

Spain: A closer look at the regional dimension

WHAT MATTERS

2017-2018 autonomous regions' economic forecasts and key challenges

Autonomous regions leading **decline in debt servicing costs**

Banking concentration in Spain at the provincial level

Outlook for financial stability and business prospects in the **European banking sector**

Spain's structural reforms: Remaining challenges for budget stability and the labour market

Fiscal consolidation: Favourable economic conditions threatened by political uncertainty

Spanish corporates: Foreign exchange risk management in the face of increased complexity

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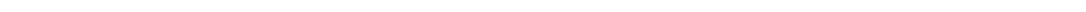
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SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK



Letter from the Editors

As political tensions in Catalonia persist, we start the November issue of *Spanish and International Economic & Financial Outlook (SEFO)* with an in-depth outlook for the Spanish economy overall, together with a breakdown of perspectives for the regional dimension. Spain's GDP is expected to register a growth of 3.1% in 2017 and 2.6% in 2018. The slowdown next year is related to the weakening in domestic demand, together with the negative impact from the political tensions in Catalonia, expected to shave off 0.3 percentage points of national growth. In addition, there is significant divergence in performance across the autonomous regions, notably as regards unemployment, which remains one of the main challenges to territorial cohesion.

This SEFO also looks at progress by the Spanish government as a whole, but in particular the autonomous regions, on improving liability management. The ECB's unconventional monetary policy measures, namely its public debt purchase programs, have helped euro area governments reduce their average cost of debt, while increasing maturities. In the case of Spain, Treasury yields have come down from an average of 4.07% at the end of 2011 to 2.59% at present, while average maturity has increased from 6.3 years at the end of 2013 to 7 years today. Although average funding costs have gone down for all levels of the Spanish public administration, the autonomous regions have seen the largest reduction, primarily explained by the favourable financing arrangements set up by the State. However, autonomous regions should gradually return to market finance to support a constructive outlook for overall public debt sustainability.

Additionally, we present an external study of the resulting map of the Spanish banking system following the strong consolidation effort since the crisis. The author's objective is to measure bank concentration in Spain, building indicators at the provincial level, allowing for a comparison to the situation in 2016 with that of 2008 as well as to analyze the impact of the mergers and acquisitions that have taken place in 2017. The Spanish banking sector stands apart in the European context for the intensity of its consolidation since the start of the crisis in terms of both the reduction in the number of competitors (having declined by 43%, compared to 28% in the Eurozone) and the increase in market concentration – albeit from a starting point below the European average. Notwithstanding the intense restructuring, Spanish banks could still benefit from additional measures to increase efficiency amidst profitability pressures. And despite profound consolidation, the Spanish banking sector remains below the threshold level of a highly concentrated market, even in the wake of the two bank mergers of 2017 (although a provincial approach reveals higher levels of concentration). Recognizing that there is occasionally a trade-off between financial stability and competition, and that the latter may suffer in the interest of the former, there is scope for additional consolidation, including cross-border transactions, as welcomed by the ECB.

The next article explores additional issues that affect banks in Spain, as well as the rest of the EU. We focus on the regulatory and monetary environment for the EU banking sector, including progress and

remaining challenges for the EU banking union, together with providing an update on the current state of play for the Spanish banking system. Europe's banks are approaching year-end offering the highest returns in a decade, albeit still below pre-crisis levels. But in 2018, EU financial institutions will face changes, both in the level of regulatory burden, as well as in the monetary policy environment, and will therefore be under renewed pressure to boost their profitability by increasing cost to efficiency ratios, in part by accelerating technological change. On the regulatory front, completion of Banking Union is running up against a set of challenges. And on the monetary front, quantitative easing is set to be gradually rolled back, albeit over an uncertain time horizon. There is also downside risk, particularly in the form of heightened political tensions in some countries (*i.e.*, the situation in Catalonia in Spain). In Spain, the six largest banks by asset volumes reported aggregate net profits of 11.78 billion in the first nine months of 2017, year-on-year growth of 11.6%. The return on equity (RoE) offered by Spanish banks is above the Eurozone average and their cost-to-income ratio is among the lowest in the region. As for the risks posed by the situation in Catalonia, it is worth noting that the measures taken by the financial institutions affected have proven an efficient backstop to mitigate risks that were reduced from the onset.

Apart from the banking sector, which has been one of the areas where we have seen most notable progress on reforms, we assess two other key areas where structural reform has been undertaken in Spain in recent years – the labour market and budgetary stability. 2012 marked a year of much-needed progress on Spain's structural reform agenda, particularly in the areas of budgetary stability and the functioning of the labour market. However, in the wake of the reforms, a current snapshot of the country's public finances and job market reveals outstanding issues that still need to be addressed. In terms of the sustainability of the country's public finances, the stability act, understood as the fiscal discipline rules, faces issues in terms of its ability to achieve stipulated outcomes which require attention. It is also important to control the increase in certain public liabilities that fall outside the scope of excessive deficit procedure (EDP) definitions. As for the labour market, future reforms need to pay more attention to certain key variables and trends. More specifically, action needs to be taken with respect to the ageing of the working population, the drop in the number of economically-active men and the rise in long-duration unemployment and the resulting shortfall in safety net.

Even given the need to address outstanding fiscal issues, Spain is largely on track to meet the deficit target of 3.1% of GDP for this year. The constructive fiscal outlook has been supported by macroeconomic improvement and the reduction in debt servicing costs on the back of lower interest rates. Not so positive, Spain's consolidation process depends too heavily on cyclical, rather than structural, improvements as the main adjustment mechanism. In addition, potential downside risk from extended political tensions in Catalonia also threatens the outlook for a more ambitious deficit reduction over the medium to longer term. For 2018, meeting official targets may be feasible, but will depend on the ability of the State and Social Security deviations to be offset by the local administrations and for a resolution to the Catalonia crisis before the end of that year. Overall, there is a clear and urgent need for approval of the 2018 Budget to help ensure target compliance. Going forward, Spain's fiscal system requires deep reforms, particularly on the revenues side, to be more sustainable, equitable, and efficient.

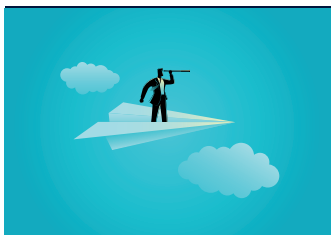
We close this SEFO with a micro-level assessment of how Spanish corporates are adapting their risk management strategies in the face of greater geographic diversification. Spanish companies have significantly increased their presence in international markets in recent years, not only through export activity but also through foreign investment in other economies. This international expansion has simultaneously been accompanied by greater geographical diversification into non-traditional markets. The result has been a growing complexity in the management of various types of exchange rate risks, such as: translation or conversion risk, transaction risk; and economic risk – all of which could potentially impact the company's financial statements through different channels. Effective exchange rate hedging strategies requires a company-by-company, dynamic assessment to ensure instruments are well suited to the underlying risks.

What's Ahead (Next Two Months)

Month	Day	Indicator / Event
December	4	Eurogroup meeting
	4	Social Security affiliates and registered unemployment (November)
	5	Industrial production index (October)
	7	European Council meeting
	14	CPI (November)
	14	ECB monetary policy meeting
	22	Foreign trade report (October)
	22	Spanish regional accounts (2016)
	27	Quarterly balance of payments (3Q17)
	27	Retail sales (November)
	28	Non-financial accounts, state (November)
	28	Non-financial accounts, autonomous regions and Social Security (October)
	29	Monthly balance of payments (October)
	29	Preliminary CPI (December)
	29	Quarterly non-financial institutional sector accounts (3Q17)
January	3	Social Security affiliates and registered unemployment (December)
	11	Industrial production index (November)
	12	CPI (December)
	15	The Spanish economy's financial accounts (3Q17)
	25	Labour Force Survey (4Q17)
	25	ECB monetary policy meeting
	29	Retail sales (December)
	30	Preliminary 4Q17 GDP
	31	Monthly balance of payments (November)
	31	Preliminary CPI (January)

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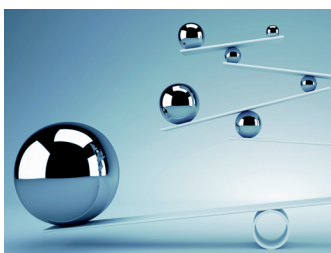
What Matters



3 **2017-2018 autonomous regions' economic forecasts and key challenges**

The Spanish economy is expected to grow by 3.1% in 2017 and by 2.6% in 2018. The slowdown reflects a loss of impetus in domestic demand as well as political tensions in Catalonia. In addition, there is significant divergence in performance across regions, notably as regards unemployment. Reversing these trends and ensuring convergence is one of the main challenges to the country's cohesion going forward.

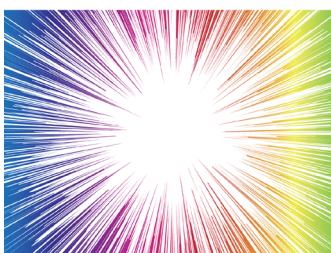
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11 **Autonomous regions leading decline in debt servicing costs**

Although average funding costs have gone down for all levels of the Spanish public administration, the autonomous regions have seen the largest reduction, primarily explained by the favourable financing arrangements set up by the State. However, autonomous regions should gradually return to market finance to support a constructive outlook for overall public debt sustainability.

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21 **Banking concentration in Spain at the provincial level**

Despite undergoing one of the most profound financial sector consolidation efforts within the EU, at the national level, the Spanish banking sector remains below the threshold level of a highly concentrated market, although a provincial-level analysis reveals higher levels of concentration. In this context, and amid profitability pressures, Spanish banks could still benefit from additional measures to increase efficiency.

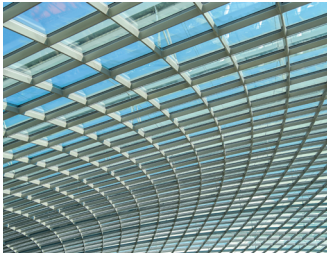
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37 **Outlook for financial stability and business prospects in the European banking sector**

EU banks have significantly improved their profitability post crisis. However, a challenging regulatory and monetary climate will put renewed pressures on bank profitability in the coming year.

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47 **Spain's structural reforms: Remaining challenges for budget stability and the labour market**

2012 marked a year of much-needed progress on Spain's structural reform agenda, particularly in the areas of budget stability and the functioning of the labour market. However, in the wake of the reforms, a current snapshot of the country's public finances and job market reveals outstanding issues that still need to be addressed.

Ramon Xifré



63 **Fiscal consolidation: Favourable economic conditions threatened by political uncertainty**

A constructive macroeconomic climate is helping Spain comply with near-term fiscal objectives. However, political tensions and lack of progress on revenue-enhancing measures will complicate the outlook for fiscal consolidation in the longer-term.

Santiago Lago Peñas



73 **Spanish corporates: Foreign exchange risk management in the face of increased complexity**

Growing internationalisation and geographic diversification of Spanish corporates has increased their exposure to exchange rate, or FX, risk. Firms will need to adopt more refined hedging strategies to manage the impact of potential FX volatility on their financial statements.

Pablo Guijarro and Isabel Gaya

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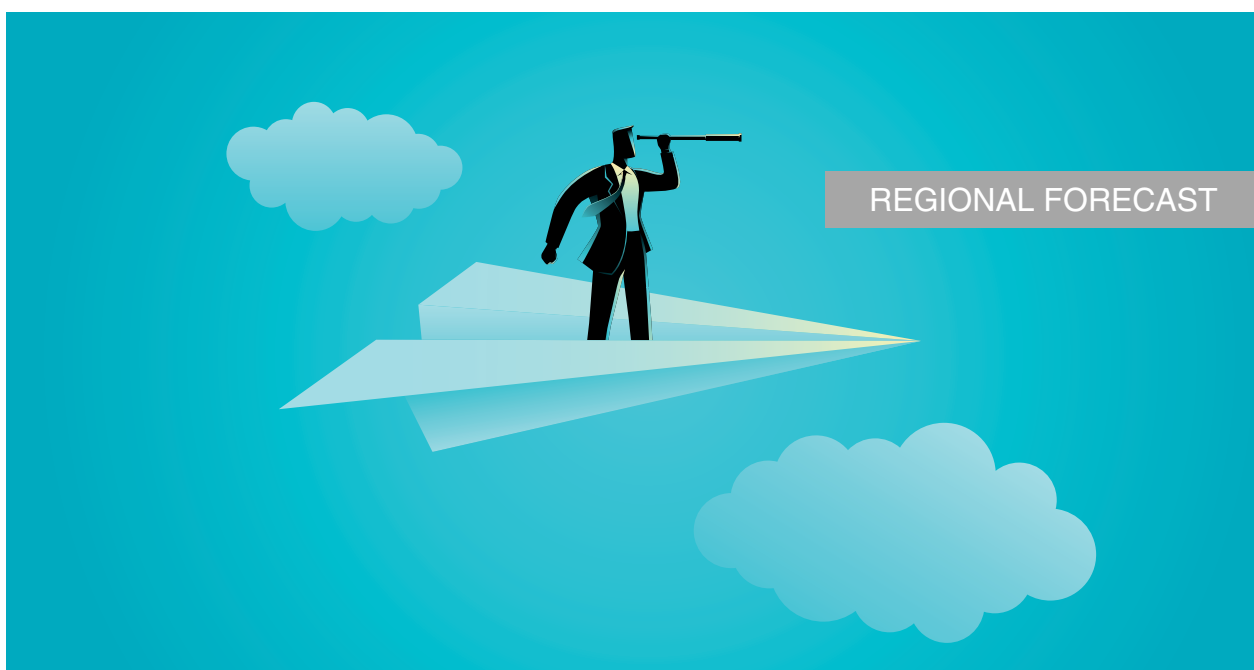
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2017-2018 autonomous regions' economic forecasts and key challenges*

The Spanish economy is expected to grow by 3.1% in 2017 and by 2.6% in 2018. The slowdown reflects a loss of impetus in domestic demand as well as political tensions in Catalonia. In addition, there is significant divergence in performance across regions, notably as regards unemployment. Reversing these trends and ensuring convergence is one of the main challenges to the country's cohesion going forward.

María Jesús Fernández and Raymond Torres

Abstract: The Spanish economy is expected to register a growth of 3.1% in 2017 and 2.6% in 2018. The slowdown next year is related to the weakening in domestic demand together with the negative impact from the political tensions in Catalonia, which are expected to shave off 0.3 percentage points of national growth. Madrid, followed by Galicia and the Valencian

Community are set to be the strongest performers. Meanwhile, Asturias, Catalonia and Extremadura are likely to be the slowest growing autonomous regions. The main factors explaining the differences in regional growth are: i) differing capacities to take advantage of the pick-up in world trade and the EU recovery, so as to compensate for the

slowdown in domestic demand; ii) the overall state of play of public finances; and, iii) an investment diversion effect due to the Catalan situation. Going forward, the persistence of significant differences in unemployment performance across autonomous regions is one of the main challenges to territorial cohesion.

Recent economic performance by the autonomous regions

National GDP accelerated in the first two quarters of the year before slowing in the third quarter. Construction registered the strongest outturn, followed by services, although the loss of momentum in the latter was the main factor explaining the slowdown in growth in the third quarter. Madrid, the Canary Islands, Balearic Islands, Catalonia and Galicia were the fastest growing autonomous regions in the first three quarters of the year in comparison to the previous year. Construction and tourism were the main drivers of growth for the first three autonomous regions, while industry and exports played a more important role in Galicia and Catalonia.

Extremadura, Asturias, Castile-Leon and Murcia posted the slowest growth over the period due to a weak performance by either their industrial or construction sectors.

Spain's overall exports grew robustly over the first eight months of the year, driven by foreign sales of oil products, capital goods and chemical products. This was particularly beneficial for autonomous regions where the oil products sector has a significant weight in their export structure (Canary Islands, Balearic Islands, Murcia and Andalusia), who registered the strongest growth in export sales over the period. However, not all the autonomous regions specialised in capital goods were able to take advantage of export

momentum in this sector (notably Navarre and Cantabria whose capital goods exports were negative). Car exports fell slightly in the year to August, partly due to a decline in the UK market (which accounts for around 12% of car exports) and partly because of stoppages on some production lines as the result of introducing new models. Even so, three of the autonomous regions where the car sector is particularly significant – Aragón, Catalonia and the Basque Country – posted positive export revenue growth. Overall, not all exporting autonomous regions benefited equally from the good headline export performance, including some autonomous regions specialised in the fastest-growing sectors at a national level. Likewise, not all autonomous regions shared equally in tourism exports.

In terms of employment, social security registrations to October rose most in the Balearic Islands, Canary Islands, Andalusia and the Valencian Community, with a notable increase in construction jobs in all these autonomous regions. Castile-Leon, Asturias and the Basque Country saw the slowest growth in social security registrations. However, *Labour Force Survey* data paints a somewhat different picture: on this measure Navarre, Castile-La Mancha, Andalusia and Asturias saw the strongest growth in the first three quarters, while employment growth was weakest in Extremadura, the Basque Country and the Balearic Islands.

2017-18 forecasts

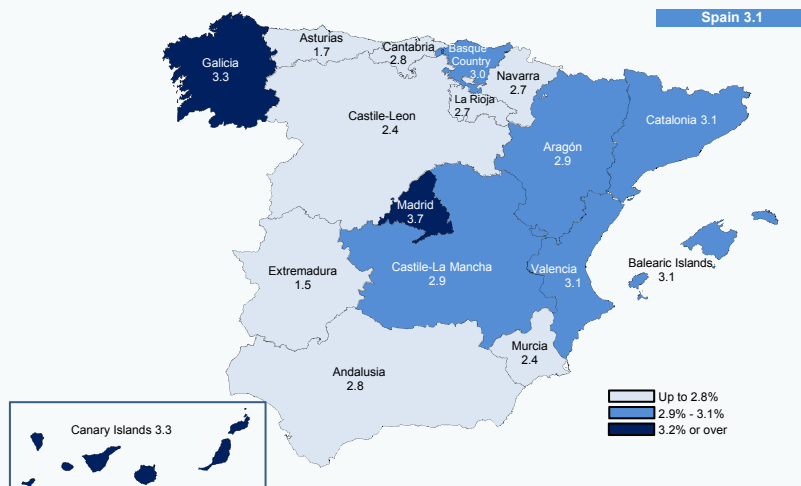
The Spanish economy is forecast to grow by 3.1% in 2017 and 2.6% in 2018, although the latter is subject to significant uncertainty stemming from the difficulties associated with quantifying the impact of the political tensions associated with developments in

“ Under assumption of normalisation of political tensions from the second quarter of next year onwards, annual growth in Catalonia could slow from 3.1% in 2017 to 1.7% in 2018, shaving 0.3 percentage points off national growth. ”

Map 1a

GDP growth forecasts in 2017

(% annual change, constant prices)

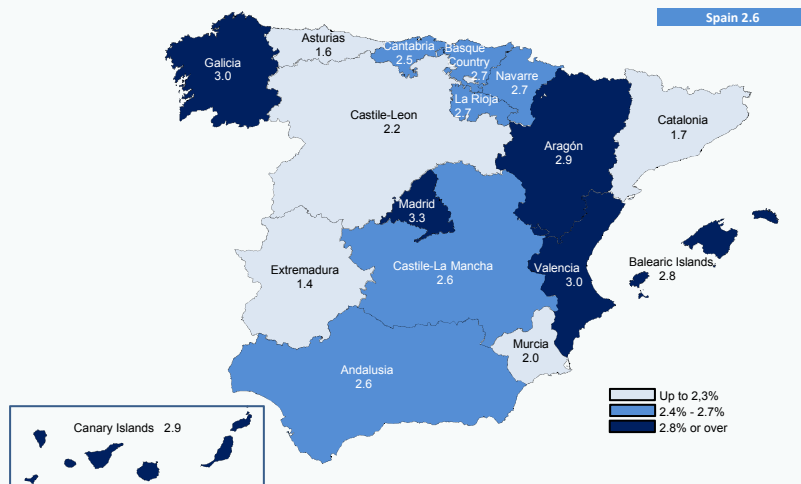


Source: Funcas.

Map 1b

GDP growth forecasts in 2018

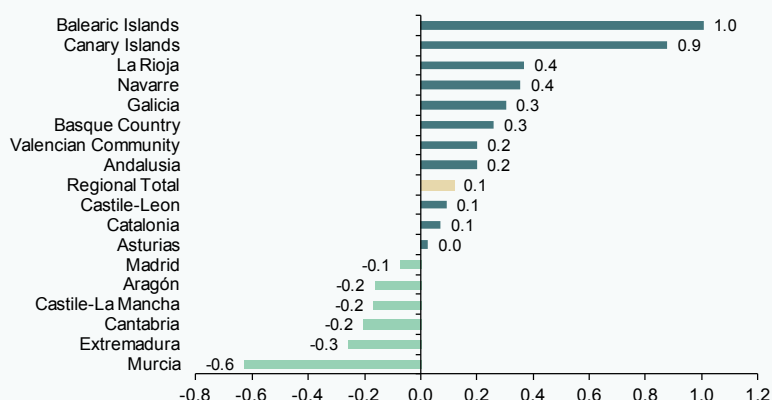
(% annual change, constant prices)



Source: Funcas.

Exhibit 1 Public deficit to August 2017

(% of GDP)



Source: IGAE.

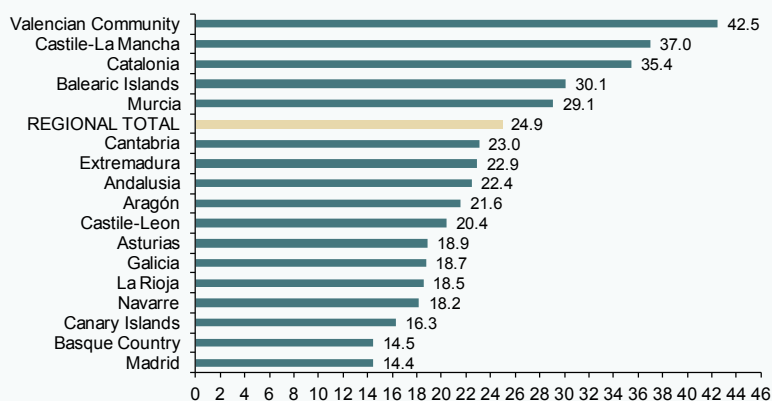
Catalonia. The instability brought about by this situation has negative implications for the economy – primarily the Catalan economy – through temporary or more longer-lasting retrenchment in consumption, investment and hiring intentions. The situation could also

affect economic activity through a slowdown in lending because of an increase in risk perceptions.

These forecasts are based on a scenario which assumes that the situation in Catalonia

Exhibit 2 Public debt in 2016

(% of GDP)



Source: Bank of Spain.

normalises from the second quarter of next year onwards. Under this assumption, growth in the Catalan economy will slow significantly but only for a short period with little effect on the other autonomous regions. The Catalan economy could expand at around half the initial rate of growth forecasted for the next six months, recovering thereafter. Accordingly, annual growth in Catalonia could slow from 3.1% in 2017 to 1.7% in 2018, shaving 0.3 percentage points off national growth.

Alongside political tensions, a loss of impetus in domestic demand is likely to undermine growth by another 0.2 percentage points, as some of the factors driving growth in previous years begin to fade.

Madrid, the Canary Islands and Galicia are set to post the strongest growth this year, with Extremadura, Asturias, Murcia and Castile-Leon the main laggards. Given the backdrop of a slowdown in overall Spanish economic growth, it is worth highlighting the pick-up in activity in La Rioja, followed by Cantabria, though from very modest growth rates in both autonomous regions in 2016. By contrast, Castile-Leon has slowed the most notably this year (Map 1a).

Turning to 2018, the outlook for nearly all autonomous regions is likely to reflect the general easing of growth expected at the national level. Madrid, followed by Galicia and the Valencian Community are set to be the strongest performers. Growth in Madrid will be fuelled by services, while industry will provide impetus to growth in the other two autonomous regions buoyed by both domestic demand and exports. Meanwhile, Asturias, Catalonia and Extremadura are likely to be the slowest growing autonomous regions. Leaving to one side Catalonia's individual circumstances, the growth capacity of the other two autonomous regions remains hampered by structural factors. Tourism is likely to play a less significant role in driving growth than in 2017 (Map 1b).

The main factors explaining the differences in regional growth are: i) autonomous regions' differing capacities to take advantage of the pick-up in world trade growth and

the European recovery, and their ability to compensate for the slowdown in domestic demand (which favours autonomous regions in the Ebro valley, Galicia and Madrid); ii) the overall state of play of public finances, which remains an impediment for some autonomous regions such as Murcia (Exhibits 1 and 2); and, iii) an investment diversion effect due to the Catalan crisis, to the benefit of neighbouring autonomous regions – especially Aragón and the Valencian Community – as well as Madrid (to a lesser degree).

Main challenges

The persistent significant differences in unemployment performance across autonomous regions is one of the main challenges to territorial cohesion. Four autonomous regions will see unemployment drop below 10% in 2018 (the Balearic Islands, Navarre, Basque Country and La Rioja). In the not too distant future, these autonomous regions could find themselves facing labour shortages in certain sectors (Map 2).

By contrast, unemployment remains above 20% in three autonomous regions (Andalusia, Canary Islands and Extremadura). Addressing these significant imbalances requires new investments which generate employment, as well as closing the significant gaps in education levels (Exhibit 3). Initiatives aimed at overhauling the production system, such as those seen in Malaga (one of the provinces which has seen the largest decline in unemployment over the last year) underline the effectiveness of these types of strategies.

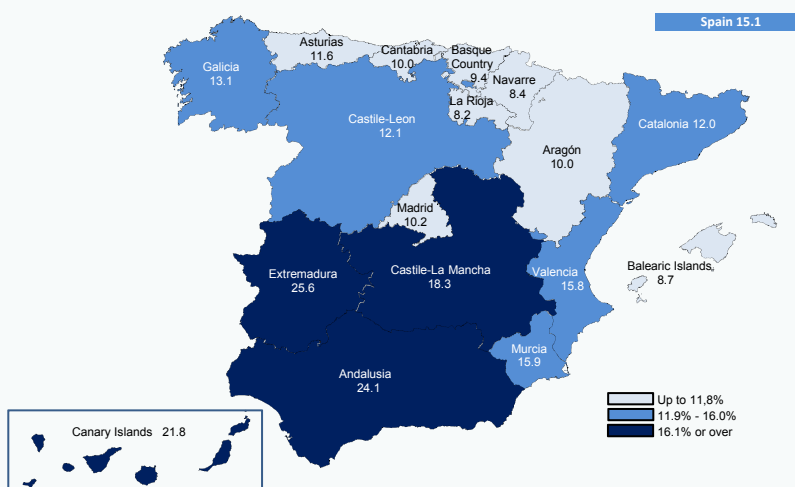
Meanwhile, some autonomous regions face adverse population dynamics, which will weigh on economic growth perspectives if not reversed in the medium-term. Significant inner areas of the Iberian Peninsula, as well as Asturias and Cantabria, among others, are losing population. Meanwhile, Madrid and the Mediterranean autonomous regions are seeing an increase in the number of inhabitants (Exhibit 4).

Strengthening development hubs in rural environments will undoubtedly help to slow this demographic crisis. Internal areas of

Map 2

Unemployment rate forecasts in 2018

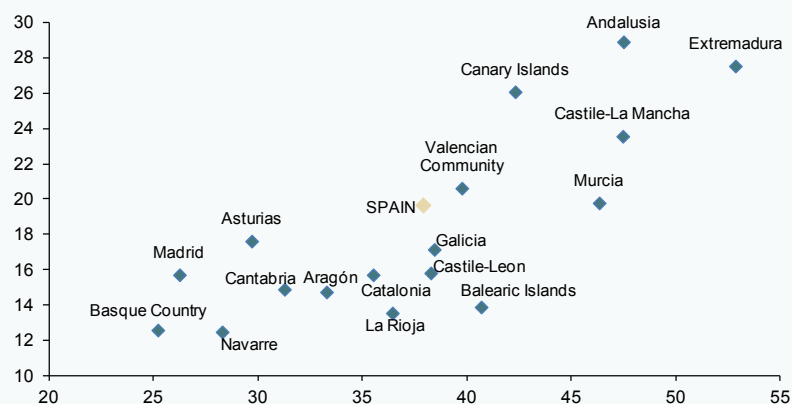
(% of active population)



Source: Funcas.

Exhibit 3

Level of education and unemployment rate



X-axis: Percentage of workforce with lower than full secondary education, 2016.

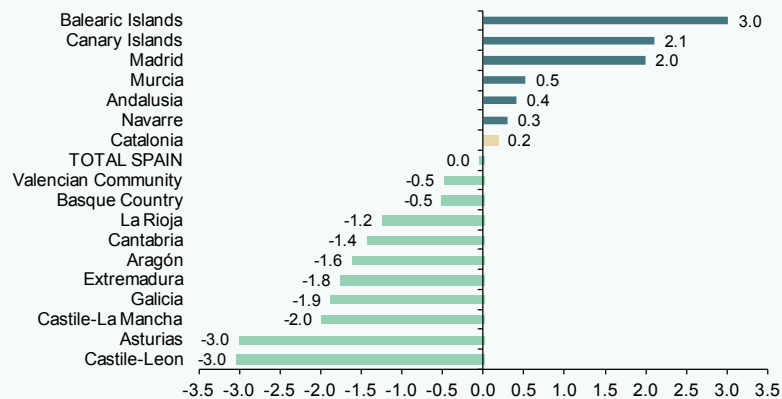
Y-axis: 2016 unemployment rate.

Source: INE.

Exhibit 4

Total population growth 2014-2018

(cumulative growth rate)



Source: INE (LFS) and Funcas (forecasts).

Catalonia, the two Castiles and Galicia have also enjoyed some success in stemming population outflows by improving connections with more dynamic populations such as Barcelona, Madrid and the Galician coast.

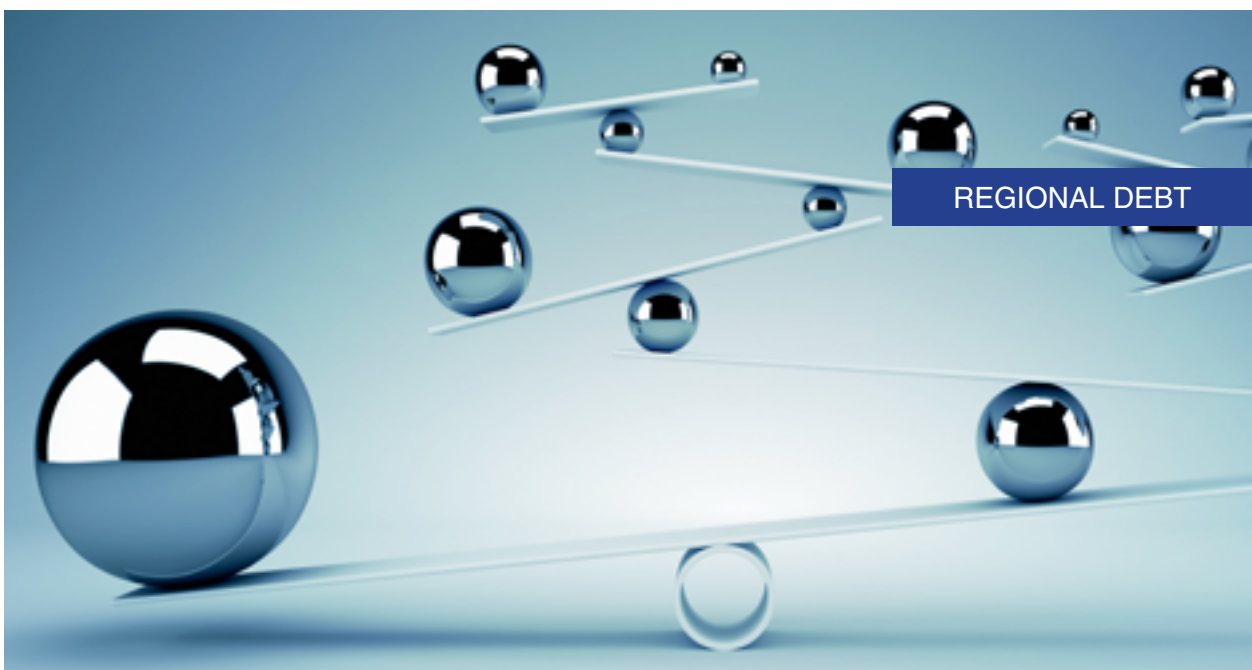
Finally, should the independence tensions fail to dissipate, the country's economic geography could be significantly rewritten, as illustrated by Quebec in Canada. Repeated independence consultations in this Canadian region have led to a gradual diversion of investment towards other parts of Canada, leading to a deterioration in per capita incomes and employment in Quebec.

Notes

- * The full report can be accessed on the Funcas website, including detailed information and statistics for each autonomous region (Spanish only): http://www.funcas.es/Indicadores/Indicadores_img.aspx?Id=4&file=0

María Jesús Fernández and Raymond Torres. Economic Perspectives and International Economy Division, Funcas

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Autonomous regions leading decline in debt servicing costs

Although average funding costs have gone down for all levels of the Spanish public administration, the autonomous regions have seen the largest reduction, primarily explained by the favourable financing arrangements set up by the State. However, autonomous regions should gradually return to market finance to support a constructive outlook for overall public debt sustainability.

Salvador Jiménez and Carmen López

Abstract: The ECB's unconventional monetary policy measures, namely its public debt purchase programs, have helped euro area governments reduce their average cost of debt, while increasing maturities. In the case of Spain, Treasury yields have come down from an average of 4.07% at the end of 2011 to 2.59% at present, while average maturity has increased from 6.3 years at the end of 2013 to 7 years today. The favourable evolution of

debt servicing costs in Spain has been most pronounced across the autonomous regions primarily for three reasons: high degree of reliance on the favourable terms of the State funding mechanisms, high proportion of refinanced loans; and, general inability to take advantage of extending maturities. While State financing support schemes have reinforced the stability of regional debt during a challenging context, it is precisely those

autonomous regions who have most benefitted from these schemes that may face the greatest strain throughout the process of monetary policy normalisation. For this reason, a gradual return by the autonomous regions to market finance would be the optimal path for overall public debt sustainability going forward.

The ECB's unconventional monetary policy has driven down risk-free interest rates in the euro area to record lows

The European Central Bank's (ECB) objective is to safeguard the value of the euro and maintain price stability. Traditionally, the central bank has implemented expansive monetary policy by deploying conventional measures such as interest rate cuts (MRO), adjusting reserve requirements or modifying standing facilities. However, in order to combat deflation and stimulate GDP growth, the ECB

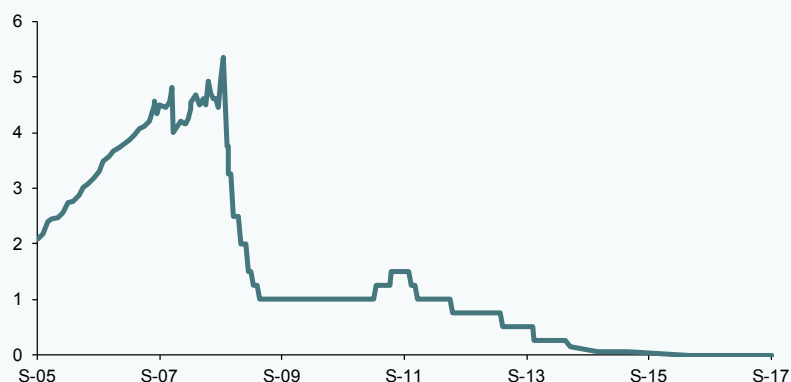
also began to implement non-conventional monetary policy from 2008 onwards through the provision of unlimited liquidity (full allotment) to financial institutions and via debt purchase programmes – both public, as part of the Securities Market Programme (SMP), and private debt under the Covered Bond Purchase Programme (CBPP). In both cases, the purchases were carried out in the secondary market, albeit with the ECB sterilising SMP purchases through auctions to drain liquidity.

However, the ECB's Governing Council meeting on January 2015 marked a turning point. The ECB announced that it would launch a programme of public debt purchases through the PSPP (Public Sector Purchase Programme) in response to a continued deterioration in inflation expectations despite implementing the above-mentioned measures. These purchases are not being

Exhibit 1

Evolution of repo rate

Percentage



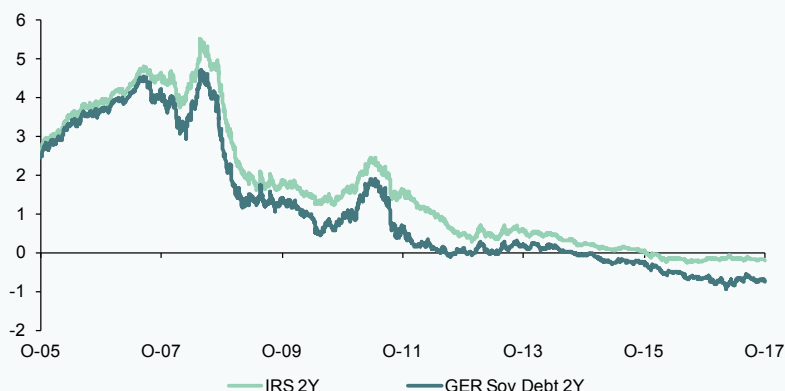
Source: Bloomberg.

“ The ECB's ultra-expansive monetary policy has enabled all euro area Treasuries to significantly reduce the average cost of their debt. ”

Exhibit 2

Rates on 2-year IRS and German sovereign debt

Percentage



Source: Bloomberg.

sterilised, and are swelling the ECB's balance sheet to over 1.7 trillion euros by October 2017. The measures have also had a concurrent and notable impact on the euro area's risk-free interest rate, pushing down rates on a two-year interest rate swap (IRS) to negative territory from October 2015 onwards and driving down equivalent German sovereign debt to around -1%.

The different measures adopted by the ECB have also led to a compression of credit spreads in different euro area countries

The measures implemented by the ECB have not only led to a reduction in risk-free rates but also in credit spreads, spurring a substantial reduction in financing costs in peripheral economies. While Spanish and Italian 10-year sovereign debt traded at yields of over 7% at the height of the uncertainty in 2012, over the last two years, equivalent-tenor debt has been trading at 1.50% and 1.75% respectively. The reduction

has been equally significant in Portugal with the credit spread relative to the German Bund now below 200bps. The reduction in the financing costs of peripheral economies has been crucial to alleviating concerns around the sustainability of public debt in these countries, which were further accentuated by the sharp spike in debt-to-GDP ratios.

The Spanish Treasury has not only reduced average financing costs but also substantially increased the average life of its portfolio

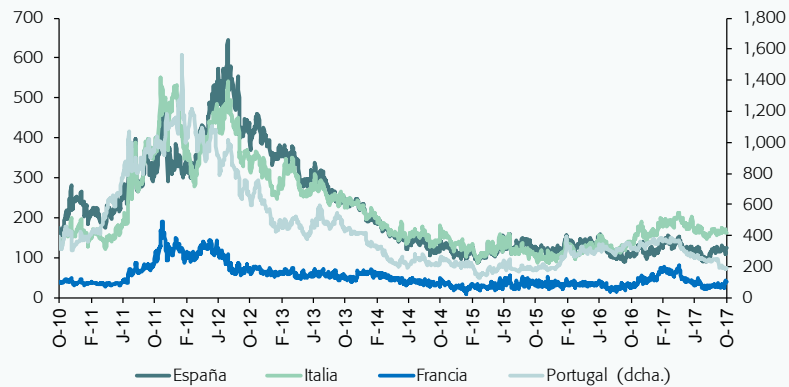
The average cost of Spanish Treasury debt has fallen from 4.07% at the end of 2011 to current levels of 2.59%, supported by the decline in Spain's risk premium and a sharp reduction in the risk-free rate. This improvement in average costs is a reflection of a decline in issuing costs, which have tumbled from 3.9% in 2011 to below 1% from 2015 onwards. And – absent a surprise interest rate shock – the average cost is likely to continue falling over the coming

“ The average cost of Spanish public debt has fallen from 4.07% at the end of 2011 to current levels of 2.59%. ”

Exhibit 3

Spread versus 10-year German sovereign debt

Bps



Source: Bloomberg.

years with new financing costs remaining below the historical average.

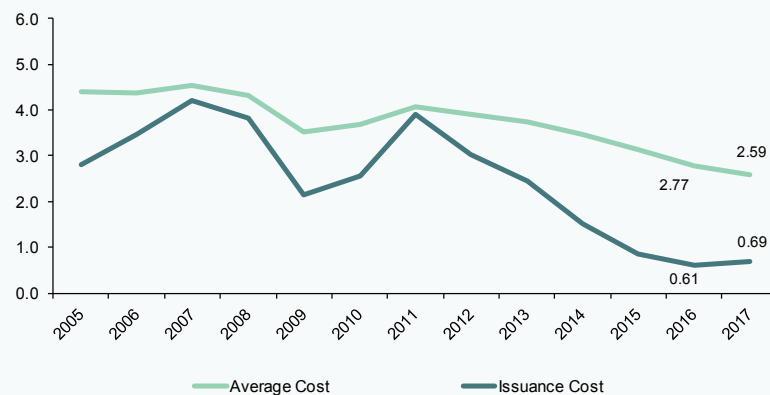
Furthermore, this reduction in average cost has been accompanied by a substantial increase

in the average life of the portfolio, which has risen from 6.3 years at the end of 2013 to 7 years. This increase in average life has taken place across all European Treasuries, who have exploited the current low interest rate

Exhibit 4

Treasury debt: Average and issuance cost

Percentage

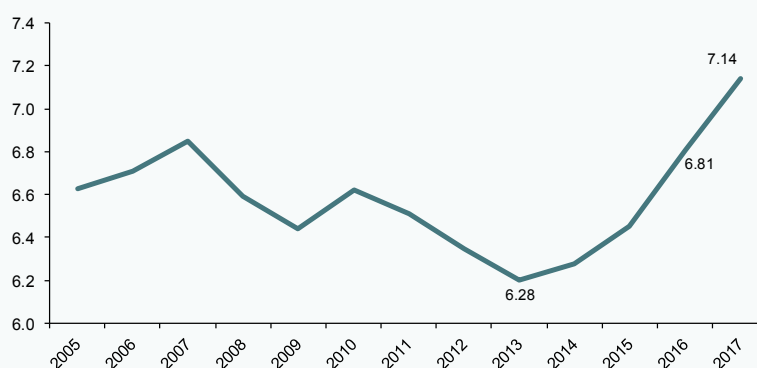


Source: Treasury.

