EU financial conditions and Spanish banks

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Letter from the Editors

THE July issue of *Spanish and International Economic & Financial Outlook (SEFO)* is the first to be published following the recent, and wholly unexpected, transition to power of Spain's Socialist Party after winning a parliamentary no-confidence vote against former Popular Party President Rajoy last June. The smooth transition by new Socialist President Pedro Sánchez, followed by his appointment of a pro-European cabinet, allowed for a relative calm to ensue in financial markets, despite the dramatic changes. This can be largely attributable to market perceptions of policy continuity and the potential for some normalisation of the impasse between the outgoing government and Catalan leaders over the independence conflict in Catalonia – albeit the outlook for resolution of the conflict remains challenging.

While the political environment in Spain marks a sharp contrast to existing political uncertainty in Italy, the recent moves in both countries nevertheless draw attention not only to the changing dynamics of Europe's political landscape, but also to imminent shifts in monetary and financial conditions across the continent.

Against this backdrop, the July *SEFO* focuses on the relationship between EU financial conditions and the banks. We examine not only the transmission mechanism of ECB monetary policy to financial conditions and the resulting implications for the European banking sector, but also the feedback loop between EU sovereigns and banks – the situation in Spain in particular – to determine the evolution of this link before, during and after the crisis.

Financial stability in the eurozone appears to be headed in the right direction, moving away from the fears and circumstances that unleashed the sovereign debt crisis in 2012. As a result, the eurozone is facing a shift in monetary policy conditions as the ECB recently signalled that it would end its historic bond-buying program next year and that interest rates would likely rise in late summer 2019. Despite the ECB's decision to prioritise the end of QE, while delaying rate hikes, banks could still benefit through the normalisation of yield curves. However, the financial sector continues to face risks including hostile US trade policies and solvency concerns in Italy. These factors could delay the implementation of the ECB's policy decisions, even though the eurozone banking sector is now less vulnerable to negative shocks. Specifically, recent data show that the link between sovereign and bank risk has eased significantly in recent years and that eurozone banks have reduced their cross-border exposures, particularly to Italy.

Elaborating more on the sovereign-bank nexus, we note that concerns over this link between bank risk and sovereign risk, which intensified during the sovereign debt crisis of 2010-2012, have returned to the forefront

in recent months due to: i) concerns over Italy's borrowing costs, ii) the spill-over effect this can have on the country's banking sector; and, iii) the attendant need for eurozone reform. It is against this backdrop that an analysis of the bank-sovereign nexus is undertaken using Spain as the primary case study. As part of a two-part series, in the July *SEFO* we focus on the public debt part of the relationship. (The second article to be published in September will be from the perspective of the banks.) We demonstrate that while foreign investors reacted more volatilely during times of sovereign bond stress by dramatically reducing their holding of Spanish sovereign bonds, domestic banks helped stabilise Spain's public debt market by increasing their share of Spanish government debt.

Finally, on the financial sector, we provide a brief recap of the roadmap of Spanish Savings Banks consolidation and reform – looking at the pre- and post-crisis evolution of the sector. Coupled with an extraordinary contraction in the number of entities, the most profound change in the Spanish financial system during the last decade has taken place in the savings banks segment. This segment was characterised by a large number of entities, had no shareholders, entrenched local roots, a commitment to giving back to society and represented half of the Spanish banking system prior to the crisis. The fact that the financial crisis hit this sector particularly hard, in part, led to the introduction of regulation that significantly reformed the savings banks segment. Specifically, this involved a contraction in the absolute number of entities and a change in their legal form –from savings banks or *cajas* to banks and foundations– with clear implications for their ownership and management structures (corporate governance).

In the next section of *SEFO*, we look at the macroeconomic situation in Spain. While the solid recovery continued in recent months, Spain's economic growth is expected to slowdown in 2018 and 2019 to 2.8% and 2.4%, respectively. This is primarily due to weaker domestic demand, but also to the expected normalisation of ECB policy, a slowdown in external demand and an increase in energy prices. Looking forward, Spain's relatively high unemployment and public debt levels are also key sources of potential vulnerability. Between 2000 and 2017, unemployment in Spain averaged 16%, compared to 9% in the European Union and 6.1% in the US, with the main source of job market volatility being the high incidence of temporary jobs created. As for debt levels, private sector deleveraging has been accompanied by the opposite trend in government borrowing, which reached 98.3% of GDP by end 2017, compared to 35.6% in 2007. If policymakers do not take advantage of the current economic expansion to address these issues, they will weigh disproportionately on future generations.

As regards Spain's economic prospects, we analyse the evolution, since the crisis, of two factors that will be decisive in determining the country's medium to longer term performance: i) The potential for the continuation of Spain's strong export performance – Spain's *so-called export miracle*; and, ii) The not so promising situation of investment in R&D.

On this first point, we examine key aspects of the Spanish export story, pre- and post-crisis, to determine whether export growth since 2009 can really be called a 'miracle'. We find that, since 2009, Spanish exporters have made a great effort to diversify into new markets and offer new products. While talk of a miracle may seem exaggerated, if this broader exporting base becomes entrenched, Spain will achieve a permanent increase in the value of its exports. Spain could thus transition from a growth model based on its domestic market, particularly the construction sector, to one that capitalizes on the country's competitive edge in the international marketplace.

On the second point, recent data indicate that there has been a decrease in Spain of public sector R&D investment, while the private sector has increased its expenditure. In fact, the crisis has had very different impacts on the four main eurozone economies in terms of investment in R&D. Whereas investment was scaled back very significantly in Spain, the other three economies

continued to step up their expenditure on R&D. Spain is one of just three eurozone member states in the OECD to have invested less in R&D in 2016 than in 2008. As for budget execution by the general state administration, the percentage of the R&D budget actually executed began to plummet in 2008, dropping to a low of 30% in 2017 from nearly 90% in 2007. As for the innovative drive amongst Spain's enterprises, despite a slight upturn in activity by firms engaged in non-technological innovation since 2014, it is concerning that the number of Spanish firms engaged in technological innovation has been in freefall since 2008. As a result, it will be necessary to promote political support for R&D in Spain so as to effectively halt the divergence in innovation with the rest of the EU.

We close with a recap of the situation in Italy, a peripheral economy like Spain, but with notable differences in the recent evolution of its political situation as well as its financial sector. While the new Italy struggles to find a balance under an unexpected political coalition, expectations of political tensions internally and with the EU may have significant implications for the financial sector, sovereign debt markets and much needed-progress on strengthening the EU's institutional framework and governance reform.

Italy's recent election surprised many observers who were caught off guard by the success of the right-wing Lega and the populist Five Star Movement (M5S). This outcome can be attributed to an increasingly volatile Italian electorate and a shift in political dynamics brought about by the economic and financial crisis. As the protracted coalition negotiations demonstrated, the Lega and M5S are not natural political allies and maintaining a united front may prove difficult. Nevertheless, this unexpected political partnership has an ambitious and disruptive domestic policy agenda, as well as a clear vision on shaping EU macroeconomic governance reform. Thus, it ought not to be written-off by European partners. Finding ways to interact with Italy's new government poses a considerable challenge to EU leaders and, subsequently, the outlook for EU macroeconomic governance reforms and financial markets' stability. However, such efforts will be necessary to stabilize the eurozone and contain anti-EU sentiment.

What´s Ahead (Next Two Months)

Month	Day	Indicator / Event
August	2	Social Security registrants and official unemployment (June)
	8	Industrial production index (June)
	14	CPI (July)
	23	Foreign trade report (April)
	30	Preliminary CPI (August)
	31	Retail trade (July)
	31	Balance of payments monthly (June)
September	4	Social Security registrants and official unemployment (July)
	7	Industrial production index (July)
	11	Non-financial accounts, Central Government (July)
	11	Non-financial accounts, Regional Governments and Social Security (June)
	12	CPI (August)
	13	ECB monetary policy meeting
	21	Foreign trade report (May)
	24	Balance of payments quarterly (2nd quarter 2018)
	27	Non-financial accounts, Central Government (August)
	27	Non-financial accounts, Regional Governments and Social Security (July)
	27	Non-financial accounts, General Government (2nd quarter)
	28	Quarterly National Accounts (2nd quarter 2018)
	28	Quarterly Non-financial Sector Accounts (2nd quarter 2018)
	28	Preliminary CPI (September)
	28	Balance of payments monthly (May)

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What Matters
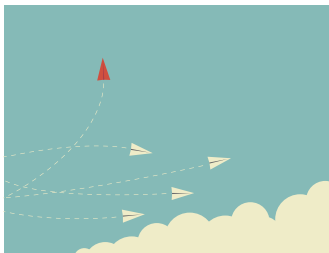
5 Changes in European financial and monetary conditions: Summer 2018

Despite the ECB's recent decision to prioritize the end of QE, while delaying rate hikes, EU banks may still see an improvement in net interest margins from the normalisation of yield curves. Nonetheless, although the European financial sector is better off today than before the crisis, it remains vulnerable to potential shocks from US protectionism and instability in Italy.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

15 Spain's bank-sovereign nexus (I): A view from the sovereign side

The link between bank and sovereign debt risk intensified during Europe's recent financial crisis. However, close analysis of Spain's experience with sovereign bond stress shows that while foreign investors exacerbated volatility by reducing their holdings of Spanish government debt, domestic banks reacted in the opposite manner, and therefore, had a stabilising impact on the country's public debt markets.

Ángel Berges and Victor Echevarria, A.F.I.

25 The reform of the Spanish *cajas*: From savings banks to banks and foundations

The crisis hit Spain's *cajas* (savings banks) particularly hard and, in part, led to the introduction of regulation that significantly reformed the savings banks segment. As a result, this segment has become more concentrated and undergone a legal transformation from savings banks to banks and foundations, with significant implications for these entities' ownership and corporate governance structure.

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

37 The Spanish economy in slowdown mode

While the solid recovery continued in recent months, the ongoing slowdown in domestic demand along with a less favourable external environment is expected to result in slower growth in both 2018 and 2019. Looking forward, of particular concern for the Spanish economy are the relatively high levels of unemployment and government debt, which policymakers should address during the current period of economic expansion –otherwise the imbalances will bear a disproportional impact on future generations.

Raymond Torres and María Jesús Fernández

53 Is Spain experiencing an export miracle?

Between 2009 and 2016, the value of Spanish exports increased by 51%, leading some observers to label this development an 'export miracle'. While several indicators suggest this period of growth shares notable similarities with the pre-crisis period, there are new economic features which could provide the basis for sustainable export growth to take hold in Spain.

Juan de Lucio, Raúl Mínguez, Asier Minondo and Francisco Requena

67 Spanish investment in R&D+I in the wake of the crisis: Public versus private sector

While the expenditure trends in public and private sector R&D have historically moved in tandem in Spain, recent data indicate that the public sector has experienced a decline in R&D investment, while the private sector has increased its expenditure. As a result, Spain risks lagging behind the EU average in innovation, which is a key driver of economic growth, suggesting the need for a shift in Spanish public policy.

Ramon Xifré

Regulation and Economic Outlook

Key Facts

Changes in European financial and monetary conditions: Summer 2018

Despite the ECB's recent decision to prioritize the end of QE, while delaying rate hikes, EU banks may still see an improvement in net interest margins from the normalisation of yield curves. Nonetheless, although the European financial sector is better off today than before the crisis, it remains vulnerable to potential shocks from US protectionism and instability in Italy.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: As the conditions that unleased the 2012 sovereign debt crisis normalise, European financial markets too have stabilised. As a result, the eurozone is facing a shift in monetary policy conditions as the ECB recently signalled that it would end its historic bond-buying program next year and that interest rates would likely rise in late summer 2019. Despite the ECB's decision to prioritise the end of QE, while delaying rate hikes, banks could still benefit through the normalisation of yield curves. However, the financial sector continues to face risks including hostile US trade policies and solvency concerns in Italy. These factors could delay the implementation of the ECB's policy decisions, even though the

eurozone banking sector is now less vulnerable to negative shocks. Specifically, recent data show that the link between sovereign and bank risk has eased significantly in recent years and that eurozone banks have reduced their cross-border exposures, particularly to Italy.

Financial stability in Europe: Situation and outlook

Summer has brought change as well as sporadic episodes of stress to the European banking sector. Although Europe's financial system remains stable, events that signal a divergence from the European Central Bank's (ECB) prevailing monetary policy warrant close attention. The most significant of these is the end of the ECB's quantitative easing (QE) programme. To the surprise of financial markets, the ECB announced on June 14th a shift in its monetary policy by moving up the anticipated end date for its asset purchase programme to December 2018. The ECB also provided financial markets with forward guidance regarding future interest rate hikes. While no specific date was given for the next interest rate adjustment, the ECB did say that it expected to raise rates next summer. Analysts now believe the first rate increase will be announced in September 2019.

In this article, we analyse the ECB's recent policy announcements and their potential impact on the financial sector. We will also examine indicators relating to the profitability, efficiency and solvency of the European banking sector ahead of these policy changes.

It should be noted that the latter part of the spring has been dominated by political developments, such as the formation of new governments in Spain and Italy. The latter has caused particular concern given the protracted negotiations over the configuration of Italy's new cabinet and the widespread belief that the governing coalition lacks the necessary commitment to fiscal discipline and the preservation of the euro. In this paper, we analyse the impact that Italy's political situation will have on European financial stability. Italy is the eurozone's third largest economy and its high levels of public and private debt could have a destabilizing impact on European financial markets.

From a macroeconomic standpoint, it is impossible to ignore the consequences associated with the US government's decision to impose substantial tariffs on aluminium and steel products. Ostensibly, these tariffs were meant to target China, but their reach has expanded to include allies, such as Canada, Mexico and the EU. This policy has been identified by the ECB as the main international risk to the eurozone's economy, with the political situation in Italy viewed as the greatest source of regional vulnerability.

Regardless of how these events play out, the key supervisory authorities do not believe that financial stability is at stake. The ECB published a new edition of its *Financial Stability Review* in May, in which it highlights the absence of excessive credit growth and the robustness of Europe's banks. Nevertheless, the ECB did flag an acceleration of risk-taking behaviour in several markets with "pockets of stretched valuations in certain segments". As well, the ECB drew attention to the risk of spill-overs from the possible re-pricing of certain assets (mainly in the bond markets) and concerns about public and private debt sustainability levels in certain eurozone member states.

Notably, the ECB presented two new indicators for gauging near and medium-term risks to eurozone's financial stability. The first is a composite financial stability risk index

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(FSRI) aimed at predicting large adverse shocks to the real economy in the near term. The second is a composite cyclical systemic risk indicator (CSRI) designed to identify the risk of a financial crisis over the medium term [1]. In the *Financial Stability Review,* the ECB mentions that both indicators have "fluctuated at low levels in recent quarters, implying a low likelihood of systemic risks to the euro area materialising in the near-to-medium term", while still noting that recent readings have increased somewhat.

Monetary decisions and rate guidance: Spill-overs for the banks' balance sheets

The ECB's Governing Council met in Riga on June 14th and undertook, as outlined in its press release, "a careful review of the progress towards a sustained adjustment in the path of inflation, also taking into account the latest Eurosystem staff macroeconomic projections, measures of price and wage pressures, and uncertainties surrounding the inflation outlook." The Governing Council announced the following decisions:

- It will continue to make net purchases under the asset purchase programme (APP) at the current monthly rate of 30 billion euros until the end of September 2018. After September 2018, "subject to incoming data confirming the Governing Council's medium-term inflation outlook", the monthly amount of the net asset purchases

will be reduced to 15 billion euros until the end of December 2018. After that, net purchases will end.

- It intends to maintain its policy of re-investing the principal payments from maturing securities purchased under the APP for an extended period of time after the APP ends, and "in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation".

- The interest rate on the main re-financing operations, as well as the interest rates on the marginal lending facility and the deposit facility, will remain unchanged at 0.00%, 0.25% and -0.40% respectively.

- An important take-away from this meeting relates to timing of the ECB's next interest rate hike. In its press release, it announced that it expects: "the key ECB interest rates to remain at their present levels at least through the summer of 2019." The phrase, "through the summer of 2019" points to a likely rate increase towards the end of the summer rather than at the beginning, an interpretation reinforced by Mario Draghi when he alluded to "September 2019" during the press conference.

Exhibit 1 shows the expected timeline of ECB monetary policy decisions and those factors that might influence these decisions over the

> " No major developments are expected on the inflation front, but given the current state of the energy markets, it is conceivable that inflation will remain close to the target rate of 2%, making it difficult to envision the ECB prolonging its QE programme. "

Exhibit 1 **Expected timeline of ECB monetary policy decisions**

Announced withdrawal of QE

MACROECONOMIC TEST

POLITICAL RISK TEST

Change in forward guidance for asset purchases

Scaling back of purchases

Forward guidance for deposit rates

Forward guidance for reinvestment of principal

Increase in deposit facility and benchmark rates

Debt principal reinvestment programme

| 1Q2018 | 2Q2018 | 3Q2018 | 4Q2018 | 1Q2019 | 2Q2019 | 3Q2019 | 4Q2019 | 2020 |

End of QE (baseline scenario)

End of QE (slowdown scenario)

Source: Authors' own elaboration.

course of 2018 to 2020. It should be noted that these decisions are dependent upon inflation trends and economic stability. Consequently, between now and the end of the year, the ECB will be assessing how the markets respond to the announced reduction and subsequent termination of the bond-buying programme. Above all, the ECB will be monitoring how the supply of, and demand for, these bonds changes in the early months of 2019 once the ECB withdraws its support.

This essentially constitutes a dual test. Firstly, it is a political test for the eurozone given the fiscal uncertainty that could take hold in the absence of budgetary discipline and the necessary alignment by certain member states with the eurozone's interests. On this point, Italy is the main source of concern for reasons explained earlier. Secondly, it will require tracking macroeconomic conditions. No major developments are expected on the inflation front, but given the current state of the energy markets, it is conceivable that inflation will remain close to the target rate of 2%, making it difficult to envision the ECB prolonging its QE programme. It is also worth considering the forecasted slowdown of the eurozone's GDP growth and the downside risks posed by creeping protectionist policies. On the other hand, US growth and employment

rates continue to exceed forecasts, suggesting that the Fed will carry on with its plan to raise interest rates. This puts pressure on the ECB to avoid deviating too far from investment and financing conditions in the US, especially while there is significant pressure on both the dollar and the euro.

In a scenario that could be described as "baseline", the ECB is expected to stick with the announced timeline. It will end its bond-buying programme in December of this year and begin to increase key rates near the end of summer 2019. It is also anticipated that the ECB will fine-tune its forward guidance over the next two quarters. Finally, there is a good chance that the ECB will raise its marginal deposit facility rate first from its present rate of -0.40% to 0% in one hike.

However, if the economic slowdown quickens, it is possible that the ECB will prolong some of its stimulus measures and push back its rate hikes. That said, this is not expected to be significantly delayed beyond the initial deadline of summer 2019.

Exhibit 2 highlights some of the potential factors that might speed up or delay the ECB's rate hikes. Firstly, the economic outlook for the

Exhibit 2 **Rate hikes in the eurozone: Headwinds and tailwinds**

Rate hikes: Tailwinds and headwinds		Spillovers for banks
+	**−**	Yield curve normalisation (2019-2020)
Trends in US economy and inflation	Italy (debt sustainability if cost rises)	2020-2021: Benchmark rate
Changes to ECB Governing Council and rate curves	Macro issues (Germany) and errors of 2011	Caution: ECB has scant room for manouvre in event of recession
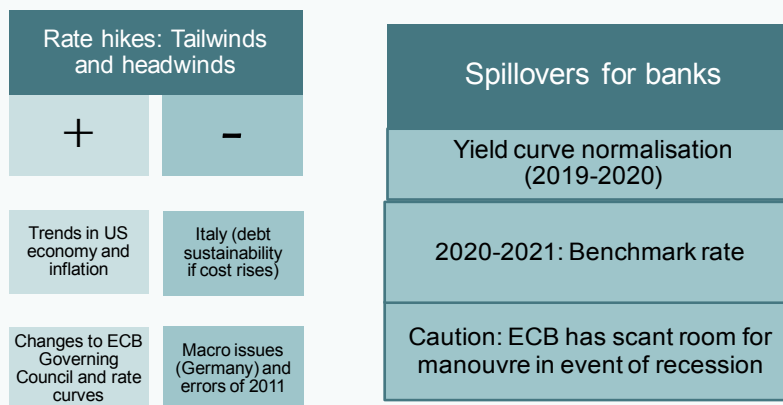
Source: Authors' own elaboration.

US and the eurozone (despite the downward revision of forecasts) as well as expected inflation suggest rate increases are highly probable. Upcoming changes to the ECB's Governing Council also support expectations of a rate hike. If, as many observers believe, the next ECB president comes from Northern Europe, this would further support the expectation of a rise in interest rates.

Nonetheless, specific country conditions could undermine plans for a rate hike. Working against an increase in the price of money is the situation in Italy. The concern is that if the average cost of borrowing rises above 4%, the country's debt would become unsustainable under the government's current fiscal plans. As well, slower growth in Germany and US protectionist measures could negatively impact the eurozone. The policy mistakes made in 2011 relating to both interest rates and the sovereign debt crisis could also have a latent negative impact on the region's economy.

Ramifications for the banking sector

On the right-hand side of Exhibit 2, we summarise how an increase in benchmark rates could spill over to the eurozone banks' balance sheets. It is worth noting the widely accepted notion – which may prove precipitous – that the accelerated withdrawal of QE and the pushback of rate increases could be bad news for the banks. This interpretation is based on the fact that the prevailing expectation prior to the ECB's press conference on June 14th was that rates would begin to rise in June 2019. Subsequent forward guidance has now pushed back this deadline by a few months. However, it is possible that this delay will benefit the banks

> " Analysis reveals an interesting correlation between ECB interest rates and the banks' RoE: A quarter-point increase in benchmark rates translated into an increase in the banks' RoE of between 0.8 and 1 percentage points. "

if it occurs under a more 'normal' monetary environment. Specifically, the withdrawal of QE may inject a degree of relative 'normality' into the sovereign bond yield curves. This 'normalisation' could then spill over into the corporate bond markets, steepening the yield curve and enabling the banks to carry out their liquidity transformation functions (borrowing over the short term and lending over the long term). As a result, banks would see their net interest margins rise.

In a recent article (see, Carbó and Rodríguez, 2018), we analysed the drivers of the return on equity (RoE) for a sample of 30 Spanish banks between 2008 and 2016. This estimation used panel data and fixed effects, with dummy annual variables in order to

capture changes in demand over time. The explanatory variables included benchmark interest rates. Extending those estimates to 2017, we identified an interesting correlation between ECB interest rates and the banks' RoE: A quarter-point increase in benchmark rates translated into an increase in the banks' RoE between 0.8 and 1 percentage points. However, these estimates represent a general approximation. Each financial institution has its own level of sensitivity to ECB interest rate movements based on its assets and liabilities. Banks therefore make their own leverage and margin-generation adjustments as a result of this specific relationship.

Looking at the eurozone as a whole, an important determinant of the banks' ability

Exhibit 3   **Net positions of a selection of eurozone countries in the Target2 system**

(Millions of euros)
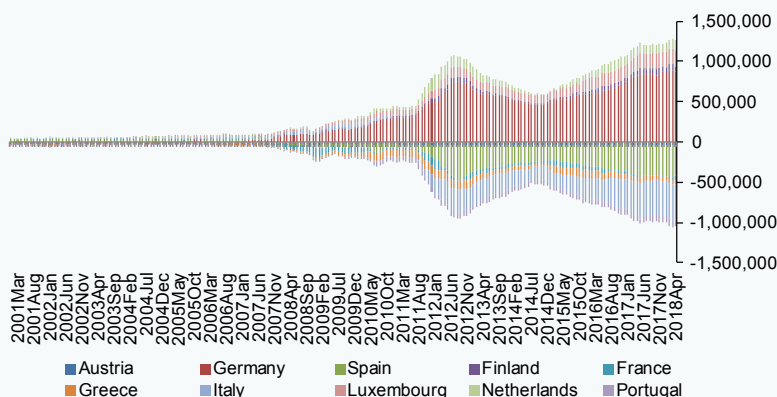
Source: ECB and authors' own elaboration.

Exhibit 4   **Eurozone yield curves (all debt)**
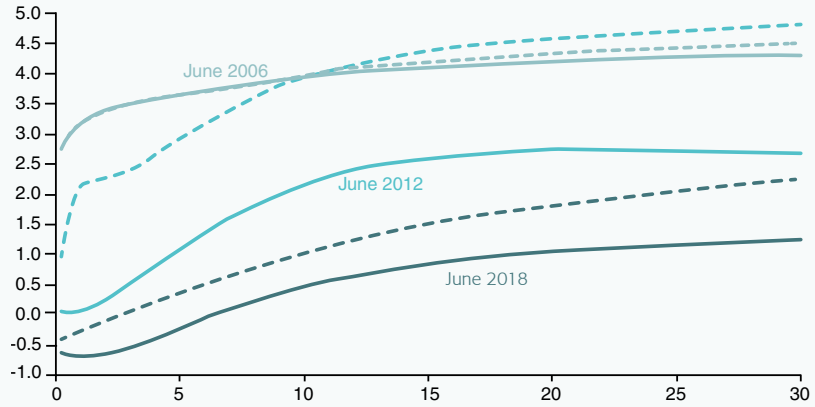
Source: ECB and authors' own elaboration.

to increase their leverage relates to their exposure to sovereign debt and the sovereign debt yield curve in each country. In this respect, it is worth highlighting the fact that we have been observing a significant change, particularly since the sovereign debt crisis of 2012, in the accounting records of the claims and liabilities of each eurozone member state, as reflected in the Target2 system. It is likely that the ECB is concerned that an interest rate hike could exacerbate Target2 imbalances. As shown in Exhibit 3, Germany's position in Target2 is clearly positive with net claims of 900 billion euros. However, other countries, such as Spain and Italy, have a negative net position. Worryingly, Italy's

Exhibit 5   **National banks' exposure to other European countries**

(Public and private debt)

National banks' exposure to other European countries

(Public and private debt)

(Continued)

2017
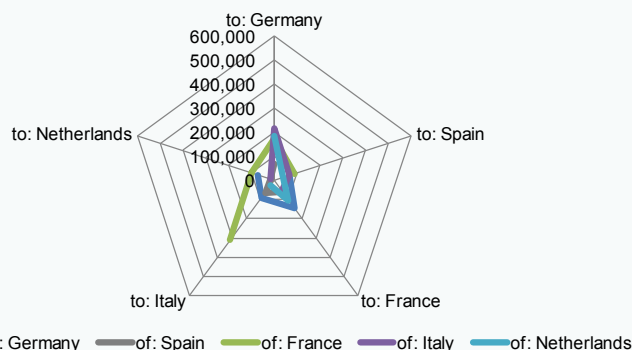
Source: Bank for International Settlements (BIS) and authors' own elaboration.

negative net position has exhibited a sharp rise. Certain preliminary estimates suggest that in May – after the timeline covered by the exhibit – Italy's negative balance may have increased by 465 billion euros. More significantly, it is possible that Italians may have withdrawn 41 billion euros from their deposit and securities accounts and moved that money to other eurozone banks outside of Italy. Cross-border flows such as these would weaken the Italian banking sector, which is already suffering from poor asset quality and solvency concerns.

These developments also affect the risk implicit in the public debt yield curve in each of the eurozone's member states. This constitutes the first and probably most important constraint for the specific yield curve faced by financial institutions in each country. At any rate, all European banks face monetary conditions that are impeding their ability to generate interest rate spreads due to the persistence of flat yield curves (very narrow range of returns over different time horizons). Exhibit 4 shows the average interest rate curve for the debt issued in the eurozone as a whole according to ECB estimates. It reveals how rates have been falling since 2006, with the curves steepening a little (albeit almost exclusively at the short and medium ends of the curve) during the crisis of 2012.

However, the risk of cross-border contagion has been reduced by the fact that the banks in each country have scaled back their exposure to the public and private debt issued by other countries. This is illustrated in Exhibit 5 by

> The sovereign yield curve in each of the eurozone's member states constitutes probably the most important constraint for the specific yield curve faced by financial institutions in each country.

> " Concern is concentrated in Italy, where margins and returns have yet to reflect the potential medium-term impact of the country's non-performing loans. "

comparing figures presented by the Bank of International Settlements in Basel (BIS) from 2008 to 2017. The biggest reductions are observed in the exposures of the French and German banks to Italian debt.

European bank performance and the outlook post-QE

It should be noted that the situation in summer 2018 in terms of the banks' profitability, efficiency and solvency is not comparable with

that of six years ago. The exception among the countries analysed (as shown in Table 1) is Italy, where certain indicators, particularly those related to asset non-performance, have deteriorated considerably.

Table 1 shows Germany with a relatively low RoE, a high level of solvency and with room for improvement in terms of cost efficiency. The financial crisis reached Spain later than other countries, with the profitability of its

Table 1   **Profitability, efficiency and solvency indicators for a selection of European banking sectors (2008-2017)**

(Percentage)

		DE	ES	FR	IT	NL
ROE	2008	-11.38	12.69	2.21	4.91	-12.53
	2012	1.34	-25.61	3.38	-1.19	5.61
	2017	1.47	5.77	5.36	6.29	7.54
Cost-income ratio	2008	-91.18	-46.54	-76.53	-65.75	-203.38
	2012	-73.41	-50.07	-70.38	-62.61	-62.22
	2017	-71.55	-51.36	-71.31	-62.27	-55.71
Net interest income/ total assets	2008	3.12	5.17	3.58	5.57	6.41
	2012	1.98	3.69	2.63	3.16	4.70
	2017	1.72	2.36	1.53	1.48	2.85
Fee and commission income/total assets	2008	0.17	1.04	0.93	0.96	-0.47
	2012	0.62	0.83	0.87	1.33	0.49
	2017	0.57	0.67	0.85	1.23	0.38
CET1 ratio	2014	14.17	11.72	11.74	11.25	14.23
	2017	15.75	12.53	13.88	13.20	16.28
NPL ratio on loans to companies	2014	8.95	16.18	6.40	25.68	6.17
	2017	6.56	8.31	5.29	20.08	5.20
NPL ratio on loans to households	2014	2.88	5.25	4.38	12.84	2.03
	2017	1.87	4.51	3.83	9.98	1.20

Note: The data for some indicators is only available from 2014.
Source: ECB and authors' own elaboration.

banking sector taking a particularly hard hit. However, by 2017 the banks had undergone a significant recovery. Particularly impressive is the fact that Spain now has the most cost-efficient banking sector. While still below the eurozone's capital adequacy rate, the Spanish banking sector has been improving its capital ratios. France looks relatively stable with solvency on the rise. However, a key challenge remains in terms of generating margin expansion. The Netherlands stands out for the improvements to its banking system's cost-income ratio –the result of a considerable digitalisation effort– and the growth in its RoE. Concern is concentrated in Italy, where margins and returns have yet to reflect the potential medium-term impact of the country's non-performing loans. Specifically, NPL ratios for loans made to firms are over 20% while NPLs for household debt stand at close to 10%.

In conclusion, financial stability in the eurozone appears to be headed in the right direction, moving away from the fears and circumstances that unleashed the sovereign debt crisis in 2012. Nevertheless, the looming shift in monetary policy conditions represents a challenge to a financial sector that has been propped up by a series extraordinary liquidity measures over the past 6 years. In terms of bank solvency, Italy remains the primary focus of concern. This autumn's stress tests performed by the EBA and ECB will provide the next important measurement for assessing these concerns.

Notes

[1] Detailed analysis of these indices would require extending this paper beyond its desired length. For more detailed information about the methodology used, refer to: https://www.ecb.europa.eu/pub/fsr/html/index.en.html

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Santiago Carbó. CUNEF and the Funcas Observatory of Financial Digitalisation

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Spain's bank-sovereign nexus (I): A view from the sovereign side

The link between bank and sovereign debt risk intensified during Europe's recent financial crisis. However, close analysis of Spain's experience with sovereign bond stress shows that while foreign investors exacerbated volatility by reducing their holdings of Spanish government debt, domestic banks reacted in the opposite manner, and therefore, had a stabilising impact on the country's public debt markets.

Ángel Berges and Victor Echevarria

Abstract: Concerns over the nexus between bank risk and sovereign risk, which intensified during the sovereign debt crisis of 2010-2012, have returned to the forefront in recent months due to: i) concerns over Italy's borrowing costs, ii) the spill-over effect this can have on the country's banking sector; and, iii) the attendant need for eurozone reform. It is against this backdrop that an analysis of the bank-sovereign nexus is undertaken using Spain as the primary case study. This paper, part of a two part series [1], focuses on the public debt part of the relationship and demonstrates that while foreign investors reacted more volatilely during times of sovereign bond stress by dramatically reducing their holding of Spanish sovereign bonds, domestic banks helped stabilise Spain's public debt market by increasing their share of Spanish government debt.

Introduction

The feedback loop between bank and sovereign risk has been a persistent concern over the past eight years in Europe. This relationship intensified during the initial years of the financial crisis due to the increase in sovereign bonds held by financial institutions, particularly in countries that experienced greater financial stress, like Spain. As a result, a debate emerged over the regulatory treatment of those public debt holdings. The dispute centred around whether regulatory policies had encouraged banks to hold an excessive amount of their own countries' sovereign bonds, and if this had exacerbated the precarious connection between bank and sovereign debt risk.

The recent election in Italy has brought this debate back into focus. Concerns have been expressed over Italy's fiscal health, following the formation of its new populist government and the possibility that the country may leave the eurozone. The extraordinary volatility and subsequent drop in price of Italian sovereign bonds has had a negative effect on the share prices and credit risk premiums (CDSs) of major Italian banks. Of particular worry is the knock-on effect for two of Italy's largest banks, UniCrédit and Intesa, whose public debt holdings exceed 100% of their own funds. The *Financial Times* has covered the relationship between bank and sovereign risk (dubbed the 'doom loop') and has advocated for a limit on banks' public debt holdings.

The banking sector's role in the public debt market

The sovereign debt held on banks' balance sheets is at the root of the so-called 'bank-sovereign nexus'. Despite the risk inherent in these links, it should be noted that both parties have benefited from this close relationship.

In this article, we focus on the role of a country's treasury, which issues the public debt purchased by banks. A second upcoming article will tackle the implications of those purchases for the banking sector.

Banks' fulfil a series of important functions that underpin the public debt market. First, banks act as 'market makers'. By injecting liquidity into the marketplace, sovereign bonds can be bought and sold on a recurring basis. In their role as debt distributors, banks expand the number of investors that can purchase public debt securities. Thus, the banks' activities benefit both debt issuers and investors.

Second, banks act as a stabilising agent through their purchase of sovereign bonds. For example, situations may occur where sovereign bonds are majority-held by certain types of investors whose investment profiles make them prone to massive and/or swift sell-offs which exacerbate price and interest rate volatility, with evident ramifications in terms of financial stability. Under these circumstances, banks, which traditionally exhibit a buy-and-hold investment profile, can help to support sovereign debt markets.

The interdependence between banks and sovereign issuers becomes far more evident during a financial crisis. Most recently, this was demonstrated in the eurozone, with a particularly deleterious effect in Spain.

Banks as stabilising agents in the Spanish public debt market

The early 2000s were marked by a period of sustained economic growth in Spain. This coincided with a decline in both the absolute

> " In their role as debt distributors, banks expand the number of investors that can purchase public debt securities, thereby benefiting both debt issuers and investors. "

Exhibit 1

Sovereign debt by country

(Percentage of GDP)
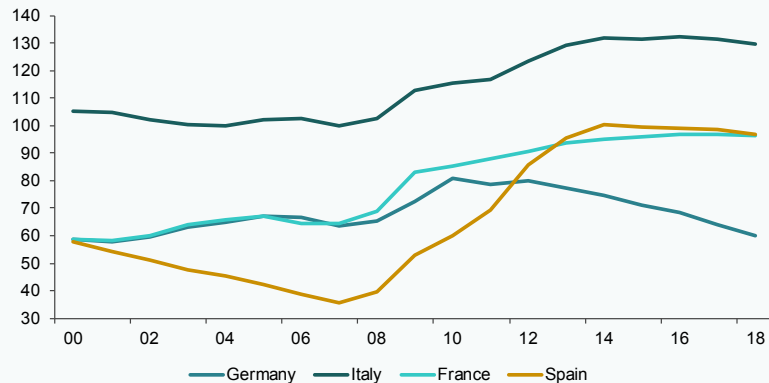
Source: WEO-IMF and authors' own elaboration.

and relative volume of outstanding public debt (as a percentage of GDP). In this context, foreign investors began to purchase a larger share of Spanish sovereign bonds, while Spanish banks scaled back their holdings of Spanish public debt.

Although the advent of the financial crisis in 2008 prompted a sharp increase in public borrowing across the developed world, measured in terms of GDP, this trend varied substantially. Overall, the increase in public debt was equivalent to 15% of these countries' GDP. As shown in Exhibit 1, in France and Italy, however, this number rose to 30%. Even more dramatic was the 63% increase in public debt as a percentage of Spain's GDP. Specifically, public borrowing rose from a low of 37% of GDP in 2007 to 100% in 2013.

A period of volatility ensued as economic prospects declined and sovereign issuers experienced a considerable spike in their funding requirements. As shown in Exhibit 2, the increase in sovereign bond yields was particularly sharp in peripheral eurozone economies, such as Portugal, Italy and Spain. The so-called 'core countries', which include France and Germany, experienced only moderate increases in their funding costs.

As extensively documented by scholars like De Grauwe and Ji (2012), this divergence in risk premiums cannot be entirely attributed to countries' economic circumstances. These authors found that the trend in sovereign debt spreads was correlated with fears of a possible break-up of the eurozone. They also observed several instances of contagion during the crisis. Doubts about the solvency of one country (*e.g.* Greece) had a tendency to spark concerns about other peripheral eurozone economies.

Pressure from the financial markets forced eurozone treasuries to adapt their financing strategies. Faced with an increase in funding needs and a steady rise in borrowings costs, the treasuries shortened bonds' maturities. This action was more intense in those countries under greater financial strain, such as Spain. However, in countries, such as France and Germany, where financing conditions did not deteriorate, the average maturity on bonds issued during this period remained largely stable (Exhibit 3).

In addition to the increase in borrowing costs, eurozone credit ratings also declined. S&P downgraded Spain's sovereign bond rating from AAA in 2009 to BBB− in October

Exhibit 2

Yield on 10 year sovereign bonds

(Percentage)
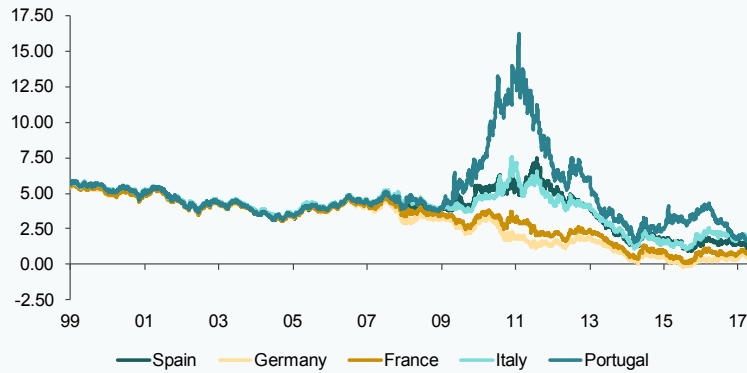
Source: Eurostat and authors' own elaboration.

Exhibit 3

Average maturity of outstanding debt

(Years)
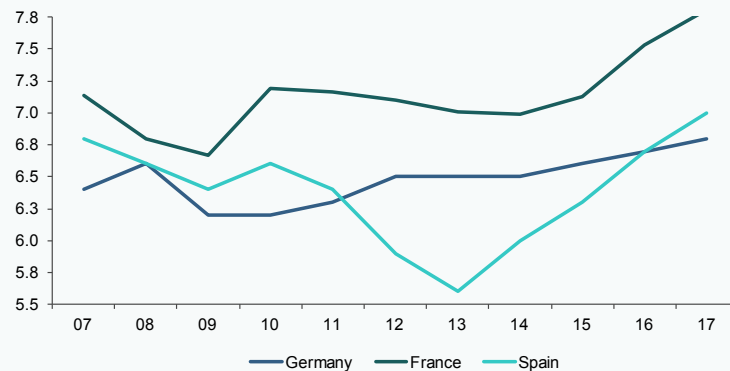
Source: Eurostat and authors' own elaboration.

2012. Thus, Spain went from the highest possible credit rating to the lowest investment grade credit rating in just three years. This left the country just one downgrade away from high-yield or junk bond status. These actions were substantiated by a downturn

> In the midst of a macroeconomic downturn and doubts over the future of the eurozone, Spain went from the highest possible credit rating to the lowest investment grade credit rating in just three years.

Exhibit 4 **Spain's credit ratings and sovereign bond yields**

(Percentage)
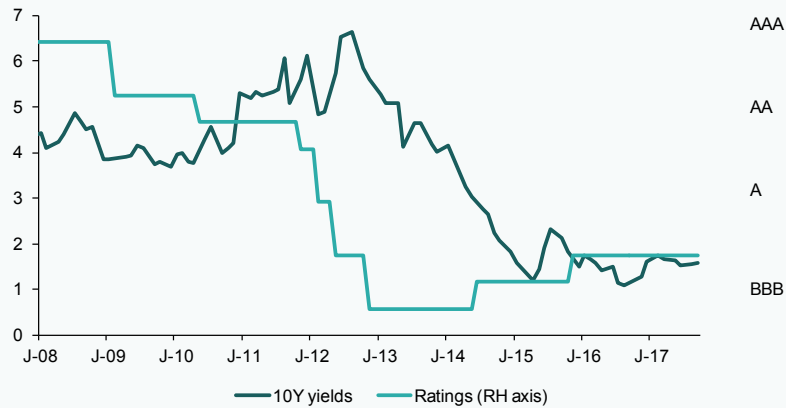
Source: S&P and authors' own elaboration.

in macroeconomic forecasts. At this time, the eurozone was experiencing a double-dip recession coupled with the prospect of reduced support from the European Central Bank, which contributed to widespread doubt over the future of the currency union.

These downgrades were both a reflection of and cause behind the deterioration of financing conditions. As shown in Exhibit 4, the ratings downgrades coincided with a rise in sovereign bond yields.

The turbulence that marked 2008 to 2012 resulted in considerable changes in the composition of the Spanish Treasury's investor base. Particularly noteworthy is the contrast in the behaviour displayed by domestic and foreign investors. Foreign investors reacted to the economic downturn by slashing their debt holdings. The sell-off, which began in 2007, reached its peak in 2012. During that period, the share of Spanish sovereign debt held by foreign investors fell from 50% to 30%.

The decline in foreign holdings of Spanish government debt coincided with the spike in the country's bond yields. This rise in

borrowing costs persisted until foreign investors began to increase their share of Spanish bonds again. Specifically, between 2012 and 2017, foreign investors' Spanish debt holdings increased from 30% to 43%.

There is extensive literature documenting the pro-cyclical effect of movements in yields on foreign investor holdings. Authors such as Blake, Sarno and Zinna (2014) have corroborated that foreign investors often exacerbate these market movements (Exhibit 5).

In contrast to foreign investors, Spanish banks actually increased their share of Spanish government debt during episodes of market stress and weakened economic prospects. As Exhibit 6 shows, this took place during two periods.

The first increase in domestic banks' holdings occurred in 2008 when there was a sharp decline in global macroeconomic conditions. During this period, stress in the peripheral debt markets was limited. The root causes of the global financial crisis lay in the US and confidence in the eurozone remained steady. Nevertheless, Spanish

Exhibit 5   **Spanish bond yields and foreign investor holdings**

(Percentage of total)

Source: Eurostat and authors' own elaboration.

