SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

VOLUME 7 | number 5, September 2018

Spain's revised fiscal outlook and key challenges

funcas

WHAT MATTERS

Spain's budget debate and **fiscal outlook:** Elements of uncertainty

European fiscal policy: Situation and reform prospects

Spain's bank-sovereign nexus (II): Perspectives from the banking sector

Europe's housing market: Historical trends and new challenges

Recent trends in **Spanish consumer credit:** A comparison with the European experience

The global insurance market: State of play and growth dynamics

Growth and competitiveness in **Spain's corporate sector:** Recent trends and outlook

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

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

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

Contact
publica@funcas.es

Web Site
www.funcas.es

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

Printed in Spain

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

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

SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

Letter from the Editors

The September issue of *Spanish and International Economic & Financial Outlook (SEFO)* comes at a time when Spain's fiscal outlook takes centre stage. In this context, we start off this issue with an assessment of the budget debate and its implications not only for fiscal deficit targets for this year, but also for consolidation over the medium-term. Moreover, this year's budget negotiations for the 2019 exercise will be particularly significant, given that the results of the complex political dialogue will shed some light onto the current administration's deficit reduction strategy, with subsequent implications for financing Spain's already high stock of public debt. At approximately 98% of GDP – only four eurozone countries have a higher debt-to-GDP ratio. Reducing this outstanding stock of public debt will become an even greater challenge in the face of expected ECB interest rate hikes, but also due to the reduced appetite for holding public debt securities from the banks.

The first article explores the uncertainties over Spain's fiscal outlook, which became apparent earlier this year when the previous administration, under the Popular Party (PP), struggled to pass its 2018 general state budget (GSB). After coming to power in the wake of winning a no-confidence vote against former PP president Rajoy, the new minority government reversed its previous opposition to the budget and oversaw its passage through parliament in June. Since then, a consensus has formed amongst the AIReF, Bank of Spain, and European Commission that Spain is expected to miss its initial 2018 deficit target of 2.2% by half a percentage point. The fiscal situation is especially worrying as Spain's deficit has remained the highest in the EU, even with a rapid improvement in the country's output gap. Looking forward, the government faces an uphill battle in its attempt to get the 2019 general state budget approved by the Lower House. With just 85 of the 350 seats, the government will need to engage in complicated negotiations with several national and regional parties that hold widely different positions on budgetary and fiscal policies.

Spain is among several EU countries that are still experiencing considerable strain on public finances. We next review the state of play of EU national fiscal policies coordination and the outlook for its much-needed reform. The creation of a monetary union by definition entails the loss of national monetary sovereignty. As a result, eurozone member states have to rely on budgetary tools in order to tackle macroeconomic shocks. In practice, however, these countries face serious constraints in implementing counter-cyclical fiscal policies at the national level. This is due, firstly, to the fiscal rules undertaken in response to the financial crisis. Indeed, under the current coordination system, fiscal policies tend to be pro-cyclical, which exacerbates business-cycle imbalances, limits growth potential and hinders the scope for

debt relief. Secondly, Europe lacks the kind of supra-national instruments which would help counteract the inability of national fiscal policy to mitigate shocks. This conundrum has spurred a debate over potential eurozone reforms that could include: i) changes in the rules that coordinate national fiscal policy; and, ii) stronger European-wide fiscal instruments, such as an EU-level investment fund or unemployment benefit, a "rainy-day", fund or the creation of a eurozone treasury capable of enacting counter-cyclical policies similar to those seen in the United States.

Concerns in the fiscal realm translate to a more challenging public debt outlook, in part due to the recent evolution of the nexus between banks and sovereigns. In this issue of *SEFO,* we present the second part of our two-part series on Spain's bank-sovereign feedback loop – this time analysing the relationship from the perspective of the Spanish banks. The banks' investments in fixed-income securities (particularly Spanish sovereign debt) occurred at a time when there was a steep decrease in the demand for credit amongst Spanish companies and households. These securities' earnings, which took the form of interest income and capital gains, propped up the banks' income statements during times of financial stress. Recently, the flattening of the yield curve, coupled with a gradual normalisation in lending activity, has prompted the banks to pare back their public debt holdings considerably, a trend that is bound to accelerate in the years to come. Nevertheless, concerns have been raised over the feedback-loop between banks and sovereign risk, sparking debate about the regulatory treatment of government bond holdings. However, we believe that if there are ultimately any amendments introduced to the regulatory treatment of banks' sovereign exposures, these should be analysed in the context of reforms undertaken to build the Banking Union. In any event, such amendments are unlikely to be adopted anytime soon.

In continuation, we cover issues related to the financial sector, such as the outlook for the real estate market, the expansion of consumer credit in Spain in the European context and the outlook for the insurance sector, with reference to the situation in Spain.

The real estate market in Europe, including in Spain, has clear and significant implications for banks, as well as the overall economy. The European housing market has undergone an uneven recovery across the EU since the recent financial crisis. In countries, such as Spain and Ireland, the data indicate that a gradual recovery in housing prices began in 2014. However, other countries like the UK have experienced a much swifter market recovery. This has contributed to the impression that the Spanish and many EU housing sectors are on the rebound again. This situation has led to a deterioration in housing affordability. One explanation for this is the concentration of real estate investment activity in large cities, which has been driven by low interest rates and a lack of other investment opportunities. This activity has put pressure on both housing sales and rental prices in densely populated markets. It is also worth noting that price increases have occurred alongside the emergence of new online tourist accommodation platforms. While their impact is probably more pronounced in the hotel sector, in the case of Spain, these platforms have nonetheless initiated a confrontation between local governments and anti-trust authorities over their effect on housing affordability and the extent to which they should be regulated.

Since emerging from recession, Spain has experienced significant growth in consumer lending to households. This expansion of credit can be attributed to demand side factors such as the consolidation of the economic recovery (*e.g.,* the decline in the unemployment rate), improvement in consumer confidence and a decline in interest rates. Supply-side factors have also contributed to consumer credit growth, including the easing of approval standards and the corresponding terms and conditions associated with these loans. While it is true that the growth in Spanish consumer credit has outpaced the eurozone average and should continue to be monitored, close analysis suggests this does not, at present, appear to be a significant

source of concern. Higher interest rates on Spanish consumer loans are in line with the risks posed by lending to Spanish households, which are more highly leveraged than their Eurozone peers. Additionally, these loans represent just 11.8% of total household borrowings and 7.1% of total credit extended to the non-financial sector by monetary financial institutions, are largely undertaken to finance house purchases and have low rates of non-performance. Furthermore, it is likely that the demand for consumer credit will decrease as pent-up household expenditure is exhausted, GDP growth rates slow and savings rates normalise.

Of late, growth in the insurance business has become sluggish in the developed world with earned premiums having stagnated in real terms. This trend has been shaped by the recent financial crisis and a prolonged period of low interest rates. However, these developments have been offset by dynamic earnings growth in the emerging markets, particularly China, which is currently the second-largest insurance market after the US. The significantly higher GDP growth rates in emerging economies, together with their low levels of GDP per capita, are driving substantial growth in the insurance business. Nevertheless, it is conceivable that advanced economies' earned premiums in the life insurance segment will improve as interest rates are gradually normalised. Furthermore, it is expected that the insurance industry will benefit from a rise in retirement savings as public pension systems fail to cope with rapidly aging populations. Of particular note are the promising conditions in Spain, where the life insurance segment has room to grow.

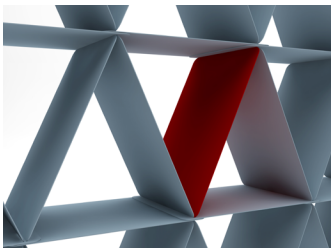
Finally, we close this issue with a micro level snapshot of the Spanish economy by looking at the recent evolution and outlook for the growth and competitiveness of Spanish firms. In order to draw conclusions about the competitiveness of the Spanish economy, we analyse Bank of Spain data on Spanish firms prior, during and after the recession. Our analysis reveals that economic growth during the first period was based on decreasing costs of inputs, as total factor productivity was also decreasing. During the recession, many firms disappeared and both employment and output dropped. However, since 2015, the Spanish economy has overcome the worst phase of the crisis that took place from 2009 to 2014. Activity growth is recovering and exports and manufacturing are growing strongly, productivity increasing and incomes growing in real terms. Currently, the corporate sector has reduced its debt ratio to pre-recession levels and has experienced moderate growth and earnings momentum. Also worth noting is the fact that the growth impetus has shifted in recent years towards the manufacturing sector. But the sustainability of this growth may be called into question as labour and capital costs, at historically low levels, begin to increase. Going forward, in an environment of increasing real wages and interest rates, sustainable corporate growth may only be achieved through efficiency gains.

What´s Ahead (Next Two Months)

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

This page was left blank intentionally.

What Matters



This page was left blank intentionally.

Spain's budget debate and fiscal outlook: Elements of uncertainty

As a result of the new Socialist party (PSOE) government passing an inherited 2018 budget this summer, the country has been forced to revise its 2018 deficit target upward, slowing its path towards fiscal consolidation. Looking forward, domestic political dynamics mean the PSOE will need to engage in complex negotiations with political parties, at both the national and regional level, who hold a variety of diverse fiscal and budgetary positions.

Santiago Lago Peñas

Abstract: Uncertainties over Spain's fiscal outlook became apparent earlier this year when the previous administration under the Popular Party (PP) struggled for several months to pass its 2018 general state budget (GSB). After coming to power as a result of emerging victorious in a no-confidence vote against the former PP president Rajoy, the new minority government reversed its previous opposition to the budget and oversaw its passage through parliament in June. Since then, a consensus has formed amongst the AIReF, Bank of Spain, and European Commission that Spain is expected to miss its initial 2018 deficit target of 2.2% by half a percentage point. This is despite the fact that Spain's local governments are likely to post a considerable fiscal surplus again. The fiscal situation is especially worrying as Spain's deficit has remained the highest in the EU,

“ The key premise of the government’s argument is that meeting the 2.2% deficit target would force it to make significant cuts that could undermine the recovery of the Spanish economy. ”

even with a rapid improvement in the country’s output gap. Looking forward, the government faces an uphill battle in its attempt to get the 2019 general state budget approved by the Lower House. With just 85 of the 350 seats in the Chamber of Deputies, the government will need to engage in complicated negotiations with several national and regional parties that hold widely different positions on budgetary and fiscal policies.

A brief overview of current fiscal dynamics

As early as spring 2018, the fiscal situation in Spain became increasingly complicated. [1] Having extended the previous year’s budget, it appeared that Spain would struggle to remain on the path towards fiscal consolidation. In contrast to the government’s projected fiscal deficit of 2.2% of gross domestic product (GDP), the Funcas estimate stood a 2.5% in May 2018. Similarly, data compiled by Spain’s independent fiscal institution (AIReF) resulted in a confidence interval mid-point of 2.5%. The Popular Party’s minority government faced significant challenges pushing through the general state budget for 2018 (2018 GSB), which had already been delayed by several months. Given the rollover of the 2017 GSB, there was widespread doubt over the prospect of the 2018 GSB’s approval. Concessions were subsequently struck in order to guarantee a majority vote in the Lower House, which pushed the projected deficit up to 2.7%. As the 2018 GSB made its way through parliament, an unexpected no-confidence vote was held, ushering in a new government on June 2nd.

Upon forming a new government, Spain’s Socialist party (PSOE), led by Pedro Sánchez, faced a difficult prospect. Although it inherited a draft 2018 GSB that had broad support in the Lower House, the PSOE had refused to support the budget prior to assuming office. In order to stave off a possible deadlock in the Senate and pre-empt the Popular Party from reversing its position in the Lower House (”Chamber of Deputies”), the new government decided to back the draft budget. [2] This has resulted in an unprecedented situation, prompting an attempt to renegotiate the 2018 deficit target with the European Commission. The key premise of the government’s argument is that meeting the 2.2% deficit target would force it to make significant cuts that could undermine the recovery of the Spanish economy. On July 13th, Spain’s finance minister announced that the European Commission was open to the idea of raising the 2018 deficit target to 2.7%, albeit with two important caveats. The first is that it will be up to the Council of the European Union and not the Commission to issue the final decision on the matter. The second is

Table 1 **Fiscal deficits/surpluses (2018-2021). Expressed as a percentage of GDP**

	2018	2019	2020	2021
2018 GSB stability roadmap	-2.2	-1.3	-0.5	0.1
New stability roadmap (July 2018)	-2.7	-1.8	-1.1	-0.4

Source: Author based on Ministry of Finance report (2018b).

"At present, it seems probable that a second vote in the Lower House will result in the approval of the new fiscal roadmap; however, it is likely to be contested in the Senate by the Popular Party, which holds a majority in that chamber, resulting in yet another deadlock."

that the decision will depend on an assessment of the 2019 GSB, which will be presented to the European Union this autumn and must resume the path towards a significant reduction in the structural deficit. The half-point increase in the 2018 deficit inevitably means that subsequent targets will be impacted. The 2019 deficit target will increase to 1.8%, implying a margin of 0.5 percentage points within the Stability Programme threshold established by the previous administration. For 2020, the target increases to 1.1%, 0.6 percentage points above the original target. Lastly, the 2021 deficit target has been set at 0.4% (Table 1).

The debate over the 2019 GSB started when the government presented the ceiling on public expenditure, and the 2019-2021 deficit targets, which include a breakdown at all levels of government (Table 2). However, the government's motion was voted down in the Lower House by 174 deputies (86 abstentions and 88 votes in favour) on July 27th. Nevertheless, the incumbent government has continued to negotiate with those four political parties that abstained from the vote. [3]

At present, it seems probable that a second vote in the Lower House will result in the approval of the new fiscal roadmap; however, it is likely to be contested in the Senate by the Popular Party, which holds a majority in that chamber, resulting in yet another deadlock. As a result, on August 24th, the PSOE, Unidos Podemos, Compromis and Esquerra Republicana de Catalunya (ERC) presented a motion for the urgent amendment of Article 15 of Organic Law 2/2012 on budget stability and financial sustainability. The amendment proposes the elimination of the Senate's veto right. Expedited processing could take between two and three months, during which time the administration is expected to postpone its presentation of the 2019 GSB. The government has suggest that if the amendment fails to be enacted in a timely manner or ultimately proves unfeasible, it may stick with the former deficit reduction timeline, although this would require expenditure and tax measures that would undermine support from left-leaning parties.

In short, we are looking at an extraordinarily complex budget environment, with the

Table 2 **Government net borrowing (-) or net lending (+) position targets (2018-2019). Expressed as a percentage of GDP**

	2018	2018*	2019	2019*
Total	-2.2	-2.7	-1.3	-1.8
Central government	-0.8		-0.3	-0.4
Regional government	-0.3		0.0	-0.3
Local government	0.0	0.0	0.0	0.0
Social Security	-1.1		-1.0	-1.1

** Figures renegotiated with the European Commission and proposed new fiscal consolidation roadmap for 2019-2021 presented by the Spanish government in July 2018.*

Source: Author based on Ministry of Finance report (2018b).

> “The left-right axis that historically dominates the debate on budgetary and fiscal affairs is therefore layered with regional disputes, in addition to the already fraught situation resulting from Catalonia’s independence movement.”

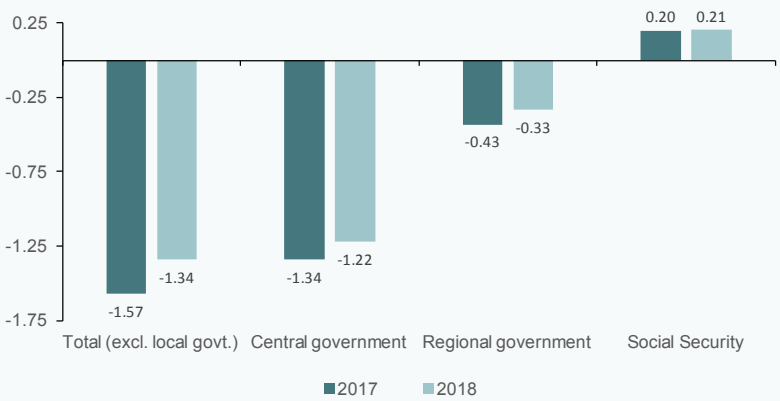
government constrained by its minority in the Chamber of Deputies (85 out of 350 seats). Achieving a majority of votes would require an agreement with two of the four major parties (Popular Party with 137 seats and Ciudadanos with 32), however, such a deal looks highly unlikely. Podemos, the third biggest party by seats, has forced the PSOE to shift further left. Two pro-independence Catalan parties could be convinced to support the PSOE, but this would require the government meeting their institutional demands. Lastly, there are a number of parties with a small number of seats which may prove key in light of the prevailing parliamentary fragmentation. These parties express a wide range of ideologies and, in general, strong local interests, which tend to condition their support on measures that favour a given region. The left-right axis that historically dominates the debate on budgetary and fiscal affairs is therefore layered with regional disputes, in addition to the already fraught situation resulting from Catalonia’s independence movement.

Outlook for the rest of 2018

Budgetary figures calculated up until May 31st reveal a small reduction in Spain’s fiscal deficit. Excluding local government expenditure, the deficit stood at 1.34% of GDP in May, compared to 1.57% during the first five months of 2017. However, this 15% reduction is far from the 29% required to achieve the initial 2018 fiscal deficit target. Based on deficit figures, and assuming that the local governments end 2018 with a surplus similar to that of 2017, the overall 2018 public deficit will be approximately 2.6%. Note that these figures reflect the fiscal situation that preceded

Exhibit 1

Budget outturn to May 31st, 2018, expressed as a percentage of GDP



Source: Spanish Ministry of Finance (2018a).

> "Based on deficit figures through end May, and assuming that the local governments end 2018 with a surplus similar to that of 2017, the overall 2018 public deficit will be approximately 2.6%."

the passage of the 2018 GSB, which included measures that will likely increase spending relative to taxation. (BBVA Research, 2018).

The 2018 projections published by various public and private institutions point in a similar direction. The deficit forecast published by Funcas in September (Funcas, 2018) was 2.7%. This figure is in line with the forecasts of both the Bank of Spain (2018a) and the European Commissions (European Commission, 2018a), which stand at 2.7% and 2.6%, respectively.

The most recent AIReF report (2018b) published in July estimates that Spain's deficit, which includes all levels of government, will also be 2.7% in 2018. This calculation is based on the hypothesis of no-policy changes. Furthermore, AIReF figures suggest that the probability of achieving the initial 2.2% deficit target is just 24%. This projected deviation of half a percentage point is attributed mainly to spending dynamics, as the probability of achieving the initial revenue forecast – around 50% – has not changed since the beginning of the year. The reduction of expenditure on unemployment benefits and debt service is expected to only partially offset the growth in public sector salaries, pensions and infrastructure investment contained in the 2018 GSB. [4] The various levels of government are, however, expected to perform unevenly. According to the AIReF's calculations, Spain's local governments are expected to record a considerable surplus (+0.6%). Moreover, at 67%, the probability that the regional governments will deliver their deficit target of 0.4% is high. However, this won't be enough to offset the upward revisions to the estimated central government deficit of around 1.4%, which is twice the level forecasted at the start of the year. Nor will this surplus make up for the 1.5% Social Security deficit, which exceeds Spain's 1.1% target.

In short, the consensus is that Spain will miss its 2.2% deficit target. The AIReF, Bank of Spain and the European Commission have each shifted their forecasts towards the 2.7% mark, which is exactly the figure the new government has proposed to the European authorities. Having inherited a budget for 2018 that forces the upward adjustment of Spain's deficit target and finding themselves with very little political room to manoeuvre, the PSOE has opted to take ownership for this shortfall and has asked for the appropriate approval by Brussels. In the next section, we examine the plausibility that Spain will end 2018 with a deficit closer to 3%.

The Spanish public deficit: A comparative analysis

Upon examining Spain's public deficit trend over the last decade, it becomes clear that the country has struggled to achieve a balanced budget. The financial crisis resulted in an unprecedented contraction in Spanish GDP, thereby placing considerable strain on Spain's

> "Having inherited a budget for 2018 that forces the upward adjustment of Spain's deficit target and finding themselves with very little political room to manoeuvre, the PSOE has opted to take ownership for this shortfall and has asked for the appropriate approval by Brussels."

Table 3 **Public deficit and debt in Spain and comparison with the eurozone expressed as a percentage of GDP**

	2014	2015	2016	2017	2018*
Deficit/GDP	-6.0	-5.3	-4.5	-3.1	-3.0
Eurozone ranking	18/19	18/19	19/19	19/19	19/19
Debt/GDP	100.4	99.4	99.0	98.3	98.8
Eurozone ranking	13/19	14/19	14/19	15/19	15/19

** Data corresponding to the first quarter of the year.*

Source: ECB's Economic Bulletin, Issue 5/2018 and author's own elaboration.

public finances. However, this is an insufficient explanation for the fiscal dynamics of the last five years. Table 3 compares the deficits between Spain and the Eurozone from 2014 up to the first quarter of 2018. In 2014, the year in which Spain emerged from recession, the Spanish deficit amounted to 6.0%. Only Greece recorded a higher deficit. Since then, Spain's fiscal deficit has only gradually improved, with the country having registered the highest deficit in the eurozone since 2016. Spain has also failed to significantly reduce its public debt. Specifically, its public debt stood at 100.4% of GDP in 2014 and fell to just 98.8% in the first quarter of 2018. Today, only four eurozone countries have a higher debt-to-GDP ratio than Spain, compared to six in 2013.

These fiscal dynamics contrast with the trend in Spain's output gap, which measures the economy's cyclical position. The output gap is zero when an economy is in a neutral position, positive when the economy is expanding above its neutral rate, and negative when the economy is producing below its potential output. Although estimating the output gap is a complex process and the figures should always be taken with a degree of caution, [5] the results shown in Table 4 are still noteworthy. In 2014, Spain's negative output gap ranked second last in the eurozone. Compared to a eurozone average negative gap of -2.7%, Spain's output gap stood at -7.6%. This meant that its actual GDP was -7.6% below its potential output. That year, the cyclical component of the deficit weighed heavily on the observed deficit. However, since then, Spain has experienced a rapid change in its output gap. In fact, the Spanish economy has grown so quickly that the European Commission estimates that Spain's positive output gap will be the sixth highest in the eurozone this year, with projections suggesting it will rise to fourth place in 2019. Furthermore, the proportion of the 2017 deficit attributed to adverse economic circumstances decreased dramatically (less than 0.1 percentage points), with economic conditions expected to have a positive impact on the 2018 deficit. Exhibit 2 extends this idea further. The European Commission puts Spain's structural deficit at the top of the table for both 2017 and 2018. GDP growth and monetary stimulus measures, which continue to reduce the debt service bill, have nudged Spain from a cyclical budget deficit to a cyclical surplus. However,

"The Spanish economy has grown so quickly that the European Commission estimates that Spain's positive output gap will be the sixth highest in the eurozone this year, with projections suggesting it will rise to fourth place in 2019."

Table 4

Output gap (2014-2019). Expressed as a percentage of GDP

	2014	2015	2016	2017*	2018*	2019*
Spain	-7.6	-4.7	-2.2	-0.2	1.4	2.3
Eurozone as a whole	-2.7	-2.0	-1.3	-0.5	0.4	0.9
Eurozone ranking	18/19	18/19	17/19	11/19	6/19	4/19

** The numbers for 2017-2019 are projections.*

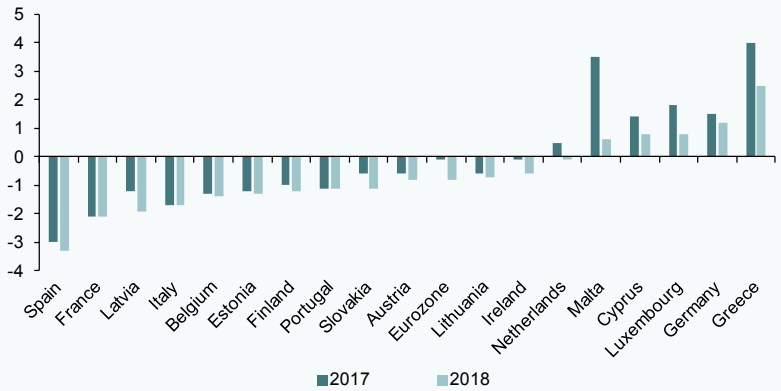
Source: Author based on European Commission figures (2018b).

the structural deficit is expected to widen by 0.3 percentage points in 2018.

In light of these calculations, it is obvious that Spain has a serious problem with its structural deficit. While Spain posted abundant observed surpluses prior to the financial crisis, these numbers were inflated by the property boom and masked an underlying structural deficit. Although public expenditure in Spain is significantly below the EU average, its tax revenue falls shorter, even in times of

Exhibit 2

Estimated structural deficits/surpluses in 2017 and 2018 expressed as a percentage of GDP



Source: European Commission (2018b).

> "While Spain posted abundant surpluses prior to the financial crisis, these numbers were inflated by the property boom and masked an underlying structural deficit."

economic growth. These dynamics pose a threat given the anticipated normalisation of interest rates and could leave the Spanish economy more vulnerable in a future financial crisis. Spain's structural deficit also constrains the government's ability to use fiscal policy as a macroeconomic management tool. In the next section, we discuss the outlook for the 2019 GSB from the standpoint of fiscal policy concerns.

Outlook for the 2019 GSB

Aside from the government's new deficit roadmap, borrowing targets, and spending limits, details about the 2019 GSB are still limited. Based on the AIReF report on the macro-budgetary scenario for 2018-2019 (AIReF, 2018a) and the information gleaned from several statements and notes released by the Ministry of Finance, the plan for the overall 2019 deficit will likely contain the following:

- A 0.9 percentage point reduction in the public deficit (from 2.7% of GDP to 1.8%), of which 0.5 percentage points can be attributed to the positive effects of Spain's position in the economic cycle, mainly via the public spending side of the equation. This figure is based on the "budget scenario in 2018 assuming policy status quo" used by the AIReF. The remaining 0.4 percentage points would come from new tax measures designed to reduce the structural deficit, the measurement that the European Commission focuses on once a country has exited the so-called "corrective arm" and is subsequently placed under the EU's "preventative arm", which will happen to Spain this year. The overarching plan is to achieve a deficit reduction in 2019 by increasing the ratio of revenue to GDP to around 38.8% and reducing expenditure to 40.6%. [6]

- The tax measures, which are expected to collect 5 billion euros, would include a new tax on certain digital services, [7] a new tax in the banking sector, an increase in the effective corporate income tax rate for large businesses (with the aim of lifting the minimum effective rate to 15%), an increase on the duty levied on diesel consumption and a new action plan for combating tax fraud.

This scenario marks a shift in strategy from that of the Popular Party. The previous government's 2018-2021 Stability Programme emphasised spending cuts relative to GDP in order to achieve the targeted fiscal consolidation. However, the pace of adjustment has not significantly diverged. Having raised the deficit target in 2018, there is considerable overlap between the new roadmap proposed by the PSOE and that of the previous government. Moreover, the European authorities are likely to accept this amended strategy. Therefore, it is in the Lower House, where the government must garner sufficient votes to pass its budget, that the main obstacle lies.

For instance, the Popular Party is unlikely to support this strategy. [8] The stance taken by Podemos represents a considerable departure from the budgetary strategy of the Popular Party. [9] Among other measures, Podemos wants to raise the 2019 deficit target above 1.8%, repeal existing budget stability and fiscal sustainability legislation, create a new 'solidarity' tax on the super-rich, eliminate the tax deductibility of pension plan contributions, increase the marginal personal income tax rate for pre-tax income brackets of over 60,000 euros, and eliminate the ceiling on national insurance contributions. Current circumstances suggest that it is unlikely that the PSOE will make these concessions but the parties appear to be keen to strike an agreement. However, any such agreement would make acquiring the support of Ciudadanos, the fourth largest party by seats, difficult. As a result, the PSOE will need the backing of several nationalist or regional parties (ERC, PDeCAT, PNV, Compromis, etc.), who differ widely in terms of their positions on budget and fiscal policy. It is therefore inevitable that the government will face an uphill battle over the next few months.

Notes

[1] Lago-Peñas, 2018.

[2] The press release put out by the Spanish Ministry of Finance in conjunction with the new minister's appearance before the Senate (on June 9th, 2018) underscored that "the minister is appearing before the Senate of her

own volition to demonstrate the government's willingness to engage in dialogue and be held accountable. She is doing so not to defend the 2018 GSB but rather to assist with its passage through parliament for the good of the country and its stability".

[3] Three left-wing parties, Unidos Podemos, Compromís and Esquerra Republicana de Catalunya (ERC) and another centre-right party, Partido Demócrata Europeo Catalán (PDeCAT). The last two parties are pro-independence in Catalonia.

[4] The Bank of Spain's (2018b) estimates run in a similar direction but include the impact of personal income tax cuts, calculated at close to 0.2 percentage points of GDP between 2018 and 2019.

[5] For example, the AIReF (2018a) believes that the output gap will remain slightly negative in 2018 (-0.7%) and turn positive in 2019 (+0.4%). The Ministry of Finance's estimates, published in an update of its 2018-2021 Stability Programme in April, fall somewhere in the middle (+0.1% in 2018 and +1.2% in 2019).

[6] This reduction is compatible with growth in spending in nominal terms. Given that the AIReF estimates GDP growth of 4.4% in nominal terms in 2019, there would be room for non-financial spending at all levels of government to increase by roughly 15 billion euros in 2019.

[7] It is line with the Directive presented by the European Commission in March 2018. The "Proposal for a Council Directive laying down rules concerning the corporate taxation of a significant digital presence" had already been contemplated during the debate on the passage of the 2018 GSB in order to partially finance the extraordinary increase in pensions (Lago-Peñas, 2018).

[8] On August 23rd, the Popular Party's new president criticised the fact that: "The increase in the spending ceiling proposed by Pedro Sánchez's government and forced by Podemos conceals a 'tax blow' for all citizens [...]. The PP will not support this deficit roadmap as it is not necessary. The time is right, with Spain registering growth thanks to the reforms enacted by the Popular Party, for cutting taxes." http://www.pp.es/sites/default/files/documentos/18.08.23_casado_acto_en_mahon.pdf

[9] Refer to *Dejar atrás la austeridad. Propuestas para afrontar la senda de déficit* ["Leaving austerity behind. Ideas for tackling the deficit"] https://podemos.info/wp-content/uploads/2018/08/Docu_Dejar_Austeridad_OK.pdf

References

AIReF (2018a), *Escenario macroeconómico y presupuestario de 2018 y 2019 bajo el supuesto de políticas constantes [Macroeconomic and budgetary outlook for 2018 and 2019 assuming policy status quo],* July 10th, 2018. www.airef.es

— (2018b), *Report on expected public administration compliance with the budget stability target, government debt target and expenditure Rule: 2018,* July 23rd, 2018. www.airef.es

Bank of Spain (2018a), *Macroeconomic projections for the Spanish economy (2018-2020): The Banco de España's contribution to the Eurosystem's June 2018 joint forecasting exercise*. www.bde.es

— (2018b), "Quarterly report on the Spanish economy", *Economic Bulletin,* 2/2018. www.bde.es

BBVA Research (2018), "The expansive measures will offset the recovery in the cyclical recovery in the public deficit in 2018", Fiscal Watch 3Q18, July 30th, 2018. Retrievable from www.bbvaresearch.com

Escribá, J. L. (2018), "Lowering Fiscal Vulnerabilities in Spain," *Joint Conference Banco de España and International Monetary Fund,* April 3rd, 2018. www.bde.es

European Commission (2018a), *Assessment of the 2018 Stability Programme for Spain,* May 23rd, 2018. https://ec.europa.eu/info/sites/info/files/economy-finance/09_es_sp_assessment_0.pdf

— (2018b), *European Economic Forecast. Spring 2018*. https://ec.europa.eu

FUNCAS (2018), *Spanish Economic Forecasts Panel, July 7th,* 2018. www.funcas.es

Lago-Peñas, S. (2018), "Progress on fiscal consolidation: Risk of non-compliance and complacency", *SEFO,* 7(3). www.funcas.es

Spanish Ministry of Finance and Civil Service (2018a), *Ejecución presupuestaria hasta el mes de*

julio de 2017 [*Budget outturn through July 2017*], July 31st, 2018. http://www.hacienda.gob.es/

— (2018b), *Objetivos de estabilidad 2019-2021 y límite del gasto no financiero del Estado para 2019* [*Stability targets for 2019-2021 and limit on non-financial state expenditure for 2019*], July 20th, 2018. http://www.hacienda.gob.es/

Santiago Lago Peñas. Professor of Applied Economics and Director of the Governance and Economics Research Network (GEN) Vigo University

European fiscal policy: Situation and reform prospects

The creation of a single currency and subsequent loss of national monetary sovereignty means that eurozone countries must rely mainly on fiscal policy to fight recessions and avert the excesses often associated with expansionary periods. However, in some instances, existing European coordination rules may exacerbate business-cycle imbalances, rather than correct them, sparking the debate over the kind of reforms that can provide the eurozone with effective counter-cyclical policy instruments.

Raymond Torres

Abstract: The creation of a monetary union by definition entails the loss of national monetary sovereignty. As a result, eurozone member states have to rely on budgetary tools in order to tackle macroeconomic shocks. In practice, however, these countries face serious constraints in implementing counter-cyclical fiscal policies at the national level. This is due, firstly, to the fiscal rules undertaken in response to the financial crisis. Indeed, under the current coordination system, fiscal policies tend to be pro-cyclical, which exacerbates business-cycle imbalances, limits growth potential and hinders the scope for debt relief. Secondly, Europe lacks the kind of supra-national instruments which would help counteract the inability of national fiscal

policy to mitigate shocks. This conundrum has spurred a debate over potential eurozone reforms that could include: i) changes in the rules that coordinate national fiscal policies; and, ii) stronger European-wide fiscal instruments, such as an EU-level investment fund or unemployment benefit, a "rainy-day", fund or the creation of a eurozone treasury capable of enacting counter-cyclical policies similar to those seen in the United States. [1]

Introduction

Ever since the creation of a single currency, eurozone governments' ability to exert economic influence and counter financial shocks mainly relies on budgetary tools. Fiscal policy has therefore become the mainstay of macroeconomic management for these countries.

In theory, fiscal policy can ease the effects of a recession and pave the way for consolidation once the economy begins to expand. However, in practice, fiscal policy has failed to play the counter-cyclical role that was expected. [2]

Since the onset of the sovereign debt crisis in 2010, the European Union has enhanced fiscal policy rules and coordination procedures, especially within the eurozone. This process has been characterized by the EU's effort to contain fiscal deficits through closer surveillance of member states' public finances. The tightening of the Stability and Growth Pact (particularly after adoption of the "fiscal compact") represents the cornerstone of this policy (Begg, 2018).

More recently, the debate has centred around the possibility to widen the range of European fiscal policy instruments. Thus, supranational measures are now being considered, such as the creation of a European instrument for counter-cyclical management and a follow-up mechanism that takes into consideration the fiscal position of the EU as a whole. But these are merely ideas and projects that have yet to be translated into concrete actions.

This article aims to analyse the current situation and future prospects of European fiscal policy. First, existing mechanisms are reviewed from the perspective of both cross-country coordination and available European-wide tools. Secondly, the impact of existing mechanisms on budgetary imbalances, growth and employment is examined. Although the findings are primarily based on qualitative analysis, they also take into consideration key trends and the results of several quantitative studies. The article concludes with an overview of possible fiscal policy reforms.

Coordination of national fiscal policies

The EU's current fiscal policies coordination procedure is based on decisions adopted in 2011 when the sovereign debt crisis was in full swing. The financial crisis that led to Lehman Brothers' collapse in 2008 had a dramatic impact across both developed and emerging economies. In response, European countries joined the global effort to combat recessionary pressures by means of fiscal stimulus measures. For example, the G20 agreed to provide coordinated fiscal support that amounted to around 2% of global GDP. [3] This increase in government spending resulted in a widening of public deficits and higher public debt.

The first "green shoots" of recovery appeared at the beginning of 2010, including in Spain. Consequently, that year, the European Commission changed its policy position and advocated instead a tighter fiscal stance. In retrospect, it is clear that the European Union underestimated both the risks of financial fragmentation inherent to the

> "In retrospect, it is clear that the European Union underestimated both the risks of financial fragmentation inherent to the eurozone and the economic impact of a restrictive fiscal policy carried out in crisis times."

> "European fiscal rules have tended to operate as a pro-cyclical device, thereby weakening the ability to face shocks. This has had a cost in terms of growth and jobs."

eurozone and the economic impact of a restrictive macroeconomic policy. It is during this period that the EU designed its current system of coordination of national fiscal policies.

How does the present fiscal policies coordination system operate?

European coordination of national fiscal policies consists of a complex set of rules, recommendations and codes of conduct (Wieser, 2018).

In 2011, the Stability and Growth Pact was strengthened (Regulation 1173/2011) through the adoption of *preventive actions* in order to forestall excessive public deficits. This decision reflects an acknowledgement of the interconnection of economies belonging to the economic and monetary union, thereby necessitating macroeconomic surveillance under the guidance of the European Commission (Article 121 of the Treaty on the Functioning of the European Union).

This preventive surveillance mechanism consists of three key parts: i) a deficit target adjusted for the business cycle of no more than 1% of GDP in order to meet the medium-term objective of achieving a structural balance in public finances; [4] ii) member states' annual submission of a stability program to the European Council and Commission outlining medium-term objectives and their underlying assumptions; and, iii) the Council's opinion including its recommendations which are then incorporated into the European Semester. If the Council's recommendations are not adopted, a country can face sanctions of up to 0.2% of GDP.

In addition to these preventive measures, the Stability and Growth Pact also states that a country which consistently deviates from the balanced budget goal can be subject to *corrective measures*. Under such circumstances, the Council is authorized to make decisions regardless of the vote cast by that member state. This corrective leg of the Pact is known as the *Excessive Deficit Procedure (EDP)*. In essence, the EDP is activated when fiscal imbalances do not meet certain criteria (*i.e.,* a 3% of GDP deficit limit). [5]

Determining member states' compliance with these criteria lies with the Council, which bases its decision on a report issued by the Commission. The Council can request that a member state adopt corrective measures within a time span of less than 6 months. In cases of repeated non-compliance, the Council can enact sanctions of up to 0.5% of the GDP of the country concerned. If the member state has hindered the follow-up mechanism or manipulated statistics, additional sanctions may be imposed.

Finally, the *Fiscal Compact,* which came into force in 2013, includes a "golden rule", whereby a member state's public deficit cannot exceed 0.5% of GDP over the business cycle (1% for low-debt countries). The golden rule is binding for all countries that have ratified the Pact (*i.e.,* all EU member states, except Croatia, the United Kingdom and the Czech Republic). Importantly, each member state must incorporate the golden rule into a law.

In the case of Spain, the principle of fiscal stability is contained in Article 135 of the Constitution. Legislation also provides for an "expenditure rule", limiting the increase of non-financial spending to nominal GDP growth over an entire business cycle.

In principle, a member state can appeal to the European Union Court of Justice if it believes another member state has contravened the

golden rule. Additionally, financial support granted by the European Stability Mechanism is reserved solely for countries that have ratified the Fiscal Compact.

What has been the impact of the present fiscal policies coordination system?

The EU began to tighten fiscal policy rules as the financial crisis intensified but their actions became particularly aggressive following the adoption of the above-mentioned 2011 regulations and 2013 Fiscal Compact. These policies effectively contributed to a downward trend in public deficits across the EU (Exhibit 1). Obviously, the reduction in interest rates due to the ECB's shift in monetary policy in 2012 also played a role. However, the primary deficit, which excludes interest payments and is therefore less affected by ECB policy, has also decreased.

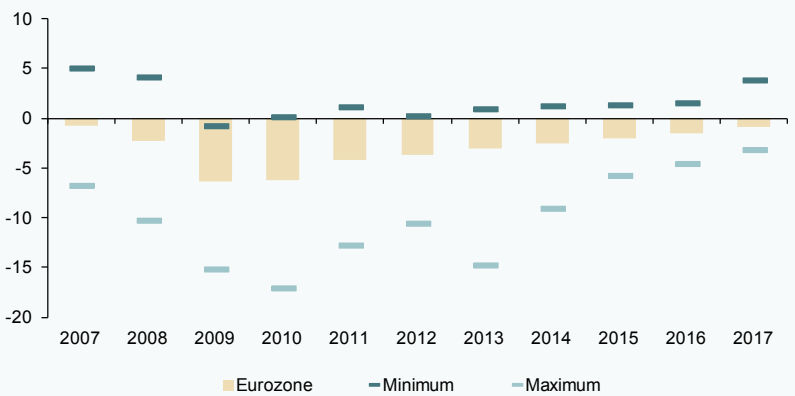
In addition, the public debate is increasingly aware of the importance of balanced budgets. For example, in many countries, European mechanisms have triggered a dialogue among governments, social partners, the European Commission and scholarly experts.

However, fiscal coordination faces major challenges. The main one is the pro-cyclical nature of adjustments resulting from present coordination rules (Exhibit 2). This is a key issue, indeed a pro-cyclical fiscal policy –besides wasting the only macroeconomic management tool available for the eurozone countries– tends to aggravate the impact of recessions on growth and unemployment. Some authors have identified a negative impact of pro-cyclical fiscal policy on the European economy, in terms of both aggravating the depth of recessions and reducing long-term growth (Fatás and Summers, 2017).

It is a fact that fiscal policy has been tightened during the downturn phase caused by the debt crisis (Bénassy-Quéré *et al.,* 2018). During the hardest years (2011-2013), virtually all countries adopted austerity measures. Hence the structural deficit reduction of 2 percentage points –whereas fiscal policy support is to be expected in times of cyclical economic downturn. The impact was particularly acute in those countries most affected by the credit crunch. [6]

Furthermore, in contrast with what would be desirable, recovery is characterized by

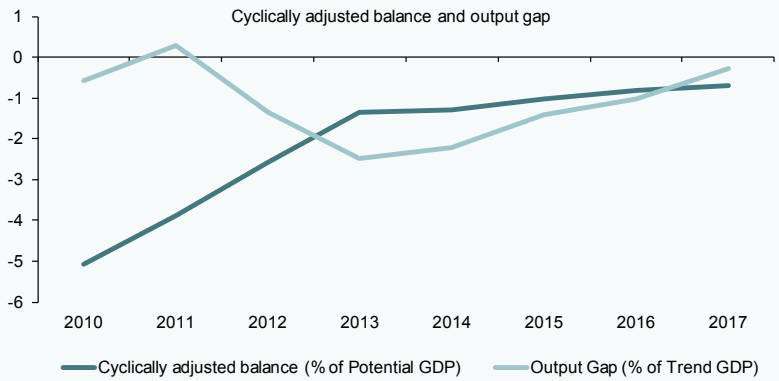
Exhibit 1 **Public deficit as a percentage of GDP**



Sources: Eurostat, Haver Analytics and Funcas.

Exhibit 2

Fiscal policy has been pro-cyclical in the eurozone



Sources: AMECO, IMF and Funcas.

a loosening of consolidation efforts. The fact that the deficit experienced a strong contraction in the 2010-2012 period in all eurozone countries (in Spain, the reduction period was somewhat longer) is significant. During that period, eurozone GDP went from a 2.1% increase in 2010 to a 0.9% decrease in 2012 (a slowdown of 3 percentage points).

On the other hand, the fiscal consolidation process has slowed down during the ongoing expansionary period. In most member states, the structural deficit has hardly undergone any change, and it may have even increased, as in Spain. This partially owes to the need for reversing some of the restrictions applied during the recession period –expenditure reduction or tax increases.

Meanwhile, the main European countries not participating in the single currency either increased their deficit (Denmark and Sweden) or kept it at the same level (United Kingdom) during the 2010-2012 period. On the contrary, fiscal policy has been generally restrictive since recovery began in those countries. Today, Denmark and Sweden enjoy a comfortable surplus and the United Kingdom has reduced its deficit.

The second problem of the coordination system lies with the asymmetric treatment of deficit versus surplus countries (Bofinger, 2018). European institutions are relatively demanding towards countries requiring fiscal adjustment, while they are more benevolent in surplus situations. As a result, fiscal policy tends to be globally contractive, especially in periods of recession.

This deflationary bias, which reflects the measures adopted during the sovereign debt

> “In 2017, the eurozone’s current account surplus reached nearly 400 billion euros, the highest level since the creation of the single currency and illustrating a chronic shortage of investment, possibly related to the way fiscal policy operates.”

Table 1 **Current-account balance**

(In billions of $)

	2010	*2017*	*Difference*
Eurozone	-7.7	+442.4	+450
China	+237.8	+164.9	-72.9
United States	-430	-466.3	-35.5
United Kingdom	-92.3	-106.7	-14.4
Rest of the world	+292.8	-34.3	-327.2

Source: IMF and Funcas.

crisis, may have contributed to the sharp increase in the eurozone's current account surplus (Table 1). In 2017, the surplus amounted to almost 400 billion euros, the highest level since the creation of the single currency. That is to say, the Eurozone is characterized by insufficient investment, in relation to available savings. Imbalances are the highest among leading world economies, representing a source of global concern – besides fueling the protectionist discourse outside Europe.

European Semester recommendations also tend to be asymmetric as they are more coercive regarding public expenditure than tax measures. This is a relevant issue as adjustments by means of expenditure cuts during a recession tend to have a greater effect on the economy than tax increases. This is particularly true for high-income taxpayers whose consumption levels are more difficult to influence (Berger *et al.,* 2018).

The relatively successful experiences of countries like Portugal or Sweden, which have adopted a combination of expenditure constraints and tax increases, show that there is more than one way to reduce a fiscal deficit.

