Spanish Economic and Financial Outlook

The fiscal outlook in Spain: Gradual consolidation

2017
Volume 6 ♦ Number 4

July 2017

S E F O

funcas

FEATURES

have struggled in recent years to generate profits above their cost of capital.

Letter from the Editors

We initiate this month's *SEFO* with the first time ever publication of Funcas' eurozone forecasts. The eurozone economy has improved significantly. Recent indicators point to a recovery in both domestic demand and exports. This is due to the continuation of the low interest rate environment, stemming from ultra-expansive ECB policy, the recovery in international markets and increased optimism among consumers and companies. Funcas' projections are for GDP growth of 2% this year and 1.9% in 2018, making a significant dent in the unemployment rate. Even so, by 2018 the economy is still likely to be 1.7 million jobs short of the pre-crisis employment situation. Furthermore, there continues to be significant divergence across eurozone economies, weakening the sustainability of the single currency.

Spain continues to be one of the fastest growing European economies. Spain's economic growth in 2017 is exceeding expectations and the outlook for next year remains positive. Stronger exports are supported by the global recovery and the favourable competitive position of Spanish firms, while the slowdown in domestic demand is proving milder than initially foreseen. In short, the economy, which had lost steam in the second half of 2016, is gathering momentum once

again. Growth is forecast at 3.2% in 2017 and 2.8% in 2018.

Nevertheless, the legacy of the crisis still weighs down on overall results, the main risks to the recovery being the stock of public debt and long-term unemployment. Public debt is expected to reach 98.1% of GDP in 2017 – high in comparison with other European countries and almost three times the pre-crisis level. And although the drop in unemployment keeps accelerating, reforms are needed to address outstanding labour market issues. It will be crucial to tackle these two main weaknesses, and in parallel reinforce the eurozone's institutional framework, before the ECB scales down its exceptional arsenal of stimulus measures.

In this context, the July *SEFO* provides an assessment of the outlook for fiscal consolidation in Spain. Following several upward revisions, the Spanish government closed 2016 with a public deficit of 4.3% of GDP,[1] or below the 4.6% of GDP official objective. Target compliance was achieved with the help of the surplus recorded at the local government level, which compensated for slippage by Social Security and the slowdown in consolidation at the central government level.

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[1] Excluding aid to the financial system.

Most analysts believe Spain will come close to reaching the deficit target of 3.1% of GDP for this year. Optimism is underpinned by the growth outlook, together with scope for additional discretionary spending cuts in the event of 2017 targets coming under pressure. However, as evidenced by the latest (April) version of the 2017-2020 Stability Plan: i) the consolidation effort will come 80% from expenditure adjustment and 20% from revenues; ii) progress remains systematically slow and the current level of structural deficit needs to be further reduced; and, iii) spending cuts must be taken carefully to avoid a scenario where the quality of Spain's public services falls below that of its peers.

Furthermore, the 2017 budget reveals a dependence primarily on favourable cyclical developments. The strong performance of tax revenues in the first part of the year, together with stagnation in discretionary departmental spending, bode well for a significant reduction in the deficit, bringing it mostly in line with the official target for this year. However, the lack of substantive reforms foreshadows difficulties in fully delivering on deficit targets over the longer-term.

While the public sector strives to reign in deficit and debt ratios, the private sector has made notable progress on reducing its outstanding debt burden. The significant deleveraging effort by Spanish households and companies since 2010 has successfully reduced the weight of debt in GDP by 50 percentage points (pp), allowing for a reduction of the gap relative to the eurozone average to 3.4pp, albeit remaining 13.4pp above the average for the EU-28. Deleveraging, together with an improvement in corporate earnings and household gross income, has significantly improvement debt sustainability. The combination of deleveraging, rebounding profitability and lower funding costs has also helped bring about a reduction in debt servicing costs for Spanish households and firms. Consolidation of the current economic recovery and a continuation of existing benign financing conditions are crucial prerequisites for the continued reduction in financial vulnerability.

The July *SEFO* also analyses progress on tackling Spain's other main outstanding risk – shortcomings of the labour market. The Spanish labour market is gradually emerging from the crisis, with over half of the jobs destroyed having been recovered. The new jobs created since 2014, however, are substantially different from those of the pre-crisis period. In general, the Spanish labour market is paying less than it used to for the same kind of work. This wage moderation reflects the new labour market conditions, where most of the burden is being shouldered by those workers who had to change jobs and young people just joining the labour market.

Finally, as regards developments in the financial sector, we explore the contrast in the performance of Spanish banks versus insurers. The recent crisis has significantly altered the behaviour and relative positioning of Spanish insurance companies and banks. The former have performed much more strongly, reducing the gap to the banking sector in terms of size, solvency and profitability. Meanwhile, both sectors have substantially improved their solvency levels at the cost of lower returns to shareholders. But there is a noteworthy difference: insurance companies are sustaining double-digit

profitability, while the returns offered by banks are much more limited.

Also, we assess developments in shadow banking. In Spain, shadow banking scarcely accounts for 0.7% of the global total. Even so, the combined non-banking sector managed 1.34 trillion euros in assets in 2016, a decline from 1.53 billion euros in 2010 – primarily because of a downturn in securitisation fund assets. However, growth in shadow banking in the euro area and potential contagion risks make it an issue worth monitoring. To this end, regulatory and supervisory authorities coordinate internationally to try to reduce contagion from a business that continues to experience rapid growth.

Eurozone forecasts 2017-2018: Recovery gains momentum but with worrisome country disparities

Raymond Torres and Patricia Stupariu[1]

The eurozone recovery gains traction. However, cross country divergence is becoming more pronounced, weakening the sustainability of the single currency in the absence of a banking union and the establishment of a European fiscal capacity to respond to shocks.

The eurozone economy has improved significantly. Recent indicators point to a recovery in both domestic demand and exports. This is due to the continuation of the low interest rate environment, stemming from ultra-expansive ECB policy, the recovery in international markets and increased optimism among consumers and companies. Funcas' projections are for GDP growth of 2% this year and 1.9% in 2018, making a significant dent in the unemployment rate. Even so, by 2018 the economy is still likely to be 1.7 million jobs short of the pre-crisis employment situation. Furthermore, there continues to be significant divergence across eurozone economies, weakening the sustainability of the single currency.

Recent developments in the eurozone

The eurozone economic recovery has accelerated since the start of the year. Activity and consumer confidence indicators have spiked, slightly outperforming pre-crisis levels (Exhibit 1). Meanwhile, international trade flows both within the eurozone and with third countries have increased, in line with the recovery in global markets. GDP grew by 0.6% in the first quarter and 1.9% relative the same quarter of 2016 (Table 1). All countries in the single currency saw a pick-up in growth compared to the last quarter of 2016.

The improvement in the economy is being reflected in the labour market. The unemployment rate has now declined for 38 consecutive months and has fallen decisively over the last year. However, the unemployment rate remains elevated, at 9.3%. Wage income has barely risen in real terms.

This is taking place in the absence of a deterioration in internal or external imbalances. Increasing energy prices have trickled through to headline inflation. However, core inflation (excluding energy and other volatile components) remains around 1%, well below the ECB target. The current account continues to sustain a significant surplus, which amounted to 3.3% of euro area GDP in 2016, the highest since the creation of the Euro.

Finally, the public deficit is on a clear downward trend. In 2016, the aggregate public sector deficit

Exhibit 1
Eurozone confidence indicators
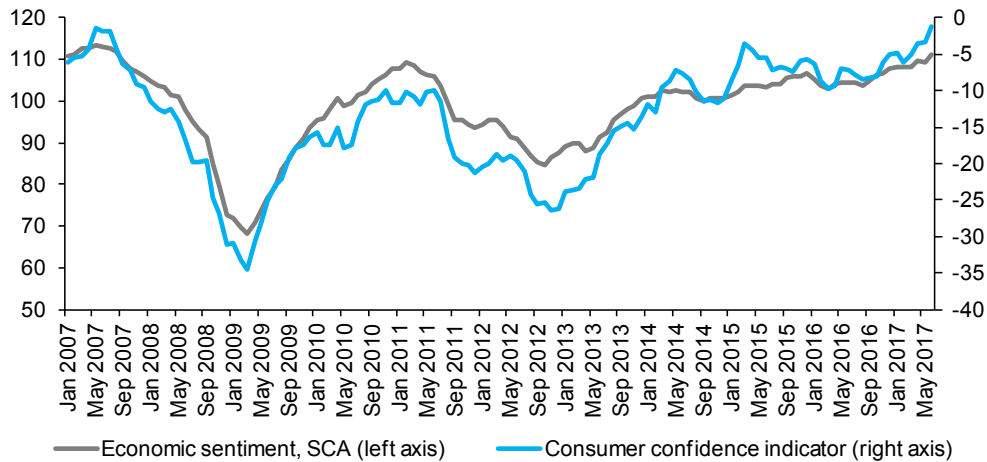
Source: Eurostat.

Table 1
Annual GDP growth rates

	Average 2008-2015	2016	2017 (Q1) [a]
Eurozone-19	0.2	1.8	1.9
Austria	0.6	1.5	1.9
Belgium	0.8	1.2	1.6
Cyprus	-0.7	2.8	3.3
Estonia	0.0	1.6	4.0
Finland	-0.6	1.9	2.6
France	0.5	1.2	1.1
Germany	1.0	1.9	1.7
Greece	-3.7	0	0.4
Ireland	3.5	5.2	6.6
Italy	-1.0	0.9	1.2
Latvia	-0.5	2	4.0
Lithuania	1.0	2.3	4.1
Luxembourg	1.9	4.2	3.3
Malta	3.5	5	4.0
Netherlands	0.4	2.2	2.5
Portugal	-0.7	1.4	2.8
Slovakia	2.2	3.3	3.1
Slovenia	-0.1	2.5	5.0
Spain	-0.4	3.2	3.0

Note: [a] Growth with respect to Q12016;seasonally adjusted data (except Slovakia).
Source: Eurostat.

stood at 1.5% of GDP, 0.6 percentage points below the previous year and the second lowest on record (the minimum was in 2007). Public sector deficits fell across all eurozone economies in 2016, except for Austria and Belgium who nonetheless kept their deficits under control. Nine countries posted a surplus (Germany, Estonia, Greece, Cyprus, Latvia, Lithuania, Luxembourg, Malta and the Netherlands).

Forecasts for 2017 and 2018

This state of play is set to remain in place for the rest of year, enabling GDP to grow by 2% in 2017, that is 0.2 percentage points more than last year (Table 2). Private consumption will ease slightly due to the impact of the pick up in inflation on household disposable income. Public sector

consumption and investment will remain in positive territory, meaning that budgetary constraints have come to an end for most countries.

Investment – both capital goods and residential – will sustain growth rates of around 4%, supported by cheap credit conditions, rising company operating surpluses, deleveraging among non-financial enterprises and the improved overall economic outlook. Altogether, domestic demand will slightly reduce its contribution to GDP growth.

Imports look set to rebound due to euro appreciation and robust domestic demand. However, exports will benefit from the recovery in world trade and the strong position of many European companies in new technologies, facilitating a larger external contribution to growth.

Table 2

Funcas Eurozone Economic Forecasts, 2017-2018
(Annual percent change)

	Actual data			Funcas Forecasts	
	Average 2001-2007	Average 2008-2015	2016	2017	2018
1. GDP and aggregates, constant prices					
Gross Domestic Product	2.0	0.2	1.8	2.0	1.9
Final consumption	1.7	0.3	1.9	1.6	1.5
Public consumption	1.9	0.9	1.9	1.4	1.4
Household consumption	1.6	0.1	2.0	1.7	1.5
Gross fixed capital formation	2.5	-1.5	3.7	3.9	3.4
Domestic demand [a]	1.8	-0.2	2.1	2.0	1.8
External balance [a]	0.1	0.4	-0.3	0.0	0.1
2. Inflation, employment and unemployment					
Consumer price deflator	2.3	1.2	0.5	1.5	1.2
Total employment	1.1	-0.1	1.3	1.5	1.4
Unemployment rate	8.6	10.4	10.0	9.2	8.5
Productivity (GDP per employed person)	0.9	0.3	0.5	0.5	0.5
Compensation per employee	2.5	1.9	1.6	1.8	1.5
3. Financial balances (% GDP)					
Current account balance with rest of the world	0.2	1.0	3.3	2.9	2.9
General government deficit	-2.3	-3.8	-1.5	-1.3	-1.1
General government debt	67.4	85.0	89	88	87

Note: [a] Contribution to GDP growth.
Source: Funcas.

A modest slowdown is expected in 2018 on the back of a likely gradual hike in interest rates and the implications of this for investment – especially residential – and private consumption. The export boom will hold up, thereby making for a positive contribution from the external sector to economic growth.

Employment is set to fall significantly, in line with the acceleration in growth. 4.5 million jobs could be created over 2017-18, with the unemployment rate falling to 8.5%, its lowest since January 2009. However, this will still be some 1.7 million jobs short of pre-crisis employment levels (Exhibit 2).

Energy prices are set to moderate under the assumption of stable oil prices (at around 50 dollars per barrel) and broadly unchanged euro exchange rates (around 1.10 dollars per euro). Headline consumer price inflation will rise to an annual average of 1.5% in 2017 and 1.2% in 2018. Both core inflation and wage costs will remain on a moderate path.

The current account will continue to post a significant surplus, albeit below previous years due to developments in international trade prices (deterioration in the terms of trade). Export prices are likely to grow less quickly than import prices in 2017, due to the increase in oil and other commodity prices. The terms of trade should stabilise in 2018.

Finally, the public deficit is expected to fall, due to the mechanical effect of the recovery on both tax collection and public spending. Excluding these effects, no additional discretionary fiscal measures are envisaged for the eurozone as a whole. Overall, the reduction in the deficit will be insufficient to significantly lighten the public debt burden. This will still stand at around 90% of GDP over the next two years, up 25 percentage points relative to pre-crisis debt-to-GDP ratios. Thus, in the absence of measures to improve budget revenues, the room for fiscal manoeuvre will remain limited.

Exhibit 2

Eurozone unemployment rate
(Observed 2000-2016) (forecasts 2017-2018)

Difference 2007-2018:
1.7 million jobs
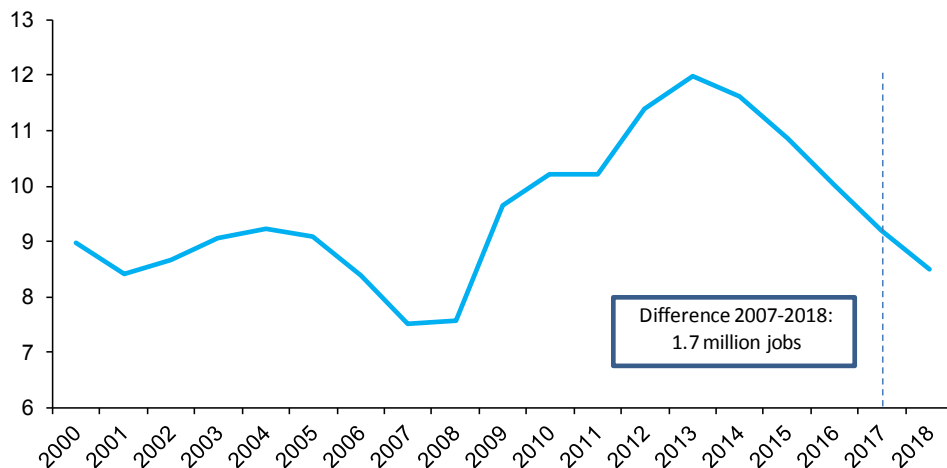
Source: Eurostat and Funcas forecasts.

Disparities remain sizeable across eurozone countries

Geopolitical risks have eased. The European political environment has settled in the aftermath of recent elections in various eurozone countries. However, significant uncertainties remain regarding the United Kingdom's exit from the European Union. Recent elections have only increased uncertainty around the pace of Brexit and its impact on European trade and investment flows.

Geopolitical risks and local political tensions have eased, but differences across eurozone countries have become more pronounced, thus weakening the single currency.

At the same time, differences across eurozone countries have become more pronounced. Some

countries combine high levels of unemployment, low investment, poor competitiveness and significant indebtedness:

■ The difference across unemployment rates has increased over the last ten years (Exhibit 3). Some countries with high rates of unemployment have seen a notable improvement as a result of a vigorous recovery, but others have witnessed stagnation.

■ The latest data point to a significant deterioration in competitiveness in several countries, such as Finland, Greece and Italy (Exhibit 4). The benchmark indicator for this analysis is the volume of goods and services exports as a proportion of the world total.

■ Investment effort has improved over the course of the recovery, but is still below pre-crisis levels (Exhibit 5). In some countries, the investment rate is barely sufficient to maintain the existing productive capacity.

Exhibit 3
Unemployment rates

■ 2017 ■ 2007
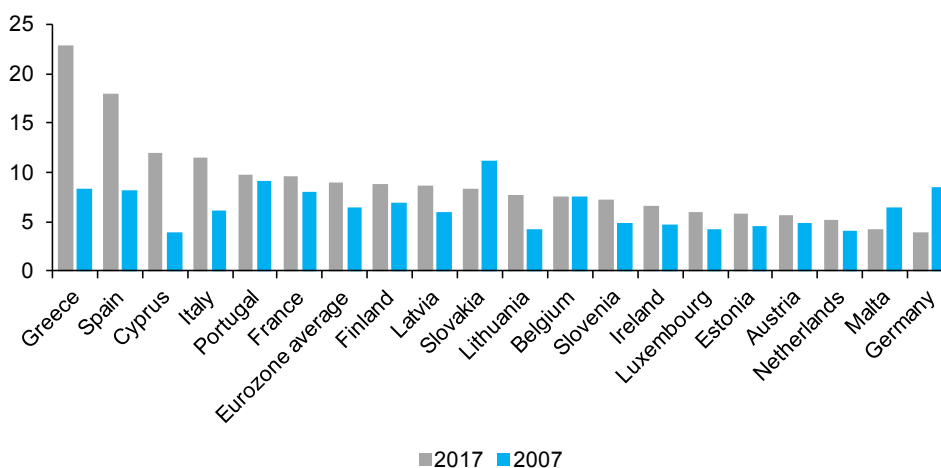
Note: 2017 data are monthy average up to May, except Belgium and Greece (March) and Estonia (April).
Source: Eurostat and Funcas.

Exhibit 4

Change in market share of exports of goods and services
(Difference between 2007 and 2017, in %)
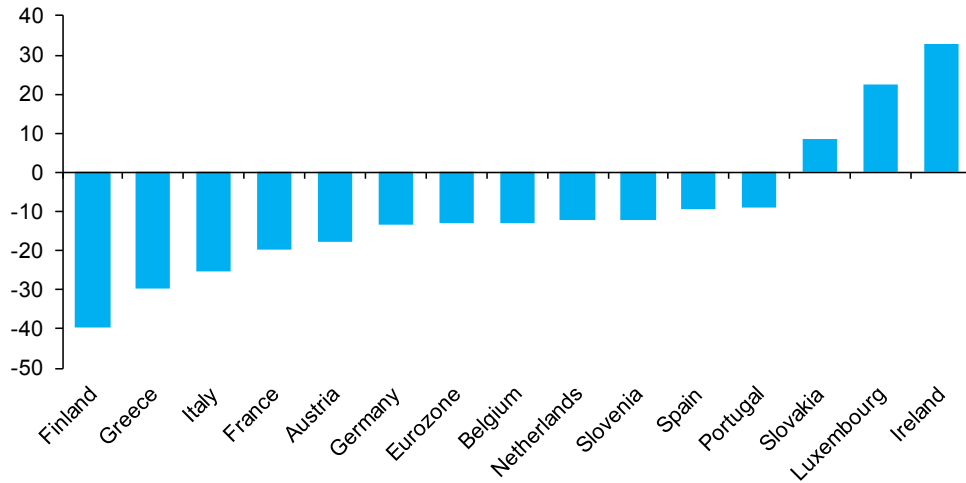
Source: OECD.

Exhibit 5

Investment rate and country dispersion
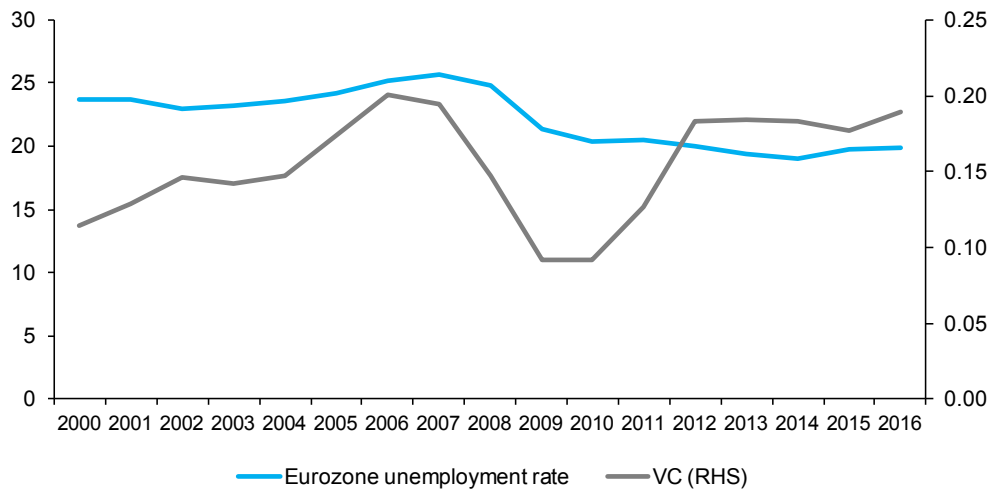
Note: Dispersion between countries in the investment rate is measured using the coefficient of variation (ratio between standard deviation in each period and the period average).

Source: Eurostat and Funcas.

■ Empirical evidence and historical experience suggest that deleveraging processes can persist over time, pushing back the recovery. The high levels of debt in some eurozone countries are the result of large deficits recorded at the outbreak of the financial and real estate crises. Corporate indebtedness remains elevated in absolute terms, though as a percentage of GDP it is now at similar or lower levels than before the crisis – except in Cyprus and Ireland (Exhibit 6). The same is true for household debt, albeit with significant differences across countries (Exhibit 7). Household debt to GDP is relatively restrained in most countries, but it is above pre-crisis levels in eleven of the nineteen eurozone countries. (Household debt is particularly high in Cyprus, the Netherlands, Portugal and Finland.) Public debt remains high (Exhibit 8) which poses a major challenge as interest rates begin to rise. The situation makes it crucial for the current pace of economic growth to continue, and for new measures to be introduced with a view to boosting budget revenues and enhancing the quality of public spending.

These disparities weaken the sustainability of the common currency: unemployment is a barometer of a country's capacity to remain within the eurozone both from an economic and social point of view; countries that face a continuous loss of competitiveness cannot sustain their growth model; investment measures the effort to improve productivity, employment and competitiveness and is essential to solidifying the integration of the single currency; finally, indebtedness is an indicator of financial vulnerability.

Implications for European public policy and for Spain

In the face of persistent divergences, it is essential for at-risk countries to sustain their reform effort. But the functioning of the eurozone itself also needs to be reinforced. Urgent priorities include completing the banking union; ensuring that non-performing bank loans do not derail the recovery; and, strengthening macroeconomic governance in the eurozone.

Exhibit 6

Debt of non-financial enterprises
(As % of GDP)

■ 2015/2016**   ■ 2007

Source: Eurostat.

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Exhibit 7
Household debt
(As % of GDP)

■2007 ■2015/2016**
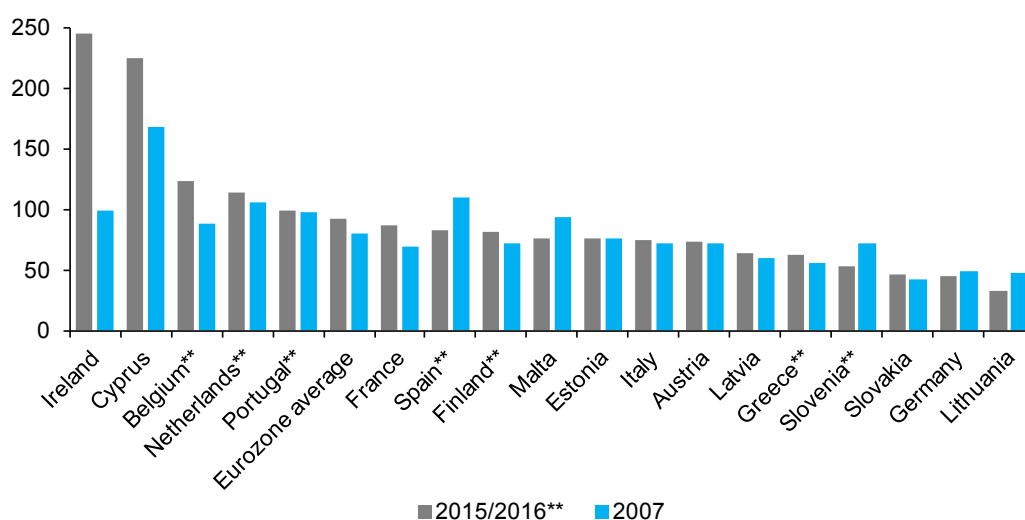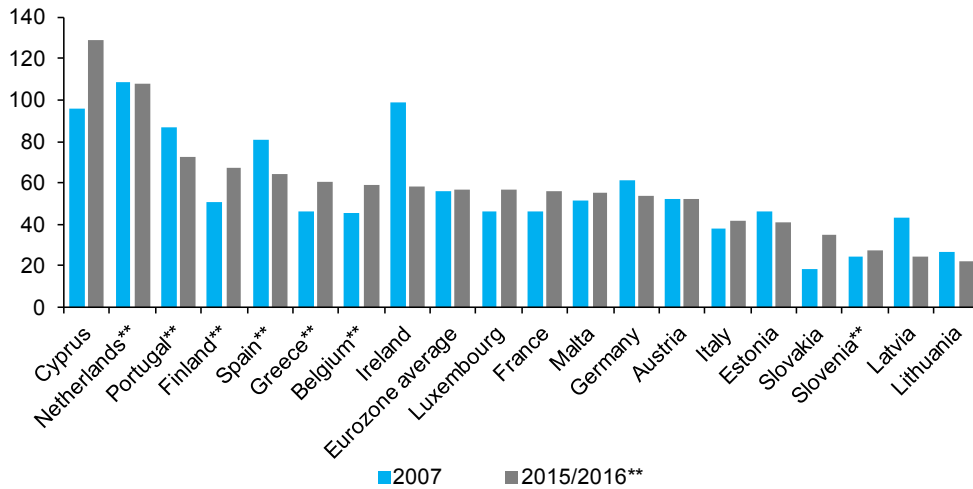
14 *Source: Eurostat.*

Exhibit 8
General government debt
(As a % of GDP)

■2007 ■2016
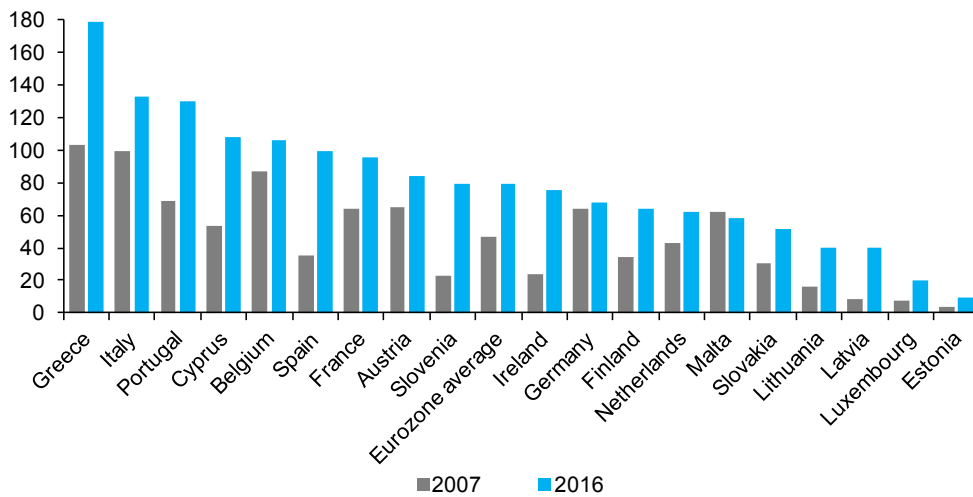
Source: Eurostat.

Some important steps have been made in terms of banking union. The Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) are now in operation, albeit with doubts regarding their effectiveness as demonstrated by the recent collapses of various European banks. A fund financed by banks has still to be fully in place, to respond to future bank crises. And the European deposit guarantee fund remains stuck in the pipeline. Moreover, bank portfolios lack sufficient diversification, leading to market fragmentation and hampering the flow of capital and investment.

Non-performing bank loans in various countries remain a source of concern. These portfolios are a reminder of the financial crisis, especially the recession years when bank balance sheets contracted and default rates soared, without being offset by an increase in profitable lending to the private sector. Once again, a sustainable economic recovery accompanied by income growth would help the servicing of outstanding debt and thus improve the quality of certain non-performing loans. Meanwhile, a concerted effort is needed at the European level to tackle the consequences of defaults and avoid contagion effects.

Spain continues to be one of the fastest growing European economies, but the legacy of the crisis still weighs down on overall results. It would therefore benefit significantly from both domestic and eurozone reforms.

The debate on eurozone macroeconomic governance has intensified. A consensus is beginning to emerge on the limitations of existing instruments. Both the European Stability Mechanism (ESM) and the "European Semester" are clearly inadequate to handle future recessions. The creation of a European fund – though not necessarily in the form of a new EU budget and treasury, which would raise significant political,

institutional and democratic challenges – would be an important step in the right direction. Two possible alternatives are the creation of a pan-European unemployment insurance or a fund for investing in countries in crisis.

It is essential that the different options be assessed and rapid progress made towards reforming the architecture of the euro. The window of opportunity for measured action will shut as soon as monetary policy begins to normalise. ECB action (sovereign and corporate debt purchases and negative policy rates) is masking the eurozone's unresolved structural weaknesses. But the monetary policy arsenal is set to be progressively reigned in over the next two years.

Finally, within the European context, Spain continues to be an outlier in terms of its strong growth momentum. It is one of the fastest growing economies and is expected to remain so in 2018. Furthermore, convergence indicators are pointing in the right direction. Employment, exports, investment and the deficit are adjusting more significantly than in other countries.

However, the legacy of the crisis continues to weigh down on overall results. Unemployment and public sector debt levels remain the main source of vulnerability and necessitate new reforms to simultaneously lower these imbalances and improve the distribution of the fruits of the recovery.

Undoubtedly, reforms aimed at tackling job precariousness and improving the quality of education would go a long way to consolidating convergence with the eurozone core countries. Meanwhile, further budgetary adjustment is contingent on greater revenue collection efforts.

But domestic reforms are not sufficient – decisive action is also needed at the European level, which would be especially beneficial for Spain. Banks are excessively exposed to national sovereign debt, which in certain circumstances

could hamper their ability to finance the economy should the risk premium start to spike. Capital markets union would also facilitate the flow of savings and investment within the eurozone. This would be a welcome development for the Spanish economy, with its abundant supply of labour and relatively high rates of return. Finally, the creation of a European counter-cyclical instrument, such as unemployment insurance or an investment fund, would facilitate a quicker and less socially detrimental response to future recessions.

Spanish economic growth exceeds expectations, but persistent debt burden poses risks

Raymond Torres and María Jesús Fernández[1]

Spain's economic growth this year is exceeding expectations and the outlook for next year remains positive. To maintain this momentum, domestic issues, such as over-indebtedness and high long-term unemployment levels, must still be tackled in parallel to the reinforcement of the eurozone's institutional framework.

The Spanish economy is performing better than expected. The latest indicators point to stronger exports, reflecting the recovery in world markets and the favourable competitive position of Spanish firms. In addition, the slowdown in domestic demand is proving milder than initially foreseen. Altogether, the economy should grow by 3.2% in 2017 and 2.8% in 2018. Despite the slow but steady progress on fiscal consolidation, the main risk to the recovery remains the stock of public debt – expected to reach 98.1% of GDP in 2017 – which is high in comparison with other European countries and almost three times the pre-crisis level. It is crucial to tackle this weakness before the ECB scales down its exceptional arsenal of stimulus measures.

International context

The global economy is showing signs of improvement. The US is expanding at a moderate pace despite certain doubts about the sustainability of this momentum and the announcement of trade restrictions. Japan, meanwhile, is emerging from its protracted episode of economic lethargy, thanks to Abenomics –a strategy set in motion by its Prime Minister, Shinzō Abe–, which combines monetary and fiscal stimuli with structural reforms.

Expectations have also improved in Europe. Business and consumer confidence indicators have picked up, foreshadowing an uptick in activity in the quarters to come. The improvement is partly attributable to the European Central Bank's expansionary monetary policy (negative intervention rates coupled with purchases of up to 60 billion euros of public and corporate debt securities every month). The fiscal stimulus measures introduced in several countries with room for manoeuvre on the budget front have also contributed to the general improvement, as has the slight correction in oil prices.

In parallel, some of the risks that had presented themselves in emerging markets have dissipated. The Chinese economy's transition towards a growth model underpinned by satisfaction of domestic demand and less dependent on industrial goods exports is taking place gradually. Economic

[1] Economic Trends and Statistics Department, Funcas.

indicators are headed in the right direction in Latin America and parts of Africa, particularly in those countries which had fallen into recession, such as Brazil and Nigeria.

In addition, international trade, which had stagnated in recent years, has recovered. According to the OECD, trade is expanding at an annual rate of 4.5%, which is virtually double the pace of the last two years. This trend is particularly important for the Spanish economy, which is increasingly dependent on exports.

All of this has prompted the IMF to revise its estimates upwards. Specifically, the IMF's April forecasts (the most recent available), point to global GDP growth of 3.5% in 2017, up 0.4 percentage points from 2016 and up 0.1 percentage points from its January forecasts. For 2018, experts are predicting growth of 3.6%, unchanged with respect to the January forecasts. Those levels of growth are approaching the average growth rate observed between 1987 and 2007.

Counterbalancing these more optimistic forecasts are lingering sources of uncertainty. The eurozone's institutional architecture remains a work in progress, undermining the ability of the European member states, particularly the more indebted ones, to tackle fresh turbulence. In addition, following the fall of several banks (most recently in Spain and Italy), doubts have arisen regarding the effectiveness of the European financial system's supervisory mechanisms. This situation only highlights the obstacles to achieving banking union in Europe. The European Central Bank is expected to gradually roll back its extraordinary monetary policy measures, a move which will undoubtedly evidence the eurozone's weaknesses.

Elsewhere, certain emerging markets, such as Brazil and China, have sustained excessive growth in private sector lending which in some cases has fuelled real estate bubbles. New conflicts have arisen in oil producing nations, although

their impact on international markets has been limited to date. Lastly, significant political risks remain, including the uncertainty created by the UK's exit from the European Union and the rise in protectionist threats in recent times.

Recent performance by the Spanish economy

GDP expanded by 0.8% in the first quarter of 2017, or at an annualised rate of 3.3% (hereinafter, the quarter-on-quarter rates will be expressed in these terms), marking acceleration from the previous quarter. The year-on-year rate of growth was 3.0%. This performance was in line with expectations in light of the economic indicators released over the course of the quarter but was stronger than expected when the last set of forecasts was prepared, driven above all by a higher than forecast contribution by exports.

Domestic demand contributed 2.6 percentage points to the quarter-on-quarter rate of growth, while net exports contributed 0.7 percentage points, in both instances firming from the levels observed the previous quarter.

Growth in private consumption eased substantially in real terms in comparison with the last quarter of 2016 due to high inflation during the period; in nominal terms, growth was stable. At any rate, this component of demand has been trending lower, with ups and downs along the way, since the middle of 2015, as is clearly appreciable in the consumption indicators (Exhibits 1.1 and 1.2). However, the most recent data for the second quarter suggest that the downtrend in this variable may have hit bottom; indeed, private consumption may even be rebounding, as a result of the healthy pace of job creation.

In the first quarter, public spending, meanwhile, recovered from the drop observed the previous quarter. This item is registering very low growth: 0.8% year-on-year in nominal terms.

Exhibit 1
Consumption and capital goods investment indicators

1.1 - Consumption Indicators (I)
Annualised moving quarterly change in %, smoothed series

Retail trade, deflated
Passenger car registrations (right scale)
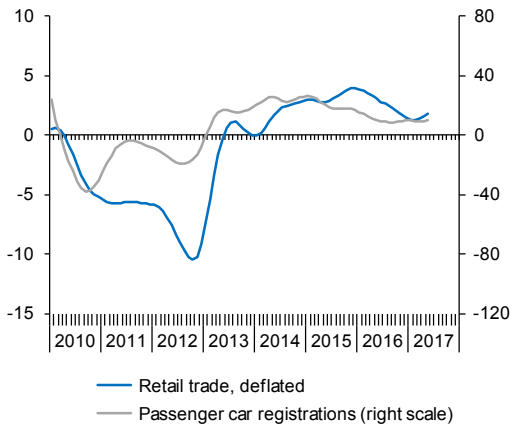
Sources: Ministry of Economy, INE, DGT and Funcas.

1.2 - Consumption Indicators (II)
Annualised moving quarterly change in % and index (CCI), smoothed series

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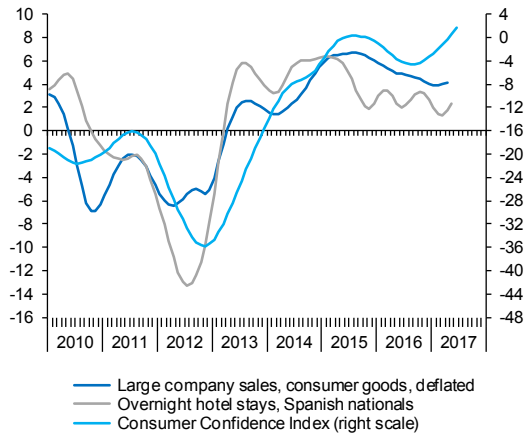
Sources: European Commission, INE, AEAT and Funcas.

1.3 - Capital goods GFCF indicators (I)
Annualised moving quarterly change in %, smoothed series

Availability of capital goods
Commercial vehicle registrations
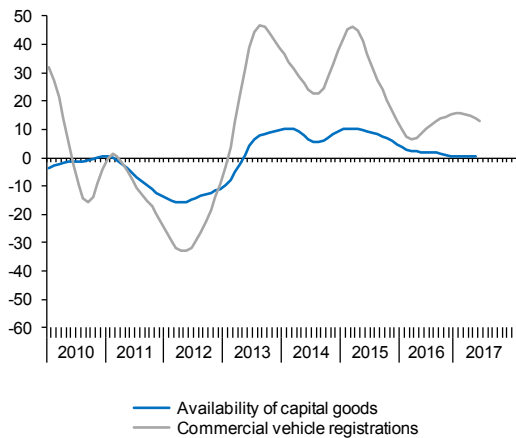
Sources: Ministry of Economy, Anfac and Funcas.

1.4 - Capital goods GFCF indicators (II)
Annualised moving quarterly change in %, smoothed series

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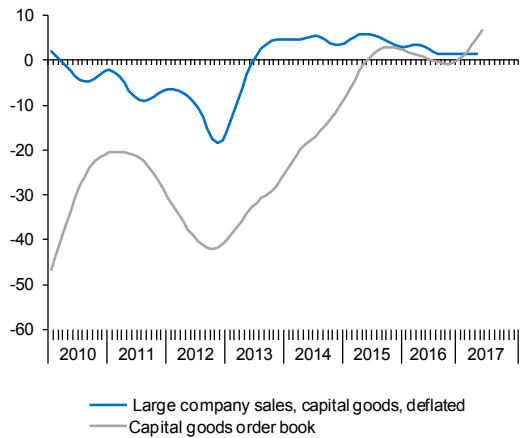
Sources: Ministry of Industry, AEAT and Funcas.

Investment in capital goods and intellectual property products registered a considerable rebound, higher than expected, possibly on account, at least partially, of the pushback of investment plans from the last quarter of 2016 due to the change in corporate income tax regulations in October, which increased corporate taxpayers' payments on account unexpectedly, obliging them to postpone spending. It may also be a reflection of the materialisation of investment plans postponed throughout 2016 due to political uncertainty. At any rate, the underlying factors substantiating the momentum in this variable are the recovery in corporate profitability driven by cost-competitiveness gains, healthier capital structures and the export boom. The second-quarter indicators released to date point to continued growth, albeit at a slower rate than

Exhibit 2

Industrial activity, services and construction indicators

2.1 - Industrial sector indicators (I)
Annualised moving quarterly change in % and index, smoothed series

- Turnover in manufacturing, deflated
- Industrial production index (manufacturing)
- Manufacturing PMI (index, right scale)
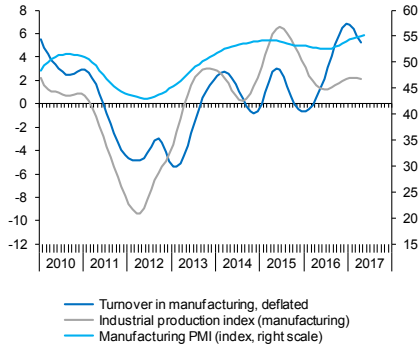
Sources: INE, Markit Economics Ltd and Funcas.

2.2 - Industrial sector indicators (II)
Annualised moving quarterly change in % and index, smoothed series

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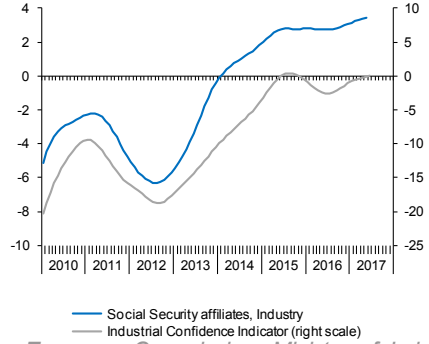
Sources: European Commission, Ministry of Labour and Funcas.

2.3 - Services indicators (I)
Annualised moving quarterly change in % and index, smoothed series

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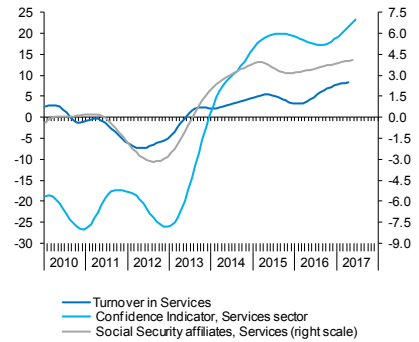
Sources: European Commission, Ministry of Labour, INE and Funcas.

2.4 - Services indicators (II)
Annualised moving quarterly change in %, smoothed series

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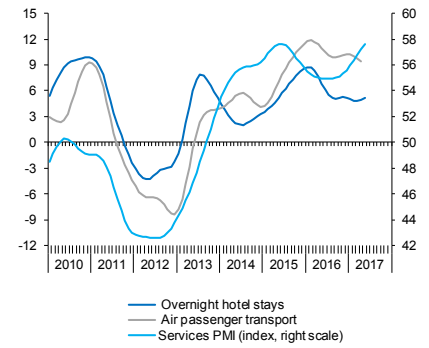
Sources: INE, AENA, Markit Economics Ltd. and Funcas.

2.5 - Construction sector indicators (I)
Annualised moving quarterly change in %, smoothed series

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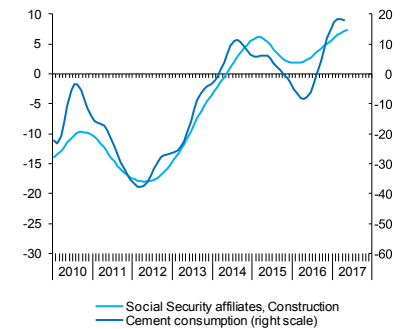
Sources: Ministry of Labour, OFICEMEN and Funcas.

2.6 - Construction sector indicators (II)
Annualised moving quarterly change in % and index, smoothed series

- Permits, last 24 months
- Construction confidence index
- Public works tenders, last 24 months
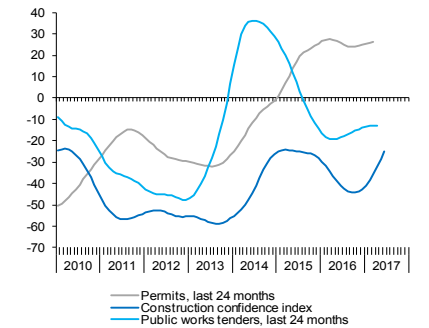
Sources: Ministry of Public Works, SEOPAN, European Commision and Funcas.

that observed in the first quarter (Exhibits 1.3 and 1.4).

Investment in housing also registered a sizeable increase in the first quarter, which is consistent with the trend in related indicators, such as the number of Social Security contributors in the construction sector and new house construction permits (Exhibits 2.5 and 2.6). The trend in permits points to continuation of the growth being observed in this component of demand, fuelled by job creation and low interest rates, as well as the housing scarcity increasingly evident in a number of areas, as reflected in price increases in the rental and buying markets alike.

Total exports registered their highest growth rate in 10 years, boosted by buoyant sales of goods and non-tourism services. Tourism exports also registered growth, albeit trailing the growth in the other indicators. Goods imports also sustained strong growth on the back of the sharp growth in exports and in investment in capital goods, variables with respect to which these imports are highly elastic. However, growth in total exports was higher than that in imports in real terms, giving rise to the above-mentioned positive – and higher than forecast – net contribution by exports to GDP growth. At current prices, however, growth in imports outstripped that in exports, due mainly to the increase in oil prices (Exhibit 3.1).

In short, from the demand perspective, the acceleration in GDP growth in the first quarter

From the demand side, growth acceleration in the first quarter of 2017 was driven by a much stronger export performance, along with a higher growth of domestic demand, resulting from higher investment in housing and capital goods.

of 2017 was shaped by a higher contribution by national demand, due to stronger investment in housing construction and capital goods, and a

bigger contribution by exports, thanks to buoyant exports of goods and non-tourism services.

