SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

VOLUME 8 | number 3, May 2019

Spain's economic prospects under the new administration

WHAT MATTERS

Economic forecasts for Spain: 2019-2021

Deconstructing **Spain's net borrowing/lending position** by institutional sectors

Spain's fiscal consolidation: Situation and outlook

Spanish public debt holdings at the end of the ECB's purchase programme

Interest rates and bank margins under protracted, exceptional monetary policy

Downsizing, productivity and efficiency in the **Spanish banking system**

funcas

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

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

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

Contact
publica@funcas.es

Web Site
www.funcas.es

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

Printed in Spain

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

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

SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

Letter from the Editors

May's *Spanish and International Economic & Financial Outlook (SEFO)* ushers in a recently elected Socialist government for an upcoming four-year term. In this context, we see it an appropriate time to assess Spain's medium-term economic outlook and key risks the country may face while under the current administration.

Available information for the first quarter of 2019 indicates that the Spanish economy performed stronger than many analysts had predicted, with GDP growing by 2.4% and employment extending its strong expansion. Forecasts suggest that unemployment will continue to decline, eventually falling to 11.4% in 2021. However, GDP growth is likely to decelerate from 2.2% in 2019 to 1.8% for both 2020 and 2021, due to less robust domestic demand and the potential prolongation of trade tensions –one of the main risks to these projections. Moreover, it is also unlikely that the public deficit will come down substantially. In this context, public debt would also not decline much, falling to 94.5% by 2021, around 2.6 percentage points below the 2018 figure. Finally, in Spain, an additional drop in the household savings rate or an increase in household leverage (developments not currently contemplated in these estimates) would entail a cost in terms of financial vulnerability and the sustainability of the ongoing expansion over the medium term.

With this in mind, we next focus on deconstructing Spain's net borrowing/lending position by institutional sectors. The return of the household sector to a net borrowing position after eight years in surplus constitutes one of the most significant developments in the Spanish economy. Notably, the sector registered growth in gross disposable income (GDI) of 3.2% in 2018, the highest rate since 2008. However, this was accompanied by a decline in the household savings rate to 4.9% of GDI, the lowest level since the statistic was first published in 1999. This downward trend in savings could be attributed to factors such as an ageing population and low interest rates, among others; however, these dynamics have been present in other European economies where the savings rate has moved along a different trajectory. Turning to the non-financial corporate sector, a net financial surplus of 2.5% was recorded in 2018. Similarly positive was the reduction in the public sector's deficit to 2.48% of GDP. Nevertheless, with Spain's households and the public sector presenting a net borrowing requirement, the country's non-financial corporations are bearing the full weight of propping up the economy's overall surplus, which is necessary if the country is to reduce its high NIIP deficit and shore up confidence in its solvency.

We then drill down specifically on the issue of the public sector's fiscal performance –current state of play and perspectives– and consequently, Spain's public debt, providing a detailed picture of the country's creditors and how they have evolved over time, as a function of both global financial conditions, monetary policy decisions, and risk appetites.

Spain's public deficit had fallen to 2.5% in 2018. While a welcome reduction, the result still fell short of the 2.2% target, placing the country two percentage points above the EU average. Moreover, Spain ranks as one of three countries with the highest structural deficits in the EU. This, coupled with a high debt-to-GDP ratio, leaves the Spanish economy vulnerable to potential scenarios of economic slowdown, interest rate hikes and financial turbulence. Unfortunately, future forecasts suggest the country is unlikely to see any significant improvement. The IMF estimates the deficit will remain above 2.5% for another four years with public debt exceeding 92% in 2024. Looking at the underlying causes reveals that Spain suffers more from a shortfall of revenue rather than a spending problem, and any potential strategy to address this will need to consider the available financial tools, institutional framework and political will. The latter point is a particular challenge given that latest polls show that Spanish citizens on average do not prioritize addressing the country's fiscal problems.

As regards the public debt, essentially, we find that the composition of the investor base for holders of Spain's sovereign debt has evolved significantly over the past 15 years and can be divided into three distinct periods. The most recent period began in 2012 and has been heavily influenced by the ECB's public sector purchase programme (PSPP), which initiated a shift in demand for Spanish bonds from the domestic private sector to the Bank of Spain, encharged with implementation of the PSPP. In a reversal of the observable trend during the crisis, non-resident holdings of Spanish public debt have increased since 2012, while the proportion of German, French and Dutch bonds held by foreign investors has diminished. This largely corresponds with data that show a correlation between non-resident holdings of sovereign bonds and the difference in borrowing costs between Spain and Germany. Also noteworthy is the increased appetite for Spanish bonds among Asian, and in particular, Japanese, investors, who tend to be risk-averse, thereby suggesting renewed confidence in the Spanish economy. Finally, it is also important to highlight that while Spain's Target2 balances have widened as public debt has increased, these balances are merely accounting adjustments that reflect the decentralised implementation of monetary policy. Going forward, it will be necessary to continue to reduce Spain's public debt levels and ring-fence the economy from the ongoing instability emanating from Italy's financial markets.

Shifting to the financial sector, we look broadly at how the ECB's recent decisions to push pack its rate increases and implement a new round of extraordinary liquidity measures may further complicate banks' ability to boost profitability. In March 2019, the ECB announced it would halt the dismantling of its quantitative easing program, leaving the interest rates for the main refinancing operations, marginal lending facility and deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. Additionally, the ECB has announced the launch of a new round of its targeted longer-term refinancing operations programme (TLTRO). This decision represents a marked shift from autumn 2018 when the ECB indicated it was ready to adopt a more hawkish stance. However, stagnant economic data and a tightening of credit mean interest rates are now unlikely to rise before 2020. This prolongation of exceptional monetary policy has put downward pressure on eurozone banks' margins, leading some analysts to argue in favour of a tiered deposit facility rate to ease the burden on banks. Notably, the ECB remains unconvinced of this measure's merit as it would undermine its forward guidance. Nevertheless, the ECB is likely to provide greater clarity on these issues as economic developments play out in the US and additional details over its new TLTRO-III programme are disclosed later this year.

Lastly, we estimate the impact thus far of banks' capacity adjustment efforts in response to the downward pressures on profitability from the protracted period of exceptional monetary policy. Since 2009, Spanish banks have made a concerted effort to cut capacity through both a reduction in employees and branches, with capacity cuts far greater in intensity than in most other major eurozone economies. This has occurred over three distinct periods, with mergers, recapitalisation requirements, the need to increase efficiency, and the recalibration of banks' distribution models providing the impetus for the banks' restructuring efforts. This downsizing trend was also initiated to increase productivity at a time of declining business volumes. Given that the reduction in the number of branches and employees exceeded the contraction in business volumes, productivity, measured by employee and branch, has improved considerably. However, due to the combination of the volume effect and the unit margin effect, banks have experienced a significant drop in margin, thereby constraining any productivity measured in terms of the margin generated per employee and branch. Significantly, this occurred alongside an increase in per employee and branch unit costs, which has reduced banks' efficiency. This is explained by the fact that headcount cuts have focused more on branch staff than central service staff, which exhibit higher ULCs, and the way in which banks account for the costs associated with their workforce restructuring efforts.

This page was left blank intentionally.

What´s Ahead (Next Month)

Month	Day	Indicator / Event
June	4	Social Security registrants and official unemployment (May)
	5	Industrial production index (April)
	6	ECB monetary policy meeting
	12	CPI (May)
	13	Eurogroup meeting
	20-21	European Council meeting
	21	Foreign trade report (April)
	25	Balance of payments quarterly (1st quarter 2019)
	27	Preliminary CPI (June)
	27	Non-financial accounts, State (May)
	27	Non-financial accounts, Regional Governments and Social Security (April)
	28	Retail trade (May)
	28	Balance of payments monthly (April)
	28	Quarterly Non-financial Sector Accounts (1st quarter 2019)
July	2	Social Security registrants and official unemployment (June)
	5	Industrial production index (May)
	12	CPI (June)
	15	Quarterly Financial Accounts (1st quarter 2019)
	23	Foreign trade report (May)
	25	ECB monetary policy meeting
	25	Labour Force Survey (2nd quarter 2019)
	29	Retail trade (June)
	29	Preliminary CPI (July)
	30	Non-financial accounts, State (June)
	30	Non-financial accounts, Regional Governments and Social Security (May)
	31	Preliminary Quarterly National Accounts (2nd. quarter 2019)
	31	Balance of payments monthly (May)

This page was left blank intentionally.

What Matters

Regulation and Economic Outlook

Key Facts

This page was left blank intentionally.

Economic forecasts for Spain: 2019-2021

Available information for the first quarter of 2019 indicates that the Spanish economy performed stronger than many analysts had predicted, with GDP growing by 2.4% and employment extending its strong expansion. While forecasts suggest that unemployment will continue to decline, GDP growth is likely to decelerate due to less robust domestic demand and the potential prolongation of trade tensions -one of the main risks to these projections.

Raymond Torres and María Jesús Fernández

Abstract: The Spanish economy's performance in 1Q2019 was stronger than projected, with GDP expanding by 2.4%, up 0.1 percentage points from the previous quarter. Additionally, provisional national accounts indicate a recovery in the industrial sector, after two weak quarters. There were also broadly positive developments in the labour market. Compared to last year, the number of full-time equivalent jobs increased by 510,000. Importantly, the unemployment rate has continued to decline to 14.7%. Less upbeat were the private consumption figures, which fell in real terms, signalling a modest deceleration of demand. In addition, the current account surplus has declined, while the public deficit has been reduced somewhat. Looking forward, we expect that the unemployment rate will eventually

> In year-on-year terms, the Spanish economy expanded by 2.4%, up 0.1 percentage points from the previous quarter's figure.

fall to 11.4% in 2021 alongside an expansion of GDP of 2.2% in 2019 and 1.8% for both 2020 and 2021. The slowdown in growth is the result of a loss of momentum across all components of domestic demand, as well as a reflection of the risks associated with the ongoing global trade tensions. Lastly, it is also unlikely that the public deficit will come down substantially. In this context, public debt would also not decline much, falling to 94.5% by 2021, around 2.6 percentage points below the 2018 figure.

Recent performance by the Spanish economy

The provisional national accounts for the first quarter of 2019 point to quarter-on-quarter GDP growth of 0.7%, marking a slight slowdown from the rates observed throughout 2018. In year-on-year terms, the Spanish economy expanded by 2.4%, up 0.1 percentage point from the previous quarter's figure. In short, these data present a better than forecast start to the year, albeit foreshadowed by economic indicators released over the past few months (Exhibit 1).

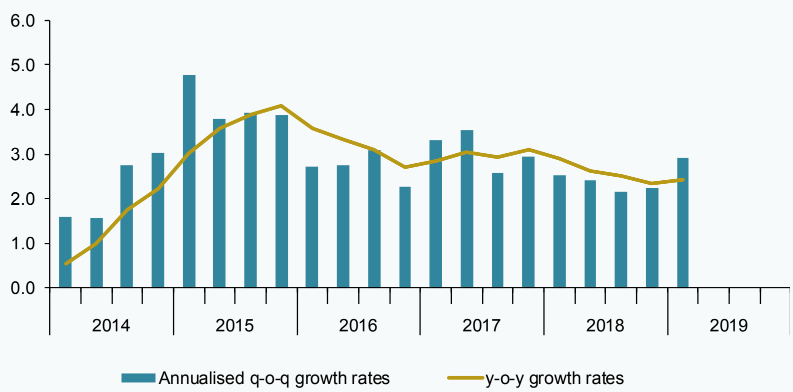
Domestic demand contributed 0.5 percentage points to the quarter-on-quarter growth (*vs.* 0.3pp in 4Q18), while foreign demand increased GDP growth by 0.2 percentage points (Exhibit 2). The uptick in domestic demand stemmed entirely from investment in capital goods, which recovered from the contraction sustained in previous quarters. The rate of growth in private consumption eased somewhat, though the slowdown was more pronounced in nominal terms due to its negative deflator. As a result, private consumption eased in real terms, despite the reduction in inflation. Additionally, growth in public consumption was stable, and investment in housing construction remained dynamic. Irrespective of the uptick in the first quarter, the trend in domestic demand is one of modest deceleration.

As for the foreign sector, the positive contribution to growth was the result of a bigger contraction in imports than exports. Shaped by lethargic growth in Europe, exports performance was weak, which is in line with trends in global trade.

Exhibit 1

GDP

y-o-y growth rates

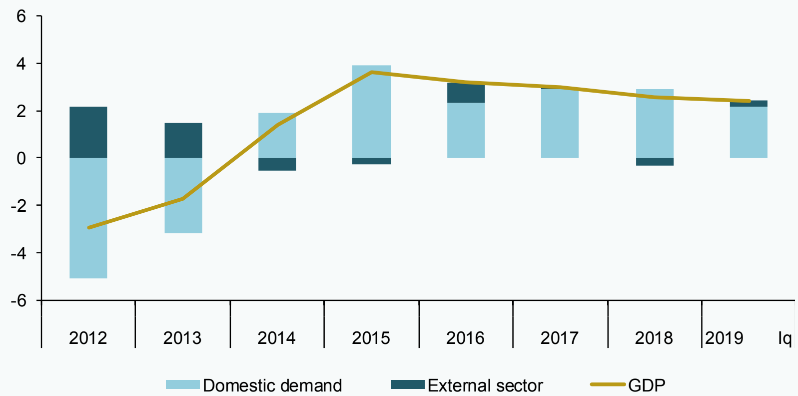


Source: National Statistics Institute.

Exhibit 2

Contribution to GDP growth

Percentage points and growth rates y-o-y



Source: National Statistics Institute.

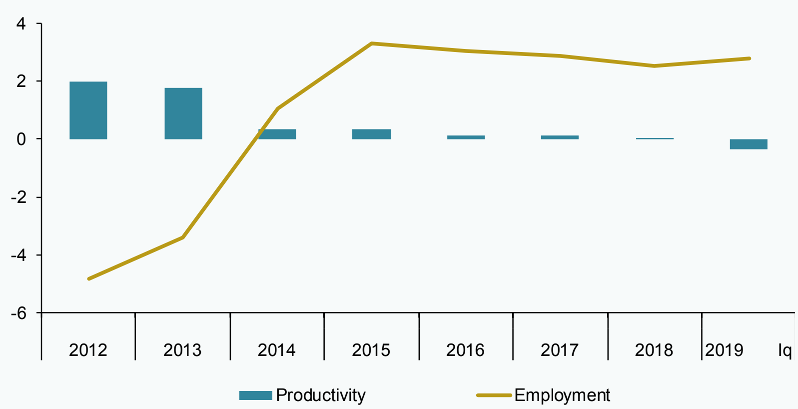
From an industry perspective, the provisional national accounts point to a recovery in the industrial sector after two weak quarters. The biggest improvement was observed in the construction sector, while services remained stable.

Employment measured in terms of full-time equivalent jobs saw impressive growth. Its expansion was slightly above GDP growth, which means that productivity continued to fall, albeit registering gains in the manufacturing sector (Exhibit 3). Compared to the first quarter of last year, the number of full-time equivalent jobs increased by 510,000. Average pay per job-holder accelerated, mainly due to wage growth in the public sector. As a result, growth in unit labour costs for the overall economy picked

Exhibit 3

Employment and productivity

y-o-y growth rates

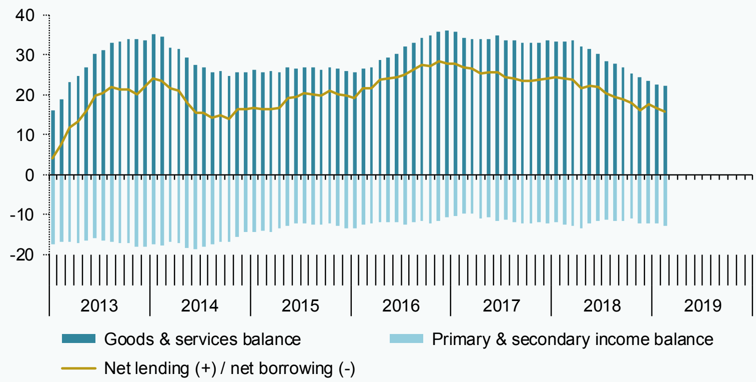


Source: National Statistics Institute.

Exhibit 4

Balance of payments

EUR billion, cummulative 12 months



Source: Bank of Spain.

up speed to reach 1.7% year-on-year, a figure topped only in one quarter since the end of the last period of growth (4Q13). Nevertheless, in the manufacturing sector, unit labour costs declined.

According to the Labour Force Survey (EPA for its acronym in Spanish), the working age population continued to increase in the first quarter of the year, thanks to sharp growth in foreign arrivals. As a result, the active population, which in 2018 increased for the first time after five years in decline, experienced further growth in the first quarter. The rate of unemployment declined to 14.7%, two percentage points below that of 1Q18 (Exhibit 5).

Prices have been subdued year-to-date. The headline inflation rate was 1.1% overall in the first quarter and core inflation was 0.7% (Exhibit 6). In harmonised terms, both rates were below the eurozone averages.

Turning to the start of the second quarter, the few indicators available so far show a deterioration compared to the first-quarter averages. Although the April manufacturing PMI reading improved slightly, the services PMI deteriorated sharply, as did the economic sentiment index. The confidence indicators have also weakened. However, job creation has remained strong. Judging by the Social Security contributor numbers, growth in April was similar to the already intense expansion recorded in March, without showing signs of any imminent slowdown.

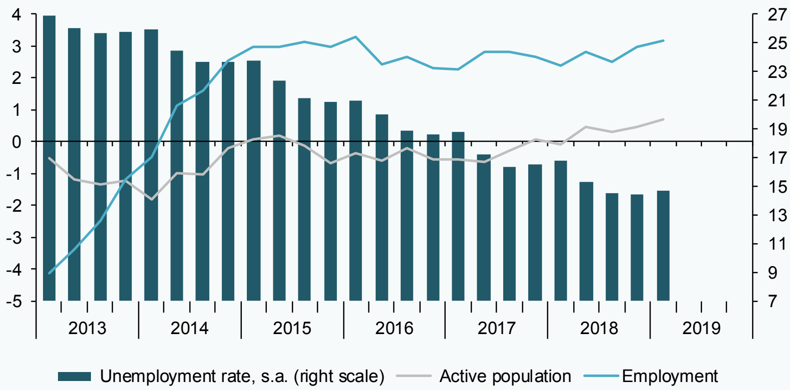
The public deficit, including all levels of government except for the local authorities, increased by 1.5 billion euros year-on-year in January and February. This expansion was shaped by slower growth in revenue compared to expenditure. The deterioration is primarily observed at the central government and Social Security levels. On the spending side, it is worth highlighting the growth in wages as a result of increases in public sector wages, as well as

“ The public deficit, including all levels of government except for the local authorities increased by 1.5 billion euros year-on-year in January and February. ”

Exhibit 5

Employment and unemployment (LFS)

y-o-y growth rates and % over active population



Source: National Statistics Institute.

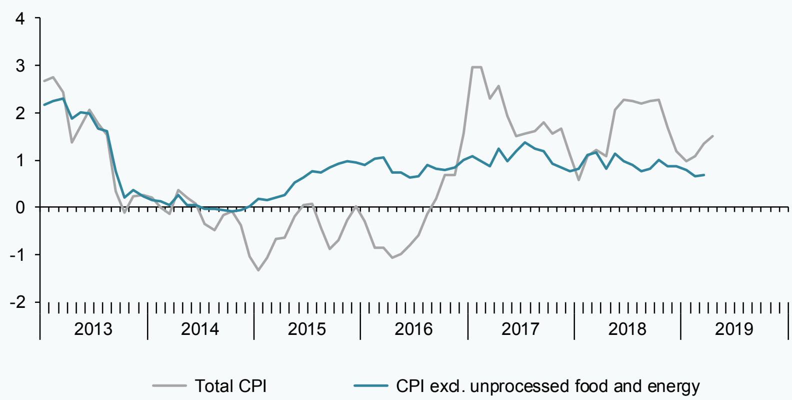
an expansion in social welfare, due to pension increases and higher payments to the EU. On the revenue side, social security contributions increased sharply on the back of the increase in tax bases, while receipts from income taxes have dropped, though this is based on the initial months of the year, which are always meaningful.

Lastly, the current account deficit to February stood at 4.2 billion euros, compared to a deficit of 2.3 billion euros in the first two months of 2018. The wider deficit is primarily attributable to the deterioration in the balance of trade, which registered a deficit during the two-month period for the first time since 2010 (Exhibit 4).

Exhibit 6

Consumer Price Index

Change y-o-y in %



Source: National Statistics Institute.

Forecasts for 2019-2021

The forecasts for 2019-2021 have assumed a slight recovery in the global economy, following the sharp downturn observed since last year. They also draw on the most recent projections issued by the leading international organisations, which assume a rebound in international trade –which would likely influence the expected improvement in economic data. Specifically, an acceleration of the Chinese economy and potential easing in trade tensions would have a particularly large impact. The expectation is that the European economy will start to emerge from the slump sustained in recent quarters. Our projections are based on the assumption that GDP growth in the eurozone will reach 1.1% in 2019, 1.3% in 2020 and 1.5% in 2021. Oil prices, which have increased due to reduced exports from Iran, are expected to remain at around current levels before embarking on a gradual decline, as other producers up their supply. It should be noted that these projections are based on oil prices of $70 per barrel of Brent, as from the second quarter.

As for fiscal policy, absent more specific information about the new government's policy stance, the forecasts are based on both revenue and expenditure measures already approved, such as the recalibration of the Social Security tax bases and expenses relating to pensions and public sector wages pushed through before the election. The figures do not reflect the government's proposals set down in the stability programme recently submitted to the European Union, as it has yet to be passed by the House.

