the economy and financial sector.

It is probably fair to say that the time for referring to Brexit as an unexpected development has come and gone. The triggering of article 50 of the EU Treaty to enable the UK's exit looks set for March. There are reasons enough to believe that the negotiations could be surrounded by a certain amount of tension and perhaps even improvisation which could similarly have economic and financial consequences. For example, at the time of preparing this paper for publication in early January, it was announced that Ivan Rogers, Britain's Permanent Representative to the EU, had resigned, a development the vast majority of analysts have interpreted as indicative of a lack of strategic consensus in the UK.

It is also worth highlighting the role that the British Parliament could have in triggering the EU's exit. The British government has finally confirmed the Parliament will in the end have a say on the terms of Brexit. UK Prime Minister Theresa May has assured that, although she has also said there will be a 'clean exit' from the EU Single Market.

In fact, the British government appears to be preparing for the political debate on what is already being dubbed the 'Great Repeal Bill', legislation which addresses multiple aspects of the existing and future relationship with the European Union.

From the economic standpoint, the key appears to be what may or may not be decided at the time of departure. It is assumed that, unless the parties agree otherwise, the negotiation process will take two years. In fact, Theresa May has insisted that her government does not intend to extend the period of negotiation that will follow the triggering of article 50 of the EU Treaty, albeit adding that "it may be the case that there are some practical aspects that require a period of implementation thereafter." She has said some elements of the process may indeed need further discussion and negotiation beyond 2019.

Accordingly, scenario analysis for evaluating the economic fallout from Brexit can be based on two quasi-certainties that are beginning to take shape: The exit will be triggered in March 2017 and there will be an "implementation phase". This implementation phase implies a negotiation period which in reality could stretch substantially beyond the official two-year deadline. Seemingly less-complex precedents such as the free trade treaties with the US and Canada are good examples of how time is the one thing these sorts of agreements require.

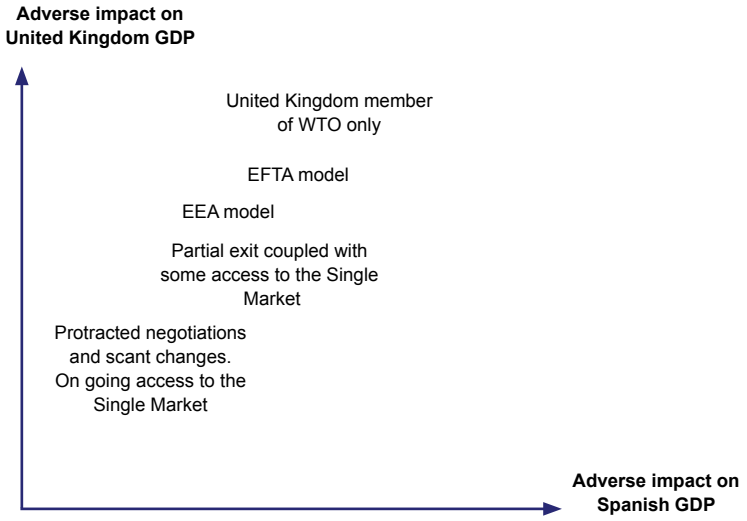
Evaluating the economic fallout from Brexit can be based on two quasi-certainties that are beginning to take shape: the exit will be triggered in March 2017 and there will be an "implementation phase".

To attempt to assess the potential extension of the negotiations in time it is not only useful to analyse the public position taken by the parties (the United Kingdom and the EU) (which, for that matter, have been notable for their lack of specificity to date), but it is also important to factor in the position of the business sectors which stand to be affected, particularly in the UK. Multiple surveys have been carried out in this respect and the stances reflected have almost always coincided.

Exhibit 1 assesses the potential economic consequences of Brexit in the UK and Spain by examining the relative impact of Britain's departure from the EU for both countries as a function of the ultimate political scenario, albeit without factoring in the possible probabilities of each. The aforementioned "Breturn" scenario is not contemplated in the Exhibit as the only possibility of returning to the initial situation would have to take the form of some sort of lawsuit with respect to the legality of the entire process within the UK, a process that would be protracted and costly in terms of uncertainty and red tape. Regardless, it

Exhibit 1

Impact of Brexit on the UK and Spain under different scenarios



Source: Authors' own elaboration.

could be considered largely akin to the scenario defined in the exhibit as "Protracted negotiations and scant changes. Ongoing access to the Single Market". We believe that this situation would have limited costs for Spain (little beyond the impacts observed since the referendum) but higher costs for the United Kingdom by undoing an administrative and political process which has already, *de facto,* altered many expectations and institutional structures in Great Britain, while failing to resolve the social division caused by existing relations with the EU.

At the opposite end of the spectrum is an exit that would leave the UK as just another member of the World Trade Organisation (WTO), which would imply abandoning the Single Market with significant costs for members such as Spain, albeit ultimately higher costs for Great Britain itself. There are two other situations often discussed which are similar to this one. One relates to an agreement similar to that to which Norway is party within the European Economic Area (EEA), which includes access to the Single Market but without sharing the EU's political structures. The other is a model similar to Switzerland's, within the European Free Trade Area (EFTA), which is similar to the EEA but does not require contributions to the Single Market's budget.

Estimating the impact and the role of the implementation phase: The role of the financial sector

By not quantifying the impacts, Exhibit 1 can be considered a set of starting assumptions. At any rate, the impact of the various scenarios will change depending on how smoothly the negotiations go and whether they play out more

The Spanish economy had a trade surplus with the UK equivalent to 1.3% of GDP as of October 2016. Importantly, the UK is one of the few countries with which Spain has a trade surplus in both goods and services.

or less in the business and financial interests of Spain, which has very significant ties with the United Kingdom. Using data published by the ICEX (Spain's foreign trade institute), we note that the Spanish economy had a trade surplus with the UK equivalent to 1.3% of GDP as of October 2016. Importantly, the UK is one of the few countries with which Spain has a trade surplus in both goods and services. Some 7.7% of Spanish exports go to the UK, where it sells a wide range of goods and services. Some of the most important goods and services include cars, trains, aviation assets, fruit, vegetables and, of course, tourism. According to the Spanish statistics bureau's cross-border movement numbers (INE-Frontur), 17 million people visited Spain from the UK between January and November 2016, which was 12.3% more than in the same period of 2015 and 21.1% of all foreign arrivals. Beyond the official records, it is estimated that between 800,000 and 1,000,000 Britons are living in Spain either permanently or for long spells each year. The official figures only show those who have registered as residents, a number that stands at 250,000. From the financial perspective, it is worth noting that the majority of visitors and residents are over 65 years of age, such that pensions, money wires, healthcare and real estate transactions are very important considerations for them in the context of Brexit.

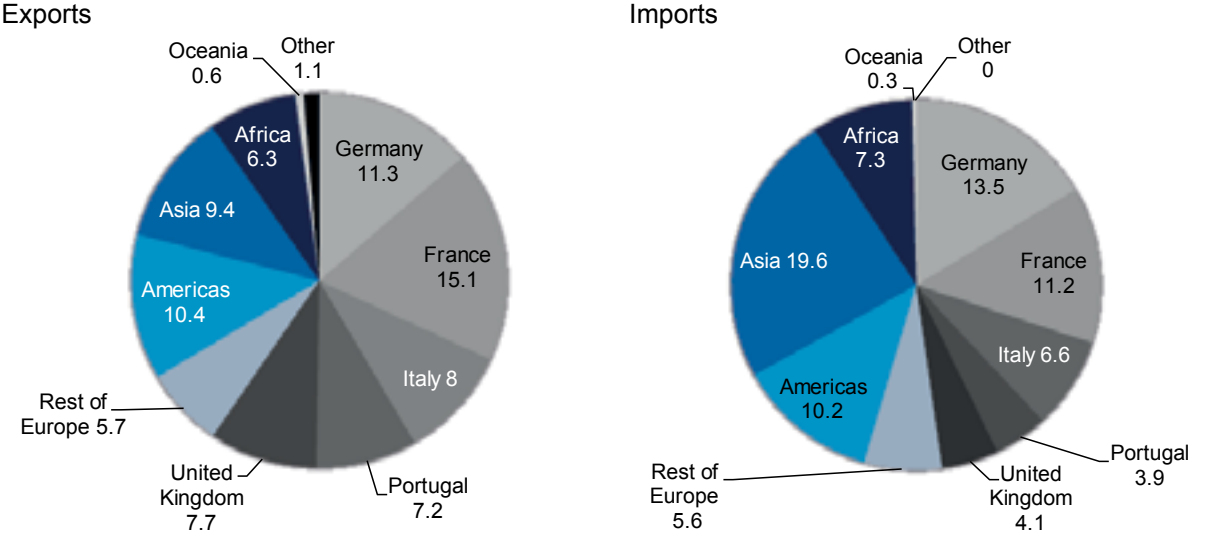
The United Kingdom accounted for 9% of all Spanish exports (goods and services) between January and October 2016 and 5% of all imports.

What the ICEX figures appear to show is that the June 2016 referendum in favour of Brexit has not, to date, had an adverse impact on trade relations between the two countries, at least from the Spanish standpoint. The United Kingdom accounted for 9% of all Spanish exports (goods and services) between January and October 2016 and 5% of all imports. As shown in Exhibit 3, exports to Great Britain increased by 6.7% year-

Exhibit 2

Trade relations (goods and services) between Spain and third countries

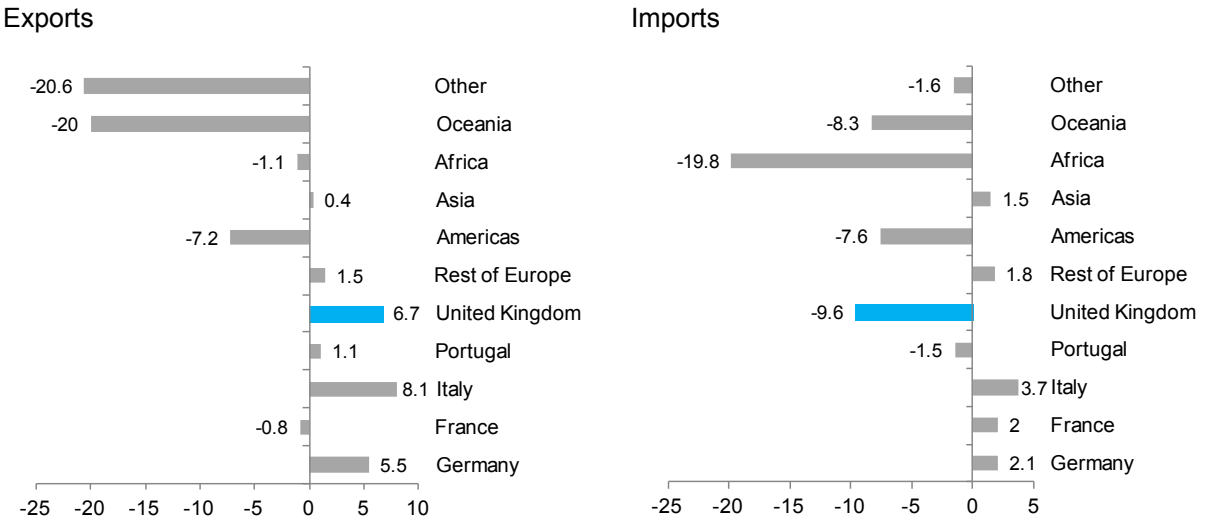
(Percentage of total, October 2016)



Source: ICEX and authors' own elaboration.

Exhibit 3

Annual rate of change in exports and imports of goods and services from/into Spain (10M16 *vs.* 10M15)



Source: ICEX and authors' own elaboration.

on-year between January and October 2016, while imports contracted by 9.6%. This suggests that Brexit has not dented the trade surplus, at least not in the short term.

The financial sector is Spain's biggest direct investor into the UK, having invested 16.6 billion euros, followed by the telecommunications sector (at 15.2 billion euros) and the energy sector (7.3 billion euros).

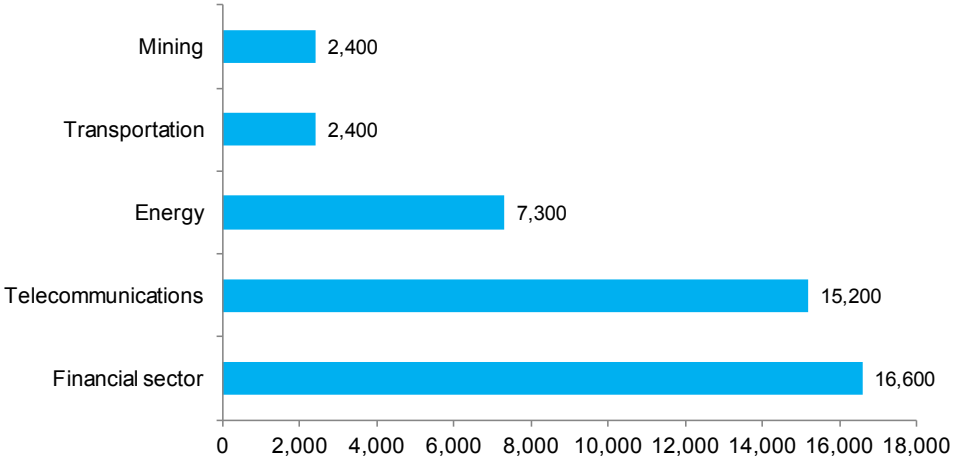
What about the financial sector? One good way of sizing up the Spanish financial sector's exposure to the UK is to look at direct Spanish investment using the UK's Office for National Statistics' (ONS) figures. The ONS' most recent annual numbers date to 2015 (Exhibit 4) and show that indeed the financial sector is the biggest direct investor, having invested 16.6 billion euros, followed by the telecommunications sector (at 15.2 billion euros) and the energy sector (7.3 billion euros).

An even better snapshot of the scale of financial relations can be gleaned from the consolidated banking statistics compiled by the Bank for International Settlements (BIS).

Exhibit 5 shows the consolidated position of the Spanish (British) banks on counterparties resident in the United Kingdom (Spain). The numbers track the claims (loans and other claims) held by the banks of each country on the various sectors in the other country, including other banks, the official sector (public debt and similar interests) and the non-financial corporate sector. The claims are shown on an ultimate risk basis, which means net of the risk transfers these banks may make between counterparties. As shown in the exhibit, Spanish banks' exposure to the UK is high: claims totalled 377.29 billion euros as of June 2016, made up of 18.6 billion euros of claims on banks,

Exhibit 4

Direct Spanish investment in the United Kingdom (2015)
(€ million)



Source: The UK's Office for National Statistics (ONS) and authors' own elaboration.

38.51 billion euros on the official sector (government and other public institutions) and 320.19 billion euros on non-financial corporates (mainly in the form of loans and equity investments).

However, the consolidated claims held by the British banks located in Spanish territory are considerably smaller, at 20.17 billion euros, held mainly on banks (8.11 billion euros) and corporates (12.37 billion euros); claims on the official sector are actually negative on a net basis (-289 million euros).

The British economy's recovery in the years following the crisis has had a positive impact on Spanish banks' earnings diversification. In contrast, any Brexit-driven adverse impact on the economy in the medium term will similarly have negative consequences.

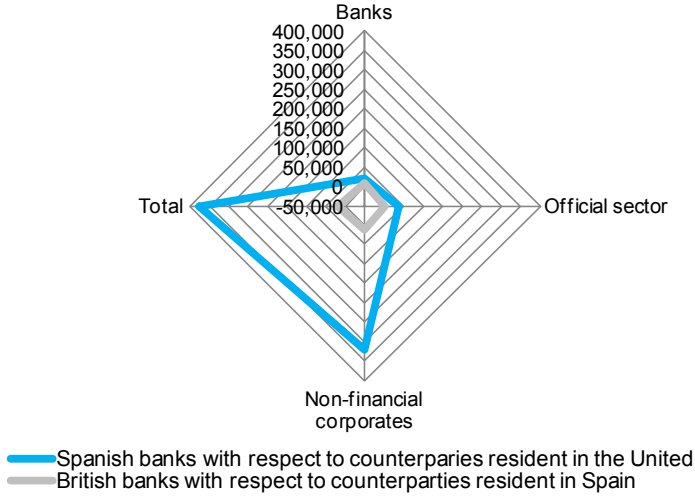
In addition to the sheer scale of the numbers, there are several other dimensions which render the Spanish banks' exposure to the UK even more significant. The Spanish banks command a meaningful share of the British retail banking market, having acquired the assets of troubled financial institutions in Great Britain during and after the financial crisis, among other things. As a result, the British economy's recovery in the years following the crisis has had a positive impact on the Spanish banks' earnings diversification. In contrast, any Brexit-driven adverse impact on the economy in the medium term – for example, a higher unemployment rate – will similarly have negative consequences.

One unknown with multiple ramifications relates to potential changes in financial regulations. The world over, the banks are facing the final provisions required to fully implement the Basel III capital framework in 2019. In parallel, pressure to increase transparency is growing with the recent announcement of new stress tests coordinated by the European Banking Authority and the European Central Bank in 2017. And, last but by no means

Exhibit 5

Consolidated position of the Spanish (British) banks on counterparties resident in the United Kingdom (Spain). Breakdown by sector. Loans and claims

(€ million)



Source: Bank for International Settlements (BIS) and authors' own elaboration.

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least, the sector faces the added difficulty of the banking crisis unfolding in Italy, which has just led to the bail out of Monte dei Paschi di Siena and setting aside of up to 20 billion euros to cover the rest of the sector's potential capital requirements. Against this backdrop, financial relations between London and Europe may be affected by additional contingencies thrown into the negotiation process. The ECB itself has even suggested that some of the most important discount window trades carried out by eurozone banks through the London Clearing House (LCH Clearnet) to obtain liquidity could ultimately be performed by other eurozone clearing houses. Rumours have also proliferated about the possibility of UK banks establishing operations in other European markets in order to preserve their access to the EU's single market. In sum, there are a host of possibilities foreshadowing major potential structural changes in the competitive landscape and/or regulatory framework.

For the Spanish banks which operate on a consolidated basis from Spain, the diversification opportunity will continue to exist, given that their ability to use the single European passport is not at risk as far as the parent company maintains its license in an EU country. Nevertheless, they need to watch for any change or requirement which could emerge in the UK for these banks.

The upside

Nevertheless, the tumultuous regulatory and competitive landscape which Brexit may bring about for the financial sector also brings opportunities. The official institutions have taken note and are acting accordingly.

Spain's securities market regulator, the CNMV, in concert with the Spanish government, has drawn up a plan for leveraging the opportunities Brexit is expected to generate on the financial front. Its plan is designed to attract the financial institutions which may be contemplating switching their head offices to the EU and specifically to Spain. These measures were announced on December 12th and

are accompanied by a dialogue in English and create a pre-authorisation process so that firms can analyse the move as fast as possible – the CNMV is offering several regulatory benefits[3]. The plan is articulated around five points:

Spain´s security market regulator, the CNMV, together with the government, has drawn up a plan for leveraging the opportunities from Brexit with a focus on attracting to Spain financial institutions which may be contemplating switching their head offices to the EU.

- Creation of a welcome package targeted specifically at investment and management companies headquartered in the UK. Within this programme, interested companies will benefit from a single point of contact, in English, who will help them understand Spanish regulations and guide them through the entire permission process until six months after authorisation is obtained.

- A direct authorisation procedure for companies headquartered in the United Kingdom. Standardised forms in English and facilitation of electronic submission thereof. Establishment of a pre-authorisation deadline so that companies can begin to organise moving their businesses to Spain.

- Use of internal minimum capital calculation models: This measure comes in response to the interest expressed by some entities in being able to continue to use their internal models for calculating the capital they need to set aside to cover their market and counterparty risks. The CNMV aims to ready itself to supervise those models directly. To this end, a specific regime for cooperating with the Bank of Spain has been set up to ensure that this effort proceeds smoothly. There is also scope for availing of a rapid authorisation procedure to the extent that the competent authority in the United Kingdom has reviewed and authorised the models in question.

- Flexibility in outsourcing activities: The CNMV is planning to take a flexible approach in terms of facilitating the outsourcing of functions or activities which could in turn enable entities to partially relocate certain activities swiftly, as long as doing so complies with the requirements laid down in the Markets in Financial Instruments Directive (MiFID).

- Initiatives in other areas of importance to petitioning entities such as a commitment not to impose any requirements that go beyond those deriving from European legislation in areas such as recovery and resolution, remuneration policies, market makers, etc. and application of such requirements in full compliance with the principle of proportionality.

The opportunities are also evident at the institutional level with some important multilateral European institutions currently based in London, such as the European Banking Authority itself, considering a move in the wake of Brexit. In this respect, Spain can offer certain advantages relative to other major eurozone countries (particularly vis-a-vis Frankfurt or Paris) in terms of installation, lifestyle and property costs and the provision of infrastructure.

Ten thoughts on how Brexit will impact the financial sector in 2017

From the data and reflections provided in this paper, it seems clear that Brexit will have important ramifications for Spain and for its financial sector in particular. By way of conclusion, here are 10 thoughts on Brexit's financial impact in Spain:

[3] https://www.cnmv.es/portal/verDoc.axd?t={5925f8f2-4f0b-433b-9ec3-07af2f87cc8b}

- The Spanish financial sector's direct investments in the UK top 16 billion euros, making it an industry of key strategic importance in the context of Brexit, along with others of importance to Spain, such as the tourism and telecommunications sectors.

- The banks' exposure, measured as the consolidated claims of the Spanish banks resident in Great Britain, is very considerable. As of June 2016, their claims stood at 377.29 billion euros, 18.6 billion euros of which were in the form of claims on banks, 38.51 billion euros on the official sector and 320.19 billion euros on non-financial corporates.

- For 2017, which is when Brexit is expected to be triggered and its implementation to begin, the eurozone banking environment looks far from simple. The Italian banking crisis is an important threat which does not yet appear to be under control.

- Spain's banks (and other companies) have discovered a source of diversification in the UK which does not have to end with Brexit. Indeed, the Spanish banks' experience with international diversification constitutes a safeguard in this respect.

- There are, however, aspects related to the potential economic fallout from Brexit which do warrant monitoring. For example, the consequences for the banking business in Great Britain of a slump in business volumes and/or higher unemployment.

- The regulatory environment is one aspect requiring particularly close attention. The Brexit negotiations are going to coincide with finalisation of full implementation of the Basel III capital requirements.

- The Spanish banks operating in the UK will be able to continue to enjoy the advantages afforded by the single European passport and the British regulators are not expected to impose additional impediments or hindrances on their business activities.

- Britain's departure from the EU does offer opportunities in the financial sector, which the Spanish authorities are already trying to tap. The CNMV, in coordination with the Spanish government, has drawn up a plan for attracting the financial institutions which may be considering moving their headquarters to Spain.

- Spain offers certain advantages in terms of costs and ease of doing business for European regulators or institutions which could move their head offices out of London.

- Given the significance of Spain's trade and financial ties with the UK, Spain would be advised to be well represented and have a significant voice at the upcoming Brussels-led Brexit negotiations.

The Autonomous Regions' funding model: Between the State and the markets

César Cantalapiedra and Salvador Jiménez[1]

In 2016, the State and some of the Autonomous Regions have been able to take advantage of favourable market conditions to improve their public debt dynamics – reducing servicing costs and extending maturities. Going forward, the government would be prudent to focus on transitioning the regions away from reliance on the State towards reliance on capital markets to meet their financing needs.

The large increase in the overall stock of public debt as a result of the crisis has raised Spanish debt to GDP levels from below 40% to just slightly above 100%. Nevertheless, benign market conditions in 2016 allowed both the State and some Autonomous Regions to tap debt markets on very favourable terms, which resulted in an increase in the average life of their portfolios and a reduction in average costs. For 2017, the State is expected to continue to cover the bulk of its financing needs through the issuance of long-term debt. However, at the regional level, the majority of financing is still provided by the State through the special liquidity mechanism. Regional bond issuance has increased with financing conditions having also improved, but the government should take advantage of the current climate to increase financial autonomy for those regions that have still been unable to return to capital markets. Doing so may help the government address other more urgent issues – such as the near depletion of the Social Security Reserve Fund – that may require, at least in the short-term, additional debt issuance.

Public debt will tend to stabilise at around 100% of GDP

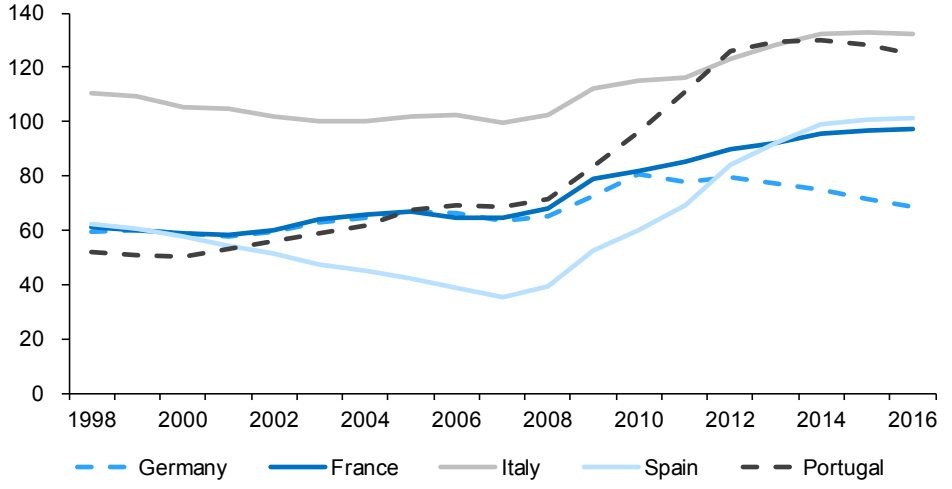
Spanish public debt stood at below 40% of GDP before the outbreak of the financial crisis, a level that was well below other countries such as Germany, France and Italy. However, the strong recession suffered by the Spanish economy resulted in a sharp deterioration in fiscal revenues, at the same time as spending grew substantially due to a variety of factors (unemployment benefits, support to the financial system, increase in interest expenses, etc.). All of this resulted in a series of large deficits in an environment of weak growth, which has meant that in less than a decade the public debt ratio has increased by more than 60 percentage points and is currently at the same levels as that of France and well above that of Germany.

Although Spain has exited the crisis robustly and is the quickest growing amongst the big four

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

Exhibit 1

Evolution of EMU country indebtedness
(Percentage of GDP)



Source: Eurostat.

Eurozone economies, it has yet to fully correct outstanding fiscal imbalances, which in turn prevent it from entering into a debt reduction path.

As a result, at the end of the third quarter of 2016, public debt stood at 1.11 trillion euros, having increased in the last twelve months by around 40 billion euros. The combined Public Administrations closed the year with a debt-to-GDP ratio of slightly above 100% – at 100.3% in September. Despite the growth in debt in absolute terms, dynamic growth has helped to neutralise the increase in relative debt in GDP terms, which has remained practically stable compared to last year. Even so, it is worth emphasising that the debt ratio will be one percentage point higher than predicted by the government at the end of 2016, which forecast 99.4% in its 2017 Budget Plan.

Although debt fell by 0.7 percentage points in the third quarter of 2016, we do not expect this trend to be maintained in the coming quarters, given that this reduction was more the result of context-specific developments as opposed to underlying debt dynamics. In the best case scenario, and in the absence of a more effective deficit reduction strategy, it is likely that debt will remain close to current levels (2016: 100.6%; 2017: 100.8% and 2018: 100.4%).

The overall debt-to-GDP ratio of the combined Spanish public administrations is expected to remain around 100% of GDP over the coming years.

The breakdown of total debt levels leaves the State with debt equivalent to 87.7% of GDP, the Autonomous Regions with debt worth 24.6% of GDP, the Local Corporations (CCLL in their Spanish initials) with debt of 3.1% of GDP and the Social Security Administration with debt of 1.6% of GDP. Debt adjustments between the different administrations mean that the total is less than the sum of the sub-sectors. Of this 185 billion euros adjustment, practically all of it is

Table 1

Public debt of Spanish public administrations by sub-sector and total*

	Outstanding balance (€ bn)					Debt (% of GDP)				
	Level			Change		Level			Change	
	Sep-15	*Jun-16*	*Sep-16*	*QoQ*	*YoY*	*Sep-15*	*Jun-16*	*Sep-16*	*QoQ*	*YoY*
State	938.8	964.7	968.8	4.1	30.0	88.2	88.1	87.7	-0.4	-0.5
Regions	253.6	272.8	272.0	-0.8	18.4	23.8	24.9	24.6	-0.3	0.8
Local Corporations	36.9	35.1	34.7	-0.4	-2.2	3.5	3.2	3.1	-0.1	-0.4
Social Security	17.2	17.2	17.2	0.0	0.0	1.6	1.6	1.6	0.0	0.0
Adjustment	-178.8	-183.5	-184.9	-1.4	-6.2	-16.0	-16.9	-16.7	0.2	-0.7
Public Administration	**1,068**	**1,106**	**1,108**	**1**	**40**	**100.3**	**101.0**	**100.3**	**-0.7**	**0.0**

*Note: * The methodology for calculating the level of total public debt in terms of the Excessive Deficit Procedure requires aggregating debt at each level adjusted by financial assets against the public administrations.*

Source: Bank of Spain, AFI.

debt owed by the regions to the State through the Fund for Financing Autonomous Regions – 138 billion euros - and some residual debt captured through the Financing Fund for the CCLL – 7.2 billion euros. The rest is explained by Treasury debt acquired by the Social Security Reserve Fund. These acquisitions are declining, and in the absence of additional measures, the Fund could be exhausted by the end of this year or, at the latest, by the start of 2018.

Record lows in Treasury financing costs and increase in average life of the debt portfolio

The Treasury's gross financing needs in 2016 amounted to 221 billion euros. 120 billion euros was covered through issuance of bonds and debentures and 101 billion euros through Treasury bills. The bulk of these needs were directed towards refinancing maturities. New issuance amounted to 35 billion euros, slightly below the 45 billion euros initially planned.

The strategy envisaged for 2017 is very similar to 2016 with total issuance of 220 billion euros and net issuance of 35 billion euros, which will be financed entirely through issuance of bonds and debentures. This net debt issuance will not only go to financing the State's deficit, given that a significant part of the debt taken on by the Treasury is used to channel liquidity to the regions, who acquire debt obligations with the State through the Financing Funding for the Autonomous Regions (FFCA).

Table 2

Treasury financing programme

(In million euros and in effective terms)	End 2015	End 2016	Forecast 2017
Total Net Issuance	47,717	35,043	35,000
Total Gross Issuance	236,817	221,364	220,017
Medium- and Long-term			
Gross Issuance*	139,000	120,368	122,904
Amortisation*	95,997	85,301	87,904
Net Issuance*	43,003	35,067	35,000
Treasury Bills			
Gross Issuance	97,816	100,996	97,113
Amortisation	93,103	101,020	97,113
Net Issuance	4,713	-24	0

*Note: * Includes debt in other currencies, Bonds and debentures, loans and assumed debts.*

Source: Treasury.

Exhibit 2a

Marginal life at issuance of bonds and debentures

(In years)

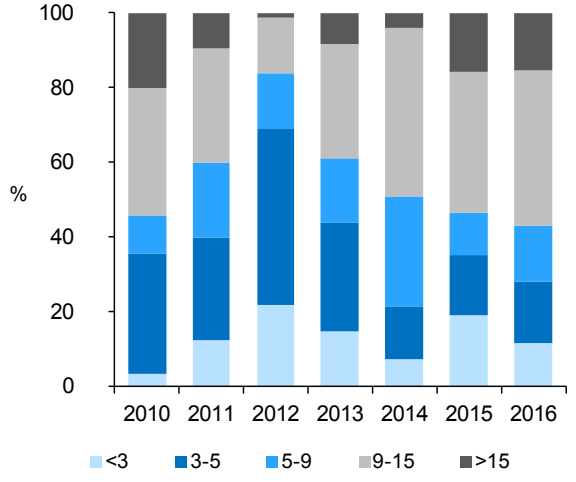


Exhibit 2b

Average life at issuance of bonds and debentures

(In years)

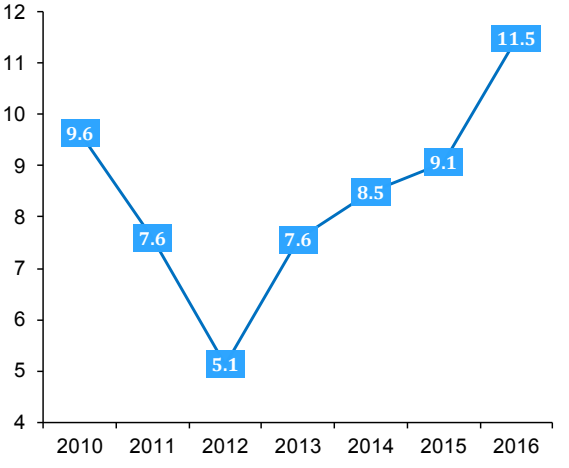


Exhibit 2c

Average life of outstanding debt

(In years)

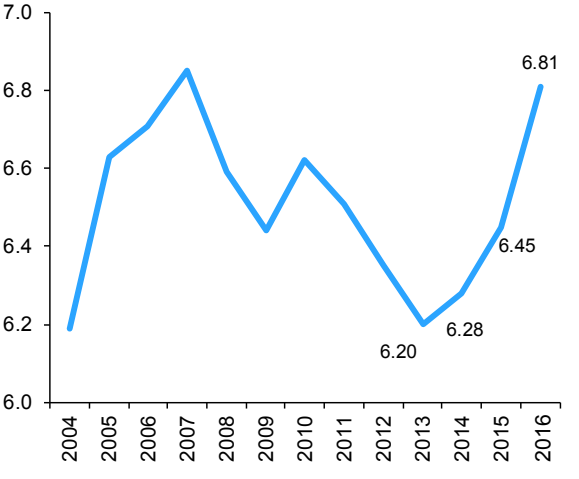
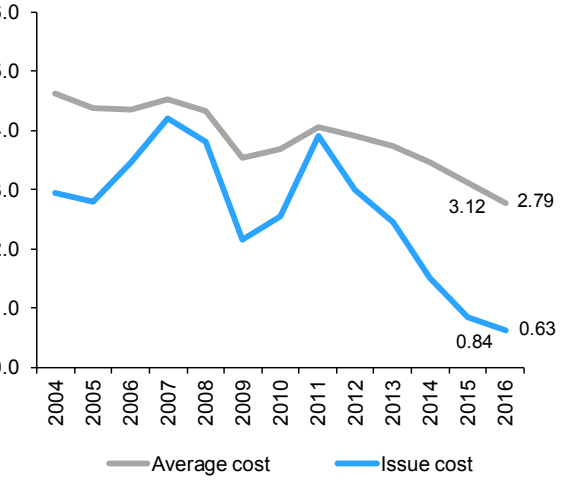


Exhibit 2d

Cost of debt outstanding and cost at issuance

(In percent)



Source: Treasury.

In spite of having to issue large quantities of debt, the Treasury has done so under clearly favourable conditions and it has been able to take advantage of new record low interest rates to finance new debt. The Treasury has benefitted from the clear downward trend in average yields, from a 3.8% average yield on debt issued at the end of 2011 to 0.63% at the end of 2016. As a result, the average

annual cost of the Treasury's debt portfolio has fallen from 4.1% to 2.8% in 2016.

The reduction in Spain's cost of debt can be attributed to the ECB's expansionary monetary policy, along with the strong performance of the Spanish economy and the clean up of the banking sector, which played an important role in reducing the risk premium.

This relative reduction in the cost of debt is a result both of the drastic reduction in the risk premium on Spanish debt relative to German debt, as well as a lowering of the underlying interest rate at which the German treasury finances itself. Both movements are explained to a large degree by the expansive monetary policy adopted by the ECB. Although the strong performance of the Spanish economy and the clean-up of the banking sector has also played an important role in reducing the risk premium.

As has been the case for neighbouring countries, the Treasury has taken advantage of current economic and financial conditions to lengthen the average life of its portfolio. This will help prevent future bouts of financial tension from creating difficulties in placing debt on the markets, given that fewer maturities will accumulate in a given year. As such the average life has increased from 6.2 years at close of 2013 to 6.8 years at the end of 2016. In fact, among all the Treasury's long-term debt issues last year, more than 50% had a maturity of equal to or more than 10 years, a proportion that is well above previous years. Furthermore, 16% of the total has been issued with a maturity of more than 15 years, with even a 50-year issuance being offered through a syndicated operation half way through the year, which had a clear market signalling effect.

