SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

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The fiscal implications of COVID-19 in Europe and in Spain

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Spain's 2021 budget: An assessment

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SEFO

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Letter from the Editors

The January issue of *Spanish and International Economic & Financial Outlook (SEFO)* comes at a time when most of Europe remains immersed in the coronavirus pandemic. While prospects have somewhat improved since our last issue, as vaccination campaigns have begun across many countries, the new wave of COVID-19 infections is putting economic recovery at risk. Within this context, this issue of *SEFO* sheds some light on both the fiscal and monetary implications of the current crisis at the European level as well as within Spain.

We begin by providing an update on the status of the debate over the deactivation of the EU's 'general escape clause'. This spring the European Commission will decide whether to deactivate the general escape clause that provided Member States with the fiscal room to combat the economic effects of COVID-19. The main reason for considering a deactivation of the general escape clause is medium-term debt sustainability. At the moment, that does not seem to be a pressing concern. Although debt levels are high as a share of national output, interest rates are at historic lows. The problem comes from the policies which underpin the current low interest rate environment – namely ECB asset purchases. Significantly, the ECB's pandemic emergency purchases do not have to be proportionate across countries except across the life of the program. As a result, they skew heavily toward sovereign debt issued by governments in Southern Europe. The challenge going forward is to balance the need for active fiscal stimulus in the short-term with the requirements for fiscal sustainability in the medium-term. The tension between these two goals was evidenced over the pandemic-related credit facility within the ESM. For Southern Europe, this pressure is particularly pressing given the difficulty of balancing the need for sustained, productive investment on the one hand, and the necessity of fiscal consolidation on the other.

We then look at how COVID-19 has shaped the Spanish General State Budget for 2021. In comparison with consensus forecasts, Spain's 2021 budget appears overly optimistic about the Spanish economy's growth prospects. The government is forecasting growth of 9.8% and a deficit of 7.7% in 2021, while other institutions' estimate lower growth and higher deficits. The government's favourable forecasts are based on key assumptions regarding global and eurozone growth levels, as well as Spain's export markets. Its expectations relating to the Next Generation EU programme may also prove overly confident given Spain's previous track record absorbing EU funds and the essentially political composition of the committee constructed to oversee the funds' use. Additionally, the government's deficit estimate was calculated before the extension of the furlough and income support schemes, which will put upward pressure

on expenditures. As a result, in the absence of fiscal consolidation, Spain's public debt is set to rise in the years to come, and will be highly exposed to an upward trend in interest rates. In terms of the government's forecast for revenue growth of 14.53%, its dependence on GDP growth and revenue elasticities also raises concerns over exceedingly optimistic projections. Lastly, considering regional, local and central government spending, state expenditure will increase to 50.8% of GDP in 2021. The biggest government expenses forecast include pensions (35.8%), public debt service (6.9%) and unemployment benefits (5.4%).

Specifically, the current crisis has had an important impact on the budget for Spain's Social Security administration. While much of the budgeted Social Security expenditure is predetermined by the rules that govern it, both the 2020 and 2021 budgets contain financing and expenditure novelties. The preliminary budget outturn numbers for 2020 point to a deficit of 19.77 billion euros. Notably, this is not due to COVID-19 as the Spanish state stepped up its transfers in order to cover those effects. The consolidated Social Security budget for 2021 forecasts a deficit of 14.29 billion euros, with expenditure falling in some areas like income support for the self-employed and rising in categories such as contributory pensions. Somewhat unexpectedly, taxpayer contributions to the Social Security are expected to increase by 3.8%; however, this figure will likely change now that the furlough scheme has been extended. The Social Security budget for 2021 is also shaped by regulatory developments which provide for an annual state transfer. Stagnant at 1.5% of GDP since 2014, the deficit is undoubtedly the key issue facing the Social Security. Although the government has previously provided loans, this is not considered a sustainable approach. The government has built some noteworthy recommendations into its pension reform programme, but the current fiscal situation of the Social Security implies that measures are needed to ensure the sustainability of the pension system and, by extension, the Spanish public sector.

Apart from fiscal impact, the current pandemic is having noteworthy implications for monetary policy. While 2019 suggested that several central banks appeared to be moving towards monetary tightening, the threat of recession towards the end of the year, followed by the onset of the pandemic several months later, prompted many to leave rates at close to zero or at negative values. In 2020, the quantitative easing response was overwhelming. Since the scale of the pandemic became apparent, the four main central banks (Federal Reserve, ECB, Bank of England and Bank of Japan) have injected 3.8 trillion euros of liquidity, weighing heavily on long-term fixed-income rates and flattening or inverting yield curves.

Within this context, the next section of *SEFO* looks at the implications that this extraordinary monetary stimulus has had on interest rates and as a consequence on the banking business. On a related note, we then assess trends in the EURIBOR, which has surmounted a very challenging year under a new calculation methodology. Last, we consider how the COVID-19 pandemic has manifested itself with respect to inflation in Spain.

As regards interest rates, the pandemic has led monetary authorities to extend their expansionary policies and shaped the expectation that they will remain lax until at least 2022. Currently, some 45 central banks have introduced interest rates at or below 1%, and yet inflation has remained low. Moreover, the prolongation of ultra-low levels is generating considerable distortions in the financial intermediation business and in the financial markets. Monetary policy has staved off liquidity crunches and episodes of heightened uncertainty, but it has also facilitated the accumulation of credit risk and debt and placed downward pressure on retail banks' profitability. Additionally, there are concerns that the extraordinary levels of debt accumulated in recent years will make it harder for central banks to meet their inflation targets, thereby reducing their credibility. Looking to 2021 there are several possible scenarios that could emerge, including a continuation of current monetary policies as the

economy recovers, a resurgence in inflation due to expansionary fiscal and monetary policies, or a delayed recovery requiring the extension of monetary stimulus measures. Regardless of which scenario develops, central banks can offer additional support to the banking sector through the creation of a 'pandemic insurance policy' that prevents the impairment of loan quality, a pan-European financing plan, reducing minimum reserve requirements, and raising the deposit facility rate.

On the topic of rates, the onset of the global financial crisis in 2008 forced regulators and supervisors to rethink the suitability of the IBORs as benchmark rates of interest. In Europe, the FSB's recommendations affect two key benchmark rates – EURIBOR and EONIA – and have resulted in the creation of the euro short-term rate, or €STR, to replace the EONIA following a period during which the two indices will co-exist. Importantly, EURIBOR must at all times and in differing market conditions reflect the cost to banks' of obtaining funding in the euro unsecured interbank lending market at different tenors. Despite the volatility wrought by COVID-19 in 2020, it is fair to say that the EURIBOR has surmounted a very challenging year, helped significantly by a new hybrid calculation methodology developed in the aftermath of the financial crisis. Specifically, the EURIBOR rates trended in a manner that was consistent with expectations for benchmark rates and perceived bank credit risk and captured the indirect effects of the dislocation sustained in the FX swap market as a result of the surge in global demand for dollar funding in the early stages of the COVID-19 crisis.

With respect to inflation, and in particular the situation in Spain, it was thought that, initially, the COVID-19 crisis would have an inflationary impact on the Spanish economy but the subsequent drop in GDP would cause prices to fall. However, in 2020, inflation averaged -0.3% in Spain. And yet, closer analysis shows that the only clear-cut, crisis-induced deflation is in energy products and some of the services most severely impacted by social distancing measures, such as hotels and air travel. In terms of the services sector, only one-fifth of its total subcategories sustained deflation, with negative year-on-year rates between July and November. Importantly, in those cases where price growth slowed but remained positive, the effect has been disinflation rather than deflation. Looking forward, these dynamics may well change. In 2020, energy products detracted one percentage point from the headline inflation rate. In 2021, they could boost it by a little over one percentage point. Furthermore, progress on vaccination rates and an easing of social distancing measures is expected to buoy demand. While the historic savings rate reached during the crisis implies a significant future upside for consumption, it is difficult to estimate to what extent and at what pace that surplus will translate into spending.

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What´s Ahead (Next Month)

Month	Day	Indicator / Event
February	2	Social Security registrants and official unemployment (January)
	8	Industrial production index (December)
	12	CPI (January)
	15	Eurogroup meeting
	19	Foreign trade report (December)
	20	Special European Council
	26	Balance of payments monthly (December)
	27	Preliminary CPI (February)
March	2	Social Security registrants and official unemployment (February)
	8	Industrial production index (January)
	11	Retail trade (January)
	11	ECB monetary policy meeting
	12	CPI (February)
	15	Eurogroup meeting
	17	Foreign trade report (January)
	25	Balance of payments quarterly (4th. quarter 2020)
	25-26	European Council
	26	Quarterly National Accounts (4th. qr. 2020, 2nd estimate)
	30	Preliminary CPI (March)
	30	Retail trade (February)
	31	Institutional Sectors Non-financial quarterly accounts (4th. qr. 2020)
	31	Non-financial accounts, State (Dec., Jan. and Feb.)
	31	Non-financial accounts: Central Government, Regional Governments and Social Security (Dec. and Jan.)
	31	Non-financial accounts, Total Government (4th. quarter 2020)
	31	Balance of payments monthly (January)

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What Matters

Regulation and Economic Outlook

Key Facts

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The coming debate about European macroeconomic policy

The debate over the deactivation of the 'general escape clause' highlights the tension between the need for active fiscal stimulus and fiscal sustainability. Given the damage wrought by COVID-19 and current debt levels in Southern Europe, the decision ultimately taken by the European Commission will be especially impactful on the region.

Erik Jones

Abstract: This spring the European Commission will decide whether to deactivate the 'general escape clause' that provided Member States with the fiscal room to combat the economic effects of COVID-19. The main reason for considering a deactivation of the general escape clause is medium-term debt sustainability. At the moment, that does not seem to be a pressing concern. Although debt levels are high as a share of national output, interest rates are at historic lows. The problem comes from the policies which underpin the current low interest rate environment – namely ECB asset purchases. Significantly, the ECB's pandemic emergency purchases do not have to be proportionate across countries except across the life of the program. As a result, they skew heavily toward sovereign debt issued by governments in Southern Europe. The challenge going forward is to balance the need for active fiscal stimulus in the short-term with the requirements for fiscal sustainability in the medium-term. The tension between these two goals was

> The conversation about deactivating the general escape clause will have a major impact on the conduct of European macroeconomic policy and on the development of the European Union's recovery and resilience facility.

evidenced over the pandemic-related credit facility within the ESM. For Southern Europe, this pressure is particularly pressing given the difficulty of balancing the need for sustained, productive investment on the one hand, and the necessity of fiscal consolidation on the other.

Introduction

In mid-spring 2021, the European Commission will start a conversation about deactivating the 'general escape clause' that is written into the procedures for macroeconomic policy coordination. That conversation should conclude by June. The most likely result will be either a return to the rules that existed before the novel coronavirus pandemic with effect for the 2022 fiscal cycle or an extension of the general escape clause for another year. It is also possible that European policymakers will try to change the rules for fiscal cooperation in light of the ongoing economic crisis. Such reforms are not unprecedented. The downturn that hit Europe's economy in the early 2000s sparked one set of reforms; the economic and financial crisis a decade later motivated another. The European Commissioner for Economic and Monetary Affairs and the euro, Paolo Gentiloni, recently insisted that a third set of reform should be on the table after this crisis (ANSA, 2020).

Whatever the outcome, the conversation about deactivating the general escape clause will have a major impact on the conduct of European macroeconomic policy both at the national level and, by extension, on the development of the European Union's recovery and resilience facility (Jones, 2020b). Deactivating the general escape clause without reforming the rules for macroeconomic policy coordination would create a powerful disincentive for Member States to borrow money either from the European Commission or from the European Stability Mechanism, or to replace that borrowing with nationally issued public debt. Extending the general escape clause without reforms would create ambiguous incentives for public borrowing, particularly with respect to longer-term productive investment. Only by reforming the rules for macroeconomic policy coordination will the EU create incentives for Member State governments to use the recovery and resilience facility aggressively. Given the recent changes to the European Stability Mechanism, however, such reforms to the pattern of macroeconomic policy coordination are unlikely.

This argument has four sections. The first introduces the 'general escape clause' within the broader framework for European macroeconomic policy coordination. The second explains why there is pressure to deactivate that exception. The third suggests how the introduction to the European Union's new recovery and resilience facility collides with recent changes made to the treaty for the European Stability Mechanism to complicate the conversation about either relaxing or reforming the pattern of macroeconomic policy coordination. The fourth section concludes with implications for Southern Europe.

The general escape clause

The European Parliament and the Council of the European Union (the 'Council') added the general escape clause to the legislative procedures for enforcing the Stability and Growth Pact (SGP) in 2011. This reform was part of a 'six pack' of measures designed to strengthen the surveillance of budgetary positions within the Member States by the European Commission after the global economic and financial crisis. The clause does

“ The European Commission called for the application of the general escape clause on March 20th, 2020, and the Council accepted that recommendation three days later – this was the first time the clause has been used. ”

not set aside the rules for macroeconomic policy coordination, but it does give the European Commission enhanced flexibility in interpreting those rules – particularly with respect to excessive debts and deficits. The clause can be triggered by the Council upon a recommendation by the Commission ‘in the case of a severe economic downturn in the euro area or in the Union as a whole’. The only requirement is that any enhanced flexibility in applying the existing rules ‘does not endanger fiscal stability in the medium-term’. This language appears in various forms in both Regulation (EC) No 1466/97 and 1467/97, as amended. The European Commission called for the application of the general escape clause on March 20th, 2020, and the Council accepted that recommendation three days later. This was the first time the clause has been used.

The application of the general escape clause had important consequences for how the Commission treated the fiscal measures implemented by the Member States to blunt the economic impact of COVID-19. The regulations amended in the ‘six pack’ legislation place a strong emphasis on the level of public debt as a ratio of gross domestic product (GDP). Such ratios should not rise above a reference value defined in a protocol to the 1992 Maastricht Treaty as 60 percent. If they do, the Member State in question should make efforts to ensure that any differential decreases ‘at an average rate of one twentieth per year as a benchmark’ until the stock of debt relative to GDP is brought back down to or below the reference value. [1] That is not what happened in response to the pandemic. Instead, debt levels rose dramatically across the European Union, even in those countries that were already above the reference value. Moreover, the European Commission estimated in its November 2020 forecasts that these debt levels would remain high for at least the next two years (Table 1).

This increase in public debts cannot continue indefinitely. Indeed, the European Fiscal Board conducted a review of Member State fiscal positions in the summer of 2020. The questions it asked were whether the change in fiscal postures was sustainable over the medium-term and when it would be appropriate to consider deactivating the general escape clause. What the European Fiscal Board reported was unexpected. The ‘six pack’ legislation has clear criteria for activating the general escape clause but no criteria for when the general escape clause should be deactivated (European Fiscal Board, 2020a). This omission does not mean the clause should remain in effect indefinitely; what it implies is that any decision to deactivate the general escape clause will be political insofar as the timing is at the discretion of the Council – presumably on recommendation from the Commission. That said, the European Fiscal Board was clear that deactivating the clause in 2020 would

“ The ‘six pack’ legislation has clear criteria for activating the general escape clause but no criteria for when the general escape clause should be deactivated. ”

Table 1

Public debt in selected euro area Member States

Percent GDP	2019	2020	2021	2022
Austria	70.5	84.2	85.2	85.1
Germany	59.6	71.2	70.1	69.0
Netherlands	48.7	60.0	63.5	65.9
Euro area	***85.9***	***101.7***	***102.3***	***102.6***
Belgium	98.1	117.7	117.8	118.6
France	98.1	115.9	117.8	119.4
Italy	134.7	159.6	159.5	159.1
Spain	95.5	120.3	122.0	123.9
Portugal	117.2	135.1	130.3	127.2
Greece	180.5	207.1	200.7	194.8

Source: Annual Macroeconomic Database of the European Commission (AMECO), *updated 5 November 2020.*

be premature. Instead, it anticipated that a conversation about returning to the normal fiscal rules would start in 2021 with an eye to budgeting for 2022 (European Fiscal Board, 2020b).

The challenge that such a conversation will bring would necessarily focus on the pace of adjustment in public debt levels. The Commission estimates that the differential across the euro area will be greater than 40 percent of GDP. Starting an average fiscal correction worth roughly two percent of GDP each year in 2022 would slow down the pace of any economic recovery from the pandemic. More importantly, the fiscal effort will not be evenly distributed. The differential for Spain and Portugal will be greater than 60 percent of GDP, for Italy it will be roughly 100 percent, and for Greece it will be greater than 130 percent. It is unrealistic to believe that the governments of these countries will be able to reduce their public debt by an average of five percent (or one twentieth) of these amounts each year for two decades starting in 2022. That is why Commissioner Gentiloni argues that the rules will have to be revisited. The alternative would be to see most of Southern Europe placed into the 'excessive deficit' procedure on the basis of their need to reduce their public debts –with all that entails in terms of Commission oversight over national policymaking– for the foreseeable future. It is hard to imagine that such a situation would be politically sustainable for any country, but particularly for those that suffered so heavily during the last crisis.

Returning to 'normal'

The main reason for considering a deactivation of the general escape clause is medium-term debt sustainability. At the moment, that does not seem to be a pressing concern. Although debt levels are high as a share of national output, interest rates are at historic lows (Bahceli, 2020). In December 2020, for example, harmonized long-term interest rate data from the European Central Bank show the governments of Spain and Portugal paying very close to zero on their ten-year bonds in terms of yield to maturity; the Greek and Italian governments pay more, with ten-year bond yields at roughly 0.6 percent, but such numbers are close enough to zero to make even very large volumes of public debt appear sustainable.

If anything, the nominal growth rate of GDP is the only variable that matters in such a

“ If it is true that ECB purchases make large volumes of sovereign debt more sustainable, it is also true that the existence of such large debt levels makes it more difficult for the ECB to wind up the PEPP or shrink down its asset portfolio. ”

context. So long as that nominal growth rate is positive there is little cause to worry about medium-term debt sustainability. This suggests that efforts to spur growth (or even just a positive rate of price inflation) should hold priority over fiscal consolidation even in highly indebted countries. Given that inflation rates are negative in much of the euro area –and stably so (Eurostat, 2021)– it is easier to make the case for macroeconomic stimulus than for macroeconomic consolidation. This is particularly true in Southern Europe, where inflation rates last December were negative, particularly in Spain (-0.6 percent) and Greece (-2.4 percent).

The problem comes from the policies which underpin the current low interest rate environment. Member State governments were not alone in trying to blunt the impact of the pandemic on economic performance. The European Central Bank (ECB) also contributed with a succession of measures announced in March, June, and December 2020 to ensure economic actors had ample access to liquidity. These measures included an unprecedented expansion of the ECB’s bond purchases – going beyond the 20 billion euros of net monthly purchases promised in September 2019, before the pandemic, with the addition of 100 billion euros in routine asset purchases and up to 1.85 trillion euros in purchases as part of a pandemic emergency program. (By end December 2020, the ECB had spent just over 750 billion euros of that figure).

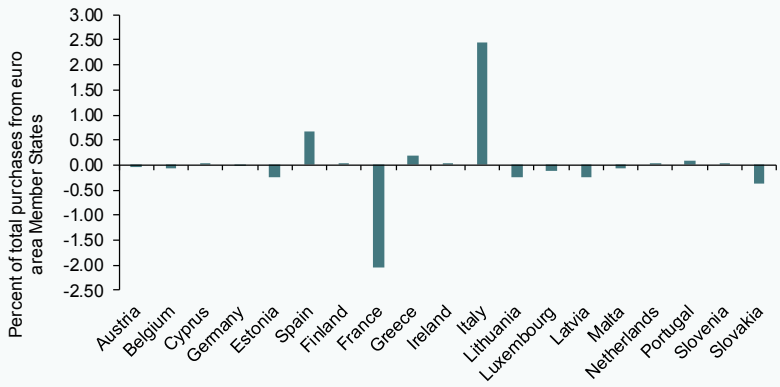
Importantly, those pandemic emergency purchases do not have to be proportionate across countries except across the life of the program. As such, the ECB can concentrate on propping up the prices of sovereign debt issued by specific governments for long periods. This flexibility is necessary to ensure the continuous functioning of the monetary transmission mechanism (Lane, 2020a and 2020b). Nevertheless, the result is that ECB holdings under this pandemic emergency purchase program skew heavily toward sovereign debt issued by governments in Southern Europe – Italy and Spain, in particular. This disproportionality can be seen in Exhibit 1, which shows the difference between the distribution of cumulative public sector purchases under the pandemic emergency purchase program across euro area Member States and their respective contributions to the capital base of the ECB (in percentage terms as a share of the total euro area contribution).

This skew in the ECB’s sovereign debt holdings is one reason for concern about the level of indebtedness. If it is true that ECB purchases make large volumes of sovereign debt more sustainable, it is also true that the existence of such large debt levels makes it more difficult for the ECB to wind up its pandemic emergency purchase program (PEPP) or shrink down its asset portfolio even as those assets reach maturity. That is why ECB President Christine Lagarde (2020) is careful to mention that any ‘future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.’ The ECB must ensure that efforts to reduce its holdings of public sector assets do not impinge on the functioning of the monetary transmission mechanism by triggering a rapid fall in the price of sovereign debt across the southern countries of the euro area.

The ECB cannot continue to purchase sovereign debt indefinitely, even if only to replace maturing assets on its portfolio. The

Exhibit 1

PEPP public sector purchases, cumulative deviation from the capital key by December 2020



Source: Author's own calculations based on ECB data.

German Constitutional Court underscored this point in its May 5th, 2020, ruling on the ECB's public sector purchase program. That ruling did not cover the PEPP explicitly, but the logic of the argument remains the same (Jones, 2020a). As a result, voices within the ECB's Governing Council have begun to express concerns about the longer-term implications of the pandemic emergency purchase program both in terms of the legitimacy of their policy actions and in terms of their longer-term implications. Although there is broad agreement among Governing Council members during their December 2020 monetary policy deliberations that: 'the PEPP [is] ... the cornerstone of the ... monetary policy package ... attention was drawn to possible constraints on and side effects of additional purchases, such as the risks of moral hazard, fiscal dominance and distorted market functioning' (ECB, 2021).

The challenge is to balance the need for active fiscal stimulus in the short-term with the requirements for fiscal sustainability in the medium-term. Those governments facing less daunting fiscal consolidation efforts after the pandemic –like the Dutch government– see the procedures outlined in the 'six pack' as the best route to achieving that balance. Therefore, they advocate a quick return to the guidelines for fiscal consolidation that were agreed in 2011. This is not an argument for austerity. It is an argument for recovering quickly from this crisis to prepare better for the next one. It is also an argument for strengthening fiscal positions across the euro area sufficiently to make it possible for the ECB to reduce the size of its asset portfolio without creating unnecessary market disruptions. For advocates of this position, concerns that enforcement of the fiscal rules would be politically unsustainable are more than offset by concerns that a failure to enforce the rules would be unsustainable both in fiscal terms and in terms of ECB monetary policy – particularly if the euro area faces another major economic shock in the not-too-distant future.

Countervailing factors

Recent political developments in Europe push in both directions, toward more active use of fiscal instruments in responding to the pandemic and toward greater caution about medium-term debt sustainability. The push

> “Euro area governments have continued to push for a reform of the ESM to give that institution a more prominent role in overseeing the requirements for fiscal consolidation.”

for more active use can be found initially in the April 23rd, 2020, agreement to create credit facilities to support employment and unemployment benefits via the European Commission, small- and medium-sized enterprises by the European Central Bank, and national health services by the European Stability Mechanism (ESM). Such efforts culminated in the European Council's July 21st agreement on a new recovery and resilience facility as part of the larger 'Next Generation EU' package. At the same time, however, the governments of the euro area have continued to push for a reform of the European Stability Mechanism to give that institution a more prominent role in overseeing the requirements for fiscal consolidation as outlined in the 'six pack'. Those reforms will be implemented in February 2021.

The tension between these two efforts was immediately apparent, particularly with respect to the creation of a pandemic-related credit facility within the ESM. Proponents of the facility insisted that the ESM was created precisely to help governments access credit markets in moments of distress. Opponents expressed concern about having the ESM play a role in shaping and enforcing fiscal consolidation programs. The compromise was to limit any conditions on borrowing to a single requirement that funds be used to support health and health-related expenses arising from the pandemic. Even with those reassurances, however, no government has accessed the 240 billion euro facility to support spending on health care even during a very painful second wave of the pandemic. By contrast, the European Commission approved requests for just over 90 billion euros of is 100 billion euro facility to support employment protection and unemployment benefits by December 2020, and it disbursed just under 40 billion euros of the loans it approved (Jones, 2021).

Next Generation EU was also controversial, albeit less immediately. The July 21st agreement to create the new program was an important demonstration of European solidarity. The 750 billion euro fund includes up to 390 billion euros in expenditures that will be jointly financed through bonds issued by the European Commission to be repaid through taxes levied across the European Union. Such joint fiscal effort is unprecedented. The fund also includes 360 billion euros in back-to-back lending to the Member States as part of the recovery and resilience facility. These loans will also be financed initially through bonds issued by the European Commission, but they will be repaid by national fiscal authorities in much the same way that national authorities are responsible for repaying loans taken out as part of the Commission's facility to support employment protection and unemployment benefits. Hence, such loans count as Member State public debt (Fubini, 2021).

The controversy over loans for the recovery and resilience facility arose initially in response to the powers given to the European Commission to monitor the economic policies of those governments that receive assistance.

> “Many Member States have opted not to take up additional loans from the European Commission, particularly when they can access private capital markets at similar or even better financing terms.”

These powers are expansive. The Commission has the authority to ensure compliance with country-specific recommendations for institutional reforms and medium-term fiscal sustainability in addition to overseeing how any funds received by the Member States are spent. Governments that fail to comply with European guidelines may face a suspension of funding via the recovery and resilience facility. Hence, many Member State governments have opted not to take up additional loans from the European Commission, particularly when they can access private capital markets at similar or even better financing terms. For example, the Spanish and Portuguese governments announced that they would not borrow under the new facility in October 2020 (Pérez, 2020).

What is unclear is whether Member State governments will replace borrowing they could access from the Commission with borrowing at the national level. Such loans would not come with conditions attached, but they would still count against national debt stocks – implying a larger future adjustment once the general escape clause is deactivated. By contrast, the grants awarded via the recovery and resilience facility do not count as national public debt. This makes the grants attractive despite any conditions attached by the European Commission. Even governments that refuse the loan portion of the new facility are likely to bid for access to their grant allocations.

The accounting treatment of European grants under the recovery and resilience facility is not without controversy – particularly as it impacts on medium-term fiscal sustainability. The German Bundesbank, for example, argues that failure to count European grants as national debt obscures the fact that national governments are ultimately responsible to repay European Union borrowing (Bundesbank, 2020). The European Commission is unlikely to change the accounting treatment of EU debt as a result of this objection. What matters more is whether and how those governments that are less enthusiastic about the European Union's new recovery program and more concerned about preparing for the next crisis perceive the Bundesbank's arguments.

Recent reforms to the European Stability Mechanism highlight that concern for medium-term fiscal sustainability as well. Those reforms were agreed in December 2019, prior to the pandemic, even if the last obstacles to ratification took another year to clear. They give the ESM authority to participate in macroeconomic policy coordination in normal times and with a specific aim to reinforce efforts at fiscal consolidation. They also create a new precautionary credit facility that Member State governments can access provided they meet the criteria for fiscal sustainability as set out in the 'six pack' legislation. Indeed, the reference values are spelled out explicitly in an annex to the new ESM Treaty – including the necessary path for fiscal adjustment (ESM, 2019). By implication, it would not be sufficient to change the legislative framework set out in the 'six pack' to modify that fiscal adjustment path; it would also be necessary to modify this ESM Treaty annex. Reopening that Treaty so soon after it has been agreed would be challenging, which makes any reform of this debt adjustment path unlikely.

Governments that do not meet the fiscal criteria set out in the ESM Treaty annex are ineligible to receive precautionary support and so must apply for an 'enhanced conditions credit line' should they require financial assistance. Such 'conditions' are what make borrowing from the ESM unattractive for

"Reopening the ESM Treaty so soon after it has been agreed would be challenging, which makes any reform of this debt adjustment path unlikely."

Member State governments. As a result, the Member States have a strong incentive to pay attention to the formal requirements for medium-term financial stability as set out in the 'six pack'. Those incentives operate even while the general escape clause is activated. Once that clause is deactivated, the incentives to comply with European fiscal norms increase under the new Treaty.

Implications

The conversation about deactivating the general escape clause will be difficult. If the economic consequences of the pandemic continue to worsen, it is possible that conversation will be delayed. At some point, however, the debate will have to take place. Moreover, governments across Europe are well-aware of the implications, as are the ECB and the European Commission. So long as the criteria for medium-term fiscal sustainability set out in the 'six pack' and repeated as the eligibility requirements for ESM precautionary lending remain unchanged, the future deactivation of the general escape clause will weigh on Member State fiscal policy. Those governments that have relatively low debt-to-GDP ratios will prepare to consolidate those positions; those governments that face daunting fiscal adjustment challenges will think twice before undertaking additional public borrowing. Such attitudes are unlikely to prevent governments from providing exceptional short-term assistance to firms and households suffering from the pandemic, but they are likely to limit enthusiasm for longer-term investment programs – even when those programs are financed initially with funds raised by the European Commission.

This prognosis is not good for the countries of Southern Europe. Those countries were hit hard by the last crisis and have great need for sustained, productive investment. Spain and Italy also suffered disproportionately from the initial onset of the pandemic; as a result, both countries will require significant resources to repair the damage done to households and businesses. Doing so while managing a major fiscal consolidation effort in line with the requirements set out in the 'six pack' will be a daunting if not impossible task. Should such efforts extend beyond the ECB's ability to maintain its accommodative monetary policy strategy, that challenge could increase dramatically.

The question is whether there is a compromise between reforming the rules for fiscal accommodation or trying to return to those rules prematurely. The 'six pack' provides language for Member States to be given consideration when they face exceptional circumstances and yet that language is ambiguous. The political effort would be to apply that language to the longer-term challenges faced by the countries of Southern European. Nevertheless, a creative reinterpretation of the existing legislation is likely to be better than the alternatives.

Notes

[1] This language is found in article 1a of Regulation (EC) 1467/97 as amended.

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Spain's 2021 budget: An assessment

The Spanish government's 2021 budget is notable for its marked optimism regarding the country's economic growth and revenue prospects, its ability to rein in public expenditure, and by extension, the country's deficit and debt levels. Consensus forecasts are more downbeat, with lower growth estimates, higher deficit and debt levels, as well as doubts surrounding the economic impact on forecasted revenue growth and the Next Generation EU funds.

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Abstract: In comparison with consensus forecasts, Spain's 2021 budget appears overly optimistic about the Spanish economy's growth prospects. The government is forecasting growth of 9.8% and a deficit of 7.7% in 2021, while other institutions' estimate lower growth and higher deficits. The government's favourable forecasts are based on key assumptions regarding global and eurozone growth levels, as well as Spain's export markets. Its expectations relating to the Next Generation EU programme may also prove overly confident given Spain's previous track record absorbing EU funds and the essentially political composition of the committee constructed to oversee the funds' use. Additionally, the government's deficit estimate was calculated before the extension of the furlough and income support schemes, which will put upward pressure on expenditures. As a result, in the absence of fiscal consolidation, Spain's public debt is

set to rise in the years to come, and will be highly exposed to an upward trend in interest rates. In terms of the government's forecast for revenue growth of 14.53%, its dependence on GDP growth and revenue elasticities also raises concerns over exceedingly optimistic projections. Lastly, considering regional, local and central government spending, state expenditure will increase to 50.8% of GDP in 2021. The biggest government expenses forecast include pensions (35.8%), public debt service (6.9%) and unemployment benefits (5.4%).

Introduction

This paper outlines the main sources of revenue and expenditure contemplated in the 2021 state budget. We begin by addressing the macroeconomic forecasts underpinning the budget and the levels of debt and deficit estimated. We next evaluate the revenue estimates. Lastly, we describe the state's public spending policies.

The macroeconomic scenario underpinning the 2021 budget

Economic growth forecasts

Table 1 compares the GDP forecasts presented by the Spanish government and by other institutions for 2020 and 2021 at the time the draft 2021 budget was unveiled. It also shows the change in GDP between December 2019 and December 2021 assuming that the forecasts are met. The numbers reveal that the government is forecasting a sharp correction in GDP in 2020 (-11.2%). However, its forecasts for 2021 are considerably more optimistic, with growth forecast at 9.8% in 2021. Even if those estimates prove accurate, Spanish GDP would decline by over 31 billion euros between 2019 and 2021. This drop would be equivalent to 2.5% of 2019 GDP.

The forecasts compiled by the rest of the institutions featured in Table 1 are more pessimistic for growth in 2021. Whereas the government's forecasts for 2020 lie in the middle of the range of estimates presented by the rest of the forecasters, its 2021 forecasts are clear outliers. Specifically, the Bank of Spain and AIReF estimate that Spanish GDP will end 2021 between nearly 4%-5% below year-end 2019 levels, while Funcas and BBVA Research put that contraction at an even higher approximately 6%. At the time of writing this article, other institutions such as the OECD and the General Council of Economists were estimating year-on-year growth of around 5% in 2021, *i.e.,* little more than half of what the government is forecasting.

As set down in the 2021 budget, the government's growth forecasts are based on:

Table 1 **GDP growth forecasts for Spain for 2020 and 2021**

	Forecasts		Change in GDP, 2019-2021	
	2020	2021	Millions of euros	Contraction %
Government	-11.2	9.8	-31,089	-2.50
Bank of Spain*	-11.1	6.8	-62,907	-5.05
AIReF*	-11.1	8.2	-47,428	-3.81
Funcas*	-11.5	6.7	-69,340	-5.57
BBVA Research*	-11.5	6.0	-77,050	-6.19

*Note: *Baseline estimates by the institution in question based on the latest data available as of January 2021. For Bank of Spain, the central scenarios is used.*

Sources: Government of Spain, Bank of Spain, AIReF, BBVA Research, Funcas and authors' own elaboration.

> "NGEU's GDP contribution is only credible if the large majority (around 80%) of the 27 billion euros is earmarked to public investment."

(i) the assumption that the pandemic will evolve favourably; (ii) recovery in the global economy (6.2%); (iii) economic recovery in the eurozone (5%); and, (iv) in particular, a rebound in Spain's key export markets (7.3%). However, as pointed out by several institutions, including AIReF and the Bank of Spain, the intensification of the pandemic in recent months has since rendered that scenario less plausible. The government's optimistic forecasts also factor in a downtrend in long-term interest rates in 2021, oil prices of less than 50 dollar per barrel and the so-called *Recovery, Transformation and Resilience Plan,* underpinned by the *Next Generation EU* programme (NGEU). The NGEU is expected to amount to 140 billion euros in the form of transfers and loans (equivalent to 11% of Spanish GDP) starting in 2021. According to the government, the NGEU will inject 27 billion euros into the Spanish economy in 2021, accounting for 2.6 percentage points of total estimated GDP growth this year (9.8%). However, there are significant downside risks that suggest that the government's growth forecast for 2021 is overly optimistic. The chief risk relates to the uncertain outlook for the pandemic, specifically the risk of even greater damage to the business environment leading to further job losses. Unemployment is expected to top 17% in 2020. Moreover, the recently-struck Brexit deal does not fully eliminate uncertainty regarding how its implementation will affect the European economy in general and the Spanish economy in particular.

With respect to the GDP contribution of the NGEU, as noted by AIReF, it is only credible if the large majority (around 80%) of the 27 billion euros is earmarked to public investment. In addition, as stressed by the Bank of Spain's Governor during testimony provided to the Congress of Deputies on November 4th, 2020, there are significant execution risks. The Governor also pointed out a lack of precision regarding the use of funds expected to be received in 2021. To make his case, the head of the Bank of Spain drew on historical evidence to call attention to Spain's difficulties to mobilise the funds associated with other European programmes. Specifically, he cited the last three rounds of structural European funds (smaller than the NGEU), of which less than 80% of which has been absorbed over the seven years they have been in place. The Bank of Spain also emphasised the fact that the European funds' multiplier effect requires their investment in human capital and technology, the real drivers of sustainable economic growth. In a similar vein, García-Arenas (2020) notes that the figure of 27 billion euros is extremely optimistic, as the first drawdown of NGEU funds will be equivalent to just 10% of total transfers, which translates into 5.9 billion euros for Spain. What that means is that the government presumably plans to advance the remainder, to reach the total figure of 27 billion euros, taking on debt to do so. Moreover, the budget would not appear to have factored in the fact that the NGEU, albeit approved by the European Council and Parliament, is pending ratification by certain national parliaments. That process could encounter obstacles, as we saw when Poland and Hungary attempted to veto the plan. Although that situation has since been resolved, the two countries are now threatening to delay final approval until after the summer of 2021.

Lastly, it is worth highlighting the fact that the NGEU constitutes a significant opportunity to modernise the Spanish economy. However, the success of the related initiatives will depend on how well the mechanisms are constructed and how effectively the designated institutions select, design, implement and execute the investment projects carried out under their purview. Unlike the technocratic models proposed by other countries, [1] Spain has opted for a strictly political committee limited to Cabinet members, thus politicizing

> The government expects that growth in GDP, the reining in of spending and its forecasted increase in public revenue will reduce the deficit to 7.7%, or 93.5 billion euros, in 2021.

the governance framework for the application and distribution of the European funds in Spain. The creation of a mixed committee of economic experts, successful private sector businessmen and women, particularly drawn from the high-tech sector, and political authorities from the various regional and local administrations would have been a more balanced choice.

Public deficit and debt forecasts

The financial crisis of 2008 drove the public deficit to new highs, peaking at 11.28% of GDP in 2009. After a decade of fiscal consolidation, the deficit narrowed to 2.48% in 2018, enabling Spain to exit the excessive deficit procedure. The downward trend stalled in 2019, when the deficit climbed back up to 2.86%, even though the Spanish economy grew faster than the European average that year. With that backdrop, in February 2020, the government set ambitious deficit targets of 1.8% for 2020 and 1.5% for 2021. However, the effects of the pandemic on economic growth, the sharp drop in public revenue and the massive increase in public spending did away with those targets within a matter of just a few weeks. Given the gravity of the situation, the European Commission was forced to activate the general escape clause of the Stability and Growth Pact (SGP), allowing the member states to deviate from their budget targets in 2020 and 2021. That was the context in which the macroeconomic forecasts underpinning the 2021 budget were drawn up. Specifically, the government is forecasting a deficit of 11.3% in 2020, which would imply an increase of 8.4 percentage points from 2019. Nevertheless, the government expects that growth in GDP, the reining in of spending (assuming no new waves of the pandemic) and its forecasted increase in public revenue (which we will analyse below) will reduce the deficit to 7.7%, or 93.5 billion euros, in 2021. Table 2 compares the deficit estimates presented in the state budget with those compiled by the European Commission, AIReF, Bank of Spain and Funcas. These institutions' deficit estimates for 2021 range from 6.7% to 9.6%, *i.e.,* between 80.5 and 116.5 billion euros.

Table 2 **Deficit forecasts – a comparison**

Percentage of GDP

	2019	2020	2021
Government (2021 state budget)	2.86	-11.3	-7.7
AIReF		-11.6	-8.0
Bank of Spain		-10.3 to -10.9	-6.7 to -9.6
Funcas		-11.5	-8.6
European Commission		-12.2	-9.6

Sources: European Commission (2020), Government of Spain (2020a), AIReF (2020), Bank of Spain (2020), Funcas (2021).

> "The European Commission forecasts Spain will report the highest deficit in the EU in 2021 (-9.6%), followed by France (-8.3%), Belgium (-8.1%) and Italy (-7.8%)."