Lastly, the ECB is expected to stick to its policy of quantitative easing and low interest rates throughout the projection period. This includes a new round of liquidity injections into the banking system (TLTRO III), a continuation of the policy of reinvestment in sovereign bonds and maintenance of low policy rates. We do not expect the main ECB intervention rate to return to positive territory until mid-2020, with a marginal increase to 0.33% forecast for 2021. As a result, the Spanish Treasury should continue to benefit from favourable financing conditions, so that the 10-year bond yield would marginally increase, from around 1% today to approximately 1.6% in 2021.

With these assumptions in mind, the Spanish economy is expected to continue along the soft-landing trajectory outlined in our last set of forecasts. In 2019, we estimate growth of 2.2%, up 0.1 percentage points from our last set of forecasts. The revision to our growth forecast reflects the fact that in 2018, Spanish GDP growth was also 0.1 percentage points higher than initially reported, suggesting that the pace of slowdown is unchanged (Table 1).

The slowdown in growth is the result of a loss of momentum across all of the components of domestic demand. It should be noted that the anticipated slowdown in private consumption, shaped by the current low level of household savings (under 5%), is curtailing growth in spending. Public spending, which has accelerated in recent quarters, is also expected to slow in the aftermath of this Spring's elections. It is anticipated that investment will be the most dynamic factor, albeit losing a little pace in tandem with the other components of demand. Investment in housing, however, is not expected to lose steam until the second half of the year.

Weak growth in Spain's trading markets will weigh on the foreign sector, which is expected to detract from growth once again in 2019. This, coupled with the increase in oil prices and the import bill, is likely to trigger a sharp reduction in the current account surplus.

> "The Spanish Treasury should continue to benefit from favourable financing conditions throughout the projection period and the 10-year bond yield is expected to remain below 1.6% in 2021."

Table 1 **Economic forecasts for Spain, 2019-2021**

Annual rates of change in %, unless otherwise indicated

	Actual data				Funcas forecasts		
	Average 1996-2007	Average 2008-2013	Average 2014-2018	2018	2019	2020	2021
1. GDP and aggregates, constant prices							
GDP	3.8	-1.3	2.8	2.6	2.2	1.8	1.8
Final consumption households and NPISHs	3.6	-2.2	2.4	2.3	1.7	1.4	1.4
Final consumption general government	4.3	0.7	1.3	2.1	1.6	0.9	0.8
Gross fixed capital formation	6.4	-7.4	4.9	5.3	4.7	3.5	3.1
Construction	5.9	-10.7	3.9	6.2	5.8	3.9	3.0
Residential construction	7.8	-12.5	6.7	6.9	7.4	5.4	4.3
Non-residential construction	4.2	-8.7	1.7	5.5	4.0	2.2	1.5
Capital goods and other products	7.5	-2.2	5.8	4.3	3.6	3.1	3.1
Exports goods and services	6.6	1.7	4.2	2.3	1.9	3.1	3.0
Imports goods and services	8.7	-4.1	4.8	3.5	2.4	2.9	2.7
National demand (a)	**4.5**	**-3.1**	**2.8**	**2.9**	**2.3**	**1.7**	**1.6**
External balance (a)	-0.7	1.8	0.0	-0.3	-0.1	0.1	0.1
GDP, current prices: - €billion	--	--	--	1,208.2	1,245.8	1,284.0	1,321.9
- % change	7.4	-0.8	3.3	3.6	3.1	3.1	3.0
2. Inflation, employment and unemployment							
GDP deflator	3.5	0.5	0.6	1.0	0.9	1.2	1.2
Household consumption deflator	**3.1**	**1.8**	**0.7**	**1.6**	**1.2**	**1.2**	**1.2**
Total employment (National Accounts, FTEJ)	3.4	-3.3	2.6	2.5	1.8	1.5	1.4
Productivity (FTEJ)	0.4	2.0	0.2	0.1	0.3	0.3	0.3
Wages	7.5	-1.1	3.3	4.1	4.2	3.0	3.0
Gross operating surplus	6.9	-0.3	3.1	2.6	1.5	3.0	3.0
Wages per worker (FTEJ)	3.3	2.3	0.3	0.8	2.1	1.3	1.3
Unit labour costs	2.9	0.3	0.1	0.8	1.8	1.0	1.0
Unemployment rate (LFS)	**12.5**	**20.2**	**19.7**	**15.3**	**13.8**	**12.6**	**11.4**

Table 1

Economic forecasts for Spain, 2019-2021

Annual rates of change in %, unless otherwise indicated

(Continued)

	Actual data				Funcas forecasts		
	Average 1996-2007	Average 2008-2013	Average 2014-2018	2018	2019	2020	2021
3. Financial balances (% of GDP)							
National saving rate	22.4	19.8	22.1	22.9	23.1	23.5	23.9
- of which, private saving	18.6	23.0	24.0	23.0	22.9	23.1	23.3
National investment rate	26.9	23.1	20.7	21.9	22.6	22.9	23.1
- of which, private investment	23.0	19.2	18.5	19.8	20.5	20.7	21.0
Current account balance with RoW	**-4.5**	**-3.2**	**1.5**	**0.9**	**0.5**	**0.6**	**0.7**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	1.8	1.5	0.7	0.8	0.9
- Private sector	-2.8	5.9	6.0	4.0	3.0	2.8	2.7
- Public sector (general government deficit)	-0.9	-8.6	-4.3	-2.5	-2.3	-2.0	-1.9
- General gov. deficit exc. financial instit. bailouts	-0.9	-7.9	-4.2	-2.5	-2.3	-2.0	-1.9
Public debt according to EDP	52.2	67.2	98.8	97.1	96.3	95.4	94.5
4. Other variables							
Eurozone GDP	2.5	-0.3	1.9	2.0	1.1	1.3	1.5
Household saving rate (% of GDI)	10.2	10.1	7.2	4.9	4.9	4.8	4.8
Household gross debt (% of GDI)	93.1	127.7	104.0	97.0	95.5	95.0	94.7
Non-financial corporates gross debt (% of GDP)	90.3	128.0	102.4	93.2	90.0	86.9	84.1
Spanish external gross debt (% of GDP)	90.8	158.6	167.3	166.7	167.0	165.7	164.5
12-month EURIBOR (annual %)	3.74	1.90	0.06	-0.17	-0.05	0.25	0.50
10-year government bond yield (annual %)	5.00	4.74	1.77	1.43	1.15	1.30	1.60

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

Sources: 1996-2018: National Statistics Institute and Bank of Spain; Forecasts 2019-2021: Funcas.

These trends are expected to continue into 2020 and 2021, so our projections are for 1.8% growth for the Spanish economy during this period. However, assuming no change in import elasticity of around 1.4, the anticipated slowdown in internal demand should curtail imports. This will likely halt the deterioration of the trade balance. At these rates of growth, the Spanish economy is projected to create around 930,000 jobs, which would result in a reduction in the unemployment rate, down to 11.4% by 2021. That year, the employment rate, calculated as the ratio of the number of job holders over the working-age population, would hit a historical peak.

> "If policies remain unchanged, limited progress will be made on the public deficit front, which at 2.3% of GDP in 2019 would exceed the target."

Growth in wages is expected to decrease in 2020 and 2021 relative to that forecast for 2019, heavily influenced by one-off factors, but should be higher than that seen in recent years. This, coupled with scant productivity gains, is similarly expected to drive higher growth in unit labour costs compared to the growth observed of late.

Lastly, the economic slowdown is likely to limit progress on reducing the public deficit, which we forecast at 2.3% of GDP in 2019, 0.3 percentage points above the government's target. Moreover, we do not foresee that figure falling significantly over the following two years. In this context, public debt would not decline much, reaching 94.5% of GDP by the end of 2021.

Main risks

The main risks lie outside of Spain. Trade tensions between the US and China could sharpen, jeopardising the recovery foreshadowed by the main international forecasters. Elsewhere, it remains to be seen whether the German economy, particularly its automotive sector, will recover in the coming months from its weakened performance. European industry in general may have entered a more comprehensive restructuring phase than previously anticipated, a development that is not reflected in these estimates.

In Spain, an additional drop in the household savings rate or an increase in household leverage (developments not currently contemplated in these estimates) would boost growth in the short term. However, this would entail a cost in terms of financial vulnerability and the sustainability of the ongoing expansion over the medium term.

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

This page was left blank intentionally.

Deconstructing Spain's net borrowing/lending position by institutional sectors

The return of the household sector to a net borrowing position in 2018 after eight years in surplus constitutes one of the most significant developments in the Spanish economy. However, the net lending position of non-financial corporates in part obscures existing risks associated with the country's negative net international investment position, which would likely be exacerbated during an economic downturn.

María Jesús Fernández

Abstract: The return of the household sector to a net borrowing position after eight years in surplus constitutes one of the most significant developments in the Spanish economy. Notably, the sector registered growth in gross disposable income (GDI) of 3.2% in 2018, the highest rate since 2008. However, this was accompanied by a decline in the household savings rate to 4.9% of GDI, the lowest level since the statistic was first published in 1999. This downward trend in savings could be attributed to factors such as an ageing population and low interest rates, among others; however, these dynamics have

been present in other European economies where the savings rate has moved along a different trajectory. Turning to the non-financial corporate sector, a net financial surplus of 2.5% was recorded in 2018. Similarly positive was the reduction in the public sector's deficit to 2.48% of GDP. Nevertheless, with Spain's households and the public sector presenting a net borrowing requirement, the country's non-financial corporations are bearing the full weight of propping up the economy's overall surplus, which is necessary if the country is to reduce its high NIIP deficit and shore up confidence in its solvency.

Introduction

In recent years, private consumption has underpinned growth in the Spanish economy. This has driven the savings rate to record lows, both domestically and in comparison to the developed world, thereby eroding Spain's net lending position. With Spain's households and government sectors presenting a net borrowing requirement, Spanish corporations are currently propping up the country's headline financial surplus.

This paper outlines the 2018 trends in the Spanish economy's financial and non-financial accounts broken down by institutional sectors. The analysis focuses on data from the start of the crisis and compares Spain's situation with the rest of Europe.

Households

Spanish households' gross disposable income (GDI) increased by 3.2% in 2018, the highest rate since 2008. That growth was primarily the result of a 2.7% increase in paid employment, a 1.4% expansion of average wages, and a rise of 3.8% in social benefits received. Significantly, this latter statistic represents the biggest increase since 2010 and is largely attributable to increases in pensions. Lastly, Spanish households experienced a 5.4% rise in net capital income (interest and dividends) last year.

In nominal terms, the volume of GDI (773 billion euros) is now considerably higher than before the crisis. Due to the higher growth in consumer prices since then, GDI in real terms is still 6% below pre-crisis levels.

Final consumption expenditure increased by 4% in nominal terms in 2018, which is comparable to 2017. Since growth in spending outpaced that of GDI, household savings diminished for the fifth year in a row, resulting in a reduction of the gross savings rate to 4.9% of GDI, the lowest level since this statistic was first published in 1999.

That rate is considerably lower than the eurozone average (Exhibit 1), which stands at around 12%. It is also one of the lowest in the EU with only Greece, Portugal, the UK and some of the Eastern European countries presenting lower rates. Moreover, it has proved more volatile, too. The highest savings rates are observed in Germany (18.4%) and Sweden (20.7%), with an increasing trend in both countries.

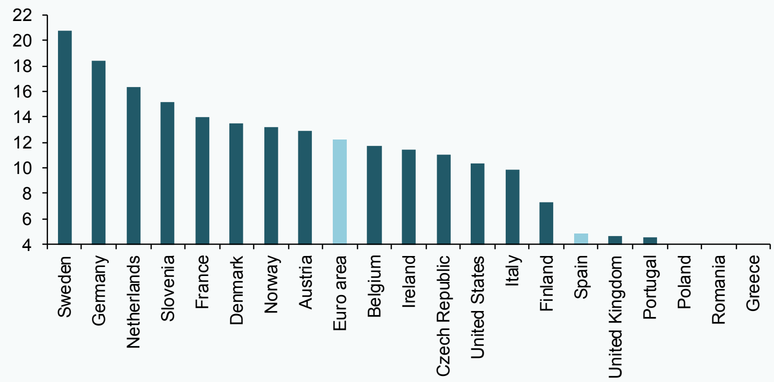
The reasons for such a sharp drop in the savings rate are somewhat obscure, thereby requiring more in-depth analysis. In theory, both structural and circumstantial factors could account for this trend. These include an ageing population, low interest rates, the wealth effect, a reduction in disposable income, the unemployment rate's downtrend, and the effect of 'pent-up' demand. However, these factors are present in other eurozone countries where the savings rates have moved along a different trajectory. For this reason, it is doubtful that these factors alone explain the decrease in Spain's savings rate.

> "Spanish households' gross disposable income (GDI) increased by 3.2% in 2018, the highest rate since 2008."

Exhibit 1

Households' gross savings rate. 2018

Gross savings in % of disposable income



Sources: Eurostat and BEA.

The drop in the savings rate, coupled with growth in household investment (mainly housing), has widened the sector's financial deficit from 0.4% of GDP in 2017 (the first negative balance since 2008) to 1.2% of GDP in 2018. That shift from a net lending position to a net borrowing requirement marks a significant change in Spain's pattern of growth since the economic recovery.

With the exception of some Eastern European economies and Finland, only Spanish, Greek, and British households presented a net borrowing requirement in 2018 (Exhibit 2). By comparison, Germany and Sweden registered surpluses of 5.2% and 6.9%, respectively.

Despite the net borrowing position evident in the nation's non-financial accounts, Spanish households' indebtedness has not increased in nominal terms. This is partly because the financial accounts drawn up by the Bank of Spain reveal a small financing surplus rather than a deficit. This discrepancy is due to the difference in how the Bank of Spain and the national statistics office's non-financial accounts classify individuals as households *versus* non-financial corporations. Another explanation is the fact that although Spain's households took on net new debt in 2018 for the first time since 2010 (*i.e.* the volume of new loans was higher than the balance of repayments), the value of their overall borrowings diminished, primarily due to the cancellation of previously arranged debt. Elsewhere, other household liabilities, such as retail credit or outstanding account balances, have been rising, so that total household liabilities increased in 2018.

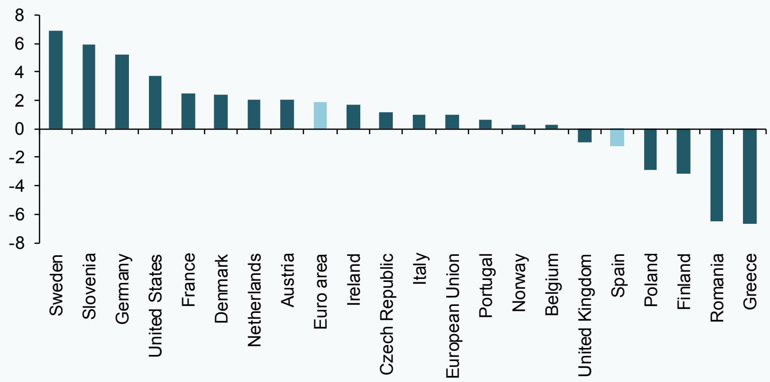
In short, the household sector's ratio of debt-to-GDI continued to decline, ending 2018 at 97%, the lowest level since 2003. The household debt service burden (principal and interest) also trended lower so that by the end

> "The household sector's ratio of debt-to-GDI continued to decline, ending 2018 at 97%, the lowest level since 2003, with debt service declining to levels last seen at the turn of the century."

Exhibit 2

Households' net lending (+) or borrowing (-)

% of GDP



Sources: Eurostat and BEA.

of 2018 it fell below levels last seen at the turn of the century. The sharp drop in interest expenses explains this trend.

Additionally, a recovery in house prices has increased household's property wealth. As a result, household balances remained solid. Thus, despite the net borrowing requirement, this trend is unlikely to trigger a correction in consumption or a recession. Still, these developments are worth observing. If current trends continue, an imbalance could emerge in the medium term. Also, while the household deficit on its own is not enough to trigger a recession, it could serve as a source of vulnerability in the event of recession. Under this scenario, Spain's households would have to significantly pare back their spending in order to balance their finances. Lastly, household debt is not a concern at the macroeconomic level, but it could be at the microeconomic level for individuals below certain income thresholds who may be becoming more vulnerable.

Non-financial corporations

The rate of growth in non-financial corporations' gross operating surplus (GOS) eased to 2% in 2018. GOS, plus net income from interest and other capital income, fuelled growth of corporate income to 305 billion euros, which was subsequently reduced to 273 billion euros after the payment of taxes and employee benefits.

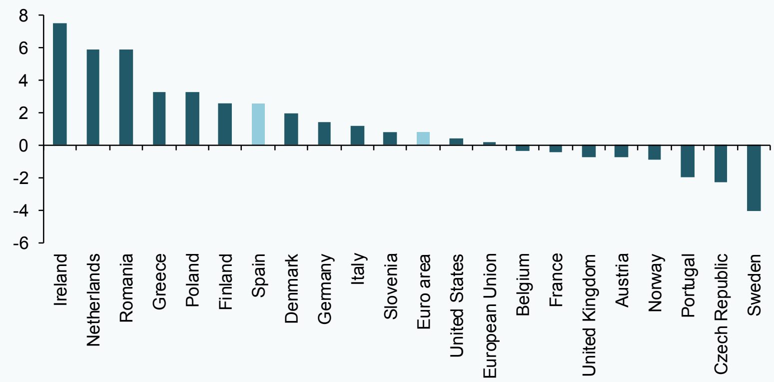
Of that sum, 22% was earmarked for dividend payments, which was the second lowest reading in the series after 2010. The remaining amount, equivalent to 17.7% of GDP, constituted corporate savings. Of those savings, 88% went to fund capital expenditure, which increased by 6.4% year-on-year. Given that savings exceeded investments, Spain's

"Given that savings exceeded investments, Spain's non-financial corporations generated a net financing surplus equivalent to 2.5% of GDP."

Exhibit 3

Non-financial corporations' net lending (+) or borrowing (-)

% of GDP



Sources: Eurostat and BEA.

non-financial corporations generated a net financing surplus equivalent to 2.5% of GDP. Notably, the corporate sector has generated a financing surplus every year since 2009.

This surplus is higher than the eurozone average, which stands around 0.8% of GDP (Exhibit 3). Germany's corporations generated a surplus of 1.4% of GDP, while their counterparts in France, Austria, Portugal and the UK generated a net borrowing requirement.

Despite recording a net lending position in 2018, Spain's non-financial corporations increased their borrowings slightly last year, from 1,124 billion euros to almost 1,126 billion euros. However, measured in terms of GDP, corporations continued to deleverage. Spanish companies earmarked these new net liabilities, coupled with the cash derived from their net financial surplus, for the purchase of financial assets, specifically equity investments and deposits.

Government

The Spanish government's current income fell short of its current expenses by 1.68 billion euros in 2018. This is the strongest performance since the public sector began recording negative savings rates in 2009. Thus, despite sharp growth in public investment in 2018, the government's net borrowing requirement, measured as the public deficit, fell to 2.48% of GDP. However, the improvement in the headline deficit masks a standstill in the structural deficit.

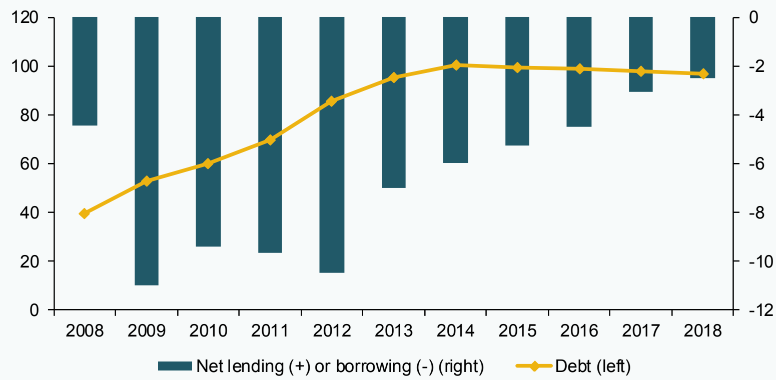
Looking at the various levels of government, the central government recorded a deficit equivalent to 1.36% of GDP, while social security and regional governments recorded deficits of 1.4% and 0.23% of GDP, respectively.

"The central government recorded a deficit equivalent to 1.36% of GDP, while social security and the regional governments recorded deficits of 1.4% and 0.23% of GDP, respectively."

Exhibit 4

General government's net lending (+) or borrowing (-) and debt according to EDP

% of GDP



Source: INE.

Conversely, Spain's local governments presented a surplus of 0.5%.

The overall public deficit led to an increase in borrowings in terms of the excessive deficit procedure (EDP) of 2.5%. Nevertheless, the ratio of debt-to-GDP declined by one percentage point to 97.1% (Exhibit 4).

Savings and overall net lending position of the Spanish economy

Gross national savings, measured as the sum of government, household and corporate savings, amounted to 22.9% of GDP, which is virtually flat year-on-year. While still in negative territory, the improvement in the government savings rate offset nearly all of the decline in savings by Spain's households and corporations.

Meanwhile, total gross capital formation increased by 0.8 percentage points to 21.9% of GDP. As a result, factoring in net income from foreign capital transfers, the Spanish economy recorded a net lending position equivalent to 1.5% of GDP. This represents a decline of around two percentage points from figures recorded between 2013 and 2017.