On the supply side of the equation, the acceleration originated in the construction and services sectors. It is worth highlighting the fact that growth in the commerce and hospitality sub-sector, *i.e.*, that most closely related to tourism, has weakened according to the national accounting numbers. However, the number of tourist arrivals and the amount they spend continued to rise in the first four months of the year at rates that are higher even than the record numbers registered in 2016 in what is proving another pleasant surprise for the Spanish economy in early 2017 (Exhibit 3.2). In general, the service sector economic indicators showed signs of acceleration in the first quarter, a trend that continued into the start of the second (Exhibits 2.3 and 2.4).

As for the industrial sector, the indicators have produced a mixed bag of results for both the first quarter and the start of the second (Exhibits 2.1 and 2.2). On the one hand, the industrial production index was a little disappointing, in line with sales by the large industrial companies, albeit largely shaped by the drop sustained in the energy sub-sector. The purely manufacturing index fared somewhat better than the overall index, despite being dragged down by the adverse performance by the car manufacturing sector. The manufacturing turnover index and PMI readings were also on the positive side.

Growth in the number of full time equivalent jobs accelerated to 2.7%, implying a productivity gain of 0.6%, even though the productivity gain in the manufacturing industry was 0.1%. In the manufacturing sector, the numbers reveal a slowdown in growth in productivity, such that unit labour costs have begun to rise; however, the wage growth trendline remains below the sector deflator.

According to the most recent Labour Force Survey, unemployment continued to come down during the first quarter at the same strong pace

Exhibit 3
External sector

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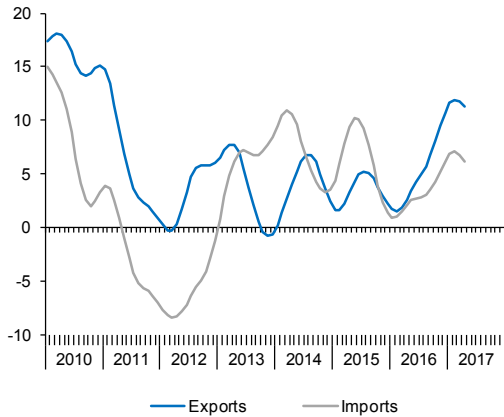
Source: Ministry of Economy.

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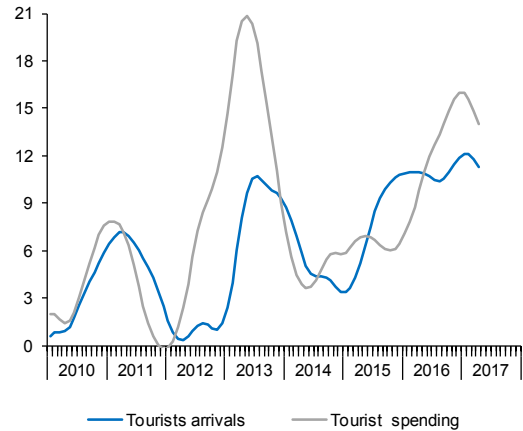
Source: INE.

3.3 - Balance of payments (I)
EUR billion, cumulative last 12 months
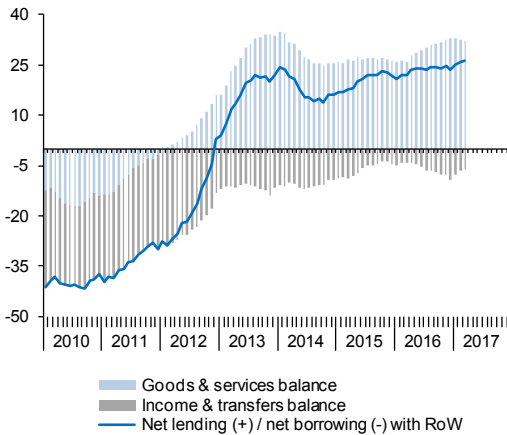
Source: Bank of Spain.

3.4 - Balance of payments (II)
EUR billion, cumulative last 12 months
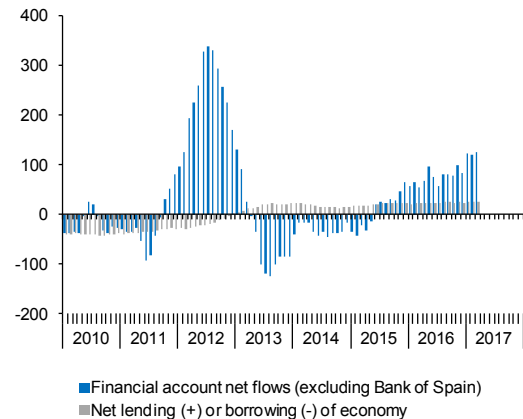
Source: Bank of Spain.

as last year. The headline unemployment rate increased by 0.2 percentage points to 18.8% but the seasonally-adjusted rate fell to 18.1%. The active population continues to decline due to demographic trends. The participation rate is also trending lower due to lower labour force participation by youths and adults up until the age of 34. Above that age, the participation rate is rising (Exhibits 4.1 and 4.2).

As for the second quarter, the Social Security contributions figures indicate acceleration in the pace of job creation, driven specifically by the market services sector. Growth in employment in the construction sector would appear to be slowing from the high rate observed the previous quarter, with job creation broadly stable in industry compared to the first quarter. The drop in unemployment is similarly accelerating (Exhibits 4.3 and 4.4).

Judging by these employment figures, coupled with the picture being painted by other economic

The sharp growth in investment and exports, due to the improved international context, has provided an unexpected boost, translating into faster growth in economic activity, employment and consumption, such that the economy, which had lost steam in the second half of 2016, is gathering momentum once again.

indicators, GDP growth may well have accelerated once again in the second quarter, approaching 4% in annualised terms. A figure which would, as with the first quarter numbers, easily outstrip the estimates contemplated at the start of the year, which foreshadowed as slowdown in growth due to depletion of the impact of some of the factors that had been driving the economy for the last two years. However, the sharp growth in investment and exports, thanks to the improved international context, has provided a new and unexpected boost, which is translating into faster growth in economic activity, employment and consumption, such that the economy, which had lost steam in the second half of 2016, is gathering momentum once again.

The inflation rate increased to the 3% mark at the start of the year due to transitional factors, specifically a knock-on effect on fuel prices of the increase in oil prices in the second half of 2016, a one-off spike in electricity prices and certain agricultural products due to meteorological conditions. These effects reversed in subsequent months, with inflation dropping to 1.5% in June. Core inflation held steady at around 1% (Exhibits 5.1 and 5.2).

The trade balance to April revealed a significantly lower surplus year-on-year because imports grew faster than exports in nominal terms, mainly due to higher oil prices. According to the customs

records, the balance of trade in non-energy goods improved year-on-year. The deterioration in the trade balance was not offset by a reduction in the primary and secondary income deficits, so that the current account deficit came in at 409 million euros, while the first quarter of 2016 recorded a surplus of 1.9 billion euros (Exhibits 3.3 and 3.4).

The household savings rate has been trending lower since the start of the recovery. In 2016, it stood at 7.7% of gross available income. Household investment, meanwhile, has been growing over the same period, so that the household segment's net lending capacity has narrowed from 4% of GDP in 2013 to 1.9% in 2016. The non-financial corporations, in contrast, have been increasing their savings rate but also their investment rate, so that they presented a net lending capacity once again in 2016 equivalent to 2.8% of GDP (Exhibits 7.1 and 7.2).

The household and corporate deleveraging processes continued in 2016 albeit at a slower pace than in prior years (there are no data yet for 1Q17). Household leverage has declined to 102.5% of gross disposable income, 32 percentage points below the high of 2007, while that of the non-financial corporations has fallen to 101.7%, 31 percentage points below the peak of 2011 (Exhibit 7.4). Thanks to this deleveraging effort and the drop in interest rates, the debt

The drop in interest payments in recent years has been so significant that in 2016, in the case of households and corporations alike, interest payments were lower than in 2000, despite the fact that debt levels were much lower than today.

servicing burden continues to fall in tandem, fuelling consumption and investment in turn. In fact, the drop in interest payments in recent years

Exhibit 4
Labour market indicators

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

Participation rate, s.a., aged 16-64 (right scale)
Population, aged 16-64
Active population, aged 16-64
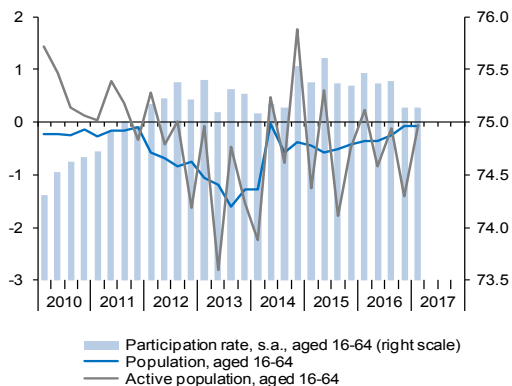
Source: INE (LFS).

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

Unemployment rate, s.a. (right scale)
Active population
Employment
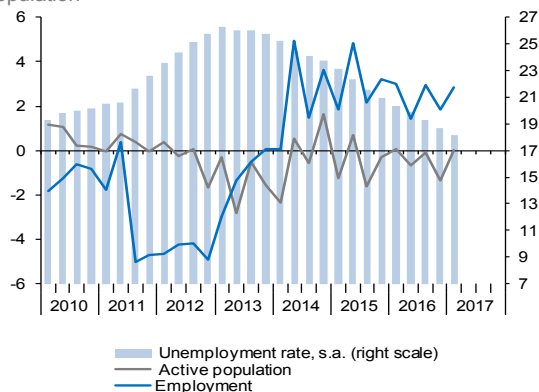
Source: INE (LFS).

4.3 - Social Security affiliates
Annualised moving quarterly change in % and millions, seasonally-adjusted data

Rate of change in %
Affiliates, millions (right scale)
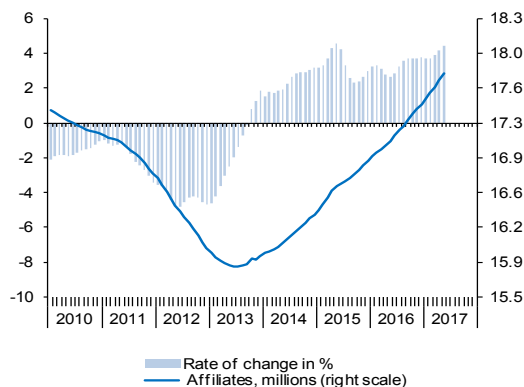
Source: Ministry of Labour and Funcas.

4.4 - Registered unemployment
Annualised moving quarterly change in % and millions, seasonally-adjusted data

Rate of change in %
Unemployed, millions (right scale)
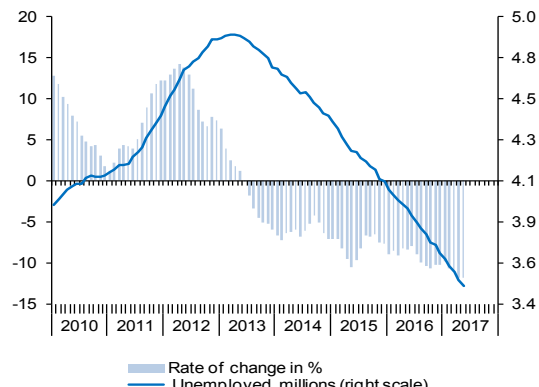
Source: Ministry of Labour and Funcas.

has been so significant that in 2016, in the case of households and corporations alike, interest payments were lower than in 2000, which marked the start of the prior period of expansion, when borrowing levels were much lower than today.

However, in the case of households, the interest earned on financial assets has also declined and in 2016 the decrease was higher even than the drop in interest payments, so that the net effect of the reduction in interest rates on disposable income for the household segment as a whole

was negative last year. Nevertheless, the ultimate impact on consumption was likely positive as the savings rate presented by indebted households is lower than that of households with net assets.

The public deficit decreased to 0.37% of GDP, or 4.28 billion euros in the first quarter, from 7.88 billion euros in the first quarter of 2016 (Exhibit 7.3). The improvement was driven by stronger revenue, as expenditure was slightly higher. On the revenue side of the equation, the trend in VAT collections and social security

Exhibit 5
Price indicators

5.1 - Consumer Prices Index
Change y-o-y in %

Total CPI
Core CPI
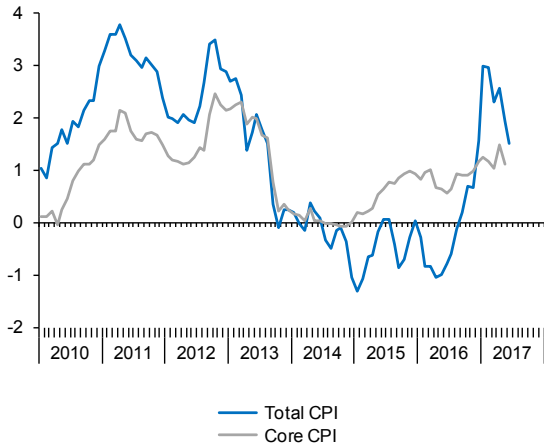
Source: INE.

5.2 - Commodities prices in €
Euros and index

Food commodities index (2005=100)
Industrial commodities index (2005=100)
Brent (€/barrel) (right scale)
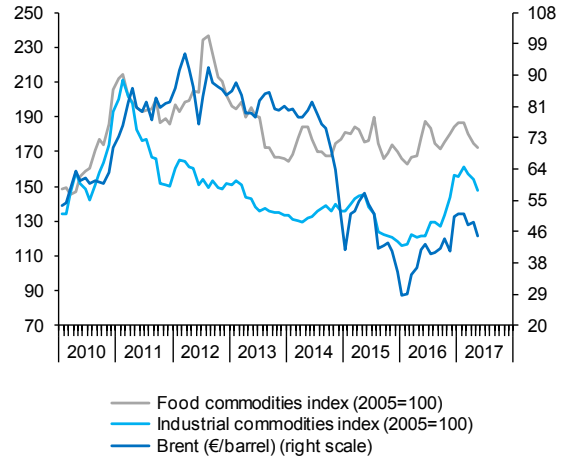
Sources: Ministry of Economy and The Economist.

contributions stands out, although the figures for the first few months of the year tend to be very volatile and scantly representative. The deficit consolidation effort was concentrated at the central and local government levels, offsetting

the downturn in the numbers presented by the regional governments and Social Security administration. The deterioration in the latter's deficit during the first quarter is attributable to the reduction in transfers from the state, given that

Exhibit 6
Financial indicators

6.1 - Government 10 years bonds rate
Percentage and basis points

Spread (basis points, right)
Spanish debt (left)
German debt (left)
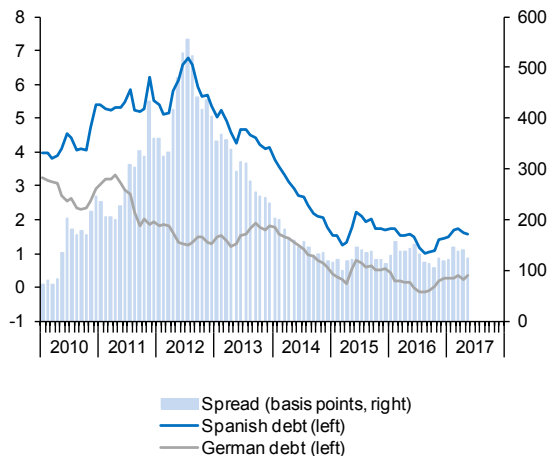
Sources: ECB and Bank of Spain.

6.2 - New loans
Volume index 2007=100, s.a. and smoothed series

Total
To households
To non-financial corporations, 1 millon € or less
To non-financial corporations, more than 1 millon €
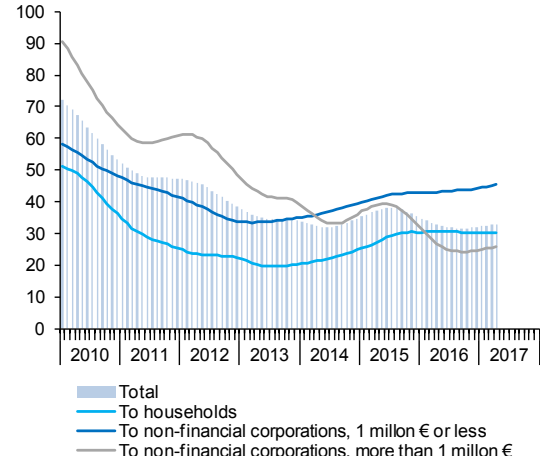
Source: Bank of Spain and Funcas.

Exhibit 7
Financial imbalances

7.1 - Domestic saving, investment and current account balance
Percentage of GDP, 4-quarter moving average

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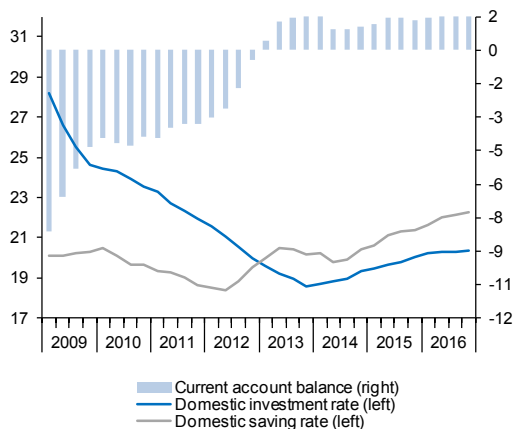
Source: INE.

7.2 - Household saving rate
Percentage of GDP

Source: INE.

7.3 - General Government deficit
Percentage of GDP, 4-quarter moving average

Net lending or borrowing (right)
Revenue (left)
Spending (left)
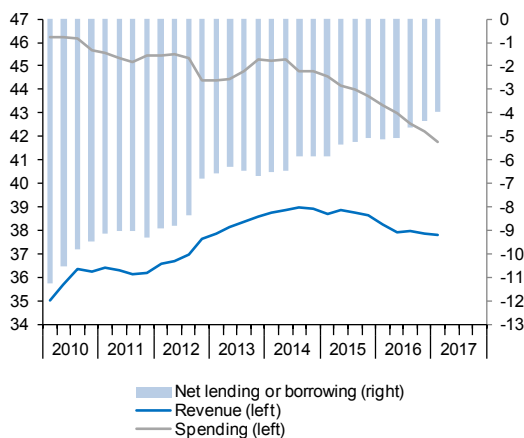
(1) Excluding financial entities bail-out.
Source:INE.

7.4 - Gross debt
Percentage of GDP

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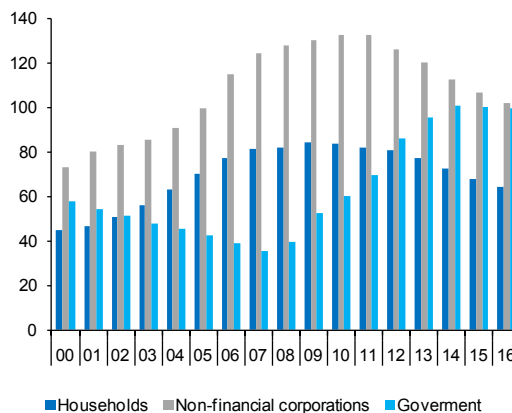
Source: Bank of Spain (Financial Accounts).

social security contributions rose by more than expenditure on welfare.

Forecasts for 2017-2018

The current forecast is for growth of 3.2% in 2017, up 0.4 percentage points from the last estimate. The revised estimates are the result of a significantly more dynamic than expected performance on the export front. Growth in exports of Spanish goods is accelerating, thanks to the recovery in the world markets and the favourable competitive positioning boasted by Spanish companies. And the tourist season promises to be a good one in terms of both arrivals and expenditure per tourist. Exports of non-tourism

Exhibit 8

Economic forecasts for Spain, 2017-2018
(Change y-o-y in %, unless otherwise indicated)

8.1 - GDP

Forecast

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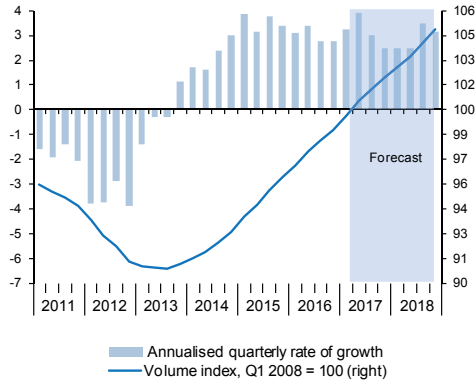
8.2 - GDP, national demand and external balance

Forecast

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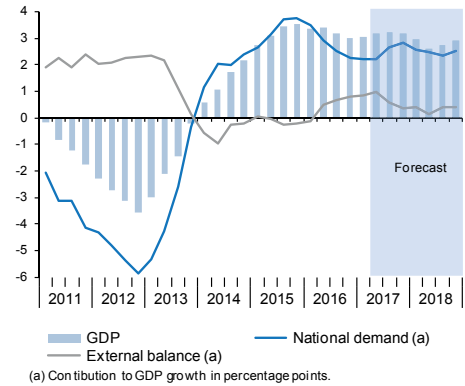
8.3 - National demand aggregates

Forecast

— Households' consumption
— GFCF cap. goods & other products
— GFCF construction

8.4 - Employment and unemployment

Forecast

■ Unemployment rate, s.a. (right scale) (a)
— Active population
— Employment
(a) Percentage of working age population.

8.5 - Inflation

Forecast

— GDP deflator
— Private consumption deflator
— Unit labour cost

8.6 - External commerce

Forecast

— Exports of goods and services
— Imports of goods and services
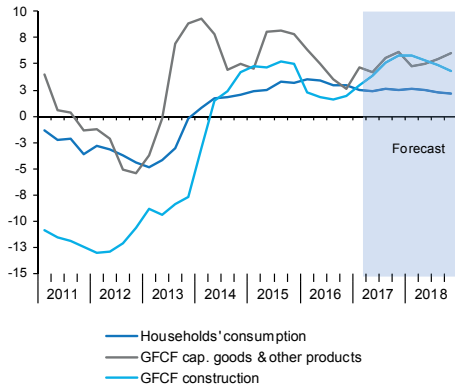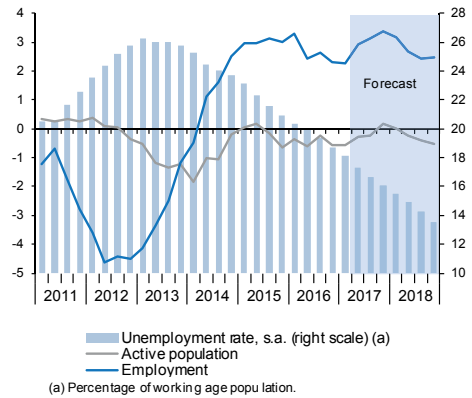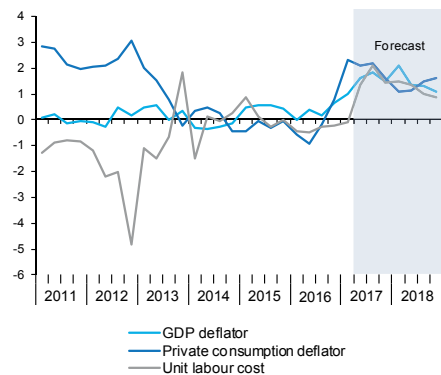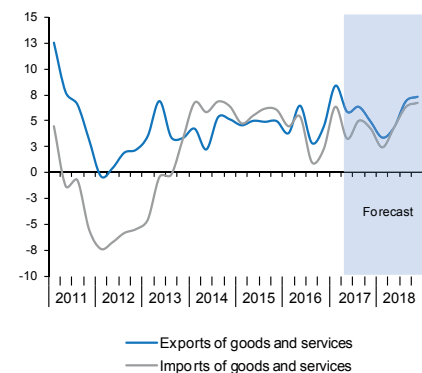
Source: INE (Quarterly National Accounts) and Funcas (forecasts).

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Table 1
Economic Forecasts for Spain, 2017-2018
(Annual rates of change in %, unless otherwise indicates)

	Actual data				Funcas forecasts		Change in forecasts (a)	
	Average 1996-2007	Average 2008-2013	2014-2016	2016	2017	2018	2017	2018
1. GDP and aggregates, constant prices								
GDP	**3.8**	**-1.3**	**2.6**	**3.2**	**3.2**	**2.8**	**0.4**	**0.3**
Final consumption households and NPISHs	3.6	-2.2	2.6	3.2	2.5	2.4	0.1	0.3
Final consumption general government	4.3	0.7	0.8	0.8	0.8	0.7	0.2	0.1
Gross fixed capital formation	6.4	-7.4	4.3	3.1	4.8	5.2	0.8	1.3
Construction	5.9	-10.7	2.7	1.9	4.5	5.1	0.5	1.1
Residential construction	7.8	-12.5	4.3	3.7	6.7	6.6	1.6	1.9
Non-residential construction	4.2	-8.7	1.4	0.4	2.5	3.6	-0.5	0.3
Capital goods and other products	7.5	-2.2	6.0	4.3	5.2	5.3	1.1	1.4
Exports goods and services	6.6	1.7	4.5	4.4	6.4	5.5	1.6	0.8
Imports goods and services	8.7	-4.1	5.1	3.3	4.7	5.0	1.2	0.9
National demand (b)	**4.5**	**-3.1**	**2.7**	**2.8**	**2.5**	**2.5**	**0.2**	**0.3**
External balance (b)	-0.7	1.8	-0.1	0.5	0.7	0.3	0.2	0.0
GDP, current prices: - € billion	--	--	--	1,113.9	1,166.2	1,216.6	--	--
- % change	7.4	-0.8	2.8	3.6	4.7	4.3	0.3	0.3
2. Inflation, employment and unemployment								
GDP deflator	3.5	0.5	0.2	0.3	1.5	1.5	0.0	0.1
Household consumption deflator	**3.1**	**1.8**	**-0.1**	**-0.2**	**2.1**	**1.3**	**0.0**	**0.0**
Total employment (National Accounts, FTEJ)	3.4	-3.3	2.3	2.9	2.8	2.4	0.4	0.4
Productivity (FTEJ)	0.4	2.0	0.3	0.4	0.3	0.4	-0.1	-0.1
Wages	7.5	-1.1	2.7	3.1	4.4	3.9	0.2	0.2
Gross operating surplus	6.9	-0.3	2.4	4.4	4.5	4.4	0.6	0.6
Wages per worker (FTEJ)	3.3	2.3	0.1	0.0	1.4	1.4	-0.2	-0.2
Unit labour costs	2.9	0.3	-0.2	-0.4	1.1	1.0	-0.1	-0.1
Unemployment rate (LFS)	**12.5**	**20.2**	**22.0**	**19.6**	**17.1**	**14.6**	**-0.4**	**-1.2**
3. Financial balances (% of GDP)								
National saving rate	22.4	19.8	21.4	22.3	22.9	23.5	0.1	0.3
- of which, private saving	18.6	23.0	24.1	24.4	24.0	23.5	0.1	0.0
National investment rate	26.9	23.1	20.0	20.4	20.7	21.4	0.0	0.3
- of which, private investment	23.0	19.2	17.8	18.5	18.8	19.4	0.0	0.2
Current account balance with RoW	**-4.5**	**-3.3**	**1.4**	**1.9**	**2.2**	**2.1**	**0.1**	**0.0**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	1.8	2.0	2.5	2.5	-0.2	0.0
- Private sector	-2.8	5.9	7.1	6.6	5.8	4.7	-0.2	-0.3
- Public sector (general governm. deficit)	**-0.9**	**-8.6**	**-5.2**	**-4.5**	**-3.2**	**-2.2**	**0.1**	**0.3**
- General gov. deficit exc. financial instit. bailout	**--**	**-7.9**	**-5.1**	**-4.3**	**-3.2**	**-2.2**	**0.1**	**0.3**
Public debt according to EDP	52.2	67.2	99.9	99.4	98.1	96.1	-0.3	-1.0
4. Other variables								
Household saving rate (% of GDI)	10.2	10.1	8.3	7.7	7.4	7.2	-0.1	-0.6
Household gross debt (% of GDI)	82.1	127.3	107.3	102.5	98.6	96.7	0.6	2.8
Non-financial coporates gross debt (% of GDP)	80.0	128.0	107.0	101.7	95.9	91.5	-0.3	-0.4
Spanish external gross debt (% of GDP)	90.8	158.6	168.1	167.5	159.7	156.3	-0.2	-0.8
12-month EURIBOR (annual %)	3.7	1.9	0.2	0.0	-0.1	0.2	0.0	0.0
10-year government bond yield (annual %)	5.0	4.7	1.9	1.4	1.6	1.9	-0.2	-0.3

Notes:
(a) Change between present and previous forecasts, in percentage points.
(b) Contribution in GDP growth, in percentage points.
Sources: 1996-2016: INE and Bank of Spain; Forecasts 2017-18: Funcas.

services should also stay on a positive track. The forecast is for accelerating growth in imports, more in line with the level associated with the prevailing trend in demand. As a result, foreign trade is expected to make a net contribution to growth of 0.7 points, up 0.2 points from the last set of forecasts (Table 1 and Exhibits 8.1 and 8.2).

Elsewhere, the slowdown in domestic demand for 2017 is now expected to be less pronounced than initially forecast: it is expected to contribute 2.5 percentage points to GDP growth. The forecast for private consumption has also been revised slightly higher. This revision reflects the impact of stronger job creation on available household income and the savings rate (coming down). Growth in gross fixed capital formation is also forecast to intensify. Households, which are seeing their income grow, have been stirred to invest in housing, taking advantage of the lower rates. Companies are also beginning to invest their surpluses in capital goods and modernisation of their productive capacity (Exhibit 8.3).

The forecast for inflation continues to point to an increase of around 2% in 2017, driven by the year-on-year increase in oil prices. The GDP deflator, meanwhile, should register a somewhat smaller increase of around 1.5% (Exhibit 8.5). Core inflation, thus, is expected to remain moderate.

The forecast is for growth in employment of 2.8%, 0.4 points up from the last forecast, with the unemployment rate falling to an average rate for the year of 17.1% (Exhibit 8.4). Some of the uptick in inflation should trickle down to wages, which are expected to rise by 1.4%.

In 2018, GDP growth is expected to slow to 2.8%, shaped by a lower contribution by net trade. Exports of goods and services are still expected to continue to gain market share, but at a slower pace than during the initial years of recovery. Imports are expected to register growth more in line with the trend in demand (implying an elasticity of close to 2). The forecast is that domestic demand

will make a similar contribution to growth as in 2017, with private consumption slowing slightly in real terms (and registering a more pronounced drop in nominal terms) as a result of the slower growth in job creation. Public spending is similarly expected to slow a little, with public investment accelerating. Job growth is forecast to slow to 2.4%, leaving the unemployment rate at under 15%.

The public deficit is expected to improve significantly. On aggregate, the budget deficit is forecast to decline to 3.2% of GDP in 2017, 0.1 point above target, thanks to the freeze on spending implicit in the rollover of the budget and the fiscal measures taken at the end of 2016. In 2018, it is expected to fall to 2.2% of GDP, on target.

Persistent high debt

Spain's public debt burden remains one of the economy's key sources of vulnerability. In 2017, it is expected to reach 98.1% of GDP, which is high in comparison with other European countries and almost three times the pre-crisis level (Exhibit 7.4 and Table 1).

The ECB's adoption of an arsenal of expansionary monetary policies in 2012 has facilitated a reduction in the cost of debt and country risk

In 2016, yields on Spanish 10-year bonds were under 1.4%, compared to 5.9% in 2012. The spread over German bonds stood at 120 basis points, compared to nearly 430 points in 2012. However, the anticipated rollback of the ECB's lax monetary policies will exert fresh fiscal and financial pressures.

premiums. As a result, the increase in public borrowings has had hardly any impact on borrowing costs. In 2016, the yield on 10-year Treasury bonds was under 1.4%, compared to

Exhibit 9

Not commited public spending

(% of GDP)

Legend: ■ Social protection ■ Interests ■ Not commited public spending

2007: 13.9 (Social protection), 1.6 (Interests), 23.6 (Not commited public spending)
2017: 17.7 (Social protection), 2.6 (Interests), 20.7 (Not commited public spending)
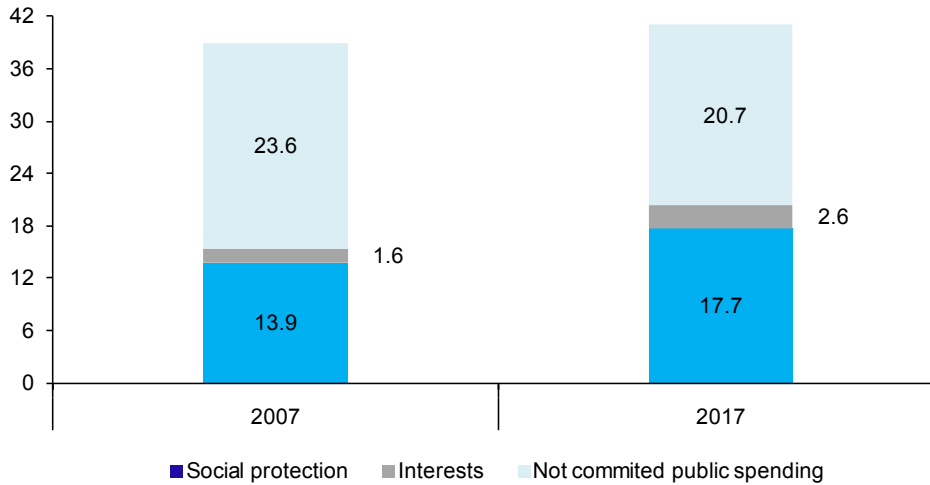
Sources: IGAE, Eurostat y Funcas.

5.9% in 2012. The risk premium measured as the spread over the German bond yield stood at 120 basis points, compared to nearly 430 points in 2012 (Exhibit 6.1). However, the anticipated rollback of these lax monetary policies will increase the financial burden and exert fresh pressure on budget deficits.

The result will be to further choke off the room for manoeuvre in budget policy which, since elimination of the national currency, is the cornerstone of macroeconomic policy. This ever-narrowing room for manoeuvre is evident in the sharp drop in discretionary public spending. This item is estimated as the difference between total public spending and non-discretionary spending, *i.e.*, interest payments and welfare (budget items that evolve in line with parameters which the government has very little power to influence in the short-term).

In 2017, not commited public spending is expected to fall to 20.7% of GDP, an all-time low (Exhibit 9). This leaves the country with little scope for investing in education, research & development, infrastructure and other public goods which are vital to driving productivity and achieving a successful transition to the digital economy.

Moreover, the foreseeable increase in interest rates will erode the return on the banks' asset portfolios as the banks are overexposed to sovereign debt as a result of the financial fragmentation that persists in the eurozone.

Household indebtedness, on the other hand, has fallen significantly since the real estate bubble burst. However, all signs suggest that the deleveraging process has ground to a halt. Firstly, households have started to spend beyond their means in terms of income growth. The result is a falling savings rate, a trend expected to continue during the projection period (Exhibit 7.2 and Table 1). Secondly, bank-financed home-buying has increased on the back of cheaper credit.

As a result, household liabilities will still account for 98.6% of their gross disposable income in 2017 and 61.6% of GDP. This level is relatively high according to a recent study by the Bank of

International Settlements, which estimates that the threshold above which household leverage poses a risk to sustainable growth is 60% of GDP. Spain's households are similarly exposed to the rollback of quantitative easing on their borrowing costs, particularly considering the fact that mortgages are usually taken out at floating rates of interest.

However, Spain's non-financial corporations continue to deleverage. To the extent they resort to credit, they do so on more stable terms than households do.

In short, it is important not to become complacent. The situation calls for a more forceful effort to correct the imbalances plaguing the public accounts, close monitoring of excessive household leverage, particularly households taking on mortgages at floating rates of interest, and more audacious efforts to tackle long-duration unemployment. Lastly, reinforcement of the eurozone's institutional framework could help solidify the recovery and reduce the risks to sustainable growth posed by public and household borrowing levels. Against this backdrop, it is important to culminate the banking union project and create a macroeconomic management tool for the eurozone.

Spain's fiscal consolidation path: Slow but steady

Santiago Lago-Peñas[1]

After several upward revisions to original targets, the Spanish general government complied with EU deficit targets for 2016. Analysts are largely optimistic that the 2017 targets will be met, but not without challenges.

Following several upward adjustments by the EU to the original 2016 deficit targets, the Spanish government (all levels) closed 2016 with a public deficit of 4.3% of GDP (excluding aid to the financial system), or below the 4.6% of GDP official objective. Target compliance was achieved with the help of the surplus recorded at the local government level, which compensated for slippage by Social Security and the slowdown in consolidation at the central government level. Consensus among most analysts is that Spain will come close to reaching the deficit target of 3.1% of GDP for this year, albeit the Independent Authority for Fiscal Responsibility (AIRef) has been more cautious. Optimism is underpinned by the notable acceleration of Spanish GDP growth, which has outperformed expectations, together with the outstanding scope for some discretionary spending cuts at the central government level in the event of 2017 targets coming under pressure. In any case, the latest April version of the 2017-2020 Stability Plan presents three relevant takeaways regarding Spain's fiscal consolidation path: i) the effort will come 80% from expenditure adjustment and 20% from revenues; ii) progress remains systematically slow and the current level of structural deficit needs to be further reduced; and, iii) spending cuts must be taken carefully if to avoid a scenario where the quality of Spain's public services falls below that of its peers.

Introduction: Where are we coming from?[2]

The Spanish government (all levels) ended 2016 with a public deficit of 4.3% of GDP (4.5% if we include the aid extended to the financial system), implying delivery of the then-prevailing deficit target (4.6%). Recall, however, that that target had been revised upwards twice over the course of 2016 in order to adjust to the reality being revealed by the monthly and quarterly reports

(Lago-Peñas, 2017). Indeed, the deficit target was initially set at 2.8% (September 2015), raised to 3.6% in April 2016 and raised again to the above-mentioned 4.6% in August.

Table 1 shows government net borrowing (-) or lending (+) figures for each of its four sub-sectors for the last year of the crisis (2013) and during the following three years of recovery (2014-2016), additionally presenting the targets for the year in progress. The reduction in the deficit has

Table 1

Government net borrowing (-) or net lending (+) position (2013-2017)
(Figures expressed as a percentage of GDP.)

	2013	2014	2015	2016	2017
Central government	-4.54	-3.57	-2.59	-2.52	-1.1
Regional governments	-1.58	-1.78	-1.74	-0.82	-0.6
Local governments	0.55	0.53	0.47	0.64	0.0
Social Security	-1.13	-1.04	-1.22	-1.62	-1.4
General government	-6.68	-5.86	-5.08	-4.33	-3.1

Source: Spanish Ministry of Finance and Civil Service (2017a). The 2017 numbers are the targets established. Figures net of financial aid.

been steady but slow in light of the considerable improvement observed in the output gap in the interim.[3] In fact, more granular analysis of the trend by sub-sectors heightens the concern over the consolidation difficulties observed. Table 2, meanwhile, complements the information provided in Table 1 by showing the annual changes in the various balances between 2014 and 2017.

The significant and systematic surpluses at the local government level have the effect of sweetening the overall snapshot. While required to target a balanced budget, the local governments have ended up compensating for the target misses by the rest of the levels of government. Their performance is attributable to a sharp correction in so-called 'non-mandatory' spending

Table 2

Improvement (+) or deterioration (-) in the government deficit year-on-year (2014-2017)
(Figures expressed as a percentage of GDP.)

	2014	2015	2016	2017
Central government	+0.97	+0.98	+0.07	+1.42
Regional governments	-0.20	+0.04	+0.92	+0.22
Local governments	-0.02	-0.06	+0.17	-0.64
Social Security	+0.09	-0.18	-0.40	+0.22
General government	+0.82	+0.78	+0.75	+1.23

Source: Author's own elaboration on the basis of Ministry of Finance and Civil Service figures (2017a). The 2017 numbers are the targets established. Figures net of financial aid. In the case of local government, a positive reading means an increase in the surplus and vice versa.

[3] According to the Spanish Ministry of Finance and Civil Service (2017a), the output gap, which was still -3.3% in 2016, should narrow to -1.5% in 2017, balance in 2018 and return to positive territory in 2019 (+0.60%).

by local governments in areas not strictly within their realm of authority and higher tax income forced by tax rate increases imposed under state law.

The Social Security lies at the other extreme of the spectrum. Despite the clear-cut improvement in labour market indicators, which should drive revenue growth via social security contributions, coupled with the measures taken to curb the growth in pension costs, the deficit has been rising consistently. Depletion of the Social Security's reserve fund appears inevitable and imminent and warrants the urgent passage of measures to complement the protection afforded by the so-called Toledo Pact.[4]

Depletion of the Social Security's reserve fund appears inevitable and imminent and warrants the urgent passage of measures to complement the protection afforded by the so-called Toledo Pact.

Thirdly, the regional governments as a whole demonstrated an apparent inability to bring their deficits below 1.5% of GDP in 2014 and 2015. However, this inability was closely related to the regional government financing system. In essence, it pivots around streams of advance payments and payments on account calculated and granted by the central government. If the central government's forecasts are overly optimistic, the regional governments are transferred more than they really should receive. And if the forecasts fall short of the mark, the opposite happens. When these prepayments are definitively settled two years later (*i.e.,* the provisional 2014 amounts are settled in 2016) a series of grants take place which can be positive or negative (money returned by the regional governments to the state).

Between 2008 and 2009, the advance payments and payments on account were much higher than what was really due in light of the collapse in tax revenue in Spain, thus falsely delaying the need for fiscal austerity by most regional governments. In contrast, in 2014 and 2015, the central government's forecasts fell short, so that the regional governments' revenue failed to reflect the economic uptick and their deficits did not fall. Settlement of the 2014 amounts, which the regional governments received in 2016, was very favourable for the latter. And that is the main factor justifying the substantial improvement observed in the regional government deficit, which dropped from 1.74% to 0.82%, that year. Indeed, the surplus settlements accounted for over three-quarters of the fiscal consolidation progress made (Lago-Peñas, 2017).

The main factor justifying the substantial improvement at the regional government level was the favourable surplus settlement in 2016, which accounted for over three-quarters of the consolidation progress made.

Lastly, the progress made at the central government level slowed in 2016. Having managed to cut its deficit at an annual pace of 1% in 2014 and 2015, the improvement slowed in 2016, a trend that is largely the flip side of the coin of the deficit-cutting at the regional level.

Deficit consolidation in 2017: Outlook for target compliance

To assess the prospects for deficit reduction in 2017, the first thing to consider is the current target and the amount by which the deficit accordingly needs to be cut year-on-year. Looking at Table 2,

[4] The Toledo Pact (Spanish: Pacto de Toledo) was an ambitious reform of the Spanish social security system approved by the Spanish parliament in April 1995, aimed at streamlining and guaranteeing the future of the Spanish Social Security system. Subsequently, a permanent parliamentary commission was created in order to monitor and modernise the pact and the system.

the government expects to reduce the budget deficit by 1.23 percentage points of GDP, with most of this improvement expected at the central government level. The central government deficit

The government expects to reduce the budget deficit by 1.23 percentage points of GDP, with most of this improvement expected at the central government level.

is forecast to drop by 1.42 points, compared to just 0.22 points at the regional government level and a reduction of a similar size in the case of the Social Security. Accordingly, the overall deficit reduction would be substantially bigger than that registered between 2014 and 2016, when it was cut by between 0.7 and 0.8 points annually. Moreover, the starting point is less favourable than it might appear. Here the Independent Authority for Fiscal Responsibility (AIRef) (2017a) delves beyond the distinction between whether or not the deficit target includes the financial system aid to allude to one-off transactions (particularly the impact of the regulatory changes to the tax prepayments approved by the central government), which in 2016 had a positive impact at the aggregate level. Stripping out these one-offs, the overall deficit would have ended 2016 at 4.5%, implying the need to cut the deficit by 1.4 percentage points in 2017, which is virtually double the annual improvement achieved between 2014 and 2016.

The consensus among analysts is that Spain will come in very close to its target this year. The consensus among the analysts reporting to Funcas as of July 2017 points to a deficit of 3.2%. Of the 16 institutions included in the average for this variable tracked by Funcas, nine are forecasting a deficit of 3.1%, with none estimating a better result. Current official forecasts point in the same direction. The European Commission and the Bank of Spain (in a report dated June 13th) are forecasting a deficit of 3.2%; the IMF is anticipating 3.3% and the OECD's forecasts point

to 3.4%. And the trend of late is one of favourable revisions to these forecasts in light of the unfolding growth, which is topping even the most optimistic expectations, at least in the first half of 2017.

The AIReF, however, is more cautious: its most recent forecasts call for a higher deficit. At the end of April (AIReF, 2017a), it saw the overall target of 3.1% as 'feasible albeit challenging', assigning a probability of a target miss of 50%. However, in June it changed its prognosis to 'improbable', based on its consideration that the probability of a target miss had increased to 60% (AIReF, 2017b). The main reason for this turn of events is the impact of the state damages liability clause that would be triggered in the event that the Ministry of Public Works bails out eight bankrupt toll roads at a cost estimated at 0.2% of GDP. Without this one-off development, the outlook would remain 'feasible albeit challenging'.

This divergent prognosis, depending on whether or not a development that is one-off yet significant financially is included, generates a distortion that is not easy to address. If factored in, the cyclical deficit does not faithfully represent the structural fiscal consolidation efforts being made. If omitted, however, the impact of the deficit on the national debt is underestimated; moreover, its omission may give the general public the idea that these targets are ultimately flexible in terms of size and definition, which is detrimental to trying to build a sense of collective responsibility on the fiscal front. Observation of the

Observation of the structural rather than the cyclical deficit would go a long way to solving measurement problems but runs up against the technical difficulty of estimating this component of the deficit accurately and robustly.

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against the technical difficulty of estimating this component of the deficit accurately and robustly.

Deficit consolidation in 2017: What do the settlement figures tell us so far?

