SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

VOLUME 6 | number 5, October 2017

Spain: Recovery on track

funcas

WHAT MATTERS

The **"eurobond" proposal:** A challenging path towards integration

Spanish banks' presence in Latin America: Opportunity, but not without risk

Financial digitalisation in Spain: Projections for 2017-2020

Evolution of NPLs at the European level: A flows perspective

Spain's housing sector: Situation and outlook

Rising consumption, but not without risks

Wages, productivity and **corporate management**

SEFO is a bi-monthly Economic Journal published by Funcas and written by its experts, on the most pressing issues facing the Spanish and international economy / financial system today.

Readers can find this and archived issues of SEFO at www.funcas.es. Please contact us to request permission to republish an article at **publica@funcas.es**

Electronic Edition
An electronic edition of this Journal is available at
http://www.funcas.es/Publicaciones

Contact
publica@funcas.es

Web Site
www.funcas.es

Orders or Claims:
Funcas, publications
Tel.; +34-91-5965481, Fax: +34-91-5965796, e-mail: publica@funcas.es

Printed in Spain

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

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

SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

Letter from the Editors

The October issue of *Spanish and International Economic & Financial Outlook (SEFO)* comes at an important political moment for Europe. For the region as a whole, with Germany's elections now concluded, uncertainty surrounding important elections in key EU countries has largely dissipated. At the same time, domestic political tensions in Spain remain high over Catalonia.

In this context, we begin this month's SEFO by looking at issues that affect Spain outside of its borders, firstly in Europe and secondly, in Latam. We assess the status of discussions over the eurobond proposal, which seems to be gaining little traction as regards its conversion into actual policy. The most recent proposals for a mutualized sovereign debt instrument contain both advantages and risks. On the positive side, such an instrument would provide increased legal clarity in the event of a restructuring, as well as create a large class of relatively risk-free assets. However, risks related to legal certainty, political control, financial liability and finally, moral hazard make it politically difficult to sell. No matter how strong political opposition may be, as long as crossborder capital markets are still inefficient at assessing sovereign risk and averting moral hazard, eurobonds will be necessary and the debate will persist.

This issue of SEFO also specifically takes a look at the growth strategy of Spanish international banking/finance in Latam over the last two decades. On the whole, the strategy has been positive, with the Spanish economic crisis having been, to some extent, cushioned by foreign investments made by the country's big firms in Latin America, including its two global banks. Going forward, structural conditions, such as good demographics, low rate of banked population, high intermediation rates, and low correlation with the domestic economy continue to favour Spanish banks/financial firms investing in Latin America. However, incredible divergence across political/business cycles in the countries within the region make Latin America a relatively high risk/high reward (or loss) proposition for investors.

Within Spain, the greatest political strain currently facing the Spanish economy is the situation in Catalonia. While there has been some observable market volatility, affecting both the stock market and country risk premium, at the fundamental level, Spain's economic recovery maintains its dynamism.

As for the country's financial sector, we look at two key aspects – digitalisation and the process of balance sheet clean-up. According to the most recent assessment by the European Commission, Spain ranks as a "medium performer" in the European context in terms of its performance on the so-called digital agenda (primarily in the area of financial digitalisation). However, European indicators reveal considerable progress in the last three years. Although lagging behind the European average overall, Funcas Observatory of Financial Digitalisation's projections indicate that Spain will continue to make progress on the financial digitalisation front in the coming years.

Our indicators predict that Spain's financial digitalisation will increase across a broad range of areas, whereas by 2020, 79.4% of Spaniards will use their computers to check their bank balances or

conduct banking business. Frequency of online banking will also increase, with the percentage of Spaniards expected to check their balances or transfer money online at least once a week estimated to reach 59% over the same timeframe.

As regards progress on cleaning up banks' balance sheets, in the context of an already challenging earnings climate for the European financial sector, reducing the high volume of non-performing loans is of vital importance to banks. This has been recognised by European and international authorities. Spain's NPL ratio spiked during the recession, primarily due to the country's real estate crisis. However, there has been a notable improvement in credit quality since 2014, supported by better macroeconomic fundamentals, including reduced unemployment, which has notably slowed the pace of inflows of new NPLs. At 5.7%, Spain's NPL ratio stands just slightly above the 5.1% EU average. This, together with an improvement in recovery processes and the still relevant role played by foreclosures, has led to a significant reduction in the NPL ratio. However, there are signs of a slight slowdown in outflows, which looks set to continue in coming years, resulting from fewer foreclosures and write-offs. Thus, there is still much to be done both at the Spanish and European level in order to lower the close to 1 trillion euros of doubtful assets on bank balance sheets to more acceptable levels, which would be amenable to improved profitability.

While Spain's NPL ratios are improving, reflecting normalisation of the crisis in Spain's housing sector, there are still outstanding issues in the country's real estate market. A current snapshot of Spain's real estate sector reveals a prevailing trend in house prices – the sharp growth in rental prices, while prices in the buyers' market remain relatively stagnant. This phenomenon can be largely explained by looking at the key determinants of housing demand, which is not being efficiently transmitted to house price variables. Among the factors responsible for this is the lack of household access to financing, translating into weak demand in the buyers' market (which is why prices in this segment are not rising). In fact, access is proving to be concentrated in the rental segment, where prices are accelerating, altering the long-run equilibrium between the two price variables. Growth in the supply of units for rent or for sale could eliminate the prevailing price tension in Spain's residential markets.

Looking at the developments in the real economy, we study the recovery of consumption and its dependence on wages. As the financial health of households continues to improve, household consumption too is growing at an elevated rate. However, while GDP is now back at pre-crisis levels, household spending still remains below its 2008 peak. The short-term outlook for consumption is favourable and households look set to continue increasing their expenditures. However, household consumption remains dependent on income growth and confidence to sustain momentum. A deterioration in these fundamentals could endanger the medium-term sustainability of household consumption growth. At the same time, the drop in household savings rate, at its lowest level since 2006, puts Spanish households in a vulnerable position at a time of rising inflation and monetary policy normalisation.

On a related note, we close the issue by examining the links between wages, productivity and corporate management practices, using Spanish industrial SMEs as an empirical case. Companies which are better managed offer superior remuneration to their workers. In Spain, there is a notable and sizeable deficit in terms of the quality of corporate management among industrial SMEs which contributes significantly to their lower levels of productivity relative to their counterparts in other large European countries. Reducing this deficit should be an urgent priority, not just for the companies themselves, but also for business organisations and certainly for industrial policy.

What´s Ahead (Next Two Months)

Month	Day	Indicator / Event
October	6	Industrial production index (August)
	9	Eurogroup meeting
	11	CPI (September)
	16	The Spanish economy's financial accounts (2Q17)
	20	Foreign trade report (August)
	26	Labour force survey (3Q17)
	26	ECB monetary policy meeting
	27	Retail sales (September)
	30	Preliminary quarterly national accounts (3Q17)
	30	Preliminary CPI (October)
	31	Non-financial accounts, state (September)
	31	Non-financial accounts, regional governments and Social Security (August)
	31	Balance of payments (August)
November	3	Social Security registrants and official unemployment (October)
	6	Eurogroup meeting
	8	Industrial production index (September)
	14	CPI (October)
	21	Foreign trade report (September)
	28	Retail sales (October)
	28	Non-financial accounts, state (October)
	28	Non-financial accounts, regional governments and Social Security (September)
	29	Preliminary CPI (November)
	30	Quarterly national accounts (3Q17)
	30	Balance of payments (September)

This page was left blank intentionally.

What Matters

MUTUALIZATION

The “eurobond” proposal: A challenging path towards integration

Discussions over the creation of a eurobond date back prior to the creation of the single currency itself. No matter how strong political opposition may be, as long as cross-border capital markets are still inefficient at assessing sovereign risk and averting moral hazard, eurobonds will be necessary and the debate will persist.

Erik Jones

Abstract: Despite being a recurrent theme in discussions over euro area reform, the eurobond proposal seems to be gaining little traction as regards its conversion into actual policy. Various concepts of the eurobond date back prior to even the creation of the euro itself. The most recent proposals for a mutualized sovereign debt instrument contain both advantages and risks. On the positive side, such an instrument would provide increased legal clarity in the event of a restructuring, as well as create a large class of relatively risk-free assets. However, risks related to legal certainty, political control, financial liability and finally, moral hazard make it politically difficult to sell to an already sceptical public.

In this context, the European alternative is to push for greater national responsibility and to support that with limited forms of conditional lending. The question is whether or not such an alternative will be sufficient. Cross-border capital markets are still inefficient at assessing sovereign risk and averting moral hazard – particularly, but not exclusively, in a common currency area – and cross-border capital flight has such destructive consequences for European economic performance. Thus, eurobonds will be necessary and the debate over their creation will remain present.

Introduction

Four days before European Commission President Jean Claude Juncker gave his "State of the Union" address to the European Parliament on September 13th, 2017, Claudi Pérez (2017) published a story in *El País* claiming that the speech would propose the creation of "eurobonds" by 2025. If it had been made, the proposal would have been surprising – several countries have voiced their concern to joint-and-several credit commitments. Nevertheless, the European Commission seems determined to bring the proposal forward. As one Commission official explained to Pérez: "Eurobonds are a fantasy, but the EU (European Union) and the euro were also" (Pérez, 2017).

The eurobond proposal did not make it into Juncker's speech upon delivery [1]. Instead, he called for the completion of the European banking union through the reduction of risks within Member States before building out mechanisms to share risks across them; he proposed the transformation of the European Stability Mechanism into a European Monetary Fund; he recommended that the European Commissioner for Economic and Monetary Affairs be elevated to European Economics and Finance Minister and Eurogroup President with real powers to promote structural reform at the Member State level; he suggested that this new Economics and Finance Minister have access to a euro-area budget line within the Commission's financial framework; and, he insisted that every EU Member State accept its obligation to join the euro.

Despite its omission, however, it would be a mistake to discount the idea of eurobonds altogether. In their joint "letter of intent", Commission President Juncker and his Vice President Frans Timmermans listed "exploratory work for the possible development of a euro area safe asset" among the initiatives to be launched looking ahead to 2025 [2]. That proposal echoes the European Commission's (2017) reflection paper on economic governance, which suggests that a 'European safe asset' is one of the instruments that could be developed after 2019. The purpose of this article is to explain why the eurobond proposal is such a recurrent theme in discussions about reforming the euro area and why that proposal seems to gain so little traction in the development of actual policy. Eurobonds offer a number of advantages in terms of market access, project finance, market discipline, and financial stability. The problem is that financial economists have not been able to design an instrument that captures these advantages without creating risks related to legal certainty, political control, moral hazard, and financial liability. Worse, each effort to increase the sophistication of the proposal has only given rise to greater fears about potential unintended consequences.

Such fears are perhaps more important for the politics of eurobonds than for their financial engineering. It is possible to imagine a proposal that maximizes advantages while minimizing risks; it is more difficult to see how to sell that proposal to an already skeptical public. Proponents of eurobonds will not

> "Fears over potential unintended consequences are perhaps more important for the politics of eurobonds than for their financial engineering."

abandon the pursuit of the advantages that such instruments have to offer; they just have to find a political route to get there. Moreover, this dilemma is not limited to Europe. Despite the unique history of European financial and monetary integration, every country – and particularly every large federation – has faced similar dilemmas in building a framework for financial stability.

The advantages of eurobonds

The term "eurobond" has been used for much longer than Europeans have shared a single currency. The concept dates back to the creation of "offshore" financial markets in Europe to recycle excess liquidity created outside national financial regulatory environments or capital controls by countries running export-led growth models. Over the years, the same term has been used to describe a range of different instruments for the joint financing of infrastructure investments, sovereign debt mutualization, and the creation of a risk-free asset for use as collateral and safe haven (Table 1). Hence the temptation whenever the term "eurobond" arises is to try and focus on the specific incarnation and to cut away those that do not apply. For example, when Wolfgang Munchau reported on the *El País* article mentioned at the start of this essay in his euro *Eurointelligence blog,* the first point he made was: "it's not clear whether these are true eurobonds from a common debt-issuing capacity or the synthetic halfway-house of sovereign bond-backed securities (SBBS or ESBies for European Safe Bonds in earlier incarnations of the idea)" [3]. In fact, the "letter of intent" lists both projects separately.

The evolution of the term "eurobond" nevertheless helps to underscore the advantages that the whole class of instruments has to offer. Consider the original "eurobond". That was an early expression of financial market integration at a time when national capital markets were strictly segregated. The idea was to tap a wider pool of savings than would be available in a given national currency. It was also to tap a group of investors who were capable of managing more sophisticated instruments. For firms from small countries, the eurobond market played an important role in leveling the playing field by bringing their cost of capital closer to their large-country competitors. Prior to the introduction of the euro as a common currency, eurobond markets provided small-country governments with access to more competitive financing costs as well (Choudhry, 2010).

A more recent version of the eurobond focused not only on accessing wider European capital markets but also on solving the collective action problems associated with large, trans-

Table 1 **The four faces of the "eurobond"**

Eurobonds as:	Issued in:	Denominated in:	Issued by:	Underwritten by:
Access to foreign capital	"Offshore" markets	Foreign currency	Corporates or sovereigns	Individual issuers
Source of project finance	"Offshore" or on-shore markets	Euros	International organizations like the EIB	International organizations with paid-in capital from Member States
Mutualized sovereign borrowing	On-shore markets	Euros	Sovereigns with authorization	Joint-and-several commitment
Synthetic assets	Securitization markets	Euros	Financial firms	Tranche structure

Source: Author's own elaboration.

European infrastructural investments. Such large projects create positive externalities for countries far from the specific works involved. It stands to reason, therefore, that other countries would be involved in the financing – and also in the risks that the projects might run over budget or even fail. The European Investment Bank and the European Bank for Reconstruction and Development can help to solve those collective action problems as well. The difference with using a eurobond has to do with leverage and, again, relative cost of capital. A single instrument backed by the joint taxing power of the EU Member State governments would make it easier to borrow counter-cyclically and so use large-scale investment projects for macroeconomic stimulus in addition to infrastructural improvements (De Grauwe and Moesen, 2009). It would also make it easier for European governments to recapitalize banks in distress that have large assets portfolios and substantial cross-border exposure (Gros and Micossi, 2008).

But the current tensions surrounding the eurobond debate are not centered around the eurobonds used by corporates or sovereigns in offshore markets or by international organizations to finance cross-national infrastructure investments, as these do not pose a major problem, in principle. Two other eurobond proposals – one to mutualize existing sovereign debt and another to securitize sovereign debt in order to create a European "safe asset", however, are distinct, because they go to the core of the management of the euro area economy. The newer versions of the "eurobond" raise complex issues of moral hazard and financial stability.

Hence, for example, the notion of cost-of-capital can cut both ways. Firms or governments that have access to competitive financing costs will take great pains to ensure they do not lose those benefits. This insight lies behind a different eurobond proposal that offers governments only limited access to credit markets through the issuance of mutualized sovereign debt instruments with the implication being that governments will lose privileged access once their borrowing limit is exhausted. The notion here is no different from any other line of credit extended to firms or individuals – for whom borrowing within limits is less expensive than borrowing beyond them. Hence, the idea is to create a clear threshold beyond which the forces of market discipline would apply (Jones, 2010; Delpla and von Weizsäcker, 2010).

Restricting government access to mutualized sovereign debt instruments has two added advantages. To begin with, it signals to investors which debt is likely to be restructured in the event that a sovereign borrower finds itself in distress. Any borrowing beyond the limits would be junior in the market to borrowing through mutualized sovereign debt instruments. The other advantage is that the proposal creates a large asset class of instruments that have very little default risk because of the joint-and-several sovereign guarantees attached. Such instruments could be used for routine treasury operations in banks and large corporations, they could be the mainstay for collateralizing liquidity access with central counterparties and central banks, and they could provide a safe haven in the event of a large-scale flight to quality because of turbulence or uncertainty in financial markets.

This flight to quality is critically important in the context of the European financial crisis. It explains why capital was so quick to leave the countries on the euro area periphery and it also explains why the United States was seemingly more resilient. In the U.S., investors could all move their money into instruments backed by the U.S. Treasury; in Europe, they had to move their capital from one country to the next (Jones, 2016). Such cross-border capital flight played an important role in the Spanish crisis, for example, by not only pushing up the costs of government borrowing but also tightening the links between sovereign finances and bank recapitalization (Royo, 2013).

A mutualized sovereign debt instrument is not the only means for creating a large class of relatively risk-free assets. Another technique would be to rely on securitization to build synthetic assets backed by pools of sovereign

debt instruments from different countries. This technique would avoid the challenge of creating a joint-and-several guarantee for repayment. It would also make it possible to assign responsibility for creating the assets to financial services providers in the private sector rather than relying on international organizations or agencies (Brunnermeier *et al.,* 2016). Finally, the synthetic "European Safe Bond" would retain many of the advantages of the different kinds of eurobonds that preceded it by tapping the wider pool of capital available in Europe, lowering relative borrowing costs. Such an asset could reduce the risk of moral hazard that could potentially arise in the case of the mutualized sovereign debt instrument, which looks more like a government guarantee. It would also make it easier to finance infrastructure investments and, when necessary, allow for macroeconomic stimulus and bank recapitalizations (where permitted), and bring more clarity to the market about which instruments are subject to default risk. These benefits could be reaped by all euroarea countries alike, even those currently in opposition to the proposal. Unfortunately, this is not sufficiently highlighted by European debates.

The disadvantages of eurobonds

The disadvantages of eurobonds flow from the various incarnations of the idea as easily as do the advantages. The perils of borrowing in offshore markets are a good place to start. Such markets not only give borrowers access to credit beyond their capacity for repayment, but also lock them into international currencies and legal frameworks that they cannot completely control. These disadvantages were obvious in the latter half of the 20th Century because recourse to international capital markets was more the exception than the norm. Borrowers realized the risks they ran even if they chose to ignore them as the price for obtaining access to a larger pool of available credit (Strange, 1986). In that sense, the link between the creation of eurobonds and the rise in moral hazard was manifest.

The situation became more complicated with the introduction of the euro. The existence of a currency that is both domestic and foreign was harder to understand and the implications that dual-nature has for borrowing internationally were harder to anticipate on both sides of the credit relationship. Hence it was possible for mainstream economists to imagine that even tightly compressed yield spreads on euro-denominated sovereign debt instruments constituted fair remuneration for investors facing different liquidity and default risks from one sovereign borrower to the next (Codogno *et al.,* 2003). With the benefit of hindsight, that interpretation of yield spreads is harder to accept. Moreover, economists have gained a new appreciation for the fact that national monetary authorities cannot ensure the solvency of government borrowing by printing additional currency any more than national governments can restructure the terms of repayment for contracts written abroad. Governments participating in the euro area could repay their foreign-currency denominated debt and yet still not achieve the autonomy typically associated with domestic borrowing. Moral hazard remained present only this time it was not as manifest [4].

The proposal to underpin sovereign borrowing with a joint-and-several guarantee across member states brought the problem of moral hazard back to the surface – particularly in the context of an economic crisis and particularly when framed as a vehicle to facilitate deficit spending and bank bailouts. Market participants may be forgiven for having underpriced the risk of default during the early years of the euro, and yet national politicians could not ignore the possibility that some of their number might not be counted upon to repay their debts once those default risks became apparent. Hence when the European Commission (2011) raised the prospect of joint-and-several guarantee in its Green Paper on European stability bonds, critics immediately denounced it as an ex ante transfer of creditworthiness from those more likely to repay to those less likely or able, and an ex post transfer of resources once the failure of some participants to live up to their obligations took place (Matthijs and McNamara, 2015).

Here the early experience of eurobonds as a form of capital market liberalization is again important. As Susan Strange argued

“ Any situation that shifted the risk back onto creditors while giving debtors the same market access would create an incentive for debtors to take advantage of new forms of creditor weakness. ”

in the mid-1980s, the creation of “offshore” markets shifted much of the risk associated with international lending from creditors onto debtors (Strange, 1986). This created a moral hazard insofar as debtors ignored those risks. Any situation that shifted the risk back onto creditors while giving debtors the same market access would be worse because it would create an incentive for debtors to take advantage of new forms of creditor weakness.

The same problem of moral hazard emerges wherever EU Member States have a joint-and-several financial commitment (Newman, 2015). The European Financial Stability Facility and its successor European Stability Mechanism (ESM) are one illustration; the balance sheet of the European Central Bank (ECB) together with its network of corresponding institutions are another. Hence, political opposition to eurobonds is not unique; it extends to the use of ESM resources for the direct recapitalization of financial institutions in distress, to the direct purchase of market securities by the ECB, and to the provision of emergency liquidity assistance by national central banks. But this opposition is not universal and neither is it unyielding. While some countries which face little or no risk premium on their borrowing costs like Germany or the Netherlands oppose the idea, other countries that face higher risk premiums like Spain and Italy continue to support it. Nevertheless, for the moment at least, the opposition to eurobonds persists – not just with respect to eurobonds per se but also with respect to any other joint-and-several credit commitment. Thus, it is important to view the debate over the eurobond proposal within a wider political context.

Without that wider context, it would be difficult to understand why there is such strong opposition to creating a eurobond with restricted access as a means of ensuring Member State governments face market discipline when they engage in excessive borrowing – defined as borrowing beyond the limits of the joint-and-several commitment. Such a proposal would seem to address the problem of moral hazard by placing strict limits on mutualized borrowing. Nevertheless, for politicians concerned about moral hazard, the existence of limits for accessing mutualized sovereign debt obligations is no more reassuring than the restrictions on ECB asset purchases or emergency liquidity assistance. By the same token, the promise to repay mutualized sovereign debt obligations or to treat them as senior in the market is no more credible than the commitment to honor the direct recapitalization of private banks with European resources. Such instruments should be available in extremis, so the argument runs, and yet they should not be part of routine European public finances lest they give rise to new forms of financial dependence and (potential) intergovernmental conflict. For skeptics of the joint-and-several commitment, the sequential showdowns between the ECB and Ireland, Cyprus, and Greece over the provision of emergency liquidity show just how quickly such conflicts can escalate (Jones, 2013 and 2015a).

Without some kind of mutualized sovereign debt instrument, however, it is challenging to see how Europe’s heads of state or government can create a common pool of risk-free assets that would be large enough and liquid enough to provide for routine treasury and liquidity operations and to act as a safe haven during periods of market turmoil. The securitization of existing sovereign debt instruments goes some way in avoiding the problem of making a joint-and-several commitment (Brunnermeier *et al.,* 2017); nevertheless sovereign debt securitization threatens to create a number of other distortions across national sovereign debt markets and in the balance sheets of peripheral country

banks that render the proposal ineffective if not counter-productive (Minenna, 2017). Moreover, without a common risk free asset, European financial markets remain vulnerable to the kind of sudden-stop dynamics that result from cross-border capital flight. These are problems more commonly associated with developing countries that access “offshore” markets than with advanced industrial economies. Finally, while the ECB asset purchase programme may have helped attenuate the risks associated with the lack of a European safe asset, the positive impact of the ECB remains limited and cannot be maintained indefinitely. Thus, given the structure of European financial integration both inside and outside the euro area, however, the problem of “sudden stops” is now relevant to Europeans as well (Jones, 2015c).

Technology, politics, and the European alternative

The “eurobonds” we talk about today as a form of common risk-free asset and potential mechanism for promoting market discipline within the euro area continue to resurface in debates about euro area reform because of the implications of the “eurobonds” we talked about in the latter 20th Century as a means of facilitating the movement of capital across borders. Put another way, eurobonds are necessary because cross-border capital markets are still inefficient at assessing sovereign risk and averting moral hazard – particularly, but not exclusively, in a common currency area – and because cross-border capital flight has such destructive consequences for European economic performance (Jones, 2015b).

In technical terms, the creation of a framework for “eurobonds” which give Member State governments limited access to borrowing with a joint-and-several underpinning would make European financial market integration more stable and hence also more beneficial. Such eurobonds would permit national governments to tap deeper capital markets, they would make it easier to internalize the externalities associated with transnational investment projects, they would facilitate counter-cyclical fiscal spending, they would sever the link between sovereign finances and bank bailouts, they would make a clear distinction between responsible government borrowing and excessive public indebtedness (which may be subject to restructuring), and they would provide a deep and liquid pool of assets to ensure the liquidity of the financial system and to provide a safe haven for capital. Eurobonds are not the only way to create a common risk-free asset in Europe. However, short of the creation of a centralized European government with its own powers to borrow and tax, some form of mutualized sovereign debt instrument is the easiest way to create a large enough risk-free asset class to meet the functional requirements for Europe’s integrated financial market. Therefore, if the Commission is serious about exploring the possibility of creating a European safe asset, it is sure to look at debt mutualization.

In political terms, however, any form of joint-and-several commitment within the European Union – including mutualized sovereign debt obligations – creates possibilities for abuse that foster distrust among the member state governments and their electorates. By implication, eurobonds may be necessary and yet that does not mean they will be created. Moreover, there is no obvious technical solution to this lack of trust. The securitization of existing sovereign debt instruments achieves some objectives by side-stepping the joint-and-several underwriting and yet fails to address the deeper structural flaws in the model for European financial market integration.

The European alternative is to push for greater national responsibility and to support that with limited forms of conditional lending. These are the elements that were delivered

“ Eurobonds are necessary because cross-border capital markets are still inefficient at assessing sovereign risk and averting moral hazard . ”

in Juncker's 2017 state of the union address. They can be found in the phrases he uses to emphasize the importance of "(reducing) the remaining risks in the banking systems of some of our Member States" alongside the premise that "risk-reduction and risk-sharing go hand in hand". The proposal to transform the ESM into a European Monetary Fund and to create a European Minister of Economy and Finance falls into this area as well [5]. The implicit promise that Europe's banking union will one day include a fully-funded European Deposit Insurance Scheme if the Member States do their homework first seems to go beyond this limited vision of the European alternative. Nevertheless, it is as easy to find opposition to a common European deposit insurance scheme as it is to find opposition to any other joint-and-several commitment (Brundsen, 2015). The European alternative consistently veers away from the threat of moral hazard in that respect.

The question is whether the European alternative will be sufficient to contain the dynamics unleashed within an integrated financial marketplace. The answer is not likely to be found in Europe – at least not yet. Instead it can be found in other countries.

Financial market integration used to take place within countries rather than between them, as national governments sought to liberate the capital that was trapped in sub-national jurisdictions. In those national cases, the balance between technological advancement and political reticence was often much the same. National governments can easily imagine how to structure collective borrowing arrangements but they have little desire to bail out "irresponsible" cities, provinces or regions. Sometimes in their search for an appropriate balance they have arrived at an institutional equilibrium much like the European alternative proposed today, where subnational governments retain responsibility for their own finances and financial institutions. Often those national equilibria proved precarious – and a powerful economic shock was sufficient to force the pace of technological change in favor of increasing joint-and-several commitments. The origins of the U.S. Federal Reserve System come from such dynamics; so does the system for federal deposit insurance. The evolution of joint-and-several financial institutions in the United Kingdom and Canada was similar even if the timing was different (Jones and Underhill, 2014).

The implication of this history is that eurobonds as a form of mutualized sovereign debt obligation are unlikely to disappear from the policy debate, even though they may be unpopular at the moment. So long as European financial market integration continues to suffer from the potential for cross-border capital flight and sudden-stop dynamics, the debate about eurobonds is going to remain present no matter how strong the opposition may be.

Notes

[1] The Commission's official website for the speech is here: https://ec.europa.eu/commission/state-union-2017_en

[2] The letter of intent can be found here: https://ec.europa.eu/commission/sites/beta-political/files/letter-of-intent-2017_en.pdf

[3] *The Eurointelligence blog* can be found at www.eurointelligence.com

[4] Paul De Grauwe (2016: 228-232) argues that the moral hazard was reduced as governments internalized the danger associated with a harder budget constraint. That is a plausible speculation and yet it does not vitiate the larger problematic.

[5] Quoting from the English-language translation of the speech. In the text as delivered, these passages were in German.

References

Brundsen, J. (2015), "Germany Warns on Eurozone Bank Deposit Plan," *Financial Times* (December 8th).

Brunnermeier, M. K., *et al.* (2016), "ESBies: Safety in Tranches," *ESRB Working Paper Series, 21,* Frankfurt, European Systemic Risk Board (September).

— (2017), "A Safe Asset for Europe," *Financial Times* (April 28th).

Choudhry, M. (2010), *An Introduction to Bond Markets,* Fourth Edition, John Wiley & Sons, Chichester, UK.

Codogno, L.; Favero, C., and A. Missale (2003), "Yield Spreads on EMU Government Bonds," in R. Baldwin, G. Bertola, and P. Seabright (eds.), *EMU: Assessing the Impact of the Euro,* Blackwell Publishing, London: 211-240.

De Grauwe, P. (2016), *Economics of Monetary Union*, Eleventh Edition, Oxford University Press, Oxford.

De Grauwe, P., and W. Moesen (2009), "Gains for All: A Proposal for a Common Euro Bond," *Intereconomics* (May/June): 132-135.

Delpla, J., and J. von Weizsäcker (2010), "The Blue Bond Proposal," *Bruegel Policy Brief* 2010/03, Bruegel (May), Brussels.

European Commission (2011), "Green Paper on the Feasibility of Stability Bonds," Brussels: European Commission COM(2011) 818 (November).

— (2017), "Reflection Paper on the Deepening of the Economic and Monetary Union," Brussels: European Commission COM(2017) 291 (May).

Gros, D., and S. Micossi (2008), "A Call for a European Financial Stability Fund," *VoxEU* (October 30th).

Jones, E. (2010), "A Eurobond Proposal to Promote Stability and Liquidity while Preventing Moral Hazard," *ISPI Policy Brief,* 180, ISPI (March), Milan.

— (2013), "The Euro Crisis: No Plan B," *Survival*, 55:3 (June/July): 81-94.

— (2015a), "The Euro: Irreversible or Conditional?," *Survival,* 57:5 (October/November): 29-46.

— (2015b), "The Forgotten Financial Union: How You Can Have a Euro Crisis without a Euro," in M. Matthijs, and M. Blyth (eds), *The Future of the Euro,* Oxford University Press, Oxford: 44-69.

— (2015c), "Getting the Story Right: How You Should Choose Between Different Interpretations of the European Crisis (and Why You Should Care)," *Journal of European Integration,* 37(7): 817-832.

— (2016). "Financial Markets Matter More than Fiscal Institutions for the Success of the Euro," *International Spectator,* 51(4) (December): 29-39.

Jones, E., and G. R. Underhill (2014), "Theory of Optimum Financial Areas: Retooling the Debate on the Governance of Global Finance," *SWIFT Institute Working Paper,* 2013-001, The SWIFT Institute, London, (November).

Matthijs, M., and K. R. McNamara (2015), "The Euro Crisis" Theory Effect: Northern Saints, Southern Sinners, and the Demise of the Eurobond," *Journal of European Integration,* 37 (2): 229-245.

Minenna, M. (2017), "Why ESBies Won"t Solve the Euro Area"s Problems," *Financial Times,* (April 25th).

Newman, A. (2015), "The Reluctant Leader: Germany"s Euro Experience and the Long Shadow of Reunification," in M. Matthijs, and M. Blyth (eds.), *The Future of the Euro,* Oxford University Press, Oxford: 117-135.

Pérez, C. (2017), "Bruselas impulsa su propio Fondo Monetario para apuntalar el euro," *El País* (September 9th).

Royo, S. (2013), *Lessons from the Economic Crisis in Spain,* Palgrave, Basingstoke, UK.

Strange, S. (1986), *Casino Capitalism,* Basil Blackwell, Oxford.

Erik Jones. Professor of European Studies and International Political Economy at the Johns Hopkins School of Advanced International Studies and senior research fellow at Nuffield College, Oxford.

This page was left blank intentionally.

BANKING

Spanish banks' presence in Latin America: Opportunity, but not without risk

Structural conditions in Latin America and the latest operating results of Spanish banks in the region continue to support the strategy of growing the Latin American investment portfolio. Nonetheless, vast diversity of economic and political conditions in different countries in Latin America highlights the diverging trajectories for Spanish foreign investment.

Francisco E. González

Abstract: The growth of Spanish foreign investment in Latin America between the 1990s and the 2010s has outpaced that of all other countries, other than the United States. On a sector-specific level, Spanish international banking/finance seems to have pursued a successful strategy by growing in Latin America over the last two decades. The Spanish economic crisis has been, to some extent, cushioned by foreign investments made by the country's big firms in Latin America, including its two global banks. Structural conditions, such as good demographics, low rate of banked population, high intermediation rates, and low correlation with the domestic economy continue to favor Spanish banks/financial firms investing in Latin America. The region showcases some of

> “In spite of a material fall in Spanish foreign investment in Latin America after 2002, it has been relatively stable within a band of 5,000-10,000 million euros annually.”

the best and some of the worst environments to invest in banking/finance. Incredible divergence across political-business cycles in the countries within the region make Latin America a relatively high risk/high reward (or loss) proposition for investors.

FDI in Latin America since the 1990s: Global and Spanish investment flows

The general story about FDI in Latin America since the 1990s is that it took off from a very low point reached during the 1980s, the so-called “lost decade” of growth and development in the region. The external debt crisis that caused such great economic and social destruction ended only after the United States government agreed, under the 1989 Brady Plan, to create a debt swap mechanism to inject liquidity, and restructure Latin American debts (of both public and private sector entities) vis-à-vis American banks and international official creditors.

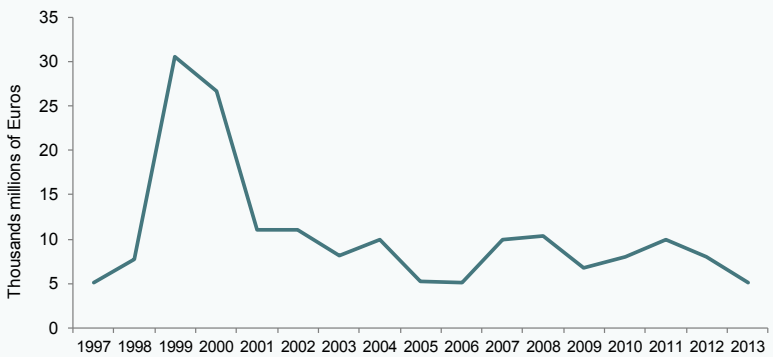
Once those measures were in place, FDI to Latin America grew exponentially in the 1990s; it grew significantly in nominal terms and as a percent of GDP in the 2000s (with two external-induced contractions in 2000-2002 and 2008-2009); and has remained relatively stable at about 3.5% of total regional GDP in the 2010s.

Similar to other relatively advanced capitalist economies, Spain started significant outward capital investments in Latin America during the 1990s. They skyrocketed during the late 1990s-early 2000s, and since then they have been sustained at higher than 5,000 million euros.

The data in Exhibit 1 are consistent with this narrative. Accordingly, there were many cheap, attractive investment opportunities around the region which big Spanish firms took advantage of, particularly during the period 1997-2002. These years were known in Latin America as the “half lost decade” due to low growth, high unemployment and recurrent financial crises in some of the major economies of the region, like Brazil

Exhibit 1

Spanish Foreign Direct Investment in Latin America, 1997-2013



Source: Observatorio de Multinacionales en América Latina (2017).

and Argentina. The main big Spanish firms that invested in Latin America were Endesa, Repsol, Iberia, Telefónica, and the banks Santander and BBVA. Later, other big firms such as Iberdrola, Unión Fenosa, Gas Natural, and Aguas de Barcelona also entered these markets (Casilda, 2017). These firms are representative of big Spanish business across the largest sectors of Spain's economy.

In spite of a material fall in Spanish foreign investment in Latin America after 2002, and upward and downward swings since then, the trend of FDI has been relatively stable within a band of 5,000-10,000 million euros total investment annually. Moreover, Spanish firms' entrance to Latin American markets was anything but shy. For firms such as Endesa, its investments in Latin America in the 2000s represented 40% of total assets. Likewise, for Telefónica, as well as Santander and BBVA, they were about 30% of total assets (Casilda, 2017).

The year 1999 was the peak of total FDI to Latin America (not just from Spain but overall) as a percent of the region's GDP (4.7%). During the so-called "commodity super-cycle" of 2004-2008 it hovered around 3%. The global financial collapse of 2008-2009 saw FDI to Latin America decrease to about 2.5%. Thanks to internationally coordinated fiscal and monetary stimulus, economic activity bounced back relatively quickly and FDI in Latin America has hovered with some fluctuations around 3.5% between 2010 and 2017 (ECLAC, 2017a).

The cooling of the commodity super-cycle since 2012-2013 hit the region significantly, and there has been growing divergence between good or steady performing economies (Peru, Colombia) and bad or worsening ones (Venezuela, Brazil), since then. Net flows to the region have decreased on a year-on-year basis since 2014, and in 2016 alone they contracted close to 8% vis-à-vis 2015 (around 167 billion dollars vs. 183 billion dollars the previous year) (ECLAC, 2017a).

However, in spite of continued uncertainty and tough credit conditions in most of the region's countries, debt markets can be seen as a proxy for an improved perception of short and medium term growth in Latin America. Thus, both sovereigns and corporates in Latin America issued a large volume of bonds in the first half of 2017 (close to 75 billion dollars, "third highest half-yearly amount ever issued in the region"`[ECLAC, 2017b]) and in spite of still weak conditions ("sixteen sovereign downgrades from January to July, and six upgrades" [ECLAC, 2017b]) appetite for such debt has been high in international capital markets.

Reasons for this are the continued search for high-yields by international investors in the face of ultra-low interest rates in the U.S., Europe and Japan. Likewise, international financial institutions that monitor economic conditions like the IMF expect the business cycle to finally turn upward in 2017-2018, with some of the largest economies like Brazil and Argentina exiting recessions at the same time that others like Mexico, Colombia, Chile and Peru retain solid macroeconomic fundamentals (IMF, 2017).

The next section looks briefly at Spanish investments in Latin America compared to other advanced capitalist economies.

Spanish investment in Latin America in a global context

Latin American countries have been the natural bridge for Spanish foreign investments in 'emerging markets' since the 1990s, thanks to linguistic and cultural affinities. Other

> "Even under continued uncertainty and tough credit conditions across most of the region, debt markets can be seen as a proxy for improved perceptions of short and medium term growth in Latin America."

> “During the Great Recession, while Spain was losing money in Europe, North America and Asia, it was making money in Latin America.”

European countries have had a longer-term and bigger financial-economic presence in modern Latin America (in spite of lacking those affinities) [1]. However, Spanish foreign investments' growth between the 1990s and the 2010s in the region has outpaced all other countries except those of the United States (UNCTAD, 2017). Spain and the United States are in a class of their own in terms of the stock of investment in Latin America (100-plus billion dollars).

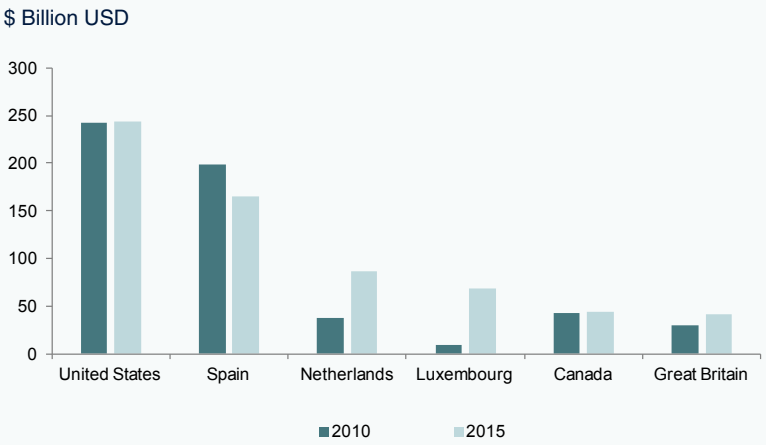
Aside from the big contrast in the size of investment in Latin America between the United States and Spain, and the rest, Exhibit 2 also shows that the United States kept its average investments constant during the period while some economies like the Netherlands and Luxembourg increased theirs, and smaller investors like Canada and Great Britain also remained constant.

The exception was Spain. The data is in line with the narrative according to which English-speaking countries and some northern Eurozone countries have done better on average compared to southern European countries since the Great Recession (2008-2009). As a consequence, countries that have done well have kept or increased their exposure to high-yielding/high-risk investments such as Latin America's emerging markets. In contrast, countries or, more specifically, firms from countries hit hard by the Eurozone economic crisis since 2010 have been deleveraging, that is, they have been selling assets to pay down debts in order that their relative debts to income come down or are at least stabilized. This is the case of Spain, whose once thriving private sector has shrunk its activity and investments both at home and abroad.

