

## Spanish and EU banks: Recent performance and strategies

### WHAT MATTERS

The 2018 **EU stress tests**: A behind-the-scenes analysis

The **CoCos (AT1)** market in Spain and Europe

The shifting structure of **customer deposits** in the Spanish banking system

The sustainability of Spain's **trade surplus**

The role of **cost competitiveness** in eurozone exports: Spain from a comparative sector perspective

The **Spanish labour market**: Cyclical behaviour and structural challenges

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# SEFO

SPANISH AND INTERNATIONAL  
ECONOMIC & FINANCIAL OUTLOOK

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# Letter from the Editors

EU bank's today are stronger and more resilient than they were prior to the crisis. However, they are still dealing with a difficult operating environment, both at the global/macro and sector levels. First, they must navigate several key global challenges, including an uncertain outlook for the world economy and the eurozone, as well as specific issues in Italy arising from tensions between the Italian administration and the European Commission over the budget and fiscal discipline. Second, increased regulatory pressures at the sector level continue to weigh on profitability.

In light of these complexities facing the EU financial sector, the November issue of *Spanish and International Economic & Financial Outlook (SEFO)* starts out with an analysis of the recent performance of EU banks on the European Banking Authority's latest EU-wide stress tests –published early this month. Looking more closely at the stress tests, it becomes apparent that most of the European banks, including those in Spain, are better capitalised to withstand potentially adverse macroeconomic scenarios. Specifically, of the 33 entities directly supervised by the ECB, an adverse scenario would result in a decrease in the fully-loaded CET1 ratio from 13.7% in 2017 to 9.9% by 2020, which is an improvement from the equivalent adverse scenario ratio of 8.8% in 2016. In the case of Spain, the percentage impact on fully-loaded CET1 estimated in the adverse scenario is below the European

average. That said, both Italy and the UK were notable exceptions, suggesting that these banking systems may encounter difficulties in overcoming adverse economic conditions.

As referenced above, in light of the increased capital requirements demanded by regulators (and investors), many EU banks have pursued strategies of tapping the Additional Tier 1 Capital (AT1) markets to boost their Common Equity Tier 1 (CET1) ratios. Next in this SEFO, we explore banks' recent increased reliance on one such AT1 instrument –the contingent convertible bond, or CoCo– whose success can be attributed, in part, to higher yields, but not without risks.

We then assess how banks have responded to managing customer deposits within the context of the protracted, unusually low, interest rate environment and what we can expect as regards this segment of bank liabilities under an anticipated (gradual) ECB rate normalisation cycle. The persistence of abnormally low interest rates has had a significant impact on the structure of customer funds managed by the Spanish banking sector. That structural change has affected both the mix of off-balance sheet funds relative to deposits (with the former clearly predominating in recent years) and the breakdown between term and demand deposit. Over the last few years, the traditional mix of 60/40 in favour of term deposits has shifted towards demand deposits, which currently represent 80% of all

deposits. The increased weight of demand deposits as a structural source of funding has significantly lowered banks' funding costs. However, cautious observation is necessary, especially in the, albeit unlikely, event of ECB monetary policy normalisation in the very near-term. In such a scenario, the expected margin recovery would be extraordinarily sensitive to how Spanish banks manage their pool of deposits.

In the remaining articles within this SEFO, we bring the focus back to macroeconomic analysis, in particular, looking at issues related to competitiveness –the performance of Spain's external sector and, on a related note, the outlook for the Spanish labour market.

Spain's external sector appears to be exhibiting signs of weakness in the current year. The slowdown in GDP growth over the first three quarters of 2018 can be largely attributed to the loss of dynamism of exports of both goods and services. Consensus forecasts already reflect a slight deterioration in the current account surplus for this year and the next –although with the balance still remaining in positive territory.

Against this backdrop, we look at the potential for sustainability of Spain's trade surplus under a continued economic expansion. By the end of 2017, the Spanish economy had experienced three years of GDP growth of at least 3%. This is highly unusual and has not occurred in more than three decades. Moreover, periods of high growth have typically corresponded with trade deficits, yet this most recent growth trend has occurred in the context of a positive current and capital account balance. Given that many companies have yet to maximize their exposure to foreign markets, there is still significant room for growth in exports. In terms of imports, their sensitivity to final demand growth has fallen. Therefore, despite some recent negative performance reflected by Spain's latest export figures, on the basis of an analysis of long-term import and export trends, if the Spanish economy continues its expansion, there is potential to do so without generating trade imbalances, thereby reducing the country's unemployment rate and foreign borrowings. It

should be noted, however, that there are several downside risks in the current fragile international scenario –oil prices, an increase in exchange rates and lower global growth– which could negatively impact the trade surplus.

Next, we look at the role of cost competitiveness in export performance through an assessment of the situation in Spain relative to other EU countries by analysing the relationship between the changes in unit labour costs (ULCs) and the changes in the export market shares of the six biggest exporters of manufactured goods in the eurozone (Germany, France, Italy, Netherlands, Belgium and Spain). First, we analyse the different trends in unit labour costs in 2005-2010 versus 2010-2015 and in the components of ULCs (employee compensation and apparent labour productivity). Spain stands out as the country where the change in the ULC trend has been the most pronounced. During the first period analysed, Spain was the country where ULCs increased the most. Conversely, Spain saw the largest decrease in ULCs in the second period analysed. Notably, Spain also experienced the largest decline in manufacturing jobs over both periods. As for the relationship between ULCs and export market shares, the figures analysed show that there is no clear correlation between the two variables at either the aggregate country level or at the product-country level for eight products within the manufacturing sector. Therefore, while ULCs are relevant to some key sectors in Spain, they are not the only factor that determines competitiveness. Consequently, it is important to move beyond the internal devaluation practices adopted to tackle the crisis, given that additional factors aside from cost competitiveness, such as R&D intensity and foreign demand, too have a significant impact on export success.

Finally, as regards the outlook for the Spanish labour market, since the start of the financial crisis, Spain's job market has exhibited a highly volatile employment trend. After shedding nearly 4 million jobs during the recession, the unemployment rate has steadily declined, with 30% of eurozone job creation occurring in Spain over the last 4 years. Interestingly, the labour force participation

rate in Spain increased during the recession, the opposite of what would be expected. More recently, it has stagnated, while still remaining higher than in many other European countries, such as Belgium, France and Italy. On the other hand, the analysis of recent trends does not permit a clear-cut determination as to whether structural unemployment has increased as a result of the crisis: recent declines in long-term unemployment point to an optimistic picture; but prevailing education gaps, and regional differences in employment suggest a less favourable assessment, especially in view of the impacts of an increasingly digitised economy. Despite initial reform efforts already undertaken, the high correlation between the level of employment volatility and the rate of unemployment calls for policymakers to design initiatives that will address persistent imbalances in the Spanish labour market.



## What's Ahead (Next Month)

Month	Day	Indicator / Event
December	3	Eurogroup meeting
	4	Social Security registrants and official unemployment (November)
	5	Industrial production index (October)
	13-14	European Council meeting
	13	ECB monetary policy meeting
	14	CPI (November)
	21	Foreign trade report (October)
	26	Balance of payments quarterly (3 <sup>rd</sup> quarter)
	27	Retail trade (September)
	27	Non-financial accounts: Central Government, Regional Governments and Social Security (October)
	27	Non-financial accounts, State (November)
	28	Balance of payments monthly (October)
	28	Preliminary CPI (December)
	28	GDP 3 <sup>rd</sup> quarter
	28	Quarterly sector accounts 3 <sup>rd</sup> quarter

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# What Matters



## 5 **The 2018 EU stress tests: A behind-the-scenes analysis**

In November, the EBA published the results of its EU-wide annual stress tests, which showed that broadly speaking, the European banking sector is becoming more resilient to potential adverse scenarios. That said, persistent worries over Italy's commitment to fiscal discipline and a weakened UK banking system are reasons for concern.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

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## 17 **The CoCos (AT1) market in Spain and Europe**

Contingent convertible bonds, also known as CoCos, have grown in popularity following the introduction of the Single Resolution Mechanism since they qualify as additional tier-1 capital (AT1) for European banks. While these bonds provide higher yields than other investment grade paper, there are certain risks associated with them that warrant closer analysis.

Salvador Jiménez, Diego Mendoza, Alfonso Pelayo and Fernando Rojas, A.F.I.

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## 25 **The shifting structure of customer deposits in the Spanish banking system**

As a result of persistently low interest rates over the past decade, the traditional mix of deposits has shifted in favour of demand deposits at the expense of term deposits. While it is unlikely that the ECB will initiate the normalisation of interest rates in the near-term, it is worth analysing how such a scenario could impact Spanish banks' margin recovery, given the sensitivity of improvement to banks' management of customer funds.

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

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### 31 **The sustainability of Spain's trade surplus**

Spain has experienced a historically anomalous period of high GDP growth without generating a corresponding trade deficit. An analysis of Spain's underlying import and export dynamics reveals that, while the latest Spanish export data show some deterioration, the country's trade surplus may still have the potential to remain positive, if the economy continues to expand.

Rafael Myro

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### 45 **The role of cost competitiveness in eurozone exports: Spain from a comparative sector perspective**

This paper analyses manufacturing data from the eurozone's top six exporters in order to determine the relationship between export success and trends in unit labour costs. In line with previous studies, the results show that a decrease in production costs is not the only factor relevant to stimulating exports and that there are other factors which may also be influential in driving growth in Spanish manufacturing exports.

Ramon Xifré

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### 59 **The Spanish labour market: Cyclical behaviour and structural challenges**

An examination of employment and labour market participation reveals the Spanish labour market is pro-cyclical in nature, in part, explaining the relatively high unemployment rate essentially prevailing over the past two decades. New reforms are needed in order to make employment less pro-cyclical and tackle persistent structural imbalances in terms of job quality, regional differences and skills attainment, especially in the context of the digitisation of the economy.

Raymond Torres

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# The 2018 EU stress tests: A behind-the-scenes analysis

In November, the EBA published the results of its EU-wide annual stress tests, which showed that broadly speaking, the European banking sector is becoming more resilient to potential adverse scenarios. That said, persistent worries over Italy's commitment to fiscal discipline and a weakened UK banking system are reasons for concern.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

**Abstract:** In early November, the European Banking Authority (EBA) announced the results of its stress tests of the European banking sector. This announcement has coincided with a period of uncertainty in both the global and European securities markets. Looking more closely at the stress tests, it becomes apparent that most of the European banks, including those in Spain, are better capitalised to withstand potentially adverse macroeconomic scenarios. Specifically, of

the 33 entities directly supervised by the ECB, an adverse scenario would result in a decrease in the fully-loaded CET1 ratio from 13.7% in 2017 to 9.9% by 2020, which is an improvement from the equivalent adverse scenario ratio of 8.8% in 2016. In the case of Spain, the percentage impact on fully-loaded CET1 estimated in the adverse scenario is below the European average. That said, both Italy and the UK were notable exceptions, suggesting that these banking systems may

encounter difficulties in overcoming adverse economic conditions.

## Introduction

Fall 2018 has continued to produce considerable challenges for Europe's banks, with political and sovereign risk a key source of instability. Tensions between the Italian administration and the EU's governing bodies have led the European Commission to reject a member state's budget for the first time in history. In response, the markets have interpreted the lack of commitment to fiscal discipline as a growing sovereign risk. These developments have resulted in contagion to the banking sector via the Italian banks' public debt holdings and have raised questions –as yet unresolved– regarding the quality of their assets and the implications for their solvency.

Observers had hoped that the publication of the European Banking Authority's (EBA) stress tests on November 2<sup>nd</sup> would heighten transparency and provide the market with hard data that confirmed, a decade after the collapse of Lehman Brothers, that financial stability in Europe had finally been achieved. This expectation was only partially met, however. Although most of Europe's regional banking sectors demonstrated they could withstand the adverse economic scenarios modelled for the tests, the ability of certain banks in certain countries to remain solvent in those scenarios was called into question. The Italian predicament was largely to be expected; less so the case of the UK, which comes at a particularly delicate moment with Brexit in the near-term horizon.

This paper analyses the results of the stress tests with the aim of identifying where the potential risks lie and pinpointing the key cross country differences. This “behind the

scenes” analysis will go beyond the headlines to discover why doubts, expressed in market valuation, about Europe's banks continue to persist.

The stress tests were performed on 48 EU banks that were deemed systemic. Those banks represent approximately 70% of the EU banking sector's total assets. Of the 48 entities, 33 fall under to the Single Supervisory Mechanism (SSM). The purpose of the stress tests is to evaluate the resilience of the major European banks in the case of a hypothetical deterioration in macroeconomic and market conditions. As was the case with the 2016 tests, the exercise did not set a minimum capital threshold that could be interpreted as a “pass” or “fail” (which would certainly be useful, albeit controversial timewise). This impedes the ability of analysts to definitively interpret a decline in a bank's capital levels as cause for concern.

While the EBA designs the stress test methodology, it is up to the ECB and national central banks to run the tests and oversee their quality. The projections are drawn up for each entity over a three-year period (from December 2017 to December 2020) under two scenarios: a baseline scenario and an adverse scenario, whose criteria were determined by the European Systemic Risk Board (ESRB), the ECB, the national central banks and the EBA itself. It is worth highlighting two key features of the tests that either limit their comparability or introduce aspects not previously contemplated:

- The baseline and adverse scenarios are country specific.
- For these stress tests, the asset projections apply International Financial Reporting

“ Although most of Europe's regional banking sectors demonstrated they could withstand the adverse economic scenarios modelled for the stress tests, the ability of certain banks in certain countries to remain solvent in those scenarios was called into question. ”

“ In the case of the Spanish banks, application of IFRS 9 has not had a significant impact on asset valuations, relative to other banking systems, such as in the UK, where it has had the effect of increasing impairment provisions. ”

Standard (IFRS) 9, which took effect on January 1<sup>st</sup>, 2018. IFRS 9 is a far-reaching accounting measurement standard with particular importance with respect to the credit risk assumptions. Specifically, IFRS 9 aims to reduce uncertainty regarding the provisions recognised by the banks to cover loan losses. The most importance aspect is the replacement of the former incurred-loss approach (under which the banks recognised provisions when the losses were already being incurred) with the expected-loss model (provisions are recognised from when it is estimated that a loss may be incurred). Although this is a technical matter, analysis of which lies beyond the scope of this paper, it is worth noting that in the case of the Spanish banks, application of IFRS 9 has not had a significant impact on asset valuations, relative to other banking

systems, such as in the UK, where it has had the effect of increasing impairment provisions.

### Stress tests methodology

As noted above, there are substantial differences in the macroeconomic scenarios modelled for each country. For example, in Sweden, the adverse scenario implies a cumulative (over the three-year projection period) contraction in GDP of 10.4% and in real estate prices of 49.4%. In Hungary, however, the same scenario contemplates a cumulative contraction in GDP of just 0.2%, while real estate prices remain stable.

What is clear is that the entities tasked with designing the benchmark macroeconomic projections have given greater weight to short- and long-term risks in some countries

Exhibit 1

### Differences in the macroeconomic conditions estimated by the IMF and the baseline scenario established by the EBA for 2018-2020

(Percentage)

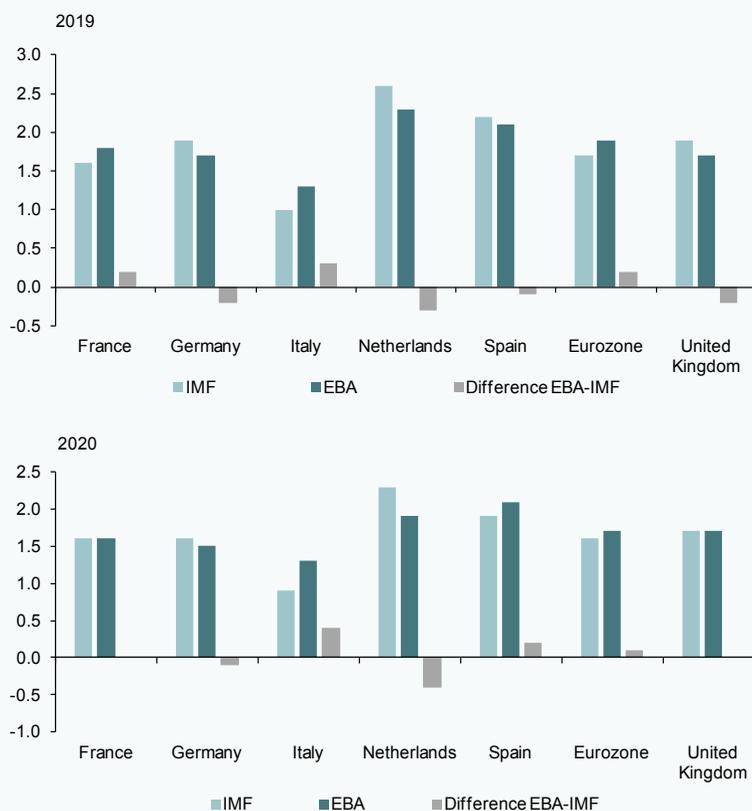


Exhibit 1

**Differences in the macroeconomic conditions estimated by the IMF and the baseline scenario established by the EBA for 2018-2020**

(Percentage)

(Continued)



Sources: IMF, EBA and authors' own elaboration.

than other international economic forecasters such as the IMF. As shown in Exhibit 1, the baseline scenario already reveals these estimate differences. The EBA, for example, projects growth that is 0.3, 0.2 and 0.1 percentage points above the growth estimated by the IMF for the eurozone in 2018, 2019 and 2020, respectively. However, the change in GDP modelled by the EBA is lower than that assumed by the IMF in Spain and the UK in 2018 and 2019. It is also lower in Germany and the Netherlands in 2019 and 2020.

The analyst community is also prone to comparing the macroeconomic assumptions made with those modelled in the stress tests in other jurisdictions. For example, the adverse scenario used in most instances is less severe than that modelled by the Federal Reserve in the US. The UK case merits special attention because its central bank assumes a higher cumulative GDP contraction. Interestingly, this heightens expectation regarding what the specific tests performed by that supervisory authority will reveal in December.

“ What is clear is that the entities tasked with designing the benchmark macroeconomic projections have given greater weight to short- and long-term risks in some countries than other international economic forecasters, such as the IMF. ”

Of note is the fact that the stress tests do not explicitly set out minimum capital requirements. The market’s general understanding is that the minimum capital requirement is 8% in the case of core equity tier-1 (CET1) capital, modelled on a fully-loaded basis, *i.e.*, factoring in all the capital provisions already in force and those due to take effect shortly. That 8% threshold is derived from the assumed threshold below which a given supervisory authority can be expected to intervene, particularly in the case of the entities in the SSM.

It should be emphasised that these stress tests have been run under the scope of the new Banking Union capitalisation rules. As a result, the market believes that some of the entities presenting a capital shortfall in the adverse scenario could embark on “precautionary recapitalisation”. In the case of the SSM, these intervention measures could involve imposing losses on holders of hybrid capital instruments (*e.g.*, convertible shares or CoCos) or limits on the distribution of dividends, for example.

### **Spanish and EU banks’ overall stress tests performance**

Looking at the results of the 2018 stress tests, it is important to highlight that the starting capital level (*i.e.*, solvency as per the financial statements as at year-end 2017) is higher than that observed in previous tests. This suggests that the broader trend remains one of capital build-up, with capital buffers increasing relative to the minimum requirements. A different matter is whether the ability to withstand adverse scenarios has improved, and to what extent those scenarios are plausible. As shown in Exhibit 2, the fully-loaded CET1 capital ratio for the 48 entities as a whole stood at 14.2% at year-end 2017 (14.5% factoring in only the transitional

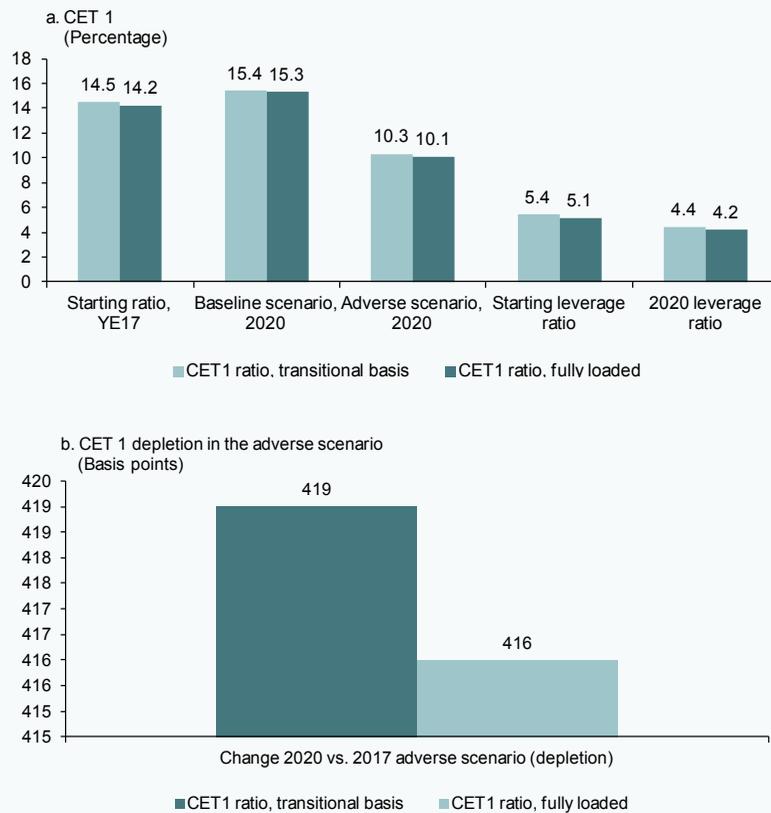
arrangements currently in effect). It is important to note that that ratio falls to 14% if modelled *pro forma* with the application of IFRS 9 in 2017. If the macroeconomic climate were to unfold as currently forecast (the baseline scenario), the banks’ CET1 ratios would increase to 15.4% (transitional) or 15.3% (fully loaded) in 2020. However, when the adverse economic scenario is modelled, 2020 capital ratios decline by 416 basis points (4.16 percentage points) with respect to year-end 2017 levels. Additionally, the EBA projects that the banks analysed would sustain leverage ratio depletion over the projection period, reducing the ratio from 5.1% to 4.2% on average, assuming full implementation of the planned regulatory requirements (fully loaded).

In the press releases of November 2<sup>nd</sup>, the EBA flagged certain statistics which suggest that the Single Supervision Mechanism is fostering an improvement in the resilience of eurozone banks. In the case of the 33 entities supervised directly by the ECB, the fully-loaded CET1 ratio would decrease from 13.7% in 2017 to 9.9% by 2020 in the worst-case scenario, *i.e.*, a drop of over 380 basis points. In 2016, the equivalent adverse scenario ratio was 8.8%. “The outcome confirms that participating banks are more resilient to macroeconomic shocks than two years ago. Thanks also to our supervision, banks have built up considerably more capital, while also reducing non-performing loans, and among other things, improving their internal controls and risk governance,” said Danièle Nouy, Chair of the ECB’s Supervisory Board. “Looking ahead, the test helps us to see where individual banks are most vulnerable and where clusters of banks are most sensitive to certain risks.”

It should be stressed that the capital depletion over the three-year stress period in the

Exhibit 2

**Results of the stress tests: Baseline versus adverse scenario. Total sample**



Source: EBA and authors' own elaboration.

adverse scenario was 3.3 percentage points in 2016 compared to 3.8 percentage points in the November 2018 exercise. However, the banks' stronger capital buffers at the time of these stress test improved the resilience of the system as a whole, while the assumptions underpinning the adverse scenario were more severe than in 2016. The assumptions included a contraction in eurozone GDP of 2.4% and

corrections in real estate and share prices of 17% and 31%, respectively. As mentioned earlier, application of IFRS 9 also impacts the relatively higher depletion of capital.

The EBA press releases also highlight the growing importance of the transparency exercises conducted in each country by the

“ If the macroeconomic climate were to unfold as currently forecast (the baseline scenario), the banks' CET1 ratios would increase to 15.4% (transitional) or 15.3% (fully loaded) in 2020. ”

“ In the case of the 33 entities supervised directly by the ECB, the fully-loaded CET1 ratio would decrease from 13.7% in 2017 to 9.9% by 2020 in the worst-case scenario. ”

competent supervisory authorities. These exercises, known as the Supervisory Review and Evaluation Process (SREP), are used to determine the banks’ Basel III Pillar 2 requirements and are conducted annually. Even though the ECB coordinates these tests, there is widespread concern that these transparency exercises have been more stringent in some jurisdictions than others. This was the case in the Spanish banking sector in the years immediately following the crisis as well as in the most current exercises.

The results of the 2018 stress tests for the Spanish banks –BBVA, Caixabank, Sabadell and Santander– have reinforced their perceived solvency and resilience. The percentage impact on fully-loaded CET1 estimated in the adverse scenario is below the European average. The one notable exception is Banco Sabadell, where capital depletion is

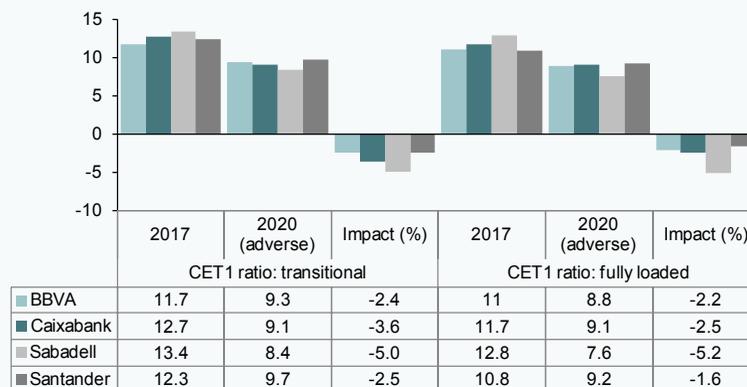
estimated at 5.2 percentage points, in line with the European average. [1]

A comparison of the baseline scenario results of the Spanish banks and their European counterparts (Exhibit 4) suggests that even though the Spanish banks start the test period with a relatively lower capital buffer, their convergence with the average European fully loaded CET1 ratio would accelerate.

As for the adverse scenario (Exhibit 5), the Spanish banks stand out for their resilience and improved asset quality. Despite starting with a lower fully-loaded CET1 ratio, their asset quality would stand at 8.96% in the worst case scenario, which is above the regulatory threshold and above the average for other countries, such as the UK (8.29%).

**Exhibit 3 Stress test results: Spain**

(Percentage)

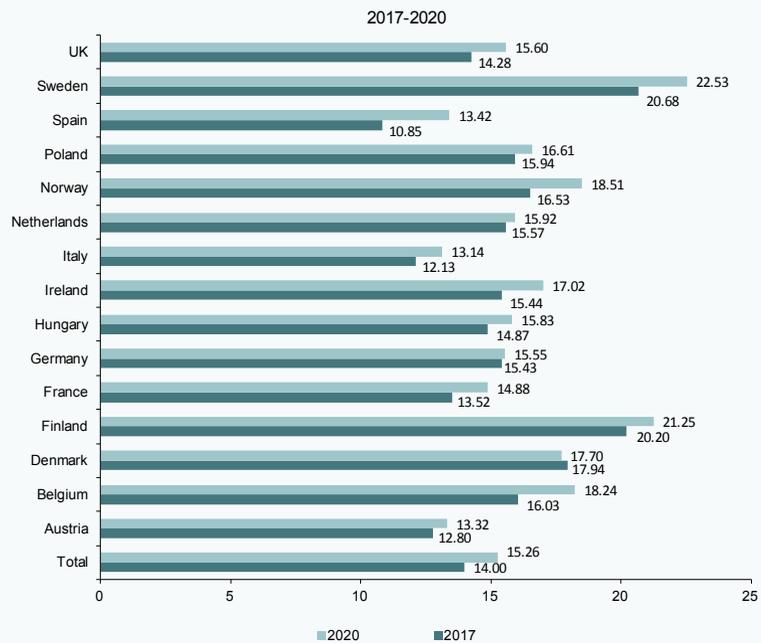
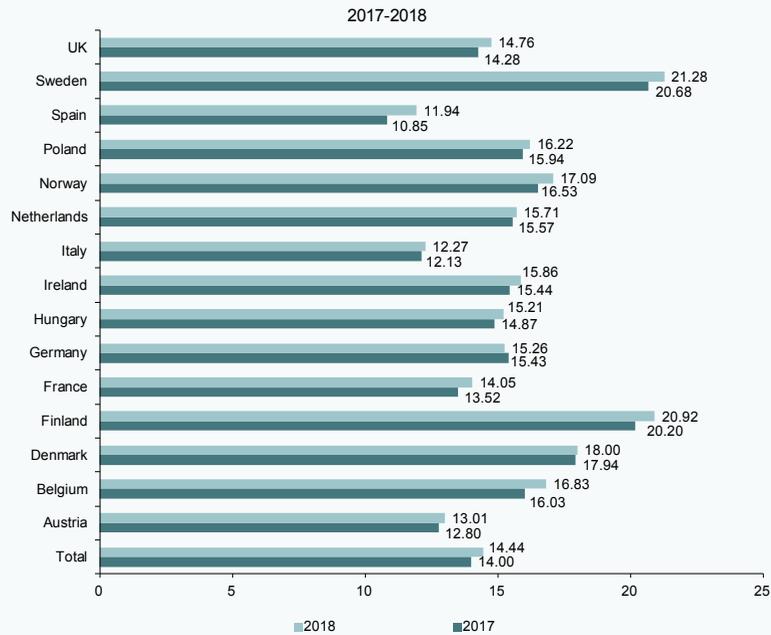


Source: EBA and authors’ own elaboration.

Exhibit 4

**Stress tests results: Country comparison in baseline scenario**

(Percentage)

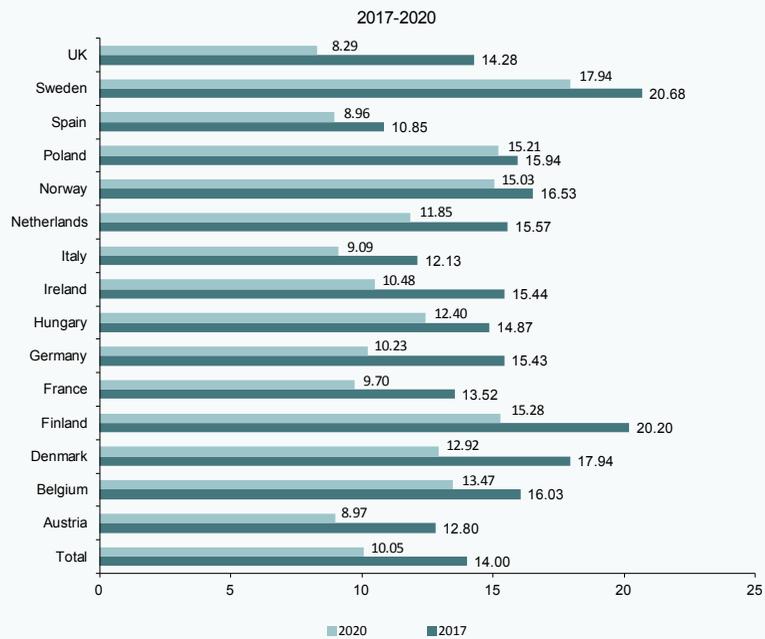
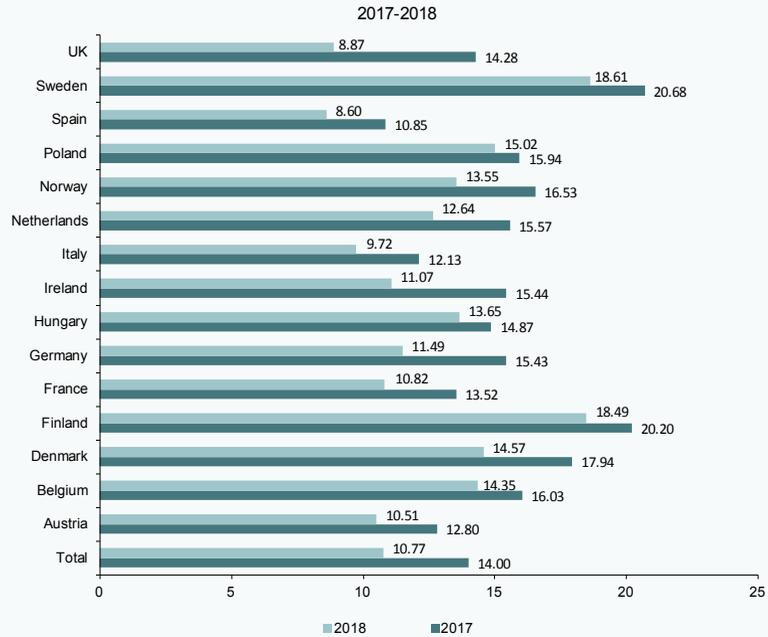


Source: EBA and authors' own elaboration.

Exhibit 5

**Stress tests results: Country comparison in adverse scenario**

(Percentage)



Source: EBA and authors' own elaboration.

“ It should be stressed that the capital depletion over the three-year stress period in the adverse scenario was 3.3 percentage points in 2016 compared to 3.8 percentage points in the November 2018 exercise. ”

### The cases of Italy and the United Kingdom

Perhaps the most noteworthy results of the stress test were the outcomes for the UK and Italy. In the case of the former, capital depletion was more than expected in the adverse scenario. As for Italy, the results do little to quell concerns about the quality of the banks' legacy assets.

As shown in Exhibit 6, three UK banks would sustain cumulative fully-loaded CET1 capital depletion of 625, 694 and 657 basis points. This would leave two of them with ratios of 6.80% and 6.37% in 2020 under the adverse

scenario, well below the 8% threshold. Of note is the fact that the adverse scenario depicted by the Bank of England in its December stress tests is expected to be even more severe, so that the impact on capital depletion could be considerably higher.

In Italy, the severity of the adverse scenario's impact does not dramatically diverge from the eurozone average. Nevertheless, the weak starting position of some of the banks would put them below the 8% threshold by the end of the stress period. However, the biggest source of concern in this market is probably the impact on the Italian sovereign

Exhibit 6 **Stress test results: UK**  
2017-2020 (adverse scenario)

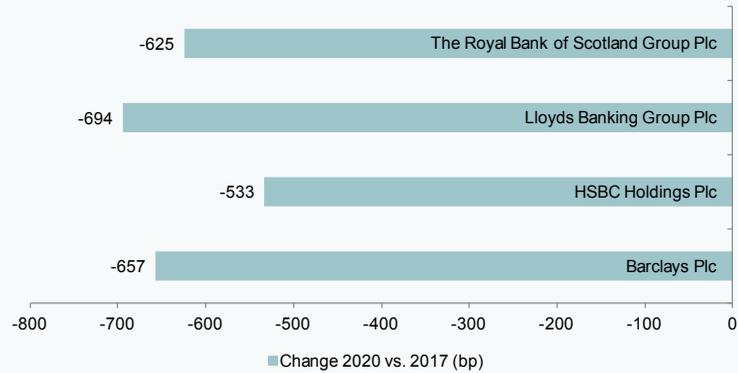


“ As for the adverse scenario, the Spanish banks stand out for their resilience and improved asset quality. ”

**Exhibit 6 Stress test results: UK**

(Impact on fully loaded CET1 ratio)

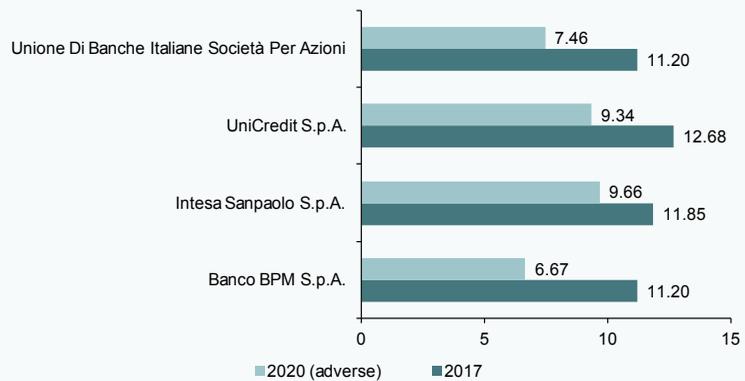
(Continued)



Source: EBA and authors' own elaboration.