Table 3 summarises the trend in the public deficit during the first quarter of 2016 and 2017. For the government as a whole, the figures point to a significant reduction in the deficit (slightly above 0.3 percentage points of GDP), most of which attributable to the central government, whose accumulated deficit fell from -0.83% to -0.44%. Projecting this reduction for the year as a whole, and assuming a symmetric trend in revenue and expenditures with respect to 2016, the targeted reduction of 1.23 percentage points would be met. However, the symmetry assumption is somewhat extreme, making it necessary to examine potential shifts in revenue and spending patterns. To this end, the new data added by the AIReF to its website under the heading Tracking the Stability Target are particularly useful.

In the case of the regional governments, the budget outturn figures to March 31st and their extrapolation are favourable. Good momentum in revenue and a degree of offsetting between

growth in current spending and slower investment execution have changed the outlook for compliance with the target for 2017 (a deficit of 0.6% of GDP) from 'feasible' to 'probable'.

Secondly, the problems affecting the Social Security are concentrated on the revenue side of the equation, specifically social contributions, in which growth continues to lag nominal GDP growth. The data available to date make it highly likely that the Social Security's expense targets will be met, thanks largely to the reduction in the outlay for unemployment benefits, but very improbable that the revenue forecasts will be delivered. The numbers point to a deficit in 2017 of 1.6%, 0.2 points above target and very close to last year's observed figure.

Lastly, the central government, which faces the steepest deficit-cutting challenge, poses the most doubts. Revenue is trailing the government's forecasts and nominal GDP growth. Based on the first-quarter numbers, the shortfall with respect to targeted revenue is attributable to lower than forecast receipts from personal income tax and special duties. In contrast, revenue from VAT and corporate income tax is faring better than forecast, albeit not by enough to offset the underperformance in the former two taxes; here,

Table 3

Deficit according to the budget outturn figures to March 31st
(Figures expressed as a percentage of GDP.)

	2016	2017
Central government	-0.83	-0.44
Regional governments	-0.11	-0.17
Local governments	0.06	0.13
Social Security	0.17	0.12
General government	-0.71	-0.37

Source: Ministry of Finance and Civil Service (2017b).

delivery of the goals for the year is feasible. On the spending side, things are relatively better, although, as mentioned earlier, the impact of the state liability for the bankrupt toll roads has added more pressure. If we additionally factor in the likely impact of the change in the amounts to be transferred to the Basque region, the AIReF views the likelihood of delivery of the deficit target as 'improbable' (probability of a miss of 80%).

That being said, there are at least two reasons for greater optimism regarding the prospects for complying with the overall deficit target for 2017. The first, already alluded to, is the fact that economic growth is accelerating once again and it is highly probable that GDP growth will once again approach or even surpass the 3% mark in 2017. Whereas the 2017 state budget assumed real GDP growth of 2.5%, the Bank of Spain is currently forecasting 3.1% (in its June macroeconomic projections), while Funcas consensus forecast stands at 3.1% (forecasts published in July). Although tax revenue and Social Security contributions are proving less elastic to nominal GDP growth than anticipated, this growth should nevertheless accelerate tax collection significantly.

Secondly, the government has room to approve additional measures to help balance its books. In fact, not all the initiatives contemplated in the packet of fiscal measures designed for the rollover of the 2016 budget have been set in motion and transferred to the 2017 budget.[5] Specifically, the update to the 2017-2020 Stability Plan (Ministry of Finance and Civil Service, 2017a) states that: "If over the course of the year the budget outturn numbers were to evidence a risk of falling short of the target, the measures already committed to would be implemented[…], specifically environmental

taxes and the tax on sugary drinks, which would raise 300 million and 200 million euros, respectively". Those additional 500 million euros would create a buffer of approximately 0.4 points of GDP.

Unforeseen difficulties have cropped up in the fiscal consolidation path this year and first-quarter revenue has fallen short of expectations. Balancing this out, however, Spanish GDP growth is accelerating and the central government still has some discretionary power to help meet 2017 targets.

In short, unforeseen difficulties have cropped up in the fiscal consolidation path this year and first-quarter revenue has fallen short of expectations. Balancing this out, however, Spanish GDP growth is accelerating notably, surprising private and public analysts alike. Meanwhile, the central government still has some discretionary power if it needs to redirect deviations that are jeopardising the target set for 2017.

Beyond 2017: The 2017-2020 Stability Plan

At the end of April, the central government presented the updated version of its Stability Plan for 2017-2020. Exhibit 1 depicts the three key prongs of this strategy: non-financial spending, non-financial income and the gap between the two, the deficit. The values are expressed in terms of GDP. The three main conclusions are as follows:

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[5] The package of tax measures, with an overall impact of 7.5 billion euros, included the elimination of tax breaks and deductions in respect of corporate income tax; an increase in the duties levied on tobacco and alcoholic beverages; a new tax on sugary drinks pending approval; phase one of a 'green fiscal reform' prioritising greenhouse emissions; changes in tax management (specifically, elimination of the scope for granting deferrals for output VAT, payment by instalments or suspended debts while an appeal is being processes); and, intensification of the battle against tax fraud.

Exhibit 1

Forecast trend in non-financial spending and revenue according to the updated Stability Plan for 2017-2020
(Figures expressed as a percentage of GDP.)
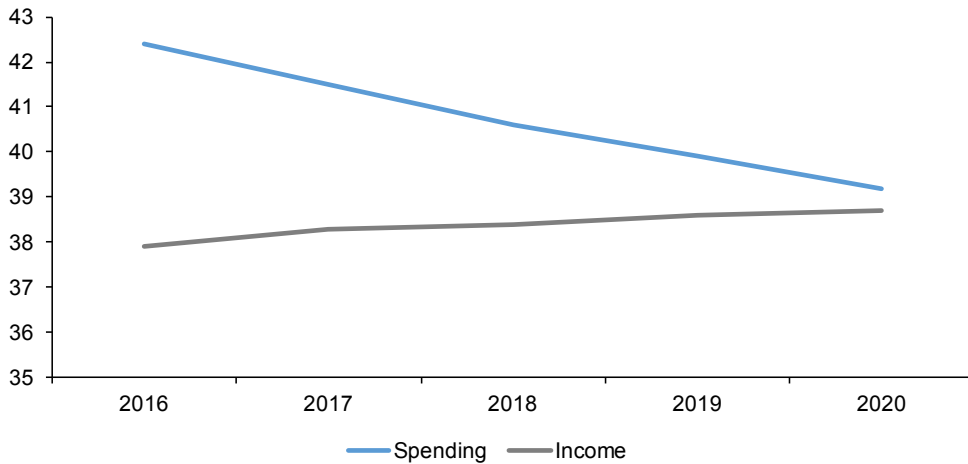
Source: Author's own elaboration on the basis of Ministry of Finance and Civil Service figures (2017a).

■ The consolidation effort is focused on the spending side of the equation. Underpinned by annual nominal average GDP growth rate of 4.2%, the Plan designs a roadmap for cutting spending over GDP by 3.2 percentage points between 2016 and 2020, such that nominal spending would rise at just above 2% per annum (2.2%). Revenue is projected to stay broadly stable, increasing 0.8 percentage points of GDP over the same period. This means that the deficit-cutting effort will be driven 80% by spending cuts and just 20% by income growth. This pattern of consolidation has been the rule in fiscal strategy since the Partido Popular's first administration (Lago, 2014).

■ Despite the fact that the economic climate has been on the side of fiscal consolidation since 2014, delivery of the original deficit-cutting targets has been systematically and successfully pushed back in time. When the Stability Plan was updated for 2014-2017,

the goal was to cross the 3% threshold in 2016 (2.8%) and go on to post a deficit of 1.1% in 2017 (Lago, 2014). In the most recent update to the Plan for 2017-2020, the target for 2017 remains above the 3% mark, falling to 1.3% only in 2019. Considering the fact that the government expects to register a positive output gap once again this year (+0.60%), the numbers imply the maintenance of a structural deficit of close to 1.5%. A level that appears high if the government wants to retain room for manoeuvre in the fiscal policy arena against the backdrop of European stability. Excessive too if the goal is to drive the current stock of public debt down towards 60% of GDP within a reasonable timeframe.

■ The public spending cuts of the past and the additional austerity foreseen (very limited nominal growth and significant drop in the ratio of public spending to GDP) will translate

into challenging public budgeting restrictions. Analysis of the expenditure breakdown reveals that the weight of public spending declines in all categories. Exhibit 2 illustrates three of the most important areas quantitatively: welfare (including pensions and unemployment benefits), healthcare and education. It provides figures as a percentage of GDP in 2016 and 2020 alongside the average for OECD members between 1995 and 2011, as calculated by Lago and Martínez-Vázquez (2016). On a relative basis, the forecast adjustment will be more pronounced in healthcare and education, areas delegated in the regional governments. And education will be particularly hard hit.

Barring changes in the areas targeted for consolidation, it is clear that the efficient use and reallocation of public resources is going to prove vital if the looming public spending scenario is not to result in poorer-quality public services that are below the standards of Spain's peers. The spending review which the Spanish government

has commissioned the AIReF to prepare in 2017 against the backdrop of the recommendations emanating from the European Commission is a step in the right direction. However, further steps are needed. Specifically, the central and regional governments need to tackle institutional reforms in order to foster the independent, thorough and continuous assessment of the social benefits of their investments and of their spending programmes in general.

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Exhibit 2

Public spending on healthcare, education and welfare in Spain in 2016, forecast for 2020 and averages for OECD members between 1995 and 2011
(Figures expressed as a percentage of GDP.)
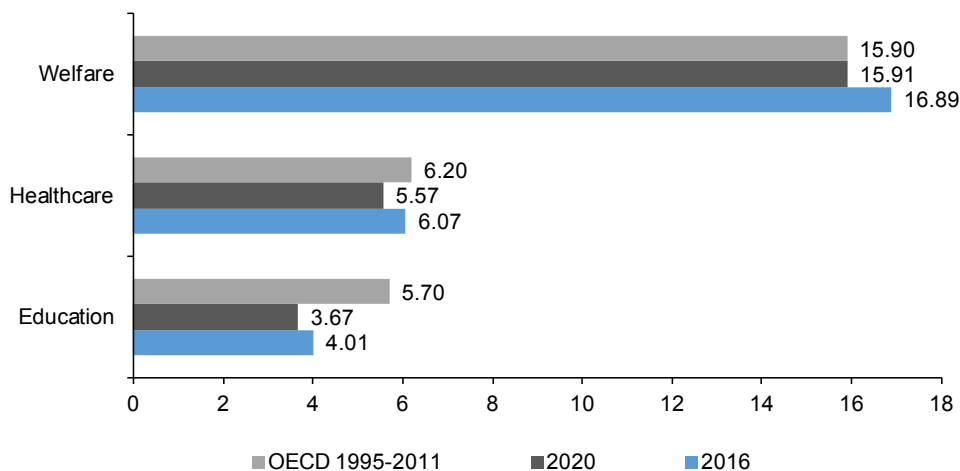
Source: Author's own elaboration on the basis of Ministry of Finance and Civil Service figures (2017a) and the work of Lago-Peñas and Martínez-Vázquez (2016).

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Spain's 2017 Budget: Lacking reforms to meet the deficit target

Ana Aguerrea and Susana Borraz[1]

Even though the State looks set to have a hard time meeting ambitious deficit targets this year, the expected overall overshoot is likely to be small, thanks to positive contributions once again from the anticipated surplus at the local administration level. However, risks from possible one-offs could increase slippage above current projections.

The aim of this article is to analyse the outlook for State revenues and expenditures following the recent approval of the 2017 Budget, which depends primarily on favourable cyclical developments to meet the State's end of year deficit target. The strong performance of tax revenues in the first part of the year, together with stagnation in discretionary departmental spending, bode well for a significant reduction in the deficit, bringing it mostly in line with the official target for this year. However, the lack of substantive reforms foreshadows difficulties in fully delivering on deficit targets over the longer-term. Moreover, the Budget document does not reflect the reform recommendations considered by the European Commission as key for exiting from the Excessive Deficit Procedure, such as changes to indirect taxation. Likewise, it fails to take account of other reforms currently under review, affecting sub-sectors of government, such as the Social Security system and the Territorial Administrations. The latter, in particular the Regional Governments, are set to see a significant increase in funding following the approval of the new State budget, which should facilitate overall compliance. At the same time, work is ongoing to define a new regional financing model.

The General State Budget once again assumes that the government will comply with its stability targets while at the same time failing to propose substantive structural reforms or changes to fiscal policy. Add to this the fact that it was only approved by a plenary of the Senate on June 26th and the result is that the 2017 Budget is little more than a stopgap; intended to tide the government over until preparations for the 2018 Budget.

The overall deficit target for Spain's combined public administrations in 2017 is 3.1% of GDP. The State ended 2016 in a relatively more challenging position than other levels of administrations, meaning it will likely struggle to meet its individual target this year. The State registered a deficit of 2.5% of GDP in 2016 − 0.3 percentage points above target − meaning it will need to shoulder a bigger fiscal adjustment this year to account

for the overshoot – some 1.4 ppts. Bearing in mind that in recent years the State has failed to reduce its deficit by similar magnitudes, there are good reasons to be sceptical as to whether it will have the capacity to deliver this year. By contrast, the territorial administrations ended 2016 in a position which should be more favourable to meeting this year's targets: the local administrations increased their surplus (from 0.5% to 0.6% of GDP) and the regions managed to consolidate by almost 1ppt of GDP, albeit slightly deviating from their overall target (0.82% of GDP compared to the 0.7% target).

In this article, we assess the feasibility of the adjustment facing the State this year, by reviewing some of the key questions raised by the 2017 Budget:

■ How achievable are the State's revenue forecasts bearing in mind that the bulk of the impact of the direct tax reform (personal income tax – PIT – and corporation tax) has now been absorbed?

■ Will the continuation of measures to increase corporation tax prepayments prove sufficient to ensure compliance in this tax heading?

■ What will the fiscal burden look like at the end of the year and how does it compare to the wider EU?

■ Are any major changes expected for the composition and development of State public spending or is it more of the same?

■ Has State investment touched bottom? Is there any possibility of investment picking up in the current year or does the delayed approval of the 2017 Budget pose another setback to a return to more optimal levels?

■ What does the 2017 Budget mean for the territorial administrations awaiting a reform of the regional financing system? Are the regions

and local administrations in a position to meet their targets this year?

Budget 2017 revenue forecasts: Feasibility and sufficiency of recent tax measures

Tax revenues in 2016 were strongly conditioned by the 2015 direct tax reform, which significantly watered down the impact of economic growth on tax revenues. In this regard, the 2017 Budget forecasts tax revenues to grow 7.9% in homogeneous terms this year, well above 2016. Tax bases are projected to grow by 5.5% after 4.3% in 2016, driven by the robust outlook for GDP growth, nominal domestic demand and wage remuneration.

This is in line with the trend in revenue growth to May this year for the main tax headings (PIT, VAT, corporation tax, excise duties). Revenues are up 9.1% YTD, representing the second highest growth to this month since 2013.

The outlook for tax revenue is mainly contingent on an increase in VAT revenues, which are expected to rise by 4.6 billion euros relative to 2016, and PIT, which – after two years of revenues stagnating at around 72.5 billion euros – is forecast to grow by 7.7%, reaching 78 billion euros. If achieved, this would amount to a record inflow of funds into the State coffers, outperforming pre-crisis revenues. The government justifies the expected

The outlook for tax revenue is mainly contingent on an increase in VAT revenues and PIT. If achieved, this would amount to a record inflow of funds into the State coffers, outperforming pre-crisis revenues.

VAT performance on the basis of its forecast for nominal GDP growth (4.1%) and the data

Exhibit 1

Forecast tax revenue growth in Budget 2017 and YTD growth in tax revenues to May
(In percentage)

■ YoY growth (%) in YTD homogenous revenue to May
■ YoY growth (%) in cash revenue to December
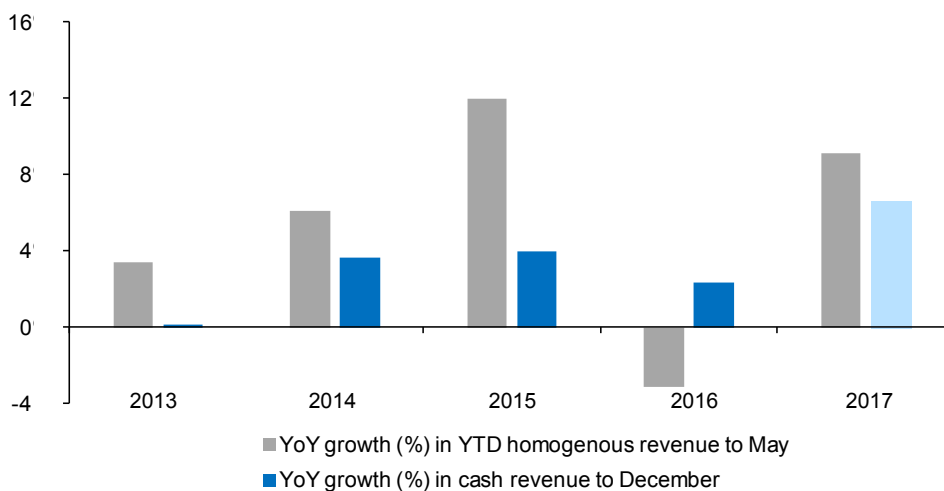
Note: The growth rates for 2017 represent tax revenue on a cumulative basis to May in homogeneous terms and the growth forecast is from the 2017 Budget.
Source: National Accounting and 2017 Budget (IGAE).

available on revenue developments at the time of drawing up the Budget.

The VAT forecast looks relatively feasible given the strong year-on-year growth to May in VAT revenues (9% in homogeneous terms), which is explained not only by the underlying performance of final expenditures subject to VAT, but also stricter regulation on the granting of deferrals. Excluding the latter regulatory change, VAT revenues are growing in line with Budget projections.

However, the PIT target looks quite a lot more ambitious, based on an expected increase in average wages and thus average withholding rates. Income tax revenues remained virtually unchanged over the period 2014-16, meaning that the positive impact on revenues from growth was counteracted by the larger than expected impact of the tax cut affecting 2015 and 2016. This led to a 5.984 billion euro shortfall in revenues in 2015 and 6.489 billion in 2016. Although revenues have since picked up as the impact of this reform has

Table 1

Evolution and forecast for the main tax categories
(Millions of euros and %)

	2015	2016	2017	% chg. 15/16	% chg. 16/17
PIT	72,346	72,416	78,027	0.1	7.7
Corporation tax	20,649	21,678	24,399	5.0	12.6
VAT	60,305	62,845	67,463	4.2	7.3
Excise Duties	19,147	19,866	20,770	3.8	4.5

Sources: Spanish Tax Agency (AEAT) and 2017 Budget.

begun to drop out, growth in PIT revenue still lags some way behind the Budget forecast, posting 4.3% growth to May compared to the 7.7% forecast. Furthermore, 40.2% of the forecast has been executed during the first five months of the year, meaning that we are still over a percentage point from the average execution at close of the last six years. All in all, growth in PIT revenues might be overestimated by around 2 billion euros.

Finally, corporation tax is forecast to experience the largest year-on-year growth in revenue, partly explained by the impact of the higher tax

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Although corporation tax is forecast to experience the largest year-on-year growth in revenue, it remains the only category among the main State taxes which continues to yield less tax than before the crisis.

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rate applying to prepayments in April from new measures introduced in 2016 and a more upbeat outlook for corporate earnings. Both factors, underpinned by a positive 5.967 billion euros collected in the April prepayment, suggest the Budget target of 24.399 billion euros may be achievable. Even so, corporation tax remains the only category among the main State taxes, which continues to yield less tax than before the crisis. While both VAT and PIT revenue exceeded 2007 pre-crisis peaks in 2014, corporation tax revenues are only around half the 2007 level (some 20 billion euros lower).

It is also worth bearing in mind the contrast between growing tax revenues (85% of total non-financial resources) and declining non-tax revenues (primarily resulting from differences between redemption and issuance values of Public Debt due to the low interest rates on new issues) which has an important overall impact, meaning total non-financial income is set to fall by -0.3% compared to the close of 2016.

Overall, the revenue scenario looks broadly feasible, albeit with some downside risks to full achievement of tax revenue targets (as happened

Exhibit 2

Performance of the main tax categories
(Millions of euros)
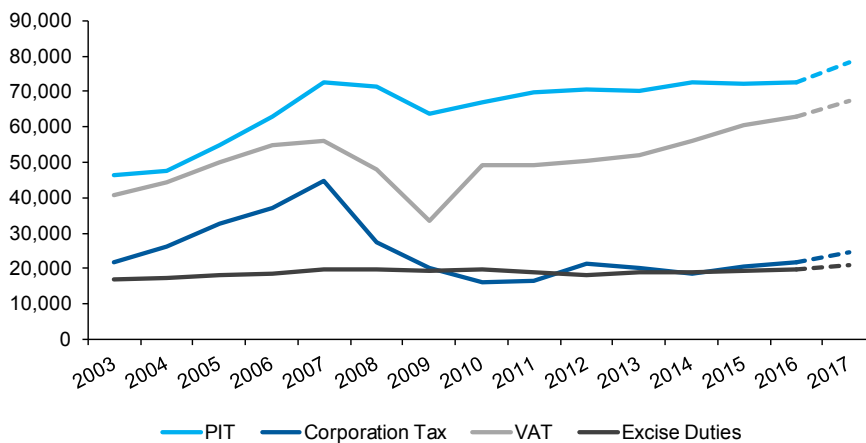
Source: Spanish Tax Agency (AEAT) and 2017 Budget.

in 2016), especially in terms of PIT, which could end up some 2 billion euros short of the expected 5.6 billion windfall.

Forecasts for end of year fiscal pressure

Both the Budget and the Stability Programme Update 2017-20 forecast a modest increase in fiscal pressure by the end of 2017, which is set to rise by half a percentage point relative to 2016. Even so, Spain remains towards the lower

While both the Budget and the Stability Programme Update 2017-20 forecast a modest increase in fiscal pressure by the end of 2017, Spain still remains at the lower end of EU countries in terms of fiscal pressure.

end of EU countries in terms of fiscal pressure. Taking account of all tax revenues (including those collected by the territorial administrations

and Social Security system), Spain's overall fiscal pressure in 2016 was 8.3 and 7.2 percentage points lower than that of France and Germany, respectively.

In its recent *Country Report on Spain 2017, including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, the European Commission warned that the share of tax revenues to GDP in Spain has increased by less than the EU and euro area average. The report also noted that indirect taxes, direct taxes and social security contributions in Spain have almost equal weight in overall tax revenues. In particular, the Commission once again pointed to the low weight of tax on consumption, which is the consequence of a significant VAT gap. This gap is an indicator of VAT revenues that are theoretically forgone due to the application of special deductions on certain goods and services. It is expressed as the revenue that could be collected if all products were taxed at the standard rate, assuming full compliance with tax obligations. The widespread use of exemptions and reduced rates on some goods and services means Spain has a larger VAT gap than the EU average (59%

Exhibit 3

Fiscal pressure in the EU 2016
(% GDP)
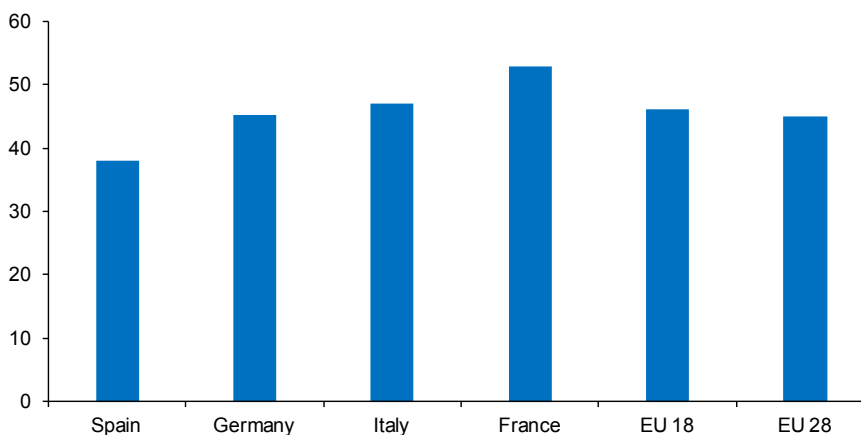
Source: Eurostat.

compared to an EU average of 44% in 2014). Furthermore, the European Commission used the EUROMOD model to simulate the potential impact on revenue collection from reducing this gap. The model suggests that under different scenarios, public revenues could increase by 0.2% of GDP simply by increasing the super-reduced rate to 10%, or up to a maximum of 1.4% of GDP by applying a single rate of 21%. As these measures have regressive implications, the Commission recommends they be offset by social transfers.

As in previous years, the 2017 Budget disregards these recommendations on VAT, justifying expected growth (7.3% YoY) on the basis of an improved outlook for final spending subject to VAT (household consumption, new house acquisition, etc.) and limited modifications in the rules setting stricter conditions on deferrals which were approved by Royal Decree Law 3/2016.

As in previous years, the 2017 Budget disregards EU recommendations on changes to the VAT and environmental and property taxation.

The Budget 2017 also fails to consider other recommendations on environmental and property taxation. Environmental taxes in Spain have a low weight in GDP of around 1.8% (2014) compared to the EU average of 2.5%. Indeed, the report notes that transport taxes only raise around half of EU average revenues, with very low excise duties on unleaded petrol and diesel. That said, it is conceivable that the regulation and harmonisation of environmental taxes will be one of these issues tackled by the Expert Committee reviewing reform of the regional finances.

The Commission also noted the lack of significant changes regarding property taxation in recent years, where the only major reform has been the gradual phasing out of mortgage interest

deductions. In its report, the Commission argues that recurring charges on property are less harmful to growth and preferable to transactions taxes, facilitating a more efficient allocation of assets and greater labour mobility. However, it is important to bear in mind that substantive changes to this tax, while affecting state revenues, also have an impact on the territorial administrations who enjoy partial devolution of tax powers in this area.

2017 Budget vision for public spending: Turning point or more of the same?

Non-financial State spending is forecast at 153.853 billion euros in 2017, the equivalent of a 1.1% increase relative to disbursed spending in 2016. This limited increase in spending implies the deficit reduction will mainly come through a cyclically-driven increase in revenues.

It is important to remember that the spending which was ultimately disbursed by the State in 2016 was subject to various measures aimed at restricting expenditures, including the approval of a non-availability agreement and the early shut down of public accounts. By contrast, the late approval of the Budget may avoid the need to reapply such budgetary consolidation measures this year, given that the failure to agree a Budget until this late stage means that execution will be limited and capital spending will likely undershoot.

Either way, the distribution of the spending ceiling excluding non-discretionary commitments (interest, state pensions, other financial relations with the territorial administrations and with the EU, etc.), means discretionary spending envisaged under the 2017 Budget and available to government ministries will be subject to a 6% adjustment on the 2016 Budget and 0.3% on final spending last year. Accordingly, the scope to change the direction of ministerial spending in 2017 is practically non-existent, implying a continuation of existing policy.

Table 2
Proposed distribution of spending ceiling 2017

	2016	2016 execution	2017	% Chg. 2017/2016 Bdgt.	% Chg. execution 2016
Debt ceiling	**123,394**	**116,723**	**118,337**	**-4.1**	**1.4**
Interest	**33,490**	**32,006**	**32,171**	**-3.9**	**0.5**
Other non ministerial expenditure	**31,740**	**29,857**	**31,492**	**-0.8**	**5.5**
State Pensions	13,651	13,537	13,994	2.5	3.4
Other financial relations with territorial administrations	916	897	931	1.6	3.8
Financial relations EU	13,758	12,173	13,250	-3.7	8.8
Others	3,415	3,250	3,317	-2.9	2.1
Ministerial Departments non financial Expenditure	188,624	178,586	182,000	-6.0	-0.3

Source: Ministry of Finance.

In terms of the main categories of spending, personnel expenditure is forecast to see a modest increase (+1%), related to an expected update of remuneration, as too are financial outlays (0.5%). Increased spending in these two categories (accounting for 32% of total non-financial spending) are offset to a large extent by a decline in current transfers, which are forecast to drop by -1.2% on the disbursed budget (some 1 billion euros). Excluding headings awaiting implementation from previous years included in the 2017 Budget (1.818 billion euros in real investment corresponding to the Ministry of Defence), capital spending is set to increase by an inconspicuous 2.4%, or a mere 300 million euros on the executed 2016 budget.

The biggest adjustment in terms of current spending items is set to take place in the Public Employment Service (SEPE), which is forecast to reduce outlays by 2.3 billion euros, reflecting the improved labour market outlook. This adjustment is in line with the reduction in Social Security benefits recorded by SEPE last year (-1.971 billion euros) which was primarily due to a 10% fall in the number of recipients, leaving the coverage rate unchanged at 55% in 2015-16. Meanwhile, the expected contributions to the Social Security system (minimum pension supplement, non-

contributory pensions, family protection, etc.) and the territorial administrations are expected to remain broadly constant relative to 2016.

In terms of spending policies, the significant increase in pensions (+3.1%) comes at the expense of an adjustment to non-financial spending on unemployment (transfers to SEPE) and transfers to other public administrations, infrastructures and general services.

Therefore, the main changes to State spending policy and budgetary headings concern

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Ana Aguerrea and Susana Borraz

Table 3
Current State transfers
(Millions of euros)

	Initial bdgt .2016	Initial bdgt. 2017	% Chg. 2017-2016	Chg. 2017-2016 (€ m)
State Pensions	13,651	13,994	2.5	343
Contribution to EU	13,445	12,916	-3.9	-529
Contribution to Social Security	13,143	13,056	-0.7	-87
Public Employment Service	3,922	1,623	-58.6	-2,298
Tax Agency	865	965	11.6	100
Other actions	9,990	9,711	-2.8	-279
Total excl. Territories	55,015	52,265	-5.0	-2,750
Regional financing system	17,388	17,548	0.9	160
Local financing system	16,408	16,149	-1.6	-259
Total Territorial	33,797	33,698	-0.3	-99
Total	88,812	85,963	-3.2	-2,849

Source: Ministry of Finance, AFI.

Exhibit 4
Distribution of consolidated State spending (Chapter I to IV), change on 2016 Budget
(In percentage)
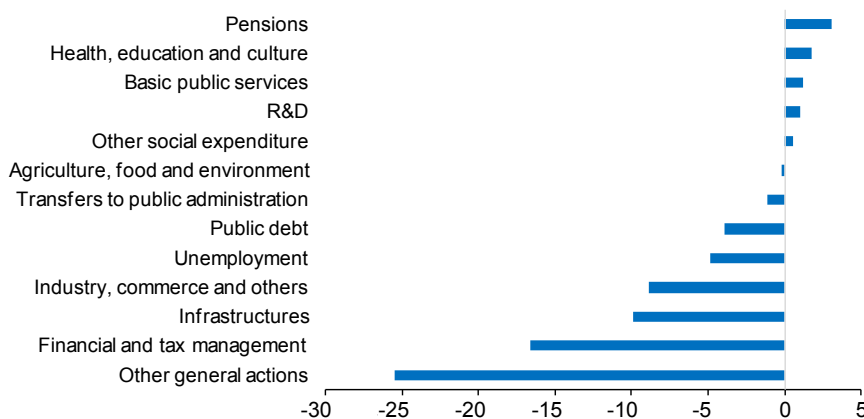
Note: The reduction in general actions is conditioned by the decline in the Regional Liquidity Fund (FLA) with no impact on the deficit.
Source: 2017 Budget..

This adjustment provides room for a modest increase in personnel remuneration.

Investment policy: Is state investment set to recover?

State investment including capital transfers is forecast at 15.889 billion euros in 2017.

This is 9.4% above 2016 levels, on the face of it representing a break with the stability in the investment budget since 2014, after reaching a low point of 10.657 billion euros in 2013. However, these monetary values need to be scrutinised on the basis of investment components to be certain of reaching a robust conclusion.

Table 4

State spending on investment and capital transfers
(Millions of euros and %)

	2011	2012	2013	2014	2015	2016	2017	Chg. % 17/16
VI. Direct investments	5,793	4,541	3,910	3,254	3,411	3,632	5,330	46.8
VII. Capital Transfers	9,208	5,764	4,734	8,935	9,501	8,873	8,542	-3.7
Total Capital Expenditure	17,013	12,317	10,657	14,203	14,927	14,521	15,889	9.4

Source: Ministry of Finance.

Within the overall investment profile, there is a notable 46.8% increase in real investment. However, a large part of this is explained by the inclusion of 1.818 billion euros relating to payment commitments associated with special weaponry programmes managed by the Ministry of Defence. Regardless, this amount does not affect the 2017 public deficit, since it relates to deliveries made in previous years. Taking this expenditure out of the picture reduces the increase in investment to 3.412 billion euros, which includes funds for modernising the judicial system.

The two ministries responsible for making the largest amount of investment are set to see their funding cut: by 3.6% in the case of the Ministry of Public Works, equivalent to 1.77 billion euros, most of which is dedicated to road and rail infrastructures; and by 7.8% in the Ministry of Agriculture, Fisheries, Food and Environment, some 787 million euros, mainly destined towards hydraulic infrastructures.

Meanwhile, capital transfers are set to decline by 3.7% on the previous year, primarily because of reduction in funding for subsidised loans. The headings receiving the bulk of resources relate to financing the costs of the electricity system (43.9%), the Territorial Administrations (16.9%) and research programmes (14.6%).

In summary, based on the above, the 2017 Budget implies an effective reduction in receivables for state investment (excluding the 1.818 billion from previous years relating to the Ministry of Defence),

extending the decline in investment in GDP terms seen since 2011 to a new low of 1.2% of GDP.

The 2017 Budget largely implies an effective reduction in receivables for state investment, extending the decline in investment in GDP terms seen since 2011 to a new low of 1.2% of GDP.

Furthermore, given the late date at which the Budget will take effect, its seems likely that effectively implemented capital spending will be below the approved allocation due to lengthy processing periods, affording the State additional headroom to meet the deficit target.

Implications of the Budget for the Territorial Administrations

Expected funding for the autonomous regions

The State presented the annual Budget for the first time with a note providing detailed information on payments on account – some 92.339 billion euros in total – paid to each of the regions, together with a forecast of provisional back payment adjustments relating to 2015. The overall amount represents a significant increase of 5.585 billion euros relative to the sum that was provided to regions last year. Meanwhile, the ex-post adjustment relating to 2015 is set to once again work to the regions'

favour, coming in at a similar to level to 2014, at 7.405 billion euros. Accordingly, funding for the regions will increase by 5.7%, meaning that regions will have an extra 5.39 billion euros to manage relative to what they received under this heading in 2016.

The increase in funding is concentrated in five autonomous regions (Catalonia, Valencia, Andalusia, Madrid and the Canary Islands). The largest increase in funding, given its relative size, will go to the Canary Islands, explained by the inclusion in the Budget of Final Provision Sixteen, which amends Act 22/2009 of December 18th. This amendment, which takes effect from the 2015 ex-post adjustment and has immediate and ongoing impact from the 2017 Budget onwards, eliminates the second additional provision of this

Act regarding the inclusion of the Canary Islands' Fiscal and Economic Regime in the calculation of the region's fiscal capacity and per capita funding.

However, the impact is temporarily smoothed, by a softening mechanism which limits the change to 57% in 2015 and 30% in 2016. Overall, the Canary Islands are set to see funding increase by 474 million euros in 2017, of which 219 million euros is explained by the ex-post adjustment (Convergence Funds).

Expected funding for the local administrations

Funding for local administrations is set to ease slightly, amounting to 16.149 billion euros

Table 5

Results of the participation model of local entities in state revenues 2004-2014

Concept of financing	Final Financing 2004	Final Financing 2014	Δ %
Financing of the municipalities included in the transfer model	4,619.91	6,943.23	50.3
Assignment of State Taxes	661.24	871.81	31.8
PIT	316.82	454.90	43.6
VAT	253.58	327.14	29.0
Excise Duties	90.84	89.77	-1.2
Complementary Financing Fund	3,958.67	6,071.42	53.4
Financing of municipalities not included in the transfer model	3,182.55	4,568.24	43.5
Total municipalities financing	7,802.46	11,511.47	47.5
Financing of the provinces			
Assignment of State Taxes	583.00	732.11	25.6
PIT	230.71	318.27	38.0
VAT	249.60	316.02	26.6
Excise Duties	102.69	97.82	-4.7
Complementary Financing Fund	2,966.35	4,448.56	50.0
Other financing concepts	512.63	689.22	34.4
Total provinces financing	4,061.98	5,869.89	44.5
Total local financing	11,864.44	17,381.36	46.5

Source: Ministry of Finance.

compared to 16.408 billion euros budgeted for in 2016.

The Budget document also reviews the performance of local funding over the period from 2004 to 2014, the last year for which the Budget has been fully locked down. It notes that the current system has been more favourable for municipalities included in the municipal transfer model, who have seen their income rise by 50.3% over the period, compared to 43.5% in other municipalities and 44.5% at the provincial level.

Conclusions: A stopgap Budget

Overall, the following can be concluded about the 2017 Budget:

1. No substantive fiscal reforms are introduced capable of having a major impact on revenues and/or public spending. Revenues are dependent on the cycle and the continuation of tax measures approved at the end of 2016 (an increase in corporation tax prepayments and tighter restrictions on the granting of VAT deferrals). Spain continues to have one of the lowest fiscal pressures in the EU.

2. Spending policy stays on the same track as 2016; the amount of discretionary spending available to Ministries is unchanged, with the heavy lifting entrusted to an adjustment in current transfers to the Public Employment Service related to reduced need, which in turn allows for an increase in public sector remuneration and funding to the regional financing system.

3. Investment remains lacklustre, falling even further in effective terms (excluding the impact of the inclusion of defence spending undertaken in previous years). State investment is set to hit a low of 1.2% GDP in 2017, only slightly above the 1% trough recorded in 2013, with the delay in approving the Budget potentially limiting full implementation.

4. The 2017 Budget is broadly neutral for local administrations, but is a major resource boost of over half a percentage point of GDP for the regions. On this basis, it is likely that both levels of administrations will post a similar non-financial outturn to last year.

5. This article has focused on the State Budget, which is a sub-component of total public administrations. It does not consider the Social Security Budget. Even so, it is worth noting that the overall Budget document does not contemplate any reform to the Social Security System to rebalance the significant deficit in this sub-sector. This will depend on reaching consensus under the Toledo Pact.

6. All-in-all, the State looks set to have a hard time meeting its ambitious deficit target this year: although revenues are progressing well, the PIT target looks to be over optimistic to the tune of at least 0.2 percentage points of GDP, and while spending plans are much the same as last year, there are some potential tensions in the pipeline (increase in regional funding, revision of public sector pay, excessively upbeat adjustments in spending on goods and services, etc.) which could dampen the expected adjustment. Even so, the expected overshoot in relation to the overall deficit target of 3.1% of GDP, for the time being, looks to be of the order of 0.2 or 0.3 percentage points, thanks once again to the positive contribution from a likely surplus at the local administration level. However, there are some risks to this from possible one-offs, including the resolution of the bankruptcy ring roads orbiting Madrid and the Constitutional Court ruling on the town hall tax on capital gains in the absence of increase in urban land value.

Spanish private debt dynamics: Indebtedness and debt service in a European context

Joaquín Maudos[1]

The deleveraging efforts of Spanish households and corporates has helped to bring down debt levels as a percent of GDP, as well as the debt servicing burden – both in absolute terms and compared to other EU countries. Ongoing deleveraging efforts, together with the persistence of benign funding conditions, will be needed to further bring down debt ratios and reduce financial vulnerability.

The significant deleveraging effort by Spanish households and companies since 2010 has successfully reduced the weight of debt in GDP by 50 percentage points (pp), allowing for a reduction of the gap relative to the Eurozone average to 3.4pp, albeit remaining 13.4pp above the average for the EU-28. Deleveraging, together with an improvement in corporate earnings and household gross income, has significantly improved debt sustainability. The latest data show that Spanish companies need the equivalent of 4.7 years of gross operating surpluses to fully pay off all their debt, compared to 4.5 years for their euro area peers. In the case of households, Spanish debt is less sustainable than in other euro area countries, amounting to the equivalent of 107% of gross disposable income, some 13pp more than the European average. The combination of deleveraging, rebounding profitability and lower funding costs means Spanish companies are currently devoting 36.3% of their gross disposable income before dividends and interest payments to debt service. This is the lowest proportion since the end of the 20th century. The household debt burden has also eased. Households now devote 6.9% of their gross disposable income to paying interest and repaying the principal, broadly similar to the other main European economies. Consolidation of the current economic recovery and a continuation of existing benign financing conditions are crucial prerequisites for the continued reduction in financial vulnerability.

Economic history has demonstrated time and again that many economic crises are the result of the disproportionate accumulation of debt. Furthermore, crises are usually foreshadowed by excess lending growth, feeding real and financial asset price bubbles (see Reinhart and Rogoff, 2009; Laeven and Valencia, 2013). As economic agents taken on more and more debt, they become financially very vulnerable since they must devote a significant part of their net income

to shouldering their debt burden. This applies to both private and public sector agents, with the sustainability of public finances being affected in the latter. Evidence shows that the more indebted companies become, the more investment suffers in response to an abrupt tightening of financing conditions, in some cases even affecting the survival of the company itself, as well as the banking sector.[2]

Evidence shows that the more indebted companies become, the more investment suffers in response to an abrupt tightening of financing conditions, in some cases even affecting the survival of the company itself, as well as the banking sector.

At a macroeconomic level, the most common measure of private sector indebtedness is the weight of private debt in GDP, both for companies and households. However, the drawback of this approach is that it fails to relate debt to the income available to companies and households for debt service. On occasions, this can provide a misleading portrayal of the underlying debt burden. A preferable approach is to relate debt to net income available for repayment, whether net profit, in the case of companies, or household gross disposable income.

The aim of this article is to provide an international comparison of the Spanish economy's private non-financial sector indebtedness, comparing the perspective provided by the standard approach (debt-to-GDP ratio) with other more rigorous metrics, which relate private sector debt to net income available for repaying the accumulated debt stock. BIS data will also be used to analyse the "true" debt burden, relating this burden (financial costs and amortisations)

to disposable net income. Here the approach is not to compare gross disposable income (before interest payments and dividends) to the stock of accumulated debt, but rather to financial costs and any principal amortisation (flow concept) in a given year – in other words, debt service.

The period under analysis is 1999-2016, providing an opportunity to analyse developments in indebtedness and debt service in the period leading up to the 2007 boom, as well as the post-crisis era to 2016. Eurostat provides information on debt, profit and gross disposable income. BIS provides data on debt service for seventeen countries. This article will focus on European nations. The goal is to determine where Spain stands relative to international peers.

The weight of private sector debt in GDP: Spain in a European context

The standard approach to analysing an economy's level of indebtedness is to use the debt-to-GDP ratio. This is the approach the European Commission (2016) takes when looking at the non-financial private sector as part of its "Macroeconomic Imbalance Procedure". The Commission uses a threshold of 133% to determine the existence of a macroeconomic imbalance requiring adjustment.

As can be seen in Exhibit 1, private indebtedness in the Spanish economy peaked at 215.7% in 2010, 55pp above the EU-28 average. However, the largest gap relative to the EU was reached two years earlier, a difference of 58.5pp. Since the 2010 peak, the debt-to-GDP ratio has fallen by 50pp reaching 166.1% of GDP in 2016, reducing the gap with the Eurozone average to 3.4pp, although still 13.4pp above the average for the EU-28 in 2016. However, as seen in Exhibit 2, the Spanish private sector continued to present a much higher debt-to-GDP ratio (166.1%)

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[2] As the European Commission (2016) asserts, "elevated private sector indebtedness generates a number of vulnerabilities, especially in a low-growth, low-inflation environment, which makes deleveraging difficult. In particular, it increases the impact of potential shocks on households and/or non-financial corporations, with possible repercussions on the banking sector."

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Exhibit 1

Debt-to-GDP. Private non-financial sector (Percentage)

a) Non-financial corporations

b) Households

c) Total private non-financial sector
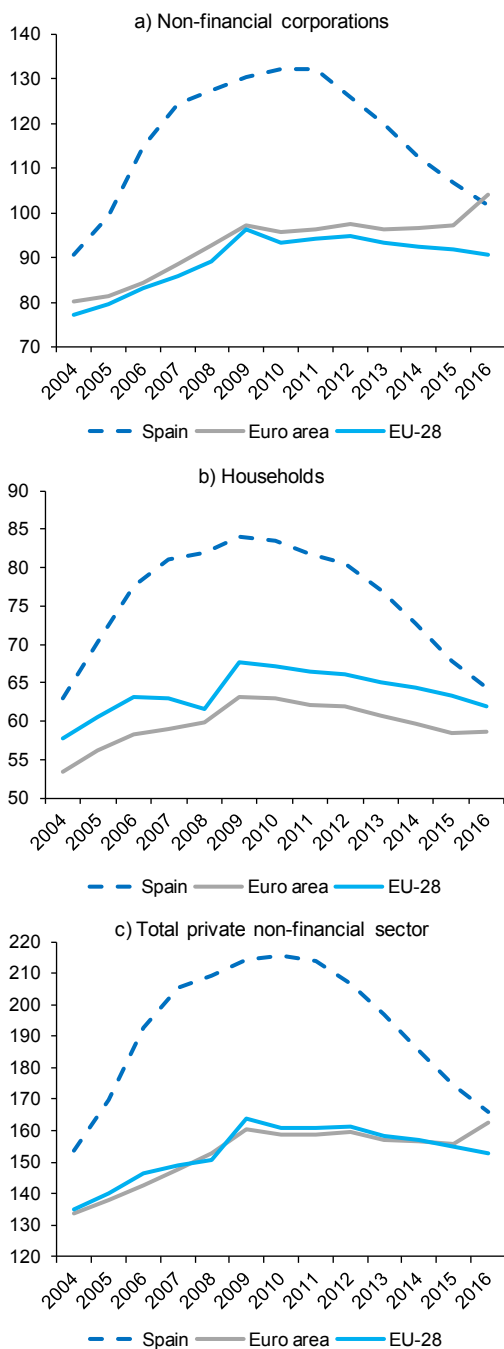
Source: Eurostat.

than Germany (106.5%), Italy (117.6%) and the United Kingdom (156.7%), though below France (185.4%). In 2016,14 out of the 28 countries in the EU-28 (Spain included) exceeded the 133% threshold for which the Commission deems there to be a macroeconomic imbalance in private debt, exceeding 300% in the case of Cyprus and Luxembourg.