In the years since the financial crisis, Spain's households and non-financial corporations maintained a net lending position, a significant divergence from the public deficit trend. This reflected the simultaneous processes of deleveraging of the private sector and indebtedness of the public sector. However, in 2017 and 2018, that pattern began to shift. Specifically, the public deficit narrowed while Spain's households moved from a surplus to a deficit. Conversely, Spanish corporations continued to record a surplus during this period (Exhibit 5).

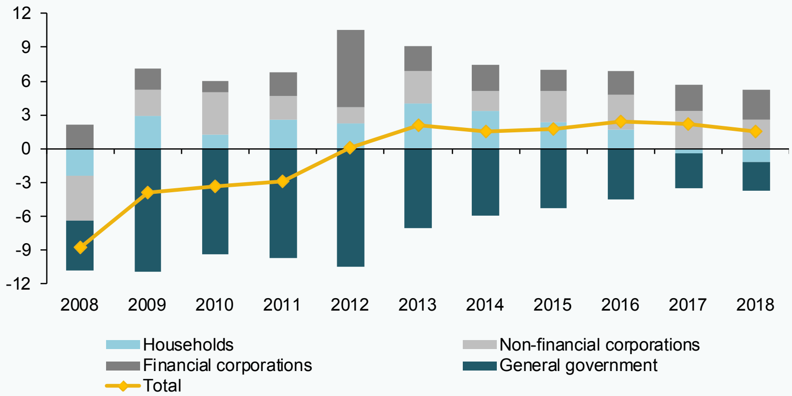
The net lending position recorded by the Spanish economy over the last few years has enabled a reduction in Spain's net international investment position (NIIP) deficit, excluding non-defaultable instruments, from 78.3% of GDP in 2009 to 53.9% in 2018. Nevertheless, Spain continues to present one of the highest NIIP deficits in the EU. Only Greece, Cyprus and Portugal –excluding the particular cases of Ireland and Luxembourg– have recorded higher NIIP deficits (Exhibit 6).

Such a high level of debt is a source of vulnerability vis-a-vis the rest of the world. A recession or financial market stress could erode confidence in the Spanish economy's

Exhibit 5

Spanish economy's net lending (+) or borrowing (-) by sector

% of GDP

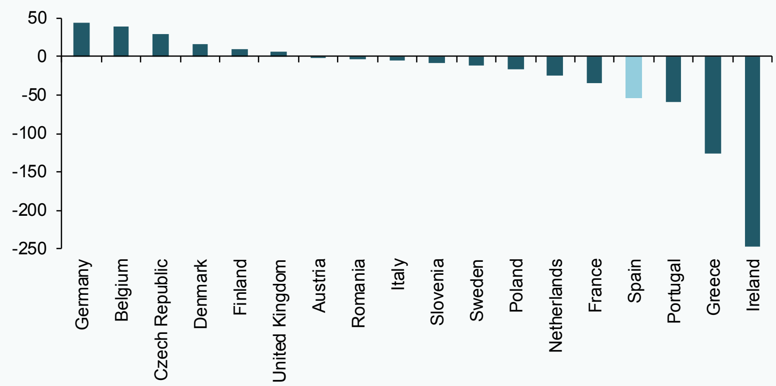


Source: INE.

Exhibit 6

Net international investment position excluding non-defaultable instruments

% of GDP



Source: Eurostat.

solvency. It is therefore important that Spain continues to record a net lending position, as this will enable it to reduce its foreign borrowings.

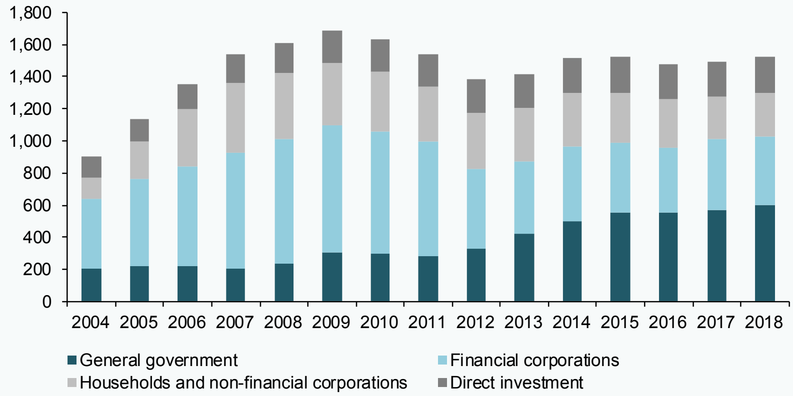
For these reasons, Spain's overall situation would be strengthened if households returned to a net lending position similar to the period before 2017. This is despite any short-term deceleration in consumer spending and GDP growth that might occur as a result. The same can be said of the public sector, especially given the fact that it holds almost 40% of Spain's gross foreign

> "Spain's overall situation would be strengthened if households returned to a net lending position similar to the period before 2017."

Exhibit 7

Spanish external debt and its composition (excluding Bank of Spain)

Billion euros



Source: Bank of Spain.

borrowings (excluding those corresponding to the Bank of Spain), up from 18% in 2009 (Exhibit 7).

Conclusion

The return of the household sector to a net borrowing position after eight years in surplus constitutes one of the most significant developments in the Spanish economy. This can be attributed to the notable decline in the household savings rate, which now stands below many other European economies. This trend has supported a robust economic expansion and accounts for Spain's relatively stronger GDP growth rates to that of the eurozone average. However, this means an economic slowdown would likely precipitate a sharp correction in spending.

As a result, with Spain's households and the public sector registering a net borrowing requirement, the country's non-financial corporations are bearing the full weight of propping up the economy's overall surplus, which is necessary if the country is to reduce its high NIIP deficit and shore up confidence in its solvency. Moreover, those same corporations are responsible for the bulk of the economy's productive investment. For this reason, it would be preferable to maximize the amount they allocate to capital expenditure, even if this requires an increase in borrowing. Likewise, households and the government would ideally generate the surplus needed to finance the corporate sector's investment. However, the non-financial corporate sector has recorded a net lending position, as in most developed nations, a trend which became particularly pronounced after the financial crisis in 2008.

María Jesús Fernández. Senior Economist at Funcas

Spain's fiscal consolidation: Situation and outlook

Although Spain's deficit fell to 2.5% in 2018, projections for both the near and medium-term indicate more substantial consolidation is unlikely, leaving the Spanish economy vulnerable to potential scenarios of economic slowdown, interest rate hikes and financial turbulence. Spain's deficit woes can largely be attributed to revenue rather than spending related issues, but any progress will require the support of Spanish citizens, who have tended to deprioritize fiscal matters.

Santiago Lago Peñas

Abstract: In 2018, Spain's public deficit had fallen to 2.5%. While a welcome reduction, the result still fell short of the 2.2% target, placing the country two percentage points above the EU average. Moreover, Spain ranks as one of three countries with the highest structural deficits in the EU. This, coupled with a high debt-to-GDP ratio, leaves the Spanish economy vulnerable to potential scenarios of economic slowdown, interest rate hikes and financial turbulence. Unfortunately, future forecasts suggest the country is unlikely to see any significant improvement. The IMF estimates the deficit will remain

> According to 2019 Eurostat calculations, Spain's public borrowings stood at 97.09% of GDP at year-end 2018, which is a scant one percentage point below the year-end 2017 figure of 98.12%.

above 2.5% for another four years with public debt exceeding 92% in 2024. Looking at the underlying causes reveals that Spain suffers more from a shortfall of revenue rather than a spending problem, and any potential strategy to address this will need to consider the available financial tools, institutional framework and political will. The latter point is a particular challenge given that latest polls show that Spanish citizens on average do not prioritize addressing the country's fiscal problems. [1]

Cutting the deficit: Slow and insufficient progress

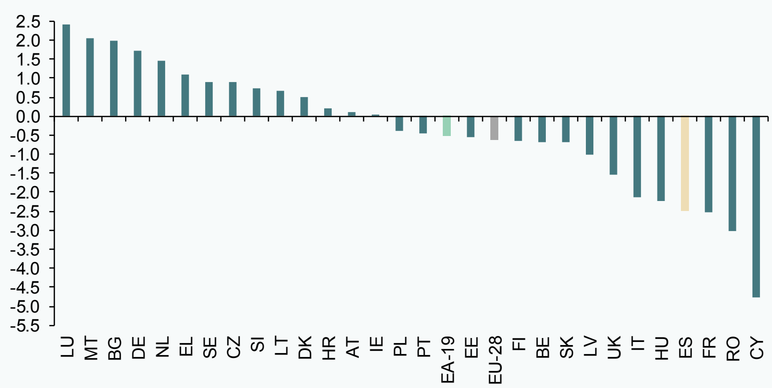
On March 29th, 2019, Spain's Finance Ministry announced that the country's public deficit, expressed as a percentage of gross domestic product (GDP), stood at 2.63% at the end of 2018. Less than a month later, on April 23rd, Eurostat released its slightly stronger deficit calculation of 2.48%. The standard interchange of information and enquiries between Spain and EU authorities ultimately benefitted Spain, which is expected to be released from the excessive deficit procedure (EDP) this year. In 2018, the deficit narrowed by 0.6 percentage points from the 3.08% recorded in 2017. The final figure was also better than predicted by most independent observers and official forecasters, who, at the beginning of the year, broadly forecasted a deficit of 2.7% (Lago Peñas, 2019). The improved figures are mainly attributable to tax revenue, which grew more than expected during the final months of the year.

Regardless of this progress, the deficit still failed to meet the initial target for 2018 of

Exhibit 1

Public deficit (-) / surplus (+) in 2018

Percentage of GDP



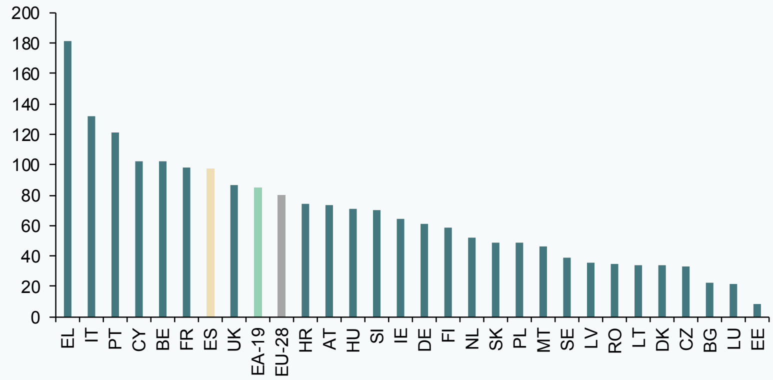
Note: Austria(AT), Belgium(BE), Bulgaria(BG), Cyprus(CY), Czech Republic(CZ), Germany(DE), Denmark(DK), Eurozone(EA19), Estonia(EE), Greece(EL), Spain(ES), European Union-28(EU-28), Finland(FI), France(FR), Croatia(HR), Hungary(HU), Ireland(IE), Italy(IT), Lithuania(LT), Luxembourg(LU), Latvia(LV), Malta(MT), Netherlands(NL), Poland(PL), Portugal(PT), Romania(RO), Sweden(SE), Slovenia(SI), Slovakia(SK), United Kingdom(UK).

Source: Eurostat (2019) and author's own elaboration.

Exhibit 2

Public debt in 2018

Percentage of GDP



Source: Eurostat (2019) and author's own elaboration.

2.2%, nor was a significant reduction in public debt over GDP achieved. [2] According to 2019 Eurostat calculations, Spain's public borrowings stood at 97.09% of GDP at year-end 2018, which is a scant one percentage point below the year-end 2017 figure of 98.12%. This is despite the Spanish economy continuing to post strong growth, indicating that public debt increased at almost the same pace as Spain's robust economic expansion.

Exhibits 1 and 2 place the Spanish situation in the European context. In terms of the deficit, only three EU-28 member states ended 2018 in a weaker position than Spain. The average deficit in the EU-28 is just above 0.6% of GDP and below that in the Eurozone subgroup. Thus, in 2018, Spain's deficit was nearly two percentage points higher than the EU average and over four percentage points greater than Germany, which posted a surplus that year. Similarly, Spain has one of the highest debt burdens in the EU-28, with only Greece, Italy, Portugal, Cyprus, Belgium and France faring worse by this measure.

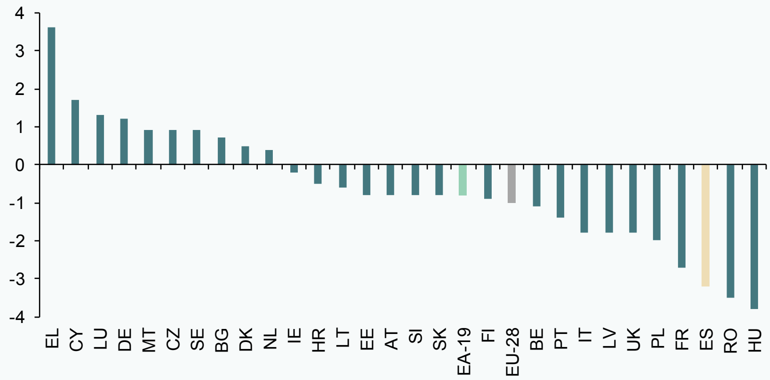
Exhibit 3 extends this analysis by highlighting Spain's structural deficit. To single out the structural deficit, the cyclical component associated with the economic cycle, whether positive or negative, is eliminated. In contrast to the headline deficit, which is an accounting measure, the structural deficit is an estimate underpinned by the output gap concept. The different methodologies used do not always lead to the same conclusions. Furthermore, it is difficult to determine the cyclical situation at the end of the observed period. Often our perception of where an economy lies in its economic cycle changes after a few years thanks to the benefit of hindsight. With these caveats in mind, the most recent European

> "The most recent European Commission estimates rank Spain as one of three countries with the highest structural deficits in 2018, although it is highly probable that this will come down somewhat with revised estimates in the coming months."

Exhibit 3

Structural deficit (-) / surplus (+)

Percentage of GDP



Source: European Commission estimates (2018) and author's own elaboration.

Commission estimates rank Spain as one of three countries with the highest structural deficits in 2018. In Spain's case, the cyclical adjustment is actually positive, so that its 2018 structural deficit is higher than the reported total of 3.2%. It is highly probable that this will come down somewhat when the estimates are revised in the coming months. However, Spain will still present one of the highest structural deficits within the EU-28.

In short, Spain's public deficit is a problem. Spain suffers from an entrenched structural imbalance which is slowing the rate of public deleveraging. And a high debt-to-GDP ratio leaves the Spanish economy vulnerable to a potential economic slowdown, interest rate hikes and financial turbulence. Moreover, a structural deficit of over 2% greatly limits the ability to react to macroeconomic shocks. The effect of the automatic stabilisers would quickly push the deficit over 3%, making it impossible to roll out fiscal stimulus measures in response.

Short and medium term outlook

Despite the efforts made by the Ministry of Finance to ease the deficit targets for 2019, the target of 1.3% which still applies, reflects the figure set down in the General State Budget for 2018 (2018 GSB). The government is committed to ease the 2019 target to 2% (MHFP, 2019). Both recent electoral results (strengthening political parties supporting a relaxation of deficit targets) and non-official messages from the European Commission makes the adoption of this new target likely. However, the consensus forecast published by Funcas foresees a deficit of 2.3% (Funcas,

> "Formulated before the definitive 2018 number was announced, the Bank of Spain has forecast a deficit of 2.5% in 2019, which would imply scant progress on the fiscal consolidation front and, given that real GDP growth is estimated at 2.2%, zero progress on reducing the structural deficit."

> "The AIReF estimates that the debt-to-GDP ratio will hover around 91% in 2022, with a 25% probability that it fails to decrease at all."

2019), with current forecasts ranging from 2.1% to 2.5%.

A more detailed analysis conducted by Spain's independent fiscal institution, the AIReF, provides greater insight (AIReF, 2019a). The failure to enact the new budget for 2019 (2019 GSB) and the resulting rollover of the 2018 GSB is seen as good news in terms of the deficit prognosis, insofar as only some of the deficit-inflating measures contemplated in the draft budget have been set in motion. Layering in the fact that the deficit was ultimately somewhat lower than expected in 2018, the AIReF's baseline scenario currently contemplates a 2019 deficit of 2.1%. AIRef views delivery of the official target of 1.3% as highly unlikely. Judging by its March forecasts, the Bank of Spain is less optimistic (Bank of Spain, 2019). Formulated before the definitive 2018 number was announced, the Bank of Spain has forecast a deficit of 2.5% in 2019, which would imply scant progress on the fiscal consolidation front and, given that real GDP growth is estimated at 2.2%, zero progress on reducing the structural deficit.

Turning to the medium term, the most recent reports are not optimistic. The IMF is projecting an overall deficit of over 2.2% and a structural deficit above 2.5% until 2024 (IMF, 2019). As a result, public debt would exceed 92% of GDP in 2024. These deficit projections are more pessimistic than those of the Bank of Spain (2019), which expects the deficit to trend gradually lower towards 1.8% in 2021.

The IMF's debt projections are more in line with those of the AIReF (2019b). According to the fiscal body's calculations, the debt ratio decreased from 100.4% to 97.2% between 2014 and 2018, representing a slight reduction of 3.2 percentage points of GDP. This is despite attributing a reduction of 14.8 percentage points to the sharp growth in the denominator throughout the period. The difference of over 10 percentage points can be blamed on the deficit, which continues to drive borrowings higher. The AIReF estimates that the debt-to-GDP ratio will hover around 91% in 2022, with a 25% probability that it fails to decrease at all. However, the European Commission is even more pessimistic than the IMF. Its projections put the debt ratio at over 96% in 2029, even in a scenario with relatively low interest rates and stable economic growth (European Commission, 2019b)

Why is Spain's public deficit so high?

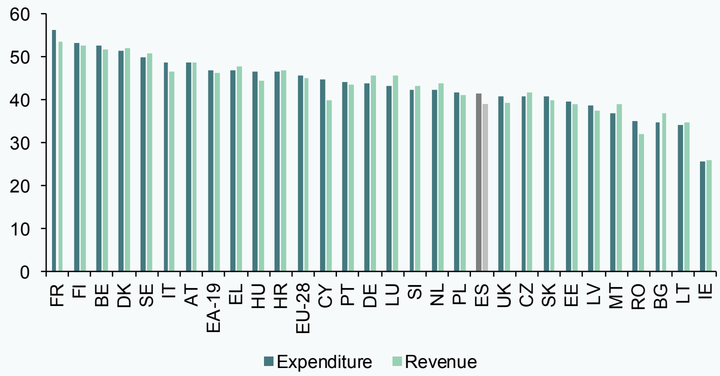
Exhibit 4 provides a glimpse into the causes of Spain's high deficit. The exhibit depicts the ratios of non-financial government expenditure and revenue over GDP for the EU-28. The year of reference is 2018 and the countries are ranked in order of expenditure, from highest to lowest. Spain, which ranks eighteenth, has an expenditure ratio of 41.3%. This is 4.3 percentage points below the EU-28 average and 5.5 percentage points below the Eurozone average. The ten member states with lower spending levels include the Anglo-Saxon countries (UK, Ireland and Malta, a former British colony) and Eastern European countries. Excluding Romania, the ten countries with the highest imbalances all spend significantly more than Spain. Although the UK is similar in profile

> "Spain has fallen from being one of the countries with the highest levels of investment in infrastructure in terms of GDP to well below the EU average."

Exhibit 4

Non-financial government expenditure and revenue in 2018

Percentage of GDP



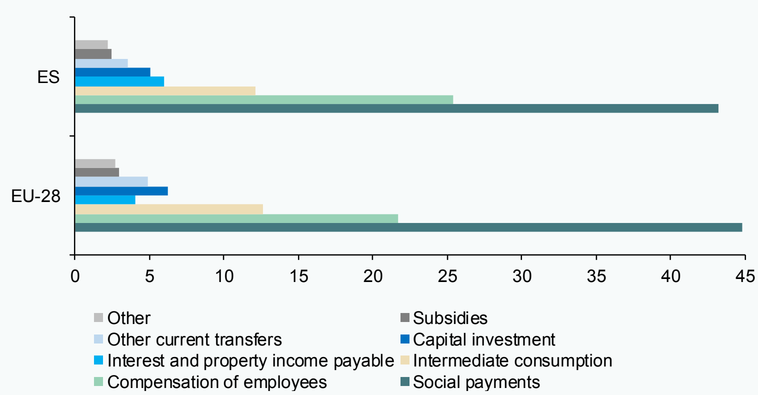
Source: Eurostat statistics (2019) and author's own elaboration.

to Spain, its deficit was one percentage point lower than Spain's in 2018. In short, the comparative European analysis reveals that the source of Spain's high deficit lies more with a shortfall of revenue than an excess of spending.

Exhibit 5 compares the public expense structure in Spain with the EU-28 average. It is worth highlighting the greater share of compensation, attributable to a higher propensity to produce certain labour-intensive public services, such as healthcare and education. Also noteworthy is the public sector's higher interest burden due to its larger debt stock. Lastly, Exhibit 5 depicts Spain's lower level of public investment, which is due to the government's consolidation

Exhibit 5

Breakdown of public spending in 2018

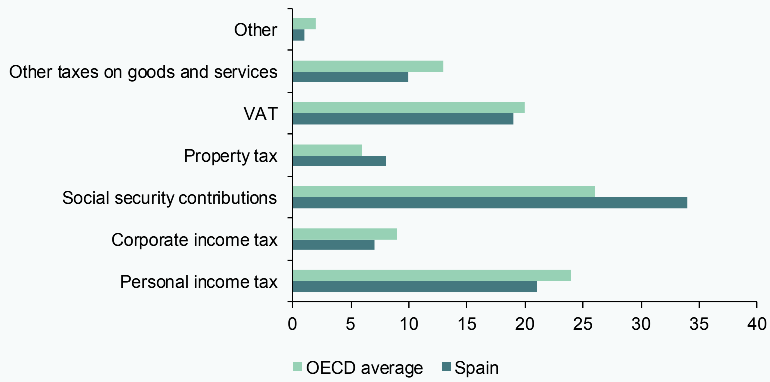


Source: Eurostat (2019) and author's own elaboration.