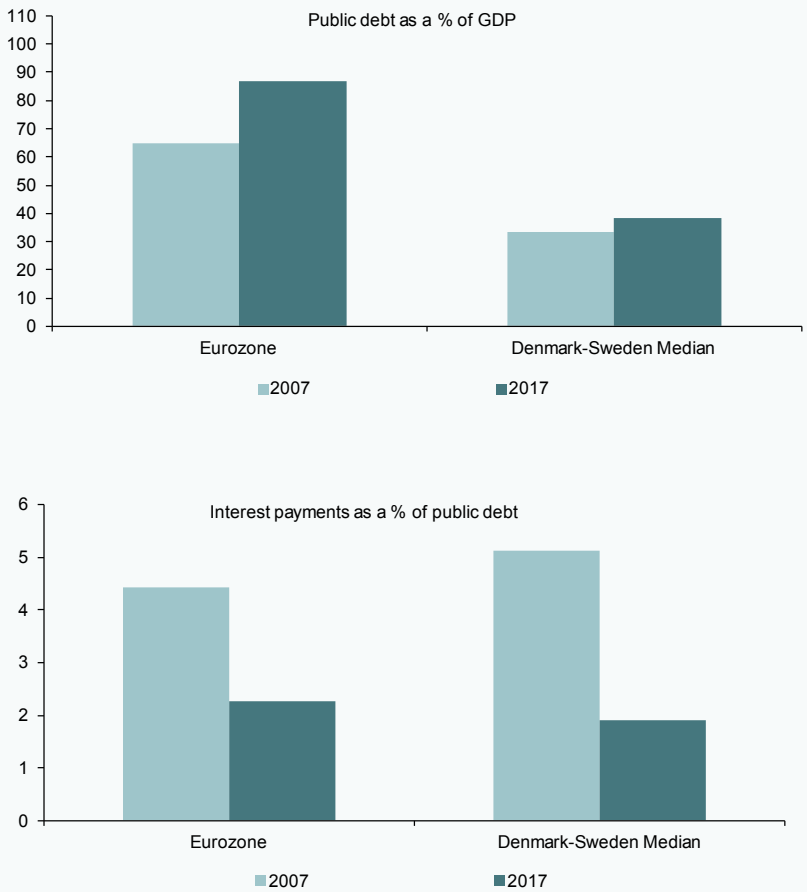
As a result of the risks associated with such asymmetries, the European Semester now relies on a new methodology, which emphasizes evaluation as a tool to improve expenditure and tax efficiency, thereby reducing the need for spending cuts. This approach also encourages the creation of independent fiscal authorities –such as the Airef in Spain– tasked with considering a wide variety of corrective options. The idea is that each country should consider the path which fits best with its particular priorities and collective choices.

Third, the current system has so far had a mixed impact on the long-term prospects for public debt, having de facto functioned as a short-term deficit device. [7] True, the present environment of moderate growth and low inflation has not favoured debt reduction (Exhibit 3). Moreover, states have been compelled to assume liabilities from

> "European fiscal rules also tend to be asymmetric as they are more coercive regarding deficit countries than surplus ones."

Exhibit 3

Debt has increased more in the eurozone than outside it



Sources: Eurostat, AMECO, Haver Analytics and Funcas.

the private sector, such as those associated with losses in the financial sector. However, the rising debt levels have attracted little attention as part of the coordination system. A medium-term strategy for tackling debt, while supporting growth and job creation is missing.

Moreover, greater consideration should be given to the fact that public debt may reflect different realities. In some cases, countries get indebted in order to fund investment and growth-enhancing policies, thus fostering potential growth and facilitating debt reduction in the medium term. Examples include increasing technological capital or improving a country's infrastructure. By contrast, in other cases, governments have resorted to debt in order to meet current consumption and transfers. Financial burdens associated with such debt will be difficult to carry, especially when interest rates increase.

Supranational fiscal policy tools

Besides the ability to coordinate fiscal policy across countries, the EU can also influence macroeconomic developments directly through its own budget tools. This includes structural funds and the investment initiative known as the "Juncker Plan".

> “The ECB cannot discriminate among member states, which means the only strategy available to combat economic shocks is fiscal policy.”

However, available fiscal capacity is limited, especially when compared with large federal states like the United States. In particular, the tools are not up to the task of confronting asymmetric shocks. The reunification of Germany or the bursting of the real estate bubble in Spain are examples of the sort of shocks that required a specifically tailored macroeconomic response. In the past, the exchange rate could act as a key adjustment mechanism in such situations. However, by definition, this option is not possible in the Eurozone under a single currency regime.

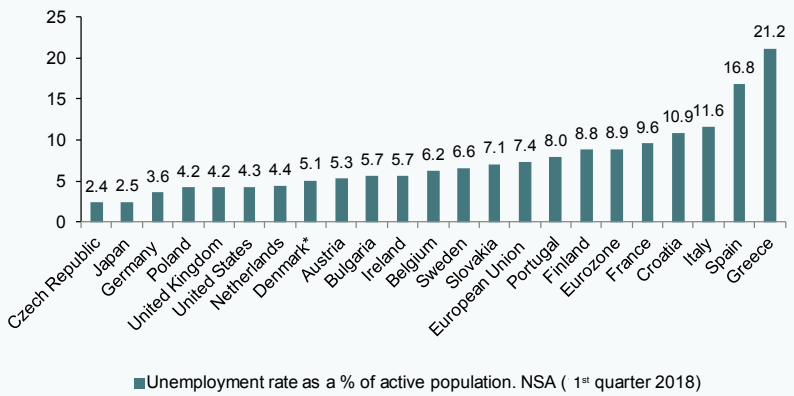
In addition, having renounced to the monetary tool in favor of the ECB, which, by nature, cannot discriminate among member states, the only room for maneuver left is to be found in fiscal policy. And, fiscal policy is conditioned by the criteria established in the Stability and Growth Pact, which in practice limit its responsiveness to asymmetric shocks.

European instruments have also had limited success in achieving cross-country convergence within the Eurozone. The convergence process has in fact slowed in recent years, as illustrated by the marked unemployment differentials that presently exist (Exhibit 4).

A comparison of productivity and investment rates leads to similar conclusions. This analysis highlights the need to capitalise on new technologies, notably the incipient artificial intelligence revolution. R&D, patents and robotics indicators also point to a divergent scenario, which pose a challenge to European integration.

Lastly, the creation of the eurozone coincided with a lack of monetary support for member states to overcome insolvency crises –the so-called “original sin” of the euro (Bofinger, 2018). In countries outside the eurozone

Exhibit 4 **Divergences in unemployment rates**

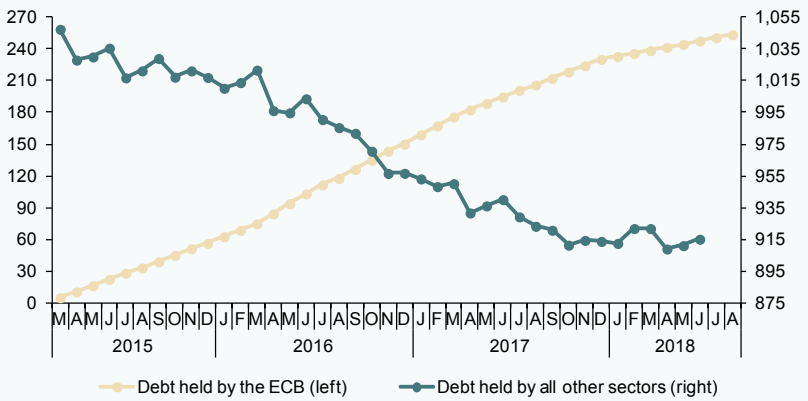


**Data from 4Q2017.*

Source: Eurostat and Funcas.

Exhibit 5

Spanish public administrations debt held by the Euro-system (ECB) and by all other sectors



Sources: ECB, Bank of Spain and Funcas.

(and of course in the US), the public treasury is backed up by the central bank which is empowered to confront financial crises. These occur, for instance, when capital flows face "sudden stops" or other reasons unrelated to the sustainability of public finances.

The sovereign debt crisis in 2010 was caused by such an episode of sudden stops. Thanks to ECB intervention, and especially to the public debt securities purchase programme, the risk has receded, though not completely disappearing. Thus, normalization of ECB monetary policy poses a serious challenge, particularly for highly indebted countries such as Spain, all the more since nearly 20% of their debt is placed in the Euro-system (Exhibit 5).

In order to avoid new financial crises, it is crucial to complete the eurozone's banking union, which would reduce the exposure of bank balances to national public debt. Furthermore, a mechanism is needed to confront solvency crises that occur when a state is unable to assume its debt burden. To that end, the European Stability Mechanism (ESM) was created. However, the rule of unanimity and consultation of all national parliaments represents a major hindrance in this respect. Some analysts therefore advocate for a transformation of the ESM into a European monetary fund with decision-making capacity dependent on a qualified majority.

Reform options

The reform debate currently pivots around two main issues: i) the establishment of mechanisms intended to reinforce cross-country coordination, including the possibility of simplifying the Stability Pact, harmonizing tax bases and fighting tax evasion; and, ii) the establishment of fiscal mechanisms at the European level, such as European

> "Normalisation of ECB monetary policy poses a serious challenge, particularly for highly indebted countries."

> “Investments in new technologies and other intangible assets, financed though short-term deficits, foster productive potential and the ability to increase tax collection in the future.”

investment protection and unemployment insurance/reinsurance strategies, a fund for extraordinary contingencies (*i.e.,* a “rainy-day” fund) or even more ambitious proposals implying the creation of a Eurozone Treasury capable of developing a counter-cyclical fiscal policy.

Improving coordination of national fiscal policies

The European Union, aware of the risks associated with stagnation in the completion of the economic and monetary union, has begun to correct the system (Buti *et al.,* 2018), but the efforts made must coincide with more substantial reforms.

First, a credible strategy for medium-term debt reduction is needed. By focusing mainly on short-term deficit reduction, the impact of adjustment measures on future growth, tax bases and future deficits is not taken into consideration.

A different way of redefining objectives would be to include assets generated by public administrations. Investments in new technologies and other intangible assets, financed though short-term deficits, foster productive potential and the ability to increase tax collection in the future. The same can be said of public investment in infrastructure. In certain countries, such as Italy, deficit containment has been achieved at the expense of the country’s infrastructure, education system and scientific capital. A thorough formulation of fiscal objectives would consider alternative budgetary choices.

Secondly, fiscal policy must take the business cycle into account, and avoid expenditure cuts and tax increases during recessionary periods. As noted above, a pro-cyclical trend of reducing imbalances is counter-productive from the business-cycle point of view, as it unnecessarily harms job creation and weakens growth potential. Moreover, it impedes the fulfilment of debt objectives. A counter-cyclical logic also implies that criteria should be more resolutely met in times of expansion.

Thirdly, it is advisable to prioritize institutional development over a close European follow-up of national fiscal policies, which is perceived as excessively intrusive vis-à-vis country preferences. It is indeed crucial that procedures conform with democratic institutions, which are ultimately responsible for the decision-making process and reflect the specific situation of each country.

To that end, the creation of independent fiscal institutions at the national level, or the strengthening of those already existing, would be helpful. Such institutions could become an important link within the European coordination system. Tax and expenditure policies evaluation is notoriously inadequate in most European countries. In the case of Spain, the creation of the Airef represents an initial step in the right direction, which could inspire new initiatives. It is not just a

> “It is important that procedures conform with democratic institutions, which are ultimately responsible for the decision-making process and reflect the specific situation of each country.”

question of guaranteeing an already existing administrative control of policies, but of functionally evaluating the implementation of programs according to the set of EU objectives.

Finally, a greater symmetry in the treatment of surplus and deficit countries would help address the current deflationary bias and pro-cyclical character of fiscal policies. Lacking a counter-cyclical European budget, the responsibility of supporting economic growth in a recession remains the responsibility of national governments, which, in practice, means that it lies with those countries that have a greater budgetary margin. A more symmetric adjustment would be consistent with debt criteria, insofar as surplus countries support investment and productive capital.

Creating a European fiscal stabilisation instrument

The creation of a counter-cyclical management instrument at the European level would solve many of the problems associated with the current system. Such an instrument would be able to directly confront asymmetric shocks, thus complementing national fiscal policies. To be efficient, such a tool would need to be quickly activated and also be provided with sufficient financial resources (Claeys *et al.,* 2016). In the United States, the *American Investment Act* was enforced from the beginning of the crisis and played a decisive role in the recovery. Its available resources amounted to approximately 5% of GDP, and were allocated over a three-year period.

There are several options in this regard, but they all require a common fiscal capacity at the EU level, as well as the application of conditionalities to reduce moral hazard. [8]

The first of such options consists of creating an investment fund similar to the American instrument. While there is a precedent (the Juncker Plan), this instrument is restricted to coordinating national investments, complemented by a modest European contribution through the European Investment Bank. Moreover, in principle, the Junker Plan's resources are allocated proportionally to the economic weight of each country; the unemployment rate or business-cycle environment are therefore overlooked in favour of geographical allocation, which is consistent with a policy lacking supranational orientation.

A mechanism at the EU level would directly respond to the specific situation of each country. In order to be acceptable for all partners, its criteria should: i) explicitly acknowledge that the fund is not intended to aid a particular country, but rather any economy experiencing cyclical difficulties; ii) impose conditionalities (reforms improving market functioning, industrial policies aimed at enhancing the productive framework, etc.); and, iii) prevent countries from cutting their investment budgets (*i.e.,* the replacement of national policies by a European instrument, which would be interpreted as a subsidy).

A second option would be the creation of a European fund to compliment national unemployment insurance systems. The initiative would automatically activate when the unemployment rate exceeds a given threshold, such as 3 percentage points above the average rate observed over a full business cycle. The main benefit of this method would be its prompt reaction to the business cycle, especially in comparison with the investment fund, which necessarily requires a relatively long gestation period to be operational.

“ The main benefit of a European unemployment insurance fund would be its prompt reaction to the business cycle, especially in comparison with the investment fund, which necessarily requires a relatively long gestation period to be operational. ”

A European unemployment fund contains elements that would limit opportunistic reactions by countries looking to cut social benefits in order to profit from EU aid (moral hazard). It should be noted that a rise in unemployment does not reflect well on national governments and cuts to social benefits would certainly hurt their image even more.

Another way of reducing moral hazard is to impose conditionalities. For instance, countries that access the fund should be required to introduce certain labour market reforms. Part of the aid could even be allocated to those programs which seem to be more efficient (*i.e.,* strengthening of public employment services, the adoption of effective unemployed training methods, follow-up of unemployed placement policies results and of individual action plans).

The fund's main drawback is the anticipated reluctance amongst those countries that have reached or are close to achieving full employment. The fund could therefore be designed to ensure that every country benefits from it at some point in time. The 3% threshold proposed here meets such criterium. In order to overcome this reluctance and appeal to their sense of European solidarity, the fund could reserve aid for young people. This could work in tandem with the Youth Guarantee Program, which already relies on European funding.

Lastly, some experts advocate for a fund without specific spending criteria, which could be used both to encourage investment, complement revenues, foster the creation of enterprises or limit bankruptcy rates. Since it would be adaptable to the priorities of each country, such a system would benefit from a high degree of flexibility. For instance, at the beginning of the 2000s, the Finnish economy was severely impacted by a recession in neighbouring Russia. However, the effects were concentrated in a single sector, which required a specific treatment, consisting of a combination of restructuring, training measures, and temporary subsidies to firms that had otherwise been profitable.

Ultimately, funding determines the degree of European responsiveness. Issuance of European debt securities is especially attractive due to both its flexibility and the excellent rating of EU institutions. This solution presents the additional benefit of not withdrawing resources from those countries which most need them.

Eurobonds, jointly guaranteed by European treasuries, would be used to finance the European macroeconomic management fund. Some countries are reluctant to support the introduction of eurobonds given the risks associated with a new source of debt. Moreover, they consider their current credit rating as evidence of their rigorous management of public finances. If eurobonds were issued, markets would reconsider their stance towards countries that balance their budgets without European aid. However, the battered finances of other countries would benefit from European support, especially in recessionary periods. A way of avoiding such risk is to insist that eurobonds issued during a recession must be repaid by beneficiary countries once economic conditions have improved.

If the European anti-crisis fund is a complementary unemployment insurance system, funding could come from countries' social contributions. Since no eurobonds would need to be issued, the system wouldn't negatively affect countries in good fiscal health. Moreover, each country would have to make an additional effort during expansion periods in order to earn the right to mobilize resources from the European system when they experience a sharp increase in unemployment.

Finally, the use of private financing is both possible and desirable if Europe introduces a European investment fund. In fact, private financing is a key feature of the Juncker Plan, and it could increase both the volume and share of national financing. Today, only a small proportion of resources come from the EU, and this amount can change depending on the situation of each country. Currently, there is a relative abundance of funds provided by the Juncker Plan in countries enjoying high growth, whereas there are

> “The task for Europe is to highlight tensions among different objectives and assess the impact on employment and convergence.”

scarce funds for those countries that most need them and present the most profitable investment opportunities. This situation could be avoided through the creation of the European investment fund.

To the extent that differences in national legislations may cause unfair competition, a certain degree of harmonization is required. This is particularly true for business taxation. Tax base differences, the treatment of royalties and the complex network of tax reductions lead to income transfers within business groups that eventually erode tax bases. This situation is detrimental to the public finances of all states, but especially to those that have established stricter criteria for equity between individuals and entities and have tenaciously fought tax evasion practices.

Moreover, EU policy could facilitate a real convergence of economies. Some analysts believe reform incentives or technical support from the Commission is best. However, it is a complex matter since it interferes with the priorities of each country. For instance, there is no single successful model of labour market reform. Recruiting and social protection can be initiated at the same time (Dutch model), or a government can prioritise flexibility (Anglo-Saxon model). The effects on income distribution are various, as are the consequences in terms of public expenditure. But empirical evidence shows that unemployment rates are similar in both systems. The task for Europe is to highlight tensions among different objectives and assess the impact on employment and convergence. That said, it does not seem reasonable to impose a single model on member states.

Finally, the reform of European fiscal policy, as presented here and in other analyses, opens up issues of democratic control. Various experts therefore propose the appointment of a European minister of finance, who would be accountable to the European Parliament. Furthermore, European competencies should be limited, especially regarding the management of the supranational fiscal mechanism and surveillance of national macroeconomic balances. Governance institutions of each country would still be responsible for the budget. In sum, the presence of a single currency entails a loss of national sovereignty in exchange for greater efficiency and solidarity. This is the critical dilemma which Europeans and their leaders will have to address.

Notes

[1] An earlier version of this article was published by the same author in ICE (2018), under the title “Política fiscal europea: situación y perspectivas de reforma”. The author wishes to thank Patricia Sánchez Juanino and Romain Charalambos for their help with compiling the exhibits for this article.

[2] See for instance the *European Fiscal Board annual report* (2017).

[3] See IMF (2009), G20 London Declaration.

[4] The specific value of the target is defined every three years (but always under the 1% limit), or even at more frequent intervals depending on the structural reforms adopted.

[5] The EDP may also be activated when public debt exceeds 60% of GDP and in the absence of an adequate debt reduction plan.

[6] For a recent analysis of interactions between fiscal policy and the financing of the economy by the ECB, see Jarociński, Marek and Maćkowiak, Bartosz (2017).

[7] Such is the case of Spain (Torres and Fernández, 2018).

[8] For a thorough discussion of all possible options as well as of the interaction with system

incentives, see Bénassy-Quéré *et al.* (2018) and the review by Bini Smaghi (2018).

References

Begg, I. (2018), "Reform of the EU fiscal framework," *Funcas Europe* (forthcoming).

Bénassy-Quéré, A.; Brunnermeier, M.; Enderlein, H.; Farhi, E.; Fratzscher, M.; Fuest, C.; Gourinchas, P.-O.; Martin, P.; Pisani-Ferry, J.; Rey, H.; Schnabel, I.; Véron, N.; Weder di Mauro, B., and J. Zettelmeyer (2018), "Reconciling risk sharing with market discipline: A constructive approach to euro area reform," *CEPR Policy Insight,* 91.

Berger, H.; Dell'Ariccia, G., and M. Obstfeld (2018), Revisiting the Economic Case for Fiscal Union in the Euro Area, IMF Research Department.

Bini, L. (2018), *A stronger euro area through stronger institutions,* https://voxeu.org/article/stronger-euro-area-through-stronger-institutions

Bofinger, P. (2018), *Euro area reform: No deal is better than a bad deal,* VoxEU

Buti, M.; Giudice, G., and J. Leandro (2018), "Deepening EMU requires a coherent and well-sequenced package," *Voxeu,* https://voxeu.org/article/deepening-emu-requires-coherent-and-well-sequenced-package

Claeys, G.; Darvas, Z. M., and A. Leandro (2016), A proposal to revive the European fiscal framework, *Bruegel Policy Contribution.*

European Fiscal Board (2017), "Assessment of the prospective fiscal stance appropriate for the euro area," June.

Fatás, A., and L. H. Summers (2017), The permanent effects of fiscal consolidations, *Journal of International Economics.*

IMF (2009), G20 London Summit – Leaders' Statement, 2 April 2009, www.imf.org/external/np/sec/pr/2009/pdf/g20_040209.pdf

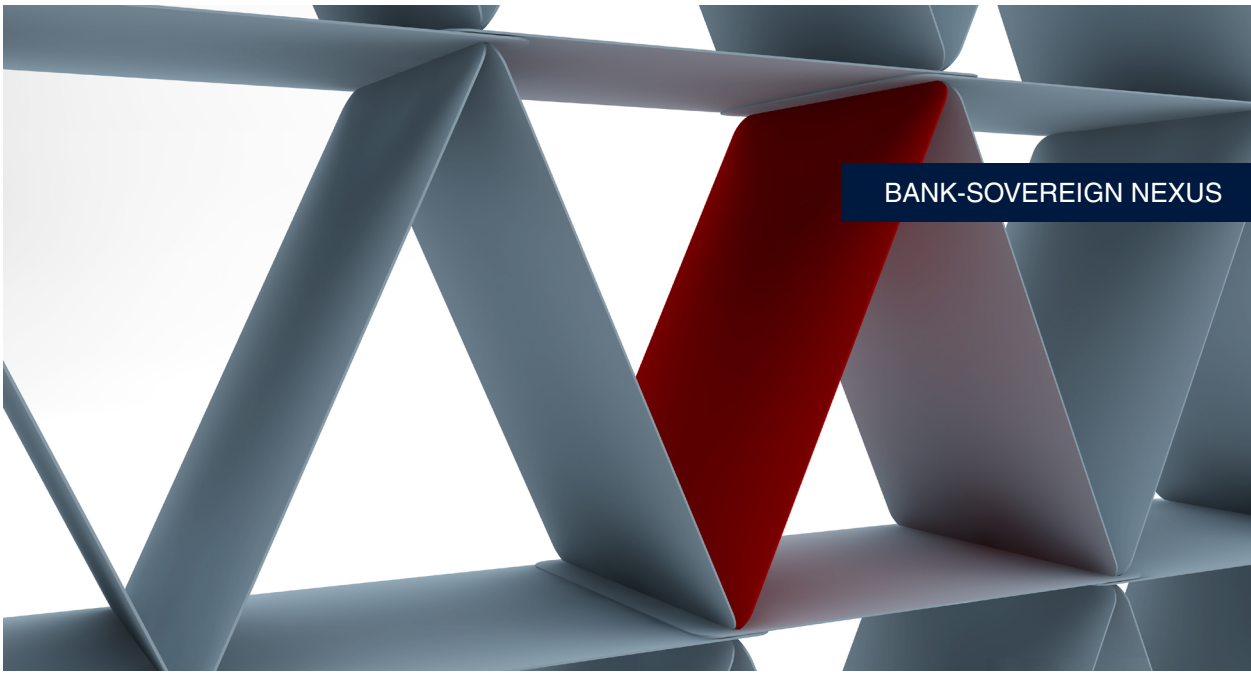
Jarociński, M., and B. Maćkowiak (2017), Monetary-fiscal interactions and the euro area's vulnerability, *ECB Research Bulletin,* 36, https://www.ecb.europa.eu/pub/economicresearch/resbull/2017/html/ecb.rb170629.en.html

Torres, R. (2018), Política fiscal europea: situación y perspectivas, *Información Comercial Española,* 903.

Torres, R., and M. J. Fernández (2018), "The Spanish economy: Scenarios for 2018-2020", Funcas, *Spanish Economic and Financial Outlook,* Vol. 7, No 2, March.

Wieser, T. (2018), *Fiscal rules and the role of the Commission,* Bruegel.

Raymond Torres. Director for Macroeconomic and International Analysis, Funcas



Spain's bank-sovereign nexus (II): Perspectives from the banking sector

Although an uptick in private sector lending and the flattening of the yield curve has led Spanish banks to reduce their holdings of government bonds, policymakers are still concerned about the negative feedback loop that exists between banks and sovereign risk. However, any amendments to the treatment of banks' sovereign exposures should be analysed in the context of the completion of a Banking Union.

Ángel Berges, Alfonso Pelayo and Fernando Rojas

Abstract: In this second article on the bank-sovereign nexus, we analyse the relationship from the perspective of the Spanish banks. The banks' investments in fixed-income securities (particularly Spanish sovereign debt) occurred at a time when there was a steep decrease in the demand for credit amongst Spanish companies and households. These securities' earnings, which took the form of interest income and capital gains, propped up the banks' income statements during times of financial stress. Recently, the flattening of the yield curve, coupled with a gradual normalisation in lending activity,

has prompted the banks to pare back their public debt holdings considerably, a trend that is bound to accelerate in the years to come. Nevertheless, concerns have been raised over the feedback-loop between banks and sovereign risk, sparking debate about the regulatory treatment of government bond holdings. However, we believe that if there are ultimately any amendments introduced to the regulatory treatment of banks' sovereign exposures, these should be analysed in the context of reforms undertaken to build the Banking Union. In any event, such amendments are unlikely to be adopted anytime soon.

Introduction

The sovereign debt held on banks' balance sheets is the most obvious illustration of the so-called 'bank-sovereign nexus'. This term refers to the close link between the banking system and the public sector from which both parties greatly benefit. In this article, the second in a two-part series, we will focus on the banks' role in this relationship, having looked at the perspective of the public sector in the article published in the previous issue of the July *SEFO*. [1]

The banks' core functions require them to maintain a sizeable amount of public debt on their balance sheets. Holding liquid assets such as sovereign debt is absolutely essential for balance sheet management and compliance purposes. In addition, the banks' key role in the payment system and the transmission of monetary policy inevitably necessitates that they hold a significant amount of public debt.

Additionally, it is worth noting that increased financial disintermediation means that banks now also act as market makers. The banks circulate new issues in the capital markets, of which public debt makes up a significant proportion.

Public debt holdings by banks: The Spanish experience

The increase in public borrowings in Spain coincided with a period of intense deleveraging in the private sector among both households and corporates. As a result, the composition of the banks' balance sheets changed substantially: the weight of loans declined while the presence of fixed-income securities, particularly Spanish government bonds, increased. With that rebalancing the banks sought to mitigate, if only partially, the dearth of credit investment opportunities at a time of extremely weak demand for credit and sharp deleveraging by Spain's companies and households.

By investing in public debt at a time when bond yields were rising, banks were able to improve their income statements and plug the hole resulting from a drop in profitable lending activity. These earnings took two forms. First, in the form of the interest (coupons) the banks earned on the bonds they held in their portfolios. These coupons came to represent nearly 20% of all the financial income received by the banking system between 2008 and 2014.

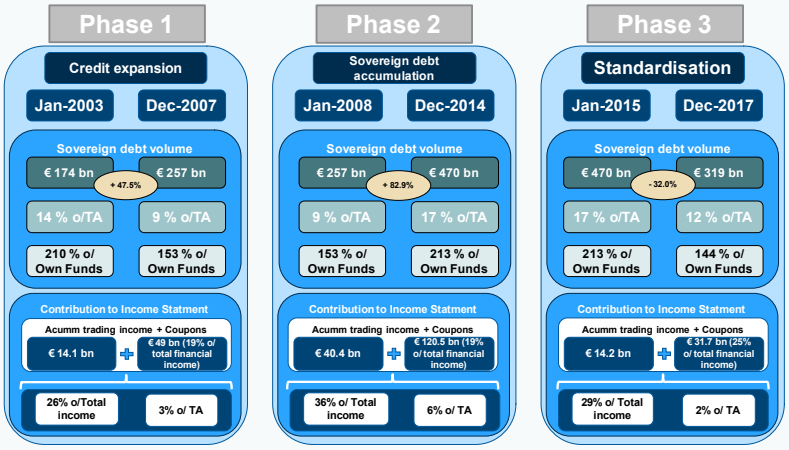
The second source of income proved even more important: namely, the gains made when the bonds were sold at prices higher than those at which they had been originally bought. Those gains derived primarily from the extraordinary reduction in long-term interest rates that took place in the wake of the European Central Bank president's historical pledge in the summer of 2012 to do "whatever it takes" to keep the eurozone together. That promise had the effect of eliminating the "break up of the euro" risk factor that had penalised the sovereign bonds of several European countries, including Spain.

Once the risk premium associated with Spanish government bonds began its

"By investing in public debt at a time when bond yields were rising, banks were able to improve their income statements and plug the hole resulting from a drop in profitable lending activity."

Exhibit 1

The weight of fixed-income securities on banks' balance sheets and income statements during three different periods



Source: Afi.

systematic decline, the banks accumulated significant capital gains on their public debt holdings, which could be materialised in one of two ways. The fastest route involved selling the bonds in the secondary market at prices that were substantially above their cost. The more protracted route required holding long-term bonds with a high coupon until maturity.

The Spanish banks relied on both routes to varying degrees. Exhibit 1 summarises the significant contribution made by fixed-income securities, most of which were government paper, to the banks' earnings. The gains realised meant that the entities' net trading income largely offset the extraordinary toxic asset provisioning effort made by the Spanish banks.

Meanwhile, the coupons earned on the banks' government bonds in recent years have partially mitigated the adverse impact that ultra-low interest rates had on the banks' net interest income as most of their loan books have been benchmarked to Euribor, which has been trading in negative territory for the past two years. Consequently, coupon-derived interest income represented 25% of the total finance income earned by the sector between 2014 and 2017. However, during this time, fixed-income holdings declined to 12% of total assets, a downward trend that is expected to continue in the years to come. This trend is driven by a reduced appetite for new public debt purchases due to a significant fall in sovereign debt yields. Moreover, the end of private sector deleveraging has paved the way for moderate growth in the demand for credit.

> "Coupon-derived interest income represented 25% of the total financial income earned by banks between 2014 and 2017, but fixed-income holdings declined to 12% of total assets – a downward trend that is expected to continue in the years to come."

The regulatory environment and legislative proposals

Concern over the feedback-loop between banks and sovereign risk has sparked debate about the regulatory treatment of government bond holdings, particularly the fact that they are not accounted for in capital calculation or risk concentration threshold purposes.

As part of the international banking reform process, the Basel Committee on Banking Supervision (BCBS) promised in 2015 to review the regulatory treatment of sovereign exposures and make recommendations about whether and how to update that treatment. After nearly three years' work, the Committee has acknowledged that the banks' sovereign exposures imply risks of various kinds and magnitudes but that this exposure is essential for the banking system, financial markets and broader economy. As a result, it claims that any amendment to banking regulations requires taking a holistic approach that appropriately weighs both aspects: the risks and the rewards of the "bank-sovereign" relationship.

In taking this holistic approach to the bank-sovereign nexus, the Basel Committee concluded that there was insufficient consensus regarding what changes should be made to the regulatory treatment of sovereign exposures. It therefore recommended not initiating a formal consultation process regarding such potential amendments.

Despite this, its report analysed some of the options put forward in recent years in both academic and institutional forums, which can be grouped into the following categories:

Risk-weighting framework

The main advantage attributed to sovereign exposures in terms of capital adequacy regulations is their 0% risk weight. This means they are exempted from a minimum capital requirement under the standardised approach to credit risk.

Two alternative approaches have been proposed in response. The first calls for the introduction of a risk weight that would factor in the different levels of risk posed by different sovereign issuers. The idea would be to use external ratings issued by international rating agencies or the country risk classification (CRC) established by the OECD. For the sake of simplicity, both proposals rely on a small number of categories. For example, in its analyses and simulations, the Basel Committee used groupings such as those shown in Table 1, with three risk categories and risk weights between 0% to 3% for the least risky group, 4% to 6% for the intermediate group and 7% to 9% for the highest risk group.

Table 1 **Example of standardised risk weights for sovereign exposures**

Risk groups	*Group 1*	*Group 2*	*Group 3*
Rating level	AAA to A-	BBB+ to BBB-	below BBB-
CRC levels	0 to 2	3	above 3
Sovereign weighting	0% to 3%	4% to 6%	7% to 9%

Source: Bank for International Settlements.

"The main advantage attributed to sovereign exposures in terms of capital adequacy regulations is their 0% risk weight."

An even simpler approach would consist of introducing a fixed risk weight of around 2% for all sovereign exposures irrespective of the riskiness of the issuer. Regardless of the route taken, the immediate implication would be a substantial increase in the banks' capital requirements.

Large exposures framework

Another advantage associated with banks' sovereign exposures is the exemption from the large exposures framework. Large exposures, defined as those that exceed 10% of eligible capital (tier 1 capital), cannot exceed 25% of such capital, a threshold that falls to 15% in the case of global systemically important banks (G-SIBs).

The second category of proposals for changing the regulatory treatment of sovereign exposures consists of the elimination of that exemption, in full or in part, imposing a somewhat higher limit than that currently in place for exposures to non-sovereign entities, *e.g.* 100% of capital for sovereign exposures versus 25% for the rest. This proposed regulatory amendment would not impact the banks' capital requirements. However, it would force them to sell public debt securities in the amount needed to comply with the thresholds applicable in proportion to their capital, thereby exerting downward pressure on the price of these securities (and upward pressure on their yields).

Hybrid approach

A third alternative consists of a hybrid of the first two proposals. Under this approach, banks wouldn't be required to set aside capital for small sovereign exposures; however, the capital requirement would be significant when such holdings exceed the threshold proposed by the large exposures framework. The hybrid approach seeks to eliminate: (i) the immediate impact that a stringent limit would have on sales; and, (ii) a risk weight for reduced holdings of own-country sovereign debt.

The hypotheses modelled by the Basel Committee contemplate marginal risk weight add-ons as a function of the percentage of sovereign exposures over own-funds (CET1) as follows:

Pillar II

In addition to those proposals based on quantitative metrics, there are a number of proposals that rely on more qualitative measures, namely Pillar II and Pillar III

Table 2 **Example of marginal risk weighted add-ons for sovereign exposures**

(Percentage)

Exposure (%CET1)	*Marginal weighting*
0 to 100	0
100 to 150	5
150 to 200	6
200 to 250	9
350 to 300	15
Over 300	30

Source: Bank for International Settlements.

requirements. Pillar II guidance refers to the ongoing supervisory review process under which there is scope for introducing additional capital requirements. The idea would be to include sovereign exposures in the supervisory review process, requiring the banks to compile and monitor risk indicators specifically associated with their sovereign exposures. They would also have to regularly stress test their sovereign exposures in order to quantify their maximum exposure and identify corrective measures when such exposures exceed acceptable limits.

Pillar III

The last group of proposals focus on the banks' Pillar III disclosure and transparency requirements in a bid to effectively strengthen market discipline. This would entail increasing the level of detail of the sovereign exposure disclosures provided to the market. Specifically, these disclosures would be broken down by issuer type, issue term and both currency and accounting classification.

In the case of both Pillar II and Pillar III, there would be no immediate impact in terms of exposure limits and/or additional capital requirements, although these could materialise indirectly as part of the supervisory review and evaluation process (SREP).

Spanish banks and potential changes to the regulatory treatment of sovereign debt

There are several reasons to believe that Spanish banks will reduce their sovereign exposures sharply in the years to come even if the regulatory framework remains unchanged. Firstly, as shown in Exhibit 2, demand for credit appears to have recovered after five years of deleveraging by companies and households. This uptick in demand represents an investment opportunity that the banks are unlikely to ignore.

Exhibit 2 **Year-on-year change in performing credit**

(Percentage)

Source: Bank of Spain and Afi.

> "Yields have fallen sharply at the long end of the curve, reducing the appeal of the carry trade strategy that, for several years, constituted the greatest incentive for holding public debt."

Coupled with the growth in demand for credit, the appeal of investing in sovereign debt has diminished considerably. Yields have fallen sharply at the long end of the curve, reducing the benefits of the carry trade strategy that, for several years, constituted the greatest incentive for holding public debt. As illustrated in Exhibit 3, banks have reacted to the drop in long-term rates by significantly reducing their sovereign debt holdings.

Not only have they reduced their holdings, but the underlying investment strategy suggests a growing fear of possible rate hikes that could trigger capital losses and harm their earnings.

This becomes apparent if we analyse the breakdown by two major accounting portfolio categories: (i) the securities that are measured at fair value for accounting purposes (the "held for trading" and "available for sale" portfolios); and, (ii) those measured at amortised cost ("held to maturity"). In the last two years, during which time long-term rates have been at their lowest and concern over a possible uptick has been rising, we have seen a clear shift away from fair value towards amortized cost portfolios (Exhibit 4).

The combination of the renewed demand for credit and the reduced appeal of sovereign debt as an investment suggests that the weight of sovereign exposures on the banks' balance sheets will fall sharply in the coming years, particularly as the numerous bonds purchased (measured at amortized cost) mature without reinvestment.

Despite this anticipated decline in sovereign bond exposures, we have nevertheless attempted to simulate the potential impact of the regulatory changes outlined in the previous section on the Spanish banks. We used the latest available sovereign debt figures (year-end 2017) and assumed that the changes would be introduced with immediate effect. Given these assumptions, it is clear that the estimated impact should be viewed as an extreme case that is highly unlikely to materialise.

The first part of our analysis models the introduction of sovereign risk weights in line with those outlined in Table 1, *i.e.,* weights applied to every euro invested. We performed the analysis on 12 banks that together represent approximately 90% of the banking sector's total assets.

As shown in Table 1, and performing an exercise of maximums, the banks' risk-weighted assets (RWA) would increase as a

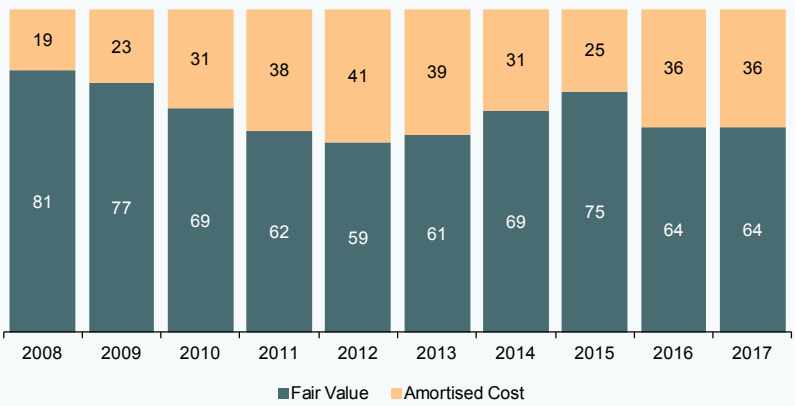
Exhibit 3 **Volume of fixed-income holdings vs yields on Spanish government bonds**

Source: Afi.

Exhibit 4

Breakdown of fixed-income holdings by portfolio category

(Percentage)



Sources: AFI, using the banks' disclosures.

result of the application of a risk weight of 3% on all Spanish public debt holdings due to the A- rating, and of 4.5% on all foreign public debt holdings, because the foreign debt holdings are from peripheral countries, essentially Italy and Portugal, and we estimate that 4.5% average weight. In this scenario, the banks' additional capital requirement would amount to around 1.8 billion euros and the adverse impact on their CET 1 capital would range from 5 to 28 basis points.

In the second scenario, we assume a limit on public debt holdings of 100% of equity. This policy would initiate a sell-off of public debt by those entities whose sovereign exposures exceed 100% of equity. We estimate that aggregate sales would amount to approximately 86 billion euros.

For our last scenario, we assume a hybrid of the first two, *i.e.* the application of a weight factor to fixed-income holdings in excess of 100% of equity, using the figures outlined in Table 2. Assuming that the banks continue to hold debt securities, the overall impact would be a reduction in their capital ratio (CET 1) of between 0 and 86 basis points. However, this impact would be considerably lower if the banks were to dispose of securities in order to get closer to the threshold at which capital requirements are activated.

Final thoughts in light of Banking Union reforms

Our analysis demonstrates that Spanish banks are decreasing their exposure to sovereign debt in response to the asset's reduced appeal as an investment and the growing demand for credit. As a result, the potential introduction of capital requirements and/or quantitative limits on those holdings would have a limited impact

> "Given the estimated decrease in Spanish banks' exposure to sovereign debt, the potential introduction of capital requirements and/or quantitative limits on those holdings would have a limited impact on the banks."

on the banks; indeed, if the implementation timeline were sufficiently staggered, the impact would be practically nil.

Regardless of this limited impact, the regulatory treatment of sovereign exposures needs to be analysed in the context of the completion of the Banking Union, which should be tackled as a whole and not on a piecemeal basis.

One of those pieces involves the creation of a eurozone-wide 'safe asset'. In order to examine how such a step could be taken, the European Systemic Risk Board (ESRB) set up a High-Level Task Force on Safe Assets, which recently published its conclusions.

In its report, the Board calls for the creation of a synthetic security comprised of a basket of sovereign bonds issued by eurozone members and weighted based on participating states' contributions to the ECB capital key. There would be a junior layer that would absorb any initial losses so that the remaining senior tranche would remain risk free (equivalent to a AAA rating).

The introduction of this new synthetic security, which would constitute a eurozone 'safe asset', is a fundamental and complementary component of the regulatory treatment of sovereign exposures. Specifically, the Taskforce concluded there would be insufficient demand for these new synthetic securities (called sovereign bond-backed securities or SBBS) unless regulators treated them as equivalent to sovereign exposures. For this reason, the Taskforce proposed that either SBBS be afforded the same favourable treatment as sovereign exposures or such favourable treatment should be eliminated.

Although the launch of SBBS and regulatory treatment of sovereign debt are important, it is clear that completion of the Banking Union requires far more ambitious endeavours. Despite the desirability of a complete and all-encompassing Banking Union, the acknowledgement that this is not feasible in the short-term has led to the proposal of more realistic policies such as those contained in the recent position paper by the Bruegel Institute (Schnabel-Véron, 2018). This paper outlines the main theses contained in the CEPR Benassy-Quere *et al.* report, which was written by a group of French and German economists (Benassy-Quere *et al.,* 2018). Their pragmatic position is that the regulatory treatment of sovereign exposures should be an integral part of the reforms undertaken to build the Banking Union, in parallel with three other initiatives:

- The launch of a 'safe asset' using the above-mentioned synthetic formula and a regulatory treatment similar to that currently afforded to domestic sovereign debt holdings.

- The effective implementation of a European deposit insurance scheme that would provide consistent guarantees across the entire Banking Union. However, contributions made by each bank could vary depending on states' differentiated risk profiles.

- The elimination of existing restrictions on the pooled management of solvency and liquidity at banks with subsidiaries in different European countries insofar as those restrictions impede cross-border bank concentration.

Only in the context of such far-reaching reforms would the introduction of sovereign exposure capital requirements and/or concentration limits be acceptable for the Spanish banking system. At any rate, the possible transition periods for undertaking the reforms would also

"The introduction of a new synthetic security, which would constitute a eurozone 'safe asset', is a fundamental and complementary component of the regulatory treatment of sovereign exposures."

need to respect the initiative's underlying holistic and interconnected spirit. Specifically, the implementation timeframe ("phased in") for potential sovereign exposure capital requirements and/or limits should include the introduction of a Eurozone safe asset and pan-European deposit insurance scheme.

Notes

[1] http://www.sefofuncas.es/EU-financial-conditions-and-Spanish-banks/Spains-bank-sovereign-nexus-(I)-A-view-from-the-sovereign-side

References

Bank for International Settlements (2017), The regulatory treatment of sovereign exposures - discussion paper.

Benassy-Quere, A.; Brunnermeier, M.; Enderlein, H.; Farhi, E.; Fratzscher, M.; Fuest, C., and I. Schnabel (2018), Reconciling risk sharing with market discipline: a constructive approach to euro area reform. Center for Economic Policy Research Policy Insight No. 91.

European Systemic Risk Board (2015), Report on the regulatory treatment of sovereign exposures.

European Systemic Risk Board, (High Level Task Force on Safe Assets) (2018), Sovereign bond-backed securities: a feasibility study, January 2018.

Schnabel, I., and N. Veron (2018), Completing Europe´s Banking Union means breaking the bank-sovereign vicious circle. VOX CEPR's Policy Portal, 16 May 2018.

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

Europe's housing market: Historical trends and new challenges

Europe has experienced an uneven recovery in housing prices, with the emergence of real estate investment activity undermining the affordability of both rental and sales prices in major European city centres. However, another underlying factor, namely short-term tourist rentals, has proven particularly controversial, in the case of Spain, causing tension between municipal governments and anti-trust authorities.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: The European housing market has undergone an uneven recovery across the EU since the recent financial crisis. In countries, such as Spain and Ireland, the data indicate that a gradual recovery in housing prices began in 2014. However, other countries like the UK have experienced a much swifter market recovery. This has contributed to the impression that the Spanish and many EU housing sectors are on the rebound again. This situation has led to a deterioration in housing affordability. One explanation for this is the concentration of real estate investment activity in large cities, which has been driven by low interest rates and a lack of other investment opportunities. This activity has put pressure on both housing sales and rental prices in densely populated markets. It is also worth noting that price increases have occurred alongside the emergence of new

online tourist accommodation platforms. While their impact is probably more pronounced in the hotel sector, in the case of Spain, these platforms have nonetheless initiated a confrontation between local governments and anti-trust authorities over their effect on housing affordability and the extent to which they should be regulated.

Introduction

Housing affordability has become a key topic of debate in Europe. Rising sale and rental prices as well as speculative moves in the housing market are historical trends in an industry subject to cyclical ups and downs. On the other hand, the competition from new online accommodation platforms and the housing affordability gap between generations constitute new challenges.

Usually, a financial crisis is followed by a correction in the housing market thereby improving affordability. While there was a price correction in many countries after the most recent financial crisis, housing costs have continued to rise in densely populated cities. It would require exhaustive analysis beyond the scope of this paper to identify the exact reasons for this phenomenon, however, low interest rates and scant investment opportunities are contributing factors. Numerous international investment funds (including some sovereign funds) have capitalised on medium- and long-term investment opportunities in major European property markets. Many of the properties purchased were foreclosed on by the banks and then sold off to reinforce the banks' capital structures. This means that the bulk of these properties have re-entered the housing market with high rents. In many instances, these transactions were carried out by investment vehicles such as REITs (SOCIMIs is the Spanish acronym), thereby benefiting from a favourable tax treatment.

This paper analyses the state of play in the EU housing market with a particular focus on the Spanish market. Spain is worthy of analysis for at least three reasons. Firstly, its experience during the financial crisis was intrinsically linked with its real estate sector. Secondly, like other European countries, housing has become less affordable in Spain. Thirdly, there is marked tension between online accommodation platforms and the Spanish rental market. It is worth highlighting the fact that governments of all levels as well as anti-trust authorities have issued conflicting opinions on this issue. Consequently, this tension has become a topic of debate and is widely cited as a key reason for the rise in rental prices.

Although there are no official figures available in Spain, private sector data, such as those collected by Fotocasa, indicate that rental prices saw a record year-on-year increase of 8.9% in 2017. The results of a forward-looking study compiled by Fotocasa showed that only two out of every ten Spaniards now "firmly" believe that renting is a waste of money, while four out of ten think the rental market will continue to grow.