Exhibit 5

Average life of Treasury debt

Years



Source: Treasury.

environment to lock-in extremely propitious financing costs over very long time horizons.

The average cost of sub-sovereign debt has fallen even more sharply than for the Treasury, especially in the case of the autonomous regions

Funding costs for sub-sovereign administrations have also fallen substantially, reflecting the close link to Treasury financing costs. The average cost of debt owed by Spain's autonomous regions [1] fell from 3.64% in 2012 to 1.40% at the end of 2016, and from 3.83% in 2014 to 2.41% in 2016 for local administrations. While it is to be expected that the general evolution of funding costs would be similar for both sub-sectors, the reduction in regional financing costs is particularly notable since autonomous regions are now funding themselves at nearly half the cost of the Treasury.

The main factors contributing to this drastic decline in regional financing costs – discussed in more detail below – are: the involvement by most autonomous regions in State financing mechanisms offering subsidised interest rates; the high proportion of loans in regional debt

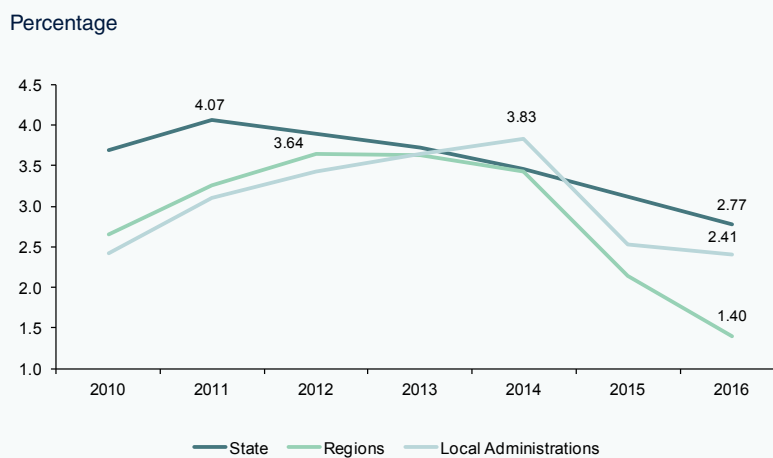
portfolios; and – to a lesser degree – the fact that, in general, the autonomous regions have not been able to take advantage of the current low interest rate environment to extend the average life of their portfolios.

Regional participation in State financing mechanisms does not in itself imply a reduction in the average cost of regional debt above and beyond the Treasury. In fact, this would not have been the case had the government decided to maintain its initial approach of applying a small spread on Treasury financing costs [2]. However, in its July 2014 meeting, the Fiscal and Financial Policy Council opted for a different approach. The government announced a reduction in the interest rate to 1% for the regional liquidity mechanism (*Fondo de Liquidez Autonómico, FLA*) from October 2014 until the end of 2015, which was below Treasury financing costs.

This decision initially appeared to be temporary and aimed at helping the autonomous regions comply with their fiscal targets in the face of challenges to consolidation (which were further accentuated by the failure to reform the Regional Financing System [3] – a much

Exhibit 6

Evolution of average costs of debt of different sub-sectors



Source: Treasury and Ministry of Finance.

needed reform that, three years, later remains outstanding). However, it ultimately became permanent and remains in effect today. Furthermore, the government decided in 2015 that all of the regional debt taken on with the State would bear an interest rate of 0% that year. And a new interest of 0.834% would apply to all outstanding regional debt with State financing mechanisms, substantially below previous rates. Given the already significant amount of regional debt channelled through state mechanisms, the latter measure translated into a very significant reduction in the interest burden, which continues to have an impact today.

Furthermore, a 0% interest rate was established in 2016 for autonomous regions which were compliant with their fiscal targets, who would be eligible for the Financial Facility [4] compartment. Finally, this year the government has determined that

all autonomous regions participating in the State mechanisms will finance themselves at a similar cost to the Treasury, regardless of their compartment [5]. Overall, the series of support measures adopted by the government is the main factor explaining the major reduction in the average cost of regional debt. Especially considering that, as of the second-half of 2017, some 55% of all regional debt is now held by the Regional Financing Fund (FFCA).

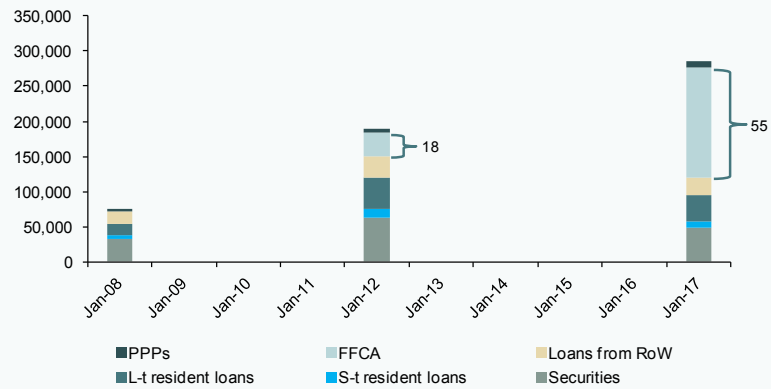
The impact of this policy approach can be seen when analysing developments in the average cost of debt of different autonomous regions. We have grouped the autonomous regions into two sub-groups: type-1 autonomous regions who owe over 65% of their debt to the FFCA [6] and type-2 autonomous regions where the FFCA accounts for less than 50% of their total debt [7]. Overall, type-2 autonomous regions have a better credit rating than type-1

“The autonomous regions have seen the largest reduction in average funding costs, primarily explained by the favourable financing arrangements set up by the State.”

Exhibit 7

Distribution of regional debt by instrument

Millions of euros



Source: Bank of Spain.

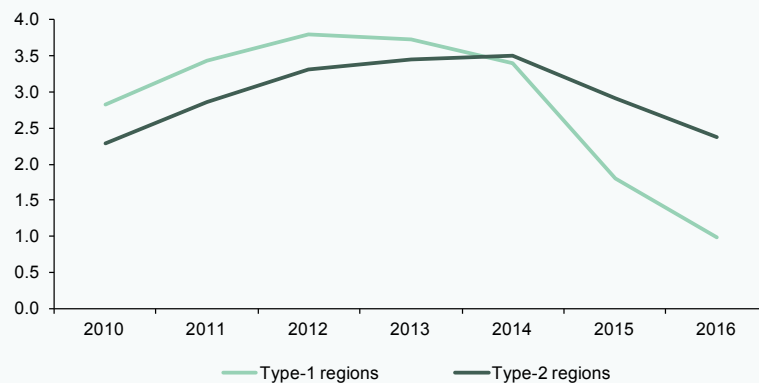
autonomous regions, which is consistent with the lower average cost of funding enjoyed by the former until 2012. However, as shown in Exhibit 8, this trend has reversed

dramatically and by the end of 2016, the average funding cost for type-1 autonomous regions was slightly below 1%, while the cost for type-2 autonomous regions reached 2.4%.

Exhibit 8

Evolution of average cost of regional debt by type

Percentage

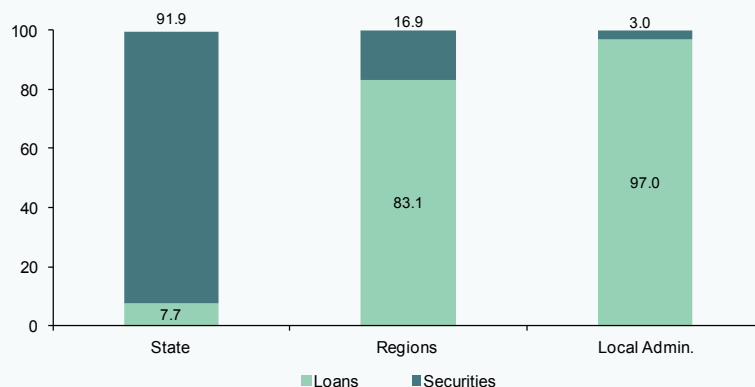


Source: Bank of Spain.

Exhibit 9

Distribution of debt by instrument

Percentage



Source: Bank of Spain.

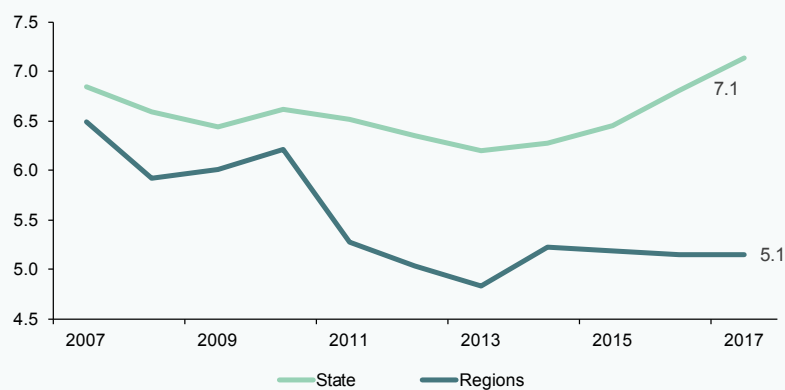
A lesser, albeit still very significant, factor in explaining the substantial reduction in average regional funding costs is the high proportion of

loans in the regional debt portfolio. Following the sharp decline in credit spreads in recent years, this has enabled autonomous regions to

Exhibit 10

Average life of Treasury and regional debt

Years



Note: The average life of regional debt is an estimate based on a broad sample of some regional maturity profiles, but not all of them.

Source: Treasury and information provided to Afi by the autonomous regions.

refinance bank loans taken on at high interest rates – the majority of which were arranged in 2011 and 2012. By contrast, the bulk of the Treasury's debt is in securities. This option is therefore not available to the Treasury with the only alternative being to exchange debt at market prices, which ultimately does not reduce the financial burden. As such, the Treasury is continuing to pay very high levels of interest on debt issued in 2011 and 2012 at a time when the risk premium was at a peak. This also explains why not only type-1 autonomous regions but also type-2 autonomous regions enjoy lower average funding costs than the Treasury.

In addition, although only residually important, the fact that the Treasury has sought to take advantage of low interest rates to lengthen the average life of its portfolio is also a factor in the interest rate differential relative to the autonomous regions. Indeed, most autonomous regions have not lengthened the life of their debt stock, which has remained stable over the last four years, at slightly over five years. This is essentially because the bulk of regional debt over recent years has been taken on via State funding mechanisms with a stipulated average life of 6.5 years, meaning that the average life of regional debt has not increased in contrast to most European public issuers.

Meanwhile, local administrations have also seen their average cost fall more sharply than the Treasury, which is essentially a reflection of the fact that nearly all of their debt is in loans. They too have been engaged in an intensive process of refinancing expensive debt. Furthermore, since the local administrations are the only level of the public sector to have deleveraged in recent years – debt has fallen from over 46 billion euros in June 2012 to around 32.5 billion euros in June 2017 – they have logically redeemed the most expensive debt.

Summary and conclusions

Perversely, the two autonomous regions with the lowest average cost of debt – Catalonia and Valencia – also have the worst credit ratings. Meanwhile, some of the autonomous regions with the best credit ratings are among

those with the highest average funding costs. However, it is worth clarifying that the latter have taken advantage of the benign economic-financial backdrop to issue debt at very long maturities. This will lock in fixed rates at very favourable conditions and provide them with propitious financing costs for a long period of time. This is one of the strategic advantages which is not available to autonomous regions who recurred to the State. In the medium-term, autonomous regions who have relied on State mechanisms are therefore likely to be much more negatively affected by the normalisation of interest rates.

However, this is not to detract from the favourable impact of the State mechanisms, which have guaranteed the sustainability of many autonomous regions' debt (albeit against a backdrop of a pressing need for a reform of the Regional Financing System, which remains pending). Furthermore, the State's intervention has been beneficial for various stakeholders: for regional governments, who have been able to choose the best option in a benign financial environment; for investors, who have obtained both an implicit state guarantee against adverse scenarios while purchasing debt offering a spread against the Treasury; and for providers to the autonomous regions who continue to enjoy much shorter payment periods.

However, it is clear that part of the reduction in regional financing costs has been passed on to the Treasury, implying a transfer of risk from the regional level to the State. Logic would therefore suggest a gradual return to normality with autonomous regions resorting increasingly to market financing, subject to the fiscal discipline provided by market oversight, and reducing the risk of moral hazard.

Notes

- [1] The average cost for both the autonomous regions and local administrations has been estimated using budgetary execution data from the Ministry of Finance. The average annual interest cost is calculated as the coefficient of the financial expenses associated with obligations recognised in the spending budget and the average of the volume of debt in the year.

- [2] From its inception in 2012 until February 2014, the FLA applied a cost of Treasuries + 30bps. Thereafter from March-September 2014, the cost was Treasuries + 10bps. Meanwhile, the funding cost applicable in the first phase of the Payment Providers Fund was set at 3-month Euribor + 525bps, the equivalent of the Treasury's funding costs + 142bps.

- [3] According to Ministry of Finance calculations, the Payment Providers Fund and the FFCA generated interest savings of 22.1 billion euros from 2012-16.

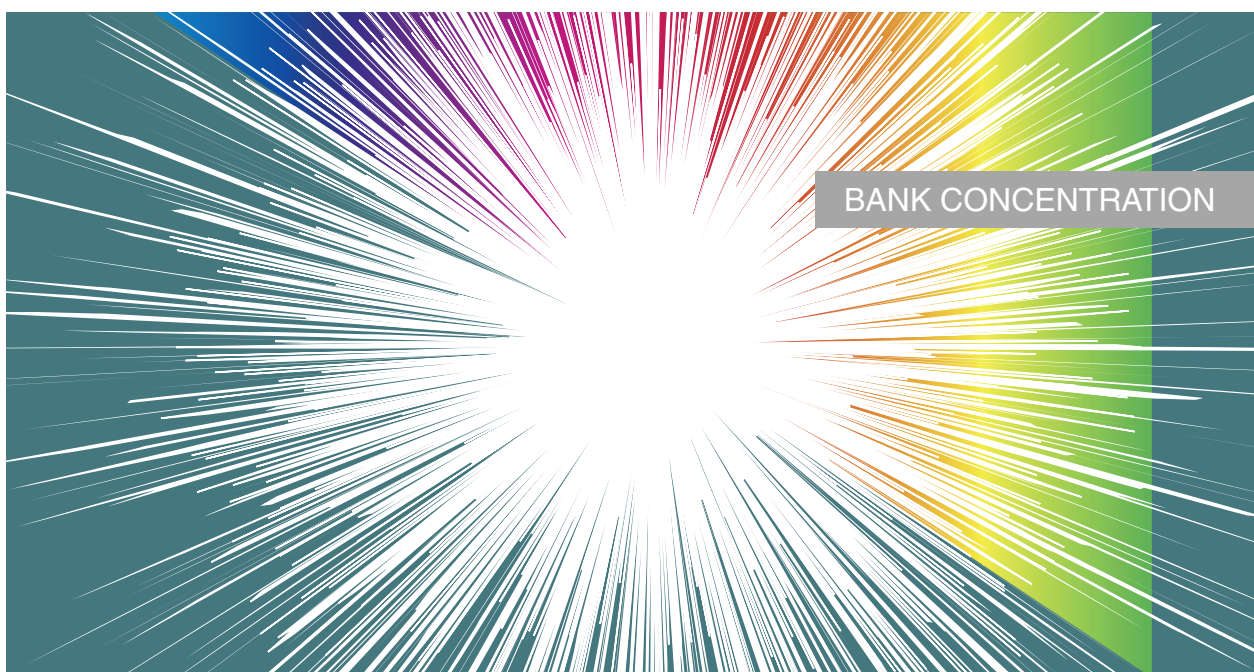
- [4] For those autonomous regions failing to meet their fiscal obligations and required to take part in the FLA (as opposed to the Financial Facility) the rate was equivalent to the Treasury's funding cost.

- [5] The difference between the compartments lies in the fact that autonomous regions participating in the FLA are subject to additional fiscal conditions from the Ministry of Finance, which is not the case for autonomous regions in the Financial Facility compartment.

- [6] Type-1 autonomous regions: Andalusia, Castile-La Mancha, Canary Islands, Catalonia, Balearic Islands, Cantabria, Valencia and Murcia. In addition to having a high proportion of their debt with the FFCA, these regions also participated in the FLA each year since its inception and then subsequently in either of the two compartments of the FFCA – in contrast to type-2 autonomous regions.

- [7] Type-2 autonomous regions: Aragón, Asturias, Castile-Leon, Extremadura, Galicia, La Rioja, Madrid, Navarre and the Basque Country. This group is more mixed. Some autonomous regions have over 30% of their debt with the FFCA, such as Aragon, Asturias, Extremadura and Galicia, while other autonomous regions have no debt whatsoever with the FFCA, such as Navarre and the Basque Country.

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Internacionales, S.A.**



Banking concentration in Spain at the provincial level

Despite undergoing one of the most profound financial sector consolidation efforts within the EU, at the national level, the Spanish banking sector remains below the threshold level of a highly concentrated market, although a provincial-level analysis reveals higher levels of concentration. In this context, and amid profitability pressures, Spanish banks could still benefit from additional measures to increase efficiency.

Joaquín Maudos

Abstract: The Spanish banking sector stands apart in the European context for the intensity of its consolidation since the start of the crisis in terms of both the reduction in the number of competitors (having declined by 43%, compared to 28% in the Eurozone) and the increase in market concentration (measured using the Herfindahl index, concentration has increased by 88%, compared to just 5.1% in the Eurozone). Despite the sharp increase in sector

concentration, albeit from a starting point below the European average, the nationwide reading is well below levels of concern from an anti-trust standpoint. Even in the wake of the two bank mergers of 2017, the Herfindahl index stands well below the threshold used by the ECB to define a market as highly concentrated. At the subnational level, however, over half of Spain's provinces present highly concentrated markets. Despite the intensity of restructuring

and consolidation, sector returns remain slim relative to investor demands, which calls for further improvement in cost-income ratios. Recognizing that there is occasionally a trade-off between financial stability and competition, and that the latter may suffer in the interest of the former, there is scope for additional consolidation, including cross-border transactions, as welcomed by the ECB.

Introduction

Since the crisis broke out in 2008, the Spanish banking sector has undergone far-reaching consolidation, shaped by numerous mergers and acquisitions. As of September 2017, the number of credit institutions in Spain was 43% smaller than in 2008 (207 vs. 362), implying a far bigger reduction in the number of banks than in the eurozone as a whole, where the volume contracted by 28%. In parallel, concentration in the banking market has risen sharply, marked by an increase of almost 20 percentage points (pp) in the market share commanded by the top five entities (implying an increase of 19%, compared to 10% in the Eurozone) and of 440 points in the Herfindahl index (growth of 88.5%, compared to 5.1% in the Eurozone). Of the EU-28 member states, only Greece has a greater increase in banking concentration than Spain.

Analysis of bank concentration levels is part of the guidance used by the anti-trust authorities when authorising mergers and acquisitions. Their criteria include benchmarks for market concentration in absolute terms (unconcentrated; moderately concentrated; highly concentrated) and for changes in concentration levels. Specifically, the Herfindahl index (HI) is used to measure concentration. Therefore, we can say there is implicit concern over the effects that high concentration levels or sharp growth in concentration could have in terms of competition. There is extensive supporting evidence that concentration may not be a good indication of competition levels,

as competition can be intense even in highly concentrated markets (for example, in the case of a duopoly). However, since the fewer the players (and the higher the concentration) the easier it is to collude, anti-trust authorities do pay attention to the consequences a merger will have on market concentration: if they determine that concentration would be high or significantly higher post-merger, they analyse the transaction in greater depth. Hence the importance of analysing the changes that have taken place in the concentration of the Spanish banking market as a result of the sector restructuring that has taken place in recent years.

Despite the intense increase in bank concentration in Spain, concentration at the nationwide level is far below what is considered worrisome. In terms of the HI, the reading of 937 points as of the end of 2016 is below the threshold of 1,000 above which the ECB considers a market to be moderately concentrated and is barely over half of the threshold of 1,800 above which market concentration is considered high.

However, the bank concentration snapshot changes when looked at from a regional standpoint and some entities compete at just such a regional level. This is the situation facing credit institutions whose business is concentrated in just a few regions or provinces. That is why the anti-trust authorities also monitor the consequences of mergers and acquisitions on regional markets (autonomous regions and provinces in the case of Spain).

Against this backdrop, the author presents this paper, written as part of the Spanish Ministry of Science and Innovation and Generalitat Valenciana research projects. The goal is to measure bank concentration in Spain, building indicators at the regional level, and to compare the situation in 2016 with that of 2008 in order to analyse the impact of the

“Concentration may not be a good indication of competition levels, as competition can be intense even in highly concentrated markets.”

“ Spain ranks fourth in terms of the drop in the number of competitors since 2008, trailing only Cyprus, the Netherlands and Greece. ”

mergers and acquisitions that have taken place in the interim. To measure activity levels, we use the number of branches of each deposit-taking institution (banks, savings banks and credit cooperatives) in each province, as this is the only variable for which there is public information by region and entity. In addition, given that there were two transactions in 2017 (the acquisition of Banco Popular Group by Banco Santander and the merger of BMN into Bankia), we also simulate the impact of these deals on market concentration at the national and provincial levels.

Concentration of the Spanish banking market in the European context

As mentioned in the introduction, the number of Spanish credit institutions has fallen by 43% since 2008, which is a far bigger contraction than has been witnessed at the broader Eurozone level (28%) [1]. In fact, of

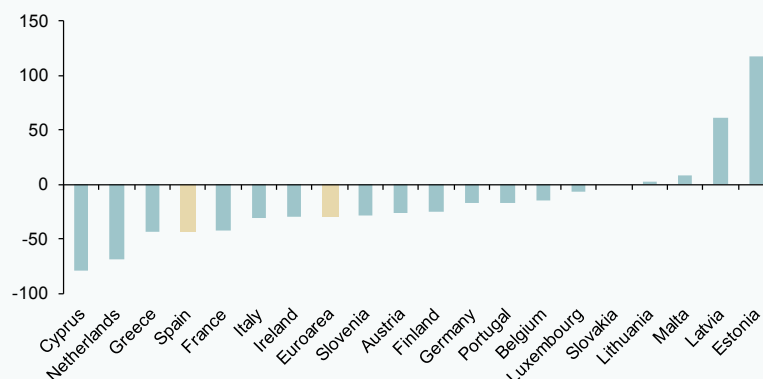
the 19 countries comprising the Eurozone, Spain ranks fourth in terms of the drop in the number of competitors, trailing only Cyprus, the Netherlands and Greece. The number of credit institutions has nevertheless fallen in the vast majority of countries, contracting by 42% in France, 30% in Italy and 17% in Germany. Germany has the largest number of banks (1,643), followed by Italy (569) and then France (422), compared to 207 in Spain.

Spain has few credit institutions relative to its population, as there are 224,848 inhabitants per bank, which is more than triple the Eurozone average (67,341). Of the Eurozone members, only Greece presents a higher ratio of inhabitants-to-banks than Spain.

The relatively bigger reduction in the number of credit institutions in Spain has given rise to a more intense increase in banking market concentration. Specifically, in terms of the market share of the five largest entities,

Exhibit 1

Percentage change in the number of credit institutions between 2008 and September 2017



Source: ECB.

concentration has increased by 46%, namely from 42.4% in 2008 to 61.8% in 2016. During the same period, average concentration (weighted by total assets) across the Eurozone nations increased by 4.6% (9.9% in the case of the EU) to 48.9% (46.3%). By this measure, therefore, as of 2016, concentration in Spain was 12.9 pp higher than in the Eurozone (and 15.5 pp higher relative to the EU), whereas in 2008 it was 2.1 pp lower (and 1.8 pp lower than in the EU). The larger economies tend to have less concentrated banking markets, Spain presenting higher concentration than its

large peers (31.4% in Germany; 43% in Italy; and 46% in France).

Measuring concentration using the so-called Herfindahl index [2] (HI) has the benefit of factoring in all competitors in a market and not just the top 1, 3 or 5, etc. As a result, it tends to be the benchmark used to analyse market concentration. In its reports on the banking sector, the ECB (2017a) states that “As a general rule, an HI below 1,000 signals low concentration, while an index above 1,800 signals high concentration.

Table 1 Market concentration in the EU banking sectors

	HI			
	2016	2008	Absolute variation	Relative variation (%)
Austria	358	454	-96	-21.1
Belgium	1,017	1,881	-864	-45.9
Bulgaria	939	834	105	12.6
Cyprus	1,372	1,017	355	34.9
Czech Republic	1,009	1,014	-5	-0.5
Germany	277	191	86	45.0
Denmark	1,224	1,229	-5	-0.4
Estonia	2,406	3,120	-714	-22.9
Spain	937	497	440	88.5
Finland	1,790	3,160	-1,370	-43.4
France	572	681	-109	-16.0
United Kingdom	422	431	-9	-2.1
Greece	2,332	1,172	1,160	99.0
Croatia	1,405	n.a.	n.a.	n.a.
Hungary	879	819	60	7.3
Ireland	644	661	-17	-2.6
Italy	452	307	145	47.2
Lithuania	1,938	1,714	224	13.1
Luxembourg	260	309	-49	-15.9
Latvia	1,080	1204.9	-125	-10.4
Malta	1,599	1,236	363	29.4
Netherlands	2,097	2,167	-70	-3.2
Poland	659	562	97	17.3
Portugal	1,181	1,114	67	6.0
Romania	894	922	-28	-3.0
Sweden	845	953	-108	-11.3
Slovenia	1,147	1,268	-121	-9.5
Slovakia	1,264	1,197	67	5.6
EU-29*	669	666	4	0.5
Eurozone-19*	732	697	35	5.1

Table 1 **Market concentration in the EU banking sectors**

(continued)

	CR5			
	2016	2008	Absolute variation	Relative variation (%)
Austria	34	39	-5	-11.7
Belgium	66	81	-15	-18.1
Bulgaria	58	57	1	1.3
Cyprus	66	64	2	3.1
Czech Republic	65	62	3	4.2
Germany	31	23	9	37.9
Denmark	68	66	2	3.6
Estonia	88	95	-7	-7.1
Spain	62	42	19	45.8
Finland	66	83	-16	-19.8
France	46	51	-5	-10.2
United Kingdom	35	38	-2	-5.6
Greece	97	70	28	39.8
Croatia	73	n.a.	n.a.	n.a.
Hungary	53	54	-1	-1.9
Ireland	44	50	-6	-12.1
Italy	43	31	12	37.9
Lithuania	87	81	6	7.2
Luxembourg	28	30	-2	-7.0
Latvia	67	70	-4	-5.3
Malta	80	73	7	10.1
Netherlands	85	87	-2	-2.3
Poland	48	44	4	7.9
Portugal	71	69	2	3.0
Romania	59	54	5	9.4
Sweden	56	62	-6	-9.0
Slovenia	61	59	2	3.1
Slovakia	73	72	1	1.6
EU-29*	46	44	2	4.6
Eurozone-19*	49	44	4	9.9

*Averages weighted on the basis of total assets.

Source: ECB.

For values between 1,000 and 1,800, an industry is considered to be moderately concentrated” [3].

As shown in Table 1, since the start of the crisis in 2008, the Spanish banking market has become far more concentrated, its HI having increased by 88.5%. That increase

is significantly higher than the European (weighted) averages. In the EU-29, concentration has increased by 0.5%, while in the Eurozone it has risen by 5.1%.

Using the latest data available, which date to 2016, the Spanish banking market is significantly more concentrated than the European averages, in stark contrast with the situation observed in

“ Using the ECB’s criteria, there is room for additional mergers and acquisitions in a good number of European banking sectors (including that of Spain) without necessarily giving rise to anti-trust concerns. ”

2008. Specifically, Spain’s HI is 28% higher than the Eurozone average (937 vs. 732) and 40% higher than the EU-29 average (937 vs. 669). In contrast, in 2008, concentration in Spain was 29% and 25% lower than the Eurozone and EU-29 averages, respectively.

If we analyse the situation using the HI thresholds referred to by the ECB (2017a), bank concentration in Spain is low, at under 1,000 points. It is only high in four countries (Lithuania, Netherlands, Greece and Estonia), while eleven countries present moderately concentrated markets (Czech Republic, Belgium, Latvia, Slovenia, Portugal, Denmark, Slovakia, Cyprus, Croatia, Malta and Finland). The larger economies present lower concentration levels. As a result of these readings, using the ECB’s criteria, there is room for manoeuvre in terms of additional mergers and acquisitions in a good number of European banking sectors (including that of Spain) without necessarily giving rise to anti-trust concerns.

Banking concentration in Spain: The regional dimension

The concentration indices analysed thus far have been calculated at the national level based on the market shares of the various credit institutions in each country. Implicit to their construction is the assumption that this is the market in which they are competing.

This may be a reasonable assumption for a large number of entities which, on account of their size, tend to be present in a significant

part of the various national territories. However, it is not so reasonable for entities which do not compete nationwide, but rather in just a few regions or provinces or even on occasion (small-sized entities), just the one. Several Spanish deposit-taking institutions fall into this category, judging by the distribution of their branch networks.

For this reason, it is worth analysing concentration in the banking market in Spain at the provincial level, building the concentration indices at this level. Limited publicly available information means that the only way to do this is to use branch network figures, as there is no public information at the entity level for business activity in geographical areas smaller than the national market. Given that the three sector associations (banks, savings banks and credit cooperatives) provide the breakdown by province of the branch networks of each entity in the statistics they report annually, we can use this information to construct concentration indices by province.

In terms of the market share of the biggest entity (CR1), the difference between the highest and lowest readings has widened across the provinces between 2008 and 2016, namely from 23.8pp in 2008 to 27.2pp in 2016 (Table 2). In 2016, Teruel was the Spanish province presenting the highest concentration of banks (just one entity has 45.5% of the branches in this province), while Badajoz was the least concentrated (18.3%). In addition to Teruel, Huesca and Ourense stand out for being

“ The broad range in HI index readings indicated the existence of a very pronounced difference in concentration levels at the provincial level in Spain. ”

Table 2 **Banking market concentration by province**

	2016					2008					Variation 2008-2016				
	CR1 (%)	CR3 (%)	CR5 (%)	HI	HI	CR1 (%)	CR3 (%)	CR5 (%)	HI	HI	CR1 (%)	CR3 (%)	CR5 (%)	HI	HI
Álava	32.4	59.9	75.7	1,655	1,655	28.1	47.0	65.3	1,100	1,100	4.4	12.9	10.3	555	555
Albacete	26.4	65.6	78.8	1,663	1,663	26.1	59.8	65.8	1,183	1,183	0.2	5.9	13.0	481	481
Alicante	26.5	55.6	71.5	1,360	1,360	18.6	36.6	49.7	707	707	7.9	19.0	21.8	653	653
Almería	36.5	62.5	77.8	1,866	1,866	25.8	52.1	62.1	1,116	1,116	10.7	10.3	15.7	750	750
Asturias	20.7	55.4	76.0	1,359	1,359	21.9	49.0	67.0	999	999	-1.3	6.4	8.9	359	359
Ávila	30.3	68.3	78.2	1,594	1,594	39.6	61.3	73.7	1,390	1,390	-9.3	7.0	4.4	204	204
Badajoz	18.3	48.3	67.7	1,165	1,165	19.3	40.8	56.2	846	846	-1.1	7.5	11.4	319	319
Balearics	24.6	57.1	73.4	1,418	1,418	19.9	49.9	65.2	927	927	4.7	7.2	8.2	491	491
Barcelona	31.1	72.4	86.6	1,986	1,986	21.7	39.9	51.7	804	804	9.5	32.5	34.9	1,182	1,182
Burgos	33.8	69.3	82.0	1,906	1,906	28.4	60.5	71.4	1,301	1,301	5.4	8.8	10.6	605	605
Cáceres	37.3	60.1	75.1	1,860	1,860	36.9	57.8	70.9	1,855	1,855	0.4	2.3	4.3	5	5
Cádiz	31.0	58.3	78.5	1,620	1,620	19.3	43.7	59.1	834	834	11.7	14.7	19.4	786	786
Cantabria	29.0	66.9	82.9	1,825	1,825	29.0	59.7	74.2	1,395	1,395	0.0	7.1	8.7	431	431
Castellón	21.8	51.0	70.4	1,175	1,175	17.6	41.1	57.2	728	728	4.2	9.9	13.2	447	447
Ciudad Real	23.3	51.7	74.8	1,363	1,363	22.7	54.2	72.9	1,192	1,192	0.6	-2.5	1.9	171	171
Córdoba	29.3	59.8	77.8	1,558	1,558	28.0	52.9	65.8	1,172	1,172	1.3	6.8	12.0	386	386
Coruña, La	31.3	58.0	82.3	1,724	1,724	23.5	44.5	60.6	934	934	7.9	13.5	21.7	790	790
Cuenca	33.0	74.7	87.6	2,138	2,138	31.3	68.0	77.7	1,857	1,857	1.8	6.7	9.8	281	281
Girona	37.3	69.1	90.5	2,156	2,156	20.8	46.6	60.0	943	943	16.5	22.5	30.5	1,212	1,212
Granada	27.4	68.1	80.2	1,790	1,790	31.0	61.7	71.2	1,326	1,326	-3.5	6.4	9.0	465	465
Guadalajara	30.7	71.4	82.4	2,069	2,069	24.4	57.8	67.3	1,156	1,156	6.3	13.5	15.1	914	914
Guipúzcoa	24.8	59.8	69.7	1,308	1,308	22.2	46.4	62.7	906	906	2.6	13.4	7.0	402	402
Huelva	36.9	68.4	84.0	2,129	2,129	32.9	54.6	68.2	1,235	1,235	4.0	13.8	15.8	895	895
Huesca	40.3	79.4	91.5	2,664	2,664	28.1	64.6	77.2	1,495	1,495	12.2	14.8	14.4	1,169	1,169
Jaén	29.8	60.0	81.8	1,675	1,675	22.2	47.9	68.5	1,049	1,049	7.5	12.0	13.3	626	626
León	26.0	50.3	71.9	1,363	1,363	22.6	45.1	62.0	916	916	3.4	5.2	9.9	448	448
Lleida	34.7	69.6	85.9	2,072	2,072	27.3	48.1	62.6	1,079	1,079	7.4	21.6	23.3	993	993
Lugo	31.9	57.7	78.6	1,683	1,683	23.9	45.1	62.5	962	962	8.0	12.5	16.1	721	721

Table 2

Banking market concentration by province

(continued)

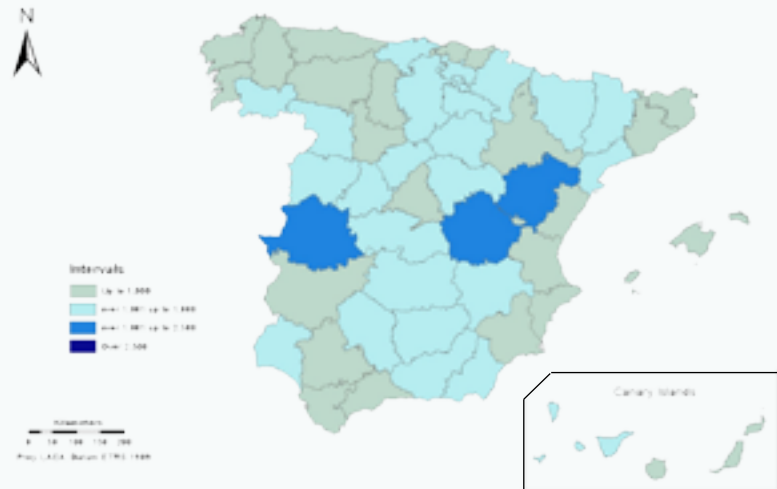
	2016				2008				Variation 2008-2016			
	CR1 (%)	CR3 (%)	CR5 (%)	HI	CR1 (%)	CR3 (%)	CR5 (%)	HI	CR1 (%)	CR3 (%)	CR5 (%)	HI
Madrid	20.2	51.0	69.3	1,157	18.1	40.7	54.5	694	2.1	10.3	14.8	463
Málaga	29.1	51.9	70.1	1,379	21.8	39.4	50.3	749	7.3	12.5	19.8	630
Murcia	23.4	61.8	80.1	1,508	18.5	47.6	63.2	918	4.9	14.3	16.9	591
Navarra	31.1	65.9	81.4	1,935	25.6	54.4	69.0	1,108	5.5	11.5	12.5	828
Ourense	41.7	64.6	86.4	2,190	30.1	58.0	69.7	1,281	11.7	6.6	16.7	909
Palencia	34.1	68.2	86.0	1,931	21.4	46.9	67.4	955	12.7	21.3	18.6	976
Palmas de Gran Canaria, Las	23.3	60.7	82.3	1,575	21.5	43.2	59.6	848	1.8	17.5	22.7	727
Pontevedra	33.3	60.1	79.0	1,722	25.9	44.7	62.6	984	7.4	15.4	16.4	739
Rioja	33.5	58.5	71.4	1,662	22.9	50.7	61.6	1,076	10.6	7.8	9.8	586
Salamanca	30.8	50.4	67.7	1,649	24.9	53.1	76.8	1,071	5.9	-2.7	-9.1	578
Santa Cruz de Tenerife	37.4	66.7	73.7	2,143	28.0	50.3	70.6	1,168	9.4	16.4	3.1	974
Segovia	36.6	67.9	73.9	2,145	38.6	61.0	75.7	1,630	-2.0	7.0	-1.8	515
Seville	32.5	54.7	68.2	1,625	25.0	46.4	60.2	971	7.4	8.3	8.0	654
Soria	28.0	45.8	58.9	2,176	32.5	72.8	79.5	1,707	-4.4	-27.1	-20.6	468
Tarragona	34.4	77.6	89.8	2,427	22.6	50.5	65.5	1,080	11.9	27.0	24.3	1,347
Teruel	45.5	54.5	58.2	3,576	37.1	76.3	90.0	2,275	8.4	-21.8	-31.8	1,301
Toledo	27.0	48.8	59.8	1,979	26.4	58.2	72.5	1,335	0.7	-9.4	-12.6	644
Valencia	21.0	52.3	71.7	1,233	15.9	37.1	50.0	616	5.1	15.2	21.7	617
Valladolid	26.7	53.8	72.9	1,349	18.2	41.0	57.2	780	8.5	12.8	15.7	569
Vizcaya	27.0	55.5	76.7	1,456	22.7	45.8	61.5	922	4.3	9.7	15.2	534
Zamora	31.9	44.7	56.4	2,485	26.4	61.7	86.6	1,398	5.5	-17.0	-30.2	1,087
Zaragoza	36.5	54.1	65.3	2,047	19.1	45.8	60.5	884	17.4	8.3	4.7	1,163
Ceuta	26.3	68.4	100.0	1,911	23.1	57.7	80.8	1,320	3.2	10.7	19.2	592
Melilla	29.4	70.6	100.0	1,972	23.8	57.1	85.7	1,354	5.6	13.4	14.3	618

Sources: AEB, CECA, UNNAC and author's own elaboration.

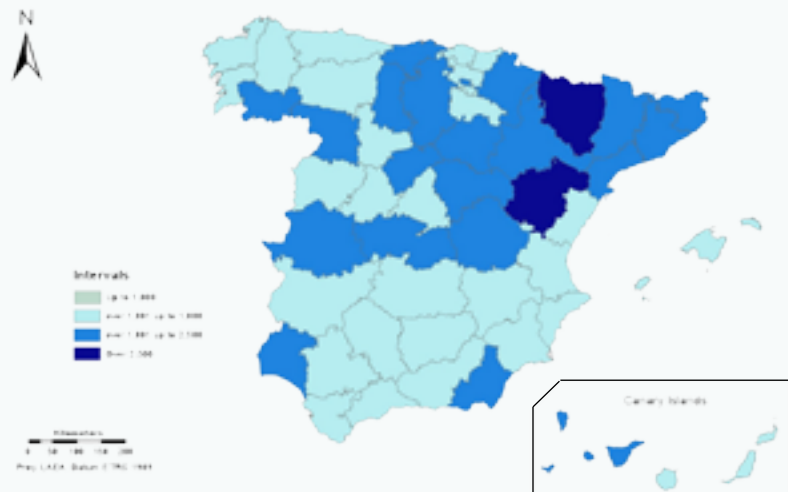
Map 1

Herfindahl Index (HI) for the banking market by province

a) 2008



b) 2016



Sources: AEB, CECA, UNNAC and author's own elaboration.

highly concentrated (presenting levels of over 40%). Comparing the situation in 2008 with that of 2016, the greatest increases in the CR1 reading took place in Zaragoza (an increase of 17.4 pp), Girona (16.5 pp), Huesca (12.2 pp), Palencia (12.7 pp), Tarragona (11.9 pp), Cádiz

(11.7 pp), Ourense (11.7 pp), La Rioja (10.6 pp) and Almería (10.7 pp). Concentration has increased in all but five provinces.

Looking at the market share commanded by the five largest institutions (CR5), the

indicator reported by the ECB at the national level, this metric has increased in 47 of Spain's 52 provinces, notably increasing by more than 30 pp in Barcelona and Girona. Huesca emerges as the most highly concentrated province by this measure (91.5%), followed by Girona (90.5%) and Ceuta and Melilla (100%).

The HI is of greater value in assessing market concentration due to the existence of benchmark thresholds. This index has increased in all 52 provinces since 2008 and by over 1,000 points in the cases of Barcelona, Girona, Huesca, Tarragona, Teruel, Zamora and Zaragoza. In percentage terms, the index has more than doubled in Barcelona, Girona, Palencia, Tarragona and Zaragoza.