Still, the fact remains that Spanish big firms' expansion to Latin America in the 1990s-2000s was beneficial to them. In particular, no one had the foresight to expect the great negative shocks of the Great

Exhibit 2

Largest FDI investors in Latin America: USA and Spain in a class of their own



Source: UNCTAD (2017).

Recession and the Eurozone crises. Spain entered a period of over-indebtedness, crisis, austerity, and economic and social hardship as a consequence of these shocks. In the meantime, Latin America, on average, experienced a less aggressive Great Recession and certainly better growth record since then than Spain. While Spain was losing money in Europe, North America and Asia, it was making money in Latin America.

At the height of Spain's economic crisis (2012-2013) ECLAC considered that "Latin America had been a salvation board for Spanish firms" (ECLAC, 2013). During these years, two-thirds of Spanish firms' foreign assets were located in Latin America. They paid handsomely. In 2011-2012, more than half of the net profits for firms like Telefónica, Iberdrola, Ferrovial, Santander, and BBVA came from Latin America (Figueruelo, 2017).

Spanish banking/finance FDI in Latin America compared to other sectors

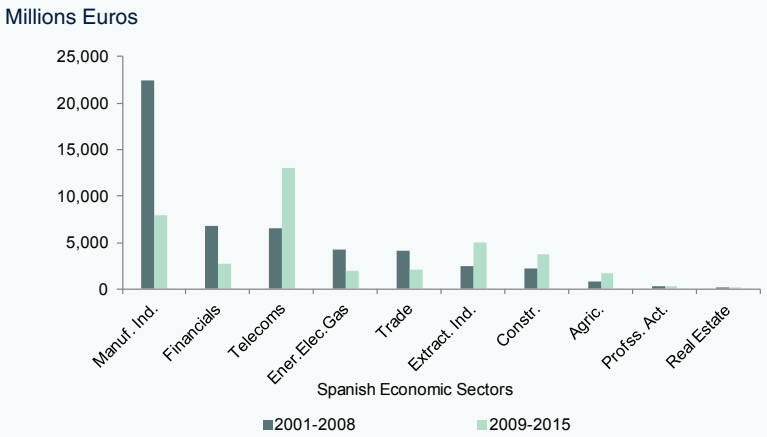
A first observation about the relative position of the Spanish banking/financial sector in terms of its stakes in Latin America is that in spite of its big presence and importance, the stakes of the sector in that region are smaller than those in other sectors.

Since Spain's own economic crisis was in part a consequence of the Eurozone financial imbalances (the collapse of Southern European economies followed the debt crisis officially declared in Greece in 2010), Spanish banks/finance are ranked third or fourth in terms of their exposure and stakes in Latin America.

As Exhibit 3 shows, Spanish banking/financial investments in Latin America were more or less at a par with telecoms before the Great Recession as the second largest source of FDI after industrial manufacturing, which in turn was more than three times the size of either of these two sectors. After the Great Recession and the onset of the Eurozone crises, all sectors experienced very significant drops in FDI, except for telecoms, which saw an almost 40% annual average increase in 2009-2015, compared with 2001-2008, and agriculture, construction and professional services, which also grew in the second period but only marginally. In the post-Great Recession period, industrial manufacturing experienced the largest fall while energy/electricity as well as trade halved in value. Banking/financial activity was not spared the weakening of FDI during the post-Great Recession years. In fact the sector's net worth

Exhibit 3

Spanish FDI to Latin America by sectors, pre- and post-Great Recession



Source: Data elaborated from Arahuetes and Gómez, (2016).

in terms of inflows/outflows lost more than half of its value (Arahuetes and Gómez, 2016).

Whichever sector is considered, it is acknowledged that the fate of the Spanish economy in the world suffered a severe shock as a consequence of the Eurozone crisis. Ranked 6th globally for FDI before the start of the crisis in 2010, the country fell to 14th in 2016 (Arahuetes and Gómez, 2016).

A second important observation is that caveats are needed to properly understand the big fall in Spanish banking assets in Latin America pre- and post-Great Recession. The first period witnessed two huge purchases: BBVA bought Bancomer, Mexico's largest bank, in 2000, and Santander, by acquiring Dutch ABN AMRO in 2007, who controlled the Banco Real do Brasil, entered the Brazilian market.

Once invested in Latin America, the two banks continued growing albeit at lower rates during the post-Great Recession years. Spanish banks found new opportunities during the crisis years after American (CITI) and British (HSBC) banks sold them some of their stakes in Latin America (Mendizábal, 2016). The reason for staying the course and continuing to try to find growth opportunities in Latin America by Spain's two global banks is that, on average, they have found Latin American investments to be better than alternatives (*i.e.* the domestic economy; continental Europe; the United States; Asia). Giants that play a significant role in Spain's economic growth like Telefónica, Santander and BBVA derive more than 50% of their total revenue from Latin American operations (Zanon, 2017).

Advantages for Spanish banks/ financials maintaining investment in Latin America

All sectors that exported capital from Spain suffered significantly since the country's own financial crisis (worst year was 2012) and very slow recovery (started in 2015-2016). As said above, unlike American or British banks, Spain's two global banks have kept their investments in Latin America. This strategy has made sense in the light of their strong position in those markets (between 40–70% of total market share in the largest Latin American economies – Brazil and Mexico [Expansión, Franquicia Internacional, 2014]). Investing more in Latin America in spite of four mediocre years of growth in the region also continues to make sense given structural conditions:

- Compared to the median age of the population in Spain (43 years), Latin America's is more promising for future growth (26 years);
- Latin America also possesses a low rate of banked people (*i.e.* individuals with checking/savings/investment accounts as a proportion of total population) compared with mature American, European or East Asian capitalist economies;
- Latin America has been characterized by relatively high intermediation rates globally since the 1990s;
- Spain and Latin America's business cycles are lowly correlated so big banks and other internationally-operating Spanish firms can diversify risks by hedging in Latin America (Casilda, 2007).

These conditions remain in place in the late 2010s. Moreover, Spanish banking activity and its results up to the second half of 2017 continue to support the strategy of growing Latin American portfolios (not indiscriminately) but certainly gradually given the reasons mentioned above. In terms of long term horizons, both Spanish global banks have continued to grow their investment side of the business at the same time that they cover a significant amount of fixed costs through fee-related activities (Abril, 2017).

"Giants that play a significant role in Spain's economic growth like Telefónica, Santander and BBVA derive more than 50% of their total revenue from Latin American operations."

"The catch is that 'Latin America' is an artificial construct that includes nation states with incredibly different economic/political/social conditions."

These structural advantages apply on average across Spanish economic sectors that engage in foreign financial investment. The catch is that "Latin America" is an artificial construct that includes nation states with incredibly different economic/political/social conditions. The last subsection concludes by assessing this diversity, highlighting the diverging trajectories that Spanish foreign investments have produced in different countries in Latin America.

Latin America: Great diversity of risk/return for foreign financial (and other) investments

Foreign investments by any company or sovereign in Latin America are attractive because they tend to produce higher rates of return in emerging markets than in mature capitalist economies. The accompanying trade-off is, of course, higher risk for investment.

The record for the Spanish banking/financial sector is mixed, although structural conditions favoring opportunities for high medium to long-term growth dominate.

Important divergence since 2013-2014 has been the result of, on one hand, a cooling of global commodity prices, which compounded with questionable macroeconomic management have resulted in recessions or depressions in countries of South America like Venezuela, Argentina and Brazil. As a consequence, in most cases Spanish foreign investments in these countries have not done well. On the other hand, mediocre but stable growth – connected to the United States – in countries like Mexico, Central American nations, Colombia, and Peru has meant that Spanish foreign investment has done better, on average, in these countries than in the ones mired in recession.

Conditions have at least stabilized and promise potentially significant bounce-backs in Brazil and Argentina although the risk of underperformance due to conflictive political-business cycles hangs over those markets. In turn, those countries most closely connected to the United States will continue to track its growth and conditions. In relative terms, US economic growth has done significantly better since the Great Recession than the Eurozone countries, Great Britain or Japan. If the US continues to grow at 2-3% per year, Spanish banking/financial firms that have invested and want to keep growing in the area of Hispanics' banking in the US, will continue to prosper (like BBVA's investments in Texas which tap into the remittances market of Spanish-speaking workers in the US who send money monthly back to their home countries). This affirmation applies to any other industries (like telecoms or media) which connect people that speak Spanish in the United States with their countries of origin or with Spain.

In all, Spanish international banking/finance seems to have made a good bet by growing in Latin America in the last two decades. The Spanish economic crisis has been to some extent cushioned by foreign investments made by the country's big firms in Latin America, including its two global banks. Structural conditions continue to favor investing in Latin America, although political-business cycles will continue to present this region as a relatively high risk/high reward (or loss) proposition for investors. Contextualized analysis of changing politico-economic conditions in the largest Latin American economies should guide banking/financial decisions from Spanish and other foreign investors. The region showcases some of the best and some of the worst environments to invest in banking/finance. This will continue to be the case, and it is therefore up to individual firms' analysis and strategy to differentiate between risks and opportunities.

Notes

[1] Great Britain, France and Germany were the dominant financial, industrial and extractive countries in Latin America in the nineteenth century. British banking in particular dominated the Latin American countries after their independence from Spain (by 1824 all continental Spanish-speaking Latin America had become independent) and Portugal (Brazil, 1822). Britain and France were the dominant forces until the 1870s-80s, after which time Germany, and to a lesser extent the United States, started competing with the older dominant European powers. It is acknowledged that London only lost its status as the 'banking capital of the world' as a consequence of the First World War (1914-1918), by which time New York, and consequently the United States became the banking leader in the world in general, and in Latin America in particular.

References

Abril, I. (2017), "Santander y BBVA disparan sus beneficios en banca de inversión," *Expansión,* http://www.expansion.com/empresas/banca/2017/08/31/59a701dc468aeb40468b4679.html, accessed August 31th, 2017.

Arahuetes, A. and G. Gómez, (2016), "Las inversiones directas españolas en América Latina, 2009-16," in *Estudios de Política Exterior*, n. 78, otoño, http://www.politicaexterior.com/articulos/economia-exterior/las-inversiones-directas-espanolas-en-america-latina-en-el-periodo-2009-16/, accessed August 4th, 2017.

Casilda, R. (2007), "Internacionalización de la banca española: el caso de BBVA," *Ekonomiaz*, 66, file:///C:/Users/fgonzal8/Downloads/12%20(2).pdf, accessed August 4th, 2017.

ECLAC (2013), *Informe de Inversión Extranjera Directa*.

— (2017a) *Foreign Direct Investment in Latin America and the Caribbean*, 2017, http://repositorio.cepal.org/bitstream/handle/11362/42024/1/S1700430_en.pdf, accessed August 30th, 2017.

— (2017b), *Capital Flows to Latin America and the Caribbean: Recent Trends,* http://repositorio.cepal.org/bitstream/handle/11362/42059/1/S1700767_en.pdf, accessed August 31st, 2017.

Expansión, Franquicia internacional (2014), "Latinoamérica: oportunidad para hacer negocios," http://www.expansion.com/especiales/latam/un-puntal-para-el-beneficio-de-la-banca.html, , accessed, August 3rd, 2017.

Figueruelo, M. (2017), "América latina, la 'salvación' de las empresas españolas," *in elEconomista.es*, http://www.eleconomista.es/empresas-eAm/noticias/4872423/05/13/America-Latina-la-salvacion-de-las-empresas-espanolas.html, May 31st, 2013, accessed August 4th, 2017.

IMF (2017), *World Economic Outlook Update, July*, https://www.imf.org/en/Publications/WEO/Issues/2017/07/07/world-economic-outlook-update-july-2017, accessed August 31st, 2017.

Mendizabal, A. R. (2016), "Santander y BBVA: modelo en Latinoamérica frente a bancos de Reino Unido y EEUU," in *Capital Madrid*, https://www.capitalmadrid.com/2016/6/4/42491/santander-y-bbva-modelo-en-latinoamerica-frente-a-bancos-de-reino-unido-y-eeuu.html, June 4th, 2016, accessed August 4th, 2017.

Observatorio de Multinacionales en América Latina (2017), *América Latina*, http://omal.info/spip.php?mot12, accessed August 3th, 2017.

UNCTAD (2017), *World Investment Report 2017: Investment and the Digital Economy,* http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf, accessed August 4th, 2017.

Zanon, A. (2017), "Spain's 'Reconquista' of Latin America Comes with a Risk," in *Corporate Foreign Policy*, https://corporateforeignpolicy.com/spains-reconquista-of-latin-america-comes-with-risk-f9942fa9adeb, June 13th, 2017, accessed August 31st, 2017.

Francisco E. González. Professor of Latin American Politics, The Johns Hopkins University School of Advanced International Studies (SAIS), Washington, D.C.

Financial digitalisation in Spain: Projections for 2017-2020

Spain has made significant progress on its digital agenda over recent years, specifically in financial digitalisation. Although lagging behind the European average overall, Spain outperforms the EU on some digital indicators, with Funcas' projections pointing to an improved performance in this area over the medium-term horizon.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: According to the most recent assessment by the European Commission, Spain ranks as a "medium performer" in the European context in terms of its performance on the so-called digital agenda (primarily in the area of financial digitalisation). However, European indicators reveal considerable progress in the last three years, which is necessarily shaping the increasingly financial dimension of the digitalisation process. Specifically, Europe's Digital Economy and Society Index (DESI) suggests that the penetration of online banking stood at 53.6% in Spain in 2016, somewhat below the European average of 59.2%. Funcas Observatory of Financial Digitalisation's projections indicate that Spain will continue to make progress on the financial digitalisation front in the coming years. Our indicators, constructed on the basis of proprietary survey data, predict that

Spain's financial digitalisation will increase across a broad range of areas, whereas by 2020: 79.4% of Spaniards will use their computers to check their bank balances or conduct banking business, with 54% settling invoices online and 64.8% using their online bank accounts to transfer money. Frequency of online banking will also increase, with the percentage of Spaniards expected to check their balances or transfer money online at least once a week estimated to reach 59% over the same timeframe.

The path towards financial digitalisation: Digitalisation as a European endeavour

It's easy enough to list the benefits digitalisation affords society: cost savings; communication speed; universal access to information and data exchange; broad opportunities for progress on research in numerous scientific fields, etc. However, understanding how a society becomes digital is not so obvious and poses economic policy, corporate strategy and staff planning tests which, combined, constitute one of the biggest social challenges for the years to come.

Retail financial services are no exception. What's more, they are an essential part of the change for at least three reasons. Firstly, personal finances represent one of the most important dimensions of citizens' everyday lives, personal and household planning and expectations. Secondly, the financial institutions and non-banking suppliers are aware of these changes and are backing strategies designed to transform their distribution channels and, by extension, their customers' habits. Thirdly, the very use of financial services and digital payment platforms in turn fuels the broader digitalisation process which encompasses issues such as access to the Internet, smartphones and the broad spectrum of associated technologies, as well as the intensity with which they are used.

In terms of financial digitalisation, there are multiple avenues through which citizens access these services and the way they take decisions can vary depending on a broad range of factors which include socio-demographic factors (age, urban vs. rural living, population size), factors related to income levels and job status and perceptions regarding the characteristics of digital services relative to conventional financial services (safety, efficiency, cost, etc.).

The Funcas Observatory of Financial Digitalisation (OFD) tracks all these financial digitalisation drivers, paying particular attention to developments in Spain but also watching the key global trends. Indeed, one of the OFD's core features is the monitoring of progress on financial digitalisation and evaluation of how the shift from traditional to digital financial services is unfolding. Along this lines of research, the OFD is in the process of conducting a study (to be released soon) about how Spaniards take decisions regarding the various dimensions of financial digitalisation, including the range of uses given to these online opportunities (enquiries, transfers, payment methods) and the decision tree for each. This paper, however, is more closely related with the monitoring objective and projected trends and shows the progress being made on the so-called digital agenda in Spain and how this is being reflected in the ambit of retail financial services.

The so-called Digital Agenda for Europe was set up in May 2010 and, as indicated by the European Commission itself, was created with the aim of "boosting Europe's economy by delivering sustainable economic and social benefits from a digital single market." At the time it was noted that although 250 million Europeans were using the Internet daily, there were still millions that had never used the Internet at all. The timeframe set at the time for the creation of 16 million jobs that require information and communications technology (ICT) skills was 2020. The 2010 digital agenda also provided other illustrative facts and figures. For example, that for every two "offline" jobs lost, the Internet economy would create five. Or that half of productivity growth in the European economy derives from investment in ICT.

As for the purpose of this paper, there are aspects of the digital agenda and its

indicators that are essential to determining the level of progress being made on one of its manifestations: Financial digitalisation. On February 24th, 2015, the European Commission published a new composite indicator designed to measure progress on telecommunications and on development of the information society in the member states: the Digital Economy and Society Index (DESI). The DESI composite indicator evaluates five areas or dimensions: Connectivity, Human Capital, Use of Internet, Integration of Digital Technology and Digital Public Services. Each of these dimensions is in turn associated with several specific sub-indicators. It is important to point out that most of these indicators are relative scores used to build the overall indicator so that their usefulness lies primarily with the ability to compare across countries and to measure progress over time. In this paper we review each of these five dimensions on aggregate as core elements of the "general" digitalisation process which in turn condition the financial digitalisation process. We then analyse three sub-indicators: Online retail, business digitalisation and online banking. Lastly, we analyse certain dimensions of the financial digitalisation process in Spain using the survey of 3,005 residents compiled for Funcas by IMOP (refer to https://www.funcas.es/_obsdigi_/) and provide the latest projections for 2017-2020.

European comparative: Progress during the last three years

The five dimensions covered by the DESI Overall Index are defined as follows:

- Connectivity: Fixed broadband, mobile broadband, speed and prices.
- Human Capital: Internet use, basic and advanced digital skills.
- Use of Internet: Citizens' use of content, communication and online transactions.
- Integration of digital technology: Business digitalisation and eCommerce.
- Digital public services: eGovernment.

The DESI Overall Index is the sum of the scores obtained on each of the above five dimensions. According to the 2017 edition of the DESI, Spain ranks 14th among the 28 member states with an overall score of 0.54. The DESI country report suggests that "Overall, Spain has improved its score on all of the dimensions measured with the exception of Human Capital, where it scored lower than last year, in spite of its solid growth in science, technology, engineering and maths (STEM) graduates. Its performance is especially remarkable in Digital Public Services, although Spain made most progress in the Integration of Digital Technology dimension. Although Spanish public and private sectors are quickly progressing in the integration of digital technologies, in general, some indicators seem to point to a weak demand on the user side, with lower levels of growth on digital skills that hamper development in the Human Capital dimension."

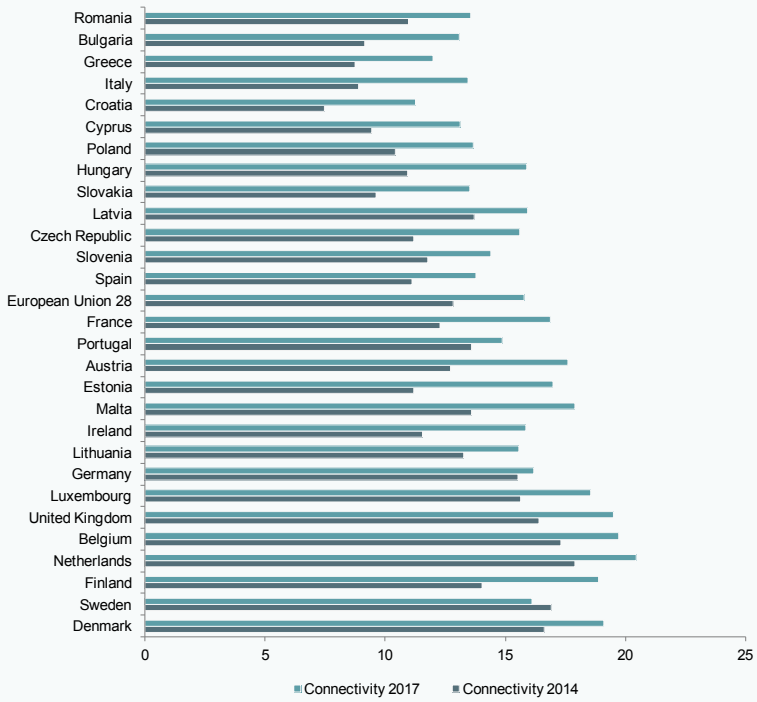
As indicated by the European Commission, "Spain belongs to the medium performance cluster of countries." The progress made along the key indicators between 2014 and 2017 is shown in Exhibit 1. On connectivity, Spain obtained a score of 13.8 in 2017, marking considerable progress from the 11.1 recorded in 2014. Nevertheless, it continues to lag the EU-28 average (15.7). Netherlands is the best-performing member state in this regard.

As for Human Capital related with digital technology, Spain scored 14.7 in 2017 (up from 10.5 in 2014), which is above the EU average of 13.6. The best performer in this category is Sweden (19.1).

> "According to the 2017 edition of the DESI, Spain ranks 14th among the 28 member states in terms of its overall digital agenda."

Exhibit 1

Main dimensions of the DESI Overall Index (2014, 2017)



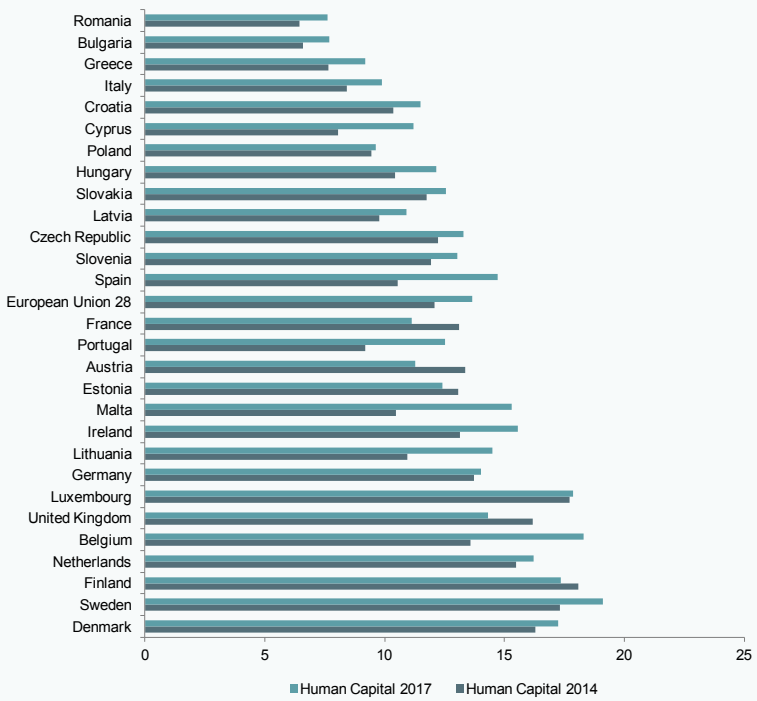
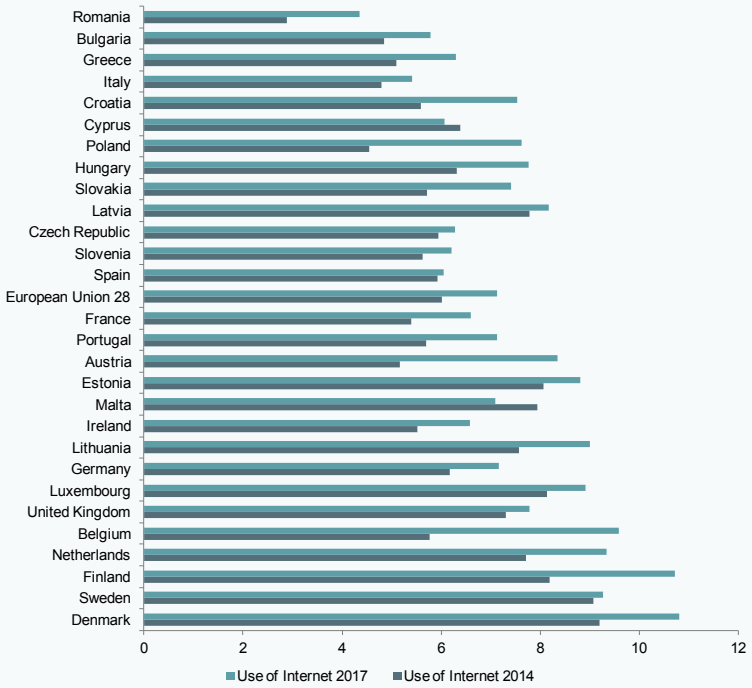


Exhibit 1 **Main dimensions of the DESI Overall Index (2014, 2017)**

(continued)



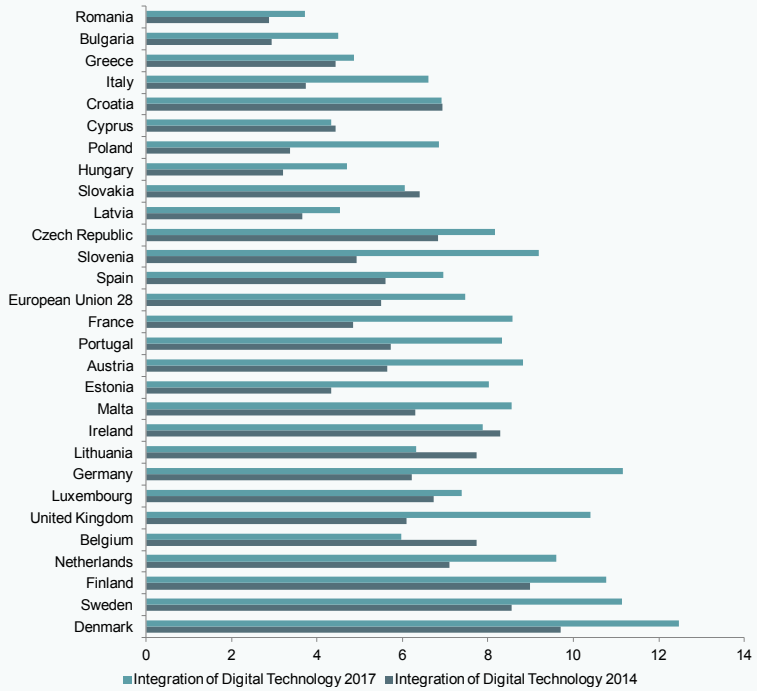
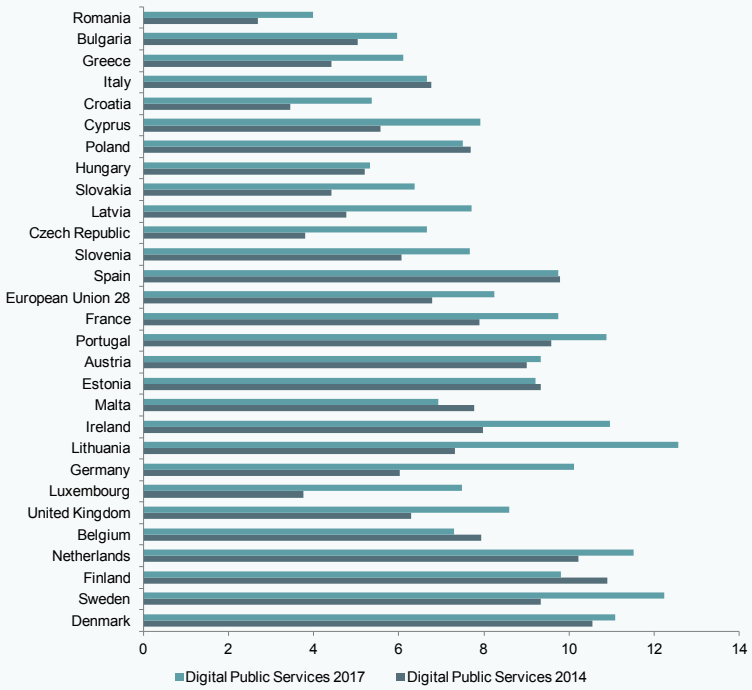


Exhibit 1 **Main dimensions of the DESI Overall Index (2014, 2017)**

(continued)



Source: Single Digital Market, European Commission DESI by components.

In Use of Internet, Spain made more modest progress (scoring 6 in 2017 vs. 5.9 in 2014), ranking below the European average (7.1). The highest score was recorded by Denmark (10.8).

As for the Integration of Digital Technology (business digitalisation and eCommerce), although Spain made considerable progress (from 5.6 in 2014 to 6.9 in 2017) it remains below the average (7.4) and far from front-runners such as Denmark (12.5).

Lastly, Spain scores a noteworthy 9.7 on eGovernment with respect to the EU average (8.2), albeit barely improving since 2014. This category is led by Lithuania (12.6). Note that certain Eastern European countries have made considerable progress across the board.

One of the DESI sub-indicators of interest from the financial digitalisation perspective is the use of the Internet for online retail (Exhibit 2). It is of interest primarily because it determines the use of electronic payment methods and, by extension, digital electronic transfers or at least an initiation in online transacting (even if, ultimately, payment is not always electronic). This indicator is measured as a percentage. Spain progressed from 41.5% in 2014 to 55% in 2017. However, it remains below the EU average of 66%.

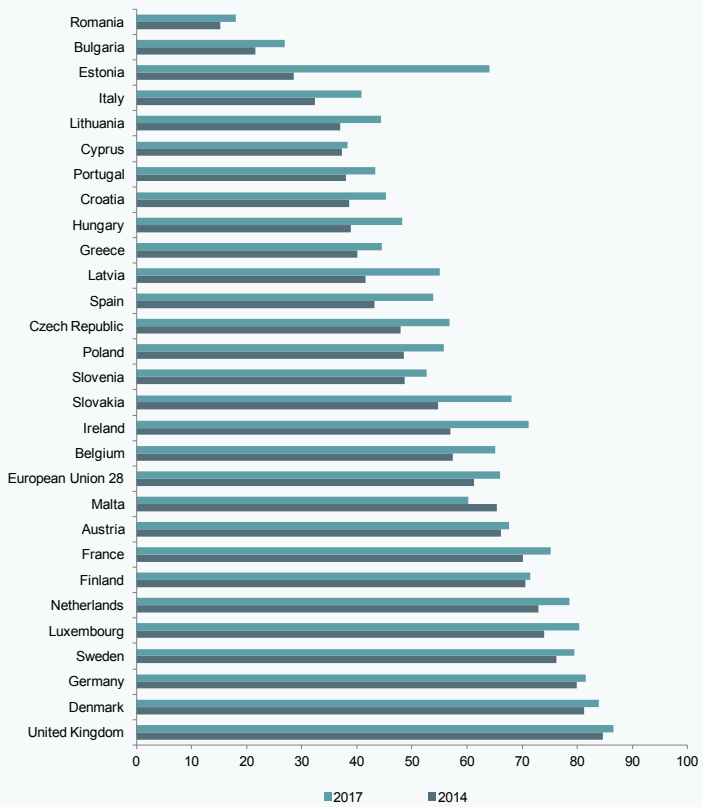
One very illustrative aspect of the DESI sub-indicators in the economic and financial arena relates to the use by businesses of digitalisation-related services. The five aspects measured for the DESI relative score are: Electronic information sharing, radio frequency identification technology (RFID, such as QR codes, etc.), social media, eInvoices and cloud computing (storage and remote

security). Exhibit 3 shows Spain's position on these aspects relative to the EU-28.

On electronic information sharing, Spain scored 11.7 in 2017, up from 10.4 in 2014 and in the vicinity of the European average (11.9). As for the use of RFID systems, Spain is a leader, scoring 8.7 in 2017 (5.7 in 2014), compared to an EU average of 5.1. Spain also stands out for its businesses' use of the social media, scoring 9.7 (7.3 in 2014), compared to an EU-28 average of 8.1. The UK excels by this yardstick, scoring 16. As for eInvoicing, Spain has made a considerable quantitative leap, jumping from a score of 2.7 in 2014 to 10 in 2017, putting it above the EU average of 7.1. The top performer on this aspect is Finland, with a score of 22.7. The last aspect comprising the business digitalisation indicator relates to cloud computing, where Spain lags somewhat (3.4 in 2014 to 5.2 in 2017). The European average is 5.4 and the top performer is Finland (16.1).

As noted earlier, the DESI provides another sub-indicator of particular relevance to financial digitalisation, namely tracking the percentage of the population using online banking services (Exhibit 4). Spain's score on this sub-indicator increased from 45.9% in 2014 to 53.6% in 2017. Nevertheless, it continues to lag the European average somewhat (59.2%). Note that some countries really stand out on this benchmark, namely Finland, Estonia, the Netherlands and Denmark; in all of these countries, over 90% of the population uses online banking services.

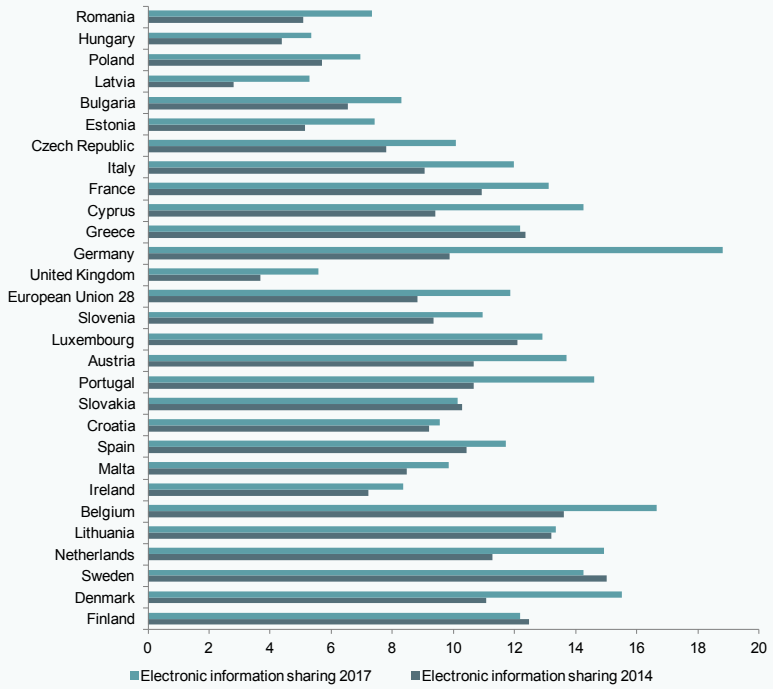
Exhibit 2 **Individuals who ordered goods or services online**



Source: Single Digital Market, European Commission DESI by components.

Exhibit 3

Business digitalisation (DESI score)



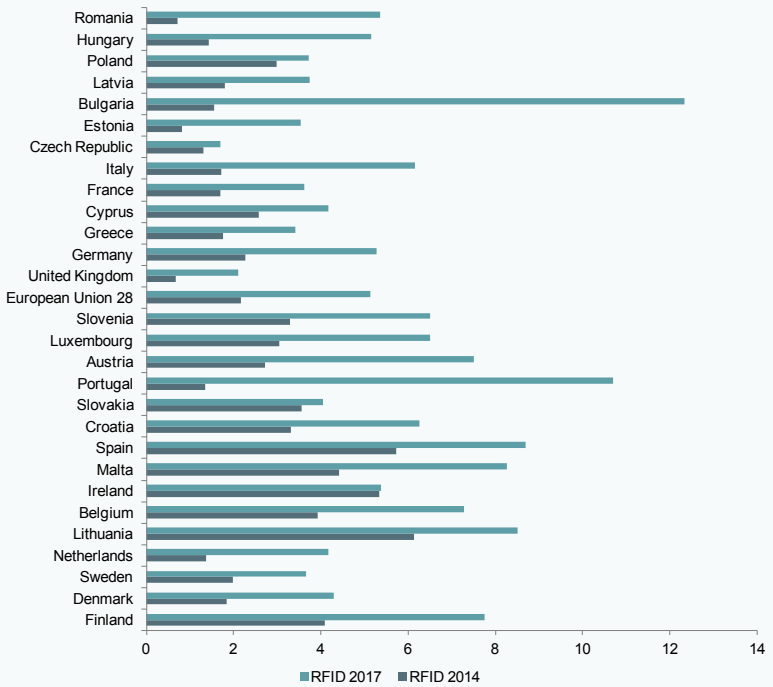
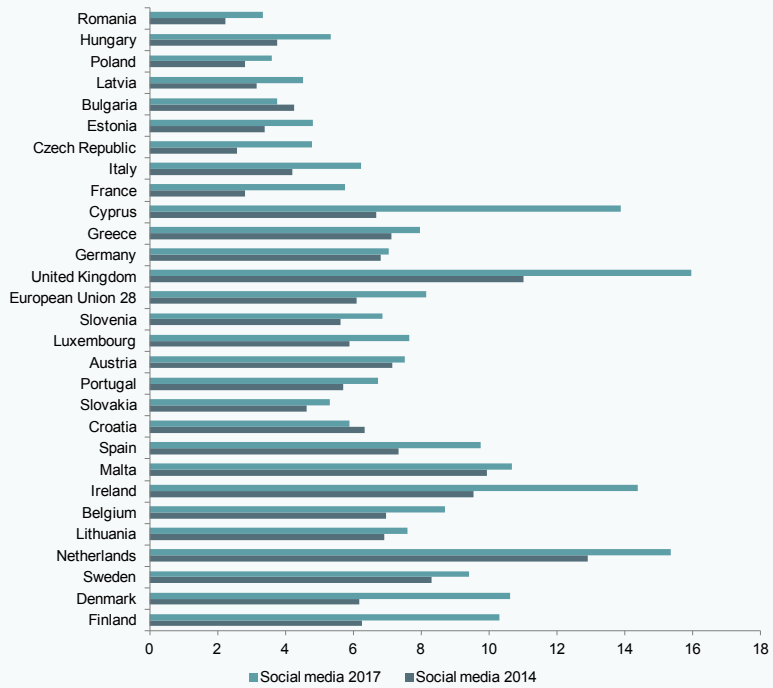


Exhibit 3

Business digitalisation (DESI score)

(continued)



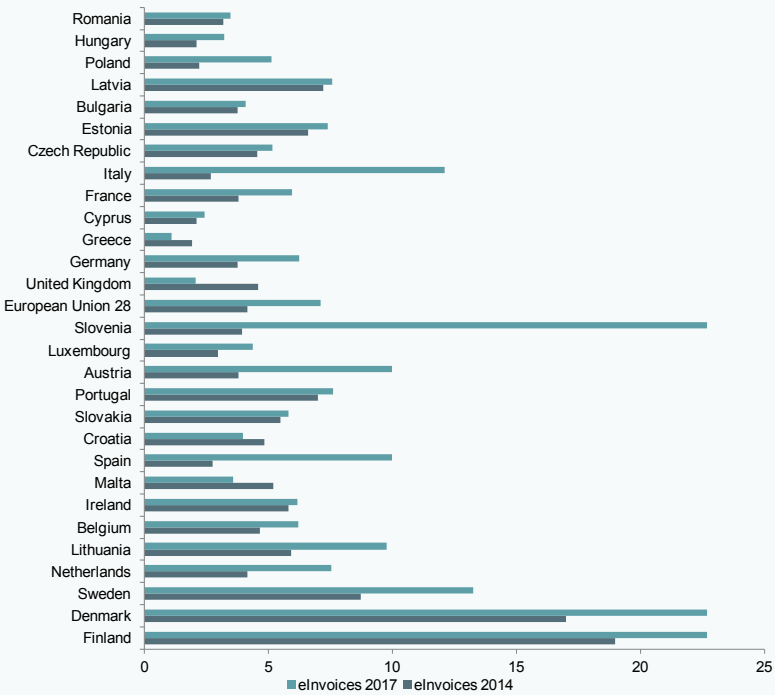
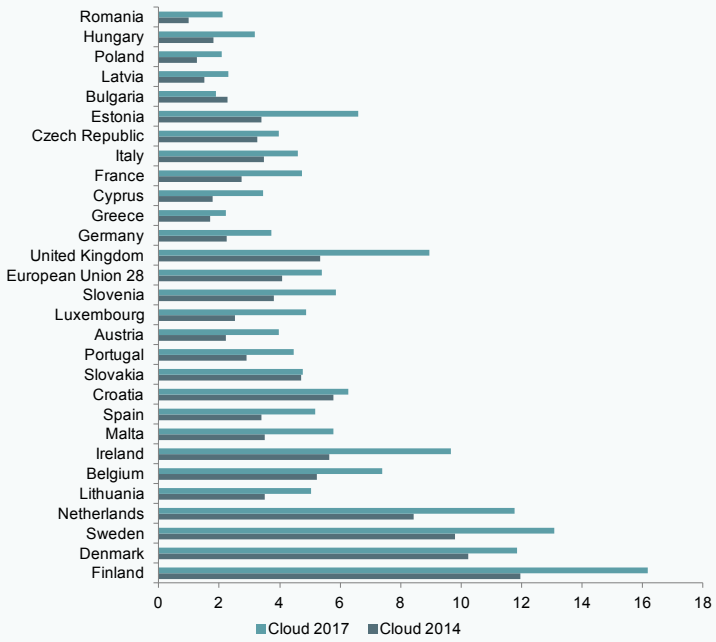


Exhibit 3

Business digitalisation (DESI score)

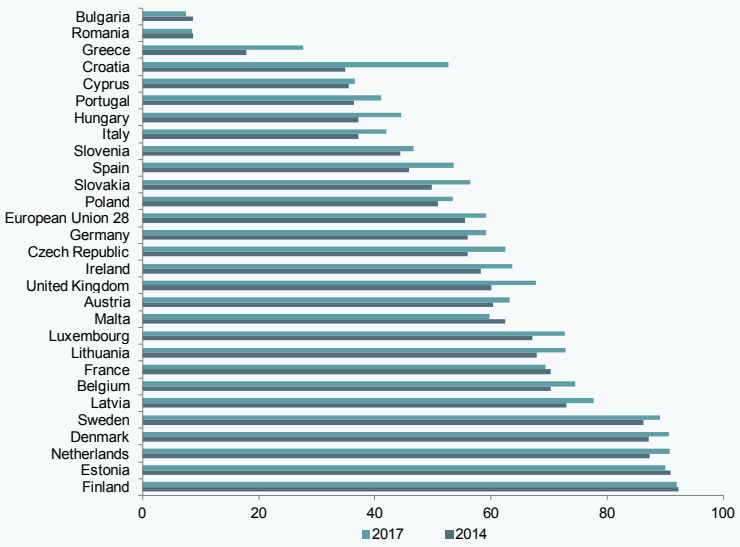
(continued)



Source: Single Digital Market, European Commission DESI by components.