There are multiple theories regarding Spain's increase in rental prices. One potential explanation is that the rise in sales' prices has pushed up demand in the rental market. Recently, however, criticism has focused on the use of houses for short-term tourist rentals. As a result, some large cities have introduced regulations that penalise or ban the marketing of popular collaborative web platforms such as Airbnb. This has led to a conflict between municipal governments that have introduced these measures and anti-trust authorities which oppose them. In August 2017, Spain's anti-trust authority, the CNMC, published a study that examined how these short-term holiday rentals might best

" Although there are no official figures available in Spain, private sector data, such as those collected by Fotocasa, indicate that rental prices saw a record year-on-year increase of 8.9% in 2017. "

be regulated. In general terms, this report concludes that the benefits associated with online rental platforms outweigh any negative effects. Nevertheless, others have remained unconvinced and have advocated for the use of price controls (price caps or restricted areas).

Housing prices in Spain: Relative reheating

As shown in Table 1, housing prices have performed unevenly across the EU. Looking at the quarter-over-quarter changes in prices between the first quarters of 2017 and 2018, it becomes clear that housing prices have behaved erratically, with ups and downs that are not only attributable to seasonal factors but also indicative of a market whose medium-term trend has yet to be defined. In countries, such as Spain, Ireland and the UK, where the real estate bubble triggered a sharp price correction, the market has since exhibited strong growth. Nevertheless, the recovery has been punctuated by peaks and troughs, with the former dominating. Ireland stands out with growth in housing prices exceeding 5% in some quarters. In other countries, such as Germany and France, previous concerns over "reheating" have abated as prices have cooled off or even contracted.

Table 1 **Market trends: Growth in house prices in the EU (QoQ)**

(Percentage)

	1Q17	2Q17	3Q17	4Q17	1Q18
Eurozone	0.4	1.5	1.6	0.8	0.6
EU-28	0.5	1.8	1.6	0.6	0.7
Belgium	1.0	-0.3	3.4	-0.5	0.0
Bulgaria	1.9	2.4	2.0	1.6	0.9
Czech Republic	3.0	2.5	1.8	0.9	2.3
Denmark	1.9	3.6	0.5	-1.5	3.2
Germany	-1.0	2.0	1.6	1.9	-0.4
Estonia	-0.1	0.3	3.4	1.3	1.5
Ireland	1.2	2.2	5.5	2.6	1.6
Spain	2.3	2.0	1.8	0.9	1.4
France	0.6	1.0	2.2	-0.5	0.7
Croatia	0.1	3.7	0.6	3.2	0.9
Italy	0.1	0.5	-0.4	-0.4	-0.1
Cyprus	-3.0	3.1	-0.3	2.7	-1.8
Latvia	2.0	5.7	0.2	0.0	7.5
Lithuania	1.5	3.1	1.9	0.2	2.4
Luxembourg	0.8	2.2	0.1	1.1	2.8
Hungary	0.2	3.1	3.0	0.5	4.4
Malta	-5.0	3.0	4.2	2.8	-4.7
Netherlands	2.0	1.6	2.4	2.3	2.8
Austria	2.0	2.4	0.4	1.5	0.8
Poland	-0.5	2.0	1.0	1.3	1.5
Portugal	2.1	3.2	3.5	1.2	3.7
Romania	1.2	4.9	-1.6	1.2	2.1
Slovenia	1.3	4.3	0.4	3.7	4.4
Slovakia	-2.4	5.6	2.2	0.5	2.9
Finland	1.3	0.9	-0.6	-0.5	0.1
Sweden	2.5	1.9	1.4	-2.8	-0.8
UK	0.2	2.2	2.2	0.0	0.0
Iceland	4.6	6.6	4.2	1.0	1.4
Norway	2.9	0.6	-2.8	-0.1	1.2

Source: Eurostat and authors' own elaboration.

> Looking at the quarter-over-quarter changes in prices between the first quarters of 2017 and 2018, it becomes clear that housing prices have behaved erratically, with ups and downs that are not only attributable to seasonal factors but also indicative of a market whose medium-term trend has yet to be defined.

Conversely, housing prices in Croatia, Latvia, Lithuania, Hungary and Iceland have exhibited less stable growth rates. Spain falls somewhere in the middle with average or moderate growth that is consistent with a gradual sectoral recovery.

The long-term trend is more apparent in year-on-year price changes. Table 2 outlines these trends from 2015 to the first quarter of 2018. Latvia, Iceland, Slovenia, Ireland, Portugal, Slovakia and Hungary posted double-digit annual growth rates in house prices during

Table 2

Ranking of year-on-year house price growth in Europe by country: Different markets, different speeds

(Percentage)

	2015	*2016*	*2017*	*1Q18*
Latvia	6.6	7.8	7.9	13.7
Iceland	8.7	13.6	17.3	13.7
Slovenia	0.1	6.9	10.0	13.4
Ireland	6.9	8.5	11.8	12.3
Portugal	5.0	7.6	10.5	12.2
Slovakia	4.8	8.3	5.8	11.7
Hungary	14.7	11.8	6.9	11.5
Netherlands	4.3	6.0	8.5	9.3
Croatia	-2.1	0.8	7.6	8.5
Lithuania	3.3	9.5	6.9	7.8
Czech Republic	4.5	10.9	8.4	7.7
Bulgaria	4.0	8.1	8.2	7.1
Estonia	5.1	7.7	4.9	6.6
Romania	2.8	7.3	5.6	6.6
Spain	4.2	4.4	7.2	6.2
Luxembourg	3.7	7.8	4.2	6.2
Poland	1.0	4.0	3.9	6.0
Denmark	7.1	4.1	4.5	5.8
Germany	5.8	6.9	4.6	5.3
Austria	6.4	7.0	6.5	5.3
Malta	8.2	4.9	4.9	5.2
UK	6.4	5.4	4.6	4.4
Cyprus	-2.1	3.3	2.5	3.7
France	-0.2	1.6	3.3	3.4
Belgium	1.5	2.6	3.6	2.5
Finland	0.5	0.5	1.2	-0.1
Italy	-2.1	-0.8	-0.2	-0.4
Sweden	14.2	6.5	3.0	-0.4
Norway	5.5	11.5	0.6	-1.1
Eurozone	2.5	3.9	4.3	4.5
EU-28	3.5	4.5	4.5	4.7

Source: Eurostat and authors' own elaboration.

1Q 2018. Here again Spain lies somewhere in the middle, having recorded year-on-year price growth of 6.2% in the first quarter. This stands slightly above the eurozone (4.5%) and EU averages (4.7%). In terms of sustained price contractions, Italy's growth rates are particularly noteworthy.

The variability observed in house prices is mirrored in transaction volumes, for which we have a longer series of methodologically-homogeneous data. House purchases during and since the crisis (2008-2017) offer compelling insight into the correction of various housing markets. It is worth highlighting that in the UK, where the financial crisis was preceded by a housing price bubble , the appetite for home-buying returned relatively quickly. This is made evident by the fact that, with the exception of 2012, home purchases have risen year-on-year since 2010 (Table 3). However, the rate of change in Spanish and Irish house purchases didn't return to positive territory until 2014. In certain countries like Estonia, Latvia and Lithuania, which saw house purchases contract sharply during the crisis, there has also been a considerable recovery in transaction volumes in recent years. While the size of the decline in house purchases in Italy is not particularly remarkable, it has continued unabated, suggesting that the

Table 3 **Annual change in new house purchases**

(Percentage)

	2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Belgium	2.5	-1.1	0.0	3.9	1.9	3.7	-2.1	4.8	3.5	4.3
Bulgaria	25.0	-11.8	-10.7	-1.0	-0.3	-2.7	2.9	3.5	6.4	6.7
Czech Republic	–	3.3	-3.0	-1.4	-2.3	0.1	1.8	4.8	5.9	13.9
Denmark	-6.5	-7.6	-1.3	12.6	11.1	58.4	11.7	11.7	-0.6	0.6
Germany	2.7	5.4	2.5	5.0	2.8	1.2	3.7	5.5	4.5	3.7
Estonia	-7.8	-34.5	9.8	9.4	11.2	9.0	20.2	11.1	5.3	5.2
Ireland	–	–	–	-14.3	-16.5	0.0	3.4	14.8	6.2	3.1
Spain	4.2	-4.1	-2.2	-5.9	-14.4	-5.4	0.9	4.7	6.5	6.1
France	1.5	0.2	2.7	4.9	-0.6	-0.4	0.1	1.7	1.7	3.9
Croatia	–	-2.1	-7.8	1.8	-0.3	-3.5	-2.1	-6.1	-3.4	-0.1
Italy	–	–	–	3.2	2.2	-1.4	-2.7	-2.0	0.4	-0.4
Cyprus	–	–	–	-2.6	-2.4	-4.0	-2.5	-1.4	0.6	2.4
Latvia	2.8	-38.6	-7.1	33.6	15.8	4.0	8.6	-7.7	7.5	8.4
Lithuania	16.2	-27.4	-10.2	10.1	8.3	-1.7	5.1	5.2	2.2	9.9
Luxembourg	6.3	2.5	4.5	1.5	4.5	7.7	2.6	8.2	5.6	5.5
Hungary	2.2	-3.1	-5.2	-3.3	-0.1	1.1	4.2	8.6	10.1	8.3
Malta	–	-3.8	2.2	-2.0	2.9	-2.1	2.0	6.1	5.0	5.8
Netherlands	–	–	–	–	–	–	–	–	4.6	7.2
Austria	–	–	–	6.0	6.3	4.1	4.9	4.8	3.8	5.9
Poland	–	–	–	1.1	-0.4	-4.9	0.5	2.6	1.1	3.2
Portugal	–	-0.5	0.7	-2.9	-6.3	-1.3	4.1	1.7	3.3	5.6
Romania	–	–	-6.8	-3.4	1.7	-4.8	-1.0	-1.6	5.4	0.3
Slovenia	11.1	-12.3	-2.6	5.2	-9.5	-5.0	-5.8	1.8	0.3	9.0
Slovakia	–	–	–	-2.9	-3.8	-0.4	1.5	3.0	6.0	6.6
Finland	–	–	1.6	4.2	4.9	2.1	1.0	1.1	0.8	2.7
Sweden	4.2	6.3	3.9	5.6	2.2	-1.1	2.9	2.2	6.2	6.2
UK	-3.2	-9.9	2.9	1.5	-0.4	2.9	8.1	5.1	8.5	6.9
Norway	–	–	–	8.6	6.8	4.8	2.4	5.8	7.1	5.3

Source: Eurostat and authors' own elaboration.

Italian property market remains depressed. Germany stands out for its stability with transaction volumes registering growth of between 2% and 5%.

Qualitative considerations and emerging trends: Housing quality, gentrification and the rental market

One challenge in correctly identifying real estate trends is the difference between the prices observed in large cities relative to medium- and small-sized towns. The averages shown in the previous tables are significantly influenced by price trends in major cities. The impact is most obvious (albeit not exclusively) in the considerable reduction in the affordability of housing in these cities over a short period of time. This in turn has had a negative impact on living conditions in these cities. Eurostat data indicate that although the crisis initially drove the incidence of housing overcrowding higher, it has since corrected.

Table 4 **Rate of overcrowding since the crisis: Ranking in the EU (2008 and 2017)**

(Percentage)

	2008	*2017*
Romania	54.8	47.0
Bulgaria	48.1	41.9
Latvia	57.4	41.9
Croatia	–	41.1
Hungary	48.3	40.5
Poland	50.8	40.5
Slovakia	42.9	37.9
Greece	26.7	29.1
Italy	24.3	27.8
Lithuania	48.4	23.7
Czech Republic	29.8	16.0
Austria	14.8	15.1
Sweden	11.0	14.4
Estonia	41.7	13.5
Slovenia	39.5	12.8
Portugal	15.7	9.3
Denmark	7.3	8.6
Luxembourg	8.0	8.1
UK	6.5	8.0
France	9.7	7.7
Iceland	6.3	7.4
Germany	7.0	7.2
Finland	5.8	6.1
Belgium	4.1	5.1
Spain	5.6	5.1
Norway	5.2	4.9
Netherlands	1.7	4.2
Ireland	4.7	3.2
Malta	3.9	2.6
Cyprus	3.3	2.4
EU-28	18.3	16.4
Eurozone	12.8	12.3

Source: Eurostat and authors' own elaboration.

This is despite the fact that prices have increased in many countries.

Table 4 compares the rates of overcrowding [1] in 2008 to those of 2017. The ratio is very high in some of the easternmost EU member states. Specifically, it stands at over 40% in Romania, Bulgaria, Latvia, Croatia, Hungary and Poland. With an overcrowding rate of 27.8%, Italy is one of the member states where this ratio has deteriorated since the crisis. Spain, however, boasts one of the lowest rates of overcrowding (5.1%) and ranks considerably below the EU (16.4%) and eurozone averages (12.3%).

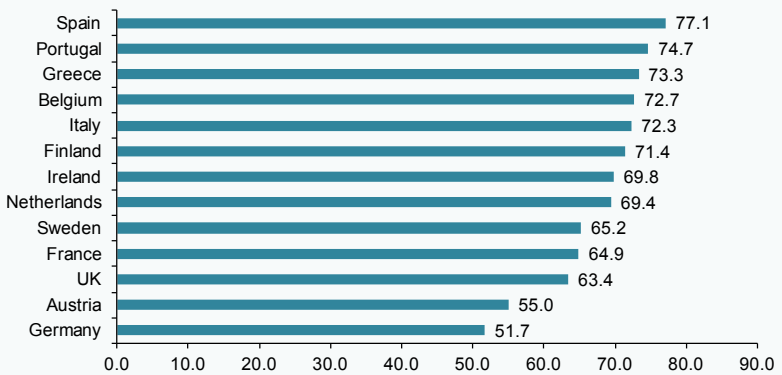
One unique aspect of these long-standing historical and cultural roots is the percentage of the population that owns their dwellings. Exhibit 1 provides this percentage for a selection of EU countries. Spain is notable for the fact that 77.1% of the population own their own home. However, the rising popularity of rentals means this figure has recently dropped from over 80%. Spain's situation contrasts with that of other major eurozone economies such as the UK (63.4%) and Germany (51.7%), where the incidence of home ownership is lower.

As noted earlier, the housing affordability problem is concentrated in Europe's major cities. This issue is even more pressing in these cities' central neighbourhoods. Many of these cities are experiencing gentrification, a phenomenon related to the rental and purchase price problems. Gentrification takes place when the highest income households gradually buy up properties for refurbishments or crowd out lower-income tenants by increasing rents. This has the effect of gradually displacing households which cannot afford the higher costs of home ownership. Gentrification is accelerating as investment funds enter to

Exhibit 1

Percentage of home ownership for a selection of countries

(Percentage)



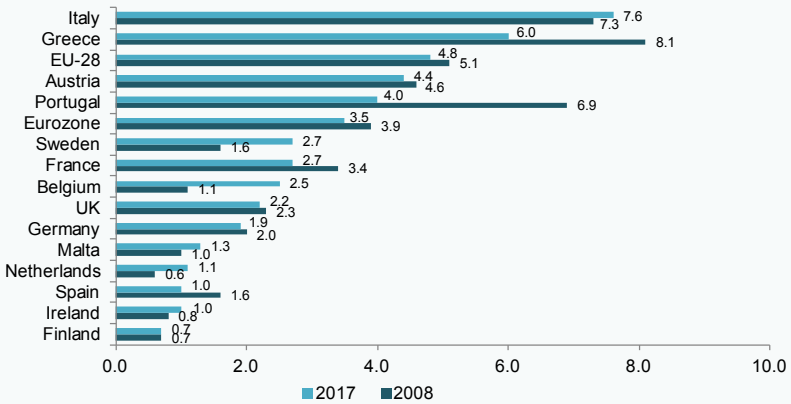
Source: Eurostat and authors' own elaboration.

> "Spain boasts one of the lowest rates of overcrowding (5.1%) and ranks considerably below the EU (16.4%) and eurozone averages (12.3%)."

Exhibit 2

Severe housing deprivation rate since the crisis

(Percentage)



Source: Eurostat and authors' own elaboration.

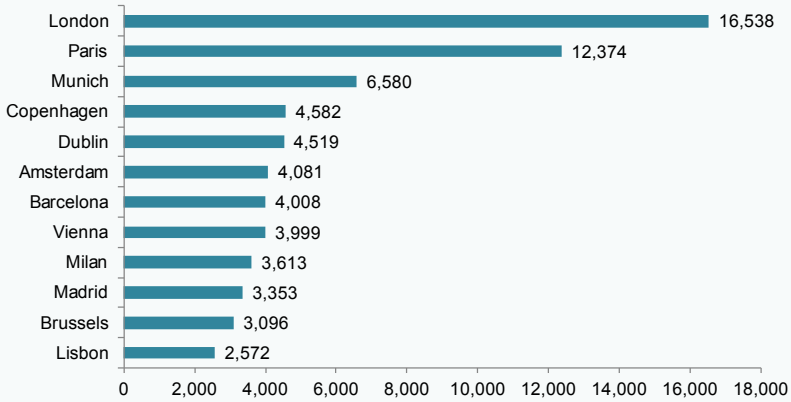
purchase large numbers of these properties. They are drawn by attractive post-crisis return prospects, which then spill over to the rental market in the form of higher prices. This has occurred alongside other financial troubles brought on by the crisis, including evictions. Eurostat tracks data on the percentage of the population experiencing severe housing deprivation. [2] Exhibit 2 provides this rate for a sample of representative EU economies from 2008 to 2017. At 7.6%, Italy's rate, which has increased since the crisis, is particularly alarming. The EU and eurozone averages are 4.8% and 3.5%, respectively. In other countries, such as Austria and Portugal, the rate remains around 4% but has at least come down since the crisis. Spain, on the other hand, has an average rate of 1%, making it one of the countries with the lowest incidences of severe housing deprivation.

As for prices per square metre in major European cities (Exhibit 3), it is worth highlighting the case of central London, where Deloitte estimates this figure has reached 16,538 euros. It is followed by Paris (excluding Île-de-France), at 12,374 euros per square metre. Barcelona and Madrid rank somewhere in the middle at 4,008 and 3,353 euros, respectively.

However, at 5.4% and 5.2%, Deloitte also estimates that Barcelona and Madrid are among those European cities with the highest average rental yields (Exhibit 4). Notably, these average rental yields are higher than both Paris (2.8%) and London (2%).

> "Gentrification is accelerating as investment funds purchase large numbers of properties, drawn by attractive post-crisis return prospects, which then has spillover implications for the rental market in the form of higher prices."

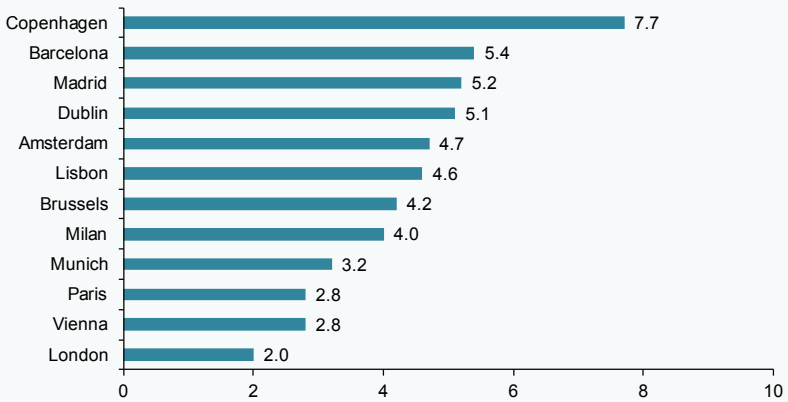
Exhibit 3 **Housing prices per square metre in major European cities (2017)**



Source: Deloitte and authors' own elaboration.

Exhibit 4 **Average annual rental yields in major European cities**

(Percentage)



Source: Deloitte and authors' own elaboration.

Final considerations: Snapshot of Spain and the rental problem

Is the growth in rental prices a new issue in Spain? Are short-term tourist rentals responsible for the changes being observed? Table 5 offers a summary of indicators aimed at providing a snapshot of the Spanish property market in 2018, with time horizons and exact sources included where appropriate. Note that in light of discrepancies in the official statistics, it was necessary to use a mix of sources in order to provide a

relatively comprehensive overview of the market, particularly as regards prices. For example, there as considerable differences in the figures provided by the INE, the national statistics bureau (based on transaction deeds), and those provided by the Ministry of Development (based on appraisal values). An average estimate puts the year-on-year change in Spanish house prices between 6% and 9% as of June 2018.

The consumer price index for rental prices stood at 1.3% in June 2018, even though yields exceed that amount. The Bank of Spain estimates that if rental income and property price growth are both factored in, returns reached 10.4% during the first quarter of 2018. Looking at rentals alone, the yield falls to an estimated 4.1%.

As for purchase volumes, the rate of change depends on the source and time horizon used and the series are full of gaps. It is therefore difficult to determine whether the recovery in prices has been accompanied by a recovery in transaction volumes. A comparison between

Table 5

Main housing market indicators for Spain

(Percentage)

	Data	*As of*	*Source*
House price index (YoY change)	6.2	1Q18	INE (national statistics bureau)
Average prices (appraisal value - YoY change)	2.7	1Q18	Ministry of Development
Quoted prices (YoY rate)	6.6	Jun-18	Fotocasa
Quoted prices (YoY rate)	9.1	Jun-18	Idealista
Rental CPI (YoY rate)	1.3	Jun-18	INE (national statistics bureau)
Return on housing (rental yield plus price appreciation in last 12 months)	10.4	1Q18	Bank of Spain
Gross rental yield	4.1	2Q18	Bank of Spain
Notarised housing transactions (YoY rate)	8.0	1Q18	Ministry of Development
Registered housing transactions (YoY rate)	1.2	Jun-18	Property registrars
Average term of new mortgages (years)	23.7	1Q18	Bank of Spain
Loan-to-value ratio	65.1	2Q18	Bank of Spain
Total credit extended to private sector (YoY rate)	-0.5	1Q18	Bank of Spain

Source: See exhibit and authors' own elaboration.

“ An average estimate puts the year-on-year change in Spanish house prices between 6% and 9% as of June 2018. ”

"As for short-term tourist rentals, it is also conceivable they are affecting housing costs, though the overall impact may be less significant than often claimed."

the number of mortgages versus registered house purchase contracts (not provided for simplicity) reveals that a large number of transactions are completed without bank financing, which is usually an indicator that the buyers are institutional investors rather than households.

As for the mortgage market, the volume of credit extended to the private sector continued to decline by 0.5% in the first quarter of 2018. Mortgages are currently being contracted for an average term of 23.7 years. Lastly, the average loan-to-value (LTV) ratio stands at what could be termed a prudent 65.1%.

The data above suggest that the Spanish real estate market is experiencing an uptick in rental yields and a gradual recovery (more pronounced in prices than affordability or transaction volumes) in the wake of the financial crisis. This has sparked debate about the state of the rental market, potential policies to improve housing affordability, and the role that online rental platforms may be playing in the price increases. Like other sectors, the real estate market needs incentives and rules to prevent irresponsibility from overpowering the common good. Aside from a limited degree of coastal protection, Spain has initiated few reforms of its land laws and building tax measures. There has been considerable growth in listed real estate investment funds (REITs or SOCIMIs for their acronym in Spanish), which dominate Spain's alternative stock market. These companies benefit from tax advantages which could be fuelling speculative activity and placing upward pressure on rental prices. That said, a more exhaustive analysis would be required to confirm this hypothesis.

As for short-term tourist rentals, it is also conceivable they are affecting housing costs, though the overall impact may be less significant than often claimed. Instead, these platforms may be exerting a greater influence over the hotel sector. What is important is making sure that these rentals are legally secure and transparent tax-wise. Indeed, steps have already been taken to address these issues. For example, starting in 2019, online platforms will be required to provide Spanish tax authorities with customer data.

As a result of the controversy over how to handle tourist rentals, municipal governments in major European cities, such as Madrid and Barcelona, have imposed limits or outright bans on these rentals. However, the CNMC report mentioned earlier in this article argues that the benefits associated with these short-term tourist rentals considerably outweigh their disadvantages. Among the advantages, the anti-trust authority's report cites the fact that these digital platforms provide the "possibility of checking and comparing the characteristics of the accommodation on offer online" and the "reduction in transaction costs by means of transaction-facilitating electronic payment systems". It also refers to the "fact that they allow individuals to enter the market despite not having the resources of traditional firms such as sales experience or the wherewithal to accept payment, execute a contract, create a brand or hold insurance". Lastly, the CNMC notes that the "platforms significantly reduce the long-standing issue of information asymmetry (...) thanks to the reputation tracking measures embedded, providing users with feedback about the accommodation and how it has been rated by other users".

However, the report does acknowledge certain disadvantages. These include "those deriving from the growth in tourism, such as congestion, noise and the consumption of environmental resources", as well as the possible effect on "the price of housing (for rent and purchase) in certain areas of the city,

particularly in the city centres." On this last and important point, it notes that there is "no conclusive evidence since, although housing prices have risen across the board in Spain in recent years, this is attributable to a number of economic factors, including tourist rentals; it is hard to ascertain just how much each factor has contributed to the price growth".

In short, it is necessary to contemplate the state of the Spanish housing market as a whole. Absent more exhaustive analysis, tourist rentals alone cannot be blamed for a significant share of the growth in prices in either the house ownership or rental segment. What does seem certain is that although Spain remains a country of home owners, Spaniards are increasingly entering the rental housing market (particularly in big cities). Similar to other international locations, rent controls have been touted, even though the international experience with such measures is not particularly positive (Diamond *et al.*, 2017).

As seen in other service and industrial sectors, technological transformation brings both opportunity and controversy. The challenge is to strike a balance so that the trend towards digitalisation is accompanied by fair competition, tax and employment rules.

Notes

[1] For Eurostat, a person is considered as living in an overcrowded household if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room per pair of children under 12 years of age.

[2] The severe housing deprivation rate is defined as the percentage of the population living in a dwelling which is considered overcrowded, while having at the same time at least one of the following aspects of housing deprivation: the lack of a bath or a toilet, a leaking roof in the dwelling, or a dwelling considered too dark.

References

Diamond, R.; McQuade, T., and F. Qian (2017), *The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco*. December 27th, 2017, mimeo. Standford University.

Santiago Carbó Valverde. CUNEF, Bangor University and Funcas

Francisco Rodríguez Fernández. Granada University and Funcas

Recent trends in Spanish consumer credit: A comparison with the European experience

In recent years, Spain has experienced a sharp uptick in consumer credit thanks to both demand and supply side factors. However, close analysis reveals this does not, at present, appear to be a significant source of concern, given that this loan segment has a relatively low non-performance rate, makes up a small proportion of Spain's overall household borrowings and is likely to decrease as GDP growth rates slow and the savings rate increases.

Joaquín Maudos

Abstract: Since emerging from recession, Spain has experienced significant growth in consumer lending to households. This expansion of credit can be attributed to demand side factors such as the consolidation of the economic recovery (*e.g.* the decline in the unemployment rate), improvement in consumer confidence and a decline in interest rates. Supply-side factors have also contributed to consumer credit growth, including the easing of approval standards and the corresponding terms and conditions associated with these loans. While it is true that the growth in Spanish consumer credit has outpaced the eurozone average and should continue to be monitored, close analysis suggests

> “Most recently, Spanish consumer credit has posted average growth rates of 13% in 2017 and of over 10% in 2018, during which time the Spanish economy has also consistently outgrown the eurozone and its main economies.”

this does not, at present, appear to be a significant source of concern. Higher interest rates on Spanish consumer loans are in line with the risks posed by lending to Spanish households, which are more highly leveraged than their Eurozone peers. Additionally, these loans represent just 11.8% of total household borrowings and 7.1% of total credit extended to the non-financial sector by monetary financial institutions, are largely undertaken to finance house purchases and have low rates of non-performance. Furthermore, it is likely that the demand for consumer credit will decrease as pent-up household expenditure is exhausted, GDP growth rates slow and savings rates normalise. [1]

Introduction

The sharp pace of consumer credit growth in Spain, which contrasts with the downward trend in the outstanding stock of private sector loans, has sparked concern amongst supervisors. The Bank of Spain’s May 2018 Financial Stability Report concluded that “how consumer credit and its NPL rates perform should be monitored closely in coming quarters”. In November 2017, the ECB also published an article in which it flagged the momentum in consumer credit across the eurozone, noting that in Spain, “consumer credit is growing at double-digit rates”.

This paper analyses the growth in consumer finance in Spain against prevailing trends in other eurozone countries. To that end, the paper assesses the following: a) the growth in consumer credit; b) its weight in terms of total household borrowings; c) the associated non-performance ratios; d) the rate of interest applied to consumer loans; e) the changes in banks’ credit criteria and the associated terms and conditions applied to these loans; and, f) the demand-side factors driving the growth in consumer credit.

Trends in consumer credit

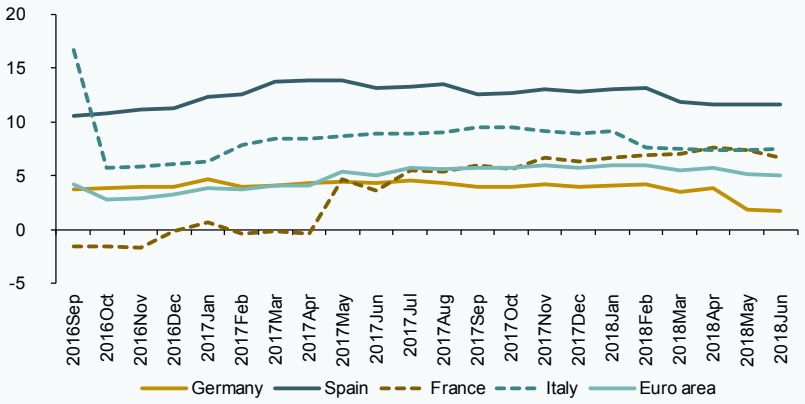
ECB data on monetary financial institutions (MFIs) allow us to analyse the trend in household consumer credit across the eurozone, including the weight of this loan segment in overall household borrowings. As shown in Exhibit 1, consumer credit has registered double-digit growth in Spain since September 2016. Most recently, it has posted average growth rates of 13% in 2017 and of over 10% in 2018, during which time the Spanish economy has also consistently outgrown the eurozone and its main economies. In addition to supply-side factors such as bank-dictated criteria and conditions, [2] the momentum in Spanish consumer credit can be attributed to the uptick in GDP growth as well as related variables such as the decline in the rate of unemployment and a rise in consumer confidence. All of these variables explain why, after emerging from a recession in the latter part of 2013, Spain’s consumption rate has outpaced the rest of the eurozone (Exhibit 2) since 2014. In 2017, household consumption registered growth of 2.4%, exceeding the EU-29 (1.9%), the eurozone (1.6%) and the main EMU economies (1.8% in Germany; 1.4% in Italy and 1.0% in France). The most recent preliminary data available for the second quarter of 2018 suggest that this expansion has eased with year-on-year growth of 2.2% in the first half (0.2% quarter-over-quarter, compared to 0.7% in the first quarter of 2018), trending below the 2017 rate of 2.4%.

The high growth rate of Spanish consumer credit contrasts with the ongoing decline in the overall stock of outstanding household credit in Spain. Data published by the Bank of Spain on deposit-takers (Exhibit 3) show that the stock of credit extended to the resident private sector in Spain has continued to decrease, with a 3.5% year-on-year contraction in the first quarter of 2018. The stock of loans to

Exhibit 1

Year-on-year growth rate of consumer credit extended by the monetary financial institutions (MFIs)

(Percentage)

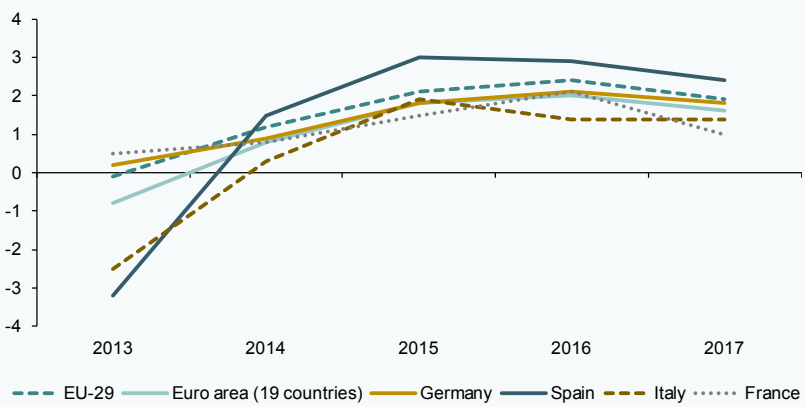


Source: ECB and author's own elaboration.

Exhibit 2

Annual growth in household consumption

(Percentage)



Source: Eurostat.

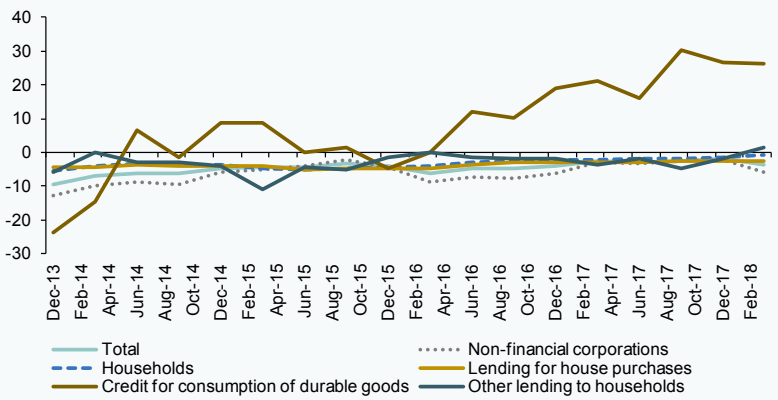
enterprises experienced the sharpest fall (-5.7%), with household credit registering a far more modest decline (-0.8%). Lastly, outstanding mortgages decreased by 2.4% year-on-year in the first quarter. Conversely, the trend in loans to finance the purchase of durable consumer goods jumped by 26.4% between the first quarters of 2017 and 2018. Growth in this segment has accelerated since the end of 2015 and remains dynamic despite having eased slightly in 2018 (it previously peaked at 30.4% in the third quarter of 2017).

> “Data published by the Bank of Spain on deposit-takers show that the stock of credit extended to the resident private sector in Spain has continued to decrease, with a 3.5% year-on-year contraction in the first quarter of 2018.”

Exhibit 3

Year-on-year growth in the stock of credit extended by Spanish deposit-takers

(Percentage)



Source: Bank of Spain.

‘Other loans to households’ [3] registered growth of 1.3% in 2018.

Spain’s growing consumer credit: A source of concern?

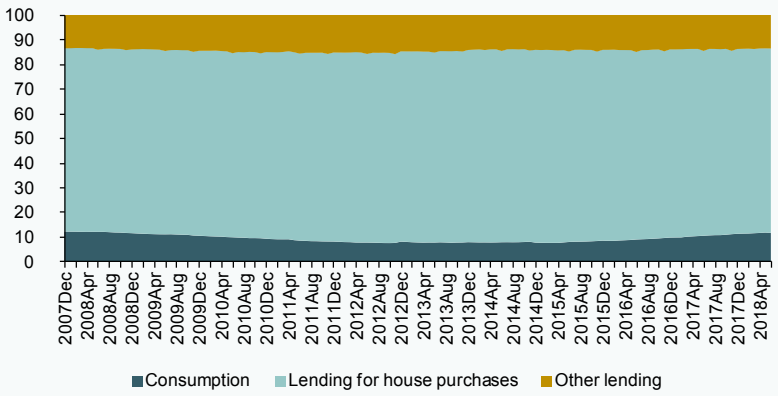
It is worth noting that the current stock of consumer credit extended by MFIs to Spanish households represents just 11.8% of total household borrowings. Despite having increased by four percentage points since its low in 2012, [4] this rate is exactly the same as the eurozone average and below both France (13.4%) and Italy (15.6%). As shown in Exhibit 4, consumer credit is primarily used by Spanish households to finance the purchase of homes. Specifically, mortgages currently account for 74.8% of outstanding household credit.

It would be worrying if the high rate of growth in consumer credit was accompanied by a spike in the rate of non-performing loans (NPLs). However, as demonstrated in Exhibit 5, this is not in fact the case. Looking specifically at Spanish deposit-takers, the non-performance ratio of loans for the purchase of durable goods has declined from a high of 7.6% in December 2013 to 3.4% as in March 2018. In absolute terms, the volume of non-performing loans for the purchase of durable goods has contracted by 61% since early 2009 to 1.1 billion euros. Although the Bank of Spain doesn’t provide data on the purchase of non-durable goods (this is lumped in with other uses for household credit), non-performing loans in this segment must be higher since the NPL ratio on ‘other loans to households’

Exhibit 4

Credit extended by MFIs to Spanish households: Breakdown by use of proceeds

(Percentage)



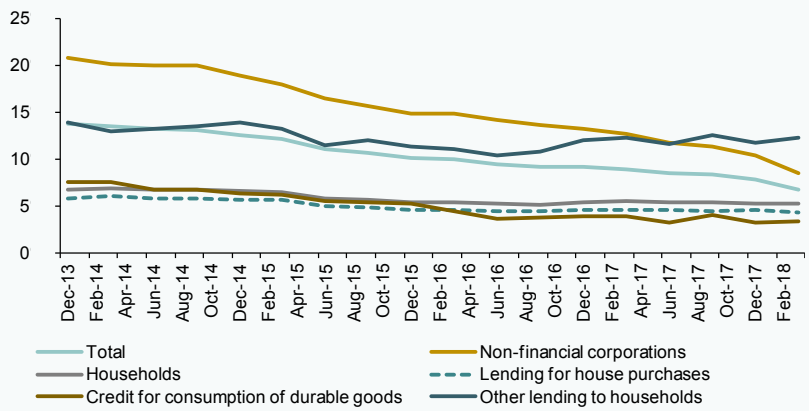
Source: ECB.

(*i.e.* excluding loans for home and durable goods purchases) stood at 12.3% as of March 2018, barely budging from its high of 13.9% of December 2014. According to the Bank of Spain's 2018 Financial Stability Report, excluding consumer credit and mortgages, this presents the highest NPL ratio (15.4% in 2017), whereas non-performing loans for consumer credit is lower (5.2%). Likewise, durable consumer goods and non-durable consumer goods loans have NPLs of 3.3% and 7.3%, respectively.

Exhibit 5

Spanish deposit-takers' non-performing loans ratio

(Percentage)



Source: Bank of Spain.

Interest rates on consumer credit

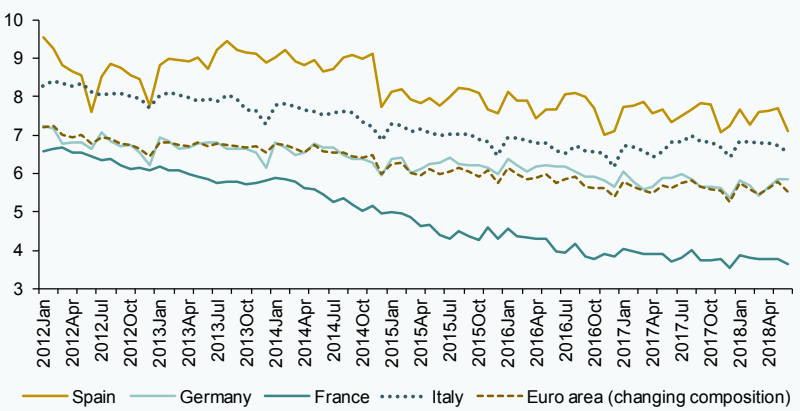
One of the reasons consumer credit has expanded so significantly in Spain is the fall in borrowing costs. Between November 2014 and June 2018, interest rates charged on new transactions decreased by 202 basis points (Exhibit 6), which significantly exceeds the 98 basis points contraction observed in the eurozone. The decline in Spanish borrowing costs is also steeper than in the main eurozone economies. For example, rates decreased by 43 basis points in Germany and 69 basis points in Italy over the same period. However, it is worth noting that consumer credit has always been more expensive in Spain relative to the eurozone and its main economies (with the odd exception such as Italy). Nevertheless, the gap between Spanish and eurozone borrowing costs has narrowed by 104 basis points since November of 2014.

As of June 2018, a consumer loan in Spain cost 158 basis points more than the eurozone average and 124 basis points more than in Germany. One way of determining whether this premium is excessive is to compare it with the spread on long-term sovereign bonds, which is used as the benchmark for the return on risk-free assets. In Germany, that spread is used as an indicator of the economy's risk premium. Logic dictates that if the spread between the two countries is higher on consumer credit than on sovereign debt, then the risk implicit in extending consumer credit to households is higher in Spain than in Germany or the eurozone. That risk in turn is determined by differences in the levels of household indebtedness and financial vulnerability. Consequently, if Spain's households are more indebted and more financially vulnerable than those of Germany (or the eurozone), it would make sense that the risk premium applied to Spanish consumer loans exceeds that of Germany (or the eurozone).

Exhibit 6

Nominal interest rates for new business volumes in household consumer credit

(Percentage)



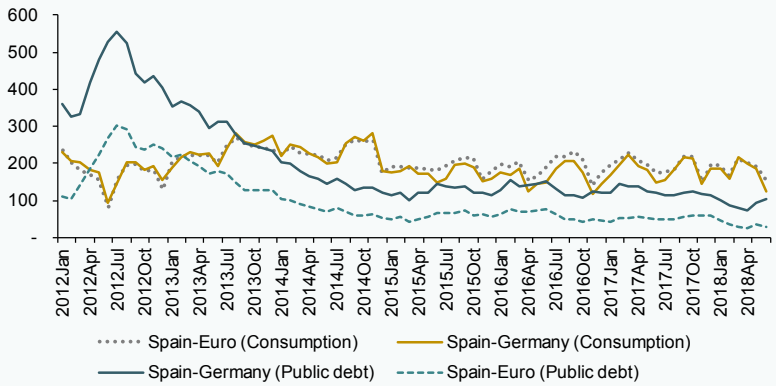
Source: ECB.

> "As of June 2018, a consumer loan in Spain cost 158 basis points more than the eurozone average and 124 basis points more than in Germany."

Exhibit 7

Interest rate and 10 year government bond spreads between Spain and Germany and Spain and the eurozone

(Expressed in basis points)



Sources: ECB and Eurostat.

In June 2018 (Exhibit 7), the spread between the cost of a consumer loan in Spain and Germany stood at 124 basis points, compared to a spread of 104 basis points between the yields of the two countries' sovereign bonds. This amounts to a gap of just 20 basis points, which given the higher leverage rates of Spanish households, doesn't appear excessive. Specifically, Spain has a debt to gross disposable income ratio of 102.9%. In comparison, Germany's ratio is 84.7%. Similarly, the spread between the cost of a consumer loan in Spain and the eurozone average stood at 158 basis points in June, with Spain's debt to gross disposable income ratio 8.6 percentage points above the eurozone average. Considering the greater risk associated with extending consumer loans in Spain, it makes sense that these loans would entail a higher interest rate.

Supply-side factors: Consumer credit approval standards and terms and conditions

The quarterly bank lending survey conducted by the ECB offers insight into the changing standards used to approve loans, including factors on both the demand and supply side of the equation. Specifically, the survey provides information with respect to the tightening or easing of: a) credit standards applied to the approval of credit (and contributing factors); b) terms and conditions for credit; c) the rejection rate for credit applications; and, d) changes in net demand for credit and contributing factors. Our analysis focuses on the trend since 2016, the year in which growth of Spanish consumer credit began to accelerate.

In virtually every quarter since early 2016 (Exhibit 8), Spanish banks have eased their credit standards for consumer loans, thereby

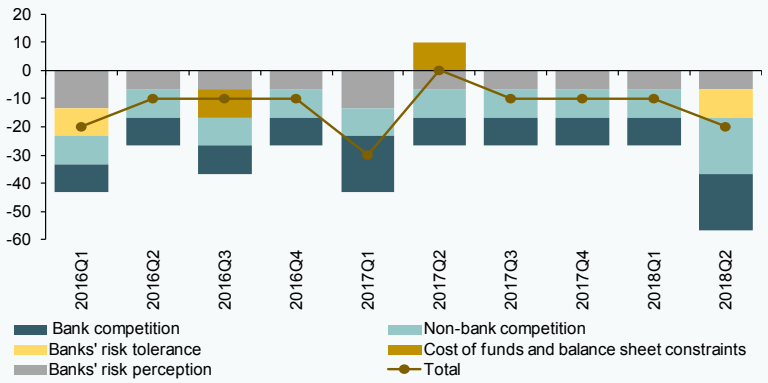
> "In virtually every quarter since early 2016, Spanish banks have eased their credit standards for consumer loans, thereby contributing to the spike in this particular loan segment."

Exhibit 8

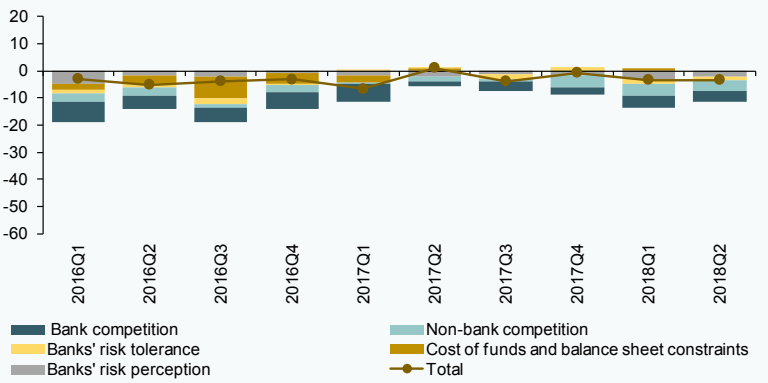
Changes in credit standards applied to the approval of consumer credit and contributing factors

(Expressed in net percentages*)

Spain



Eurozone



** Difference between the percentage of banks that reported tightening credit standards and those that eased credit standards.*

Source: ECB.

contributing to the spike in this particular loan segment. Although eurozone banks have also eased their approval criteria, the net percentages are narrower. Notably, these figures are similarly negative, which suggests that a higher percentage of banks reported having eased rather than tightened their lending standards.

Turning to Spain, net percentages stood at -20 percentage points in the second quarter of 2018. One reason for this is the greater competition between banks. Another contributing factor is that banks' perception of borrowers' risk has diminished, which has undoubtedly been influenced by Spain's economic rebound. More recently, a new underlying factor has been identified, namely the uptick in banks' risk tolerance. A comparison with the eurozone suggests that the same factors are present but with less intensity than in Spain.