Exhibit 6

Breakdown of tax revenue in 2016

Percentage of GDP



Source: OECD statistics (2018) and author's own elaboration.

effort. Spain has fallen from being one of the countries with the highest levels of investment in infrastructure in terms of GDP to well below the EU average.

Meanwhile, Exhibit 6 presents the breakdown of tax revenue, compiled from 2016 data published by the OECD. [3] Spain is clearly above the OECD average in terms of the weight of social security contributions and, to a lesser degree, property tax. However, the contribution of tax from consumption, personal income and corporate income tax are all below average. This can be explained by the existence of tax exemptions of all kinds rather than the tax rates themselves, which are generally speaking similar to those prevailing in the EU. [4] All of this is compounded by the existence of a larger black economy and higher incidence of tax fraud. [5]

What can be done to reduce the deficit?

Any strategy for reducing the structural public deficit in a meaningful and consistent manner must take into consideration three interrelated factors: (i) the institutional framework; (ii) the available financial tools; and, (iii) political will.

Starting with the institutional framework, the progress made in recent years has been commendable, as evidenced by the tightening of fiscal rules in both the European Union and Spain. To illustrate this quantitatively, we refer to the fiscal rules index (the FRI) calculated by the European Commission (European Commission, 2019b). The trend between 1995 and 2017 shows a substantial improvement in Spain in 2002 as a result of the budget stability rules introduced that year, as well as policy changes shaped by the EU from 2011 to 2014. Exhibit 7 shows that in 2017 Spain ranked eighth in the EU-28. It is therefore fair to say that Spain's fiscal rules are neither the cause of nor the obvious solution to its public deficit issue. [6] The data also fail to indicate any supervisory weakness when it comes to applying fiscal rules. The

“It is therefore fair to say that Spain's fiscal rules are neither the cause of nor the obvious solution to its public deficit issue.”

> Pointedly, neither the public deficit nor the public debt burden feature among the top 54 problems identified in the survey conducted by the Centre For Sociological Research (CIS) in February 2019.

AIReF, which was established in 2014, has already made a considerable contribution to improving Spain's finances and built a solid reputation for itself outside of Spain (Von Trapp *et al.,* 2017).

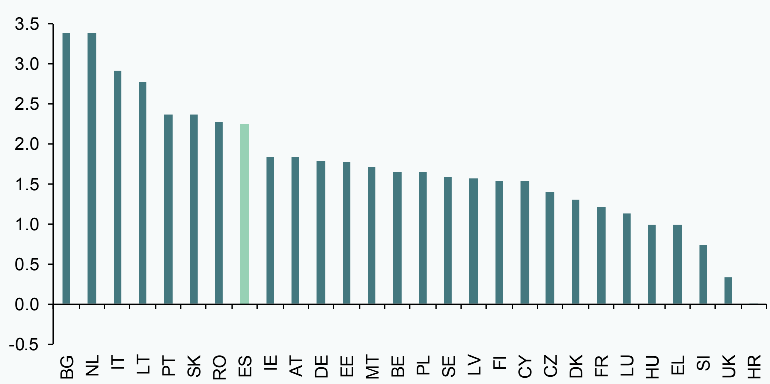
Regarding the available financial tools, the roadmap is clear-cut. Comprehensive tax reforms, coupled with a new paradigm for assessing the social return on public spending, would inject efficiency, equity and stability into Spain's public finances. There is broad academic consensus on the need for such reforms and the general shape they should take.

Political will is one of Spain's biggest challenges when it comes to tackling its deficit. Spanish society and its politicians frequently avoid the issue. Pointedly, neither the public deficit nor the public debt burden feature among the top 54 problems identified in the survey conducted by the Centre For Sociological Research (CIS) in February 2019. Only tax fraud makes a brief showing at the bottom of that list with 0.4% of Spaniards viewing tax fraud as one of Spain's top three problems. [7] Moreover, the opinion polls reveal that a clear majority of Spanish citizens are against introducing spending cuts and tax hikes to reduce the deficit (Calzada and Del Pino, 2018).

Spain's politicians, regardless of where they lie on the political spectrum, face strong pressure to conform to these social demands. Putting control over the public deficit at the heart of their economic agendas and prioritising a balanced budget is unlikely to win votes. Spanish society still needs to face up to the fact that its troubled public finances present a serious problem.

Exhibit 7

European Commission's standardised fiscal rules index (FRI) in 2017



Source: European Commission (2019b) and author's own elaboration.

Notes

[1] I would like to thank Fernanda Martínez and Alejandro Domínguez for their assistance and Eduardo Bandrés for his input.

[2] The Spanish Cabinet set the deficit target for 2018 at 2.2% of GDP on July 13th, 2017. That figure coincided with the forecast included in the first deficit and debt notification submitted to the European Commission on March 30th, 2018.

[3] The Eurostat data (2019) do not permit such a detailed breakdown of tax revenue.

[4] One European Commission study (European Commission, 2014) ranked Spain third among the 13 countries it analysed (Austria, Belgium, Denmark, Spain, Italy, Greece, France, Germany, the Netherlands, Poland, Portugal, the UK and the US) in terms of tax exemptions as a percentage of GDP. Only Italy (8.1%) and the UK (5.9%) topped Spain (5.5%).

[5] Unfortunately, there are no official, up-to-date estimates of the scale of these two problems. However, several studies put the size of Spain's black economy above the OECD average (Lago Peñas, 2018). The empirical evidence regarding tax fraud points in the same direction but orbits almost exclusively around the estimates of the size of the black economy, providing limited insight into the extent of the fraud. Consequently, any data analysis warrants a high degree of caution.

[6] However, the Commission believes there is scope for a faster and automatic application of certain corrective mechanisms, as well as for a more efficient application of the spending rule (European Commission, 2019b).

[7] http://www.cis.es/cis/export/sites/default/-rchivos/Indicadores/documentos_html/TresProblemas.html

References

AIReF. (2019a). *Report on the Public Administrations' initial budgets for 2019. Report 11/2019*. Retrievable from www.airef.es

— (2019b). *Debt Observatory. Abril 2019*. Retrievable from www.airef.es

Bank of Spain. (2018). Quarterly report on the Spanish economy. *Economic Bulletin, 1/2019*. Retrievable from www.bde.es

Calzada, I. and Del Pino, E. (2018). *El peso de la opinión pública en las decisiones de ajuste del Estado de Bienestar: el caso de España entre 2008 y 2017* [The weight of public opinion in deciding to pare back the Welfare State; the case in Spain between 2008 and 2017]. In: F. Camas, and G. Ubasart (Eds.) *Manual del Estado de Bienestar y las políticas sociolaborales* [Manual of the Welfare State and social labour practices]. Barcelona: Huygens.

European Commission. (2014). Tax Expenditures in Direct Taxation in EU Members, *European Commission Occasional Papers 207*. Retrievable from http://ec.europa.eu

— (2018). *European Economic Forecast. Autumn 2018*. Retrievable from https://ec.europa.eu

— (2019a). *Country Report Spain 2019 SWD (2019) 1008 final*. February 27th, Retrievable from https://ec.europa.eu

— (2019b). *Fiscal Rules Database,* March 7th. Retrievable from https://ec.europa.eu

Eurostat. (2019). *Government Finance Statistics,* April 23rd. Retrievable from https://ec.europa.eu

Funcas. (2019). *Spanish Economic Forecasts Panel, May*. Retrievable from www.funcas.es

IMF. (2019). *Fiscal Monitor 2019*. Curbing Corruption. April. Retrievable from www.imf.org

Lago Peñas, S. (Dir.) (2018). *Economía sumergida y fraude fiscal en España: ¿qué sabemos? ¿qué podemos hacer?* [Black economy and tax fraud in Spain: What do we know? What can we do?]. Madrid: Funcas. Retrievable from www.funcas.es

— (2019). Deficit Reduction in Spain: Uncertainty Persists, *SEFO 8(1)*. Retrievable from www.funcas.es

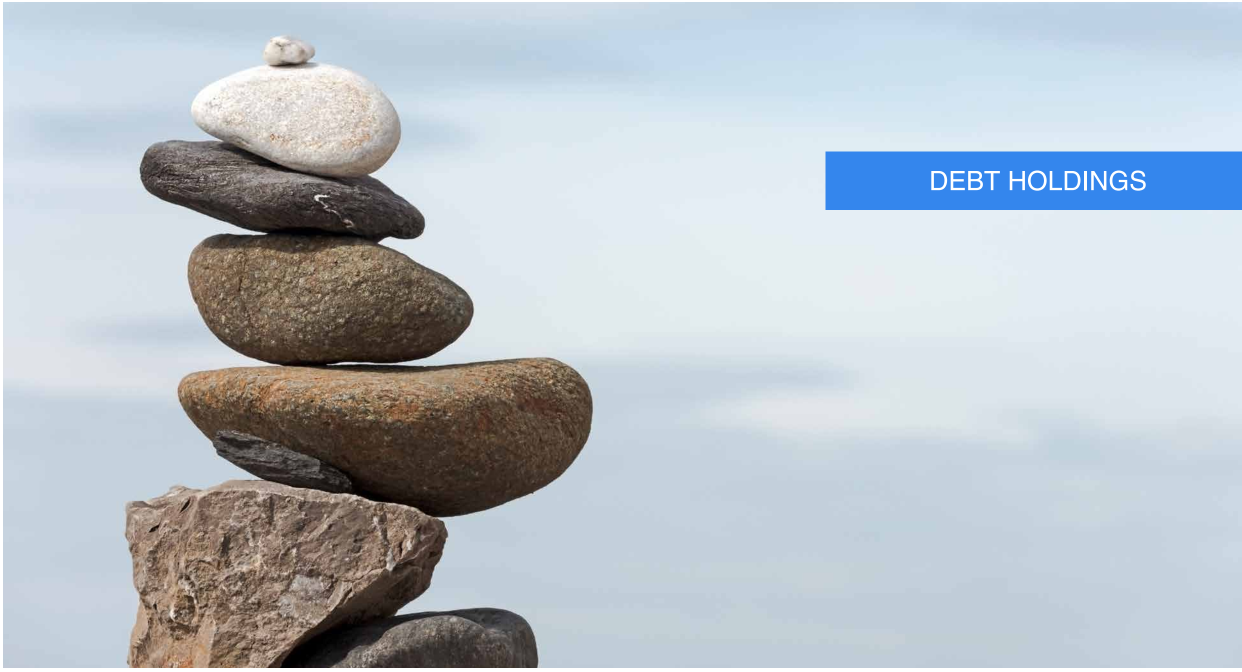
MHFP (2019). Kingdom of Spain Stability Programme Update 2019-2022. Available at: www.mineco.gob.es

OECD (2018). *Revenue Statistics 2018. Spain*. Retrievable from www.oecd.org

Von Trapp, L., Nicol, S., Fontaine, P., Lago Peñas, S. and Suyker, W. (2017). *OECD Review of the Independent Authority for Fiscal Responsibility (AIReF)*. Paris: OECD. Retrievable from www.oecd.org

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

This page was left blank intentionally.



Spanish public debt holdings at the end of the ECB's purchase programme

The composition of Spain's investor base has evolved over three distinct periods in the last 15 years, with Spanish banks now holding a smaller proportion of domestic sovereign debt than observed among banks in other eurozone countries. However, as the Spanish economy has continued to strengthen, data show that some of the most risk-averse foreign investors have discovered a fresh appetite for Spanish bonds, thereby contributing to the ongoing decline in Spain's borrowing costs.

José Manuel Amor and David del Val

Abstract: The composition of the investor base for Spain's sovereign debt has evolved significantly over the past 15 years and can be divided into three distinct periods. The most recent period began in 2012 and has been heavily influenced by the ECB's public sector purchase programme (PSPP), which initiated a shift in demand for Spanish bonds from the domestic private sector to the Bank of Spain, encharged with implementation of the PSPP. In a reversal of the observable trend during the crisis, non-resident holdings of Spanish public debt have increased since and Dutch bonds held by foreign investors

> “As foreign investors fled sovereign debt markets and absolute public debt levels began to rise, home-market banks increased their purchases of government bonds.”

has diminished. This largely corresponds with data that show a correlation between non-resident holdings of sovereign bonds and the difference in borrowing costs between Spain and Germany. Also noteworthy is the increased appetite for Spanish bonds among Asian, and in particular, Japanese, investors, who tend to be risk-averse, thereby suggesting renewed confidence in the Spanish economy. Finally, it is also important to highlight that while Spain's Target2 balances have widened as public debt has increased, these balances are merely accounting adjustments that reflect the decentralised implementation of monetary policy. Going forward, it will be necessary to continue to reduce Spain's public debt levels and ring-fence the economy from the ongoing instability emanating from Italy's financial markets.

The three shifts in the composition of Spanish public debt holdings

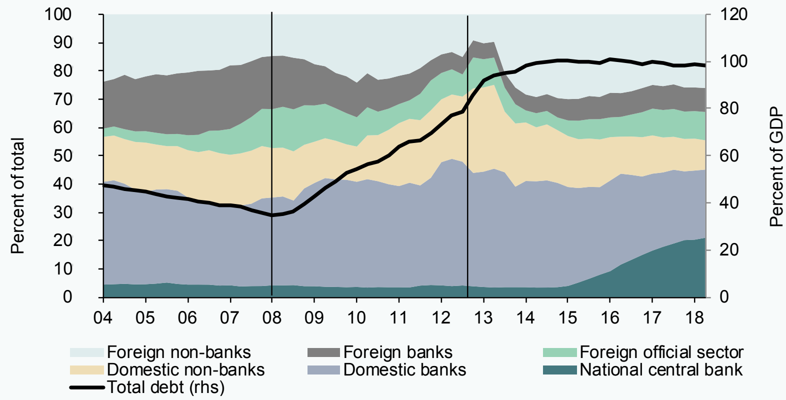
The movement in Spanish sovereign debt holdings over the last fifteen years falls into three clearly differentiated time periods. The first phase occurred between 2004 and 2008. Significantly, it coincided with the reduction in the ratio of debt-to-GDP, driven by strong economic growth, which ultimately earned Spain the highest credit ratings (AAA or Aaa, depending on the agency). Due to the perception that sovereign risk was uniform across the eurozone, foreign investors widely favoured those markets offering the highest sovereign bond yields. Specifically, foreign banks and official investors spearheaded a significant expansion of non-resident holdings. In the context of strong credit growth and high interest rates, Spanish banks simultaneously reduced their holdings of Spanish sovereign bonds. Consequently, by the end of 2007, the percentage of Spanish bonds held by non-resident investors stood at nearly 50%.

The second phase unfolded between 2008 and 2012, a period marked by both the global financial crisis and the subsequent sovereign debt crisis. The debt crisis, which persisted in several peripheral eurozone countries, was characterised by sharp private sector deleveraging and rapid growth in public debt ratios. The latter sparked fear of the euro's collapse and initiated a period of foreign capital outflows from those peripheral economies' sovereign bonds. In Spain, the percentage of sovereign bonds held by foreign investors decreased by 20 percentage points to just below 30% by mid-2012. As foreign investors fled these sovereign debt markets and absolute public debt levels began to rise, home-market banks increased their purchases of government bonds.

The summer of 2012 marks the beginning of the third shift in the composition of Spanish bond holdings, which occurred in the aftermath of Mario Draghi's pledge to do “whatever it takes” to defend the euro. This phase can be divided into two sub-phases separated by the start of the ECB's bond purchase programme in early 2015. Initially, the combination of the Spanish financial sector's bailout, reforms implemented by the Spanish government and the gradual economic recovery in the eurozone nudged the Spanish economy towards growth. This expansion accelerated sharply from 2014, allowing for the stabilisation of Spain's debt-to-GDP ratio. Around this time, foreign investors, led by the non-bank private sector, began to increase their holdings of Spanish bonds. The second sub-phase began with the introduction of the public sector purchase programme (PSPP) by the ECB at the start of 2015, which intensified the growth in the proportion of public debt held by non-residents. This initiated a shift in demand from the domestic private sector to the Bank of Spain, the national central bank responsible for the decentralised implementation of the PSPP in Spain.

Exhibit 1

Trend in Spanish public debt holdings by sector and ratio of debt-to-GDP (central government debt)



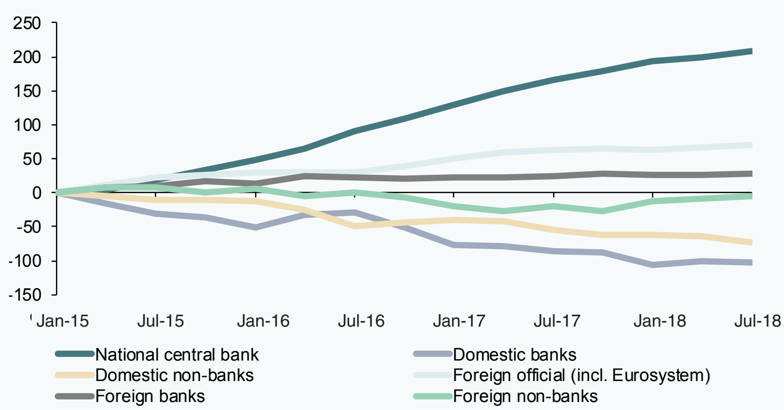
Source: International Monetary Fund and authors' own elaboration.

At this point, the rating agencies began to raise Spain's credit ratings, changing their outlooks or credit watches to 'positive'. As a result, beginning in 2015, foreign official investors and the Euro system, via the Bank of Spain, emerged as the main net buyers of Spanish sovereign debt, while the domestic banks and other non-bank Spanish investors reduced their holdings. It is also worth highlighting the intensification of this trend with the recovery in investment by the most risk-averse segments of the foreign investor base. This dates from January 2018 when Fitch and Standard and Poor's raised Spain's sovereign debt ratings to 'A'.

Exhibit 2

Trend in Spanish public debt holdings (central government debt) since the start of the PSPP (Jan. 2015)

Billions of euros



Source: International Monetary Fund and authors' own elaboration.

> "Since 2012, non-resident public holdings of Spanish and Belgian debt has increased, while the proportion of German, French and Dutch bonds held by foreign investors has diminished."

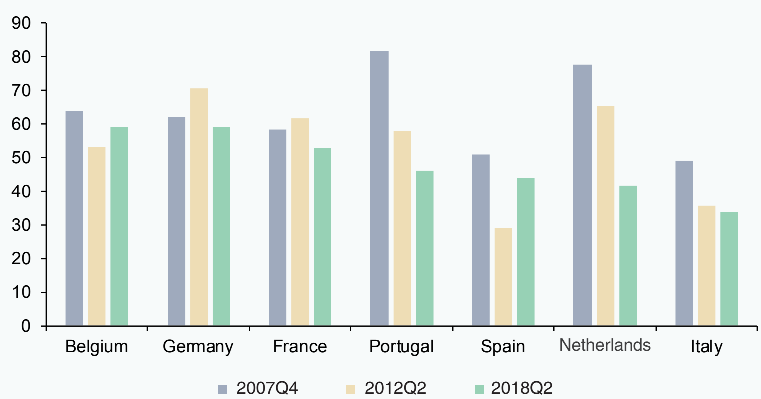
Non-resident holdings: A comparison with the core eurozone issuers

The years between 2008 and 2012 saw a notable decline in the funding by non-resident investors of debt issued by those countries most impacted by the sovereign debt crisis. At the same time, these investors increased their holdings of sovereign debt issued by Central and Northern European countries, such as France and Germany. Since 2012, this trend has largely reversed, with non-resident public holdings of Spanish and Belgian debt increasing, while the proportion of German, French and Dutch bonds held by foreign investors has diminished. Italy, however, is an exception, as non-resident investors have continued to decrease their holdings against a backdrop of heightened political volatility and economic stagnation.

The most recent figures available (Exhibit 4) provide a breakdown of Spanish public debt holdings between foreign and resident investors, which broadly aligns with the composition of Belgian and French debt holders on the foreign side and German debt holders on the domestic side. Nevertheless, substantial differences remain within both the resident and non-resident categories. Despite reducing their holdings, the percentage of public bonds held by the Spanish banks remains higher than that of the other core eurozone issuers. Also, the percentage held by non-financial resident investors is the lowest of any of the major eurozone sovereigns. Turning to foreign investors, a smaller percentage of Spanish debt is held by foreign official investors (central banks from outside the eurozone and other official institutions) compared to the French, Dutch and German sovereign bond markets.

Exhibit 3

Percentage of central government debt holdings by non-resident investors: 4Q07, 2Q12 and 2Q18 (most recent figures available)

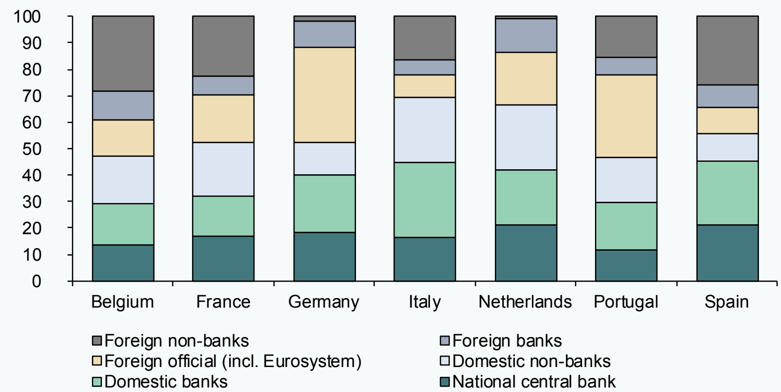


Source: International Monetary Fund and authors' own elaboration.