The Spanish non-financial corporate sector debt-to-GDP hit a peak of 132% in 2010-11. The over-indebtedness of Spanish companies relative to their European peers stood at around 38pp of GDP over the course of 2007 to 2011. However, since then, the difference has fallen to 10.9pp in 2016, putting the debt-to-GDP ratio at 101.7%. The latest European comparison shows that Spanish companies are still significantly more indebted than German (53.1%), British (73.5%) and Italian companies (75.8%), but less so than French corporates (128.2%).

Spanish household debt meanwhile maxed out at 84% of GDP in 2009, although the largest gap to the EU-28 (20.3pp) was recorded a year later. Since 2009, the Spanish household debt-to-GDP ratio has fallen by nearly 20pp to 64.4% in 2016. The gap to the EU-28 in 2016 was just 2.5pp, the lowest during the period under analysis. In comparison to the large European economies, the Spanish household debt-to-GDP ratio remains above Italy (41.7%), Germany (53.3%) and France (57.2%), but below the United Kingdom (83.2%).

Since 2010, Spanish households and corporates have made a major deleveraging effort, reducing debt by 482 billion euros, the equivalent of a 21% decline in absolute terms and nearly 50pp relative to GDP.

Overall, since 2010, Spanish households and corporates have made a major deleveraging efforts, reducing debt by 482 billion euros, the

Exhibit 2

Debt-to-GDP. Private non-financial sector. EU-28 countries, 2016
(Percentage)
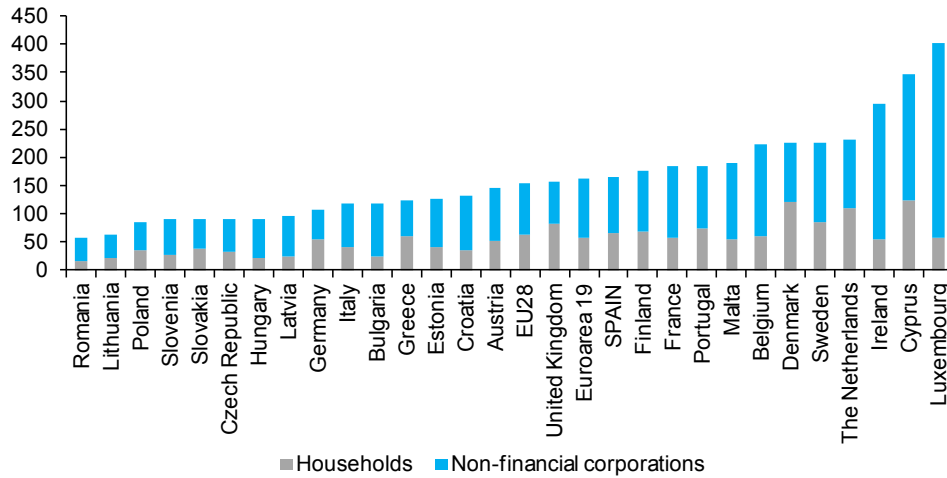
Source: Eurostat.

equivalent of a 21% decline in absolute terms and nearly 50pp relative to GDP.

Private sector debt sustainability

A more rigorous analysis of debt sustainability should consider the fact that the income available to economic agents for repaying debt is not the economy's overall GDP, but rather their gross disposable income. For companies, this net income corresponds to gross profit before taxes, while for households, it is their gross disposable income.

Eurostat data provides information both on corporate and household gross debt. In the case of Spanish companies (Exhibit 3), the ratio of debt to gross operating surplus (and mixed income) has consistently been above the euro area average. This ratio increased sharply by 140pp from 2004 to 2007 driven by a massive accumulation of debt, reaching 645%. In other words, in 2008, Spanish companies would have needed to repeat that year's gross profit over more than six years

in order to full repay outstanding corporate debt. This percentage remained relatively stable until 2011, and decreased continuously reaching 468% in 2015.

Overall, while at their worst, euro area companies needed 4.8 years to fully repay their outstanding debt, while Spanish companies required 6.5 years. The gap between Spanish and euro area companies hit a maximum of 2.4 years in 2007 and since then it has decreased, almost disappearing.

In terms of the ratio of debt-to-gross disposable income, Spanish household debt has always been more sustainable than corporate leverage. The increase in household debt during the credit boom saw this ratio double from 2000 to 2007, reaching 134%. This meant that household debt was 1.34 years greater than disposable income that year. This was also the same year in which the maximum difference was reached relative to the euro area with a gap of 41pp. Household debt sustainability has progressively improved since 2007, although in 2015 the ratio (107.2%) was still

Exhibit 3
Sustainability of private debt
(Percentage)

a) Non-financial corporations: Debt-to-gross operating surplus
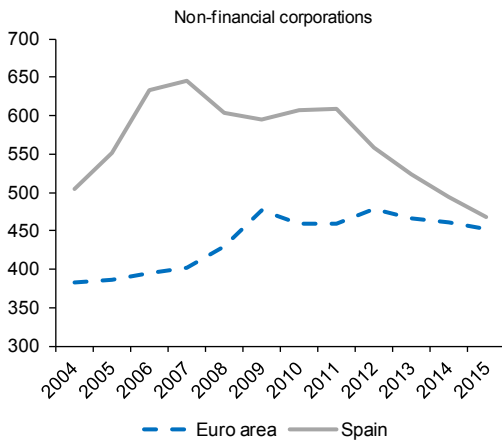
b) Debt to gross disposable income ratio of households

Non-financial corporations

Households

- - Euro area — Spain

— Spain - - Euro area
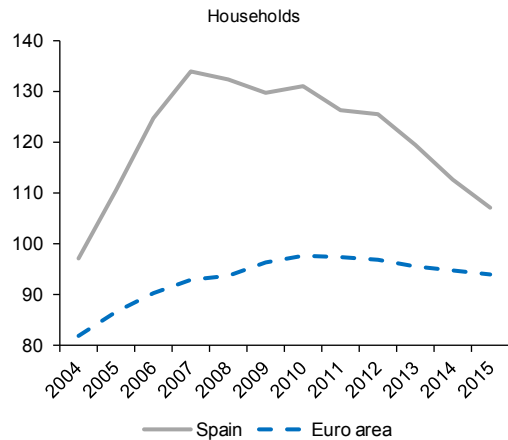
Source: Eurostat.

a long way above the starting point in 2000 (68%). The gap to the rest of the euro area has shrunk to 13pp, meaning that while in 2015 Spanish households (both indebted and unencumbered) would have needed to devote 107% of their gross disposable income to full paying off their debt, European household would have needed 94%.

Debt service

So far, this analysis has measured private sector debt in terms of the economy's overall GDP, or in relation to gross disposable income available for repayment. Both measures relate to the outstanding stock of debt awaiting repayment.

A complementary perspective comes from looking at the debt burden or servicing cost. This is the effort that the private sector needs to make each year in order to cover the financial cost of the debt (interest payments and fees) and repayment of the principal. It is therefore a flow (comparing flows with flows, *i.e.,* amount of debt amortising in

a year and the financial costs borne in that year) rather than a stock approach (outstanding debt to repay).

The Bank of International Settlements (BIS) provides an indicator on debt service for the non-financial private sector. The debt service ratio measures the percentage of gross disposable income (before interest payments and dividends) used for debt service. As BIS notes, it is a useful indicator for analysing the interaction between the economy's real and financial problems, and a leading indicator of a systemic crisis. If debt service reaches an excessive level, it can result in a failure to comply with financial obligations by households and companies, leading to an increase in defaults. Should the default ratio reach concerning levels in economies which are highly dependent on bank finance, then this could provoke a banking crisis. Simultaneously, the greater the share of income that companies and households devote to paying back debt, the less investment and consumption and therefore economic growth.

Exhibit 4

Debt service ratio for the Spanish private non-financial sector
(Percentage)

Non financial corporations · Households · Non financial private sector
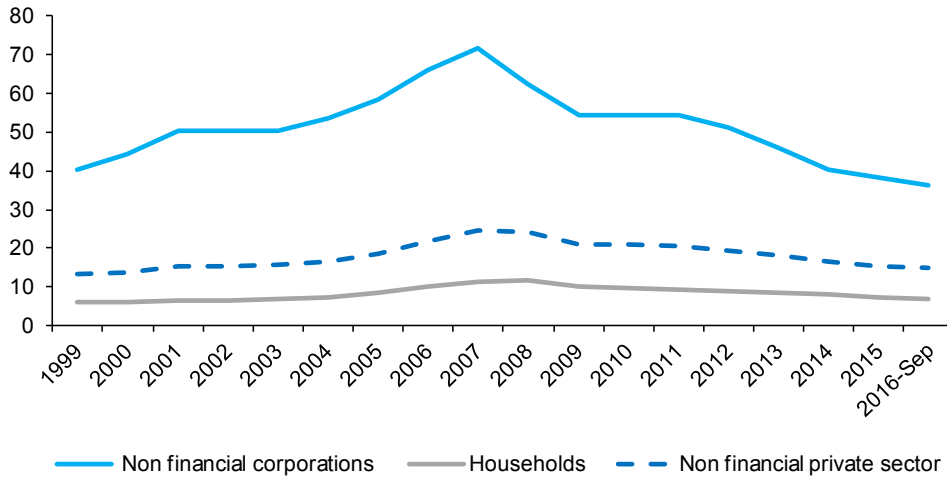
Source: BIS.

Exhibit 4 shows that debt service increased for the overall Spanish private sector over the period 1999 to 2007 from 13.3% to 24.7%, meaning that the debt burden almost doubled in just eight years. Since then, the debt burden has gradually eased back, reaching 14.9% in (September) 2016, just 1.6pp above 1999 levels.

Since 2007, debt service has dropped by 50% for companies and 40% for households. In 2016, Spanish companies devoted 36.3% of their GDI to debt service and households, 6.9% – the lowest ratio for companies since 1999 and a similar level to the start of the century for households.

The debt service ratio has moved in a similar way over time for both households and corporates, although the level is much higher for the latter. Thus, from 1999 to 2007, the ratio increased by 31.3pp in companies, reaching a peak of 71.7%,

while for households, the ratio rose 5.5pp to 11.5%. Thus, at the very outset of the crisis, companies and households were facing peak levels of debt servicing costs, with the former devoting nearly three-quarters of their gross disposable income (before interest payments and dividends) to debt repayment and the latter 11.5%.

Since 2007, debt service has dropped by 50% for companies and 40% for households. In 2016, Spanish companies devoted 36.3% of their gross disposable income to debt service and households, 6.9%. This is the lowest ratio for companies since 1999 and a similar level to the start of the century for households.

The international comparison shown in Table 1 and Exhibit 5 highlights several key messages:

■ The sharp increase in debt service between 1999 and 2007 is a particularly notable feature of Spanish companies. The ratio increased by 31.3pp to 71.7%, the highest value among countries for which BIS provides data. This

Table 1

Debt service ratios for the private non-financial sector
(Percentage)

	Total private non financial sector				
	1999	2007	2016	Variation 1999-2007	Variation 2007-2016
Belgium	15.2	17.7	21.2	2.5	3.5
Canada	20.4	21.2	24.5	0.8	3.3
Germany	13.3	11.3	9.7	-2.0	-1.6
Denmark	21.1	30.8	23.3	9.7	-7.5
Spain	13.3	24.7	14.9	11.4	-9.8
Finland	13.3	16.1	16.4	2.8	0.3
France	14.7	15.9	17.1	1.2	1.2
United Kingdom	14	19.4	15	5.4	-4.4
Italy	9.7	13.6	11.2	3.9	-2.4
Japan	20.4	15.7	14.1	-4.7	-1.6
Netherlands	23.3	23.8	25.6	0.5	1.8
Norway	23.1	27	25.3	3.9	-1.7
Portugal	14.9	20.9	17.4	6.0	-3.5
Sweden	17.4	19.6	20.3	2.2	0.7
United States	16.7	18.4	14.6	1.7	-3.8
	Non financial corporations				
Belgium	40.8	43.4	49.1	2.6	5.7
Canada	52.5	43.2	61.2	-9.3	18
Germany	26.1	19.5	18.9	-6.6	-0.6
Denmark	32.2	51.6	39.6	19.4	-12
Spain	40.4	71.7	36.3	31.3	-35.4
Finland	31.4	31	39.6	-0.4	8.6
France	45.3	41.1	48.5	-4.2	7.4
United Kingdom	30.6	39.3	34.3	8.7	-5
Italy	28.9	39.5	36.6	10.6	-2.9
Japan	59.2	35.8	31.4	-23.4	-4.4
Netherlands	49.6	35.9	41.8	-13.7	5.9
Norway	51.6	45.9	42.8	-5.7	-3.1
Portugal	51.9	62.1	54.1	10.2	-8
Sweden	30.2	29.5	35.1	-0.7	5.6
United States	44	44.2	40.7	0.2	-3.5

Table 1 (continued)

Debt service ratios for the private non-financial sector
(Percentage)

	Households				
	1999	2007	2016	Variation 1999-2007	Variation 2007-2016
Belgium	5.9	6.2	7.8	0.3	1.6
Canada	10.5	13.1	12.3	2.6	-0.8
Germany	9.5	8.1	6.3	-1.4	-1.8
Denmark	16.8	21.4	15.9	4.6	-5.5
Spain	6	11.5	6.9	5.5	-4.6
Finland	4.7	7.9	7.1	3.2	-0.8
France	4.8	5.8	6.2	1.0	0.4
United Kingdom	9	13.2	9.7	4.2	-3.5
Italy	3.2	5.2	4.5	2.0	-0.7
Japan	8.9	8.2	7.3	-0.7	-0.9
Netherlands	13.6	17.4	17.8	3.8	0.4
Norway	10.6	15.6	14.8	5.0	-0.8
Portugal	7.3	11	7.5	3.7	-3.5
Sweden	8.9	11	11.2	2.1	0.2
United States	9.7	11.6	8.2	1.9	-3.4

Source: BIS.

implies that companies devoted nearly three-quarters of their gross disposable income to paying financial costs and amortising debt, compared to 19.5% in Germany, 41.1% in France, 39.5% in Italy and 39.3% in the United Kingdom to provide some examples.

■ Meanwhile, Spanish companies have registered the largest drop in debt service costs since the start of the crisis, falling by 35.4pp to 2016. In 2016, Spanish companies devoted 36.3% of their gross disposable income to debt repayment, almost double German companies (18.9%), but similar to Italy (36.6%) and the United Kingdom (34.3%) and below France (48.5%).

■ The debt burden practically doubled for Spanish households from 1999 to 2007, reaching 11.5%.

This was above French (5.8%), German (8.1%) and Italian (5.2%) households, but below British households (13.2%). Such debt service levels are clearly much lower than for companies. In Spain, households devoted 11.5% of gross disposable income to paying interest and repaying the principal, compared to 71.7% for companies.

■ The crisis, and the subsequent deleveraging and fall in financing costs, were the main drivers behind the 4.6pp fall in Spanish household debt service to 6.9% in 2016, a similar level to 2003. In 2016, Spanish households devoted a broadly similar share of their gross disposable income to debt service as their German (6.3%) and French (6.2%) counterparts, and somewhat more than Italian households (4.5%).

Exhibit 5

Debt service ratios for the private non-financial sector
(Percentage)

2007

a) Private non-financial sector

b) Non-financial corporations

c) Households

2016

a) Private non-financial sector

b) Non-financial corporations

c) Households
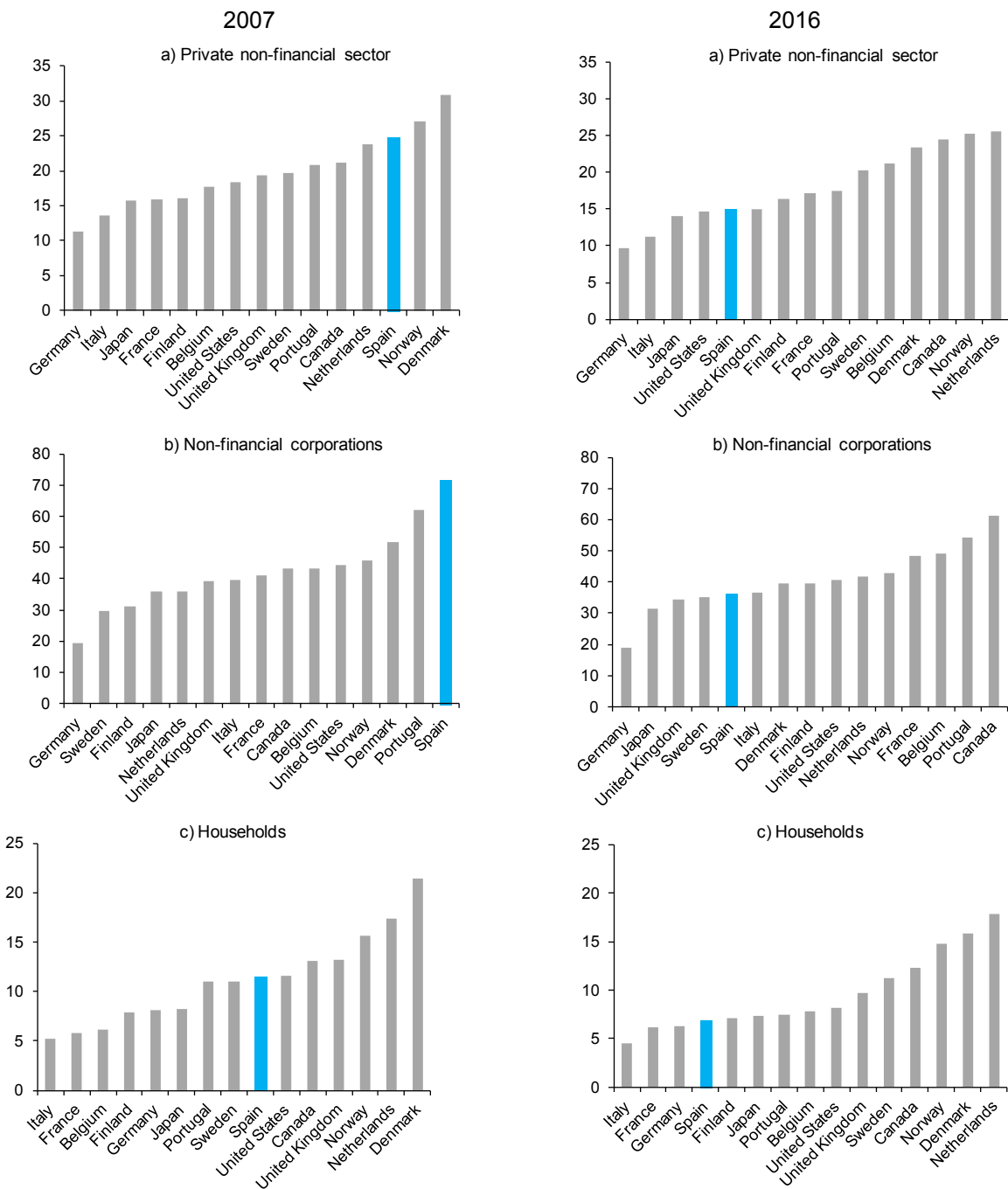
Source: BIS.

■ For the private sector as a whole, debt service accounted for 14.9% of the Spanish economy's private sector income in 2016, higher than in Germany (9.7%) and Italy (11.2%) but lower than in France (17.1%) and the United Kingdom (15%). Current debt service is 9.8pp below the 2007 peak in Spain, when a quarter of disposable income went to servicing debt, well above other developed economies. Spain's current debt burden is now at relatively similar levels to the start of the 21st century.

Conclusions

The major deleveraging effort undertaken by the Spanish private sector in recent years has led to the equivalent of a 50pp of GDP reduction in debt, which has allowed for the reduction of the gap to 3.4pp between Spain and the Euro area average. However, the level of indebtedness remains higher, almost 13.4pp above the average for the EU-28, with potential to hamper the recovery in bank lending, as well as capping consumption and investment upside – meaning there is still some work to do. Spain's over-indebtedness relative to the EU-28 is most notable in the corporate sector, where the debt-to-GDP ratio is 10.9pp higher in Spain, while the difference is only 2.5pp at a household level.

However, a more rigorous perspective on indebtedness should also compare outstanding debt to income available for repayment. The latest data show that corporate debt amounts to 4.7 times Spanish companies' gross margin, compared to 4.5 in euro area companies. Debt represents 107% of Spanish household gross disposable income, 13pp above euro area households. Debt levels have always been higher than the euro area average for Spanish corporates with the gap increasing until 2007, and decreasing in the following years until almost disappearing. The maximum difference for households was reached in 2007, dropping since then to 13pp in 2015.

Over-indebtedness – understood as the stock of outstanding debt relative to GDP or the income available to agents responsible for repaying it – continues to be a major source of concern since it increases the vulnerability of households and companies to a tightening of financing conditions, which eventually impacts consumption and investment. But it is even more worrying when the annual debt service flow (financial costs plus principal redemption) is misaligned with payment capacity – or the gross disposable income (before interest and dividends) available to bear the debt burden. In this regard, the state of play in the private sector has improved significantly since the start of the crisis in 2007, when debt service committed a quarter of household and corporate gross disposable income. This percentage now stands at 14.9%. Even so, it remains above the German (9.7%) and Italian (11.2%) private sector, although similar to the United Kingdom and below France (17.1%).

The situation has also improved significantly in the corporate sector. Instead of having to devote 71.7% of gross profits to debt service in 2007, companies now need to set aside 36.3%. Still a much higher proportion than German (18.9%) companies, but below French (48.5%) corporates and similar to Italian (36.6%) and British (34.3%) counterparts.

In addition to the reduction in indebtedness, the reduction in interest rates has contributed in a decisive manner to the reduction of the debt burden for the private sector and for the Spanish economy as a whole. In interest payments alone, corporates and households reduced by 83 billion euros their debt servicing costs since the start of the crisis. Therefore, an ongoing deleveraging effort together with a continuation of benign funding (interest rate) conditions will be needed to keep bringing down the debt burden. Otherwise, financial vulnerability could well deteriorate once again.

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Wage moderation in Spain's economic recovery

Daniel Fernández Kranz[1]

Following a period of severe job destruction throughout the crisis years, since 2014, the Spanish economy has maintained a consistent pace of job creation. Nevertheless, the Spanish job market remains characterized by a high level of unemployment and substantial wage moderation, particularly in the case of young, first time workers.

The Spanish labour market is gradually emerging from the crisis, with over half of the jobs destroyed having been recovered. The new jobs created since 2014, however, are substantially different from those of the pre-crisis period. This paper provides an empirical analysis of data on the evolution of the employment trajectory of male workers, aged 18-55, employed between 2008 and 2015, to shed some light on the characteristics of new employment contracts in Spain's post-crisis period. In general, results show that the Spanish labour market is paying less than it used to for the same kind of work. This reduction in wages evidences the new labour market conditions, where most of the burden is being shouldered by those workers who had to change jobs and young people just joining the labour market.

During the five year duration of the Great Recession, from 2008 to 2013, the Spanish economy destroyed 3.6 million jobs, 18% of the total. It began to create jobs again from 2014, at a net annual pace of about 500k. In 2014, it generated 504k jobs, in 2015, 574k jobs, and in 2016, 408k jobs (Exhibit 1). These are undeniably excellent figures that go a long way to combat one of the Spanish labour market's main problems: the high unemployment rate. However, and despite this healthy job creation, the unemployment rate remains high, at 18.7% of the active population, and the total number of people employed remains well below (by 2.2 million) the peak of 2008, with the generalised sense of crisis lingering. This sentiment is linked to one of the aspects that characterised the Spanish labour market during

the Great Recession, particularly in the wake of the labour reforms of 2012: Wage moderation. Many believe that this wage moderation stemmed the reduction in employment and laid the foundations for the ensuing recovery; however, new low-wage job contracts have proliferated and, in parallel, a new form of relative poverty, in which those affected have work but on very precarious terms, has spread.

The goal of this paper is to describe the characteristics of the new job contracts created since 2014. Certain prior papers have analysed the trend in wages in the Spanish economy during the recovery (see Bentolila and González, 2017), finding overall growing inequality across

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Exhibit 1

No. of job holders in the Spanish economy, 2008-2017
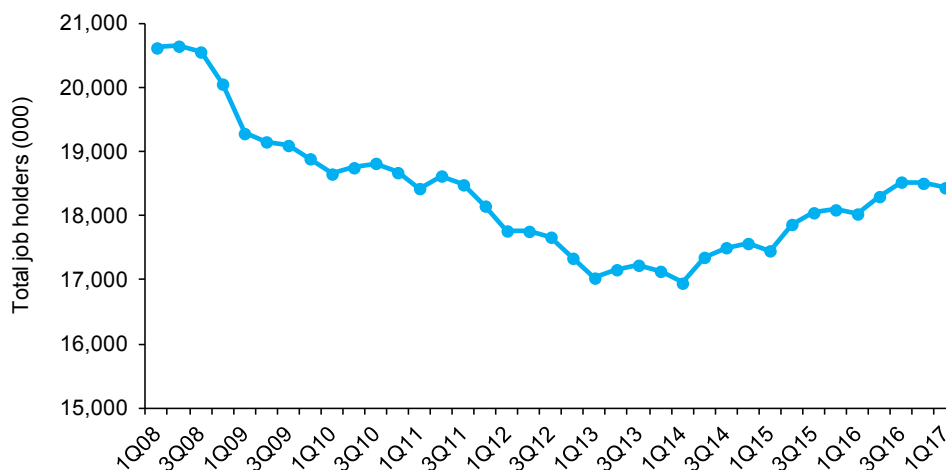
Source: EPA.

the various classes of workers. Unlike those papers, this study uses longitudinal data from the *Continuous Work History Sample (CWHS)* (2015).[2] The main benefit of these data is the ability to paint a picture of trends in employment and wages for a broad group of workers over a long period of time. In that way, it is possible to describe the changes in the wage distribution for a stable group of workers as distinct from changes caused by the entry of new cohorts with potentially different characteristics and expectations. In addition, given the existence of detailed information about when a given contract is signed, it is possible to identify new contracts (the new formulae), describe their characteristics and compare them with the terms offered in new contracts in prior years.

This paper centres on the workers (male) who were employed in 2015 and aged between 18 and 55.[3] For the sample, information is provided regarding the terms of employment (type of contract, type of working day), wages[4], type of company and sector for a total of 213,673 individuals from the start of their working lives. The focus is on describing the employment trajectory of this universe of workers between 2008 and 2015 (the last year in the series) and the characteristics of the new employment contracts executed during the years of recovery.

Exposure to wage trends dependent on starting position

By way of background, Exhibit 2 shows the trend in annual income[5] between 2008 and 2015 for

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[2] The CWHS-2015 is a random sample of approximately 4% of the entire adult population which was either in work in 2015 or was receiving some form of benefit from the Social Security that year. For that sample of workers, there is information for their entire work histories, including the characteristics of the companies and sectors in which they have worked.

[3] The age limit of 55 reflects the advisability of removing individuals who could be affected by early retirement schemes from the analysis. For those individuals, the economic environment may have heavily influenced their decision as to whether or not to participate in the labour market, possibly creating bias.

[4] The wage information comes from Social Security contribution databases which are delimited at the upper and lower limits. As a result, for most of the descriptive analysis, the median is shown and the upper and lower deciles omitted.

[5] Annual income refers to job holders' main job and is deflated for CPI and expressed in 2008 euros.

Exhibit 2
Trend in annual income from main job, 2008-2015
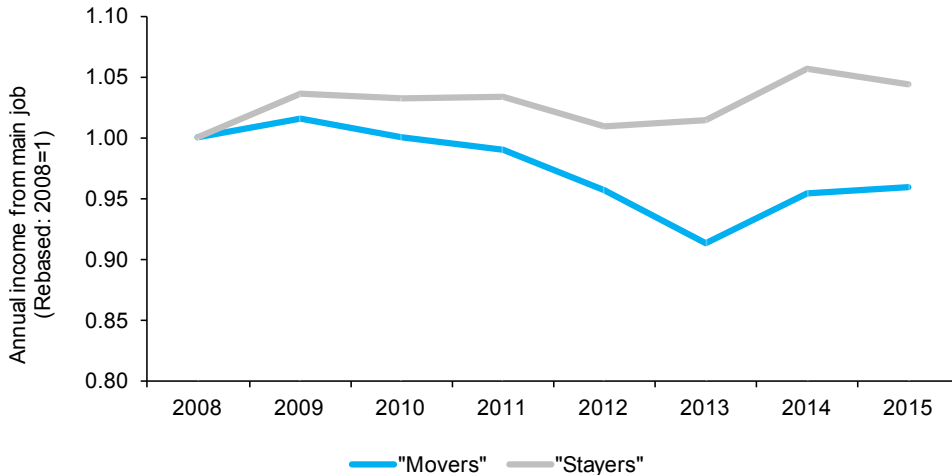
Source: CWHS.

two different groups of workers: those who have enjoyed a steady relationship with the same company since 2008 ("stayers") and those who switched jobs at some point between 2008 and 2015 ("movers"). The exhibit clearly shows how the recession triggered an increase in income

The permanent-temporary binomial so characteristic of Spain's job market remains a source of growing inequalities, a phenomenon which would appear to have changed little in the wake of the recovery or the labour market reforms undertaken in February 2012.

inequality between these two groups. Whereas the stayers took home 4.5% more a year in 2015 than in 2008, the movers' income had eroded by 4.1%. As a result, the difference in annual income between these groups widened by 14 percentage points, rising from 58% in 2008 to 72% in 2013. The years of economic recovery – 2014-2015 – have brought a slight increase in real income for both groups, albeit leaving the wage gap virtually intact, at 73%.

One of the factors most closely correlated with membership of one or other group is the type of contract held. Thus, 82% of the stayers had a permanent contract in 2008, whereas nearly half of the movers (46%) were on temporary contracts. As a result, it is possible to conclude that the increase in wage inequality during the recession was shaped by each worker's starting position and principally the type of contract held at the start of the crisis. Thus, the permanent-temporary binomial so characteristic of Spain's job market remains a source of growing inequalities, a phenomenon which would appear to have changed little in the wake of the recovery or the labour market reforms undertaken in February 2012.

Characteristics of the newly-created jobs: Movers who were working in 2008

Given that the burden of the wage cuts has fallen on those who had to change jobs (the movers), the next step is to outline the characteristics of the new jobs in which these individuals were employed during the years of economic recovery.

Exhibit 3

Breakdown of jobs: Movers, 2008-2015

Panel A. Breakdown by sector

■ 2008 ■ 2015

Panel B. Breakdown by type of workday

■ 2008 ■ 2015

Panel C. Breakdown by company size

■ 2008 ■ 2015

Source: CWHS.
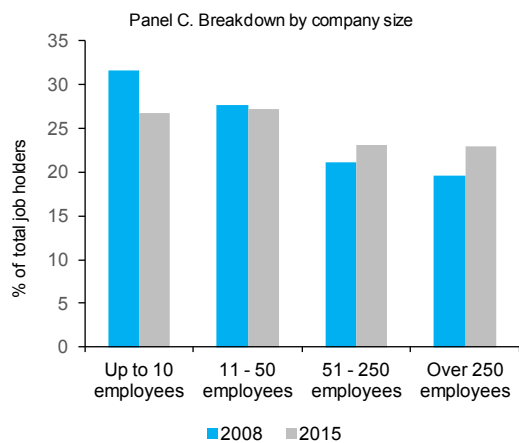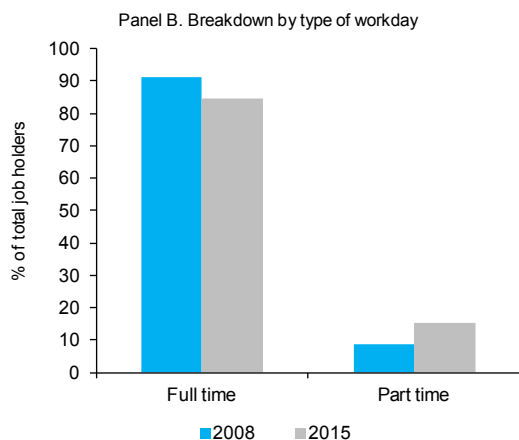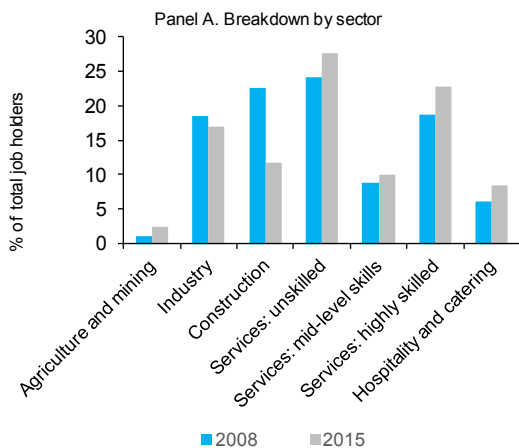
Exhibit 3 breaks down jobs in 2008 and 2015 by three characteristics (sector of employment, type of work day and company size). The exhibit clearly shows a shift in composition with the weight of jobs in industry, above all in construction, falling, and the percentage of jobs in the services and hospitality/catering sectors increasing. The hospitality sector is very closely related with the tourism sector, although the tourism sector cannot be identified as such in the database. As for the services sector, the weight of jobs requiring either very unskilled or very skilled workers increased, leaving those with mid-level skills more vulnerable. The drop in the number of jobs in industry is surprising given the fact that the export boom in this sector has frequently been named as one of the main drivers of the economic recovery and recent job creation. Note that the downtrend in the relative weight commanded by industry jobs records a drop in absolute terms as the number of individuals in the sample remains constant between 2008 and 2015. Specifically, 8.3% of the individuals in the sample who were working in industry in 2008 had ceased to do so by 2015.

The drop in the number of jobs in industry is surprising given the fact that the export boom in this sector has frequently been named as one of the main drivers of the economic recovery and recent job creation.

As a result of the massive job destruction in the construction sector, nearly one half of the movers (48%) who were employed in this sector in 2008 were working in another sector in 2015. The exhibit also shows how a growing number of movers (7.4%) went from working full time to working part time and in companies with larger headcounts. Accordingly, nearly 9% of the workers who were employed in companies with 50 or fewer employees in 2008 belonged to companies with over 50 employees in 2015.

This percentage climbs to 15% if we focus on the universe of smaller companies, those with 10 or fewer employees.

The economic crisis and ensuing job creation have triggered a change in the economy's productive structure in which industry and the construction sector have lost sway, with the services sector, particularly services related with tourism, gaining ground, creating work for unskilled and highly skilled workers alike.

In short, the economic crisis and ensuing job creation have triggered a change in the economy's productive structure in which industry and the construction sector have lost sway, with the services sector, particularly services related with tourism, gaining ground, creating work for unskilled and highly skilled workers alike. All of which in jobs that are still mostly full-time with a

relatively higher share of part-time arrangements and of jobs at larger companies.

Factors explaining the difference in wages between 2008 and 2015

The section above demonstrated how the burden of the income erosion fell on the workers who, between 2008 and 2015, had to change jobs (the movers) and who, as a result of those switches, are currently working in jobs that are different to those they had in 2008. This section focuses on an analysis of the factors explaining the difference in the movers' wages in 2015 compared to 2008. The reduction in wages sustained by these workers in real terms can be attributable to changes in the characteristics of the jobs they hold today (*e.g.*, greater weight of part-time work) or to lower remuneration for the same type of work. The analysis performed uses the Oaxaca-Blinder decomposition method to separate the component of the decline in income that is attributable to job characteristics from that attributable to remuneration, job characteristics being equal.

Exhibit 4

Factors explaining the trend in wages: Movers, 2008-2015
(Percentage)
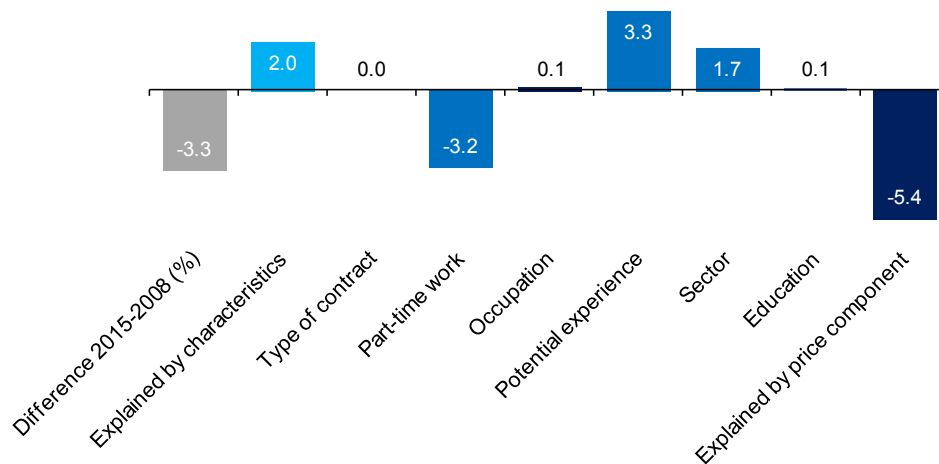
Source: CWHS.

Exhibit 4 illustrates the result of this analysis using daily wages in the main job as the variable of interest.[6] The movers saw their daily wages fall by 3.3% between 2008 and 2015. Considering the characteristics of both the employees and their jobs, the analysis suggests that these workers should have been earning 2.0% more in 2015. That is mainly because these workers have accumulated years of potential experience (age) during the seven years elapsing between 2008 and 2015 so that, in ordinary conditions, their income should have risen, precisely by 3.3%. Their wages should also be higher in light of the

The price component tells us that a significant part of the drop in income sustained by the movers is attributable to the fact that the Spanish labour market is paying less than it used to for the same kind of work.

new sectors employing these workers, as on average they are working in sectors which pay higher wages than the sectors they left (*e.g.,* certain services *vs.* construction work). Specifically, this sectoral component means that the movers should have been earning 1.7% more in 2015 than in 2008. Combining their greater potential experience and the sector shift, the movers, in normal conditions, should have been taking home 5.0% more in 2015 than in 2008. However, rather than earning more, these workers are earning less. And that is due mainly to two factors. One, the fact that a large number of the movers are working part-time, a factor which entails a wage penalty of 3.2% on average. The other explanatory factor – the most important one – is the price component, which reduces daily wages by 5.4%. The price component tells us that a significant part of the drop in income sustained by the movers is attributable to the fact that the Spanish labour market is paying less than it used to for the same kind of work.

The analysis presented in Exhibit 4 debunks some of the myths about the recent trend in wages in Spain. For example, it tells us that the decline in income is not because of the creation of jobs in sectors that have traditionally paid badly. To the contrary. Recall that a significant number of the jobs destroyed were lost in the traditionally low-paying construction sector. Nor is it attributable to the temporary nature of the new contracts being signed. While it is true that most of the new contracts are temporary, that was already the case before the crisis; in fact, the breakdown of jobs by contract type looks very similar in 2015 as in 2008 (in Exhibit 4, 'type of contract' is scantly significant as an explanatory variable). The Spanish Labour Force Survey, conducted quarterly, shows that exactly 25% of jobs were temporary in the last quarters of both 2008 and 2015. In reality, the relative weight of temporary jobs declined during the worst years of the recessions as these jobs were the hardest hit. Their relative weight has since recovered to 2008 levels thanks to the economic rebound and the creation of new jobs in 2014 and 2015.

The analysis shown in Exhibit 4 does corroborate the importance of one of the main suspicions regarding the downtrend in wage income: the incidence of part-time work arrangements. It also highlights the importance of the price factor, which is difficult to measure using the traditional statistics. This price factor could change going forward if the general labour market conditions were to improve, a development that still looks a ways off considering the fact that the unemployment rate is still at 18.7%.

Exhibit 5 provides the same analysis but from a slightly different perspective, zooming in on the new contracts signed. It could be the case that the financial terms enjoyed by the movers deteriorated not so much because they had to change jobs but rather because of low bargaining power in their current positions (a reflection of

[6] Although it would be optimal to be able to study hourly wages, the CWHS provides only approximate information for the number of hours worked, the daily wage calculations being more reliable.

Exhibit 5

Factors explaining the trend in wages: New contracts, 2008-2015
(Percentage)
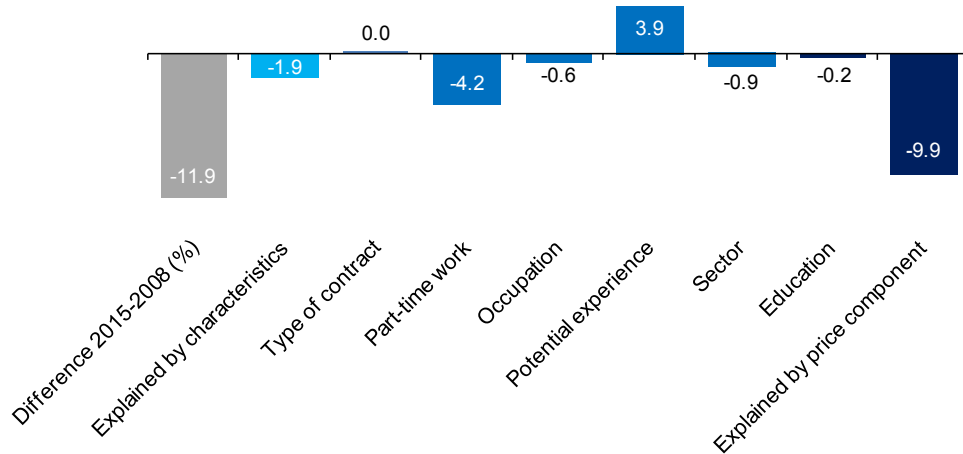
job insecurity and involuntary mobility). Indeed, the analysis provided in Exhibit 4 suggested that the profile of the new jobs should have led to higher job remuneration rather than lower pay.

Exhibit 5 compares the characteristics of the new contracts signed in 2015 and the remuneration earned for those characteristics with those signed in 2008. The analysis confirms in broad terms the message provided by Exhibit 4, with the sole exception of the sector component. It is important to highlight the magnitude of the effects, which is much higher than in Exhibit 4. The new contracts entail a reduction in income (relative to the new contracts signed in 2008) of nearly 12%. This reduction is explained mostly by the price factor (-9.9%). The sector component is scantly significant, as is the type of contract, as the large majority of new contracts were and remain temporary. The weight of the price factor suggests that those who had to change jobs suffered heavy pay cuts not only because of the characteristics of their new jobs but above all because of the loss of vested rights in their old jobs and the fact of having to assume lower remuneration than other wage earners in similar work.

Exhibit 6 illustrates that this penalisation arises at the company level and is therefore not attributable to the fact that the new contracts are being signed at companies that pay less. Exhibit 6 shows the standard deviation (a measure of dispersion) of the unexplained part of wages at the company level. This measure of dispersion is obtained after estimating daily wages using regression analysis which controls for the characteristics of the employee (age, education level), job (type of contract, type of workday, employment level) and employer (sector). It also includes fixed company effects to control for all company aspects (*e.g.*, size, average productivity) which could have an impact on average wage levels. The standard error represents the unexplained part of the wage regression equation. Exhibit 6 shows the dispersion of this component for the subgroup of companies with over 1,000 observations in the database.

The exhibit clearly shows a very significant increase in the wage dispersion that is not explained by the characteristics of the firm or employee. This increase begins in 2012, perhaps as a result of the labour market reforms undertaken that year,

Exhibit 6

Dispersion of the unexplained part of the wage regression within a given company, 2005-2015

Source: CWHS.

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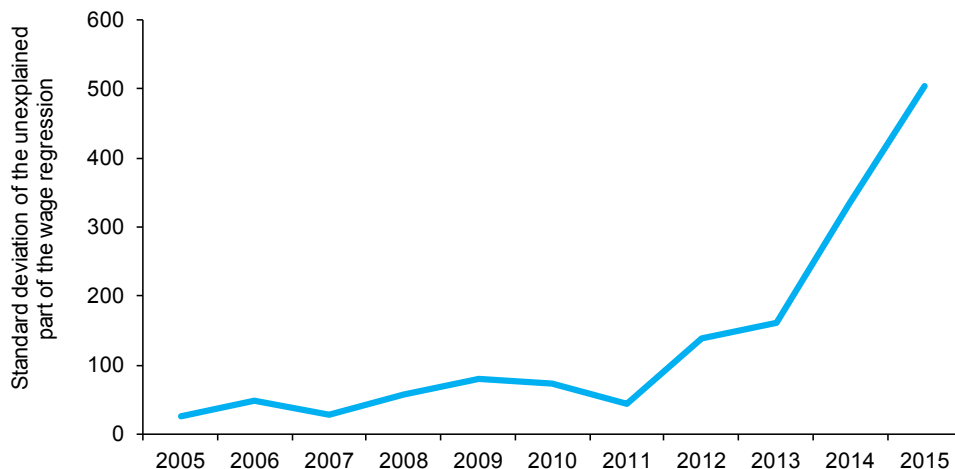
and accelerates during the last two years in our sample, which is when job creation picks up against the backdrop of economic recovery.