The range in readings for this index in 2016 runs from a low of 1,157 in Madrid to 3,576 in Teruel, indicating the existence of very pronounced differences in concentration levels at the provincial level in Spain. There are 28 provinces below the threshold for moderate concentration according to the ECB (1,800 points). The remaining 24 provinces exceed this threshold, indicating the existence of highly concentrated markets. Teruel is the province with the most concentrated banking market with an index of 3,576 points. Above the 2,000 mark are Zaragoza, Guadalajara, Lleida, Huelva, Cuenca, Santa Cruz de Tenerife, Segovia, Girona, Soria, Ourense, Tarragona, Zamora and Huesca. The least concentrated banking markets are found in the provinces of Madrid, Badajoz, Castellón and Valencia. Note that two provinces present concentration indices of over 2,500 points (Teruel and Huesca), the threshold used in the EU to delimit an excessively concentrated market.

The impact of the mergers of Banco Popular into Banco Santander and of BMN into Bankia

Two deals have closed in 2017 which have the effect of increasing concentration in the Spanish bank market. The purchase of Banco Popular by Banco Santander has a bigger impact than the merger of BMN into Bankia, as the former involves the largest and fifth-largest banks in Spain, respectively, while the

merged entity in the latter deal is of a much smaller size.

In order to analyse the impact of these two deals on market concentration, we first simulate their impact at the national level using total assets as our indicator of business activity levels. We then simulate the impact at the provincial level, in this instance using the branch footprint data.

Using information gleaned from the individual balance sheets reported by the three sector associations referred to earlier in this paper, the HI in 2016 was 1,057 points in terms of total assets [4]. However, if we layer in the impact of the two mergers closed in 2017, the HI increases to 1,338 points. Factoring in only the acquisition of Popular, the HI increases to 1,311. Accordingly, in this instance, concentration increases by 281 points.

Turning to the impact of the two mergers at the provincial level, Table 3 simulates the HI in three scenarios: a) after the merger of Popular into Santander; b) after the merger of BMN into Bankia; and, c) after the two mergers.

In the first instance, concentration increases in all provinces by between a minimum of 12 points in Teruel and a maximum of 415 points in La Coruña. In eight provinces (Palmas de Gran Canaria, Girona, Palencia, Melilla, Lugo, Ourense, Pontevedra and La Coruña), concentration increases by more than 200 points, and in another 20 by between 100 and 200 points [5].

Using the merger guidance criteria used in the US since 2010, concentration levels increase by more than 100 points in 13 provinces, in some instances starting from indices of over 1,800 and in other indices of over 2,500. Those provinces are the following: Lleida, Santa Cruz de Tenerife, Navarra, Almería, Huelva, Soria, Segovia, Cantabria, Ceuta, Girona, Palencia, Melilla and Ourense. In this instance, using the US guidance, the merger would warrant further scrutiny. The HI does not increase by more than 200 points in any highly concentrated market (markets with a

Table 3 Impact of the 2017 mergers on banking market concentration by province

	HI 2016	HI pro forma for Santander-Popular merger	HI pro forma for Bankia-BMN merger	HI pro forma for both mergers	Increase in HI following Santander-Popular merger	Increase in HI following Bankia-BMN merger	Increase in HI following the two mergers
Álava	1,655	1,710	1,655	1,710	55	0	55
Albacete	1,663	1,696	1,663	1,696	33	0	33
Alicante	1,360	1,454	1,439	1,533	94	79	173
Almería	1,866	1,985	1,883	2,002	119	17	136
Asturias	1,359	1,446	1,359	1,446	88	0	88
Ávila	1,594	1,719	1,594	1,719	125	0	125
Badajoz	1,165	1,214	1,165	1,214	48	0	48
Balearics	1,418	1,541	1,520	1,643	123	102	225
Barcelona	1,986	2,075	1,986	2,075	89	0	89
Burgos	1,906	1,963	1,906	1,963	57	0	57
Cáceres	1,860	1,905	1,860	1,905	45	0	45
Cádiz	1,620	1,742	1,622	1,744	122	3	124
Cantabria	1,825	1,981	1,825	1,981	156	0	156
Castellón	1,175	1,289	1,249	1,363	113	74	187
Ciudad Real	1,363	1,400	1,363	1,400	37	0	37
Córdoba	1,558	1,647	1,562	1,651	89	4	93
Coruña, La	1,724	2,139	1,724	2,139	415	0	415
Cuenca	2,138	2,184	2,138	2,184	46	0	46
Girona	2,156	2,378	2,156	2,378	222	0	222
Granada	1,790	1,852	1,845	1,906	61	54	115
Guadalajara	2,069	2,106	2,069	2,106	36	0	36
Guipúzcoa	1,308	1,382	1,308	1,382	74	0	74
Huelva	2,129	2,250	2,131	2,252	121	2	122
Huesca	2,664	2,693	2,664	2,693	29	0	29
Jaén	1,675	1,737	1,683	1,745	62	8	69
León	1,363	1,543	1,363	1,543	179	0	179
Lleida	2,072	2,179	2,072	2,179	107	0	107
Lugo	1,683	1,986	1,683	1,986	302	0	302

Table 3

Impact of the 2017 mergers on banking market concentration by province

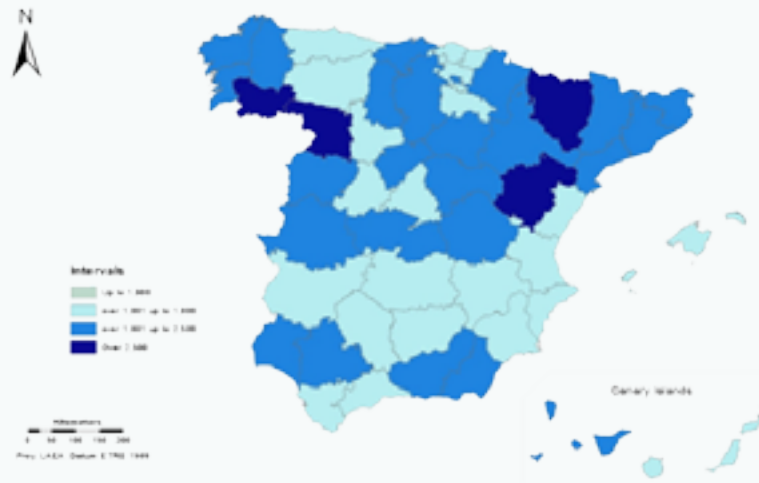
(continued)

	HI 2016	HI pro forma for Santander- Popular merger	HI pro forma for Bankia- BMN merger	HI pro forma for both mergers	Increase in HI following Santander- Popular merger	Increase in HI following Bankia-BMN merger	Increase in HI following the two mergers
Madrid	1,157	1,329	1,173	1,345	172	16	188
Málaga	1,379	1,503	1,384	1,508	124	5	130
Murcia	1,508	1,606	1,556	1,653	98	47	145
Navarra	1,935	2,047	1,935	2,047	111	0	111
Ourense	2,190	2,536	2,190	2,536	346	0	346
Palencia	1,931	2,195	1,931	2,195	264	0	264
Palmas de Gran Canaria, Las	1,575	1,782	1,586	1,793	207	11	218
Pontevedra	1,722	2,074	1,722	2,074	352	0	352
Rioja	1,662	1,705	1,662	1,705	43	0	43
Salamanca	1,649	1,825	1,649	1,825	176	0	176
Santa Cruz de Tenerife	2,143	2,253	2,143	2,253	110	0	110
Segovia	2,145	2,288	2,145	2,288	143	0	143
Seville	1,625	1,811	1,629	1,815	186	4	190
Soria	2,176	2,315	2,176	2,315	140	0	140
Tarragona	2,427	2,499	2,427	2,499	72	0	72
Teruel	3,576	3,589	3,576	3,589	12	0	12
Toledo	1,979	2,039	1,979	2,039	60	0	60
Valencia	1,233	1,342	1,299	1,408	109	66	175
Valladolid	1,349	1,519	1,349	1,519	171	0	171
Vizcaya	1,456	1,510	1,456	1,510	54	0	54
Zamora	2,485	2,554	2,485	2,554	68	0	68
Zaragoza	2,047	2,081	2,047	2,081	33	0	33
Ceuta	1,911	2,078	1,911	2,078	166	0	166
Melilla	1,972	2,249	1,972	2,249	277	0	277

Sources: AEB, CECA, UNNAC and author's own elaboration.

Map 2

Herfindahl index for the banking market by province in 2017 pro forma for the Santander-Popular and Bankia-BMN mergers



Sources: AEB, CECA, UNNAC and author's own elaboration.

HI of > 2,500 points), a situation which would have implied enhanced market power.

In the case of the merger of BMN into Bankia, the HI increases by more than 100 points (specifically, 102) in just one province, namely the Balearics. It increases by between 50 and 100 points in Alicante, Castellón, Granada and Valencia.

If we look at the combined effect of the two mergers, it is worth noting the increase in the HI in the provinces in which each of the two mergers separately increases the index by more than 50 points: Alicante, the Balearics, Castellón, Granada and Valencia. However, because the Popular-Santander transaction has the greatest impact on concentration, the biggest increases in concentration levels are attributable to this merger.

As shown in Map 2, the most recent snapshot (in the wake of the two mergers of 2017) of concentration in the Spanish banking market at the provincial level reveals that 30 Spanish provinces present highly concentrated bank

markets, marked by Herfindahl indices above the 1,800 threshold established by the ECB. Using the more stringent criteria used in the US, in four provinces (Huesca, Ourense, Teruel and Zamora) the index stands above 2,500 points, indicating the existence of a highly concentrated market.

Reflections on the outlook for concentration in the Spanish banking market

The Spanish bank sector has undergone profound restructuring in recent years, reorganisation that was necessary to correct the imbalances of the past and render the sector less vulnerable. This restructuring work has led to sector consolidation that has translated into a smaller number of competitors and, by extension, an increase in market concentration. In fact, in the European context, Spain stands out as one of the countries in which concentration has increased, the number of competitors declined and installed capacity decreased most significantly [6].

Despite the intense restructuring and consolidation, sector returns in Spain remain slim in relation to investor demands [7]. This is why institutions such as the Bank of Spain (2017) and the IMF (2017) recommend enhancing cost-income ratios, which requires scaling back installed capacity further. And there is still scope to do so considering that fact that the density of Spain's bank branch network remains among the highest in the EU (1,613 inhabitants per branch compared to an average of 2,278 in the Eurozone); moreover, Spain's branches are smaller than their EU counterparts in terms of jobs per branch (6.5 versus 15.6 in the EU). The necessary downsizing will be easier to carry out if accompanied by mergers and acquisitions designed to unlock synergies and economies of scale among the entities involved.

From the anti-trust standpoint, the fact of continuing sector consolidation is not in theory of concern given that market concentration levels are currently moderate and far below the threshold used to delimit a highly concentrated market [8]. Even in the wake of the two bank mergers of 2017, the Herfindahl index stands at 1,338 points, well below the threshold of 1,800 used by the ECB to define a market as highly concentrated. Nevertheless, going forward, more cross-border transactions would be welcome in the context of European banking union, as indeed the ECB has called for (2017b), since these mergers do not imply an increase in concentration within national markets and therefore do not have adverse effects in terms of competition.

In light of the evidence provided in this article, the analysis of bank concentration at the national level should be complemented by analysis at the regional level, at which, as we have seen, there are instances of highly concentrated markets. It is well known that there is sometimes a trade-off between financial stability and competition and that the latter may suffer in the interest of the former. Nevertheless, it would be advisable to complement the analyses performed at the national level with studies at the regional level in order to ensure minimum levels of competition in all markets.

Notes

- [1] As revealed in a recent ECB report (2017), the number of credit institutions (individual entities) in the eurozone has fallen from 6,768 in 2008 to 5,073 in 2016. In the case of consolidated groups, the population has decreased from 2,904 to 2,290 (by 21%). These figures include the entities established in the various countries as foreign branches. In Spain, of the 207 credit institutions remaining in 2016, 82 are in the form of foreign branches.
- [2] The Herfindahl index (HI) is calculated by squaring the market shares of all of a country's credit institutions and summing the resulting numbers. The highest possible reading is 10,000, which represents a monopolistic situation.
- [3] In the US, until 2010, the Department of Justice (2007) used the same thresholds as the ECB. 1,800 points was the threshold above which concentration was considered high. That guidance was revised in 2010 and new thresholds introduced such that: a) an index reading of under 1,500 indicates an unconcentrated market; b) a reading of between 1,500 and 2,500 indicates a moderately concentrated market; and, c) a reading of over 2,500 indicates a highly concentrated market. In the first instance, a merger or acquisition does not require further analysis. In the second, a more detailed scrutiny is required if the index increases by more than 100 points as a result. And in the third instance, an increase of more than 100 points warrants more in-depth analysis, while an increase of over 200 points is presumed to be likely to enhance market power.
- [4] The ECB reports a slightly lower number of 937.
- [5] The European Commission report (2017) on the merger of Banco Popular Group into Banco Santander states that the provinces most affected in terms of the retail business by the merger are Cantabria, La Coruña and Ourense where the combined market shares of the two banks range between 30% and 40%.
- [6] Almost half of the branches closed in the Eurozone since 2008 were located in Spain. In terms of jobs, Spain is responsible for one third of the sector.
- [7] The data offered by the ECB in its 'Consolidated banking data' database indicates that the return

on equity (ROE) reported by the Spanish banks in 2016 was 5% (versus a eurozone average of 3.7%), compared to an estimated cost of capital of at least 8%.

[8] Moreover, the Spanish banks stand out in the European context for their commendable cost-income levels, so that relatively higher concentration has not implied a drag on efficiency.

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Outlook for financial stability and business prospects in the European banking sector

EU banks have significantly improved their profitability post crisis. However, a challenging regulatory and monetary climate will put renewed pressures on bank profitability in the coming year.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: Europe's banks are approaching year-end offering the highest returns in a decade, albeit still below pre-crisis levels. In 2018, EU financial institutions will face changes, both in the level of regulatory burden, as well as in the monetary policy environment, and will therefore be under renewed pressure to boost their profitability by increasing cost to efficiency ratios, in part by accelerating technological change. On the

regulatory front, completion of Banking Union is running up against a set of challenges. And on the monetary front, quantitative easing is set to be gradually rolled back, albeit over an uncertain time horizon. There is also downside risk, particularly in the form of heightened political tensions in some countries (*i.e.*, the situation in Catalonia in Spain). In Spain, the six largest banks by asset volumes reported aggregate net profits of 11.78 billion in the first

“ As highlighted by EU authorities, risk reduction will only work if combined with risk sharing. ”

nine months of 2017, year-on-year growth of 11.6%. The return on equity (RoE) offered by Spanish banks is above the Eurozone average and their cost-to-income ratio is among the lowest in the region. As for the risks posed by the situation in Catalonia, it is worth noting that the measures taken by the financial institutions affected have proven an efficient backstop to mitigate risks that were reduced from the onset.

Introduction

The European banking sector is at a crossroads between recovery in the wake of the financial crisis and specification of its business model post-crisis. The strategic approach to the banking business in the years to come will be significantly affected by three factors:

- The regulatory burden implied by the universe of new banking regulations passed since the crisis and which must be largely in place by 2019, according to the schedule agreed in Basel III.
- The possible (but not totally certain) end of the great monetary policy experiment known as quantitative easing.
- A shifting competitive environment marked by a reduced physical presence via branch representation relative to online channels.

Banking union and regulatory pressure

This paper addresses recent relevant changes in the regulatory framework governing European banks. Specifically, those that relate to the architecture of the Banking Union project. Whereas the single supervisory and resolution mechanisms are being cemented, with varying degrees of difficulty, the creation of a single deposit insurance scheme would appear not only not to be advancing but to be falling behind.

The European Commission, European Parliament, European Council and European Central Bank issued a joint statement on October 11th on completing the Banking Union. Their document highlights the importance of the pillars already in place and, above all, stresses how the single resolution mechanism has injected stability and reduced uncertainty in episodes of bank stress. However, it acknowledges that one of the challenges that remains is to decisively continue the recent trend of reducing the high levels of non-performing loans (NPLs). As for the single deposit insurance scheme, the European authorities state that it remains “one of the missing pieces”. In fact, they report that the greatest achievement to date came about as a result of the stress and fear of bank runs in 2008 and 2009, which prompted an increase in the minimum balance protected per holder and account to 100,000 euros all across the EU. Significantly, the report alludes to the lack of a single deposit insurance scheme as an important part of the evidence that there is no ‘common backstop’ and notes that its absence also potentially undermines the role to be played by the single resolution mechanism. In practical terms, the report maintains that risk reduction will only work “if risk reduction and risk sharing go hand in hand.”

The timeline contemplated in 2016 called for having the single European deposit insurance scheme in place by 2024. However, now that that deadline has been eliminated, this risk sharing has been left in limbo, which poses two problems. Firstly, genuine aggregate protection of bank exposures in the EU has been set aside *sine die*. Secondly, elimination of the deadline implies a new risk insofar as the market’s interpretation may be that the banks face a less onerous protection regime and that there is no intent to remedy the situation.

As shown in Table 1, although the timeline for completing banking union approved

Table 1

Roadmap for reducing risk through Banking Union

2016 Council Roadmap	Current status	Next steps
<p>a. Propose amendments to the legislative framework in view of implementing the Total Loss Absorbing Capacity (TLAC) standard and reviewing the minimum requirement for own funds and eligible liabilities. The Council will seek to ensure consistent rules and adequate amounts for the bail-inable buffers that contribute to an efficient and orderly resolution process in line with the Bank Recovery and Resolution Directive (BRRD) for all credit institutions for which bail-in would be the validated resolution strategy.</p> <p>b. Put forward a proposal on a common approach to the bank creditor hierarchy, to enhance legal certainty in case of resolution.</p> <p>c. Propose amendments to the Capital Requirements Regulation/Capital Requirements Directive IV as part of an overall review exercise, which would result in:</p> <p>i. Harmonisation or further specification of options and national discretions granted to Member States, which could also contribute to the objective of reducing financial fragmentation; and,</p> <p>ii. Implementing and finalising remaining Basel reforms including the introduction of a leverage ratio, possibly set higher than 3% for systemic banks, and the introduction of a net stable funding ratio.</p>	<p>Legislative proposals, including all measures indicated by the 2016 Council Roadmap, are under negotiation. On options and national discretions in the Capital Requirements Directive/Capital Requirements Regulation, in addition to the legislative proposal, the European Central Bank has undertaken a comprehensive exercise to harmonise them.</p>	<p>Agreement among co-legislators on the legislative proposal by mid-2018 at the latest.</p>

Source: European Council and authors' own elaboration.

by the European Council in 2016 (the first column) remains the benchmark, the current difficulties (second column) raise new issues (third column).

Another regulatory issue set to have an important impact on the scope of the banking

business is the looming implementation of the Markets in Financial Instruments Directive (known as MiFID II). The business issue posed by this directive is the need to standardise a broad number of sales and marketing, as well as advisory procedures. In fact, the enacting regulations in Spain have been drafted in

“ Elimination of the timeline for the single deposit insurance scheme implies a new risk in market interpretations of banks' protection regimes. ”

“ Adoption of MiFID II was initially set for January 3rd, 2018, however, gradual adoption over the course of 2018 is going to be permitted in the EU. ”

phases and have taken the form of standards stretching hundreds of pages which are not easy to put into practice. Adoption of MiFID II was initially set for January 3rd, 2018. In the end, however, gradual adoption over the course of 2018 is going to be permitted in the EU. In fact, the Spanish government is still working on its legal enactment, which it expects to complete and put before parliament for approval by the end of the year.

Monetary policy: A complex normalisation

The ECB's Governing Council held one of its most important meetings in years on October 26th, 2017. It decided to reduce the monthly pace of net purchases under the asset purchase programme (APP) from 60 billion euros to 30 billion euros from January 2018 until the end of September 2018 “or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.” This decision implies an adjustment to the money supply which is expected to nudge interbank interest rates higher because, although the ECB's key rate has not changed, monetary policy will become somewhat less lax, foreshadowing more pronounced tightening in the long term.

At any rate, these changes will be gradual as quantitative easing cannot be taken away overnight. Against this backdrop, the Governing Council decided that the Eurosystem will reinvest the principal

payments from maturing securities purchased under the APP “for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary”.

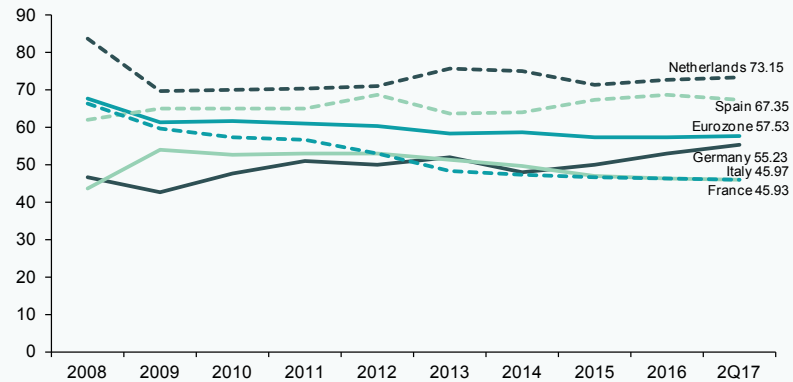
For banking business purposes, official liquidity remains abundant. Indeed, the ECB said it would continue to conduct the main refinancing operations and three-month longer-term refinancing operations (LTRO) as fixed rate tender procedures with full allotment for “as long as necessary, and at least until the end of the last reserve maintenance period of 2019”.

The outlook resulting from these monetary measures, while still expansionary, may prompt a gradual tightening in interbank rates, which remain in negative territory across a broad spectrum of terms. The relationship between the banking business and real interest rates has been anomalous in recent years with situations such as inverted yield curves (where short-term rates are higher than long-term rates) which have made it harder for the banks to pursue their traditional business of securing short-term deposits and making longer-term loans. In much of the Eurozone, the rates earned by deposits have fallen by less than borrowing rates (the banks themselves veering away from offering negative savings rates) despite which the drop in net interest margins has been relatively small due to the ‘volume’ effect (bigger movement in deposits than loans). It is estimated that the average rate earned on deposits in the Eurozone contracted by 0.2% between 2014 and 2016, while borrowing

“ The average rate earned on deposits in the Eurozone contracted by 0.2% between 2014 and 2016, while borrowing costs fell by 0.8%. ”

Exhibit 1

Ratio of net interest income-to-total income across the Eurozone (2008-2Q17)



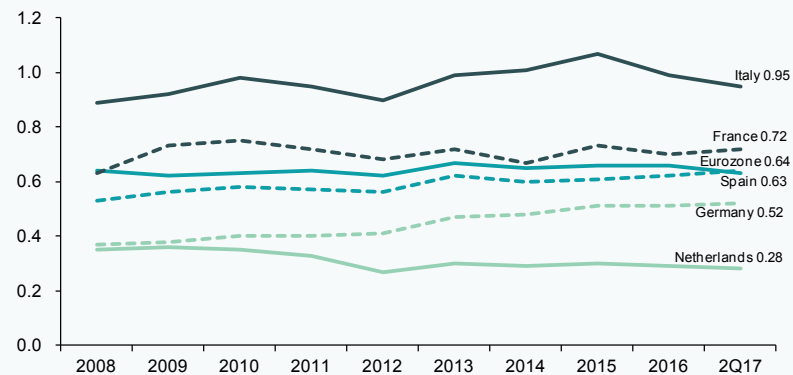
Source: ECB and authors' own elaboration.

costs fell by 0.8%. The ECB asset purchases have had the effect of distorting rates such that they do not tally with the equilibrium between private supply and demand. This 'artificial' equilibrium in the price of money also has the effect of masking the price of risk implicit

in demand for credit and therefore prevents credit from flowing to the extent desirable. The existence of negative real rates has also given rise to technical issues, substantially affecting the banks' IT systems and market operations.

Exhibit 2

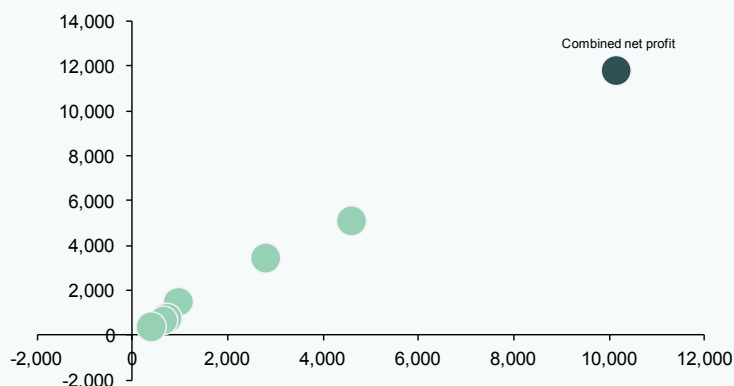
Net fees and commissions income over total assets in the Eurozone (2008-2Q17)



Source: ECB and authors' own elaboration.

Exhibit 3

Net profit at Spain's top six banks in 2016 (x-axis) and 2017 (y-axis) (9M)



Note: The six banks are Santander, BBVA, Caixabank, Bankia, Sabadell and Bankinter.
Source: ECB and authors' own elaboration.

It is hard to tell to what extent the gradual shift in the monetary environment will foster an improvement in bank margins. Although the relationship between asset and liability rates may enter more natural territory, there is also risk implicit in the increase in the cost of debt, both for the banks' funding costs and on the lending side of the business, with the impact on non-performance hard to predict.

As shown in Exhibit 1, the impact of negative rates on margins is significant given that net interest income accounted for 57.53% of total bank income in the Eurozone in Q217. This contribution level has barely moved since the start of the crisis. In Spain, the percentage is a little higher (67.35%), albeit lower than in the Netherlands (73.15%).

The contraction in net interest income has only been partially mitigated by fees and commissions income. As shown in Exhibit 2,

net fees and commissions income as a percentage of total assets has been steady within a range of 0.6-0.7% in the Eurozone since 2008, standing at 0.64% in Q217. Italy (0.95%) and the Netherlands (0.28%) stand out at the two extremes.

Third quarter earnings in the Spanish banking system

In a propitious macroeconomic and financial environment, the earnings reported by the Eurozone's banks for the first nine months of the year generally reveal two trends: (i) an improvement in their RoEs; and, (ii) a drop in interest margins. As we will show in this section, most of the improvement in the banks' returns is attributable to their efforts to improve their cost-to-income ratios (although this is not the case across all the Eurozone countries).

“Most of the improvement in Spanish banks' returns is attributable to their efforts to improve their cost-to-income ratios.”

“ Several EU market and supervisory authorities continue to call on Europe’s banks to make additional efforts to contain costs, aware that the shift in distribution channels, with online channels on the rise, will be key. ”

Spain’s six largest banks by asset volumes reported aggregate net profit of 11.78 billion in the first nine months of 2017, year-on-year growth of 11.6%. As depicted in Exhibit 3, the earnings momentum was widespread.

The Spanish banking sector stands out among its European counterparts in terms of returns. The ECB, in its capacity as single supervisor, published complementary statistics on the performances of the Eurozone’s banks in October. These figures enable an interesting comparison from 2008 until Q217. The trend in the banks’ returns on equity (RoE) between 2008 and 2017 (Exhibit 4) corroborates the fact that of the two recessions sustained during the crisis, it was the sovereign debt crisis of 2011 and 2012 that had the biggest adverse impact, due to the sizeable losses reported,

especially in 2012. That year, the sector’s RoE plummeted to -25.6% in Spain, albeit going on to recover quickly in subsequent years. The most erratic trend is observed in Italy, where bank resolution efforts have been intermittent and uncertainty remains. In Q217, the Spanish banks’ RoE stood at 8.3%, which is above the Eurozone average (7.1%), higher than that of Germany (3%) but lower than that of the Netherlands (10.2%).

In light of the difficulties faced in lifting their RoE, it is worth investigating what role efforts to become more cost-efficient can play in boosting bank earnings. In 2008, the cost-to-income ratio (CIR) in the Eurozone was 74.46%; by Q217, it had fallen to 62.72%. However, the trend is uneven across the various countries and may well

Exhibit 4

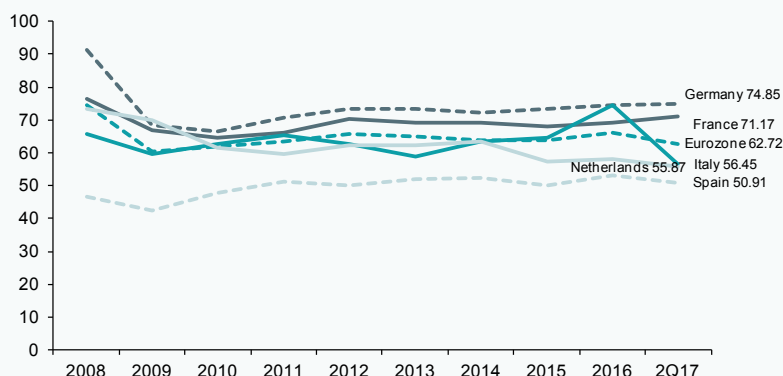
Banking sector return on equity (RoE) in the Eurozone (2008-2Q17)



Source: ECB and authors' own elaboration.

Exhibit 5

Cost-to-income ratio (operating expenses/operating income) in the Eurozone (2008-2Q17)



Source: ECB and authors' own elaboration.

largely explain the differences in returns. Germany presents the highest CIR among the countries analysed (74.85%) and Spain, the lowest (50.91%). Several agents from the market and supervisory arenas continue to call on Europe's banks to make additional efforts to contain costs, aware that the shift in distribution channels, with the role of the branches waning and that of the online channels on the rise, will be key.

Conclusions: Outlook for Europe's banks in 2018

As we near the end of 2017, the European banking sector appears to be entering a new phase marked by a shift in monetary conditions, materialisation of significant elements of the regulatory tightening effort and a more pressing search for returns and cost-efficiency driven by technological change.

As far as regulations are concerned, the Eurozone would appear to be handicapped to a degree by relative stagnation on the road towards true banking union, particularly the elimination of the 2024 deadline for articulating a single deposit insurance scheme. Looking towards 2018, materialisation of the last pillars of the Basel III regulations and

effective implementation of the Markets in Financial Instruments Directive (MiFID II) will also be important; both will consume significant amounts of human and business resources in compliance activities and the impact will be difficult to quantify – albeit surely adverse in the short term – on business.

Elsewhere, the relative tightening of monetary policy marks a first step along the much anticipated but always tricky return to financial 'normality'. The trends in interest rates and yield curves under quantitative easing have hindered the banks' core leveraging activities. With the foreseeable rise in market interest rates and the desirable coexistence of private and official liquidity, it is possible we will see a slight recovery in interest margins, albeit punctuated by new risks such as pressure on loan performance on the asset side of the business and on funding costs on the liability side.

Lastly, it is worth stressing that 2017 looks likely to be the year of the highest returns in a decade, albeit still well below the RoE levels recorded prior to the crisis. The figures provided in this paper show that Spain enjoys a privileged position in this respect, in large part

thanks to a more pronounced effort to boost cost-efficiency relative to its European peers.

Santiago Carbó Valverde.

Bangor Business School, Cunef and Funcas

Francisco Rodríguez Fernández.

Granada University and the Funcas

Box: Financial stability and the situation in Catalonia

The political events affecting Catalonia in recent months, particularly since September 2017, are significantly impacting the economic and financial panorama. As far as the banking sector is concerned, the most relevant developments took place in early October, when, in the wake of the illegal referendum and the resultant institutional uncertainty, the main banks with registered offices and tax domiciles in Catalonia decided to move them to other regions of Spain. From the point of view of bank strategy and financial stability, at least four conclusions can be drawn:

1. The stress generated was limited to the liquidity aspect and the entities affected had contingency plans to deal with this. Specifically, they had abundant levels of collateral to monetise vis-a-vis the European Central Bank. Moreover, in all instances, the entities affected boasted strong capitalisation ratios and, especially in the case of the two most prominent institutions (Caixabank and Sabadell), substantial and solid internal funding and capital-generating circuits across the entire national market.
2. The entities affected have moved their registered offices and tax domiciles outside of Catalonia. In the process, they have reinforced their reputations, needed not so much from a financial perspective as from the standpoint of the peace of mind the decision creates for the business (removing it from the source of the conflict) and in terms of the message it sends to their customers.
3. Much of these banks' structures remain in Catalonia, among other things because a large part of their businesses and corporate roots are located in the region. In tandem, there has been a parallel – and significant in economic terms – movement by non-financial corporates (moving both registered offices and entire corporate structures away), which is very likely to have an adverse effect on the macroeconomic environment in Catalonia and Spain as a whole.
4. Financial stability in Catalonia and Spain has not been and is not at risk because the private sector's pre-emptive moves have prevented tension from spiralling further. At present, this source of political tension is a problem that threatens the Spanish economy as a whole and warrants the attention of EU authorities given its potential risks for the European economy.

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Spain's structural reforms: Remaining challenges for budget stability and the labour market

2012 marked a year of much-needed progress on Spain's structural reform agenda, particularly in the areas of budget stability and the functioning of the labour market. However, in the wake of the reforms, a current snapshot of the country's public finances and job market reveals outstanding issues that still need to be addressed.

Ramon Xifré

Abstract: Based on an analysis of the main economic reforms recently undertaken in Spain, the budget stability act and the labour market reform, this paper attempts to pinpoint some of the outstanding issues which should be tackled in additional reforms already undertaken in these two areas. In terms of the sustainability of the country's public finances, the stability act, understood as

the fiscal discipline rules, still faces issues in terms of its ability to achieve stipulated outcomes. It is also important to control the increase in certain public liabilities that fall outside the scope of excessive deficit procedure (EDP) definitions. As for the labour market, future reforms need to pay more attention than has been paid thus far to certain key variables and trends. More specifically, action

needs to be taken, *inter alia*, with respect to the ageing of the working population, the drop in the number of economically-active men and the rise in long-duration unemployment and the resulting shortfall in safety net.

Introduction

Spain's tenth legislature, which ran from December 2011 to October 2015, was characterised by a parliamentary stability which paved the way for the passage of important structural reforms, namely three: the budget stability act, the restructuring and recapitalisation of the financial system and labour market reform. The next two terms of office, the first from January to May 2016 and the second which began in July of that same year, in contrast, have not been marked by a similar degree of political stability. Spain had a caretaker government for much of 2016 and since then has had a minority one. Looking forward, as recently acknowledged by the AIReF (2017), Spain is also facing a period of political instability, in part as a result of the political and institutional uncertainty prevailing in Catalonia, which is making it hard to make medium-term predictions. The tenth legislature was thus characterized by a period of political stability, which enabled the passage of reforms of substantial significance.

For all these reasons, this paper attempts to take a retrospective look at that period in order to analyse two of the three mentioned areas of reform: budget stability and labour market reform. The goal is to contribute to the debate about their effects and reflect on the challenges remaining in these areas. In sum, the idea is to flag certain issues which need to be addressed as soon as political and institutional stability allows for renewal of the reform agenda.

For an analysis of the reforms undertaken in the Spanish financial system and of the key

challenges looming, issues not addressed in this article, the reader is referred to recent studies by Ocaña and Faibishenko (2016) and Carbó and Rodríguez-Fernández (2016).

This paper is related with earlier analyses (Xifré, 2014, 2015 and 2016) but on this occasion takes a deeper look at these two specific areas of economic policy reform. For each of the two areas, we first briefly summarise the contents of the reforms before going on to analyse related data of interest.

Budget Stability Act

Spanish Organic Law 2/2012 on Budget Stability and Financial Sustainability (the Act) was passed to comply with the changes made in August 2011 by the prior government to Article 135 of the Constitution. The amendment to the Constitution consisted of the introduction of a fiscal rule limiting the structural public deficit, a novel initiative for Spain, and a limit on public borrowings tied to the benchmark value stipulated in the Treaty on the Functioning of the European Union (TFEU). Because it is an organic law, it regulates budget stability and financial sustainability at all levels of government: the State, the autonomous regions, local administrations and the social security administration.

Borrowing from Hernández de Cos and Pérez (2013), the quantitative limits imposed by the Act are the following:

- The Act stipulates that neither the State nor the autonomous regions may incur a structural deficit. The structural deficit is the part of the overall public deficit remaining after elimination of the cyclical deficit, *i.e.*, the portion caused directly by the prevailing economic environment. Refer to Hernández de Cos and Pérez (2013) for

“ The tenth legislature was thus characterized by a period of political stability, which enabled the passage of reforms of substantial significance. ”

“ Despite progress, Spain's fiscal consolidation has been slower than in some other eurozone countries under strong fiscal pressure. ”

further information about this concept. Local administrations and the social security must maintain a balanced budget or budget surplus in current and not just structural terms.

- The Act also stipulates that public debt may not exceed 60% of GDP from 2020. It also establishes a breakdown for this cap: 44% corresponding to the State; 13% to the autonomous regions as a whole; and 3% to local administrations. Within this regime, the Act entitles the autonomous regions and local administrations to ask the State for access to extraordinary resources in order to generate liquidity.
- The Act also provides that all levels of government must approve annually an increase in their non-financial spending that is lower than the medium-term growth in GDP estimated by the Ministry

of the Economy and Competitiveness in keeping with the European Commission's methodology.

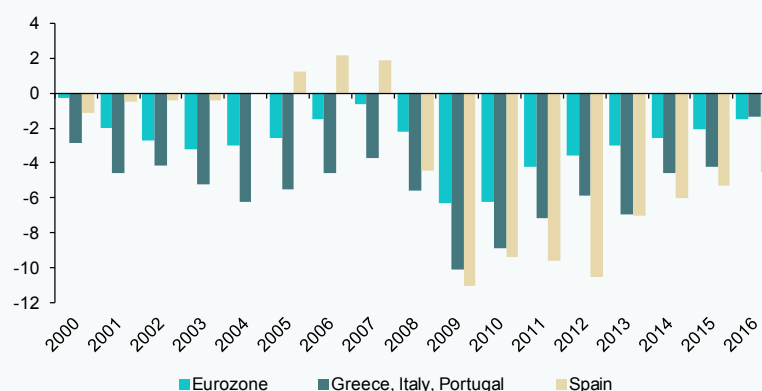
The Budget Stability Act has been analysed by Domínguez Martínez and López Domínguez (2012), Hernández de Cos and Pérez (2013 and 2015) and Lago Peñas (2015), among others. From a broader perspective, the work by Cuenca (2016), Lago Peñas (2017) and Aguerre and Borraz (2017) has recently examined the sustainability of Spain's public finances and its fiscal consolidation efforts in latter times.

Building on these studies' findings, this paper attempts to round out the analysis by providing additional tools for assessing the Act and the remaining challenges in the budget stability arena.

Exhibit 1

Government surplus (+) or deficit (-)

As a % of GDP



Source: Eurostat.

Exhibit 1 represents the budget surplus or deficit of the general government in relation to GDP in Spain, the average for Italy, Greece and Portugal (the three Eurozone states to have experienced the greatest fiscal stress since the Great Depression) and in the eurozone as a whole between 2000 and 2016.

The exhibit shows that the deficit had narrowed significantly, to less than half of what it was between 2009 and 2012, by 2016, going from 10% to 4% of GDP. Nevertheless, the pace of deficit correction in Spain has been slower than in the eurozone as a whole and than in the three countries (on average) under strong fiscal pressure. This last comparison is particularly relevant and worrying as it casts doubts over the Act's ability to bring about fiscal correction of the calibre of that achieved by Greece (which was consistently reporting much higher deficits than Spain until 2013) and Portugal (whose deficit approached that of Spain in 2009 and exceeded it in 2010). In fact, the modest correction in the overall public deficit (observed) suggests the existence of serious obstacles to correction of the structural public deficit, the variable stipulated in the Act, irrespective of the methodology used to calculate it.

Exhibit 2 represents public debt over GDP for these three countries over the same timeframe.

It shows how Spain's public debt stopped rising in 2014, hovering between then and 2016 at levels of around 100% of GDP. Although the end of the increase in debt, which had started in 2007, is naturally welcome news, it is worth noting two importance nuances.

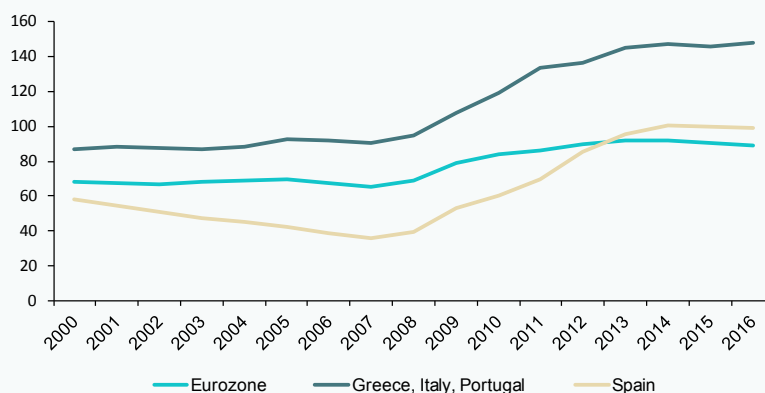
Firstly, it does not show public debt decreasing since 2012, as it should if the public finances were trending towards compliance with the Act's stipulation that borrowings not exceed 60% of GDP by 2020. Therefore, the Act would also appear to be compromised in this respect.

Secondly, Exhibit 3 shows the trend over time in more broadly defined public debt measures. On the one hand, it presents Spain's public debt as calculated using the European Commission's excessive deficit procedure (EDP) (which is the same as the series depicted in Exhibit 2). In addition to this definition, this exhibit also depicts the additional public sector liabilities that are not included in the EDP criteria (non-EDP debt). The sum of

Exhibit 2

Public debt

As a % of GDP

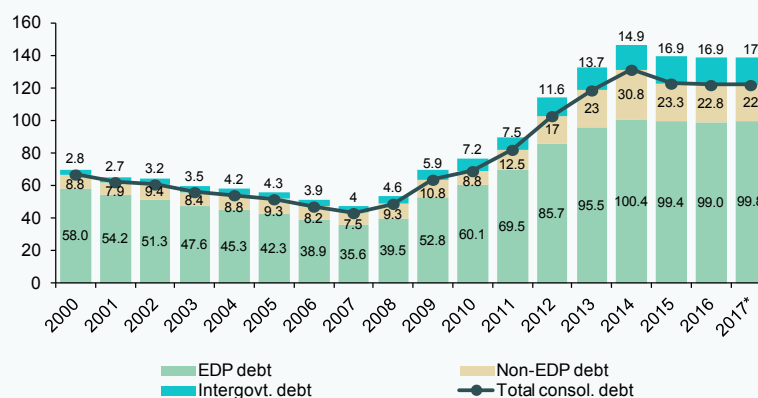


Source: Eurostat.