Exhibit 4

Percentage of individuals who use online banking services (2014, 2017)



Source: Single Digital Market, European Commission DESI by components.

> "Spain's recent progress, specifically in terms of business and financial digitalisation, has been among the most noteworthy, suggesting that the country will gradually climb to a more prominent position."

Financial digitalisation in Spain: Projections for 2017-2020

The previous section details two important aspects of Spain's performance in terms of the digital agenda relative to the EU-28, specifically its business and financial manifestations. On the one hand, Spain ranks as a "medium performer" on these aspects in the European context. However, the progress made by Spain in the last three years has been among the most noteworthy, suggesting that Spain will gradually climb to a more prominent position.

In this section, we attempt to project how this progress may manifest in the financial digitalisation sphere. To do this, we use some of the indicators from the IMOP survey compiled for Funcas, which are of particular relevance to the task at hand. Based on these indicators, the projections are built from the correlations identified between the survey's micro-data, the frequency of Internet usage and certain socio-economic variables.

The results for these indicators for 2016 obtained from the above-mentioned survey, as depicted in Exhibit 5, provide the starting point.

Regarding the use of a computer to bank online, the percentages measuring usage for information purposes (communication with the bank, at 51.4%, or balance/transaction checking, at 68.2%) stand out. 50.9% of those surveyed claimed to make transfers from one account to another, and 40.4% said they settled invoices online. In mobile banking, the percentages are significantly lower for transfers (27.6%) or direct debits/invoice settlement (19.9%), mobile devices being used most commonly for communication or consultation purposes. 62% of the population does not use any non-banking payment service whatsoever, leaving 38% as users of Paypal, Amazon, eWallets and other online payment services of this kind. It is important to analyse not only the usage given to these technologies but also the intensity of usage. The last indicator in Exhibit 5 attempts to approximate this notion by measuring the percentage of users who consult their accounts or transfer money online weekly, monthly, annually or "never or almost never". Some 44.2% of users perform these transactions at least weekly and another 20.3% monthly, which looks compatible with the 53.6% of online banking users estimated for Spain by the DESI methodology.

The methodology used to draw up the projections is divided into four stages:

- Stage one: Spain's statistics bureau, the INE, provides an indicator for the frequency of Internet usage from 2003 to 2016. The INE data stem from the so-called Survey on ICT Equipment and Usage in Households. This INE survey distinguishes between three age brackets. For our purposes, specifically stage one, a non-linear trendline was fitted for the 2003-2016 series in order to estimate the trajectory from 2017 to 2020.

- Stage two: Using the micro-data obtained from the Funcas survey, we analysed the correlation between Internet usage (frequency of usage) and three socio-economic variables: age, population size and monthly household income. This was done using a logit model. This provided weightings for each individual regarding how his/her socio-economic status affects his/her use of the Internet. These weights were then applied to the INE-based frequency of Internet usage projections derived in stage one to yield a weighted projection for each individual in the sample regarding his/her usage of the Internet between 2017 and 2020.

Exhibit 5

Financial digitalisation indicators for Spain (2016)

Percentage

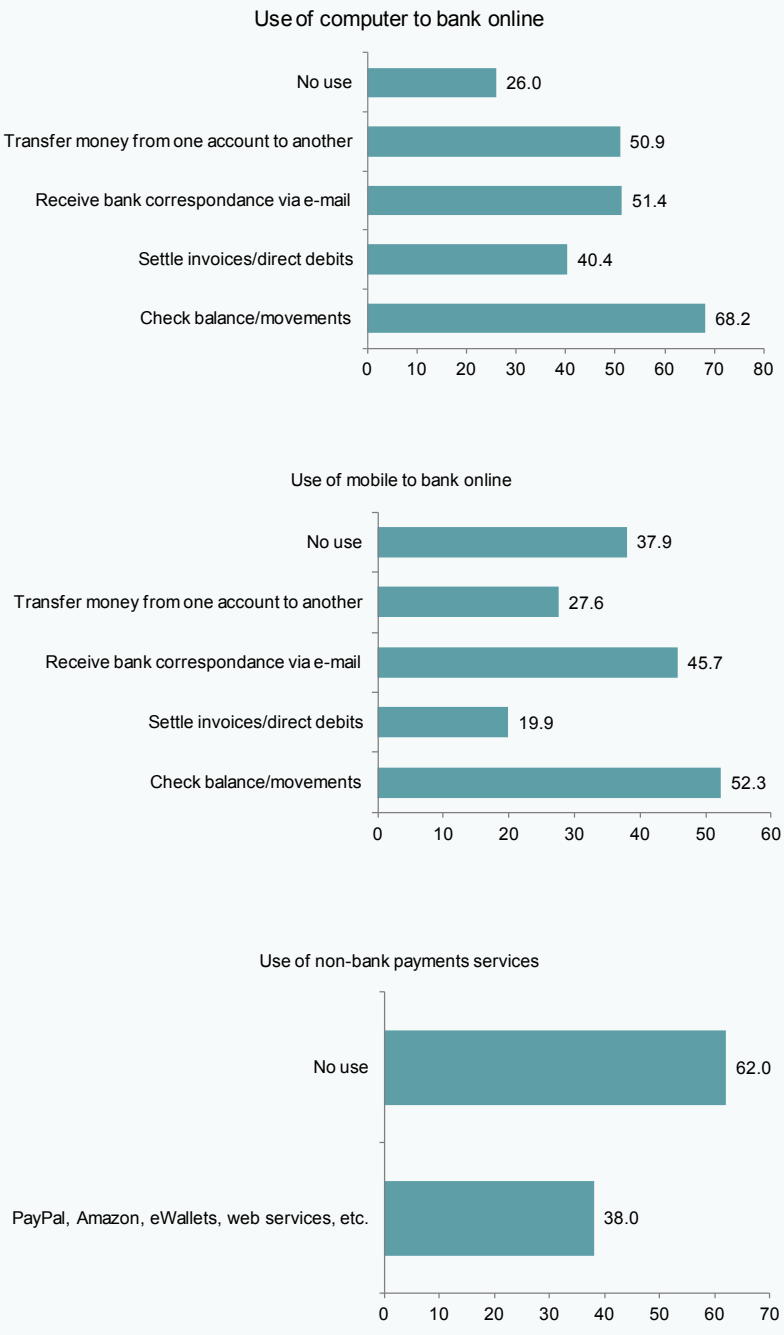
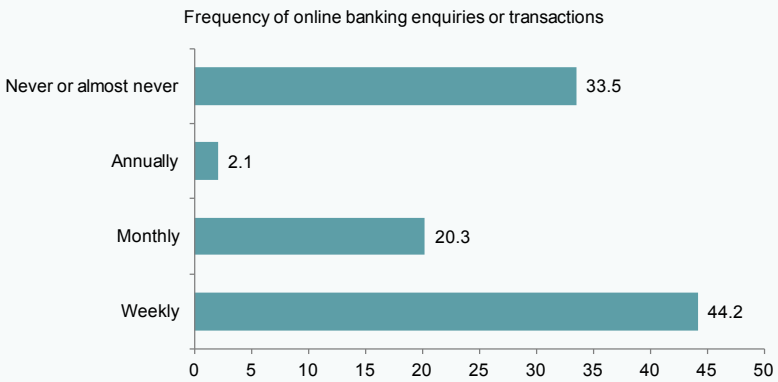


Exhibit 5

Financial digitalisation indicators for Spain (2016)

Percentage

(continued)



Note: "Use of a computer to bank online" and "Use of a computer to shop online" indicate the percentage of the population that claims to use their computers for each use, such that there may be overlap, which is why the total does not add to 100%. "Use of non-banking payment services" indicates the breakdown between users and non-users, so that the total does add to 100%. "Online transactions: frequency/ consultation" shows the percentage in each time interval, so that the total does add to 100%.

Source: Observatory of Financial Digitalisation.

- Stage three: Using the survey's micro-data, we then estimated the correlation between the four financial digitalisation indicators we were looking to project (use of computers to bank online, use of mobiles to bank online, use of non-banking payment platforms and the frequency of online banking transactions/enquiries) and Internet usage (usage frequency of each individual). These correlations were similarly estimated using a logit model.

- Stage four: Using the estimates regarding individual usage of the Internet from stage 2 and the correlations between that usage and the socio-economic variables derived in stage 3, we then projected the trend in the four financial digitalisation indicators over the 2017-2020 time horizon. Those projections are shown in Table 1.

The results allow us to draw certain interesting conclusions:

Firstly, according to our estimates, 79.4% of Spaniards will use their computers to check their bank balances or conduct banking business by 2020, with 54% settling invoices online and 64.8% using their online accounts to transfer money. This estimate has at least two implications of interest for the banking industry and for understanding how things are unfolding on the supply side of the industry. One the one hand, online financial service users' interests would appear

> "The leap takes place when online banking users switch from merely obtaining information or consulting balances to more transactional uses, such as online payments or transfers."

Table 1

Financial digitalisation in Spain. Indicator projections: 2017-2020

Percentage

	2017	2018	2019	2020
Use of computer for...(breakdown)				
Balance/transaction enquiries	71.1	73.9	76.6	79.4
Invoice payment/direct debit	43.4	46.1	49.2	53.9
Receipt of bank correspondence by e-mail	53.2	55.2	59.6	64.2
Money transfers from one account to another	54.4	58.4	62.6	64.8
None	24.0	22.0	18.0	15.0
Use of mobile device for...(breakdown)				
Balance/transaction enquiries	54.4	58.7	63.2	67.5
Invoice payment/direct debit	21.6	23.9	26.8	29.6
Receipt of bank correspondence by e-mail	48.6	53.9	58.7	66.2
Money transfers from one account to another	28.8	30.3	35.9	39.7
None	35.0	32.0	28.0	24.0
Use of non-banking payment services (% of users)				
PayPal, Amazon, eWallets, web services & other	40.2	43.7	47.9	53.2
None	59.8	56.3	52.1	46.8
Online banking transactions/enquiries: frequency (% for each time interval)				
Weekly	47.2	52.6	55.3	59.0
Monthly	19.7	18.2	17.7	16.3
Annually	1.9	1.7	1.6	1.5
Never or almost never	31.2	27.5	25.4	23.2

Source: Observatory of Financial Digitalisation.

to shift in time. The motivation for using these services in the first place is primarily to check account balances, a phenomenon that fits with the surveys Funcas has been conducting regarding how Spaniards pay for their goods and services which indicate that control over spending (*i.e.*, balance tracking) is paramount. The leap takes place when they switch from merely obtaining information or consulting balances to more transactional uses such as online payments or transfers. We are talking about the initiation of another 10% of the population in these uses over four years. The other implication of these estimates is the fact that the transformation of the supply side – which is becoming increasingly digital and characterised by fewer branches – makes some sense in response to the shifts in demand. However, this conclusion should be qualified to the extent that our survey does not capture how digitalisation is affecting more relationship-based and complex transactions (with more notable human interventions and involving greater negotiation) such as loans.

Secondly, the estimates suggest that mobile devices will surpass computers for the purpose of balance checking and getting other banking

information. Once again, this shift suggests that the banks are orienting a large part of their offering towards apps for smartphones, this being the main channel now used by much of the population to communicate and get information. However, it would appear that the computer continues to be seen as a more secure device relative to mobile handsets (additionally benefitting from the opportunity to peruse more thoroughly) for operations that entail more than just information and involve some form of financial transaction. Specifically, although the use of mobiles to make transfers or pay bills is expected to increase (to 39.7% and 29.6%, respectively), their use will remain reduced relative to computers.

Thirdly, the advent of non-bank players in the retail payment field is making its presence felt. According to our estimates, 53.2% of the population is expected to use non-banking payment services (Paypal, Amazon *et al.*) by 2020. This implies a competitive challenge for the banks, albeit also posing, to an extent, a shared opportunity by driving transaction volumes on both the banking and non-banking sides of the equation, irrespective of who channels them. Development of the second Payment Services Directive (PSD2) will unquestionably provide an avenue for the proliferation of the use of bank accounts by third parties.

Lastly, in terms of usage intensity, the percentage of Spaniards expected to check their balances or transfer money online at least once a week is expected to reach 59% by 2020, again according to our estimates. This indicator would appear to suggest that Spain will continue to trail the European average in terms of online banking penetration according to Europe's so-called digital agenda indicators. However, these European indicators refer to usage irrespective of frequency whereas the indicator projected by the Observatory of Financial Digitalisation refers to frequent users who check their balances or transact online at least once a week.

Conclusions and implications

This paper analyses the highlights of the progress being made on the digital agenda, particularly its financial component, in Spain in the European context. It also provides projections regarding the outlook for several financial digitalisation indicators in Spain.

Spain ranks as a "medium performer" in the European context in terms of its performance on the so-called digital agenda (overall and not exclusively financial digitalisation), according to the most recent assessment by the European Commission. However, the European indicators reveal considerable progress in the last three years which is necessarily shaping the increasingly financial dimension of the digitalisation process. Specifically, Europe's Digital Economy and Society Index (DESI) suggests that the penetration of online banking stood at 53.6% in Spain in 2016.

The Observatory of Financial Digitalisation's projections provided in this paper suggest that Spain will continue to make progress on the financial digitalisation front in the years to come and, as has been the case at other times in the past, the change will be driven not only by the logical transformation in demand imposed by society and an increasingly digital work place but also an effort on the supply side to tailor products and services to these needs.

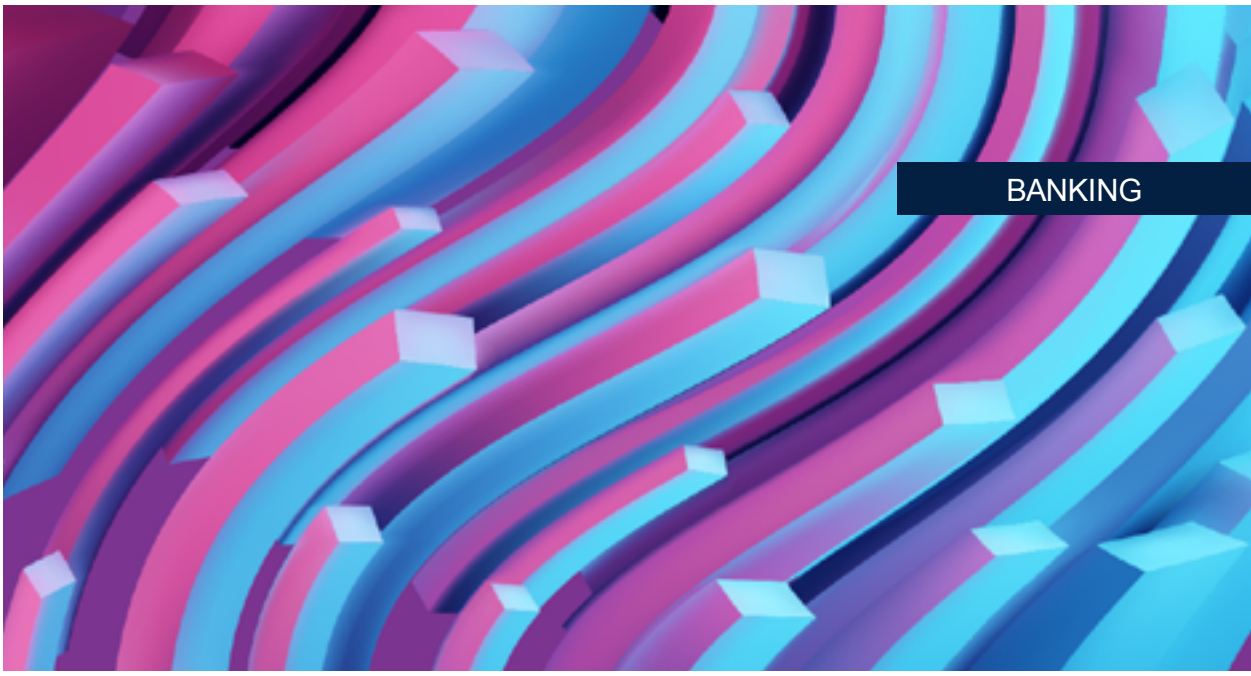
The projections would appear to suggest, at least tentatively, that one of the ways in which users first approach online financial services is to look for information and/or make enquiries. More specifically, to control their spending and check transactions and balances. This change is accompanied, not all of the time but increasingly so, by more transactional online activity such as invoice settlement or money transfers. By way of illustration, according to the Observatory estimates, 79.4% of Spaniards are expected use their computers to make enquiries online by 2020, while 54% will be settling invoices online and 64.8% will be using their online accounts to transfer money. This apparent jump from using online accounts to make enquiries to executing transactions is of sufficient magnitude for the banks to seek to further stimulate the shift. The supply side shift not only relates to branch network downsizing but also the increasingly

prominent role being played by smartphones as devices apt for financial uses.

The estimates appear to indicate that there is a certain perception that computers are more secure than mobiles for transacting, while smartphones are set to gradually replace computers as the main means for obtaining financial information. The Funcas Observatory of Financial Digitalisation's projections suggest that the incidence of online transfers and invoice settlement from mobile devices will rise to 39.7% and 29.6%, respectively, in 2020. Although the estimated progress is considerable (around 10 percentage points in four years), Spain will continue to present significant upside in terms of penetration of mobile-based financial services over the longer term horizon.

It is also worth highlighting that the penetration of non-bank players' services is projected to reach a noteworthy 53.2% in 2020. Note that these services are mainly limited to the payment arena. There is substantial scope for the financial institutions to offer a suite of financial services that goes beyond payments (the latter nevertheless being very important). It is estimated that the percentage of Spaniards expected to check their balances or transfer money online at least once a week will reach 59% in 2020. The analysis summarised in this paper appears to suggest that there is room for accelerating adoption of online banking services, and online financial activity in general, to the extent that it is possible to combat the perception that online practices are riskier than the traditional forms of interaction (mainly at bank branches) in the retail financial services arena.

Santiago Carbó Valverde. Bangor Business School, and the Funcas Observatory of Financial Digitalisation.
Francisco Rodríguez Fernández. Granada University and the Funcas Observatory of Financial Digitalisation.



Evolution of NPLs at the European level: A flows perspective

The still high volume of doubtful assets across the European banking system remains one of the main issues of concern among European and international institutions. Given their negative impact on profitability, reducing NPLs will be a key objective for the coming years.

David Ruiz Castaño and Fernando Rojas Traverso

Abstract: In the context of an already challenging earnings climate for the European financial sector, reducing the high volume of non-performing loans is of vital importance to banks, as has been recognised by European and international authorities. Spain's NPL ratio spiked during the recession, primarily due to the country's real estate crisis. However, there has been a significant improvement in credit quality since 2014, supported by improved macroeconomic fundamentals, including reduced unemployment, which has significantly slowed the pace of inflows of new NPLs. At 5.7%, Spain's NPL ratio stands just slightly above the 5.1% EU average. This, together with an improvement in recovery processes and the still relevant role played by foreclosures, has led to a significant reduction in the NPL ratio. However, there are signs of a slight slowdown in outflows, which looks set to continue in coming years, resulting from fewer foreclosures and write-offs. Thus, there

is still much to be done both at the Spanish and European level in order to lower the close to 1 trillion euros of doubtful assets on bank balance sheets to more acceptable levels, which would be amenable to improved profitability.

Introduction

Accounting for some 900 billion euros as of end 2016, non-performing loans (NPLs) remain one of the principal obstacles impeding earnings in the European banking sector. Different European organisations have recently stressed the importance of addressing this issue, proposing various solutions to reduce the weight of non-performing loans on bank balance sheets. The IMF, in its preliminary findings [1] for Spain's 2017 Article IV, noted that although the Spanish banking sector has made significant efforts to clean-up these assets, they remain high in a few banks. The IMF's comments are in line with statements from other organisations in recent quarters.

Against this backdrop, we analyse the evolution of non-performing loans in the Spanish banking sector, looking at inflows and outflows in order to identify as precisely as possible, which factors have played the biggest role in the improvement in asset quality seen in recent years and what we can expect in the coming years.

The main conclusions from the analysis are as follows:

- Inflows of doubtful assets have fallen sharply (-15% YoY in 2016), consistent with an improvement in the economic cycle and a reduction in the unemployment rate. We expect this trend to continue on aggregate over the coming years.
- Foreclosures and write-offs continue to account for the bulk of outflows (65% in 2016).

We forecast the following for 2017 and 2018:

- Inflows of non-performing loans (NPLs) will continue to decline in line with the improvement in the cycle, albeit more slowly than in previous years, as lending takes off, though new leading could lead to an increase in the default rate in some segments.
- Foreclosures and write-offs will also gradually reduce.
- In aggregate terms, the decline in non-performing loans will continue to be a key source of solace for banks' income statements.

Concern at an institutional level

Non-performing loans have been on the receiving end of attention from different European and international organisations in recent months. In particular, on July 11th, the European Council adopted an action plan aimed at reducing non-performing loans [2]. Two days later, the European Parliament issued a briefing on the state of play on NPLs across the EU [3].

Although by no means the worst culprit in the European Union, Spain's NPL ratio is above the EU average (5.7% compared to 5.1%). This ratio is based on the consolidated accounts of Spanish banks. The NPL ratio calculated on the basis of individual accounts is higher, reaching 8.8% in May 2017 and, if foreclosed assets are included, the ratio rises to 14.8% – a peculiarity which reflects Spain's real estate crisis.

The issue is a key problem for the European banking sector as a whole, which requires an appropriate solution – not only looking backward but also forward given that large

> "Non-performing loans are an added burden in today's challenging climate for earnings, which has led European organisations to focus on their reduction."

Table 1 **NPL ratio by country. December 2016**

Percentage

Countries	Credit (€ bn)	Doubtful assets (€ bn)	NPL ratio (%)
Belgium	429	16	3.62
Germany	2,718	66	2.44
Ireland	213	38	17.75
Greece	242	114	47.05
Spain	2,324	134	5.74
France	3,821	150	3.92
Italy	1,664	270	16.24
Cyprus	52	21	40.27
Lithuania	17	1	4.06
Luxemburg	74	1	1.53
Malta	12	1	4.67
The Netherlands	1,785	44	2.44
Austria	341	21	6.09
Portugal	183	36	19.82
Slovenia	15	3	16.82
Finland	269	4	1.49

Source: European Central Bank, Afi.

volumes of non-performing loans hamper banks' ability to generate earnings.

Some of the measures that have been proposed range from overall improvements to supervision to the creation of an efficient secondary market incorporating asset management companies (such as SAREB in Spain) to facilitate the transfer of these assets.

The main initiatives that have been adopted by EU bodies are in line with the action plan approved by the European Council and can be summarised as follows:

- The European Commission has launched a public consultation on the development of secondary markets for non-performing loans.

> "The high levels of non-performing loans in European Union countries has been cited as the main problem for the European banking sector."

- The Single Supervisory Mechanism (SSM) launched a review of non-performing loan regimes in euro area countries and has issued guidance on the management of doubtful loans.

- The European Systemic Risk Board has published a report on possible solutions, including five high-level principles.

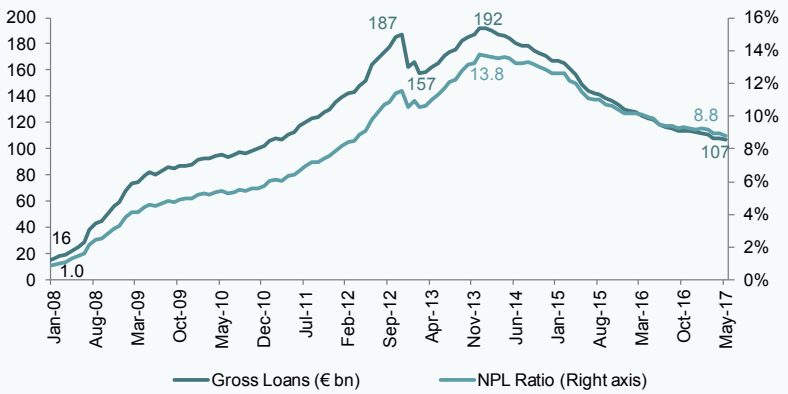
Given the characteristics of the European banking system, concern about non-performing loans extends beyond the confines of European institutions to international organisations as well. For example, the Basel Committee on Banking Supervision [4] has recently issued guidance on common definitions of doubtful risks, while the International Monetary Fund has published various reports on the state of play of the issue in different EU [5] countries.

Non-performing loans in the Spanish banking system

A quirk of the Spanish banking system is that non-performing loans are divided into doubtful assets (as in the rest of Europe) and foreclosed assets, reflecting the important role that the real estate market has played in Spain.

An asset is classed as non-performing after 90 days have passed since non-payment of instalments on the principal of the loan or outstanding interest. The overall volume of non-performing loans has fallen very significantly in recent years for the Spanish

Exhibit 1 **Asset quality indicators, Spanish banking sector**



Source: Bank of Spain, Afi.

> "The evolution of non-performing loans in Spain was initially characterised by a strong increase in NPL inflows, linked to rising unemployment, but has since declined in line with the improvement in macroeconomic fundamentals."

banking sector as a whole, after increasingly sharply in the financial crisis.

Non-performing loan volumes increase due to inflows of non-performing loans – *i.e.* new loans in arrears for more than 90 days during the period under analysis – and fall with outflows, meaning that:

Initial volume = gross inflows - gross outflows = final volume

Outflows can happen in four different ways, due to: (i) recoveries, this is the most positive way to reduce the overall volume of non-performing loans and consists in restoring a loan which is in arrears back to a normal situation, (ii) foreclosure, *i.e.* mortgage loans with collateral where the bank takes ownership of the real estate asset by invoking the guarantee, (iii) sales of non-performing loans, *i.e.* portfolios that banks decide to sell to a third-party (usually at a significant discount on book value) and thus remove these assets from their balance sheet; and, (iv) write-offs, when banks believe that an unpaid loan is unrecoverable and they strike it off the balance sheet, bearing 100% of the loss.

During the worst years of the crisis, Spain's overall non-performing loans increased mainly on the back of new inflows, reflecting the dire economic situation and the increase in the unemployment rate, which is very closely linked to defaults. Initially, the bulk of outflows occurred due to foreclosures or write-offs, implying that non-payments were not actually reducing and that the improvement was solely because loans were being written off the balance sheet once fully provisioned (with the bank assuming 100% of the loss) or due to foreclosures on properties and land in mortgage and construction loans, respectively.

However, since 2014, the NPL ratio has fallen significantly (the NPL ratio is measured as total non-performing loans over total gross lending). This reduction has not come about due to an increase in the denominator – gross lending is still not growing – but rather due to a decline in the nominator, *i.e.* the volume of non-performing loans. New inflows have gradually slowed in recent quarters in line with the improvement in the economic cycle and the reduction in unemployment, according to data published by the banks, while outflows remain strongly influenced by foreclosures, write-offs and occasional sales of portfolios. Recoveries have a lesser weight, although they also began to pick up in 2016 in line with the economic recovery.

Inflows and outflows

In light of the above, in this article we analyse the sector in terms of inflows and outflows of these types of assets in recent years, using individual information in the absence of aggregate statistics.

Our analysis of NPL flows considers the following aspects:

- The analysis is granular, looking at different lending segments of the Spanish banking sector.
- This analysis uses information from the statement of Credit Risk Distribution provided by the fourteen largest banks.
- Banks' non-performing loans by segment are estimated using the sector NPL ratio as a starting point, taking account the structural effect (the composition of the loan portfolio for each bank).
- Using the biggest banks' annual and quarterly reports, we obtain:
  - Inflows of NPLs: estimating the Probability of Default (PD) using banks' Pillar III Disclosure reports.
  - Outflows of NPLs: foreclosures, write-offs and recoveries of doubtful assets. The analysis also incorporates the following assumptions:

> An analysis of inflows, outflows and NPL ratios by segment based on information published by the fourteen largest banks highlights the reduction in new inflows of NPLs, as well as fewer outflows resulting from foreclosures and write-offs.

- Foreclosed assets originate from collateral in housing, construction and real estate development loans.
- Write-offs relate to non-collateralised lending segments and the excess value of mortgage loans relative to property appraisal value.

The results of applying these assumptions are illustrated in the following exhibits, which show movements in inflows and outflows for the overall sector and resulting NPL ratios both at an aggregate level and for different segments.

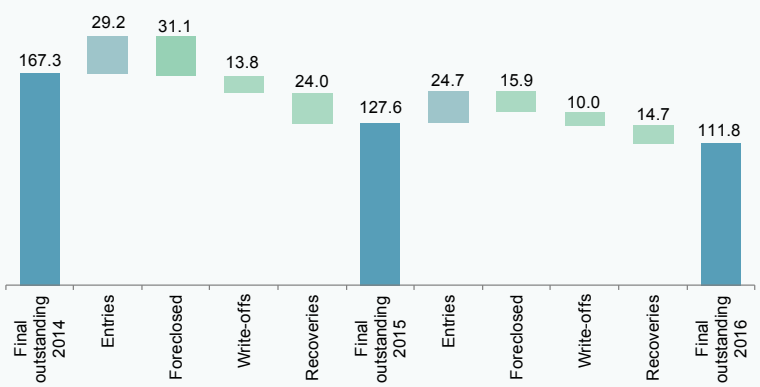
As highlighted above, inflows have come down in recent years due to the improvement in macroeconomic fundamentals, while outflows have also contributed to a reduction in non-performing loans. However, there are signs of a slight slowdown in outflows, which looks set to continue in coming years. This reflects the fact that the volume of non-performing loans is shrinking, resulting in a slower pace of property foreclosures and longer organic recoveries given that remaining non-performing loans are of the worst quality and therefore the hardest to recover.

In this sense, after analyzing the evolution of doubtful assets, there is evidence that the NPL ratio has been reduced in a generalized manner in all segments, especially highlighting the fall in real estate corporations as well as those related to other sectors.

It should be noted that this reduction is mainly due to the positive economic cycle and the macroeconomic variables, which have led SMEs and the real estate sector to partially recover their asset quality, that was severely damaged during the financial crisis.

Exhibit 2 **Total sector NPLs: Inflows and outflows**

Billions of euros



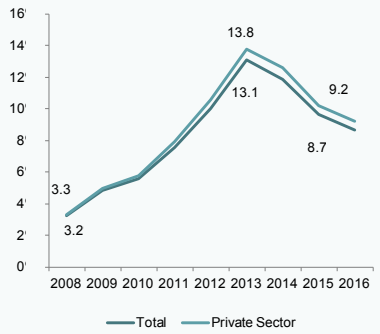
Source: Bank of Spain, Afi.

Exhibit 3

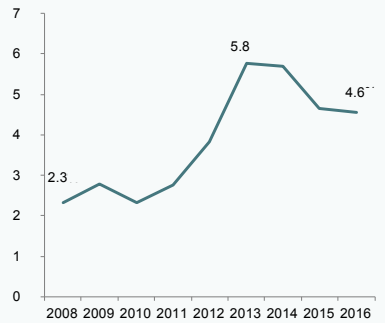
NPL ratio by segment of the Spanish banking system

Percentage

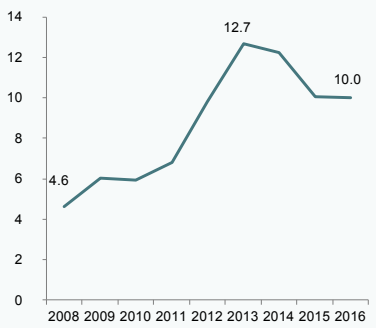
Sector



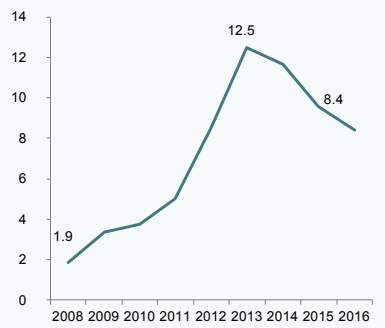
Housing



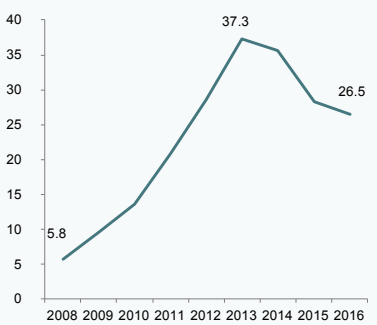
Consumption



NFC



Real Estate



Source: Bank of Spain, banks, and Afi.

Conclusions

Against the backdrop of the earnings challenge brought about by low interest rates, reducing the high volume of non-performing loans is of vital importance to banks, as has been recognised by European and international authorities.

Spain's NPL ratio spiked during the recession, primarily due to the country's idiosyncratic real estate crisis. However, there has been a notable improvement in credit quality since 2014 on the back of the improvement in macroeconomic fundamentals and the labour market, which has significantly slowed the pace of inflows of new NPLs. This, together with an improvement in recovery processes and the still important role played by foreclosures, has led to an important reduction in the NPL ratio.

However, there is still much to be done both at the Spanish and European level in order to lower the close to 1 trillion euros of doubtful assets on bank balance sheets to more acceptable levels, which would be amenable to improved profitability. This is set to be the main focus of supervisory efforts over the coming years.

Notes

[1] http://www.imf.org/es/News/Articles/2017/07/17/ms071817-spain-imf-staff-concluding-statement-of-the-2017-article-iv-mission

[2] "Council conclusions on Action plan to tackle non-performinf loans in Europe" http://www.consilium.europa.eu/press-releases-pdf/2017/7/47244662559_en.pdf

[3] "Non-performing loans in the Banking Union: state of play" http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/602072/IPOL_BRI(2017)602072_EN.pdf

[4] "Prudential treatment of problem assets – definitions of non-performing exposure and forbearance" http://www.bis.org/bcbs/publ/d403.pdf

[5] "Bank consolidation, efficiency, and Profitability in Italy" https://www.imf.org/en/Publications/WP/Issues/2017/07/27/Bank-Consolidation-Efficiency-and-Profitability-in-Italy-45063

David Ruiz Castaño and Fernando Rojas Traverso. A.F.I. - Analistas Financieros Internacionales, S.A.

REAL ESTATE

Spain's housing sector: Situation and outlook

Despite the recovery in Spanish households' housing demand, it is not being effectively transmitted into growth in home prices, but rather boosting rental prices. Stimulating the supply of housing would be the most effective means of resolving existing pressures in Spain's rental market.

Paloma Taltavull

Abstract: An analysis of the current state of play of the Spanish real estate sector reveals a prevailing trend in house prices – the sharp growth in rental prices, while prices in the buyers' market remain relatively stagnant. This phenomenon can be largely explained by looking at the key determinants of housing demand, which is not being efficiently transmitted to house price variables. Among the factors responsible for this is the lack of household access to financing, translating into weak demand in the buyers' market (which is why prices in this segment are not rising). In fact, access is proving to be concentrated in the rental segment, where prices are accelerating, altering the long-run equilibrium between the two price variables. Growth in the supply of units for rent or for sale could eliminate the prevailing price tension in Spain's residential markets.

Introduction

The state of the housing market and warnings about the potential formation of a

fresh real estate bubble have been making their way into public opinion in Spain in recent months, accentuating interest in the trends in this market in all their economic and social manifestations. Numerous aspects of the housing situation generate highly controversial analysis. To name just a few: the issues associated with the need for housing, the lack of public incentives, the lack of access to housing; or, the apparently contradictory trend in prices. In this paper, we aim to provide insight, from a real estate economics perspective, into how the performance of the housing market and its current circumstances may be consistent with the trends being identified that are sparking this attention.

Housing is important to an economy for various reasons. The first and most important aspect relates to the availability of this good, which is indivisible from the household formation process and guarantees the smooth development of a society. A house, in terms of its use, is a basic good and its availability should be associated with the growth in its main users: households. This concept is the most important in explaining in economic terms the situation in housing in market economies: demand — basic or fundamental — represents households looking to cover their needs and insofar as it increases, these needs surface in the market. The market (supply) should in turn react and does so in different ways, either building new units or mobilising existing units (or via a combination of the two). When the supply-side reaction is not swift, or flexible, prices increase.

Secondly, housing is important for the economy as a whole. Specifically, housing construction and investment are an important component of GDP at any given point in time. The sector's overall contribution to GDP, down sharply in recent years compared to the boom years, is well known: a little over 5% at present compared to 8% in times of normal growth and 12% in the boom years. Within this contribution, the Spanish statistics do not distinguish which portion corresponds to housing. Some estimates suggest that approximately 4% of GDP is accounted for by home-building during periods of moderate growth. On the demand side, the national statistics suggest that investment in housing has accounted for approximately 4% of GDP since 2011, again down sharply from prior years (Exhibit 1). This figure is gleaned from the gross fixed capital formation (GFCF) figures, which are underpinned by the reported value of housing transactions (housing that is not publicly subsidised) over GDP, the indicator widely used by analysts as the yardstick for the macroeconomic significance of this good. The exhibit reveals that the declared value of housing transactions reached as much as 16% of GDP in the boom years, from where it fell steadily towards around 5%, a level at which it has been hovering since 2013.

A third aspect of interest in the housing market from a macroeconomic standpoint is its knock-on effect, an aspect which, insofar as it relates to long-term structures, is not tackled here. There are other factors of interest, such as the impact house prices have on the channel for transmitting monetary policies, and also their relevance for urban growth and city competitiveness. These points briefly highlight the multiple effects the correct development of the residential market can have on the health of an economy.

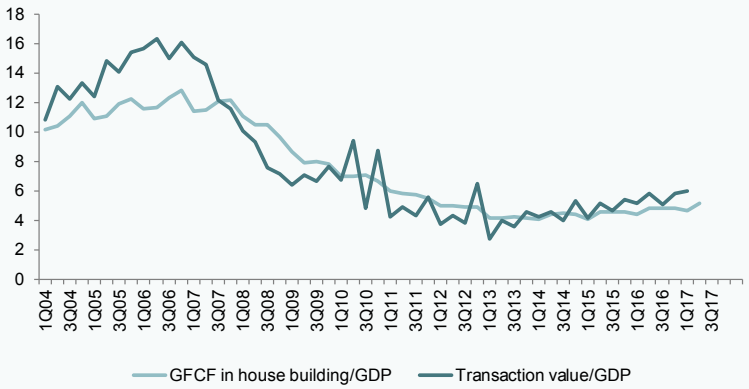
However, the recent attention on housing, alluded to at the beginning of this paper, is unrelated to this universe of factors but is rather a sign of concern about the trend in prices and the fear that a new bubble may be forming. Exhibit 2 depicts the reasons for this fear.