First-time contracts

Exhibit 7 illustrates the specific case of the so-called first-time contracts. This analysis includes

individuals aged under 26 as the sub-sample. These are the first employment contracts obtained by young individuals when joining the labour force at the start of their working lives. Because these individuals do not have prior experience or human capital specific to the company, they are more exposed to changes in general labour market conditions. The question then is how do these

Exhibit 7

Factors explaining the trend in wages: First-time contracts. Individuals aged under 26, 2008-2015 (Percentage)
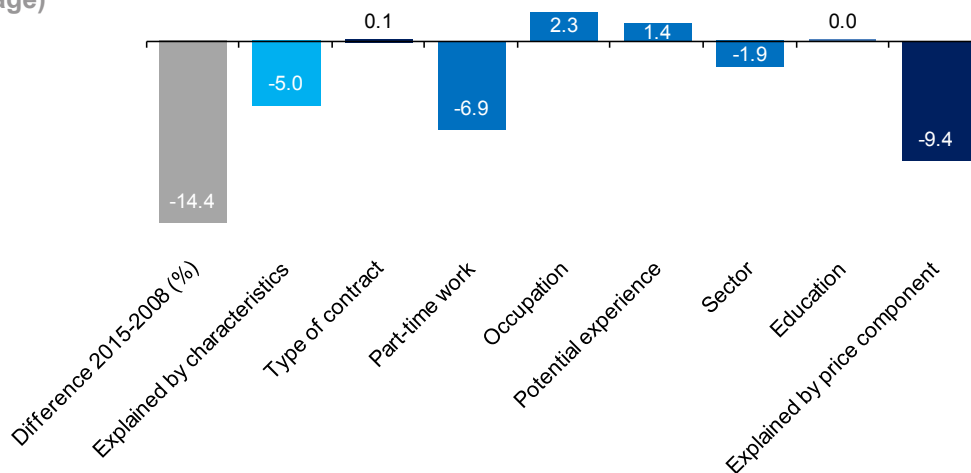
Source: CWHS.

contracts differ from those signed before the crisis broke out in 2008. The snapshot provided by Exhibit 7 is similar to that depicted by the new contracts (Exhibit 5) but with adverse effects of

The first-time contracts signed in 2015 entail an average wage penalty of 14% relative to those signed in 2008.

greater magnitude. Thus, the first-time contracts signed in 2015 entail an average wage penalty of 14% relative to those signed in 2008. Once again, the vast majority of this penalisation is explained by the price component (-9.4%) and the type of workday (-6.9%). Neither the sector component nor the type of contract is statistically significant.

Factors explaining the difference in annual income between 2008 and 2015

The exhibits above outline the daily wage dynamics and the factors explaining the difference between

2008 and 2015. That analysis omits an aspect of potential importance in the case of the Spanish job market: the number of days worked during the year. Annual wage income can fall not only because of a drop in daily wages but also because of a drop in the number of days worked over the course of the year. The fact that the economic recovery has brought with it very unstable and short-lived contracts in which employees are forced into episodes of joblessness on a sporadic basis, sometimes having to juggle several jobs at once to make ends meet, has been much criticised.

Daily wages under new contracts signed in 2015 were 11.9% below those of the contracts signed in 2008, but the reduction doubles when measured in terms of annual earnings due, above all, to a smaller number of days worked in the year in those new jobs.

Exhibit 8 repeats the above analysis for new contracts (Exhibit 5), this time using annual

Exhibit 8

Factors explaining the trend in annual wages: New contracts, 2008-2015
(Percentage)
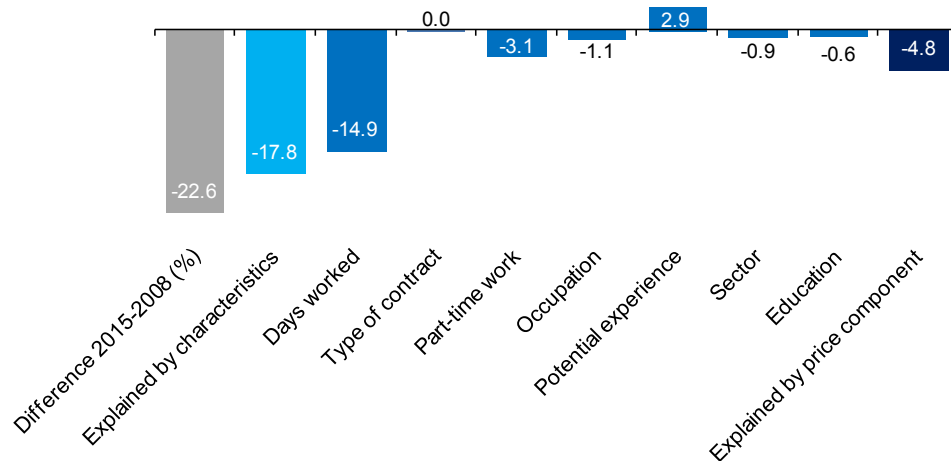
Source: CWHS.

Exhibit 9

Factors explaining the trend in annual wages: First-time contracts. Individuals aged under 26, 2008-2015
(Percentage)
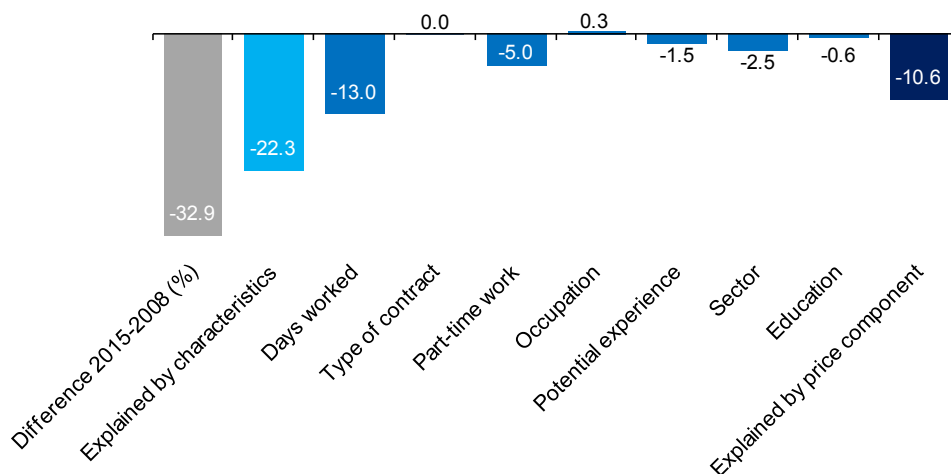
Source: CWHS.

income in the main job as the dependent variable. The contrast with Exhibit 5 is noteworthy. Whereas the daily wages associated with new contracts signed in 2015 were 11.9% below those of the contracts signed in 2008, the reduction doubles when measured in terms of annual earnings, to 22.6%. This is due, above all, to a smaller number of days worked in the year in those new jobs. This component explains over half of the total loss (-14.9%). The adverse price effect continues to play a role (-4.8%), as does the incidence of part-time arrangements (-3.1%). In the case of first-time contracts (Exhibit 9), the reduction in annual earnings rises to 33%. The lower number of days worked alone implies a reduction in annual income from the main job held of 13%, while the fact of working part time and in a given sector accounts for an aggregate drop of 5.0%. Virtually all of the rest of the loss of annual earnings is due to the price component (-10.6%).

Conclusions

The Spanish labour market appears to be gradually recovering from the deep crisis suffered between 2008 and 2013. Of the 3.6 million jobs destroyed during those years, a little over half have been recovered. However, these new jobs, created since 2014, are substantially different from those in existence before the start of the economic crisis. The analysis of the data corroborates some of the pre-existing ideas regarding the dynamics of the job market in recent years: the significance of part-time arrangements and the precarious nature of the new contracts are resulting in fewer days worked a year. However, there are other aspects that contradict some of these beliefs. The new contracts are not more temporary than they used to be. Although most are temporary, this was also the case before the crisis. Nor would it appear that the sector distribution of the new contracts is significantly biased towards less productive, low-income sectors, particularly considering the sectors from which many of the workers signing these new contracts came from. The results do show that employees with new contracts are earning less in jobs with similar characteristics and within a given firm. This reduction in pay evidences the new labour market conditions and is mainly affecting the individual who are being

forced into new jobs and the young people joining the labour market for the first time.

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Spain's banking and insurance sectors: A contrasting story

Daniel Manzano[1]

Both the Spanish banking and insurance sectors have seen a major improvement in solvency over the last decade. In terms of profitability, however, the insurance sector has held up reasonably well, while banks have struggled in recent years to generate profits above their cost of capital.

The recent crisis has significantly altered the behaviour and relative positioning of Spanish insurance companies and banks. The former have performed much more strongly, reducing the gap to the banking sector in terms of size, solvency and profitability. Meanwhile, both sectors have substantially improved their solvency levels at the cost of lower returns to shareholders. But there is a noteworthy difference: insurance companies are sustaining double-digit profitability, while the returns offered by banks are much more limited.

The Spanish banking sector recently published its 2016 results. Although the equivalent data for the insurance industry are still not available, it is possible to make a reasonable estimate based on published information pertaining to the first three quarters. As in previous years, there are important differences. The aim of this article is to compare the performance of the two sectors, not just over the last year but taking account of developments over the last ten years, marked by the profound international economic-financial crisis affecting the Spanish and global economies.

A quick review of headline data points to significant differences in relative size in various aspects. This is a distinguishing feature of the Spanish financial sector relative to neighbouring economies. The crisis has also had very different impacts on both sectors. As is well-known, the Spanish insurance sector is significantly smaller than the banking

sector. However, as we will see, the gap has closed substantially due to developments in key performance indicators. While the crisis did not pass unnoticed in the insurance sector, the sector has proven to be more robust and much less sensitive to the cycle.

The exhibits in the following sections show the performance of both sectors using different metrics: balance sheet size, equity, net income and profitability (ROE). These metrics are provided in aggregate terms for the companies' Spanish operations.

The insurance sector – weathering the crisis

The insurance sector (Exhibits 1a to 1d) has registered sustained balance sheet growth over

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

Exhibit 1

Performance of key insurance sector metrics (*)

a) Balance sheet size (billion euros)

b) Own funds (billion euros)

c) Net income (billion euros)

d) ROE (percentage)
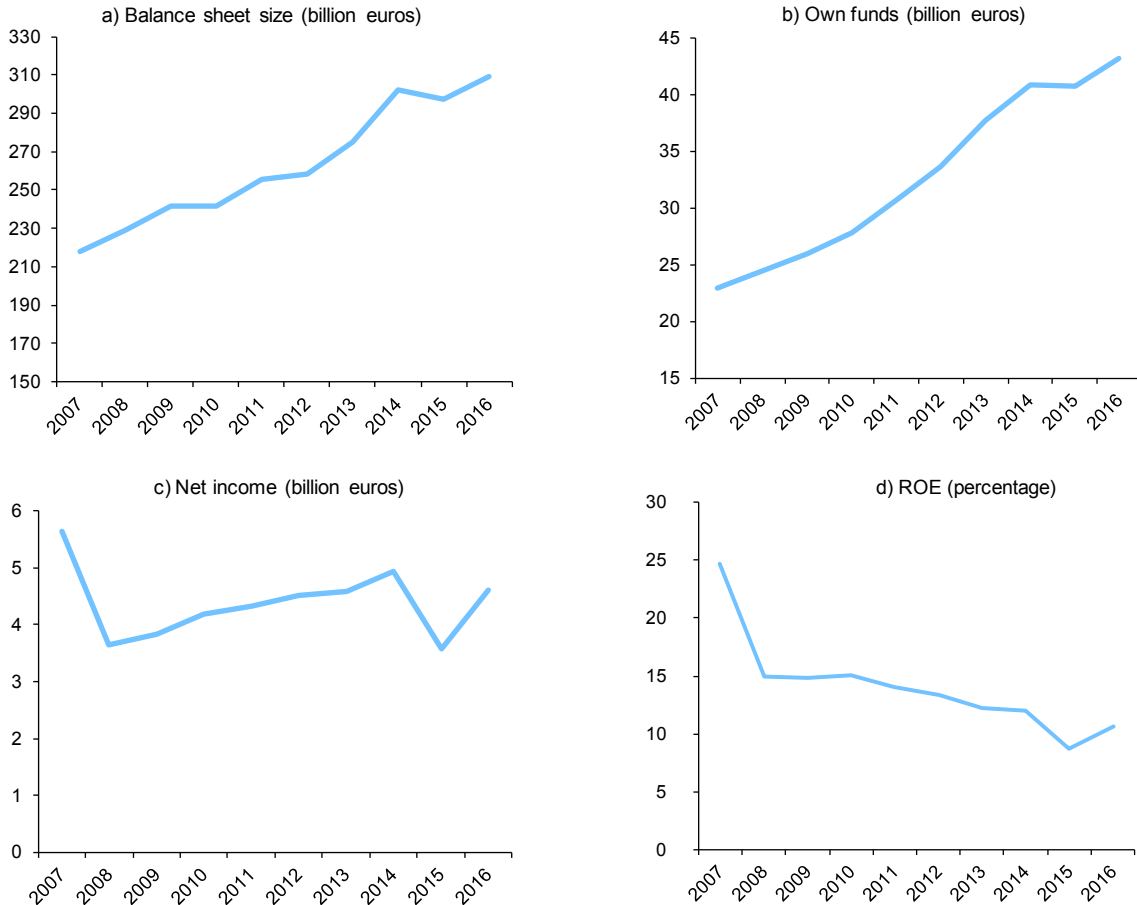
Note: (*) Aggregate sector data for Spanish operations. 2016 estimates based on data available for the first three quarters of the year.

Source: Directorate General for Insurance and Pension Funds (DGSFP) and author's own elaboration.

the last ten years, increasing from a little over 200 billion euros the year before the crisis to over 300 billion euros. In other words, an increase of around 50%. Logically, this growth is largely associated with mathematical provisions for the life business, ultimately representing the total volume of savings managed by life insurance.

Alongside this balance sheet expansion, there has also been a strengthening of the sector's equity, which has risen from 23 billion euros to 43 billion,

almost doubling. Consequently, this has led to a significant reduction in leverage in the sector, with the balance sheet moving from a ratio of ten-times equity to seven-times, at the same time as it has continued to grow.

Despite the crisis, robust results over the last ten years have proved sufficient to drive solvency improvements by themselves. Except for 2007, in which there was a large volume of long-term savings insurance rescues provoked by the fiscal

reform of 2006,[2] overall growth in results has been relatively stable since 2008. In reality, this has been the case up until the last two years when low interest rates began to take their toll on the sector.

Insurers' profitability has been gradually declining, driven not so much by a deterioration in the underlying income statement, but rather the strengthening of the sector's equity position, due to both greater regulatory capital requirements (Solvency II) and as a response to economic and market instability.

Results of over 4 billion euros on average have enabled the sector to sustain reasonable, even high, profitability levels (ROE) (typically between 10% and 15%, excluding a one-off 25% in 2007). Though it is also true that the sector's profitability has been on a gradual downward path to now. The driving factor is not so much a deterioration in the underlying income statement but rather the strengthening of the sector's equity position, due to both greater regulatory capital requirements (Solvency II) and as a response to economic and market instability.

Banking sector clean up but poor profitability

Developments in the *banking sector* have been starkly different (Exhibits 2a to 2d). The overall balance sheet for Spanish banks' domestic business continued growing until well into the crisis. In fact, the balance sheet hit a maximum of 3.25 billion euros in 2012 carried along by inertia from exceptional growth in the years leading up to the crisis. The massive growth in refinancing operations at the start of the crisis also contributed to prolonging the adjustment process, together

with a delayed response by most banks in cleaning up their deteriorating balance sheets. It was only later on, and fuelled by the restructuring of the sector itself, that banks fully confronted the task of cleaning up their balance sheets. This, together with a strong decline in lending activity, resulted in a sharp fall of over 20% in the sector's balance sheet.

Banks' equity has also been reinforced, but the lack of sufficient operating surplus and even losses in some years meant equity boosts came largely via major injections of public capital, in addition to private sources.

At the same time, as in the insurance sector, equity has also been reinforced. However, the lack of sufficient operating surplus and even losses in some years has meant that banks were forced to boost equity largely via major injections of capital, mainly public (bank rescue) as well as private. Thus, the sector's equity levels have increased from 160 billion euros at the start of the crisis to a little over 215 billion euros, a 35% increase. The combination of a shrinking balance sheet and an increase in equity have led to notable improvements in banking sector solvency. Overall balance sheet leverage to equity has fallen from multiples of 18 to 12 over the last ten years.

The flip side of the clean up is that the banking sector's overall net profit for domestic business over the nine years from 2008-2016 remains in the red. ROE has barely scraped 5% at best in recent years, following the sharp losses in 2011-2012. This represents less than half the ongoing return generated by the insurance sector.

Moreover, Spanish banks' domestic results have been buoyed by their involvement in insurance companies. In fact, if we focus solely on typical

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[2] Which led to exceptional profits in that year at the cost of reducing future profits.

Daniel Manzano

Exhibit 2

Performance of key banking sector metrics (*)

a) Balance sheet size (billion euros)

b) Own funds (billion euros)

c) Net income (billion euros)

d) ROE (percentage)
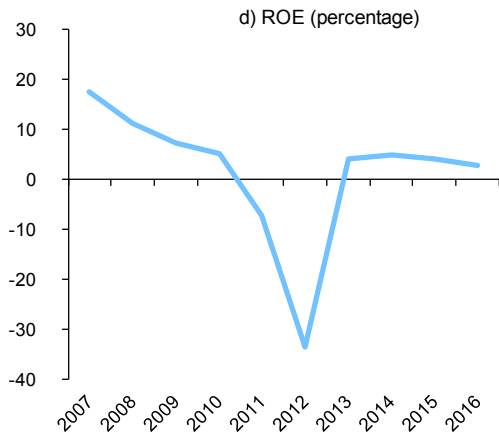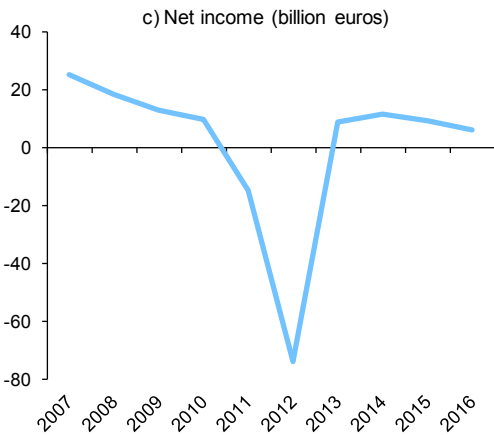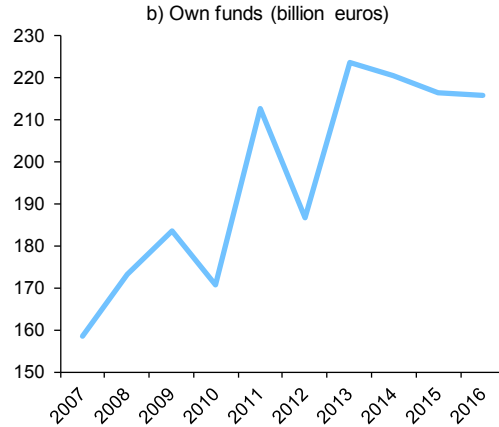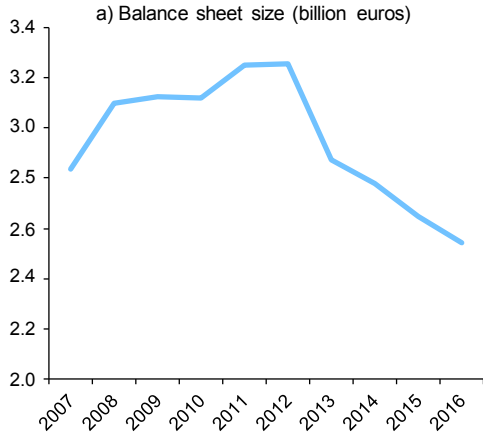
Note: (*) Aggregate sector data for Spanish business.
Source: Bank of Spain and author's own elaboration.

banking business, excluding the contribution to bank results from their insurance activities, banks' results in 2016 would have been much smaller and not very different from the insurance sector in absolute terms.

Finally, it is worth pointing out that the surpluses generated by the banking sector are significantly larger when also considering their foreign operations. Historically, this foreign presence has been concentrated in the two largest banks, Santander and BBVA, although Sabadell and Caixabank have recently expanded abroad.

While foreign operations make a very significant and notable contribution to Mapfre's results, the insurance sector still lags a long way behind the banking sector in terms of the aggregate contribution of foreign operations.

Insurers and banks in contrast

Recent performance – with a contraction in the banking sector and sustained growth in insurance – has closed the gap between the two sectors. The following developments can be observed

Exhibit 3

Performance of key metrics in terms of the ratio (multiple) of banking to insurance
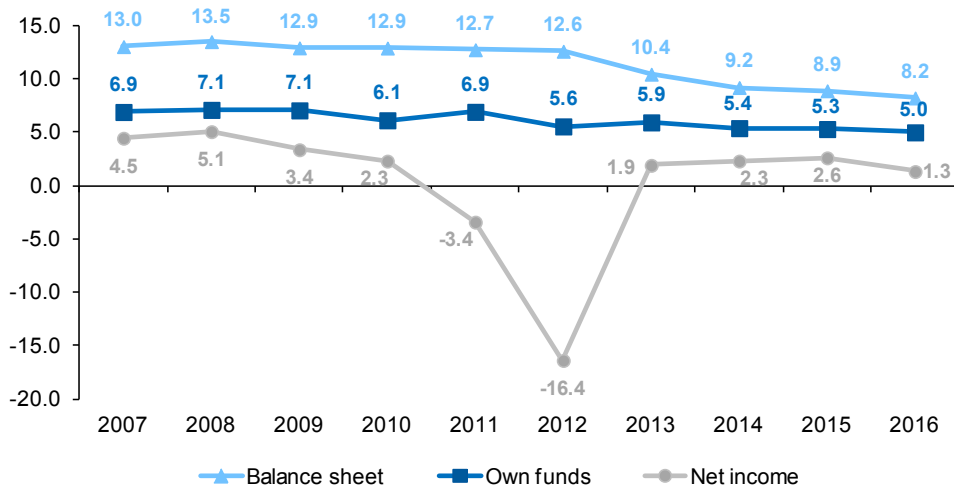
Source: Author's own elaboration based on Bank of Spain and DGSFP.

when comparing the relative performance of both sectors from 2007 to 2016, as shown in Exhibit 3:

■ The banking sector's aggregate balance sheet has moved from a ratio of thirteen-to-one to eight-to-one relative to the insurance sector,

■ meanwhile equity has dropped from a ratio of seven to five,

■ and finally, in terms of net profit, the relative ratio has fallen from five-to-one at the start of the period to a little over one-to-one in the last year.

There has also been a narrowing in terms of employment in both sectors. While the banking sector employed 278,000 people at the start of the crisis, ten years later it employs just 194,000, 30% less. By contrast, the insurance sector employed 43,000 people at the end of 2016, similar to the overall workforce in 2007.

In sum, based on the metrics reviewed in this article, the Spanish banking sector still retains a predominant position in terms of its relative weight

in the financial system, but the gap has narrowed significantly over the last ten years.

However, both sectors have seen a major improvement in solvency with significant increases in equity. For the banking sector this has involved significant recourse to external public and private sector injections, meanwhile the insurance sector has managed to improve solvency out of own cash flow. Moreover, this improvement in solvency in the insurance sector has come against the backdrop of steady balance sheet growth, while in the banking sector it has been accompanied by a simultaneous, sustained reduction in risk exposure.

The improvement in solvency has not been matched by profitability developments in both sectors. Quite the opposite, in both cases profits have deteriorated albeit by different orders of magnitudes. The insurance sector has not seen a substantial deterioration in its overall profits. They have held up at reasonable levels, providing double digit returns (albeit slowing). However, even leaving to one side the massive losses generated during the worst of the crisis, the banking sector

(domestic business) has struggled in recent years to generate returns in excess of the cost of capital.

It seems likely that these trends will continue for some time in both banking and insurance. However, we have only looked at the latter from an overall perspective and it is worth distinguishing between life and non-life businesses.

Shadow banking: Spain in the global context

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

The scale of shadow banking in Spain remains limited and has traditionally been contained by regulation and supervision. However, the proliferation of non-bank operators in the euro area, and the potential for contagion and systemic risk, requires constant surveillance.

Shadow banking encompasses a range of lending activities provided by non-banking vehicles, often outside of a defined regulatory perimeter and which are prevalent around the world, with potential for systemic implications. In Spain, partly because of the predominance of the banking sector in the finance framework, such activities have only developed to a relatively limited extent. Shadow banking in Spain scarcely accounts for 0.7% of the global total. Even so, the combined non-banking sector managed 1.34 trillion euros in assets in 2016, a decline from 1.53 billion euros in 2010 – primarily because of a downturn in securitisation fund assets. However, growth in shadow banking in the euro area and potential contagion risks make it an issue worth monitoring. To this end, regulatory and supervisory authorities coordinate internationally to try to reduce contagion risks from a business that continues to experience rapid growth.

Defining shadow banking and its systemic importance

The name "shadow banking" implies a certain murkiness or underhandedness, but the term itself has often been used without derogatory connotations. If anything, it is employed in a preventive context. The Financial Stability Board (FSB) is probably the institution responsible for developing the most widely accepted definition of shadow banking as credit intermediation involving entities and activities (fully or partially) outside the regular banking system. As this type of business has become more common and widely commented, during and in the aftermath of the crisis, various definitions began to circulate describing shadow banking as financial intermediation outside the scope of regulation or even on the fringes of the law. However, this is potentially a misleading or inaccurate definition because the importance of shadow banking has more to do with its systemic potential and because it refers to activities that, while regulated, are subject to less oversight than the banking sector which is, in some cases, incomplete or insufficient. Exhibit 1 uses set theory to illustrate the concept. We are talking about a financial business that is comparable to banking, developed by non-banking institutions

Exhibit 1
Defining shadow banking

Source: Authors' own elaboration.

but with systemic implications and subject to little or insufficient regulatory oversight.

The G20 meetings convened to address the severe financial crisis were responsible for "shadow banking" becoming the accepted terminology rather than other terms, such as "market-based banking" or "banking outside of regulation".

The FSB has tried to give some practical meaning to the definition, making progress in two areas. Firstly, from 2011 onwards, the FSB – in coordination with various national authorities as part of their monitoring reports – has pioneered the development of an extremely comprehensive map of institutions and activities in each country which fall within shadow banking. Secondly, since 2015, the FSB has developed an additional technical definition, the so-called "narrow measure" of shadow banking, which restricts the definition to non-bank institutions which the authorities consider to be involved in credit intermediation activities associated with potential systemic risks. This excludes institutions not undertaking (whether directly or indirectly) credit intermediation activities or which are integrated within a consolidated banking group. It is also worth noting that "credit activities" encompasses a wide range of possible leverage and indebtedness options.

This article aims to analyse the state of play and recent developments in shadow banking in the global context, considering Spain's position and outlook. In Spain's case, shadow banking is of interest primarily for preventive reasons. In this sense, while shadow banking could be considered one of the causes of the crisis (risk transmission generated by structured products), this type of contagion was limited in Spain, thanks in part to the role played by supervisory authorities (who limited or imposed significant provisions on the development of such activities). But it is worth highlighting that one of the key defining elements of shadow banking is the possible risk of contagion to the banking sector.

Indeed in June, the Bank of Spain published a "Report on the financial and banking crisis in Spain, 2008-14".[3] This reports describes some

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[3] http://www.bde.es/bde/es/secciones/informes/Otras_publicacio/informe-sobre-la

of the regulatory efforts undertaken in regard to shadow banking and notes that "the accumulation of risks outside the banking system had major implications for the outbreak of the crisis, causing

While shadow banking could be considered one of the causes of the crisis, contagion was limited in Spain, thanks in part to the role played by supervisory authorities (who limited or imposed significant provisions on the development of such activities).

the G20 to introduce measures to avoid the risk of banking activities migrating towards unregulated, or less regulated, participants or mechanisms in the financial system (shadow banking)... As a result of FSB recommendations, regulatory measures were developed to tackle risks linked to securitisation and the interconnections between banks and other entities (for example, via improvements in rules regarding the consolidation of off-balance sheet vehicles and improvements in prudential regulation)."

Spain in a global context

How prevalent is shadow banking at the global level? Where does Spain fit in this picture? The FSB's latest "Global Shadow Banking Monitoring

Various ECB reports suggest that euro area financial stability may be threatened by a sharp rise in global risk premia that may very likely come from the shadow banking world.

Report 2016,"[4] provides some interesting conclusions in this regard. Firstly, it suggests that nearly all non-bank financial intermediation activities have continued to grow in recent years, especially in the euro area which started from a lower base than other jurisdictions. Secondly, the report considers that the interconnection between non-bank and bank activities has declined in light of the regulatory response, but remains at higher levels than before the crisis. Furthermore, it highlights that various types of collective investment vehicles have been the main driver of growth in these activities.

In Europe, various financial stability reports published by the ECB in recent years suggest that the euro area's financial system has proven resilient to occasional bouts of volatility in financial markets but they also warn of increased potential for a sharp increase in risk premia at the global level. Such an increase may very likely come from the shadow banking world, which many analysts consider to be the main threat to international financial stability. This is a concerning backdrop for the ECB at a time when sovereign and private sector debt levels remain elevated in many countries.

As can be seen in Table 1, global financial assets are estimated at 321 trillion dollars, of which private banks manage 133 trillion but with the so-called "other financial institutions" already accounting for 92 trillion dollars, 28.8% of the total.

Also noteworthy is the 17.7% share corresponding to insurance companies and pension fund managers. This is important as their operations are sometimes more complex than they may appear and their involvement in investment activities subject to contagion risk is also significant.

Some of these links between banks and non-bank institutions are described in Exhibit 2 based on the FSB's own flowchart in its 2016 monitoring report. Other financial institutions (OFIs) are formed by a

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[4] http://www.fsb.org/2017/05/global-shadow-banking-monitoring-report-2016-monitoring-dataset/

Table 1

Structure of the global financial system

	Total	Central banks	Banks	Public financial institutions	Insurance corporations	Pension funds	Other financial institutions*	Financial auxiliaries**
Global financial assets (trillions of dollars)	321.0	24.0	133.0	13.0	28.0	29.0	92.0	1.0
Percentage of total	100.0	7.4	41.6	4.2	8.6	9.1	28.8	0.3

Notes: Data to end of 2015.

* Multilateral institutions and money lenders.

** Companies or quasi-companies that provide intermediation services without taking ownership of financial assets.

Source: Global Shadow Banking Monitoring Report 2016 (Financial Stability Board, FSB) and authors' own elaboration.

wide variety of institutions, including investment funds, hedge funds, financial auxiliaries and captive financial institutions and money lenders. OFIs may channel part of their activities through banks and/or take positions in banks or offer vehicles or services constituting risks in financial flows which can also potentially affect bank business. Insurers and pension funds also

Exhibit 2

Flows between bank and non-bank financial institutions
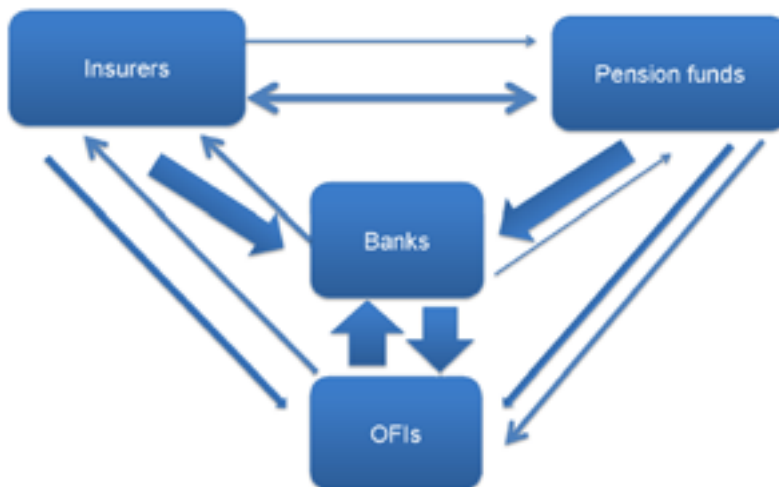
Note: The arrow indicates a claim from the source institution against the institution being pointed to, and the size of the arrow approximates the importance of these claims.

Source: Global Shadow Banking Monitoring Report 2016 (Financial Stability Board, FSB) and authors' own elaboration.

Exhibit 3
Relative importance of Spain in global shadow banking (2016)
(% of the total)
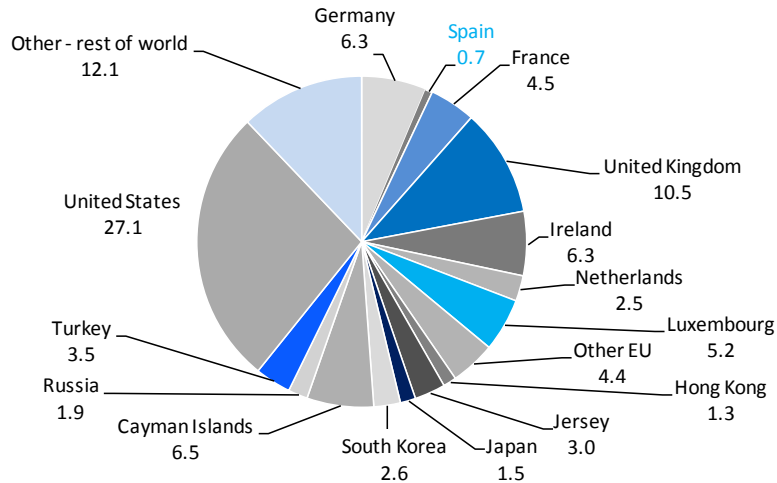
Source: EU Shadow Banking Monitor *(European Systemic Risk Board) and authors' own elaboration.*

have links to banks and OFIs insofar as they deposit or channel their funds and investments through these institutions, or they invest in

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Insurers and pension funds also have links to banks and OFIs insofar as they deposit or channel their funds and investments through these institutions, or they invest in areas which could be affected by OFIs and banking activity.

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areas which could be affected by OFIs and banking activity.

It is important to mention that recent statements from the FSB show some optimism about the way OFIs and shadow banking are being held under control. Mark Carney, FSB chairman and governor of the Bank of England made some relevant remarks on June 3rd, 2017, ahead of the G20 meeting in Hamburg, in the presentation of the annual report of the FSB. "Over the past decade, G20 financial reforms have fixed the fault

lines that caused the global financial crisis." The FSB report itself assures that reforms put in place by the G20 nations have successfully tackled the most pressing issues that contributed to the crisis, including improvement of the supervision of shadow banks.

In Spain's case, the Bank of Spain has taken an active role, in coordination with the CNMV and other Spanish authorities, in FSB-led analysis of possible institutions belonging to the shadow banking sector. Other European institutions, such as the European Systemic Risk Board (ESRB) are also monitoring these trends. As can be observed from Exhibit 3, according to ESRB data, Spain has a very limited stake in overall global shadow banking activity, accounting for a mere 0.7%. This contrasts with other euro area countries such as Germany (6.3%), France (4.5%) or Luxembourg (5.2%) and even more so with the United Kingdom (10.5%) and, especially, the United States (27.1%).

The relatively low presence of shadow banking in Spain is attributable to the country's idiosyncratic and long-standing institutional finance structure,

in which banks having a predominant role. Either way, as previously mentioned, this does not make it any less important to monitor these flows inside and outside Spain's borders, given that shadow banking is inherently systemic in nature and has the potential for contagion from non-banks to the banking system.

Non-bank financial institutions in Spain

Table 2 shows the structure of monetary financial activity in Spain using latest data available to April 2017. These are therefore activities which lie outside the narrowest definition of shadow banking. This obviously includes the Bank of Spain as watchdog. And also "other monetary financial institutions" – banks, specialised credit institutions and monetary funds. 56% of total assets relate to loans and credit, while 15.27% are debt securities. 3.07% are equity investments and the rest are smaller investments in funds and other securities. Overall, "other" monetary financial institutions handle 2.69 trillion euros in Spain.

Exhibit 4 shows total assets in the other side of the financial system – non-monetary financial institutions – formed of non-monetary investment funds, other financial intermediaries (such as securitisation funds), financial auxiliaries (such as stock brokers), insurance corporations and pension funds. The assets managed by these institutions are significant. Although movements have been somewhat volatile in recent years, assets amounted to 1.27 trillion euros in 2016, practically half of the assets managed by monetary institutions, as shown below.

Taken together, non-monetary institutions plus non-monetary funds and specialised credit institutions (even if they are outside the more restrictive "narrow" definition of shadow banking), constitute non-bank financial institutions. Table 3 provides a description of these institutions and recent developments between 2010 and 2016.

Non-monetary funds have significantly increased their involvement in the financial system from 2010 (10.75%) to 2016 (19.69%), at the same time as market conditions have improved in relative terms. However, "other financial intermediaries" – notably securitisation funds – have lost substantial weight

Table 2

Structure of monetary financial institutions in Spain (April 2017)
(Millions of euros and percentage share in total)

	Bank of Spain	% total	Other monetary financial institutions	% total
Loans and credit, residents in Spain	176,545	27.40	1,504,664	56.00
Debt securities, residents in Spain	231,526	35.93	410,269	15.27
Shares in Investment Funds, residents in Spain			891	0.03
Shares in capital, residents in Spain	72	0.01	82,573	3.07
Loans and credit, residents of other euro area countries	8,418	1.31	107,839	4.01
Debt securities, residents of other euro area countries	17,979	2.79	59,277	2.21
Shares in Funds, residents of other euro area countries			613	0.02
Shares in capital, residents of other euro area countries	1,313	0.20	33,870	1.26
Rest of the world and unclassified	208,576	32.37	486,943	18.12
Total assets	644,429	100.00	2,686,939	100.00

Source: Bank of Spain and authors' own elaboration.

Table 3

Non-bank financial institutions
(Millions of euros and percentage of total)

	2010	% total	2016	% total
Non-monetary investment funds	164,216	10.75	263,640	19.69
Fixed income funds	91,402	5.98	85,251	6.37
Equity funds	13,636	0.89	26,620	1.99
Mixed funds	10,825	0.71	56,693	4.23
Real estate funds	7,311	0.48	1,678	0.13
Hedge funds	1,432	0.09	2,137	0.16
Other funds	41,847	2.74	91,762	6.85
Other financial intermediaries	713,868	46.74	297,463	22.21
Securitisation funds	496,425	32.50	223,539	16.69
Broker dealers	8,631	0.57	2,087	0.16
Central counterparties	30,037	1.97	17,161	1.28
REITs			10,950	0.82
Financial auxiliaries and captive financial institutions and money lenders	239,028	15.65	271,220	20.25
Stock brokers	190	0.01	168	0.01
Issuers of preference shares	154,521	10.12	106,395	7.95
Headquarters of financial groups	57,187	3.74		
Holding companies not managing subsidiaries	100,537	6.58		
Insurance corporations	244,235	15.99	309,518	23.11
Pension funds	105,424	6.90	135,301	10.10
Money market funds	8,174	0.54	9,405	0.70
Specialised credit institutions	52,453	3.43	52,579	3.93
Total non-bank financial institutions	1,527,398	100.00	1,339,126	100.00

Source: Bank of Spain and authors' own elaboration.

over the same period, falling from 46.74% to 22.21%. It is worth noting the emerging popularity of REITs (Real Estate Investment Trusts) within this category, which managed assets amounting to 10.95 billion euros in 2016.

Preference share issuers also have a significant weight among financial auxiliaries, accounting for 7.95% of total non-bank financial institutions.

The most important group of non-bank financial institutions are insurers (23.11%), and pension funds, also representing a significant share (10.1%).

The most important group of non-bank financial institutions includes insurers (23.11%) and pension funds, also representing a significant share (10.1%).

Overall, non-bank financial institutions managed 1.34 trillion euros in 2016, representing a

Exhibit 4
Total assets of non-monetary financial institutions in Spain
(Millions of euros)
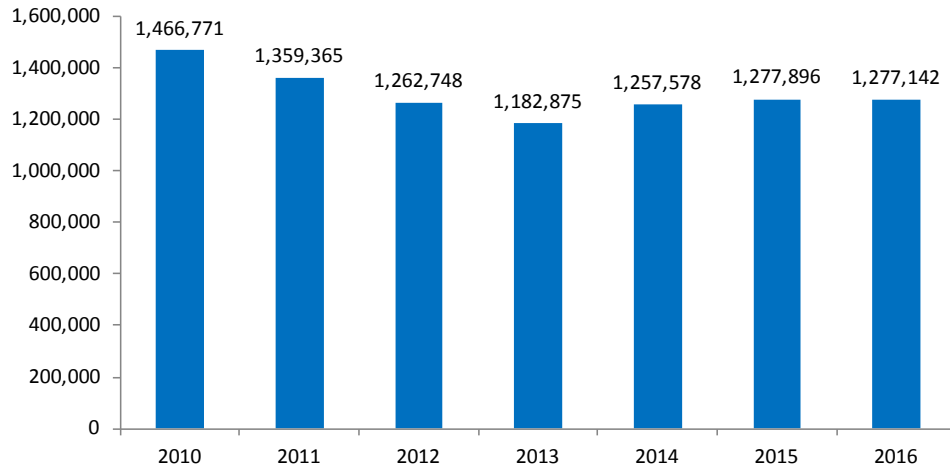
Source: Bank of Spain and authors' own elaboration.

decline from 1.53 trillion euros in 2010. The bulk of this downturn is attributable to a decline in securitisation fund assets.

Conclusions

Even though shadow banking sometimes has a derogatory connotation, it forms a very significant part of any financial system, where the least desirable aspects concern the potential for systemic risk. In this regard, the goal of international regulators and supervisors is to coordinate their activity in order to monitor and calculate the risks and probabilities of contagion and to ensure that these activities do not circumvent necessary regulation.

The scale of shadow banking in Spain is limited and has traditionally been contained by regulation and supervision. However, the proliferation of non-bank operators in the euro area, and the potential for contagion and systemic risk, requires constant surveillance. This article has shown how shadow banking in

Spain accounts for a mere 0.7% of global shadow banking. Even so, combined non-bank operators and activities amounted to 1.34 trillion euros in 2016, under a broad definition.

Over the coming years, it will also be necessary to analyse the potential role played by other non-bank operators. Such institutions could include developments within the world of Fintech. Companies in this arena may develop shadow banking characteristics if they transcend the world of payments – where they are currently concentrated – to become more involved in lending and other traditional banking activities.

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 creating the Committee for monitoring, control and assessment of floor clauses, amending the Royal Decree regulating the reserve funds of certain banking foundations (Royal Degree 536/2017, published in the Official Gazette (BOE) on May 27th)

The Royal Decree regulates the **structure** of the monitoring, control and assessment Committee, the **functions** that it will carry out and the **reporting obligations** applicable to banks. Specifically:

■ The Committee is attached to the Ministry of Economy, Industry and Competitiveness and has the status of a **representative collegiate body** prescribed by Law 40/2015 of October 1st of the Public Sector Legal Regime.

■ It will be formed of the following members: (i) the Deputy Governor of the Bank of Spain, who will chair the Committee, (ii) the Technical Secretary General of the Ministry of Economy, Industry and Competitiveness; and, (iii) representatives of the Ministry of Justice, the Ministry of Health, Social Services and Equality, the Council of Consumers and Users, the Council of Spanish Lawyers, the General Council of the Judiciary and Spanish Mortgage Association. The Committee will have a Secretary appointed by the Bank of Spain.

■ The Committee will take responsibility for **gathering and assessing information submitted to it by the Bank of Spain or banks and will publish a report on a semi-annual basis** assessing the degree of compliance with Royal Decree-law 1/2017. This report must be submitted by the chairman of the Committee to the Economy, Industry and Competitiveness Committee of the Congress of Deputies.

■ **Banks will submit the required information** – via the Bank of Spain – to the Committee on a monthly and individualised basis, which will include the following: (i) number of requests received, (ii) amount corresponding to the requests received; and, (iii) the number and amount of the different compensatory measures offering cash reimbursement to consumers. A distinction will be made between agreed and non-agreed requests.

■ Furthermore, banks will report on the **system implemented** to guarantee prior communication to consumers of the presence of floor clauses in their mortgage, especially in relation to **vulnerable people** (article 3.1 of Royal Decree-law 6/2012 of March 9th on urgent protection measures for mortgage debtors without income).

It also **amends Royal Decree 887/2015** of October 2nd, which regulates the reserve fund that certain bank foundations are required to create, doing so in the following ways:

■ **The target volume for the reserve fund must be met within a maximum period of 8 years** from entry into force of the Bank of Spain Circular implementing Royal Decree 877/2015, or from the date at which the banking foundation acquires control or a stake of over 50% in the investee bank, if the latter events take place subsequently.

■ **The banking foundation may request an extension from the Bank of Spain of up to one additional year**, if because of developments in the economic-financial situation of the investee bank or during the course of market conditions, the banking foundation gives notice that it is unable to reach the target volume for the reserve fund in the maximum period of eight years.

■ Banking foundations **must allocate at least 30% of distributed cash dividends received from investee banks to the fund**, until the reserve fund reaches its minimum target size.

■ Banking foundations will be able to **update their financial plan in a period of three months from the entry into force** of Royal Decree 536/2017.

Royal Decree-law transposing European Union Directives in the financial, commercial and health areas and on the movement of workers (Royal Decree-law 9/2017, published in the BOE on May 27th)

In relation to the **financial system**, the Royal Decree-law 9/2017 amends the following regulations:

■ **Law 41/1999 of November 12th on payments systems and securities settlement**. The Royal Decree modifies (i) **the definition of finality and irreversibility** of transfer orders, so that such orders are resolved consistent with the protocols set out in the pan-European securities

payments system (**TARGET2-Securities**), as well as (ii) the effects of **insolvency procedures on collateral**, aimed at finalising adaptation of the Spanish legal system to Regulation EU No 648/2012 (**EMIR**).