Exhibit 3

Public debt as per the EDP, additional non-EDP public debt, intergovernmental debt and total consolidated public debt (EDP and non-EDP)

As a % of GDP



*The data for 2017 correspond to June.

Note: Total consolidated public debt equals total liabilities outstanding net of intergovernmental debt.

Source: Bank of Spain, Statistical Bulletin, Table 11.5.

these two headings yields total liabilities in the hands of the consolidated public sector (*i.e.*, eliminating intergovernmental debt). Thirdly, the exhibit depicts these intergovernmental debts, which are mainly credit facilities and loans granted by the state to the autonomous regions and local administrations in the form of special liquidity funds. These liabilities are already counted in the first two headings and therefore cannot be added to total borrowings.

Exhibit 3 enables us to observe the relative trend in the various types of borrowing between 2000 and 2017. Non-EDP debt doubled from 15% of EDP debt in 2000 to 31% in 2014, settling at around 22% in 2016 and 2017. The increase in the relative

importance of intergovernmental debt is even more pronounced. These liabilities, which accounted for just 5% of EDP debt in 2000, have been climbing continuously, tripling to represent over 17% of EDP debt in 2017. These trends reveal another of the Act's limitations: its failure to establish limits on non-EDP debt. It could be the case that we are witnessing a more or less deliberate transfer of borrowing transactions from within the scope of EDP debt-raising to other kinds of borrowing arrangements that do not compute as EDP debt. In the case of the intergovernmental debt, it is worth highlighting the additional risk that a regional or local government will not be able to service part of its payment obligations vis-à-vis the state.

“ There may be a transfer from borrowing transactions within the scope of EDP debt to other kinds of borrowing arrangements that do not compute as EDP debt. ”

“ Recent data suggest that the labour reform has not managed to reverse the sharp decline in the economically-active population in Spain, particularly in the male segment. ”

Labour market reform

The labour market reform was initially approved in 2012 as Royal Decree-Law 3/2012 and was later validated by Law 3/2012. Borrowing from García-Pérez and Jansen (2015), the main points of the reform are as follows:

- Internal flexibility: The reform makes it easier for companies to unilaterally change the duties carried out by their employees and their terms of employment, including their salaries;
- Decentralisation of negotiations: Collective bargaining agreements are given priority in certain areas and a time limit is established on the period of time these agreements can remain in force after they expire;

- Termination benefits and other redundancy costs: Generalisation of the 33 days per year worked with a cap of 24 months' pay; elimination of the need to pay interim wages while layoffs are being legally processed; elimination of the express layoff formula; suspension of the need to obtain governmental authorisation for group redundancies; and,

- Employment contract types: Introduction of a new contractual formula (permanent contract in support of entrepreneurs) for companies with fewer than 50 employees with an initial trial period of one year; ban on stringing temporary contracts together for more than 24 months in a row.

The goal of this reform was to facilitate job creation and deliver smoother management

Exhibit 4

A. No. of economically-active individuals and unemployment rate, total population

Millions and as a % of the economically-active population, respectively

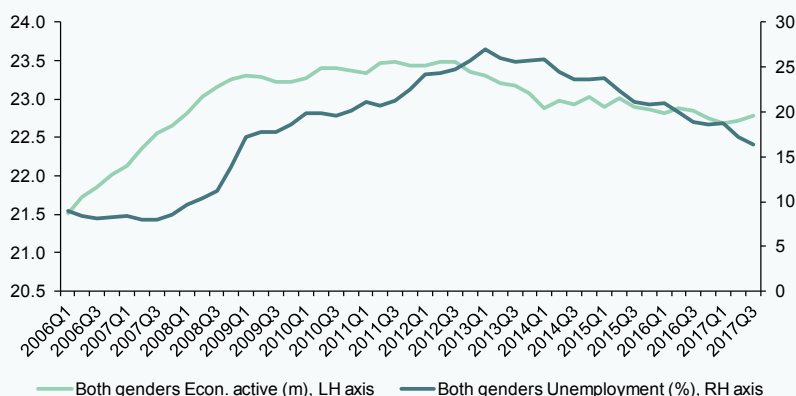
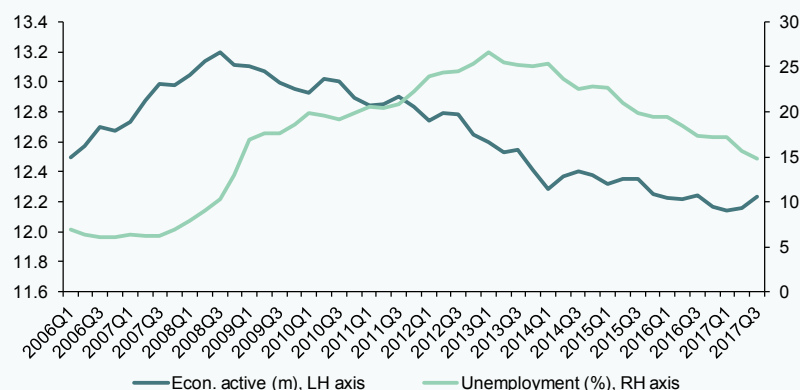


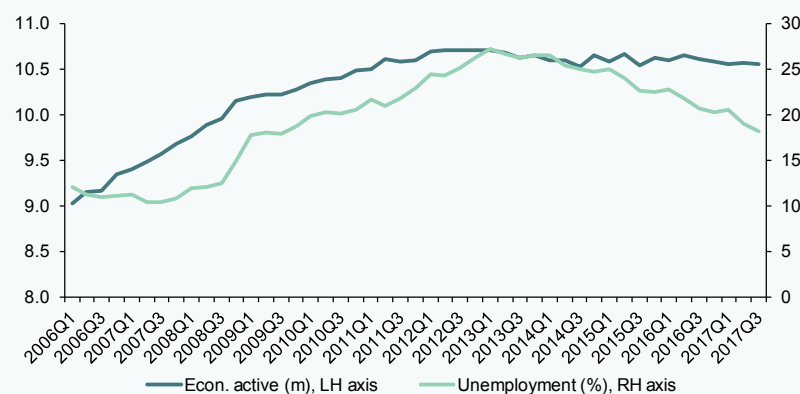
Exhibit 4

B. No. of economically-active individuals and unemployment rate, male population

Millions and as a % of economically-active men, respectively

**C. No. of economically-active individuals and unemployment rate, female population**

Millions and as a % of economically-active women, respectively



Source: INE (EPA).

of labour relations. The labour market reform and its impact on the Spanish economy have been studied in the following papers, among others: Dolado (2012), OECD (2013), García Pérez and Jansen (2015), García Pérez and Mestres (2016), Doménech, García and Ulloa

(2016), Boscá *et. al.* (2017) and Cuerpo, Geli and Herrero (2017).

Below we present data related to the job market which add new information with respect to the studies mentioned above and

point to outstanding issues in the reform agenda in this area.

Exhibits 4.A, 4.B and 4.C depict the number of economically-active individuals and the unemployment rate for the total population, the male population and the female population, respectively.

The exhibits show that the economically-active male population has decreased by around one million individuals between mid-

2008 (when it peaked) and 3Q17 and there is no evidence that this process has run its course (Exhibit 4.B). The trend in the economically-active female population is different, having risen sharply between early 2006 and 2013 (when the number of economically-active women increased by 1.7 million), going on to stabilise between 2013 and 2017 (Exhibit 4.C). The combined effect of these two trends is seen in the total economically-active population, which increased until the end of 2012, when it reached 23.5 million people,

Exhibit 5

A. Breakdown of job holders by age, total population



B. Breakdown of job holders by age, male population

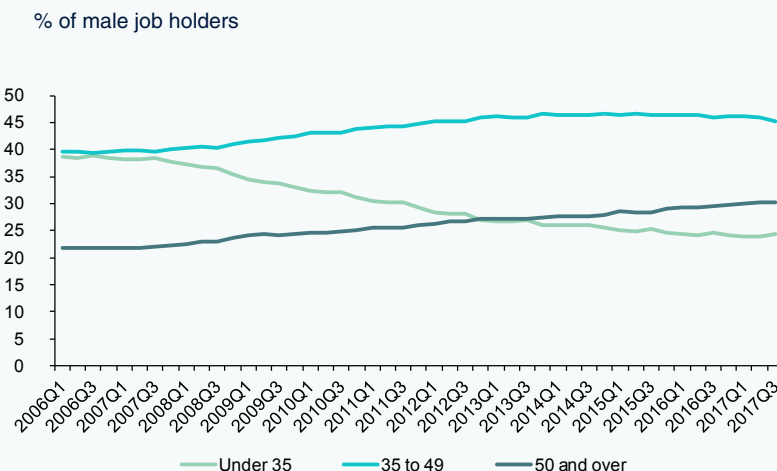
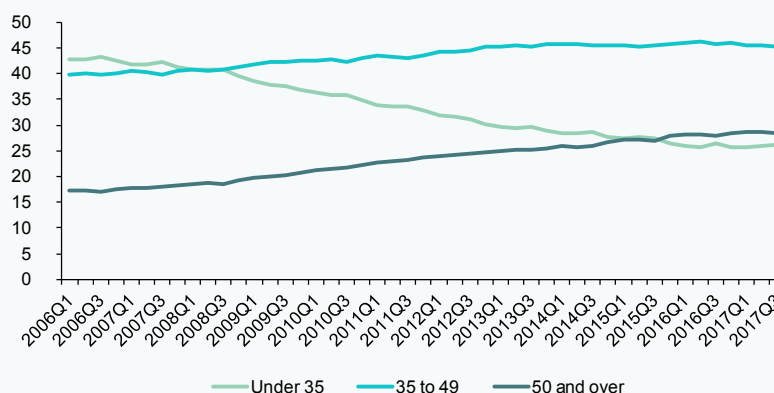


Exhibit 5

C. Breakdown of job holders by age, female population

% of female job holders



Source: INE (EPA).

since which time it has lost 750,000 members (by 3Q17) (Exhibit 4.A). The unemployment dynamics are similar in both segments of the population, with both rates starting to come down from around the second quarter of 2013.

These figures suggest that the labour market reform has not managed to reverse the sharp decline in the economically-active population in Spain, particularly in the male segment.

To further this, Exhibits 5.A, 5.B and 5.C break the total number of job holders down into three age categories – under 35; between 35 and 49; and over 50 – again for the same three groupings: The total population, the male population and the female population, respectively. In both the male and female segments, the data clearly reveal the continuous ageing of the labour force.

In early 2006, for the total population the most populated age category was the under 35s, followed closely by the middle age category, with almost 40% of job holders falling into each of these two groups. The older workers accounted for the remaining 20%, a little less in the case of the women, the segment which

had the most young job holders, at close to 43% of the total.

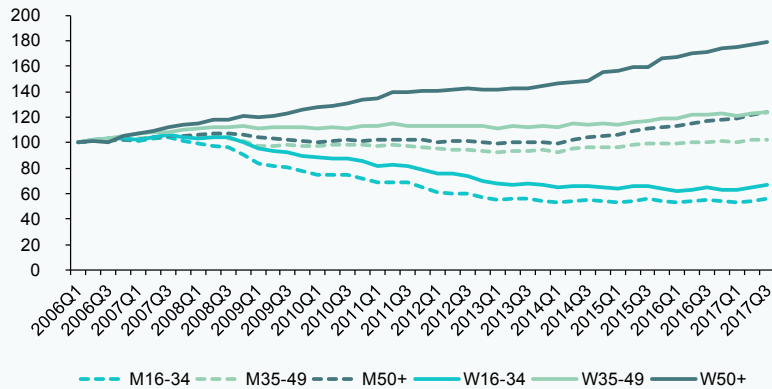
2006 marked the start of a downtrend in the percentage of young employees in both segments of the market and there are no clear indicators that this process has run its course. As a result, in 2008 the number of working middle-aged women outnumbered young female job holders, while middle-aged men outnumbered younger male job holders since the beginning of the series. This trend has been ongoing and 2014 was marked by a very noteworthy development: that year, in both segments, there were more job holders aged 50 or more than aged 35 or less. As of the third quarter of 2017, the most recent data available, the breakdown of job holders in both segments was similar: the most populated age segment was the middle-aged segment (almost 45% of the total), followed by the older job holders (~30% of the total), while the number of young job holders had become the least representative category.

Exhibit 6 analyses these same data presented differently. This exhibit represents the number of men and women employed in these three

Exhibit 6

Change in no. of job holders by age and gender

Index 2006Q1 = 100



Note: M: men; W: women; 16-34: aged 16 to 34; 35-49: aged 35 to 49; 50+: aged 50 and over.

Source: INE.

age segments rebasing the readings to the first quarter of 2006. This double classification generates six different series of job holders by age and gender and Exhibit 6 shows how they have varied between 2006 and 2017.

As the exhibit shows, the group which has grown the most is the segment of women aged 50 and over, which has increased in size by 80% during the period. Next are two groups which have trended very similarly, increasing

Exhibit 7

A. Breakdown of economically-active individuals by age, total population

% of total economically-active individuals

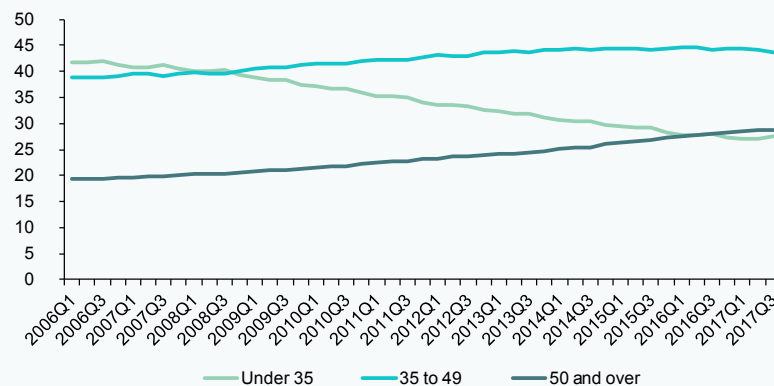
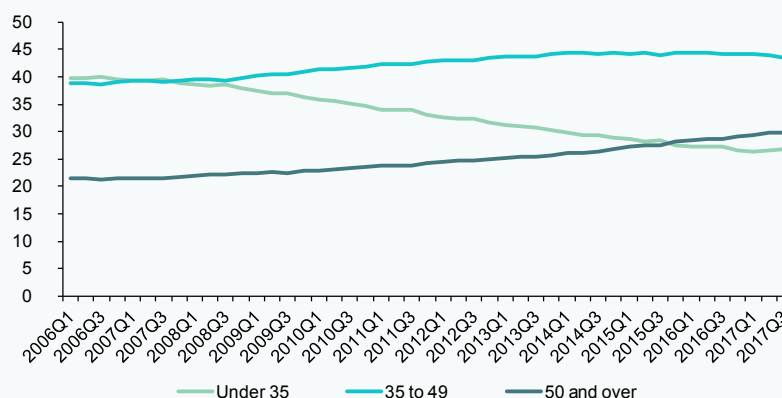


Exhibit 7

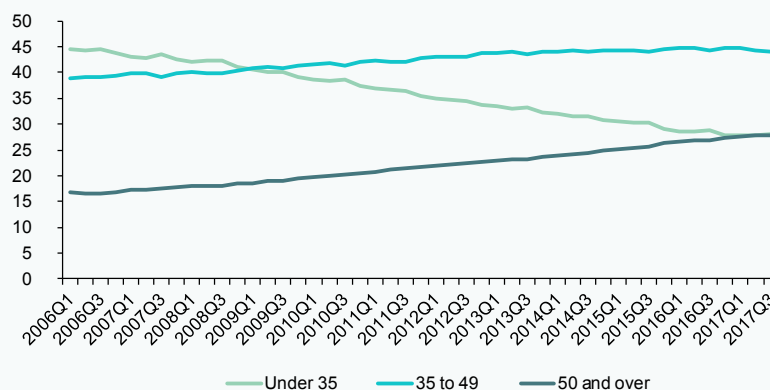
B. Breakdown of economically-active men by age

% of economically-active men

(continued)

**C. Breakdown of economically-active women by age**

% of economically-active women



Source: INE.

by around 20%: the middle-aged women (aged 35 to 49) and the older men. The number of middle-aged men, which has been hovering around 4.5 million and is the largest of the six groups analysed, has been largely stable, if anything increasing very slightly. In contrast, as we have already mentioned, the youngest segments have been declining constantly in

both segments. The result is that, by 2017, the number of young female job holders had fallen by 33% and the number of young male job holders by 43% with respect to 2006. In all three age categories, the number of female job holders has increased by more (or decreased by less in the case of the youngest segment) than the number of male job holders.

To get a better picture of the ageing of the Spanish labour force, Exhibits 7.A, 7.B, 7.C and 8 conduct a similar analysis for the economically-active population.

They support that the conclusions drawn earlier continue to hold. The number of young economically-active individuals has fallen very substantially and is now the smallest age category in both segments of the labour market, whereas the number of economically-active individuals aged 50 or more has registered the greatest growth. Very noteworthy is the fact that the number of older economically-active women has doubled between 2006 and 2017. Exhibit 8 also reveals that the female segment of the market has outperformed the male segment for all age categories.

To round out the analysis of the labour market in the wake of the market reforms we study the situation among the unemployed. Exhibit 9 depicts the number of job seekers, distinguishing between the length of time they have been searching for work.

It shows that the number of people unemployed escalated rapidly from 2008,

peaking in the first quarter of 2013 at 6.2 million. Since then, it has been coming down and stood at 3.7 million as of the third quarter of 2017, implying a reduction in the number of unemployed of 2.5 million between 2013 and 2017.

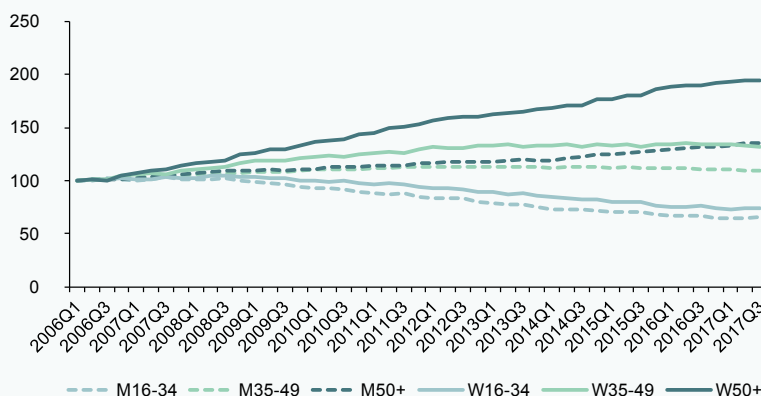
To assess this improvement properly, however, it is important to consider two trends. Firstly, as shown earlier, the economically-active male population has been declining since the third quarter of 2008 (Exhibit 4.B) and the overall economically-active population since mid-2012 (Exhibit 4.A). In fact, the economically-active population declined by over 700 thousand individuals between the second quarter of 2012 and the third quarter of 2017. This means that nearly 30% of the reduction in the number of people unemployed is attributable to the reduction in the size of the economically-active population, *i.e.*, to people abandoning the labour market.

Secondly, Exhibit 9 reveals that the percentage of long-duration job seekers, *i.e.*, those who have been looking for work for more than two years, shot up in 2010, peaking in 2014

Exhibit 8

Change in no. of economically-active individuals by age and gender

Index 2006Q1 = 100



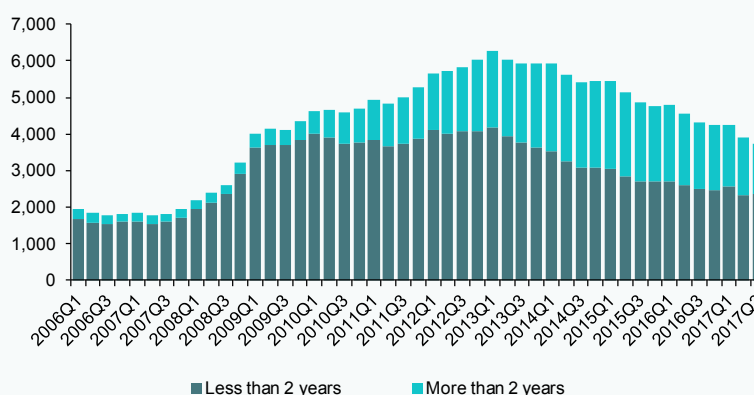
Note: M: men; W: women; 16-34: aged 16 to 34; 35-49: aged 35 to 49; 50+: aged 50 and over.

Source: INE.

Exhibit 9

No. of job seekers by length of job search

Thousands of individuals



Source: INE (EPA).

and 2015 and declining only slightly since then. Whereas the long-duration job seekers accounted for an average of almost 11% of the total between 2006 and 2009, this percentage had quadrupled by 2014 and 2015, to over 43%. As of the third quarter of 2017, the most recent figure available, the number of people that had been seeking work for more than two years accounted for 36% of all job seekers. It is well known that long-term unemployment can have adverse consequences for the job prospects of its sufferers as well as for their physical and mental well-being. To this end, the reduction of this form of unemployment should be one of the top priorities of any meaningful labour market reform. The data suggest, however, that the 2012 reform has not successfully tackled this problem.

Lastly, we analyse the situation and trend in unemployment by the types of benefits received. Exhibit 10 provides the benefits

coverage rate based on the data published by the state's public employment service (SEPE for its acronym in Spanish), which is part of the Ministry of Employment and Social Security. The coverage rate is defined as the percentage of job seekers receiving some form of unemployment benefits (whether contributory or non-contributory) over total job seekers.

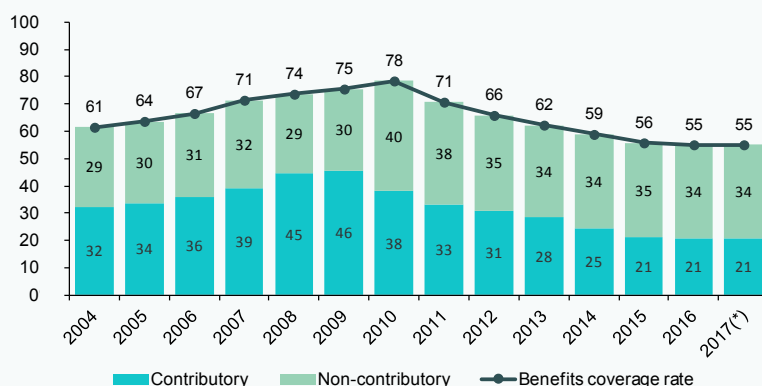
The exhibit shows that the unemployment benefits coverage rate peaked in 2010 at 78%, since which time it has fallen by over 20 percentage points to stand at 55% in 2017. That means that nearly half of all jobless individuals receive no benefits at all. Moreover, within the group of jobless individuals who do receive benefits, since 2013 the majority have been receiving a non-contributory benefit, *i.e.*, an assistance or quasi-assistance benefit (such as the so-called active insertion income scheme or

“ Nearly 30% of the reduction in the number of people unemployed is attributable to people abandoning the labour market. ”

Exhibit 10

Coverage rate, contributory and non-contributory jobless benefits

Percentage



* The data for 2017 correspond to June.

Notes: The coverage rate corresponds to the number of beneficiaries of jobless benefits as a percentage of the number of job seekers with work experience. For the purposes of this exhibit, beneficiaries of non-contributory benefits are those who benefit from assistance benefits, namely beneficiaries of the so-called active insertion income and job readiness schemes. The percentage of beneficiaries in receipt of benefits is expressed as a percentage of official unemployment (as per the SEPE's IT system).

Source: The SEPE, Spanish Ministry of Employment and Social Security. Jobless Benefits Statistics.

the job readiness programme). This is yet another manifestation of the incidence of long-duration unemployment; as the period of time a person is looking for work stretches on, the (more generous) contributory benefits run out and the job seekers start to receive assistance benefits instead. Once again this doubly precarious aspect of the conditions faced by job seekers raises questions about the suitability and effectiveness of the reform undertaken in 2012 in terms of the support offered to the most vulnerable people in the job market.

Conclusions

Based on an analysis of a series of data related with the sustainability of Spain's public finances and the state of the labour market, this paper aims to raise certain issues which should be tackled in upcoming structural reforms in these two areas of economic policy.

In the case of the sustainability of the public finances, the data suggest that the Budget Stability Act faces two major challenges. On the one hand, the credibility of the fiscal discipline aspect is compromised. It is extremely difficult to envision that Spain will deliver on the target of cutting public borrowings to 60% of GDP by 2020 and it is not at all clear whether the structural deficit can be eliminated. Given the complicated issues at the EU level surrounding the Stability and Growth Pact, the regulation which inspired the Spanish legislation of 2012, it would seem more prudent to foster budget regimes which prioritise credibility over budget-cuts. On the other hand, it is unclear how the borrowings not included in the public debt calculations for excessive debt procedure purposes or intergovernmental borrowings will evolve. Both classes of public liabilities have registered extraordinary growth since the

crisis and it remains to be seen how they will be reined in.

As for the labour market, the unemployment rate has fallen significantly since 2013 but two adverse developments are worth highlighting. First of all, there is as of yet no conclusive evidence regarding the extent to which the reform has contributed to the overall improvement in the big picture. Secondly, the analysis suggests that future reforms should pay more attention than has been paid thus far to other labour market aspects. For example, the apparently unstoppable ageing of the working population is worrying. Also urgently needed are measures that could revert or stall the loss of economically-active men. Lastly, another top priority should be to combat long-duration unemployment, which has quadrupled its share of total job seekers. One of the consequences of this trend is an increasing lack, or shortfall, of benefits coverage for a growing number of job seekers.

In all, the analysis provided in this paper underscores the need to overcome as soon as possible the prevailing climate of political uncertainty in order to attend to a series of fundamental social and economic problems.

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Fiscal consolidation: Favourable economic conditions threatened by political uncertainty

A constructive macroeconomic climate is helping Spain comply with near-term fiscal objectives. However, political tensions and lack of progress on revenue-enhancing measures will complicate the outlook for fiscal consolidation in the longer-term.

Santiago Lago Peñas

Abstract: Spain is largely on track to meet the deficit target of 3.1% of GDP for this year. The constructive fiscal outlook has been supported by macroeconomic improvement and the reduction in debt servicing costs on the back of lower interest rates. Not so positive, Spain's consolidation process depends too heavily on cyclical, rather than structural, improvements as the main adjustment mechanism. In addition, potential downside risk from

extended political tensions in Catalonia also threatens the outlook for a more ambitious deficit reduction over the medium to longer term. For 2018, meeting official targets may be feasible, but will depend on the ability of the State and Social Security deviations to be offset by the local administrations and for a resolution to the Catalonia crisis before the end of that year. Overall, there is a clear and urgent need for approval of the 2018 Budget

to help ensure target compliance. Going forward, Spain's fiscal system requires deep reforms, particularly on the revenues side, to be more sustainable, equitable, and efficient.

Introduction

Spain's current fiscal backdrop is characterised by a combination of positive and negative factors, which have gathered momentum in recent months. On the upside, the chances of meeting this year's deficit target (of -3.1% of GDP) have increased over the course of the financial year. Firstly, because growth has held up more robustly than expected, which has led to a reduction in transfers from the State to the Public Employment Service (SEPE) and a slight pick up in tax revenues. Secondly, due to a reduction in the interest bill on accumulated debt and public spending restraint; although in the case of the latter, current spending could accelerate in the second half of the year due to the late approval of the 2017 Budget in June. Spain's public deficit is on the cusp of -3% of GDP. In addition, the autonomous regions are no longer a major part of the fiscal sustainability problem.

On the downside, fiscal consolidation has relied more heavily on automatic stabilisers than discretionary measures and elimination of the structural deficit. Moreover, the political uncertainty arising from the conflict with Spain's largest economic region is particularly worrying for two reasons. Firstly, the crisis in Catalonia has drawn significant attention, marginalising discussion of a variety of reforms and outstanding problems that remain on the economic agenda, especially the pensions system; and, ultimately, it makes approving the 2018 State Budget even more challenging, leading to the paralysis associated with having to rollover the Budget. Secondly, the uncertainty and political tensions of recent months will take their toll on economic

growth, which may extend beyond 2018 if the situation cannot be rapidly addressed.

The aim of this article is to review each of these questions in turn and is structured in three parts in addition to this brief introduction. The following section focuses on ongoing budgetary consolidation and compliance with the 2017 targets, drawing on the latest available information at the time this article was written. The subsequent section looks at the budgetary outlook for 2018, considering both the economic and political backdrop. Finally, the article finishes by reflecting on Spain's fiscal prospects to 2020.

2017 adjustment: Mission (almost) accomplished

Data on budgetary execution to August 31st indicate that there has been a significant adjustment in the deficit. Excluding the local administrations, the overall public sector deficit fell by 1.03 percentage points, led by the State, but also with the autonomous regions notably switching from a deficit of -0.08% to a surplus of +0.12%. Meanwhile the Social Security system improved very slightly (by 0.06ppts) and data for local administrations – available to June 30th – points to a potential surplus in excess of their target of achieving a balanced budget. In fact, available forecasts suggest that the local administrations are on track to post a similar or larger surplus in 2017, which will help offset highly likely overshoots at the State and Social Security level. This is essentially a reflection of the fact that, despite the significant adjustment to date [1], the target that has been set for 2017 is very ambitious. As shown in Table 1, 80% of the 2017 deficit (1.1 out of 1.4 percentage points) has been assigned to the State.

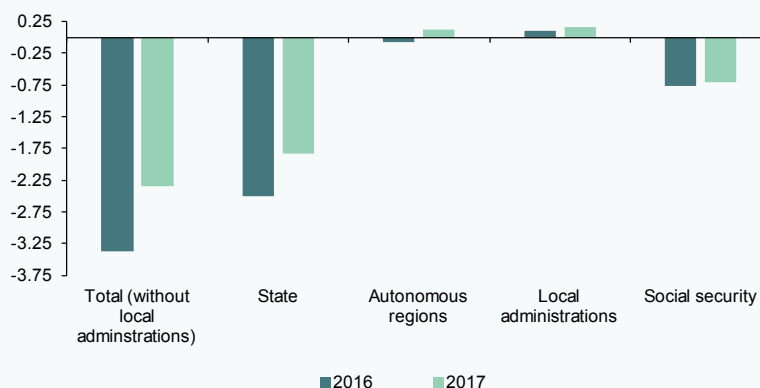
AIReF's (2017a) monthly surveillance is enlightening in this regard. As can be seen in

“ Most analysts largely agree that Spain's 2017 public deficit will come in very close to the target – with performance this year more impressive relative to 2016. ”

Exhibit 1

Deficit (-) or surplus (+) based on budgetary execution to August 31st, 2017, and to June 30th for local administrations

Figures expressed as a percentage of GDP



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

Exhibit 2, according to AIREF, the probability of meeting the deficit target based on data to July is 15% for the State and 24% for the Social Security system. Under AIREF nomenclature, the former is deemed to be “very unlikely” to comply, while the latter is classed as “unlikely.” On the opposite extreme, the autonomous regions are considered “likely” (67%) to comply, with the local administrations once again “very likely” to achieve a substantial surplus; the

odds of them repeating or improving their 2016 outturn (+0.6% of GDP) are put at 81%. AIREF’s assessment for the overall public sector lies somewhere in between at 53% *i.e.* “feasible”. This assessment is an improvement of 10 percentage points on the 43% estimate contained in the previous surveillance report – based on data to April 30th – and is closing in on the 60% threshold under which AIREF considers compliance to be “likely”.

Table 1

Borrowing (-) or lending (+) capacity of the Spanish Public Administrations (2016-2020)

Figures expressed in percentage of GDP, including financial support

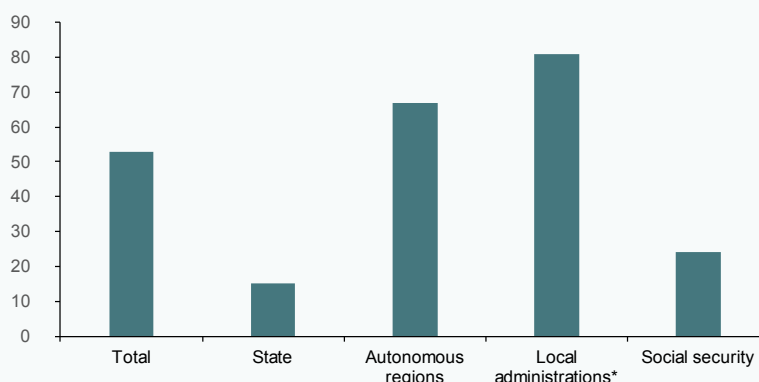
	2016	2017	2018	2019	2020
Total	-4.5	-3.1	-2.3	-1.3	-0.5
State	-2.2	-1.1	-0.8	-0.3	0.0
Regions	-0.7	-0.6	-0.4	-0.1	0.0
Local Administrations	0.0	0.0	0.0	0.0	0.0
Social Security	-1.6	-1.4	-1.1	-0.9	-0.5

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

Exhibit 2

Probability of compliance with 2017 deficit target

Percentage



* For the local administrations, the probability relates to the likelihood of achieving the same or larger surplus as in 2017 (0.6% of GDP).

Source: Author based on AIReF (2017a).

Most analysts agree with this assessment, believing that Spain's 2017 public deficit will come in very close to target. Funcas (2017b) consensus predicts an outturn of -3.1% of GDP, with estimates ranging from -3.1 to -3.3%. Forecasts by The International Monetary Fund (IMF, 2017), the Bank of Spain (2017a) and Funcas (2017a) in reports published over the last two months are slightly higher (-3.2%).

Regardless of whether the final outturn is -3.2% or -3.1%, progress on fiscal consolidation in 2017 is set to be more impressive than 2016 when Spain's overall deficit target had to be revised up two times over the course of the year to bring the goal into line with the reality revealed by monthly and quarterly outturns (Lago-Peñas, 2017). Initially, the 2016 deficit

was set at -2.8% of GDP in September 2015 and then raised to -3.6% in April 2016 and, finally, -4.6% in August.

Scenario for 2018: Budget and macroeconomic forecasts

The political crisis in Catalonia has various fiscal implications. Firstly, and most immediately, it has resulted in a failure to approve the 2018 State Budget on time and the consequent rollover of the 2017 Budget. Parliamentary arithmetic dictates that the minority government needs to have support from either nationalist and regionalist parties or from left-wing groups. On their own, Partido Popular and Ciudadanos muster 169 seats versus a majority threshold of 176. Specifically, the Basque Nationalist Party (PNV

“ The central government believes that the 2018 Budget will eventually be approved in February 2018 but the political situation remains very fluid and will depend on the outcome of regional elections in Catalonia in December. ”

“ Even under a progressive and relatively rapid normalisation of the Catalan situation, the impact of the tensions would still lead to an overall growth forecast for Spain of 2.6% in 2018, with political uncertainty accounting for half of the slowdown relative to 2017. ”

with 5 seats), which supported the 2017 Budget, is now reluctant to do so again given current political tensions in Catalonia [2]. The central government believes that the 2018 Budget will eventually be approved in February 2018 but the political situation remains very fluid and will depend on the outcome of regional elections in Catalonia in December. A repeat of a parliamentary majority for pro-independence parties would prolong political uncertainty in Spain as a whole.

According to the latest surveys, the results attained by blocs in favour and against independence will be similar to 2015 elections [3]. However, if this year's elections do not see a return of the joint platform between the two largest pro-independence parties – as happened in 2015 with Junts pel Sí – their over-representation in terms of the seats assigned by the electoral system will be significantly watered down. As a result, it will be much more challenging for pro-independence parties to achieve a parliamentary majority, requiring them to attain a higher share of the vote [4].

Secondly, the political situation in Catalonia has added further complexity to the political instability stemming from the fragmentation and polarisation of the Spanish Parliament following the great recession. Against this backdrop, tackling reforms which have a significant impact on the public accounts is even more difficult. A non-exhaustive list of issues that still need to be addressed includes dealing with the deficit in the Social Security system via the so-called “Toledo Pact” framework; reforming regional and local financing, where the necessary technical work has been done but formal political negotiations have yet to begin; and overhauling the Spanish

tax system, where the 2014 Commission of Experts' report is a useful reference point.

Thirdly, and more specifically, the political crisis in Catalonia has the potential to impact the economy through various channels. Principally, via a loss of household and business confidence, an impact on tourism and international investment decisions and an increase in market volatility and risk premia. This in turn has implications for public finances. Funcas (2017a), BBVA Research (2017), the Bank of Spain (2017b) and AIReF (2017d) have all attempted to estimate the potential impact. These estimations are inevitably subject to uncertainty regarding the duration of the instability, but provide an overall impression of the scale of the problem. Given that Catalonia accounts for a fifth of the Spanish economy (19% of Spanish GDP in 2016 according to the Institute of National Statistics), asymmetric shocks to this region have substantial implications for wider Spain.

Under the assumption of a progressive and relatively rapid normalisation of the situation, Funcas (2017a) sees the Catalan economy weakening in terms of GDP growth from an initial outlook of 3.1% between October 2017 and March 2018 to 1.6% due to the negative ramifications for tourism, investment and consumption. Thereafter, the Catalan economy is assumed to return to previous trends. This impact would in turn lead to an overall growth forecast for Spain as a whole of 2.6% in 2018, with half of the slowdown relative to 2017 (0.2-0.3pppts) stemming from the Catalan crisis. BBVA Research (2017) reaches a similar conclusion, estimating the impact as reducing the pace of Spanish GDP growth by 0.3pppts in 2018 under a central scenario based on a normalisation of political uncertainty in a short period.

The Bank of Spain (2017b) observes that up until the end of October, the impact on financial markets had been modest and that economic data for the fourth quarter is still very limited. As a result, the Bank of Spain prefers to draw up forecasts under various hypothetical scenarios, using previous historical episodes of high uncertainty as a benchmark. Assuming that the worst of the tension is confined to the fourth quarter of 2017 and that thereafter there is a progressive normalisation, the projected impact on Spanish GDP ranges from a 0.3ppts cumulative loss in GDP between 2018 and 2019 in the most benign scenario to a maximum of 2.5ppts in the worst case, which would be equivalent to the degree of uncertainty seen prior to the launch of the banking sector recapitalisation and clean-up programme in the second quarter of 2012.

Finally, AIREF (2017d) also considers a central scenario in which the political and institutional shock in Catalonia is short-lived, in line with the Bank of Spain and Funcas. They estimate a somewhat bigger impact on growth in 2018, with a decline in the Spanish economy's overall GDP of -0.4%. However, they also note that prolonged political and institutional instability would lead to growing negative impacts and could subtract as much as -1.2% from Spanish GDP growth in 2018. For Catalonia, the figures would be even more pronounced, with the impact of overall uncertainty combining with an idiosyncratic shock resulting in a loss of confidence, which would lead to a reduction in Catalan GDP in 2018 of -0.7% in the central scenario and -2.7% in the worst case.

The Spanish government adopts this central scenario in its *2018 Draft Budgetary Plan* (Ministry of Finance, 2017b), which combined with a projected slowdown in domestic

demand, leads to expectations of a significant slowdown in GDP growth from 3.1% in 2017 to 2.3% in 2018, with political uncertainty accounting for around half of the slowdown. This forecast and the overall macroeconomic scenario are considered to be realistic by AIREF (2017b) and weaker than projected by Funcas (2017a), which forecasts growth of 2.6% next year, and the 2.5% projected by the Bank of Spain (2017b), IMF (2017) and BBVA Research (2017).

However, the government's forecast has been received less positively when looking at the public finances. The government's deficit target for 2018 (-2.3% of GDP) involves a reduction of 0.8 percentage points relative to the 2017 target (Table 1). This in turn is 0.1 percentage points less ambitious than envisaged by the *Stability Programme 2017-20* and is expected to be delivered almost entirely by cyclical effects with a marginal adjustment in the structural deficit of 0.1ppts (Table 2). This scenario has been criticised by the European Commission, which in a letter to the Spanish government highlighted the danger of overshooting, in the absence of discretionary adjustment measures, and the need to approve the 2018 Budget as soon as possible. AIREF believes that the -2.3% target for the overall public sector deficit envisaged in the *2018 Draft Budgetary Plan* is "feasible". However, this assessment depends on the probable deviations by the State and the Social Security system being offset by a positive performance at the local administration level and the uncertainty resulting from the Catalan crisis attenuating before the end of 2018. In terms of the regions, taking account of the impact of the update to the macroeconomic scenario and its knock-on implications for payments on account, AIREF believes that it is feasible albeit touch-and-go

“ The current outlook for fiscal consolidation to 2020 is hardly ambitious and allows for the continuation of a structural deficit, which will inhibit the functioning of automatic stabilisers and future recourse to discretionary stimulus measures in the event of another crisis. ”

for the government to reach its 2018 deficit target (AIReF, 2017c); while it is “unlikely” or “very unlikely” that Catalonia will do so depending on the duration of the current crisis (AIReF, 2017d). Other organisations are slightly less optimistic regarding the deficit outlook in 2018. Funcas (2017a) and BBVA Research (2017) put the deficit at -2.4%; while the IMF is forecasting -2.5% (IMF, 2017); and the Bank of Spain (2017a), -2.6% of GDP.

Overall, there is a clear and urgent need for a 2018 Budget to help reduce political and economic uncertainty and articulate a more ambitious budgetary strategy containing structural measures to ensure compliance with the path set out in the Stability Programme.