In tandem with the easing of lending criteria for consumer credit, Spanish banks have also

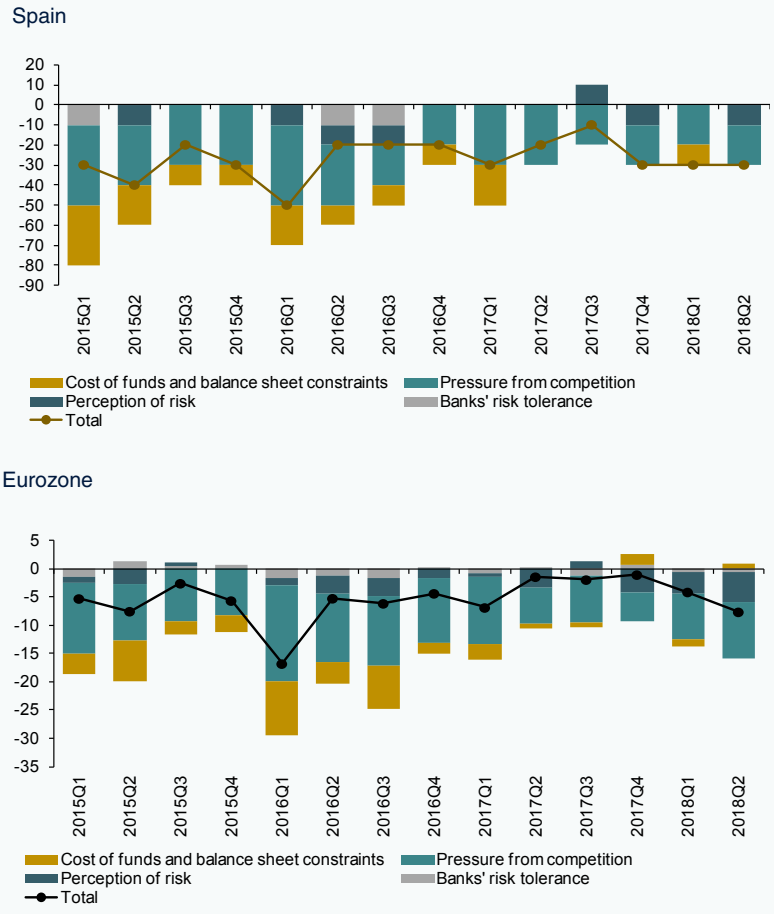
been improving the terms and conditions applied to these loans since at least 2015. As shown in Exhibit 9, competitive pressure largely explains this development. Other less influential factors include banks' reduced perception of risk and the lower cost of funds. The most recent figures, which date to the second quarter of 2018, reveal an overall net percentage of -30, and net percentage points of -20 and -10 for competition and risk perception, respectively. These figures are wider than those of the eurozone banks on average, indicating that in Spain, the terms and conditions applied to consumer credit are improving more vigorously.

One final factor that accounts for improved terms of access to consumer credit in Spain relates to the rate of loan applications rejected. Since 2016, the rejection rate has fallen each quarter in Spain, with differences between the percentage of banks reporting an increase and those that reported a decrease in the rate ranging between -10 and -30 percentage points. These

Exhibit 9

Changes in terms and conditions for consumer credit

(Expressed in net percentages*)



** Net percentage of banks reporting tightening terms and conditions.*

Source: ECB.

> “Looking at the most recently available data, it becomes apparent that two specific factors have driven demand for consumer credit: growth in spending on durable goods and higher consumer confidence.”

net percentages are significantly higher than those of the eurozone and its main economies.

Explanations for demand-driven consumer credit growth

The ECB survey also enables an analysis of those demand-side factors that have contributed to the high rate of growth in Spanish consumer credit. Since the first quarter of 2017 (Exhibit 10), the percentage of banks reporting that demand is growing has been higher than the percentage reporting a slump in demand. The net percentage peaked at 60 percentage points in the second quarter of 2018, which is more than twice the eurozone average.

Looking at the most recently available data, it becomes apparent that two specific factors have driven demand for consumer credit: growth in spending on durable goods and higher consumer confidence. Specifically, these two factors had net percentages of 50 percentage points. The general level of interest rates also made a considerable contribution with net percentages of 40 percentage points. Recall that rates (12m Euribor) have been in negative territory since February 2016 and at close to -0.2% since the end of 2017. Although these contributing factors also underpinned the increase in the demand for consumer credit in the eurozone, their overall effect has been greater in Spain.

Conclusions

The onset of the financial crisis in Spain triggered a collapse in household expenditure, which contracted until 2013. Simultaneously, the savings rate increased as households set money aside. Specifically, it oscillated around

Exhibit 10

Changes in demand for consumer credit and contributing factors

(Net percentages*)

Spain

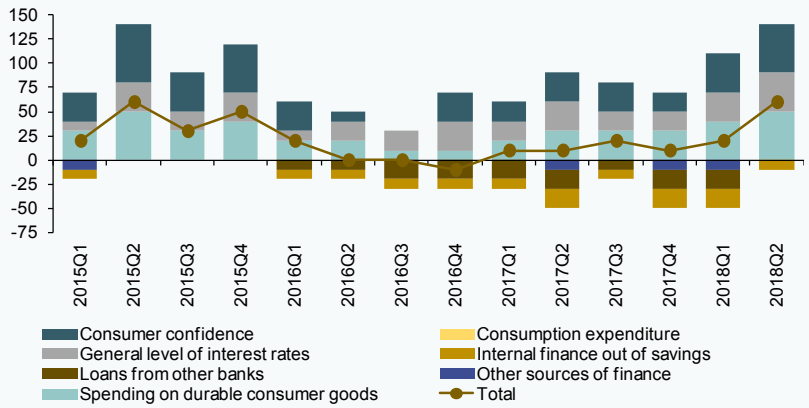


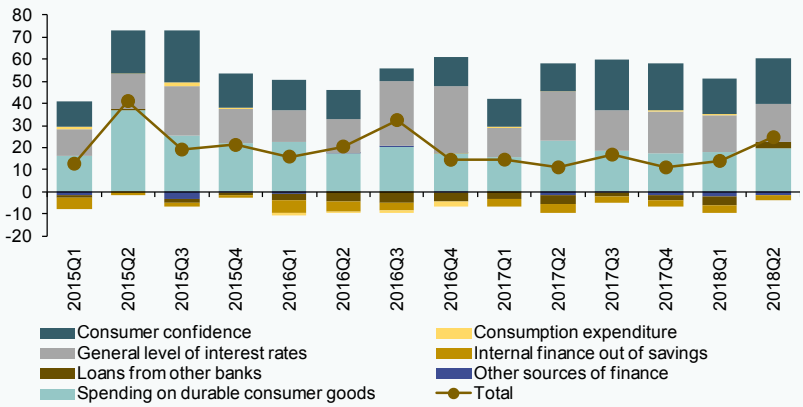
Exhibit 10

Changes in demand for consumer credit and contributing factors

(Net percentages*)

(Continued)

Eurozone



** Net percentages of banks reporting positive demand and contributing factors.*

Source: ECB.

10% until 2013, after having peaked at 13.4% in 2009. Once the Spanish economy emerged from recession in 2013, spending rebounded and the savings rate began to decrease, reaching a low of 5.7% in 2017. As a result, household expenditure that had been put on hold during the crisis was unlocked, thereby spurring the growth in consumer spending observed in recent years.

Against this backdrop, the recent jump in Spanish consumer credit can be attributed to demand-side factors such as the consolidation of the economic recovery (*e.g.* the decline in the unemployment rate), improvement in consumer confidence and the drop in interest rates. However, supply-side factors have also played an important role with banks easing approval standards for consumer credit as well as the corresponding terms and conditions. Increased competition amongst banks and the general interest rate environment have squeezed banks' profits, encouraging them to look for higher-margin lending opportunities such as consumer credit.

However, the high growth rates in Spanish consumer credit do not appear to be a source of concern for several reasons: a) the existing stock of consumer credit represents just 11.8% of household credit and 7.1% of the credit extended to the private sector by monetary financial institutions; b) the rate of non-performance is low (5.2% for all

> "The existing stock of Spanish consumer credit represents just 12% of household credit and 7% of the credit extended to the private sector by monetary financial institutions."

consumer credit and 3.3% for credit used to purchase durable consumer goods, the segment registering the fastest growth); c) a significant portion of the increase in spending on durable goods is the result of pent-up demand such that growth rates can be expected to normalise once that demand has been satisfied; d) GDP growth is expected to ease in the coming years, as will consumer spending, taking some of the wind out of the growth in consumer credit (data for the second quarter of 2018 already reveal a slowdown in consumer spending); and, e) the savings rate is currently very low (5% in the first quarter of 2018) and can be expected to trend back to the historic average, thereby reducing households' propensity to spend.

Lastly, although Spanish banks charge higher interest rates for consumer credit than their European counterparts, this is largely due to the Spanish economy's relatively higher risk premium and the higher risk assumed by the banks when they lend to Spanish households, which are more indebted than their European peers.

Notes

[1] This article was written as part of a Spanish Ministry of Science and Innovation project (ECO2017-84828-R).

[2] The effect that a drop in interest rates has on consumption levels depends on the impact on household net borrowing costs. As noted by the ECB (2018), the amount of interest paid in Spain fell by more than the amount collected between 2008 and 2017, so that the downward trend in rates has had a positive impact on consumer spending. The greater drop in interest paid is due to high household leverage, as well as the fact that a high percentage of home mortgages carry floating interest rates.

[3] This balance includes loans for the purchase of non-durable consumer goods, loans extended to households to finance the acquisition of land, rural estates and financial securities and loans for other uses not included in any of the other categories. Unfortunately, the Bank of Spain does not track total consumer credit. Instead, it provides a series for durable consumer goods financing and a series for other loans to households, which excludes consumer finance. If, rather than using the data tracking the stock of outstanding loans, we use new business volume flows, the Bank of Spain provides data on consumption expenditure financed via credit cards and credit. Using the new business volume figures, we note that bank loans earmarked for consumption expenditure increased by 17.3% in 2017.

[4] As for total credit extended to the non-financial sector, consumer credit from Spanish MFIs accounted for a 7.1% share as of June 2018.

References

Bank of Spain (2018), *Financial Stability Report*, May.

European Central Bank (2017), Recent trends in consumer credit in the euro area, *Economic Bulletin,* 7: 32-35.

— (2018), Private consumption and its drivers in the current economic expansion, *Economic Bulletin,* 5: 86-110.

Joaquín Maudos. Professor of Economic Analysis at the University of Valencia, Deputy Director of Research at Ivie and collaborator with CUNEF

The global insurance market: State of play and growth dynamics

Over the past few years, the financial crisis and low interest rates have contributed to a downward trend in the insurance sector's earned premiums in advanced economies. While emerging markets' high growth rates have helped offset this development, it is expected that additional relief will come as interest rates normalise and retirement savings rise in the developed world.

Daniel Manzano

Abstract: Of late, growth in the insurance business has become sluggish in the developed world with earned premiums having stagnated in real terms. This trend has been shaped by the recent financial crisis and a prolonged period of low interest rates. However, these developments have been offset by dynamic earnings growth in the emerging markets, particularly China, which is currently the second-largest insurance market after the US. The significantly higher GDP growth rates in emerging economies, together with their low levels of GDP per capita, are driving substantial growth in the insurance business. Nevertheless, it is conceivable that advanced economies' earned premiums in the life insurance segment will improve as interest rates are gradually normalised. Furthermore, it is expected that the insurance industry will benefit from a rise in retirement savings as public pension systems fail to cope with rapidly aging populations. Of particular note

are the promising conditions in Spain, where the life insurance segment has room to grow.

Introduction

The recent publication by the Swiss Re Institute of its traditional annual report on the global insurance industry (Swiss Re, 2017), along with the entity's web-based data visualisation tool, [1] presents an opportunity to analyse growth dynamics in the global insurance business by region and business segment. The research suggests that over the last few years, the insurance business has run out of steam in the advanced economies. However, this is being offset by strong growth in emerging economies, particularly China, which is now the second-largest insurance market in the world after the United States.

Although the purpose of this article is not to analyse the factors underpinning these trends, it is clear that the recent financial crisis has had a unique impact on life and non-life insurance in advanced economies. The prolonged period of low rates necessitated by the crisis has had an adverse impact on growth in the life insurance sector. Nevertheless, low birth rates and longer life expectancies in advanced economies have undermined the ability of public pension systems to cope with the shortfall in savings, thereby presenting a promising opportunity for the life insurance industry.

Conversely, the very nature of emerging economies has led to a significant expansion of these countries' insurance markets. Specifically, financial conditions have contributed to elasticities of demand greater than one. Moreover, income growth in emerging economies, especially China, has been particularly strong.

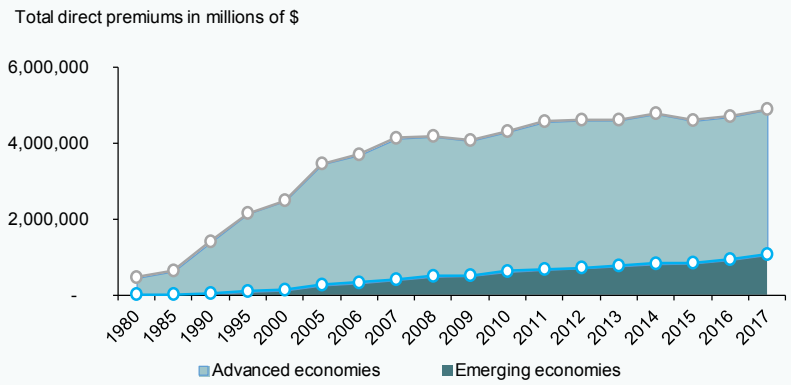
In this paper, we first analyse the global dynamics of the insurance industry. We then focus on the relative performance of the three major blocks of advanced economies and conclude with an analysis of Western Europe, which includes the Spanish insurance sector. Notably, Spain's insurance industry ranks fifteenth worldwide with a share of total direct insurance premiums of 1.5%.

General dynamics: Advanced and emerging economies

As shown in Exhibits 1 and 2, premiums earned in the global insurance market amounted to close to 5 trillion dollars in 2017.

Exhibit 1

Trend in direct insurance premiums worldwide. Advanced and emerging economies

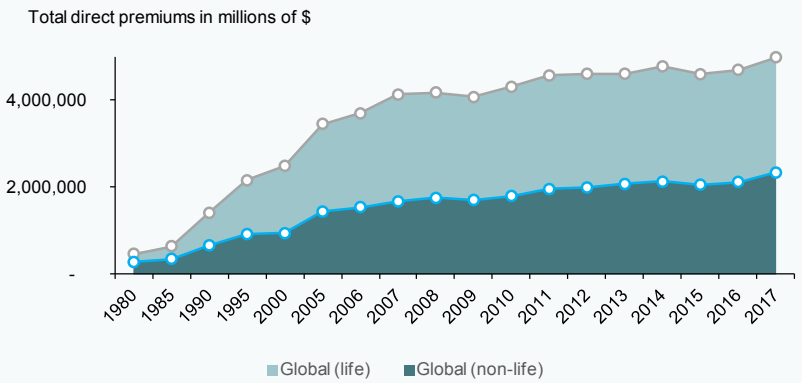


Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

> “Notably, Spain’s insurance industry ranks fifteenth worldwide with a share of total direct insurance premiums of 1.5%.”

Exhibit 2

Trend in direct insurance premiums worldwide. Life and non-life insurance



Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

In real terms (discounting inflation), premiums registered growth of 1.5% in 2017, which is similar to the average annual rate of 1.4% between 2007 and 2016. Of note is the negative impact the recent economic and financial crisis had on these figures. As such, the real growth rates contained in Table 1 are relatively low by historical standards.

Growth in premiums is primarily being driven by the emerging economies (+10% in 2017 and 8.4% on average between 2007 and 2016), with China clearly spearheading this growth (+16%). By contrast, growth in premiums in advanced economies has stagnated in real terms (-0.6% and 0.3% respectively) due to the downward trend in the life insurance sector.

Globally, the non-life insurance segment has exhibited stronger growth in premiums (2.8% in 2017 and 2.1% between 2007 and 2016) compared to the life insurance segment (0.5% and 0.9%, respectively). However,

> “Advanced economies still accounted for nearly 80% of all premiums written in 2017, consistent with the insurance penetration level in those economies, which at 7.8% is more than twice that of emerging markets.”

Table 1

Performance of the main insurance markets in 2017

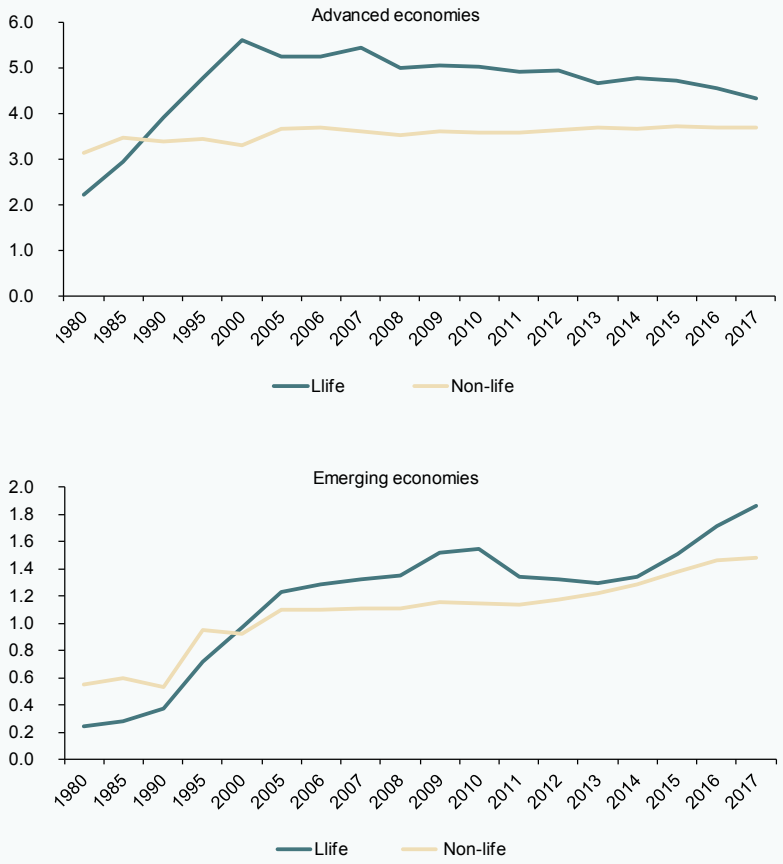
	Ranking by premiums	Premiums, life		Premiums, non-life		Total premiums		Density (USD)	Insurance penetration
	2017	USD bn	Change* vs. 2016 (%)	USD bn	Change* vs. 2016 (%)	USD bn	Change* vs. 2016 (%)	2017	2017 (%)
Advanced economies		2,059	-2.7	1,760	1.9	3,820	-0.6	3,517	7.8
US	1	547	-4.0	830	2.6	1,377	-0.1	4,216	7.1
Japan	3	307	-6.1	115	0.0	422	-4.5	3,312	8.6
UK	4	190	-0.7	93	0.5	283	-0.3	3,810	9.6
France	5	154	-2.7	88	1.1	242	-1.3	3,446	8.9
Germany	6	97	-1.8	126	1.3	223	-0.1	2,687	6.0
South Korea	7	103	-6.5	78	2.3	181	-2.9	3,522	11.6
Italy	8	114	-7.5	42	-0.5	156	-5.7	2,660	8.3
Emerging economies		598	13.8	474	6.1	1,072	10.3	166	3.3
Latam & Caribbean		78	1.1	90	-0.9	168	0.1	262	3.1
Brazil	12	47	1.2	36	1.6	83	1.4	398	4.1
Mexico	25	12	1.0	13	0.9	25	1.0	196	2.2
Central & Eastern Europe		19	12.2	44	3.3	63	5.8	198	1.9
Russia	28	6	48.2	16	-5.4	22	4.4	152	1.4
Emerging Asia		448	17.7	272	10.1	720	14.7	188	4.1
China	2	318	21.1	224	10.2	541	16.4	384	4.6
India	11	73	8.0	25	16.7	98	10.1	73	3.7
Middle East and Central Asia		15	7.0	45	4.1	60	5.0	163	2.1
Arab Emirates	35	3	3.3	10	13.5	14	11.0	1,436	3.7
Africa		45	0.3	22	1.0	67	0.5	54	3.0
South Africa		38	-0.3	10	1.3	48	0.1	842	13.8
Global total		2,657	0.5	2,234	2.8	4,892	1.5	650	6.1
Note:									
Spain	15	33	-7.4	37	2.0	71	-2.6	1,519	5.4

** In real terms, adjusted for inflation. Penetration = premiums as a % of GDP; Density = premiums per capita.*

Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

Exhibit 3

Trend in penetration (premiums/GDP) in life and non-life insurance segments, 1980-2017 (Percentage)



Source: Swiss Re Institute.

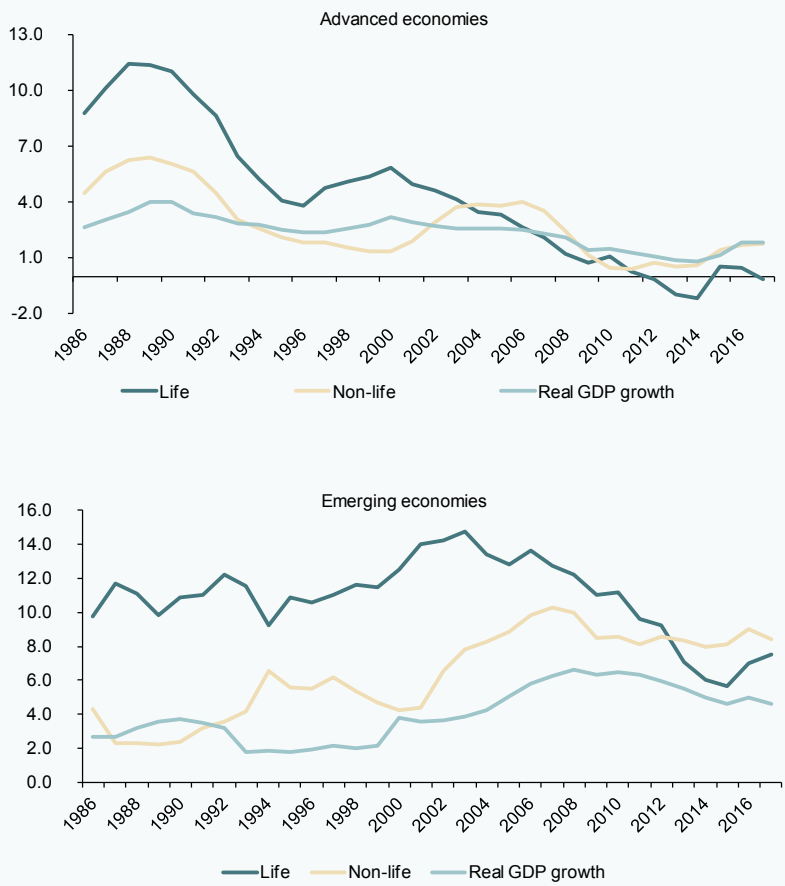
this divergence between the emerging and advanced economies is evident in both segments.

Measured in terms of premium volumes, the insurance business has experienced far higher growth in emerging markets. This is especially true in China, which represents half of all of the insurance business in this market. Nevertheless, advanced economies still accounted for nearly 80% of all premiums written in 2017. This is consistent with the insurance penetration level (premiums/GDP) in those economies, which at 7.8% is more than twice that of the emerging markets (Exhibit 3).

However, this gap has been narrowing in recent years, a phenomenon that is all the more noteworthy considering that GDP growth has been much higher in emerging markets. In other words, the elasticity of the change in premiums to that of GDP is considerably higher in emerging economies than in advanced markets. This is consistent with the lower level of GDP per capita in the former and underpinned by empirical evidence, which suggests the density and

Exhibit 4

Growth in life and non-life insurance premiums relative to real GDP growth (7-year moving average) (Percentage)



Source: Swiss Re Institute.

penetration of insurance coverage increases with a country's income levels (Exhibit 4).

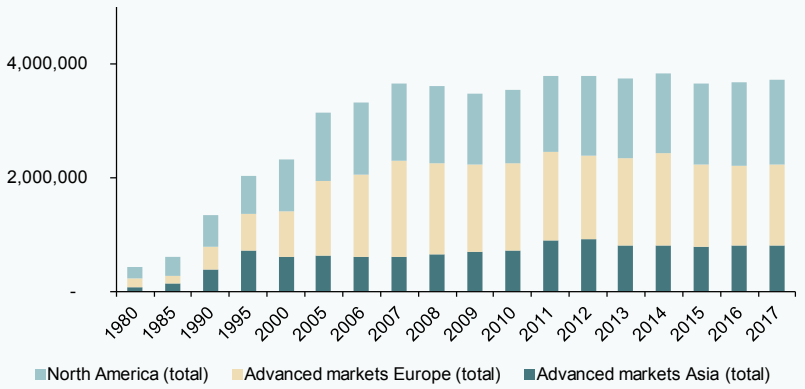
Dynamics in the three major blocks of advanced economies

The bulk of the insurance business is concentrated in three major blocks of advanced economies. North America, Western Europe and the developed Asian economies account for 31%, 29% and 22% of global premiums, respectively. Other than the rotation between North America and Western Europe at the top of this ranking, the relative movements in these mature markets have not been particularly remarkable (Exhibit 5).

It is worth highlighting that there are differences in the relative importance of each region in the life versus the non-life insurance segments. The North American non-life insurance market accounts for 40% of total worldwide premiums in this segment, compared to just 23% of life insurance premiums. On the other hand, Western

Exhibit 5

Direct insurance premiums by region in millions of dollars

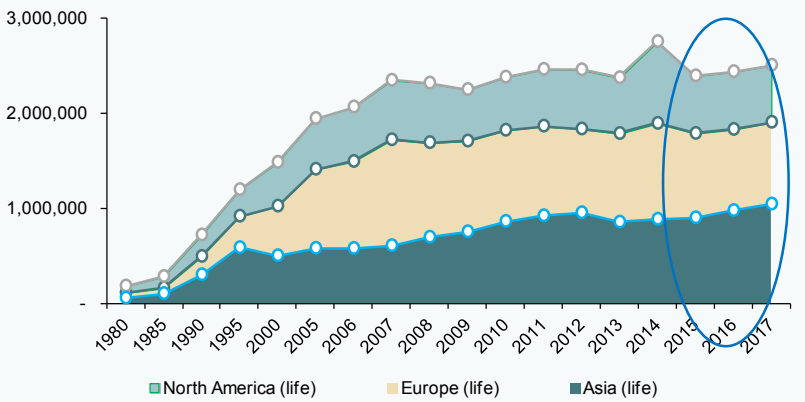


Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

Europe's share of the global life insurance market stands at 32%. However, it makes up just 26% of the global non-life insurance segment. The advanced Asian economies are even more biased towards the life insurance segment, accounting for 22% of the global

Exhibit 6

Breakdown of direct life insurance premiums by region in millions of dollars

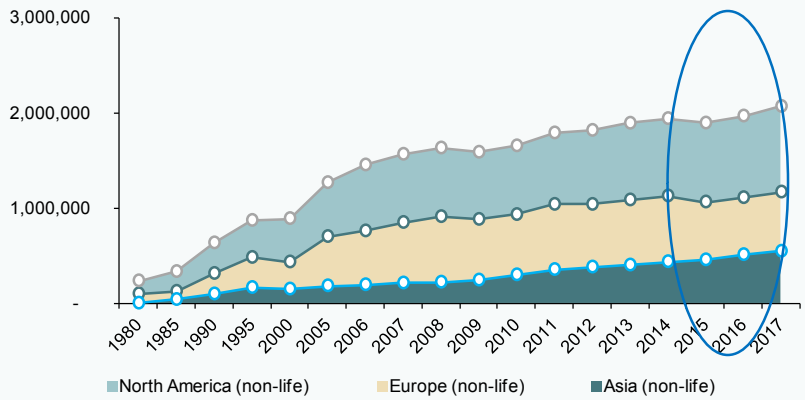


Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

> "Western Europe's share of the global life insurance market stands at 32%. However, it makes up just 26% of the global non-life insurance segment."

Exhibit 7

Breakdown of direct non-life insurance premiums by region in millions of dollars



Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

market, which is nearly as big as the share commanded by North America. Yet, only 10% of the non-life insurance market is located in these countries (Exhibits 6 and 7).

Average insurance penetration rates are just over 7% in North America and Western Europe, whereas in the advanced Asian economies they exceed 10%.

Dynamics in Western Europe

The structural changes that have taken place globally due to the recent financial crisis are especially apparent in Western Europe. Not only have the real growth rates in the life insurance business been low or even negative over the past decade, but they've also exhibited a high degree of volatility. Although growth in the non-life insurance segment has been much more stable, it has trended significantly below the levels observed in previous decades (Exhibits 8 and 9).

This relative stagnation (in real terms) has led to a decline in the insurance penetration rate, shaped predominately by the contraction of the life insurance business. In this segment, penetration has fallen from a high of 5.7% of GDP in 2007 to 4.4% in 2017, when premiums contracted in real terms for the second year in a row. Considering the relatively stable non-life insurance business, which has maintained a penetration of close to 3%, the overall insurance penetration rate stands above 7% (Exhibits 10 and 11).

However, there is a considerable difference in the penetration rates across Western Europe. At the top of the ranking, with rates of around 10%, are Finland, Denmark, the UK and the Netherlands; at the bottom end lies Spain with a penetration rate of under 5.5%.

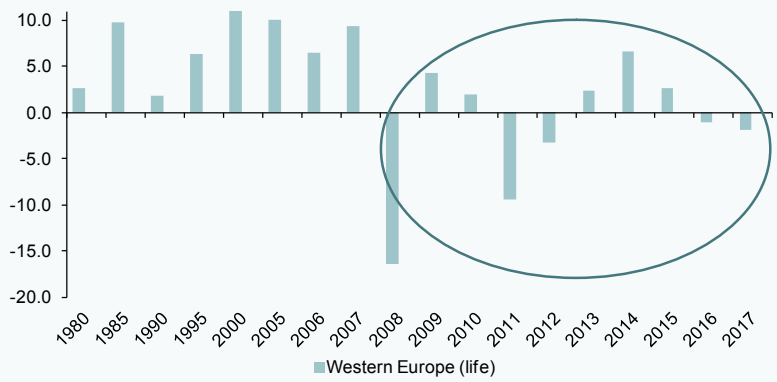
This divergence in penetration rates is largely due to differences in per-capita incomes

"Not only have the real growth rates in the life insurance business been low or even negative over the past decade, but they've also exhibited a high degree of volatility."

Exhibit 8

Growth in life insurance premiums in Western Europe in real terms

(Percentage)



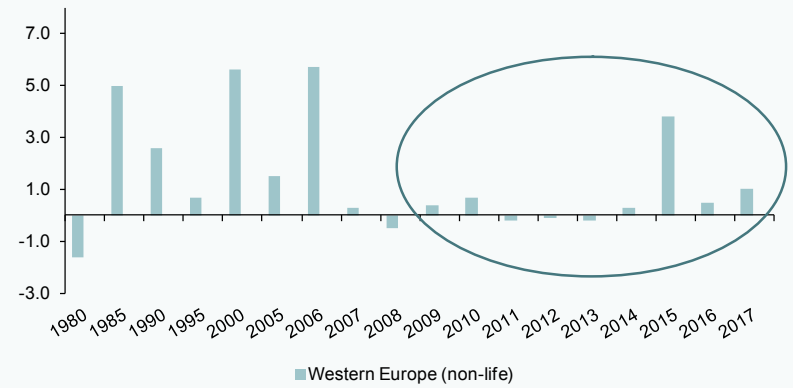
Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

across the region. However, as shown in Exhibits 12 and 13, the correlation is strong in countries with relatively low per-capita income levels but becomes weaker and less evident in those with incomes of over 45,000 dollars per capita.

Exhibit 9

Growth in non-life insurance premiums in Western Europe in real terms

(Percentage)



Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

Exhibit 10 **Penetration of life insurance (premiums/GDP) in Western Europe**

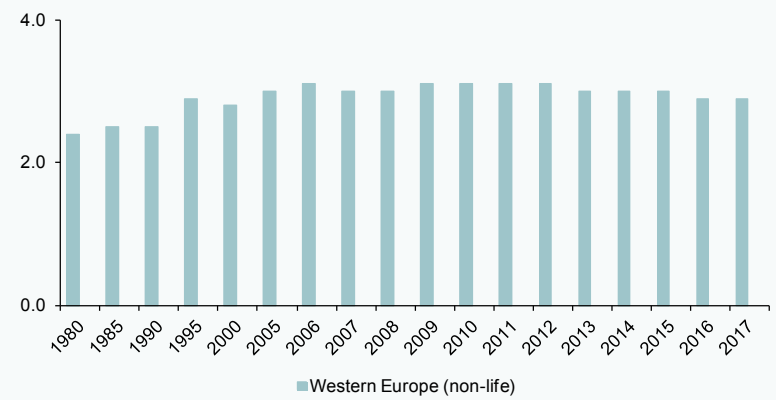
(Percentage)

Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

In Spain, where the insurance market ranks 15th worldwide in terms of total direct premium volumes, the income per capita levels partially account for insurance penetration and density levels that are below other major European economies (Manzano, 2017 and Manzano, 2018). However, specific conditions in Spain provide greater opportunities for

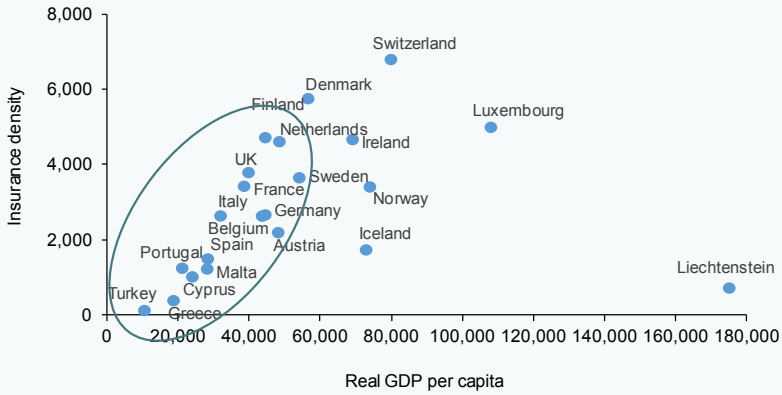
Exhibit 11 **Penetration of non-life insurance (premiums/GDP) in Western Europe**

(Percentage)



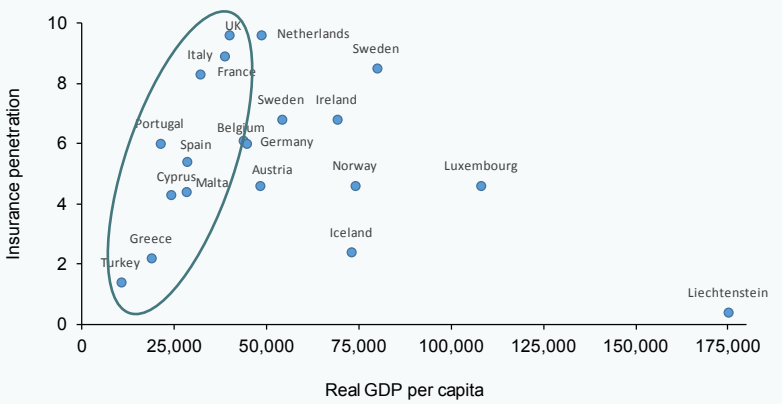
Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

Exhibit 12 **Insurance density (premiums per person in dollars) in each country relative to its GDP per capita**



Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

Exhibit 13 **Insurance penetration (premiums/GDP) in each country relative to its GDP per capita**



Source: Sigma World Insurance Database and 2017 Swiss Re Economic Research & Consulting.

the insurance market, and in particular for the life insurance segment (Mapfre, 2018).

Despite the still lower relative penetration of the life insurance segment in Spain, if examined in historical perspective, this segment has shown a certain dynamism in the last decade. In fact, practically all of the increase in the penetration of insurance in Spain in this period is due to this segment. In a market as banked as Spain, with a huge weight of bank deposits, the zero or very low profitability in recent years of both deposits and other short-term investment

alternatives has helped to shift the demand towards longer-term savings products. The life insurance business has benefiting from this trend. Although it too exhibited low returns, these have been superior to those of alternative short-term products. However, we must also emphasize the unique commercial effort by some of the leading firms in the life insurance segment.

On the other hand, from a structural perspective, and in the medium-term, the difficulties of the public pension system to maintain the purchasing power of pensions in a strained sociodemographic environment (note that public pensions in Spain have a very high replacement rate) compared to other European counterparts, and the growing awareness of pension savings, should boost the demand for products associated with the life sector - with elasticities greater than one.

Notes

[1] All of the exhibits in this report were generated using the web tool facilitated by Swiss Re.

References

DGSFP (2018), "2017 Insurance and Pension Funds Report."

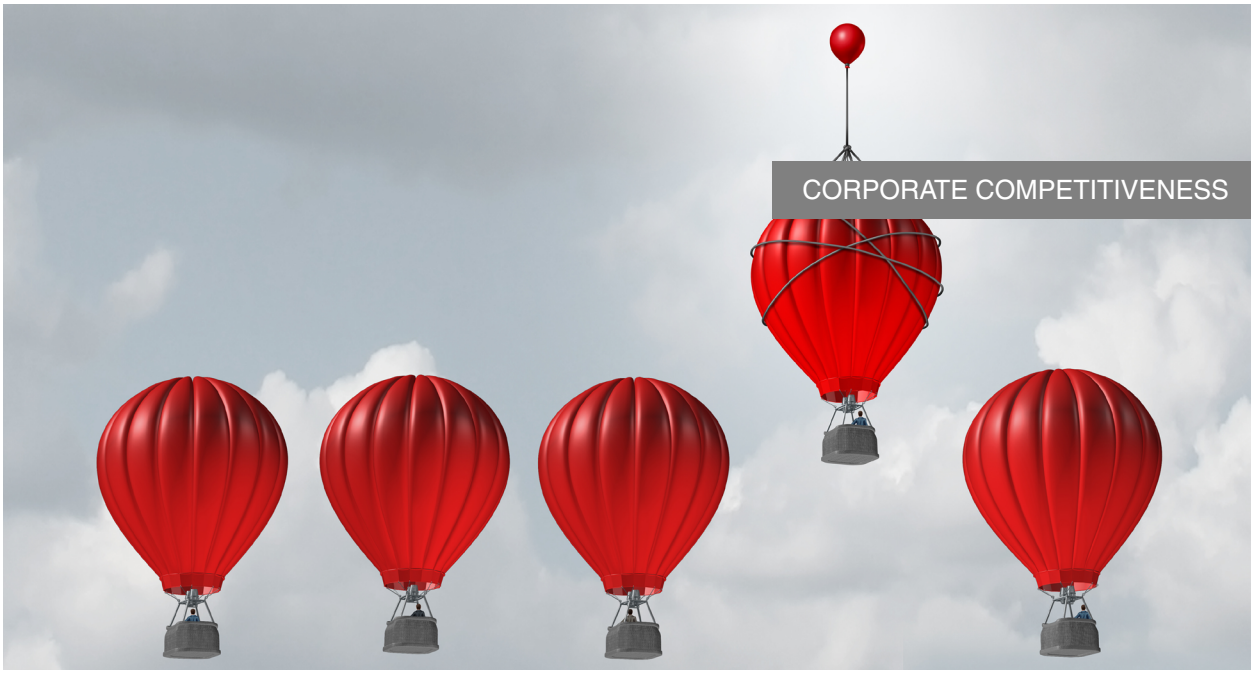
Fundacion Mapfre (2018), "The Spanish insurance market in 2017."

Manzano, D. (2017), "Spain's banking and insurance sectors: A contrasting story," *Spanish Economic and Financial Outlook,* vol. 6, 4, ISSN 2254-3899.

— (2018), "Spain's insurance sector: Profitability, solvency and concentration," *Spanish Economic and Financial Outlook,* vol. 7, 1, Funcas ISSN 2254-3899.

Swiss Re Institute Sigma (2018), "World insurance in 2017: solid, but mature life markets weigh on growth," Sigma 3/2018.

Daniel Manzano. A.F.I. -
Analistas Financieros Internacionales, S.A.



Growth and competitiveness in Spain's corporate sector: Recent trends and outlook

An analysis of Spanish firms' financial data reveals that growth prior to the recent recession was based on decreasing input costs, but was not accompanied by efficiency gains. Post-recession, these firms, and in particular those in the manufacturing sector, have reduced their leverage and increased earnings, but as input costs and interest rates rise, attention will need to be paid to determine if current growth will be sustainable.

Jorge Rosell Martínez

Abstract: In order to draw conclusions about the competitiveness of the Spanish economy, this paper analyses Bank of Spain data on Spanish firms prior, during and after the recession. Our analysis reveals that economic growth during the first period was based on decreasing costs of inputs, labour and capital, as total factor productivity was also decreasing. During the recession, many firms disappeared and both employment and output dropped. However, since 2015, the Spanish economy has overcome the worst phase of the crisis that took place from 2009 to 2014. Activity growth is recovering and, in contrast to what happened in the first years of the period, exports and manufacturing are

growing strongly, productivity increasing and incomes growing in real terms. Currently, the corporate sector has reduced its debt ratio to pre-recession levels and has experienced moderate growth and earnings momentum. Also worth noting is the fact that the growth impetus has shifted in recent years towards the manufacturing sector. But the sustainability of this growth may be called into question as labour and capital costs, at historically low levels, begin to increase. Going forward, in an environment of increasing real wages and interest rates, sustainable corporate growth may only be achieved through efficiency gains.

Introduction

This paper analyses the performance of the Spanish economy between 1999 and 2016 based on the information published by the Bank of Spain's *Central de Balances*. The aim is to provide relevant conclusions about the breakdown of Spain's competitiveness derived from aggregate information about its firms. The analysis focuses on the prior phase of growth, the subsequent financial crisis, and Spain's recent recovery. First, it is important to understand which was the growth model among Spanish firms before the economic crisis beginning in 2008. Second, it is worth observing how the financial crisis, with remarkable duration and intensity, has affected the structure of Spain's firms. Lastly, this paper describes the growth model that Spanish firms have adopted during the most recent period of expansion in employment and aggregate output. Based on this analysis, it is possible to gain some insight into the growth model we can expect to see in the coming years.

The analysis presented in this paper focuses on the decision-making process and results obtained by firms. Firms' investment or growth decisions are conditioned to maximise their present value. Under certain simplified scenarios, these kinds of decisions are equivalent to those of an enterprise that maximises its profits. Thus, this methodology enables us to read and interpret the firms' accounting information in economic terms, thereby simulating a similar analytical approach used to track macroeconomic data. In addition, it allows for the use of economically significant concepts derived from the companies' accounting records, such as the cost of capital and profits. This analysis is applied to the entire sample of firms that report to the Bank of Spain and to the manufacturing segment. Manufacturing companies have a higher degree of exposure to foreign competition, thereby making it easier to observe the effects of their competitiveness.

Methodology

The Bank of Spain's Balance Sheet Data Office (hereinafter, the CBBE for its acronym in Spanish) mainly collects information that firms provide for financial statement purposes (Bank of Spain, 2017). The primary information compiled by the Data Office relates to individual companies; however, the information, which is publicly disclosed, is aggregated and then broken down by economic sector, company size and ownership structure (public vs. private).

The use of data reported directly from the firms themselves ensures greater analytical consistency. This is especially true when the assets on the companies' balance sheets are used as a proxy for the firms' stock of capital. The CBBE data is also useful for analysing economic aggregates for different groups of companies and sectors. This allows us to focus on segments that tend to get lost in macroeconomic studies. In analysing the

> "The manufacturers represent the group of companies most exposed to foreign competition and act as a good benchmark for analysing the competitiveness of Spain's firms, and by extension, the Spanish economy."

firms' data, this paper distinguishes between the manufacturing sector and the whole sample. The manufacturers represent the group of companies most exposed to foreign competition and act as a good benchmark for analysing the competitiveness of Spain's firms, and by extension, the Spanish economy. The sample of manufacturing firms (industry, excluding energy) represents around 6% of Spanish GVA but around 30% of the manufacturers' GVA.

Earnings performance

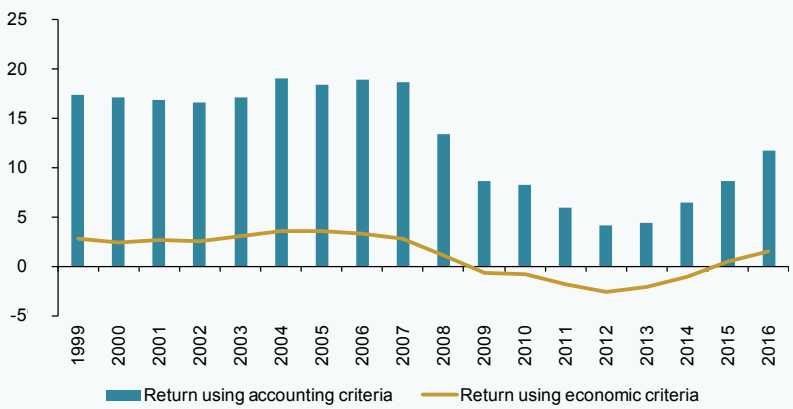
Economic theory holds that firms which maximises their value will take growth decisions (usually investment decisions) when the returns on their current investments exceed their opportunity costs. Under these circumstances, it is expected that growth will create value (Tobin, 1969). The opposite will occur (disinvestment or contraction) when their return on assets is lower than their opportunity cost. We analyse in this section companies' returns and in the following section their growth.

Accounting profit excludes important implicit costs such as the loss of the purchasing power of monetary assets, debt due to inflation, and the opportunity cost of equity. The incorporation of those costs into the accounting figures would generate many errors as it would have to be done manually and individually for each company; however, it is feasible to do it at the level of the major aggregates for which the economy's deflators and the average risk premium are more representative.

Exhibit 1 presents the rates of return on operating assets obtained exclusively from firms' non-financial income and expenses, proportionately discounting assets reported as financial in nature. At over 15% of equity between 1999 and 2007, the rates of return measured using accounting criteria were consistently high. Expressed in economic terms they were also positive at over 2.5% of equity. Returns fell sharply in 2008 but remained positive in economic terms at around 1%. From 2009 to 2014, this aggregate indicator dipped into negative territory and did not top the 1% mark again until 2016. While the average return measured using accounting criteria in 2016 is lower than that of 2008, in economic terms it is somewhat higher, namely 1.4% in 2016 versus 1.15% in 2008.

Exhibit 1 **Firms' operating profitability**

(Percentage)



Note: The return using accounting criteria is the rate of return on equity excluding financial assets and the returns thereon. The return using economic criteria discounts the opportunity cost of equity and the impact of monetary depreciation from the accounting return.