In 2017, the Treasury will continue with its strategy of covering the bulk of financing needs with long-term issues through ordinary fixed coupon bond and debenture auctions. Although, as was the case in 2016, it could hold some benchmark auctions indexed to European inflation in the first auction of each month. This type of debt now exceeds 3% of total State debt in circulation. Similarly, on specific occasions, the Treasury may well make use of bank syndications to place certain benchmarks.

Increased regional recourse to the markets despite the increase in the FLA

The support from markets and the continuation of Treasury liquidity mechanisms through the Financing Fund for the Autonomous Regions (FFCA)[2] have lent support to regional governments' debt strategies. The majority of financing needs in 2016, approximately two-thirds of the total, have been covered by recourse to the Treasury, which has provided 31.3 billion euros to regions that have voluntarily requested liquidity. The incentives provided by the State for regions to reduce their presence in the market makes it difficult for some regions to justify seeking financial autonomy. Although it is true that the most indebted regions have no other alternative, in other cases, the

Although the bulk of the regions' long-term financing needs have continued to be covered by the Financing Fund for the Autonomous Regions (FFCA) in 2016, various capital market operations have also taken place.

[2] The Financing Fund for the Autonomous Regions is divided into four compartments: Financial Facility, Autonomous Liquidity Fund (FLA), Social Fund and Payment Providers Fund (FFPP). Nonetheless, in 2016, funding needs have only been covered through the first two funds and this is expected to remain the case in the coming years.

choice to remain in the FFCA is explained by the subsidy being offered by the government in financing the regions. Not only because it is not applying any cost for managing or intermediating this financing but also because it has offered 0% interest rates during the first three years to all regions that have complied with budgetary stability through the Financial Facility compartment.

However, although issuance activity for regional debt continues to be reduced in comparison to potential issuance, market conditions have also been very favourable with interest rates at record lows and even closing in on Treasury financing costs. In fact, in 2016 three more regions (Asturias, Castille and Leon, and La Rioja) joined the three regions already financing themselves on the markets last year (Basque Country, Navarre and Madrid). Although they have had a (diminishing) spread over the Treasury, this strategy allows them to benefit from lower future costs, achieving the status of regular issuers with a permanent investor communications policy.

There are also several additional factors that may impinge on each regional government's decision. Some of them are political, relating to the loss of financial autonomy associated with adhering to the Autonomous Liquidity Fund (FLA in its Spanish initials), or being subject to a variety of conditions. Other factors relate to the market, given that financing provided by the FLA is conditioned by very standardised maturities – until now, ten years, making it impossible to take advantage of opportunities to lengthen maturities in the current low interest rate environment, as the Treasury itself is doing.

The return of some regions to the capital markets has logically had an impact on regional bond markets. Although overall volumes issued have not been very significant (rising from 3.5 billion euros in 2015 to 4.2 billion euros), the increase in the number of issues has been more notable. While only nine issues of regional debt took place in 2015, in 2016 the number of issues increased to twenty-five.

Table 3

Bond issues undertaken in 2016

Region	Volume	Term	Coupon %	Region	Volume	Term	Coupon %
AST	102	9	0.862	MAD	44	4	0.204
AST	39	5	0.654	MAD	60	10	1.771
C&L	400	5	0.700	NAV	150	12	2.128
C&L	44	15	1.585	NAV	10	12	2.128
C&L	246	10	1.200	NAV	15	12	2.128
C&L	50	4	0.350	NAV	85	12	1.592
MAD	700	5	0.727	BC	500	10	1.750
MAD	300	30	3.250	BC	120	2	0.000
MAD	265	12	2.214	BC	190	10	1.466
MAD	66	15	2.398	RIO	60	2	0.125
MAD	66	50	3.756	RIO	45	3	0.300
MAD	48	15	1.785	RIO	60	2	0.100
MAD	500	8	0.997				

Source: Bloomberg, AFI.

The regions that decided to tap the markets in 2016 covered their financing needs under very favourable conditions with ample liquidity, reflecting a combination of reduced supply of regional securities with significant demand from investors seeking additional return over sovereign debt. Also, it is important to underline the ECB's decision to include sub-sovereign debt within its public debt buying programme, the Public Sector Purchase Programme. Although

Table 4

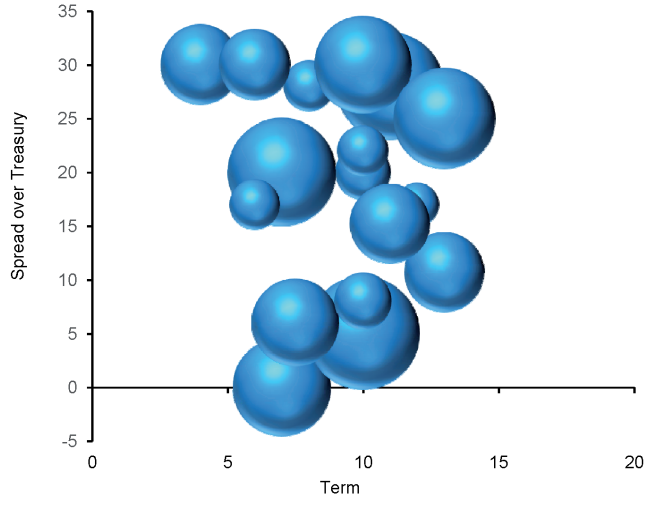
Regional benchmarks acquired by the ECB

	Issue Date	Maturity	Coupon (%)	Outstanding balance (€ m)
Castille Leon	25/02/2014	30/04/2024	4.00	650
Madrid	10/02/2014	21/05/2024	4.13	1,600
Madrid	18/02/2015	30/04/2024	1.83	1,803.75
Basque Country	08/03/2016	16/03/2026	1.75	500
Madrid	12/03/2010	12/03/2020	4.688	1,469.38
Madrid	19/05/2016	19/05/2021	0.727	700,00
Madrid	08/05/2015	08/05/2022	1.189	500,00
Madrid	30/09/2016	30/09/2024	0.997	500,00
Madrid	15/09/2006	15/09/2026	4.3	1.972,13
Aragon	17/01/2013	17/01/2027	8.25	401,00

Source: Bank of Spain.

Exhibit 3

Relevant sample of loans formalised in 2016 by the regions*



*Note: * Bubble size according to volume.*
Source: AFI.

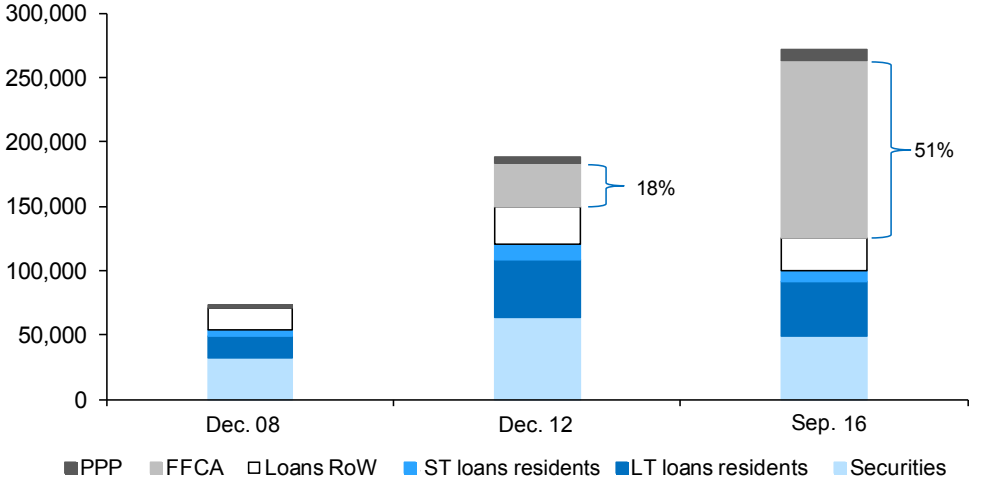
there are relatively few liquid benchmarks in the regional debt market, by the end of 2016 the ECB had already acquired debt from ten different issues relating to four regions – Madrid, Castille and Leon, Basque Country and Aragon. Seven of these issues belong to the Madrid region, which represents an endorsement for regional governments which develop a strategy based on active market involvement with issues focused on volumes at the most desirable maturities and which can serve as a benchmark for the sector.

The regions also channelled an important amount of their financing needs through loans. In some cases achieving financing conditions that have been as advantageous or even better than securities issues. The maximum spread that regions can accept for bank loans has been subject to government limits since September 2012, through the so called Financial Prudence Principle. Even so, it is worth highlighting that in the majority of cases the market has been below the regulatory established limit. And it is not just regions outside of the FFCA that have taken out loans. Some of the regions participating in the mechanism have continued to refinance their portfolios with the aim of reducing average costs and generating savings, taking advantage of the banking sector's desire to gain market share. Though it has to be said that the results have been rather mixed for different regions. The reopening of this market has been led by small and medium-sized banks, while larger banks continue to be dissatisfied with the way in which the Financial Prudence Principle restricts their margins on refinancing operations.

Nonetheless, the overriding development over the last five years has been the lead role that the State has adopted as financier-in-chief for the regional governments. More than 50% of regional debt is now owed to the State. Without doubt, this development will be key in the immediate short-run, especially with the anticipated reform of the regional financing system. These circumstances have affected the structure of regional debt portfolios, which logically has had a knock-on impact on other financiers and instruments. Even so, the fact that some regions have decided to finance themselves on capital markets in 2016 has meant that the weight of securities in total financing has remained around 18%. Loans from

Exhibit 4

Evolution of total regional debt by instrument type



Source: Bank of Spain, AFI.

Table 5

Volume, % of GDP and distribution of regional debt by instrument type 3Q16

		Instruments (%)		By creditor (%)			
	Total	Loans	Securities	Banks	Rest of World	FF CA	PPP
Andalusia	32,316	87.5	12.5	12.5	7.3	66.9	0.9
Aragon	7,320	62.2	37.8	21.1	11.6	29.5	0.0
Asturias	4,111	100.0	0.0	43.0	18.1	36.1	2.8
Balearics	8,628	92.2	7.8	22.0	4.4	63.7	2.1
Canary Island	6,816	81.0	19.0	17.7	1.9	60.9	0.5
Cantabria	2,823	98.5	1.5	24.8	9.2	61.0	3.5
Castille-la Mancha	13,846	89.2	10.8	15.1	7.9	66.3	0.0
Castille Leon	10,910	73.4	26.6	35.7	16.2	18.8	2.7
Catalonia	74,400	91.1	8.9	13.9	8.5	62.8	5.9
Extremadura	3,966	85.5	14.5	35.3	10.7	39.4	0.0
Galicia	10,624	56.3	43.7	21.5	10.9	20.2	3.7
La Rioja	1,482	71.1	28.9	38.3	14.4	18.4	0.0
Madrid	29,502	45.5	54.5	23.4	11.5	6.5	4.0
Murcia	8,098	95.1	4.9	11.6	10.1	73.5	0.0
Navarre	3,678	55.0	45.0	33.9	12.5	0.0	8.6
Basque Country	10,264	64.1	35.9	43.1	21.0	0.0	0.0
Valencia	43,194	95.1	4.9	11.7	8.3	73.0	2.1
Total	271,980	81.8	18.2	18.5	9.6	50.7	3.0

Source: Bank of Spain, AFI.

national banks represent a similar proportion, meanwhile the remaining 10% of financing is primarily owed to foreign banks.

The distribution of debt is relatively disparate between different regions, both in relative terms and in regard to the instruments used. In terms of the debt-to-GDP ratio, only five regions are above the regional average (24.6%). Two of them, Catalonia and the Valencian Community, account for 43% of total regional indebtedness, with very high debt ratios (of 35.6% and 41.6% of GDP, respectively). The regions with the lowest debt-to-GDP ratio are Madrid (14.2%), Basque Country (15.2%) and the Canary Islands (15.8%), with five other regions with debt levels below 20% of GDP. These are the regions with readiest access to capital markets.

There is also an important degree of divergence in terms of the instruments used. While regions such as Navarre and the Basque Country have never accumulated debt obligations against the FFCA, and Madrid only during one year, eight regions owe more than 60% of their debt to the FFCA or even close to 75% in the case of the Region of Murcia and the Valencian Community. Inevitably, participation in these mechanisms reduces the weight of securities issues, such that regions which have traditionally had a significant presence in bond markets, such as Catalonia, Andalusia and the Valencian Community, now only have residual recourse to this type of financing.

Conclusions

A wide variety of factors have helped Spain's public administrations to cover their financing needs at increasingly lower costs, especially the Treasury and Autonomous Regions.[3] Despite the major increase in public debt, dynamic economic growth and improvements in domestic fundamentals explain a large part of renewed investor confidence. This is less true for compliance with deficit targets, which have been missed on a systematic basis.

But above all, external factors, bracketed by the ECB's exceptionally accommodative monetary policy, have driven yield curves down to record lows throughout nearly the whole Eurozone with negative benchmarks in nearly all representative German debt tranches. This has meant that the Treasury has not only been able to meet its own financing needs, but also intermediate two-thirds of regions' financing needs, over-indebting itself to the tune of 140 billion euros since 2012.

The most important imbalance in Spain's public finances lies in the Social Security system. Given the nearly complete depletion of the Social Security Reserve Fund, the Treasury should perhaps now focus its attention on acquiring funding for this sub-sector.

All of this has been possible because the ECB has acquired more than 90 billion euros on secondary markets in 2016 alone, an amount equivalent to three-quarters of the Treasury's gross issuance of bonds and debentures and tripling last year's net financing needs.

However, this strategy is not risk-free for the State. Although from an accounting perspective the debt is imputed to the regions, the issue activity belongs to the Treasury, which has had to devote 40% of net issuance to financing the different FFCA compartments in the last five years. Clearly the yield curve cannot be immune to this increase in debt stock, which amounts to around 15% of the outstanding balance. Even if the impact has been minimal, it is unlikely to remain so in the future.

When it was originally set up, the financing mechanism helped to fend off the danger of a regional government defaulting and injected liquidity into the economy, but in the current environment it is doubtful whether the Treasury needs to continue providing incentives for this type of financing and thus dissuading regions that would be potentially able to access the market through interest rate subsidies. Unless the idea is for this to become permanent policy, which would raise questions in terms of its impact on regional financial autonomy, driving investors away from regions for a long period of time will imply increased re-entry costs, which could be avoidable. Leaving to one side other issues, such as the perverse incentives created by the current system for budgetary stability and the degree of discretion and asymmetries involved in the current distribution of resources, the problem of regional financing cannot be dealt with solely by resolving indebtedness. The current climate allows the regions to return to the markets and the Treasury should focus on helping those regions that have still been unable to do so, whilst at the same time defining a model that ensures sufficient financing, in line with the principles of fairness, transparency and joint fiscal responsibility, as reflected in the draft of the Regional Presidents' Conference.

It is clear that the benign external environment will not remain like this forever and the Treasury is now responsible for managing a record debt portfolio of

[3] In contrast to the State and the regions, since June 2012 Local Corporations have been immersed in a deleveraging process, reducing their debt levels by 12 billion euros to 34.7 billion euros in September 2016. This is equivalent to a 25% reduction from the peak registered in mid-2012. This debt reduction has come about to a large degree as a result of regulatory limitations placed on their ability to take on debt.

around one trillion Euros, attempting to minimise costs to the taxpayer. In a State as decentralised as Spain, the different administrations should assume collective fiscal responsibility. Limiting autonomy through the financial route does not seem to be particularly prudent if it comes at the cost of over-indebtedness which undoubtedly limits the Treasury's ability to access the markets. Even more so when there are other urgent issues to resolve which will involve, at least in the short-term, increasing debt. In fact, with the Social Security Reserve Fund nearly depleted, the most important and urgent structural imbalance in our public accounts is undoubtedly financing the pensions system. Although this can partly be addressed through increasing revenues, it is difficult to see how this can be done without measures that involve recourse to debt.

IFRS 9: A new model for expected loss provisions for credit risk

Pilar Barrios and Paula Papp[1]

The entry into force of IFRS 9 next year marks a fundamental change in the provisioning paradigm for financial institutions, moving away from the actual, incurred credit loss model to an expected loss approach. The upcoming changes are anticipated to have material implications as regards increasing banks' provisioning requirements, as well as decreasing their common equity tier one (CET 1) ratios.

IFRS 9 Financial Instruments, the international financial reporting standard, substantially modifies existing procedures for expected loss provisions related to assets' credit risk. The new accounting standard changes the current provisioning model, based on the recognition of actual, materialised losses (generally loans past due by 90 days), to one based on expected losses at the time loans are granted. The new approach requires banks to create or adapt their models and methodologies for estimating expected credit losses on their various portfolios. Moreover, estimations will need to factor in the requirement that expected loss provisions be conditional upon the foreseeable outlook for the economy and consider the residual lives of the various transactions. While the Basel Committee on Banking Supervision is currently assessing various arrangements to smooth IFRS 9 implementation, the initial impact study carried out by the EBA points to significant increases in provisioning requirements and decreases in CET1 ratios at financial institutions.

The chief role played by the banks in the economy is to channel savings from households and companies which hold surplus funds (savings surplus units) to households and companies which need funds for spending or investment purposes (savings deficit units). This intermediation role is crucial as the interests of the various surplus and deficit units do not necessarily coincide in terms of the maturities and rates at which funds are offered and solicited. It is up to the financial institutions to overcome this mismatch and to channel funds efficiently by accepting deposits (generally short-term and usually at fixed rates) and making loans to finance consumption or investment (usually medium– and long-term loans at rates which typically involve a higher degree of variability). As a result of this intermediation, a series of financial risks inevitably arise.

Due to differing interest rates and terms of maturity between funds received and those loaned, the banks assume two kinds of risks

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

known as 'structural balance sheet risks': interest-rate risk and liquidity risk. Although these risks are

When channelling savings from households and companies with surplus funds to those in need of resources, banks assume a range of risks, specifically including credit risk or the risk of non-performance.

significant and require due management, the biggest source of risk generated by this business is another: that related to the credit risk, namely the risk of non-payment or non-performance.

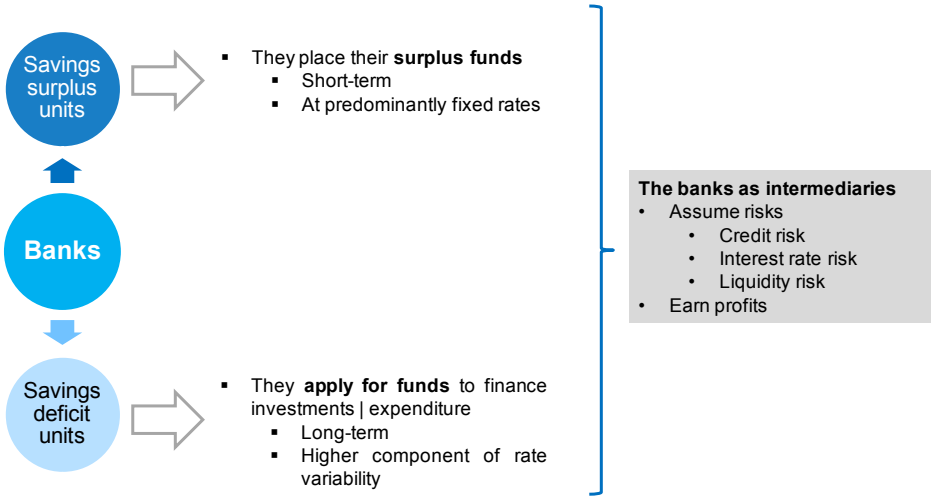
To safeguard the solvency of banks, which play a vitally-important role in the economy, there are a series of requirements related to capital and provision buffers which they must hold as a function of the risks they assume. To this end, a distinction is generally made between expected and unexpected losses. The Basel capital requirements have arisen in response to the latter concept. The purpose of the capital banks are required to hold is to cover their unexpected losses; the amount of this capital must be sufficiently high so that the entity will be able to tackle loss scenarios for which the probability of occurrence is very low but which, if they were to occur, would have a significant impact.

Accordingly, the logic behind the capital requirements is to cover unforeseen losses by means of capital buffers; foreseen losses, materialisation of which is considered highly probable, should be contemplated in profit and loss.

This highly reasonable logic is not, however, aligned with existing regulatory requirements. The capital requirements applicable to financial institutions are enshrined in the well-known Basel regulatory framework which has indeed been calibrated in an attempt to cover (with varying degrees of success) unexpected losses. Less well-known are the regulations which apply to impairment provisioning requirements. In Spain, the current provisioning regime is that stipulated in Appendix IX of Bank of Spain Circular 4/2004

Exhibit 1

The role played by the banks in the economy



Source: AFI.

(as recently amended by Circular 4/2016). These rules establish the criteria for classifying an asset as 'doubtful' (on account of borrower arrears or for other reasons) and the amounts to be set aside depending on the associated risk levels.

The amendments recently made to Appendix IX, which took effect on October 1st, sought to align the Bank of Spain's requirements with the international accounting standard currently in force, namely IAS 39. This international accounting standard primarily follows an incurred loss model. This means that the banks have to recognise losses on loans extended essentially when they are realised, *i.e.,* when the counterparty has already stopped complying with his obligations such that the loan is in default (understood as a loan in arrears by 90 days) or showing signs of significant impairment, *i.e.* an indication that the counterparty will not be able to repay 100% of his debt ('doubtful for reasons other than borrower arrears').

This logic will change from January 1st, 2018, when International Financial Reporting Standard (IFRS) 9 enters into force. The focus of IFRS 9 is to shift the model underpinning IAS 39 towards one in which entities have to provision for expected credit losses at the time of granting and then assess impairment with respect to expectations at the time of initial recognition.

Overview of IFRS 9

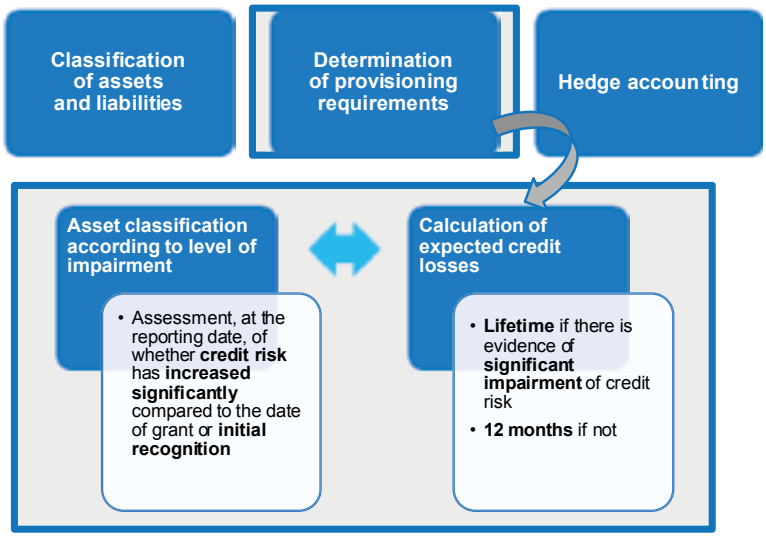
Development of IFRS 9 rounded out the International Accounting Standards Board's response to the financial crisis of recent years.

Upon entry into force of IFRS 9 from January 1st, 2018, the logic underpinning credit impairments will shift from an incurred loss model to an expected loss approach.

As already noted, it is scheduled to enter into effect on January 1st 2018, as stipulated in Commission Regulation (EU) No. 2016/2067, published in

Exhibit 2

Contents of IFRS 9



Source: AFI.

the *Official Journal of the European Union* on November 22nd, 2016. This new accounting standard does not apply exclusively to financial institutions but to all manner of companies. Only insurance companies, as stated in the Regulation, are allowed to defer its implementation.

Chapter 1 of IFRS 9 stipulates that its objective "is to establish principles for the financial reporting of financial assets and financial liabilities." Therefore, the standard is broader in scope than determination of provisioning requirements, although this is the area of the new standard expected to have the greatest impact on banks when they apply it for the first time next year. In addition to prescribing how to determine provisioning requirements, the standard also amends the former financial asset and liability classification and hedge accounting regimes.

Although the standard is broader in scope, it is worth noting that this article addresses the treatment of credit impairment for accounting purposes, as the other two areas of change, while implying modifications with respect to the current treatments, are not expected to have as significant an impact as the new provisioning model.

In order to delve further into the new accounting standard, the treatment of impairment provisions is broken down into two key aspects: the classification of assets by level of impairment and the calculation of expected loss.

Asset segmentation under IFRS 9

On the first matter, IFRS 9 prescribes classifying assets as a function of an assessment, at the reporting date, of a given transaction's credit risk in comparison with the risk of a default occurring at initial recognition.

This approach is underpinned by transaction pricing theory. When a loan is granted, by setting the rate of interest to be charged on the transaction, the banks have to analyse the various "factors of production" used in order to extend it: the funding cost (internal and external), the general expenses

IFRS 9 segments assets into three stages depending on whether they are performing, have experienced a significant increase in credit risk or are already impaired or non-performing.

they must incur to originate and maintain the position and the expected cost of credit risk, *i.e.,* expected loss. As a result, transactions with different probabilities of default should be associated with different interest rates so that the higher the risk, the higher the rate of interest or spread charged.

When testing an asset for impairment, if it presents the same level of credit risk as it did when it was initially measured, albeit factoring in the transaction's normal development over time, the interest rate established should continue to cover the corresponding expected credit losses. Therefore, just as entities will recognise the interest income received in profit and loss, the new standard stipulates the need to cover the associated expected losses from when the transaction is initially recognised.

If, in contrast, the transaction has sustained a significant increase in credit risk with respect to the granting or initial recognition date, the interest rate applied is no longer deemed sufficient to cover the potential risk and higher provisioning requirements are deemed necessary.

Following this pattern of deterioration in the observed credit risk of financial instruments, the standard categorises transactions into three groups: Stage 1, Stage 2 and Stage 3.

Stage 1 assets are those whose credit risk has not increased since initial recognition such that

Table 1
Segmentation - IFRS 9 Stages

	STAGE 1	STAGE 2	STAGE 3
Description	Credit risk does not increase with respect to that initially recognised	Credit risk increases significantly; credit quality ceases to be "investment grade"	The deterioration in credit quality has led to the materialisation of credit losses
Rebuttable presumption	Recovery of the loss is implicit in the initial effective interest rate	Payment past due by 30 days	Payment past due by 90 days
Loss recognition	• **12-month expected credit losses** (total ECLs times the probability of occurrence within that timeframe)	• **Lifetime expected credit losses** (over the entire remaining life of the instrument) in respect of non-payment or late payment • Usually assessed collectively for like types of contracts	• **All expected credit losses** • Usually assessed individually contract by contract
Opening balance	Amortised cost using the initial effective interest rate adjusted in a separate account for 12-month ECLs	Amortised cost using the initial effective interest rate adjusted in a separate account for lifetime ECLs	New balance: Amortised cost using the initial effective interest rate less lifetime ECLs
Interest income	Effective interest rate on gross opening amortised cost, not adjusted for credit losses	Effective interest rate on gross opening amortised cost, not adjusted for credit losses	Effective interest rate on net opening amortised cost, *i.e.* gross amortised cost after deducting the impairment allowance
CORRESPONDENCE TO BANK OF SPAIN CIRCULAR 4/2006 (Approximation)	STANDARD EXPOSURES **(performing)**	• STANDARD EXPOSURES UNDER SPECIAL MONITORING • DOUBTFUL EXPOSURES FOR REASONS OTHER THAN BORROWER ARREARS **(underperforming)**	DOUBTFUL EXPOSURES ON ACCOUNT OF BORROWER ARREARS **(non-performing)**

Source: AFI.

the interest rate established for the transaction in question embodies a reasonable estimate of the associated expected loss. The equivalent to this segment in current Bank of Spain nomenclature (as per the official translation) is that of a performing or 'standard' exposure.

Stage 2 assets are those for which credit risk has increased significantly since initial recognition, albeit without a credit event occurring. To assess whether such an increase has taken place, IFRS 9 provides operational simplifications such as a 30 days past due rebuttable presumption. Although not directly equivalent, this 'bucket' is roughly similar to exposures currently deemed 'standard under special monitoring' and 'doubtful for reasons other than borrower arrears'. In sum, assets whose recovery is subject to question but which cannot yet be classified as non-performing or doubtful.

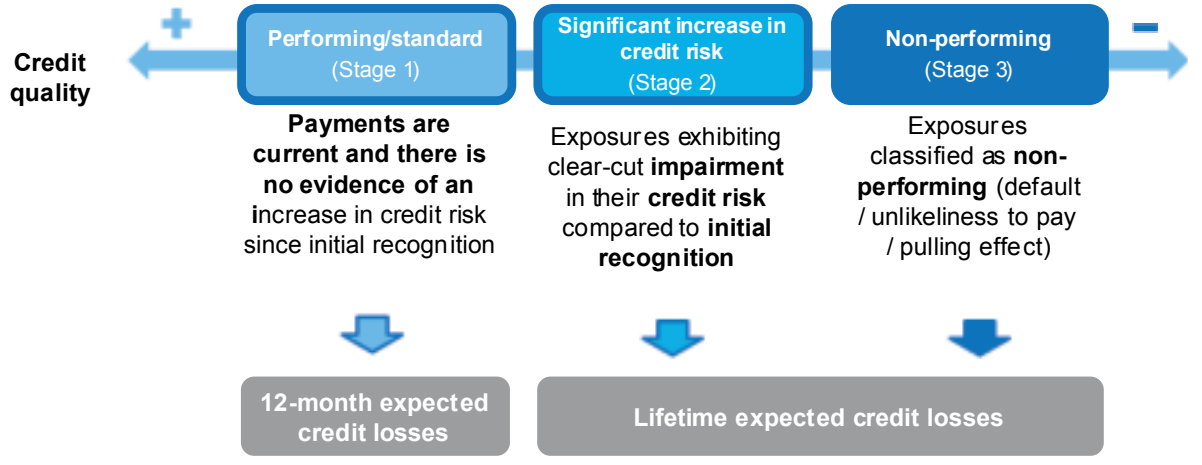
Lastly, Stage 3 includes transactions for which losses have already been incurred. Accordingly, this bucket can be considered similar to assets currently classified as 'doubtful on account of borrower arrears'.

Determining impairment provisions (expected loss) under IFRS 9

As already noted, IFRS 9 changes the provisioning treatment paradigm, moving away from an incurred loss model to an expected loss approach. This means that the banks will stop recognising the bulk of their credit risk losses at default (past

Exhibit 3

Segments and applicable provisions



Source: AFI.

due by 90 days) and start to recognise a buffer to cover potential losses upon initial recognition. This makes sense insofar as the risk really exists from when the transaction is arranged and not from when non-performance begins.

Given that an asset's expected loss is subject to change if macroeconomic conditions vary, IFRS 9 requires the use of economic forecasts for the modelling time horizon so long as the associated cost or effort is not disproportionate.

Under IFRS 9, provisions are allocated as a function of asset stages. For Stage 1 assets, reporters are required to analyse and provision for expected credit losses in 12 months' time, while for Stage 2 and 3 assets, the provision calculation must reflect the credit losses expected to be incurred over their entire lifetime.

The general criterion is that for Stage 1 transactions, impairment provisions should cover 12-month expected credit losses (ECLs), while for asset classified as Stage 2 or Stage 3 exposures, the provisions should cover lifetime expected credit losses.

Potential impact of IFRS 9 application

Given that this is such a fundamental change in how the various assets and liabilities are accounted for, the European Banking Authority (EBA) has analysed the potential impacts of its application.[2] The EBA has determined that the aspects of IFRS related to the classification and measurement of assets and liabilities did not particularly concern the banks, as application of the new criteria is not expected to have a major impact on their financial statements. In contrast, implementation of provisioning calculations based on an expected loss model, particularly the use of lifetime ECLs for Stage 2 assets, is expected to translate into a significant increase in total impairment provisions. Specifically, overall

[2] https://www.eba.europa.eu/-/eba-provides-its-views-on-the-implementation-of-ifrs-9-and-its-impact-on-banks-across-the-eu

provision volumes are expected to increase by 18% on average (and by up to 30% for 86% of the respondents), while common equity tier 1 (CET1) ratios are expected to decrease by 59 basis points on average (and by up to 75bp for 79% of the respondents). Another relevant aspect detected by the EBA is the significant expected increase in income statement volatility.

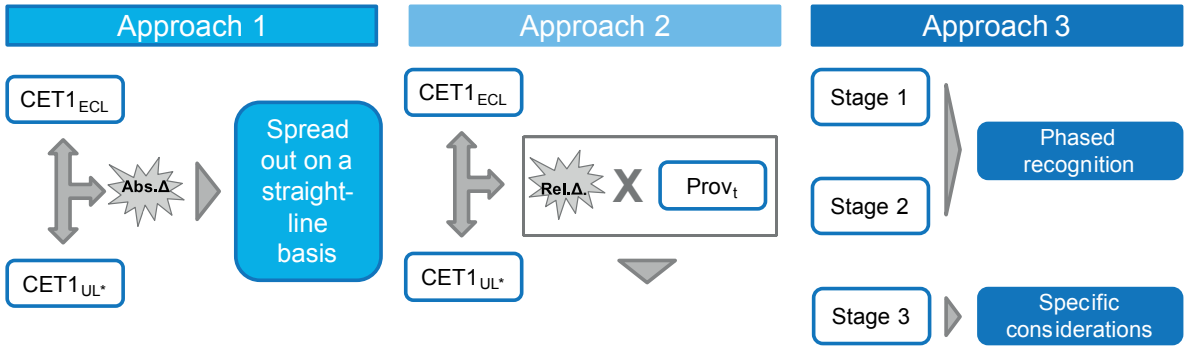
Qualitatively, the aspect of greatest concern gleaned from the EBA's study was the fact that a large number of entities were at an early stage of preparation for the new standard. More specifically, the smaller banks were lagging further behind, despite the likelihood that these entities need to make the greatest efforts to adapt to the extent they do not already have internal ratings-based (IRB) models to leverage for the purpose of developing expected loss models to calculate their provisioning requirements.

Meanwhile, on October 11th, 2016, the Basel Committee on Banking Supervision (BCBS)[3] released a consultative document to assess, from a policy standpoint, the potential interim approach and transitional arrangements in respect of the regulatory treatment of accounting provisions. In the event that the new ECL provisioning requirements have a high impact on the banks (to be determined on the basis of studies currently underway), this document paves the way for a transitional arrangement for the new accounting rules on regulatory capital. To this end, three possible approaches to how a transitional arrangement might be structured (over a three- to five-year period) are under consideration:

- Approach 1 - Day 1 impact on CET1: The first approach consists of evaluating the impact of the new accounting regulations on an entity's CET1 in absolute terms and spreading that impact for regulatory purposes over the number of years specified by the Committee.
- Approach 2 - Impact in relative terms: The second approach consists of evaluating the capital adjustment linked to the proportionate increase in provisions and spreading that impact using this percentage of provisions figure.
- Approach 3 - Phased recognition of Stage 1 and 2 provisions: The third approach would

Exhibit 4

BCBS approaches towards the impact on regulatory capital



*Note: * UL= Unexpected Loss.*

Source: Regulatory treatment of accounting provisions – discussion document, Basel Committee on Banking Supervision (BCBS), October 11th, 2016.

[3] https://www.bis.org/bcbs/publ/d385.htm

directly phase in recognition of the provisioning requirements in respect of Stage 1 and Stage 2 assets for regulatory purposes over the transition period.