Fiscal outlook to 2020

Table 2 shows the expected evolution of the overall public sector deficit, structural

Table 2 Output gap and structural and headline budgetary balances. Scenario for 2016-2020

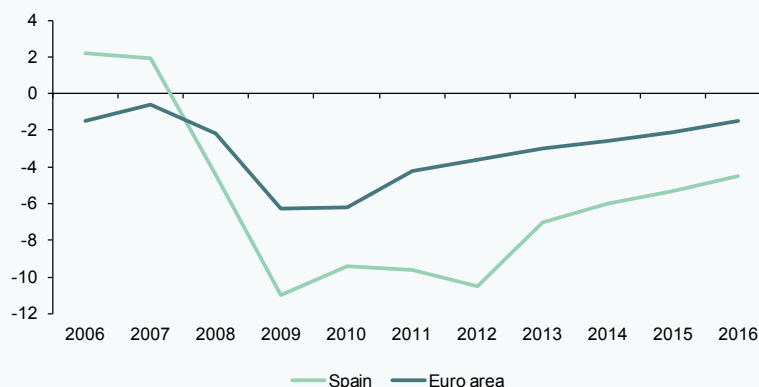
Figures expressed in percentage of GDP, including financial support

	2016	2017	2018	2019	2020
Output gap	-3.1	-0.9	0.5	1.6	2.5
Structural balance	-2.5	-2.4	-2.3	-2.2	-1.9
Headline balance	-4.5	-3.1	-2.3	-1.3	-0.5

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

Exhibit 3 Evolution of headline public sector deficit (-) or surplus (+) in Spain and the euro area. 2006-2016

Values expressed in percentage of GDP including financial support and other “one-off” operations

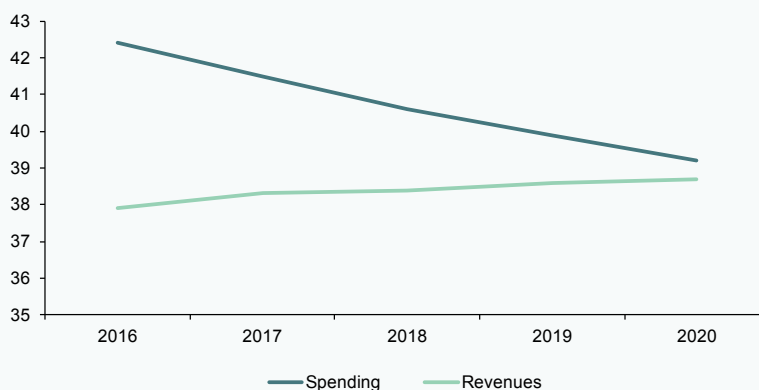


Source: Author based on European Central Bank.

Exhibit 4

Evolution of non-financial revenues and expenditures according to Stability Programme Update 2017-2020

Values expressed as a percentage of GDP



Source: Author based on Ministry of Finance and Civil Service.

deficit and output gap from 2016 to 2020 as envisaged by the government's Draft Budgetary Plan (Ministry of Finance, 2017b). Against a backdrop of a rapid transition from a negative to positive output gap (6ppts swing over 2016-2020), the headline deficit is expected to improve by 4ppts but remain negative, with only a small reduction in the structural deficit (-2.5% in 2016 and -1.9% in 2020). This path is hardly ambitious and allows for the continuation of a structural deficit which will inhibit the functioning of automatic stabilisers and future recourse to discretionary stimulus measures in the event of another crisis; meanwhile, the reduction in the debt to GDP ratio is set to slow to a threshold of 60%.

Exhibit 3 and the IMF's recent report (IMF, 2017) point in the same direction. Spain's fiscal system requires deep reforms in order to be more sufficient, fair and efficient. In the run-up to the crisis (2006 and 2007), Spain posted sizeable budget surpluses on the back of inflated tax receipts from the real estate bubble. But this was not sustainable. The economic recovery has arrived but not the bubble, which explains why the elasticity of

tax revenue-to-GDP growth is consistently below budget (AIReF, 2017a). Recent (Lago-Peñas, 2017) and future (Exhibit 4) fiscal efforts focus solely on cutting or containing expenditure programmes and sidestep any form of tax adjustment. But this is not enough to eliminate the structural deficit. As the IMF has argued from the outside and various domestic reports have reiterated – such as Funcas (2014) or the Commission of Experts (2014) – action is need on the revenue side, where there is much greater scope for improvement.

Notes

[1] An improvement which is partially explained by the measures increasing payments on account for Corporation Tax, taking effect from the last quarter of 2016 and which have generated an extra 2 billion euros (around 0.2 ppts of GDP) in revenues applicable for the payment on account in April 2017. However, this effect will be offset in the October payment on account, resulting in a deterioration of 0.2ppts GDP in the last quarter above that of the norm.

[2] https://elpais.com/economia/2017/10/21/actualidad/1508612713_947484.html

[3] https://politica.elpais.com/politica/2017/10/31/ratio/1509473738_467094.html

[4] Specifically, in the 2015 Catalan elections, the coalition obtained 45.93% of seats on the back of 39.59% of the vote, a “prize” of 6.34%. Simulations for the Catalan electoral system show that the proportionality of votes-to-seats is much higher for vote shares of 10-20%.

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Spanish corporates: Foreign exchange risk management in the face of increased complexity

Growing internationalisation and geographic diversification of Spanish corporates has increased their exposure to exchange rate, or FX, risk. Firms will need to adopt more refined hedging strategies to manage the impact of potential FX volatility on their financial statements.

Pablo Guijarro and Isabel Gaya

Abstract: Spanish companies have significantly increased their presence in international markets in recent years, not only through export activity but also through foreign investment in other economies. This international expansion has simultaneously been accompanied by greater geographical diversification into non-traditional markets. The result has been a growing complexity in

the management of various types of exchange rate risks, such as: translation or conversion risk, transaction risk; and economic risk - all of which could potentially impact the company's financial statements through different channels. Effective exchange rate hedging strategies requires a company-by-company, dynamic assessment to ensure instruments are well suited to the underlying risks.

“ The increasingly diversified global presence of Spanish corporates means they now having to transact in and manage weak and often very volatile currencies. ”

Increased corporate internationalisation and presence in non-traditional markets

Spanish multinationals are managing risks against a backdrop which has changed dramatically over recent years. Exposure to these risks, specifically exchange rate risk, has been strongly influenced by very vigorous international expansion. This is clear when considering some of the main characteristics of the internationalisation process which Spanish companies have undergone in recent times.

This internationalisation process, which traditionally focused on export activity, has been reinforced with an increase in greenfield investment in other economies and has been characterised by a significant increase in geographical and currency diversification relative to the main trends seen a decade ago.

The latter is illustrated by a very notable increase in the stock of foreign direct investment, which surpassed 450 billion euros in 2015 according to the latest available data from Datainvox, some 30% above the end of 2007.

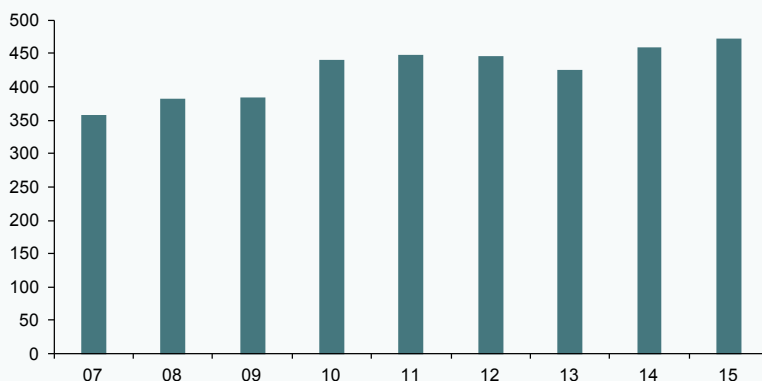
Investment has traditionally focused on Latin America, which currently represents 25% of total investment. Meanwhile, the United States and United Kingdom account for over 30% of the total, with both economies gaining importance.

In terms of the geographical composition of Spanish exports, Asian countries are increasing their weight at the expense of traditional partners (European Union). By the end of 2016, Asia accounted for 10% of total Spanish exports, with a further 7% going to Africa and 6% to Latin America.

Exhibit 1

Stock of Spanish foreign direct investment

Millions of U.S. dollars

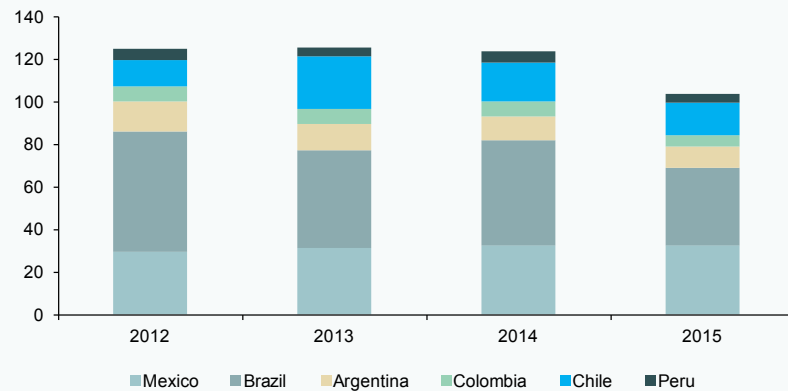


Source: Datainvox, Afi.

Exhibit 2

Stock of Spanish foreign direct investment to Latin America

Millions of U.S. dollars



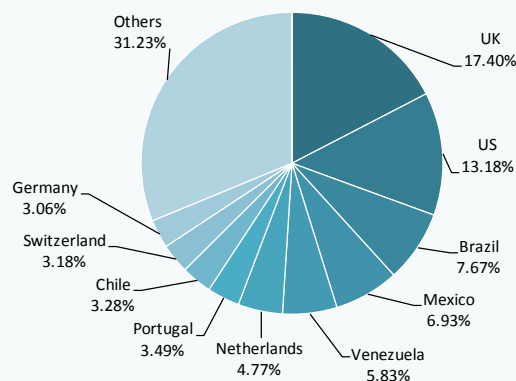
Source: Datainvox, Afi.

The distribution to countries shows that both Brazil and Mexico account for over 45% of exports to LatAm, while China, Japan and South Korea represent over 35% of Spanish exports to Asia.

This data highlights the growing complexity of Spanish company's geographical presence in the world. The result is that Spanish companies now have to transact in and manage weak and often very volatile currencies (Brazilian

Exhibit 3

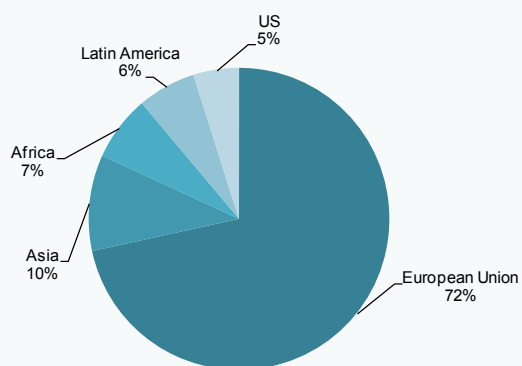
Stock of Spanish foreign direct investment by country (2015)



Source: Datainvox, Afi.

Exhibit 4

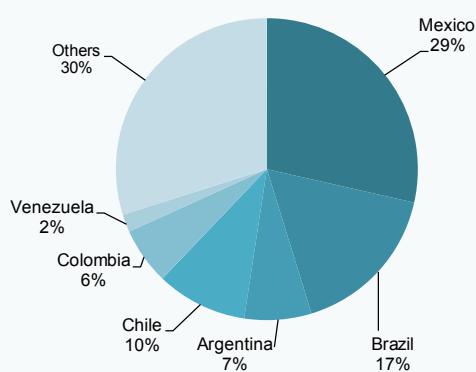
Exports of Spanish companies' goods by destination (2016)



Source: Customs, Afi.

Exhibit 5

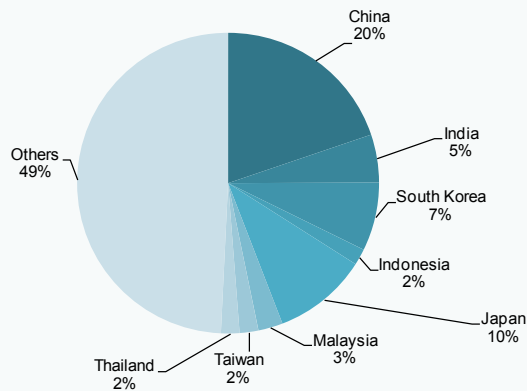
Spanish companies' exports to Latin America, by destination (2016)



Source: Customs, Afi.

Exhibit 6

Spanish companies' exports to Asia, by destination (2016)



Source: Customs, Afi.

real, Mexican peso, Korean won), which has a significant impact on their financial statements.

Classification of exchange rate risk in a multinational company

Before discussing the impact of internationalisation on companies' exposure to these risks, it is worth briefly considering the main characteristics of an exchange rate risk map.

The exchange rate risk map for a non-financial corporation with foreign exposure is made up of three main components:

- Translation or conversion risk, which arises when consolidating subsidiaries' financial statements for accounting purposes.

- Transaction risk, linked to their commercial activity in foreign currency, with an impact on the company's cash flow.

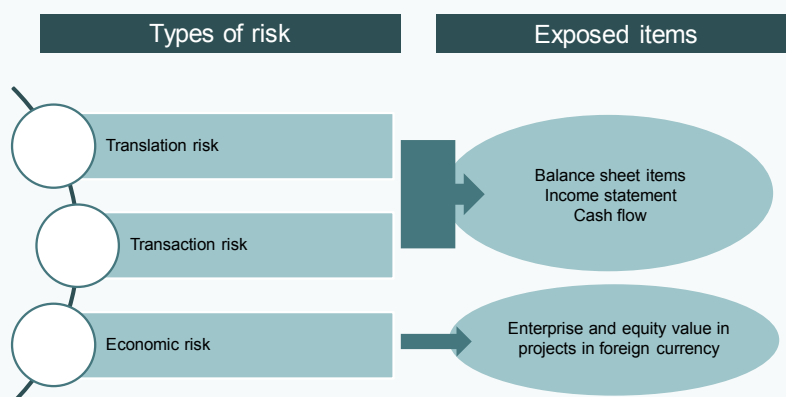
- Economic risk, linked to the effect of the exchange rate on the value of investment projects in foreign currency.

The evolution of Spanish companies' internationalisation has introduced new elements to the risk map, creating increased volatility with impacts across the board, ranging from transaction risk (linked to exporting and importing) to economic risk, and consequently to translation risk which is closely associated with the establishment of subsidiaries in non-EMU countries.

The next section of this article looks at companies' exposure to these different aspects of exchange rate risk in their financial

“ The evolution of Spanish companies' internationalisation has introduced new elements to the exchange rate risk map, creating increased volatility with impacts across the board. ”

Exhibit 7

Exchange rate risk map in a multinational company

Source: Afi.

statements, as well as how they have organised their risk management function and the main hedging strategies that are being employed.

The exchange rate risk map of Spanish multinational companies

This article draws on publicly audited information for the 2016 financial year to analyse the exchange rate risk map for a Spanish multinational. Using the data published by companies, we have put together an overview of the risks they are facing, including: how they are organising their risk function, the impact on financial statements; and, their main hedging strategies (the types of instruments being used).

Classification of risks and organisation of risk management function

Most companies are exposed to a combination of both balance sheet as well as transaction

risk (66%) with a smaller proportion exposed to only one of the two.

Management of risks is centralised. In other words, it is generally undertaken at the company's headquarters, limiting subsidiaries' discretion to take hedging decisions.

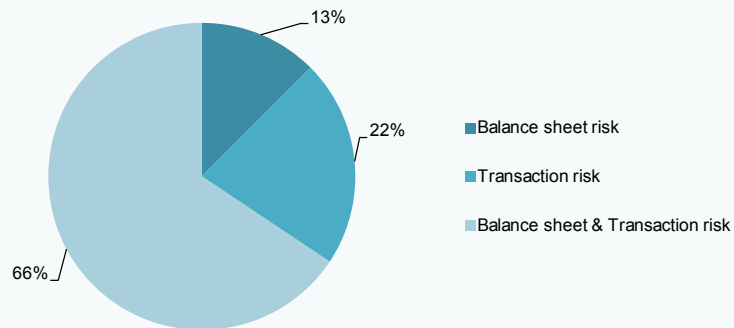
Impact on financial statements

Uncertainty regarding the strength of the economic recovery in recent years – both in developed and emerging economies – concerns about the capacity of developed country central banks to manage the unwinding of expansive monetary policy, and the recent increase in geopolitical tensions have generated significant volatility in financial markets. Currency markets have not been immune to these developments and indeed are frequently among the most volatile.

“ Currency markets have not been immune to recent developments affecting financial markets and indeed are frequently among the most volatile. ”

Exhibit 8

A Spanish multinational company's exposure to exchange rate risk



Source: Afi, audited financial statements.

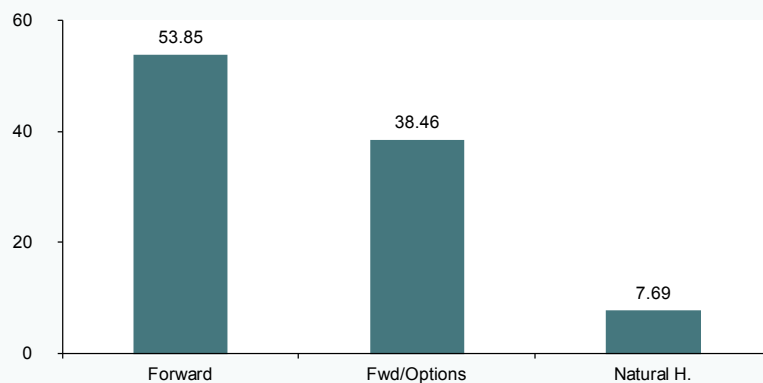
It is therefore hardly surprising that these fluctuations continue to have a very significant impact on multinational corporations' financial

statements, in some cases having a larger impact than seen on average over the last five years. Accordingly, over the last few years, we see that:

Exhibit 9

Risk management framework applied by Spanish multinationals

Percentage

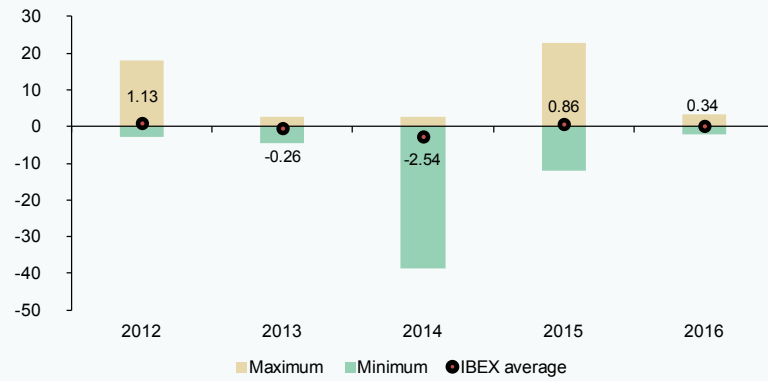


Source: Afi, audited financial statements.

Exhibit 10

Exchange differences as a percentage of EBITDA

Percentage



Source: Afi, audited financial statements.

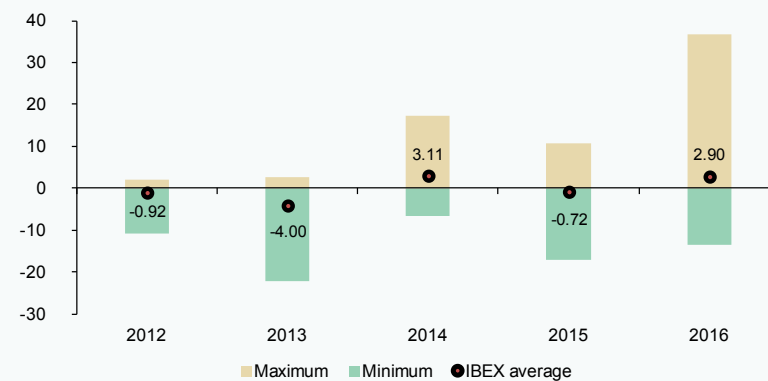
- Exchange rate differences in transactions have resulted in average impacts of around -0.5%, although with some very

significant fluctuations among some of the listed IBEX 35 companies (negative impacts at the company level which in

Exhibit 11

Translation differences as a percentage of Own Equity

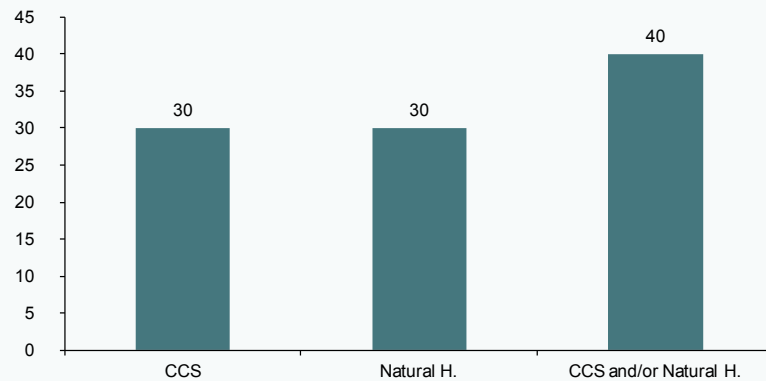
Percentage



Source: Afi, audited financial statements.

Exhibit 12 Hedging instruments used for balance sheet risk

Percentage



Source: Afi, audited financial statements.

some years have had a one-off impact of 40% of reported EBITDA).

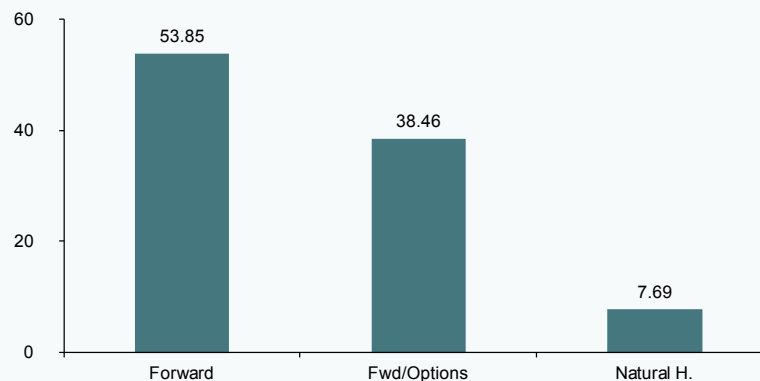
average figure masks significant variability with some company's facing impacts of up to 20% of their net book value.

- Meanwhile, translation differences have had an average impact of around 0.37% on consolidated equity. Once again, this

Greater international exposure has therefore generated significant impacts on financial

Exhibit 13 Hedging instruments used for transaction risk

Percentage



Source: Afi, audited financial statements.

“ The significant impact on firms’ financial statements from greater international exposure may be less obvious for the IBEX 35 on aggregate, but is undoubtedly the case for some corporates at the individual level. ”

statements. This is perhaps less obvious at an aggregate IBEX 35 level, but is undoubtedly the case when considering some of the individual impacts.

Instruments employed to manage risks

In terms of the main derivatives strategies adopted by companies to hedge against exchange rate risk:

- The most common strategy for hedging against transaction risk is the use of forex insurance or forwards.
- In order to hedge balance sheet risks, nearly all companies resort to Cross Currency Swaps (CCS) and natural hedging by borrowing in the same currency as their assets are denominated.

It is worth highlighting that accounting standards have become increasingly focused on promoting greater simplicity in the use of instruments to hedge risks. Upcoming changes to financial reporting standards (IFRS 9) repeatedly emphasise the need for contracted instruments to substantially replicate the risks they cover in order to ensure that they are not treated in the same way as speculative financial assets from an accounting perspective.

Recommendations regarding an appropriate management strategy

This final section summarises some generic, structural recommendations for companies with international exposure looking to hedge exchange rate risk. Implementation will require an analysis of each company’s individual situation to ensure hedges are perfectly suited to the underlying risks.

Aspects to consider in hedging decisions

- Management of exchange rate risk can be static or dynamic. However, empirical evidence shows firms should start out by defining a time horizon to be managed, as well as establishing some tracking milestones which help with fine-tuning the decisions that have been taken.
- Effective management should take account of which risks needed to be covered and their order of priority. In this regard:
 - There are some financial risks which have accounting impacts and are immediately reflected in the company’s cash flow. These risks must be given absolute priority from the outset in hedging decisions.
 - Some financial risks have accounting impacts but do not immediately affect the company’s cash position. These risks should be given secondary priority.
 - Finally, some financial risks do not generate accounting impacts and therefore do not have a direct impact on the company’s cash flow. These are essentially economic risks which do not explicitly appear in the financial statement although they can be indirectly reflected. The approach to managing these risks is outside the scope of this article.
- Effective management should consider the impact on the company’s cash position to avoid the risk of a breakdown in cash flow following the settlement of derivatives where the company has obtained a loss.
- It should also consider the accounting implications of hedging in terms of

the recognition of contracted hedging instruments.

Summary of transaction risk measures (cash flow hedges)

- It is worth considering a hedging policy that runs across various periods.
- The time frame for hedging should not be restricted to financial years but instead be viewed as a moving window – for example, on an ongoing 12-month basis – with dynamic adjustment of the percentage hedge depending on: (i) the realization of receipts and payments; and, (ii) the state of play in currency markets.
- An example of a layered approach would be hedging 80% of the expected cash flow for the first quarter, 60% for the second quarter, 40% for the third quarter and 20% for the fourth quarter over the twelve-month period.
- This time frame must consider the cost of protection: the longer the horizon, the greater the (implicit or explicit) cost of the contracted hedging instruments.
- Firms should cover a high proportion of cash flows (around 80%) as soon as the company is certain of the timing and amount of a receipt (or payment).
- This approach has the virtue of addressing a certain cash flow which is known to take place at a specific time and whose volatility would otherwise imply an unnecessary risk to the income statement and treasury.

Summary of balance sheet risk measures (equity hedge)

- The difference between assets and liabilities in a currency creates a balance sheet item (equity) which is exposed to exchange rate risk. In general terms, natural hedging is the preferred approach. This exposure tends not to be covered by contracting derivative instruments.
- Although financial literature does accept that derivative hedging may be appropriate at specific points in time and when dealing

with currencies which are expected to depreciate over the long-term due to structural factors.

- The aversion to the use of derivative hedging for balance sheet items arises because it can generate risks due to the potential for impact on the company's liquidity. This is because all hedging using derivatives can have an impact on cash flow (derivative settlement), while the exchange rate risk on balance sheet items does not itself affect cash.
- An alternative approach to covering balance sheet exposure is to convert part of the corporate debt into the same currency as the assets which it has been used to buy. This approach respects the principle of natural hedging with debt being denominated in the same currency as the asset, which reduces the difference between assets and liabilities denominated in foreign currency, thereby reducing the value of own equity exposed to exchange rate risk.

Conclusions

The significant expansion in Spanish companies' international activity, both in terms of exports and foreign direct investment in other economies, has increased the need for more refined management of exchange rate risk.

Managing such risks is undoubtedly complex within the context of a non-financial corporation, given that these risks can take different forms and have a range of impacts on the balance sheet, income statement and company cash flow.

The complexity of managing exchange rate risk increases further still:

- Against a backdrop of growing geographical diversification of Spanish companies around the world, which has led to companies transacting and managing weak and often extremely volatile currencies.
- Depending on the phase of the company's internationalisation, which can multiply

the potential coexistence of different risks at the same time, meaning that the above guidelines cannot be considered as one-size fits-all given the different impacts that can be generated.

Therefore, it is important to conclude by reiterating that despite the recommendations set out in this article, it is vital to approach the management of exchange rate risk on a company-by-company basis as part of what should be considered a dynamic process.

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Analistas Financieros Internacionales, S.A.

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)

Act transposing the Directive on alternative dispute resolution for consumers into Spanish legislation (Act 7/2017, published in the *Official Gazette* on November 4th)

Act 7/2017 transposes the Directive on alternative dispute resolution (commonly known as ADR) which guarantees the existence of alternative dispute resolution entities complying with the requirements established under EU law. The goal of the act is to enable consumers to access dispute resolution mechanisms in an agile and low-cost way.

The scope of Act 7/2017 is restricted to domestic or cross-border disputes **between a consumer and a trader, which arise from sales or service contracts** arranged in person, electronically or via telephone, as well as disputes concerning unfair business practices which have resulted in a failure to comply with codes of conduct by the trader.

It also establishes **harmonisation requirements for the quality of ADR entities**. The Act establishes that the competent authorities for accrediting ADR entities in the financial sector are the Bank of Spain, the National Securities Market Commission (CNMV) and the General Insurance and Pension Funds Directorate of the Ministry of Economy, Industry and Competitiveness.

The main aspects referred to in the Act are as follows:

- **Requirements** are established on the entities responsible for carrying out the management of alternative resolution, who may request accreditation from the

relevant competent authority. If they meet the requirements, they will form part of a list put together by the Spanish Agency of Consumer, Food Security and Nutrition who will also notify the European Commission, which will include them on a unified list of accredited entities in the European Union.

- Accredited entities must **publish on their website** the type of disputes within their competence, their cost, as well as other associated elements.
- The individuals responsible for resolving disputes must act **independently and impartially and demonstrate knowledge** of consumer protection issues.
- Resolution procedures will be **free of charge** to consumers and may be binding or otherwise depending on whether rules have been established regarding compulsory approval.
- The **resolution period is 90 calendar days** from presentation of the claim or from the date shown on a durable medium from which the full documentation necessary to process the procedure was received.
- The decision, proposal or minutes of the amicable agreement which **conclude the procedure** must be duly substantiated and communicated to the parties in writing or via any other durable medium.

The first additional provision to the Act establishes that for the binding or non-binding resolution of consumer disputes in the **financial sector, a single entity will be created by law with competences in this area**. This law will make it compulsory for financial institutions to participate in

procedures before this ADR entity for their areas of activity.

In addition, the Civil Procedure Act, the General Act for the Protection of Consumers and Users and the Royal Decree governing the Consumer Arbitration System are amended to adapt them to the new obligations and requirements set out in the new Act.

Bank of Spain Circular amending the various regulatory options contained in CRR[1] (BoS Circular 3/2017, published in the *Official Gazette* on November 2nd)

The BoS Circular 3/2017 amends the BoS Circular 2/2014, restricted to less significant credit institutions, to align its content with the stipulations in the ECB's Regulation on the exercise of options and discretions available in Union law (ECB/2016/4) applicable to significant credit institutions, making **use of the authorisation given to the Bank of Spain by Royal Decree law 14/2013** of November 29th containing urgent measures to adapt Spanish legislation to European Union regulation on the supervision and solvency of financial institutions, **in order to make use of the options attributed to national competent authorities in the Capital Requirements Regulation (CRR).**

The highlights of the planned modifications are as follow:

- Inclusion of definitions contained in CRR and the Capital Requirements Directive (CRD IV).
- Amendment of percentages applying to the deduction of different headings from own funds.
- Almost complete elimination of the chapter regarding the Bank of Spain's use of transitory regulatory options foreseen by CRR.

This Circular will take effect from January 1st, 2018, except for some provisions which will apply from January 2019.

CNMV Circular amending the Circular on information on foreign collective investment institutions (CNMV Circular 2/2017, published in the *Official Gazette* on November 7th)

The purpose of the Circular is to **expand the level of information that the supervisor receives from foreign collective investment institutions sold in Spain.**

The **amendment to CNMV Circular 2/2011** on information on foreign collective investment institutions entered into the CNMV's Register, introduces **changes to the statistical statements sent to the CNMV**, improving surveillance of the selling, development and characteristics of this market segment.

Also included within its **subjective scope are non-harmonised collective investment institutions**, which are required to submit the template contained in the Appendix of Circular 2/2011 to the CNMV (statistical statement A01). This information must be submitted online on a quarterly basis to the CNMV within a **maximum period of two months from the last calendar day of the quarter to which the submitted information relates**. It contains new fields and details which will help the CNMV acquire a more general perspective on the commercial activity of these entities within the national territory.

The Circular stipulates that, where the seller has delegated the **submission of the information to a designated individual**, this person will have the obligation to send this information in accordance with the amended Appendix to Circular 2/2011.

The Circular will enter into force from January 1st, 2018, and the first set of information meeting the new requirements will relate to the first quarter of 2018.

Notes

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26th, 2013, on prudential requirements for credit institutions and investment firms.

Spanish economic forecasts panel: November 2017*

Funcas Economic Trends and Statistics Department

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

GDP grew by 0.8% QoQ in the third quarter of 2017. This was in line with expectations and represents a slowdown of 0.1 percentage points on the previous quarter. The latest available indicators suggest there was a reduction in the external sector's contribution to growth, which may even have turned negative, alongside a moderation in consumption growth and a possible acceleration in capital goods investment.

Consensus forecasts growth of 3.1% for the year, unchanged from the September panel despite a slight downward revision to the outlook for the fourth quarter to 0.7% QoQ. The expected composition of growth is unaltered with domestic demand set to contribute 2.5 percentage points and the external sector 0.6 percentage points, albeit with downward revisions to expected export and import growth.

Downward revision to 2018 forecast by 0.1 percentage points

Consensus forecasts GDP growth of 2.6% in 2018, down 0.1 percentage points, in part because of the political crisis in Catalonia. Thirteen out of the seventeen panellists have lowered their forecasts for 2018, the bulk - completely or partially - reflecting the impact of tensions in the autonomous region.

The remaining panellists believe it is still too early to quantify the potential effect. Should the stand-off perpetuate, it is possible that more panellists will reflect the situation in their forecasts included in future panels. Either way, the 2018 forecast is subject to significant uncertainty reflecting the difficulties in estimating the economic impact of such an unprecedented event and will depend on how developments unfold over the coming months.

Spike in inflation in 2017 and moderation in 2018

Headline inflation rebounded to 1.8% in September due to an increase in the price of some unprocessed

foods, but dropped back to 1.6% in October. This is in line with inflation rates during the middle of the year and well below the 3% reached in January-February. The oil price climbed to 65 dollars per barrel at the end of October and beginning of November. This represents a potentially substantial change to the scenario underpinning the forecast in the panel and if sustained would have a potentially significant impact not only on the expected outlook for inflation but also consumption and investment.

Headline inflation is now forecast to come in at an average annual rate of 2% in 2017, 0.1 percentage points more than the September panel, and to ease to 1.5% in 2018. Core inflation is forecast to be 1.2% in 2017 and 1.4% in 2018, as in the previous Panel. Year-on-year inflation rates in December are predicted to be 1.2% this year and 1.6% in 2018 (Table 3).

Slowing employment growth

According to Social Security registrations data, employment growth slowed significantly in July and August but rebounded strongly in September and October. Overall, employment slowed in the third quarter relative to the previous three months, as evidenced by both Social Security and LFS figures.

Consensus forecasts employment growth of 2.8% for 2017 - up 0.1ppts - while the outlook for 2018 has been revised down 0.2ppts to 2.2%. An implicit forecast for productivity and ULC growth can be obtained from the forecasts for GDP, employment and wage remuneration growth. Productivity is set to grow by 0.3% this year and 0.4% next year, while ULCs are implicitly forecast to rise by 0.2% in 2017 and 0.7% in 2018.

The annual unemployment rate is on track to fall to 17.1% in 2017 and 15.3% in 2018; the latter is an upward revision relative to the previous Panel.

Downward revision to current account surplus

The current account registered a cumulative surplus of 10.3 billion euros to August; down 750 million euros on the same period last year.

The deterioration in the surplus reflects a worsening of the trade balance, which according to Customs data was due to both an increase in the energy deficit and a reduction in the non-energy surplus fuelled by a pick up in import growth.

Consensus forecasts a surplus of 1.7% of GDP for the year and 1.6% in 2018; this is a downward revision to both figures.

Deficit target to be met in 2017

The public deficit, excluding local corporations, to August was 10.3 billion euros smaller than the same period last year, thanks to an increase in revenues and stable spending. The state and autonomous regions posted an improved performance – the latter even registering a surplus – while the social security system deteriorated.

Consensus forecasts the deficit to come in at 3.1% of GDP, in line with the deficit target. A deficit of 2.4% of GDP is forecast for 2018, which would be 0.2ppts above the current target.

The global economic outlook is favourable

The external outlook is one of the most favourable seen in recent years. Some of the main challenges facing the global economy have so far failed to materialise (bursting of the credit bubble in China, end of expansive cycle in the US). The euro area is growing more robustly than expected, including countries, such as Greece and Italy, which were in recession until recently. However, new tensions have emerged in the Middle East with an impact on oil prices.

Nearly all panellists consider the EU backdrop to be favourable and are upbeat regarding the international environment outside of Europe. The prevailing view is that it will remain this way over the coming months. None of the panellists expect the situation to deteriorate in the EU. However, two panellists believe the global environment could weaken, as in the previous Panel.

Long-term interest rates ticking up

The European Central Bank left interest rates on hold (main refinancing operations, marginal lending facility and deposit facility). This stability

is reflected in 3-month Euribor (cost of short-term interbank lending) which remains historically low at around -0.33%. All panellists agree that current levels are low and most expect the favourable conditions to be maintained over the coming months.

Despite the situation in Catalonia, the yield on Spanish long-term debt (10-year sovereign) remains at similar levels to the previous Panel, at around 1.53%, while the risk premium has fluctuated without any clear direction. The panellists regard current long-term interest rates as low, but foresee a pick up in debt yields over the coming months.

The euro is set to stabilise against the dollar

The euro has lost some ground against the dollar in the face of a tightening of Federal Reserve monetary policy and the extension of the ECB's expansionary stance, with a withdrawal of stimulus more gradual than expected. The euro is trading at around 1.18 against the dollar, compared to 1.20 in the previous Panel.

Most panellists continue to believe the euro is close to equilibrium with the exchange rate likely to trade around current levels over the coming months.

Fiscal policy is neutral and monetary policy expansive

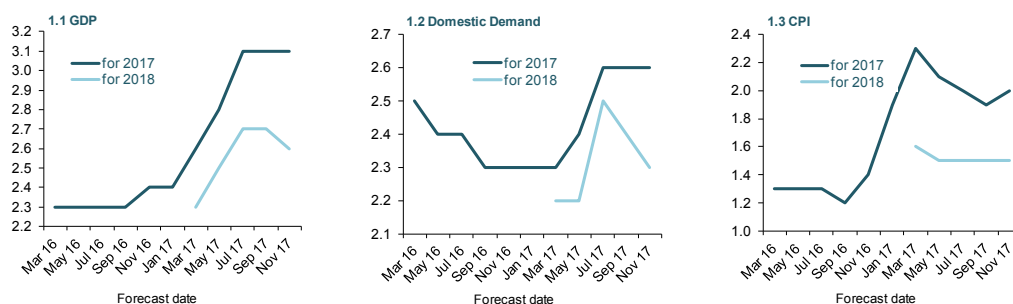
The panellists have not changed their opinion on the macroeconomic policy stance from the last panel. A majority see fiscal policy as neutral and judge this to be appropriate. Some panellists argue in favour of more restrictive fiscal policy while nobody recommends a more expansive stance.

All panellists regard monetary policy as expansive. As in the last Panel, none of the panellists envisage more restrictive monetary policy in the coming months.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: Funcas Panel of forecasts.

