

# Spanish Economic and Financial Outlook

## The ongoing recovery in Spain's external sector

2017

Volume 6 ♦ Number 3

May 2017



- 07 Now for the tricky part: Unwinding the European Central Bank's unconventional monetary policy stance**  
Erik Jones
- 19 Characteristics of Spanish employment creation during the 2014-2016 recovery**  
María Jesús Fernández
- 31 Online banking in Spain: A customer snapshot**  
Santiago Carbó Valverde and Francisco Rodríguez Fernández
- 43 The recovery of European and Spanish bank stock valuations**  
Ángel Berges, Fernando Rojas and David Ruiz, A.F.I.
- 49 House prices and income: Trending in the same direction for now**  
María Romero and Noelia Fernández, A.F.I.
- 55 Non-price competitiveness factors and export performance: The case of Spain in the context of the Euro area**  
Ramon Xifré
- 67 The link between previous experience and survival of new export relationships in Spain**  
Silviano Esteve-Pérez, Juan de Lucio, Raul Mínguez, Asier Minondo and Francisco Requena
- 73 Spain's tourism sector: Exceeding expectations**  
María José Moral
- 85 Recent key developments in the area of Spanish financial regulation**  
Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)
- 89 Spanish economic forecasts panel: May 2017**  
Funcas Economic Trends and Statistics Department

## **Editorial**

### **Board of Editors**

Carlos Ocaña  
Santiago Carbó  
José Félix Sanz  
Raymond Torres

### **Managing Editors**

Alice B. Faibishenko  
Juan Núñez-Gallego

### **Board of Trustees**

Isidro Fainé Casas (Presidente)  
José María Méndez Álvarez-Cedrón (Vicepresidente)  
Fernando Conlledo Lantero (Secretario)  
Miguel Ángel Escotet Álvarez  
Amado Franco Lahoz  
Manuel Menéndez Menéndez  
Pedro Antonio Merino García  
Antonio Pulido Gutiérrez  
Victorio Valle Sánchez  
Gregorio Villalabeitia Galarraga

### **Contact**

[publica@funcas.es](mailto:publica@funcas.es)

### **Web Site**

[www.funcas.es](http://www.funcas.es)

### **Orders or claims:**

Funcas, publications  
Tel.; +34-91-5965481, Fax: +34-91-5965796, e-mail: [publica@funcas.es](mailto:publica@funcas.es)

### **Electronic edition**

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

Printed in Spain

### **Editorial and Production**

Funcas  
Caballero de Gracia, 28. 28013 Madrid (Spain)

### **Ownership and Copyright:**

© Funcas 2012

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

## FEATURES

### 07 **Now for the tricky part: Unwinding the European Central Bank's unconventional monetary policy stance**

Erik Jones

Outstanding issues surrounding the need for changes to the ECB's unconventional monetary policy stance are related to timing, not to direction. However, if the European recovery, brought about by these policies, is to be sustained, policy makers must be careful about how and when they withdraw the exceptional measures.

### 19 **Characteristics of Spanish employment creation during the 2014-2016 recovery**

María Jesús Fernández

While latest available data confirm the recovery of Spanish employment, some of the undesirable aspects of the pre-crisis labour market remain in place. Active labour market policies and a reform of Spain's education model will be key to helping reduce some of the outstanding structural imbalances.

### 31 **Online banking in Spain: A customer snapshot**

Santiago Carbó Valverde and Francisco Rodríguez Fernández

While it is premature to say with certainty, there appears to be considerable upside in terms of digital financial penetration in Spain. This trend is not only important from a quantitative/cost-reduction standpoint, but also because it creates new ways of getting closer to the customer and opportunities to enhance the customer experience.

### 43 **The recovery of European and Spanish bank stock valuations**

Ángel Berges, Fernando Rojas and David Ruiz, A.F.I.

The latest increase in EU bank stock valuations appears to be driven more by factors other than fundamentals. Expectations of a more favourable regulatory and interest rate climate have helped to provide some much needed breathing room to financial sector shares.

### 49 **House prices and income: Trending in the same direction for now**

María Romero and Noelia Fernández, A.F.I.

In the initial stages of post-crisis recovery, housing price growth has been matched by income growth. However, the lack of granular data and concerns over the maintenance of supportive factors, such as income levels and low interest rates, make it difficult to gauge the future outlook for the real estate sector.

### 55 **Non-price competitiveness factors and export performance: The case of Spain in the context of the Euro area**

Ramon Xifré

Empirical evidence suggests that internal non-price/cost factors dominate over strictly price/cost elements in determining the external competitiveness of the five largest EA economies. Building on this observation, internal devaluation policies are likely to have only a limited impact on restoring competitiveness compared to those aimed at strengthening capitalization and providing the right incentives for exporters.

67 **The link between previous experience and survival of new export relationships in Spain**

Silviano Esteve-Pérez, Juan de Lucio, Raul Mínguez, Asier Minondo and Francisco Requena

An empirical analysis of Spanish exporters' survival rates shows that, while early-stage survival is difficult, new trade relationships make a significant contribution to aggregate export growth over time. In any event, the large degree of heterogeneity across successful export relationships in Spain should be a key consideration at the time of designing export promotion policies.

73 **Spain's tourism sector: Exceeding expectations**

María José Moral

The strong recovery of Spain's tourism sector since 2014 has helped it to become a key driver of economic recovery and growth of the Spanish economy. Pursuing goals to attract the optimal type of tourism will help to ensure the sector's profitability and sustainability into the future.

85 **Recent key developments in the area of Spanish financial regulation**

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

89 **Spanish economic forecasts panel: May 2017**

Funcas Economic Trends and Statistics Department

95 **KEY FACTS**

**Economic indicators**  
**Financial system indicators**

## Letter from the Editors

We kick off the May issues of *Spanish Economic and Financial Outlook (SEFO)* by looking at the economic situation in the Eurozone. As we point out, the Eurozone recovery is taking root. The Commission's Spring 2017 forecasts put aggregate growth for the current year at 1.9% and 1.7% across the EU and Euro area, respectively – making this the fifth straight year of improvement. Unemployment continues to fall and inflation is accelerating. All of this together makes the question of ECB tapering one of when, not if. At the same time, Euro area economies are recovering at different speeds. In some countries, Italy, for example, growth remains below the European average and there are doubts surrounding the health of the financial sector, while in countries like Spain, restructuring and reforms, particularly in the banking sector, have been undertaken and the country is growing significantly above the EU average.

Policy makers need to take this EU heterogeneity into account to make sure the recovery brought about by extraordinary ECB measures is not stalled or reversed once these are discontinued.

In this context, the May SEFO examines more closely the situation across various segments of the Spanish economy as it consolidates its recovery. We note both definitive progress in some areas, as

well as the need to continue deepening reforms and correcting imbalances in others.

First, we analyse the characteristics of Spanish employment creation during the post-crisis period. Despite experiencing severe job destruction as a result of the crisis, from 2014-2016, Spain has recovered a little over one-third of the employment lost during the crisis years. Nonetheless, some of the undesirable aspects of the pre-crisis labour market remain in place – such as the high rate of temporary employment (although part-time employment has been reduced significantly), together with an important imbalance between the supply and demand for unskilled labour. These outstanding issues underline the need for further reforms, including of Spain's education model and the need to give greater emphasis to active labour market policies.

Next, we look at an interesting, and more novel, aspect of Spain's financial sector - digital proficiency. We present a customer snapshot of online banking in Spain by summarising the main conclusions of a recent study, which reveals that: 92% of banking customers regularly use the Internet, while 85.3% have smartphones, 44.3% have at least one computer at home and 47.2% own a tablet. Perceptions about digitalisation – namely related to

safety/security, control of expenditure, and user-friendliness – help to partially explain the role cash and some of the more traditional financial services continue to play as key financial services methods in Spain. As regards smartphones, these represent an important digital channel for financial transactions, but also a means of information exchange (communications and social networking tools). Overall, while it may be premature to say with certainty, there appears to be considerable upside in terms of digital financial penetration in Spain.

Related to the financial sector more broadly, we assess its recent performance on European stock markets and attempt to determine some of the key drivers underpinning improvement. After the dismal valuations reached in mid-2016, European – and notably Spanish – bank stocks recovered significantly in the second half of 2016 and into 2017, bringing the price-to-book value close to parity. The recent favourable performance seems to be driven less by fundamentals, but rather the following two factors: the pick-up in yield curves and expectations that regulatory pressure will ease.

We then move on to the Spanish real estate sector, where we find that, after a sharp adjustment during the crisis, house prices started to grow in 2015 and are now accelerating. On average, at the national and provincial level, the increase in prices is being matched by an improvement in household income, reflecting their payment capacity. However, the lack of up-to-date granular data makes it difficult to confirm whether this also applies at a more micro level. Future house price growth may be limited by subdued income growth and interest rate hikes, but

the sector's ability to generate noteworthy returns on investment should help support house prices going forward.

Finally, we dedicate the last section of this month's SEFO to an in-depth study of another sector which experienced important imbalances during the crisis – the external sector. Specifically, we examine the connection between Spanish non-price competitiveness and export performance in an EU context, the link between previous experience and survival of new export relationships in Spain, and the recent recovery of Spain's tourism sector, its relevance to GDP growth, and keys for future sustainability.

As regards competitiveness, empirical evidence suggests that internal non-price/cost factors dominate over strictly price/cost elements in determining the external competitiveness of the five largest EA economies. In the case of Spain, it appears to have recovered by the end of 2015 virtually all the cost-competitiveness lost between 2000 and 2008. Nonetheless, building on our earlier observation, internal devaluation policies are likely to have only a limited impact on restoring competitiveness compared to those aimed at strengthening capitalization and providing the right incentives for exporters.

On a related note, an empirical analysis of Spanish exporters' survival rates shows that, while early-stage survival is difficult, new trade relationships make a significant contribution to aggregate export growth over time. In any event, the large degree of heterogeneity across successful export relationships in Spain should be a key consideration at the time of designing export promotion policies.

Finally, on the topic of tourism, tourist arrivals into Spain exceeded 75 million in 2016, placing Spain in third position in the global ranking of tourist destinations, behind France and the United States. This is an exceptional outturn, consolidating the country's position against its immediate rivals. Tourism inflows have enabled the tourism sector to increase its weight in the Spanish economy, becoming a key element of the recovery since 2014 and regaining an impetus that had appeared to be dissipating. Pursuing goals to attract the optimal type of tourism will help to ensure the sector's profitability and sustainability into the future.





# Now for the tricky part: Unwinding the European Central Bank's unconventional monetary policy stance

Erik Jones<sup>1</sup>

**Outstanding issues surrounding the need for changes to the ECB's unconventional monetary policy stance are related to timing, not to direction. However, if the European recovery, brought about by these policies, is to be sustained, policy makers must be careful about how and when they withdraw the exceptional measures.**

*The European Central Bank (ECB) should unwind its unconventional monetary policy stance in the near future as inflation expectations across the euro area return to its target for price stability. Doing so, however, will be more complicated than initiating these unconventional monetary policies was in the first place. Part of the challenge is to avoid disturbing sovereign debt markets; shock and awe worked going into the policy, the goal now is to avoid unnecessary volatility. Managing the different impacts of a policy change across euro area countries will be even more important.*

Central bankers responded to the onset of the global economic and financial crisis with a burst of innovation, developing an ever-expanding array of new policy instruments to shore up confidence in interbank markets and to underpin faith in bank balance sheets and sovereign finances (Jones, 2010). This innovation culminated in Europe with a series of pronouncements:

- That the European Central Bank (ECB) would do “whatever it takes” to restore the mechanism for transmitting monetary policy decisions across those countries that rely on the euro as a common currency,

- that it would charge negative rates on bank deposits with corresponding central banks that exceed reserve requirements,
- that it would engage in large-scale outright purchases of sovereign debt instruments, asset backed securities, and covered bonds, and;
- that it would reinvest the proceeds of maturing assets on its books in order to maintain the size of its balance sheet.

At each step in this process, the goal of unconventional policy was psychological as

<sup>1</sup> Professor of European Studies and International Political Economy at the Johns Hopkins School of Advanced International Studies and senior research fellow at Nuffield College, Oxford.

well as technical. Borrowing language from the military, central bankers sought to imbue market participants with “shock and awe” to avoid a panic that might lead to disaster.<sup>2</sup>

Now the crisis is passing and the challenge is different. Monetary policymakers need to withdraw their stimulus and unwind unconventional policy positions. Again, the motives are psychological as well as technical. Rather than trying to shock market participants to prevent a panic, however, monetary authorities hope to avoid startling participants in a way that will cause the recovery to stall. This is a delicate operation that relies on transparent signaling and follows a coherent order of operations. The danger is that market participants will rush to judgment in a way that misinterprets policy statements and moves prices in the markets ahead of the policy change.

---

*It is becoming necessary for the ECB to unwind its current posture if only to expand its room for maneuver.*

---

The ECB cannot afford to fail. Although ECB President Mario Draghi has insisted repeatedly that he has many more instruments available in his policy arsenal, the space for creating additional “shock and awe”<sup>3</sup> is limited. Unwinding the current posture is necessary if only to expand the ECB’s room for maneuver. Even if that were not the case, the current posture has unintended consequences that accumulate the longer it is maintained. Hence, the ECB must begin this unwinding operation even if the circumstances are not ideal. The next twelve months will be critical to the success of the policy change. Central bankers may learn that it is harder to insulate the recovery than it was to respond to the crisis.

## The recovery is taking root

The good news is that the European economy is recovering from the crisis (see European Commission, 2017). The European Commission’s Spring 2017 economic forecasts put aggregate growth for the current year at 1.9 percent across the European Union (EU) and 1.7 percent across the euro area. These numbers are not dramatic but they are consistent. As the forecast document highlights, this is the fifth straight year of improvement. Moreover, the impact is felt across the array of macroeconomic indicators. EU unemployment should fall to 8.0 percent, even as employment growth continues and inflation begins to accelerate. The same pattern emerges from the data for the euro area. Whether this is due to unconventional monetary stimulus or improvement in external conditions is unclear. The ECB has been quick to announce the success of its monetary accommodation; the data for external growth and current account performance suggests that growth elsewhere matters as well. Should that external growth diminish, Europe’s economic performance would suffer. This is one of the “downside risks” that the European Commission’s forecasters highlight. Nevertheless, the consensus view is that conditions are improving, whatever the reason.

The bad news is that progress is uneven. Some economies, like Spain, are improving rapidly. Growth in Spain is significantly above the European average. Spanish unemployment rates are high, at 19.6 percent in 2016, but they are falling rapidly and should come down by four percentage points in two years. By contrast, Italian growth is much slower than the European or euro area averages. Its unemployment rate is not as high as Spain’s, for example, but employment growth is stagnant and unemployment is persistent. The reason for this discrepancy is hard to pin down. Part may be

<sup>2</sup> The reference to “shock and awe” is borrowed from the American context. See, Geithner (2015).

<sup>3</sup> These references to Draghi come from his monthly press conferences. These can be accessed online at: <http://www.ecb.europa.eu/press/pressconf/2017/html/index.en.html>. We are not saying that Draghi would agree that the space for additional shock and awe is limited. What he would argue is that monetary authorities cannot do everything on their own.

Table 1

# **EU and EA macroeconomic forecasts**

(%)

Spring Forecasts	2016	2017	2018
Real Growth in Gross Domestic Product			
European Union	1.9	1.9	1.9
Euro Area	1.8	1.7	1.8
Unemployment Rate			
European Union	8.5	8.0	7.7
Euro Area	10.0	9.4	8.9
Consumer Price Inflation			
European Union	0.3	1.8	1.7
Euro Area	0.2	1.6	1.3

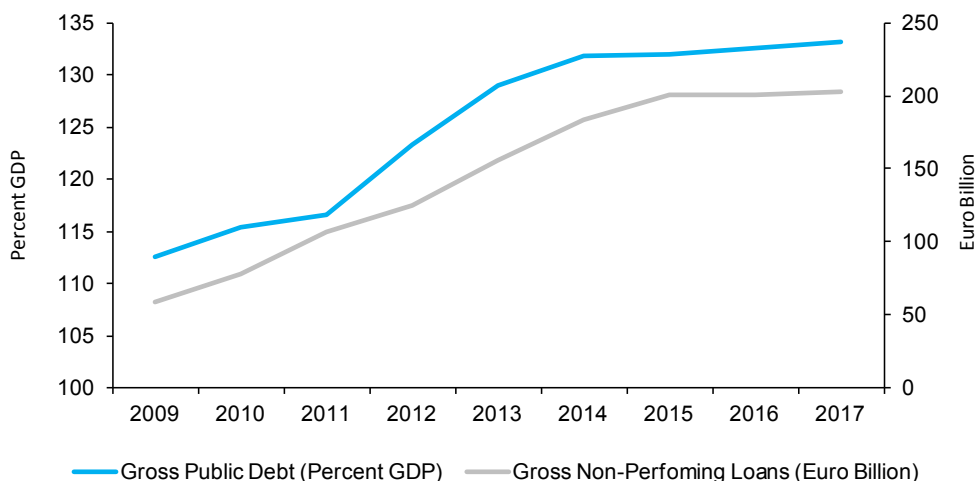
Source: European Commission (2017).

due to the differences in reform agendas. Spain has undergone more sweeping changes in both product and factor markets than Italy. Part is also due to the legacy of financial weakness. Where the Spanish government grappled with the need to reform domestic financial institutions already in 2012 and 2013, successive Italian governments waited until November 2015. During the intervening

period, the volume of non-performing loans in the Italian banking system increased and put downward pressure on the availability of domestic credit and therefore also investment. Now Italy appears trapped in a negative equilibrium where the banks cannot offload their non-performing assets at least in part because of the weakness of economic performance and the economy remains

Exhibit 1

## **Italian gross public debt and non-performing loans**



Source: Bank of Italy.

weak because of the fragility of the banks. The relatively high level of public indebtedness in Italy is an exacerbating factor. Despite European efforts to sever the links between sovereign finances and domestic financial institutions, the symbiosis in Italy remains strong and negative.

The contrast between the southern periphery of Europe and the German core is even sharper than the contrast between peripheral countries. The German economy is at or near full employment. German growth is expected to lag somewhat this year and yet it has remained at or above the euro area average for a sustained period. Meanwhile, Germany's current account is running at just over 8 percent of GDP. The point here is not that Germany is somehow more competitive in Spanish or Italian markets than the peripheral countries are domestically. On the contrary, both Spain and Italy are running current account surpluses as well. There may be competitive differences, but these are no longer the cause of macroeconomic imbalances within Europe. Hence the point is that Germany is enjoying unprecedented global market penetration. The potential for such a large

current account imbalance to create problems either in Europe or elsewhere cannot be ignored.

---

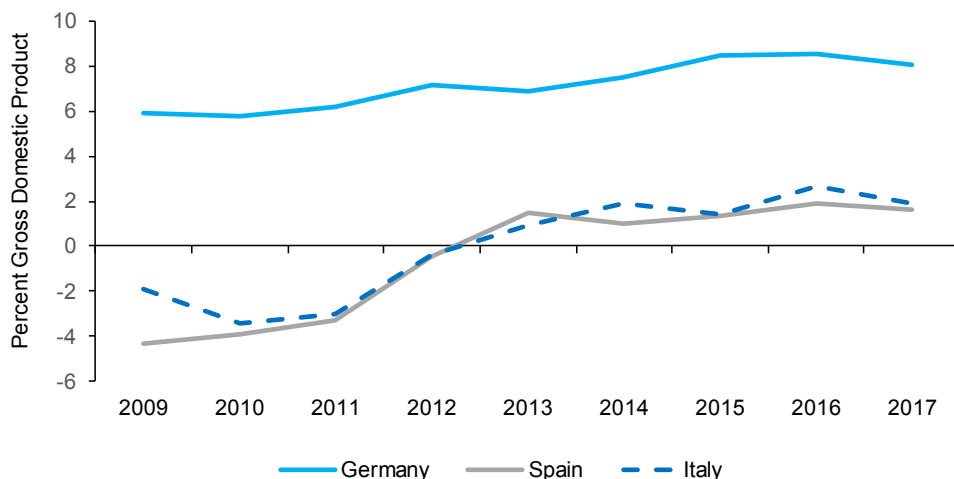
*Whatever Germany's current account performance, the important point in assessing the appropriateness of a change in monetary conditions is the level of growth (Italy) and expectations about inflation in the euro area (ECB).*

---

The question is whether a change in monetary policy conditions would offer an appropriate response. This is one of those questions where the asking is more important than the answer. Whatever the merits of criticism levied against Germany's current account position, it is clear the German government believes (or is willing to argue) that a tighter monetary policy would help. The German government also contends that a tighter monetary policy would be useful to prevent its own economy from overheating and to ease the

Exhibit 2

### Current Account balance



Source: ECB.

recovery in countries like Spain (or Ireland) onto a more sustainable trajectory. This line of argument puts the German government in partial opposition to the Italian government and to a substantial share of the ECB's Governing Council. The claim on the other side of the debate is that the test for the appropriateness of monetary conditions should be framed in terms of the internal balance and not the external balance: Whatever Germany's current account performance, the important point is the level of growth (Italy) and expectations about inflation in the euro area (ECB). Although inflation has accelerated recently on the back of increases in energy and food prices, core inflation remains subdued and evidence of improvement in medium-term expectations is ambiguous. Therefore, so the ECB maintains, there is still scope for monetary accommodation (Praet, 2017).

## The monetary posture needs changing

Any disagreement is more about timing than direction. No-one disputes that the ECB's unconventional monetary policy stance is unsustainable over the longer term for at least three reasons. One is political, and is that the distributive consequences are both transparent and one-sided – at least superficially. A second is unintended, and is that the policy stance distorts the distribution of liquidity and the availability of high-quality collateral. A third is self-imposed, and is that the different unconventional monetary instruments begin to conflict with one-another over time.

The political argument pits creditors against debtors. Creditors complain that the ultra-low interest rates resulting from charges on excess reserves held by banks and outright purchases of financial instruments by central banks impose a cost on savings while offering a boon to anyone willing to borrow.<sup>4</sup> Of course, this is an intention of the policy, at least in the short term. When the ECB

introduced negative deposit rates for financial institutions, the goal was precisely to create an incentive for those banks to find some other use for their liquidity. Policymakers understood that some liquidity would move abroad and so drive down the euro relative to other major currencies; they also hoped that banks would extend more credit to the non-financial economy. Both influences – the exchange rate channel and the credit channel – would help stimulate economic performance. To the extent that the stimulus would lift economic performance, the benefits should accrue to creditors and borrowers alike.

Over time, however, the distributive implications become more acute. Banks struggle to maintain profitability across a flattened yield curve and they are also reluctant to pass the costs of holding deposits back onto retail clients. More important, longer-term savings vehicles for pensions or life-insurance begin to struggle to match assets and liabilities. They benefit from the short-term capital gains on holdings of sovereign debt instruments or other high-quality marketable paper that gets included in the ECB's large-scale asset purchasing program, but they lose from the reduction in long-term yields and from regulatory requirements that create incentives to buy assets with a negative yield to maturity. These effects are not immediate and neither are they necessarily mechanical. The longer interest rates remain low on the back of inflated bond prices, however, the easier it is for people to recognize the potential threat to their savings (Jones, 2016).

In the meantime, the presence of the ECB in the market for high-quality tradable assets creates two different kinds of distortions. It pulls those high-quality assets out of the market and so makes collateral increasingly scarce; and it creates an incentive for cross-border investors to liquidate their exposure to high-quality instruments and so repatriate the proceeds back into the domestic market. Policymakers anticipated both consequences although neither was intended. The

<sup>4</sup> This point is readily acknowledged by the ECB. See, for example, Draghi (2017).

ECB created a collateral lending facility to attempt to reduce the shortage of high-quality assets. That facility worked less well than anticipated. Although the ECB did manage to lend some of the assets it held outright, the removal of high-quality collateral from private balance sheets gradually created tensions in the interbank market.<sup>5</sup>

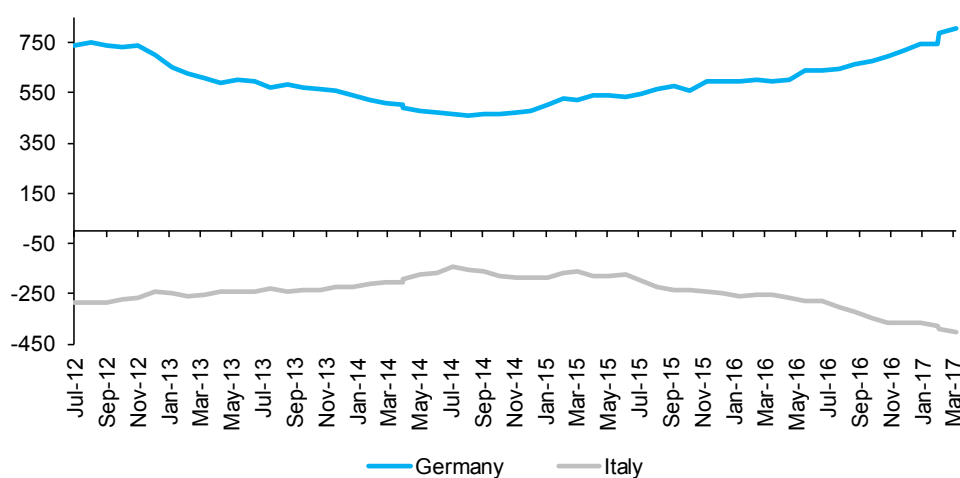
The cross-border transfer of liquidity was more problematic. Foreigners exposed to Italian sovereign debt, for example, had little incentive to seek other, riskier, Italian assets for investment. Hence, once they sold out their exposure to the Bank of Italy as part of the large-scale asset purchasing program, they brought the proceeds back home. This cross-border transfer of private liquidity showed up in the balances of the euro area's real-time gross payments system (Target2): Italy's debit position widened as investors pulled their assets out of the country; Germany's credit position expanded as many of those same assets found their way back home. Here again, there is a problem of public perception: many Germans

view the repatriation of liquidity as a net credit to Italy, because of the way Target2 balances are reported, and hence also a potentially risky asset for Germany to hold in the unlikely event that the Italian government should abandon the euro.

The problem of self-imposed constraints emerges from the operational guidelines that the ECB introduced to reassure various stakeholders that it would use its unconventional monetary policy instruments responsibly. The commitment to do "whatever it takes" translates into a pattern of "outright monetary transactions" through which the ECB purchases "unlimited" amounts of a distressed country's sovereign debt with a residual maturity of three years or less for governments that accept to enter a conditional support program and that request assistance from the ECB. By implication, these "unlimited" purchases are constrained by the volume of short-maturity debt that is available in the market. The more the ECB holds such instruments on its balance sheet, the less it can intervene in the event of duress (and

Exhibit 3

### Target2 balances (July 2012-March 2017)

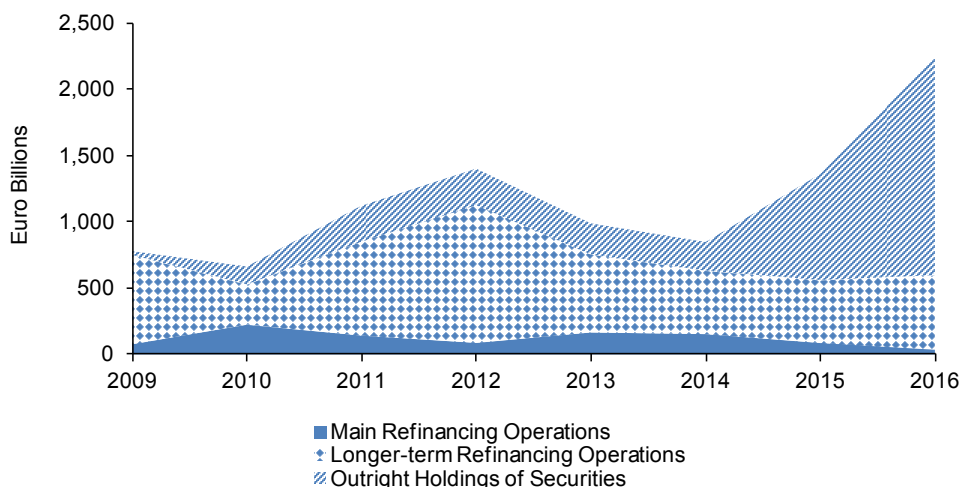


Source: ECB.

<sup>5</sup> The ECB was not the only actor creating money market tensions. See Mersch (2017).

Exhibit 4

### ECB balance sheet (Principle monetary operations)



Source: ECB.

the less incentive a government has to accept conditionality in exchange for ECB assistance).

Self-imposed constraints also emerge from the pattern of ECB asset purchases. The Governing Council has agreed to purchase assets originated

*Eventually, the ECB Governing Council will have to face a choice between maintaining the size of its balance sheet and maintaining the cross-national proportions of its purchases and holdings.*

in euro-area countries in roughly the same proportions that those countries contribute capital to the ECB – the “capital key”. This means that the large-scale asset purchasing program needs to find approximately 1.46 euros of assets originated in Germany for every

1 euro of assets originated in Italy.<sup>6</sup> It also needs to find suitable assets to purchase from a long list of much smaller countries, albeit in lesser amounts. This distribution of purchases becomes more difficult to maintain over time given the varying rates of net-issuance across countries and particularly given Germany's recent success in running fiscal surpluses. The fact that the ECB needs to reinvest the principle of maturing assets on its books in the same proportions that they were acquired makes the situation even more challenging. Eventually, the Governing Council will have to face a choice between maintaining the size of its balance sheet and maintaining the cross-national proportions of its purchases and holdings.

### The challenge of unwinding is psychological as well as technical

The ECB's Governing Council was always aware that it would have to wind up its unconventional monetary positions and so it provided a clear

<sup>6</sup> The composition of the capital key can be found here: <https://www.ecb.europa.eu/ecb/orga/capital/html/index.en.html>

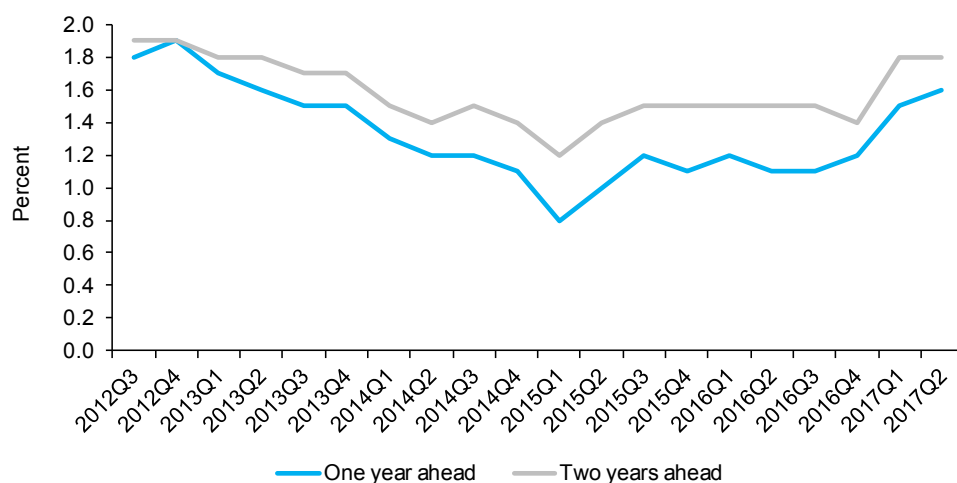


roadmap as to how that will be accomplished, both for individual instruments and for the whole of the policy mix. Some of these guidance notes are more detailed and transparent in terms of content and timing; others are more general and ambiguous. From the outset, for example, the ECB made it clear that the large-scale asset purchasing program would be limited in time and scope. The Governing Council has lengthened the program and expanded its purchases, but it never left any doubt that these actions were temporary as well. So was the decision to reinvest the principal of maturing assets held on the ECB's balance sheet. Now it is starting to move in reverse. Between March and April, the ECB stepped down the volume of purchases from 80 billion euros to 60 billion euros per month. These reduced purchases will extend until December if necessary. Beyond that date, the level of purchases is likely to wind down even further as the level of inflation expectations shows signs of returning close to but below 2 percent per annum, which is the Governing Council's definition of "price stability".

The Governing Council will start to raise the deposit rate only once the pace of purchasing has come down. The reason is to avoid delivering a jolt to asset prices.<sup>7</sup> This risk of a sudden change in prices comes from another self-imposed constraint on ECB purchases. Under normal circumstances, the ECB should not buy assets with a yield that is lower than the deposit rate. In effect, this puts a ceiling on asset prices the ECB will pay. It can purchase above that ceiling if necessary to meet its other restrictions, but so far it has not had to do so extensively. By raising the deposit rate, however, the Governing Council would effectively drop the ceiling. Market participants would adapt their own pricing strategies accordingly. This could create a discontinuity in the markets which would have a negative impact on any financial institution with large holdings of government securities (and that would have to mark its asset portfolio to market accordingly). As the ECB winds up its large scale asset purchasing program, and so plays a smaller role in the market, however, the risk of a rise in the deposit rate creating an asset price shock diminishes accordingly. That

Exhibit 5

### Inflation expectations



Source: ECB.

<sup>7</sup> This insight comes from a member of the ECB's monetary policy committee.



is why when Austrian Central Bank Governor Ewald Nowotny suggested that the ECB might raise the deposit rate before winding up the asset purchasing program, his suggestion found little support within the Governing Council (See Siebenhaar and Hallien, 2017).

Eventually, the ECB will also need to shrink down its balance sheet. That will only unfold over time and as its existing exposures mature. It is likely also to involve some smoothing through a continued partial reinvestment of maturing assets to account for the lumpy distribution of maturities in the ECB's current holdings. The ECB has substantial experience with this already. Whereas other major central banks like the United States Federal Reserve or the Bank of England engaged in quantitative easing primarily through outright asset purchases, the ECB relied initially on the accumulation of collateral holdings through its long-term refinancing operations. By implication, the ECB's balance sheet contracted at the end of the refinancing period when the loans were repaid and the collateral was released.

---

*Most members of the Governing Council seem to agree it would be easier to move through the pre-announced order of operations, using forward guidance— slowing down the pace of asset purchases, raising the deposit rate, and then shrinking the exposure on the ECB's balance sheet.*

---

European market participants are familiar with this pattern and they are aware of the guidance provided by the ECB. Any deviation at this point would create uncertainty for market participants and undermine the credibility of the Governing Council. Depending upon the circumstances, this could result in unnecessary asset market volatility. There may be other, faster ways for the ECB to unwind its unconventional monetary posture, but the benefits of doing so do not outweigh the risks.

Instead, most members of the Governing Council seem to agree, it would be easier simply to move through the pre-announced order of operations, using forward guidance to highlight when specific policy changes are likely to take place – slowing down the pace of asset purchases, raising the deposit rate, and then shrinking the exposure on the ECB's balance sheet.

## The next twelve months are critical

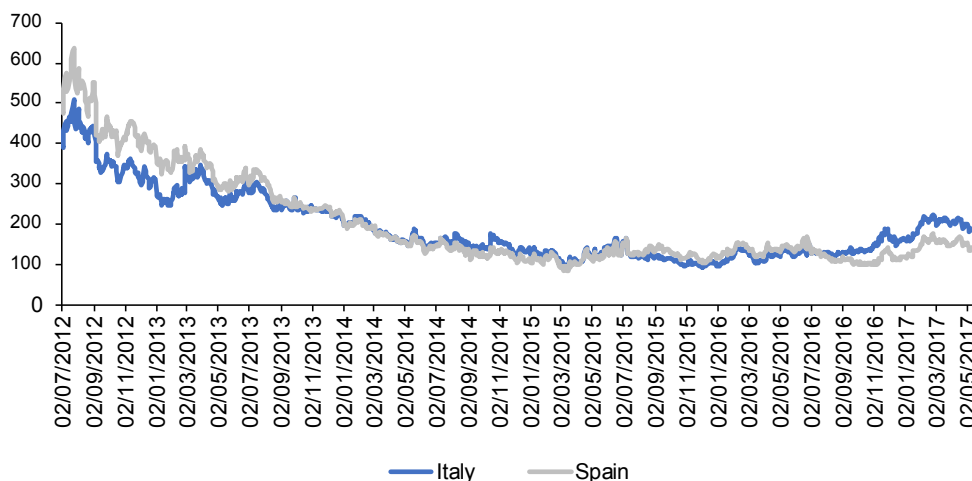
Even a systematic approach is not without danger. To explain why, we can look again at the Italian case— although, to be sure, the problem is hardly unique to Italy. The critical data line is the spread between Italian and German long-term sovereign debt instruments. That spread was over 500 basis points when the sovereign debt crisis peaked in the summer of 2012. It fell below 100 basis points around the start of the large-scale asset purchasing program in March 2015. Over the subsequent eighteen months, however, that spread has increased. Now it hovers between 180 and 200. The same is not true for Spain, where the spread is considerably lower.

The reason Italy is under pressure in the bond markets is complicated. The twin challenge of slow growth and non-performing bank assets is obviously important. Another part of the explanation is political and relates to the failure of a constitutional referendum to result in a more decisive government capable of undertaking essential reforms to government finances and market structures. Worse, the failure of the constitutional referendum has left Italy with two different electoral systems for the two separate but equal chambers of the parliament. Hence, there is a risk that new elections to be held when the current parliament ends in 2018 will result in a hung legislature that is incapable of generating a coherent coalition government (Jones, 2017).

The implication is not that Italy will collapse. Rather it is that Italian politicians have a complicated reform agenda to accomplish – completion of financial sector restructuring and

Exhibit 6

### Italian and Spanish spreads over Germany (10-Yr sovereign debt) (bps)



Source: IHS Global Insight.

clean-up, electoral reform, and fiscal reform to name a few of the top priorities. These things are all possible, but they will take time and effort to accomplish. Having the ECB attempt to unwind its unconventional monetary posture ahead of schedule in this context, would only distract attention from this policy agenda.

### What policymakers can learn from this experience

The ECB's Governing Council engaged in a wide range of experimental policy measures to respond to the global economic and financial crisis. Along the way, the Governing Council also had to shore up the integration of European financial markets. This challenge was not unique to Europe. Other central bankers found themselves in a similar situation and responded in much the same fashion. The pace of change was unprecedented and the policy settings were unfamiliar. Nevertheless, they succeeded in stabilizing economic and financial conditions, which in turn created the conditions for recovery.

Now the challenge central bankers face is very different. In technical terms, they must consider how any efforts to return their instruments to more normal settings will have an impact on asset market performance. This is only to be expected. Any reduction in the large presence that central banks have accumulated in markets for high-quality tradable securities will require substantial adjustment both in terms of the attitudes of market participants and in terms of the composition of asset portfolios in the private sector.

Such adjustment is both necessary and inevitable. Unconventional monetary policies cannot be continued forever. Nevertheless, the implications are not the same for all actors or countries. Central bankers must be sensitive to the different challenges to be faced, nowhere more so than in Europe. If they hope to sustain the recovery they made possible with their policy experimentation, they will have to be very careful about how and when they withdraw unconventional monetary support. Building up large balance sheets starts to look straightforward in retrospect. Bringing them back down again is the tricky part.

## References

DRAGHI, M. (2017), "Introductory remarks at the House of Representatives of the Netherlands," The Hague.

EUROPEAN COMMISSION (2017), *European Economic Forecast: Spring 2017*, EUROPEAN COMMISSION, Brussels:  
1. [https://ec.europa.eu/info/sites/info/files/ip053\\_en\\_1.pdf](https://ec.europa.eu/info/sites/info/files/ip053_en_1.pdf)

GEITHNER, T. (2015), *Stress Test: Reflections on Financial Crises*, Broadway Books, New York.

JONES, E. (2010), "Reconsidering the Role of Ideas in Times of Crisis," in L. S. TALANI (ed.), *The Global Crash: Towards a New Global Financial Regime?*, Palgrave, London: 52-72.

— (2016), "The Political-Economy of Ultra-Low Interest Rates," *Bancni vestnik*, 65:11 (November 2016): 7-11.

— (2017), "Europe in the Age of Popular Nationalisms," in GOLDSTEIN, A. E., and J. K. CULVER (eds), *Nomos & Khaos: 2017 Nomisma Economic and Strategic Outlook*, A.G.R.A., Rome: 41-52.

MERSCH, Y. (2017), "Ructions in the repo market – monetary easing or regulatory squeezing?," Speech at the GFF summit, Luxembourg, 26 January 2017.

PRAET, P. (2017), "Ensuring price stability," Remarks at the *Belgian Financial Forum colloquium on "The low interest rate environment*, Brussels, 4 May 2017.

SIEBENHAAR, H-P., and J. MALLIEN (2017), "ECB Could Tighten Differently: Austrian Council Member," *Handelsblatt* (16 March 2017).



# Characteristics of Spanish employment creation during the 2014-2016 recovery

**María Jesús Fernández<sup>1</sup>**

**While latest available data confirm the recovery of Spanish employment, some of the undesirable aspects of the pre-crisis labour market remain in place. Active labour market policies and a reform of Spain's education model will be key to helping reduce some of the outstanding structural imbalances.**

*After experiencing severe job destruction as a result of the crisis, Spain's economy began to show signs of recovery and, from 2014-2016, has recuperated a little over one-third of the employment lost during the crisis years. This article provides a descriptive analysis of the employment created during the recovery, helping to contradict some common misconceptions, reveal key features and highlight existing challenges facing Spain's labour market. Firstly, employment created during the recovery was not largely unqualified work in the hospitality sector. This sector has seen the strongest growth in absolute terms, but accounts for less than a quarter of total employment created in these years. Occupations requiring higher levels of skill have experienced the strongest growth. Moreover, individuals with medium or high levels of education have had greater relative ease in finding work than the less skilled. Consequently, there is an important imbalance between the supply and demand for unskilled labour, underlining the need to reform Spain's education model and give greater emphasis to active labour market policies. Finally, it is worth highlighting that even in the wake of the 2012 labour market reform, temporary employment continues to prevail. By contrast, part-time employment has been significantly reduced compared to the key role it played during the crisis years.*

Between 2008 and 2013, the Spanish economy witnessed the largest destruction in employment in its recent history, both in absolute and relative terms. 16.7% of the jobs that existed in 2007 were wiped out over the following six years, some 3.4 million jobs. This compares to job losses of 855,000 (6.5%) during the 1992-94 crisis or 1.6 million (12.6%) between 1978 and 1985 (Exhibit 1).

Nearly all the job losses were in the private sector, while public sector employment fell by just 32,300

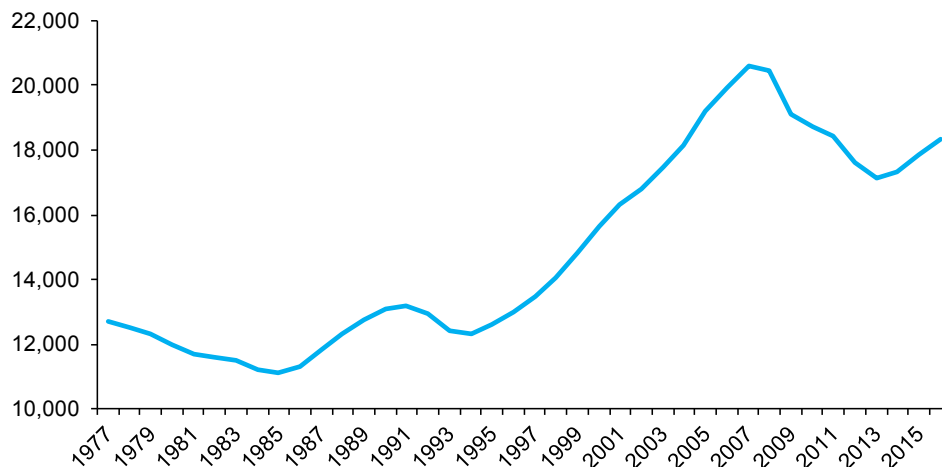
over the same period. However, while public sector employment grew by slightly more than 300,000 from 2007 to 2011, it fell by 351,000 in the subsequent three years to 2014.

Job losses were particularly pronounced in the construction sector, where more than half of total employment was destroyed (1.7 million), followed by industry which registered job losses of 921,000. 621,000 jobs were eliminated in market services. At the same time, the bulk of the wage-earning employment that was lost during the crisis took

<sup>1</sup> Senior Economist, Funcas.

Exhibit 1

### Employment (LFS) (Thousands)



Source: INE (LFS).

20

place among temporary contracts. Young people in particular bore the brunt of the adjustment with 62% losing their job, compared to 12% of adults over the age of 24.

The economy began to show signs of recovery in 2013 and employment started to grow again in 2014. Since then, 1.2 million jobs have been created to the end of 2016, recovering a little over one-third of the employment lost during the previous six years. The aim of this article is to provide a descriptive analysis of the employment created during the economic recovery, as well as other aspects of labour market performance during this period. The basis for the analysis is the information provided by the *Labour Force Survey (LFS)*.

### Working-age population and the labour force

The active population has declined by 367,400 between 2013 and 2016, explained entirely by demographic factors: The return of immigrants to their home countries and the negative evolution

of the Spanish population. During this period, cohorts born during the mid-90s – when Spain's fertility rate fell to levels that were among the lowest in the world – have reached working age. The retirement age population leaving the labour market has outweighed the number of new entrants.

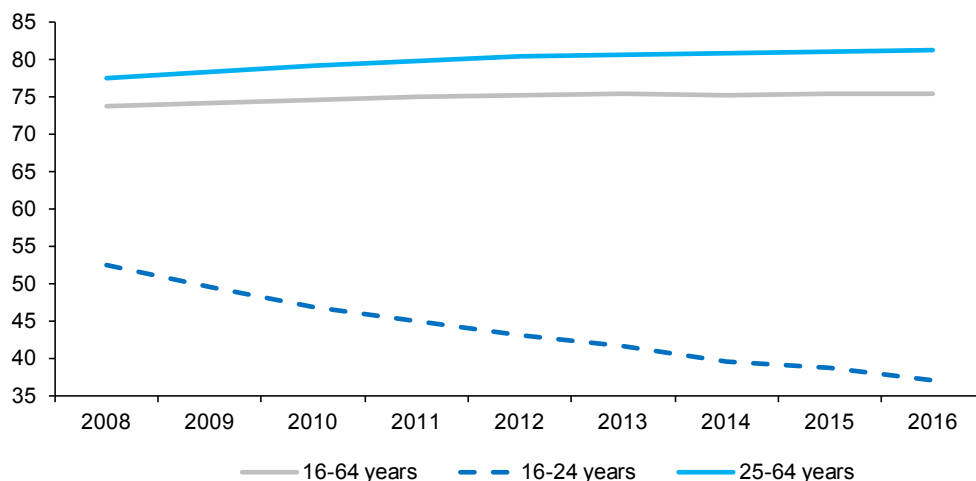
*For the overall working age population, there have been no signs of labour market abandonment due to discouragement. However, the same is not true for the 16-24 year-old age group.*

On aggregate, the labour participation rate of the 16-64 year-old population has not declined over the period, nor during the crisis years (Exhibit 2). Thus, for the overall working age population, there have been no signs of labour market abandonment due to discouragement. However, the same is not true for the 16-24 year-old

Exhibit 2

### Activity rates

(% of population of each group)



Source: INE (LFS).

age group. The labour participation rate among this group, which had already been in decline since the start of the crisis, has continued to fall sharply during the recovery, currently standing slightly below the European average.

Insofar as this reduction in the activity rate is related to reduced abandonment of education studies and more years spent in education, this discouragement effect among the young population should be welcomed. Particularly when considering that the proportion of Spain's active population with low levels of education is much higher than in other countries, as will be illustrated later.

### Sectors and branches of activity

Employment has grown in all sectors of the economy during the recovery, especially in market services, which account for 75% of total employment creation, followed by industry. Notably, service sector employment surpassed pre-crisis peaks in 2016, while only a tiny part of

the employment lost in industry, and especially construction, has come back so far (Exhibit 3). Despite strong growth registered in recent years, only 18% of employment has been recovered in the industrial sector. However, in GVA terms, more than half of lost output has been recovered, highlighting the increase in productivity in this sector.