“ The declared value of housing transactions reached as much as 16% of GDP in the boom years, from where it fell steadily towards around 5%, a level at which it has been hovering since 2013. ”

Exhibit 1

Contribution by the housing sector to GDP: Investment

As a percentage of quarterly GDP



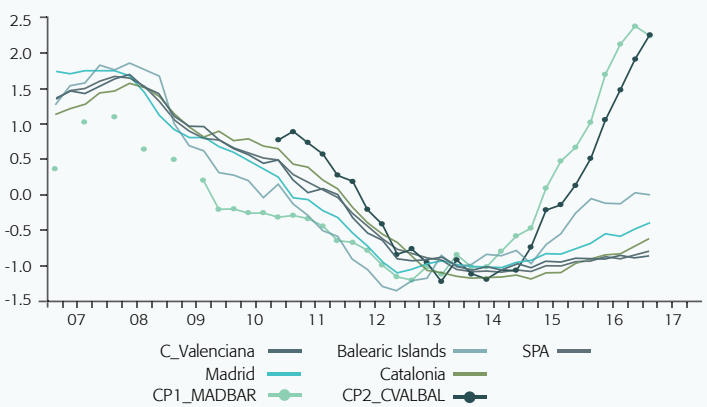
Source: *Ministry of Public Works, and* Contabilidad Nacional de España *(INE).*

Exhibit 2 represents, on a harmonised access, the trend in house prices in a selection of regions (those that have sustained the fastest growth in recent years) and in rental prices in their capitals [1], where CP1 represents Madrid and Barcelona and CP2 the cities of Valencia, Alicante and the Balearic Isands. The trend from 2014 on illustrates the source of the concern that the acceleration in rental prices could contaminate house prices (note the difference between the growth trend and the speed of growth in rental prices).

The reasons for this expansion are related with the trend in the determinants of demand.

Exhibit 2

Rents versus housing prices across a selection of Spanish regions



Source: Idealista.

> “In Spain, the transmission channel from rent to house prices appears to have been disrupted, affecting output as a result.”

The models explaining the real estate economy endorse the idea that this reaction owes to market mechanisms, only that in this instance, residential prices are taking longer to react. The explanation fits well with the classic DiPasquale and Wheaton 4Q model (1996): Changes in demand for housing originating from changes in the market conditions that drive it have a direct impact on rental prices [2]. The momentum in rents is transmitted to house prices depending on the sector capitalisation rate (which is related with returns on other investments) but any increase in rent results in the expectation that housing prices will increase and this affects construction decisions, this being the channel through which the attendant growth in the number of new housing developments is stimulated. The growth in the latter depends on how flexible the supply side is so that if the conditions in which the developer does business are flexible (no regulatory restrictions, no limitations on the availability of land, etc.), enough supply will come on stream to satisfy incremental demand and price growth will slow; to the contrary, if the supply side reaction is rigid or inflexible, price growth will accelerate.

In the case of Spain, the mechanism by which the first channel of influence (from rents to house prices) is transmitted would appear to have been disrupted, which means that because house prices are not reacting, new construction is not being stimulated, at least not proportionately. This is in essence what the price exhibit tells us: a distortion that has suspended the direct transmission between the price variables, affecting output as a result.

This can occur in a number of circumstances: 1) when the developers, despite receiving the market signal, cannot build due to a lack of one or more basic inputs, such as land or capital, or due to some form of restriction on supply in the form or regulations; 2) when there are no builders willing to build; 3) when the builders could build but do not because they are not identifying the existence of effective demand; or, 4) when there are factors of a financial nature that are mobilising capital towards another sector.

If there were effective buyers, house prices would rise quickly in times of limited supply, so that it would seem reasonable to rule 3) out. Elsewhere, with interest rates at low levels, nor would there appear to be a strong financial incentive not to build. As a result, the hypothesis used here is that the error in the price transmission mechanisms is the result of a combination of factors 1, 2 and 4: There are restrictions in basic inputs (mainly financing); there is a scarcity of builders (because they have disappeared in the wake of the sharp and prolonged crisis); and there are not enough buyers with sufficient purchasing power (mainly due to a lack of financing).

The corollary is that the demand (growing) coming on to the market that cannot buy, is opting to rent. In situations in which rentals are scarce (for various reasons) and demand in this segment surges (by far more than is usual, *i.e.,* above the long-run equilibrium rate, because demand in the past was concentrated in the buyer segment) and macroeconomic fundamentals are recovering (jobs and income), rental prices soar.

Keeping these hypotheses in mind, there follows a description of how the indicators back up these identified ideas and trends.

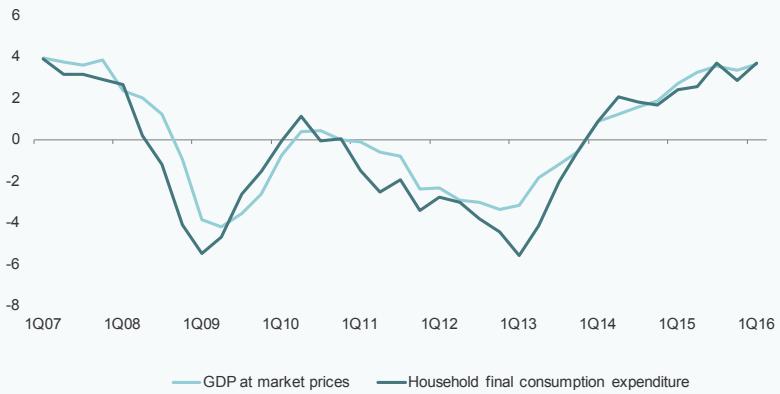
Recovery in market demand

The recovery in the components of demand is linked to economic momentum. The sustained and intense recovery in Spanish growth since 2014, marked by growth in GDP of around 3% (Exhibit 3, Panel A), coupled with the recovery in employment, now intense in the youngest segments of the job market (those who create new households the most, Exhibit 3, Panel B),

Exhibit 3

Panel A. Economic growth in Spain

Annual growth in real GDP, percentage



Source: Contabilidad Nacional de España *(INE).*

Panel B. Trend in employment

Annual growth, percentage

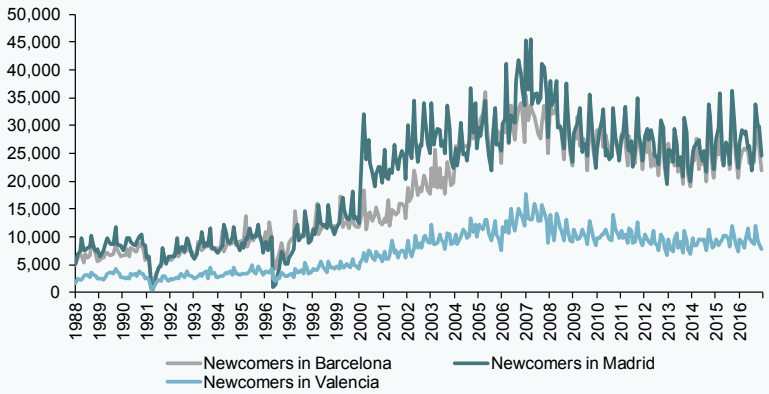
Source: Encuesta de Población Activa *(INE).*

clearly illustrate the factors driving the growth in demand for housing. Personal mobility (Exhibit 4), mainly for work reasons, has remained at high levels despite the crisis; this phenomenon also reflects the ongoing relocation of households in Spain, which is generating direct demand for homes. The fact that mobility is concentrated in the regions creating the most jobs (Madrid, Barcelona, the region of Valencia and the islands, among others) is the reason why some residential markets (namely these same markets) are seeing prices rise more significantly than others.

Exhibit 4

Movements in residences in Spain, 1988 - 2016

No. of people per month



Source: INE.

Perception that demand will not translate into home purchases

It would appear therefore that demand is coming on to the market and stimulating the growth in rental prices. Why is this not being followed by growth in house prices, like in the past? The answer lies with the factors curbing household access, which is evaluated in terms of accessibility, financing conditions and purchasing power.

Accessibility

Theoretically, Spanish households with average income broadly equivalent to that of a full-time job should have access to the house market, as underpinned by the access ratio in Exhibit 5, which is very close to 30% of income, the threshold with interest rates at current levels.

This situation theoretically provides access to the households with income albeit not, as we will see later on, to the stock of households accumulating in the market. The access ratios shown in Exhibit 5 additionally reveal two important facts that help explain the difficulties facing households looking to get on the property chain. Firstly, the still-sharp credit crunch, reflected in the very low credit/house value readings. Although this has improved a little in the last year, this ratio averaged 53.25% in the first quarter of 2017, which implies that households must come up with 45% of the value of the houses they wish to buy in order to close a potential transaction, a level that requires a significant amount of prior savings. This requirement is, *per se*, a form of credit constraint.

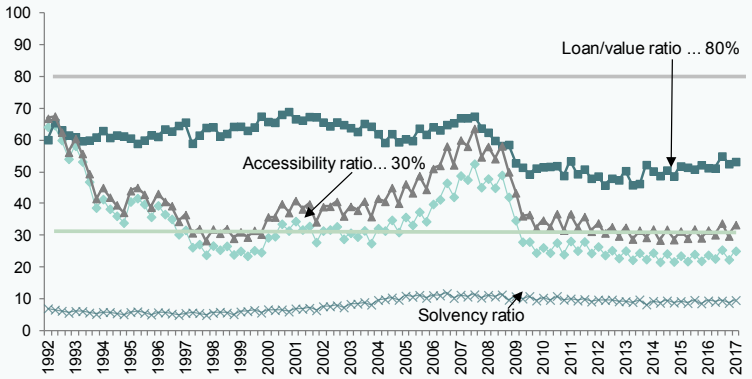
Secondly, the solvency ratio shows that, on average, households that borrow to finance their home purchases leverage up to a significant degree (a ratio of close to 10 years) [3], suggesting that the home purchase decision means accepting a high level of debt, potentially putting some households

> “Still low credit/house value ratios effectively mean that households must come up with 45% of the value of a house in order to close a transaction.”

Exhibit 5

Housing affordability ratios in Spain

Modelling 30- and 20-year mortgages, percentage



Source: INE.

off in light of the widespread experience of households since the start of the recent global financial crisis.

Credit crunch

Restricted credit and high leverage levels affect purchase expectations and, by extension, house prices.

The proof that the credit crunch (or restrictions on transaction financing funds) is a reality is evident in Exhibit 6, which represents the number of mortgages and their amount granted to households in each time interval for the purchase of homes. Although there has been a slight recovery in the volume of loans extended (+16% year-on-year) in recent months, the level remains far below even half of the pre-crisis level, which means that demand is encountering scant support for getting on the property chain. The slight recovery apparent since 2013 is not strong enough to underpin a "normal" flow of buyers into the market, but is rather consistent with the credit-to-value ratio commented on above.

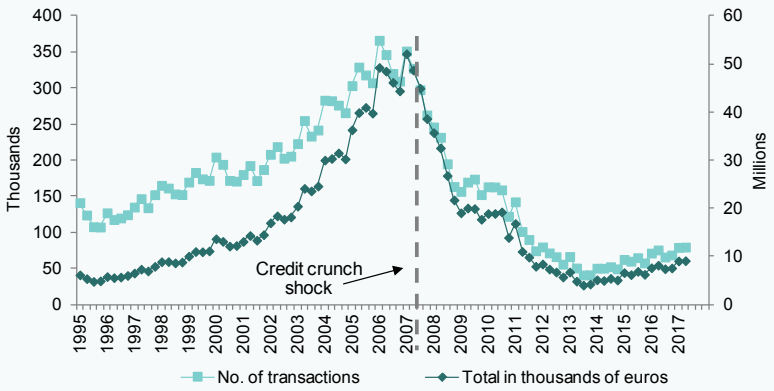
It could be said that the lack of financing is converting households with reasonable accessibility, calculated using income levels, into households encountering issues in ultimately entering the ownership market.

Moreover, the credit crunch that took such a heavy toll on the sector since the start of the crisis affected both sides of the market simultaneously (curbing supply by all but eliminating developer loans and curbing demand, as a result of the drop in mortgages shown on the exhibit). A recovery in financing may be emerging on the supply side with the inflow of foreign capital taking advantage of prevailing favourable conditions (low prices for land and existing developments). However,

> "A recovery in housing credit may be emerging on the supply side, with the inflow of foreign capital; however, without proportionate growth in demand-side financing, it is unlikely that the building cycle will recover."

Exhibit 6

Mortgages granted in Spanish cities: Volume and amount



Source: INE.

without proportionate growth in demand-side financing (loans for home buyers), it is unlikely that the building cycle will recover.

Purchasing power

In addition, even if a household may be able to buy a house, its earnings have lost purchasing power, insofar as wage income has been registering negative real growth for much of recent times. Exhibit 7 confirms this thesis and shows how since 2011 real income has been falling with the exception of ad-hoc moments, confirming this gradual loss of purchasing power on the part of households looking to buy.

Exhibit 7

Real wage remuneration in Spain

Real annual change in %, adjusted by GDP deflator

Source: INE.

> "Transaction volumes point to a market size that is roughly half of that observed at the peak of the cycle."

General house market situation

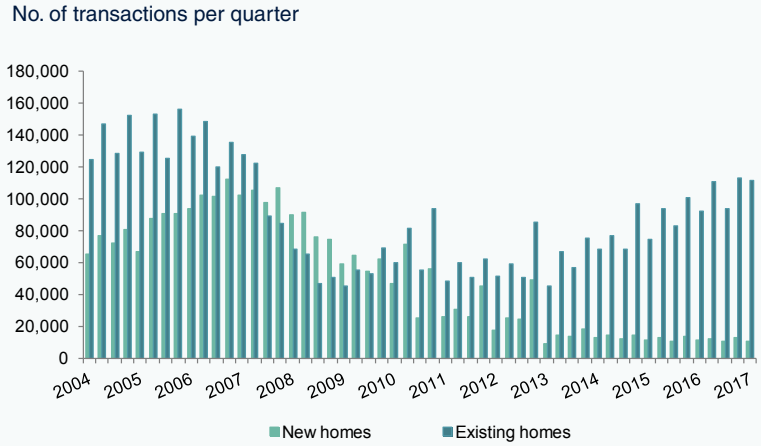
The figures above indicate the existence of access problems. However a certain percentage of households is entering the market. These households, which manage to overcome the limitations outlined, or do not use or need financing, have been getting into the Spanish property market consistently throughout the entire period. The percentage has been rising in recent quarters, as is shown in Exhibit 8, albeit not by as much as the population figures presented would suggest. Looking at the most recent figures, the volume of second-hand housing transactions has been following the same trend as in 2013. During the past year (2017) Spain has reached the levels (quarterly) of transactions (second-hand housing) that were observed during the first years of the crisis, although new housing is hardly generating any volume at all (because there are no new units). The transaction volumes point to a market size that is roughly half of that observed at the peak of the cycle.

Elsewhere, looking solely at existing-home transactions, the volume exchanged is only 20% below the 2007 figure, suggesting that houses are exchanging hands in the market at a similar level to that seen before the crisis and that what has gone away entirely are new house transactions.

The fact that demand is massively oriented towards existing homes (second-hand homes) may have to do with the fact that: (1) there are very few new homes left (restrictions on the supply side); (2) the markets are mature and there is sufficient existing supply to mop up effective demand; and, as a result; (3) the incentive to build is diluted because demand is oriented primarily towards existing units. If the last factor prevails then demand for new housing will be weak and this would explain why developers are not picking up the signal from the market to start to build.

However, the number of transactions captured in the Spanish statistics is not small (despite

Exhibit 8 **Total house transactions in Spain**



Source: Ministry of Public Works.

being half of the volume prevailing at the market peak) and is not correlated with loan volumes in recent times, suggesting that the figures may be reflecting purchases that did not require getting a loan from a Spanish bank. If so, the developers should identify the existence of solvent buyers and act in accordance with the transaction volume information shown in the exhibit.

Supply-side reaction: Restricted new house starts

The failure to sufficiently perceive the existence of effective demand implicit in the figures above would explain why the developers are not identifying demand despite the strong transaction numbers (existing homes), leaving the post-crisis production volumes at still-low levels. There are other reasons too: the disintegration of the universe of builders which in the past made the supply side flexible (not necessarily large firms but also small and medium sized enterprises) and/or the existence of restrictions of some sort on building (or a lack of incentives to build).

The residential cycle (Exhibit 9) evidences this pattern and reveals historically-low building levels. The most recent figures show how new home starts have yet to begin to recover at a pace that could drive a change in conditions in the housing market.

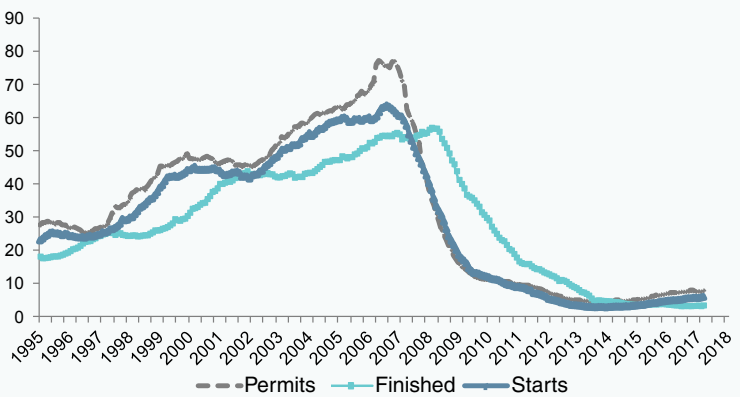
Since 2015, new house starts have only been increasing by a few units per year (although the noteworthy year-on-year increase of 20% in the last monthly reading for 2017 points in the other direction), which is not sufficient to resolve the issues caused by the lack of housing supply in the key markets in which demand is strong. Nor are the numbers sufficient to justify the high contribution by construction to GDP captured in the national accounts (having registered growth of 4.6% and 5.3% in real terms in the first two quarters of 2017).

The lack of building activity is evident in the consumption of inputs and contracting volumes in this industry. Exhibit 10 depicts the trend in apparent consumption of cement (Panel A) and in construction sector jobs (Panel B). The first shows no growth whatsoever, while the second is registering modest growth of just over 5% in recent readings. Something similar is evident in construction loans, which continue to contract in all sub-sectors according to the latest published data (with construction

Exhibit 9

Trend in the building cycle in Spain

No. of house starts per month. Yearly moving averages

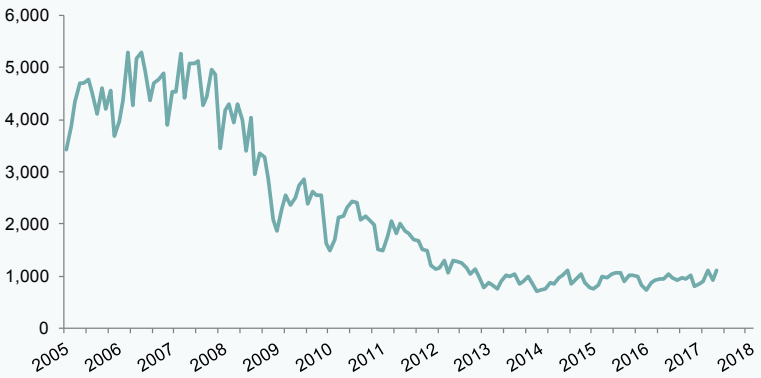


Source: Ministry of Public Works.

Exhibit 10

Panel A. Apparent consumption of cement

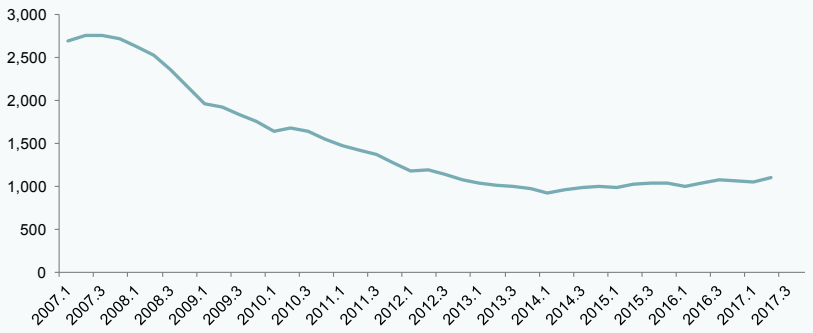
Thousand MT



Source: Ministry of Public Works.

Panel B. Construction sector jobs

Thousand people



Source: Contabilidad Nacional de España *(INE).*

loans contracting 9% and loans for the construction of standalone homes down by 12.9%; loans for public works registered a decline of 5.0%, loans for facilities and building finishings a contraction of 4.0% and loans for site preparation work, a drop of 6.17%), albeit contracting at a slower pace than in prior quarters, suggesting that the contraction may be nearing an end.

Accordingly, the lack of financing for new works can be considered a restriction on supply associated with a lack of inputs that is discouraging new construction and

contributing to the paralysis of the housing cycle.

Lastly, the lack of sufficient developers to start new houses may also be putting a brake on market forces in the face of renewed demand. The development segment was hit hard by the crisis from the outset. A large number of construction firms were destroyed with just a small number surviving the seven years of recession [4]. It is logical therefore to assume that they will not take on risk (to the extent they still exist) without sufficient incentives to do so.

Elsewhere, the construction firms themselves have also been reporting small or shrinking volumes of works in recent times. Exhibit 11 corroborates the inputs and materials figures, showing how the players have seen their building works shrink throughout all of 2016 and 2017.

The exhibit provides a measure of the growth dynamics of two sub-sectors and the total construction sector. Since 2015, with the exception of just three quarters, works volumes in house building have been declining year-on-year, with this trend accelerating in 2017. This source does reveal an increase in civil engineering output during the period, suggesting that the contribution by the construction sector to GAV may be coming primarily from public works, in turn reflecting growth in public investment in this sector by way of counter-cyclical policy.

How prices are reacting

The upshot has been a very mild increase in housing prices in sharp contrast, as we saw at the beginning of this paper, with the trend in rents, which have been rising sharply in some cities. Depending on which source we use (the Ministry of Public Works or the INE), the pace of growth varies. Part of this difference (Exhibit 12) may be explained by the relatively greater volatility of the series built on the INE prices which is based on hedonic methodology making it more reliant on information regarding the type of transactions and characteristics of the units purchased.

Leaving this matter aside, the growth in house prices in real terms would appear to have settled at low levels and current forecasts do not point to significant

Exhibit 11 **Construction output (climate survey)**

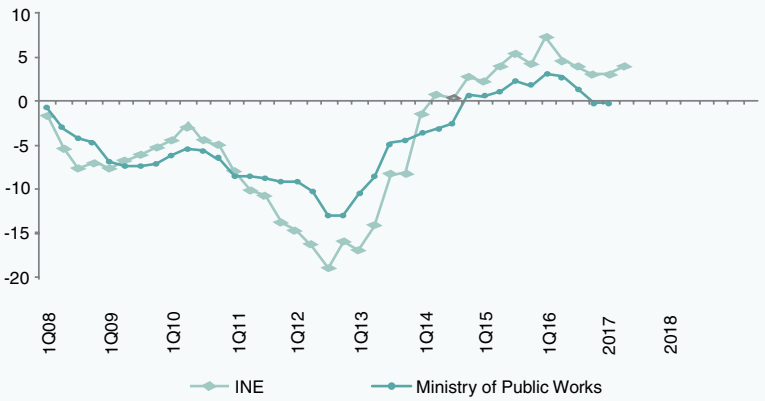
Annual change, percentage

Source: Ministry of Public Works.

Exhibit 12

Residential prices in Spain

Real annual change in percentage



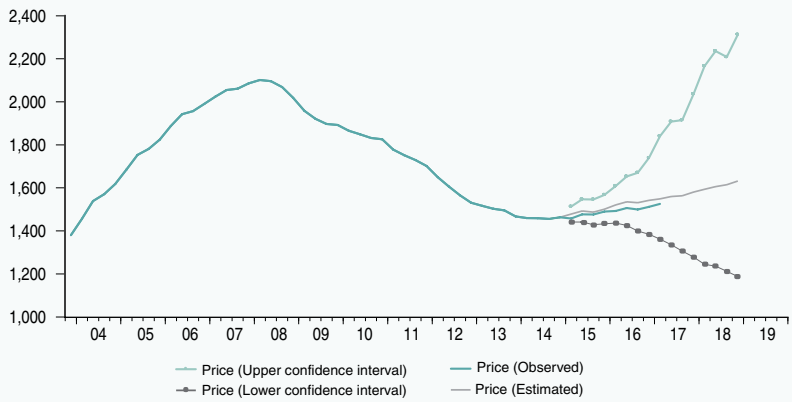
Source: Ministry of Public Works.

momentum in the coming quarters. As shown in Panels A and B of Exhibit 13, the estimates for future growth in house prices derived using a demand model [5] point to moderate uninterrupted growth during the next six quarters, albeit market by a significant level of uncertainty (reflected in wide confidence intervals), which is how these models capture moments of change in economic cycles.

Exhibit 13

Estimation of housing prices

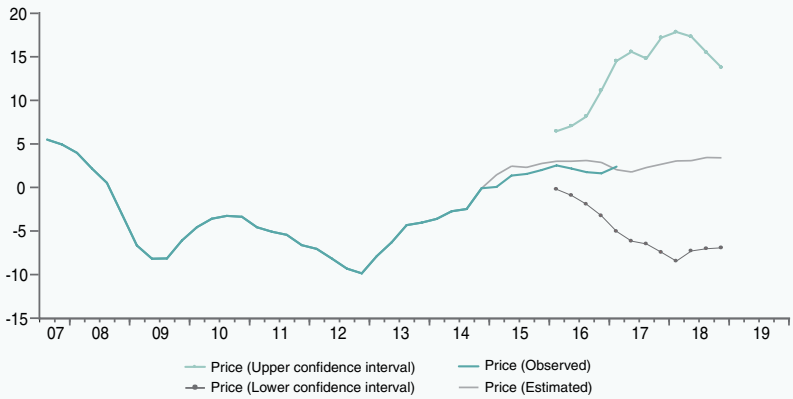
Panel A. Euros per m^2 (current)



Source: Author's own elaboration.

Exhibit 13 **Estimation of housing prices**

Panel B. Growth rate, %



Source: Author's own elaboration.

Conclusions and corollary

The economic recovery is translating into growth in demand for homes from households enjoying the benefits of the recovery or finding new work. As a result of the conditions in which the housing market was left in the wake of the crisis (barely any new production, a prolonged and sharp credit crunch and a diminished business landscape), the supply side appears to be failing to react to the market signals and the adjustment transmission mechanisms are taking longer to work, so that demand is pooling in the rental segment (due to lack of access to the buyers' market), driving rents higher. Although this is happening in some regions of Spain and is not yet a nationwide phenomenon, it is sufficiently noteworthy to cause concern. The only way to ease rental prices is via growth in supply (in rental properties or properties for sale); other measures will only exacerbate the distortion.

One way to stimulate supply is to provide the construction sector with imaginative incentives. Having been penalised for years, the only way the construction firms will renew their activity is if there is some form of incentive to do so. In the past, this incentive came in the form of housing policy, such that a small effort to stimulate production (of public housing by the private developers) kick-started the building cycle and helped get the sector back on its feet. The knowledge about how this relationship between the public and private segments works could be used to restart the process and prevent the slowdown in the cycle (which is also affecting the public sector, particularly since 2013) from impeding the renewal of activity further.

Without new works there can be no new rental properties, all but guaranteeing further increases in rental prices. It is possible that the growth in the rental segment is generating the advent of overseas developers and real estate players specialised in rentals management; these firms claim to have great plans to build new houses, drawn by the sizeable and extraordinary profits in this segment. Their presence is necessary in order to modernise Spain's residential markets, particularly the rental segment. However, it is worth recalling that this market has its limits, including regulatory deficits that have impeded greater growth in the past and a shortfall of supply to cover all income levels. A residential market cannot change quickly which is why the tightness in the rental market (note that the cities in which rentals are rising

the fastest are the biggest in this segment) will only be overcome with time and it is not reasonable to expect rentals to substitute for ownership in significant proportions. Growth in supply, driven by market forces, is, in our opinion, the only solution to the sharp growth in rents.

Meanwhile, the two price benchmarks in the residential market – rents and house prices – are out of line with market equilibrium levels. This mismatch should resolve itself soon, according to the laws of economics, possibly with the arrival of new players capable of increasing supply. In addition to the new supply which appears to be arriving by way of foreign investors, growth in the supply of public housing (for purchase and rental) would help eliminate the price tension which is hurting lower income households the most.

Notes

[1] To obtain the combined trend, the principal components were extracted from the rent prices of the referred series: Variables Madrid and Barcelona for CP1 and Valencia, Alicante and the capital of the Balearic Islands for CP2.

[2] This is so because in the short term, supply is rigid. Refer to DiPasquale & Wheaton (1996).

[3] This ratio means that if the household earmarks all its income to paying off their mortgages, it would take 10 years to do so. The higher this ratio, the more indebtedness associated with the mortgage.

[4] The INE, Spain's national statistics bureau, figures for the number of construction firms include real estate service providers, making it hard to accurately gauge the number of development and construction firms that have disappeared. According to the most recent figures, the number of firms (combined) has fallen from 102k units to a little over 67k economy-wide.

[5] The demand model correlates real house prices and their determinants in the manner explained in the first quadrant of the DiPasquale & Wheaton (1996) model. The determinants modelled are the mobile population (Exhibit 4), average income derived from wage income (the figures underpinning Exhibit 7), mortgage rates and financing flows (Exhibit 6) and a proxy for the supply side reaction (calculated using the figures from Exhibit 9). Estimated using error correction methods to project future growth.

References

DiPasquale, D. and Wheaton, W. C. (1996), *Urban economics and real estate markets,* Englewood Cliffs, NJ: Prentice Hall.

Paloma Taltavull. University of Alicante.

This page was left blank intentionally.

Rising consumption, but not without risks

Household consumption has rebounded very significantly since the start of the recovery in 2014. But the simultaneous drop in savings poses an important vulnerability in adverse scenarios.

Diana Posada and Daniel Fuentes

Abstract: As the financial health of households continues to improve, household consumption too is growing at an elevated rate. However, while GDP is now back at pre-crisis levels, household spending still remains below its 2008 peak. The short-term outlook for consumption is favourable and households look set to continue increasing their expenditures, supported by some residual pent up demand following the drop in durables consumption between 2008 and 2013. However, household consumption remains dependent on income growth and confidence to sustain momentum. A deterioration in these fundamentals could endanger the medium-term sustainability of household consumption growth. At the same time, the drop in household savings rate, at its lowest level since 2006, puts Spanish households in a vulnerable position at a time of rising inflation and monetary policy normalisation.

> “The economy is now back at pre-crisis levels of GDP but with household consumption still some 30 billion euros below the peak reached in the second quarter of 2008.”

Introduction

The financial situation of Spanish households continues to improve, facilitating the ongoing recovery in private consumption. This is occurring against the backdrop of an entrenchment of economic recovery driven by lax monetary policy, an improvement in the global environment and oil price developments.

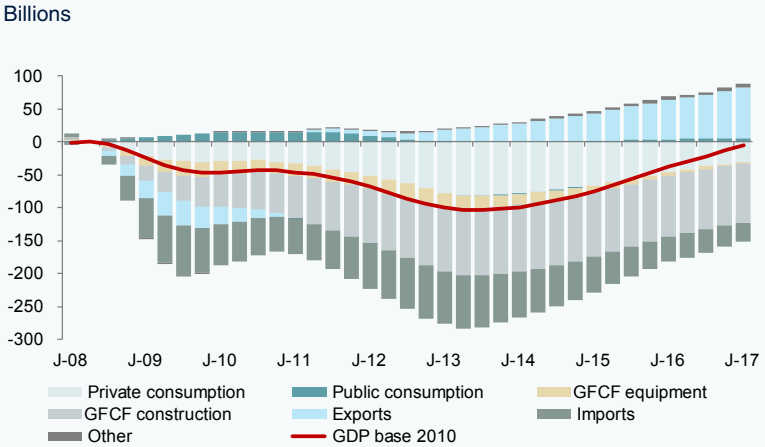
The pick up in consumption in recent years has been underpinned by a recovery in fundamentals. Household income has revived on the back of strong job creation. Meanwhile, consumer confidence is above pre-crisis peaks. Households have also benefited from a recovery in the price of their financial assets and, more recently, have begun to see their real estate assets regain value as well. Finally, the low interest rate environment has created incentives for consumption to the detriment of savings.

Thus, consumption has been an undeniable driver of the economic recovery, accounting for 60% of GDP growth over the last three years. Even so, close to ten years after the start of the crisis and with GDP now back at pre-crisis levels, household consumption still remains around 5% below its second quarter of 2008 peak. This disparity is explained by the changes that have taken place in the profile of aggregate demand, with domestic demand losing relative weight.

GDP amounted to 282 billion euros in the second quarter of 2008 – on a 2010 constant price basis – reaching a record annualised high of 1.12 trillion euros in the third quarter of the year. However, having essentially recovered the same level of GDP in the second quarter of 2017, the contribution from household consumption to aggregate demand remains some 30 billion euros below its pre-crisis level. This is because wage remuneration remains the main source of household income and the number of full-time equivalent employees is

Exhibit 1

Change in GDP (demand side) versus pre-crisis peak



Source: INE, Afi.

still around 2.2 million below third quarter 2008 levels.

The improvement in household disposable income is largely based on employment creation

Household income is one of the main determinants of household spending. In this regard, household income improved in 2016, registering growth of 2.5% [1] after 1.9% in the previous year. Together with a negative inflation rate of -0.2% for the year as whole, this helped bring about a third consecutive year of improvements in household purchasing power. However, the sharp spike in inflation at the start of 2017 dampened growth in Gross Disposable Income (GDI), which slowed to 1.5% in real terms. This trend could continue over the coming quarters.

The exceptional increase in employment remains crucial to the recovery in household income. Over the last three years, LFS employment has increased by nearly 1.8 million, reaching 18.8 million at the end of the second quarter of 2017 (compared to a record high of 20.8 million in the third quarter of 2007), and employment has continued to rise at an average rate of over 2.5% year-on-year over the last twelve months.

However, even after this significant increase in employment, labour market slack remains considerable. The unemployment rate has fallen by nearly 9 percentage points from peak to the current rate of 17.2%, closing in on structural levels (between 14-16% depending on the estimate). But, considering other labour market imbalances, such as discouraged and inactive individuals wanting but not actually looking for work, as well as people working part-time involuntarily, the labour underutilisation rate [2] comes in at nearly 29% of the active population.

Labour market slack, together with other factors, such as scant productivity growth, low inflation expectations and certain structural changes in relation to wage bargaining power, is behind the anaemic growth in wages since the start of the recovery. Wage remuneration per salary-earner increased by 0.2% in real terms in 2016. However, the pick up in inflation at the start of 2017 has pushed real wage growth back into negative territory (-0.2% in the first quarter of the year).

In recent years, rising employment – as opposed to wages – has been the main factor driving the increase in overall wage earner remuneration which remains the principal contributor to household income (accounting for around 75% of GDI). Looking forward, increasing wages should compensate a degree of slowdown in employment creation as labour market slack begins to diminish, until that materialises, it is conceivable that wage remuneration will make a smaller contribution to household income growth.

Income from Gross Operating Surplus (GOS), *i.e.* income from business activity, is the second most important component of household GDI, representing around 25% of the total. The improvement in economic activity began to feed through to households in 2015 and increased in 2016, with GOS growing by 3.7% after rising by 2.2% the previous year. However, GOS growth may now have reached a ceiling and, as the economy begins to slow towards potential growth rates (estimated at around 1.5-2%), the contribution from business income could do the same thing.

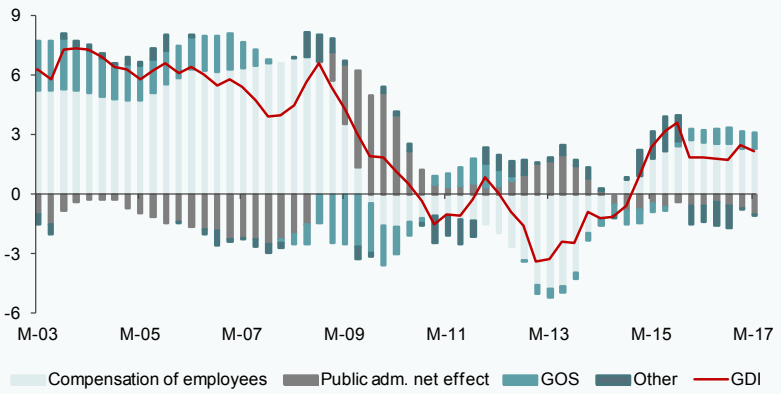
In terms of the other components of GDI, public administrations continue to have an overall net draining effect on household income due to larger increases in taxes and social contributions relative to the transfers received from the state. Tax payments and

> “As has been the case since the start of the recovery, household income growth has primarily been underpinned by strong employment creation.”

Exhibit 2

Household Gross Disposable Income

Year-on-year change and contributions, percentage



Source: INE, Afi.

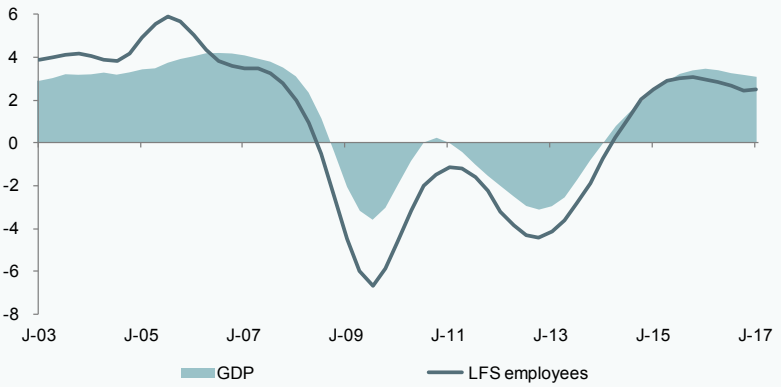
contributions have been on the rise over the last year as a proportion of GDI and now account for around 34.4%, above the historical average. In terms of property income, both interest income and payments continue to decline and are now at record lows (interest income accounts for 1.1% of GDI, some 7 billion euros, while payments are 0.9%, around 6 billion euros). The possible normalisation of monetary policy over the coming years will begin to reverse this trend.

Overall, the increase in household income in recent years has been underpinned primarily by strong job creation and the improvement in

Exhibit 3

GDP and LFS employment

Year-on-year change, 12-month moving average



Source: INE, Afi.

> “Households have seen the value of their real estate assets rise consistently since 2013, which is driving real estate investment. Even so, total household investment is only around 5% of GDI – half the historical average.”

economic activity. However, it is possible that these factors will begin to lose steam over the coming quarters and thus household income growth could also moderate.

The increase in household wealth – both property and financial – is another factor supporting rising consumption

Household wealth continues to grow (5.8% year-on-year in the first quarter of 2017) reaching 540% of GDP, thanks primarily to increases in property wealth (+5ppts to 421% of GDP). Recovering real estate prices, especially housing – the main household investment asset – are behind this increase in property wealth. Non-state subsidised house prices increased by 2% in 2016 and continued growing at the same pace in the first quarter of the year. The recovery in house prices follow various years of significant adjustment in a sector which to a large extent amplified the effects of the crisis.

Households have seen the value of their real estate assets increase consistently since 2013, which at the same time is driving household investment in real estate. Nominal investment grew by almost 15% in the first quarter of the year (5.5% in 2016) and accordingly the sector's financing capacity stands at 1.2% of GDP, a minimum since 2010. However, to put this in context, the overall rate of household investment remains around 5% of household GDI, approximately half the pre-crisis average.

In addition to real estate wealth, household net financial wealth has also performed well of late. Net investment flows reached 2.4% of GDP in the twelve months to the first quarter of 2017. As a result, the stock of net financial assets is now at a record high of 1.3 trillion euros (119% GDP).

Exhibit 4

Household wealth

Trillions of euros

Source: Bank of Spain, Afi.

Exhibit 5 **Property wealth and house prices**

Sources: Bank of Spain, Ministry of Public Works, Afi.