Exhibit 6   **Spanish bond yields and domestic bank holdings**

(Percentage of total)
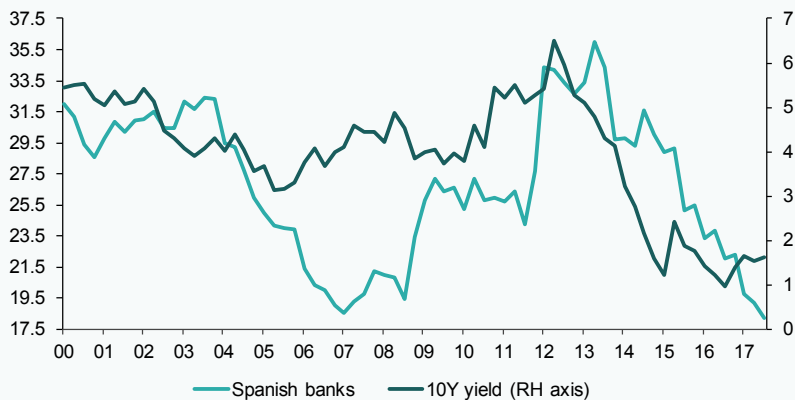
Source: Eurostat and authors' own elaboration.

banks increased their share of Spanish government bonds from 18% of total public debt to 27% in 2009.

The domestic banks significantly increased their public debt holdings again between 2011 and 2012. At this time, there was a further deterioration in economic conditions, which left few alternatives for bank lending activity. Unlike the previous period, there was also a general loss of confidence amongst eurozone investors. Consequently, Spanish banks' relative public debt holdings rose from 25% to nearly 35%.

> " In countries where solvency concerns arise, the transmission of risk from sovereigns to financial institutions is more pronounced. "

Transmission of sovereign risk to the banks

The period of sovereign bond stress overlapped with an increase in the cost of default insurance (CDSs) faced by the main banks in various countries. The positive correlation between sovereign bond stress and banks' CDS spreads can be attributed to multiple factors, which have been extensively analysed in academic literature.

One factor is the increase in sovereign bond spreads. This causes a drop in the price of the public bonds, which in turn weakens the creditworthiness of the financial institutions that hold the distressed debt.

An analysis of the trend in the banks' and sovereign issuers' CDS spreads reveals several points of interest. Exhibit 7 plots the trend in CDS contracts for the sovereign bonds of Germany, France, Italy and Spain and each of those countries' two largest banks.

This mapping exercise illustrates how the CDS spreads of sovereigns and financial institutions across the eurozone increased sharply between 2008 and 2012. The relationship between domestic banks and government borrowing is particularly strong in the case of Italy and Spain. This suggests that in countries where solvency concerns arise, the transmission of risk from sovereigns to financial institutions is more pronounced.

Exhibit 7   **Bank and sovereign default risk**

a. Germany
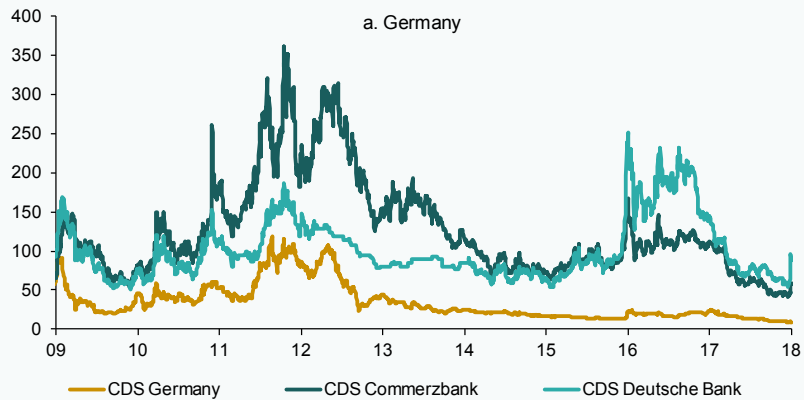
> " Interestingly, between 2015 and 2016, there has not been a substantial contagion of banking risk to sovereign risk in any of the main eurozone economies. "

Exhibit 7

Bank and sovereign default risk

(Continued)

b. France

CDS France — CDS BNP Paribas — CDS Societé Generale

c. Italy

CDS Italy — CDS Intesa Sanpaolo — CDS Unicredit

d. Spain

CDS Spain — CDS Santander — CDS BBVA
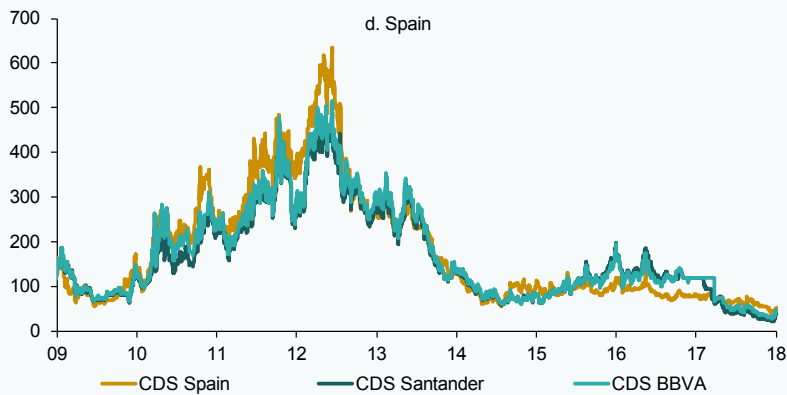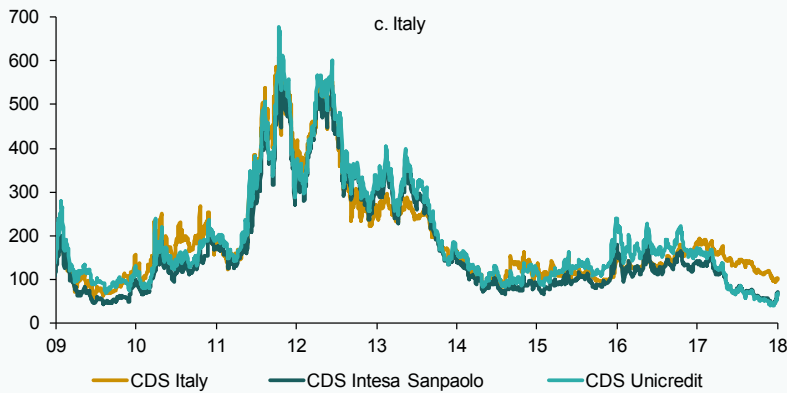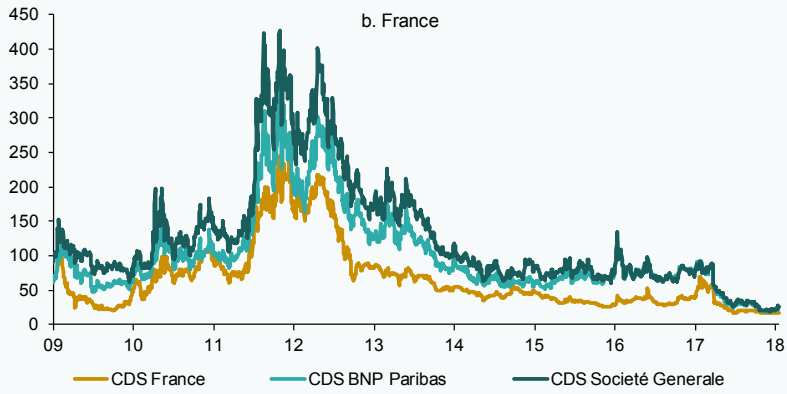
Source: Bloomberg and authors' own elaboration.

The correlation even holds during the early years of the international financial crisis (2008-2009) during which public debt holdings were relatively small and serious fears about the integrity of the eurozone had yet to materialise.

The same exhibits depict a contrast between what happened between 2008 and 2010 compared to 2015 and 2016. During the latter period, fears regarding the health of certain financial institutions had a mixed impact on eurozone entities as a whole, as is evident in these entities' CDS spreads.

Interestingly, between 2015 and 2016, the trend in sovereign CDS spreads was consistent with economic conditions and, broadly speaking, stable. Thus, during the latter period, we have not seen substantial contagion of banking risk to sovereign risk in any of the main eurozone economies. This demonstrates that in the context of upbeat economic prospects, the cost of insuring against sovereign default has proven relatively isolated from concerns over the solvency of individual banks.

Conclusion

We can draw several conclusions from the above analysis regarding the role played by financial institutions during the crisis via their holdings of Spanish government debt. Foreign investors reacted more volatilely, sharply reducing their holdings during times of stress in the Spanish sovereign bond market. Insofar as their behaviour does not coincide with a deterioration in macroeconomic fundamentals, foreign investors can play a destabilising role in a country's public debt markets.

Conversely, by increasing their holdings during periods of sovereign bond stress, domestic banks became a source of stability. Of note is the fact that these financial institutions increased their sovereign debt holdings in 2008 and 2009 even as the economy contracted and sovereign bond yields remained relatively high. While the intensification of the sovereign-bank nexus could have harmful consequences, it is

important not to underestimate the role played by the domestic banks as stabilising agents and market makers.

Notes

[1] This article is the first in a two-part series on the link between sovereign and bank risk. This first article analyses the situation from the perspective of the sovereign issuer, while the upcoming article, to be published in the September *SEFO,* will examine this issue from the perspective of the investors (the banks).

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Ángel Berges and Victor Echevarria.
A.F.I. - Analistas Financieros Internacionales, S.A.

The reform of the Spanish *cajas*: From savings banks to banks and foundations

The crisis hit Spain's *cajas* (savings banks) particularly hard and, in part, led to the introduction of regulation that significantly reformed the savings banks segment. As a result, this segment has become more concentrated and undergone a legal transformation from savings banks to banks and foundations, with significant implications for these entities' ownership and corporate governance structure.

Ángel Berges and Fernando Rojas

Abstract: Coupled with an extraordinary contraction in the number of entities, the most profound change in the Spanish financial system during the last decade has taken place in the savings banks segment. This segment was characterised by a large number of entities, had no shareholders, entrenched local roots, a commitment to giving back to society and represented half of the Spanish banking system prior to the crisis. However, the financial crisis hit the savings banks particularly hard, thereby resulting in the adoption of a series of new regulations that led to the sector's reorganisation and reform. Specifically, this involved a contraction in the absolute number of entities and a change in their legal form

−from savings banks or *cajas* to banks and foundations− with clear implications for their ownership and management structures (corporate governance).

The savings banks during the pre-crisis growth years

It is impossible to understand the transformation of the savings banks as a result of the crisis without a brief look back at their performance during the boom years in Spain, the decade before the crisis.

During that period, the banks and *cajas* took divergent paths with the former closing branches and reducing headcount for much of the decade as their savings bank counterparts embarked on a significant expansion (Exhibit 1).

One reason for this disparate performance relates to the strategies adopted by the large banks in the second half of the 1990s. Immersed in their respective mergers, they prioritised their international expansion strategies. At the same time, based on their belief that the banking market in Spain was saturated, they deployed 'retreat' tactics in their home market, closing branches in areas where there was geographic overlap between the merged banks.

The gaps left by those branch closures were rapidly filled by the savings banks which, in

Exhibit 1   **Employees and branches at banks versus savings banks**

(Employees)
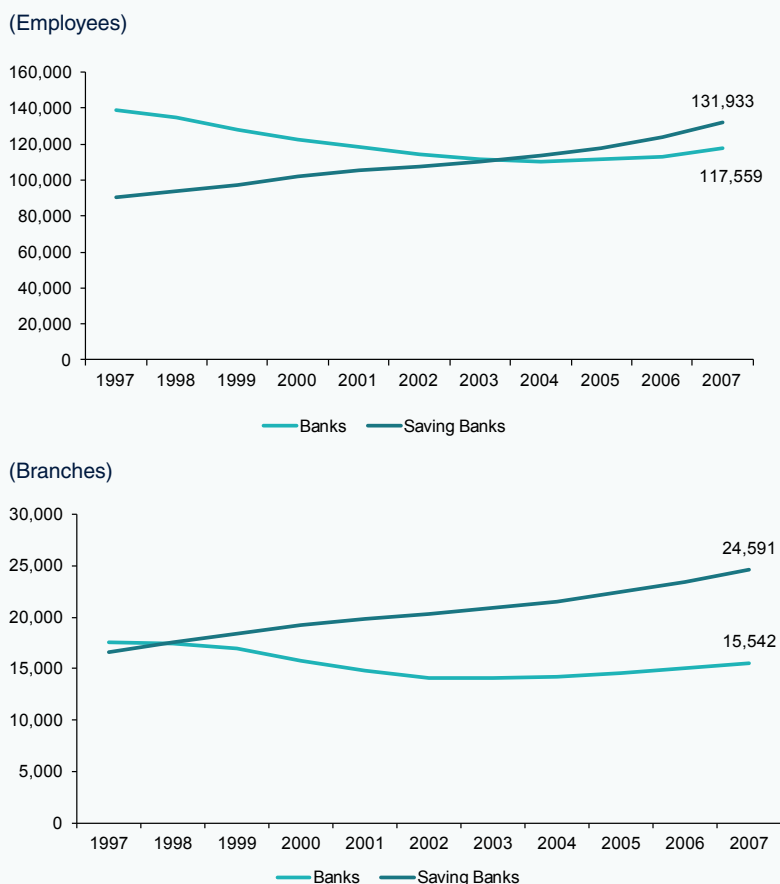
(Branches)

Source: Bank of Spain, Afi and authors' own elaboration.

> " The opening of new branches held the key to savings banks gaining market share in Spain, where the retail banking business sustained one of the highest growth rates in the world between 1997 and 2007. "

contrast to the banks, presented two unique traits: (i) their smaller size prevented them from pursuing aggressive international expansion strategies; and, (ii) their strategic commitment to the Spanish market, particularly the businesses related to the real estate and mortgage markets, was far more resolute than that of the banks.

As a result, they focused their growth strategies around targeting new urban settlements, with new branch openings as their main strategic weapon. Judging by Exhibit 2, which correlates branch openings with business growth, it can be said that the opening of new branches held the key to gaining market share in a country whose retail banking business sustained one of the highest rates of growth in the world between 1997 and 2007.

However, the most noteworthy aspect of this period of intense branch openings by the

savings banks was unquestionably the fact that it primarily took place outside of the savings banks' traditional areas of influence. Of the 5,000 branches which the savings banks added to their networks from the mid-90s on −whether new branches or branches acquired from banks− 75% were located outside the region of origin of the respective savings banks.

In addition to the perception of bank saturation in Spain, it is worth highlighting the fact that the Spanish economy entered the financial crisis in a highly vulnerable position on account of its overexposure to the real estate sector and its high dependence on external borrowings. These two factors were closely related insofar as a growth model based on the construction sector consumed large sums of credit,

Exhibit 2 **Relationship between growth in branches and business volumes (1997-2007)**

(Percentage)
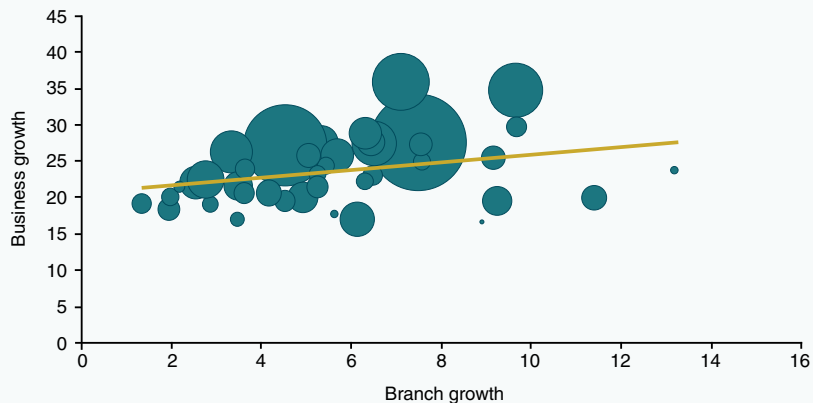
Note: The size of the bubbles represent the relative size of the savings banks shown in the exhibit.
Source: CECA, Afi and authors' own elaboration.

leading to borrowing rates above internal savings capacity.

The Spanish economy's dependence on the construction industry was even more obvious in the Spanish banking sector and, specifically, in the retail banking segment. By the end of 2009, total exposure to the construction and real estate sector for the banking sector as a whole accounted for 19% of overall outstanding credit, 15% on average in the case of the banks versus 23% in the case of the savings banks. However, there were major differences entity-wise in each segment, such that the savings banks could not be solely blamed for that overexposure, as was later highlighted by the resolution of Banco Popular, whose relative exposure at the time was similar to that of the most exposed *cajas*.

Regardless, over two years after the start of the international financial crisis, the map of entities in the savings banks segment remained intact at 45, a number which had hardly moved in nearly a decade. The

business environment during that decade was marked by sharp growth in business volumes, which presumably permitted them to run their businesses free from the consolidation pressures the crisis would later bring on. That entity map (Exhibit 3) was marked by significant fragmentation: just three savings banks had assets in excess of 100 billion euros, whereas 36 had less than 35 billion euros.

This map would be turned upside down in mid-2010, when the capitalisation of the Fund for Orderly Bank Restructuring (*FROB* in its Spanish acronym), whose bailout funding required consolidation in order to reduce capacity, triggered an unprecedented wave of mergers. Specifically, the framework sparked a total of 12 consolidation processes through conventional mergers, the creation of institutional protection schemes (IPSs) or the acquisition of previously intervened entities, which involved the vast majority of savings banks. Of those 12 processes, nine took the form of applications for funding from the *FROB* (the other three were undertaken without applying for public funds). In the processes

Exhibit 3   **Ranking of savings banks in 2009 (pre-consolidation process)**
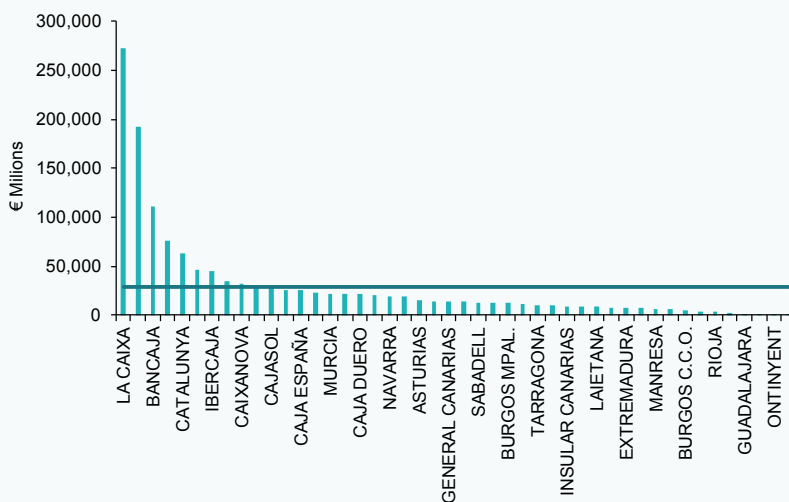
Note: Not all savings banks are represented.
Source: CECA, Afi and authors' own elaboration.

> " The map of savings banks entities pre consolidation was marked by significant fragmentation: just three savings banks had assets in excess of 100 billion euros, whereas 36 had less than 35 billion euros. "

that resorted to public funding, the incremental cost of the funds received (very high and escalating coupons) was supposed to act as an incentive to produce synergies and reduce capacity and costs.

However, the economy deteriorated far more than was anticipated, undercutting the scenarios contemplated in the merger plans and reducing the value of the banking sector's assets.

That downturn would be amplified by the vicious circle of the deterioration of bank asset quality and macroeconomic conditions, which in turn put growing pressure on vulnerable public finances, sparking doubts over the sustainability of Spain's sovereign debt. These doubts were particularly intense throughout 2011, when the spread between the sovereign bonds of the so-called peripheral issuers, including Spain, and those of the core issuers, widened significantly and the primary markets all but shut down, making it difficult for the Treasuries to issue the bonds they needed. Another contagion effect was the higher cost of sovereign funding, which exerted additional pressure on the banks' cost of funding, further undermining their earnings performance.

Crisis, bailout and transformation of the *cajas*

The widespread deterioration of the Spanish economy generated increasing doubts about the quality of its banking assets, particularly those related with the real estate sector. All this occurred against the backdrop of an international regulatory environment (Basel III) which called for higher capital requirements, albeit over a sufficiently staggered timeframe so as not to jeopardise the economic recovery. Indeed, the new core capital requirements were set to virtually double between then and 2019.

Faced with this staggered requirement, Spain went ahead and implemented a new capital requirements framework for its financial institutions that was far more demanding than the international standards introduced under Basel III. It included a higher capital requirement (8%) and an extraordinarily tight timeframe (six months) for full compliance.

In addition to the stringent new capital requirements introduced in Spain and of the associated implementation timeline, it is worth noting the discrimination implied by the establishment of an even higher requirement for entities not traded on the stock exchange, without significant shareholders and reliant –to a significant degree (over 20%)– on the wholesale funding markets. For those entities, essentially the savings banks, the core capital requirement was set at 10%, *i.e.,* 2 percentage points higher than for the listed banks. This discriminatory and aggressive (timewise) capital requirement may have prompted some of the entities created as a result of the merger of savings banks (Bankia or Banca Cívica) to rush their IPO plans as the only means for availing themselves of a capital requirement of 8%, compared to the penalising 10% applicable to unlisted entities.

The adverse economic context in which those capital requirements were introduced took an irreversible turn for the worse when contagion and fear spread to the retail deposit segment. The divergence between countries (core versus periphery) marked a clearcut fracture in the eurozone's financial integration and interfered with the ECB's monetary transmission mechanism.

The asymmetric trend in bank deposit withdrawals between the two blocks of eurozone countries depicted a significantly fragmented banking system, posing risks for financial stability in the monetary area, which in Spain reached its zenith in the spring of 2012,

with the eruption of problems in Bankia. The fact that Bankia was the result of the merger of seven savings banks (five of which were small and the number two and three *cajas* by assets) cast serious doubts over the logic behind the consolidation process which had taken place in Spain during the two previous years.

The loss of confidence in the Spanish banking system occurred at a time when the banks had emerged as the main —indeed nearly the only— buyers of Spanish sovereign bonds. The result was extraordinarily negative for how the market perceived the two risks and for the ability of the Treasury and financial institutions to tap those markets for refinancing purposes.

It was that perception of extreme risk that drove Spain to request a bailout for its banking system, which was approved by the eurozone's finance ministers at the end of June 2012. It consisted of a maximum bailout of 100 billion euros of which, following the pertinent stress tests, 41.4 billion euros would ultimately be used: 2.4 billion euros to capitalise the SAREB, Spain's so-called bad bank, and around 39 billion euros to shore up the capital of the entities that came up short in the stress tests and were not able to raise capital by alternative means (Exhibit 4).

The fact that all of the entities that received public funding (a total of seven) were entities resulting from savings bank mergers supported the perception that the banking crisis in Spain was a problem that was exclusive to and widespread within the savings bank segment. This idea is misguided for two reasons. First, the difficulties and ultimate resolution of Banco Popular has demonstrated that the institution already presented symptoms equivalent to those of the neediest savings banks back in 2012 and was only able to sidestep public intervention by means of a rights issue that substantially diluted its shareholders' stake in the firm.

Second, as early as the stress tests in 2012, but also in the tests later performed by the European Banking Authority, several of the entities created from mergers between savings banks have systematically rated as the best positioned and the most resilient in the scenarios tested, demonstrating that not all the savings banks were in bad shape by virtue of being *cajas*, just as not all the banks were in good shape by virtue of being banks.

Nevertheless, the initial perception that the problem was limited to the savings banks and some of their legal idiosyncrasies —the lack of shareholders and market discipline to exact correct corporate governance— became entrenched and contributed to one of the conditions imposed as part of the bank bailout: a legislative change to eliminate the *cajas* as a separate legal form of incorporation.

In particular, Law 26/2013, of December 27th, 2013, on Savings Banks and Bank Foundations (hereinafter, the Act), imposed as a condition as part of the Memorandum of Understanding (MoU) with the EU associated with the bank bailout, forced the *cajas* to convert to banks, unless they were very small in size and/or had narrower geographic spheres of influence, specifically those that met the following requirements:

■ Assets of less than 10 billion euros;

■ A market share in terms of deposits in their geographic spheres of influence of ≤ 35% of the total;

> " The perception that the banking crisis in Spain was a problem exclusive to and widespread within the savings bank segment is misguided—several of the entities created from mergers between savings banks have systematically rated as the best positioned and the most resilient in the EBA stress tests. "

Exhibit 4 **Bank bailout: Public capital injections by groups of entities**
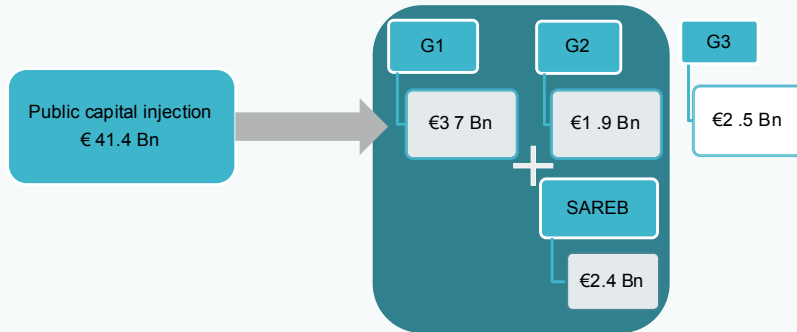
Notes:
Group 1: Nationalised banks (BFA/Bankia, Catalunya Caixa, NCG)
Group 2: With capital deficit and state aid needs (BMN; CEISS, Caja3, Liberbank)
Group 3: With capital deficit, but they can get it from other sources (Banco popular, Ibercaja)
Source: CECA, Afi and authors' own elaboration.

■ A geographic sphere of influence no bigger than an autonomous region, unless such outside business is performed in a maximum of 10 conjoined provinces.

In addition, the new legislation also regulated the banking foundations derived from the former savings banks. This was a legislative amendment of great impact for the entities resulting from the integration of savings banks. Specifically, the legislation defined a Banking Foundation as an entity that "holds an interest in a credit institution, whether directly or indirectly, equivalent to at least 10% of the entity's capital or voting rights or an interest that permits it to appoint or remove a member of its governing body. Its corporate purpose shall be welfare-oriented and its core business focused on the development of community work and the adequate management of its ownership interest in a credit institution." These foundations are governed by the contents of the Act, regional regulations, their own bylaws and, on a supplementary basis, the provisions of Law 50/2002, of December 26th, 2002, on Foundations.

Alternatively, an Ordinary Foundation does not consist of the direct or indirect ownership interest of 10% of a credit institution's capital or voting rights nor does it have the power to appoint or remove any of the members of the investee credit institution's governing body. Ordinary Foundations are governed exclusively by Law 50/2002, Article 2, which defines them as "non-profit organisations which, at the behest of their creators, earmark their capital on an ongoing basis to matters of general interest. They shall be governed by the wishes of their founders, their bylaws and, in any case, the law."

Each of the foundations had to choose between Banking and Ordinary Foundations depending on the fulfilment of the above criteria. However, there was a certain amount of ambiguity, particularly as regards the ability to appoint directors. In several instances involving entities that initially formed part of an IPS, which was later integrated into a larger-scale entity, the right to appoint a board member in that larger-scale entity may be rotated among the various original foundations. In these cases, it is unclear whether each foundation has the right to name a director and therefore must necessarily

take the form of a Banking Foundation or whether this right is shared, exonerating them from that obligation. This is the reason for the coexistence of Banking and Ordinary Foundations, with similar shareholdings −in all cases less than 10%− in a given financial institution.

Beyond the definitions of these two classes of foundations, the most important feature of the Act is the shareholder limit imposed on the Banking Foundation into which the savings banks have transformed. Specifically, the Act stipulates that Banking Foundations with an ownership interest of 50% or more in a credit institution draw up a divestment plan in order to reduce that stake to below 50% or, if they opt to retain a higher interest, requires them set up a reserve fund to cover possible capital requirements.

This requirement left the Banking Foundations with ownership interests of 50% or higher with two choices: (i) a divestment plan which would in all likelihood entail an IPO roadmap or dilution if the entity was already listed; or, (ii) endowment of the above-mentioned reserve fund, eroding the resources available for the performance of community work.

The old *cajas* in today's financial system

If the initial and successive waves of savings bank mergers had irreversibly altered the *caja* landscape, the above Act would provide the definitive push for the transformation of the resulting entities, not only in terms of their legal form (conversion into banks) but also in terms of the adaptation of their ownership structures (opening up of the shareholder ranks), with the attendant ramifications on the corporate governance front. The final

outcome is a landscape of entities that is very different to that observed before the crisis.

Specifically, just two of the 45 savings banks in existence in 2008 have been able to maintain their legal status: Caixa Ontinyent and Caixa Pollença. Both entities passed the restrictive conditions imposed by the Act as they were small in size (1.3 billion euros of assets between the two) and highly concentrated in their regions of origin.

Except for those two small entities, all the other *cajas* in existence before the crisis have completed their transformation into banks, either via: (i) absorption by previously-existing banks; or, (ii) conversion into banks of the indirect vehicles (IPSs) used in the initial integration processes to facilitate the desired concentration. The distinction between the origin of today's *caja*-derived banks (*cajas* integrated into existing banks versus banks newly created as a result of conversion) has no relevance from a legal perspective as they are both equivalent to banks for all intents and purposes. However, we believe the route taken is of interest to the extent that those deriving from conversion may still be closer to the savings banks' traditional spirit in terms of local roots, customer orientation and giving back to society.

To start with, the first group (savings banks merged into previously-existing banks) consists of the former *cajas* (seven with total assets of around 180 billion euros) which, following their intervention and/or nationalisation as a result of significant injections of public funds, were later auctioned off to the banks. The first of these was Banco CAM (created from Caja de Ahorros del Mediterráneo), which was acquired by Banco Sabadell; the second consisted of the sale to BBVA, in two separate

> " The Law on Savings Banks and Bank Foundations, imposed as a condition as part of the MoU associated with the bank bailout, forced the *cajas* to convert to banks, unless they were very small in size and/or had narrower geographic spheres of influence. "

> " Compared to *cajas* absorbed into existing banks, those *cajas* deriving from conversion may still be closer to the savings banks' traditional spirit in terms of local roots, customer orientation and giving back to society. "

auctions, of two entities arising from the integration of the Catalan *cajas*: Unim (Caixa Sabadell, Caixa Terrassa and Caixa Manlleu) and Catalunya Banc (Caixa Catalunya, Caixa Manrresa and Caixa Tarragona).

The vast majority (36, with total assets of 1.1 trillion euros) have morphed into banks by means of the conversion of former *cajas* or groups of *cajas*. As alluded to earlier, we believe that this route should imply a more pronounced maintenance of local ties and a more prominent role for the Banking Foundations with shares in the banks created upon conversion.

Indeed, it is the presence of these foundations in the shareholder ranks and the restrictions on their presence imposed under the Act that has shaped and continues to shape the existence of different shareholder models and/or market listings for the new banks arising from the transformation of the old *cajas*. The key lies with the above-mentioned requirement under the Act whereby foundations with shares in a bank of over 50% draw up a divestment plan or set up a reserve fund to cover the investee bank's potential capital requirements.

Four of the above *caja*-derived banks have listed on the stock exchange, thereby achieving the goal of diluting the foundations' ownership interests. The first, the '*caja*-bank' which has been listed the longest, is CaixaBank. That bank, building on the foundations of the former Caixa de Pensiones (La Caixa), has gone on to absorb one *caja* (Caixa Girona), one '*caja*-bank' (Banca Cívica, created by the integration of the former Caja Navarra, Cajasol, Caja General de Canarias and Caja Burgos) and several Spanish and international banks. The second to emerge is Bankia, this time created from the initial integration of seven *cajas*

into BFA, the subsequent IPO of 2011 and the subsequent recapitalisation by the *FROB*, with the total loss of capital for the original foundations and, lastly, in early 2018, the addition to its scope of consolidation of BMN, also the result of the merger of four *cajas* (Murcia, Granada, Penedés and Sa Nostra). This group of '*caja*-banks' is rounded out by the stock-market listed Liberbank (made up of the *cajas* of Asturias, Extremadura, Cantabria and CCM) and Unicaja Banco (the former *cajas* Unicaja, Jaen, España and Duero).

Among those entities not yet listed, there are three other *caja*-derived banks. Firstly, Ibercaja Banco (which, on the basis of Ibercaja, absorbed CajaTres: Caja Inmaculada, Badajoz and Círculo Católico), an entity with IPO plans but whose comfortable capital position (it has already repaid all of the funds injected into CajaTres by the *FROB*) gives it sufficient margin to optimise the timing of its IPO. Secondly, Kutxabank, the bank which encompasses the former Basque *cajas* (BBK, Kutxa and Vital), as well as Cajasur, acquired by BBK. In the wake of the Act, Kutxabank opted to create the required reserve fund, thereby avoiding a reduction in the foundations' shares and, thus, having to publicly list in order to dilute the value of their holdings.

Thirdly, Abanca, which originated from NovaGalicia Banco, was created from the merger of the former Galician *cajas* (CaixaNova and Caixa Galicia) and was sold in auction to the Venezuelan bank Banesco. Given that Abanca's shareholder ranks do not include any foundations, it is not obliged to dilute their holdings under the Act or, by extension, to list its shares publicly, a decision that is solely within the purview of its shareholder, Banesco.

Exhibit 5

The roadmap of the Spanish *cajas* consolidation and reform
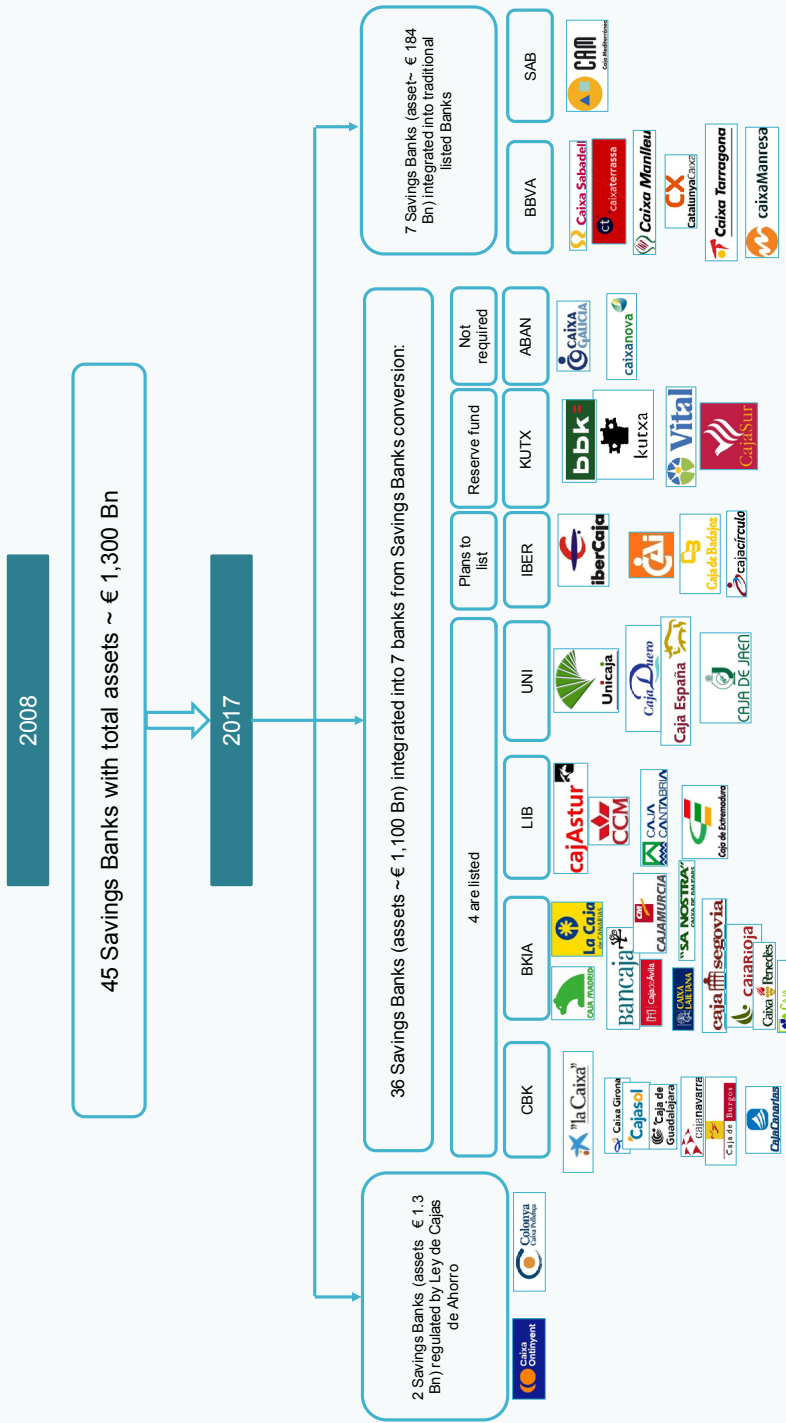
Source: CECA, Afi.

Exhibit 5 graphically sums up the routes taken by the former *cajas* in their evolution into banks (separately showing the two small surviving *cajas* referred to earlier). For a more detailed snapshot of the transition from *caja* to bank, the Appendix itemises the initiatives taken by the 45 *cajas* in existence in 2009 en route to forming part of one of the entities in existence today.

Lastly, it is worth underscoring the fact that all of the banks into which the former *cajas* have morphed constitute significant entities from the standpoint of the European supervisor (SSM), such that irrespective of whether they are publicly listed or not, they are all subject to the same oversight and corporate governance requirements as traditional banks.

Ángel Berges and Fernando Rojas. A.F.I. - Analistas Financieros Internacionales, S.A.

Timeline of the savings banks transformation
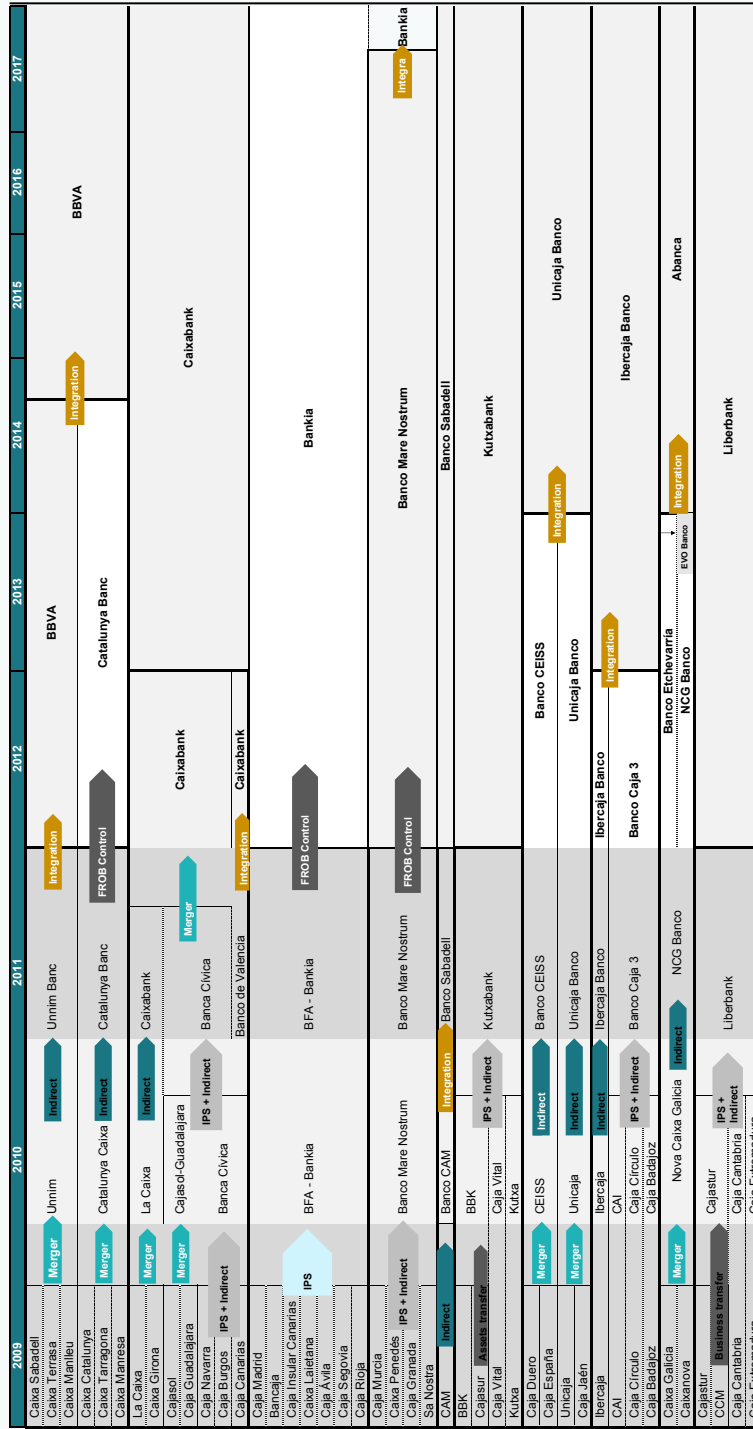
Source: CECA, Afi.
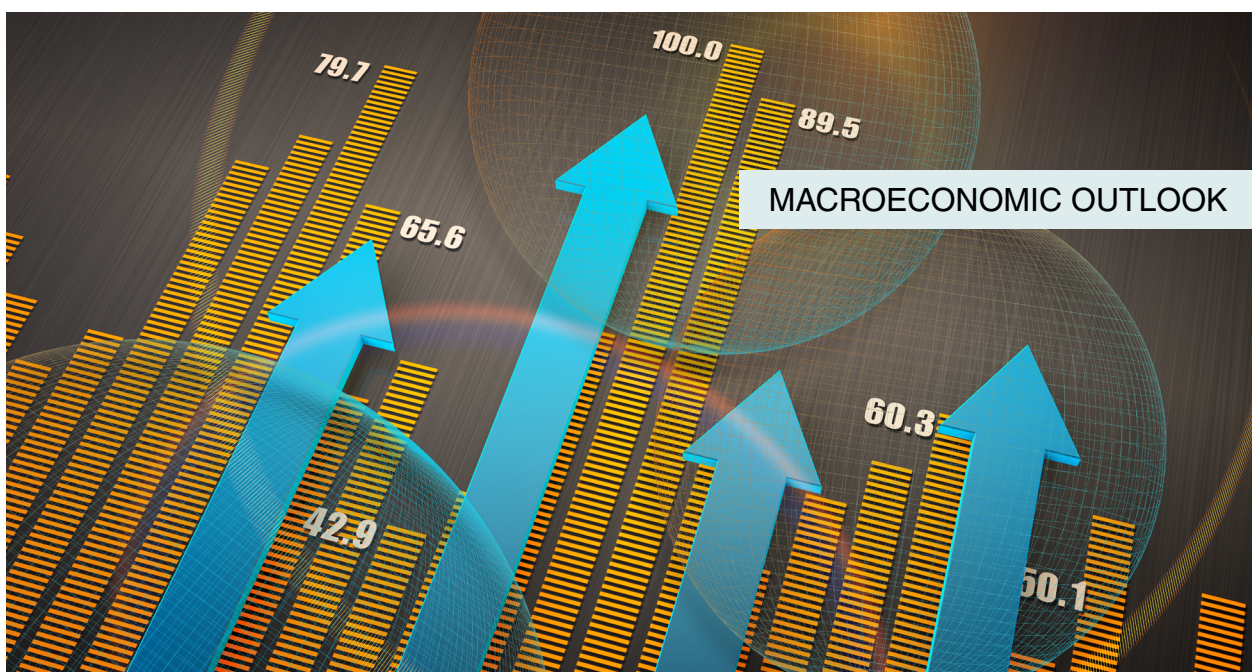
The Spanish economy in slowdown mode

While the solid recovery continued in recent months, the ongoing slowdown in domestic demand along with a less favourable external environment is expected to result in slower growth in both 2018 and 2019. Looking forward, of particular concern for the Spanish economy are the relatively high levels of unemployment and government debt, which policymakers should address during the current period of economic expansion –otherwise the imbalances will bear a disproportional impact on future generations.

Raymond Torres and María Jesús Fernández

Abstract: On a year-on-year basis, the Spanish economy expanded by 3% during the first quarter of 2018, 0.1 percentage points less than 4Q2017. This growth was underpinned by stronger than expected private consumption, a buoyant construction sector and moderate growth in both employment and productivity rates. That said, some unexpected developments included a decline in manufacturing activity and investment in capital goods. While the Spanish economy is projected to expand vigorously in 2018 and 2019, the pace will be slower than in 2017, primarily due to weaker domestic demand, but also to the expected normalisation of ECB policy, a slowdown in external demand and an increase in energy prices. Spain's relatively high unemployment and public debt levels

are also key sources of potential vulnerability. As such, policymakers should take advantage of the current period of growth to tackle these outstanding weaknesses.