**Exhibit 7 Stress test results: Italy**

2017-2020 (adverse scenario)



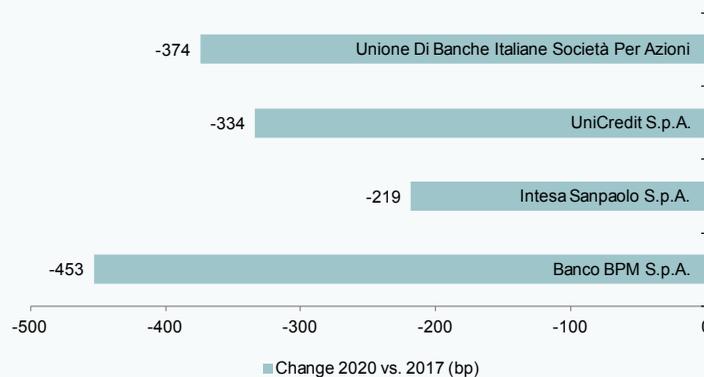
“ The adverse scenario depicted by the Bank of England in its December stress tests is expected to be even more severe, so that the impact on capital depletion could be considerably higher. ”

## Exhibit 7

### Stress test results: Italy

(Impact on fully loaded CET1 ratio)

(Continued)



Source: EBA and authors' own elaboration.

risk premium, and, by extension, the quality of the banks' assets and their funding costs. This is due to the current conflict between the Italian administration and the European Commission over budget and fiscal discipline.

## Conclusions

The results of the European bank stress tests have come at a time of market tension due to the uncertain outlook for the global economy and the eurozone, as well as specific issues in Italy. One of the consistent aims of the stress tests has been to tackle the negative feedback loop between sovereign risk and bank risk that took such a large toll six years ago. In Italy, the banking crisis is considered unresolved and is vulnerable to a persistent interconnection between public and bank debt. The results of the stress tests do little to allay these concerns.

As for the European banking system as a whole, the tests cannot be considered a definitive and unequivocal statement about its current state and the outlook for European banks. They do, however, reveal a general improvement in the resilience of the EU banking system, with the exceptions of the UK and Italy.

In Spain, the starting capital levels, while ample, are somewhat lower than those in other systems. However, the test results indicate that the Spanish banks are more resilient to adverse scenarios and capable of converging towards the European average.

## Notes

[1] It should be noted that Banco Sabadell, according to a notice filed with the Spanish securities markets regulator on November 3<sup>rd</sup> notes that the EBA charged the non-recurring costs associated with keeping subsidiary TSB's platform plugged into that of Lloyds against its earnings for 2017, when that invoice has been settled, having only impacted the period between January 2017 and April 2018. It claims that the EBA "kept that sum constant for the three-year period," as opposed to the four months for which the bank actually had to pay that fee. It also clarifies that the EBA counted the costs associated with Sabadell United Bank for the three-year stress period even though that subsidiary was sold in July 2017 and neither its earnings nor its assets are recognised in its financial statements.

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# The CoCos (AT1) market in Spain and Europe

Contingent convertible bonds, also known as CoCos, have grown in popularity following the introduction of the Single Resolution Mechanism since they qualify as additional tier-1 capital (AT1) for European banks. While these bonds provide higher yields than other investment grade paper, there are certain risks associated with them that warrant closer analysis.

Salvador Jiménez, Diego Mendoza, Alfonso Pelayo and Fernando Rojas

**Abstract:** In the wake of the financial crisis, the Single Resolution Mechanism was introduced in order to avoid future cases of public bailouts of European financial institutions. This in turn has driven the development of new financing instruments. Of particular note is the growing popularity of contingent convertible bonds, known as CoCos for short. These bonds qualify as additional tier-1 capital (AT1) and pay their holders coupons. In the case of a so-called “trigger event”, the bonds are subsequently

converted into shares. While CoCos offer investors higher yields than other investment grade paper in Europe, there are numerous risks associated with the bonds relating to: i) the potential for conversion into shares, ii) the possibility of not collecting on agreed-upon coupons in the event of regulatory capital shortfall; and, iii) whether or not a bank decides to exercise its call option. Looking forward, there is good reason to believe that, assuming capital buffers remain robust, the

price for CoCos will be relatively unscathed by both geopolitical risks and low profitability in the banking sector.

## Introduction

Thanks to the introduction of the Single Resolution Mechanism, there is now a hierarchy of capital instruments for loss absorption purposes (bail-in) designed to avoid future public bailouts of vulnerable financial institutions. Under the new regime, the first to absorb losses in the event of a bank resolution are the holders of the entity's ordinary shares and reserves (common equity tier-1) or other instruments considered additional tier-1 capital (AT1). The latter category includes preferred shares and CoCo bonds that are the subject of this paper. There are also additional instruments that may be required to absorb losses, such as subordinated bonds (tier-2 capital) and senior unsecured bonds.

Regulators require banks to hold minimum levels of capital to cover unexpected losses that can arise from either a bank's business model or global risks. These capital buffers define the minimum capital ratios, as will be discussed further in this paper (see Exhibit 4).

As a result of the increase in capital requirements, European banks have been forced to tap the capital markets. It is against this backdrop that CoCos have been growing in importance.

## Key characteristics of CoCos

Convertible contingent bonds, or CoCos for short, have played a significant role in the recapitalisation of the banks in Spain and Europe in the wake of the financial crisis. The main characteristics of these instruments

are: (i) they are perpetual instruments; and (ii) they may be converted into shares in the event of a defined contingency whereby the issuer's common equity tier-1 (CET1) capital falls below a certain threshold resulting in the so-called "trigger" event.

It is therefore important to begin by categorising these instruments and describing how they function.

The banks began issuing CoCos back in 2013 following the publication of Regulation EU 575/2013 (the CRR) and the Bank Resolution and Recovery Directive (BRRD). These regulations were introduced with the aim of shoring up banks' capital ratios. Given that CoCos qualify as AT1 capital for solvency purposes, banks began to rely on these instruments in order to meet their new capital requirements.

CoCos are hybrid instruments that combine elements of equity and fixed-income instruments. They are regular bonds that include the possibility of automatic conversion into equity in the event of a specific contingency. If such a situation arose, their holders would receive a specific number of shares (set out in the issue prospectus) in exchange for the face value of their bonds.

Under applicable regulations (Articles 52 - 55 of the CRR), for a contingent convertible bond to qualify as additional tier-1 capital for solvency purposes, it must meet the following characteristics:

- The instruments must be perpetual and fully paid up;
- The issuer may call, repurchase or redeem them after five years with the express authorisation of the supervisory authority;

“ Contingent convertible bonds, known as CoCos, which qualify as additional tier-1 capital (AT1) for solvency purposes, are hybrid instruments that pay their holders coupons with the possibility that they may be converted into shares following a specific trigger event. ”

- Coupon payments have to be suspended under certain circumstances, such as a shortfall of profits or reserves, at the behest of the supervisor if the latter deems that their payment could impair the entity’s solvency or for other reasons at the discretion of the issuer, insofar as stipulated in the prospectus. The suspension of coupon payments does not imply the accrual of amounts unpaid nor is it considered a default event;
- The bonds must include provisions specifying that if a trigger event occurs, the securities must be written down on a temporary or permanent basis or mandatorily converted into ordinary shares of the issuer (CET1). The terms of the issue must also establish the conversion rate, a limit on the amount of conversion and the range for conversion into equity should the trigger event occur.

Article 54 of the CRR refers to the conversion or write-down of AT1 instruments when the CET 1 ratio falls below certain pre-established thresholds, *i.e.*, the contingency or the “trigger” event referred to previously. For the instrument to convert automatically into ordinary shares, the issuer’s CET1 capital must fall to the specified trigger level, which is 5.125% of the entity’s risk-weighted assets for minimum regulatory capital purposes. However, that 5.125% is simply the minimum prescribed in prevailing capital regulations and the issuers and supervisor are free to set a higher trigger level.

### Trends in the CoCo market

Banks in both Spain and across Europe are increasingly issuing CoCos. As shown in Exhibit 1, the volume of outstanding CoCo bonds issued by Spanish banks stands at just over 18.8 billion euros (21 issues),

Exhibit 1

### Volume of outstanding CoCo bonds issued by Spanish banks

(Millions of euros)



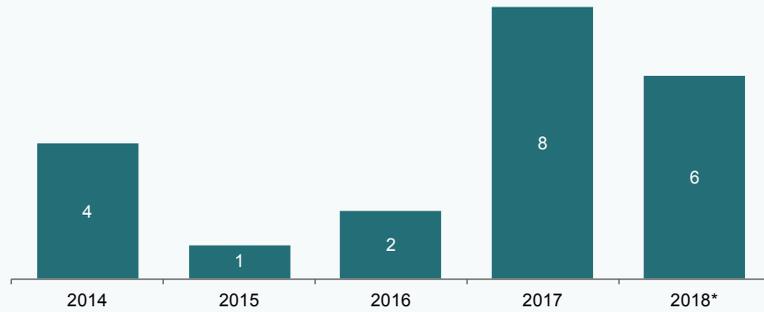
Note: \*To October 2018.

Source: Reuters and authors’ own elaboration.

“ Under EU law, CoCos convert into shares at the ratio stated in the prospectus whenever the issuer’s CET1 capital drops to the stipulated trigger level, which may be no lower than 5.125%. ”

Exhibit 2

**Number of CoCo bond issues by Spanish banks**



Note: \*To October 2018.

Source: Reuters and authors' own elaboration.

which translates into an average issue size of approximately 1 billion euros.

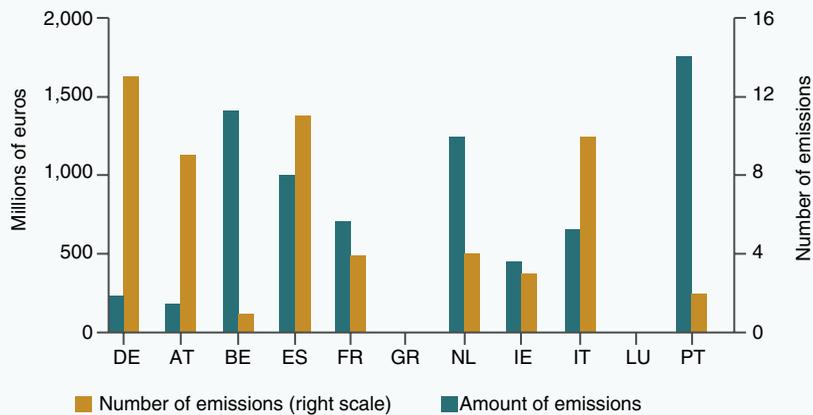
of the new MREL requirements and the improvement in financial conditions.

It is worth noting that the Spanish banks became most active in this segment from the second quarter of 2017, mainly as a result

As for the CoCos issued in the rest of Europe, we note that the Spanish banks, together with their German counterparts, have been the

Exhibit 3

**CoCo issues (number and average issue size) by country to 2Q17**



Source: Bank of Spain.

“ In line with the trend of increased reliance on CoCo issuance in Europe, banks in Spain, together with their German counterparts, have been among the most active issuers, with over 18.8 billion in outstanding bonds spread over 21 issues. ”

most active issuers. By mid-2017, there had been 13 issues by German banks and 11 by Spanish banks. However, the average size of the Spanish banks’ issues is much bigger than that of the German banks, which amounts to 250 million euros.

**Risks for CoCo investors**

Coco bonds’ biggest draw is their high yields, especially given the protracted ultra-low fixed-income yields for investment grade paper in Europe. While the higher yield offers greater protection against future rate hikes, CoCos contain risks that warrant thorough analysis.

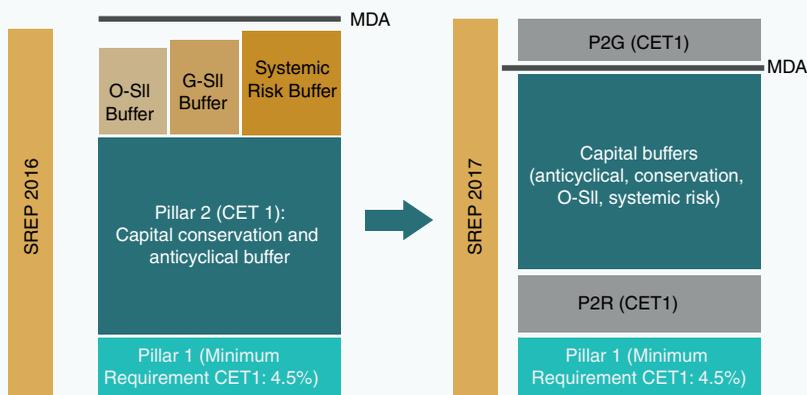
As already noted, the main risk associated with CoCos is the conversion of the bonds into

shares in the event that the issuer’s CET 1 ratio falls below a certain level. Logically, if such a trigger event occurs, a bank’s shares will be worth so little that the CoCo investor would be forced to absorb substantial losses. It is therefore important when investing in CoCos that the issuer bank has enough of a buffer relative to the trigger so that the probability of conversion into shares is as low as possible.

An analysis of some of the main CoCo issuers in the eurozone indicates that, in general, the banks’ capital buffers are fairly high, thereby reducing the probability of conversion into shares.

Another risk worth flagging is the possibility of not collecting the agreed-upon coupon

Exhibit 4 **SREP capital requirements for European banks**



Source: ECB and authors’ own elaboration.

“ Coco bonds’ biggest draw is their high yields, especially given the protracted ultra-low fixed-income yields for investment grade paper in Europe, but CoCos contain risks that warrant thorough analysis. ”

in the event of a shortfall in regulatory capital. Following the division of the Pillar 2 [1] requirements by the supervisor for 2017 purposes, the maximum distributable amount (MDA) fell. The risk implicit in holding CoCos is a decline in capital below the required minimum, which would then trigger a suspension in coupon payments. As a result of the reduction in the MDA, the probability of not collecting the coupon also declined.

That said, the banks we analysed have significant capital buffers relative to that required by the supervisor, such that the probability of breaching the MDA threshold is small.

The third risk is a feature common amongst most CoCos. Specifically, from year five after the issue, the issuer is usually entitled to call the bonds. This eventuality is not a major risk in itself because if the option is exercised, the investors will recover the face value of the CoCo (or close thereto). Alternatively, if it is not exercised, the CoCo will continue to pay attractive coupons, assuming the entity does not hit the MDA trigger.

The main reason an issuer is likely to prepay an issue of this nature is to try to refinance and tap more attractive financing terms than

those that existed in the market at the time of the original issue.

For example, the CoCos issued between 2013 and 2014, when interest rates were still relatively high compared to current rates, are likely to be prepaid in 2018-2019, to the extent they feature this option. In the event that eurozone issuers opt not to exercise their call options, they will face spreads in the coupons payable of around 600 basis points on average. This is therefore a clear incentive to prepay the “old” issues.

The average coupon on these issues was over 6%. If banks do not exercise their call options, the coupons payable would average 7.5%-8%. Despite the recent spike in spreads on these types of issues, they remain at acceptable levels and, notwithstanding our belief that those spreads and benchmark interest rates (IRSs in general) are likely to continue to rise in the coming years, the “financial” incentive to prepay is clear-cut.

Indeed, not doing so would imply an increase of over 115 basis points over current coupons, tantamount to a 20% increase in costs compared to current coupons. This would translate into an increase in related annual interest expense

**Table 1 CoCo interest expense in the eurozone**

(Millions of euros)

	Coupon in case of not exercising the call					
	Coupon (%)	Expected base rate (%)	Spread (bp)	Coupon (%)	Coupon var. (bp)	Cost increase (%)
Average	6.380	1.75	590	7.7	128	21
Weighted Av.	6.276	1.70	573	7.4	116	19
		Volume	Curr. Expense	Exp. Expense	Δ Expense	
		45,777	2,873	3,404	531	

Source: Authors' own elaboration.

Exhibit 5

**Yields as per ICE Bank of America CoCo Index**

(Percentage)



Sources: Bloomberg, ICE Bank of America, authors' own elaboration.

equivalent to over 530 million euros in the European banking sector as a whole.

This analysis reinforces the idea that in the current market conditions, it would be worthwhile for most issuers to exercise the looming call options.

The risk for investors lies in the potential that the price of the CoCo could decline. The market, in relation to a specific CoCo, prices in prepayment as the call exercise date approaches, but the issuer can decide not to exercise this option. This could lead to a negative market interpretation, thereby driving down the price of the CoCo.

It is worth noting that the CoCos are perpetual instruments and their prepayment options mean there are different ways of determining the yield on these bonds. Specifically, the yield can be calculated to the next call date or it can be calculated as a yield to maturity (perpetuity). At present, using the ICE Bank of America CoCo Index as our benchmark, the yield to the average call date (YTC) is 6.1%, whereas the yield to maturity (YTM) is 6.9%.

If the bonds were not prepaid on their call dates, it is likely that the market would

price in the possibility of widespread non-prepayment. This would probably result in the convergence of the YTC towards the YTM. Although issue-by-issue analysis is necessary, if yields were to increase in this manner, there would be a general adverse impact on CoCo prices.

### Outlook for CoCo prices

The key variable to monitor in terms of the likely trend in CoCo prices is the solvency of the financial institutions. This is evident in the trend in CoCo prices in 2018 relative to equities. Whereas the European banks have seen their share prices (total return) correct by around 25% this year, CoCos have sustained much narrower price losses of approximately 5%. On the equity side, the financial sector is being adversely affected by several factors: (i) the banks' ROEs remain low; (ii) interest rates have yet to rebound and the rate curve remains flat; and, (iii) the decline in Italian bond prices as a result of uncertainty over banks' exposure to Italian sovereign debt.

In general, the market is taking into consideration both the prospect that banks' profitability will remain low in the coming years (if the current interest rate environment

persists) and ongoing geopolitical risks. However, CoCos, insofar as capital buffers remain high, have been relatively unscathed by the present environment.

Going forward, it will be important that banks keep those buffers at least as high as current levels. Several factors should serve as tailwinds: (i) there are regulatory incentives to keep capital levels high (completion of Basel III; creation of bank resolution mechanisms; TLAC/MREL); and, (ii) the ongoing and significant decline in non-performing assets. As a result, impairment provisions should also trend lower so that the banks' income statements will not be affected by additional provisions.

### **Notes**

[1] In 2017, Pillar 2 capital was divided into the Pillar 2 Requirements (P2R), which are mandatory, and Pillar 2 Guidance (P2G), which is not mandatory but must be justified in the case of non-compliance.

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# The shifting structure of customer deposits in the Spanish banking system

As a result of persistently low interest rates over the past decade, the traditional mix of deposits has shifted in favour of demand deposits at the expense of term deposits. While it is unlikely that the ECB will initiate the normalisation of interest rates in the near-term, it is worth analysing how such a scenario could impact Spanish banks' margin recovery, given the sensitivity of improvement to banks' management of customer funds.

Ángel Berges, Fernando Rojas and Federica Troiano

**Abstract:** The persistence of abnormally low interest rates has had a significant impact on the structure of customer funds managed by the Spanish banking sector. That structural change has affected both the mix of off-balance sheet funds relative to deposits (with the former clearly predominating in recent years) and the breakdown between term and demand deposit. Over the last few

years, the traditional mix of 60/40 in favour of term deposits has shifted towards demand deposits, which currently represent 80% of all deposits. The increased weight of demand deposits as a structural source of funding has significantly lowered banks' funding costs. However, cautious observation is necessary, especially in the albeit unlikely near-term event of monetary policy normalisation. In

“ The change in the make-up of the deposit base, marked by a clear shift towards demand deposits, has enabled the banks to lower their funding costs in the context of ultra-low interest rates. ”

such a scenario, the expected margin recovery would be extraordinarily sensitive to how Spanish banks manage their pool of deposits.

### Historical analysis

The low level of the interest rates (close to zero or even negative) faced by the Spanish banking sector has continued to alter the structure of banks' customer funds. This is evident in the mix between off-balance sheet funds (investment funds under management) and deposits. In terms of the latter, there has been a clear shift in the breakdown between term and demand deposits. Specifically, the share of demand deposits now accounts for 80% of all bank deposits.

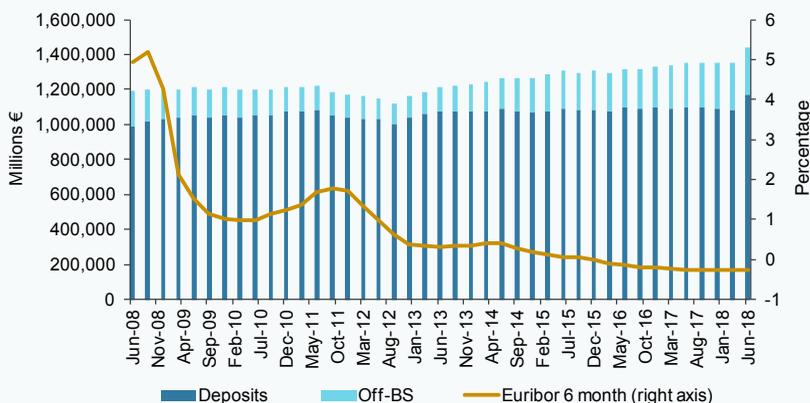
These dynamics have enabled the banks to minimise their funding costs in the total absence of liquidity concerns. This is due to the downtrend in outstanding loans coupled with the virtually unlimited ability to tap funding

from the European Central Bank (ECB). However, the increased weight of demand deposits as a structural source of funding also implies a source of vulnerability in the unlikely event of monetary policy normalisation in the near-term. Under this scenario, the expected margin recovery would be extraordinarily sensitive to how the banks manage their pool of deposits.

Our analysis of the trend in customer funds in the Spanish banking sector begins a full decade ago in the weeks prior to the collapse of Lehman Brothers. The observed trend in customer funds correlates with interest rate movements, which clearly underpinned the shift in the structure of customer funds.

Exhibit 1 depicts the trend in the mix between customer deposits and off-balance sheet funds for the Spanish banking system over the specified time period. At around 1 trillion

Exhibit 1 **Deposits vs. off-balance sheet (BS) funds**



Source: Bank of Spain and authors' own elaboration.

“ At around 1 trillion euros, customer deposits have been virtually stable throughout the entire decade, whereas all of the growth in customer funds has come via investment funds, which have more than doubled from just over 100 billion euros in 2008 to almost 280 billion euros by mid-2018. ”

euros, customer deposits have been virtually stable throughout the entire decade, whereas all of the growth in customer funds has come via investment funds, which have more than doubled from just over 100 billion euros in 2008 to almost 280 billion euros by mid-2018. It is clear that the drop in benchmark rates has played a key role in this shift from savings to funds, to the detriment of deposits. This trend is represented in the exhibit by the 6-month Eurobor rate, which has been trending very close to or even below zero for the past five years.

Unquestionably, the marketing strategies pursued by the banks have also played a role. These strategies have focused on investment funds, which generate much higher fee income than bank deposits. It is worth noting that fees from the management of off-balance sheet

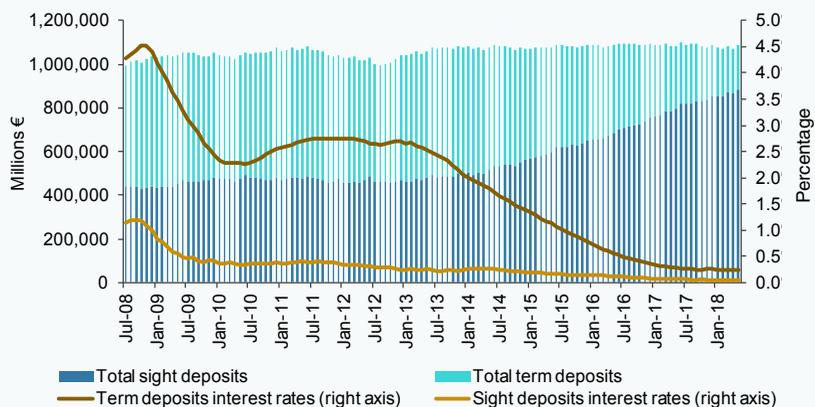
funds have increased by over 8 billion euros during the last decade. This growth would never have been achieved if customer funds brought in had been put into deposits, given that banks have earned next to nothing for these deposits over the past five years.

Indeed, the fact that deposits have made such a scant contribution to the banks' margins explains the liability pricing policies pursued by the banks. This in turn accounts for the relative dynamic between the two main forms of deposits: term and demand deposits.

Exhibit 2 illustrates the trend in term and demand deposits, along with their average rates of return earned. Although returns have dipped for both deposits, returns on term deposits have fallen more sharply due to their

Exhibit 2

**Customer deposits: Demand versus term deposit balances**



Source: Bank of Spain and authors' own elaboration.

“ By mid-2018, 80% of customer deposits were in the form of demand deposits, a ratio never before attained in Spain or the eurozone. ”

higher starting level. This trend has continued to the point where the difference between remuneration on term versus demand deposits has narrowed to just 0.2%, an all-time low.

It is obvious that the convergence between interest on term and demand deposits is the main reason for the structure change in the mix between the two deposit categories. The historical trend, and one that continues to prevail in several European countries, is marked by a mix between term and demand deposits of around 60/40. This trend began to evolve towards the end 2012, when the ECB's commitment to preserving the euro encouraged the belief amongst banks that: (i) liquidity was guaranteed via the ECB; and, (ii) this would mean that rates would remain at ultra-low levels for a protracted period of time.

It was precisely at this time that the spread between the return on term and demand deposits embarked on a period of sharp contraction. This prompted a similarly dramatic shift from term to demand deposits, insofar as the relative convenience and immediacy for demand deposit-makers was no longer penalised by a higher opportunity cost. This systematic move has continued to alter the split between term and demand deposits. Specifically, by mid-2018, 80% of customer deposits were in the form of demand deposits, a ratio never before attained in Spain or the eurozone.

This deposit structure provides a slightly skewed snapshot as it implies funding medium- and long-term assets with liabilities that can largely be redeemed on demand. That being said, the distinction is not all that meaningful considering term deposits that fetch a return of 0.20% have penalties for early withdrawal that could be virtually nil. Consequently, this can hardly be described as a secure and stable source of funding.

For this reason, the prevailing deposit structure, which is markedly biased towards demand deposits, is not a source of particular concern in terms of liquidity management. It has, however, been a driving force behind the sharp reduction observed in average funding costs, partially mitigating the sharp contraction in margins deriving from the rate panorama during the last five years (zero and even negative rates).

By that same logic, it is possible that the management of liabilities, and their cost, will be a key factor in the anticipated and long-awaited recovery in margins when monetary policy embarks on gradual normalisation, benchmark rates (*e.g.* Euribor) definitively enter positive territory and curves steepen.

### Sensitivity analysis

We have run a sensitivity analysis to estimate the impact on term and demand deposits of an uptick in benchmark rates, using a 100 basis points increase in the 6-month Euribor rate and a time horizon of now and year-end 2020 as our proxy.

The next step was to model the estimated impact on demand and term interest rates, using the 6-month Euribor rate as our explanatory variable and assuming a high pass-on rate of 95% for demand deposit rates and 94% for term deposit rates.

We performed a regression analysis of the series of outstanding demand and term deposit balances in order to obtain a historical sensitivity analysis. Having searched for the best econometric fit, the variables that accompany the trend in interest rates as explanatory variables are:

- The trend in quarterly GDP expressed in year-on-year terms;

Table 1 **Estimated sensitivity of deposits to an increase in rates**

	+ Δ Euribor 6M (bp)
	100
Sight deposits interest rates (bp)	19.52
Sight deposits stock (€ millions)	-329,663
Term deposits interest rates (bp)	91.23
Term deposits stock (€ millions)	407,354

Source: Afi.

- The trend in quarterly house prices expressed in year-on-year terms;
- The trend in the yield on 2-year Spanish Treasury Bills;
- Rates earned on term deposits (modelled using the 6-month Euribor rate);
- The incorporation of a dummy variable in 1Q18 for term deposits and in 4Q12 for demand deposits.

Table 1 shows the results of the sensitivity analysis in the event of a 100 basis point increase in the 6-month Euribor rate curve.

Our sensitivity analysis shows that in the event of a 100 basis points increase in the 6-month Euribor rate, with all other control variables remaining the same, the term deposit rate would increase by 91 basis points. This is due to the fact that 6-month Euribor has a bigger impact on term deposit rates than on demand deposit rates, as is observed when analysing the historical trend.

Again assuming a 100 basis points increase in the 6-month Euribor rate, the stock of demand deposits, via the rates offered on term deposits, would decrease by approximately 330 billion euros, while the stock of term deposits would increase by 407 billion euros, resulting in an

aggregate net increase in deposits (term plus demand) of around 75 billion euros.

The estimates for both the stock of deposits and rates come from an econometric model applied to the last decade and therefore extrapolate a ‘reaction function’ on the part of the banks similar to that observed in the past. Such a hypothesis would be valid only in the event that rate normalisation occurs gradually (between two and four years) and with a well-defined finishing line (a ceiling on ECB rates of 1.5%). In the event of a swifter pace of rate increases, the likely eruption of a price war for stable funds –specifically, the more than 800 billion of term deposits– would translate into a much faster and more intense increase in the cost of term deposits and, by extension, average funding costs, with term deposits gaining considerable weight.

Therefore, even though monetary policy normalisation is unlikely in the short-term, such a scenario could result in widespread margin expansion. However, the improvement is likely to be highly sensitive to how the banks manage their customer funds.

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

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# The sustainability of Spain's trade surplus

Spain has experienced a historically anomalous period of high GDP growth without generating a corresponding trade deficit. An analysis of Spain's underlying import and export dynamics reveals that, while the latest Spanish export data show some deterioration, the country's trade surplus may still have the potential to remain positive, if the economy continues to expand.

Rafael Myro

**Abstract:** By the end of 2017, the Spanish economy had experienced three years of GDP growth of at least 3%. This is highly unusual and has not occurred in more than three decades. Moreover, periods of high growth have typically corresponded with trade deficits, yet this most recent growth trend has occurred in the context of a positive current and capital account balance. Given that many companies have yet to maximize their exposure to foreign markets, there is

still significant room for growth in exports. In terms of imports, their sensitivity to final demand growth has fallen. Therefore, despite some recent negative performance reflected by Spain's latest export figures, on the basis of an analysis of long-term import and export trends, we believe that if the Spanish economy continues its expansion, there is potential to do so without generating trade imbalances, thereby reducing the country's unemployment rate and borrowings. It should be noted,

“ At 2.6% of GDP during the first three quarters of 2018, the long-standing deficit in the goods trade balance is currently at one of its lowest levels in 50 years. ”

however, that there are several downside risks in the current fragile international scenario – oil prices, an increase in the exchange rates and lower global growth- which could negatively impact the trade surplus.

### Introduction

By year-end 2017, the Spanish economy had strung together three consecutive years of annual growth of over 3%. Furthermore, Spain's balance of trade in goods and services as well as its current and capital accounts were in surplus. It wasn't until the start of 2018 when these key indicators began to show signs of weakness. What's more, at 2.6% of GDP during the first three quarters of 2018, the long-standing deficit in the goods trade balance is currently at one of its lowest levels in 50 years.

The longevity of this surplus is a new development for the Spanish economy. Not since 1970-1973 has Spain experienced three straight years of GDP growth of over 3% without a corresponding trade deficit. This typically required a currency devaluation coupled with measures to curb aggregate spending.

Precisely because this situation is new, and in light of the potential threats to its consolidation unfolding this year, it is important to determine whether this growth trend can be sustained. It is, without doubt, the Spanish economy's biggest challenge today. For an economy with a high unemployment

rate, the ability to continue posting GDP growth of over 3% is key as this could lead to growth in employment without renouncing increased productivity. Moreover, this new growth pattern must be underpinned by balanced trade accounts if it is to be sustained. This is all the more vital given the magnitude of Spain's foreign borrowings.

Consequently, this paper attempts to assess the sustainability of Spain's balanced trade accounts in the context of average GDP growth of 3%. In other words, it will evaluate the Spanish economy's ability to generate growth without unleashing imbalances in its foreign accounts. To this end, the paper first looks at the recent trend in the balance of trade in goods and services. It then analyses separately the dynamics in exports and imports with the aim of substantiating a solid outlook for the trend in the trade balance for the coming years.

### Economic recovery and trade surplus

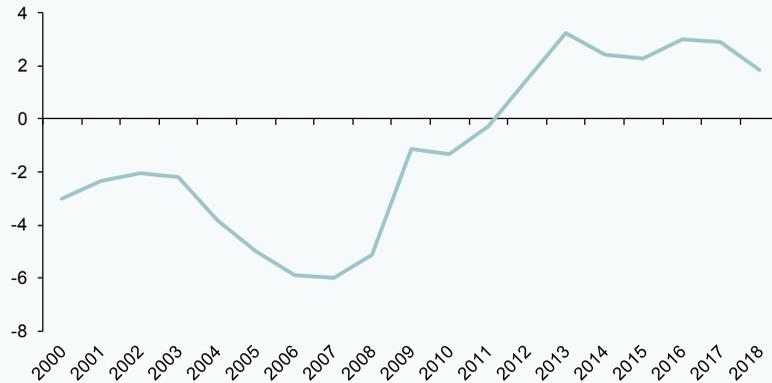
Between 2002 and 2007 Spain experienced considerable growth in the volume of national demand. However, output failed to keep up, triggering sharp growth in imports and a considerable trade deficit (6% of GDP in 2007 measured in constant prices) (Exhibit 1). Adding in income, transfers and the other components of the current and capital accounts of the balance of payments, the deficit climbed to 10% of GDP.

“ For an economy with a high unemployment rate, the ability to continue posting GDP growth of over 3% is key for Spain as this could lead to growth in employment without renouncing increased productivity. ”

Exhibit 1

### Balance of trade in goods and services

(As a percentage of GDP in current prices)



Source: Eurostat.

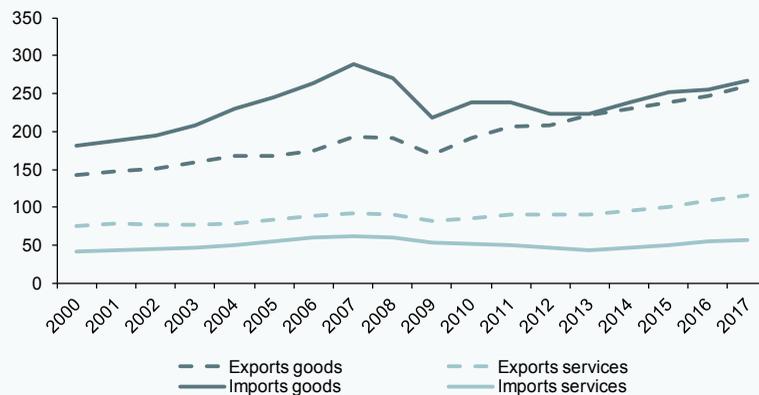
In the wake of the 2008 financial crisis, national demand collapsed, curtailing imports just as growth in exports began to accelerate. By 2011, Spain's deficit had transformed into a surplus. Over the course of that year, exports virtually matched imports in current terms. In

the years to follow, exports would increasingly outsize imports, without hindering the Spanish economy's efforts to shake off the recession and return to growth. In 2016, the balance of trade in goods and services (current prices) peaked at 3% of GDP. In

Exhibit 2

### Exports and imports in Spain

(In billions of 2010 euros)



Source: Eurostat.

“ Export growth since 2011 was driven almost equally by an expansion of both goods and services. ”

2017 it remained close to 2.9%. However, in 2018 this figure fell and is expected to end the year at around 1.9%. The main cause of this one-off deterioration is an unusually weak export performance during the first three quarters of the year, particularly in those markets outside of the EU as well as with the spike in oil prices. The export markets that slowed the most include Brazil, Canada, the US, Mexico, Morocco and Russia. One reason for this is the appreciation of the euro against these countries' currencies, an effect that was particularly pronounced amongst the BRICS. In other cases, such as the US and Japan, this appreciation occurred in 2017, but its effects didn't fully materialised until 2018.

This positive trend in the balance of trade of goods and services has not only derived from the growth in exports but also, to a somewhat surprising extent, from a remarkable and unexpected slowdown in imports. On the export side, growth since 2011 was driven almost equally by an expansion in goods *and* services exports. Of note is the tremendous growth in receipts from tourism, which has topped 5% since 2011, with an annual average growth rate of 6.1% between 2013 and 2017. [1] The slowdown in imports was similarly underpinned by an easing of both goods and service imports (Exhibit 2).

### **The surprising export story**

The recent trend in exports has taken both economists and politicians by surprise. Between 2011 and 2017, exports of Spanish

goods and services grew at an average annual rate of 4.6%, which is faster than the notable growth registered during the boom years prior to the crisis (2001-2007: 3.9%). Moreover, the export boom came at a time of slowing global trade, which has eased from rates of over 7% up until 2007 to rates of less than 4% since 2011. Growth in global trade hit its lowest level in 2015 and 2016, averaging 2.6%. This is especially significant given that it was below global GDP growth, something that had rarely happened in the previous decades. [2]

This trend is all the more surprising considering the fact that more than 50% of Spain's exports go to the European Union, one of the regions most affected by the crisis. Another source of surprise is the fact that the growth in Spanish exports during the above-mentioned period exceeded that recorded by the other European economies, even Germany, whose export-oriented economy has an extensive footprint in Asian markets. Thanks to their new-found focus on foreign markets, Spain's enterprises have managed to win back some of this lost share of the world trade of goods during the first years of the 2000s (Exhibit 3).