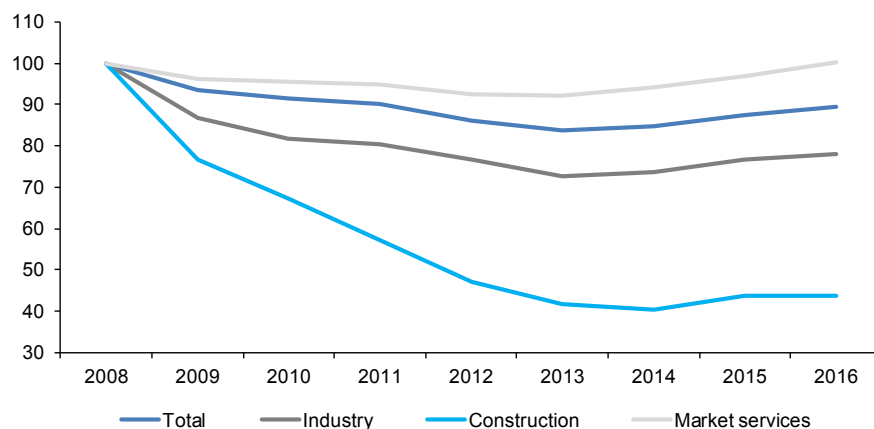
The hospitality sector has created the most employment in absolute terms, with 271,500 new

*Service sector employment surpassed pre-crisis peaks in 2016, while only a tiny part of the employment lost in industry, and especially construction, has come back so far.*

jobs (Exhibit 4). Employment in education, health and social services has risen by nearly 250,000 (including both the public and private sector), while employment in industry has increased by 166,000.

Exhibit 3

### Employment growth by sector (Level 2008=100)



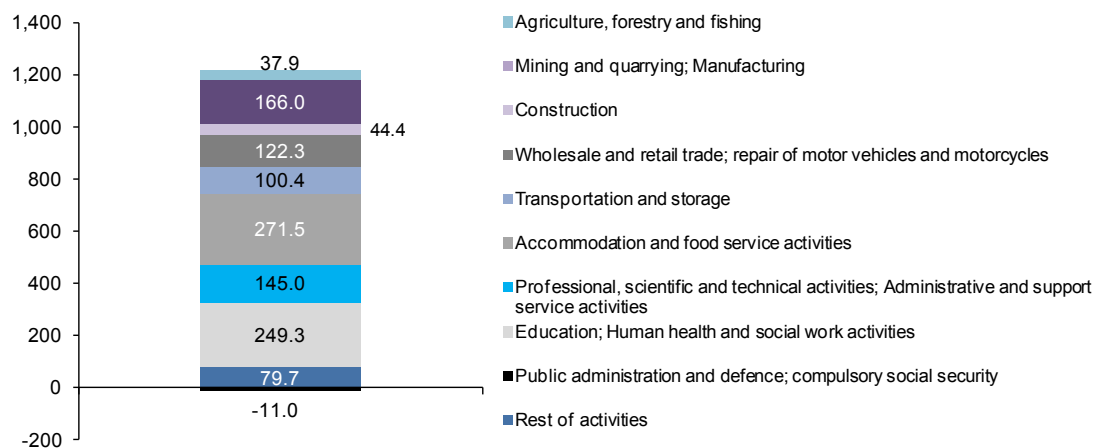
Source: INE (LFS).

On a two digit NACE-Rev.2 classification basis, food and beverages is the branch of activity that has created most employment in absolute terms (branch 56, see Table 1 and Exhibit 5), followed by education (branch 85) and health care activities (branch 86). Among manufacturing activities, which account for nearly 14% of employment

created since 2013, the contribution from the automotive sector (branch 29) is particularly notable, followed by food (branch 10), and manufacturing of machines and equipment (branch 28). Branches which are not included in the Exhibit registered reductions in employment over the period. Among the latter, the largest decline

Exhibit 4

### Employment growth since 2013 by economic activity (Thousands)

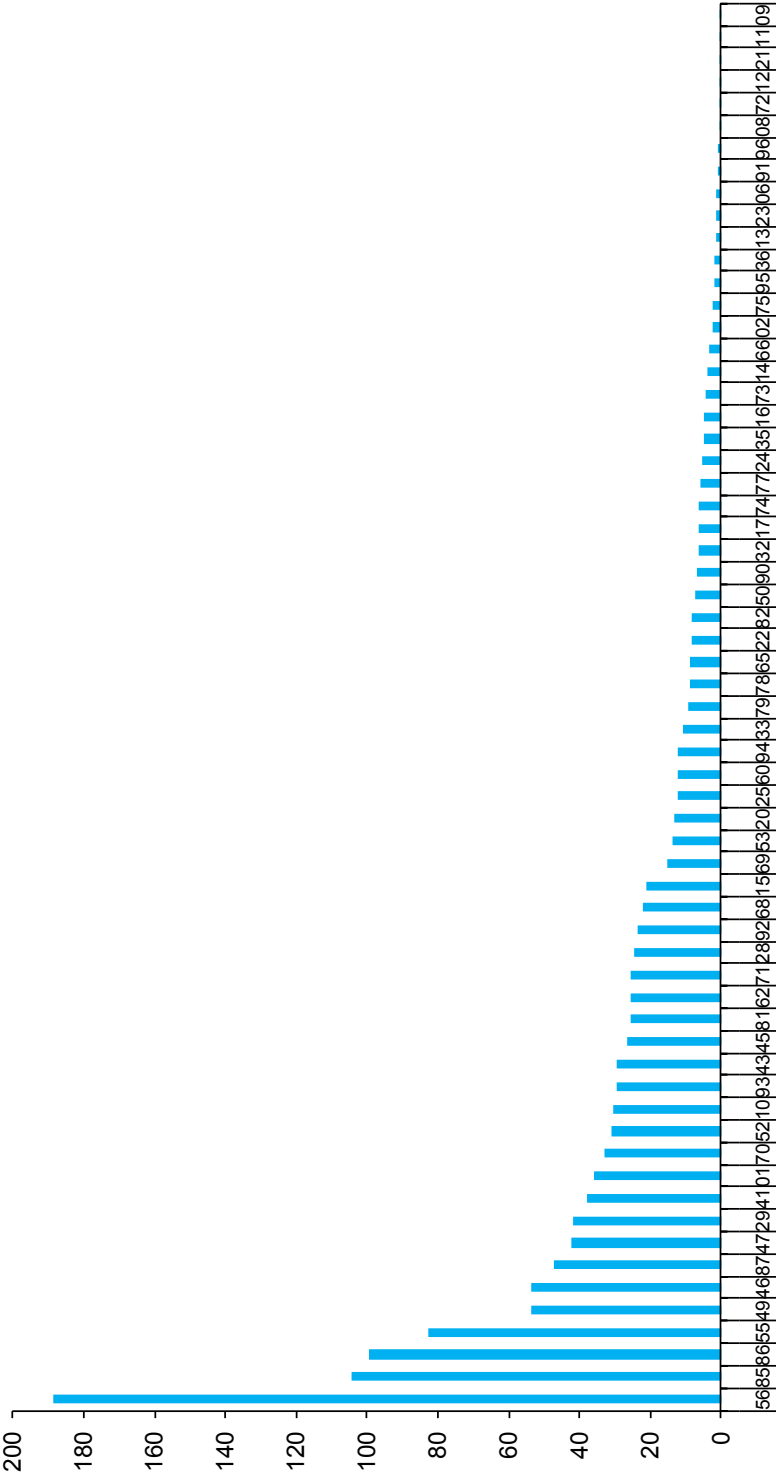


Source: INE (LFS).



Exhibit 5

**Employment growth by detailed economic activity (NACE rev. 2, two digit level)**  
(Thousands)



Source: INE (LFS).

Table 1

**NACE Rev. 2, two digit level**

01	Crop and animal production, hunting and related service activities
02	Forestry and logging
03	Fishing and aquaculture
05	Mining of coal and lignite
06	Extraction of crude petroleum and natural gas
07	Mining of metal ores
08	Other mining and quarrying
09	Mining support service activities
10	Manufacture of food products
11	Manufacture of beverages
12	Manufacture of tobacco products
13	Manufacture of textiles
14	Manufacture of wearing apparel
15	Manufacture of leather and related products
16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
17	Manufacture of paper and paper products
18	Printing and reproduction of recorded media
19	Manufacture of coke and refined petroleum products
20	Manufacture of chemicals and chemical products
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations
22	Manufacture of rubber and plastic products
23	Manufacture of other non-metallic mineral products
24	Manufacture of basic metals
25	Manufacture of fabricated metal products, except machinery and equipment
26	Manufacture of computer, electronic and optical products
27	Manufacture of electrical equipment
28	Manufacture of machinery and equipment n.e.c.
29	Manufacture of motor vehicles, trailers and semi-trailers
30	Manufacture of other transport equipment
31	Manufacture of furniture
32	Other manufacturing
33	Repair and installation of machinery and equipment
35	Electricity, gas, steam and air conditioning supply
36	Water collection, treatment and supply
37	Sewerage
38	Waste collection, treatment and disposal activities; materials recovery
39	Remediation activities and other waste management services
41	Construction of buildings
42	Civil engineering
43	Specialised construction activities
45	Wholesale and retail trade and repair of motor vehicles and motorcycles
46	Wholesale trade, except of motor vehicles and motorcycles
47	Retail trade, except of motor vehicles and motorcycles
49	Land transport and transport via pipelines
50	Water transport
51	Air transport
52	Warehousing and support activities for transportation
53	Postal and courier activities
55	Accommodation

Table 1 (continued)

**NACE Rev. 2, two digit level**

56	Food and beverage service activities
58	Publishing activities
59	Motion picture, video and television programme production, sound recording and music publishing activities
60	Programming and broadcasting activities
61	Telecommunications
62	Computer programming, consultancy and related activities
63	Information service activities
64	Financial service activities, except insurance and pension funding
65	Insurance, reinsurance and pension funding, except compulsory social security
66	Activities auxiliary to financial services and insurance activities
68	Real estate activities
69	Legal and accounting activities
70	Activities of head offices; management consultancy activities
71	Architectural and engineering activities; technical testing and analysis
72	Scientific research and development
73	Advertising and market research
74	Other professional, scientific and technical activities
75	Veterinary activities
77	Rental and leasing activities
78	Employment activities
79	Travel agency, tour operator reservation service and related activities
80	Security and investigation activities
81	Services to buildings and landscape activities
82	Office administrative, office support and other business support activities
84	Public administration and defence; compulsory social security
85	Education
86	Human health activities
87	Residential care activities
88	Social work activities without accommodation
90	Creative, arts and entertainment activities
91	Libraries, archives, museums and other cultural activities
92	Gambling and betting activities
93	Sports activities and amusement and recreation activities
94	Activities of membership organisations
95	Repair of computers and personal and household goods
96	Other personal service activities
97	Activities of households as employers of domestic personnel
98	Undifferentiated goods- and services-producing activities of private households for own use
99	Activities of extraterritorial organisations and bodies

Source: INE (LFS).

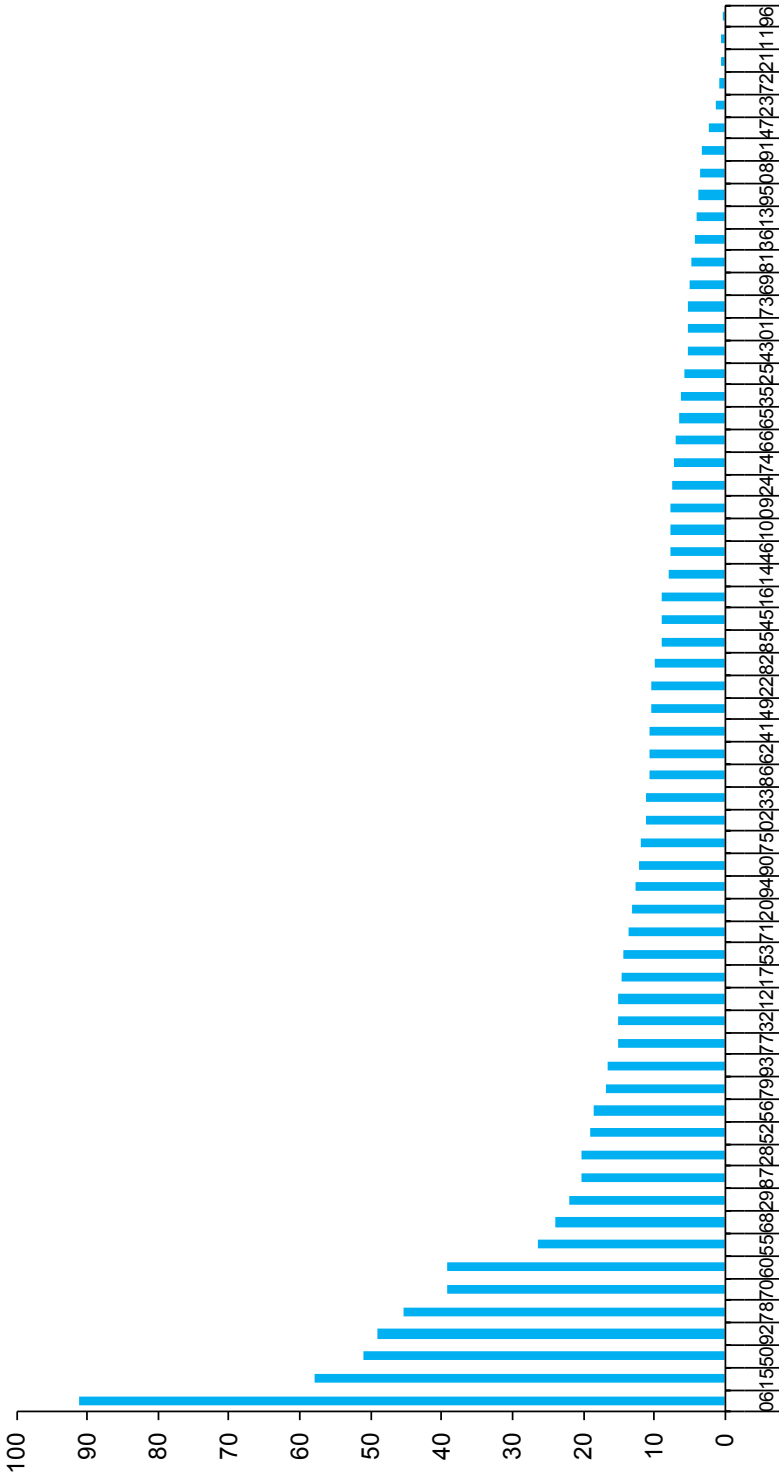
took place in domestic services, civil engineering, public administration, telecommunications and financial services.

In percentage terms, the sectors which created the most employment (after oil and gas extraction

– branch 6, see Exhibit 6 – which has very little weight in overall employment) were the leather and footwear industry (branch 15), maritime transport (branch 50), gambling (branch 92) and employment related activities (branch 78), followed by headquarters activities (branch 70)

Exhibit 6

**Employment growth by detailed economic activity (NACE rev. 2, two digit level)**  
(Growth rates in %)



Source: INE (LFS).

and radio and television (branch 60). Automotive manufacturing stands at tenth place in this ranking, manufacturing of machinery and equipment in twelfth and food and beverage services in fourteenth.

## Education levels and type of employment

54.5% of the new workers who have found employment since the start of the crisis have tertiary education levels, while 34.2% have secondary or upper secondary, non-tertiary education. Only 11.3% of new employment has gone to individuals with no formal educational qualifications, *i.e.* below full secondary level. This is a notably different profile to the labour force with nearly 38% lacking a complete secondary education, highlighting one of the most negative aspects of the Spanish labour market, which is the oversupply of unskilled labour in relation to demand for these types of workers by the production system (Exhibit 7.1). The structure of the active population is very different from central EU

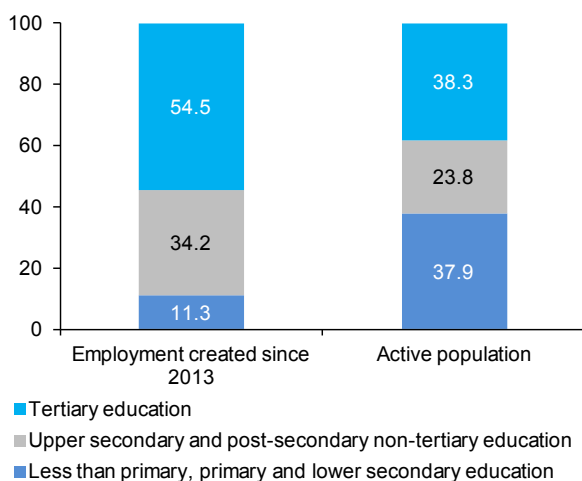
countries (Exhibit 7.2), which have a much lower proportion of unskilled workers than in Spain, while medium education levels have twice the weight.

*The structure of the active population in Spain is very different from that of central EU countries, which have a much lower proportion of unskilled workers, while medium education levels have twice the weight.*

While one possible explanation for the high level of unskilled labour could be the weight of older generations with limited education, this is not the case. Among 25 to 29 year-olds – young people reaching an age where they may have completed their studies – the rate is nearly 36%. Nor is it excessively biased by the presence of unskilled immigration, given that the percentage among Spaniards in the active labour market is 37.2%, compared to 43.6% among immigrants.

Exhibit 7.1

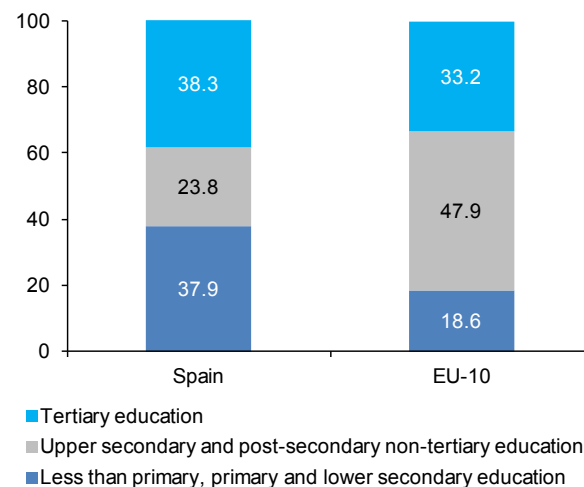
**Composition of employment created since 2013 and composition of active population by educational attainment level**  
(% of total)



Source: Eurostat.

Exhibit 7.2

**Composition of active population by educational attainment level: Comparison Spain - 10 central EU countries**  
(% of total)



The consequence of this oversupply of unskilled labour is that individuals in this group face significant difficulties in finding employment and there is strong downward pressure on their wages. Accordingly, 54% of the unemployed have below secondary level education. The unemployment rate among this group is 28%, compared to 19.2% among the active population with a medium level of education and 11.7% among those with tertiary education. This is undoubtedly one of the main factors explaining the high rate of structural unemployment in the Spanish economy.

*The consequence of this oversupply of unskilled labour is that individuals in this group face significant difficulties in finding employment and there is strong downward pressure on their wages.*

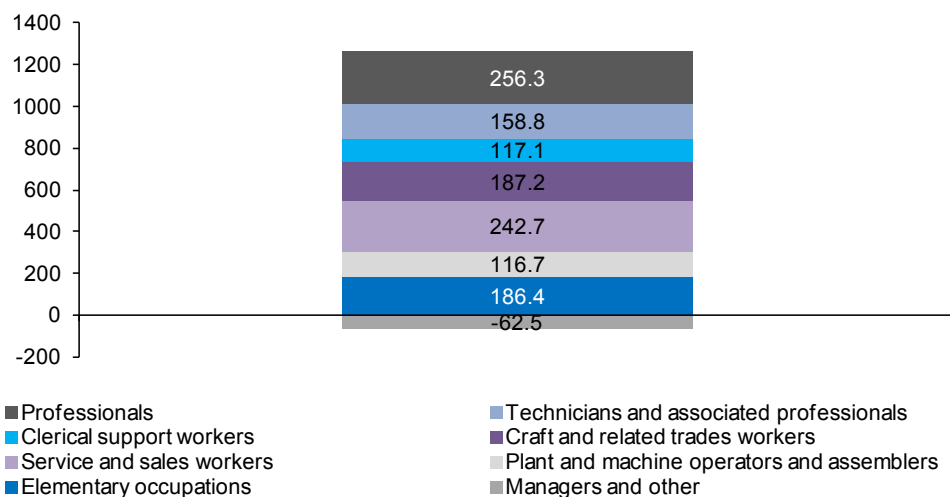
The previous data underline the relatively greater ease with which medium and highly educated individuals are able to find employment. However,

this does not necessarily mean that the structure of employment created matches their level of education, given the possibility to be overqualified for a job, *i.e.* workers occupying positions which require less skills than their education.

In order to have a more accurate idea of the structure of the jobs that have been created in recent years from a skills level perspective, the LFS provides data on employment according to the international classification of occupations ISCO-08 (Exhibit 8). Scientific and intellectual technicians and professionals have seen the largest increase in employment with 256,300 new workers. This is followed by hospitality, personal services and retail workers with 242,700 new jobs. Adding elementary occupation and machinery and installation operators to the latter, employment in the lowest skilled jobs has increased by nearly 550,000 since the start of the recovery. Meanwhile, jobs in categories associated with higher education levels (scientific and intellectual technicians and professionals, technicians and support professionals, accountants, administrative and clerical staff, craftsmen and qualified industrial

Exhibit 8

### Growth in employment since 2013 by occupation (ISCO-08) (Thousands)



Source: INE (LFS).

and construction workers) have increased by 720,000. Separately, employment in the directors and managers category has fallen by 52,000.

## Gender, age and education level

Employment growth has been relatively strong among both men and women – growing by 7.4% for the former – representing 57% of employment created during the recovery– and 6.6% for the latter.

The 50-64 year age group has seen the strongest growth in employment since the start of the recovery, with an increase of 17.4% (760,000 new jobs, *i.e.* 63% of total new employment), followed by young people up to the age of 24, recording a 7.5% increase (57,000 new jobs). Employment among middle-age groups, between 25 and 49 years, grew by 3.1% (365,000 more jobs).

Significantly, all new jobs for young people have been created for individuals with secondary or tertiary education, while employment among low skilled young people, *i.e.* below full secondary education, has fallen sharply over the period. The unemployment rate of unskilled young people stands at 53.8%, compared to 41% for those with secondary education and 31.6% among university graduates. These figures are for the under-25s, and given that the age of completion of university studies ranges from 22 to 23 years, the latter figure relates to unemployment among recent graduates. The unemployment rate for 25-29 year-old university graduates falls to 19.5%.

The same profile applies to cohorts from 25 to 49 years (falling employment among the unskilled and growth among secondary and tertiary education levels). Employment among low skilled individuals has only increased in the 50 to 64 year-old category. Even in this group, the increase has been much stronger for more highly educated individuals.

## Contract type

While temporary contracts bore the brunt of the employment adjustment during the crisis, the bulk of jobs created since the crisis, 61.5%, have also been temporary. As a result, the temporary employment rate which fell during the crisis from a peak of 34% to 23% in 2013, rose to 26.1% in 2016.

---

*While temporary contracts bore the brunt of the employment adjustment during the crisis, the bulk of jobs created since the crisis, 61.5%, have also been temporary.*

---

Construction has seen the largest increases in temporary employment with permanent contracts even falling. Against expectations, growth in temporary employment has also been above average in the manufacturing industry (76% of total employment created), while it has been below average in the hospitality sector (43%).

Meanwhile, full time contracts have accounted for 93% of new employment created in the last three years. Part time employment in 2016 – accounting for 15.2% of total employment – was only 83,000 above 2013 levels. Furthermore, over the last year, there has been a decline in this type of employment, which appears to suggest that contracts are being converted from part time to full time. Nonetheless, in 2016, there were 400,000 more part time jobs than in 2007, given that this type of contract grew strongly during the crisis, especially from 2010 to 2014, which suggests that there was an opposite adjustment from full time to part time employment over that period.

## Conclusion

The data set out in this article, which are entirely descriptive and provided by the LFS, in some cases confirm and in other cases contradict

some of the most widely-held assumptions about the nature of employment created during the recovery.

It is not true that the employment created during the recovery is all unqualified work in the hospitality sector. This branch of activity has seen the strongest growth in absolute terms, but accounts for 22% of total employment created in these years. Similarly, occupations requiring higher levels of skill have experienced the strongest growth.

Closely related to this, individuals with medium or high levels of education have had greater relative ease in finding work than the less skilled. Consequently, there is an important imbalance between the supply and demand for unskilled labour: Only 11.3% of new jobs have been filled by people with low education levels (below full secondary), though this type of labour accounts for 38% of the labour force. This underlines the need to reform Spain's education model and give greater emphasis to active labour market policies.

Finally, it is worth highlighting that temporary employment, one of the most undesirable aspects of the Spanish labour market, continues to prevail. Use of these types of contracts accounts for 61.5% of new employment created in recent years. High rates of temporary employment are a logical consequence of Spain's approach to regulating the labour market, which the 2012 labour market reform did not resolve. By contrast, part-time employment has barely featured among new jobs created over the last three years, compared to the key role it played during the crisis years.



# Online banking in Spain: A customer snapshot

**Santiago Carbó Valverde<sup>1</sup> and Francisco Rodríguez Fernández<sup>2</sup>**

While it is premature to say with certainty, there appears to be considerable upside in terms of digital financial penetration in Spain. This trend is not only important from a quantitative/cost-reduction standpoint, but also because it creates new ways of getting closer to the customer and opportunities to enhance the customer experience.

*This paper presents the main conclusions of a study on digital proficiency, in particular financial digital savviness, based on 3,005 interviews of Spaniards resident in mainland Spain, aged between 18 and 75. The average profile of digital financial service customers in Spain is: working women, mothers, aged 39 or under, resident in towns with over 200,000 inhabitants and with household monthly income of between 3,000 and 5,000 euros. The study reveals that 92% of banking customers regularly use the Internet, while 85.3% have smartphones, 44.3% have at least one computer at home and 47.2% own a tablet. Perceptions about digitalisation – namely related to safety/security, control of expenditure, and user-friendliness – help to partially explain the role cash and some of the more traditional financial services continue to play as key financial services methods in Spain. As regards smartphones, these represent an important digital channel for financial transactions, but also a means of information exchange (communications and social networking tools). 40.8% of smartphone users claim to have received an SMS from their banks over the course of the prior year, with 19.8% reporting the use of a payment app during that time. As regards other online payment providers, 28.9% of those surveyed use Paypal and 15% Amazon Payments. However, 62% said they had not used any online payment service during the past year.*

## **The study: Rationale, design and basic sampling characteristics**

The global economy is immersed in a complex transformation process; albeit progressing at varying speeds, we are all headed in the direction of far-reaching change affecting economic interaction, labour institutions and social relations. Change is being prompted by

the digitalisation phenomenon. Some believe it is the biggest change since the first industrial revolution. Be that as it may, we are moving towards an economic model in which most industries will substantially reduce their marginal costs and introduce automation and artificial intelligence into a large number of processes. Change in which the ability to handle big data is proving essential.

<sup>1</sup> Bangor Business School, CUNEF and Funcas.

<sup>2</sup> University of Granada and Funcas.

The services industry is one of the most affected by digitalisation and within it, banks' services stand to the fore. The financial sector is already undergoing, since the crisis, its own transformation. In part, triggered by a mismatch between supply and demand that is being largely corrected via restructuring and consolidation. However, it is also being driven in part by a more far-reaching and longer-term process, namely product and distribution channel transformation, in which the role of the banks' physical infrastructure is diminishing, just as their ability to offer electronic services, advanced data processing and personalised and immediate solutions for savings and financing products and payment methods is increasing.

---

*The financial sector is undergoing a transformation of its product and distribution channels in which the role of physical infrastructure is diminishing, just as that of electronic services is increasing.*

---

However, as it is an ongoing process that is affecting products and channels across the board, there is scant data about how it is progressing. In this context, Funcas has set up the Observatory of Financial Digitalisation, framed by the foundation's long-standing goal of analysing the trends that are transforming the ties between social and financial reality, focusing on two key market vectors: supply and demand for digital financial services. It is a joint initiative with KPMG, an unprecedented strategic alliance in Spain created to achieve this goal. On the demand side, a study has recently been published under the title "Online banking in Spain: A customer snapshot", which is synthesised in this paper. It is a pioneering study, underpinned by an extensive survey carried out by the social research institute (IMOP) for Funcas in which 3,005 Spaniards resident in mainland Spain aged between 18 and 75 were interviewed. The survey focuses on the use of digitalisation-enabled banking

and payment services. The methodology used is that of the Survey of Consumer Payment Choice (SCPC) produced by the Federal Reserve Bank of Boston, although in the case of the Funcas survey, a broad range of variables related to customers' digital proficiency, especially their financial digital savviness, have been added.

The sample was built from phone interviews conducted applying the corresponding demographic filters and taking the opportune sociological precautions. The 'controlled quota' calls (age, gender, location) and the methods for weighting them are those used in the Spanish general media survey (EGM).

The sampling error is estimated in the range of  $\pm 1.8\%$  for a confidence interval of 95.5%. The sample is balanced and proportionate in relation to demographics and enables breakdown by gender, household size, age and income levels, among other variables.

### **Digital financial services: Penetration, use and assessment**

The first important issue when it comes to analysing this sample is to determine the level of general digital proficiency of the interviewees. The analysis reveals that 92% of bank customers are regular Internet users, 85.3% own a smartphone, 44.3% have at least one computer at home and 47.2% own a tablet. 39.9% of households don't have a desktop computer at home and 47.1% have at least one. 25.3% of households don't have a laptop computer at home and 44.3% have at least one. This initial analysis enables us to pinpoint which users avail of certain devices and channels with the aim of devising the scope for using such instruments to carry out their banking business.

Each customer uses an average of 1.5 banks, there being no major differences between the groups into which the universe of customers were classified. 58.1% of those surveyed transact with just one bank, 31.3% with two and 8.4%,

with three (a breakdown by gender, age and job situation is offered in Table 1). 43.3% have just one account; 32.9% have two and 14% have three (a breakdown is shown in Table 2).

Table 1

**No. of banks used per customer**

	GENDER		AGE			JOB SITUATION				
	Male	Female	39 or younger	Between 40 and 54	Over 54	Working	Pensioner/retired	Job seeker	Student	Unpaid domestic work
One	56.3	60.0	66.4	50.9	56.5	53.8	58.2	68.9	81.3	60.0
Two	31.1	31.5	26.1	36.7	31.3	34.1	30.8	23.3	15.8	35.0
Three	9.1	7.7	6.2	10.4	8.8	9.9	7.3	6.7	2.2	5.0
Four	2.7	0.7	1.1	1.5	2.7	1.7	3.0	1.1	0.7	0.0
More than four	0.8	0.1	0.1	0.5	0.7	0.5	0.6	0.0	0.0	0.0
DK/NR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
No. of responses	1,159	1,164	834	817	672	1,466	328	270	139	120
Average no. of banks	1.6	1.5	1.4	1.6	1.6	1.6	1.6	1.4	1.2	1.5

Note: Weighted averages taken from the sample results.

Source: Observatory of Financial Digitalisation (Funcas-KPMG).

Table 2

**No. of customer bank accounts (including online-only accounts)**

	GENDER		AGE			JOB SITUATION				
	Male	Female	39 or younger	Between 40 and 54	Over 54	Working	Pensioner/retired	Job seeker	Student	Unpaid domestic work
One	42.4	44.3	50.7	36.0	43.2	37.5	44.5	56.7	71.9	48.3
Two	30.2	35.6	31.5	34.9	32.1	34.7	30.8	29.3	21.6	38.3
Three	15.4	12.6	12.4	15.9	13.7	16.7	11.9	10.0	3.6	7.5
Four	6.2	4.6	3.7	7.1	5.4	6.2	6.1	2.2	2.9	3.3
More than four	5.9	2.7	1.7	5.9	5.7	4.8	6.7	1.9	0.0	2.5
DK/NR	0.0	0.2	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0
No. of responses	1,159	1,162	834	815	672	1,464	328	270	139	120
Average no. of accounts	2.1	1.9	1.8	2.2	2.0	2.1	2.1	1.7	1.4	1.8

Note: Weighted averages taken from the sample results.

Source: Observatory of Financial Digitalisation (Funcas-KPMG).

Among the customers who report only having online bank accounts (Table 3), the highest percentages (>11%) are concentrated in the aged 40 - 54 age bracket and among people with jobs (12.9%) relative to job seekers (6.3%) and pensioners (7%).

One extraordinarily important aspect is familiarity with the terms on which certain services are provided. To this end, a basic product was taken, namely the savings account, to ask customers whether they knew what interest rate they were earning on those savings, at least within a rough range. The idea was to try and determine to what extent opining on variables such as price is attributable to a general or more society-driven

perception than to a more informed and individual familiarity with the reality. Note that while 93.7% of respondents said they had a current account, just 42.2% had a savings account. However, some 75.7% of those with a savings account did not know what interest rate it earned, even within an approximate range. As shown in Table 4, a substantial percentage of the population believes they do not earn any remuneration whatsoever on these accounts (as many as 23.6% of retirees) or at least that is their perception. Interestingly, the men who claimed to know the interest rate reported a rate of 2.3% on average, whereas the women reported a rate of just 0.8%.

Table 3

### Percentage of people with online bank accounts only

	GENDER		AGE			JOB SITUATION				
	Male	Female	39 or younger	Between 40 and 54	Over 54	Working	Pensioner/retired	Job seeker	Student	Unpaid domestic work
None	84.6	88.1	85.1	85.3	89.3	82.9	90.5	92.6	92.1	96.7
One	11.3	9.6	11.3	11.6	8.0	12.9	7.0	6.3	7.2	3.3
Two	2.8	1.2	2.4	1.6	1.9	2.7	1.5	0.4	0.7	0.0
Three	0.8	0.6	0.7	1.0	0.3	1.0	0.3	0.4	0.0	0.0
Four	0.3	0.2	0.4	0.2	0.1	0.3	0.3	0.0	0.0	0.0
More than four	0.2	0.2	0.1	0.1	0.3	0.1	0.3	0.4	0.0	0.0
DK/NR	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
No. of responses	1,159	1,163	834	816	672	1,465	328	270	139	120
Average no. of accounts	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0

*Note: Weighted averages taken from the sample results.*

*Source: Observatory of Financial Digitalisation (Funcas-KPMG).*

Table 4

**Reports regarding familiarity with the interest rate earned on respondents' savings accounts**

	GENDER		AGE			JOB SITUATION				
	Male	Female	39 or younger	Between 40 and 54	Over 54	Working	Pensioner/ retired	Job seeker	Student	Unpaid domestic work
Nothing	16.6	10.0	7.9	11.7	20.4	12.5	23.6	7.1	2.8	8.2
Up to 0.25%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Between 0.26% and 0.50%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Between 0.51% and 0.75%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Between 0.76% and 1%	8.0	3.3	4.3	6.3	6.5	5.3	8.5	7.1	2.8	2.0
Between 1% and 2%	2.6	0.6	1.6	1.7	1.5	2.2	1.2	0.0	0.0	0.0
Between 2% and 3%	3.2	0.6	2.0	0.9	3.1	2.2	3.0	0.0	0.0	0.0
Over 3%	2.2	1.0	1.6	1.1	2.2	2.3	0.6	0.0	0.0	0.0
NK/NR	67.5	84.3	82.6	78.3	66.4	75.5	63.0	85.7	94.4	89.8
No. of responses	163	75	53	76	109	158	61	12	2	5
Average interest rate (%)	2.3	0.8	3.0	0.9	2.0	2.5	0.6	0.5	0.5	0.2

*Note: Weighted averages taken from the sample results.*

*Source: Observatory of Financial Digitalisation (Funcas-KPMG).*

79.1% of those surveyed have a debit card and 50.8%, a credit card. Among the standard financial activities performed online in the past year using a computer (Table 5), balance and transaction checking stands out (68.2%). 27.6% of mobile banking users used their phones to make a transfer during the prior year.

The average profile of digital financial service customers in Spain, calculated as the median of the main users of this type of service (online-only accounts, debit and credit cardholders, mobile banking users) is: working women, mothers, aged

39 or under, resident in towns with over 200,000 inhabitants and with household monthly income of between 3,000 and 5,000 euros.

### Perceptions about financial digitalisation and types of use

This section, which addresses perceptions, is particularly relevant as it gives us an idea of which factors may be influencing the preference for traditional services over digital services in the financial industry.

Table 5

**Financial activities performed online from a computer during the last year**

	GENDER		AGE			JOB SITUATION				
	Male	Female	39 or younger	Between 40 and 54	Over 54	Working	Pensioner/retired	Job seeker	Student	Unpaid domestic work
Balance/transaction enquiries	70.7	65.6	71.5	71.5	57.8	75.3	50.4	52.8	68.3	44.4
Bill payment	45.0	35.8	41.4	43.1	34.7	47.8	27.6	26.4	28.1	16.2
Receipt of bank correspondence by e-mail	55.9	46.8	50.2	56.4	45.7	57.8	40.9	33.7	43.2	38.4
Money transfers from one account to another	52.4	49.4	52.7	54.2	43.0	59.0	38.8	29.3	39.6	32.3
None	23.9	28.1	22.2	22.6	37.2	20.0	42.7	39.8	21.6	44.4

Note: Weighted averages taken from the sample results.

Source: Observatory of Financial Digitalisation (Funcas-KPMG).

A first discriminating factor is the perceived security of financial transactions. Although the theory and empirical evidence can be used to argue against the logic of this perception, cash payments are seen as safe or very safe by 87.8% of respondents, followed by debit card payments (76.2%). ATM cash withdrawals (66.8%) and credit card payments (65.7%) are viewed as safe or very safe by lower percentages. Whereas 88.8% view

lower 44.2% so categorise mobile banking. While perceptions about safety/security may be being influenced by fraud in respect of certain payment instruments, a related variable also comes into play: control over expenditure.

However, there is a perception that cards, whether debit or credit, are more widely accepted as a payment method than direct debits (Exhibit 1).

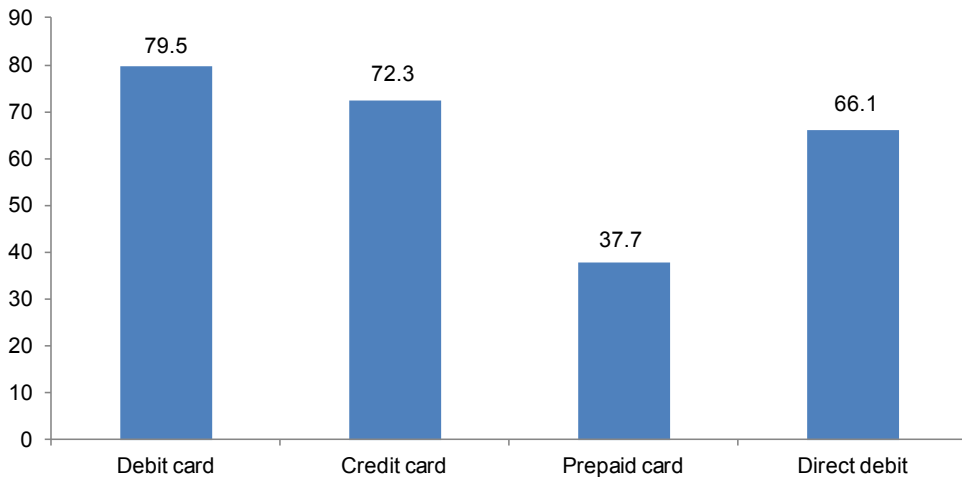
*While perceptions about safety/security may be being influenced by fraud in respect of certain payment instruments, a related variable also comes into play: control over expenditure.*

direct debiting as safe or very safe, just 54.8% put online banking into this category and an even

It is noteworthy that just 63.2% view online banking as low cost or very low cost (Exhibit 2) when theoretically the cost of electronic services should imply a competitive advantage; 58.8% said the same of mobile banking, relative to higher percentages for more established services. The differences in perception regarding the utility of the service are similar (more favourable for traditional channels, numbers not provided here).

Exhibit 1

**Payment instruments perceived as being widely or nearly always accepted**  
(% of responses)

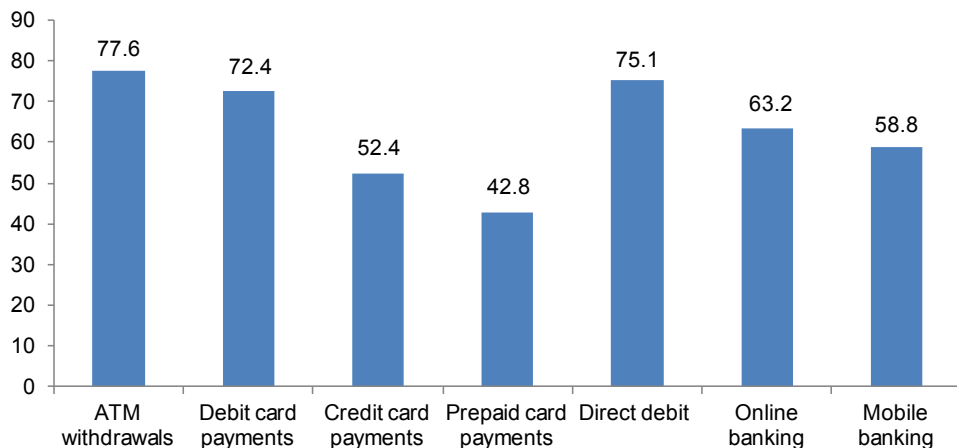


Note: Weighted averages taken from the sample results.

Source: Observatory of Financial Digitalisation (Funcas-KPMG).

Exhibit 2

**Payment instruments perceived as low cost or very low cost**  
(% of responses)



Note: Weighted averages taken from the sample results.

Source: Observatory of Financial Digitalisation (Funcas-KPMG).

Perceived user-friendliness throws up similar differences between traditional and online services. Whereas over 90% view ATM cash withdrawals and debit card payments as easy or very easy, these percentages fall to 67.8% and 64.4% of users when asked about the user-friendliness of online and mobile banking services, respectively. However, the gap between the assessment of traditional versus digital channels narrows when asked about the availability and quality of transaction records and information (Exhibit 3).

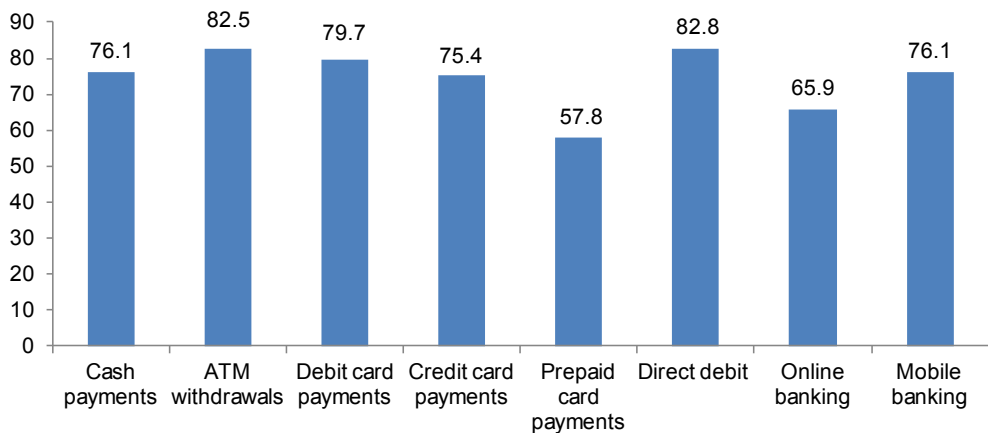
As noted earlier, the differences in perceptions may be partially motivated by the role cash continues to play as a payment method. Particularly the idea that it helps control spending. The results of the survey offer some interesting insight into the persistent use of cash in Spain (Table 6). 25.6% of Spanish households keep as much as 500 euros at home. 69.5% usually carry a 50 euro note on them. Just 5.7% do not carry any cash. These figures are probably also related

with a long-standing paradox in Spain in relation to the adoption of new technology in the banking arena and its usage. It is commonplace to observe overlapping new developments such that certain innovations make inroads at an uneven pace. The advent of ATMs is a good case in point: on the one hand, they alleviated the need to go to the bank

*There is a long-standing paradox in Spain in relation to the adoption of new technology in the banking arena and its usage - it is commonplace to observe overlapping new developments, such that certain innovations make inroads at an uneven pace.*

to perform certain cash transactions; however, in parallel they boosted cash withdrawals, ultimately slowing the use of cards for everyday transactions.

Exhibit 3  
**Transaction records perceived as good or very good**  
(% responses)



Note: Weighted averages taken from the sample results.  
Source: Observatory of Financial Digitalisation (Funcas-KPMG).



Table 6

**Figures illustrating the persistent use of cash in Spain (%)**

Respondents who paid for something in cash in the past year	99.2
Respondents who usually carry a 50 euro note	69.5
Respondents who do not carry cash	5.7
Respondents who say they do not keep cash at home	65.3
Respondents who say they have as much as 500 euros at home	25.6
Respondents who mainly withdraw cash from ATMs	85.3
Respondents who withdraw cash monthly	56.0
Respondents who withdraw cash weekly	35.2
Respondents who withdraw cash up to 3 times a year	52.9
Respondents who withdraw over 5 times a year	32.4

Note: Weighted averages taken from the sample results.

Source: Observatory of Financial Digitalisation (Funcas-KPMG).

## Usage of smartphones, non-banking services and social networks

If there is one device that today's citizens keep close at hand and use intensively, it is the smartphone. This is why a large part of the banks' financial digitalisation hopes are placed on this channel. And not only from the standpoint of financial transactions but also the value of smartphones as a communications and social

*A large part of the banks' financial digitalisation hopes are placed on smartphones, as communication is proving an essential element for the banks, which are looking to strengthen their customer ties, improve their reputations and boost their relationship banking.*

networking tool. All the more so at a time when communication is proving an essential element for the banks, which are looking to strengthen their customer ties, improve their reputations and boost their relationship banking.

Among the ways in which smartphones are used for personal finance purposes (Table 7), the exchange of information stands out. In the sample, 40.8% of smartphone users reported that they had received a text message (SMS) from their bank over the course of the prior year. A much lower 19.8% said they had used a mobile payments app during that time, although this percentage is already considerable and expected to grow in the years to come.

Whether by mobile, tablet or computer, 56% of those surveyed claim to check their bank account balances weekly, with 34% checking their credit card balances with the same frequency.

The fact that mobiles are used predominantly for the exchange of information is once again related to the safety perception. Only cash is perceived by the majority as a risk-free or low-risk payment method. This percentage falls to 35.6% in the case of m-payment apps and to 15% in the case of payments over the phone.

It is important to stress that not all use of electronic payments or digital services relates to banks. Other non-banking providers play an important

Table 7

**Key ways in which smartphones were used in the last 12 months for personal finance purposes (% of responses)**

Receipt of advertising SMSs from their banks	40.8
Displays for scanning (e.g. boarding pass)	16.1
QR code scanning	30.8
Online shopping	33.3
Payment app	19.8
In-app shopping	17.9
Money transfers	19.7

*Note: Weighted averages taken from the sample results.*

*Source: Observatory of Financial Digitalisation (Funcas-KPMG).*

role. 28.9% of respondents use Paypal and 15%, Amazon Payments. However, 62% said they had not used any online payment service during the past year (Table 8).

Digital channels are gradually replacing branches for matters involving the exchange of information. 37% of those surveyed go to their bank branch at least once a month with enquires. 48% submit enquires at least once a month from their mobile handsets (call or message).

With respect to the exchange of information between banks and their customers, there is little difference in how traditional versus digital channels are perceived in terms of making enquiries or reporting complaints. There is a preference for e-mail over the social networks and it is used primarily to submit complaints.

It is also worth highlighting that 70% of the Internet users surveyed have Facebook accounts and 28%, Twitter accounts. However, the relationship

Table 8

**Percentage of users of non-banking services**

Paypal	28.9
e-Wallets	2.6
Website accounts	5.7
Amazon Payments	15.0
Other non-banking online payment services	4.3
None	62.0

*Note: Weighted averages taken from the sample results.*

*Source: Observatory of Financial Digitalisation (Funcas-KPMG).*

channel created between banks and their customers by virtue of the social networks is used primarily to express complaints or notify technical incidents. There is, therefore, significant scope for further developing these channels.