* The Spanish economic forecasts 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: November 2017*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – November 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	2.7	2.4	2.1	1.0	2.0	3.6	4.0	4.8	4.3	2.9	4.2	2.4	2.3
Axesor	3.1	2.5	2.5	2.0	1.2	1.6	3.9	2.6	4.9	2.0	3.3	3.2	2.6	2.1
Banco Bilbao Vizcaya Argentaria (BBVA)	3.1	2.5	2.6	2.1	1.3	1.8	4.7	3.6	5.6	2.8	4.5	3.8	2.6	2.3
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	2.4	2.5	2.0	1.0	1.0	4.5	3.0	5.1	2.8	4.3	3.2	2.6	2.0
Cámara de Comercio de España	3.0	2.4	2.5	2.5	1.1	0.8	4.3	3.6	5.9	5.3	3.7	2.8	2.6	2.5
Cemex	3.1	2.7	2.6	2.6	1.0	1.1	4.4	3.9	4.6	4.0	4.6	4.2	2.5	2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	2.5	2.7	2.3	1.4	1.3	3.2	3.6	3.6	3.6	3.1	3.9	2.6	2.3
Centro de Predicción Económica (CEPREDE-UAM)	3.1	2.5	2.4	2.1	1.2	1.4	4.1	3.7	4.5	4.2	4.3	3.3	2.5	2.3
CEOE	3.0	2.5	2.4	2.1	1.0	0.9	4.0	2.9	4.6	3.2	3.6	2.4	2.3	1.9
Funcas	3.1	2.6	2.7	2.4	1.3	1.0	4.7	5.3	5.9	5.4	4.0	5.2	2.8	2.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.1	2.5	2.6	2.3	1.1	0.8	4.5	3.7	5.5	3.8	4.2	3.9	2.6	2.3
Instituto de Estudios Económicos (IEE)	3.2	2.6	2.6	2.1	0.9	0.7	4.2	3.8	5.4	3.5	3.5	3.7	2.6	2.2
Intermoney	3.1	2.5	2.5	2.2	1.2	0.9	4.8	3.4	5.2	3.7	4.6	3.1	2.6	2.1
Repsol	3.2	2.4	2.5	2.0	1.2	1.0	4.7	3.7	5.6	5.2	4.5	2.6	2.6	2.1
Santander	3.2	2.7	2.6	2.4	1.2	1.1	4.9	4.2	6.0	4.5	4.6	4.1	2.7	2.5
Solchaga Recio & asociados	3.1	2.6	2.5	2.0	1.0	0.8	4.4	4.1	5.2	4.7	3.9	4.0	2.6	2.2
CONSENSUS (AVERAGE)	3.1	2.6	2.5	2.2	1.1	1.1	4.3	3.7	5.2	4.0	4.0	3.7	2.6	2.3
Maximum	3.3	3.0	2.7	2.6	1.4	2.0	4.9	5.3	6.0	5.4	4.6	5.2	2.8	2.7
Minimum	3.0	2.4	2.4	2.0	0.9	0.7	3.2	2.6	3.6	2.0	2.9	2.4	2.3	1.9
Change on 2 months earlier ¹	0.0	-0.1	-0.1	-0.2	0.0	-0.1	0.1	-0.4	0.1	-0.5	0.3	-0.2	0.0	-0.1
- Rise ²	0	0	4	2	6	4	11	1	6	1	10	3	4	3
- Drop ²	4	13	6	10	6	5	2	13	5	12	1	9	4	12
Change on 6 months earlier ¹	0.3	0.1	-0.2	0.0	0.2	0.0	1.0	0.1	1.4	-0.2	1.0	0.3	0.2	0.1
Memorandum items:														
Government (October 2017)	3.1	2.3	2.5	1.8	0.9	0.7	4.2	3.4	--	--	--	--	--	--
Bank of Spain (September 2017)	3.1	2.5	2.4	2.0	1.0	0.8	4.3	4.4	5.4	4.8	3.6	4.7	--	--
EC (November 2017)	3.1	2.5	2.6	2.2	0.9	0.8	4.1	4.0	5.1	4.5	3.8	4.0	2.5	2.3
IMF (October 2017)	3.1	2.5	2.6	2.4	0.9	0.4	--	--	--	--	--	--	2.6	2.2
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 – November 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	5.0	3.5	4.2	1.9	1.4	1.1	1.3	1.2	1.4	2.6	2.4	17.2	15.3	1.9	1.8	-3.3	-2.4
Axesor	6.1	4.4	4.6	3.1	2.1	1.4	1.2	1.5	1.0	1.2	2.7	2.0	17.0	15.2	1.5	1.0	-3.1	-2.6
Banco Bilbao Vizcaya Argentaria (BBVA)	5.0	4.3	3.8	3.8	1.9	1.4	1.1	1.3	0.1	1.4	2.8	2.1	17.1	15.5	1.8	1.5	-3.1	-2.4
Bankia	6.0	4.9	4.4	4.2	1.9	1.6	1.1	1.5	0.5	1.4	2.8	2.5	17.1	14.9	2.0	2.3	--	--
CaixaBank	5.8	4.2	4.5	3.2	1.9	1.4	1.1	1.3	0.2	1.2	2.7	2.1	17.2	15.8	1.8	1.8	-3.1	-2.5
Cámara de Comercio de España	5.3	4.0	3.7	3.0	2.1	1.5	1.2	1.3	--	--	2.8	2.2	17.1	15.2	1.6	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	17.2	15.4	1.5	1.5	-3.1	-2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.9	4.4	3.9	4.2	2.0	1.8	1.2	1.5	--	--	2.9	2.2	17.1	15.0	1.8	1.7	-3.1	-2.4
Centro de Predicción Económica (CEPREDE-UAM)	5.5	4.4	3.8	4.0	1.8	1.7	--	--	0.3	1.3	2.8	2.0	17.1	15.6	1.5	1.1	-3.1	-2.4
CEOE	5.8	5.2	3.9	3.8	2.0	1.1	1.1	1.1	0.3	0.8	2.8	2.3	17.1	15.0	1.7	1.6	-3.1	-2.5
Funcas	5.6	5.0	5.0	5.3	1.9	1.2	1.1	1.4	0.8	1.0	2.9	2.2	17.0	15.1	1.8	1.6	-3.2	-2.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.7	4.7	4.5	4.6	1.9	1.3	1.1	1.3	--	--	2.8	2.2	17.2	15.5	1.8	1.6	-3.2	-2.3
Instituto de Estudios Económicos (IEE)	6.5	5.4	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	-3.2	-2.3
Intermoney	5.6	4.7	4.4	3.7	1.9	1.6	1.2	1.5	0.3	0.9	2.8	2.2	17.2	15.2	1.8	1.6	-3.1	-2.3
Repsol	6.3	4.3	4.9	3.6	1.9	1.5	1.2	1.3	0.4	1.0	2.8	2.2	17.1	15.6	1.8	1.6	-3.1	-2.2
Santander	5.9	4.1	4.8	3.7	2.0	1.6	1.2	1.6	0.4	1.6	2.7	2.3	17.1	15.2	2.0	1.8	-3.1	-2.8
Solchaga Recio & asociados	6.0	4.7	4.7	4.0	2.0	1.4	1.2	1.6	--	--	2.7	2.2	17.6	15.8	1.7	1.6	-3.1	-2.4
CONSENSUS (AVERAGE)	5.7	4.6	4.4	3.9	2.0	1.5	1.2	1.4	0.5	1.1	2.8	2.2	17.1	15.3	1.7	1.6	-3.1	-2.4
Maximum	6.5	5.4	5.1	5.3	2.1	1.8	1.2	1.6	1.2	1.6	2.9	2.5	17.6	15.8	2.0	2.3	-3.1	-2.2
Minimum	4.9	4.0	3.5	3.0	1.8	1.1	1.1	1.1	0.0	0.5	2.6	2.0	17.0	14.6	1.5	1.0	-3.3	-2.8
Change on 2 months earlier ¹	-0.5	-0.3	-0.3	-0.4	0.1	0.0	0.0	0.0	-0.1	-0.1	0.1	-0.2	-0.1	0.1	-0.1	-0.1	0.1	0.0
- Rise ²	0	3	1	3	5	3	1	2	1	1	5	1	2	10	4	4	3	1
- Drop ²	11	11	9	9	2	4	6	6	5	5	0	10	6	2	5	4	1	5
Change on 6 months earlier ¹	0.8	0.3	0.4	-0.1	-0.1	0.0	0.1	0.1	-0.6	-0.3	0.4	0.1	-0.4	-0.5	0.0	0.0	0.2	0.0
Memorandum items:																		
Government (October 2017)	6.2	5.1	4.4	4.1	--	--	--	--	1.1	1.1	2.9	2.4	17.2	15.5	1.7	1.6	-3.1	-2.2
Bank of Spain (September 2017)	6.4	4.6	5.0	4.1	1.9	1.3	1.1	1.4	--	--	2.7	2.2	17.1	15.1	2.1 ⁽⁶⁾	2.3 ⁽⁶⁾	-3.2	-2.6
EC (November 2017)	6.0	4.8	4.4	4.3	2.0	1.4	--	--	0.5	1.2	2.7	2.1	17.4	15.6	1.7	1.9	-3.1	-2.4
IMF (October 2017)	5.9	4.8	4.7	4.2	2.0	1.5	--	--	--	--	2.8	1.7	17.1	15.6	1.9	2.0	-3.2	-2.5
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 – November 2017¹

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	0.7	0.6	0.6	0.6	0.6
Household consumption ²	0.6	0.8	0.7	0.5	0.5	0.5	0.5	0.4

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 – November 2017¹

Monthly change (%)				Year-on-year change (%)	
Nov-17	Dec-17	Jan-18	Feb-18	Dec-17	Dec-18
0.5	0.3	-0.6	0.1	1.2	1.6

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

Table 4

Opinions – November 2017

Number of responses

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

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

Key Facts

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Economic Indicators

Table 1

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

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	2.7	1.3	4.7	4.0	7.9	0.6	5.5	5.6	5.0	2.8	0.3	
2018	2.6	2.4	1.0	5.3	5.2	8.3	2.3	5.5	5.0	5.3	2.5	0.1	
2016	I	3.5	3.3	1.6	4.3	2.2	3.9	0.7	6.4	4.5	3.6	3.1	0.4
	II	3.4	3.2	0.9	3.6	2.3	3.4	1.5	4.9	6.2	4.8	2.9	0.5
	III	3.2	2.8	0.8	2.7	2.1	4.6	0.2	3.4	3.8	0.8	2.2	1.0
	IV	3.0	2.8	0.0	2.7	3.1	5.6	1.1	2.4	4.5	1.6	2.0	1.0
2017	I	3.0	2.4	0.6	4.7	3.9	5.8	2.3	5.4	6.7	5.1	2.4	0.7
	II	3.1	2.6	1.1	3.5	3.6	7.9	-0.1	3.4	4.4	2.3	2.3	0.8
	III	3.2	2.6	1.1	4.8	4.5	9.0	0.5	5.1	5.7	5.2	2.9	0.3
	IV	3.1	3.0	2.2	6.0	4.1	8.9	-0.2	7.9	5.5	7.4	3.5	-0.4
2018	I	2.8	2.9	1.5	4.3	3.3	6.0	0.8	5.3	3.5	4.0	2.9	-0.1
	II	2.5	2.5	1.0	5.4	4.3	7.0	1.8	6.5	5.2	6.0	2.6	-0.1
	III	2.4	2.2	0.8	5.9	6.4	10.1	2.9	5.3	5.9	6.2	2.3	0.1
	IV	2.5	1.8	0.6	5.8	6.7	9.8	3.6	4.9	5.6	5.0	2.1	0.4
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2016	I	3.0	3.9	0.3	2.6	4.6	16.2	-4.1	0.6	5.7	3.2	2.2	0.9
	II	3.2	2.5	0.0	6.5	4.7	-1.8	10.5	8.2	8.8	7.7	2.6	0.5
	III	2.9	3.1	2.0	-1.0	-2.1	0.5	-4.2	0.1	-2.1	-6.4	1.5	1.4
	IV	2.8	1.5	-2.2	3.1	5.4	8.4	2.9	0.8	6.1	2.4	1.5	1.3
2017	I	3.2	2.4	2.7	10.6	8.1	17.1	0.4	13.2	14.5	18.3	3.8	-0.6
	II	3.5	3.4	2.0	1.6	3.2	6.0	0.7	0.0	0.0	-3.4	2.5	1.0
	III	3.3	3.0	2.2	4.1	1.3	5.0	-2.0	7.0	2.7	4.7	3.8	-0.5
	IV	2.3	3.2	1.9	7.9	3.8	8.0	0.0	12.0	5.3	11.0	3.9	-1.6
2018	I	2.2	2.0	0.1	3.7	4.8	5.0	4.5	2.6	6.0	4.1	1.4	0.8
	II	2.4	1.8	0.0	6.1	7.5	10.0	5.0	4.7	6.7	4.4	1.5	0.9
	III	2.6	1.7	1.2	5.9	9.7	17.8	2.0	2.3	5.5	5.4	2.4	0.2
	IV	2.8	1.8	1.2	7.4	4.9	7.0	2.8	10.0	4.4	6.0	3.2	-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	1,025.7	58.3	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	30.3	97.6	2.4	
2015	1,080.0	58.0	19.3	19.8	10.0	4.4	5.5	9.9	32.9	30.7	97.7	2.3	
2016	1,118.5	57.6	18.9	20.0	10.0	4.6	5.3	10.0	32.9	29.9	97.0	3.0	
2017	1,166.7	57.8	18.5	20.4	10.2	5.0	5.2	10.1	34.1	31.2	97.1	2.9	
2018	1,208.9	57.9	18.2	21.2	10.8	5.5	5.3	10.5	35.1	32.7	97.6	2.4	

*Seasonally and Working Day Adjusted.

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

Chart 1.1 - GDP

Percentage change

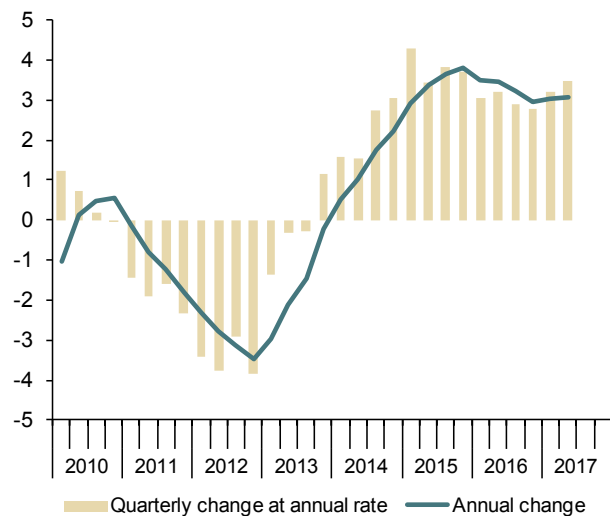


Chart 1.2 - Contribution to GDP annual growth

Percentage points

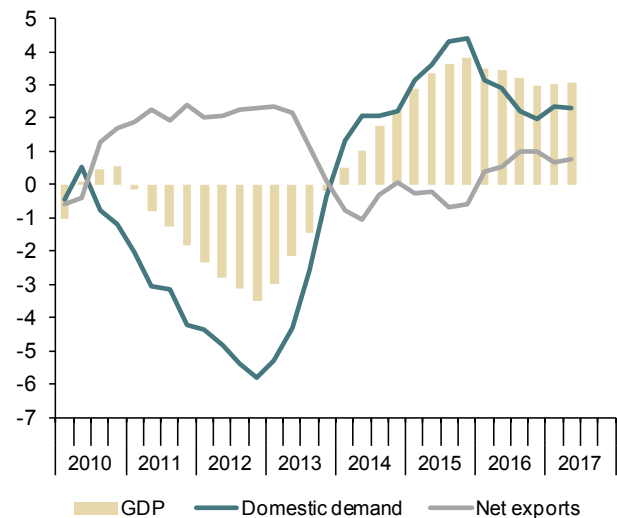


Chart 1.3 - Final consumption

Percentage change

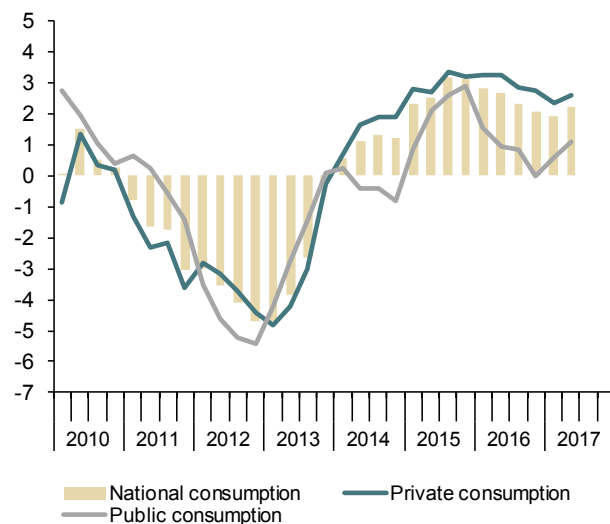


Chart 1.4 - Gross fixed capital formation

Percentage change

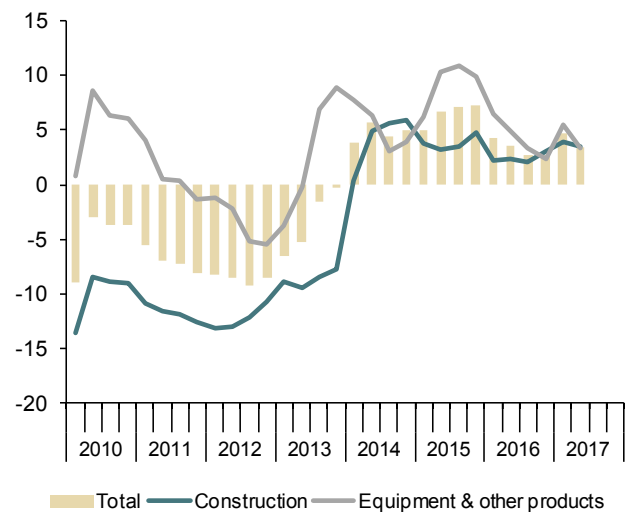


Table 2

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

	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	-5.5
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	-3.9	5.5	8.1	2.2	2.9	2.9	2.8	9.0
IV	3.3	4.2	5.1	7.8	2.5	3.0	3.3	2.9	8.5
2016 I	3.3	7.9	4.0	5.2	1.2	3.0	2.4	3.3	5.9
II	3.3	7.3	4.1	4.0	1.2	3.2	2.3	3.5	4.5
III	3.2	7.4	3.1	2.7	2.3	3.1	2.0	3.4	3.7
IV	2.9	5.2	3.0	2.3	2.8	2.8	1.3	3.3	3.6
2017 I	2.9	5.3	3.1	2.7	4.5	2.6	1.2	3.1	4.3
II	2.9	4.2	3.3	3.2	4.8	2.7	1.3	3.1	4.6
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate									
2015 III	3.4	1.8	4.7	5.4	0.0	3.4	2.5	3.8	7.6
IV	3.6	12.9	5.2	7.3	2.1	3.0	3.6	2.8	5.0
2016 I	3.3	11.0	3.6	1.8	-0.1	3.1	1.9	3.6	0.8
II	3.0	3.8	2.9	1.4	2.8	3.1	1.3	3.7	4.6
III	2.7	2.5	0.8	0.5	4.7	3.1	1.2	3.7	4.4
IV	2.6	3.8	4.9	5.4	4.2	1.9	0.9	2.2	4.5
2017 I	3.1	11.2	4.1	3.4	6.3	2.4	1.6	2.7	3.8
II	3.3	-0.4	3.4	3.5	4.1	3.3	1.5	3.9	5.5
	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	17.5	13.5	7.5	72.5	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	935.6	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.

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

Chart 2.1 - GVA by sectors

Annual percentage change

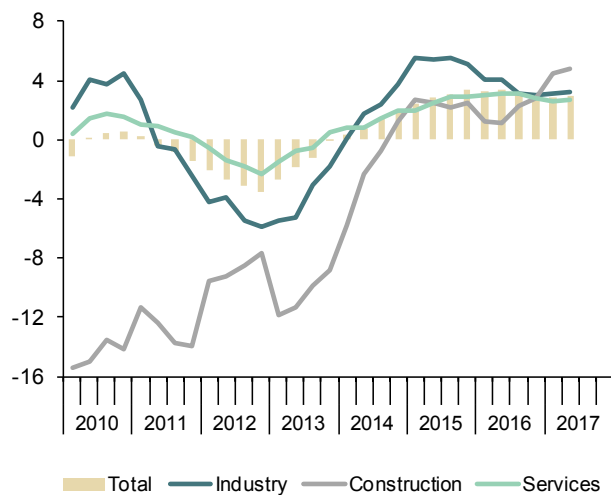


Chart 2.2 - GVA, Industry

Annual percentage change

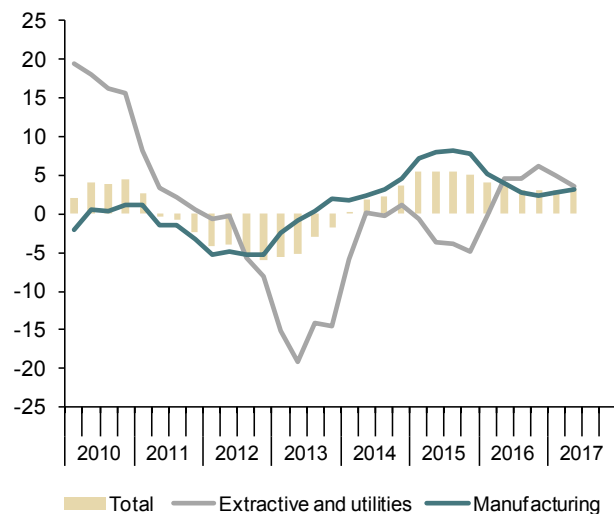


Chart 2.3 - GVA, services

Annual percentage change

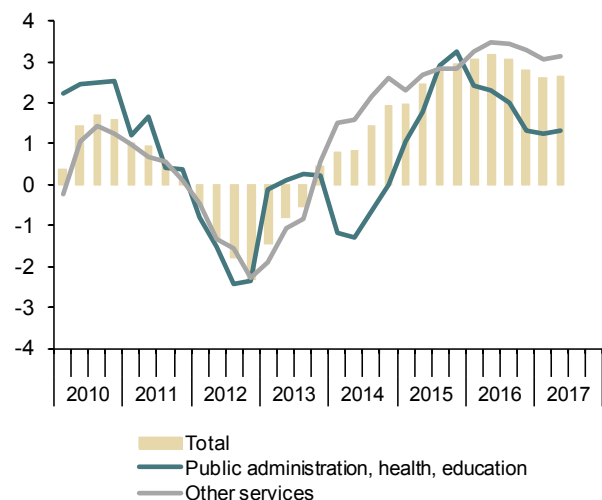


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

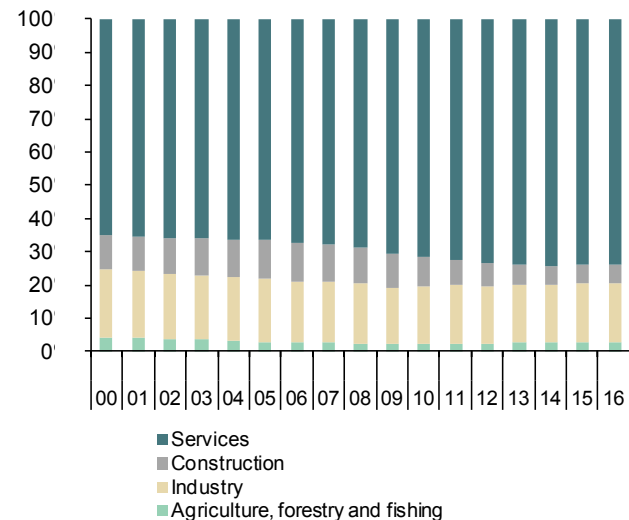


Table 3

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

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, SVDA												
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	88.1
2015	123.4	106.2	116.2	150.8	129.8	95.8	103.7	68.0	152.5	167.3	109.7	85.4
2016	127.4	109.4	116.5	150.3	129.0	95.0	107.4	70.2	152.9	167.6	109.6	85.5
2017	131.3	112.6	116.7	151.4	129.7	94.4	110.8	--	--	--	--	--
2018	134.7	115.1	117.0	152.9	130.6	94.0	113.4	--	--	--	--	--
2015 III	123.9	106.6	116.2	150.7	129.7	95.7	104.3	68.3	152.6	167.3	109.6	85.6
IV	125.1	107.4	116.4	151.2	129.9	95.6	106.2	68.6	154.8	167.9	108.4	84.8
2016 I	126.0	108.3	116.3	150.1	129.0	95.3	106.7	69.5	153.6	167.3	108.9	85.2
II	127.0	109.0	116.5	150.5	129.2	95.3	107.0	69.8	153.3	167.5	109.2	85.4
III	127.9	109.9	116.4	150.1	128.9	94.9	107.2	70.4	152.1	167.7	110.2	85.9
IV	128.8	110.4	116.7	150.6	129.0	94.5	108.6	71.2	152.6	167.9	110.0	85.3
2017 I	129.8	111.1	116.8	150.4	128.8	94.3	109.5	71.6	152.9	168.4	110.1	84.7
II	130.9	112.2	116.7	150.1	128.6	94.2	110.5	72.1	153.2	168.3	109.8	84.0
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	-3.8
2015	3.4	3.2	0.3	1.6	1.4	0.7	7.8	2.8	4.8	1.3	-3.4	-3.0
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	0.2	0.7	0.5	-0.6	3.2	--	--	--	--	--
2018	2.6	2.2	0.3	1.0	0.7	-0.4	2.3	--	--	--	--	--
2015 II	3.6	3.3	0.4	1.3	0.9	0.2	8.1	3.0	4.9	1.3	-3.5	-3.1
IV	3.8	3.3	0.5	1.8	1.3	0.7	7.8	2.8	4.9	1.3	-3.4	-2.7
2016 I	3.5	3.4	0.1	-0.4	-0.5	-0.5	5.2	3.5	1.7	0.4	-1.3	-0.1
II	3.4	2.8	0.6	-0.1	-0.6	-1.0	4.0	2.8	1.1	0.1	-1.0	-0.6
III	3.2	3.1	0.1	-0.4	-0.6	-0.9	2.7	3.1	-0.3	0.2	0.6	0.3
IV	3.0	2.7	0.2	-0.5	-0.7	-1.2	2.3	3.8	-1.4	0.0	1.5	0.6
2017 I	3.0	2.6	0.4	0.2	-0.1	-1.1	2.7	3.1	-0.4	0.7	1.1	-0.6
II	3.1	2.9	0.2	-0.2	-0.4	-1.1	3.2	3.3	-0.1	0.5	0.6	-1.7

(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

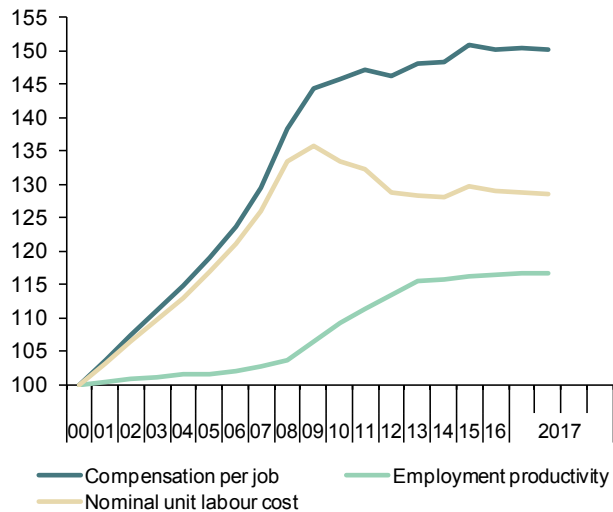
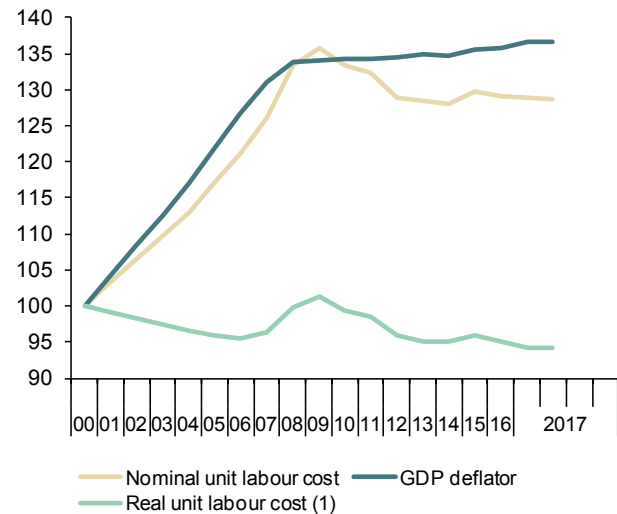


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

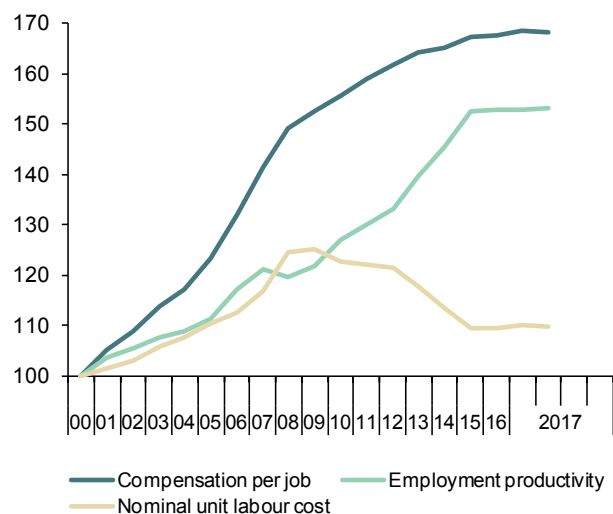
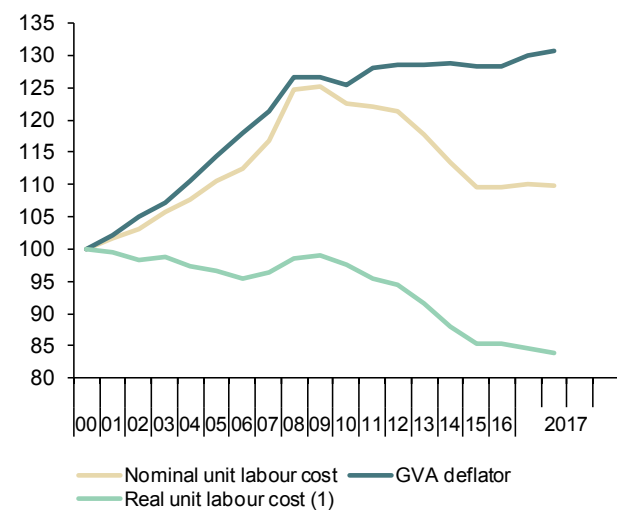


Chart 3.4 - Real ULC, manufacturing industry

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	Compensation of employees	Gross operating surplus	Gross national product	Gross national income	Final national consumption	Gross national saving (a)	Gross capital formation	Compensation 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	445.8	1,065.8	1,053.1	840.5	212.6	254.5	50.1	41.2	19.7	23.5	-3.9
2011	1,070.4	531.0	449.3	1,051.9	1,037.7	838.6	199.2	234.5	49.6	42.0	18.6	21.9	-3.3
2012	1,039.8	498.8	446.7	1,032.5	1,019.9	816.6	203.3	207.9	48.0	43.0	19.5	20.0	-0.4
2013	1,025.7	485.3	440.4	1,020.4	1,007.3	800.4	206.9	191.9	47.3	42.9	20.2	18.7	1.5
2014	1,037.8	491.6	441.8	1,034.4	1,023.0	810.7	212.2	201.9	47.4	42.6	20.4	19.5	1.0
2015	1,080.0	517.8	449.1	1,077.7	1,066.5	835.3	231.2	220.2	47.9	41.6	21.4	20.4	1.0
2016	1,118.5	532.9	471.0	1,118.3	1,105.9	855.6	250.3	229.2	47.6	42.1	22.4	20.5	1.9
2017	1,166.7	553.9	490.4	1,166.4	1,154.8	889.7	265.1	243.7	47.5	42.0	22.7	20.9	1.8
2018	1,208.9	572.4	508.0	1,211.5	1,200.0	919.6	280.4	260.7	47.3	42.0	23.2	21.6	1.6
2015 III	1,068.2	510.1	448.4	1,067.5	1,056.4	828.5	228.0	214.7	47.8	42.0	21.3	20.1	1.2
IV	1,080.0	517.8	449.1	1,077.7	1,066.5	835.3	231.2	220.2	47.9	41.6	21.4	20.4	1.0
2016 I	1,088.5	521.7	454.7	1,086.8	1,075.9	840.0	235.9	223.3	47.9	41.8	21.7	20.5	1.2
II	1,099.6	525.7	460.4	1,097.0	1,086.8	844.9	241.9	226.3	47.8	41.9	22.0	20.6	1.4
III	1,109.4	529.7	465.1	1,108.0	1,096.4	850.0	246.4	227.7	47.7	41.9	22.2	20.5	1.7
IV	1,118.5	532.9	471.0	1,118.3	1,105.9	855.6	250.3	229.2	47.6	42.1	22.4	20.5	1.9
2017 I	1,129.6	536.6	476.4	1,130.1	1,118.9	864.5	254.4	232.9	47.5	42.2	22.5	20.6	1.9
II	1,140.4	540.6	482.0	1,140.9	1,129.0	872.0	257.0	236.0	47.4	42.3	22.5	20.7	1.8
	Annual percentage changes								Difference from one year ago				
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	0.4
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	0.6
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	2.9
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	1.9
2014	1.4	1.0	0.3	0.1	-0.2	0.0	3.0	-1.3	4.3	0.6	-3.5	-3.8	-0.5
2015	3.4	3.2	0.3	1.6	1.4	0.7	7.8	2.8	4.8	1.3	-3.4	-3.0	0.3
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	0.5
2017	3.1	2.9	0.2	0.7	0.5	-0.6	3.2	--	--	--	--	--	0.0
2018	2.6	2.2	0.3	1.0	0.7	-0.4	2.3	--	--	--	--	--	-0.3
2015 III	3.6	3.3	0.4	1.3	0.9	0.2	8.1	3.0	4.9	1.3	-3.5	-3.1	-0.2
IV	3.8	3.3	0.5	1.8	1.3	0.7	7.8	2.8	4.9	1.3	-3.4	-2.7	0.7
2016 I	3.5	3.4	0.1	-0.4	-0.5	-0.5	5.2	3.5	1.7	0.4	-1.3	-0.1	0.7
II	3.4	2.8	0.6	-0.1	-0.6	-1.0	4.0	2.8	1.1	0.1	-1.0	-0.6	0.3
III	3.2	3.1	0.1	-0.4	-0.6	-0.9	2.7	3.1	-0.3	0.2	0.6	0.3	0.2
IV	3.0	2.7	0.2	-0.5	-0.7	-1.2	2.3	3.8	-1.4	0.0	1.5	0.6	0.2
2017 I	3.0	2.6	0.4	0.2	-0.1	-1.1	2.7	3.1	-0.4	0.7	1.1	-0.6	0.3
II	3.1	2.9	0.2	-0.2	-0.4	-1.1	3.2	3.3	-0.1	0.5	0.6	-1.7	0.5

(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

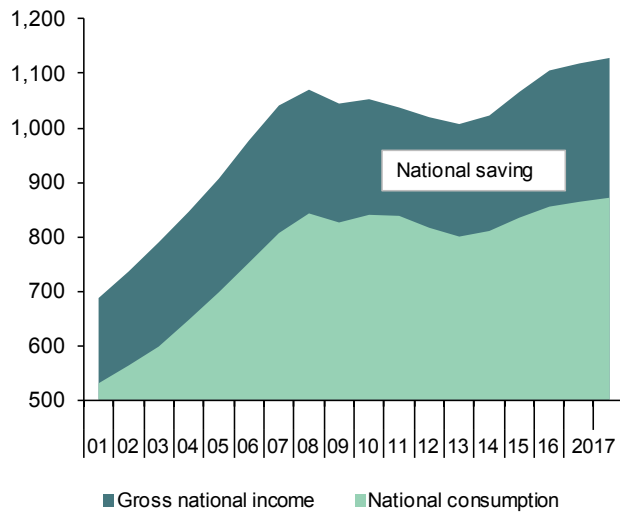


Chart 4.2 - National income, consumption and saving rate

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

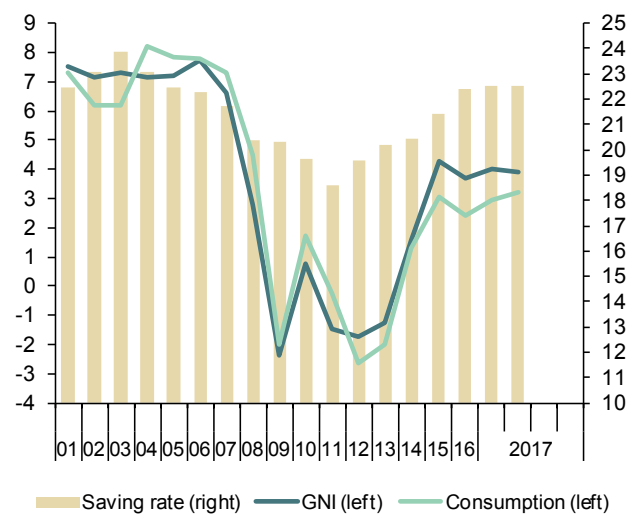


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

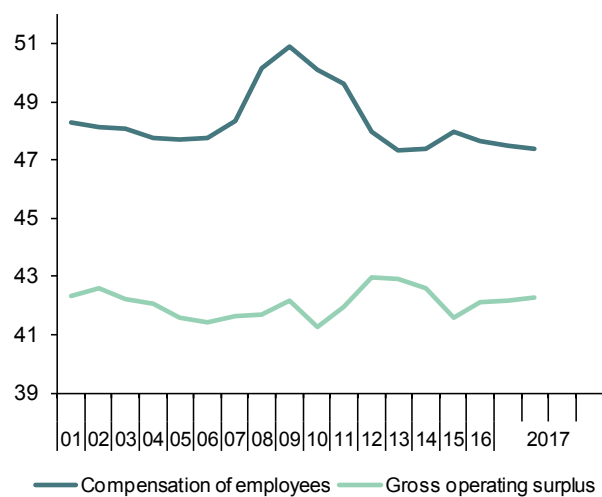


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

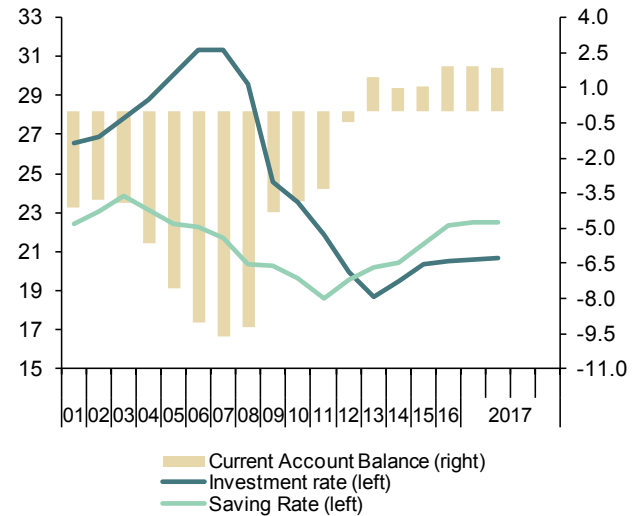


Table 5

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

	Households							Non-financial corporations					
	Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate (gross saving as a percentage of GDI)	Gross capital formation as a percentage of GDP	Net lending or borrowing as a percentage of GDP	Gross operating surplus	Gross saving	Gross capital formation	Saving rate (gross saving as a percentage of GDP)	Gross capital formation as a percentage of GDP	Net lending or borrowing as a percentage of GDP
	EUR Billions, 4-quarter cumulated operations												
2010	688.4	618.8	69.5	63.0	10.1	5.8	1.3	235.7	161.8	132.0	15.0	12.2	3.7
2011	694.2	618.9	74.7	52.2	10.8	4.9	2.6	232.8	144.8	131.4	13.5	12.3	2.1
2012	670.6	611.3	57.2	38.8	8.5	3.7	2.2	234.6	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	160.5	136.2	15.7	13.3	2.9
2014	671.8	608.7	62.1	27.0	9.2	2.6	3.4	236.9	158.8	148.5	15.3	14.3	1.8
2015	686.6	626.3	58.9	33.6	8.6	3.1	2.3	243.6	175.4	153.0	16.2	14.2	2.9
2016	700.1	644.7	54.0	35.8	7.7	3.2	1.6	258.3	194.2	166.2	17.4	14.9	3.1
2017	726.7	674.2	51.1	40.2	7.0	3.4	0.9	267.8	204.3	176.1	17.5	15.1	2.9
2018	752.9	699.5	52.0	45.7	6.9	3.8	0.5	276.7	210.0	186.7	17.4	15.4	2.5
2015 III	687.4	621.8	64.2	31.2	9.3	2.9	3.0	242.6	168.7	152.8	15.8	14.3	2.4
IV	686.6	626.3	58.9	33.6	8.6	3.1	2.3	243.6	175.4	153.0	16.2	14.2	2.9
2016 I	690.5	630.7	58.7	33.3	8.5	3.1	2.3	245.8	179.7	157.2	16.5	14.4	2.8
II	694.9	634.6	59.0	34.7	8.5	3.2	2.2	250.7	187.5	158.6	17.1	14.4	3.3
III	696.6	639.0	56.4	35.1	8.1	3.2	1.9	254.6	193.0	163.3	17.4	14.7	3.3
IV	700.1	644.7	54.0	35.8	7.7	3.2	1.6	258.3	194.2	166.2	17.4	14.9	3.1
2017 I	702.8	652.7	48.6	37.5	6.9	3.3	0.9	261.8	199.8	169.0	17.7	15.0	3.3
II	707.7	660.0	46.3	38.3	6.5	3.4	0.6	265.4	199.1	172.8	17.5	15.2	2.8
	Annual percentage changes				Difference from one year ago			Annual percentage changes				Difference from one year ago	
2010	-1.5	2.2	-25.8	-8.7	-3.3	-0.6	-1.6	-0.2	12.2	1.5	1.6	0.2	1.3
2011	0.8	0.0	7.5	-17.1	0.7	-0.9	1.3	-1.3	-10.5	-0.5	-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	3.9	0.4	0.9	-0.7
2013	-0.9	-2.1	11.7	-33.9	1.1	-1.2	1.8	0.1	10.9	-0.2	1.7	0.2	1.4
2014	1.1	1.7	-2.9	5.1	-0.4	0.1	-0.6	0.8	-1.1	9.0	-0.3	1.0	-1.1
2015	2.2	2.9	-5.0	24.5	-0.7	0.5	-1.1	2.8	10.4	3.0	0.9	-0.1	1.1
2016	2.0	2.9	-8.4	6.5	-0.9	0.1	-0.7	6.0	10.8	8.7	1.1	0.7	0.2
2017	3.8	4.6	-5.4	12.2	-0.7	0.2	-0.7	3.7	5.2	5.9	0.1	0.2	-0.2
2018	3.6	3.7	1.9	13.7	-0.1	0.3	-0.4	3.3	2.8	6.0	-0.1	0.4	-0.4
2015 III	3.9	2.6	19.3	19.5	1.2	0.4	0.3	2.5	3.9	7.4	0.1	0.5	-0.2
IV	2.2	2.9	-5.0	24.5	-0.7	0.5	-1.1	2.8	10.4	3.0	0.9	-0.1	1.1
2016 I	2.0	3.0	-7.7	16.4	-0.9	0.3	-1.0	2.8	9.2	4.9	0.8	0.1	0.6
II	1.7	3.0	-10.1	17.9	-1.1	0.4	-1.2	4.2	13.2	3.0	1.4	-0.1	1.4
III	1.3	2.8	-12.1	12.7	-1.2	0.2	-1.1	4.9	14.4	6.9	1.6	0.4	0.9
IV	2.0	2.9	-8.4	6.5	-0.9	0.1	-0.7	6.0	10.8	8.7	1.1	0.7	0.2
2017 I	1.8	3.5	-17.2	12.9	-1.6	0.3	-1.4	6.5	11.2	7.5	1.2	0.5	0.5
II	1.8	4.0	-21.6	10.4	-2.0	0.2	-1.6	5.9	6.2	8.9	0.4	0.7	-0.5