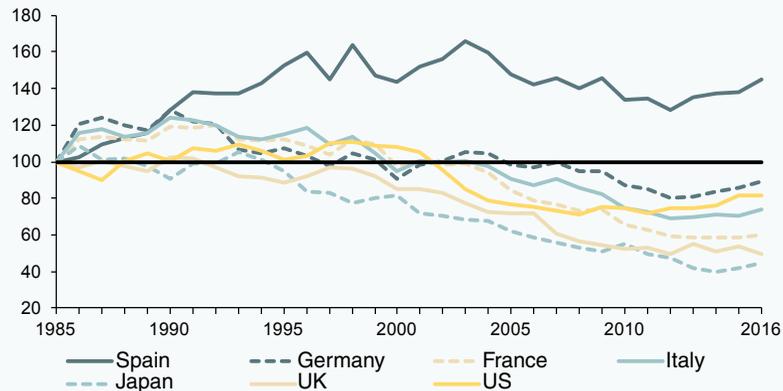
One last reason the trend in exports was unexpected is related to the widespread notion that Spanish products are not very competitive. Some observers have pointed to the daunting size of the trade deficit recorded in 2007 as evidence of this claim. In reality, the scale of the deficit was actually a reflection of excess aggregate spending fuelled by lax monetary conditions.

“ Between 2011 and 2017, exports of Spanish goods and services grew at an average annual rate of 4.6%, which is faster than the notable growth registered during the boom years prior to the crisis (2001-2007: 3.9%). ”

Exhibit 3

**Share of global trade in goods**

(Numbers indexed to 100 = 1985)



Source: WTO.

Some analysts have attributed the momentum in exports during the financial crisis to the drastic drop in internal demand, which forced Spain's enterprises to seek out new markets, and reduce wage devaluation. This in turn boosted their global competitiveness. There are studies that give significant weight to these factors, such as the work of Almunia *et al.* (2018), which attributes the impact of the contraction to internal demand, and that of Salas (2018), which looks at the role of flexible labour market policies introduced in 2012. However, other studies argue that these dynamics had a limited impact (Prades and García, 2015; Bank of Spain, 2017; and Crespo and García Rodríguez, 2015). The 2018 slowdown in exports appears to support the thesis posited by those who emphasise the importance on the demand and price factors. However, as already noted, the

2018 developments are most likely a one-off occurrence. Exports also contracted sharply in 2012 despite currency depreciation.

The idea that export growth in the years since 2010 is part of an upward trend initiated by Spain's membership in the EEC in 1985 is more plausible. In other words, the years of recession and subsequent recovery have barely interrupted the momentum that preceded these events (Exhibit 4). Nor have the respective contributions by the *intensive and extensive margins* to the growth in exports changed meaningfully (Lucio *et al.*, 2018). [3]

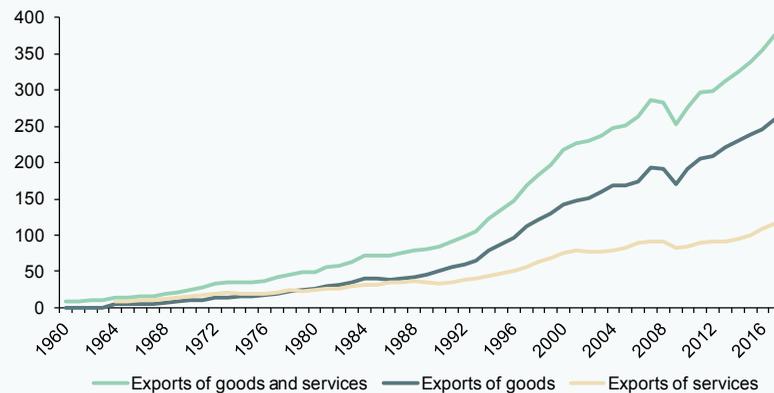
In fact, the annual rate of growth in export sales volumes has averaged 5.3% since 1985, which is just below the 5.8% average growth in global trade. However, looking only at goods,

“ The growth in Spanish exports between 2011-2017 also exceeded that recorded by the other European economies, even Germany, whose export-oriented economy has an extensive footprint in Asian markets. ”

Exhibit 4

**Spanish exports by volume**

(In millions of 2010 euros)



Source: Eurostat.

the annual rate of growth in Spanish exports has averaged 6.3%, which is a little higher than the global rate (6.07%). This explains why Spain saw its share of world trade in goods increase considerably between 1985 and 2017, as shown in Exhibit 3. Note that the trend is not linear but rather materialises after several oscillations. Spain stands out alongside Germany for the growth in market share since 2011. Both economies have also sustained the smallest contraction in market share since the start of this century.

The contraction in Spain's share of the world goods trade during the years immediately following the crisis is attributable to two key factors: (a) the growth in Chinese exports since China joined the WTO in 2001 (prompting all of the advanced economies to lose share); and (b) excessive dependence on the European Union markets at the start of this century (nearly

70%), years during which the EU's contribution to growth in international demand for goods declined (Álvarez and Myro, 2018).

In response to this adverse situation, Spain's enterprises began to diversify their export markets, embarking on a gradual reduction in the concentration of their EU sales to 62.9% by 2014. This new strategy enabled them to tap the growth in demand from emerging markets when the crisis erupted and is largely responsible for the surprising export performance in recent years. As well, the continuity of emerging markets' growth during the initial years of the crisis stimulated further market diversification. [4]

As explained in the Uppsala Model, these events are fairly common for a country as new to exporting as Spain. Spanish exporters

“ In response to losing market share of the global goods trade in the first years of this century, Spain's enterprises began to diversify their export markets, which prepared them to better meet EM foreign demand during the crisis. ”

“ Assuming the moderate growth in global trade forecast by the IMF for the coming years –around 4% per annum– and an even split between the EU and the rest of the world destination-wise, Spanish exports would trend in line with that figure. ”

turned first to the most favourable markets and later set their sights on more distant and less familiar markets.

The prolonged expansion in Spanish exports has also been driven by several other key factors: a) a product supply mix with a variety of technological content that is increasingly in line with the structure of global demand (Myro, 2015); b) the growing sophistication of the products exported (Álvarez and Vega, 2016); c) an improvement in quality across the spectrum of goods supplied; d) a good combination of old and new markets; e) a well-populated group of leading enterprises, which boast relatively high efficiency levels and have already breached the most advanced frontier of international expansion, namely the establishment of subsidiaries in a broad number of countries (Esteve and Rodríguez, 2014); and, lastly, f) Spanish enterprises' increasing capacity to join global supply chains, injecting stability into their sales abroad (Gandoy, 2015).

The growth in Spanish exports has not only had a positive impact on the trade deficit and the sustainability of industrial production, but has also led to an increase in the size and productivity of the Spanish exporters, enhancing their ability to compete (Eppizin *et al.*, 2015; Serrano and Myro, 2017).

In light of the above, what is the outlook for export growth in the years to come?

There is little doubt that exports will grow at least in line with international trade, as has been the case for the last three decades. Assuming the moderate growth in global trade being forecast by the IMF for the coming years –around 4% per annum– and an even split between the EU and the rest of the world

destination-wise, Spanish exports would trend in line with that figure.

However, between 2011 and 2017, exports of Spanish goods registered annual volume growth of 4.6%, outstripping the growth in foreign demand (3.5%) by more than one percentage point. If this differential were to persist, Spanish goods exports could register growth of over 4%, pushing up the rate of growth in aggregate exports of goods and services. However, this differential could well be offset by a slowdown in tourism.

There are sufficient reasons to expect Spanish goods exports to grow faster than global demand. Spain still has highly competitive industrial sectors which are relatively inward-looking, such as the food industry. As well, Spanish companies have room to expand in the Asian, North American and Northern European markets. Moreover, there is significant scope for Spanish companies to increase their penetration of global value chains. [5] Currently, Spanish exports remain overly dependent on a comparatively small number of products (Easterly, 2000). Thus, Spain's exporters have room to increase the number of products they export and the value of their products as they converge towards the European Union average.

These forecasts would be higher if more dynamic industrial and trade promotion policies were adopted. According to the work of Helpman (2011), the primary factor shaping international expansion relates to companies' productivity, which gives them the ability to support the fixed and variable costs that exporting implies. Another significant factor is firms' management capabilities, as this helps better calculate and prevent the risks involved with penetrating foreign markets

Table 1 **Export premium and probability of exporting (2009-2013)**

	Average estimated difference between exporters and other firms		Probability of exporting
	log	%	
Wages	0.077*** (0.011)	8.00	2.373*** (0.450)
Unit labour costs	-0.094*** (0.023)	-8.97	-0.515*** (0.169)
Productivity	0.166*** (0.024)	18.05	1.011*** (0.192)
Management quality	0.315*** (0.024)	37.02	2.663*** (0.212)
Human capital control	Yes	Yes	Yes
Size control	Yes	Yes	Yes
Sector control	Yes	Yes	Yes
Year control	Yes	Yes	Yes

*Note: The robust standard errors are shown between parentheses. \*, \*\*, and \*\*\* indicate statistical significance at confidence intervals of 10%, 5% and 1%, respectively.*

*Source: Author using the ESEE survey.*

(Serrano and Myro, 2016). Less important are unit labour costs and low wages. Table 1 shows the differences in these variables between exporters and non-exporters using the Survey About Business Strategies (ESEE for its acronym in Spanish) for 2009-2013. The industrial firms that export present the highest productivity levels and are the best managed. Thanks to their high relative productivity, they also present lower unit labour costs, despite paying their employees higher wages.

The empirical evidence obtained from that same survey contains another indication of the growth potential for Spanish exports. In 2014 and 2015, 9% of the industrial enterprises

included in the ESEE presented the median productivity score of the exporters but were not exporting. The non-exporters with the greatest potential to export included firms from the food, graphic arts, non-metallic mineral products and metallic products sectors.

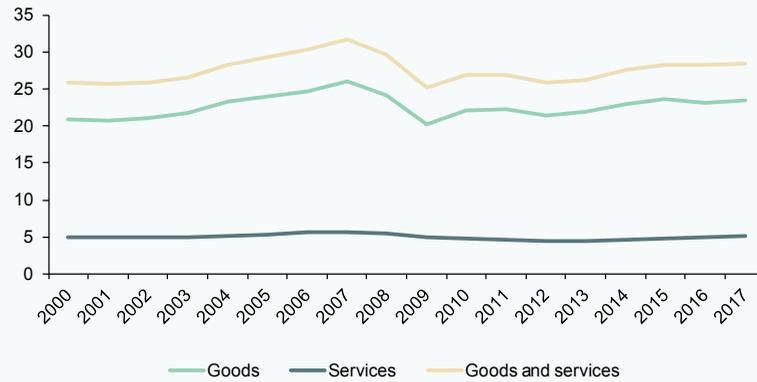
### The surprising import story

If the recent trend in Spanish exports has been surprising, the import dynamic has been even more astonishing, with imports having grown by less than was expected. Based on the pattern during the growth years prior to the crisis, the general consensus was that imports would increase their percentage

“ Since Spain joined the EEC, total imports have increased 2.2 times more than final demand –2.3 times in the case of goods–, but from 2014 this ratio has fallen to 1.5. ”

**Exhibit 5 Real imports of goods and services in Spain**

(Percentage of GDP)



Source: Eurostat.

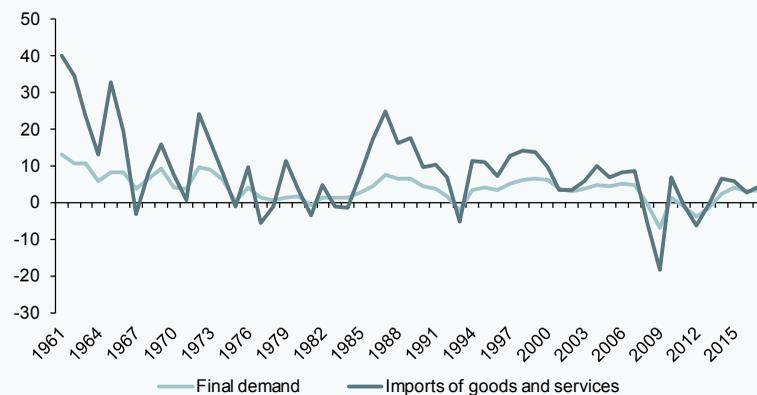
weight in GDP. However, this metric has been relatively stable (Exhibit 5).

In order to assess the outlook for growth in imports for the coming years, it is important

to understand the long-term drivers of import growth. Since Spain joined the EEC, the volume of goods and services imported has been growing at a high average rate of 6.9%, nearly one-and-a-half percentage points

**Exhibit 6 Real imports of goods and services and final demand**

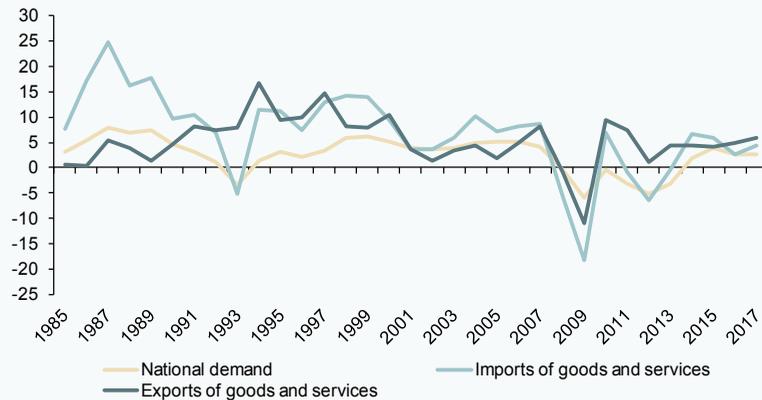
(Annual rates of change)



Source: Eurostat.

## Exhibit 7 Imports, national demand and exports

(Annual rates of change)



Source: Eurostat.

above that of exports (5.2%). At 7.3%, imports of goods have grown even faster, while growth in service imports has averaged 5.4%. Considering that during this same period final demand grew by an annual average rate of 3.1%, total imports have increased 2.2 times more than final demand, a multiple that increases to 2.3 times in the case of goods.

Those figures fit well with the income elasticity estimated in García *et al.* (2009) of 2.2 for all regions and 2.5 for imports from the EU. However, these are averages. In reality, the relationship between final demand and imports of goods and services are considerably less stable than the above-mentioned elasticity estimates (Exhibit 6). Until Spain joined the EU, growth in imports was more in line with that of final demand, albeit with major swings from one year to the next. Membership of the EU would appear to have intensified Spain's dependence on foreign goods, particularly in the long period of growth between 1985 and

2000. Since then, however, imports have reacted more moderately to growth in final demand.

The response of imports to the trend in national demand is mainly due to two factors that came to the fore between 1985 and 2000. The first relates to the growth in exports. The second is the growth in import content of final demand, which lasted until 2000 and was a result of the formidable growth in global value chains (Timmer *et al.*, 2016).

Since 1985, the noteworthy expansion in exports has triggered considerable growth in the imports needed to facilitate the production of the goods exported. The earliest estimates of the import content of Spain's exports range between 19% and 26% (Cabrero Tiana, 2012; Gandoy, 2017 Bussière *et al.*, 2013), which is slightly above the content in national demand. It is easy to deduce that an

“ The increase in the import content of exports was the result of Spain's growing penetration of global value chains. ”

annual increase in exports of goods of 11% throughout all of the 1990s had a positive impact on the import of goods and services. Therefore, the import dynamic is easier to understand when plotted against the trend in exports (Exhibit 7).

During the first few years of membership in the EEC, imports from the region soared by far more than would have been expected in light of the growth in national demand and exports. However, as time progressed, the import dynamic fell in line with the trend in these two variables. The sharp growth in imports during the second half of the 1990s would track the similarly impressive growth in exports. The subsequent slowdown of growth in the years prior to the crisis was also related to the slowdown in exports. As noted earlier, this was prompted by a shift in international demand which impacted Spain's main market, the EU.

However, a full explanation of the trend in imports also requires analysis of a second element, namely the increase in the import content that affected the various headings of national demand as well as exports between 1995 and 2000. The increase in the import content of exports was the result of Spain's growing penetration of global value chains. Using Gandoy (2017), the above-mentioned import content estimates suggest a very similar increase for both national demand and exports, of around seven percentage points, from 19% to 26%. This change helps explain the considerable growth in imports between 1995 and 2000. It also helps explain their slowdown from the start of this century until today, as the import content has virtually stagnated since then (falling in 2009 and going on to recover by 2011 at a level close to that of 2008). The import content estimates provided by the Bank of Spain (a continuous

series from 2000) reveal a similar pattern (Bank of Spain, 2017).

Thus, it can be said that exports have radically transformed the Spanish economy since it joined the EEC, not only because of their impact on production, but also their impact on imports.

In recent years, the close correlation between the trends in imports and demand would appear to rule out the existence of any kind of import substitution effect. This is not to say such a phenomenon could not occur in the future, especially given the transformational effects the growing orientation towards foreign markets is having on the Spanish economy. [6] However, we could also see a resurgence in the creation of value chains, which would increase import content levels.

Given the trends outlined up to this point, what can we say about the outlook for imports in the coming years?

The figures for the last few years appear to show that, as for the global economy as a whole, imports depend on the rates of growth in national demand and in exports, at elasticities of close to one (assuming constant import content levels which in reality increase slightly during periods of growth and fall somewhat during recessions).

On this basis, it can be said that an increase in national demand of close to 3% would result in a very similar or slightly higher rate of growth in imports. If exports were to grow at this same percentage, or at the more probable rate of 4%, judging by the IMF's forecasts for global demand, the trade surplus would widen, so that it would be feasible to observe sustained, high growth in tandem with a trade surplus.

“ Exports have radically transformed the Spanish economy since it joined the EEC, not only because of their impact on production, but also their impact on imports. ”

## Conclusions

In this paper, we attempted to assess the sustainability of Spain's current trade surplus. In order to achieve this, we drilled down to the long-term drivers of exports and imports. Our conclusion is that there is still significant room for growth in exports in light of the existence of a large number of companies that have yet to turn to export markets, that productive sectors have so far focused largely on the domestic market, and that many markets are relatively underpenetrated by the Spanish exporters. The recent slowdown in export growth, which is more pronounced in the non-EU markets, may be a transient phenomenon. Import growth, on the other hand, has been moderate for a long period of time and this trend appears relatively stable. Furthermore, it is a development that transcends the Spanish economy and can be explained by the considerable slowdown in the creation of global value chains, which peaked in the 1990s.

In scenarios of strong GDP growth (growth of around 3%), Spain's trade surplus may remain constant or even increase. The growth in the surplus would be even greater in the alternative scenarios of more moderate growth anticipated for the years to come. This means that if the Spanish economy continued to grow at around 3% per annum, it may be able to do so without generating trade imbalances, which would help reduce unemployment and foreign borrowings.

That being said, it should be noted that the upbeat outlook for Spanish growth and foreign trade depicted in this paper is not risk-free. The first and most important risk factor relates to oil prices, which have already made their mark this year. Another considerable risk is the appreciation of the euro. This factor has already had a negative impact on the 2018 figures, particularly in relation to the BRICS. There is also a risk that Spanish companies will face difficulties in penetrating distant and competitive markets. Unless they raise their productivity game by building a stockpile of intangible assets, it will become increasingly necessary for Spanish firms to diversify away from the EU. Elsewhere, national demand could shift back towards goods that are more

intensive in imports, as the economic recovery spreads across all segments of society and average income levels rebound. Lastly, we could see fresh credit bubbles as a result of new real estate overheating.

Against this backdrop, Spain should adopt robust policies aimed at boosting labour productivity at the firm level and foster firms' presence in foreign markets in order to support strong GDP growth in tandem with a trade surplus. This will require initiatives such as employee training policies which target innovation and international expansion.

## Notes

- [1] This rapid growth has slowed in 2018, considerably detracting from the pace of growth in services exports.
- [2] This change in trend can be seen in 1982, 1983, 1985 and 2001. In addition to the financial crisis, it has been attributed to several factors, including a slowdown in the creation of global value chains and a shift in demand towards services with a lower import content (Jääskelä and Mathews, 2015; Timmer *et al.*, 2016).
- [3] For a more detailed analysis of the trend in and drivers of Spanish exports, refer to Myro (2018).
- [4] However, the recent slowdown in emerging markets' growth, coupled with the recovery in the eurozone, has once again increased exposure to the European market, which currently accounts for 67% of Spanish exports, according to Eurostat (foreign trade statistics; not the national accounts).
- [5] To give an idea of the potential, note that in the highly developed food sector, Spanish companies purchase more inputs from German companies for their export products than German companies buy from Spanish companies in order to manufacture the food products they then export.
- [6] In its most recent report, the Bank of Spain detects a reduction in enterprises' importing intensity which it interprets as a possible symptom of an import substitution process (Bank of Spain, 2017).

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# The role of cost competitiveness in eurozone exports: Spain from a comparative sector perspective

This paper analyses manufacturing data from the eurozone's top six exporters in order to determine the relationship between export success and trends in unit labour costs. In line with previous studies, the results show that a decrease in production costs is not the only factor relevant to stimulating exports and that there are other factors which may also be influential in driving growth in Spanish manufacturing exports.

Ramon Xifré

**Abstract:** This paper analyses the relationship between the changes in unit labour costs (ULCs) and the changes in the export market shares of the six biggest exporters of manufactured goods in the eurozone (Germany, France, Italy, Netherlands, Belgium and Spain). First, we analyse the different trends in unit labour costs in 2005-2010 versus

2010-2015 and in the components of ULCs (employee compensation and apparent labour productivity). Spain stands out as the country where the change in the ULC trend has been the most pronounced. During the first period analysed, Spain was the country where ULCs increased the most. Conversely, Spain saw the largest decrease in ULCs in the second period

analysed. Notably, Spain also experienced the largest decline in manufacturing jobs over both periods. As for the relationship between ULCs and export market shares, the figures analysed in this paper show that there is no clear correlation between the two variables at either the aggregate country level or at the product-country level for eight products within the manufacturing sector. Therefore, while ULCs are relevant to some key sectors in Spain, they are not the only factor that determines competitiveness. Consequently, it is important to move beyond the internal devaluation practices adopted to tackle the crisis, given that additional factors aside from cost competitiveness, such as R&D intensity and foreign demand, too have a significant impact on export success.

## Introduction

As noted by Carlin, Glyn and Van Reenen (2001), the correlation between a country's production costs and export success is not clear-cut since there are two offsetting factors at play. On the one hand, globalisation and the intensification in competition between enterprises and countries suggests that exports should become more sensitive to costs, enabling the enterprises and countries that manage to export more cheaply to acquire a larger market share. On the other hand, product competition is increasingly focused around quality, variety, sophistication and technological/innovative content. From that vantage point, price or cost competitiveness does not necessarily yield better results for exporters.

This paper looks at this issue in the context of the manufacturing sector across the eurozone's top six exporters (Germany, France, Italy, Netherlands, Belgium and Spain) using the most up-to-date data available. More

specifically, it analyses to what extent it can be said that the trend in unit labour costs is associated with greater exporting success at the sector level. In this respect, the paper is a continuation and extension of prior pieces of work (Xifré, 2017a and 2017b). Unlike the Carlin, Glyn and Van Reenen (2001) paper, this analysis is only descriptive and far less technically sophisticated. Nevertheless, it includes a study of the Spanish case (absent in the above-mentioned paper) and covers the most recent figures available (2005-2015 compared to the 1970-1992 period covered in the previous paper).

The data are taken from the OECD's STAN Database for Structural Analysis. That database uses the International Standard Industrial Classification of All Economic Activities (ISIC), Rev. 4. The appendix itemises the lines of activity included within the manufacturing industry, which is the subject of this paper.

## Aggregate analysis

Table 1 and Exhibit 1 list the 20 OECD member countries that were the biggest exporters of manufacturing goods in 2016, the last year for which data across all the OECD countries are available. The following information is provided for each country: their shares of OECD exports (*i.e.*, a given country's exports as a percentage of total OECD exports) in 2005 and in 2016, as well as the percentage change between those two years.

The purpose of this preliminary analysis is to determine the key trends in manufacturing exports across the OECD member countries and to select the eurozone's top exporters. The figures reveal that the OECD's top exporter changed between 2005 and

“ Globalisation and the intensification in competition suggests that exports should become more sensitive to costs, enabling enterprises and countries that export more cheaply to acquire a larger market share; but, price and cost competitiveness does not necessarily yield better results. ”

Table 1 **Share of OECD world exports in 2005, in 2016 and the percentage change in market share. Manufacturing sector**

(Percentage)

	Export market share, 2005	Export market share, 2016	Change in export market share, 2005-2016
United States	13.4	15.2	13.6
Germany	15.3	15.1	-1.3
Japan	9.3	7.1	-23.9
Korea	4.7	5.8	25.0
France	6.7	5.5	-19.0
Italy	5.9	5.3	-11.2
Netherlands	4.7	4.8	2.5
UK	5.3	4.3	-19.0
Belgium	5.0	4.3	-14.6
Mexico	2.9	4.0	35.6
Canada	4.4	3.3	-23.5
Spain	2.9	3.0	3.1
Poland	1.4	2.2	63.2
Austria	1.8	1.9	6.1
Czech Rep.	1.2	1.8	49.3
Turkey	1.2	1.6	38.1
Ireland	1.7	1.5	-10.2
Sweden	2.0	1.5	-26.8
Hungary	1.0	1.2	17.9
Denmark	1.2	1.0	-13.1

Source: OECD (STAN).

2016, namely from Germany to the US. In fact, Germany has seen its share of OECD manufacturing exports fall from 15.3% in 2005 to 15.1% in 2016. Other major eurozone economies such as Italy, France and Belgium have also seen their share of manufacturing exports decline. Note that because these export market shares are calculated in relation to OECD exports, the losses sustained by these economies are not related with the exporting buoyancy of emerging economies (*e.g.* China). In other words, these countries' loss of *global* manufacturing export market share will have been higher than the numbers

presented here. Within the group of major eurozone economies, only the Netherlands and Spain have increased their share of OECD manufacturing exports.

Table 1 and Exhibit 1 provide the foundation for selecting the main eurozone economies in terms of world exports to be studied in this paper: Germany, France, Italy, Netherlands, Belgium and Spain (referred to as the EZ6 in this paper).

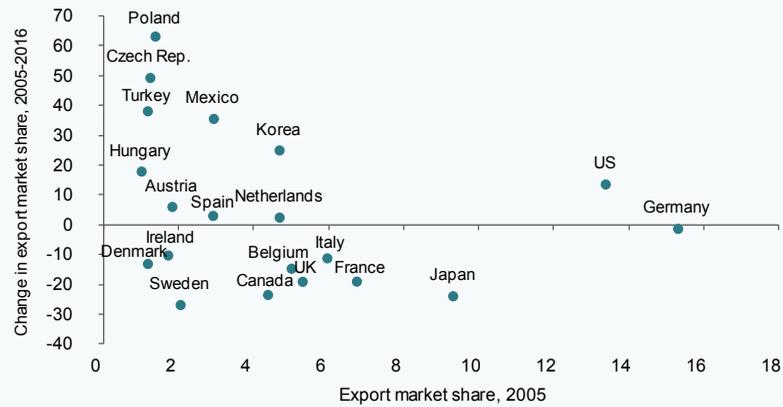
Next we analyse the trend in unit labour costs in the EZ6 for their economies as a whole. To this end, we rely on the approach used by

“ Within the major eurozone economies, only the Netherlands and Spain have increased their share of OECD manufacturing exports. ”

Exhibit 1

**Share of OECD exports in 2005 and change in market share between 2005 and 2016. Manufacturing sector**

(Percentage)



Source: OECD (STAN).

Carlin, Glyn and Van Reenen (2001). These authors take unit labour costs (ULCs) as the key proxy for cost competitiveness and define that metric as follows:

$$ULC = (W/E)/(eQ/N),$$

where  $W$  is employee compensation;  $E$  is the number of employees;  $e$  is the exchange rate;  $Q$  is the volume of output (proxy: value added at constant prices); and  $N$  is employment. In our case, the EZ6 countries share the same currency so that we do not need  $e$  in the above formula in order to make cross-country comparisons. As a result, ULCs depend on: (a) compensation per employee ( $W/E$ ); and, (b) (apparent) labour productivity ( $Q/N$ ).

Using the nomenclature given to these variables in the OECD's STAN Database, we calculate ULCs in this paper as follows:

$$ULC = (LABR/EMPE)/(VALK/EMPN).$$

2015 is the last year included in the following calculations and the last year for which these variables are available for all of the countries analysed. The monetary units are denominated in US dollars.

Exhibit 2a represents the trend in ULCs and components of ULCs –employee compensation and apparent labour productivity– for the EZ6 from 2005 to 2015, ordering the countries from smallest to largest change in ULCs. Exhibit 2b shows the same variables, this time distinguishing between two sub-periods: 2005 to 2010 (pre-crisis) and 2010 to 2015 (post-crisis).

As shown in Exhibit 2a, manufacturing ULCs increased by 5.7% in Germany between 2005 and 2015, with the Netherlands and Italy experiencing even larger increases of 11.3%

“ The OECD’s top exporters changed between 2005 and 2016, with Germany seeing its share of OECD manufacturing exports fall from 15.3% in 2005 to 15.1% in 2016. ”

Exhibit 2a

**Change in ULCs and components of ULCs (employee compensation and apparent productivity), 2005 - 2015. Manufacturing sector**

(Percentage)



Source: OECD (STAN).

and 12.5%, respectively. In France, ULCs expanded by just 1.8%, whereas there was a small decline of 0.9% in Spain. Conversely, Belgium saw a pronounced contraction of 4.1%. Logically, a decrease in ULCs must stem from growth in apparent productivity in excess of employee compensation, while an increase in ULCs derives from the opposite situation, as is evident in Exhibits 2a and 2b.

Exhibit 2b distinguishes between the ULC trend in two sub-periods (2005-10 and 2010-15) and it reports data on total employment (variable EMPN in the STAN database) variation in each period. The trend in this variable is inversely proportionate to the trend in apparent labour productivity. This exhibit

shows that the pattern in ULCs and ULCs components over time is similar during the two sub periods in Germany, the Netherlands and Italy. Actually, in all three countries, ULCs increased during both periods. However, in the other three countries, ULCs increased during the first sub-period and contracted during the second. Spain is the country where the change in the ULC trend before and after the crisis is most pronounced. Specifically, this metric goes from growth of 10.8% in the first sub-period (the highest rate of growth in the EZ6) to a contraction of 10.6% in the second (the biggest contraction).

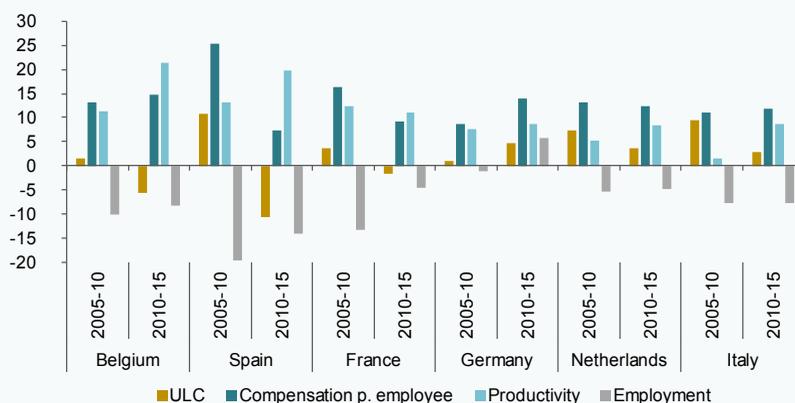
Another point worth noting from Exhibit 2b is the fact that although manufacturing

“ Spain is the country where the change in the ULC trend before and after the crisis is most pronounced; specifically, this metric goes from growth of 10.8% in the first sub-period (the highest rate of growth in the EZ6) to a contraction of 10.6% in the second (the biggest contraction). ”

Exhibit 2b

**Change in ULCs and components of ULCs (employee compensation and apparent productivity), 2005 - 2015 and change in employment, distinguishing between two sub-periods: 2005-2010 and 2010-2015. Manufacturing sector**

(Percentage)



Source: OECD (STAN).

employment declines in nearly all instances (except for Germany in 2010-15), the magnitudes of change vary significantly. In the three countries in which the ULC trend was constant throughout (Germany, the Netherlands and Italy), employment declined by 3.5% on average. In the other three countries (Belgium, Spain and France), it is clear that the growth in apparent labour productivity in the manufacturing sector is attributable to significant declines in the number of employees. Manufacturing employment fell by 11.6% on average in these three countries, which is nearly four times the reduction in the other group. Once again, Spain is the outlier with employment in the manufacturing sector decreasing by

19.5% in the first sub-period and by 14% in the second.

Next, we make our first attempt at exploring the relationship between the aggregate change in ULCs and the aggregate change in export market shares in the manufacturing sector for the six countries within the EZ6. In the following section we conduct a similar analysis broken down by area of activity.

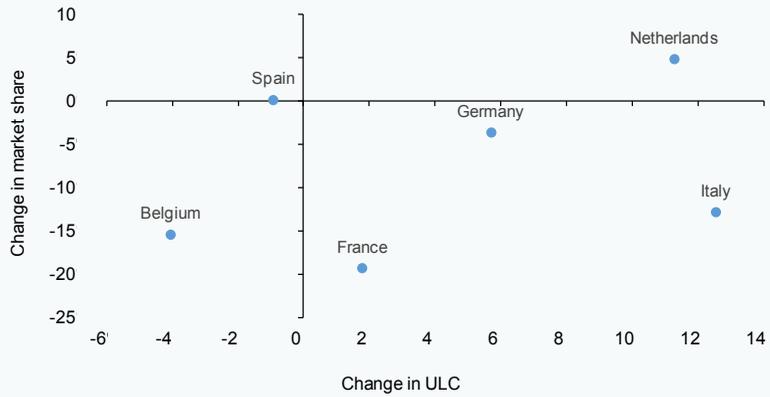
Exhibits 3a, 3b and 3c present the change in export market share and change in ULCs during 2005-15 and in the two sub-periods, 2005-10 and 2010-15, respectively.

“ Once again, Spain is the outlier with employment in the manufacturing sector decreasing by 19.5% in the first sub-period and by 14% in the second. ”

Exhibit 3a

**Change in share of OECD world exports and change in ULCs, 2005-2015. Manufacturing sector**

(Percentage)

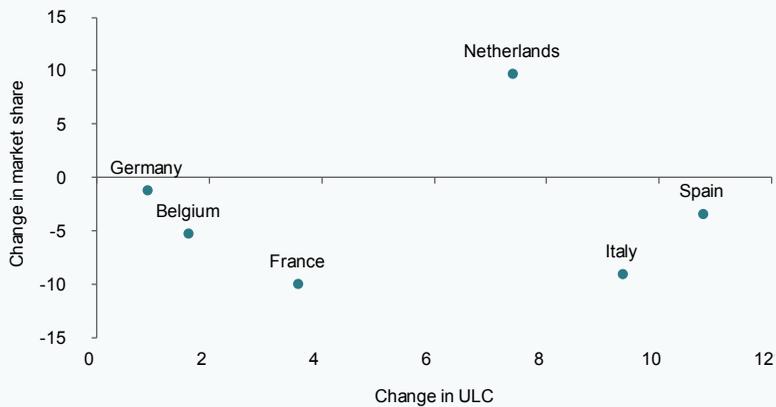


Source: OECD (STAN).

Exhibit 3b

**Change in share of OECD world exports and change in ULCs, 2005-2010. Manufacturing sector**

(Percentage)



Source: OECD (STAN).

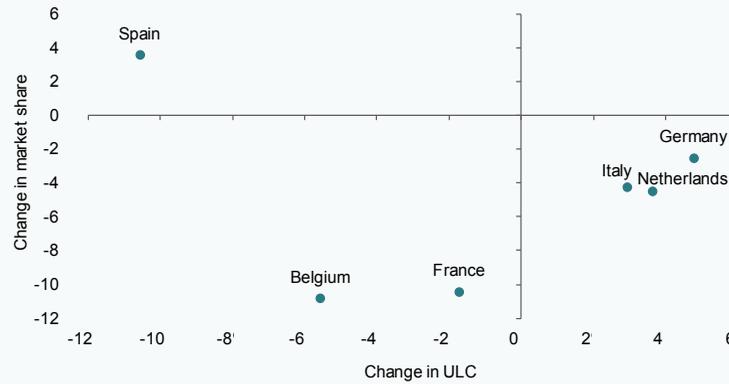
The most basic explanation of the relationship between cost competitiveness and export success maintains that the deterioration of the former translates into loss of the latter. [1] If this hypothesis were correct, we

should be able to observe in our analysis an inverse correlation between the two variables. However, in none of the three exhibits do we see a clear-cut negative correlation between the two variables. However, given the high

Exhibit 3c

### Change in share of OECD world exports and change in ULCs, 2010-2015. Manufacturing sector

(Percentage)



Source: OECD (STAN).

level of aggregation of the observations, it is hard to draw inferences within a reasonable confidence interval.