As shown in Table 3, the bulk of the deficit forecast for 2020 is accounted for by the central government (58.4%) and Social Security (36.3%), given that most of the measures taken to cushion the economic and social impact of the pandemic has fallen to the state employment service (SEPE) and the Social Security administration. The measures with the biggest economic impact in 2020 included the income support and tax exemptions extended to self-employed professionals at a cost of close to 8.1 billion euros and the benefits extended under the furlough scheme, at a cost of 24.2 billion euros. The draft 2021 budget sent to Brussels on October 15th assumed a drastic reduction in the cost of the furlough and income support schemes in 2021 to 1.72 billion euros, based on the assumption that they would not be extended beyond January 31st, 2021 (Government of Spain, 2020b). However, towards the end of January, both schemes had been extended until the end of May, which would inflate their cost to approximately 8.5 billion euros. At present, 780,000 employees are under the furlough scheme and 350,000 self-employed professionals are benefit from the corresponding income support and tax relief.

On a comparative basis, at 9.6% of GDP, the European Commission forecasts that Spain will report the highest deficit in the EU in 2021, followed by France (-8.3%), Belgium (-8.1%) and Italy (-7.8%). At the opposite end of the spectrum lie Luxembourg (-1.3%), Sweden (-2.5%), Denmark (-2.5%) and Germany (-4.0%). Indeed, as is shown in Exhibit 1, the countries with the largest deficits are those that ended 2019 with the weakest public finances. That situation evidences the need to urgently draw up a credible medium-term fiscal consolidation plan backed by genuine political commitment. Recall that during the crisis of 2008, the EU-15 member states took an average of five years to bring their deficits back under 3%, whereas Spain took a decade. In fact, it was the country that took the longest to reach that threshold, more than the nine years it took Greece and France, the eight years it took the UK and Portugal or

Table 3 **Deficit estimates by level of government**

Percentage

	2020	2021
Central government	-6.6	-2.4
Regional governments	-0.6	-2.2
Local governments	0.0	-0.1
Social Security	-4.1	-3.0
Total	-11.3	-7.7

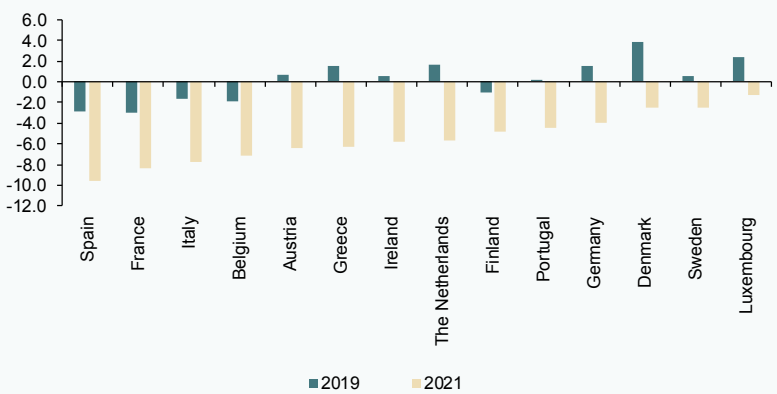
Source: Government of Spain (2020a).

the seven years it took Ireland (Romero and Sanz, 2019). Moreover, unlike Spain, some of those countries, including Ireland, Portugal and Greece, ended 2019 with a fiscal surplus.

The size of the structural deficit and the risk that it becomes chronic is without a doubt one of the biggest challenges facing the Spanish economy over the coming decade. The Bank of Spain (2020) estimates that the structural deficit has increased from 3.1% in 2019 to at least 5%. That sharp increase is the direct result of the massive increase in public spending associated with the pandemic, a portion of which is structural. However, it also reflects the approval of other spending policies unrelated to the pandemic. Two examples include: the minimum income scheme, whose cost is initially estimated at 3 billion euros; and the increase in public sector wages and contributory pensions in line with forecast inflation (0.9%), at a cost of around 3 billion euros. The Bank of Spain believes it will take a decade to correct the structural deficit considering that the fiscal stability rules forecast correction will occur at the measured pace of 0.5 percentage points per annum. In short, in the best-case scenario, assuming a firm commitment to achieving a balanced budget, the structural deficit will not correct before 2032.

The scale of the deficit in 2020 will also lead to record levels of public debt in Spain. According to the government's forecasts presented in Table 4, public debt will increase from 95.5% in 2019 to 118.8% in 2020, falling to just 117.4% in 2021. In other words, as a result of the pandemic, the government expects public indebtedness to increase by 23.3 percentage points in 2020 and 21.9 points in 2021 from 2019 levels. According to the European Commission (2020), Spain will also top the charts in terms of the increase in its indebtedness between 2019 and 2021 (26.5 percentage points), followed by Italy (24.8) and Greece (20.2). Table 4 compares the government's estimates with those compiled by the European Commission, AIReF and the Bank of Spain. The numbers show that the European Commission believes that the Spanish government has understated its 2020 forecast for indebtedness by 1.5 percentage points. Also, the European Commission and the Bank of Spain expect the level of public debt in Spain to be as much as five percentage points higher than the government is forecasting for 2021. In the absence of fiscal

Exhibit 1 **Public deficit in the EU-14, 2019-2021**



Source: European Commission (2020) and authors' own elaboration.

consolidation measures, public indebtedness in Spain is destined to rise in the years to come. To the contrary, an austerity roadmap that delivers a reduction in the structural primary deficit of 0.5 percentage points per annum would put the public deficit back at 2019 levels by 2035 (Bank of Spain, 2020).

Prevailing low interest rates are key to preventing the debt service burden from skyrocketing. In the short-term, interest expense is set to remain stable thanks to the benign financing conditions - the rate on new issues was 0.23% in 2019, a figure that had fallen to 0.21% by October 2020, and rates were negative for paper with more than a five-year maturity (AIReF, 2020). Prevailing conditions would leave debt service costs at around 31.7 billion euros in 2021, compared to 31.3 billion euros in 2019. [2] In the absence of a fiscal consolidation roadmap designed to gradually reduce the deficit as a percentage of GDP, the sustainability of Spain's public debt is excessively exposed to an upward trend in interest rates.

Public revenue

As summarised in Table 5, the government is forecasting year-on-year growth in non-financial revenue in Spain of 14.53% in 2021, which would imply growth of 6.2% with respect to 2019. By tax sources, it is estimating very significant growth in the main taxes – personal income tax, VAT and excise duties and corporate income tax - compared to 2020, corporate income tax being the only one estimated to generate less revenue in 2021 than in 2019. Delivery of those revenue targets primarily depends on three factors: (i) how accurate the growth forecasts prove to be; (ii) the impact of the economic cycle on the various tax bases; and, (iii) the discretionary measures (regulation changes) approved for 2021 across a number of taxes. It looks very likely that the government's revenue forecasts will prove too optimistic.

As for the cyclical (automatic) growth forecast in revenue, this will depend on both delivery of the GDP growth forecasts for 2020 and 2021 and on the revenue elasticities implicitly assumed for each source of tax. As already noted above, the government's GDP growth forecasts for 2020 and 2021 (-11.2% and +9.8%, respectively) look overly optimistic when compared with the consensus forecasts gleaned from the leading Spanish and international analysts. Another issue casting doubt over the forecasts for 2021 is the various revenue elasticities implicitly assumed by the government. Even assuming that the government has its macroeconomic forecasts right, application of the elasticities estimated in recent literature, *e.g.* Sanz-Sanz, Castañer and Romero-Jordán (2016); Mourre and Princen (2015); Creedy and Sanz (2010), [3] leads to the conclusion that by virtue of the

Table 4 **Debt forecasts – a comparison**

Percentage of GDP

	2019	2020	2021
Government (2021 state budget)	95.5	118.8	117.4
AIReF		118.4	116.0
Bank of Spain		116.7 – 117.8	117.1 – 122.8
European Commission		120.3	122.0

Sources: European Commission (2020), Government of Spain (2020a), AIReF (2020), Bank of Spain (2020).

> “The government is forecasting year-on-year growth in non-financial revenue in Spain of 14.53% in 2021, which would imply growth of 6.2% with respect to 2019.”

cyclical component alone, personal income tax revenue may fall with respect to 2019 levels to 83 billion euros (-4.5%); revenue from the consumption taxes, VAT and duties, may drop to 90.6 billion euros (-2.5%); and receipts from corporate income tax may fall to 22.73 billion euros (-4.2%). [4] If we assume the most pessimistic growth scenario foreshadowed by the OECD in which growth reaches just 5% in 2021, the revenue lost in respect of the three main taxes – personal, corporate and indirect taxation – would top 13 billion euros, which is 6.5% less than the government is forecasting. In line with those figures, the cycle-induced revenue forecast by the government also looks out of sync with the elasticities with respect to the output gap endorsed by the EU's Economic Policy Committee for calculating the trends in revenue and expenditure for the Spanish economy. Specifically, the elasticities used for these calculations are 1.84 for personal income tax, 1.56 for corporate income tax and 1 for tax on consumption.

As for the discretionary measures, Table 6 summarises the main tax developments

Table 5

Total non-financial public revenue – state and all govt. – 2019-2021

	Revenue in millions of euros						Percentage change	
	2019		2020		2021		2020-2021	2019-2021
	State	Total	State	Total	State	Total	Total	Total
Tax	116,899	212,808	93,922	196,537	121,770	222,107	13.01	4.37
Non-tax	27,905	27,905	26,671	26,671	33,524	33,524	25.69	20.14
Total	144,804	240,713	120,593	223,208	155,294	255,631	14.53	6.20
Key taxes								
	2019		2020		2021		2020-2021	2019-2021
	State	Total	State	Total	State	Total	Total	Total
Personal income tax	40,736	86,892	36,217	87,419	43.66	94,196	7.8	8.40
Corporate income tax	23,733	23,733	17,993	17,993	21,720	21,720	20.71	-8.48
VAT & excise duties	43,165	92,918	31,382	82,795	44,227	94,029	11.95	1.2
Other*	7,100	7,100	5,449	5,449	10,334	10,334	89.64	45.5

*Note: *Includes environmental taxation in addition to other unspecified concepts.*

Source: Authors' own elaboration based on the Presentation of the Draft State Budget for 2021.

Table 6 **Changes in tax regulations reflected in the 2021 state budget**

Tax regulation change	Impact on tax revenue in 2021 (Millions of euros)
Increase of two percentage points in the marginal rate applicable to taxable earned income of > 300,000 euros and of three percentage points for taxable savings income of > 200,000 euros.*	144
Increase in property tax from 2% to 3% for net worths of > 10 million euros.	339
Modification of the limits on the deduction for contributions to pension plans.	0 - 580**
Increase in rate of VAT on sugary/sweetened drinks from 10% to 21%.	340
Increase in taxation on diesel of 38 euros per 1,000 litres.	0 - 450***
Increase in the excise levied on insurance premiums from 6% to 8%.	455
Limit of 95% on corporate income tax exemption for dividends and capital gains for firms with revenue of > 40 million euros.	473
Tax on financial transactions (0.2% on trades involving the purchase of shares in listed Spanish companies with a market cap of > 1 billion euros).	850
Tax on certain digital services (3% of revenue from advertising, online intermediation and data transmission services) for enterprises with global revenue of > 750 million euros and revenue generated in Spain of > 3 million euros.	750
All measures	3,351

*Notes: *Refers to the rates levied on the state tranche for taxable earned income. In the case of savings income, the increase refers to the combined state and regional tranches. **Revenue gain deferred until 2022; in 2021 revenue will not increase. ***The increase in the excise duty levied on diesel was withdrawn during the passage of the budget. The government had initially estimated growth in tax receipts of 450 million euros.*

Sources: Government of Spain (2020a).

introduced for 2021 and the revenue gains the government expects them to yield, figures which AIReF has dubbed overly optimistic. As the table shows, in the best-cast scenario, the new discretionary measures will, according to the government, bring in a further 3.35 billion euros, which is not enough to offset the revenue lost on account of cyclical effects. Moreover, the 3.35-billion-euro figure does not factor in the possible loss of revenue associated with behavioural changes which the tax hikes could induce. It therefore looks as if Spain's public finances will sustain greater revenue fallout than foreshadowed in the state budget for 2021.

Public expenditure

Table 7 sums up the public expenditure figures set down in the 2021 state budget. Public spending is expected to total 456.07 billion euros in 2021, of which 26.63 million

> “Using the most pessimistic growth scenario in which growth reaches just 5% in 2021, the revenue lost in respect of the three main taxes – personal, corporate and indirect taxation – would top 13 billion euros, 6.5% less than the government is forecasting.”

euros (5.8%) is set to come from the NGEU fund. The plan is to earmark 67% of those European funds to industry and energy (5.62 billion euros), R&D and digitalisation (4.75 billion euros), resilient infrastructure and eco-systems (4.7 billion euros) and healthcare (2.95 billion euros).

The official figures point to growth in state expenditure of 20.1% in 2021 (13.1% excluding the European funds), boosting its weight as a percentage of GDP from 34.3% to 37.2% (35.0% excluding the NGEU). However, if we layer in the spending contemplated at the regional and local government levels, public expenditure at all levels of government as a percentage of GDP rises to 50.8% (48.0% excluding the European funds). In sum, the government plans to lift spending across all levels of government from 42.1% of GDP in 2019 to 50.8% in 2021, an increase equivalent to approximately 92.5 billion euros.

Table 7

Consolidated general state budget for 2021 (Key aggregates)

Policies	2020	2021 budget			Weight of NGEU	Change	Change
		National	EU	Total			
	(1)	(2)	(3)	(4)	(3)/(2)	(2)/(1)	(4)/(1)
1. Basic public services*	21,517	22,503	193	22,697	0.9	4.6	5.5
2. Social welfare	209,400	222,353	4,040	226,394	1.8	6.2	8.1
Pensions	*158,212*	*163,297*	*0*	*163,297*	*0.0*	*3.2*	*3.2*
Unemployment	*20,820*	*25,012*	*0*	*25,012*	*0.0*	*20.1*	*20.1*
Other financial benefits	*19,105*	*20,621*	*2*	*20,623*	*0.0*	*7.9*	*7.9*
Other benefits	*11,263*	*13,423*	*4,038*	*17,462*	*30.1*	*19.2*	*55.0*
3. Priority public goods	7,971	8,423	4,948	13,371	58.7	5.7	67.7
Healthcare	*2,157*	*2,242*	*0*	*2,242*	*0.0*	*3.9*	*3.9*
Education	*2,876*	*3,090*	*1,803*	*4,893*	*58.3*	*7.4*	*70.1*
Culture	*914*	*948*	*200*	*1,148*	*21.1*	*3.7*	*25.6*

> “The government plans to lift spending across all levels of government from 42.1% of GDP in 2019 to 50.8% in 2021, an increase equivalent to approximately 92.5 billion euros.”

Table 7

Consolidated general state budget for 2021 (Key aggregates)

Continued

Policies	2020	2021 budget			Weight of NGEU	Change	Change
		National	EU	Total			
	(1)	(2)	(3)	(4)	(3)/(2)	(2)/(1)	(4)/(1)
4. Economic policy initiatives	29,569	32,189	17,210	49,399	53.5	8.9	67.1
Agriculture, fishing and food	*7,624*	*7,999*	*407*	*8,405*	*5.1*	*4.9*	*10.2*
Industry and energy	*5,477*	*5,544*	*5,623*	*11,166*	*101.4*	*1.2*	*103.9*
Commerce, tourism and SMEs	*892*	*941*	*1,289*	*2,230*	*137.0*	*5.5*	*150.0*
Transport subsidies	*2,517*	*2,621*	*0*	*2,621*	*0.0*	*4.1*	*4.1*
Infrastructure	*5,366*	*6,832*	*4,696*	*11,527*	*68.7*	*27.3*	*114.8*
Research, development and innovation	*6,377*	*6,731*	*4,752*	*11,483*	*70.6*	*5.6*	*80.1*
Other initiatives	*1,316*	*1,521*	*443*	*1,967*	*29.1*	*15.6*	*49.5*
5. General lines of intervention	111,168	143,970	243	144,213	0.2	29.5	29.7
Public debt	*31,547*	*31,675*	*0*	*31,675*	*0.0*	*0.4*	*0.4*
Transfers to other levels of government	*52,395*	*70,288*	*0*	*70,288*	*0.0*	*34.2*	*34.2*
Other initiatives	*27,226*	*42,007*	*243*	*42,250*	*0.6*	*54.3*	*55.2*
Social expenditure (2+3)	217,371	230,776	8,988	239,765	3.9	6.2	10.3
Total expenditure	379,625	429,438	26,634	456,074	6.2	13.1	20.1

*Note: *Justice, defence, citizen safety, foreign policy and international cooperation/development.*
Source: Government of Spain (2020a).

The direct expenses of greatest relevance in the budget are pensions (35.8%), public debt service (6.9%) and unemployment benefits (5.4%). Expenditure on pensions is expected to reach 163.3 billion euros in 2021, growth of 3.2% (or 5.09 billion euros) from 2020. That sharp growth is attributable to the interplay of three factors: (i) the agreed pension increases (0.9% for contributory pensions and 1.8% for non-contributory pensions); (ii) the forecasted increase in the number of pensioners; and, (iii) the forecasted growth in the average pension. The pension increase is based on estimated inflation for 2021 of 0.9% (as is the increase in public sector wages). Expenditure on unemployment benefits is estimated at 25.01 billion euros in 2021 (2020: 20.82 billion euros), growth of 20.1%, even

though the government expects the rate of unemployment to decline by one percentage point this year to 16.1%. The government attributes the growth in this heading to the cost of extending the furlough scheme until January 31st and the extension of the right to continued assistance when unemployment benefits cease from the age of 55 to 52. Further extension of the furlough scheme, which has recently been agreed until May 31st, will have the effect of increasing the cost of unemployment benefits considerably, specifically by an estimated 8.7 billion euros.

Notes

[1] France is a prime example, having opted to set up a committee of international experts. France's committee is presided by the economists Jean Tirole (Nobel prize-winner in 2014) and Olivier Blanchard (Chief Economist at the IMF between 2008 and 2015). Other renowned members include Dani Rodrik (Harvard), Carol Propper (Imperial College of London), Stefanie Stantcheva (Harvard), Paul Krugman (Nobel prize-winner in 2008) and Peter Diamond (Nobel prize-winner in 2010).

[2] The Spanish Treasury is expected to issue around 175 billion euros of debt in 2021, taking advantage of the current low rates.

[3] More specifically, those elasticities are 1.48% for personal income tax, 1% for consumption tax and 1.43% for corporate income tax. It is also assumed that the tax bases will move in tandem with GDP. In reality, that is a conservative assumption as the evidence suggests that tax bases are also elastic to changes in GDP. In short, it is foreseeable that gross household income, consumer spending and corporate profit will move by more than the change in GDP, making it very likely that these revenue projections would ultimately constitute a minimum threshold that would very probably be exceeded.

[4] Based on those assumptions, in 2020, revenue from personal income tax (due to the cyclical effect) would amount to 72.49 billion euros (-16.6%); revenue from VAT and duties would amount to 82.51 billion euros (-11.2%); and revenue from corporate income tax would amount to 19.93 billion euros (-16.1%).

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Spain's Social Security budget for 2021

Expenditure and revenue outlays in the 2020 and 2021 Social Security budgets are highly impacted by both COVID-19 and regulatory changes. However, a consistent theme is the Social Security budget deficit, requiring decisive corrective measures to stabilise the pension system and overall Spanish public sector.

Eduardo Bandrés Moliné

Abstract: While much of the budgeted Social Security expenditure is predetermined by the rules that govern it, both the 2020 and 2021 budgets contain financing and expenditure novelties. The preliminary budget outturn numbers for 2020 point to a deficit of 19.77 billion euros. Notably, this is not due to COVID-19 as the Spanish state stepped up its transfers in order to cover those effects. The consolidated Social Security budget for 2021 forecasts a deficit of 14.29 billion euros, with expenditure falling in some areas like income support for the self-employed and rising in categories such as contributory pensions. Somewhat unexpectedly, taxpayer contributions to the Social Security are expected to increase by 3.8%; however, this figure will likely change now that the furlough scheme has been extended. The Social Security budget for 2021 is also shaped by regulatory developments which provide for an annual state transfer. Stagnant at 1.5% of GDP since 2014, the deficit is undoubtedly the key issue facing the Social Security. Although the government has previously provided loans, this is not considered a sustainable approach. The government has built some noteworthy recommendations into its pension reform

> “The Social Security represents 42.1% of the total consolidated expenditure contemplated in the GSB 2021.”

programme, but the current fiscal situation of the Social Security implies that measures are needed to ensure the sustainability of the pension system and, by extension, the Spanish public sector.

Introduction

The Social Security budget forms part of the general state budget (GSB) and, as such, moves through parliament along with the state and regional government budgets and those of any other state bodies governed by Spanish budget legislation. The Social Security represents 42.1% of the total consolidated expenditure contemplated in the GSB 2021. Nevertheless, the margin for political decision-making with respect to the Social Security budget is significantly limited by the contributory regime governing most of system's benefits. What that means is that much of the budgeted expenditure is predetermined by the rules that govern it, for example, qualification for the receipt of contributory pensions or benefits for workplace illnesses or accidents. As a result, the trends in Social Security spending and income are relatively stable irrespective of which party is in government.

However, both the 2020 budget outturn and the budget for 2021 contain major novelties as a result of (i) the contingencies that had to be covered by the Social Security in the wake of the COVID-19 crisis; and (ii) regulatory changes that affect how it is financed and some of the benefits paid out. Before analysing the 2021 budget, it is worth taking a brief look back at the trend in Social Security revenue and expenditure over the course of 2020.

2020 budget outturn

The preliminary budget outturn numbers for 2020 point to non-financial spending of 171.79 billion euros and a deficit of 19.77 billion euros. As we will show, that deficit is not attributable, for the most part, to the effects of the pandemic on contributions and benefits, as the Spanish state stepped up its transfers in order to cover those effects.

Included in the increase in spending triggered by COVID-19 is the extraordinary income support paid out to self-employed professionals affected by pandemic-related business restrictions (5.79 billion euros) and the extraordinary COVID-19 sick leave coverage (825.6 million euros). However, the biggest impact on the Social Security's accounts came via contributions foregone due to the exemptions given to employers and wage-earners included in the government-sponsored furlough scheme and to the self-employed employees affected by business restrictions. The draft budget for 2021 (*Plan Presupuestario 2021* – Government of Spain, 2020) estimates the cost of that tax relief at 9.06 billion euros. To cover those benefits and make up for the shortfall in revenue, the state transferred 14 billion euros to the Social Security in 2020.

The 2020 budget outturn numbers also include the first payments under the new minimum income scheme, a new, permanent and non-contributory benefit designed to provide individuals and households living in extreme poverty with a guaranteed income. It is equivalent in size to a non-contributory

> “The biggest impact on the Social Security's accounts came via contributions foregone due to the exemptions given to employers and wage-earners impacted by COVID-19.”

"The headings that registered the highest growth include contributory pensions (+4.17 billion euros), the minimum income scheme (+1.99 billion euros) and transfers for dependency care (+896.7 million euros)."

pension for individual beneficiaries (5,538 euros per annum in 2020) and increases in size depending on the number of people in the household (with an extra supplement for single-parent families). The problems associated with the application process limited the actual use of the scheme, such that the related expenditure amounted to just 1.03 billion euros in 2020.

To support the Social Security's financial stability, the state transferred 1.33 billion euros last year, an annual transfer introduced in 2018. Going forward, in the wake of the so-called Toledo Pact Assessment and Reform Report (House of Deputies, 2020) dated November 2020, that transfer will be specifically linked with the first recommendation set down in that report: consolidation of the delineation of financing sources and uses and restoration of financial equilibrium. Lastly, the budget carry-over of 2020 also contemplated a loan from the state, as in prior years, of 13.83 billion euros, which was increased by a further 16.5 billion euros in response to the measures taken to tackle the COVID-19 crisis.

2021 budget

The consolidated Social Security budget for 2021 contemplates non-financial spending of 171.84 billion euros and revenue of 157.55 billion euros, resulting in a deficit of 14.29 billion euros. With respect to the preliminary budget outturn figures for 2020, that would imply growth in non-financial spending of just 0.3% and growth in revenue of 3.64% (Tables 1 and 2). However, that apparent stability in the headline figures masks a number of developments related with the anticipated easing of the COVID-19 pandemic. The related expenditure is expected to decline considerably by comparison with 2020 and there are certain changes introduced by the government to the Social Security's financing regime that take effect from 2021.

On the expenditure side (Tables 1 and 3), certain headings register sharp decreases, mainly those related with COVID-19: income support for the self-employed (-6.36 billion euros) and the temporary sick leave benefits associated with COVID-19 (-774.6 million euros). On the other hand, the headings that registered the highest growth include contributory pensions (+4.17 billion euros), the minimum income scheme (+1.99 billion euros) and transfers for dependency care (+896.7 million euros). In the case of contributory pensions, the impact of their restatement by 0.9% is estimated at 1.29 billion euros (Government of Spain, 2020); the remaining projected growth is the result of the estimated rise in the number of pensions and in the average pension size. In light of how the pandemic has evolved during the first few weeks of January and the measures the government has recently agreed upon with

"In 2020, state transfers amounted to 30.29 billion euros, of which nearly half covered the drop in revenue and growth in expenses related with COVID-19, while the rest was earmarked to shore up the system's financial equilibrium."

Table 1

Consolidated Social Security budget – Expenditure

Millions of euros

	Outturn 2019	Forecast Outturn 2020	Budget 2021
Staff expenses	2,264.4	2,423.2	2,625.9
Purchase of goods and services	1,403.0	1,469.7	1,567.6
Finance costs	7.5	15.5	16.2
Current transfers	154,165.4	167,662.8	167,341.7
*Cash benefits**	*152,084.5*	*165,430.8*	*164,493.8*
Care for dependency	*1,532.6*	*1,639.1*	*2,535.8*
Other current transfers	*548.3*	*592.9*	*312.0*
Capital expenditure	135.2	213.8	286.5
Capital transfers	0.0	0.0	3.0
Sum of Non-Financial Transactions	**157,975.4**	**171,785.0**	**171,840.8**
Financial Transactions	38.6	98.3	573.2
Consolidated Expenditure Budget	**158,014.0**	**171,883.3**	**172,414.1**

*Note: *Includes transfers to the Basque and Navarre regions for non-contributory pensions.*

Source: Economic-Financial Report on the 2021 Social Security Budget (Ministry of Inclusion, Social Security and Migrations).

the associations of the self-employed which entail extending the current benefits scheme until May 31st, it seems clear that the amount set aside for income support for self-employed professionals will fall short of the mark and that this will also have a negative impact on income from contributions.

On the revenue side (Table 2), taxpayer contributions to the Social Security are expected to increase by 3.8% (+4.54 billion euros). That headline figure masks even stronger growth in contributions by employers and employees (+7.13 billion euros), which is offset by a sharp drop in contributions from the public employment service on behalf of recipients of jobless claims (-2.59 billion euros). However, those forecasts may similarly be altered by the extension of the furlough scheme beyond the current deadline of January 31st and that measure's effects via contributor tax relief, as well as by less dynamic job creation than the government initially forecast for 2021. As for the transfers from the state, more noteworthy than the quantitative growth (+823.7 million euros) is the change in the use of funds. In 2020, those transfers amounted to 30.29 billion euros, of which nearly half (14 billion euros) went to cover the drop in revenue and growth in expenses related with COVID-19, while 1.33 billion euros was earmarked to shore up the system's financial equilibrium. In 2021, both those headings will be eliminated and replaced by a new one – in the amount of 14 million euros – designed to comply with the first recommendation of the Toledo Pact Assessment dated November 2020. Elsewhere, the transfer contemplated to cover the minimum income scheme has been increased to 3.02 billion euros. The remaining state transfers are earmarked for highly specific uses – top-ups for contributory pensions, non-contributory pensions, family protection and other benefits – and do not change significantly.

As shown in Table 2, total current transfers from the state to the Social Security budgeted

Table 2

Consolidated Social Security budget – Revenue

Millions of euros

	Outturn 2019	Forecast Outturn 2020	Budget 2021
Taxpayer contributions	124,256.9	120,602.0	125,144.3
By employers and employees	*116,627.9*	*109,217.6*	*116,349.8*
By jobless claims recipients	*7,629.0*	*11,384.5*	*8,794.5*
Levies, public prices and other income	1,173.0	971.2	1,143.0
Current transfers	15,687.4	30,336.2	31,163.4
From the state	*15,643.5*	*30,294.9*	*31,118.6*
From other bodies	*43.9*	*41.3*	*44.9*
Return on assets	122.3	63.0	35.8
Proceeds from asset sales	43.1	14.1	2.2
Capital transfers	19.5	29.1	58.9
Sum of Non-Financial Transactions	**141,302.2**	**152,015.6**	**157,547.6**
Financial assets	3,209.0	463.9	1,036.4
Financial liabilities	13,830.1	30,330.1	13,830.1
Sum of Financial Transactions	17,039.1	30,793.9	14,866.5
Consolidated Revenue Budget	**158,341.3**	**182,809.5**	**172,414.1**

Source: Economic-Financial Report on the 2021 Social Security Budget (Ministry of Inclusion, Social Security and Migrations).

for 2021 are similar to the estimate for 2020, but the composition differs considerably. Firstly, the extraordinary 2020 contribution to cover the needs derived from the COVID-19 pandemic are eliminated from the 2021 budget and a new – permanent – transfer is added in the amount of 13.93 billion euros. Secondly, the 2021 budget factors in the rollout of the minimum income scheme, which is allocated the sum of 3.02 billion euros.

Cash benefits constitute the most significant expense heading. Those are transfers that go directly to the beneficiaries and account for over 95% of consolidated spending by the Social Security. Outlays in respect of contributory pensions, including top-ups to reach minimum thresholds, represent 83% of total budgeted expenditure. As such the trajectory of this heading is critical to future expenditure projections and the financial sustainability of the system as a whole. Among noteworthy benefits that stand out included those earmarked for temporary disability and the extraordinary benefits paid out to self-employed professionals affected by business restrictions (Table 3). In total, the contributory benefits account for over 90% of expenditure on cash benefits, while non-contributory benefits, which are financed from tax revenue, account for a little under 10%.

The state's financial support for the Social Security mainly takes the form of transfers which, since the enactment of the Toledo Pact in 1995 and, later, Law 24/1997, on the consolidation and rationalisation of the Social Security system, are tied to the financing of non-contributory benefits. However, the process of separating the sources and uses of

> The trajectory of cash benefits, which go directly towards the beneficiaries and account for over 95% of consolidate spending by the Social Security, is critical to future expenditure projections and the financial sustainability of the system as a whole.

Table 3

Social Security cash benefits

Millions of euros

Contributory Cash Benefits	Outturn 2019	Forecast Outturn 2020	Budget 2021
Contributory pensions (excluding top-ups to meet min. threshold)	128,148.6	131,823.9	135,981.7
Temporary inability to work	9,527.3	10,776.4	9,986.1
Contingencies for workplace accidents and illnesses	*9,527.3*	*9,950.8*	*9,935.1*
Coverage derived from COVID-19		*825.6*	*51.0*
Birth and care of children, risky pregnancies and breast-feeding, care for sick minors	2,637.5	2,958.7	3,239.5
Self-employed professionals: discontinuation of activity	104.8	7,073.0	712.8
Benefits for discontinuation of activity by self-employed	*104.8*	*1,282.3*	*191.2*
Extraordinary benefits for discontinuation due to COVID-19		*5,790.7*	*521.6*
Other cash benefits	281.9	297.2	367.9
Sum of Contributory Benefits	140,700.1	152,929.3	150,288.1
Non-Contributory Cash Benefits			
Top-ups to reach min. thresholds	7,094.0	7,050.1	7,064.4
Non-contributory pensions*	2,600.8	2,613.4	2,751.0
Minimum income scheme		1,000.0	2,988.4
Benefits for family protection and other	1,689.5	1,838.0	1,402.0
Sum Of Non-Contributory Benefits	**11,384.3**	**12,501.5**	**14,205.8**
Total Cash Benefits	**152,084.5**	**165,430.8**	**164,493.8**

*Note: *Includes transfers to the Basque and Navarre regions for non-contributory pensions.*

Source: Economic-Financial Report on the 2021 Social Security Budget (Ministry of Inclusion, Social Security and Migrations).

> "Law 11/2020 on the state budget for 2021 introduces a new provision to the General Social Security Act to enact an annual state transfer."

funding was not finalised until 2013, when it was agreed to finance top-ups to contributory pensions to meet minimum thresholds with transfers from the state budget. As is shown in Table 4, there are a number of transfers that are earmarked to finance specific benefits, notably contributory pension top-ups, non-contributory pensions and, since 2020, the minimum income scheme. The bigger changes are found in the transfers made with the aim of shoring up the Social Security's financial equilibrium.

The Social Security budget for 2021 is also shaped by regulatory developments that reflect the government's intention to reinforce the system's funding via state transfers, *i.e.*, to finance a higher percentage of expenditure via tax revenue. Law 11/2020 (December 30th, 2020) on the state budget for 2021 (2021 Budget Act) introduces a new provision to the General Social Security Act to enact an annual state transfer. These funds offset the cost to the system implied by the contribution relief provided to certain groups, cover

Table 4

State contributions to the Social Security

Millions of euros

Transfers to shore up financial equilibrium	Outturn 2019	Forecast Outturn 2020	Budget 2021
To support financial equilibrium	1,933.9	1,333.9	
To comply with 2020 Toledo Pact recommendations			13,929.0
Financing for benefits for birth and care of children			*2,784.7*
Financing for SS contribution relief			*1,779.4*
Financing for other concepts			*9,364.8*
To cover the impact of COVID-19		14,002.6	
Transfers for other purposes			
Top-ups for contributory pensions to meet min. thresholds	7,329.1	7,329.1	7,075.0
Non-contributory pensions	2,592.2	2,648.9	2,751.0
Non-contributory family protection	1,686.7	1,847.6	1,414.0
Minimum income scheme		1,025.2	3,016.9
Care for dependency and other transfers	2,101.5	2,107.6	2,932.7
Sum of Current Transfers	**15,643.4**	**30,294.9**	**31,118.6**

Source: Economic-Financial Report on the 2021 Social Security Budget (Ministry of Inclusion, Social Security and Migrations).

> “ At year-end 2016, the Social Security had 17.26 billion euros of debt. ”

the contribution gaps affecting pension calculations, and support early retirement schemes when additional contributions have not been contemplated. To that end, the 2021 Budget Act details the use of the contributions by the state to the Social Security's budget, specifically the use of 13.93 billion euros in new, permanent, transfer obligations (Table 4).

Elsewhere, the 2021 Budget Act introduces major reforms to complementary welfare benefits. The upper limit on the deduction of pension plan contributions from taxable income has been reduced and the tax relief has been shifted to employment plans. In a bid to broaden the use of pension plans, the government plans to set up pensions plans to be sponsored publicly with management awarded via open tender.

Social Security budget deficit

The key issue facing the Social Security is its budget deficit. That deficit has been stuck at around 1.5% of GDP since 2014 (Exhibit 1). Even before the COVID-19 crisis, Spain's independent fiscal institute, AIReF (2019), had forecast a structural deficit of between 1.3% and 1.5% of GDP.

The surpluses accumulated in the so-called Reserve Fund during the years of growth in the Spanish economy (when the Social Security recorded a surplus), plus the return earned thereon, has since been used to cover a portion of the Social Security's deficits, to the tune of 80.34 billion euros between 2012 and 2019. However, those funds set aside to cover the system's future needs in terms of contributory pensions have not been sufficient to make up

Exhibit 1

Social Security non-financial accounts: Surplus (+) or deficit (-)

As a % of GDP

Notes: Based on estimated 2020 GDP as per the 2021 GSB and the forecast outturn for 2020.*
*** Based on estimated 2021 GDP and the forecast deficit as per the 2021 GSB.*

Source: Accounts and Balances of the Social Security and Economic-Financial Report on the 2021 Social Security Budget (Ministry of Inclusion, Social Security and Migrations).

"In the wake of the Great Recession, the Social Security's finances deteriorated, leaving a deficit that increased from 5.67 billion euros in 2012 to 18.53 billion euros in 2016."

for those deficits in full and the state has had to step in with loans and transfers.

The state lent the Social Security money in the 1990s, a time when the Social Security was managing the public healthcare system (Insalud). The first loan was to cover obligations pending allocation to the Insalud budget while subsequent funds financed the Social Security's deficit and treasury needs. At year-end 2016, the Social Security had 17.26 billion euros of debt. Nevertheless, as noted by the Court of Auditors (Tribunal de Cuentas, 2020), the state's budget laws estimated the contributions the Social Security had to earmark to Insalud between 1989 and 1998 at 32 billion euros. This is despite the universalisation of healthcare introduced by the General Health Act of 1986 and the separation of funding sources embarked on in 1989, when the state was contributing 70% of the financing for healthcare provision funded by the Social Security. Unquestionably, changes of such a magnitude require sufficiently long periods of adaptation, including on the financing front. That being said, the volume of healthcare costs funded from contributions significantly outweighed the volume of state loans to the Social Security during the 1990s. Although the Social Security's balance sheet includes those loans within its long-term liabilities and some of those loans have since fallen due, the state has not sought their repayment. The Court of Auditors (2020) has reiterated the fact that there is "no reason to justify maintaining those borrowings on the Social Security's balance sheet", going on to urge, "solutions to enable the definitive write-off thereof" (p. 36).

In the wake of the Great Recession, the Social Security's finances deteriorated, leaving a deficit that increased from 5.67 billion euros in 2012 to 18.53 billion euros in 2016 (Exhibit 1). It was possible, however, to cover all of those deficits via drawdowns against the Reserve Fund, so that the Social Security did not have to take on additional borrowings at that stage (Bandrés, 2019). The rapid drop in the Reserve Fund balance and the potential political fallout from its depletion opened the door to fresh loans from the state and a commitment to supplementing the system's non-financial income with transfers earmarked specifically to achieving a balanced budget. Between 2017 and 2021, state loans to the Social Security will reach 82.02 billion euros, with a peak sum of 30.33 billion euros granted in 2020 in the context of the COVID-19 crisis.

The successive governments that had to navigate the Great Recession and tackle the fallout on the Social Security's accounts were aware of the structural nature of the deficit in the contributory pension system, as evidenced by the reforms passed in 2011 and 2013. At this point it was clear that the shortfalls that could be covered from the Reserve Fund were no match for the forecast growth in pension spending in the decades ahead. However, the sustainability factor and the new pension restatement index approved in 2013 were suspended in 2018, leaving new pension reform measures pending.

The government has set itself the target of balancing the Social Security's budget in 2023 by means of increased transfers from the state, *i.e.,* tax-driven financing of what have been dubbed the system's "undue expenses". By "undue expenses" the government refers to relief from company contributions in order to stimulate job creation; the benefits provided for the birth and care of children; pension supplements for maternity; support measures (implicit grants) for special regimes for specific sectors; coverage of contribution shortfalls and operating expenses. In providing testimony before the Toledo Pact Committee, the Minister for Inclusion, Social

Security and Migration estimated "undue expenses" in 2023 at 22.87 billion euros.

The government has therefore sought to adopt one of the two recommendations made by Spain's independent fiscal institute in its *Opinion 1/19* (AIReF, 2019), specifically that of having the state assume the financing for the above-mentioned expenses in order to eliminate the Social Security's prevailing structural deficit in the near-term. The other recommendation made by AIRef was to increase, in relative terms, the contributions earmarked to common contingencies (payment of pensions) at the expense of the unemployment insurance allocated to the state public employment service (SEPE for its acronym in Spanish).

It is questionable whether all of the concepts classified by the government as "undue" warrant such categorisation. For instance, the contributory benefit for the birth and care of children or operating expenses should be borne by the specific insurance policy holders/beneficiaries and not by the country's citizens as a whole. Moreover, charging costs of that nature to the state budget or delegating a portion of the unemployment contributions to finance the Social Security's general contingencies clearly does nothing to address the budget deficit in the public sector as a whole, which has been exacerbated by the adverse effects of COVID-19.