Exhibit 4

Comparison of the breakdown of central government debt holdings across the main eurozone issuers

Percentage



Source: International Monetary Fund and authors' own elaboration.

The close correlation between risk premium, credit ratings and non-resident holdings

The pattern of non-resident investor holdings of Spanish sovereign bonds has been closely correlated over the past 15 years with the spread paid by Spanish bonds relative to their German counterparts, the yardstick for the lowest sovereign risk in the eurozone (Exhibit 5). The decrease in Spanish debt holdings by non-resident investors between 2008 and 2012 –of nearly twenty percentage points, concentrated among the foreign banks and non-resident official sector– was accompanied by an increase in the spread over German bonds of over 450 basis points in 10 years. During this same period, the yield on Spanish debt in the secondary markets widened from close to 4% at the end of 2008 to over 7.2% in the summer 2012. Since then, the opposite phenomenon has taken place. The holdings of non-resident investors have increased by nearly 15 percentage points, while the risk premium has narrowed to just over 100 basis points and the yield on 10-year bonds has fallen to 1%.

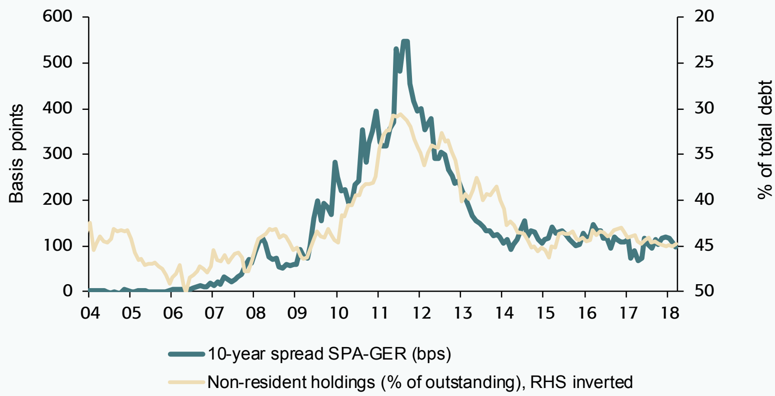
Looking at the demand for Spanish public debt among foreign investors since 2017, including risk-averse investors from Asia as well as central banks, foreign institutions and institutional investors, it becomes clear there has been a renewed appetite for Spanish bonds. Exhibits 6 and 7 illustrate these trends.

Asian investors, especially those from Japan, present an interesting case. [1] The Japanese balance of payments data reveal a sharp increase in purchases of Spanish public debt

“Since 2012, the holdings of non-resident investors have increased by nearly 15 percentage points, while the risk premium has narrowed to just over 100 basis points and the yield on 10-year bonds has fallen to 1%.”

Exhibit 5

Trend in the Spanish risk premium (10Y bonds) and Spanish public debt holdings by non-resident investors



Sources: Bank of Spain, Bloomberg data and authors' own elaboration.

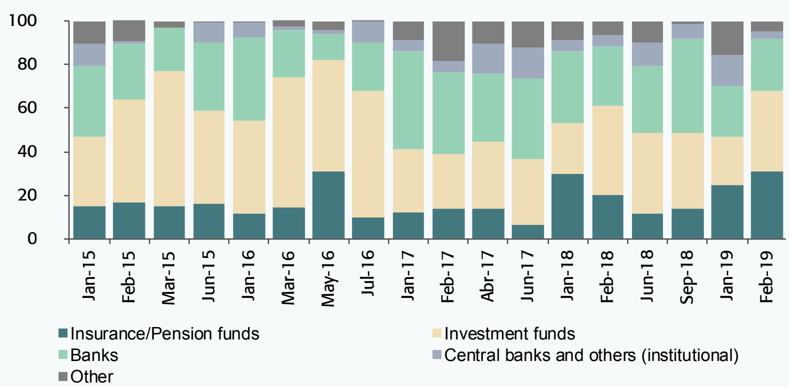
by Japanese investors since the start of 2018, growth that is far more pronounced than in other eurozone sovereign bonds markets such as Italy.

The simultaneous growth in capital flows from Japan and the rating upgrades by Fitch and Standard & Poor's serve as confirmation that for this class of highly risk-averse investors, Spanish debt has become a 'bankable' asset. Among the Japanese and other Asian investors from the public and private sectors, perceived default risk is crucial in assessing whether to buy or sell sovereign debt. The difference

Exhibit 6

Breakdown of demand by investor type in syndicated placements of medium- and long-term paper by the Spanish Treasury

Percentage

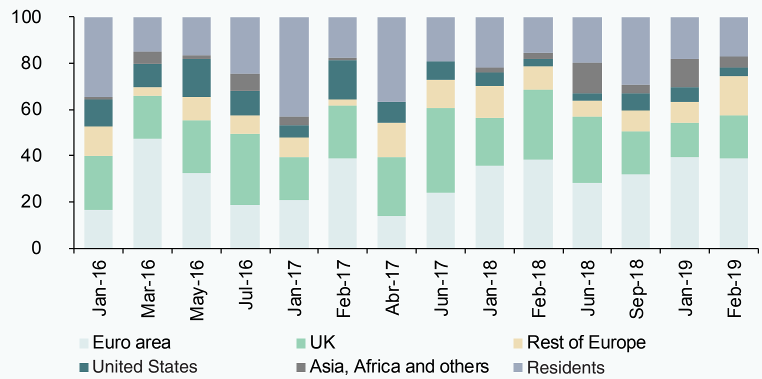


Sources: Spanish Treasury, Spanish banks and authors' own elaboration.

Exhibit 7

Breakdown of demand by investor nationality in syndicated placements of medium- and long-term paper by the Spanish Treasury

Percentage



Sources: Spanish Treasury, Spanish banks and authors' own elaboration.

in the probability of default, measured using cumulative average five-year default rates, for local currency sovereign debt is much lower for A-rated *versus* BBB-rated bonds. While the additional yield obtained by Japanese investors who have hedged their exchange rate exposure alongside their investments in Spanish bonds is relevant, it does not drive the divergent trends of investment inflows to Spain and Italy among this group of investors.

The role of Spanish banks as investors in Spanish public debt compared with the Italian market

There are three groups of purely domestic investors who, over the past 15 years, have accounted for the bulk of resident debt holdings (Exhibit 8). Historically, the Spanish banks have been the predominant purchasers of Spanish Treasury bonds. They stepped up this activity between 2008 and 2012, when non-resident investors closed out their positions. At that time, domestic banks accounted for around 50% of all resident-held debt, resulting in a share of total outstanding debt of close to 29%. By February 2019, thanks to the repurchasing of bonds by the ECB initiated in 2015, Spanish banks held around 17% of outstanding Treasury bonds and just over 30% of all public debt held by resident investors. In contrast, the Bank of Spain has increased its share of domestic and overall public debt holdings to 40% and 22%, respectively. As a result, domestic banks are no longer the main investors in Spanish debt, having been usurped by the euro system, via the Bank of Spain.

The other two investor groups consist of the insurance and pension fund sectors (for which there are separate figures since 2016 only)

> "The simultaneous growth in capital flows from Japan and the rating upgrades by Fitch and Standard & Poor's serve as confirmation that for this class of highly risk-averse investors, Spanish debt has become a 'bankable' asset."

> By February 2019, thanks to the repurchasing of bonds by the ECB initiated in 2015, Spanish banks held around 17% of outstanding Treasury bonds and just over 30% of all public debt held by resident investors.

and the government. Within the latter group, the Social Security Reserve Fund played a significant role in the early 2000s and at the height of the sovereign debt crisis when it concentrated its investments in Spanish public debt at the expense of other eurozone sovereign issuers.

Aside from the Bank of Spain, which was responsible for the execution of the ECB's public sector purchase programme (PSPP), all other resident investors have continued to play a fairly minor role. The savings invested by collective investment undertakings represented a scant 5% of domestic debt holdings at the start of 2019 (3% of total outstanding debt), while the public debt held directly by corporations and households, which in the years prior to the crisis accounted for nearly 9% of total resident holdings, currently stands at just over 0.5%.

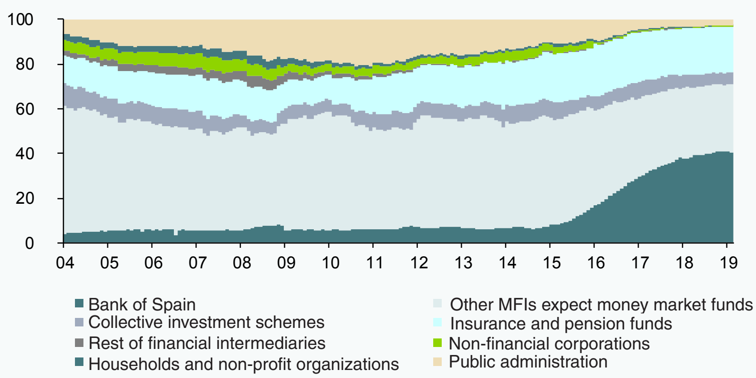
Beyond their percentage share of the total and steadily rising stock of outstanding debt (since October 2007), it is important to look at the pace of the banks' net purchases or sales and compare the trend with the Italian banks' situation in relation to that country's debt model.

As shown in Exhibit 9, the Spanish banks were net purchasers of Treasury bonds between 2008 and mid-2013. During that period, the portfolio of Spanish central government debt held by the Spanish banks went from a little over 70 billion euros to 305 billion euros. Since then, the banks have been net sellers, reducing their portfolios by over 110 billion euros, so that their portfolio of Spanish debt stood at 193 billion euros as of October 2018. That said, as of March 2019, the size of their portfolio has increased slightly by 13 billion euros to 206 billion euros.

Exhibit 8

Trend in the breakdown of Treasury debt holdings by domestic institutional sector (bills, bonds and strips)

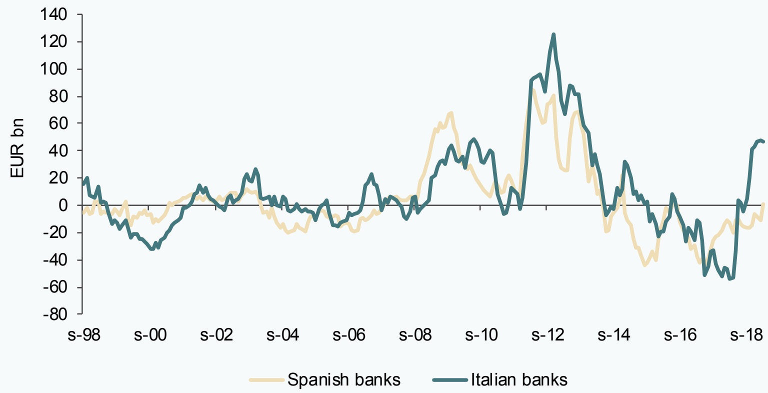
Percentage



Source: Bank of Spain and authors' own elaboration.

Exhibit 9

Net purchases of domestic government bonds by the home-market banks: Spain *vs.* Italy (12-month sum, billions of euros)



Source: European Central Bank and authors' own elaboration.

This structural downsizing of the banks' Spanish debt portfolios has been directly and significantly influenced by the deleveraging effort initiated by the domestic sector in 2013. By reducing the size of their sovereign exposures, the weight of these portfolios over total assets moved in the same direction. The volatility observed in the accumulated 12-month net purchases figure is the result of the active management of structural fixed-income portfolios by the Spanish banks in recent years, which is most evident in the materialisation of sizeable gains on financial trades.

The slight growth in this portfolio between October 2018 and March 2019 may be due to the slowdown in lending activity and the banks' attempt to prop up net interest income. However, it is our opinion that this should not be interpreted as a renewed need to finance the Treasury as a result of a dip in demand from the rest of its investor base. Although net purchases under the PSPP ended in December 2018, the ECB continues to reinvest the amounts received as the bonds mature and refinancing accounts for a significant part of the gross issues planned by the Treasury this year. As well, such an interpretation is inconsistent with the strong demand, particularly from non-residents, observed in the syndicated Spanish debt placements carried out in 2019, specifically the new 10-year bonds at the end of January and 15-year bonds issued the end of February.

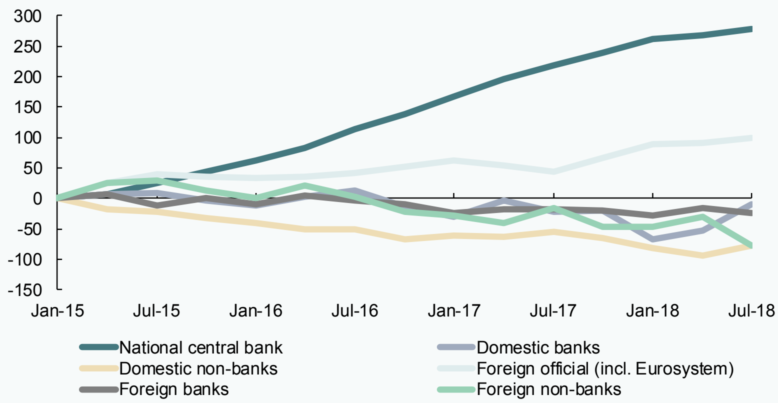
The comparison with Italy in terms of domestic banks' purchase of sovereign debt over the past 12-18 months is stark. A similarly divergent trend is observed in the composition of the investment base since early 2015, which is when the ECB started to buy back sovereign bonds. As shown in Exhibit 9, Spanish banks' purchase of debt on a net basis

> "Between 2008 and mid-2013, the portfolio of Spanish central government debt held by the Spanish banks went from a little over 70 billion euros to 305 billion euros."

Exhibit 10

Trend in Italian public debt holdings (central government debt) since the start of the PSPP (Jan. 2015)

Billions of euros



Source: International Monetary Fund and authors' own elaboration.

over the last 12 months (622 million euros to March 2019) has been negligible, while the Italian banks have added 47 billion euros worth of Italian Treasury debt securities to their balance sheets. Since 2015, the only investors to have increased their position in Italian debt have been the Bank of Italy, which has executed purchases under the PSPP, and official foreign investors (including the Euro system). The size of Italian banks' sovereign debt portfolios have remained the same since 2015, whereas the foreign banks and non-banks have increasingly been net sellers. In the case of Spain, the difference lies with the fact that foreign investors, particularly foreign banks, have increased their exposure in parallel with the Bank of Spain's buybacks, while the domestic banks and other domestic investors have reduced their positions sharply. These trends suggest a higher level of confidence among Spain's investor base compared to Italy.

The role played by the PSPP in the shifting structure of Spanish debt holdings and Target2 balances

The ECB's quantitative easing (QE) effort, specifically its public sector purchasing programme (PSPP), has had the effect of considerably increasing the amount of public debt held by the national central banks, which are tasked with the decentralised implementation of the programme. The Bank of Spain has gone from holding 35 billion euros of Spanish debt on its balance sheet to almost 244 billion in June 2018. This represents growth from 3.5% of total outstanding Spanish debt to 21.1%. As already discussed, the domestic banks have reduced

> "Although net purchases under the PSPP ended in December 2018, the ECB continues to reinvest the amounts received as the bonds mature and refinancing accounts for a significant part of the gross issues planned by the Treasury this year."

> "Spanish banks' purchase of debt on a net basis over the last 12 months (622 million euros to March 2019) has been negligible, while the Italian banks have added 47 billion euros worth of Italian Treasury debt securities to their balance sheets."

their share of debt holdings substantially (by a little over 13pp), as have the rest of the private and public resident investors. The only investors, aside from the euro system, to have increased their share of Spanish debt holdings have been the non-resident investor base. This includes both private (foreign banks) and, to a lesser degree, public investors (official).

The comparison with the rest of the eurozone sovereign issuers sets Spain apart and casts it in a positive light (Table 1). Firstly, among the major eurozone markets in which the PSPP has made purchases, Spain has experienced the biggest decrease of domestic banks' share of holdings. This has helped reduce sovereign debt linkages between the banks and the government (the so-called 'doom loop'). Secondly, it is the only market in which domestic investors, private and public, have been substituted by non-resident investors. Conversely, Italy lies at the other extreme of this comparison, where there is hardly any reduction to the potentially dangerous nexus of sovereign debt linkages, with the foreign investor base showing little recovery.

The decentralised implementation of the PSPP has had another consequence, namely the growth in the Target2 balance with the euro system. As in 2011-12, this expansion implies a sharp deterioration in Spain's net position relative to the Euro system and the country's net international investment positions (NIIP). However, precisely because the deterioration is attributable to the PSPP, it should be largely interpreted as an accounting effect and not a real worsening of Spain's international exposure.

Table 1 **Change in public debt holdings by institutional sector between Dec. 14 and Jun. 18**

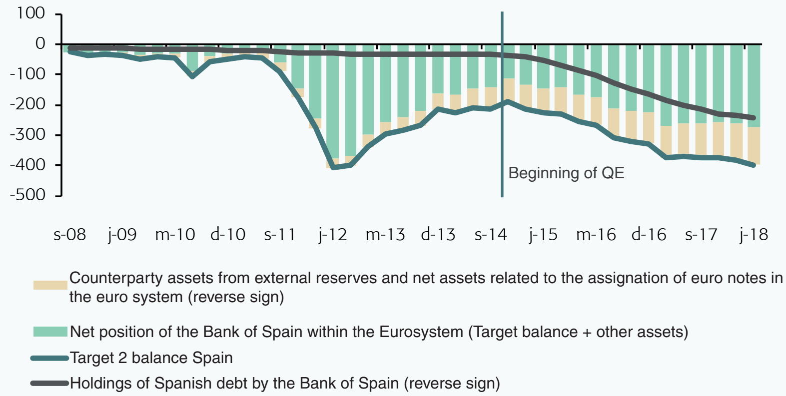
% of total outstanding debt

	Domestic banks	Central banks	Other residents (Public)	Other residents (Private)	Non residents
France	-3.2	15.9		-1.7	-11.0
Germany	-5.2	20.9	0.4	-0.7	-15.5
Italy	-2.7	13.6		-7.1	-3.8
Netherlands	-1.8	18.0		1.1	-17.3
Portugal	-2.8	17.1		-0.9	-13.4
Spain	-13.3	17.6	-4.3	-3.4	3.4

Source: Bruegel and authors' own elaboration.

Exhibit 11

Bank of Spain's Target2 balance and Spanish public debt holdings

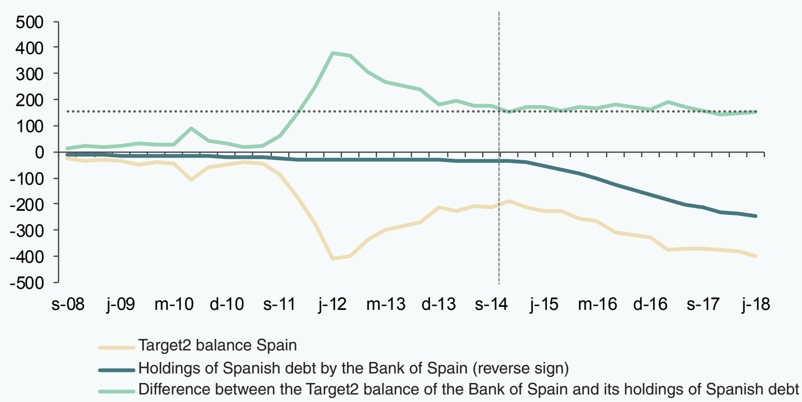


Sources: European Central Bank, Macrobond and authors' own elaboration.

When Spain's Target2 balance widened considerably at the start of 2011, it was related with a sharp outflow of capital fuelled by the euro crisis. Panic about the potential collapse of the euro prompted international investors to move from Spanish debt into that of core issuers. That Spanish debt was mostly bought by the domestic banks, which connect up to the Target2 system from the Bank of Spain. As a result, when it came time to settle those transactions, these banks' reserves were lower at the Bank of Spain, implying the opening of a Target2 liability between the Bank of Spain and the Euro system bank in the member state where the bonds were sold. Those movements could be read as a deterioration in Spain's

Exhibit 12

Difference between Spain's Target2 balance and the public debt held by the Bank of Spain



Sources: European Central Bank, Macrobond and authors' own elaboration.

NIIP, particularly if interpreted within the context of a possible break-up of the eurozone.

Since 2015, however, a different interpretation of this movement has emerged. The renewed widening of the Target2 balance has taken place in parallel with the growth in the public debt. This is due to the Bank of Spain (Exhibit 11), whose net position vis-a-vis the Eurosystem has weakened. That said, this has occurred by a smaller amount than the overall Target2 balance thanks to counterparty assets such as foreign reserves and net assets related with the assignation of euro notes in the Eurosystem to the Bank of Spain. This movement should not be read as a real obligation between Spain and the eurozone. Within a monetary area, these balances are merely accounting adjustments that reflect the decentralised implementation of monetary policy and the fact that reserves continue to be kept at each national central bank and not at the ECB.