#### Product analysis

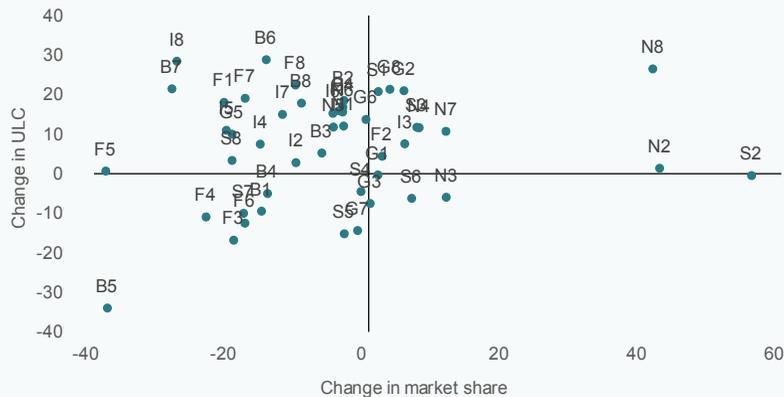
Continuing with the approach taken by Carlin, Glyn and Van Reenen (2001) and with the

aim of refining our analysis of the correlation between ULCs and export market shares, this section examines product-specific changes within the manufacturing industry for each country. To this end, we calculate variables for the eight product categories, which comprise the manufacturing industry.

Exhibit 4a

### Change in share of OECD world exports and change in ULCs, by product, 2005-2015. Manufacturing sector

(Percentage)



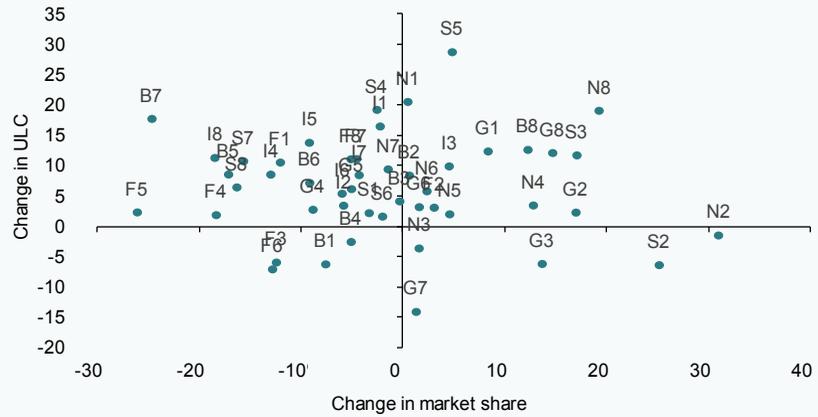
Notes: Each point corresponds to a country and product. The countries are identified by G: Germany; B: Belgium; S: Spain; F: France; N: Netherlands; I: Italy. The legend for the product categories is: 1: food; 2: textiles; 3: paper and wood; 4: chemicals and fuels; 5: metals and metallic products; 6: machinery and equipment; 7: motor vehicles and transport; 8: furniture and other (refer to the appendix for additional details about the sector classification).

Source: OECD (STAN).

Exhibit 4b

**Change in share of OECD world exports and change in ULCs, by product, 2005-2010. Manufacturing sector**

(Percentage)



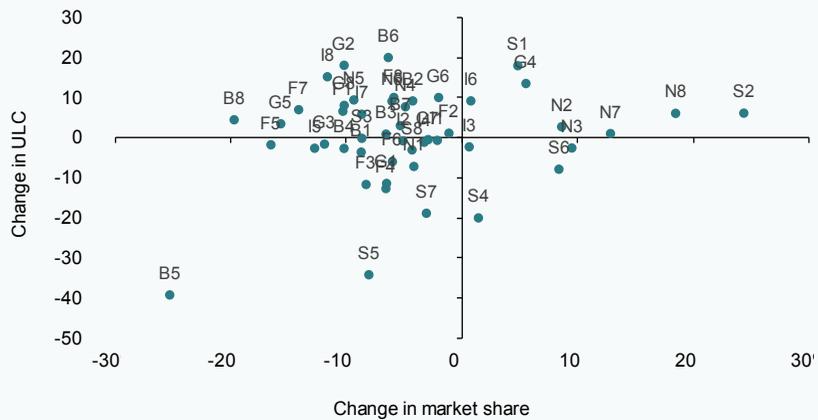
Notes: See notes for Exhibit 4a.

Source: OECD (STAN).

Exhibit 4c

**Change in share of OECD world exports and change in ULCs, by product, 2010-2015. Manufacturing sector**

(Percentage)



Notes: See notes for Exhibit 4a.

Source: OECD (STAN).

Exhibits 4a, 4b and 4c are analogous to Exhibits 3a, 3b, and 3c, respectively, the only difference being that they present the data broken down into these eight product categories. This means that each point represents the observation for a given country and product and shows both the change in the corresponding share of OECD exports and related ULCs.

As shown in these exhibits, there is no clear inverse correlation between the two variables at the product level in the full period (2005-2015) or in either of the two sub-periods analysed. Table 2 presents the correlation coefficients and the corresponding p-values for the three cases represented in Exhibits 4a – 4c. None of the correlations observed ranks as statistically significant.

In fact, the highest correlation observed, which corresponds to the second sub-period

(Exhibit 4c), is positive. This suggests that the increase in ULCs was associated with market share gains, in contrast to the most basic assumptions regarding the correlation between the two variables posited above.

It is important to note, however, that most of the EZ6 countries lost market share between 2005 and 2015 and that this loss of market share is also observed at the sub-sector level. As shown in Exhibits 4a – 4c, the only sub-sectors to have gained substantial market share during this period are found in the Netherlands and Spain, which is consistent with the pattern observed in Exhibit 3a.

Lastly, Exhibit 5 provides the breakdown of export value by sub-sector in 2005 and 2015 for the EZ6 countries. These figures show that in the two countries that have seen their export market shares increase, there are similarities as to the product categories that have increased in importance

**Table 2 Correlation coefficients and p-values for the country / product change in ULCs and export market shares, by period.**

(Percentage)

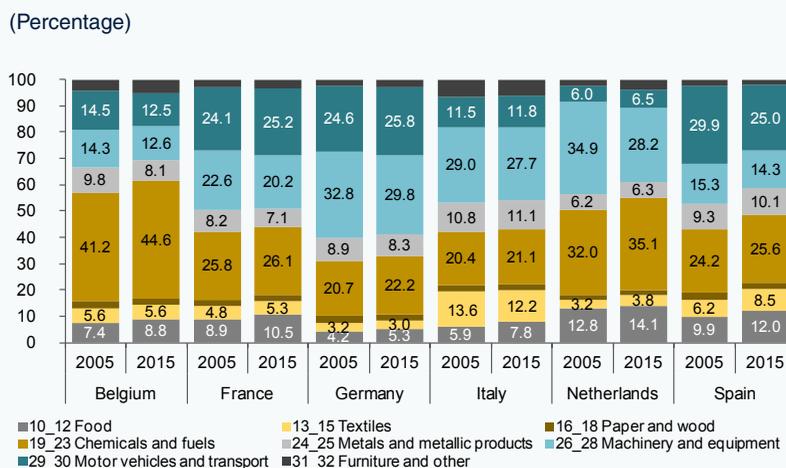
Period	Correlation coefficient	p-value
2005 - 2015	0.13	0.37
2005 - 2010	-0.05	0.71
2010 - 2015	0.19	0.19

Note: n = 48 observations.

Source: OECD (STAN) and authors' own elaboration.

“ In the two countries that have seen their export market shares increase, Spain and the Netherlands, there are similarities as to the product categories that have increased in importance within their manufacturing mixes. ”

**Exhibit 5 Breakdown of export value by area of activity within the manufacturing sector, 2005 and 2015**



Source: OECD (STAN).

within their manufacturing mixes. More specifically, the food and chemicals and fuels sectors have increased their weight in the mix of manufacturing goods exported from the Netherlands and Spain. In Spain, it is also worth highlighting the increase in the importance of the textile sector.

## Conclusions

Having analysed the data broken down by product category, the findings suggest that cost competitiveness (measured using unit labour costs or ULCs) alone does not explain export success (measured as a given country's share of world OECD exports).

The paper by Carlin, Glyn and Van Reenen's (2001) addressed the same issue –although relying on sophisticated econometric models and not analysing Spain– and it arrived at similar conclusions. Thus, while ULCs may explain some of the variation in export results, a significant part of that variation remains unexplained. In their analysis, the explanatory power of the investment intensity of a given sector (capital formation divided by value added) is notably high.

In a more recent piece of work, Crespo and García Rodríguez (2016) focus on quantifying the importance of price adjustments in explaining the trend in Spanish exports, concluding that the elasticity of Spanish exports to foreign demand is higher than their price elasticity.

In line with the above studies, the data presented in this paper suggest that decreases in production costs are not the only factor behind stimulating exports and that there are other factors (such as the sector in question's R&D intensity or foreign demand) which may also be significant to driving growth in Spanish manufacturing exports. From that standpoint, the argument can be made that it is important to move beyond the internal devaluation practices adopted to tackle the crisis (via improvement of the current account) towards measures aimed at recapitalising the Spanish economy in all its facets including physical capital, technological capital and, above all, human capital.

## Notes

[1] Refer to Thiman (2015) for a good explanation of this theory in general and, in particular, for its application to the eurozone.

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CARLIN, W.; GLYN, A., and J. VAN REENEN (2001), “Export performance of OECD countries: an empirical examination of the role of cost competitiveness,” *The Economic Journal*, 111: 128-162.

CRESPO, A., y A. GARCÍA RODRÍGUEZ (2016), “¿Ha mejorado la competitividad exterior gracias a la devaluación interna? [Has internal devaluation boosted external competitiveness?],” *Papeles de Economía Española*, 150: 114-126.

THIMAN, C. (2015), “The Microeconomic Dimensions of the Eurozone Crisis and Why European Politics Cannot Solve Them,” *Journal of Economic Perspectives*, 29,3: 141–164.

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— (2017b), “Non-price competitiveness factors and export performance: The case of Spain in the context of the Euro area,” *Spanish Economic and Financial Outlook*, Volume 6, No. 3: 55-66.

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**Appendix. Economic activities included in the manufacturing sector for ISIC Rev. 4 classification purposes**

Section C. Manufacturing

10-12 Food

- 10 Manufacture of food products
- 11 Manufacture of beverages
- 12 Manufacture of tobacco products

13-15 Textiles

- 13 Manufacture of textiles
- 14 Manufacture of wearing apparel
- 15 Manufacture of leather and related products

16-18 Paper and wood

- 16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
- 17 Manufacture of paper and paper products
- 18 Printing and reproduction of recorded media

19-23 Chemicals and fuels

- 19 Manufacture of coke and refined petroleum products
- 20 Manufacture of chemicals and chemical products
- 21 Manufacture of basic pharmaceutical products and pharmaceutical preparations
- 22 Manufacture of rubber and plastics products
- 23 Manufacture of other non-metallic mineral products

24-25 Metals and metallic products

- 24 Manufacture of basic metals
- 25 Manufacture of fabricated metal products, except machinery and equipment

26-28 Machinery and equipment

- 26 Manufacture of computer, electronic and optical products
- 27 Manufacture of electrical equipment
- 28 Manufacture of machinery and equipment n.e.c.

29-30 Motor vehicles and transport equipment

- 29 Manufacture of motor vehicles, trailers and semi-trailers
- 30 Manufacture of other transport equipment

31-32 Furniture and other

- 31 Manufacture of furniture
- 32 Other manufacturing

For additional details, refer to the ISIC Rev. 4 classification of activities at the following link ([https://unstats.un.org/unsd/publication/SeriesM/seriesm\\_4rev4e.pdf](https://unstats.un.org/unsd/publication/SeriesM/seriesm_4rev4e.pdf)).

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# The Spanish labour market: Cyclical behaviour and structural challenges

An examination of employment and labour market participation reveals the Spanish labour market is pro-cyclical in nature, in part, explaining the relatively high unemployment rate essentially prevailing over the past two decades. New reforms are needed in order to make employment less pro-cyclical and tackle persistent structural imbalances in terms of job quality, regional differences and skills attainment, especially in the context of the digitisation of the economy.

Raymond Torres

**Abstract:** Since the start of the financial crisis, the Spanish labour market has exhibited a highly volatile employment trend. After shedding nearly 4 million jobs during the recession, the unemployment rate has steadily declined, with 30% of eurozone job creation occurring in Spain over the last 4 years.

Interestingly, the labour force participation rate in Spain increased during the recession, the opposite of what would be expected. More recently, it has stagnated, while still remaining higher than in many other European countries, such as Belgium, France and Italy. On the other hand, the analysis of recent trends does not

“ Since 2014, the Spanish economy has generated over two million net new jobs –just shy of 30% of all jobs created in the eurozone during the same period. ”

permit a clear-cut determination as to whether structural unemployment has increased as a result of the crisis: recent declines in long-term unemployment point to an optimistic picture; but prevailing education gaps, and regional differences in employment suggest a less favourable assessment, especially in view of the impacts of an increasingly digitised economy. Despite initial reform efforts already undertaken, the high correlation between the level of employment volatility and the rate of unemployment calls for policymakers to design initiatives that will address persistent imbalances in the Spanish labour market. [1]

## Introduction

The Spanish labour market has been one of the most dynamic in Europe since the global economy began to recover from the Great Recession. Between 2014 and the third quarter of 2018, it generated over two million jobs (net), which is just shy of 30% of all jobs created in the eurozone during that period. As

a result, the unemployment rate has dropped by over 10 percentage points. This is a remarkable performance, though it has yet to make up for all of the ground lost during the crisis. Indeed, the scars inflicted on Spain’s economy by the bursting of the real estate bubble, and later by the sovereign debt crisis, have not fully healed.

This paper attempts to describe the main characteristics of the labour market emerging in the current business cycle and identify to what extent the prevailing trends mark a break from prior patterns. The paper also analyses some of the key challenges facing the labour market in the years to come and briefly discusses possible employment prospects.

## The labour market in the current economic cycle

One of the stand-out characteristics of the Spanish labour market is its exceptionally pro-

Table 1 **Employment since the start of the crisis**

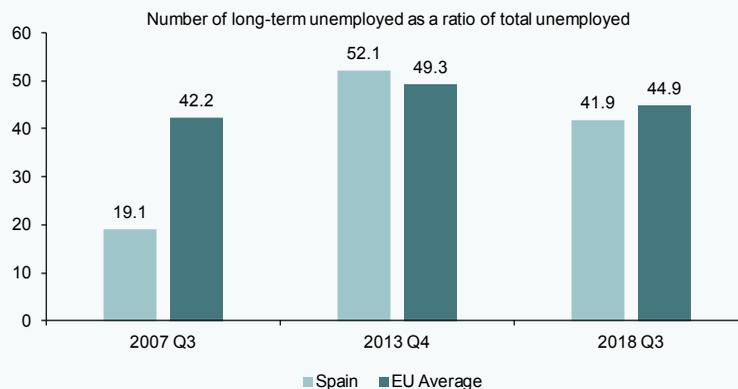
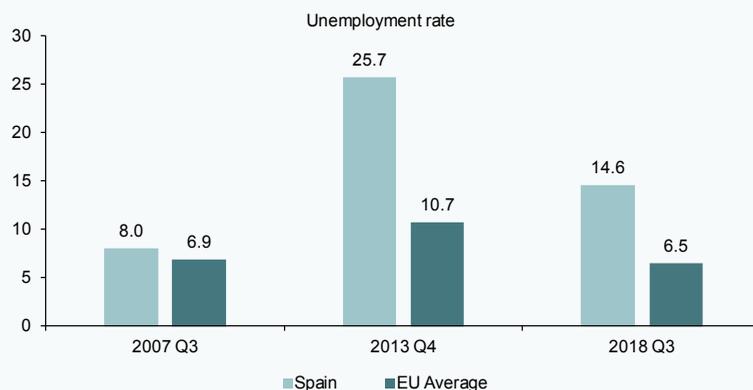
(Total cumulative employment growth rate during recession and recovery, percentage)

	2008-2013	2014-2018
Spain	-17.6	12.4
Germany	2.5	4.7
France	-0.8	2.2
Italy	-4.0	4.3
UK	0.9	6.7
EU average	-3.5	5.8
US	-2.6	6.6

Note: 2018 refers to second quarter of the year.  
Source: Eurostat and author’s own elaboration.

**Exhibit 1 Unemployment in Spain and the EU**

(Percentage)



*Note: Long-term unemployment includes people who have been seeking employment for more than a year.*

*Source: Eurostat.*

cyclical performance in terms of jobs, labour market participation and unemployment.

Employment, which fell sharply during the recession, has proven particularly buoyant during the recovery. Between the first quarter of 2014 and the second quarter of this year, Spain created more jobs than any other European country. Employment increased by over 12% during that period, which is twice the European average (Table 1). From a quantitative perspective, the gender employment gap has narrowed, though women remain at a disadvantage in other ways, including pay and working conditions.

Importantly, all age brackets have benefited from the growth in employment.

Nevertheless, employment has yet to recover to pre-crisis levels. The number of people employed in Spain peaked during the third quarter of 2007 at 20.8 million, after which it dramatically declined to a low of 17 million in the first quarter of 2014. Since then, employment has been trending higher, reaching 19.5 million in the third quarter of 2018 (the most recent figure available). This implies another 1.3 million jobs still need to be created in order to return to the pre-crisis employment level.

“ During the recession, the number of job-seekers increased by over 4.3 million, which is higher than the number of jobs lost – a European record. ”

The gap is even wider if we consider the fact that despite emigration and the decline in immigration, the working-age population has continued to increase. As a result, the employment rate (*i.e.*, the number of people in work as a percentage of the working-age population) stands at 62.3%, compared to 65.9% in the third quarter of 2007. To get back to that previous level, the Spanish economy would have to generate an additional 2.2 million jobs.

As for unemployment, its responsiveness to the business cycle has been even more pronounced (Exhibit 1). During the recession, the number of job-seekers increased by over 4.3 million, which is higher than the number of jobs lost, as well as being a European record. In contrast, the subsequent growth has been accompanied by a contraction in unemployment to the tune of around 3 million. No other developed country has achieved a decrease of that magnitude.

Even so, the unemployment rate is still significantly higher than it was before the crisis. The reason is that during the crisis, unemployment increased at an average pace of over three percentage points per annum, which is faster than the improvement sustained during the recovery. Consequently, Spain’s unemployment rate is still one of the highest in the developed world. Within Europe, it is second only to Greece.

The exceptional pro-cyclical response in unemployment reflects a curious trend in the participation rate (*i.e.*, the percentage of the working-age population that engages actively in the labour market, either by working or looking for a job). In theory, the number of labour force participants tends to drop during recessionary periods, as long-term job seekers become discouraged and certain groups at risk of exclusion (young people without higher education, single parents with small

**Table 2 Active labour population since the start of the crisis**

(Total accumulated growth rate of the active population during recession and recovery, percentage)

	2008-2013	2014-2018
Spain	1.0	-1.4
Germany	-0.4	2.9
France	2.6	1.1
Italy	2.5	2.6
UK	3.2	3.1
EU average	0.9	1.5
US	-0.4	3.2

Note: 2018 refers to second quarter of the year.  
Source: Eurostat and author’s own elaboration.

“ The labour force participation rate continued to climb during the recession, which is largely attributable to the increase in female labour participation. ”

children and people living in depressed areas) encounter difficulties in finding work (Duval, Eris and Fuceri, 2010). Conversely, growth is usually accompanied by higher participation levels. In short, the participation rate is supposed to be pro-cyclical, as is the case in countries such as the US (Table 2).

However, in Spain the opposite has been the case. The labour force participation rate continued to climb during the recession, which is largely attributable to the trend-increase in female labour participation. Another reason relates to the structural change among older workers (over the age of 55), who are opting to prolong their working lives. The level of participation of older workers has increased in recent years, which is important in the context of population ageing. This trend contrasts with the early retirement or exit from the labour force observed in several European countries, such as Austria and Belgium, as well as in prior recessions in Spain.

It is harder, however, to account for the stagnation in the participation rate during the current period of growth. One explanation is the tendency for young people to extend their study periods. Whereas nearly half of the group aged between 15 and 24 participated in the labour force before the crisis, the latest numbers suggest that just one-third of this age bracket currently does. This is the lowest rate among European countries. Only Italy has suffered a significant decrease in the rate of participation of its young people since the

start of the crisis. That said, this is not a new trend.

Another contributing factor is the drop in the participation rate of prime working-age men. This is indeed a new phenomenon in Spain, and also one that has been observed in other regions like the US and Northern Europe (Winship, 2017).

Regardless, the current labour force participation rate in Spain compares favourably with those in neighbouring countries. It is at the high end of the ranking in Europe and significantly above the participation rates in Belgium, France and Italy. Only Germany and the Scandinavian countries present significantly higher participation rates.

Putting together all these trends, the deficit of jobs among young people appears to be a key factor behind the overall employment gap. Indeed, quantitatively, the employment gap between Spain and the European average is largely attributable to results on the youth employment front. The reduction in the youth participation rate may reflect growth in the time spent in the education system, which would be a good thing from the standpoint of the country's potential output. As we will see later, however, this is not the only explanation.

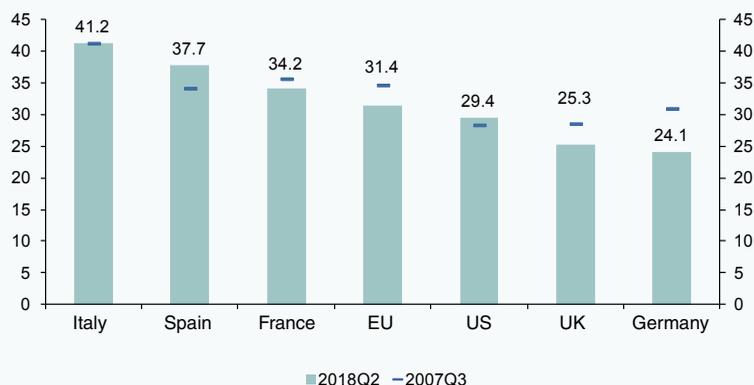
### **Key structural challenges**

Beyond the economic cycle, Spain's persistently high level of unemployment is a

“ Quantitatively, the employment gap between Spain and the European average is to a significant extent attributable to results on the youth labour market front. ”

Exhibit 2

### Unemployed or inactive individuals, as a percentage of the total number of people of working age



Source: Author's own elaboration.

cause of concern. Combining unemployment and labour force inactivity (Exhibit 2), we see that the employment deficit is indeed high by international comparison. There is a risk that prevailing imbalances will self-perpetuate, so that economic growth alone will not be sufficient to remedy them.

#### **Risk of perpetually high unemployment**

Analysis of recent trends points to mixed findings regarding whether structural unemployment has increased as a result of the crisis. Some characteristics of unemployment in Spain suggest this may indeed be the case. Firstly, the level of education of many job-seekers is relatively low. Indeed, although education levels have improved substantially, the results are uneven. The average training level attained by the Spanish working-age population is still well below the European average (Exhibit 3). Nearly 3 out of every 10 people of working age have only achieved a

level of 'lower secondary education' or less (ISCED levels 0 to 2), which is virtually the European record, only ahead of Portugal. Moreover, this situation is barely improving as the percentage of early leavers from education is still 36% among Spaniards aged between 25 and 39. These educational shortcomings have ramifications for the job market. Additionally, 53% of job-seekers have credentials below secondary education levels, the highest percentage in Europe after Malta. Regrettably, adult vocational training fails to offset the deficits in early education, with vocational training only accentuating these initial inequalities.

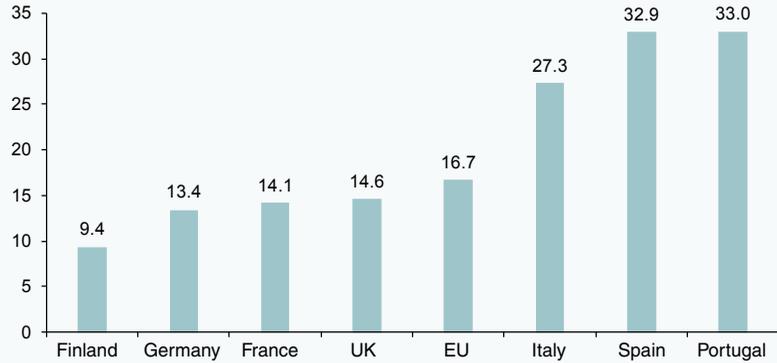
Secondly, regional imbalances have become more pronounced. The rate of unemployment in the hardest-hit regions stands at 18.5%, which is approximately 10 percentage points higher than the best-performing regions. However, this difference stood at just six

“ Nearly 3 out of every 10 people of working age have only achieved a level of 'lower secondary education' or less – among the lowest level within Europe, only ahead of Portugal. ”

Exhibit 3

**Share of population aged 25 to 39 which has not completed upper secondary education (ISCED 0-2), 2017**

(Percentage)



Source: Eurostat and author's own elaboration.

percentage points prior to the real estate bubble bursting (Exhibit 4).

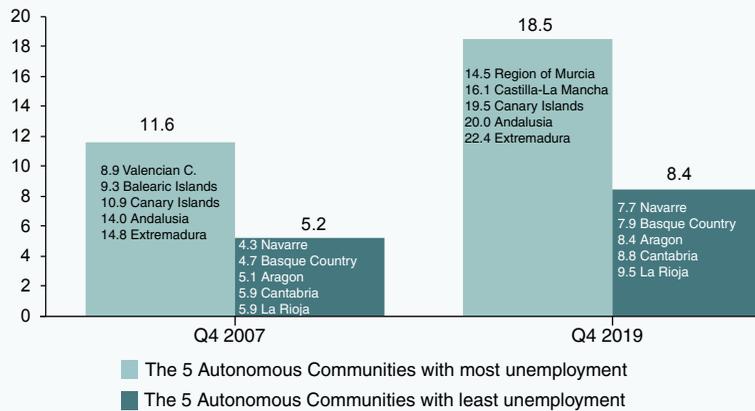
Other unique trends have emerged in the Spanish labour market (Torres, 2018 and

Funcas, 2018). To start with, despite the vigorous growth sustained during the current phase of recovery, most of Spain's autonomous regions continue to suffer from a serious shortfall of jobs. This is most evident in the

Exhibit 4

**Regional divergence in unemployment rates**

(Forecast of unemployment for 2019 and comparison with the pre-crisis situation, average unemployment rate)



Source: Funcas forecasts by Autonomous Region, 2018-2019.

south of the country and the Canary Islands compared to Madrid or the northeast of the country. Those regions that fail to remedy this job deficit run the risk of secular stagnation, as seen in Italy's *Mezzogiorno*.

Meanwhile, other parts of Spain are beginning to experience a scarcity of workers. The unemployment rates in Navarre, the Basque region, Aragon, Cantabria, La Rioja and the Balearic Islands are close to their pre-crisis levels, with unemployment expected to fall below 10% by the end of 2019. Given the prospect of a shortfall of workers, companies will be left with no choice but to increase their productivity. That will open the door to wage increases and favour mobility on the part of job-seekers from other regions. Otherwise, growth in those regions will hit a ceiling.

The rural and inland expanses that are facing depopulation are a separate matter. Although employment in these regions is barely rising, labour force shrinkage is translating into a considerable drop in unemployment. Rural provinces such as Lugo and Soria present some of the lowest rates of unemployment. In these regions, the challenge is to maintain their population levels and attract new, young workers.

As a result, the gap between regions in terms of employment and population could become a key source of imbalance in the Spanish job market and undermine efforts made to combat unemployment.

Though the growing skill gaps and regional differences point in the direction of higher structural unemployment, other indicators paint a more optimistic picture. This is notably the case with recent trends in long-

term unemployment –which warrants close attention on account of its social, human and economic impacts (Junankar, 2011). The empirical evidence suggests that people who have been looking for work for more than one year (the long-term unemployed) tend to experience mental health issues and a loss of self-esteem as a result of their job situation. The studies also show that these job-seekers face numerous obstacles in finding work. As a result, they tend to remain unemployed or are forced out of the job market due to discouragement or loss of job skills. In Germany, for example, long-term employment is relatively unresponsive to economic improvement. That country's long-term unemployment rate has barely come down in recent years. Long-term unemployment is even more inert in France and Italy.

However, the Spanish labour market appears less vulnerable to the risk of self-perpetuating long-term unemployment. For example, half of the decline in total unemployment recorded during the recovery is due to a decline in long-term unemployment. The flow figures also show that the probability of finding work again is relatively high by international comparison. This result cannot be attributed to active public policies, whose effectiveness presents room for improvement. Among the possible factors, the following stand out: hiring dynamism; the existence of sectors, such as the hospitality sector which are capable of taking on people out of work, albeit somewhat seasonally; society's resilience to the unemployment phenomenon, particularly in comparison with other countries, such as the Netherlands where prolonged joblessness is considered a serious stigma and disability, resulting in entitlement benefits.

“ Half of the decline in total unemployment recorded during the recovery reflects a reduction in long-term unemployment, which is more responsive to the cycle than in many other European countries –a positive feature of Spain's labour market. ”

“ Short-term contracts, of which many last less than a week, temp work and job switching are phenomena that are deeply entrenched in the Spanish job market. ”

Regardless, the responsiveness of long-term unemployment to the cycle may indicate that structural unemployment is not as high as some estimates have suggested (see for example, Romero and Fuentes, 2017). The moderate evolution of wages, suggestive of significant labour market slack, points in the same direction.

### Temporary work

As mentioned above, the extreme pro-cyclical nature of employment in Spain is a significant vulnerability for the country’s economy. One of its structural causes is the temporary nature of many of the jobs created. Short-term contracts, of which many last less than a week, temp work, dependent self-employment and job switching are phenomena that are deeply entrenched in the Spanish job market.

Importantly, temporary arrangements translate into higher volatility in job creation. And volatility tends to lead to higher unemployment: the net balance between periods of growth and contraction indeed appears to be negative. This is the logical outcome as the adjustments made via headcount reductions (rather than work redistribution or wage flexibility) tend to be costly in terms of long-term unemployment. The fact is that there is an empirical cross-country correlation between job volatility and the unemployment rate (Exhibit 5).

Although the incidence of these temporary arrangements has fallen slightly since the start of the year, we cannot say there has been a break with respect to this long-term trend. Young people are the main victims of these precarious arrangements. As already

### Exhibit 5 Employment growth volatility as a factor of unemployment

(Standard deviation of employment growth and unemployment rate, average 2000-2017)



Source: Author's own elaboration.

“ Labour productivity has not grown enough to drive convergence with Europe’s more prosperous economies, thereby limiting the room for improved job quality and real income gains. ”

noted, the young were the age group most affected by the crisis in quantitative terms, despite the fact that the percentage of young people neither in employment nor in education (NEETs) has fallen substantially during the last five years, converging towards the European average. The young, however, continue to face two key challenges. Firstly, the percentage of early leavers from education is among the highest in Europe. The main reason for this is the draw of finding paid work, albeit relatively unskilled. Secondly, the jobs they do find when they enter the labour force tend to be precarious.

#### **Low productivity and low wages**

All of these imbalances are contributing factors to the scant growth in Spain’s labour productivity. Job volatility leads to a loss of human capital and business initiatives that would boost productivity. The shortcomings in the educational system drain human resources as well as curtail economic efficiency and deepen social inequalities. Finally, the persistence of high unemployment erodes

the scope for tax collection, undermining the resources available for productivity-enhancing investment.

Labour productivity has not grown enough to drive convergence with Europe’s more prosperous economies (Table 3). Moreover, by definition, the trend in productivity limits wage growth. In the context of high unemployment, growth in remuneration has lagged even the weak growth in productivity (Table 4).

The relative stagnation of productivity is particularly worrying in the context of rapid technological change, which requires, *inter alia*, secure labour mobility paths, strong generic skills so as to adapt to change, new skills that respond to emerging requirements and a responsive enterprise environment which is capable of seizing upcoming opportunities. As noted, however, these are areas where the Spanish labour market exhibits important weaknesses.

**Table 3 Total cumulative growth rate in labour productivity**

(Percentage)

	2007-2013	2014-2017	2007-2017	2000-2017
US	7.1	2.7	9.9	22.8
UK	-0.1	2.3	2.1	15.5
Spain	9.8	2.2	12.2	12.4
Germany	-1.0	3.8	2.8	12.1
France	1.2	2.5	3.8	12.0
Italy	-5.0	0.5	-4.5	-5.7

Source: OECD and author’s own elaboration.

Table 4 **Total cumulative growth rate in real wages**

(Percentage)

	2007-2013	2014-2017	2007-2017	2000-2017
France	6.1	4.2	10.6	20.4
UK	-3.9	1.3	-2.6	14.7
US	1.7	3.7	5.5	14.7
Germany	5.7	6.4	12.4	13.6
Spain	4.8	0.2	5.0	6.0
Italy	-2.9	0.9	-2.0	1.5

Source: OECD and author's own elaboration.

To understand the consequences of present barriers to productivity growth in Spain, it is crucial to highlight the deep transformations which are associated with ongoing technological changes. First, the digital economy implies significant change to production patterns, towards increasing fragmentation (ILO, 2015). It will impact the universe of enterprises, which can fragment the production process through value chains. This is the so-called outsourcing phenomenon, where tasks previously performed in the same enterprise can be divided and distributed among different production units. Outsourcing also leads to interconnected production organisation methods so that countries do not necessarily compete with each other but rather find themselves in an environment of mutual relations. Another dimension of the outsourcing process is the tendency to participate directly in the productive process via platforms. It is no longer necessary to work for a firm under a traditional arrangement in order to provide services or goods to consumers. What counts in the digital economy is joining an economic exchange platform. In reality, a company's productivity no longer depends on the size of its production unit or stock of capital but rather the density of its network connections.

The process, as measured by the incidence of global value chains, is on the rise, but is not recent (World Bank, 2017). The trend first emerged around 20 years ago, coinciding

with the proliferation of information and communication technology. What is new, however, is that production fragmentation has spread and deepened to the point of challenging the traditional production model, which was consistent with stable long-term employment relationships. Which is to say that the worker can now find himself the smallest link in a value chain, all the more so in countries like Spain with widespread temporary employment arrangements.

Second, artificial intelligence represents a far greater shift than the digital economy –one for which Spain is not very well placed for the time being. It is likely to initiate an evolution towards an interconnected model populated by smaller productive units and framed by an environment of smooth-flowing economic relations. This may imply a disruptive leap, calling into question economic growth as we know it, *i.e.*, a process of capital accumulation that requires a significant human effort in terms of savings, investment and work.

For one thing, many of the job-intensive sectors where Spain has a comparative advantage may replace people by machines (large parts of industry, services that do not require face-to-face interactions, such as logistics, *etc.*). Algorithmic processes are becoming increasingly powerful and may surpass human intelligence in countless automatable tasks (*i.e.*, those entailing a

“ A new wave of reforms is urgently needed in the face of digital technology and artificial intelligence, which have the potential to transform many existing jobs. ”

degree of routine and repetition). Industrial robots, self-driving cars, voice and image recognition software and the use of sensors in commerce are just a few everyday examples of how artificial intelligence is becoming increasingly present in our lives.

As artificial intelligence advances, machines and algorithms will acquire the ability to learn, thereby taking on more sophisticated tasks. Machines are learning how to react to external events so as to improve their performance with a minimum of human intervention. In the phase of “advanced learning”, the accumulation of capital will be largely endogenous. Artificial intelligence thus has the potential to take over many non-automatable tasks. Ultimately, artificial intelligence could replace much of the existing tasks, although not others. [2] Depending on the policy response (in terms of skills’ development, mobility, investment in innovation, and competition policy), there should be enough jobs for all. Otherwise, we could reach a situation of excess labour supply. This is also why it is so important to lift all the barriers that presently hinder productivity in Spain.

The main activities that will remain in the productive sphere are those that by their very nature require a human presence. In theory, they include the sectors that issue collective standards across all areas of society (politics, medicine, law, privacy protection, *etc.*). It is also probable that care work and all manner of activities based on interpersonal relationships will create many jobs. Human-led innovation, in both fundamental and applied research, will also increase in importance. It is therefore essential for Spain to facilitate business creation and innovation in these sectors which hold the strongest job potential. Productivity is not just a matter of improving efficiency in existing industries and jobs. It also –and increasingly–

necessitates an ability to move investment and jobs into new areas of activity which benefit the most from change. [3]

### Prospects

Despite numerous legislative reforms, some of the main traits of the Spanish labour market have proven surprisingly stubborn over the last few decades. Employment tends to respond pro-cyclically, such that unemployment comes down quickly during times of growth and *vice versa* during episodes of recession. Considering a full cycle, the average rate of unemployment is high and labour productivity gains are scant. Meanwhile, the incidence of temporary work arrangements is among the highest in Europe, which translates into inequalities and weak wage growth at the aggregate level. Importantly, this paper detects a cross-country correlation between the pro-cyclicality of the labour market (as measured by the degree of employment volatility) and the rate of unemployment.