Recent performance of the Spanish economy

Despite the slowdown experienced across the eurozone as a whole, the Spanish economy grew at the same rate during the first quarter of 2018 as in the two previous quarters, 0.7%. Year-on-year, it recorded growth of 3%, 0.1 percentage points less than the previous quarter (Exhibit 1). That growth was driven essentially by domestic demand, with a small contribution made by net exports (Exhibit 2).

Although the headline number was in line with forecasts, its composition diverged from expectations. Specifically, the strength of private consumption, which registered an accelerated growth rate in real terms, took the market by surprise. In nominal terms,

however, growth slowed due to a lower rate of inflation that quarter. Growth in government spending gathered pace.

In contrast, investment in capital goods was weaker than forecast, contracting quarter-over-quarter. This is mainly a reflection of its volatile nature. Indeed this investment category has continued to expand, although at a declining pace. Investment in house construction remained buoyant. The real estate market continues to grow, supported by low interest rates and low returns on alternative investments. For the fourth year in a row, house transaction volumes and prices are on an upward trend. However, the stronger price increases are limited to a few large cities, specifically Madrid, Barcelona and Palma.

Growth in exports of goods slowed as a result of the less than favourable external environment; however, this was offset by strong growth

Exhibit 1

GDP

(% rate of growth)

■ Quarterly rate (left scale) —— Year-on-year rate (right scale)
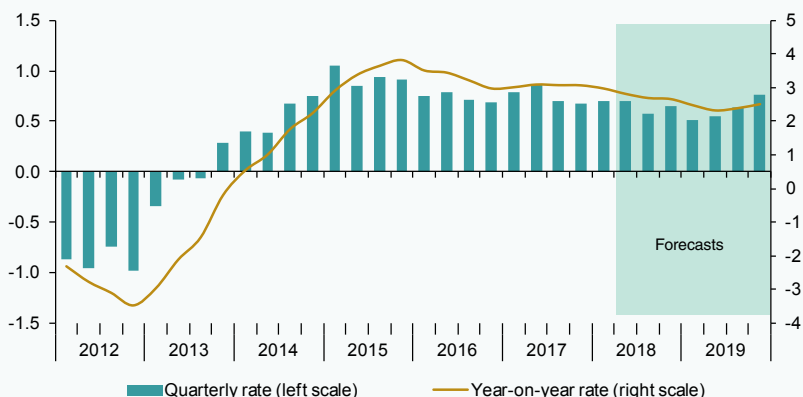
Source: INE and Funcas (forecasts).

Exhibit 2   **GDP, domestic demand and net exports**

(YoY growth rate in %)

Forecasts

2012 2013 2014 2015 2016 2017 2018 2019

■ GDP ── Domestic demand (a) ── Net exports (a)
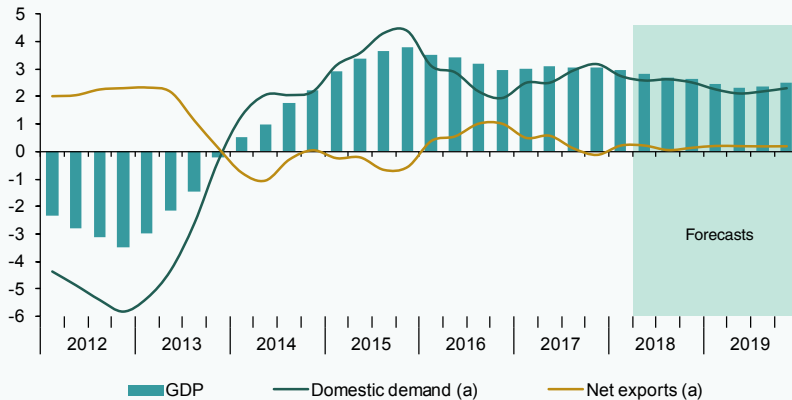
(a) Contribution to GDP growth in percentage points.
Source: INE and Funcas (forecasts).

in service exports. The contribution by net exports to quarter-over-quarter growth was similar to that of the previous quarter.

On the supply side, another unexpected development was the decline in manufacturing activity, which recorded significant growth during the previous quarter. The fastest-growing sector was construction. Thanks to a positive trend in tourism, the service sector recovered from the slowdown sustained during the previous quarter. This sector registered growth once again after the slump experienced at the end of 2017, albeit at a considerably slower pace than that observed in previous years.

Employment (in national accounting terms) growth continued in the first quarter of 2018, albeit at a moderate pace in comparison with the data observed since the start of the recovery (Exhibit 3). However, the growth in

the number of social security contributors was higher than the national accounting figures or the *Labour Force Survey* (*EPA* for its acronym in Spanish). According to the survey, the rate of unemployment stood at 16.7%, two percentage points below that of 1Q2017.

Productivity increased during the first quarter. However, the pattern remains one of slow gains, in line with the readings since the start of the recovery. Growth in gross operating surplus continued to outpace that of employee compensation. Growth in average pay and productivity were similar so that unit labour costs remained stable during the quarter (year-on-year growth of just 0.1%). In the manufacturing sector, unit labour costs are trending higher, albeit not as fast as the growth in its deflator.

As for the second quarter, the indicators released so far point to GDP growth on par

> " According to the labour force survey, the unemployment rate stood at 16.7% in the first quarter, two percentage points below that of 1Q2017. "

Exhibit 3

Employment, productivity

(Rate of growth, YoY in %)

Forecasts

2012 2013 2014 2015 2016 2017 2018 2019

—— Employment (FTE) —— Productivity
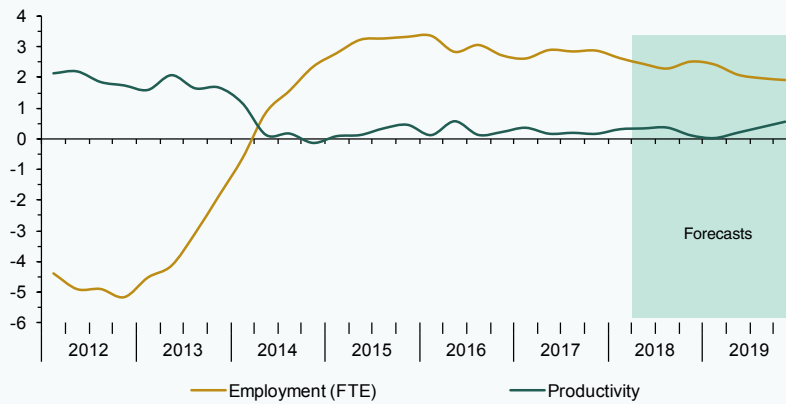
Source: INE and Funcas (forecasts).

Exhibit 4

Inflation

(YoY rate in %)

2015 2016 2017 2018

—— Headline —— Core
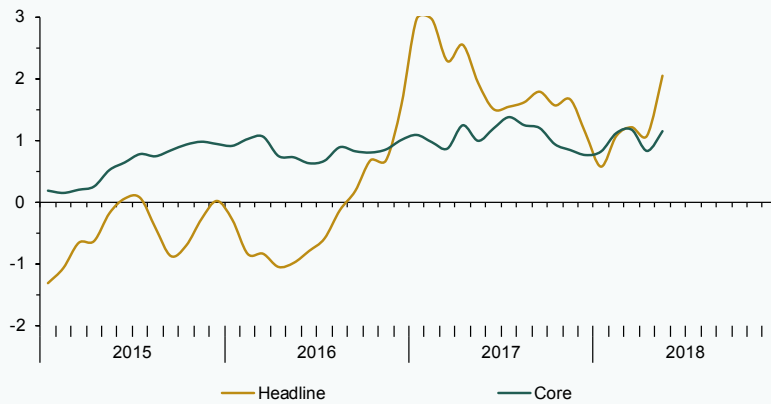
Source: INE.

with previous quarters, shaped by easing consumption which has been offset by a recovery in investment. However, the contribution by net exports is expected to be stronger.

Lastly, the inflation rate, which hovered at around 1% between January and April,

spiked above 2% in May and June, driven by higher energy and fuel prices. The core rate of inflation, however, was steady at around 1% (Exhibit 4). The differential with respect to the eurozone, which had been favourable for Spain during the first months of the year, changed sign in May. The difference between the eurozone and Spanish core inflation rates

> " The inflation rate, which hovered at around 1% between January and April, spiked above 2% in May and June, driven by higher prices of energy and fuel. "

was also favourable to Spain for most of the period.

Projections for 2018-2019 and main risks

The projections for the next two years were drawn up assuming no major changes on the macroeconomic policy front and in the absence of additional information about the new government's strategy.

The prevailing growth trend is expected to continue over the next two years thanks to the financial health of the corporate sector, favourable competitive positioning paving the way for market share gains and the momentum intrinsic to the present growth rate. This combination of factors would normally have led to an upward revision of forecasts. Other factors have worked in the opposite direction, however, which is why growth is expected to lose steam, in line with earlier forecasts (Table 1).

The forecasted slowdown reflects a more uncertain external climate. Rate hikes in the US and the normalisation of monetary policy in Europe will nudge financing costs higher for public treasuries and the private sector alike. Elsewhere, the upward trend in oil prices will weaken the terms of trade and put pressure on consumer prices. This upshot will reduce household purchasing power and, by extension, expenditure. Lastly, some of Spain's export markets are also expected

to slow due to uncertainty in Italy and the constraints posed by near full employment in Germany.

The loss of momentum is also attributable to internal factors. In 2017, the household savings rate hit an all-time low, fuelling growth in private consumption despite wage stagnation. However, the savings rate is expected to stabilise over the next few quarters, owing to the absorption of both latent demand leftover from the crisis and precautionary savings, as well as less buoyant consumer credit. Elsewhere, the boom in tourism is likely to ease as a result of saturation in certain destinations, particularly during the peak season, as well as competition from other Mediterranean markets, such as Tunisia and Turkey.

All things considered, the Spanish economy is projected to grow 2.8% in 2018, unchanged from the last set of forecasts (Table 1). This is slower than the average growth rates recorded between 2014 and 2017. The slowdown is expected to be shaped above all by weaker domestic demand. This will be driven by lower growth in household consumption, which is expected to ease by 0.3 percentage points compared to 2017. Public consumption is also expected to ease in real terms due to the delays in passing the budget for this year, coupled with an uptick in inflation.

The recovery in investment should continue, particularly in the construction sector,

> " The savings rate is expected to stabilise over the next few quarters, owing to the absorption of both latent demand leftover from the crisis and precautionary savings, as well as less buoyant consumer credit. "

Table 1 **Macroeconomic forecasts for Spain, 2018-2019**

(Annual rates of change in %, unless otherwise indicated)

	Reported data				Funcas forecasts	
	Average 1996-2007	Average 2008-2013	Average 2014-2017	2017	2018	2019
1. GDP and components, constant prices						
GDP at market prices	3.8	-1.3	2.8	3.1	2.8	2.4
Final consumption, households and NPISHs	3.6	-2.2	2.5	2.4	2.1	1.8
Final consumption, government	4.3	0.7	1.0	1.6	1.4	1.2
Gross fixed capital formation	6.4	-7.4	4.9	5.0	5.5	4.6
Construction	5.9	-10.7	3.8	4.6	5.8	5.1
Residential construction	7.8	-12.5	5.7	8.3	8.3	7.2
Non-residential construction	4.2	-8.7	2.3	1.5	3.3	2.8
Capital goods and other products	7.5	-2.2	6.0	5.4	5.2	4.1
Exports of goods and services	6.6	1.7	4.6	5.0	4.8	4.6
Imports of goods and services	8.7	-4.1	5.0	4.7	4.7	4.3
Domestic demand (a)	4.5	-3.1	2.8	2.8	2.6	2.2
Net exports (a)	-0.7	1.8	0.0	0.3	0.2	0.2
GDP, current prices, billions of euros	--	--	--	1,163.7	1,211.0	1,260.8
- % change	7.4	-0.8	3.2	4.0	4.1	4.1
2. Inflation, employment and unemployment						
GDP deflator	3.5	0.5	0.4	1.0	1.3	1.6
Household consumption deflator	3.1	1.8	0.5	1.8	1.8	1.5
Total employment (national accounts, FTEs)	3.4	-3.3	2.5	2.8	2.5	2.1
Productivity (per FTE)	0.4	2.0	0.3	0.2	0.3	0.3
Compensation of employees	7.5	-1.1	3.2	3.3	3.7	3.6
Gross operating surplus	6.9	-0.3	2.9	4.8	3.9	4.6
Compensation per employee (per FTE)	3.3	2.3	0.4	0.1	1.0	1.2
Labour costs per unit produced (ULC)	2.9	0.3	0.1	-0.1	0.7	0.9
Unemployment rate (*Spanish labour force survey*)	12.5	20.2	20.8	17.2	15.1	13.2

Table 1   **Macroeconomic forecasts for Spain, 2018-2019**

(Annual rates of change in %, unless otherwise indicated)

(Continued)

	Reported data				Funcas forecasts	
	Average 1996-2007	Average 2008-2013	Average 2014-2017	2017	2018	2019
3. Financial equilibrium (% of GDP)						
National savings rate	22.4	19.8	21.8	22.9	23.2	23.8
- of which, private savings	18.6	23.0	24.1	23.8	23.4	23.5
National investment rate	26.9	23.1	20.4	21.1	22.0	22.6
- of which, private investment	23.0	19.2	18.2	19.2	20.0	20.6
Current account surplus/ (deficit)	-4.5	-3.2	1.5	1.9	1.5	1.4
Spain's net lending (+) or borrowing (-)	-3.7	-2.8	1.8	2.0	1.4	1.3
- Private sector	-2.8	5.9	6.5	5.1	4.0	3.5
- Public sector (govt. deficit)	-0.9	-8.6	-4.7	-3.1	-2.6	-2.1
- Govt. deficit excl. financial sector bailout debt	-0.9	-7.9	-4.6	-3.1	-2.6	-2.1
Government debt, EDP criteria	52.2	67.2	99.3	98.3	97.0	95.2
4. Other variables						
Eurozone GDP	2.5	-0.3	1.9	2.3	2.3	2.0
Household savings rate (% of GDI)	10.2	10.1	7.8	5.7	5.5	5.5
Gross borrowings, households (% of GDI)	93.1	127.7	105.6	99.8	97.7	96.5
Gross borrowings, non-financial corporates (% of GDP)	90.3	128.0	105.0	96.8	92.3	88.3
Spain's gross external borrowings (% of GDP)	90.8	158.6	167.0	164.8	163.4	160.9
12-month Euribor (annual %)	3.74	1.90	0.12	-0.14	-0.04	0.48
Yield on 10Y Spanish bonds (annual %)	5.00	4.74	1.85	1.56	1.42	1.57

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

Sources: 1996-2017: INE and Bank of Spain; Forecasts 2018-2019: Funcas.

underpinned by the rebound in house prices and healthy growth in housing transaction volumes. The upward trend in corporate profits and favourable credit terms should prop up investment in capital goods, which is forecast to increase its contribution to GDP by 5.5%.

Trade is expected to remain a growth driver. However, growth in exports, albeit positive, is likely to suffer the effects of slower growth in the eurozone, Brexit and international trade tensions. Offsetting this, recent indicators point to weaker growth in imports, which is why net exports are expected to maintain their 0.2 percentage point contribution to growth (unchanged from the last set of forecasts).

In 2019, the economy is expected to grow by 2.4%, in line with the last round of forecasts. The growth in oil and gas prices, coupled with wage moderation, is expected to curtail purchasing power and spending in both the private and public sectors. In addition, the effects of normalisation of monetary policy are likely to be felt in the cost of financing investments, contributing to a slowdown in this category. However, net exports, thanks to Spain's strong competitive positioning, are expected to make a positive contribution once again.

Despite more expensive imports, the external balance is expected to remain in a comfortable surplus in 2018 and 2019, serving as one of Spain's key growth factors.

In light of the growth in the prices of imported energy products and a weak euro, inflation is expected to be considerably higher than previously anticipated. The consumption deflator is forecast to increase at an annual rate of 1.8% in 2018 and 1.5% in 2019, three and two percentage points more, respectively, than previously forecast. In 2018, growth in the GDP deflator (the reflection of core inflation) is expected to trail that of the consumption deflator considerably. Both deflators are expected to exhibit similar trends in 2019.

The forecasted growth will translate into job creation. For 2018, the number of jobholders is expected to increase by 2.5% (up 0.1 percentage points from our last set of forecasts). In 2019, the forecast is for growth of 2.1% (unchanged). During the two-year projection horizon, Spain is expected to create around 800,000 jobs, which would drive the unemployment rate down to 13.2% by the end of 2019. However, the downtrend in unemployment is expected to have only a limited impact on wages and the high incidence of temporary contracts in Spain.

The key measures contemplated in the general state budget will have a positive impact on the public deficit. The deficit is expected to decline to 2.6% of GDP in 2018 and 2.1% in 2019, 0.4 and 0.3 percentage points up from the previous set of forecasts. However, despite the expansionary bias of the budget, those levels should be sufficient to bring Spain out from under Europe's excessive deficit procedure. Government debt is estimated at 95% of GDP in 2019, which is relatively high compared to other countries.

Heightened trade tensions pose a real challenge for the global economy in general

and for the Spanish economy in particular. The import tariffs introduced by the US for national security reasons have not been well received, prompting complaints before the World Trade Organisation, as well as retaliatory measures. A full-blown trade war, if it were to materialise, would have a significant impact on the Spanish economy considering that exports account for 35% of GDP, which is 10 percentage points more than before the crisis.

The increase in interest rates in the US and normalisation of monetary policy in Europe

pose issues for highly leveraged economies like Spain. This risk could be mitigated by a strategy for addressing the prevailing imbalances within a reasonable time period. Unfortunately, this has not been possible so far on account of the political situation in Spain. These matters should be addressed by the new government.

Debt and unemployment in Spain: An international comparison

During Spain's previous growth phase (prior to the crisis), the ratio of government debt to GDP declined to one of the lowest in the eurozone, whereas leverage in the private

Exhibit 5

Government debt

(Debt as % of GDP)

Source: Eurostat.

Exhibit 6

a. Household debt

(Debt as % of GDP)

Spain   Eurozone
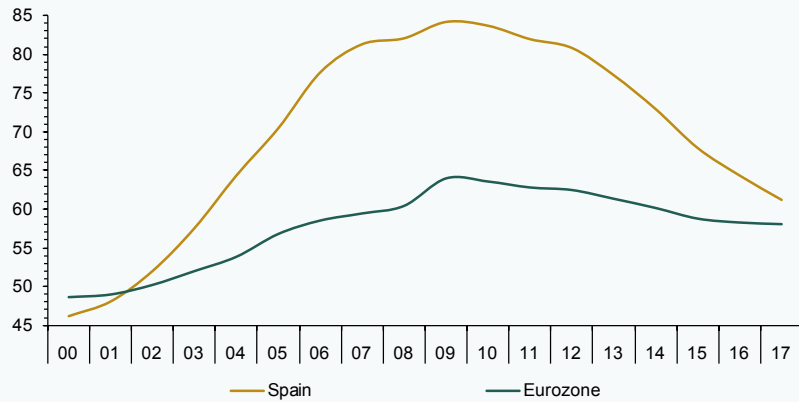
b. Non-financial corporates debt

(Debt as % of GDP)

Spain   Eurozone
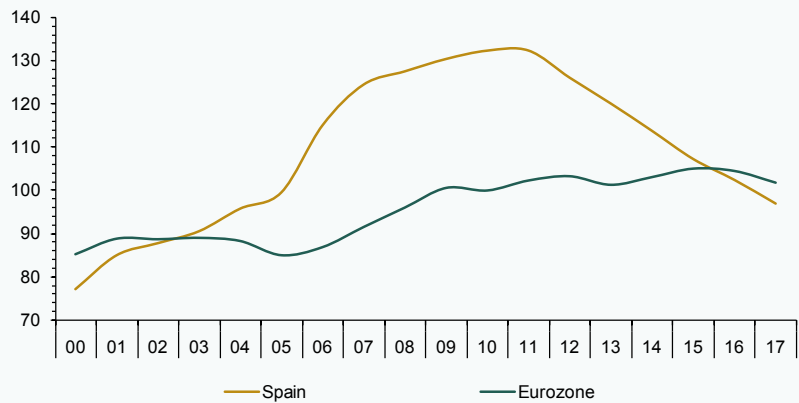
Source: Eurostat.

sector rose above the eurozone average. In contrast, the trend since the start of the crisis has been the opposite: public debt has risen to one of the highest in the region, while private sector debt has fallen substantially (Exhibits 5, 6a and 6b).

By the end of 2017, household debt had fallen to 61% of GDP, which is very close to the eurozone average, down from a high of 84% in 2009. Borrowing by non-financial corporates dropped from a peak of 132% of GDP to 97%, which is below the eurozone average. In nominal terms, private indebtedness (in consolidated terms) has been reduced by 566 billion euros. This, coupled with the drop in interest rates, has significantly restored the financial health of Spain's household and

> " The significant drop in private indebtedness coupled with the drop in interest rates has contributed to restore the financial position of Spain's household and corporate sectors, underpinning the economic recovery. "

corporate sectors, thereby underpinning the Spanish economy's recovery, which has been underway since the middle of 2013.

As mentioned previously, deleveraging in the private sector has been accompanied by the opposite trend in government borrowing. Indeed, government borrowing was equivalent to 98.3% of GDP at year-end 2017, compared to 35.6% in 2007. In nominal terms, government debt has increased by nearly 760 billion euros as a result of the accumulation of deficits, totalling 710 billion euros during the period, in addition to the injection of nearly 50 billion euros of aid into ailing Spanish banks.

Such a high level of government borrowing leaves the Spanish economy vulnerable. Every year, the Spanish Treasury has to issue around

230 million euros just to meet its deficit and refinancing obligations. A drop in investor confidence that unleashes tension in the financial markets (*e.g.* a fresh euro crisis or the end of bond buybacks by the ECB; refer to Exhibit 7) could make it harder or more expensive to place such large volumes of debt in the market. In addition, the upward trend in interest rates as a result of the normalisation of ECB monetary policy will increase the debt servicing burden. Another weakness resulting from the high level of government borrowing is the limited room for manoeuvre it leaves in terms of counter-cyclical fiscal policy to combat a potential economic slowdown, an issue of particular concern in light of the high structural public deficit in Spain.

It is therefore necessary to formulate a strategy for eliminating the structural deficit.

Exhibit 7 **Debt placed by the Spanish government in the eurosystem (ECB) and in other sectors**

(Billons of euros)
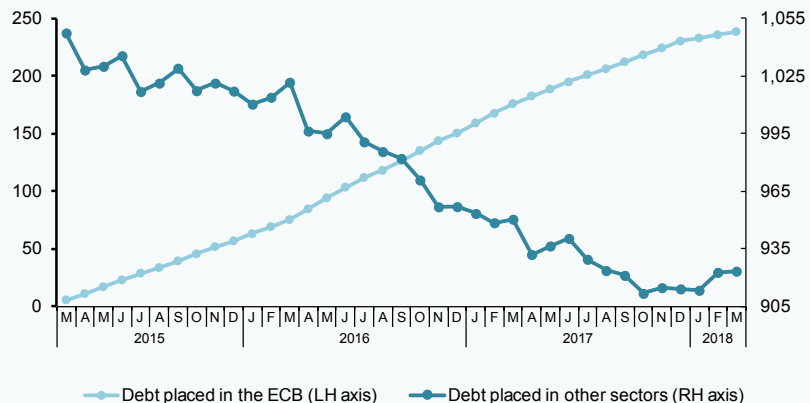
Sources: ECB, Bank of Spain and Funcas.

Exhibit 8

Unemployment as a % of the active population

Legend: ■ Unemployment rate as % of active population (1Q18)　— Average 2000-2017
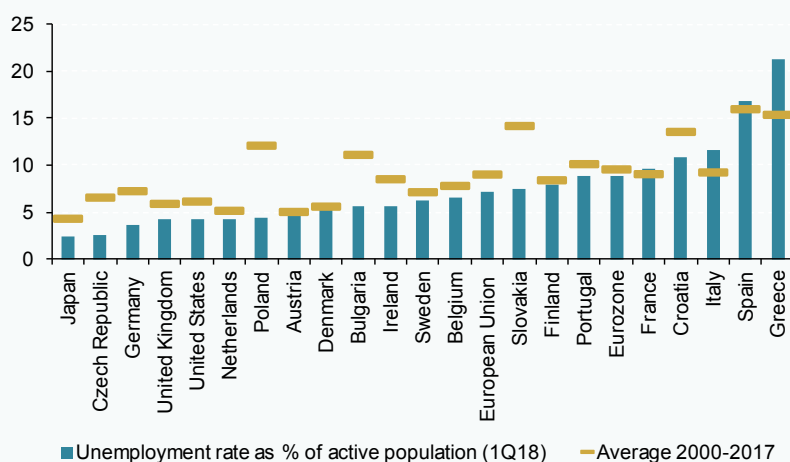
Deleveraging should occur on a gradual basis, albeit at a rate deemed both sufficient and credible, in order to maintain investor confidence and prevent market jitters. The strategy of leaving a structural deficit in place without a clear time frame for reform and letting the debt-to-GDP ratio come down slowly by itself due to growth in the denominator is not sufficient and could have grave consequences when the current business cycle starts to dip.

As for the labour market, despite strong growth in jobs since the start of the recovery, unemployment in Spain remains among the highest in Europe, second only to Greece (Exhibit 8). Even factoring in a complete business cycle, the international comparison remains unflattering. Between 2000 and 2017, unemployment in Spain averaged 16%, compared to 9% in the European Union and 6.1% in the US.

An analysis of the trends observed during the past two decades pinpoints some of the main factors responsible for this situation. The first is the remarkably pro-cyclical nature of the Spanish labour market (Exhibit 9). During episodes of recession, more jobs are destroyed in Spain than in its neighbouring economies. For example, during the recession of 2009, employment contracted by more than GDP, whereas in other countries such as Germany and even Italy, proportionately fewer jobs were lost. Similarly, during episodes of growth, more jobs are created in Spain than in these same economies. The current growth phase is proving no exception.

However, the net impact over a given business cycle as a whole is negative. During the growth phases, fewer jobs are created than are lost during a recession. Moreover, many of the people who lose their jobs, in addition

" Between 2000 and 2017, unemployment in Spain averaged 16%, compared to 9% in the European Union and 6.1% in the US. "

> " The main source of job market volatility is the high incidence of temporary jobs created in Spain. "

Exhibit 9 **Employment in Spain is pro-cyclical**

(Unemployment as a % of the active population)
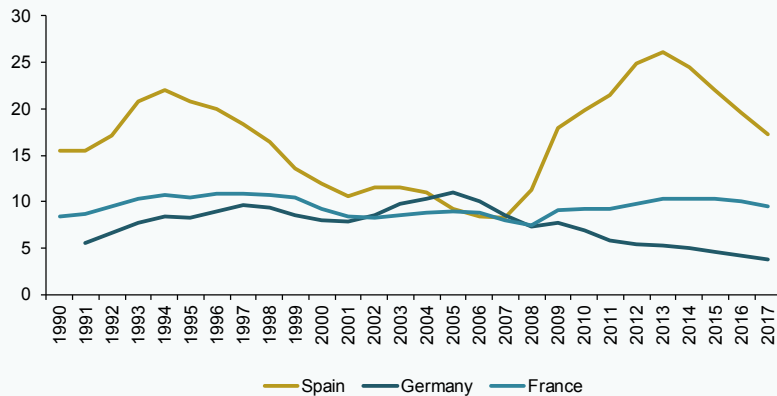
Sources: Haver Analytics, Eurostat and Funcas.

to spending a relatively long period of time out of work, cannot find new work with the same level of pay. This also implies a loss of human capital and helps explain the weak growth in productivity observed over the last two decades.

The main source of job market volatility is the high incidence of temporary jobs created in Spain (Exhibit 10). This situation reflects multiple realities, among which is the abuse of certain hiring regulations, a phenomenon which not only contributes to a lack of job security but also unfair competition vis-a-vis the firms that do comply with standard employment regulations. Elsewhere, Spanish labour law is itself a source of uncertainty, particularly in the event of legal conflict. The labour courts are weighed down by a heavy workload and are given considerable room for legislative interpretation. Consequently, the courts take a relatively long time to rule

on cases, which is why some companies, particularly the smaller ones, are reluctant to create permanent jobs. In Germany and Italy, where the cost of firing employees is relatively high, the legislation is predictable and facilitates the rapid resolution of legal disputes. As a result, the incidence of temporary contracts is also lower in these countries.

The situation faced by job-seekers and other groups outside the traditional labour market also contributes to the high rate of unemployment, particularly among young people. The transition from education to work is among the longest in Europe, as is evident in the percentage of young people neither employed nor enrolled in school (NEET; refer to Exhibit 11). The shortcomings in certain areas of training are compounded by the ineffectiveness of active labour market policies. Particularly problematic is the fact

Exhibit 10

Temporary contracts

(As a % of total employment, 2017)
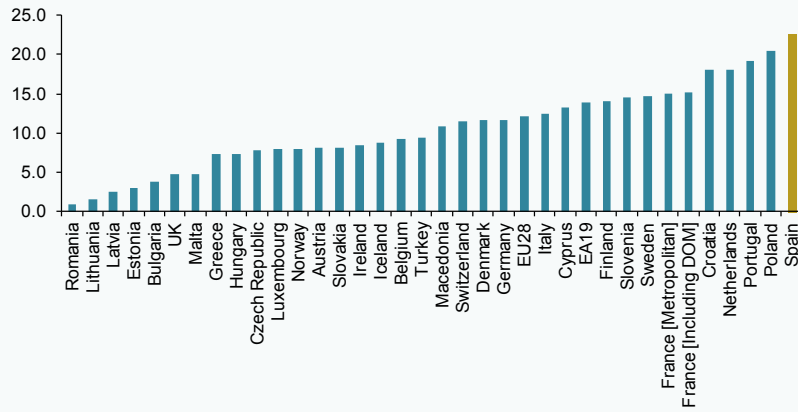
Note: Most recent data - 4Q17.
Source: Eurostat and Funcas.

Exhibit 11

Young people (aged 15 to 24) neither in employment nor in education and training (NEET)

(As a % of total employment, 2017)
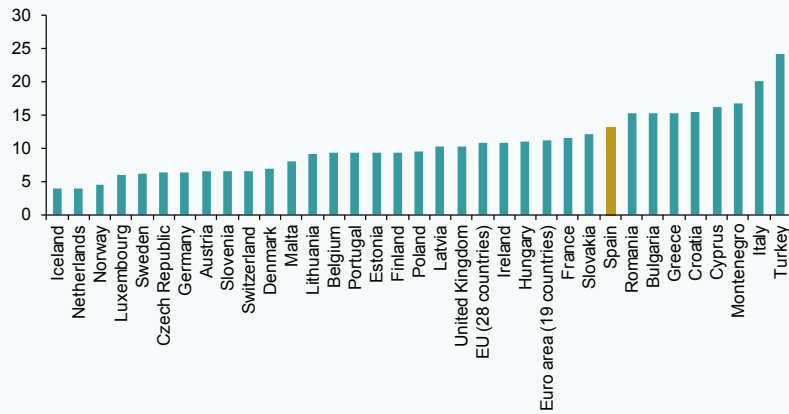
Source: Eurostat and Funcas.

that public employment services are short-staffed. In Scandinavia and the UK, where these services work relatively well thanks to multiple reforms, each counsellor is tasked with placing between 80 and 100 job-seekers, which is half the target in Spain. As well, counsellors are given the responsibility of actually going out to meet with companies in order to identify vacancies and prepare the candidates for filling them.

In short, government debt and the job market are the main challenges facing the Spanish economy. In both cases, Spain compares unfavourably to its neighbouring economies. A concrete strategy for correcting these imbalances would strengthen Spain's resistance to possible economic and financial shocks and facilitate more inclusive growth. The current phase of growth is the ideal time for embarking on such as journey.

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Is Spain experiencing an export miracle?*

Between 2009 and 2016, the value of Spanish exports increased by 51%, leading some observers to label this development an 'export miracle'. While several indicators suggest this period of growth shares notable similarities with the pre-crisis period, there are new economic features which could provide the basis for sustainable export growth to take hold in Spain.

Juan de Lucio, Raúl Mínguez, Asier Minondo and Francisco Requena

Abstract: Some experts have labelled the growth in Spanish exports since 2009 an "export miracle". To test this claim, this paper identifies which aspects of the Spanish export story are common to the pre- and post-crisis periods and which features are specific to the latter years. Among the shared aspects, we identify the pace of growth in exports, Spain's share of global exports and the growth in Spanish exports to non-traditional markets. Among the new features, we highlight the sharp increase in the Spanish economy's openness, the trade surplus and the growth in both the number of stable exporters and stable export relationships. Since 2009, Spanish exporters have made a great effort to diversify into new markets and offer new products. While talk of a miracle may seem exaggerated, if this broader exporting base becomes entrenched, Spain will achieve a permanent increase in the value of its exports. Spain could thus transition from a

growth model based on its domestic market, particularly the construction sector, to one that capitalizes on the country's competitive edge in the international marketplace.

Introduction

The value of Spanish exports of goods and services grew by 51% between 2009 and 2016. However, this sharp increase coincided with only modest growth rates in Spain's traditional export markets. As a result, authors such as Eppinger *et al.* (2018), and numerous Spanish newspapers, have described Spain's export boom during this period as a 'miracle'. [1] This paper analyses Spanish export trends since 2009 and compares them to the country's export performance prior to the so-called Great Recession. This comparison enables us to differentiate between common and shared aspects of these export trends in order to assess the veracity of Spain's supposed export miracle.

The first section of this paper examines Spain's export performance using six indicators: the value of exports, the share of global exports, export destinations, the export openness ratio (defined as exports/GDP), the trade balance and the number of exporters and export relationships. Our analysis shows that: (i) Spanish exports grew at a similar pace during the pre- and post-crisis periods and at comparable growth rates experienced by members of the European Union-15 (EU-15); (ii) since 2009, Spain's share of global exports of goods has declined; and, (iii) non-traditional markets are becoming an increasingly popular destination for Spanish exports. Additionally, we have identified two features unique to the period that began with the Great Recession: (i) significant growth in the export openness ratio; and, (ii) growth in the number of stable exporters and stable export relationships. While not strictly an export performance

indicator, we have also noted that in contrast to earlier periods, the economic recovery has not generated a trade deficit.

The second section of this paper breaks down the growth in exports of Spanish goods into their respective margins of trade and compares these margins [2] before and after the crisis. In both periods, the contribution of stable export relationships is very significant and similar in magnitude. However, the contribution of new export relationships to Spanish export growth grew in significance during the post-crisis period. This suggests that the efforts made by Spanish firms to find customers in new markets or new product segments is a distinctive feature of the country's recent export growth. The data show that this market expansion has primarily occurred in the EU-15 markets and has been concentrated in the sectors where Spain has a comparative advantage.

In short, our analysis demonstrates that while there are some differences in the nature of Spanish exports between 2009 and 2016, there are also sufficient similarities to undermine the suggestion that Spain is experiencing an export miracle. However, if growth in the country's export base becomes entrenched, it is probable that Spain will see a steady increase in the value of its exports. Thus, the persistence of these economic trends mean an export miracle may yet take hold in Spain.

Spain's pre- and post-crisis export story

In this section, we analyse Spain's export performance before and after the crisis using several indicators. The comparison helps us to identify which aspects are common to both timeframes and which are unique to the period starting with the Great Recession.

> " Spanish exports grew at a similar pace during the pre- and post-crisis periods and at comparable growth rates experienced by members of the European Union-15 (EU-15). "

Exhibit 1   **Exports of goods and services in EU-15 and Spain 1995-2016**
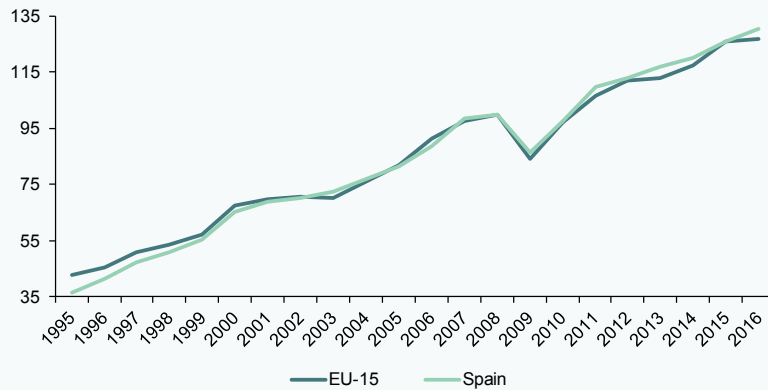
Note: Exports of goods and services (2008 = 100).
Source: Eurostat data and authors' own elaboration.

The first indicator we present is the value of the goods and services exported from Spain between 1995 and 2016 (Exhibit 1). Between 2009 and 2016, exports of goods and services in Spain increased by 51%. As illustrated in the exhibit, some of the growth observed from 2009 represents a recovery in export volumes to pre-crisis levels. Spanish exports registered an average annual growth of 5% between 2010 and 2016. This growth rate is lower than that observed during the six years prior to the crisis (6%) and substantially lower than that observed between 1995 and 2008 (8%). The exhibit also demonstrates that the trend in Spanish exports is similar to the growth rates exhibited by the EU-15.

Exhibit 2 separates the trend in the exports of goods and services. Similar to Exhibit 1, from 2009, Spain experienced export growth in both goods and services. However, these growth rates are not higher than those attained prior to the crisis. In the case of goods, the rate of growth in Spanish exports since 2009 has been higher than that of the EU-15. However, growth in Spanish service exports has lagged behind the EU-15. In short, Exhibits 1 and 2 demonstrate the absence of significant differences in the pace of growth in

Spanish exports before and after the crisis and between the growth recorded in Spain and the EU-15.

Exhibit 3 shows the trend in Spain's share of world exports of goods and services between 1980 and 2016. To facilitate this analysis, we have set Spain's share of global exports of goods and services in 1980 at 100. Between 1980 and 2003, Spain's share rose from 1.3% to 2.4%. However, from 2003 to 2012, Spain's global market share declined, in line with most other developed countries, in response to the rapid incorporation of China and other emerging markets to the global economy. Market share rebounded again between 2013 and 2016. The timing of this growth in export market share is notable given that it coincided with the opening up of the Chinese economy. [3] The exhibit also demonstrates that the growth in Spain's share of world exports of goods and services overlapped with a drop in the share of Germany and France.

Some authors have highlighted the growth in non-traditional markets for Spanish exports as evidence of an export miracle (García-Legaz, 2016). To test this thesis, Exhibit 4 shows the weight of the various destinations

Exhibit 2

Exhibit 2   **Exports of goods and exports of services in EU-15 and Spain,1995-2016**
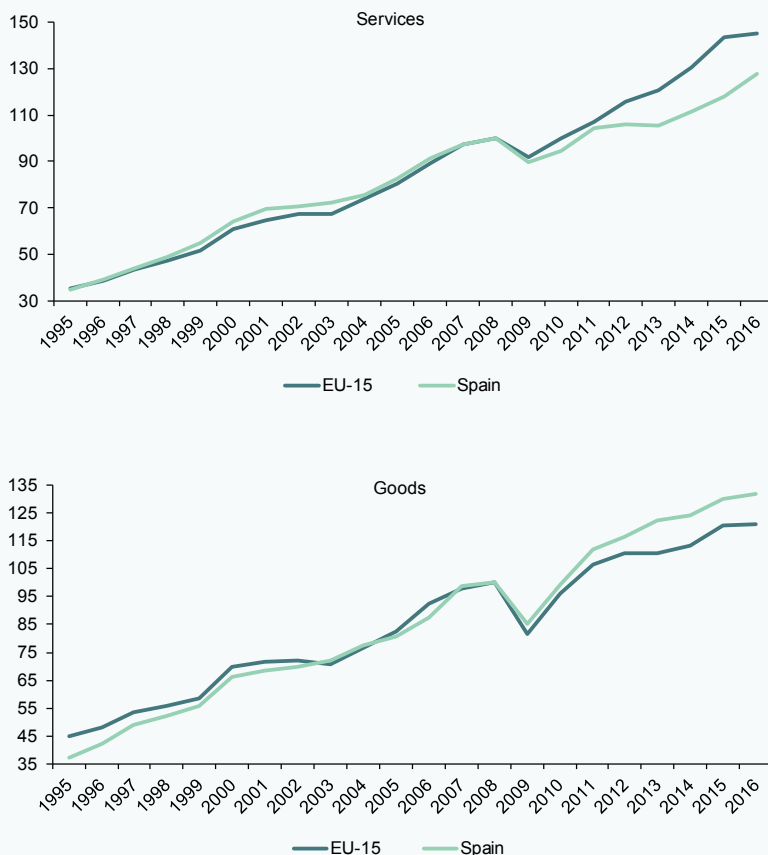
Services

EU-15   Spain

Goods

EU-15   Spain

Note: Exports of goods and services (2008 = 100).

Source: Eurostat data and authors' own elaboration.

for Spanish goods exports between 1995 and 2016. If we take the EU-15 as our proxy for the 'traditional' market for Spanish exports, there is in fact a decline in the share of Spanish exports of goods destined for this market from 72% of all exports of Spanish goods in 1995 to

61% in 2016. However, the exhibit also shows that the share of exports going to the EU-15 began to fall prior to the crisis.

As our proxy for 'non-traditional' markets, we take the countries listed in the Ministry of

" Non-traditional markets have been gaining a greater share of the Spanish export pie; however, this expansion was underway before the crisis erupted. "

Exhibit 3   **Share of global exports of goods and services in Spain, Germany and France, 1980-2016**
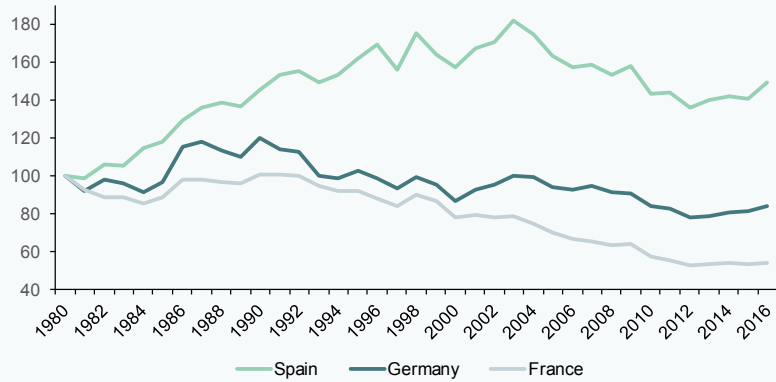
Note: % of world exports of goods and services (1980 = 100).

Source: World Trade Organisation data and authors' own elaboration.

the Economy, Industry and Competitiveness' Integral Market Development Plans of 2015. This programme is comprised of developed countries such as Australia, the US, Japan and Singapore as well as emerging economies like Brazil, China, the Philippines, India, Indonesia, Mexico, South Africa and Turkey. Mediterranean countries that are geographically close to Spain, such as Algeria and Morocco, and oil-producing nations, like Saudi Arabia, Bahrain, Qatar, United Arab Emirates, Kuwait and Oman, are also

Exhibit 4   **Weight of the various destinations for Spanish goods exports as a percentage of total exports, 1995-2016**
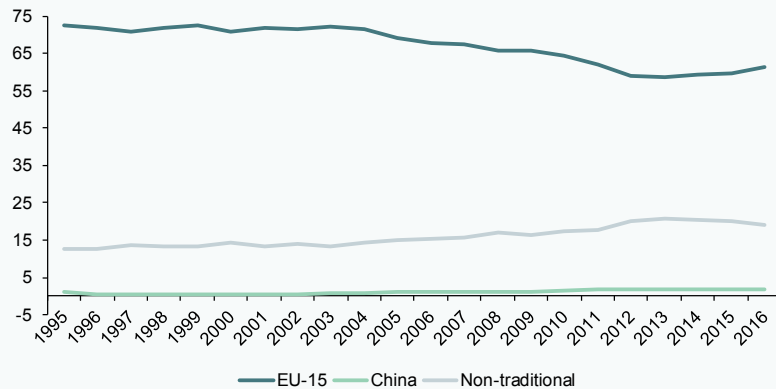
Source: Spanish customs data and authors' own elaboration.

included. As a proportion of the market for Spain's exports of goods, these countries increased their share from 13% in 1995 to 19% in 2016. Nevertheless, there has been a similar acceleration in their share of Spanish exports of goods between the crisis and post-crisis period and a decline after 2013 is observed.