Sources: CBBE, Madrid Stock Exchange, and author's own elaboration.

Table 1

Average returns generated by non-financial business activities by sub-periods

(Percentage)

	1999-2008	*2009-2013*	*2014-2016*
Overall sample			
Return using accounting criteria	17.3	6.2	8.9
Return using economic criteria	2.8	-1.6	0.3
Manufacturing			
Return using accounting criteria	20.2	7.9	15.6
Return using economic criteria	4.1	-1.4	2.7

Note: The return using accounting criteria is the rate of return on equity excluding financial assets and the returns thereon. The return using economic criteria discounts the opportunity cost of equity and the impact of monetary depreciation from the accounting return.

Sources: CBBE, Madrid Stock Exchange, and author's own elaboration.

When the rates of return are calculated for manufacturing firms, the results are relatively higher throughout the entire period, which may mean that they compensate for a somewhat greater degree of risk than the one reflected in their costs of opportunity. At any rate, the returns during the last three-year period would appear to be approaching those recorded by manufacturers prior to the recession. These firms' recovery may be ahead of companies in other sectors since they are well-positioned to tap foreign demand (exports) as an avenue for growth.

In 2016, Spain experienced positive economic and employment growth, which coincided with an increase in corporate earnings (profit). Nevertheless, these earnings have yet to recover to pre-crisis levels. However, the inflation trend needs to be considered when measuring these firms' earnings performance in economic terms. Between 2014 and 2016, product prices were largely stable, with the inflation rate close to zero. Unlike the previous period of growth, firms haven't benefited from the monetary depreciation of their borrowings, nor, seen from the standpoint of their assets, have they enjoyed the value gains on their capital goods. Consequently, this may explain the differences in earnings returns.

Growth in output and demand for the factors of production

Table 2 outlines the rates of real growth in value added, growth in employment, and growth in fixed assets, calculated in all instances for companies surviving from one year to the next. The sample's real growth in value added was on average below 2% between 1999 and 2008, which is less than GDP growth during the same period, suggesting an element of bias in the sample. One of the industries under-represented in the sample is construction, particularly the real estate segment, which registered a sharp growth during that period. This bias becomes more obvious when analysing data from the manufacturing sector. Specifically, manufacturers' output growth had an annual average rate of -0.5% between 1999 and 2008. Thus, while the construction and property sectors were expanding rapidly, the manufacturing firms were virtually stagnant.

Elsewhere, Spain's firms significantly stepped up their hiring during those years. Growth in employment increased by 3.3% on average until 2008 and coincided with a period of wage contention, as we will see later on in this section. At a rate of 6%, Spanish firms also substantially increased their asset bases (fixed assets).

Table 2 **Real growth in output and inputs**

(Percentage)

	1999-2008	*2008-2013*	*2013-2016*
Overall sample			
Growth in value added	1.8	-3.9	4.6
Growth in employment	3.3	-2.5	3.5
Growth in fixed assets	6.0	0.7	0.0
Manufacturers			
Growth in value added	-0.5	-4.2	6.5
Growth in employment	0.9	-3.1	2.7
Growth in fixed assets	4.4	-0.5	1.0

Note: Real growth in production factoring the GDP deflator into both aggregates. Rates calculated on the same firms in the previous year.

Sources: CBBE, Madrid Stock Exchange, and author's own elaboration.

Spain fell into recession between 2009 and 2013. The contraction observed in the Spanish economy's growth was more evidently driven by the disappearance of firms than by those that survived.

During the last three years for which there is information available, growth in value added and employment has been upbeat, with manufacturers' indicators standing out in particular. Specifically, growth in value added was nearly 7% compared to very modest growth during the decade of expansion prior to 2008. In contrast, there was scant growth in fixed assets during these last three years, suggesting companies had sufficient idle capacity and that the growth via the capital factor has come from higher rates of capacity utilisation. Comparing the growth in the number of employees (not affected by prices and already adjusted for full-time equivalents) between 1999 and 2008 for all companies versus the manufacturing subset, manufacturing firms contributed to a lower proportion of total employment in Spain, with the two rates of growth several percentage points apart. From 2009 on, however, this gap narrows significantly.

Estimating firms' real growth or productivity inevitably comes up against the problem of the prices at which output is measured. When analysing corporate aggregates, the use of a deflator (*i.e.,* GDP deflator) is a good proxy for the composition of the sample's output. Between 1999 and 2008, as shown in Table 3, the GDP deflator increased at an annual rate that was one percentage point higher than the growth in the industrial price index. In contrast, between 2013 and 2016, the GDP deflator barely budged during the entire period (+0.1% in annualised terms); nor did the industrial price index move much (-0.2%). If the real growth figures for the manufacturing sector are recast using the industrial price index rather than the GDP deflator during the first sub-period (1999-2008) contemplated in Table 2, the real growth in the manufacturers' output is one percentage point higher (+0.5% versus -0.5%). During the years of recession, the contraction in real terms sharpens in comparison with the figures in Table 2 (-5.4% versus -4.2%).

Calculations in Table 2, deflated using just the one index, permit direct observation. By comparing the rates of growth in value added for all firms to that of manufacturing firms, in

Table 3 **GDP deflator and industrial price index**

	1999	*2008*	*2013*	*2016*
GDP deflator	100	138.2	139.4	140.3
Annualised average growth (%)		3.7	0.1	0.1
Industrial price index (manufacturers)	100	127.2	143.0	140.2
Annualised average growth (%)		2.7	1.3	-0.2

Source: The Bank of Spain.

nominal terms, the manufacturing industry contributed proportionally less to Spain's productivity between 1999 and 2008 (a decade during which its average rate of growth is more than two percentage points below the total). Their share of output remained constant throughout the recession (they contracted at the same pace as the sectors as a whole). However, between 2014 and 2016 manufacturing firms began to increase their share of Spanish productivity, registering growth that was 2 percentage points higher than the entire business sector. That said, this trend has persisted for just three years thus far.

Productivity and unit costs

Table 4 provides estimated measures of the productivity rates and unit costs of firms' factors of production and shows the trend in total factor productivity and total unit costs. The latter is the most comprehensive means of measuring the competitiveness trend of Spain's companies as the trend in productivity is influenced by the trend in factors' prices and their rates of utilisation. Again, these estimates have been made for firms as a whole as well as for the manufacturing sector.

Unit labour costs are calculated as real average wages divided by labour productivity. As a result, the rate of change in unit labour costs is a proxy for the change in real wages less the change in labour productivity. Similarly, the cost of the capital factor is the cost of capital used divided by the productivity of the assets used plus the cost of unused assets. In terms of rates of change, the change in unit capital costs is a proxy for the change in the cost of use less the change in the productivity of capital less the change in the level of capital utilisation (operating assets). Lastly, the table's bottom row presents the rate of change in total factor productivity, which can be summed up as the average of the partial productivities of both factors of production weighted by the contribution of each factor to total output.

Between 1999 and 2007, total unit production costs increased at an average annual rate of 0.1%. This means that the competitiveness of the overall sample of firms was virtually flat in terms of total production costs. Unit labour costs increased during that period at an average annual rate of 0.5%, offset by an average annual decrease in unit capital costs of 0.8% (the weight of labour costs in total unit costs is higher than that of capital). However, it is noteworthy that the increase in unit labour costs was not attributable

"Between 2014 and 2016, manufacturing firms began to increase their share of Spanish productivity, registering growth that was 2 percentage points higher than the entire business sector."

to real growth in costs per employee (real wages); rather costs per employee decreased and at the same time labour productivity registered a more pronounced decline. Using the GDP deflator as the benchmark for the trend in overall company prices, the figures suggest that the growth in output observed during this period was achieved by hiring employees whose costs were less than the average and whose productivity was similarly below average. The trend in the capital factor during the years of growth between 1999 and 2007 is similar: the cost of using capital fell at an annual rate of 1.8%, driven mainly by the decline in real borrowing costs. However, capital productivity also declined, contracting at a rate of 1.3%. This means that the decline in the unit cost of capital was shaped more by the drop in the cost of use, which offset the reduced productivity of this factor. Total productivity between 1999 and 2007 decreased at an annual average rate of 1.7%, due to the drop in the productivity of both labour and capital during the period. It is plausible that the composition of the overall sample tracked by the CBBE may penalise the estimated trend in productivity. It is impossible to determine the price deflator applicable to this sample and the GDP deflator may overestimate the impact on account of the weight of the construction and real estate sectors in the economy relative to the sample. Even assuming that the trend in the correct deflator was between GDP and the industrial production deflators (compared in Table 3), the average loss of productivity during those years would still stand at around 1% per annum. The firms' growth picture painted by the figures for those years was based on the incorporation of factors of production with diminishing marginal returns and also diminishing marginal costs. The growth in output sought by the companies during that period was achieved in the absence of growth in production costs (total unit costs barely budged during the entire period) despite the overall fall in efficiency.

The next period runs from 2007 to 2012, the latter year being when total unit production costs peaked (and economic profits bottomed). In 2007, Spain's firms were in reasonably good health in economic terms: their profits were high and their production costs remained low. However, that same year the cost of capital began to increase as real rates rose. This trend occurred across Europe but was especially intense in Spain where the risk premium on the country's sovereign bonds increased dramatically in subsequent years. The sharp drop in demand as a result of the financial crisis prompted Spanish firms to rein in their use of the factors of production, which had the effect of sending unemployment soaring during this period. Over the five-year period, firms' total unit costs rose sharply (over 6% per annum), driven mainly by the strong growth in the cost of capital. The productivity of both capital and labour fell sharply so that total factor productivity decreased at an annual rate of 2.5% from 2007 to 2012. Those were years marked by a historically deep recession which drove companies' earnings into record loss territory.

The last period analysed runs from 2012 to 2016. Because 2012 was an exceptionally poor year in terms of corporate profitability, the rates of change shown for this four-year period should be interpreted with caution. Nevertheless, they provide a glimpse into the growth model most recently pursued by Spain's firms. During this last period, total unit costs have fallen considerably, driven to a greater degree by the drop in unit capital

> "Using the GDP deflator as the benchmark for the trend in overall company prices shows growth in output observed between 1999 and 2008 was achieved by hiring employees whose costs were below the average and whose productivity was similarly below average."

Table 4

Average annual rate of change in productivity and production costs for all firms

(Percentage)

	1999 - 2007	*2007 - 2012*	*2012 - 2016*
Total unit costs	0.1	6.1	-4.9
Unit labour costs	0.5	3.1	-2.4
Cost per employee	-1.3	1.2	1.0
Labour productivity	-1.9	-1.9	3.4
Unit capital costs	-0.8	11.3	-8.8
Cost of use	-1.8	4.8	-5.9
Capital utilisation	0.2	-2.4	1.9
Capital productivity	-1.3	-3.5	1.3
Total factor productivity	-1.7	-2.5	2.6

Note: Annualised rates of change during each period are defined by changes in momentum in total unit costs. Total unit costs is the sum of unit labour costs and unit capital costs. Unit labour costs are the ratio between employee costs and value added, which in turn equals the ratio between wages per employee and labour productivity. Therefore, the rate of change in unit labour costs is a proxy for the change in average wages less the change in apparent labour productivity. The unit cost of capital is the opportunity cost of capital and real asset depreciation divided by value added. Similarly, the change in the unit cost of capital is a proxy for the change in the cost of use less the change in the level of utilisation of capital less the change in the productivity of capital. Lastly, total factor productivity is calculated as the average of the productivity of labour and capital weighted by the contribution to total unit costs of the costs of each factor of production.

Source: CBBE and author's own elaboration.

costs (-8.8% per annum). This decline is undoubtedly due to a drop of nearly 6% per annum in the cost of using capital. However, it can also be attributed to annual growth of nearly 2% in asset utilisation and, to a lesser extent, growth in asset productivity. Labour costs also play a role in the decline in total unit costs, more so due to the growth in labour productivity (average annual rate of 3.4%) than the decline in real wages (which was the case during the growth period to 2007). In fact, total factor productivity (the sum of labour and capital productivity) registered average annual growth of 2.6% between 2012 and 2016. This growth in productivity is one of the defining characteristics of this last sub-period into which our analysis of costs and productivity has been divided. It is important, however, to be cautious when drawing any conclusions as we may be witnessing a correction in the under-utilisation of factors that is not captured in the statistics that track the rate of productive capacity utilisation.

This analysis, based on samples that change over the years, has the advantage of reflecting

> "Total factor productivity registered average annual growth of 2.6% between 2012 and 2016, one of the defining characteristics of this last sub-period."

fluctuations that occur across a number of firms, such as the advent or disappearance of companies, the change in the economy's sector make-up or a change in the relative sizes of Spain's companies. However, it also raises questions as to whether the year-on-year changes are truly representative of Spain's firms. Table 5 presents the productivity estimates for the manufacturing companies within the common sample subsets of years, using the industrial price index as a deflator.

These estimates complement some of the results obtained in the previous table. Real wages (cost per employee) between 1999 and 2007 barely change in average annual terms on this basis, whereas in Table 4 they showed an annual contraction of over 1%. The difference, as explained earlier in this article, is largely due to the deflator used. The same phenomenon occurs with estimated labour productivity, which is virtually flat during the early years. The differences compared to the Table 4 estimates is again attributable to the choice of deflator. It is therefore the productivity of capital that falls during the period, which may be a logical response to the increase in demand for a factor that presented a diminishing marginal return in the context of a downtrend in its cost (sustained and pronounced decrease in the cost of capital in real terms). By these calculations, the loss of total factor productivity between 1999 and 2007 averages 0.5% per annum.

Using the sample of surviving manufacturing firms, the estimates show no growth in real average wages per employee between 2007 and 2012. Instead, real costs per employee actually decline. The fact that the sample of all manufacturing firms (and not just those that survived) showed real growth in this factor's cost leads us to an interesting conclusion: the manufacturing companies that disappeared during the recession employed people who earned below-average wages, creating the apparent increase in real average wages in the sample. The loss of productivity between 2007 and 2012 is greater in the sample of surviving companies. As for the final four-year period, although the broad trends are the same for both samples, the growth in real wages is somewhat lower in the sample of surviving companies only. The rate of growth in the productivity of labour is also a little lower, though at 3.8% it is well above the growth in real wages. The annual growth in total factor productivity during this last period averages 3.3%.

Productivity gains have proven compatible with sharp growth in employment and real wages during this last period. However, once again these numbers should be read with caution. The depth of the crisis unleashed in 2008 was such that in order to recover the productivity lost between 2007 and 2012 (surviving company sample) it will be necessary to maintain the rate of productivity

Table 5 **Average rate of change in productivity for manufacturing companies in the sample from one year to the next**

(Percentage)

	1999 - 2007	*2007 - 2012*	*2012 - 2016*
Cost per employee	0.0	-0.5	1.2
Labour productivity	0.1	-4.5	3.8
Capital productivity	-1.5	-5.9	2.5
Total factor productivity	-0.5	-5.0	3.3

Note: Average annual rates of change for the period using surviving manufacturing firms, translated into real terms using the industrial price index.

Source: CBBE data and author's own elaboration.

growth observed between 2012 and 2016 until 2019. It is also possible that these estimates still fail to fully correct for the effect that the underutilisation of the factors (via the average capital utilisation rate) has on the total productivity measures. As a result, the actual productivity gains and losses may have been somewhat narrower.

Despite all these caveats, there are positive takeaways from the recovery of firms' output, particularly the manufacturers, such as: (i) the well-documented fact that the growth in their exports is outpacing that of their peers in neighbouring countries; and, (ii) the fact that by 2016 corporate profits were in line with those of 2008. The latest data published by the CBBE (1Q2018) suggest that the trends observed in this analysis have generally persisted.

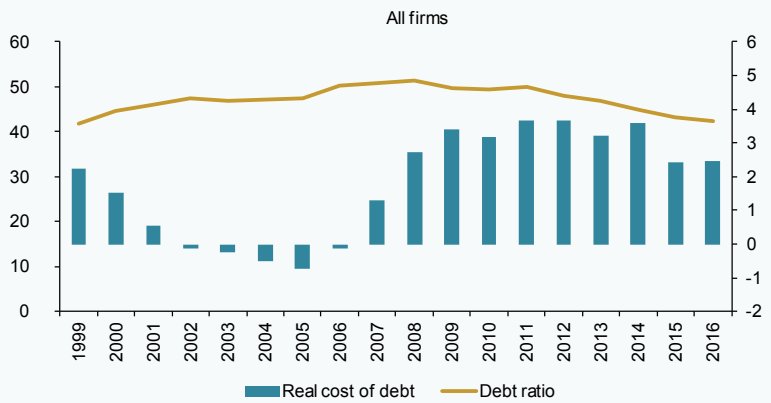
Borrowing costs and leverage

Exhibit 2 presents the average real cost of debt and the rate of leverage (defined as interest-bearing debt over net assets). The trend in the average cost of borrowing for all firms demonstrates a pattern that mirrors the trend in the real rates of interest on 10-year bonds. This trend has been mitigated by the fact that the companies have locked in some of their debt at historically low costs and their carrying amounts have not been restated for marginal costs. Between 1999 and 2005, the real cost of debt declined from over 2% to around -0.7%. Likewise, firms' debt ratio also registered persistent growth, increasing from a little over 40% in 1999 to 50% by 2005. This trend continued until 2008 when the debt ratio peaked at over 50% of net assets. Meanwhile, the real cost of debt began to increase in 2006, a trend that lasted until 2009. This metric remained high from 2009

Exhibit 2

Debt ratio and real average cost of debt

(Percentage)



Note:The real cost of debt (right-hand scale) is calculated as the average cost of interest-bearing debt, discounting the loss of purchasing power using the GDP deflator. The rate of leverage (left-hand scale) is calculated as interest-bearing debt over assets less non-interest bearing debt.

Source: CBBE and author's own elaboration.

> "Between 1999 and 2005, the real cost of debt declined from over 2% to around -0.7%."

"The growth observed prior to the recession was not accompanied by efficiency gains; rather, the firms' competitiveness was predicated on the diminishing cost of their factors of production."

to 2014. During those years, the nominal average cost of debt was very close to the real cost as the GDP deflator between 2009 and 2014 averaged 0.1%. Real borrowing costs came down in 2015 and 2016, in part thanks to somewhat higher inflation (average GDP deflator in 2015 and 2016 was 0.4%) and a drop in average nominal costs. This left real borrowing costs below 2.5%, which in turn has boosted companies' earnings within the last couple of years. Having peaked in 2008, leverage levels embarked on a virtually consistent decline. Indeed, at 42%, the level of leverage in 2016 was comparable to that of 1999.

Outlook for non-financial corporations

The financial and economic information compiled by the Bank of Spain provides an opportunity to better understand the state of the Spanish economy through an analysis of firms' profit measures, use of capital and labour and financial structures in a manner that is easier than using national accounting statistics. This paper analyses the data for large groups of firms. The analytical approach seeks to interpret the companies' financial variables in a manner akin to that used widely in macroeconomic analysis. The analysis focuses on comparing firms' current state to their situation prior to the recession.

This paper identifies the divergent trend in Spanish prices relative to the rest of the eurozone as one of the factors shaping the growth model adopted by the Spanish economy during the beginning of this century. Just as nominal interest rates fell to unprecedented levels in Spain, inflation had the effect of implying negative real rates of interest. The attendant growth in the value of real estate assets meant that growth and resources were concentrated in the construction and property sectors. Moreover, the decline in the cost of capital, coupled with the availability of manpower, forged a growth model based on the incorporation of capital and labour which tended to present diminishing marginal costs across all firms. The growth observed prior to the recession was not accompanied by efficiency gains; rather, the firms' competitiveness was predicated on the diminishing cost of their factors of production. However, it cannot be said that Spain's firms behaved irrationally during that period. The downtrend in borrowing and labour costs paved the way for growth in output and competitiveness gains in parallel (costs per unit of production decreased) without having to take risks on uncertain innovations, add new technological capital or invest in their human capital. Obviously, this is not true for every firm across the board, but that is the trend observed on aggregate. Spain's firms (the overall sample and the manufacturers alike) also increased their borrowings during those years, which were marked by a notable drop in real interest rates.

With the onset of the financial crisis in 2008, Spain's firms began to downsize. This is evidenced by the sharp drop in employment (and the destruction of companies that cannot be singled out from the aggregate figures) as well as the decline in firms' output. Their earnings deteriorated rapidly with companies reporting losses that peaked in 2012 and 2013. In terms of efficiency measures, partial and total factor productivity fell sharply and continuously for several years, while unit costs per euro of production shot up.

From 2014, the trend in earnings began to rebound. Companies continued to post losses on aggregate but earnings momentum improved, with aggregate profits reported by the end of 2016. That year, companies' earnings expressed in terms of profitability

> “The primary driver of growth has shifted in recent years towards the manufacturing sector where pre-recession efficiency and unit costs levels are within target.”

were still significantly below the levels of 2007. This was true whether the figures were measured in accounting or economic terms. Growth in output has been positive for the last three years with the growth in employment and, to a lesser degree investment, standing out. These trends are even stronger in the manufacturing sector. This contrasts with the period prior to 1999 when the sector's growth lagged behind the overall population of firms. It is likely that manufacturers' growth is being driven by exports, and that these firms act as an engine for growth at the other companies. The trend in corporate efficiency is very positive, as is the trend in unit costs. Meanwhile, growth in employment is proving compatible with growth in real wages, another phenomenon that had failed to materialise until recently. The corporate sector has reduced its debt ratio to pre-recession levels and is delivering still-moderate growth and earnings momentum. The primary driver of growth has shifted in recent years towards the manufacturing sector where pre-recession efficiency and unit costs levels are within target.

Of note is the fact that borrowing levels in 2016 came down to levels similar to those of 1999. As well, aggregate earnings were positive that year, too. As a result, the outlook for profit looks bright and companies' capacity to self-finance from cash flow is improving. There are, however, a few remaining doubts whose resolution in the years to come will tell us whether the growth model has really changed from that observed during the pre-recession era. The fear is that the improvement in productivity indicators could simply be due to a post-recession readjustment that has led to enhanced utilisation of previously idle resources.

Currently, nominal borrowing costs remain historically low and inflation is showing signs of a slight uptick. This implies negative real rates, thereby enabling Spain's corporate sector to borrow at a very low effective cost. Simultaneously, the credit crunch in this sector appears to be easing. The trend in real wages has been good for business in recent years, as this factor's cost has remained relatively stable. Thus, a production factor price scenario that is very similar to that seen during the early years of this century has emerged, a phenomenon that has undoubtedly supported the recovery in corporate earnings.

However, analysts predict nominal interest rates will increase over the medium-term. This would nudge the marginal cost of capital up from current levels. In parallel, the outlook for stronger corporate profits and margins will influence a rise in the cost of other inputs such as labour. As a result, the current growth will only prove sustainable if Spain's firms eke out productivity gains to offset the increase in the real prices of the factors of production. This would help Spanish firms remain competitive relative to firms in neighbouring countries. Otherwise, it is likely that the increase in the prices of labour and capital will cause firms to reduce their demand for these factors.

> “The fear is that the improvement in productivity indicators could simply be due to a post-recession readjustment that has led to enhanced utilisation of previously idle resources.”

Corporate managers must take growth decisions today based not only on current labour and capital costs but also anticipated trends in the years to come. Beyond productivity measures, corporations must work towards adding more value to their products and ensure that they can continue to grow in situations where the productive factors are not underemployed (*i.e.,* in which unemployment is not so high or the rate of capacity utilisation not so low). The incorporation of technological capital, investment in human capital, and innovation are widely-proven drivers of long-term corporate growth and earnings sustainability.

Policy makers must send the right signals to the corporate sector by promoting innovation in general and corporate R&D in particular. They should also aim to improve the education and skills of job-seekers and future generations. Measures already introduced to make the labour market more flexible and contain labour costs may be running out of steam. Their capacity to stimulate growth as profit margins recover and Spanish firms self-finance their operations in line with pre-crisis levels cannot persist indefinitely.

References

Bank of Spain, Central Balance Sheet Data Office (2017), *Annual results of non-financial corporations,* 2016. Bank of Spain publications.

Bank of Spain (2018), "Quarterly report on the Spanish economy", *Economic Bulletin,* 2/2018.

Tobin, J. (1969), "A General Equilibrium Approach to Monetary Theory", *Journal of Money Credit and Banking*, 1.

Jorge Rosell Martínez. Professor at the University of Zaragoza. Research group *Compete* S52_17R Autonomous Community of Aragon

Recent key developments in the area of Spanish financial regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

Royal Decree-Law on urgent measures for adapting Spanish legislation for EU data protection regulations (Royal Decree-Law 5/2018, published in Spain's *Official State Journal* on July 30th, 2018)

This piece of legislation regulates the following measures pending definitive approval of the draft act that will fully adapt Spanish law to the EU General Data Protection Regulation (GDPR):

- It articulates the penalty regime provided for in the GDPR, repealing the classes of breaches currently contained in Organic Law 15/1999 and implementing the prescription periods for the corresponding breaches and penalties.

- It establishes the specifics of the penalty procedure in line with that stipulated in the GDPR with respect cross-border data protection breaches for which there must be a lead supervisory authority (three types of processing: cross-border; processing which substantially relates to or affects data in a given member state; and exclusively national instances of data processing). Pursuant to that procedure, it introduces the obligation that the lead authority subject the various draft decisions to the other authorities; the other authorities will then have a specific period of time for making observations. The scope for suspending proceedings when necessary to get feedback from the authorities of other European States is also provided for. If not done accordingly, cases could expire.

- It identifies the personnel empowered to carry out investigations, establishing the manner in which they can exercise their powers, which people will exercise the investigation and inspection activity and what the powers and tasks expressly established in the GDPR will consist of.

- It stipulates that the Spanish Data Protection Agency shall represent Spain on the European Data Protection Board and determines the regime applicable to the staff of the supervisory authorities of other Member States that participate in joint investigations.

This Royal Decree-Law took effect on the date after its publication and shall remain in effect until a new organic law is passed to fully adapt Spanish law to the EU General Data Protection Regulation, which is currently before Parliament.

CNMV Circular, amending Circular 5/2013, of June 12th, 2013, which stipulates the contents of the annual corporate governance reports that must be published by listed corporate enterprises, savings banks and other entities that issue securities that are admitted to trading on official securities markets, and Circular 4/2013, of June 12th, 2013, which stipulates the contents of the annual reports on the remuneration received by directors of listed corporate enterprises and the members of the boards of directors and control committees of savings banks that issue securities admitted to trading on official securities markets (Circular 2/2018, published in the *Official State Journal* on July 16th, 2018)

The main changes introduced by the Circular relate to the following aspects:

- It is no longer mandatory to use the templates contained in the standard electronic corporate governance reports and director remuneration reports that had been stipulated in CNMV Circulars 4/2013 and 5/2013. As a result, listed entities now have the choice of presenting these reports in free PDF format, without having to use the standard electronic document, so long as the legally-stipulated report contents are provided. Any such free-format reports, accompanied by the corresponding statistical appendix, must be disclosed by means of a price-sensitive information notice and, in the case of the director remuneration report, submitted to an advisory shareholder vote at the annual general meeting. Savings banks that issue securities admitted to trading on official securities markets may also provide their director remuneration and corporate governance reports in free PDF form; these entities do not have to provide the statistical appendix.

- The Circular introduces the new content required under Royal Decree-Law 18/2017, [1] which increases the scope of the information to be provided in annual corporate governance reports about the diversity policies applied by the reporting entity; such disclosures must refer to gender diversity and, for entities that do not qualify as small and medium enterprises as defined in financial statement audit legislation, also to diversity in respect of the age, disabilities, training and experience of their directors.

- It introduces technical adjustments to both the corporate governance and director remuneration reports in order to eliminate certain sections that are no longer relevant in order to properly understand the corporate governance system of securities issuers and the remuneration of directors of listed corporate enterprises.

- It introduces a new annual corporate governance report template for entities from the institutional public sector that issue securities other than shares; the new template has been simplified and adapted for these entities' specific characteristics. The new report must follow the format, content and structure of the template provided in annex IV of appendix II of CNMV Circular 5/2013.

CNMV Circular on the interim disclosures by issuers with securities admitted to trading on regulated markets with respect to their semi-annual financial reports, interim management reports and, if required, their quarterly financial reports (Circular 3/2018, published in the *Official State Journal* on July 3rd, 2018)

This Circular took effect the day after its publication and applies to the semi-annual financial and management reports corresponding to periods beginning on or after January 1st, 2018, and have to be presented and published after the date of publication of the Circular.

The purpose of the Circular is to adapt the contents of the separate and consolidated semi-annual financial reports, interim management reports and quarterly financial reports for the changes resulting from: (i) developments in international financial reporting standards, particularly the accounting changes contemplated in IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers"; (ii) new Spanish legislation, most importantly Bank of Spain Circular 4/2017 (Accounting Circular) and Royal Decree 583/2017 (of June 12th, 2017) amending the accounting plan applicable to insurance and reinsurance entities and the rules on the issuance of consolidated financial statements by groups of insurance and reinsurance entities; and, (iii) other improvements taken on board by the CNMV to make the standards easier to understand.

Notes

[1] Royal Decree-Law 18/2017, of November 24th, 2017, which amends the Spanish Code of Commerce, the consolidated text of the Corporate Enterprises Act passed by means of Royal-Legislative Decree 1/2010 (of July 2nd, 2010) and the Audit Act (Law 22/2015 of July 20th, 2015) in respect of non-financial and diversity disclosures.

Spanish economic forecasts panel: September 2018*

Funcas Economic Trends and Statistics Department

GDP growth expected at 2.7% in 2018, 0.1pp down from the last survey

Second-quarter GDP growth came in at 0.6%, 0.1pp lower than our Panel members were estimating. It is worth highlighting the slowdown in private consumption and export growth. Investment, in contrast, rebounded strongly.

The consensus forecast for third-quarter GDP growth is 0.6% (no change from the last survey). For 2018 as a whole, the consensus forecast is currently for growth of 2.7%, down 0.1pp from the last Panel forecast. The expected composition of that growth has shifted: net exports are now expected to contribute 0.1pp and domestic demand 2.6pp, down 0.2pp and 0.1pp, respectively. The forecast for growth in private consumption has been shaved by 0.1pp, while the estimate for growth in public consumption has been revised upwards by 0.3pp. Forecast investment in capital goods has also been increased considerably. However, the biggest change in forecasts affects exports which are now expected to grow by 2.9%, down 1.2pp.

The forecast for 2019 has also been cut by 0.1pp to 2.3%

The consensus forecast for GDP growth in 2019 has been trimmed by 0.1pp to 2.3%. Net exports are now expected to make a smaller contribution, albeit still positive. Growth in all of the components of domestic demand is expected to ease, especially private consumption. By quarter, the analysts expect growth to slow after the second quarter (Table 2).

Inflation at 1.7% in 2018 and 1.6% in 2019

Inflation has ticked higher, from around 1% at the start of the year to roughly 2.2% in recent months, as a result primarily of higher prices for energy products and unprocessed food. Price growth is expected to ease in the final months of the year.

The consensus forecast for average inflation in 2018 is unchanged at 1.7%; the forecast for core inflation has been revised downward by 0.1pp to 1.1%. The headline inflation rate is expected to dip to 1.6% in 2019, while core inflation is forecast to rise to 1.3%. The year-on-year rates of change in December of this year and next are currently forecast at 1.8% and 1.4%, respectively (Table 3).

The unemployment rate is coming down, albeit more slowly

According to the Social Security contributor figures, the rate of job growth weakened in July and August, extending the pattern of easing initiated in the second quarter of 2017. All sectors are losing momentum.

The consensus forecast for growth in employment is unchanged at 2.4% for 2018; the forecast for 2019 has been lowered by 0.1pp to 1.9%. Using the forecasts for growth in GDP, job creation and wage compensation yields implied forecasts for growth in productivity and unit labour costs (ULC): the former is expected to register growth of 0.3% in 2018 (down 0.1pp from the last survey) and 0.4% in 2019, while ULCs are expected to increase by 0.7% in 2018 and by 1.2% in 2019.

The average annual unemployment rate is expected to continue to decline to 15.3% in 2018 and 13.7% in 2019 (up 0.1pp from the last survey).

The current account remains in surplus

To June, Spain presented a current account surplus of 86 million euros, below the 5.75 billion euro surplus recorded in the first half of 2017, shaped by the drop in the trade surplus and increase in the income deficit.

Consensus forecasts for the current account balance point to a surplus equivalent to 1.4% of GDP in 2018 and 1.3% in 2019. Both estimates have been trimmed by 0.1pp since the last survey.

The public deficit will be larger than estimated

The public deficit to June (at all levels of government except for the local authorities) was 4.2 billion euros lower year-on-year thanks to faster growth in revenue relative to spending. The improvement came at the state, Social Security and regional government levels.

In the wake of the relaxation of the deficit targets, most members of the Panel believe that Spain will deliver on its target this year but not next. The consensus forecast for the 2018 deficit stands at 2.7% of GDP (up 0.2pp from the last survey); for 2019 it stands at 2%, 0.2pp above the new target.

Less benign external environment

The global economy continues to expand but growth is slowing and there are major differences from one country to the next. The normalisation of monetary policy underway in the US has prompted appreciation of the dollar with an impact on capital flows and the currency markets. The collateral damage in the emerging economies has been significant. The turbulence has affected the countries with the highest levels of dollar-denominated indebtedness, especially Argentina and Turkey. The damage has also extended to Brazil, Russia and South Africa, economies which may be bordering on recession.

Although there are also signs of weakening in Europe, they point to a soft landing. While the German engine remains dynamic, growth would appear to be easing in France. Italy is barely growing and the UK is shrouded in Brexit-related uncertainty.

The main international organisations see heightened trade protectionism as the key threat to global growth. Recent escalating tensions between the US and China are not helping to dissipate those risks. Lastly, oil prices are trading at high levels, albeit in line with those prevailing at the time of the last survey, at just under $80/barrel.

These factors are leaving the members of the Panel less optimistic about the external environment. Now, the majority believe that outside of Europe the environment is neutral or unfavourable. As for Europe, the analysts remain relatively upbeat. Their outlook for the coming months has not changed significantly with respect to the last survey. Although most of the analysts believe the external environment will remain unchanged in Europe and beyond, some think the situation will continue to deteriorate.

Interest rates expected to move gradually higher

The ECB has just lowered its forecasts for growth in the eurozone. Against this backdrop, and despite the slight uptick in inflation, Europe's monetary authority continues to plan to gradually normalise policy. The Panel members are thus not expecting any change in the timing of benchmark rate increases compared to the last set of forecasts. They are virtually all expecting the rate hikes to begin in 2019 with most expecting this to happen in the second half of that year. Just one analyst thinks that the rate hikes will come sooner, namely in the second quarter (with none forecasting any earlier moves).

The expected increase in benchmark rates has begun to have an impact on market rates. 12-month Euribor has started to head north and the analysts believe it will be trading in positive territory from the second quarter of 2019 (no change from the last set of forecasts). The yield on Spain's 10-year Treasury bond is expected to follow a similar pattern, increasing to nearly 2% by year-end 2019. That would still be a relatively low rate of interest, in line with what the economy demands.

Euro depreciation against the dollar may continue until 2019

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

The majority of analysts believe that fiscal policy should be either neutral or tighter

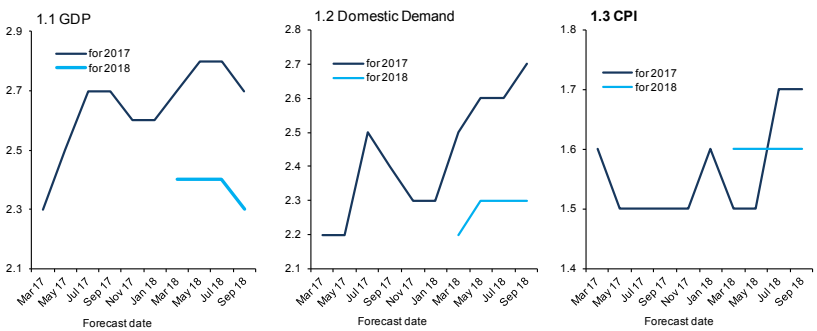
The analysts' assessment of monetary policy has not changed. All of the Panel members view it as expansionary and the majority think it should remain so during the months to come (no change from the last survey). Just one analyst believes that monetary policy should be more contractionary.

Fiscal policy, meanwhile, sparks a diversity of opinion. The analysts are split as to whether fiscal policy is expansionary or neutral. There is greater consensus regarding the appropriate direction for fiscal policy. Most analysts call for fiscal policy neutrality; four think it should be tightened; no-one believes it should be more expansionary (no major changes since our last Panel survey).

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: Funcas Panel of Forecasts.

** The Spanish economic forecast panel is a survey of eighteen research services carried out by Funcas and presented in Table 1. The survey has been undertaken since 1999 and is published every two months during the first fortnight of January, March, May, July, September and November. Panellists' responses to this survey are used to create consensus forecasts, which are based on the arithmetic mean of the eighteen individual forecasts. For comparison purposes the Government, Bank of Spain and main international institutions' forecasts are also presented; however, these do not form part of the consensus.*

Spanish economic forecasts panel: September 2018*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – September 2018

Average year-on-year change, as a percentage, unless otherwise stated

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF construction		Domestic demand	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	2.6	2.3	2.1	2.0	2.0	2.0	4.4	3.7	3.8	3.3	5.2	4.2	2.5	2.3
Axesor	2.7	2.4	2.1	1.1	2.4	3.2	5.4	5.6	5.6	4.0	5.8	7.4	2.9	2.6
Banco Bilbao Vizcaya Argentaria (BBVA)	2.9	2.5	2.6	2.1	2.0	2.0	4.3	5.6	2.3	5.7	5.9	5.5	2.8	2.7
Bankia	2.7	2.3	2.2	2.0	1.9	1.6	4.7	3.6	5.4	4.2	4.6	3.3	2.8	2.3
CaixaBank	2.7	2.3	2.2	1.9	1.9	0.9	4.8	3.4	5.1	3.8	5.0	3.2	2.7	2.0
Cámara de Comercio de España	2.7	2.4	2.5	2.1	1.4	1.5	4.2	4.1	4.0	4.0	4.3	4.2	2.6	2.4
Cemex	2.7	2.3	2.4	2.1	1.7	1.2	4.4	3.8	4.6	3.8	4.6	4.0	2.6	2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.7	2.3	2.2	1.8	1.5	1.4	4.4	4.2	4.0	3.5	5.2	5.0	2.5	2.2
Centro de Predicción Económica (CEPREDE-UAM)	2.7	2.3	2.5	2.1	1.6	1.6	4.0	3.8	3.0	3.9	5.0	4.0	2.6	2.3
CEOE	2.7	2.3	2.3	1.9	1.9	1.9	4.9	4.6	5.4	4.9	5.0	4.5	2.7	2.4
Equipo Económico (Ee)	2.7	2.4	2.3	2.1	1.7	1.7	4.2	4.4	4.2	3.9	4.4	4.8	2.5	2.3
Funcas	2.6	2.2	2.1	1.5	1.9	1.1	5.0	4.7	4.9	4.2	5.3	5.1	2.7	2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.4	2.3	2.0	1.5	1.4	4.7	4.2	4.8	4.5	4.5	4.0	2.6	2.4
Instituto de Estudios Económicos (IEE)	2.8	2.4	2.2	1.5	2.1	2.0	5.1	4.6	6.0	5.0	5.0	4.7	2.7	2.2
Intermoney	2.7	2.3	2.3	1.8	1.9	1.7	4.5	4.0	4.4	4.0	4.8	4.2	2.7	2.3
Repsol	2.6	2.1	2.1	1.5	2.0	1.6	5.0	5.0	5.5	6.2	5.1	4.7	2.6	2.1
Santander	2.7	2.1	2.3	2.0	2.1	2.1	5.1	4.0	5.6	4.3	5.3	4.0	2.9	2.5
Solchaga Recio & asociados	2.6	2.2	2.3	1.9	1.9	1.5	4.3	3.8	3.8	4.2	5.0	4.6	2.7	2.3
CONSENSUS (AVERAGE)	2.7	2.3	2.3	1.9	1.9	1.7	4.6	4.3	4.6	4.3	5.0	4.5	2.7	2.3
Maximum	2.9	2.5	2.6	2.1	2.4	3.2	5.4	5.6	6.0	6.2	5.9	7.4	2.9	2.7
Minimum	2.6	2.1	2.1	1.1	1.4	0.9	4.0	3.4	2.3	3.3	4.3	3.2	2.5	2.0
Change on 2 months earlier[1]	-0.1	-0.1	-0.1	-0.1	0.3	0.2	0.3	0.2	0.8	0.3	0.1	0.0	0.1	0.0
- Rise[2]	0	1	1	1	14	9	10	9	8	9	6	3	8	2
- Drop[2]	10	11	11	7	0	2	3	1	3	2	6	5	3	5
Change on 6 months earlier[1]	0.0	-0.1	0.0	-0.1	0.5	0.4	0.3	0.5	-0.5	0.1	0.9	0.7	0.2	0.1
Memorandum items:														
Government (April 2018)	2.7	2.4	2.0	1.8	1.1	1.2	4.7	4.4	--	--	--	--	--	--
Bank of Spain (June 2018)	2.7	2.4	2.4	1.8	1.5	1.3	4.2	4.2	2.5	4.2	5.7	4.5	--	--
EC (May 2018)	2.9	2.4	2.3	1.9	1.9	1.3	4.6	3.9	5.0	4.3	--	--	--	--
IMF (April 2018)	2.8	2.2	--	--	--	--	--	--	--	--	--	--	--	--
OECD (May 2018)	2.8	2.4	2.3	1.8	1.2	1.1	4.4	4.3	--	--	--	--	2.6	2.2

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

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

Table 1 (continued)

Economic Forecasts for Spain – September 2018

Average year-on-year change, as a percentage, unless otherwise stated

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[7]	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	2.6	3.5	2.6	3.6	1.7	1.4	1.1	1.2	1.4	1.6	2.5	2.0	15.4	13.9	1.5	1.4	-2.7	-2.2
Axesor	1.8	2.2	2.6	2.8	1.9	1.7	1.1	1.3	0.7	1.3	2.4	1.7	15.2	13.2	1.2	0.9	-2.7	-2.1
Banco Bilbao Vizcaya Argentaria (BBVA)	3.5	6.0	3.6	7.1	1.8	1.7	--	--	1.0	2.6	2.5	2.2	15.2	13.5	1.3	1.5	-2.8	-2.1
Bankia	2.8	3.4	3.1	3.6	1.7	1.6	1.1	1.4	0.7	1.2	2.4	1.9	15.4	14.0	1.5	1.3	--	--
CaixaBank	2.2	3.6	2.3	2.9	1.7	1.8	1.1	1.4	0.9	2.1	2.5	2.0	15.4	13.7	1.3	1.3	-2.7	-2.0
Cámara de Comercio de España	4.2	4.3	3.8	4.3	1.9	1.4	1.4	1.4	--	--	2.4	2.0	15.5	13.8	1.3	1.3	-2.2	-1.3
Cemex	2.2	3.2	2.2	3.1	1.7	1.7	1.1	1.3	--	--	2.5	1.8	15.4	14.0	1.0	1.0	-2.9	-2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.4	4.3	3.0	4.2	1.8	1.5	1.1	1.3	--	--	2.3	1.9	15.1	13.4	1.6	1.4	-2.7	-2.4
Centro de Predicción Económica (CEPREDE-UAM)	3.2	3.8	2.8	3.7	1.7	1.6	--	--	0.9	1.4	2.2	1.9	15.6	14.1	1.1	1.4	-2.5	-2.0
CEOE	2.5	2.4	2.8	3.2	1.7	1.3	1.0	1.2	0.8	1.2	2.5	2.1	15.3	13.5	1.3	1.4	-2.8	-2.0
Equipo Económico (Ee)	4.4	4.0	4.1	4.1	1.6	1.5	1.2	1.3	1.2	1.4	2.5	2.1	15.2	13.8	1.6	1.5	-2.5	-2.0
Funcas	2.6	4.2	2.9	3.8	1.7	1.5	0.9	0.9	1.0	2.0	2.2	1.9	15.3	13.9	1.5	1.4	-2.7	-2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.7	4.4	4.1	5.0	1.8	1.5	1.1	1.4	--	--	2.4	2.2	15.2	13.8	1.5	1.4	-2.5	-2.0
Instituto de Estudios Económicos (IEE)	3.3	4.5	3.4	4.5	1.7	1.5	1.1	1.0	1.1	1.5	2.4	1.8	15.3	13.5	1.5	1.5	-2.7	-1.8
Intermoney	2.5	3.3	2.7	3.5	1.8	1.8	1.2	1.4	--	--	2.4	1.9	15.0	13.5	1.5	1.4	-2.6	-2.2
Repsol	2.0	2.5	2.3	2.8	1.8	1.6	1.1	1.2	1.2	1.0	2.4	2.0	14.9	13.2	1.5	1.3	-2.6	-1.6
Santander	1.7	1.6	2.4	2.7	1.6	1.6	1.0	1.3	1.2	1.5	2.2	1.5	15.6	14.6	1.6	1.5	-2.8	-2.0
Solchaga Recio & asociados	2.9	3.6	3.3	4.0	1.7	1.8	1.1	1.3	--	--	2.4	2.0	15.4	13.7	1.4	1.3	-2.7	-2.2
CONSENSUS (AVERAGE)	2.9	3.6	3.0	3.8	1.7	1.6	1.1	1.3	1.0	1.6	2.4	1.9	15.3	13.7	1.4	1.3	-2.7	-2.0
Maximum	4.4	6.0	4.1	7.1	1.9	1.8	1.4	1.4	1.4	2.6	2.5	2.2	15.6	14.6	1.6	1.5	-2.2	-1.3
Minimum	1.7	1.6	2.2	2.7	1.6	1.3	0.9	0.9	0.7	1.0	2.2	1.5	14.9	13.2	1.0	0.9	-2.9	-2.5
Change on 2 months earlier[1]	-1.2	-0.5	-0.9	-0.4	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.0	-0.1	0.0	0.1	-0.1	-0.1	-0.2	0.0
- Rise[2]	0	0	0	2	5	2	0	0	2	3	3	1	7	8	0	2	1	3
- Drop[2]	15	14	15	9	7	5	12	9	5	4	6	7	3	4	11	6	9	7
Change on 6 months earlier[1]	-1.4	-0.7	-1.0	-0.2	0.2	0.0	-0.1	-0.1	-0.1	0.2	0.0	-0.1	0.0	0.0	-0.2	-0.2	-0.3	-0.2
Memorandum items:																		
Government (April 2018)	4.8	4.6	4.1	4.2	--	--	--	--	--	--	2.5	2.3	15.5	13.8	1.7	1.6	-2.2	-1.3
Bank of Spain (June 2018)	4.6	4.8	4.5	4.6	1.9	1.7	1.3	1.7	--	--	2.4	2.0	15.2	13.4	1.6 [6]	1.6 [6]	-2.7	-2.3
EC (May 2018)	5.0	4.7	4.7	4.5	1.4	1.4	--	--	1.1	1.6	2.6	2.3	15.3	13.8	1.5	1.6	-2.6	-1.9
IMF (April 2018)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (May 2018)	4.6	4.5	4.2	4.2	1.6	1.5	--	--	--	--	2.2	2.0	15.5	13.8	1.7	1.7	-2.4	-1.5

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

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

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

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

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

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

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

Table 2

Quarterly Forecasts – September 2018

	Quarter-on-quarter change (percentage)							
	18-IQ	18-IIQ	18-IIIQ	18-IVQ	19-IQ	19-IIQ	19-IIIQ	19-IVQ
GDP[1]	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Euribor 1 yr [2]	-0.19	-0.18	-0.15	-0.11	-0.04	0.04	0.17	0.26
Government bond yield 10 yr [2]	1.34	1.37	1.42	1.53	1.63	1.72	1.80	1.89
ECB main refinancing operations interest rate [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.25
Dollar / Euro exchange rate [2]	1.23	1.17	1.17	1.18	1.19	1.20	1.21	1.21

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

Table 3

CPI Forecasts – September 2018[1]

Monthly change (%)				Year-on-year change (%)	
Sep-18	Oct-18	Nov-18	Dec-18	Dec-18	Dec-19
0.4	0.8	0.5	0.3	1.8	1.4

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

Table 4

Opinions – September 2018

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	10	8	0	0	14	4
International context: Non-EU	7	7	4	0	13	5
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	6	12	4	14	0
Monetary policy assessment[1]	0	0	18	1	4	13

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

Key Facts

This page was left blank intentionally.