Since the start of the crisis, households have focused their investment primarily in equities, particularly mutual funds, as well as insurance and pension funds. Furthermore, the environment of low interest rates, especially on bank deposits, has had a significant impact on Spanish households, who have traditionally held a significant proportion of their financial assets in deposits. As a result, there has been a substitution away from time deposits to sight deposits.

More rapid consumption growth relative to household income has pushed the household savings rate downward

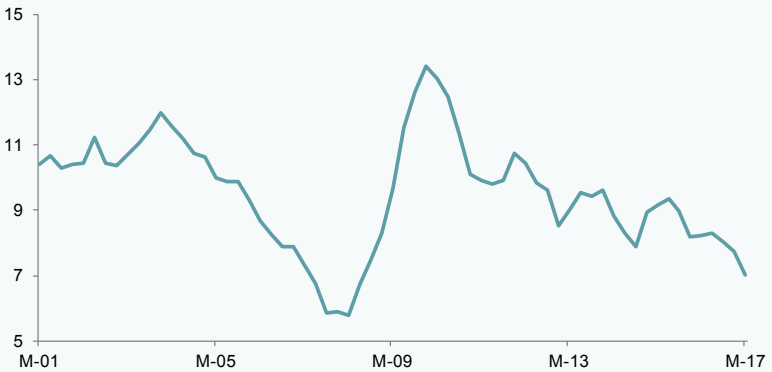
In recent years, household consumption has grown in line with fundamentals. However, consumption is currently ticking along at almost double GDI growth (consumption grew by 2.7% year-on-year on average over the last twelve months, compared to 1.5% growth in real GDI) meaning that households have begun to draw down savings as well as seek external financing to maintain their level of spending. The faster rate of growth of consumption relative to income is explained by the remnants of pent up demand –illustrated by the increase in consumer durables since the start of the recovery, following major retrenchment during the crisis.

The downward trend in the savings rate since 2010 has become more pronounced of late, potentially jeopardising the sustainability of medium-term household consumption. In contrast to previous years, which saw an increase in income lead to a concurrent rise in savings and consumption, in recent quarters, income growth is no longer proving compatible with a pick up in savings. Thus, the household savings rate continued tracking down in the first quarter of the year to reach

> “The housing savings rate is at its lowest level since 2006, spurred by an increase in consumption at the same time as income growth has slowed. This poses an important vulnerability in the case of adverse economic developments.”

Exhibit 6 **Household savings rate**

Percentage of GDI



Source: INE, Afi.

7% of GDI, significantly below the historical average of 9.5% and the euro area average of 12.3%. Spanish households' rates of saving are now the lowest among neighbouring economies, far below German (17%) and French (14%) households, putting Spanish households in a more vulnerable position at a time of rising inflation and monetary policy normalisation.

Beyond weak household income growth, various factors explain the reduction in the savings rate. Increased consumer confidence (which reached a peak in 2015 and has remained at a high level) together with less uncertainty regarding the current and future economic outlook, have likely reduced households' precautionary saving. Concerns about the future were the main reason for the jump in household savings between 2009 and 2011, which pushed the savings rate to a peak of 13%.

The low interest rate environment is another factor dissuading households from saving and increasing the propensity to consume. Furthermore, it has helped facilitate household deleveraging. Household debt levels have now fallen to 713 billion euros which is a similar level to ten years ago and the equivalent of 64% of GDP. This is the lowest since the second quarter of 2005 and is closing in on the euro area average (59% of GDP). Accordingly, households' deleveraging needs are diminishing, and with that the requirement to put money aside in order to service debt payments. With deleveraging now well underway, the low cost of taking on debt has served as an incentive to finance household spending. New consumer lending rose by 28% in 2016 to 25.4 billion euros. Though still low in absolute terms, new lending has continued to grow in the first half of 2017. The easing of lending conditions in recent years is allowing both part of consumption to be financed by credit, while simultaneously sustaining the household deleveraging process.

In summary, given the favourable economic outlook, households are increasing consumption above income growth, resorting increasingly to savings and external financing. In so doing they are smoothing their consumption over time. However, this situation may not prove sustainable over the medium-term, since consumption should ultimately mirror household income developments.

Conclusion

The financial health of households continues to improve and accordingly household consumption grew at elevated rates of close to 2.7% last year. Income growth, supported by vibrant job creation (nearly 1.7 million new jobs since the start of the recovery) and the improvement in economic activity, has been the key factor in driving household demand for goods. This is especially the case for goods, such as cars and household appliances, whose purchases were delayed during the crisis. But it is not only income growth that has been of support, household wealth has also grown robustly since 2013. Household wealth initially benefited from the recovery in asset prices which, together with the deleveraging process undertaken by households in recent years, has enabled net financial wealth to reach record highs. More recently, the pick up in house prices – households' main investment asset – has served as a major boost to property wealth.

However, consumption is now growing faster than income and while some divergences can take place over the short-term, in the medium-run consumption ought to move in line with household income. As a consequence of the current imbalance, the household savings rate has dropped to 7% – its lowest since 2006 – which poses a potential vulnerability in adverse scenarios.

In order to maintain private consumption growth over the medium-term, the fundamentals underpinning consumption need to be sustained. This speaks of a need for wage increases to prop up household income, especially as labour market slack begins to dissipate.

Notes

[1] Data from the Quarterly non-financial accounts for the Institutional Sectors are presented on a rolling four-quarter basis to adjust for seasonal effects.

[2] This approach to measuring unemployment is commonly known as the labour underutilisation rate and is one of the measures typically used by the U.S. administration.

References

Bank of Spain (2017), *Indicator summary*.

Ministry of Public Works (2017), *House price data*.

QNAFIS (2017), *Quarterly non-financial accounts for the institutional sectors,* National Statistics Institute (INE).

QSNA (2017), *Quarterly national accounts,* National Statistics Institute (INE).

Diana Posada and Daniel Fuentes.
A.F.I – Analistas Financieros Internacionales, S.A.

Wages, productivity and corporate management

The Spanish economy faces major challenges to sustainably and significantly raise productivity. Improving corporate management quality could help smaller Spanish industrial companies to boost productivity and ultimately wages.

Rafael Myro and Javier Serrano

Abstract: Companies which are better managed offer superior remuneration to their workers, perhaps as a mechanism for retaining talent, or to spur, or at least to compensate, greater engagement with the company's objectives, which is essentially an expression of good quality management. In Spain, there is a notable and sizeable deficit in terms of the quality of corporate management among industrial SMEs which contributes significantly to their lower levels of productivity relative to their counterparts in other large European countries. Reducing this deficit should be an urgent priority, not just for the companies themselves, but also for business organisations and certainly for industrial policy.

Introduction

The recovery in the Spanish economy has reopened a debate on the desirable path for wages. Initially, the focus has been on the minimum wage – which in Spain is further from the average than in other European economies – resulting in a notable increase

> “Wages and productivity need to move in unison to avoid calling into question Spain’s current advantage in unit labour costs, and by extension prices, which arose out of the sharp downward adjustment in employment and wages.”

(in a European context) of 8% in 2017. This was the result of a tug of war between the Government, which proposed a smaller increase, and some opposition groups, who advocated somewhat higher increases, aimed at bringing the minimum wage in line with other member states.

Meanwhile, in the crucial area of collective bargaining, the latest proposals from trade unions do not look to be excessively exorbitant – setting a range for wage increases of between 1.5% and 2.5% in 2017. These demands reflect both the expected pick up in inflation and probably quite a substantial part of the small anticipated increase in labour productivity. Slow progress on the latter is undoubtedly the key factor preventing wages from rising more rapidly. Wages and productivity need to move in unison to avoid calling into question Spain’s current advantage in unit labour costs, and by extension prices, which arose out of the sharp downward adjustment in employment and wages (Myro, 2015).

Fortunately, there is significant scope to improve productivity, because the dominant group of companies in Spain – those with fewer than ten employees – have lower levels of output per worker than their peers in other countries (Costa 2015; Serrano *et al.,* 2017). Nor do companies with 10 to 50 employees fare significantly better.

Boosting productivity depends on the accumulation of tangible and intangible assets. The latter is taking on increasing importance in advanced economies (Corrado *et al.,* 2006) but has surprisingly very little prominence within Spanish companies, especially the smallest ones. Innovation, training and specialisation of company workers, digitalisation and brand creation are all important elements of intangible assets.

However, corporate management quality is a particularly salient aspect, representing an asset which can be defined and measured in a variety of ways and which is gaining increasing attention in economic literature (Andrews and Westmore, 2014; Bloom *et al.,* 2017). The importance of this factor in Spain lies in the fact that the smallest companies are precisely those with the largest shortcomings in terms of management (Huerta and García, 2014; Yagüe and Campo, 2016). Some academics go even further, attributing the problem of the small average size of Spanish companies to poor quality corporate management (Huertas and Salas, 2014).

Based on the above, the main focus of this article is to measure and evaluate the impact of corporate management quality on company productivity. The second key focus is to go a little further, in an attempt to identify a positive and direct influence from management quality on wages, beyond the indirect effect through improved productivity. The hypothesis underlying this approach is that companies which are better managed offer superior remuneration to their workers, perhaps as a mechanism for retaining talent,

> “The importance of this factor in Spain lies in the fact that the smallest companies are precisely those with the largest shortcomings in terms of management.”

or to spur, or at least to compensate, greater engagement with the company's objectives, which is essentially an expression of good quality management.

In line with the above, this article explores the relationship between the quality of corporate management in industrial companies and productivity and wage levels over five years during the height of the crisis (2009-13), using data from the *Survey on Business Strategies* (ESEE) put together by Fundación SEPI. In doing so, this article starts by using an indicator of good corporate practices taken from Yagüe and Campo (2016) and provides an initial assessment of management in Spanish industrial companies. It then moves to estimate the impact of corporate management on productivity and wages. If it turns out that quality of corporate management is a factor which clearly influences productivity levels and worker remuneration, this will provide a robust basis for trade unions to consider adopting what is currently an uncommon strategy in Spain: encouraging workers and their highly-qualified representatives to become more involved in the management of the company. Doing so, would not only enable unions to improve the living standards of their members, but also boost the competitiveness of the company employing them.

Good management practices in Spanish industrial companies

The quality of company management includes a variety of different inter-related aspects, making it a challenge to measure, even more so given available data. That said, various attempts have been made to assess this variable. Among these is the model proposed by Yagüe and Campo (2016), selecting various aspects considered by the literature to be important for company management and for which ESEE provides information. Their measure is also very strongly related to company size, the degree of internationalisation, the legal form of a limited company, spending on training and foreign involvement in share capital. This is the approach used in this article, since it draws from information provided by ESEE, which is the database used.

The good management practices measured by Yagüe and Campo are grouped into six sections[1]. Table 1 provides information on the content of each practice.

Table 1 **Indicators used in the creation of the Management Quality Index**

Variables linked to leadership and management abilities	Technological guidance or committee
	Innovation activity plan
	Use of consultants for technology information
	Support by owners and family in leadership and management
	Expenditure on environmental protection
	Investment in environmental protection
	Degree of diversification
Variables linked to the operations management (processes, products and services)	Product standardization
	Normalization and quality control
	Scientific and technical information systems
	Total innovations
	Product innovations
	Process innovations

Table 1 **Indicators used in the creation of the Management Quality Index**

(continued)

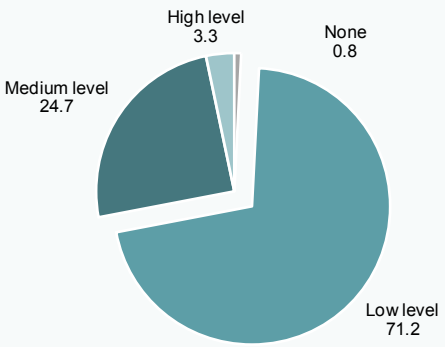
Variables linked to the operations management (processes, products and services) (con't)	Product and process innovations Acquisition of equipment for product improvement Organizational methods innovations Innovations in external relations management Merchandising innovations Process innovations of new equipment Software process innovations New techniques process innovations
Variables linked partnerships and resources	Technological cooperation agreements Technological collaboration with customers Technological collaboration with competitors Technological collaboration with suppliers Collaboration with universities or technological centres European Union research programme
Variables linked to staff management	External expenditure on diverse training (5 indicators) Hiring employees with experience in R&D public system Hiring employees with experience in R&D
Variables linked to the digital and technological policy and strategy	Own internet domain Web page on the firm server Online purchases from suppliers Online sales to final customers Online sales to firms Evaluation of alternative technologies Evaluation of technological change
Variables linked to measurement of results	Market surveys Innovation performance indicators Online sales impact indicator Identification of competitive position in main market Positive evolution of market share

Source: Yagüe and Campo, 2016.

Exhibit 1

Distribution of Spanish industrial companies by level of good management practices, 2013

Percentage



Source: Yagüe and Campo, 2016.

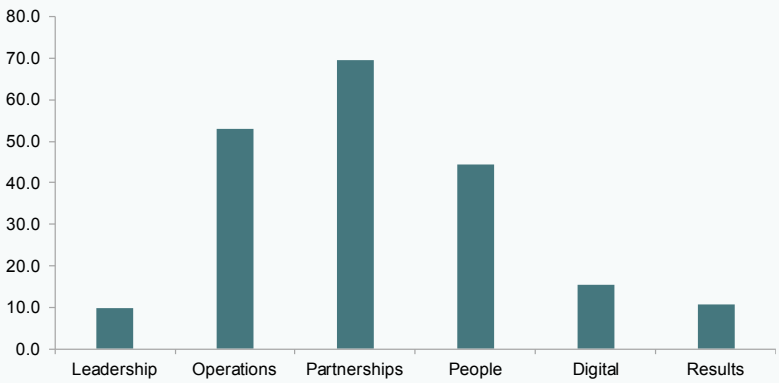
As can be seen in Exhibit 1, according to the above measures, the quality of smaller Spanish industrial company management is generally low. 71% of Spanish industrial companies follow few or none of the good management practices, failing to register on over 12 of the 46 practices contained in Table 1, and only 3.3% engage in 25 or more good practices, which is the threshold for high quality management. Differences between Autonomous Regions are relatively limited, with a variation coefficient of 0.14, with companies in Aragon and Catalonia performing relatively better and companies in the Balearic Islands, Andalusia and Extremadura performing the worst. Dispersion is considerably greater in terms of sectors. Companies working with basic metals, machinery, transport materials and chemicals tend to engage in more good practices, compared to companies involved in wood, furniture and metal products at the other extreme (Yagüe and Campo, 2016).

In terms of the different groups of good management practices, it is particularly surprising to see that many companies fail to follow even one of each of them, as illustrated in Exhibit 2. The perspective offered by this exhibit is even more negative when considering that in the leadership area, good practice focuses and improves over time only in the realm of family leadership, or that in terms of digital strategy, there are only significant signs of progress in relation to the internet domain (online purchases for suppliers also improve moderately), or that companies put little emphasis on market share and innovation in their measurement of results.

Either way, the greatest shortcomings are found in operations, partnerships and people. The latter two categories are especially relevant for labour productivity. Partnerships form the basis for company networks which are one of the crucial mechanisms through which innovation is created and technologies are spread. This is one explanation for the widening of the gap in terms of productivity between large and small companies, which is not specific to Spain and is a cause of general concern at present. Human capital, and particularly spending on training, affects employee productivity, engagement with the company

Exhibit 2

Percentage of companies without a single good practice in each dimension



Source: Yagüe and Campo, 2016.

and their ability to adapt to new tasks and necessities.

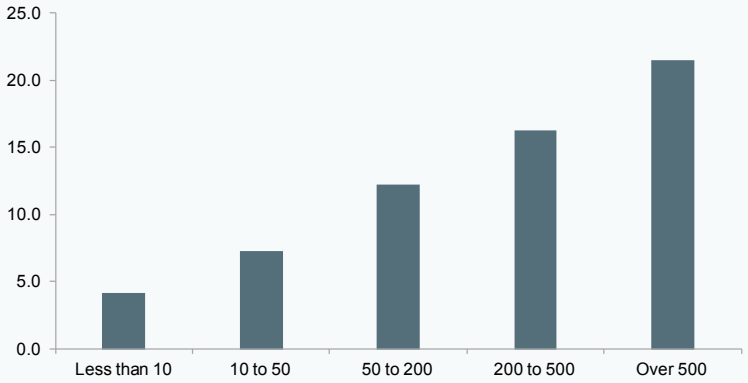
Finally, there is a clear relationship between good management practices and company size. Companies with more than 500 companies engage in five times the average number of good practices adopted by companies with less than ten employees, which only engage in slightly over four (Exhibit 3).

Based on this information, there is considerable scope for Spanish industry to improve management practices. This is a conclusion that emerges out of international work in this area, albeit less starkly. The

Exhibit 3

Quality of management and company size

Average number of good practices by average company size, measure in number of employees



Source: Authors' own elaboration from ESEE, Fundación SEPI.

> “ The greatest shortcomings are found in operations, partnerships and people. The latter two categories are especially relevant for labour productivity. ”

World Management Survey assesses the management quality of Spanish companies – not just industrial companies – assigning it a score of 2.5 out of 5. This somewhat more upbeat assessment relative to the conclusions arising from this analysis of the data is due to the fact that the former relies on opinions from managers in large companies and is extended to all Spanish companies. By contrast, Yagüe and Campo's indicator is constructed on information provided by each of the companies included in the ESEE.

The influence of corporate management on productivity and wages

This section of the article seeks to assess the effect of good management practices on the productivity and wages of Spanish industrial companies.

Table 2 provides a preliminary snapshot of the relationship between these three variables and some others which influence or are influenced by them. The information is grouped by company size[2], presenting median values –those which leave 50% of companies above and 50% below – as we consider them a better expression of the distributions of the variables' values than mean ones.

In line with the indicator of good management practices, the variables included in this table which measure efficiency and intangible assets - labour productivity, wages, human capital, permanent contracts, sales margin, use of productive capacity and net tangible fixed assets per worker[3] – increase as mean company size rises. But unit labour costs fall with size, because as size increases, wages increase to a lesser extent than productivity, meaning that the ratio between wages and productivity declines, and explaining why profit margins grow.

Therefore, essentially, as shown in Exhibits 4 and 5, wage distribution is less sensitive to company size than productivity. In other words, larger companies stand out more for higher productivity in relation to smaller companies than for higher wages.

At the same time, the distribution of wages is more bunched relative to central values than for productivity. This might relate to the existence of minimum wages, resulting from the automatic general application of collective agreements, and also suggests that larger companies pass on a smaller proportion of productivity gains to wages. Thus, their labour costs are lower and margins are higher.

The difficulties that larger companies seem to have in passing on productivity gains to wages could suggest insufficient remuneration of more qualified workers, which are used relatively intensively by these companies. This would also help explain the limited wage gap between the highest and least skilled workers (Puente, 2011).

We now turn to look at the effect of corporate management quality on productivity, keeping in mind the relationship of both variables to company size. In order do so, various equations have been estimated based on panel data analysis. These equations attempt to explain labour productivity in terms of corporate management quality, company size and other explanatory variables such as physical capital per worker (net tangible fixed assets per employee). Dummy variables have been included in the estimates to eliminate effects from different industrial sectors and regions.

Our results, not included here, indicate that good management practices have a positive, statistically significant impact

Table 2 **Main figures for Spanish industrial companies**

2009-2013

		Median values			Average values		
Company size (Number of workers)		Small Less than 50	Medium 50 to 200	Large Over 200	Small Less than 50	Medium 50 to 200	Large Over 200
Variables	Until of measure						
Management quality	No. of good practices	6	11	17	6.8	12.3	18.1
Wage	Thousands of euros (current)	28.0	36.2	44.0	30.4	37.9	45.6
Productivity	Thousands of euros (2010)	32.4	46.9	59.0	38.2	56.4	72.8
Unit Labour Cost	Euro per unit of output	0.9	0.8	0.7	1.3	1.1	0.9
Sales margin	% of sales	5.2	6.4	6.8	3.4	5.9	7.1
Human capital	% higher education	0.0	4.8	6.0	4.8	6.9	9.1
Permanent Employment	% of workforce	87.5	95.0	94.3	82.4	89.0	89.8
Capacity Utilisation	% of total	70.0	75.0	80.0	69.8	73.3	76.4
Growth in Sales Prices	% p.a.	0.0	0.0	0.0	0.2	0.6	0.2
Net tangible fixed assets per employee	Thousands of euros (current)	26.8	61.1	80.4	63.1	98.7	163.5
Companies analysed	Number	1219	695	469	1219	695	469
Companies analysed	% of total	51.0	29.0	20.0	51.0	29.0	20.0

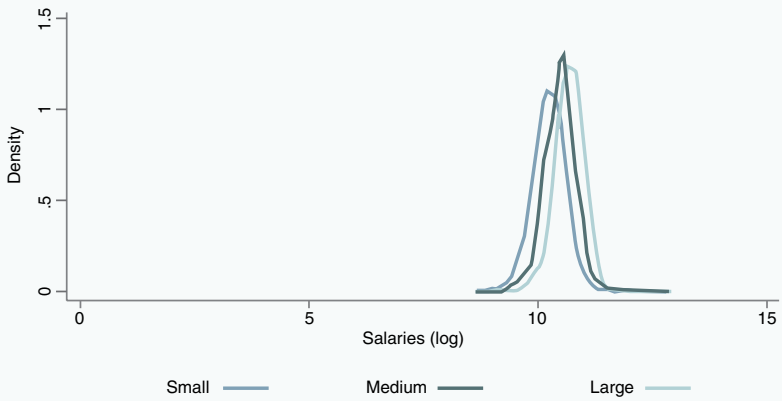
Source: ESEE, Fundación SEPI.

on productivity. A 10% increase in good management practices leads to a 0.81% increase in labour productivity. We also consider the power of wages as an explanatory variable for productivity, since productivity can increase due to wage incentives, in line with the efficiency wage hypothesis.

The results speak for themselves in terms of the relationship between corporate

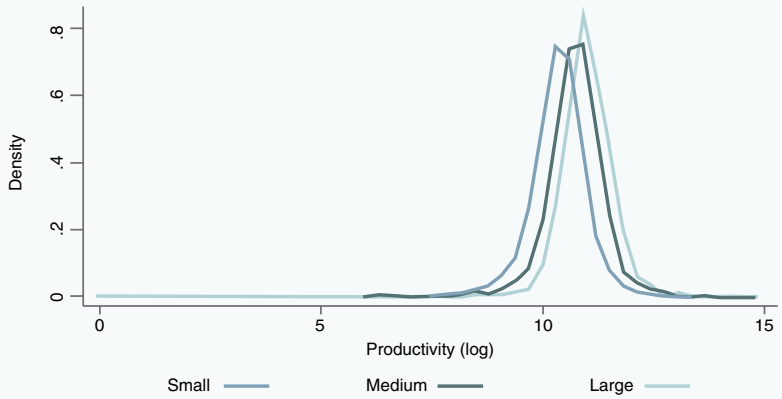
> “Wage distribution is less sensitive to company size than productivity —larger companies stand out more for higher productivity in relation to smaller companies than for higher wages.”

Exhibit 4 **Distribution of wages by company size**



Source: ESEE.

Exhibit 5 **Distribution of labour productivity by company size**



Source: ESEE.

management quality and wages, which is the main focus of this article.

Wages are related exclusively to corporate management quality, human capital and the percentage of permanent contracts. An increase of 10% in the number of good management practices results in a 0.33% increase in wages.

However, since company management quality has a positive impact on productivity, it might be assumed that the effect on wages is simply an indirect reflection of the former. That is not the case. Including productivity reduces the impact of management quality on wages but it remains high and significant – in fact, half the impact that productivity has on wages. Thus, companies which

are better managed pay their workers more handsomely. Improving corporate management has an appreciable impact on wages, probably because good corporate management leads to increased worker engagement in the company and recognition of their contribution.

In brief, the complete results of our estimates suggest that an increase in corporate good management practices of 10% increases productivity by around 0.81% and wages by 0.33%. Furthermore, since productivity and wages are mutually intertwined, it is likely that the final wage increase is even larger, not only due to the direct impact but also because of the indirect impact of improvements in corporate management quality.

Conclusions

The Spanish economy is facing a major challenge to sustainably and significantly raise productivity. This is the only sure way to strengthen competitiveness and deliver sustainable increases in wages and income per capita, which drive increases in output and employment. There is significant potential to boost productivity, especially among the multitude of very small companies in Spain, which have relatively reduced levels of comparable efficiency.

Wage earners will always be the first to benefit from increases in productivity, meaning that it should be a first order concern for them. Several intangible factors are important for increasing productivity, ranging from innovation to employee skills. However, corporate management quality – a complex, multi-faceted asset – appears to play a particularly crucial role among intangible factors. The results presented in this article show that both productivity and wages would stand to gain if companies were to increase their management quality.

Current management of Spanish industrial SMEs suffers from a number of notable shortcomings across the board, ranging from leadership to partnerships between companies and worker training. There is enormous scope for improvement in company management quality in Spain, which requires significant attention and major public and private sector investment. Private companies and their associations should be the most interested in making progress in this area. But public administrations should also support improvements in this intangible factor, which undeniably has positive externalities that are hard for the smallest companies to obtain by themselves. They should drive the creation of cooperation networks between companies, business associations and private and public organisations specialised in strategic and management consulting and technological transfer. Such networks are a key vehicle for disseminating new technologies and good management practices. Public administrations should also demand quality and capacity in terms of management of their procurements from companies and others who aspire to receive public support, instead of simply rewarding - as frequently happens - the companies which offer the cheapest price based on low wages.

Trade unions also have a useful role to play here, which has barely been given consideration until now. They could demand to have greater involvement in steering, control and improvement committees which exercise real influence over company management. Not only would this help the company to function more effectively but it would also increase the remuneration for their endeavours. In reality, their involvement is necessary - not just for the benefit of workers, but for society as a whole.

Notes

[1] All the variables have a value of 1 or 0, which relates to positive or negative responses to the questions posed to the company. In a few isolated cases the variables are continuous, but these have also been transformed into binary answers for the purposes of standardisation.

> “Good management practices have a positive, statistically significant impact on productivity.”

[2] The smallest companies are significantly underrepresented in ESEE's distribution by company size. Especially companies with less than 10 workers, the majority in the population. The median size of small companies is 18 workers and the mean is 21.5.

[3] This close relationship to company size does not mean that size drives variables such as productivity, wages, or management quality. By contrast, greater size could be the result of greater productivity, as explained by Moral Benito (2016), or better management quality, as shown by Huerta and Salas (2014).

References

Andrews, D. and B. Westmore (2014), "Managerial Capital and Business R&D as Enablers of Productivity Convergence," *OECD Economics Department Working Papers,* No. 1137, OECD; http://dx.doi.org/10.1787/5jxx3d441knr-en

Bloom, N.; Brynjolfsson, E.; Foster, L.; Jarmin, R.; Patnaik, M.; Saporta-Eksten, J. and J. Van Reenen (2017), "What drives differences in management?," *NBER working paper,* nº 23300.

Corrado, C.; Hulten, C. and D. Sichel (2006): "Intangible Capital and Economic Growth," *NBER Working Paper,* no. 11948.

Costa, M. T. (2015), "La empresa española", in García J. L. and R. Myro (dirs.), *Lecciones de Economía Española,* Aranzadi, Navarra: 77-89.

Huerta, E. and M. C. García (2014), La Capacidad de Dirección en las Empresas Españolas y el debate de la Productividad, in Fariñas, J. C. and Fernández, de Guevara, J. (eds.), *La Empresa Española ante la Crisis del Modelo Productivo. Productividad, Competitividad e Innovación,* Fundación BBVA: 129-160.

Huerta, E. and V. Salas (2014), "Tamaño de las empresas y productividad de la economía española. Un análisis exploratorio," *Mediterráneo Económico,* no. 25, 167-191.

Moral Benito (2016), Growing by learning: firm-level evidence of the size-productivity nexus, *Documentos de Trabajo*, 1613, Bank of Spain.

Myro, R. (2015), *España en la economía global*, RBA.

Puente, S. (2011), Los rendimientos salariales y la evolución reciente del nivel educativo, *Boletín Económico,* Bank of Spain, July-August: 108-115.

Serrano Martínez, L.; Pérez García, F.; Mas, M.; Uriel, E.; Benages, E. and J. C. Robledo, (2017), *Acumulación y productividad del capital en España y sus comunidades autónomas en el siglo XXI,* Fundación BBVA, Madrid.

Yagüe Guillén, M. J. and S. Campo (2016), "La formación de capital humano y de capital directivo," in R. Myro (dir.), *Una nueva política industrial para España,* Consejo Económico y Social, chap. VII: 99-114.

Rafael Myro and Javier Serrano. Madrid Complutense Univesitry (UCM).

This page was left blank intentionally.

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 amending the Royal Decree on clearing, settlement and registration of securities (Royal Decree 827/2017, published in the Official Gazette on September 2nd)

Royal Decree 827/2017 was published on September 2nd in the Official Gazette, amending Royal Decree 878/2015, which establishes the legal framework for adaptation to the system for clearing and settlement of trading in fixed income securities, as a prior condition for inclusion of Spain's central securities depository (Iberclear) on TARGET2-Securities (T2S). It also strengthens the protection for collateral provided in securities clearing and settlement.

The Royal Decree has the following objectives, to: (i) extend application of the clearing and settlement system implemented by Royal Decree 878/2015 to fixed income securities, (ii) provide greater flexibility for specific rules on holding securities and the use of certain procedures; and, (iii) advance in the reduction of administrative burdens.

In addition to the technical improvements made in the text, the Royal Decree makes the following notable **amendments**, it:

- Establishes and regulates the characteristics of **fixed income securities,** including details of the issuing document and abolishing a procedure relating to specific trading in Public Debt securities with repurchase agreements ("Spanish repo").
- Allows for the **use of various types of accounts** (proprietary, global third party and individual).
- Abolishes the **securities lending ledger** given that the latter has been harmonised at the European level through Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse.
- Eliminates the requirement to provide certain **information to the information system** for supervision of trading, clearing, settlement and registration of securities. This relates to information on the identification and details of transactions that have been executed, the securities concerned and ownership affected.
- Also includes specific requirements on **ownership certificates** issued in favour of the General Deposit Fund (Caja General de Depósitos) and authorisation for the creation of deposits in the Fund for payment of certain public prices.

Full alignment of Royal Decree 878/2015 with the new clearing and settlement regime for trading in fixed income securities will take place in the near future, and in parallel with a reform of the legal regime for Spanish securities markets as a consequence of transposing MiFID II.

Bank of Spain Circular amending the Circular on the Central Credit Register (Circular 1/2017, published in the Official Gazette on July 8th)

The AnaCredit Regulation[1], which will apply from December 31st, 2017, creates the obligation on reporting institutions[2] to report credit data of the observed agents, or which they manage for third parties, to the ECB via their corresponding national central banks. These requirements apply if at least one debtor is a legal entity and where the

debtor's commitment is equal to or larger than 25,000 euros.

Given that Spain already has a system for sending similar information (Circular 1/2013), the Bank of Spain has opted to **integrate the AnaCredit requirements within the information system of the Central Credit Register (CCR).** Thus, the CCR will collect the information requested by the Bank of Spain from the reporting institutions for submission to the ECB and subsequent integration with the information provided by other national central banks.

Despite the **similarities between AnaCredit and Circular 1/2013** (reporting is operation by operation and contains similar information on entities, operations, protections and interrelations), implementing AnaCredit requires the above Circular to be amended, including:

- The introduction of **new information requirements** on: (i) entities, (ii) reported operations, (iii) financial data, (iv) protections received, (v) interest rates; and, (vi) the accounting status of the operations.

- **Standardisation** of the set of attributes, concepts and definitions contained in Circular 1/2013 with those in the AnaCredit Regulation.

- Institutions will continue reporting to the CCR – in accordance with Circular 1/2013 – in line with the amendments made by Circular 7/2016:

  - **Until March 31st, 2018,** inclusive, on registrations and amendments to information on reportable entities, as well as non-resident code requests.

  - **Until April 30th, 2018,** inclusive, on the other modules.

The new information requirements are confined to the **scope defined by the AnaCredit Regulation,** *i.e.* banks and branches of foreign banks in Spain, legal entities and loans; except for interest rates which will be requested both for loans to private individuals and legal entities.

The Circular includes two **annexes** on the data modules and instructions for preparation.

Bank of Spain Circular amending the Circular implementing SAREB accounting specifics (Circular 2/2017, published in the Official Gazette on August 4th)

Circular 2/2017 arises from amendments introduced by Royal Decree Law 4/2016 of December 2nd – containing urgent measures on financial issues – to Law 9/2012 on bank restructuring and resolution. Its objective, among other issues, is to introduce new criteria for accounting for impairment of assets belonging to the Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, SA (SAREB).

Accordingly, the Circular incorporates new criteria for **accounting for impairments** as well as specifying **reversal rules:**

- SAREB will recognise value impairments, net of taxes, which will be **charged** to a "Value Adjustment" heading in the equity account. The debit on this account will be attributed to the profit and loss account **during positive financial years.**

- In addition, the Circular specifies how reversal of impairment loss will be undertaken for each "unit of assets". Reversals will initially appear under the "Value Adjustment" heading of the equity account and, when the balance is zero, will be attributed – as appropriate – to the profit and loss account for the amount of the reversal awaiting recognition.

The effects of the new rule will be treated as a **change in accounting criteria.**

Notes

[1] Regulation (EU) 2016/867 of the European Central Bank of May 18th, 2016, on the collection of granular credit and credit risk data (ECB/2016/13).

[2] Resident credit institutions and resident foreign branches of credit institutions.

Spanish economic forecasts panel: September 2017*

Funcas Economic Trends and Statistics Department

The consensus forecast for GDP growth in 2017 is unchanged at 3.1%

GDP growth accelerated by 0.1 percentage points in the second quarter of the year to 0.9%, in line with consensus. Private consumption rebounded, while public consumption - which saw a notable upward revision to first quarter growth - and capital goods investment slowed. The external sector made a larger contribution to growth than in the previous quarter – the figure having been revised downwards.

Latest available indicators foreshadow a slowdown in the current quarter. Consensus forecasts 0.8% growth in the third quarter, unchanged from the previous panel (Table 2).

The average annual growth forecast remains at 3.1%, with no changes from the July panel. The expected breakdown also remains unchanged, with the external sector set to contribute 0.6 percentage points to growth and domestic demand 2.5 percentage points. However, on average panellists have revised up their expectations for public consumption and lowered their investment outlook. Export and import growth forecasts have also been shaved.

Growth of 2.7% forecast for 2018

The consensus forecast for GDP growth in 2018 is unchanged at 2.7% with barely any changes to the expected composition. The external sector is again set to contribute positively to growth. The annual forecast for 2018 is underpinned by a stable 0.6% quarterly growth path throughout the year (Table 2).

Spike in inflation in 2017 and moderation in 2018

Headline inflation has remained around 1.5-1.6% in recent months, well below the 3% reached at the start of the year. In recent weeks, the oil price has climbed above 50 dollars, though this has been partially offset by Euro appreciation.

Headline inflation is now forecast to come in at an average annual rate of 1.9% in 2017, 0.1 percentage points below the July panel, and is expected to ease to 1.5% in 2018. Core inflation is forecast to be 1.2% in 2017 and 1.4% in 2018. Year-on-year inflation rates in December are predicted to be 1.1% this year and 1.6% in 2018 (Table 3).

Slowing employment growth

According to Social Security registrations, employment growth slowed significantly in July and August in comparison to the previous quarter, especially in market services and construction. However, employment growth has remained stable in the industrial sector.

Consensus continues to forecast employment growth of 2.7% for 2017, while the outlook for 2018 has been raised slightly to 2.4%. 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 0.3% next year, while ULC are forecast to increase by 0.2% in 2017 and 0.9% in 2018.

The annual unemployment rate is on track to fall to 17.2% in 2017 and 15.2% in 2018; in both cases the forecast has been lowered.

Solid current account surplus maintained

The current account posted a cumulative surplus of 3.570 billion euros to June, smaller than the surplus of 5.750 billion euros registered over the same period last year. The deterioration is due to a worsening of the trade balance. According to Customs data, this was because of a pick up in the price of energy products as well as increased import demand for these products. By contrast, the non-energy balance improved relative to the previous year.

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

Public deficit will continue to miss targets

The public deficit, excluding local corporations, to June was 6.500 billion euros smaller than the same period last year, thanks to an increase in revenues and stable spending. The State and Social Security system both improved their results, but the regional outturn worsened.

Consensus sees the public deficit coming in at 3.2% of GDP, 0.1 percentage points above target. That said, eleven of the sixteen panellists who forecast this variable, now believe the deficit will come in on target. The deficit is forecast at 2.4% of GDP in 2018, which would also be above the current target.

Global economic outlook is favourable

Recent developments point to a relatively favourable external outlook. The main international organisations have revised up their forecasts for economic growth and world trade. The revisions are particularly significant for the Eurozone.

A large majority of panellists see the external environment as being favourable, especially in the European Union. The prevailing view is that that it will remain that way over the coming months. None of the analysts expect the situation to deteriorate in the EU. However, two panellists now believe the global environment could weaken, while none did in the previous panel.

Long-term interest rates ticking up

3-month Euribor (interest rate indicating the cost of short-term interbank lending) has remained stable in recent months at around -0.33%, a record low. Nearly all panellists regard the current level as being low and most expect favourable conditions will be sustained over the near term.

The yield on long-term term debt (10-year sovereign bonds) has ticked up since the start of the month to 1.54%. However, it remains below the levels reached at the start of July. The panellists consider this to be favourable considering current momentum in the Spanish economy. However, most expect this yield to increase over the coming months.

Euro continues strengthening

The cyclical improvement in the Eurozone together with an expected ECB announcement of new measures to normalise monetary policy have driven up the Euro. The Euro is now trading at above 1.20 dollars, representing an appreciation of 15% since the start of the year.

Most panellists consider the Euro to be trading at close to equilibrium, compared to the previous panel which regarded the Euro as being below equilibrium. Even so, more analysts see the Euro continuing to appreciate than those who expect a depreciation.

Fiscal policy is neutral and monetary policy expansive

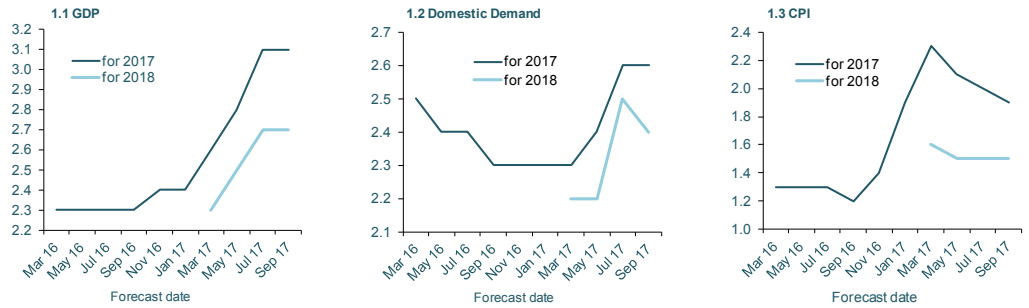
The panellists have not changed their view of the macroeconomic policy stance since the last panel. A majority see fiscal policy as neutral and judge this to be appropriate. All analysts regard monetary policy

as being expansive. As was the case in July, none of the analysts see monetary policy becoming restrictive over the coming months.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: Funcas Panel of forecasts.

* 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.