Although it is included in the category of non-traditional markets, the exhibit shows the weight of China as a destination for Spanish exports separately. This is due to the significant role China plays in the global economy. While China's weight has doubled since 1995, its 2% proportion of Spanish goods exports is still small in absolute terms. Nevertheless, in this market we do not observe a dissimilar acceleration in the rate of growth from 2008. [4] In short, the non-traditional markets have been gaining a greater share of the Spanish export pie. However, this expansion was underway before the crisis erupted.

There are three variables that do point to a shifting trend in the Spanish export sector after the crisis. The first is the Spanish economy's openness ratio (exports as a percentage of GDP). As shown in Exhibit 5, the openness ratio has increased sharply since 2009. Specifically, it rose from 23% in 2009 to

33% in 2016. Conversely, between 2000 and 2009, the openness ratio declined from 29% to 23%. This is a notable divergence from the trend seen across the EU-15 during that same period. The exhibit also illustrates that the openness ratio in Spain is lower than that of the EU-15. However, this can be attributed to the greater size of the Spanish economy relative to the EU-15 average. If we compare Spain's openness ratio with that of other large EU economies (Germany, France, Italy and the UK), only Germany surpasses Spain on this measure.

The second variable that points to a recent change in Spanish export trends is the trade balance. As shown in Exhibit 6, the trade balance began to deteriorate in 2000, with the deficit peaking at 6% of GDP in 2007. From that year on, the deficit started to decrease, and since 2012, Spain has recorded a trade surplus. A significant part of the correction can be attributed to the sharp decline in imports. This was triggered by a deep recession that engulfed the Spanish economy between 2009 and 2013. Interestingly, despite the economic recovery, the Spanish economy has continued to record a trade surplus. As noted by García-Legaz (2016), this development is unprecedented in Spanish economic history.

Exhibit 5 **Index of openness, 1995-2016**

(Exports of goods and services/GDP)
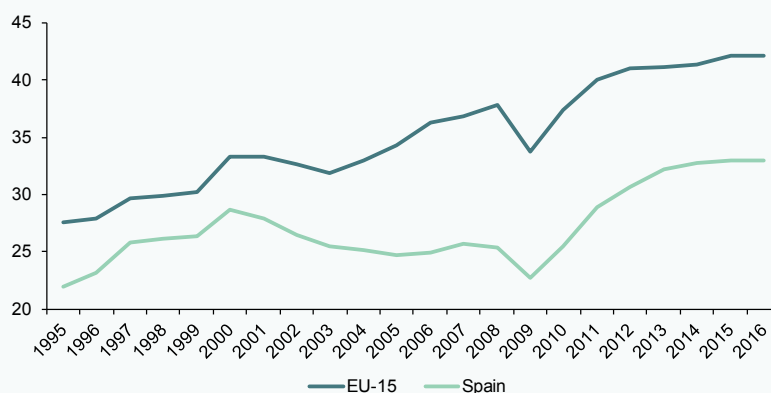
Source: Eurostat data and authors' own elaboration.

> " Despite the economic recovery, the Spanish economy has continued to record a trade surplus. This development is unprecedented in Spanish economic history. "

The third indication that a shift in Spain's export trend occurred after the crisis is the growth in the number of stable exporters and stable export relationships. We define exporters as firms whose annual exports amount to 1,500 euros. [5] Export relationships are defined as the combination of a unique firm, product, and destination. For example, the bicycles exported by a Spanish firm to France constitutes a firm-product-country export relationship. For product identification purposes, we use the Combined Nomenclature 8-digit codes. [6] We define stable exporters as firms that have been exporting on an uninterrupted basis for four years. Likewise, a stable export relationship is a firm-product-country export combination that has experienced uninterrupted activity for four years.

As shown in Exhibit 7, the number of exporters has grown since 1997. Specifically, the number

of exporting firms in Spain increased from 48,056 in 1997 to 79,643 in 2016. While the growth in the number of exporters accelerated during the crisis (2010-2013), the number of exporters declined during the subsequent recovery (2013-2016). This trend can be attributed to those firms that began exporting in order to counteract the fall in domestic demand. Once the recovery was underway and domestic demand had rebounded, these firms ceased exporting their products outside of Spain. The econometric analysis performed using firm data by Almunia *et al.* (2018), and de Lucio *et al.* (2018b) endorses this hypothesis.

Growth in the volume of export relationships also accelerated from 2010. In contrast to the trend in exporters, this growth did not falter once domestic demand began to recover. The initial growth in export relationships can also be explained by the collapse in domestic

Exhibit 6   **Trade balance, 1995-2016**

(As a % of GDP)
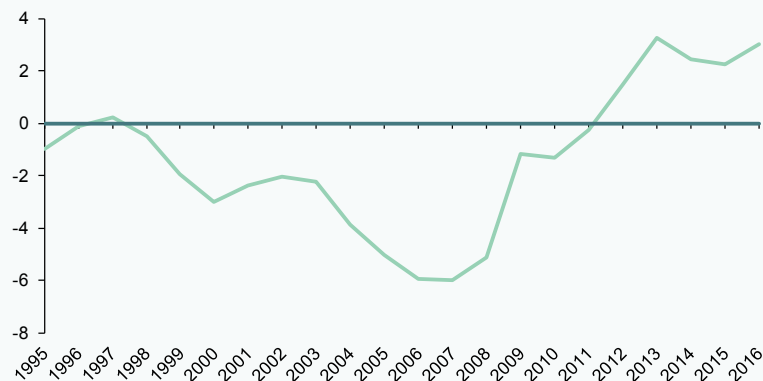
Source: INE data and authors' own elaboration.

Exporters and export relationships, 1997-2016

Source: Spanish customs data and authors' own elaboration.

demand. Spanish firms forged new export relationships to mitigate the drop in their home-market sales. For example, de Lucio *et al.* (2018b) show that when domestic demand falls, companies are more likely to increase their exports through new export relationships than via existing export relationships.

What is noteworthy, however, is the fact that many of these new export relationships have not disappeared since the rebound in domestic demand. According to de Lucio *et al.* (2018a), the crisis forced many firms that were initially reluctant to enter into new markets to export in order to maintain their business volumes and stay afloat. As well, firms that were already exporting were obliged to find new customers by offering new products or entering new markets. Some companies have returned to their traditional markets since domestic demand recovered, but many others have discovered that they can compete on a steady basis in these new international markets. This trend is consistent with the growth observed in the number of stable exporters and stable export relationships since the Great Recession. Similarly, de Lucio *et al.* (2018a) show that growth in the number of exporters has been higher in those industries which saw an increase in the number of companies during the crisis.

Margins of trade analysis

To complement the analysis outlined above, this section breaks down the growth of Spanish exports into three different margins before and after the crisis. Using the methodology put forward by Bernard *et al.* (2009), the change in the value of exports can be attributed to the net entrance of new exporters, diversification in incumbent exporters' portfolio of products and destinations, and the variation in the value of existing export relationships. The first two

> " What is noteworthy, however, is the fact that many of the new export relationships that emerged in response to the crisis have not disappeared since the rebound in domestic demand. "

represent the so-called extensive margin of exports, while the third factor represents the so-called intensive margin of exports. [7]

Table 1 presents the contribution by each of the margins to the growth in Spanish exports. Between 2009 and 2016, Spanish exports increased by 92.28 billion euros. The absolute increase in the value of exports is 59% higher than that registered in the pre-crisis years (2001-2008). The intensive margin made the biggest contribution to the growth in exports. This margin encompasses the change in the value of export relationships, defined as firm-product-country combinations that already existed in 2009 and remained active at the end of the period. Diversification also made a very important contribution to the growth in exports during this period. This margin includes all the export relationships that did

not exist prior to 2009 and were introduced by stable exporters between 2009 and 2016. This margin's significant contribution to growth suggests that a large proportion of Spanish exporters broadened their portfolio of products and export destinations after 2009.

As highlighted in Exhibit 7, the number of Spanish exporters increased between 2009 and 2013. However, the net contribution by new entrants to the growth in exports between 2009 and 2016 was lower in both absolute and relative terms than that of the pre-crisis period. These figures suggest that the value of the exports by the new entrants during the crisis years was smaller and that these firms exhibited a lower survival rate and higher turnover rate than in the pre-crisis years.

Table 1   **Breakdown of the growth in exports**

	Absolute change in exports (millions of euros)		Percentage contribution	
	2001-2008	2009-2016	2001-2008	2009-2016
Firms				
Entries	37,683	38,411		
Exits	-20,949	-26,273		
Firms-extensive margin	16,734	12,137	28.9	13.2
Diversification				
New relationships	54,582	73,329		
Relationships that elapse	-37,894	-35,518		
Diversification- extensive margin	16,688	37,811	28.8	41.0
Stable relationships				
Growth in sales	52,321	77,027		
Decline in sales	-27,784	-34,695		
Intensive margin	24,537	42,332	42.3	45.9
Total	57,959	92,280	100.0	100.0

Note:The extensive margin has two parts: (1) [FIRMS] firms entering and exiting the export market; and, (2) [DIVERSIFICATION] exporting firms change the composition of the product/country portfolio (for example, a regular exporter launches a new product in a new market). The intensive margin is defined as the expansion and contraction in the value of the stable trade relationships defined at the firm-product-country level (for example, a regular exporter sells more value of the same product to the same market).

Source: Spanish customs data and authors' own elaboration.

Table 2 Breakdown of the growth in exports by destination

Absolute (millions of euros)	2001-2008				2009-2016			
	EU-15	Non-traditional	Rest	China	EU-15	Non-traditional	Rest	China
Firms	9,188	4,163	3,383	478	6,358	3,166	2,614	831
Diversification	3,889	6,538	6,261	705	18,083	11,346	8,382	1,019
Stable	14,596	4,376	5,565	313	24,541	9,386	8,405	1,117
Total	27,674	15,076	15,209	1,496	48,981	23,898	19,401	2,967

Relative (%)	2001-2008				2009-2016			
	EU-15	Non-traditional	Rest	China	EU-15	Non-traditional	Rest	China
Firms	15.9	7.2	5.8	0.8	6.9	3.4	2.8	0.9
Diversification	6.7	11.3	10.8	1.2	19.6	12.3	9.1	1.1
Stable	25.2	7.6	9.6	0.5	26.6	10.2	9.1	1.2
Total	47.7	26.0	26.2	2.6	53.1	25.9	21.0	3.2

Source: Spanish customs data and authors' own elaboration.

Table 3

Breakdown of growth in exports by product category

Panel A

Absolute (millions of euros)	Agriculture	Mining and energy	2001-2008 Manufacturing goods with technology				Unclassified
			Low	Medium low	Medium high	High	
Firms	730	647	659	3,881	8,990	-289	2,115
Diversification	445	195	3,634	6,852	3,136	1,145	1,282
Stable	1,038	249	3,613	8,539	6,835	-6	2,428
Total	2,213	1,092	7,907	19,272	18,961	850	5,975
Relative (%)							
Firms	1.3	1.1	1.1	6.7	15.5	-0.5	3.6
Diversification	0.8	0.3	6.3	11.8	5.4	2.0	2.2
Stable	1.8	0.4	6.2	14.7	11.8	0.0	7.4
Total	3.8	1.9	13.6	33.3	32.7	1.5	13.2

Panel B

Absolute (millions of euros)	Agriculture	Mining and energy	2009-2016 Manufacturing goods with technology				Unclassified
			Low	Medium low	Medium high	High	
Firms	2,144	687	3,257	1,382	2,480	-79	1,967
Diversification	1,403	280	7,844	5,635	18,730	3,386	534
Stable	2,428	373	10,463	6,442	16,216	2,321	4,089
Total	5,975	1,340	21,563	13,759	37,426	5,628	6,589
Relative (%)							
Firms	2.3	0.7	3.5	1.8	2.7	-0.1	2.1
Diversification	1.5	0.3	8.5	6.1	20.3	3.7	0.6
Stable	2.6	0.4	11.3	7.0	17.6	2.5	4.4
Total	6.5	1.5	23.4	14.9	40.6	6.1	7.1

Source: Spanish customs data and authors' own elaboration.

Table 2 presents export growth broken down by destination. As in Exhibit 4, we take the EU-15 as our proxy for the traditional markets for Spanish exports and the Market Development Plan countries as our proxy for non-traditional markets. We also provide the breakdown for China and countries that are not part of the EU-15 or the non-traditional proxy group (Rest).

The table shows that approximately half of the growth in Spanish exports during both periods can be attributed to exports to the EU-15. Furthermore, the traditional market's contribution to the growth in Spanish exports increased during the recession and subsequent recovery. The contribution to growth by China and non-traditional markets is steady at around 3% and 26% respectively. While the most important margin in the EU-15 market is that of stable export relationships, diversification is the fastest growing margin. For non-traditional markets, the reverse is true, with diversification as the most important margin and stable export relationships as the fastest growing margin. In the case of China, all three margins are important, although the stable export relationships margin is particularly significant.

Lastly, we looked at growth in exports according to different product categories. In line with Eurostat classifications, we separated manufacturing goods into four categories: low-technology, medium low-technology, medium high-technology, and high-technology. [8] We also included categories for agricultural, fishing and forestry products (shortened to agriculture), mining and energy goods, and unclassified products. [9]

As shown in Table 3 the sectors that have made the biggest contribution to the growth in exports of Spanish goods since the crisis (Panel B) have been low-technology manufacturing goods (23%) and medium high-technology manufacturing goods (41%). Of note is the manufacturing of food products and motor vehicles. In both sectors, Spain boasts a significant revealed comparative advantage. Although high-technology products only contributed 6% to the growth in exports between 2009 and 2016, this category's contribution has exhibited a fourfold increase from the previous period. The pharmaceutical and aeronautic industries play a particularly prominent role in export of high-technology products from Spain. Medium-low technology manufacturing goods contributed 15% to the growth in exports after the crisis but 33% prior to it.

Table 3 presents growth decomposition by margins. We focus on the medium-high technology manufacturing sectors. Contrary with the pre-crisis period, the contribution of new companies in the post-crisis period was low, 3% (16% in the pre-crisis period). Diversification increased substantially its contribution 20% (5% in the pre-crisis period). Intensive margin also increased its growth contribution.

Conclusion

Since trade collapsed in 2009, Spanish exports have experienced a remarkable recovery, prompting some to label this rebound as an 'export miracle'. However, if we look only at the growth rate in exports, very little difference can be discerned between this most recent period and the years prior to the crisis. Moreover, Spain's export data is comparable to that of the EU-15. In this light, talk of an 'export miracle' seems exaggerated.

> " Although high-technology products only contributed 6% to export growth between 2009 and 2016, this is a fourfold increase from the previous period, with the pharmaceutical and aeronautic industries playing a particularly prominent role. "

Nevertheless, there are indicators that suggest something unique may be taking place in Spain's export sector. Firstly, the openness of the Spanish economy has increased considerably. Secondly, the recovery in domestic demand has not led to a trade deficit. Thirdly, the expansion of the number of stable exporters and, most importantly, in the number of stable export relationships, has increased in recent years.

By analysing the breakdown of the growth in Spanish exports, it becomes clear that the recent expansion in Spanish exports is underpinned by a broadening of products and export markets by existing Spanish exporters. This diversification has occurred primarily in Spain's traditional markets and in sectors where Spain has a revealed comparative advantage, such as the automobile industry, agriculture products (fruits and vegetables) and some processed food sectors (meat products, wine).

If Spain's new exporting firms survive and the new export relationships sparked by the Great Recession become entrenched, a permanent increase in the value of Spain's exports is possible. Spain could thus transition from a growth model based on its domestic market, particularly the construction sector, to one that capitalizes on the country's competitive edge in the international marketplace.

Notes

[1] https://www.elconfidencial.com/economia/2015-04-13/espana vive un milagro exportador tras la crisis financiera; http://www.blogscapitalbolsa.com/article/12931/el milagro de la economia espanola.html

[2] Exports evolves at two margins. Variations on existing relationships (intensive margin) and new trade relationships (extensive margin).

[3] China's share of global exports of goods and services increased from 0.9% in 1980 to 11.1% in 2016, representing growth of 1,133%.

[4] China's weight as a destination for Spanish exports registered an average annual growth rate of 1.4% between 1995 and 2008 and 6.4% between 2008 and 2016. Most of the advance is observed after China joined the WTO. The growth rate between 2000 and 2008 is higher than the post crisis period.

[5] This threshold significantly reduces the total number of exporting firms each year but does not affect the aggregate value of exports.

[6] Given the fact that the product classification in the Combined Nomenclature changes every year, we have used the Van Beveren *et al.* (2012) algorithm to obtain a stable classification for the period under analysis.

[7] See Lucio *et al.* (2011) and de Lucio *et al.* (2017) for applications of this methodology to the Spanish case.

[8] http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:High-tech_classification_of_manufacturing_industries

[9] 'Agriculture' includes national classification of economic activities (NACE) codes 01 to 03; 'Mining and energy' includes NACE codes 05 to 09 and 35; and 'Unclassified' includes the products in the Harmonised System that do not have an equivalent in the NACE.

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Spanish investment in R&D+I in the wake of the crisis: Public versus private sector[*]

While the expenditure trends in public and private sector R&D have historically moved in tandem in Spain, recent data indicate that the public sector has experienced a decline in R&D investment, while the private sector has increased its expenditure. As a result, Spain risks lagging behind the EU average in innovation, which is a key driver of economic growth, suggesting the need for a shift in Spanish public policy.

Ramon Xifré

Abstract: This article examines the investment trends in research and development (R&D) in Spain, distinguishing between the public and private sectors and the corporate innovation drive since the onset of the financial crisis. The rate of growth in R&D expenditure by the private sector was higher in 2016 than in 2015. Of concern, however, is the fact that expenditure by the public sector went from expanding in 2015 to contracting in 2016. In fact, the crisis has had very different impacts on the four main eurozone economies in terms of investment in R&D. Whereas investment was scaled back very significantly in Spain, the other three economies continued to step up their expenditure on R&D. Spain is one of just three eurozone member

states in the OECD to have invested less in R&D in 2016 than in 2008. As for budget execution by the general state administration, the percentage of the R&D budget actually executed began to plummet in 2008, dropping to a low of 30% in 2017 from nearly 90% in 2007. In the private sector, the number of enterprises that undertook technological innovation activities fell continuously between 2008 and 2016, such that the number of firms that were active in this field in 2016 was less than half (43%) that of 2008. As a result, it will be necessary to promote political support for R&D in Spain so as to effectively halt the divergence in innovation with the rest of the EU.

Introduction

Innovation is, by definition, as hard to measure as it is a far-reaching and continuous process. There appears to be some consensus to the effect that innovation is "any change (not just technological) based on knowledge (not just scientific) that generates value (not just economic)" (COTEC, 2018). It is also one of the most inclusive ways of achieving economic growth. The limits on the accumulation of knowledge are lower than the limits on the accumulation of resources that have historically underpinned economic growth, such as capital or land.

By convention, expenditure on R&D is taken as a proxy for innovation efforts. However, it is likely that this serves as a better proxy in the public sector than in the private sector. Private sector R&D is highly concentrated among a very small number of science– and technology-intensive sectors. As a result, there are enterprises that innovate without investing in R&D. Nevertheless, investment in R&D remains one of the main indicators used in the public policy arena in relation to innovation assessment and support.

Four years ago, in this same journal, it was concluded that "the current state of

the Spanish research, development and innovation (R&D+I) system is worrisome. On the one hand, the main headline indicators, public and private, are in free fall. (…) On the other hand, on the policy and regulatory front, the Government's real strategy appears to be resisting without introducing structural reforms that maximise the efficiency of the expenditure in a time of extremely scarce resources. The combination of these two factors leaves Spain not converging to the EU average R&D+I performance but rather deviating from it. (…) An immediate… change on both fronts —budget and reforms— is needed if Spain is to preserve the knowledge creation capacity that has been so costly to build in the past 20 years" (Xifré, 2014).

Against that backdrop, this article takes a look at the investment trend in research and development (R&D), distinguishing between the public and private sectors and the corporate innovation push since the onset of the crisis. In this analysis, unless stated to the contrary, the public sector includes the government and the university or higher-level education system, while the private sector refers to private business enterprises and private non-profit organisations.

Trends in R&D expenditure in Spain

According to the most recent data gleaned from Spain's statistics office's *R&D Activities Survey,* total R&D expenditure in Spain increased by 0.7% year-on-year in 2016. That growth was driven by an expansion in R&D expenditure by the private sector of 3%, which offset a 2% contraction in R&D undertaken by the public sector.

Due to the fact that Spain's GDP growth in 2016 (+3.2%) outpaced that of R&D expenditure, R&D intensity (R&D expenditure/GDP) decreased from 1.32% in 2008 to 1.19% in 2016. That same year, R&D intensity in the

> " Due to the fact that Spain's GDP growth in 2016 (+3.2%) outpaced that of R&D expenditure, R&D intensity (R&D expenditure/GDP) decreased from 1.32% in 2008 to 1.19% in 2016. "

Table 1

Expenditure on R&D, public vs. private sector, in millions of euros and as a % of GDP

	2015	2016	Change 2016/15	Change 2015/14
Total expenditure on R&D, millions of euros	13,172	13,260	0.7	2.7
Expenditure undertaken by public sector	6,224	6,102	-2.0	3.5
Expenditure undertaken by private sector	6,947	7,158	3.0	2.1
Total expenditure on R&D/GDP, Spain, %	1.22	1.19		
Total expenditure on R&D/GDP, EU28, %	2.03	2.03		

Note: The R&D figures are presented in nominal terms, while the GDP figures are presented in real terms. The R&D undertaken by the public sector includes that carried out by the higher education sector. The R&D undertaken by the private sector includes that carried out by the private non-profit sector.

Source: INE and author's own elaboration.

EU28 held steady at 2.03% of GDP. As a result, the gap between the rate of EU and Spanish R&D intensity widened in 2016 (Table 1).

The rate of growth in expenditure by the private sector was higher in 2016 than in 2015. Of concern, however, is the fact that expenditure by the public sector went from expanding in 2015 to contracting in 2016.

With the exceptions of 2009 and 2010, which can be considered years of extraordinary adjustment, these two measures have historically trended in the same direction.

Exhibit 1

Annual change in nominal expenditure on R&D by the public sector, nominal expenditure on R&D by the private sector, and real GDP in Spain

(Percentage)
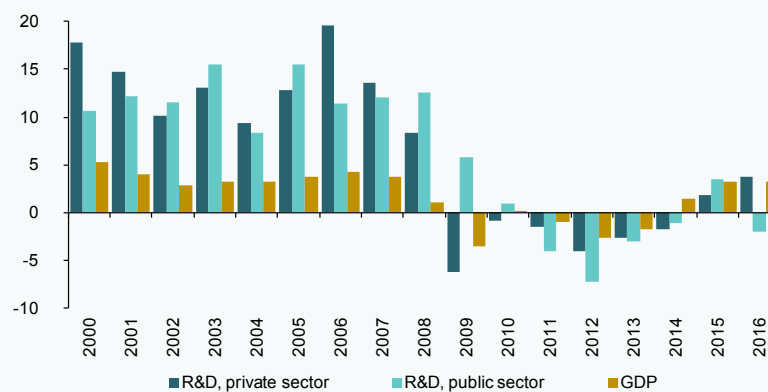
Note: The R&D figures are presented in nominal terms, while the GDP figures are presented in real terms. The R&D undertaken by the public sector includes that carried out by the higher education sector. The R&D undertaken by the private sector includes that carried out by the private non-profit sector.

Source: INE and author's own elaboration.

Up until 2008, both measures registered growth, and between 2011 and 2014, both sustained declines. The 2015 numbers appeared to indicate that the period of a lack of progress in science and technological development was firmly behind Spain, as public and private R&D expenditure experienced renewed and simultaneous growth (Exhibit 1). The most recent figures, which date to 2016, cast doubts over that conclusion.

The decoupling of public and private R&D expenditure in 2016 could mark a very worrying shift in relation not only to the past but also compared to Spain's peer economies.

International comparison

Exhibits 2.a and 2.b, respectively, depict these movements in R&D expenditure by the private and public sectors for Spain and the rest of the major eurozone economies (Germany, France and Italy) between 2001 and 2016.

Exhibit 2

a. Annual change in nominal expenditure on R&D by the private sector
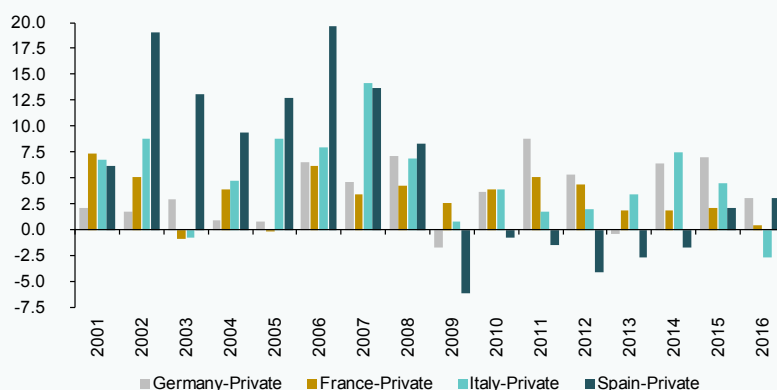
(Percentage)

Note: The R&D undertaken by the private sector includes that carried out by the private non-profit sector.

b. Annual change in nominal expenditure on R&D by the public sector

Percentage
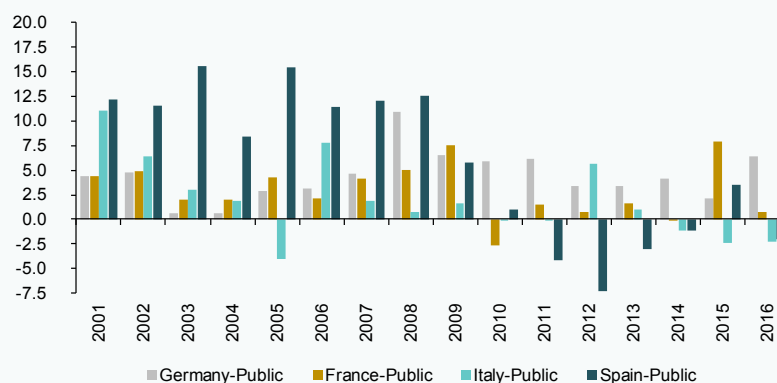
Note: The R&D undertaken by the public sector includes that carried out by the higher education sector.

Source: Eurostat and author's own elaboration.

> " In Spain, the volatility in R&D expenditure for both the public and private sectors is double that of Italy and triple that observed in France and Germany. "

As the exhibits show, the trend in R&D expenditure in Spain has been more volatile in both the private and public arenas than in the three benchmark economies, displaying annual growth rates of as high as 15% or 20% when economic times were buoyant and significant contraction during episodes of crisis. Table 2 provides the standard deviations in the series and confirms that in Spain, the volatility in R&D expenditure for both the public and private sectors is double that of Italy and triple that observed in France and Germany.

In the case of private R&D expenditure, Spain was the only country among the four major EU economies to suffer a non-stop contraction in investment between 2009 and 2014. In contrast, during that same period, expenditure in France and Italy (except in 2016) increased continuously while in Germany expenditure contracted in 2013 and 2009, albeit by minimal amounts. As for the public sector R&D effort, the trend is similar in qualitative terms with some qualifications. The year in which the cuts began in Spain in the public sector (2011) came two years later than in the private sector (2009). Germany

has continuously kept increasing public investment in R&D (even in crisis times) and France cut public investment only in 2010. The trend in Italy has deteriorated since 2014, with sustained public R&D cuts between 2014 and 2016. The crisis, therefore, has had a very different impact on R&D investment across the eurozone's main economies. Whereas Spain experienced significant cuts, Germany and France continued to step up their investment in R&D in both the public and private sectors.

To round out the international comparison, Exhibits 3.a, 3.b and 3.c represent overall R&D intensity (the ratio of R&D expenditure over GDP) for Spain and the EU as well as private sector and public sector R&D expenditure for each respectively.

The three exhibits clearly show how Spain converged towards the EU average until 2010, at which time it began diverging. The convergence period was driven by the fact that growth in R&D expenditure was higher during those years in Spain than in the EU as a whole. The divergence after 2010 has been driven by a steady decline in R&D intensity in

Table 2   **Standard deviation in the change in R&D expenditure by sector and country, 2000-2016**

(Percentage)

	R&D, private sector	R&D, public sector
Germany	2.9	2.5
France	2.2	2.7
Italy	4.1	3.9
Spain	8.0	7.4

Source: Eurostat and author's own elaboration.

Exhibit 3

a. R&D intensity (R&D/GDP)
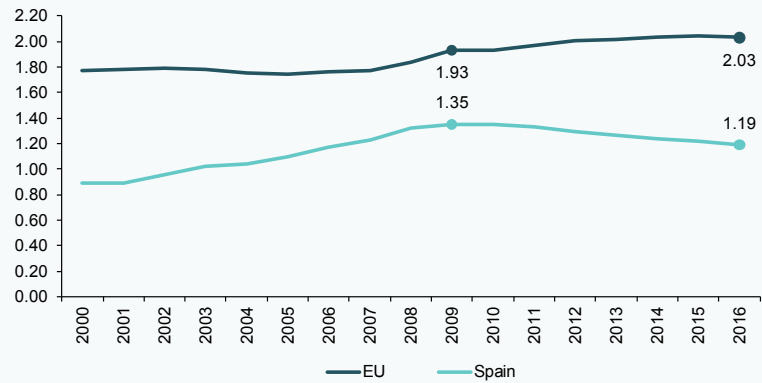
b. R&D intensity (R&D/GDP) in the private sector
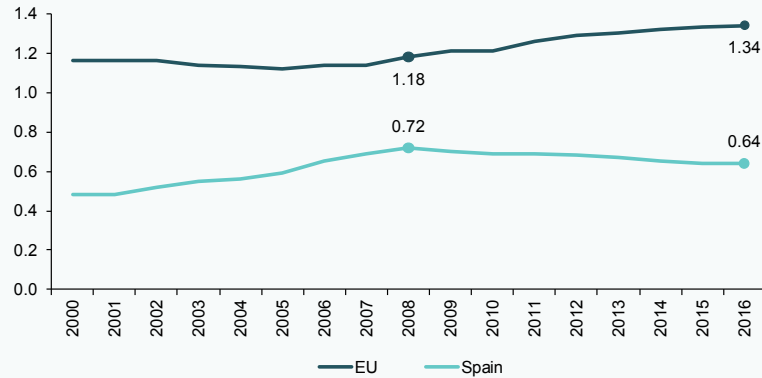
Note: The R&D undertaken by the private sector includes that carried out by the private non-profit sector.

c. R&D intensity (R&D/GDP) in the public sector
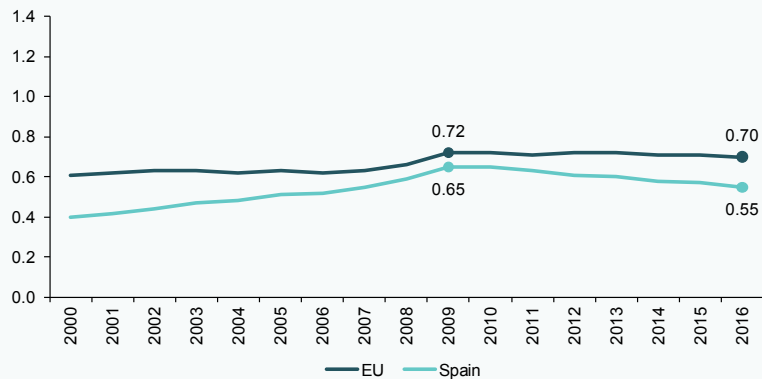
Note: The R&D undertaken by the public sector includes that carried out by the higher education sector.

Source: Eurostat and author's own elaboration.

" Given that Greece and Ireland, two countries that suffered similarly intense crises to Spain, increased their R&D expenditure between 2008 and 2016, it cannot be said that the ground lost on the R&D intensity front in Spain and Portugal can be exclusively attributed to the crisis and its fallout. "

Spain, a drop that has been more pronounced in the public sector, while intensity continued to increase in the EU as a whole, particularly in the private sector.

The result is that Spain is one of just three eurozone states in the OECD to have invested less in R&D in 2016 than in 2008 (Table 3).

Between 2008 and 2016, R&D expenditure in Spain contracted by 9.8% in nominal terms (implying an even bigger reduction in real terms). One might initially assume that

the decline was primarily the result of the economic crisis and the subsequent expense-cutting and fiscal austerity measures rolled out to tackle it. Nevertheless, this interpretation is undermined by the fact that the two countries which suffered similarly intense crises and were even brought under European Union Economic Adjustment Programmes (Greece and Ireland) increased their R&D expenditure during the same period (with growth of 9.5% and 24.5%, respectively). It would seem, therefore, that in the case of Spain, and indeed Portugal, the ground lost on the R&D intensity

Table 3   **Expenditure on R&D and R&D intensity for a selection of eurozone states**

	Total expenditure on R&D (millions of euros)			R&D intensity (R&D/GDP)		
	2008	2016	% change	2008	2016	Difference
Germany	66,531.5	92,419.2	38.9	2.6	2.94	0.34
Austria	7,548.1	10,906.1	44.5	2.57	3.09	0.52
Belgium	68,12.7	10,517.7	54.4	1.92	2.49	0.57
Slovakia	305.0	640.8	110.1	0.46	0.79	0.33
Spain	14,701.4	13,260.0	-9.8	1.32	1.19	-0.13
Estonia	208.0	270.3	29.9	1.26	1.28	0.02
Finland	6,871.1	5,926.1	-13.8	3.55	2.75	-0.8
France	41,066.3	50,099.3	22.0	2.06	2.25	0.19
Greece	1,601.6	1,754.2	9.5	0.66	1.01	0.35
Ireland	2,605.6	3,242.9	24.5	1.39	1.18	-0.21
Italy	18,992.8	21,611.3	13.8	1.16	1.29	0.13
Luxembourg	618.8	659.2	6.5	1.62	1.24	-0.38
Netherlands	10,502.0	14,281.0	36.0	1.64	2.03	0.39
Portugal	2,585.1	2,347.7	-9.2	1.45	1.27	-0.18
Slovenia	616.9	809.2	31.2	1.63	2.00	0.37

Source: Eurostat and author's own elaboration.

front cannot be exclusively attributed to the crisis and its fallout.

Lastly, we look at the international situation in terms of the breakdown of R&D expenditure by sector (Exhibit 4.a) and sources of financing (Exhibit 4.b) for Spain, the EU and the benchmark economies.

As the exhibits show, in terms of where the money is deployed and, more notably, where it comes from, the contribution by the private sector in Spain is around 10 percentage points below the EU average. In Spain, the amount of financing sourced from the national private sector is less than 50% (47%), while the EU recommends this ratio to be two-thirds of all R&D funding, as indeed is the case in Germany (Exhibit 4.b).

Exhibit 4

a. Breakdown of R&D expenditure in 2016, private vs. public sector

(Percentage)
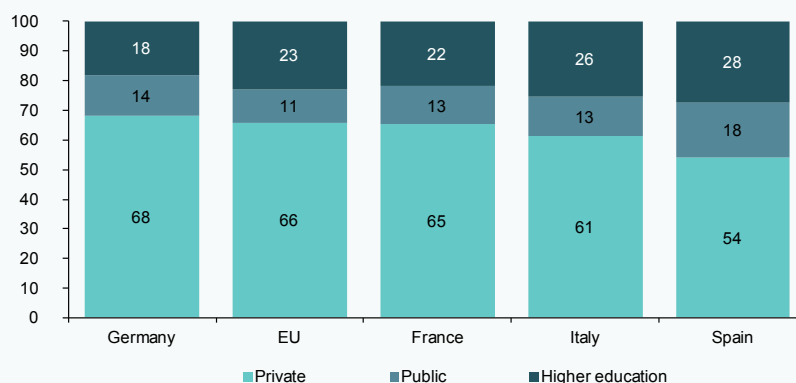
Private   Public   Higher education

Note: The R&D undertaken by the private sector includes that carried out by the private non-profit sector. The R&D undertaken by the public sector includes that carried out by the higher education sector.

b. Breakdown of R&D expenditure in 2015 by source of financing

(Percentage)

Private   Public   International
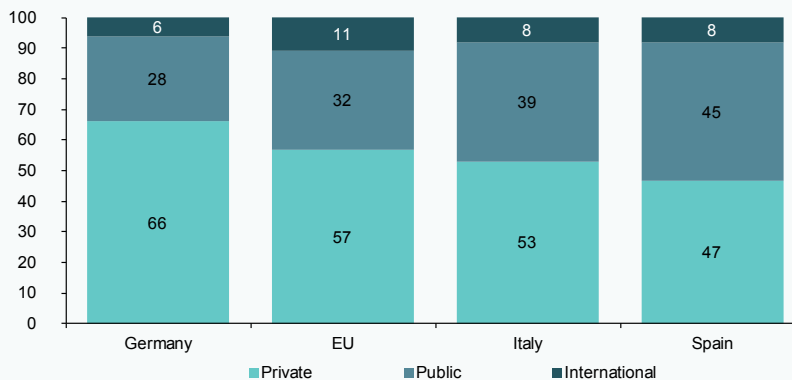
Note: The R&D financed by the public sector includes the R&D financed by the higher education sector. The R&D financed by the private sector includes the R&D financed by the private non-profit sector. Figures not available for France.

Source: Eurostat and author's own elaboration.

Two additional considerations

Execution of public R&D budgets

Using the data on budget execution compiled by the COTEC Foundation for Innovation, we next break down the state R&D budget (expenditure policy 46, "Research, Development and Innovation Expenditure Policy") into two amounts: the budget executed and the budget not executed (defined as the difference between loans awarded and liabilities recognised).

Exhibit 5.a provides this breakdown for the general state administration, while Exhibit 5.b outlines these amounts for state agencies and other public institutions. Both exhibits show the rate of budget execution in the corresponding subsector of the public administration.

The picture painted by the exhibits tells a markedly different story in each subsector in terms of budget execution rates, irrespective of the size of the initial budgets (authorised loans).

Exhibit 5

a. Execution of general state R&D budget. Subsector: General state administration
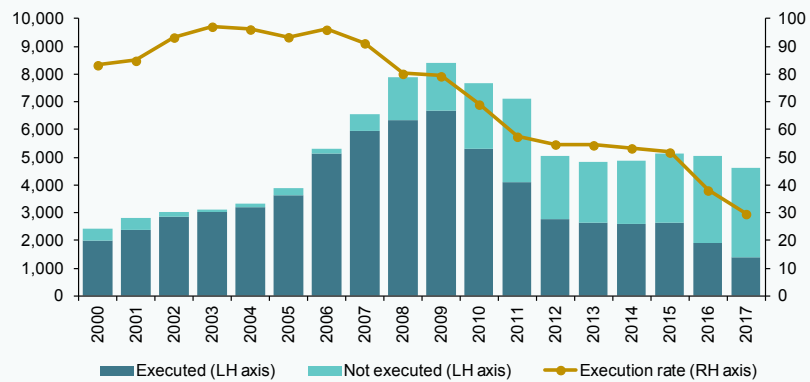
b. Execution of general state R&D budget. Subsector: State agencies and other public institutions
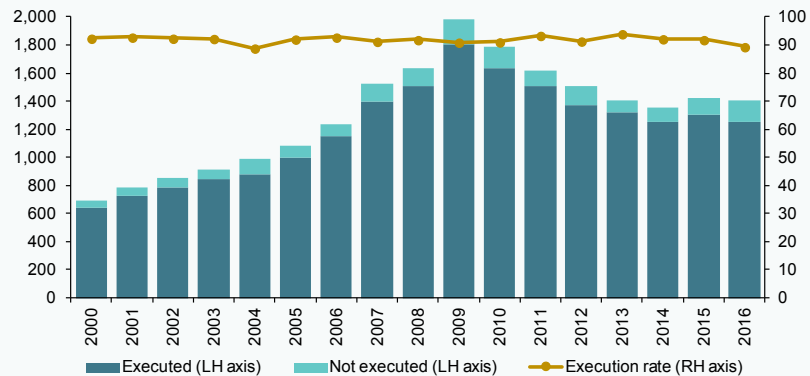
Note: Executed budget refers to the liabilities recognised and non-executed budget refers to the difference between the initial budget (definitive loan awards) and the executed budget. Budget execution rate: Executed budget over initial budget.

Source: INE and author's own elaboration

In the case of state agencies and other public institutions (Exhibit 5.b), the level of budget execution held relatively steady at around 90% between 2000 and 2016 (the last year for which the data is available).

Conversely, in the general state administration, budget execution began to plummet in 2008, dropping to a low of 30% in 2017 (latest available figures) (Exhibit 5.a). In other words, the percentage of the public R&D budget actually implemented by the general state administration has been falling non-stop since 2008, and the amount executed in 2017 (1.38 billion euros) was 31% less than that of 2000 (2.01 billion euros). Note that both figures are expressed in nominal terms; if we were to factor in the increase in prices during the last 18 years, the decline in the R&D budget executed by the general state administration in real terms would be even greater.

Number of enterprises that carry out innovation activities

The following exhibits show the number of business enterprises that carry out innovation activities in Spain, distinguishing between those that undertake technological innovation activities (Exhibits 6.a and 6.b) and those that undertake non-technological activities (Exhibits 7.a and 7.b). The former includes "new technological products (goods and services) and processes and significant technological improvements in them". The latter include "marketing and organisational" innovations. According to the methodology used to compile the *Business Enterprise*

Innovation Survey, "the variables related with the innovations implemented by the firms polled refer to the three-year period prior to that in which the survey is conducted".

For each innovation class we depict the total number of active firms (Exhibits 6.a and 7.b), and the number of firms by both enterprise size (fewer or more than 250 employees) and core business (industry/manufacturing or services), rebased to 2008 (Exhibits 6.a and 7.b).

As shown in Exhibit 6.a, the number of enterprises that undertake technological innovation activities fell continuously between 2008 and 2016 (latest data available), such that the number of firms that were active in this field in 2016 was less than half (43%) that of 2008. The loss of innovative firms is most pronounced within the category of enterprises with fewer than 250 employees whose core business is the provision of services. The number of firms in this group, which represent nearly 50% of all the enterprises that undertake technological innovation activities, fell by nearly 60% between 2008 and 2016. This downward trend has been continuous and there are no signs of a turnaround. In contrast, the downward trend for those firms whose core business is manufacturing came to a halt in 2016, a year in which the number of active companies with fewer than 250 employees increased considerably (Exhibit 6.b).

While those firms that undertake non-technological innovation fell in number

Exhibit 6

a. Number of firms that carry out technological innovation activities in Spain

b. Number of firms that carry out technological innovation activities by enterprise size and core business activity. Rebased to 2008 (=100)

Note: Ind. <250: firms with fewer than 250 employees that operate primarily in the manufacturing sector; Ind. >= 250: firms with 250 employees or more that operate primarily in the manufacturing sector; Serv.<250: firms with fewer than 250 employees that operate primarily in the services sector; Serv. >= 250: firms with 250 employees or more that operate primarily in the services sector. The variables refer to innovations implemented by the firms during the three-year period prior to the year in which the survey was conducted.

Source: INE and author's own elaboration.

by almost half (55%) between 2008 and 2013, they have been growing in ranks since 2014. In comparison with those firms that are pursuing technological innovation, the main difference in this group lies in the fact that the drop in the number of companies with fewer than 250 employees whose main business is the provision of services has been considerably less intense: in 2016 the number of active firms accounted for 80% of that of

2008. In fact, the number of service providers with more than 250 employees that pursue non-technological innovation was 11% higher in 2016 (1,161) than in 2008 (1,038). This particular segment is the only category within the eight classes of enterprises analysed to have increased in number during the period studied.

a. Number of firms that carry out non-technological innovation activities in Spain

b. Number of firms that carry out non-technological innovation activities by enterprise size and core business activity. Rebased to 2008 (=100)

Note: Ind. <250: firms with fewer than 250 employees that operate primarily in the manufacturing sector; Ind. >= 250: firms with 250 employees or more that operate primarily in the manufacturing sector; Serv.<250: firms with fewer than 250 employees that operate primarily in the services sector; Serv. >= 250: firms with 250 employees or more that operate primarily in the services sector. The variables refer to innovations implemented by the firms during the three-year period prior to the year in which the survey was conducted.