Taking a longer time horizon, the projections for pension spending and the revenue allocated to fund it reveal a growing gap between the two metrics. Employer contributions trend in line with nominal GDP due to the correlation with salaries. The latter correlate to productivity, making it unlikely that contributions will increase as a percentage of GDP unless changes are made to the bases or contribution rates. Pension spending, on the other hand, is widely expected to increase as a percentage of GDP by between 4 and 6 percentage points over the next 30 years, depending on the demographic and economic assumptions made (De la Fuente, García Díaz y Sánchez, 2018; García Díaz, 2019 and Conde-Ruiz, 2019).

The Social Security's current structural deficit implies that measures are needed to ensure the stability of the pension system and Spanish public sector. If the political will is to recalculate pensions in line with inflation, it will be necessary to change the rules for qualifying for pension receipt by adjusting the retirement age and the calculation methodology. In short, Spain needs to reduce the pension replacement rate in relation to average earnings and the last earnings received by retirees.

With this in mind, AIReF (2019) recommended two specific reforms which the government has built into its pension system reform programme: (i) modification of the requirements for qualifying for a pension in order to push back the effective retirement age and bring it closer to the statutory age; and, (ii) gradually increase the stipulated contributory period required to receive a full pension from 25 years in 2022, to 35 years.

These two proposals are still subject to specific regulations, which will require parliamentary and social support for their approval. The sooner that dialogue begins and the reforms are implemented, the greater the scope for distributing the costs of the related adjustments across multiple generations.

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Interest rates and the banking business post pandemic

While central bank policies, such as ultra-low interest rates, have staved off liquidity crunches and episodes of heightened uncertainty, they have also distorted financial markets, reduced bank profitability, and potentially undermined the ability of central banks to meet their medium-term inflation targets. As the economy recovers and interest rates potentially rise, central banks will need to consider other actions that support the health of Europe's banking sector.

Santiago Carbó Valverde, Pedro Cuadros Solas and Francisco Rodríguez Fernández

Abstract: The pandemic has led monetary authorities to extend their expansionary policies and shaped the expectation that they will remain lax until at least 2022. Currently, some 45 central banks have introduced interest rates at or below 1%, and yet inflation has remained low. Moreover, the prolongation of ultra-low interest rate levels is generating considerable distortions in the financial intermediation business and in the financial markets. Monetary policy has staved off liquidity crunches and episodes of heightened uncertainty, but it has also facilitated the accumulation of credit risk and debt and placed downward pressure on retail banks' profitability. Additionally, there are concerns that the extraordinary levels of debt accumulated in recent years will make it harder for central banks to meet their inflation targets, thereby reducing their credibility. Looking to 2021, there are several possible scenarios that could emerge,

including a continuation of current monetary policies as the economy recovers, a resurgence in inflation due to expansionary fiscal and monetary policies, or a delayed recovery requiring the extension of monetary stimulus measures. Regardless of which scenario develops, central banks can offer additional support to the banking sector through the creation of a 'pandemic insurance policy' that prevents the impairment of loan quality, a pan-European financing plan, reducing minimum reserve requirements, and raising the deposit facility rate.

Introduction

On the monetary policy front, 2020 was marked by the extension of expansionary policies by nearly all central banks in response to the uncertainty sparked by the pandemic. Before the onset of COVID-19, monetary policy was already controversial, mainly due to the protracted nature of the stimulus measures and, more specifically, the potential collateral damage of keeping rates ultra-low, at zero or even at negative levels. There has even been some debate about central banks' mandates with respect to inflation in light of possible developments in 2021. In a year marked by major fiscal and monetary stimulus measures on both sides of the Atlantic, an increase in prices would be expected, which, within certain limits, would lead to rising interest rates or relatively tighter liquidity conditions. However, this looks unlikely for 2021. After years of aiming for inflation, central banks are in no rush to achieve this goal, with the risks associated with the pandemic weighing heavily on projections and policy action.

This paper analyses the effects of unconventional monetary policies, particularly the impact of negative or ultra-low interest rates on the banking business as well as the outlook for 2021. First, we analyse some of the central banks' and supervisory bodies' recent decisions relevant to the banking business. Last December, the Federal Reserve decided to leave its benchmark rates within a target range of between 0% and 0.25%. The US monetary authority also stepped up the purchase of assets in response to the economic fallout from the pandemic. In its statement, the Fed noted that the "COVID-19 pandemic is causing tremendous human and economic hardship in the US and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year". Moreover, in its forward-looking guidance it said it would aim to achieve inflation "moderately" above the target rate of 2% for some time so that inflation actually averages 2% over a given period. In line with this aim, the Fed does not expect to increase rates in the medium-term. Also noteworthy is its decision to increase asset purchases to $120 billion per month until substantial progress has been made on achieving the Fed's employment and price stability goals.

In December, the European Central Bank (ECB) decided to leave the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility intact at 0.00%, 0.25% and -0.50%, respectively. It also said that it expects its official interest rates to "remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics." The ECB also increased the size of its pandemic emergency purchase programme (PEPP) by 500 billion euros to 1.85 trillion euros and extended the horizon for its net purchases until at least the end of March 2022. In the wake of expansionary decisions taken during the December meeting, as expected, no further policy action was taken by the ECB at its January meeting.

"After years of aiming for inflation, central banks are in no rush to achieve this goal, with the risks associated with the pandemic weighing heavily on projections and policy action."

The decisions taken on both sides of the Atlantic suggest that banks operating in the US and eurozone will continue to face extraordinary financing conditions for some time. Banks are also facing a number of additional challenges given that the pandemic implies new headwinds on both the business and credit risk fronts, which will weigh on their market values. Other recent developments, such as the limits imposed on dividend distributions, have also taken a toll. On December 15th, 2020, the ECB issued a statement asking banks to refrain from distributing dividends or at least limiting them until September 30th, 2021. Specifically, it said that it wanted "dividends to remain below 15% of cumulated profit for 2019-20 and not higher than 20 basis points of the CET1 ratio." Although the latest decisions leave a small amount of room for manoeuvre compared to the previous stricter limits, the dividend restrictions will put downward pressure on banks' share price.

The effects of protracted ultra-low rates on the banks

Presently, there is considerable disagreement about the effects of unconventional monetary policy measures and the direction they should take. [1] On the one hand, there is some consensus that the quantitative easing and ultra-low rates were crucial tools in tackling the long-term effects of the financial crisis and economic recession. In the absence of other options, these tools have helped preserve liquidity and market stability during the COVID-19 crisis. On the other hand, an increasing number of critics worry about the potential existence of an effective lower bound, or ELB, below which interest rates do not efficiently transmit monetary policy.

The evidence shows that negative rates have had a very limited effect on stimulating inflation and lending. Empirical studies have demonstrated that, in certain circumstances, negative rates can even have a "reverse effect", generating exactly the opposite reaction

Table 1

Monetary areas with interest rates of 1% or lower

As of December 31st, 2020

Country | Area	Official interest rate	Last modification	Change since the start of the pandemic (March 2020)
Switzerland	-0.75	January 2015	=
Denmark	-0.60	March 2020	0
Japan	-0.10	January 2016	↓
Eurozone	0	March 2016	=
Bulgaria	0	January 2016	=
Norway	0	May 2020	↓
Sweden	0	January 2020	=
Australia	0.10	November 2020	↓

"The evidence shows that negative rates have had a very limited effect on stimulating inflation and lending."

Table 1

Monetary areas with interest rates of 1% or lower

As of December 31st, 2020

Continued

Country I Area	Official interest rate	Last modification	Change since the start of the pandemic (March 2020)
Israel	0.10	April 2020	↓
Poland	0.10	May 2020	↓
UK	0.10	March 2020	↓
Samoa	0.19	June 2016	=
Canada	0.25	March 2020	↓
Czech Republic	0.25	May 2020	↓
New Zealand	0.25	March 2020	↓
Peru	0.25	April 2020	↓
US	0.25	May 2020	↓
Chile	0.50	December 2020	↓
Jamaica	0.50	August 2019	=
Fiji	0.50	November 2011	=
Thailand	0.50	December 2020	↓
South Korea	0.50	May 2020	↓
Costa Rica	0.75	December 2020	↓
Paraguay	0.75	December 2020	↓
Hungary	0.90	May 2016	=
Albania	1	June 2016	=
Iceland	1	May 2020	↓
Total number of countries	45		

Source: National central banks and authors' own elaboration.

(less credit and lower inflation expectations) to that initially intended. The impact of unconventional monetary policies, including negative official rates, on the banks' margins and profitability is also highly adverse. For example, in an environment where the yield curves imply scant, zero or even negative differences between short– and long-term rates, core banking business (raising short-term deposits and providing long-term financing) struggles to generate a profit.

As shown in Table 1, benchmark rates are at or below 1% in 45 countries (some of which are part of common monetary areas). Since the start of the pandemic, only Denmark has raised its official rates; however, after that rate increase it still presented one of the lowest rates in the world (-0.60%). At prevailing levels, rates are having additional adverse financial effects beyond the core banking business. The structure of financial markets (*e.g.* a proliferation of non-bank and

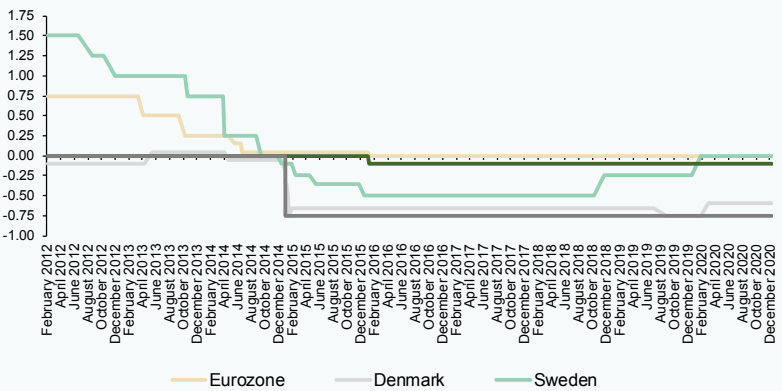
> “Companies that would normally fail or be obliged to restructure in a competitive market - zombie firms - are increasingly surviving, in part due to abundant liquidity fuelled by ultra-low rates.”

shadow banking services) and liquidity levels (*e.g.* the accumulation of liquidity and short-term liquidity distortions) could be negatively affected, too. In addition, the widespread use of guarantees in unconventional monetary policy has increased the importance of the debt markets and some of the risks to financial stability. Companies that would normally fail or be obliged to restructure in a competitive market – zombie firms – are increasingly surviving, in part due to abundant liquidity fuelled by ultra-low rates. Although initially it seemed that the pandemic would trigger a cycle of business creation and destruction that would partly address these inefficiencies, the protracted availability of high-risk financing in the bond markets suggest the opposite has occurred. The resilience – on paper only – of those non-viable firms undermines average productivity and displaces growth opportunities for more productive firms. Negative rates also send confusing signals to investors about price formation and economic expectations. These effects are creating considerable distortions in the money, stock and real estate markets.

As shown in Exhibit 1, 2019 suggested a shift in monetary policy trends was on the horizon. Some central banks appeared to be moving towards monetary tightening when, towards the end of the year, the threat of recession followed by the pandemic a couple months later, prompted them to leave rates at close to zero or at negative values. In 2020, the quantitative easing response was overwhelming. Since the scale of the pandemic became apparent, the four main central banks (Federal Reserve, ECB, Bank of England and Bank of Japan) have injected 3.8 trillion euros

Exhibit 1 **Trend in interest rates**

2012 – December 2020



Source: National central banks and authors' own elaboration.

> “Since the scale of the pandemic became apparent, the four main central banks have injected 3.8 trillion euros of liquidity, weighing heavily on long-term fixed-income rates and flattening or inverting the yield curves.”

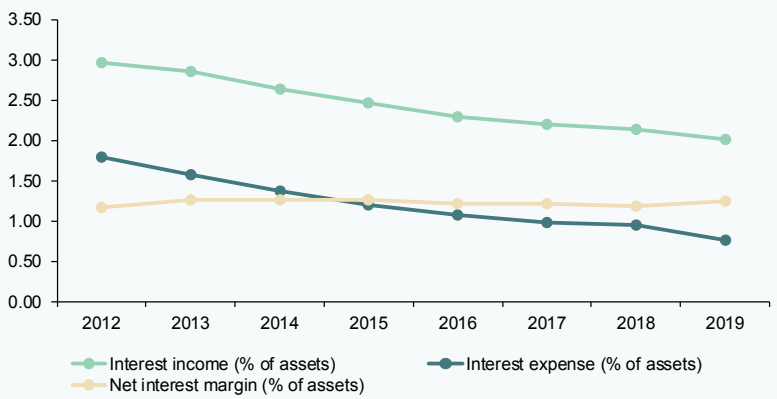
of liquidity, weighing heavily on long-term fixed-income rates and flattening or inverting yield curves.

As is shown in Exhibit 2, the resulting levels of official rates and benchmark rates for public and private debt drove interest income and interest expense lower for banks, lowering the average spread between them within a range of 1.1% and 1.3% of assets.

Looking to 2021, there are several possible scenarios that could emerge. The baseline scenario is that the economy will recover as inoculation rates increase. Nevertheless, inflation is expected to remain subdued in this scenario, with monetary policy remaining unchanged until 2022. However, there are two plausible alternative scenarios. The first relates to the possibility of a reasonably vigorous economic recovery, underpinned by considerable fiscal stimulus measures alongside a starkly expansionary monetary policy. Together, these dynamics would fuel a stronger than expected rebound in inflation, requiring monetary policy tightening. The other possibility is that the recovery takes longer than anticipated so that the monetary stimulus measures are left in place for as long as expected or even longer.

There is also an additional consideration regarding the role of inflation in shaping monetary policy and the impact it could end up having on banks and financial markets. Of particular concern is the credibility of inflation targets as the key mission of monetary policy. In the academic world, some observers

Exhibit 2 **Trend in interest income, interest expense and NIM in the eurozone**



Source: European Central Bank.

> "The baseline scenario for 2021 is that the economy will recover as inoculation rates increase with inflation remaining subdued and monetary policy unchanged."

maintain that the extraordinary levels of debt accumulated in recent years will make it harder for central banks to uphold their commitment to achieving inflation in the medium-term. Some go further still, suggesting that central banks are not setting rates on the basis of the outlook for inflation but rather on the basis of what they believe to be the "natural" interest rate (that which would prevail during times of macroeconomic stability) for certain trends to be sustainable. Those trends include a series of accumulated structural changes, such as the growth in debt, an ageing population and stagnant productivity growth in many economies.

A more conciliatory take is that central banks have identified the structural changes in the economy that are affecting inflation in new ways. The idea is that the natural interest rate has been falling gradually in advanced economies due to factors, such as population ageing and technological developments, that have shifted the balance between the supply of savings and demand for investment. What is unclear, however, is what the normalisation and exit mechanisms are and to what extent monetary policy is turning some of those changing or exogenous conditions (such as the build-up of debt) into endogenous ones.

Implications for the banking sector

Due to the heightened macroeconomic uncertainty resulting from COVID-19, certain central banks have used policy to encourage banks to play an active role in the economy. Examples of such policy action include the easing of capital adequacy rules to make it easier for banks to lend and encouraging banks to restructure loans or provide moratoriums. However, given the negative implications of prevailing low rates on the banking sector, several analysts have suggested stepping up central banks' support to the banking sector in a number of ways:

- It is possible that if rates are raised too early in the recovery, non-performance could rise sharply. For this reason, the solvency of indebted businesses should be shored up to prevent significant impairment of loan quality. Viable firms should finance themselves temporarily using equity and recapitalisations (even using public funds) so that their financial predicament does not become too weak once a recovery takes hold. That would be equivalent to a "pandemic insurance policy" that ensures ongoing financial stability and facilitates a return to more "normalised" rates. If such measures are not taken and rates remain low, in the long-run, there is a risk that the banks' margins and lending activity will be eroded further.

- To continue to ensure a secure financial environment and natural rate adjustment, the loans provided to businesses during and immediately after the pandemic could be supported by a pan-European financing plan to complement the national and EU fiscal stimulus plans.

- Given the feasible co-existence of low official rates and inflation, central banks must guarantee adequate monetary conditions for banks. One way of doing that would

> "A *pandemic insurance policy* would ensure ongoing financial stability and facilitates a return to more *normalised* rates."

> “Although certain regulatory considerations and the need to intensify the cost-cutting effort could encourage more M&A activity, such activity requires market stability, which has been undermined by COVID-19.”

be to take more decisive action regarding the multi-tier rate system to give Europe greater flexibility, by raising the deposit facility rate. In addition, emulating the experience stateside, the ECB could reduce its minimum reserve requirements.

In general, it would also be advisable to study in greater depth whether ultra-low rates are achieving their objectives and not complicating matters further. Specifically, it should be ruled out that the much-feared “reverse effect” is not at play or about to occur.

Notes

[1] This section includes the preliminary conclusions of a review and update underway of the Funcas study titled Intermediation below zero: The effects of negative interest rates on banks’ performance and lending. https://www.funcas.es/documentos_trabajo/intermediation-below-zero-the-effects-of-negative-interest-rates-on-banks-performance-and-lending/

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The new EURIBOR gets through a challenging 2020

In the aftermath of the financial crisis, regulators proposed a new methodology for calculating EURIBOR. Despite the volatility wrought by COVID-19, this methodology performed well in 2020, reflecting expectations for benchmark rates and perceived bank credit risk and capturing the indirect effects of the dislocation sustained in the FX swap market.

José Manuel Amor

Abstract: The onset of the global financial crisis in 2008 forced regulators and supervisors to rethink the suitability of the IBORs as benchmark rates of interest. In Europe, the FSB's recommendations affect two key benchmark rates – EURIBOR and EONIA – and have resulted in the creation of the euro short-term rate, or €STR, to replace the EONIA following a period during which the two indices will co-exist. Importantly, EURIBOR must at all times and in differing market conditions reflect the cost to banks' of obtaining funding in the euro unsecured interbank lending market at different tenors. Despite the volatility wrought by COVID-19 in 2020, it is fair to say that the EURIBOR has surmounted a very challenging year, helped significantly by a new hybrid calculation methodology developed in the aftermath of the financial crisis. Specifically, the EURIBOR rates trended in a manner that was consistent with expectations for benchmark rates and perceived bank credit risk and captured the indirect effects of the dislocation sustained in the FX swap market as a result of the surge in global demand

> “The loss of liquidity and trading volumes in the interbank markets made it harder to calculate IBORs based on actual transactions.”

for dollar funding in the early stages of the COVID-19 crisis.

Backdrop for the reform of the interbank offered rates (IBORs)

For decades now, the interbank offered rates (“IBORs”) have constituted the benchmark interest rates for unsecured interbank lending at different maturities or tenors. Those rates layer unsecured bank credit risk on top of the risk-free rates and have historically provided a benchmark for setting the prices of a very broad range of financial contracts (loans, derivatives and fixed-income securities).

The onset of the global financial crisis in 2008 forced regulators and supervisors to rethink the suitability of the IBORs as benchmark rates of interest. Their construction via surveys and non-binding rates left them open to manipulation. The loss of liquidity and trading volumes in the interbank markets made it harder to calculate them on the basis of actual transactions. As well, the distribution of bank credit risk undermined the ability of IBORs to reflect common counterparty risk. Lastly, the concentration of bank funding in lower-risk segments (repos) reduced the relevance of the interbank lending market.

In response to scandals over the manipulation of IBOR contributions by the banks participating in the panels, coupled with the fact that IBORs were determined almost exclusively on the basis of the expert judgement of those participants (due to the decline in liquidity in the interbank unsecured funding markets), the G20 spearheaded the global reform of reference rates in 2013. The G20 tasked the Financial Stability Board (FSB) to establish guidelines and recommendations for creating a new set of regulations that could address the current system’s shortcomings and correct the issues implicit in prevailing reference rates. In 2014, the FSB recommended: (i) reinforcing the methodology used to calculate the reference indices, tying them wherever possible to real transactions and improving data supply processes and controls (the basis for the so-called “IBOR reform”); and, (ii) identifying alternative risk-free reference rates.

The replacement of the IBORs with new reference rates means most calculations of IBORs will cease between December 2021 and June 2023. [1] In Europe, the FSB’s recommendations yielded Regulation (EU) 2016/1011, known as the EU Benchmark Rates Regulation, or EU BMR. The EU BMR affects two key benchmark rates – EURIBOR and EONIA [2]– and has resulted in the creation of the euro short-term rate, [3] or €STR, to replace the EONIA following a period during which the two indices will co-exist.

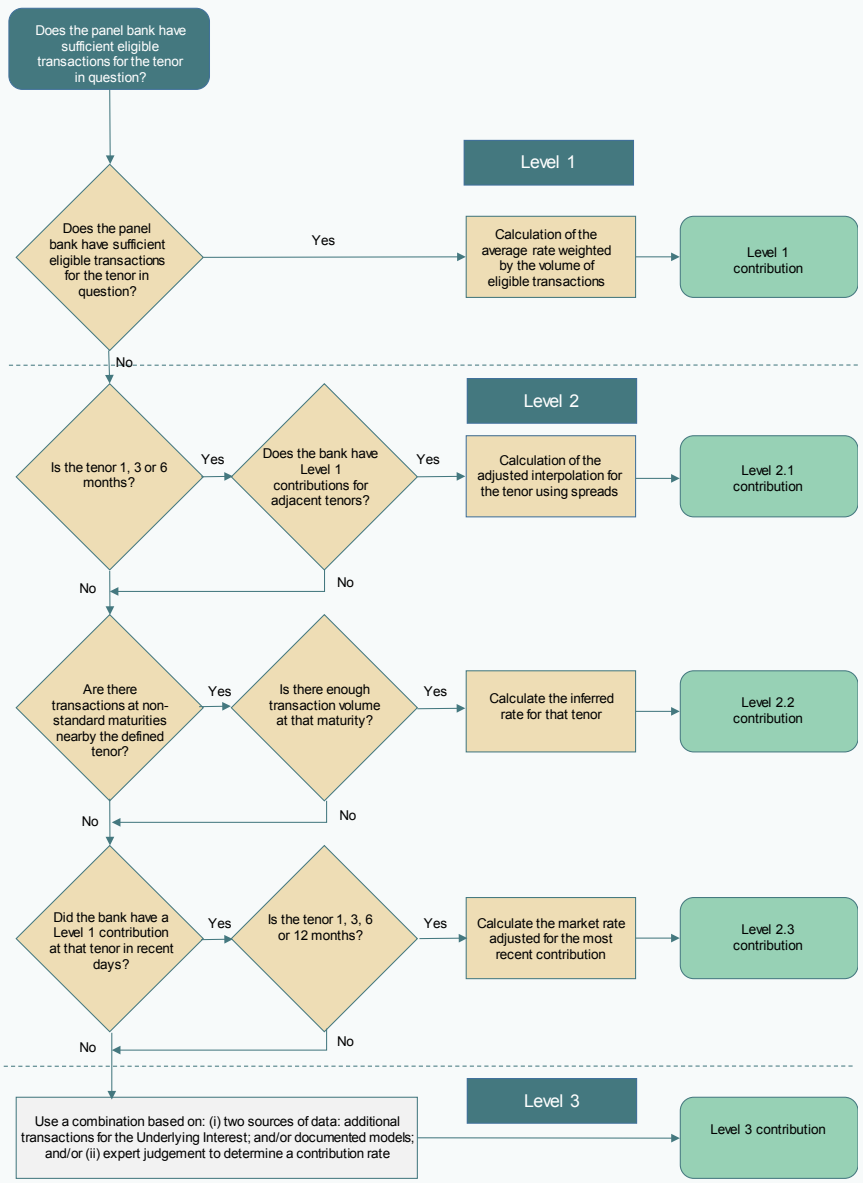
A new method for calculating the EURIBOR rates was rolled out in 2019

The European Money Markets Institute (EMMI) administers the current and former [4] EURIBOR and EONIA rates. Under the EU BMR, the EMMI has been the official

> “The EU Benchmark Rates Regulation (BMR) affects two key benchmark rates – EURIBOR and EONIA – and has resulted in the creation of the euro short-term rate, or €STR, to replace the EONIA.”

administrator of the EURIBOR rates since July 2019. As such, it is obliged to define and implement a robust system of governance and set of control mechanisms to ensure the integrity and reliability of the EURIBOR rates. The EMMI's current methodology – still provisional – for determining the EURIBOR rates is summed up as follows:

Exhibit 1 **How EURIBOR rates are determined using the EMMI's hybrid methodology**



Source: Afi, based on EMMI.

> “Although the new EURIBOR methodology continues to rely on the panel banks’ expert judgement, it only does so as a last resort, in an orderly fashion and governed by documented models and procedures.”

- The methodology is based on contributions by a group of credit institutions – the panel banks – that participate actively in the euro money markets. The number of panel banks [5] must be sufficient to constitute a representative sample for the purposes of determining an average rate and to reflect activity in the unsecured euro money market.

- Every day, each panel bank’s final contribution to each tenor is determined using a hierarchical or waterfall approach. To the extent possible, the EMMI strives to ground EURIBOR in euro money market transactions that reflect the Underlying Interest [6] at the defined tenor from the prior TARGET day (Level 1). When it is not possible to arrive at a result based on actual transactions, the calculation uses a defined range of formulaic calculation techniques provided by EMMI (Levels 2.1, 2.2 and 2.3) based on transactions in the Underlying Interest across the money market maturity spectrum and from recent TARGET days. Lastly, if it is not possible to obtain Level 1 to Level 2.3 results, the calculation relies on contributions from the banks based on transactions in the Underlying Interest and/or other data from a range of markets closely related to the unsecured euro money market, using a combination of modelling techniques and/or the panel bank’s judgement (Level 3).

- Based on this new methodology, the EMMI is tasked with determining the panel banks’ contributions following Level 1 and 2 rules by using individual transaction data provided by the latter. In the absence thereof, given the diverse composition of the EURIBOR panel of banks (designed specifically to capture the geographical diversity of the euro money market), each panel bank is responsible for determining its individual Level 3 contribution.

Although the new EURIBOR methodology continues to rely on the panel banks’ expert judgement, it only does so as a last resort, in an orderly fashion and governed by documented models and procedures. The new hybrid methodology is, nevertheless, still in the testing phase, which means it could be subject to certain adjustments. This would require publicly consulting the market participants in the event the changes prove material.

EURIBOR, risk-free rate + bank credit risk: A technical aside

Before getting into our analysis of the trend in EURIBOR rates in 2020, it is worth making a technical detour to review the various instruments in the money market and their interrelationship (EURIBOR, the risk-free interest rates, the interest swaps written over them and forward rate agreements or FRAs).

EURIBOR must at all times and in differing market conditions reflect the cost to banks’ of obtaining funding in the euro unsecured interbank lending market at different tenors. Given the existence of counterparty risk in

> “Given the existence of counterparty risk in respect of the principal and interest, the EURIBOR rates should trade at a spread over the risk-free rates with the same maturities.”

> “The overnight risk-free reference rate is the €STR, which is calculated and published by the ECB and reflects the wholesale euro overnight borrowing cost of banks located in the eurozone.”

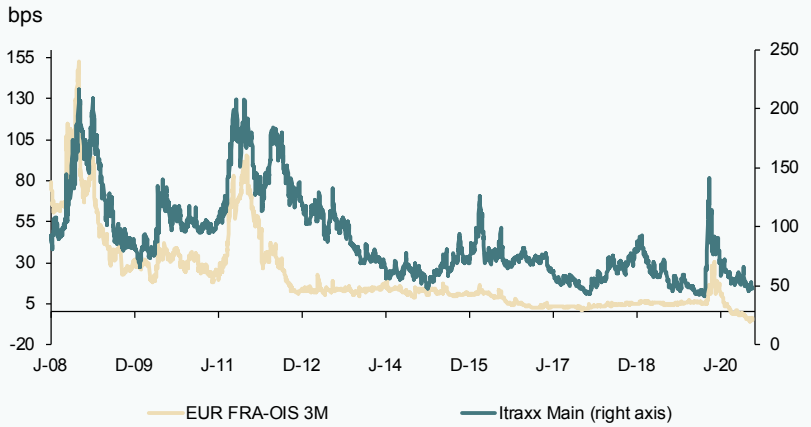
respect of the principal and interest, the EURIBOR rates should trade at a spread over the risk-free rates with the same maturities. That spread will oscillate as a function of the trend in perceived counterparty risk.

Agreements known as forward rate agreements, or FRAs, are written over the EURIBOR rates. FRAs are derivatives that use a combination of interbank rates and futures over the latter to establish a forward price (*i.e.* the forward rate of interest) for notional interbank loans or debentures. The EURIBOR rate two days before the start or settlement date is the reference used to settle FRAs as per money market conventions.

The overnight risk-free reference rate is the €STR, which is calculated and published by the ECB and reflects the wholesale euro overnight borrowing cost of banks located in the eurozone. The overnight index swaps, or OISs, are traded over the overnight reference rates, €STR and EONIA. Those instruments are simply fixed-for-floating interest rate swaps in which the floating leg is the overnight reference rate, which is quoted daily. Since it is a contract written over a notional amount, (*i.e.* the principal of the underlying loans is not exchanged, and the swaps are not collateralised), counterparty risk is negligible.

The spreads between the EURIBOR rates and OISs written over EONIA or €STR at a given tenor, coupled with the spread between the 3-month FRA and OIS rates, are the standard benchmark for measuring common credit or counterparty risk in the banking sector. The FRA-OIS spread is very closely correlated with the price of banks' credit default swaps (CDSs) (Exhibits 2 and 3).

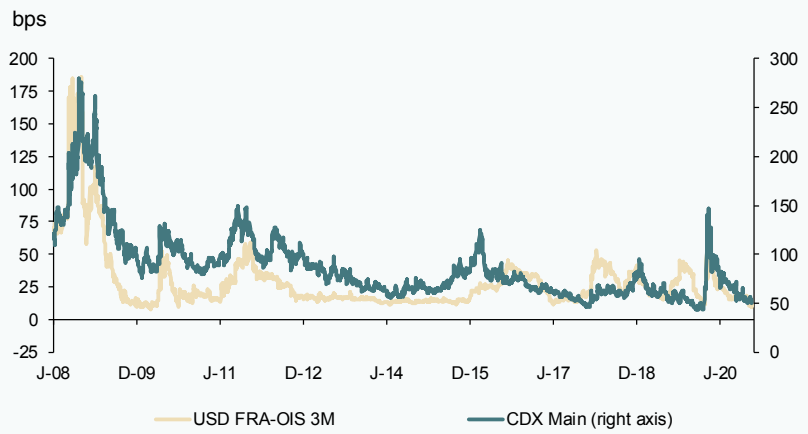
Exhibit 2 **3-month FRA-OIS spread in EUR relative to bank CDSs in the eurozone**



Source: Afi, based on Bloomberg figures.

Exhibit 3

3-month FRA-OIS spread in USD relative to bank CDSs in the US



Source: Afi, based on Bloomberg figures.

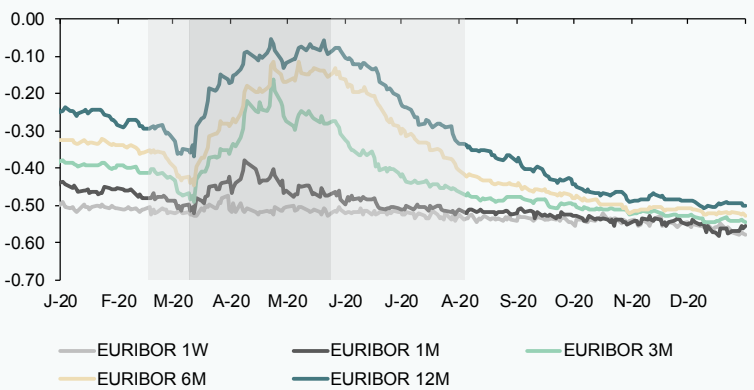
EURIBOR in 2020: A year marked by the onset of COVID-19

The EURIBOR rates were fairly volatile in 2020. The onset of COVID-19 triggered major ups and downs in the outlook for short-term risk-free rates and, at times, a considerable increase in banking counterparty risk. In addition to those two factors, the profound dislocation of the US dollar money market

Exhibit 4

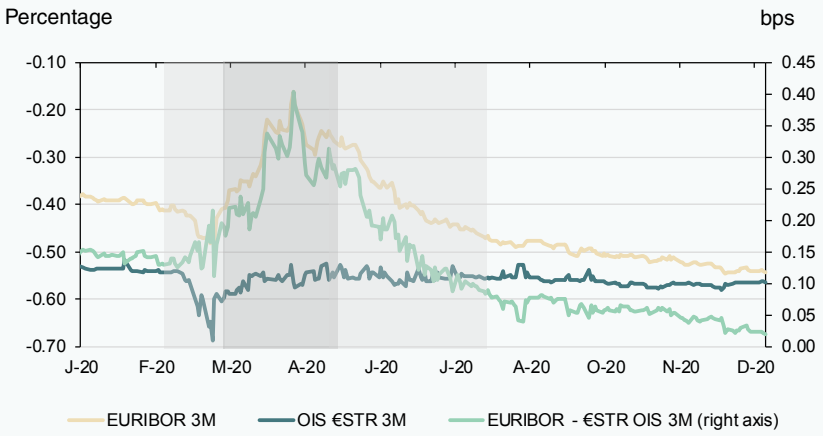
Trend in the EURIBOR rates in 2020

Percentage



Source: Afi, based on Bloomberg figures.

Exhibit 5 **3-month EURIBOR and €STR OIS and spread between the two**

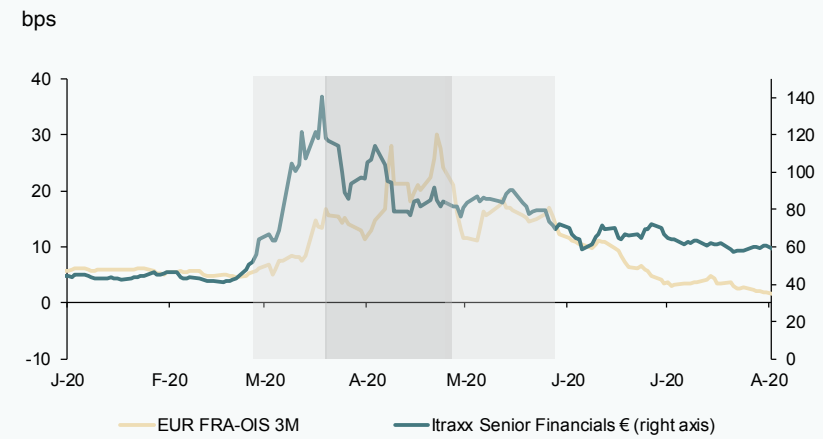


Source: Afi, based on Bloomberg figures.

in March and April had a significant knock-on effect in other jurisdictions, reflecting the extent of global funding market interconnectedness.

The performance of the EURIBOR rates in 2020 can be grouped into three distinct phases. First, the collapse right before the second week of March, when the COVID-19

Exhibit 6 **CDSs for the European banks and 3-month FRA-OIS EONIA spread**



Source: Afi, based on Bloomberg figures.

> “Regulatory changes and the sharp drop in interest rates have reduced the supply of dollars in the system, translating into bigger swings in the basis swap during episodes of heightened financial stress.”

crisis was at its height. A second phase, which ran from mid-March until May, in which the EURIBOR rates with maturities of longer than one week rebounded strongly. The third phase, which ran between May and August, was marked by a reduction in rates and slope flattening across the various EURIBOR tenors. We will focus our analysis on the first two phases, which are of greater interest to the task of determining whether the EURIBOR rates correctly reflected evolving expectations for the risk-free rates and common bank credit risk intrinsic in trading in unsecured interbank loans.

The EURIBOR rates provided a faithful reflection of the collapse in outlook for risk-free rates during the initial phase and of the reversal of expectation for lower rates during the second phase. Nevertheless, during the latter phase (until early May), the EURIBOR rates continued to rise. That is when we witnessed intense displacement of the EURIBOR rates above the €STR OIS rates (refer to Exhibit 5). What that movement reflected was a substantial and sudden increase in bank credit risk during the first half of March, as is evident in the widening spread observed in the European banks' credit default swaps, as measured by the Itraxx Senior Financials Index (Exhibit 6).

The increase in perceived bank counterparty risk was not the only factor in play during that second phase. Indeed, it was not sufficient to explain the fact that the spread between the EURIBOR rates and the €STR OIS continued to widen and remained at high levels after the banks' CDSs turned around and embarked on, from March 18th, a downtrend that would last until the end of the summer. Moreover, the spreads between the 3-month FRA and OIS rates continued to widen sharply (Exhibit 7), peaking on April 22nd, over one month after the CDS index for the European bank sector hit its high. That apparent decoupling between the two benchmarks for bank counterparty risk is intimately related with the liquidity issues encountered in the short-term dollar funding market during that same period. The effect of this was upward pressure on the EURIBOR rates that was unrelated with either the shifts in benchmark interest rate expectations or the trend in the common counterparty risk associated with the European banks.

Global dollar funding stress and its impact on driving EURIBOR higher

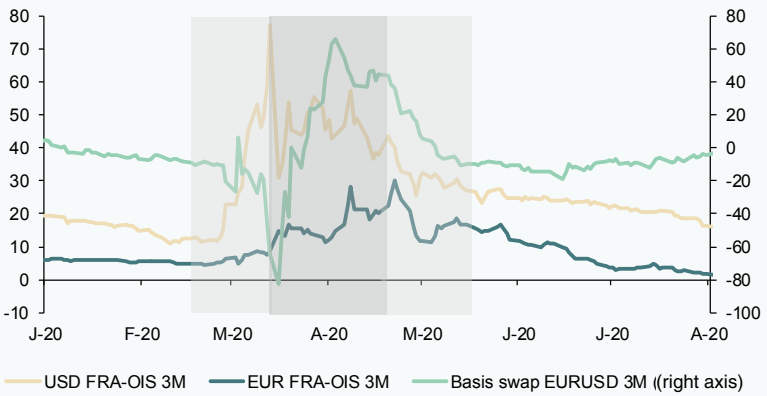
Before explaining how dollar funding stress exerted upward pressure on the EURIBOR rates, we should introduce the concept of the foreign exchange basis rate swap (also known as an FX basis swap or simply a basis swap). In the case of the US dollar, the basis is the difference between the dollar money market interest rate and the implied dollar interest rate in the FX swap market, where US dollars are borrowed against another currency as collateral. In the absence of financial stress, the basis hovers at close to zero. However, during episodes of dollar funding scarcity, the basis can turn significantly negative (and vice versa, it can be significantly positive when there is excess dollar liquidity).

The movements in the basis therefore reflect changes in the balance between supply and demand for dollars in the global market. On the dollar demand side, the institutional investment sector plays a very significant role, as some of the assets under its management [7] are denominated in US dollars, which are financed by swapping their domestic currencies (euros, yens, sterling, *etc.*) into dollars in the FX swaps market. The dollar sellers are the banks and the rest of the financial intermediaries, which raise dollars on the global capital markets. The numerous regulatory changes pushed through in the wake of the global financial crisis and the

Exhibit 7

3-month FRA-OIS spreads in EUR and USD and 3-month EUR-USD

bps



Source: Afi, based on Bloomberg figures.