Spanish economic forecasts panel: September 2017

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – September 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)	3.1	2.8	2.5	2.3	1.0	2.0	3.6	4.0	4.8	4.3	3.0	4.2	2.4	2.4
Axesor	3.1	2.8	2.5	2.4	1.1	1.6	4.0	3.3	5.3	4.0	3.3	3.2	2.6	2.4
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	2.6	1.1	1.0	4.4	4.6	5.5	5.0	3.9	4.6	2.7	2.7
CaixaBank	3.1	2.7	2.5	2.4	1.1	0.9	4.2	3.5	5.3	3.5	3.5	3.6	2.5	2.3
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	2.7	2.5	2.4	1.1	1.1	4.2	4.0	4.4	4.0	4.2	4.2	2.5	2.4
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	2.7	2.7	2.5	1.4	1.6	3.2	3.0	3.6	3.4	3.1	2.9	2.6	2.4
Centro de Predicción Económica (CEPREDE-UAM)	3.1	2.5	2.4	2.1	1.3	1.4	4.0	3.9	4.7	4.9	3.5	3.2	2.5	2.4
CEOE	3.2	2.7	2.5	2.4	1.1	0.9	3.9	3.7	4.6	3.9	3.4	3.7	2.4	2.3
Funcas	3.1	2.7	2.5	2.4	1.3	0.8	4.7	5.4	5.8	5.5	4.0	5.3	2.7	2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.1	2.6	2.6	2.5	0.9	0.8	4.2	4.0	4.9	4.7	3.9	3.8	2.6	2.5
Instituto de Estudios Económicos (IEE)	3.3	2.7	2.7	2.1	1.1	0.7	4.3	3.9	5.5	3.5	3.5	3.9	2.7	2.2
Intermoney	3.1	2.7	2.6	2.5	1.1	1.0	4.7	3.9	4.9	3.9	4.6	4.0	2.7	2.4
Repsol	3.2	3.0	2.4	2.2	1.2	2.0	4.5	4.6	5.7	5.8	3.7	3.9	2.5	2.6
Santander	3.2	2.7	2.5	2.4	1.3	1.0	4.6	4.6	6.0	4.9	3.7	4.7	2.7	2.6
Solchaga Recio & asociados	3.1	2.7	2.5	2.2	0.9	0.7	4.3	4.1	5.2	4.8	3.8	4.0	2.7	2.4
CONSENSUS (AVERAGE)	3.1	2.7	2.6	2.4	1.1	1.2	4.2	4.1	5.1	4.5	3.7	3.9	2.6	2.4
Maximum	3.3	3.0	2.7	2.6	1.4	2.0	4.7	5.4	6.0	5.8	4.6	5.3	2.7	2.7
Minimum	3.1	2.5	2.4	2.1	0.8	0.7	3.2	3.0	3.6	3.4	3.0	2.9	2.4	2.2
Change on 2 months earlier[1]	0.0	0.0	0.0	0.0	0.2	0.1	-0.1	-0.1	-0.1	-0.2	0.1	0.0	0.0	-0.1
- Rise[2]	2	3	4	6	11	6	3	5	5	4	4	4	5	4
- Drop[2]	3	2	7	2	2	4	10	8	9	7	7	5	6	5
Change on 6 months earlier[1]	0.7	--	0.2	--	-0.1	--	0.8	--	0.5	--	0.9	--	0.3	--
Memorandum items:														
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 (July 2017)	3.1	2.4	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2017)	2.8	2.4	2.3	1.9	0.8	0.7	3.9	4.9	--	--	--	--	2.3	2.3

[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.

Table 1 (continued)

Economic Forecasts for Spain – September 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)	5.3	4.4	3.5	3.5	1.9	1.4	1.2	1.3	0.6	0.9	2.5	2.3	17.4	15.6	1.9	1.8	-3.3	-2.4
Axesor	6.3	4.6	4.6	3.4	2.1	1.8	1.2	1.5	1.2	1.5	2.7	2.3	17.9	16.1	1.3	0.5	-3.1	-2.6
Banco Bilbao Vizcaya Argentaria (BBVA)	7.0	4.9	5.3	5.2	1.9	1.7	1.1	1.5	0.6	1.7	2.7	2.3	17.1	15.3	2.0	1.9	-3.1	-2.2
Bankia	6.0	4.9	4.4	4.2	1.9	1.6	1.2	1.7	0.5	1.4	2.8	2.5	17.1	14.9	2.0	2.3	--	--
CaixaBank	6.3	4.4	4.8	3.3	1.9	1.5	1.1	1.5	0.3	1.3	2.7	2.3	17.2	15.5	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	4.5	5.0	4.2	1.9	1.4	1.1	1.3	--	--	2.6	2.3	17.0	15.4	1.5	1.5	-3.1	-2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.9	4.5	3.9	3.8	1.9	1.6	1.2	1.5	--	--	2.9	2.5	17.1	14.8	1.8	1.6	-3.1	-2.2
Centro de Predicción Económica (CEPREDE-UAM)	5.6	4.9	4.0	4.6	1.9	1.7	--	--	0.6	1.7	2.6	2.0	17.1	15.4	1.9	1.9	-3.0	-2.4
CEOE	5.9	5.0	4.1	4.0	1.9	1.1	1.2	1.2	0.3	0.8	2.8	2.5	17.1	14.9	1.7	1.6	-3.1	-2.9
Funcas	5.6	5.4	4.7	5.1	1.9	1.2	1.2	1.5	0.8	1.0	2.9	2.3	17.1	15.0	1.9	1.8	-3.3	-2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	6.3	4.9	4.9	4.6	1.8	1.4	1.2	1.6	--	--	2.8	2.5	17.2	15.2	1.9	1.8	-3.2	-2.1
Instituto de Estudios Económicos (IEE)	6.7	5.5	5.1	4.3	2.1	1.8	1.2	1.3	0.0	0.5	2.8	2.5	17.1	14.6	1.5	1.8	-3.4	-2.0
Intermoney	5.9	4.3	4.8	4.1	2.0	1.6	1.2	1.5	--	--	2.8	2.4	17.2	14.9	1.7	1.5	-3.1	--
Repsol	6.8	5.8	5.3	5.2	1.9	1.5	1.2	1.3	0.4	1.0	2.6	2.3	17.3	15.1	1.8	1.6	-3.1	-2.2
Santander	6.4	4.4	5.1	4.0	1.9	1.4	1.2	1.5	1.0	1.8	2.7	2.3	17.2	15.2	1.9	1.7	-3.1	-2.8
Solchaga Recio & asociados	6.0	4.7	4.7	4.0	2.0	1.4	1.3	1.6	--	--	2.7	2.2	17.5	15.7	1.7	1.6	-3.2	-2.4
CONSENSUS (AVERAGE)	6.2	4.9	4.7	4.3	1.9	1.5	1.2	1.4	0.6	1.2	2.7	2.4	17.2	15.2	1.8	1.7	-3.2	-2.4
Maximum	7.4	6.0	5.9	5.5	2.1	1.8	1.3	1.7	1.2	1.8	2.9	2.5	17.9	16.1	2.0	2.3	-3.0	-2.0
Minimum	4.9	4.3	3.5	3.3	1.8	1.1	1.0	1.0	0.0	0.5	2.5	2.0	17.0	14.6	1.3	0.5	-3.4	-2.9
Change on 2 months earlier[1]	-0.7	0.0	-0.9	-0.2	-0.1	0.0	0.1	0.0	-0.3	-0.2	0.0	0.1	-0.1	-0.2	0.0	0.0	0.0	0.0
- Rise[2]	1	7	1	2	2	3	8	4	1	1	8	6	2	2	2	1	6	5
- Drop[2]	12	4	12	10	9	5	0	2	9	4	1	3	9	12	4	4	2	2
Change on 6 months earlier[1]	2.3	--	0.9	--	0.0	--	0.2	--	-0.5	--	0.5	--	-0.9	--	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 (July 2017)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (June 2017)	6.7	5.0	5.5	4.9	2.3	1.4	--	--	1.1	1.7	2.5	2.1	17.5	16.0	2.1	2.1	-3.1	-2.3

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

Table 2

Quarterly Forecasts – September 2017[1]

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

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

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

Table 3

CPI Forecasts – September 2017[1]

Monthly change (%)				Year-on-year change (%)	
Sep-17	Oct-17	Nov-17	Dec-17	Dec-17	Dec-18
0.4	0.8	0.5	0.3	1.1	1.6

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

Table 4

Opinions – September 2017

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	14	3	0	2	15	0
International context: Non-EU	11	6	0	3	12	2
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	16	1	0	4	13	0
Long-term interest rate[3]	16	1	0	13	4	0
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	3	11	3	7	8	2
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	12	5	5	12	0
Monetary policy assessment[1]	0	0	17	0	6	11

[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

This page was left blank intentionally.

Economic Indicators

Table 1

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

Forecasts in yellow

	GDP	Private consumption	Public consumption	Gross fixed capital formation				Equipment & others products	Exports	Imports	Domestic demand (a)	Net exports (a)
				Total	Construction							
					Total	Housing	Other constructions					
	Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate											
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	1.5	-0.3	4.7	4.2	11.3	-1.1	5.2	4.3	6.6	1.9	-0.5
2015	3.4	3.0	2.1	6.5	3.8	-1.0	7.9	9.4	4.2	5.9	3.9	-0.4
2016	3.3	3.0	0.8	3.3	2.4	4.4	0.9	4.2	4.8	2.7	2.5	0.7
2017	3.1	2.5	1.3	4.7	4.0	7.9	0.5	5.5	5.6	4.7	2.7	0.4
2018	2.7	2.4	0.8	5.4	5.3	8.3	2.3	5.5	5.4	5.1	2.4	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	0.5	3.9	2.9	5.5	0.6	4.9	7.3	5.7	2.3	0.7
II	3.1	2.4	1.3	3.4	3.0	7.2	-0.7	3.7	4.5	2.8	2.4	0.7
III	3.2	2.6	1.3	5.1	4.7	9.0	0.9	5.5	6.0	5.7	2.9	0.3
IV	3.2	2.6	1.9	6.5	5.4	9.8	1.3	7.6	4.6	4.9	3.2	0.0
2018 I	3.1	2.7	1.2	5.7	5.7	10.0	1.6	5.7	3.6	3.3	2.9	0.2
II	2.7	2.6	0.9	6.1	5.9	9.0	3.0	6.3	4.9	5.0	2.6	0.1
III	2.5	2.3	0.7	5.3	5.0	7.8	2.2	5.6	6.4	5.8	2.2	0.4
IV	2.4	2.0	0.6	4.5	4.5	6.6	2.4	4.6	6.8	6.2	2.0	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	3.2	1.5	3.1	8.5	4.3	11.4	-2.1	12.9	12.5	13.1	3.0	0.2
II	3.5	2.7	1.0	3.3	4.5	10.0	-0.4	2.0	2.9	-0.7	2.3	1.2
III	3.4	3.0	2.0	6.7	7.5	9.0	6.0	6.0	0.6	3.4	4.3	-0.8
IV	2.8	3.2	1.5	7.7	5.4	9.0	2.0	10.0	2.7	4.4	3.3	-0.4
2018 I	2.4	2.0	0.5	5.1	5.4	12.0	-1.0	4.9	8.2	6.4	1.6	0.8
II	2.3	2.2	-0.5	5.0	5.5	6.0	5.0	4.5	8.1	6.0	1.4	0.9
III	2.6	1.8	1.2	3.3	3.7	4.5	2.8	3.0	6.5	6.3	2.3	0.3
IV	2.3	1.8	1.2	4.7	3.5	4.2	2.8	6.0	4.4	6.0	2.7	-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	1,037.8	58.6	19.5	19.3	9.9	4.5	5.4	9.4	32.7	25.2	97.6	2.4
2015	1,080.0	58.0	19.3	19.8	10.0	4.4	5.5	9.9	32.9	25.2	97.7	2.3
2016	1,118.5	57.6	18.9	20.0	10.0	4.6	5.3	10.0	32.9	24.3	97.0	3.0
2017	1,162.8	57.8	18.5	20.3	10.2	5.1	5.1	10.1	34.1	31.2	97.1	2.9
2018	1,208.7	57.7	18.1	20.9	10.6	5.5	5.1	10.3	34.9	32.0	97.1	2.9

*Seasonally and Working Day Adjusted.

(1) Recently, the National Statistics Institute (INE in its Spanish initials) has published a revision of the annual National Accounts, but at the time of publication of this issue, the revised figures had not yet been published on a quarterly basis. Therefore the quarterly figures in this table are not consistent with the new annual ones.

Source: INE (Quarterly National Accounts) *and Funcas* (Forecasts).

Chart 1.1 - GDP

Percentage change

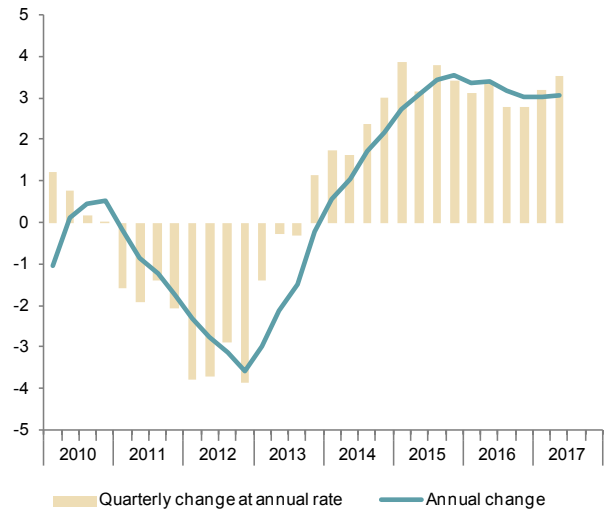


Chart 1.2 - Contribution to GDP annual growth

Per cent points

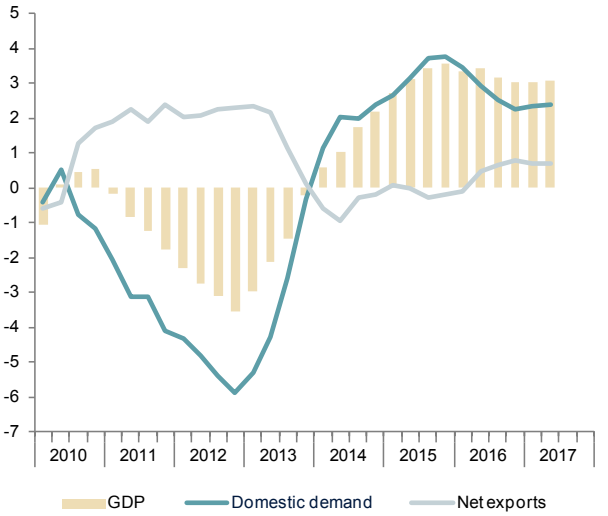


Chart 1.3 - Final consumption

Percentage change

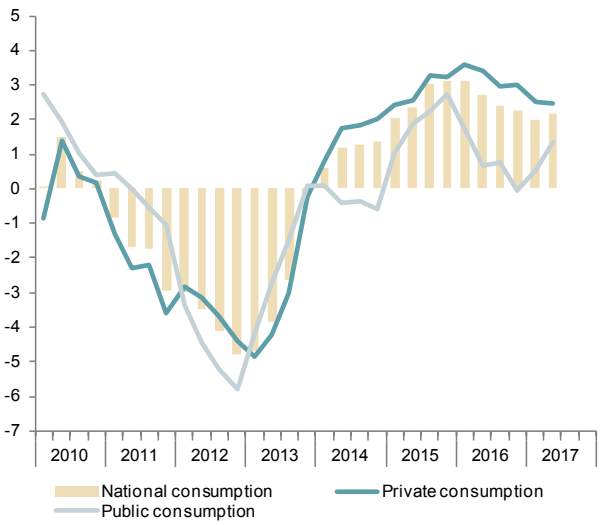


Chart 1.4 - Gross fixed capital formation

Percentage change

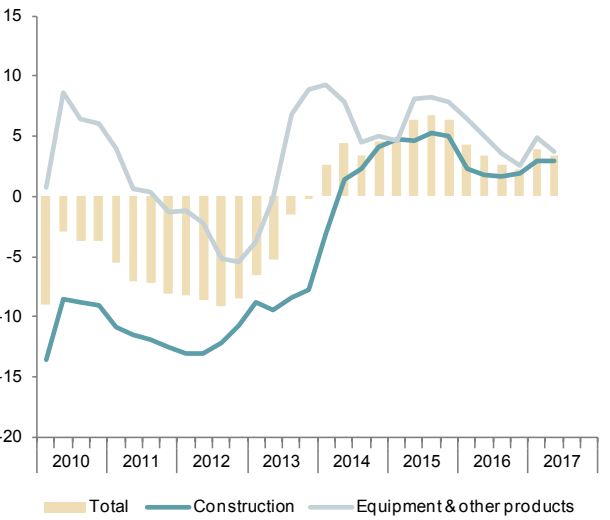


Table 2

National accounts: Gross value added by economic activity SWDA* (ESA 2010, Base 2010) (1)

	Gross value added at basic prices								
			Industry			Services			
	Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
	Chain-linked volumes, annual percentage changes								
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	1.1	-1.2	2.0	3.0	-2.0	1.3	-0.8	2.0	4.0
2015	2.9	-2.4	5.4	7.8	2.4	2.6	2.2	2.7	8.6
2016	3.2	6.9	3.6	3.5	1.9	3.0	2.0	3.4	4.4
2015 III	3.1	-4.3	6.1	7.9	0.1	2.9	2.3	3.1	6.9
IV	3.2	3.9	4.9	7.0	1.1	2.9	2.6	3.0	7.0
2016 I	3.2	5.0	2.7	4.4	2.1	3.4	2.5	3.6	4.8
II	3.3	2.7	2.8	3.8	2.0	3.6	2.8	3.8	4.3
III	3.1	3.1	1.7	2.4	2.9	3.4	2.5	3.7	4.2
IV	3.0	2.9	2.2	2.0	3.0	3.1	2.1	3.5	3.6
2017 I	2.9	4.4	2.8	2.7	4.4	2.8	1.7	3.2	3.9
II	2.9	4.1	2.6	2.6	4.8	2.8	1.8	3.1	4.5
	Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate								
2015 III	3.6	0.2	4.9	7.1	-2.1	3.8	3.7	3.8	5.8
IV	3.3	16.9	3.2	4.5	-0.1	3.1	2.6	3.3	4.7
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	3.3	10.3	1.7	2.8	12.0	2.8	1.0	3.4	2.0
II	3.0	-10.0	3.1	3.4	6.1	3.2	2.9	3.3	8.7
	Current prices EUR billions)	Percentage of value added at basic prices							
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	944.5	2.7	17.6	13.7	5.6	74.1	18.8	55.4	9.9
2015	979.9	2.8	18.0	14.2	5.6	73.6	18.8	54.8	10.2
2016	1,014.9	2.8	17.9	14.2	5.6	73.8	18.7	55.0	10.2

*Seasonally and Working Day Adjusted.

(1) Recently, the National Statistics Institute (INE in its Spanish initials) has published a revision of the annual National Accounts, but at the time of publication of this issue, the revised figures had not yet been published on a quarterly basis. Therefore the quarterly figures in this table are not consistent with the new annual ones.

Source: INE (Quarterly National Accounts) *and Funcas* (Forecasts).

Chart 2.1 - GVA by sectors

Annual percentage change

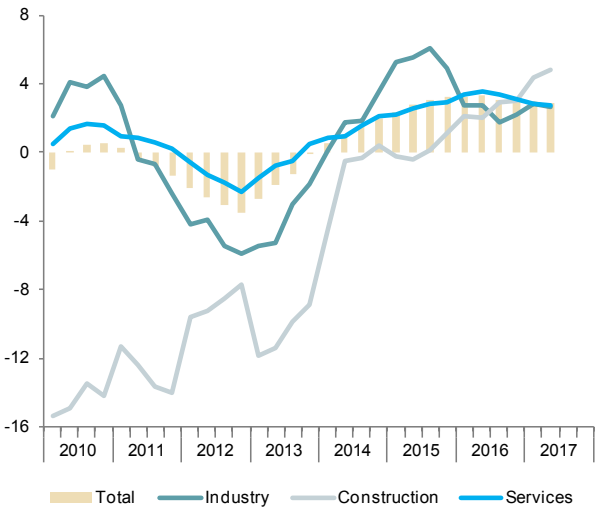


Chart 2.2 - GVA, Industry

Annual percentage change

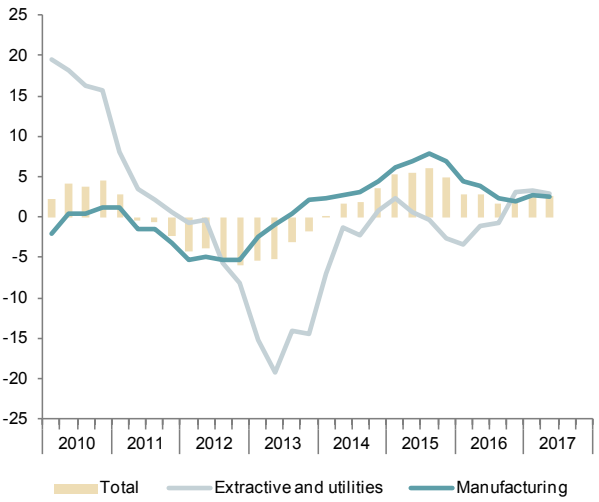


Chart 2.3 - GVA, services

Annual percentage change

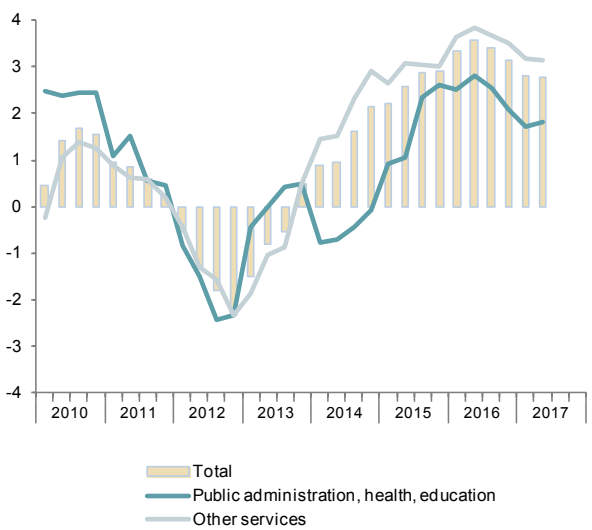


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

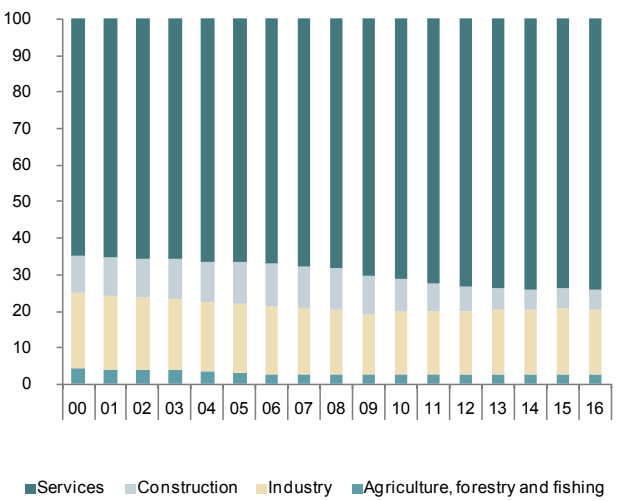


Table 3

National accounts: Productivity and labour costs (ESA 2010, Base 2010) (1)

Forecasts in yellow

	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	115.9	148.4	128.1	95.1	96.2	66.1	145.5	165.1	113.5	87.7
2015	123.4	106.2	116.2	150.8	129.8	95.8	103.7	68.0	152.5	167.3	109.7	83.2
2016	127.4	109.4	116.5	150.3	129.0	95.0	107.4	70.2	152.9	167.6	109.6	83.1
2017	131.4	112.5	116.8	151.5	129.7	93.0	110.1	--	--	--	--	--
2018	134.9	115.1	117.2	153.0	130.6	92.4	112.4	--	--	--	--	--
2015 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	129.4	110.7	116.9	149.4	127.8	93.8	108.1	70.2	153.9	165.9	107.8	83.1
II	130.6	111.8	116.8	148.7	127.3	93.5	109.0	70.6	154.4	165.2	107.0	82.3
	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	1.0	0.3	0.1	-0.2	0.0	3.0	-1.3	4.3	0.6	-3.5	-4.2
2015	3.4	3.2	0.3	1.6	1.4	0.7	7.8	2.8	4.8	1.3	-3.4	-5.1
2016	3.3	3.0	0.3	-0.3	-0.6	-0.9	3.5	3.3	0.2	0.2	-0.1	-0.1
2017	3.1	2.9	0.3	0.8	0.5	-2.1	2.6	--	--	--	--	--
2018	2.7	2.3	0.4	1.0	0.6	-0.6	2.1	--	--	--	--	--
2015 II	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	0.0	-0.9	2.7	2.6	0.1	0.7	0.6	-0.5
II	3.1	2.8	0.3	-0.1	-0.4	-0.7	2.6	2.9	-0.3	0.4	0.7	-0.6

(1) Recently, the National Statistics Institute (INE in its Spanish initials) has published a revision of the annual National Accounts, but at the time of publication of this issue, the revised figures had not yet been published on a quarterly basis. Therefore the quarterly figures in this table are not consistent with the new annual ones.

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

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

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

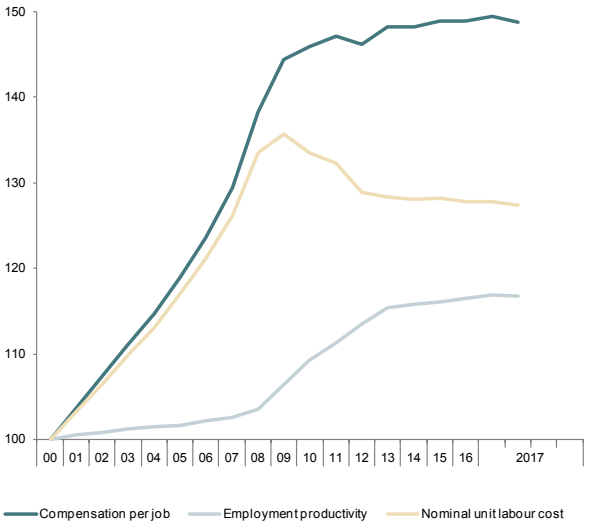
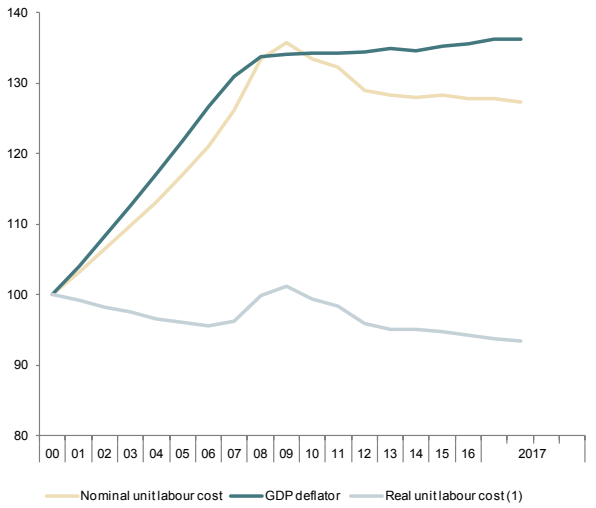


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

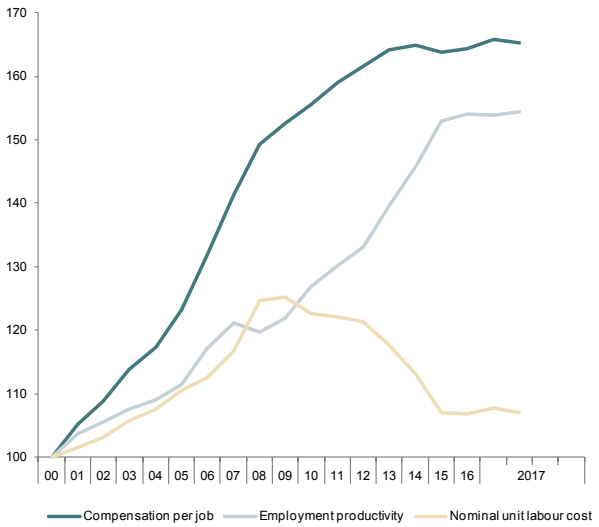
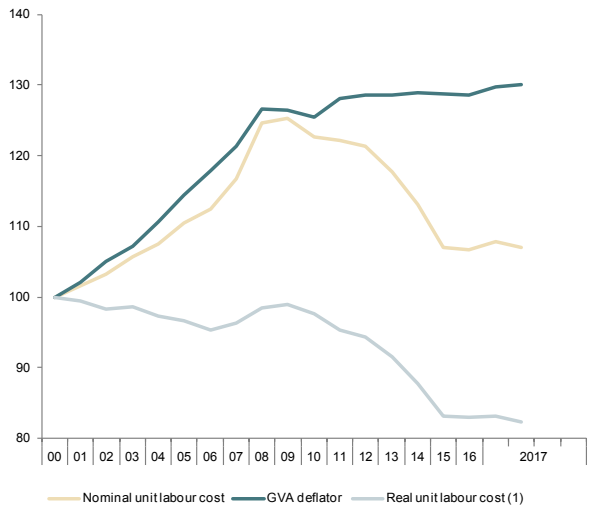


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Table 4

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

Forecasts in yellow

	Gross domestic product	Compen-sation of employees	Gross operating surplus	Gross national product	Gross national income	Final national consumption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance
	EUR Billions, 4-quarter cumulated transactions								Percentage of GDP				
2010	1,080.9	541.5	445.9	1,065.8	1,053.0	840.5	212.6	254.5	50.1	41.3	19.7	23.5	-3.9
2011	1,070.4	531.0	449.4	1,051.9	1,037.7	838.5	199.2	234.5	49.6	42.0	18.6	21.9	-3.3
2012	1,039.8	498.8	446.7	1,032.4	1,019.9	816.6	203.3	207.9	48.0	43.0	19.5	20.0	-0.4
2013	1,025.6	485.3	440.4	1,020.3	1,007.2	800.3	206.9	191.9	47.3	42.9	20.2	18.7	1.5
2014	1,037.0	491.8	441.0	1,033.7	1,022.3	810.9	211.4	201.0	47.4	42.5	20.4	19.4	1.0
2015	1,075.6	510.3	453.0	1,074.9	1,063.6	833.5	230.0	215.8	47.4	42.1	21.4	20.1	1.3
2016	1,113.9	526.1	473.0	1,114.6	1,102.3	854.1	248.2	227.3	47.2	42.5	22.3	20.4	1.9
2017	1,162.8	546.5	494.0	1,164.2	1,151.6	887.5	264.1	242.0	47.0	42.5	22.7	20.8	1.9
2018	1,208.7	565.4	514.4	1,205.1	1,192.5	917.2	275.3	256.0	46.8	42.6	22.8	21.2	1.6
2015 I	1,044.7	496.2	443.3	1,041.9	1,030.5	814.9	215.6	203.5	47.5	42.4	20.6	19.5	1.2
II	1,054.6	500.5	446.0	1,054.4	1,043.2	820.6	222.6	207.4	47.5	42.3	21.1	19.7	1.4
III	1,064.9	504.9	450.2	1,064.8	1,053.6	827.0	226.7	211.2	47.4	42.3	21.3	19.8	1.5
IV	1,075.6	510.3	453.0	1,074.9	1,063.6	833.5	230.0	215.8	47.4	42.1	21.4	20.1	1.3
2016 I	1,083.9	513.9	457.4	1,083.8	1,073.0	838.4	234.6	219.4	47.4	42.2	21.6	20.2	1.4
II	1,095.1	518.2	463.3	1,094.1	1,083.9	843.2	240.8	222.5	47.3	42.3	22.0	20.3	1.7
III	1,104.3	522.2	467.0	1,104.0	1,092.6	848.2	244.3	224.6	47.3	42.3	22.1	20.3	1.8
IV	1,113.9	526.1	473.0	1,114.6	1,102.3	854.1	248.2	227.3	47.2	42.5	22.3	20.4	1.9
2017 I	1,123.5	529.9	478.2	1,125.5	1,114.3	863.2	251.1	230.4	47.2	42.6	22.3	20.5	1.8
	Annual percentage changes								Difference from one year ago				
2010	0.2	-1.4	-2.0	0.6	0.8	1.7	-2.8	-4.0	-0.8	-0.9	-0.6	-1.0	0.4
2011	-1.0	-1.9	0.8	-1.3	-1.5	-0.2	-6.3	-7.9	-0.5	0.7	-1.1	-1.6	0.6
2012	-2.9	-6.1	-0.6	-1.8	-1.7	-2.6	2.1	-11.3	-1.6	1.0	0.9	-1.9	2.9
2013	-1.4	-2.7	-1.4	-1.2	-1.2	-2.0	1.8	-7.7	-0.7	0.0	0.6	-1.3	1.9
2014	1.1	1.3	0.1	1.3	1.5	1.3	2.2	4.7	0.1	-0.4	0.2	0.7	-0.5
2015	3.7	3.8	2.7	4.0	4.0	2.8	8.8	7.3	0.0	-0.4	1.0	0.7	0.3
2016	3.6	3.1	4.4	3.7	3.6	2.5	7.9	5.3	-0.2	0.4	0.9	0.3	0.5
2017	4.4	3.9	4.4	4.4	4.5	3.9	6.4	6.5	-0.2	0.0	0.4	0.4	0.0
2018	3.9	3.5	4.1	3.5	3.6	3.3	4.2	5.8	-0.2	0.1	0.1	0.4	-0.3
2015 I	1.8	2.5	0.4	1.8	2.1	1.6	4.0	5.3	0.3	-0.6	0.4	0.7	-0.2
II	2.5	3.0	1.1	3.1	3.4	1.8	9.3	6.0	0.2	-0.6	1.3	0.6	0.7
III	3.2	3.3	2.2	3.8	3.9	2.2	10.3	7.0	0.1	-0.4	1.4	0.7	0.7
IV	3.7	3.8	2.7	4.0	4.0	2.8	8.8	7.3	0.0	-0.4	1.0	0.7	0.3
2016 I	3.7	3.6	3.2	4.0	4.1	2.9	8.8	7.8	-0.1	-0.2	1.0	0.8	0.2
II	3.8	3.5	3.9	3.8	3.9	2.8	8.2	7.3	-0.1	0.0	0.9	0.6	0.2
III	3.7	3.4	3.7	3.7	3.7	2.6	7.8	6.4	-0.1	0.0	0.8	0.5	0.3
IV	3.6	3.1	4.4	3.7	3.6	2.5	7.9	5.3	-0.2	0.4	0.9	0.3	0.5
2017 I	3.6	3.1	4.5	3.8	3.9	3.0	7.0	5.0	-0.2	0.4	0.7	0.3	0.4

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

Source: INE (Quarterly National Accounts) *and Funcas* (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

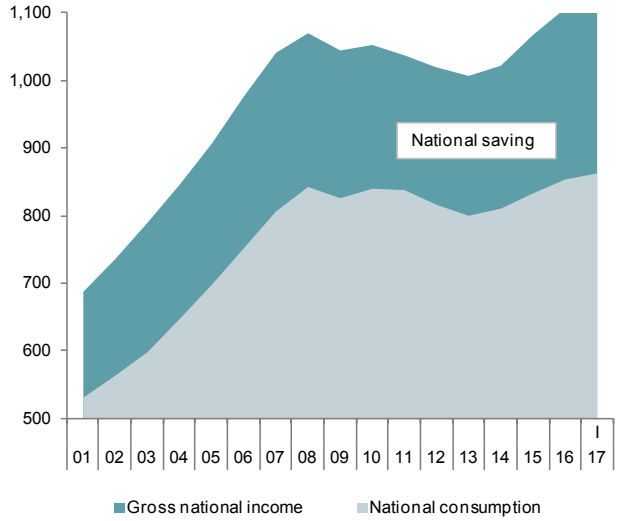


Chart 4.2 - National income, consumption and saving rate

Annual percentage change and percentage of GDP, 4-quarter moving averages

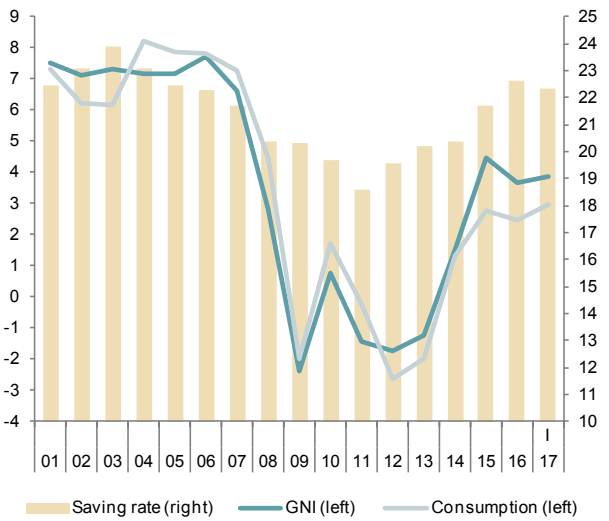


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

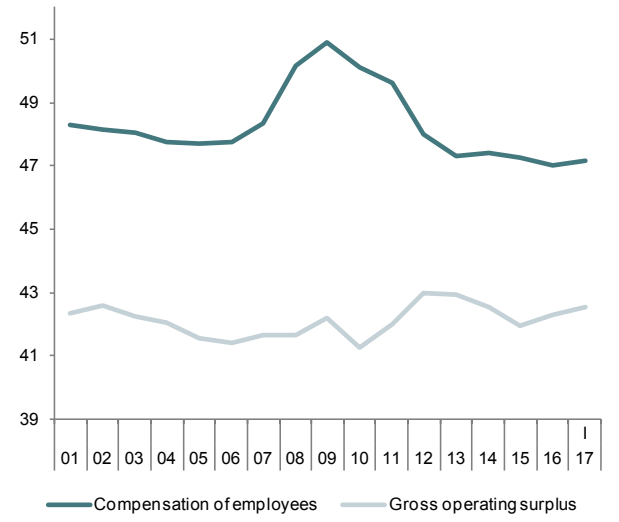


Chart 4.4 - Saving, Investment and Currect Account Balance

Percentage of GDP, 4-quarter moving averages

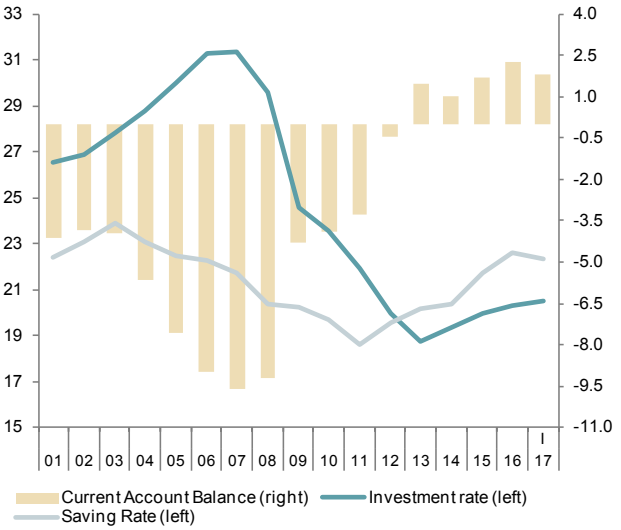


Table 5

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

Forecasts in yellow

	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

Source: INE (Quarterly National Accounts) *and Funcas* (Forecasts).