In general, there is considerable upside in terms of digital channel penetration in Spain, although it is also too soon to say that their presence is already significant. As shown in this paper, this trend is not only important from a quantitative standpoint or in terms of the transformation of financial service industry channels and costs, but also because it creates new ways of engaging customers and swapping information with them: these opportunities for interaction are as, or more, important than existing channels and are set to change the industry radically in the years to come.



# The recovery of European and Spanish bank stock valuations

Ángel Berges, Fernando Rojas and David Ruiz<sup>1</sup>

**The latest increase in EU bank stock valuations appears to be driven more by factors other than fundamentals. Expectations of a more favourable regulatory and interest rate climate have helped to provide some much needed breathing room to financial sector shares.**

*After the dismal valuations reached in mid-2016, European – and notably Spanish – bank stocks recovered significantly in the second half of 2016 and into 2017, bringing the price-to-book value close to parity. Paradoxically, the recovery in share prices coincided with the publication of a relatively uninspiring set of 2016 results by the main Spanish and European banks. This apparent contradiction is explained by two factors: the pick up in yield curves and expectations that regulatory pressure will ease.*

## Heterogeneous results

The publication of European banks' 2016 results (banks are now publishing their first quarter 2017 results) provides an opportunity to assess their performance, especially in light of a very significant recovery in the stock market value of nearly all European banks, especially Spanish banks.

The significant heterogeneity and volatility across banking systems (and between banks in the same system) is perhaps one of the most notable features of the 2016 results, as is the market's response to this volatility.

Among the four large euro area countries, only French banks reported a reasonable degree of

homogeneity among large listed-banks, presenting a very similar set of results, both in terms of year-on-year growth and market expectations.

Sharp losses at Banco Popular had a negative impact on the overall performance of Spanish listed banks. Profit fell sharply on aggregate, but would have grown modestly excluding Popular.

However, heterogeneity was much greater in Italy and Germany. In Italy, the cleaner banks (Intesa San Paolo and Mediobanca) reported rising profits, but sharp losses recorded by Unicredit and Monte dei Paschi di Siena (MPS) pushed aggregate results for listed banks and the system as a whole into the red. Likewise in Germany, Deutsche Bank continued to post significant losses (albeit less than in 2015 when it undertook

<sup>1</sup> A.F.I. - Analistas Financieros Internacionales, S.A.

provisions of nearly 7 billion euros in order to cover a US Treasury fine of a similar magnitude), while Commerzbank's profit fell by 70%.

## Paradoxical stock market recovery

The extraordinary heterogeneity between and within banking systems, with significant variation in both the amount and the profit/loss situation of banks, is leading to bank shares gaining a reputation for being highly volatile stocks in comparison to the rest of the market. Listed bank stocks rise more sharply when the overall market is on the up and fall more significantly when it is declining.

The performance of the stock exchange during the last year is particularly illustrative of the greater relative volatility of bank shares in Europe, as can be seen in Exhibit 1. The Exhibit shows the performance of the overall Eurostoxx index, compared with the banking sector component of the index. During the first half of 2016, European

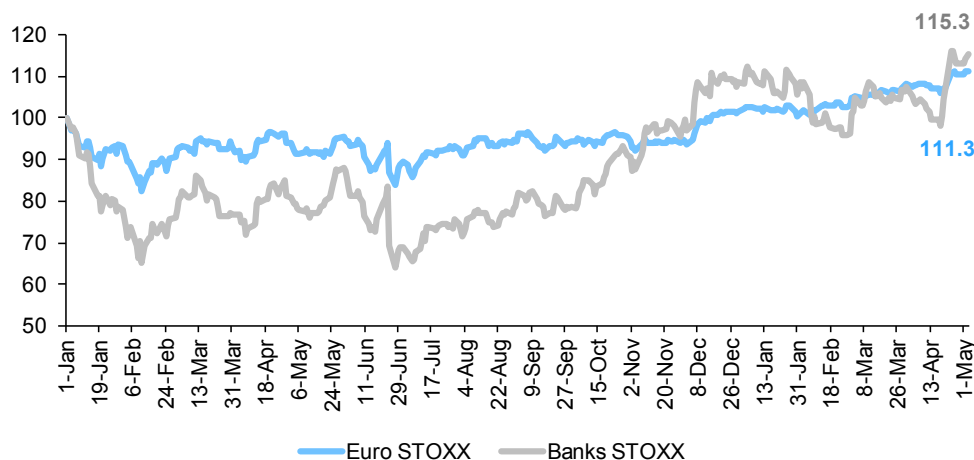
banks almost doubled the losses registered in the overall index, while in the last six months of the year the recovery was much stronger than for the overall index, with this trend being sustained into the first half of 2017.

The aggregate performance of European banks masks important differences between countries, both in terms of the initial decline in share prices, but especially in the recovery. Italian banks registered the strongest declines and they have yet to recover the bulk of losses during the first half of 2016, when renewed concerns began to emerge about the outstanding clean-up of their loan books. These doubts have not been resolved and have resulted in several of the large banks putting aside extraordinary provisions, which has led to losses in the system as a whole.

Meanwhile, German listed banks have recovered around half of the losses in the first half of 2016; having been particularly affected by the doubts surrounding Deutsche Bank.

Exhibit 1

### Performance of Eurostoxx index compared to the banking component (Base = 100: January 1<sup>st</sup>, 2016)



Source: Factset, AFI.

By contrast, Spanish and French bank stock have seen the strongest recoveries since the lows of last June. The relative value (Price/Book ratio) of Spain's four largest banks now stands at around parity. This is somewhat lower for Sabadell (0.75), while Banco Popular continues to have the weakest valuation at around 0.25 times book value.

*Bank shares have been especially volatile in the last year, with Spanish and French banks registering the largest improvements in stock valuations.*

Spain has seen the largest recovery in the stock market value of its banks, which also traded at a premium to European counterparts during the height of the crisis. Various factors explain this better relative performance. Firstly, the profitability ratios of Spanish banks are above that of other countries in the comparison. Furthermore, apart from Banco Popular, the bulk of the clean-up

effort has already taken place (something which cannot be said, for example, in Italy).

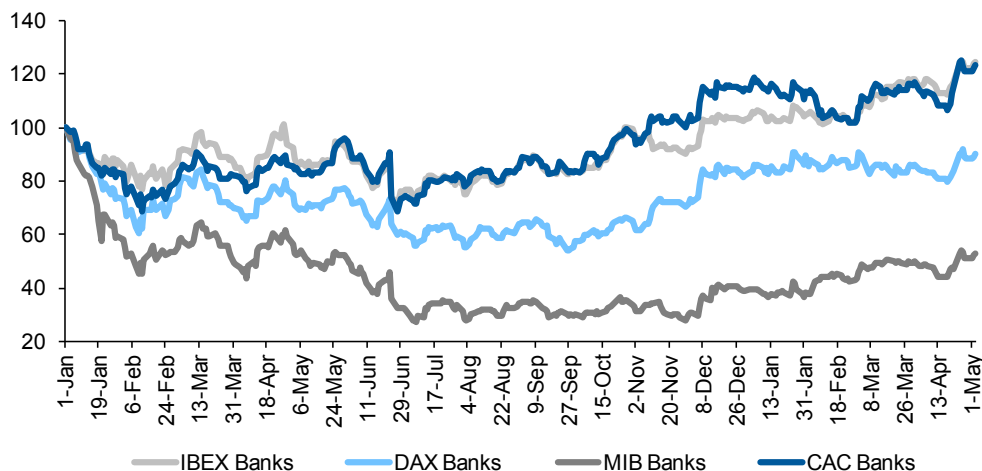
Likewise, the effort to recapitalise Spanish banks was significant, despite solvency ratios remaining somewhat below the EU average. Spanish banks are also set to be more sensitive to a pick up in interest rates than other countries' banks, with a larger proportion of the loan book referenced to variables rates (by contrast, fixed rates dominate in Germany). This means that as the normalisation

*Spanish banks, with a large proportion of their loan book referenced to variables rates, will be in a strong position to rapidly increase their profitability as interest rate normalisation passes through to the interbank market.*

of interest rates passes through to the interbank market, Spanish banks will be in a strong position to rapidly increase their profitability.

Exhibit 2

**Performance of the main European banking indicators**  
(Base = 100: January 1<sup>st</sup>, 2016)



Source: Factset, AFI.

The same dispersion in relative valuations is present in other European banking sectors and is particularly notable in Italy, where Intesa-San Paolo is valued at 0.9 times book value, with Unicredit at 0.45 and MPS, the most problematic, trading at barely 0.06 times book value.

## Reduction in systemic risk

In our opinion, the significant dispersion between bank valuations (which could be considered “positive discrimination”) has a clearly positive interpretation insofar as concerns around sustainability (which is what a low P/BV ratio ultimately reflects) are no longer systemic, as was the case in mid-2016. Instead there is a clear differentiation between banks, essentially on two grounds. In terms of the degree of concern, firstly, around the need for additional asset clean-up and, secondly, banks’ long-term capacity to generate sustainable net interest income.

In order to lend credence to the idea of increasing market differentiation between banks, we have

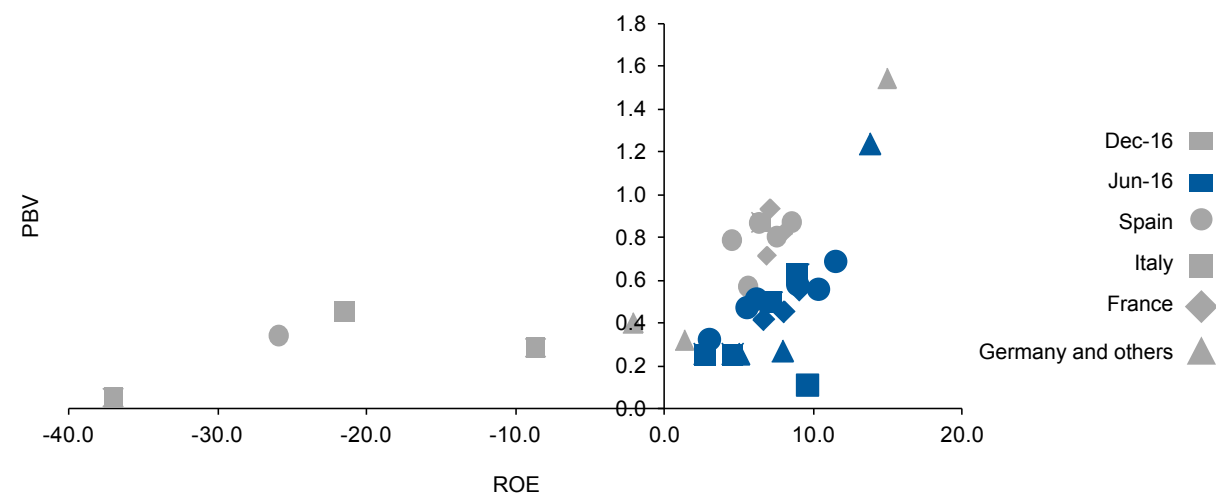
analysed two different points in time: mid-2016, when banks’ stock market valuation hit a low point and the end of 2016, following a significant recovery in bank stocks. We correlated each bank’s relative valuation (Price/Book ratio) with the return on equity (ROE) at both points in time.

The results presented in the following exhibit leave little room for doubt: valuation ratios were significantly higher at the end of 2016 than they were in the middle of the year, but most significantly, at the end of 2016, there was much greater dispersion in valuation ratios and a high correlation (around 60%) with each bank’s ROE. This correlation was practically non-existent when valuations hit a trough last June.

However, it is also surprising in the sense that the pick up in bank stocks coincided with increased alarm about geopolitical risks in the second half of 2016. June’s Brexit vote, Donald Trump’s election in November and the Italian referendum have all led to heightened concern. The latter serving as an appetiser for this year’s busy political agenda with

Exhibit 3

### European banks: Relationship between valuation (P/BV) and profitability (ROE)



Source: SNL Financial, AFI.



elections having taken place in the Netherlands, the Presidential election in France and the upcoming German elections in the autumn.

Although it may seem counter-intuitive, it is highly likely that this convergence of political events may have had a significant influence on the strong recovery of European bank valuations. The line of argument is that these events, especially Brexit and Trump's election, have led to a reconsideration of two factors which have weighed on banks' profitability in recent years: (i) the burden of bank regulation; and, (ii) the low interest rate environment. Both the United Kingdom and United States look set to rein in the heavy burden of new regulatory demands on banks and associated uncertainties. The Bank of England's response to Brexit was to promise a clear relaxation of regulatory demands on British banks, meanwhile one of President Trump's first moves was to freeze, if not reverse, a significant part of the regulation associated with the Dodd-Frank Act.

## Stock market valuation and the yield curve

These moves to relax regulation in the United Kingdom and United States, and the expectation that Europe could follow suit, have likely had a significant impact on the recovery in European bank stocks, especially as elements of political risk come into play given this year's European electoral calendar.

Another important implication of events in the United Kingdom and the United States is the more than probable change in the monetary-fiscal policy mix, which also likely played into bank valuations. Both countries appear to be taking a path towards a more expansive fiscal policy, taking some of the weight off exclusively monetary-based forms of stimulus and pointing to a possible normalisation of interest rates,

which would undoubtedly be very favourable for European banking business.

---

*The recovery in stock market valuation of European banks is based on expectations of a relaxation in regulatory demands driven by the United Kingdom and the United States, but above all by the pick up in the yield curve, pointing to a future normalisation of interest rates which would be crucial for the retail banking business.*

---

However, the movements in bank shares not only reflect the implications of the election results. The euro area economy now looks to be moving towards more sustainable territory after several years of (conventional and unconventional) monetary policy stimulus, driving away risks of deflation and the danger of prolonged zero interest rates ("too low for too long"), which significantly would hamper the retail banking business.

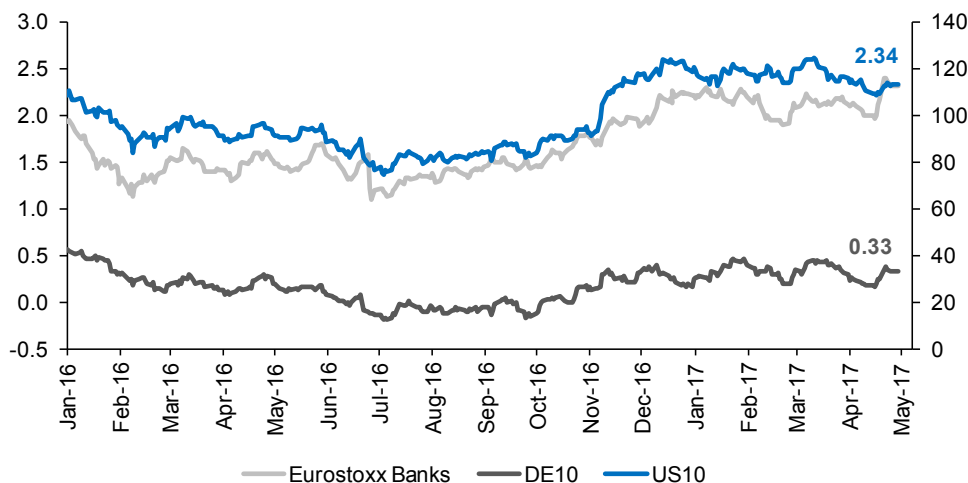
By way of illustrating this idea, we have analysed the correlation between European banking sector stock market valuations and indicators of future interest rate outlook, using both long-term US Treasury bonds and German bunds, as can be seen in Exhibit 4.

The correlation between the share price of Eurostoxx banks and 10-year German and U.S. Sovereign debt is clear, albeit significantly more pronounced for US Treasuries. A possible explanation for this is that the ECB's public debt purchases are "muddying" the ability of the long-end of the yield curve to anticipate future developments of short-term rates in the euro area; something which the U.S. yield curve can distil more clearly.

Furthermore, extending the analysis to include first quarter 2017 results, which have systematically

Exhibit 4

**Performance of the banking component of Eurostoxx and yield on 10-year German and US bonds**  
(Base = 100: January 1<sup>st</sup>, 2016)



Sources: SNL Financial, Datastream, AFI.

beaten market expectations, further reinforces the previous analysis, given that the substantial improvement in bank fundamentals indicated by these results has not affected banks' share prices, which in turn suggests that the market is more sensitive to movements in the yield curve than banks' underlying performance.

## Conclusions

The results leave little room for doubt regarding the significant impact of the pick up in long-term yields on European bank valuations, which is much more significant when compared to US Treasuries than it is for Bunds.

Beyond this statistical observation – the latter is the economic indicator with which the banking component of Eurostoxx is most closely correlated – the results are economically and financially rational. The T-Bond curve has been the first to capture a normalisation of interest rates and a move away from close to – or even below – zero

territory, which has had such an adverse impact on the banking system.

This backdrop with a clear sensitivity of bank share prices to the yield curve, albeit with the tapering of ECB stimulus still some way off and likely to be gradual, suggests that the market is beginning to see light at the end of the tunnel for banks. A clearly improved macroeconomic outlook – as indicated by the latest indicators – facilitating a normalisation of interest rates, would give much needed breathing room to banks' battered income statements.

# House prices and income: Trending in the same direction for now

**María Romero and Noelia Fernández<sup>1</sup>**

**In the initial stages of post-crisis recovery, housing price growth has been matched by income growth. However, the lack of granular data and concerns over the maintenance of supportive factors, such as income levels and low interest rates, make it difficult to gauge the future outlook for the real estate sector.**

*After a sharp adjustment during the crisis, house prices started to grow in 2015 and are now accelerating. On average, at the national and provincial level, the increase in prices is being matched by an improvement in household income, reflecting their payment capacity. However, the lack of up-to-date data on income makes it difficult to confirm whether this also applies at a more micro level, such as districts of neighbourhoods within large cities. These are precisely the areas which have registered a larger increase in prices. In any event, future house price growth may be limited by subdued income growth and interest rate hikes, but the sector's ability to generate noteworthy returns on investment should help support house prices going forward.*

House prices have started to grow again after the sharp adjustment during the real estate boom. The latest data even point to a slight acceleration in price growth, leading to potential concerns about the formation of a new housing “bubble”.

Although house price growth is still modest and current levels remain far from pre-crisis peaks (still some 30% below), it is worth analysing the factors underpinning house price growth. Particularly, the extent to which current price increases in recent months are being matched by increases in the payment capacity of house buyers.

The fragmentation of the real estate market means that housing market developments need to be analysed at the highest level of granularity possible, given that the recovery in the sector seems to be focusing on specific regions (Taltavull, 2017). As a result, this article will aim to analyse house price behaviour and household income at the highest level of geographical disaggregation possible, which in turn will depend on the availability of statistical data.

It is also important to review the outlook for house prices over the coming months given that not only

<sup>1</sup> A.F.I. - Analistas Financieros Internacionales, S.A.

could this affect housing affordability for future buyers or returns for investors in these assets but also the country's overall financial stability.

## Recent developments in house prices and drivers

Following the significant adjustment in house prices as result of the real estate crisis, housing is once again regaining value. In general, and across statistical sources, house prices began to grow in 2015, registering positive quarterly growth rates since then of between 0% and 2%. However, in year-on-year terms, price growth only exceeded the 1% threshold in 2016.

House prices registered a slight acceleration at the beginning of this year. The Tinsa IMIE Index, the first to be published, points to nearly 3% growth in the first quarter of 2017 (Exhibit 1). Likewise, the Centre for Sociological Research's (CIS) monthly barometer shows that an increasing proportion of citizens are expecting house prices to rise over the year based on their observations of the

market. In February 2017 (latest available data), more than half of the survey respondents held this view, compared to 39% a year ago (Exhibit 2).

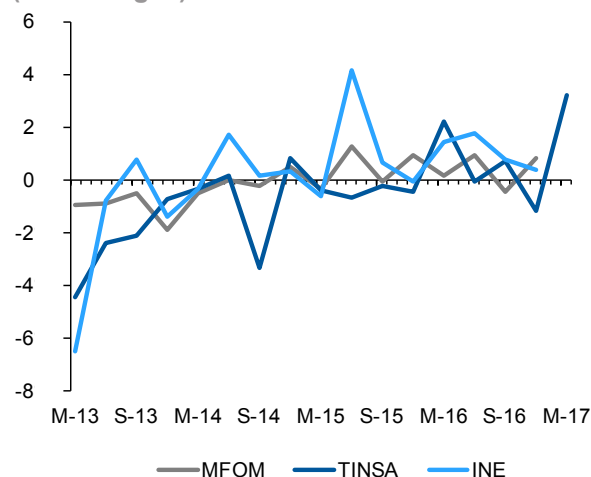
*House prices continue to grow and even accelerated at the start of 2017, though they still remain a long way from pre-crisis peaks.*

Even so, current house price levels remain a long way from pre-crisis peaks and even the most optimistic projections fail to see these being reached in the coming months. Either way, it is worth taking the time to analyse the factors that have driven house price growth so far.

House prices are explained by: (i) GDP, as an approximation of household income, which in turn reflects the payment capacity of the ultimate house buyers; and, (ii) the interest rate on mortgage loans, which reflects access to external financing (predominantly bank lending).

Exhibit 1

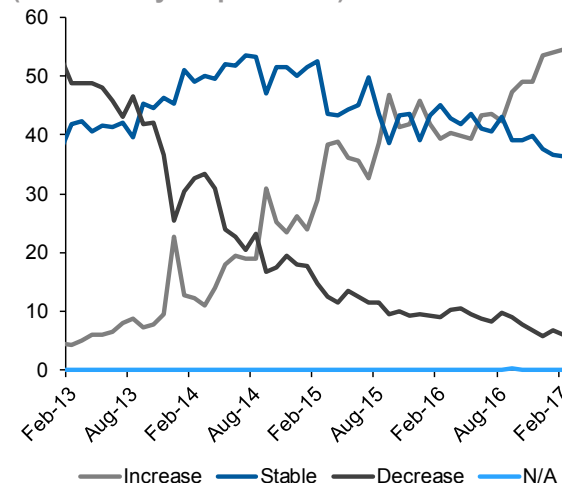
**Quarterly change in house prices according to different statistical sources (Percentages)**



Sources: MFOM, Tinsa, INE, AFI.

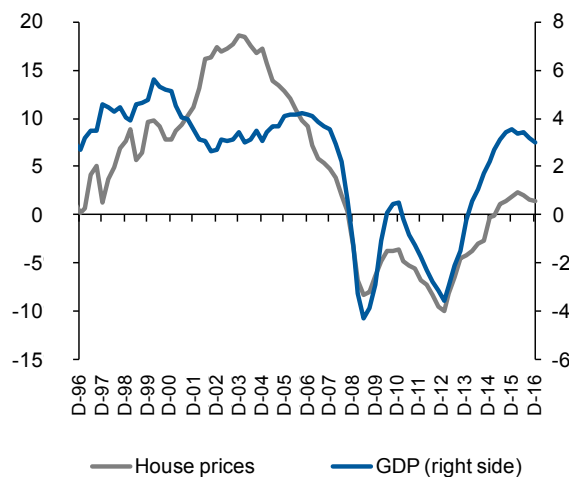
Exhibit 2

**Assessment of house price developments in Spain over the coming year (% of survey respondents)**



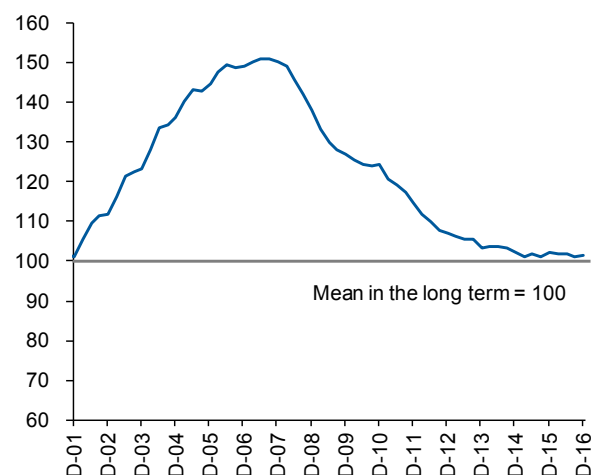
Source: CIS, AFI.

Exhibit 3

**Year-on-year growth in house prices and GDP (Percentages)**

Sources: MFOM, INE, AFI.

Exhibit 4

**Price-to-income ratio (Base 100=Q101)**

Sources: MFOM, INE, AFI.

In terms of GDP growth, house prices have moved in line with the increase in household income. This is underlined by the price-to-income ratio, which has been at its long-term equilibrium since the start of 2015 (Exhibit 4). Therefore, to date at the national level, house price growth has been matched by income growth.

However, the fragmentation of the real estate market means it is important to replicate this analysis at the highest level of granularity possible, given that the national average could be masking disparities between house prices and household income.

**The different territorial reality**

The first major breakdown available from official statistics after regional level data is at the provincial level. An analysis of provincial data suggests that house price growth has also been matched by income growth. The provinces which have seen the largest growth in house prices

over the last three years are also those which have seen the biggest increases in employment (Exhibit 5) and, therefore, income or final house buyer payment capacity, which is also illustrated by the pick-up in housing transactions in these provinces. The Balearic Islands and Barcelona stand out particularly in this regard.

Municipal data offers another perspective, although statistics are limited to large cities, *i.e.* municipalities with more than 25,000 inhabitants. The cities where growth has been most dynamic and employment creation capacity the strongest are also those which have been the most successful in attracting inward migration, with higher demand for housing and upward pressure on house prices. However, it is also true that there are some signs of increased pressure on house prices in specific coastal regions where demand for second homes, especially from foreigners, is stronger – with demand focused on above average value housing.

Exhibit 5

**Growth in Social Security registrations and house prices by province (Percentages)**

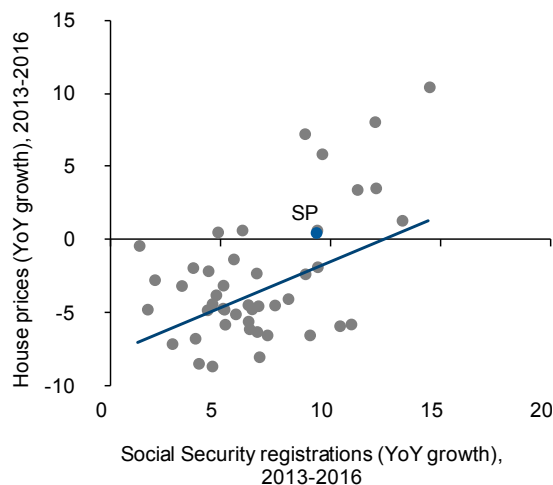
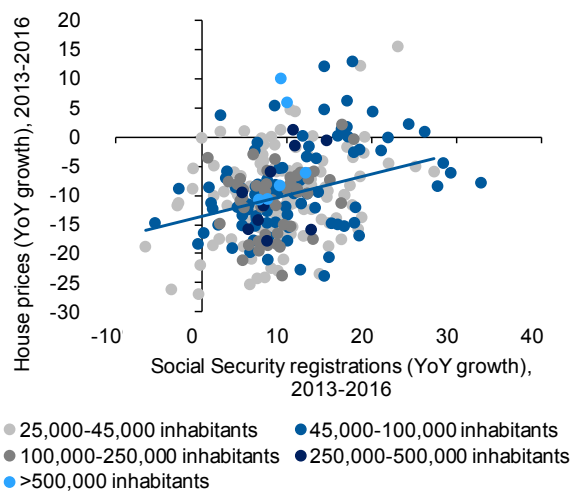


Exhibit 6

**Growth in Social Security registrations and house prices by cities with more than 25,000 inhabitants (Percentages)**



Sources: MFOM, MEYSS, AFI.

Sources: MFOM, MEYSS, AFI.

But without a doubt, the most significant increases in house prices have taken place in Spain's largest cities, Madrid and Barcelona and their respective metropolitan areas. Since the start of the economic recovery (2014) up to the end of 2016, both cities have registered cumulative increases in house price values in excess of 13%, while the average for cities with populations of over 25,000 has remained practically unchanged since then (Exhibit 7). It is worth bearing in mind two factors that could have affected price developments in these two large cities. The first is related to the increase in the proportion of transactions and therefore used-house price valuations. These types of dwellings are generally located in city centres, where prices have risen more strongly, in addition to the fact the price level is generally above new housing. In fact, the most central districts, which have the highest price levels, are exactly those which have registered the largest increases in house prices in recent years. The second factor is related to the renewal of city centres, the significant provision of infrastructures and services on offer and the increase in demand

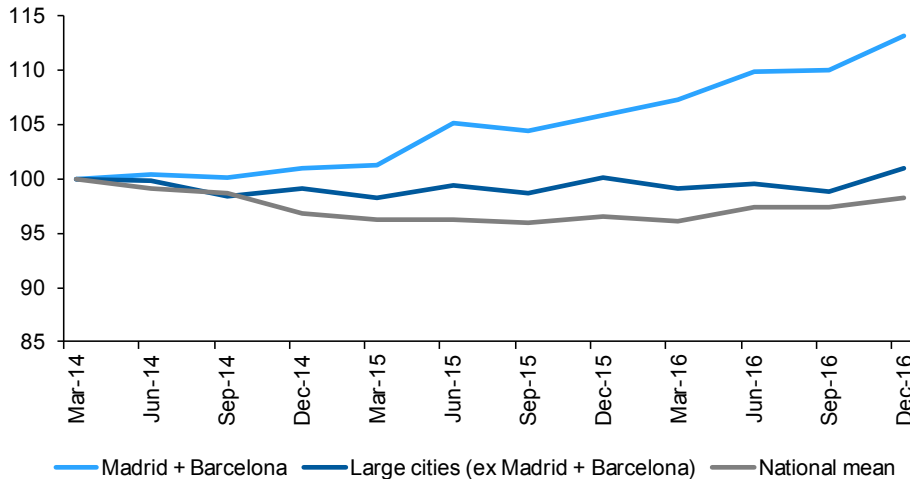
for rentals, all of which have created greater investor appetite in these areas.

*So far, house price growth has been matched by national and provincial payment capacity, but it is not possible to confirm whether the same is true for specific cities.*

The key question is therefore up to what point the increase in house prices is also related to an improvement in ultimate house buyers' payment capacity. Analysing house price developments in 2015 (latest data available) and household income in each of the districts in these two large cities, suggests that the ratio between the two is generally at its long-term equilibrium (Exhibits 8 and 9). However, there are some districts where there is a degree of disconnect between house prices and household income developments. In particular, there are signs of an over valuation of central districts and undervaluation of outlying

Exhibit 7

### Growth in house prices (Index base 100=Q114)



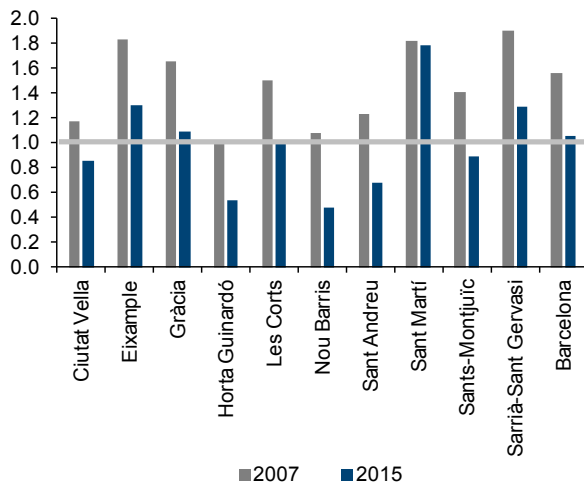
Source: MFOM, AFI.

areas. Furthermore, in the absence of statistical data on household income in each district in 2016, which is when prices grew most strongly, it is impossible to know whether growth in house

prices has been matched by income or not. Therefore, it is not possible to say whether prices are growing at the same rate as the payment capacity of ultimate house buyers.

Exhibit 8

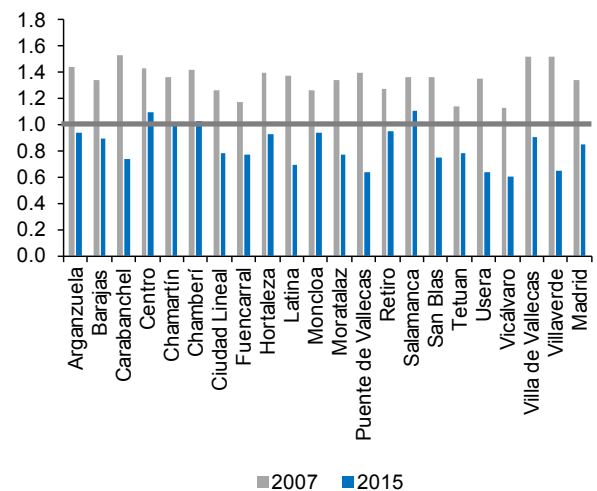
### Price-to-income ratio in districts of Barcelona (Base 100=2002)



Source: Barcelona town hall, Idealista and AFI.

Exhibit 9

### Price-to-income ratio in districts of Madrid (Base 100=2002)



Source: Madrid town hall, Idealista and AFI.

## Outlook

The outlook for prices is particularly relevant insofar as it not only affects housing affordability for final purchasers or returns for investors in these assets, but also the country's financial stability.

Consensus forecasts a slowdown in household income growth together with an expected increase in interest rates on mortgage loans, both of which will limit house buyer's external financing capacity and will contain house price growth.

---

*Projected subdued future income growth, together with the expected increase in interest rates, will limit house price growth.*

---

54 Either way, and despite the expected slowdown in house price growth, housing will continue to offer returns well in excess of other financial assets (currently over 4.4% according to the Bank of Spain), which could strengthen investment in the residential sector and put upward pressure on prices over the coming months.

## Conclusions

Following the significant adjustment during the crisis, house prices started to grow in 2015, registering growth of over 1% in 2016. The pick-up in growth at the start of 2017 could foreshadow the emergence of a new real estate "bubble", if it is not accompanied by concurrent increases in household income. The fragmentation of the real estate market means detailed micro-level analysis at the territorial level is required. Thus, while growth in house prices has been matched by income at the national and provincial level, the absence of statistical information at the most granular territorial level, such as districts within largest cities (Madrid and Barcelona), makes it difficult to confirm whether the same is true for these areas.

## References

TALTAVULL, P. (2017), "Spain's real estate sector: Slow path to recovery and future outlook," *Spanish Economic and Financial Outlook*, February 2017.



# Non-price competitiveness factors and export performance: The case of Spain in the context of the Euro area

Ramon Xifré<sup>1</sup>

**Empirical evidence suggests that internal non-price/cost factors dominate over strictly price/cost elements in determining the external competitiveness of the five largest EA economies. Building on this observation, internal devaluation policies are likely to have only a limited impact on restoring competitiveness compared to those aimed at strengthening capitalization and providing the right incentives for exporters.**

*This paper examines, for the five largest euro area economies – Germany, France, Italy, Spain and the Netherlands (EA5) –, the evolution of the leading price/cost (internal) competitiveness indicators, and the association between them and export performance. First, we show that the most prominent price/cost competitiveness indicators have oscillated with different orders of magnitude in the five countries. The smallest oscillations correspond to Germany and the Netherlands, and the highest (more than four times higher) to Italy. We also show that although Italy and Spain have had similar trajectories up to 2008, Spain appears to have recovered by the end of 2015 virtually all of the cost-competitiveness lost between 2000 and 2008, while in Italy what is left to recover exceeds the corrections made so far. Concerning the association of these internal developments with the behaviour of exports, this paper finds, in line with previous literature, that the link appears to be rather weak. This suggests that other, non-price/cost factors are more important for export growth. To the extent that this hypothesis could be proved, policies in support of competitiveness should rebalance priorities away from internal devaluations and incentivize the capitalization of the EA5 economies with more important challenges, in particular in Spain.*

The competitiveness of an economy is a key economic policy priority. In the wake of the 2008 economic and financial crisis the issue is even more central, particularly for the European Union (EU) and the Euro area (EA) countries. The European Commission and EA economic establishment in its flagship policy paper to

revitalize the European Union identified the task of “boosting competitiveness” as the most urgent one (Five Presidents Report, 2015).

However, beyond its prominence in the policy debate, there is no unequivocal way of understanding the competitiveness of an economy,

<sup>1</sup> ESCI-Universitat Pompeu Fabra and Public-Private Sector Research Center, IESE Business School.

but rather there are two basic approaches: internal and external competitiveness (Draghi, 2012). This distinction is not only academic, but also holds significant policy relevance.

For example, in the case of Spain, the fourth largest economy in the EA, both concepts of competitiveness have evolved in opposite directions since the introduction of the euro in 1999. By most standards of measurement, internal (price-cost) competitiveness has deteriorated while the external (export-related) has improved. This is known as the “Spanish paradox” and it is likely to be the manifestation of a deeper dual economic structure in the country. A handful of very competitive, internationally-oriented firms coexist with a larger set of smaller, more troubled, inward-looking ones. As the price-cost indicators tend to over-represent the latter ones, these indicators become less reliable.<sup>2</sup>

The textbook approach suggests that improvements in internal competitiveness translate into gains of external competitiveness: by reducing wages, cheaper products are sold better in international markets. This rationale, as simple as it might seem, has guided a fair share of policy interventions in the EA in the wake of the crisis.

---

*Since the introduction of the euro, in the case of Spain, internal (price-cost) competitiveness has deteriorated while the external (export-related) has improved – what is known as the “Spanish paradox”.*

---

In this paper, we examine this link for the five largest EA economies: Germany, France, Italy, Spain and the Netherlands (EA5). The following section introduces the different types of deflators

for the real effective exchange rates. Then, the article examines how they have evolved in the EA5 between 2000 and 2015. Subsequently, we disaggregate the variation of export shares in the EA5 into two components, one related to cost competitiveness and the other related to non-cost competitiveness. The final section provides a conclusion.

## Real effective exchange rates (REER)

Competitiveness is, by definition, a relative notion; firms, countries or regions are more or less competitive than their counterparts. The leading competitiveness indicator of an economy is the real effective exchange rate (REER). It is a generalization of the nominal exchange rate, which is the rate (or price) at which currencies are exchanged. The real effective exchange rate intends to capture the real price of a country's currency, *i.e.* its relative price in terms of the currencies of its principal trading partners.

Formally, the REER of a country is defined as the weighted geometric average of the nominal exchange rate rates of the country's main trading partners employing a particular deflator. That is, for a given country, if there is a set  $i=1, \dots, n$  of trading partners;  $e_i$ , the exchange rate;  $P_i^*$ , the deflator;  $\omega_i$ , the weight associated to trade partner  $i$  (a function of imports and exports), then the real effective exchange rate is,

$$REER = \prod_{i=1}^n \frac{P}{(P_i^* e_i)^{\omega_i}}.$$

See Giordano and Zollino (2016) and the references therein, for further details.

The REER is thus an approximation to the effective, relative price of the exports of one country in terms of the exports of its more relevant international competitors. Constructed in this

<sup>2</sup> On this topic, see Spanish Prime Minister Economic Bureau (2010), chapter 4; Antràs *et al.* (2010); Crespo-Rodríguez *et al.* (2012); Cardoso *et al.* (2012); European Commission (2013); Xifré (2014); Andrés and Doménech (2015); and Giordano and Zollino (2016).

way, increases in a country's REER (or, REER appreciations) imply a loss in competitiveness – its products or services become more expensive relative to its trading partners.

There are several versions of the REER because there are several ways to deflate and compare currencies. Depending on the type of relative deflator  $P_i^*$  in the equation above, whether it is a price or a cost, the REER is price- or cost-based.

The European Commission provides five of the most widely used deflators and in this article we will limit our attention to those.

- Harmonised index of consumer prices (HICP) deflator. This deflator includes goods and services but it covers only consumer goods. So it does not take into account differences in the prices of capital and intermediate goods across countries.
- Price deflator of the GDP at market prices (GDP). This deflator includes goods and services and all levels of activity. However, they are not fully comparable across countries due to the different national measurement of services activities.
- Price deflator of exports of goods and services (EXPGS). This deflator follows the same logic of the previous, with the same limitations, but it covers only the exports of goods and services.
- Nominal unit wage cost for the manufacturing sector (NUWC-M) deflator. This deflator takes into account differences across countries in the ratio between productivity and total compensation per employee in the manufacturing sector. This deflator does not take into account other costs of production, such as the cost of intermediate inputs or the firms' mark-ups.

- Nominal unit labour cost for the total economy (NULC-TE) deflator. This deflator is an adaptation of the previous one but covering all sectors of the economy.

A price-based REER (deflated by HICP, GDP or EXPGS) increases when the corresponding measure of domestic inflation is larger than the average inflation in the trading partners. A cost-based REER (deflated by NUWC-M or NULC-TE) increases in a country when either labour costs become higher, labour productivity decreases, or both, with respect to the trading partners.

## The evolution of price-cost competitiveness indicators in the EA

For the particular case of the EA countries, the nominal exchange rate between member countries has remained constant since the adoption of the euro in 1999. However, EA countries' real effective exchange rates have diverged for the afore-mentioned reasons: inflation rates, wages and labour productivity have had idiosyncratic dynamics in each country.

Exhibits 1 – 5 represent the REER based on the five deflators above for Germany, France, Italy, Spain and the Netherlands respectively between 2000 and 2015. In all cases, the trading partners are a set of 37 industrialized economies and, as mentioned above, the weight of each particular trading partner depends on the importance of trade flows.<sup>3</sup> The series are normalized in terms of the year 2000.

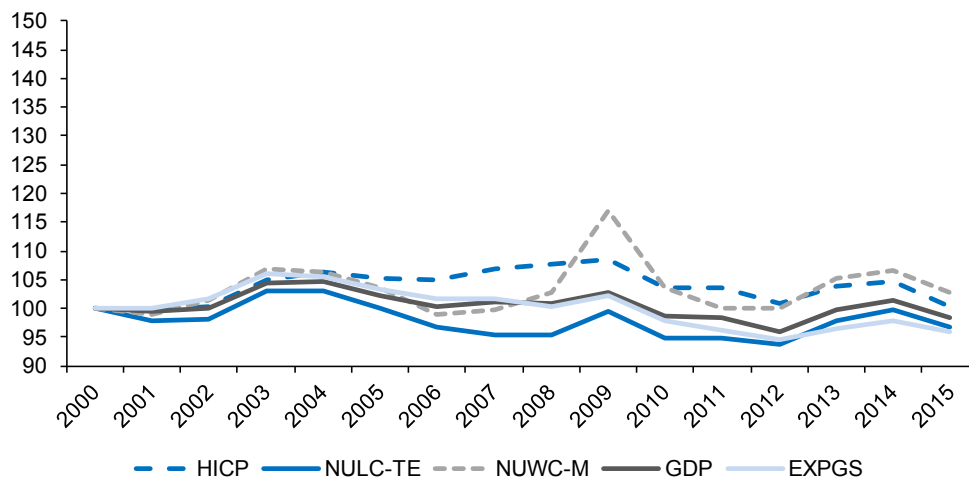
The first observation is that the five countries have followed three differentiated patterns regarding the dispersion of the deflators, particularly in the post-crisis period. Exhibit 6 represents, for each country, the yearly standard deviation – a standard measure of dispersion – of the five deflators for 2000–2015.

<sup>3</sup> For more information about these series, see [http://ec.europa.eu/economy\\_finance/db\\_indicators/competitiveness/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/competitiveness/index_en.htm)

Exhibit 1

**Real effective exchange rates (REER) of Germany versus IC37 according to various price and cost deflators**

Index (2000 = 100)



Source: European Commission.

58

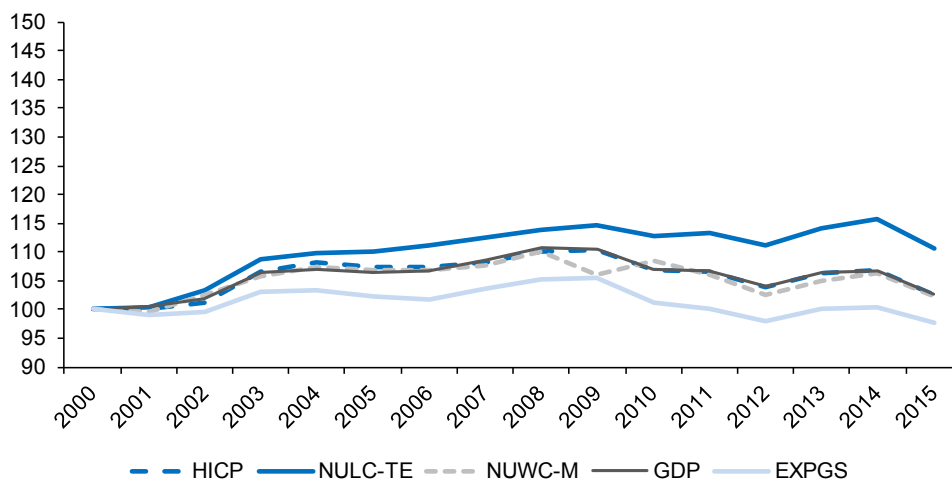
In Germany and the Netherlands the various REER have remained relatively stable and similar to each other, with the maximum REER

appreciations confined to be below 15% during the period, both countries reaching a standard deviation of the five deflators of 2.5 percentage

Exhibit 2

**Real effective exchange rates (REER) of France versus IC37 according to various price and cost deflators**

Index (2000 = 100)

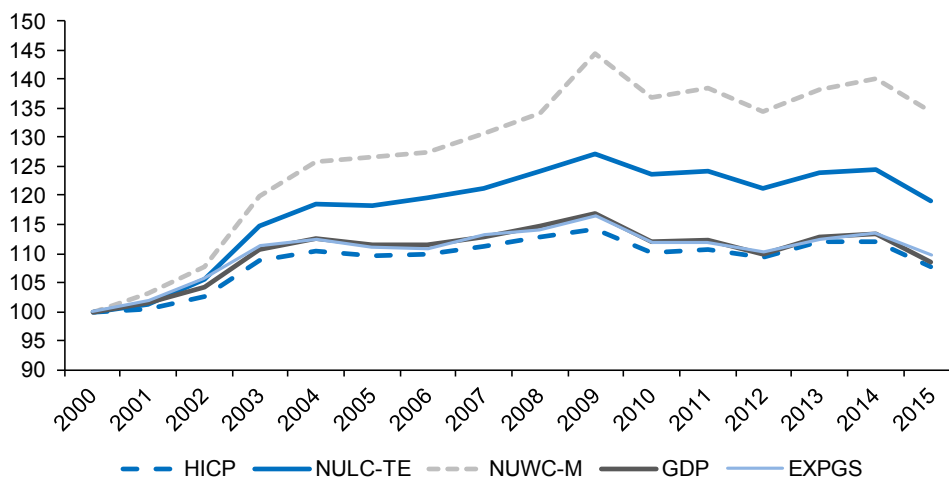


Source: European Commission.