Economic Indicators

Table 1

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

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation				Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction						
						Total	Housing	Other constructions	Equipment & others products				
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate												
2011		-1.0	-2.4	-0.3	-6.9	-11.7	-13.3	-10.2	0.9	7.4	-0.8	-3.1	2.1
2012		-2.9	-3.5	-4.7	-8.6	-12.3	-10.3	-13.9	-3.5	1.1	-6.4	-5.1	2.2
2013		-1.7	-3.1	-2.1	-3.4	-8.6	-10.2	-7.3	2.8	4.3	-0.5	-3.2	1.5
2014		1.4	1.5	-0.3	4.7	4.2	11.3	-1.1	5.2	4.3	6.6	1.9	-0.5
2015		3.6	3.0	2.0	6.7	3.6	-1.0	7.9	9.9	4.2	5.4	3.9	-0.3
2016		3.2	2.9	1.0	2.9	1.1	4.4	0.9	4.7	5.2	2.9	2.4	0.8
2017		3.0	2.5	1.9	4.8	4.6	8.3	1.5	5.0	5.2	5.6	2.9	0.1
2018		2.6	2.1	1.9	5.0	5.3	7.5	3.2	4.7	2.6	2.9	2.6	0.0
2019		2.2	1.5	1.1	4.6	5.1	6.2	3.9	4.2	4.2	3.8	2.0	0.2
2017	I	3.0	2.2	1.0	4.9	4.5	6.1	3.0	5.4	5.6	4.5	2.5	0.5
	II	3.1	2.4	1.5	3.9	4.3	8.4	0.7	3.6	4.5	3.1	2.5	0.6
	III	3.1	2.4	1.4	5.6	5.1	9.2	1.6	6.2	5.6	5.9	3.0	0.1
	IV	3.1	2.5	2.4	5.6	4.8	9.5	0.5	6.4	4.4	5.2	3.2	-0.1
2018	I	3.0	2.8	1.9	3.5	4.7	8.7	1.0	2.4	3.2	2.8	2.7	0.2
	II	2.7	2.2	2.1	5.6	4.8	7.1	2.5	6.5	1.2	2.1	2.9	-0.2
	III	2.5	1.8	1.8	5.4	5.7	7.4	4.0	5.2	2.0	2.4	2.5	0.0
	IV	2.3	1.6	1.7	5.4	6.2	6.9	5.4	4.7	4.0	4.5	2.4	0.0
2019	I	2.2	1.3	1.4	5.6	5.2	5.4	4.9	6.1	3.4	3.6	2.2	0.0
	II	2.2	1.5	1.0	4.1	5.4	6.8	4.1	2.9	5.5	5.0	1.9	0.3
	III	2.3	1.6	1.1	4.2	5.2	6.9	3.6	3.1	4.5	4.0	2.0	0.3
	IV	2.3	1.6	0.7	4.7	4.5	5.9	3.1	4.9	3.3	2.7	2.0	0.3
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate												
2017	I	3.2	1.8	4.4	11.5	10.3	18.5	3.3	12.8	10.1	15.7	4.4	-1.2
	II	3.5	3.3	1.9	2.5	3.9	7.1	1.1	1.1	4.2	1.8	2.6	0.9
	III	2.8	2.8	1.7	5.6	1.0	3.2	-1.0	10.4	2.3	4.1	3.2	-0.4
	IV	2.7	2.2	1.7	2.9	4.0	9.9	-1.2	1.9	1.1	0.0	2.4	0.4
2018	I	2.8	2.9	2.2	3.1	9.9	14.7	5.1	-3.3	5.3	5.3	2.6	0.2
	II	2.3	0.8	2.9	11.0	4.3	1.2	7.5	18.3	-3.8	-1.0	3.2	-1.0
	III	2.0	1.2	0.4	4.8	4.5	4.1	4.9	5.1	5.7	5.3	1.7	0.3
	IV	2.2	1.6	1.2	3.0	6.1	8.2	4.1	0.0	9.1	8.7	1.8	0.4
2019	I	2.4	1.6	1.2	3.9	5.7	8.2	3.2	2.0	2.8	1.6	1.9	0.5
	II	2.2	1.6	1.2	4.9	5.3	6.6	4.1	4.5	4.3	4.5	2.1	0.1
	III	2.3	1.6	0.8	4.9	3.7	4.5	2.9	6.1	2.0	1.5	2.1	0.2
	IV	2.3	1.6	-0.4	5.1	3.3	4.2	2.4	7.0	4.1	3.0	1.9	0.4
		Current prices (EUR billions)	Percentage of GDP at current prices										
2010		1080.9	57.2	20.5	23.0	14.3	6.9	7.4	8.7	25.5	26.8	101.3	-1.3
2011		1,070.4	57.8	20.5	21.5	12.5	5.7	6.8	9.0	28.9	29.2	100.2	-0.2
2012		1,039.8	58.8	19.7	19.8	10.9	4.9	6.0	8.9	30.7	29.2	98.5	1.5
2013		1,025.7	58.3	19.7	18.8	9.7	4.1	5.6	9.0	32.2	29.0	96.7	3.3
2014		1,037.8	58.6	19.5	19.3	9.9	4.5	5.4	9.4	32.7	30.3	97.6	2.4
2015		1,081.2	57.9	19.3	19.9	10.0	4.4	5.5	9.9	32.9	30.6	97.7	2.3
2016		1,118.7	57.5	18.9	19.9	9.9	4.7	5.2	10.1	33.1	30.0	96.8	3.2
2017		1,166.3	57.5	18.5	20.5	10.3	5.0	5.3	10.2	34.3	31.4	97.1	2.9
2018		1,206.5	57.7	18.3	21.3	10.7	5.4	5.3	10.6	34.5	32.4	97.9	2.1
2019		1,253.0	57.2	18.1	21.8	11.1	5.7	5.3	10.8	35.0	32.8	97.8	2.2

** Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

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

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

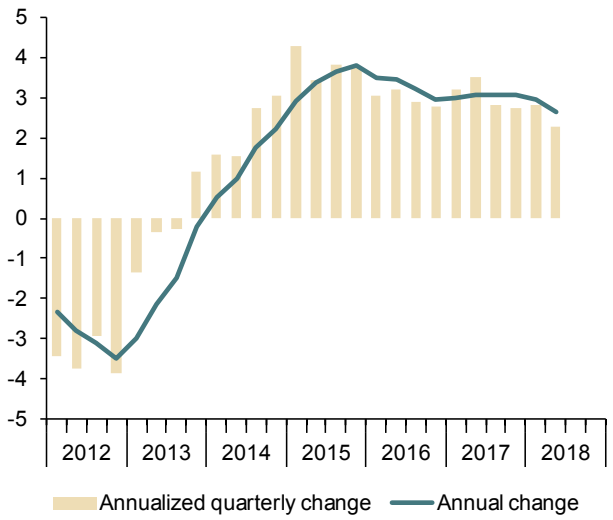


Chart 1.2 - Contribution to GDP annual growth

Percentage points

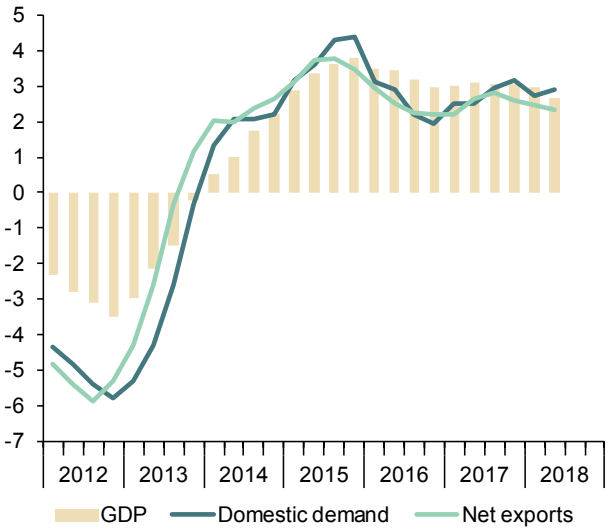


Chart 1.3 - Final consumption

Annual percentage change

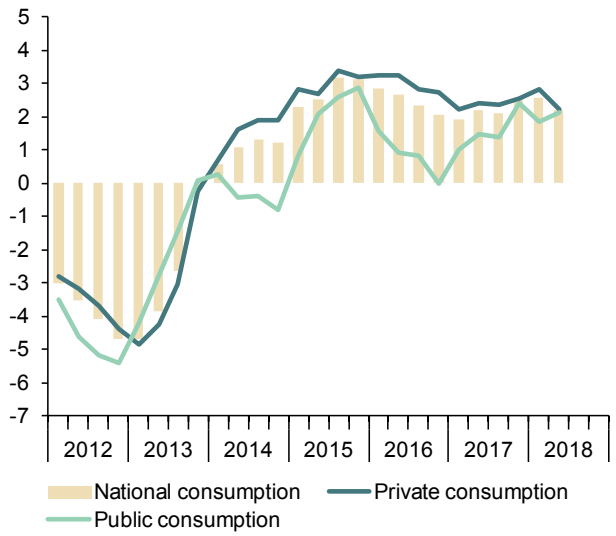


Chart 1.4 - Gross fixed capital formation

nnual percentage change

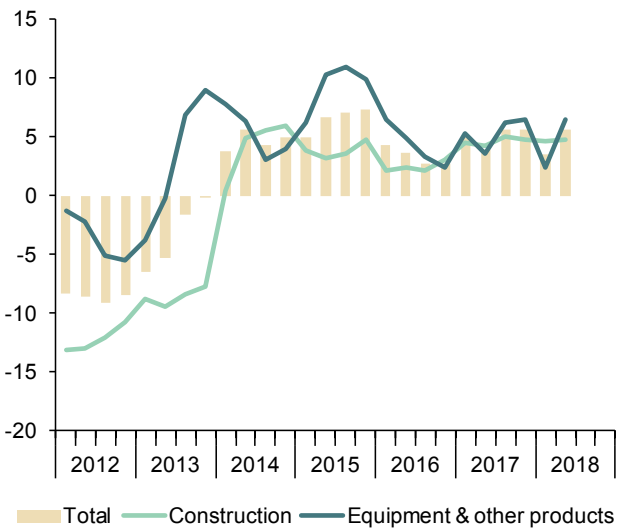


Table 2

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

		Gross value added at basic prices								
				Industry			Services			
		Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
		Chain-linked volumes, annual percentage changes								
2011		-0.6	4.4	-0.2	-1.3	-12.8	0.7	0.9	0.6	-5.5
2012		-2.8	-9.7	-4.9	-5.2	-8.8	-1.5	-1.8	-1.4	-4.0
2013		-1.5	13.6	-3.9	-0.2	-10.5	-0.6	0.1	-0.8	-4.3
2014		1.1	-1.2	2.0	3.0	-2.0	1.3	-0.8	2.0	4.0
2015		3.1	3.6	2.9	4.2	4.7	3.0	1.0	3.7	12.5
2016		3.0	8.2	5.6	4.7	3.5	2.1	1.3	2.4	0.3
2017		2.9	-0.9	4.4	4.4	6.2	2.5	1.7	2.7	1.6
2016	III	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.7
	IV	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	3.6
2017	I	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.1
	II	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.6
	III	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.2
	IV	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.7
2018	I	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	4.5
	II	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	3.1
		Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate								
2016	III	2.7	2.5	0.8	0.5	4.7	3.1	1.2	3.7	4.4
	IV	2.6	3.8	4.9	5.4	4.2	1.9	0.9	2.2	4.5
2017	I	3.3	9.9	3.3	3.0	6.4	2.7	1.7	3.1	2.8
	II	3.2	-1.3	4.8	5.0	4.5	2.8	1.2	3.4	7.0
	III	2.8	4.5	2.6	3.9	4.6	2.7	1.5	3.1	2.6
	IV	2.8	-4.4	7.6	6.9	6.2	1.6	2.1	1.4	2.6
2018	I	2.4	15.6	-3.5	-3.8	8.9	3.0	1.9	3.4	5.9
	II	2.4	7.9	5.7	7.3	6.6	1.0	1.6	0.8	1.1
		Current prices (EUR billions)	Percentage of value added at basic prices							
2011		983.7	2.5	17.5	13.5	7.5	72.5	18.7	53.8	8.8
2012		954.0	2.5	17.4	13.2	6.7	73.5	18.5	54.9	9.0
2013		935.6	2.8	17.5	13.4	5.8	74.0	19.0	55.0	9.6
2014		944.5	2.7	17.6	13.7	5.6	74.1	18.8	55.4	9.9
2015		981.0	2.9	17.6	13.7	5.7	73.9	18.6	55.3	10.2
2016		1,014.8	3.0	17.6	13.8	5.9	73.6	18.4	55.1	10.2
2017		1,057.5	3.0	18.0	14.2	6.1	72.9	18.0	54.9	10.3

** Seasonally and Working Day Adjusted.*

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

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

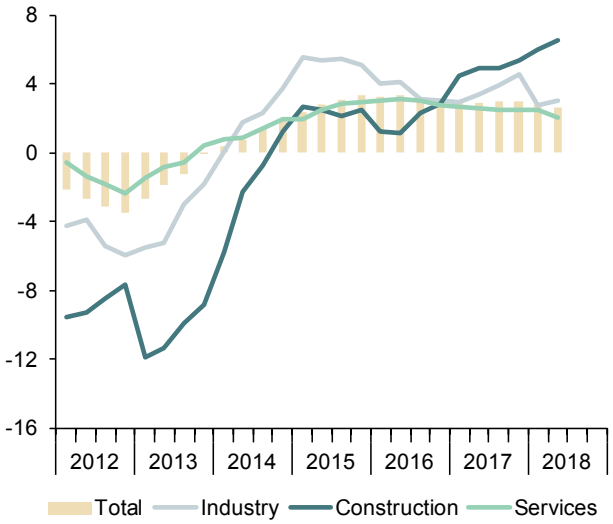


Chart 2.2 - GVA, Industry

Annual percentage change

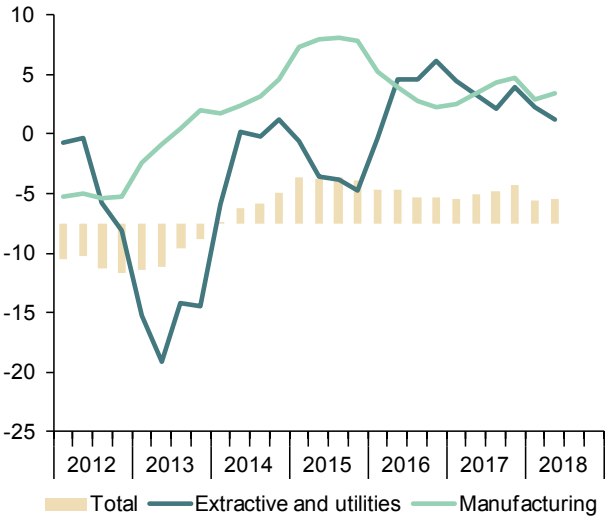


Chart 2.3 - GVA, services

Annual percentage change

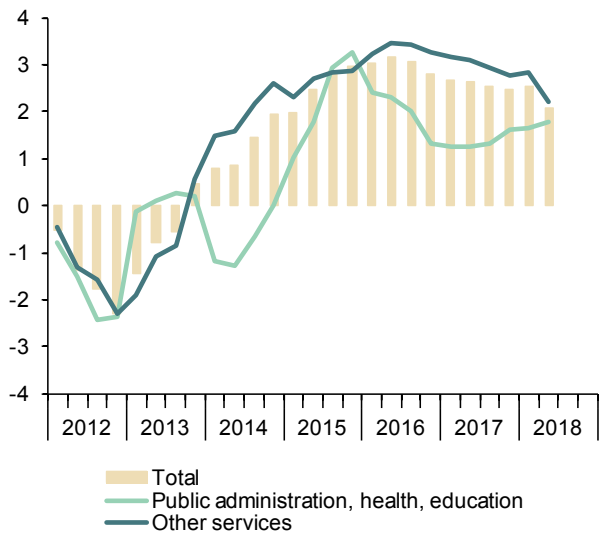


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

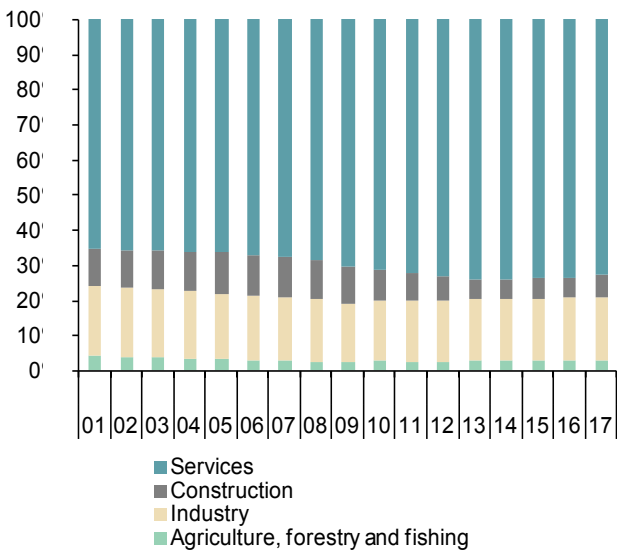


Table 3

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

Forecasts in yellow

		Total economy						Manufacturing Industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
		Indexes, 2010 = 100, SWDA											
2011		99.0	97.2	101.8	100.9	99.1	99.0	98.7	96.2	102.6	102.2	99.6	97.6
2012		96.1	92.6	103.8	100.3	96.6	96.5	93.6	89.1	105.0	103.9	99.0	96.6
2013		94.5	89.4	105.7	101.6	96.2	95.7	93.4	84.9	110.0	105.6	96.0	93.7
2014		95.8	90.3	106.0	101.7	95.9	95.7	96.1	83.8	114.7	106.2	92.6	90.2
2015		99.3	93.3	106.4	102.6	96.5	95.7	100.2	86.4	116.0	105.9	91.3	89.4
2016		102.4	96.2	106.5	102.1	95.8	94.8	104.8	90.0	116.5	106.4	91.4	89.8
2017		105.5	98.9	106.6	102.4	96.0	93.9	109.4	93.5	117.1	107.3	91.6	88.0
2018		108.2	101.1	106.9	103.4	96.7	93.7	--	--	--	--	--	--
2019		110.6	103.1	107.3	105.5	98.3	93.8	--	--	--	--	--	--
2016	III	102.7	96.4	106.5	102.9	96.6	95.5	107.2	89.3	120.0	107.8	89.8	88.0
	IV	103.4	96.8	106.8	103.2	96.7	95.1	108.6	90.2	120.4	107.9	89.6	87.3
2017	I	104.2	97.5	106.9	103.2	96.6	95.2	109.4	90.8	120.5	108.3	89.8	86.7
	II	105.1	98.4	106.8	103.0	96.4	94.6	110.8	91.5	121.1	108.2	89.3	86.0
	III	105.8	99.2	106.7	103.1	96.6	94.6	111.8	92.2	121.2	108.3	89.4	86.3
	IV	106.5	99.6	107.0	103.4	96.6	93.9	113.7	93.2	122.0	108.5	88.9	85.3
2018	I	107.3	100.1	107.2	103.6	96.6	94.0	112.6	93.4	120.5	108.8	90.2	86.1
	II	107.9	100.9	106.9	103.8	97.0	94.5	114.6	93.5	122.6	108.7	88.6	84.8
		Annual percentage changes											
2011		-1.0	-2.8	1.8	0.9	-0.9	-1.0	-1.3	-3.8	2.6	2.2	-0.4	-2.4
2012		-2.9	-4.8	2.0	-0.6	-2.5	-2.6	-5.2	-7.4	2.3	1.7	-0.6	-1.0
2013		-1.7	-3.4	1.8	1.4	-0.4	-0.7	-0.2	-4.8	4.8	1.6	-3.1	-3.0
2014		1.4	1.0	0.3	0.1	-0.2	0.0	3.0	-1.3	4.3	0.6	-3.5	-3.8
2015		3.6	3.3	0.3	0.8	0.5	0.0	4.2	3.1	1.1	-0.2	-1.3	-0.9
2016		3.2	3.0	0.1	-0.5	-0.6	-0.9	4.7	4.2	0.4	0.5	0.1	0.5
2017		3.0	2.9	0.1	0.3	0.2	-1.0	4.4	3.8	0.5	0.8	0.3	-2.0
2018		2.6	2.2	0.3	1.0	0.7	-0.2	--	--	--	--	--	--
2019		2.2	1.9	0.3	2.0	1.7	0.1	--	--	--	--	--	--
2016	III	3.2	3.1	0.1	-0.4	-0.6	-0.9	2.7	3.1	-0.3	0.2	0.6	0.3
	IV	3.0	2.7	0.2	-0.5	-0.7	-1.2	2.3	3.8	-1.4	0.0	1.5	0.6
2017	I	3.0	2.6	0.4	0.3	0.0	-0.8	2.6	3.1	-0.5	0.7	1.2	-0.7
	II	3.1	2.9	0.2	-0.2	-0.3	-1.3	3.5	3.4	0.1	0.5	0.4	-1.7
	III	3.1	2.9	0.2	0.3	0.0	-0.9	4.3	3.3	1.0	0.5	-0.5	-1.9
	IV	3.1	2.9	0.2	0.2	0.0	-1.2	4.7	3.3	1.4	0.6	-0.8	-2.2
2018	I	3.0	2.6	0.3	0.4	0.1	-1.2	2.9	2.9	0.0	0.5	0.5	-0.6
	II	2.7	2.5	0.1	0.7	0.6	-0.1	3.5	2.2	1.2	0.5	-0.8	-1.4

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

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

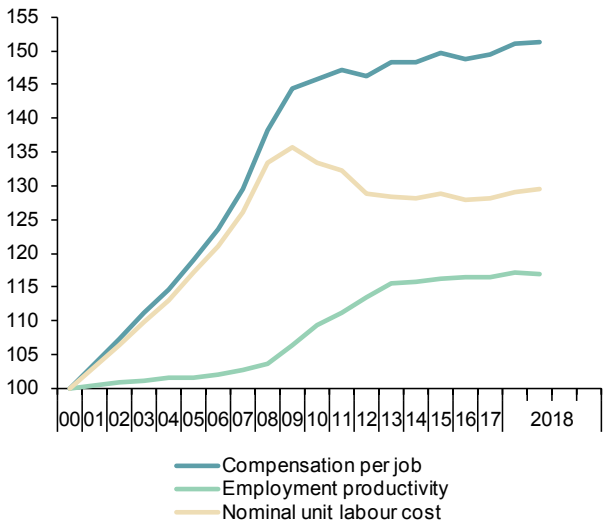
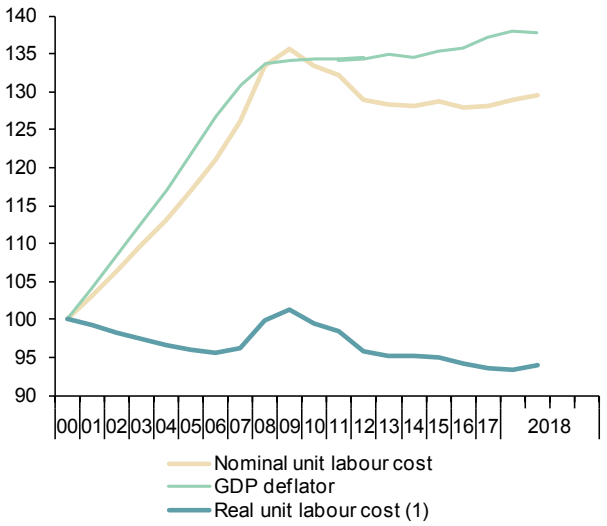


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

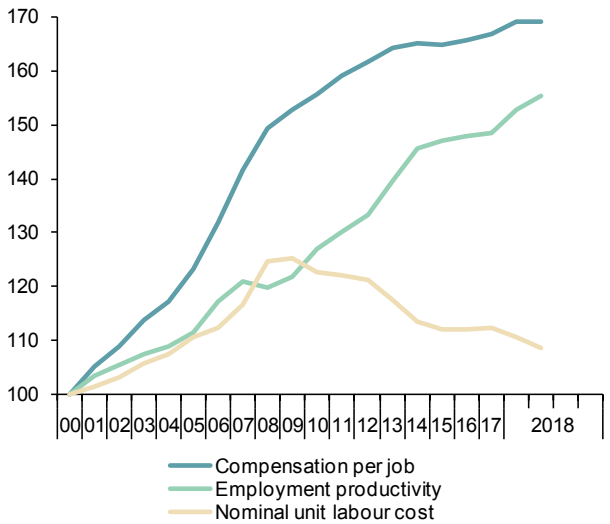
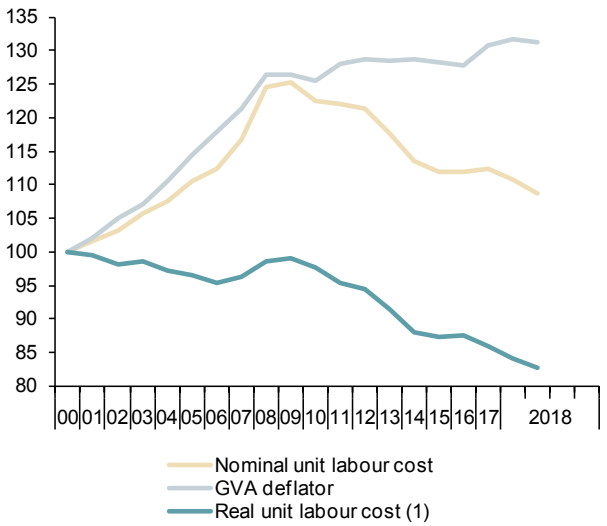


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Table 4

National accounts: National income, distribution and disposition (ESA 2010, Base 2010) (1)

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 bowrrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
2010		1,080.9	541.5	445.8	1,053.1	840.5	212.6	254.5	50.1	41.2	19.7	23.5	-3.9	-3.3
2011		1,070.4	531.0	449.3	1,037.7	838.6	199.2	234.5	49.6	42.0	18.6	21.9	-3.3	-2.9
2012		1,039.8	498.8	446.7	1,019.9	816.6	203.3	207.9	48.0	43.0	19.5	20.0	-0.4	0.1
2013		1,025.7	485.3	440.4	1,007.3	800.4	206.9	191.9	47.3	42.9	20.2	18.7	1.5	2.1
2014		1,037.8	491.6	441.8	1,023.0	810.7	212.2	201.9	47.4	42.6	20.4	19.5	1.0	1.5
2015		1,081.2	514.6	464.0	1,067.4	834.9	232.4	221.0	47.6	42.9	21.5	20.4	1.1	--
2016		1,118.7	528.6	477.1	1,107.6	854.8	252.7	228.6	47.2	42.6	22.6	20.4	2.2	--
2017		1,166.3	547.3	492.7	1,154.7	886.2	268.6	246.1	46.9	42.2	23.0	21.1	1.9	--
2018		1,206.5	566.5	492.7	1,200.0	917.5	282.6	264.0	47.0	40.8	23.4	21.9	1.5	--
2019		1,253.0	590.3	492.7	1,243.7	944.5	299.2	280.9	47.1	39.3	23.9	22.4	1.5	--
2016	III	1,109.4	529.7	465.1	1,096.4	850.0	246.4	227.7	47.7	41.9	22.2	20.5	1.7	2.1
	IV	1,118.5	532.9	471.0	1,105.9	855.6	250.3	229.2	47.6	42.1	22.4	20.5	1.9	2.1
2017	I	1,129.5	536.6	476.3	1,118.9	864.5	254.4	232.9	47.5	42.2	22.5	20.6	1.9	2.1
	II	1,140.6	540.5	482.1	1,129.1	871.8	257.3	236.1	47.4	42.3	22.6	20.7	1.9	2.1
	III	1,151.1	545.4	486.6	1,139.8	878.4	261.4	240.7	47.4	42.3	22.7	20.9	1.8	2.0
	IV	1,163.7	550.3	493.6	1,153.1	886.6	266.5	246.1	47.3	42.4	22.9	21.1	1.8	2.0
2018	I	1,174.6	554.8	498.0	1,163.6	894.1	269.5	248.7	47.2	42.4	22.9	21.2	1.8	2.0
	II	1,183.9	560.3	500.0	--	902.4	--	253.5	47.3	42.2	--	21.4	--	--
		Annual percentage changes							Difference from one year ago					
2010		0.2	-1.4	-2.0	0.8	1.7	-2.8	0.0	-0.8	-0.9	-0.6	0.0	-0.6	-0.6
2011		-1.0	-1.9	0.8	-1.5	-0.2	-6.3	-7.9	-0.5	0.7	-1.1	-1.6	0.6	0.5
2012		-2.9	-6.1	-0.6	-1.7	-2.6	2.1	-11.3	-1.6	1.0	0.9	-1.9	2.9	3.0
2013		-1.4	-2.7	-1.4	-1.2	-2.0	1.8	-7.7	-0.7	0.0	0.6	-1.3	1.9	2.0
2014		1.2	1.3	0.3	1.6	1.3	2.6	5.2	0.1	-0.4	0.3	0.7	-0.5	-0.6
2015		4.2	4.7	5.0	4.3	3.0	9.5	9.5	0.2	0.3	1.0	1.0	0.1	--
2016		3.5	2.7	2.8	3.8	2.4	8.7	3.5	-0.3	-0.3	1.1	0.0	1.1	--
2017		4.3	3.5	3.3	4.3	3.7	6.3	7.7	-0.3	-0.4	0.4	0.7	-0.2	--
2018		3.4	3.5	0.0	3.9	3.5	5.2	7.3	0.0	-1.4	0.4	0.8	-0.4	--
2019		3.9	4.2	0.0	3.6	2.9	5.9	6.4	0.2	-1.5	0.5	0.5	-0.1	--
2016	III	3.9	3.8	3.7	3.8	2.6	8.1	6.1	0.0	-0.1	0.9	0.4	0.4	0.3
	IV	3.6	2.9	4.9	3.7	2.4	8.3	4.1	-0.3	0.5	1.0	0.1	0.9	0.5
2017	I	3.8	2.9	4.8	4.0	2.9	7.8	4.3	-0.4	0.4	0.8	0.1	0.7	0.3
	II	3.7	2.8	4.7	3.9	3.2	6.4	4.3	-0.4	0.4	0.6	0.1	0.4	0.1
	III	3.8	3.0	4.6	4.0	3.3	6.1	5.7	-0.4	0.4	0.5	0.4	0.1	-0.1
	IV	4.0	3.3	4.8	4.3	3.6	6.5	7.4	-0.4	0.3	0.5	0.7	-0.1	-0.1
2018	I	4.0	3.4	4.6	4.0	3.4	5.9	6.8	-0.3	0.2	0.4	0.6	-0.1	-0.1
	II	3.8	3.7	3.7	--	3.5	--	7.4	-0.1	0.0	--	0.7	--	--

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

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

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

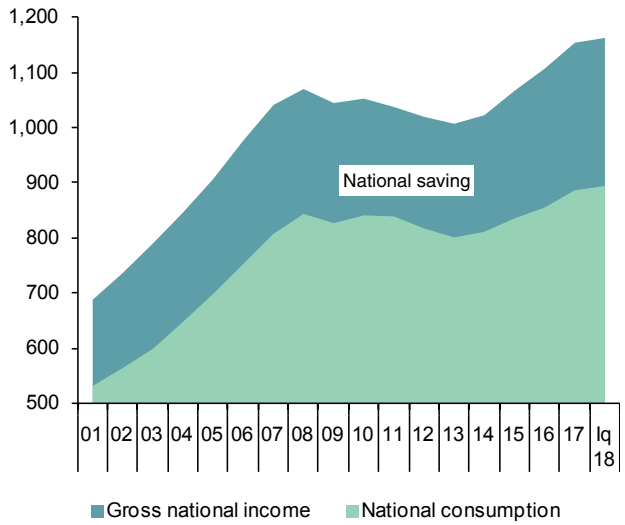


Chart 4.2 - National income, consumption and saving rate

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

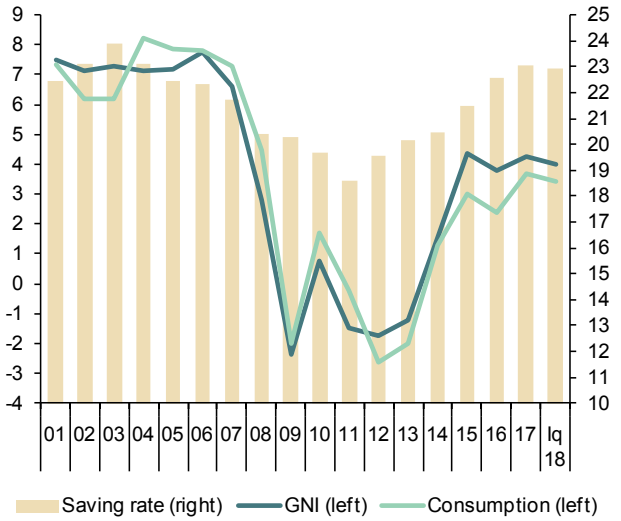


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

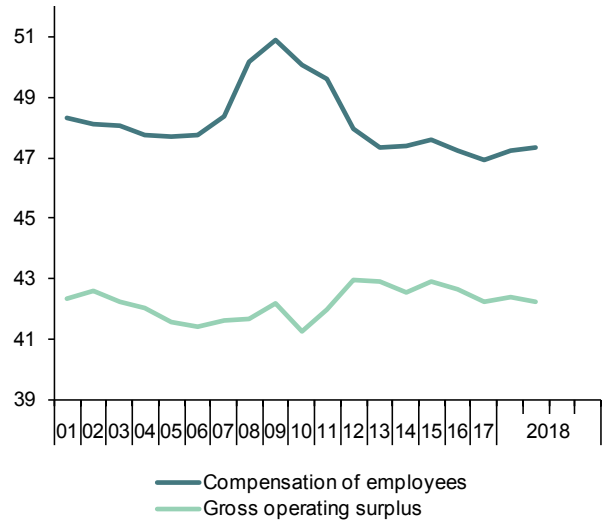


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

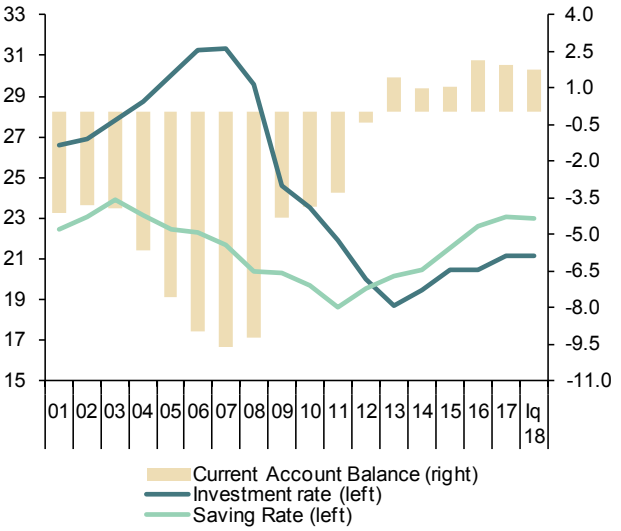


Table 5

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

Forecasts in yellow

		Households							Non-financial corporations					
		Gross disposable income (GDI)	Final con-sum-ption expen-diture	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 GDP			EUR Billions, 4-quarter cumulated operations			Percentage of GDP		
2011		694.2	618.9	74.7	52.2	10.8	4.9	2.6	232.8	144.8	131.4	13.5	12.3	2.1
2012		670.6	611.3	57.2	38.8	8.5	3.7	2.2	234.6	144.8	136.5	13.9	13.1	1.4
2013		664.4	598.5	63.9	25.7	9.6	2.5	4.0	235.0	160.5	136.2	15.7	13.3	2.9
2014		671.8	608.7	62.1	27.0	9.2	2.6	3.4	236.9	158.8	148.5	15.3	14.3	1.8
2015		686.6	626.3	58.9	33.6	8.6	3.1	2.3	243.6	175.4	153.0	16.2	14.2	2.9
2016		700.1	644.7	54.0	35.8	7.7	3.2	1.6	258.3	194.2	166.2	17.4	14.9	3.1
2017		714.1	671.7	40.9	42.4	5.7	3.6	-0.3	272.5	205.1	176.1	17.6	15.1	2.9
2018		738.8	696.5	40.9	47.4	5.5	3.9	-0.5	281.3	211.8	187.8	17.6	15.6	2.5
2019		761.0	717.2	42.3	51.9	5.6	4.1	-0.8	294.7	222.3	198.4	17.7	15.8	2.4
2016	II	694.9	634.6	59.0	34.7	8.5	3.2	2.2	250.7	187.5	158.6	17.1	14.4	3.3
	III	696.6	639.0	56.4	35.1	8.1	3.2	1.9	254.6	193.0	163.3	17.4	14.7	3.3
	IV	700.1	644.7	54.0	35.8	7.7	3.2	1.6	258.3	194.2	166.2	17.4	14.9	3.1
2017	I	702.4	652.4	48.7	37.9	6.9	3.4	0.9	261.7	199.6	168.4	17.7	14.9	3.3
	II	707.2	659.4	46.6	38.8	6.6	3.4	0.6	265.7	198.3	171.6	17.4	15.0	2.8
	III	709.5	665.0	43.3	40.4	6.1	3.5	0.1	267.9	198.9	173.0	17.3	15.0	2.7
	IV	714.1	671.7	40.9	42.4	5.7	3.6	-0.3	272.5	205.1	176.1	17.6	15.1	2.9
2018	I	720.4	678.2	40.7	43.3	5.6	3.7	-0.4	274.7	206.6	177.6	17.6	15.1	2.9
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
2011		0.8	0.0	7.5	-17.1	0.7	-0.9	1.3	-1.3	-10.5	-0.5	-1.4	0.1	-1.6
2012		-3.4	-1.2	-23.4	-25.6	-2.2	-1.1	-0.3	0.8	0.0	3.9	0.4	0.9	-0.7
2013		-0.9	-2.1	11.7	-33.9	1.1	-1.2	1.8	0.1	10.9	-0.2	1.7	0.2	1.4
2014		1.1	1.7	-2.9	5.1	-0.4	0.1	-0.6	0.8	-1.1	9.0	-0.3	1.0	-1.1
2015		2.2	2.9	-5.0	24.5	-0.7	0.5	-1.1	2.8	10.4	3.0	0.9	-0.1	1.1
2016		2.0	2.9	-8.4	6.5	-0.9	0.1	-0.7	6.0	10.8	8.7	1.1	0.7	0.2
2017		2.0	4.2	-24.2	18.5	-2.0	0.4	-1.8	5.5	5.6	6.0	0.3	0.3	-0.1
2018		3.5	3.7	-0.1	11.8	-0.2	0.3	-0.3	3.2	3.2	6.6	-0.1	0.4	-0.5
2019		3.0	3.0	3.5	9.4	0.0	0.2	-0.2	4.8	5.0	5.6	0.2	0.3	-0.1
2016	II	1.7	3.0	-10.1	17.9	-1.1	0.4	-1.2	4.2	13.2	3.0	1.4	-0.1	1.4
	III	1.3	2.8	-12.1	12.7	-1.2	0.2	-1.1	4.9	14.4	6.9	1.6	0.4	0.9
	IV	2.0	2.9	-8.4	6.5	-0.9	0.1	-0.7	6.0	10.8	8.7	1.1	0.7	0.2
2017	I	1.7	3.4	-17.0	13.9	-1.6	0.3	-1.4	6.4	11.1	7.1	1.2	0.5	0.5
	II	1.8	3.9	-21.1	12.0	-1.9	0.3	-1.6	6.0	5.7	8.2	0.3	0.6	-0.5
	III	1.8	4.1	-23.2	15.2	-2.0	0.3	-1.8	5.2	3.1	5.9	-0.1	0.3	-0.6
	IV	2.0	4.2	-24.2	18.5	-2.0	0.4	-1.8	5.5	5.6	6.0	0.3	0.3	-0.1
2018	I	2.6	4.0	-16.5	14.3	-1.3	0.3	-1.3	5.0	3.5	5.4	-0.1	0.2	-0.4

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

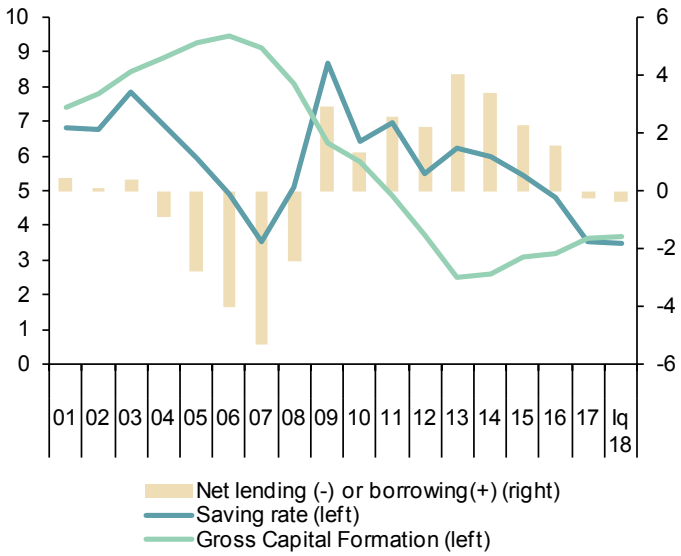


Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

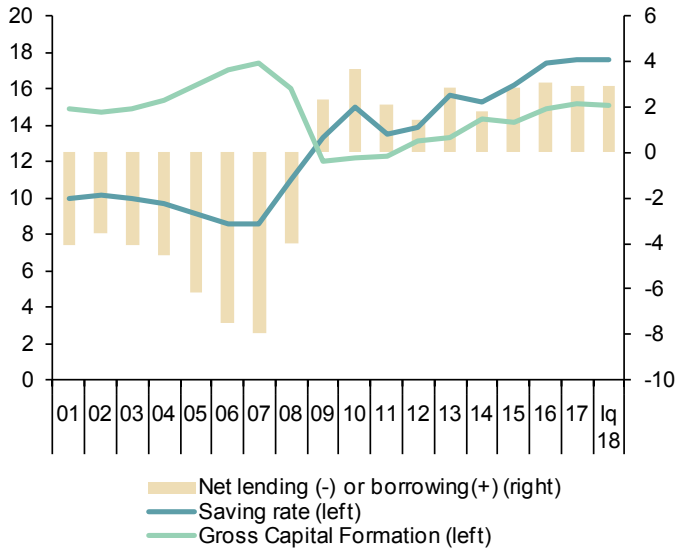


Table 6

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

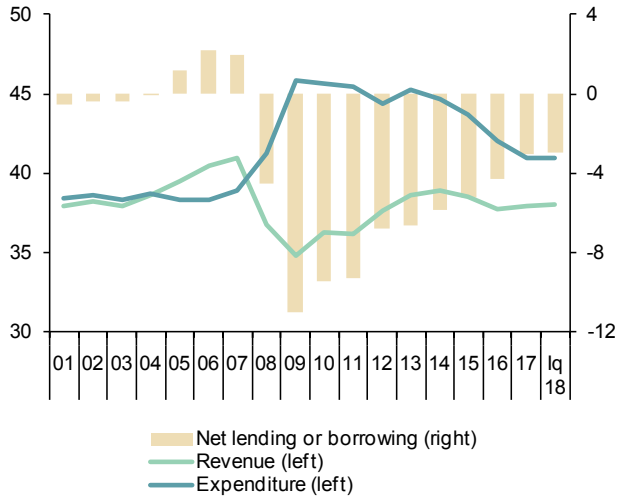
Forecasts in yellow

		Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contribu-tions receivable	Compen-sation of employees	Interests and other capital incomes payable (net)	Social bene-fits payable	Subsidies and net current transfers payable	Gross disposable income	Final consump-tion expendi-ture	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
		EUR Billions, 4-quarter cumulated operations													
2011		150.3	106.2	102.0	137.8	122.6	16.2	164.2	22.5	170.8	219.7	-48.9	54.3	-103.2	-99.7
2012		142.2	108.2	106.4	131.9	113.9	20.3	168.6	18.6	167.2	205.3	-38.1	70.8	-108.8	-70.6
2013		143.0	114.6	105.2	128.2	114.7	24.1	170.8	20.6	160.8	201.9	-41.1	30.6	-71.7	-68.4
2014		143.4	119.2	105.6	130.1	115.2	25.7	171.1	20.6	165.7	202.0	-36.3	25.6	-61.9	-60.6
2015		147.5	127.0	109.2	132.3	119.4	24.4	170.6	21.3	180.3	208.9	-28.6	28.4	-57.0	-56.5
2016		149.4	128.8	110.8	136.2	121.3	23.1	173.8	20.8	186.2	210.9	-24.7	25.7	-50.4	-48.0
2017		151.4	134.4	118.8	142.9	122.8	22.6	177.9	19.9	204.3	214.8	-10.6	25.7	-36.2	-35.8
2018		155.3	141.6	123.0	148.7	125.8	20.8	184.9	20.5	216.7	221.0	-4.3	28.8	-33.1	-32.8
2019		158.1	148.1	128.3	159.5	128.5	20.4	192.3	21.2	231.7	227.3	4.4	31.1	-26.7	-26.7
2016	II	148.4	127.3	105.0	134.1	120.4	23.5	172.5	19.3	179.1	210.3	-31.2	26.9	-58.1	-56.1
	III	149.2	128.4	107.0	135.2	121.1	23.2	173.1	20.7	181.7	211.1	-29.4	24.7	-54.1	-51.8
	IV	149.4	128.8	110.8	136.2	121.3	23.1	173.8	20.8	186.2	210.9	-24.7	25.7	-50.4	-48.0
2017	I	150.0	130.6	111.9	137.9	121.8	23.0	174.3	19.4	191.9	212.1	-20.2	26.9	-47.1	-44.5
	II	149.9	132.4	115.0	139.6	121.6	22.8	175.3	20.3	196.8	212.5	-15.6	26.0	-41.6	-40.6
	III	150.6	133.7	118.6	141.3	122.2	22.6	176.2	20.3	203.0	213.5	-10.5	25.8	-36.3	-35.7
	IV	151.4	134.4	118.8	142.9	122.8	22.6	177.9	19.9	204.3	214.8	-10.6	25.7	-36.2	-35.8
2018	I	151.9	136.6	120.9	144.4	123.2	22.3	179.1	20.8	208.4	215.8	-7.5	27.4	-34.8	-34.5
		Percentage of GDP, 4-quarter cumulated operations													
2011		14.0	9.9	9.5	12.9	11.5	1.5	15.3	2.1	16.0	20.5	-4.6	5.1	-9.6	-9.3
2012		13.7	10.4	10.2	12.7	11.0	2.0	16.2	1.8	16.1	19.7	-3.7	6.8	-10.5	-6.8
2013		13.9	11.2	10.3	12.5	11.2	2.3	16.6	2.0	15.7	19.7	-4.0	3.0	-7.0	-6.7
2014		13.8	11.5	10.2	12.5	11.1	2.5	16.5	2.0	16.0	19.5	-3.5	2.5	-6.0	-5.8
2015		13.6	11.7	10.1	12.2	11.0	2.3	15.8	2.0	16.7	19.3	-2.6	2.6	-5.3	-5.2
2016		13.4	11.5	9.9	12.2	10.8	2.1	15.5	1.9	16.6	18.9	-2.2	2.3	-4.5	-4.3
2017		13.0	11.5	10.2	12.3	10.5	1.9	15.3	1.7	17.5	18.4	-0.9	2.2	-3.1	-3.1
2018		12.9	11.7	10.2	12.3	10.4	1.7	15.3	1.7	18.0	18.3	-0.4	2.4	-2.7	-2.7
2019		12.6	11.8	10.2	12.7	10.3	1.6	15.3	1.7	18.5	18.1	0.4	2.5	-2.1	-2.1
2016	II	13.5	11.6	9.5	12.2	11.0	2.1	15.7	1.8	16.3	19.1	-2.8	2.4	-5.3	-5.1
	III	13.4	11.6	9.6	12.2	10.9	2.1	15.6	1.9	16.4	19.0	-2.7	2.2	-4.9	-4.7
	IV	13.4	11.5	9.9	12.2	10.8	2.1	15.5	1.9	16.6	18.9	-2.2	2.3	-4.5	-4.3
2017	I	13.3	11.6	9.9	12.2	10.8	2.0	15.4	1.7	17.0	18.8	-1.8	2.4	-4.2	-3.9
	II	13.1	11.6	10.1	12.2	10.7	2.0	15.4	1.8	17.3	18.6	-1.4	2.3	-3.6	-3.6
	III	13.1	11.6	10.3	12.3	10.6	2.0	15.3	1.8	17.6	18.5	-0.9	2.2	-3.2	-3.1
	IV	13.0	11.5	10.2	12.3	10.6	1.9	15.3	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.1
2018	I	12.9	11.6	10.3	12.3	10.5	1.9	15.2	1.8	17.7	18.4	-0.6	2.3	-3.0	-2.9

Source: INE and Funcas (Forecasts).