Conclusion

The composition of the Spanish Treasury's investor base has undergone major changes over the last 15 years, and these developments can be grouped into three clearly defined time periods. This article focuses on the period beginning in the summer of 2012, which includes the launch of the ECB's public sector purchases program in January 2015. During this period, there have been many significant developments, which, by early 2019, led to a more robust and diversified investor base for Spanish sovereign debt. The economic recovery of the last five years has been stronger and longer than initially expected, allowing for the correction of several structural imbalances in the Spanish economy. Importantly, this recovery has continued without generating any of the excesses typical of prior periods of growth. The spread between Spanish and German sovereign bonds has trended downward over the past couple of years, thereby illustrating heightened confidence among Spain's investor base.

Looking forward, there are three factors worth watching in the coming years. First, the Spanish economy's performance in terms of growth and deficit consolidation. The continuity of the momentum in the sovereign debt ratings and, above all, investor confidence, depends largely on the continued reduction of public debt levels. The existence of a better capitalised, more efficient and profitable banking sector (albeit far less profitable than in the past), coupled with the absence of excessive leverage in the private sector, means that a potential cyclical slowdown should not culminate in a recession of the intensity experienced between 2009 and 2013.

The second factor is external and relates to ring-fencing the potential contagion from the Italian economy. The persistent economic stagnation observed in that economy has made its borrowing levels unsustainable outside the context of ultra-low rates that leave its refinancing costs very close to zero. In such circumstances, the emergence of internal political risk and the questioning of Europe's fiscal rules are potential destabilising factors. The growing sovereign debt linkages between the Italian banks and its government, shaped by the exodus of private foreign investors, further complicates the situation.

So far, episodes of sharp spikes in the spread between Italian bonds and their German counterparts have had, with the exception of May 2018, limited knock-on effects for Spanish (and Portuguese) spreads. However, the probability that the deterioration in Italy will intensity is not negligible, even after accounting for reinforcement of defence mechanisms and firewalls since 2010, including the ECB's ability to directly purchase sovereign debt.

The third and final risk factor is regulatory in nature and emanates from the possibility of changes in the prevailing treatment of banks' exposure to sovereign bonds. Although Spanish banks have scaled back their domestic bond holdings considerably, a potential change in the status quo could trigger significant changes in the make-up of the investor base. This could have a possible knock-on effect on the cost of Spanish bonds in the secondary markets. Any such change should be analysed in the context of the reinforcement and completion of the Banking Union project, which should be tackled comprehensively rather than on a piecemeal basis.

Notes

[1] There are no equivalent figures for China from either the Spanish or Chinese authorities. However the perception in the market is that this jurisdiction is playing a considerable and growing role in financing the Spanish Treasury in the last two years.

References

Alves, P., Millaruelo, A. and del Río, A. (2018). The increase in Target balances in the Euro Area since 2015. *Boletín Económico, diciembre*. Banco de España.

Amor, J. M. (2011). Vulnerability in the government debt markets of the Eurozone. *Información Comercial Española, ICE: Revista de Economía, 863*. https://dialnet.unirioja.es/servlet/articulo?codigo=3841981

Amor, J. M. and Arregui, M. (2012). Evolution of Spanish government debt holdings. *Spanish Economic and Financial Outlook, May 2012*. https://www.funcas.es/Publicaciones/Detalle.aspx?IdArt=20639

Analistas Financieros Internacionales. (2018). *Tenencias de deuda pública por las entidades financieras: situación en España, y posicionamiento ante posibles cambios regulatorios [The banks' public debt holdings: the situation in Spain and positioning vis-a-vis possible regulatory changes]*. Madrid: Funcas. https://www.funcas.es/publicaciones_new/Sumario.aspx?IdRef=9-08019

— (2019). Spain: External financial vulnerability after QE. Spain Weekly 29th March 2019. http://research.afi.es/ros/descargas/1845013/1238813/External-financial-vulnerability-after-QE.pdf

Arslanalp, S. and Tsuda, T. (2012). Sovereign investor base estimates. *Sovereign Investor Base Dataset for Advanced Economies*. IMF.

— (2014). Tracking Global Demand for Advanced Economy Sovereign Debt. *IMF Economic Review, Volume 62, Number 3*. Washington DC.

Baltensperger, M. and Call, B. (2018). *Euro-area sovereign bond holdings: An update on the impact of quantitative easing*. Bruegel. http://bruegel.org/2018/11/euro-area-sovereign-bond-holdings-an-update-on-the-impact-of-quantitative-easing/

José Manuel Amor and David del Val. A.F.I.- Analistas Financieros Internacionales, S.A.

BANK PROFITABILITY

Interest rates and bank margins under protracted, exceptional monetary policy

In response to growing evidence of an economic slowdown, the ECB has announced plans to push back its rate increases and implement a new round of extraordinary liquidity measures, further complicating banks' ability to raise their net interest income. Although the ECB could mitigate the negative effects of its monetary policy by creating a tiered deposit facility rate, such action would interfere with the central bank's forward guidance.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: In March 2019, the ECB announced it would halt the dismantling of its quantitative easing program, leaving the interest rates for the main refinancing operations, marginal lending facility and deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. Additionally, the ECB has announced the launch of a new round of its targeted longer-term refinancing operations programme (TLTRO). This decision represents a marked shift from autumn 2018 when the ECB indicated it was ready to adopt a more hawkish stance. However, stagnant economic data and a tightening of credit mean interest rates are now unlikely to rise before 2020. This prolongation of exceptional monetary policy has put downward pressure on eurozone banks' margins, leading some analysts to argue in favour of a tiered deposit facility rate to ease the burden on banks.

Notably, the ECB remains unconvinced of this measure's merit as it would undermine its forward guidance. Nevertheless, the ECB is likely to provide greater clarity on these issues as economic developments play out in the US and additional details over its new TLTRO-III programme are disclosed later this year.

Introduction

The European Central Bank's (ECB) monetary policy has garnered a significant amount of controversy concerning both its alleged benefits and disadvantages. Although the ECB's mandate to control inflation makes this dispute seem somewhat moot, it is impossible to overlook the importance and exceptional nature of monetary policy in the wake of the financial crisis. These policy decisions have generated two primary concerns. Firstly, there is the possibility that these policies are distorting the allocation mechanisms intrinsic to a market economy. Secondly, it may prove difficult to rollback these measures to achieve 'monetary policy normalization'.

In autumn 2018, the ECB announced the gradual withdrawal of its asset purchase programme (APP), which had become a liquidity benchmark and a panacea in the bond markets in recent years. As a result, observers expected the ECB would subsequently adopt a more hawkish approach to monetary policy. However, the first quarter of 2019 showed signs of an economic slowdown in both the US and the eurozone, prompting the regions' respective monetary authorities to halt the unwinding of quantitative easing (QE). This policy shift is evidenced by the decision to delay interest rate hikes and the maintenance of substantial liquidity injections. Unlike in the eurozone, expectations in the US shifted within a few short months, with some market observers now anticipating a fresh round of rate cuts by the Federal Reserve this year. Conversely, the underlying fundamentals of the eurozone economy suggest there is limited room for near-term rate cuts, as that could usher in a period of negative nominal benchmark rates. That said, the expected timing of rate increases has been pushed back until at least 2020. Additionally, there are plans to implement a new targeted longer-term refinancing operations programme (TLTRO III) in September 2019.

Under these circumstances, it is worth considering whether an indefinite period of a zero benchmark rate will disrupt financing flows and banking activities in the eurozone. In order to answer this question, it is necessary to analyse how the monetary environment may be affecting banks, particularly the flow of credit to the private sector and the banks' ability to generate margins. Such analysis is relevant not only in microeconomic or corporate terms but for macroeconomic and macroprudential reasons, as the banking sector is crucial for orienting and stimulating investment.

Monetary policy decisions: Extension of QE

During the first quarter of 2019, the main multilateral economic organisations and forecasters issued warnings of an impending global economic slowdown. While this slowdown's timing and intensity differed across regions, the continuing strength of US stock markets is still noteworthy, especially given the role of exogenous factors such as tax cuts. However, the Federal Reserve has also supported the stock market's rally through its more accommodative, wait-and-see policy stance. At a meeting held on March 7th, the ECB announced it would halt its dismantling of QE. The ECB's Governing Council decided

> "The first quarter of 2019 showed signs of an economic slowdown in both the US and the eurozone, prompting the regions' respective monetary authorities to halt the unwinding of quantitative easing (QE)."

Table 1 **Trend in official interest rates in the eurozone**

Date		Deposit facility	Main refinancing operations		Marginal lending facility
			Fixed rate tenders	Variable rate auctions	
			Fixed rate	Minimum bid rate	
With effect from					
2016	Mar. 16th	-0.4	0	--	0.25
2015	Dec. 9th	-0.3	0.05	--	0.3
2014	Sept. 10th	-0.2	0.05	--	0.3
	Jun. 11th	-0.1	0.15	--	0.4
2013	Nov. 13th	0	0.25	--	0.75
	May 8th	0	0.5	--	1
2012	Jul. 11th	0	0.75	--	1.5
2011	Dec. 14th	0.25	1	--	1.75
	Nov. 9th	0.5	1.25	--	2
	Jul. 13th	0.75	1.5	--	2.25
	Apr. 13th	0.5	1.25	--	2
2009	May 13th	0.25	1	--	1.75
	Apr. 8th	0.25	1.25	--	2.25
	Mar. 11th	0.5	1.5	--	2.5
	Jan. 21st	1	2	--	3
2008	Dec. 10th	2	2.5	--	3
	Nov. 12th	2.75	3.25	--	3.75
	Oct. 15th	3.25	3.75	--	4.25
	Oct. 9th	3.25	--	--	4.25
	Oct. 8th	2.75	--	4.25	4.75
	Jul. 9th	3.25		4	5.25
2007	Jun. 13th	3	--	3.75	5
	Mar. 14th	2.75	--	3.5	4.75
2006	Dec. 13th	2.5	--	--	4.5

Source: European Central Bank.

to leave the interest rates for the main refinancing operations, marginal lending facility and deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. These rates have remained steady since March 16th, 2016 (Table 1).

The ECB's Governing Council said it expects "the key ECB interest rates to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term." [1]

This is broadly equivalent to an extension of its QE effort, particularly in light of two other measures announced. Firstly, the ECB intends to "continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation". It also confirmed plans to introduce a new series of targeted longer-term refinancing operations (TLTRO-III), the terms and conditions of which have yet to be

> Much of the current debate in the banking sector is centred around determining the extent to which the deposit facility's interest rate can be increased to support banks' profitability.

defined. The new programme is scheduled to begin in September 2019. As discussed in the next section, these operations are designed to prop up a minimum flow of credit, which has weakened in recent months.

Through the enactment of these policies, the ECB has extended the liquidity available to the banking sector and undermined expectations of rate increases in the near term. However, eurozone banks are adversely affected by the prolongation of QE. During its press conference on April 10th, the ECB explained that "in the context of our regular assessment, we will also consider whether the preservation of the favourable implications of negative interest rates for the economy requires the mitigation of their possible side effects, if any, on bank intermediation." [2] However, the probability that the ECB enacts any policy changes that support banks' profitability seems unlikely in the near term. The banks had hoped that with official benchmark rates remaining at 0%, the ECB might reduce the impact of the negative deposit facility rate (-0.40), which the ECB charges on cash surpluses held with central banks. Much of the current debate in the banking sector is centred around determining the extent to which the deposit facility's interest rate can be increased to support banks' profitability. One of the primary solutions posited by analysts is the creation of a tiered deposit system under which some of the cash on deposit would be charged a lower rate of interest or none at all. In some cases, central banks could even offer remuneration for cash held. It is estimated that the eurozone banks are paying 7.5 billion euros of interest on the deposit facility. By comparison, US banks currently earn interest on their excess cash, with estimates suggesting remuneration could reach 40 billion dollars in 2019.

It is worth highlight that previous experiences with tiered deposit rates in Japan and Austria occurred under different monetary contexts and with broader objectives such as the maintenance of interest rates. One of the main reasons for the ECB's reluctance is that an increase in the deposit facility rate could send the wrong signal regarding the future direction of interest rates, which would be problematic given recent announcements that rates would remain unchanged until 2020.

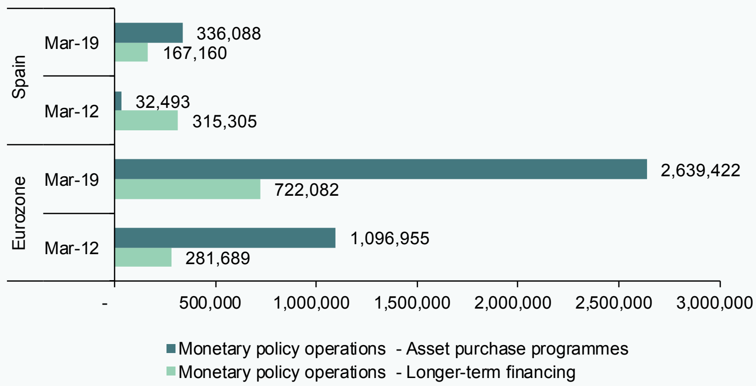
Credit and bank margins: Scant room for manoeuvre

The ECB's monetary policy measures, especially the new TLTRO-III, are designed to stimulate lending at a time when the eurozone economy has stagnated. The ECB stated on April 10th that the "the annual growth rate of loans to non-financial corporations has moderated in recent months, reflecting the typical lagged reaction to the slowdown in economic growth. At the same time, the annual growth rate of loans to households remained broadly unchanged at 3.3% in February." [3]

> Whereas at year-end 2018, the banks were expecting to increase their lending by 9% year-on-year in 2019, the March surveyed indicated that the banks' now anticipate credit growth to stagnate at 0%.

Exhibit 1

Eurozone financing: A comparison between the eurozone and Spain (2012-2019)



Source: Bank of Spain and authors' own elaboration.

In its April 9th bank lending survey for the first quarter of 2019 [4] the ECB stated that the "monetary policy measures, including the new series of TLTROs that we announced in March, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises." However, demand appears to have waned in the first three months of the year. Whereas at year-end 2018, the banks were expecting to increase their lending by 9% year-on-year in 2019, the March surveyed indicated that the banks' now anticipate credit growth to stagnate at 0%. The ECB believes that if the current longer-term operations mature (as is the case of most of the loans under the last programme, TLTRO-II), a new series of TLTRO will be needed to keep the current flow of credit going. That opinion has been reinforced by the feedback received from the banks in the lending survey. The banks stated that the TLTRO and asset purchase programmes have facilitated the growth in lending by easing their credit terms and conditions.

In Spain, the bank lending survey shows a tightening of both the supply and demand for credit. This data correspond with the broader trend across the eurozone, as well as revealing a slight contraction in credit. Specifically, bank loans to enterprises declined by 1.1% year-on-year in February. The stock of loans for house purchases similarly decreased by 1.1% year-on-year in February. In contrast, "other loans", essentially consumer credit, increased by 5%. However, the sum of the two effects was an outflow of financing for households of 1.57 billion euros in February.

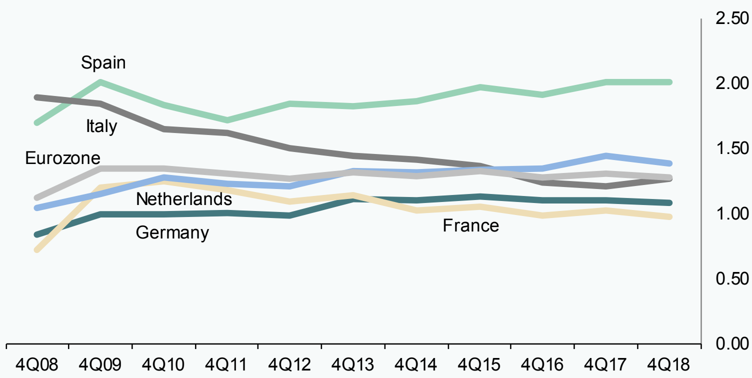
Since the QE programme continues to provide sufficient funds, the banks' central issue does not lie with their liquidity levels. As shown in Exhibit 1, eurozone banks have increased their use of the ECB's longer-term refinancing

> "Volume-wise, the contribution by net interest income in 2008 is not comparable to that of 2018 as today's European banking system is smaller and far more regulated."

Exhibit 2

Net interest income over average total assets across the eurozone's banking system (2008-2018)

Percentage



Source: ECB and authors' own elaboration.

operations from 281.69 billion euros in March 2012 to 722.08 billion euros in March 2019. The Spanish banks account for 23.14% of that financing. However, it is the asset purchase programme, which has increased from 1.09 trillion euros in the eurozone in March 2012 to 2.64 trillion euros in March 2019, that represents the core of the QE effort. The Spanish banks account for 12.73% of this financing.

These trends in credit, liquidity and interest rates have taken a toll on banks' margins, which, as shown in Exhibit 2, have flattened over the past 10 years. Volume-wise, however, the contribution by net interest income in 2008 is not comparable to that of 2018 as today's European banking system is smaller and far more regulated. The combined effect has been to lower business volumes and returns on equity. That said, Spanish deposit-takers represent a slightly higher percentage of net interest income to average total assets than their European counterparts.

Although it is hard to empirically quantify the transmission of official interest rate cuts to bank margins, multiple recent studies [5] suggest that a reduction in the central bank's price of money adversely affects the banks' net interest margins and returns on equity (ROE), although the effect is not linear. Moreover, the estimated adverse impact is higher when interest rates are unusually low.

Conclusion

Today, the relationship between the banking sector and monetary policy is heavily influenced by the persistence of exceptional liquidity conditions. The statements issued by the ECB in the aftermath of its April Governing Council meeting suggest that ultra-low interest rates may be adversely affecting financial intermediation. Nevertheless, the central bank's mandate means that macroeconomic conditions (inflation) must take precedence over sector-specific considerations (bank profitability).

It is conceivable that the ECB will continue to assess the possibility of a tiered deposit facility rate. This arrangement would enable the banks to pay less and earn more on their excess cash. Implementation of such a scheme will depend largely on the direction taken by the ECB's forward guidance. Specifically, the ECB may not alleviate pressure on the deposit facility until it has a clearer picture of when it can begin to raise interest rates.

Monetary decisions in the US will also influence the ECB's policy. If the risk of a recession increases and the Federal Reserve cuts its benchmark rate, the ECB will experience even greater pressure to leave rates untouched.

It is possible that the ECB's forward guidance will provide fresh insight into this issue towards the summer when it is due to disclose the terms and size of the announced TLTRO-III programme. At that point, the macroeconomic circumstances on both sides of the Atlantic may offer more clues as to what sort of policy scenario is likely to emerge.

Notes

[1] https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190410~c27197866f.es.html

[2] https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190410~c27197866f.es.html

[3] https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190410~c27197866f.es.html

[4] https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2019q1~25cd122664.en.html

[5] For a synopsis of those studies, refer to Pérez Montes, C. and. Ferrer Pérez, A. (2018). The impact of the interest rate level on bank profitability and balance sheet structure, *Financial Stability Review, 35*, November, pp. 123-152.

Santiago Carbó Valverde. CUNEF, Bangor University and Funcas

Francisco Rodríguez Fernández. University of Granada and Funcas

This page was left blank intentionally.

Downsizing, productivity and efficiency in the Spanish banking system

In response to the sharp correction in business volumes and profitability, Spanish banks have significantly pared back capacity by reducing their numbers of branches and employees. Nevertheless, closer analysis indicates that these capacity cuts have not led to an improvement in unit margin productivity or efficiency levels.

Ángel Berges, Federica Troiano and Fernando Rojas

Abstract: Since 2009, Spanish banks have made a concerted effort to cut capacity through both a reduction in employees and branches, with capacity cuts far greater in intensity in Spain than in most other major eurozone economies. This has occurred over three distinct periods, with mergers, recapitalisation requirements, the need to increase efficiency, and the recalibration of banks' distribution models providing the impetus for the banks' restructuring efforts. This downsizing trend was also initiated to increase productivity at a time of declining business volumes. Given that the reduction in the number of branches and employees exceeded the contraction in business volumes,

productivity, measured by employee and branch, has improved considerably. However, due to the combination of the volume effect and the unit margin effect, banks have experienced a significant drop in margin, thereby constraining any productivity measured in terms of the margin generated per employee and branch. Significantly, this occurred alongside an increase in per employee and branch unit costs, which has reduced banks' efficiency. This is explained by the fact that headcount cuts have focused more on branch staff than central service staff, which exhibit higher ULCs, and the way in which banks account for the costs associated with their workforce restructuring efforts.

Capacity cut more intensely in Spain than in Europe

In response to the financial crisis, the Spanish banking system began to downsize, a trend which has since spread across the EU. Whether measured by the change in the number of entities, branches or employees, capacity has been cut with far greater intensity in Spain than in most other major eurozone economies.

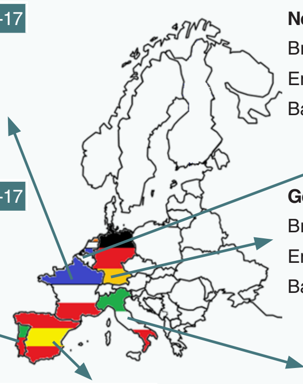
The commitment to capacity-cutting is especially evident in terms of the number of branch closures. As shown in Exhibit 2, it is possible to identify three distinct phases of this effort, each shaped by different forces.

The first phase of branch closures occurred primarily due to the numerous mergers that took place between 2009 and 2012. However, many of the merged entities had markedly different geographic footprints, presented scant overlap and, as a result, little scope for cost savings. This contributed to the relatively slow pace of branch closures.