Source: INE and author's own elaboration.

Conclusions

The analysis undertaken yields several conclusions. Firstly, from a purely methodological standpoint, there is need for a new generation of R&D and innovation data that more accurately reflect the actual situation and pave the way for better decisions on the R&D policy-setting front. On the one hand, it would be useful to have indicators with a shorter time lag; at present, for some of the indicators (particularly those related with business enterprise activities and sources of R&D financing), the most recent information dates to three years ago. On the other hand, it would be good to have a greater wealth of R&D indicators in order to better cover complex realities, such as innovation undertaken in the public sector, social innovation and innovation initiatives at the international, inter-regional and, in general, collaborative levels.

Secondly, our analysis of the available data concerning the trend in R&D expenditure clearly reveals that Spain, in comparison with the other major economies in the eurozone, presents two growing challenges: it devotes fewer resources to these activities and does so in a far more volatile manner. In times of economic growth, R&D expenditure soars, probably above the realm of what is reasonable, whereas in times of crisis, it is slashed excessively. At any rate, the fact that Spain is one of three eurozone member states in the OECD that had yet to recoup 2008 R&D investment levels by 2016 is worrying. All the more so considering those countries that also suffered severe crises (like Greece or Ireland) were investing more in knowledge in 2016 than in 2008.

As for the innovative drive amongst Spain's enterprises, despite a slight upturn in activity among firms engaged in non-technological innovation since 2014, it is concerning that the number of Spanish firms engaged in technological innovation has been in free-fall since 2008. Another source of concern is the trend in public and private sector R&D investment, which decoupled in Spain for the first time in 2016. Previously, expenditure in both segments has moved in tandem. However, according to the latest data for 2016, it appears that while private investment increased, public investment contracted. Yet another area of concern is the percentage of the general state administration's R&D budget that is executed. This has been plummeting since 2008.

For all of these reasons, the diagnosis of the situation of R&D investment in Spain is no better today than it was four years ago. In fact, the situation has become even weaker. Nevertheless, the recent restoration of the Ministry of Science, Innovation and Universities under Spain's new government may help reverse the divergent trend between Spain and the rest of the EU in terms of investment in science and knowledge. Importantly, the scope for offering Spain's citizens a progressive economic and social model depends largely on being able to do so.

Notes

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Italy and possible implications for eurozone stability

After Italy's unsuccessful push for reform at the EU Summit last month, many of its European partners may be tempted to write-off the country's concerns. However, this somewhat complacent stance may be dangerous in that it underestimates the recent shift in Italian political dynamics that culminated in the formation of an unexpected coalition government and the extent to which this may impact financial markets and potentially EU stability.

Erik Jones

Abstract: Italy's recent election surprised many observers who expected a hung parliament and who were subsequently caught off guard by the success of the right-wing Lega and the populist Five Star Movement (M5S). This outcome can be attributed to an increasingly volatile Italian electorate and a shift in political dynamics brought about by the economic and financial crisis. As the protracted coalition negotiations demonstrated, the Lega and M5S are not natural political allies. While there are areas of policy overlap, the diverse nature of the M5S's political movement, its relatively more expensive policy agenda, and Lega's growing strength all suggest maintaining a united front may prove difficult. Nevertheless, this unexpected political partnership ought not to be written-off by European partners. Finding ways to interact with Italy's new government poses a considerable challenge

to EU leaders and, subsequently, the outlook for EU macroeconomic governance reforms and financial markets' stability. However, such efforts will be necessary to stabilize the eurozone and contain anti-EU sentiment.

Introduction

When Italian Prime Minister Giuseppe Conte headed to Brussels for his first European Council summit in June 2018, he had a complicated negotiating agenda. Conte's top priority was to win a commitment from his European partners that migrants who land in Italy from across the Mediterranean are not strictly an Italian responsibility.

Alongside the migration issue, Conte had to push his own country's vision for reforming macroeconomic governance arrangements at the European level (Jones, 2018a) [1]. He had to call for more attention to be given to the completion of the European Banking Union and specifically the elaboration of a European Deposit Insurance Scheme. He also had to make the case for greater European unity in responding to protectionism coming from across the Atlantic and for greater flexibility in Europe's relationship with Russia, specifically in terms of relaxing sanctions imposed after Russia's invasion of Crimea.

Finally, Conte needed to prove his personal mettle as Prime Minister to European counterparts who may be under the impression that the real power in the Italian government is shared unevenly by the Lega leader and Minister of the Interior, Matteo Salvini, and the Five Star Movement (M5S) leader and Minister of Labor, Luigi Di Maio. Doing so meant not only putting a strong face forward at the European level, but also bringing home a list of accomplishments that would not generate excessive public criticism from within his own government.

Conte's success with this complex agenda was not obvious. Moreover, there is nothing surprising in this lack of accomplishment. Few heads of state or government achieve all their goals at the European level, particularly during their first major summit. That said, Conte's approach was unconventional. He started the meeting by threatening to veto any decision unless and until the migration issue was addressed (Ciriaco and d'Argenio, 2018). This strategy cost him significant credibility and he progressively found himself isolated in the conversation. He succeeded in pushing Italy's views on some of the more prominent issues and yet he did not bring home a major negotiating achievement.

The temptation for Italy's European partners will be to discount the new government in light of this performance. If they do, they risk underestimating just how much Italy has changed since the onset of the economic and financial crisis in the country in 2011 (Jones, 2012). They also risk misinterpreting the new Italy's relationship with financial markets and its importance for the stability of the euro area. This new Italy is only just learning to express itself politically and it has large ambitions in terms of economic performance and government finances. Moreover, the whole of Europe has an interest in helping this new Italy find some measure of success. This is not a political argument; many outside observers will want to take a normative position on the varieties of populism currently on display in the Italian Republic [2]. Such normative judgments are not the issue. What matters is the fact that Italy is too big to fail.

An unexpected electoral outcome has resulted in a strange coalition

On March 4th, 2018, the Italian electorate delivered a parliamentary majority to the Five Star Movement (M5S) and the Lega. The polling data prior to the elections did not

> " The whole of Europe has an interest in helping this new Italy find some measure of success - what matters is the fact that Italy is too big to fail. "

predict this outcome. On the contrary, a long run of polling data suggested that the M5S would get fewer than 30 percent of the votes and that the Lega would come in behind the center-right party headed by former Prime Minister Silvio Berlusconi. [3] Reflecting on this data, most observers anticipated a hung parliament; those few brave enough to pick a clear outcome argued that the majority of the seats in both the Chamber of Deputies and the Senate would go to the center-right (see, for example, Rivara, 2018).

What the polling data failed to anticipate was the volatility of the Italian electorate. Although the polling data was consistent over a long period, the voters were not. To see the variation, it is enough to focus on five political parties: two on the center-right, Berlusconi's Forza Italia and the Lega; two on the center-left, the Democratic Party and a splinter group called 'Free and Equal'; and the Five Star Movement (Table 1). The data is the monthly average across multiple polls for January and February 2018 and the actual results for the Chamber of Deputies in the March 4th elections. What is striking in the data is not just the gains made by the M5S or the redistribution of votes across the center-right, but also the collapse of the center-left. The two parties of the center-left only got 22.1 percent of the votes for the Chamber of Deputies on polling day (and 22.4 percent in the Senate – not reported in the table).

This volatility in the electorate fundamentally changed how the coalition negotiations took place after the votes were translated into seats. There were only two options. Either the Lega and the M5S could find a way to work together or the President of the Republic, Sergio Mattarella, could appoint a technical government with the broad support of parliament. Neither of those options were very attractive to either Salvini on the center-right or Di Maio in the M5S. Having spent weeks going in circles Salvini and Di Maio finally decided to work together.

The M5S and the Lega are not obvious coalition partners. Although international observers were quick to lump the two movements together as 'populist', they are in fact very different organizations, with different demographic constituencies and different geographic orientations.

The Lega has its roots in an older style of Italian politics. The movement has a strong local presence; it campaigns through public stands and gazebos; and it places great emphasis on its 'retail' presence. If the Lega is 'populist', that name fits because of the movement's long tradition of campaigning against Italy's ruling elites and what it describes as the corruption of the Italian political process (Gilbert, 1995, ch. 4). And while Salvini has tried to make inroads for the Lega in the middle and south of the country, including by dropping the

Table 1   **Electoral polls and outcomes**

Party	January 2018	February 2018	March 4th, 2018*
Lega	13.1	13.3	17.4
Forza Italia	16.3	16.5	14.0
M5S	27.9	27.6	32.7
Democratic Party	23.3	23.1	18.7
Free and Equal	6.4	5.8	3.4

(*) These are actual results for the Chamber of Deputies; the results for the Senate are consistent but differ slightly because of the higher age qualification for voters.

Sources: Termometro Politico *(https://www.termometropolitico.it/sondaggi-politici-elettorali)* and La Repubblica *(https://elezioni.repubblica.it/2018/cameradeideputati).*

word 'Nord' (or North) from the movement's official name, the preponderance of support comes from areas north of Lazio and Abruzzo (IPSOS, 2018).

What the M5S shares with the Lega is a strong dislike of Italy's ruling class. This was clearly on display in the aftermath of the 2013 elections, when the M5S took every opportunity to confound and embarrass party leaders who sought to try and bring it into a coalition government. This experience explains much of the antipathy that Renzi holds for the M5S. Within the movement, however, that willingness to expose contradiction and speak truth to power is characteristic, particularly when it upsets convention.

The M5S is a different political entity (Corbetta and Gualmini, 2013). In many ways, it is the opposite of the Lega. It is rooted in the use of technology to foster wide-ranging conversations, to organize flash demonstrations, to survey supporters, and to recruit candidates for election. The average M5S voter is younger, better educated, and more urban than the average for the Italian electorate (IPSOS, 2018). M5S voters are more often at the lower end of the income scale, they have not yet accumulated assets or savings, and they are often in precarious employment. The M5S also draws support from unemployed workers. More recently, the M5S has come to dominate electorally in the South of Italy where economic conditions are harsher and where social mobility is more restricted. This support is recent and may also prove ephemeral. The M5S will have to work hard to earn the loyalty of its new voters, who could become disillusioned with M5S as easily as they were disillusioned by the other parties beforehand. The challenge will be to find the resources to meet the many demands that M5S supporters give priority.

The contrast in style and support for the Lega and M5S make them an unlikely pairing. The traditional structure of the Lega gives it a strong programmatic coherence; the more flexible structure of M5S makes it more unpredictable and even whimsical because the movement responds to the changing ambitions of its supporters (and leaders). The Lega has its origins in a Northern tax revolt focused on the alleged waste and abuse of their individual achievement by politicians in the South; the M5S draws support from younger generations who are more focused on equal opportunity and distributive justice. The combination of 'hard work' and 'entitlement' is also difficult. The two groups share an interest in overthrowing the traditional elites and replacing them with a new ruling class, but that agreement does not extend naturally to what comes after the revolution.

This contrast explains why the Lega and M5S needed time to accept the need to negotiate a coalition agreement. No matter what the underlying political calculus, the two groups are very different. They would have to learn not only to work together, but also to understand the wants and aspirations of each other's supporters.

An ambitious and disruptive policy agenda

When Salvini and Di Maio finally agreed to form a coalition, representatives from the Lega and M5S set out a 'contract' of policies measures to be pursued by the new government. That term also reflected the unusual nature of their partnership given the differences between the two movements. Although both Salvini and Di Maio were careful to underscore the closeness of their working relationship, trust was not something either could take for granted. The first page of the final draft even includes a formal space

" Lega and M5S are very different – they share an interest in overthrowing the traditional elites and replacing them with a new ruling class, but that agreement does not extend naturally to what comes after. "

> " Taken together, the pension reform, the flat tax and the basic minimum income suggest a significant increase in current expenditures – estimates range from 70 billion euros to well over 100 billion euros. "

for signatures and identification details of Di Maio and Salvini as contracting parties. [4]

The contract has four principal components: one focusing on migration and law-and-order issues close to the Lega; a second focusing on public service provision and labor market policies important to the M5S; a third related to economic policies; and a fourth related to Europe. The contract also touched on a range of other policy measures, but these four clusters are arguably the most consequential both for Italy's economic performance and for its relationship with Europe.

The migration and law-and-order components reflect the history of the Lega as a right-wing political movement. They also reflect Salvini's ambitions as Minister of the Interior, which is the position he claimed once both he and Di Maio agreed to renounce any ambition to serve as Prime Minister. The contract promises to take a tougher line on new arrivals to Italy from across the Central Mediterranean. In addition, the contract stresses the importance of expanding the prison service, investing in the police and tackling both crime and other forms of anti-social behavior.

From a public policy perspective, the commitments to improve public service provision have a very different texture. The passages on health care are a good illustration. What the contract promises is a more accessible, responsive and caring management of individual and public health – relying more on general tax revenues and less on individual participation. The formula for achieving this goal is to tackle waste and abuse. That is the same formula that the contract applies to higher education and research. The chapter on 'schools' has even greater emphasis on active state involvement. And the chapter on labor markets introduces commitments to provide a minimum wage

for those sectors of precarious work that are not covered by collective action and to put an end to unpaid internships in the liberal professions. These are all areas where the imprint of M5S is strongest.

The economic components show a mix of both groups. There are some areas of overlap. Reversing the pension reforms introduced when Mario Monti was Prime Minister of the crisis government in 2012 is at the top of the list. This is an area where the two parties are in strong agreement. In other areas, they are more divided. The Lega is eager to introduce a flat tax regime for households, the self-employed, and corporations. The goal is simplification of tax compliance, to be accompanied by a much stricter regime for tax enforcement. In the long run, the Lega argues that this policy will recoup much of the revenue lost from lower tax rates and an initial tax amnesty through higher rates of growth and more consistently high rates of tax compliance. For its part, the M5S is eager to introduce a basic minimum income (reddito di citadinanza) alongside a minimum state pension. This policy would build on the infrastructure created by previous governments in the form of a solidarity income (reddito di inclusione) for the poor and a reactivation income (reddito di reinserimento) for the unemployed, but it would involve more active public-sector engagement and it would be more generous in financial terms. Taken together, the pension reform, the flat tax and the basic minimum income suggest a significant increase in current expenditures. Estimates range from 70 billion euros to well over 100 billion euros (see, for example, Carli 2018). Nevertheless, the contract insists that the government will continue to balance its finances even as it negotiates a more flexible regime for macroeconomic policy coordination with the rest of the European Union.

Relations with the EU are the fourth cluster and they constitute another area of overlap between the Lega and the M5S. This overlap was starkest in the first draft of the document, where the coalition partners appeared to be questioning Italy's continued participation in the euro. Even in the later drafts, however, the change in the approach to Europe remains clear. The Lega and M5S recognize the need to coordinate closely across the government to present a united face to European partners. However, they question current practices of macroeconomic policy coordination and particularly the emphasis on balanced budgets. They are also willing to look for financing instruments that might strain European commitments to avoid monetary financing – and specifically the use of small denomination government debt obligations that could be traded in secondary markets and used by holders to offset tax payments. Finally, they raise questions about the usefulness of European sanctions on Russia, and they even question the effectiveness of Europe in negotiating commercial ties with third parties. This willingness to question Italy's relationship with Europe is not new to the M5S-Lega coalition contract, but the agreement does challenge past practice more than previous governments (Jones, 2017).

Political tensions and financial markets turbulence

That willingness to challenge Europe almost brought an end to the relationship between the Lega and M5S during tense deliberations between the President of the Republic, Sergio Mattarella, and the coalition over key appointments, such as Prime Minister and Economy and Finance Minister. It also resulted in significant financial market volatility over this period. The volatility started when the two parties leaked the first draft of their contract, which included stark passages suggesting the new government may prepare to exit the euro, and it intensified with President Mattarella rejected the Lega's preferred candidate for the Ministry of Economics and Finance and made moves to install a technical government instead.

Although market participants worried about what might be the policies of a government headed by the Lega and M5S, the prospect of a prolonged period of political uncertainty followed by fresh elections was harder to digest. More important, Italy was not alone in being affected. Bond prices moved in countries like Spain, Portugal and Greece as well. This correlation in peripheral bond movements in response to political turmoil in Italy raised concerns across Europe that a new crisis might emerge in the euro area which neither the EU's bailout facilities nor the European Central Bank (ECB) could address. Whether such concerns were plausible was less important than the fact that they existed. Mattarella reconsidered his decision in light of this turbulence and encouraged the Lega and M5S to make one more effort at coming

Exhibit 1   **10-year bid spreads with German Bunds**
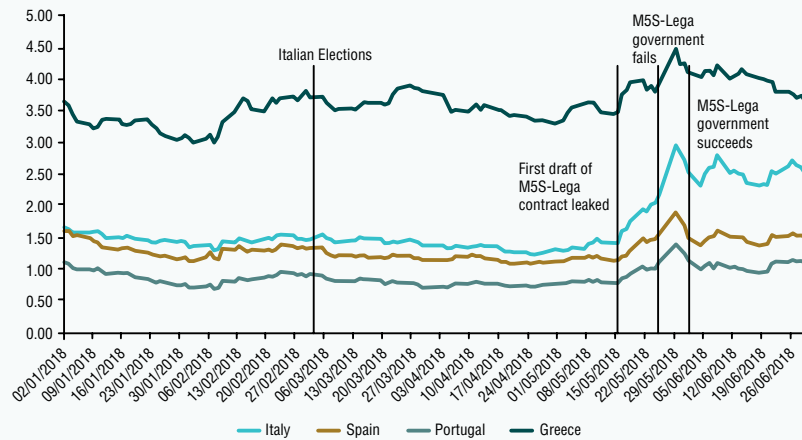
Source: IHS Global Insight.

to an agreement, with Conte as putative Prime Minister. Conte proposed a new name for the Minister of Economics and Finance (instead of the more controversial initial choice Paolo Savona), the economist Giovanni Tria, and shifted Savona to the department for European affairs.

From the outset, Tria made it clear that Italy would continue to live up to its European commitments to control government expenditures and to reduce public debt. He pushed a modified economic and finance document through parliament that showed little or no change in aggregate terms from the policies of the previous government. Moreover, he has offered constant reassurance that Italy's participation in the euro is not in question. In that line, Paolo Savona has played a supporting role. Despite his involvement in academic work related to Italy's exit from the euro, Savona as minister has insisted that such an action is not a policy goal of the current government (Savona, 2018). This concession has not stopped Tria (or Savona) from pushing for greater flexibility at the European level and for arguing for a reform in the pattern of European macroeconomic governance. It has also not prevented Tria from placing policy emphasis on the importance of stimulating growth (Tria, 2018). The point is simply that these are themes that would have been expected from the previous government as well.

The initial days of the new government centered on migration rather than economic or social policy. That is a central theme that has won considerable support for Salvini and the Lega. Indeed, the Lega has almost doubled its support within the Italian electorate (see Table 2). More troubling for the stability of

> " From the outset, Finance and Economy Minister Tria made it clear that Italy would continue to live up to its European commitments to control government expenditures and to reduce public debt, while providing constant reassurance over participation in the euro. "

Table 2   **Public opinion after the elections**

Party	March 4th, 2018*	May 4th, 2018	May 31st, 2018	June 27th, 2018
Lega	17.4	21.2	28.5	31.2
Forza Italia	14.0	13.1	9.0	8.3
M5S	32.7	33.7	30.1	29.8
Democratic Party	18.7	18.3	19.2	18.9
Free and Equal	3.4	2.8	3.1	2.3

(*) These are actual results for the Chamber of Deputies; the results for the Senate are consistent but differ slightly because of the higher age qualification for voters.

Sources: Termometro Politico *(https://www.termometropolitico.it/1309723_sondaggi-elettorali-lega-m5s-2.html) and* La Repubblica *(https://elezioni.repubblica.it/2018/cameradeideputati).*

the coalition, the Lega now has more support than Di Maio's Five Star Movement.

Nevertheless, the real challenge for the coalition will come only at the end of the summer as the parliamentary agenda narrows to focus on the legislative budget for the coming year. That budget debate will be complicated not only by Di Maio's aspirations and Tria's constraints, but also by Salvini's desire to bring forward his tax reforms and associated amnesty provisions. This will open up a three-way conflict that could tear apart the governing coalition.

The early signs of conflict are already apparent, and they fall on what look like more traditional left-right political lines. Di Maio announced a decree to promote the 'dignity' of the workforce that would bolster the support provided to firms that take on new workers while at the same time restricting the use of temporary contracts. Di Maio's goal is to strengthen incentives for firms to move workers into full-time, open-

ended employment. This is a positive move for the M5S supporters among the young and underemployed in northern cities and among the unemployed in the South. Nevertheless, it is a negative move for employers, particularly in small firms, who worry about anything that restricts the flexibility of employment. Predictably, Salvini has started to push back, arguing in favor of enhanced support for firms who take on new workers but against any restrictions on temporary contracts.

Italy's position on EU macroeconomic governance reform

These divisions emerging within the Italian coalition should not obscure the clear position that Italy has on the reform of European macroeconomic governance (Jones, 2018a). That position is worth underscoring because Italy's participation in any future European arrangement will prove critical to the success of the single currency. Moreover, the clear lesson from the Renzi government is that any efforts of Italy's European partners to take advantage of Italy's weakness in European

negotiations will only come back to haunt the governance of the euro area at some point in the future. Italy's failure to negotiate a more favorable treatment of outstanding public debt in the fiscal compact negotiations is one illustration; its failure to negotiate a longer transition period for the changeover in banking resolution regimes is another. Renzi made it clear that both agreements were creating obstacles to domestic political stability and hence also meaningful reform efforts; hence, Renzi argued, Europe was not so much part of the solution as part of the problem (Jones, 2017).

The lines that any Italian government should be expected to push at the European level are for greater mutualization of risk, longer transitions in risk reduction efforts and a more evidence-based approach to understanding how domestic public debt markets should be managed. The mutualization of risk centers on resolution financing, including liquidity provision for banks undergoing restructuring, and the harmonization and integration of European deposit insurance protection. These are both issues that remain on the European agenda for the December European Council summit. At the same time, the Italian government will try to explain to the European Central Bank why efforts to introduce aggressive provisioning against new credit at risk and to promote accelerated disposal of existing non-performing assets are likely to work at cross-purposes, particularly when these are accompanied by changes in the accounting rules related to what constitutes a viable bank asset. This argument is not about the need for harmonized accounting rules or about leveling the playing field for the regulatory treatment of European banks, it is about the speed with which this new regime is being introduced at a time when Italy is still wrestling with the legacies of the recent crisis.

The management of Italian sovereign debt markets is more complicated. Neither the Bank of Italy nor prominent members of the ECB secretariat are convinced that high levels of domestic bank exposure to domestic sovereign debt constitute *prima facie* evidence either of risk to the profitability of the banking system or of a sinister symbiosis between banks and sovereigns. On the contrary, they regard the high exposure of Italian banks to Italian sovereign debt as a legacy of the successful incentives created for the Italian banking system to act as buyer of last resort to stabilize Italian sovereign debt markets in late 2011 and early 2012. Even if they accept, therefore, that bank treasurers may decide to rebalance their asset portfolios away from Italian sovereign debt instruments, they will resist the imposition of any *a priori* limits on how much Italian sovereign debt Italian banks are allowed to hold.

Beyond these elements, there are positions that the current government is likely to push strongly but that any Italian government would pursue in some form. These positions are related to the interpretation of European fiscal rules, the pattern for banking resolution, and the prospect of enhanced European conditionality in exchange for European support. This government needs greater flexibility in the interpretation of European fiscal rules if it is to meet the wide array of spending commitments that the Lega and M5S made to their supporters during the electoral campaign. As conflict between the coalition partners intensifies, much of the friction is likely to be reflected against the rest of Europe. This is true particularly where matters relate to the compensation of small investors who lost money during the recent resolution of Italian banks both in the Veneto region in Northern Italy, and in the central regions of Tuscany and Le Marche. Neither the M5S or the Lega

> " At the EU level, the current government is likely to push strongly on issues related to: greater flexibility in interpretation of European fiscal rules, the pattern for banking resolution; and, resistance of enhanced European conditionality in exchange for European support. "

supports bank bail-ins in principle and their contract argues that even small equity holders should be compensated in the event of banking resolution.

Of the three elements, the prospect of enhanced conditionality is the most controversial. This is true both in terms of crisis-prevention and in terms of crisis-management. Since these aspects are tied to the proposed evolution of the European Stability Mechanism, it is worth following the Italian position closely. The current government's resistance to any form of European conditionality is also relevant to the actions of the European Central Bank. As the recent experience of Greece and Cyprus reveals, the ECB is reluctant to maintain wavers on the credit ratings requirements for sovereign debt instruments used as collateral when the government in question is not in a program; the ECB's Governing Council is also reluctant to extend emergency liquidity assistance for banks that lack high quality collateralizable assets; and the ECB cannot engage in outright monetary transactions to stabilize sovereign debt markets for governments that refuse to enter into some kind of European program. So long as these positions remain consistent on both sides of the argument, the potential for this government to create uncertainty in the markets is significant. The market reaction to political uncertainty in Italy should be seen in that context.

An uncertain future for the coalition and a delicate balance with the EU

The uncertainty about the future of the governing coalition cannot be resolved analytically. Only time will tell. Nevertheless, two factors are relatively easy to discern in light of the present. The first is that the Italian electorate is more volatile now than it has been since the collapse of the First Republic. The fact that the Lega can almost double its support in a matter of months is unprecedented. The fact that this support is extending rapidly down into the south of Italy is worth noting as well. The Lega is likely to emerge as a national center-right political movement with few necessary ties to other forces, including Berlusconi's Forza Italia. This new strength and freedom for maneuver

is likely to galvanize the Lega as a permanent and essential force in Italian politics. In other words, other European countries will have to learn how to work with Salvini even if the current government were to fail.

A second factor that seems apparent is the general confusion on the center-left of the Italian political spectrum. The open question is whether the M5S will find some way to move closer to the Democratic Party. What is unsure is whether the M5S is willing to embrace a center-left ideological position. Having thrown his lot in with Salvini, Di Maio lacks the credibility to lead a center-left political movement. So long as the center-left remains confused, the terrain is open for Salvini to drive the political conversation. Thus far, the Lega appears to be moving from strength-to-strength. How long that run of success can last is difficult to gauge.

The role of Europe is the missing piece in this analysis. That role has two components as well. The first of these is mechanical. The correlation in bond yields across the euro area does signal the need to complete Europe's Banking Union and related institutional arrangements. The recent summit did not go far in that direction. The December 2018 European Council summit will be decisive. This is where the second, more political component becomes important. If the European Union evolves in a way that lowers the tension in Italy, it will at the same time deprive the current government of a long-standing grievance that both the Lega and M5S have used for political mobilization. If Italy's European partners choose to ignore Italian concerns instead, they will add fuel to anti-EU sentiment in Italy and strengthen the government's critique of European institutions. Finding a way to engage constructively with this government is going to be challenging and yet the alternative of ignoring the new Italy is likely to be worse (Jones, 2018b).

Notes

[1] For an extended analysis of Italy's position in the macroeconomic governance debate, see Jones (2018a).

[2] For an overview and comparison between Italy and France, see Diamanti and Lazar (2018).

[3] For historical polling data, see *Termometro Politico* – https://www.termometropolitico.it/sondaggi-politici-elettorali

[4] The final version of the government contract can be found here: http://download.repubblica.it/pdf/2018/politica/contratto_governo.pdf

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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)

Law amending the Law on the mutual recognition of criminal rulings in the European Union in order to regulate the European Investigation Order (Law 3/2018, published in the official state journal on June 12th, 2018)

The new law transposes Directive 2014/41/EU, of April 3rd, 2014, regarding the European Investigation Order in criminal matters, which is based on a single instrument for gathering evidence in criminal matters with a cross-border dimension in the European Union, into Spanish law.

It has the effect of amending the title in the Law on the mutual recognition of criminal rulings in the European Union concerning the European Investigation Order, which in turn itemises the characteristics of such orders, the authorities with the power to issue and execute them, the general conditions for issuing and transmitting orders and their specific investigative measures and the general conditions for recognising and executing orders and their specific investigative measures.

At the bank level, the European Investigation Order comes into play when a competent Spanish authority requests information or executes an order to obtain information about the bank or financial accounts and bank or financial transactions of a person involved in criminal proceedings.

This same new law also amends Spain's Civil Procedural Act: (i) in relation to the attachment of accounts opened at credit institutions; and, (ii) in order to adapt it for Regulation (EU) No. 655/2014, of May 15th, 2014, establishing a European Account Preservation Order procedure to facilitate cross-border debt recovery in civil and commercial matters.

Draft Bank of Spain Circular amending the Accounting Circular and the Risk Information Register Circular

On June 22nd, the Bank of Spain published a draft circular amending Circular 4/2017, of November 27th, 2017, on public and confidential financial information rules and formats (hereinafter, the Accounting Circular) and Circular 1/2013, of May 24th, 2013, on the Risk Information Register, with the aim of adapting the accounting regime applicable to the Spanish banks to accommodate the changes implied by adoption of IFRS 16 *Leases*. The consultation period runs until July 13th.

Broadly, the changes introduced by the draft circular are the following:

- Amendments to the Accounting Circular:

  - The accounting standard on leases is amended to adapt it for the criteria set down in IFRS 16, which imply changes: (i) to the banks' individual and consolidated balance sheet templates; (ii) in the rule regarding the preparation of the public statement of profit and loss; and, (iii) in the disclosures required in the financial statement notes, as well as smaller amendments to ensure that the Accounting Circular remains consistent as a whole.

    Under the new lease accounting model prescribed by IFRS 16 for the lessee, leases are no longer classified as either

operating or finance leases; rather, all lease arrangements are recognised on reporters' balance sheets.

The exceptions are lease agreements with an initial term of 12 months or less and leases of low value, which may continue to be treated in the same manner as operating leases had been accounted for, *i.e.,* recognising an expense in profit or loss on a straight-line basis, unless another systematic basis is more representative of the time pattern of the user's benefit.

Lease accounting by lessors does not change significantly; lessors will continue to distinguish between operating and finance leases.

The changes contemplated in sale and leaseback transactions are simply those needed to align their recognition for accounting purposes with the new treatment stipulated for lessees.

● It clarifies the scope of application with respect to confidential reporting information.

● The frequency with which the individual public balance sheet has to be submitted has been changed from monthly to quarterly.

● Changes are introduced to Annexes 1, 4 and 9 ("Credit risk analysis, allowances and provisions"). With respect to the latter, the new legislation modifies the wording as required to stipulate that the transactions included in a special debt sustainability agreement and which do not yet have to be reclassified as non-performing be identified as refinancing, refinanced or restructured transactions.

● The new law amends the individual and consolidated public statement of profit or loss templates to better align them with the equivalent FINREP statement. It also introduces changes to the public statements regarding assets foreclosed or received in payment of debt to tighten up the scope.

● As for the individual confidential statements, the new legislation simplifies certain balance sheet and statement of profit or loss requirements and reduces the frequency with which related-party disclosures have to be provided. In terms of the consolidated confidential information, the new legislation similarly introduces changes in the frequency of submission, while one of the statements is replaced by a new individual confidential statement.

■ Amendments to the Risk Information Register Circular: Small changes to introduce clarifications and improvements identified in the course of its application.

This new Circular, as with IFRS 16, takes effect from January 1st, 2019, with the exception of certain statement changes unrelated to the new lease accounting framework, which take effect from December 31st, 2018.

Spanish economic forecasts panel: July 2018*

Funcas Economic Trends and Statistics Department

No change in GDP forecasts for 2018

The consensus forecast for second-quarter GDP growth is 0.7%, the rate actually observed during the last three quarters. The indicators point to a slowdown in consumption, shaped by the uptick in inflation, and a recovery in investment.

The consensus forecast for GDP growth in 2018 is unchanged from the last survey at 2.8%. Growth during each of the last two quarters of the year is estimated at 0.6%. There have been some changes in the expected composition of that growth: the analysts have raised their forecasts for private and public consumption and for investment in construction, while cutting their forecasts for investment in capital goods substantially. They have also lowered their forecasts for growth in exports and imports. Domestic demand is currently expected to contribute 2.5 percentage points to growth, with foreign demand contributing to the outstanding balance: 0.3 percentage points.

The GDP forecast for 2019: Unchanged at 2.4%

The consensus forecast for GDP growth in 2019 is unchanged at 2.4% The slowdown is expected to be driven primarily by weaker private consumption. The analysts expect foreign demand to continue to make a positive contribution to GDP growth.

Inflation on the rise in 2018

The inflation rate increased to 2.3% in June, from levels of around 1% in the first three months of the year, as a result mainly of energy product inflation.

The consensus forecast for average inflation in 2018 has risen by 0.2 percentage points to 1.7%; the forecast for core inflation is unchanged at 1.2%. The headline inflation rate is expected to decline in 2019, with core inflation increasing. The estimates for the year-on-year rates for December of this year and next are 1.8% and 1.5%, respectively.

The unemployment rate continues to trend lower

According to the Social Security registration numbers, the pace of job creation gathered force in May and June, having slowed in March and April, so that growth in employment in the second quarter ended up the same as in the first quarter. Recall, however, that for some time now the trend in employment revealed by the Labour Force Survey is less dynamic than that gleaned from the Social Security numbers.

According to the consensus forecasts, employment is set to increase by 2.4% in 2018 and 2% in 2019. Using the forecasts for growth in GDP, job creation and wage remuneration we can obtain implied forecasts for growth in labour productivity and unit labour costs: the former is expected to register growth of 0.4% in both 2018 and 2019, while ULCs are expected to increase by 0.7% in 2018 and by 1.1% in 2019. The average annual unemployment rate is expected to continue to decline to 15.3% in 2018 and 13.6% in 2019. None of these estimates has changed since the last edition of the Panel.

Spain set to continue to report a current account surplus

To April, Spain presented a current account deficit of 2.8 billion euros, compared to a slight surplus in the same period of 2017, as a result of a narrower trade surplus and a wider income deficit.

The deficit presented during the first few months of the year is highly seasonal, however, and Spain is expected to report an overall surplus equivalent to 1.5% of GDP in 2018, just 0.1 percentage points below the 2017 surplus. In 2019, the surplus is expected to decline by an additional 0.1 percentage points.

Spain expected to miss its public deficit targets

The fiscal deficit amounted to 3.98 billion euros in the first quarter of 2018, down from 5.38 billion euros

in the first quarter of 2017. Tax revenue increased by 6.8% during the quarter while on the expenditure side, the recovery in investment, particularly at the state government level, stands out.

All of the Panel members bar one believe that Spain will miss its public deficit targets this year and next. They are forecasting a deficit of 2.5% of GDP in 2018 (unchanged from the last Panel forecasts) and of 2% in 2019, up 0.1 percentage points from the last survey.

Less benign external environment

The external environment remains favourable, as evidenced by the global economic forecasts of the main international organisations. However, the perception has deteriorated somewhat since the last Panel survey. The signs of a slowdown in the European economy foreshadowed in previous surveys have materialised. The German economy, at close to full employment, may be encountering difficulties in continuing to fuel strong growth. In addition, political uncertainty and the state of the financial sector have clouded the outlook for the Italian economy. Elsewhere, Brexit negotiations do not appear to be headed in the right direction. Meanwhile, the British economy is posting sluggish growth.

However, the main external risk factor lies with the intensification of trade tensions in the wake of the import duties introduced by the US administration. These tensions have played a part in weakening growth in the Chinese economy, which was already tackling private sector deleveraging issues. If the US government were to introduce new duties on imported cars, this could have a material impact on the sector and ramifications for the European economy in general and the Spanish economy in particular. Lastly, oil prices remain high, approaching $80 a barrel during some trading sessions.

As a result, the members of the Panel are less optimistic about the external environment than previously. The majority continue to view the context as favourable. However, several analysts believe that the current environment is neutral and, specifically in relation to the environment outside of the European Union, two view it as negative. And although the majority of analysts think that the environment

will remain favourable, the number cautioning about a deterioration in the international context in the coming months has increased.

Interest rates due to move higher

The ECB, despite the expectation that core inflation will increase slightly, would not appear to be considering a significant change in its plans for monetary policy normalisation. This means that the spread between rates in Europe and the US, where normalisation is further along, will continue to exist throughout the horizon of the forecasts.

The Panel members are not anticipating any change in the timing of benchmark rate increases compared to the last set of forecasts. They are virtually all expecting the rate hikes to begin in 2019 with most expecting this to happen in the second half of that year. Just two analysts think that the rate hikes will come sooner, namely in the second quarter (with none forecasting any earlier moves).

The expected increase in benchmark rates will have an impact on market rates. The Panel analysts believe that 12-month Euribor will start to move higher in the second half of this year and enter positive territory by the second quarter of 2019 (no change with respect to the last set of forecasts). The yield on Spain's 10-year Treasury bonds is expected to etch out a similar pattern, increasing to 2% by year-end 2019. That would still be a relatively low rate of interest, in line with what the economy demands.

Euro depreciation against the dollar may continue until 2019

The gap between European and US interest rates has impacted the capital markets and continues to exert pressure on the exchange rate. The euro is trading at around 1.16 dollars, which is lower than at the time of our last publication. This means that the euro has depreciated by 7% from its annual high. The majority of analysts believe that the rates observed during the early part of this year will not be revisited until the end of 2019.

Shift in assessment of fiscal policy

The analysts' assessment of monetary policy has not changed. All of the Panel members view it as expansionary and the majority think it will remain so during the months to come (no change from the last survey).

In contrast, there is an apparent lack of consensus regarding fiscal policy. The analysts are split as to whether fiscal policy is expansionary or neutral. And whereas the majority are calling for a neutral fiscal policy, five analysts believe it should be contractionary.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change
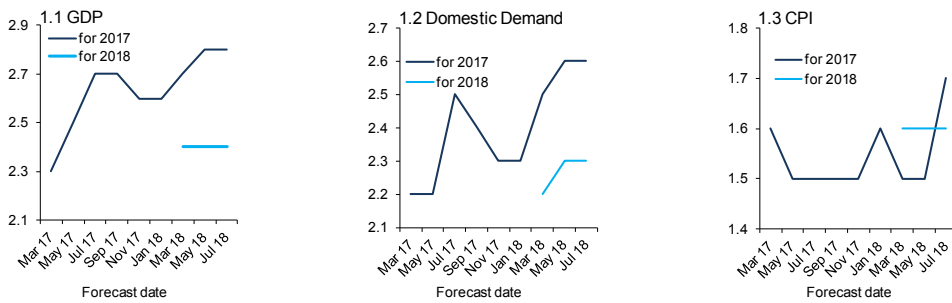
Source: Funcas Panel of forecasts.

The Spanish economic forecasts panel is a survey run by Funcas which consults the 18 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the first fortnights of January, March, May, July, September and November. The responses to the survey are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 18 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.

Spanish economic forecasts panel: July 2018*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – July 2018

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	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	2.9	2.4	2.5	2.0	1.5	2.0	4.6	3.7	4.1	3.4	5.2	4.2	2.7	2.3
Axesor	2.9	2.6	2.4	1.8	2.0	2.2	4.2	5.5	2.0	4.1	6.3	7.4	2.8	2.7
BBVA	2.9	2.5	2.2	2.0	1.7	1.9	4.8	5.4	5.2	5.3	4.7	5.4	2.6	2.6
Bankia	2.9	2.3	2.4	2.0	1.4	1.1	4.4	3.9	4.8	4.0	4.2	3.9	2.6	2.3
CaixaBank	2.8	2.4	2.6	2.0	1.5	0.8	3.4	3.0	1.6	2.6	4.8	3.2	2.6	2.0
Cámara de Comercio de España	2.7	2.4	2.5	2.1	1.4	1.5	4.2	4.1	4.0	4.0	4.3	4.2	2.6	2.4
Cemex	2.7	2.3	2.5	2.1	1.6	1.2	3.9	3.8	3.8	3.8	4.3	4.0	2.6	2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.7	2.4	2.2	1.8	1.4	1.3	4.4	4.2	4.0	3.5	5.2	5.0	2.4	2.2
Centro de Predicción Económica (CEPREDE-UAM)	2.7	2.3	2.5	2.1	1.6	1.6	4.0	3.8	3.0	3.9	5.0	4.0	2.6	2.3
CEOE	2.8	2.6	2.6	2.3	1.4	1.7	4.4	4.5	3.7	4.1	5.2	4.8	2.7	2.5
Equipo Económico (Ee)	2.8	2.5	2.3	2.1	1.7	1.9	4.1	4.2	4.2	3.9	4.3	4.9	2.5	2.3
Funcas	2.8	2.4	2.1	1.8	1.4	1.2	5.5	4.6	5.2	4.1	5.8	5.1	2.7	2.3
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.4	2.3	2.0	1.5	1.4	4.7	4.2	4.8	4.5	4.5	4.0	2.6	2.4
Instituto de Estudios Económicos (IEE)	2.8	2.3	2.5	2.0	1.4	1.4	4.2	3.4	6.0	4.7	3.2	3.1	2.8	2.2
Intermoney	2.8	2.4	2.4	2.0	1.6	1.7	4.5	4.0	4.4	4.0	4.8	4.2	2.6	2.4
Repsol	2.6	2.4	2.3	1.6	1.8	1.5	4.0	4.7	2.3	5.2	5.4	4.9	2.4	2.2
Santander	2.9	2.4	2.5	2.0	1.8	1.6	4.0	4.0	2.3	3.6	5.4	4.3	2.7	2.4
Solchaga Recio & asociados	2.8	2.3	2.5	1.9	1.6	1.5	4.0	3.7	3.1	4.0	5.3	4.3	2.8	2.3
CONSENSUS (AVERAGE)	2.8	2.4	2.4	2.0	1.6	1.5	4.3	4.1	3.8	4.0	4.9	4.5	2.6	2.3
Maximum	2.9	2.6	2.6	2.3	2.0	2.2	5.5	5.5	6.0	5.3	6.3	7.4	2.8	2.7
Minimum	2.6	2.3	2.1	1.6	1.4	0.8	3.4	3.0	1.6	2.6	3.2	3.1	2.4	2.0
Change on 2 months earlier[1]	0.0	0.0	0.1	0.0	0.2	0.1	-0.2	0.1	-1.5	-0.2	0.5	0.5	0.0	0.0
- Rise[2]	2	4	10	4	11	5	5	5	0	1	12	9	7	4
- Drop[2]	1	3	2	3	1	0	8	4	14	7	1	1	3	1
Change on 6 months earlier[1]	0.2	--	0.2	--	0.5	--	0.4	--	-0.4	--	1.2	--	0.3	--
Memorandum items:														
Government (April 2018)	2.7	2.4	2.0	1.8	1.1	1.2	4.7	4.4	--	--	--	--	--	--
Bank of Spain (June 2018)	2.7	2.4	2.4	1.8	1.5	1.3	4.2	4.2	2.5	4.2	5.7	4.5	--	--
EC (May 2018)	2.9	2.4	2.3	1.9	1.9	1.3	4.6	3.9	5.0	4.3	--	--	--	--
IMF (April 2018)	2.8	2.2	2.3	2.0	1.0	0.7	4.5	3.6	--	--	--	--	2.5	2.1
OECD (May 2018)	2.8	2.4	2.3	1.8	1.2	1.1	4.4	4.3	--	--	--	--	2.6	2.2

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

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

Table 1 (continued)

Economic Forecasts for Spain – July 2018

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]	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	4.5	3.5	4.4	3.6	1.7	1.4	1.2	1.3	1.4	1.6	2.4	2.0	15.5	14.1	1.6	1.4	-2.6	-2.0
Axesor	3.5	4.2	3.7	4.7	2.0	1.9	1.3	1.6	1.2	1.5	2.3	1.9	15.1	13.3	1.2	0.7	-2.8	-2.3
BBVA	4.8	6.1	4.2	6.9	1.5	1.6	1.1	1.3	1.1	2.1	2.6	2.2	15.3	13.7	1.5	1.1	-2.4	-1.7
Bankia	4.9	3.6	4.2	3.6	1.8	1.9	1.1	1.5	1.1	1.5	2.5	1.8	15.3	13.9	1.8	1.6	--	--
CaixaBank	3.7	4.2	3.2	3.2	1.6	1.9	1.2	1.7	1.3	2.2	2.4	2.1	15.4	13.7	1.6	1.7	-2.6	-1.9
Cámara de Comercio de España	4.2	4.3	3.8	4.3	1.9	1.4	1.4	1.4	--	--	2.4	2.0	15.5	13.8	1.3	1.3	-2.2	-1.3
Cemex	4.0	3.8	3.9	4.0	1.7	1.7	1.3	1.3	--	--	2.5	1.8	15.4	14.0	1.5	1.5	-2.5	-2.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	4.6	4.5	4.2	4.1	1.8	1.5	1.3	1.8	--	--	2.4	1.9	15.0	13.3	1.8	1.9	-2.7	-2.4
Centro de Predicción Económica (CEPREDE-UAM)	3.2	3.8	2.8	3.7	1.5	1.6	--	--	0.9	1.4	2.2	1.9	15.6	14.1	1.1	1.4	-2.5	-2.0
CEOE	4.2	4.0	4.3	4.3	1.6	1.3	1.1	1.2	0.8	1.2	2.5	2.3	15.3	13.4	1.3	1.4	-2.5	-2.0
Equipo Económico (Ee)	4.7	4.2	4.2	4.1	1.7	1.6	1.2	1.3	1.3	1.5	2.6	2.3	15.1	13.6	1.7	1.5	-2.5	-2.0
Funcas	4.8	4.6	4.7	4.3	1.9	1.5	1.2	1.2	1.0	1.2	2.5	2.1	15.1	13.2	1.5	1.4	-2.6	-2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.7	4.4	4.1	5.0	1.8	1.5	1.3	1.4	--	--	2.6	2.2	15.2	13.8	1.6	1.4	-2.4	-1.8
Instituto de Estudios Económicos (IEE)	3.9	4.6	4.0	4.5	1.6	1.4	1.2	1.2	1.0	1.0	2.4	1.9	15.4	14.3	1.7	1.9	-2.6	-2.3
Intermoney	4.5	3.8	4.4	4.0	1.8	1.8	1.2	1.4	--	--	2.4	1.9	15.0	13.5	1.5	1.4	-2.6	-2.2
Repsol	3.5	3.2	3.1	2.9	1.9	1.6	1.2	1.2	1.2	1.0	2.4	2.3	14.9	12.6	1.5	1.3	-2.6	-1.7
Santander	3.9	3.6	3.5	3.5	1.7	1.7	1.1	1.6	1.1	1.5	--	--	15.3	13.8	1.7	1.5	-2.4	-1.5
Solchaga Recio & asociados	3.8	4.3	3.9	4.3	1.8	1.8	1.4	1.6	--	--	2.4	2.0	15.3	13.6	1.7	1.7	-2.7	-2.1
CONSENSUS (AVERAGE)	4.1	4.1	3.9	4.2	1.7	1.6	1.2	1.4	1.1	1.5	2.4	2.0	15.3	13.6	1.5	1.4	-2.5	-2.0
Maximum	4.9	6.1	4.7	6.9	2.0	1.9	1.4	1.8	1.4	2.2	2.6	2.3	15.6	14.3	1.8	1.9	-2.2	-1.3
Minimum	3.2	3.2	2.8	2.9	1.5	1.3	1.1	1.2	0.8	1.0	2.2	1.8	14.9	12.6	1.1	0.7	-2.8	-2.4
Change on 2 months earlier[1]	-0.2	-0.2	-0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.1
- Rise[2]	4	1	6	4	15	6	4	3	2	3	3	1	3	3	1	1	1	1
- Drop[2]	6	5	6	3	1	5	4	4	2	0	2	3	4	2	7	8	7	7
Change on 6 months earlier[1]	-0.5	--	0.0	--	0.1	--	0.0	--	0.0	--	0.1	--	0.0	--	-0.1	--	-0.1	--
Memorandum items:																		
Government (April 2018)	4.8	4.6	4.1	4.2	--	--	--	--	--	--	2.5	2.3	15.5	13.8	1.7	1.6	-2.2	-1.3
Bank of Spain (June 2018)	4.6	4.8	4.5	4.6	1.9	1.7	1.3	1.7	--	--	2.4	2.0	15.2	13.4	1.6 [6]	1.6 [6]	-2.7	-2.3
EC (May 2018)	5.0	4.7	4.7	4.5	1.4	1.4	--	--	1.1	1.6	2.6	2.3	15.3	13.8	1.5	1.6	-2.6	-1.9
IMF (April 2018)	4.7	4.2	4.3	4.1	1.7	1.6	--	--	--	--	2.0	0.8	15.5	14.8	1.6	1.7	-2.5	-2.1
OECD (May 2018)	4.6	4.5	4.2	4.2	1.6	1.5	--	--	--	--	2.2	2.0	15.5	13.8	1.7	1.7	-2.4	-1.5

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

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

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

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

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

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

[7] Excluding financial entities bail-out expenditures.