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

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures

Chart 6.2 - Public sector: Main revenues

Percentage of GDP, 4-quarter moving averages

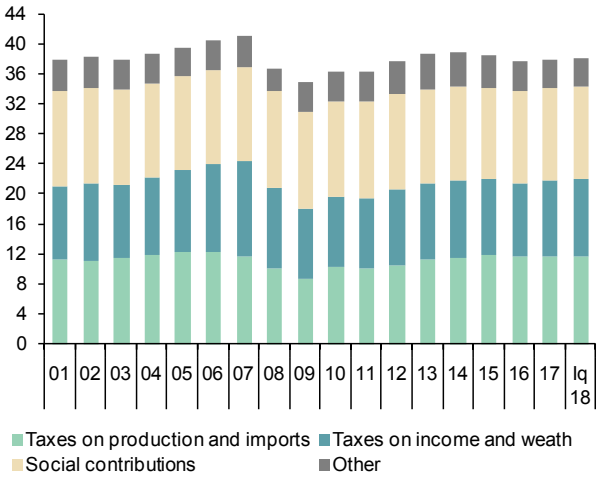


Chart 6.3.- Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

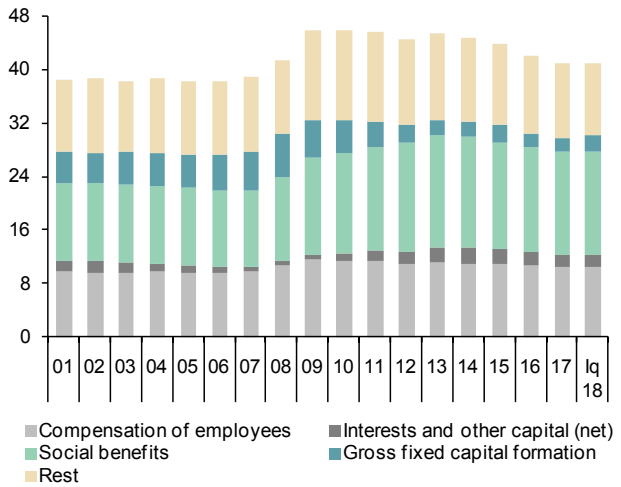
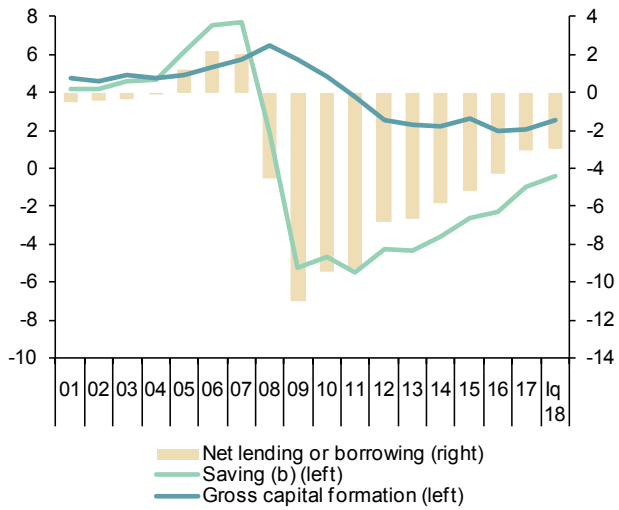


Chart 6.4 - Public sector: Saving, investment and deficit (a)

Percentage of GDP, 4-quarter moving averages



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

Table 7

Public sector balances, by level of Government

Forecasts in yellow

		Net lending (+)/ net borrowing (-) (a)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period				
2011		-35.3	-54.8	-8.5	-1.1	-99.7	624.2	145.9	36.8	17.2	744.3
2012		-44.3	-19.4	3.3	-10.2	-70.6	761.9	189.2	44.0	17.2	891.5
2013		-46.4	-16.2	5.7	-11.5	-68.4	850.2	210.5	42.1	17.2	979.0
2014		-36.8	-18.5	5.5	-10.8	-60.6	902.5	237.9	38.3	17.2	1,041.6
2015		-29.3	-18.7	4.6	-13.0	-56.5	940.4	263.3	35.2	17.2	1,073.9
2016		-27.8	-9.3	6.8	-17.8	-48.0	969.6	277.0	32.2	17.2	1,107.2
2017		-21.7	-3.7	6.8	-17.2	-35.8	1,010.8	288.1	29.0	27.4	1,144.3
2018		-16.1	-1.2	6.0	-21.6	-32.8	--	--	--	--	1,176.4
2019		-10.9	-0.4	5.0	-20.4	-26.7	--	--	--	--	1,202.1
2016	II	-28.3	-16.9	4.5	-15.4	-56.1	964.7	273.5	35.1	17.2	1,107.1
	III	-33.1	-9.1	6.9	-16.6	-51.8	968.8	272.7	34.7	17.2	1,108.4
	IV	-27.8	-9.3	6.8	-17.8	-48.0	969.6	277.0	32.2	17.2	1,107.2
2017	I	-23.1	-10.4	7.1	-18.1	-44.5	986.6	279.4	31.7	17.2	1,126.3
	II	-20.4	-10.3	7.2	-17.2	-40.6	994.9	285.9	32.4	17.2	1,135.1
	III	-18.3	-6.5	7.3	-18.2	-35.7	998.8	284.4	30.5	23.2	1,133.4
	IV	-21.7	-3.7	6.8	-17.2	-35.8	1,010.8	288.1	29.0	27.4	1,144.3
2018	I	-21.7	-2.9	6.9	-16.8	-34.5	1,027.6	289.7	28.9	27.4	1,160.6
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2011		-3.3	-5.1	-0.8	-0.1	-9.3	58.3	13.6	3.4	1.6	69.5
2012		-4.3	-1.9	0.3	-1.0	-6.8	73.3	18.2	4.2	1.7	85.7
2013		-4.5	-1.6	0.6	-1.1	-6.7	82.9	20.5	4.1	1.7	95.5
2014		-3.5	-1.8	0.5	-1.0	-5.8	87.0	22.9	3.7	1.7	100.4
2015		-2.7	-1.7	0.4	-1.2	-5.2	87.0	24.4	3.3	1.6	99.3
2016		-2.5	-0.8	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0
2017		-1.9	-0.3	0.6	-1.5	-3.1	86.7	24.7	2.5	2.3	98.1
2018		-1.3	-0.1	0.5	-1.8	-2.7	--	--	--	--	97.5
2019		-0.9	0.0	0.4	-1.6	-2.1	--	--	--	--	95.9
2016	II	-2.6	-1.5	0.4	-1.4	-5.1	87.7	24.9	3.2	1.6	100.7
	III	-3.0	-0.8	0.6	-1.5	-4.7	87.3	24.6	3.1	1.5	99.9
	IV	-2.5	-0.8	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0
2017	I	-2.0	-0.9	0.6	-1.6	-3.9	87.3	24.7	2.8	1.5	99.7
	II	-1.8	-0.9	0.6	-1.5	-3.6	87.2	25.1	2.8	1.5	99.5
	III	-1.6	-0.6	0.6	-1.6	-3.1	86.8	24.7	2.7	2.0	98.5
	IV	-1.9	-0.3	0.6	-1.5	-3.1	86.9	24.8	2.5	2.4	98.3
2018	I	-1.8	-0.2	0.6	-1.4	-2.9	87.5	24.7	2.5	2.3	98.8

(a) Excluding financial entities bail-out expenditures.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

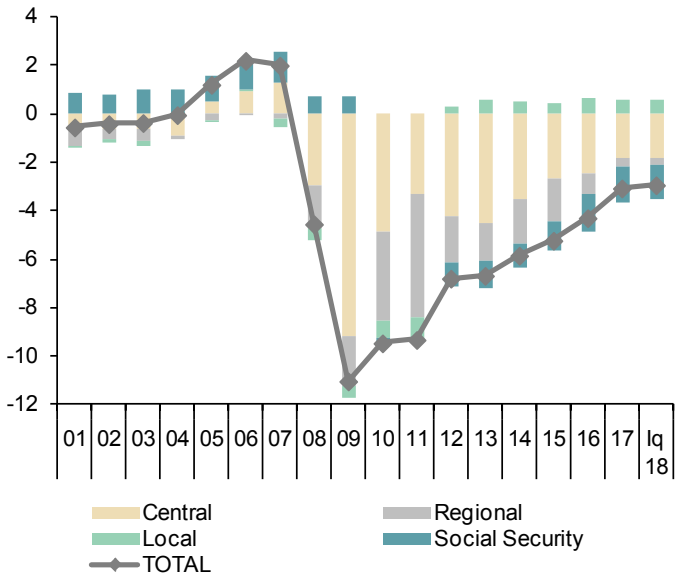


Chart 7.2 - Government debt

Percent of GDP

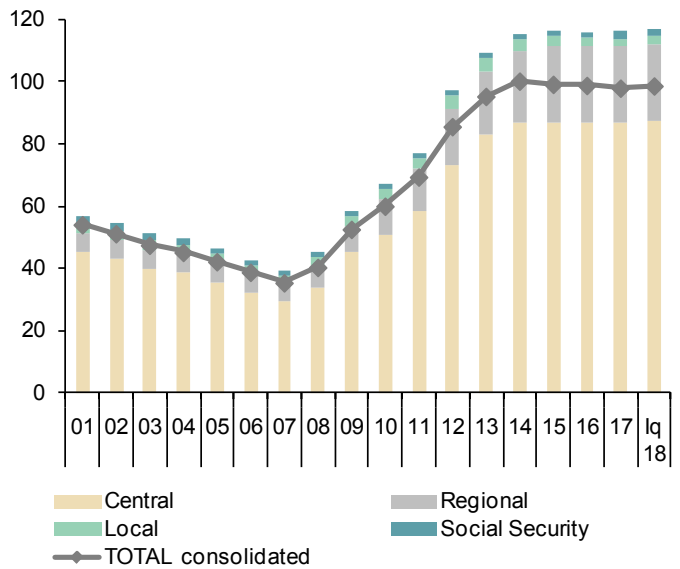


Table 8

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufac turing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH (smoothed)	2010=100	Thousands	Index	Balance of responses	2010=100 (smoothed)	Balance of responses
2011	92.3	46.6	16,970.3	261.1	104.0	2,231.9	47.3	-12.5	101.7	-30.8
2012	87.6	43.1	16,335.3	255.7	97.1	2,113.9	43.8	-17.6	96.7	-37.1
2013	91.7	48.3	15,855.2	250.2	95.5	2,021.6	48.5	-14.0	94.2	-30.7
2014	101.8	55.1	16,111.1	249.7	96.8	2,022.8	53.2	-7.1	96.1	-16.3
2015	108.3	56.7	16,641.8	254.0	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016	106.0	54.9	17,157.5	254.1	101.8	2,124.7	53.1	-2.3	102.6	-5.4
2017	108.6	56.2	17,789.6	258.4	105.0	2,191.0	54.8	1.0	106.9	2.4
2018 (b)	109.3	55.2	18,277.7	174.1	107.8	2,243.3	54.2	0.9	109.6	0.8
2016 IV	106.9	55.0	17,387.5	63.9	102.6	2,147.5	54.4	-0.6	103.7	-4.2
2017 I	107.3	56.2	17,545.9	64.0	103.5	2,164.7	54.8	0.3	104.9	-3.1
II	108.1	57.4	17,724.4	64.3	104.4	2,182.9	54.9	-0.5	106.1	6.1
III	108.7	56.1	17,864.0	64.7	105.2	2,200.3	53.5	-0.1	107.3	1.1
IV	110.1	55.2	18,023.2	65.0	107.2	2,217.5	55.9	4.3	108.2	5.5
2018 I	110.0	56.6	18,166.1	65.2	106.2	2,234.2	55.3	2.8	109.0	2.3
II	109.8	55.4	18,291.6	65.2	105.6	2,246.7	53.8	1.2	109.7	1.1
III (b)	107.4	52.8	18,386.5	43.4	105.1	2,255.4	53.0	-2.4	--	-2.0
2018 Jun	109.4	54.8	18,334.3	21.7	105.4	2,250.4	53.4	-0.5	109.9	-0.6
Jul	107.7	52.7	18,370.6	21.7	105.1	2,253.6	52.9	-1.3	--	2.1
Aug	107.0	53.0	18,402.3	21.7	--	2,257.2	53.0	-3.5	--	-6.1
					Percentage changes (c)					
2011	--	--	-1.6	-1.0	-1.6	-2.7	--	--	-0.7	--
2012	--	--	-3.7	-2.1	-6.7	-5.3	--	--	-4.9	--
2013	--	--	-2.9	-2.2	-1.6	-4.4	--	--	-2.6	--
2014	--	--	1.6	-0.2	1.3	0.1	--	--	2.0	--
2015	--	--	3.3	1.7	3.4	2.2	--	--	4.1	--
2016	--	--	3.1	0.0	1.8	2.8	--	--	2.7	--
2017	--	--	3.7	1.7	3.2	3.1	--	--	4.2	--
2018 (d)	--	--	3.3	1.1	1.5	3.0	--	--	2.9	--
2016 IV	--	--	3.7	0.0	2.8	2.8	--	--	3.8	--
2017 I	--	--	3.7	1.8	3.9	3.3	--	--	4.7	--
II	--	--	4.1	1.4	3.4	3.4	--	--	4.8	--
III	--	--	3.2	0.5	2.8	3.2	--	--	4.4	--
IV	--	--	3.6	3.2	8.0	3.2	--	--	3.6	--
2018 I	--	--	3.2	1.9	-3.8	3.0	--	--	2.8	--
II	--	--	2.8	0.1	-2.3	2.3	--	--	2.6	--
III (e)	--	--	2.1	1.2	-1.8	1.5	--	--	--	--
2018 Jun	--	--	0.2	0.0	-0.6	0.2	--	--	0.2	--
Jul	--	--	0.2	0.0	-0.3	0.1	--	--	--	--
Aug	--	--	0.2	0.0	--	0.2	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annualized percent change from previous period

Chart 8.2.- General activity indicators (II)

Index

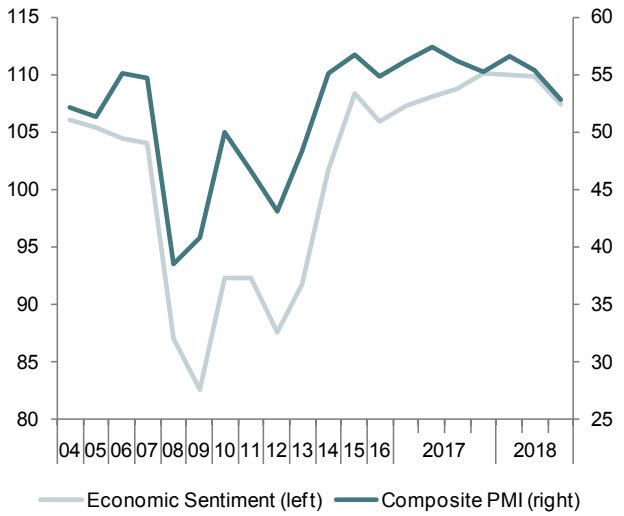


Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

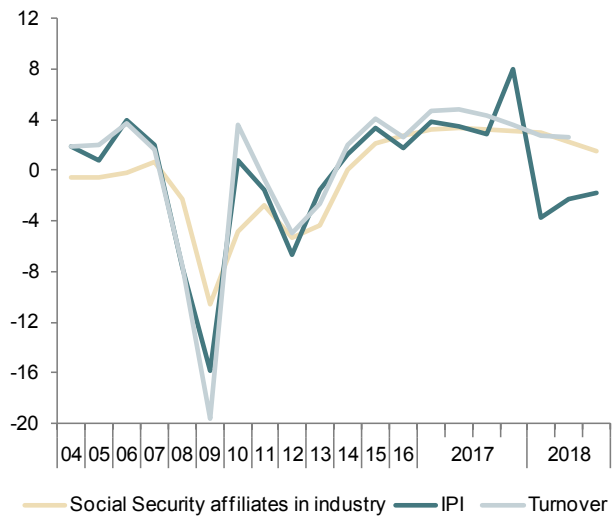


Chart 8.4 - Industrial sector indicators (II)

Index

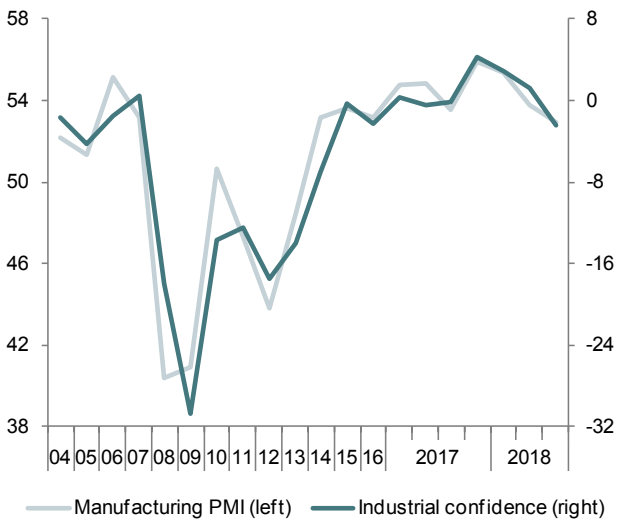


Table 9

Construction and services sector indicators (a)

	Construction indicators						Service sector indicators				
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	2010=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	Thousands	2010=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2011	1,368.9	141.0	-55.4	13.7	14.1	12,176.1	101.0	46.5	286.8	203.3	-20.8
2012	1,135.5	101.2	-54.9	7.4	8.5	11,907.2	94.8	43.1	280.7	193.2	-21.5
2013	996.8	93.6	-55.6	9.2	6.8	11,727.9	92.9	48.3	286.0	186.5	-15.3
2014	980.3	92.8	-41.4	13.1	6.9	11,995.5	95.3	55.2	295.3	194.9	9.9
2015	1,026.7	100.0	-25.3	9.4	9.9	12,432.3	100.0	57.3	308.2	206.6	19.4
2016	1,053.9	102.6	-39.6	9.3	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8
2017	1,118.8	111.5	-26.9	12.9	15.9	13,338.2	111.0	56.4	340.7	248.4	22.5
2018 (b)	1,181.9	116.6	-6.6	6.7	8.0	13,713.8	114.1	55.4	190.0	149.0	23.3
2016 IV	1,071.1	106.0	-42.0	2.2	3.2	13,026.2	106.9	54.9	84.5	59.1	18.7
2017 I	1,091.9	109.0	-43.7	2.4	4.0	13,146.4	108.7	56.4	85.2	60.3	19.2
II	1,111.0	110.7	-24.7	2.9	4.2	13,285.6	110.3	57.8	85.5	61.5	23.3
III	1,125.0	111.8	-23.5	3.6	3.7	13,398.3	111.8	56.8	85.6	62.6	25.2
IV	1,147.7	113.0	-15.7	3.9	4.0	13,520.0	113.5	54.6	85.6	63.8	22.3
2018 I	1,167.1	113.5	-4.3	3.8	4.7	13,629.6	115.4	56.8	85.5	64.7	23.5
II	1,183.3	113.8	-4.1	3.2	5.0	13,724.0	117.2	55.8	85.2	65.3	23.5
III (b)	1,199.4	114.1	-13.8	--	--	13,797.7	--	52.7	28.3	21.9	22.8
2018 Jun	1,190.6	113.9	-1.4	1.0	--	13,754.2	117.9	55.4	28.3	21.8	23.6
Jul	1,196.9	114.1	-17.3	--	--	13,783.3	--	52.6	28.3	21.9	23.3
Aug	1,201.8	--	-10.2	--	--	13,812.1	--	52.7	--	--	22.2
Percentage changes (c)											
2011	-12.2	-9.8	--	-47.9	-13.2	-0.1	-1.1	--	7.3	6.0	--
2012	-17.0	-28.2	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013	-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015	4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016	2.6	2.6	--	-0.7	29.0	3.4	4.2	--	7.4	11.0	--
2017	6.2	8.7	--	38.0	24.8	3.8	6.6	--	2.9	8.3	--
2018 (d)	6.8	2.8	--	39.0	23.6	3.4	6.1	--	-0.7	6.1	--
2016 IV	4.5	11.6	--	11.0	19.6	3.6	7.2	--	5.3	9.4	--
2017 I	8.0	11.9	--	11.3	16.9	3.7	7.0	--	3.3	8.6	--
II	7.2	6.3	--	25.7	29.3	4.3	6.0	--	1.6	8.0	--
III	5.2	3.9	--	53.7	28.9	3.4	5.6	--	0.3	7.8	--
IV	8.3	4.4	--	75.7	24.8	3.7	6.3	--	0.2	7.6	--
2018 I	6.9	1.7	--	57.1	18.9	3.3	6.6	--	-0.6	5.9	--
II	5.7	1.1	--	8.0	31.0	2.8	6.6	--	-1.6	3.5	--
III (e)	5.6	1.1	--	--	--	2.2	--	--	-1.5	1.7	--
2018 Jun	0.6	0.1	--	3.3	--	0.2	0.5	--	-0.2	0.2	--
Jul	0.5	0.1	--	--	--	0.2	--	--	-0.2	0.2	--
Aug	0.4	--	--	--	--	0.2	--	--	--	--	--

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

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

Chart 9.1 - Construction indicators (I)

Annualized percentage changes from previous period and index

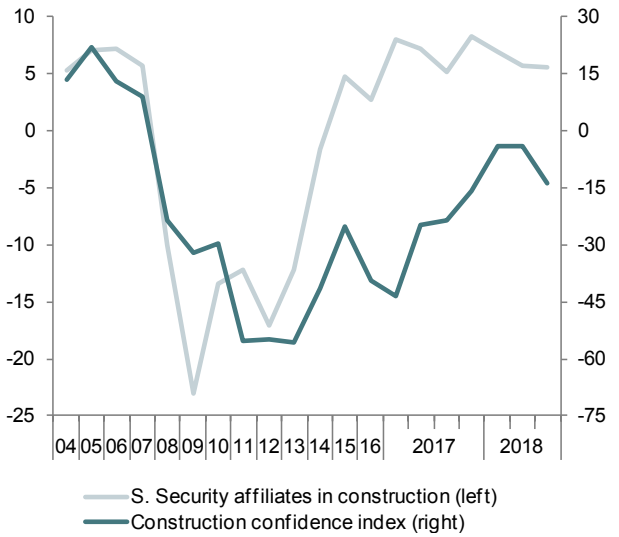


Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

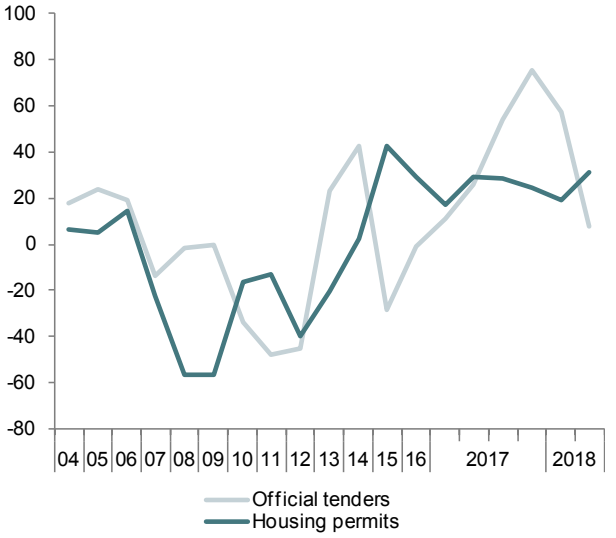


Chart 9.3 - Services indicators (I)

Percentage change from previous period

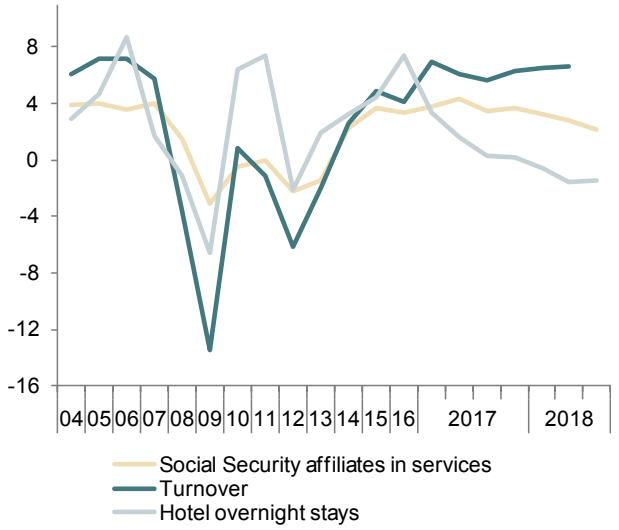


Chart 9.4 - Services indicators (II)

Index

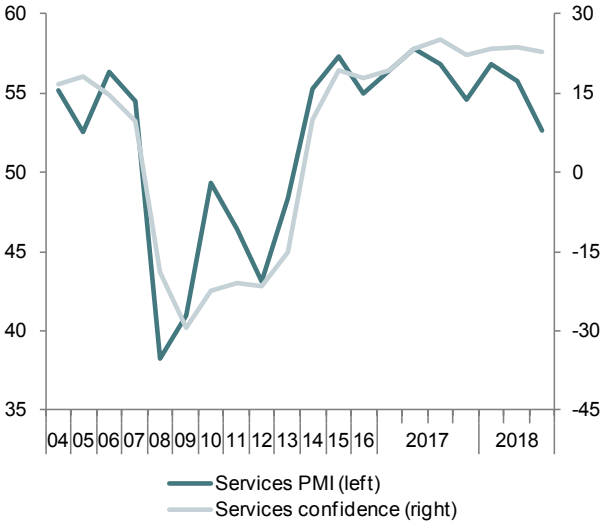


Table 10

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)
	2010=100 (smoothed)	Thousands (smoothed)	Balance of responses	Million (smoothed)	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100 (smoothed)
2011	106.7	808.3	-17.1	111.5	-21.7	142.0	-23.0	68.0
2012	98.8	710.6	-31.7	102.1	-24.2	107.7	-38.6	60.6
2013	95.0	742.3	-25.3	100.6	-21.8	107.6	-33.5	68.9
2014	96.0	890.1	-8.9	104.7	-9.1	137.5	-16.5	81.6
2015	100.0	1,094.0	0.3	110.3	-3.1	180.3	0.2	93.3
2016	103.9	1,230.1	-3.8	114.2	-1.4	191.3	-0.2	97.2
2017	104.7	1,341.6	-0.7	115.7	2.3	207.6	4.9	103.3
2018 (b)	103.6	928.6	-0.3	64.2	-4.3	139.2	13.1	--
2016 IV	104.2	314.6	-3.2	28.7	0.5	49.5	-2.6	100.2
2017 I	104.4	321.1	-2.8	28.8	3.3	50.2	1.4	102.8
II	104.8	329.1	1.5	28.8	3.9	51.3	7.6	104.0
III	105.1	339.2	0.2	28.9	4.5	53.1	-2.0	103.3
IV	105.2	349.6	-1.5	29.1	-2.3	54.8	12.4	102.5
2018 I	105.3	355.7	-0.6	29.1	1.5	56.3	13.8	103.5
II	105.2	359.6	0.5	28.9	-4.7	57.6	15.7	105.9
III (b)	105.2	120.7	-1.0	9.6	-12.4	19.5	8.3	--
2018 Jun	105.2	120.3	1.8	9.6	-5.9	19.4	12.7	106.9
Jul	105.2	120.7	0.6	9.6	-9.8	19.5	13.8	--
Aug	--	--	-2.5	--	-15.0	--	2.7	--
Percentage changes (c)								
2011	-5.6	-19.2	--	-1.5	--	-6.6	--	-3.2
2012	-7.4	-12.1	--	-8.4	--	-24.2	--	-10.9
2013	-3.9	4.5	--	-1.4	--	-0.1	--	13.7
2014	1.1	19.9	--	4.1	--	27.8	--	18.4
2015	4.2	22.9	--	5.3	--	31.1	--	14.4
2016	3.9	12.4	--	3.6	--	6.1	--	4.1
2017	0.8	9.1	--	1.3	--	8.5	--	6.4
2018 (d)	0.7	10.5	--	-0.4	--	14.6	--	0.2
2016 IV	0.8	8.4	--	3.4	--	9.3	--	7.3
2017 I	0.6	8.5	--	1.4	--	5.6	--	10.8
II	1.5	10.3	--	0.7	--	9.3	--	4.7
III	1.2	13.0	--	1.0	--	14.8	--	-2.8
IV	0.5	12.7	--	2.2	--	13.6	--	-3.0
2018 I	0.2	7.2	--	0.0	--	11.2	--	3.9
II	-0.2	4.5	--	-2.0	--	9.8	--	9.8
III (e)	-0.3	2.9	--	-1.9	--	6.6	--	--
2018 May	0.0	0.4	--	-0.2	--	0.8	--	0.9
Jun	0.0	0.4	--	-0.2	--	0.8	--	0.9
Jul	0.0	0.4	--	-0.3	--	0.8	--	--

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

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

Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses

Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

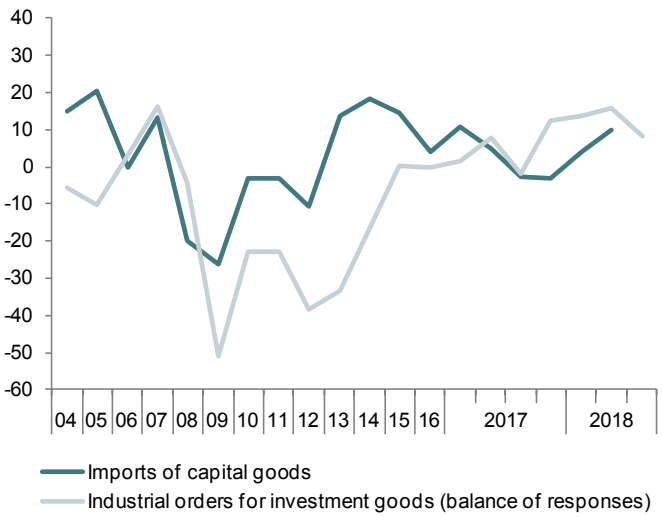


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
2011		31.1	23.4	--	18.4	--	5.0	--	74.9	58.8	21.4	46.2	19.5	32.6
2012		30.9	23.4	--	17.6	--	5.8	--	75.3	56.5	24.8	52.9	23.0	35.9
2013		30.6	23.2	--	17.1	--	6.1	--	75.3	55.6	26.1	55.5	24.4	37.0
2014		30.3	23.0	--	17.3	--	5.6	--	75.3	56.8	24.4	53.2	23.0	34.5
2015		30.2	22.9	--	17.9	--	5.1	--	75.5	58.7	22.1	48.3	20.9	30.5
2016		30.1	22.8	--	18.3	--	4.5	--	75.4	60.5	19.6	44.4	18.7	26.6
2017		30.1	22.7	--	18.8	--	3.9	--	75.1	62.1	17.2	38.7	16.3	23.8
2018		30.1	22.7	--	19.3	--	3.5	--	74.9	63.3	15.3	--	--	--
2019		30.2	22.8	--	19.6	--	3.2	--	74.8	64.3	13.9	--	--	--
2016	III	30.1	22.8	22.7	18.5	18.2	4.3	4.4	75.5	61.1	18.9	41.9	18.1	24.8
	IV	30.0	22.7	22.6	18.5	18.3	4.2	4.2	75.1	61.1	18.6	42.9	17.8	24.7
2017	I	30.0	22.7	22.6	18.4	18.5	4.3	4.1	75.0	60.8	18.8	41.7	17.8	25.5
	II	30.0	22.7	22.5	18.8	18.6	3.9	3.9	75.1	62.0	17.2	39.5	16.4	23.6
	III	30.0	22.8	22.6	19.0	18.7	3.7	3.8	75.2	62.8	16.4	36.0	15.5	22.7
	IV	30.1	22.8	22.6	19.0	18.8	3.8	3.8	75.1	62.6	16.5	37.5	15.6	23.6
2018	I	30.1	22.7	22.6	18.9	18.9	3.8	3.7	74.7	62.1	16.7	36.3	15.7	24.3
	II	30.2	22.8	22.7	19.3	19.1	3.5	3.5	75.1	63.5	15.3	34.7	14.3	21.9
		Percentage changes (d)							Difference from one year ago					
2011		-0.2	0.3	--	-1.6	--	8.0	--	0.4	-0.9	1.5	4.7	1.4	2.7
2012		-0.5	0.0	--	-4.3	--	15.9	--	0.4	-2.3	3.4	6.7	3.5	3.3
2013		-1.1	-1.1	--	-2.8	--	4.1	--	0.0	-0.9	1.3	2.6	1.5	1.1
2014		-0.9	-1.0	--	1.2	--	-7.3	--	0.0	1.2	-1.7	-2.3	-1.4	-2.5
2015		-0.5	-0.1	--	3.0	--	-9.9	--	0.2	1.9	-2.4	-4.9	-2.1	-4.0
2016		-0.4	-0.4	--	2.7	--	-11.4	--	-0.1	1.8	-2.4	-3.9	-2.2	-3.8
2017		0.0	-0.4	--	2.6	--	-12.6	--	-0.3	1.6	-2.4	-5.8	-2.4	-2.8
2018		0.2	0.0	--	2.3	--	-11.0	--	-0.2	1.3	-1.9	--	--	--
2019		0.2	0.1	--	1.7	--	-9.0	--	-0.1	1.0	-1.4	--	--	--
2016	III	-0.3	-0.2	-0.5	2.7	2.9	-10.9	-12.9	0.1	1.8	-2.3	-4.6	-2.0	-4.2
	IV	-0.3	-0.6	-1.3	2.3	2.3	-11.3	-15.4	-0.2	1.5	-2.3	-3.3	-2.1	-3.7
2017	I	-0.2	-0.6	0.2	2.3	3.1	-11.2	-11.6	-0.3	1.4	-2.2	-4.8	-2.0	-4.3
	II	-0.1	-0.6	-1.1	2.8	2.7	-14.4	-17.2	-0.5	1.7	-2.8	-7.0	-2.7	-3.7
	III	0.0	-0.3	0.6	2.8	2.6	-13.6	-8.5	-0.3	1.7	-2.5	-6.0	-2.6	-2.1
	IV	0.1	0.1	0.6	2.6	2.2	-11.1	-6.9	-0.1	1.5	-2.1	-5.5	-2.3	-1.1
2018	I	0.2	-0.1	-0.1	2.4	2.4	-10.8	-11.9	-0.3	1.3	-2.0	-5.3	-2.1	-1.2
	II	0.4	0.5	1.4	2.8	4.1	-10.8	-11.9	0.0	1.5	-1.9	-4.8	-2.0	-1.7

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

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

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

Annual / annualized quarterly growth rates and percentage of active population

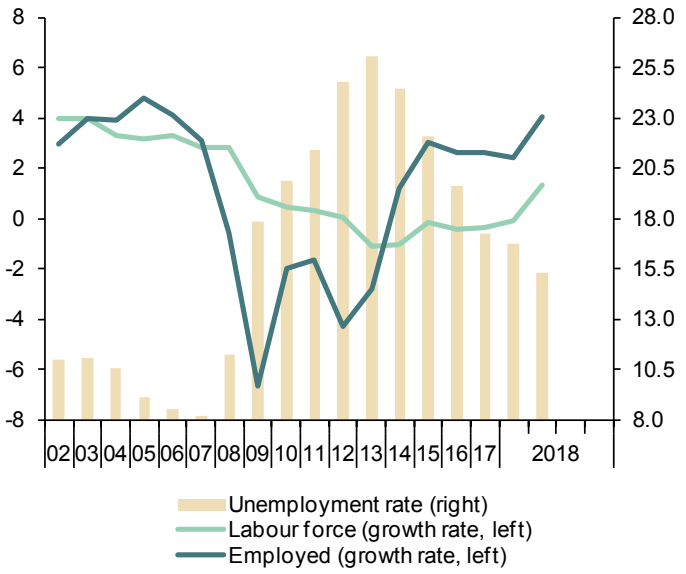


Chart 11a.2 - Unemployment rates, S.A.