One of the more encouraging developments is the increase in the female participation rate, which is currently among the highest in Europe, and in older worker attachment. Another positive trend is the responsiveness of long-term employment to economic growth. In other countries, long-term unemployment is more inert, implying the risk of labour force exclusion (the hysteresis phenomenon).

However, the situation is changing rapidly as a result of the technological revolution underway, which makes it more urgent to initiate a fresh reform agenda to cement the achievements made and correct the remaining structural imbalances. The shortcomings in terms of education and training, the quality of the jobs on offer, mobility and the emerging regional gaps are some of the key areas of unfinished business.

In the absence of inclusive reforms, the Spanish labour market will continue to enjoy impressive results in the short run, *i.e.* as long as the expansionary phase continues, which is until 2020 according to most analysts. However, a reversal of the cycle would, once again, provoke disproportionate job losses, thus undoing all the gains laboriously won over the past few years. On top of these cyclical fluctuations, a status quo scenario would considerably reduce the benefits, in terms of both job quality and real incomes, which can be grasped from the technological revolution which is underway.

A policy action scenario, while not altering the positive short-term prospects, would help make the labour market more resilient to shocks while also paving the way to higher productivity and adaptive capacity to new technology. There is still significant room to move along that path, but the window of opportunity is getting smaller.

## Notes

- [1] The author would like to thank Romain Charalambos for his valuable research assistance.
- [2] There could be a relative abundance in terms of the production of goods and services, helping to resolve the issue of scarcity, the economy's biggest problem. Only natural resources can limit the expansion of automated production.
- [3] In the sectors that comprise the non-automated economy, artificial intelligence will be used to complement human intervention (World Economic Forum, 2018). However, some researchers believe that artificial intelligence may also breach these barriers. They maintain, for example, that robots will have the ability to formulate collective standards (so-called collective artificial intelligence). This entails complex ethical conundrums.

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# Recent key developments in the area of Spanish financial regulation

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

## **Royal Decree-Law amending the Consolidated Text of the Securities Market Act (Royal Decree-Law 14/2018, published in Spain's official state journal on July 29<sup>th</sup>, 2018)**

This piece of legislation rounds out the transposition into Spanish law of Directive 2014/65/EU on markets in financial instruments (MiFID II) and Commission Delegated Directive (EU) 2017/593. It took effect the day after its publication in the journal, with the exception of certain provisions, that will take effect in tandem with the implementing regulations.

The most significant aspects of the Royal Decree-Law are the following:

- It empowers Spain's competent authority, the CNMV, to impose limits on net positions in commodity derivatives. It also regulates the management controls over such positions and the disclosure obligations (to the CNMV) incumbent upon the providers of investment services and activities (investment firms) and market operators operating trading venues on which commodity derivatives, emission allowances or emission allowance derivatives are traded.
- It modifies the legal regime applicable to investment firms, specifying the applicable legislation that directly affects credit institutions and management companies by virtue of carrying out investment activities. It introduces the following modifications, among others:
  - Changes in the investment firm authorisation, registration, suspension and revocation procedure.
  - In the cross-border arena, it regulates the establishment of subsidiaries and the freedom to provide services, both within the European Union and in third countries.
  - It introduces the requirement to set up corporate governance arrangements that ensure the firms' effective and prudent management.
  - It introduces the obligation to keep a record that must include recordings of phone conversations and electronic communications related with the execution of client orders.
  - It establishes the organisational and management requirements for firms that engage in algorithmic trading.
  - It regulates the organisational requirements for firms that provide direct electronic access or act as general clearing members and for data reporting services providers.
- As for the conduct of business rules applicable to investment firms, the following changes stand out:
  - Clients must be classified as either retail or professional clients or eligible counterparties.
  - The due diligence and transparency obligations have been stepped up and new obligations introduced regarding measures for the prevention, detection and management of potential conflicts of interest between clients and the firm itself or its group.

- As for the design and marketing of financial products, there are new rules for the oversight and control of these activities.
  - The new rules outline the information that must be provided before and during client service provision and that related with any cross-selling.
  - In terms of the suitability assessment for existing and prospective clients, investment service, activity and financial instrument recommendations must be aligned with their levels of risk tolerance and ability to bear losses.
  - Firms must ensure that staff remuneration does not conflict with their obligation to act in their clients' best interests.
  - The legislation sets the minimum requirements for investment advice to be considered independent: (i) firms must assess a sufficiently wide and diverse range of financial instruments; (ii) they may not receive and keep benefits from third parties in relation to the provision of the service to the client; and, (iii) they must clearly disclose to clients if they are receiving permitted minor non-monetary benefits that could improve the standard of service provided.
  - As for the management and execution of client orders, investment firms must take measures to facilitate the earliest possible execution of client limit orders that are not executed immediately under prevailing market terms. Investment firms are not allowed to receive any remuneration, discounts or non-monetary benefits for routing client orders to a particular trading or execution venue. Lastly, every year, firms are required to publish the five main order execution venues used to execute client orders during the prior year.
- Among the changes made to the supervision, inspection and sanctions regime, the following stand out: the CNMV has been

given new supervisory powers; cooperation with other competent authorities has been reinforced (the CNMV must notify the ESMA of any position limitation demands and of any limits imposed on individuals' ability to purchase a financial instrument; and the sanctions regime has been modified, most notably with respect to very serious violations and the attendant penalties.

Lastly, the CNMV will be the authority with the competence to act as the alternative dispute resolution authority in the securities market arena until a single competent authority is set up to rule on lawsuits in the consumer financial sector, as contemplated in additional provision one of Spanish Law 7/2017 (of November 2<sup>nd</sup>, 2017).

**CNMV Circular amending CNMV Circulars 1/2010 (July 28<sup>th</sup>, 2010) and 7/2008 (November 26<sup>th</sup>, 2008) (Circular 4/2018, published in the official state journal on October 9<sup>th</sup>, 2018)**

The purpose of the Circular, which took effect the day after its publication, is to update the information collected via the confidential statements submitted without changing the frequency with which they are filed or the related deadlines.

- The changes made to Circular 1/2010 update the confidential statements collected by the CNMV in order to address new disclosure requirements, such as those deriving from the introduction of MiFID II. The following new disclosure requirements stand out: (i) more detailed information about the provision of investment advice (independent and non-independent); (ii) the volume of financial instrument transactions executed that were part of cross-selling campaigns, *i.e.*, bundled with other financial products; (iii) more detailed information about the reasons underpinning claims presented by retail clients; and, (iv) more specific information about the distribution channels through which client orders are received.

The first set of financial disclosures to be submitted in accordance with these new

requirements is that corresponding to the period between January 1<sup>st</sup> and March 31<sup>st</sup>, 2019, which must be presented by April 20<sup>th</sup>, 2019.

- The changes made to Circular 7/2008 are designed to collect additional information about the activities of the investment service firms. To this end, three new sections have been added to the complementary information statement prescribed in Annex IV (Separate Confidential Statement Templates).

The first set of disclosures to be filed in keeping with these changes is that corresponding to April 30<sup>th</sup>, 2019, which must be presented by May 20<sup>th</sup>, 2019.



# Spanish economic forecasts panel: November 2018\*

Funcas Economic Trends and Statistics Department

## **GDP growth is expected to reach 2.6% in 2018, 0.1pp down from the last survey**

Spanish GDP registered growth of 0.6% in the third quarter, in line with analysts' consensus forecast. The strength of domestic demand –public and private consumption and investment alike– took the analyst community by surprise. In contrast, trade detracted from third-quarter growth.

For 2018 on the whole, the current consensus forecast is for growth of 2.6%, down 0.1pp from the last survey. The forecast for fourth-quarter growth is unchanged at 0.6% (the lower estimate is the result of the downward revision to the first-quarter figure). Notably, 15 of the 18 analysts surveyed have lowered their estimates since September.

They have also modified the expected sources of this growth. Foreign trade is now expected to detract from growth (by -0.3pp, compared to a previous estimated positive contribution of 0.1pp), while domestic demand is expected to contribute 3.0pp (up 0.3pp). Consumer spending is expected to register growth of 2.3%, unchanged from the last survey. The forecast for public consumption has been increased by 0.1pp, with 13 of the analysts raising their estimates for this metric. The majority of analysts have also raised their forecasts for investment in capital goods. However, the most eye-catching change is the downward revision to forecast export growth, which has been cut by 0.7pp to 2.2%, while forecasted import growth has been raised by 0.4pp to 3.4%.

## **The forecast for 2019 GDP growth has also been cut by 0.1pp, to 2.2%**

The consensus forecast for GDP growth in 2019 has been trimmed 0.1pp to 2.2%. Foreign demand is expected to detract slightly from growth (-0.1pp) as a result of the greater downward revision to export growth relative to that of import growth estimated by most of the analysts. As for the components of domestic demand, the forecasts for investment in capital goods and public consumption have been increased.

The quarterly forecasts point to stable growth of around 0.5% throughout the year (Table 2).

## **The inflation forecast for 2018 has been increased to 1.8% and left unchanged for 2019 at 1.6%**

The rate of inflation rose to 2.3% in September and October due to higher energy prices; core inflation, however, continued to hover at around 0.9%.

The forecast for average headline inflation in 2018 stands at 1.8%, up 0.1pp from the September forecast, with inflation expected to ease in 2019 to 1.6%. Core inflation is forecast at 1% in 2018 and 1.2% in 2019, down 0.1pp in both years from the last set for forecasts. The year-on-year rates of change in December of this year and next are currently forecast at 1.9% and 1.4%, respectively (Table 3).

## **Despite a slowdown in employment growth, the unemployment rate is declining**

According to the economically-active survey (EPA), the rate of growth in employment slowed in the third quarter. Nevertheless, unemployment fell to 14.6%, which is down nearly two percentage points year-on-year. Elsewhere, growth in social security contributor numbers remained strong in October, facilitating a sharp drop in unemployment.

The consensus forecast for growth in employment is unchanged at 2.4% for 2018, but the forecast for 2019 has been increased by 0.1pp to 2%. Using the forecasts for growth in GDP, job creation and wage remuneration yields implied forecasts for growth in labour productivity and unit labour costs (ULCs). Specifically, the former is expected to register growth of 0.2% in both 2018 and 2019 (slightly less than in the previous set of forecasts), while ULCs are expected to increase by 0.8% in 2018 and by 1.4% in 2019.

Lastly, the rate of unemployment is expected to fall to 15.3% in 2018 and to 13.8% in 2019 (the latter is 0.1pp higher than in the last survey).

## **External surplus continues, albeit waning**

The trade surplus is waning due to the decreasing contribution by exports coupled with the rising cost of energy imports. As a result, to August, Spain presented a current account surplus of 3.8 million euros, below the 10.6 billion euro surplus recorded in the first eight months of 2017, driven by the deterioration in the trade balance and a slight increase in the income deficit.

The consensus forecasts currently point to a current account surplus equivalent to 1.2% of GDP in 2018 and 1% in 2019, 0.2pp and 0.3pp below the last forecasts, respectively.

## **Spain is expected to deliver on its deficit target in 2018 but not in 2019**

The public deficit to August (at all levels of government except for the local authorities) was 4.05 billion euros lower year-on-year. The improvement came at the state, Social Security and regional government levels (with the regional governments recording a fiscal surplus on the whole).

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 (unchanged from the last survey); for 2019 it has been increased by 0.1pp to 2.1%, which is 0.3pp above the announced target.

## **Growing pessimism regarding Spain's external environment**

The outlook for global growth has been deteriorating. Growth in the eurozone was a scant 0.2% in the third quarter. Italy, facing a slump in GDP, is the focus of attention. The fallout between the Italian government and the EC authorities over the planned budget for 2019, in the context of the country's steep public borrowings, has the markets on edge. The country risk premium (measured as the spread between Italian and German 10-year bonds) has shot up to over 300 basis points. Elsewhere, the German economy, which had already been showing signs of slowing, contracted in the third quarter. The protectionist threat, one of the main causes for the abrupt slowdown in the European economy, could continue to weigh on the economic climate during the coming quarters.

Outside of Europe, the Federal Reserve continues to tighten monetary policy in the US, with significant consequences for the US economy, which could be reaching the end of the cycle, and for the international markets. As for China, the signs of economic weakness have been confirmed; the economy is slowing more sharply than most analysts initially predicted.

The main piece of good news is the drop in oil prices, which are now trading below \$70 per barrel, compared to over \$80 per barrel in September when the last survey results were published. Unfortunately, the draft Brexit agreement is too new to properly assess its political viability and potential economic impact.

Overall, pessimism regarding the international context has increased since September. Just three analysts believe that circumstances in the EU are favourable (down from 10 in the last survey), while four view it as unfavourable (0 in the last survey). Moreover, virtually all the analysts expect the European environment to remain the same or deteriorate. The assessments of the international environment outside of Europe also reveal growing pessimism.

## **ECB continues to gradually normalise its monetary policy, despite the uptick in inflation**

Despite the fact that inflation has risen to just above the target of 2%, the ECB is sticking with its path of gradual monetary policy normalisation. That path is consistent with the slowdown of growth in Europe, the stability of core inflation and the drop in oil prices (the latter pointing to a fallback in the rise in the consumer price index). The markets are pricing in the fact that this is expected to be a gradual process. As a result, 12-month Euribor remains in negative territory, at around -0.145%, which is just 0.2pp below the September trading level.

Against this backdrop, the analysts' assessment of the pace of monetary policy normalisation over the coming months is unchanged. None of the analysts expects an increase in benchmark rates before the third quarter of 2019 (no major change since the last survey was released in September). Meanwhile, the analysts continue to expect 12-month Euribor will trade in negative territory until the second quarter of 2019. They expect the yield on Spain's 10-year

sovereign bonds to follow a similar path, rising to 1.86% by year-end 2019, in line with the last set of forecasts.

**Euro depreciation against the dollar could ease in 2019**

The euro has continued to depreciate against the dollar. It is currently trading at around €/\$1.13, compared to 1.16 in September. This trend is attributable to the growing spread between benchmark rates in Europe and the US as well as capital flows triggered by this difference. The gradual rollback of the ECB’s monetary arsenal should mitigate this trend in the currency markets. As a result, most analysts believe that the euro could regain some of the ground lost in 2019.

**Analysts view monetary policy as appropriate but believe that fiscal policy should be neutral**

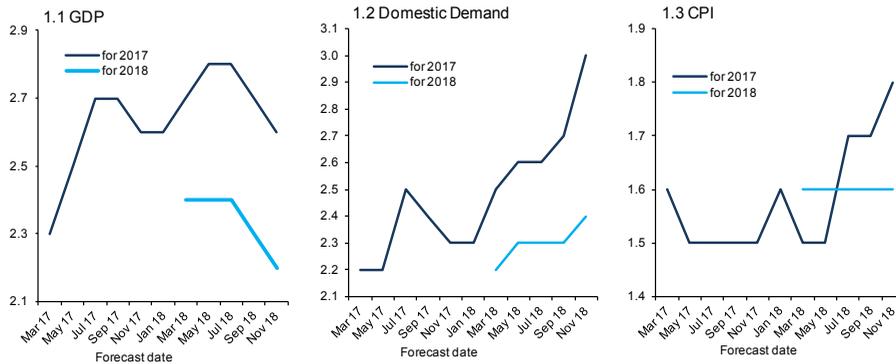
The consensus assessment of monetary policy remains unchanged. All of the panel members view it as expansionary and the majority think this is the correct stance for the near-term (no change from the last survey). They unanimously believe that tighter monetary policy would not be appropriate in the current environment.

As for fiscal policy, the analysts are split as to whether it is expansionary or neutral. There is greater consensus regarding the appropriate direction for fiscal policy. Most analysts continue to call for fiscal policy neutrality; six think it should be tightened; none believe it should be more expansionary.

Exhibit 1

**Change in forecasts (Consensus values)**

(Percentage annual change)



Source: Funcas Panel of Forecasts.

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

# Spanish economic forecasts panel: November 2018\*

Funcas Economic Trends and Statistics Department

Table 1

## Economic Forecasts for Spain – November 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	2.3	1.9	2.3	2.3	5.8	3.8	6.5	3.2	6.0	4.6	3.0	2.3
Axesor	2.6	2.4	2.3	1.5	2.4	3.2	5.4	5.2	6.2	4.6	5.1	6.7	3.0	2.6
Banco Bilbao Vizcaya Argentaria (BBVA)	2.6	2.4	2.4	1.8	2.3	2.3	6.0	5.0	7.9	5.5	6.1	5.0	3.1	2.5
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	2.5	2.1	2.4	2.2	1.8	0.9	6.0	3.8	7.0	4.4	6.2	3.5	3.1	2.3
Cámara de Comercio de España	2.5	2.2	2.4	2.0	2.1	2.1	5.5	4.0	6.9	6.1	5.4	4.2	2.9	2.3
Cemex	2.5	2.3	2.4	2.1	1.9	1.7	6.0	4.8	7.9	5.3	5.9	5.0	3.0	2.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.6	2.1	2.2	1.7	1.8	1.6	5.9	4.1	6.7	3.5	6.2	4.8	2.8	2.2
Centro de Predicción Económica (CEPREDE-UAM)	2.6	2.3	2.4	2.0	2.2	2.0	6.1	4.2	8.0	6.4	5.9	3.6	3.2	2.4
CEOE	2.6	2.3	2.4	1.8	2.1	1.9	6.0	4.4	7.6	5.3	5.9	4.1	3.1	2.3
Equipo Económico (Ee)	2.6	2.2	2.3	2.0	1.8	1.7	4.2	4.1	4.2	3.6	4.4	4.5	2.5	2.2
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)	2.6	2.4	2.4	2.0	1.7	1.4	5.0	4.2	5.2	4.5	4.8	4.0	3.0	2.4
Instituto de Estudios Económicos (IEE)	2.6	2.2	2.4	2.0	2.1	2.1	6.0	5.1	7.8	6.3	6.0	5.2	3.1	2.7
Intermoney	2.5	2.2	2.3	1.7	2.0	1.9	6.1	4.0	7.6	4.2	6.2	4.5	3.0	2.3
Repsol	2.5	2.1	2.4	1.5	2.2	2.0	6.4	5.8	8.5	8.5	6.1	4.9	3.1	2.3
Santander	2.5	2.1	2.4	2.0	2.2	2.1	6.2	4.1	8.1	5.0	6.1	3.9	3.1	2.5
Solchaga Recio & asociados	2.5	2.2	2.4	1.8	2.0	2.0	5.3	3.8	6.0	3.5	5.5	4.8	3.0	2.3
<b>CONSENSUS (AVERAGE)</b>	<b>2.6</b>	<b>2.2</b>	<b>2.3</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>	<b>5.6</b>	<b>4.4</b>	<b>6.8</b>	<b>4.9</b>	<b>5.7</b>	<b>4.5</b>	<b>3.0</b>	<b>2.4</b>
Maximum	2.7	2.4	2.4	2.2	2.4	3.2	6.4	5.8	8.5	8.5	6.2	6.7	3.2	2.7
Minimum	2.5	2.1	2.1	1.5	1.7	0.9	4.2	3.6	4.2	3.2	4.4	3.3	2.5	2.1
Change on 2 months earlier <sup>1</sup>	-0.1	-0.1	0.0	0.0	0.1	0.2	1.0	0.1	2.2	0.6	0.7	0.0	0.3	0.1
- Rise <sup>2</sup>	0	0	9	3	13	10	14	7	15	10	14	7	15	5
- Drop <sup>2</sup>	15	7	3	9	1	0	0	6	0	4	1	7	0	4
Change on 6 months earlier <sup>1</sup>	-0.2	-0.2	0.0	-0.1	0.6	0.5	1.1	0.4	1.5	0.7	1.3	0.5	0.4	0.1
Memorandum items:														
Government (October 2018)	2.6	2.3	2.3	1.9	1.9	1.7	5.3	4.4	5.5	4.4	5.8	5.0	--	--
Bank of Spain (September 2018)	2.6	2.2	2.2	1.6	1.9	1.5	5.1	4.1	5.1	3.8	5.5	4.4	--	--
EC (November 2018)	2.6	2.2	2.3	1.8	1.9	1.7	5.4	3.9	6.0	4.1	5.8	4.2	2.8	2.2
IMF (October 2018)	2.7	2.2	2.2	1.8	1.5	1.0	5.6	3.6	--	--	--	--	2.8	2.0
OECD (May 2018)	2.8	2.4	2.3	1.8	1.2	1.1	4.4	4.3	--	--	--	--	2.6	2.2

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panellists revising their forecast upwards (or downwards) since two months earlier.

Table 1 (continued)

**Economic Forecasts for Spain – November 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 <sup>3</sup>		Jobs <sup>4</sup>		Unempl. (% labour force)		C/A bal. of payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP) <sup>6</sup>	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Analistas Financieros Internacionales (AFI)	2.2	2.8	3.6	3.2	1.7	1.4	1.0	1.2	1.4	1.6	2.5	2.0	15.4	13.9	1.4	1.4	-2.7	-2.2
Axesor	0.6	2.1	1.4	2.4	1.9	1.7	1.1	1.3	0.7	1.3	2.4	1.7	15.2	13.2	0.4	-0.4	-2.7	-2.1
Banco Bilbao Vizcaya Argentaria (BBVA)	2.8	5.7	4.7	6.2	1.8	1.6	--	--	0.9	2.1	2.4	2.1	15.3	13.7	1.4	1.3	-2.8	-2.1
Bankia	2.8	3.4	3.1	3.6	1.7	1.7	0.9	1.2	0.8	1.3	2.4	1.9	15.4	13.9	1.4	1.2	--	--
CaixaBank	2.9	3.7	4.8	4.2	1.7	1.8	1.0	1.3	0.9	2.1	2.5	2.0	15.4	13.7	0.8	0.6	-2.7	-2.0
Cámara de Comercio de España	2.4	3.8	3.4	3.5	1.8	1.8	1.0	1.4	--	--	2.4	1.8	15.4	14.1	1.0	0.9	-2.7	-1.8
Cemex	1.7	2.1	3.5	2.9	1.8	1.7	0.9	1.3	--	--	2.5	1.8	15.2	13.9	1.0	1.0	-2.7	-2.1
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.1	3.7	3.0	4.0	1.8	1.5	0.9	1.0	--	--	2.3	1.9	15.1	13.4	1.1	1.0	-2.7	-2.5
Centro de Predicción Económica (CEPREDE-UAM)	1.7	2.3	3.5	2.5	1.7	1.6	--	--	0.8	1.1	2.5	2.1	15.3	13.8	0.9	0.7	-2.7	-2.3
CEOE	1.7	1.6	3.6	2.3	1.7	1.1	0.9	1.0	0.9	1.5	2.5	2.1	15.3	13.6	0.6	0.8	-2.8	-2.5
Equipo Económico (Ee)	3.7	3.6	3.8	3.8	1.7	1.7	1.2	1.3	1.2	1.4	2.5	2.1	15.2	13.8	1.5	1.4	-2.8	-2.6
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)	3.4	4.4	4.5	5.0	1.8	1.5	1.1	1.4	--	--	2.5	2.2	15.3	13.8	1.5	1.4	-2.5	-2.0
Instituto de Estudios Económicos (IEE)	1.7	1.8	3.6	3.7	1.7	1.6	1.0	0.9	1.0	1.6	2.4	1.9	15.3	14.2	1.5	1.2	-2.7	-2.2
Intermoney	1.6	2.0	3.5	2.4	1.8	1.7	1.0	1.3	--	--	2.4	1.9	15.3	13.9	0.9	0.7	-2.7	-2.1
Repsol	1.5	3.5	1.4	2.2	1.8	1.6	1.1	1.2	1.2	1.0	2.5	2.0	14.9	13.2	1.5	1.3	-2.6	-1.6
Santander	1.4	0.8	3.5	1.9	1.7	1.7	1.0	1.3	0.9	1.7	2.5	1.8	15.4	14.1	1.1	0.8	-2.7	-1.8
Solchaga Recio & asociados	2.0	3.3	3.6	3.8	1.8	1.9	1.0	1.3	--	--	2.4	2.0	15.3	13.7	1.4	1.3	-2.7	-2.2
<b>CONSENSUS (AVERAGE)</b>	<b>2.2</b>	<b>3.0</b>	<b>3.4</b>	<b>3.4</b>	<b>1.8</b>	<b>1.6</b>	<b>1.0</b>	<b>1.2</b>	<b>1.0</b>	<b>1.6</b>	<b>2.4</b>	<b>2.0</b>	<b>15.3</b>	<b>13.8</b>	<b>1.2</b>	<b>1.0</b>	<b>-2.7</b>	<b>-2.1</b>
Maximum	3.7	5.7	4.8	6.2	1.9	1.9	1.2	1.4	1.4	2.1	2.5	2.2	15.4	14.2	1.5	1.4	-2.5	-1.6
Minimum	0.6	0.8	1.4	1.9	1.7	1.1	0.9	0.9	0.7	1.0	2.2	1.7	14.9	13.2	0.4	-0.4	-2.8	-2.6
Change on 2 months earlier <sup>1</sup>	-0.7	-0.6	0.4	-0.4	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.1	-0.2	-0.3	0.0	-0.1
- Rise <sup>2</sup>	1	2	11	1	4	6	0	0	2	4	4	3	3	5	1	0	2	3
- Drop <sup>2</sup>	15	13	4	14	1	3	10	6	4	2	1	2	5	4	11	12	4	6
Change on 6 months earlier <sup>1</sup>	-2.1	-1.3	-0.6	-0.7	0.3	0.0	-0.2	-0.2	-0.1	0.1	0.0	0.0	0.0	0.2	-0.4	-0.5	-0.2	-0.2
Memorandum items:																		
Government (October 2018)	3.2	3.4	4.0	3.8	--	--	--	--	--	--	2.5	2.0	15.5	13.8	1.3	1.1	-2.7	-1.8
Bank of Spain (September 2018)	2.6	3.9	3.1	4.0	1.8 <sup>(7)</sup>	1.7 <sup>(7)</sup>	1.0 <sup>(8)</sup>	1.4 <sup>(8)</sup>	--	--	2.4	1.9	15.3	13.8	1.3 <sup>(6)</sup>	1.1 <sup>(6)</sup>	-2.8	-2.5
EC (November 2018)	2.6	3.3	3.5	3.5	1.8	1.7	--	--	1.0	2.4	2.4	1.7	15.6	14.4	1.2	1.0	-2.7	-2.1
IMF (October 2018)	2.1	3.7	2.6	3.2	1.8	1.8	--	--	--	--	2.1	1.1	15.6	14.7	1.2	1.2	-2.7	-2.3
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

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panellists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Average earnings per full-time equivalent job.

<sup>4</sup> In National Accounts terms: full-time equivalent jobs.

<sup>5</sup> Current account balance, according to Bank of Spain estimates.

<sup>6</sup> Net lending position vis-à-vis rest of world.

<sup>7</sup> Harmonized Index of Consumer Prices (HIPC).

<sup>8</sup> HIPC excluding energy and food.

<sup>9</sup> Excluding financial entities bail-out expenditures.

Table 2

### Quarterly Forecasts – November 2018

	Quarter-on-quarter change (percentage)							
	18-IQ	18-IIQ	18-IIIQ	18-IVQ	19-IQ	19-IIQ	19-IIIQ	19-IVQ
GDP <sup>1</sup>	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Euribor 1 yr <sup>2</sup>	-0.19	-0.18	-0.17	-0.14	-0.07	0.00	0.08	0.19
Government bond yield 10 yr <sup>2</sup>	1.34	1.37	1.46	1.50	1.56	1.69	1.75	1.86
ECB main refinancing operations interest rate <sup>2</sup>	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.17
Dollar / Euro exchange rate <sup>2</sup>	1.23	1.17	1.17	1.16	1.17	1.18	1.19	1.20

Forecasts in blue.

<sup>1</sup> Qr-on-qr growth rates.

<sup>2</sup> End of period.

Table 3

### CPI Forecasts – November 2018

Monthly change (%)				Year-on-year change (%)	
Dec-18	Jan-19	Feb-19	Mar-19	Dec-18	Dec-19
0.2	-0.6	0.2	0.4	1.9	1.4

Table 4

### Opinions – November 2018

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	3	11	4	1	12	5
International context: Non-EU	4	10	4	1	13	4
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	0	3	15	6	12	0
Monetary policy assessment <sup>1</sup>	0	0	18	0	8	10

<sup>1</sup> In relation to the current state of the Spanish economy.

# Key Facts

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# Economic Indicators

Table 1

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

Forecasts in yellow

	GDP	Private consumption	Public consumption	Gross fixed capital formation				Equipment & others products	Exports	Imports	Domestic demand (a)	Net exports (a)	
				Total	Construction								
					Total	Housing	Other constructions						
Chain-linked volumes, annual percentage changes													
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	-0.9	7.4	9.9	4.2	5.4	3.9	-0.3	
2016	3.2	2.9	1.0	2.9	1.1	7.0	-3.7	4.7	5.2	2.9	2.4	0.8	
2017	3.0	2.5	1.9	4.8	4.6	9.0	0.6	5.0	5.2	5.6	2.9	0.1	
2018	2.6	2.1	1.9	5.3	5.4	7.5	3.2	5.2	2.6	2.9	2.6	0.0	
2019	2.2	1.5	1.1	4.7	5.1	6.2	3.9	4.2	4.2	3.8	2.0	0.2	
2017	I	2.9	2.3	1.2	4.7	3.9	7.8	0.4	5.5	6.1	5.5	2.5	0.4
	II	3.1	2.5	1.7	3.6	4.1	9.2	-0.6	3.1	5.4	4.4	2.6	0.5
	III	2.9	2.6	2.0	5.8	5.7	9.7	2.0	5.8	5.4	7.0	3.2	-0.3
	IV	3.1	2.7	2.6	5.2	4.8	9.2	0.5	5.6	4.2	5.4	3.3	-0.2
2018	I	2.8	3.1	2.4	3.9	5.7	9.3	2.1	2.1	3.4	4.7	3.1	-0.3
	II	2.5	2.3	1.9	7.7	7.0	7.0	6.9	8.4	2.3	5.2	3.3	-0.8
	III	2.5	2.0	2.1	6.3	5.7	6.5	4.8	7.0	0.4	2.0	3.0	-0.5
2019	IV	2.3	2.0	2.1	6.5	6.5	6.9	6.0	6.6	1.2	3.5	3.0	-0.7
	I	2.3	1.5	1.6	6.3	5.8	6.3	5.3	6.9	1.3	2.3	2.6	-0.3
	II	2.3	1.8	1.7	4.0	4.8	7.3	2.3	3.1	2.2	2.4	2.3	0.0
	III	2.3	1.6	1.1	4.2	5.3	6.9	3.6	3.1	4.5	4.0	2.0	0.3
IV	2.3	1.6	0.7	4.7	4.6	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	3.3	2.1	4.3	10.1	4.9	10.4	-0.3	15.3	5.5	9.8	4.3	-1.0
	II	3.5	3.4	2.3	-0.6	4.2	12.1	-3.2	-5.1	5.2	1.9	2.4	1.2
	III	2.6	3.6	2.6	9.5	7.1	8.1	6.1	12.0	0.5	7.8	4.7	-2.1
	IV	2.9	1.7	1.4	2.3	3.0	6.5	-0.4	1.6	5.6	2.3	1.8	1.2
2018	I	2.2	3.7	3.2	4.7	8.5	10.6	6.1	0.9	2.4	6.9	3.5	-1.3
	II	2.3	0.4	0.5	14.6	9.3	2.9	16.6	20.3	1.0	4.0	3.2	-0.9
	III	2.4	2.4	3.4	4.1	2.1	6.1	-1.9	6.2	-6.9	-4.8	3.2	-0.8
2019	IV	2.2	1.6	1.2	3.1	6.2	8.2	4.1	0.0	9.1	8.7	1.8	0.4
	I	2.4	1.6	1.2	3.9	5.8	8.2	3.2	2.0	2.8	1.6	2.0	0.5
	II	2.2	1.6	1.2	4.9	5.4	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	1,080.9	57.2	20.5	23.0	14.3	6.9	7.4	8.7	25.5	26.8	101.3	-1.3	
2011	1,070.4	57.8	20.5	21.5	12.5	5.7	6.8	9.0	28.9	29.2	100.2	-0.2	
2012	1,039.8	58.8	19.7	19.8	10.9	4.9	6.0	8.9	30.7	29.2	98.5	1.5	
2013	1,025.7	58.3	19.7	18.8	9.7	4.1	5.6	9.0	32.2	29.0	96.7	3.3	
2014	1,037.8	58.6	19.5	19.3	9.9	4.5	5.4	9.4	32.7	30.3	97.6	2.4	
2015	1,081.2	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	

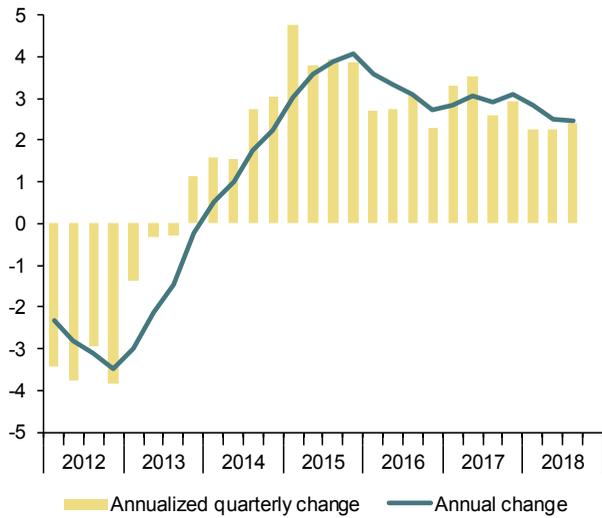
\* Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

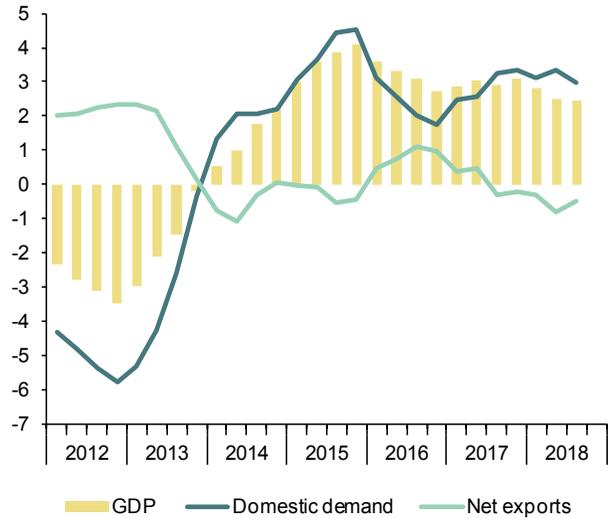
**Chart 1.1 - GDP**

Percentage change



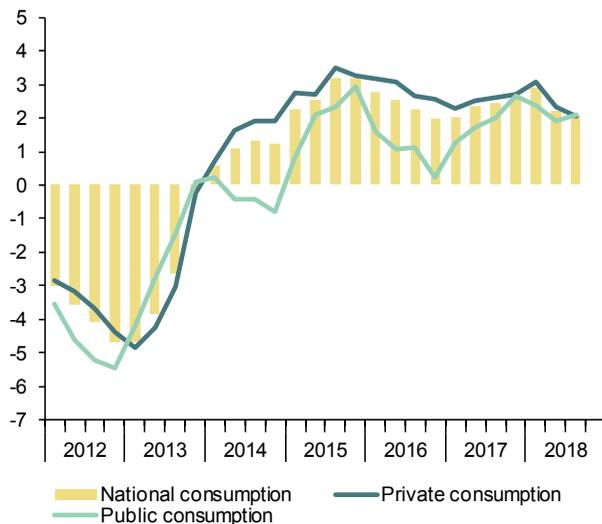
**Chart 1.2 - Contribution to GDP annual growth**

Percentage points



**Chart 1.3 - Final consumption**

Annual percentage change



**Chart 1.4 - Gross fixed capital formation**

Annual percentage change

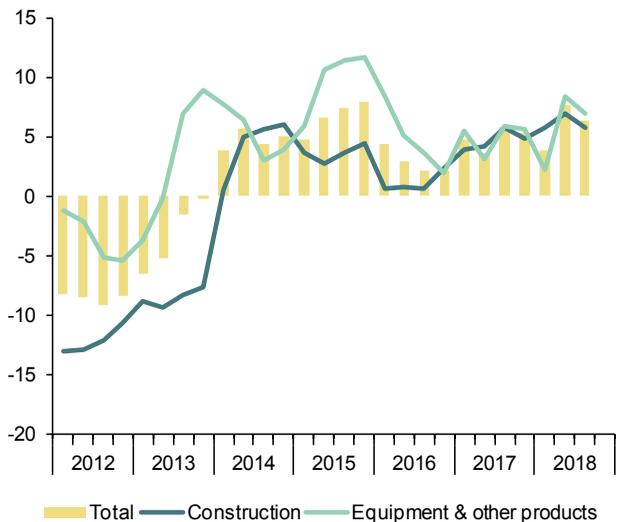


Table 2

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

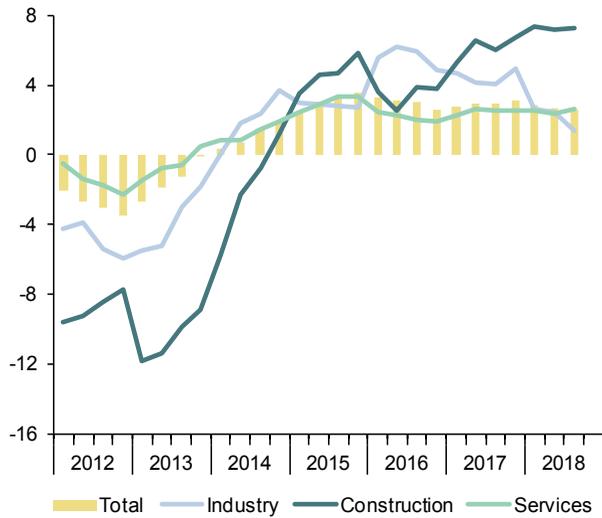
		Gross value added at basic prices								
		Industry				Services				
		Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
Chain-linked volumes, annual percentage changes										
2011		-0.6	4.4	-0.2	-1.3	-12.8	0.7	0.9	0.6	-5.5
2012		-2.8	-9.7	-4.9	-5.2	-8.8	-1.5	-1.8	-1.4	-4.0
2013		-1.5	13.6	-3.9	-0.2	-10.5	-0.6	0.1	-0.8	-4.3
2014		1.1	-1.2	2.0	3.0	-2.0	1.3	-0.8	2.0	4.0
2015		3.1	3.6	2.9	4.2	4.7	3.0	1.0	3.7	9.2
2016		3.0	8.2	5.6	4.7	3.5	2.1	1.3	2.4	4.8
2017		2.9	-0.9	4.4	4.4	6.2	2.5	1.7	2.7	3.3
2016	IV	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	3.8
2017	I	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.4
	II	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.2
	III	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	3.1
	IV	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	2.7
2018	I	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9
	II	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	1.0
	III	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	1.3
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate										
2016	IV	2.2	-3.2	2.1	2.0	4.9	2.2	0.2	2.9	3.3
2017	I	3.5	-3.2	8.2	9.1	5.7	2.5	2.1	2.6	1.3
	II	3.2	-2.7	3.4	3.1	8.1	3.0	2.6	3.1	6.8
	III	2.7	6.1	2.5	4.5	5.4	2.4	1.5	2.7	1.1
	IV	3.1	1.8	5.7	4.9	7.9	2.1	2.5	2.0	1.7
2018	I	2.3	3.8	-1.2	-1.1	8.1	2.6	1.9	2.8	2.1
	II	2.6	1.1	2.9	4.1	7.3	2.2	1.8	2.4	-1.0
	III	2.4	-8.7	-1.9	-1.5	5.7	3.7	2.7	4.0	2.5
		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.