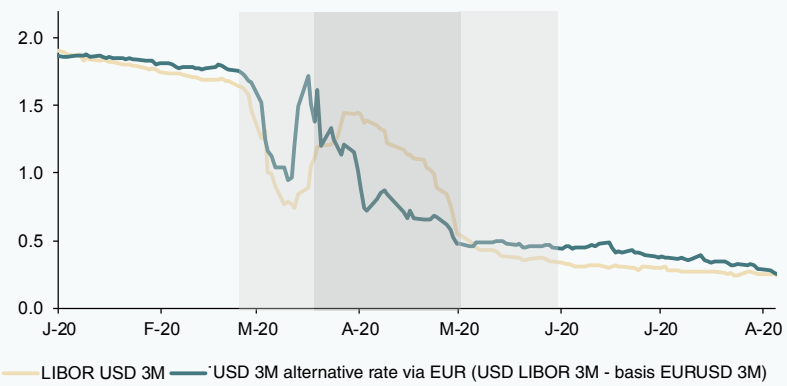
sharp drop in interest rates have reduced the supply of dollars in the system, which has translated into bigger swings in the basis swap during episodes of heightened financial stress.

During March and some of April 2020, the turbulence observed in the financial markets drove a swift and intense reduction in dollar providers' ability to supply the market with

Exhibit 8

3-month USD LIBOR and synthetic 3-month rate for the USD obtained via EUR funding and a USD swap

Percentage



Source: Afi, based on Bloomberg figures.

“ The USD-EUR basis swap traded at significantly positive levels throughout April and May, putting the cost of dollar funding via euros in the FX swap market well below the cost of obtaining it directly in the dollar unsecured money market. ”

liquidity. The run-on liquidity on the banks resulting from the massive drawdown of credit lines by the non-financial corporate sector coincided with the prime [8] money market funds' reduced ability to offer the system dollars due to heavy investor redemptions fuelled by heightened credit risk aversion. The prime money market funds are one of the biggest buyers of the short-term debt securities issued by banks (commercial paper and certificates of deposit).

The reduced market supply of dollars led to a sharp increase in the indicators that reflect the cost of short-term dollar funding in both the money and FX swap markets (the latter used as an alternative by the non-US banks to borrow dollars). The spread between 3-month dollar LIBOR and the OIS shot up to 120 basis points, while the spread between the 3-month dollar FRA and the OIS neared 80 basis points during the second week of March. In the FX swap market, strong demand for dollars drove the USD-EUR basis swap sharply negative (to -80 basis points [9] ; refer to Exhibit 7), indicating that it had become far more expensive to borrow dollars in exchange for euros in the FX swap market than to do so in the spot market for money market instruments.

As part of a coordinated action with other central bank, the Federal Reserve announced on March 15th a series of measures related to its FX swaps lines that paved the way for gradual normalisation of the dollar basis swap against other currencies. In parallel, on March 17th and 18th, the Fed set up the Money Market Mutual Fund Liquidity Facility (MMLF) and the Commercial Paper Financing Facility (CPFF), use of which was fairly limited. The varying rates of success of those actions created an unusual situation in terms of access to dollar funding. Namely, it became cheaper to obtain dollars in the FX swap market than in the dollar money market. That anomaly arose because the difference between rates in the unsecured funding market (LIBOR and FRA) and the risk-free rate (OIS) took longer to narrow than it took access to dollar funding in the FX swap market to normalise. The USD-EUR basis swap traded at significantly positive levels throughout much of April and May, putting the cost of dollar funding via euros in the FX swap market (Exhibit 7) well below the cost of obtaining it directly in the dollar unsecured money market. In other words, it was cheaper to obtain funding in euros in the 3-month euro interbank money and then swap it into dollars by paying the basis swap than it was to obtain funding directly at 3-month USD LIBOR.

The arbitrage opportunity that resulted from that situation [10] exerted upward pressure on the EURIBOR rates (driven by the demand for euros in order to obtain dollar funding synthetically via FX swaps) and downward pressure on the USD LIBOR rates (due to the placement of dollars at slightly lower rates than the latter). Exhibit 8 shows the cost of obtaining 3-month dollar funding in the money market (3-month USD LIBOR) and the end cost of raising the same amount of dollars by first borrowing euros at the 3-month EURIBOR rate and then swapping the balance into dollars. For more information, refer to Eren, Schrimpf and Sushko (2020) and to Avdjiev, Eren and McGuire (2020).

From that juncture on, the above-mentioned arbitrage play, coupled with a gradual reduction in financial stress levels in the global markets, gave way to a third phase of gradual and steady reduction in the EURIBOR rates and convergence towards the risk-free rates (the €STR and EONIA OISs).

> “ The experience since 2007 suggests that during periods of financial stress, the liquidity and depth of the unsecured funding markets drop sharply. ”

Determination of EURIBOR during the episodes of market stress in 2020

The experience since 2007 suggests that during periods of financial stress, the liquidity and depth of the unsecured funding markets drop sharply. Against that backdrop, 2020 provided the acid test for the new EURIBOR calculation methodology. On top of sharp swings in the outlook for risk-free rates and perceived counterparty risk in the bank sector, the markets were highly distorted following the episode of acute dollar funding stress in the US.

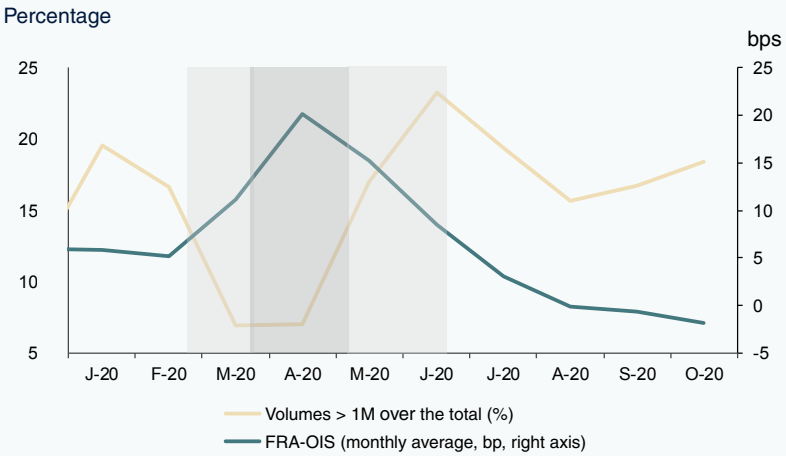
The minutes of the EMMI Steering Committee meeting show that:

- Between the end of February and the middle of March, volatility rose sharply. There were delays in receiving contributions from the EURIBOR panel banks, and the transaction volumes on which the panel contributions are based (Levels 1 and 2.2) fell, particularly for the longer-dated tenors. Additionally, there was a significant increase in Level 3 contributions. Nevertheless, throughout the period the EURIBOR rates traded consistently, falling when the expectation grew that benchmark rates would be reduced, albeit mitigated by an offsetting increase in perceived counterparty bank risk.

- In April, the volume of transactions at the longer tenors plummeted (there was barely any Level 1, 2.2 or 2.3 transaction volume). At the same time, reliance on Level 3 contributions reached a high not registered since the new hybrid methodology was

Exhibit 9

Transaction volumes used to determine EURIBOR (Level 1 & 2.2) and 3-month FRA-OIS

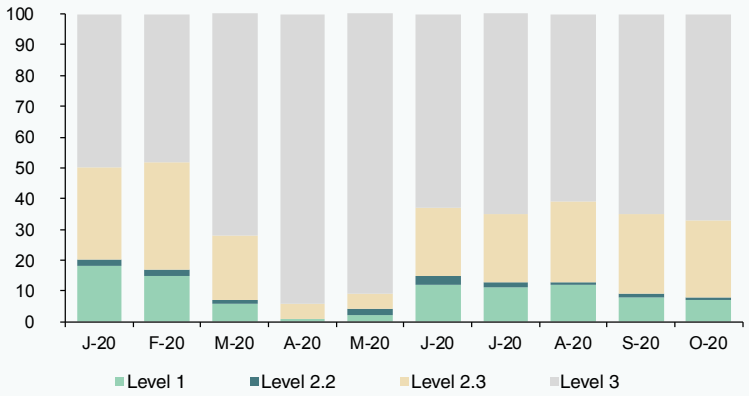


Source: Afi, based on Bloomberg figures.

Exhibit 10

Use of each level within the hybrid methodology for determining 12-month EURIBOR

Percentage



Source: Afi, based on Bloomberg figures.

deployed. That month, EURIBOR rates dated longer than one week sustained sharp increases, which was consistent with the elimination of the expectation of a benchmark rate cut (increase in the €STR OIS rates) and strong demand for funding in euros for swapping into dollars, the effect of which offset the reduction in perceived bank counterparty risk (drop in banks CDSs) by a wide margin.

- Lastly, the June 11th meeting minutes show that from May the EMMI's dependence on Level 3 contribution to determine the EURIBOR rates began to fall, as transaction numbers and volumes in the longer-dated tenors started to recover.

Conclusion

It is fair to say that the EURIBOR has surmounted a very challenging year, helped significantly by the new hybrid calculation methodology. The EURIBOR rates trended in a manner that was consistent with their two key drivers: expectations for benchmark rates and perceived bank credit risk. In addition, they consistently captured the indirect effects of the dislocation sustained in the FX swap market as a result of the surge in global demand for dollar funding in the early stages of the COVID-19 crisis.

Notes

[1] The Intercontinental Exchange (ICE), which administers the LIBOR rates, issued a consultation paper on December 4th, 2020, regarding the potential cessation of the calculation and publication of the euro, sterling, yen and franc LIBOR rates, scheduled for December 31st, 2021, and of the US dollar LIBOR rates between December 31st, 2021 (1-week and 2-month rates), and June 30th, 2023 (overnight and 1-, 3-, 6- and 12-month rates). For more information, https://www.theice.com/iba/libor

[2] The Euro Overnight Index Average – EONIA – is the index representing the average overnight euro rate on interbank funding. It is calculated by the European Central Bank (ECB) on the basis of data provided by a panel of credit institutions. It is the benchmark rate used in numerous derivative products. The calculation and publication of EONIA will be discontinued on January 3rd, 2022.

[3] The euro short-term rate, or €STR, is a reference rate that reflects the intra-day rate of interest on loans between eurozone banks. The

ECB calculates and publishes the €STR, which replaced EONIA in October 2019.

[4] The EMMI used to be called Euribor-EBF. The name change took place for legal purposes on June 20th, 2014, and was framed by the entity's effort to reinforce the perceived transparency and reliability of its benchmark index administration work.

[5] At present, 18 banks comprise the EURIBOR panel.

[6] The "Underlying Interest" for EURIBOR is stated as: "The rate at which wholesale funds in euros could be obtained by credit institutions in the EU and EFTA countries in the unsecured euro money market".

[7] Asset managers, insurers, pension funds, among others. At the end of 2019, the volume of assets under management worldwide amounted to around 89 trillion dollars (according to Boston Consulting Group).

[8] Money market funds, targeted at retail and institutional investors, invest primarily in corporate debt securities. Assets under management in both categories – retail and institutional – suffered outflows equivalent to over 10% of total assets during March 2020.

[9] The basis swaps between dollars and other currencies, particularly those with which the Federal Reserve did not have currency swap lines (nearly all the emerging market currencies) shot to much higher levels.

[10] The minutes of the meeting held by the ECB's Money Market Contact Group (MMCG) on May 4th show the clearcut influence of the arbitrage opportunity in the currency swap market on the trend in EURIBOR.

José Manuel Amor. A.F.I. - Analistas Financieros Internacionales, S.A.

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COVID-19 and its impact on inflation in Spain

Although Spain recorded an inflation rate of -0.3% in 2020, the only clear-cut case of crisis induced deflation was in energy products, with subcategories in the services sector exhibiting both inflationary and disinflationary trends. Over the near-term, it is likely that inflation will bounce back due to rising vaccination rates, the lifting of social distancing measures, and a decrease in the historically high savings rate.

María Jesús Fernández

Abstract: It was thought that, initially, the COVID-19 crisis would have an inflationary impact on the Spanish economy but the subsequent drop in GDP would cause prices to fall. However, in 2020, inflation averaged -0.3% in Spain. And yet, closer analysis shows that the only clear-cut, crisis-induced deflation is in energy products and some of the services most severely impacted by social distancing measures, such as hotels and air travel. In terms of the services sector, only one-fifth of its total subcategories sustained deflation, with negative year-on-year rates between July and November. Importantly, in those cases where price growth slowed but remained positive, the effect has been disinflation rather than deflation. Looking forward, these dynamics may well change. In 2020, energy products detracted one percentage point from the headline inflation rate. In 2021, they could boost it by a little over one percentage point. Furthermore, progress on vaccination rates and an easing of social distancing measures is expected to buoy demand. While the historic

> “Unprocessed foods, whose prices are highly volatile, saw their average annual rate of inflation climb to 3.8%.”

savings rate reached during the crisis implies a significant future upside for consumption, it is difficult to estimate to what extent and at what pace that surplus will translate into spending.

Introduction

The health crisis has sparked an unprecedented economic crisis. Spanish GDP contracted an estimated 11% in 2020, with some sectors affected far more than others. The hardest hit sectors were the hospitality, transport and leisure sectors, followed by retail. Conversely, the contractions in the manufacturing and construction industries were considerably smaller.

There has been debate about the potential impact of the crisis on inflation. It was thought that the pandemic-induced disruption to production chains would initially push prices higher, with the subsequent sharp drop in GDP to below potential output causing prices to fall. Elsewhere, the consequences of the European Central Bank's substantial expansionary monetary policy on inflation are uncertain. The purpose of this paper is to analyse the trends in Spanish inflation in in 2020 across different categories of goods and services in order to paint a picture of the short-term impact of the crisis on prices.

Inflation in 2020

In 2020, inflation averaged -0.3% in Spain. The negative rate was the result of a sharp drop in energy prices, which later recovered somewhat due to the subsequent oil price correction. That commodity, which was trading at over $60 per barrel before the health crisis, fell close to zero on occasion during the month of April on account of the economic fallout from the pandemic. From June, oil prices rebounded to around $40 per barrel, climbing to above $50 per barrel in December, thanks to progress made on a COVID-19 vaccine. The sharp

Table 1

Inflation rates: Headline and by major category

Annual averages, percentage

	2018	2019	2020
1. Overall CPI	1.7	0.7	-0.3
1.2. Core inflation	0.9	0.9	0.7
1.2.1. Processed foods	1.0	0.5	1.3
1.2.2. Manufactured goods	0.0	0.3	0.2
1.2.3. Services	1.5	1.4	0.8
1.3. Unprocessed foods	3.1	1.9	3.8
1.4. Energy products	6.1	-1.2	-9.8

Source: INE.

> “ The rate of service inflation fell from 1.4% in 2019 to 0.8% on average in 2020. ”

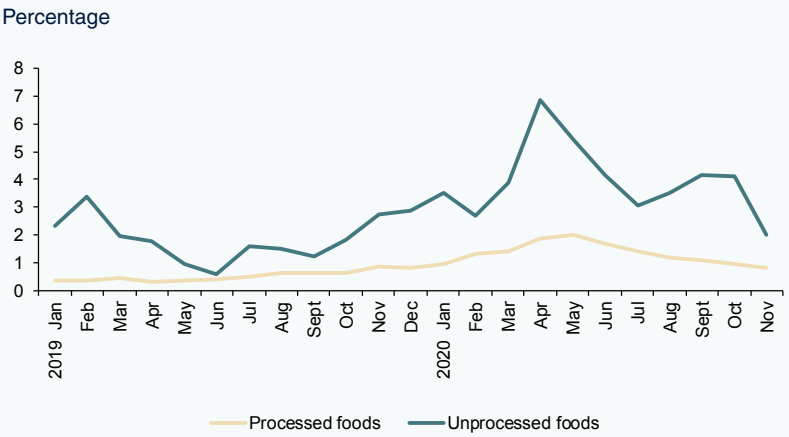
correction in oil prices meant that energy product inflation fell as low as -9.8% –annual average–, detracting one percentage point from the headline rate. These data illustrate the immediate deflationary impact of COVID-19 on energy products.

Unprocessed foods, whose prices are also highly volatile, saw their average annual rate of inflation climb to 3.8%. Core inflation fell to 0.7% on average for the year, shaped by the sharp decline in service price inflation to 0.8% compared to rates of around 1.5% in prior years. That decline was not offset by the higher rate of inflation in processed foods (Table 1).

As for unprocessed foods, the prices of a significant number of products jumped considerably from April. Those products included fresh fruit and, to a lesser degree, grains, fresh vegetables and lamb. Fresh fish, chicken and eggs also became more expensive although the inflationary spike for those products was shorter-lived (Exhibit 1). At the onset of the health crisis, certain agricultural activities' production chains were disrupted as a result of the restrictions brought in to control the pandemic (*e.g.* reduced access to immigrant labour, curtailing supply and fuelling prices). However, many factors shape the trend in these products' prices, which are typically volatile. For this reason, it would require more in-depth and individual analysis to establish the extent to which the health crisis contributed to the inflation sustained in unprocessed foods . That being said, it appears that the initial impact was inflationary.

Within the products that comprise the core inflation index, processed foods also saw an upward movement in prices between April and June, after which prices eased. Note, however, that processed food prices had been rising gradually for several months before the onset of the pandemic (Exhibit 1). That pattern is

Exhibit 1 **Inflation in food**



Source: INE.

> “Prices have continued to rise, but at a slower pace than before the crisis, so that it is more appropriate to talk about disinflation, rather than deflation.”

very widespread if we consider the trend in the various products that comprise this category. As was the case with unprocessed foods, it would require more detailed analysis to distinguish the impact of the crisis from other forces that could have been at play at the time. That being said, the widespread acceleration in inflation rates suggests the existence of an inflationary impact.

In services, the trend was starkly different from that observed in food. As noted above, the rate of service inflation fell from 1.4% in 2019 to 0.8% on average in 2020. The real drop was, however, greater than indicated by the change in the annual average rates. During the months of hard lockdown, many services were unavailable for purchase, resulting in a lack of price data for them. As a result, the National Statistics Office (INE) used estimated prices in order to calculate the headline inflation rate. From June to July, all services began to operate once again and the inflation rate, now based on observed prices, fell sharply with respect to the INE's estimated inflation for the previous months. This indicates that the rates estimated for service prices during the months affected by the business closures may not be representative, so that their inclusion in the average annual rate calculation could overstate the actual rate, obscuring part of the real impact of the crisis on inflation.

We can compare the year-on-year rates of service inflation for the months prior to the lockdown, between September 2019 and February 2020, with the rates observed between July and December 2020. Note that when observed prices are available in the latter period, there is a bigger decline in inflation than calculated by comparing the annual averages: from 1.5% to 0.2%. This phenomenon becomes more evident if we drill down by component. From here on, the comparisons we make will be performed on that basis.

If we analyse all of the sub-categories within the services index, we see that only one-fifth of the total sustained deflation, with negative year-on-year rates between July and November. Additionally, in a couple of instances, service prices were already falling before the crisis. This analysis reveals a decline in inflation rates for the large majority of service sub-segments while remaining in positive territory. Prices have continued to rise, but at a slower pace than before the crisis, so that it is more appropriate to talk about *disinflation*, rather than *deflation*.

Among the categories that experienced clear-cut deflation are hotels and other accommodation services, where inflation went from around 3.4% before the pandemic to an average of -18% from July (Exhibit 2). Hotels were followed by international flights, where prices fell by around 13%. After hotels and international flights, the categories registering the biggest contractions were tolled services, public car parks and metered parking, which are mainly regulated and were already in negative territory before the crisis. Similarly, the crisis has accelerated the decline in prices for mobile telephony services, a trend which predates COVID-19.

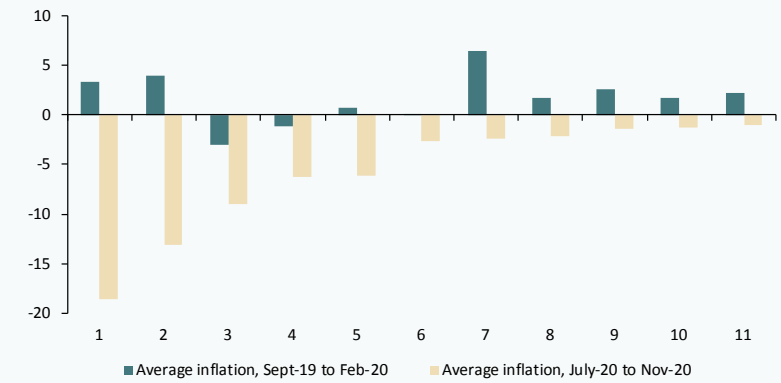
> “In the case of restaurants and cafes, inflation has eased but remained at relatively high levels, of around 1.5%.”

Exhibit 2

Service segments experiencing deflation

Comparison between rates of inflation before and after the crisis

Percentage



1. Hotels, inns, guesthouses and similar accommodation
2. International flights
3. Toll roads, public car parks and metered parking
4. Mobile telephony services
5. International tour packages
6. Cinemas, theatres, concert halls
7. National flights
8. Museums, libraries, zoos
9. National tour packages
10. Motor vehicle insurance
11. Bundled telephony services

Source: INE.

After those services, the next hardest-hit categories were international tour packages, cinemas and theatres, national flights, museums, libraries and zoos and national tour packages. The other categories where prices contracted were car insurance and bundled telephony services. Most of these service categories are within the sectors hit hardest by the crisis as a result of mandatory closures and restrictions on mobility imposed to control transmission. These include hotels, air travel, tour packages and cultural and artistic activities.

However, other service sectors affected badly by the crisis did not see their prices fall. In fact, some service sectors saw an increase in inflation. Exhibit 3 compares the rates of inflation before and after the onset of the crisis for several of the service sub-segments hit hardest by the crisis, including lodgings other than hotels, passenger transport by bus, train, taxi and sea, certain personal services such as hairdressing, sports and leisure services and, lastly, one of the biggest victims of the pandemic, restaurants and cafes. In nearly all of the above categories, the rates of inflation actually increased during the crisis. In the case of restaurants and cafes, inflation has eased but remained at relatively high levels, of around 1.5%.

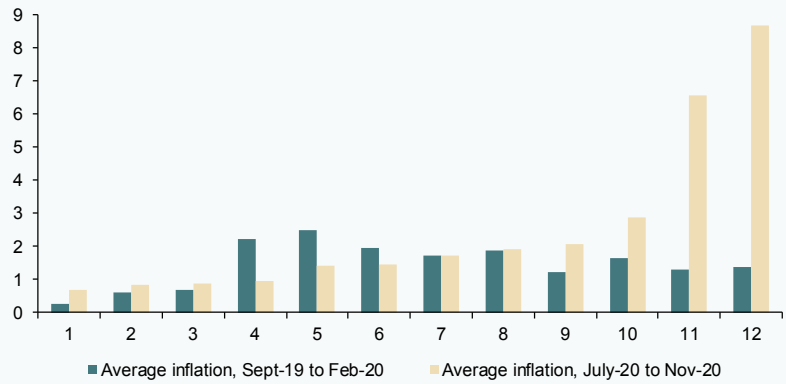
Lastly, with respect to prices for non-energy manufactured goods, inflation has eased in

> “In clothing and footwear, inflation after the onset of the crisis has trended very much in line with pre-crisis levels, at around 1%.”

Exhibit 3

Service segments affected badly by the crisis in which prices rose

Comparison between rates of inflation before and after the crisis



1. Leisure and sports services: Participants
2. Passenger transportation: Bus and coach
3. Passenger transportation: Rail
4. Passenger transportation: Taxi and rental car
5. Lodging services in other establishments
6. Restaurants, cafes and dance halls
7. Holiday centres, camp sites, hostels
8. Fast-food and takeaway food services
9. Men's and children's hair salons
10. Women's hair salons
11. Leisure and sports services: Spectators
12. Passenger transportation: Sea

Source: INE.

recent months from already very subdued levels. The trend by sub-category has been highly uneven, although it is worth singling out the considerable slump in second-hand car prices. In clothing and footwear, where sales have been affected significantly by the crisis, inflation after the onset of the crisis has trended very much in line with pre-crisis levels, at around 1%.

In short, a clear-cut, crisis-induced deflationary impact is only apparent in energy products and some of the services affected most severely by the restrictions. In most services, including some hit very badly, the impact has not been deflationary but rather *disinflationary*, *i.e.*, the crisis has generally brought about a slowdown in price growth rather than a drop in prices. In food, on the other hand, the impact has been inflationary. It is therefore inaccurate to describe the impact of the crisis as deflationary. Rather, the impact has been starkly different depending on the category of goods or services in question, the net impact being a drop in the rate of core inflation.

Outlook for the months ahead

As the rollout of vaccination gains pace and the restrictions on business activities

> "In the first three quarters of the year, the savings generated by households more than tripled that achieved in the same period of the previous year."

and mobility are lifted permanently, the first effect will be felt in energy prices, which are bound to trend in the other direction this time. In fact, oil prices began to trend higher last November, fuelled by the positive expectations of a COVID-19 vaccine. In 2020, energy products detracted one percentage point from the headline rate of inflation. In 2021, they may well boost it by a little over one percentage point.

The trend in service prices will be determined by the scale of the recovery in demand and supply. In the second half of the year, assuming sufficient progress on vaccination rates in Spain and Europe in general, demand is expected to recover strongly, buoyed by year-on-year growth in international tourism (although it will be a long time before pre-crisis levels are revisited). As for national demand, there is scope for a significant rebound, even in the short-term. Despite the severe social impact of the pandemic, the household savings rate shot up to unprecedented levels in 2020, thanks largely to the measures rolled out to shore up income (furlough scheme, benefits for self-employed professionals). In the second quarter of last year, that rate stood at 24.4% of disposable household income and in the third quarter, 15.1% – the previous historical maximum was 12.1%. In the first three quarters of the year, the savings generated by households more than tripled that achieved in the same period of the previous year. That unprecedented growth stems partly from 'forced' savings derived from the closure or opening restrictions of many businesses during lockdown and subsequent months, which significantly decreased spending opportunities, as well as from precautionary savings triggered by the uncertainty surrounding the economic downturn.

That increase in savings, which has mainly taken the form of higher cash and deposit holdings, means that Spain's households are sitting on surplus liquidity, above desired levels, implying a significant future upside for consumption. However, it is hard to estimate to what extent and at what pace that surplus will translate into spending, as it is probable that households will hold on to their precautionary savings for some time.

As for the recovery in supply, in those sectors affected most by the crisis, including those in which prices have not fallen, capital destruction has been significant. Many businesses have disappeared or will do so in the coming months and, by the time the crisis ends, those that have survived will be more indebted and their funds depleted, having had to cover fixed costs from zero or insufficient income for many months. In sum, the productive fabric has suffered business losses and decapitalisation, a phenomenon that could considerably slow the supply-side recovery in those sectors. Observers should therefore keep an eye out for significant hysteresis effects that could undermine potential output. It may well be that the recovery in demand will be stronger than that in supply in the near-term.

In the case of the service categories that have sustained deflation, such as hotels and air travel, which are heavily exposed to international tourist demand, it is foreseeable that their prices will rise once the restrictions are removed, albeit possibly falling short of pre-crisis levels due to the limited recovery in tourist arrivals. In other hard-hit services, in which the rate of inflation remained positive, it is possible that price growth will accelerate, driven by national demand, particularly in the regions less dependent on international tourism. It is likely that during the second half of the year, the volume of surplus productive capacity will not be as high as that indicated by the drop in GDP with respect to pre-crisis

> "Over the medium-term it is conceivable that when the velocity of money recovers, the increase in the money supply will put upward pressure on inflation."

levels due to the reduction in potential output and the recovery in demand. Elsewhere, given the serious financial damage sustained by the firms in those sectors, it is highly probable that businesses will take advantage of the potential surplus of demand over diminished supply to restore their financial health by boosting margins.

As for the possible inflationary impact of the increase in the money supply derived from the ECB's ultra-expansionary monetary policy, the likely chain of events is largely interrelated with the potential recovery in demand. This will originate largely from the economic policy measures introduced to support income, which have been financed by the ECB through the buyback of bonds issued by the state. Over the medium-term, it is conceivable that when the velocity of money recovers, the increase in the money supply will put upward pressure on inflation. Although there is still considerable uncertainty regarding the scale of that impact, it is not expected to seriously jeopardise the target rate of 2%.

In short, the normalisation, albeit incomplete, of prices in the areas of activity whose prices corrected during the crisis, coupled with a potentially stronger recovery in demand relative to supply in certain sectors and regions, could fuel growth in the core component of the consumer price index during the second half of the year, boosting the inflationary impact already observed in energy product prices. Thus, Funcas' forecasts for the average annual inflation rate for 2021 have been revised upwards. Assuming that the price of oil, which rose to $ 55 per barrel in the first weeks of January – a rise only partially offset by the appreciation of the euro – continues to rise to about $ 60 per barrel at the end of the year, the forecast for the average annual inflation rate is 1.2%, and the forecast for the December annual rate is 2%.

Conclusions

Strictly speaking, the COVID-19 crisis has not had a widespread deflationary impact. Other than energy products, only a handful of goods and services saw their prices actually contract. Disinflation, implying a reduction in the positive rate of inflation, was the more common phenomenon. Among the services affected most significantly by the crisis, some prices fell sharply (hotels and air travel), while price growth for others merely slowed (restaurants and other transportation). In some cases, there was even an acceleration of inflation. The crisis appears to have had an inflationary impact on food prices at the start of the crisis.

Looking to the near future, once the restrictions on mobility and business activities are definitively removed, inflation will foreseeably trend higher, particularly in the segments hit hardest by the crisis, which are poised to take advantage of a stronger recovery in demand relative to supply to restore their financial health by boosting their margins.

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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 on digital transformation of the financial system (Law 7/2020, published in the *Official State Journal* on November 14th, 2020)

This law regulates the controlled testing environments better known as regulatory sandboxes that are designed to facilitate the development and implementation of innovative technology in the financial system, providing full legal and supervisory coverage and respecting the principle of non-discrimination. The law took effect the day after its publication.

The measures included in this new piece of legislation are designed to achieve two key objectives: (i) guarantee that the financial authorities have the right instruments for continuing to perform their duties in the new digital context; and, (ii) facilitate innovation through the provision of access to funding and talent in a highly-competitive, international technology environment.

In broad terms, the legislation stipulates the following:

I. Controlled testing environment, better known as regulatory sandboxes

Regarding the details about the how the sandboxes will work, the legislation provides the following:

- Access to a sandbox or the performance of tests as part of a pilot project shall not imply the granting of permission to carry on a restricted activity or provide services on an indefinite basis.

  If entities that are already authorised to engage in a given activity participate in a pilot test, they shall only obtain regulatory relief with respect to the activities that fall within the scope of the pilot project.

- Access to sandboxing shall be provided for initiatives sponsored by any natural or legal person that, individually or together with other persons, applies to sandbox a pilot project and can demonstrate a technology-based source of innovation applicable to the financial system and a sufficient level of project maturity or test readiness.

  In addition, the innovative projects must add potential utility or value added to existing use cases in at least one of the following ways: They must: (i) facilitate regulatory compliance; (ii) imply an ultimate benefit for financial service users; (iii) increase financial institution or market efficiency; and/or, (iv) provide mechanisms that improve financial regulation or supervision.

- Applications must be presented electronically before the General Secretariat of the Treasury and International Finance which will pass them along to the competent supervisory authorities. Those authorities will then evaluate the applications on the basis of a substantiated report and will send the General Secretariat the list of projects that are deemed to add value to existing use cases and meet the rest of the requirements. The General Secretariat will then publish (electronically) the list of projects that have been approved, indicating the supervisory authority or authorities that will be responsible for monitoring each.

- The parties (the sponsor and the overseeing authority/authorities) will then have three months from publication of the favourable

assessment to agree a test protocol. That protocol must set down the rules, terms and conditions that will govern the pilot project to be sandboxed.

Once that protocol has been approved, the sponsor must obtain informed consent from the participants (users) and set up the corresponding guarantee and indemnity scheme.

As for that guarantee regime, user protection and test oversight, the legislation broadly contemplates the following:

- The participants in any test must accept the terms of participation in writing and they shall be entitled to terminate their participation at any time.
- The sponsor shall be responsible for any damages incurred by the participants.
- The pilot project and any tests may be suspended or deemed terminated for due cause by the competent authority. By the same token, the sponsors can suspend or declare the pilot project terminated.

With respect to the process for exiting the sandbox, the legislation contemplates the assessment of the results obtained by the sponsor and the existence of an authorisation gateway.

II. Other measures for facilitating digital transformation in the financial arena

The new legislation stipulates the following additional measures regarding sandboxes: (i) application of the principal of proportionality; (ii) the establishment of specific direct communication channels for engaging with the supervisory authorities; and, (iii) a procedure for submitting written enquiries to the supervisory authorities with respect to the regime, the classification or application of financial sector regulations.

III. Other aspects

In order to analyse and foster the regulatory sandbox facility and the other measures contemplated, a Coordination Committee shall be set up within three months of the enactment of Law 7/2020. That committee shall be presided by the General Secretariat of the Treasury and International Finance and made up of representatives from the supervisory authorities and, at the proposal of the Secretariat, representatives from other sector institutions.

- The legislation contemplates mechanisms for international cooperation between the various public authorities so as to layer the global dimension into the mechanisms contemplated.
- Lastly, the legislation stipulates the preparation of an annual report on digital transformation in the financial sector; moreover, the supervisory authorities must include a section in their annual reports addressing the use of technology-based innovation in their supervisory duties.

CNMV Circular on investment product and service advertising (Circular 2/2020, published in the *Official State Journal* on November 13th, 2020)

Circular 2/2020 implements the scope of application, content and formats applicable to advertising messages and sets rules for the internal procedures and controls institutions must implement as well as their advertisement record-keeping obligations. This Circular includes several key parts:

- It defines a number of concepts, including "advertisement" and "marketing message", for example. It is worth noting the definition of "advertising activity" as any activity undertaken by the entities bound by the Circular, irrespective of the means used to carry out such advertising activity.
- It limits the scope of application to the advertising activities targeted at investors or potential investors resident in Spain that offer or call attention to any financial product, service or activity subject to CNMV supervision, as well as structured deposits.

- Included in the scope of application are investment firms, credit institutions, UCITS management companies and crowd-funding platforms.

- It stipulates that certain information provided to investors in connection with the purchase of products or services prior to such purchase or to perform a transaction involving such products and the documentation/information regarding alternative investment funds provided to analysts or investors does not constitute advertising activity and is therefore excluded from the scope of application of the Circular.

- It bans targeting any advertising activity at retail investors or the general public with respect to any product or service whose sale or provision to retail customers is prohibited.

- The information contained in marketing messages must be consistent with that contained in informational content.

- Marketing campaigns and advertisements by bound entities must comply with the eligibility terms stipulated in complementary regulations.

- It requires the bound entities to formulate a marketing policy.

- Any information or message embedded in any medium shall be deemed to be advertising in nature to the extent it refers to the products and services of a given entity and the latter pays or provides remuneration of any kind for its broadcast.

- The bound entities are required to keep a duly updated internal record of their advertising activities. Smaller entities with limited advertising activities can comply with the advertising control obligations by setting up simplified marketing policies and record-keeping systems.

- The entities are allowed to join voluntary advertising self-regulation programmes.

- Lastly, the Circular contemplates the discontinuation or rectification of advertising that fails to comply with the contents of this Circular, notwithstanding application of any applicable disciplinary proceedings.

Royal Decree-law on urgent measures to support company solvency and the energy sector and addressing tax matters (Spanish Royal Decree-law 34/2020, published in Spain's *Official State Journal* on November 18th, 2020)

Below is a summary of the main measures taken in the financial arena.

With regard to the financing provided to self-employed professionals and companies that have been provided a state-backed guarantee (channelled via Spain's official credit institute, the ICO), this piece of legislation stipulates the following:

- The date of maturity for the guarantees awarded under the scope of Royal Decree-law 8/2020 is to be extended by a maximum of three years, so long as the following requirements are met:

  - The secured financing transaction is not in arrears.

  - The borrower is not on record in the Bank of Spain's risk information warehouse (known as CIRBE) as non-performing as of the date of agreeing any such extension.

  - The financier has not informed the entity that provided the guarantee of any payment breach on the part of the borrower with respect to the secured transaction as of the date of agreeing the extension.

  - The borrower is not party to bankruptcy proceedings.

  - The borrower applies to have the guarantee extended by May 15th, 2021 at the latest.

- In addition, at the request of the borrower, the credit institutions, specialised lending institutions, electronic money institutions and payment institutions must extend the principal repayment grace period with respect to the secured transactions. The principal corresponding to the grace period extended may be, subject to agreement between the parties: (i) accumulated until the last loan instalment; (ii) distributed over the remaining instalments on a *pro rata* basis; or, (iii) repaid via a combination of the two methods. If an agreement cannot be reached, the *pro rata* method shall be applied.

- The financial institutions cannot change the limits on the working capital facilities awarded to all borrowers that meet the above prerequisites before June 30th, 2021.

- The financial institutions must comply with the following requirements:

  - Apply best banking uses and practices to the benefit of their customers.

  - The costs of the loans benefitting from any such extension must remain in line with the costs charged prior to the extension, the only increase allowed being an increase that reflects the higher cost of the guarantee.

  - Their accounting and risk management systems must reflect the modification of the terms of such transactions, including any new terms and conditions, in order to facilitate their traceability. They must later add that information to the statements provided to the risk information warehouse, following the Bank of Spain's instructions.

- If the guarantee extension is set down in a public deed, the financial institution in question must place the deed on public record or have the agreement notarised. Any solicitor and property registration fees, to the extent secured by a mortgage, shall by subsidised by up to 50%, subject to limits for each concept. Guarantee extensions raised to public deed shall also be exempt from stamp duty.

- The financial institutions have no more than 30 calendar days to rule on a borrower application and, should the application be approved, to notify the ICO of the request to modify the terms of the guarantee.

Royal Decree-law 34/2020 also stipulates the following exemptions for private legal persons for 2021:

- When calling their annual general meetings, the boards of directors of joint-stock companies may contemplate remote attendance voting.

- The general meetings of limited liability companies and partnerships limited by shares, the general assemblies or partner meetings of other private legal persons and trust board meetings can be held by video or multi-caller conference call.

The new legislation has the effect of amending the following pieces of legislation, among others:

- Royal Legislative Decree 4/2015 enacting the recast text of the Securities Markets Act. For the purpose of applying for admission to trading on a regulated exchange, the limit on the capitalisation of shares traded exclusively on a multilateral trading platform has been increased to one billion euros (from 500 million euros).

- Royal Decree-law 8/2020 on extraordinary urgent measures for mitigating the economic and social impacts of COVID-19. The deadline for the grant of guarantees by the Ministry of Economic Affairs and Digital Transformation has been extended until June 30th, 2021.

- Royal Decree-law 25/2020 on urgent measures for supporting economic recovery and job creation. The wording has been amended to allow the possibility of additionally extending the guarantees awarded by the Ministry of Economic Affairs

and Digital Transformation to commercial paper listed on Spain's alternative fixed-income market (MARF), also extending the deadline for the award of such guarantees until June 30th, 2021.

Bank of Spain Circular on public and confidential financial reporting requirements and financial statement templates (Circular 5/2020, published in Spain's *Official State Journal* on December 4th, 2020)

Circular 5/2020 establishes the accounting regime applicable to payment and electronic money institutions, determining the accounting documents, including the public and reserved financial statement templates, such entities and their groups must draw up. It also implements the Code of Commerce in respect of payment and electronic money institutions. It is worth highlighting the following aspects:

- Firstly, its scope of application is limited to payment institutions, electronic money institutions, account information service institutions, branches in Spain of payment and electronic money institutions whose head office is located in a Member State, branches in Spain of electronic money institutions whose head offices are not located in a Member State and groups of payment or electronic money institutions.

- It clarifies whether the public and confidential financial statements must be drawn up in keeping with the contents of the new Circular or directly under IFRS-EU.

- It determines the documents that have to be published, along with certain general requirements regarding the content of the institutions' separate and consolidated annual financial statements.

- It stipulates specific disclosure requirements for inclusion in the institutions' annual financial statement notes.

- It sets out the specifics for their confidential statements in terms of templates, breakdown, frequency and submission timing.