Percentage

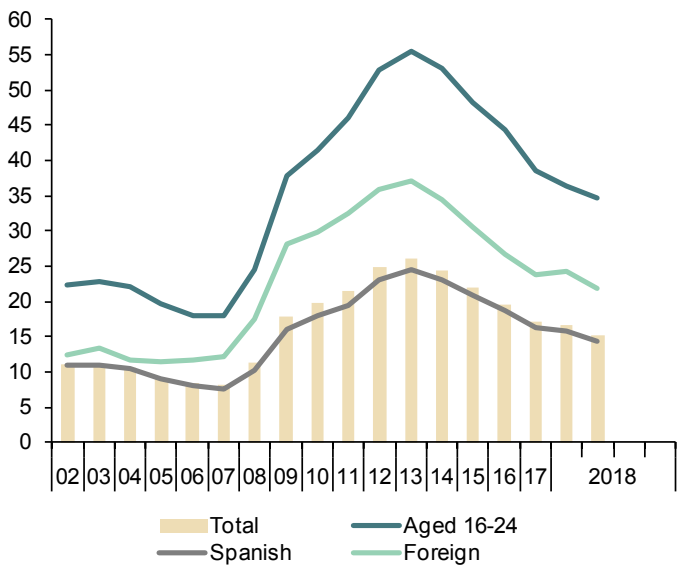


Table 11b

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)											
2009		0.79	2.81	1.89	13.62	15.88	4.00	11.88	25.2	3.23	16.71	2.40	12.54
2010		0.79	2.65	1.65	13.64	15.59	3.86	11.73	24.7	3.13	16.29	2.44	13.02
2011		0.76	2.60	1.40	13.66	15.39	3.87	11.52	25.1	3.03	15.92	2.50	13.56
2012		0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.49
2013		0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.80
2014		0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91
2015		0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74
2016		0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21
2017		0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97
2018	(c)	0.83	2.70	1.18	14.40	16.02	4.24	11.78	26.5	3.08	16.38	2.73	14.26
2016	III	0.74	2.53	1.11	14.15	15.40	4.15	11.25	27.0	3.12	15.83	2.70	14.56
	IV	0.82	2.58	1.08	14.03	15.39	4.07	11.31	26.5	3.12	15.68	2.83	15.31
2017	I	0.85	2.57	1.08	13.94	15.34	3.95	11.39	25.8	3.10	15.56	2.87	15.59
	II	0.83	2.64	1.13	14.21	15.69	4.21	11.48	26.8	3.12	15.94	2.87	15.26
	III	0.78	2.67	1.15	14.45	15.91	4.36	11.55	27.4	3.14	16.32	2.73	14.31
	IV	0.82	2.71	1.14	14.32	15.92	4.25	11.67	26.7	3.08	16.19	2.81	14.77
2018	I	0.83	2.68	1.15	14.21	15.79	4.12	11.67	26.1	3.08	16.06	2.81	14.91
	II	0.82	2.72	1.22	14.58	16.26	4.36	11.90	26.8	3.09	16.71	2.64	13.63
		Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
2009		-4.8	-13.3	-23.2	-2.3	-5.8	-18.4	-0.6	-3.9	-10.6	-7.5	-0.4	0.8
2010		-0.3	-5.6	-12.6	0.1	-1.8	-3.6	-1.2	-0.5	-2.9	-2.5	1.7	0.5
2011		-3.9	-1.7	-15.0	0.2	-1.3	0.3	-1.8	0.4	-3.3	-2.2	2.5	0.5
2012		-1.6	-4.6	-17.3	-3.0	-5.3	-11.8	-3.1	-1.7	1.1	-5.3	2.3	0.9
2013		-0.9	-5.2	-11.4	-1.7	-3.5	-4.6	-3.1	-0.3	0.4	-4.3	6.0	1.3
2014		-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015		0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016		5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017 (d)		-1.4	3.7	6.9	2.3	3.3	4.0	3.0	0.2	-0.8	4.0	-5.1	-1.2
2016	III	4.8	0.5	2.3	3.0	3.0	6.2	1.9	0.8	0.7	3.5	-1.9	-0.7
	IV	4.7	4.7	2.0	1.7	2.6	5.9	1.5	0.8	0.6	2.8	-0.4	-0.4
2017	I	9.0	3.6	4.8	1.4	2.7	5.6	1.7	0.7	0.1	2.4	1.5	-0.1
	II	9.5	5.6	5.2	1.7	3.3	7.7	1.8	1.1	0.3	2.9	2.5	-0.1
	III	4.5	5.5	4.3	2.1	3.3	4.9	2.7	0.4	0.6	3.1	1.1	-0.2
	IV	0.5	5.1	6.0	2.1	3.5	4.4	3.2	0.2	-1.5	3.3	-1.0	-0.5
2018	I	-1.6	4.1	6.5	2.0	2.9	4.4	2.4	0.4	-0.5	3.2	-2.1	-0.7
	II	-1.2	3.3	7.2	2.6	3.6	3.6	3.6	0.0	-1.2	4.8	-8.1	-1.6

(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

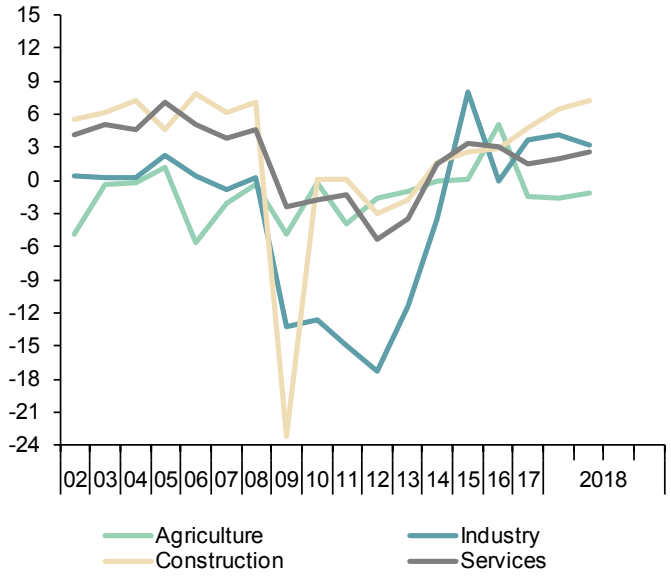


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

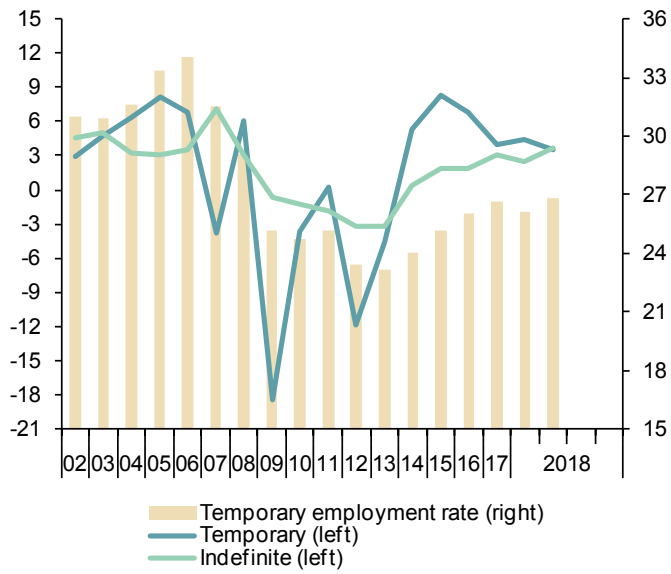


Table 12

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 2018		100.00	66.15	81.20	24.82	41.33	15.06	7.34	11.46	22.40
					Indexes, 2016 = 100					
2012		99.5	97.6	97.1	99.0	96.8	94.9	93.9	121.2	94.6
2013		100.9	98.7	98.5	99.6	98.1	97.9	97.3	121.3	97.7
2014		100.7	98.7	98.6	99.2	98.3	98.2	96.0	120.3	97.6
2015		100.2	99.2	99.2	99.5	98.9	99.2	97.7	109.4	98.7
2016		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2017		102.0	101.1	101.1	100.2	101.6	100.7	102.6	108.0	101.3
2018		103.7	102.0	102.0	100.1	103.1	101.8	105.4	115.4	102.9
2019		105.2	103.0	103.0	100.3	104.6	102.8	107.4	120.8	104.2
					Annual percentage changes					
2012		2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018		1.7	0.9	0.9	-0.1	1.5	1.1	2.7	6.8	1.6
2019		1.5	0.9	0.9	0.2	1.4	1.0	1.9	4.7	1.3
2018	Jan	0.6	0.8	0.8	-0.2	1.3	1.1	1.6	-1.7	1.3
	Feb	1.1	1.1	1.1	0.0	1.7	1.4	0.3	1.4	1.0
	Mar	1.2	1.1	1.2	-0.1	1.9	1.3	1.6	1.3	1.4
	Apr	1.1	0.7	0.8	0.0	1.1	1.4	2.0	2.3	1.6
	May	2.1	1.1	1.1	0.0	1.8	1.3	3.5	7.8	2.0
	Jun	2.3	1.0	1.0	-0.1	1.6	1.0	5.4	9.9	2.5
	Jul	2.2	0.9	0.9	0.0	1.5	0.8	4.0	11.2	1.9
	Aug	2.2	0.8	0.8	-0.1	1.3	0.7	4.6	11.1	2.0
	Sep	2.2	0.8	0.8	-0.1	1.3	1.1	3.9	11.1	2.0
	Oct	2.0	0.8	0.9	-0.1	1.4	1.1	1.3	10.3	1.2
	Nov	1.9	0.8	0.9	-0.1	1.4	1.0	2.4	8.7	1.5
	Dec	1.9	0.8	0.9	-0.1	1.4	1.0	2.0	9.0	1.3
2019	Jan	1.9	0.9	0.9	-0.1	1.4	1.0	2.2	9.2	1.4
	Feb	1.7	0.7	0.8	-0.1	1.2	1.1	3.0	7.7	1.7
	Mar	2.1	0.9	0.9	0.0	1.4	1.1	2.8	9.9	1.6
	Apr	1.9	0.9	0.9	0.0	1.4	0.9	2.6	8.3	1.5
	May	1.3	0.9	0.9	0.1	1.4	0.9	1.1	3.9	0.9
	Jun	1.3	0.9	0.9	0.1	1.4	0.9	-0.2	4.3	0.6
	Jul	1.4	1.0	1.0	0.2	1.5	1.0	0.7	4.0	0.9
	Aug	1.2	1.0	1.0	0.3	1.5	1.0	0.5	2.8	0.8
	Sep	1.1	1.0	1.0	0.3	1.5	0.9	1.1	1.6	1.0
	Oct	1.3	1.0	1.0	0.3	1.4	0.9	3.7	1.7	1.8
	Nov	1.2	1.0	1.0	0.4	1.4	0.8	2.6	1.9	1.4
	Dec	1.2	1.0	1.0	0.4	1.4	0.9	2.9	1.8	1.5

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

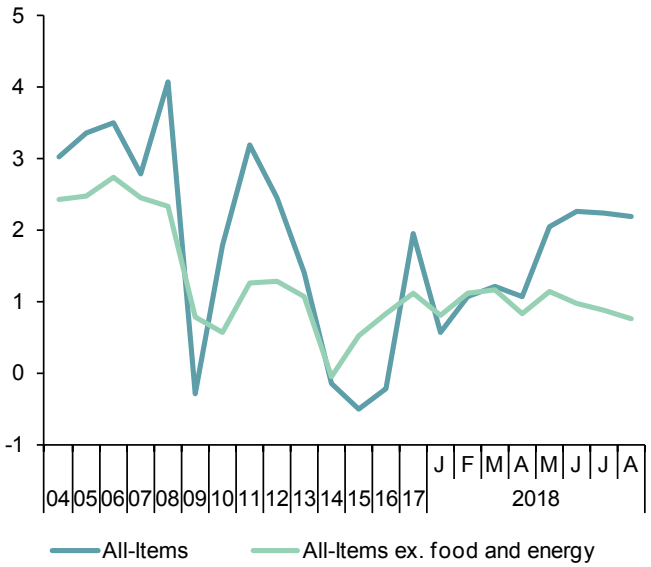


Chart 12.2 - Inflation rate (II)

Annual percentage changes

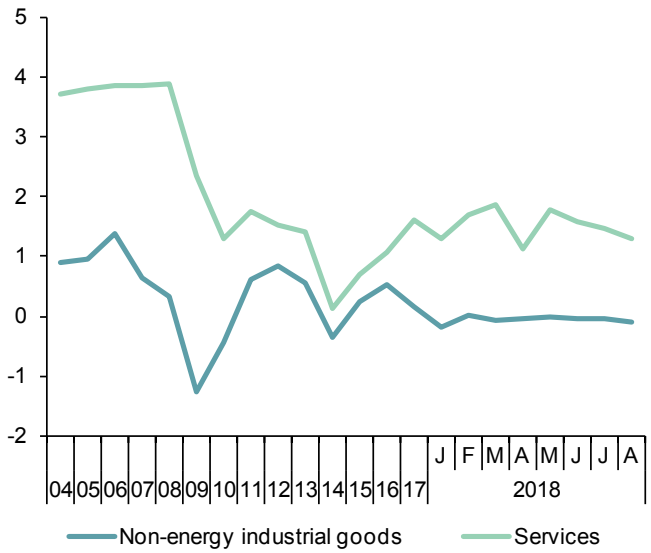


Table 13

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	m^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
		2010=100	2015=100		2007=100			2000=100				
2011		100.0	99.1	98.1	83.4	84.6	69.8	144.5	141.9	152.5	154.8	--
2012		100.1	102.9	99.8	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013		100.5	103.5	100.5	64.3	72.7	55.1	143.8	141.1	152.1	155.3	--
2014		100.3	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015		100.9	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016		101.2	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.3	156.3	--
2017		102.1	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.3	--
2018 (b)		102.7	103.1	103.0	77.9	76.2	--	141.2	138.1	150.6	148.7	--
2016	IV	101.7	99.5	100.1	70.8	73.5	61.6	149.8	150.6	147.3	163.7	--
2017	I	101.5	101.4	101.4	72.4	74.2	60.1	140.3	137.0	150.4	147.2	--
	II	101.9	100.4	101.9	73.8	74.4	59.7	146.1	145.4	148.0	154.4	--
	III	102.2	100.5	102.0	75.2	74.9	58.2	138.7	135.5	148.6	158.9	--
	IV	102.9	102.1	102.2	75.8	75.8	54.9	150.8	151.3	149.5	164.8	--
2018	I	102.8	102.2	102.9	76.9	76.2	58.5	141.2	138.1	150.6	148.7	--
	II	102.6	103.4	103.1	78.8	--	--	--	--	--	--	--
	III (b)	--	104.9	103.2	--	--	--	--	--	--	--	--
2018	May	--	103.5	103.0	--	--	--	--	--	--	--	--
	Jun	--	104.5	103.2	--	--	--	--	--	--	--	--
	Jul	--	104.9	103.2	--	--	--	--	--	--	--	--
						Annual percent changes (c)						
2011		0.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.0
2012		0.1	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.0
2013		0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.4	0.5
2014		-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015		0.6	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	0.7
2016		0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.0
2017		1.0	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.5
2018 (d)		1.0	2.3	1.3	6.5	2.7	-2.6	0.7	0.8	0.2	1.0	1.7
2016	IV	0.5	1.2	0.6	4.5	0.4	13.0	-0.8	-0.8	-0.9	-0.5	1.0
2017	I	0.7	6.9	2.4	5.3	2.3	6.2	0.0	-0.2	0.5	-0.2	1.3
	II	0.9	4.8	2.5	5.6	2.0	1.8	-0.2	-0.1	-0.5	-0.1	1.3
	III	1.0	3.3	2.1	6.6	1.8	7.4	0.4	0.3	0.7	-0.3	1.4
	IV	1.2	2.6	2.1	7.2	0.9	-10.9	0.7	0.5	1.5	0.7	1.5
2018	I	1.3	0.8	1.4	6.2	1.4	-2.6	0.7	0.8	0.2	1.0	1.5
	II	0.7	3.0	1.1	6.8	2.6	--	--	--	--	--	1.6
	III (e)	--	4.4	1.2	--	--	--	--	--	--	--	--
2018	Jun	--	4.1	1.3	--	--	--	--	--	--	--	1.6
	Jul	--	4.6	1.2	--	--	--	--	--	--	--	1.7
	Aug	--	--	--	--	--	--	--	--	--	--	1.7

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

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

Chart 13.1 - Housing and urban land prices

Index (2007=100)

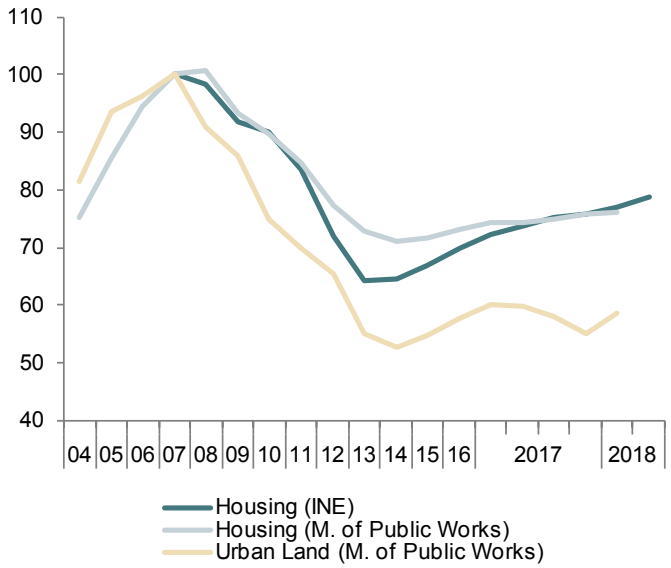


Chart 13.2 - Wage costs

Annual percent change

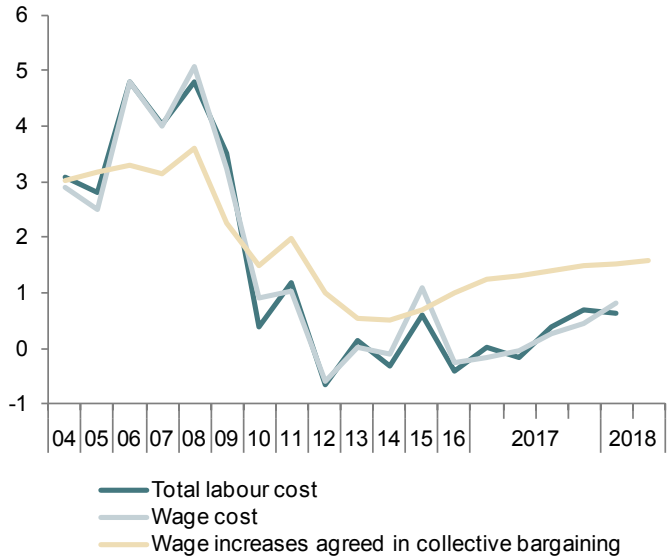


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2011		138.9	108.4	128.1	113.0	109.6	103.1	11.9	6.1	-4.0	-0.3	0.3
2012		145.9	110.7	131.8	110.7	114.7	96.6	11.9	6.9	-2.7	1.2	1.0
2013		152.1	110.5	137.7	108.3	109.8	98.6	12.3	7.3	-1.4	2.1	1.4
2014		155.2	109.4	141.8	114.0	107.3	106.3	12.7	7.3	-2.1	1.1	0.9
2015		161.2	110.1	146.4	118.0	104.6	112.8	13.5	7.3	-2.1	0.2	0.6
2016		165.4	108.2	152.9	117.5	101.3	116.0	14.2	7.2	-1.4	0.3	1.2
2017		178.8	108.9	164.2	129.6	106.1	122.1	15.2	7.9	-2.1	0.1	1.4
2018 (b)		184.5	111.1	166.2	135.8	108.7	125.0	16.1	8.1	-2.4	0.0	1.5
2016	III	165.6	108.3	152.9	117.5	101.6	115.6	13.9	7.3	-1.5	0.3	0.9
	IV	171.2	108.8	157.3	122.5	104.0	117.8	14.5	7.4	-1.7	0.0	1.3
2017	I	177.7	108.5	163.8	130.9	107.2	122.1	15.2	7.6	-2.5	0.1	1.3
	II	180.2	107.7	167.2	127.6	104.6	122.0	15.3	7.8	-1.6	0.4	1.7
	III	179.1	108.8	164.6	130.5	105.1	124.2	14.8	8.2	-2.3	-0.3	1.1
	IV	185.2	110.2	168.0	132.9	107.5	123.6	15.6	8.1	-1.9	0.1	1.4
2018	I	185.0	110.9	166.9	134.8	108.2	124.6	15.7	8.0	-2.3	0.2	1.5
	II	184.0	111.3	165.4	136.8	109.1	125.3	15.5	8.1	-2.8	-0.4	1.1
2018	Apr	180.6	109.9	164.3	137.0	108.2	126.7	15.3	7.8	-3.3	-0.6	1.2
	May	184.4	111.8	164.9	135.4	108.8	124.4	15.6	8.0	-2.5	-0.2	1.2
	Jun	187.1	112.0	167.1	138.0	110.4	125.0	15.6	8.4	-2.7	-0.5	0.9
		Percentage changes (c)								Percentage of GDP		
2011		15.2	4.9	9.9	9.6	8.6	1.0	12.7	20.5	-4.5	-0.4	0.3
2012		5.1	2.1	2.9	-2.0	4.7	-6.3	0.5	14.1	-3.1	1.4	1.2
2013		4.3	-0.2	4.5	-2.2	-4.2	2.1	3.1	6.3	-1.6	2.5	1.7
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.8	0.4	-2.3	0.2	0.7
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	5.3	-2.3	-1.6	0.3	1.2
2017		8.1	0.7	7.4	10.3	4.7	5.3	7.0	10.3	-2.1	0.1	1.4
2018 (d)		2.9	2.7	0.1	5.0	2.6	2.3	2.8	3.1	--	--	--
2016	III	-1.8	2.0	-3.6	1.5	5.1	-3.5	-1.8	2.3	-1.6	0.3	0.9
	IV	14.1	1.9	12.0	18.3	9.6	7.9	4.3	1.5	-1.8	0.1	1.4
2017	I	16.3	-1.1	17.6	30.2	12.9	15.3	4.6	2.4	-2.6	0.2	1.3
	II	5.6	-2.7	8.5	-9.5	-9.1	-0.5	0.6	2.9	-1.6	0.4	1.8
	III	-2.4	4.1	-6.2	9.3	1.7	7.5	-3.0	4.1	-2.3	-0.3	1.1
	IV	14.5	5.3	8.7	7.5	9.4	-1.7	5.6	-0.5	-2.0	0.1	1.4
2018	I	-0.4	2.3	-2.7	5.8	2.6	3.1	0.7	-1.8	-2.4	0.2	1.5
	II	-2.1	1.4	-3.5	6.0	3.5	2.4	-1.4	1.3	-2.9	-0.4	1.1
2018	Feb	-3.3	-0.8	-2.5	-6.2	-3.0	-3.3	-3.2	-3.5	--	--	--
	Mar	4.7	1.8	2.9	2.6	1.9	0.7	6.8	0.8	--	--	--
	Apr	-4.3	-1.8	-2.6	2.1	-0.3	2.3	-5.9	-0.9	--	--	--

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

Source: Ministry of Economy.

Chart 14.1 - External trade (real)

Percent change from previous period

Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

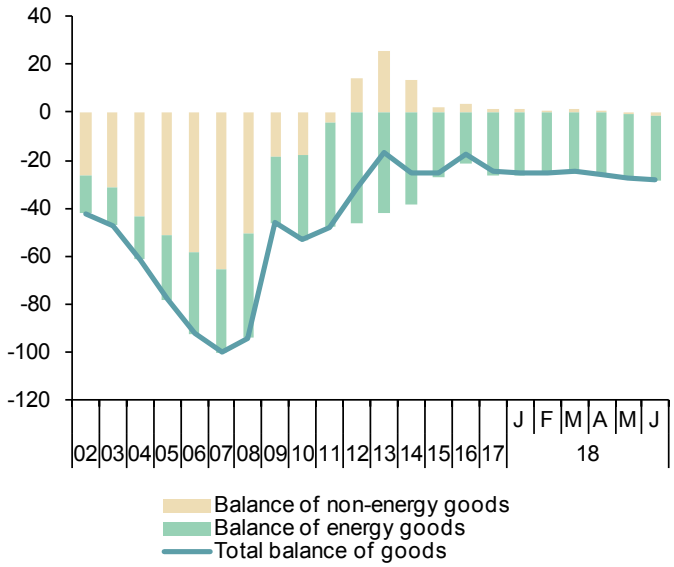


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account					Bank of Spain	Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain						
									Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
		EUR billions													
2009		-46.19	-41.47	29.54	-19.62	-14.64	3.33	-42.86	-40.70	1.94	-44.04	-4.66	6.05	-10.46	-8.31
2010		-42.39	-47.80	33.93	-15.13	-13.38	4.89	-37.49	-27.24	-1.46	-28.40	11.23	-8.61	-15.70	-5.44
2011		-34.04	-44.48	42.59	-18.36	-13.79	4.06	-29.98	79.51	9.23	26.25	41.96	2.07	-109.23	0.26
2012		-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013		15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014		11.22	-22.22	47.89	-3.37	-11.09	5.05	16.27	-15.39	6.48	-5.44	-17.71	1.28	27.49	-4.17
2015		12.18	-22.30	47.56	-2.26	-10.81	7.07	19.25	63.86	27.93	-6.80	43.74	-1.01	-40.16	4.45
2016		21.48	-17.42	51.10	-0.18	-12.01	2.68	24.17	79.33	16.67	38.29	26.99	-2.62	-52.63	2.53
2017		21.91	-21.96	55.38	-0.24	-11.28	2.64	24.56	55.87	20.26	16.15	21.69	-2.23	-31.96	-0.64
2018 (a)		-1.32	-6.38	8.84	0.42	-4.19	0.59	-0.74	5.88	-1.28	8.53	-1.87	0.50	-3.16	3.46
2016	II	6.16	-2.66	13.16	-2.59	-1.74	0.66	6.82	39.86	4.90	9.19	25.93	-0.17	-34.60	-1.56
	III	8.08	-4.98	17.54	-1.46	-3.02	0.38	8.46	18.80	0.13	10.02	9.74	-1.09	-6.48	3.86
	IV	8.12	-5.06	11.63	4.18	-2.63	0.96	9.09	18.36	6.42	2.15	9.64	0.14	-4.37	4.91
2017	I	-0.54	-6.25	8.84	0.48	-3.62	0.36	-0.18	41.39	-1.38	29.30	15.16	-1.69	-43.33	-1.76
	II	6.29	-3.46	15.18	-2.85	-2.58	0.63	6.93	-1.31	5.11	-3.02	-3.00	-0.39	5.89	-2.35
	III	7.12	-7.30	19.11	-1.28	-3.40	0.58	7.70	6.58	9.00	1.15	-2.45	-1.13	-0.22	-1.34
	IV	9.04	-4.96	12.26	3.41	-1.67	1.07	10.11	9.21	7.53	-11.28	11.98	0.98	5.70	4.80
2018	I	-1.32	-6.38	8.84	0.42	-4.19	0.59	-0.74	5.88	-1.28	8.53	-1.87	0.50	-3.16	3.46
			Goods and Services		Primary and Secondary Income										
2018	Apr	-1.52	0.94		-2.46		0.11	-1.40	8.16	0.37	-4.96	12.74	0.01	-6.45	3.11
	May	2.44	3.29		-0.86		0.12	2.55	0.88	-13.18	12.17	1.98	-0.09	-2.48	-4.15
	Jun	0.49	2.82		-2.33		0.25	0.73	11.13	-0.61	1.24	10.69	-0.19	-5.61	4.79
		Percentage of GDP													
2009		-4.3	-3.8	2.7	-1.8	-1.4	0.3	-4.0	-3.8	0.2	-4.1	-0.4	0.6	-1.0	-0.8
2010		-3.9	-4.4	3.1	-1.4	-1.2	0.5	-3.5	-2.5	-0.1	-2.6	1.0	-0.8	-1.5	-0.5
2011		-3.2	-4.2	4.0	-1.7	-1.3	0.4	-2.8	7.4	0.9	2.5	3.9	0.2	-10.2	0.0
2012		-0.2	-2.8	4.4	-0.7	-1.1	0.5	0.3	16.4	-2.0	5.3	13.9	-0.8	-16.2	-0.1
2013		1.5	-1.4	4.7	-0.5	-1.3	0.6	2.2	-8.3	-1.8	-5.2	-1.4	0.1	11.5	1.1
2014		1.1	-2.1	4.6	-0.3	-1.1	0.5	1.6	-1.5	0.6	-0.5	-1.7	0.1	2.6	-0.4
2015		1.1	-2.1	4.4	-0.2	-1.0	0.7	1.8	5.9	2.6	-0.6	4.0	-0.1	-3.7	0.4
2016		1.9	-1.6	4.6	0.0	-1.1	0.2	2.2	7.1	1.5	3.4	2.4	-0.2	-4.7	0.2
2017		1.9	-1.9	4.8	0.0	-1.0	0.2	2.1	4.8	1.7	1.4	1.9	-0.2	-2.7	-0.1
2018 (a)		-0.5	-2.2	3.1	0.1	-1.5	0.2	-0.3	2.0	-0.4	3.0	-0.6	0.2	-1.1	1.2
2016	II	2.2	-0.9	4.6	-0.9	-0.6	0.2	2.4	14.0	1.7	3.2	9.1	-0.1	-12.2	-0.5
	III	2.9	-1.8	6.3	-0.5	-1.1	0.1	3.1	6.8	0.0	3.6	3.5	-0.4	-2.3	1.4
	IV	2.8	-1.7	4.0	1.4	-0.9	0.3	3.1	6.3	2.2	0.7	3.3	0.0	-1.5	1.7
2017	I	-0.2	-2.2	3.2	0.2	-1.3	0.1	-0.1	14.9	-0.5	10.5	5.5	-0.6	-15.6	-0.6
	II	2.1	-1.2	5.1	-1.0	-0.9	0.2	2.3	-0.4	1.7	-1.0	-1.0	-0.1	2.0	-0.8
	III	2.5	-2.5	6.7	-0.4	-1.2	0.2	2.7	2.3	3.1	0.4	-0.9	-0.4	-0.1	-0.5
	IV	3.0	-1.6	4.0	1.1	-0.6	0.4	3.3	3.0	2.5	-3.7	3.9	0.3	1.9	1.6
2018	I	-0.5	-2.2	3.1	0.1	-1.5	0.2	-0.3	2.0	-0.4	3.0	-0.6	0.2	-1.1	1.2

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

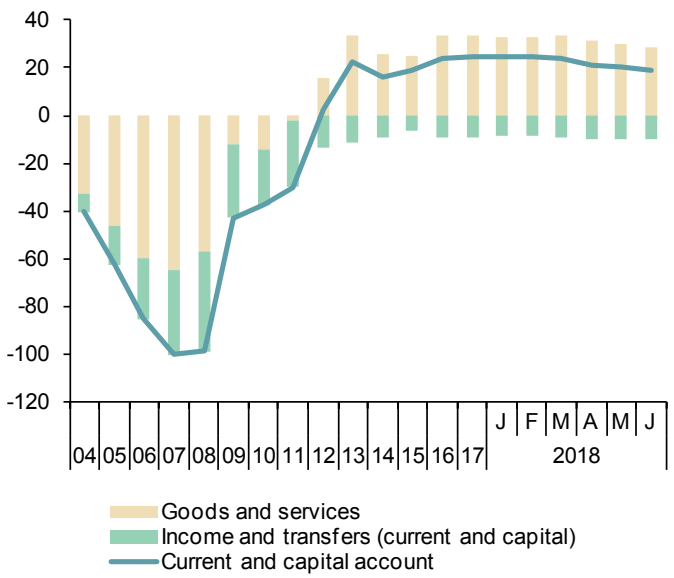


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

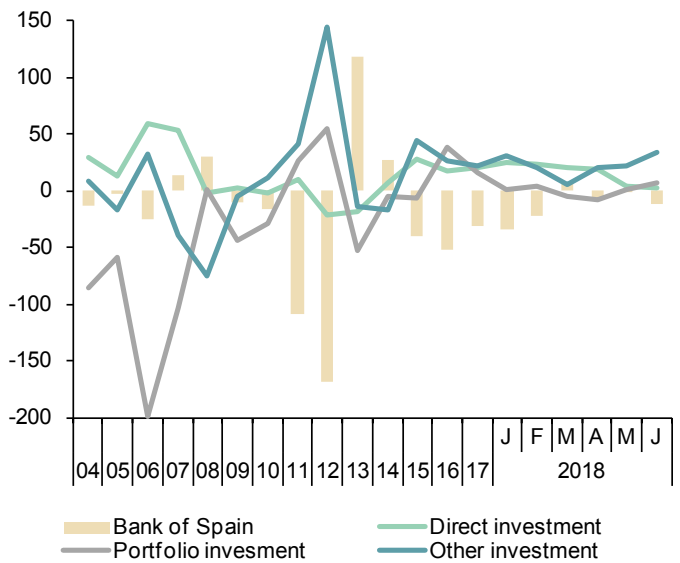


Table 16

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
		Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			2015=100			2015=100			1999 I =100
2011		106.3	94.8	112.2	96.9	95.8	101.2	99.1	101.7	97.5	113.1
2012		105.3	96.0	109.7	99.3	98.2	101.1	102.9	104.6	98.3	111.7
2013		103.9	95.7	108.6	100.8	99.5	101.3	103.5	104.4	99.1	113.4
2014		102.2	95.5	107.1	100.6	100.0	100.7	102.1	102.8	99.3	112.4
2015		101.7	94.7	107.4	100.0	100.0	100.0	100.0	100.0	100.0	109.0
2016		100.3	93.8	106.9	99.7	100.3	99.4	96.9	97.7	99.2	108.9
2017		100.6	93.7	107.3	101.7	101.8	99.9	101.2	100.7	100.5	110.3
2018 (a)		--	--	--	103.0	103.2	99.9	102.9	102.7	100.2	111.1
2016	III	--	--	--	99.5	100.3	99.2	97.3	98.0	99.3	108.7
	IV	--	--	--	101.1	101.0	100.1	99.5	99.1	100.4	110.0
2017	I	--	--	--	100.7	101.0	99.7	101.4	100.7	100.7	109.2
	II	--	--	--	102.2	102.0	100.2	100.4	100.2	100.2	110.3
	III	--	--	--	101.3	101.8	99.5	100.8	100.4	100.3	110.4
	IV	--	--	--	102.6	102.4	100.2	102.2	101.4	100.8	111.4
2018	I	--	--	--	101.7	102.3	99.5	102.2	102.2	100.0	110.7
	II	--	--	--	104.1	103.7	100.4	103.2	102.9	100.3	111.6
2018	Jun	--	--	--	104.6	104.0	100.6	104.2	103.5	100.7	111.7
	Jul	--	--	--	103.3	103.6	99.7	104.5	103.7	100.8	110.7
	Aug	--	--	--	103.4	103.7	99.7	--	--	--	--
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2011		-1.1	0.2	-1.2	3.0	2.7	0.3	6.5	5.2	1.3	0.2
2012		-1.0	1.3	-2.3	2.4	2.5	-0.1	3.8	2.9	0.9	-1.3
2013		-1.3	-0.3	-1.0	1.5	1.3	0.2	0.6	-0.2	0.8	1.5
2014		-1.6	-0.2	-1.4	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-0.9
2015		-0.5	-0.8	0.3	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.0
2016		-1.4	-1.0	-0.4	-0.3	0.3	-0.6	-3.1	-2.3	-0.8	-0.1
2017		0.3	-0.1	0.4	2.0	1.5	0.5	4.5	3.1	1.4	1.3
2018 (b)		--	--	--	1.7	1.6	0.1	2.1	2.3	-0.2	1.2
2016	III	--	--	--	-0.3	0.3	-0.6	-3.3	-2.0	-1.3	0.1
	IV	--	--	--	0.8	0.7	0.1	1.3	0.4	0.9	0.9
2017	I	--	--	--	2.7	1.8	0.9	6.9	4.2	2.7	1.4
	II	--	--	--	2.1	1.5	0.6	4.8	3.4	1.4	1.1
	III	--	--	--	1.8	1.4	0.4	3.6	2.5	1.1	1.6
	IV	--	--	--	1.6	1.4	0.2	2.7	2.3	0.4	1.3
2018	I	--	--	--	1.1	1.3	-0.2	0.8	1.5	-0.7	1.4
	II	--	--	--	1.8	1.7	0.1	2.8	2.7	0.1	1.2
2018	Jun	--	--	--	2.3	2.0	0.3	3.8	3.5	0.3	0.9
	Jul	--	--	--	2.3	2.1	0.2	3.9	3.5	0.4	0.6
	Aug	--	--	--	2.2	2.0	0.2	--	--	--	--

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

Sources: Eurostat, Bank of Spain and Funcas.

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

1998=100

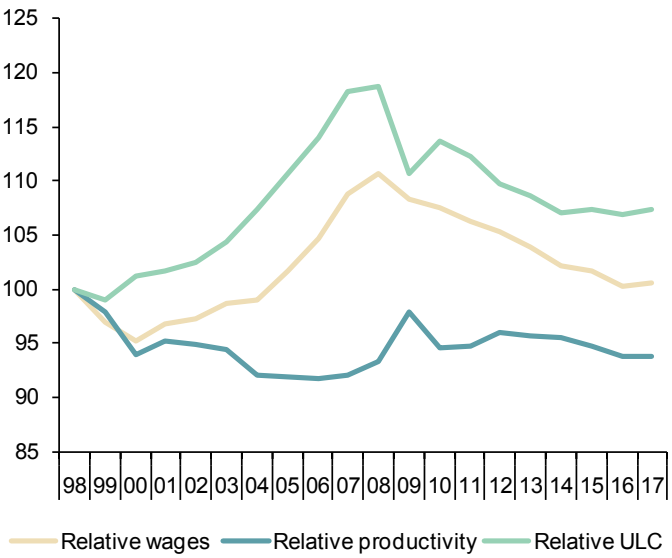


Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

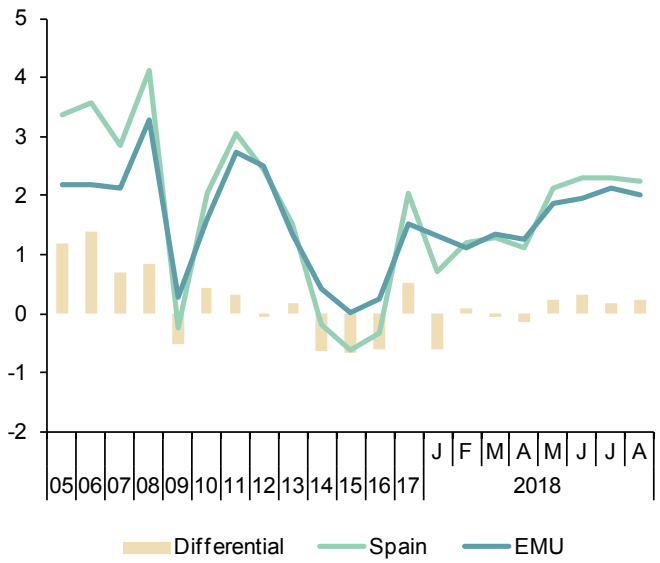


Table 17a

Imbalances: International comparison (I)

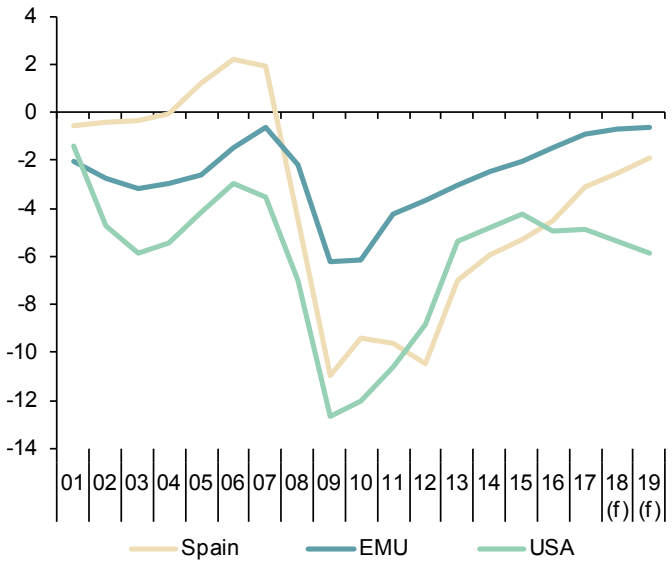
(In yellow: European Commission Forecasts)

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

Source: European Commission Forecasts, Spring 2018.

Chart 17a.1 - Government deficit

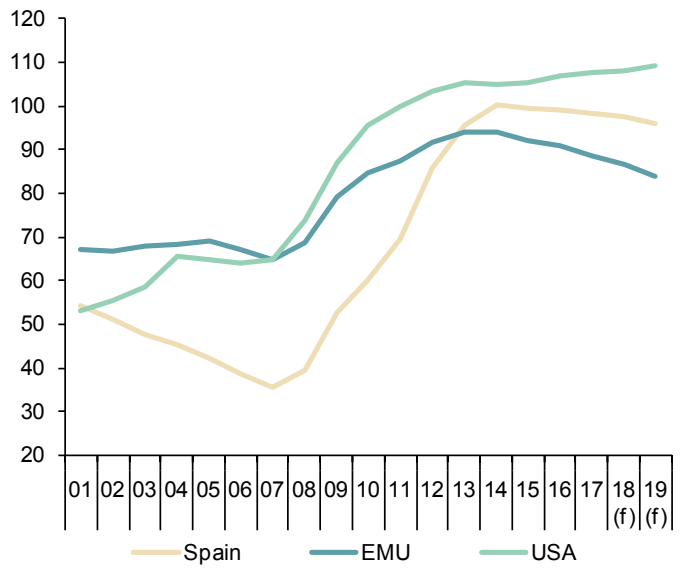
Percentage of GDP



(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP



(f) European Commission forecast.

Table 17b

Imbalances: International comparison (II)

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

(a) Loans and debt securities.

Sources: ECB and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

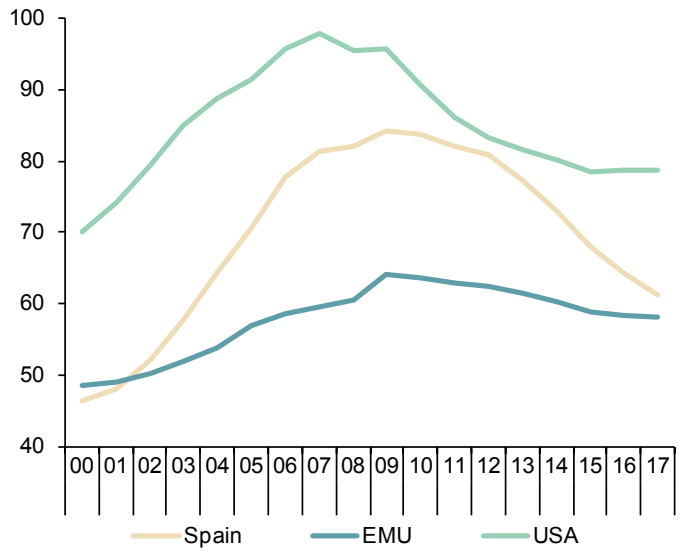
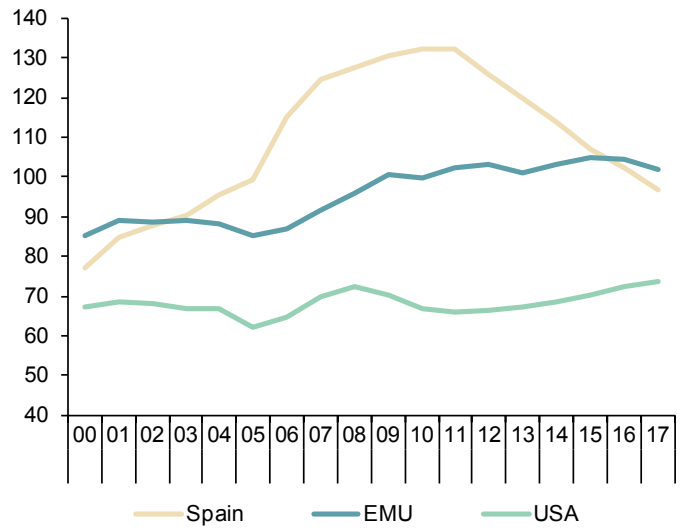


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: September 15th, 2018

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.8	June 2018
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.8	June 2018
Doubtful loans (monthly % var.)	-3.7	June 2018
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	740,356	August 2018
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	168,131	August 2018
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	44	August 2018
"Operating expenses/gross operating income" ratio (%)	54.03	December 2017
"Customer deposits/employees" ratio (thousand euros)	6,532.25	December 2017
"Customer deposits/branches" ratio (thousand euros)	47,309.12	December 2017
"Branches/institutions" ratio	122.22	December 2017

A. Money and Interest Rates

Indicator	Source	Average 2001-2015	2016	2017	2018 August	2018 September 15th	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.1	5.0	4.7	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	2.0	-0.26	-0.329	-0.319	-0.319	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.3	-0.03	-0.186	-0.166	-0.168	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.2	1.4	1.5	1.4	1.4	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	4.0	2.3	1.4	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates followed an unequal path in the first fortnight of September. The 3-month interbank rate stood at -0.319% and the 1-year Euribor decreased from from -0.166% in August to -0.168%. The ECB has reconfirmed the bond-buying program will end in December 2018 and it has suggested interest rates could go up during the summer of 2019. As for the Spanish 10-year bond yield, it has remained at 1.4%.

B. Financial Markets

Indicator	Source	Average 2001-2015	2016	2017	2018 July	2018 August	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	44.4	102.6	54.60	49.56	—	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	76.1	55.1	27.60	34.81	—	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	1.2	0.4	3.46	0.21	—	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.4	1.9	4.76	2.56	—	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	1.7	0.0	-0.7	-0.5	-0.5	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	726.2	1,104.9	1,127.71	1,161.7	1,154.7	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.4	0.2	-1.3	1.6	-5.9	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	3.9	0.7	2.2	-20.3	-30.9	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec 1985=100)	Bank of Spain and Madrid Stock Exchange	1,018.0	943.6	1,055.4	997.6	906.3(a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,880.1	8,790.9	10,451.5	9,854.1	9,365.3(a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	16.2	23.6	15.8	14.4	14.4(a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	5.3	55.9	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2015	2016	2017	2018 July	2018 August	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.6	0.1	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.2	0.0	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.4	-0.4	0.6	-9.5	-	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.6	5.8	5.8	-36.4	-	IBEX-35 shares concluded transactions

(a) Last data published: September 15th, 2018.

Comment on "Financial Markets": During the last month, there was a decrease in transactions with outright spot T-bills to 50% and also of spot government bonds transactions to 35%. The stock market has registered a decrease in the first half of September with the IBEX-35 down to 9,365 points, and the General Index of the Madrid Stock Exchange to 906. There was a decrease in Ibex-35 financial futures of 9.5% and in options of 36.4%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2014	2015	2016	2017	2018 Q1	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.7	2.2	2.1	2.0	2.0	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.2	3.6	2.6	0.5	0.4	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	269.0	302.3	297.0	287.4	287.9	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	79.2	67.5	64.4	61.3	60.5	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.5	1.7	0.6	3.8	-0.4	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.5	-2.9	1.1	-0.1	-1.4	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2018Q1, the financial savings to GDP in the overall economy stood at 2% of GDP. There was a decrease in the financial savings rate of households from 0.5% to 0.4%. The debt to GDP ratio fell to 60.5%. Finally, the stock of financial assets on households' balance sheets registered a decrease of 0.4%, and there was a 1.4% fall in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2015	2016	2017	2018 May	2018 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.3	-4.1	-0.4	-0.1	0.8	Lending to the private sector percentage change for the sum of banks. savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	7.8	-0.1	2.4	1.8	0.8	Deposits percentage change for the sum of banks. savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	9.5	-11.6	-3.7	-2.3	0.1	Asset-side debt securities percentage change for the sum of banks. savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	10.7	-1.0	0.7	-1.2	0.7	Asset-side equity and shares percentage change for the sum of banks. savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.2	-4.5	-1.7	-1.4	-0.4	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	0.2	-3.6	-3.8	-1.2	-3.7	Doubtful loans. Percentage change for the sum of banks. savings banks and credit unions
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-1.8	-22.2	-3.5	4.2	-12.0	Liability-side assets sold under repurchase. Percentage change for the sum of banks. savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	9.0	-0.3	-1.2	-0.6	-0.6	Equity percentage change for the sum of banks, savings banks and credit unions

Comment on "Credit institutions. Business Development": The latest available data as of June 2018 show an increase in bank credit to the private sector of 0.8%. Data also show an increase in financial institutions deposit-taking of 0.8%. Holdings of debt securities grew 0.1%. Doubtful loans decreased 3.7% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2014	2015	2016	2017	2018 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	195	135	124	122	122	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	74	82	82	83	82	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	243,544	202,954	189,280	187,472	187,472 (a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,110	30,921	28,643	27,320	26,929	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	-	460,858	527,317	726,540	740,356(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	-	122,706	138,455	170,445	168,131(b)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	22,682	10,514	1,408	96	44 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2017.

(b) Last data published: August 2018.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In August 2018, recourse to Eurosystem funding by Spanish credit institutions reached 168.131 billion euro.

MEMO ITEM: From January 2015, the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 329.5 billion euro in August and 2.6 trillion euro for the entire Eurozone banking system.

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

Indicator	Source	Average 2000-2013	2014	2015	2016	2017	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	50.89	47.27	50.98	54.18	54.03	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions´ P&L accounts
44. "Customer deposits/employees" ratio (Euro thousands)	Bank of Spain	3,519.51	5,892.09	5,595.62	5,600.48	6,532.25	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	21,338.27	40,119.97	36,791.09	39,457.04	47,309.12	Productivity indicator (business by branch)

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

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

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2017, most of the profitability and efficiency indicators improved for Spanish banks. Productivity indicators have also improved since the restructuring process of the Spanish banking sector was implemented.

Social Indicators

Table 1

Population

	Population									
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (all nationalities)	New entries (EU-27 born) (%)
2006	44,708,964	40.6	16.7	77.7	84.2	47.5	24.6	10.8	840,844	37.6
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	726,009	28.4
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	464,443	35.6
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	370,515	36.4
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	399,947	38.0
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	455,679	36.4
2016	46,557,008	42.7	18.6	80.4	85.9	52.9	28.4	13.2	534,574	33.4
2017	46,572,132	42.9	18.8			53.2	28.8	13.2		
2018•	46,698,569	43.1	19.1			53.6	29.3	13.6		
Sources	PMC	PMC	PMC	ID INE	ID INE	PMC	PMC	PMC	EVR	EVR

ID INE: Indicadores Demográficos INE.

PMC: Padrón Municipal Continuo.

EVR: Estadística de Variaciones Residenciales.

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

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

• Provisional data.

Table 2

Households and families

	Households				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 (%)
2006	15,856	2.76	11.6	10.3	9.3	9.5	2.86	32.2	29.7	2.08
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.04
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.26
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.46
2017	18,512	2.52	14.2	11.4	7.3	6.9				
2018■	18,554	2.52								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	ID INE	ID INE	MNP

Table 2 (continued)

Households and families

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2006	29.3	1.31	1.69	28.4	10.6	
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.70	45.8	10.4	65.8
2017	30.9	1.24	1.70			
Sources	ID INE	ID INE	ID INE	ID INE	MSAN	MSAN

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

Marriage rate: Number of marriages per thousand population.

Divorce rate: Number of divorces per thousand population.

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

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

■ *Data refer to January-June.*

Table 3

Education

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (thousands of €)	Public expenditure (%GDP)
2006	32.9	8.4	15.6	25.3	1,557,257	630,349	445,455	1,405,894	16,636	42,512,586	4.22
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	1,778,620•	687,692•	651,722•	1,307,461•	184,745•	47,578,997	4.25
2017	21.4	6.6	28.5	41.2							
2018■	20.8	6.6	28.8	41.6							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	Contabilidad Nacional del INE

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

• *Provisional data.*

■ *Data refer to January-June.*

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood		Social Security			
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2006	720,384	4,809,298	723	859,780	732	2,196,934	477	558,702	276,920	204,844	82,064
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	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	721,575▪	5,903,639♦	1,080♦	950,809♦	941♦	2,358,397♦	653♦	865,555▪	256,889▪	197,380▪	16,980▪
Sources	BEL	BEL	BEL	BEL	BEL	BEL	BEL	BEL	IMSERSO	IMSERSO	IMSERSO

BEL: Boletín de Estadísticas Laborales.

IMSERSO: Instituto de Mayores y Servicios Sociales.

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

▪ *Data refer to January-June.*

♦ *Data refer to January-July.*

Table 5

Social protection: Health care

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

OECD: Organisation for Economic Co-operation and Development.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

This page was left blank intentionally.

Notes

Orders or claims:

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

funcas