Challenges ahead for IFRS 9 implementation

The work to be performed to adapt provision calculations for the new international accounting standard should not be underestimated. In particular, one of the most novel aspects, and the one which implies the greatest burden of work, lies with the requirement to use internal models and estimates to calculate provisioning requirements. Although framed by the criterion of proportionality, this burden may be even greater at institutions

The work required to adapt to IFRS 9 is substantial for entities already using IRB models to calculate their capital requirements and for the rest of the financial reporting community alike.

which do not have advanced (IRB) models for calculating their capital requirements. Although the entities already using IRB models already have some of the parameter-defining work done, the criteria for estimating certain elements of credit risk (probability of default (PD), exposure at default (EAD) and loss given default (LGD)) are not the same, as the parameters used for capital calculations are subject to a series of restrictions and are average parameters through the cycle (or at the downturn in the event of LGD). To calculate provisions, the parameters must be adapted for each point-in-time and configured to make forward-looking estimates, factoring in macroeconomic forecast variables (and their probability of occurrence) for the years ahead. Moreover, it is necessary to assess the period for which these parameters need to be estimated such that they are compatible with the lifetime concept, which could have significant implications.

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)

Bank of Spain Circular establishing the accounting regime that banking foundations must apply and amending the Accounting Circular and the Circular on the Central Credit Register (Circular 7/2016, published in the Official State Gazette (BOE) of December 3rd)

The objective of the Circular is to regulate the regime of the individual and consolidated financial statements of the banking foundations governed by Law 26/2013, and of the confidential financial statements that they must submit to the Bank of Spain.

■ General regime of banking foundations' financial statements

- **Individual financial statements:** banking foundations will apply Royal Decree 1491/2011[1], with the specific items provided for in this Circular. On a supplementary basis, they will apply the National Chart of Accounts (Royal Decree 1514/2007) and its industry adaptations, as well as the resolutions of the Spanish Accounting and Audit Institute (ICAC).

  The structure of the individual financial statements must be adapted to the standard model regulated by Royal Decree 1491/2011. In the preparation of their individual financial statements they must not use the abridged and simplified models regulated by said Royal Decree.

- **Consolidated financial statements:** banking foundations that have holdings in companies, including credit institutions, in which they hold a position of control in the terms provided for in Article 42 of the Commercial Code, must prepare these financial statements.

  There will be no standardization of valuation methods prior to incorporation in the foundation's financial statements for the purposes of preparation of the consolidated financial statements of banking foundations. However, in the event that, at year-end, one of the group companies had issued securities listed on a regulated market of any European Union Member State, International Financial Reporting Standards will be applied.

  In any event, the structure of the consolidated financial statements of banking foundations must be adapted to the Accounting Circular.

[1] Royal Decree 1491/2011, of October 24th, approving the rules for adapting the Spanish National Chart of Accounts for non-profit entities and the action plan model for non-profit entities.

■ **Reserve fund**

Banking foundations that have to set up a reserve fund must identify in their **internal accounting**:

- ✓ the detail of the own funds items composing the reserve fund; and
- ✓ the detail of the items composing the assets in which said fund is materialised.

The above-mentioned assets will be recognised for accounting purposes in the corresponding balance sheet items.

■ **Notes to the financial statements**

Banking foundations which are subject to Law 26/2013 must include the following in the notes to their consolidated and individual financial statements:

- ✓ As regards the **management protocol**, they must disclose whether it has been approved by the Bank of Spain and, if so, the date of approval. Also, they must include an explicit reference to the section of the foundations' website on which it is published.

  Additionally, the notes to the financial statements must indicate the essential elements of the content of the management protocol.

- ✓ As regards the **financial plan**, they must disclose whether it has been approved by the Bank of Spain and, if so, the date of approval. Also, they must indicate whether they are obliged to present a reinforced financial plan.

In the case of **foundations acting together**, the information on the management protocol and the financial plan prepared jointly must be included in the notes to the financial statements of each foundation.

■ **Submission to the Bank of Spain:**

- The banking foundations obliged to present a reinforced financial plan must submit the following **confidential individual financial statements** on an annual basis: confidential individual balance sheet, confidential individual income statement, breakdown by counterparty of investments in financial assets and breakdown by the National Classification of Economic Activities (CNAE according to its Spanish acronym) codes of investments in financial assets.

  The other banking foundations must only submit to the Bank of Spain the confidential individual balance sheet and the confidential individual income statement.

  Such statements must be presented by means of electronic transmission no later than March 31st of each year and they must relate to December 31st of the previous year.

- As regards **public financial statements**, all the banking foundations will submit to the Bank of Spain individual financial statements and, as the case may be, consolidated financial statements, with their corresponding audit reports, within the ten working days following their approval by the board of trustees.

■ **Amendment of the Accounting Circular**

The new developments planned for Circular 4/2004 are based on the latest changes in the definitions and formats for the preparation of supervisory financial information reporting in the European Union (known as "FINREP") and for simplifying credit institutions' reporting requirements.

Amendments are made in **Annex IX** on the treatment of reclassifications to bring them more into line with the implementing technical standards planned by the EBA. The most noteworthy changes are as follows:

- In order to exit the **standard risk under special monitoring category** in the case of restructuring or refinancing transactions, an alternative criterion is added to the payment of all the amounts past due or that would have been derecognized, which assumes that the holder's payment capacity has been demonstrated by means of other objective criteria.

- During the **test period** of refinancing, refinanced or restructured transactions, reclassification to the category of doubtful exposures for reasons other than customer arrears in the event of further refinancing or if there are amounts past due by more than 30 days will only take place in the case of the transactions which had been classified in the doubtful exposures category prior to the start of the test period.

- As regards **reclassification from doubtful exposures (for reasons other than customer arrears) to the category of standard risk under special monitoring**, a specific alternative criterion is added to allow such reclassification in the event that other objective criteria have been verified demonstrating the holder's payment capacity.

■ Amendment of the Circular on the Central Credit Register

Circular 1/2013 is amended to update the rules applicable to the situation of holders of risk, to improve information on the situation of restructured and refinanced transactions, and to define the concepts of guarantors and insurers and surety companies, as well as the treatment of collection rights on regulated tariffs.

■ Entry into force

The Circular entered into force the day after its publication in the Official State Gazette (BOE) with the following exceptions:

✓ the new format of the "Information on loans arranged, acquired or classified in the month (business in Spain)" statement of the Accounting Circular that will enter into force on December 31st, 2016. The first statement may be submitted until the same date on which the statement corresponding to March 31st, 2017, is submitted; and

✓ the amendments to Annexes 2 and 3 of the Circular on the Central Credit Register (CIRBE), that will enter into force on January 1st, 2017.

Royal Decree-Law on urgent measures on financial matters (Royal Decree-Law 4/2016, published in the Official State Gazette (BOE) of December 3rd)

The Royal Decree-Law regulates certain matters relating to the Single Resolution Fund, to the specific accounting regime of the Asset Management Company for Assets Arising from Bank Restructuring (SAREB) and to the divestment period of the Fund for the Orderly Restructuring of the Banking Sector (FROB) of the institutions in which it participates.

The Royal Decree-Law grants the Ministry of Economy, Industry and Competitiveness the **authorisation to sign the loan facility agreement**[2] with the Single Resolution Board and grants the General Secretariat of the Treasury and Financial Policy the authorisation to perform the transactions deriving from this agreement.

The Royal Decree-Law also **amends Law 9/2012**, of November 14th, on credit institution restructuring and resolution, specifying the recognition regime of the valuation adjustments of assets, net of their tax effect, with a charge to an equity item.

[2] On December 8th, 2015, ECOFIN agreed that the Member States participating in the Banking Union should make a loan facility available to the Single Resolution Board to ensure sufficient funding of the Single Resolution Fund.

Lastly, it **amends Law 11/2015**, of June 18th, on the recovery and resolution of credit institutions and investment firms, to extend the period of divestment by the FROB of the ordinary shares or capital contributions acquired in the framework of restructuring and resolution processes from five to seven years. This period may subsequently be extended by agreement of the Spanish Cabinet when the Ministry of Economy, Industry and Competitiveness deems it necessary to best achieve resolution objectives.

Spanish economic forecasts panel: January 2017[1]

Funcas Economic Trends and Statistics Department

2016 GDP growth estimated at 3.2%

The consensus GDP growth forecast for the fourth quarter of 2016 is 0.6% (Table 2), leading to estimated annual GDP growth for the year as a whole of 3.2%, unchanged from the previous Forecasts Panel.

However, the expected composition of growth is distinct, with domestic demand projections cut by 0.2 percentage points to 2.9%. At the same time, expected growth in exports and imports has been revised down, though to a larger extent for the latter. Overall, domestic demand is now expected to make a smaller contribution to growth (2.8 percentage points) with a larger contribution coming from net external demand (0.4 percentage points) in comparison to the previous Panel.

2017 forecast remains unchanged

The consensus forecast for GDP growth in 2017 is unchanged at 2.4%. Similarly, there are no changes to the expected growth composition in 2017: domestic demand is forecast to contribute 2.2 percentage points, with external demand providing a further 0.2 percentage point contribution. Quarterly growth rates are projected to remain stable throughout the year at around 0.5% to 0.6%.

Sharp rebound in inflation

The inflation rate jumped from 0.7% in the previous month to 1.6% in December 2016, as a result of the rise in energy prices. These in turn reflect the pronounced increase in oil prices following the agreement by OPEC countries to cut production. Average annual inflation was -0.2%, meanwhile average annual core inflation was 0.8%.

As a result of the spike in oil prices, the consensus forecast for average annual inflation in 2017 has increased by 0.5 percentage points to 1.9%, while the forecast for core inflation is unchanged at 1%. Inflation is expected to stand at 1.4% in year-on-year terms in December 2017 (Table 3).

Positive employment developments

Social security registrations in the fourth quarter of 2016 point to continued strong growth in employment in the last quarter of 2016. The consensus forecast for employment, in terms of full time equivalent employees, is for a 2.9% increase for the year as a whole. Meanwhile employment is expected to rise by 2.2% in 2017. The represents a 0.1 percentage point upward revision on the previous Panel in both years.

Based on consensus estimates for GDP, employment and salary remuneration, we are

[1] The Spanish economic forecasts panel is a survey of 17 analysis services carried out by Funcas and presented in Table 1. The survey has been undertaken since 1999 and is published every two months during the first fortnight of January, March, May, July, September and November. Panellists' responses to this survey are used to create consensus forecasts, which are based on the arithmetic mean of the 17 individual forecasts. For comparison purposes the Government, Bank of Spain and main international institutions' forecasts are also presented; however, these do not form part of the consensus.

able to obtain an implicit forecast for productivity-per-worker and unit labour costs: the former is expected to increase by 0.4% in 2016 and 0.2% in 2017, meanwhile ULCs are predicted to grow by 0.1% and 0.9% in 2016 and 2017, respectively.

The current account surplus will expand in 2016

The current account registered a surplus of 15.6 billion euros from January to October, compared to 9.6 billion euros recorded for the same period last year. The increase in the surplus is a result of a decline in the deficit on the trade balance and an increase in the services' surplus, both tourism and non-tourism services.

A surplus of 1.8% of GDP is forecast for 2016, representing an expansion from 1.4% registered the previous year. The consensus forecast is for a current account surplus of 1.4% of GDP in 2017, 0.2 percentage points below the previous Panel projection.

The pubic deficit will not comply with the target this year

The consolidated Public Sector accounts, excluding local corporations, registered a deficit of 29.9 billion euros to October this year – excluding support to financial institutions – or 2.68% of GDP. This is 5.4 billion euros less than the same period last year. The Autonomous Regions have significantly improved their outturn, primarily due to the increase in revenues resulting from a favourable ex-post liquidation of the system relating to the 2014 financial year. However, the Social Security deficit has deteriorated, primarily due to reduced transfers from the State, meanwhile the State deficit has remained practically unchanged from the previous year.

The consensus forecast for the overall public sector deficit has reduced slightly to 4.5% of GDP, as is also the case for 2017, which is now forecast at 3.5% of GDP. The deficit is therefore expected not to comply with the 2017 target.

Unchanged outlook for the global economy

The most important international event since the last Panel was the election result in the United States. The North American economy continues to post reasonable rates of GDP and employment growth, meanwhile European growth strengthened in the fourth quarter, albeit remaining within a tepid overall growth trajectory. Among emerging economies, China is growing at a stable rhythm and Brazil and Russia are showing signs of improvement. By contrast, the situation in Turkey and Mexico has worsened due to depreciation of their currencies.

The overall opinion of panellists in regard to the external environment, both the EU and the rest of the world, continues to be neutral with few changes compared to the previous Panel. The external picture is expected to remain neutral over the next six months.

Long-term interest rates have reached bottom

Short-term interest rates (3-month Euribor) remain on a downward trend, reaching -0.32% in recent weeks. As was the case in the previous Panel, rates are considered to be low in relation to the current context of the Spanish economy and are expected to remain stable over the coming months.

Yields on long-term debt (10-year sovereign debt) increased in the wake of the US election results (as was the case for other European sovereign debt). Although yields subsequently eased in the last weeks of December, they have begun to tick upwards again since the start of the year. The panellists continue to consider yields to be low in relation to the state of play in the Spanish economy, but they have changed their opinion regarding the expected outlook for the coming months: the majority of panellists now foresee an upward movement in yields.

Euro stabilises

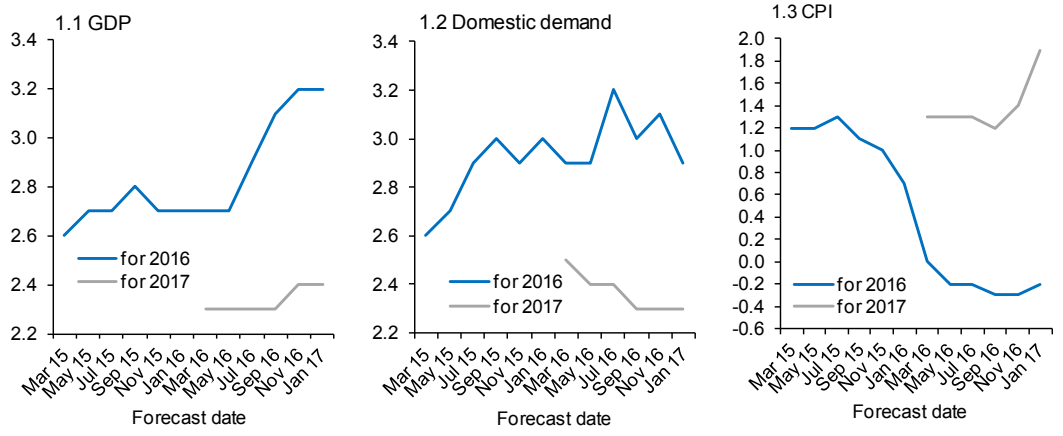
The euro-dollar exchange rate has remained stable in recent weeks at around 1.04, after declining following the US election results and the Federal Reserve's decision to raise interest rates. The panellists are divided between those that see the current level as being an equilibrium and those that believe the euro is depreciated against the dollar. The majority of opinion points to the exchange rate remaining stable over the coming months.

Fiscal policy is expansionary

Fiscal policy is seen to be expansionary by the panellists. The majority of panellists believe that a neutral fiscal stance would be more appropriate. The panellists remain unanimous in considering monetary policy to be expansionary, and while the majority continue to consider this appropriate, there has been an increase in the number who think the stance should be neutral.

Exhibit 1

Change in forecasts (Consensus values)
Percentage annual change



Source: Funcas Panel of forecasts.

Table 1

Economic Forecasts for Spain – January 2017

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	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Analistas Financieros Internacionales (AFI)	3.3	2.5	3.1	2.4	1.7	1.3	4.4	3.4	6.9	5.4	2.7	3.2	3.1	2.4
Axesor	3.2	2.5	3.0	2.2	1.2	0.3	3.6	2.5	5.9	4.5	2.3	1.8	2.8	1.9
Banco Bilbao Vizcaya Argentaria (BBVA)	3.3	2.5	3.3	2.3	1.2	1.8	4.1	3.4	6.3	3.8	2.6	2.7	3.0	2.3
Bankia	3.2	2.5	3.1	2.6	1.4	1.1	4.0	4.0	6.7	6.2	2.4	2.9	3.0	2.6
CaixaBank	3.3	2.6	3.1	2.5	1.3	1.0	3.6	2.9	5.7	2.8	2.3	3.1	2.9	2.3
Cemex	3.2	2.5	3.1	2.6	1.4	0.9	3.6	4.2	5.8	4.8	2.1	3.9	2.9	2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.3	2.3	3.3	2.3	1.9	1.2	4.0	3.6	5.2	4.1	3.2	3.1	3.0	2.2
Centro de Predicción Económica (CEPREDE-UAM)	3.1	2.1	3.1	2.0	1.2	1.4	3.9	3.5	6.1	3.5	2.5	3.1	2.9	2.1
CEOE	3.2	2.3	3.1	2.4	1.3	0.9	3.7	2.6	6.2	4.2	2.2	1.3	2.8	2.1
Funcas	3.3	2.4	3.0	1.9	1.2	1.1	4.0	4.5	5.9	4.7	2.9	4.5	2.9	2.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.3	2.5	3.1	2.8	1.4	1.8	4.0	3.5	6.2	5.4	2.5	2.9	3.0	2.6
Instituto de Estudios Económicos (IEE)	3.2	2.3	3.1	2.6	1.4	1.5	3.6	3.0	6.0	4.0	2.3	2.5	2.7	2.7
Instituto Flores de Lemus (IFL-UC3M)	3.2	2.5	3.1	2.4	1.3	1.0	3.6	3.6	5.7	6.6	2.2	2.0	2.8	2.4
Intermoney	3.2	2.3	3.1	2.4	1.4	1.3	3.6	3.1	5.5	4.4	2.2	1.9	2.9	2.3
Repsol	3.3	2.8	3.1	2.5	1.3	1.5	3.7	4.3	6.0	5.9	2.3	3.6	2.9	2.7
Santander	3.3	2.5	3.0	2.4	1.5	1.4	3.5	2.6	5.7	2.9	2.2	2.5	2.9	2.3
Solchaga Recio & asociados	3.2	2.4	3.1	2.3	1.3	0.9	3.8	3.6	6.1	5.2	2.5	3.4	2.9	2.2
CONSENSUS (AVERAGE)	3.2	2.4	3.1	2.4	1.4	1.2	3.8	3.4	6.0	4.6	2.4	2.8	2.9	2.3
Maximum	3.3	2.8	3.3	2.8	1.9	1.8	4.4	4.5	6.9	6.6	3.2	4.5	3.1	2.7
Minimum	3.1	2.1	3.0	1.9	1.2	0.3	3.5	2.5	5.2	2.8	2.1	1.3	2.7	1.9
Change on 2 months earlier[1]	0.0	0.0	-0.3	0.0	0.4	0.4	-0.4	-0.5	-1.1	-0.6	-0.2	-0.6	-0.2	0.0
- Rise[2]	9	8	0	5	12	9	1	1	0	1	2	3	1	5
- Drop[2]	0	2	14	6	2	1	14	13	15	12	9	12	14	7
Change on 6 months earlier[1]	0.5	0.1	0.2	0.2	0.0	0.1	-0.9	-0.8	-0.5	-0.4	-1.3	-1.1	0.0	-0.1
Memorandum ítems:														
Government (December 2016)	3.2	2.5	3.4	2.7	1.0	0.9	4.6	3.4	7.5	5.0	2.8	2.6	--	--
Bank of Spain (December 2016)	3.2	2.5	3.1	2.1	1.4	0.8	3.6	3.8	5.7 [3]	5.1 [3]	2.3	3.5	--	--
EC (November 2016)	3.2	2.3	3.2	2.1	0.9	0.8	4.2	3.6	6.7 [3]	4.5 [3]	2.5	3.1	3.0	2.1
IMF (January 2017)	3.2	2.3	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2016)	3.2	2.3	3.4	2.1	0.9	1.2	4.3	4.7	--	--	--	--	3.1	2.4

[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 – January 2017

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

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core 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]	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Analistas Financieros Internacionales (AFI)	4.4	3.4	4.1	3.2	-0.2	2.2	0.8	0.9	0.6	1.2	3.0	2.3	19.6	17.8	1.8	1.6	-4.6	-3.6
Axesor	4.1	3.4	2.9	1.3	-0.2	2.4	1.0	1.4	0.5	1.3	2.6	2.0	20.1	18.4	1.9	0.5	-4.5	-3.8
Banco Bilbao Vizcaya Argentaria (BBVA)	5.5	3.5	5.1	3.1	-0.3	1.7	0.9	1.1	0.8	1.2	2.8	2.2	19.7	18.1	1.3	1.7	-4.6	-3.6
Bankia	4.5	4.7	4.0	5.3	-0.2	2.1	0.8	1.0	0.0	1.0	3.0	2.3	19.6	17.8	2.0	1.5	--	--
CaixaBank	4.2	3.7	3.1	3.0	-0.2	2.1	0.8	1.1	0.2	0.8	2.9	2.3	19.7	18.0	2.2	1.8	-4.6	-3.4
Cemex	4.6	4.5	3.9	5.0	-0.2	2.0	0.8	1.1	--	--	3.0	2.5	19.5	17.8	2.0	1.5	-4.6	-3.6
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.6	4.0	4.0	4.1	-0.2	1.6	0.8	1.2	--	--	2.7	2.1	19.7	18.0	1.7	1.3	-4.6	-3.4
Centro de Predicción Económica (CEPREDE-UAM)	6.1	4.8	5.7	5.2	-0.3	1.8	--	--	0.6	1.4	2.6	1.4	19.8	19.1	1.5	0.3	-3.9	-3.3
CEOE	4.5	3.9	3.5	3.4	-0.2	1.8	0.8	0.8	0.2	0.8	2.9	2.2	19.6	17.8	2.0	1.8	-4.6	-3.6
Funcas	4.0	3.1	3.1	3.2	-0.2	2.2	0.8	1.0	0.2	1.4	2.9	2.0	19.7	18.1	1.8	1.1	-4.6	-3.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	4.4	3.4	3.0	3.7	-0.3	1.6	0.9	1.0	--	--	2.7	2.5	19.8	18.3	1.7	1.5	-4.5	-3.5
Instituto de Estudios Económicos (IEE)	4.1	4.5	3.3	5.7	-0.2	1.5	0.8	1.0	0.8	1.1	2.9	1.8	19.7	18.0	1.9	1.8	-4.6	-3.3
Instituto Flores de Lemus (IFL-UC3M)	4.3	3.8	3.3	3.7	-0.2	1.4	0.8	0.6	--	--	3.0	2.6	19.7	17.9	--	--	--	--
Intermoney	4.2	3.2	3.3	3.4	-0.2	1.4	0.8	1.0	--	--	3.0	2.1	19.7	18.0	1.8	1.8	-4.6	-3.4
Repsol	4.3	4.1	3.3	4.2	-0.2	1.8	0.8	1.2	0.2	0.8	3.0	2.7	19.8	18.0	1.8	1.7	-4.6	-3.1
Santander	4.4	3.9	3.3	3.5	-0.2	2.4	--	--	0.5	1.5	2.8	2.1	19.7	17.8	1.8	1.6	-4.6	-3.1
Solchaga Recio & asociados	4.2	3.9	3.1	3.7	-0.2	1.7	0.8	1.2	--	--	2.8	2.2	19.9	18.1	1.8	1.6	-4.4	-3.7
CONSENSUS (AVERAGE)	4.5	3.9	3.6	3.8	-0.2	1.9	0.8	1.0	0.4	1.1	2.9	2.2	19.7	18.1	1.8	1.4	-4.5	-3.5
Maximum	6.1	4.8	5.7	5.7	-0.2	2.4	1.0	1.4	0.8	1.5	3.0	2.7	20.1	19.1	2.2	1.8	-3.9	-3.1
Minimum	4.0	3.1	2.9	1.3	-0.3	1.4	0.8	0.6	0.0	0.8	2.6	1.4	19.5	17.8	1.3	0.3	-4.6	-3.8
Change on 2 months earlier[1]	-1.1	-0.7	-2.1	-1.1	0.1	0.5	0.0	0.0	-0.2	0.0	0.1	0.1	0.0	-0.1	0.0	-0.2	0.1	0.1
- Rise[2]	0	2	0	1	12	15	1	8	1	3	8	8	1	0	4	2	3	7
- Drop[2]	15	11	15	13	0	0	1	0	5	3	2	2	3	8	3	6	0	0
Change on 6 months earlier[1]	-0.3	-0.9	-2.2	-1.8	0.0	0.6	0.8	--	-0.5	0.0	0.4	0.2	-0.4	-0.6	0.2	0.0	-0.5	-0.3
Memorandum items:																		
Government (December 2016)	5.8	5.9	6.0	5.9	--	--	--	--	--	--	2.9	2.4	19.6	17.6	2.0	1.8	-4.6	-3.1
Bank of Spain (December 2016)	4.3	4.2	3.2	3.7	-0.3	1.6	0.8	1.0	--	--	3.0	2.3	19.6	17.7	2.3 [6]	2.1 [6]	-4.4	-3.6
EC (November 2016)	6.1	4.5	5.8	4.3	-0.4	1.6	--	--	1.2	1.2	2.8	2.1	19.7	18.0	1.7	1.5	-4.6	-3.8
IMF (January 2017)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2016)	5.8	4.5	5.9	5.0	-0.3	1.5	0.8	1.2	0.9	1.6	2.8	2.4	19.6	17.7	2.1	1.7	-4.6	-3.6

[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 - January 2017[1]

Quarter-on-quarter change (percentage)

	16-I Q	16-II Q	16-III Q	16-IV Q	17-I Q	17-II Q	17-III Q	17-IV Q
GDP[2]	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.5
Household consumption[2]	0.8	0.7	0.6	0.7	0.6	0.5	0.5	0.5

[1] Average of forecasts by private institutions listed in Table 1.
[2] According to series corrected for seasonality and labour calendar.

Table 3

CPI Forecasts – January 2017[1]

Monthly change (%)				Year-on-year change (%)	
Jan-17	Feb-17	Mar-17	Apr-17	Dec-16	Dec-17
-0.6	0.4	0.7	1.0	1.6	1.4

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

Table 4

Opinions – January 2017
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	2	13	2	1	11	5
International context: Non-EU	2	15	0	2	10	5
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	16	1	0	4	12	1
Long-term interest rate[3]	15	2	0	10	7	0
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	7	7	0	9	8
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	1	4	12	7	8	2
Monetary policy assessment[1]	0	0	17	0	2	15

[1] In relation to the current state of the Spanish economy.
[2] Three-month Euribor.
[3] Yield on Spanish 10-year public debt.
[4] Relative to theoretical equilibrium rate.

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KEY FACTS:

Table 1

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

Forecasts in blue

		GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)
						Construction							
					Total	Total	Housing	Other construction	Equipment & other products				
Chain-linked volumes, annual percentage changes													
2009		-3.6	-3.6	4.1	-16.9	-16.1	-20.3	-11.4	-18.3	-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		-1.0	-2.4	-0.3	-6.9	-11.7	-13.3	-10.2	0.9	7.4	-0.8	-3.1	2.1
2012		-2.9	-3.5	-4.7	-8.6	-12.3	-10.3	-13.9	-3.5	1.1	-6.4	-5.1	2.2
2013		-1.7	-3.1	-2.1	-3.4	-8.6	-10.2	-7.3	2.8	4.3	-0.5	-3.2	1.5
2014		1.4	1.6	-0.3	3.8	1.2	6.2	-2.6	6.6	4.2	6.5	1.9	-0.5
2015		3.2	2.9	2.0	6.0	4.9	3.1	6.4	7.2	4.9	5.6	3.3	-0.1
2016		3.3	3.0	1.2	4.0	2.8	3.4	2.4	5.2	4.0	3.1	2.9	0.4
2017		2.4	1.9	1.1	4.5	4.5	4.3	4.6	4.5	3.1	3.2	2.3	0.1
2015	I	2.7	2.4	1.0	4.7	4.8	2.0	7.0	4.6	4.6	4.8	2.7	0.1
	II	3.1	2.5	1.9	6.3	4.6	2.7	6.2	8.1	5.0	5.5	3.1	0.0
	III	3.4	3.3	2.3	6.7	5.3	3.6	6.6	8.2	4.9	6.2	3.7	-0.3
	IV	3.6	3.2	2.7	6.4	5.0	4.0	5.8	7.9	5.0	6.1	3.8	-0.2
2016	I	3.4	3.4	2.0	4.8	3.1	4.5	2.0	6.6	4.1	4.8	3.5	-0.1
	II	3.4	3.2	0.8	3.6	2.0	2.7	1.5	5.3	6.4	5.1	2.9	0.5
	III	3.2	2.8	1.4	3.1	2.0	2.6	1.4	4.2	2.8	0.9	2.6	0.6
	IV	3.1	2.7	0.8	4.5	4.3	3.6	4.9	4.7	2.7	1.7	2.7	0.4
2017	I	2.9	2.4	0.6	4.6	4.4	3.9	4.8	4.7	3.3	2.6	2.6	0.3
	II	2.5	2.1	1.6	4.6	4.7	4.1	5.3	4.4	1.4	1.7	2.6	0.0
	III	2.2	1.8	1.0	5.2	5.3	4.9	5.7	5.2	3.7	4.6	2.4	-0.2
	IV	1.8	1.5	1.2	3.6	3.4	4.1	2.8	3.7	4.1	4.1	1.7	0.1
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2015	I	3.9	2.2	4.9	10.0	11.1	1.2	19.6	9.0	5.4	5.4	3.8	0.1
	II	3.1	3.6	2.0	9.5	6.5	10.9	3.2	12.6	3.5	7.2	4.2	-1.0
	III	3.8	4.2	1.7	2.7	1.1	1.2	1.0	4.4	9.1	9.5	3.7	0.1
	IV	3.4	2.9	2.5	3.6	1.6	3.0	0.4	5.7	2.0	2.2	3.4	0.0
2016	I	3.2	3.1	1.8	3.6	3.2	3.2	3.2	3.9	1.8	0.5	2.7	0.5
	II	3.3	2.7	-2.4	4.7	2.2	3.3	1.2	7.2	13.0	8.4	1.7	1.6
	III	2.9	2.5	3.9	0.5	0.9	1.0	0.8	0.1	-5.0	-6.9	2.4	0.5
	IV	3.1	2.4	0.0	9.4	11.2	7.0	14.8	7.7	1.9	5.2	3.6	-0.5
2017	I	2.2	2.0	1.0	3.8	3.6	4.5	3.0	4.0	4.2	4.4	2.1	0.1
	II	2.0	1.5	1.5	4.7	3.5	4.0	3.0	6.0	4.9	4.6	2.0	-0.1
	III	1.5	1.1	1.5	3.1	3.2	4.0	2.5	3.0	3.6	4.1	1.5	0.0
	IV	1.6	1.1	1.0	2.7	3.4	4.0	2.8	2.0	3.6	3.3	1.4	0.2
		Current prices (EUR billions)	**Percentage of GDP at current prices**										
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		1,070.4	57.8	20.5	21.5	12.5	5.7	6.8	9.0	28.9	29.2	100.2	-0.2
2012		1,039.8	58.8	19.7	19.8	10.9	4.9	6.0	8.9	30.7	29.2	98.5	1.5
2013		1,025.6	58.4	19.7	18.8	9.7	4.1	5.6	9.0	32.2	29.0	96.7	2.2
2014		1,037.0	58.7	19.5	19.1	9.7	4.3	5.3	9.5	32.7	30.2	97.6	2.4
2015		1,075.6	58.1	19.4	19.7	9.9	4.4	5.4	9.8	33.2	30.7	97.6	2.4
2016		1,114.8	57.6	19.1	20.1	10.0	4.7	5.4	10.0	32.8	30.0	97.2	2.8
2017		1,151.9	58.0	19.0	20.7	10.4	4.9	5.6	10.2	33.2	31.4	98.2	1.8

**Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

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

Chart 1.1.- GDP
Percentage change

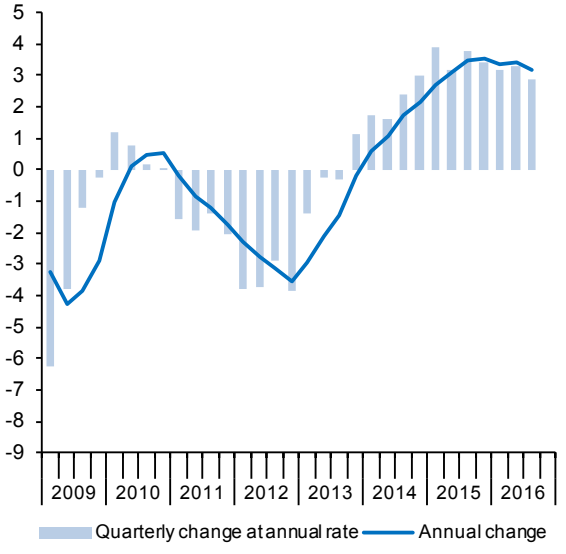


Chart 1.2.- Contribution to GDP annual growth
Per cent points

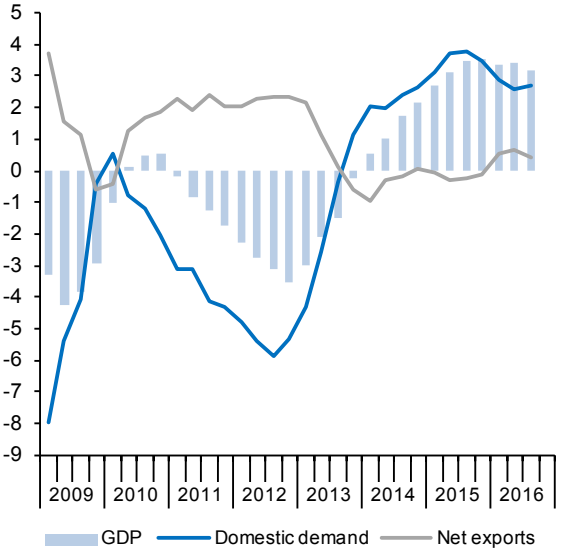


Chart 1.3.- Final consumption
Annual percentage change

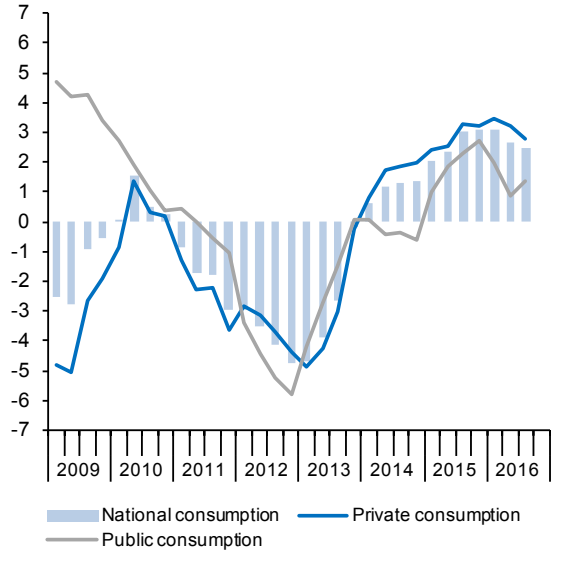


Chart 1.4.- Gross fixed capital formation
Per cent points

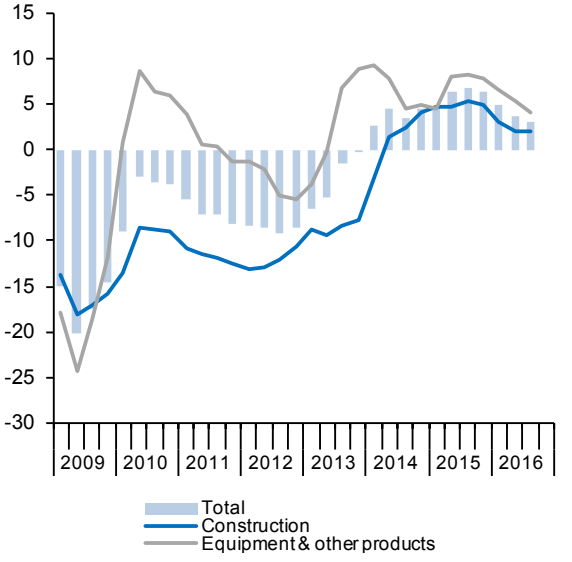


Table 2

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

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Services								
					Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
Chain-linked volumes, annual percentage changes													
2009	-3.4	-3.6	-10.0	-7.6	-1.0	-3.7	0.6	-6.1	3.4	-3.7	2.3	0.7	-5.9
2010	0.0	2.1	3.6	-14.5	1.3	1.5	3.9	-3.3	2.0	-1.4	2.4	1.4	0.1
2011	-0.6	4.4	-0.2	-12.8	0.7	-0.1	-0.2	-2.4	2.8	2.3	0.9	-0.2	-5.6
2012	-2.8	-9.7	-4.9	-8.8	-1.5	-1.9	1.6	-5.8	2.4	-3.8	-1.8	-3.2	-4.0
2013	-1.5	13.6	-3.9	-10.5	-0.6	-1.7	3.3	-7.1	1.3	-0.7	0.1	-0.2	-4.3
2014	1.2	-1.6	1.8	-1.2	1.4	1.8	5.7	-3.6	0.3	7.3	-0.5	0.0	2.9
2015	2.9	-2.9	5.5	0.2	2.6	4.6	5.0	-7.5	-1.1	9.7	1.7	0.6	6.7
2016	3.2	2.0	2.5	2.8	3.4	4.5	5.0	-0.6	1.4	7.0	2.6	1.1	4.3
2017	2.3	1.2	2.4	4.2	2.2	3.1	2.2	-0.4	1.9	3.6	1.4	1.0	2.6
2015 I	2.4	-6.5	5.3	-0.2	2.2	3.5	4.3	-8.2	-0.5	10.7	0.9	0.6	6.2
II	2.8	-4.3	5.6	-0.4	2.6	4.8	5.3	-6.9	-1.5	10.5	1.1	0.5	6.6
III	3.1	-4.3	6.1	0.1	2.9	5.1	6.0	-8.2	-1.6	9.6	2.3	0.6	6.9
IV	3.2	3.9	4.9	1.1	2.9	5.1	4.3	-6.9	-0.8	8.1	2.6	0.8	7.0
2016 I	3.2	4.3	3.0	1.7	3.4	4.5	5.6	-0.5	0.6	7.6	2.5	1.2	4.8
II	3.3	2.4	3.1	1.6	3.6	4.8	5.8	-1.7	1.2	7.4	2.8	1.5	4.2
III	3.1	2.5	1.9	2.7	3.4	4.4	4.4	-0.8	1.8	6.9	2.7	0.8	4.5
IV	3.0	-1.0	1.9	5.3	3.3	4.3	4.2	0.7	2.0	6.2	2.3	0.8	3.8
2017 I	2.7	-0.8	2.5	4.9	2.8	4.3	3.2	-3.2	1.7	5.2	1.9	1.0	4.1
II	2.5	1.7	2.1	4.6	2.4	3.4	2.2	-0.8	2.1	4.3	1.6	1.2	3.0
III	2.3	2.0	2.6	4.7	2.0	2.7	2.0	1.2	2.1	3.0	1.0	1.0	1.5
IV	1.8	2.0	2.2	2.8	1.6	2.1	1.5	1.2	1.8	2.1	1.0	0.9	2.0
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2015 I	3.3	-0.2	7.9	2.2	2.4	5.8	0.7	-8.4	-2.4	9.1	2.8	-2.4	9.6
II	2.7	-0.5	3.7	4.7	2.4	4.4	5.8	-3.8	-2.2	8.1	1.3	-0.5	8.0
III	3.6	0.2	4.9	-2.1	3.8	6.2	7.3	-10.1	-0.8	8.1	3.7	4.7	5.8
IV	3.3	16.9	3.2	-0.1	3.1	3.9	3.6	-5.0	2.2	7.2	2.6	1.7	4.7
2016 I	3.4	1.3	0.3	4.6	4.2	3.3	6.0	19.5	3.4	7.0	2.4	-0.9	0.9
II	3.1	-7.5	3.9	4.2	3.2	5.7	6.4	-8.5	0.2	7.4	2.4	0.6	5.4
III	2.5	0.7	0.2	2.0	3.1	4.8	1.6	-6.9	1.4	6.1	3.4	2.0	7.0
IV	3.2	2.0	3.4	10.6	2.6	3.5	3.0	1.0	3.0	4.5	1.0	1.5	2.0
2017 I	2.3	2.0	2.7	3.0	2.1	3.2	2.0	2.0	2.0	3.0	1.0	0.0	2.0
II	2.1	2.0	2.4	2.9	1.9	2.2	2.0	1.0	2.0	3.5	1.0	1.5	1.0
III	1.6	2.0	1.9	2.6	1.4	2.1	1.0	1.0	1.5	1.0	1.0	1.0	1.0
IV	1.3	2.0	1.8	2.8	1.1	1.0	1.0	1.0	1.6	1.0	1.0	1.0	4.0
Current prices (EUR billions)	**Percentage of value added at basic prices**												
2009	1006.1	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	983.7	2.5	17.4	7.5	72.6	22.9	4.3	4.2	10.9	7.4	18.7	4.2	8.8
2012	954.0	2.5	17.4	6.7	73.5	23.3	4.4	4.2	11.6	7.3	18.5	4.2	9.0
2013	935.7	2.8	17.5	5.8	74.0	23.2	4.4	3.8	12.1	7.4	19.0	4.2	9.6
2014	943.8	2.5	17.6	5.7	74.2	23.2	4.3	4.0	11.9	7.8	18.8	4.1	9.9
2015	975.8	2.6	18.0	5.6	73.8	23.2	4.2	3.9	11.2	8.4	18.8	4.1	10.2
2016	1009.3	2.5	17.8	5.6	74.1	23.1	4.1	4.0	11.0	8.8	19.0	4.0	10.4
2017	1040.9	2.7	17.8	5.7	73.8	23.1	4.0	4.0	10.9	8.9	19.0	3.9	10.6

**Seasonally and Working Day Adjusted.*

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

Chart 2.1.- GVA by sectors
Annual percentage change

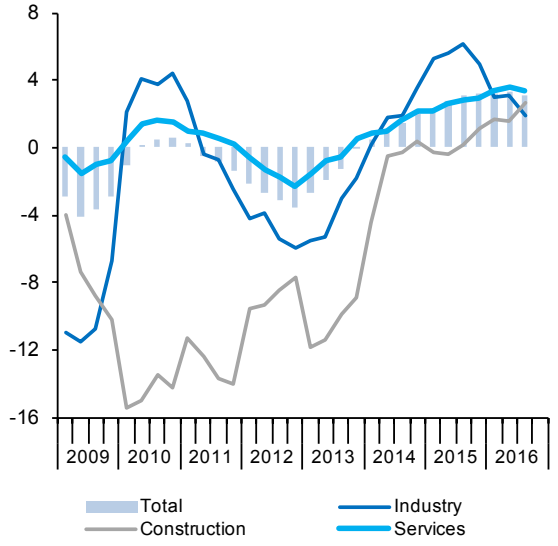


Chart 2.2.- GVA, services (I)
Annual percentage change

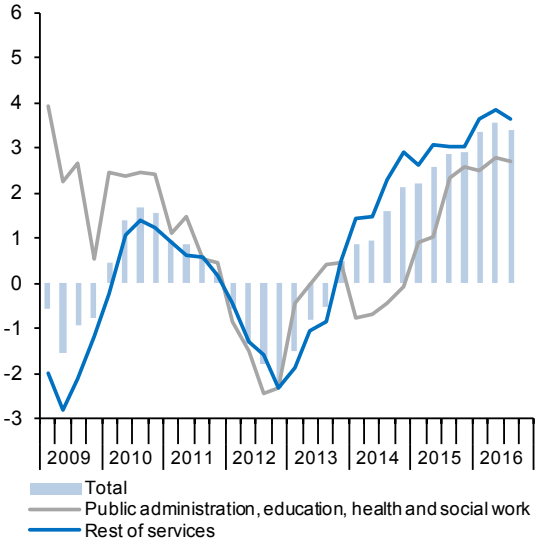


Chart 2.3.- GVA, services (II)
Annual percentage change

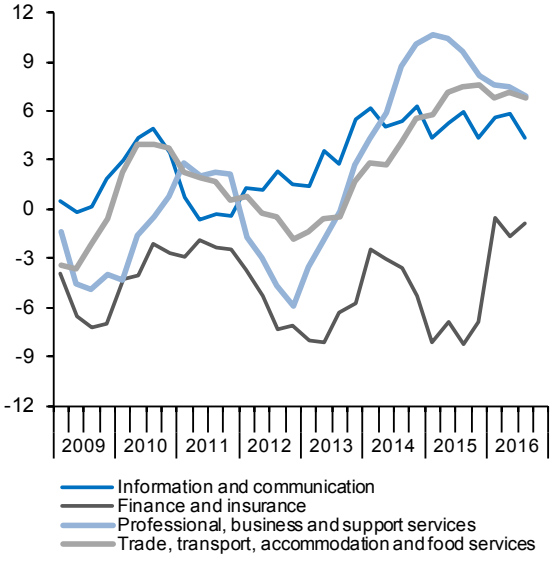


Chart 2.4.- GVA, structure by sectors
Percentage of value added at basic prices

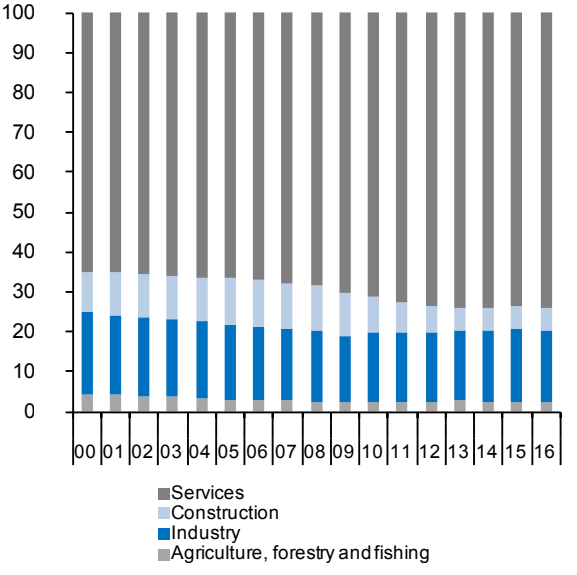


Table 3a

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

Forecasts in blue

		Total economy						Manufacturing industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
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		123.3	110.8	111.3	147.1	132.2	98.4	98.8	75.9	130.1	159.0	122.1	95.3
2012		119.7	105.5	113.5	146.2	128.9	95.9	93.7	70.3	133.2	161.6	121.4	94.4
2013		117.6	101.9	115.5	148.2	128.4	95.2	93.5	67.0	139.6	164.2	117.6	91.5
2014		119.3	103.0	115.8	148.2	128.0	95.1	96.4	66.1	145.8	164.8	113.1	87.7
2015		123.1	106.0	116.1	148.9	128.2	94.8	103.1	67.4	152.9	163.8	107.1	83.2
2016		127.1	109.1	116.5	149.2	128.1	94.4	106.9	--	--	--	--	--
2017		130.1	111.3	116.9	151.3	129.4	94.6	110.1	--	--	--	--	--
2015	IV	120.4	104.0	115.8	148.4	128.1	95.0	98.4	66.6	147.7	164.8	111.6	86.5
2015	I	121.5	104.7	116.1	149.0	128.4	95.1	100.8	66.8	150.8	163.7	108.5	84.0
	II	122.5	105.9	115.7	148.6	128.4	95.0	102.4	67.3	152.0	163.8	107.8	83.6
	III	123.6	106.5	116.1	148.6	128.0	94.7	104.1	67.8	153.7	163.6	106.4	82.7
	IV	124.7	107.1	116.4	149.2	128.1	94.6	105.3	67.9	155.1	163.9	105.7	82.3
2016	I	125.6	108.0	116.4	149.0	128.0	94.6	105.4	68.5	154.0	164.6	106.8	82.9
	II	126.7	108.8	116.5	149.1	128.0	94.3	106.7	68.6	155.6	164.7	105.9	82.2
	III	127.6	109.6	116.4	148.8	127.9	94.3	107.1	69.3	154.7	164.2	106.2	82.5
Annual percentage changes													
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		-1.0	-2.8	1.8	0.9	-0.9	-1.0	-1.3	-3.8	2.6	2.2	-0.4	-2.4
2012		-2.9	-4.8	2.0	-0.6	-2.5	-2.6	-5.2	-7.4	2.3	1.7	-0.6	-1.0
2013		-1.7	-3.4	1.8	1.4	-0.4	-0.7	-0.2	-4.8	4.8	1.6	-3.1	-3.0
2014		1.4	1.1	0.3	0.0	-0.3	0.0	3.1	-1.3	4.5	0.4	-3.9	-4.2
2015		3.2	3.0	0.2	0.4	0.2	-0.3	7.0	2.0	4.9	-0.7	-5.3	-5.1
2016		3.3	2.9	0.3	0.2	-0.1	-0.4	3.7	--	--	--	--	--
2017		2.4	2.0	0.4	1.4	1.0	0.1	3.0	--	--	--	--	--
2015	IV	2.2	2.4	-0.2	0.1	0.3	0.4	4.5	0.5	3.9	0.3	-3.5	-3.7
2015	I	2.7	2.8	-0.1	0.8	0.9	0.4	6.1	1.6	4.5	-0.5	-4.8	-4.8
	II	3.1	3.0	0.1	0.2	0.2	-0.4	6.9	2.3	4.5	-0.8	-5.1	-5.0
	III	3.4	3.0	0.4	0.2	-0.3	-0.8	7.9	2.2	5.6	-0.8	-6.0	-5.9
	IV	3.6	3.0	0.6	0.6	0.0	-0.4	7.0	1.9	5.0	-0.5	-5.3	-4.9
2016	I	3.4	3.1	0.3	0.0	-0.3	-0.5	4.6	2.5	2.1	0.5	-1.5	-1.3
	II	3.4	2.8	0.6	0.3	-0.3	-0.8	4.3	1.9	2.4	0.6	-1.8	-1.7
	III	3.2	2.9	0.2	0.1	-0.1	-0.4	2.9	2.2	0.6	0.4	-0.3	-0.3

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

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

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

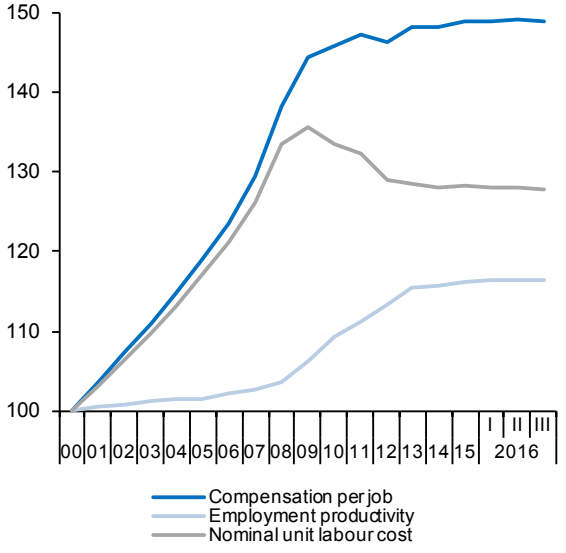
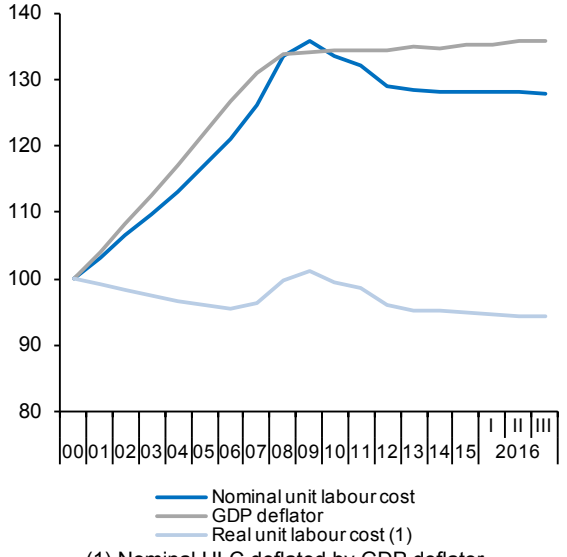


Chart 3a.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

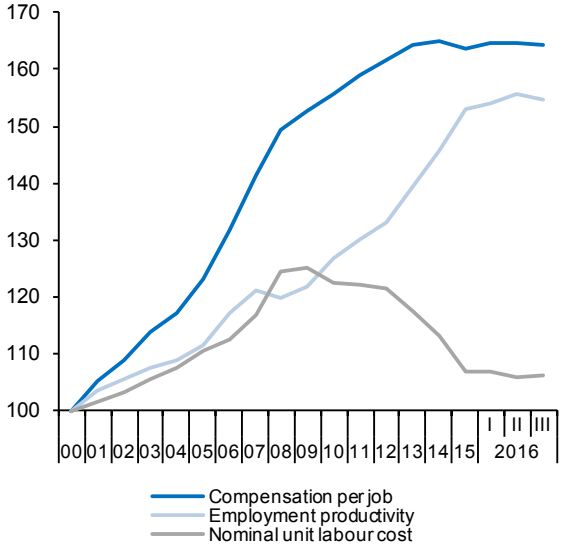
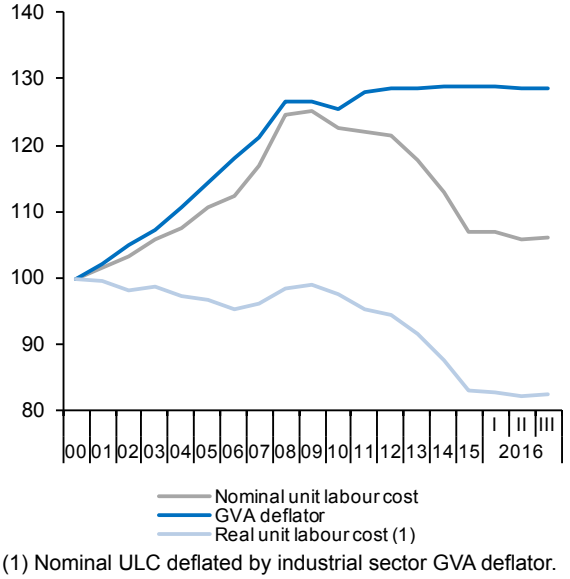


Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100



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

Table 3b

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

Forecasts in blue

	Construction						Services					
	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
	1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA												
2009	109.4	99.1	110.4	170.0	154.0	93.6	135.8	133.6	101.6	137.7	135.5	96.9
2010	93.5	85.2	109.7	172.1	156.9	99.2	137.5	132.0	104.2	139.1	133.4	96.7
2011	81.5	72.2	112.8	169.6	150.3	98.0	138.5	130.5	106.1	140.2	132.2	97.2
2012	74.4	59.2	125.6	170.5	135.8	94.0	136.4	126.4	107.9	138.5	128.3	96.5
2013	66.5	51.7	128.8	170.4	132.3	96.5	135.6	123.2	110.1	140.5	127.7	95.7
2014	65.7	50.1	131.2	171.1	130.4	94.7	137.5	125.4	109.6	140.5	128.2	95.6
2015	65.8	53.4	123.3	169.4	137.4	98.0	141.1	129.2	109.2	141.6	129.7	95.0
2016	67.7	54.8	123.5	--	--	--	145.9	133.3	109.5	--	--	--
2017	70.5	57.0	123.7	--	--	--	149.1	135.9	109.7	--	--	--
2014 IV	65.1	51.2	127.2	172.4	135.5	96.4	138.7	126.8	109.4	140.5	128.4	95.4
2015 I	65.4	52.6	124.3	170.2	136.9	97.7	139.6	127.6	109.4	141.6	129.5	95.3
II	66.2	53.5	123.8	169.1	136.6	98.5	140.4	128.9	108.9	141.4	129.8	95.4
III	65.8	53.5	123.0	170.0	138.3	98.6	141.7	129.7	109.2	141.4	129.5	95.0
IV	65.8	53.8	122.2	168.3	137.7	97.3	142.8	130.5	109.4	142.1	129.9	94.4
2016 I	66.5	53.4	124.6	167.7	134.6	95.3	144.3	131.9	109.4	141.8	129.6	93.8
II	67.2	54.3	123.8	167.2	135.0	95.8	145.4	133.0	109.3	141.9	129.8	93.3
III	67.6	55.4	122.0	168.3	138.0	97.6	146.5	133.8	109.5	141.8	129.5	93.2
Annual percentage changes												
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	-0.2
2011	-12.8	-15.3	2.9	-1.4	-4.2	-1.2	0.7	-1.1	1.8	0.8	-0.9	0.5
2012	-8.8	-18.0	11.3	0.5	-9.7	-4.1	-1.5	-3.2	1.7	-1.2	-2.9	-0.7
2013	-10.5	-12.7	2.5	-0.1	-2.6	2.6	-0.6	-2.5	2.0	1.5	-0.5	-0.8
2014	-1.2	-3.1	1.9	0.5	-1.4	-1.9	1.4	1.8	-0.4	0.0	0.4	-0.1
2015	0.2	6.6	-6.0	-1.0	5.3	3.5	2.6	3.0	-0.3	0.8	1.1	-0.6
2016	2.8	2.7	0.1	--	--	--	3.4	3.2	0.2	--	--	--
2017	4.2	4.0	0.2	--	--	--	2.2	1.9	0.3	--	--	--
2014 IV	0.4	2.6	-2.1	0.6	2.7	1.4	2.2	3.0	-0.8	0.0	0.7	-0.2
2015 I	-0.2	7.9	-7.5	-0.3	7.8	5.5	2.2	3.1	-0.9	0.9	1.8	0.1
II	-0.4	7.5	-7.3	-0.8	7.1	4.5	2.6	3.0	-0.4	0.5	0.9	-0.8
III	0.1	5.8	-5.3	-0.5	5.1	3.2	2.9	3.0	-0.1	0.6	0.6	-0.6
IV	1.1	5.2	-3.9	-2.3	1.6	0.9	2.9	3.0	-0.1	1.1	1.2	-1.0
2016 I	1.7	1.5	0.2	-1.5	-1.7	-2.5	3.4	3.3	0.0	0.1	0.1	-1.6
II	1.6	1.5	0.1	-1.1	-1.2	-2.7	3.6	3.2	0.4	0.4	0.0	-2.3
III	2.7	3.5	-0.8	-1.0	-0.2	-1.0	3.4	3.2	0.2	0.2	0.0	-1.8

(a) Nominal ULC deflated by GVA deflator.

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

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

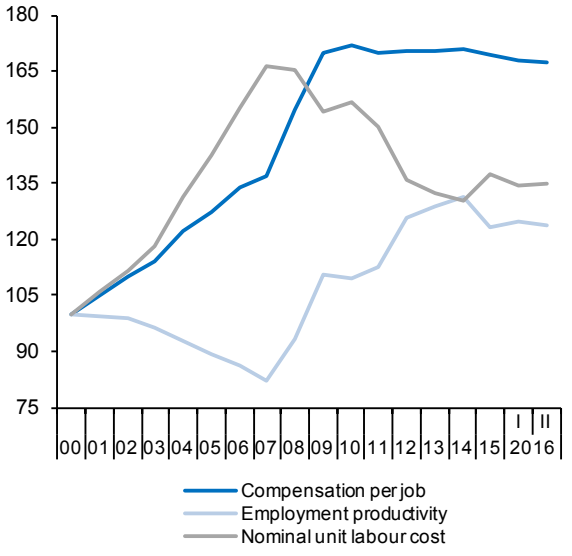
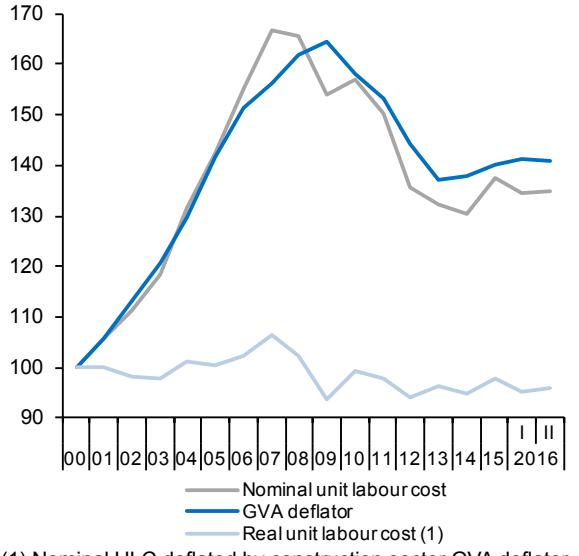


Chart 3b.2.- Real ULC, construction
Index, 2000=100



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

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

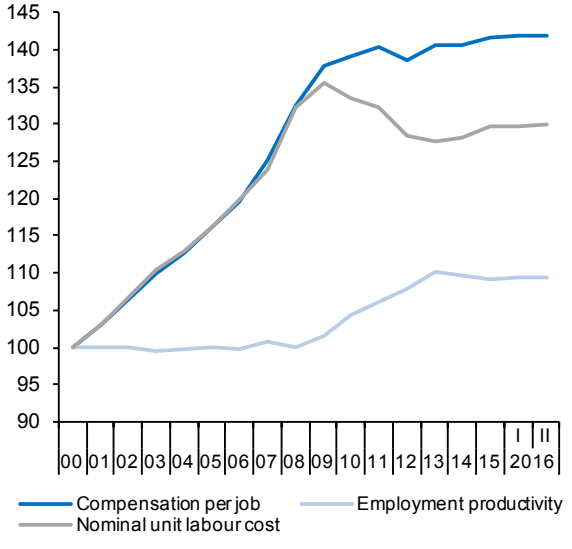
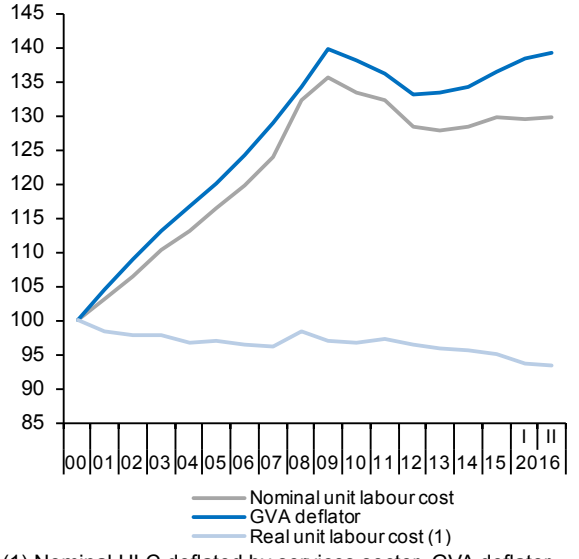


Chart 3b.4.- Real ULC, services
Index, 2000=100



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

Table 4

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

Forecasts in blue

	Gross domestic product	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsi-dies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross national income	Final national consumption	Gross national saving (a)	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsidies
	1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12	13
	EUR Billions, 4-quarter cumulated transactions										**Percentage of GDP**		
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	1,070.4	531.0	449.4	90.0	-18.6	1,051.9	-14.1	1,037.7	838.5	199.2	49.6	42.0	8.4
2012	1,039.8	498.8	446.7	94.2	-7.3	1,032.4	-12.6	1,019.9	816.6	203.3	48.0	43.0	9.1
2013	1,025.6	485.3	440.4	99.9	-5.3	1,020.3	-13.1	1,007.2	800.3	206.9	47.3	42.9	9.7
2014	1,037.0	491.8	441.0	104.2	-3.3	1,033.7	-11.4	1,022.3	810.9	211.4	47.4	42.5	10.1
2015	1,075.6	510.3	453.0	112.3	-0.8	1,074.9	-11.3	1,063.6	833.5	230.0	47.4	42.1	10.4
2016	1,114.8	528.0	470.8	116.0	0.6	1,115.4	-11.5	1,103.9	855.2	248.7	47.4	42.2	10.4
2017	1,151.9	546.6	482.9	122.4	3.1	1,155.0	-11.6	1,143.3	886.6	256.8	47.5	41.9	10.6
2014 IV	1,037.0	491.8	441.0	104.2	-3.3	1,033.7	-11.4	1,022.3	810.9	211.4	47.4	42.5	10.1
2015 I	1,044.7	496.2	443.3	105.3	-2.8	1,041.9	-11.4	1,030.5	814.9	215.6	47.5	42.4	10.1
II	1,054.6	500.5	446.0	108.0	-0.1	1,054.4	-11.2	1,043.2	820.6	222.6	47.5	42.3	10.2
III	1,064.9	504.9	450.2	109.8	-0.1	1,064.8	-11.1	1,053.6	827.0	226.7	47.4	42.3	10.3
IV	1,075.6	510.3	453.0	112.3	-0.8	1,074.9	-11.3	1,063.6	833.5	230.0	47.4	42.1	10.4
2016 I	1,084.0	514.0	457.5	112.6	0.0	1,084.0	-10.9	1,073.1	838.3	234.7	47.4	42.2	10.4
II	1,095.3	518.3	463.4	113.6	-0.5	1,094.7	-10.2	1,084.6	842.8	241.8	47.3	42.3	10.4
III	1,104.3	522.3	466.9	115.1	0.3	1,104.6	-11.4	1,093.2	848.0	245.2	47.3	42.3	10.4
	Annual percentage changes										**Difference from one year ago**		
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	-1.0	-1.9	0.8	-3.8	22.5	-1.3	11.2	-1.5	-0.2	-6.3	-0.5	0.7	-0.2
2012	-2.9	-6.1	-0.6	4.7	-60.5	-1.8	-11.0	-1.7	-2.6	2.1	-1.6	1.0	0.7
2013	-1.4	-2.7	-1.4	6.0	-27.3	-1.2	3.9	-1.2	-2.0	1.8	-0.7	0.0	0.7
2014	1.1	1.3	0.1	4.3	-37.4	1.3	-13.1	1.5	1.3	2.2	0.1	-0.4	0.3
2015	3.7	3.8	2.7	7.7	-76.6	4.0	-0.7	4.0	2.8	8.8	0.0	-0.4	0.4
2016	3.6	3.5	3.9	3.3	-170.7	3.8	1.5	3.8	2.6	8.1	-0.1	0.1	0.0
2017	3.3	3.5	2.6	5.5	459.3	3.5	1.5	3.6	3.7	3.2	0.1	-0.3	0.2
2014 IV	1.1	1.3	0.1	4.3	-37.4	1.3	-13.1	1.5	1.3	2.2	0.1	-0.4	0.3
2015 I	1.8	2.5	0.4	4.4	-20.2	1.8	-15.9	2.1	1.6	4.0	0.3	-0.6	0.3
II	2.5	3.0	1.1	6.7	-97.7	3.1	-13.6	3.4	1.8	9.3	0.2	-0.6	0.4
III	3.2	3.3	2.2	7.1	-97.2	3.8	-6.1	3.9	2.2	10.3	0.1	-0.4	0.4
IV	3.7	3.8	2.7	7.7	-76.6	4.0	-0.7	4.0	2.8	8.8	0.0	-0.4	0.4
2016 I	3.8	3.6	3.2	6.9	-98.8	4.0	-4.4	4.1	2.9	8.9	-0.1	-0.2	0.3
II	3.9	3.5	3.9	5.2	268.3	3.8	-9.7	4.0	2.7	8.6	-0.1	0.0	0.1
III	3.7	3.4	3.7	4.8	-320.1	3.7	2.6	3.8	2.5	8.2	-0.1	0.0	0.1

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

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

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

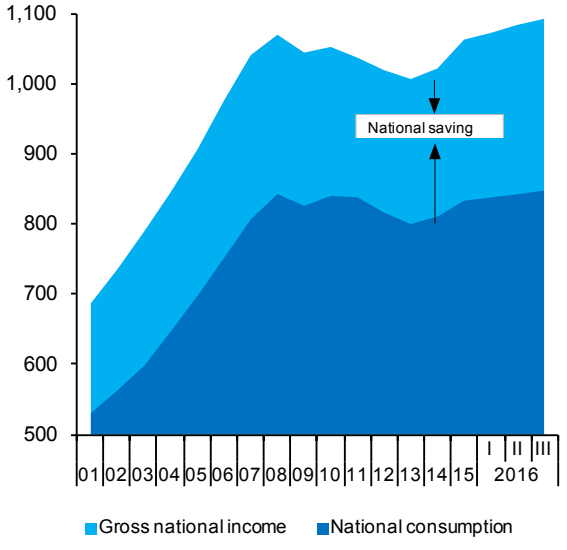


Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

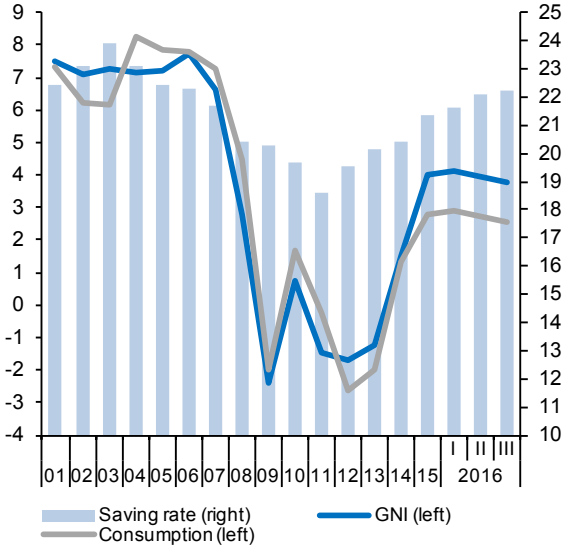


Chart 4.3.- Components of National income
Annual percentage change

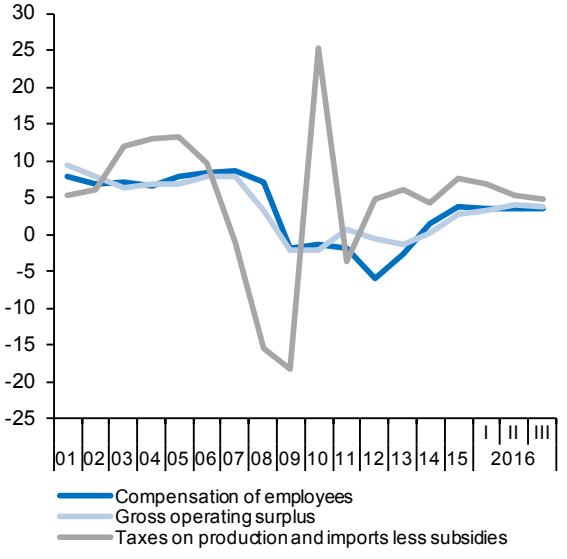


Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

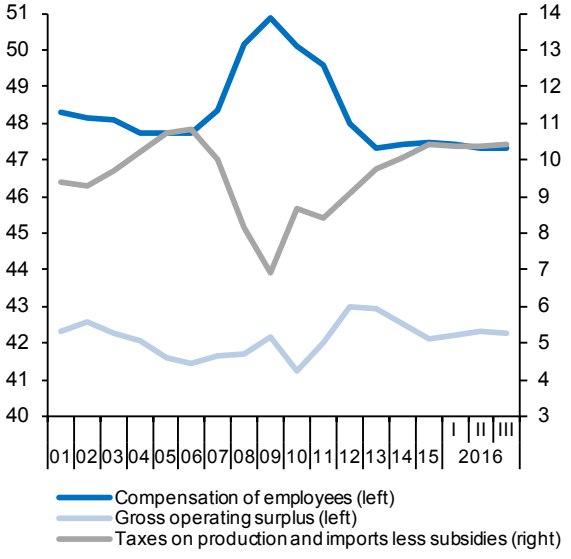


Table 5

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

Forecasts in blue

		Goods and services				Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account deficit
		1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR Billions, 4-quarter cumulated transactions													
2009		-12.4	-41.5	22.4	6.6	-19.8	-14.3	-46.5	4.5	-42.0	218.6	265.1	-46.5
2010		-14.1	-47.8	23.0	10.7	-15.2	-12.7	-42.0	5.9	-36.1	212.6	254.5	-42.0
2011		-2.6	-44.5	26.2	15.6	-18.6	-14.1	-35.3	4.4	-30.9	199.2	234.5	-35.3
2012		15.3	-29.2	27.1	17.5	-7.3	-12.6	-4.6	5.4	0.8	203.3	207.9	-4.6
2013		33.4	-14.0	28.3	19.1	-5.3	-13.1	15.0	6.6	21.6	206.9	191.9	15.0
2014		25.1	-22.4	28.7	18.8	-3.3	-11.4	10.4	5.0	15.4	211.4	201.0	10.4
2015		26.3	-21.7	28.5	19.6	-0.8	-11.3	14.3	7.0	21.3	230.0	215.8	14.3
2016		31.0	-17.7	29.4	19.3	0.6	-11.5	20.1	6.0	26.1	248.7	228.6	20.1
2017		21.3	-28.6	30.1	19.8	3.1	-11.6	12.7	6.3	19.0	256.8	244.0	12.7
2014	IV	25.1	-22.4	28.7	18.8	-3.3	-11.4	10.4	5.0	15.4	211.4	201.0	10.4
2015	I	26.4	-21.3	28.6	19.1	-2.8	-11.4	12.1	4.9	17.0	215.6	203.5	12.1
	II	26.6	-21.5	28.5	19.6	-0.1	-11.2	15.2	5.2	20.4	222.6	207.4	15.2
	III	26.7	-21.5	28.4	19.8	-0.1	-11.1	15.5	6.1	21.5	226.7	211.2	15.5
	IV	26.3	-21.7	28.5	19.6	-0.8	-11.3	14.3	7.0	21.3	230.0	215.8	14.3
2016	I	26.1	-22.1	28.5	19.8	0.0	-10.9	15.2	6.8	22.0	234.7	219.5	15.2
	II	29.8	-19.6	29.1	20.3	-0.5	-10.2	19.2	6.4	25.6	241.8	222.6	19.2
	III	31.6	-17.2	29.3	19.5	0.3	-11.4	20.5	5.5	26.0	245.2	224.7	20.5
Percentage of GDP, 4-quarter cumulated transactions													
2009		-1.2	-3.8	2.1	0.6	-1.8	-1.3	-4.3	0.4	-3.9	20.3	24.6	-4.3
2010		-1.3	-4.4	2.1	1.0	-1.4	-1.2	-3.9	0.5	-3.3	19.7	23.5	-3.9
2011		-0.2	-4.2	2.4	1.5	-1.7	-1.3	-3.3	0.4	-2.9	18.6	21.9	-3.3
2012		1.5	-2.8	2.6	1.7	-0.7	-1.2	-0.4	0.5	0.1	19.5	20.0	-0.4
2013		3.3	-1.4	2.8	1.9	-0.5	-1.3	1.5	0.6	2.1	20.2	18.7	1.5
2014		2.4	-2.2	2.8	1.8	-0.3	-1.1	1.0	0.5	1.5	20.4	19.4	1.0
2015		2.4	-2.0	2.7	1.8	-0.1	-1.0	1.3	0.7	2.0	21.4	20.1	1.3
2016		2.8	-1.6	2.6	1.7	0.0	-1.0	1.8	0.5	2.3	22.3	20.5	1.8
2017		1.8	-2.5	2.6	1.7	0.3	-1.0	1.1	0.5	1.7	22.3	21.2	1.1
2014	IV	2.4	-2.2	2.8	1.8	-0.3	-1.1	1.0	0.5	1.5	20.4	19.4	1.0
2015	I	2.5	-2.0	2.7	1.8	-0.3	-1.1	1.2	0.5	1.6	20.6	19.5	1.2
	II	2.5	-2.0	2.7	1.9	0.0	-1.1	1.4	0.5	1.9	21.1	19.7	1.4
	III	2.5	-2.0	2.7	1.9	0.0	-1.0	1.5	0.6	2.0	21.3	19.8	1.5
	IV	2.4	-2.0	2.7	1.8	-0.1	-1.0	1.3	0.7	2.0	21.4	20.1	1.3
2016	I	2.4	-2.0	2.6	1.8	0.0	-1.0	1.4	0.6	2.0	21.7	20.3	1.4
	II	2.7	-1.8	2.7	1.9	0.0	-0.9	1.8	0.6	2.3	22.1	20.3	1.8
	III	2.9	-1.6	2.7	1.8	0.0	-1.0	1.9	0.5	2.4	22.2	20.3	1.9