Table 2

Quarterly Forecasts – July 2018[1]

	Quarterly forecasts (percentage)							
	18-IQ	18-IIQ	18-IIIQ	18-IVQ	19-IQ	19-IIQ	19-IIIQ	19-IVQ
GDP[1]	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5
Euribor 1 yr [2]	-0.19	-0.18	-0.14	-0.08	0.00	0.09	0.22	0.32
Government Bond yield 10 yr [2]	1.34	1.41	1.54	1.67	1.75	1.85	1.94	2.05
ECB main refinancing operations interest rate[2]	0.00	0.00	0.00	0.00	0.00	0.02	0.15	0.26
Dollar / Euro exchange rate [2]	1.23	1.19	1.18	1.19	1.20	1.21	1.22	1.23

[1] Qr-on-qr growth rates.
[2] End of period.

Table 3

CPI Forecasts – July 2018

Monthly change (%)				Year-on-year change (%)	
Jun-18	Jul-18	Aug-18	Sep-18	Dec-18	Dec-19
0.2	-0.5	0.3	0.1	1.8	1.5

Table 4

Opinions – July 2018
Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	13	5	0	0	12	6
International context: Non-EU	13	3	2	0	13	5
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	8	10	5	13	0
Monetary policy assessment[1]	0	0	18	0	5	13

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

Key Facts

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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 Total	Construction Total	Construction Housing	Construction Other constructions	Equipment & others products	Exports	Imports	Domestic demand (a)	Net exports (a)
					Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate								
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	2.4	1.6	5.0	4.6	8.3	1.5	5.4	5.0	4.7	2.8	0.3
2018		2.8	2.1	1.4	5.5	5.8	8.3	3.3	5.1	4.8	4.7	2.6	0.2
2019		2.4	1.8	1.2	4.6	5.1	7.3	2.8	4.1	4.6	4.3	2.2	0.2
2017	I	3.0	2.2	1.0	4.9	4.5	6.1	3.0	5.4	5.6	4.5	2.5	0.5
	II	3.1	2.4	1.5	3.9	4.3	8.4	0.7	3.6	4.5	3.1	2.5	0.6
	II	3.1	2.4	1.4	5.6	5.1	9.2	1.6	6.2	5.6	5.9	3.0	0.1
	III	3.1	2.5	2.4	5.6	4.8	9.5	0.5	6.4	4.4	5.2	3.2	-0.1
2018	I	3.0	2.8	1.9	3.5	4.7	8.7	1.0	2.4	3.2	2.8	2.8	0.2
	II	2.8	2.3	1.4	4.6	5.1	8.1	2.2	4.2	4.1	3.8	2.6	0.2
	III	2.7	1.8	1.3	6.7	6.4	8.9	4.1	6.9	4.7	5.0	2.6	0.0
	IV	2.7	1.6	1.1	6.9	6.8	7.6	6.0	6.9	7.1	7.3	2.5	0.1
2019	I	2.5	1.4	1.1	6.2	6.1	7.3	4.9	6.2	6.3	6.2	2.3	0.2
	II	2.3	1.6	1.4	4.1	5.6	7.6	3.5	2.5	5.5	5.3	2.1	0.2
	III	2.4	2.1	1.3	3.6	4.7	7.3	2.1	2.3	4.0	3.8	2.2	0.2
	IV	2.5	2.3	1.0	4.6	3.9	7.0	0.7	5.3	2.6	2.2	2.3	0.2
					Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate								
2017	I	3.2	1.8	4.4	11.5	10.3	18.5	3.3	12.8	10.1	15.7	4.4	-1.2
	II	3.5	3.3	1.9	2.5	3.9	7.1	1.1	1.1	4.2	1.8	2.6	0.9
	II	2.8	2.8	1.7	5.6	1.0	3.2	-1.0	10.4	2.3	4.1	3.3	-0.4
	III	2.7	2.2	1.7	2.9	4.0	9.9	-1.2	1.9	1.1	0.0	2.4	0.4
2018	I	2.8	2.9	2.2	3.1	9.9	14.7	5.1	-3.3	5.3	5.3	2.6	0.2
	II	2.9	1.2	-0.1	6.9	5.6	6.3	6.3	8.2	7.8	5.7	2.0	0.9
	III	2.3	0.8	1.2	14.1	6.2	6.1	6.3	22.5	4.9	9.1	3.4	-1.1
	IV	2.6	1.6	1.2	3.9	5.7	5.0	6.3	2.0	10.4	9.0	1.9	0.7
2019	I	2.1	2.0	2.0	0.6	7.0	13.4	0.7	-5.9	2.4	1.2	1.6	0.5
	II	2.2	2.2	1.2	-1.4	3.4	6.0	0.7	-6.3	4.4	2.2	1.4	0.8
	III	2.6	2.4	0.8	11.8	2.9	5.0	0.7	21.8	-0.8	2.8	3.7	-1.2
	IV	3.1	2.4	0.0	8.0	2.4	4.0	0.7	14.3	4.6	2.8	2.4	0.7
	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	3.3
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	1,163.7	57.7	18.5	20.6	10.4	5.1	5.3	10.2	34.1	31.4	97.3	2.7
2018	1,211.0	57.4	18.1	21.3	10.9	5.5	5.3	10.5	34.9	32.3	97.4	2.6
2019	1,260.8	57.2	17.8	21.9	11.2	5.9	5.3	10.6	35.5	32.9	97.4	2.6

Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

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

Chart 1.1 - GDP

Percentage change

Quarterly change at annual rate — Annual change
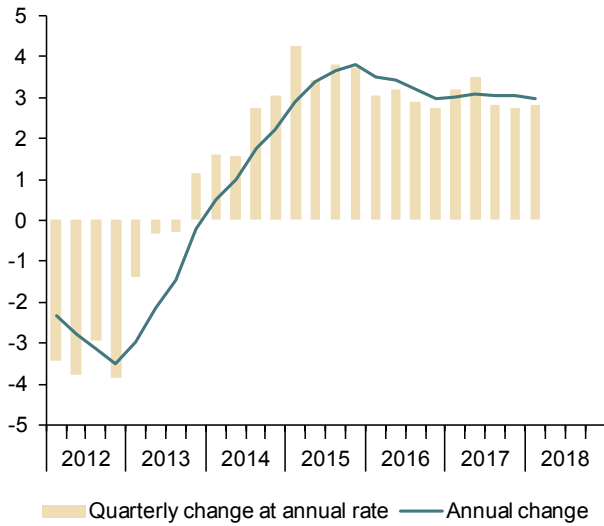
Chart 1.2 - Contribution to GDP annual growth

Percentage points

GDP — Domestic demand — Net exports
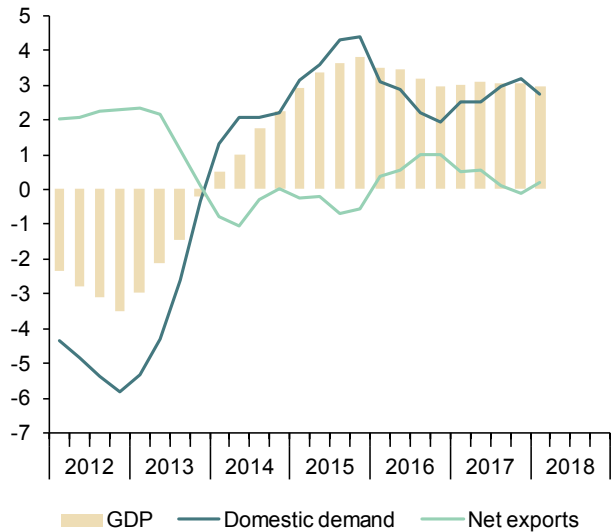
Chart 1.3 - Final consumption

Percentage change

National consumption — Private consumption
Public consumption
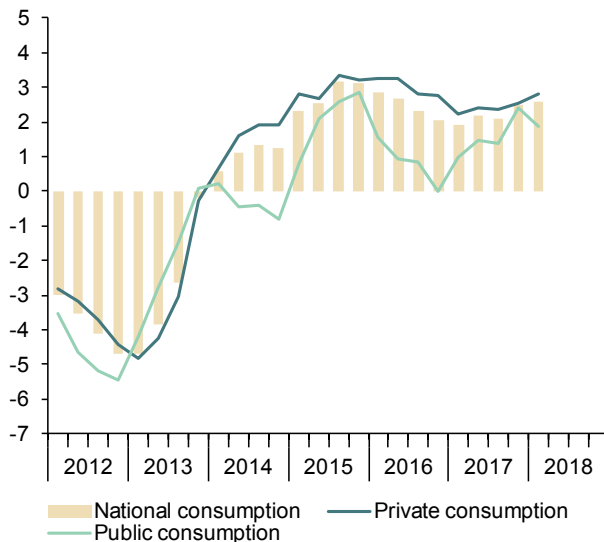
Chart 1.4 - Gross fixed capital formation

Percentage change

Total — Construction — Equipment & other products
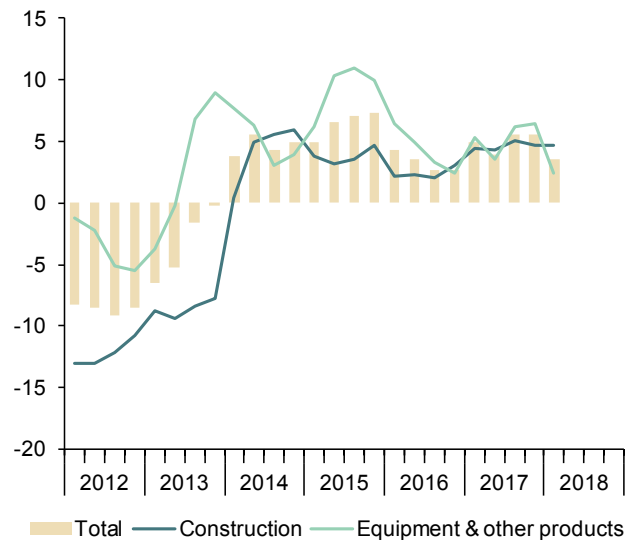
Table 2

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					
2011		-0.6	4.4	-0.2	-1.3	-12.8	0.7	0.9	0.6	-5.5
2012		-2.8	-9.7	-4.9	-5.2	-8.8	-1.5	-1.8	-1.4	-4.0
2013		-1.5	13.6	-3.9	-0.2	-10.5	-0.6	0.1	-0.8	-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
2017		2.9	3.7	3.7	3.8	4.9	2.6	1.4	3.0	4.2
2016	II	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	4.5
	III	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.7
	IV	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	3.6
2017	I	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.1
	II	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.6
	III	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.2
	IV	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.7
2018	I	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	4.5
					Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate					
2016	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	3.2	9.9	3.3	3.0	6.4	2.7	1.7	3.1	2.8
	II	3.2	-1.3	4.8	5.0	4.5	2.8	1.2	3.4	7.0
	III	2.8	4.5	2.6	3.9	4.6	2.7	1.5	3.1	2.6
	IV	2.7	-4.4	7.6	6.9	6.2	1.6	2.1	1.4	2.6
2018	I	2.5	15.6	-3.5	-3.8	8.9	3.0	1.9	3.4	5.9
		Current prices EUR billions)			Percentage of value added at basic prices					
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
2017		1,054.9	2.9	18.1	14.4	5.8	73.3	18.3	55.0	10.3

Seasonally and Working Day Adjusted.

Source: INE (Quarterly National Accounts).

Chart 2.1 - GVA by sectors

Annual percentage change

Total — Industry — Construction — Services
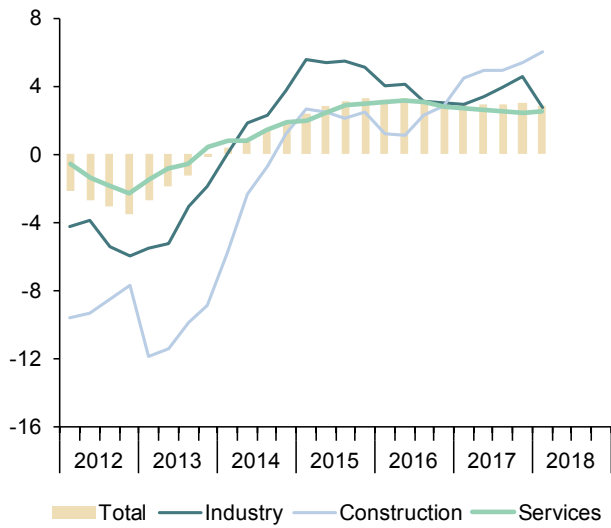
Chart 2.2 - GVA, Industry

Annual percentage change

Total — Extractive and utilities — Manufacturing
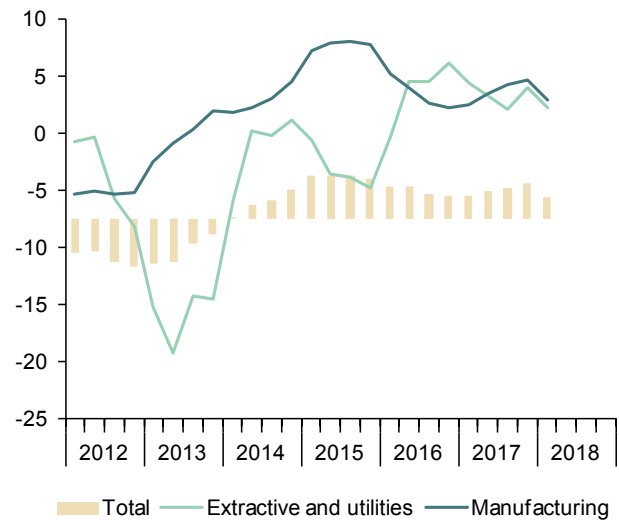
Chart 2.3 - GVA, services

Annual percentage change

Total
— Public administration, health, education
Other services
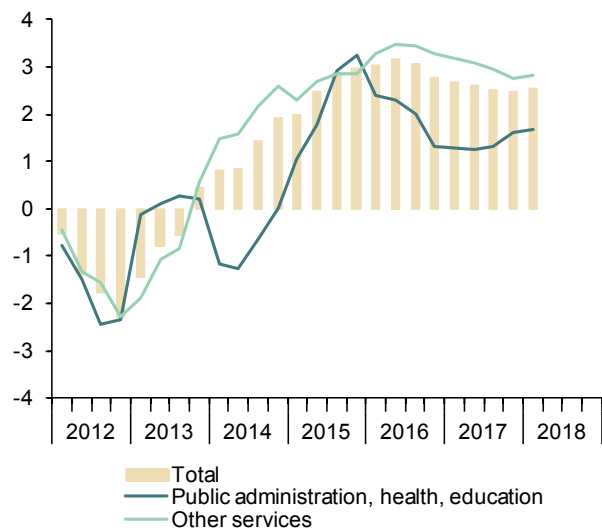
Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

Services ■ Construction ■ Industry ■ Agriculture, forestry and fishing
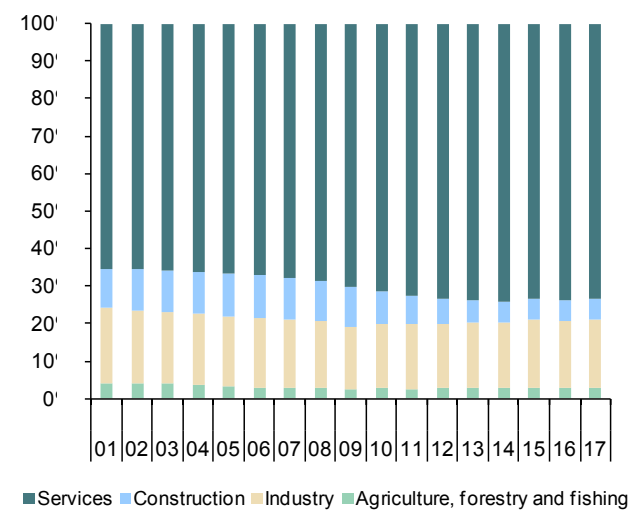
Table 3

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)
		I	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
Indexes, 2010 = 100, SWDA													
2011		99.0	97.2	101.8	100.9	99.1	99.0	98.7	96.2	102.6	102.2	99.6	97.6
2012		96.1	92.6	103.8	100.3	96.6	96.5	93.6	89.1	105.0	103.9	99.0	96.6
2013		94.5	89.4	105.7	101.6	96.2	95.7	93.4	84.9	110.0	105.6	96.0	93.7
2014		95.8	90.3	106.0	101.7	95.9	95.7	96.1	83.8	114.7	106.2	92.6	90.2
2015		99.1	93.2	106.3	103.4	97.3	96.4	103.6	86.2	120.2	107.5	89.5	87.4
2016		102.3	96.0	106.6	103.0	96.7	95.6	107.2	89.0	120.5	107.7	89.4	87.5
2017		105.4	98.7	106.8	103.2	96.6	94.6	111.3	91.9	121.1	108.3	89.5	86.1
2018		108.3	101.1	107.2	104.2	97.2	93.9	--	--	--	--	--	--
2019		110.9	103.2	107.5	105.3	97.9	93.3	--	--	--	--	--	--
2016	II	102.0	95.6	106.6	103.2	96.8	95.8	107.0	88.5	121.0	107.7	89.0	87.5
	III	102.7	96.4	106.5	102.9	96.6	95.5	107.2	89.3	120.0	107.8	89.8	88.0
	IV	103.4	96.8	106.8	103.2	96.7	95.1	108.6	90.2	120.4	107.9	89.6	87.3
2017	I	104.2	97.5	106.9	103.2	96.6	95.2	109.4	90.8	120.5	108.3	89.8	86.7
	II	105.1	98.4	106.8	103.0	96.4	94.6	110.8	91.5	121.1	108.2	89.3	86.0
	III	105.8	99.2	106.7	103.1	96.6	94.6	111.8	92.2	121.2	108.3	89.4	86.3
	IV	106.5	99.6	107.0	103.4	96.6	93.9	113.7	93.2	122.0	108.5	88.9	85.3
2018	I	107.3	100.1	107.2	103.6	96.6	94.0	112.6	93.4	120.5	108.8	90.2	86.1
Annual percentage changes													
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	2.8	0.2	0.1	-0.1	-1.0	3.8	3.3	0.5	0.6	0.1	-1.6
2018		2.8	2.4	0.3	1.0	0.7	-0.7	--	--	--	--	--	--
2019		2.4	2.1	0.3	1.0	0.7	-0.7	--	--	--	--	--	--
2016	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	0.3	0.0	-0.8	2.6	3.1	-0.5	0.7	1.2	-0.7
	II	3.1	2.9	0.2	-0.2	-0.3	-1.3	3.5	3.4	0.1	0.5	0.4	-1.7
	III	3.1	2.9	0.2	0.3	0.0	-0.9	4.3	3.3	1.0	0.5	-0.5	-1.9
	IV	3.1	2.9	0.2	0.2	0.0	-1.2	4.7	3.3	1.4	0.6	-0.8	-2.2
2018	I	3.0	2.6	0.3	0.4	0.1	-1.2	2.9	2.9	0.0	0.5	0.5	-0.6

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

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

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

Legend:
- Compensation per job
- Nominal unit labour cost
- Employment productivity
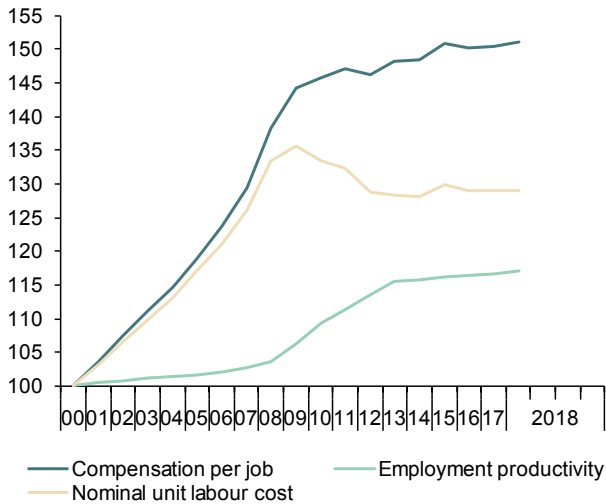
Chart 3.2 - Real ULC, total economy

Index, 2000=100

Legend:
- Nominal unit labour cost
- Real unit labour cost (1)
- GDP deflator
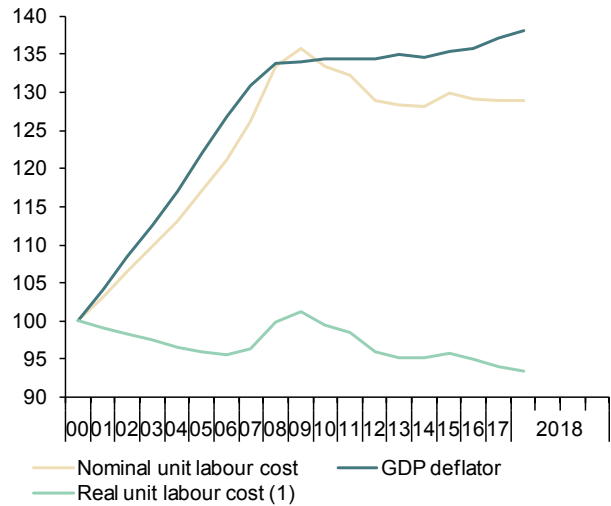
(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

Legend:
- Compensation per job
- Nominal unit labour cost
- Employment productivity
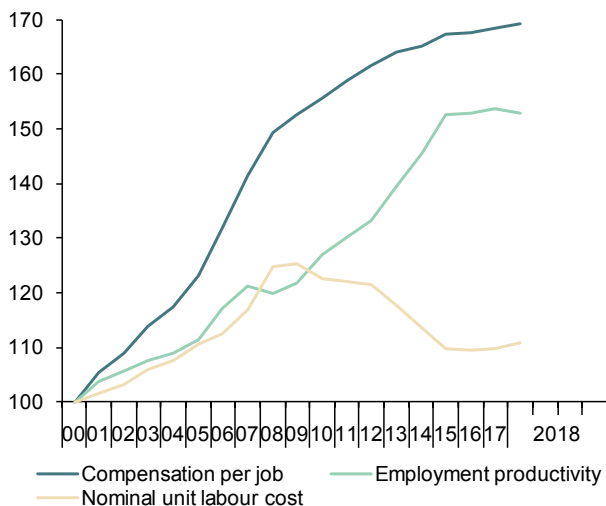
Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100

Legend:
- Nominal unit labour cost
- Real unit labour cost (1)
- GVA deflator
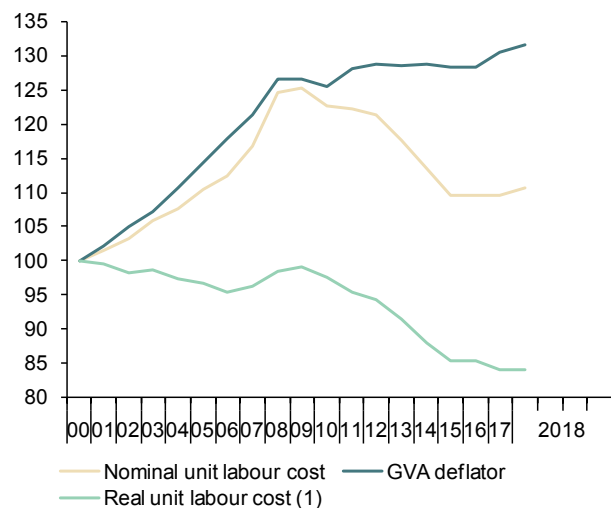
(1) Nominal ULC deflated by GDP deflator.

Table 4

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

		Gross domestic product	Compen-sation of employees	Gross operating surplus	Gross national product	Gross national income	Final national consumption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance
		EUR Billions, 4-quarter cumulated transactions								Percentage of GDP				
2010		1,080.9	541.5	445.8	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		1,163.7	550.3	493.6	1,163.5	1,153.1	886.6	266.5	246.1	47.3	42.4	22.9	21.1	1.8
2018		1,211.0	570.7	513.0	1,210.1	1,199.7	918.3	281.4	266.2	47.1	42.4	23.2	22.0	1.3
2019		1,260.8	591.2	536.6	1,260.0	1,249.6	946.5	303.0	285.5	46.9	42.6	24.0	22.6	1.4
2016	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	1,129.5	536.6	476.3	1,130.1	1,118.9	864.5	254.4	232.9	47.5	42.2	22.5	20.6	1.9
	II	1,140.6	540.5	482.1	1,140.9	1,129.1	871.8	257.3	236.1	47.4	42.3	22.6	20.7	1.9
	III	1,151.1	545.4	486.6	1,151.5	1,139.8	878.4	261.4	240.7	47.4	42.3	22.7	20.9	1.8
	IV	1,163.7	550.3	493.6	1,163.5	1,153.1	886.6	266.5	246.1	47.3	42.4	22.9	21.1	1.8
2018	I	1,174.6	554.8	498.0	1,174.3	1,163.6	894.1	269.5	248.7	47.2	42.4	22.9	21.2	1.8
		Annual percentage changes								Difference from one year ago				
2010		0.2	-1.4	-2.0	0.6	0.8	1.7	-2.8	0.0	-0.8	-0.9	-0.6	0.0	-0.6
2011		-1.0	-1.9	0.8	-1.3	-1.5	-0.2	-6.3	-7.9	-0.5	0.7	-1.1	-1.6	0.6
2012		-2.9	-6.1	-0.6	-1.8	-1.7	-2.6	2.1	-11.3	-1.6	1.0	0.9	-1.9	2.9
2013		-1.4	-2.7	-1.4	-1.2	-1.2	-2.0	1.8	-7.7	-0.7	0.0	0.6	-1.3	1.9
2014		1.2	1.3	0.3	1.4	1.6	1.3	2.6	5.2	0.1	-0.4	0.3	0.7	-0.5
2015		4.1	5.3	1.7	4.2	4.3	3.0	8.9	9.1	0.6	-1.0	1.0	0.9	0.0
2016		3.6	2.9	4.9	3.8	3.7	2.4	8.3	4.1	-0.3	0.5	1.0	0.1	0.9
2017		4.0	3.3	4.8	4.0	4.3	3.6	6.5	7.4	-0.4	0.3	0.5	0.7	-0.1
2018		4.1	3.7	3.9	4.0	4.0	3.6	5.6	8.2	-0.2	-0.1	0.3	0.8	-0.5
2019		4.1	3.6	4.6	4.1	4.2	3.1	7.7	7.2	-0.2	0.2	0.8	0.7	0.1
2016	II	4.0	4.4	3.3	3.8	4.0	2.8	8.1	7.8	0.2	-0.3	0.8	0.7	0.1
	III	3.9	3.8	3.7	3.8	3.8	2.6	8.1	6.1	0.0	-0.1	0.9	0.4	0.4
	IV	3.6	2.9	4.9	3.8	3.7	2.4	8.3	4.1	-0.3	0.5	1.0	0.1	0.9
2017	I	3.8	2.9	4.8	4.0	4.0	2.9	7.8	4.3	-0.4	0.4	0.8	0.1	0.7
	II	3.7	2.8	4.7	4.0	3.9	3.2	6.4	4.3	-0.4	0.4	0.6	0.1	0.4
	III	3.8	3.0	4.6	3.9	4.0	3.3	6.1	5.7	-0.4	0.4	0.5	0.4	0.1
	IV	4.0	3.3	4.8	4.0	4.3	3.6	6.5	7.4	-0.4	0.3	0.5	0.7	-0.1
2018	I	4.0	3.4	4.6	3.9	4.0	3.4	5.9	6.8	-0.3	0.2	0.4	0.6	-0.1

(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

■ Gross national income　■ National consumption
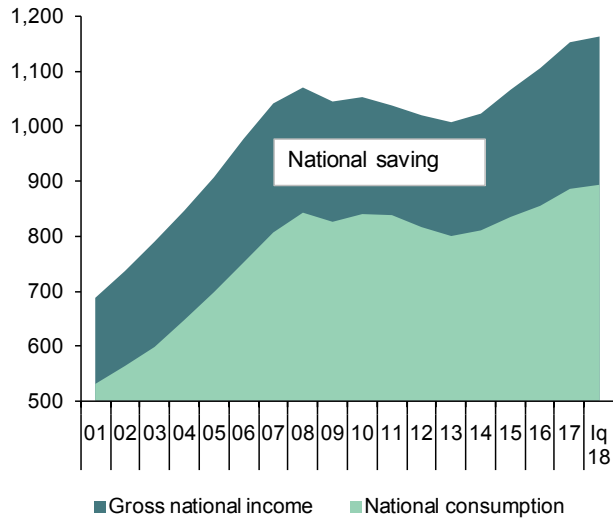
Chart 4.2 - National income, consumption and saving rate

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

■ Saving rate (right)　— GNI (left)　— Consumption (left)
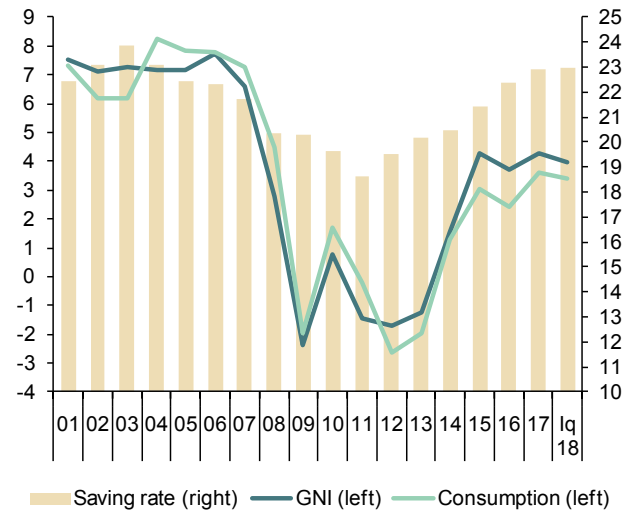
Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

— Compensation of employees　— Gross operating surplus
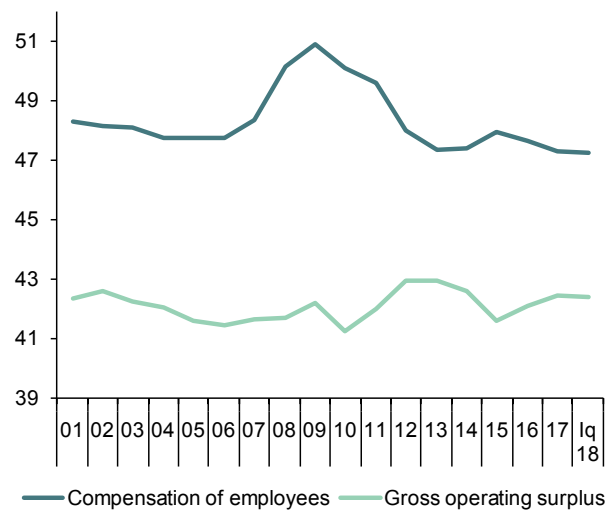
Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

■ Current Account Balance (right)
— Investment rate (left)
— Saving Rate (left)
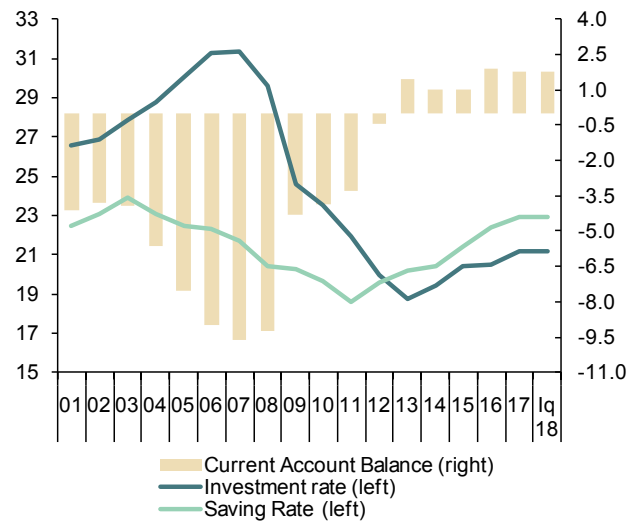
Table 5

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

		Households							Non-finantial corporations					
		Gross disposable income (GDI)	Final con-sumption expen-diture	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												
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		714.1	671.7	40.9	42.4	5.7	3.6	-0.3	272.5	205.1	176.1	17.6	15.1	2.9
2018		741.4	696.2	43.8	46.2	5.9	3.8	-0.2	282.8	215.7	190.2	17.8	15.7	2.7
2019		766.4	719.5	45.5	51.3	5.9	4.1	-0.5	293.6	225.4	200.2	17.9	15.9	2.5
2016	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	702.4	652.4	48.7	37.9	6.9	3.4	0.9	261.7	199.6	168.4	17.7	14.9	3.3
	II	707.2	659.4	46.6	38.8	6.6	3.4	0.6	265.7	198.3	171.6	17.4	15.0	2.8
	III	709.5	665.0	43.3	40.4	6.1	3.5	0.1	267.9	198.9	173.0	17.3	15.0	2.7
	IV	714.1	671.7	40.9	42.4	5.7	3.6	-0.3	272.5	205.1	176.1	17.6	15.1	2.9
2018	I	720.4	678.2	40.7	43.3	5.6	3.7	-0.4	274.7	206.6	177.6	17.6	15.1	2.9
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
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		2.0	4.2	-24.2	18.5	-2.0	0.4	-1.8	5.5	5.6	6.0	0.3	0.3	-0.1
2018		3.8	3.6	6.9	8.9	0.2	0.2	0.0	3.8	5.2	8.0	0.2	0.5	-0.3
2019		3.4	3.3	4.0	10.9	0.0	0.3	-0.3	3.8	4.5	5.3	0.1	0.2	-0.2
2016	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	1.7	3.4	-17.0	13.9	-1.6	0.3	-1.4	6.4	11.1	7.1	1.2	0.5	0.5
	II	1.8	3.9	-21.1	12.0	-1.9	0.3	-1.6	6.0	5.7	8.2	0.3	0.6	-0.5
	III	1.8	4.1	-23.2	15.2	-2.0	0.3	-1.8	5.2	3.1	5.9	-0.1	0.3	-0.6
	IV	2.0	4.2	-24.2	18.5	-2.0	0.4	-1.8	5.5	5.6	6.0	0.3	0.3	-0.1
2018	I	2.6	4.0	-16.5	14.3	-1.3	0.3	-1.3	5.0	3.5	5.4	-0.1	0.2	-0.4

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

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

Net lending (-) or borrowing(+) (right)
Saving rate (left)
Gross Capital Formation (left)
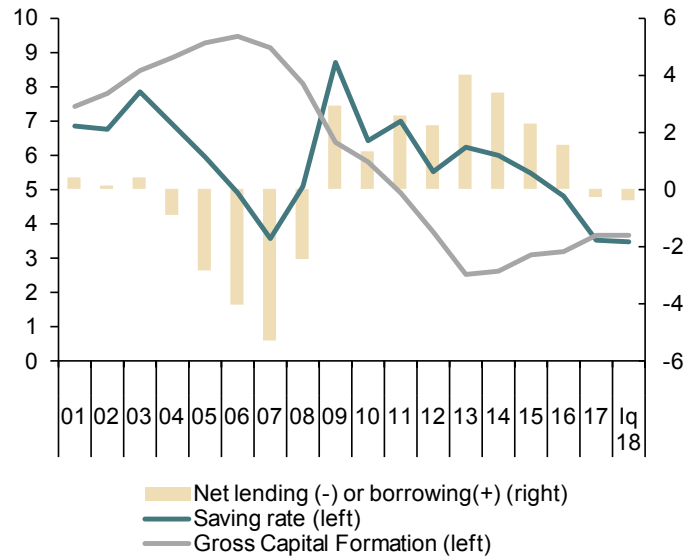
Chart 5.2 - Non-finantial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

Net lending (-) or borrowing(+) (right)
Saving rate (left)
Gross Capital Formation (left)
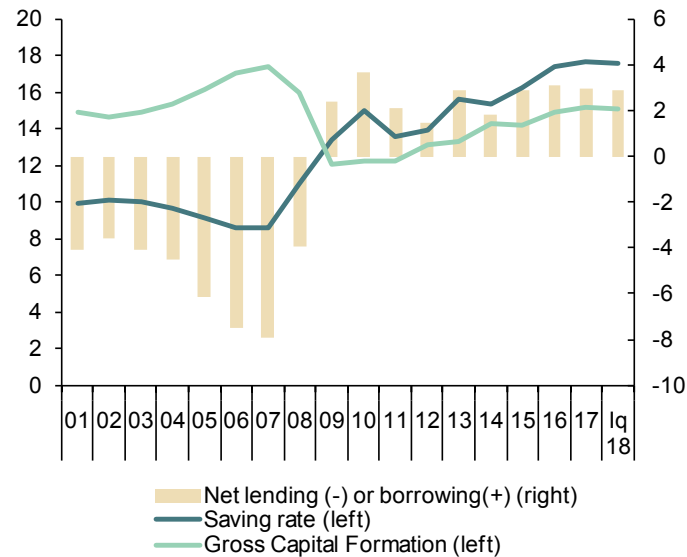
Table 6

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

		Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contribu-tions receivable	Compen-sation of employees	Interests and other capital incomes payable (net)	Social bene-fits payable	Subsidies and net current transfers payable	Gross disposable income	Final consump-tion expendi-ture	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
		EUR Billions, 4-quarter cumulated operations													
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		151.4	134.4	118.8	142.9	122.8	22.6	177.9	19.9	204.3	214.8	-10.6	25.7	-36.2	-35.8
2018		154.5	142.3	122.5	148.8	125.8	19.7	184.1	20.5	217.9	220.2	-2.3	28.7	-31.0	-30.9
2019		157.5	148.5	127.1	154.8	128.8	19.4	188.5	21.2	230.1	225.4	4.7	31.4	-26.8	-26.8
2016	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	150.0	130.6	111.9	137.9	121.8	23.0	174.3	19.4	191.9	212.1	-20.2	26.9	-47.1	-44.5
	II	149.9	132.4	115.0	139.6	121.6	22.8	175.3	20.3	196.8	212.5	-15.6	26.0	-41.6	-40.6
	III	150.6	133.7	118.6	141.3	122.2	22.6	176.2	20.3	203.0	213.5	-10.5	25.8	-36.3	-35.7
	IV	151.4	134.4	118.8	142.9	122.8	22.6	177.9	19.9	204.3	214.8	-10.6	25.7	-36.2	-35.8
2018	I	151.9	136.6	120.9	144.4	123.2	22.3	179.1	20.8	208.4	215.8	-7.5	27.4	-34.8	-34.5
		Percentage of GDP, 4-quarter cumulated operations													
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	11.5	10.2	12.3	10.6	1.9	15.3	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.1
2018		12.8	11.7	10.1	12.3	10.4	1.6	15.2	1.7	18.0	18.2	-0.2	2.4	-2.6	-2.6
2019		12.5	11.8	10.1	12.3	10.2	1.5	14.9	1.7	18.2	17.9	0.4	2.5	-2.1	-2.1
2016	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	-4.2	-3.9
	II	13.1	11.6	10.1	12.2	10.7	2.0	15.4	1.8	17.3	18.6	-1.4	2.3	-3.6	-3.6
	III	13.1	11.6	10.3	12.3	10.6	2.0	15.3	1.8	17.6	18.5	-0.9	2.2	-3.2	-3.1
	IV	13.0	11.5	10.2	12.3	10.6	1.9	15.3	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.1
2018	I	12.9	11.6	10.3	12.3	10.5	1.9	15.2	1.8	17.7	18.4	-0.6	2.3	-3.0	-2.9