- It rounds out the accounting regime for hybrid specialised lending institutions contemplated in Circular 4/2019.

- It allows entities to apply the new accounting criteria on January 1st, 2021 either retrospectively or applying a regime with a number of simplifications.

- The institutions are required to measure their financial instruments, accounting hedges, property and equipment, inventories, non-current assets held for sale and their fee, commission and other income in keeping with the transitional regime provided for in Circular 4/2017.

- It amends Circular 6/2001 on owners of currency exchange establishments such that those owners must now submit the confidential financial statement template for the sale-purchase of foreign currency introduced by this new Circular for payment and electronic money institutions instead of the equivalent confidential financial statement they had been submitting to the Bank of Spain up until now.

- It amends Circular 4/2017 to keep it aligned with the European accounting framework and European Central Bank guidance for credit institutions with respect to non-performing loans. Those modifications include the express regulation of the accounting treatment of dividend distributions that take the form of assets other than cash (in-kind dividends). In addition a change has been introduced in the frequency with which the credit institutions have to switch the company tasked with updating the appraisal of the real estate assets securing non-performing loans and of those foreclosed or received in lieu of payment.

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Spanish economic forecasts panel: January 2021*

Funcas Economic Trends and Statistics Department

GDP contraction estimated at 11.2% in 2020

The consensus forecast is for a GDP contraction of 11.2% in 2020 – 0.6pp smaller than what was forecast in November – driven by the upward revision to the estimated fourth-quarter contraction to 0.8% (Table 2), compared to the 3% fall estimated at the time of the last survey.

National demand is estimated to have accounted for 9.9 percentage points of the GDP contraction (0.7pp better than was forecast in November), with 15 of the analysts revising their estimates upwards in that respect. The consensus is that foreign demand detracted 1.3 percentage points, rather than the 1.2 percentage points forecast in the last survey. The forecasts for growth in exports and imports have been revised upwards.

The growth forecast for 2021 stands at 6.3%, down 0.2pp from the last report

The consensus forecast is for GDP growth of 6.3% in 2021, down 0.2pp since the last report. As for the quarterly profile, the outlook for the first quarter has been trimmed since November, with growth expected to rise to between 2% and 3% in the following quarters (Table 2).

To arrive at their forecasts, most of the analysts assume that between 30% and 45% of the population will have been inoculated by June and between 70% and 80% by December.

Growth in 2021 is expected to be driven most significantly by domestic demand, which is forecast to contribute 5.9 percentage points, down 0.3pp from November. All components of national demand other than public consumption are expected to register growth even though the forecast for growth in household consumption has been trimmed by 0.5 percentage points. Foreign trade is expected to contribute 0.4 percentage points to growth, up 0.1 percentage point from the last set of forecasts.

CPI forecast for 2021 trimmed slightly

As foreshadowed in November, in December 2020 the year-on-year rate of inflation stood at -0.5%, putting the annual average at -0.3%, compared to 0.7% in 2018. The drop in inflation was mainly attributable to the sharp correction in oil prices and slower price growth in other areas, most notably services, the sector hardest hit by the pandemic.

The consensus forecast is for average inflation of 0.8% in 2021, down 0.1pp since the last report, with the year-on-year rate reaching 1.4% in December (Table 3). The consensus forecast for core inflation has been cut by 0.1 percentage point to an average rate of 0.7%, compared to 0.8% in 2020.

Unemployment estimated at 17.2% in 2021

According to the Social Security contributor numbers, job creation slowed in the fourth quarter compared with the third quarter. The number of employees under the furlough scheme increased in November and December relative to prior months, as did the number of self-employed professionals receiving the extraordinary income support scheme. In 2020, the number of contributors declined by 396,000, or 2.1%.

The consensus estimate for employment, in terms of full-time equivalents, is for a contraction of 7.2% in 2020 (unchanged from November) and a recovery of 3.2% in 2021 (up 0.1pp from the last set of forecasts). The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC). Productivity is expected to have fallen by 4% in 2020 but is projected to rise 3.1% in 2021. ULCs, meanwhile, are expected to increase by 5.4% in 2020 and fall back by 2.1% in 2021.

The average annual unemployment rate is estimated at 16.1% for 2020, rising to 17.2% in 2021, down 0.8 and 0.3 percentage points, respectively, from the analysts' November estimates.

External surplus expected to widen in 2021

The current account surplus stood at 3.97 billion euros to October, compared to 21.05 billion euros in the same period of 2019. That significant reduction is due to a 56% decline in the trade balance, driven mainly by the sharp drop in tourism receipts, which more than offset the improvement in the income deficit.

The consensus forecast is for a surplus equivalent to 0.7% of GDP in 2020 (up 0.1pp from November), widening to 1.2% in 2021 (unchanged).

Surge in public deficit

In the first 10 months of the year, the deficit at all levels of government except for the local corporations stood at 78.9 billion euros, compared to 16.8 billion euros at the same juncture of 2019. The deterioration is the result of a 21.7 billion euro drop in revenue coupled with growth of 40.4 billion euros in spending, of which around 33 billion euros is related to the pandemic. Spain's public debt increased by 111 billion euros between the onset of the pandemic and November 2020.

The analysts are currently estimating a public deficit in Spain of 12.1% of GDP in 2020, which is 0.3 percentage points less than they were forecasting in November. The deficit forecast for 2021 stands at 8.4%, up 0.1 percentage points.

External environment expected to improve in the coming months

The economic indicators point to weak activity levels across the EU as a result of the business restrictions imposed in recent weeks. The December eurozone PMI remains in recessionary territory, evidencing the difficulties facing the services sector. The manufacturing index is still above the 50 mark, signalling expansion, albeit not enough to offset the weakness in services.

The US economy appears to be withstanding the latest wave relatively better, while in China the recovery is gaining traction. According to an initial estimate, China's GDP registered growth of 2.3% in 2020, making it the only major economy to have grown last year, albeit at one of the weakest rates in recent decades. Lastly, many emerging economies are facing significant turbulence due to a collapse in capital flows coupled with scant margin for fiscal manoeuvre. The IMF has signalled Latin America as one of the hardest-hit regions.

In short, the external environment remains largely unfavourable, as is reflected in the analysts' assessments. However, prospects are expected to improve as inoculation levels rise. The analysts expect things to turn around in the coming months, both within the EU and beyond. Overall, their assessment has not change significantly since November in this respect.

Rates trend lower, helped by the ECB

During its last meeting of the year, the ECB decided to extend its pandemic asset purchase plan (PEPP). Its net securities purchases will now run until March 2022 and the ECB expects to reinvest proceeds from maturing assets until at least the end of this year. Against that expansionary backdrop, interest rates have continued to trend lower, from already ultra-low levels. 12-month EURIBOR is trading below -0.5%, having traded above that threshold last November. The yield on 10-year government bonds has dipped on occasion into negative territory for the first time in the history of the Spanish Treasury. The spread over the German bond is around 65 basis points.

Given the outlook for economic recovery, the analysts think interest rates will move somewhat higher in the coming quarters, albeit remaining at low levels.

Euro appreciation

The euro's appreciation against the dollar is one of the most noteworthy developments since November. Specifically, the euro is trading at 1.20/dollar, which is 3% stronger than at the time of the last report. The analysts believe the exchange rate will remain close to current levels throughout 2021.

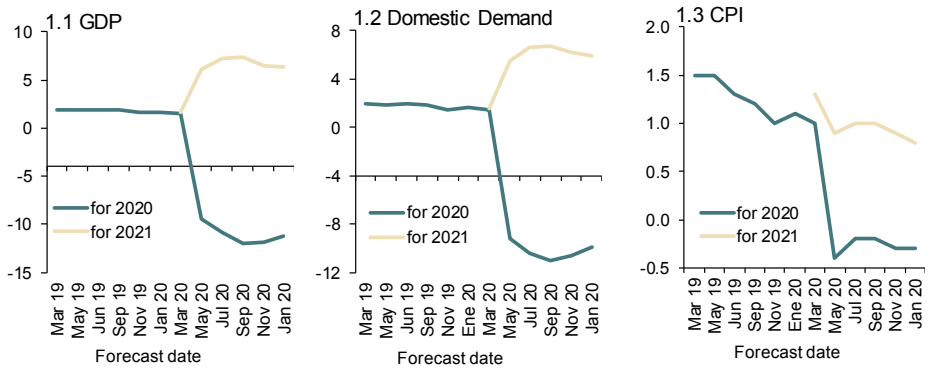
Fiscal policy needs to prop up the economy

The analysts unanimously consider that monetary and fiscal policies are expansionary and all of them believe they should remain so for the coming months. No major change in the ECB's benchmark rates are expected over the projection horizon.

Exhibit 1

Change in forecasts (Consensus values)

Annual rates in %



Source: Funcas Panel of Forecasts.

** The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 20 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the months 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 20 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: January 2021*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – January 2021

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[3]	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Analistas Financieros Internacionales (AFI)	-11.7	6.4	-13.4	6.7	3.6	4.0	-12.7	6.9	-17.6	10.5	-14.4	5.4	-9.6	5.8
Axesor	-11.0	5.6	-13.3	7.0	3.7	3.9	-14.5	6.0	-16.6	12.5	-17.5	5.1	--	--
BBVA Research	-11.0	5.5	-13.2	6.6	3.8	3.5	-12.0	7.9	-13.6	9.7	-14.7	7.0	-9.3	5.6
Bankia	-11.2	6.0	-13.2	6.3	3.7	2.3	-12.1	8.4	-13.7	12.1	-15.0	7.9	-9.3	5.5
CaixaBank Research	-11.4	6.0	-13.6	6.6	3.6	3.3	-12.4	8.6	-13.8	16.1	-15.1	5.5	-9.9	6.6
Cámara de Comercio de España	-10.9	6.2	-12.5	6.3	3.7	2.6	-12.3	5.0	-14.4	12.3	-15.1	3.0	-10.6	5.7
Cemex	-11.3	5.5	-13.5	5.0	3.8	2.3	-11.8	6.7	-15.6	9.1	-13.0	6.0	-9.4	4.6
Centro de Estudios Economía de Madrid (CEEM-URJC)	-11.3	7.5	-13.5	8.7	4.8	-1.1	-14.4	9.6	-17.0	16.3	-17.2	8.0	-9.9	6.4
Centro de Predicción Económica (CEPREDE-UAM)	-10.8	8.7	-12.5	9.9	3.5	1.6	-12.6	12.4	-15.4	16.1	-14.7	13.1	-9.1	8.4
CEOE	-11.5	7.0	-13.4	7.0	4.3	1.0	-18.8	12.6	-22.3	18.5	-21.4	12.5	-10.2	6.8
Equipo Económico (Ee)	-11.8	6.8	-14.1	7.9	4.5	-0.5	-20.6	7.5	-21.5	6.9	-23.7	8.1	-11.6	5.7
Funcas	-11.5	6.7	-13.6	7.4	3.9	1.7	-12.8	7.9	-10.2	8.8	-15.4	7.8	-9.8	6.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	-11.6	6.0	-14.2	7.4	3.5	3.1	-14.0	6.4	-17.0	7.6	-15.0	5.7	-10.5	6.2
Instituto de Estudios Económicos (IEE)	-11.3	6.0	-13.8	5.5	4.1	0.6	-16.0	10.7	-18.1	13.8	-17.5	9.3	-10.2	5.3
Intermoney	-11.1	6.1	-13.5	6.7	3.5	2.4	-12.5	7.8	-13.5	10.7	-15.0	6.8	-9.7	6.0
Mapfre Economics	-11.3	6.1	-13.4	5.8	3.7	3.0	-13.9	7.8	--	--	--	--	-9.9	4.9
Repsol	-11.0	6.2	-12.9	6.2	3.7	3.2	-11.5	11.0	-12.3	16.9	-14.2	10.8	-9.1	6.2
Santander	-10.8	6.4	-13.0	6.8	3.7	3.7	-11.5	8.1	-12.8	13.8	-14.2	6.1	-9.4	6.3
YGroup Companies	-11.2	5.0	-13.3	4.5	3.5	2.0	-14.7	5.3	-15.0	6.0	-17.0	6.0	-10.2	4.1
Universidad Loyola Andalucía	-11.0	6.0	-13.1	7.1	3.6	1.0	-11.8	6.2	-14.7	7.9	-14.2	6.1	-9.5	5.5
CONSENSUS (AVERAGE)	-11.2	6.3	-13.4	6.8	3.8	2.2	-13.6	8.1	-15.5	11.9	-16.0	7.4	-9.9	5.9
Maximum	-10.8	8.7	-12.5	9.9	4.8	4.0	-11.5	12.6	-10.2	18.5	-13.0	13.1	-9.1	8.4
Minimum	-11.8	5.0	-14.2	4.5	3.5	-1.1	-20.6	5.0	-22.3	6.0	-23.7	3.0	-11.6	4.1
Change on 2 months earlier[1]	0.6	-0.2	0.5	-0.5	0.1	0.0	2.5	0.0	3.6	0.9	2.0	-0.3	0.7	-0.3
- Rise[2]	15	2	11	2	11	9	15	6	14	7	12	4	15	4
- Drop[2]	0	7	2	7	3	2	0	7	0	4	1	8	0	8
Change on 6 months earlier[1]	-0.4	-0.9	-1.1	-1.1	-1.4	0.7	6.8	-1.4	11.1	-1.6	4.1	-1.1	0.2	-0.5
Memorandum items:														
Government (October 2020)[4]	-11.2	7.2 / 9.8	-12.6	8.3 /10.7	6.3	0.5 / 2.6	-17.5	6.9 /14.2	--	--	--	--	-9.7	6.1 /9.3
Bank of Spain (September 2020)	-10.7/-11.6	8.6 / 4.2	-12.3/-13.7	10.3 / 3.8	4.6 / 4.8	0.6 / 1.4	-14.8/-14.9	10.4 / 8.5	--	--	--	--	-9.2/-10.1	8.0 / 4.1
EC (November 2020)	-12.4	5.4	-14.6	4.5	6.0	2.1	-17.3	3.8	-23.4	5.8	--	--	-10.7	3.7
IMF (October 2020)	-11.1[5]	5.9[5]	-14.8	9.1	3.7	0.2	-16.2	10.3	--	--	--	--	-11.1	7.2
OECD (June 2020)	-11.6	5.0	-14.2	5.8	5.9	2.3	-15.2	4.1	--	--	--	--	--	--

[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] *Contribution to GDP growth, in percentage points.*

[4] *Forecasts for a baseline scenario as well as a scenario that includes investment funded by the EU recovery plan.*

[5] *Forecasts from January 2021.*

Table 1 (Continued)

Economic Forecasts for Spain – January 2021

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.)		Wage earnings[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[6]	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Analistas Financieros Internacionales (AFI)	-21.5	16.5	-17.0	15.6	-0.3	0.7	0.8	0.7	--	--	-8.3	6.7	15.7	16.7	0.7	1.4	-12.3	-8.2
Axesor	-21.3	11.4	-16.5	14.7	-0.3	0.6	--	--	--	--	--	--	16.6	17.0	0.5	0.9	-12.0	-7.0
BBVA Research	-19.9	10.9	-16.3	11.8	-0.3	0.7	--	--	0.2	0.7	-7.2	4.7	15.8	17.0	0.8	1.1	-11.5	-8.9
Bankia	-21.7	10.8	-18.0	9.9	-0.3	1.0	--	--	1.4	0.7	-7.8	3.8	15.6	16.0	1.0	1.8	--	--
CaixaBank Research	-21.1	8.3	-17.3	9.0	-0.4	1.0	0.7	0.6	1.4	0.7	-7.3	0.0	16.0	17.9	1.1	1.6	-12.4	-9.2
Cámara de Comercio de España	-18.6	13.3	-16.1	13.0	-0.3	0.4	0.8	0.6	--	--	-9.2	2.1	17.0	17.3	0.3	0.3	-12.8	-7.0
Cemex	-21.1	16.0	-17.2	13.6	-0.3	0.8	0.7	0.8	--	--	-7.7	1.8	--	--	0.3	1.0	-13.0	-9.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	-22.2	14.5	-19.6	11.6	-0.3	0.6	0.7	0.8	--	--	-7.1	2.6	15.9	17.8	0.7	1.4	-11.0	-8.1
Centro de Predicción Económica (CEPREDE-UAM)	-19.5	16.6	-16.2	17.0	-0.3	0.6	--	--	1.6	1.5	-7.5	4.8	15.7	16.0	0.2	0.0	-10.4	-5.9
CEOE	-24.7	7.5	-22.2	7.0	-0.3	1.0	0.8	0.8	1.6	0.5	-7.6	3.6	15.8	18.2	0.5	1.0	-11.5	-9.0
Equipo Económico (Ee)	-21.5	15.4	-22.4	13.2	-0.3	0.8	0.7	0.7	1.4	0.7	-6.5	2.9	16.9	17.2	0.7	0.9	-12.8	-8.8
Funcas	-20.3	11.8	-16.9	10.1	-0.3	1.2	0.7	0.4	1.6	1.0	-8.7	2.6	16.5	17.0	1.0	1.9	-11.5	-8.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	-19.9	10.9	-19.1	12.4	-0.2	0.9	0.8	0.9	--	--	-8.7	3.5	16.7	17.0	0.7	1.1	-12.0	-8.0
Instituto de Estudios Económicos (IEE)	-20.7	11.7	-19.3	9.4	-0.3	0.8	0.8	0.8	1.5	0.3	-7.7	2.9	15.9	18.8	0.5	1.0	-13.0	-9.5
Intermoney	-19.7	11.0	-17.2	10.5	-0.3	1.1	0.7	0.7	--	--	-7.7	3.0	15.8	16.4	0.8	1.2	-12.4	-9.4
Mapfre Economics	-20.1	11.8	-18.0	7.8	-0.3	1.1	0.6	0.5	1.0	2.0	-3.4	1.0	16.6	17.9	0.7	1.7	-12.1	-8.6
Repsol	-20.7	10.6	-16.9	9.2	-0.3	0.9	0.8	0.8	1.9	0.5	-7.4	7.7	15.8	16.0	0.4	1.1	-13.0	-9.0
Santander	-20.4	8.7	-16.8	8.5	-0.3	0.8	0.7	0.4	2.3	2.0	-3.0	1.0	15.7	17.1	1.3	1.4	--	--
YGroup Companies	-21.0	12.0	-18.0	8.0	-0.3	0.6	1.0	1.0	--	--	-7.7	3.5	16.5	18.0	0.8	1.8	-12.0	-8.8
Universidad Loyola Andalucía	-19.9	12.7	-16.5	11.3	-0.3	1.0	0.8	0.8	--	--	-7.1	3.5	15.5	17.4	0.4	1.1	-11.8	-7.5
CONSENSUS (AVERAGE)	-20.8	12.1	-17.9	11.2	-0.3	0.8	0.8	0.7	1.4	1.0	-7.2	3.2	16.1	17.2	0.7	1.2	-12.1	-8.4
Maximum	-18.6	16.6	-16.1	17.0	-0.2	1.2	1.0	1.0	2.3	2.0	-3.0	7.7	17.0	18.8	1.3	1.9	-10.4	-5.9
Minimum	-24.7	7.5	-22.4	7.0	-0.4	0.4	0.6	0.4	0.2	0.3	-9.2	0.0	15.5	16.0	0.2	0.0	-13.0	-9.5
Change on 2 months earlier[1]	0.3	-0.6	1.0	-0.7	0.0	-0.1	0.0	-0.1	-0.5	0.6	0.0	0.1	-0.8	-0.3	0.1	0.0	0.3	-0.1
- Rise[2]	9	7	12	4	2	7	1	1	3	3	9	4	1	2	6	4	8	4
- Drop[2]	6	6	2	9	8	5	5	6	4	2	1	3	11	8	4	3	0	2
Change on 6 months earlier[1]	-0.6	-0.7	1.7	0.2	-0.1	-0.2	-0.1	-0.2	-0.1	0.0	-1.2	0.8	-3.0	-0.8	-0.3	-0.2	-0.2	-1.0
Memorandum items:																		
Government (October 2020)[8]	-22.7	11.7 / 18	-20.0	8.6 / 17.1	--	--	--	--	2.3	0.4	-8.4	5.6 / 7.2	17.1	16.9/ 16.3	1.0	1.9 / 0.8	-11.3	-7.7
Bank of Spain (September 2020)	-22/-22.5	11.9 / 8.0	-19.5/-19.9	10.6 / 8.2	-0.3[7]	0.7/ 0.5[7]	0.5[8]	0.6/ 0.2[8]	--	--	--	--	15.7 /16.2	17.1/ 20.5	--	--	-10.3 /-10.9	-6.7 /-9.6
EC (November 2020)	-22.1	14.2	-18.9	9.4	-0.2[7]	0.9[7]	--	--	1.9	0.0	-8.7	3.5	16.7	17.9	1.8	2.5	-12.2	-9.6
IMF (October 2020)	-25.5	10.1	-22.3	10.6	-0.3	0.8	--	--	--	--	--	--	16.8	16.8	0.5	0.9	-14.1	-7.5
OECD (June 2020)	-19.9	7.1	-17.4	5.5	-0.3[7]	0.4[7]	0.5[7]	0.1[7]	--	--	--	--	15.8	17.4	1.4	1.9	-11.7	-9.0

[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] *Excluding financial entities bail-out expenditures.*

[7] *Harmonized Index of Consumer Prices (HIPC).*

[8] *Forecasts for a baseline scenario as well as a scenario that includes investment funded by the EU recovery plan.*

Table 2

Quarterly Forecasts – January 2021

	20-I Q	20-II Q	20-III Q	20-IV Q	21-I Q	21-II Q	21-III Q	21-IV Q
GDP[1]	-5.3	-17.9	16.4	-0.8	0.5	2.3	3.2	2.1
Euribor 1 yr [2]	-0.27	-0.15	-0.42	-0.50	-0.46	-0.43	-0.41	-0.39
Government bond yield 10 yr [2]	0.52	0.51	0.27	0.04	0.08	0.15	0.22	0.32
ECB main refinancing operations interest rate [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ECB deposit rates [2]	-0.5	-0.5	-0.5	-0.5	-0.50	-0.50	-0.50	-0.50
Dollar / Euro exchange rate [2]	1.11	1.13	1.18	1.22	1.21	1.21	1.21	1.21

Forecasts in yellow.
[1] *Qr-on-qr growth rates.*
[2] *End of period.*

Table 3

CPI Forecasts – January 2021

Year-on-year change (%)				
Dec-20	Jan-21	Feb-21	Mar-21	Dec-21
-0.5	-0.5	-0.3	0.2	1.4

Table 4

Opinions – January 2021

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	1	19	14	6	0
International context: Non-EU	0	4	16	14	6	0
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	0	20	0	0	20
Monetary policy assessment[1]	0	0	20	0	0	20

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

Key Facts

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Economic Indicators

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation			Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction	Equipment & others products				
Chain-linked volumes, annual percentage changes											
2014		1.4	1.7	-0.7	4.1	3.0	5.2	4.5	6.8	1.9	-0.5
2015		3.8	2.9	2.0	4.9	1.5	8.2	4.3	5.1	3.9	-0.1
2016		3.0	2.7	1.0	2.4	1.6	3.1	5.4	2.6	2.0	1.0
2017		3.0	3.0	1.0	6.8	6.7	6.9	5.5	6.8	3.1	-0.2
2018		2.4	1.8	2.6	6.1	9.3	3.1	2.3	4.2	3.0	-0.5
2019		2.0	0.9	2.3	2.7	1.6	3.7	2.3	0.7	1.4	0.6
2020		-11.5	-13.6	3.9	-12.8	-15.4	-10.2	-20.3	-16.9	-9.8	-1.7
2021		6.7	7.4	1.7	7.9	7.8	8.0	11.8	10.1	6.0	0.8
2019	I	2.2	1.1	2.2	5.7	5.3	6.1	1.1	0.8	2.1	0.1
	II	2.1	0.4	2.4	1.3	2.7	0.1	3.2	-0.1	0.9	1.2
	III	1.8	1.2	2.2	2.8	0.9	4.7	2.7	2.0	1.5	0.3
	IV	1.7	1.0	2.6	0.9	-2.2	4.1	2.1	0.3	1.0	0.7
2020	I	-4.2	-6.0	3.8	-5.2	-6.9	-3.5	-5.6	-5.3	-4.0	-0.2
	II	-21.6	-24.9	3.2	-24.5	-25.9	-23.0	-37.8	-32.5	-19.0	-2.6
	III	-9.0	-10.4	3.8	-9.1	-13.1	-5.1	-19.3	-15.4	-7.3	-1.7
	IV	-11.2	-13.3	4.8	-12.6	-16.0	-9.2	-18.4	-14.4	-9.5	-1.7
Chain-linked volumes, quarter-on-quarter percentage changes											
2019	I	0.5	0.4	0.2	1.2	0.0	2.3	0.3	-0.2	-1.8	2.4
	II	0.4	-0.3	0.9	-0.3	-0.4	-0.3	1.5	0.3	-1.8	2.1
	III	0.4	0.8	0.6	1.1	-0.6	2.7	0.2	1.3	-1.1	1.4
	IV	0.4	0.1	0.9	-1.0	-1.3	-0.6	0.2	-1.1	-0.1	0.5
2020	I	-5.3	-6.6	1.4	-4.9	-4.7	-5.1	-7.3	-5.8	-18.1	12.8
	II	-17.9	-20.3	0.3	-20.6	-20.7	-20.5	-33.1	-28.5	-62.0	44.1
	III	16.4	20.3	1.2	21.7	16.6	26.6	29.9	27.0	60.4	-44.0
	IV	-2.0	-3.2	1.8	-4.8	-4.6	-5.0	1.3	0.0	-9.3	7.4
		Current prices (EUR billions)	Percentage of GDP at current prices								
2013		1,020	59.0	19.9	17.4	8.7	8.7	33.0	29.0	96.1	3.9
2014		1,032	59.4	19.6	17.8	8.8	8.9	33.5	30.4	96.9	3.1
2015		1,078	58.5	19.5	18.0	8.7	9.3	33.6	30.6	97.0	3.0
2016		1,114	58.2	19.1	18.0	8.6	9.4	33.9	29.9	96.0	4.0
2017		1,162	58.4	18.6	18.7	9.0	9.7	35.1	31.5	96.4	3.6
2018		1,204	58.2	18.7	19.5	9.7	9.7	35.1	32.4	97.3	2.7
2019		1,245	57.3	18.9	19.9	10.0	9.9	34.9	31.9	97.0	3.0
2020		1,114	55.6	22.2	19.6	9.6	10.0	30.9	29.2	98.2	1.8
2021		1,201	55.8	21.2	19.9	9.7	10.2	32.5	30.0	97.6	2.4

**Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

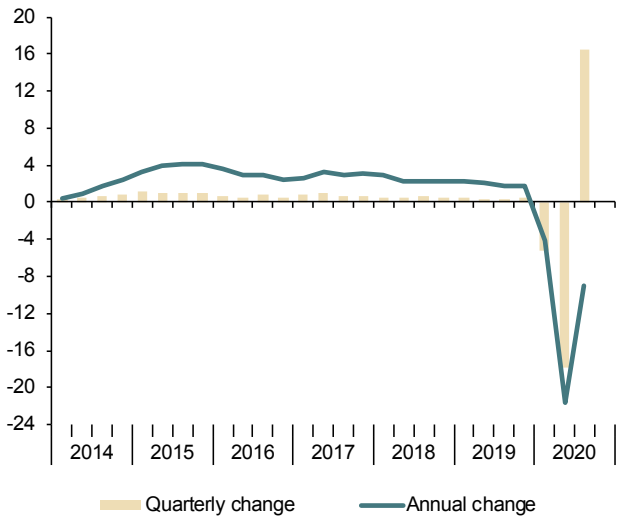


Chart 1.2 - Contribution to GDP annual growth

Percentage points

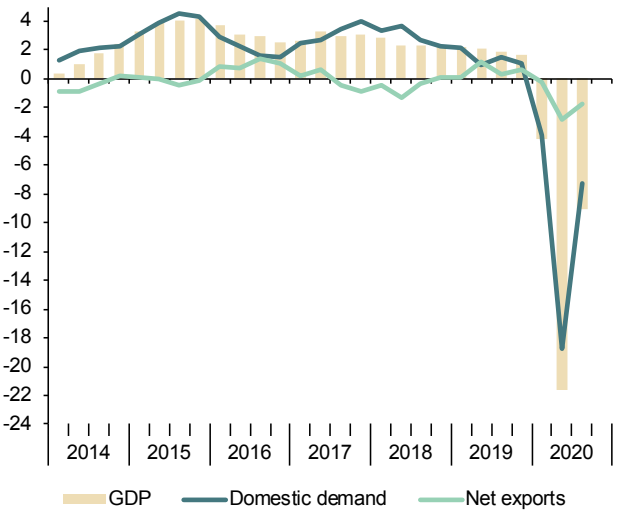


Chart 1.3 - Final consumption

Annual percentage change

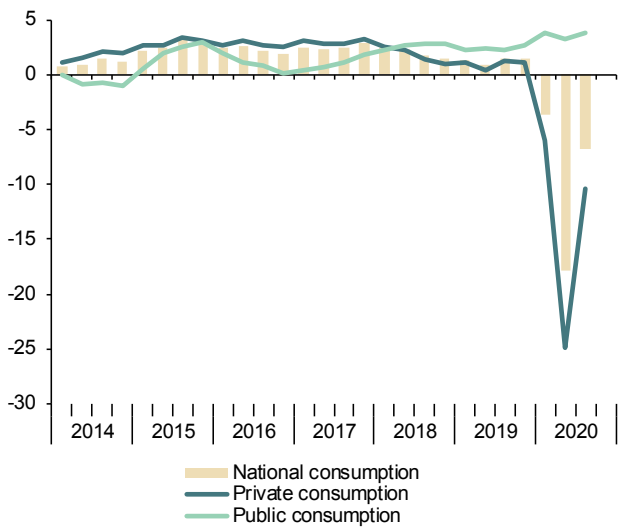


Chart 1.4 - Gross fixed capital formation

Annual percentage change

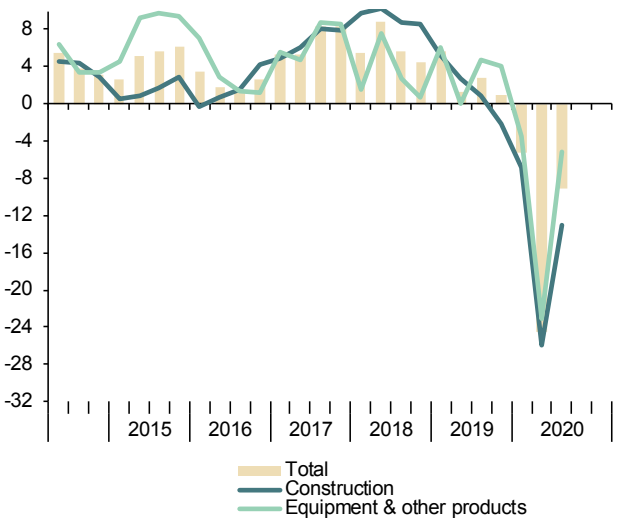


Table 2

National accounts: Gross value added by economic activity SWDA*

		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								
2014		0.9	-1.3	1.3	2.1	-1.3	1.1	-0.7	1.7	6.1
2015		3.3	4.7	3.0	4.6	5.4	3.1	1.1	3.8	9.6
2016		2.8	4.8	4.1	2.3	3.9	2.4	1.4	2.7	5.2
2017		3.1	-3.7	4.0	5.7	2.0	3.3	2.5	3.5	1.9
2018		2.5	7.5	0.6	0.0	4.1	2.6	1.0	3.1	1.8
2019		2.1	-2.3	1.7	1.2	4.3	2.2	1.2	2.6	0.1
2020 (a)		-11.4	3.4	-11.1	-12.7	-15.1	-11.7	0.8	-15.7	-13.9
2018	IV	2.3	8.2	-0.2	-0.8	6.0	2.3	0.6	2.9	1.5
2019	I	2.4	0.7	0.7	0.3	6.8	2.5	0.8	3.0	0.7
	II	2.3	-4.4	1.6	0.7	5.8	2.4	1.5	2.7	0.2
	III	2.0	0.0	2.4	1.9	3.2	1.9	1.0	2.2	0.0
	IV	1.9	-5.3	2.1	2.0	1.7	2.2	1.5	2.4	-0.3
2020	I	-3.7	0.1	-5.2	-5.9	-6.6	-3.3	0.9	-4.6	-8.8
	II	-21.5	6.5	-23.7	-27.2	-27.5	-21.6	-0.2	-28.4	-22.6
	III	-8.9	3.7	-4.4	-4.9	-11.0	-10.2	1.7	-14.0	-10.4
		Chain-linked volumes, quarter-on-quarter percentage changes								
2018	IV	0.6	5.6	0.3	0.3	1.5	0.4	0.0	0.5	0.1
2019	I	0.6	-4.0	0.7	0.6	1.4	0.7	0.4	0.7	0.1
	II	0.4	-2.7	0.7	0.3	0.6	0.5	0.6	0.4	-0.2
	III	0.4	1.4	0.7	0.7	-0.3	0.3	0.0	0.5	-0.1
	IV	0.5	0.1	-0.1	0.4	-0.1	0.7	0.4	0.7	-0.2
2020	I	-4.9	1.4	-6.4	-7.2	-6.9	-4.7	-0.1	-6.1	-8.3
	II	-18.1	3.4	-18.9	-22.4	-21.9	-18.5	-0.5	-24.6	-15.3
	III	16.5	-1.2	26.2	31.5	22.5	14.9	1.8	20.7	15.6
		Current prices EUR billions)	Percentage of value added at basic prices							
2014		940	2.8	16.4	12.4	5.7	75.2	18.7	56.5	9.8
2015		978	3.0	16.4	12.4	5.8	74.9	18.5	56.4	10.1
2016		1,011	3.1	16.2	12.4	5.9	74.8	18.4	56.5	10.2
2017		1,053	3.1	16.2	12.5	5.9	74.8	18.1	56.7	10.3
2018		1,090	3.1	16.1	12.3	6.1	74.7	17.9	56.8	10.5
2019		1,129	2.9	16.1	12.3	6.4	74.5	18.0	56.5	10.3

(a) Period with available data over the same period past year.