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

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

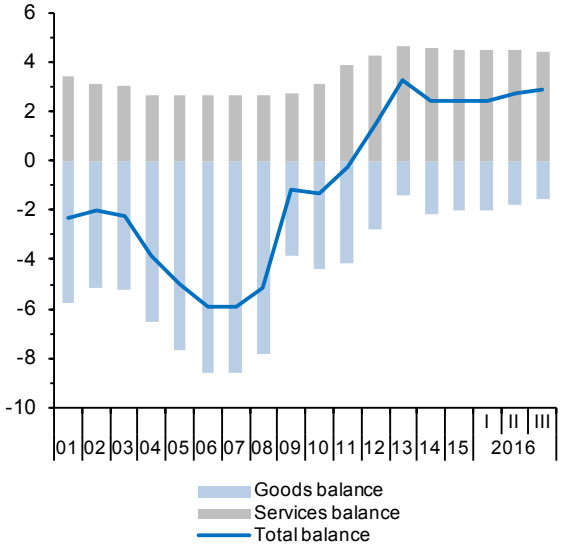


Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

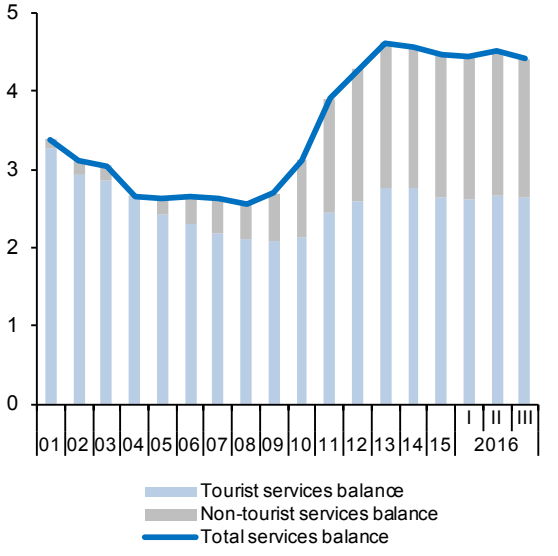


Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

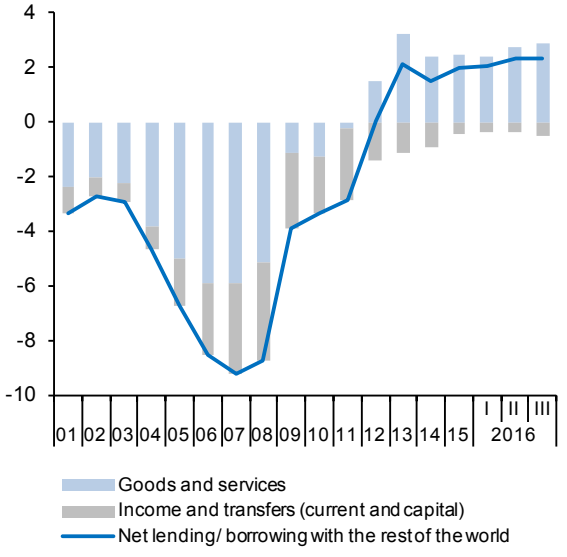


Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

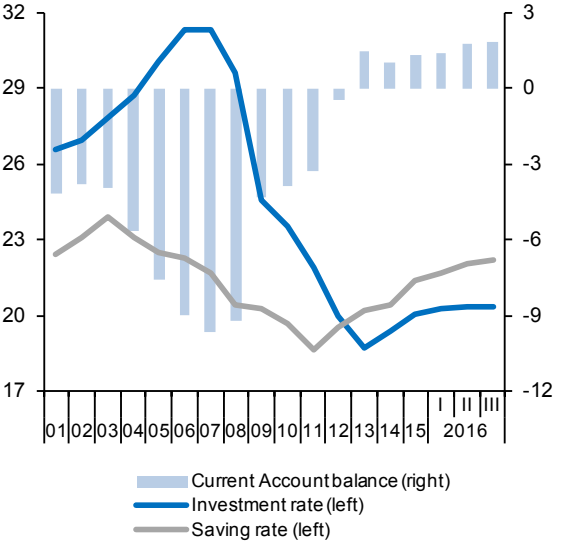


Table 6

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

Forecasts in blue

	Gross disposable income (GDI)						Final consumption expenditure	Gross saving (a)	Saving rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP
	Total	Compensation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contributions and other current transfers (paid)	Personal income taxes							
	1=2+3+4-5-6	2	3	4	5	6	7	8=1-7	9=8/1	10	11	12=8+10-11	13
EUR Billions, 4-quarter cumulated operations													
2009	698.9	549.9	199.1	235.9	209.8	76.2	605.3	93.6	13.4	6.7	69.0	31.3	2.9
2010	688.4	542.3	196.3	239.3	209.7	79.9	618.8	69.5	10.1	7.6	63.0	14.2	1.3
2011	694.2	531.9	212.1	242.9	210.3	82.4	618.9	74.7	10.8	5.2	52.2	27.6	2.6
2012	670.5	500.1	208.6	244.7	199.3	83.6	611.3	57.2	8.5	4.8	38.8	23.2	2.2
2013	664.4	487.3	209.6	246.1	195.1	83.6	598.5	63.9	9.6	2.8	25.7	41.1	4.0
2014	670.0	493.8	213.2	241.6	194.4	84.2	608.9	60.0	9.0	1.3	27.7	33.6	3.2
2015	682.4	512.4	211.2	240.2	197.8	83.6	625.0	55.8	8.2	1.8	30.5	27.2	2.5
2016	701.1	530.1	214.7	243.2	202.9	84.1	642.4	57.1	8.1	1.6	32.6	26.1	2.3
2017	726.6	548.8	224.5	249.7	209.2	87.2	667.5	57.5	7.9	1.5	35.1	23.9	2.1
2014 IV	670.0	493.8	213.2	241.6	194.4	84.2	608.9	60.0	9.0	1.3	27.7	33.6	3.2
2015 I	675.0	498.2	213.7	241.6	194.5	83.9	611.6	61.9	9.2	1.1	27.8	35.1	3.4
II	680.4	502.6	216.8	241.1	195.7	84.3	615.4	63.5	9.3	1.4	29.2	35.7	3.4
III	683.7	507.0	217.2	240.7	196.8	84.3	620.8	61.4	9.0	1.8	29.4	33.8	3.2
IV	682.4	512.4	211.2	240.2	197.8	83.6	625.0	55.8	8.2	1.8	30.5	27.2	2.5
2016 I	687.7	516.0	213.1	240.1	198.4	83.2	629.4	56.8	8.3	1.4	30.6	27.7	2.6
II	692.9	520.3	214.7	240.9	200.0	83.0	632.9	58.5	8.4	0.7	30.1	29.1	2.7
III	695.4	524.4	215.4	242.3	202.0	84.8	637.0	56.9	8.2	0.2	31.4	25.6	2.3
Annual percentage changes, 4-quarter cumulated operations									**Difference from one year ago**	**Annual percentage changes, 4-quarter cumulated operations**			**Difference from one year ago**
2009	1.9	-1.9	-6.6	8.7	-4.6	-10.1	-4.5	64.4	5.1	8.3	-23.5	--	5.3
2010	-1.5	-1.4	-1.4	1.4	-0.1	4.8	2.2	-25.8	-3.3	13.8	-8.7	--	-1.6
2011	0.8	-1.9	8.0	1.5	0.3	3.2	0.0	7.5	0.7	-32.3	-17.1	--	1.3
2012	-3.4	-6.0	-1.6	0.7	-5.2	1.5	-1.2	-23.4	-2.2	-6.3	-25.6	--	-0.3
2013	-0.9	-2.6	0.5	0.6	-2.1	-0.1	-2.1	11.7	1.1	-41.4	-33.9	--	1.8
2014	0.9	1.3	1.7	-1.9	-0.4	0.7	1.7	-6.1	-0.7	-55.3	7.7	--	-0.8
2015	1.9	3.8	-0.9	-0.6	1.7	-0.6	2.6	-7.0	-0.8	42.9	10.1	--	-0.7
2016	2.7	3.5	1.7	1.2	2.6	0.6	2.8	2.3	0.0	-11.0	7.1	--	-0.2
2017	3.6	3.5	4.6	2.7	3.1	3.6	3.9	0.7	-0.2	-8.0	7.5	--	-0.3
2014 IV	0.9	1.3	1.7	-1.9	-0.4	0.7	1.7	-6.1	-0.7	-55.3	7.7	--	-0.8
2015 I	2.3	2.5	2.7	-0.9	-0.2	0.1	2.0	6.2	0.3	-55.9	2.9	--	0.1
II	3.2	3.0	5.1	-0.9	0.7	0.9	2.0	16.2	1.1	-20.6	8.4	--	0.5
III	3.6	3.3	5.3	-0.2	1.5	0.0	2.4	18.0	1.1	31.2	11.1	--	0.6
IV	1.9	3.8	-0.9	-0.6	1.7	-0.6	2.6	-7.0	-0.8	42.9	10.1	--	-0.7
2016 I	1.9	3.6	-0.3	-0.6	2.0	-0.9	2.9	-8.2	-0.9	34.7	9.9	--	-0.8
II	1.8	3.5	-0.9	-0.1	2.2	-1.5	2.8	-8.0	-0.9	-45.3	3.1	--	-0.7
III	1.7	3.4	-0.8	0.7	2.6	0.5	2.6	-7.3	-0.8	-90.7	7.1	--	-0.9

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

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

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

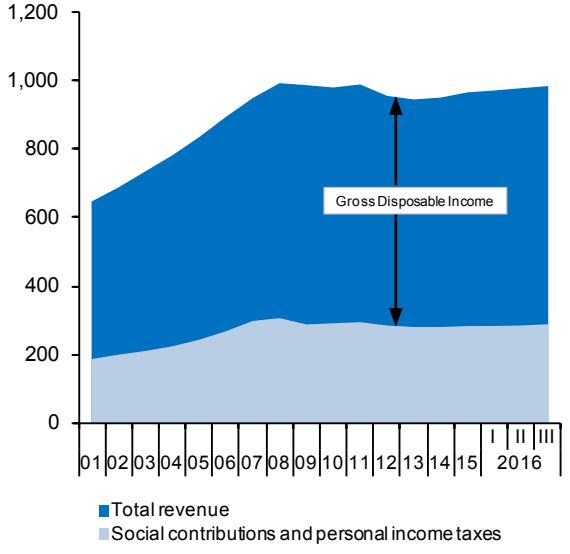
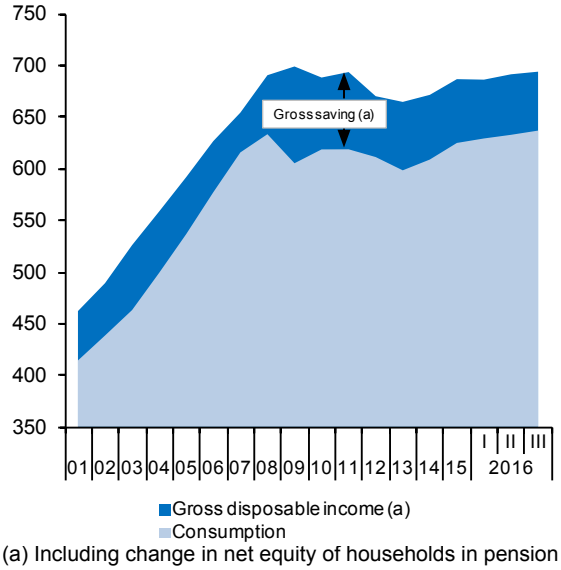


Chart 6.2.- Households: Gross saving
EUR Billions, 4-quarter cummulated



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

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

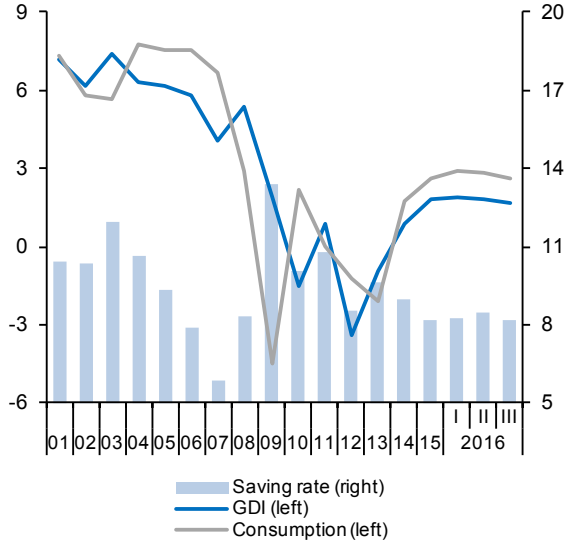
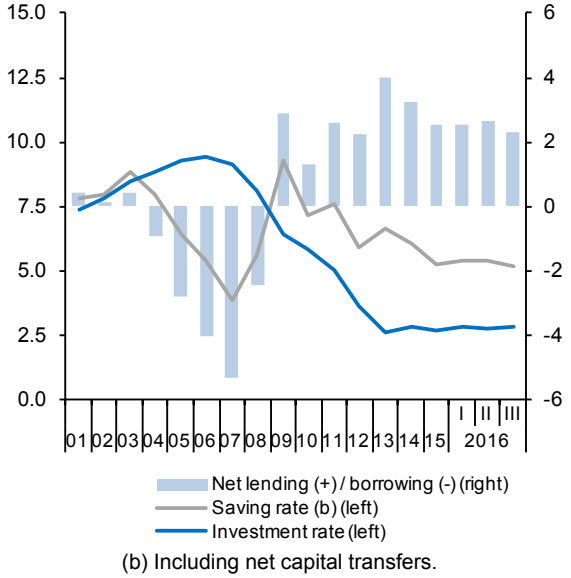


Chart 6.4.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 7

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

Forecasts in blue

		Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
		1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR Billions, 4-quarter cumulated operations														
2009		590.7	354.4	236.3	-59.9	-13.3	19.0	144.2	11.4	130.1	25.4	2.4	40.0	22.0
2010		581.8	346.0	235.8	-49.2	-8.6	16.2	161.8	10.2	132.0	40.0	3.7	40.5	22.7
2011		573.0	340.2	232.8	-63.4	-8.8	15.8	144.9	8.9	131.7	22.0	2.1	40.6	23.0
2012		555.6	320.9	234.7	-59.9	-10.2	19.8	144.8	6.6	136.5	14.9	1.4	42.2	24.6
2013		543.0	308.0	235.0	-46.9	-9.4	18.0	160.8	5.0	136.3	29.5	2.9	43.3	25.1
2014		553.6	317.2	236.4	-50.5	-8.0	17.7	160.2	6.9	147.1	20.1	1.9	42.7	26.6
2015		574.3	329.4	244.9	-40.7	-6.0	20.4	177.9	6.0	153.3	30.6	2.8	42.6	26.7
2016		596.5	342.5	254.0	-33.6	-6.2	19.2	195.0	6.0	166.4	34.7	3.1	42.6	27.9
2017		613.8	356.0	257.7	-29.2	-6.5	25.5	196.6	6.0	178.6	24.0	2.1	42.0	29.1
2014	IV	553.6	317.2	236.4	-50.5	-8.0	17.7	160.2	6.9	147.1	20.1	1.9	42.7	26.6
2015	I	557.7	320.0	237.7	-48.1	-7.7	17.0	165.0	6.8	148.9	22.8	2.2	42.6	26.7
	II	562.5	322.3	240.2	-47.7	-7.2	18.4	167.0	6.6	153.6	20.0	1.9	42.7	27.3
	III	568.8	325.6	243.2	-46.9	-6.5	19.5	170.3	6.6	153.1	23.8	2.2	42.8	26.9
	IV	574.3	329.4	244.9	-40.7	-6.0	20.4	177.9	6.0	153.3	30.6	2.8	42.6	26.7
2016	I	579.9	332.7	247.1	-40.7	-5.6	20.3	180.5	6.4	157.1	29.8	2.7	42.6	27.1
	II	586.9	335.5	251.4	-40.6	-5.4	18.0	187.5	6.6	159.0	35.1	3.2	42.8	27.1
	III	591.9	338.1	253.8	-40.2	-5.2	18.0	190.4	6.5	163.2	33.7	3.1	42.9	27.6
Annual percentage changes, 4-quarter cumulated operations												**Difference from one year ago**		
2009		-2.4	-4.1	0.4	-23.9	50.6	-25.4	17.8	-5.3	-27.2	--	6.3	1.1	-7.5
2010		-1.5	-2.4	-0.2	-17.9	-34.9	-15.0	12.2	-9.8	1.5	--	1.3	0.5	0.7
2011		-1.5	-1.7	-1.2	29.0	1.4	-2.4	-10.5	-12.9	-0.2	--	-1.6	0.1	0.3
2012		-3.0	-5.7	0.8	-5.5	16.5	25.3	0.0	-26.1	3.6	--	-0.6	1.6	1.6
2013		-2.3	-4.0	0.1	-21.8	-8.1	-9.0	11.0	-24.1	-0.1	--	1.4	1.0	0.5
2014		2.0	3.0	0.6	7.7	-14.7	-1.9	-0.3	37.4	7.9	--	-0.9	-0.6	1.5
2015		3.8	3.8	3.6	-19.5	-24.8	15.5	11.0	-12.1	4.2	--	0.9	-0.1	0.1
2016		3.9	4.0	3.7	-17.3	3.5	-6.0	9.6	0.0	8.5	--	0.3	-0.1	1.2
2017		2.9	4.0	1.5	-13.0	4.0	32.7	0.8	0.0	7.3	--	-1.0	-0.6	1.2
2014	IV	2.0	3.0	0.6	7.7	-14.7	-1.9	-0.3	37.4	7.9	--	-0.9	-0.6	1.5
2015	I	2.4	3.9	0.6	8.0	-12.7	-5.9	0.0	30.0	7.9	--	-1.0	-0.8	1.4
	II	2.8	3.7	1.6	-0.4	-13.9	-2.4	3.4	14.2	11.3	--	-0.9	-0.5	2.1
	III	3.5	3.8	3.1	1.8	-21.2	6.2	4.3	12.8	8.6	--	-0.5	-0.2	1.3
	IV	3.8	3.8	3.6	-19.5	-24.8	15.5	11.0	-12.1	4.2	--	0.9	-0.1	0.1
2016	I	4.0	4.0	4.0	-15.5	-27.0	19.8	9.4	-5.9	5.5	--	0.6	0.0	0.4
	II	4.3	4.1	4.7	-14.9	-24.9	-2.1	12.3	-0.7	3.5	--	1.3	0.1	-0.2
	III	4.1	3.8	4.4	-14.2	-19.5	-7.5	11.8	-2.1	6.6	--	0.8	0.1	0.6

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

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

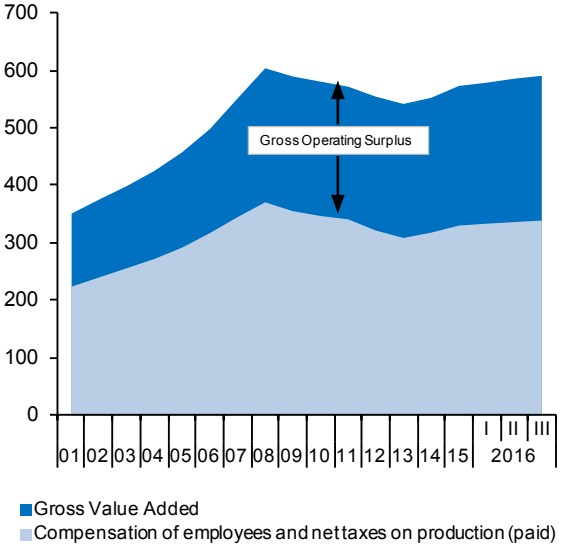


Chart 7.2.- Non-financial corporations: GVA, GOS and saving
Annual percentage change, 4-quarter moving averages

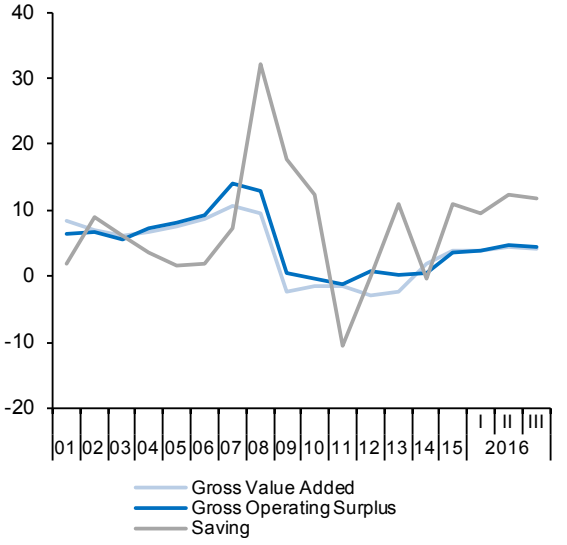
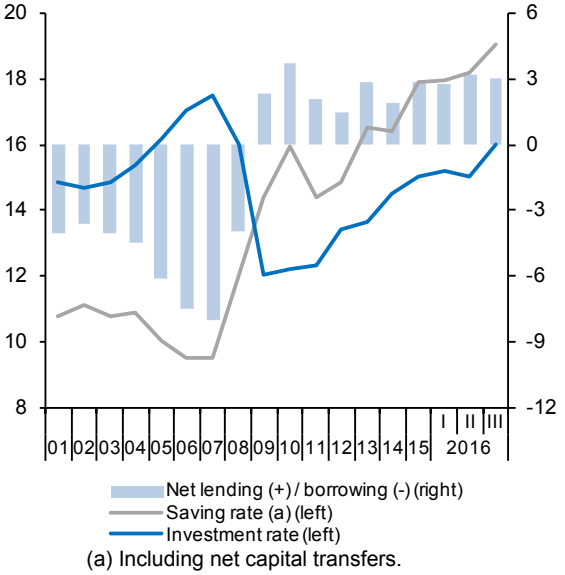


Chart 7.3.- Non-financial corporations: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

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

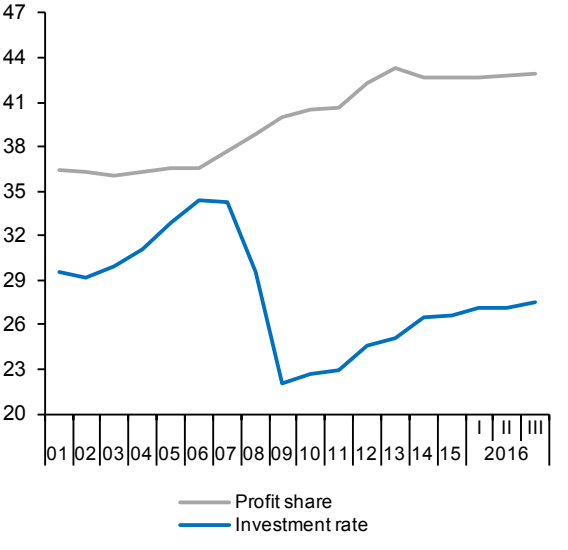


Table 8

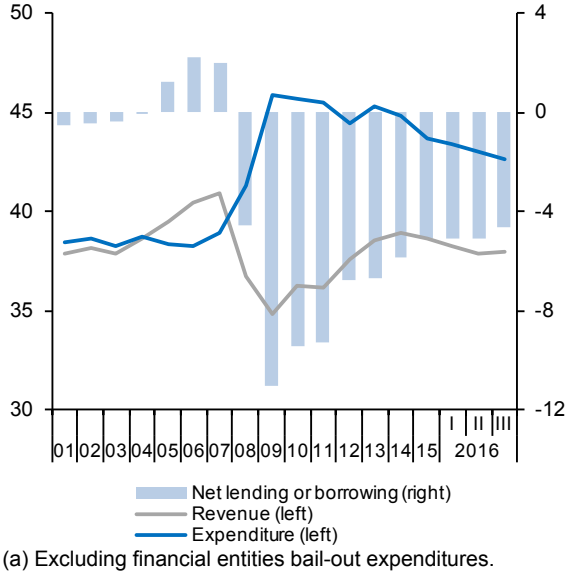
National accounts: Public revenue, expenditure and deficit (ESA 2010, Base 2010)

Forecasts in blue

	Gross value added	Taxes on production and imports receivable	Taxes on income and wealth 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														
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	-118.9
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	-102.2
2011	150.3	106.2	102.0	137.8	122.6	16.2	164.2	22.6	170.7	219.7	-49.0	53.9	-102.9	-99.4
2012	142.2	108.2	106.3	131.9	113.9	20.3	168.5	18.7	167.1	205.2	-38.1	70.8	-108.9	-70.6
2013	142.9	114.6	105.2	128.2	114.7	24.1	170.8	20.9	160.5	201.8	-41.3	30.5	-71.9	-68.6
2014	143.4	119.2	105.6	130.1	115.2	25.7	171.1	20.9	165.4	202.0	-36.6	25.6	-62.2	-60.8
2015	147.2	127.1	109.1	132.3	119.1	24.5	170.4	21.7	179.9	208.5	-28.6	26.6	-55.2	-54.6
2016	151.6	129.9	108.2	136.3	122.1	24.2	172.6	20.8	186.5	212.8	-26.3	26.8	-53.2	-51.5
2017	155.8	136.7	120.1	141.1	125.7	23.2	177.1	21.2	206.6	219.0	-12.5	25.6	-38.1	-38.1
2014 IV	143.4	119.2	105.6	130.1	115.2	25.7	171.1	20.9	165.4	202.0	-36.6	25.6	-62.2	-60.8
2015 I	144.4	120.9	106.3	130.2	116.2	26.0	170.9	22.0	166.7	203.3	-36.6	25.9	-62.5	-61.0
II	145.2	123.4	107.9	131.0	117.1	25.7	171.0	21.3	172.5	205.1	-32.7	24.9	-57.6	-56.1
III	145.6	125.6	109.0	131.4	117.5	25.2	170.8	21.4	176.6	206.2	-29.5	26.8	-56.4	-55.6
IV	147.2	127.1	109.1	132.3	119.1	24.5	170.4	21.7	179.9	208.5	-28.6	26.6	-55.2	-54.6
2016 I	147.2	127.0	106.9	132.9	119.2	23.9	171.0	20.6	179.2	208.9	-29.7	26.1	-55.8	-55.5
II	148.3	128.2	104.5	134.2	120.3	23.4	172.0	19.6	179.7	209.9	-30.2	27.3	-57.5	-55.6
III	149.0	129.3	106.4	135.3	121.0	23.1	172.7	20.5	182.7	211.0	-28.3	25.2	-53.5	-51.2
Percentage of GDP, 4-quarter cumulated operations														
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	-9.5
2011	14.0	9.9	9.5	12.9	11.5	1.5	15.3	2.1	15.9	20.5	-4.6	5.0	-9.6	-9.3
2012	13.7	10.4	10.2	12.7	11.0	2.0	16.2	1.8	16.1	19.7	-3.7	6.8	-10.5	-6.8
2013	13.9	11.2	10.3	12.5	11.2	2.3	16.6	2.0	15.6	19.7	-4.0	3.0	-7.0	-6.7
2014	13.8	11.5	10.2	12.5	11.1	2.5	16.5	2.0	15.9	19.5	-3.5	2.5	-6.0	-5.9
2015	13.7	11.8	10.1	12.3	11.1	2.3	15.8	2.0	16.7	19.4	-2.7	2.5	-5.1	-5.1
2016	13.6	11.7	9.7	12.2	11.0	2.2	15.5	1.9	16.7	19.1	-2.4	2.4	-4.8	-4.6
2017	13.5	11.9	10.4	12.2	10.9	2.0	15.4	1.8	17.9	19.0	-1.1	2.2	-3.3	-3.3
2014 IV	13.8	11.5	10.2	12.5	11.1	2.5	16.5	2.0	15.9	19.5	-3.5	2.5	-6.0	-5.9
2015 I	13.8	11.6	10.2	12.5	11.1	2.5	16.4	2.1	16.0	19.5	-3.5	2.5	-6.0	-5.8
II	13.8	11.7	10.2	12.4	11.1	2.4	16.2	2.0	16.4	19.5	-3.1	2.4	-5.5	-5.3
III	13.7	11.8	10.2	12.3	11.0	2.4	16.0	2.0	16.6	19.4	-2.8	2.5	-5.3	-5.2
IV	13.7	11.8	10.1	12.3	11.1	2.3	15.8	2.0	16.7	19.4	-2.7	2.5	-5.1	-5.1
2016 I	13.6	11.7	9.9	12.3	11.0	2.2	15.8	1.9	16.5	19.3	-2.7	2.4	-5.1	-5.1
II	13.5	11.7	9.5	12.2	11.0	2.1	15.7	1.8	16.4	19.2	-2.8	2.5	-5.3	-5.1
III	13.5	11.7	9.6	12.2	11.0	2.1	15.6	1.9	16.5	19.1	-2.6	2.3	-4.8	-4.6

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

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



(a) Excluding financial entities bail-out expenditures.