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

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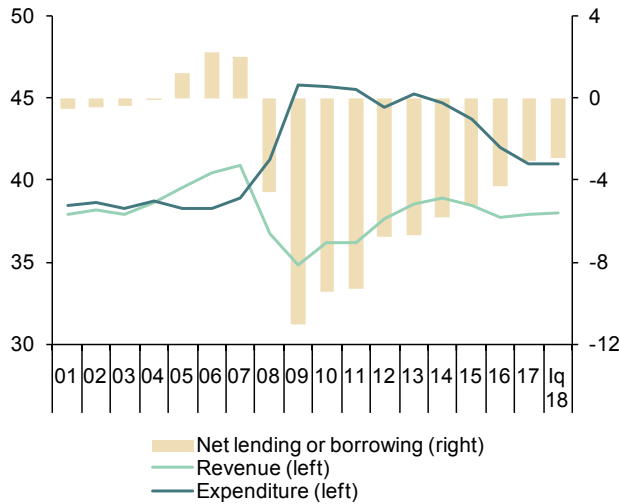
(a) Excluding financial entities bail-out expenditures

Chart 6.2 - Public sector: Main revenues

Percentage of GDP, 4-quarter moving averages

- Taxes on production and imports
- Taxes on income and weath
- Social contributions
- Other
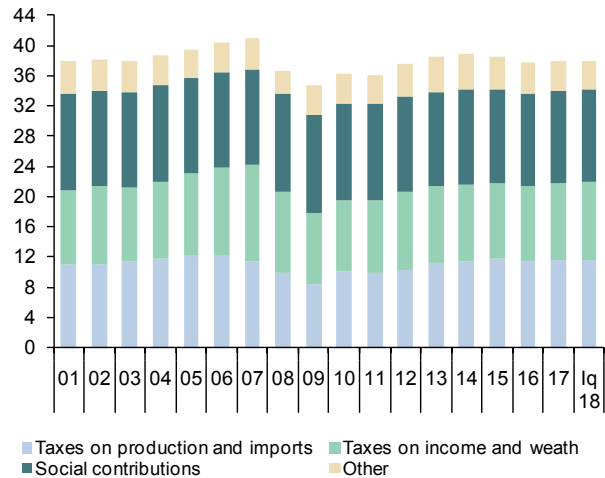
Chart 6.3.- Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

- Compensation of employees
- Interests and other capital (net)
- Social benefits
- Gross fixed capital formation
- Rest
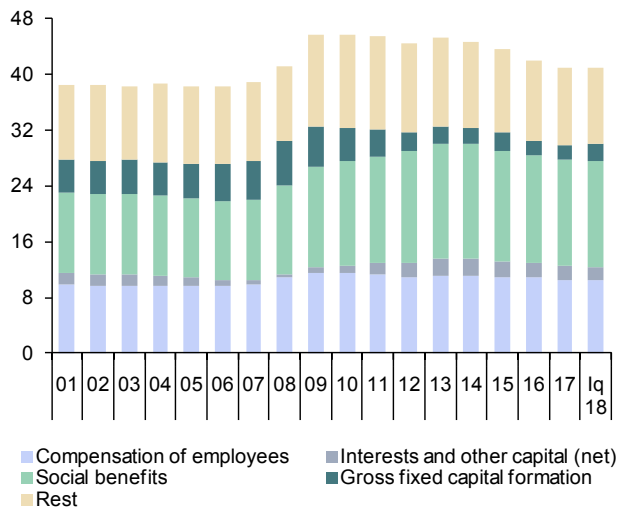
Chart 6.4 - Public sector: Saving, investment and deficit (a)

Percentage of GDP, 4-quarter moving averages

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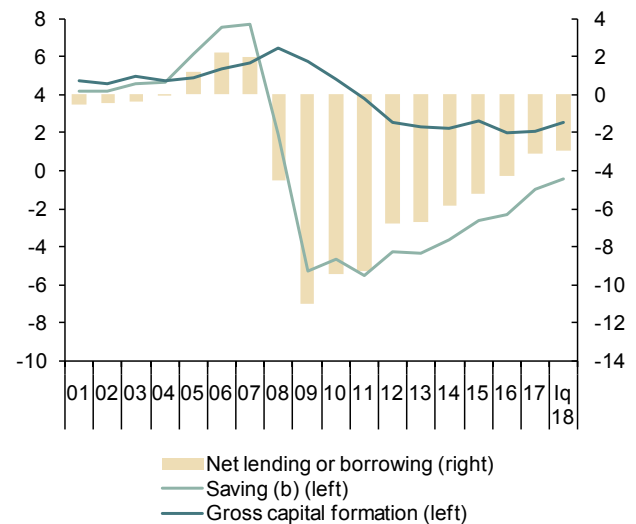
(a) Excluding financial entities bail-out expenditures
(b) Including net capital transfers

Table 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				
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		-21.7	-3.7	6.8	-17.2	-35.8	1,010.8	288.1	29.0	27.4	1,144.3
2018		-15.4	-1.2	6.1	-20.4	-30.9	--	--	--	--	1,174.2
2019		-10.6	-0.4	5.0	-20.9	-26.8	--	--	--	--	1,200.0
2016	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	-23.1	-10.4	7.1	-18.1	-44.5	986.6	279.4	31.7	17.2	1,126.3
	II	-20.4	-10.3	7.2	-17.2	-40.6	994.9	285.9	32.4	17.2	1,135.1
	III	-18.3	-6.5	7.3	-18.2	-35.7	998.8	284.4	30.5	23.2	1,133.4
	IV	-21.7	-3.7	6.8	-17.2	-35.8	1,010.8	288.1	29.0	27.4	1,144.3
2018	I	-21.7	-2.9	6.9	-16.8	-34.5	1,027.6	289.7	28.9	27.4	1,160.6
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
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		-1.9	-0.3	0.6	-1.5	-3.1	86.9	24.8	2.5	2.4	98.3
2018		-1.3	-0.1	0.5	-1.7	-2.6	--	--	--	--	97.0
2019		-0.8	0.0	0.4	-1.7	-2.1	--	--	--	--	95.2
2016	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	87.3	24.7	2.8	1.5	99.7
	II	-1.8	-0.9	0.6	-1.5	-3.6	87.2	25.1	2.8	1.5	99.5
	III	-1.6	-0.6	0.6	-1.6	-3.1	86.8	24.7	2.7	2.0	98.5
	IV	-1.9	-0.3	0.6	-1.5	-3.1	86.9	24.8	2.5	2.4	98.3
2018	I	-1.8	-0.2	0.6	-1.4	-2.9	87.5	24.7	2.5	2.3	98.8

(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

Central　　　Regional
Local　　　Social Security
TOTAL
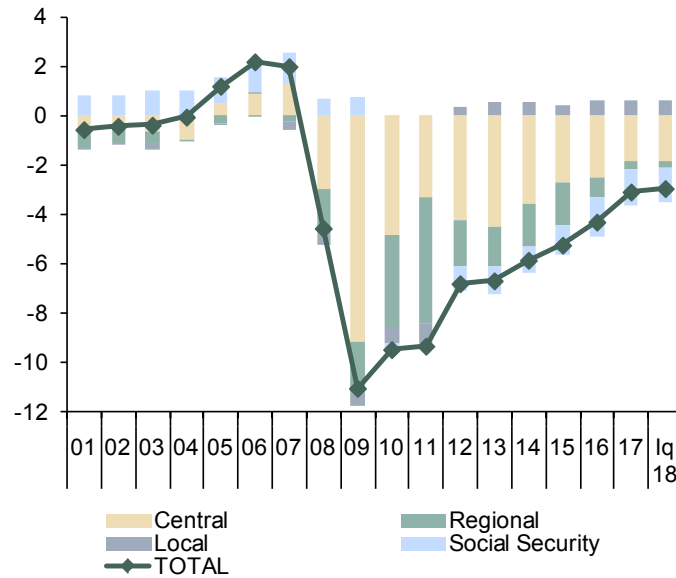
Chart 7.2 - Government debt

Percent of GDP

Central　　　Regional
Local　　　Social Security
TOTAL consolidated
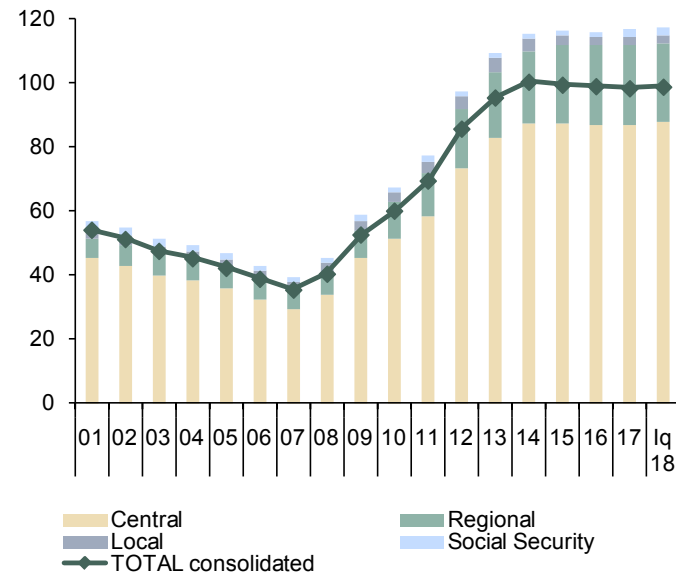
Table 8

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufac turing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH (smoothed)	2010=100	Thousands	Index	Balance of responses	2010=100 (smoothed)	Balance of responses
2011	92.3	46.6	16,970.3	261.1	104.0	2,231.9	47.3	-12.5	104.7	-30.8
2012	87.6	43.1	16,335.3	255.7	97.1	2,113.9	43.8	-17.6	100.5	-37.1
2013	91.7	48.3	15,855.2	250.2	95.5	2,021.6	48.5	-14.0	97.2	-30.7
2014	101.8	55.1	16,111.1	249.7	96.8	2,022.8	53.2	-7.1	98.5	-16.3
2015	108.3	56.7	16,641.8	254.0	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016	106.0	54.9	17,157.5	254.1	101.8	2,124.7	53.1	-2.3	101.3	-5.4
2017	108.6	56.2	17,789.6	258.4	105.0	2,191.0	54.8	1.0	106.8	2.1
2018 (b)	109.9	56.0	18,197.2	131.3	106.0	2,235.0	54.6	2.0	107.2	2.1
2016 III	104.6	54.2	17,232.5	63.8	101.8	2,132.4	51.4	-3.8	101.6	-6.7
IV	106.9	55.0	17,386.9	63.9	102.6	2,147.4	54.4	-0.6	103.0	-4.2
2017 I	107.3	56.2	17,544.8	64.0	103.6	2,164.5	54.8	0.3	104.6	-3.1
II	108.1	57.4	17,728.8	64.3	104.5	2,183.7	54.9	-0.5	105.9	6.1
III	108.7	56.1	17,862.9	64.8	105.0	2,200.1	53.5	-0.1	107.2	0.5
IV	110.1	55.2	18,017.6	65.1	107.2	2,216.3	55.9	4.3	108.4	5.1
2018 I	110.0	56.6	18,164.3	65.1	106.4	2,234.6	55.3	2.8	109.2	1.2
II (b)	109.8	55.4	18,302.9	64.9	105.6	2,248.5	53.8	1.2	109.7	2.9
2018 Apr	110.6	55.4	18,251.3	21.7	105.6	2,243.6	54.4	3.3	109.7	1.2
May	109.4	55.9	18,302.4	21.6	--	2,248.0	53.4	0.8	--	6.3
Jun	109.4	54.8	18,355.1	21.6	--	2,253.9	53.4	-0.5	--	1.1
Percentage changes (c)										
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	1.8	2.8	--	--	1.3	--
2017	--	--	3.7	1.7	3.2	3.1	--	--	5.5	--
2018 (d)	--	--	3.4	1.1	2.3	3.1	--	--	3.5	--
2016 III	--	--	4.0	0.3	2.1	3.0	--	--	4.2	--
IV	--	--	3.6	0.0	3.1	2.8	--	--	5.9	--
2017 I	--	--	3.7	1.8	4.3	3.2	--	--	6.1	--
II	--	--	4.3	1.4	3.2	3.6	--	--	5.2	--
III	--	--	3.1	0.5	2.0	3.0	--	--	4.9	--
IV	--	--	3.5	3.2	8.9	3.0	--	--	4.5	--
2018 I	--	--	3.3	1.9	-3.1	3.3	--	--	3.2	--
II (e)	--	--	3.1	0.1	-3.0	2.5	--	--	1.8	--
2018 Apr	--	--	0.2	-0.2	-1.8	0.1	--	--	0.2	--
May	--	--	0.3	-0.2	--	0.2	--	--	--	--
Jun	--	--	0.3	-0.2	--	0.3	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annualized percent change from previous period

Social Security affiliates — Electricity consumption
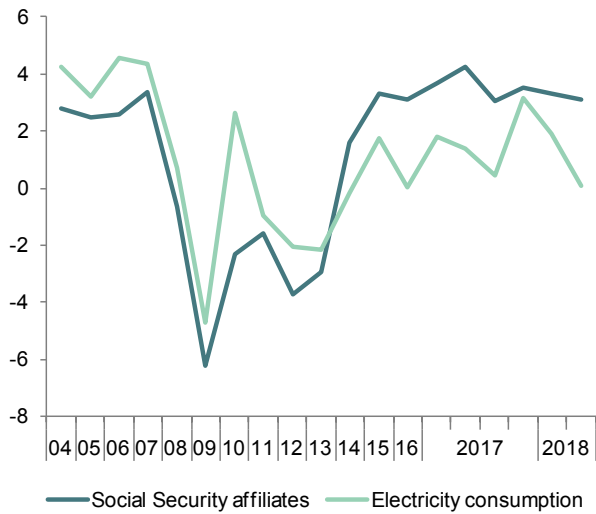
Chart 8.2.- General activity indicators (II)

Index

Economic Sentiment (left) — Composite PMI (right)
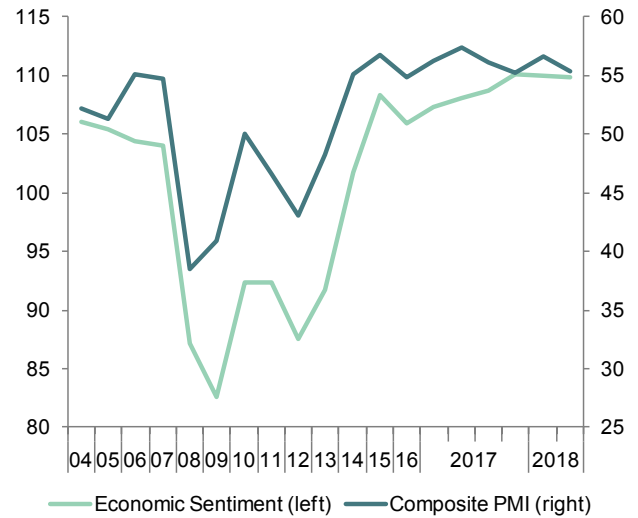
Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

Social Security affiliates in industry — IPI — Turnover
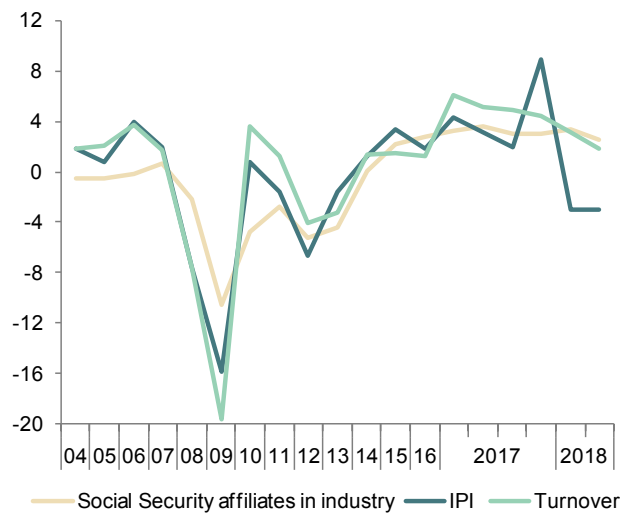
Chart 8.4 - Industrial sector indicators (II)

Index

Manufacturing PMI (left) — Industrial confidence (right)
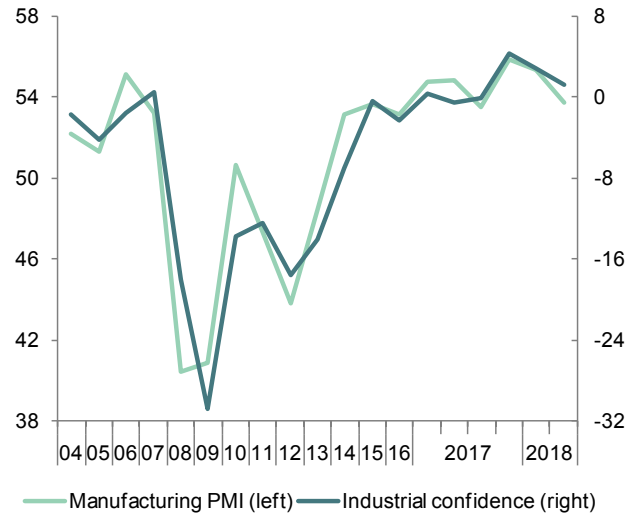
Table 9

Construction and services sector indicators (a)

		Construction indicators					Service sector indicators					
		Social Security Affiliates in construction	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	2010=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m²	Thousands	2010=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2011		1,368.9	141.0	-55.4	13.7	14.1	12,176.1	101.0	46.5	286.8	203.3	-20.8
2012		1,135.5	101.2	-54.9	7.4	8.5	11,907.2	94.8	43.1	280.7	193.2	-21.5
2013		996.8	93.6	-55.6	9.2	6.8	11,727.9	92.9	48.3	286.0	186.5	-15.3
2014		980.3	92.8	-41.4	13.1	6.9	11,995.5	95.3	55.2	295.3	194.9	9.9
2015		1,026.7	100.0	-25.3	9.4	9.9	12,432.3	100.0	57.3	308.2	206.6	19.4
2016		1,053.9	102.6	-39.6	9.3	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8
2017		1,118.8	111.5	-26.9	12.9	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018 (b)		1,173.5	109.4	-4.2	5.5	6.1	13,637.5	110.1	56.3	111.1	95.0	23.5
2016	III	1,059.5	103.1	-44.3	2.3	2.9	12,910.6	105.0	54.9	83.4	57.8	16.0
	IV	1,070.8	106.0	-42.0	2.2	3.2	13,026.7	106.9	54.9	84.5	59.1	18.7
2017	I	1,091.6	109.0	-43.7	2.4	4.0	13,145.4	108.7	56.4	85.2	60.3	19.2
	II	1,111.6	110.8	-24.7	2.9	4.2	13,286.6	110.4	57.8	85.5	61.4	23.3
	III	1,125.4	111.9	-23.5	3.6	3.7	13,398.8	111.9	56.8	85.4	62.6	25.2
	IV	1,146.7	112.9	-15.7	4.0	4.0	13,518.3	113.5	54.6	85.6	63.8	22.3
2018	I	1,166.6	112.6	-4.3	3.7	4.7	13,627.0	115.1	56.8	85.9	65.0	23.5
	II (b)	1,184.2	111.9	-4.1	2.0	1.4	13,728.4	116.0	55.8	57.4	43.9	23.5
2018	Apr	1,175.7	111.9	-12.3	1.1	1.4	13,692.6	116.0	55.6	28.7	21.9	22.5
	May	1,184.4	--	1.5	1.0	--	13,728.8	--	56.4	28.7	22.0	24.5
	Jun	1,192.6	--	-1.4	--	--	13,763.9	--	55.4	--	--	23.6
					Percentage changes (c)							
2011		-12.2	-9.8	--	-47.9	-13.2	-0.1	-1.1	--	7.3	6.0	--
2012		-17.0	-28.2	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013		-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014		-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015		4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016		2.6	2.6	--	-0.7	29.0	3.4	4.2	--	7.4	11.0	--
2017		6.2	8.7	--	38.0	24.8	3.8	6.6	--	2.8	8.3	--
2018 (d)		6.7	0.8	--	50.7	21.7	3.5	5.6	--	0.1	7.3	--
2016	III	4.9	5.7	--	6.8	13.7	4.1	6.8	--	6.1	10.0	--
	IV	4.3	11.4	--	10.9	19.6	3.6	7.1	--	5.4	9.5	--
2017	I	8.0	12.0	--	11.4	16.9	3.7	7.0	--	3.4	8.6	--
	II	7.5	6.8	--	26.2	29.3	4.4	6.3	--	1.1	7.6	--
	III	5.0	4.0	--	54.7	28.9	3.4	5.7	--	-0.1	7.4	--
	IV	7.8	3.4	--	76.4	24.8	3.6	5.9	--	0.8	8.2	--
2018	I	7.1	-1.0	--	54.3	18.9	3.3	5.5	--	1.2	7.6	--
	II (e)	6.2	-2.5	--	8.2	32.3	3.0	3.3	--	1.3	5.6	--
2018	Apr	0.5	-0.3	--	-54.9	32.3	0.2	0.4	--	0.1	0.5	--
	May	0.7	--	--	-15.8	--	0.3	--	--	0.2	0.5	--
	Jun	0.7	--	--	--	--	0.3	--	--	--	--	--

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

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

Chart 9.1 - Construction indicators (I)

Annualized percentage changes from previous period and index

- S. Security affiliates in construction (left)
- Construction confidence index (right)
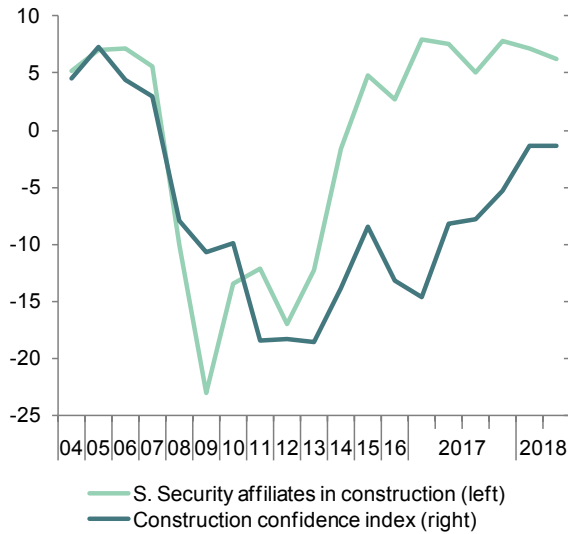
Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

- Official tenders
- Housing permits
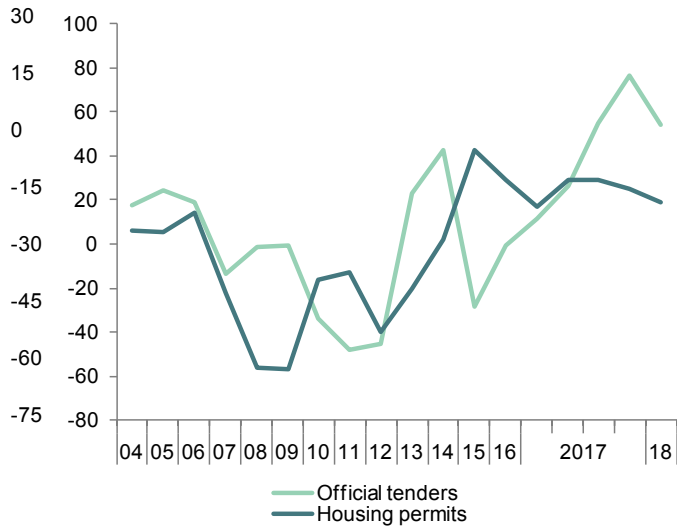
Chart 9.3 - Services indicators (I)

Percentage change from previous period

- Social Security affiliates in services
- Turnover
- Hotel overnight stays
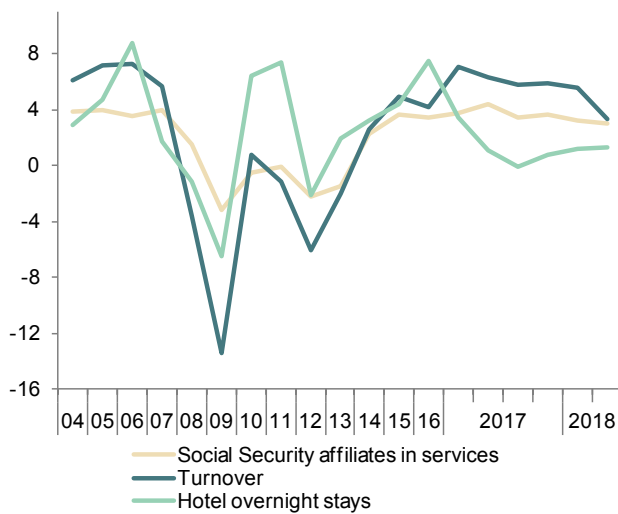
Chart 9.4 - Services indicators (II)

Index

- Services PMI (left)
- Services confidence (right)
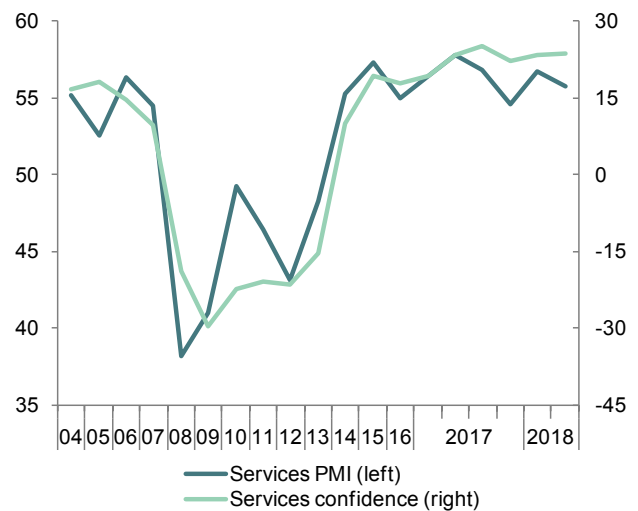
Table 10

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)
2011		106.7	808.3	-17.1	111.5	-21.7	142.0	-23.0	68.0
2012		98.8	710.6	-31.7	102.1	-24.3	107.7	-38.6	60.6
2013		95.0	742.3	-25.3	100.6	-21.9	107.6	-33.5	68.9
2014		96.0	890.1	-8.9	104.7	-9.2	137.5	-16.5	81.6
2015		100.0	1,094.0	0.3	110.3	-3.1	180.3	0.2	93.3
2016		103.9	1,230.1	-3.8	114.2	-1.4	191.3	-0.2	97.2
2017		104.7	1,341.6	-0.7	115.7	1.0	207.6	5.2	103.3
2018 (b)		100.8	637.5	0.0	39.2	-1.2	96.3	14.8	--
2016	III	104.0	308.3	-6.1	28.4	1.0	48.4	2.3	98.5
	IV	104.2	314.6	-3.2	28.7	2.2	49.5	-2.6	100.2
2017	I	104.4	321.1	-2.8	28.8	0.1	50.2	1.4	102.8
	II	104.8	329.1	1.5	28.8	2.6	51.3	7.6	104.1
	III	105.1	339.3	0.2	28.9	3.8	53.2	-2.0	103.5
	IV	105.2	349.5	-1.5	29.1	-2.3	54.8	13.6	102.5
2018	I	105.3	355.4	-0.6	29.2	1.7	56.1	13.8	102.3
	II (b)	105.3	238.9	0.5	19.5	-4.1	37.8	15.7	102.4
2018	Apr	105.3	119.2	-0.7	9.7	-6.0	18.9	14.0	102.4
	May	105.3	119.6	0.5	9.7	-1.2	19.0	20.4	--
	Jun	--	--	1.8	--	-5.2	--	12.7	--
				Percentage changes (c)					
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		4.2	22.9	--	5.3	--	31.1	--	14.4
2016		3.9	12.4	--	3.6	--	6.1	--	4.1
2017		0.8	9.1	--	1.2	--	8.5	--	6.4
2018 (d)		1.1	10.0	--	-0.3	--	14.8	--	-1.5
2016	II	3.0	10.1	--	3.2	--	7.9	--	6.6
	III	2.0	8.1	--	4.5	--	12.1	--	6.2
	IV	0.8	8.4	--	3.5	--	9.1	--	7.2
2017	I	0.6	8.5	--	1.4	--	5.6	--	10.8
	II	1.5	10.3	--	0.3	--	9.7	--	5.2
	III	1.1	12.9	--	0.7	--	15.1	--	-2.4
	IV	0.5	12.6	--	2.6	--	13.0	--	-3.9
2018	I	0.3	6.9	--	1.3	--	9.3	--	-0.7
	II (e)	0.1	3.3	--	0.6	--	5.2	--	0.4
2018	Apr	0.0	0.3	--	0.1	--	0.5	--	0.1
	May	0.0	0.3	--	0.1	--	0.5	--	--
	Jun	--	--	--	--	--	--	--	--

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

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

Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses

Retail sales (left)
Industrial orders for consumer goods (right, balance of responses)
Consumer confidence index (right, balance of responses)
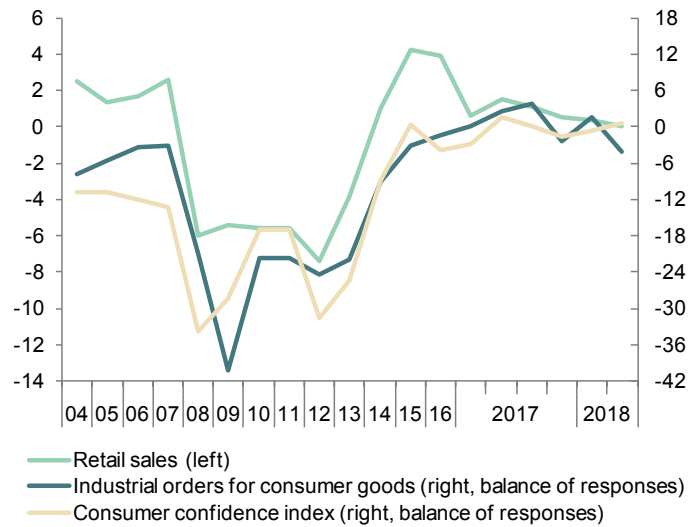
Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

Imports of capital goods
Industrial orders for investment goods (balance of responses)
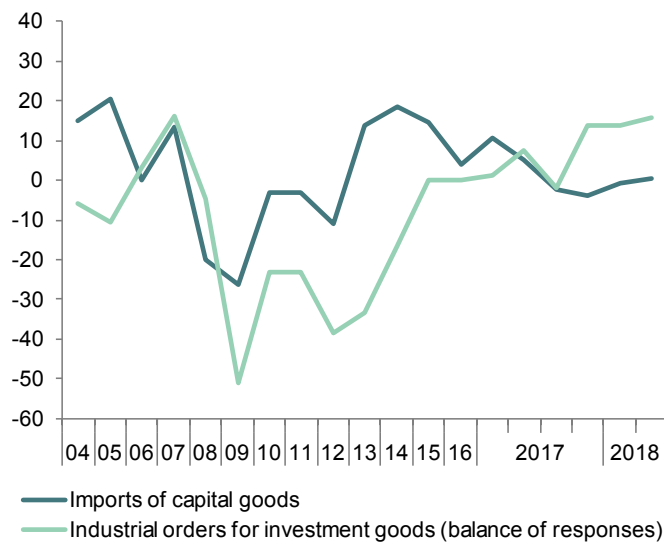
Table 11a

Labour market (I)
Forecasts in yellow

		Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
	Population aged 16-64									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	11	12	13
		Million								Percentage			
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	30.1	22.7	--	18.8	--	3.9	--	75.1	62.1	17.2	38.7	16.3	23.8
2018	30.1	22.7	--	19.3	--	3.4	--	74.8	63.4	15.1	--	--	--
2019	30.1	22.7	--	19.7	--	3.0	--	74.6	64.7	13.2	--	--	--
2016 II	30.1	22.9	22.8	18.3	18.3	4.6	4.6	75.5	60.2	20.0	45.7	19.0	27.5
III	30.1	22.8	22.8	18.5	18.4	4.3	4.4	75.5	60.7	19.4	43.4	18.5	25.6
IV	30.0	22.7	22.7	18.5	18.5	4.2	4.2	75.1	61.0	18.6	42.7	17.8	24.8
2017 I	30.0	22.7	22.7	18.4	18.6	4.3	4.1	75.0	61.5	18.1	40.8	17.3	24.1
II	30.0	22.7	22.7	18.8	18.8	3.9	3.9	75.1	61.9	17.3	38.8	16.4	23.8
III	30.0	22.8	22.7	19.0	18.9	3.7	3.8	75.2	62.3	16.8	37.2	15.9	23.5
IV	30.1	22.8	22.8	19.0	19.0	3.8	3.8	75.1	62.7	16.5	37.2	15.5	23.8
2018 I	30.1	22.7	22.7	18.9	19.1	3.8	3.7	74.7	62.8	16.1	35.7	15.1	22.9
		Percentage changes (d)						Difference from one year ago					
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	0.0	-0.4	--	2.6	--	-12.6	--	-0.3	1.6	-2.4	-5.8	-2.4	-2.8
2018	0.1	-0.2	--	2.4	--	-12.4	--	-0.3	1.4	-2.1	--	--	--
2019	0.2	-0.1	--	2.1	--	-12.8	--	-0.2	1.2	-1.9	--	--	--
2016 II	-0.4	-0.6	-0.5	2.4	1.2	-11.2	-6.6	-0.2	1.6	-2.4	-2.9	-2.2	-3.6
III	-0.3	-0.2	-0.4	2.7	2.9	-10.9	-13.0	0.1	1.7	-2.3	-4.5	-2.0	-4.2
IV	-0.3	-0.6	-1.3	2.3	2.2	-11.3	-15.2	-0.2	1.6	-2.3	-3.5	-2.1	-3.8
2017 I	-0.2	-0.6	0.1	2.3	2.9	-11.2	-11.2	-0.3	1.4	-2.3	-4.7	-2.0	-4.1
II	-0.1	-0.6	-0.9	2.8	3.2	-14.4	-17.8	-0.5	1.7	-2.8	-7.0	-2.6	-3.7
III	0.0	-0.3	0.7	2.8	2.7	-13.6	-8.6	-0.3	1.6	-2.5	-6.1	-2.6	-2.1
IV	0.1	0.1	0.4	2.6	1.9	-11.1	-6.5	-0.1	1.7	-2.1	-5.4	-2.3	-1.1
2018 I	0.2	-0.1	-0.4	2.4	1.8	-10.8	-11.4	-0.3	1.3	-2.0	-5.1	-2.2	-1.1

(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) and Funcas.

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

Annual / annualized quarterly growth rates and percentage of active population

Unemployment rate (right)
Labour force (growth rate, left)
Employed (growth rate, left)
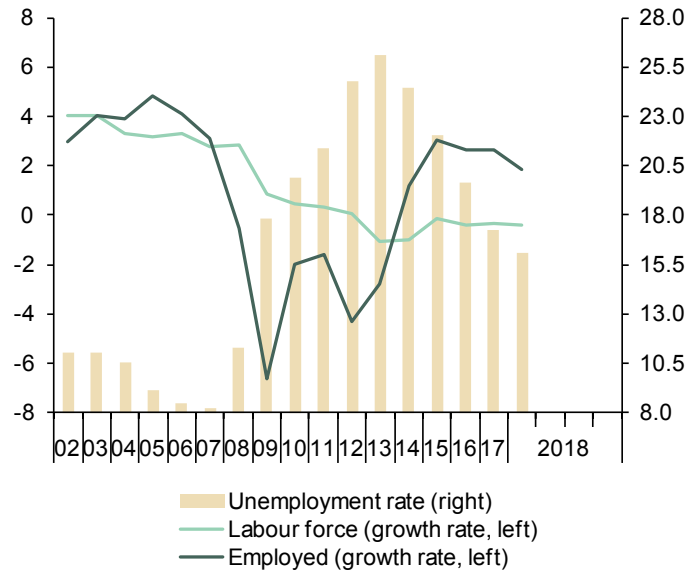
Chart 11a.2 - Unemployment rates, S.A.

Percentage

Total   Aged 16-24
Spanish   Foreign
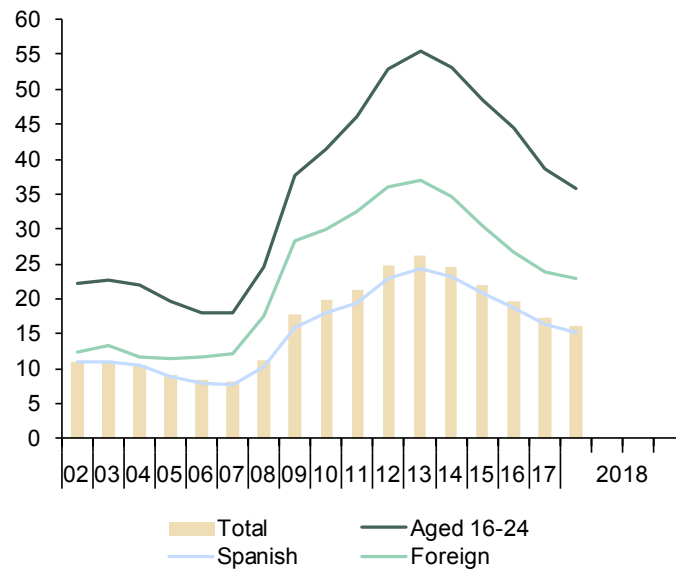
Table 11b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
							Employees						
								By type of contract					Part-time employment rate (b)
		Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
							Million (original data)						
2009		0.79	2.81	1.89	13.62	15.88	4.00	11.88	25.2	3.23	16.71	2.40	12.54
2010		0.79	2.65	1.65	13.64	15.59	3.86	11.73	24.7	3.13	16.29	2.44	13.02
2011		0.76	2.60	1.40	13.66	15.39	3.87	11.52	25.1	3.03	15.92	2.50	13.56
2012		0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.49
2013		0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.80
2014		0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91
2015		0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74
2016		0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21
2017		0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97
2018	(c)	0.81	2.70	1.18	14.40	15.98	4.30	11.68	26.9	3.10	16.30	2.78	14.58
2016	II	0.76	2.50	1.07	13.94	15.16	3.90	11.26	25.7	3.11	15.52	2.75	15.07
	III	0.79	2.52	1.09	14.01	15.29	4.01	11.28	26.2	3.11	15.60	2.80	15.20
	IV	0.80	2.57	1.09	14.04	15.37	4.06	11.31	26.4	3.13	15.68	2.82	15.23
2017	I	0.82	2.59	1.10	14.12	15.52	4.12	11.40	26.5	3.11	15.79	2.84	15.24
	II	0.83	2.64	1.12	14.18	15.66	4.19	11.47	26.8	3.12	15.96	2.82	15.03
	III	0.82	2.66	1.13	14.30	15.78	4.21	11.57	26.7	3.12	16.08	2.82	14.94
	IV	0.81	2.69	1.15	14.35	15.91	4.25	11.66	26.7	3.08	16.20	2.79	14.70
2018	I	0.81	2.70	1.18	14.40	15.98	4.30	11.68	26.9	3.10	16.30	2.78	14.58
		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)		-1.6	4.0	6.5	2.0	3.0	4.4	2.4	0.4	-0.5	3.2	-2.1	-0.7
2016	II	2.5	0.2	-1.6	3.2	2.9	5.5	2.0	0.6	0.3	3.0	-0.5	-0.4
	III	4.4	0.9	2.1	2.8	3.0	6.3	1.9	0.8	0.7	3.5	-2.0	-0.7
	IV	5.2	4.1	2.2	1.9	2.7	5.9	1.6	0.8	0.6	2.8	-0.3	-0.4
2017	I	9.4	3.4	4.9	1.5	2.7	5.5	1.8	0.7	0.1	2.4	1.5	-0.1
	II	9.4	5.7	5.2	1.7	3.3	7.5	1.8	1.1	0.3	2.9	2.5	0.0
	III	4.2	5.4	4.3	2.1	3.2	4.9	2.6	0.4	0.6	3.1	1.0	-0.3
	IV	0.7	4.6	6.1	2.1	3.5	4.6	3.1	0.3	-1.5	3.3	-1.0	-0.5
2018	I	-1.6	4.0	6.5	2.0	3.0	4.4	2.4	0.4	-0.5	3.2	-2.1	-0.7

(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

Agriculture — Industry — Construction — Services
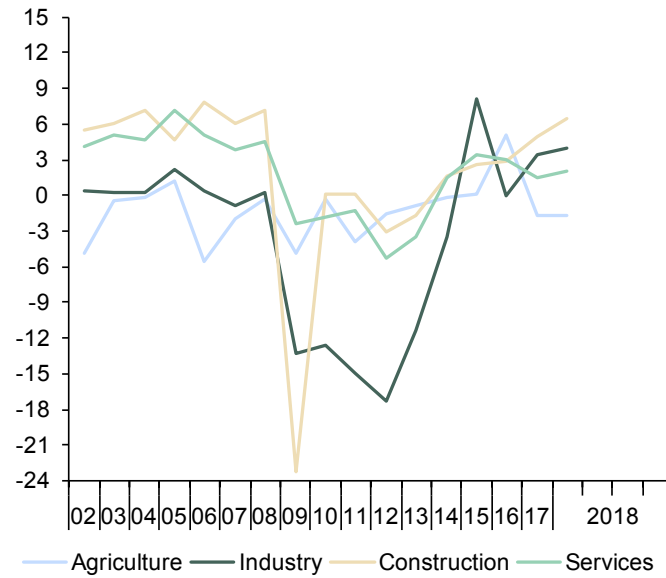
Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

Temporary employment rate (right)
Temporary (left)
Indefinite (left)
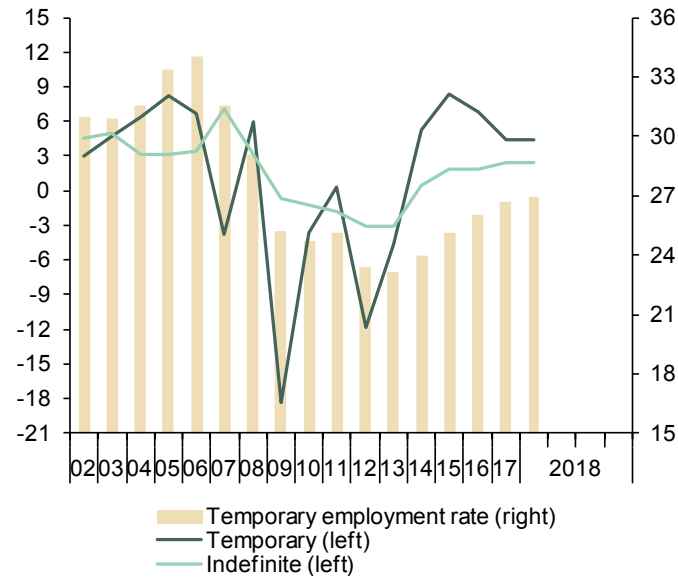
Table 12