Chart 5.1 - Households: net lending or borrowing

Percentage of GDP, 4-quarter moving averages

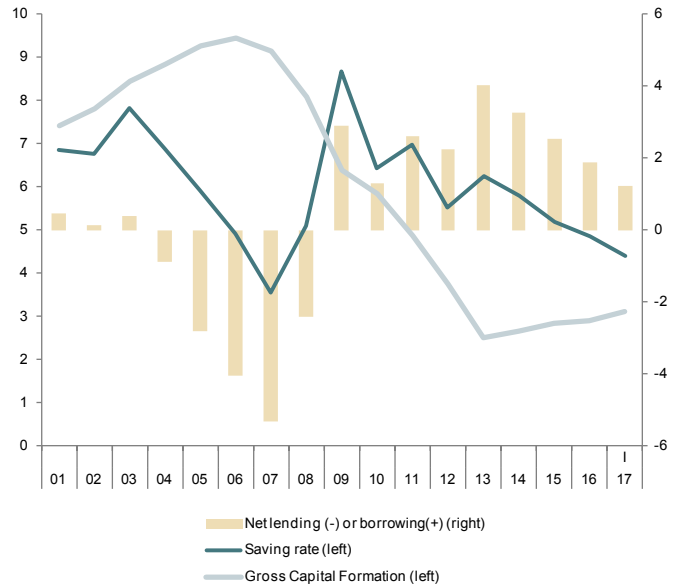


Chart 5.2 - Non-finantial corporations: net lending or borrowing

Percentage of GDP, 4-quarter moving averages

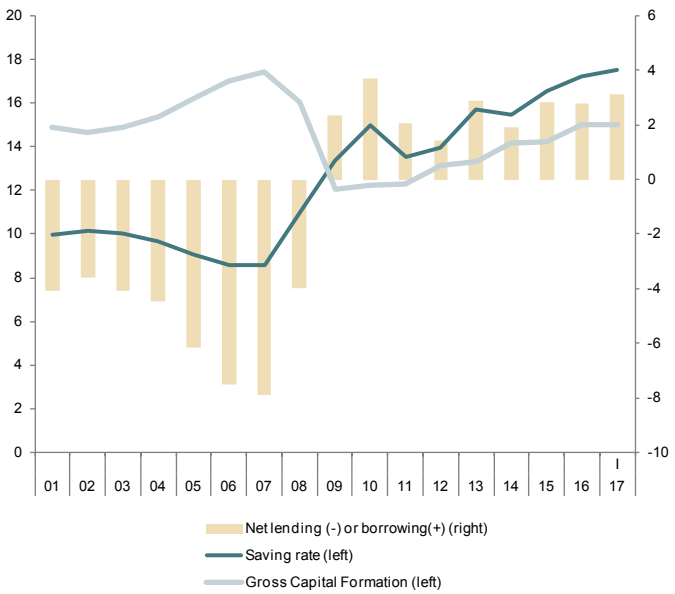


Table 6

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

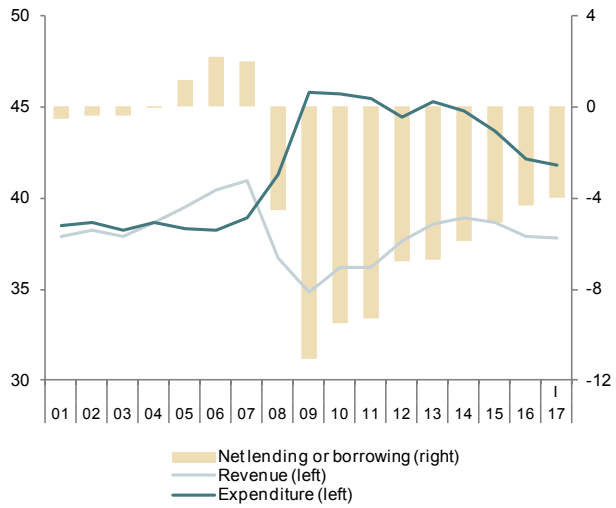
Forecasts in yellow

	Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contribu-tions receivable	Compen-sation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consump-tion expendi-ture	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
	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	152.1	137.1	117.0	140.9	124.1	22.7	177.8	21.6	200.9	215.0	-14.0	24.7	-38.8	-38.8
2018	154.6	144.1	122.4	146.8	126.6	21.0	182.4	22.3	215.5	219.2	-3.7	25.2	-28.8	-28.8
2015 I	144.4	120.9	106.3	130.2	116.2	26.0	170.9	22.0	166.7	203.3	-36.6	25.9	-62.5	-61.0
II	145.2	123.4	107.9	131.0	117.1	25.7	171.0	21.3	172.5	205.1	-32.7	24.9	-57.6	-56.1
III	145.6	125.6	109.0	131.4	117.5	25.2	170.8	21.4	176.6	206.2	-29.5	26.8	-56.4	-55.6
IV	147.2	127.1	109.1	132.3	119.1	24.5	170.4	21.7	179.9	208.5	-28.6	26.6	-55.1	-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	13.1	11.8	10.1	12.1	10.7	2.0	15.3	1.9	17.3	18.5	-1.2	2.1	-3.3	-3.3
2018	12.8	11.9	10.1	12.1	10.5	1.7	15.1	1.8	17.8	18.1	-0.3	2.1	-2.4	-2.4
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

Source: INE (Quarterly National Accounts) *and Funcas* (Forecasts).

Chart 6.1 - Public sector: Revenue, expenditure and deficit (a)

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures

Chart 6.2 - Public sector: main revenues

Percentage of GDP, 4-quarter moving averages

Chart 6.3.- Public sector: main expenditures

Percentage of GDP, 4-quarter moving averages

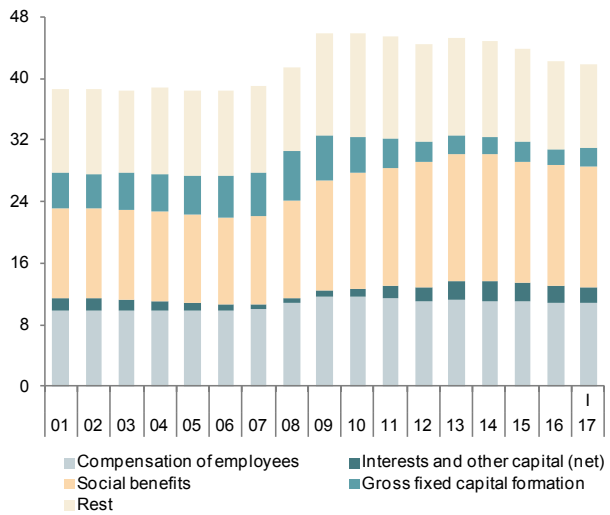
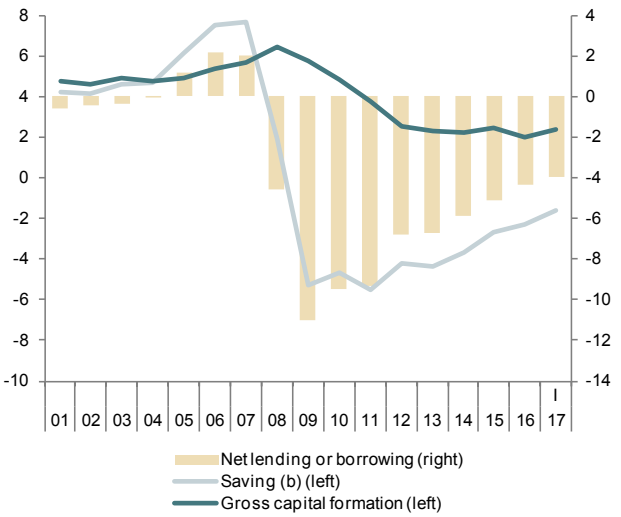


Chart 6.4 - Public sector: Saving, investment and deficit (a)

Percentage of GDP, 4-quarter moving averages



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

Table 7

Public sector balances, by level of Government (1)

Forecasts in yellow

	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	-35.3	-54.8	-8.5	-1.1	-99.7	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	-46.4	-16.2	5.7	-11.5	-68.4	850.2	210.5	42.1	17.2	979.0
2014	-36.8	-18.5	5.5	-10.8	-60.6	940.4	263.2	35.1	17.2	1,073.9
2015	-29.3	-18.7	4.6	-13.0	-56.5	940.4	263.2	35.1	17.2	1,073.9
2016	-27.8	-9.3	6.8	-17.8	-48.0	969.6	276.9	32.1	17.2	1,107.0
2017	-15.1	-7.0	2.9	-19.5	-38.8	--	--	--	--	1,144.7
2018	-9.5	-3.6	2.4	-18.1	-28.8	--	--	--	--	1,172.5
2015 III	-30.4	-18.6	4.5	-13.5	-58.0	938.8	254.3	36.9	17.2	1,068.4
IV	-29.3	-18.7	4.6	-13.0	-56.5	940.4	263.2	35.1	17.2	1,073.9
2016 I	-29.7	-17.9	4.2	-14.0	-57.4	962.1	266.0	35.1	17.2	1,096.9
II	-28.3	-16.9	4.5	-15.4	-56.1	964.7	273.5	35.1	17.2	1,107.0
III	-33.1	-9.1	6.9	-16.6	-51.8	968.8	272.7	34.7	17.2	1,108.4
IV	-27.8	-9.3	6.8	-17.8	-48.0	969.6	276.9	32.1	17.2	1,107.0
2017 I	-23.0	-10.2	7.3	-18.3	-44.2	987.8	279.3	31.6	17.2	1,128.7
II	-20.3	-10.2	7.6	-17.4	-40.4	--	--	--	--	--
	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	-3.5	-1.8	0.5	-1.0	-5.8	90.7	25.4	3.4	1.7	103.6
2015	-2.7	-1.7	0.4	-1.2	-5.2	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	-1.3	-0.6	0.3	-1.7	-3.3	--	--	--	--	98.4
2018	-0.8	-0.3	0.2	-1.5	-2.4	--	--	--	--	97.0
2015 III	-2.9	-1.8	0.4	-1.3	-5.5	88.2	23.9	3.5	1.6	100.3
IV	-2.7	-1.7	0.4	-1.2	-5.2	87.4	24.5	3.3	1.6	99.8
2016 I	-2.7	-1.7	0.4	-1.3	-5.3	88.8	24.5	3.2	1.6	101.2
II	-2.6	-1.5	0.4	-1.4	-5.1	88.1	25.0	3.2	1.6	101.1
III	-3.0	-0.8	0.6	-1.5	-4.7	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	-2.0	-0.9	0.6	-1.6	-3.9	87.9	24.9	2.8	1.5	100.5
II	-1.8	-0.9	0.7	-1.5	-3.6	--	--	--	--	--

(1) Figures for the overall Government deficit which appear in this table do not correspond with those in Table 6. The figures in this table have been revised, while the figures in terms of sector accounts, contained in the previous table, have not.

(a) Excluding financial entities bail-out expenditures.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

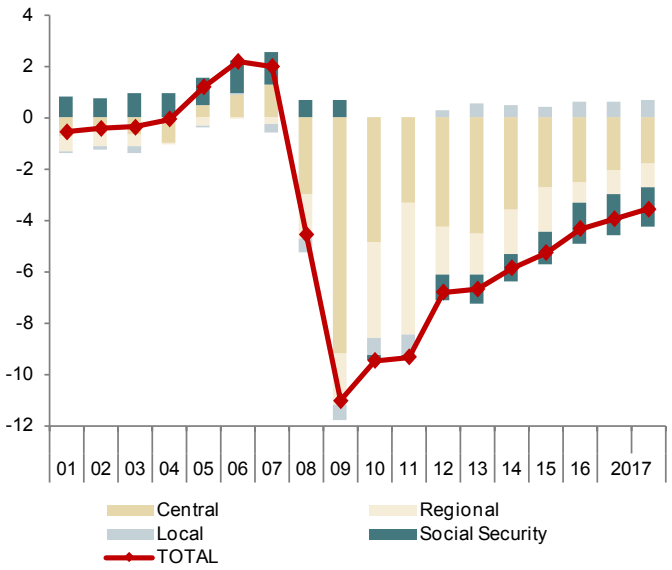


Chart 7.2 - Government debt

Percent of GDP

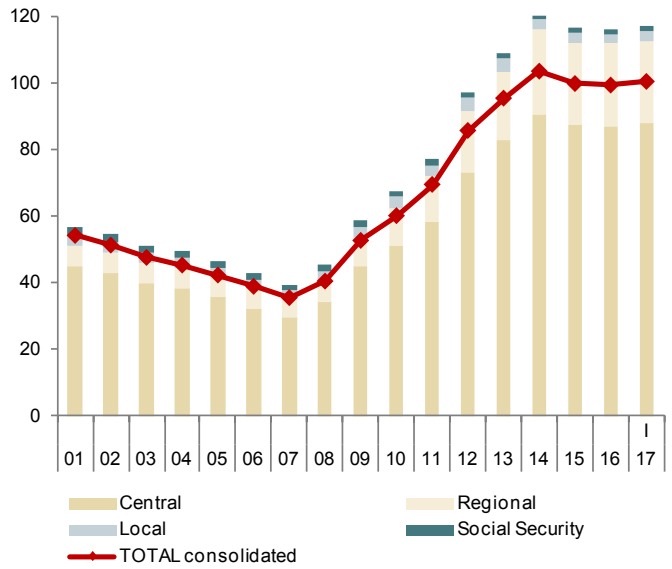


Table 8

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	Manufac turing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 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)	108.2	56.6	17,693.3	172.0	100.4	2,178.2	54.4	-0.4	103.5	1.0
2015 IV	109.5	55.4	16,825.1	63.4	95.6	2,088.4	52.5	0.3	96.4	-5.3
2016 I	107.1	55.0	16,950.4	63.5	95.8	2,103.6	54.3	-1.9	96.4	-7.6
II	105.9	55.3	17,059.5	63.6	96.2	2,116.3	52.5	-2.8	96.9	-2.9
III	105.0	54.2	17,226.5	63.7	96.9	2,132.1	51.4	-3.8	98.2	-6.7
IV	107.2	55.0	17,395.8	63.9	97.3	2,147.8	54.4	-0.6	99.9	-4.2
2017 I	107.7	56.2	17,554.4	64.0	97.6	2,166.1	54.8	0.3	101.0	-3.1
II	108.4	57.4	17,716.6	64.3	98.2	2,181.9	54.9	-0.5	101.5	6.1
III (b)	108.6	56.0	17,816.8	43.0	98.2	2,195.5	53.2	-1.2	101.5	-0.6
2017 Jun	108.9	57.7	17,763.8	21.5	98.5	2,187.0	54.7	0.7	101.5	7.1
Jul	107.9	56.7	17,800.5	21.5	98.2	2,192.6	54.0	-1.8	101.5	2.3
Aug	109.3	55.3	17,833.1	21.5	--	2,198.3	52.4	-0.6	--	-3.4
					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	1.4	1.9	3.1	--	--	5.0	--
2015 IV	--	--	3.0	2.5	2.1	2.8	--	--	-0.7	--
2016 I	--	--	3.0	-1.0	0.7	3.0	--	--	-0.2	--
II	--	--	2.6	0.9	1.5	2.4	--	--	2.3	--
III	--	--	4.0	0.3	3.0	3.0	--	--	5.4	--
IV	--	--	4.0	-0.1	1.8	3.0	--	--	6.8	--
2017 I	--	--	3.7	1.5	1.3	3.5	--	--	4.8	--
II	--	--	3.7	1.4	2.2	2.9	--	--	1.8	--
III (e)	--	--	2.3	1.3	0.2	2.5	--	--	0.2	--
2017 Jun	--	--	0.3	0.2	-0.2	0.2	--	--	0.0	--
Jul	--	--	0.2	0.2	-0.3	0.3	--	--	0.0	--
Aug	--	--	0.2	0.2	--	0.3	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annualized percent change from previous period

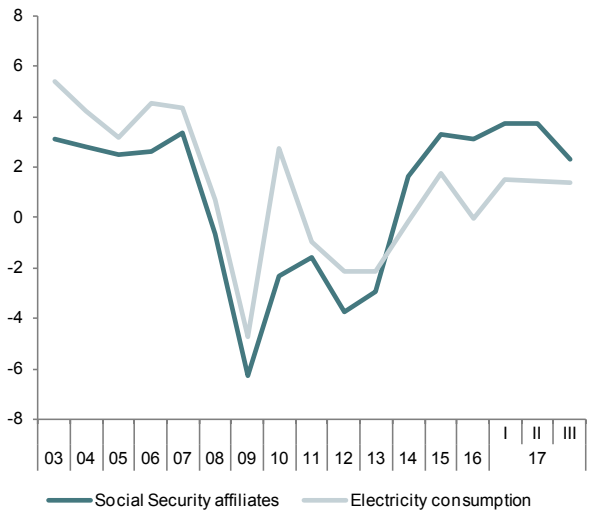


Chart 8.2.- General activity indicators (II)

Index

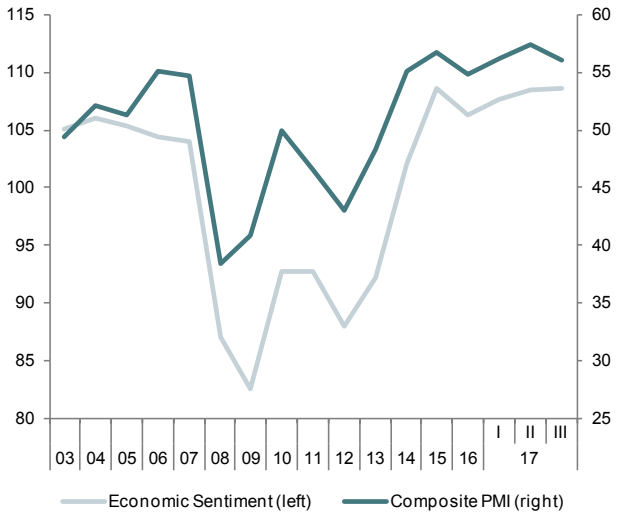


Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

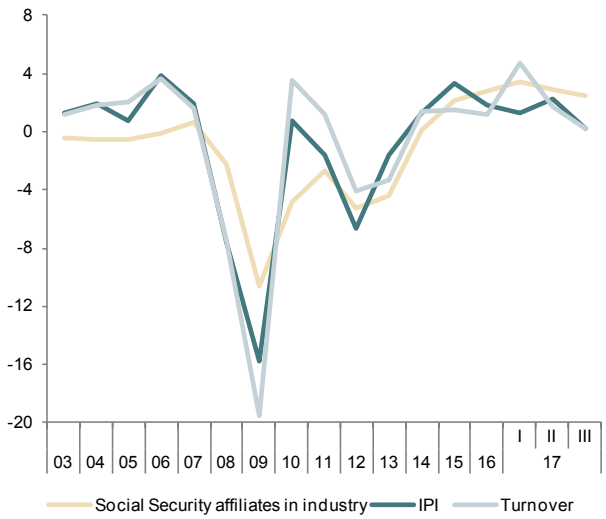


Chart 8.4 - Industrial sector indicators (II)

Index

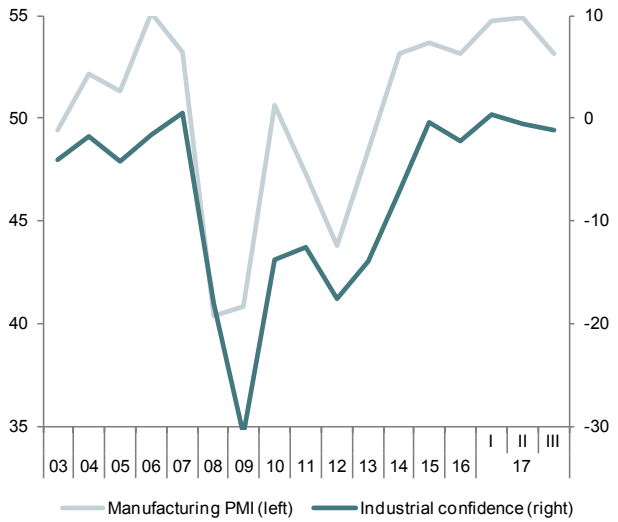


Table 9

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	Consumption of cement	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	Million Tons	2010=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	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)	1,107	4.9	76.0	-32.1	6.1	6.5	13,263	106.9	57.0	237.4	167.8	22.3
2015 IV	1,037	2.9	68.8	-21.7	2.0	2.7	12,573	99.0	55.9	79.3	53.5	20.2
2016 I	1,041	2.8	68.7	-31.7	2.2	3.4	12,687	99.8	54.6	80.9	55.0	18.8
II	1,046	2.7	68.7	-40.4	2.3	3.2	12,778	101.1	55.5	82.2	56.4	17.5
III	1,058	2.7	69.7	-44.3	2.3	2.9	12,906	102.7	54.9	83.3	57.8	16.0
IV	1,073	2.9	71.5	-42.0	2.2	3.2	13,034	104.5	54.9	84.3	59.2	18.7
2017 I	1,094	3.0	73.2	-43.7	2.3	4.0	13,153	106.3	56.4	84.9	60.4	19.2
II	1,109	3.0	73.7	-24.7	2.9	3.8	13,278	107.8	57.8	85.1	61.2	23.3
III (b)	1,118	--	73.7	-25.6	1.1	--	13,360	108.6	56.8	56.7	56.7	25.3
2017 Jun	1,113	--	73.7	-22.5	1.0	--	13,316	108.2	58.3	28.4	20.5	22.7
Jul	1,117	--	73.7	-22.1	1.1	--	13,348	108.6	57.6	28.4	20.6	24.3
Aug	1,119	--	--	-29.1	--	--	13,372	--	56.0	28.3	20.6	26.3
	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)	5.8	10.8	7.9	--	9.9	13.8	3.8	6.7	--	3.1	8.4	--
2015 IV	3.0	12.3	4.5	--	-31.9	85.9	3.2	3.3	--	8.4	11.4	--
2016 I	1.3	-21.0	-0.6	--	-22.3	60.4	3.7	3.4	--	8.2	11.6	--
II	2.1	-7.5	0.1	--	-8.3	28.4	2.9	5.1	--	6.5	10.7	--
III	4.7	5.5	6.0	--	6.4	13.7	4.1	6.7	--	5.8	10.3	--
IV	5.7	18.5	11.0	--	9.7	19.6	4.0	7.3	--	4.9	10.1	--
2017 I	8.0	27.0	9.3	--	8.7	16.9	3.7	6.9	--	2.8	8.2	--
II	5.8	-7.2	3.1	--	23.1	9.5	3.9	5.6	--	1.1	5.8	--
III (e)	3.3	--	-0.1	--	43.7	--	2.5	3.0	--	-0.5	3.6	--
2017 Jun	0.4	--	0.0	--	18.8	--	0.3	0.4	--	0.0	0.4	--
Jul	0.4	--	0.0	--	37.1	--	0.2	0.4	--	-0.1	0.3	--
Aug	0.2	--	--	--	--	--	0.2	--	--	-0.1	0.3	--

(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 9.1 - Construction indicators (I)

Annualized percentage changes from previous period and index

Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

Chart 9.3 - Services indicators (I)

Percentage change

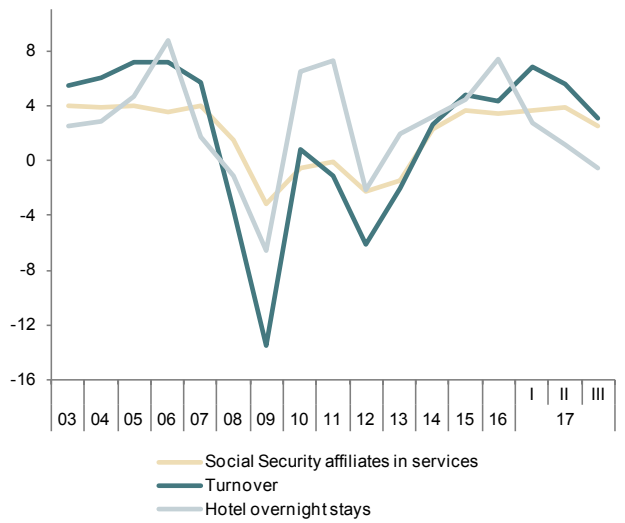


Chart 9.4 - Services indicators (II)

Percentage change

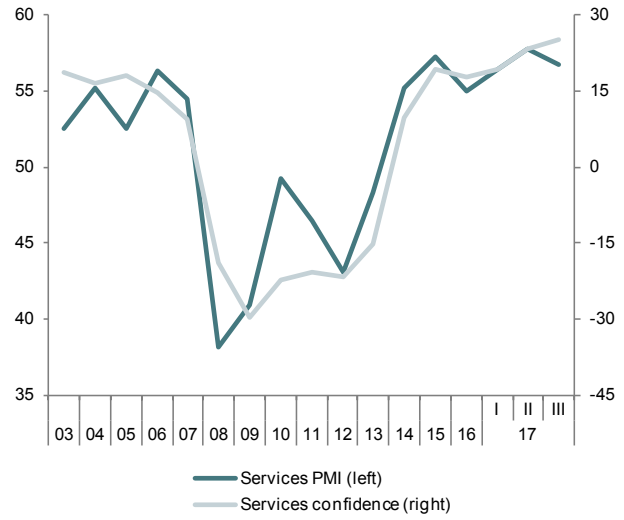


Table 10

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	Imports 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)	90.6	921.1	-0.3	80.8	3.9	135.0	1.7	103.8
2015 IV	89.3	286.6	1.6	27.7	1.1	45.9	4.9	94.5
2016 I	90.1	295.2	-2.5	27.9	0.5	46.2	-2.3	95.5
II	90.8	302.2	-3.2	28.1	-4.2	47.1	1.9	97.0
III	91.2	308.7	-6.1	28.4	-1.8	48.4	2.3	98.2
IV	91.4	315.6	-3.2	28.5	-0.2	49.5	-2.6	99.8
2017 I	91.7	321.1	-2.8	28.5	3.9	50.1	1.4	103.0
II	92.4	326.0	1.5	28.5	3.8	51.1	7.6	105.8
III (b)	92.9	219.9	0.9	18.9	4.0	35.1	-6.6	107.4
2017 Jun	92.7	109.2	1.4	9.5	7.7	17.2	8.2	106.6
Jul	92.9	109.7	2.0	9.5	5.1	17.4	-4.9	107.4
Aug	--	110.2	-0.2	9.4	2.8	17.6	-8.3	--
	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)	1.3	8.5	--	0.3	--	9.5	--	9.1
2015 IV	4.5	16.4	--	2.2	--	4.3	--	1.9
2016 I	4.0	12.5	--	3.4	--	1.9	--	4.3
II	2.8	9.9	--	2.3	--	8.0	--	6.2
III	1.7	8.8	--	3.6	--	12.2	--	5.0
IV	0.8	9.2	--	2.4	--	8.9	--	7.0
2017 I	1.4	7.3	--	-0.2	--	5.0	--	13.1
II	3.1	6.2	--	-0.5	--	8.6	--	11.5
III (e)	2.4	4.7	--	-1.6	--	12.0	--	6.2
2017 Jun	0.3	0.5	--	-0.1	--	1.1	--	0.7
Jul	0.3	0.5	--	-0.2	--	1.2	--	0.8
Aug	--	0.5	--	-0.2	--	1.3	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, 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 Commision, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses

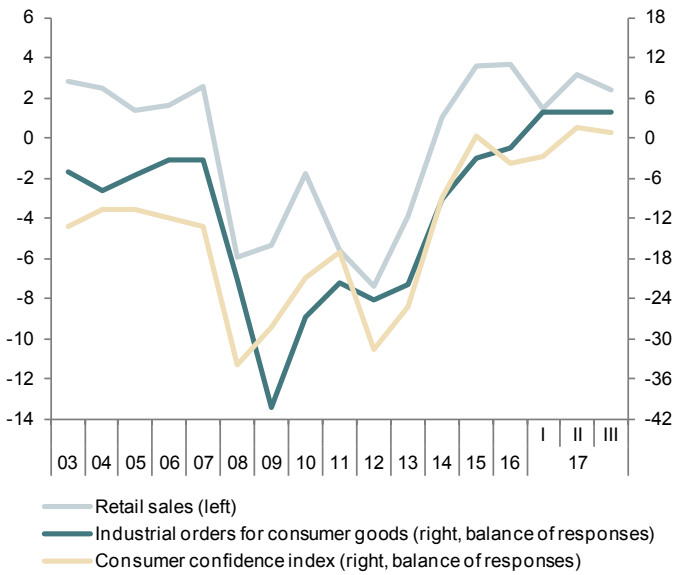


Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

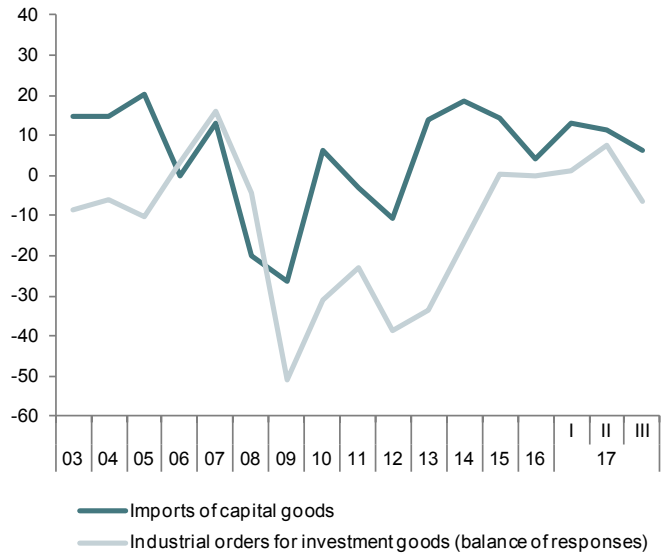


Table 11a

Labour market (I)

Forecasts in yellow

	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
										Total	Aged 16-24	Spanish	Foreign
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	Million							Percentage					
2010	31.1	23.4	--	18.7	--	4.6	--	74.6	59.7	19.9	41.5	18.1	29.9
2011	31.1	23.4	--	18.4	--	5.0	--	74.9	58.8	21.4	46.2	19.5	32.6
2012	30.9	23.4	--	17.6	--	5.8	--	75.3	56.5	24.8	52.9	23.0	35.9
2013	30.6	23.2	--	17.1	--	6.1	--	75.3	55.6	26.1	55.5	24.4	37.0
2014	30.3	23.0	--	17.3	--	5.6	--	75.3	56.8	24.4	53.2	23.0	34.5
2015	30.2	22.9	--	17.9	--	5.1	--	75.5	58.7	22.1	48.3	20.9	30.5
2016	30.1	22.8	--	18.3	--	4.5	--	75.4	60.5	19.6	44.4	18.7	26.6
2017	30.0	22.7	--	18.9	--	3.9	--	75.2	62.3	17.1	--	--	--
2018	29.9	22.7	--	19.3	--	3.4	--	75.3	63.9	15.0	--	--	--
2015 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	29.6
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	28.4
2016 I	30.1	22.8	22.9	18.0	18.2	4.8	4.6	75.4	59.4	20.3	45.5	19.2	28.4
II	30.1	22.9	22.8	18.3	18.3	4.6	4.6	75.4	60.3	19.9	45.7	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	25.5
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	24.7
2017 I	30.0	22.7	22.7	18.4	18.6	4.3	4.1	75.1	60.8	18.1	40.6	17.2	24.2
II	30.0	22.7	22.7	18.8	18.8	3.9	3.9	74.9	62.0	17.2	38.8	16.3	23.8
	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	-0.3	--	2.9	--	-13.4	--	-0.2	1.8	-2.6	--	--	--
2018	-0.3	-0.1	--	2.4	--	-12.1	--	0.2	1.7	-2.1	--	--	--
2015 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	-12.4	-0.2	1.9	-2.8	-5.6	-2.5	-4.8
2016 I	-0.5	-0.3	-0.1	3.3	3.1	-12.0	-11.3	0.1	2.1	-2.8	-4.8	-2.6	-3.9
II	-0.4	-0.6	-0.5	2.4	1.3	-11.2	-7.3	-0.2	1.6	-2.4	-2.9	-2.2	-3.6
III	-0.3	-0.2	-0.1	2.7	3.0	-10.9	-11.7	0.0	1.8	-2.3	-4.5	-2.0	-4.2
IV	-0.3	-0.6	-1.4	2.3	1.9	-11.3	-14.4	-0.2	1.5	-2.2	-3.4	-2.0	-3.7
2017 I	-0.2	-0.6	-0.2	2.3	2.9	-11.2	-12.8	-0.3	1.4	-2.3	-4.9	-2.0	-4.2
II	-0.1	-0.6	-0.9	2.8	3.4	-14.4	-18.8	-0.5	1.7	-2.8	-6.9	-2.7	-3.7

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

Source: INE (Labour Force Survey).

Chart 11a.1 - Labour force, Employment and unemployment, S.A.

Annual / annualized quarterly growth rates and percentage of active population

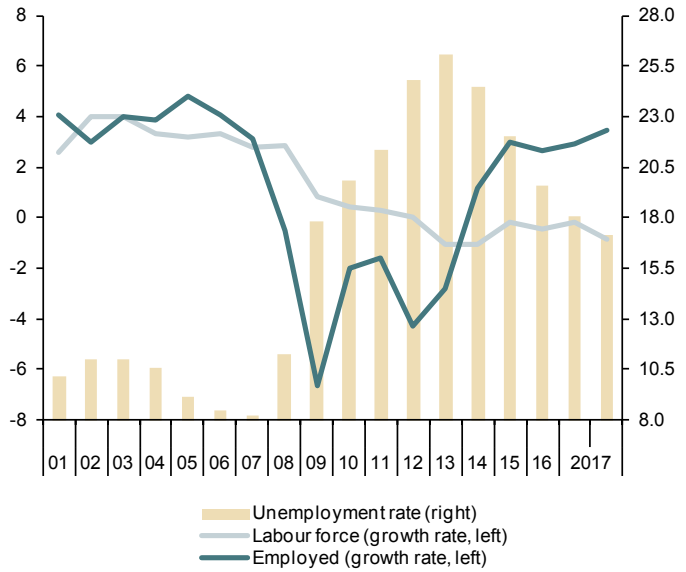


Chart 11a.2 - Unemployment rates, S.A.

Percent change from previous period and balance of responses

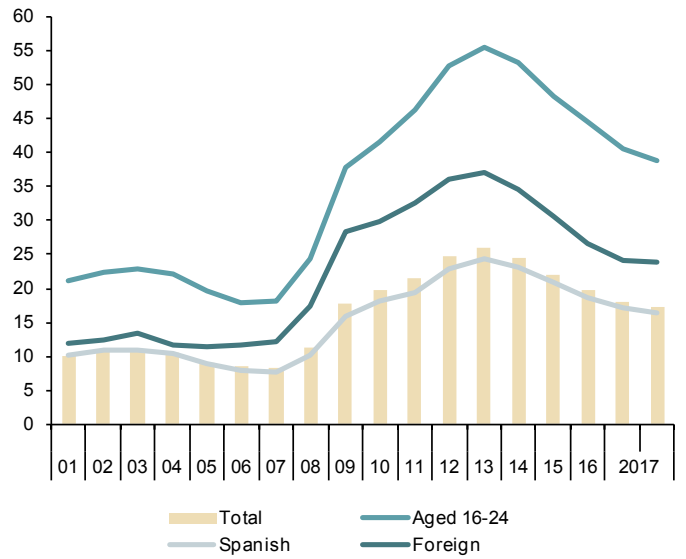


Table 11b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees							
						By type of contract						
	Agriculture	Industry	Construction	Services	Total	Temporary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
	Million (original data											
2009	0.79	2.81	1.89	13.62	15.88	4.00	11.88	25.2	3.23	16.71	2.40	12.5
2010	0.79	2.65	1.65	13.64	15.59	3.86	11.73	24.7	3.13	16.29	2.44	13.0
2011	0.76	2.60	1.40	13.66	15.39	3.87	11.52	25.1	3.03	15.92	2.50	13.6
2012	0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.5
2013	0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.8
2014	0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.9
2015	0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.7
2016	0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.2
2017 (c)	0.84	2.60	1.11	14.07	15.52	4.08	11.44	26.3	3.11	15.75	2.87	15.4
2015 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
II	0.83	2.64	1.13	14.21	15.69	4.21	11.48	26.8	3.12	15.94	2.87	15.3
	Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
2009	-4.8	-13.3	-23.2	-2.3	-5.8	-18.4	-0.6	-3.9	-10.6	-7.5	-0.4	0.8
2010	-0.3	-5.6	-12.6	0.1	-1.8	-3.6	-1.2	-0.5	-2.9	-2.5	1.7	0.5
2011	-3.9	-1.7	-15.0	0.2	-1.3	0.3	-1.8	0.4	-3.3	-2.2	2.5	0.5
2012	-1.6	-4.6	-17.3	-3.0	-5.3	-11.8	-3.1	-1.7	1.1	-5.3	2.3	0.9
2013	-0.9	-5.2	-11.4	-1.7	-3.5	-4.6	-3.1	-0.3	0.4	-4.3	6.0	1.3
2014	-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015	0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016	5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017 (d)	9.3	4.6	5.0	1.6	3.0	6.7	1.8	0.9	0.2	2.6	2.0	-0.1
2015 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
II	9.5	5.6	5.2	1.7	3.3	7.7	1.8	1.1	0.3	2.9	2.5	-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 11b 1.- Employment by sector

Annual percentage changes

Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

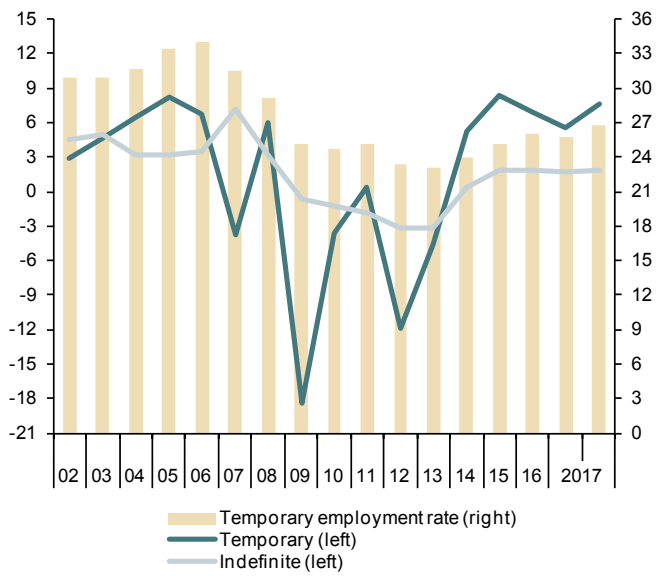


Table 12

Index of Consumer Prices

Forecasts in yellow

	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	100.0	100.0	100.0
2017	101.9	101.2	101.1	100.2	101.6	100.8	101.8	107.2	101.1
2018	103.1	102.5	102.6	100.9	103.4	102.7	102.7	106.7	102.7
				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	1.1	0.2	1.6	0.8	1.9	7.2	1.1
2018	1.2	1.3	1.4	0.6	1.8	1.9	0.8	-0.4	1.5
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	1.5	1.4	1.4	0.3	1.9	1.0	-1.0	4.1	0.3
Aug	1.6	1.2	1.2	0.0	1.7	1.1	-1.6	6.3	0.3
Sep	1.7	1.2	1.2	0.1	1.7	1.3	1.2	5.2	1.2
Oct	1.2	1.1	1.2	-0.1	1.7	1.5	0.9	1.9	1.3
Nov	1.2	1.0	1.1	-0.2	1.7	1.6	1.5	2.0	1.6
Dec	0.8	0.8	1.0	-0.2	1.4	1.7	0.9	-1.1	1.4
2018 Jan	0.2	1.1	1.2	0.0	1.7	1.8	-0.3	-6.0	1.1
Feb	0.5	1.2	1.4	0.2	1.8	2.1	-2.3	-3.7	0.7
Mar	1.0	1.4	1.6	0.3	2.1	2.1	-1.3	-1.2	1.0
Apr	0.7	0.9	1.1	0.4	1.2	2.2	-0.6	-1.8	1.2
May	1.0	1.3	1.4	0.5	1.8	2.0	-0.5	-0.7	1.2
Jun	1.3	1.3	1.4	0.5	1.7	1.9	0.6	1.3	1.4
Jul	1.5	1.4	1.4	0.8	1.7	1.8	1.3	2.1	1.7
Aug	1.6	1.5	1.5	0.9	1.8	1.8	2.8	1.1	2.1
Sep	1.6	1.5	1.5	0.9	1.8	1.7	2.8	1.0	2.1
Oct	1.6	1.5	1.5	1.0	1.8	1.7	2.8	1.0	2.0
Nov	1.6	1.5	1.6	1.0	1.8	1.7	2.5	1.0	1.9
Dec	1.6	1.6	1.6	1.1	1.8	1.6	2.6	1.1	2.0

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

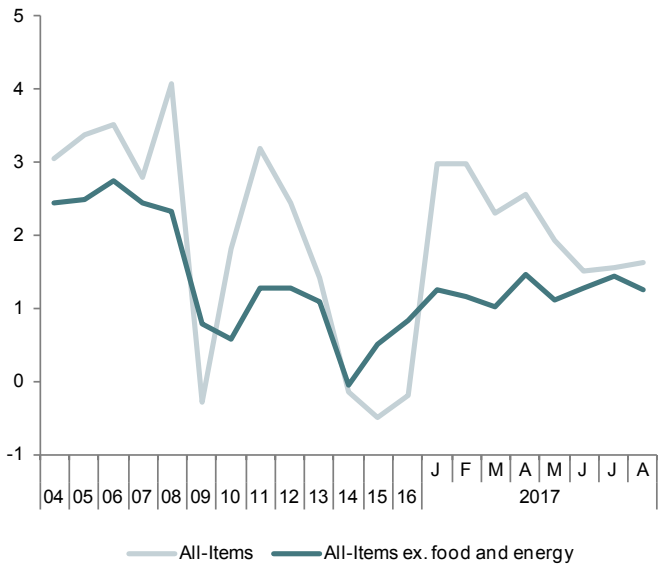


Chart 12.2 - Inflation rate (II)