** Seasonally and Working Day Adjusted.*

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

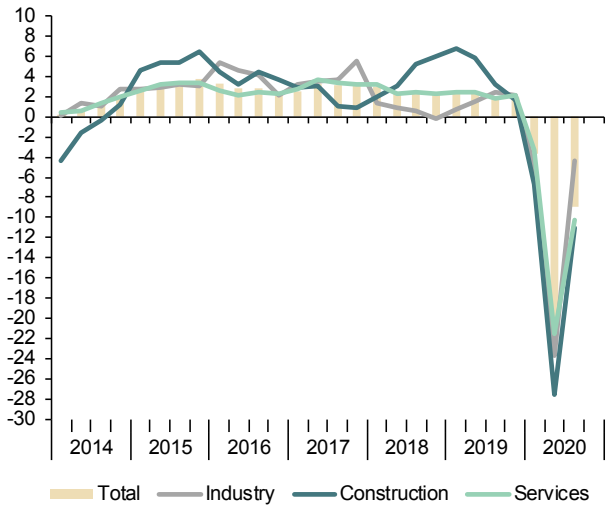


Chart 2.2 - GVA, Industry

Annual percentage change

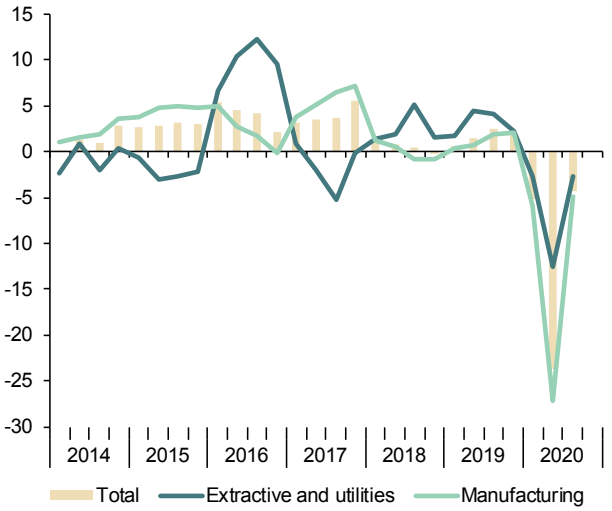


Chart 2.3 - GVA, services

Annual percentage change

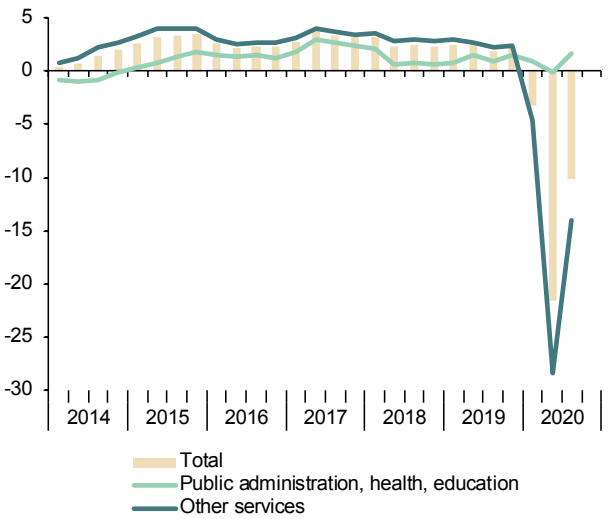


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

Table 3

National accounts: Productivity and labour costs

Forecasts in yellow

	Total economy						Manufacturing Industry					
	GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
	1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
	Indexes, 2010 = 100, SWDA											
2014	96.3	90.2	106.8	101.4	95.0	95.2	95.6	81.2	117.7	106.1	90.2	92.2
2015	100.0	93.0	107.5	102.0	94.9	94.6	100.0	83.1	120.3	105.4	87.6	89.8
2016	103.0	95.6	107.7	101.4	94.1	93.5	102.3	86.0	119.0	105.5	88.7	90.2
2017	106.1	98.4	107.8	102.1	94.7	92.9	108.1	88.6	122.0	107.0	87.7	89.9
2018	108.7	101.0	107.6	103.1	95.8	92.8	108.2	90.5	119.6	107.9	90.2	90.9
2019	110.8	103.3	107.3	105.3	98.1	93.8	109.5	92.4	118.5	109.0	92.0	90.6
2020	98.0	94.8	103.4	106.9	103.4	97.8	--	--	--	--	--	--
2021	104.6	97.2	107.6	108.0	100.4	93.9	--	--	--	--	--	--
2018 IV	109.6	102.0	107.5	103.8	96.6	93.0	108.1	90.6	119.3	108.9	91.3	91.6
2019 I	110.2	102.7	107.3	104.4	97.3	93.8	108.8	91.9	118.4	108.4	91.5	91.5
II	110.6	103.1	107.3	105.2	98.1	93.9	109.1	92.4	118.1	108.8	92.1	90.8
III	111.0	103.2	107.5	105.6	98.3	93.9	109.8	93.0	118.1	109.1	92.3	91.0
IV	111.4	104.1	107.1	105.8	98.8	93.6	110.3	92.4	119.4	109.9	92.1	89.1
2020 I	105.6	102.1	103.4	105.8	102.3	97.5	102.3	92.2	110.9	108.5	97.8	98.0
II	86.7	84.1	103.1	108.3	105.0	99.4	79.4	77.9	101.9	104.3	102.3	98.8
III	100.9	97.5	103.5	106.5	102.9	97.0	104.5	85.1	122.8	105.9	86.2	84.9
	Annual percentage changes											
2014	1.4	1.0	0.4	0.3	-0.1	0.1	2.1	-1.9	4.0	0.7	-3.2	-3.3
2015	3.8	3.2	0.6	0.6	-0.1	-0.6	4.6	2.4	2.2	-0.7	-2.9	-2.6
2016	3.0	2.8	0.2	-0.6	-0.8	-1.1	2.3	3.5	-1.1	0.1	1.2	0.4
2017	3.0	2.9	0.1	0.7	0.6	-0.7	5.7	3.0	2.5	1.4	-1.1	-0.4
2018	2.4	2.6	-0.2	1.0	1.2	0.0	0.0	2.1	-2.0	0.8	2.9	1.1
2019	2.0	2.3	-0.3	2.1	2.4	1.0	1.2	2.2	-0.9	1.1	2.0	-0.3
2020	-11.5	-8.2	-3.6	1.6	5.4	4.3	--	--	--	--	--	--
2021	6.7	2.6	4.0	1.0	-2.9	-4.0	--	--	--	--	--	--
2018 IV	2.3	2.7	-0.4	1.3	1.8	0.5	-0.8	0.5	-1.2	0.4	1.6	0.9
2019 I	2.2	2.8	-0.6	1.9	2.5	1.2	0.3	1.6	-1.3	1.2	2.5	0.8
II	2.1	2.5	-0.4	2.3	2.8	1.3	0.7	2.0	-1.3	1.2	2.5	0.3
III	1.8	1.8	0.1	2.3	2.2	0.8	1.9	3.1	-1.1	1.0	2.1	0.4
IV	1.7	2.1	-0.4	1.9	2.3	0.7	2.0	1.9	0.1	0.9	0.9	-2.7
2020 I	-4.2	-0.5	-3.7	1.3	5.1	4.0	-5.9	0.4	-6.3	0.1	6.8	7.2
II	-21.6	-18.4	-3.9	2.9	7.1	5.9	-27.2	-15.7	-13.7	-4.1	11.0	8.8
III	-9.0	-5.5	-3.7	0.8	4.7	3.2	-4.9	-8.5	4.0	-2.9	-6.6	-6.7

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

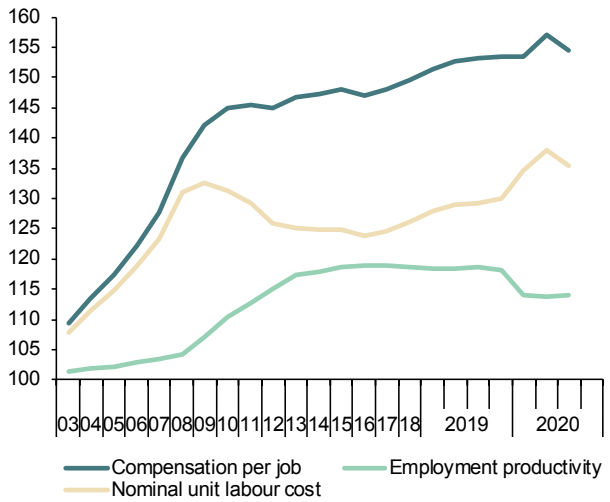
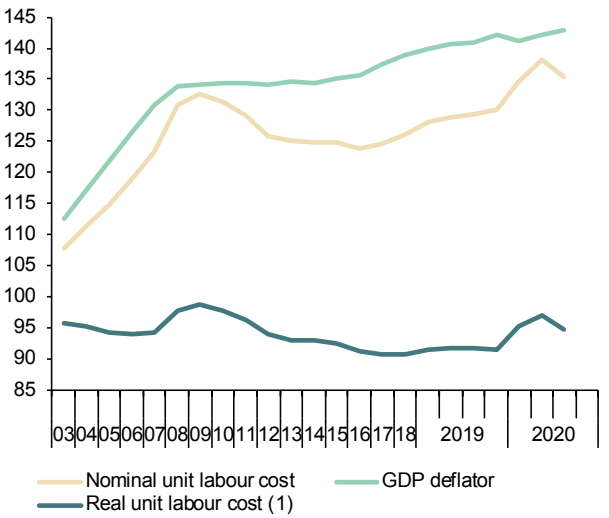


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

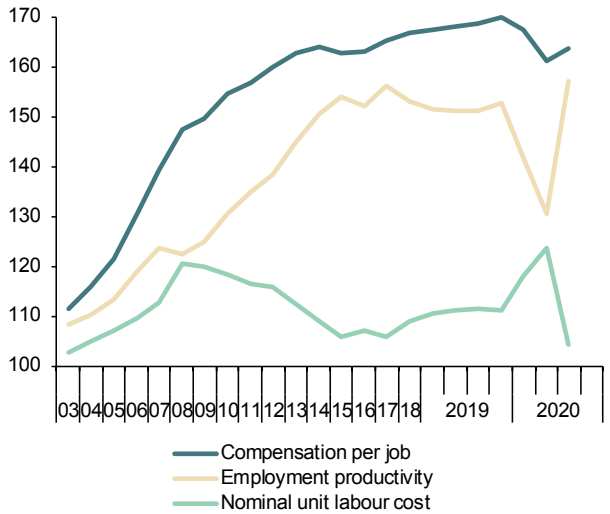
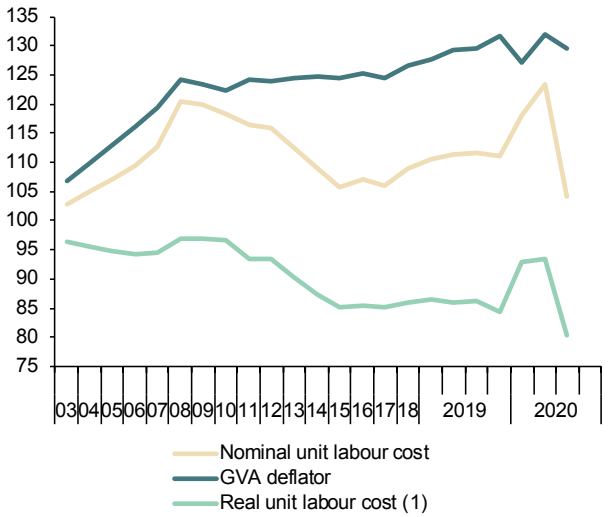


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by manufacturing GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in yellow

		Gross domestic product	Compen-sation of employees	Gross operating surplus	Gross national disposable income	Final national consum-ption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
2014		1,032.2	473.5	455.4	1,017.7	815.4	202.3	184.8	45.9	44.1	19.6	17.9	1.7	2.1
2015		1,077.6	492.9	472.6	1,066.7	840.1	226.5	204.7	45.7	43.9	21.0	19.0	2.0	2.7
2016		1,113.8	503.7	495.8	1,104.8	860.5	244.3	208.9	45.2	44.5	21.9	18.8	3.2	3.4
2017		1,161.9	523.7	518.4	1,152.2	894.4	257.7	225.5	45.1	44.6	22.2	19.4	2.8	3.0
2018		1,204.2	544.9	533.2	1,194.7	925.0	269.7	246.5	45.2	44.3	22.4	20.5	1.9	2.4
2019		1,244.8	571.0	546.4	1,233.7	948.7	285.0	258.6	45.9	43.9	22.9	20.8	2.1	2.5
2020		1,113.8	536.7	478.4	1,099.9	866.7	233.2	227.4	48.2	43.0	20.9	20.4	0.5	0.8
2021		1,201.5	557.4	530.9	1,188.4	925.7	262.6	246.5	46.4	44.2	21.9	20.5	1.3	1.6
2018	IV	1,204.2	544.9	533.2	1,194.7	925.0	269.7	246.5	45.2	44.3	22.4	20.5	1.9	2.4
2019	I	1,214.5	551.7	535.4	1,205.3	931.2	274.1	252.7	45.4	44.1	22.6	20.8	1.8	2.2
	II	1,225.0	558.7	538.8	1,215.3	937.2	278.1	255.0	45.6	44.0	22.7	20.8	1.9	2.4
	III	1,234.7	564.9	542.1	1,224.3	942.9	281.4	257.8	45.7	43.9	22.8	20.9	1.9	2.4
	IV	1,244.8	571.0	546.4	1,233.7	948.7	285.0	258.6	45.9	43.9	22.9	20.8	2.1	2.5
2020	I	1,235.1	573.9	535.7	1,225.7	942.8	282.9	256.2	46.5	43.4	22.9	20.7	2.2	2.5
	II	1,170.8	554.1	506.7	1,161.6	901.8	259.8	240.5	47.3	43.3	22.2	20.5	1.6	1.8
	III	1,146.7	547.2	495.5	1,137.2	886.5	250.7	234.7	47.7	43.2	21.9	20.5	1.4	1.3
		Annual percentage changes							Difference from one year ago					
2014		1.2	1.3	0.1	1.7	1.3	3.0	5.2	0.1	-0.5	0.3	0.7	-0.3	-0.5
2015		4.4	4.1	3.8	4.8	3.0	12.0	10.8	-0.1	-0.3	1.4	1.1	0.3	0.5
2016		3.4	2.2	4.9	3.6	2.4	7.8	2.0	-0.5	0.7	0.9	-0.2	1.1	0.7
2017		4.3	4.0	4.6	4.3	3.9	5.5	8.0	-0.2	0.1	0.3	0.7	-0.4	-0.4
2018		3.6	4.0	2.8	3.7	3.4	4.6	9.3	0.2	-0.3	0.2	1.1	-0.8	-0.6
2019		3.4	4.8	2.5	3.3	2.6	5.7	4.9	0.6	-0.4	0.5	0.3	0.2	0.0
2020		-10.5	-6.0	-12.4	-10.9	-8.6	-18.2	-12.0	2.3	-0.9	-2.0	-0.4	-1.6	-1.7
2021		7.9	3.9	11.0	8.0	6.8	12.6	8.4	-1.8	1.2	1.0	0.1	0.8	0.8
2018	IV	3.6	4.0	2.8	3.7	3.4	4.6	9.3	0.2	-0.3	0.2	1.1	-0.8	-0.6
2019	I	3.5	4.4	2.3	3.7	3.2	5.3	10.3	0.4	-0.5	0.4	1.3	-0.9	-0.7
	II	3.5	4.7	2.3	3.5	3.1	5.2	8.2	0.5	-0.5	0.4	0.9	-0.5	-0.3
	III	3.4	4.8	2.2	3.4	2.7	5.9	7.2	0.6	-0.5	0.5	0.7	-0.2	-0.1
	IV	3.4	4.8	2.5	3.3	2.6	5.7	4.9	0.6	-0.4	0.5	0.3	0.2	0.0
2020	I	1.7	4.0	0.1	1.7	1.3	3.2	1.4	1.0	-0.7	0.3	-0.1	0.4	0.3
	II	-4.4	-0.8	-6.0	-4.4	-3.8	-6.6	-5.7	1.7	-0.7	-0.5	-0.3	-0.2	-0.5
	III	-7.1	-3.1	-8.6	-7.1	-6.0	-10.9	-9.0	2.0	-0.7	-0.9	-0.4	-0.5	-1.1

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

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

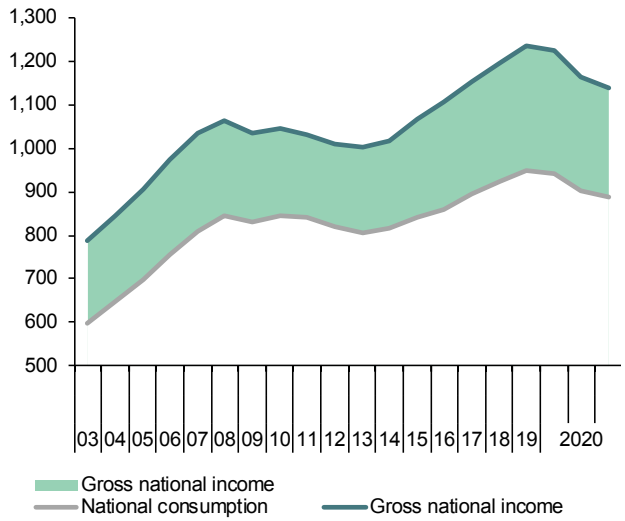


Chart 4.2 - National income, consumption and saving rate

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

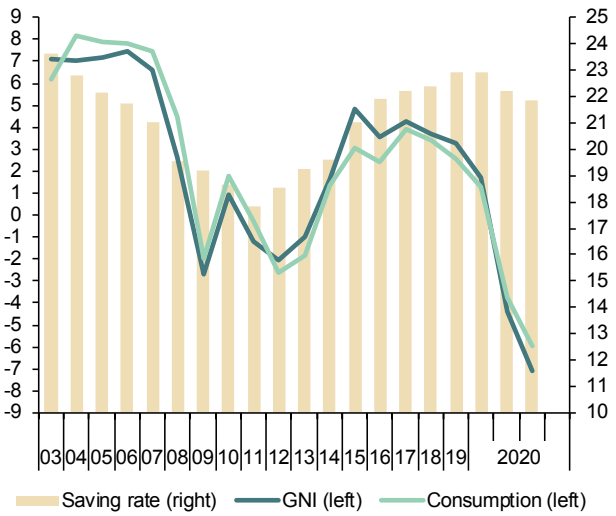


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

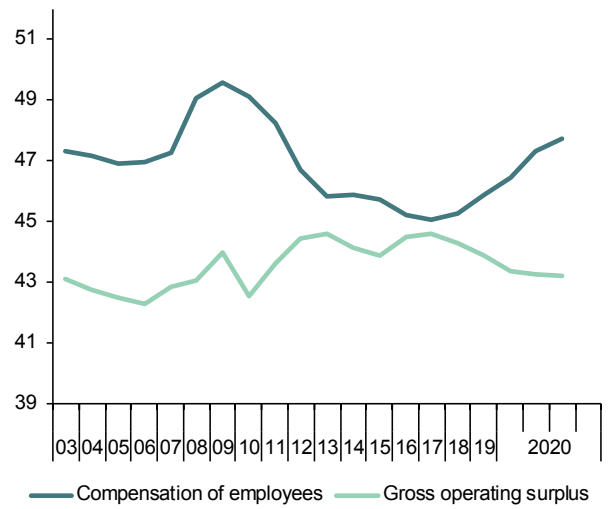


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

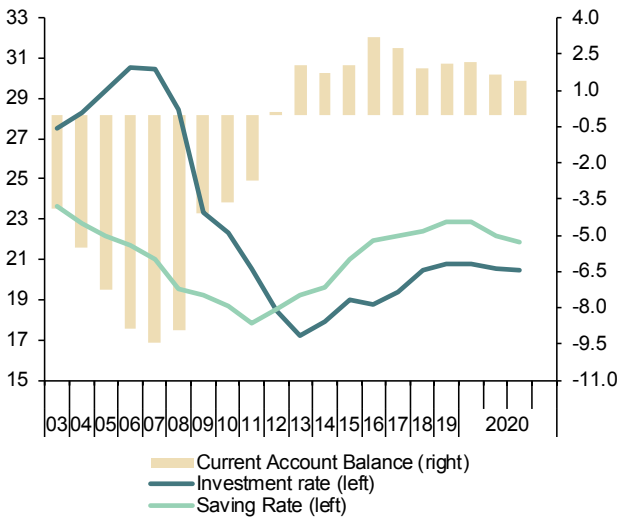


Table 5

National accounts: Household and non-financial corporations accounts

Forecasts in yellow

		Households							Non-financial corporations					
		Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing
		EUR Billions, 4-quarter cumulated operations				Percentage of GDI	Percentage of GDP		EUR Billions, 4-quarter cumulated operations			Percentage of GDP		
2014		656.2	612.7	41.5	30.2	6.3	2.9	1.0	228.7	171.7	127.7	16.6	12.4	4.7
2015		682.2	630.2	49.0	30.5	7.2	2.8	1.7	241.0	185.1	140.4	17.2	13.0	4.4
2016		700.6	648.3	49.2	31.8	7.0	2.9	1.4	255.3	196.2	149.2	17.6	13.4	4.4
2017		722.9	678.1	41.8	36.8	5.8	3.2	0.2	267.0	200.7	160.6	17.3	13.8	3.6
2018		744.9	700.3	41.8	40.9	5.6	3.4	-0.1	272.9	201.2	177.1	16.7	14.7	2.2
2019		764.6	713.8	48.0	42.5	6.3	3.4	0.3	281.6	218.2	187.5	17.5	15.1	2.7
2020		744.3	618.9	122.6	36.9	16.5	3.3	7.5	205.0	158.8	161.7	14.3	14.5	0.0
2021		769.2	670.6	95.8	38.2	12.5	3.2	4.6	250.8	198.7	173.5	16.5	14.4	2.3
2018	IV	744.9	700.3	41.8	40.9	5.6	3.4	-0.1	272.9	201.2	177.1	16.7	14.7	2.2
2019	I	749.6	704.2	42.9	42.0	5.7	3.5	-0.1	274.4	204.0	180.6	16.8	14.8	2.2
	II	756.9	706.8	47.9	42.2	6.3	3.4	0.3	276.9	207.7	184.2	16.9	15.0	2.2
	III	760.7	710.6	47.1	42.7	6.2	3.5	0.2	278.1	210.2	185.1	17.0	15.0	2.3
	IV	764.6	713.8	48.0	42.5	6.3	3.4	0.3	281.6	218.2	187.5	17.5	15.1	2.7
2020	I	767.0	703.9	60.4	41.6	7.9	3.4	1.3	271.8	207.5	183.7	16.8	14.9	2.1
	II	748.5	662.1	83.8	37.2	11.2	3.2	3.8	250.0	198.2	171.1	16.9	14.6	2.4
	III	751.7	647.0	103.4	37.0	13.8	3.2	5.6	240.9	187.4	164.7	16.3	14.4	2.1
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
2014		0.0	1.8	-19.8	-2.7	-1.6	-0.1	-1.0	0.0	2.5	11.3	0.2	1.1	-0.6
2015		4.0	2.9	18.1	1.1	0.9	-0.1	0.7	5.4	7.8	10.0	0.5	0.7	-0.3
2016		2.7	2.9	0.5	4.2	-0.2	0.0	-0.3	5.9	6.0	6.2	0.4	0.4	0.0
2017		3.2	4.6	-15.2	15.7	-1.3	0.3	-1.2	4.6	2.3	7.7	-0.3	0.4	-0.8
2018		3.0	3.3	0.1	11.2	-0.2	0.2	-0.3	2.2	0.3	10.2	-0.6	0.9	-1.4
2019		2.6	1.9	14.9	3.8	0.7	0.0	0.4	3.2	8.4	5.9	0.8	0.4	0.5
2020		-2.7	-13.3	155.3	-13.1	10.2	-0.1	7.2	-27.2	-27.2	-13.8	-3.3	-0.5	-2.7
2021		3.3	8.3	-21.9	3.5	-4.0	-0.1	-2.9	22.4	25.2	7.3	2.3	-0.1	2.3
2018	IV	3.0	3.3	0.1	11.2	-0.2	0.2	-0.3	2.2	0.3	10.2	-0.6	0.9	-1.4
2019	I	2.9	2.9	4.7	15.3	0.1	0.3	-0.3	1.9	0.6	9.5	-0.5	0.8	-1.2
	II	3.3	2.5	18.6	12.3	0.8	0.3	0.3	2.0	1.0	9.5	-0.5	0.8	-1.2
	III	3.0	2.2	17.9	10.7	0.8	0.2	0.3	2.0	3.0	6.2	-0.1	0.4	-0.4
	IV	2.6	1.9	14.9	3.8	0.7	0.0	0.4	3.2	8.4	5.9	0.8	0.4	0.5
2020	I	2.3	-0.1	40.9	-1.0	2.2	-0.1	1.5	-0.9	1.7	1.7	0.0	0.0	-0.1
	II	-1.1	-6.3	75.2	-11.8	4.9	-0.3	3.5	-9.7	-4.6	-7.1	0.0	-0.4	0.3
	III	-1.2	-8.9	119.5	-13.3	7.6	-0.2	5.5	-13.4	-10.9	-11.0	-0.7	-0.6	-0.3

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

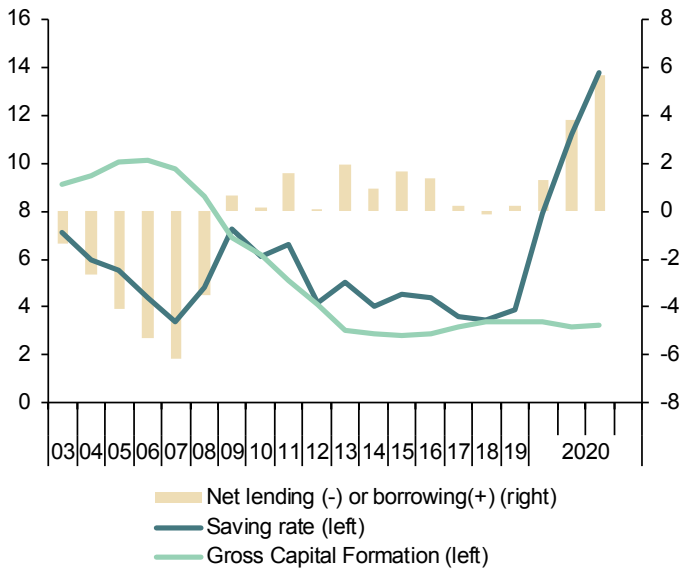


Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

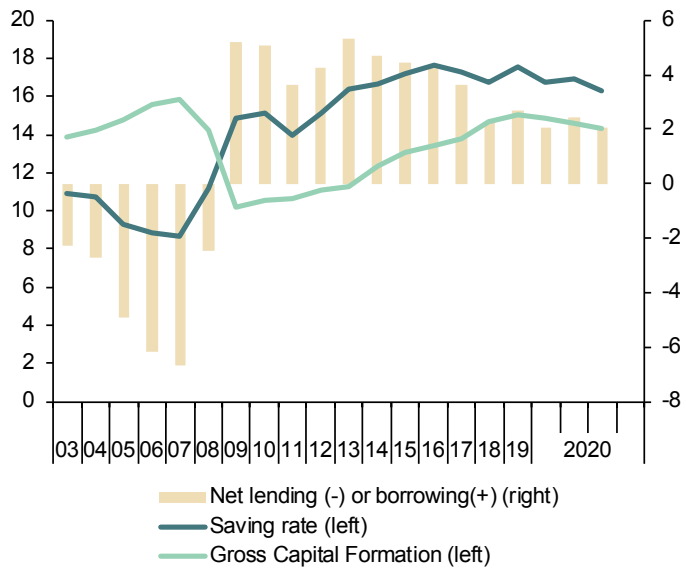


Table 6

National accounts: Public revenue, expenditure and deficit

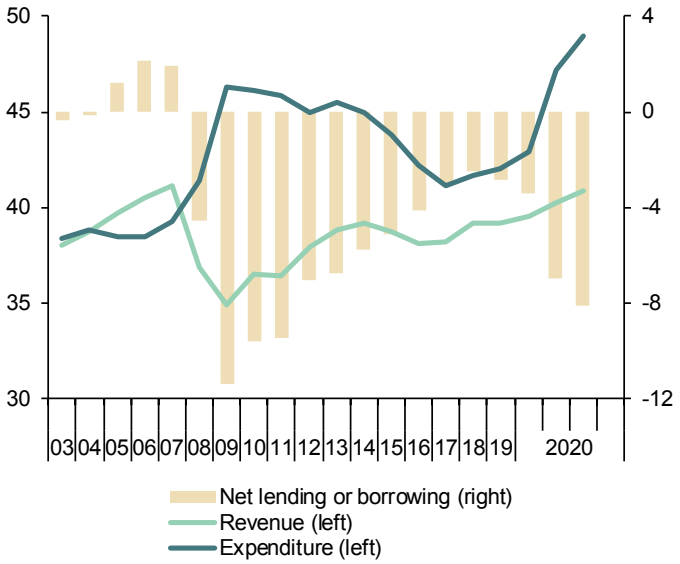
Forecasts in yellow

		Non financial revenue					Non financial expenditures							Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		Taxes on production and imports	Taxes on income and wealth	Social contributions	Capital and other revenue	Total	Compensation of employees	Intermediate consumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expenditure	Total		
		1	2	3	4	5=1+2+3+4	6	7	8	9	10	11	12=6+7+8+9+10+11	13=5-12	14
		EUR Billions, 4-quarter cumulated operations													
2014		118.5	104.4	129.0	52.7	404.6	115.0	56.3	35.5	198.5	32.4	28.0	465.7	-61.1	-59.7
2015		126.4	107.1	131.5	52.1	417.2	119.2	59.0	32.4	198.6	35.4	28.3	473.0	-55.8	-55.2
2016		128.9	110.0	135.6	50.3	424.8	121.5	58.7	30.7	203.0	30.4	28.4	472.7	-48.0	-45.6
2017		135.1	116.9	142.4	49.1	443.5	123.5	59.9	29.3	207.4	30.6	28.0	478.7	-35.1	-34.6
2018		141.2	127.3	149.5	53.8	471.7	127.6	62.1	29.3	216.6	36.4	29.6	501.6	-29.9	-29.8
2019		142.8	129.2	160.7	55.1	487.8	134.5	64.5	28.4	229.6	34.8	31.6	523.4	-35.6	-35.6
2020		123.5	121.2	160.4	53.1	458.2	141.2	72.9	24.9	268.8	36.1	41.9	585.8	-127.6	-127.6
2021		132.8	128.4	157.2	66.7	485.1	144.7	75.0	25.9	260.9	45.5	36.6	588.5	-103.4	-103.4
2018	IV	141.2	127.3	149.5	53.8	471.7	127.6	62.1	29.3	216.6	36.4	29.6	501.6	-29.9	-29.8
2019	I	142.5	127.1	152.5	55.0	477.1	129.4	62.9	28.9	219.5	36.4	30.5	507.4	-30.3	-30.5
	II	142.4	129.0	155.3	55.2	481.8	131.7	63.2	29.3	224.0	36.3	31.1	515.7	-33.9	-33.8
	III	143.2	130.8	158.0	55.8	487.8	132.9	63.7	28.8	226.0	37.3	32.1	520.8	-33.0	-32.9
	IV	142.8	129.2	160.7	55.1	487.8	134.5	64.5	28.4	229.6	34.8	31.6	523.4	-35.6	-35.6
2020	I	141.4	130.3	161.6	55.7	488.9	135.7	66.0	27.9	232.8	36.7	31.9	531.0	-42.1	-42.1
	II	131.8	126.2	160.8	52.8	471.5	136.9	66.6	26.6	249.0	36.7	36.9	552.8	-81.3	-81.3
	III	128.5	127.0	161.3	51.8	468.6	138.5	67.6	26.1	255.2	36.4	37.9	561.7	-93.1	-93.1
		Percentage of GDP, 4-quarter cumulated operations													
2014		11.5	10.1	12.5	5.1	39.2	11.1	5.5	3.4	19.2	3.1	2.7	45.1	-5.9	-5.8
2015		11.7	9.9	12.2	4.8	38.7	11.1	5.5	3.0	18.4	3.3	2.6	43.9	-5.2	-5.1
2016		11.6	9.9	12.2	4.5	38.1	10.9	5.3	2.8	18.2	2.7	2.6	42.4	-4.3	-4.1
2017		11.6	10.1	12.3	4.2	38.2	10.6	5.2	2.5	17.9	2.6	2.4	41.2	-3.0	-3.0
2018		11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
2019		11.5	10.4	12.9	4.4	39.2	10.8	5.2	2.3	18.4	2.8	2.5	42.1	-2.9	-2.9
2020		11.1	10.9	14.4	4.8	41.1	12.7	6.5	2.2	24.1	3.2	3.8	52.6	-11.5	-11.5
2021		11.0	10.7	13.1	5.6	40.4	12.0	6.2	2.2	21.7	3.8	3.0	49.0	-8.6	-8.6
2018	IV	11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
2019	I	11.7	10.5	12.5	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
	II	11.6	10.5	12.7	4.5	39.3	10.7	5.2	2.4	18.3	3.0	2.5	42.0	-2.8	-2.8
	III	11.6	10.6	12.8	4.5	39.5	10.8	5.2	2.3	18.3	3.0	2.6	42.2	-2.7	-2.7
	IV	11.5	10.4	12.9	4.4	39.2	10.8	5.2	2.3	18.4	2.8	2.5	42.1	-2.9	-2.9
2020	I	11.4	10.5	13.1	4.5	39.5	11.0	5.3	2.3	18.8	3.0	2.6	42.9	-3.4	-3.4
	II	11.2	10.8	13.7	4.5	40.2	11.7	5.7	2.3	21.2	3.1	3.2	47.2	-6.9	-6.9
	III	11.2	11.1	14.1	4.5	40.9	12.1	5.9	2.3	22.3	3.2	3.3	49.0	-8.1	-8.1

Source: IGAE and Funcas (Forecasts).

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

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.

Chart 6.2 - Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

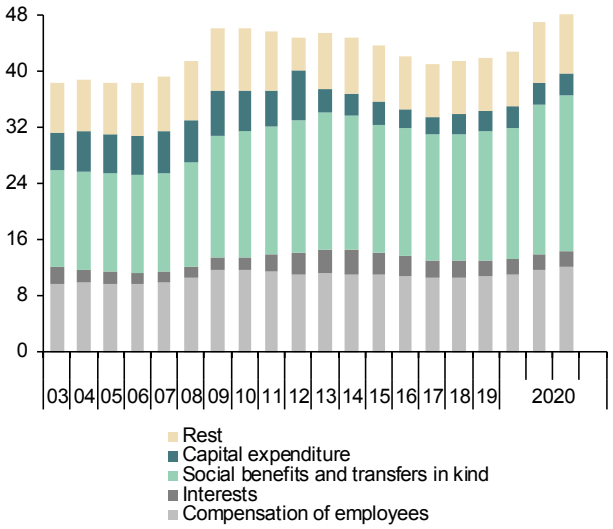


Table 7

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				
2014		-35.9	-18.7	5.5	-10.6	-59.7	901.4	237.9	38.3	17.2	1,039.4
2015		-28.2	-18.9	4.6	-12.9	-55.2	939.3	263.3	35.1	17.2	1,070.1
2016		-25.7	-9.5	7.0	-17.4	-45.6	968.4	277.0	32.2	17.2	1,104.6
2017		-20.6	-4.2	6.9	-16.8	-34.6	1,011.5	288.1	29.0	27.4	1,145.1
2018		-15.7	-3.3	6.5	-17.3	-29.8	1,047.3	293.4	25.8	41.2	1,173.4
2019		-16.2	-6.8	3.8	-16.1	-35.6	1,061.2	295.1	23.2	55.0	1,188.9
2020		--	--	--	--	-127.6	--	--	--	--	1,326.5
2021		--	--	--	--	-103.4	--	--	--	--	1,434.0
2018	IV	-15.7	-3.3	6.5	-17.3	-29.8	1,047.3	293.4	25.8	41.2	1,173.4
2019	I	-17.8	-3.3	5.9	-15.3	-30.5	1,066.0	296.9	26.0	43.1	1,196.7
	II	-17.2	-4.1	5.8	-18.3	-33.8	1,072.0	300.6	26.2	48.7	1,207.4
	III	-11.4	-8.5	4.8	-17.7	-32.9	1,070.3	298.1	25.2	52.4	1,203.8
	IV	-16.4	-7.1	3.7	-15.9	-35.6	1,061.2	295.1	23.2	55.0	1,188.9
2020	I	-16.5	-7.9	3.2	-20.9	-42.1	1,094.9	298.3	22.9	55.0	1,224.6
	II	-54.8	-6.0	1.3	-21.8	-81.3	1,159.2	305.7	25.0	68.9	1,291.1
	III	-63.8	-0.9	2.0	-30.4	-93.1	1,177.7	301.7	23.7	74.9	1,308.1
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2014		-3.5	-1.8	0.5	-1.0	-5.8	87.3	23.1	3.7	1.7	100.7
2015		-2.6	-1.8	0.4	-1.2	-5.1	87.2	24.4	3.3	1.6	99.3
2016		-2.3	-0.9	0.6	-1.6	-4.1	86.9	24.9	2.9	1.5	99.2
2017		-1.8	-0.4	0.6	-1.4	-3.0	87.1	24.8	2.5	2.4	98.6
2018		-1.3	-0.3	0.5	-1.4	-2.5	87.0	24.4	2.1	3.4	97.4
2019		-1.3	-0.5	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020		--	--	--	--	-11.5	--	--	--	--	119.1
2021		--	--	--	--	-8.6	--	--	--	--	119.4
2018	IV	-1.3	-0.3	0.5	-1.4	-2.5	87.0	24.4	2.1	3.4	97.4
2019	I	-1.5	-0.3	0.5	-1.3	-2.5	87.8	24.4	2.1	3.5	98.5
	II	-1.4	-0.3	0.5	-1.5	-2.8	87.5	24.5	2.1	4.0	98.6
	III	-0.9	-0.7	0.4	-1.4	-2.7	86.7	24.1	2.0	4.2	97.5
	IV	-1.3	-0.6	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020	I	-1.3	-0.6	0.3	-1.7	-3.4	88.7	24.1	1.9	4.5	99.1
	II	-4.7	-0.5	0.1	-1.9	-6.9	99.0	26.1	2.1	5.9	110.3
	III	-5.6	-0.1	0.2	-2.7	-8.1	102.7	26.3	2.1	6.5	114.1

(a) Excluding financial entities bail-out expenditures.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

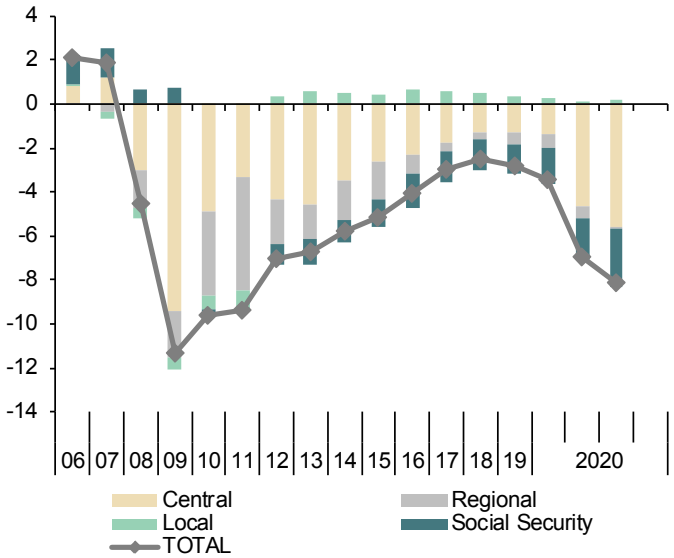


Chart 7.2 - Government debt

Percent of GDP

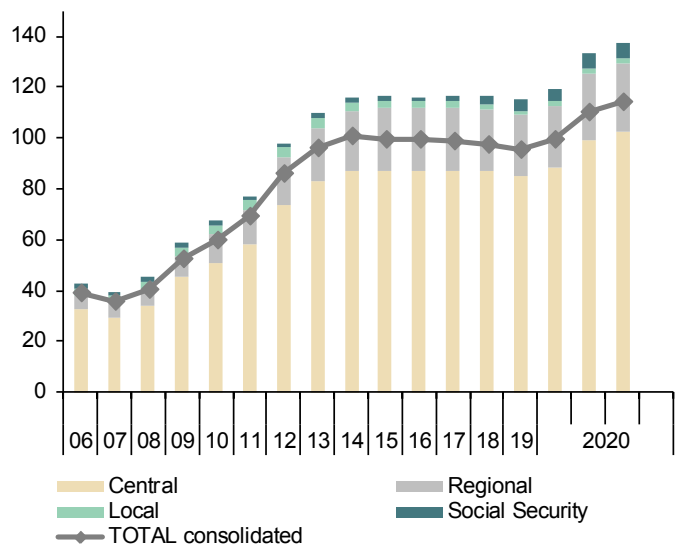


Table 8

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses
2013	90.1	48.3	15,855.2	250.0	95.5	2,021.6	48.5	-14.0	93.2	-30.7
2014	100.5	55.1	16,111.1	249.6	96.8	2,022.8	53.2	-7.1	95.3	-16.3
2015	107.8	56.7	16,641.8	253.8	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016	105.6	54.9	17,157.5	253.8	101.8	2,124.7	53.1	-2.3	102.7	-5.4
2017	108.4	56.2	17,789.6	258.4	105.0	2,191.0	54.8	1.0	107.1	2.2
2018	108.0	54.6	18,364.5	259.3	105.3	2,250.9	53.3	-0.1	108.4	-0.2
2019	104.1	52.7	18,844.1	251.8	106.1	2,283.2	49.1	-3.9	108.9	-5.1
2020 (b)	89.3	41.5	18,440.5	239.3	96.0	2,239.3	47.5	-14.0	97.4	-30.1
2019 I	104.8	54.5	18,708.3	63.6	106.1	2,273.9	51.1	-3.8	109.3	-5.8
II	104.3	52.4	18,808.4	63.1	107.0	2,281.0	49.9	-4.6	109.5	-2.7
III	105.6	52.0	18,885.3	62.2	106.6	2,286.5	48.2	-2.0	108.6	-4.5
IV	101.8	51.9	18,969.0	62.9	104.9	2,291.5	47.2	-5.2	105.2	-7.3
2020 I	101.2	43.3	18,904.2	61.8	99.4	2,284.4	48.2	-5.4	98.9	-7.8
II	77.1	29.4	17,957.3	55.1	81.0	2,201.9	39.4	-27.8	95.2	-53.4
III	89.5	48.5	18,321.9	59.8	101.4	2,227.3	51.4	-11.9	99.3	-38.4
IV (b)	89.3	44.8	18,592.5	62.1	102.3	2,244.1	51.1	-11.0	104.0	-20.7
2020 Oct	89.5	44.1	18,519.3	20.2	102.8	2,241.5	52.5	-10.8	104.0	-25.3
Nov	87.5	41.7	18,622.9	20.5	101.9	2,244.3	49.8	-11.7	--	-20.0
Dec	90.8	48.7	18,635.4	20.7	--	2,246.5	51.0	-10.6	--	-16.7
					Percentage changes (c)					
2013	--	--	-2.9	-2.2	-1.6	-4.4	--	--	-1.9	--
2014	--	--	1.6	-0.2	1.3	0.1	--	--	2.3	--
2015	--	--	3.3	1.7	3.4	2.2	--	--	4.8	--
2016	--	--	3.1	0.0	1.8	2.8	--	--	2.7	--
2017	--	--	3.7	1.8	3.2	3.1	--	--	4.2	--
2018	--	--	3.2	0.3	0.2	2.7	--	--	1.2	--
2019	--	--	2.6	-2.9	0.7	1.4	--	--	0.5	--
2020 (d)	--	--	-2.1	-5.0	-10.3	-1.9	--	--	-10.7	--
2019 I	--	--	0.7	-0.5	1.3	0.4	--	--	0.3	--
II	--	--	0.5	-0.8	0.8	0.3	--	--	0.2	--
III	--	--	0.4	-1.5	-0.3	0.2	--	--	-0.8	--
IV	--	--	0.4	1.1	-1.6	0.2	--	--	-3.2	--
2020 I	--	--	-0.3	-1.8	-5.3	-0.3	--	--	-6.0	--
II	--	--	-5.0	-10.8	-18.5	-3.6	--	--	-3.8	--
III	--	--	2.0	8.6	25.3	1.2	--	--	4.4	--
IV (e)	--	--	1.5	3.8	0.9	0.8	--	--	4.7	--
2020 Oct	--	--	0.2	3.0	0.5	0.2	--	--	2.4	--
Nov	--	--	0.6	-0.8	-0.9	0.1	--	--	--	--
Dec	--	--	0.1	1.4	--	0.1	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annual percentage changes