Exhibit 3

### Real effective exchange rates (REER) of Italy versus IC37 according to various price and cost deflators

Index (2000 = 100)



Source: European Commission.

points by 2015. France and Spain constitute the next group, with higher dispersions of the REER over the period, resulting in standard deviations

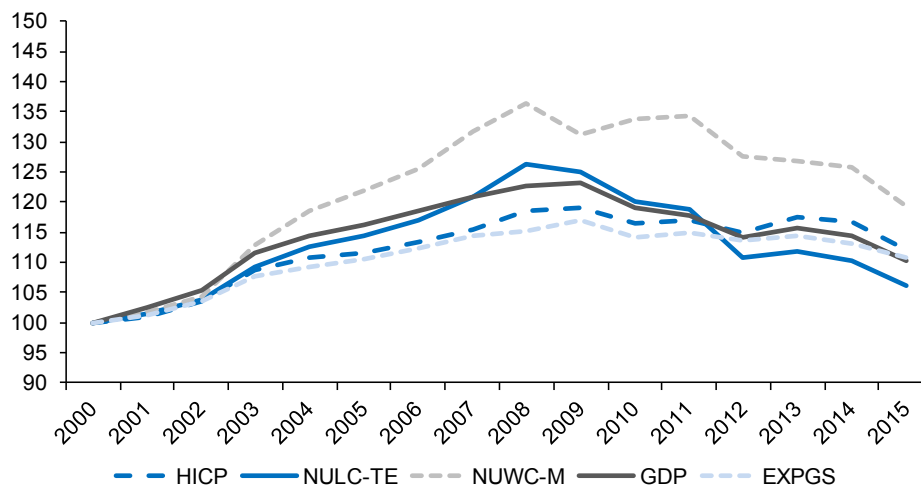
close to 5 percentage points by 2015. Finally, Italy is a particular case of high volatility of the REER and significant differences among the indicators,

59

Exhibit 4

### Real effective exchange rates (REER) of Spain versus IC37 according to various price and cost deflators

Index (2000 = 100)

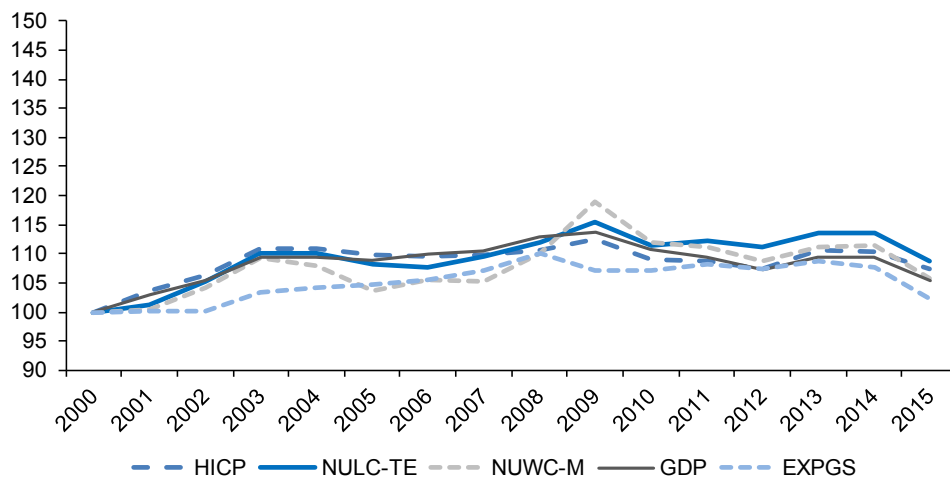


Source: European Commission.

Exhibit 5

### Real effective exchange rates (REER) of the Netherlands versus IC37 according to various price and cost deflators

Index (2000 = 100)



Source: European Commission.

60

reaching a standard deviation of the five deflators close to 12 points in 2015.

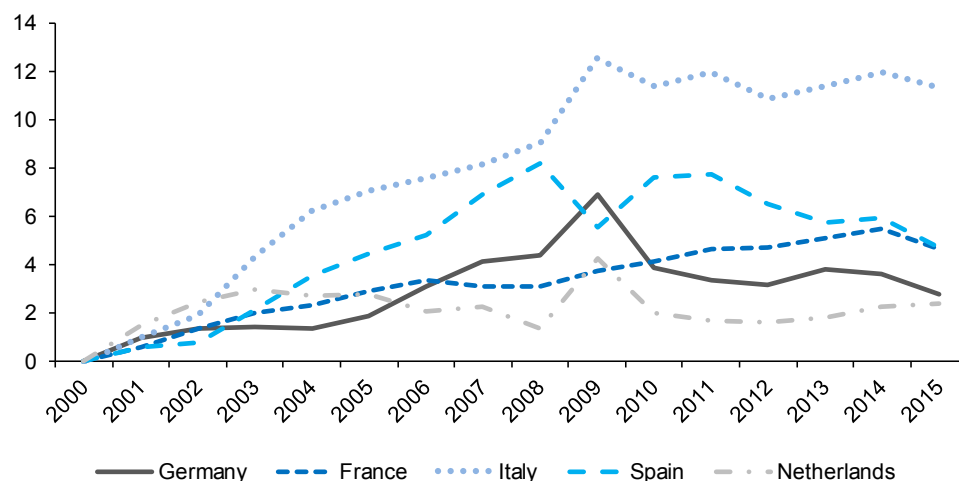
A second observation is that, beyond the differences in REER for a given country, Italy

and Spain have experienced the highest appreciations, *i.e.* competitiveness losses, in the period. The largest appreciations correspond, in both countries, to the REER based on the unit labour cost for the manufacturing sector

Exhibit 6

### Dispersion of the REER indicators

Yearly standard deviations



Source: European Commission.

(NUWC-M). This suggests that this sector has concentrated large competitiveness problems in these two countries, in comparative terms to the rest of the EA5.

Thirdly, there is one important difference between Italy and Spain regarding the behaviour during and after the crisis. In Spain, the year 2008 clearly marks a halt in the process of competitiveness loss and the beginning of a recovery – in four out the five deflators, the appreciation level in 2015 is barely 10% of that of 2000. In contrast, the case for a recovery in Italy is less clear – the appreciation of labour costs for the total economy in 2015 represents 20% of the level in 2000 and the appreciation of labour costs in manufacturing remain at 35%.

---

*In Spain, the year 2008 clearly marks a halt in the process of competitiveness loss and the beginning of a recovery – in four out the five deflators, the appreciation level in 2015 is barely 10% of that of 2000.*

---

More generally, there are a number of works that have looked at the recent evolution of real effective exchange rates for the EA countries that provide interesting insights that are consistent with our own findings.

Giordano and Zollino (2016) have exposed the informational limitations of the main REER indicators we have been considering. Building on the previous literature (Bayoumi *et al.*, 2011), they emphasize two important limitations: REER indicators provide conflicting signals for a given country (as we have shown) and these competitiveness indicators are not strongly associated with the countries' exports (as we will show in the next section).

On the source of export growth, Storm and Naastepad (2014) emphasize, relying on previous empirical literature, that EA countries' exports growth depends more on exports having the 'right' structure (exporting high-demand products to high-growth destinations) than on REER depreciations.

---

*Empirical literature shows that EA countries' exports growth depends more on exports having the 'right' structure (exporting high-demand products to high-growth destinations) than on REER depreciations.*

---

As a result, both Giordano and Zollino (2016) and Storm and Naastepad (2014), emphasize the role of "non-price" elements in supporting export performance and, more generally, competitiveness in the EA in recent times. We will address this point below for the EA5.

## Disaggregation of export shares

The works by Correa-López and Doménech (2012) and Cardoso *et al.* (2012), covering data from 1999 to 2011, are our main reference for the empirical work. They disaggregate the change in export shares of a county into two components: the variation of the relative price of the country's exports and the variation of non-price determinants.

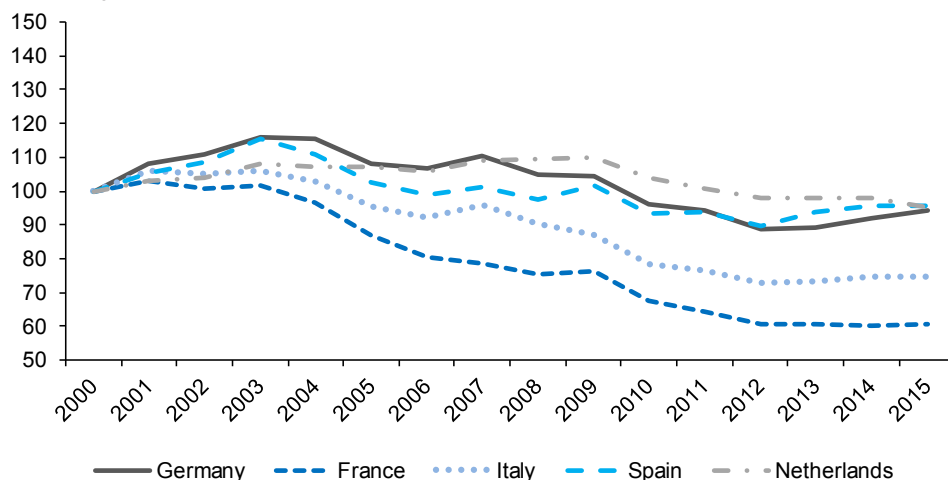
In the underlying macroeconomic model, exports of one country to the rest of the world depend negatively<sup>4</sup> on the price of the exports and positively on these non-competitiveness elements, which are deemed to capture "all relevant factors to the export market share different from relative prices". These factors include, according to the authors, firm-level

<sup>4</sup> These authors make the assumption, following the literature, that the price elasticity of export equals -1.25. We maintain this assumption in our calculations.

Exhibit 7

**World's export share in merchandise trade**

Index (2000 = 100)



Source: WTO.

conditions and decisions, such as company size, investment in capital, skill-intensity in the labour force, R&D spending, product quality, expansion to high-growth markets, product differentiation and diversification decisions, etc.

We adopt their methodology with some adaptations. We use exports of goods alone, rather than exports of goods and services as they do; and we proxy the price of the exports of goods by the REER based on the unit labour costs (ULC) for the total economy, rather than on the price deflator of exports of goods and services, as they do. We analyse merchandise trade alone because three of the EA countries we study (France, Italy and Spain) have relatively large tourism industries and this could distort the comparison among the five economies.

Exhibit 7 represents for each EA5 country its world share in merchandise trade between 2000 and 2015. These series are computed as the exports of goods of each country divided by total exports in the world, in current U.S. dollars, from data by the World Trade Organization (WTO). These series are normalized so that they all equal 100 in the

year 2000. France has lost 40% of its export share in the period, followed by Italy (with a loss of 25%) while Germany, Spain and the Netherlands have experienced only minor decreases (of roughly 5%) in their world's export share. The exact variations appear in the first column of panel A in Table 1. Losses in export share are generally interpreted as losses in external competitiveness, likely reflecting the fact that products of other nations' firms have replaced the domestic products in international markets.

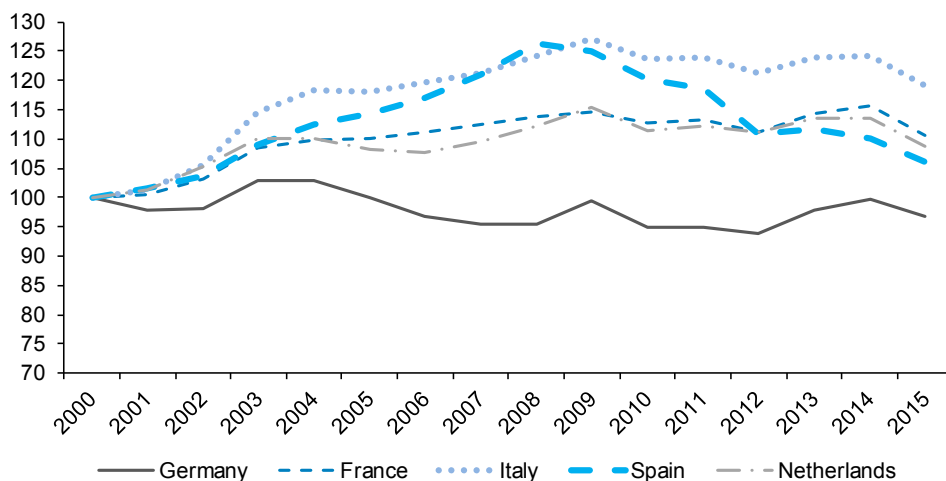
Exhibit 8 represents the internal counterpart of the competitiveness trends in these five countries by displaying the REER based on unit labour costs for the total economy. These series correspond to the NULC-TE variables of Exhibits 1–5. As explained above, the REER is an approximation to the real value of the currency and, as such, increases in the REER (appreciations) are considered cost-competitiveness losses and, conversely, decreases in the REER (depreciations), cost-competitiveness gains. The deflator used in these series, the unit labour cost, increases with the wage costs and decreases when labour productivity rises.



Exhibit 8

**Real Effective Exchange Rate (REER) based on Unit Labour Costs for the total economy versus IC37**

Index (2000 = 100)



Source: European Commission.

Exhibit 8 shows that Germany is the only country where ULC-based competitiveness has improved in the period 2000 – 2015 (slightly above 4%). In the other four economies, competitiveness worsened, although with different intensities. Spain, after registering a record-high loss of more than 26% in 2008, recovered much of this and ended in 2015 with a REER appreciation of less than 8% compared to 2000. France and the Netherlands have had similar cost-competitiveness trajectories to each other, resulting in appreciations in 2015 slightly above 10% with respect to 2000. Finally, Italy, which initially followed the deteriorating trend of Spain up to 2009, did not recover so strongly and by 2015 it was suffering a competitiveness loss of nearly 25% with respect to 2000.<sup>5</sup>

Exhibits 7 and 8 also show that there has been no clear association between cost-competitiveness and export performance in France, Italy and Spain between 2000 and 2015. The country where the

export share fell the most, France, shows just a rather moderate REER appreciation. For the cases of Spain and Italy, while the losses in export share before 2008 could be associated with the REER appreciations, this logic breaks after the crisis. After 2008, there have been relatively large REER depreciations (competitiveness improvements) in both countries, which however are not reflected in sizeable export share gains. The cases of Germany and the Netherlands, with flatter profiles in both measures, could be considered as weakly supporting the link between both forms of competitiveness. In these countries, the export share has remained relatively stable and there have been no large REER fluctuations either.

This point can be extended by means of a simple quantitative analysis that follows the methodology of Correa-López and Doménech (2012) and Cardoso *et al.* (2012). Table 1 presents our results,

<sup>5</sup> At this point, it is necessary to mention that Giordano and Zollino (2016) have convincingly shown that the ULC-based indicators “may provide unreliable insights into competitiveness trends” for the particular case of Italy, mainly due to the different trends in ULCs in some of that country’s main trading partners.

distinguishing the whole period, 2000–2015, and three sub-periods that correspond to pre-crisis (2000–2008), crisis (2008–2011) and post-crisis (2011–2015).

*Results point out that non-price factors have largely dominated price-cost factors in the crisis and post-crisis periods, while the reverse is true for the pre-crisis period.*

Panel A reports the changes in the countries' export market share; where a positive sign represents a gain in this share; panel B reports the part of these changes that can be attributed

to changes in cost-competitiveness conditions (variations of the unit labour cost over the period); and, panel C presents the residual part, calculated as the corresponding cell in panel A minus the cell in panel B.

Consistently with Correa-López and Doménech (2012), the signs in panels B and C are to be interpreted as follows. Positive signs in panel B represent cost-competitiveness gains (*i.e.* REER depreciations) and therefore positive contributions to export shares. Positive signs in panel C represent net positive contributions from the “non-price” factors to external competitiveness, *i.e.* improvements in the firms-related factors such as company size, product quality or expansion to high-growth export markets.

Table 1

### Variation in merchandise exports' shares and the contribution from ULC-TE based REER (Percentage)

Panel A. Variation in world's export share				
	2000-2015	2000-2008	2008-2011	2011-2015
Germany	-5.6	4.7	-10.2	0.4
France	-39.5	-24.8	-14.7	-5.6
Italy	-25.2	-9.8	-15.0	-2.4
Spain	-4.2	-2.4	-4.0	2.3
Netherlands	-4.7	9.4	-7.8	-5.4
Panel B. Contribution from Unit Labour Costs				
	2000-2015	2000-2008	2008-2011	2011-2015
Germany	4.2	5.7	0.8	-2.4
France	-13.3	-17.4	0.7	2.9
Italy	-23.8	-30.1	0.1	5.1
Spain	-7.8	-32.8	7.5	13.1
Netherlands	-10.9	-15.1	-0.2	4.0
Panel C. Residual (C=A-B)				
	2000-2015	2000-2008	2008-2011	2011-2015
Germany	-9.8	-0.9	-11.0	2.8
France	-26.2	-7.5	-15.4	-8.5
Italy	-1.4	20.3	-15.1	-7.5
Spain	3.6	30.4	-11.5	-10.9
Netherlands	6.2	24.5	-7.6	-9.4

Sources: WTO and European Commission.

By comparing the absolute value of cells in panels B and C, our results point out that non-price factors have largely dominated price-cost factors in the crisis and post-crisis periods, while the reverse is true for the pre-crisis period.

In the years 2000–2008, price-cost conditions worsened in the Netherlands, France and, more acutely, in Italy and Spain. These adverse developments were very intense and, in particular, stronger than the export share losses of Italy, Spain and France during that period. The role played by the residual, non-price competitiveness factors was positive and sizeable in Italy, Spain and the Netherlands but insufficient to compensate for the price-cost competitiveness loss. In Germany, and most notably in France, the residuals were negative in the pre-crisis period. All in all, in the pre-crisis period, price-cost factors exerted a stronger impact on export shares than non-price factors.

During and after the crisis, the pattern changed and non-price factors dominate. Between 2008 and 2011, price-cost competitiveness was virtually flat in Germany, France, Italy and the Netherlands while it improved in Spain (third column of panel B), likely reflecting the wage and price restraints of the period. However, export shares dropped in all five countries. This implies that the non-price competitiveness conditions worsened significantly, the negative shock being particularly acute for France and Italy (third column of panel C) where the non-price elements deteriorated 15% in these four years. This is likely to reflect that other factors, not related to prices and costs of the exported goods, played adversely against these countries. Given that the major destinations of all EA5 exports are typically other members of the group, part of the explanation for this surely lies in the fact that the crisis affected them all. As a result of the crisis, each of the five countries reduced its imports and this impacted negatively in the aggregate exports of the rest of EA5.

In the post-crisis period, between 2011 and 2015, non-price factors are again generally stronger

(fourth column of panel C). For all countries except Germany, the non-price competitiveness factors were still having a negative impact, reflecting thus adverse developments related in terms of market destination, product composition or firms' general performance. With the exception of Spain, these negative effects outplay the improvements in price-cost competitiveness, resulting in market share losses in France, Italy and the Netherlands.

---

*The rise in external demand, rather than internal devaluations, has been more closely associated with the increase of exports in Spain.*

---

The singular improvement (depreciation) in the real effective exchange rate in Spain during this period, probably reflects the wage cuts and the very high levels of unemployment in the country (Andrés and Doménech, 2015). However, it is still an open issue the particular role these nominal depreciations have played in boosting Spanish exports. The recent work by Crespo and Rodríguez (2016) suggest that it is the rise in external demand, rather than internal devaluations, that has been more closely associated with the increase of exports in Spain.

## Conclusions

This article finds evidence that suggests that internal non-price/cost factors dominate over strictly price/cost elements in determining the external competitiveness of the five largest EA economies. Non price/cost factors are those conditions associated with the firms' attributes and behaviour (such as firm's size, labour force skills, technology intensity, etc.) as well as the 'right' structure of exports: that is, exporting the right type of products (high margin products) to the right type of destinations (high growth markets).

Building on this observation, it follows as a corollary that internal devaluation policies to recover competitiveness in the two largest periphery countries of the Euro area, Italy and Spain, are likely to have only a limited impact.

In so far as exports are more closely associated to non-price/cost elements, it is recommendable that the policy focus shifts towards:

- a) Strengthening the capitalization of the economies of these two troubling economies in all fronts: human, physical, technological; and,
- b) Providing the right incentives and support mechanisms so that their companies upgrade their export strategy and put more emphasis on selling high value-added products and services to high growth markets.

## References

ANDRÉS, J., and R. DOMÉNECH (2015), *En busca de la prosperidad. Los retos de la sociedad española en la economía global del siglo XXI*, Ed. Deusto.

ANTRÁS, P.; SEGURA-CAYUELA, R., and D. RODRÍGUEZ RODRÍGUEZ (2010), *Firms in International Trade (with an Application to Spain)*, SERIES Invited Lecture.

BAYOUMI, T.; HARMSSEN, R., and J. TURUNEN (2011), Euro Area Export Performance and Competitiveness, *IMF Working Paper*, 11/40.

CARDOSO, M.; CORREA-LÓPEZ, M., and R. DOMÉNECH (2012), *Export shares, price competitiveness and the 'Spanish paradox'*, Voxeu.org. Available at: 'http://voxeu.org/article/export-shares-price-competitiveness-and-spanish-paradox'.

CORREA-LÓPEZ, M., and R. DOMÉNECH (2012), The Internationalisation of Spanish Firms, *BBVA Research Working Papers*, 12/30.

CRESPO, A., and A. GARCÍA RODRÍGUEZ (2016), "¿Ha mejorado la competitividad exterior gracias a la

devaluación interna," *Papeles de Economía Española*, 150: 114-126.

CRESPO, A.; PÉREZ QUIRÓS, G., and R. SEGURA-CAYUELA (2012), "Competitiveness indicators: The importance of an Efficient Allocation of Resources," *Bank of Spain Economic Bulletin*, January.

DRAGHI, M. (2012), Competitiveness of the euro area and within the euro area. Speech by the President of the ECB at the colloquium, *Les défis de la compétitivité*, organised by Le Monde and l'Association Française des Entreprises Privées (AFEP).

EUROPEAN COMMISSION (2013), In-depth review for Spain in accordance with Article 5 of Regulation No 1176/26011 on the prevention and correction of macroeconomic imbalances.

FIVE PRESIDENTS REPORT (2015), Completing Europe's Economic and Monetary Union. Report by Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem, MARIO DRAGHI and MARTIN SCHULZ.

GIORDANO, C., and F. ZOLLINO (2016), "Shedding Light on Price- and Non-price-competitiveness Determinants of Foreign Trade in the Four Largest Euro-area Countries," *Review of International Economics*, 24(3): 604–634.

STORM, S., and C. W. M. NAASTEPAD (2014), "Europe's hunger games: Income distribution, cost competitiveness and crisis," *Cambridge Journal of Economics*, 39(3): 959–986.

SPANISH PRIME MINISTER ECONOMIC BUREAU (2010), Informe Económico del Presidente del Gobierno 2010. Oficina Económica del Presidente del Gobierno.

XIFRÉ, R. (2014), "Four years of economic policy reforms in Spain: An analysis of results from an EU perspective," *Spanish Economic and Financial Outlook (SEFO)*, vol. 3, no. 5.

# The link between previous experience and survival of new export relationships in Spain

Silviano Esteve-Pérez<sup>1</sup>, Juan de Lucio<sup>2</sup>, Raul Mínguez<sup>3</sup>, Asier Minondo<sup>4</sup> and Francisco Requena<sup>5</sup>

**An empirical analysis of Spanish exporters' survival rates shows that, while early-stage survival is difficult, new trade relationships make a significant contribution to aggregate export growth over time. In any event, the large degree of heterogeneity across successful export relationships in Spain should be a key consideration at the time of designing export promotion policies.**

*This article provides an empirical examination of the importance of previous experience to the survival of new trade relationships in Spanish exports over the period 1997-2015. Export survival is difficult: 78% of the new trade relationships fail within the first two years of existence. However, surviving relationships significantly contribute to the growth of aggregate exports over time: new trade relationships created after 1997 account for 73% of Spanish total exports value in 2015. Interestingly, there exist remarkable differences in survival prospects among new trade relationships. Exporting products previously sold to another country to a new destination exhibits the largest probability of survival over time. New trade relationships based on selling new products have a high failure rate. These findings point out the existence in heterogeneity at the firm-, product- and destination-level that may be related to differences in sunk export-entry costs and/or uncertainty at product and destination level.*

Every year, many firms try exporting, and existing exporters initiate new export relationships from different combinations of product and/or destination markets. Yet, survival is very low, leading to a high churn rate. A remarkable share of new exporting relationships fail shortly after entry. Yet, those relationships that manage to

make it during their first few years tend to grow significantly over time.

In this paper, we use data on all Spanish annual export transactions at the firm-product-destination level in order to examine the determinants of survival of the new export relationships over the

<sup>1</sup> Universitat de València.

<sup>2</sup> Universidad Nebrija, Madrid.

<sup>3</sup> Universidad Nebrija, Madrid.

<sup>4</sup> Deusto Business School e ICEI.

<sup>5</sup> Universitat de València.

period 1997-2015.<sup>6</sup> The duration of an exporting spell is defined as the number of consecutive years (since it started) in which a firm exports a product to a destination market. To investigate the impact of previous experience at the firm-, product-, and destination-market levels on the length of the survival of trade relationships, we split all new trade relations into five exhaustive and mutually exclusive categories according to their origin along the firm-product-country dimensions:

- A firm starts exporting (new firm, NF);
- an existing exporter exports a new product to a familiar country (NP, OC);
- an existing exporter sells familiar product to a new country (OP, NC);
- an existing exporter exports a new product to a new destination (NP, NC);
- an existing exporter sells a familiar product to a familiar destination, but leading to a new product-country combination (OP, OC, NPC);

With this classification of the new trade relationships, we perform two separate analyses:

- Which new trade relations contribute more to aggregate exports?
- Which new trade relations exhibit longer survival rates and what can we learn about the importance of previous experience to export survival?

## The contribution of new trade relationships to aggregate exports

This section performs the decomposition of both the number and value of all export relationships in

2015 into the intensive margin, that is, the existing trade relations, and the extensive margin, that is, the new trade relations split according to the five types of new trade relationships categories described before. In order to define a new trade relationship in 2015, we need a previous year as a reference. We have selected three years: 2014 (1 year gap), 2008 (6 years gap) and 1997 (19 years gap). For example, when we use 1997 as the reference year, a trade relationship is new in 2015 if a firm exported a product to a country in 2015 but it did not in 1997, whatever happened between 1997 and 2015.

Table 1 shows the results of the decomposition of the number of (panel A) and the export value (panel B) of all firm-product-country relationships in 2015 into the intensive and the extensive margins. In 2015 there were 965,193 firm-product-country export relationships with a total value of 239.8 billion euros.

Column 1 highlights the rich dynamics in export markets in any single year. New exporting relationships, that is, the extensive margin amounts to 43% of total trade relations in 2015. However, their share in total trade is relatively low as they account for 11% of the export value. Entry is relatively common, but at a low scale.<sup>7</sup> In a year-by-year analysis, the intensive margin clearly dominates the evolution of the number and value of aggregate exports. In the extensive margin, the most abundant type of new export relationship was (OP, OC, NPC), that is, existing exporters that create a new pair (product-country) combination from previously exported products to previously exported destinations, followed by (NP, OC), that is, existing exporters expanding their product portfolio. The share of new firms (NF) was only 6% of all relationships and 2% of aggregate exports.

<sup>6</sup> Data for this paper was provided by Inland Revenue-Customs (AEAT-Aduanas) along with financial support from Ministerio de Economía y Competitividad (MINECO ECO2015-68057-R & ECO2016-79650-P, cofinanced with FEDER), and the regional governments of the Basque Country (IT885-16) and the Valencian Region (Prometeo II-2014-053). The data set contains 12,995,865 firm-product-country observations over the period 1997-2015, obtained from 386,679 exporting firms selling 7,610 8-digit Combined Nomenclature products to 198 countries. A detailed description of the construction of the database is available in Esteve *et al.* (2017).

<sup>7</sup> This result holds for any two-year period considered over 1997-2015 – see Esteve *et al.* (2017).



Table 1

**Contribution of new export relationships to 2015 aggregate exports**

Panel A: Number of firm-product-country relations							
Number trade relations in 2015	965,193		965,193		965,193		
New relationships based on reference year	2014		2008		1997		
Intensive margin	548,971	57%	216,493	22%	61,825	6%	
Extensive margin	416,222	43%	748,700	78%	903,368	94%	
<i>New trade relationship (firm-product-country)</i>							
<i>New firm</i> NF	59,548	6%	256,881	27%	511,360	53%	
<i>New product</i> NP, OC	116,367	12%	140,877	15%	90,543	9%	
<i>New country</i> NC, OP	79,636	8%	141,461	15%	124,080	13%	
<i>New product, new country</i> NC, NP	35,461	4%	100,708	10%	133,801	14%	
<i>Familiar product&amp;country, new combination</i> OP, OC, NPC	125,210	13%	108,773	11%	43,584	5%	
Panel B: Export value (billion euros)							
Value of exports (billion EUR) in 2015	239.8		239.8		239.8		
New relationships based on reference year	2014		2008		1997		
Intensive margin	212.9	89%	130.1	54%	65.0	27%	
Extensive margin	26.9	11%	109.8	46%	174.8	73%	
<i>New trade relationship (firm-product-country)</i>							
<i>New firm</i> NF	3.7	2%	38.3	16%	99.6	42%	
<i>New product</i> NP, OC	4.7	2%	21.1	9%	19.3	8%	
<i>New country</i> NC, OP	7.0	3%	23.2	10%	25.0	10%	
<i>New product, new country</i> NC, NP	2.3	1%	10.0	4%	15.0	6%	
<i>Familiar product&amp;country, new combination</i> OP, OC, NPC	9.3	4%	17.2	7%	16.0	7%	

Source: Own elaboration using AEAT-Customs data.

When we use 2008 as a reference year (column 3), the importance of new trade relationships in aggregate exports increases significantly up to 78% of all firm-product-country relationships and 46% of exports value in 2015. The share of each type of new trade relationship also increases significantly in the number and the value; new firms (NF) experience the biggest increment up to 27% of relationships and 16% of export value in 2015. Finally, when we use 1997 as a reference year (column 5), the extensive margin accounts for 94% of the number of relationship and 73% of

the export value of 2015. Again, new firms (NF) increase significantly their share in the number and value of exports: 53% and 42%, respectively.

Table 1 shows that existing trade relationships dominate trade in the short run (year-on-year basis) but the new trade relationships gain importance quickly as we consider longer time frames. This trend can be explained by survival upon entry, and growth conditional on survival. Esteve *et al.* (2017) examine this question in detail and find some interesting patterns. First, turnover

is rather high for new trade relations involving new products to familiar countries by incumbent exporters. They are fairly common, start with a

*While existing trade relationships dominate trade in the short run (year-on-year basis), the new trade relationships gain importance quickly as we consider longer time frames.*

small scale and face high attrition. Second, new trade relations by new exporters have lower survival rates than those by existing exporters. However, successful survivors experience faster growth in export value than existing firms creating other types of new trade relationships.

## Survival of new trade relationships: The role of previous experience

When we consider all new trade relationships, we find that about 65% of new export relationships

fail in their initial year, and approximately 78% have failed after two years. That is, only 35% (22%) of new relationships survive beyond one (two) years. Survival is fairly low in the initial years. Interestingly, as shown in Exhibit 1, there are differences in survival prospects depending on the type of new trade relationship.<sup>8</sup>

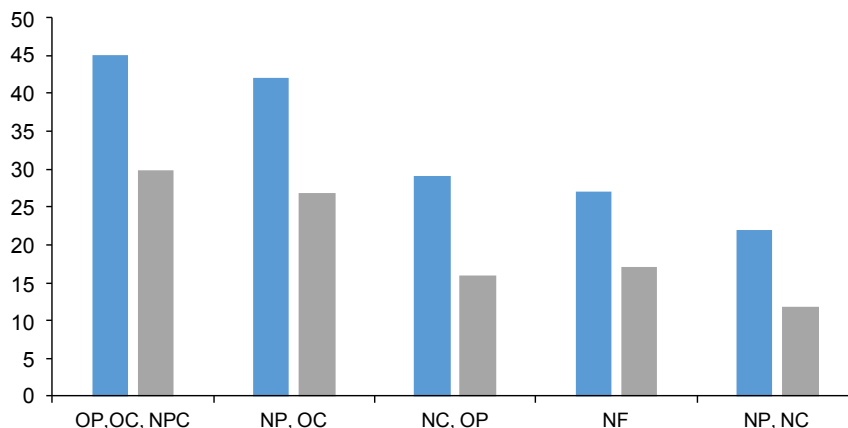
The new trade relationships with the highest survival rates are those created by existing firms when they start a new product-country combination from products and countries already in their exporting portfolio: 42% (30%) of OP-OC-NPC relationship survive more than one (two) years. Notice that, in this type of trade relationship, experience occurs at the three levels: firm, product and destination.

Existing exporters that start selling a new product to a familiar destination (NP-OC) lead to the second-largest survival rates. It is worth pointing out that their survival rates are significantly superior to those based on exporting a familiar product to a new country (OP-NC). Therefore,

Exhibit 1

### Survival rates of new export relationships (%)

Survival of new export relationships after one year (blue) and two years (gray)



Source: Own elaboration using AEAT-Customs data.

<sup>8</sup>In Esteve *et al.* (2017) we also use empirical duration models to investigate the determinants of survival of new trade relationships. We confirm the existence of heterogeneity of survival rates across firms, products and countries.



previous experience in destination increases survival more than that at the product level.

---

*Existing exporters that start selling a new product to a familiar destination lead to the second-largest survival rates. Therefore, previous experience in destination increases survival more than that at the product level.*

---

Finally, the highest risk of failure occurs among those new relationships generated by existing firms that try to export a new product to a new destination (NP-NC). In the case of new exporters (NF), they face tough survival conditions in their first year, which are rather similar to those faced by incumbent exporters when they try with non-familiar products and destinations. Yet, the survival chances of new exporters' export relationships significantly increase beyond their first year.

## Conclusions

We use the universe of firm-product-country relationships in Spanish exports over the period 1997-2015 to analyse the determinants of survival of new trade relationships, with special attention to the role of previous experience.

The results point out that: (i) New relationships (the extensive margin) explain most of the aggregate export value when we consider long time periods (in our case, 1997-2015) and, among the different types of new relationships, new exporters make the largest contribution; and, (ii) Previous experience increases the survival prospects of the new trade relationships. Regular exporters that expand their portfolio using new combinations of existing products and destinations exhibit the highest survival rates; on the contrary, the risk of failure is higher for new exporters as well as for regular exporters that sell abroad a non-familiar product to a unknown destination market.

Our empirical results have implications in the design of export promotion policies, since the risk of failure faced by a new exporter is very different to the ones faced by regular exporting firms that decide to expand their product-country portfolio. Moreover, the risk of failure of a regular exporter that expands its portfolio of products is very different to the one that opts for expanding its portfolio of countries of destination of exports.

## References

ESTEVE, S.; DE LUCIO, J.; MINGUEZ, R.; MINONDO, A., and F. REQUENA (2017), "La supervivencia exportadora. Un análisis a nivel de empresa, producto y destino," *Cuadernos de Economía*, 258, Funcas, forthcoming.



# Spain's tourism sector: Exceeding expectations

**María José Moral<sup>1</sup>**

**The strong recovery of Spain's tourism sector since 2014 has helped it to become a key driver of economic recovery and growth of the Spanish economy. Pursuing goals to attract the optimal type of tourism will help to ensure the sector's profitability and sustainability into the future.**

*Tourist arrivals into Spain exceeded 75 million (specifically, 75,579,522) in 2016, placing Spain in third position in the global ranking of tourist destinations, behind France and the United States. This is an exceptional outturn, consolidating the country's position against its immediate rivals, but also representing robust growth in what is a well-established tourism destination. Tourism inflows have enabled the tourism sector to increase its weight in the Spanish economy, becoming a key element of the recovery since 2014 and regaining an impetus that had appeared to be dissipating. Nonetheless, tourism needs to be profitable and compatible with the sustainability of the destination and the living conditions of its residents. In this regard, the sector should aim to avoid going down the path of mass tourism and attracting tourists with very low average daily expenditures.*

Tourist arrivals into Spain exceeded 75 million (specifically 75,579,522) in 2016, placing Spain in third position in the global ranking of tourist destinations, behind France and the United States (see Exhibit 1). This is an exceptional performance, consolidating Spain's position in relation to its immediate rivals, but also representing robust growth for what is a well-established tourist destination. Tourism inflows have enabled the sector to increase its weight in the Spanish economy, becoming a key element of the recovery since 2014 and regaining an impetus that had appeared to be dissipating.

A few years ago, Spanish tourism had not been expected to reach such heights. For example, the

World Tourism Organisation's long-term forecasts to 2020, estimated that Spain would receive 73.9 million international tourist visits by 2020.<sup>2</sup> In fact, Spain is the only country of the leading tourist destinations to have already surpassed its 2020 projections. France and the United States might be on track to reach their forecasts, but they still have to increase tourism inflows by 21.6 and 24.9 million, respectively, in five years. Meanwhile, China is a long way short of its projected 130 million visits in 2020, having received only 56.9 million tourists in 2015.

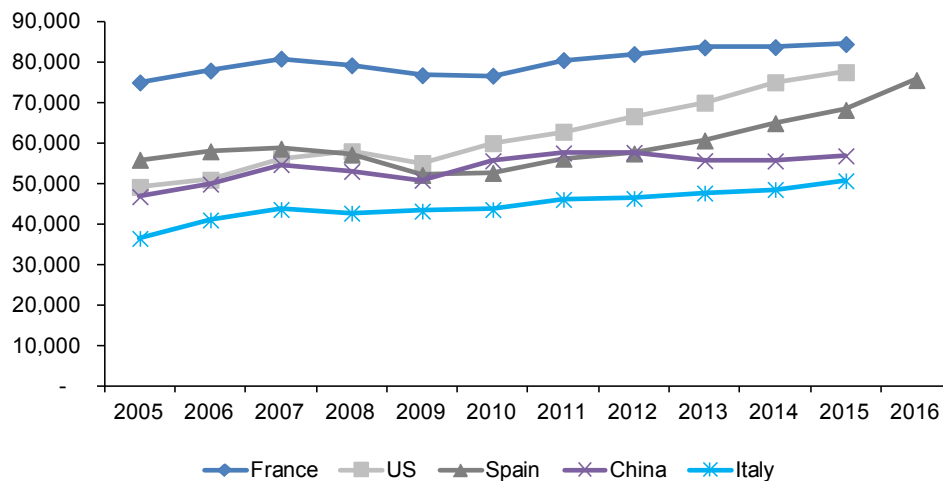
This article analyses developments in the Spanish tourism sector starting with the economic and political factors influencing the arrival of

<sup>1</sup> UNED and Funcas.

<sup>2</sup> Garín-Muñoz (2008) discusses the international trends in WTO forecasts in 2008 based on 1995 data and published in their WTO report (2002).

Exhibit 1

### Foreign tourist arrivals in the most visited countries in the world (In thousands of persons)



Sources: World Development Indicators (World Bank) and Frontur (INE) for Spain in 2016.

international tourists. The subsequent sections discuss data on source countries and tourist spending. The article then assesses the impact of tourism on the Spanish economy through GDP, balance of payments, employment and investment.

*Spain is the only country of the leading tourist destinations to have already surpassed the World Tourism Organisation's 2020 projections.*

Finally, the last section summarises the main ideas and outstanding challenges to ensure the sector is both profitable and sustainable.

### International positioning

The Spanish economy received 60 million tourist visits in 2007. At the time, it was considered to be an exceptional result given the country itself had 44.8 million inhabitants. However,

the economic recession affected Spain's major source markets (United Kingdom, Germany and France), curtailing this momentum, and 8 million fewer tourists visited in the following two years. But in 2010, the slowdown came to a halt as European source countries began to show signs of recovery. This performance is in line with widely documented evidence of tourism being a luxury good, in other words, it has an income elasticity of over one (Lim, 1997). In macroeconomic terms, this can be demonstrated using real income per capita in each country, making a disaggregation of tourists by their country of origin particularly interesting.

Furthermore, 2011 saw the emergence of a positive external factor. The "Arab Spring" and political instability in Mediterranean African countries, especially Tunisia and Egypt, led to large European tour operators relocating their tourists to more secure destinations, such as Croatia, Greece, Malta, Portugal, Turkey and Spain. The change in the number of tourists arriving in each of these areas since 2011 is shown in Exhibit 2 and illustrates several points. Tourism

fell sharply in Egypt and Tunisia in 2011, with both countries shedding 6.6 million tourists. The bulk of these tourists shifted to competing European markets. However, growth in recent years in these European countries is not exclusively explained by the Arab Spring effect, although it certainly helped to strengthen the recovery started in 2010. This idea is supported by the fact that these countries (Spain included) continued to see increases in international tourist arrivals, despite a stabilisation of inflows into Egypt and Tunisia. However, in 2015, tourist visits to North Africa declined once again following new terrorist attacks in Tunisia, leading to a renewal of substitution effects towards European sun and beach destinations.

The idea that the Arab Spring led to strong tourism growth in Spain in 2011, which then experienced a step change (“knock-on effect”), is also backed up by the fact that 2011 saw an increase in the proportion of tourists using a package trip in Spain for the first time on record. Package holidaymakers accounted for 47.4% of total tourists in 2002, falling to 29.7% in 2010. However, this figure rose to 30.7% in 2011 and 31% in 2012. The

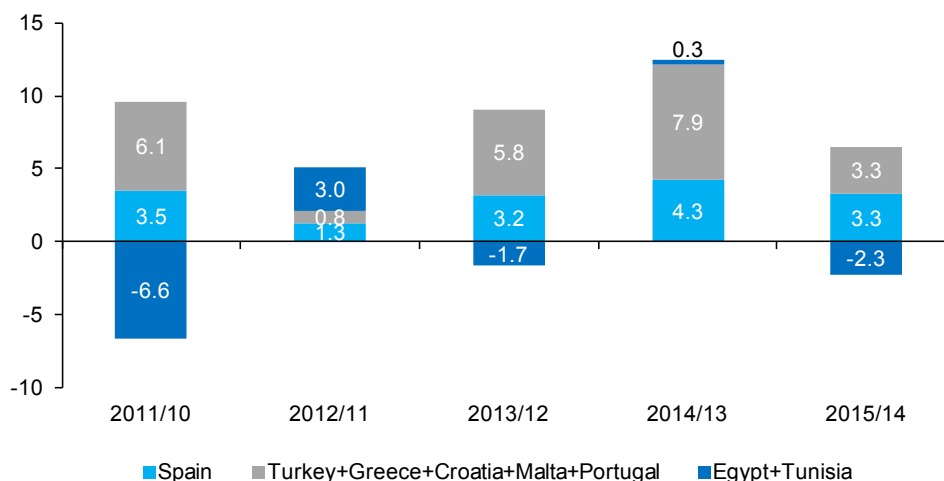
proportion fell back the following year and has since stabilised at around 29%.

*The realignment of geopolitical conditions in the Mediterranean has led to the re-routing of some 7 million tourists each year, mainly distributed between Spain, Turkey and Croatia.*

Overall, the realignment of geopolitical conditions in the Mediterranean has led to the re-routing of some 7 million tourists each year, mainly distributed between Spain, Turkey and Croatia. The key questions are: What will happen to these “loaned” tourists when the political situation stabilises in North Africa and security becomes less of a concern? Will tourists return to those countries who offer a similar sun and beach product at lower prices? Clearly, Spain will be able to retain these tourists if it can differentiate itself in terms of quality, which goes beyond security. In this sense, the fact that – according to the 2015

Exhibit 2

### Annual change in tourists in the Mediterranean basin (In percent)



Source: World Development Indicators (World Bank).

World Economic Forum – Spain is a world leader for tourism and travel competitiveness is a clear sign of the strength of the Spanish tourism sector (Garín-Muñoz and Moral, 2016).

### Tourism source countries: Established and new<sup>3</sup>

The main source countries for tourists visiting Spain are, by order of magnitude, the United Kingdom, France and Germany, which together accounted for 53.5% of the total in 2016. Traditionally, German tourists have outnumbered French tourists, but this has reversed since 2014. While these three source markets remain highly important, growth from these countries has been more subdued than in other source markets for some time now (Exhibit 3 and Table 1), leading to a systematic decline in their overall share. For example, in 2000, these three countries accounted for 63.4% of foreign tourism into Spain.

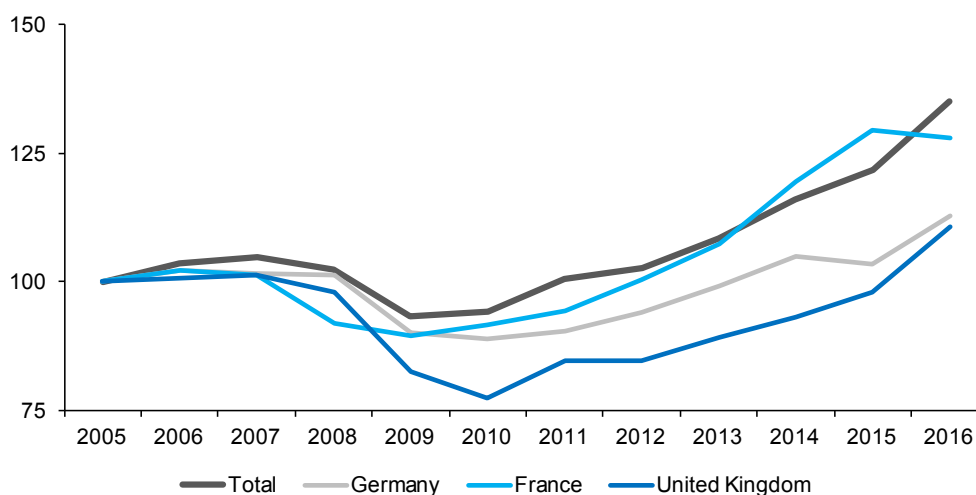
Given the importance of these countries, it is interesting to take a closer look at possible explanations for such a weak performance.

*While Germany, France, and the United Kingdom remain highly important, tourism growth from these countries has been more subdued than in other source markets for some time now.*

Eurostat data provides information on the number of tourists in each country making foreign trips for personal reasons (leisure) lasting four or more nights. This could help determine whether this slow growth is due to a preference for other destinations or because they are travelling abroad less. Although it is not possible to identify the impact of the increase in short-trips, the analysis is

Exhibit 3

### Evolution of tourists from the United Kingdom, Germany and France (Base index 100=2005)



Source: Prepared by author based on Frontur survey (IET and INE).

<sup>3</sup> Statistical information on tourism arrivals into Spain comes from the Frontur survey. This survey was carried out by the Institute of Tourism Studies (IET) up to September 2015, thereafter it was taken over by INE. 2015 data are INE estimates in order to standardise all the months.

Table 1

**Arrival of foreign tourists in Spain by origin country**

	2005	2016
<b>Total</b>	<b>55,913,778</b>	<b>75,579,522</b>
Germany	9,917,619	11,200,082
Belgium	1,821,667	2,309,366
France	8,874,747	11,371,976
Ireland	1,365,078	1,821,773
Italy	2,956,891	3,998,620
Netherlands	2,434,990	3,366,167
Portugal	1,991,916	1,987,540
United Kingdom	16,090,030	17,825,315
Switzerland	1,155,491	1,727,079
Russia	297,794	1,008,058
USA	883,523	2,003,270
Nordics	2,866,035	5,167,162
Japan	181,052	473,553
China	No data	374,295

Source: Frontur (IET and INE).

useful for orientating policy measures to promote Spain as a “sun and beach” destination, given that this type of tourism accounts for the bulk of visits (in 2016, 79.1% of international tourists were in Spain for four or more nights).

Analysis of the data on trips made by residents in the United Kingdom (2005-2012), France (2005-2014) and Germany (2005-2015) shows that tourists from France did not alter their frequency of foreign trips despite the crisis, increasing such trips from 2013 onwards; meanwhile tourists from the UK and especially from Germany have reduced the number of trips they make abroad for four or more nights. This, therefore, partly explains the increased prominence of French tourists in the rankings of visitors to Spain, as well as slow growth in German and British tourists. Indeed, seen from this perspective, the arrival of British and German tourists can be interpreted in a more positive light given that numbers have held steady between 2005 and 2016.

On the other extreme, some source countries have significantly increased their visits to Spain (see Table 1). Various groups of countries can be identified according to their weight in Spanish tourism a decade ago. Firstly, visitors from the Nordics and the United States already accounted for a substantial number of visits in 2005, and they have doubled their presence in 2016. Secondly, visits to Spain by tourists from Russia and Japan have tripled. Finally, it is worth highlighting China. In 2005, Spain was not among the permitted destinations for Chinese tourists, while in 2016 there were 374,295 Chinese tourist arrivals.

### **Tourist spending: The search for more profitable tourism**

The other key variable for explaining tourist sector results is spending by tourist within Spain. In aggregate terms, spending has moved in line with growth in arrivals. However, the key for sustainability of tourism is the quality of tourism and not the quantity. Therefore, average daily spending and foreign tourists' length of stay should be given greater emphasis than total spending.