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

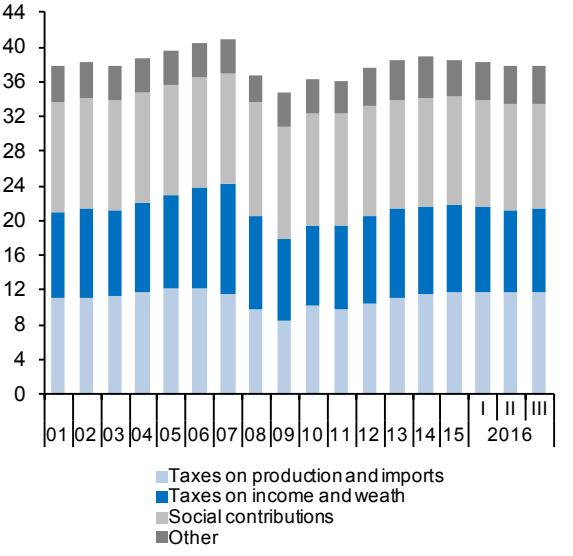


Chart 8.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

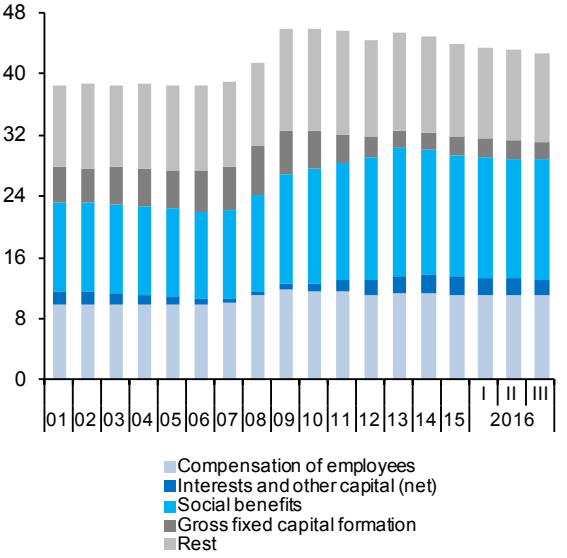
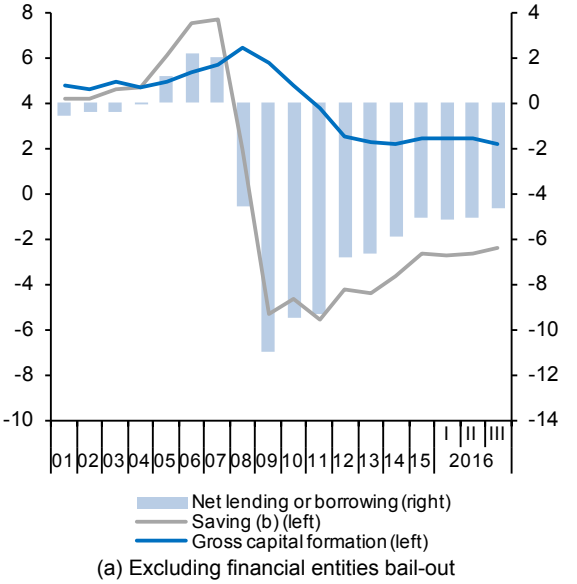


Chart 8.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages



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

Table 9

Public sector balances, by level of Government

Forecasts in blue

		Deficit					Debt				
		Central Government (a)	Regional Governments	Local Governments	Social Security	TOTAL Government (a)	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					**EUR Billions, end of period**				
2009		-99.1	-21.7	-5.9	7.8	-118.9	487.7	92.4	34.7	17.2	568.7
2010		-52.5	-40.2	-7.1	-2.4	-102.2	551.6	123.4	35.5	17.2	649.3
2011		-35.0	-54.8	-8.5	-1.1	-99.4	624.2	145.1	36.8	17.2	743.5
2012		-44.3	-19.4	3.3	-10.2	-70.6	761.9	188.4	44.0	17.2	890.7
2013		-46.5	-16.2	5.7	-11.5	-68.6	850.2	209.8	42.1	17.2	978.3
2014		-37.0	-18.5	5.5	-10.8	-60.8	902.5	237.2	38.3	17.2	1,040.9
2015		-27.9	-18.7	5.1	-13.2	-54.6	940.4	262.5	35.1	17.2	1,073.2
2016		-32.9	-6.7	3.3	-15.2	-51.5	--	--	--	--	1,120.4
2017		-20.7	-6.9	2.9	-13.4	-38.1	--	--	--	--	1,162.4
2014	IV	-37.0	-18.5	5.5	-10.8	-60.8	902.5	237.2	38.3	17.2	1,040.9
2015	I	-38.1	-17.6	6.0	-11.4	-61.0	912.8	240.7	38.3	17.2	1,052.1
	II	-31.8	-17.1	6.4	-13.6	-56.1	922.7	250.3	37.7	17.2	1,057.6
	III	-28.7	-18.5	5.0	-13.5	-55.6	938.8	253.6	36.9	17.2	1,067.6
	IV	-27.9	-18.7	5.1	-13.2	-54.6	940.4	262.5	35.1	17.2	1,073.2
2016	I	-28.1	-18.0	4.7	-14.1	-55.5	962.1	265.3	35.1	17.2	1,096.2
	II	-28.1	-16.9	5.0	-15.5	-55.6	964.7	272.8	35.1	17.2	1,106.3
	III	-32.5	-9.4	7.3	-16.7	-51.2	968.8	272.0	34.7	17.2	1,107.7
		Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
2009		-9.2	-2.0	-0.5	0.7	-11.0	45.2	8.6	3.2	1.6	52.7
2010		-4.9	-3.7	-0.7	-0.2	-9.5	51.0	11.4	3.3	1.6	60.1
2011		-3.3	-5.1	-0.8	-0.1	-9.3	58.3	13.6	3.4	1.6	69.5
2012		-4.3	-1.9	0.3	-1.0	-6.8	73.3	18.1	4.2	1.7	85.7
2013		-4.5	-1.6	0.6	-1.1	-6.7	82.9	20.5	4.1	1.7	95.4
2014		-3.6	-1.8	0.5	-1.0	-5.9	87.0	22.9	3.7	1.7	100.4
2015		-2.6	-1.7	0.5	-1.2	-5.1	87.4	24.4	3.3	1.6	99.8
2016		-3.0	-0.6	0.3	-1.4	-4.6	--	--	--	--	100.5
2017		-1.8	-0.6	0.3	-1.2	-3.3	--	--	--	--	100.9
2014	IV	-3.6	-1.8	0.5	-1.0	-5.9	87.0	22.9	3.7	1.7	100.4
2015	I	-3.6	-1.7	0.6	-1.1	-5.8	87.4	23.0	3.7	1.6	100.7
	II	-3.0	-1.6	0.6	-1.3	-5.3	87.5	23.7	3.6	1.6	100.3
	III	-2.7	-1.7	0.5	-1.3	-5.2	88.2	23.8	3.5	1.6	100.3
	IV	-2.6	-1.7	0.5	-1.2	-5.1	87.4	24.4	3.3	1.6	99.8
2016	I	-2.6	-1.7	0.4	-1.3	-5.1	88.8	24.5	3.2	1.6	101.1
	II	-2.6	-1.5	0.5	-1.4	-5.1	88.1	24.9	3.2	1.6	101.0
	III	-2.9	-0.8	0.7	-1.5	-4.6	87.7	24.6	3.1	1.6	100.3

(a) Excluding financial entities bail-out expenditures.

Sources: National Statistics Institute, Bank of Spain (Financial Accounts of the Spanish Economy) and Funcas (Forecasts).

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

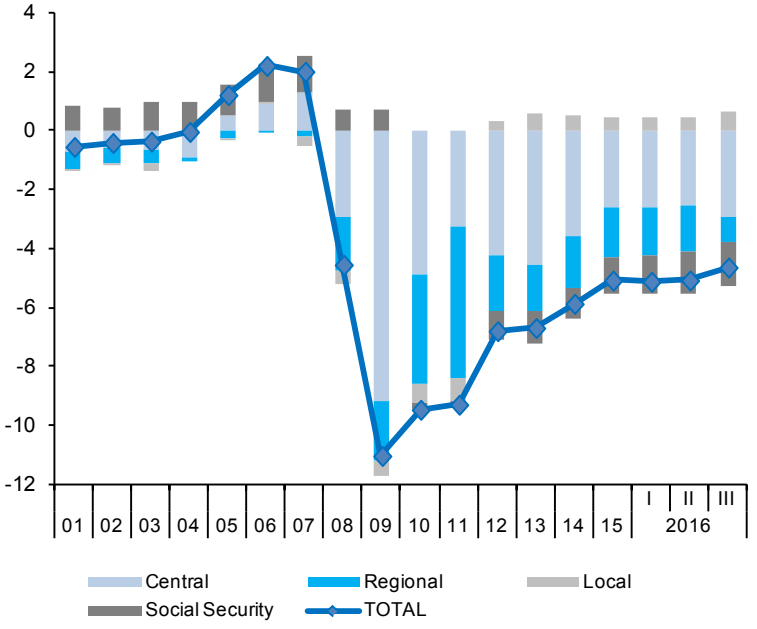


Chart 9.2.- Government debt
Percent of GDP

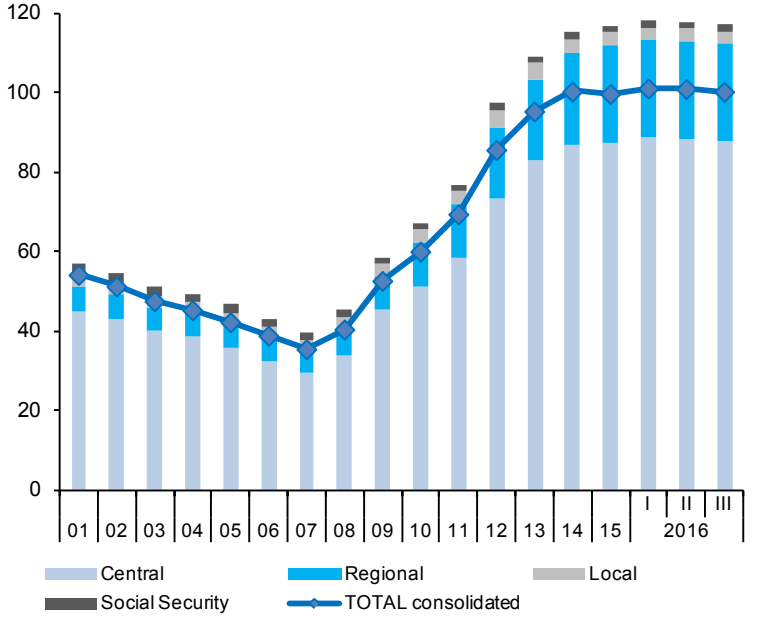


Table 10

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
		Index	**Index**	**Thousands**	**1000 GWH (smoothed)**	**2010=100**	**Thousands**	**Index**	**Balance of responses**	**2010=100 (smoothed)**	**Balance of responses**
2009		82.6	40.9	17,657	256.9	99.2	2,411	40.9	-30.8	96.5	-55.1
2010		93.1	50.0	17,244	263.8	100.0	2,295	50.6	-13.8	100.0	-36.7
2011		93.1	46.6	16,970	261.3	98.4	2,232	47.3	-12.5	101.1	-30.8
2012		88.4	43.1	16,335	255.7	91.9	2,114	43.8	-17.5	97.0	-37.1
2013		92.5	48.3	15,855	250.2	90.5	2,022	48.5	-13.9	93.8	-30.7
2014		102.4	55.1	16,111	249.7	91.6	2,023	53.2	-7.1	95.1	-16.3
2015		108.8	56.7	16,642	254.0	94.7	2,067	53.6	-0.3	96.5	-5.4
2016 (b)		106.5	54.9	17,157	254.0	97.1	2,125	53.1	-2.3	97.8	-5.4
2015	I	107.3	56.6	16,434	63.0	93.2	2,046	54.4	-3.2	95.8	-12.6
	II	109.3	57.7	16,603	63.3	94.8	2,061	54.9	0.9	96.4	0.2
	III	109.1	57.2	16,697	63.5	95.2	2,074	52.9	0.7	96.6	-4.0
	IV	109.6	55.4	16,826	63.4	95.6	2,089	52.5	0.3	96.5	-5.3
2016	I	107.3	55.0	16,950	63.5	95.7	2,104	54.3	-1.9	96.5	-7.6
	II	106.1	55.3	17,070	63.6	96.2	2,117	52.5	-2.8	96.9	-2.9
	III	105.2	54.2	17,215	63.7	96.9	2,130	51.4	-3.8	97.9	-6.7
	IV (b)	107.4	55.0	17,390	63.7	97.5	2,147	54.4	-0.6	99.1	-4.2
2016	Oct	107.6	54.4	17,370	21.3	96.6	2,144	53.3	-0.1	98.9	-6.5
	Nov	108.4	55.2	17,387	21.2	98.3	2,148	54.5	0.9	99.4	-3.3
	Dec	106.2	55.5	17,413	21.2	--	2,149	55.3	-2.6	--	-2.8
		Percentage changes (c)									
2009		--	--	-6.2	-4.7	-15.8	-10.6	--	--	-19.6	--
2010		--	--	-2.3	2.7	0.8	-4.8	--	--	3.6	--
2011		--	--	-1.6	-0.9	-1.6	-2.7	--	--	1.2	--
2012		--	--	-3.7	-2.2	-6.7	-5.3	--	--	-4.1	--
2013		--	--	-2.9	-2.2	-1.6	-4.4	--	--	-3.3	--
2014		--	--	1.6	-0.2	1.3	0.1	--	--	1.4	--
2015		--	--	3.3	1.7	3.4	2.2	--	--	1.5	--
2016 (d)		--	--	3.1	0.0	1.9	2.8	--	--	0.8	--
2015	I	--	--	3.6	1.7	6.2	2.5	--	--	2.0	--
	II	--	--	4.2	0.1	6.9	3.1	--	--	2.7	--
	III	--	--	2.3	2.5	1.8	2.4	--	--	0.6	--
	IV	--	--	3.1	2.5	2.0	2.9	--	--	-0.3	--
2016	I	--	--	3.0	-1.0	0.3	3.0	--	--	0.1	--
	II	--	--	2.9	0.8	2.0	2.4	--	--	1.7	--
	III	--	--	3.4	0.3	3.2	2.6	--	--	4.2	--
	IV (e)	--	--	4.1	0.0	2.3	3.1	--	--	5.0	--
2016	Oct	--	--	0.7	0.0	0.1	0.4	--	--	0.5	--
	Nov	--	--	0.1	0.0	1.7	0.2	--	--	0.5	--
	Dec	--	--	0.2	-0.1	--	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

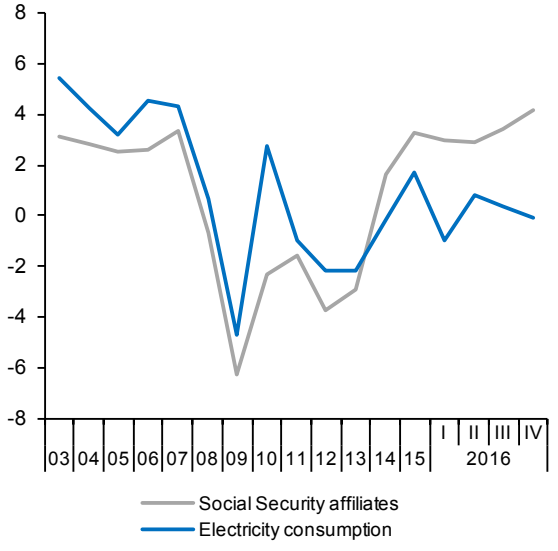


Chart 10.2.- General activity indicators (II)
Index

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

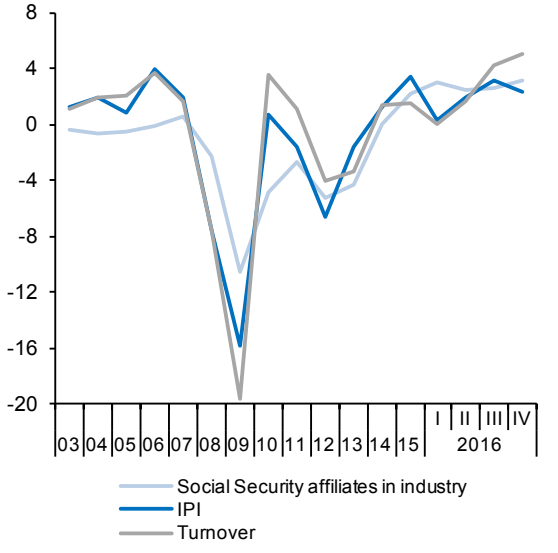


Chart 10.4.- Industrial sector indicators (II)
Index

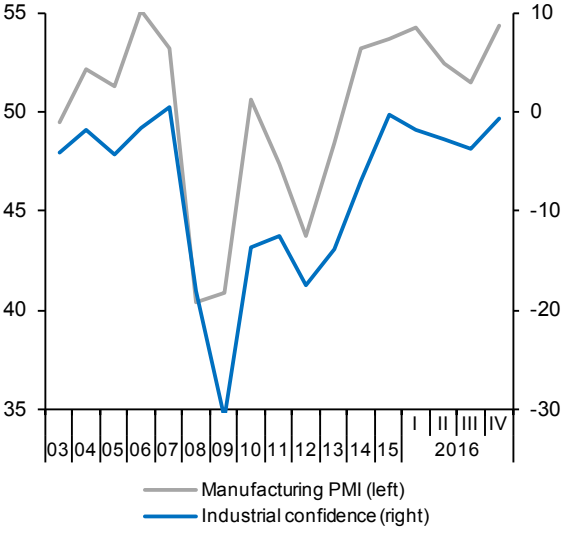


Table 11

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security affiliates in construction	Consumption of cement	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	**Million Tons**	**2010=100 (smoothed)**	**Balance of responses**	**EUR Billions (smoothed)**	**Million m²**	**Thousands**	**2010=100 (smoothed)**	**Index**	**Million (smoothed)**	**Million (smoothed)**	**Balance of responses**
2009	1,800	28.9	115.9	-32.3	39.6	19.4	12,247	99.2	41.0	251.0	186.3	-29.6
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	66.9	-54.9	7.4	8.5	11,907	92.8	43.1	280.7	193.2	-21.5
2013	997	10.7	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	194.9	9.9
2015	1,027	11.5	66.9	-25.3	9.4	9.9	12,432	97.8	57.3	308.2	206.6	19.4
2016 (b)	1,054	10.3	69.7	-39.6	8.4	10.5	12,852	100.9	55.0	330.0	229.4	17.8
2015 I	1,015	2.8	63.9	-23.3	2.8	2.1	12,280	95.9	56.7	75.2	49.9	17.5
II	1,027	2.9	66.2	-27.7	2.5	2.5	12,394	97.2	58.3	76.3	50.9	20.1
III	1,029	2.8	68.0	-28.5	2.2	2.5	12,474	98.2	58.1	77.7	52.1	19.7
IV	1,036	2.9	68.8	-21.7	2.0	2.7	12,576	99.0	55.9	79.4	53.5	20.2
2016 I	1,042	2.8	68.7	-31.7	2.2	3.4	12,684	99.9	54.6	81.0	55.0	18.8
II	1,048	2.7	68.6	-40.4	2.4	3.2	12,783	101.1	55.5	82.2	56.4	17.5
III	1,056	2.7	69.1	-44.3	2.3	2.9	12,900	102.5	54.9	82.8	57.7	16.0
IV (b)	1,069	1.9	70.1	-42.0	2.1	3.1	13,033	103.8	54.9	83.5	59.2	18.7
2016 Oct	1,066	0.9	69.9	-45.4	0.7	1.0	13,003	103.5	54.6	27.8	19.6	17.7
Nov	1,070	1.0	70.4	-37.6	0.7	--	13,038	104.0	55.1	27.8	19.7	18.3
Dec	1,071	--	--	-43.1	--	--	13,058	--	55.0	27.9	19.9	20.0
Percentage changes (c)												
2009	-23.1	-32.3	-25.2	--	-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	-6.1	--	-2.1	-5.0	--
2013	-12.2	-20.9	-5.7	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	0.8	-1.4	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015	4.7	6.1	7.7	--	-28.2	42.6	3.6	4.8	--	4.4	6.0	--
2016 (d)	2.6	-3.0	3.0	--	-3.3	33.2	3.4	4.1	--	7.1	11.0	--
2015 I	8.5	6.2	14.4	--	-16.7	23.6	4.5	5.3	--	3.9	5.3	--
II	5.0	11.9	15.5	--	-25.8	37.3	3.8	5.2	--	5.6	7.8	--
III	0.6	-7.9	11.0	--	-33.0	31.9	2.6	4.3	--	7.9	9.9	--
IV	2.6	11.6	4.7	--	-31.7	85.9	3.3	3.5	--	9.1	11.5	--
2016 I	2.3	-11.4	-0.2	--	-21.4	60.4	3.5	3.7	--	8.3	11.6	--
II	2.6	-13.7	-0.8	--	-6.8	28.4	3.2	4.8	--	5.6	10.3	--
III	3.2	1.1	3.2	--	6.9	13.7	3.7	5.7	--	3.3	9.9	--
IV (e)	5.0	11.1	5.9	--	4.6	38.9	4.2	5.0	--	3.2	10.8	--
2016 Oct	0.7	-0.3	0.6	--	-2.1	38.9	0.5	0.5	--	0.3	0.9	--
Nov	0.4	3.7	0.7	--	17.6	--	0.3	0.5	--	0.3	0.9	--
Dec	0.1	--	--	--	--	--	0.2	--	--	0.3	0.9	--

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

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

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

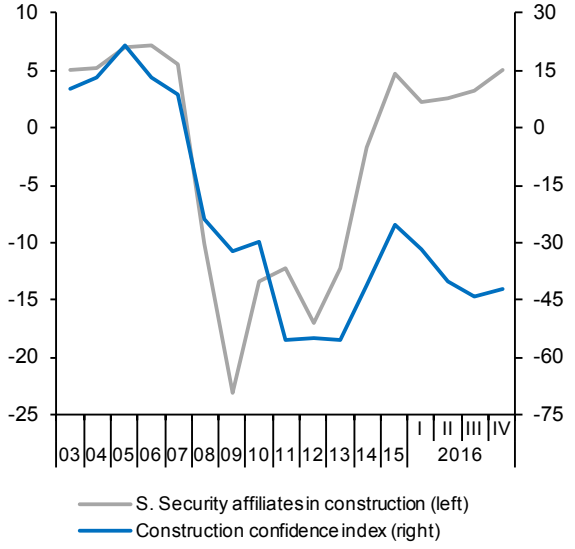


Chart 11.2.- Construction indicators (II)
Annualized percentage changes from previous period

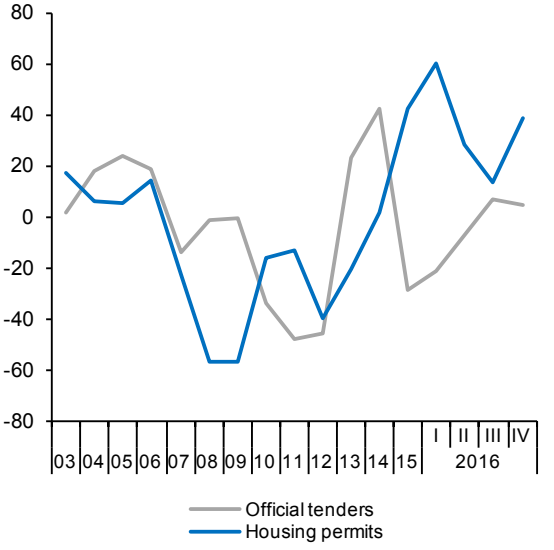


Chart 11.3.- Services indicators (I)
Percentage changes from previous period

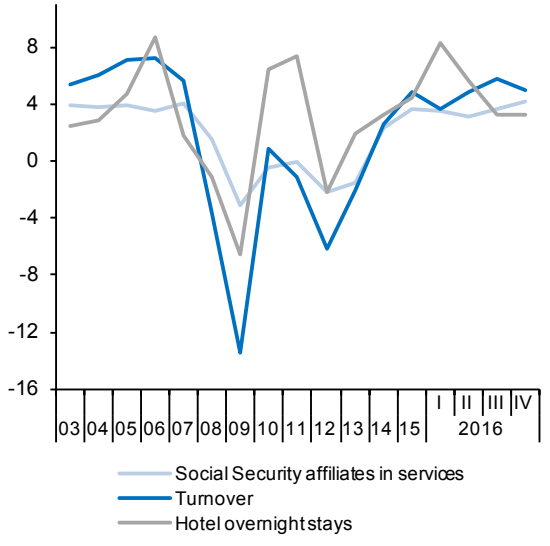


Chart 11.4.- Services indicators (II)
Index

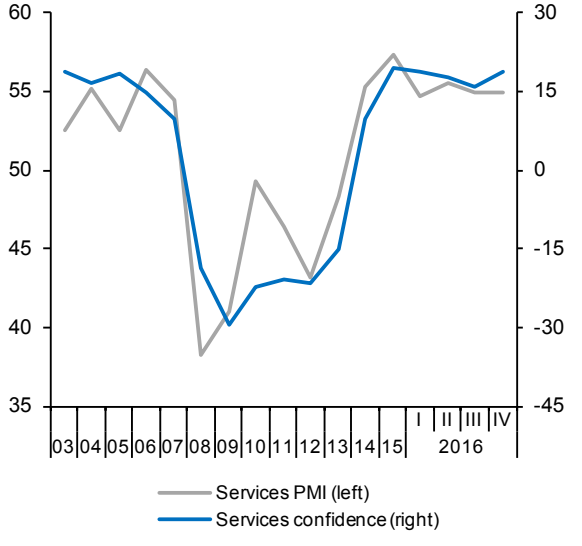


Table 12

Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Import of capital goods (volume)
	2010=100 (smoothed)	**Thousands (smoothed)**	**Balance of responses**	**Million (smoothed)**	**Balance of responses**	**Thousands (smoothed)**	**Balance of responses**	**2005=100 (smoothed)**
2009	101.8	971.2	-28.2	109.8	-40.2	142.1	-50.8	66.2
2010	100.0	1,000.1	-20.9	113.2	-26.7	152.1	-31.1	70.3
2011	94.4	808.3	-17.1	111.5	-21.7	142.0	-23.0	68.0
2012	87.4	710.6	-31.7	102.1	-24.2	107.7	-38.6	60.6
2013	84.0	742.3	-25.3	100.6	-21.8	107.6	-33.5	68.9
2014	84.9	890.1	-8.9	104.7	-9.2	137.5	-16.5	81.6
2015	87.9	1,094.0	0.3	110.3	-3.1	180.3	0.2	93.3
2016 (b)	89.6	1,230.1	-3.8	113.7	-1.4	191.3	-0.2	96.5
2015 I	86.7	253.8	-0.6	27.0	-4.9	41.2	-9.1	90.0
II	87.4	264.9	1.6	27.3	-5.0	44.0	5.7	92.8
III	88.3	276.0	-1.3	27.6	-3.3	45.5	-0.7	94.0
IV	89.2	286.5	1.6	27.9	0.8	46.0	4.9	94.5
2016 I	90.1	294.8	-2.5	28.2	0.8	46.0	-2.3	95.9
II	90.9	301.8	-3.2	28.3	-4.2	46.8	1.9	97.5
III	91.5	308.9	-6.1	28.2	-1.9	48.7	2.3	97.9
IV (b)	91.9	318.1	-3.2	28.0	-0.4	50.7	-2.6	97.3
2016 Oct	91.9	104.9	-4.8	9.4	-0.4	16.7	-6.4	97.5
Nov	92.0	106.0	-2.2	9.3	0.2	16.9	-1.8	97.1
Dec	--	107.1	-2.7	9.3	-1.1	17.1	0.4	--
				Percentage changes (c)				
2009	-5.4	-18.1	--	-3.0	--	-40.0	--	-26.4
2010	-1.7	3.0	--	3.2	--	7.0	--	6.1
2011	-5.6	-19.2	--	-1.5	--	-6.6	--	-3.2
2012	-7.4	-12.1	--	-8.4	--	-24.2	--	-10.9
2013	-3.9	4.5	--	-1.4	--	-0.1	--	13.7
2014	1.1	19.9	--	4.1	--	27.8	--	18.4
2015	3.6	22.9	--	5.3	--	31.1	--	14.4
2016 (d)	3.8	12.4	--	3.1	--	6.1	--	4.1
2015 I	3.8	24.0	--	5.5	--	42.2	--	21.2
II	3.6	18.7	--	5.0	--	30.2	--	13.2
III	4.1	17.8	--	4.0	--	14.9	--	5.3
IV	4.2	16.2	--	3.9	--	4.1	--	2.2
2016 I	3.8	12.1	--	4.3	--	0.1	--	6.0
II	3.5	9.8	--	1.4	--	7.7	--	6.8
III	2.9	9.7	--	-1.2	--	16.6	--	1.5
IV (e)	1.9	12.4	--	-2.3	--	18.1	--	-2.5
2016 Oct	0.2	1.0	--	-0.2	--	1.4	--	-0.3
Nov	0.2	1.1	--	-0.2	--	1.4	--	-0.4
Dec	--	1.1	--	-0.2	--	1.4	--	--

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

Sources: European Commission, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

Chart 12.1.- Consumption indicators
Percent change from previous period and balance of responses

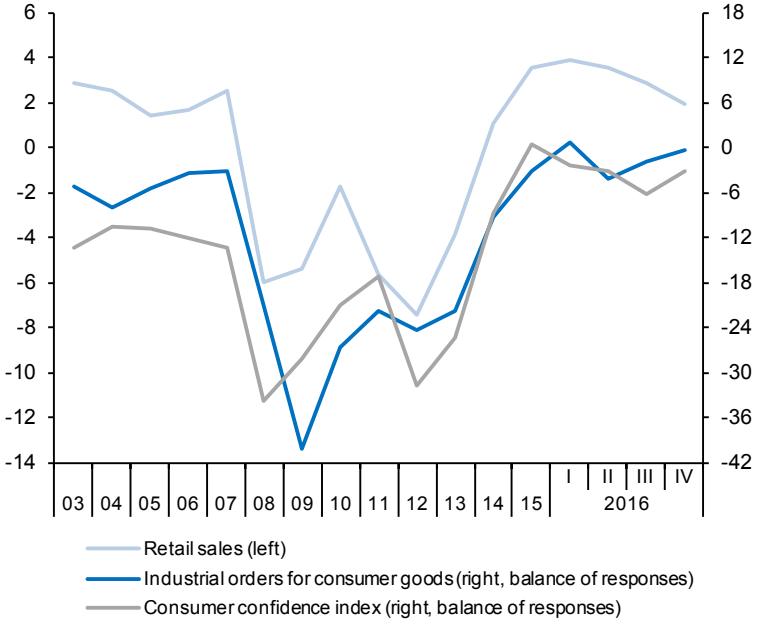


Chart 12.2.- Investment indicators
Percent change from previous period and balance of responses

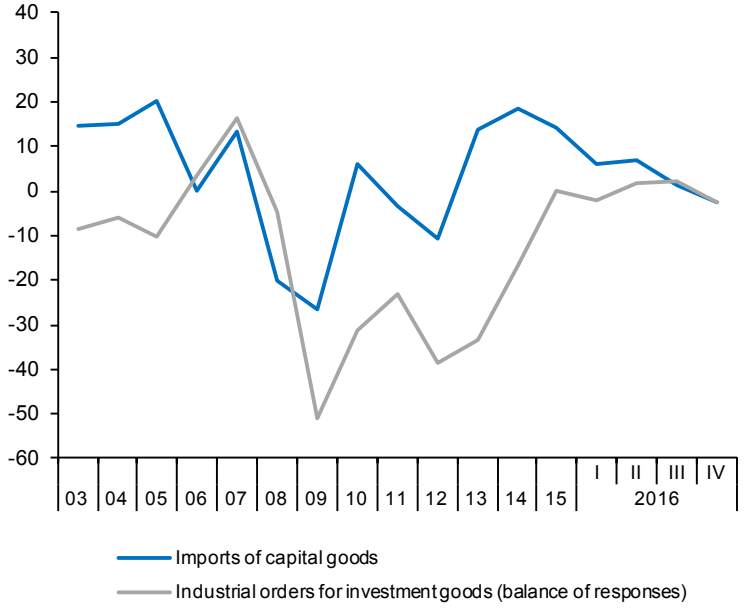


Table 13a

Labour market (I)

Forecasts in blue

	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
										Total	Aged 16-24	Spanish	Foreign
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	Million							**Percentage**					
2009	31.2	23.3	--	19.1	--	4.2	--	74.1	60.8	17.9	37.7	16.0	28.2
2010	31.1	23.4	--	18.7	--	4.6	--	74.6	59.7	19.9	41.5	18.1	29.9
2011	31.1	23.4	--	18.4	--	5.0	--	74.9	58.8	21.4	46.2	19.5	32.6
2012	30.9	23.4	--	17.6	--	5.8	--	75.3	56.5	24.8	52.9	23.0	35.9
2013	30.6	23.2	--	17.1	--	6.1	--	75.3	55.6	26.1	55.5	24.4	37.0
2014	30.3	23.0	--	17.3	--	5.6	--	75.3	56.8	24.4	53.2	23.0	34.5
2015	30.2	22.9	--	17.9	--	5.1	--	75.5	58.7	22.1	48.3	20.9	30.5
2016	30.1	22.8	--	18.3	--	4.5	--	75.4	60.5	19.6	44.4	18.7	26.6
2017	30.0	22.9	--	18.8	--	4.1	--	75.8	62.1	18.0	--	--	--
2015 I	30.2	22.9	23.0	17.5	17.6	5.4	5.3	75.4	57.3	23.2	50.3	21.9	32.1
II	30.2	23.0	23.0	17.9	17.8	5.1	5.1	75.7	58.7	22.4	48.7	21.2	31.1
III	30.2	22.9	22.9	18.0	17.9	4.9	5.0	75.4	59.4	21.6	47.9	20.5	29.9
IV	30.1	22.9	22.9	18.1	18.1	4.8	4.8	75.4	59.5	21.0	46.4	19.9	28.6
2016 I	30.1	22.8	22.9	18.0	18.2	4.8	4.7	75.5	59.4	20.4	45.7	19.3	28.3
II	30.1	22.9	22.8	18.3	18.3	4.6	4.6	75.4	60.3	20.0	45.4	19.0	27.5
III	30.1	22.8	22.8	18.5	18.4	4.3	4.4	75.4	61.1	19.4	43.5	18.5	25.6
IV	30.0	22.7	22.7	18.5	18.5	4.2	4.3	75.1	61.1	18.7	43.0	17.9	24.9
	Percentage changes (d)							**Difference from one year ago**					
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	1.1
2014	-0.9	-1.0	--	1.2	--	-7.3	--	0.0	1.2	-1.7	-2.3	-1.4	-2.5
2015	-0.5	-0.1	--	3.0	--	-9.9	--	0.2	1.9	-2.4	-4.9	-2.1	-4.0
2016	-0.4	-0.4	--	2.7	--	-11.4	--	-0.1	1.8	-2.4	-3.9	-2.2	-3.8
2017	-0.3	0.2	--	2.3	--	-8.3	--	0.4	1.6	-1.7	--	--	--
2015 I	-0.4	0.1	-1.1	3.0	2.0	-8.2	-10.5	0.3	1.8	-2.2	-4.0	-1.9	-4.0
I I	-0.5	0.2	0.7	3.0	4.8	-8.4	-12.1	0.4	1.9	-2.1	-4.2	-1.9	-3.3
III	-0.5	-0.1	-1.7	3.1	2.1	-10.6	-14.0	0.2	2.1	-2.5	-5.8	-2.2	-4.0
IV	-0.5	-0.7	-0.4	3.0	3.1	-12.4	-12.4	-0.2	1.9	-2.8	-5.2	-2.5	-4.8
2016 I	-0.5	-0.3	0.3	3.3	3.2	-12.0	-10.2	0.1	2.1	-2.8	-4.6	-2.6	-3.8
I I	-0.4	-0.6	-0.6	2.4	1.5	-11.2	-8.4	-0.2	1.6	-2.4	-3.3	-2.2	-3.6
III	-0.3	-0.2	-0.2	2.7	2.9	-10.9	-12.1	0.0	1.8	-2.3	-4.4	-2.0	-4.2
IV	-0.3	-0.6	-1.6	2.3	1.6	-11.3	-14.3	-0.2	1.5	-2.3	-3.4	-2.0	-3.7

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

Sources: INE (Labour Force Survey) and Funcas.

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

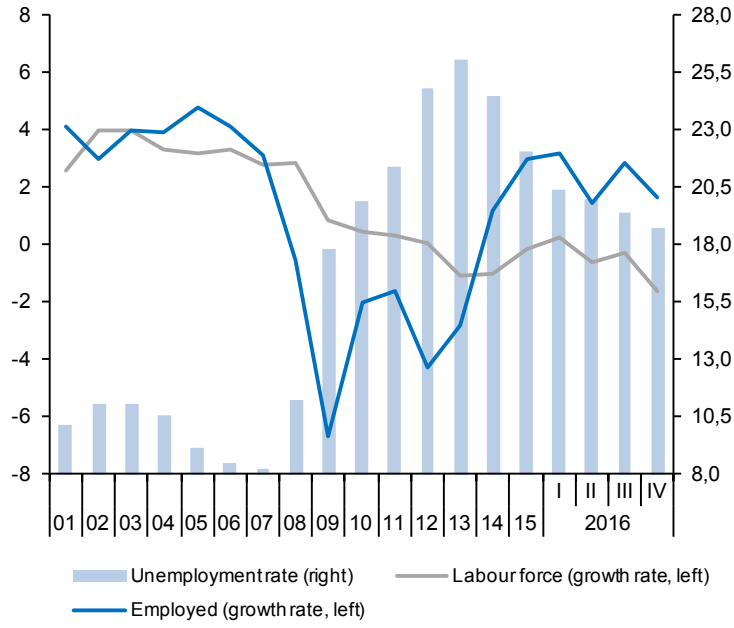


Chart 13a.2.- Unemployment rates, SA
Percentage

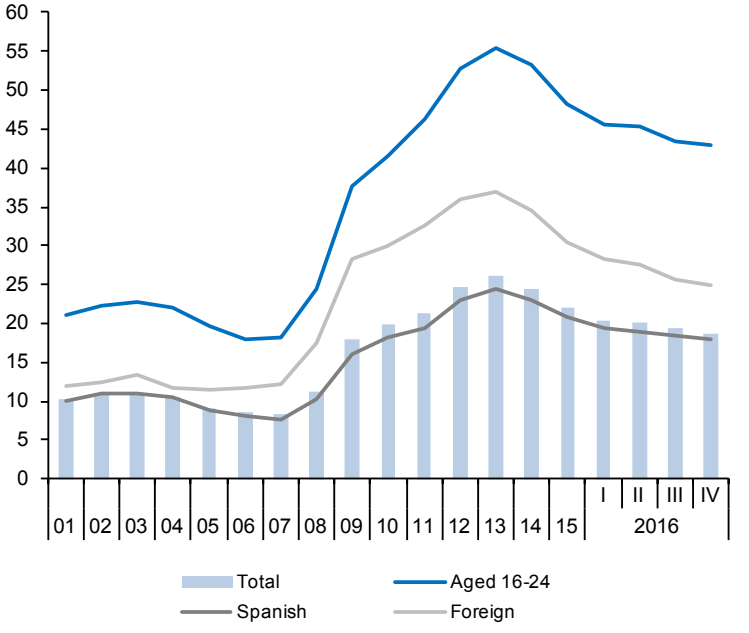


Table 13b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees				Self- employed			
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Temporary	Indefinite	Temporary employment rate (a)		Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)													
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		0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.7
2016		0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.2
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
	III	0.71	2.52	1.08	13.74	14.95	3.91	11.04	26.2	3.10	15.30	2.75	15.2
	IV	0.78	2.46	1.06	13.79	14.99	3.85	11.14	25.7	3.11	15.25	2.84	15.7
2016	I	0.78	2.48	1.03	13.74	14.94	3.74	11.19	25.0	3.09	15.20	2.83	15.7
	II	0.76	2.50	1.08	13.97	15.19	3.91	11.28	25.7	3.11	15.50	2.80	15.3
	III	0.74	2.53	1.11	14.15	15.40	4.15	11.25	27.0	3.12	15.83	2.70	14.6
	IV	0.82	2.58	1.08	14.03	15.39	4.07	11.31	26.5	3.12	15.68	2.83	15.3
Annual percentage changes									**Difference from one year ago**	**Annual percentage changes**			**Difference from one year ago**
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		0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016		5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
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
	III	6.5	3.8	5.9	2.6	3.7	10.1	1.6	1.5	0.3	2.8	4.8	0.2
	IV	7.0	1.0	2.7	3.2	3.5	9.5	1.6	1.4	0.6	3.4	0.8	-0.3
2016	I	8.4	1.7	-2.7	3.8	3.8	10.1	1.8	1.4	1.1	4.0	-0.2	-0.6
	II	2.7	-0.4	-1.4	3.2	2.9	5.5	2.0	0.6	0.3	3.0	-0.6	-0.5
	III	4.8	0.5	2.3	3.0	3.0	6.2	1.9	0.8	0.7	3.5	-1.9	-0.7
	IV	4.7	4.7	2.0	1.7	2.6	5.9	1.5	0.8	0.6	2.8	-0.4	-0.4

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed.
Source: INE (Labour Force Survey).