Exhibit 1 **Comparison of capacity-reductions**

France	2017	Var. (%) 2007-17
Branches	37,209	-2.9
Employees	404,001	-3.1
Banks	422	-47.8

Netherlands	2017	Var. (%) 2007-17
Branches	1,619	-48.4
Employees	75,215	-31.6
Banks	92	-73.0



Portugal	2017	Var. (%) 2007-17
Branches	4,696	-28.1
Employees	46,238	-24.9
Banks	141	-19.4

Germany	2017	Var. (%) 2007-17
Branches	32,026	-17.6
Employees	619,059	-8.1
Banks	1,632	-19.4

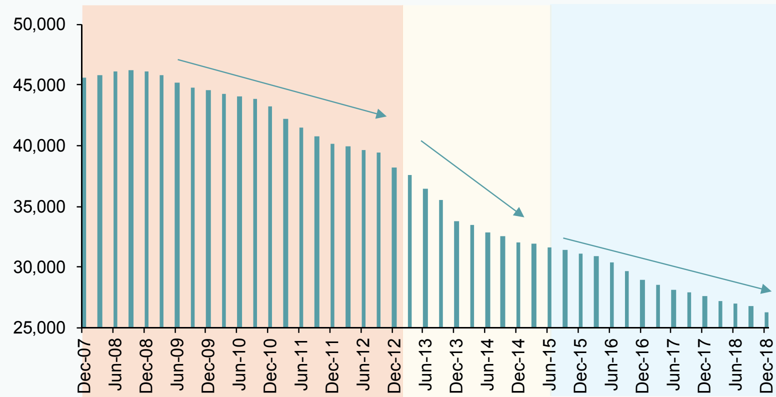
Spain	2017	Var. (%) 2007-17
Branches	27,480	-38.2
Employees	183,016	-31.6
Banks	206	-42.3

Italy	2017	Var. (%) 2007-17
Branches	27,430	-19.4
Employees	281,865	-12.8
Banks	546	-33.5

Source: Afi and ECB.

> "Healtheir banks that had avoided recapitalisation also engaged in downsizing in order to improve their relative efficiency."

Exhibit 2 **Branch network rationalisation by phases**



Source: Afi and Bank of Spain.

The second phase, which lasted from 2012 to 2015, saw a marked uptick in the pace of branch closures. That acceleration was clearly driven by recapitalisation requirements outlined in the Financial Assistance Programme, which included branch closures and staff reductions. These requirements set a trend across the rest of the Spanish banking system. Healtheir banks that had avoided recapitalisation also engaged in downsizing in order to improve their relative efficiency.

The final phase began in 2015 and is the result of a much more coordinated and forward-looking strategy. It occurred alongise irreversible changes in banks' business models due to the combination of stagnant business volumes and ultra-low rates, which meant a reduction of the added value provided by the so-called 'liability branches', whose main aim is to collect deposits in order to give credit in other areas where the demand is high. Additionally, bank branches faced waning customer loyalty in an increasingly competitive and digital landscape.

This shifting environment shines light on two major reasons for the restructuring of banks' branch network: (i) the need to continuously improve efficiency at a time when banks struggle to generate income; and, (ii) the recalibration of banks' distribution model.

Productivity in the wake of capacity cuts

It is clear that the significant downsizing of the Spanish banking system's capacity was sorely needed to raise productivity as business volumes, defined as the sum of lending and customer funds on and off the balance sheet, began to contract. Notably, the contraction

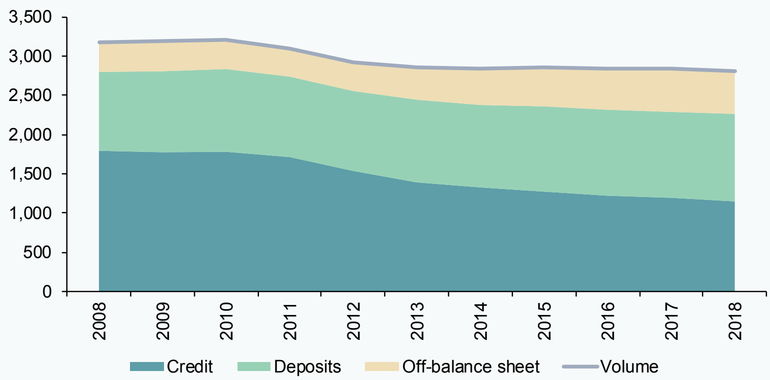
“ It is clear that the significant downsizing of the Spanish banking system's capacity was sorely needed to raise productivity as business volumes began to contract in the context of private sector deleveraging. ”

> Given that the reduction in the number of branches and employees exceeded the contraction in business volumes, productivity has improved considerably, measured per employee and branch.

Exhibit 3

Business volumes*

€ billion



** Calculated as the sum of loans, deposits and off-balance sheet funds.*

Source: Afi and Bank of Spain.

has been far more pronounced in lending than customer funds. This trend can be largely attributed to the private sector's (firms and households) deleveraging effort, which, judging by the ongoing year-on-year contractions in lending volumes, has yet to run its course.

The stability of customer deposits as the balance of outstanding credit shrank provided Spain's banks with liquidity buffers required as part of their financial assistance packages. Their stronger liquidity position allowed the banks to reduce the rates offered on deposits. This led to both a relative and absolute increase in off-balance sheet funds, mainly in the form of investment and pension funds.

Given that the reduction in the number of branches and employees exceeded the contraction in business volumes, productivity has improved considerably, measured per employee and branch.

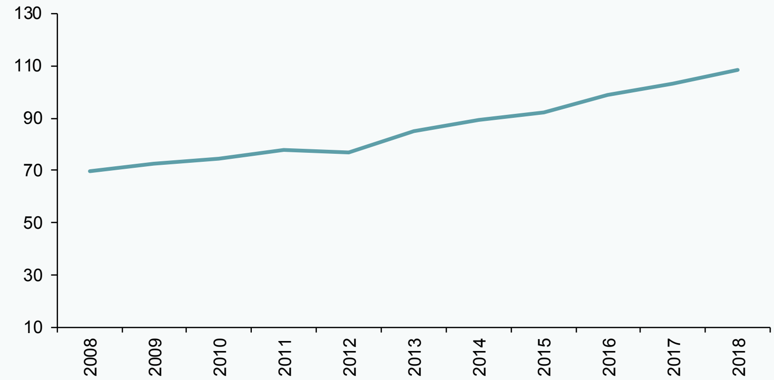
Nevertheless, a productivity measurement based solely on business volumes can be misleading. In addition to the contraction in business volumes, Spanish banks have seen their unit profitability, defined as the sum of net interest income, fees and commission income ('core income') over total business volumes, shrink considerably.

It is important to highlight that the improvement observed in the contribution by fees and commissions, which has been shaped above all by the growth in off-balance sheet funds under management, has not been sufficient to offset the drop in net interest income. This has occurred under pressure from the consistent downtrend in benchmark interest rates, which have lingered in negative territory for the last five years.

Exhibit 4

Business volume per employee

€ billion



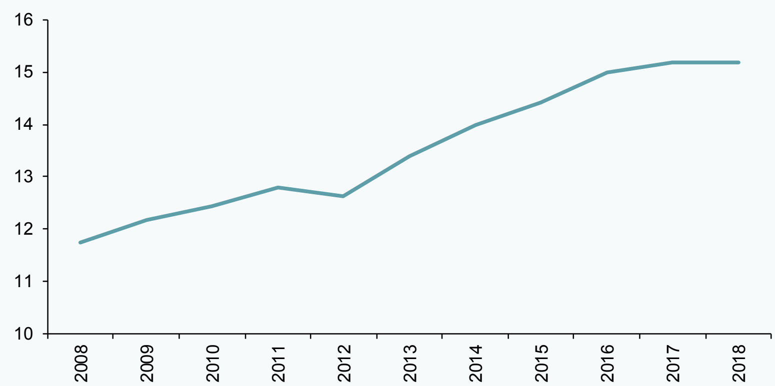
Source: Afi and Bank of Spain.

Due to the combination of the volume effect and the unit margin effect, banks have experienced a significant drop in margin. As a result, there has been minimal improvement in productivity measured in terms of the margin generated per employee and branch. This stagnation in productivity occurred along with an increase in unit costs, both per employee (unit labour costs or ULCs) and branch (total expenses per branch), which has reduced banks' efficiency. Efficiency, or cost-to-income, measured as the ratio between total costs and core income (net interest income plus fees and commission income)

Exhibit 5

Business volume per branch

€ billion



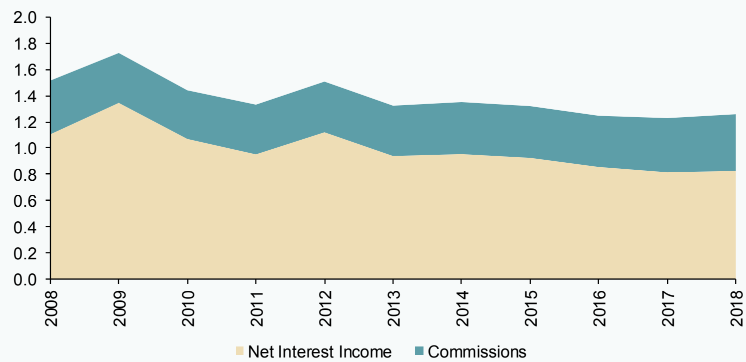
Source: Afi and Bank of Spain.

> "Despite some deterioration in efficiency, thanks to the previously discussed capacity cuts that mitigated the sharp reduction in the banks' core income, Spanish banks have fared relatively better than many of their European peers."

Exhibit 6

Core income over business volume

Percentage



Source: Afi and Bank of Spain.

has deteriorated by an increase of almost 10 percentage points.

This deterioration in efficiency is widespread across Europe. In fact, thanks to the previously discussed capacity cuts that mitigated the sharp reduction in the banks' core income, Spanish banks have fared relatively better than many of their European peers. In those countries where capacity cuts have been less intense, the deterioration in efficiency has been more pronounced.

Recalibration of the expense structure

This comparative analysis of banks' productivity and expenses brings us to a few additional observations about the expense dynamics in the Spanish banking system.

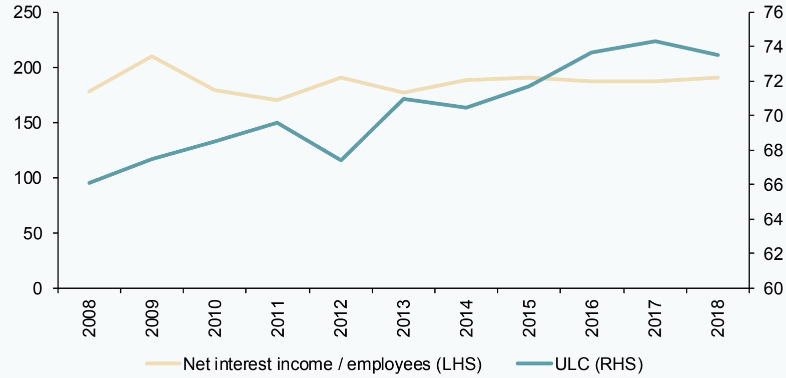
The first relates to the trend in unit labour costs (Exhibit 7). This metric has increased by 10% from 66,000 euros to 72,000 euros, which is virtually identical to cumulative inflation over the same period. The fact that ULCs have trended flat in real terms presents a paradox. Given that the workforce reductions achieved through early retirements and redundancy programmes have focused on older employees who generally account for higher unit labour costs, it would be expected that this metric would subsequently decrease in value. Interestingly, this decline has not occurred.

There are two possible reasons for this counterintuitive outcome. First, headcount cuts have focused more on branch employees than central service staff. The latter have experienced a heavier workload due to new regulatory requirements, analytical procedures and the collection of business intelligence. Consequently, the correlation between average employee age and ULCs is

Exhibit 7

Core income per employee and ULC

€ thousand



Source: Afi and Bank of Spain.

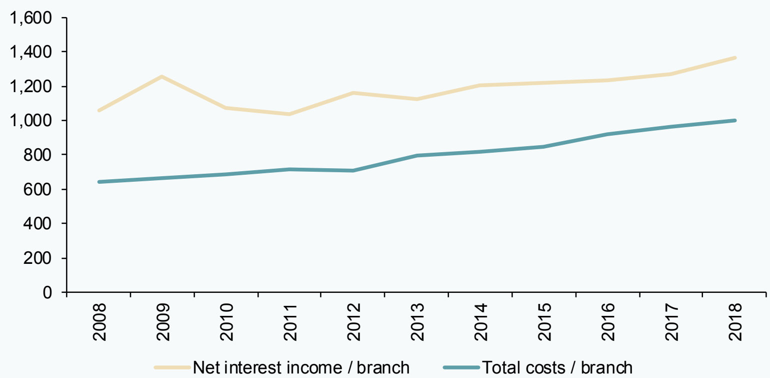
less direct than initially thought. In fact, ULCs were higher in the banks' central services than in their branch networks for every age bracket.

The second explanation has to do with how the banks accrue and account for the costs associated with their workforce restructuring

Exhibit 8

Core income and total costs per branch

€ thousand



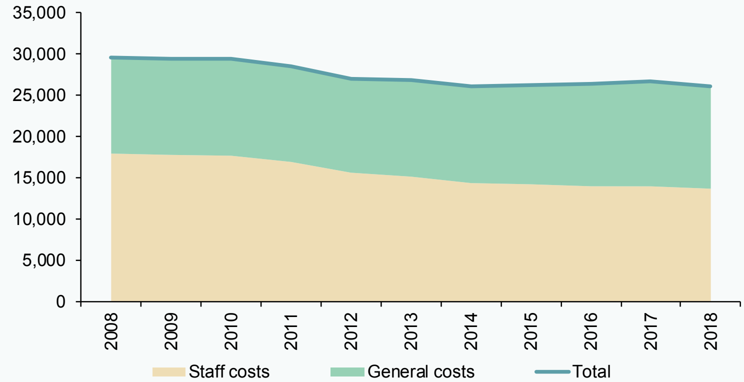
Source: Afi and Bank of Spain.

> "Consequently, the correlation between average employee age and ULCs is less direct than initially thought."

Exhibit 9

Breakdown of operating expenses

€ million



Source: Afi and Bank of Spain.

efforts, specifically the termination benefits negotiated for the employees who retired early or took advantage of redundancy programmes. Although these benefits are non-recurring, they are recognised under staff costs on the banks' income statements. As a result, these costs have persisted, albeit rotating from one bank to the next, and are presently inflating ULCs, thereby distorting the outcomes of banks' continual efforts to resize their workforce.

Also noteworthy is the significant recalibration of the mix between the two major expense headings of staff costs and other operating expenses. In the traditional banking model, the customer relationship is nurtured through the branches. The expense structure mirrored this situation, with staff costs accounting for almost two-thirds of total expenses. That percentage has shifted considerably, highlighting the structural transformation of the banking business towards a model where the customer relationship –and business origination in general– is far more technology driven.

Conclusion

The sharp capacity cuts observed in the Spanish banking system have mitigated the contraction in business volumes. While productivity measured in terms of business volumes has improved, productivity measured in terms of unit margins (core income per employee or branch) has not. Additionally, the capacity cuts have failed to translate into a proportionate reduction in expenses. As a result, Spanish banks' level of efficiency has deteriorated, albeit less than other large European banking systems.

Two factors may explain this dichotomy of capacity cuts and reduction in costs. Firstly, accounting systems' recognition of extraordinary costs associated with the workforce restructuring (*e.g.* termination benefits) has delayed the materialisation of the associated labour cost savings. Secondly, a significant proportion of costs are associated with banks' traditional business models. The emerging operational shift is far more technology intensive and less dependent on physical branches.

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

Recent key developments in the area of Spanish financial regulation

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

Royal Decree creating the Financial Stability Council Macroprudential Authority, establishing its legal regime and implementing certain aspects related to macroprudential instruments (Royal Decree 102/2019, published in the official state journal on March 2nd, 2019)

The purpose of this Royal Decree is the creation of the Financial Stability Council Macroprudential Authority (AMCESFI for its acronym in Spanish) as the national macroprudential authority in charge of identifying, preventing and mitigating the development of systemic risk. In tandem with the three financial sector supervisors, it will facilitate the financial system's sustainable contribution to economic growth. The following constitute key aspects of the Royal Decree:

- AMCESFI will replace the Financial Stability Committee and will have the ranking of a collegiate body under the Ministry of the Economy and Business. It will be composed of a Board, Technical Committee and any sub-committees duly established.

- The Board will meet at least once every six months. The Minister of the Economy and Business will serve as its chair, while the Governor of the Bank of Spain will act as vice-chair. Other members include the President of the Spanish securities market regulator (CNMV), the Sub-Governor of the Bank of Spain, the Secretary of State for the Economy and Business Support, and the head of the insurance and pension sector watchdog (DGSFP). The State Attorney from the General Secretariat of the Treasury and International Financing will act as Secretary of the Board, but will not exercise a vote.

- The Royal Decree stipulates the duties of the Board members and the regime for calling Board meetings, including quorums. It also outlines the composition of the Financial Stability Technical Committee and its members' duties.

- The AMCESFI's duties will focus on oversight and analysis of factors that could lead to systemic risk in the financial sector. Based on the results of its work, the AMCESFI is entitled to issue opinions, alerts and recommendations, which will be made public, along with the responses by the recipients of the recommendations, unless such action could undermine financial stability.

- The AMCESFI will issue an annual report that compiles and analyses the main sources of systemic risk identified and the opinions, alerts and recommendations the Board has decided to make public.

- In terms of cooperation and coordination, the legislation itemises the national bodies and authorities which must collaborate with and provide information to the AMCESFI. It also outlines the AMCESFI's duty to collaborate with the macroprudential authorities of other member states, and report any recommendations and alerts issued to the ESRB and the ECB whenever the recommendation issued affects institutions under its direct supervision.

Lastly, the Royal Decree enacts macroprudential instruments that may be adopted by the Bank of Spain, the CNMV and the DGSFP and implements the procedure for reporting the proposed use of such instruments to the AMCESFI prior to their adoption.

Ministerial Order on payment accounts with basic features, the procedure for switching payment accounts and requirements for comparison websites (Ministerial Order ECE/228/2019, published in the official state journal on March 5th, 2019)

The purpose of this Order is to enact implementation provisions addressing the maximum fees and commissions, publicity, reporting and other aspects concerning payment accounts with basic features (basic payment accounts). It also outlines the the procedure applicable to the switching of payment accounts in Spain, the facilitation of cross-border account opening in other EU member states and additional requirements for fee comparison websites.

In relation to basic payment accounts, the following are the main requirements:

- Institutions may charge customers a single and aggregate monthly fee of no more than 3 euros for the provision of the services included in a payment account with basic features. Those services shall include up to 120 annual payment transactions in euros within the EU (direct debits, transfers and standing orders).
- Institutions may pass on fees or expenses to their customers charged by third parties as a result of the withdrawal of cash from ATM machines.
- Institutions are obliged to apply AML/CTF legislation to the opening and use of basic payment accounts.
- Denial of an application to open a basic payment account, the unsubstantiated closure of an account or any other controversy may be the subject of a claim by a customer.
- The Order stipulates the information which banks must provide free of charge at their establishments, on their websites and other distribution channels.

As for the switching of payment accounts, the following is worth highlighting:

- The switch shall be initiated by the payment service provider at the request of the customer. The payment service provider will bear the costs of the transfer.
- It stipulates the steps payment service providers must take to comply with customers' requests to switch and the relevant deadlines.
- It specifies the information that must be provided to customers free of charge as well as the procedure for transferring the outstanding credit balance and terminating the payment account framework agreement.

In terms of fee comparison websites, it establishes additional requirements for market participants that offer these kinds of services.

In addition, it stipulates that the "statement of fees" may be delivered to customers together with, but not integrated within, the notification outlined in the Transparency Order. It also provides the Bank of Spain with the power to establish and modify the accounting rules and templates applicable to the financial statements of credit establishments.

Law regulating mortgage loan agreements (Law 5/2019, published in the official state journal on March 16th, 2019)

The purpose of this legislation is to transpose Directive 2014/17/EU of the European Parliament and of the Council, of February 4th, 2014, on credit agreements for consumers relating to residential real estate into Spanish law.

Law 5/2019 concerns itself with three areas: transparency and conduct rules; the legal regime governing credit intermediaries and lenders that offer real estate credit; and the sanctions applicable in the event of any breach of obligations thereunder.

The law applies to loan agreements granted by parties who perform such activity professionally when the borrower or guarantor is a natural person and the purpose of the agreement is to grant loans secured by a mortgage or another comparable security or right over residential property. It also applies when the purpose of the agreement is to grant loans for the acquisition or retainment of property rights over land or existing or planned buildings, so long as the borrower or guarantor is a consumer. Certain agreements are carved out, such as those awarded by an employer to its employees. These agreements are made on an ancillary basis, free of interest or at a below-market Annual Percentage Rate of Charge (APRC). They are also unavailable to the general public.

Some of the most significant aspects of Law 5/2019 are itemised below:

- As for the rules of conduct, lenders, intermediaries and their representatives are required to act honestly, impartially, transparently and professionally. They must uphold borrowers' rights and interests when formulating, awarding and providing intermediation or advisory services related with credit products and when executing loan agreements.

- The Law stipulates the basic information which must feature in real estate credit advertisements. Specifically, the borrowing rate, the APRC, the repayment scheme, and the borrower's right to give the mortgaged property in lieu of payment in order to release borrowers from their debts.

- Lenders are required to assess in detail the creditworthiness of potential borrowers and guarantors prior to executing a loan agreement. For this purpose, they must institute internal procedures. An incorrect assessment of creditworthiness shall not give the lender the right to terminate the agreement unless it can be demonstrated that the borrower purposely hid or falsified information. Any denial of a loan application must be notified in writing and duly substantiated.