*The key for sustainability of tourism is the quality of tourism and not the quantity. Policies should focus on increasing the average stay and daily spending, or identifying segments and products that generate higher daily spending.*

Average daily tourism spending in Spain has also increased significantly from 88 euros in 2005 to 129 euros in 2016. However, it remains below spending by tourists in France and Italy and is very unevenly distributed depending on the country of origin, reason for travel or the destination within Spain. At the same time, there has been a reduction in the average duration of tourist trips from 9.7 days to 7.9 days. In fact, this trend

towards more short duration trips is taking place across international travel due to the emergence of low cost airlines (who now bring in half of the tourists that enter Spain). Therefore, marketing and tourism policies should focus on increasing the average stay and daily spending, or identifying tourist segments and products that generate a higher daily spending. Therefore, analysing the segmentation of tourists according to their average spending offers relevant information, as noted below, for the situation in 2016.<sup>4</sup>

Japanese tourists lead the ranking<sup>5</sup> with an average daily spend of 362 euros, followed by tourists from China who spend 275 euros, Americans who spend 231 euros and the Russians at 150 euros. However, it is also true that Japanese tourists stay less time in Spain (average of 6.8 days), while tourists from Russia, China and the United States stay 10.6, 9.4 and 8.3 days, respectively. These tourists favour urban tourism and shopping over the typical sun and beach-style holidays. Therefore, it seems clear that an effort should be made to attract these types of tourists and strengthen urban and shopping tourism. Barcelona<sup>6</sup> and Madrid have been successful in exploiting their potential in this area and have attracted these types of tourists. The challenge is for other cities to jump on the bandwagon, boosting this profitable and high quality type of tourism.

By contrast, French tourists have a very low daily spending of 84 euros; in many cases, they stay on campsites, significantly reducing their profitability compared to the average. An effort should therefore be made to attract French tourists who prefer hotels and spend more, given they are now more numerous than German tourists and

the latter have a relatively higher average daily spending (118 euros) and stay longer in Spain (8.4 days compared to 7.2 days for French tourists). Finally, it is worth highlighting the underwhelming performance of Portuguese tourists who due to their proximity stay only 4.4 days in Spain on average, although their average daily spending is 99 euros.

## Impact of the tourism sector on the Spanish economy

Tourism is the sub-sector of the economy that contributes most to wealth and employment creation. The excellent results described above are crucial for the recovery and growth of the Spanish economy. This section describes the direct and indirect effects of tourism on Spanish economic growth.

## Contribution to GDP<sup>7</sup>

Firstly, it is important to bear in mind that tourism in Spain is sustained not only by foreign tourists but also by domestic tourists. In fact, the latter makes a larger contribution to GDP than foreign tourism (see Exhibit 4a).

In 2015, the tourism sector in Spain accounted for 11.1% of GDP, broken down between 5.3% generated by incoming tourism and 5.7% by “other tourism components”, which include domestic tourism. However, incoming tourism is marking the difference in terms of the overall result, given that the economic recession in Spain hampered domestic tourism up to 2013 and growth rates remain more subdued (see Exhibit 4b).

<sup>4</sup> The distribution is relatively stable over time.

<sup>5</sup> Among the source countries representing the top ten position in tourism arrivals.

<sup>6</sup> See analysis of tourists visiting Barcelona and the relationship between reason for trip, origin and spending in Garín-Muñoz and Moral (2017).

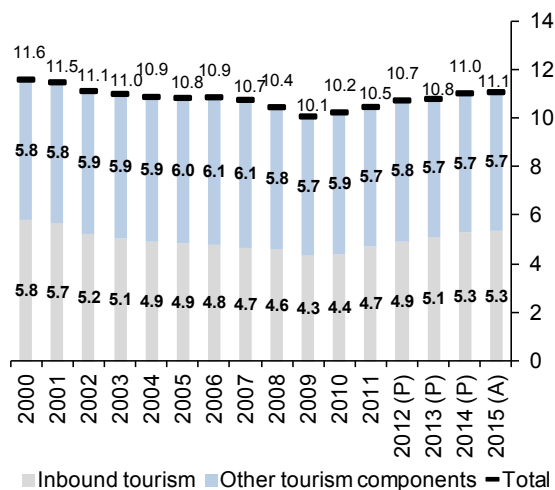
<sup>7</sup> Tourism's contribution to GDP is measured through the Tourist Satellite Account (TSAS). In contrast to national accounts there is no homogeneous data available prior to 2010. Thus, for the analysis from 2000, GDP is used in the same base as the tourism data.



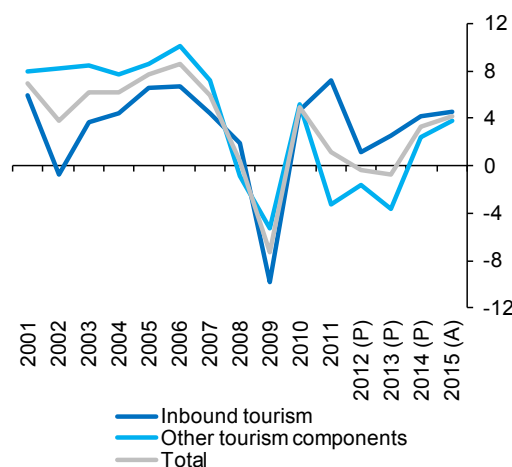
## Exhibit 4

### Contribution of tourism to the Spanish economy (In percent)

4a. Contribution to nominal GDP



4b. Annual change in contribution to nominal GDP



Note: Data from 2000 and 2007 are based to 2000; data from 2008 and 2009 are based to 2008 and from 2010 onwards they are based to 2010. This change in base is not significant given that figures are shown in current prices and in each case weighting is by nominal GDP in the corresponding base.

Source: Prepared by author using TSAS on 2000, 2008 and 2010 base (INE).

Prior to the economic recession, tourism was performing less strongly than other activities, reducing its share in GDP from 11.6% in 2000 to 10.1% in 2009. This led some commentators to warn that the sun and beach model was running out of steam, highlighting the need to transition to a sustainable model to align growth in overall tourism and its contribution to GDP. It is worth noting that during this period, wealth generated by incoming tourism grew even more slowly than other tourism components.

Negative impacts on tourism began to filter through with the start of the crisis in 2008, but above all in 2009. The number of international tourists fell, accompanying a decline in domestic tourism, resulting in a trough in tourism's contribution to the Spanish economy (10.1%). However, since 2010,

the recovery in foreign tourist arrivals has helped to reverse the trend, offsetting negative growth in domestic tourism (see Exhibit 4b). Furthermore, real growth in tourism in 2010 and 2011 helped to soften the fall in real GDP in those years (Exhibit 5).

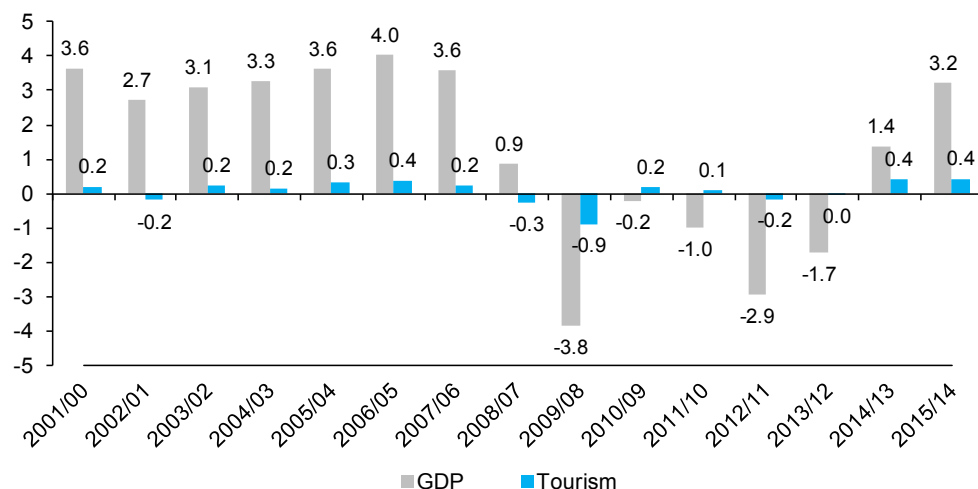
*In 2014, tourism contributed 0.4ppts to growth, accounting for 30% of the 1.4% growth in Spanish real GDP.*

The key element of the economic recovery from 2014 is not so much that tourism registered positive real growth, given that this tends to be the case during periods of expansion (Exhibit 5). But rather the strength of growth in tourism in comparison to other economic

## Exhibit 5

**Contribution of tourism to real Spanish GDP, 2001-2015**

(In percent)



Note: The comparison of real tourism growth to real GDP uses the base provided by TSAS. Growth rates from 2001/00 and 2008/07 are based to 2000; rates from 2009/08 and 2010/09 are based to 2008 and from 2011/10 onwards they are based to 2010.

Source: Prepared by author from Annual Spanish National Accounts and TSAS (INE).

activities. Such that, for example in 2014, tourism contributed 0.4% to growth, accounting for 30%

*Tourism revenues in Spain have the largest weight in GDP among developed countries (4.9% in 2016).*

of the 1.4% growth in Spanish real GDP.<sup>8</sup> Overall, this underlines how tourism is acting as the engine of the economic recovery.

### Balance of payments

Furthermore, tourism provides a positive externality which should not be overlooked, in

terms of its ability to finance the deficit on the trade balance. Tourism revenues in Spain have the largest weight in GDP among developed countries (4.9% in 2016).

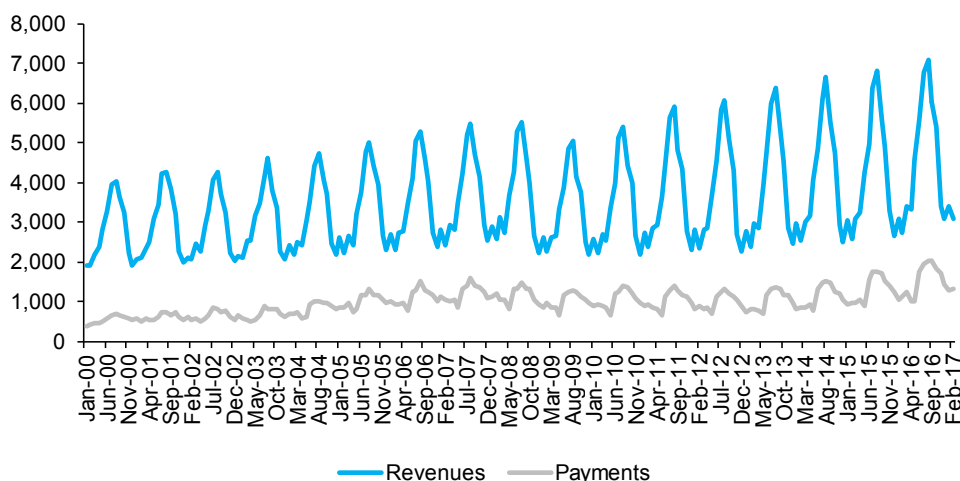
Exhibit 6 shows tourism income and payments from January 2000 to February 2017 and clearly illustrates various aspects of already mentioned developments in incoming tourism. Firstly, the very large tourism income in relation to payments. This explains why Spain has a significant tourism surplus (36.3 billion euros in 2016), which traditionally has offset part of the trade balance deficit. Currently, it completely offsets it, given that the strong performance of exports has also helped to rein in the trade balance (Fernández, 2013). Overall, since 2012, the Spanish economy has posted a net lending position versus the rest

<sup>8</sup> The contribution by tourism and other activities to real GDP growth is calculated as:

$$GDP = \frac{Tourism_t - Tourism_{t-1}}{Tourism_{t-1}} \cdot \frac{Tourism_{t-1}}{GDP_{t-1}} + \frac{Rest_t - Rest_{t-1}}{Rest_{t-1}} \cdot \frac{Rest_{t-1}}{GDP_{t-1}}$$

Exhibit 6

### Tourism income and payments, Jan-2000 to Feb-2017 (In millions of euros)



Source: Bank of Spain

of the world. Secondly, the exhibit underlines the well-known seasonable aspect of incoming tourism (also true for outgoing tourism, but to a lesser degree) which has not diminished with the trend towards shorter trips. Indeed, it is worth bearing in mind that the increase in low cost travel is primarily programmed for July and August. Thirdly, the exhibit shows the clear effects of the crisis on incoming and outgoing tourism in 2009 and the subsequent recovery. This rebound is very quick for incoming tourism, starting in 2010, while outgoing tourism only began to turnaround in 2014.

### Contribution to employment

Tourism is labour intensive, meaning it makes a very significant contribution to employment. Social security registrations for tourism and the economy as whole, shown in Table 2, underline tourism's relative importance. Growth has been particularly strong since 2014. In 2016, the sector employed 2.2 million workers, representing 12.5% of employment in the Spanish economy.

Table 2

### Tourism and total Spanish economy Social Security registrations

	Tourism registrations	% registrations in Spain
2005	1,759,356	9.82
2006	1,846,460	9.89
2007	1,937,209	10.07
2008	1,959,557	10.24
2009	1,917,405	10.64
2010	1,932,224	10.94
2011	1,948,374	11.18
2012	1,934,542	11.48
2013	1,936,225	11.88
2014	2,001,448	12.09
2015	2,093,334	12.25
2016	2,193,730	12.47

Source: Social Security.

However, the excessive use of temporary contracts and low salaries still needs addressing. The first issue is challenging to resolve insofar as the star product is sun and beach tourism and, aside from the Canary Islands, all the sun and beach destinations are subject to significant seasonal variations. Furthermore, incoming tourism revenues continue to be very seasonal.

---

*In 2016, the tourism sector employed 2.2 million workers, representing 12.5% of employment in the Spanish economy.*

---

In terms of the second issue, a change in the management of human resources is required in the hospitality sector, as well as in the overall mentality – recognising that even the least well qualified jobs are crucial to maintaining the high overall quality of the destination. Regardless of the underlying qualifications needed for the job, improving the conditions of all workers should be regarded as favourable to companies' results.

### Contribution to gross fixed capital formation (GFCF)

A less well known impact of tourism is its contribution to investment. The latest available data

---

*Strengthening innovation and incorporating ITC into tourism activity will help overcome existing weaknesses within the sector.*

---

for 2010 and 2011 indicate that this contribution was, if possible, even more elevated due to the overall reduction in GFCF during the crisis. Thus,

in 2011 the tourism sector accounted for 30% of the country's GFCF. This is largely explained by investment undertaken for "Real estate renting" purposes in the "Dwellings" section of the national accounts, which represented 21.3% of Spanish GFCF in 2011. This is coherent with the strong momentum in the supply of individual tourism rentals, particularly following the emergence of Airbnb.<sup>9</sup>

By contrast, one of the concerns and weaknesses of the sector is the low investment in intangible assets. It is vital to strengthen innovation and incorporate ITC in tourism activity.<sup>10</sup> This is the only way to offer better services and, at the same time, establish closer relations with potential tourists who are increasingly connected, both to make reservations but also to gauge the opinion of other tourists who have visited the destination.

### Conclusion

This article has underlined the enthusiasm for tourism in Spain. This phenomenon has sometimes been accused of being growth obsessed, which is why this article has also highlighted the importance of profitability and the sustainability of destinations and the living conditions of its residents. In this regard, the sector should aim to avoid going down the path of mass tourism and appealing to tourists with very low average daily expenditures.

The goal should be to attract tourism from income segments which stay in hotels and engage in urban tourism (shopping, business and/or cultural). The quality, profitability and sustainability challenge is intimately linked to developing a more diversified tourism model over time and across the country. There are still opportunities to expand and improve business. Potential opportunities include: (i) increasing the use of the internet for direct marketing of

<sup>9</sup> Some Spanish cities are already taking measures to control such growth. For example, the town hall in Palma in Mallorca is restricting tourism rentals (it looks set to allow 60 days per year in primary residence, but this is still under discussion).

<sup>10</sup> See Rodríguez *et al.*, (2014) assessment of the effects on innovation of the "Spanish Tourism Plan. Horizon 2020".

regulated accommodation; and, (ii) taking account of increasing ageing among European tourists and the need to adapt supply to their necessities given that they can help play a role in smoothing seasonal variations. Clearly, the opportunities to regenerate and improve the sector go further than this, but this exceeds the ambitions of this article, which has a narrow objective of providing a clear and concise diagnostic of the current state of play of Spanish tourism.

## References

FERNÁNDEZ, M. J. (2013), Exports as a driver of Spain's economy recovery?," *Spanish Economic and Financial Outlook*, 2, n.º.3 (May): 43-49.

GARÍN-MUÑOZ, T. (2008), "Cambios en las tendencias del turismo internacional y sus implicaciones para la economía española," *Papeles de Economía Española*, 116: 79-93.

GARÍN-MUÑOZ, T., and M. J. MORAL (2016), "Competitividad del sector turístico español," *Papeles de Economía Española*, 150: 194-209.

— (2017), "Enhancing financial impact of tourism while preserving sustainability in the city of Barcelona," *Handbook of Tourism Finances*, McALEER y CHAI (Ed.), en prensa.

LIM, C. (1997), "Review of international tourism demand models," *Annals of Tourism Research*, 24 (4), 835-849.

RODRÍGUEZ, I.; ALLAN, M. W., and M. HALL (2014), "Tourism innovation policy: Implementation and outcomes," *Annals of Tourism Research*, 49: 76-93.

WORLD TOURISM ORGANIZATION (2002), *Tourism 2020. Volume 7 Vision Global Forecasts and Profiles of Market Segments*, Madrid.



# Recent key developments in the area of Spanish financial regulation

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

**Royal Decree-Law amending the Royal Decree-Law containing urgent measures for protecting low-income mortgage holders and the Law on measures for reinforcing mortgage holder protection, debt restructurings and social rent (Royal Decree-Law 5/2017, published in the *Official State Journal (BOE)* on March 18<sup>th</sup>, 2017)**

Royal Decree-Law 5/2017, of March 17<sup>th</sup>, 2017, was published in Spain's *Official State Journal (BOE)* on March 18<sup>th</sup>, 2017. It amends Royal Decree-Law 6/2012, of March 9<sup>th</sup>, 2012, on urgent measures for protecting low-income mortgage holders, and Law 1/2013, of May 14<sup>th</sup>, 2013, on measures for reinforcing mortgage holder protection, debt restructurings and social rent. It has the effect of extending the suspension of mortgage foreclosures for vulnerable households for three years, until March 2020, and changes some of the thresholds and requirements for qualifying as "particularly vulnerable". This Royal Decree-Law took effect the day after it was published in the *Official State Journal*.

The aim of this Royal Decree-Law is to expand the scope of application of the measures in place for protecting "particularly vulnerable" mortgage holders and extending application of the suspension of foreclosures for **another three years**, starting from its date of effectiveness.

Some of the **most significant aspects** of the Decree are itemised below:

- **Amendment of Royal Decree-Law 6/2012, of March 9<sup>th</sup>, 2012, on urgent measures for protecting low-income mortgage holders**

The instances in which a household's circumstances are deemed "particularly vulnerable" have been fine-tuned and now constitute the following:

- **Large family** units, as defined in prevailing legislation.
- Family units comprising **single parents with children in their care**.
- Family units including a **minor**.
- Family units in which at least one of its members has a certified **disability of a severity of 33% or more, is dependent or has an illness** that certifiably and permanently prevents him or her from working.
- Family units in which the following live in the same home: one or more people who are removed from the mortgage holder or his/her spouse by a kinship of up to the third degree of consanguinity or affinity and **are disabled, dependent or seriously ill such that they are certifiably temporarily or permanently unable to work**.

■ Family units in which there is a **victim of gender violence**.

■ **Mortgage holders aged over 60**, even if he or she does not meet the requirements for qualifying as a family unit within the meaning of Royal Decree-Law 6/2012.

The **Appendix on the Code of Good Practices** contained in Royal Decree-Law 6/2012 has been amended as follows:

■ **Right to rent in the event of foreclosure of one's primary residence.** A foreclosed mortgage holder whose eviction has been suspended pursuant to Law 1/2013 may request and obtain from the creditor foreclosing the property or the person acting on their behalf to rent the property for an annual rent of no more than 3% of its value at the time of approval of the order, determined by an appraisal provided by the foreclosed party and corroborated by a certified appraisal firm.

➤ **Amendment of Law 1/2013, of May 14<sup>th</sup>, on measures for reinforcing mortgage holder protection, debt restructurings and social rent**

The new legislation amends Article 1 in line with the new wording given to Royal Decree-Law 6/2012, **extending the term of the moratorium on evictions from four to seven years** when such evictions affect the primary residences of persons satisfying one of the instances of "particular vulnerability".

Specifically, it introduces a **new paragraph to the said Article 1 to reference the Appendix on the Code of Good Practices contained in Royal Decree-Law 6/2012** giving a vulnerable foreclosed party the option of applying to rent the foreclosed home.

In turn, it reproduces the following instances of "particular vulnerability":

■ **Large family units**, as defined in prevailing legislation.

■ Family units comprising **single parents with children in their care**.

■ Family units including a **minor**.

■ Family units in which at least one of its members has a **disability of a severity of 33% or more** such that he or she will never be able to work.

■ Family units in which the mortgage holder is **unemployed**.

■ Family units in which the following live in the same home: one or more people who are removed from the mortgage holder or his/her spouse by a kinship of up to the third degree of consanguinity or affinity and **are disabled, dependent or seriously ill such that they are certifiably temporarily or permanently unable to work**.

■ Family units in which there is a **victim of gender violence**.

■ **Mortgage holders aged over 60**.

➤ **Acceptance of the "Code of Good Practices for the viable restructuring of loans secured by mortgages over primary residences"**

Additional Provision One introduces a **tacit acceptance** by virtue of which all the financial institutions that have already signed up to the "Code of Good Practices for the viable restructuring of loans secured by mortgages over primary residences" regulated in the Appendix to Royal Decree-Law 6/2012 are deemed to have accepted the said Code as newly worded unless they expressly apply, within one month from its date of effectiveness, to the General Secretariat of Treasury and Finance Policy, to be bound only by the prior version of the Code.



### ➤ **Complementary measures**

The government is expected to propose measures, designed to **facilitate recovery of ownership of the primary residence by mortgage holders qualifying as particularly vulnerable** within eight months from effectiveness of the new Royal Decree-Law. Those measures will contemplate, among other things:

- The house foreclosure price;
- The scope for discounting a portion of the amounts paid by the foreclosed mortgage holder to repay the original loan secured by the residence;
- Improvements made to the residence and borne by the mortgage holder during the duration of the eviction suspension.



# Spanish economic forecasts panel: May 2017<sup>1</sup>

## Funcas Economic Trends and Statistics Department

### **GDP is projected to grow by 2.8% in 2017, 0.2 percentage points more than in the previous Panel**

GDP grew by 0.8% in the first quarter of 2017, according to provisional National Accounts data, stronger than the 0.6% forecast by panellists. A detailed breakdown is still to be released, but indicators point to a slowdown in consumption and a positive contribution from the external sector.

Annual growth is forecast at 2.8%, 0.2 percentage points higher than the previous Panel. All but one of the analysts have revised upward their forecasts. The upward revision reflects a better than expected outlook for exports, thanks to the pick-up in global trade and the favourable competitive position of Spanish companies. The external sector is set to contribute 0.5 percentage points to GDP growth, in line with 2016.

Private consumption is predicted to perform better than initially expected, thanks to the impact of robust job creation on household disposable income and a decline in the savings rate. Overall, domestic demand is expected to contribute 2.3 percentage points to GDP growth, 0.5 percentage points less than in 2016.

### **Growth is projected at 2.5% for 2018**

The consensus is for GDP to grow by 2.5% in 2018, due to a slight slowdown, which is expected over the coming quarters. This represents a 0.2 percentage points upward revision on the previous Panel projection. The Spanish economy will therefore remain among the most dynamic in the European Union.

Domestic demand is expected to continue slowing as a result of weakening private consumption, reflecting more subdued household real income growth. Meanwhile, gross fixed capital formation is set to accelerate modestly as companies are in a better position to invest following the deleveraging process and strong margins. The outlook for international trade is favourable, with external demand likely to continue making a positive contribution to growth, albeit somewhat less than this year.

### **Spike in inflation in 2017 and moderation in 2018**

Inflation came in significantly lower in March and April than the consensus forecast in the last Panel. Headline inflation fell more sharply than expected in March due to an unexpected drop in electricity prices and an easing of core inflation.

<sup>1</sup> *The Spanish Economic Forecasts Panel* is a survey of seventeen 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 seventeen 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.

Inflation is set to soften over the coming months assuming energy prices remain unchanged. Annual inflation in 2017 will average 2.1%, 0.2 percentage points lower than the previous consensus forecast. The moderation in price growth will take fuller effect in 2018, with inflation forecast to come in at 1.5%, 0.1 percentage points lower than previously forecast. Meanwhile, core inflation is expected to hold steady at low levels across the forecast period.

### Positive employment developments

Employment grew strongly during the first quarter, and it even accelerated at the start of the second quarter, according to Social Security registrations data. The construction sector performance is particularly noteworthy.

The majority of analysts have revised upward their employment forecasts. Employment is now projected to grow by 2.4% in 2017 and 2.1% in 2018. The unemployment rate will fall to 15.8% next year. Based on the outlook for GDP and employment, productivity will barely increase over the forecast period. Unit labour costs will rise less than inflation.

### Solid current account surplus maintained

The current account registered a cumulative surplus of 186 million euros to February, compared to a deficit of 1.54 billion euros over the same period last year. This result is primarily due to a significant reduction in the income account deficit, which outweighed the deterioration in the trade balance on the back of higher oil prices.

The current account is forecast to post another solid surplus, reaching 1.7% of GDP in 2017 and 1.6% in 2018, with no significant changes compared to the previous Panel. Goods and services exports are forecast to hold up, alongside a recovery in imports, which will outpace domestic

demand. These results are in sharp contrast with the major external imbalances generated by the Spanish economy in previous expansionary phases (from 1996-2007, the current account recorded an average annual deficit of 4.5% of GDP).

### Public deficit to shrink but failing to meet targets

The public deficit, excluding local corporations, to February was 1.131 billion euros smaller than the same period last year, thanks to an increase in revenues and a decline in expenditures. Strong growth in employment is driving a significant pick-up in social security contributions.

Robust economic growth will underpin public deficit reduction. Revenues should increase significantly on the back of an increase in the revenue base and the consolidation measures adopted at the end of last year. Meanwhile, declining unemployment, rising inflation and the Budget carry over, will support modest growth in public spending. Overall, the consensus is for a public sector deficit of 3.3% of GDP in 2017 and 2.4% in 2018, 0.2 percentage points above official targets for both years.

### Improvement in global economy outlook

US GDP growth eased slightly in the first quarter of the year to 0.7% annualised. However, first quarter results tend to be subdued and employment continues to grow at a healthy rate albeit slightly decelerating, meaning that first quarter results have not affected the favourable outlook for the US economy. Meanwhile, the euro area economy gained momentum in the first quarter of the year, positing 1.8% annualised growth. China saw renewed dynamism and grew at its fastest rate since the third quarter of 2015.

The majority of panellists have a favourable view of European markets – up from neutral in the

last Panel – which is expected to be sustained over the next six months. Most panellists see the outlook as neutral for non-European countries with the remainder believing it to be favourable – a notable improvement on the previous Panel. Non-European markets are expected to maintain the same outlook over the coming months.

### Long-term interest rates to tick up

Short-term interest rates (3-month Euribor) have remained stable in recent weeks at -0.33%. Nearly all analysts consider rates to be low, given the dynamism of the Spanish economy. These favourable conditions are expected to be maintained over the next six months.

The yield on long-term 10-year sovereign debt has eased back slightly from around 1.8% in the first fortnight of March to close to 1.6%. The relaxation of concerns about the electoral prospects for anti-European parties has supported a generalised

decline in yields across the euro area. The yield on long-term debt is still considered to be relatively low. However, panellists now foresee an increase in interest rates in the near future.

### Euro back to equilibrium levels

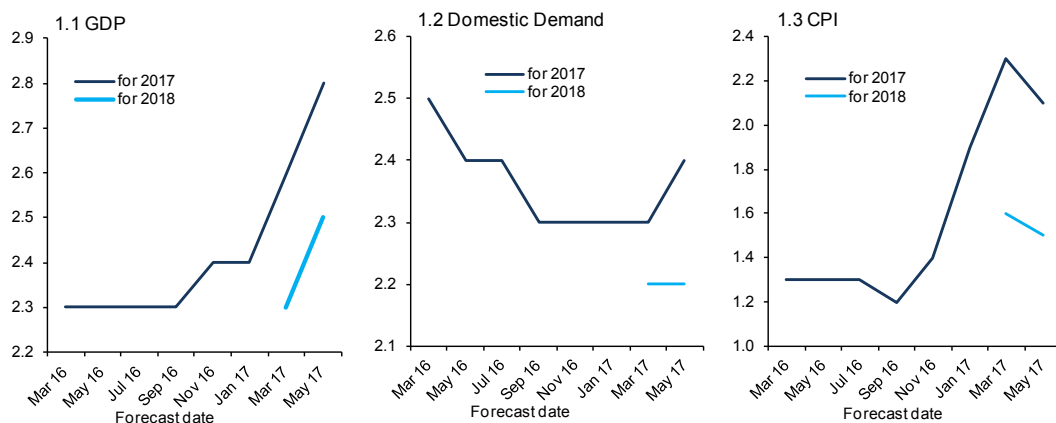
The Euro/Dollar exchange rate has risen to 1.09, also driven by an improvement in the political risk outlook. The majority of analysts see the Euro depreciating.

### Fiscal policy is no longer expansionary

Most analysts judge fiscal policy to be neutral and consider this appropriate. Compared to the previous Panel, fewer analysts regard budgets as expansionary with an increase in analysts believing them to be restrictive. There are no major changes in opinion on monetary policy. All analysts consider it to be expansionary, with the majority judging this to be the right stance.

Exhibit 1

#### Change in forecasts (Consensus values) Percentage annual change



Source: Funcas Panel of forecasts.

Table 1

# Economic Forecasts for Spain – May 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	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Analistas Financieros Internacionales (AFI)	3.0	2.5	3.0	2.5	0.7	0.6	3.5	2.9	4.7	4.0	2.8	2.4	2.6	2.2
Axesor	2.8	2.3	2.3	1.8	1.2	1.6	2.8	3.4	2.6	3.4	2.6	3.0	2.2	2.2
Banco Bilbao Vizcaya Argentaria (BBVA)	3.0	2.7	2.5	2.4	1.0	2.0	3.3	4.5	3.6	4.4	2.8	4.2	2.3	2.6
Bankia	2.9	2.5	2.6	2.2	1.2	1.3	3.8	4.0	5.3	5.0	3.2	3.6	2.5	2.3
CaixaBank	2.8	2.4	2.6	2.0	0.8	0.8	3.6	3.5	3.9	3.3	3.3	3.5	2.5	2.1
Cámara de Comercio de España	2.8	2.4	2.7	1.8	0.9	0.5	3.4	2.9	4.9	5.0	2.6	2.0	2.3	1.9
Cemex	2.9	2.4	2.6	2.3	1.1	1.0	4.0	3.9	3.4	4.0	4.4	4.1	2.5	2.3
Centro de Estudios Económicos de Madrid (CEEM-URJC)	2.8	2.6	2.5	2.3	1.4	1.6	3.0	3.1	3.6	3.9	2.7	2.9	2.3	2.3
Centro de Predicción Económica (CEPREDE-UAM)	2.8	2.6	2.7	2.3	1.0	1.4	3.5	4.5	5.1	5.5	2.8	4.3	2.5	2.6
CEOE	2.5	2.3	2.4	2.2	0.6	0.7	2.9	2.9	4.0	4.0	2.1	2.5	2.1	2.0
Funcas	2.8	2.5	2.4	2.1	0.6	0.6	4.0	3.9	4.0	3.9	4.0	4.0	2.3	2.2
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.5	2.8	2.2	1.2	1.2	3.0	3.6	3.6	3.9	2.7	3.6	2.4	2.3
Instituto de Estudios Económicos (IEE)	3.0	2.4	2.9	2.3	0.6	0.4	2.6	3.8	2.7	5.2	2.5	2.8	2.4	2.1
Intermoney	2.8	2.3	2.8	2.2	0.8	0.8	2.3	2.3	3.2	2.9	1.6	1.8	2.3	1.9
Repsol	2.9	2.7	2.8	2.3	1.1	2.1	3.8	4.4	4.3	5.6	3.6	3.8	2.6	2.6
Santander	2.8	2.2	2.6	2.1	0.7	0.8	3.4	3.6	3.1	2.2	3.6	4.9	2.5	2.2
Solchaga Recio & asociados	3.1	2.7	3.0	2.2	1.0	0.9	3.5	4.0	3.4	4.5	3.8	4.0	2.7	2.3
<b>CONSENSUS (AVERAGE)</b>	<b>2.8</b>	<b>2.5</b>	<b>2.7</b>	<b>2.2</b>	<b>0.9</b>	<b>1.1</b>	<b>3.3</b>	<b>3.6</b>	<b>3.8</b>	<b>4.2</b>	<b>3.0</b>	<b>3.4</b>	<b>2.4</b>	<b>2.2</b>
Maximum	3.1	2.7	3.0	2.5	1.4	2.1	4.0	4.5	5.3	5.6	4.4	4.9	2.7	2.6
Minimum	2.5	2.2	2.3	1.8	0.6	0.4	2.3	2.3	2.6	2.2	1.6	1.8	2.1	1.9
Change on 2 months earlier <sup>1</sup>	0.2	0.2	0.2	0.1	-0.1	0.0	0.0	0.2	0.0	0.3	0.1	0.3	0.1	0.0
- Rise <sup>2</sup>	16	12	10	9	5	4	6	10	7	10	9	9	11	10
- Drop <sup>2</sup>	0	0	1	0	3	2	5	1	5	0	3	1	2	0
Change on 6 months earlier <sup>1</sup>	0.4	--	0.3	--	0.1	--	-0.6	--	-1.4	--	-0.4	--	0.1	--
<b>Memorandum items:</b>														
Government (April 2017)	2.7	2.5	2.6	2.4	0.8	0.7	2.8	2.6	--	--	--	--	--	--
Bank of Spain (April 2017)	2.8	2.3	2.4	1.6	0.8	0.8	3.3	4.4	3.1	5.1	3.7	4.4	--	--
EC (May 2017)	2.8	2.4	2.5	2.0	0.9	0.8	3.4	3.9	3.9	3.7	3.0	3.9	2.4	2.2
IMF (April 2017)	2.6	2.1	2.6	2.1	0.7	0.7	3.1	2.7	--	--	--	--	2.3	2.0
OECD (March 2017)	2.5	2.2	2.2	1.6	0.9	1.2	3.6	4.7	--	--	--	--	2.3	2.2

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panelists revising their forecast upwards (or downwards) since two months earlier.

Table 1 (Continued)

**Economic Forecasts for Spain – May 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 <sup>3</sup>		Jobs <sup>4</sup>		Unempl. (% labour force)		C/A bal. of payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP) <sup>7</sup>	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Analistas Financieros Internacionales (AFI)	4.8	3.4	4.1	2.6	2.0	1.8	1.1	1.3	1.1	1.3	2.7	2.2	17.4	15.7	1.9	1.8	-3.3	-2.4
Axesor	4.7	4.3	3.6	4.1	2.3	1.9	1.1	1.4	1.6	1.7	2.5	2.0	18.0	16.1	1.1	0.2	-3.8	-2.9
Banco Bilbao Vizcaya Argentaria (BBVA)	5.8	5.0	4.2	5.2	2.1	1.9	1.2	1.6	0.7	1.8	2.4	2.2	17.3	15.6	1.8	1.5	-3.1	-2.1
Bankia	5.0	4.2	3.8	3.8	2.2	1.6	1.2	1.3	0.6	1.2	2.6	2.2	17.2	15.2	2.0	1.8	--	--
CaixaBank	4.6	4.5	3.6	3.6	2.2	1.5	1.2	1.5	1.0	1.6	2.4	2.1	17.7	16.3	1.8	1.6	-3.4	-2.4
Cámara de Comercio de España	5.3	5.4	5.6	4.8	2.2	1.5	1.0	0.9	--	--	2.4	1.8	17.6	16.1	0.8	0.8	-3.1	-2.2
Cemex	5.3	4.4	4.5	4.6	2.0	1.4	1.1	1.3	--	--	2.5	2.3	17.5	16.1	1.5	1.5	-3.1	-2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.9	4.5	3.8	3.7	2.2	1.7	1.2	1.5	--	--	2.6	2.4	17.3	15.1	1.9	1.8	-3.1	-2.3
Centro de Predicción Económica (CEPREDE-UAM)	5.3	5.0	4.8	5.4	2.0	1.4	--	--	1.2	2.0	2.3	2.1	17.4	15.6	1.6	1.8	-3.1	-2.4
CEOE	4.3	3.9	3.3	3.4	2.0	1.1	0.9	0.9	0.5	0.8	2.3	2.1	17.5	15.8	1.7	1.6	-3.6	-3.0
Funcas	4.8	4.7	3.5	4.1	2.1	1.3	1.0	1.4	1.6	1.6	2.4	2.0	17.5	15.8	2.1	2.1	-3.3	-2.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.0	4.0	4.1	4.0	2.2	2.0	1.2	1.5	--	--	2.3	2.0	17.7	15.8	1.8	1.8	-3.4	-2.6
Instituto de Estudios Económicos (IEE)	5.0	5.2	3.2	5.0	2.2	1.2	1.0	0.9	1.1	1.3	2.4	2.3	17.7	16.4	1.9	1.8	-3.1	-2.2
Intermoney	4.5	2.9	3.1	2.2	2.0	1.6	1.1	1.5	--	--	2.6	1.9	17.6	15.0	1.8	1.6	-3.1	--
Repsol	4.5	4.6	4.0	4.8	2.1	1.4	1.2	1.3	0.8	0.6	2.4	2.2	17.5	15.4	1.8	1.6	-3.1	-2.2
Santander	4.7	3.3	3.8	3.6	2.3	1.4	--	--	1.5	1.8	2.3	1.8	17.7	16.2	2.0	1.8	-3.1	-2.8
Solchaga Recio & asociados	5.3	4.6	4.3	3.8	2.1	1.7	1.2	1.6	--	--	2.6	2.1	17.6	15.9	2.0	1.9	-3.3	-2.6
<b>CONSENSUS (AVERAGE)</b>	<b>4.9</b>	<b>4.3</b>	<b>4.0</b>	<b>4.0</b>	<b>2.1</b>	<b>1.5</b>	<b>1.1</b>	<b>1.3</b>	<b>1.1</b>	<b>1.4</b>	<b>2.4</b>	<b>2.1</b>	<b>17.5</b>	<b>15.8</b>	<b>1.7</b>	<b>1.6</b>	<b>-3.3</b>	<b>-2.4</b>
Maximum	5.8	5.4	5.6	5.4	2.3	2.0	1.2	1.6	1.6	2.0	2.7	2.4	18.0	16.4	2.1	2.1	-3.1	-2.1
Minimum	4.3	2.9	3.1	2.2	2.0	1.1	0.9	0.9	0.5	0.6	2.3	1.8	17.2	15.0	0.8	0.2	-3.8	-3.0
Change on 2 months earlier <sup>1</sup>	0.6	0.2	0.3	0.0	-0.2	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.2	-0.2	-0.3	0.0	0.1	0.1	0.3
- Rise <sup>2</sup>	14	9	10	7	3	3	3	4	2	3	13	12	2	2	7	6	8	7
- Drop <sup>2</sup>	0	2	3	5	9	7	6	4	2	1	0	1	13	11	1	2	1	2
Change on 6 months earlier <sup>1</sup>	0.3	--	-0.9	--	0.7	--	0.1	--	0.0	--	0.3	--	-0.7	--	0.1	--	0.3	--
<b>Memorandum items:</b>																		
Government (April 2017)	5.5	4.9	4.3	4.1	--	--	--	--	1.3	1.5	2.5	2.4	17.5	15.6	2.0 <sup>(6)</sup>	1.9 <sup>(6)</sup>	-3.1	-2.2
Bank of Spain (April 2017)	6.1	4.8	5.2	4.4	2.2	1.4	1.1	1.5	--	--	2.6	1.9	17.5	16.0	1.9 <sup>(6)</sup>	1.8 <sup>(6)</sup>	-3.3	-2.8
EC (May 2017)	5.7	4.8	4.8	4.4	2.0	1.4	--	--	1.0	1.3	2.3	2.1	17.6	15.9	1.6	1.6	-3.2	-2.6
IMF (April 2017)	4.6	4.2	4.1	4.1	2.4	1.4	--	--	--	--	2.4	1.5	17.7	16.6	1.5	1.6	-3.3	-2.7
OECD (March 2017)	4.3	4.4	3.7	4.5	1.9	1.8	1.1	1.5	--	--	2.4	1.9	17.5	16.1	2.2	2.2	-3.4	-2.8

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

Table 2

**Quarterly Forecasts - May 2017<sup>1</sup>**

	Quarter-on-quarter change (percentage)							
	17-IQ	17-IIQ	17-IIIQ	17-IVQ	18-IQ	18-IIQ	18-IIIQ	18-IVQ
GDP <sup>2</sup>	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Household consumption <sup>2</sup>	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5

<sup>1</sup> Average of forecasts by private institutions listed in Table 1.<sup>2</sup> According to series corrected for seasonality and labour calendar.

Table 3

**CPI Forecasts – May 2017<sup>1</sup>**

	Monthly change (%)				Year-on-year change (%)	
	Apr-17	May-17	Jun-17	Jul-17	Dec-17	Dec-18
	1.2	0.6	0.5	-0.1	1.3	1.6

<sup>1</sup> Average of forecasts by private institutions listed in Table 1.

Table 4

**Opinions – May 2017**  
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	10	7	0	5	12	0
International context: Non-EU	8	9	0	3	14	0
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	16	1	0	3	14	0
Long-term interest rate <sup>3</sup>	15	2	0	11	6	0
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	6	8	4	6	7
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	3	9	5	6	11	0
Monetary policy assessment <sup>1</sup>	0	0	17	0	5	12

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



## KEY FACTS:

- ❑ **ECONOMIC INDICATORS .....** *Page 96*
- ❑ **FINANCIAL SYSTEM INDICATORS .....** *Page 141*

## KEY FACTS: ECONOMIC INDICATORS

Table 1

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

Forecasts in blue

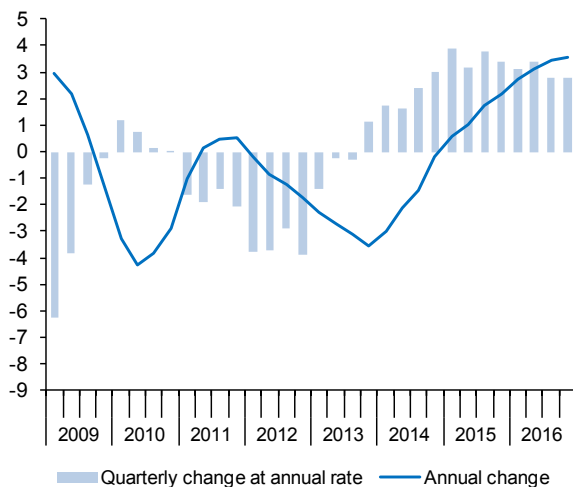
	GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)	
					Construction								
				Total	Total	Housing	Other construction	Equipment & other products					
Chain-linked volumes, annual percentage changes													
2010		0.0	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		3.2	3.2	0.8	3.1	1.9	3.7	0.4	4.3	4.4	3.3	2.8	0.5
2017		2.8	2.4	0.6	4.0	4.0	5.1	3.0	4.1	4.8	3.5	2.3	0.5
2018		2.5	2.1	0.6	3.9	4.0	4.7	3.3	3.9	4.7	4.1	2.2	0.3
2016	I	3.4	3.6	1.7	4.3	2.3	4.8	0.3	6.4	3.8	4.5	3.5	-0.1
	II	3.4	3.4	0.7	3.4	1.8	3.0	0.7	5.0	6.5	5.4	2.9	0.5
	III	3.2	3.0	0.8	2.6	1.6	3.2	0.3	3.6	2.9	1.0	2.5	0.7
	IV	3.0	3.0	0.0	2.2	1.9	3.8	0.2	2.6	4.4	2.3	2.2	0.8
2017	I	3.0	2.7	-0.1	3.2	3.1	4.2	2.2	3.3	5.8	3.4	2.1	0.9
	II	2.8	2.6	0.8	3.3	3.3	4.7	2.1	3.3	3.4	1.9	2.3	0.6
	III	2.8	2.4	0.6	4.5	4.3	5.5	3.3	4.6	5.7	4.9	2.4	0.4
	IV	2.7	2.1	1.0	5.1	5.0	5.8	4.2	5.2	4.3	3.7	2.4	0.3
2018	I	2.4	2.0	0.6	4.4	4.5	5.3	3.8	4.2	4.0	3.7	2.2	0.2
	II	2.4	2.0	0.6	3.7	4.1	4.9	3.4	3.2	4.2	3.6	2.1	0.3
	III	2.5	2.2	0.6	3.7	3.9	4.7	3.1	3.5	4.8	4.1	2.1	0.4
	IV	2.7	2.4	0.7	3.9	3.4	4.0	2.8	4.5	5.7	4.9	2.2	0.4
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2016	I	3.1	3.6	0.9	1.6	0.2	4.5	-3.2	3.1	0.8	-0.7	2.6	0.5
	II	3.4	2.9	-2.3	5.5	4.2	3.5	4.9	6.8	14.4	10.9	2.0	1.3
	III	2.8	2.5	2.1	-0.3	0.4	1.8	-0.6	-1.0	-4.9	-7.6	2.0	0.8
	IV	2.8	3.0	-0.7	2.1	2.7	5.7	0.1	1.6	8.4	7.5	2.3	0.5
2017	I	3.1	2.3	0.5	5.6	5.3	6.0	4.5	5.9	6.3	3.8	2.5	0.6
	II	2.8	2.4	1.5	6.0	5.0	5.5	4.5	7.0	4.3	4.7	2.8	-0.1
	III	2.7	1.8	1.2	4.2	4.4	4.8	4.0	4.0	3.9	3.6	2.2	0.5
	IV	2.2	1.8	1.0	4.7	5.4	7.0	4.0	4.0	2.6	2.8	2.2	0.0
2018	I	2.1	2.0	-1.1	2.7	3.4	4.0	2.8	2.0	5.0	3.6	1.5	0.6
	II	2.7	2.3	1.2	3.2	3.4	4.0	2.8	3.0	5.5	4.4	2.2	0.5
	III	2.8	2.5	1.3	4.2	3.4	4.0	2.8	5.0	6.2	5.8	2.5	0.3
	IV	3.0	2.6	1.3	5.6	3.4	4.0	2.8	8.0	6.2	5.8	2.8	0.2
	Current prices (EUR billions)	Percentage of GDP at current prices											
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		1,113.9	57.8	18.9	19.9	10.0	4.7	5.2	10.0	33.1	30.2	97.1	2.9
2017		1,162.7	57.8	18.4	20.2	10.2	4.9	5.3	9.9	33.6	30.4	96.8	3.2
2018		1,208.6	57.5	18.0	20.6	10.6	5.1	5.4	10.0	34.3	30.8	96.5	3.5

\*Seasonally and Working Day Adjusted.

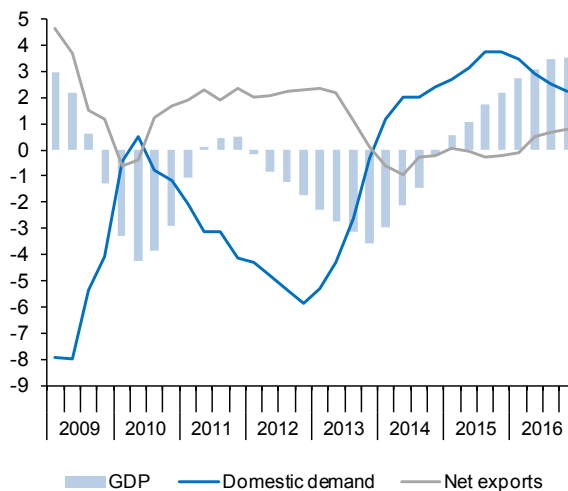
(a) Contribution to GDP growth.