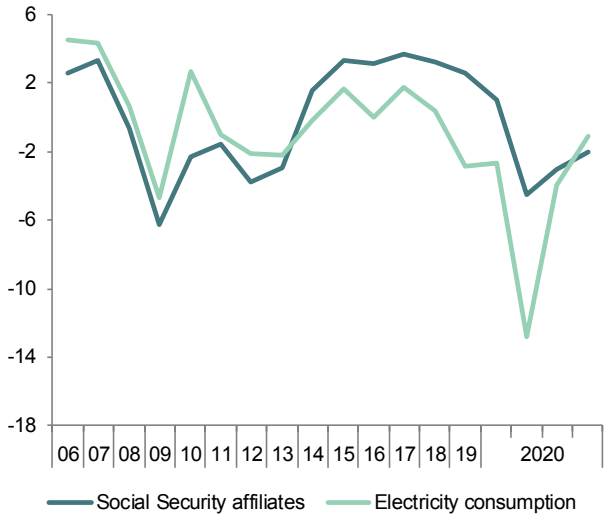


Chart 8.2 - General activity indicators (II)

Index

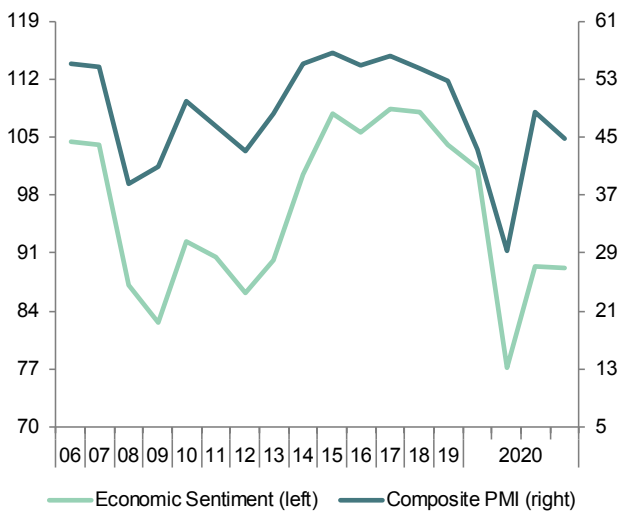


Chart 8.3 - Industrial sector indicators (I)

Annual percentage changes

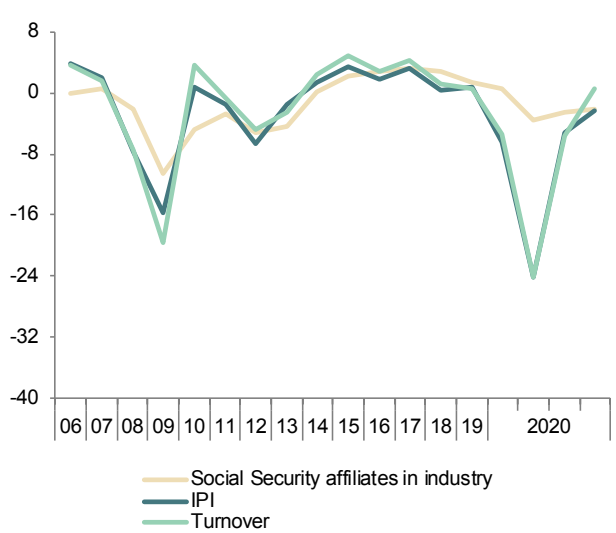


Chart 8.4 - Industrial sector indicators (II)

Index

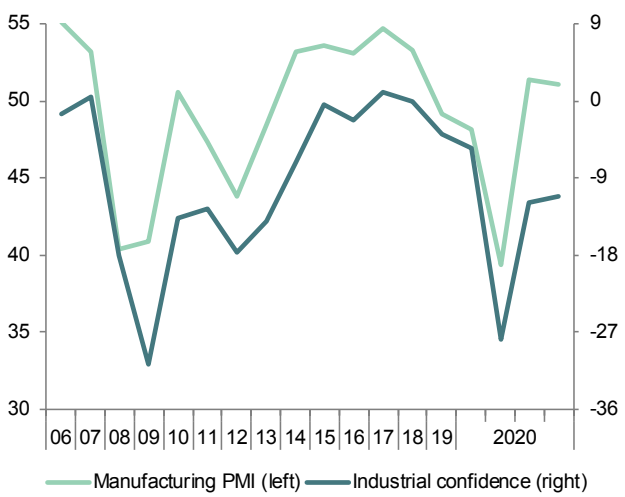


Table 9

Construction and services sector indicators (a)

	Construction indicators					Service sector indicators					
	Social Security Affiliates in construction	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	2015=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	Thousands	2015=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2012	1,135.5	101.2	-54.9	7.4	8.5	11,909.7	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	9.2	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8
2017	1,118.8	111.5	-26.9	12.7	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018	1,194.1	114.2	-4.6	16.6	19.8	13,781.3	117.5	54.8	340.0	262.9	21.7
2019	1,254.9	124.8	-7.0	18.3	20.0	14,169.1	122.2	53.9	343.0	276.9	13.9
2020 (b)	1,233.1	111.3	-18.4	11.7	13.2	13,849.2	101.0	40.3	88.5	75.6	-26.2
2019 I	1,244.3	123.0	-0.6	5.0	5.2	14,041.0	121.7	55.3	87.8	69.4	15.5
II	1,251.8	125.0	-7.8	4.8	5.5	14,135.5	123.0	53.1	88.6	70.5	14.8
III	1,258.7	123.7	-7.4	4.4	4.8	14,208.3	122.6	53.5	87.4	69.7	14.2
IV	1,265.1	118.8	-12.4	3.9	4.5	14,287.9	118.4	53.6	78.9	62.5	11.0
2020 I	1,253.7	110.8	-8.6	3.4	4.7	14,250.7	108.6	42.5	56.9	44.4	7.8
II	1,166.6	107.3	-26.3	3.1	3.3	13,470.8	100.1	28.4	30.4	23.2	-47.1
III	1,250.3	112.8	-24.3	3.2	3.9	13,728.1	100.5	47.3	16.3	12.9	-35.9
IV (b)	1,263.5	119.1	-14.4	2.3	1.3	13,958.9	103.0	43.0	6.5	9.6	-29.4
2020 Oct	1,259.7	117.8	-13.0	1.1	1.3	13,896.6	103.0	41.4	3.7	3.4	-30.8
Nov	1,261.8	120.3	-15.7	1.2	--	13,983.8	--	39.5	2.9	3.2	-33.0
Dec	1,269.1	--	-14.6	--	--	13,996.5	--	48.0	--	3.0	-24.3
					Percentage changes (c)						
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	--	-1.7	29.0	3.4	4.2	--	7.4	11.0	--
2017	6.2	8.7	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018	6.7	2.5	--	30.8	24.5	3.3	5.8	--	-0.2	5.8	--
2019	5.1	9.2	--	10.4	1.3	2.8	4.0	--	0.9	5.3	--
2020 (d)	-1.7	-11.6	--	-28.7	-23.6	-2.3	-16.7	--	-72.9	-72.7	--
2019 I	1.6	3.3	--	33.0	11.0	0.7	1.3	--	1.4	2.3	--
II	0.6	1.7	--	23.8	6.8	0.7	1.1	--	0.9	1.7	--
III	0.6	-1.1	--	0.2	-3.4	0.5	-0.3	--	-1.4	-1.2	--
IV	0.5	-4.0	--	-20.7	-8.8	0.6	-3.5	--	-9.7	-10.4	--
2020 I	-0.9	-6.7	--	-33.3	-10.5	-0.3	-8.2	--	-27.9	-29.0	--
II	-7.0	-3.1	--	-36.1	-39.4	-5.5	-7.8	--	-46.6	-47.8	--
III	7.2	5.1	--	-27.2	-18.9	1.9	0.4	--	-46.3	-44.4	--
IV (e)	1.1	5.5	--	-11.7	-26.0	1.7	2.4	--	-39.9	-25.6	--
2020 Oct	0.0	2.2	--	-15.4	-26.0	0.3	1.3	--	-18.2	-8.7	--
Nov	0.2	2.1	--	-7.9	--	0.6	--	--	-21.3	-7.0	--
Dec	0.6	--	--	--	--	0.1	--	--	--	-6.3	--

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

Sources: European 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)

Annual percentage changes and index

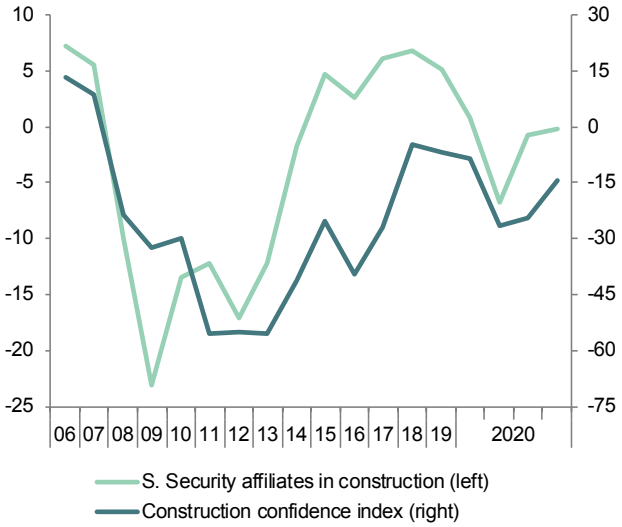


Chart 9.2 - Construction indicators (II)

Annual percentage changes

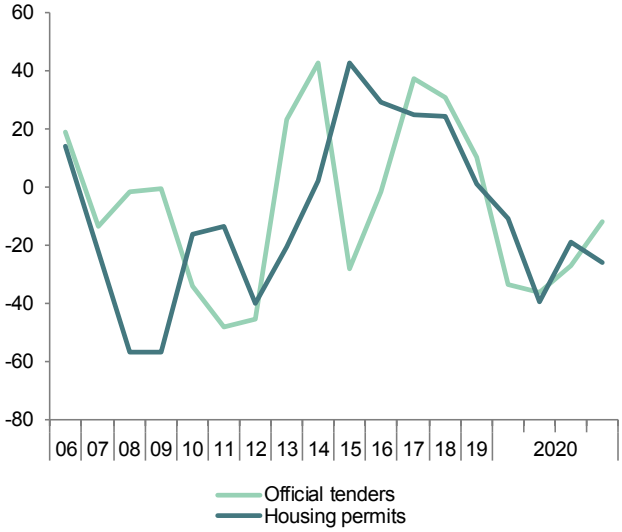


Chart 9.3 - Services indicators (I)

Annual percentage changes

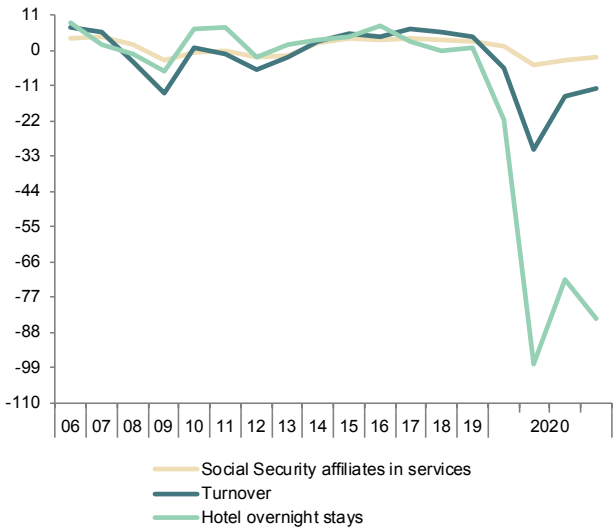


Chart 9.4 - Services indicators (II)

Index

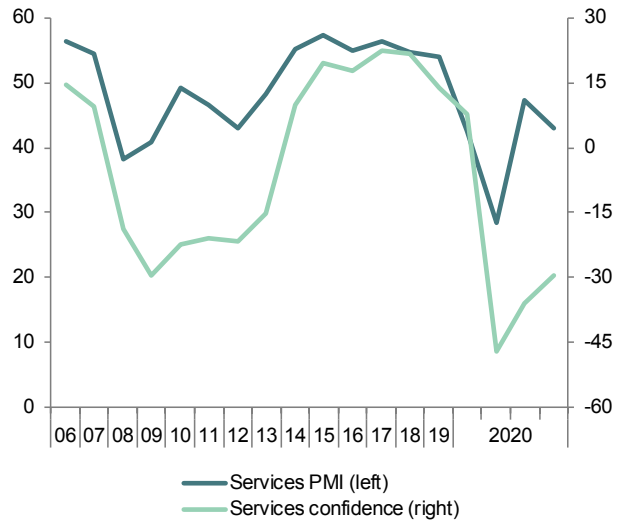


Table 10

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)
		2015=100 (smoothed)	Thousands (smoothed)	Balance of responses	Million (smoothed)	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100 (smoothed)
2012		98.7	710.6	-33.7	102.1	-24.2	107.7	-38.6	60.6
2013		95.0	742.3	-28.1	100.6	-21.8	107.6	-33.5	68.9
2014		96.0	890.1	-14.5	104.7	-9.1	137.5	-16.5	81.6
2015		100.0	1,094.0	-4.7	110.3	-3.1	180.3	0.2	93.3
2016		103.9	1,230.1	-6.3	114.2	-1.4	191.3	-0.2	97.2
2017		104.7	1,341.6	-3.4	115.8	2.2	207.6	4.9	103.3
2018		105.4	1,424.0	-4.2	116.5	-5.6	230.0	12.4	105.4
2019		107.9	1,375.6	-6.3	119.6	-2.9	220.9	8.8	105.6
2020 (b)		98.2	939.1	-22.8	48.8	-25.2	170.8	-22.7	95.2
2019	I	107.2	346.6	-4.8	30.2	-1.5	57.7	10.9	106.6
	II	108.1	345.8	-4.0	30.6	-1.0	56.5	16.4	107.3
	III	108.0	336.0	-5.8	30.0	-6.2	53.6	6.8	105.0
	IV	105.3	303.6	-10.5	27.0	-2.8	48.2	1.2	99.8
2020	I	100.2	242.9	-10.3	20.1	-3.3	40.7	-11.4	94.3
	II	97.6	210.8	-27.9	13.1	-41.3	38.3	-41.0	93.5
	III	100.8	247.7	-26.9	11.0	-32.7	44.4	-28.9	100.1
	IV (b)	104.6	305.2	-26.3	6.9	-23.4	52.1	-9.6	105.8
2020	Oct	103.9	95.1	-26.7	3.5	-22.4	16.6	-19.9	105.8
	Nov	105.4	101.7	-29.0	3.4	-21.9	17.4	-9.7	--
	Dec	--	108.3	-23.1	--	-26.0	18.2	0.8	--
		Percentage changes (c)							
2012		-7.4	-12.1	--	-8.4	--	-24.2	--	-10.9
2013		-3.8	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	--	1.4	--	8.5	--	6.4
2018		0.7	6.1	--	0.6	--	10.8	--	2.0
2019		2.3	-3.4	--	2.7	--	-4.0	--	0.2
2020 (d)		-7.6	-31.7	--	-56.7	--	-22.6	--	-9.8
2018	IV	0.6	-2.1	--	1.7	--	-0.3	--	-2.7
2019	I	1.0	-0.5	--	1.7	--	-0.4	--	2.9
	II	0.9	-0.2	--	1.3	--	-2.1	--	2.4
	III	-0.1	-2.8	--	-1.8	--	-5.2	--	-8.3
	IV	-2.5	-9.7	--	-10.2	--	-10.1	--	-18.3
2020	I	-4.9	-20.0	--	-25.6	--	-15.5	--	-20.3
	II	-2.6	-13.2	--	-34.9	--	-6.1	--	-3.4
	III (e)	3.3	17.5	--	-15.5	--	16.1	--	31.4
2020	Oct	1.5	7.3	--	-2.5	--	5.5	--	2.8
	Nov	1.4	6.9	--	-3.0	--	5.0	--	--
	Dec	--	6.5	--	--	--	4.7	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) 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

Annual percentage changes and balance of responses

Chart 10.2 - Investment indicators

Annual percentage changes and balance of responses

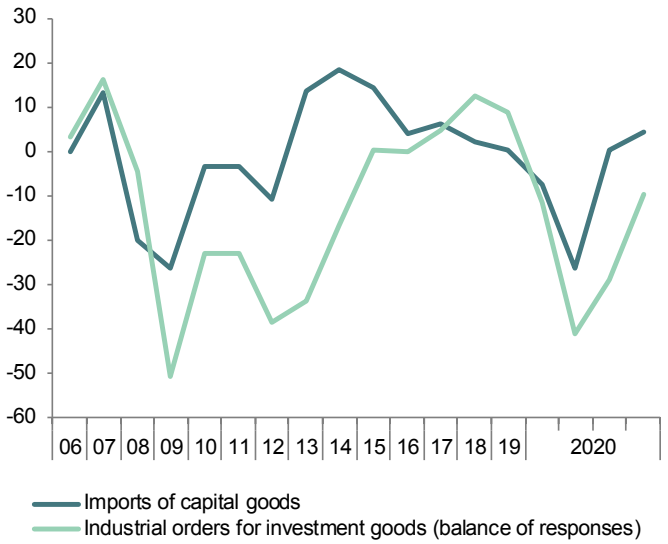


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate aged 16 or more (a)	Employment rate aged 16 or more (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
2014		38.5	23.0	--	17.3	--	5.6	--	59.6	45.0	24.4	53.2	23.0	34.5
2015		38.5	22.9	--	17.9	--	5.1	--	59.5	46.4	22.1	48.3	20.9	30.5
2016		38.5	22.8	--	18.3	--	4.5	--	59.2	47.6	19.6	44.4	18.7	26.6
2017		38.7	22.7	--	18.8	--	3.9	--	58.8	48.7	17.2	38.6	16.3	23.8
2018		38.9	22.8	--	19.3	--	3.5	--	58.6	49.7	15.3	34.4	14.3	21.9
2019		39.3	23.0	--	19.8	--	3.2	--	58.6	50.4	14.1	32.6	13.2	20.1
2020		39.6	22.9	--	19.1	--	3.8	--	57.8	48.2	16.5	--	--	--
2021		39.7	23.4	--	19.4	--	4.0	--	58.9	48.9	17.0	--	--	--
2018	IV	39.0	22.9	22.8	19.6	19.4	3.3	3.4	58.6	49.8	14.4	33.5	13.5	20.8
2019	I	39.1	22.8	22.9	19.5	19.6	3.4	3.3	58.5	50.0	14.7	35.0	13.8	20.9
	II	39.2	23.0	23.0	19.8	19.6	3.2	3.3	58.6	50.0	14.0	33.2	13.1	20.3
	III	39.3	23.1	23.0	19.9	19.7	3.2	3.4	58.6	50.0	13.9	31.7	13.1	19.3
	IV	39.4	23.2	23.1	20.0	19.8	3.2	3.3	58.7	50.3	13.8	30.5	12.8	20.0
2020	I	39.5	23.0	23.0	19.7	19.8	3.3	3.3	58.3	50.0	14.4	33.0	13.3	21.2
	II	39.6	22.0	21.9	18.6	18.4	3.4	3.5	55.4	46.6	15.3	39.6	13.9	24.9
	III	39.6	22.9	22.9	19.2	19.0	3.7	3.9	57.8	47.9	16.3	40.4	14.8	25.7
		Percentage changes (d)							Difference from one year ago					
2014		-0.3	-1.0	--	1.2	--	-7.3	--	-0.4	0.7	-1.7	-2.3	-1.4	-2.5
2015		0.0	-0.1	--	3.0	--	-9.9	--	-0.1	1.4	-2.4	-4.9	-2.1	-4.0
2016		0.1	-0.4	--	2.7	--	-11.4	--	-0.3	1.2	-2.4	-3.9	-2.2	-3.8
2017		0.3	-0.4	--	2.6	--	-12.6	--	-0.4	1.1	-2.4	-5.9	-2.4	-2.8
2018		0.6	0.3	--	2.7	--	-11.2	--	-0.2	1.0	-2.0	-4.2	-2.0	-1.9
2019		1.0	1.0	--	2.3	--	-6.6	--	0.0	0.7	-1.2	-1.8	-1.1	-1.8
2020		0.8	-0.7	--	-3.5	--	16.2	--	-0.9	-2.1	2.4	--	--	--
2021		0.3	2.3	--	1.7	--	5.4	--	1.2	0.7	0.5	--	--	--
2018	IV	0.8	0.5	0.2	3.0	0.7	-12.3	-2.6	-0.2	1.1	-2.1	-3.9	-2.0	-2.8
2019	I	0.9	0.7	0.1	3.2	0.6	-11.6	-2.5	-0.1	1.1	-2.0	-1.4	-1.9	-3.4
	II	1.0	0.9	0.4	2.4	0.3	-7.4	0.5	-0.1	0.7	-1.3	-1.5	-1.3	-1.7
	III	1.1	1.0	0.4	1.8	0.2	-3.4	1.2	0.0	0.4	-0.6	-1.3	-0.6	-1.3
	IV	1.0	1.3	0.4	2.1	0.9	-3.4	-2.5	0.1	0.5	-0.7	-3.0	-0.7	-0.8
2020	I	1.0	0.7	-0.4	1.1	-0.4	-1.2	-0.4	-0.2	0.0	-0.3	-2.0	-0.4	0.4
	II	0.9	-4.6	-4.9	-6.0	-6.7	4.3	6.0	-3.2	-3.5	1.3	6.5	0.8	4.7
	III	0.7	-0.8	4.4	-3.5	3.0	15.8	12.0	-0.8	-2.1	2.3	8.8	1.7	6.3

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

Source: INE (Labour Force Survey) *and Funcas.*

Chart 11a.1 - Labour force, employment and unemployment, SA

Annual growth rates and percentage of active population

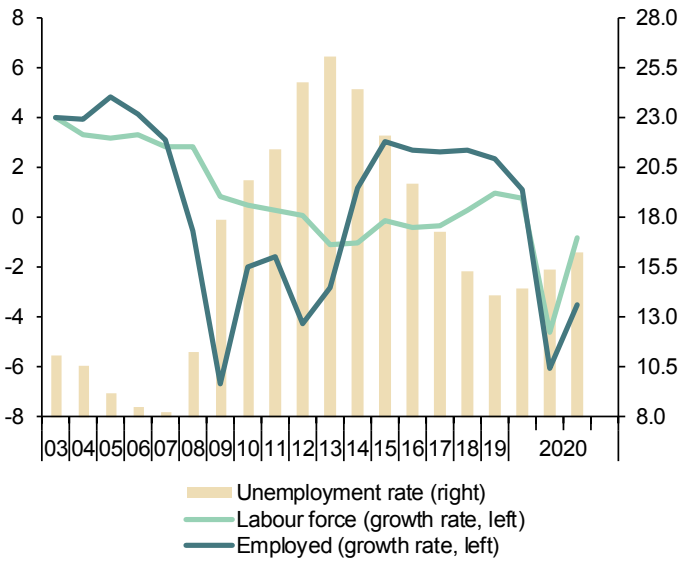


Chart 11a.2 - Unemployment rates, S.A.

Percentage

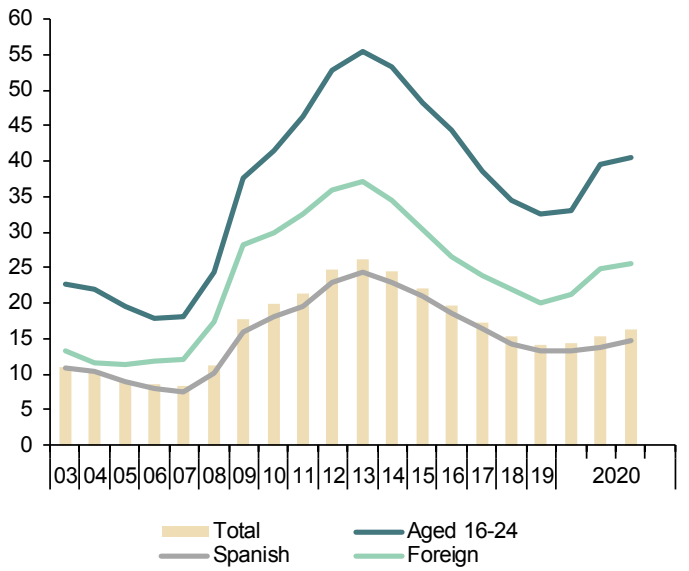


Table 11b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees							
						By type of contract						
	Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
	Million (original data)											
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	0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31
2019	0.80	2.76	1.28	14.94	16.67	4.38	12.29	26.3	3.11	16.95	2.83	14.30
2020 (c)	0.76	2.70	1.23	14.46	16.06	3.84	12.23	23.9	3.09	16.49	2.66	13.90
2018 IV	0.83	2.71	1.28	14.75	16.45	4.42	12.03	26.9	3.11	16.67	2.89	14.80
2019 I	0.84	2.71	1.28	14.64	16.36	4.23	12.12	25.9	3.11	16.57	2.90	14.90
II	0.81	2.76	1.28	14.95	16.69	4.40	12.29	26.4	3.12	16.85	2.95	14.90
III	0.75	2.82	1.27	15.04	16.79	4.48	12.31	26.7	3.08	17.09	2.79	14.03
IV	0.79	2.76	1.28	15.13	16.85	4.40	12.45	26.1	3.12	17.30	2.67	13.38
2020 I	0.78	2.77	1.28	14.85	16.56	4.14	12.42	25.0	3.12	16.83	2.85	14.47
II	0.76	2.64	1.17	14.03	15.53	3.47	12.06	22.4	3.08	16.12	2.49	13.36
III	0.73	2.69	1.25	14.51	16.11	3.89	12.21	24.2	3.07	16.52	2.65	13.84
	Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
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	5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2
2018	-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2019	-1.9	2.0	4.6	2.4	2.7	0.6	3.5	-0.6	0.5	2.3	2.3	0.0
2020 (d)	-4.8	-2.3	-3.4	-2.8	-3.3	-12.2	-0.1	-2.5	-0.5	-2.0	-7.5	-0.7
2018 IV	0.6	-0.1	11.9	3.0	3.3	3.9	3.1	0.2	1.1	2.9	3.2	0.0
2019 I	0.7	1.2	11.2	3.0	3.6	2.7	3.9	-0.2	1.0	3.2	3.1	0.0
II	-1.6	1.5	5.0	2.5	2.7	1.0	3.3	-0.4	1.0	0.9	11.9	1.3
III	-2.9	3.3	2.4	1.7	2.2	-0.7	3.3	-0.8	-0.3	1.6	2.8	0.1
IV	-3.8	2.0	0.3	2.5	2.4	-0.5	3.4	-0.8	0.3	3.8	-7.7	-1.4
2020 I	-6.5	2.2	-0.3	1.4	1.2	-2.2	2.4	-0.9	0.2	1.6	-1.8	-0.4
II	-5.7	-4.4	-8.4	-6.2	-7.0	-21.1	-1.9	-4.0	-1.2	-4.3	-15.8	-1.5
III	-2.0	-4.5	-1.6	-3.5	-4.1	-13.0	-0.8	-2.5	-0.5	-3.3	-4.8	-0.2

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

Source: INE (Labour Force Survey).

Chart 11b.1 - Employment by sector

Annual percentage changes

Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

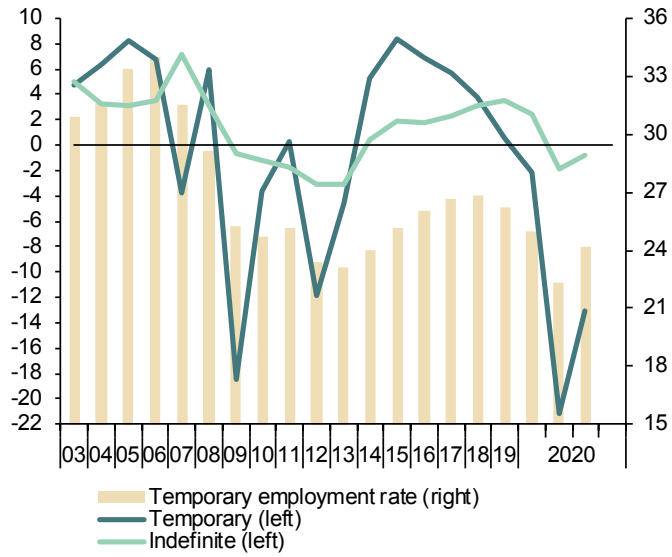


Table 12

Index of Consumer Prices

Forecasts in yellow

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2019		100.00	65.72	80.55	24.81	40.91	14.83	7.51	11.95	22.34
Indexes, 2016 = 100										
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		103.7	102.1	102.0	100.2	103.1	101.7	105.8	114.7	103.1
2019		104.4	103.0	102.9	100.4	104.6	102.2	107.8	113.2	104.0
2020		104.1	103.6	103.6	100.6	105.4	103.6	111.8	102.4	106.2
2021		105.3	104.0	104.0	100.8	105.9	104.3	113.3	109.3	107.2
Annual percentage changes										
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		1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8
2019		0.7	1.0	0.9	0.3	1.4	0.5	1.9	-1.2	0.9
2020		-0.3	0.6	0.7	0.2	0.8	1.3	3.7	-9.6	2.1
2021		1.2	0.3	0.4	0.1	0.5	0.7	1.3	6.8	0.9
2020	Jan	1.1	1.0	1.0	0.3	1.4	1.0	3.5	0.0	1.8
	Feb	0.7	1.1	1.2	0.4	1.5	1.3	2.7	-3.3	1.8
	Mar	0.0	1.0	1.1	0.3	1.4	1.4	3.9	-9.7	2.2
	Apr	-0.7	0.9	1.1	0.3	1.3	1.9	6.9	-17.1	3.5
	May	-0.9	0.9	1.1	0.1	1.3	2.0	5.4	-17.7	3.1
	Jun	-0.3	0.8	1.0	0.1	1.3	1.7	4.1	-11.9	2.5
	Jul	-0.6	0.4	0.6	0.4	0.4	1.4	3.1	-10.7	2.0
	Aug	-0.5	0.2	0.4	0.3	0.2	1.2	3.5	-9.3	2.0
	Sep	-0.4	0.3	0.4	0.2	0.3	1.1	4.2	-8.5	2.1
	Oct	-0.8	0.1	0.3	0.0	0.1	1.0	4.1	-11.1	2.0
	Nov	-0.8	0.1	0.2	0.0	0.1	0.8	2.0	-9.5	1.2
	Dec	-0.5	0.0	0.1	0.1	-0.1	0.9	1.4	-6.2	1.0
2021	Jan	0.1	0.1	0.2	0.0	0.1	0.9	1.6	-1.8	1.1
	Feb	-0.1	-0.1	0.0	0.1	-0.2	0.6	2.0	-2.5	1.1
	Mar	0.6	-0.1	0.0	0.1	-0.2	0.5	1.5	3.6	0.8
	Apr	1.1	-0.2	-0.2	0.1	-0.4	0.1	-0.6	11.8	-0.1
	May	1.3	-0.1	-0.1	0.2	-0.3	0.0	0.4	13.0	0.2
	Jun	1.0	-0.2	-0.1	0.2	-0.5	0.3	1.1	9.4	0.6
	Jul	1.4	0.4	0.4	0.0	0.6	0.6	1.7	7.8	1.0
	Aug	1.5	0.7	0.7	0.1	1.0	0.7	1.3	7.8	0.9
	Sep	1.6	0.7	0.7	0.2	1.0	1.0	1.2	7.9	1.0
	Oct	2.0	0.9	0.9	0.2	1.4	1.1	1.0	10.6	1.0
	Nov	2.1	1.0	1.1	0.2	1.5	1.3	2.1	9.6	1.6
	Dec	2.0	1.1	1.2	0.2	1.7	1.4	2.6	6.8	1.8

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation rate (I)

Annual percentage changes

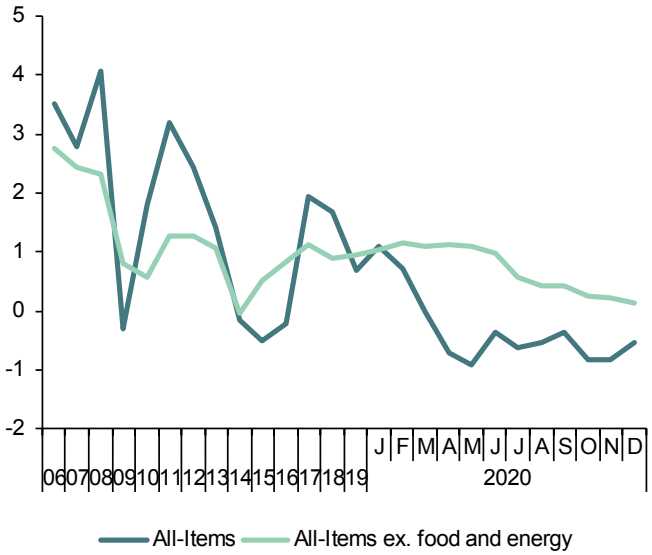


Chart 12.2 - Inflation rate (II)

Annual percentage changes

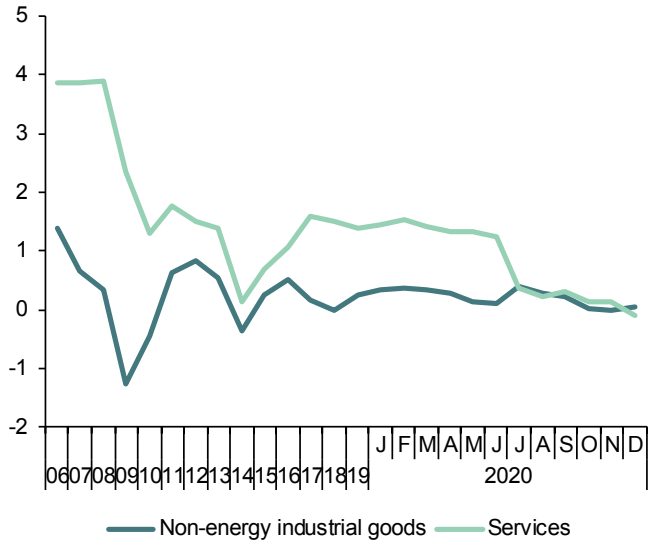


Table 13

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	m² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2010=100	2015=100		2007=100			2000=100				
2013		100.1	103.5	100.5	64.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014		99.9	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015		100.5	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016		100.8	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		103.3	104.1	103.0	79.3	77.4	57.3	145.4	143.8	150.6	158.6	--
2019		104.7	103.6	103.2	83.3	79.8	57.7	148.7	146.4	155.7	162.7	--
2020 (b)		105.7	99.0	103.0	85.1	78.9	52.8	142.0	138.6	152.5	171.0	--
2019	I	103.9	104.2	103.0	82.1	79.6	57.3	144.1	140.5	155.2	152.2	--
	II	104.6	104.3	103.4	83.0	79.6	59.0	150.6	149.2	155.0	160.5	--
	III	104.7	103.3	103.2	84.3	79.7	58.2	144.3	140.6	155.9	167.0	--
	IV	105.7	102.8	103.0	83.8	80.4	56.5	155.7	155.4	156.6	171.2	--
2020	I	105.0	101.4	103.5	84.7	79.8	58.9	145.3	141.5	156.7	158.6	--
	II	105.8	96.3	102.6	84.8	78.3	50.1	138.1	135.1	147.2	180.2	--
	III	106.2	99.2	102.8	85.7	78.8	49.3	142.7	139.2	153.5	174.2	--
	IV (b)	--	99.4	103.3	--	--	--	--	--	--	--	--
2020	Sep	--	99.4	102.9	--	--	--	--	--	--	--	--
	Oct	--	99.0	103.2	--	--	--	--	--	--	--	--
	Nov	--	99.8	103.5	--	--	--	--	--	--	--	--
						Annual percent changes (c)						
2013		0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.5
2014		-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015		0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.7	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		1.3	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018		1.2	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.5	1.8
2019		1.4	-0.4	0.1	5.1	3.2	0.7	2.2	1.9	3.4	2.6	2.3
2020 (d)		1.2	-4.5	-0.1	2.3	-0.9	-9.2	-3.0	-3.3	-1.9	6.9	1.9
2019	I	1.2	1.9	0.2	6.8	4.4	-2.1	2.1	1.7	3.0	2.5	2.2
	II	1.4	0.9	0.3	5.3	3.1	0.9	2.4	2.1	3.6	3.0	2.2
	III	1.3	-2.2	0.1	4.7	3.1	4.5	2.2	1.9	3.0	2.3	2.3
	IV	1.6	-2.3	0.0	3.6	2.1	-0.2	2.3	1.8	4.0	2.7	2.3
2020	I	1.1	-2.7	0.4	3.2	0.3	2.8	0.8	0.7	1.0	4.2	2.0
	II	1.1	-7.7	-0.7	2.1	-1.7	-15.1	-8.3	-9.4	-5.0	12.3	2.0
	III	1.4	-3.9	-0.4	1.7	-1.1	-15.2	-1.1	-1.0	-1.6	4.3	1.9
	IV (e)	--	-3.3	0.3	--	--	--	--	--	--	--	1.9
2020	Oct	--	-4.2	0.2	--	--	--	--	--	--	--	1.9
	Nov	--	-2.8	0.5	--	--	--	--	--	--	--	1.9
	Dec	--	--	--	--	--	--	--	--	--	--	1.9

(a) Seasonally adjusted. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Growth of the average of available months over the monthly average of the previous quarter.

Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

Chart 13.1 - Housing and urban land prices

Index (2007=100)

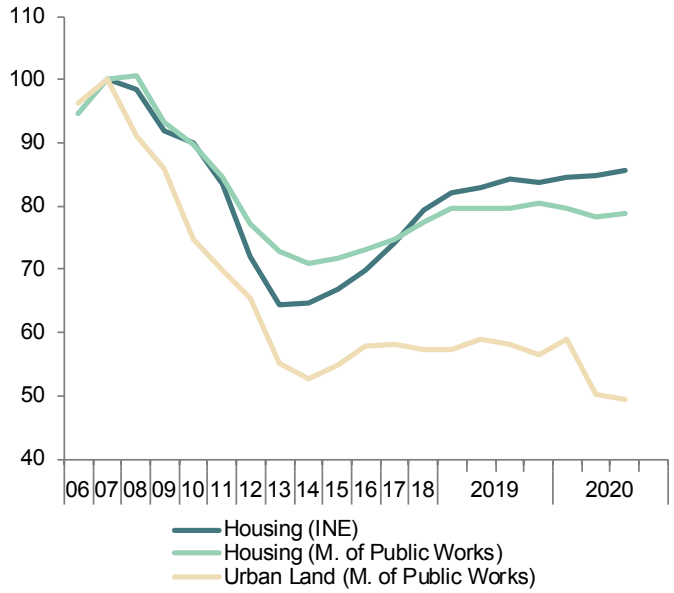


Chart 13.2 - Wage costs

Annual percent change

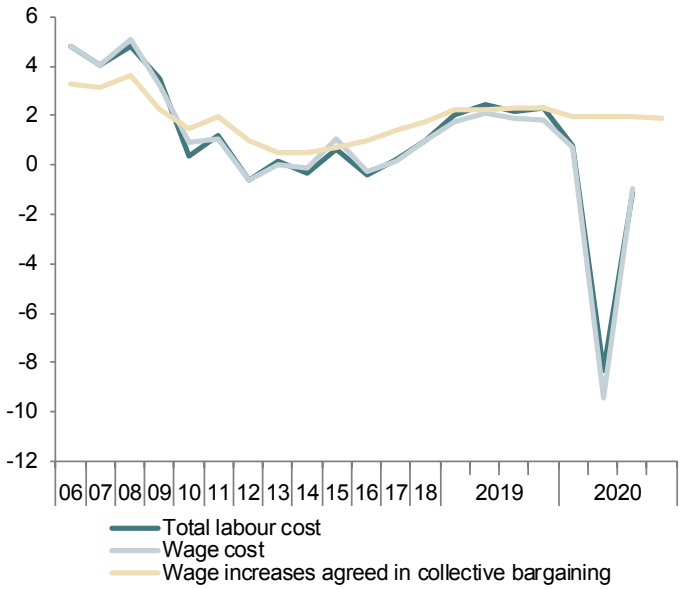


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2014		155.2	109.4	141.9	114.0	107.3	106.3	12.7	7.3	-2.1	1.1	0.9
2015		161.2	110.1	146.5	118.0	104.6	112.9	13.5	7.3	-2.1	0.2	0.6
2016		165.4	108.2	153.0	117.5	101.3	116.1	14.2	7.2	-1.4	0.3	1.2
2017		178.2	108.9	163.7	129.8	106.1	122.4	15.1	7.9	-2.2	0.0	1.3
2018		184.0	112.1	164.2	137.2	110.9	123.8	15.6	8.1	-2.9	-0.3	1.3
2019		187.1	112.9	165.9	138.3	110.8	124.9	15.9	8.3	-2.7	-0.4	1.4
2020 (b)		165.8	111.9	148.1	115.9	107.2	108.1	13.0	8.4	-1.2	0.2	1.4
2018	IV	182.7	113.5	161.0	137.8	113.7	121.2	13.6	9.8	-3.2	-0.4	0.6
2019	I	183.6	112.8	162.8	137.9	110.1	125.3	14.0	9.5	-3.1	-0.6	0.8
	II	198.2	111.7	177.4	143.2	110.4	129.7	14.9	10.5	-2.3	-0.1	1.0
	III	186.0	112.5	165.4	139.5	109.5	127.5	14.0	9.9	-3.1	-0.9	0.4
	IV	185.8	114.3	162.6	134.6	113.1	119.0	14.0	9.9	-2.2	0.1	0.8
2020	I	175.8	113.4	155.1	129.2	111.1	116.3	13.5	9.0	-2.4	-0.2	0.8
	II	142.2	111.6	127.4	96.7	104.7	92.3	11.1	7.1	-0.5	0.3	1.7
	III	175.0	110.5	158.4	119.5	105.5	113.3	13.8	8.6	-0.7	0.6	1.6
2020	Aug	172.6	109.1	158.2	120.0	105.0	114.3	13.5	8.6	-1.1	0.3	1.5
	Sep	178.0	109.8	162.2	120.3	105.8	113.7	13.8	9.0	-0.4	0.6	1.5
	Oct	178.8	112.6	158.8	122.4	106.5	115.0	14.1	8.9	-0.7	0.7	1.4
		Percentage changes (c)								Percentage of GDP		
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		7.7	0.7	7.0	10.5	4.7	5.5	6.5	10.1	-2.3	0.0	1.3
2018		3.3	3.0	0.3	5.7	4.5	1.2	3.4	3.1	-2.9	-0.3	1.3
2019		1.7	0.7	1.0	0.8	-0.1	0.8	1.7	1.7	-2.6	-0.4	1.4
2020 (d)		-11.9	-0.6	-11.3	-16.7	-2.7	-14.3	-9.3	-15.5	--	--	--
2018	IV	-1.9	0.8	-2.6	0.1	1.0	-0.9	-2.9	-0.5	-3.2	-0.4	0.6
2019	I	0.5	-0.6	1.2	0.1	-3.1	3.3	3.1	-3.1	-3.1	-0.5	0.8
	II	7.9	-0.9	8.9	3.8	0.2	3.6	6.3	10.4	-2.2	-0.1	1.0
	III	-6.1	0.7	-6.7	-2.6	-0.8	-1.7	-6.2	-5.9	-3.0	-0.9	0.4
	IV	-0.1	1.6	-1.7	-3.5	3.4	-6.7	-0.2	0.1	-2.1	0.0	0.8
2020	I	-5.4	-0.8	-4.6	-4.0	-1.8	-2.2	0.0	0.0	-2.5	-0.2	0.8
	II	-19.1	-1.6	-17.8	-25.1	-5.7	-20.6	0.0	0.0	-0.6	0.3	2.1
	III	23.1	-1.0	24.3	23.6	0.7	22.7	0.0	0.0	-0.7	0.6	1.7
2020	Aug	-1.0	-3.2	2.3	1.5	-0.7	2.2	-5.0	5.9	--	--	--
	Sep	3.2	0.6	2.5	0.3	0.7	-0.5	2.7	3.9	--	--	--
	Oct	0.5	2.6	-2.1	1.7	0.7	1.1	1.6	-1.4	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Percent change from the previous quarter for quarterly data, 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)

Annual percent change

Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

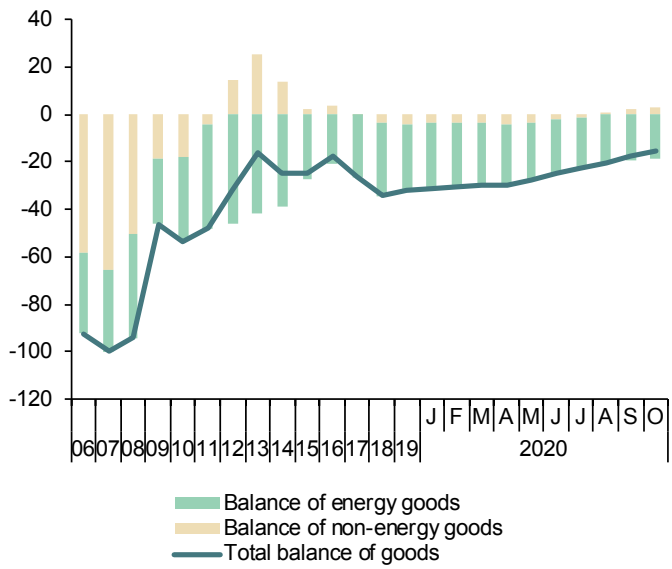


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					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															
2014		17.54	-21.26	53.25	-3.79	-10.67	4.54	22.08	-10.00	10.68	-2.67	-19.03	1.01	27.14	-4.94
2015		21.83	-20.68	53.44	-0.24	-10.69	6.98	28.80	69.47	30.07	-5.16	40.75	3.81	-40.79	-0.12
2016		35.37	-14.28	58.70	2.75	-11.80	2.43	37.80	89.49	11.19	46.65	29.09	2.57	-54.02	-2.34
2017		32.21	-22.04	63.93	0.44	-10.13	2.84	37.80	68.01	12.46	25.08	22.74	7.72	-32.63	-2.42
2018		23.22	-29.68	62.45	2.20	-11.74	5.81	29.03	47.49	-13.35	15.24	46.35	-0.75	-14.25	4.20
2019		26.57	-26.47	63.93	1.86	-12.74	4.21	28.66	61.77	9.97	-50.98	59.32	-8.26	14.82	-5.21
2020 (a)		2.67	-8.10	20.36	0.46	-10.05	2.08	4.75	61.77	10.33	32.46	11.55	7.44	-38.32	18.70
2018	III	7.81	-9.19	21.21	-0.68	-3.52	0.87	8.68	8.78	2.78	3.73	-0.22	2.47	0.07	0.17
	IV	5.47	-7.70	12.93	3.36	-3.12	3.81	9.28	31.95	5.81	-6.10	31.97	0.27	-16.89	5.79
2019	I	-1.36	-8.01	10.37	0.70	-4.43	0.76	-0.60	7.21	6.52	19.73	-18.07	-0.97	-7.42	0.39
	II	10.98	-3.94	18.43	-1.25	-2.27	0.84	11.82	45.79	6.18	11.05	26.37	2.19	-35.09	-1.12
	III	8.66	-9.23	21.65	-0.29	-3.47	0.54	9.20	18.82	-3.73	11.84	9.34	1.37	-7.02	2.60
	IV	8.30	-5.29	13.48	2.69	-2.58	2.08	10.37	17.67	2.21	4.03	11.45	-0.02	-4.49	2.81
2020	I	-0.79	-5.97	8.90	0.52	-4.24	0.68	-0.12	46.43	-2.76	31.55	15.79	1.86	-43.40	3.14
	II	1.53	0.47	3.83	0.01	-2.79	0.59	2.12	1.76	5.14	-3.72	-3.26	3.60	5.62	5.26
	III	1.94	-2.60	7.63	-0.07	-3.02	0.82	2.75	13.58	7.95	4.64	-0.98	1.98	-0.54	10.29
			Goods and Services		Primary and Secondary Income										
2020	Aug	0.69	1.41		-0.72		0.17	0.86	-4.99	1.20	1.43	-9.57	1.95	3.94	-1.91
	Sep	-0.30	0.51		-0.82		0.33	0.03	6.02	0.56	5.94	-0.54	0.07	-4.90	1.09
	Oct	1.29	2.21		-0.92		0.65	1.95	-9.90	-4.13	11.77	-16.58	-0.96	7.98	-3.87
Percentage of GDP															
2014		1.7	-2.1	5.2	-0.4	-1.0	0.4	2.1	-1.0	1.0	-0.3	-1.8	0.1	2.6	-0.5
2015		2.0	-1.9	5.0	0.0	-1.0	0.6	2.7	6.4	2.8	-0.5	3.8	0.4	-3.8	0.0
2016		3.2	-1.3	5.3	0.2	-1.1	0.2	3.4	8.0	1.0	4.2	2.6	0.2	-4.9	-0.2
2017		2.8	-1.9	5.5	0.0	-0.9	0.2	3.3	5.9	1.1	2.2	2.0	0.7	-2.8	-0.2
2018		1.9	-2.5	5.2	0.2	-1.0	0.5	2.4	3.9	-1.1	1.3	3.8	-0.1	-1.2	0.3
2019		2.1	-2.1	5.1	0.1	-1.0	0.3	2.3	5.0	0.8	-4.1	4.8	-0.7	1.2	-0.4
2020 (a)		0.3	-1.0	2.5	0.1	-1.2	0.3	0.6	7.5	1.3	4.0	1.4	0.9	-4.7	2.3
2018	III	2.6	-3.1	7.1	-0.2	-1.2	0.3	2.9	3.0	0.9	1.3	-0.1	0.8	0.0	0.1
	IV	1.7	-2.4	4.1	1.1	-1.0	1.2	2.9	10.1	1.8	-1.9	10.1	0.1	-5.4	1.8
2019	I	-0.5	-2.7	3.5	0.2	-1.5	0.3	-0.2	2.4	2.2	6.6	-6.1	-0.3	-2.5	0.1
	II	3.5	-1.2	5.8	-0.4	-0.7	0.3	3.7	14.5	2.0	3.5	8.4	0.7	-11.1	-0.4
	III	2.8	-3.0	7.1	-0.1	-1.1	0.2	3.0	6.2	-1.2	3.9	3.1	0.4	-2.3	0.8
	IV	2.6	-1.6	4.1	0.8	-0.8	0.6	3.2	5.4	0.7	1.2	3.5	0.0	-1.4	0.9
2020	I	-0.3	-2.1	3.1	0.2	-1.5	0.2	0.0	16.0	-1.0	10.9	5.4	0.6	-14.9	1.1
	II	0.6	0.2	1.5	0.0	-1.1	0.2	0.8	0.7	2.1	-1.5	-1.3	1.4	2.2	2.1

(a) Period with available data

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

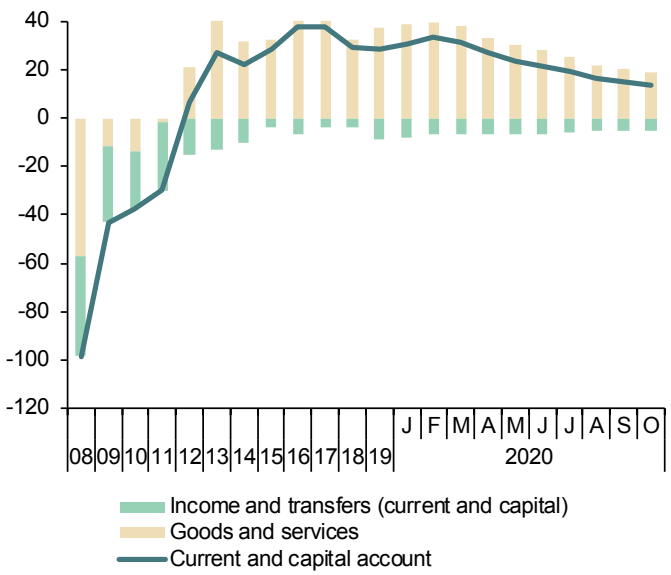


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

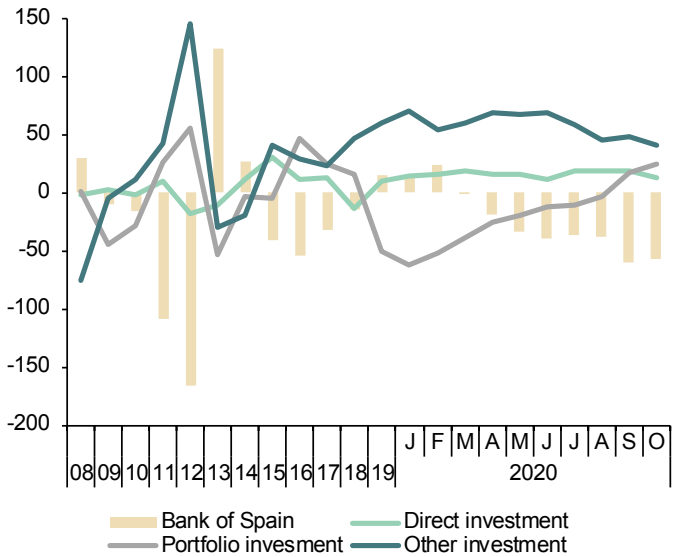


Table 16

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU) (a)			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 I =100
2013		102.8	98.1	104.8	100.8	99.5	101.3	103.5	104.4	99.1	113.5
2014		101.0	98.2	102.8	100.6	100.0	100.7	102.1	102.8	99.3	112.2
2015		98.6	96.8	101.8	100.0	100.0	100.0	100.0	100.0	100.0	107.8
2016		97.3	93.6	103.9	99.7	100.3	99.4	96.9	97.9	98.9	108.0
2017		97.3	92.8	104.8	101.7	101.8	99.9	101.2	100.7	100.5	109.7
2018		96.2	91.2	105.5	103.5	103.6	99.9	103.8	103.3	100.4	110.5
2019		96.2	92.3	104.2	104.3	104.8	99.5	103.4	103.7	99.8	109.1
2020 (b)		--	--	--	103.9	105.1	98.9	99.6	101.1	98.5	108.3
2018	IV	--	--	--	104.4	104.3	100.1	104.7	104.3	100.4	110.5
2019	I	--	--	--	102.9	103.5	99.4	103.8	104.0	99.8	109.0
	II	--	--	--	105.2	105.3	99.9	104.1	103.9	100.2	109.8
	III	--	--	--	104.0	105.1	99.0	103.1	103.4	99.7	108.6
	IV	--	--	--	105.0	105.3	99.6	102.8	103.4	99.5	108.9
2020	I	--	--	--	103.6	104.7	98.9	101.6	102.8	98.8	107.8
	II	--	--	--	104.5	105.5	99.1	97.3	99.9	97.4	108.6
	III	--	--	--	103.4	105.1	98.4	99.7	100.6	99.2	108.2
2020	Sep	--	--	--	103.7	105.0	98.8	100.0	100.7	99.3	108.8
	Oct	--	--	--	104.0	105.2	98.9	99.7	101.0	98.7	109.0
	Nov	--	--	--	104.1	104.8	99.4	100.3	101.3	99.0	109.3
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2013		-1.4	3.2	-4.5	1.5	1.3	0.2	0.6	-0.2	0.8	2.0
2014		-1.7	0.2	-1.9	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-1.1
2015		-2.4	-1.5	-0.9	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.9
2016		-1.3	-3.2	2.1	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	0.2
2017		0.0	-0.9	0.8	2.0	1.5	0.5	4.5	2.8	1.7	1.5
2018		-1.1	-1.8	0.6	1.7	1.7	0.0	2.5	2.6	-0.1	0.8
2019		0.0	1.2	-1.2	0.8	1.2	-0.4	-0.3	0.3	-0.6	-1.3
2020 (c)		--	--	--	-0.3	0.3	-0.6	-3.8	-2.5	-1.3	-0.7
2018	IV	--	--	--	1.8	1.8	0.0	2.4	2.8	-0.4	-0.5
2019	I	--	--	--	1.1	1.4	-0.3	1.6	1.9	-0.3	-1.3
	II	--	--	--	1.1	1.4	-0.3	0.8	1.1	-0.3	-1.2
	III	--	--	--	0.4	1.0	-0.6	-1.8	-0.6	-1.2	-1.3
	IV	--	--	--	0.5	1.0	-0.5	-1.8	-0.9	-0.9	-1.4
2020	I	--	--	--	0.7	1.1	-0.4	-2.1	-1.2	-0.9	-1.1
	II	--	--	--	-0.6	0.2	-0.8	-6.5	-3.8	-2.7	-1.1
	III	--	--	--	-0.6	0.0	-0.6	-3.3	-2.8	-0.5	-0.3
2020	Sep	--	--	--	-0.6	-0.3	-0.3	-2.7	-2.7	0.0	0.3
	Oct	--	--	--	-0.9	-0.3	-0.6	-3.4	-2.2	-1.2	-0.1
	Nov	--	--	--	-0.8	-0.3	-0.5	-2.4	-2.1	-0.3	0.2

(a) EMU excluding Ireland and Spain. (b) Period with available data. (c) 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 manufacturing (Spain/Rest of EMU)

1998=100

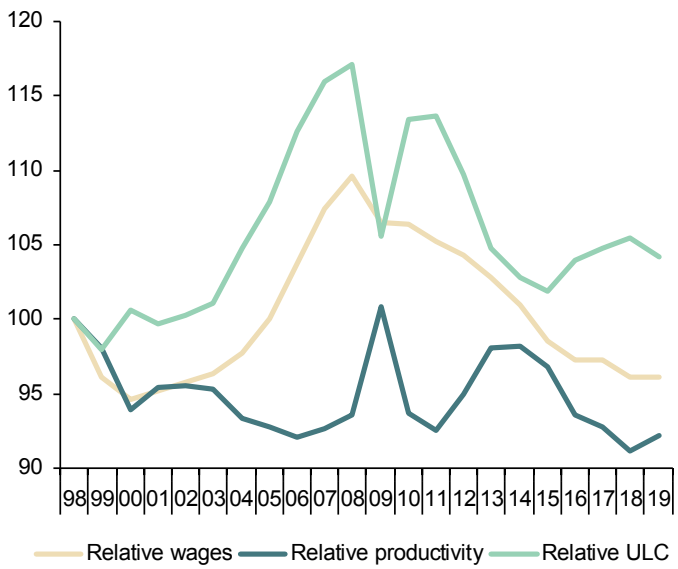


Chart 16.2 - Harmonized Consumer Prices

Annual growth in % and percentage points

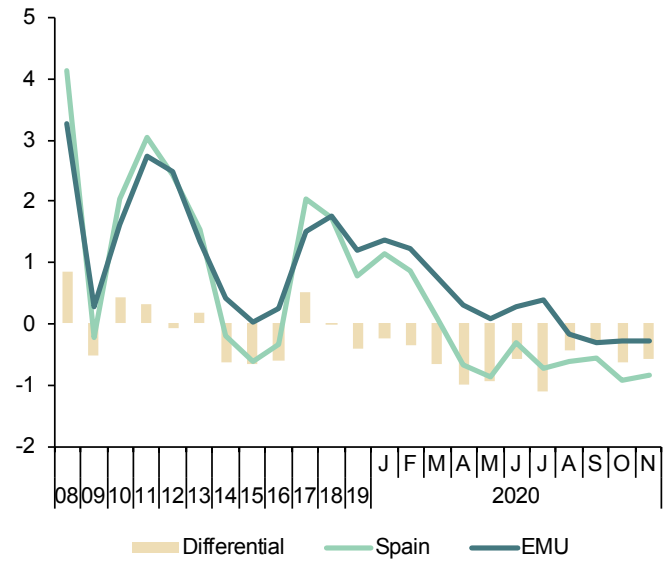


Table 17a

Imbalances: International comparison (I)

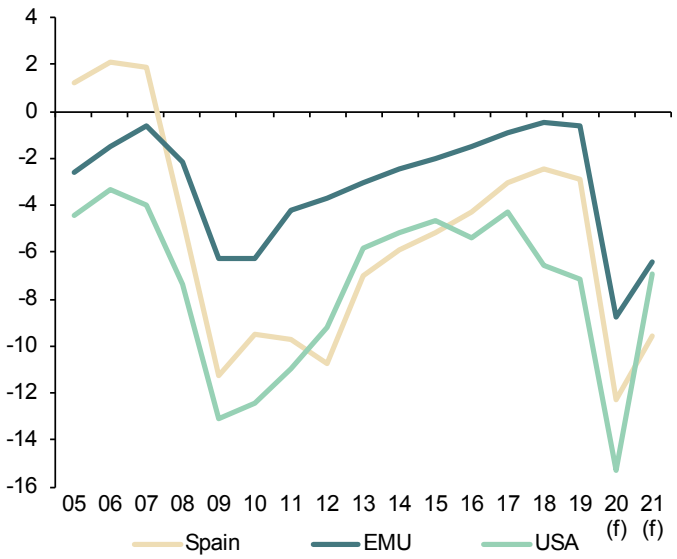
(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	Spain	EMU	USA	Spain	EMU	USA	Spain	EMU	USA
					Billions of national currency				
2008	-50.7	-207.4	-1,084.5	440.6	6,700.8	10,838.3	-98.8	-49.8	-859.7
2009	-120.6	-577.8	-1,896.6	569.5	7,440.5	12,525.9	-43.7	63.4	-558.6
2010	-102.2	-597.8	-1,863.1	649.2	8,199.1	14,301.9	-39.2	61.5	-491.3
2011	-103.6	-414.4	-1,709.1	743.0	8,658.8	15,501.9	-29.0	89.3	-404.9
2012	-110.7	-364.6	-1,493.3	889.9	9,114.9	16,718.0	0.9	226.2	-201.5
2013	-71.8	-299.3	-977.4	977.3	9,429.4	17,582.1	20.8	281.8	-203.6
2014	-61.1	-250.2	-910.9	1,039.4	9,674.6	18,299.9	17.5	317.0	-79.0
2015	-55.8	-207.7	-842.3	1,070.1	9,792.7	19,072.3	21.8	360.1	-186.4
2016	-48.0	-158.9	-1,009.4	1,104.6	9,973.5	19,991.2	35.4	390.2	-315.2
2017	-35.1	-104.2	-831.8	1,145.1	10,065.8	20,688.3	32.2	410.1	-260.1
2018	-29.9	-53.5	-1,357.9	1,173.4	10,167.0	22,031.9	23.2	400.5	-409.8
2019	-35.6	-74.1	-1,532.8	1,188.9	10,254.7	23,293.5	26.4	364.2	-515.6
2020	-134.4	-981.7	-3,157.5	1,320.6	11,408.2	26,451.0	20.3	291.3	--
2021	-111.9	-761.2	-1,501.7	1,426.2	12,098.8	27,952.7	29.5	312.1	--
					Percentage of GDP				
2008	-4.6	-2.2	-7.4	39.7	69.6	73.7	-8.9	-0.5	-5.8
2009	-11.3	-6.2	-13.1	53.3	80.2	86.7	-4.1	0.7	-3.9
2010	-9.5	-6.3	-12.4	60.5	86.0	95.4	-3.7	0.6	-3.3
2011	-9.7	-4.2	-11.0	69.9	88.4	99.7	-2.7	0.9	-2.6
2012	-10.7	-3.7	-9.2	86.3	92.7	103.2	0.1	2.3	-1.2
2013	-7.0	-3.0	-5.8	95.8	94.9	104.7	2.0	2.8	-1.2
2014	-5.9	-2.5	-5.2	100.7	95.2	104.4	1.7	3.1	-0.5
2015	-5.2	-2.0	-4.6	99.3	93.1	104.6	2.0	3.4	-1.0
2016	-4.3	-1.5	-5.4	99.2	92.2	106.6	3.2	3.6	-1.7
2017	-3.0	-0.9	-4.3	98.6	89.7	105.9	2.8	3.7	-1.3
2018	-2.5	-0.5	-6.6	97.4	87.7	106.9	1.9	3.5	-2.0
2019	-2.9	-0.6	-7.2	95.5	85.9	108.7	2.1	3.1	-2.4
2020	-12.2	-8.8	-15.3	120.3	101.7	127.9	1.8	2.6	--
2021	-9.6	-6.4	-6.9	122.0	102.3	128.7	2.5	2.6	--

Source: European Commission Forecasts, Autumn 2020.

Chart 17a.1 - Government deficit

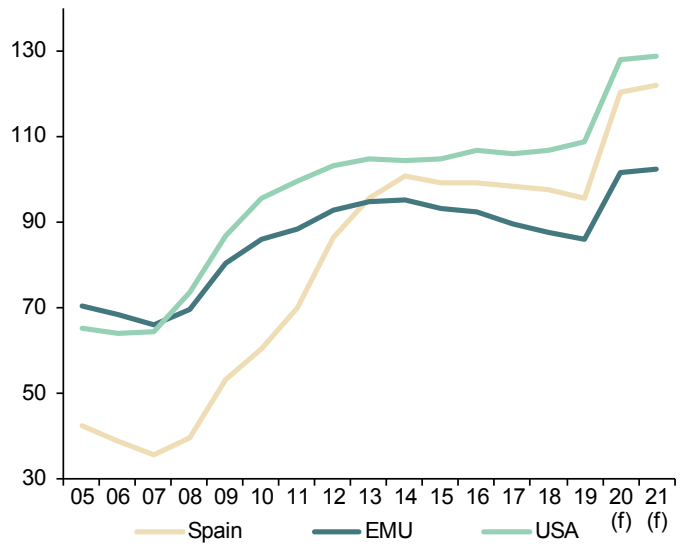
Percentage of GDP



(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	USA	Spain	EMU	USA
			Billions of national currency			
2005	656.2	4,768.9	12,031.8	954.1	7,018.0	8,143.0
2006	783.5	5,191.3	13,317.1	1,171.9	7,620.4	8,965.8
2007	879.3	5,560.2	14,240.2	1,371.6	8,401.5	10,097.7
2008	916.7	5,773.7	14,109.3	1,460.0	9,061.5	10,663.9
2009	908.9	5,881.0	13,949.9	1,473.5	9,149.0	10,152.6
2010	905.2	6,022.2	13,762.9	1,498.0	9,324.1	10,015.9
2011	877.9	6,105.5	13,634.3	1,458.3	9,695.2	10,261.9
2012	840.9	6,098.7	13,568.9	1,339.2	9,871.9	10,802.8
2013	793.6	6,059.9	13,791.9	1,267.9	9,873.2	11,289.8
2014	757.8	6,067.6	13,915.2	1,207.7	10,329.5	12,044.3
2015	733.3	6,131.1	14,070.7	1,183.7	10,885.9	12,868.6
2016	718.5	6,235.8	14,477.5	1,166.5	11,255.9	13,557.2
2017	711.0	6,397.8	15,014.7	1,153.1	11,460.9	14,544.8
2018	709.6	6,585.7	15,504.8	1,145.6	11,813.1	15,483.5
2019	708.6	6,810.4	16,001.4	1,155.8	12,076.6	16,223.2
			Percentage of GDP			
2005	70.8	56.5	92.3	102.9	83.1	62.5
2006	78.0	58.4	96.4	116.7	85.7	64.9
2007	81.8	59.2	98.5	127.5	89.5	69.9
2008	82.6	60.0	95.9	131.6	94.2	72.5
2009	85.0	63.4	96.5	137.8	98.7	70.3
2010	84.4	63.2	91.8	139.6	97.8	66.8
2011	82.5	62.3	87.7	137.1	99.0	66.0
2012	81.6	62.0	83.8	129.9	100.4	66.7
2013	77.8	61.0	82.2	124.3	99.4	67.3
2014	73.4	59.7	79.4	117.0	101.6	68.7
2015	68.0	58.3	77.1	109.8	103.5	70.6
2016	64.5	57.7	77.2	104.7	104.1	72.3
2017	61.2	57.0	76.8	99.2	102.2	74.4
2018	58.9	56.8	75.2	95.1	101.9	75.1
2019	56.9	57.1	74.7	92.9	101.2	75.7

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

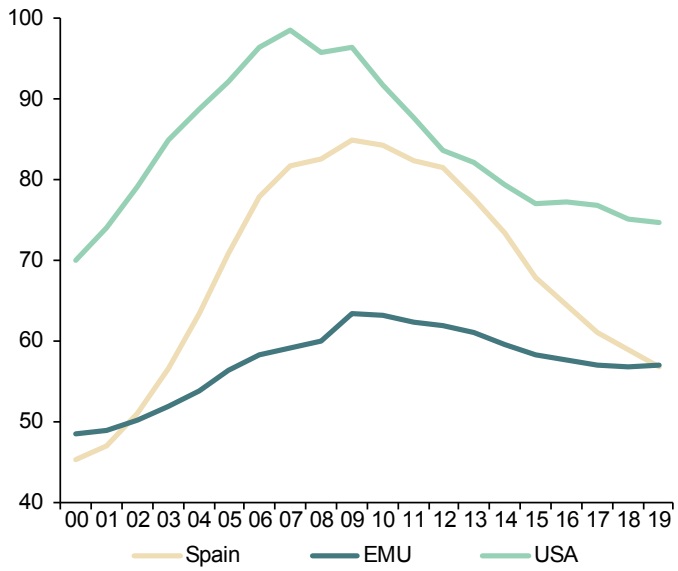
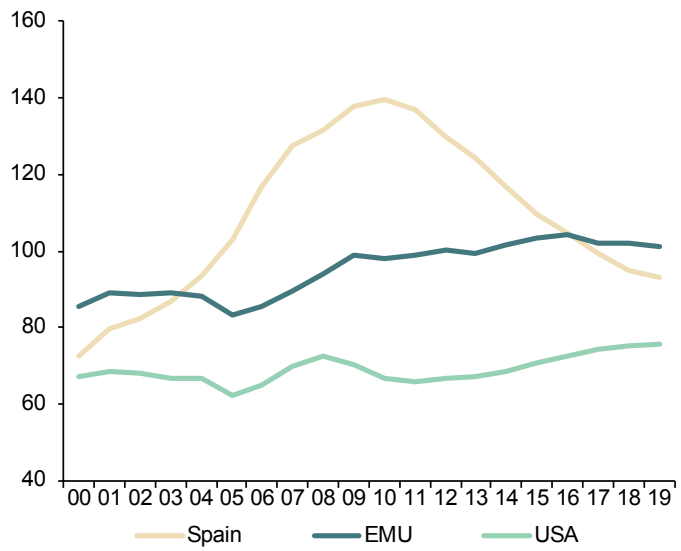


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: January 15th, 2020

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.06	October 2020
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.3	October 2020
Doubtful loans (monthly % var.)	-0.3	October 2020
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	1,774,798	December 2020
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	260,971	December 2020
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	3	December 2020
"Operating expenses/gross operating income" ratio (%)	57.68	September 2020
"Customer deposits/employees" ratio (thousand euros)	11,258.02	September 2020
"Customer deposits/branches" ratio (thousand euros)	86,902.35	September 2020
"Branches/institutions" ratio	119.94	September 2020

A. Money and Interest Rates

Indicator	Source	Average 2001-2017	2018	2019	2020 December	2021 January 15	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.2	4.1	5.0	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.7	-0.309	-0.354	-0.545	-0.550	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.1	-0.117	-0.249	-0.499	-0.505	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.8	1.4	0.6	0.04	0.09	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.9	1.5	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates reached new record-lows in mid-January amid a prolonged expansionary monetary policy due to the persistence of COVID-19. The 3-month interbank rate fell from -0.545% in December to -0.550% in mid-January, and the 1-year Euribor decreased from -0.499% to -0.505%. The ECB has expanded the pandemic bond-buying program by 500 billion euros. As for the Spanish 10-year bond yield, it climbed to 0.09%.

B. Financial Markets

Indicator	Source	Average 2001-2016	2018	2019	2020 September	2020 October	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.4	84.2	288.7	28.85	32.72	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	18.1	49.2	87.2	17.13	17.82	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.5	1.07	0.01	0.22	-	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.5	1.84	1.2	0.35	0.31	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.6	-0.52	-0.54	-0.67	-0.62	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	701.8	1,164.63	1,311.87	-	-	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.3	-5.9	1.2	-3.2	-2.4	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	3.1	-5.3	-7.4	57.8	-11.0	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	1,015.6	862.6	881.6	661.43	822.5 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,772.1	8,539.9	8,812.9	6,716.60	8,230.7 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.8	12.2	13.2	16.2	40.1 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange		-	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2016	2018	2019	2020 September	2020 October	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	-	-	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	-	-	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.3	-6.1	-14.4	22.8	-2.0	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.3	58.5	30	480	-44.8	IBEX-35 shares concluded transactions

(a) Last data published: November 15th, 2020.

Comment on "Financial Markets": The stock market recovered some ground during the first half of January amid advances in COVID-19 vaccination. The IBEX-35 rose to 8,231 points, and the General Index of the Madrid Stock Exchange increased to 823. During October (last month available), there was an increase in transactions with outright spot T-bills to 32.72 and of spot government bonds transactions to 17.82. Ibex-35 futures decreased by 2% and options fell by 44.8%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2017	2018	2019	2020 Q2	2020 Q3	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-1.8	2.4	2.5	1.8	1.3	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	1.9	0.1	2.2	5.4	6.0	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	269.1	280.7	282.0	313.9	322.9	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	64.2	58.9	56.9	60.6	61.2	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.8	-1.6	5.9	3.3	-1.6	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.4	0.1	0.3	7.7	-1.2	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2020Q3. financial savings to GDP in the overall economy decreased to 1.3% of GDP. Households' financial savings rate increased to 6%. The economy's debt to GDP ratio reached 322.9%. Finally, there was a decrease in the stock of financial assets on households' balance sheets of 1.6%, and of 1.2% in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2017	2018	2019	2020 September	2020 October	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	6.1	-4.7	0.2	-0.02	-0.06	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	7.0	0.7	0.3	0.3	-0.3	Deposits percentage change for the sum of banks. savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	9.95	-0.9	-0.3	0.1	-1.0	Asset-side debt securities percentage change for the sum of banks. savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	9.3	-8.8	0.5	1.1	0.5	Asset-side equity and shares percentage change for the sum of banks. savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.2	-0.6	-1.6	-1.5	-1.7	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.3	-2.3	-1.7	-3.2	-0.3	Doubtful loans. Percentage change for the sum of banks. savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	2.6	-1.4	-1.1	0.3	-2.1	Liability-side assets sold under repurchase. Percentage change for the sum of banks. savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	7.8	-4.1	0.3	0.1	0.1	Equity percentage change for the sum of banksn u savings banks and credit unions.

Comment on "Credit institutions. Business Development": The latest available data as of October show a decrease in bank credit to the private sector of 0.06%. Data also show a decrease of financial institutions deposit-taking of 0.3%. Holdings of debt securities fell 1%. Doubtful loans shrunk by 0.3% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2017	2018	2019	2019 June	2020 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	183	115	114	113	113	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	76	83	81	79	78	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	234,753	181,999	176,838	176,838 (a)	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	38,252	26,011	23,851	23,340	22,909	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	351,891	725,445	642,118	1,148,156	1,774,798 (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	74,533	167,421	132,611	196,371	260,971 (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	18,219	167	102	5	3 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2019.

(b) Last data published: December 2020.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In December 2020, recourse to Eurosystem funding by Spanish credit institutions reached 260.9 billion euros.

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 469 billion euros in December 2020 and 3.6 trillion euros for the entire Eurozone banking system.

F. Credit institutions. Efficiency and Productivity, Risk and Profitability

Indicator	Source	Average 2000-2017	2018	2019	2020 Q2	2020 Q3	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	48.8	54.39	53.30	64.03	57.68	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	3,911.03	9,461.19	9,574.38	10,952.96	11,258.02	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	24,735.07	68,190.72	74,450.04	85,243.93	86,902.35	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2017	2018	2019	2020Q2	2020Q3	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	198.71	131.36	123.09	122.34	119.94	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.19	7.2	7.7	7.5	7.9	Branch size indicator
48. "Equity capital (monthly average % var.)	Bank of Spain	0.09	-0.79	0.25	-3.01	0.76	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	48.8	54.39	53.30	-0.18	0.06	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	3,911.03	9,461.19	9,574.38	-2.20	0.88	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2020Q3, there was a relative increase in the profitability of Spanish banks, as the worst effects of COVID-19 began to dissipate.

Social Indicators

Table 1

Population

Population										
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (all nationalities)	New entries (EU-28 born) (%)
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	701,997	33,053
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	441,051	39,211
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	344,992	51,666
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	368,170	66,803
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	417,655	74,873
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	492,600	71,508
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	592,604	63,754
2018	46,722,980	43.1	19.1	80.5	85.9	53.6	29.3	13.7	715,255	56,745
2019	47,026,208	43.3	19.3	80.9	86.2	53.7	29.6	14.4	827,052	61,338
2020	47,450,795	43.6	19.4			53.5	29.8	15.2		
Sources	EPC	EPC	EPC	ID INE	ID INE	EPC	EPC	EPC	EVR	EVR

ID INE: Indicadores Demográficos INE.

EPC: Estadística del Padrón 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.

Table 2

Households and families

	Households				Nuptiality					
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Marriage rate (Spanish)	Marriage rate (foreign population)	Divorce rate	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
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	7.4	7.0	2.11	35.3	33.2	2.67
2018	18,581	2.51	14.3	11.5	7.1	6.6	2.04	35.6	33.4	2.90
2019	18,697	2.52	**14.9**	11.2	7.1	6.7				
2020■	18,786	2.53								
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 (%)
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	1.72	45.8	10.4	65.8
2017	30.9	1.25	1.71	46.8	10.5	66.1
2018	31.0	1.20	1.65	47.3	11.1	65.3
2019	31.1	1.17	1.59			
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.

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.

Divorce rate: Number of divorces per thousand population.

Abortion rate: Number of abortions per thousand women (15-44 years).

■ *Data refer to January-September.*

Table 3

Education

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (thousands of €)	Public expenditure (%GDP)
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	4.47
2014	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846,415	4.32
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	1,767,179	676,311	667,984	1,287,791	209,754	49,458,049	4.24
2018	20.5	6.4	29.2	42.4	1,750,106	667,287	675,971	1,290,455	217,840	50.807.185	4.23
2019	19.3	6.3	30.3	44.7	1,747,087	673,171	714,292	1.309.791●	234.214●		
2020■	17.9	6.1	31.2	44.8							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	INE National Accounts

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

■ *Data refer to January-September.*

● *Provisional data.*

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
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	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019	807,614	6,038,326	1,138	957,500	975	2,361,620	712	912,384	259,570	193,122	14,997
2020	1.893.828♦	6,094,447	1,162	952,704	985	2,352,680	725	1.014.119♦	261.430♦	189.926♦	13.538♦
Sources	INEM	INSS	INSS	INSS	INSS	INSS	INSS	INEM	IMSERSO	IMSERSO	IMSERSO

INEM: Instituto Nacional de Empleo.

INSS: Instituto Nacional de la Seguridad Social.

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-November.

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction*		Time on waiting list (days)	
	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	First specialist consultations per 1,000 inhabitants
2008	8.29	6.10	2,774	2,042	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	9.01	6.74	2,886	2,157	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	9.09	6.55	2,902	2,095	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	9.08	6.36	3,057	2,140	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	9.16	6.51	3,180	2,258	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	8.98	6.34	3,248	2,293	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	8.80	6.25	3,370	2,385	1.9	0.8	3.4	0.6	6.7	7.5	106	66
2018	8.90	6.20	3,323	2,341	2.0	0.8	3.5	0.7	6.6	7.5	129	96
2019											115	81
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.

** Average of population satisfaction measured on a scale of 1 to 10, where 1 means "totally unsatisfactory" and 10 "totally satisfactory".*

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Notes

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