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

Chart 5.1 - Households: net lending or borrowing

Percentage of GDP, 4-quarter moving averages

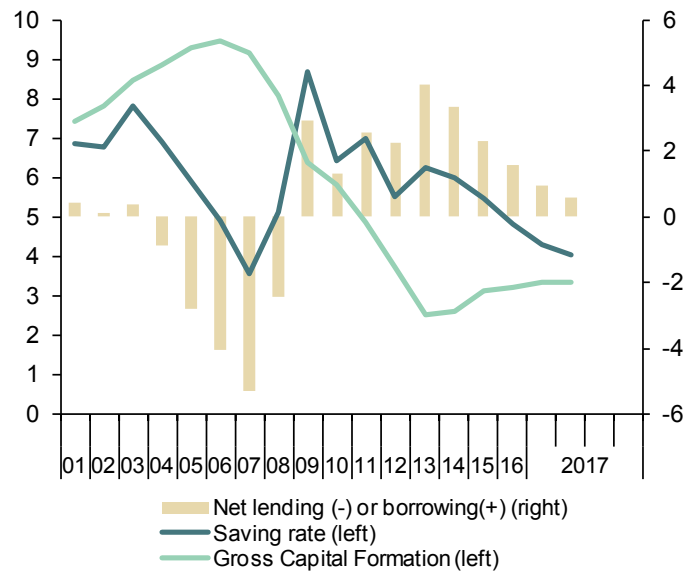


Chart 5.2 - Non-financial corporations: net lending or borrowing

Percentage of GDP, 4-quarter moving averages

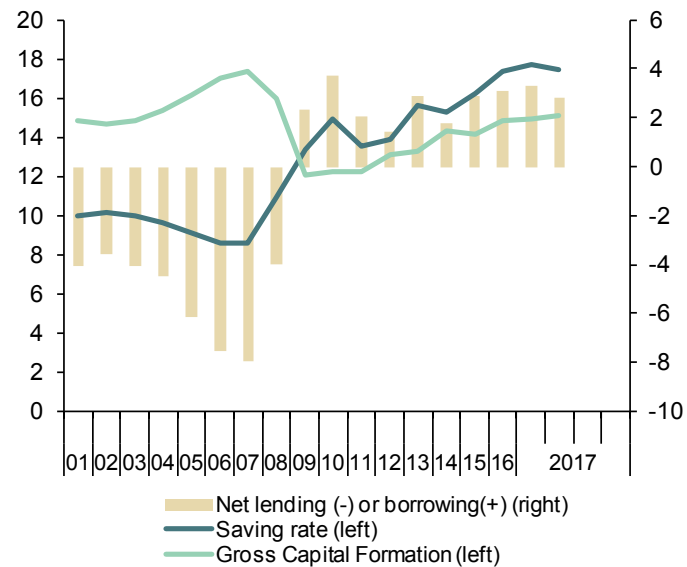


Table 6

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

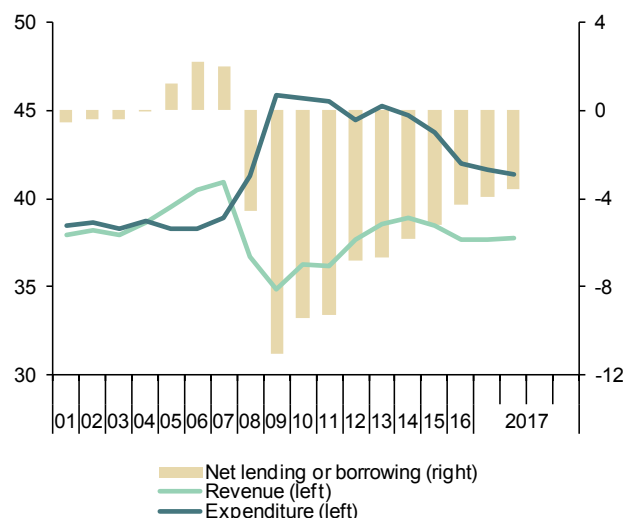
Forecasts in yellow

	Gross value added	Taxes on production and imports receivable	Taxes on income and wealth receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/net borrowing(-)	Net lending(+)/net borrowing(-) excluding financial entities bail-out 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	100.7	138.6	124.9	10.8	162.8	21.4	181.6	221.7	-40.1	61.3	-101.4	-102.2
2011	150.3	106.2	102.0	137.8	122.6	16.2	164.2	22.5	170.8	219.7	-48.9	54.3	-103.2	-99.7
2012	142.2	108.2	106.4	131.9	113.9	20.3	168.6	18.6	167.2	205.3	-38.1	70.8	-108.8	-70.6
2013	143.0	114.6	105.2	128.2	114.7	24.1	170.8	20.6	160.8	201.9	-41.1	30.6	-71.7	-68.4
2014	143.4	119.2	105.6	130.1	115.2	25.7	171.1	20.6	165.7	202.0	-36.3	25.6	-61.9	-60.6
2015	147.5	127.0	109.2	132.3	119.4	24.4	170.6	21.3	180.3	208.9	-28.6	28.4	-57.0	-56.5
2016	149.4	128.8	110.8	136.2	121.3	23.1	173.8	20.8	186.2	210.9	-24.7	25.7	-50.4	-48.0
2017	152.1	137.1	115.8	141.2	124.0	21.3	177.3	21.2	202.4	215.5	-13.1	24.2	-37.3	-37.0
2018	154.8	143.6	120.4	145.9	126.6	18.8	182.2	21.9	215.1	220.1	-5.0	24.5	-29.5	-29.5
2015 III	145.8	125.5	109.0	131.4	117.7	25.1	171.0	21.2	176.7	206.7	-30.0	28.8	-58.8	-58.0
IV	147.5	127.0	109.2	132.3	119.4	24.4	170.6	21.3	180.3	208.9	-28.6	28.4	-57.0	-56.5
2016 I	147.4	126.2	106.9	132.9	119.3	23.9	171.1	20.7	178.5	209.4	-30.9	26.9	-57.8	-57.4
II	148.4	127.3	105.0	134.1	120.4	23.5	172.5	19.3	179.1	210.3	-31.2	26.9	-58.1	-56.1
III	149.2	128.4	107.0	135.2	121.1	23.2	173.1	20.7	181.7	211.1	-29.4	24.7	-54.1	-51.8
IV	149.4	128.8	110.8	136.2	121.3	23.1	173.8	20.8	186.2	210.9	-24.7	25.7	-50.4	-48.0
2017 I	149.9	130.6	111.9	137.9	121.7	23.0	174.3	19.5	191.7	211.8	-20.1	26.7	-46.8	-44.2
II	149.6	132.2	114.7	139.6	121.3	22.8	175.0	20.6	196.2	212.0	-15.8	25.5	-41.3	-40.4
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	16.0	20.5	-4.6	5.1	-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	15.7	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	16.0	19.5	-3.5	2.5	-6.0	-5.8
2015	13.7	11.8	10.1	12.3	11.1	2.3	15.8	2.0	16.7	19.3	-2.6	2.6	-5.3	-5.2
2016	13.4	11.5	9.9	12.2	10.8	2.1	15.5	1.9	16.6	18.9	-2.2	2.3	-4.5	-4.3
2017	13.0	11.7	9.9	12.1	10.6	1.8	15.2	1.8	17.3	18.5	-1.1	2.1	-3.2	-3.2
2018	12.8	11.9	10.0	12.1	10.5	1.6	15.1	1.8	17.8	18.2	-0.4	2.0	-2.4	-2.4
2015 III	13.6	11.7	10.2	12.3	11.0	2.4	16.0	2.0	16.5	19.3	-2.8	2.7	-5.5	-5.4
IV	13.7	11.8	10.1	12.3	11.1	2.3	15.8	2.0	16.7	19.3	-2.6	2.6	-5.3	-5.2
2016 I	13.5	11.6	9.8	12.2	11.0	2.2	15.7	1.9	16.4	19.2	-2.8	2.5	-5.3	-5.3
II	13.5	11.6	9.5	12.2	11.0	2.1	15.7	1.8	16.3	19.1	-2.8	2.4	-5.3	-5.1
III	13.4	11.6	9.6	12.2	10.9	2.1	15.6	1.9	16.4	19.0	-2.7	2.2	-4.9	-4.7
IV	13.4	11.5	9.9	12.2	10.8	2.1	15.5	1.9	16.6	18.9	-2.2	2.3	-4.5	-4.3
2017 I	13.3	11.6	9.9	12.2	10.8	2.0	15.4	1.7	17.0	18.8	-1.8	2.4	-4.1	-3.9
II	13.1	11.6	10.1	12.2	10.6	2.0	15.3	1.8	17.2	18.6	-1.4	2.2	-3.6	-3.5

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

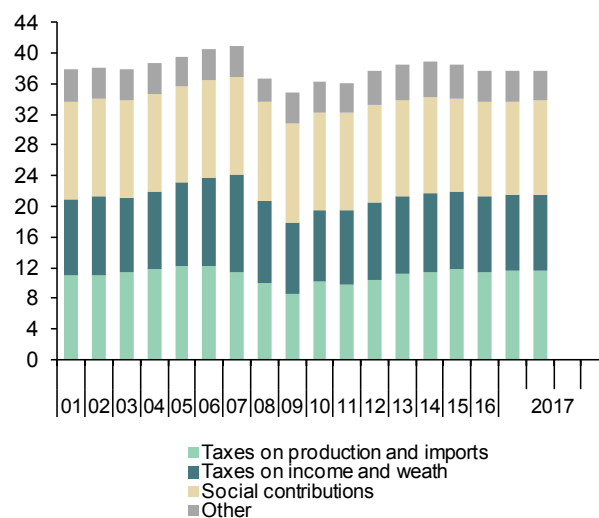


Chart 6.3.- Public sector: main expenditures

Percentage of GDP, 4-quarter moving averages

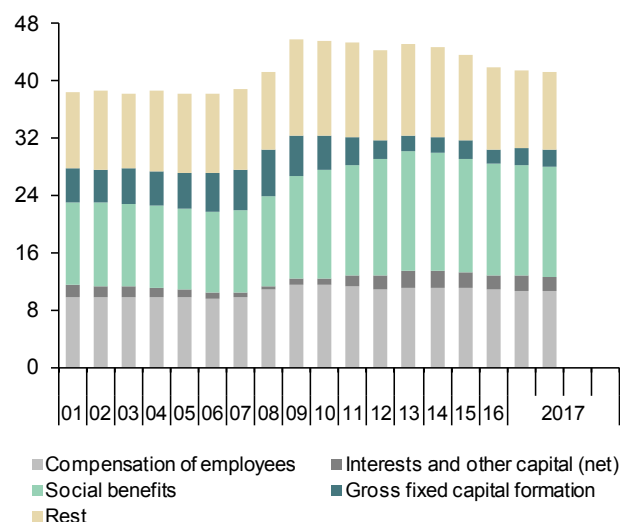
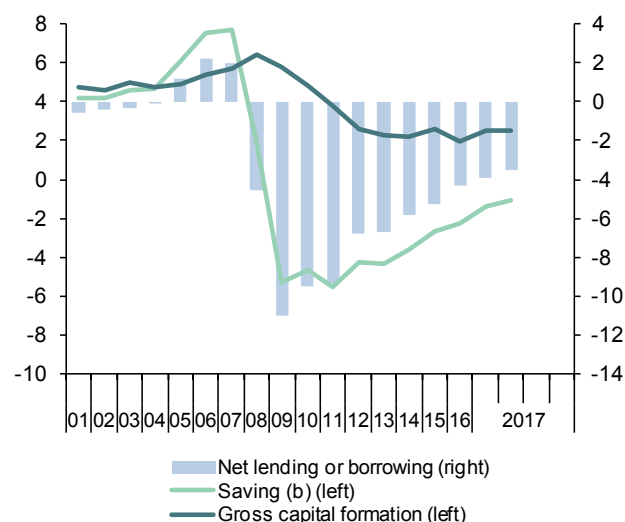


Chart 6.4 - Public sector: Saving, investment and deficit (a)

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

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	902.5	237.9	38.3	17.2	1,041.6
2015	-29.3	-18.7	4.6	-13.0	-56.5	940.4	263.3	35.2	17.2	1,073.9
2016	-27.8	-9.3	6.8	-17.8	-48.0	969.6	277.0	32.2	17.2	1,107.2
2017	-14.0	-7.0	2.9	-18.8	-37.0	--	--	--	--	1,143.5
2018	-10.1	-3.6	2.4	-18.1	-29.5	--	--	--	--	1,171.9
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	263.3	35.2	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	1,107.1
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	277.0	32.2	17.2	1,107.2
2017 I	-23.0	-10.2	7.3	-18.3	-44.2	987.9	279.4	31.7	17.2	1,129.0
II	-20.3	-10.2	7.6	-17.4	-40.4	996.1	285.9	32.4	17.2	1,137.9
	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	87.0	22.9	3.7	1.7	100.4
2015	-2.7	-1.7	0.4	-1.2	-5.2	87.1	24.4	3.3	1.6	99.4
2016	-2.5	-0.8	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0
2017	-1.2	-0.6	0.3	-1.6	-3.2	--	--	--	--	98.0
2018	-0.8	-0.3	0.2	-1.5	-2.4	--	--	--	--	96.9
2015 III	-2.8	-1.7	0.4	-1.3	-5.4	87.9	23.8	3.5	1.6	100.0
IV	-2.7	-1.7	0.4	-1.2	-5.2	87.1	24.4	3.3	1.6	99.4
2016 I	-2.7	-1.6	0.4	-1.3	-5.3	88.4	24.4	3.2	1.6	100.8
II	-2.6	-1.5	0.4	-1.4	-5.1	87.7	24.9	3.2	1.6	100.7
III	-3.0	-0.8	0.6	-1.5	-4.7	87.3	24.6	3.1	1.5	99.9
IV	-2.5	-0.8	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0
2017 I	-2.0	-0.9	0.6	-1.6	-3.9	87.5	24.7	2.8	1.5	99.9
II	-1.8	-0.9	0.7	-1.5	-3.5	87.4	25.1	2.8	1.5	99.8

(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

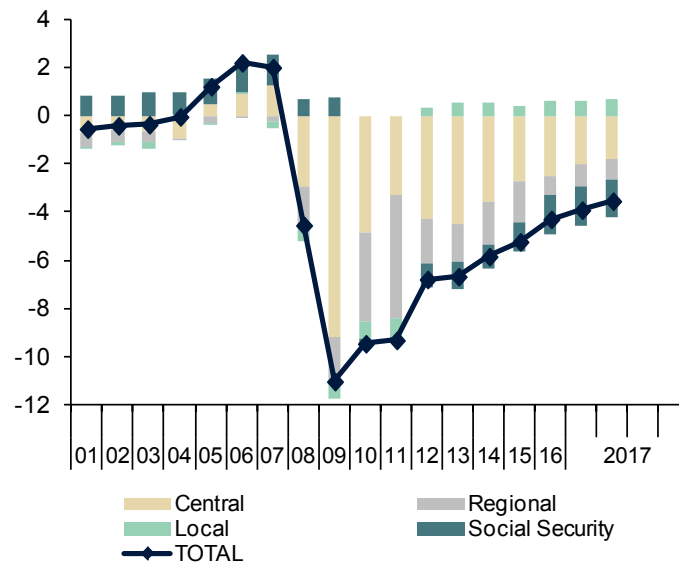


Chart 7.2 - Government debt

Percent of GDP

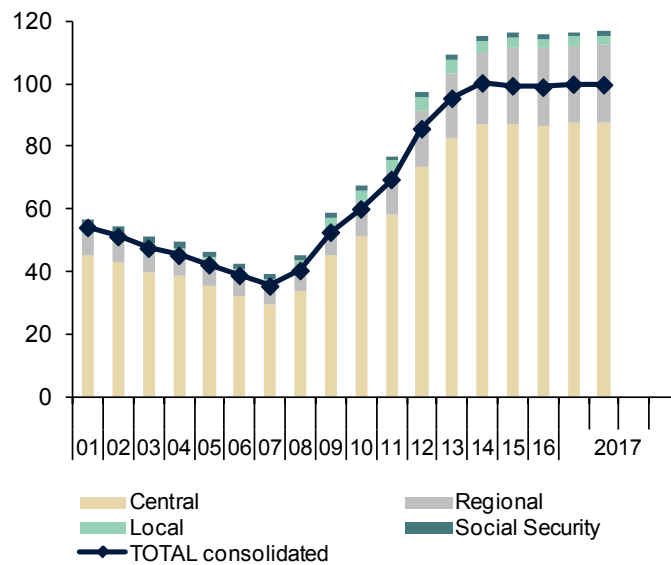


Table 8

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	Manufacturing 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	263.7	100.0	2,294.6	50.6	-13.8	100.0	-36.7
2011	92.7	46.6	16,970.3	261.1	98.4	2,231.9	47.3	-12.5	101.1	-30.8
2012	88.0	43.1	16,335.3	255.6	91.9	2,113.9	43.8	-17.5	97.1	-37.1
2013	92.1	48.3	15,855.2	250.1	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	254.1	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	97.6	-5.4
2017 (b)	108.6	56.4	17,745.6	211.6	98.5	2,185.2	54.5	0.2	101.6	1.5
2016 I	107.1	55.0	16,947.6	63.5	95.8	2,103.7	54.3	-1.9	96.4	-7.6
II	105.9	55.3	17,061.2	63.6	96.2	2,116.5	52.5	-2.8	96.9	-2.9
III	105.0	54.2	17,233.4	63.8	96.8	2,131.8	51.4	-3.8	98.1	-6.7
IV	107.2	55.0	17,389.5	63.9	97.3	2,147.7	54.4	-0.6	99.7	-4.2
2017 I	107.7	56.2	17,543.6	64.0	97.7	2,166.1	54.8	0.3	101.1	-3.1
II	108.4	57.4	17,721.2	64.1	98.3	2,182.6	54.9	-0.5	102.2	6.1
III	109.0	56.1	17,867.8	64.2	99.2	2,198.8	53.5	-0.1	103.4	0.5
IV (b)	110.2	55.1	17,977.6	21.4	--	2,207.9	55.8	2.5	--	5.0
2017 Aug	109.3	55.3	17,864.1	21.4	99.5	2,198.7	52.4	-0.6	103.4	-3.4
Sep	109.9	56.4	17,920.3	21.4	99.6	2,204.4	54.3	2.1	103.9	2.5
Oct	110.2	55.1	17,977.6	21.4	--	2,207.9	55.8	2.5	--	5.0
Percentage changes (c)										
2010	--	--	-2.3	2.7	0.8	-4.8	--	--	3.6	--
2011	--	--	-1.6	-1.0	-1.6	-2.7	--	--	1.2	--
2012	--	--	-3.7	-2.1	-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	0.9	2.2	3.1	--	--	5.5	--
2016 I	--	--	3.0	-1.0	0.9	3.0	--	--	0.0	--
II	--	--	2.7	0.9	1.7	2.5	--	--	2.2	--
III	--	--	4.1	0.2	2.4	2.9	--	--	4.8	--
IV	--	--	3.7	-0.2	2.0	3.0	--	--	6.6	--
2017 I	--	--	3.6	1.7	1.7	3.5	--	--	5.8	--
II	--	--	4.1	1.2	2.7	3.1	--	--	4.4	--
III	--	--	3.4	0.1	3.6	3.0	--	--	4.8	--
IV (e)	--	--	2.5	0.3	--	1.7	--	--	--	--
2017 Aug	--	--	0.3	0.0	1.0	0.2	--	--	0.4	--
Sep	--	--	0.3	0.0	0.1	0.3	--	--	0.4	--
Oct	--	--	0.3	0.0	--	0.2	--	--	--	--

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

Sources: European Commission, 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

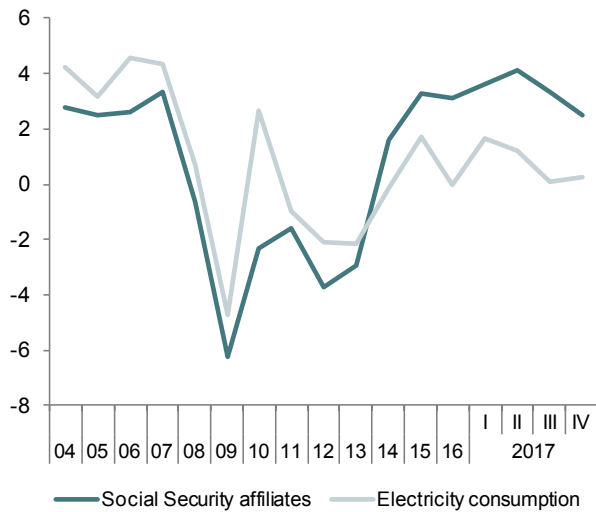


Chart 8.2.- General activity indicators (II)

Index

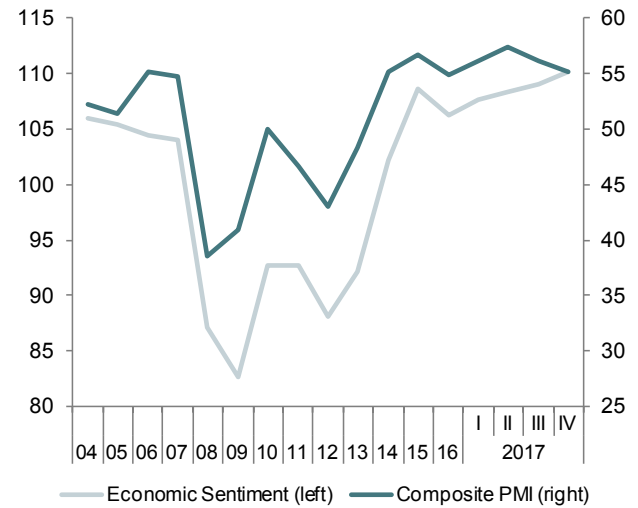


Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

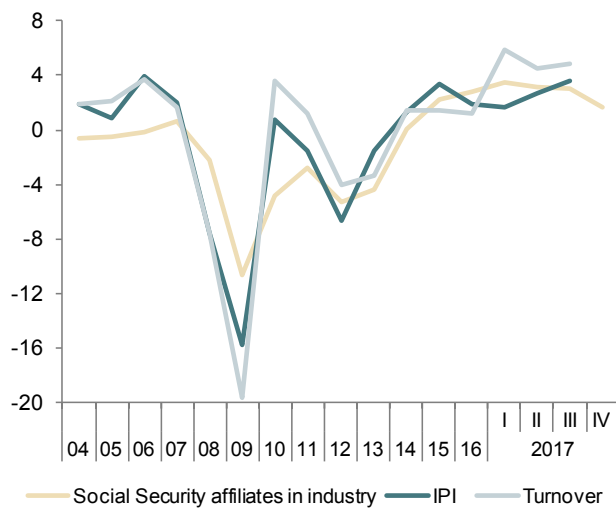


Chart 8.4 - Industrial sector indicators (II)

Index

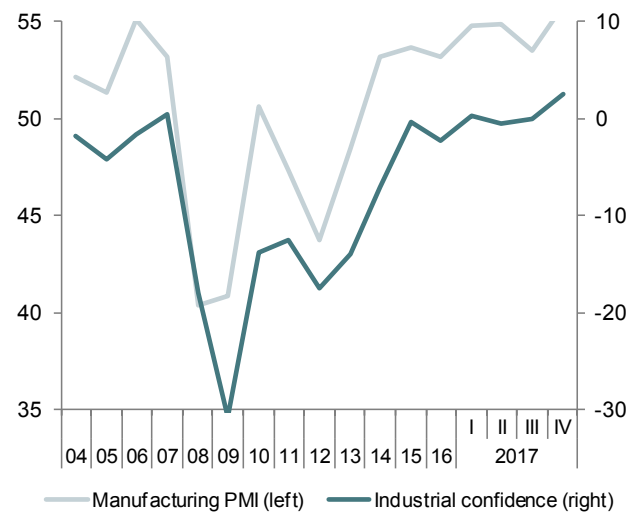


Table 9

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)	1,112	4.9	74.1	-29.0	8.1	10.6	13,307	106.7	56.8	306.4	215.6	23.0
2016 I	1,040	2.8	68.7	-31.7	2.2	3.4	12,685	99.8	54.6	80.9	55.0	18.8
II	1,046	2.7	68.7	-40.4	2.3	3.2	12,779	101.1	55.5	82.2	56.4	17.5
III	1,060	2.7	69.7	-44.3	2.3	2.9	12,911	102.7	54.9	83.3	57.8	16.0
IV	1,071	2.9	71.5	-42.0	2.3	3.2	13,029	104.5	54.9	84.3	59.2	18.7
2017 I	1,092	3.0	73.1	-43.7	2.4	4.0	13,144	106.3	56.4	84.9	60.4	19.2
II	1,110	3.0	73.7	-24.7	2.7	4.2	13,282	107.9	57.8	85.2	61.3	23.3
III	1,126	--	73.9	-23.5	3.1	3.7	13,402	109.4	56.8	85.4	62.2	25.2
IV (b)	1,142	--	--	-14.0	--	--	13,488	--	54.6	28.5	28.5	26.4
2017 Aug	1,126	--	73.9	-29.1	1.0	0.9	13,398	109.4	56.0	28.5	20.7	26.3
Sep	1,133	--	74.0	-19.4	1.1	--	13,443	109.9	56.7	28.5	20.8	25.0
Oct	1,142	--	--	-14.0	--	--	13,488	--	54.6	28.5	20.9	26.4
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)	5.9	10.8	7.6	--	14.9	24.9	3.8	6.7	--	2.8	8.2	--
2016 I	1.4	-21.0	-0.5	--	-22.3	60.4	3.6	3.4	--	8.2	11.6	--
II	2.4	-7.5	0.2	--	-8.2	28.4	3.0	5.1	--	6.5	10.7	--
III	5.4	5.5	5.9	--	7.4	13.7	4.2	6.6	--	5.7	10.2	--
IV	4.2	18.5	10.7	--	11.9	19.6	3.7	7.2	--	4.7	9.9	--
2017 I	8.1	27.0	9.3	--	10.2	16.9	3.6	7.1	--	2.9	8.5	--
II	6.6	-7.2	3.5	--	17.8	29.3	4.3	6.2	--	1.8	6.5	--
III	6.2	--	0.9	--	33.9	33.6	3.7	5.5	--	0.7	5.5	--
IV (e)	5.7	--	--	--	--	--	2.6	--	--	0.6	3.6	--
2017 Aug	0.5	--	0.1	--	22.6	39.0	0.3	0.5	--	0.0	0.4	--
Sep	0.7	--	0.1	--	36.7	--	0.3	0.5	--	0.1	0.4	--
Oct	0.8	--	--	--	--	--	0.3	--	--	0.1	0.4	--

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

Sources: European Commission, 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

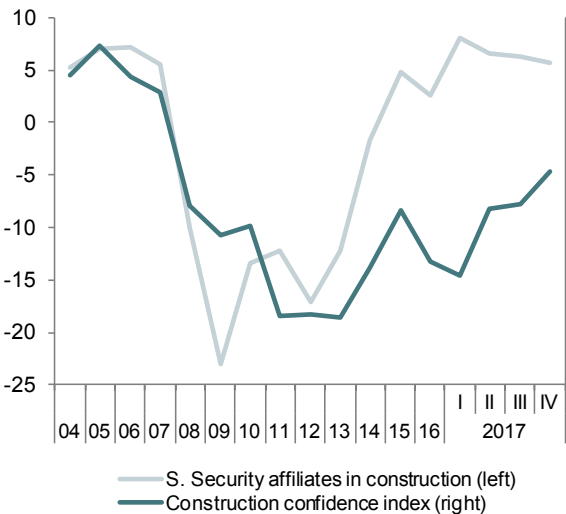


Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

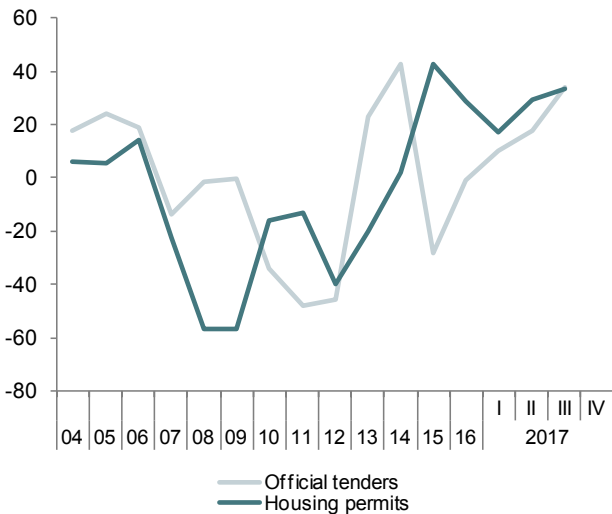


Chart 9.3 - Services indicators (I)

Percentage change

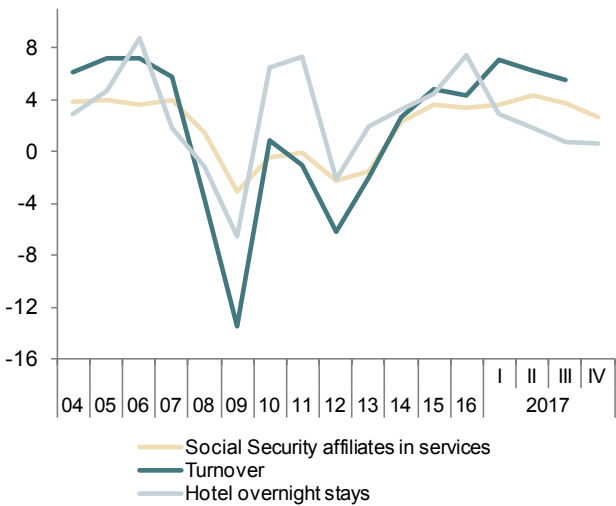


Chart 9.4 - Services indicators (II)

Percentage change

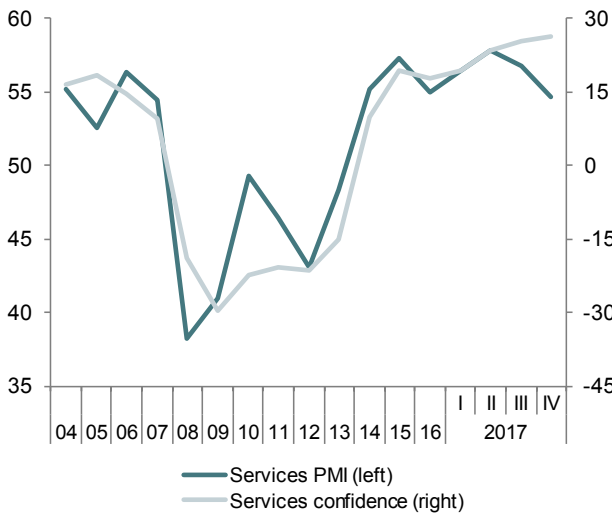


Table 10

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)	90.8	1,116.4	-0.5	101.4	3.1	170.6	4.2	101.2
2016 I	90.1	295.2	-2.5	27.9	0.5	46.2	-2.3	95.5
II	90.8	302.3	-3.2	28.1	-4.4	47.0	1.9	97.0
III	91.2	308.4	-6.1	28.3	-2.1	48.4	2.3	98.3
IV	91.5	315.1	-3.2	28.5	0.3	49.5	-2.6	100.2
2017 I	91.7	321.1	-2.8	28.5	3.9	50.1	1.4	103.1
II	92.2	327.7	1.5	28.5	3.6	51.2	7.6	104.5
III	92.5	335.8	0.2	28.5	3.6	53.1	-2.0	103.7
IV (b)	92.5	114.0	-1.4	9.5	-2.9	18.2	21.1	--
2017 Aug	92.5	111.9	-0.2	9.5	2.4	17.7	-8.3	103.7
Sep	92.5	113.0	-1.1	9.5	3.6	17.9	7.2	103.1
Oct	92.5	114.0	-1.4	9.5	-2.9	18.2	21.1	--
Percentage changes (c)								
2010	-1.7	3.0	--	3.2	--	7.0	--	6.1
2011	-5.6	-19.2	--	-1.5	--	-6.6	--	-3.2
2012	-7.4	-12.1	--	-8.4	--	-24.2	--	-10.9
2013	-3.9	4.5	--	-1.4	--	-0.1	--	13.7
2014	1.1	19.9	--	4.1	--	27.8	--	18.4
2015	3.6	22.9	--	5.3	--	31.1	--	14.4
2016	3.6	12.4	--	3.6	--	6.1	--	4.1
2017 (d)	1.2	8.8	--	0.2	--	9.6	--	7.1
2016 I	3.9	12.7	--	3.4	--	1.9	--	4.3
II	2.8	9.9	--	2.4	--	7.7	--	6.3
III	2.0	8.4	--	3.4	--	12.1	--	5.6
IV	1.1	8.9	--	2.1	--	9.2	--	7.8
2017 I	1.2	7.9	--	-0.1	--	5.4	--	12.1
II	2.0	8.5	--	0.3	--	9.1	--	5.6
III	1.2	10.3	--	0.1	--	15.7	--	-3.1
IV (e)	0.2	7.4	--	0.5	--	10.7	--	--
2017 Aug	0.1	0.9	--	0.0	--	1.3	--	-0.5
Sep	0.0	0.9	--	0.1	--	1.3	--	-0.5
Oct	0.0	0.9	--	0.1	--	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 Commission, 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

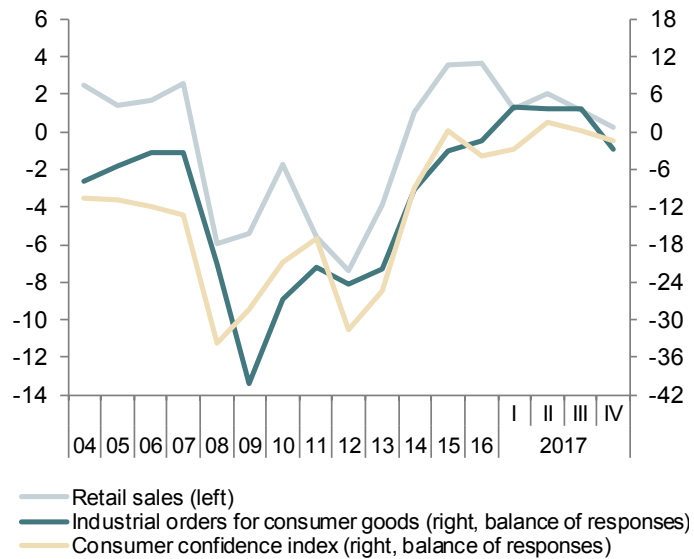


Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

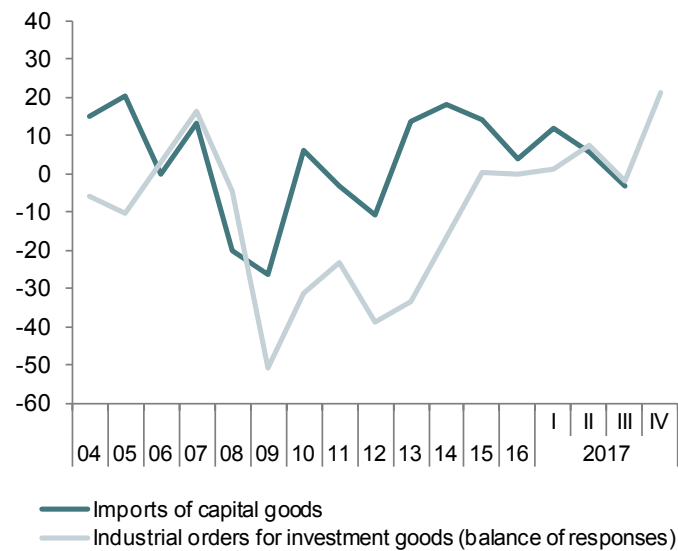


Table 11a

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			
		I	2=4+6	3=5+7	4	5	6			7	8	9	10=7/3
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	--	18.8	--	3.9	--	74.9	62.1	17.0	--	--	--
2018	30.0	22.7	--	19.2	--	3.4	--	74.7	63.6	15.1	--	--	--
2015 IV	30.1	22.9	22.9	18.1	18.1	4.8	4.8	75.3	59.5	20.9	46.1	19.9	28.6
2016 I	30.1	22.8	22.9	18.0	18.2	4.8	4.6	75.4	59.4	20.3	45.5	19.2	28.1
II	30.1	22.9	22.8	18.3	18.3	4.6	4.6	75.4	60.3	20.0	45.7	19.0	27.5
III	30.1	22.8	22.8	18.5	18.4	4.3	4.4	75.4	61.1	19.3	43.4	18.5	25.6
IV	30.0	22.7	22.7	18.5	18.5	4.2	4.2	75.1	61.1	18.6	42.7	17.8	24.8
2017 I	30.0	22.7	22.7	18.4	18.6	4.3	4.1	75.1	60.8	18.1	40.6	17.3	24.0
II	30.0	22.7	22.7	18.8	18.8	3.9	3.9	75.0	62.0	17.2	38.8	16.4	23.8
III	30.0	22.8	22.8	19.0	18.9	3.7	3.8	75.1	62.8	16.8	37.5	15.9	23.5
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	-0.1	-0.5	--	2.7	--	-14.0	--	-0.4	1.7	-2.7	--	--	--
2018	-0.2	-0.1	--	2.1	--	-11.2	--	-0.2	1.4	-1.9	--	--	--
2015 IV	-0.5	-0.7	-0.3	3.0	3.2	-12.4	-12.5	-0.2	1.9	-2.8	-5.6	-2.5	-4.8
2016 I	-0.5	-0.3	0.0	3.3	3.1	-12.0	-10.9	0.1	2.1	-2.8	-4.8	-2.6	-3.8
II	-0.4	-0.6	-0.3	2.4	1.3	-11.2	-6.4	-0.2	1.6	-2.4	-2.9	-2.2	-3.6
III	-0.3	-0.2	-0.4	2.7	3.0	-10.9	-13.1	0.0	1.8	-2.3	-4.5	-2.0	-4.2
IV	-0.3	-0.6	-1.5	2.3	1.9	-11.3	-14.7	-0.2	1.5	-2.3	-3.4	-2.0	-3.7
2017 I	-0.2	-0.6	0.0	2.3	2.9	-11.2	-12.0	-0.3	1.4	-2.3	-4.8	-2.0	-4.2
II	-0.1	-0.6	-0.6	2.8	3.4	-14.4	-17.3	-0.4	1.7	-2.7	-6.9	-2.6	-3.7
III	0.0	-0.3	0.9	2.8	3.0	-13.6	-9.0	-0.3	1.7	-2.5	-5.9	-2.6	-2.1

(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

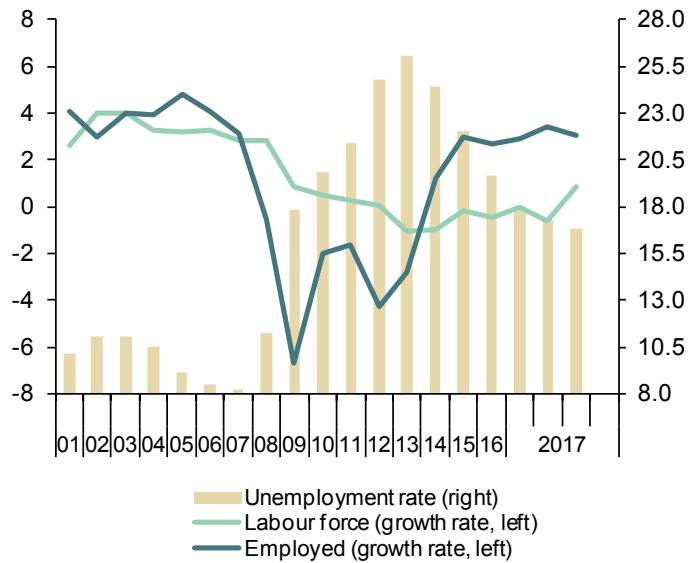


Chart 11a.2 - Unemployment rates, S.A.