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

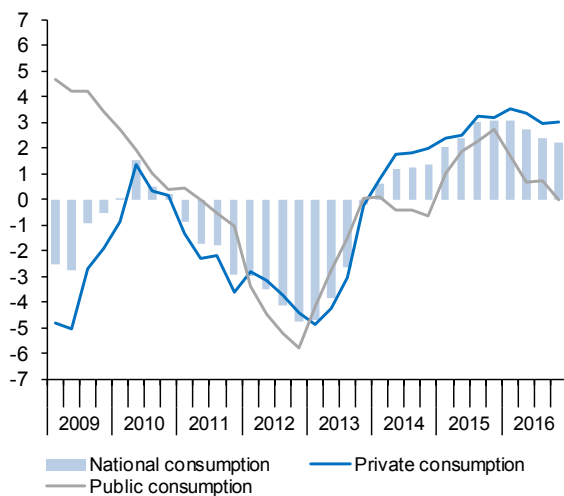
**Chart 1.1.- GDP**  
Percentage change



**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

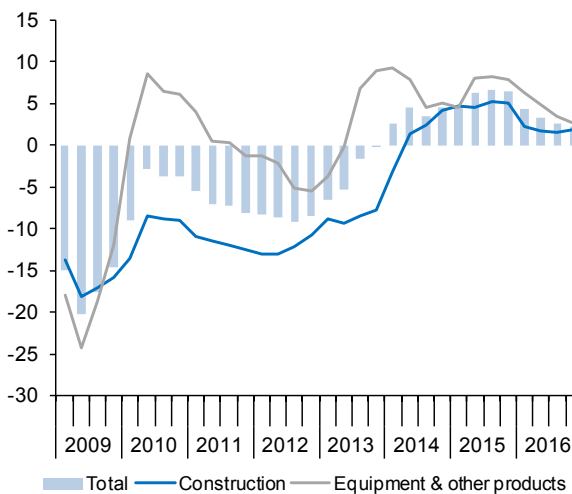


Table 2

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

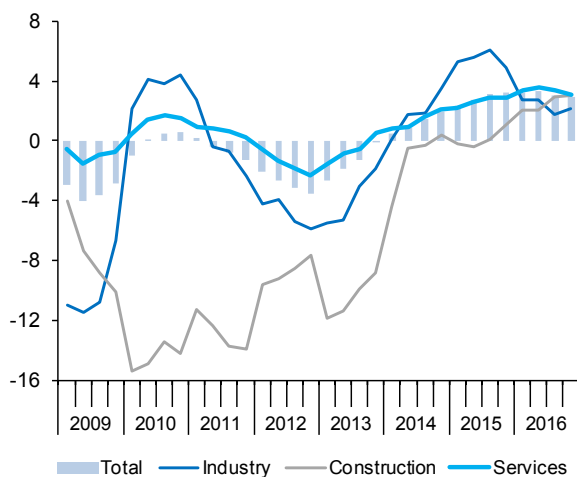
Forecasts in blue

	Gross value added at basic prices									
	Total	Agriculture, forestry and fishing	Industry		Construction	Services			Taxes less subsidies on products	
			Total	Manufacturing		Total	Public administration, health, education	Other services		
Chain-linked volumes, annual percentage changes										
2009		-3.4	-3.6	-10.0	-10.9	-7.6	-1.0	-3.7	0.6	-5.9
2010		0.0	2.1	3.6	0.0	-14.5	1.3	1.5	3.9	0.1
2011		-0.6	4.4	-0.2	-1.3	-12.8	0.7	-0.1	-0.2	-5.6
2012		-2.8	-9.7	-4.9	-5.2	-8.8	-1.5	-1.9	1.6	-4.0
2013		-1.5	13.6	-3.9	-0.2	-10.5	-0.6	-1.7	3.3	-4.3
2014		1.2	-1.6	1.8	3.1	-1.2	1.4	-0.5	2.0	2.9
2015		2.9	-2.9	5.5	7.0	0.2	2.6	1.7	3.0	6.7
2016		3.1	3.4	2.4	3.1	2.5	3.4	2.5	3.7	4.2
2017		2.9	3.7	2.8	2.6	3.3	2.8	2.5	2.9	2.6
2018		2.5	2.0	2.1	2.1	3.4	2.6	2.3	2.7	2.3
2016	I	3.2	5.0	2.7	4.4	2.1	3.4	2.5	3.6	4.8
	II	3.3	2.7	2.8	3.8	2.0	3.6	2.8	3.8	4.3
	III	3.1	3.1	1.7	2.4	2.9	3.4	2.5	3.7	4.2
	IV	3.0	2.9	2.2	2.0	3.0	3.1	2.1	3.5	3.6
2017	I	2.9	2.4	3.2	2.8	2.7	2.9	2.1	3.1	4.0
	II	2.9	5.4	2.8	2.5	2.7	2.8	2.3	3.0	2.7
	III	2.9	5.4	3.1	2.7	3.3	2.8	2.5	2.9	1.7
	IV	2.7	2.0	2.3	2.4	4.4	2.7	3.0	2.6	2.2
2018	I	2.5	2.0	2.1	2.1	3.9	2.5	2.5	2.5	2.1
	II	2.4	2.0	2.0	2.0	3.5	2.5	2.3	2.5	2.5
	III	2.4	2.0	2.1	2.1	3.3	2.5	2.2	2.6	2.6
	IV	2.7	2.0	2.1	2.2	2.8	2.9	2.2	3.1	2.1
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate										
2016	I	3.4	4.3	-0.8	-0.3	6.3	4.1	2.5	4.7	0.8
	II	3.1	-9.1	3.9	4.1	4.4	3.3	2.5	3.5	6.0
	III	2.5	1.9	0.7	1.3	1.4	3.1	2.6	3.2	5.4
	IV	2.8	16.2	5.1	2.8	0.2	2.1	0.7	2.5	2.1
2017	I	3.1	2.0	2.9	3.2	4.7	3.1	2.5	3.3	2.4
	II	3.0	2.0	2.5	2.6	4.4	3.0	3.5	2.9	0.8
	III	2.8	2.0	2.0	2.0	3.8	2.9	3.2	2.8	1.4
	IV	2.0	2.0	1.8	1.8	4.8	1.8	3.0	1.5	4.3
2018	I	2.1	2.0	1.9	1.9	2.8	2.1	0.4	2.7	2.1
	II	2.8	2.0	2.2	2.3	2.8	2.9	2.7	3.0	2.1
	III	2.8	2.0	2.2	2.3	2.8	3.0	2.8	3.1	2.1
	IV	3.1	2.0	2.2	2.2	2.8	3.4	2.8	3.7	2.0
Current prices (EUR billions)		Percentage of value added at basic prices								
2009		1,006.1	2.3	16.6	13.2	10.6	70.4	18.2	52.2	7.2
2010		989.9	2.6	17.2	13.3	8.8	71.4	18.7	52.7	9.2
2011		983.7	2.5	17.4	13.5	7.5	72.6	18.7	53.8	8.8
2012		954.0	2.5	17.4	13.2	6.7	73.5	18.5	54.9	9.0
2013		935.7	2.8	17.5	13.4	5.8	74.0	19.0	55.0	9.6
2014		943.8	2.5	17.6	13.8	5.7	74.2	18.8	55.4	9.9
2015		975.8	2.6	18.0	14.2	5.6	73.8	18.8	55.0	10.2
2016		1,011.0	2.6	17.8	14.1	5.6	74.1	18.9	55.2	10.2
2017		1,055.9	2.7	17.8	14.0	5.6	73.8	18.7	55.1	10.4
2018		1,096.6	2.9	17.6	13.8	5.7	73.9	18.7	55.2	10.5

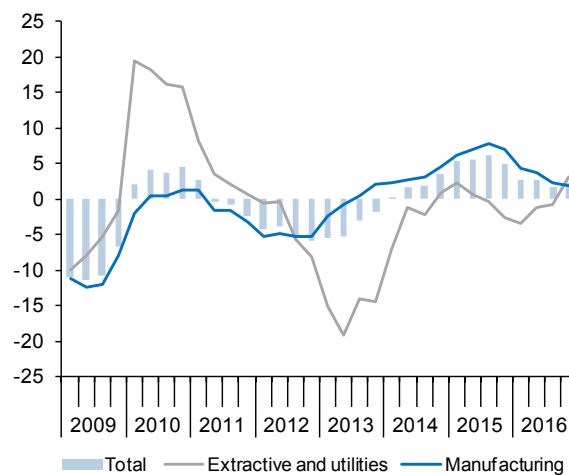
\*Seasonally and Working Day Adjusted.

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

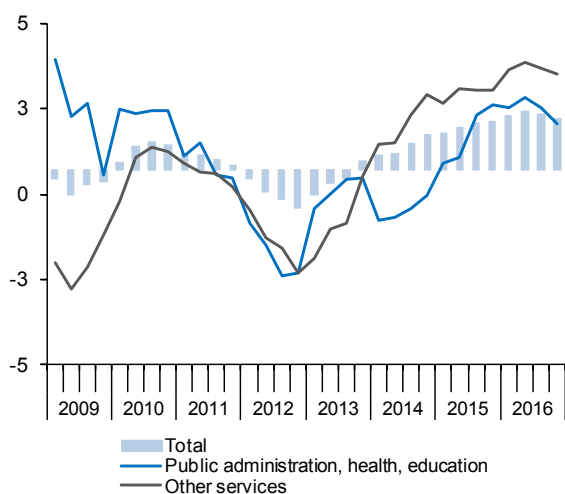
**Chart 2.1.- GVA by sectors**  
Annual percentage change



**Chart 2.2.- Industry**  
Annual percentage change



**Chart 2.3.- GVA, services**  
Annual percentage change



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

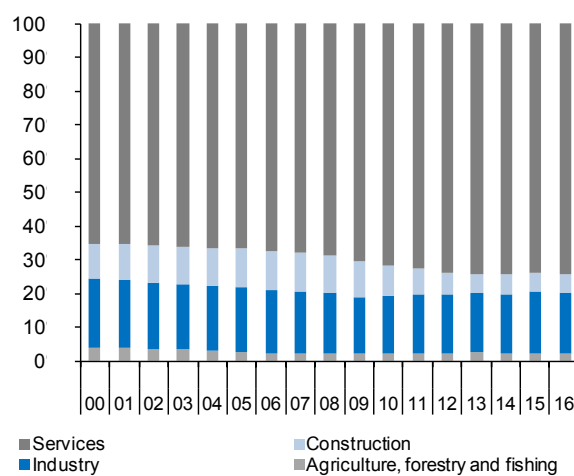


Table 3a

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

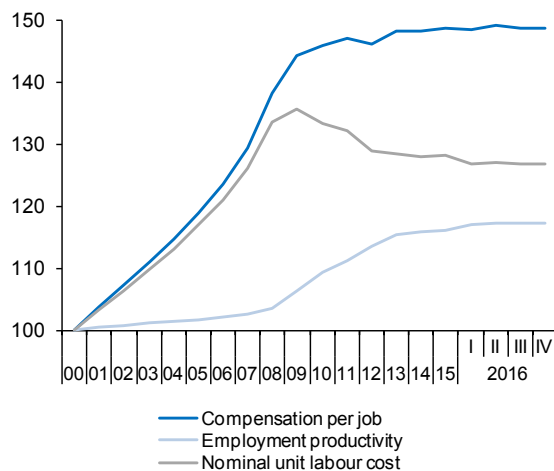
Forecasts in blue

	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
<b>Indexes, 2000 = 100, SWDA</b>												
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	148.9	127.8	94.2	106.4	69.0	154.0	164.4	106.7	83.1
2017	130.7	111.7	117.0	151.3	129.3	93.7	109.1	--	--	--	--	--
2018	133.9	114.0	117.5	153.7	130.8	93.4	111.4	--	--	--	--	--
2015 I	121.5	104.0	116.9	148.4	126.9	94.0	98.4	66.6	147.7	164.8	111.6	86.5
II	122.5	104.7	117.0	149.0	127.4	94.2	100.8	66.8	150.8	163.7	108.5	84.0
III	123.6	105.9	116.8	148.6	127.2	94.1	102.4	67.3	152.0	163.8	107.8	83.6
IV	124.7	106.5	117.1	148.6	127.0	93.8	104.1	67.8	153.7	163.6	106.4	82.7
2016 I	125.6	107.1	117.3	149.2	127.1	94.2	105.3	67.9	155.1	163.9	105.7	82.3
II	126.7	108.0	117.3	148.8	126.8	93.4	105.2	68.5	153.7	164.7	107.2	83.5
III	127.5	108.7	117.3	148.9	126.9	93.7	106.3	68.6	154.9	164.5	106.2	82.8
IV	128.4	109.6	117.2	148.6	126.8	93.0	106.6	69.3	153.9	164.3	106.7	83.3
<b>Annual percentage changes</b>												
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	3.2	2.9	0.4	0.0	-0.4	-0.7	3.1	2.4	0.7	0.4	-0.3	-0.1
2017	2.8	2.4	0.4	1.6	1.2	-0.5	2.6	--	--	--	--	--
2018	2.5	2.0	0.5	1.6	1.1	-0.3	2.1	--	--	--	--	--
2015 I	2.7	2.4	0.3	0.1	-0.3	-0.7	4.5	0.5	3.9	0.3	-3.5	-3.7
II	3.1	2.8	0.3	0.8	0.5	-0.1	6.1	1.6	4.5	-0.5	-4.8	-4.8
III	3.4	3.0	0.4	0.2	-0.2	-0.8	6.9	2.3	4.5	-0.8	-5.1	-5.0
IV	3.6	3.0	0.5	0.2	-0.4	-0.8	7.9	2.2	5.6	-0.8	-6.0	-5.9
2016 I	3.4	3.0	0.4	0.6	0.2	0.2	7.0	1.9	5.0	-0.5	-5.3	-4.9
II	3.4	3.1	0.3	-0.1	-0.5	-0.9	4.4	2.5	1.9	0.6	-1.3	-0.6
III	3.2	2.7	0.4	0.2	-0.3	-0.4	3.8	1.9	1.9	0.4	-1.4	-1.0
IV	3.0	2.9	0.1	0.0	-0.1	-0.8	2.4	2.2	0.2	0.4	0.3	0.6

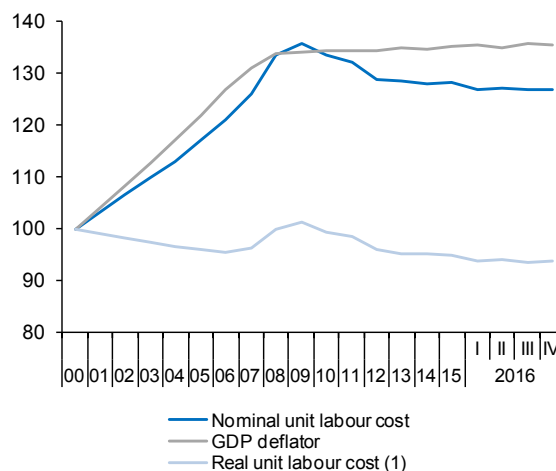
(a) Nominal ULC deflated by GDP/GVA deflator.

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

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

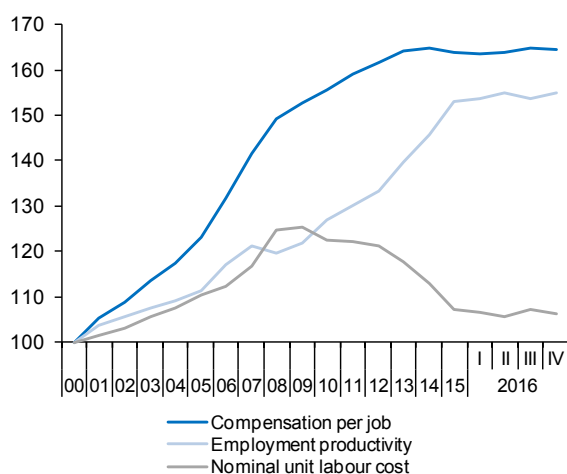


**Chart 3a.2.- Real ULC, total economy**  
Index, 2000=100

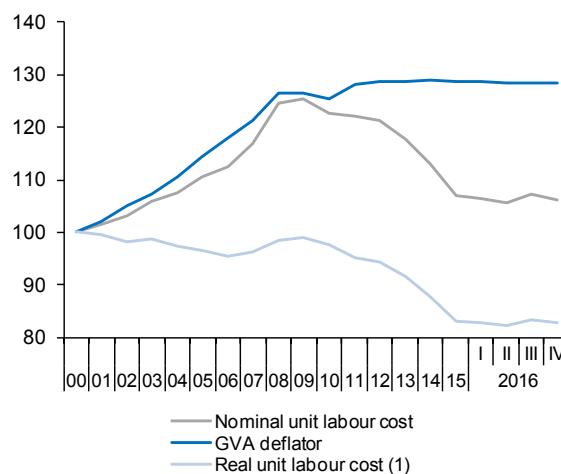


(1) Nominal ULC deflated by GDP deflator.

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



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



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

Table 3b

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

Forecasts in blue

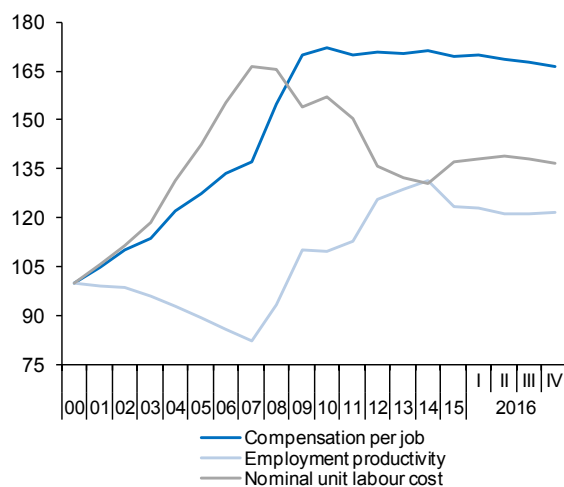
	Construction						Services					
	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	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
<b>Indexes, 2000 = 100, SWDA</b>												
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	67.5	54.5	123.7	166.9	134.9	94.3	145.9	133.1	109.6	141.8	129.4	93.7
2017	69.7	58.1	119.9	--	--	--	149.9	135.8	110.4	--	--	--
2018	72.0	61.1	117.9	--	--	--	153.8	138.3	111.2	--	--	--
2015 I	65.7	52.6	124.9	170.9	136.8	99.4	137.7	127.6	107.9	140.7	130.3	96.8
II	65.1	53.5	121.7	172.4	141.6	100.7	138.7	128.9	107.7	140.5	130.5	97.0
III	65.4	53.5	122.2	170.2	139.3	99.4	139.6	129.7	107.6	141.6	131.6	96.9
IV	66.2	53.8	122.9	169.1	137.6	99.2	140.4	130.5	107.5	141.4	131.5	96.6
2016 I	65.8	53.4	123.2	170.0	138.0	98.4	141.7	131.8	107.5	141.4	131.6	96.5
II	65.8	54.3	121.2	168.3	138.9	98.2	142.8	132.9	107.5	142.1	132.2	96.1
III	66.8	55.1	121.2	167.6	138.2	98.4	144.2	133.7	107.9	141.6	131.2	95.3
IV	67.5	55.4	121.9	166.5	136.6	97.1	145.4	134.1	108.5	141.8	130.8	94.2
<b>Annual percentage changes</b>												
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	2.5	2.2	0.3	-1.5	-1.8	-3.8	3.4	3.0	0.3	0.1	-0.2	-1.4
2017	3.3	6.5	-3.1	--	--	--	2.8	2.0	0.7	--	--	--
2018	3.4	5.1	-1.6	--	--	--	2.6	1.8	0.7	--	--	--
2015 I	-0.3	7.9	-7.6	0.5	8.8	8.5	1.6	3.1	-1.4	-0.1	1.4	0.7
II	0.4	7.5	-6.6	0.6	7.7	6.2	2.2	3.0	-0.8	0.0	0.8	-0.2
III	-0.2	5.8	-5.7	-0.3	5.7	3.4	2.2	3.0	-0.7	0.9	1.6	-0.1
IV	-0.4	5.2	-5.3	-0.8	4.8	2.3	2.6	3.0	-0.4	0.5	1.0	-0.8
2016 I	0.1	1.5	-1.4	-0.5	0.8	-1.0	2.9	3.3	-0.4	0.6	0.9	-0.3
II	1.1	1.6	-0.5	-2.3	-1.9	-2.5	2.9	3.1	-0.2	1.1	1.3	-0.9
III	2.1	2.9	-0.8	-1.6	-0.7	-1.0	3.4	3.1	0.3	0.0	-0.3	-1.6
IV	2.0	2.9	-0.9	-1.6	-0.7	-2.1	3.6	2.7	0.9	0.3	-0.6	-2.5

(a) Nominal ULC deflated by GVA deflator.

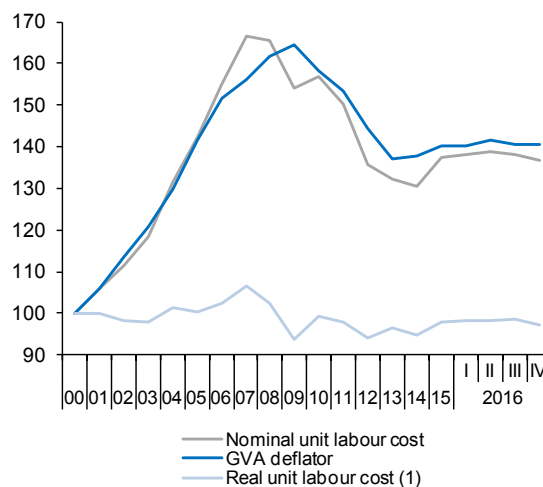
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).



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

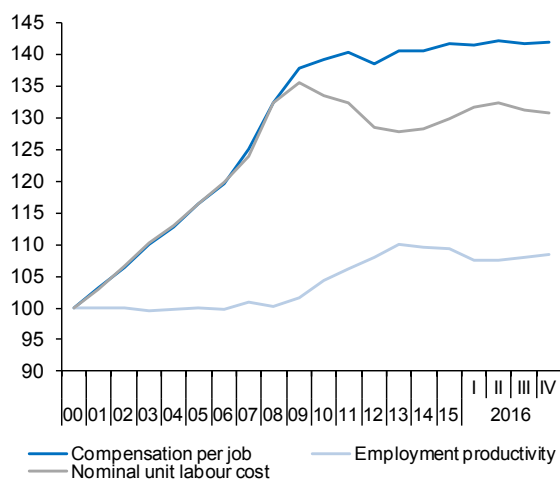


**Chart 3b.2.- Real ULC, construction**  
Index, 2000=100

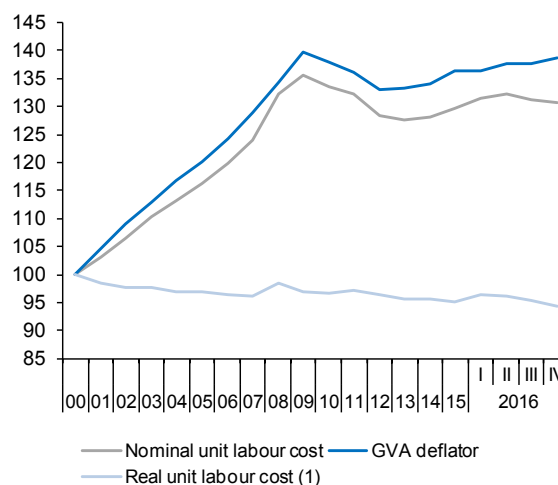


(1) Nominal ULC deflated by construction sector GVA deflator.

**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

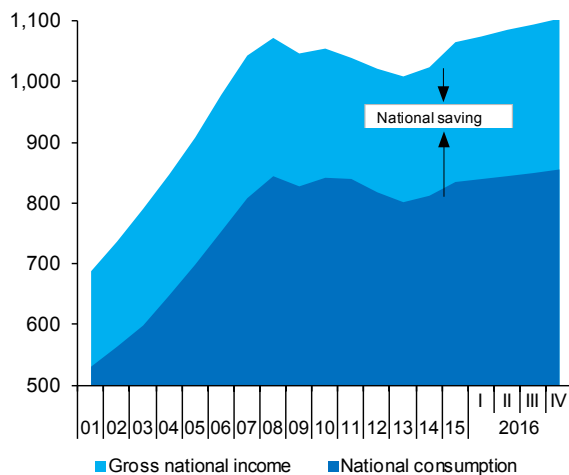
	Gross domestic product	Compensation of employees	Gross operating surplus	Taxes on production and imports less subsidies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross national income	Final national consumption	Gross national saving (a)	Compensation of employees	Gross operating surplus	Taxes on production and imports less subsidies
	1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12	13
EUR Billions, 4-quarter cumulated transactions										Percentage of GDP			
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	1,113.9	526.1	473.0	114.7	0.8	1,114.6	-12.3	1,102.3	854.1	248.2	47.2	42.5	10.3
2017	1,162.7	548.3	491.6	122.7	0.9	1,163.6	-11.5	1,152.1	887.1	265.0	47.2	42.3	10.6
2018	1,208.6	568.5	510.5	129.6	-2.4	1,206.2	-11.5	1,194.7	913.8	280.9	47.0	42.2	10.7
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	1,083.9	513.9	457.4	112.6	-0.1	1,083.8	-10.9	1,073.0	838.4	234.6	47.4	42.2	10.4
II	1,095.1	518.2	463.3	113.5	-1.0	1,094.1	-10.2	1,083.9	843.2	240.8	47.3	42.3	10.4
III	1,104.3	522.2	467.0	115.1	-0.2	1,104.0	-11.4	1,092.6	848.2	244.3	47.3	42.3	10.4
IV	1,113.9	526.1	473.0	114.7	0.8	1,114.6	-12.3	1,102.3	854.1	248.2	47.2	42.5	10.3
Annual percentage changes										Difference from one year ago			
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	3.1	4.4	2.2	-196.2	3.7	8.7	3.6	2.5	7.9	-0.2	0.4	-0.1
2017	4.4	4.2	3.9	7.0	26.0	4.4	-6.0	4.5	3.9	6.8	-0.1	-0.2	0.3
2018	4.0	3.7	3.8	5.6	-355.8	3.7	0.0	3.7	3.0	6.0	-0.1	0.0	0.2
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	3.7	3.6	3.2	6.9	-98.1	4.0	-4.5	4.1	2.9	8.8	-0.1	-0.2	0.3
II	3.8	3.5	3.9	5.1	603.6	3.8	-9.6	3.9	2.8	8.2	-0.1	0.0	0.1
III	3.7	3.4	3.7	4.8	62.4	3.7	2.9	3.7	2.6	7.8	-0.1	0.0	0.1
IV	3.6	3.1	4.4	2.2	-196.2	3.7	8.7	3.6	2.5	7.9	-0.2	0.4	-0.1

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

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

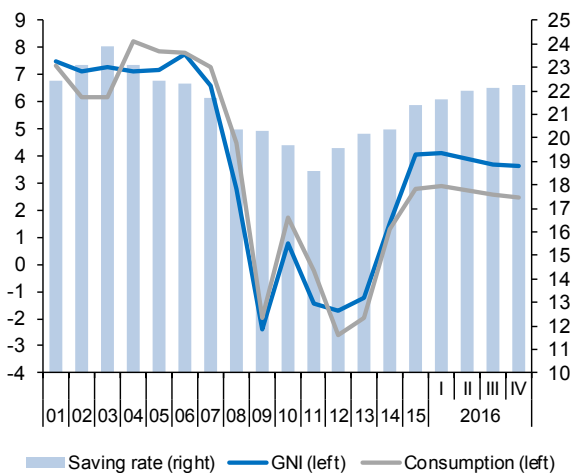
**Chart 4.1.- National income, consumption and saving**

EUR Billions, 4-quarter cumulated



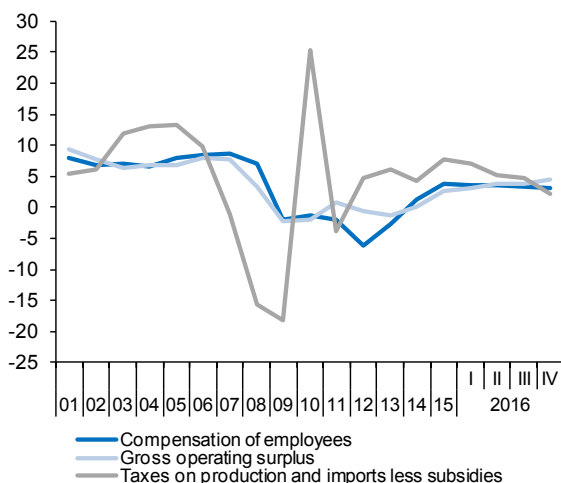
**Chart 4.2.- National income, consumption and saving rate**

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

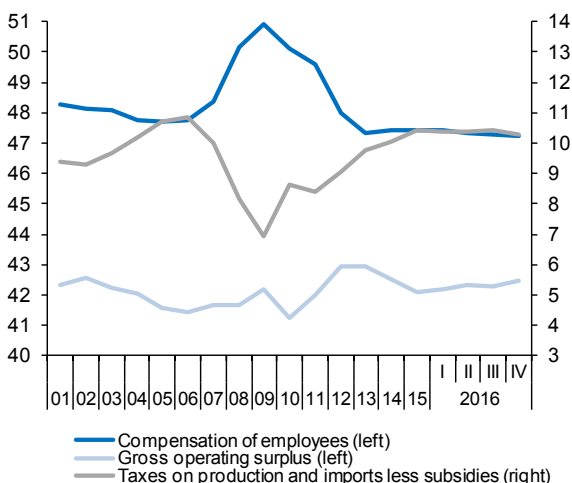


Table 5

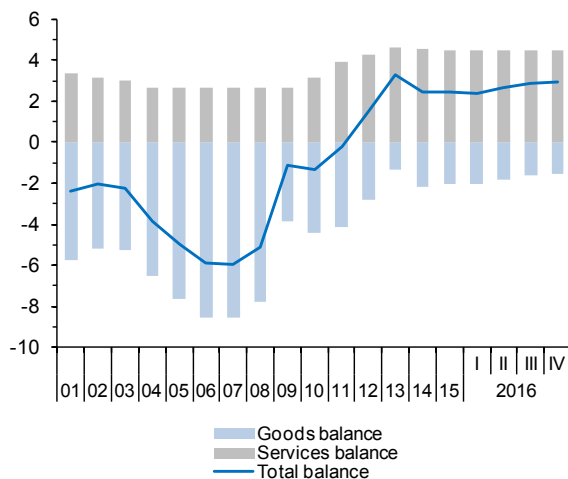
# National accounts: Net transactions with the rest of the world (ESA 2010, Base 2010)

Forecasts in blue

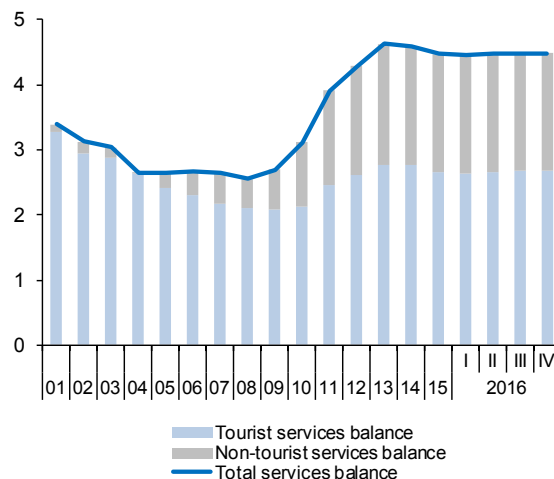
		Goods and services				Income	Current transfers	Current account	Capital transfers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
		Total	Goods	Tourist services	Non-tourist services						Gross national saving	Gross capital formation	Current account balance
		1=2+3+4		2	3	4	5	6	7=1+5+6	8	9=7+8	10	11
EUR Billions, 4-quarter cumulated transactions													
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		32.4	-17.5	29.7	20.2	0.8	-12.3	20.9	1.9	22.8	248.2	227.3	20.9
2017		35.0	-18.2	30.8	22.4	0.9	-11.5	24.4	6.5	30.9	265.0	240.6	24.4
2018		39.4	-16.9	32.2	24.2	-2.4	-11.5	25.5	5.0	30.5	280.9	255.4	25.5
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	-0.1	-10.9	15.2	6.3	21.5	234.6	219.4	15.2
	II	29.4	-19.7	29.2	19.9	-1.0	-10.2	18.3	5.4	23.7	240.8	222.5	18.3
	III	31.4	-18.1	29.7	19.8	-0.2	-11.4	19.7	4.3	24.0	244.3	224.6	19.7
	IV	32.4	-17.5	29.7	20.2	0.8	-12.3	20.9	1.9	22.8	248.2	227.3	20.9
Percentage of GDP, 4-quarter cumulated transactions													
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		2.9	-1.6	2.7	1.8	0.1	-1.1	1.9	0.2	2.0	22.3	20.4	1.9
2017		3.0	-1.6	2.6	1.9	0.1	-1.0	2.1	0.6	2.7	22.8	20.7	2.1
2018		3.3	-1.4	2.7	2.0	-0.2	-1.0	2.1	0.4	2.5	23.2	21.1	2.1
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	21.6	20.2	1.4
	II	2.7	-1.8	2.7	1.8	-0.1	-0.9	1.7	0.5	2.2	22.0	20.3	1.7
	III	2.8	-1.6	2.7	1.8	0.0	-1.0	1.8	0.4	2.2	22.1	20.3	1.8
	IV	2.9	-1.6	2.7	1.8	0.1	-1.1	1.9	0.2	2.0	22.3	20.4	1.9

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

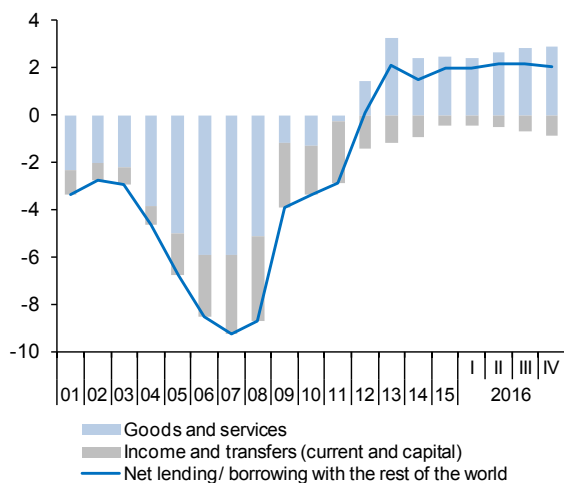
**Chart 5.1.- Balance of goods and services**  
Percentage of GDP, 4-quarter moving averages



**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

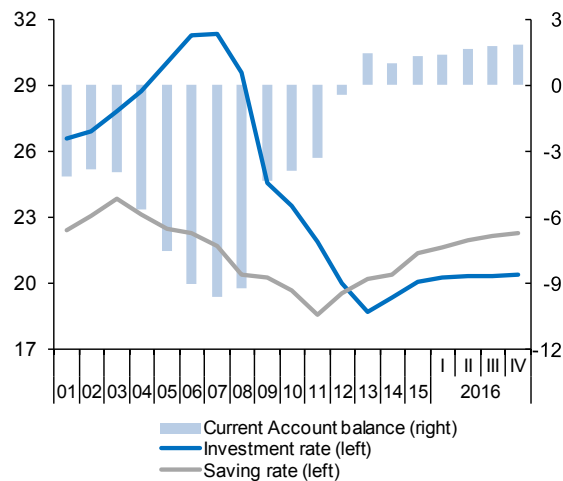


Table 6

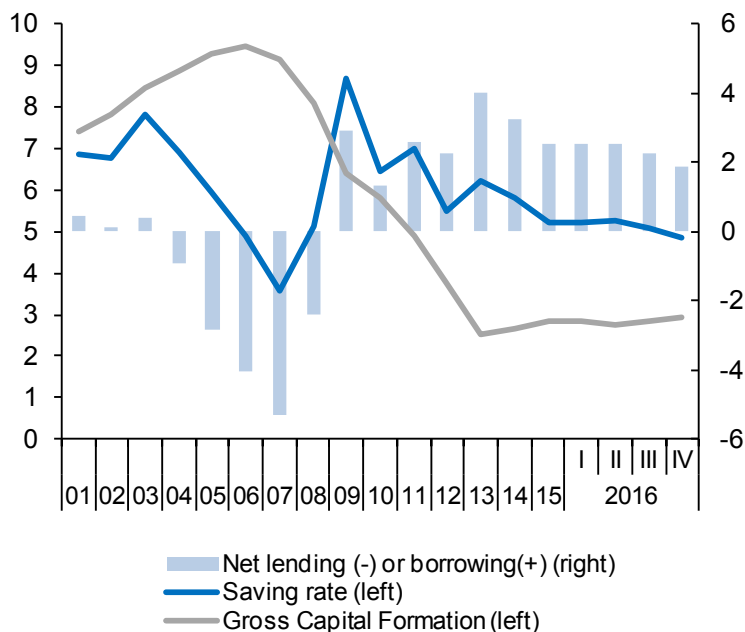
**National accounts: Household and non-financial corporations accounts (ESA 2010, Base 2010)**

Forecasts in blue

	Households							Non-financial corporations					
	Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate (gross saving as a percentage of GDI)	Gross capital formation as a percentage of GDP	Net lending or borrowing as a percentage of GDP	Gross operating surplus	Gross saving	Gross capital formation	Saving rate (gross saving as a percentage of GDP)	Gross capital formation as a percentage of GDP	Net lending or borrowing as a percentage of GDP
<b>EUR Billions, 4-quarter cumulated operations</b>													
2010	688.4	618.8	69.5	63.0	10.1	5.8	1.3	235.8	161.8	132.1	15.0	12.2	3.7
2011	694.2	618.9	74.7	52.2	10.8	4.9	2.6	232.8	144.9	131.8	13.5	12.3	2.1
2012	670.5	611.3	57.2	38.8	8.5	3.7	2.2	234.7	144.8	136.5	13.9	13.1	1.4
2013	664.4	598.5	63.9	25.7	9.6	2.5	4.0	235.0	160.8	136.3	15.7	13.3	2.9
2014	670.0	608.9	60.0	27.7	9.0	2.7	3.2	236.4	160.2	147.1	15.5	14.2	1.9
2015	682.4	625.0	55.8	30.5	8.2	2.8	2.5	244.9	177.9	153.3	16.5	14.3	2.8
2016	699.5	643.8	54.1	32.4	7.7	2.9	1.9	257.8	191.8	167.1	17.2	15.0	2.8
2017	729.1	673.1	54.4	35.4	7.5	3.0	1.6	265.8	203.5	176.5	17.5	15.2	2.9
2018	757.2	696.3	59.2	38.4	7.8	3.2	1.7	274.5	209.4	186.9	17.3	15.5	2.4
2015 I	675.0	611.6	61.9	27.8	9.2	2.7	3.4	237.7	165.0	148.9	15.8	14.3	2.2
II	680.4	615.4	63.5	29.2	9.3	2.8	3.4	240.2	167.0	153.6	15.8	14.6	1.9
III	683.7	620.8	61.4	29.4	9.0	2.8	3.2	243.2	170.3	153.1	16.0	14.4	2.2
IV	682.4	625.0	55.8	30.5	8.2	2.8	2.5	244.9	177.9	153.3	16.5	14.3	2.8
2016 I	687.6	629.5	56.6	30.6	8.2	2.8	2.5	247.0	180.5	157.2	16.7	14.5	2.7
II	692.7	633.6	57.6	30.4	8.3	2.8	2.5	251.2	187.3	158.9	17.1	14.5	3.2
III	695.3	638.0	55.9	31.3	8.0	2.8	2.2	253.6	190.2	163.7	17.2	14.8	2.9
IV	699.5	643.8	54.1	32.4	7.7	2.9	1.9	257.8	191.8	167.1	17.2	15.0	2.8
Annual percentage changes					Difference from one year ago			Annual percentage changes		Difference from one year ago			
2010	-1.5	2.2	-25.8	-8.7	-3.3	-0.6	-1.6	-0.2	12.2	1.5	1.6	0.2	1.3
2011	0.8	0.0	7.5	-17.1	0.7	-0.9	1.3	-1.2	-10.5	-0.2	-1.4	0.1	-1.6
2012	-3.4	-1.2	-23.4	-25.6	-2.2	-1.1	-0.3	0.8	0.0	3.6	0.4	0.8	-0.6
2013	-0.9	-2.1	11.7	-33.9	1.1	-1.2	1.8	0.1	11.0	-0.1	1.7	0.2	1.4
2014	0.9	1.7	-6.1	7.7	-0.7	0.2	-0.8	0.6	-0.3	7.9	-0.2	0.9	-0.9
2015	1.9	2.6	-7.0	10.1	-0.8	0.2	-0.7	3.6	11.0	4.2	1.1	0.1	0.9
2016	2.5	3.0	-3.1	6.5	-0.5	0.1	-0.6	5.2	7.8	9.0	0.7	0.7	-0.1
2017	4.2	4.5	0.6	9.0	-0.3	0.1	-0.3	3.1	6.1	5.6	0.3	0.2	0.1
2018	3.8	3.5	8.8	8.6	0.4	0.1	0.1	3.3	2.9	5.9	-0.2	0.3	-0.5
2015 I	2.3	2.0	6.2	2.9	0.3	0.0	0.1	0.6	0.0	7.9	-0.3	0.8	-1.0
II	3.2	2.0	16.2	8.4	1.1	0.2	0.5	1.6	3.4	11.3	0.1	1.1	-0.9
III	3.6	2.4	18.0	11.1	1.1	0.2	0.6	3.1	4.3	8.6	0.2	0.7	-0.5
IV	1.9	2.6	-7.0	10.1	-0.8	0.2	-0.7	3.6	11.0	4.2	1.1	0.1	0.9
2016 I	1.9	2.9	-8.5	9.8	-0.9	0.2	-0.8	3.9	9.4	5.5	0.9	0.2	0.5
II	1.8	3.0	-9.3	4.0	-1.0	0.0	-0.8	4.6	12.2	3.4	1.3	-0.1	1.3
III	1.7	2.8	-8.9	6.6	-0.9	0.1	-0.9	4.3	11.7	6.9	1.2	0.4	0.7
IV	2.5	3.0	-3.1	6.5	-0.5	0.1	-0.6	5.2	7.8	9.0	0.7	0.7	-0.1

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

**Chart 6.1.- Households: net lending or borrowing**  
Percentage of GDP, 4-quarter moving averages



**Chart 6.2.- Non-financial corporations: net lending or borrowing**  
Percentage of GDP, 4-quarter moving averages

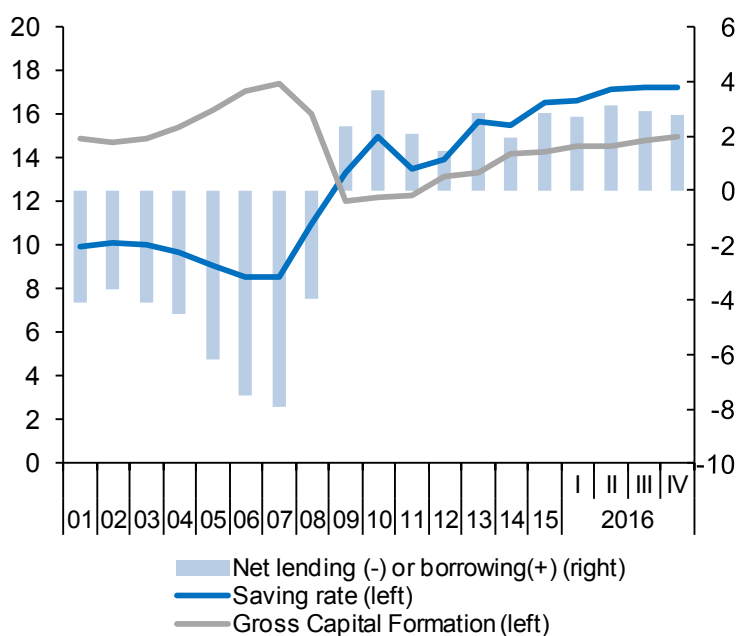


Table 7

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

Forecasts in blue

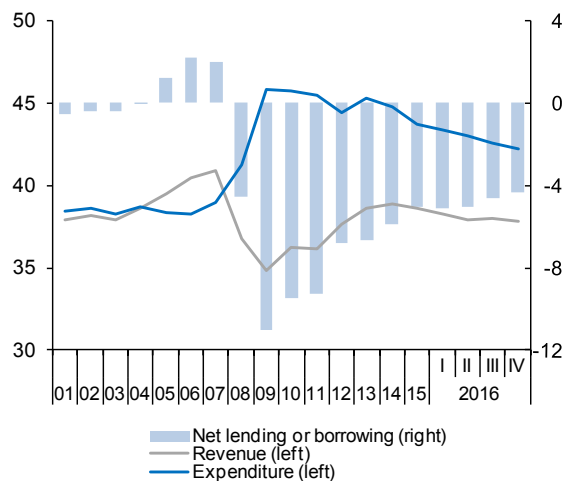
	Gross value added	Taxes on production and imports receivable	Taxes on income and wealth receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final 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
<b>EUR Billions, 4-quarter cumulated operations</b>														
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	70.7	-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	-71.8	-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	-55.1	-54.6
2016	149.5	129.1	111.3	136.3	121.4	23.3	173.9	21.2	186.3	210.3	-24.0	26.6	-50.6	-48.2
2017	152.2	137.6	117.2	141.2	123.6	22.7	178.9	21.6	201.4	214.1	-12.7	25.6	-38.3	-38.3
2018	154.7	144.9	123.7	145.7	125.6	22.0	185.0	22.1	214.3	217.5	-3.2	26.7	-29.9	-29.9
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	-55.1	-54.6
2016 I	147.2	127.0	106.9	132.9	119.2	24.0	171.0	20.5	179.3	208.8	-29.5	26.1	-55.6	-55.3
II	148.2	128.1	105.0	134.2	120.2	23.6	172.5	19.6	179.5	209.6	-30.1	27.5	-57.5	-55.6
III	149.0	129.2	106.9	135.3	121.0	23.4	173.2	20.5	182.4	210.3	-27.8	25.3	-53.2	-50.9
IV	149.5	129.1	111.3	136.3	121.4	23.3	173.9	21.2	186.3	210.3	-24.0	26.6	-50.6	-48.2
<b>Percentage of GDP, 4-quarter cumulated operations</b>														
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	13.4	11.6	10.0	12.2	10.9	2.1	15.6	1.9	16.7	18.9	-2.2	2.4	-4.5	-4.3
2017	13.1	11.8	10.1	12.1	10.6	1.9	15.4	1.9	17.3	18.4	-1.1	2.2	-3.3	-3.3
2018	12.8	12.0	10.2	12.1	10.4	1.8	15.3	1.8	17.7	18.0	-0.3	2.2	-2.5	-2.5
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	9.6	12.3	11.0	2.2	15.7	1.8	16.4	19.1	-2.7	2.5	-5.3	-5.1
III	13.5	11.7	9.7	12.3	11.0	2.1	15.7	1.9	16.5	19.0	-2.5	2.3	-4.8	-4.6
IV	13.4	11.6	10.0	12.2	10.9	2.1	15.6	1.9	16.7	18.9	-2.2	2.4	-4.5	-4.3

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



**Chart 7.1.- Public sector: Revenue, expenditure and deficit (a)**

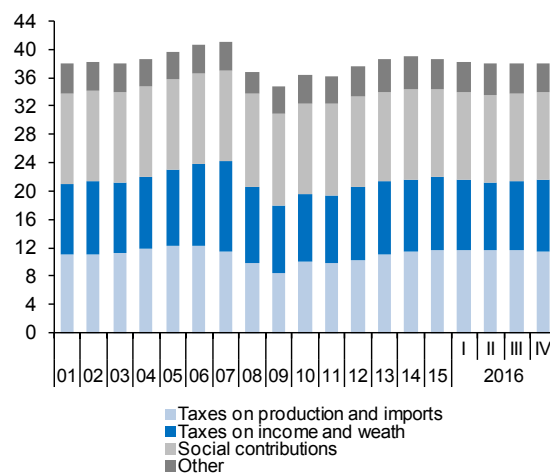
Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures (a) Excluding financial entities bail-out expenditures

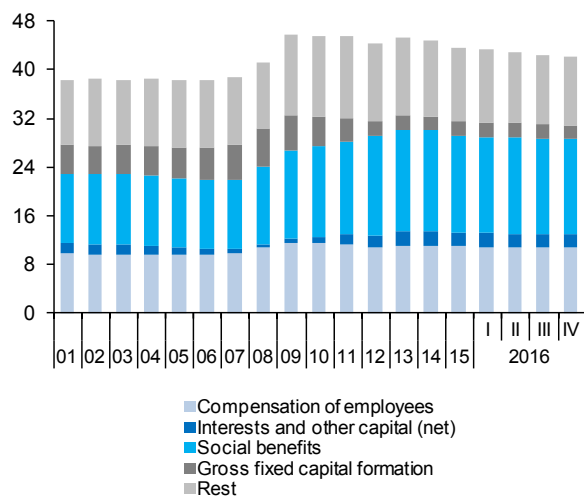
**Chart 7.2.- Public sector: Main revenues**

Percentage of GDP, 4-quarter moving averages



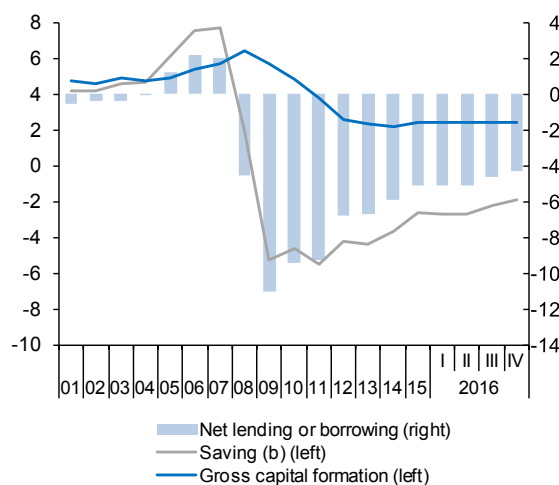
**Chart 7.3.- Public sector: Main expenditures**

Percentage of GDP, 4-quarter moving averages



**Chart 7.4.- 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 8

# Public sector balances, by level of Government

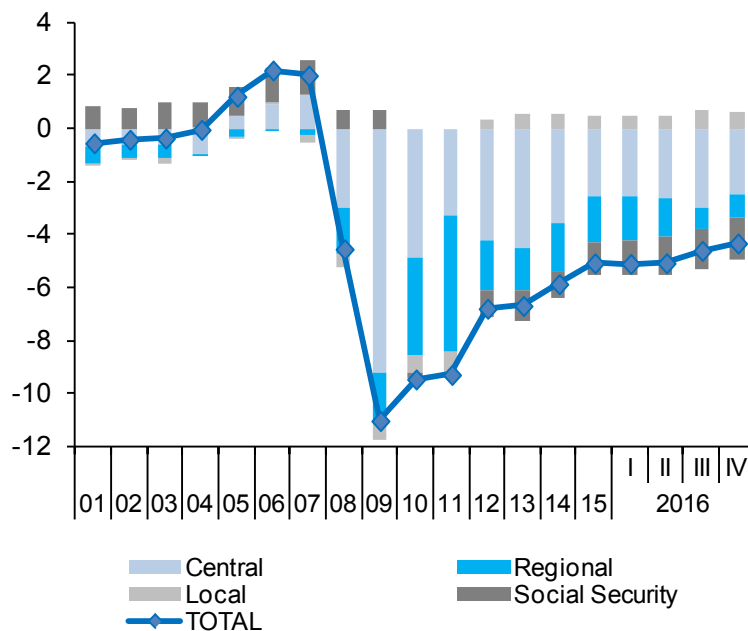
Forecasts in blue

	Net lending (+)/net borrowing (-) (a)					Debt				
	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government (consolidated)
	EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period				
2010	-52.5	-40.2	-7.1	-2.4	-102.2	551.6	124.2	35.5	17.2	650.1
2011	-35.0	-54.8	-8.5	-1.1	-99.4	624.2	145.9	36.8	17.2	744.3
2012	-44.3	-19.4	3.3	-10.2	-70.6	761.9	189.2	44.0	17.2	891.5
2013	-46.5	-16.2	5.7	-11.5	-68.6	850.2	210.5	42.1	17.2	979.0
2014	-37.0	-18.5	5.5	-10.8	-60.8	940.4	263.2	35.1	17.2	1,073.9
2015	-27.9	-18.7	5.1	-13.2	-54.6	940.4	262.5	35.1	17.2	1,073.2
2016	-28.0	-9.2	7.1	-18.1	-48.2	969.6	276.9	32.1	17.2	1,107.0
2017	-17.1	-7.0	2.9	-17.1	-38.3	--	--	--	--	1,144.2
2018	-10.5	-3.6	2.4	-18.1	-29.9	--	--	--	--	1,173.1
2015 I	-38.1	-17.6	6.0	-11.4	-61.0	912.8	241.5	38.3	17.2	1,052.9
II	-31.8	-17.1	6.4	-13.6	-56.1	922.7	251.1	37.7	17.2	1,058.3
III	-28.7	-18.5	5.0	-13.5	-55.6	938.8	254.3	36.9	17.2	1,068.4
IV	-27.9	-18.7	5.1	-13.2	-54.6	940.4	263.2	35.1	17.2	1,073.9
2016 I	-28.1	-17.8	4.7	-14.1	-55.3	962.1	266.0	35.1	17.2	1,096.9
II	-28.6	-16.5	5.0	-15.5	-55.6	964.7	273.5	35.1	17.2	1,107.0
III	-33.1	-8.7	7.6	-16.7	-50.9	968.8	272.7	34.7	17.2	1,108.4
IV	-28.0	-9.2	7.1	-18.1	-48.2	969.6	276.9	32.1	17.2	1,107.0
	Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2010	-4.9	-3.7	-0.7	-0.2	-9.5	51.0	11.5	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	18.2	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	95.5
2014	-3.6	-1.8	0.5	-1.0	-5.9	90.7	25.4	3.4	1.7	103.6
2015	-2.6	-1.7	0.5	-1.2	-5.1	87.4	24.4	3.3	1.6	99.8
2016	-2.5	-0.8	0.6	-1.6	-4.3	87.0	24.9	2.9	1.5	99.4
2017	-1.5	-0.6	0.3	-1.5	-3.3	--	--	--	--	98.4
2018	-0.9	-0.3	0.2	-1.5	-2.5	--	--	--	--	97.1
2015 I	-3.6	-1.7	0.6	-1.1	-5.8	87.4	23.1	3.7	1.6	100.8
II	-3.0	-1.6	0.6	-1.3	-5.3	87.5	23.8	3.6	1.6	100.4
III	-2.7	-1.7	0.5	-1.3	-5.2	88.2	23.9	3.5	1.6	100.3
IV	-2.6	-1.7	0.5	-1.2	-5.1	87.4	24.5	3.3	1.6	99.8
2016 I	-2.6	-1.6	0.4	-1.3	-5.1	88.8	24.5	3.2	1.6	101.2
II	-2.6	-1.5	0.5	-1.4	-5.1	88.1	25.0	3.2	1.6	101.1
III	-3.0	-0.8	0.7	-1.5	-4.6	87.7	24.7	3.1	1.6	100.4
IV	-2.5	-0.8	0.6	-1.6	-4.3	87.0	24.9	2.9	1.5	99.4

(a) Excluding financial entities bail-out expenditures.