Source: INE.

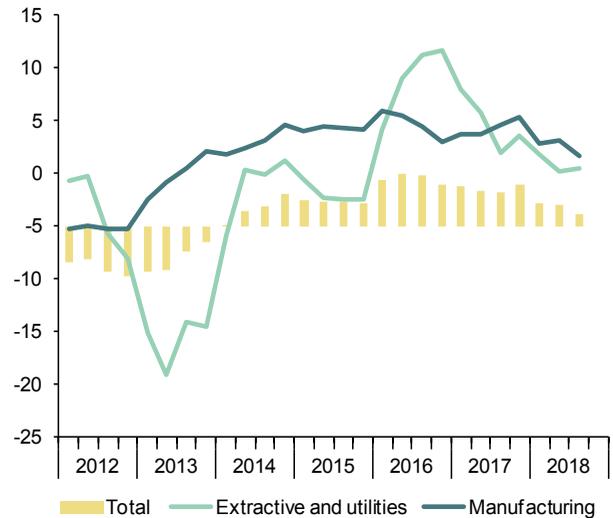
**Chart 2.1 - GVA by sectors**

Annual percentage change



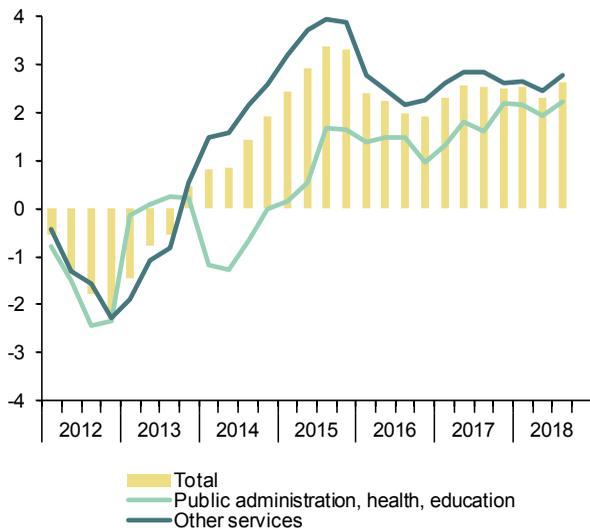
**Chart 2.2 - GVA, Industry**

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

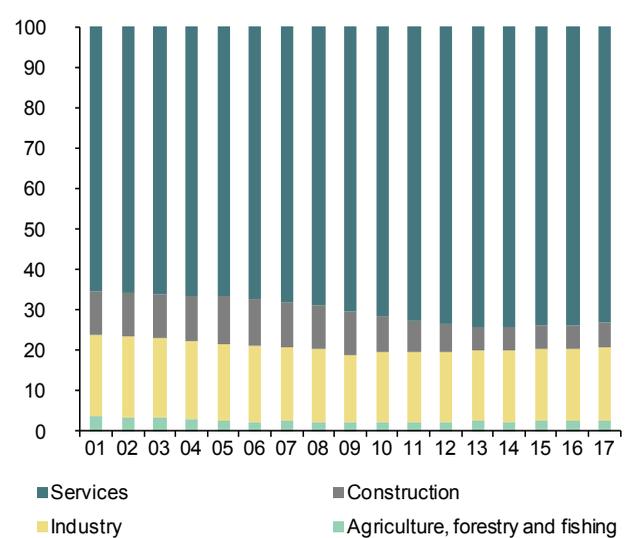


Table 3

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

Forecasts in yellow

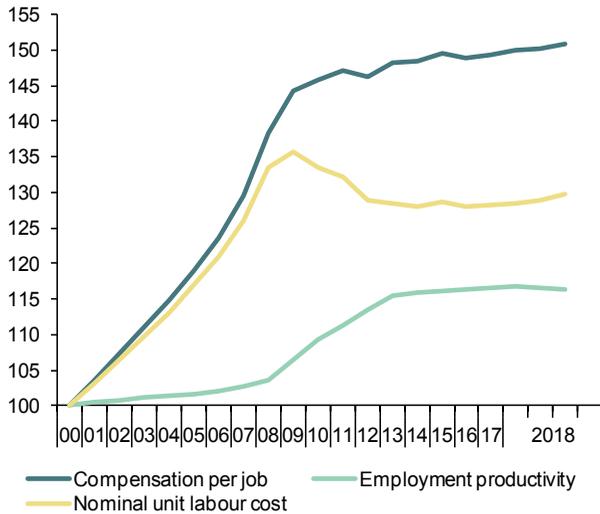
	Total economy						Manufacturing Industry						
	GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	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, SVDA													
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	91.7	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	IV	103.4	97.1	106.5	102.1	95.8	94.6	105.7	91.4	115.6	106.5	92.2	89.6
2017	I	104.2	97.8	106.6	102.4	96.1	94.6	108.0	92.2	117.1	107.1	91.5	88.9
	II	105.2	98.7	106.6	102.2	95.9	93.8	108.8	93.1	116.9	107.2	91.7	88.1
	III	105.8	99.3	106.5	102.3	96.1	93.8	110.0	93.9	117.2	107.3	91.5	87.6
	IV	106.6	99.8	106.8	102.6	96.1	93.2	111.3	94.7	117.6	107.6	91.5	87.4
2018	I	107.2	100.3	106.8	102.8	96.2	93.8	111.0	95.0	116.8	107.7	92.2	88.4
	II	107.8	101.1	106.6	102.9	96.5	93.6	112.2	95.3	117.7	108.2	91.9	87.6
	III	108.4	101.8	106.5	103.5	97.1	94.0	111.8	94.4	118.4	109.5	92.5	87.7
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	IV	2.7	2.8	-0.1	-0.6	-0.6	-1.3	3.0	4.6	-1.6	0.4	2.0	0.3
2017	I	2.9	2.7	0.2	0.4	0.2	-0.5	3.7	3.9	-0.2	0.8	1.0	-0.7
	II	3.1	2.9	0.1	0.0	-0.1	-1.4	3.7	4.0	-0.3	0.8	1.1	-2.3
	III	2.9	2.9	0.0	0.4	0.4	-0.8	4.6	3.7	0.8	0.6	-0.2	-2.4
	IV	3.1	2.9	0.2	0.5	0.3	-1.5	5.4	3.6	1.7	1.0	-0.7	-2.5
2018	I	2.8	2.6	0.3	0.4	0.2	-0.9	2.8	3.1	-0.2	0.5	0.8	-0.6
	II	2.5	2.5	0.0	0.7	0.6	-0.1	3.1	2.3	0.7	1.0	0.3	-0.6
	III	2.5	2.5	0.0	1.1	1.1	0.1	1.6	0.6	1.0	2.0	1.1	0.1

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

Source: INE and Funcas (Forecasts).

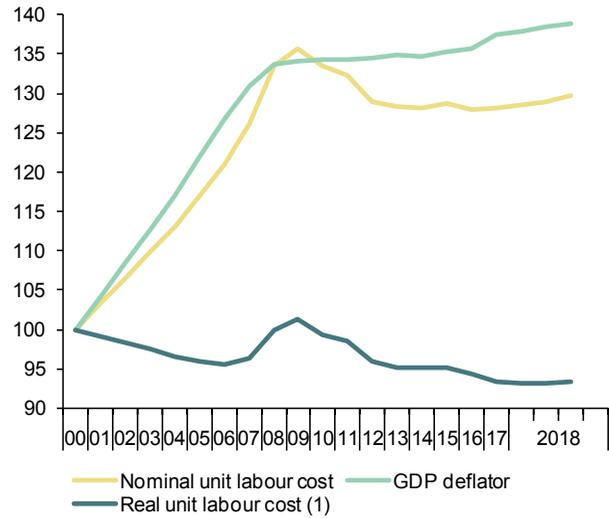
**Chart 3.1 - Nominal ULC, total economy**

Index, 2000=100



**Chart 3.2 - Real ULC, total economy**

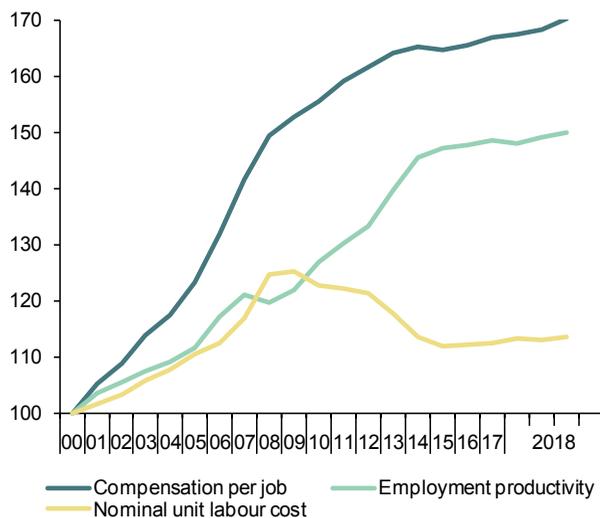
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

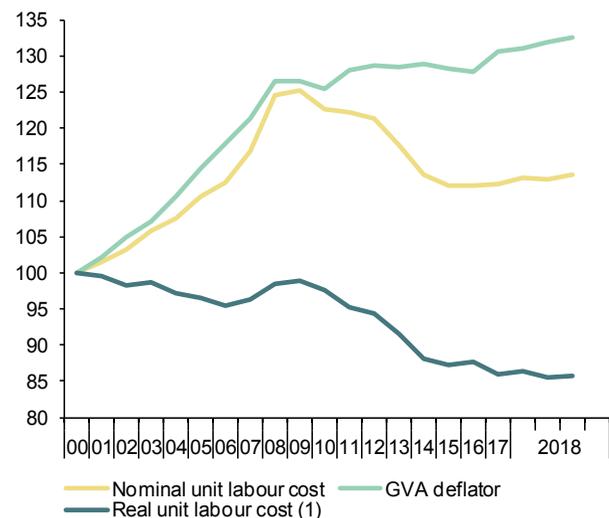
**Chart 3.3 - Nominal ULC, manufacturing industry**

Index, 2000=100



**Chart 3.4 - Real ULC, manufacturing industry**

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Table 4

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

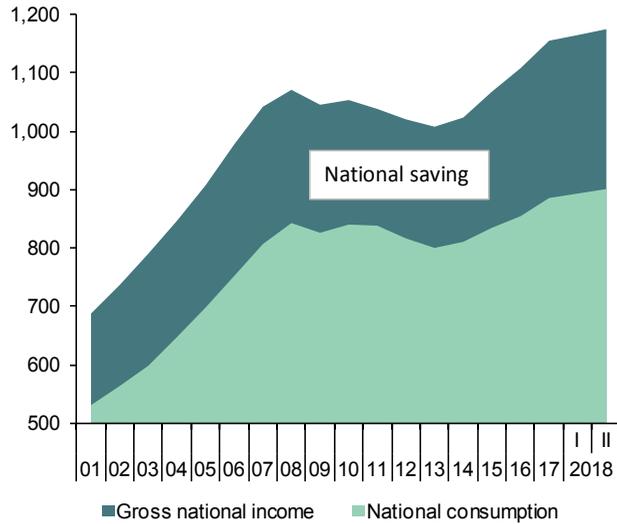
	Gross domestic product	Compensation of employees	Gross operating surplus	Gross national disposable income	Final national consumption	Gross national saving (a)	Gross capital formation	Compensation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
	EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
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	453.5	1,067.4	834.9	232.4	221.0	47.6	41.9	21.5	20.4	1.1	1.7
2016	1,118.7	528.6	475.2	1,107.6	854.8	252.7	228.6	47.2	42.5	22.6	20.4	2.2	2.4
2017	1,166.3	547.3	499.0	1,154.7	886.2	268.6	246.1	46.9	42.8	23.0	21.1	1.9	2.2
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 IV	1,118.7	528.6	475.2	1,107.6	854.8	252.7	228.6	47.2	42.5	22.6	20.4	2.2	2.4
2017 I	1,129.7	532.5	480.2	1,119.7	863.8	255.9	232.3	47.1	42.5	22.7	20.6	2.1	2.3
II	1,141.5	536.8	486.1	1,129.7	871.0	258.8	235.7	47.0	42.6	22.7	20.6	2.0	2.2
III	1,152.1	541.7	490.6	1,140.3	878.0	262.3	240.8	47.0	42.6	22.8	20.9	1.9	2.1
IV	1,166.3	547.3	499.0	1,154.7	886.2	268.6	246.1	46.9	42.8	23.0	21.1	1.9	2.2
2018 I	1,176.5	551.9	502.8	1,164.4	893.9	270.6	249.0	46.9	42.7	23.0	21.2	1.8	2.1
II	1,186.3	557.2	504.9	1,174.6	901.6	273.0	255.1	47.0	42.6	23.0	21.5	1.5	1.8
III	1,196.6	563.7	507.3	--	911.2	--	260.2	47.1	42.4	--	21.7	--	--
	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	2.6	4.3	3.0	9.5	9.5	0.2	-0.6	1.0	1.0	0.1	--
2016	3.5	2.7	4.8	3.8	2.4	8.7	3.5	-0.3	0.5	1.1	0.0	1.1	--
2017	4.3	3.5	5.0	4.3	3.7	6.3	7.7	-0.3	0.3	0.4	0.7	-0.2	--
2018	3.4	3.5	-1.3	3.9	3.5	5.2	7.3	0.0	-2.0	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 IV	3.5	2.7	4.8	3.8	2.4	8.7	3.5	-0.3	0.5	1.1	0.0	1.1	0.7
2017 I	3.7	2.8	4.4	3.9	2.9	7.6	3.7	-0.4	0.3	0.8	0.0	0.8	0.4
II	3.7	2.9	4.4	3.8	3.1	6.0	4.0	-0.4	0.3	0.5	0.1	0.4	0.1
III	3.8	3.1	4.2	3.8	3.4	5.4	5.8	-0.3	0.2	0.4	0.4	0.0	-0.3
IV	4.3	3.5	5.0	4.3	3.7	6.3	7.7	-0.3	0.3	0.4	0.7	-0.2	-0.2
2018 I	4.1	3.6	4.7	4.0	3.5	5.7	7.2	-0.2	0.2	0.3	0.6	-0.3	-0.2
II	3.9	3.8	3.9	4.0	3.5	5.5	8.2	-0.1	0.0	0.3	0.9	-0.5	-0.4
III	3.9	4.1	3.4	--	3.8	--	8.1	0.1	-0.2	--	0.8	--	--

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

Source: INE and Funcas (Forecasts).

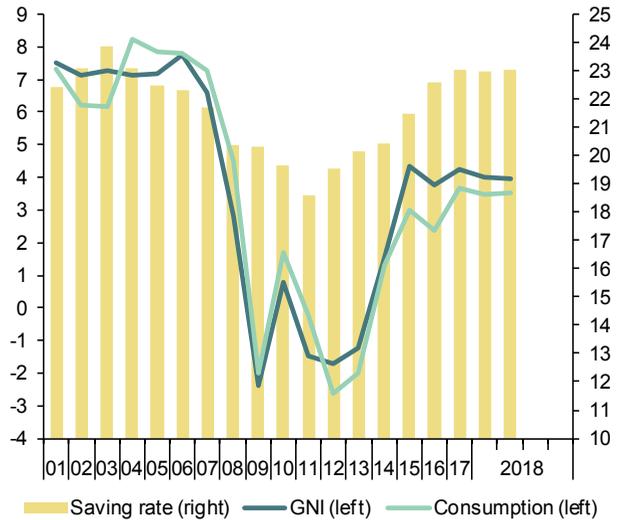
**Chart 4.1 - National income, consumption and saving**

EUR Billions, 4-quarter cumulated



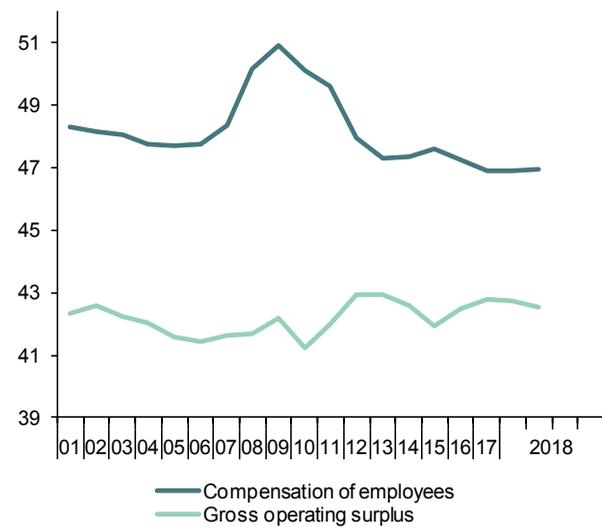
**Chart 4.2 - National income, consumption and saving rate**

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



**Chart 4.3 - Components of National Income**

Percentage of GDP, 4-quarter moving averages



**Chart 4.4 - Saving, Investment and Current Account Balance**

Percentage of GDP, 4-quarter moving averages

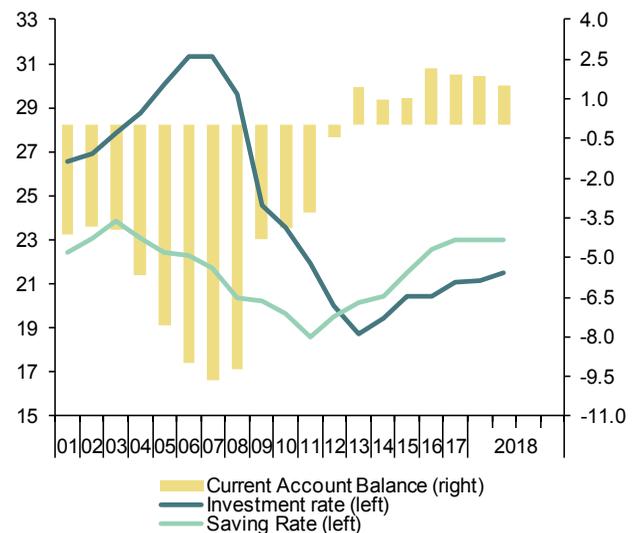


Table 5

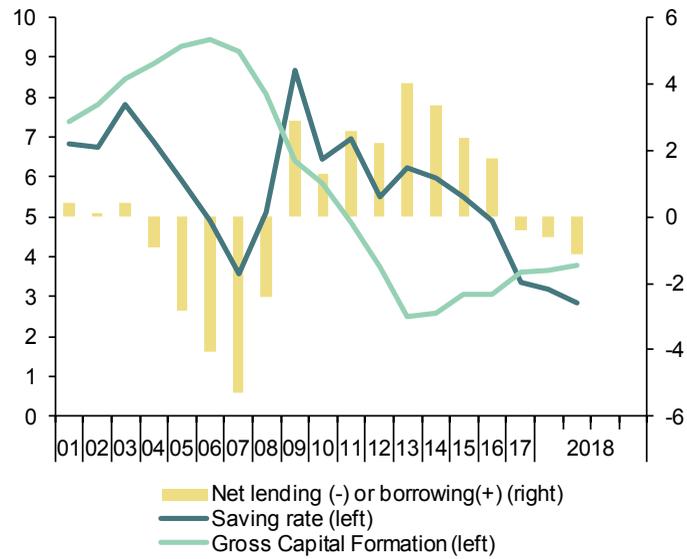
**National accounts: Household and non-financial corporations accounts (ESA 2010, Base 2010)**  
 Forecasts in yellow

	Households							Non-financial corporations					
	Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross 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	687.0	626.0	59.6	33.2	8.7	3.1	2.4	246.2	175.9	154.1	16.3	14.3	2.8
2016	699.7	643.6	54.7	34.4	7.8	3.1	1.7	260.6	195.1	167.2	17.4	14.9	3.0
2017	711.2	670.5	39.2	42.4	5.5	3.6	-0.4	278.0	210.4	177.2	18.0	15.2	3.3
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 III	695.8	638.1	56.5	34.0	8.1	3.1	2.0	257.4	193.9	164.5	17.5	14.8	3.3
IV	699.7	643.6	54.7	34.4	7.8	3.1	1.7	260.6	195.1	167.2	17.4	14.9	3.0
2017 I	701.2	651.3	48.7	36.8	6.9	3.3	1.0	263.9	200.2	169.4	17.7	15.0	3.3
II	705.4	658.1	46.1	38.0	6.5	3.3	0.6	268.9	201.1	172.7	17.6	15.1	3.0
III	707.3	663.9	42.2	40.1	6.0	3.5	0.0	272.4	202.9	174.3	17.6	15.1	2.9
IV	711.2	670.5	39.2	42.4	5.5	3.6	-0.4	278.0	210.4	177.2	18.0	15.2	3.3
2018 I	715.9	677.1	37.3	43.0	5.2	3.7	-0.6	280.6	212.2	179.0	18.0	15.2	3.3
II	718.7	683.6	33.7	45.1	4.7	3.8	-1.1	281.3	214.7	180.3	18.1	15.2	3.3
	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	2.3	2.8	-3.9	23.1	-0.6	0.5	-1.0	3.9	10.8	3.8	1.0	-0.1	1.0
2016	1.8	2.8	-8.3	3.5	-0.9	0.0	-0.6	5.9	10.9	8.5	1.2	0.7	0.2
2017	1.6	4.2	-28.3	23.1	-2.3	0.6	-2.1	6.7	7.8	6.0	0.6	0.2	0.3
2018	3.9	3.9	4.3	11.9	0.0	0.3	-0.1	1.2	0.7	6.0	-0.5	0.4	-0.8
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 III	1.2	2.7	-12.8	10.7	-1.3	0.2	-1.2	5.5	15.6	7.0	1.8	0.4	1.1
IV	1.8	2.8	-8.3	3.5	-0.9	0.0	-0.6	5.9	10.9	8.5	1.2	0.7	0.2
2017 I	1.6	3.3	-17.5	12.2	-1.6	0.2	-1.4	5.6	10.6	6.9	1.1	0.5	0.5
II	1.6	3.8	-21.5	12.2	-1.9	0.3	-1.6	6.2	7.1	8.1	0.6	0.6	-0.3
III	1.7	4.1	-25.3	18.0	-2.2	0.4	-1.9	5.8	4.6	6.0	0.2	0.3	-0.3
IV	1.6	4.2	-28.3	23.1	-2.3	0.6	-2.1	6.7	7.8	6.0	0.6	0.2	0.3
2018 I	2.1	4.0	-23.3	16.9	-1.7	0.4	-1.6	6.3	6.0	5.7	0.3	0.2	0.0
II	1.9	3.9	-26.9	18.8	-1.8	0.5	-1.7	4.6	6.8	4.4	0.5	0.1	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

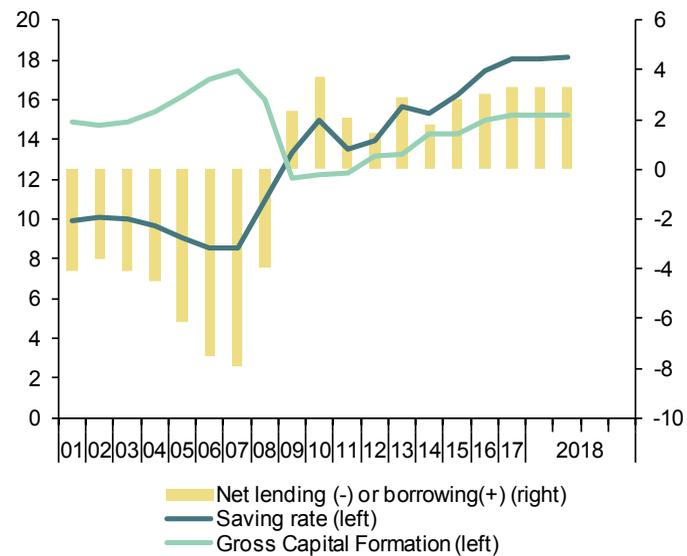


Table 6

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

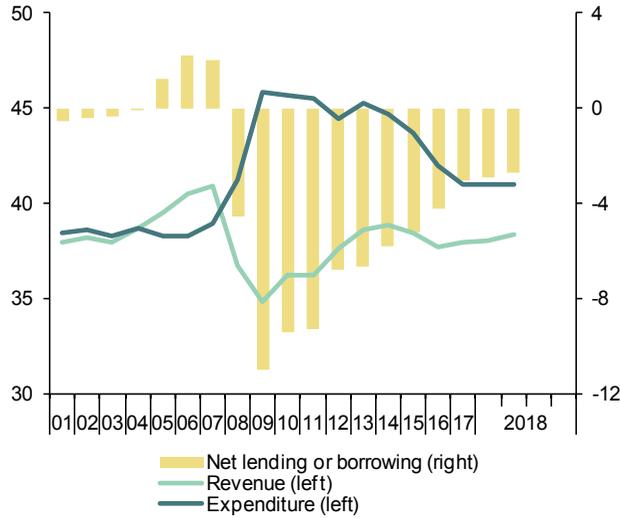
Forecasts in yellow

	Gross value added	Taxes on production and imports receivable	Taxes on income and wealth receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures	
	1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14	
EUR Billions, 4-quarter cumulated operations															
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	149.6	129.0	110.9	136.0	121.5	23.1	174.1	20.5	186.4	211.2	-24.8	25.2	-50.0	-47.6	
2017	151.7	134.7	118.6	143.1	123.0	22.6	177.7	19.8	204.9	215.7	-10.7	25.2	-35.9	-35.4	
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	III	149.3	128.5	107.1	135.1	121.2	23.3	173.4	21.0	181.2	211.3	-30.1	24.8	-54.9	-52.5
	IV	149.6	129.0	110.9	136.0	121.5	23.1	174.1	20.5	186.4	211.2	-24.8	25.2	-50.0	-47.6
2017	I	150.2	130.9	112.0	137.8	121.9	23.0	174.6	19.1	192.3	212.5	-20.2	26.1	-46.3	-43.7
	II	150.0	132.7	115.1	139.5	121.6	22.8	175.5	20.0	197.3	212.9	-15.6	25.0	-40.6	-39.7
	III	150.8	134.0	118.7	141.2	122.3	22.6	176.3	20.0	203.6	214.1	-10.5	24.9	-35.3	-34.8
	IV	151.7	134.7	118.6	143.1	123.0	22.6	177.7	19.8	204.9	215.7	-10.7	25.2	-35.9	-35.4
2018	I	152.2	136.7	120.7	144.5	123.5	22.3	178.9	20.6	208.9	216.8	-7.9	26.9	-34.8	-34.5
	II	153.0	138.8	122.5	146.5	124.2	21.7	180.1	20.5	214.3	217.9	-3.6	28.6	-32.1	-31.9
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	10.9	2.1	15.6	1.8	16.7	18.9	-2.2	2.3	-4.5	-4.3	
2017	13.0	11.6	10.2	12.3	10.5	1.9	15.2	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.0	
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	III	13.4	11.6	9.6	12.2	10.9	2.1	15.6	1.9	16.3	19.0	-2.7	2.2	-4.9	-4.7
	IV	13.4	11.5	9.9	12.2	10.9	2.1	15.6	1.8	16.7	18.9	-2.2	2.3	-4.5	-4.3
2017	I	13.3	11.6	9.9	12.2	10.8	2.0	15.5	1.7	17.0	18.8	-1.8	2.3	-4.1	-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	2.2	-3.6	-3.5
	III	13.1	11.6	10.3	12.3	10.6	2.0	15.3	1.7	17.7	18.6	-0.9	2.2	-3.1	-3.0
	IV	13.0	11.6	10.2	12.3	10.5	1.9	15.2	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.0
2018	I	12.9	11.6	10.3	12.3	10.5	1.9	15.2	1.8	17.8	18.4	-0.7	2.3	-3.0	-2.9
	II	12.9	11.7	10.3	12.3	10.5	1.8	15.2	1.7	18.1	18.4	-0.3	2.4	-2.7	-2.7

Source: INE and Funcas (Forecasts).

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

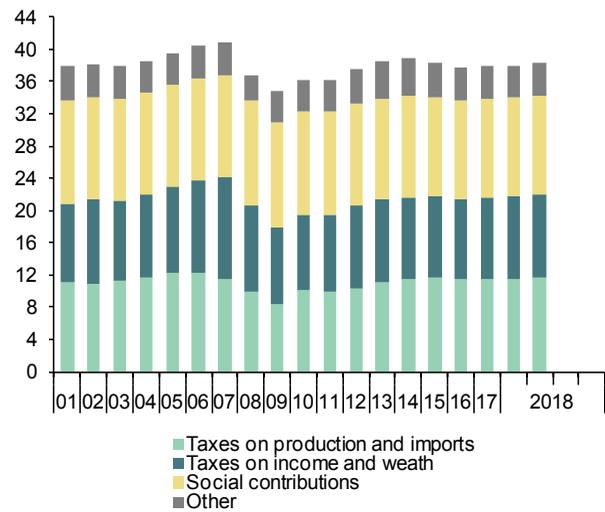
Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures

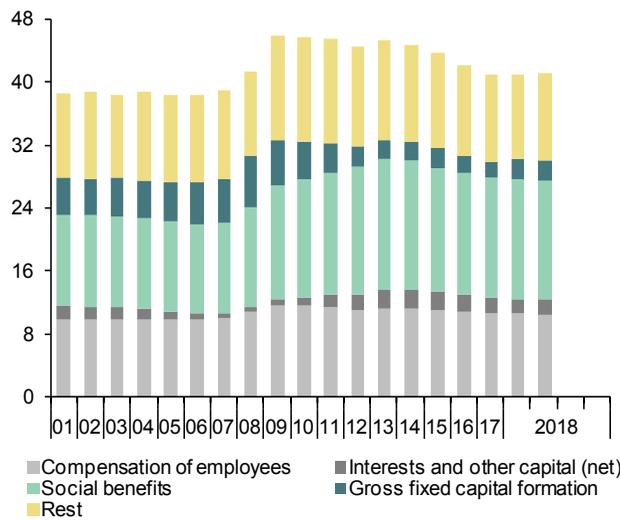
**Chart 6.2 - Public sector: Main revenues**

Percentage of GDP, 4-quarter moving averages



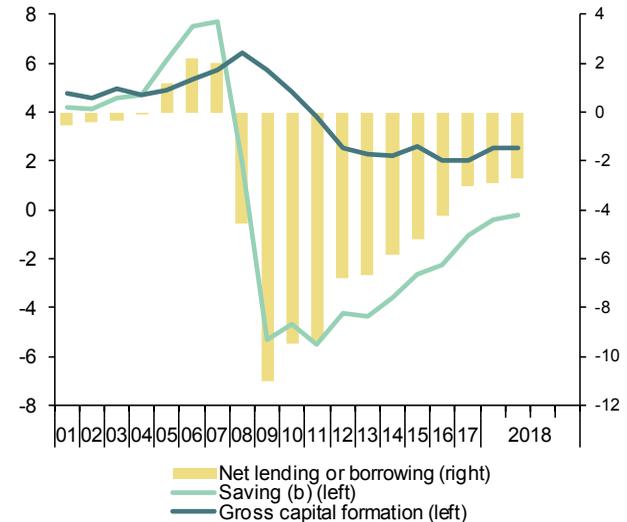
**Chart 6.3.- Public sector: Main expenditures**

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

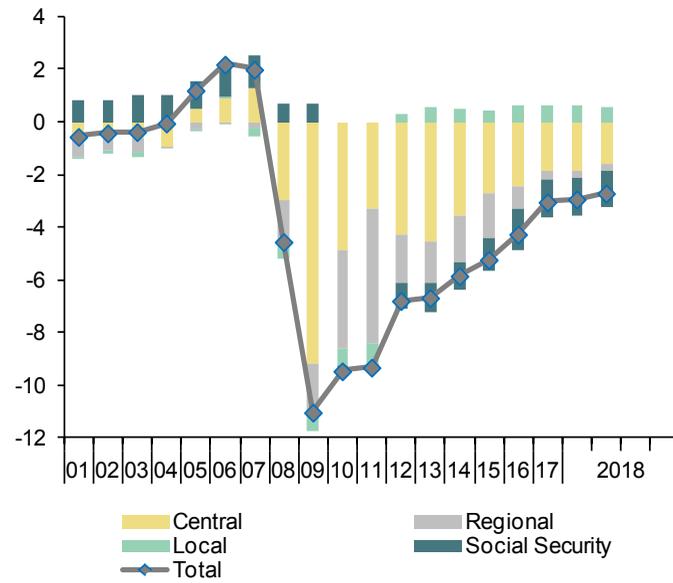
	Net lending (+)/ net borrowing (-) (a)					Debt					
	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)	
	EUR Billions, 4-quarter cumulated operations					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	-27.2	-9.6	7.0	-17.7	-47.6	969.6	277.0	32.2	17.2	1,107.2	
2017	-21.5	-4.2	7.1	-16.8	-35.4	1,010.8	288.1	29.1	27.4	1,144.4	
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	III	-33.6	-9.3	6.8	-16.5	-52.5	968.8	272.7	34.7	17.2	1,108.4
	IV	-27.2	-9.6	7.0	-17.7	-47.6	969.6	277.0	32.2	17.2	1,107.2
2017	I	-22.2	-10.7	7.2	-18.1	-43.7	986.6	279.4	31.7	17.2	1,126.3
	II	-19.2	-10.7	7.4	-17.1	-39.7	994.9	285.9	32.4	17.2	1,135.1
	III	-17.0	-6.9	7.3	-18.1	-34.8	998.8	284.4	30.5	23.2	1,133.4
	IV	-21.5	-4.2	7.1	-16.8	-35.4	1,010.8	288.1	29.1	27.4	1,144.4
2018	I	-22.1	-3.2	7.1	-16.3	-34.4	1,027.6	289.7	29.0	27.4	1,160.7
	II	-19.3	-2.7	6.3	-16.4	-32.0	1,032.9	293.2	29.4	34.9	1,163.9
		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	-2.4	-0.9	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0	
2017	-1.8	-0.4	0.6	-1.4	-3.0	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	III	-3.0	-0.8	0.6	-1.5	-4.7	87.2	24.6	3.1	1.5	99.8
	IV	-2.4	-0.9	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	-1.7	-0.9	0.6	-1.5	-3.5	87.2	25.0	2.8	1.5	99.4
	III	-1.5	-0.6	0.6	-1.6	-3.0	86.7	24.7	2.7	2.0	98.4
	IV	-1.8	-0.4	0.6	-1.4	-3.0	86.7	24.7	2.5	2.3	98.1
2018	I	-1.9	-0.3	0.6	-1.4	-2.9	87.3	24.6	2.5	2.3	98.7
	II	-1.6	-0.2	0.5	-1.4	-2.7	87.1	24.7	2.5	2.9	98.1

(a) Excluding financial entities bail-out expenditures.