Percent change from previous period and balance of responses

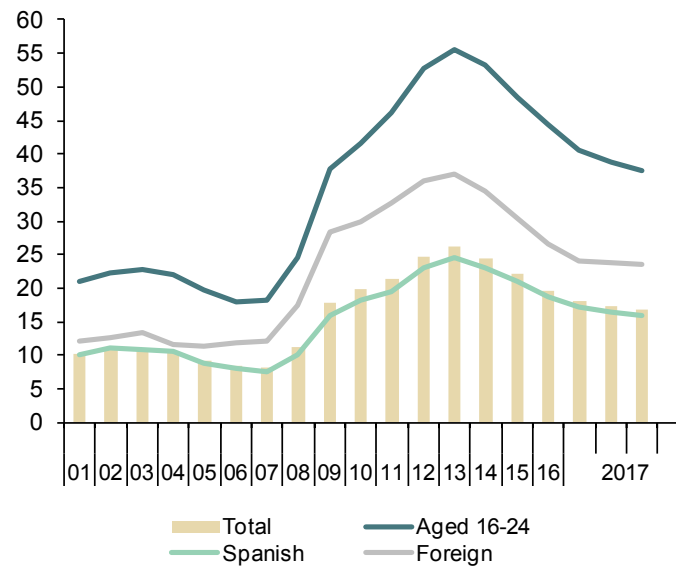


Table 11b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
	Agriculture	Industry	Construction	Services	Employees				Self employed	Full-time	Part-time	Part-time employment rate (b)
					Total	By type of contract						
						Temporary	Indefinite	Temporary employment rate (a)				
	I	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)	0.82	2.63	1.12	14.20	15.65	4.17	11.48	26.7	3.12	15.94	2.82	15.0
2015 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
III	0.78	2.67	1.15	14.45	15.91	4.36	11.55	27.4	3.14	16.32	2.73	14.3
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)	7.7	4.9	4.8	1.8	3.1	6.0	2.1	0.7	0.3	2.8	1.7	-0.1
2015 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
III	4.5	5.5	4.3	2.1	3.3	4.9	2.7	0.4	0.6	3.1	1.1	-0.2

(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

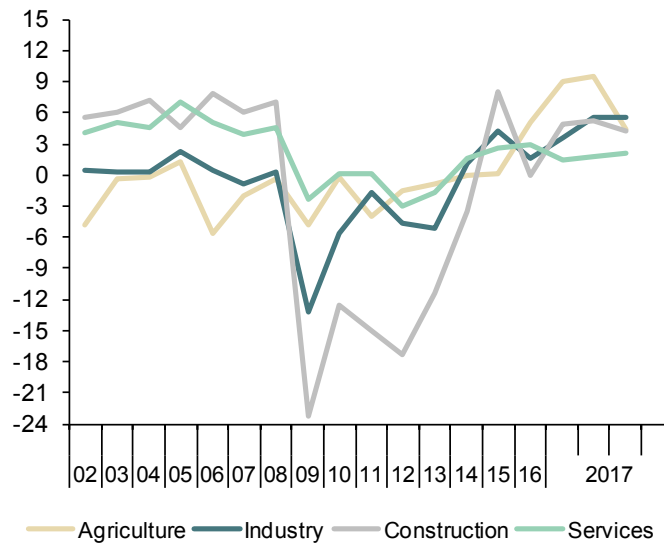


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

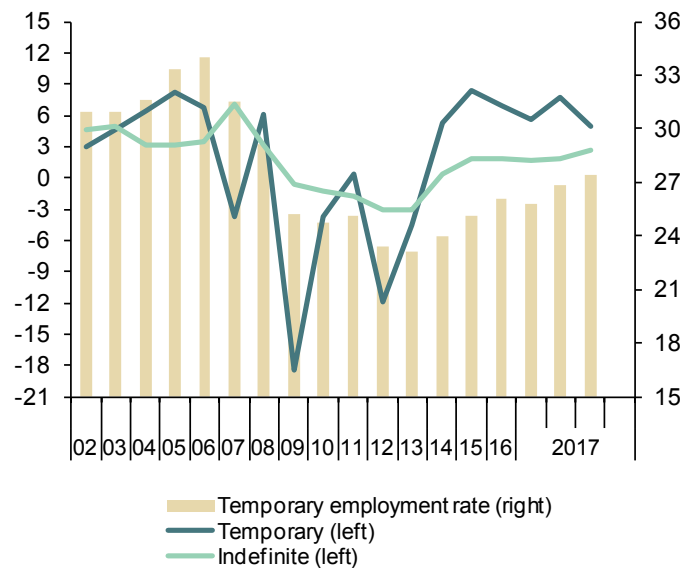


Table 12

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	91.9	111.4	92.0
2012	99.5	97.6	97.1	99.0	96.8	94.9	94.0	121.2	94.6
2013	100.9	98.7	98.5	99.6	98.1	97.9	97.4	121.3	97.7
2014	100.7	98.7	98.6	99.2	98.3	98.2	96.1	120.3	97.6
2015	100.2	99.2	99.2	99.5	98.9	99.2	97.8	109.4	98.7
2016	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2017	102.0	101.1	101.1	100.2	101.6	100.7	102.7	107.9	101.3
2018	103.5	102.4	102.3	100.6	103.3	101.7	104.5	112.2	102.6
Annual percentage changes									
2011	3.2	1.3	1.7	0.6	1.8	3.8	1.8	15.7	3.2
2012	2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013	1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014	-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015	-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016	-0.2	0.8	0.8	0.5	1.1	0.8	2.2	-8.6	1.3
2017	2.0	1.1	1.1	0.2	1.6	0.7	2.7	7.9	1.3
2018	1.5	1.2	1.2	0.5	1.7	1.0	1.8	3.9	1.2
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	1.8	1.3	1.2	0.1	1.8	0.9	2.2	5.8	1.3
Oct	1.6	0.9	0.9	-0.2	1.6	1.0	4.9	3.9	2.3
Nov	1.6	0.9	0.9	-0.4	1.6	1.1	4.3	4.6	2.1
Dec	1.1	0.7	0.8	-0.4	1.3	1.1	2.9	2.6	1.7
2018 Jan	0.8	0.9	1.0	-0.2	1.6	1.1	1.7	-1.2	1.3
Feb	1.2	1.1	1.1	0.0	1.7	1.3	-0.4	2.6	0.8
Mar	1.7	1.3	1.3	0.1	2.0	1.2	0.6	5.1	1.0
Apr	1.3	0.8	0.8	0.2	1.1	1.2	1.2	4.4	1.2
May	1.6	1.2	1.1	0.3	1.7	0.9	1.3	5.3	1.1
Jun	1.8	1.1	1.1	0.3	1.6	0.8	2.3	6.9	1.3
Jul	1.9	1.2	1.1	0.5	1.6	0.7	3.0	7.3	1.5
Aug	1.9	1.3	1.2	0.6	1.7	0.6	4.5	6.0	1.9
Sep	1.9	1.4	1.3	0.8	1.8	1.0	3.4	4.9	1.8
Oct	1.5	1.5	1.4	0.9	1.9	1.0	0.3	3.2	0.8
Nov	1.5	1.5	1.4	1.0	1.8	1.0	1.2	2.2	1.1
Dec	1.4	1.6	1.5	1.1	1.9	1.0	2.0	0.9	1.4

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

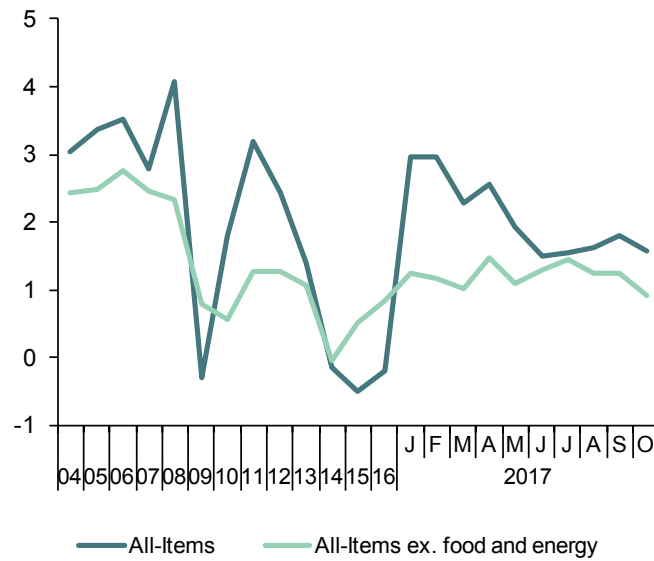


Chart 12.2 - Inflation rate (II)

Annual percentage changes

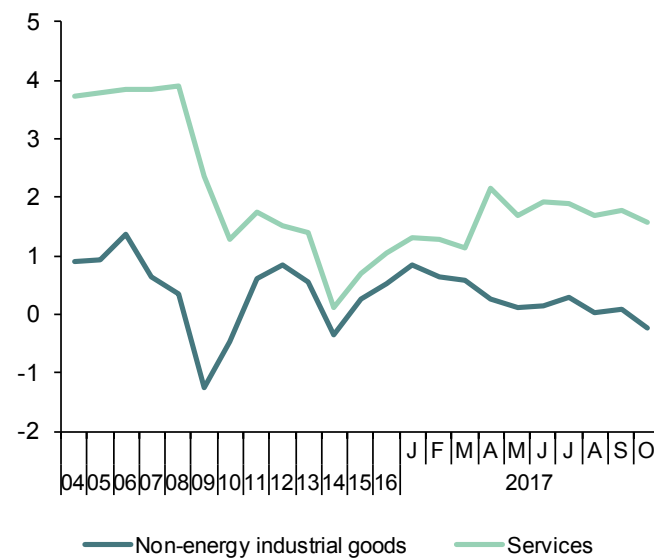


Table 13

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)	m² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2010=100	2010=100	2007=100			2000=100				
2010	100.0	100.0	100.0	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	100.3	110.2	105.9	64.5	71.0	52.6	143.3	140.9	150.7	155.4	--
2015	100.9	107.9	106.2	66.8	71.7	54.9	144.2	142.5	149.6	156.4	--
2016	101.2	104.5	105.8	70.0	73.1	57.8	143.6	142.1	148.4	156.2	--
2017 (b)	101.7	108.8	108.1	73.1	74.5	59.9	143.2	141.2	149.1	150.8	--
2016 I	100.7	102.3	105.2	68.7	72.6	56.6	140.4	137.3	150.0	147.4	--
II	101.0	103.4	105.6	69.9	73.3	58.7	146.2	145.5	148.4	154.5	--
III	101.2	105.0	106.0	70.5	72.9	54.2	138.2	135.1	147.7	159.4	--
IV	101.7	107.4	106.3	70.8	73.5	61.6	149.8	150.6	147.4	163.6	--
2017 I	101.7	109.4	107.7	72.4	74.2	60.1	140.2	137.0	150.1	147.1	--
II	101.7	108.3	108.2	73.8	74.4	59.7	146.1	145.5	148.2	154.4	--
III	--	108.4	108.3	--	74.9	--	--	--	--	--	--
IV (b)	--	109.7	108.5	--	--	--	--	--	--	--	--
2017 Aug	--	108.2	108.3	--	--	--	--	--	--	--	--
Sep	--	108.8	108.4	--	--	--	--	--	--	--	--
Oct	--	109.7	108.5	--	--	--	--	--	--	--	--
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	-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.1	0.5
2015	0.6	-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)	0.8	4.8	2.3	5.4	2.2	3.9	-0.1	-0.1	0.0	-0.1	1.4
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	0.3	-5.4	-0.9	3.9	1.8	6.6	-0.2	0.0	-1.0	0.1	1.1
III	0.3	-3.3	-0.5	4.0	0.8	-3.5	-0.5	-0.3	-0.9	-0.4	1.1
IV	0.5	1.2	0.6	4.5	0.4	13.0	-0.8	-0.7	-0.8	-0.5	1.1
2017 I	1.0	6.9	2.4	5.3	2.3	6.2	-0.1	-0.2	0.1	-0.2	1.3
II	0.7	4.8	2.5	5.6	2.0	1.8	0.0	0.0	-0.2	-0.1	1.3
III	--	3.3	2.1	--	--	--	--	--	--	--	1.4
IV (e)	--	2.2	2.0	--	--	--	--	--	--	--	--
2017 Aug		3.3	2.1	--	--	--	--	--	--	--	1.3
Sep		3.5	2.4	--	--	--	--	--	--	--	1.3
Oct		2.8	2.3	--	--	--	--	--	--	--	1.4

(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)

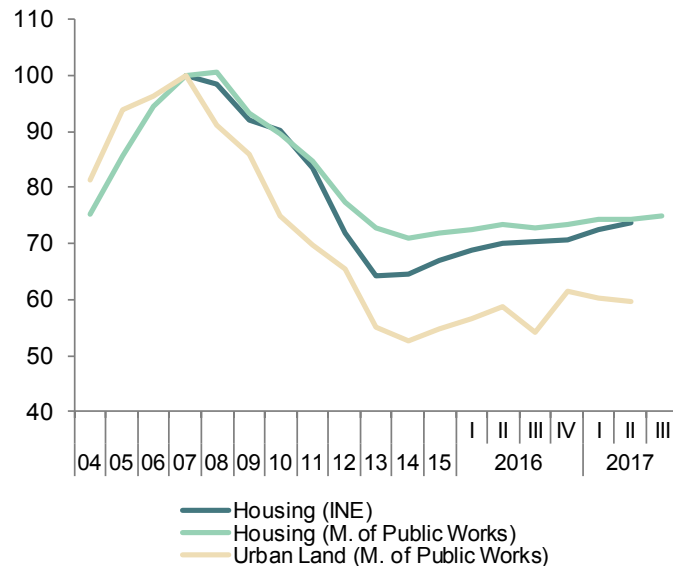


Chart 13.2 - Wage costs

Annual percent change

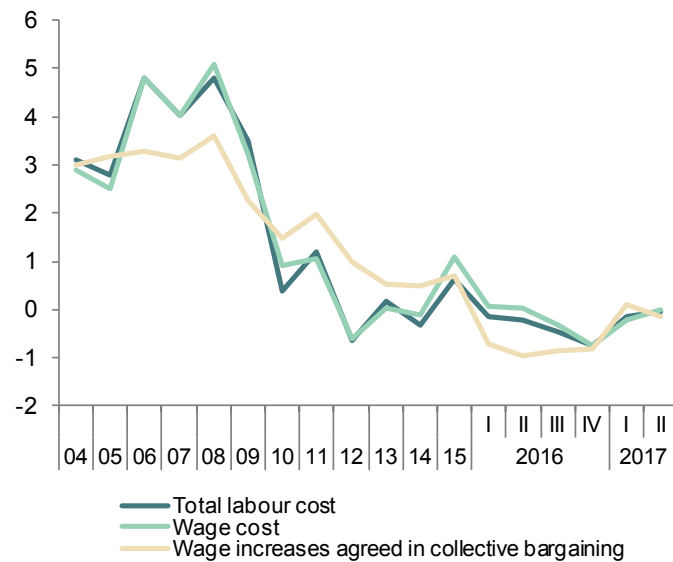


Table 14

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							
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)	178.8	108.3	165.1	129.6	105.6	122.7	15.1	7.9	-2.1	0.1	1.4
2015 IV	164.9	109.9	150.1	118.1	103.9	113.7	13.8	7.4	-1.7	0.3	0.7
2016 I	158.7	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	165.6	108.3	153.0	117.4	101.6	115.5	13.2	7.4	-1.5	0.3	0.9
IV	171.5	108.8	157.7	122.6	104.0	117.9	14.5	7.4	-1.7	0.1	1.3
2017 I	177.9	108.5	164.0	131.0	107.2	122.2	15.6	7.6	-2.5	0.1	1.3
II	179.5	107.7	166.6	127.6	104.6	121.9	15.7	7.8	-1.7	0.3	1.7
III	179.2	108.8	164.6	130.4	105.1	124.1	13.9	8.2	-2.2	-0.2	1.1
2017 Jul	173.0	109.2	158.5	128.9	103.5	124.5	14.1	8.1	-2.7	-0.4	0.5
Aug	180.4	106.4	169.5	132.6	105.1	126.2	11.9	8.2	-2.5	-0.6	1.2
Sep	184.1	110.9	165.9	129.6	106.7	121.5	15.6	8.3	-1.5	0.3	1.7
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	0.4	8.6	11.1	5.2	5.6	8.1	11.0	--	--	--
2015 IV	-1.4	1.7	-3.1	-8.8	-1.9	-7.0	3.9	-10.4	-1.8	0.3	0.7
2016 I	-14.3	-7.7	-7.2	-12.5	-16.1	4.3	-0.6	-36.0	-1.9	-0.1	1.2
II	19.5	0.2	19.3	10.1	3.8	6.1	10.2	40.7	-1.5	0.3	1.1
III	-0.7	2.0	-2.6	1.2	5.1	-3.8	-5.9	10.2	-1.6	0.4	1.0
IV	15.0	1.9	12.8	19.1	9.7	8.6	20.6	4.8	-1.8	0.1	1.3
2017 I	15.7	-1.1	17.0	30.3	12.9	15.4	19.5	8.4	-2.6	0.2	1.3
II	3.6	-2.7	6.5	-10.0	-9.1	-1.0	-0.4	12.1	-1.7	0.4	1.8
III	-0.7	4.1	-4.6	9.1	1.7	7.3	-10.8	21.3	--	--	--
2017 Jul	-2.2	2.5	-4.6	2.7	0.1	2.6	-6.2	5.6	--	--	--
Aug	4.3	-2.5	7.0	2.9	1.5	1.3	5.7	1.8	--	--	--
Sep	2.0	4.2	-2.1	-2.2	1.5	-3.7	2.7	0.8	--	--	--

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

Source Ministry of Economy.

Chart 14.1 - External trade (real)

Percent change from previous period

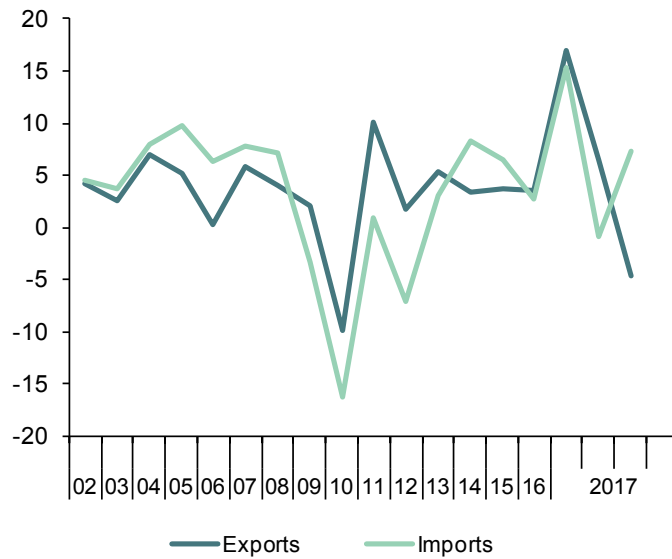


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

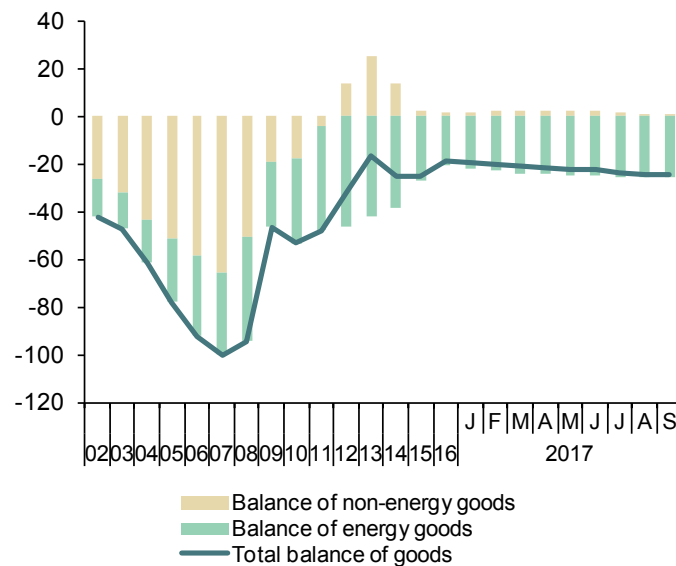


Table 15

Balance of Payments (according to IMF manual)

Net transactions

	Current account					Capital account	Current and capital accounts	Financial account					Bank of Spain	Errors and omissions	
	Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain							
								Total	Direct investment	Portfolio investment	Other investment	Financial derivatives			
	1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14	
EUR billions															
2008		-103.25	-87.04	29.82	-30.49	-15.55	4.67	-98.58	-69.23	-1.53	0.96	-75.72	7.07	-30.22	-0.86
2009		-46.19	-41.47	29.54	-19.62	-14.64	3.33	-42.86	-40.70	1.94	-44.04	-4.66	6.05	-10.46	-8.31
2010		-42.39	-47.80	33.93	-15.13	-13.38	4.89	-37.49	-27.24	-1.46	-28.40	11.23	-8.61	-15.70	-5.44
2011		-34.04	-44.48	42.59	-18.36	-13.79	4.06	-29.98	79.51	9.23	26.25	41.96	2.07	-109.23	0.26
2012		-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013		15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014		11.22	-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	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
	Jul	2.98	5.43			-2.45	0.09	3.07	19.04	1.37	1.98	15.88	-0.19	-11.21	4.77
	Aug	2.62	3.85			-1.23	0.07	2.69	8.07	1.61	5.26	1.20	0.01	-0.76	4.62
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	2.6	-0.4
2015		1.1	-2.1	4.4	-0.2	-1.0	0.7	1.8	5.9	2.6	-0.6	4.0	-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	4.2	-0.4	-1.1	0.1	1.0	6.8	0.7	4.5	1.9	-0.3	-6.5	-0.7
2015	III	1.9	-2.8	6.3	-1.0	-0.7	0.6	2.5	3.2	1.4	0.5	1.3	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	-5.9	-0.4
2016	I	-0.3	-1.8	3.3	-0.1	-1.7	0.3	-0.1	0.9	2.0	6.3	-6.9	-0.6	-2.7	-1.7
	II	2.2	-0.9	4.6	-0.9	-0.6	0.2	2.4	14.0	1.7	3.2	9.1	-0.1	-12.2	-0.5
	III	2.9	-1.8	6.3	-0.5	-1.1	0.1	3.1	6.8	0.0	3.6	3.5	-0.4	-2.3	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	-2.3	3.2	0.2	-1.3	0.2	-0.1	14.7	-0.2	10.4	5.1	-0.6	-15.6	-0.7
	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

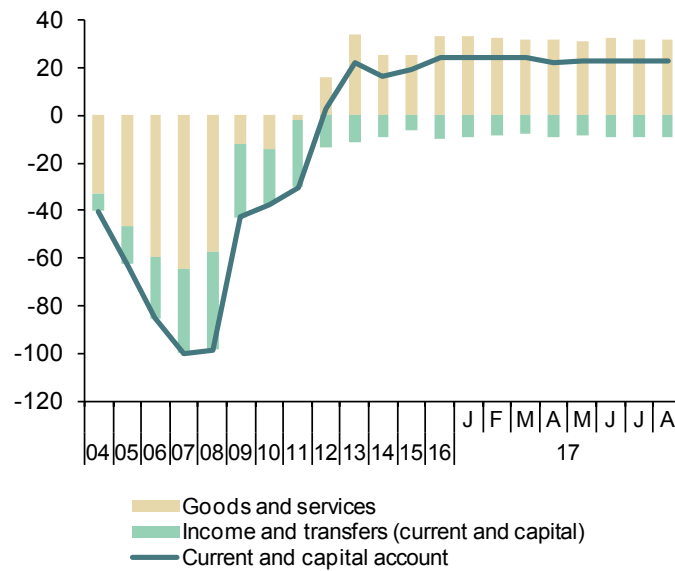


Chart 15.2 - Balance of payments: financial account

EUR Billions, 12-month cumulated

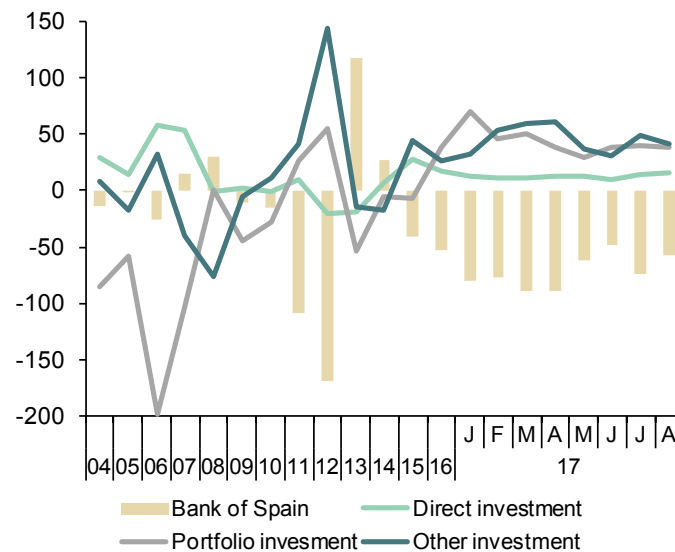


Table 16

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			
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)	--	--	--	101.5	101.6	99.8	107.9	104.5	103.2	109.9
2015 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
III	--	--	--	101.3	101.8	99.5	107.6	104.3	103.2	110.4
2017 Aug	--	--	--	101.2	101.7	99.4	107.5	104.2	103.2	110.4
Sep	--	--	--	101.8	102.1	99.6	107.9	104.7	103.1	110.7
Oct	--	--	--	102.4	102.2	100.2	--	--	--	--
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)	--	--	--	0.6	0.4	0.2	4.7	3.1	1.6	1.4
2015 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
III	--	--	--	1.8	1.4	0.4	3.2	2.2	1.0	1.6
2017 Aug	--	--	--	2.0	1.5	0.5	3.3	2.3	1.0	1.7
Sep	--	--	--	1.8	1.5	0.3	3.4	2.5	0.9	1.5
Oct	--	--	--	1.7	1.4	0.3	--	--	--	--

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

Sources: Eurostat, Bank of Spain and Funcas.

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

1998=100

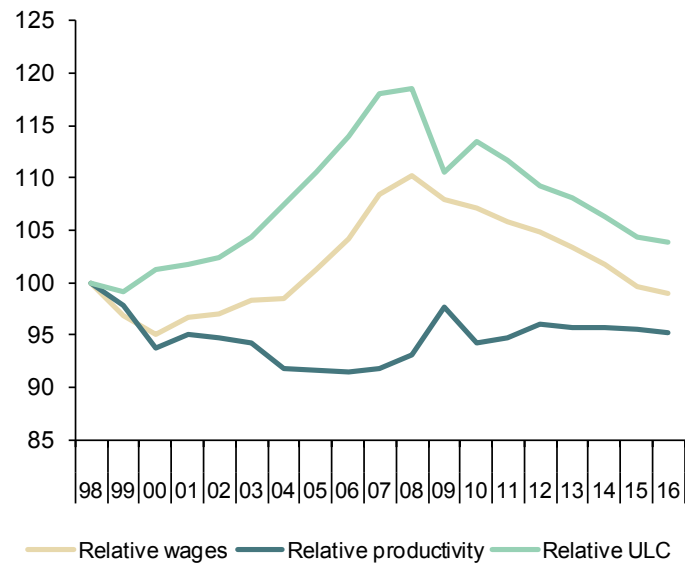


Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

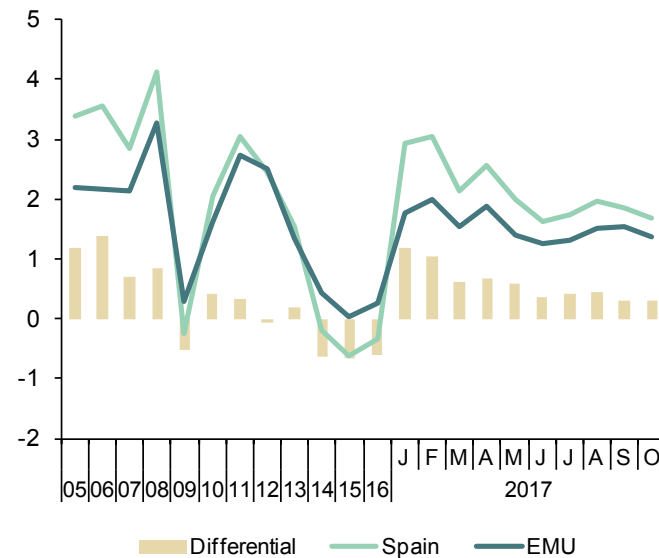


Table 17a

Imbalances: International comparison (I)

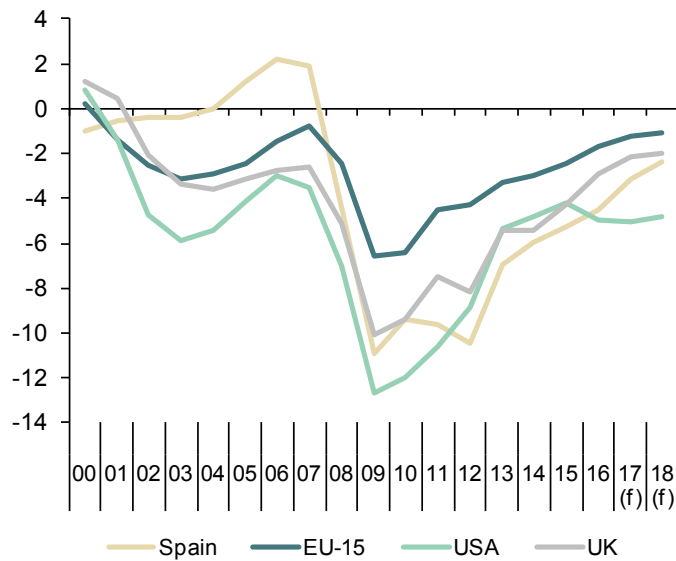
In yellow: European Commission Forecasts

	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	11.3	-264.8	-543.4	-43.7	393.5	6,851.6	8,496.9	552.6	-70.3	22.0	-702.2	-28.9
2006	22.2	-171.1	-411.6	-40.5	392.1	7,064.4	8,818.1	596.8	-90.7	6.4	-584.9	-45.6
2007	20.8	-95.5	-513.6	-40.4	384.7	7,139.9	9,267.8	643.5	-104.1	-10.4	-735.6	-58.3
2008	-49.3	-290.8	-1033.3	-81.1	440.6	7,580.8	10,722.1	785.0	-102.9	-104.1	-791.0	-72.9
2009	-118.2	-750.8	-1827.4	-154.2	569.5	8,545.9	12,405.0	979.8	-46.5	-2.1	-457.2	-59.8
2010	-101.4	-758.2	-1797.7	-148.7	650.1	9,591.0	14,176.1	1,194.3	-42.0	17.7	-495.1	-59.7
2011	-103.2	-551.4	-1646.6	-122.1	744.3	10,277.8	15,361.9	1,328.8	-35.3	59.4	-443.2	-38.9
2012	-108.8	-533.3	-1430.7	-137.4	891.5	10,913.9	16,558.7	1,424.8	-4.6	136.8	-264.9	-71.6
2013	-71.7	-413.2	-894.0	-94.7	979.0	11,277.3	17,462.8	1,499.8	15.0	164.8	-248.2	-97.0
2014	-61.9	-382.2	-834.9	-100.2	1,041.6	11,815.5	18,194.1	1,604.8	10.3	187.4	-154.1	-98.0
2015	-57.0	-329.8	-761.2	-80.5	1,073.9	12,140.7	18,965.9	1,666.0	11.0	249.5	-194.7	-98.1
2016	-50.4	-230.3	-925.3	-57.2	1,107.2	12,018.4	19,947.7	1,731.4	21.1	258.1	-313.7	-115.5
2017	-36.4	-171.0	-975.7	-43.6	1,144.9	12,126.2	20,943.4	1,761.7	20.3	257.1	--	-104.5
2018	-29.0	-150.8	-981.4	-41.5	1,175.1	12,260.9	21,934.8	1,795.7	23.2	281.0	--	-97.8
Percentage of GDP												
2005	1.2	-2.4	-4.2	-3.2	42.3	63.0	64.9	39.9	-7.6	0.2	-5.4	-2.1
2006	2.2	-1.5	-3.0	-2.8	38.9	61.6	63.6	40.8	-9.0	0.1	-4.2	-3.1
2007	1.9	-0.8	-3.5	-2.6	35.6	59.2	64.0	41.9	-9.6	-0.1	-5.1	-3.8
2008	-4.4	-2.4	-7.0	-5.2	39.5	63.2	72.8	49.9	-9.2	-0.9	-5.4	-4.6
2009	-11.0	-6.6	-12.7	-10.1	52.8	75.2	86.0	64.1	-4.3	0.0	-3.2	-3.9
2010	-9.4	-6.4	-12.0	-9.4	60.1	81.2	94.7	75.6	-3.9	0.1	-3.3	-3.8
2011	-9.6	-4.5	-10.6	-7.5	69.5	84.7	99.0	81.3	-3.3	0.5	-2.9	-2.4
2012	-10.5	-4.3	-8.9	-8.2	85.7	88.1	102.5	84.5	-0.4	1.1	-1.6	-4.2
2013	-7.0	-3.3	-5.4	-5.4	95.5	90.4	104.6	85.6	1.5	1.3	-1.5	-5.5
2014	-6.0	-3.0	-4.8	-5.5	100.4	91.5	104.4	87.4	1.0	1.5	-0.9	-5.3
2015	-5.3	-2.4	-4.2	-4.3	99.4	89.2	104.7	88.2	1.0	1.8	-1.1	-5.2
2016	-4.5	-1.7	-5.0	-2.9	99.0	87.8	107.1	88.3	1.9	1.9	-1.7	-5.9
2017	-3.1	-1.2	-5.0	-2.1	98.4	86.6	108.2	86.6	1.7	1.8	--	-5.1
2018	-2.4	-1.0	-4.9	-2.0	96.9	84.7	108.4	85.3	1.9	1.9	--	-4.6

Sources: European Commission Forecasts, Autumn 2017.

Chart 17a.1 - Government deficit

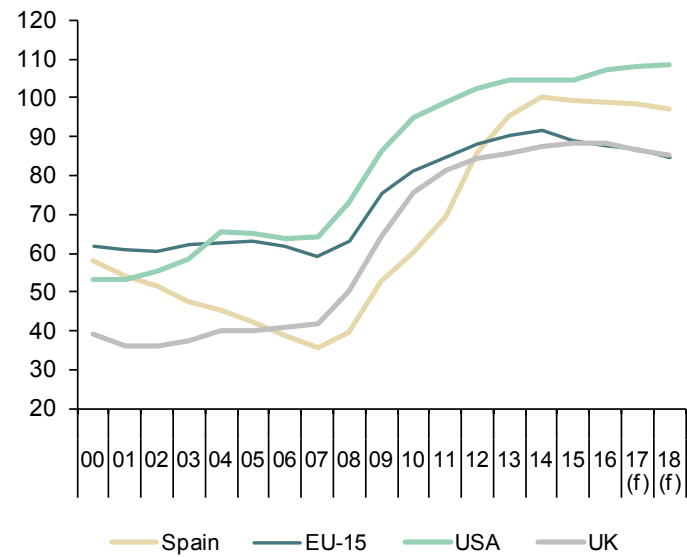
Percentage of GDP



(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	11,976.0	1,189.8	925.0	7,586.3	8,162.0	1,260.5
2006	780.7	5,196.3	13,256.9	1,310.9	1,158.8	8,230.8	8,978.2	1,371.4
2007	876.6	5,561.3	14,175.5	1,426.4	1,344.5	9,021.8	10,106.2	1,462.2
2008	914.0	5,806.6	14,050.0	1,477.0	1,422.6	9,597.3	10,674.1	1,619.8
2009	906.2	5,935.6	13,812.8	1,473.8	1,406.1	9,531.4	10,150.1	1,521.4
2010	902.5	6,070.3	13,576.9	1,479.9	1,429.4	9,809.4	10,001.1	1,520.8
2011	875.2	6,161.1	13,383.7	1,486.7	1,415.7	9,964.6	10,262.8	1,515.8
2012	838.2	6,148.9	13,445.4	1,509.2	1,309.8	10,102.0	10,766.5	1,591.0
2013	790.6	6,096.7	13,597.5	1,525.5	1,230.6	9,974.9	11,250.3	1,565.7
2014	754.2	6,121.3	13,954.5	1,566.1	1,179.5	10,425.1	11,937.7	1,506.7
2015	729.6	6,184.0	14,217.9	1,615.7	1,156.3	10,958.7	12,743.2	1,496.6
2016	717.1	6,290.2	14,672.8	1,689.8	1,137.8	11,113.2	13,448.5	1,608.1
2017 II qrt. (b)	720.1	6,364.8	14,912.5	1,709.2	1,139.7	11,262.2	13,905.5	1,495.7
Percentage of GDP								
2005	70.2	56.6	91.5	85.8	99.4	89.7	62.3	90.9
2006	77.5	58.3	95.7	89.6	115.0	92.4	64.8	93.7
2007	81.1	59.1	97.9	92.8	124.4	95.9	69.8	95.2
2008	81.9	60.3	95.5	93.9	127.5	99.7	72.5	103.0
2009	84.0	63.9	95.8	96.4	130.3	102.6	70.4	99.5
2010	83.5	63.6	90.7	93.7	132.2	102.9	66.8	96.3
2011	81.8	62.9	86.2	90.9	132.3	101.7	66.1	92.7
2012	80.6	62.5	83.2	89.6	126.0	102.7	66.6	94.4
2013	77.1	61.4	81.5	87.0	120.0	100.4	67.4	89.3
2014	72.7	60.2	80.1	85.2	113.7	102.6	68.5	82.0
2015	67.6	58.9	78.5	85.5	107.1	104.4	70.3	79.2
2016	64.1	58.4	78.8	86.2	101.7	103.2	72.2	82.0
2017 II qrt. (b)	63.1	58.3	77.9	86.3	99.9	103.1	72.6	75.5

(a) Loans and debt securities.

(b) For UK: first quarter 2017.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

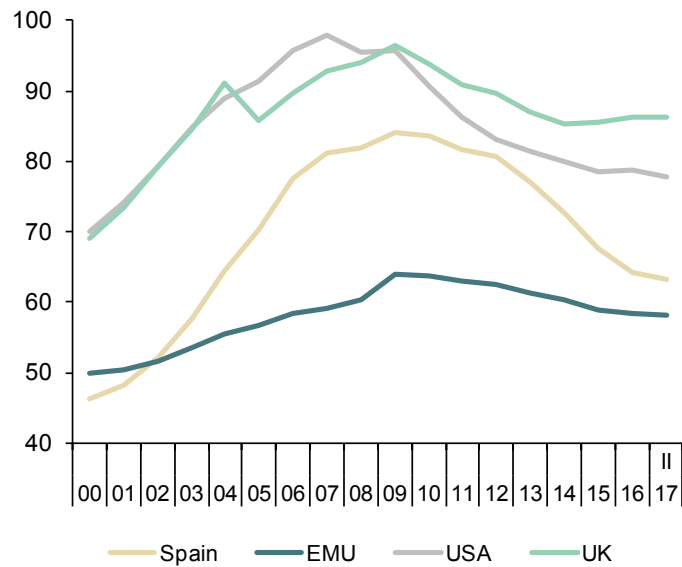
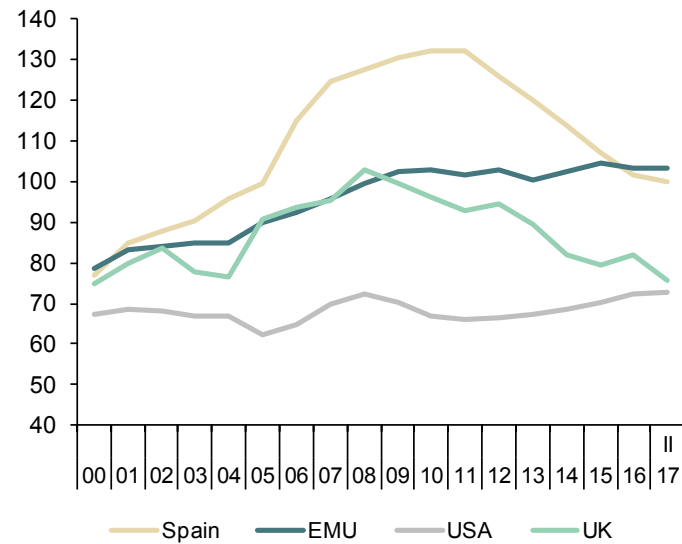


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: November 15th, 2017

<i>Highlights</i>		
Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.8	August 2017
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.4	August 2017
Doubtful loans (monthly % var.)	-5.5	August 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 October	2017 15 th November	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.4	4.7	5.0	7.1	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.19	-0.1	-0.26	-0.331	-0.329	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.5	0.2	-0.03	-0.184	-0.191	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.4	1.7	1.4	1.5	1.5	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.3	2.1	2.3	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": There was a heterogeneous evolution of interbank rates in the first fortnight of November. The 3-month interbank rate slightly increased to -0.329% from -0.331% in October and the 1-year Euribor decreased to -0.191% from -0.184% in October. The ECB announced an acceleration of tapering but the stance of monetary policy will still continue to be expansive. As for the Spanish 10-year bond yield, it has remained at 1.5%.

B. Financial Markets

Indicator	Source	Average 2001-2014	2015	2016	2017 August	2017 September	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	39.0	75.5	102.6	70.35	72.84	(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	53.37	42.17	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	1.1	1.3	0.4	0.02	1.01	(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	1.20	2.96	(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	0.08	-0.38	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec 1987=100)	Bank of Spain	642.9	1,058.2	1,104.9	1,110.91	1,107.77	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	-1.9	0.4	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	25.7	25.7	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	1,044.1	1,011.1 (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	10,361.1	9,990.4 (a)	Base dec 1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	16.7	15.4	23.6	15.7(a)	15.1(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 August	2017 September	Definition and calculation
18. Commercial paper: Trading balance (% chg.)	Bank of Spain and AIAF	1.9	-0.2	0.1	-10	-	AIAF fixed-income market
19. Commercial paper: Three-month interest rate	Bank of Spain and AIAF	2.5	0.1	0.0	-022	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.6	1.3	-0.4	34	-	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	8.9	17.7	5.8	-158	-	IBEX-35 shares concluded transactions

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

Comment on "Financial Markets": During September, there was an increase in transactions with outright spot T-bills to 72.84% and a fall of spot government bonds transactions, which stood at 42.17%. The stock market has registered a fall in the first fortnight of November compared to the end of October, with the IBEX-35 down to 9,990 points, and the General Index of the Madrid Stock Exchange to 1,011.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2013	2014	2015	2016	2017 Q2	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.8	1.6	2.2	2.1	2.0	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	1.8	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	295.0	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	63.6	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	0.8	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	1.7	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2017Q2, the financial savings to GDP in the overall economy fell to 2.0% of GDP. There was also a decrease in the financial savings rate of households from 2.6% in 2016Q4 to 1.8% in 2017Q2. The debt to GDP ratio fell to 63.6%. Finally, the stock of financial assets on households' balance sheets registered an increase of 0.8%, and there was a 1.7% increase in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2014	2015	2016	2017 July	2017 August	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.5	-4.0	-4.1	-0.4	-0.8	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	-1.7	0.4	Deposits percentage change for the sum of banks, savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	10.0	-15.2	-11.6	-1.1	0.7	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	2.8	-0.7	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.1	-5.2	-4.5	-4.1	-3.7	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	0.1	-5.5	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	-5.3	-7.7	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	6.8	0.4	Equity percentage change for the sum of banks, savings banks and credit unions

Comment on "Credit institutions. Business Development": The latest available data as of August 2017 show a decrease in bank credit to the private sector of 0.8%. Data also show a growth in financial institutions deposit-taking of 0.4%. Holdings of debt securities increased by 0.7%. Doubtful loans decreased 5.5% 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, de- fined 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, de- fined 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*	18,507	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 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•	130,7461•	184,745•		
2017*	21.5	6.6	28.4	41.1							
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	723	859,780	732	2,196,934	477	558,702	276,920	204,844	82,064
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1,000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	722,765*	5,815,595●	1,062●	946,368●	936●	2,359,475●	646●	906,049*	256,004*	199,428*	19,303*
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.

* Data refer to January-July.

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 assigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people assigned	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.

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