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

**Chart 8.1.- Government deficit**  
Percent of GDP, 4-quarter cumulated operations



**Chart 8.2.- Government debt**  
Percent of GDP

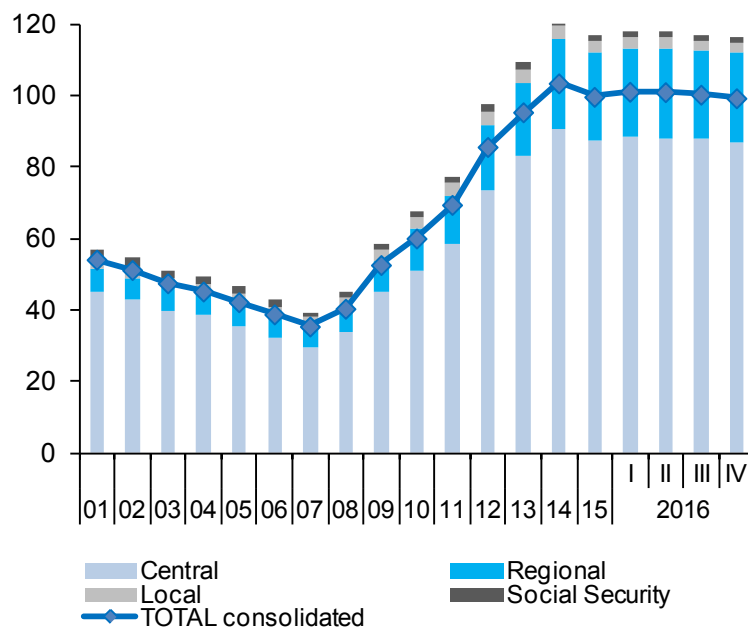


Table 9

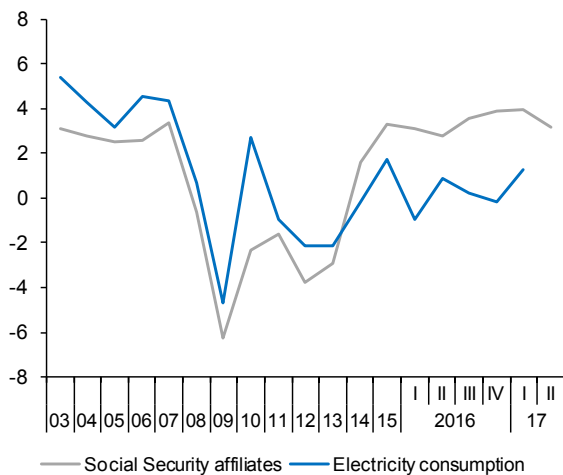
### General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Senti- ment Index	Composite PMI index	Social Security affiliates (f)	Electricity consumption (temperature adjusted)	Industrial pro- duction index	Social Secu- rity affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing turnover index deflated	Industrial orders
		Index	Index	Thousands	1000 GWH (smoothed)	2010=100	Thou- sands	Index	Balance of responses	2010=100 (smoothed)	Balance of responses
2010		92.7	50.0	17,244.0	263.8	100.0	2,294.6	50.6	-13.8	100.0	-36.7
2011		92.7	46.6	16,970.3	261.3	98.4	2,231.9	47.3	-12.5	101.1	-30.8
2012		88.0	43.1	16,335.3	255.7	91.9	2,113.9	43.8	-17.5	97.1	-37.1
2013		92.1	48.3	15,855.2	250.2	90.5	2,021.6	48.5	-13.9	93.8	-30.7
2014		102.2	55.1	16,111.1	249.7	91.6	2,022.8	53.2	-7.1	95.1	-16.3
2015		108.7	56.7	16,641.8	254.0	94.7	2,067.3	53.6	-0.3	96.5	-5.4
2016		106.3	54.9	17,157.5	253.9	96.4	2,124.7	53.1	-2.3	97.6	-5.4
2017 (b)		107.7	56.5	17,427.5	69.6	97.5	2,154.5	54.7	-0.1	100.1	-0.9
2015	III	109.0	57.2	16,698.6	63.5	95.1	2,074.1	52.9	0.7	96.6	-4.0
	IV	109.5	55.4	16,822.2	63.4	95.6	2,088.4	52.5	0.3	96.4	-5.3
2016	I	107.1	55.0	16,951.7	63.5	95.8	2,103.5	54.3	-1.9	96.4	-7.6
	II	105.9	55.3	17,068.9	63.6	96.3	2,116.7	52.5	-2.8	96.8	-2.9
	III	105.0	54.2	17,220.0	63.8	96.9	2,131.9	51.4	-3.8	98.0	-6.7
	IV	107.2	55.0	17,384.1	63.8	97.3	2,147.4	54.4	-0.6	99.8	-4.2
2017	I	107.7	56.2	17,554.5	63.5	97.5	2,165.7	54.8	0.3	101.5	-3.1
	II (b)	107.9	57.3	17,691.6	--	--	2,177.6	54.5	-1.3	--	6.0
2017	Feb	108.7	57.0	17,552.7	21.2	97.6	2,165.7	54.8	1.7	101.5	-2.6
	Mar	106.9	56.8	17,616.4	21.1	97.2	2,172.1	53.9	-0.9	102.0	-2.4
	Apr	107.9	57.3	17,691.6	--	--	2,177.6	54.5	-1.3	--	6.0
Percentage changes (c)											
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	--	--	-4.0	--
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		--	--	3.1	-0.1	1.9	2.8	--	--	1.1	--
2017 (d)		--	--	3.6	1.3	1.8	3.0	--	--	5.2	--
2015	III	--	--	2.3	2.5	1.5	2.5	--	--	0.7	--
	IV	--	--	3.0	2.5	2.0	2.8	--	--	-0.6	--
2016	I	--	--	3.1	-1.0	0.6	2.9	--	--	-0.2	--
	II	--	--	2.8	0.8	2.0	2.5	--	--	2.0	--
	III	--	--	3.6	0.2	2.6	2.9	--	--	5.0	--
	IV	--	--	3.9	-0.2	1.7	2.9	--	--	7.2	--
2017	I	--	--	4.0	1.3	0.9	3.4	--	--	7.0	--
	II (e)	--	--	3.2	--	--	2.2	--	--	--	--
2017	Feb	--	--	0.3	-0.2	-0.2	0.3	--	--	0.5	--
	Mar	--	--	0.4	-0.2	-0.4	0.3	--	--	0.5	--
	Apr	--	--	0.4	--	--	0.3	--	--	--	--

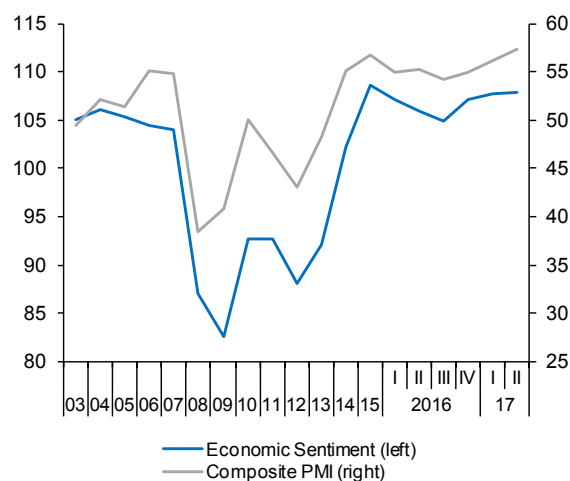
(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same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

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

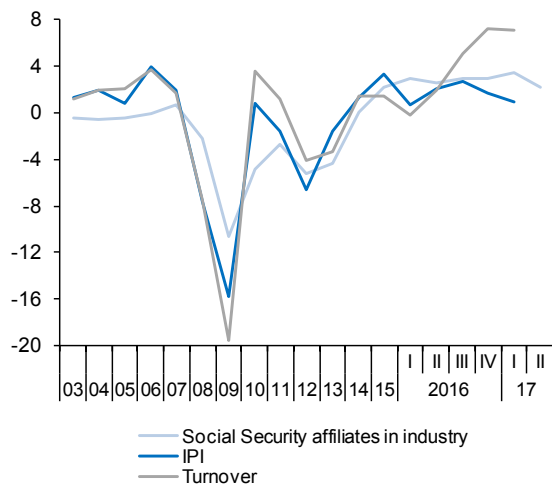
**Chart 9.1.- General activity indicators (I)**  
Annualized percent change from previous period



**Chart 9.2.- General activity indicators (II)**  
Index



**Chart 9.3.- Industrial sector indicators (I)**  
Annualized percent change from previous period



**Chart 9.4.- Industrial sector indicators (II)**  
Index

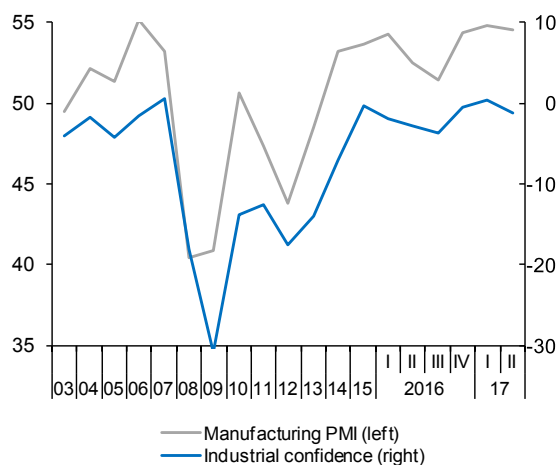


Table 10

### Construction and services sector indicators (a)

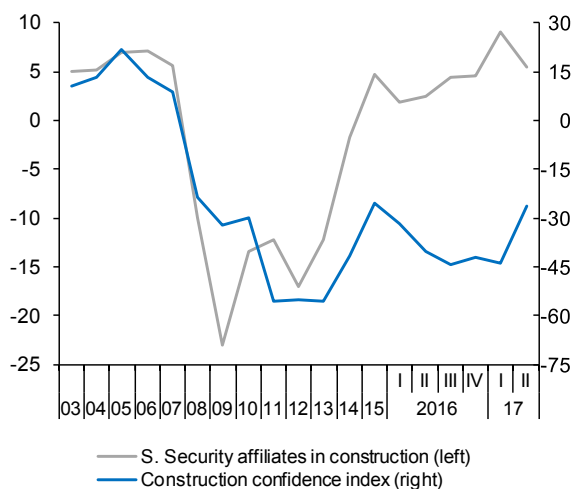
	Construction indicators						Service sector indicators					
	Social Security affiliates in construction	Consumption of cement	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security affiliates in services (g)	Turnover index (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 m <sup>2</sup>	Thousands	2010=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
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	63.0	-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	1,054	11.1	69.2	-39.6	9.3	12.7	12,852	102.0	55.0	330.3	229.4	17.8
2017 (b)	1,085	3.8	71.6	-39.4	2.0	3.8	13,037	100.4	56.8	51.4	66.2	20.2
2015 III	1,030	2.8	68.0	-28.5	2.2	2.5	12,475	98.2	58.1	77.8	52.1	19.7
IV	1,036	2.9	68.8	-21.7	2.0	2.7	12,571	99.0	55.9	79.5	53.5	20.2
2016 I	1,041	2.8	68.7	-31.7	2.2	3.4	12,688	99.9	54.6	81.2	55.0	18.8
II	1,047	2.7	68.5	-40.4	2.4	3.2	12,784	101.1	55.5	82.3	56.4	17.5
III	1,058	2.7	69.4	-44.3	2.4	2.9	12,901	102.6	54.9	82.9	57.7	16.0
IV	1,070	2.9	71.5	-42.0	2.3	3.2	13,026	104.4	54.9	83.4	59.1	18.7
2017 I	1,094	3.0	74.3	-43.7	2.1	3.8	13,153	106.4	56.4	83.9	60.5	19.2
II (b)	1,108	1.0	--	-26.3	--	--	13,260	--	57.8	--	--	22.9
2017 Feb	1,093	1.0	74.3	-33.8	0.7	1.3	13,152	106.4	57.7	28.0	20.2	20.5
Mar	1,101	1.0	75.2	-40.7	0.7	--	13,200	107.0	57.4	28.0	20.3	18.4
Apr	1,108	1.0	--	-26.3	--	--	13,260	--	57.8	--	20.5	22.9
Percentage changes (c)												
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	-26.9	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013	-12.2	-20.9	-5.8	--	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	2.6	-3.6	3.4	--	-0.8	29.0	3.4	4.4	--	7.2	11.0	--
2017 (d)	5.4	9.6	7.7	--	-4.9	19.3	3.7	6.7	--	-2.8	9.5	--
2015 III	1.0	-6.3	11.7	--	-33.1	31.9	2.6	4.3	--	7.9	9.9	--
IV	2.5	12.6	4.8	--	-32.0	85.9	3.1	3.3	--	9.3	11.4	--
2016 I	1.8	-20.8	-0.6	--	-21.9	60.4	3.8	3.5	--	8.7	11.7	--
II	2.4	-7.3	-0.9	--	-6.9	28.4	3.1	4.9	--	5.7	10.4	--
III	4.4	4.6	5.2	--	9.7	13.7	3.7	6.4	--	2.8	9.8	--
IV	4.5	19.0	12.7	--	11.7	19.6	3.9	7.2	--	2.5	10.2	--
2017 I	9.1	27.6	16.3	--	-1.7	20.1	4.0	7.6	--	2.5	9.7	--
II (e)	5.5	-0.3	--	--	--	--	3.3	--	--	--	6.0	--
2017 Feb	0.6	-0.5	1.3	--	16.1	11.2	0.3	0.6	--	0.2	0.8	--
Mar	0.7	-1.2	1.3	--	-29.7	--	0.4	0.6	--	0.2	0.7	--
Apr	0.7	0.9	--	--	--	--	0.4	--	--	--	0.7	--

(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-professional caregivers.

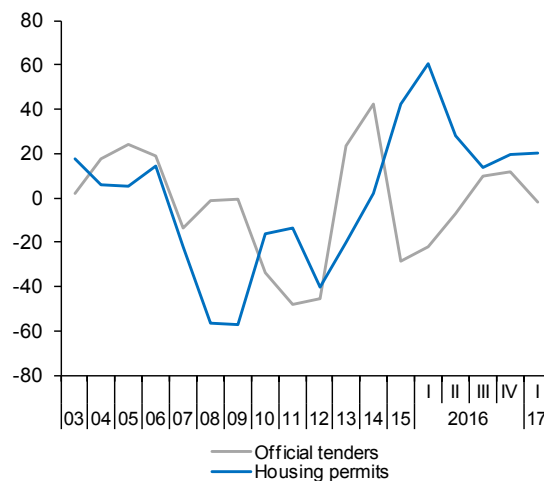
Sources: European Commission, Markit Economics Ltd., M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN, SEOPAN and Funcas.

**Chart 10.1.- Construction indicators (I)**

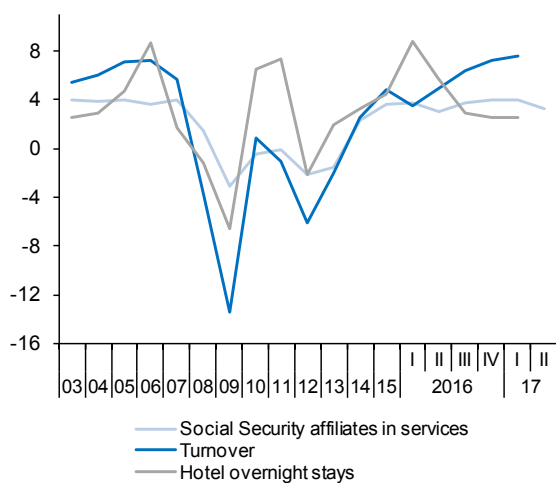
Annualized percentage changes from previous period and index

**Chart 10.2.- Construction indicators (II)**

Annualized percentage changes from previous period

**Chart 10.3.- Services indicators (I)**

Percentage changes from previous period

**Chart 10.4.- Services indicators (II)**

Index



Table 11

### 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)
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	-9.1	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		91.1	1,230.1	-3.8	113.7	-1.4	191.3	-0.2	97.2
2017	(b)	86.7	443.3	-1.8	18.9	3.8	64.9	2.3	94.7
2015	III	88.3	275.9	-1.3	27.6	-3.2	45.5	-0.7	94.0
	IV	89.3	286.6	1.6	27.9	1.1	46.0	4.9	94.5
2016	I	90.2	295.2	-2.5	28.2	0.4	46.1	-2.3	95.6
	II	90.9	302.2	-3.2	28.3	-4.2	47.1	1.9	97.1
	III	91.3	308.6	-6.1	28.1	-1.8	48.6	2.3	97.9
	IV	91.2	315.3	-3.2	27.9	-0.1	49.6	-2.6	99.1
2017	I	91.0	320.9	-2.8	27.8	3.8	49.7	1.4	101.4
	II (b)	--	108.1	1.3	--	3.6	16.5	5.1	--
2017	Feb	91.0	107.0	-3.8	9.3	6.9	16.6	5.5	101.9
	Mar	90.9	107.5	-2.2	9.2	0.4	16.6	4.1	--
	Apr	--	108.1	1.3	--	3.6	16.5	5.1	--
Percentage changes (c)									
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		3.6	12.4	--	3.2	--	6.1	--	4.1
2017	(d)	0.2	7.5	--	-11.4	--	8.9	--	9.0
2015	III	4.0	17.7	--	4.0	--	14.2	--	5.4
	IV	4.5	16.5	--	4.1	--	4.2	--	1.8
2016	I	4.2	12.6	--	4.4	--	1.7	--	5.1
	II	3.2	9.8	--	1.1	--	8.6	--	6.3
	III	1.7	8.6	--	-1.7	--	13.6	--	3.4
	IV	-0.2	9.1	--	-2.6	--	8.6	--	4.9
2017	I	-1.1	7.3	--	-2.4	--	0.8	--	9.5
	II (e)	--	4.4	--	--	--	-1.6	--	--
2017	Feb	-0.1	0.5	--	-0.2	--	-0.1	--	1.1
	Mar	-0.1	0.5	--	-0.2	--	-0.2	--	--
	Apr	--	0.6	--	--	--	-0.2	--	--

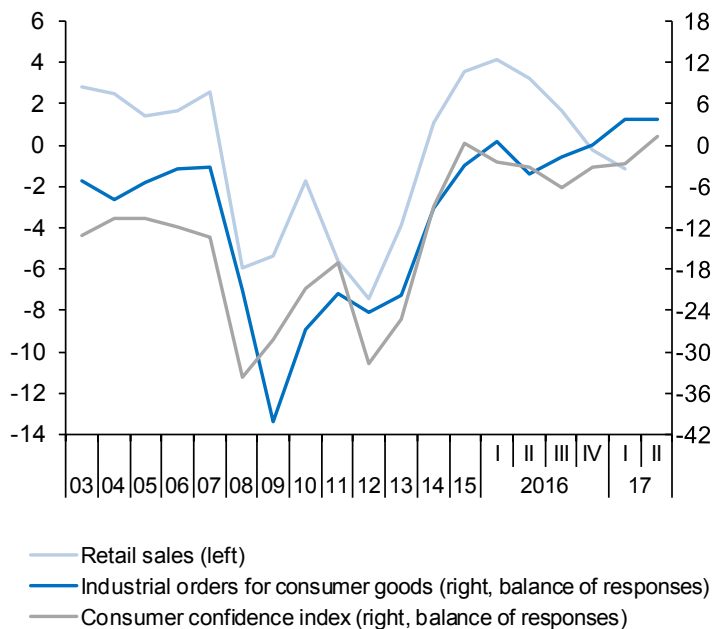
(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same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

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



**Chart 11.1.- Consumption indicators**

Percent change from previous period and balance of responses

**Chart 11.2.- Investment indicators**

Percent change from previous period and balance of responses

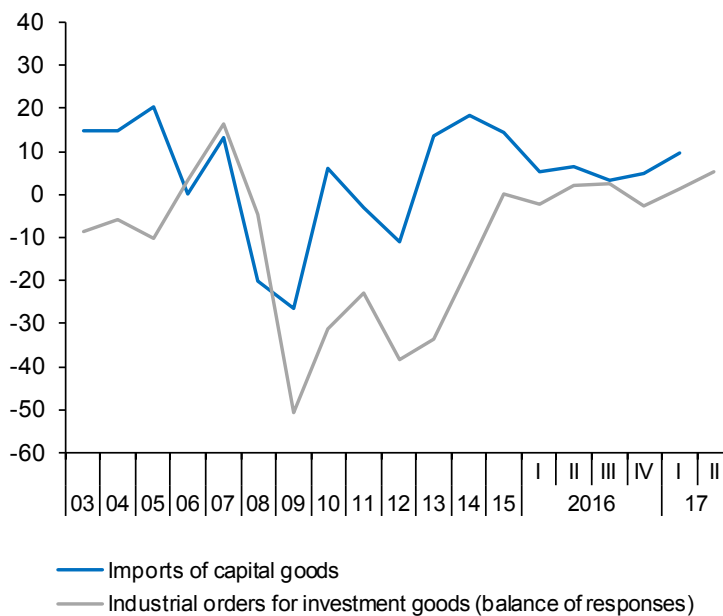


Table 12a

**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						
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	22.8	--	18.8	--	4.0	--	75.3	62.0	17.5	--	--	--
2018		29.9	22.7	--	19.1	--	3.6	--	75.4	63.4	15.8	--	--	--
2015	II	30.2	23.0	23.0	17.9	17.8	5.1	5.1	75.6	58.7	22.3	48.6	21.1	31.1
	III	30.2	22.9	22.9	18.0	17.9	4.9	4.9	75.4	59.4	21.6	48.0	20.5	29.8
	IV	30.1	22.9	22.9	18.1	18.1	4.8	4.8	75.4	59.5	20.9	46.1	19.9	28.6
2016	I	30.1	22.8	22.9	18.0	18.2	4.8	4.7	75.5	59.4	20.3	45.4	19.3	28.1
	II	30.1	22.9	22.8	18.3	18.3	4.6	4.6	75.4	60.3	19.9	45.8	18.9	27.5
	III	30.1	22.8	22.8	18.5	18.4	4.3	4.4	75.4	61.1	19.3	43.4	18.5	25.6
	IV	30.0	22.7	22.7	18.5	18.5	4.2	4.2	75.1	61.1	18.7	42.7	17.9	24.8
2017	I	30.0	22.7	22.7	18.4	18.6	4.3	4.1	75.1	60.8	18.1	40.6	17.3	24.0
Percentage changes (d)								Difference from one year ago						
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		-0.2	-0.2	--	2.4	--	-10.8	--	0.0	1.5	-2.1	--	--	--
2018		-0.3	-0.3	--	1.9	--	-10.4	--	0.0	1.4	-1.8	--	--	--
2015	II	-0.5	0.2	0.7	3.0	4.8	-8.4	-12.1	0.4	1.9	-2.1	-3.9	-1.9	-3.3
	III	-0.5	-0.1	-1.6	3.1	2.1	-10.6	-13.9	0.2	2.1	-2.5	-5.7	-2.2	-3.9
	IV	-0.5	-0.7	-0.3	3.0	3.2	-12.4	-12.1	-0.2	1.9	-2.8	-5.6	-2.5	-4.8
2016	I	-0.5	-0.3	0.0	3.3	3.0	-12.0	-10.6	0.1	2.1	-2.8	-4.8	-2.6	-3.8
	II	-0.4	-0.6	-0.6	2.4	1.4	-11.2	-8.5	-0.2	1.6	-2.4	-2.8	-2.2	-3.6
	III	-0.3	-0.2	-0.1	2.7	3.0	-10.9	-11.8	0.0	1.8	-2.3	-4.5	-2.0	-4.2
	IV	-0.3	-0.6	-1.3	2.3	1.8	-11.3	-13.8	-0.2	1.5	-2.2	-3.4	-2.0	-3.7
2017	I	-0.2	-0.6	0.0	2.3	2.8	-11.2	-11.5	-0.3	1.4	-2.2	-4.9	-2.0	-4.2

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

Sources: INE (Labour Force Survey) and Funcas.

**Chart 12a.1.- Labour force, Employment and Unemployment, SA**  
Annual / annualized quarterly growth rates and percentage of active population



**Chart 12a.2.- Unemployment rates, SA**  
Percentage

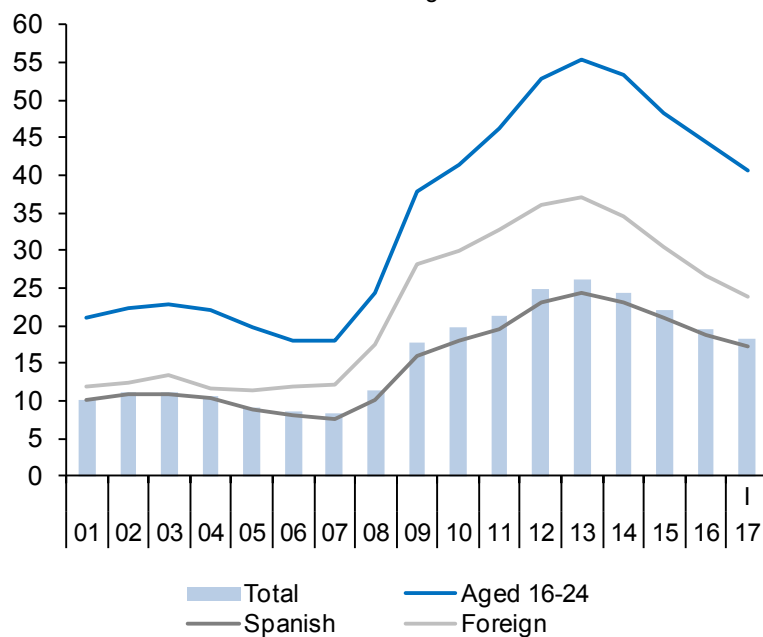


Table 12b

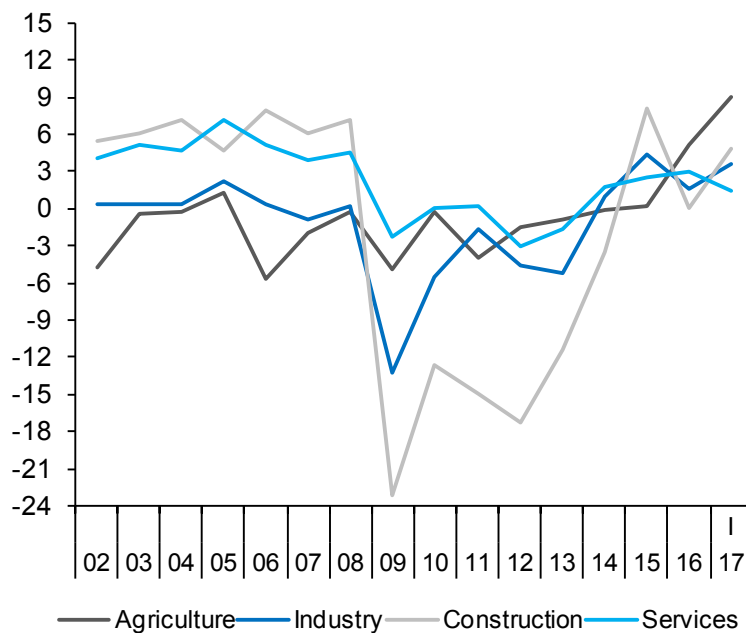
**Labour market (II)**

	Employed by sector				Employed by professional situation				Employed by duration of the working-day				
	Agriculture	Industry	Construction	Services	Employees			Self-employed	Full-time	Part-time	Part-time employment rate (b)		
					Total	By type of contract							
						Temporary	Indefinite					Temporary employment rate (a)	
	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
2017	(c)	0.85	2.57	1.08	13.94	15.34	3.95	11.39	25.8	3.10	15.56	2.87	15.6
2015	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
2017	I	0.85	2.57	1.08	13.94	15.34	3.95	11.39	25.8	3.10	15.56	2.87	15.6
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
2017	(d)	9.0	3.6	4.8	1.4	2.7	5.6	1.7	0.7	0.1	2.4	1.5	-0.1
2015	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
2017	I	9.0	3.6	4.8	1.4	2.7	5.6	1.7	0.7	0.1	2.4	1.5	-0.1

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

Source: INE (Labour Force Survey).

**Chart 12b.1.- Employment by sector**  
Annual percentage changes



**Chart 12b.2.- Employment by type of contract**

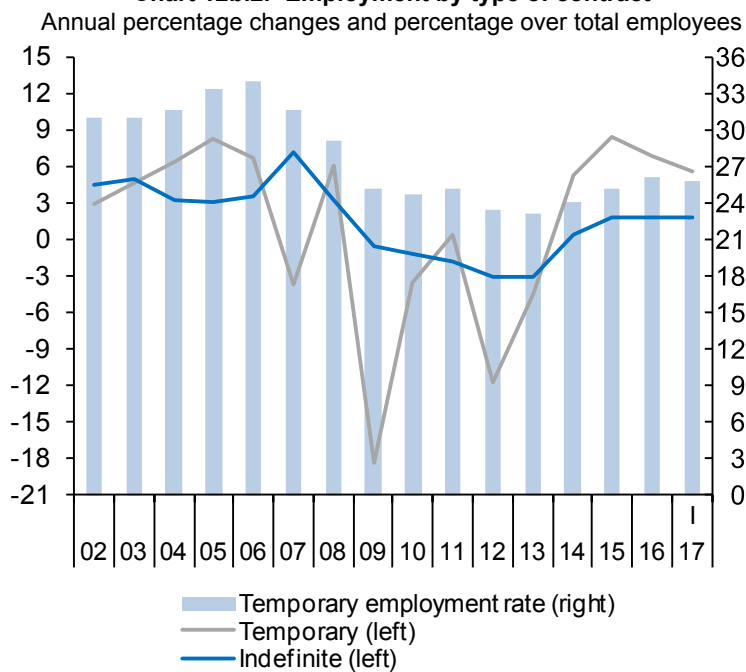


Table 13

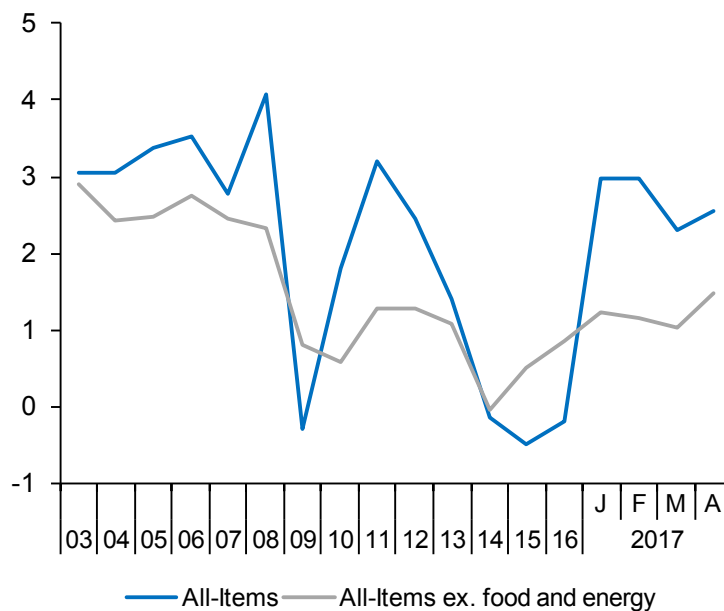
**Index of Consumer Prices**

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 2017	100.0	66.01	81.28	24.76	41.25	15.27	7.52	11.20	22.79
<b>Indexes, 2016 = 100</b>									
2011	97.1	96.4	95.6	98.2	95.3	92.1	91.8	111.4	92.0
2012	99.5	97.6	97.1	99.0	96.8	94.9	93.9	121.2	94.6
2013	100.9	98.7	98.5	99.6	98.1	97.9	97.3	121.3	97.7
2014	100.7	98.7	98.6	99.2	98.3	98.2	96.0	120.3	97.6
2015	100.2	99.2	99.2	99.5	98.9	99.2	97.7	109.4	98.7
2016	100.0	100.0	100.0	100.0	100.0	100.0	99.9	100.0	100.0
2017	102.1	101.1	101.0	100.3	101.5	100.6	103.3	109.0	101.5
2018	103.4	102.3	102.4	100.9	103.1	102.9	105.5	109.0	103.7
<b>Annual percentage changes</b>									
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	2.2	-8.6	1.3
2017	2.1	1.1	1.0	0.3	1.5	0.6	3.5	9.0	1.5
2018	1.3	1.2	1.4	0.6	1.6	2.2	2.1	0.0	2.2
2017	Jan	3.0	1.2	1.1	0.8	1.3	0.3	4.0	17.5
	Feb	3.0	1.2	1.0	0.6	1.3	0.0	5.4	16.8
	Mar	2.3	1.0	0.9	0.6	1.1	0.1	4.3	11.7
	Apr	2.6	1.5	1.2	0.3	2.1	0.2	3.4	12.0
	May	2.0	1.0	0.9	0.3	1.5	0.2	2.5	9.5
	Jun	1.7	1.1	1.0	0.3	1.5	0.4	2.4	6.6
	Jul	1.9	1.3	1.2	0.5	1.6	0.6	0.7	7.8
	Aug	2.1	1.2	1.1	0.2	1.6	0.7	1.9	8.9
	Sep	2.1	1.1	1.1	0.2	1.5	1.0	4.5	7.6
	Oct	1.6	1.0	1.0	0.1	1.5	1.2	4.1	4.2
	Nov	1.6	0.9	1.0	0.0	1.4	1.3	4.5	4.2
	Dec	1.1	0.7	0.9	0.0	1.1	1.6	3.8	1.1
2018	Jan	0.6	1.0	1.1	0.1	1.4	1.8	2.5	-3.9
	Feb	0.9	1.1	1.3	0.3	1.5	2.2	0.4	-1.6
	Mar	1.4	1.3	1.4	0.3	1.8	2.1	1.5	0.9
	Apr	1.0	0.7	1.0	0.6	0.8	2.2	2.3	0.3
	May	1.4	1.2	1.4	0.5	1.6	2.2	2.8	0.2
	Jun	1.4	1.2	1.4	0.6	1.6	2.3	2.6	0.5
	Jul	1.4	1.2	1.4	0.6	1.6	2.3	2.6	0.6
	Aug	1.4	1.3	1.5	0.7	1.6	2.3	2.3	0.6
	Sep	1.5	1.3	1.5	0.7	1.7	2.3	2.3	0.6
	Oct	1.5	1.4	1.6	0.7	1.8	2.3	2.0	0.7
	Nov	1.5	1.4	1.6	0.8	1.9	2.3	2.0	0.7
	Dec	1.6	1.5	1.6	0.8	1.9	2.3	2.2	0.7

Sources: INE and Funcas (Forecasts).