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 2018	100.00	66.15	81.20	24.82	41.33	15.06	7.34	11.46	22.40
				Indexes, 2016 = 100					
2012	99.5	97.6	97.1	99.0	96.8	94.9	93.9	121.2	94.6
2013	100.9	98.7	98.5	99.6	98.1	97.9	97.3	121.3	97.7
2014	100.7	98.7	98.6	99.2	98.3	98.2	96.0	120.3	97.6
2015	100.2	99.2	99.2	99.5	98.9	99.2	97.7	109.4	98.7
2016	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2017	102.0	101.1	101.1	100.2	101.6	100.7	102.6	108.0	101.3
2018	103.8	102.3	102.2	100.4	103.4	101.8	105.2	114.4	102.9
2019	105.4	103.6	103.5	101.0	105.2	102.6	107.5	118.2	104.2
				Annual percentage changes					
2012	2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013	1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014	-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015	-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016	-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017	2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018	1.8	1.2	1.2	0.2	1.8	1.1	2.5	5.9	1.6
2019	1.5	1.3	1.2	0.6	1.7	0.8	2.2	3.3	1.3
2018 Jan	0.6	0.8	0.8	-0.2	1.3	1.1	1.6	-1.7	1.3
Feb	1.1	1.1	1.1	0.0	1.7	1.4	0.3	1.4	1.0
Mar	1.2	1.1	1.2	-0.1	1.9	1.3	1.6	1.3	1.4
Apr	1.1	0.7	0.8	0.0	1.1	1.4	2.0	2.3	1.6
May	2.1	1.1	1.1	0.0	1.8	1.3	3.5	7.8	2.0
Jun	2.3	1.1	1.1	0.1	1.8	1.1	3.2	10.0	1.8
Jul	2.4	1.3	1.2	0.3	1.8	1.0	3.8	10.8	1.9
Aug	2.5	1.3	1.2	0.4	1.9	0.8	5.0	9.9	2.2
Sep	2.4	1.4	1.3	0.5	2.0	1.2	3.7	9.2	2.0
Oct	2.1	1.5	1.4	0.6	2.0	1.1	0.7	7.9	1.0
Nov	1.9	1.4	1.4	0.5	2.0	1.0	1.8	6.2	1.2
Dec	2.1	1.5	1.4	0.6	2.0	1.0	2.8	6.5	1.6
2019 Jan	2.0	1.5	1.4	0.5	2.1	1.0	3.0	5.7	1.6
Feb	1.9	1.3	1.2	0.5	1.8	1.0	2.5	5.9	1.5
Mar	2.2	1.5	1.4	0.6	2.0	0.9	2.2	8.4	1.4
Apr	2.0	1.4	1.3	0.7	1.8	0.7	2.3	6.6	1.3
May	1.4	1.4	1.3	0.8	1.8	0.7	0.7	2.3	0.7
Jun	1.4	1.3	1.2	0.7	1.8	0.7	2.0	2.0	1.1
Jul	1.3	1.2	1.1	0.5	1.7	0.7	2.2	2.0	1.2
Aug	1.3	1.2	1.1	0.4	1.6	0.7	2.4	1.8	1.3
Sep	1.2	1.1	1.1	0.4	1.6	0.7	2.5	1.7	1.3
Oct	1.2	1.1	1.1	0.5	1.5	0.8	2.4	1.5	1.3
Nov	1.2	1.2	1.1	0.5	1.6	0.8	2.3	1.0	1.3
Dec	1.2	1.2	1.1	0.5	1.6	0.8	2.1	1.0	1.2

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

All-Items
All-Items ex. food and energy
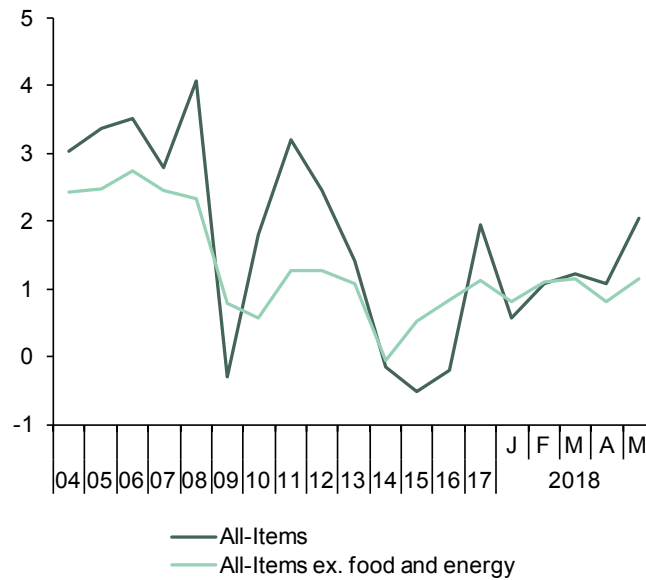
Chart 12.2 - Inflation rate (II)

Annual percentage changes

Non-energy industrial goods
Services
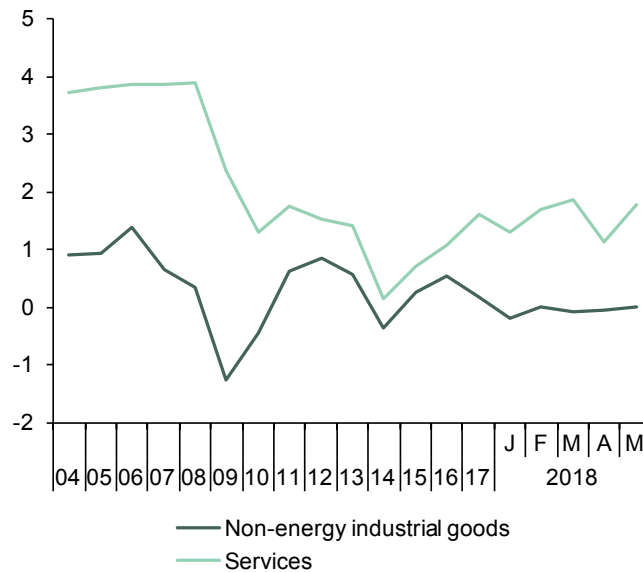
Table 13
Other prices and costs indicators

	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	2015=100			2007=100		2000=100				
2011	100.0	99.1	98.1	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012	100.1	102.9	99.8	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	100.5	103.5	100.5	64.3	72.7	55.1	143.8	141.1	152.1	155.3	--
2014	100.3	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015	100.9	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016	101.2	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.3	156.3	--
2017	102.1	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.3	--
2018 (b)	102.8	102.4	102.9	76.9	76.2	--	141.2	138.1	150.6	148.7	--
2016 III	101.2	97.3	99.9	70.5	72.9	54.2	138.2	135.1	147.6	159.4	--
IV	101.7	99.5	100.1	70.8	73.5	61.6	149.8	150.6	147.3	163.7	--
2017 I	101.5	101.4	101.4	72.4	74.2	60.1	140.3	137.0	150.4	147.2	--
II	101.9	100.4	101.9	73.8	74.4	59.7	146.1	145.4	148.0	154.4	--
III	102.2	100.5	102.0	75.2	74.9	58.2	138.7	135.5	148.6	158.9	--
IV	102.9	102.1	102.2	75.8	75.8	54.9	150.8	151.3	149.5	164.8	--
2017 I	102.8	102.2	102.9	76.9	76.2	58.5	141.2	138.1	150.6	148.7	--
II (b)	--	102.8	103.0	--	--	--	--	--	--	--	--
2018 Mar	--	101.5	103.0	--	--	--	--	--	--	--	--
Apr	--	102.2	103.1	--	--	--	--	--	--	--	--
May	--	103.4	103.0	--	--	--	--	--	--	--	--
Annual percent changes (c)											
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	0.2	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	-0.2	1.0
2017	1.0	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.5
2018 (d)	1.3	1.4	1.3	6.2	2.7	-2.6	0.7	0.8	0.2	1.0	1.6
2016 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	-0.8	-0.9	-0.5	1.0
2017 I	0.7	6.9	2.4	5.3	2.3	6.2	0.0	-0.2	0.5	-0.2	1.3
II	0.9	4.8	2.5	5.5	2.0	1.8	-0.2	-0.1	-0.5	-0.1	1.3
III	1.0	3.3	2.1	6.6	1.8	7.4	0.4	0.3	0.7	-0.3	1.4
IV	1.2	2.6	2.1	7.2	0.9	-10.9	0.7	0.5	1.5	0.7	1.5
2018 I	1.3	0.8	1.4	6.2	1.4	-2.6	0.7	0.8	0.2	1.0	1.5
II (e)	--	2.4	1.1	--	--	--	--	--	--	--	1.6
2018 Mar	--	1.2	1.2	--	--	--	--	--	--	--	1.5
Apr	--	1.8	1.1	--	--	--	--	--	--	--	1.6
May	--	2.9	1.0	--	--	--	--	--	--	--	1.6

(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)

Housing (INE)
Housing (M. of Public Works)
Urban Land (M. of Public Works)
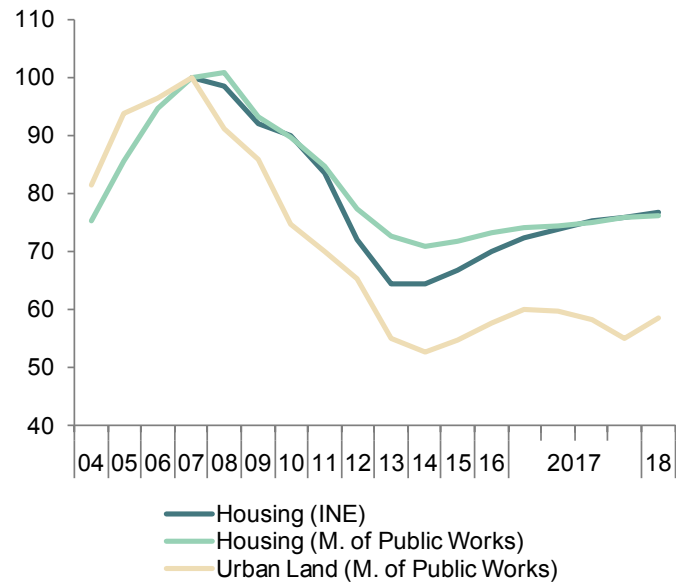
Chart 13.2 - Wage costs

Annual percent change

Total labour cost
Wage cost
Wage increases agreed in collective bargaining
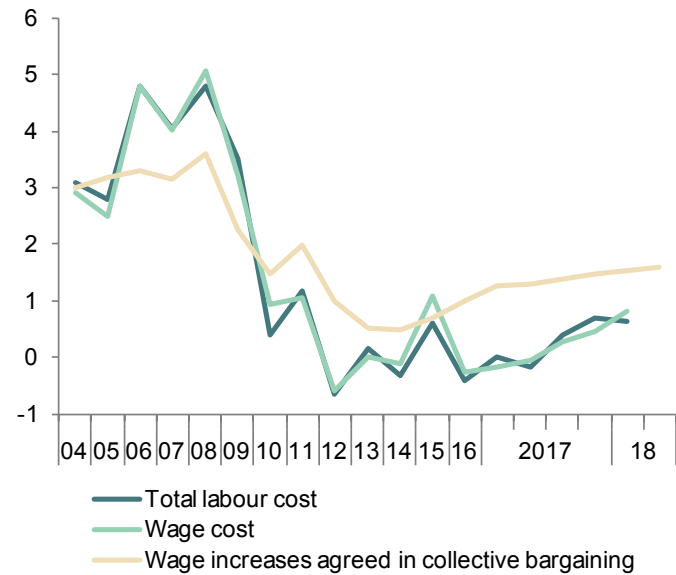
Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2011		138.9	108.4	128.1	113.0	109.6	103.1	11.9	6.1	-4.0	-0.3	0.3
2012		145.9	110.7	131.8	110.7	114.7	96.6	11.9	6.9	-2.7	1.2	1.0
2013		152.1	110.5	137.7	108.3	109.8	98.6	12.3	7.3	-1.4	2.1	1.4
2014		155.2	109.4	141.8	114.0	107.3	106.3	12.7	7.3	-2.1	1.1	0.9
2015		161.2	110.1	146.4	118.0	104.6	112.8	13.5	7.3	-2.1	0.2	0.6
2016		165.4	108.2	152.9	117.5	101.3	116.0	14.2	7.2	-1.4	0.3	1.2
2017		178.8	108.9	164.2	129.6	106.1	122.1	15.2	7.9	-2.1	0.1	1.4
2018 (b)		183.9	110.6	166.2	135.1	108.2	124.9	15.8	7.9	-2.5	0.1	1.6
2016	II	166.2	107.7	154.3	117.3	100.3	116.9	14.1	7.2	-1.4	0.3	1.1
	III	165.5	108.3	152.9	117.4	101.6	115.6	13.9	7.3	-1.5	0.3	0.8
	IV	171.3	108.8	157.4	122.5	104.0	117.8	14.5	7.4	-1.7	0.1	1.3
2017	I	177.8	108.5	163.9	130.7	107.2	122.0	15.2	7.6	-2.5	0.2	1.3
	II	180.0	107.7	167.1	127.9	104.6	122.2	15.2	7.8	-1.6	0.4	1.7
	III	179.0	108.8	164.5	130.5	105.1	124.1	14.8	8.2	-2.3	-0.3	1.1
	IV	185.4	110.2	168.2	132.8	107.5	123.6	15.6	8.1	-1.9	0.1	1.4
2018	I	185.1	110.9	167.0	134.6	108.2	124.5	15.8	8.0	-2.3	0.2	1.5
2018	Feb	180.2	109.9	164.0	130.6	106.4	122.8	15.3	7.8	-2.1	-0.1	1.3
	Mar	188.7	111.9	168.6	134.0	108.4	123.6	16.3	7.9	-1.7	0.5	1.8
	Apr	180.2	109.9	163.9	136.6	108.2	126.3	15.3	7.8	-3.3	-0.6	1.3
		Percentage changes (c)								Percentage of GDP		
2011		15.2	4.9	9.9	9.6	8.6	1.0	12.7	20.5	-4.5	-0.4	0.3
2012		5.1	2.1	2.9	-2.0	4.7	-6.3	0.5	14.1	-3.1	1.4	1.2
2013		4.3	-0.2	4.5	-2.2	-4.2	2.1	3.1	6.3	-1.6	2.5	1.7
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.8	0.4	-2.3	0.2	0.7
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	5.3	-2.3	-1.6	0.3	1.2
2017		8.1	0.7	7.4	10.3	4.7	5.3	7.0	10.3	-2.1	0.1	1.4
2018 (d)		3.7	2.1	1.5	4.9	1.5	3.4	3.9	3.2	--	--	--
2016	II	20.9	0.1	20.8	12.0	3.8	7.9	3.3	8.2	-1.5	0.3	1.1
	III	-1.7	2.0	-3.6	0.6	5.1	-4.3	-1.8	2.3	-1.6	0.3	0.9
	IV	14.5	1.9	12.4	18.2	9.6	7.8	4.4	1.7	-1.8	0.1	1.4
2017	I	16.1	-1.1	17.4	29.8	12.9	15.0	4.6	2.2	-2.6	0.2	1.4
	II	5.2	-2.7	8.1	-8.4	-9.1	0.7	0.5	2.9	-1.7	0.4	1.8
	III	-2.1	4.1	-6.0	8.4	1.7	6.5	-2.9	4.1	-2.3	-0.3	1.1
	IV	14.9	5.3	9.1	7.5	9.4	-1.8	5.7	-0.4	-2.0	0.1	1.5
2018	I	-0.6	2.3	-2.9	5.5	2.6	2.8	0.8	-1.9	--	--	--
2018	Feb	-3.3	31.7	-26.5	-6.2	40.9	-33.5	-3.2	-3.5	--	--	--
	Mar	4.7	-25.0	39.6	2.6	-5.0	8.0	6.6	1.0	--	--	--
	Apr	-4.5	34.5	-29.0	1.9	-21.4	29.8	-5.9	-1.8	--	--	--

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

Source Ministry of Economy.

Chart 14.1 - External trade (real)

Percent change from previous period

Exports — Imports

Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

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

Table 15

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

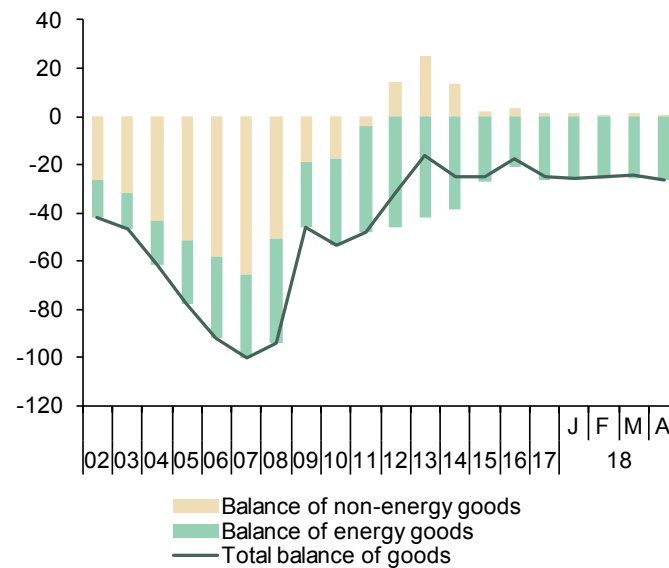|		Current account					Capital account	Current and capital accounts	Financial account					Bank of Spain	Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain						
									Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
		EUR billions													
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		21.91	-21.96	55.38	-0.24	-11.28	2.64	24.56	55.87	20.26	16.15	21.69	-2.23	-31.96	-0.64
2018 (a)		-1.32	-6.38	8.84	0.42	-4.19	0.59	-0.74	5.88	-1.28	8.53	-1.87	0.50	-3.16	3.46
2016	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	-0.54	-6.25	8.84	0.48	-3.62	0.36	-0.18	41.39	-1.38	29.30	15.16	-1.69	-43.33	-1.76
	II	6.29	-3.46	15.18	-2.85	-2.58	0.63	6.93	-1.31	5.11	-3.02	-3.00	-0.39	5.89	-2.35
	III	7.12	-7.30	19.11	-1.28	-3.40	0.58	7.70	6.58	9.00	1.15	-2.45	-1.13	-0.22	-1.34
	IV	9.04	-4.96	12.26	3.41	-1.67	1.07	10.11	9.21	7.53	-11.28	11.98	0.98	5.70	4.80
2018	I	-1.32	-6.38	8.84	0.42	-4.19	0.59	-0.74	5.88	-1.28	8.53	-1.87	0.50	-3.16	3.46
			Goods and Services		Primary and Secondary Income										
2018	Feb	-1.30	0.54		-1.84		0.12	-1.18	-0.82	1.38	3.96	-6.09	-0.06	1.70	2.06
	Mar	0.29	1.63		-1.34		0.09	0.38	-17.94	-3.50	-10.20	-4.46	0.21	18.90	0.58
	Apr	-1.52	0.94		-2.46		0.11	-1.40	8.16	0.37	-4.96	12.74	0.01	-6.45	3.11
		Percentage of GDP													
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		1.9	-1.9	4.8	0.0	-1.0	0.2	2.1	4.8	1.7	1.4	1.9	-0.2	-2.7	-0.1
2018 (a)		-0.5	-2.2	3.1	0.1	-1.5	0.2	-0.3	2.0	-0.4	3.0	-0.6	0.2	-1.1	1.2
2016	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	-0.2	-2.2	3.2	0.2	-1.3	0.1	-0.1	14.9	-0.5	10.5	5.5	-0.6	-15.6	-0.6
	II	2.1	-1.2	5.1	-1.0	-0.9	0.2	2.3	-0.4	1.7	-1.0	-1.0	-0.1	2.0	-0.8
	III	2.5	-2.5	6.7	-0.4	-1.2	0.2	2.7	2.3	3.1	0.4	-0.9	-0.4	-0.1	-0.5
	IV	3.0	-1.6	4.0	1.1	-0.6	0.4	3.3	3.0	2.5	-3.7	3.9	0.3	1.9	1.6
2018	I	-0.5	-2.2	3.1	0.1	-1.5	0.2	-0.3	2.0	-0.4	3.0	-0.6	0.2	-1.1	1.2

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

- Goods and services
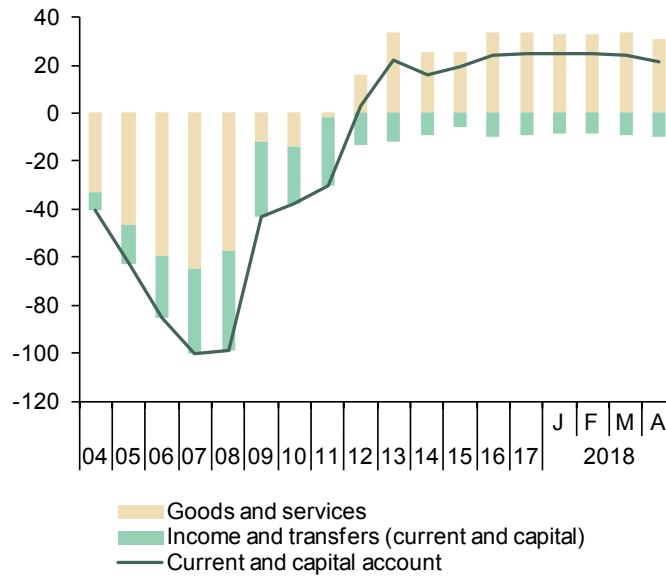- Income and transfers (current and capital)
- Current and capital account

Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

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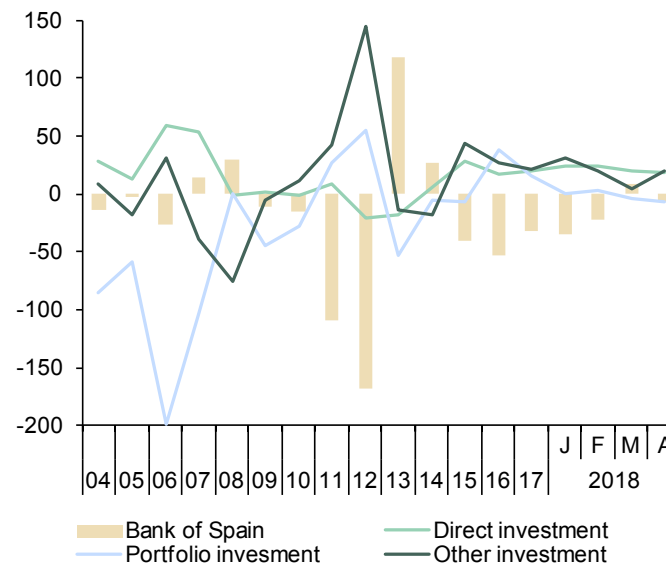- Direct investment
- Other investment

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			2015=100			1999 1=100
2011	106.3	94.8	112.2	96.9	95.8	101.2	99.1	101.7	97.5	113.1
2012	105.3	96.0	109.7	99.3	98.2	101.1	102.9	104.6	98.3	111.6
2013	103.9	95.7	108.6	100.8	99.5	101.3	103.5	104.4	99.1	113.4
2014	102.2	95.5	107.1	100.6	100.0	100.7	102.1	102.8	99.3	112.4
2015	101.7	94.7	107.4	100.0	100.0	100.0	100.0	100.0	100.0	109.0
2016	100.3	93.8	106.9	99.7	100.3	99.4	96.9	97.7	99.2	108.8
2017	100.6	93.7	107.3	101.7	101.8	99.9	101.2	100.7	100.5	110.3
2018 (a)	--	--	--	102.6	102.8	99.8	102.4	102.4	100.0	111.1
2016 II	--	--	--	100.1	100.4	99.7	95.8	97.0	98.8	109.1
III	--	--	--	99.5	100.3	99.2	97.3	98.0	99.3	108.7
IV	--	--	--	101.1	101.0	100.1	99.5	99.1	100.4	110.0
2017 I	--	--	--	100.7	101.0	99.7	101.4	100.7	100.7	109.2
II	--	--	--	102.2	102.0	100.2	100.4	100.2	100.2	110.3
III	--	--	--	101.3	101.8	99.5	100.8	100.4	100.3	110.4
IV	--	--	--	102.6	102.4	100.2	102.2	101.4	100.8	111.4
2018 I	--	--	--	101.7	102.3	99.5	102.2	102.2	100.0	110.7
2018 Mar	--	--	--	102.6	103.0	99.6	101.6	102.2	99.4	111.0
Apr	--	--	--	103.4	103.3	100.0	102.1	102.3	99.8	111.5
May	--	--	--	104.3	103.8	100.5	103.2	103.0	100.2	111.7
	Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2011	-1.1	0.2	-1.2	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	3.8	2.9	0.9	-1.3
2013	-1.3	-0.3	-1.0	1.5	1.3	0.2	0.6	-0.2	0.8	1.5
2014	-1.6	-0.2	-1.4	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-0.9
2015	-0.5	-0.8	0.3	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.0
2016	-1.4	-1.0	-0.4	-0.3	0.3	-0.6	-3.1	-2.3	-0.8	-0.1
2017	0.3	-0.1	0.4	2.0	1.5	0.5	4.5	3.1	1.4	1.3
2018 (b)	--	--	--	1.3	1.4	-0.1	1.3	1.8	-0.5	1.4
2016 II	--	--	--	-1.0	-0.1	-0.9	-5.4	-3.9	-1.5	-0.5
III	--	--	--	-0.3	0.3	-0.6	-3.3	-2.0	-1.3	0.1
IV	--	--	--	0.8	0.7	0.1	1.3	0.4	0.9	0.9
2017 I	--	--	--	2.7	1.8	0.9	6.9	4.2	2.7	1.4
II	--	--	--	2.1	1.5	0.6	4.8	3.4	1.4	1.1
III	--	--	--	1.8	1.4	0.4	3.6	2.5	1.1	1.6
IV	--	--	--	1.6	1.4	0.2	2.7	2.3	0.4	1.3
2018 I	--	--	--	1.1	1.3	-0.2	0.8	1.5	-0.7	1.4
2018 Mar	--	--	--	1.3	1.3	0.0	1.3	1.7	-0.4	1.5
Apr	--	--	--	1.1	1.3	-0.2	1.7	1.8	-0.1	1.6
May	--	--	--	2.1	1.9	0.2	2.7	2.8	-0.1	1.2

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

Sources: Eurostat, Bank of Spain and Funcas.

Chart 16.1 - Relative Unit Labour Costs in industry (Spain/EMU)
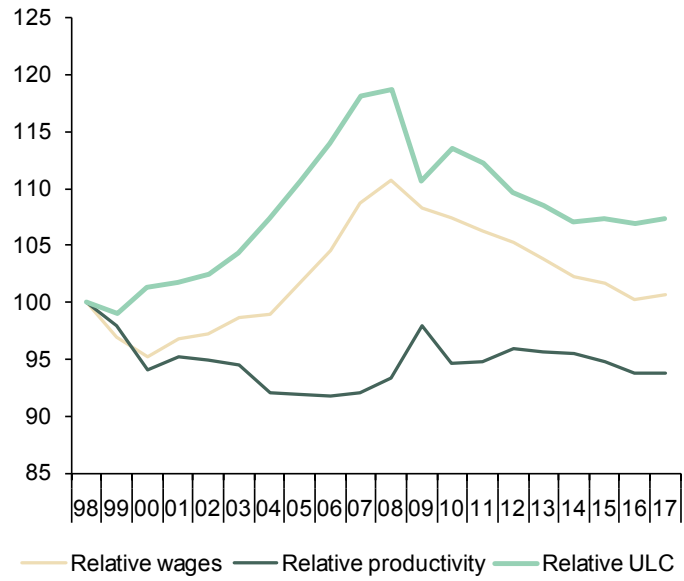
1998=100

Relative wages —— Relative productivity —— Relative ULC

Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

Differential —— Spain —— EMU
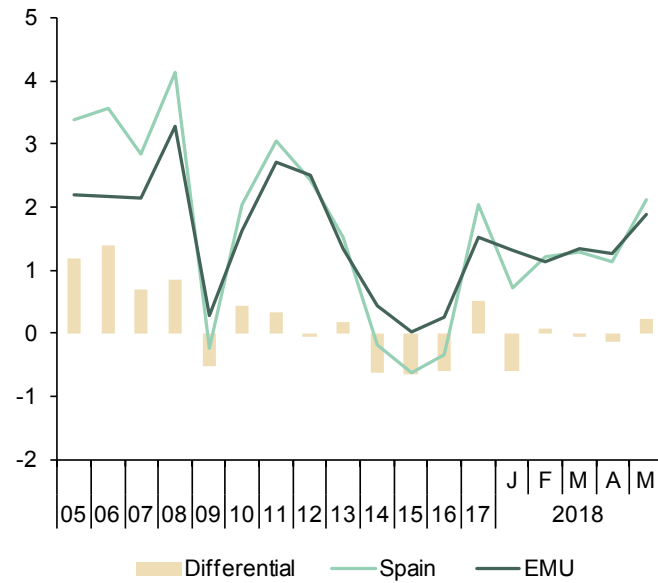
Table 17a

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	Spain	EMU	USA	Spain	EMU	USA
	Billions of national currency								
2006	22.2	-133.2	-411.6	392.1	5,998.2	8,891.9	-90.7	18.0	-584.9
2007	20.8	-61.3	-513.6	384.7	6,108.5	9,365.1	-104.1	19.8	-735.6
2008	-49.3	-208.5	-1,033.3	440.6	6,622.3	10,839.0	-102.9	-66.7	-791.0
2009	-118.2	-581.2	-1,827.4	569.5	7,360.2	12,541.3	-46.5	31.2	-457.2
2010	-101.4	-590.5	-1,797.7	650.1	8,095.0	14,318.8	-42.0	41.3	-495.1
2011	-103.2	-414.8	-1,646.6	744.3	8,558.6	15,511.2	-35.3	58.5	-443.2
2012	-108.8	-361.5	-1,430.7	891.5	9,016.4	16,705.3	-4.6	181.3	-264.9
2013	-71.7	-300.7	-894.0	979.0	9,332.7	17,594.8	15.0	235.3	-248.2
2014	-61.9	-253.4	-832.5	1,041.6	9,575.3	18,308.2	10.3	266.1	-154.1
2015	-57.0	-213.6	-765.2	1,073.9	9,692.9	19,062.7	11.0	337.6	-194.7
2016	-50.4	-159.0	-920.0	1,107.2	9,832.5	19,947.7	21.1	352.9	-313.7
2017	-36.2	-98.9	-943.2	1,144.3	9,916.4	20,902.3	20.4	389.4	-450.0
2018	-31.0	-77.1	-1,088.1	1,183.8	10,031.9	21,990.4	18.0	394.0	--
2019	-24.3	-75.5	-1,253.7	1,209.4	10,118.1	23,344.1	20.0	405.2	--
	Percentage of GDP								
2006	2.2	-1.5	-3.0	38.9	67.4	64.2	-9.0	0.2	-4.2
2007	1.9	-0.7	-3.5	35.6	65.0	64.7	-9.6	0.2	-5.1
2008	-4.4	-2.2	-7.0	39.5	68.7	73.6	-9.2	-0.7	-5.4
2009	-11.0	-6.3	-12.7	52.8	79.2	87.0	-4.3	0.3	-3.2
2010	-9.4	-6.2	-12.0	60.1	84.8	95.7	-3.9	0.4	-3.3
2011	-9.6	-4.2	-10.6	69.5	87.3	100.0	-3.3	0.6	-2.9
2012	-10.5	-3.7	-8.9	85.7	91.7	103.4	-0.4	1.8	-1.6
2013	-7.0	-3.0	-5.4	95.5	93.9	105.4	1.5	2.4	-1.5
2014	-6.0	-2.5	-4.8	100.4	94.2	105.1	1.0	2.6	-0.9
2015	-5.3	-2.0	-4.2	99.4	92.1	105.2	1.0	3.2	-1.1
2016	-4.5	-1.5	-4.9	99.0	91.1	107.1	1.9	3.3	-1.7
2017	-3.1	-0.9	-4.9	98.3	88.8	107.8	1.8	3.5	-2.3
2018	-2.6	-0.7	-5.3	97.6	86.5	108.1	1.5	3.4	--
2019	-1.9	-0.6	-5.9	95.9	84.1	109.4	1.6	3.4	--

Source: European Commission Forecasts, Spring 2018.

Chart 17a.1 - Government deficit

Percentage of GDP
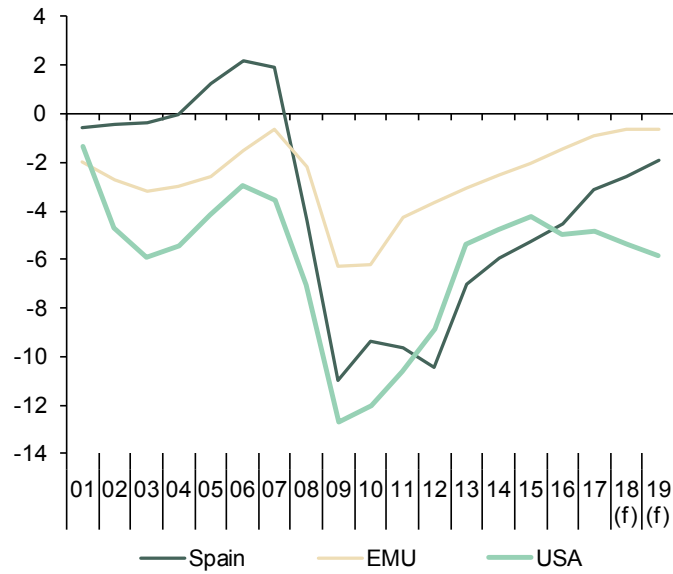
(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP
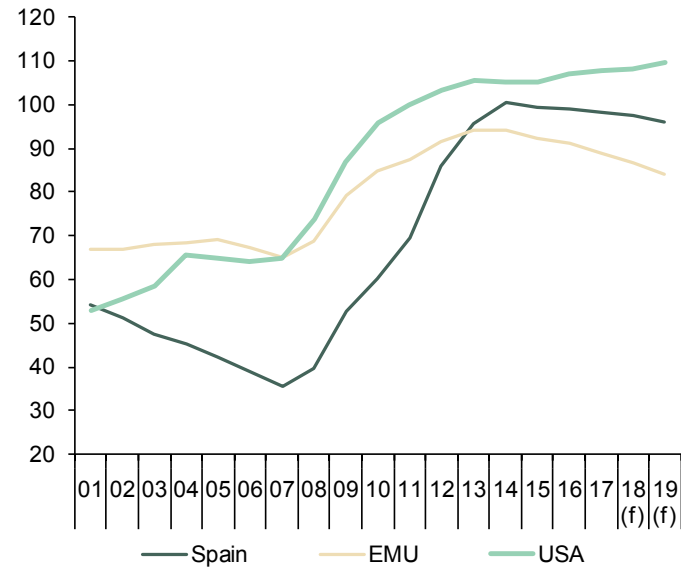
(f) European Commission forecast.

Table 17b

Imbalances: International comparison (II)

	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU-19	USA	Spain	EMU-19	USA
	Billions of national currency					
2005	656.2	4,806.4	11,975.8	925.0	7,200.5	8,154.4
2006	783.5	5,214.0	13,256.6	1,158.8	7,743.5	8,971.4
2007	879.3	5,592.3	14,174.7	1,344.5	8,610.3	10,097.4
2008	916.7	5,826.2	14,047.3	1,422.6	9,252.6	10,664.2
2009	908.9	5,950.3	13,812.0	1,406.1	9,339.2	10,142.8
2010	905.2	6,075.0	13,574.8	1,429.4	9,540.1	9,994.7
2011	877.9	6,159.7	13,381.0	1,415.7	10,016.4	10,257.2
2012	840.9	6,150.4	13,443.7	1,309.8	10,150.9	10,760.4
2013	793.3	6,097.9	13,596.0	1,230.6	10,056.2	11,244.4
2014	757.2	6,112.5	13,953.1	1,179.4	10,461.5	11,941.2
2015	733.8	6,182.7	14,216.9	1,157.0	11,034.3	12,745.6
2016	720.3	6,289.2	14,671.3	1,144.1	11,263.8	13,449.8
2017	712.8	6,486.2	15,251.4	1,126.7	11,360.0	14,259.3
	Percentage of GDP					
2005	70.5	56.8	91.5	99.4	85.1	62.3
2006	77.7	58.5	95.7	115.0	86.9	64.7
2007	81.4	59.5	97.9	124.4	91.6	69.7
2008	82.1	60.5	95.4	127.4	96.0	72.5
2009	84.2	64.0	95.8	130.3	100.5	70.3
2010	83.7	63.6	90.7	132.2	99.9	66.8
2011	82.0	62.9	86.2	132.3	102.2	66.1
2012	80.9	62.5	83.2	126.0	103.2	66.6
2013	77.3	61.4	81.5	120.0	101.2	67.4
2014	73.0	60.2	80.1	113.6	103.0	68.5
2015	67.9	58.8	78.5	107.1	104.9	70.3
2016	64.4	58.3	78.8	102.3	104.4	72.2
2017	61.3	58.1	78.7	96.8	101.7	73.5

(a) Loans and debt securities.

Sources: ECB and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

Spain — EMU — USA

Chart 17b.2 - Non-financial corporations debt

Percentage of GDP

Spain — EMU — USA

50 Financial System Indicators

Updated: June 29th, 2018

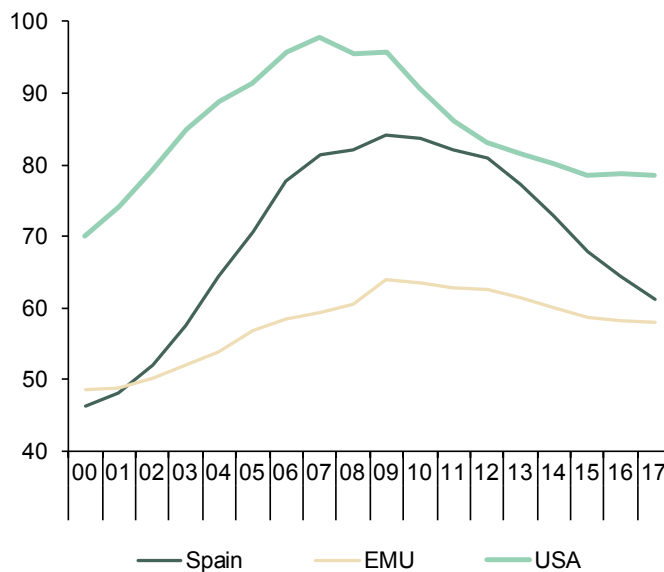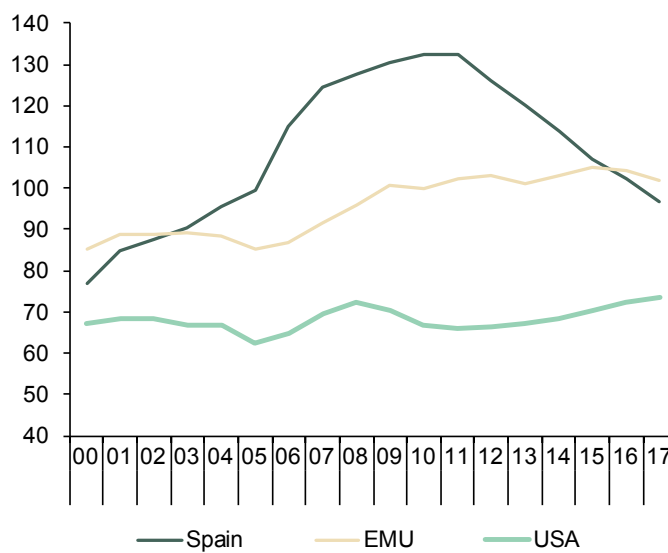| Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.4	April 2018
Other resident sectors' deposits in credit institutions (monthly average % var.)	-1.5	April 2018
Doubtful loans (monthly % var.)	-1.1	April 2018
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	757,783	May 2018
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	169,640	May 2018
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	35	May 2018
"Operating expenses/gross operating income" ratio (%)	54.03	December 2017
"Customer deposits/employees" ratio (thousand euros)	6,532.25	December 2017
"Customer deposits/branches" ratio (thousand euros)	47,309.12	December 2017
"Branches/institutions" ratio	122.22	December 2017

A. Money and Interest Rates

Indicator	Source	Average 2001-2015	2016	2017	2018 May	2018 June	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.1	5.0	4.7	4.0	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.0	-0.26	-0.329	-0.321	-0.323	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.3	-0.03	-0.186	-0.184	-0.181	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.2	1.4	1.5	1.5	1.4	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.0	2.3	1.4	1.2	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates followed an unequal path in the month of June. The 3-month interbank rate went down to -0.323% from -0.321% in May and the 1-year Euribor increased slightly to -0.181%. The ECB has announced the bond-buying program will end in December 2018 and it has suggested that interest rates could go up during the summer of 2019. The Federal Reserve has lifted interest rates again. As for the Spanish 10-year bond yield, it has fallen to 1.4%.

B. Financial Markets

Indicator	Source	Average 2001-2015	2016	2017	2018 April	2018 May	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	44.4	102.6	54.60	61.92	82.82	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	76.1	55.1	27.60	38.77	42.39	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	1.2	0.4	3.46	1.11	1.21	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.4	1.9	4.76	4.04	2.71	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	1.7	0.0	-0.7	-0.5	-0.5	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	726.2	1,104.9	1,127.71	1,163.0	1,130.3	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.4	0.2	-1.3	3.6	-3.6	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	3.9	0.7	2.2	6.3	1.5	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	1,018.0	943.6	1,055.4	982.6	972.0(a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,880.1	8,790.9	10,451.5	9,684.2	9,588.6 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	16.2	23.6	15.8	14.2	15.6(a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	5.3	55.9	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2015	2016	2017	2018 April	2018 May	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.6	0.1	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.2	0.0	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.4	-0.4	0.6	0.6	33.1	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.6	5.8	5.8	-26.8	-56.7	IBEX-35 shares concluded transactions

(a) Last data published: June 29th, 2018.

Comment on "Financial Markets": During the last month, there was an increase in transactions with outright spot T-bills to 83% and also an increase of spot government bonds transactions to 42%. The stock market has registered a decrease in June with the IBEX-35 down to 9,589 points, and the General Index of the Madrid Stock Exchange to 972. There was an increase in Ibex-35 financial futures of 33.1% and a fall in options of 56.7%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2013	2014	2015	2016	2017 Q4	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	0.5	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	287.4	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	61.3	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	3.8	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	-0.1	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2017Q4, the financial savings to GDP in the overall economy fell to 2% of GDP. There was also a decrease in the financial savings rate of households from 2.6% to 0.5%. The debt to GDP ratio fell to 61.3%. Finally, the stock of financial assets on households' balance sheets registered a growth of 3.8%, and there was a 0.1% fall in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2015	2016	2017	2018 March	2018 April	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.3	-4.1	-0.4	-0.4	-0.4	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	7.8	-0.1	2.4	1.3	-1.5	Deposits percentage change for the sum of banks. savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	9.5	-11.6	-3.7	-2.3	-5.4	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	10.7	-1.0	0.7	-3.6	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	-2.2	-4.5	-1.7	-1.4	-1.2	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	0.2	-3.6	-3.8	-6.0	-1.1	Doubtful loans. Percentage change for the sum of banks. savings banks and credit unions
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-1.8	-22.2	-3.5	7.3	-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	9.0	-0.3	-1.2	-0.2	-0.6	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 April 2018 show a decreased in bank credit to the private sector of 0.4%. Data also show a fall in financial institutions deposit-taking of 1.5%. Holdings of debt securities decreased 5.4%. Doubtful loans decreased 1.1% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2013	2014	2015	2016	2017 December	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	189,280(a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,703	31,817	30,921	28,807	27,810(b)	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	757,783(b)	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	169,640(b)	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	35(b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: June 2017.

(b) Last data published: May 2018.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In May 2018, recourse to Eurosystem funding by Spanish credit institutions reached 169.640 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 321.2 billion euro in March and 2.5 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	2017	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	50.89	47.27	50.98	54.18	54.03	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	6,532.25	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	47,309.12	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2013	2014	2015	2016	2017	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	205.80	142.85	229.04	139.84	122.22	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.1	6.8	6.57	7.05	6.97	Branch size indicator
48. "Equity capital (monthly average % var.)	Bank of Spain	0.11	0.07	0.01	-0.62	0.84	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.45	0.49	0.39	0.26	0.44	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	6.27	6.46	5.04	3.12	3.66	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions: During 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

	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) (%)
					Population					
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	46,572,132	42.9	18.8			53.2	28.8	13.2		
2018*	46,698,569	43.1	19.1			53.6	29.3	13.6		
Sources	PMC	PMC	PMC	ID INE	ID INE	PMC	PMC	PMC	EVR	EVR

ID 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 (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)	Divorce rate	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
		Households					**Nuptiality**			
2006	15,856	2.76	11.6	10.3	9.3	9.5	2.86	32.2	29.7	2.08
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.04
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.26
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.46
2017	18,512	2.52	14.2	11.4	7.3	6.9				2.94
2018•	18,546	2.52								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	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	45.8	10.4	65.8
2017	30.9	1.25	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. MNP: Movimiento Natural de la Población. MSAN: Ministerio de Sanidad, Servicios Sociales e Igualdad.

Marriage rate: Number of marriages per thousand population.

Divorce rate: Number of divorces 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).

• Data refer to January-March.

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	46,597,784	4.31
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1,303,252	190,143	47,578,997	4.25
2017	21.4	6.6	28.5	41.2	1,758,271*	675,990*	657,143*				
2018•	21.0	6.6	28.7	41.2							
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.

* Provisional data.

•Data refer to January-March.

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	1000	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	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018•	726,401	5,894,874	1,079	949,874	940	2,357,660	653	877,781	256,634	197,567	17,167
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-May.

Table 5

Social protection: Health care

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

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

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Notes

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