Annual percentage changes

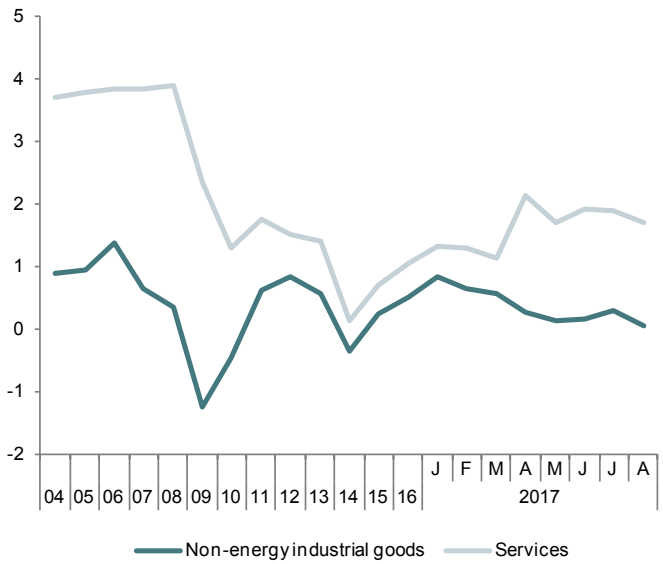


Table 13

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	m^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2010=100	2010=100		2007=100			2000=100				
2010	100.0	100.0	100.0	90.1	89.6	74.8	142.8	140.4	150.2	151.4	--
2011	100.0	106.9	104.2	83.4	84.6	69.8	144.5	141.9	152.5	154.8	
2012	100.1	111.0	105.9	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	100.5	111.7	106.7	64.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014	100.2	110.2	105.9	64.5	71.0	52.6	143.3	140.9	150.7	155.4	--
2015	100.7	107.9	106.2	66.8	71.7	54.9	144.2	142.5	149.6	156.4	--
2016	101.0	104.5	105.8	70.0	73.1	57.8	143.6	142.1	148.4	156.2	--
2017 (b)	101.4	108.7	108.0	73.1	74.3	59.9	143.2	141.2	149.1	150.8	--
2015 IV	100.8	106.1	105.7	67.7	72.5	54.5	151.0	151.7	148.6	164.4	--
2016 I	100.5	102.3	105.2	68.7	72.6	56.6	140.4	137.3	150.0	147.4	--
II	101.1	103.4	105.6	69.9	73.3	58.7	146.2	145.5	148.4	154.5	--
III	100.9	105.0	106.0	70.5	72.9	54.2	138.2	135.1	147.7	159.4	--
IV	101.5	107.4	106.3	70.8	73.5	61.6	149.8	150.6	147.4	163.6	--
2017 I	101.4	109.4	107.7	72.4	74.2	60.1	140.2	137.0	150.1	147.1	--
II	101.4	108.3	108.2	73.8	74.4	59.7	146.1	145.5	148.2	154.4	--
III (b)	--	108.2	108.3	--	--	--	--	--	--	--	--
2017 Jun	--	108.4	108.2	--	--	--	--	--	--	--	--
Jul	--	108.2	108.2	--	--	--	--	--	--	--	--
Aug		108.2	108.3								
	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	0.4	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)	0.6	5.2	2.3	5.4	1.9	3.9	-0.1	-0.1	0.0	-0.1	1.3
2015 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	0.9	6.9	2.4	5.3	2.3	6.2	-0.1	-0.2	0.1	-0.2	1.3
II	0.3	4.8	2.5	5.6	2.0	1.8	0.0	0.0	-0.2	-0.1	1.3
III (e)	--	3.1	2.1	--	--	--	--	--	--	--	--
2017 Jun	--	3.2	2.2	--	--	--	--	--	--	--	1.3
Jul	--	3.0	2.0	--	--	--	--	--	--	--	1.3
Aug		3.2	2.1								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 13.1 - Housing and urban land prices

Index (2007=100)

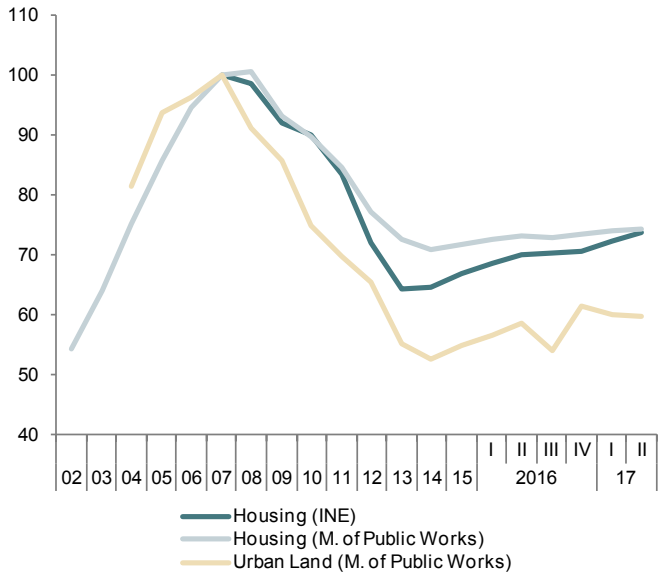


Chart 13.2 - Wage costs

Annual percent change

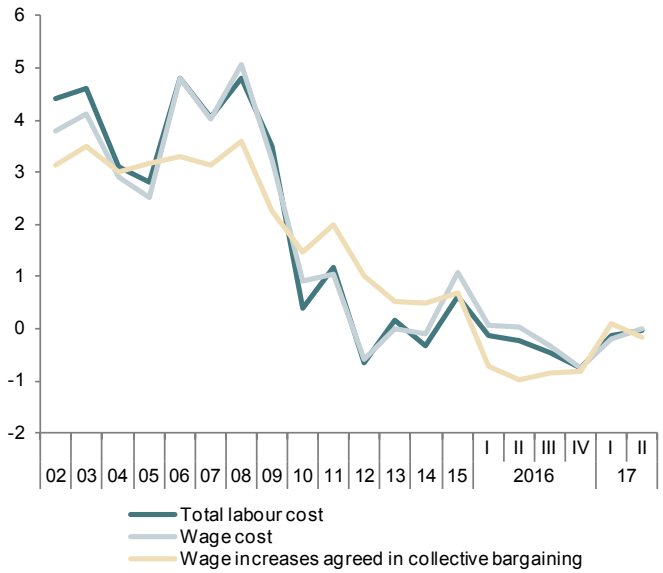


Table 14

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)	177.8	108.2	164.2	129.2	105.6	122.4	15.0	7.7	-2.2	0.2	1.3
2015 III	165.5	109.4	151.2	120.8	104.4	115.8	13.2	7.6	-2.1	0.2	0.6
IV	165.0	109.9	150.2	118.2	103.9	113.8	13.8	7.4	-1.7	0.3	0.7
2016 I	158.8	107.7	147.4	114.2	99.4	114.9	13.8	6.6	-1.7	-0.1	1.1
II	165.9	107.7	154.0	117.0	100.3	116.6	14.8	7.2	-1.3	0.3	1.1
III	165.5	108.3	152.9	117.3	101.6	115.5	13.2	7.4	-1.5	0.3	0.9
IV	171.6	108.8	157.8	122.7	104.0	118.0	14.5	7.4	-1.7	0.1	1.3
2017 I	178.0	108.5	164.1	131.0	107.2	122.2	15.6	7.6	-2.5	0.2	1.3
II	179.4	107.7	166.6	127.5	104.6	121.9	15.7	7.8	-1.6	0.4	1.7
2017 May	184.2	108.7	169.5	131.8	105.7	124.7	16.8	7.9	-1.9	0.2	1.8
Jun	176.8	106.5	165.9	125.4	103.4	121.2	16.0	7.6	-1.6	0.3	1.5
Jul	172.3	109.2	157.8	128.7	103.5	124.3	14.1	8.0	-2.8	-0.5	0.4
	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)	9.1	0.2	8.9	11.7	5.5	5.8	8.4	10.7	--	--	--
2015 III	7.6	-4.2	12.3	4.9	-4.0	9.2	6.8	9.0	-2.4	0.2	0.7
IV	-1.1	1.7	-2.7	-8.5	-1.9	-6.8	4.4	-10.3	-1.9	0.3	0.8
2016 I	-14.2	-7.7	-7.1	-12.7	-16.1	4.0	-0.7	-35.8	-1.9	-0.1	1.2
II	19.2	0.1	19.0	9.9	3.8	5.9	9.7	40.8	-1.4	0.3	1.1
III	-0.9	1.9	-2.8	1.3	5.1	-3.7	-6.2	10.0	-1.6	0.3	0.9
IV	15.5	1.9	13.3	19.6	9.7	9.1	21.7	4.6	-1.8	0.1	1.4
2017 I	15.7	-1.1	17.0	29.8	12.9	15.0	19.5	8.6	-2.6	0.2	1.4
II	3.3	-2.7	6.1	-10.2	-9.1	-1.1	0.0	0.0	-1.7	0.4	1.8
2017 May	3.9	0.6	3.2	5.1	0.8	4.3	5.2	1.3	--	--	--
Jun	-4.0	-2.0	-2.1	-4.9	-2.1	-2.8	-4.2	-3.7	--	--	--
Jul	-2.5	2.5	-4.9	2.7	0.1	2.5	-6.3	4.9	--	--	--

(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 14.1 - External trade (real)

Percent change from previous period

Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

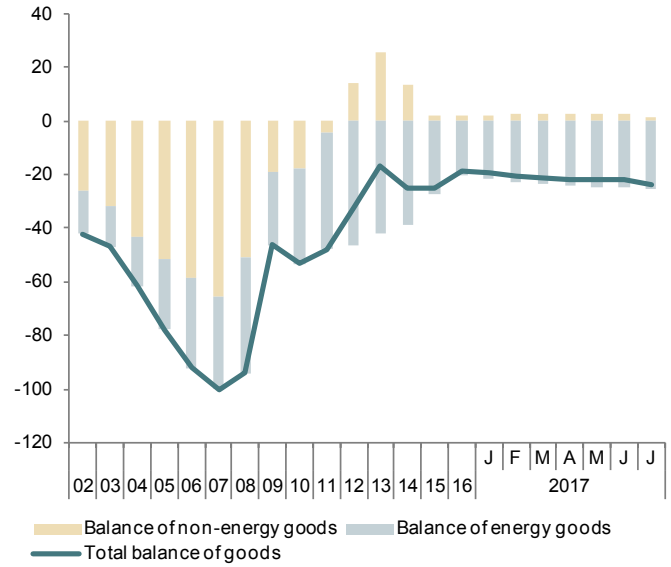


Table 15

Balance of Payments (according to IMF manual)

Net transactions

	Current account						Financial account							
	Total	Goods	Services	Primary Income	Secondary Income	Capital account	Current and capital accounts	Financial account, excluding Bank of Spain					Bank of Spain	Errors and omissions
								Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
	1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
	EUR billions													
2008	-103.25	-87.04	29.82	-30.49	-15.55	4.67	-98.58	-69.23	-1.53	0.96	-75.72	7.07	-30.22	-0.86
2009	-46.19	-41.47	29.54	-19.62	-14.64	3.33	-42.86	-40.70	1.94	-44.04	-4.66	6.05	-10.46	-8.31
2010	-42.39	-47.80	33.93	-15.13	-13.38	4.89	-37.49	-27.24	-1.46	-28.40	11.23	-8.61	-15.70	-5.44
2011	-34.04	-44.48	42.59	-18.36	-13.79	4.06	-29.98	79.51	9.23	26.25	41.96	2.07	-109.23	0.26
2012	-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013	15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014	11.22	-22.22	47.89	-3.37	-11.09	5.05	16.27	-15.39	6.48	-5.44	-17.71	1.28	27.49	-4.17
2015	12.18	-22.30	47.56	-2.26	-10.81	7.07	19.25	63.86	27.93	-6.80	43.74	-1.01	-40.16	4.45
2016	21.48	-17.42	51.10	-0.18	-12.01	2.68	24.17	79.33	16.67	38.29	26.99	-2.62	-52.63	2.53
2017 (a)	4.75	-10.96	24.12	-2.08	-6.34	0.82	5.57	38.85	3.85	25.70	11.16	-1.85	-37.33	-4.04
2015 III	5.05	-7.35	16.84	-2.65	-1.80	1.52	6.57	8.45	3.63	1.23	3.59	-0.01	0.24	2.12
IV	5.95	-5.44	10.19	3.02	-1.82	3.36	9.31	25.06	4.08	-6.42	27.04	0.36	-16.79	-1.04
2016 I	-0.89	-4.71	8.76	-0.31	-4.63	0.68	-0.20	2.32	5.22	16.93	-18.32	-1.50	-7.19	-4.67
II	6.16	-2.66	13.16	-2.59	-1.74	0.66	6.82	39.86	4.90	9.19	25.93	-0.17	-34.60	-1.56
III	8.08	-4.98	17.54	-1.46	-3.02	0.38	8.46	18.80	0.13	10.02	9.74	-1.09	-6.48	3.86
IV	8.12	-5.06	11.63	4.18	-2.63	0.96	9.09	18.36	6.42	2.15	9.64	0.14	-4.37	4.91
2017 I	-0.74	-6.51	8.94	0.52	-3.69	0.49	-0.26	40.90	-0.53	28.82	14.22	-1.61	-43.23	-2.07
II	5.49	-4.44	15.18	-2.61	-2.64	0.33	5.82	-2.05	4.38	-3.13	-3.06	-0.24	5.90	-1.97
		Goods and Services		Primary and Secondary Income										
2017 Apr	0.60	2.87		-2.26		0.05	0.65	-3.79	1.69	-2.34	-2.96	-0.18	9.09	4.65
May	2.71	3.77		-1.06		0.10	2.81	4.96	1.30	3.82	-0.12	-0.04	-8.12	-5.97
Jun	2.18	4.10		-1.93		0.19	2.36	-3.22	1.39	-4.61	0.02	-0.02	4.93	-0.65
	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	-2.1	4.6	-0.3	-1.1	0.5	1.6	-1.5	0.6	-0.5	-1.7	0.1	2.7	-0.4
2015	1.1	-2.1	4.4	-0.2	-1.0	0.7	1.8	5.9	2.6	-0.6	4.1	-0.1	-3.7	0.4
2016	1.9	-1.6	4.6	0.0	-1.1	0.2	2.2	7.1	1.5	3.4	2.4	-0.2	-4.7	0.2
2017 (a)	0.8	-1.9	4.3	-0.4	-1.1	0.1	1.0	6.9	0.7	4.5	2.0	-0.3	-6.6	-0.7
2015 III	1.9	-2.8	6.3	-1.0	-0.7	0.6	2.5	3.2	1.4	0.5	1.4	0.0	0.1	0.8
IV	2.1	-1.9	3.6	1.1	-0.6	1.2	3.3	8.9	1.4	-2.3	9.6	0.1	-6.0	-0.4
2016 I	-0.3	-1.8	3.3	-0.1	-1.7	0.3	-0.1	0.9	2.0	6.4	-6.9	-0.6	-2.7	-1.8
II	2.2	-0.9	4.7	-0.9	-0.6	0.2	2.4	14.1	1.7	3.2	9.2	-0.1	-12.2	-0.6
III	2.9	-1.8	6.4	-0.5	-1.1	0.1	3.1	6.8	0.0	3.6	3.5	-0.4	-2.4	1.4
IV	2.8	-1.7	4.0	1.4	-0.9	0.3	3.1	6.3	2.2	0.7	3.3	0.0	-1.5	1.7
2017 I	-0.3	-2.4	3.3	0.2	-1.3	0.2	-0.1	14.9	-0.2	10.5	5.2	-0.6	-15.7	-0.8
II	1.9	-1.5	5.2	-0.9	-0.9	0.1	2.0	-0.7	1.5	-1.1	-1.0	-0.1	2.0	-0.7

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

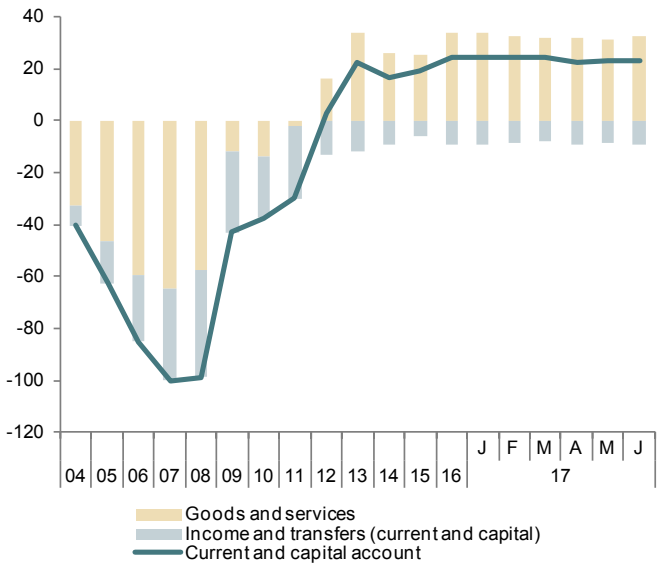


Chart 15.2 - Balance of payments: financial account

EUR Billions, 12-month cumulated

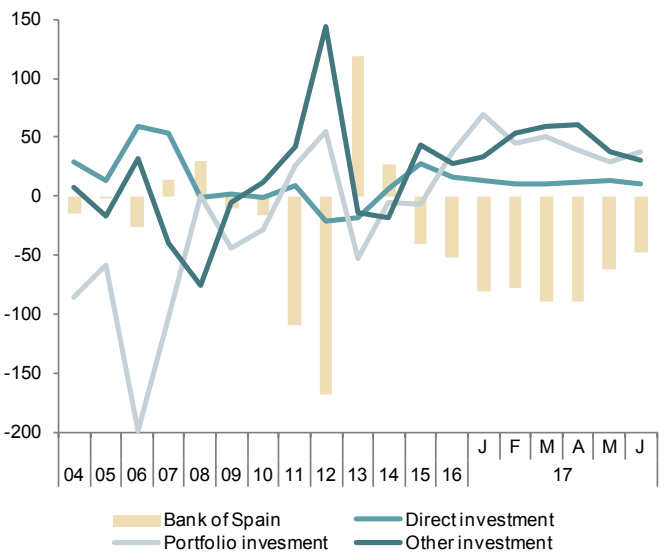


Table 16

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	101.5	99.8	108.0	104.5	103.3	109.8
2015 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
II	--	--	--	102.2	102.0	100.2	107.7	104.4	103.1	110.3
2017 Jun	--	--	--	102.2	102.0	100.3	107.6	104.1	103.4	110.8
Jul	--	--	--	101.0	101.4	99.5	107.6	104.0	103.5	110.1
Aug	--	--	--	101.2	101.7	99.4	--	--	--	--
	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)	--	--	--	0.7	0.5	0.2	5.0	3.3	1.7	1.3
2015 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
II	--	--	--	2.1	1.5	0.6	4.7	3.2	1.5	1.1
2017 Jun	--	--	--	1.6	1.3	0.3	3.3	2.3	1.0	1.4
Jul	--	--	--	1.7	1.3	0.4	3.2	1.9	1.3	1.5
Aug	--	--	--	2.0	1.5	0.5	--	--	--	--

(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 16.1 - Relative Unit Labour Costs in industry (Spain/EMU)

1998=100

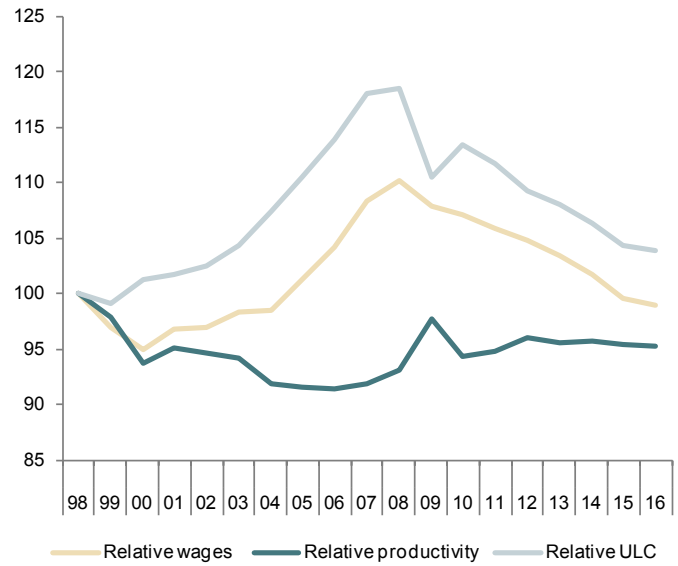


Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

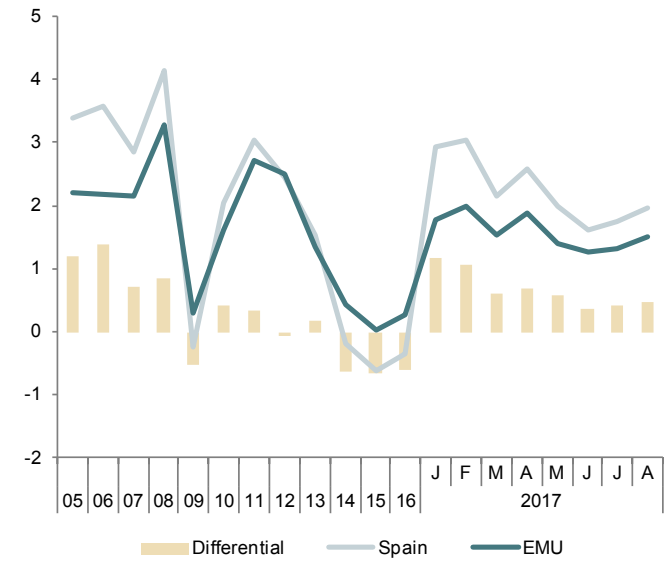


Table 17a

Imbalances: International comparison (I)

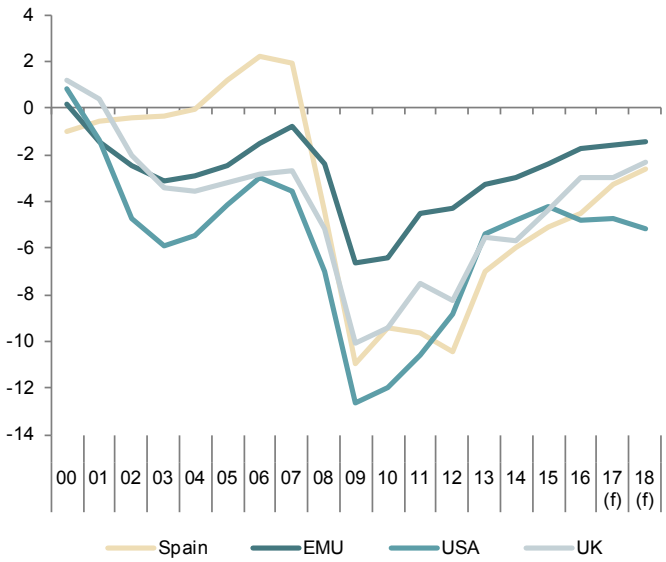
In yellow: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government consolidated gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	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 17a.1 - Government deficit

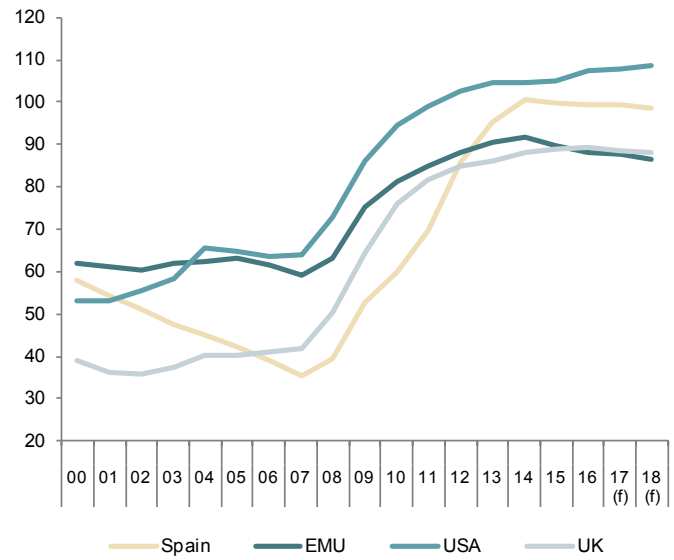
Percentage of GDP



(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP



(f) European Commission forecast.

Table 17b

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	4,786.2	11,974.9	1,189.8	925.0	7,586.3	8,161.5	1,102.9
2006	780.7	5,196.3	13,255.3	1,310.9	1,158.8	8,230.8	8,977.6	1,201.6
2007	876.6	5,561.3	14,170.6	1,426.4	1,344.5	9,021.8	10,099.1	1,281.6
2008	914.0	5,806.6	14,053.7	1,477.0	1,422.6	9,597.3	10,678.7	1,476.9
2009	906.2	5,935.6	13,814.0	1,473.8	1,406.1	9,531.4	10,152.4	1,414.2
2010	902.5	6,070.3	13,575.6	1,476.9	1,429.4	9,809.4	10,001.6	1,379.5
2011	875.2	6,161.1	13,381.5	1,486.7	1,415.7	9,964.6	10,261.7	1,408.1
2012	838.2	6,148.9	13,448.8	1,509.2	1,309.8	10,102.0	10,770.4	1,481.4
2013	790.6	6,096.7	13,596.8	1,525.5	1,231.2	9,974.9	11,251.2	1,454.1
2014	754.2	6,121.3	13,955.7	1,565.8	1,168.0	10,425.1	11,940.8	1,414.1
2015	729.6	6,184.5	14,310.8	1,612.8	1,147.4	11,001.1	12,761.0	1,394.8
2016	717.1	6,292.7	14,768.8	1,685.9	1,134.1	11,160.2	13,462.7	1,488.9
2017 I	713.3	6,317.8	14,880.7	1,709.2	1,144.3	11,273.2	13,735.6	1,495.7
	Percentage of GDP							
2005	70.2	56.6	91.5	86.2	99.4	89.7	62.3	80.0
2006	77.5	58.4	95.7	90.1	115.0	92.6	64.8	82.6
2007	81.1	59.3	97.9	93.2	124.4	96.2	69.8	83.7
2008	81.9	60.4	95.5	94.4	127.4	99.8	72.6	94.5
2009	84.0	63.9	95.8	97.0	130.3	102.6	70.4	93.1
2010	83.5	63.6	90.7	93.9	132.2	102.8	66.8	87.7
2011	81.8	62.9	86.2	91.3	132.3	101.7	66.1	86.4
2012	80.6	62.5	83.2	90.1	126.0	102.7	66.7	88.5
2013	77.1	61.4	81.5	87.7	120.0	100.5	67.4	83.6
2014	72.7	60.4	80.1	85.9	112.6	102.8	68.5	77.6
2015	67.8	59.1	79.0	86.2	106.7	105.1	70.4	74.4
2016	64.4	58.6	79.3	86.9	101.8	104.0	72.3	76.8
2017 I	63.4	58.4	78.4	87.4	101.8	104.2	72.4	76.4

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

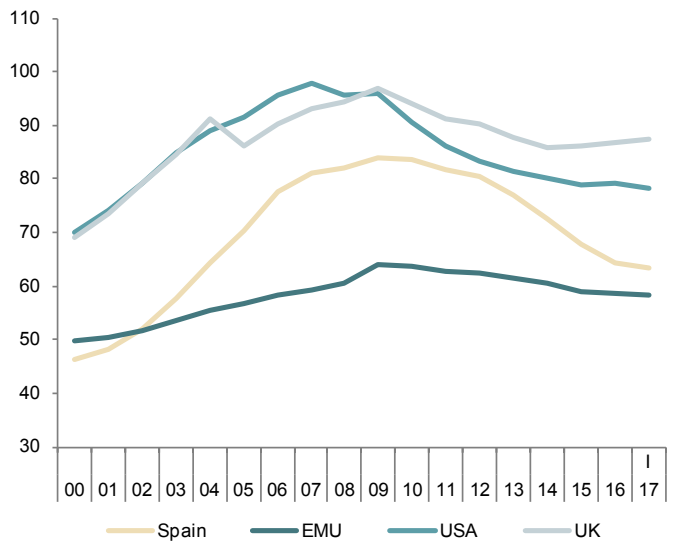
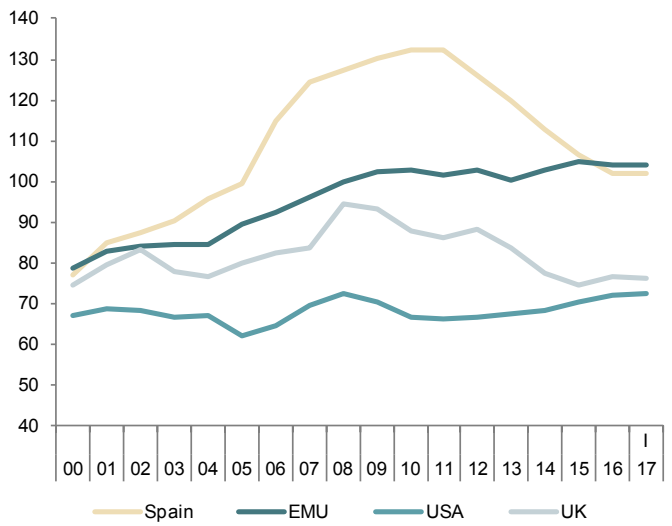


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: September 15th, 2017

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.1	July 2017
Other resident sectors' deposits in credit institutions (monthly average % var.)	1.8	July 2017
Doubtful loans (monthly % var.)	-3.6	July 2017
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	767,646	July 2017
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	171,832	July 2017
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	54	July 2017
"Operating expenses/gross operating income" ratio (%)	54.41	March 2017
"Customer deposits/employees" ratio (thousand euros)	6,471.37	March 2017
"Customer deposits/branches" ratio (thousand euros)	43,124.24	March 2017
"Branches/institutions" ratio	137.88	March 2017

A. Money and Interest Rates

Indicator	Source	Average 2001-2014	2015	2016	2017 August	2017 15th September	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	-0.330	-0.329	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.5	0.2	-0.03	-0.161	-0.169	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.4	1.7	1.4	1.5	1.6	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.3	2.1	2.3	1.9	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": There was a heterogeneous evolution of interbank rates in the first fortnight of September. The 3-month interbank rate slightly increased to -0.329% from -0.330% in August and the 1-year Euribor decreased to -0.169% from -0.161% in August. The ECB has timidly advanced an acceleration of tapering but it is still far from the policy changes of the Fed and from increases in interest rates. As for the Spanish 10-year bond yield, it has increased to 1.6%.

B. Financial Markets

Indicator	Source	Average 2001-2014	2015	2016	2017 June	2017 July	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	39.0	75.5	102.6	105.78	85.24	(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	54.94	53.29	(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	1.69	0.77	(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	2.29	1.27	(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	0.07	0.01	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	642.9	1,058.2	1,104.9	1,112.37	1,101.08	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	-3.9	1.4	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	17.7	-28.7	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec 1985=100)	Bank of Spain and Madrid Stock Exchange	1,038.3	965.1	943.6	1,062.3	1,044.1 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,750.4	10,647.2	8,790.9	10,536.1	10,361.1 (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	17.1	15.8(a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
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

B. Financial Markets (continued)

Indicator	Source	Average 2001-2014	2015	2016	2017 June	2017 July	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.9	-0.2	0.1	-0.3	-1.3	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.5	0.1	0.0	-0.13	0.09	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.6	1.3	-0.4	6.3	-10.4	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	8.9	17.7	5.8	17.2	-44.1	IBEX-35 shares concluded transactions

(a) Last data published: September 15th, 2017

Comment on "Financial Markets": During July, there was a decrease in transactions with outright spot T-bills to 85.24% and also a fall of spot government bonds transactions, which stood at 53.29%. The stock market has registered a certain gain in the first fortnight of September compared to the end of August, with the IBEX-35 up to 10,361 points, and the General Index of the Madrid Stock Exchange to 1,044. Additionally, there was a fall of 10.4% in financial IBEX-35 futures transactions and a decrease of 44.1% in transactions with IBEX-35 financial options.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2013	2014	2015	2016 Q4	2017 Q1	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.8	1.6	2.2	2.1	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	2.6	2.4	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	297.0	295.2	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	81.4	72.4	67.5	64.4	63.4	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	0.6	1.8	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	1.1	1.9	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2017Q1, the financial savings to GDP in the overall economy remained at 2.1%. There was a decrease in the financial savings rate of households from 2.6% in 2016Q4 to 2.4% in 2017Q1. The debt to GDP ratio fell to 63.4%. Finally, the stock of financial assets on households' balance sheets registered an increase of 1.8%, and there was a 1.9% increase in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2014	2015	2016	2017 May	2017 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.5	-4.0	-4.1	-0.2	-0.1	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	1.1	1.8	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	-0.2	0.0	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	-2.2	6.8	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	-3.9	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	39.8	-22.4	-13.6	-1.8	-3.6	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	7.7	2.4	Liability-side assets sold under repurchase. Percentage change for the sum of banks. savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	8.8	-1.8	-0.3	0.3	-1.9	Equity percentage change for the sum of banks, savings banks and credit unions

Comment on "Credit institutions. Business Development": The latest available data as of June 2017 show a decrease in bank credit to the private sector of 0.1%. Data also show a growth in financial institutions' deposit-taking of 1.8%. Holdings of debt securities remained unchanged. Doubtful loans decreased 3.6% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2013	2014	2015	2016 December	2017 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	199	138	135	124	123	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	73	86	82	82	83	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	194,283	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,703	31,817	30,921	28,807	208,404	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	-	406,285	460,858	527,317	767,646(a)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem: long term (total Spanish financial institutions) (Euro millions)	Bank of Spain	-	111,338	122,706	138,455	171,832(a)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	22,794	21,115	10,515	1,408	54(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: July 2017

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In July 2017, recourse to Eurosystem funding by Spanish credit institutions reached 171.83 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 270.7 billion euro in March and 2.09 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 December	2017 March	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	50.89	47.27	50.98	54.18	54.41	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	5,600.48	6,471,37	Productivity indicator (business by employee
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	21,338.27	40,119.97	36,791.09	39,457.04	43,124.24	Productivity indicator (business by branch)

F. Credit institutions. Efficiency and Productivity, Risk and Profitability (continued)

Indicator	Source	Average 2000-2013	2014	2015	2016 December	2017 March	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	205.80	142.85	229.04	139.84	137.88	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.1	6.8	6.57	7.05	6.67	Branch size indicator
48. "Equity capital (monthly average % var.)	Bank of Spain	0.11	0.07	0.01	-0.62	0.78	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.45	0.49	0.39	0.26	0.29	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	6.27	6.46	5.04	3.12	3.42	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": In March 2017, 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.

Social Indicators

Table 1

Population

Population										
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (all nationalities)	New entries (EU-27 born)(%)
2006	44,708,964	40.6	16.7	77.7	84.2	47.5	24.6	10.8	840,844	37.6
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	726,009	28.4
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	464,443	35.6
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	370,515	36.4
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	399,947	38.0
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	455,679	36.4
2016	46,557,008	42.7	18.6	80.4	85.9	52.9	28.4	13.2	534,574	33.4
2017*	46,528,966	42.9	18.8			53.2	28.8	13.2		
Sources	PMC	PMC	PMC	ID INE	ID INE	PMC	PMC	PMC	EVR	EVR

IDE INE: *Indicadores Demográficos INE*.

PMC: *Padrón Municipal Continuo*.

EVR: *Estadística de Variaciones Residenciales*.

Dependency rate: (15 or less years old population + 65 or more years old population)/ 16-64 years old population, as a percentage.

Dependency rate (older than 64): 65 or more years old population/ 16-64 years old population, as a percentage.

* Provisional data.

Table 2

Households and families

	Households				Nuptiality					
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Marriage rate (Spanish)	Marriage rate (foreign population)	Separations and divorces	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
2006	15,856	2.76	11.6	10.3	9.3	9.5	155,628	34.1	30.0	2.08
2008	16,742	2.71	12.0	10.2	8.5	8.4	131,060	34.6	31.5	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	127,682	35.7	32.5	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	127,160	36.3	33.3	2.04
2014*	18,329	2.51	14.2	10.6	6.9	6.5	133,643	36.9	33.9	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	130,141	37.2	34.3	2.26
2016	18,444	2.52	14.6	10.9	7.4	6.5				2.86
2017▪	18,503	2.51								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	CGPJ	ID INE	ID INE	MNP

Table 2 (continued)

Households and families

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2006	29.3	1.31	1.69	28.4	10.6	
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.70			
Sources	ID INE	ID INE	ID INE	ID INE	MSAN	MSAN

LFS: *Labour Force Survey*. EPF: *Encuesta de Presupuestos Familiares*. ID INE: *Indicadores Demográficos INE*. CGPJ: Consejo General del Poder Judicial.MNP: *Movimiento Natural de la Población*. MSAN: Ministerio de Sanidad, Servicios Sociales e Igualdad.

Marriage rate: Number of marriages per thousand population.

Total fertility rate: The average number of children that would be born per woman living in Spain if all women lived to the end of their childbearing years and bore children according to a given fertility rate at each age.

Abortion rate: Number of abortions per 1,000 women (15-44 years).

*The magnitude change in 2014 LFS data is partly due to a methodological change.

▪ Data refer to January-June.

Table 3

Education

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (thousands of €)	Public expenditure (%GDP)
2006	32.9	8.4	15.6	25.3	1,557,257	630,349	445,455	1,405,894	16,636	42,512,586	4.31
2008	32.1	9.2	16.1	26.9	1,763,019	629,247	472,604	1,377,228	50,421	51,716,008	4.63
2010	30.6	8.6	17.0	27.7	1,872,829	672,213	555,580	1,445,392	104,844	53,099,329	4.91
2012	28.5	7.5	17.8	26.6	1,912,324	692,098	617,686	1,450,036	113,805	46,476,414	4.46
2014*	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846,415	4.31
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,648,800●	4.34●
2016	22.4	6.6	28.1	40.7	1,778,620●	687,692●	651,722●	1,307,461●	184,745●		
2017▪	21.6	6.5	28.2	40.6							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	Contabilidad Nacional del INE

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

* The magnitude change in 2014 LFS data is partly due to a methodological change.

● Provisional data.

▪ Data refer to January-June.

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood		Social Security			
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2006	720,384	4,809,298	722.7	859,780	731.5	2,196,934	477	558,702	276,920	204,844	82,064
2008	1,100,879	4,936,839	814.5	906,835	801.5	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884.0	933,730	849.9	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946.3	943,296	887.3	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	999.8	929,484	915.6	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923.3	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	929.7	2,364,388	638	997,192	254,741	199,762	21,350
2017•	715,813	5,806,390	1,061	945,698	936.0	2,358,779	645	921,638	255,849	199,678	19,481
Sources	BEL	BEL	BEL	BEL	BEL	BEL	BEL	BEL	IMSERSO	IMSERSO	IMSERSO

BEL: *Boletín de Estadísticas Laborales.*

IMSERSO: Instituto de Mayores y Servicios Sociales.

* Benefits for orphans and dependent family members of deceased Social Security affiliates are excluded.

• Data refer to January-August.

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction		Patients on waiting list	
	Total (% GDP)	Public (% GDP)	Total expenditure ($ per inhabitant)	Public expenditure (per inhabitant)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people asigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people asigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures per 1,000 inhabitants	Specialist consultations per 1,000 inhabitants
2006	7.76	5.62	2,391	1,732	1.6	0.7	2.8	0.6	5.6	7.0	9.4	35.4
2008	8.29	6.10	2,774	2,042	1.8	0.8	3.0	0.6	6.4	7.0	9.2	37.5
2010	9.01	6.74	2,886	2,157	1.8	0.8	3.2	0.6	6.6	7.3	9.8	33.0
2012	9.09	6.55	2,902	2,095	1.8	0.8	3.1	0.6	6.6	7.5	11.8	35.9
2014	9.08	6.36	3,057	2,140	1.8	0.8	3.1	0.7	6.3	7.5	11.4	39.4
2015	9.16	6.51	3,180	2,258	1.9	0.8	3.2	0.7	6.4	7.5	12.2	43.4
2016	8.98	6.34	3,248	2,293					6.6	7.5	12.7	40.9
Sources	OECD	OECD	OECD	OECD	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

OECD: Organisation for Economic Co-operation and Development.

INE: Instituto Nacional de Estadística.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

Orders or claims:

Funcas
Caballero de Gracia, 28
28013 Madrid (España)
Teléfono: 91 596 54 81
Fax: 91 596 57 96
publica@funcas.es
www.funcas.es