**Chart 13.1.- Inflation rate (I)**  
Annual percentage changes



**Chart 13.2.- Inflation rate (II)**  
Annual percentage changes

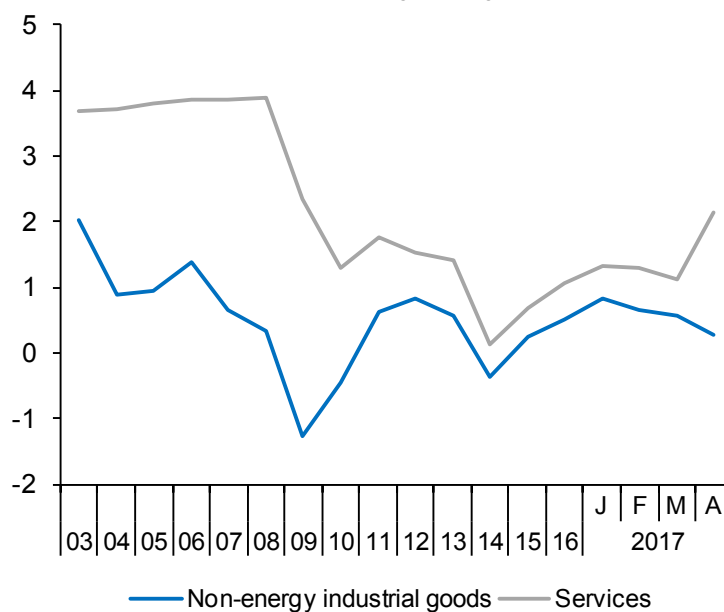


Table 14

### Other prices and costs indicators

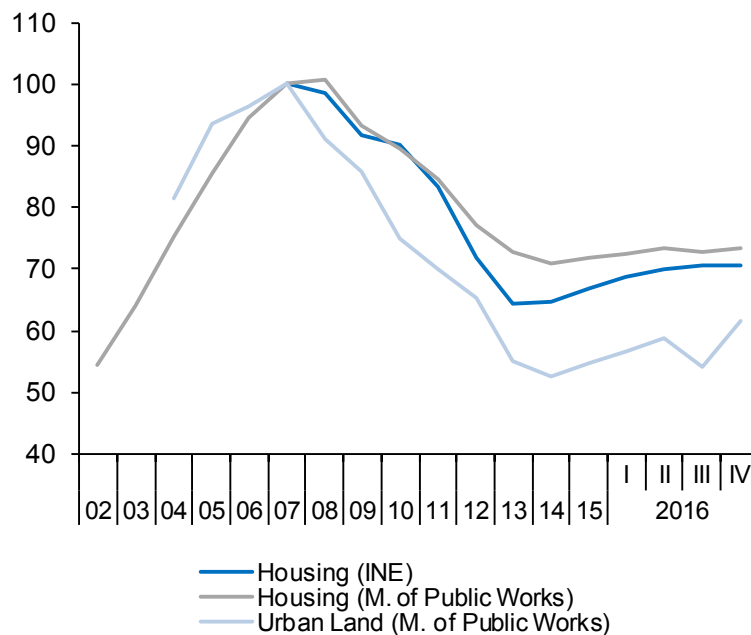
	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	M <sup>2</sup> average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2010=100	2010=100		2007=100			2000=100				
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	155.2	--
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	101.0	104.5	105.8	70.0	73.1	57.8	143.6	142.1	148.3	156.2	--
2017 (b)	--	109.4	107.7	--	--	--	--	--	--	--	--
2015 II	100.7	109.2	106.5	67.3	71.8	55.0	146.5	145.4	149.8	154.3	--
III	100.7	108.5	106.6	67.8	71.8	56.1	138.8	135.5	149.0	160.0	--
IV	100.8	106.1	105.7	67.7	72.5	54.5	151.0	151.7	148.6	164.5	--
2016 I	100.5	102.3	105.2	68.7	72.6	56.6	140.3	137.3	149.8	147.5	--
II	101.1	103.4	105.6	69.9	73.3	58.7	146.2	145.5	148.6	154.3	--
III	100.9	105.0	106.0	70.5	72.9	54.2	138.2	135.1	147.7	159.4	--
IV	101.5	107.4	106.3	70.8	73.5	61.6	149.8	150.6	147.3	163.7	--
2017 I (b)	--	109.4	107.7	--	--	--	--	--	--	--	--
2017 Feb	--	109.3	107.8	--	--	--	--	--	--	--	--
Mar	--	108.4	108.0	--	--	--	--	--	--	--	--
Apr	--	--	--	--	--	--	--	--	--	--	--
<b>Annual percent changes (c)</b>											
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	0.7
2016	0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.1
2017 (d)	--	7.0	2.4	--	--	--	--	--	--	--	1.3
2015 II	0.6	-1.2	0.7	4.0	4.2	4.7	0.4	0.6	-0.2	0.5	0.7
III	0.6	-2.4	0.5	4.5	0.7	9.7	0.3	0.5	-0.5	-0.1	0.8
IV	0.4	-2.8	-0.1	4.2	-0.1	-2.4	1.2	1.7	-0.3	1.4	0.7
2016 I	0.0	-5.1	-0.7	6.3	1.5	5.3	-0.2	0.1	-0.8	0.3	1.1
II	0.4	-5.4	-0.9	3.9	1.8	6.6	-0.2	0.0	-0.8	0.0	1.1
III	0.2	-3.3	-0.5	4.0	0.8	-3.5	-0.5	-0.3	-0.9	-0.4	1.1
IV	0.6	1.2	0.6	4.5	0.4	13.0	-0.8	-0.7	-0.9	-0.5	1.1
2017 I (e)	--	7.0	2.4	--	--	--	--	--	--	--	1.3
2017 Feb	--	7.4	2.5	--	--	--	--	--	--	--	1.2
Mar	--	6.0	2.8	--	--	--	--	--	--	--	1.3
Apr	--	--	--	--	--	--	--	--	--	--	1.3

(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 14.1.- Housing and Urban land prices**  
Index (2007=100)



**Chart 14.2.- Wage costs**  
Annual percent change

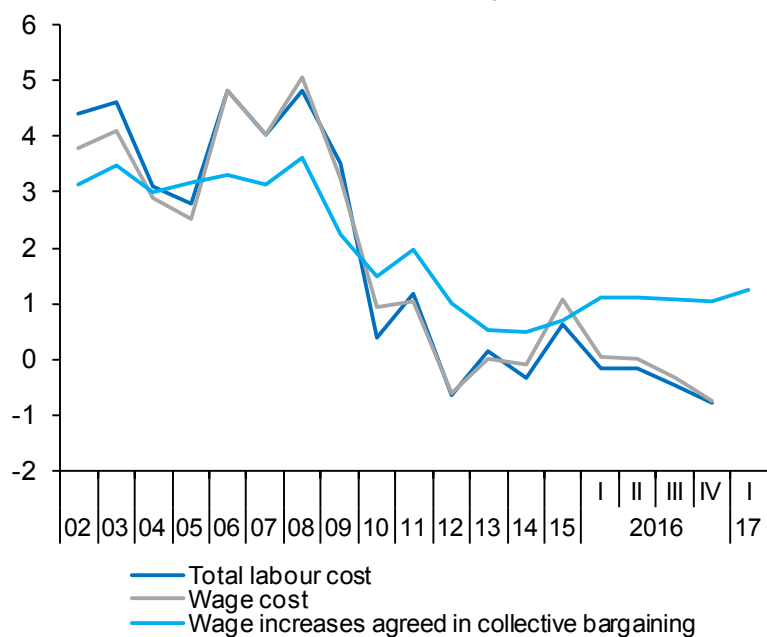


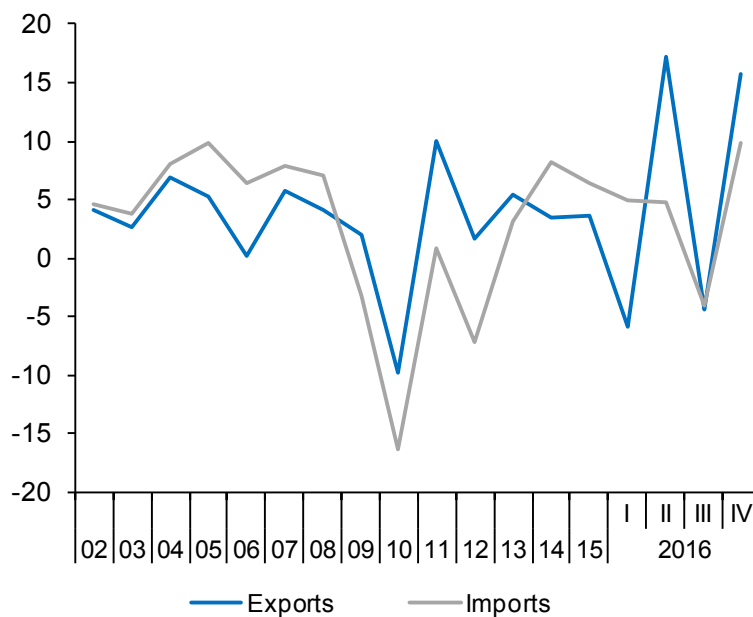
Table 15

**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	102.9	117.1	103.0	101.0	102.0	10.5	5.0	-4.4	-1.5	-0.4
2011		138.9	107.8	128.9	113.0	109.7	102.9	11.9	6.1	-4.0	-0.3	0.3
2012		145.9	111.3	131.1	110.7	115.9	95.6	11.9	6.9	-2.7	1.2	1.0
2013		152.1	110.2	138.1	108.3	110.0	98.5	12.3	7.3	-1.4	2.1	1.4
2014		155.2	108.6	142.9	114.0	106.9	106.6	12.7	7.3	-2.1	1.1	0.9
2015		161.2	108.8	148.1	118.0	103.9	113.5	13.5	7.3	-2.1	0.2	0.6
2016		164.2	107.1	153.3	117.3	100.6	116.6	14.1	7.2	-1.6	0.1	1.1
2017 (b)		168.4	107.1	157.2	126.9	106.0	119.7	14.7	7.0	-2.9	-0.1	1.4
2015	I	157.5	110.0	143.1	115.0	104.6	109.9	13.3	7.0	-2.0	0.4	0.7
	II	162.4	110.6	146.9	119.3	105.4	113.2	13.7	7.4	-2.2	0.2	0.7
	III	165.0	109.4	150.8	120.7	104.4	115.7	13.2	7.5	-2.2	0.1	0.6
	IV	165.1	109.9	150.3	118.2	103.9	113.8	13.8	7.4	-1.7	0.3	0.7
2016	I	159.4	107.7	148.0	114.5	99.4	115.1	13.8	6.6	-1.7	-0.1	1.1
	II	165.9	107.7	154.0	116.9	100.3	116.5	14.8	7.2	-1.3	0.3	1.0
	III	164.8	108.3	152.2	117.1	101.6	115.3	13.2	7.3	-1.5	0.3	0.9
	IV	171.7	108.8	157.9	122.7	104.0	118.0	14.5	7.5	-1.7	0.1	1.3
2016	Dec	173.6	109.1	159.1	125.5	106.1	118.2	13.2	7.4	-2.0	0.0	1.2
2017	Jan	181.6	108.7	167.1	132.1	107.2	123.2	14.5	7.8	-2.3	0.4	1.6
	Feb	175.3	107.7	162.8	130.3	106.3	122.5	14.9	7.2	-2.7	0.1	1.2
Percentage changes (c)									Percentage of GDP			
2010		16.8	1.1	15.6	16.5	6.7	9.2	14.3	22.5	-4.9	-1.7	-0.4
2011		15.2	4.7	10.1	9.6	8.6	0.9	12.7	20.5	-4.5	-0.4	0.3
2012		5.1	3.3	1.7	-2.0	5.6	-7.2	0.5	14.1	-3.1	1.4	1.2
2013		4.3	-1.0	5.4	-2.2	-5.1	3.1	3.1	6.3	-1.6	2.5	1.7
2014		2.0	-1.4	3.4	5.2	-2.8	8.2	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.2	3.7	3.5	-2.8	6.4	5.8	0.4	-2.3	0.2	0.7
2016		1.9	-1.5	3.5	-0.5	-3.2	2.8	4.3	-2.5	-1.7	0.2	1.1
2017 (d)		12.6	0.3	12.2	15.1	6.0	8.6	12.3	13.2	--	--	--
2015	I	8.3	13.3	-4.5	2.6	-11.6	16.1	12.0	-26.1	-2.3	0.4	0.8
	II	13.4	2.2	11.0	16.1	3.4	12.2	8.0	23.3	-2.5	0.3	0.8
	III	-1.7	-11.5	11.1	4.7	-4.0	9.1	6.0	7.2	-2.4	0.1	0.7
	IV	-3.5	-2.2	-1.4	-8.2	-1.9	-6.4	4.8	-7.3	-1.8	0.3	0.7
2016	I	13.2	20.3	-5.9	-12.0	-16.1	4.9	0.9	-35.4	-1.9	-0.1	1.2
	II	6.4	-9.2	17.2	8.7	3.8	4.7	8.7	37.1	-1.4	0.4	1.1
	III	0.3	5.0	-4.5	0.9	5.1	-4.0	-7.8	8.3	-1.6	0.3	1.0
	IV	-13.1	-24.9	15.7	20.5	9.7	9.8	22.9	9.1	-1.8	0.1	1.4
2016	Dec	-1.0	-0.1	-0.9	2.0	3.5	-1.5	-0.6	-1.8	--	--	--
2017	Jan	4.6	-0.4	5.0	5.3	1.1	4.2	4.4	4.9	--	--	--
	Feb	-3.5	-0.9	-2.6	-1.4	-0.9	-0.6	-1.5	-7.2	--	--	--

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

**Chart 15.1.- External trade (real)**  
Percent change from previous period



**Chart 15.2.- Trade balance**  
EUR Billions, moving sum of 12 months

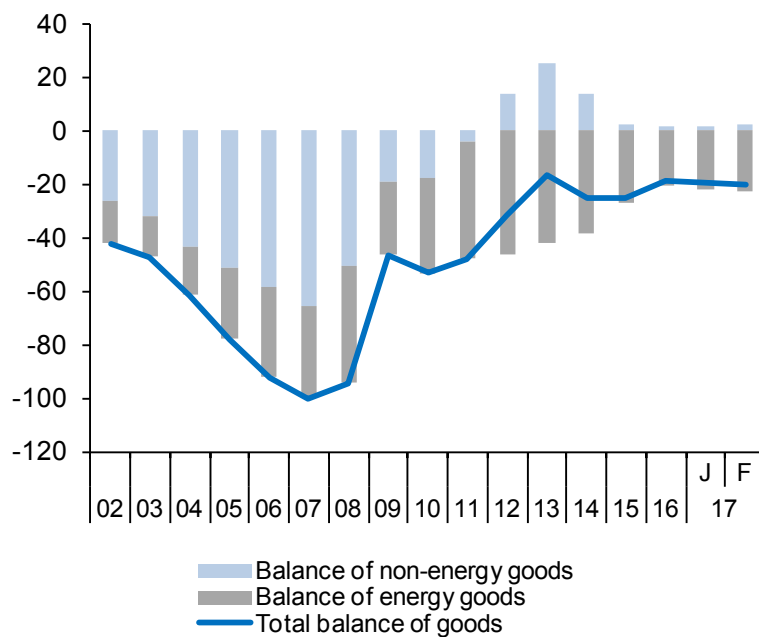


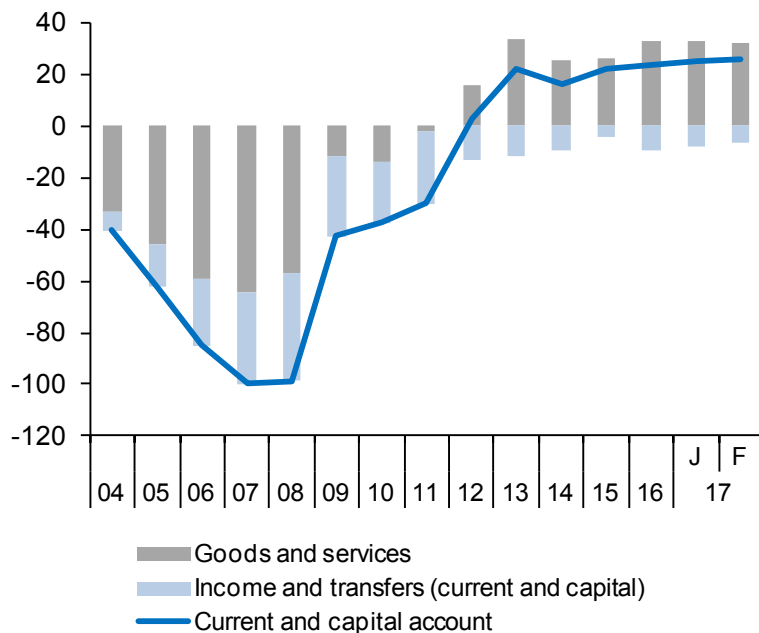
Table 16

# Balance of Payments (according to IMF manual) (Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions	
	Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain		
								Total	Direct investment	Portfolio investment	Other investment	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
2016		21.79	-17.80	50.67	0.85	-11.94	1.85	23.64	83.06	20.91	33.12	31.73	-2.71	-52.63	6.78
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	-0.51	-4.60	8.87	-0.15	-4.63	-0.05	-0.55	0.93	6.44	14.69	-18.71	-1.49	-7.19	-5.71
	II	6.26	-2.85	13.09	-2.21	-1.77	0.64	6.90	42.09	6.41	9.50	26.36	-0.17	-34.60	0.60
	III	7.25	-5.34	17.32	-1.76	-2.97	0.37	7.61	16.45	1.68	6.14	9.68	-1.06	-6.48	2.36
	IV	8.79	-5.00	11.39	4.97	-2.58	0.89	9.68	23.59	6.38	2.79	14.40	0.01	-4.37	9.54
		Goods and Services		Primary and Secondary Income											
2016	Dec	3.67	0.63		3.04		0.58	4.24	2.75	4.28	-9.85	7.91	0.42	3.57	2.08
2017	Jan	0.41	0.83		-0.42		0.14	0.55	26.21	-1.14	30.38	-2.42	-0.61	-20.77	4.90
	Feb	-0.22	0.86		-1.08		0.03	-0.19	5.46	1.47	0.50	4.06	-0.57	-10.51	-4.86
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
2016		2.0	-1.6	4.5	0.1	-1.1	0.2	2.1	7.5	1.9	3.0	2.8	-0.2	-4.7	0.6
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	-0.1	-1.7	0.0	-0.2	0.4	2.4	5.5	-7.1	-0.6	-2.7	-2.2
	II	2.2	-1.0	4.6	-0.8	-0.6	0.2	2.4	14.9	2.3	3.4	9.3	-0.1	-12.2	0.2
	III	2.6	-1.9	6.3	-0.6	-1.1	0.1	2.8	6.0	0.6	2.2	3.5	-0.4	-2.4	0.9
	IV	3.0	-1.7	3.9	1.7	-0.9	0.3	3.3	8.1	2.2	1.0	5.0	0.0	-1.5	3.3

Source: Bank of Spain.

**Chart 16.1.- Balance of payments: Current and capital accounts**  
EUR Billions, 12-month cumulated



**Chart 16.2.- Balance of payments: Financial account**  
EUR Billions, 12-month cumulated

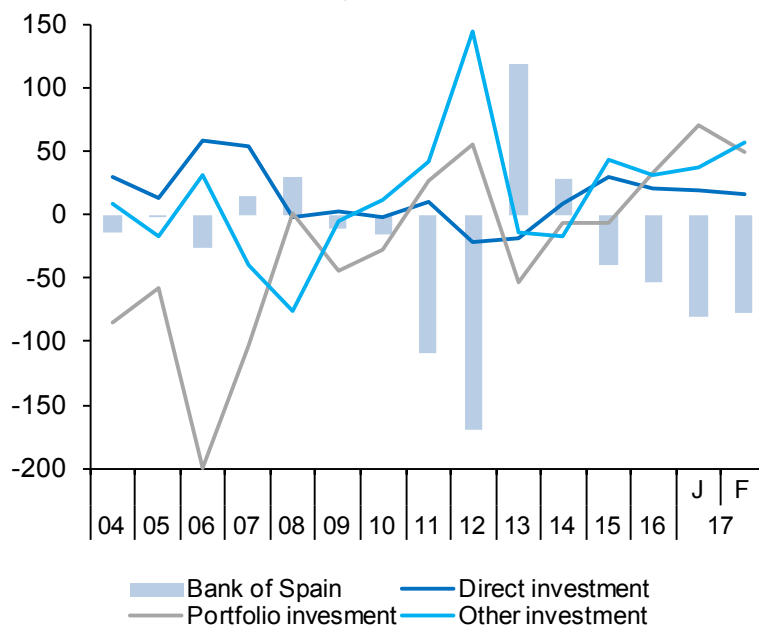


Table 17

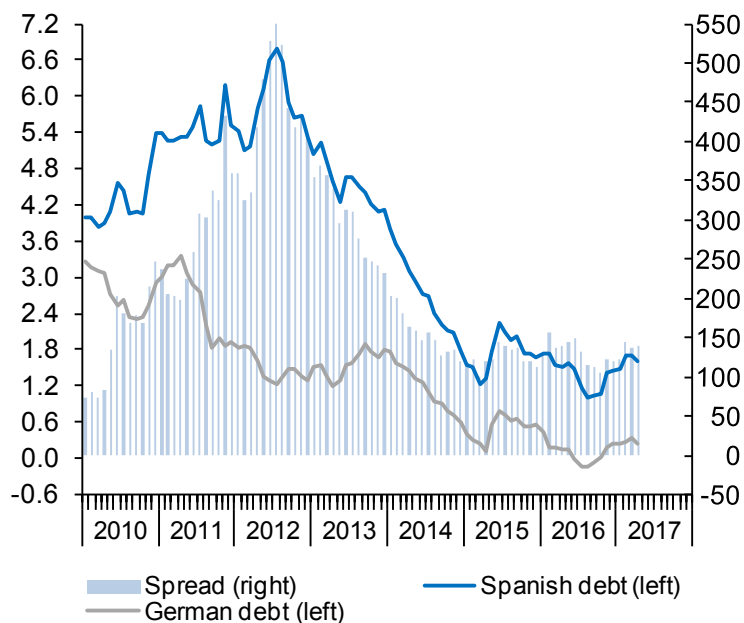
# Monetary and financial indicators

	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						
2010	4.25	150.8	2.6	8.1	4.3	2,789.3	650.1	1,244.0	895.2	--	9,859.1	
2011	5.44	283.3	3.5	8.0	5.1	2,806.3	744.3	1,194.0	867.9	--	8,563.3	
2012	5.85	435.1	3.4	8.6	5.6	2,821.5	891.5	1,099.2	830.9	--	8,167.5	
2013	4.56	299.2	3.2	9.0	5.5	2,771.5	979.0	1,009.4	783.0	--	9,916.7	
2014	2.72	156.0	3.1	8.9	4.9	2,740.6	1,041.6	950.2	748.8	--	10,279.5	
2015	1.74	124.0	2.5	8.0	3.8	2,724.5	1,073.9	925.1	725.5	--	9,544.2	
2016	1.39	130.1	2.3	7.7	3.2	2,727.0	1,107.0	907.4	712.7	--	9,352.1	
2017 (a)	1.63	135.5	2.2	7.8	3.1	2,751.7	1,129.4	913.9	708.5	--	10,715.8	
2015	II	1.77	128.2	2.5	7.9	3.7	2,739.0	1,058.3	938.2	742.5	--	10,769.5
	III	2.03	137.0	2.5	8.1	3.7	2,729.8	1,068.4	931.3	730.1	--	9,559.9
	IV	1.71	118.4	2.4	7.8	3.5	2,724.5	1,073.9	925.1	725.5	--	9,544.2
2016	I	1.67	141.1	2.3	8.0	3.4	2,730.0	1,096.9	913.5	719.6	--	8,723.1
	II	1.52	144.0	2.3	7.6	3.1	2,749.4	1,107.0	915.9	726.5	--	8,163.3
	III	1.07	119.8	2.4	8.0	3.1	2,739.9	1,108.4	915.6	715.9	--	8,779.4
	IV	1.31	115.3	2.3	7.3	3.1	2,727.0	1,107.0	907.4	712.7	--	9,352.1
2017	I	1.63	134.4	2.2	7.8	3.1	2,751.7	1,129.4	913.9	708.5	--	10,462.9
2017	Feb	1.70	144.3	2.2	7.8	2.9	2,733.7	1,118.2	907.2	708.3	--	9,555.5
	Mar	1.72	136.8	2.2	7.9	2.9	2,751.7	1,129.4	913.9	708.5	--	10,462.9
	Apr	1.62	139.0	--	--	--	--	--	--	--	--	10,715.8
							Percentage change from same period previous year				(b)	
2010	--	--	--	--	--	3.4	14.1	0.7	0.2	-2.2	--	-17.4
2011	--	--	--	--	--	1.7	14.5	-2.0	-2.4	-1.6	--	-13.1
2012	--	--	--	--	--	1.3	19.8	-6.4	-3.8	0.1	--	-4.6
2013	--	--	--	--	--	-0.8	9.8	-6.1	-5.2	-4.4	--	21.4
2014	--	--	--	--	--	-0.1	6.4	-3.7	-3.6	3.4	--	3.7
2015	--	--	--	--	--	0.5	3.1	-0.4	-2.1	5.2	--	-7.2
2016	--	--	--	--	--	0.8	3.1	-0.2	-1.4	6.0	--	-2.0
2017 (a)	--	--	--	--	--	1.6	3.0	2.1	-1.2	4.1	--	18.7
2015	II	--	--	--	--	-0.2	3.6	-2.3	-2.6	3.6	--	-1.4
	III	--	--	--	--	0.0	3.8	-2.3	-2.4	4.6	--	-11.7
	IV	--	--	--	--	0.5	3.1	-0.4	-2.1	5.2	--	-7.2
2016	I	--	--	--	--	0.5	4.2	-1.8	-1.9	5.5	--	-24.3
	II	--	--	--	--	1.3	4.6	-0.1	-1.7	7.8	--	-24.2
	III	--	--	--	--	1.3	3.7	0.7	-1.6	7.5	--	-8.2
	IV	--	--	--	--	0.8	3.1	-0.2	-1.4	6.0	--	-2.0
2017	I	--	--	--	--	1.6	3.0	2.1	-1.2	4.1	--	19.9
2017	Feb	--	--	--	--	1.2	3.3	0.9	-1.3	3.2	--	12.9
	Mar	--	--	--	--	1.6	3.0	2.1	-1.2	4.1	--	19.9
	Apr	--	--	--	--	--	--	--	--	--	--	18.7

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

Source: Bank of Spain.

**Chart 17.1.- 10 year bond yield**  
Percentage rates and basis points



**Chart 17.2.- Credit stock growth**  
Annual percentage change

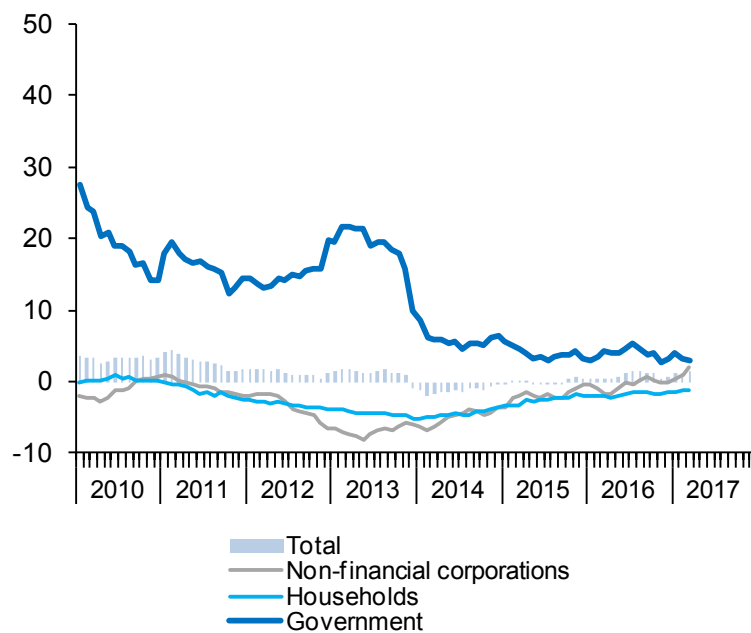


Table 18

**Competitiveness indicators in relation to EMU**

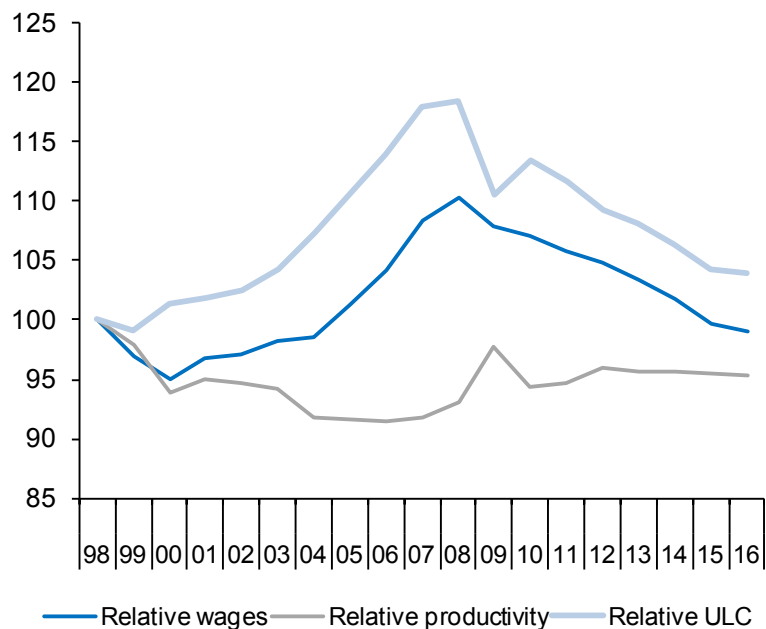
	Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
	Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
	1998=100			2015=100			2010=100			1999 I =100
2010	107.1	94.3	113.5	94.1	93.3	100.9	100.0	100.0	100.0	112.8
2011	105.9	94.7	111.7	96.9	95.8	101.2	106.5	105.2	101.2	113.1
2012	104.8	96.0	109.2	99.3	98.2	101.1	110.1	107.9	102.0	111.6
2013	103.4	95.7	108.1	100.8	99.5	101.3	110.0	107.4	102.4	113.4
2014	101.7	95.7	106.3	100.6	100.0	100.7	108.4	105.8	102.4	112.4
2015	99.6	95.5	104.3	100.0	100.0	100.0	106.8	104.0	102.7	109.0
2016	99.0	95.3	103.9	99.7	100.3	99.4	103.9	101.8	102.0	108.8
2017 (a)	--	--	--	100.7	101.0	99.7	108.4	104.9	103.4	109.2
2015 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	106.5	103.3	103.1	110.0
2017 I	--	--	--	100.7	101.0	99.7	108.4	104.9	103.4	109.2
2017 Jan	--	--	--	100.5	100.5	100.0	109.2	104.9	104.1	109.6
Feb	--	--	--	100.2	100.8	99.3	108.4	105.0	103.2	108.6
Mar	--	--	--	101.3	101.7	99.6	107.7	104.7	102.9	109.3
Annual percentage changes				Differential		Annual percentage changes		Differential		Annual percentage changes
2010	-0.8	-3.4	2.7	2.0	1.6	0.4	3.9	3.1	0.8	-1.0
2011	-1.1	0.4	-1.5	3.0	2.7	0.3	6.5	5.2	1.3	0.2
2012	-1.0	1.3	-2.3	2.4	2.5	-0.1	3.4	2.6	0.8	-1.3
2013	-1.4	-0.3	-1.1	1.5	1.3	0.2	-0.1	-0.4	0.3	1.5
2014	-1.6	0.0	-1.6	-0.2	0.4	-0.6	-1.5	-1.5	0.0	-0.9
2015	-2.1	-0.2	-1.9	-0.6	0.0	-0.6	-1.5	-1.7	0.2	-3.0
2016	-0.7	-0.2	-0.4	-0.3	0.3	-0.6	-2.7	-2.0	-0.7	-0.2
2017 (b)	--	--	--	2.0	1.2	0.8	6.4	4.0	2.4	1.4
2015 II	--	--	--	-0.3	0.2	-0.5	-0.6	-1.1	0.5	-3.3
III	--	--	--	-0.6	0.1	-0.7	-1.7	-2.0	0.3	-2.8
IV	--	--	--	-0.5	0.2	-0.7	-2.3	-2.4	0.1	-2.5
2016 I	--	--	--	-0.8	0.0	-0.8	-4.4	-3.2	-1.2	-0.9
II	--	--	--	-1.0	-0.1	-0.9	-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	1.2	0.6	0.6	0.9
2017 I	--	--	--	2.7	1.8	0.9	6.4	4.0	2.4	1.4
2017 Jan	--	--	--	2.9	1.8	1.1	6.5	3.8	2.7	1.8
Feb	--	--	--	3.0	2.0	1.0	6.9	4.5	2.4	1.2
Mar	--	--	--	2.1	1.5	0.6	5.7	3.9	1.8	1.0

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



**Chart 18.2.- Harmonized Consumer Prices**  
Annual growth in % and percentage points

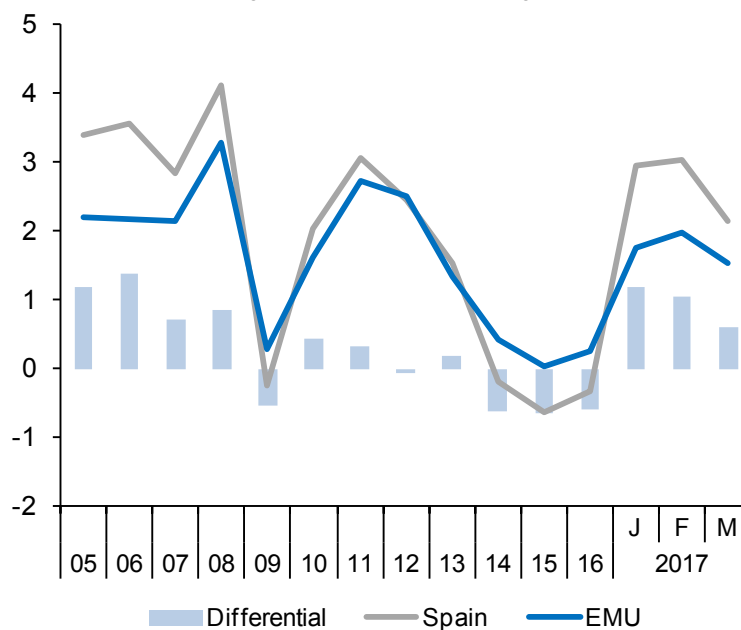


Table 19a

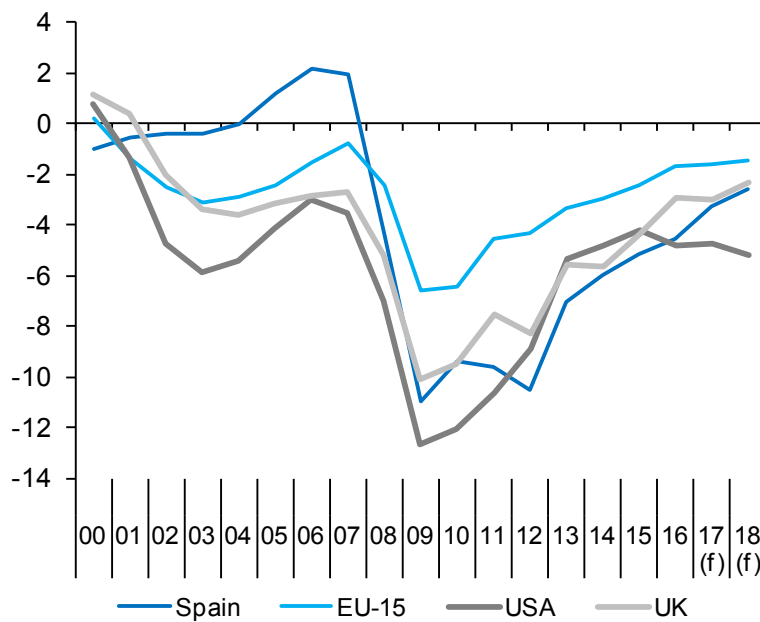
# Imbalances: International comparison (I)

In blue: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government consolidated gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK	Spain	EU-15	USA	UK
<b>Billions of national currency</b>												
2005	11.2	-265.1	-543.4	-43.7	393.5	6,851.0	8,496.9	552.6	-70.3	45.3	-702.2	-16.7
2006	22.1	-172.0	-411.6	-41.0	392.1	7,063.8	8,818.1	596.8	-90.7	29.3	-584.9	-32.4
2007	20.8	-96.5	-513.6	-40.9	384.7	7,139.3	9,267.8	643.5	-104.1	24.3	-735.6	-37.5
2008	-49.4	-290.7	-1,033.3	-81.1	440.6	7,580.4	10,722.1	785.0	-102.9	-81.4	-791.0	-55.0
2009	-118.2	-749.7	-1,827.4	-153.4	569.5	8,545.1	12,405.0	979.8	-46.5	14.4	-457.2	-44.8
2010	-101.4	-757.9	-1,797.7	-148.6	650.1	9,590.3	14,176.1	1,194.3	-42.0	37.1	-495.1	-43.1
2011	-102.9	-550.7	-1,646.6	-122.5	744.3	10,279.3	15,361.9	1,328.8	-35.3	70.3	-443.2	-29.1
2012	-108.9	-534.1	-1,430.7	-138.0	891.5	10,914.7	16,558.7	1,424.8	-4.6	149.3	-264.9	-61.4
2013	-71.8	-411.4	-894.0	-97.0	979.0	11,276.2	17,462.8	1,499.8	15.0	192.2	-248.2	-76.4
2014	-62.2	-385.9	-834.9	-103.0	1,041.6	11,814.1	18,194.1	1,604.8	10.4	193.3	-143.8	-85.0
2015	-55.1	-328.0	-761.2	-81.4	1,073.9	12,136.5	18,965.9	1,666.0	14.3	279.9	-223.7	-80.2
2016	-50.6	-232.6	-888.8	-57.2	1,107.0	12,010.2	19,936.8	1,731.4	20.9	303.0	--	-84.5
2017	-37.4	-221.8	-912.9	-59.5	1,147.2	12,244.2	20,849.7	1,776.9	19.0	289.6	--	-77.7
2018	-31.0	-206.2	-1,049.3	-48.4	1,183.1	12,475.5	21,978.9	1,818.3	18.8	300.1	--	-65.2
<b>Percentage of GDP</b>												
2005	1.2	-2.4	-4.2	-3.2	42.3	63.0	64.9	40.1	-7.6	0.4	-5.4	-1.2
2006	2.2	-1.5	-3.0	-2.8	38.9	61.7	63.6	41.0	-9.0	0.3	-4.2	-2.2
2007	1.9	-0.8	-3.5	-2.7	35.6	59.3	64.0	42.0	-9.6	0.2	-5.1	-2.4
2008	-4.4	-2.4	-7.0	-5.2	39.5	63.2	72.8	50.2	-9.2	-0.7	-5.4	-3.5
2009	-11.0	-6.6	-12.7	-10.1	52.8	75.3	86.0	64.5	-4.3	0.1	-3.2	-3.0
2010	-9.4	-6.4	-12.0	-9.5	60.1	81.3	94.7	76.0	-3.9	0.3	-3.3	-2.7
2011	-9.6	-4.5	-10.6	-7.5	69.5	84.8	99.0	81.6	-3.3	0.6	-2.9	-1.8
2012	-10.5	-4.3	-8.9	-8.2	85.7	88.2	102.5	85.1	-0.4	1.2	-1.6	-3.7
2013	-7.0	-3.3	-5.4	-5.6	95.5	90.5	104.6	86.2	1.5	1.5	-1.5	-4.4
2014	-6.0	-3.0	-4.8	-5.7	100.4	91.7	104.6	88.1	1.0	1.5	-0.8	-4.7
2015	-5.1	-2.4	-4.2	-4.3	99.8	89.6	105.2	89.0	1.3	2.1	-1.2	-4.3
2016	-4.5	-1.7	-4.8	-3.0	99.4	88.1	107.4	89.3	1.9	2.2	--	-4.4
2017	-3.2	-1.6	-4.7	-3.0	99.2	87.8	107.8	88.6	1.6	2.1	--	-3.9
2018	-2.6	-1.4	-5.2	-2.3	98.5	86.6	108.7	87.9	1.6	2.1	--	-3.2

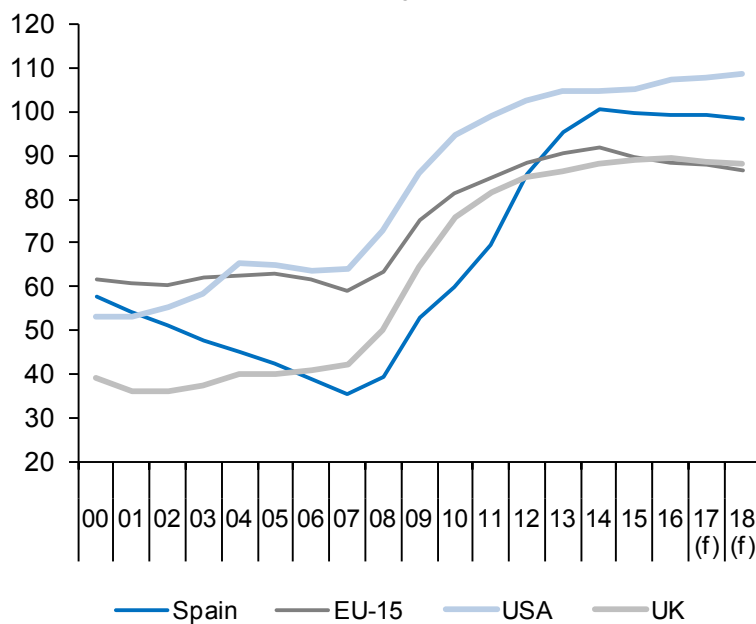
Source: European Commission Forecasts, Spring 2017.

**Chart 19a.1.- Government deficit**  
Percentage of GDP



(f) European Commission forecast.

**Chart 19a.2.- Government consolidated gross debt**  
Percentage of GDP



(f) European Commission forecast.

Table 19b

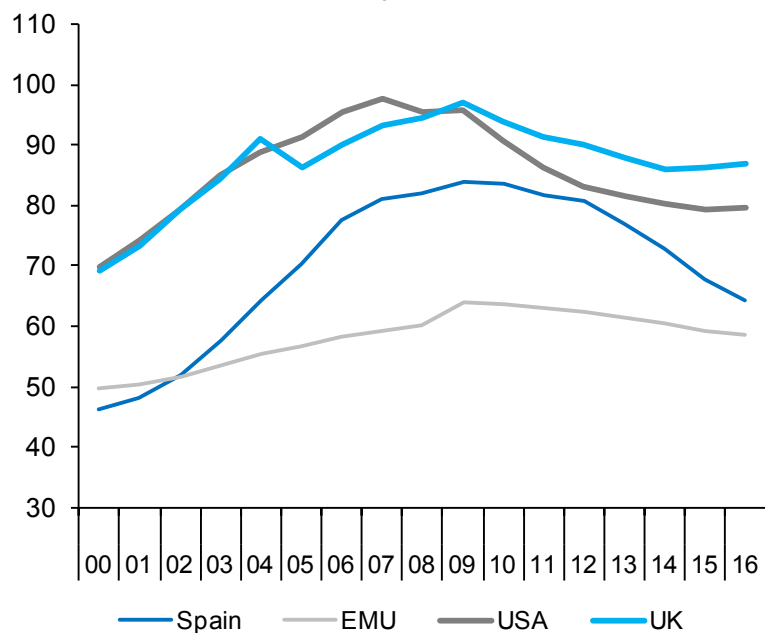
**Imbalances: International comparison (II)**

	Household debt (a)				Non-financial corporations debt (a)			
	Spain	EMU-19	USA	UK	Spain	EMU-19	USA	UK
<b>Billions of national currency</b>								
2005	653.5	4,787.2	11,952.9	1,189.8	925.0	7,596.0	8,162.4	1,102.9
2006	780.7	5,197.3	13,232.5	1,310.9	1,158.8	8,239.9	8,978.6	1,201.6
2007	876.6	5,562.3	14,151.4	1,426.4	1,344.5	9,042.4	10,100.3	1,281.6
2008	914.0	5,807.6	14,037.8	1,477.0	1,422.6	9,631.3	10,680.3	1,476.9
2009	906.2	5,936.6	13,800.4	1,473.8	1,406.1	9,558.5	10,153.7	1,414.2
2010	902.5	6,071.3	13,563.9	1,476.9	1,429.4	9,836.9	10,003.2	1,379.5
2011	875.2	6,162.1	13,371.4	1,486.7	1,415.7	9,991.9	10,263.8	1,408.1
2012	838.2	6,149.6	13,439.6	1,509.2	1,309.8	10,130.6	10,773.5	1,481.4
2013	790.6	6,100.8	13,592.6	1,525.5	1,231.2	9,990.2	11,253.2	1,454.1
2014	754.2	6,121.1	13,955.9	1,565.8	1,168.0	10,412.8	11,942.4	1,414.1
2015	729.6	6,187.7	14,290.3	1,612.8	1,147.4	10,933.4	12,753.2	1,394.8
2016	716.9	6,294.1	14,756.1	1,685.9	1,132.7	11,187.3	13,470.8	1,488.3
<b>Percentage of GDP</b>								
2005	70.2	56.6	91.3	86.3	99.4	89.8	62.3	80.0
2006	77.5	58.4	95.5	90.1	115.0	92.5	64.8	82.5
2007	81.1	59.2	97.7	93.2	124.4	96.2	69.8	83.7
2008	81.9	60.3	95.4	94.4	127.5	100.0	72.6	94.4
2009	84.0	63.9	95.7	97.0	130.3	102.9	70.4	93.1
2010	83.5	63.6	90.6	93.9	132.2	103.0	66.8	87.7
2011	81.8	62.9	86.2	91.3	132.3	102.0	66.1	86.5
2012	80.6	62.5	83.2	90.1	126.0	103.0	66.7	88.4
2013	77.1	61.4	81.4	87.7	120.0	100.6	67.4	83.6
2014	72.7	60.4	80.2	85.9	112.6	102.7	68.7	77.6
2015	67.8	59.2	79.2	86.1	106.7	104.5	70.7	74.5
2016	64.4	58.6	79.5	86.9	101.7	104.2	72.6	76.8

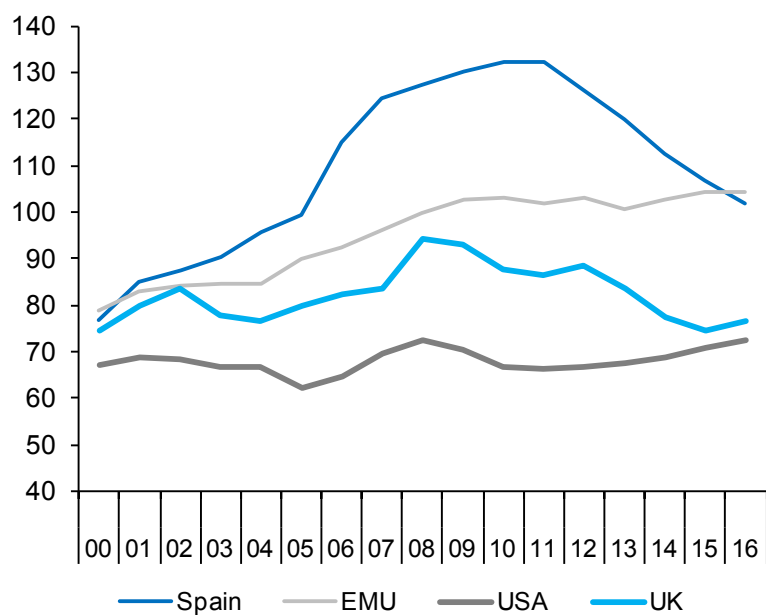
(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

**Chart 19b.1.- Household debt**  
Percentage of GDP



**Chart 19b.2.- Non-financial corporations debt**  
Percentage of GDP





## KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: May15<sup>th</sup>, 2017

### Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.3	February 2017
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.5	February 2017
Doubtful loans (monthly % var.)	-0.6	February 2017
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	768,997	April 2017
Recourse to the Eurosystem (Spanish financial institutions, million euros)	172,982	April 2017
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	89	April 2017
Operating expenses/gross operating income ratio (%)	54.18	December 2016
Customer deposits/employees ratio (thousand euros)	5,600.48	December 2016
Customer deposits/branches ratio (thousand euros)	39,457.04	December 2016
Branches/institutions ratio	139.84	December 2016

#### A. Money and interest rates

Indicator	Source:	Average 2001-2014	2015	2016	2017 April	2017 May 15 <sup>th</sup>	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.4	4.7	5.0	0.9	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.19	-0.1	-0.26	-0.329	-0.329	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.5	0.2	-0.03	-0.121	-0.127	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.4	1.7	1.4	1.6	1.6	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.3	2.1	2.3	1.9	-	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 remained unchanged at -0.330% in the first fortnight of May and the 1-year Euribor decreased to -0.127%(from -0.121% in April). The ECB has reiterated the continuation of the liquidity program. As for the Spanish 10-year bond yield, it has remained at 1.6%, the closing rate of April.*

## B. Financial markets

Indicator	Source:	Average 2001-2014	2015	2016	2017 February	2017 March	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	39.0	75.5	102.6	99.96	123.09	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	78.4	65.3	55.1	55.07	59.39	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	1.1	1.3	0.4	0.38	0.32	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.7	3.4	1.9	2.47	2.00	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	2.0	0.0	0.0	0.01	0.01	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	642.9	1,058.2	1,104.9	1,062.85	1,084.37	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	0.3	0.5	0.2	2.5	9.2	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	4.1	-0.2	0.7	-19.6	28.6	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	1,038.3	965.1	943.6	964.2	1,101.9 <sup>(a)</sup>	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,750.4	10,647.2	8,790.9	9,555.5	10,957.8 <sup>(a)</sup>	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	16.7	15.4	23.6	25.4	19.6 <sup>(a)</sup>	Madrid Stock Exchange Ratio "share value/ capital profitability"



## B. Financial markets (continued)

Indicator	Source:	Average 2001-2014	2015	2016	2017 February	2017 March	Definition and calculation
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	4.9	21.3	55.9	-	-	Variation for all stocks
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.9	-0.2	0.1	-0.5	-3.7	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.5	0.1	0.0	-0.07	-0.09	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.6	1.3	-0.4	-0.2	7.1	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	8.9	17.7	5.8	-43.2	4.8	IBEX-35 shares concluded transactions

(a) Last data published: May 15<sup>th</sup>, 2017

Comment on "Financial Markets": During March, there was an increase in transactions with outright spot T-bills to 123.09% and also an increase of spot government bonds transactions, which stood at 59.39%, respectively. The stock market has registered an increase by mid-May, with the IBEX-35 up to 10,958 points, and the General Index of the Madrid Stock Exchange to 1,102. Additionally, there was an increase of 7.1% in financial IBEX-35 futures transactions and also an increase of 4.8% in transactions with IBEX-35 financial options.

## C. Financial Savings and Debt

Indicator	Source:	Average 2008-2013	2014	2015	2016 Q 3	2016 Q 4	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.8	1.6	2.2	2.2	2.1	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	3.1	2.6	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	296.8	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 3	2016 Q 4	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	65.2	64.4	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	1.1	1.4	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	-1.6	-0.3	Total liabilities percentage change (financial balance)

*Comment on "Financial Savings and Debt": During 2016Q4, there was a fall in financial savings to GDP in the overall economy that reached 2.1% of GDP. There was also a decrease in the financial savings rate of households from 3.1% in 2016Q3 to 2.6% in 2016Q4. The debt to GDP ratio fell to 64.4%. Finally, the stock of financial assets on households' balance sheets registered an increase of 1.4%, and there was a 0.3% fall in the stock of financial liabilities.*

## D. Credit institutions. Business Development

Indicator	Source:	Average 2001-2014	2015	2016	2017 January	2017 February	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.5	-4.0	-4.1	-1.0	-0.3	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	8.0	-0.1	-0.1	-0.6	-0.5	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	10.0	-15.2	-11.6	0.6	0.6	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	10.0	-5.9	-1.0	-0.1	0.5	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	-2.1	-5.2	-4.5	-4.8	-5.4	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)

## D. Credit institutions. Business Development (continued)

Indicator	Source:	Average 2001-2014	2015	2016	2017 January	2017 February	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	39.8	-22.4	-13.6	-0.5	-0.6	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-2.1	-30.8	-22.2	-14.2	-0.4	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	8.8	-1.8	-0.3	0.1	0.4	Equity percentage change for the sum of banks, savings banks and credit unions.

*Comment on "Credit institutions. Business Development": The latest available data as of February 2017 show a fall in bank credit to the private sector of 0.3%. Data also show a decrease in financial institutions deposit-taking of 0.5%. Holdings of debt securities increased by 0.6%. Doubtful loans decreased 0.6% compared to the previous month.*

## E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 2000-2013	2014	2015	2016 September	2016 December	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	199	138	135	129	124	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	81	82	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	29,492	28,807	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	527,317	768,997 <sup>(a)</sup>	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	138,455	172,982 <sup>(a)</sup>	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 September	2016 December	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	1,408	89 <sup>(a)</sup>	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: April 2017

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In April 2017, recourse to Eurosystem funding by Spanish credit institutions reached 172.98 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 250.8 billion euro in February and 1.92 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 September	2016 December	Definition and calculation
43. "Operating expenses/gross operating income" of Spain ratio	Bank of Spain	50.89	47.27	50.98	54.25	54.18	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	5,731.21	5,600.48	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	21,338.27	40,119.97	36,791.09	38,662.48	39,457.04	Productivity indicator (business by branch)
46. "Branches/institutions" ratio	Bank of Spain	205.80	142.85	229.04	227.33	139.84	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.1	6.8	6.57	6.75	7.05	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	0.07	0.01	-0.01	-0.62	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.45	0.49	0.39	0.41	0.26	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	6.27	6.46	5.04	4.91	3.12	Profitability indicator, defined as the "pre-tax profit/equity capital"

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

Orders and information:

Funcas  
Caballero de Gracia, 28  
28013 Madrid  
Spain  
Phone: 91 596 54 81  
Fax: 91 596 57 96  
[publica@funcas.es](mailto:publica@funcas.es)  
[www.funcas.es](http://www.funcas.es)