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

**Chart 7.1 - Government deficit**

Percent of GDP, 4-quarter cumulated operations



**Chart 7.2 - Government debt**

Percent of GDP

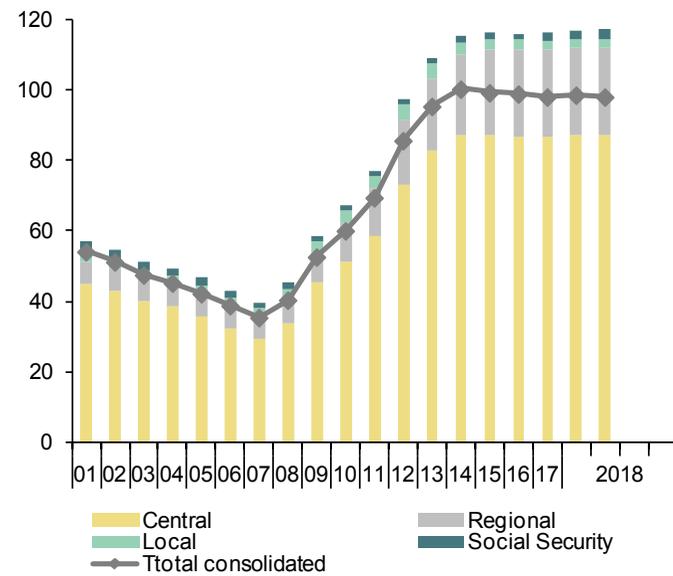


Table 8

**General activity and industrial sector indicators (a)**

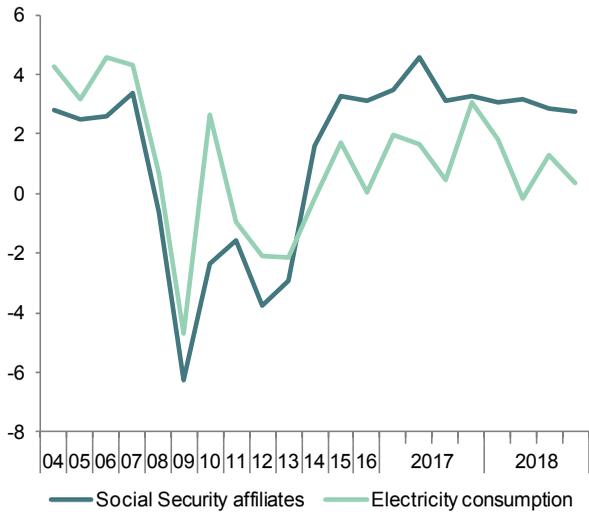
	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH (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	254.0	101.8	2,124.7	53.2	-2.3	102.6	-5.4
2017	108.6	56.2	17,789.6	258.6	105.0	2,191.0	54.8	1.0	106.9	2.2
2018 (b)	108.7	54.8	18,324.2	214.4	105.4	2,248.1	53.6	0.3	107.4	-0.2
2017 I	107.3	56.2	17,535.8	64.1	103.6	2,164.4	54.8	0.3	104.9	-3.1
II	108.1	57.4	17,733.8	64.4	104.5	2,182.6	54.9	-0.5	106.1	6.1
III	108.7	56.1	17,870.0	64.7	105.1	2,200.5	53.6	-0.1	107.3	0.8
IV	110.1	55.2	18,015.2	65.0	107.2	2,217.4	55.9	4.3	108.2	5.1
2018 I	110.0	56.6	18,152.4	65.2	106.2	2,234.0	55.3	2.8	108.9	1.2
II	109.8	55.4	18,295.4	65.1	105.6	2,246.5	53.7	1.2	109.5	2.9
III	106.7	52.7	18,423.8	65.1	105.7	2,257.8	52.4	-2.6	110.1	-2.4
IV (b)	107.4	53.7	18,550.0	21.7	--	2,266.6	51.8	-1.5	--	-7.5
2018 Aug	107.0	53.0	18,420.4	21.7	106.2	2,257.5	53.0	-3.5	110.2	-7.3
Sep	105.5	52.5	18,468.1	21.7	105.5	2,261.9	51.4	-3.0	--	-2.7
Oct	107.4	53.7	18,550.0	21.7	--	2,266.6	51.8	-1.5	--	-7.5
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	1.8	3.2	3.1	--	--	4.2	--
2018 (d)	--	--	3.3	1.0	1.3	2.9	--	--	2.8	--
2017 I	--	--	3.5	2.0	3.9	3.1	--	--	4.7	--
II	--	--	4.6	1.7	3.5	3.4	--	--	4.8	--
III	--	--	3.1	0.5	2.3	3.3	--	--	4.4	--
IV	--	--	3.3	3.0	8.5	3.1	--	--	3.4	--
2018 I	--	--	3.1	1.8	-3.7	3.0	--	--	2.6	--
II	--	--	3.2	-0.2	-2.2	2.2	--	--	2.5	--
III	--	--	2.8	1.3	0.4	2.0	--	--	2.2	--
IV (e)	--	--	2.8	0.4	--	1.6	--	--	--	--
2018 Aug	--	--	0.2	0.0	0.6	0.1	--	--	0.2	--
Sep	--	--	0.3	0.0	-0.7	0.2	--	--	--	--
Oct	--	--	0.4	0.0	--	0.2	--	--	--	--

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

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

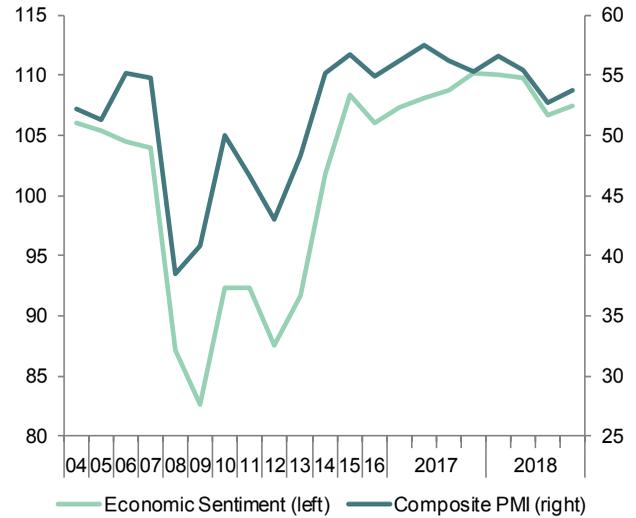
**Chart 8.1 - General activity indicators (I)**

Annualized percent change from previous period



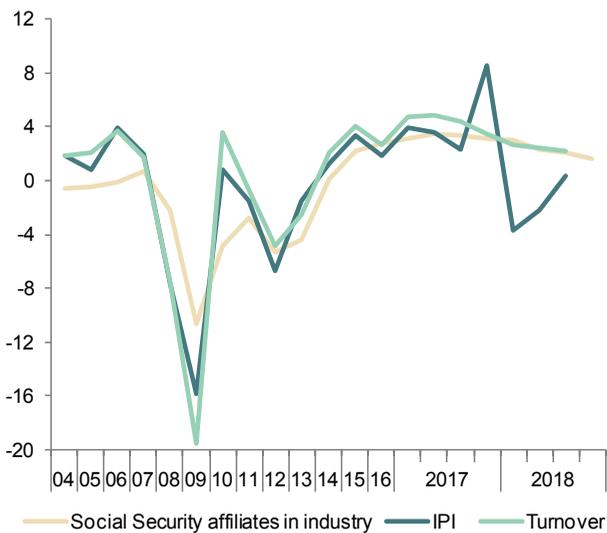
**Chart 8.2.- General activity indicators (II)**

Index



**Chart 8.3 - Industrial sector indicators (I)**

Annualized percent change from previous period



**Chart 8.4 - Industrial sector indicators (II)**

Index

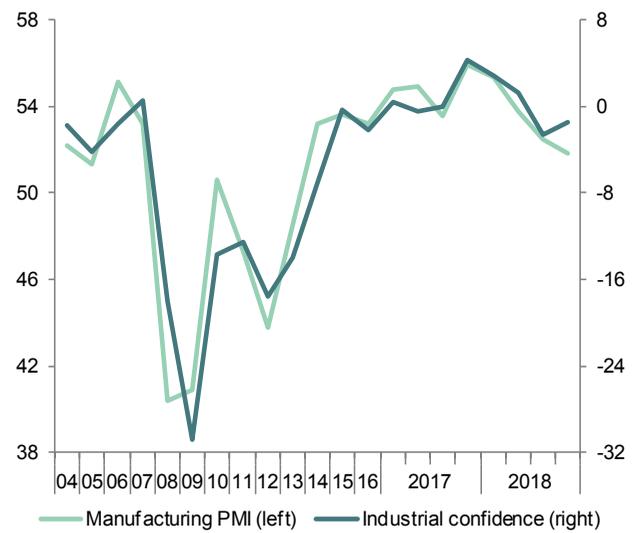


Table 9

**Construction and services sector indicators (a)**

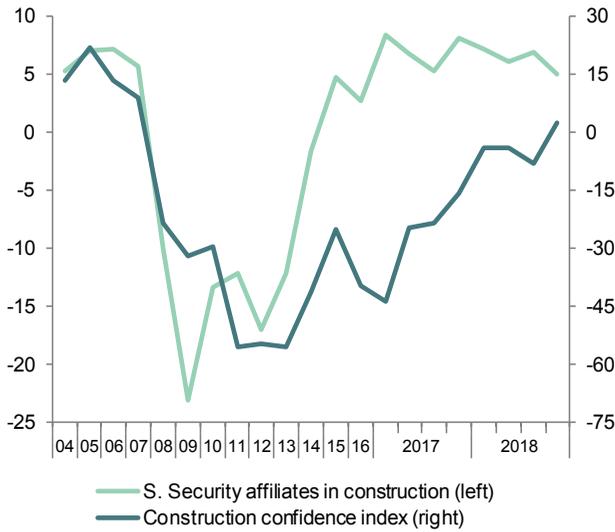
	Construction indicators					Service sector indicators						
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index	
	Thousands	2010=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m <sup>2</sup>	Thousands	2010=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses	
2011	1,368.9	141.0	-55.4	13.7	14.1	12,176.1	101.0	46.5	286.8	203.3	-20.8	
2012	1,135.5	101.2	-54.9	7.4	8.5	11,907.2	94.8	43.1	280.7	193.2	-21.5	
2013	996.8	93.6	-55.6	9.2	6.8	11,727.9	92.9	48.3	286.0	186.5	-15.3	
2014	980.3	92.8	-41.4	13.1	6.9	11,995.5	95.3	55.2	295.3	194.9	9.9	
2015	1,026.7	100.0	-25.3	9.4	9.9	12,432.3	100.0	57.3	308.2	206.6	19.4	
2016	1,053.9	102.6	-39.6	9.3	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8	
2017	1,118.8	111.5	-26.9	12.9	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5	
2018 (b)	1,188.2	114.2	-4.8	11.4	13.4	13,752.5	115.3	54.9	274.2	203.5	22.7	
2017	I	1,092.7	109.0	-43.7	2.4	4.0	13,135.7	108.7	56.4	85.2	60.3	19.2
	II	1,110.6	110.7	-24.7	2.9	4.2	13,295.5	110.3	57.8	85.5	61.5	23.3
	III	1,124.9	111.8	-23.5	3.5	3.7	13,404.9	111.8	56.8	85.6	62.7	25.2
	IV	1,147.0	112.9	-15.7	3.9	4.0	13,512.3	113.5	54.6	85.6	63.8	22.3
2018	I	1,166.8	113.4	-4.3	3.9	4.7	13,616.3	115.4	56.8	85.5	64.7	23.5
	II	1,184.0	113.8	-4.1	3.8	5.2	13,727.5	117.3	55.8	85.1	65.1	23.5
	III	1,203.7	114.1	-8.3	4.0	5.3	13,831.2	119.0	52.6	84.5	65.2	21.6
	IV (b)	1,218.4	--	2.2	--	--	13,908.1	--	54.0	--	--	20.9
2018	Aug	1,201.8	114.2	-10.2	1.3	1.2	13,830.4	119.3	52.7	28.2	21.7	22.2
	Sep	1,211.1	--	2.5	1.3	--	13,868.8	--	52.5	28.1	21.8	19.3
	Oct	1,218.4	--	2.2	--	--	13,908.1	--	54.0	--	--	20.9
Percentage changes (c)												
2011		-12.2	-9.8	--	-47.9	-13.2	-0.1	-1.1	--	7.3	6.0	--
2012		-17.0	-28.2	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013		-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014		-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015		4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016		2.6	2.6	--	-0.7	29.0	3.4	4.2	--	7.4	11.0	--
2017		6.2	8.7	--	38.0	24.8	3.8	6.6	--	2.8	8.3	--
2018 (d)		6.8	3.1	--	38.2	26.2	3.3	6.4	--	-0.6	5.5	--
2017	I	8.4	11.9	--	11.0	16.9	3.4	7.0	--	3.3	8.5	--
	II	6.7	6.4	--	24.5	29.3	5.0	6.0	--	1.6	8.1	--
	III	5.3	3.8	--	51.2	28.9	3.3	5.5	--	0.4	8.0	--
	IV	8.1	4.2	--	73.7	24.8	3.2	6.3	--	0.2	7.6	--
2018	I	7.1	1.8	--	63.8	18.9	3.1	6.7	--	-0.8	5.4	--
	II	6.0	1.1	--	32.7	23.5	3.3	6.9	--	-1.8	2.5	--
	III	6.8	1.2	--	13.4	40.0	3.1	5.9	--	-2.5	1.0	--
	IV (e)	5.0	--	--	--	--	2.2	--	--	--	--	--
2018	Aug	0.3	0.1	--	56.6	31.3	0.3	0.6	--	-0.2	0.1	--
	Sep	0.8	--	--	1.6	--	0.3	--	--	-0.2	0.1	--
	Oct	0.6	--	--	--	--	0.3	--	--	--	--	--

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

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

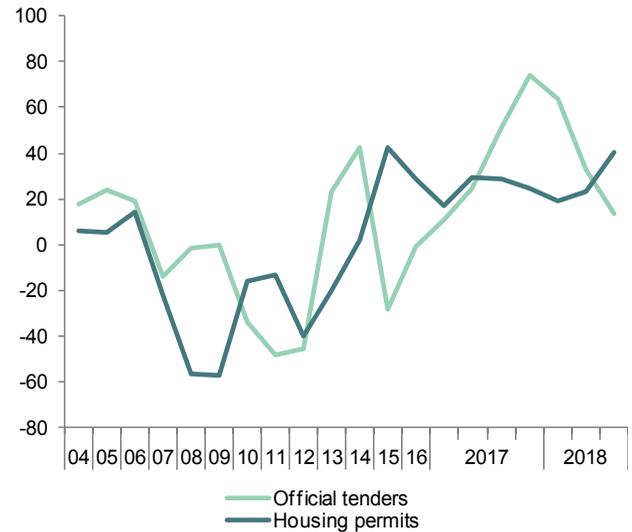
**Chart 9.1 - Construction indicators (I)**

Annualized percentage changes from previous period and index



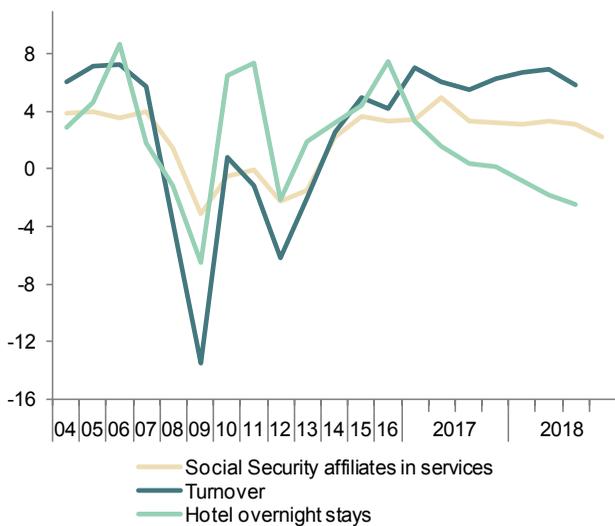
**Chart 9.2 - Construction indicators (II)**

Annualized percentage changes from previous period



**Chart 9.3 - Services indicators (I)**

Annualized percentage change from previous period



**Chart 9.4 - Services indicators (II)**

Index

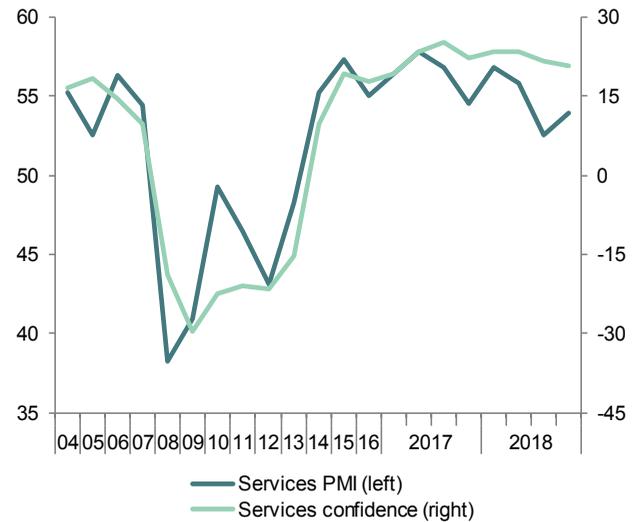


Table 10

**Consumption and investment indicators (a)**

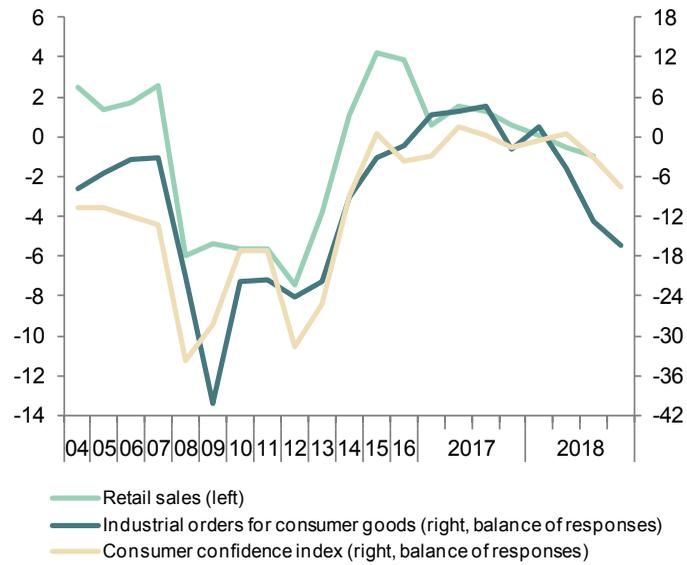
	Consumption indicators					Investment in equipment indicators			
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Imports of capital goods (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	115.8	2.4	207.6	4.9	103.3	
2018 (b)	103.5	1,119.9	-1.8	93.2	-6.5	171.9	13.4	--	
2017	I	104.4	321.3	-2.8	28.8	3.3	50.1	1.4	102.9
	II	104.8	328.7	1.5	28.9	3.9	51.2	7.6	104.0
	III	105.1	338.7	0.2	28.9	4.5	52.9	-2.0	103.0
	IV	105.3	350.0	-1.5	29.1	-2.0	54.7	12.4	102.2
2018	I	105.3	358.0	-0.6	29.1	1.5	56.5	13.8	103.6
	II	105.1	365.4	0.5	29.0	-4.8	58.2	15.7	107.3
	III	104.9	371.9	-3.3	28.8	-12.8	60.0	11.3	111.3
	IV (b)	--	--	-7.5	--	-16.4	--	11.2	--
2018	Aug	104.9	124.1	-2.5	9.6	-15.3	20.0	2.7	112.2
	Sep	104.8	124.3	-8.0	9.6	-13.0	20.2	17.4	--
	Oct	--	--	-7.5	--	-16.4	--	11.2	--
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	--	1.4	--	8.5	--	6.4
2018 (d)		0.4	10.6	--	0.3	--	13.8	--	2.0
2016	IV	0.8	8.9	--	3.4	--	9.7	--	7.5
2017	I	0.5	8.3	--	1.5	--	5.7	--	11.1
	II	1.5	9.5	--	0.9	--	8.6	--	4.4
	III	1.3	12.8	--	1.2	--	14.4	--	-3.7
	IV	0.6	14.1	--	2.1	--	14.6	--	-3.0
2018	I	0.1	9.4	--	-0.2	--	13.1	--	5.6
	II	-0.5	8.4	--	-1.8	--	12.8	--	14.8
	III (e)	-1.0	7.4	--	-2.0	--	13.0	--	16.0
2018	Jul	-0.1	0.7	--	-0.2	--	1.1	--	1.5
	Aug	-0.1	0.5	--	-0.2	--	1.0	--	1.6
	Sep	-0.1	0.2	--	-0.1	--	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 Commission, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

### Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses



### Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

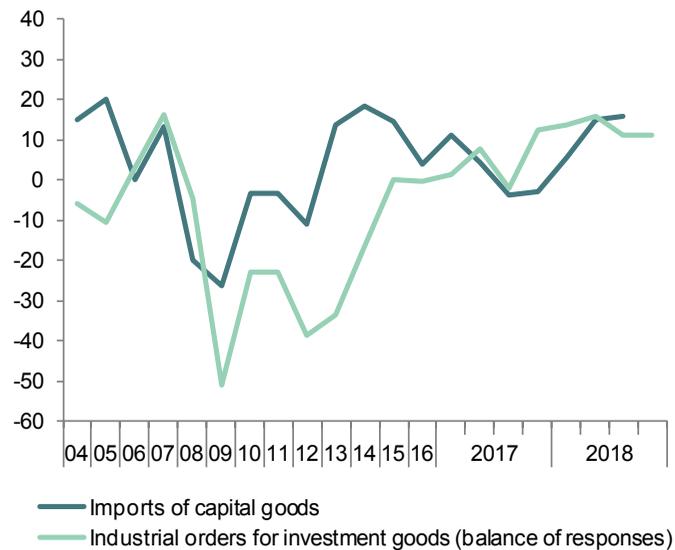


Table 11a

## Labour market (I)

Forecasts in yellow

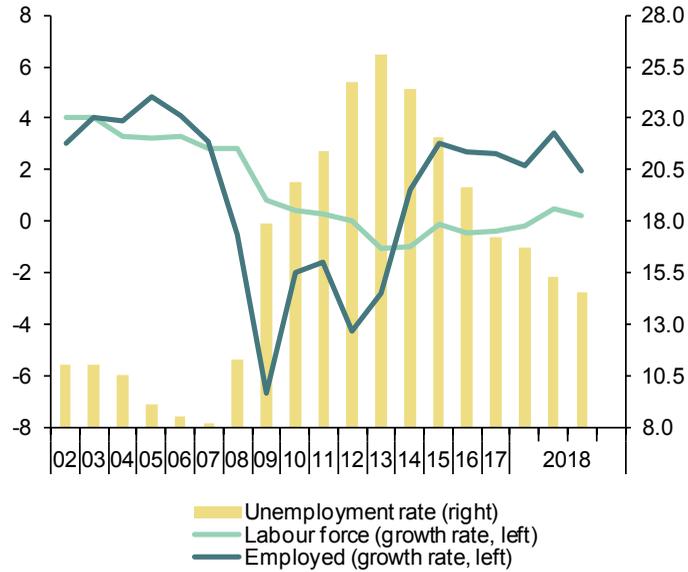
	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)				
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign	
		I	2=4+6	3=5+7	4	5	6			7	Seasonally adjusted			
										Percentage				
										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	--	19.2	--	3.5	--	74.8	63.2	15.3	--	--	--	
2019	30.2	22.7	--	19.6	--	3.2	--	74.7	64.2	13.9	--	--	--	
2016	IV	30.0	22.7	22.7	18.5	18.5	4.2	4.2	75.1	61.1	18.6	42.9	17.8	24.7
2017	I	30.0	22.7	22.8	18.4	18.6	4.3	4.1	75.0	60.8	18.8	41.7	17.8	25.5
	II	30.0	22.7	22.7	18.8	18.8	3.9	3.9	75.1	62.0	17.2	39.5	16.4	23.6
	III	30.0	22.8	22.7	19.0	18.9	3.7	3.8	75.2	62.8	16.4	36.0	15.5	22.7
	IV	30.1	22.8	22.8	19.0	19.0	3.8	3.8	75.1	62.6	16.5	37.5	15.6	23.6
2018	I	30.1	22.7	22.8	18.9	19.1	3.8	3.6	74.7	62.1	16.7	36.3	15.7	24.3
	II	30.2	22.8	22.8	19.3	19.3	3.5	3.5	75.1	63.5	15.3	34.7	14.3	21.9
	III	30.2	22.9	22.8	19.5	19.4	3.3	3.4	75.0	64.0	14.6	33.0	13.7	20.6
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	-0.1	--	2.2	--	-11.2	--	-0.3	1.2	-1.9	--	--	--	
2019	0.2	0.0	--	1.7	--	-9.2	--	-0.1	1.0	-1.4	--	--	--	
2016	IV	-0.3	-0.6	-1.3	2.3	2.4	-11.3	-15.6	-0.2	1.5	-2.3	-3.3	-2.1	-3.7
2017	I	-0.2	-0.6	0.2	2.3	3.0	-11.2	-11.5	-0.3	1.4	-2.2	-4.8	-2.0	-4.3
	II	-0.1	-0.6	-1.1	2.8	2.5	-14.4	-16.4	-0.5	1.7	-2.8	-7.0	-2.7	-3.7
	III	0.0	-0.3	0.8	2.8	3.0	-13.6	-9.4	-0.3	1.7	-2.5	-6.0	-2.6	-2.1
	IV	0.1	0.1	0.6	2.6	2.3	-11.1	-7.3	-0.1	1.5	-2.1	-5.5	-2.3	-1.1
2018	I	0.2	-0.1	-0.2	2.4	2.2	-10.8	-11.6	-0.3	1.3	-2.0	-5.3	-2.1	-1.2
	II	0.4	0.5	0.5	2.8	3.4	-10.8	-14.1	0.0	1.5	-1.9	-4.8	-2.0	-1.7
	III	0.5	0.3	0.2	2.5	1.9	-10.9	-8.8	-0.2	1.2	-1.8	-3.0	-1.8	-2.1

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

Source: INE (Labour Force Survey) 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

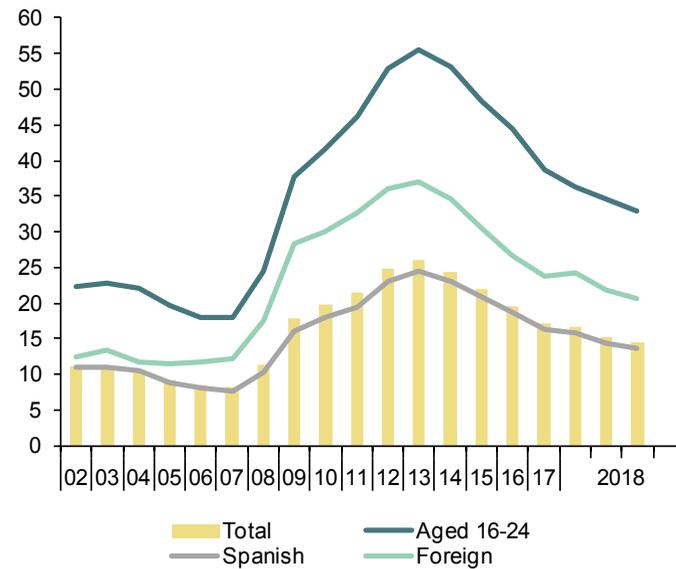


Table 11b

**Labour market (II)**

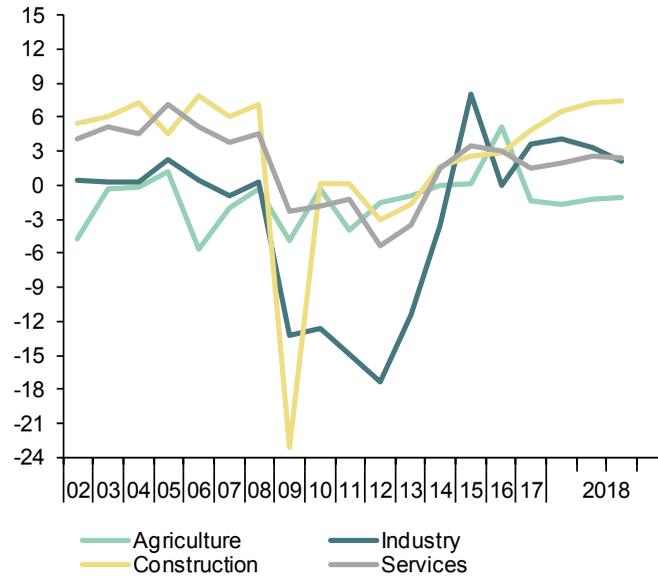
	Employed by sector				Employed by professional situation				Employed by duration of the working-day				
	Agriculture	Industry	Construction	Services	Employees				Self employed	Full-time	Part-time	Part-time employment rate (b)	
					Total	By type of contract							
						Temporary	Indefinite	Temporary employment rate (a)					
I	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12		
Million (original data)													
2009	0.79	2.81	1.89	13.62	15.88	4.00	11.88	25.2	3.23	16.71	2.40	12.54	
2010	0.79	2.65	1.65	13.64	15.59	3.86	11.73	24.7	3.13	16.29	2.44	13.02	
2011	0.76	2.60	1.40	13.66	15.39	3.87	11.52	25.1	3.03	15.92	2.50	13.56	
2012	0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.49	
2013	0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.80	
2014	0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91	
2015	0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74	
2016	0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21	
2017	0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97	
2018 (c)	0.81	2.71	1.20	14.53	16.16	4.33	11.83	26.8	3.09	16.53	2.72	14.14	
2016 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	
III	0.77	2.73	1.24	14.79	16.43	4.51	11.93	27.4	3.09	16.81	2.71	13.90	
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	5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2	
2018 (d)	-1.3	3.1	7.1	2.3	3.3	3.8	3.1	0.1	-1.1	3.7	-3.6	-0.9	
2016 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	
III	-1.1	2.1	7.4	2.4	3.3	3.5	3.2	0.1	-1.5	3.0	-0.4	-0.4	

(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

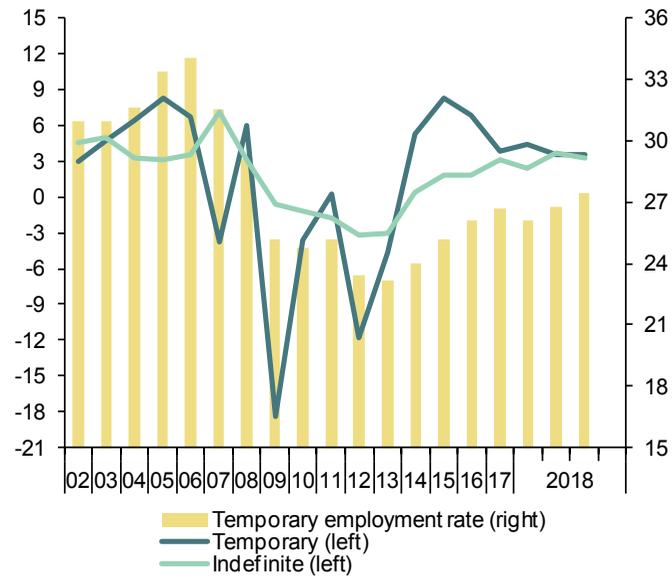


Table 12

### Index of Consumer Prices

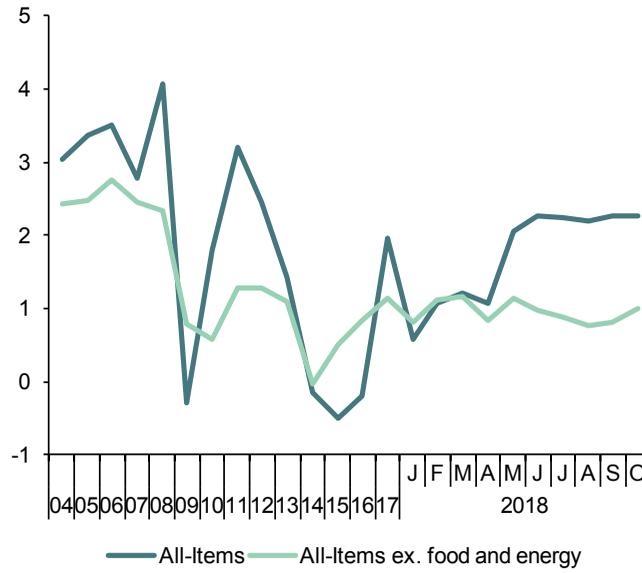
Forecasts in yellow

	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	102.1	102.0	100.1	103.1	101.7	105.8	115.2	103.0	
2019	105.2	103.1	103.0	100.4	104.6	102.8	108.8	118.7	104.7	
Annual percentage changes										
2012	2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8	
2013	1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2	
2014	-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1	
2015	-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2	
2016	-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3	
2017	2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3	
2018	1.8	0.9	1.0	0.0	1.5	1.1	3.1	6.6	1.7	
2019	1.4	1.0	1.0	0.3	1.4	1.0	2.9	3.1	1.6	
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	2.3	0.8	0.8	-0.1	1.3	0.8	3.7	12.0	1.8
	Oct	2.3	1.0	1.0	0.1	1.6	1.0	3.5	10.7	1.8
	Nov	1.9	1.0	1.0	0.0	1.6	0.9	3.5	7.6	1.7
	Dec	1.8	1.1	1.0	0.1	1.6	0.9	3.5	6.7	1.7
2019	Jan	1.9	1.0	1.0	0.0	1.7	0.9	4.0	6.9	1.9
	Feb	1.7	0.9	0.9	0.0	1.4	0.9	4.6	5.8	2.1
	Mar	2.0	1.0	1.0	0.1	1.5	0.9	3.8	7.9	1.9
	Apr	1.7	1.0	0.9	0.2	1.4	0.8	3.6	6.3	1.7
	May	1.2	1.0	0.9	0.2	1.4	0.8	2.8	2.1	1.5
	Jun	1.2	1.0	1.0	0.3	1.5	0.9	1.8	2.5	1.2
	Jul	1.3	1.0	1.0	0.3	1.5	1.1	2.4	2.3	1.5
	Aug	1.1	1.0	1.0	0.4	1.4	1.1	2.0	1.2	1.4
	Sep	0.9	1.0	1.1	0.4	1.4	1.3	2.4	-0.8	1.7
	Oct	0.9	0.9	1.0	0.4	1.3	1.2	2.5	-0.2	1.6
	Nov	1.1	0.9	1.0	0.4	1.2	1.2	2.4	1.4	1.6
	Dec	1.2	0.9	1.0	0.4	1.2	1.3	2.4	2.6	1.6

Source: INE and Funcas (Forecasts).