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

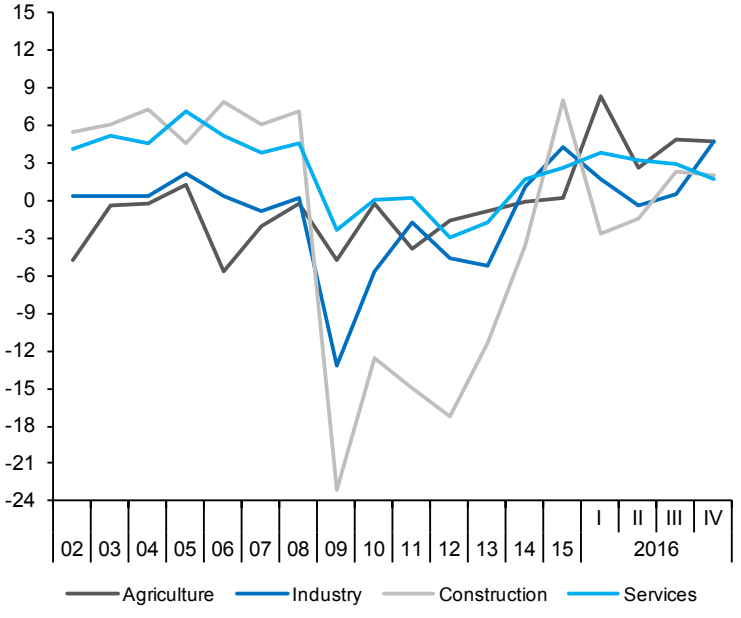


Chart 13b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

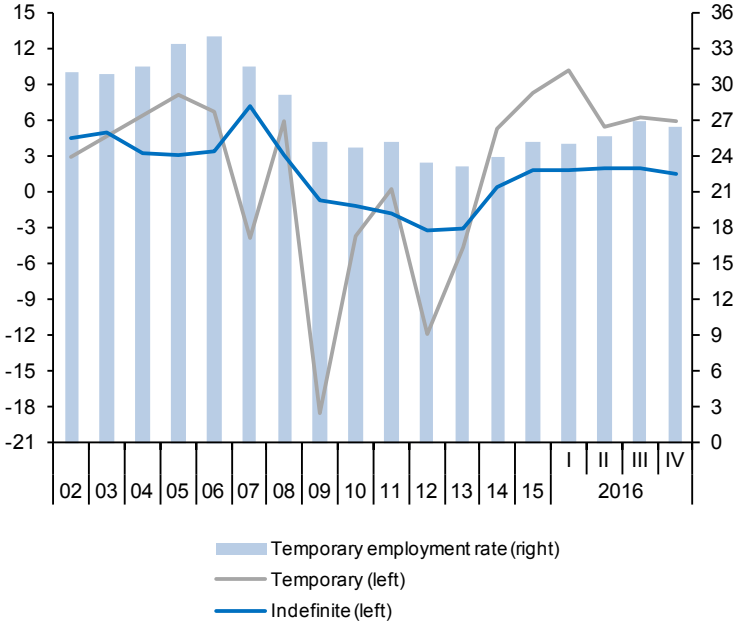


Table 14

Index of Consumer Prices

Forecasts in blue

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2016		100.0	67.06	82.12	26.94	40.13	15.06	6.45	11.42	21.50
Indexes, 2011 = 100										
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		103.2	102.9	103.7	101.3	103.8	107.6	106.4	98.3	107.3
2016		103.0	103.7	104.6	101.8	104.9	108.6	108.9	89.8	108.7
2017		105.3	104.8	105.6	102.6	106.2	109.3	110.2	101.2	109.6
Annual percentage changes										
2011		3.2	1.3	1.7	0.6	1.8	3.8	1.8	15.7	3.2
2012		2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.3	1.0	1.0	0.7	1.2	0.7	1.2	12.6	0.9
2016	Jan	-0.3	0.8	0.9	0.5	1.0	1.4	3.3	-10.3	1.9
	Feb	-0.8	1.0	1.0	0.5	1.3	1.3	0.8	-14.1	1.2
	Mar	-0.8	1.0	1.1	0.5	1.4	1.3	2.2	-14.8	1.5
	Apr	-1.1	0.7	0.7	0.5	0.8	1.2	3.2	-15.1	1.8
	May	-1.0	0.6	0.7	0.4	0.8	1.1	2.6	-14.0	1.6
	Jun	-0.8	0.6	0.6	0.3	0.7	1.0	2.3	-11.7	1.4
	Jul	-0.6	0.6	0.7	0.4	0.9	0.8	5.7	-12.0	2.3
	Aug	-0.1	0.9	0.9	0.7	1.1	0.7	3.7	-9.1	1.6
	Sep	0.2	0.9	0.8	0.7	1.0	0.5	1.2	-4.8	0.7
	Oct	0.7	0.9	0.8	0.6	1.1	0.4	0.2	0.1	0.3
	Nov	0.7	1.0	0.8	0.6	1.2	0.3	0.6	-0.5	0.4
	Dec	1.6	1.2	1.0	0.6	1.6	0.2	2.1	5.3	0.8
2017	Jan	2.6	1.1	1.0	0.8	1.3	0.3	0.9	16.1	0.5
	Feb	3.0	1.1	0.9	0.8	1.2	0.3	1.6	19.8	0.7
	Mar	2.7	0.9	0.8	0.8	1.0	0.4	1.6	17.6	0.7
	Apr	2.9	1.3	1.1	0.8	1.5	0.4	1.4	17.4	0.7
	May	2.5	1.1	1.0	0.8	1.3	0.4	0.8	14.8	0.6
	Jun	2.1	1.1	1.0	0.8	1.3	0.6	0.5	10.9	0.6
	Jul	2.1	1.1	1.0	0.8	1.2	0.8	-1.3	12.0	0.1
	Aug	2.2	0.9	0.9	0.5	1.2	0.9	-0.3	13.2	0.5
	Sep	2.3	1.0	1.0	0.6	1.3	1.0	2.4	11.5	1.4
	Oct	1.8	1.0	1.0	0.6	1.3	1.1	2.0	7.4	1.4
	Nov	1.8	1.0	1.0	0.6	1.3	1.2	2.5	7.3	1.6
	Dec	1.3	0.8	0.9	0.6	1.0	1.3	1.8	3.6	1.5

Sources: INE and Funcas (Forecasts).

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

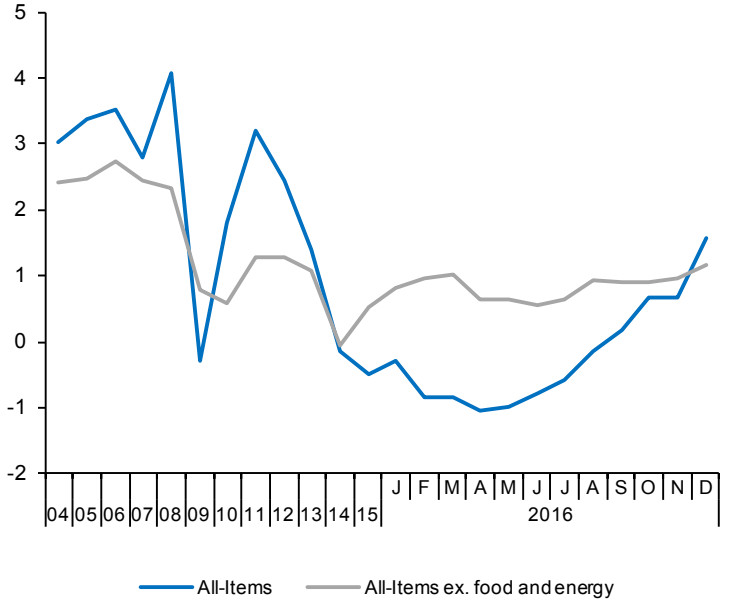


Chart 14.2.- Inflation rate (II)
Annual percentage changes

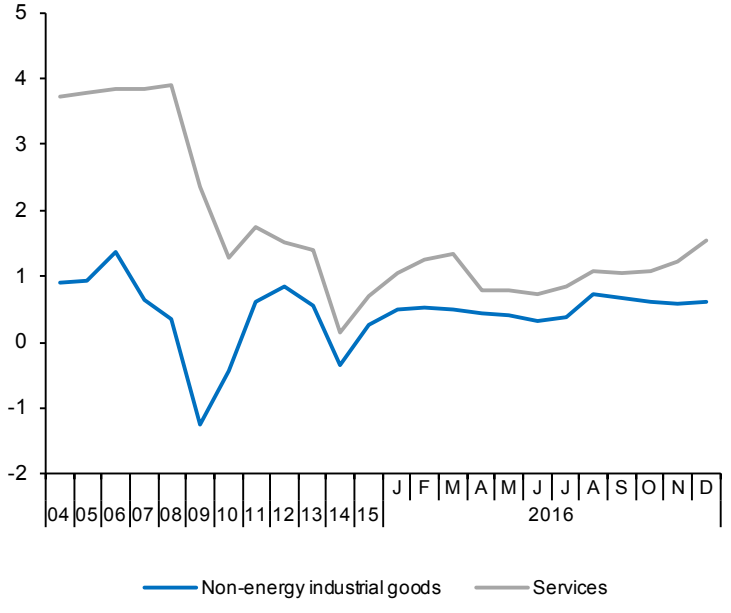


Table 15

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	M² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2010=100	2010=100		2007=100			2000=100				
2009	99.8	96.4	98.2	91.9	93.2	85.8	142.3	139.2	151.8	150.1	--
2010	100.0	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.5	--
2011	100.0	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012	100.1	111.0	105.9	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	100.5	111.7	106.7	64.3	72.7	55.1	143.8	141.1	152.2	155.3	--
2014	100.2	110.2	105.9	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015	100.7	107.9	106.2	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016 (b)	101.0	104.1	105.7	69.7	72.9	56.5	141.6	139.3	148.7	153.8	--
2015 I	100.5	107.7	105.9	64.6	70.9	53.8	140.6	137.2	151.1	147.2	--
II	100.7	109.2	106.5	67.3	71.8	55.0	146.5	145.4	149.8	154.4	--
III	100.7	108.5	106.6	67.8	71.8	56.1	138.8	135.5	149.0	160.1	--
IV	100.8	106.1	105.7	67.7	72.5	54.5	151.0	151.7	148.6	164.5	--
2016 I	100.7	102.3	105.2	68.7	72.6	56.6	140.3	137.3	149.8	147.6	--
II	101.1	103.4	105.6	69.9	73.3	58.7	146.3	145.5	148.6	154.4	--
III	101.0	105.0	106.0	70.5	72.9	54.2	138.2	135.1	147.7	159.4	--
IV (b)	--	--	--	--	--	--	--	--	--	--	--
2016 Oct	--	106.7	106.0	--	--	--	--	--	--	--	--
Nov	--	106.9	106.4	--	--	--	--	--	--	--	--
Dec	--	--	--	--	--	--	--	--	--	--	--
Annual percent changes (c)											
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	0.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.0
2012	0.1	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.0
2013	0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.5
2014	-0.3	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015	0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	1.1
2016 (d)	0.7	-3.7	-0.5	4.7	2.0	2.7	-0.3	-0.1	-0.8	-0.1	1.1
2015 I	0.5	-1.9	0.2	1.5	-0.1	5.9	0.5	1.4	-1.9	0.8	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	0.6	-2.4	0.5	4.5	1.4	9.7	0.3	0.5	-0.5	-0.1	0.8
IV	0.4	-2.8	-0.1	4.2	1.8	-2.4	1.2	1.7	-0.3	1.4	0.7
2016 I	0.2	-5.1	-0.7	6.3	2.4	5.3	-0.2	0.1	-0.8	0.3	1.1
II	0.4	-5.4	-0.9	3.9	2.0	6.6	-0.2	0.0	-0.8	0.0	1.1
III	0.3	-3.3	-0.5	4.0	1.6	-3.5	-0.5	-0.3	-0.9	-0.4	1.1
IV (e)	--	--	--	--	--	--	--	--	--	--	1.1
2016 Oct	--	0.3	0.1	--	--	--	--	--	--	--	1.1
Nov	--	0.6	0.8	--	--	--	--	--	--	--	1.1
Dec	--	--	--	--	--	--	--	--	--	--	1.1

(a) Seasonally adjusted. (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: M. of Public Works, M. of Labour and INE (National Statistics Institute).

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

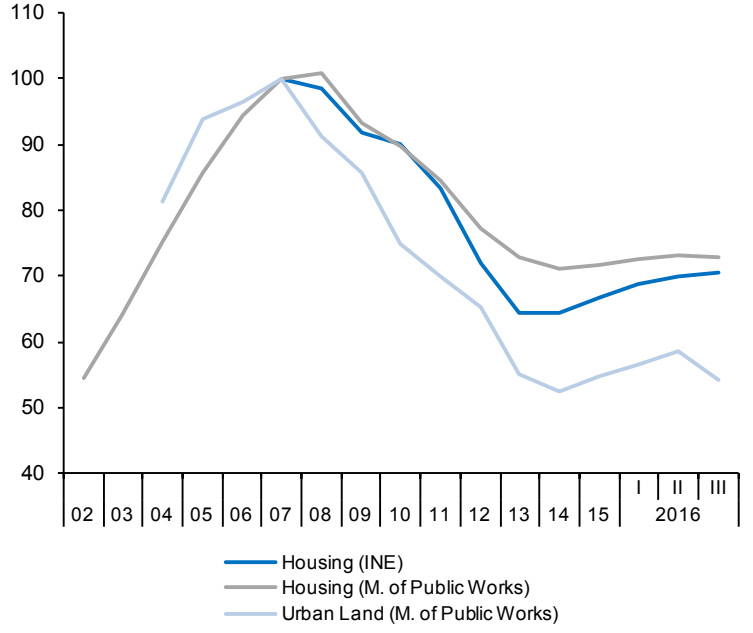


Chart 15.2.- Wage costs
Annual percent change

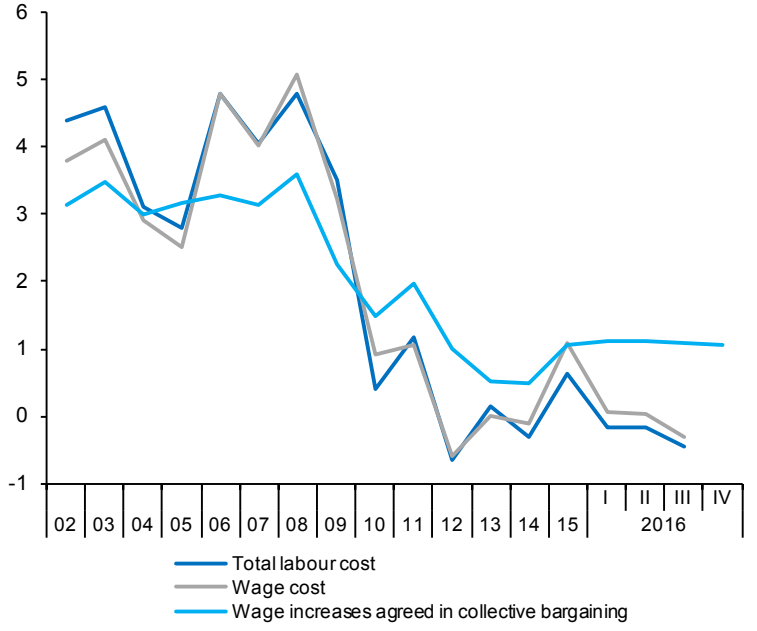


Table 16

External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
	Nominal	Prices	Real	Nominal	Prices	Real					
	2005=100			2005=100			EUR Billions				
2010	120.5	103.3	116.6	103.0	100.8	102.2	10.5	5.0	-4.4	-1.5	-0.4
2011	138.9	108.4	128.1	113.0	109.5	103.2	11.9	6.1	-4.0	-0.3	0.3
2012	145.9	110.6	131.9	110.7	114.6	96.6	11.9	6.9	-2.7	1.2	1.0
2013	152.1	110.5	137.7	108.3	109.7	98.7	12.3	7.3	-1.4	2.1	1.4
2014	155.2	109.4	141.9	114.0	107.2	106.3	12.7	7.3	-2.1	1.1	0.9
2015	161.2	110.0	146.5	118.0	104.5	112.9	13.5	7.3	-2.0	0.3	0.7
2016 (b)	164.7	108.0	152.5	117.1	100.9	116.0	14.1	7.1	-1.5	0.2	1.1
2014 IV	158.8	109.8	144.7	114.1	107.8	105.8	12.9	7.2	-1.9	1.1	0.5
2015 I	157.9	110.0	143.5	115.2	104.6	110.2	13.3	7.6	-1.8	0.6	1.0
II	162.3	110.6	146.8	119.4	105.4	113.2	13.7	7.1	-2.0	0.5	0.7
III	164.6	109.4	150.5	120.6	104.4	115.5	13.2	7.6	-2.4	-0.1	0.8
IV	165.0	109.9	150.1	117.9	103.9	113.5	13.8	7.2	-1.8	0.1	0.4
2016 I	160.0	107.7	148.6	114.9	99.4	115.5	13.8	7.5	-1.6	0.0	1.3
II	165.7	107.7	153.8	116.9	100.3	116.5	14.8	6.6	-1.0	0.7	1.1
III	164.4	108.3	151.9	117.0	101.6	115.1	13.2	7.6	-1.8	0.0	1.0
2016 Sep	164.9	108.2	152.4	116.4	102.2	114.0	14.5	6.9	-2.2	-0.6	0.6
Oct	166.0	108.0	153.7	119.2	103.3	115.3	14.3	7.5	-1.8	-0.2	0.9
Nov	175.5	109.2	160.8	122.4	102.5	119.4	15.9	7.6	-1.2	0.6	1.7
	Percentage changes (c)								Percentage of GDP		
2010	16.8	1.6	15.0	16.5	4.6	11.3	14.3	22.5	-4.9	-1.7	-0.4
2011	15.3	4.9	9.9	9.7	8.6	1.0	12.7	20.5	-4.5	-0.4	0.3
2012	5.0	2.0	3.0	-2.0	4.7	-6.4	0.5	14.1	-3.1	1.4	1.2
2013	4.2	-0.1	4.4	-2.2	-4.2	2.2	3.1	6.3	-1.6	2.5	1.7
2014	2.0	-1.0	3.1	5.3	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015	3.9	0.6	3.2	3.5	-2.5	6.2	6.0	0.5	-2.2	0.3	0.8
2016 (d)	1.6	-2.0	3.6	-0.9	-3.7	2.8	4.0	-2.8	--	--	--
2014 IV	-1.2	1.4	-2.6	-7.6	-1.1	-6.6	11.9	-18.4	-2.1	1.2	0.6
2015 I	-2.3	1.0	-3.3	4.2	-11.6	17.9	11.4	29.8	-2.1	0.6	1.1
II	11.6	2.0	9.4	15.1	3.4	11.3	15.5	-26.9	-2.2	0.6	0.8
III	5.9	-4.2	10.6	4.1	-4.0	8.5	-15.7	36.6	-2.7	-0.1	0.9
IV	0.8	1.7	-1.0	-8.5	-1.9	-6.8	21.8	-20.6	-2.0	0.1	0.4
2016 I	-11.4	-7.7	-4.1	-9.9	-16.1	7.4	-1.6	16.6	-1.8	0.0	1.4
II	14.9	0.1	14.8	7.3	3.8	3.3	31.6	-40.2	-1.1	0.7	1.2
III	-3.0	1.9	-4.9	0.2	5.1	-4.7	-35.9	73.1	-1.9	0.0	1.0
2016 Sep	0.0	1.1	-1.1	-2.0	1.0	-3.0	29.7	7.3	--	--	--
Oct	0.7	-0.1	0.8	2.3	1.1	1.2	-1.2	7.9	--	--	--
Nov	5.7	1.1	4.6	2.8	-0.7	3.5	11.2	1.3	--	--	--

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

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

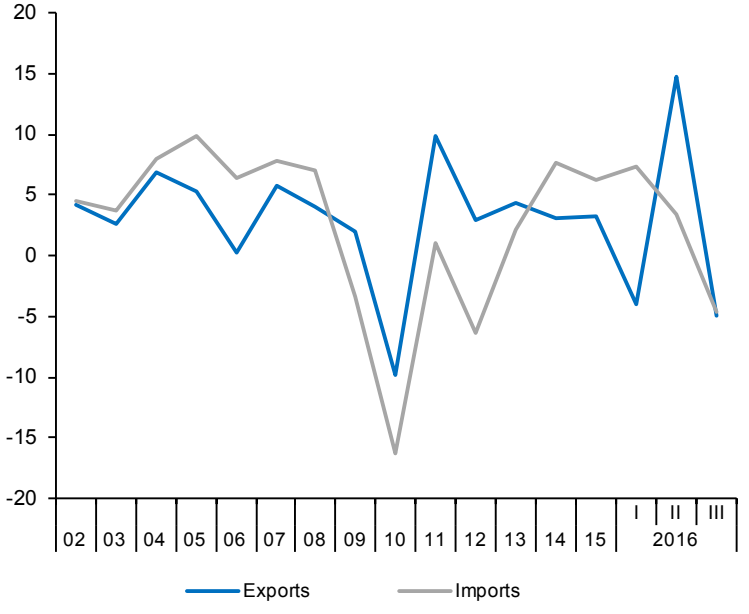


Chart 16.2.- Trade balance
EUR Billions, moving sum of 12 months

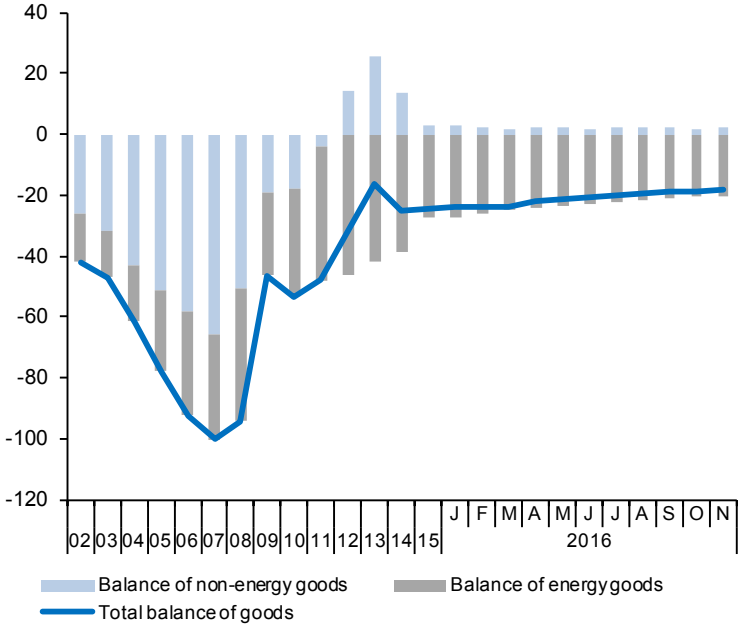


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
									Financial account, excluding Bank of Spain					Bank of Spain	
		Total	Goods	Services	Primary Income	Secondary Income			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	-0.86
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	-8.31
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		-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013		15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014		11.24	-22.38	47.88	-3.25	-11.01	5.05	16.29	-15.99	8.04	-6.49	-17.66	0.12	27.49	-4.79
2015		14.72	-21.75	47.97	-0.66	-10.84	7.01	21.73	65.35	29.38	-5.87	43.08	-1.24	-40.16	3.46
2014	IV	8.31	-5.26	10.49	4.61	-1.54	2.39	10.70	-14.30	15.41	-21.81	-8.95	1.05	26.00	1.00
2015	I	-1.26	-4.18	8.60	-0.88	-4.80	0.64	-0.61	11.97	3.60	-3.97	13.32	-0.99	-14.79	-2.21
	II	3.22	-5.21	12.23	-1.28	-2.52	1.52	4.74	19.67	15.53	6.16	-1.54	-0.47	-8.82	6.11
	III	5.72	-6.86	16.93	-2.49	-1.85	1.50	7.23	12.59	6.41	2.29	3.84	0.06	0.24	5.61
	IV	7.03	-5.50	10.21	3.99	-1.67	3.35	10.38	21.11	3.83	-10.35	27.47	0.16	-16.79	-6.05
2016	I	-0.60	-4.58	8.79	-0.13	-4.69	0.44	-0.16	9.63	6.75	22.53	-18.14	-1.51	-7.36	2.43
	II	6.78	-2.74	13.04	-1.76	-1.75	1.13	7.91	41.15	5.71	8.99	26.48	-0.02	-34.90	-1.67
	III	7.45	-5.23	17.28	-1.67	-2.93	0.59	8.05	15.35	1.41	3.85	10.81	-0.72	-6.82	0.49
			Goods and Services		Primary and Secondary Income										
2016	Aug	3.01	3.75		-0.74		0.10	3.10	14.25	0.67	6.23	8.29	-0.93	-18.44	-7.29
	Sep	1.50	2.58		-1.09		0.17	1.67	4.54	2.17	-2.20	4.40	0.17	-3.44	-0.57
	Oct	2.01	3.21		-1.20		0.14	2.14	-7.18	1.39	-3.07	-5.38	-0.13	7.09	-2.23
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	-0.1
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	-0.8
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	-4.2	4.0	-1.7	-1.3	0.4	-2.8	7.4	0.9	2.5	3.9	0.2	-10.2	0.0
2012		-0.2	-2.8	4.4	-0.7	-1.1	0.5	0.3	16.4	-2.0	5.3	13.9	-0.8	-16.2	-0.1
2013		1.5	-1.4	4.7	-0.5	-1.3	0.6	2.2	-8.3	-1.8	-5.2	-1.4	0.1	11.5	1.1
2014		1.1	-2.2	4.6	-0.3	-1.1	0.5	1.6	-1.5	0.8	-0.6	-1.7	0.0	2.7	-0.5
2015		1.4	-2.0	4.5	-0.1	-1.0	0.7	2.0	6.1	2.7	-0.5	4.0	-0.1	-3.7	0.3
2014	IV	3.1	-1.9	3.9	1.7	-0.6	0.9	4.0	-5.3	5.7	-8.1	-3.3	0.4	9.6	0.4
2015	I	-0.5	-1.6	3.4	-0.3	-1.9	0.3	-0.2	4.7	1.4	-1.5	5.2	-0.4	-5.8	-0.9
	II	1.2	-1.9	4.5	-0.5	-0.9	0.6	1.7	7.2	5.7	2.3	-0.6	-0.2	-3.2	2.2
	III	2.2	-2.6	6.4	-0.9	-0.7	0.6	2.7	4.7	2.4	0.9	1.4	0.0	0.1	2.1
	IV	2.5	-2.0	3.6	1.4	-0.6	1.2	3.7	7.5	1.4	-3.7	9.8	0.1	-6.0	-2.2
2016	I	-0.2	-1.7	3.3	0.0	-1.8	0.2	-0.1	3.6	2.5	8.5	-6.8	-0.6	-2.8	0.9
	II	2.4	-1.0	4.6	-0.6	-0.6	0.4	2.8	14.5	2.0	3.2	9.4	0.0	-12.3	-0.6
	III	2.7	-1.9	6.3	-0.6	-1.1	0.2	2.9	5.6	0.5	1.4	3.9	-0.3	-2.5	0.2

Source: Bank of Spain.

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

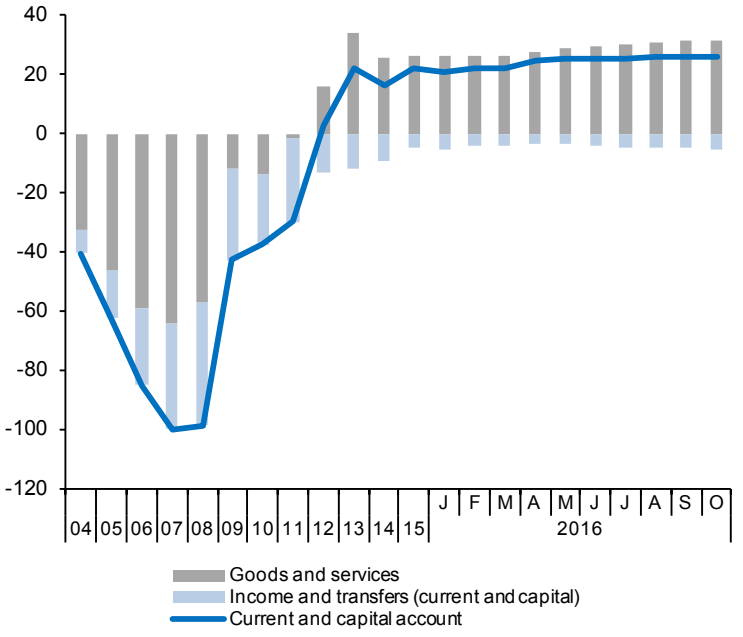


Chart 17.2.- Balance of payments: Financial account
EUR Billions, 12-month cumulated

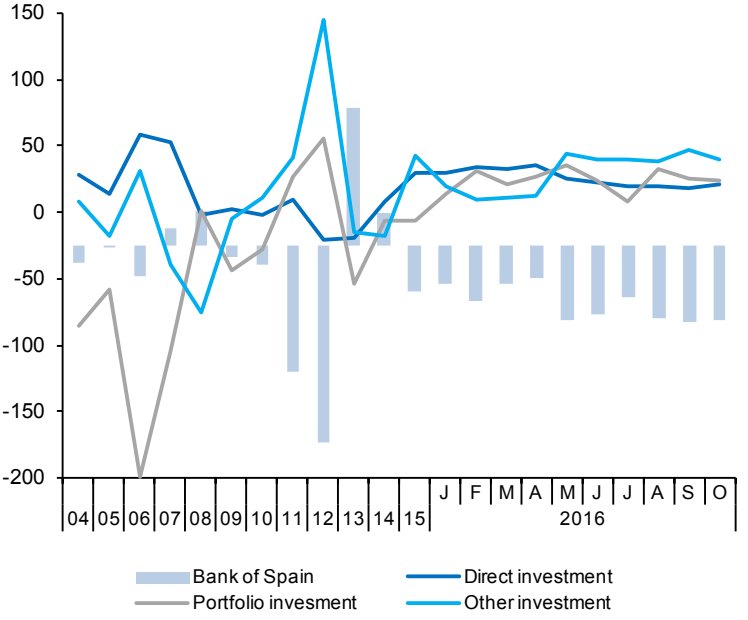


Table 18

State and Social Security System budget

	State							Social Security System (b)				
	National accounts basis			Revenue, cash basis (a)				Surplus or deficit	Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others		Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
2009	-99.7	134.0	233.6	162.5	87.5	55.7	19.3	8.8	123.7	107.3	114.9	92.0
2010	-50.6	161.2	211.8	175.0	86.9	71.9	16.3	2.4	122.5	105.5	120.1	97.7
2011	-32.0	168.1	200.1	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	-45.4	169.7	215.1	191.1	94.0	73.7	23.3	-8.9	121.3	98.1	130.2	111.1
2014	-40.2	174.3	214.5	205.9	95.6	78.2	32.1	-14.0	119.3	99.2	133.3	114.4
2015	-30.0	181.0	211.0	217.5	97.8	82.7	37.0	-16.7	123.7	100.5	140.4	117.8
2016 (c)	-26.4	159.1	185.5	196.1	90.7	81.1	24.4	-9.7	114.1	94.8	123.8	106.6
2016 Sep	-35.0	175.3	210.3	210.5	95.0	85.6	30.0	-17.3	123.3	102.6	140.6	120.3
Oct	-30.2	178.8	209.0	216.9	99.8	85.9	31.2	-17.7	123.3	102.9	140.9	120.6
Nov	-31.3	176.7	208.1	214.9	99.4	85.9	29.6	-20.6	123.0	103.2	143.6	123.2
Annual percentage changes												
2009	--	-19.3	17.8	-13.9	-14.2	-21.2	20.4	--	-0.5	-1.3	4.7	5.9
2010	--	20.3	-9.3	7.7	-0.7	29.1	-15.7	--	-1.0	-1.7	4.5	6.2
2011	--	4.2	-5.6	1.1	3.1	-0.9	-0.8	--	-0.7	-0.1	1.7	3.9
2012	--	3.0	8.5	21.7	7.3	0.5	195.9	--	-2.5	-4.0	1.9	3.9
2013	--	-1.9	-0.9	-11.3	-2.2	3.0	-51.1	--	2.3	-3.0	4.6	5.3
2014	--	2.7	-0.3	7.7	1.6	6.1	37.6	--	-1.6	1.1	2.4	3.0
2015	--	3.8	-1.6	5.7	2.3	5.8	15.3	--	3.7	1.3	5.4	3.0
2016 (d)	--	-2.5	-1.7	-1.3	1.8	4.1	-23.3	--	-0.6	2.9	2.6	5.4
2016 Sep	--	-2.5	-0.3	-3.7	-3.0	5.2	-24.1	--	0.5	2.7	1.1	3.0
Oct	--	-0.8	-1.3	-1.3	1.4	5.0	-21.2	--	0.2	2.8	1.0	3.0
Nov	--	-2.9	-1.8	-3.0	0.7	5.1	-28.0	--	-0.5	2.8	2.6	5.0
Percentage of GDP, 12-month cumulated												
2009	-9.2	12.4	21.7	15.1	8.1	5.2	1.8	0.8	11.5	9.9	10.6	8.5
2010	-4.7	14.9	19.6	16.2	8.0	6.7	1.5	0.2	11.3	9.8	11.1	9.0
2011	-3.0	15.7	18.7	16.5	8.4	6.7	1.5	0.0	11.4	9.8	11.4	9.5
2012	-4.2	16.6	20.9	20.7	9.2	6.9	4.6	-0.6	11.4	9.7	12.0	10.1
2013	-4.4	16.5	21.0	18.6	9.2	7.2	2.3	-0.9	11.8	9.6	12.7	10.8
2014	-3.9	16.8	20.7	19.9	9.2	7.5	3.1	-1.3	11.5	9.6	12.9	11.0
2015	-2.8	16.8	19.6	20.2	9.1	7.7	3.4	-1.6	11.5	9.3	13.1	11.0
2016 Sep	-3.2	15.9	19.0	19.1	8.6	7.7	2.7	-1.6	11.2	9.3	12.7	10.9
Oct	-2.7	16.2	18.9	19.6	9.0	7.8	2.8	-1.6	11.2	9.3	12.8	10.9
Nov	-2.8	16.0	18.8	19.5	9.0	7.8	2.7	-1.9	11.1	9.3	13.0	11.2