■ **Consolidated text of the Securities Market Law** (Royal Legislative Decree 4/2015). In order to complete the transposition of Directive 2013/50/EU of the European Parliament and of the Council of October 22nd, 2013, to the Spanish legal system, the Royal Decree-law amends the consolidated text of the Securities Market Law. It does so by adding to the National Securities Market Commission's (CNMV) existing powers of supervision and oversight, the possibility to suspend as a precaution the execution of voting rights associated with the purchase of shares until there is proof of compliance with reporting obligations related to the acquisition of significant holdings, when initiating or processing sanctions proceedings.

Other notable regulations modified by Royal Decree-law 9/2017 are as follows:

■ **Law 15/2007 of July 3rd on Protection of Competition**. The Royal Decree transposes Directive 2014/104/EU of the European Parliament and Council of November 26th, 2014, which sets out certain regulations governing, under national law, harmful actions resulting from the infraction of Member State and European Union competition law.

■ **Law 1/2000 of January 7th on Civil Procedure**. This regulation is also amended as a result of the transposition of Directive 2014/104/EU.

■ **Consolidated text of the General Law for the Protection of Consumers and Users and other complementary laws, approved by Royal Legislative Decree 1/2007 of November 16th**. The amendments ensure the correct transposition of Directive 2011/83/EU focusing on necessary protections for consumers in their interactions with entrepreneurs. Specifically,

regarding the ways in which entrepreneurs must refund payments received from the consumer in the case of cancellation, guaranteeing that this does not involve any expenditures because of cancellation of the contract.

CNMV Circular on liquidity contracts (Circular 1/2017, published in the BOE on May 10th)

The Circular specifies the rules on permitted operations for issuers, establishing various mechanisms to strengthen market confidence. This Circular replaces Circular 3/2007, ensuring compliance with the Market Abuse Regulation (MAR) (Regulation EU No 596/2014 of the European Parliament and Council of April 16th, 2014, on market abuse) and introducing improvements in relation to liquidity contracts.

Until now, the CNMV had accepted a single market practice regulated by Circular 3/2007 of the CNMV, but national regulations have had to adapt following the publication of MAR. Specifically, MAR provides a general ban on manipulation or attempted market manipulation by any individual, though the ban will not apply if the transaction, order or conduct is supported by a legitimate motive and is consistent with the concept of "accepted market practices".

MAR compliance requires the introduction of improvements in the setting of liquidity contracts, especially in regard to accepted market practices.

The main changes in relation to the Circular it replaces are based on the following aspects:

- **broadening of the scope of application** of market practices to multilateral trading systems;

- the setting of a **volume limit associated with average daily trading volumes** which may be executed within the framework of the liquidity contract, and will vary depending on

whether the shares forming the subject of the contract are liquid or illiquid in accordance with MiFIR;

- the inclusion of a **maximum amount of resources** that may be allocated to the performance of the liquidity contract;

- the requirement that the **financial intermediary** executing the market practice **be a member of the trading venue**;

- the need to maintain a long-term **balance between purchase and sales volumes** within the framework of the liquidity contract;

- conditions for the **introduction or amendment of orders during auction phases**, primarily relating to the price and volume of orders;

- conditions for undertaking **block trades or other bilaterally traded transactions**, formalised in accordance with existing legislation, such that they will only be allowed where the given order is at the request of a third party distinct from the issuer of the shares and the financial intermediary acting on their behalf;

- the conditions applying to transactions taking place under the liquidity contract for shares traded in the **fixing modality**;

- the **assumptions under which the liquidity contract must be suspended**.

The Circular attaches a **template liquidity contract** which includes explanatory clauses aimed at helping financial intermediaries and share issuers to correctly interpret the regulation.

The Circular **will enter into force two months after publication in the BOE**, thereafter requiring issuing companies wishing to undertake their operations in accordance with the new liquidity contract configuration to enter into a new contract and submit it to the CNMV prior to coming into force.

Spanish economic forecasts panel: July 2017[1]

Funcas Economic Trends and Statistics Department

GDP growth revised up to 3.1% in 2017

GDP grew by 0.8% in the first quarter of 2017. Private consumption slowed on the back of a pick up in inflation, but investment gained renewed momentum, both in terms of capital goods and residential construction. Exports also grew robustly, resulting in a positive contribution to growth from the external sector. Leading indicators for the second quarter of the year point to growth being somewhat faster than in the first quarter. Consensus now sees quarterly GDP growth coming in at 0.9% (Table 2). Consumption appears to have recovered renewed impetus, while investment looks set to ease relative to strong growth in the first quarter.

The average annual growth forecast now stands at 3.1%, representing an upward revision of 0.3 percentage points on the May panel. This is explained by a more optimistic outlook for the contribution from both domestic demand (2.5 percentage points) and the external sector (0.6 percentage points). The outlook for household consumption has been revised down slightly, with investment now forecast to see much stronger growth. Quarterly growth rates are forecast to moderate to 0.7% in the second half of the year.

Growth of 2.7% forecast for 2018

Consensus forecasts GDP growth of 2.7% in 2018, representing an upward revision of 0.2 percentage points. The main driver is a more bullish outlook for the contribution from domestic demand, primarily gross capital formation. The external sector will continue to contribute positively to growth, albeit less so than in the current year.

Spike in inflation in 2017 and moderation in 2018

Headline inflation fell sharply from 2.6% in April to 1.5% in June, primarily due to the expected slowdown in energy price inflation. Prices of energy products have been weaker than expected in recent times, due to the decline in oil prices and a notable appreciation of the euro.

As a result, the consensus forecast for annual average inflation in 2017 has been revised down to 2%, while the outlook for core inflation remains stable at 1.1%. Headline inflation is forecast to moderate to 1.5% in 2018, with core inflation rising to 1.4%. Forecasts for year-on-year inflation in December have also been revised down, to 1.2% this year and 1.5% next year.

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[1] *The Spanish economic forecast panel is a survey of seventeen research 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.*

Positive employment developments

Employment accelerated in the second quarter of the year according to Social Security registrations data, thanks to strong growth in services sector employment. Employment growth slowed in industry and, especially, the construction sector following robust growth recorded in the previous quarter.

Consensus now sees a stronger outlook for employment, with growth of 2.7% in 2017 and 2.3% in 2018. Based on consensus estimates for GDP, employment and wage remuneration, it is possible to obtain an implicit forecast for growth in productivity and unit labour costs (ULC). Productivity is set to grow by 0.4% this year and the next, while ULC are forecast to increase by 0.5% in 2017 and 1% in 2018.

The annual unemployment rate is on track to fall to 17.3% in 2017 and 15.4% in 2018.

Solid current account surplus maintained

The current account registered a cumulative deficit of 409 million euros to April, compared to a surplus of 1.945 billion euros over the same period last year. The deterioration is due to a worsening of the trade balance. According to Customs data, this was due to the recovery in oil prices, given that the non-energy balance posted a larger surplus than in the same period last year.

Consensus forecasts a surplus of 1.8% of GDP for the year as a whole and 1.7% in 2018.

Public deficit to shrink but failing to meet targets

The public deficit, excluding local corporations, to April was 4,171 billion euros smaller than the

same period last year, thanks to a much stronger increase in revenues than expenditures. The State and Social Security system both registered improved results, but the regional deficit deteriorated.

In light of the improved growth outlook, consensus now sees the public deficit coming in at 3.2% of GDP, a downward revision on the previous Panel but still 0.1 percentages points above target. That said, nine of the sixteen panellists who provide forecast for this variable now believe the Government will deliver. A deficit of 2.4% of GDP is forecast for 2018, also above target.

Improvement in global economic outlook

Economic data in recent months point to a strengthening of global growth. Particularly of note is the increase in qualitative and economic sentiment indicators in the eurozone.

A larger majority of panellists now consider the EU environment to be favourable. Furthermore, the majority of forecasters in this Panel also judge the non-EU context to be favourable (in the previous Panel the majority saw the backdrop as neutral). Likewise, few foresee significant changes to the outlook over the coming months. Nobody regards the context as unfavourable or likely to deteriorate.

Long-term interest rates ticking up

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

The yield on long-term debt (10-year sovereign) has fallen from a monthly average of 1.57% in May to 1.45% in June, slightly below the maximum of 1.8% recorded in March, but above pre-US

election levels. This level is still considered to be relatively low given conditions in the Spanish economy. However, forecasters are now expecting an increase in interest rates in the near future.

Euro continues strengthening

Recent declarations by Draghi, which have been interpreted as a warning that extraordinary monetary policy measures could be wound-up more decisively than expected, have given renewed stimulus to the euro. Accordingly, the euro has continued to track up against the dollar to a monthly average of 1.13, from 1.10 in May (and 1.06 at the start of the year).

Even so, most panellists believe the euro is below its equilibrium level, though major movements are not foreseen in the coming months.

Fiscal policy is no longer expansive

Compared to the previous Panel, the majority of forecasts judging fiscal policy to be neutral has increased. Most also consider this to be an appropriate stance. There are no changes in opinion on monetary policy. Panellists are unanimous in considering the stance to be expansionary with the majority judging this to be the right approach.

Exhibit 1

Change in forecasts (Consensus values)
(Percentage annual change)
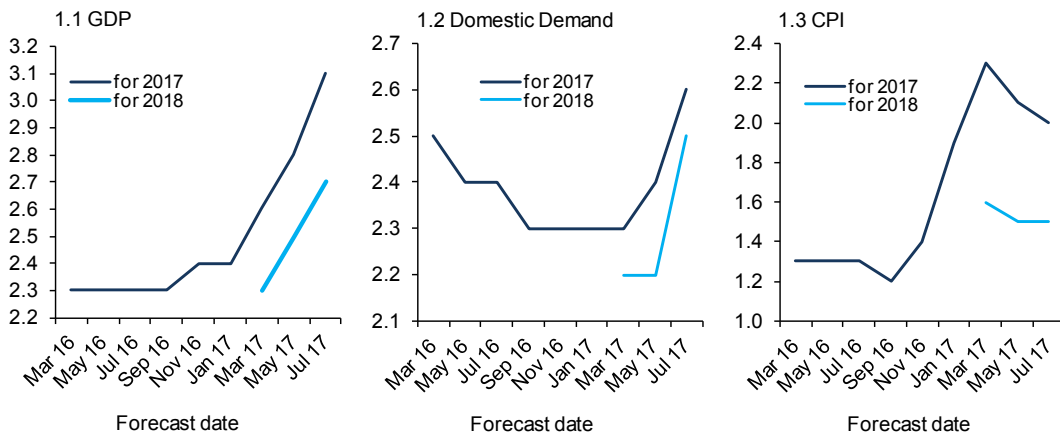
Source: Funcas Panel of forecasts.

Table 1

Economic Forecasts for Spain – July 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)	3.2	2.8	2.8	2.6	0.8	0.7	3.7	4.0	4.9	4.4	3.0	4.2	2.5	2.4
Axesor	3.1	2.8	2.2	2.0	1.0	2.0	4.6	4.5	5.0	4.1	4.3	4.9	2.5	2.6
Banco Bilbao Vizcaya Argentaria (BBVA)	3.3	2.8	2.7	2.4	0.8	1.9	4.4	4.8	5.1	4.6	3.7	4.7	2.6	2.7
Bankia	3.3	3.0	2.6	2.5	1.1	1.0	4.8	4.7	5.7	5.0	4.1	4.7	2.7	2.7
CaixaBank	3.1	2.5	2.3	2.1	0.7	0.8	4.5	3.7	5.7	3.8	3.5	3.6	2.4	2.2
Cámara de Comercio de España	3.1	2.8	2.7	2.4	0.8	0.9	4.0	4.0	4.5	5.6	3.4	3.0	2.5	2.4
Cemex	3.1	2.5	2.5	2.3	1.0	1.0	4.2	3.9	4.1	4.0	4.4	4.2	2.5	2.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	2.7	2.8	2.5	1.4	1.6	3.2	3.0	3.6	3.4	3.1	2.9	2.7	2.4
Centro de Predicción Económica (CEPREDE-UAM)	3.0	2.5	2.4	2.1	1.2	1.3	4.5	4.2	5.9	4.8	3.7	4.0	2.6	2.4
CEOE	3.2	2.7	2.6	2.4	0.4	0.7	4.2	3.5	5.3	4.2	3.1	2.9	2.4	2.2
Funcas	3.2	2.8	2.5	2.4	0.8	0.7	4.8	5.2	5.2	5.3	4.5	5.1	2.5	2.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.1	2.8	2.9	3.3	1.2	1.0	3.7	4.3	4.5	5.3	3.3	4.0	2.6	2.8
Instituto de Estudios Económicos (IEE)	3.3	2.7	2.8	2.1	0.8	0.7	4.8	4.8	6.0	6.2	3.5	3.6	2.9	2.6
Intermoney	3.0	2.5	2.8	2.4	0.8	1.0	3.9	2.9	5.1	3.7	2.7	2.1	2.6	2.2
Repsol	3.3	3.0	2.3	2.2	1.0	2.1	4.9	4.9	6.4	6.3	3.9	3.9	2.6	2.7
Santander	3.2	2.7	2.2	2.1	0.8	1.0	5.4	4.7	7.3	4.9	3.9	4.7	2.9	2.6
Solchaga Recio & asociados	3.1	2.7	2.7	2.2	1.0	0.9	4.0	4.0	4.8	4.7	3.7	4.5	2.6	2.4
CONSENSUS (AVERAGE)	3.1	2.7	2.6	2.4	0.9	1.1	4.3	4.2	5.2	4.7	3.6	3.9	2.6	2.5
Maximum	3.3	3.0	2.9	3.3	1.4	2.1	5.4	5.2	7.3	6.3	4.5	5.1	2.9	2.8
Minimum	3.0	2.5	2.2	2.0	0.4	0.7	3.2	2.9	3.6	3.4	2.7	2.1	2.4	2.2
Change on 2 months earlier[1]	0.3	0.2	-0.1	0.2	0.0	0.0	1.0	0.6	1.4	0.5	0.6	0.5	0.2	0.3
- Rise[2]	16	15	5	10	5	7	17	13	15	13	15	14	12	15
- Drop[2]	0	1	9	3	8	4	0	2	1	2	1	2	3	1
Change on 6 months earlier[1]	0.7	--	0.2	--	-0.3	--	0.9	--	0.6	--	0.8	--	0.3	--
Memorandum ítems:														
Government (July 2017)	3.0	2.6	2.6	2.4	0.8	0.7	3.9	3.6	4.2	3.5	3.9	4.0	--	--
Bank of Spain (June 2017)	3.1	2.5	2.7	2.0	0.8	0.8	3.7	4.6	3.6	5.1	4.0	4.9	--	--
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

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).
[2] Number of panelists revising their forecast upwards (or downwards) since two months earlier.

Table 1 (Continued)

Economic Forecasts for Spain – July 2017
(Average year-on-year change, as a percentage, unless otherwise stated)

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[7]	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Analistas Financieros Internacionales (AFI)	6.4	4.4	4.9	3.5	1.9	1.4	1.0	1.3	0.7	0.9	2.4	2.0	17.5	15.9	1.9	1.8	-3.3	-2.4
Axesor	7.7	4.3	6.1	4.0	2.1	1.8	1.1	1.6	1.2	1.5	2.7	2.4	17.9	16.0	1.3	0.5	-3.3	-2.9
Banco Bilbao Vizcaya Argentaria (BBVA)	7.0	4.9	5.3	5.2	1.9	1.7	1.1	1.5	0.0	1.2	2.7	2.3	17.1	15.3	2.0	1.9	-3.2	-1.9
Bankia	6.7	4.9	5.1	4.3	2.0	1.6	1.1	1.4	0.7	1.4	2.7	2.5	17.1	15.0	2.0	2.3	--	--
CaixaBank	7.9	4.6	6.4	3.6	1.8	1.4	1.0	1.5	1.0	1.6	2.5	2.2	17.5	16.1	2.0	1.8	-3.1	-2.4
Cámara de Comercio de España	7.4	6.0	5.9	5.5	1.9	1.3	1.0	1.0	--	--	2.7	2.4	17.2	15.2	1.5	1.6	-3.1	-2.2
Cemex	6.4	4.4	5.0	4.3	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	4.0	3.8	1.9	1.6	1.2	1.5	--	--	2.9	2.5	17.1	14.8	1.7	1.6	-3.1	-2.2
Centro de Predicción Económica (CEPREDE-UAM)	6.3	4.7	5.4	4.8	2.1	1.4	--	--	1.2	2.2	2.5	2.0	17.5	16.0	1.9	2.0	-3.1	-2.5
CEOE	8.1	6.6	6.4	5.6	2.0	1.2	1.0	1.0	0.5	0.8	2.8	2.6	17.2	15.0	1.7	1.6	-3.3	-2.9
Funcas	6.4	5.5	4.7	5.0	1.9	1.2	1.1	1.5	1.4	1.4	2.9	2.4	17.0	14.6	2.2	2.2	-3.2	-2.2
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.3	4.0	4.1	5.3	2.2	2.0	1.2	1.5	--	--	2.5	2.3	17.5	15.6	1.8	1.8	-3.4	-2.6
Instituto de Estudios Económicos (IEE)	6.9	4.8	5.8	4.4	2.2	1.9	1.0	0.9	1.1	1.3	3.1	2.4	17.0	15.0	2.0	1.6	-3.1	-2.3
Intermoney	6.4	4.2	5.6	3.8	1.9	1.6	1.2	1.5	--	--	2.7	2.1	17.4	15.0	1.7	1.5	-3.1	--
Repsol	9.2	6.3	7.7	5.7	2.0	1.4	1.2	1.5	0.8	1.0	2.6	2.3	17.5	15.4	1.8	1.6	-3.1	-2.2
Santander	7.7	4.3	7.4	4.4	2.0	1.5	--	--	1.1	1.8	2.7	2.3	17.2	15.3	2.0	1.8	-3.1	-2.8
Solchaga Recio & asociados	7.0	4.7	5.9	4.0	2.1	1.7	1.2	1.6	--	--	2.6	2.1	17.6	15.9	1.8	1.7	-3.3	-2.6
CONSENSUS (AVERAGE)	6.9	4.9	5.6	4.5	2.0	1.5	1.1	1.4	0.9	1.4	2.7	2.3	17.3	15.4	1.8	1.7	-3.2	-2.4
Maximum	9.2	6.6	7.7	5.7	2.2	2.0	1.2	1.6	1.4	2.2	3.1	2.6	17.9	16.1	2.2	2.3	-3.1	-1.9
Minimum	4.9	4.0	4.0	3.5	1.8	1.2	1.0	0.9	0.0	0.8	2.4	2.0	17.0	14.6	1.3	0.5	-3.4	-2.9
Change on 2 months earlier[1]	2.0	0.6	1.6	0.5	-0.1	0.0	0.0	0.1	-0.2	0.0	0.3	0.2	-0.2	-0.4	0.1	0.1	0.1	0.0
- Rise[2]	16	10	16	11	1	3	3	6	1	3	14	13	2	2	7	7	4	4
- Drop[2]	0	3	0	4	11	7	4	1	5	4	1	2	12	11	3	4	1	2
Change on 6 months earlier[1]	3.0	--	1.8	--	0.1	--	0.1	--	-0.2	--	0.5	--	-0.8	--	0.4	--	0.3	--
Memorandum items:																		
Government (July 2017)	6.5	5.4	5.4	4.7	--	--	--	--	--	--	2.8	2.6	17.4	15.4	1.6	1.5	-3.1	-2.2
Bank of Spain (June 2017)	6.9	4.9	5.8	4.5	2.0	1.3	1.1	1.5	--	--	2.9	2.3	17.3	15.4	1.8[6]	1.9[6]	-3.2	-2.6
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

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

[2] Number of panellists revising their forecast upwards (or downwards) since two months earlier.

[3] Average earnings per full-time equivalent job.

[4] In National Accounts terms: full-time equivalent jobs.

[5] Current account balance, according to Bank of Spain estimates.

[6] Net lending position vis-à-vis rest of world.

[7] Excluding financial entities bail-out expenditures.

Table 2

Quarterly Forecasts – July 2017[1]

		17-IQ	17-IIQ	17-IIIQ	17-IVQ	18-IQ	18-IIQ	18-IIIQ	18-IVQ
Quarter-on-quarter change (percentage)									
GDP[2]		0.8	0.9	0.8	0.7	0.7	0.6	0.6	0.6
Household consumption[2]		0.4	0.7	0.7	0.7	0.5	0.6	0.5	0.6

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

[2] According to series corrected for seasonality and labour calendar.

Table 3

CPI Forecasts – July 2017[1]

Monthly change (%)				Year-on-year change (%)	
Jun-17	Jul-17	Aug-17	Sep-17	Dec-17	Dec-18
0.3	0.0	0.5	0.4	1.2	1.5

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

Table 4

Opinions – July 2017
(Number of responses)

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

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

[2] Three-month Euribor.

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

[4] Relative to theoretical equilibrium rate.

KEY FACTS:

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)
					Total	Construction 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		3.2	2.5	0.8	4.8	4.5	6.7	2.5	5.2	6.4	4.7	2.5	0.7
2018		2.8	2.4	0.7	5.2	5.1	6.6	3.6	5.3	5.5	5.0	2.5	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	2.5	0.1	3.8	3.0	5.5	0.7	4.7	8.4	6.4	2.2	0.8
	II	3.2	2.4	1.1	4.1	3.9	6.4	1.6	4.2	5.9	3.3	2.2	1.0
	III	3.2	2.6	0.8	5.3	5.1	7.2	3.3	5.6	6.3	5.0	2.7	0.6
	IV	3.2	2.5	1.3	6.0	5.8	7.5	4.3	6.2	4.9	4.3	2.8	0.3
2018	I	3.0	2.6	1.0	5.2	5.8	7.2	4.4	4.7	3.4	2.4	2.6	0.4
	II	2.6	2.5	0.5	5.1	5.3	6.7	4.0	5.0	4.4	4.4	2.5	0.1
	III	2.7	2.3	0.5	5.2	4.9	6.6	3.2	5.5	6.9	6.3	2.3	0.4
	IV	2.9	2.1	0.6	5.2	4.4	5.9	2.9	6.0	7.3	6.7	2.5	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	3.3	1.6	1.4	8.1	4.5	11.4	-1.6	11.8	17.0	16.2	2.6	0.7
	II	3.9	2.6	1.5	6.5	8.0	7.0	9.0	5.0	4.2	-1.4	2.0	1.9
	III	3.0	3.1	1.2	4.7	5.4	4.8	6.0	4.0	-3.2	-1.3	3.7	-0.7
	IV	2.5	2.8	1.0	4.7	5.4	7.0	4.0	4.0	2.7	4.4	2.9	-0.4
2018	I	2.5	2.0	0.5	5.1	4.2	10.0	-1.0	5.9	10.3	8.3	1.6	0.9
	II	2.5	2.2	-0.5	6.1	6.1	5.1	7.2	6.0	8.2	6.2	1.6	0.9
	III	3.5	2.1	1.2	4.8	3.6	4.5	2.8	6.0	6.5	6.4	3.2	0.2
	IV	3.2	2.1	1.2	4.7	3.5	4.2	2.8	6.0	4.4	6.0	3.5	-0.4
		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		1,166.2	57.7	18.4	20.4	10.3	5.0	5.3	10.1	34.4	31.3	96.9	3.1
2018		1,216.6	57.5	18.0	21.1	10.9	5.4	5.5	10.3	35.3	32.1	96.8	3.2

Seasonally and Working Day Adjusted.
(a) Contribution to GDP growth.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.1.- GDP
Percentage change

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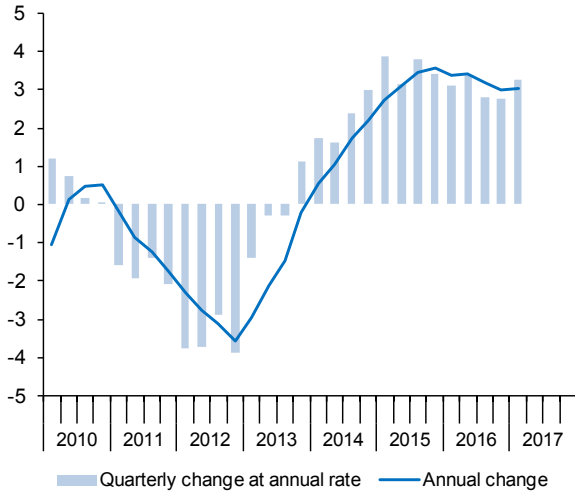
Chart 1.2.- Contribution to GDP annual growth
Per cent points

GDP — Domestic demand — Net exports

Chart 1.3.- Final consumption
Annual percentage change

National consumption — Private consumption
Public consumption

Chart 1.4.- Gross fixed capital formation
Per cent points

Total — Construction — Equipment & other products

Table 2

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

Forecasts in blue

			Gross value added at basic prices							Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Industry		Construction	Services			
			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	3.2	5.5	2.5	2.6	4.7	3.2	2.2	3.5	2.6
2018	2.9	2.0	2.0	2.2	3.3	3.2	2.1	3.5	1.6
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	3.0	4.0	2.8	2.7	4.4	2.8	1.8	3.2	3.9
II	3.2	7.1	2.5	2.4	3.8	3.3	2.0	3.7	2.6
III	3.4	7.1	2.9	2.7	4.7	3.3	2.2	3.7	1.6
IV	3.3	3.7	1.9	2.5	5.9	3.4	2.8	3.6	2.1
2018 I	3.1	2.0	2.0	2.4	3.5	3.4	2.7	3.6	1.7
II	2.7	2.0	1.9	2.2	3.7	2.9	2.0	3.1	1.8
III	2.8	2.0	1.9	2.1	3.2	3.1	1.9	3.4	1.8
IV	3.1	2.0	2.2	2.2	2.7	3.4	1.8	3.9	1.1
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	3.4	8.9	1.5	2.5	12.0	3.0	1.3	3.6	2.1
II	4.2	2.0	2.6	3.0	2.0	4.9	3.5	5.4	0.8
III	3.2	2.0	2.3	2.6	4.8	3.3	3.2	3.3	1.4
IV	2.3	2.0	1.2	2.0	4.8	2.4	3.0	2.2	4.3
2018 I	2.7	2.0	1.9	1.9	2.5	3.0	1.0	3.6	0.5
II	2.7	2.0	2.2	2.3	2.5	2.8	1.0	3.4	1.0
III	3.7	2.0	2.2	2.3	3.0	4.1	2.7	4.6	1.5
IV	3.3	2.0	2.4	2.5	2.9	3.7	2.7	4.0	1.5
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	1,057.3	2.6	17.9	14.1	5.6	73.9	18.5	55.4	10.3
2018	1,103.0	2.7	17.6	13.8	5.7	74.0	18.3	55.7	10.3

Seasonally and Working Day Adjusted.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 2.1.- GVA by sectors
Annual percentage change

Total   Industry   Construction   Services

Chart 2.2.- Industry
Annual percentage change

Total   Extractive and utilities   Manufacturing

Chart 2.3.- GVA, services
Annual percentage change

Total
Public administration, health, education
Other services

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

Services   Construction
Industry   Agriculture, forestry and fishing

Table 3a
National accounts: Productivity and labour costs (I) (ESA 2010, Base 2010)
Forecasts in blue

		Total economy						Manufacturing industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
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		131.1	112.2	116.8	151.0	129.3	93.9	109.1	--	--	--	--	--
2018		134.8	114.9	117.3	153.1	130.5	93.5	111.5	--	--	--	--	--
2015	I	121.5	104.7	116.1	149.0	128.4	95.1	100.8	66.8	150.8	163.7	108.5	84.0
	II	122.5	105.9	115.7	148.6	128.4	95.0	102.4	67.3	152.0	163.8	107.8	83.6
	III	123.6	106.5	116.1	148.6	128.0	94.7	104.1	67.8	153.7	163.6	106.4	82.7
	IV	124.7	107.1	116.4	149.2	128.1	94.6	105.3	67.9	155.1	163.9	105.7	82.3
2016	I	125.6	108.0	116.4	148.8	127.9	94.7	105.2	68.5	153.7	164.7	107.2	83.5
	II	126.7	108.7	116.5	148.9	127.8	94.1	106.3	68.6	154.9	164.5	106.2	82.8
	III	127.5	109.6	116.4	148.6	127.7	94.2	106.6	69.3	153.9	164.3	106.7	83.3
	IV	128.4	110.0	116.8	149.3	127.8	93.8	107.3	69.8	153.7	164.2	106.8	82.7
2017	I	129.5	110.7	117.0	149.4	127.7	93.6	108.0	70.2	153.8	166.0	108.0	82.9
Annual percentage changes													
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		3.2	2.9	0.3	1.4	1.2	-0.3	2.6	--	--	--	--	--
2018		2.8	2.4	0.4	1.4	1.0	-0.5	2.2	--	--	--	--	--
2015	I	2.7	2.8	-0.1	0.8	0.9	0.4	6.1	1.6	4.5	-0.5	-4.8	-4.8
	II	3.1	3.0	0.1	0.2	0.2	-0.4	6.9	2.3	4.5	-0.8	-5.1	-5.0
	III	3.4	3.0	0.4	0.2	-0.3	-0.8	7.9	2.2	5.6	-0.8	-6.0	-5.9
	IV	3.6	3.0	0.6	0.6	0.0	-0.4	7.0	1.9	5.0	-0.5	-5.3	-4.9
2016	I	3.4	3.1	0.3	-0.1	-0.4	-0.4	4.4	2.5	1.9	0.6	-1.3	-0.6
	II	3.4	2.7	0.7	0.2	-0.5	-0.9	3.8	1.9	1.9	0.4	-1.4	-1.0
	III	3.2	2.9	0.3	0.0	-0.3	-0.5	2.4	2.2	0.2	0.4	0.3	0.6
	IV	3.0	2.7	0.3	0.1	-0.2	-0.9	2.0	2.9	-0.9	0.2	1.0	0.4
2017	I	3.0	2.5	0.5	0.4	-0.1	-1.1	2.7	2.6	0.1	0.8	0.8	-0.8

(a) Nominal ULC deflated by GVA deflator.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

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

Compensation per job — Employment productivity
Nominal unit labour cost
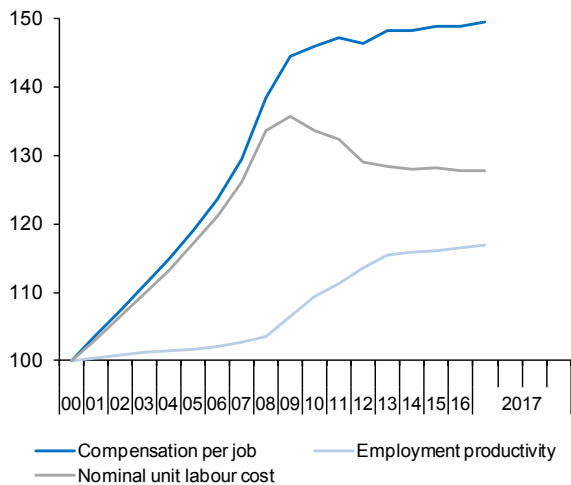
Chart 3a.2.- Real ULC, total economy
Index, 2000=100

Nominal unit labour cost — GDP deflator
Real unit labour cost (1)
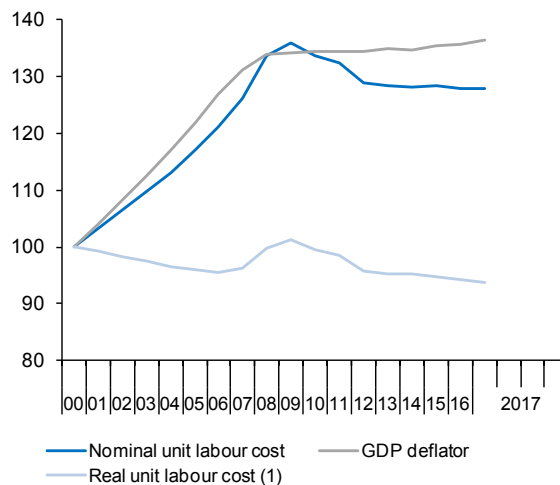
(1) Nominal ULC deflated by GDP deflator.

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

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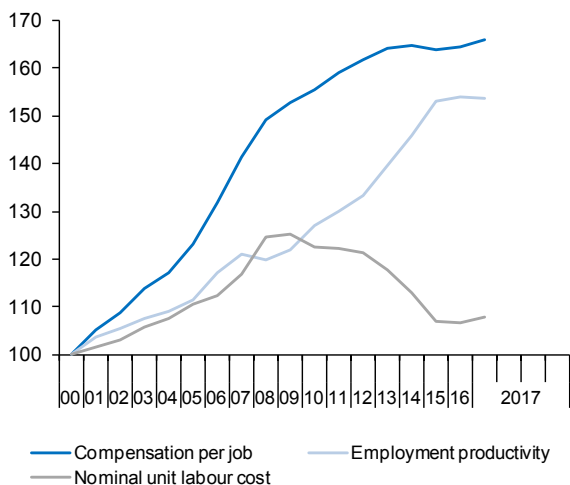
Chart 3a.4.- Real ULC, manufacturing industry
Index, 2000=100

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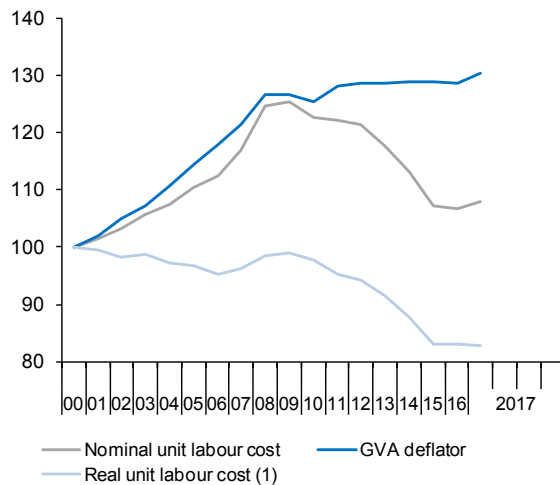
(1) Nominal ULC deflated by industrial sector GVA deflator.

Table 3b
National accounts: Productivity and labour costs (II) (ESA 2010, Base 2010)
Forecasts in blue

		Construction						Services					
		Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2000 = 100, SWDA													
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	95.6	145.9	133.1	109.6	141.8	129.4	93.8
2017		70.6	--	--	--	--	--	150.5	--	--	--	--	--
2018		72.9	--	--	--	--	--	155.3	--	--	--	--	--
2015	I	65.4	52.6	124.3	170.2	136.9	97.7	137.7	127.6	107.9	140.7	130.3	95.9
	II	66.2	53.5	123.8	169.1	136.6	98.5	138.7	128.9	107.7	140.5	130.5	95.9
	III	65.8	53.5	123.0	170.0	138.3	98.6	139.6	129.7	107.6	141.6	131.6	96.5
	IV	65.8	53.8	122.2	168.3	137.7	97.3	140.4	130.5	107.5	141.4	131.5	95.6
2016	I	66.8	53.4	125.1	167.6	134.0	95.4	141.7	131.8	107.5	141.4	131.6	95.6
	II	67.5	54.3	124.3	166.5	133.9	95.2	142.8	132.9	107.5	142.1	132.2	95.3
	III	67.7	55.1	123.0	166.7	135.6	95.5	144.2	133.7	107.9	141.6	131.2	94.9
	IV	67.8	55.4	122.4	166.7	136.2	94.9	145.4	134.1	108.5	141.8	130.8	94.3
2017	I	69.7	55.9	124.8	166.2	133.2	93.7	146.5	134.8	108.7	141.6	130.3	94.3
Annual percentage changes													
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	-2.5	3.4	3.0	0.3	0.1	-0.2	-1.2
2017		4.7	--	--	--	--	--	3.2	--	--	--	--	--
2018		3.3	--	--	--	--	--	3.2	--	--	--	--	--
2015	I	-0.7	7.9	-8.0	0.1	8.8	6.7	1.6	3.1	-1.4	-0.1	1.4	-0.2
	II	2.1	7.5	-5.0	-1.3	3.9	3.9	2.2	3.0	-0.8	0.0	0.8	-1.3
	III	0.4	5.8	-5.1	-0.4	4.9	2.6	2.2	3.0	-0.7	0.9	1.6	-0.4
	IV	-1.0	5.2	-5.9	-1.3	4.9	0.4	2.6	3.0	-0.4	0.5	1.0	-1.9
2016	I	2.1	1.5	0.6	-1.6	-2.1	-2.4	2.9	3.3	-0.4	0.6	0.9	-0.4
	II	2.0	1.6	0.5	-1.6	-2.0	-3.4	2.9	3.1	-0.2	1.1	1.3	-0.7
	III	2.9	2.9	0.0	-2.0	-2.0	-3.1	3.4	3.1	0.3	0.0	-0.3	-1.7
	IV	3.0	2.9	0.1	-1.0	-1.1	-2.5	3.6	2.7	0.9	0.3	-0.6	-1.4
2017	I	4.4	4.6	-0.2	-0.8	-0.6	-1.7	3.4	2.2	1.1	0.2	-1.0	-1.3

(a) Nominal ULC deflated by GVA deflator.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

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

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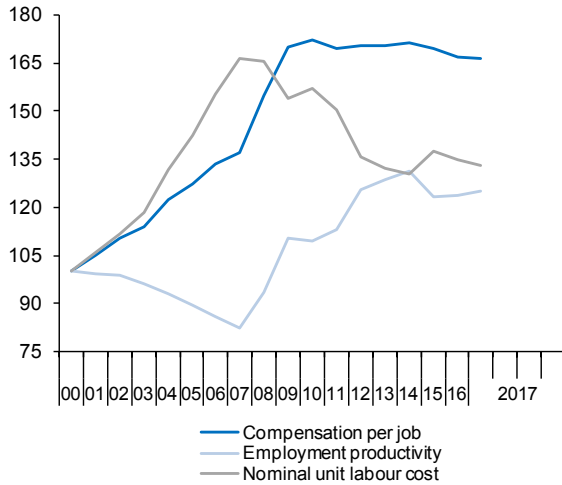
Chart 3b.2.- Real ULC, construction
Index, 2000=100

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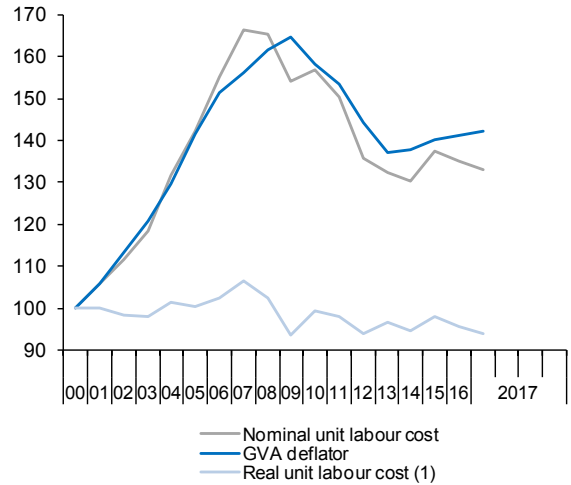
(1) Nominal ULC deflated by construction sector GVA deflator.

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

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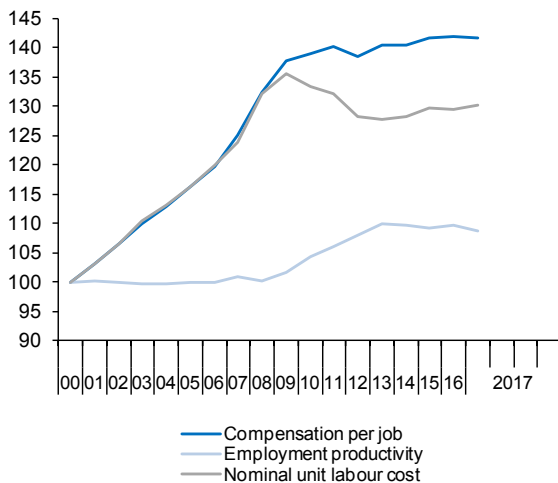
Chart 3b.4.- Real ULC, services
Index, 2000=100

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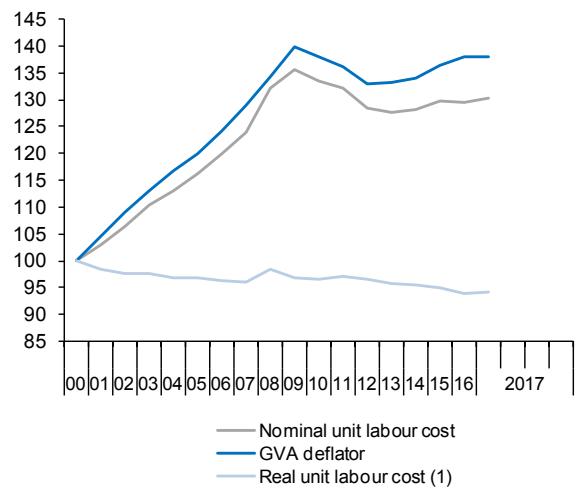
(1) Nominal ULC deflated by services sector GVA deflator.