**Chart 12.1 - Inflation Rate (I)**

Annual percentage changes



**Chart 12.2 - Inflation rate (II)**

Annual percentage changes

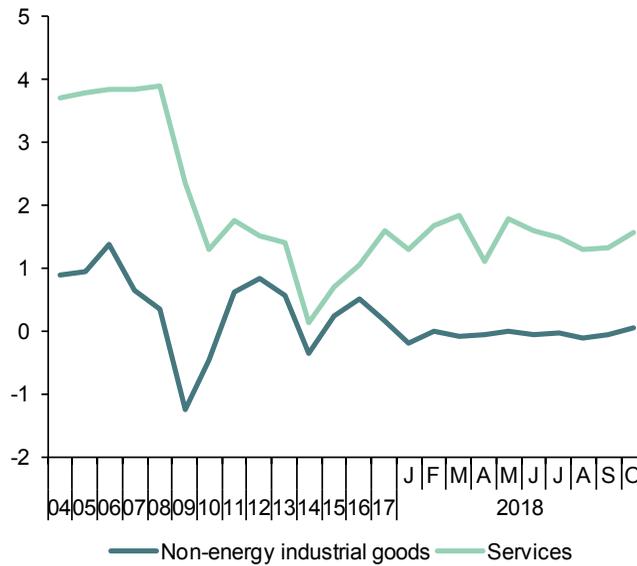


Table 13

**Other prices and costs indicators**

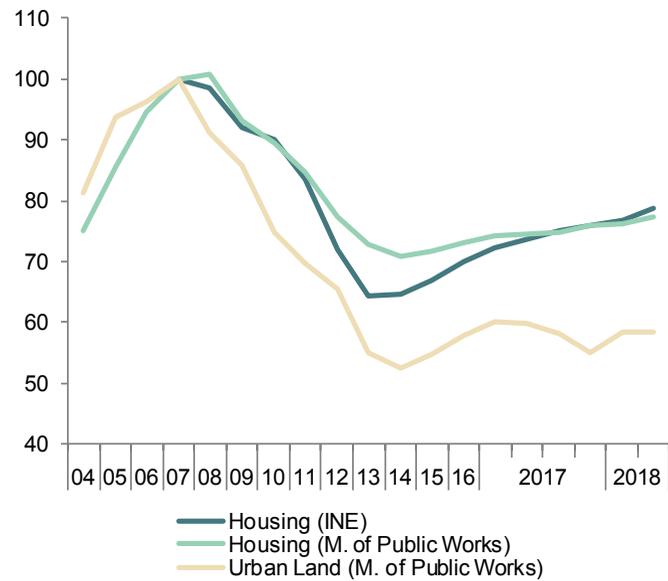
	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining	
		Total	Excluding energy	Housing Price Index (INE)	m <sup>2</sup> average price (M. Public Works)		Total labour costs per worker	Wage 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	154.9	--	
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	152.2	155.3	--	
2014	100.3	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--	
2015	100.8	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--	
2016	101.1	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.3	156.3	--	
2017	102.3	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.3	--	
2018 (b)	103.0	103.7	103.0	77.9	76.7	--	144.1	142.1	150.2	152.1	--	
2016	IV	101.3	99.5	100.1	70.8	73.5	61.6	149.8	150.6	147.3	163.8	--
2017	I	101.5	101.4	101.4	72.4	74.2	60.1	140.2	137.0	150.2	147.3	--
	II	102.3	100.4	101.9	73.8	74.4	59.7	146.1	145.5	148.1	154.2	--
	III	102.4	100.5	102.0	75.2	74.9	58.1	138.7	135.5	148.7	159.0	--
	IV	103.1	102.1	102.2	75.8	75.8	54.9	150.9	151.3	149.6	164.9	--
2018	I	102.6	102.2	102.9	76.9	76.2	58.5	141.2	138.1	150.7	148.7	--
	II	103.1	103.4	103.1	78.8	77.2	58.5	147.0	146.2	149.6	155.6	--
	III (b)	103.4	105.5	103.1	--	--	--	--	--	--	--	--
2018	Jul	--	105.0	103.1	--	--	--	--	--	--	--	--
	Aug	--	105.4	103.1	--	--	--	--	--	--	--	--
	Sep	--	106.2	103.0	--	--	--	--	--	--	--	--
Annual percent changes (c)												
2011		0.0	6.9	4.2	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.0
2012		0.1	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.0
2013		0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.4	0.5
2014		-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015		0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	0.7
2016		0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.0
2017		1.2	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018 (d)		1.0	2.9	1.2	6.5	3.2	-2.4	0.7	0.7	0.7	0.9	1.7
2016	IV	0.7	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	-0.1	-0.2	0.2	-0.2	1.3
	II	1.3	4.8	2.5	5.6	2.0	1.8	-0.1	0.0	-0.3	-0.1	1.3
	III	1.2	3.3	2.1	6.6	1.8	7.4	0.4	0.3	0.7	-0.3	1.4
	IV	1.8	2.6	2.1	7.2	0.9	-10.9	0.7	0.5	1.5	0.7	1.4
2018	I	1.1	0.8	1.4	6.2	1.4	-2.6	0.7	0.8	0.3	1.0	1.5
	II	0.8	3.0	1.1	6.8	2.6	-2.1	0.6	0.5	1.0	0.9	1.6
	III (e)	1.0	5.0	1.1	--	--	--	--	--	--	--	1.7
2018	Aug	--	5.1	1.1	--	--	--	--	--	--	--	1.7
	Sep	--	5.2	0.9	--	--	--	--	--	--	--	1.7
	Oct	--	--	--	--	--	--	--	--	--	--	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

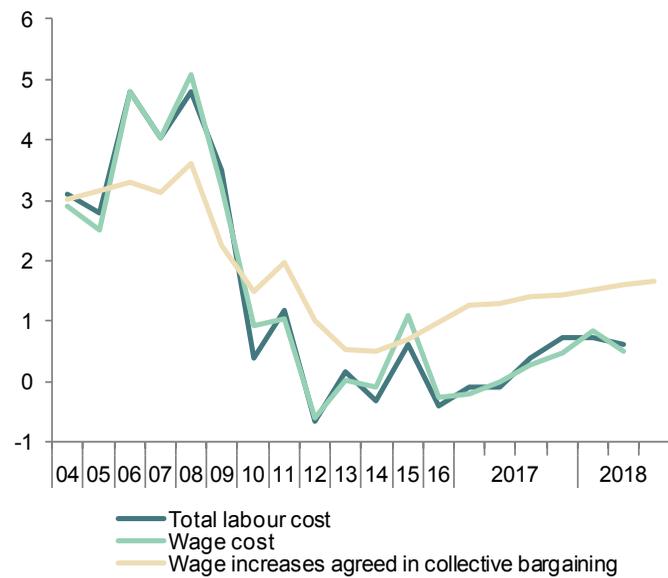


Table 14

**External trade (a)**

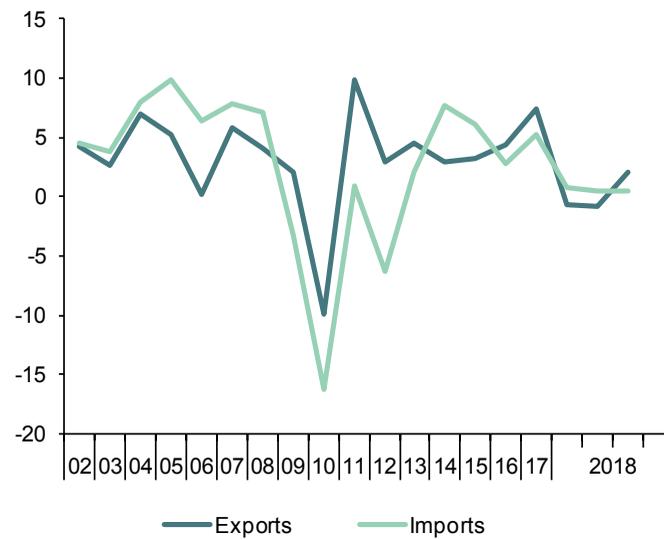
	Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)	
	Nominal	Prices	Real	Nominal	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)	185.7	111.3	166.9	137.2	109.5	125.3	15.6	8.1	-2.6	-0.1	1.4	
2016	III	165.6	108.3	152.9	117.3	101.6	115.5	13.9	7.3	-1.5	0.3	0.9
	IV	171.1	108.8	157.3	122.6	104.0	117.9	14.5	7.4	-1.8	0.0	1.3
2017	I	177.7	108.5	163.8	131.0	107.2	122.2	15.2	7.6	-2.5	0.1	1.3
	II	180.3	107.7	167.3	127.7	104.6	122.0	15.2	7.9	-1.6	0.4	1.7
	III	179.1	108.8	164.6	130.3	105.1	124.0	14.8	8.1	-2.2	-0.2	1.1
	IV	185.1	110.2	167.9	133.0	107.5	123.7	15.6	8.1	-2.0	0.1	1.4
2018	I	184.9	110.9	166.8	134.9	108.2	124.7	15.7	8.0	-2.4	0.1	1.5
	II	184.2	111.3	165.6	136.8	109.1	125.4	15.5	8.1	-2.8	-0.4	1.1
2018	Jun	187.4	112.0	167.4	138.0	110.4	125.0	15.6	8.4	-2.7	-0.4	1.0
	Jul	186.6	112.7	165.5	142.1	112.2	126.7	15.5	8.4	-3.6	-0.8	0.8
	Aug	192.0	111.2	172.6	140.0	111.8	125.2	16.2	8.4	-2.4	0.4	1.9
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)		4.2	3.0	1.2	6.1	3.7	2.3	4.2	4.2	--	--	--
2016	III	-2.0	2.0	-3.9	0.8	5.1	-4.1	-1.4	1.3	-1.6	0.4	0.9
	IV	14.0	1.9	11.8	19.2	9.6	8.7	4.0	2.0	-1.9	0.0	1.4
2017	I	16.3	-1.1	17.6	30.4	12.9	15.5	4.6	2.4	-2.7	0.1	1.3
	II	6.1	-2.7	9.0	-9.7	-9.1	-0.7	0.5	3.5	-1.6	0.4	1.8
	III	-2.7	4.1	-6.5	8.6	1.7	6.8	-2.6	3.0	-2.3	-0.2	1.1
	IV	14.1	5.3	8.4	8.3	9.4	-1.0	5.2	-0.1	-2.0	0.1	1.4
2018	I	-0.3	2.3	-2.6	6.0	2.6	3.3	0.8	-1.7	-2.4	0.1	1.5
	II	-1.6	1.4	-3.0	5.8	3.5	2.2	-1.6	2.0	-2.8	-0.4	1.1
2018	Jun	-4.2	-1.8	-2.4	2.0	-0.3	2.3	-6.1	-0.1	--	--	--
	Jul	2.0	1.7	0.3	-1.1	0.6	-1.7	2.1	1.9	--	--	--
	Aug	1.6	0.1	1.5	1.9	1.5	0.4	0.4	4.0	--	--	--

(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

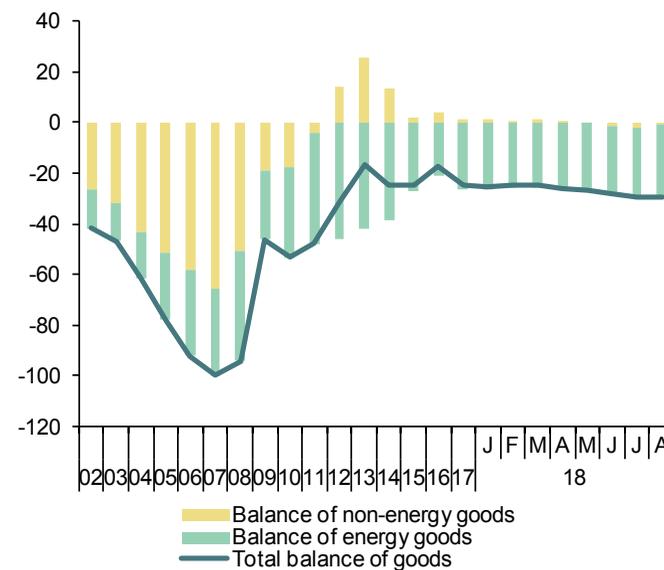


Table 15

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

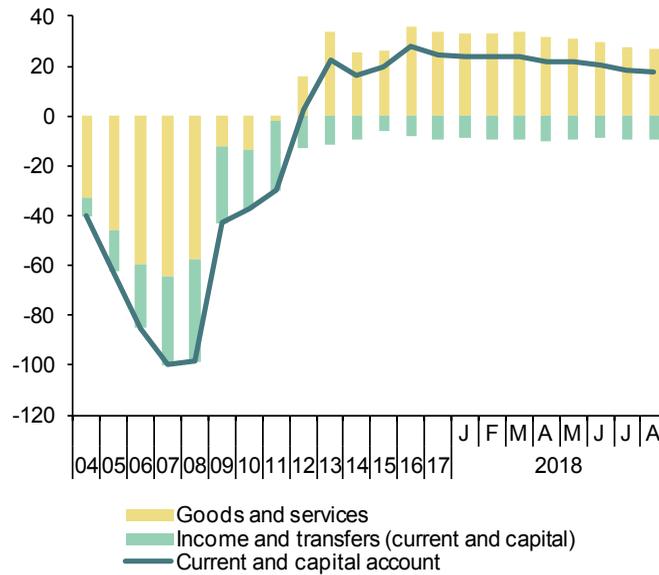
	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions	
	Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain		
								Total	Direct investment	Portfolio investment	Other investment	Financial derivatives			
	1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14	
EUR billions															
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	12.55	-21.59	47.51	-2.90	-10.47	7.07	19.62	62.08	25.57	-5.38	43.09	-1.19	-40.16	2.30	
2016	25.25	-15.27	51.24	1.06	-11.78	2.54	27.79	77.46	14.43	39.18	26.80	-2.94	-52.63	-2.96	
2017	21.51	-21.84	55.47	-1.21	-10.91	2.68	24.19	53.60	16.90	18.19	20.73	-2.23	-32.06	-2.66	
2018 (a)	0.09	-13.49	23.81	-4.19	-6.04	1.55	1.64	24.19	-13.76	11.81	25.60	0.54	-17.67	4.89	
2016	III	8.90	-3.99	17.63	-1.83	-2.91	0.36	9.26	14.44	-4.73	10.48	9.83	-1.14	-6.48	-1.30
	IV	9.92	-4.95	11.78	5.84	-2.75	0.94	10.86	19.83	7.68	3.21	8.88	0.06	-4.37	4.61
2017	I	-1.37	-6.21	8.83	-0.46	-3.53	0.41	-0.96	37.95	-3.06	28.32	14.37	-1.68	-43.38	-4.47
	II	5.81	-3.42	15.26	-3.56	-2.47	0.57	6.38	-3.68	3.94	-4.04	-3.20	-0.39	5.85	-4.21
	III	6.66	-7.26	19.09	-1.84	-3.33	0.55	7.21	7.83	7.28	4.50	-2.81	-1.14	-0.24	0.39
	IV	10.41	-4.96	12.29	4.66	-1.58	1.16	11.57	11.50	8.73	-10.59	12.38	0.98	5.70	5.63
2018	I	-2.09	-6.39	8.86	-0.73	-3.83	0.75	-1.34	3.69	-1.12	4.13	-0.80	1.48	-3.14	1.89
	II	2.18	-7.10	14.95	-3.46	-2.21	0.80	2.98	20.50	-12.64	7.68	26.40	-0.94	-14.53	3.00
			Goods and Services		Primary and Secondary Income										
2018	Jun	0.98	3.13		-2.15	0.29	1.27	10.76	-0.87	-0.16	11.98	-0.19	-5.60	3.90	
	Jul	0.11	2.97		-2.87	0.06	0.16	6.67	-2.52	2.25	6.00	0.95	-1.76	4.75	
	Aug	1.83	3.38		-1.55	0.17	2.00	-11.93	1.29	1.52	-14.92	0.19	14.64	0.72	
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		1.2	-2.0	4.4	-0.3	-1.0	0.7	1.8	5.7	2.4	-0.5	4.0	-0.1	-3.7	0.2
2016		2.3	-1.4	4.6	0.1	-1.1	0.2	2.5	6.9	1.3	3.5	2.4	-0.3	-4.7	-0.3
2017		1.8	-1.9	4.8	-0.1	-0.9	0.2	2.1	4.6	1.4	1.6	1.8	-0.2	-2.7	-0.2
2018 (a)		0.0	-2.3	4.0	-0.7	-1.0	0.3	0.3	4.1	-2.3	2.0	4.3	0.1	-3.0	0.8
2016	III	3.2	-1.4	6.4	-0.7	-1.1	0.1	3.3	5.2	-1.7	3.8	3.6	-0.4	-2.3	-0.5
	IV	3.4	-1.7	4.0	2.0	-0.9	0.3	3.7	6.8	2.6	1.1	3.1	0.0	-1.5	1.6
2017	I	-0.5	-2.2	3.2	-0.2	-1.3	0.1	-0.3	13.7	-1.1	10.2	5.2	-0.6	-15.6	-1.6
	II	2.0	-1.2	5.2	-1.2	-0.8	0.2	2.2	-1.2	1.3	-1.4	-1.1	-0.1	2.0	-1.4
	III	2.3	-2.5	6.6	-0.6	-1.2	0.2	2.5	2.7	2.5	1.6	-1.0	-0.4	-0.1	0.1
	IV	3.4	-1.6	4.0	1.5	-0.5	0.4	3.8	3.8	2.9	-3.5	4.1	0.3	1.9	1.8
2018	I	-0.7	-2.2	3.1	-0.3	-1.3	0.3	-0.5	1.3	-0.4	1.4	-0.3	0.5	-1.1	0.7
	II	0.7	-2.3	4.9	-1.1	-0.7	0.3	1.0	6.7	-4.1	2.5	8.6	-0.3	-4.8	1.0

(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

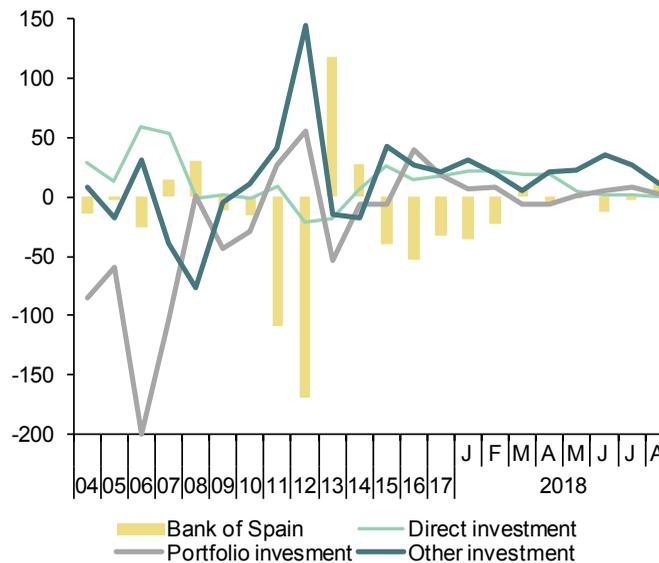


Table 16

**Competitiveness indicators in relation to EMU**

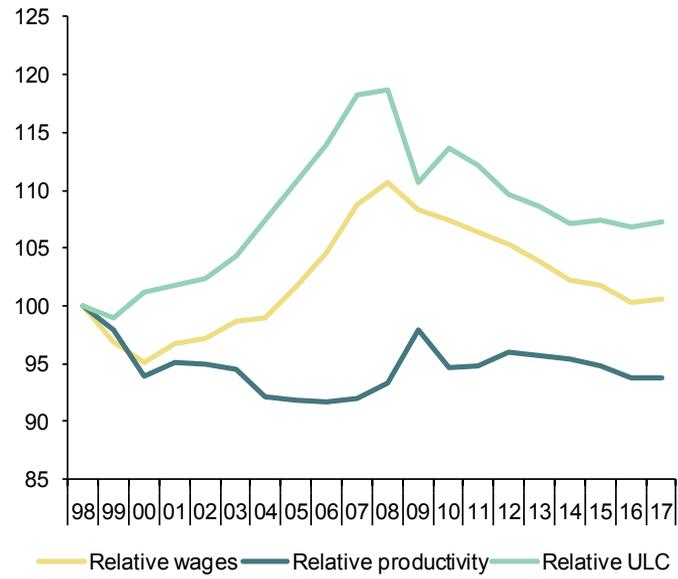
	Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries	
	Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU		
	1998=100			2015=100			2015=100				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)	--	--	--	103.1	103.3	99.9	103.4	103.1	100.4	111.0	
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	99.9	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	103.4	100.8	111.7	
2018	Jul	--	--	103.3	103.6	99.7	104.5	103.8	100.7	110.7	
	Aug	--	--	103.4	103.8	99.7	104.9	104.1	100.8	110.5	
	Sep	--	--	104.1	104.3	99.8	105.5	104.3	101.2	110.9	
	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	1.7	0.0	2.6	2.6	0.0	1.0	
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	3.4	0.4	0.9	
2018	Jul	--	--	2.3	2.1	0.2	3.9	3.6	0.3	0.5	
	Aug	--	--	2.2	2.0	0.2	4.3	3.7	0.6	0.1	
	Sep	--	--	2.3	2.1	0.2	4.4	3.6	0.8	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

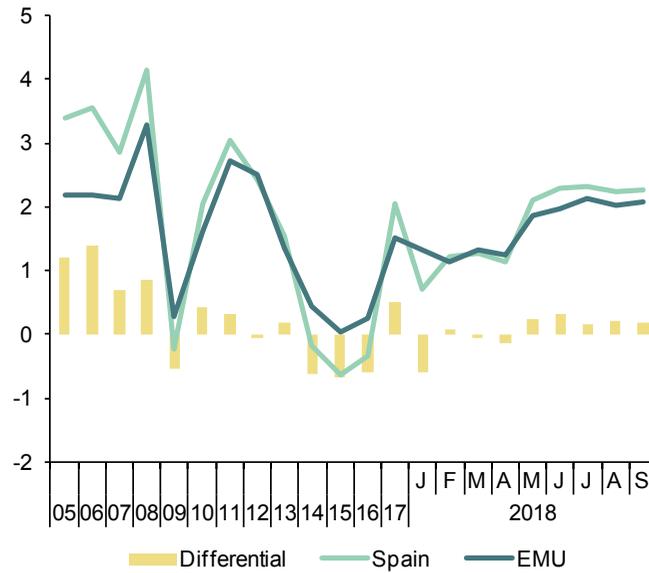


Table 17a

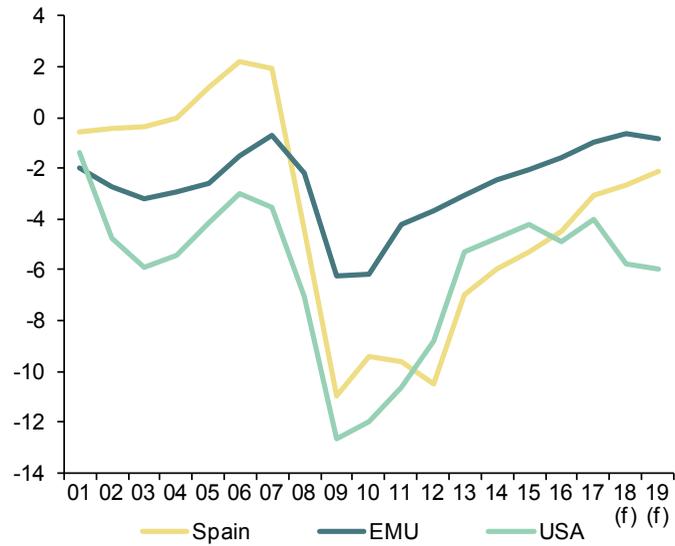
**Imbalances: International comparison (I)**  
(In yellow: European Commission Forecasts)

	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	-133.8	-411.6	392.1	6,003.4	8,879.5	-90.7	27.4	-594.0
2007	20.8	-63.2	-513.6	384.7	6,113.2	9,356.6	-104.1	18.6	-728.5
2008	-49.3	-208.7	-1,033.3	440.6	6,626.5	10,851.1	-102.9	-57.6	-866.1
2009	-118.2	-579.4	-1,827.4	569.5	7,364.4	12,541.3	-46.5	51.3	-564.3
2010	-101.4	-592.5	-1,797.7	650.1	8,099.9	14,316.0	-42.0	57.2	-497.7
2011	-103.2	-416.3	-1,646.6	744.3	8,564.5	15,512.8	-35.3	80.1	-412.4
2012	-108.8	-362.0	-1,430.7	891.5	9,021.7	16,726.4	-4.6	218.2	-206.8
2013	-71.7	-304.5	-894.0	979.0	9,334.8	17,592.7	15.0	273.4	-208.2
2014	-61.9	-252.5	-832.5	1,041.6	9,580.4	18,311.9	10.3	308.2	-76.6
2015	-57.0	-215.5	-765.2	1,073.9	9,698.4	19,080.1	11.4	352.5	-169.2
2016	-50.0	-168.5	-920.0	1,107.2	9,874.2	19,959.1	24.1	376.2	-318.9
2017	-35.9	-108.0	-781.6	1,144.4	9,962.4	20,498.5	22.4	444.4	-329.3
2018	-32.4	-73.2	-1,186.8	1,175.6	10,084.8	21,685.3	14.6	446.1	--
2019	-27.0	-100.2	-1,282.3	1,211.4	10,208.0	23,055.0	12.5	438.5	--
Percentage of GDP									
2006	2.2	-1.5	-3.0	38.9	67.4	64.3	-9.0	0.3	-4.3
2007	1.9	-0.7	-3.6	35.6	65.0	64.7	-9.6	0.2	-5.0
2008	-4.4	-2.2	-7.0	39.5	68.7	73.8	-9.2	-0.6	-5.9
2009	-11.0	-6.2	-12.6	52.8	79.2	86.8	-4.3	0.6	-3.9
2010	-9.4	-6.2	-12.0	60.1	84.8	95.5	-3.9	0.6	-3.3
2011	-9.6	-4.2	-10.6	69.5	87.3	99.8	-3.3	0.8	-2.7
2012	-10.5	-3.7	-8.8	85.7	91.6	103.3	-0.4	2.2	-1.3
2013	-7.0	-3.1	-5.3	95.5	93.9	104.8	1.5	2.7	-1.2
2014	-6.0	-2.5	-4.8	100.4	94.2	104.5	1.0	3.0	-0.4
2015	-5.3	-2.0	-4.2	99.3	92.1	104.7	1.1	3.3	-0.9
2016	-4.5	-1.6	-4.9	99.0	91.2	106.7	2.2	3.5	-1.7
2017	-3.1	-1.0	-4.0	98.1	88.9	105.2	1.9	4.0	-1.7
2018	-2.7	-0.6	-5.8	96.9	86.9	105.8	1.2	3.8	--
2019	-2.1	-0.8	-6.0	96.2	84.9	107.3	1.0	3.6	--

Source: European Commission Forecasts, Autumn 2018.

**Chart 17a.1 - Government deficit**

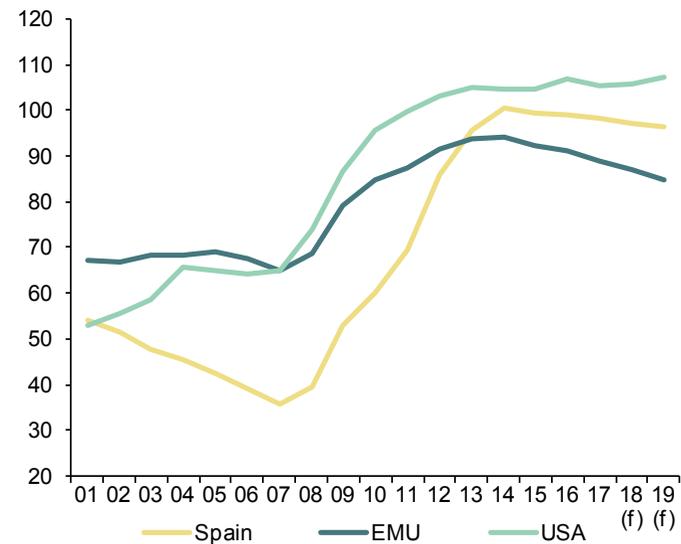
Percentage of GDP



(f) European Commission forecast.

**Chart 17a.2 - Government gross debt**

Percentage of GDP



(f) European Commission forecast.

Table 17b

**Imbalances: International comparison (II)**

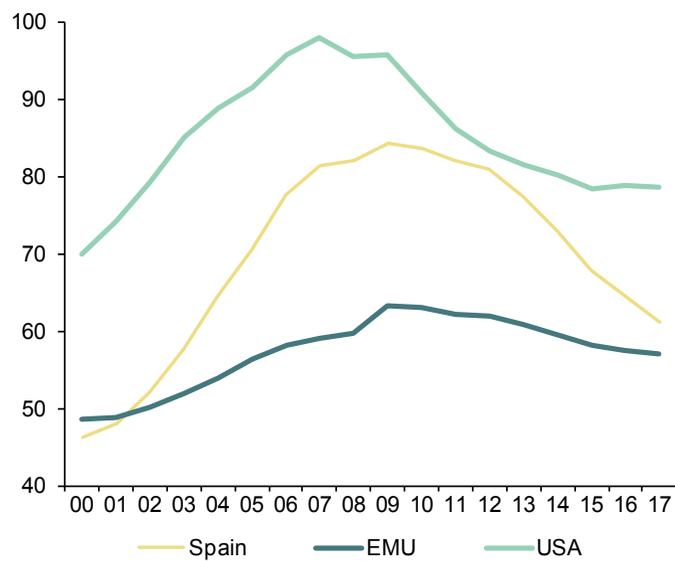
	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU	USA	Spain	EMU	USA
Billions of national currency						
2005	656.2	4,764.5	11,975.8	925.0	6,968.1	8,154.4
2006	783.5	5,187.5	13,256.6	1,158.8	7,590.8	8,971.4
2007	879.3	5,555.5	14,174.7	1,344.5	8,353.3	10,097.4
2008	916.7	5,768.6	14,047.3	1,422.6	8,998.2	10,664.2
2009	908.9	5,876.1	13,812.0	1,406.1	9,078.0	10,142.8
2010	905.2	6,019.4	13,574.8	1,429.4	9,272.2	9,994.7
2011	877.9	6,103.4	13,381.0	1,415.7	9,654.5	10,257.2
2012	840.9	6,097.0	13,443.7	1,309.8	9,837.1	10,760.4
2013	793.3	6,052.1	13,596.0	1,230.6	9,837.7	11,244.4
2014	757.2	6,055.4	13,953.1	1,179.2	10,297.5	11,941.2
2015	733.8	6,120.4	14,216.9	1,154.5	10,851.8	12,745.6
2016	721.2	6,223.1	14,671.3	1,140.9	11,181.5	13,449.8
2017	712.7	6,381.7	15,251.4	1,126.1	11,357.3	14,259.3
Percentage of GDP						
2005	70.5	56.3	91.5	99.4	82.3	62.3
2006	77.7	58.2	95.7	115.0	85.2	64.7
2007	81.4	59.1	97.9	124.4	88.8	69.7
2008	82.1	59.8	95.4	127.4	93.4	72.5
2009	84.2	63.2	95.8	130.3	97.6	70.3
2010	83.7	63.0	90.7	132.2	97.1	66.8
2011	82.0	62.2	86.2	132.3	98.5	66.1
2012	80.9	61.9	83.2	126.0	99.9	66.6
2013	77.3	60.9	81.5	120.0	98.9	67.4
2014	73.0	59.5	80.1	113.6	101.2	68.5
2015	67.9	58.1	78.5	106.8	103.1	70.3
2016	64.5	57.5	78.8	102.0	103.2	72.2
2017	61.1	57.0	78.7	96.6	101.4	73.5

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

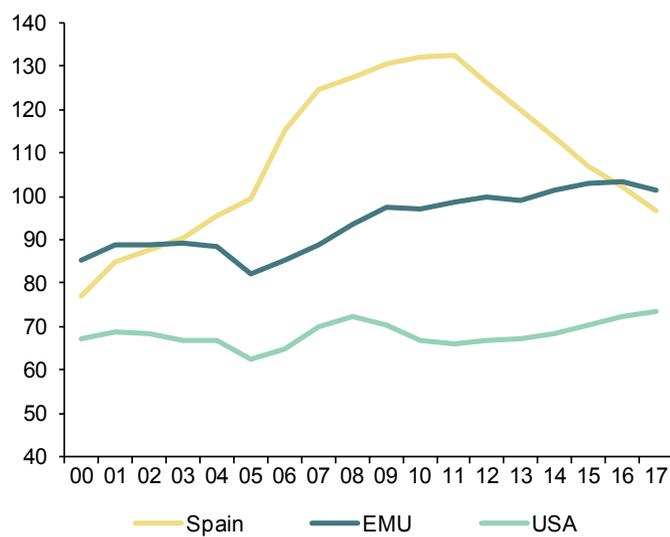
**Chart 17b.1 - Household debt**

Percentage of GDP



**Chart 17b.2 - Non-financial corporations debt**

Percentage of GDP



# 50 Financial System Indicators

Updated: November 15<sup>th</sup>, 2018

Highlights		
Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-1.5	August 2018
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.9	August 2018
Doubtful loans (monthly % var.)	-1.9	August 2018
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	725,490	October 2018
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	167,410	October 2018
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	466	October 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 October	2018 November 15 <sup>th</sup>	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	-0.318	-0.317	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.3	-0.03	-0.186	-0.149	-0.148	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.2	1.4	1.5	1.5	1.6	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 November. The 3-month interbank increase from -0.318% in October to -0.317% and the 1-year Euribor increased from 0.149% in October to -0.148%. 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 increased to 1.6%.*

## B. Financial Markets

Indicator	Source	Average 2001-2015	2016	2017	2018 August	2018 September	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	44.4	102.6	54.60	43.46	125.25	(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	29.46	50.91	(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	-	0.98	(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	2.70	2.14	(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	-0.4	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec 1987=100)	Bank of Spain	726.2	1,104.9	1,127.71	1,154.7	1,142.1(a)	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	-5.9	-0.2	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	-30.9	-7.1	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	951.78	916.7(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	9,389.2	9,106.6(a)	Base dec 1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	16.2	23.6	15.8	14.3	13.3(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 August	2018 September	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	-5.1	6.9	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.6	5.8	5.8	12.8	54.3	IBEX-35 shares concluded transactions

(a) Last data published: September 15<sup>th</sup>, 2018.

Comment on "Financial Markets": During the last month, there was an decrease in transactions with outright spot T-bills to 125.25% and also of spot government bonds transactions to 50.91%. The stock market has registered a decrease with the IBEX-35 down to 9,107 points, and the General Index of the Madrid Stock Exchange to 917. There was an increase in Ibx-35 financial futures of 6.9% and in options of 54.3%.

## C. Financial Saving and Debt

Indicator	Source	Average 2008-2015	2016	2017	2018 Q1	2018 Q2	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.3	2.1	2.0	2.0	1.7	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.1	2.6	0.5	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	261.5	297.0	287.4	287.3	286.0	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	64.6	64.4	61.3	60.5	60.8	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	0.6	3.8	-0.4	2.6	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.5	1.1	-0.1	0.1	1.6	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2018Q2, the financial savings to GDP in the overall economy fell to 1.7%. There was a decrease in the financial savings rate of households from 0.5% to 0.4%. The debt to GDP ratio increased to 60.8%. Finally, the stock of financial assets on households' balance sheets registered an increase of 2.6%, and there was a 1.6% growth in the stock of financial liabilities.

## D. Credit institutions. Business Development

Indicator	Source	Average 2001-2015	2016	2017	2018 July	2018 August	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.3	-4.1	-0.4	-0.9	-1.5	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	-1.7	-0.9	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	-1.0	0.2	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	0.3	-1.4	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	1.9	1.7	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	0.2	-3.6	-3.8	-1.6	-1.9	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	-3.4	0.4	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	9.0	-0.3	-1.2	1.0	-1.0	Equity percentage change for the sum of banks, savings banks and credit unions

*Comment on "Credit institutions. Business Development": The latest available data as of August 2018 show a decrease in bank credit to the private sector of -1.5%. Data also show a decrease in financial institutions deposit-taking of 0.9%. Holdings of debt securities grew 0.2%. Doubtful loans decreased 1.9% compared to the previous month.*

## E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2014	2016	2017	2018 March	2018 June	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	195	124	122	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	83	82	82	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	243,544	189,280	187,472	187,472(a)	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,110	28,643	27,320	26,929	26,707	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	-	527,317	726,540	760,140	725,490 (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	-	138,455	170,445	169,678	167,410(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	1,408	96	2	466 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2017.

(b) Last data published: October 2018.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In October 2018, recourse to Eurosystem funding by Spanish credit institutions reached 167,410 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 333.6 billion euro in October and 2.7 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*	18,566	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-September.

Table 3

**Education**

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with 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♦	20.7	6.6	29.1	42.0							
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-September.

Table 4

**Social protection: Benefits**

	Contributory benefits *							Non-contributory benefits			
	Unemployment total	Retirement		Permanent disability		Widowhood		Social Security			
		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♦	746,128	5,908,362	1,083	951,115	942	2,358,627	657	848,462	256,879	197,175	16,850
Sources	BEL	BEL	BEL	BEL	BEL	BEL	BEL	BEL	IMSERO	IMSERO	IMSERO

BEL: Boletín de Estadísticas Laborales.

IMSERO: Instituto de Mayores y Servicios Sociales.

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

♦ Data refer to January-August.

Table 5

**Social protection: Health care**

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

OECD: Organisation for Economic Co-operation and Development.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

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# Notes

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