(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 (National Accounts basis)
EUR Billions, 12-month cumulated

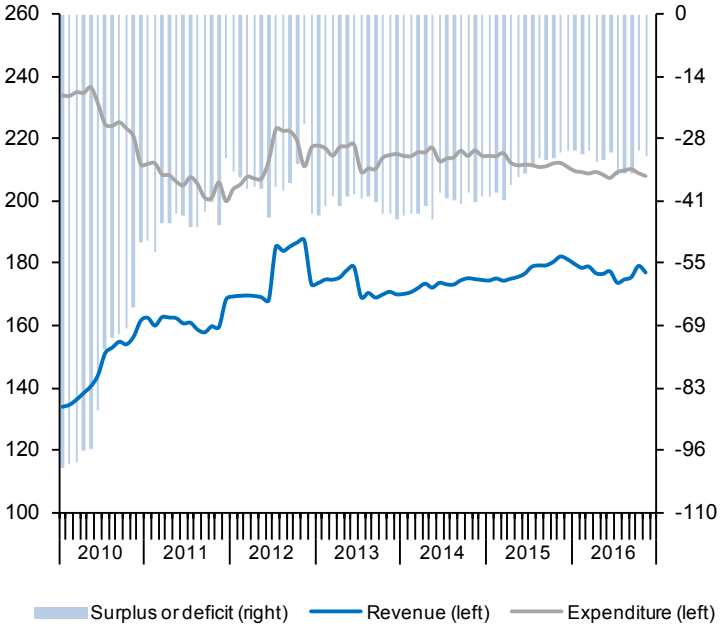


Chart 18.2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

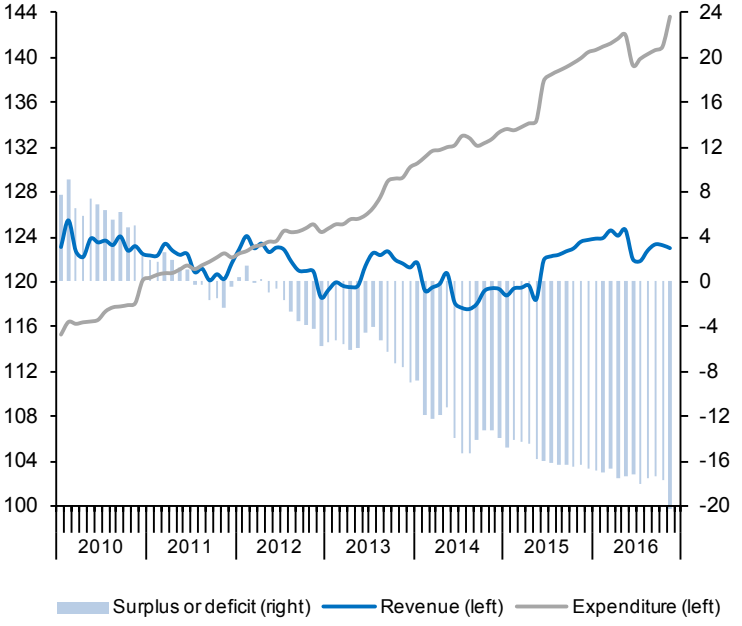


Table 19

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)				Contribution of Spanish MFI to Eurozone M3	Stock market (IBEX-35)
	10 year Bonds	Spread with German Bund (basis points)	Housing credit to households	Consumer credit to households	Credit to non-financial corporations (less than 1 million)	TOTAL	Government	Non-financial corporations	Households		
	Average of period data					**End of period data**					
2009	3.98	75.7	3.4	10.0	4.7	2,715.6	568.7	1,246.5	900.4	--	11,940.0
2010	4.25	150.8	2.6	8.1	4.3	2,788.5	649.3	1,244.0	895.2	--	9,859.1
2011	5.44	283.3	3.5	8.0	5.1	2,805.5	743.5	1,194.0	867.9	--	8,563.3
2012	5.85	435.1	3.4	8.6	5.6	2,820.8	890.7	1,099.2	830.9	--	8,167.5
2013	4.56	299.2	3.2	9.0	5.5	2,770.7	978.3	1,009.4	783.0	--	9,916.7
2014	2.72	156.0	3.1	8.9	4.9	2,739.8	1,040.9	950.2	748.8	--	10,279.5
2015	1.74	124.0	2.5	8.0	3.8	2,723.8	1,073.2	925.1	725.5	--	9,544.2
2016 (a)	1.39	129.7	2.3	7.8	3.2	2,733.6	1,098.6	914.1	720.9	--	9,352.1
2015 I	1.43	112.3	2.6	8.1	4.2	2,744.9	1,052.1	952.1	740.7	--	11,521.1
II	1.77	128.2	2.5	7.9	3.7	2,738.3	1,057.6	938.2	742.5	--	10,769.5
III	2.03	137.0	2.5	8.1	3.7	2,729.1	1,067.6	931.3	730.1	--	9,559.9
IV	1.71	118.4	2.4	7.8	3.5	2,723.8	1,073.2	925.1	725.5	--	9,544.2
2016 I	1.67	141.1	2.3	8.0	3.4	2,729.3	1,096.2	913.5	719.6	--	8,723.1
II	1.52	144.0	2.3	7.6	3.1	2,748.1	1,106.3	915.3	726.5	--	8,163.3
III	1.07	119.8	2.4	8.0	3.1	2,738.5	1,107.7	914.9	715.9	--	8,779.4
IV	1.31	114.0	2.3	7.4	3.1	2,733.6	1,098.6	914.1	720.9	--	9,352.1
2016 Oct	1.07	104.4	2.3	7.7	3.3	2,731.7	1,103.4	913.8	714.5	--	9,143.3
Nov	1.42	123.0	2.3	7.0	3.0	2,733.6	1,098.6	914.1	720.9	--	8,688.2
Dec	1.43	114.5	--	--	--	--	--	--	--	--	9,352.1
						Percentage change from same period previous year					**(b)**
2009	--	--	--	--	--	4.1	29.3	-1.2	-0.9	-0.8	29.8
2010	--	--	--	--	--	2.7	14.2	-0.2	-0.6	-2.2	-17.4
2011	--	--	--	--	--	0.6	14.5	-4.0	-3.1	-1.6	-13.1
2012	--	--	--	--	--	0.5	19.8	-7.9	-4.3	0.1	-4.6
2013	--	--	--	--	--	-1.8	9.8	-8.2	-5.8	-4.4	21.4
2014	--	--	--	--	--	-1.1	6.4	-5.9	-4.4	3.4	3.7
2015	--	--	--	--	--	-0.6	3.1	-2.6	-3.1	5.2	-7.2
2016 (a)	--	--	--	--	--	-0.4	2.5	-2.6	-1.9	5.4	-2.0
2015 I	--	--	--	--	--	0.1	5.7	-1.9	-3.3	4.5	12.1
II	--	--	--	--	--	-0.2	4.5	-2.3	-2.6	3.6	-6.5
III	--	--	--	--	--	0.0	4.6	-2.3	-2.4	4.6	-11.2
IV	--	--	--	--	--	0.5	3.8	-0.4	-2.1	5.2	-0.2
2016 I	--	--	--	--	--	0.5	4.2	-1.8	-1.9	5.5	-8.6
II	--	--	--	--	--	1.3	4.6	-0.2	-1.7	7.8	-6.4
III	--	--	--	--	--	1.3	3.8	0.6	-1.6	7.5	7.5
IV	--	--	--	--	--	0.5	2.5	-0.1	-1.6	5.4	6.5
2016 Oct	--	--	--	--	--	1.1	3.9	0.1	-1.6	7.0	4.1
Nov	--	--	--	--	--	0.5	2.5	-0.1	-1.6	5.4	-5.0
Dec	--	--	--	--	--	--	--	--	--	--	7.6

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

Source: Bank of Spain.

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

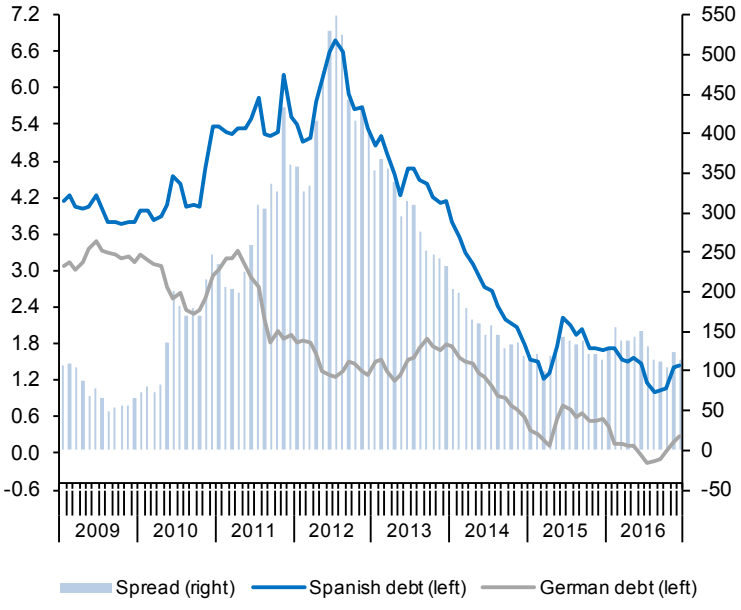


Chart 19.2.- Credit stock growth
Annual percentage change

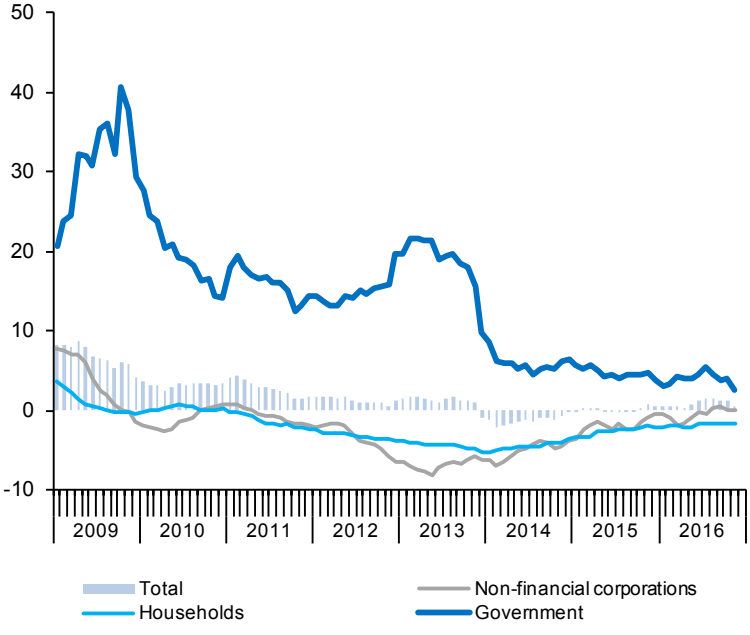


Table 20

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
		Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			**2015=100**			**2010=100**			**1999 I =100**
2009		108.3	97.8	110.8	92.2	91.8	100.4	96.2	97.0	99.2	114.0
2010		107.4	94.4	113.8	94.1	93.3	100.9	100.0	100.0	100.0	112.8
2011		106.3	94.8	112.1	96.9	95.8	101.2	106.5	105.2	101.2	113.1
2012		105.3	95.8	109.9	99.3	98.2	101.1	110.1	107.9	102.0	111.6
2013		103.6	95.4	108.7	100.8	99.5	101.3	110.0	107.4	102.4	113.4
2014		101.7	97.1	104.7	100.6	100.0	100.7	108.4	105.8	102.4	112.4
2015		99.3	99.3	100.1	100.0	100.0	100.0	106.8	104.0	102.7	109.0
2016 (a)		--	--	--	99.7	100.2	99.4	103.5	101.6	101.9	108.8
2015	I	--	--	--	98.8	99.2	99.6	106.6	104.2	102.3	108.7
	II	--	--	--	101.2	100.5	100.6	108.0	104.9	103.0	109.6
	III	--	--	--	99.8	100.0	99.7	107.4	103.9	103.3	108.6
	IV	--	--	--	100.3	100.2	100.0	105.2	102.7	102.4	109.0
2016	I	--	--	--	98.0	99.2	98.8	101.9	100.8	101.1	107.7
	II	--	--	--	100.1	100.4	99.7	102.8	101.2	101.6	109.1
	III	--	--	--	99.5	100.3	99.2	104.3	102.0	102.2	108.7
	IV	--	--	--	101.1	101.0	100.1	--	--	--	--
2016	Oct	--	--	--	100.7	100.9	99.9	105.8	102.8	102.9	110.0
	Nov	--	--	--	101.0	100.8	100.2	106.1	103.1	102.9	110.1
	Dec	--	--	--	101.5	101.3	100.2	--	--	--	--
		Annual percentage changes					**Differential**	**Annual percentage changes**		**Differential**	**Annual percentage changes**
2009		-2.1	5.0	-6.8	-0.2	0.3	-0.5	-3.3	-4.5	1.2	-0.4
2010		-0.8	-3.4	2.7	2.0	1.6	0.4	3.9	3.1	0.9	-1.0
2011		-1.0	0.4	-1.5	3.0	2.7	0.3	6.5	5.2	1.3	0.2
2012		-1.0	1.0	-2.0	2.4	2.5	-0.1	3.4	2.6	0.8	-1.3
2013		-1.6	-0.4	-1.1	1.5	1.3	0.2	-0.1	-0.4	0.4	1.5
2014		-1.8	1.9	-3.6	-0.2	0.4	-0.6	-1.5	-1.5	0.0	-0.9
2015		-2.3	2.2	-4.4	-0.6	0.0	-0.7	-1.5	-1.7	0.3	-3.0
2016 (b)		--	--	--	-0.3	0.2	-0.6	-3.2	-2.4	-0.8	-0.2
2015	I	--	--	--	-1.1	-0.3	-0.8	-1.3	-2.2	0.9	-3.4
	II	--	--	--	-0.3	0.2	-0.5	-0.6	-1.1	0.6	-3.3
	III	--	--	--	-0.6	0.1	-0.7	-1.7	-2.0	0.2	-2.8
	IV	--	--	--	-0.5	0.2	-0.6	-2.3	-2.4	0.1	-2.5
2016	I	--	--	--	-0.8	0.0	-0.8	-4.4	-3.2	-1.1	-0.9
	II	--	--	--	-1.0	-0.1	-1.0	-4.8	-3.6	-1.2	-0.5
	III	--	--	--	-0.3	0.3	-0.6	-2.9	-1.8	-1.1	0.1
	IV	--	--	--	0.8	0.7	0.1	--	--	--	--
2016	Oct	--	--	--	0.5	0.5	0.0	0.3	-0.2	0.5	0.7
	Nov	--	--	--	0.5	0.6	-0.1	0.7	0.1	0.6	1.0
	Dec	--	--	--	1.4	1.1	0.3	--	--	--	--

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

Sources: Eurostat, Bank of Spain and Funcas.

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

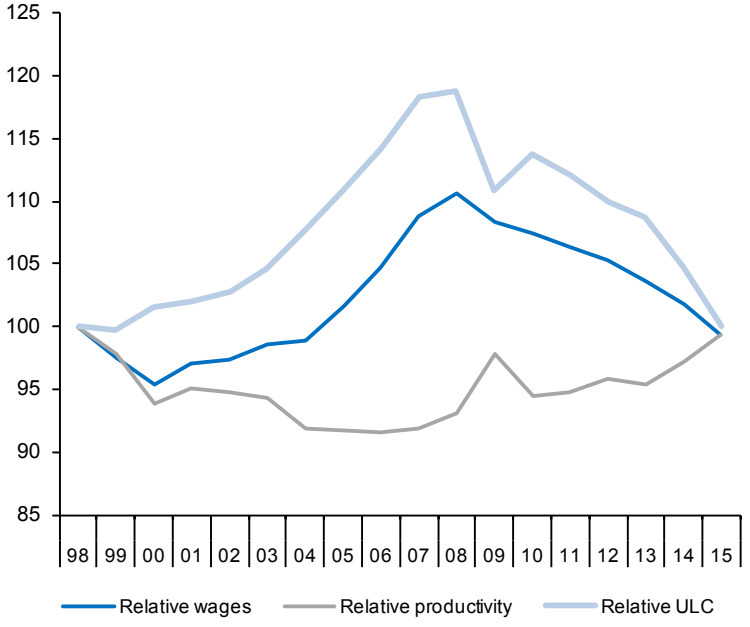


Chart 20.2.- Harmonized Consumer Prices
Annual growth in % and percentage points

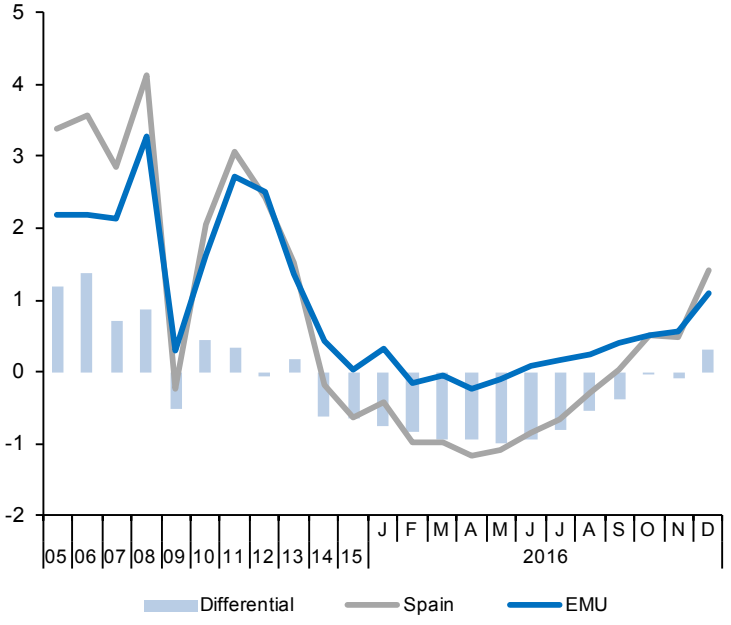


Table 21a

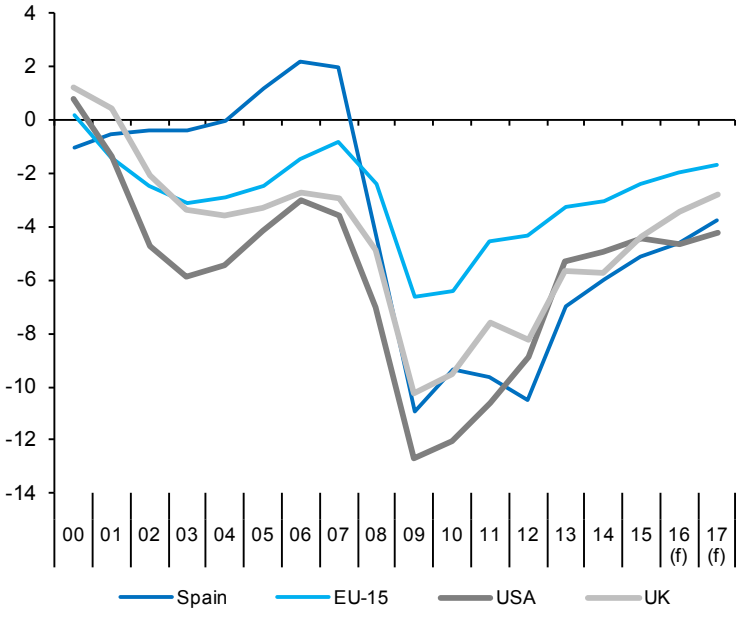
Imbalances: International comparison (I)

In blue: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK
Billions of national currency												
2005	11.2	-267.4	-543.4	-45.8	393.5	6,844.6	8,496.7	552.0	-70.3	45.4	-737.7	-16.7
2006	22.1	-170.5	-411.6	-39.9	392.2	7,057.0	8,817.9	597.1	-90.7	28.9	-802.2	-32.4
2007	21.6	-100.9	-513.6	-44.5	383.8	7,134.7	9,267.5	646.2	-104.1	24.1	-718.1	-37.5
2008	-49.4	-284.8	-1,033.3	-76.4	439.8	7,570.7	10,721.7	786.3	-102.9	-82.0	-691.6	-55.0
2009	-118.2	-751.9	-1,827.4	-155.4	568.7	8,531.5	12,404.7	975.5	-46.5	14.0	-381.9	-44.8
2010	-101.4	-759.8	-1,797.7	-150.3	649.3	9,581.6	14,175.8	1,190.9	-42.0	35.0	-445.9	-43.1
2011	-102.9	-552.4	-1,646.6	-124.1	743.5	10,258.0	15,361.7	1,324.2	-35.3	68.1	-481.5	-29.1
2012	-108.9	-534.5	-1,430.7	-138.6	890.7	10,912.3	16,558.5	1,424.8	-4.6	147.7	-468.2	-61.4
2013	-71.9	-409.4	-889.6	-98.5	978.3	11,274.0	17,462.6	1,499.8	15.0	190.4	-386.1	-76.4
2014	-62.2	-387.6	-854.2	-104.4	1,040.9	11,811.8	18,210.6	1,604.8	10.4	189.8	-401.7	-85.0
2015	-55.2	-326.6	-800.1	-81.1	1,073.2	12,132.7	18,965.9	1,666.0	14.3	252.6	-477.4	-100.2
2016	-51.3	-269.4	-861.7	-66.5	1,112.2	12,073.0	20,093.1	1,710.1	18.7	305.9	-467.5	-107.0
2017	-43.6	-234.7	-811.8	-55.4	1,155.8	12,121.9	20,998.3	1,756.5	17.4	314.6	-498.2	-97.2
Percentage of GDP												
2005	1.2	-2.5	-4.2	-3.3	42.3	63.0	64.9	40.0	-7.6	0.4	-5.6	-1.2
2006	2.2	-1.5	-3.0	-2.7	38.9	61.7	63.6	41.0	-9.0	0.3	-5.8	-2.2
2007	2.0	-0.8	-3.5	-2.9	35.5	59.2	64.0	42.2	-9.6	0.2	-5.0	-2.4
2008	-4.4	-2.4	-7.0	-4.9	39.4	63.1	72.8	50.3	-9.2	-0.7	-4.7	-3.5
2009	-11.0	-6.6	-12.7	-10.2	52.7	75.2	86.0	64.2	-4.3	0.1	-2.6	-3.0
2010	-9.4	-6.4	-12.0	-9.6	60.1	81.2	94.7	75.7	-3.9	0.3	-3.0	-2.7
2011	-9.6	-4.6	-10.6	-7.6	69.5	84.6	99.0	81.3	-3.3	0.6	-3.1	-1.8
2012	-10.5	-4.3	-8.9	-8.3	85.7	88.2	102.5	85.1	-0.4	1.2	-2.9	-3.7
2013	-7.0	-3.3	-5.3	-5.7	95.4	90.5	104.6	86.2	1.5	1.5	-2.3	-4.4
2014	-6.0	-3.0	-4.9	-5.7	100.4	91.8	104.7	88.1	1.0	1.5	-2.3	-4.7
2015	-5.1	-2.4	-4.4	-4.3	99.8	89.7	105.2	89.1	1.3	1.9	-2.6	-5.4
2016	-4.6	-2.0	-4.6	-3.5	99.5	89.0	108.1	89.2	1.7	2.3	-2.5	-5.6
2017	-3.8	-1.7	-4.2	-2.8	99.9	88.2	108.5	88.9	1.5	2.3	-2.6	-4.9

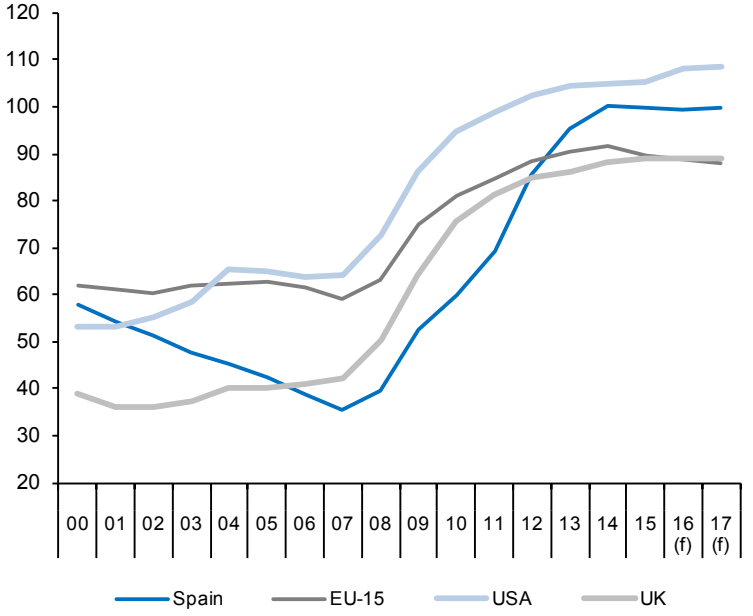
Source: European Commission Forecasts, Autumn 2016.

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)			
	Spain	EMU-19	USA	UK	Spain	EMU-19	USA	UK
	Billions of national currency							
2005	653.5	4,752.9	11,957.9	1,736.2	925.0	6,895.5	8,171.3	1,102.9
2006	780.7	5,175.0	13,237.8	1,952.2	1,158.8	7,529.2	8,989.4	1,201.6
2007	876.6	5,540.7	14,157.0	1,945.1	1,344.5	8,323.3	10,113.0	1,281.6
2008	914.0	5,752.3	14,031.6	1,550.6	1,422.6	8,927.1	10,704.8	1,476.9
2009	906.2	5,860.6	13,807.6	1,659.5	1,406.1	9,020.1	10,164.2	1,414.2
2010	902.5	6,001.6	13,572.6	1,715.9	1,429.4	9,124.9	10,010.2	1,379.5
2011	875.2	6,086.5	13,368.3	1,779.9	1,415.7	9,448.7	10,281.9	1,408.1
2012	838.2	6,082.3	13,425.3	1,849.3	1,309.8	9,599.3	10,801.7	1,481.4
2013	790.7	6,038.0	13,573.3	1,829.8	1,231.2	9,566.0	11,288.9	1,454.1
2014	754.8	6,046.0	13,944.4	2,010.3	1,168.0	9,795.6	11,977.3	1,414.1
2015	729.0	6,112.8	14,287.8	2,197.4	1,133.2	10,181.9	12,779.5	1,394.8
	Percentage of GDP							
2005	70.2	56.2	91.3	125.9	99.4	81.5	62.4	80.0
2006	77.5	58.1	95.5	134.1	115.0	84.5	64.9	82.5
2007	81.1	58.9	97.8	127.1	124.4	88.5	69.9	83.7
2008	81.9	59.8	95.3	99.1	127.5	92.7	72.7	94.4
2009	84.0	63.1	95.8	109.2	130.3	97.1	70.5	93.1
2010	83.5	62.9	90.7	109.1	132.2	95.7	66.9	87.7
2011	81.8	62.1	86.1	109.3	132.3	96.5	66.3	86.5
2012	80.6	61.8	83.1	110.4	126.0	97.6	66.9	88.4
2013	77.1	60.7	81.3	105.2	120.0	96.2	67.6	83.6
2014	72.8	59.7	80.2	110.3	112.6	96.7	68.9	77.6
2015	67.8	58.5	79.2	117.5	105.4	97.4	70.9	74.6

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

Sources: Eurostat and Federal Reserve.

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

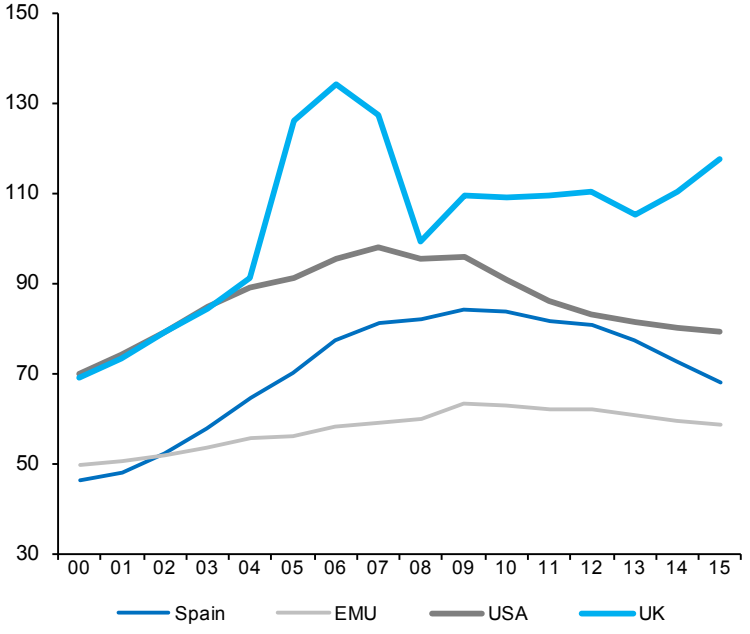
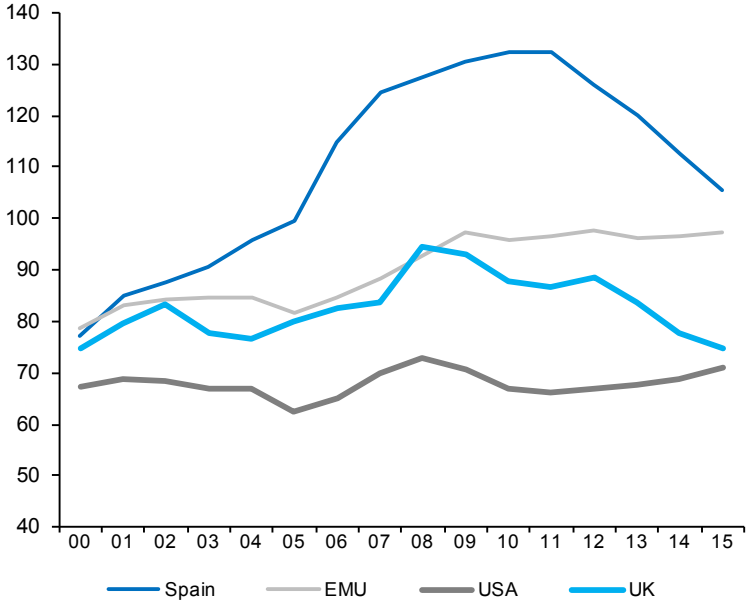


Chart 21b.2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: January 15th, 2017

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.6	September 2016
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.4	September 2016
Doubtful loans (monthly % var.)	0.1	September 2016
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	527,317	December 2016
Recourse to the Eurosystem (Spanish financial institutions, million euros)	138,455	December 2016
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	1,408	December 2016
Operating expenses/gross operating income ratio (%)	54.25	September 2016
Customer deposits/employees ratio (thousand euros)	5,731.21	September 2016
Customer deposits/branches ratio (thousand euros)	38,662.48	September 2016
Branches/institutions ratio	227.33	September 2016

A. Money and interest rates

Indicator	Source:	Average 2000-2013	2014	2015	2016 December	2016 January 15th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.6	3.8	4.7	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.49	0.21	-0.02	-0.319	-0.327	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.76	0.48	0.17	-0.081	-0.094	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.6	2.7	1.7	1.4	1.4	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.5	2.3	2.2	3.4	-	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 decreased to -0.327% in the first fortnight of January (from -0.319% in December) and the 1-year Euribor has decreased to -0.094% (from -0.081% in December). The ECB has not announced any further monetary policy measures but it has anticipated some further actions could be adopted in December amid some tensions in sovereign bond markets. As for the Spanish 10-year bond yield, it stands at 1.4%.

B. Financial markets

Indicator	Source:	Average 2000-2013	2014	2015	2016 October	2016 November	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	34.6	75.6	75.5	107.86	107.19	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	77.7	73.2	65.3	46.80	57.02	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.9	2.6	1.3	1.19	0.68	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.5	4.6	3.4	2.54	1.26	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	2.3	0.1	0.1	-0.03	0.02	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	603.2	1,037.9	1,058.2	1,141.92	1,086.94	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	0.6	0.5	2.8	-3.69	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	3.7	7.0	-0.2	2.9	5.39	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	1,026.8	1,042.5	965.1	922.8	959.5[a]	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,767.1	10,528.8	10,647.2	9,143.3	9,511.6[a]	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	16.2	26.1	15.4	21.9	21.4[a]	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 2000-2013	2014	2015	2016 October	2016 November	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	4.2	7.4	21.3	-19.7	434.9	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	2.0	-1.3	-0.2	2.3	-0.9	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.7	0.6	0.1	-0.1	-0.04	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.3	4.3	1.3	-7.0	15.8	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	8.6	6.4	17.7	-20.0	45.0	IBEX-35 shares concluded transactions

(a) Last data published: January 15th, 2017.

Comment on "Financial Markets:" During November, there was a decrease in transactions with outright spot T-bills to 107.19% and an increase of spot government bonds transactions, which stood at 57.02%, respectively. The stock market has registered an increase by mid-January, although volatility is still high, with the IBEX-35 up to 9,511 points, and the General Index of the Madrid Stock Exchange to 959. Additionally, there was an increase of 15.8% in financial IBEX-35 futures transactions and also a growth of 45% in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2008-2013	2014	2015	2016 Q 1	2016 Q 2	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.8	1.6	2.2	2.0	2.3	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.5	3.4	3.6	1.6	2.9	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	288.1	320.0	302.3	302.8	302.6	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP

C. Financial Savings and Debt (continued)

Indicator	Source:	Average 2008-2013	2014	2015	2016 Q 1	2016 Q 2	Definition and calculation
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	81.4	72.4	67.5	66.7	66.7	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.6	2.1	1.7	-1.7	0.9	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.8	-4.0	-2.9	-1.0	0.7	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt:" During 2016Q2, there was an increase in financial savings to GDP in the overall economy that reached 2.3% of GDP. There was also an increase in the financial savings rate of households from 1.6% in 2016Q1 to 2.9% in 2016Q2. The debt to GDP ratio remained at 66.7%. Finally, the stock of financial assets on households' balance sheets registered an increase of 0.9%, and there was a 0.7% growth in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source:	Average 2000-2013	2014	2015	2016 September	2016 October	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	9.1	-4.6	-4.0	-0.1	-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	9.0	-1.5	-0.1	0.1	-0.4	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	10.1	1.2	-15.2	-1.3	-3.1	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	14.1	-6.8	-6.0	-0.5	0.2	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	-1.7	-5.9	-5.2	-5.3	-5.2	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

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D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 2000-2013	2014	2015	2016 September	2016 October	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	40.5	-12.7	-22.4	-2.0	0.1	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-0.8	-6.1	-30.8	-0.5	-15.3	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	11.1	-1.1	-1.8	-0.7	-1.3	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 October 2016 show a fall in bank credit to the private sector of 0.6%. Data also show a decrease in financial institutions deposit-taking of 0.4. Holdings of debt securities fell by 3.1%. Also, doubtful loans increased 0.1% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 2000-2013	2014	2015	2016 June	2016 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	199	138	135	130	129	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	73	86	82	82	81	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	246,418	203,305	203,305	202,954	202,954	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,703	31,817	30,921	30,207	29,492	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	-	406,285	460,858	454,537	527,317[(a)]	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	-	111,338	122,706	123,577	138,455[(a)]	Open market operations and ECB standing facilities. Spain total

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

Indicator	Source:	Average 2000-2013	2014	2015	2016 June	2016 September	Definition and calculation
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	22,794	21,115	10,515	3,265	1,408[(a)]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2016.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing:" In December 2016, recourse to Eurosystem funding by Spanish credit institutions reached 138.4 billion euro.

MEMO ITEM: From January 2015, the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 217 billion euro in October and 1.64 trillion euro for the entire Eurozone banking system.

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

Indicator	Source:	Average 2000-2013	2014	2015	2016 June	2016 September	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	50.89	47.27	50.98	53.79	54.25	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	3,519.51	5,892.09	5,595.62	5,605.73	5,731.21	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	21,338.27	40,119.97	36,791.09	37,663.62	38,662.48	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	205.80	142.85	229.04	232.36	227.33	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.1	6.8	6.57	6.72	6.75	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	0.07	0.01	0.02	-0.01	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.45	0.49	0.39	0.40	0.41	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	6.27	6.46	5.04	4.93	4.91	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability:" In September 2016, 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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