Table 4

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

Forecasts in blue

	Gross domestic product	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsi-dies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross national income	Final national consumption	Gross national saving (a)	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsidies
	1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12	13
	EUR Billions, 4-quarter cumulated transactions										**Percentage of GDP**		
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	1,166.2	549.9	493.9	122.5	1.3	1,167.5	-12.7	1,154.8	887.6	267.2	47.2	42.3	10.5
2018	1,216.6	571.5	515.5	129.6	-2.2	1,214.4	-12.7	1,201.8	917.9	283.9	47.0	42.4	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
2017 I	1,124.5	529.7	479.0	115.8	2.0	1,126.5	-11.2	1,115.3	862.7	252.6	47.1	42.6	10.3
	Annual percentage changes										**Difference from one year ago**		
2010	0.2	-1.4	-2.0	25.3	--	0.6	--	0.8	1.7	-2.8	-0.8	-0.9	1.7
2011	-1.0	-1.9	0.8	-3.8	--	-1.3	--	-1.5	-0.2	-6.3	-0.5	0.7	-0.2
2012	-2.9	-6.1	-0.6	4.7	--	-1.8	--	-1.7	-2.6	2.1	-1.6	1.0	0.7
2013	-1.4	-2.7	-1.4	6.0	--	-1.2	--	-1.2	-2.0	1.8	-0.7	0.0	0.7
2014	1.1	1.3	0.1	4.3	--	1.3	--	1.5	1.3	2.2	0.1	-0.4	0.3
2015	3.7	3.8	2.7	7.7	--	4.0	--	4.0	2.8	8.8	0.0	-0.4	0.4
2016	3.6	3.1	4.4	2.2	--	3.7	--	3.6	2.5	7.9	-0.2	0.4	-0.1
2017	4.7	4.5	4.4	6.7	--	4.7	--	4.8	3.9	7.7	-0.1	-0.1	0.2
2018	4.3	3.9	4.4	5.8	--	4.0	--	4.1	3.4	6.2	-0.2	0.0	0.2
2015 I	1.8	2.5	0.4	4.4	--	1.8	--	2.1	1.6	4.0	0.3	-0.6	0.3
II	2.5	3.0	1.1	6.7	--	3.1	--	3.4	1.8	9.3	0.2	-0.6	0.4
III	3.2	3.3	2.2	7.1	--	3.8	--	3.9	2.2	10.3	0.1	-0.4	0.4
IV	3.7	3.8	2.7	7.7	--	4.0	--	4.0	2.8	8.8	0.0	-0.4	0.4
2016 I	3.7	3.6	3.2	6.9	--	4.0	--	4.1	2.9	8.8	-0.1	-0.2	0.3
II	3.8	3.5	3.9	5.1	--	3.8	--	3.9	2.8	8.2	-0.1	0.0	0.1
III	3.7	3.4	3.7	4.8	--	3.7	--	3.7	2.6	7.8	-0.1	0.0	0.1
IV	3.6	3.1	4.4	2.2	--	3.7	--	3.6	2.5	7.9	-0.2	0.4	-0.1
2017 I	3.7	3.1	4.7	2.8	--	3.9	--	4.0	2.9	7.7	-0.3	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

National saving

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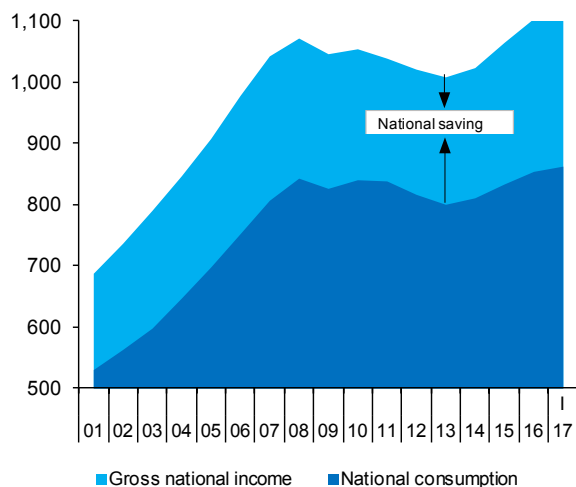
Chart 4.2.- National income, consumption and saving rate
Annual percentage change and percentage of GDP, 4-quarter moving averages

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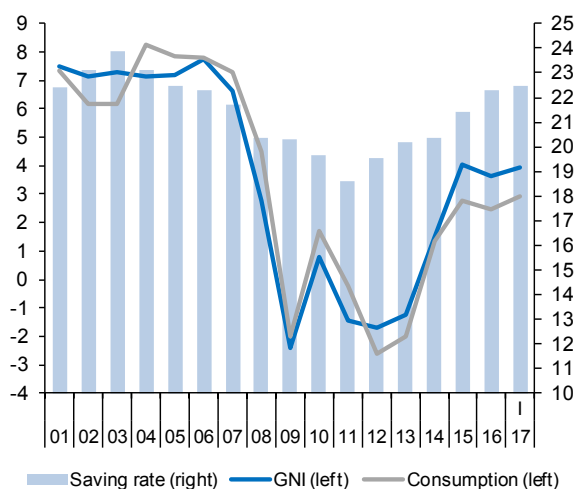
Chart 4.3.- Components of National income
Annual percentage change

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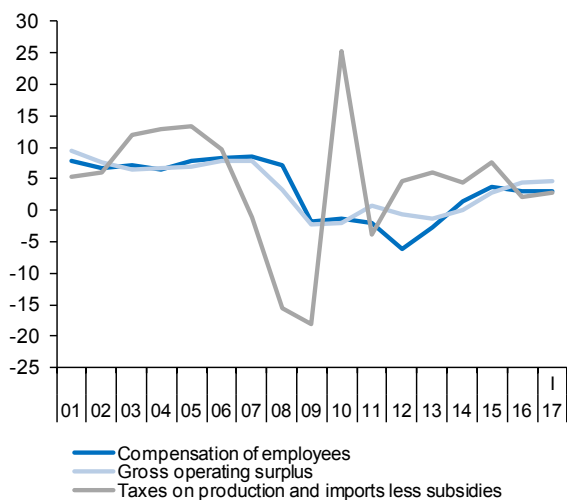
Chart 4.4.- Functional distribution of income
Percentage of GDP, 4-quarter moving averages

Compensation of employees (left)
Gross operating surplus (left)
Taxes on production and imports less subsidies (right)
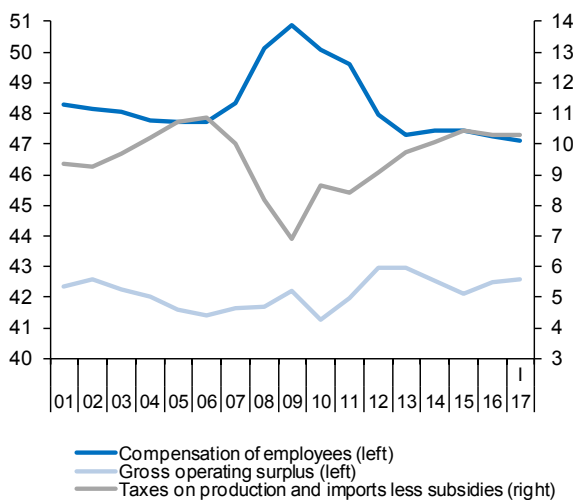
Table 5

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

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	12=7=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		36.7	-21.0	32.2	25.5	1.3	-12.7	25.3	4.0	29.3	267.2	241.9	25.3
2018		38.9	-24.9	34.6	29.2	-2.2	-12.7	24.1	4.0	28.1	283.9	259.9	24.1
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
2017	I	31.5	-19.7	30.1	21.0	2.0	-11.2	22.3	2.3	24.7	252.6	230.3	22.3
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		3.1	-1.8	2.8	2.2	0.1	-1.1	2.2	0.3	2.5	22.9	20.7	2.2
2018		3.2	-2.0	2.8	2.4	-0.2	-1.0	2.0	0.3	2.3	23.3	21.4	2.0
2015	I	2.5	-2.0	2.7	1.8	-0.3	-1.1	1.2	0.5	1.6	20.6	19.5	1.2
	II	2.5	-2.0	2.7	1.9	0.0	-1.1	1.4	0.5	1.9	21.1	19.7	1.4
	III	2.5	-2.0	2.7	1.9	0.0	-1.0	1.5	0.6	2.0	21.3	19.8	1.5
	IV	2.4	-2.0	2.7	1.8	-0.1	-1.0	1.3	0.7	2.0	21.4	20.1	1.3
2016	I	2.4	-2.0	2.6	1.8	0.0	-1.0	1.4	0.6	2.0	21.6	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
2017	I	2.8	-1.7	2.7	1.9	0.2	-1.0	2.0	0.2	2.2	22.5	20.5	2.0

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

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

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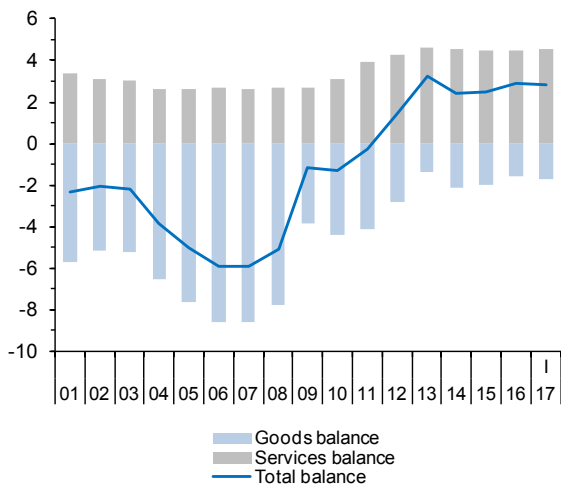
Chart 5.2.- Services balance
Percentage of GDP, 4-quarter moving averages

Tourist services balance
Non-tourist services balance
Total services balance
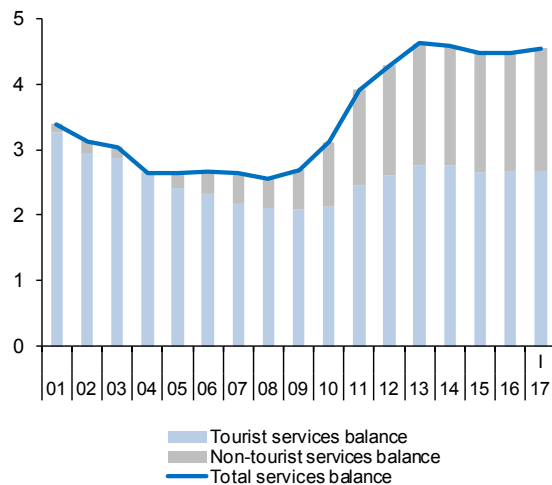
Chart 5.3.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

Goods and services
Income and transfers (current and capital)
Net lending/ borrowing with the rest of the world
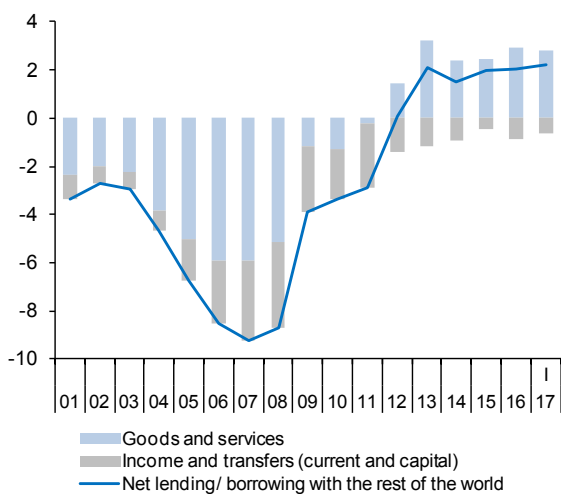
Chart 5.4.- Saving, investment and current account balance
Percentage of GDP, 4-quarter moving averages

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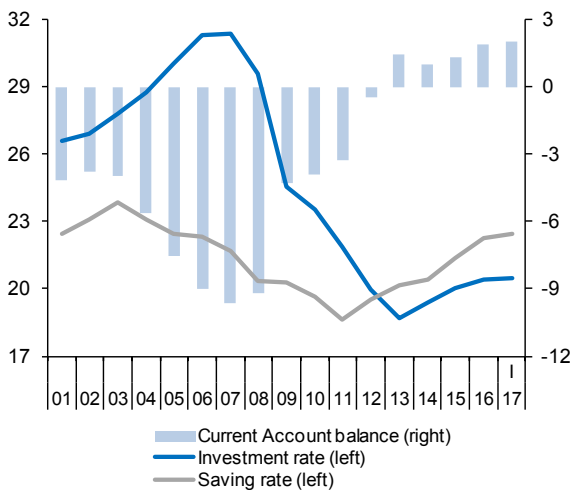
Table 6

National accounts: Household and non-finantial corporations accounts (ESA 2010, Base 2010)
Forecasts in blue

		Households							Non-finantial 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
		EUR Billions, 4-quarter cumulated operations												
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	673.5	54.0	36.1	7.4	3.1	1.5	267.9	204.5	177.0	17.5	15.2	2.9
2018		755.7	699.0	55.0	40.5	7.3	3.3	1.2	279.0	205.4	188.7	16.9	15.5	1.9
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
2017	I	702.5	651.7	49.3	34.9	7.0	3.1	1.2	261.6	197.1	168.6	17.5	15.0	3.1
		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	4.6	-0.1	11.1	-0.3	0.2	-0.4	3.9	6.6	5.9	0.3	0.2	0.1
2018		3.6	3.8	1.9	12.2	-0.1	0.2	-0.3	4.2	0.5	6.6	-0.6	0.3	-1.0
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
2017	I	2.2	3.5	-12.9	14.2	-1.2	0.3	-1.3	5.9	9.2	7.2	0.9	0.5	0.4

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

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

Net lending (-) or borrowing(+) (right)
Saving rate (left)
Gross Capital Formation (left)
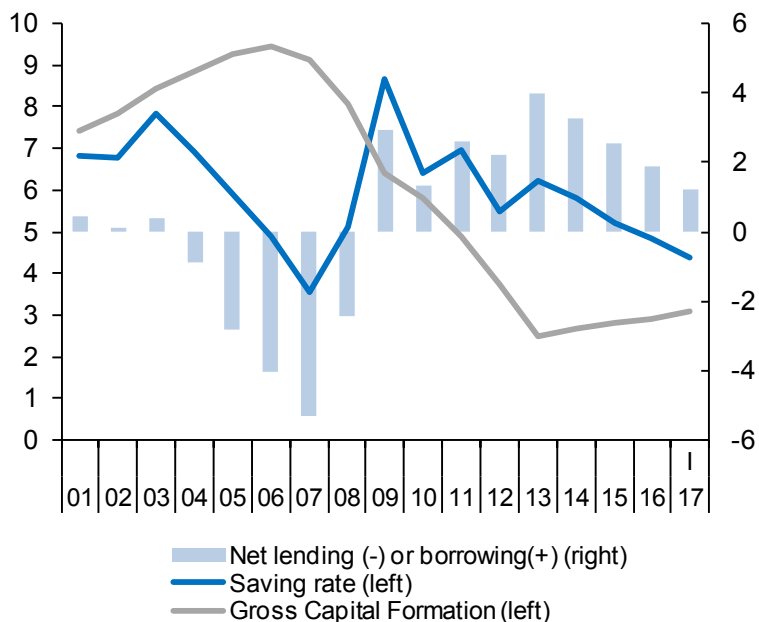
Chart 6.2.- Non-finantial corporations: net lending or borrowing
Percentage of GDP, 4-quarter moving averages

Net lending (-) or borrowing(+) (right)
Saving rate (left)
Gross Capital Formation (left)
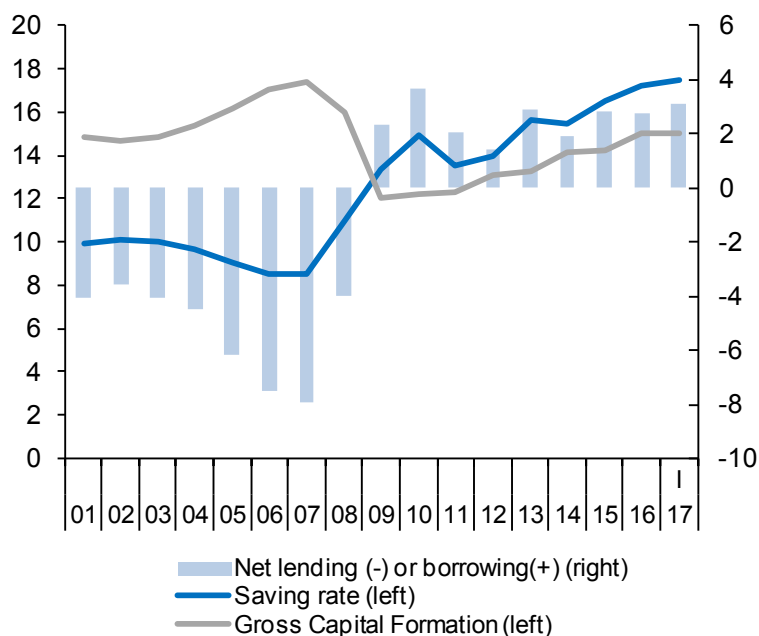
Table 7

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 weath receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out
	1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
EUR Billions, 4-quarter cumulated operations														
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	151.7	137.3	117.3	141.7	123.6	22.7	177.8	21.6	202.2	214.1	-11.9	25.7	-37.6	-37.6
2018	154.4	144.8	123.3	148.3	126.4	21.1	181.9	22.1	219.3	218.8	0.5	27.3	-26.9	-26.9
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
2017 I	149.7	130.4	112.1	138.1	121.7	23.2	174.5	20.3	190.7	211.1	-20.3	26.9	-47.3	-44.6
Percentage of GDP, 4-quarter cumulated operations														
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	13.0	11.8	10.1	12.2	10.6	1.9	15.2	1.9	17.3	18.4	-1.0	2.2	-3.2	-3.2
2018	12.7	11.9	10.1	12.2	10.4	1.7	15.0	1.8	18.0	18.0	0.0	2.2	-2.2	-2.2
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
2017 I	13.3	11.6	10.0	12.3	10.8	2.1	15.5	1.8	17.0	18.8	-1.8	2.4	-4.2	-4.0

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

Net lending or borrowing (right)
Revenue (left)
Expenditure (left)
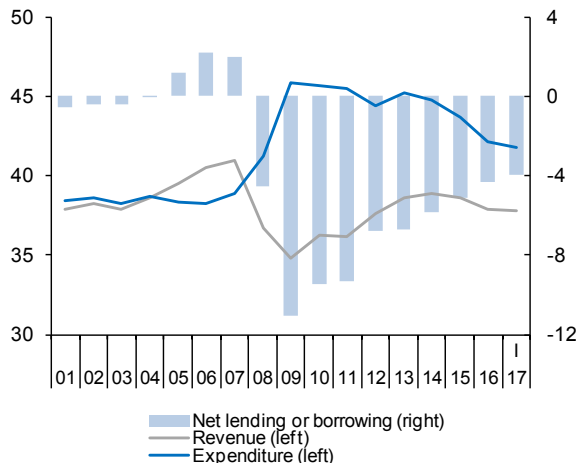
(a) Excluding financial entities bail-out expenditures (a) Excluding financial entities bail-out expenditures.

Chart 7.2.- Public sector: Main revenues
Percentage of GDP, 4-quarter moving averages

Taxes on production and imports
Taxes on income and weath
Social contributions
Other
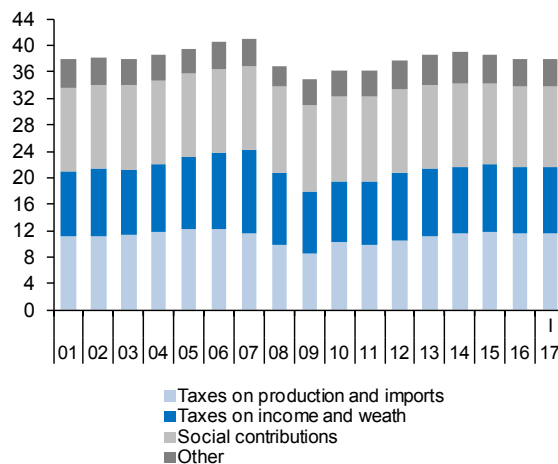
Chart 7.3.- Public sector: Main expenditures
Percentage of GDP, 4-quarter moving averages

Compensation of employees
Social benefits
Rest
Interests and other capital (net)
Gross fixed capital formation
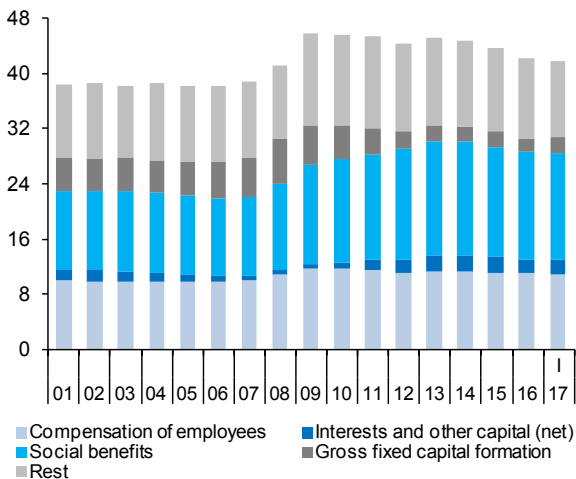
Chart 7.4.- Public sector: Saving, investment and deficit (a)
Percentage of GDP, 4-quarter moving averages

Net lending or borrowing (right)
Saving (b) (left)
Gross capital formation (left)
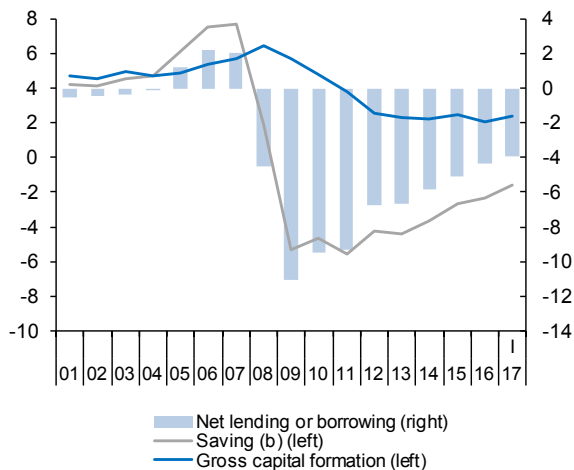
(a) Excluding financial entities bail-out expenditures.
(b) Including net capital transfers.

Table 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	263.2	35.1	17.2	1,073.9
2016		-28.0	-9.2	7.1	-18.1	-48.2	969.6	276.9	32.1	17.2	1,107.0
2017		-12.9	-7.0	2.9	-20.6	-37.6	--	--	--	--	1,143.5
2018		-7.4	-3.6	2.4	-18.2	-26.9	--	--	--	--	1,169.4
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
2017	I	-23.9	-10.0	7.9	-18.6	-44.6	987.8	279.3	31.6	17.2	1,128.7
		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	24.5	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		-1.1	-0.6	0.3	-1.8	-3.2	--	--	--	--	98.1
2018		-0.6	-0.3	0.2	-1.5	-2.2	--	--	--	--	96.1
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
2017	I	-2.1	-0.9	0.7	-1.7	-4.0	87.8	24.8	2.8	1.5	100.4

(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

Central | Regional
Local | Social Security
TOTAL
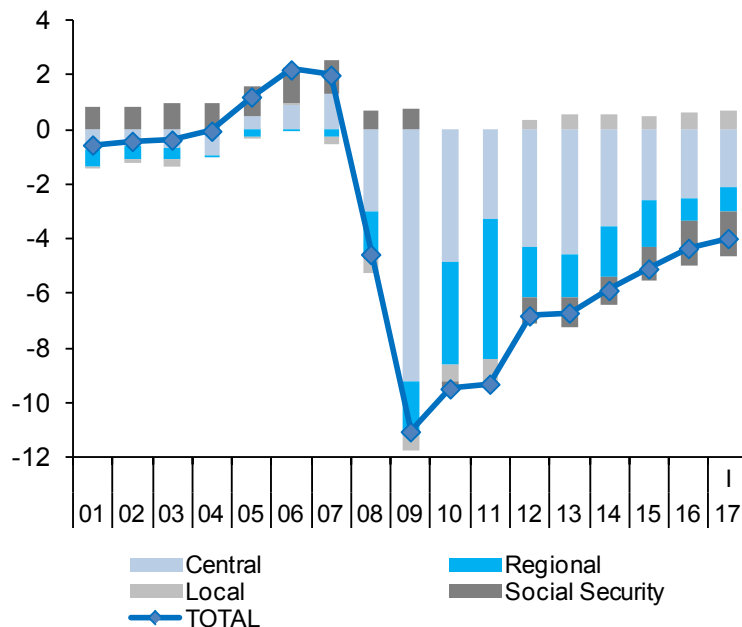
Chart 8.2.- Government debt
Percent of GDP

Central | Regional
Local | Social Security
TOTAL consolidated
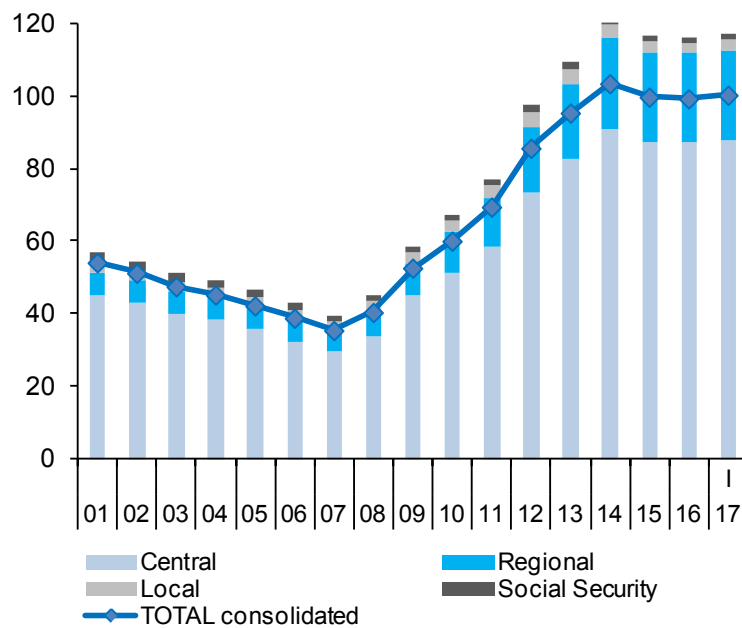
Table 9

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturig turnover index deflated	Industrial orders
		Index	**Index**	**Thousands**	**1000 GWH (smoothed)**	**2010=100**	**Thousands**	**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	254.0	96.4	2,124.7	53.1	-2.3	97.7	-5.4
2017 (b)		108.0	56.8	17,602.1	129.6	98.3	2,167.5	54.8	-0.1	100.1	1.5
2015	III	109.0	57.2	16,699.5	63.5	95.1	2,074.0	52.9	0.7	96.6	-4.0
	IV	109.5	55.4	16,822.7	63.4	95.6	2,088.5	52.5	0.3	96.4	-5.3
2016	I	107.1	55.0	16,949.2	63.5	95.8	2,103.6	54.3	-1.9	96.4	-7.6
	II	105.9	55.3	17,066.7	63.6	96.2	2,116.4	52.5	-2.8	96.9	-2.9
	III	105.0	54.2	17,226.4	63.7	96.8	2,132.0	51.4	-3.8	98.1	-6.7
	IV	107.2	55.0	17,386.3	63.9	97.3	2,147.9	54.4	-0.6	99.7	-4.2
2017	I	107.7	56.2	17,548.6	64.0	97.6	2,165.9	54.8	0.3	101.2	-3.1
	II (b)	108.4	57.4	17,735.8	64.3	97.9	2,182.3	54.9	-0.5	101.9	6.1
2017	Apr	107.9	57.3	17,676.0	21.4	97.3	2,177.1	54.5	-1.3	101.9	6.0
	May	108.4	57.2	17,737.6	21.4	98.5	2,182.2	55.4	-1.0	--	5.2
	Jun	108.9	57.7	17,793.7	21.5	--	2,187.4	54.7	0.7	--	7.1
					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	0.0	1.9	2.8	--	--	1.2	--
2017 (d)		--	--	3.7	1.3	1.8	3.1	--	--	5.1	--
2015	III	--	--	2.3	2.5	1.5	2.5	--	--	0.6	--
	IV	--	--	3.0	2.5	2.1	2.8	--	--	-0.7	--
2016	I	--	--	3.0	-1.0	0.7	2.9	--	--	-0.1	--
	II	--	--	2.8	0.9	1.8	2.4	--	--	2.2	--
	III	--	--	3.8	0.3	2.6	3.0	--	--	5.0	--
	IV	--	--	3.8	-0.1	1.9	3.0	--	--	6.8	--
2017	I	--	--	3.8	1.6	1.3	3.4	--	--	5.8	--
	II (e)	--	--	4.3	1.1	1.2	3.1	--	--	3.0	--
2017	Apr	--	--	0.4	0.2	0.0	0.2	--	--	0.4	--
	May	--	--	0.3	0.2	1.2	0.2	--	--	--	--
	Jun	--	--	0.3	0.2	--	0.2	--	--	--	--

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

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

Chart 9.1.- General activity indicators (I)
Annualized percent change from previous period
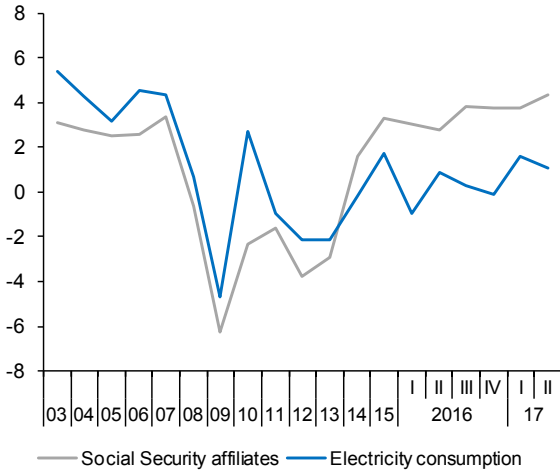
Chart 9.2.- General activity indicators (II)
Index
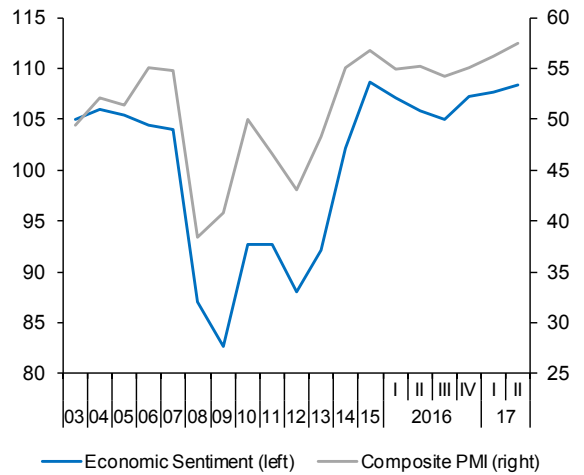
Chart 9.3.- Industrial sector indicators (I)
Annualized percent change from previous period
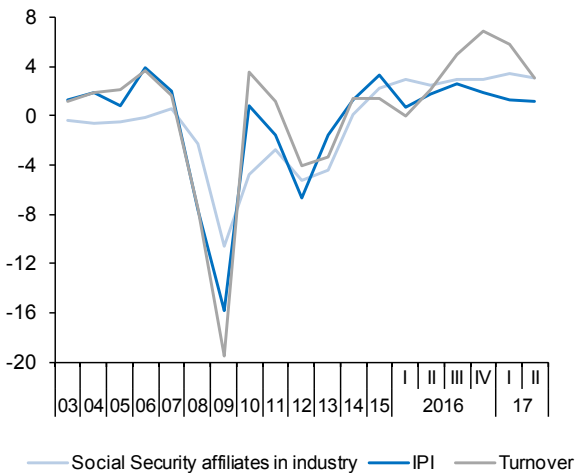
Chart 9.4.- Industrial sector indicators (II)
Index
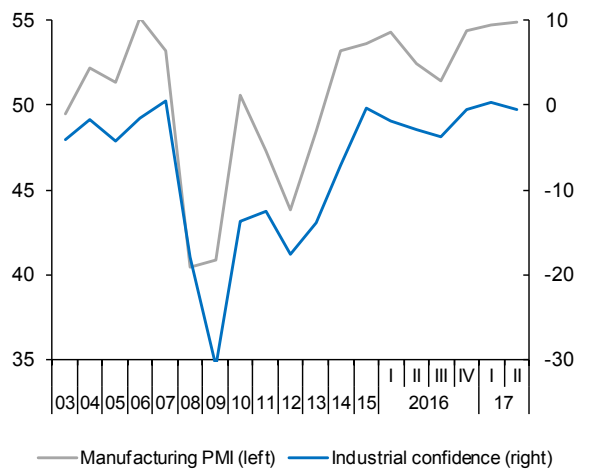
Table 10

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 m²	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	331.2	229.4	17.8
2017 (b)	1,100	4.9	74.1	-34.2	3.6	5.0	13,177	101.9	57.1	110.5	88.5	21.3
2015 III	1,030	2.8	68.0	-28.5	2.2	2.5	12,475	98.2	58.1	77.7	52.1	19.7
IV	1,037	2.9	68.8	-21.7	2.0	2.7	12,571	99.0	55.9	79.3	53.5	20.2
2016 I	1,040	2.8	68.7	-31.7	2.2	3.4	12,686	99.8	54.6	80.9	55.0	18.8
II	1,046	2.7	68.6	-40.4	2.3	3.2	12,784	101.0	55.5	82.1	56.4	17.5
III	1,059	2.7	69.6	-44.3	2.4	2.9	12,906	102.6	54.9	83.2	57.7	16.0
IV	1,071	2.9	71.5	-42.0	2.3	3.2	13,026	104.5	54.9	84.2	59.1	18.7
2017 I	1,093	3.0	73.5	-43.7	2.2	4.0	13,147	106.6	56.4	85.2	60.5	19.2
II (b)	1,110	2.0	74.9	-24.7	1.5	1.1	13,294	108.0	57.8	57.4	57.4	23.3
2017 Apr	1,105	1.0	74.7	-26.3	0.8	1.1	13,247	108.0	57.8	28.6	20.5	22.9
May	1,110	1.0	75.2	-25.3	0.8	--	13,293	--	57.3	28.8	20.6	24.4
Jun	1,114	--	--	-22.5	--	--	13,342	--	58.3	--	--	22.7
	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	--	7.4	11.0	--
2017 (d)	5.7	10.8	8.7	--	-0.8	15.5	3.8	7.1	--	3.9	9.0	--
2015 III	1.2	-6.7	11.7	--	-33.1	31.9	2.6	4.4	--	7.3	9.9	--
IV	2.6	12.3	4.6	--	-32.0	85.9	3.1	3.4	--	8.6	11.4	--
2016 I	1.5	-21.0	-0.5	--	-22.1	60.4	3.7	3.4	--	8.4	11.7	--
II	2.3	-7.5	-0.3	--	-7.5	28.4	3.1	4.8	--	6.1	10.4	--
III	5.0	5.5	5.5	--	8.6	13.7	3.9	6.5	--	5.1	9.9	--
IV	4.6	18.5	11.4	--	11.7	19.6	3.8	7.5	--	5.2	10.2	--
2017 I	8.4	27.0	12.1	--	3.4	16.9	3.8	8.2	--	4.8	9.6	--
II (e)	6.3	-7.2	7.9	--	-1.1	10.6	4.5	5.5	--	4.4	7.2	--
2017 Apr	0.5	0.9	0.7	--	-26.6	10.6	0.4	0.7	--	0.4	0.7	--
May	0.4	-3.4	0.7	--	50.2	--	0.3	--	--	0.4	0.7	--
Jun	0.4	--	--	--	--	--	0.4	--	--	--	--	--

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

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

Chart 10.1.- Construction indicators (I)
Annualized percentage changes from previous period and index

S. Security affiliates in construction (left)
Construction confidence index (right)
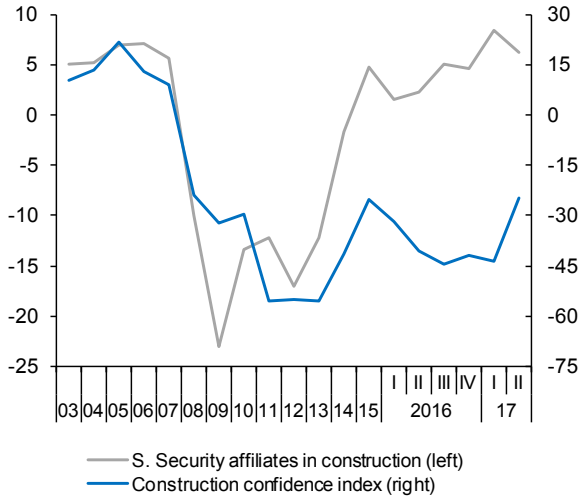
Chart 10.2.- Construction indicators (II)
Annualized percentage changes from previous period

Official tenders
Housing permits
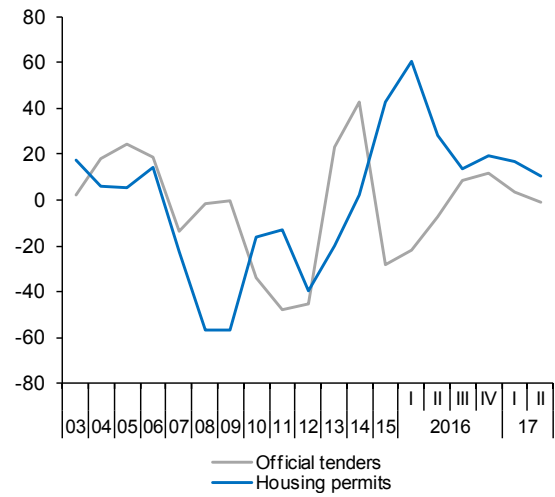
Chart 10.3.- Services indicators (I)
Percentage changes from previous period

Social Security affiliates in services
Turnover
Hotel overnight stays
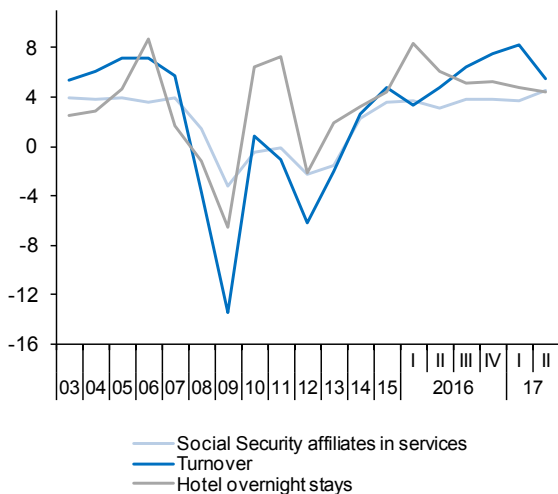
Chart 10.4.- Services indicators (II)
Index

Services PMI (left)
Services confidence (right)
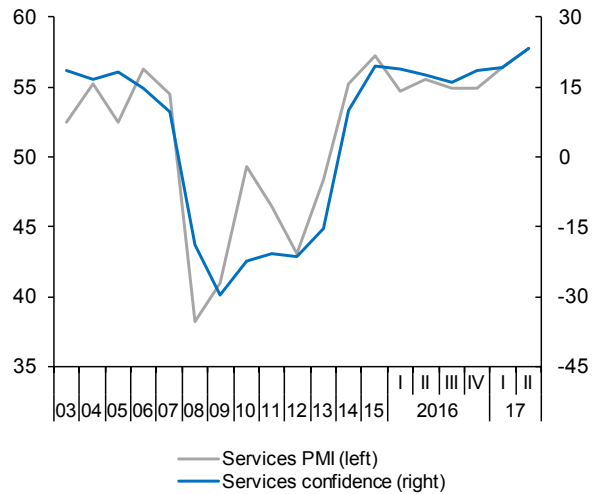
Table 11

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	114.2	-1.4	191.3	-0.2	97.2
2017 (b)	87.8	579.5	-0.7	38.6	3.9	83.9	4.5	101.5
2015 III	88.3	275.9	-1.3	27.6	-3.3	45.5	-0.7	94.1
IV	89.3	286.7	1.6	27.7	1.0	46.0	4.9	94.5
2016 I	90.1	295.2	-2.5	28.0	0.5	46.1	-2.3	95.5
II	90.8	302.0	-3.2	28.1	-4.2	47.1	1.9	96.9
III	91.2	308.3	-6.1	28.3	-1.9	48.6	2.3	98.0
IV	91.3	315.5	-3.2	28.5	-0.2	49.7	-2.6	99.7
2017 I	91.6	322.4	-2.8	28.6	3.9	49.9	1.4	103.5
II (b)	92.0	219.2	1.5	19.2	3.9	33.2	7.6	106.4
2017 Apr	91.9	109.2	1.3	9.6	3.7	16.6	5.1	106.4
May	92.1	110.1	1.9	9.6	0.1	16.6	9.6	--
Jun	--	--	1.4	--	7.9	--	8.2	--
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	--	3.6	--	6.1	--	4.1
2017 (d)	1.1	8.8	--	0.8	--	9.3	--	10.1
2015 III	4.1	17.7	--	2.6	--	14.3	--	5.7
IV	4.5	16.5	--	2.3	--	4.3	--	1.9
2016 I	4.0	12.5	--	3.5	--	1.6	--	4.4
II	2.9	9.5	--	2.0	--	8.4	--	6.0
III	1.7	8.6	--	3.1	--	13.6	--	4.4
IV	0.7	9.6	--	2.7	--	9.1	--	7.2
2017 I	1.0	9.1	--	1.3	--	1.9	--	16.0
II (e)	1.8	8.3	--	2.3	--	-0.4	--	11.8
2017 Apr	0.2	0.8	--	0.3	--	0.0	--	1.4
May	0.2	0.9	--	0.2	--	0.0	--	--
Jun	--	--	--	--	--	--	--	--

(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

Retail sales (left)
Industrial orders for consumer goods (right, balance of responses)
Consumer confidence index (right, balance of responses)
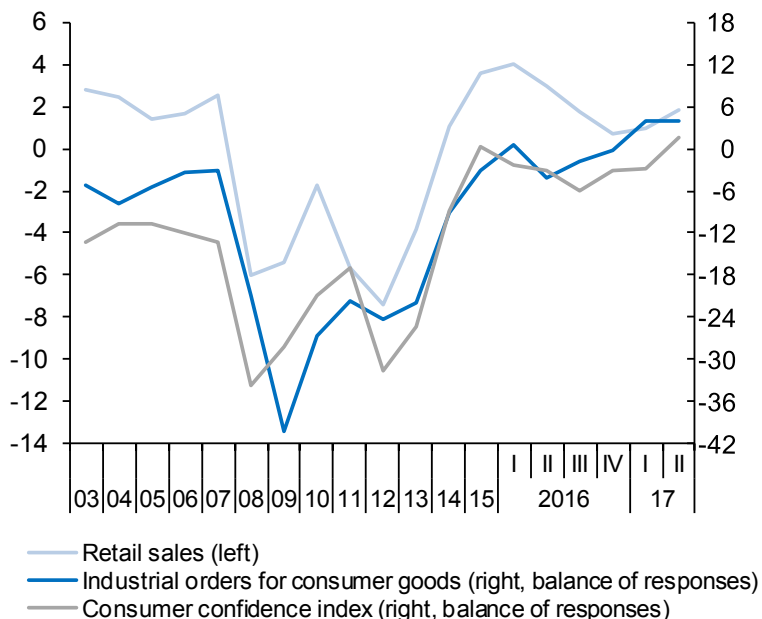
Chart 11.2.- Investment indicators

Percent change from previous period and balance of responses

Imports of capital goods
Industrial orders for investment goods (balance of responses)
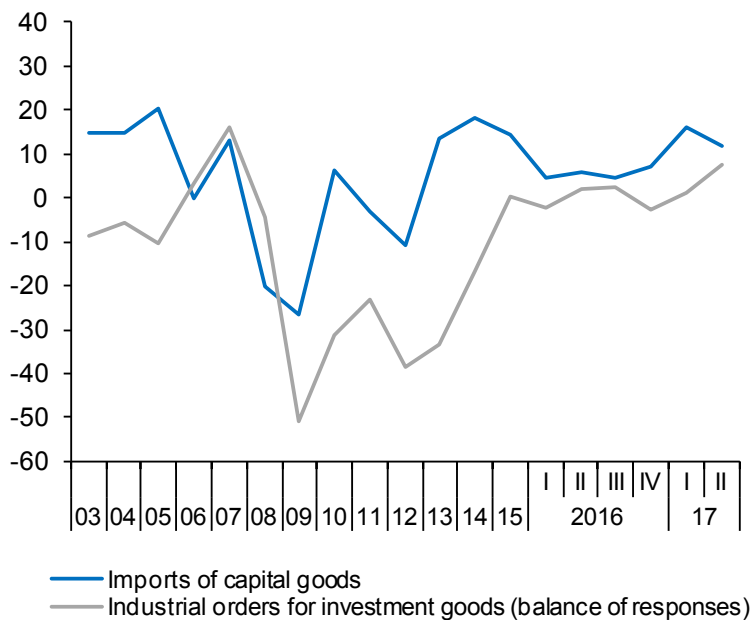
Table 12a
Labour market (I)
Forecasts in blue

	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign
										Seasonally adjusted			
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	Million							**Percentage**					
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	--	18.9	--	3.9	--	75.3	62.4	17.0	--	--	--
2018	29.9	22.7	--	19.4	--	3.3	--	75.4	64.3	14.6	--	--	--
2015 I	30.2	22.9	22.9	17.5	17.6	5.4	5.3	75.4	57.3	23.1	50.3	21.9	32.0
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	--	3.0	--	-13.4	--	0.0	1.9	-2.6	--	--	--
2018	-0.3	-0.3	--	2.7	--	-14.7	--	0.0	1.9	-2.5	--	--	--
2015 I	-0.4	0.1	-1.2	3.0	1.9	-8.2	-10.7	0.3	1.8	-2.2	-4.1	-1.9	-4.0
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

Unemployment rate (right)
Labour force (growth rate, left)
Employed (growth rate, left)
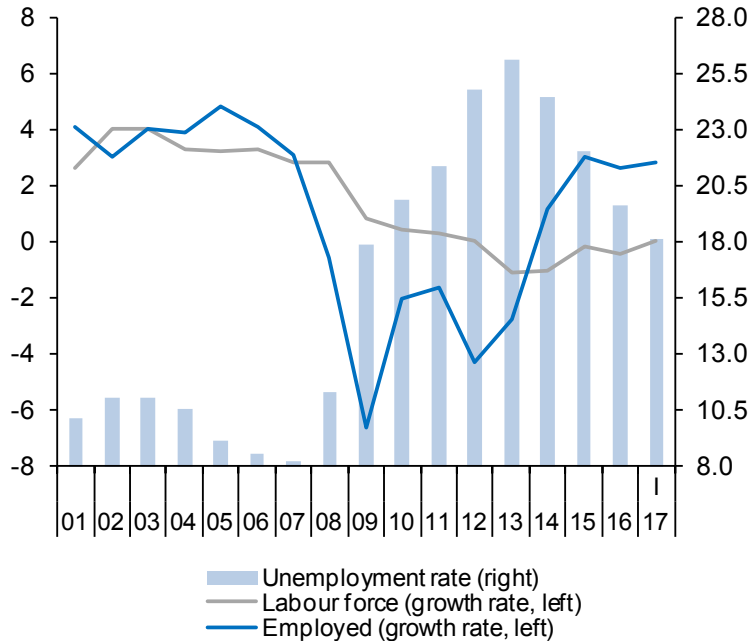
Chart 12a.2.- Unemployment rates, SA
Percentage

Total   Aged 16-24
Spanish   Foreign
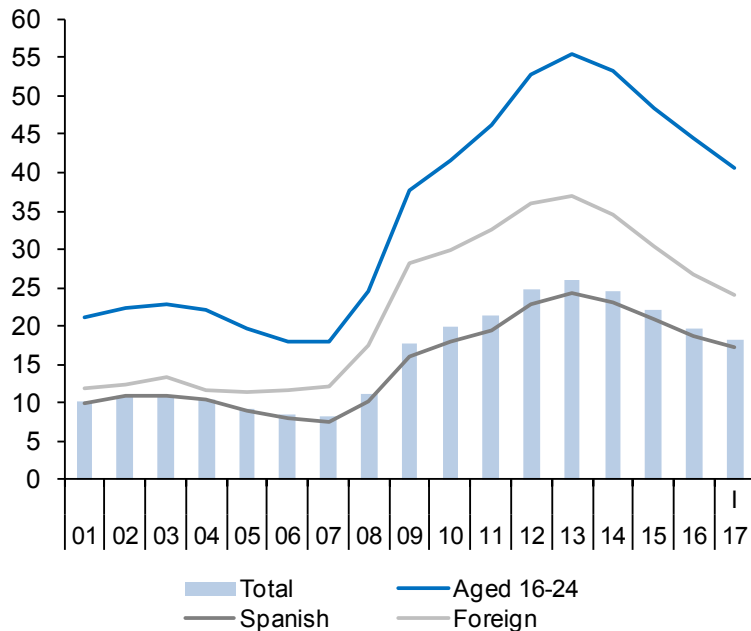
Table 12b
Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
		Agriculture	Industry	Construc-tion	Services	Employees				Self- emplo-yed	Full-time	Part-time	Part-time employ-ment 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	I	0.72	2.44	1.06	13.24	14.39	3.40	11.00	23.6	3.06	14.62	2.84	16.3
	II	0.74	2.51	1.09	13.53	14.76	3.70	11.06	25.1	3.10	15.05	2.82	15.8
	III	0.71	2.52	1.08	13.74	14.95	3.91	11.04	26.2	3.10	15.30	2.75	15.2
	IV	0.78	2.46	1.06	13.79	14.99	3.85	11.14	25.7	3.11	15.25	2.84	15.7
2016	I	0.78	2.48	1.03	13.74	14.94	3.74	11.19	25.0	3.09	15.20	2.83	15.7
	II	0.76	2.50	1.08	13.97	15.19	3.91	11.28	25.7	3.11	15.50	2.80	15.3
	III	0.74	2.53	1.11	14.15	15.40	4.15	11.25	27.0	3.12	15.83	2.70	14.6
	IV	0.82	2.58	1.08	14.03	15.39	4.07	11.31	26.5	3.12	15.68	2.83	15.3
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	I	-11.3	6.2	12.6	2.6	3.3	5.4	2.7	0.5	1.3	2.9	3.3	0.1
	II	0.1	6.4	11.6	1.9	3.1	8.0	1.6	1.1	2.3	3.7	-0.9	-0.6
	III	6.5	3.8	5.9	2.6	3.7	10.1	1.6	1.5	0.3	2.8	4.8	0.2
	IV	7.0	1.0	2.7	3.2	3.5	9.5	1.6	1.4	0.6	3.4	0.8	-0.3
2016	I	8.4	1.7	-2.7	3.8	3.8	10.1	1.8	1.4	1.1	4.0	-0.2	-0.6
	II	2.7	-0.4	-1.4	3.2	2.9	5.5	2.0	0.6	0.3	3.0	-0.6	-0.5
	III	4.8	0.5	2.3	3.0	3.0	6.2	1.9	0.8	0.7	3.5	-1.9	-0.7
	IV	4.7	4.7	2.0	1.7	2.6	5.9	1.5	0.8	0.6	2.8	-0.4	-0.4
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

Agriculture — Industry — Construction — Services
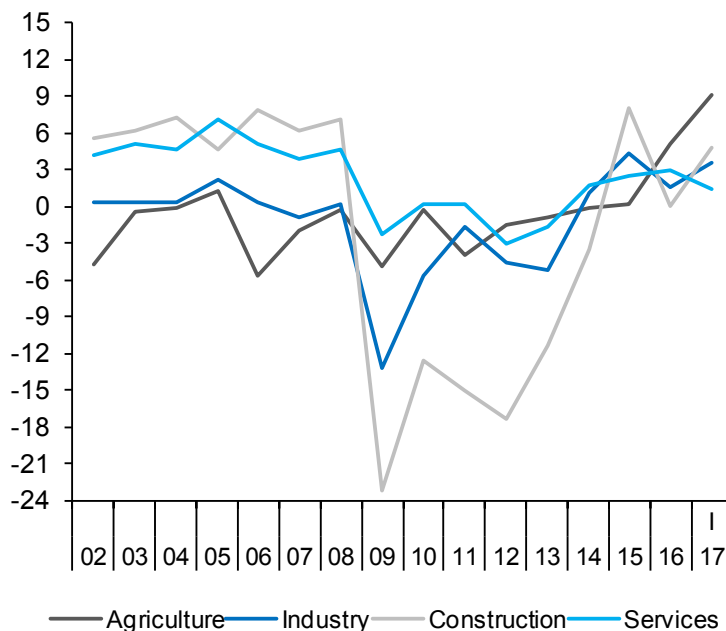
Chart 12b.2.- Employment by type of contract
Annual percentage changes and percentage over total employees

Temporary employment rate (right)
Temporary (left)
Indefinite (left)
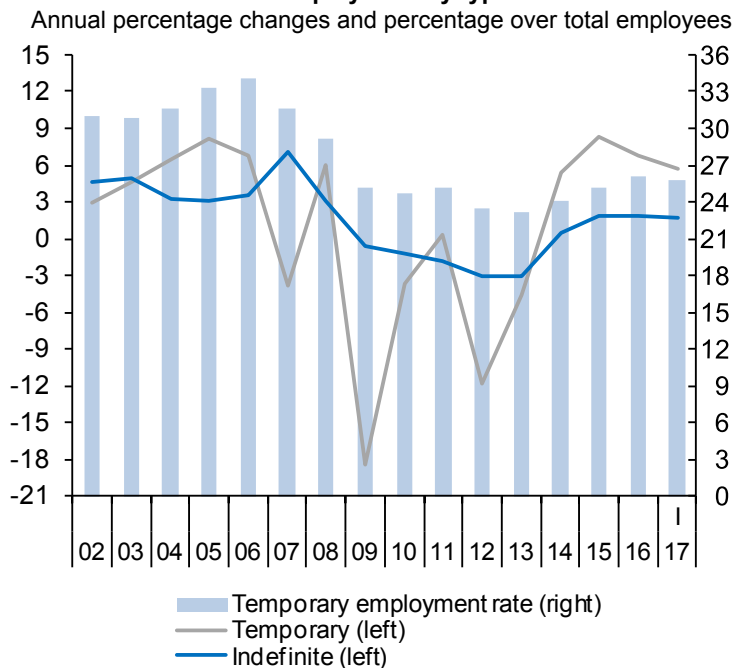
Table 13
Index of Consumer Prices
Forecasts in blue

		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
Indexes, 2016 = 100										
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		101.9	101.2	101.2	100.2	101.8	100.8	102.8	106.4	101.4
2018		103.1	102.6	102.6	100.9	103.6	102.6	104.6	104.9	103.2
Annual percentage changes										
2011		3.2	1.3	1.7	0.6	1.8	3.8	1.8	15.7	3.2
2012		2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.2	-8.6	1.3
2017		1.9	1.2	1.2	0.2	1.8	0.8	2.9	6.4	1.4
2018		1.2	1.4	1.5	0.7	1.8	1.8	1.7	-1.4	1.8
2017	Jan	3.0	1.2	1.1	0.8	1.3	0.3	4.0	17.5	1.1
	Feb	3.0	1.2	1.0	0.6	1.3	0.0	5.4	16.8	1.7
	Mar	2.3	1.0	0.9	0.6	1.1	0.1	4.3	11.7	1.4
	Apr	2.6	1.5	1.2	0.3	2.1	0.2	3.4	12.0	1.2
	May	1.9	1.1	1.0	0.1	1.7	0.4	2.8	8.3	1.2
	Jun	1.5	1.3	1.2	0.2	1.9	0.7	1.4	3.7	0.9
	Jul	1.6	1.5	1.4	0.3	2.0	1.0	-0.3	3.7	0.6
	Aug	1.8	1.4	1.4	0.1	1.9	1.1	0.8	4.9	1.0
	Sep	1.8	1.4	1.4	0.1	2.0	1.3	3.7	3.7	2.0
	Oct	1.3	1.2	1.3	-0.1	2.0	1.4	3.3	0.3	2.0
	Nov	1.3	1.1	1.2	-0.2	2.0	1.5	3.7	0.3	2.2
	Dec	0.8	1.0	1.1	-0.2	1.7	1.6	2.9	-2.7	2.1
2018	Jan	0.3	1.2	1.3	0.0	1.9	1.7	1.6	-7.5	1.7
	Feb	0.5	1.3	1.5	0.3	2.0	2.0	-0.5	-5.3	1.2
	Mar	1.1	1.5	1.6	0.4	2.3	2.0	0.6	-2.8	1.6
	Apr	0.7	1.0	1.2	0.4	1.3	2.1	1.4	-3.4	1.8
	May	1.0	1.4	1.5	0.6	1.9	1.9	1.5	-2.4	1.8
	Jun	1.3	1.3	1.4	0.7	1.8	1.8	2.7	-0.4	2.1
	Jul	1.5	1.4	1.4	0.8	1.7	1.7	2.8	0.8	2.1
	Aug	1.5	1.4	1.5	0.9	1.8	1.7	2.6	0.8	2.0
	Sep	1.5	1.5	1.5	1.0	1.8	1.7	2.2	0.8	1.8
	Oct	1.5	1.5	1.5	1.1	1.7	1.6	1.9	1.0	1.7
	Nov	1.5	1.5	1.5	1.1	1.7	1.6	1.9	1.0	1.7
	Dec	1.5	1.5	1.6	1.2	1.7	1.6	2.1	1.0	1.8

Sources: INE and Funcas (Forecasts).

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

All-Items ——— All-Items ex. food and energy

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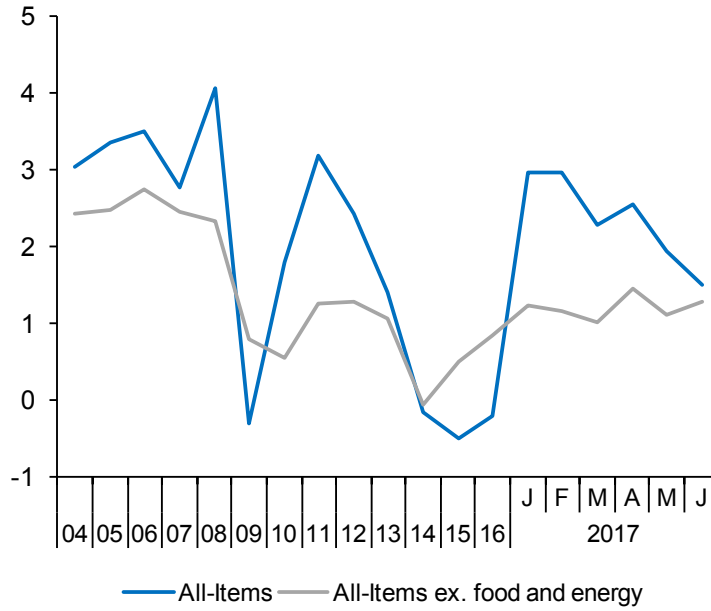
Chart 13.2.- Inflation rate (II)
Annual percentage changes

Non-energy industrial goods ——— Services
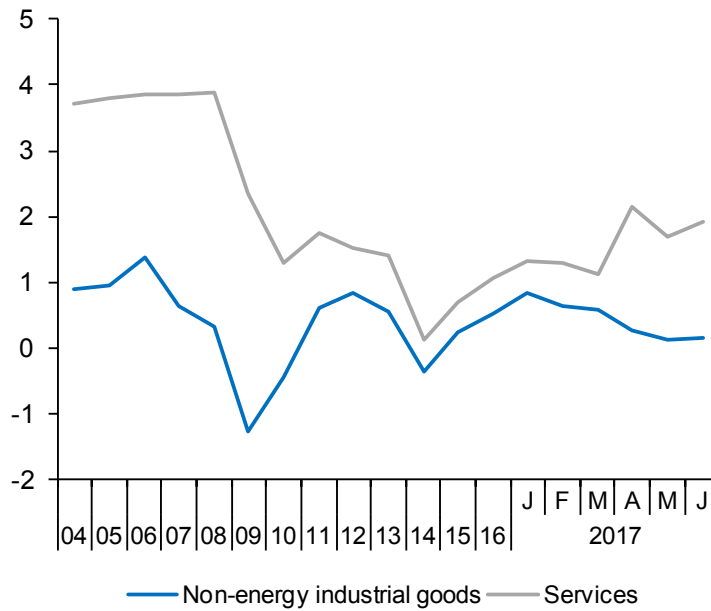
Table 14

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)	M² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2010=100	2010=100		2007=100			2000=100				
2010	100.0	100.0	100.0	134.7	89.6	74.8	142.8	140.4	150.2	151.4	--
2011	100.0	106.9	104.2	124.8	84.6	69.8	144.5	141.9	152.5	154.8	
2012	100.1	111.0	105.9	107.7	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	100.5	111.7	106.7	96.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014	100.2	110.2	105.9	96.6	71.0	52.6	143.3	140.9	150.7	155.4	--
2015	100.7	107.9	106.2	100.0	71.7	54.9	144.2	142.5	149.6	156.5	--
2016	101.0	104.5	105.8	104.7	73.1	57.8	143.6	142.1	148.4	156.2	--
2017 (b)	101.6	108.9	107.9	108.2	74.2	60.1	140.2	137.0	150.1	147.1	--
2015 III	100.7	108.5	106.6	101.4	71.8	56.1	138.8	135.5	148.9	160.0	--
IV	100.8	106.1	105.7	101.3	72.5	54.5	151.0	151.7	148.6	164.5	--
2016 I	100.5	102.3	105.2	102.8	72.6	56.6	140.4	137.3	150.0	147.5	--
II	101.1	103.4	105.6	104.6	73.3	58.7	146.2	145.5	148.4	154.4	--
III	100.9	105.0	106.0	105.4	72.9	54.2	138.2	135.1	147.7	159.4	--
IV	101.5	107.4	106.3	105.8	73.5	61.6	149.8	150.6	147.4	163.7	--
2017 I	101.6	109.4	107.7	108.2	74.2	60.1	140.2	137.0	150.1	147.1	--
II (b)	--	108.3	108.3	--	--	--	--	--	--	--	--
2017 Apr	--	108.3	108.2	--	--	--	--	--	--	--	--
May	--	108.4	108.3	--	--	--	--	--	--	--	--
Jun	--	--	--	--	--	--	--	--	--	--	--
Annual percent changes (c)											
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	0.1	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	-0.1	1.1
2017 (d)	1.0	6.4	2.5	5.3	2.2	6.2	-0.2	-0.2	0.1	-0.2	1.3
2015 III	0.6	-2.4	0.5	4.5	0.7	9.7	0.2	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	-0.2	1.4	0.7
2016 I	0.0	-5.1	-0.7	6.3	1.5	5.3	-0.1	0.1	-0.7	0.3	1.1
II	0.4	-5.4	-0.9	3.9	1.8	6.6	-0.2	0.0	-1.0	0.1	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	-0.8	-0.5	1.1
2017 I	1.0	6.9	2.4	5.3	2.3	6.2	-0.2	-0.2	0.1	-0.2	1.3
II (e)	--	4.8	2.5	--	--	--	--	--	--	--	1.3
2017 Apr	--	6.0	2.8	--	--	--	--	--	--	--	1.3
May	--	5.3	2.6	--	--	--	--	--	--	--	1.3
Jun	--	--	--	--	--	--	--	--	--	--	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)

Housing (INE)
Housing (M. of Public Works)
Urban Land (M. of Public Works)

Chart 14.2.- Wage costs
Annual percent change

Total labour cost
Wage cost
Wage increases agreed in collective bargaining

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)		177.2	107.4	165.0	128.7	105.8	121.6	15.2	7.6	-2.1	0.4	1.6
2015	I	157.2	110.0	142.9	114.8	104.6	109.8	13.3	7.0	-2.0	0.4	0.8
	II	162.6	110.6	147.0	119.4	105.4	113.3	13.7	7.4	-2.2	0.2	0.7
	III	165.0	109.4	150.8	120.8	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	159.1	107.7	147.8	114.2	99.4	114.9	13.8	6.6	-1.7	-0.1	1.1
	II	166.0	107.7	154.1	117.0	100.3	116.6	14.8	7.2	-1.3	0.3	1.1
	III	164.9	108.3	152.3	117.2	101.6	115.4	13.2	7.3	-1.5	0.3	0.8
	IV	171.8	108.8	157.9	122.8	104.0	118.1	14.5	7.5	-1.7	0.1	1.3
2017	I	178.3	108.5	164.4	131.0	107.2	122.2	15.6	7.6	-2.5	0.2	1.3
2017	Feb	175.1	107.7	162.6	130.3	106.3	122.5	14.9	7.3	-2.7	0.1	1.2
	Mar	178.3	109.1	163.5	130.6	108.0	121.0	17.3	7.7	-2.4	0.1	1.3
	Apr	177.7	108.0	164.6	125.2	104.8	119.5	14.2	7.9	-1.4	0.7	1.8
		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)		9.8	0.8	9.0	12.4	7.2	4.8	8.8	12.0	--	--	--
2015	I	-4.2	1.0	-5.1	2.0	-11.6	15.4	11.5	-26.9	-2.3	0.4	0.9
	II	14.3	2.0	12.1	17.2	3.4	13.3	8.9	25.0	-2.5	0.3	0.8
	III	6.1	-4.2	10.8	4.5	-4.0	8.9	5.9	6.6	-2.4	0.1	0.6
	IV	0.4	1.7	-1.4	-8.2	-1.9	-6.5	4.7	-7.1	-1.8	0.3	0.8
2016	I	-13.8	-7.7	-6.6	-12.7	-16.1	4.0	0.1	-35.8	-1.8	-0.1	1.2
	II	18.5	0.1	18.3	10.1	3.8	6.0	9.7	38.6	-1.4	0.4	1.2
	III	-2.7	1.9	-4.6	0.7	5.1	-4.2	-7.7	7.6	-1.6	0.3	0.9
	IV	17.9	1.9	15.7	20.3	9.7	9.7	22.8	9.1	-1.8	0.1	1.4
2017	I	16.0	-1.1	17.3	29.7	12.9	14.9	20.7	7.2	-2.6	0.2	1.4
2017	Feb	-3.5	-0.9	-2.6	-1.4	-0.9	-0.5	-1.7	-7.0	--	--	--
	Mar	1.8	1.3	0.5	0.3	1.5	-1.2	-0.6	6.9	--	--	--
	Apr	-0.4	-1.0	0.7	-4.2	-2.9	-1.3	-1.5	1.8	--	--	--

(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

Exports   Imports

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

Balance of non-energy goods
Balance of energy goods
Total balance of goods

Table 16
Balance of Payments (according to IMF manual)
(Net transactions)

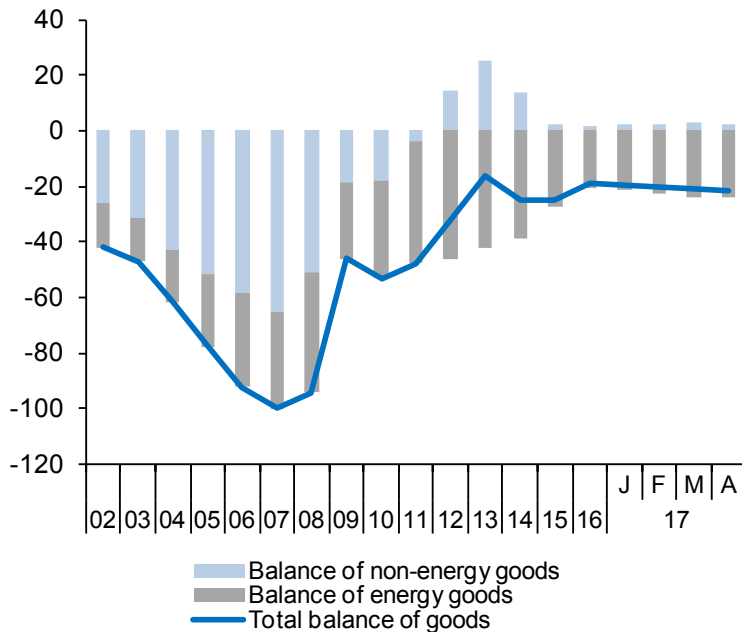|		Current account					Capital account	Current and capital accounts	Financial account						Bank of Spain	Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain							
									Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives			
		1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
EUR billions															
2008		-103.25	-87.04	29.82	-30.49	-15.55	4.67	-98.58	-69.23	-1.53	0.96	-75.72	7.07	-30.22	-0.86
2009		-46.19	-41.47	29.54	-19.62	-14.64	3.33	-42.86	-40.70	1.94	-44.04	-4.66	6.05	-10.46	-8.31
2010		-42.39	-47.80	33.93	-15.13	-13.38	4.89	-37.49	-27.24	-1.46	-28.40	11.23	-8.61	-15.70	-5.44
2011		-34.04	-44.48	42.59	-18.36	-13.79	4.06	-29.98	79.51	9.23	26.25	41.96	2.07	-109.23	0.26
2012		-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013		15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014		11.24	-22.38	47.88	-3.25	-11.01	5.05	16.29	-15.99	8.04	-6.49	-17.66	0.12	27.49	-4.79
2015		14.72	-21.75	47.97	-0.66	-10.84	7.01	21.73	65.35	29.38	-5.87	43.08	-1.24	-40.16	3.46
2016		21.48	-17.92	50.63	0.76	-12.00	1.85	23.33	80.80	21.25	35.71	26.74	-2.91	-52.63	4.84
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	8.47	-5.13	11.36	4.88	-2.63	0.89	9.37	21.33	6.72	5.38	9.41	-0.19	-4.37	7.60
2017	I	-0.86	-7.11	8.70	1.13	-3.58	0.44	-0.41	40.83	-3.48	30.55	15.39	-1.63	-43.23	-1.98
			Goods and Services		Primary and Secondary Income										
2017	Feb	-1.06	0.17		-1.23		0.13	-0.93	7.36	1.97	0.78	4.80	-0.19	-10.51	-2.21
	Mar	0.55	1.13		-0.57		0.17	0.73	12.18	0.34	0.21	12.14	-0.51	-11.95	-0.49
	Apr	0.45	2.38		-1.94		0.19	0.63	-6.35	-0.64	-4.59	-1.13	0.01	9.09	2.11
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		1.9	-1.6	4.5	0.1	-1.1	0.2	2.1	7.3	1.9	3.2	2.4	-0.3	-4.7	0.4
2015	I	-0.5	-1.6	3.4	-0.3	-1.9	0.3	-0.2	4.7	1.4	-1.5	5.2	-0.4	-5.8	-0.9
	II	1.2	-1.9	4.5	-0.5	-0.9	0.6	1.7	7.2	5.7	2.3	-0.6	-0.2	-3.2	2.2
	III	2.2	-2.6	6.4	-0.9	-0.7	0.6	2.7	4.7	2.4	0.9	1.4	0.0	0.1	2.1
	IV	2.5	-2.0	3.6	1.4	-0.6	1.2	3.7	7.5	1.4	-3.7	9.8	0.1	-6.0	-2.2
2016	I	-0.2	-1.7	3.3	-0.1	-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	2.9	-1.8	3.9	1.7	-0.9	0.3	3.2	7.3	2.3	1.9	3.2	-0.1	-1.5	2.6
2017	I	-0.3	-2.6	3.2	0.4	-1.3	0.2	-0.2	14.8	-1.3	11.1	5.6	-0.6	-15.7	-0.7

Source: Bank of Spain.

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

- Goods and services
- Income and transfers (current and capital)
- Current and capital account
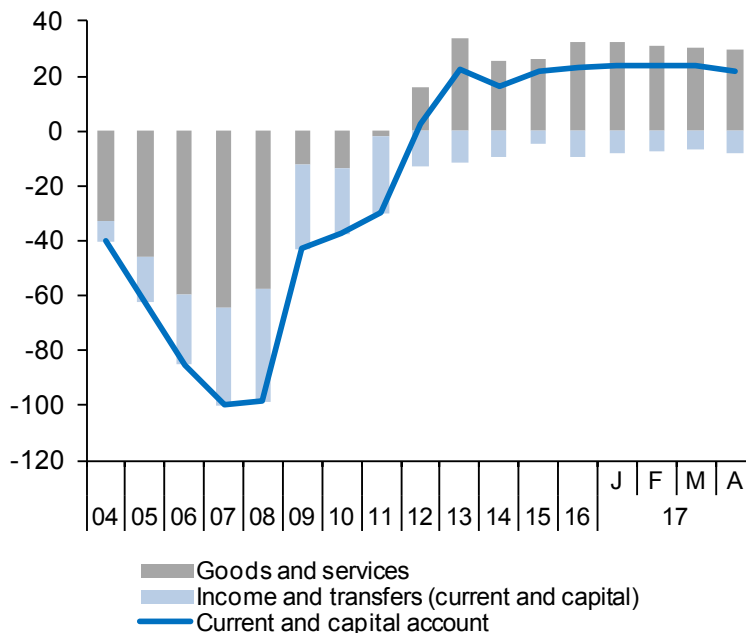
Chart 16.2.- Balance of payments: Financial account
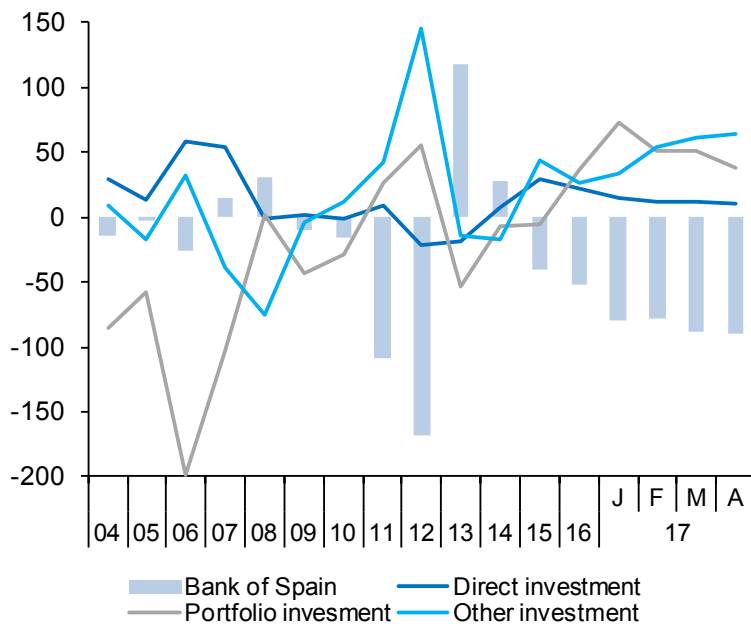EUR Billions, 12-month cumulated

- Bank of Spain
- Portfolio invesment
- Direct investment
- Other investment

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	283.2	3.5	8.0	5.1	2,806.3	744.3	1,194.0	867.9	--	8,563.3
2012		5.85	435.0	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	155.8	3.1	8.9	4.9	2,740.6	1,041.6	949.2	748.8	--	10,279.5
2015		1.74	123.9	2.5	8.0	3.8	2,724.5	1,073.9	924.5	725.5	--	9,544.2
2016		1.39	130.1	2.3	7.7	3.2	2,726.7	1,107.0	906.3	712.8	--	9,352.1
2017 (a)		1.59	129.9	2.2	7.7	3.0	2,741.1	1,117.1	914.3	707.3	--	10,444.5
2015	III	2.03	137.0	2.5	8.1	3.7	2,729.8	1,068.4	930.6	730.1	--	9,559.9
	IV	1.71	118.3	2.4	7.8	3.5	2,724.5	1,073.9	924.5	725.5	--	9,544.2
2016	I	1.66	140.3	2.3	8.0	3.4	2,730.0	1,096.9	912.8	719.6	--	8,723.1
	II	1.53	144.7	2.3	7.6	3.1	2,749.4	1,107.0	915.3	726.5	--	8,163.3
	III	1.07	119.7	2.4	8.0	3.1	2,739.9	1,108.4	915.0	715.9	--	8,779.4
	IV	1.31	115.7	2.3	7.3	3.1	2,726.7	1,107.0	906.3	712.8	--	9,352.1
2017	I	1.63	134.0	2.2	7.8	3.1	2,751.2	1,128.7	914.5	709.0	--	10,462.9
	II (a)	1.54	125.8	2.2	7.6	3.0	2,741.1	1,117.1	914.3	707.3	--	10,444.5
2017	Apr	1.61	139.0	2.2	7.6	3.1	2,741.1	1,117.1	916.6	708.4	--	10,715.8
	May	1.57	123.0	2.2	7.7	2.9	--	--	914.3	707.3	--	10,880.0
	Jun	1.45	115.3	--	--	--	--	--	--	--	--	10,444.5
							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	-3.8	-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	-1.3	6.0	-2.0
2017 (a)		--	--	--	--	--	1.6	3.4	2.0	-1.2	2.6	27.9
2015	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	-1.3	6.0	-2.0
2017	I	--	--	--	--	--	1.6	2.9	2.2	-1.1	4.1	19.9
	II (c)	--	--	--	--	--	1.6	3.4	2.0	-1.2	2.6	27.9
2017	Apr	--	--	--	--	--	1.6	3.4	2.1	-1.2	3.0	18.7
	May	--	--	--	--	--	--	--	2.0	-1.2	2.6	20.4
	Jun	--	--	--	--	--	--	--	--	--	--	27.9

(a) Period with available data. (b) Percent change from preceeding period. (c) Annualized growth of the average of available months over the monthly average of the previous quarter.

Source: Bank of Spain.

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

Spread (right) ▬▬ Spanish debt (left) ▬▬ German debt (left)
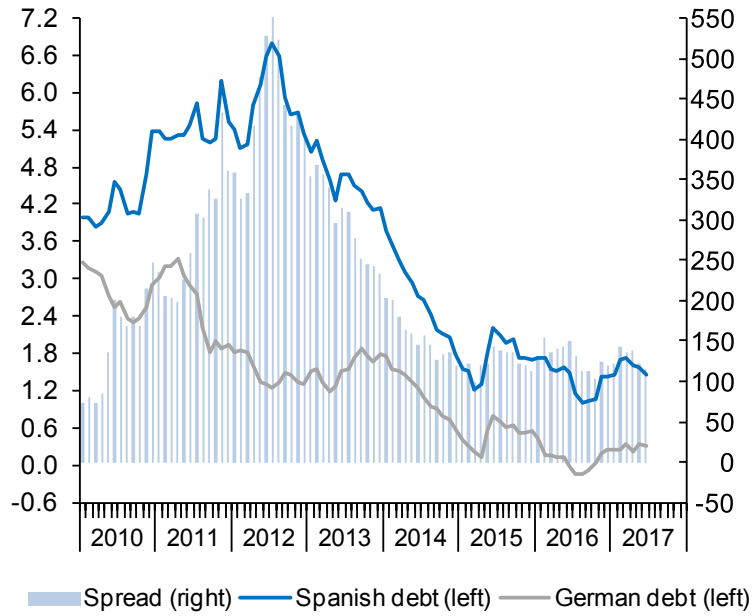
Chart 17.2.- Credit stock growth
Annual percentage change

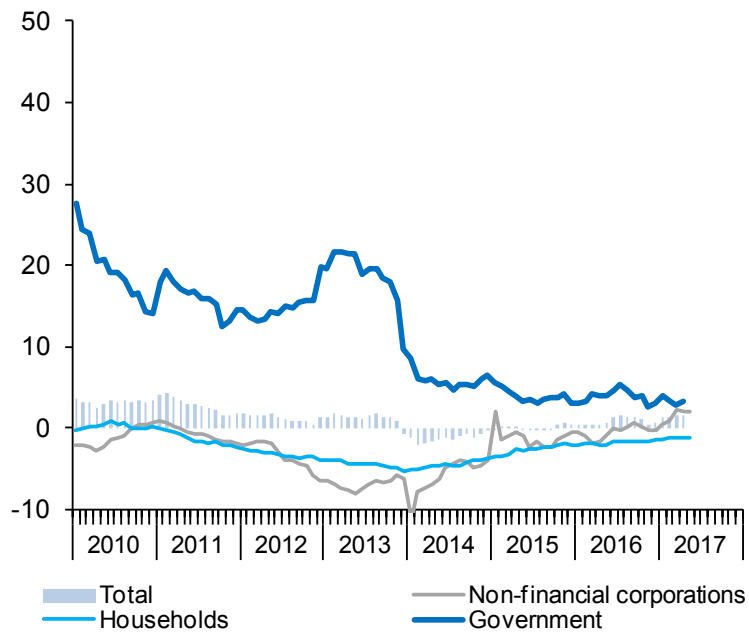Total ▬▬ Non-financial corporations
Households ▬▬ Government

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)	--	--	--	101.3	101.4	99.9	108.1	104.7	103.2	109.5
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	104.0	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	104.8	103.4	109.2
2017 Mar	--	--	--	101.3	101.7	99.6	107.5	104.7	102.7	109.3
Apr				102.2	102.0	100.2	107.7	104.7	102.9	109.8
May				102.2	101.9	100.2	107.7	104.4	103.2	110.3
	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)	--	--	--	1.2	0.7	0.5	6.0	3.9	2.1	1.2
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	-1.9	0.2	-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	-1.9	-1.0	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	6.3	4.0	2.3	1.4
2017 Mar	--	--	--	2.1	1.5	0.6	5.5	3.9	1.6	1.0
Apr	--	--	--	2.6	1.9	0.7	5.8	4.1	1.7	0.7
May	--	--	--	2.0	1.4	0.6	5.1	3.3	1.8	1.2

(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

Relative wages — Relative productivity — Relative ULC
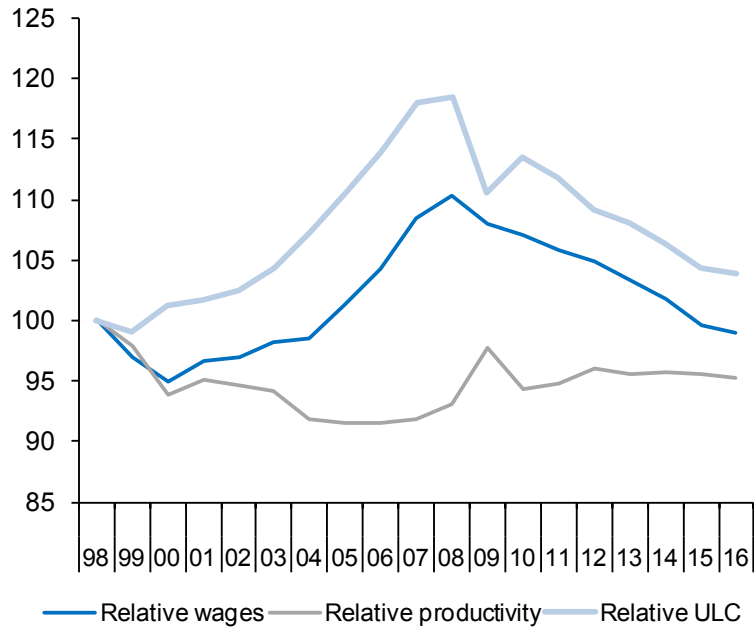
Chart 18.2.- Harmonized Consumer Prices
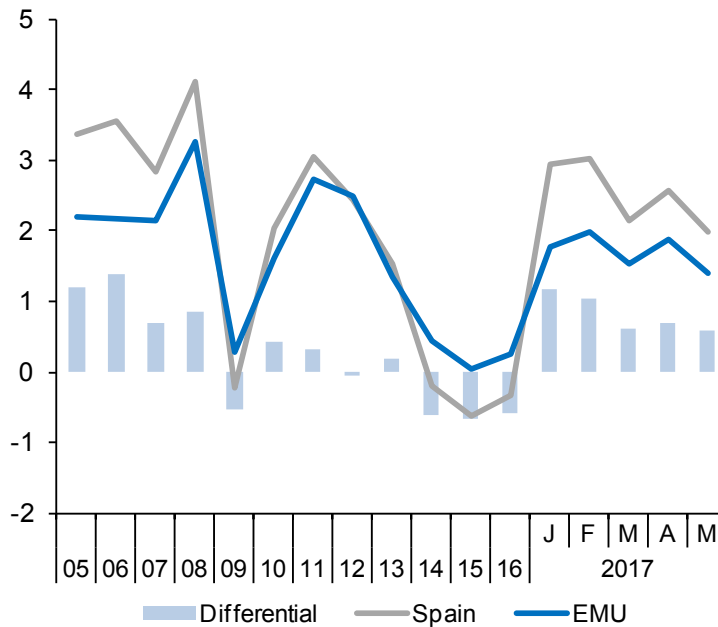Annual growth in % and percentage points


Differential — Spain — EMU

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
Billions of national currency												
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	-1033.3	-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	-1827.4	-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	-1797.7	-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	-1646.6	-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	-1430.7	-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	-1049.3	-48.4	1,183.1	12,475.5	21,978.9	1,818.3	18.8	300.1	--	-65.2
Percentage of GDP												
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
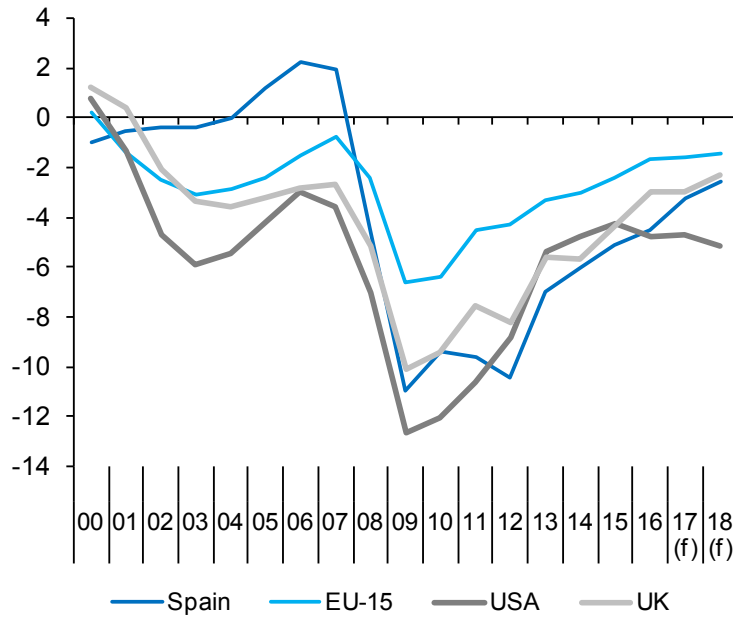
(f) European Commission forecast.

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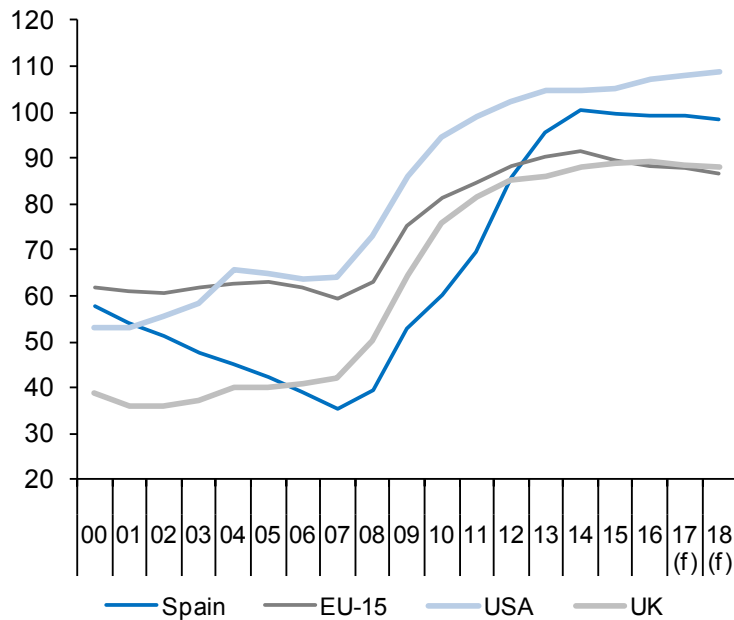

(f) European Commission forecast.

Table 19b

Imbalances: International comparison (II)

	Household debt (a)				Non-financial corporations debt (a)			
	Spain	EMU-19	USA	UK	Spain	EMU-19	USA	UK
Billions of national currency								
2005	653.5	4,787.2	11,974.9	1,189.8	925.0	7,596.0	8,161.5	1,102.9
2006	780.7	5,197.3	13,255.3	1,310.9	1,158.8	8,239.9	8,977.6	1,201.6
2007	876.6	5,562.3	14,170.6	1,426.4	1,344.5	9,042.4	10,099.1	1,281.6
2008	914.0	5,807.6	14,053.7	1,477.0	1,422.6	9,631.3	10,678.7	1,476.9
2009	906.2	5,936.6	13,814.0	1,473.8	1,406.1	9,558.5	10,152.4	1,414.2
2010	902.5	6,071.3	13,575.6	1,476.9	1,429.4	9,836.9	10,001.6	1,379.5
2011	875.2	6,162.1	13,381.5	1,486.7	1,415.7	9,991.9	10,261.7	1,408.1
2012	838.2	6,149.6	13,448.8	1,509.2	1,309.8	10,130.6	10,770.4	1,481.4
2013	790.6	6,100.8	13,596.8	1,525.5	1,231.2	9,990.2	11,251.2	1,454.1
2014	754.2	6,121.1	13,955.7	1,565.8	1,168.0	10,412.8	11,940.8	1,414.1
2015	729.6	6,187.7	14,310.8	1,612.8	1,147.4	10,933.4	12,761.0	1,394.8
2016	716.9	6,294.1	14,768.8	1,685.9	1,132.7	11,187.3	13,462.7	1,488.9
Percentage of GDP								
2005	70.2	56.6	91.5	86.3	99.4	89.8	62.3	80.0
2006	77.5	58.4	95.7	90.1	115.0	92.5	64.8	82.5
2007	81.1	59.2	97.9	93.2	124.4	96.2	69.8	83.7
2008	81.9	60.3	95.5	94.4	127.5	100.0	72.6	94.4
2009	84.0	63.9	95.8	97.0	130.3	102.9	70.4	93.1
2010	83.5	63.6	90.7	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	81.5	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	79.3	86.1	106.7	104.5	70.8	74.5
2016	64.4	58.6	79.5	86.9	101.7	104.2	72.5	76.8

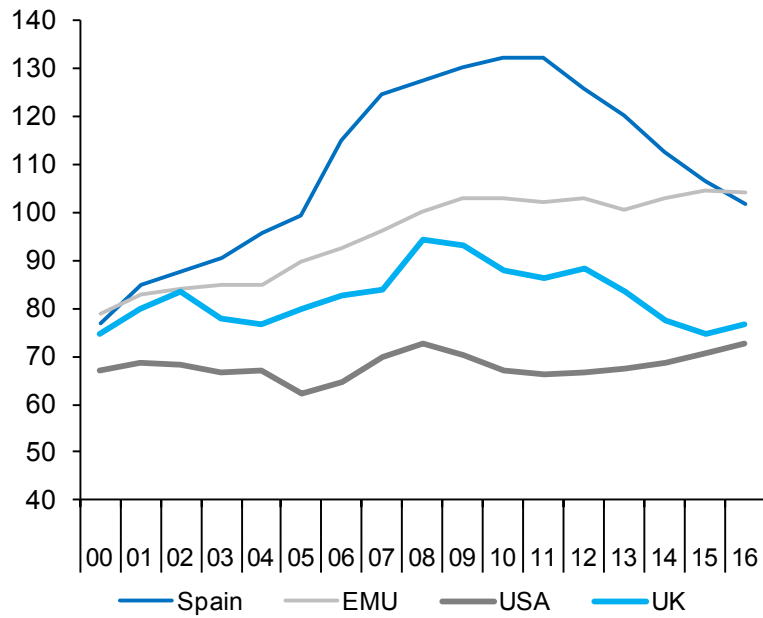*(a) Loans and debt securities.*

Sources: Eurostat and Federal Reserve.

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

Spain — EMU — USA — UK

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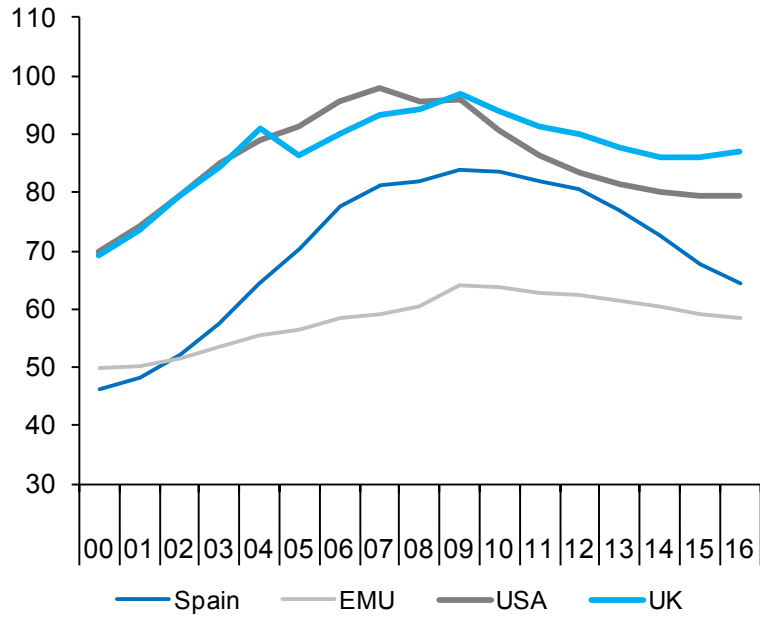
Chart 19b.2.- Non-financial corporations debt
Percentage of GDP

Spain — EMU — USA — UK

Updated: June 30th, 2017

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.6	March 2017
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.5	March 2017
Doubtful loans (monthly % var.)	-2.6	March 2017
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	767,304	May 2017
Recourse to the Eurosystem (Spanish financial institutions, million euros)	172,977	May 2017
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	101	May 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 May	2017 June	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.4	4.7	5.0	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.19	-0.1	-0.26	-0.329	-0.331	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.5	0.2	-0.03	-0.13	-0.16	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.4	1.7	1.4	1.5	1.5	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.3	2.1	2.3	-	-	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 decreased to -0.331% in June from -0.329% in May and the 1-year Euribor decreased to -0.16% (from -0.13% in May). The ECB has reiterated the continuation of the liquidity program. As for the Spanish 10-year bond yield, it has remained at 1.5%, the closing rate of June.

B. Financial markets

Indicator	Source:	Average 2001-2014	2015	2016	2017 April	2017 May	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	39.0	75.5	102.6	84.21	95.00	(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	43.83	56.15	(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	0.57	1.98	(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	2.22	2.15	(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	0.05	0.08	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	1,077.95	1,100.58	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	4.2	1.9	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	4.1	-0.2	0.7	19.8	-11.1	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	1,078.2	1,057.2[a]	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9,750.4	10,647.2	8,790.9	10,715.8	10,444.5[a]	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	23.2	16.5[a]	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial markets (continued)

Indicator	Source:	Average 2001-2014	2015	2016	2017 April	2017 May	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	-0.3	-1.7	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.5	0.1	0.0	0.00	0.34	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.6	1.3	-0.4	-6.6	-3.5	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (% chg.)	Bank of Spain	8.9	17.7	5.8	4.5	26.1	IBEX-35 shares concluded transactions

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

Comment on "Financial Markets": During May, there was an increase in transactions with outright spot T-bills to 95% and also an increase of spot government bonds transactions, which stood at 56.15%. The stock market has registered a decrease in June, with the IBEX-35 down to 10,445 points, and the General Index of the Madrid Stock Exchange to 1,057. Additionally, there was a fall of 3.5% in financial IBEX-35 futures transactions and an increase of 26.1% 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 February	2017 March	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.5	-4.0	-4.1	-0.3	0.6	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	8.0	-0.1	-0.1	-0.5	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	-0.8	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	0.5	0.7	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	-5.4	-5.9	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 February	2017 March	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	39.8	-22.4	-13.6	-0.6	-2.6	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	-0.4	13.1	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	8.8	-1.8	-0.3	0.4	0.1	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 March 2017 show an increase in bank credit to the private sector of 0.6%. Data also show a growth in financial institutions' deposit-taking of 0.5%. Holdings of debt securities fell by 0.8%. Doubtful loans decreased 2.6% 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	767,304[a]	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	-	111,338	122,706	138,455	172,977[a]	Open market operations and ECB standing facilities. Spain total

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

Indicator	Source:	Average 2000-2013	2014	2015	2016 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	101[a]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: May 2017.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In May 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 257.6 billion euro in March and 1.98 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" 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.

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