- Properties must be officially valued before the execution of a loan agreement by an appraisal firm, the appraisal arm of a credit institution and/or a certified professional that is independent of the lender or intermediary.

- It stipulates the transparency obligations, such as the duty to file clauses that fall under the general terms of contracting in the General Contracting Terms and Conditions Register. Firms must also provide customers with the European Standardised Information Sheet (ESIS), the standardised clause disclosure sheet (FiAE for its acronym in Spanish) and the interest rate scenario analysis, among other documents.

- As for the rules of conduct, staff must at all times meet minimum knowledge and competence requirements with respect to the products they are selling.

- Tying practices are prohibited with certain exceptions. Bundling practices are allowed, with certain limitations.

- It sets out the principles governing remuneration policies for staff responsible for the assessment of borrowers' creditworthiness and the issuance of loans. It also requires the establishment of remuneration policies and procedures for the staff providing advisory services.

- It establishes the terms for the provision of advisory services.

- If a foreign currency loan agreement is issued, borrowers are entitled to convert the loan into an alternative currency.

  The interest rate on the loan may not be modified at the expense of the borrower during the term of the loan without the mutual agreement of both parties. Any change must be set down in writing. It is prohibited to set a floor rate of interest or negative interest rate.

- The Law regulates early repayment, entitling borrowers to prepay some or all of the amounts owed at any time prior to the agreed-upon termination date. Lenders are not permitted to collect compensation or fees for full or partial early repayment other than: (i) 0.15% on variable-rate loans or variable-rate tranches if the prepayment takes place within the first five years and 0.25% if it takes place during the first three years; (ii) 2% on fixed-rate loans or fixed-rate tranches if the prepayment takes place during the first ten years and 1.5% if it occurs thereafter; and, (iii) in the case of portability or subrogation, compensation is limited to 0.15% of the sum prepaid during the first three years of the term of the loan agreement and no compensation or fees may be demanded after year three.

- Early expiration shall be triggered if the following circumstances are met simultaneously: (i) the borrower is in default on some of his principal or interest payments obligations; (ii) the amount by which the borrower is in arrears is equivalent to at least 3% of the initial size of the loan, if the default occurs during the first half of the loan agreement term or 7% if it occurs during the second half; and, (iii) the lender has sought payment from the borrower, granting the borrower at least a month to remedy the situation and warning that failure to perform will accelerate full repayment of the loan.

- The corresponding late-payment interest permitted is the borrowing rate plus three percentage points during the period when such interest is enforceable.

Royal Decree establishing a regime for the provision of payment accounts with basic features free of charge to unbanked or vulnerable consumers (Royal Decree 164/2019, published in the official state journal on April 3rd, 2019)

The key aspects regulated by Royal Decree 164/2019 include:

- Credit institutions may not demand a fee for the provision of basic payment account services (subject to the limitations provided for in Order ECE/228/2019 on payment accounts with basic features, the procedure for switching payment accounts and requirements for comparison websites) when all of the holders and authorised users of a basic payment account are considered 'vulnerable' or 'at risk of financial exclusion'.

- To determine the condition of 'vulnerable' or 'at risk of financial exclusion', the Royal Decree establishes annual pre-tax income thresholds as a function of the number of household members. Additionally, none of the members of the household in question may directly or indirectly own or hold claims over properties other than the main household residence or be the beneficial owners of corporate enterprises.

- Consumers must be informed in writing and free of charge of the decision to award or deny a free basic payments account within a maximum of 30 days of the customer providing all required information.

- Credit institutions must provide information regarding the entitlement conditions for a free basic payments account.

- The duration of entitlement to a free basic payments account shall be two years, unless the institution can certify that the customer has ceased to qualify as vulnerable or at risk. Institutions must provide their customers with notice at least two weeks before the end of the above two-year term of the renewal or loss of their entitlement to the free basic payments account. Once continued entitlement has been certified, free account access shall be extended for successive two-year periods.

- Credit institutions are required to safeguard the documentation related with the Royal Decree for at least six years, regardless of whether or not entitlement to a free account has been granted.

Bank of Spain Circular on the Fee Information Document and Statement of Fees and payment account fee comparison websites (Circular 2/2019, published in the official state journal on April 4th, 2019)

The purpose of this Circular is to complete the regulations stipulated in Royal Decree-Law 19/2017 on payment accounts with basic features, payment account switching and the comparability of fees and the associated implementing Order ECE/228/2019. It took effect the day after its publication. The following aspects of the new Circular are worth highlighting:

- It establishes the list of the most representative services associated with a payment account.
- It implements the obligation to furnish existing or prospective customers, free of charge and in good time before executing a payment account contract, a Fee Information Document containing the fees applicable to each of the services on the list of the most representative services linked to a payment account.
- It establishes additional requirements regarding the Statement of Fees that payment service providers must provide annually to their customers. This must include all of the fees and commissions charged during the prior year for services associated with their payment accounts, including applicable interest rates.
- In relation to the payment account fee comparison website to be managed by the Bank of Spain, the Circular establishes the requirement that payment service providers send the Bank of Spain the Fee Information Documents corresponding to each type of account they offer, indicating the corresponding account type category.
- As for operators of comparison websites other than the Bank of Spain, it stipulates the format and contents of the compliance statement they are required to provide to the Bank of Spain before initiating their activities or in the event of a change of data.
- It regulates the information which must be regularly submitted to the Bank of Spain. Credit institutions must send a document with information about their basic payment accounts annually. Payment service providers are required to submit a document with information about the account switching service.

  Elsewhere, it regulates the quarterly submission by credit institutions of the average fees or charges they have levied on their customers for transfer and direct debit services (in euros) within the EU during the previous year.
- It amends Bank of Spain Circular 5/2012 on banking service transparency and responsible lending to align the information requirements regarding interest rates and fees with the provisions of Circular 2/2019.

CNMV Circular amending CNMV Circular 1/2009 on CIU categories by investment strategy (Circular 1/2019, published in the official state journal on April 8th, 2019)

The purpose of this Circular is to align the definitions of 'investment strategy of a monetary nature' included in the Annex of Circular 1/2009 with the types of money market funds contemplated in Regulation (EU) 2017/1131 of the European Parliament and of the Council, of June 14th, 2017, on money market funds.

Specifically, the 'euro fixed income' category has been split into two components ('short-term euro fixed income' and 'euro fixed income') in order to provide unitholders with more accurate information about the interest rate risk borne, thereby differentiating the two investment strategies as a function of the portfolios' maturities. Both categories are entitled to have foreign currency exposure of up to 10%.

This page was left blank intentionally.

Spanish economic forecasts panel: May 2019*

Funcas Economic Trends and Statistics Department

GDP is estimated to grow by 2.2% in 2019, unchanged from the previous forecast

The Spanish economy grew by 0.7% in the first quarter of 2019, according to the provisional numbers, 0.2 percentage points above the consensus forecast. The contribution of domestic demand increased to 0.5 percentage points, and the remaining 0.2 percentage points came from external demand, due to a bigger drop in imports than in exports. Looking to the start of the second quarter, the few indicators already available indicate a deterioration compared to the first-quarter averages (PMI and confidence indices), except for job creation (Social Security affiliation numbers).

The consensus forecast for GDP growth in 2019 is unchanged at 2.2%, despite the fact that six analysts have raised their estimates and two have cut them. The projected quarterly profile is unchanged at 0.5% for each quarter.

Domestic demand is expected to contribute 2.3 percentage points, down 0.1 percentage points from the last set of forecasts. The revised estimates for growth in investment and consumption are particularly noteworthy. The former have been revised upwards, particularly investment in machinery and capital goods, while the latter have been cut, in terms of both public and private spending. The foreign sector is expected to detract from GDP growth by 0.1 percentage points, marking a slight improvement from the last Panel estimates. This is due to the larger reduction in import growth relative to exports.

Growth for 2020 also unchanged at 1.9%

The consensus forecast for GDP growth in 2020 is unchanged at 1.9%, in line with the soft landing which is expected to materialise as from the third quarter of 2020 (Table 2). This forecast coincides with that of the Spanish government, the Bank of Spain and the leading international organisations.

The anticipated economic deterioration is attributable to panelists' prediction of a lower contribution by domestic demand, driven by a broad-based slowdown in investment, as well as in both private and public spending. The foreign sector's contribution is expected at zero.

Subdued inflation in 2019 and 2020

Inflation picked up slightly during the first four months of 2019 due to higher oil prices and the timing of the Easter break (April). Specifically, oil prices started the year at around $50 per barrel and proceeded to trade at around $70 per barrel in April. The euro also weakened against the dollar during the period.

Nevertheless, the consensus forecast for average inflation this year has been trimmed by 0.1 percentage points to 1.3%. Inflation is expected to fall back from current levels and then hold steady during the central months of 2019 before rising again near the end of the year to a year-on-year rate of 1.6% in December (Table 3), up 0.2 percentage points from the last set of forecasts. In 2020, inflation is expected to come down slightly to average 1.5% (unchanged from the last report) and then end the year at 1.3% year-on-year. Core inflation is estimated at 1% and 1.2% in 2019 and 2020, respectively.

Strong job creation

According to the Labour Force Survey (EPA for its acronym in Spanish), employment increased by 0.8% in the first quarter, adjusted for seasonal effects. The unemployment rate declined to 14.7%, two percentage points less than a year ago.

The growth in the number of Social Security contributors was slightly lower than the data from the EPA. However, that growth accelerated in the months of March and April, as did the rate of decline in registered unemployment, pointing to a strong second-quarter performance.

According to the consensus forecasts, employment will increase by 2% in 2019 and 1.7% in 2020, up 0.1 percentage point from the last estimates for both years. Based on the forecasts for growth in GDP, job creation and wage compensation, it is possible to derive implicit forecasts for growth in productivity and unit labour costs (ULCs). Thus, productivity would grow by 0.2% in 2019 and 2020 (down 0.1pp from the last set of forecasts) and ULCs would grow by 1.6% in both years (up 0.2pp).

The average annual unemployment rate is expected to continue to decline to 13.8% in 2019 and 12.7% in 2020 (down 0.1pp from the last survey in both years).

Narrowing external surplus

According to the revised figures, Spain recorded a current account surplus of 11.3 billion euros in 2018, down 48% from 2017. In the first two months of 2019, the trade balance deteriorated year-on-year, while the income deficit widened, so that the current account deficit deteriorated by 1.9 billion euros.

The consensus forecasts continue to call for a current account surplus of 0.7% of GDP in 2019 and 0.6% in 2020.

Slight reduction in the public deficit but targets expected to be missed

Spain's public deficit was equivalent to 2.5% of GDP in 2018, compared to 3% the year before. The improvement was driven by higher growth in revenue relative to expenditure and came at the central and regional government levels. In the first few months of 2019, the state and Social Security deficits have both deteriorated year-on-year, whereas the regional government deficit has narrowed.

The analysts expect the public deficit to decline to 2.3% of GDP in 2019 and 1.9% in 2020, down 0.1 percentage point from the last set of forecasts. Those numbers would imply missing the government's targets by 0.3 and 0.8 percentage points, respectively. Relative to the official targets agreed upon with the EU, this would be a deviation of 1.0 and 1.4 percentage points, respectively for 2019 and 2020.

Less propitious external environment, particularly in Europe

Since the last report, the downturn in the global economy has been confirmed. Global trade is feeling the effect of the tensions between the US and China and may be growing at less than 3% (*versus* 4% in 2018). Low global manufacturing PMIs and weak order intake numbers in recent months suggest industry is being affected by the slowdown in trade. As a result, in its recent Spring projections, the European Commission cut its estimates for global growth this year by 0.3 percentage point, to 3.2%.

Europe has become one of the main sources of global economic weakness, as anticipated in the last Panel. For 2019, the European Commission is currently forecasting growth of 1.4% in the EU and 1.2% in the eurozone, down from 2018 by 0.6 and 0.7 percentage points, respectively. Economic data also point to a weak German economy and a slow emergence from recession in Italy. On the plus side, the British economy is faring better than many expected in the face of ongoing Brexit uncertainty.

The weaker external climate, particularly in Europe, is evident in analysts' assessments. Most believe that the European context is unfavourable for the Spanish economy and will remain so over the coming months (no major changes from the March report). All of the analysts, bar one, are neutral or pessimistic about the climate outside of the EU, with the majority anticipating that these dynamics will continue for the next few months.

Monetary policy is viewed as expansionary and expected to remain so by most analysts

The ECB is sticking to its expansionary policy, in response to ongoing economic developments and the trend in inflation, which, despite the oil price rally, remains significantly below the targeted level of 2% for the eurozone as a whole. Markets do not expect the main refinancing operations rate to enter positive territory before the second quarter of 2020. The ECB has also announced an extension of the Eurosystem policy of reinvesting in public debt securities over the coming months, while signalling that the future withdrawal of these quantitative-easing measures will be gradual. It has also announced plans for a third round of targeted longer-term refinancing operations (TLTRO-III), as from September. 12-month Euribor remains in negative territory, having decreased slightly from the rate prevailing at the time of the last report.

The expansionary nature of monetary policy is reflected in the analysts' feedback. Nearly all believe that the ECB's key intervention rate will stay at 0% all year. The benchmark rate is forecast to rise to just 0.28% by the end of 2020, a trend unchanged from the March estimates. Likewise, the Euribor is not expected to rise until early 2020, ending the year at under 0.3% (no major change from the last set of forecasts). The yield on 10-year Spanish government bonds is expected to stand at 1.43% at the end of 2019 (down 24 basis points from the March assessment) and at 1.69% at the end of 2020 (down 19 basis points).

Slight euro appreciation expected against the dollar

The euro has been depreciating against the dollar since March and is currently trading at around 1.12, down 7% year-on-year. That trend reflects portfolio recalibration triggered by the spread in interest rates between both sides of the Atlantic, as well as relative positioning in the economic cycle. Given that economic conditions are expected to converge somewhat over the coming quarters, analysts believe that the euro could make up some of the ground lost. The consensus forecast is for an exchange rate of 1.19 at the end of 2020 (close to the March forecast).

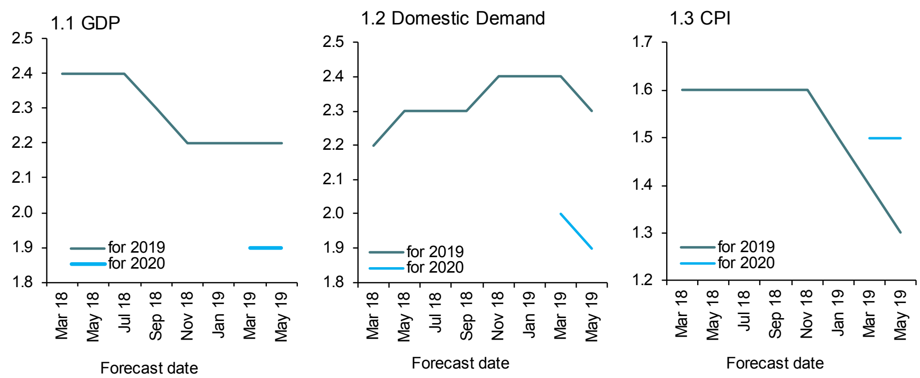
All of the analysts see fiscal policy as expansionary

All of the analysts, except two, continue to characterise monetary policy as expansionary. In light of the economic downturn and absence of inflationary pressure, most analysts also believe the current monetary policy is appropriate. There is less unanimity about the appropriateness of prevailing fiscal policy. Whereas all analysts agree that it is expansionary, thirteen consider that it should be neutral, while five think it should be tightened (no change from March report).

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: May 2019*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – May 2019

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	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.4	2.1	2.1	1.9	2.0	2.0	4.3	3.6	5.0	3.5	4.8	4.2	2.5	2.2
Axesor	2.3	1.9	1.5	1.2	1.9	1.7	3.3	1.9	4.6	3.4	3.4	1.3	1.9	1.5
BBVA Research	2.2	1.9	2.0	1.7	2.2	1.6	4.1	3.9	3.0	3.7	4.8	3.7	2.4	2.1
Bankia	2.2	1.8	2.0	1.5	2.1	1.8	4.4	3.6	5.3	4.0	4.0	3.4	2.6	2.0
CaixaBank Research	2.3	1.9	1.8	1.7	1.7	1.5	3.5	2.9	4.4	3.0	3.6	2.9	2.1	1.9
Cámara de Comercio de España	2.0	1.9	1.7	1.7	2.3	1.5	3.1	2.9	3.1	4.3	3.9	2.7	2.0	1.8
Cemex	2.3	2.0	1.8	1.8	1.7	1.7	4.3	4.1	4.2	4.0	4.9	4.7	2.3	2.2
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.1	1.9	1.8	1.6	2.1	1.5	4.4	3.7	4.5	3.3	4.8	4.1	2.4	2.0
Centro de Predicción Económica (CEPREDE-UAM)	2.4	2.0	1.9	1.9	1.8	1.7	4.4	4.7	6.2	5.9	4.1	4.5	2.3	2.3
CEOE	2.1	1.8	1.9	1.9	1.9	1.8	3.9	3.0	3.7	3.2	4.4	2.9	2.3	2.0
Equipo Económico (Ee)	2.2	1.9	2.0	1.8	2.2	1.9	4.3	2.9	4.0	2.8	4.4	3.1	2.3	1.8
Funcas	2.2	1.8	1.7	1.4	1.6	0.9	4.7	3.5	3.6	3.1	5.8	3.9	2.3	1.7
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	1.9	2.0	1.9	2.0	1.5	4.0	3.2	3.8	3.0	4.2	3.4	2.3	1.9
Instituto de Estudios Económicos (IEE)	2.1	--	1.9	--	2.1	--	5.1	--	5.8	--	6.3	--	2.7	--
Intermoney	2.1	1.8	1.7	1.6	1.4	1.1	3.4	2.6	3.1	2.2	3.8	2.9	2.0	1.8
Repsol	2.2	1.9	1.7	1.7	1.7	1.9	3.7	3.3	4.1	3.4	4.4	3.8	1.9	2.0
Santander	2.1	1.9	1.7	1.9	1.7	1.4	3.1	2.3	3.8	1.8	3.3	2.8	2.0	1.9
Solchaga Recio & asociados	2.4	2.0	1.7	1.5	2.0	1.4	4.3	3.4	5.0	3.0	4.6	4.1	2.4	1.9
CONSENSUS (AVERAGE)	2.2	1.9	1.8	1.7	1.9	1.6	4.0	3.3	4.3	3.4	4.4	3.4	2.3	1.9
Maximum	2.4	2.1	2.1	1.9	2.3	2.0	5.1	4.7	6.2	5.9	6.3	4.7	2.7	2.3
Minimum	2.0	1.8	1.5	1.2	1.4	0.9	3.1	1.9	3.0	1.8	3.3	1.3	1.9	1.5
Change on 2 months earlier[1]	0.0	0.0	-0.2	-0.1	-0.2	0.0	0.1	-0.1	0.6	0.0	0.1	-0.1	-0.1	-0.1
- Rise[2]	6	1	0	2	3	4	6	3	10	4	6	5	2	2
- Drop[2]	2	5	12	7	9	5	6	7	3	7	7	8	11	10
Change on 6 months earlier[1]	0.0	--	-0.1	--	0.0	--	-0.4	--	-0.6	--	-0.1	--	-0.1	--
Memorandum items:														
Government (April 2019)	2.2	1.9	1.9	1.6	1.9	1.5	4.0	3.5	--	--	--	--	--	--
Bank of Spain (March 2019)	2.2	1.9	2.0	1.7	1.8	1.3	3.9	3.8	3.2	3.3	4.6	4.3	--	--
EC (May 2019)	2.1	1.9	1.9	1.6	1.7	1.5	3.6	2.9	3.0	3.1	--	--	--	--
IMF (April 2019)	2.1	1.9	2.0	1.7	1.7	0.8	2.9	2.7	--	--	--	--	2.2	1.7
OECD (November 2018)	2.2	1.9	1.8	1.5	1.6	1.3	3.8	3.8	--	--	--	--	2.3	1.9

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

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

Table 1 (Continued)

Economic Forecasts for Spain – May 2019

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

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Wage earnings[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[6]	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.7	2.8	3.2	3.4	1.0	1.4	0.9	1.3	1.4	1.5	2.4	2.1	13.8	12.6	0.5	0.5	-2.3	-1.8
Axesor	1.7	2.3	0.6	1.0	1.3	1.5	1.0	1.1	2.0	1.8	2.0	1.5	13.6	12.5	0.3	-0.2	-2.3	-1.9
BBVA Research	2.8	3.8	3.6	4.5	1.1	1.4	--	--	1.9	2.0	2.0	1.6	13.9	12.8	0.9	0.8	-2.2	-1.9
Bankia	1.8	1.9	2.9	2.7	1.2	1.5	1.0	1.5	1.9	1.7	2.0	1.5	13.4	12.1	0.7	0.7	--	--
CaixaBank Research	1.1	3.7	0.3	4.0	1.4	1.6	1.0	1.5	2.0	2.7	2.2	1.6	13.6	12.2	0.6	0.7	-2.4	-1.8
Cámara de Comercio de España	2.8	2.9	2.9	2.9	1.5	1.2	0.9	1.1	--	--	1.7	1.6	14.4	13.3	0.8	0.8	-2.5	-2.0
Cemex	1.6	1.5	1.6	2.2	1.3	1.5	1.0	1.1	--	--	2.0	1.7	13.9	12.7	1.0	0.8	-2.5	-2.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.6	2.5	2.5	2.9	1.2	1.4	1.1	1.3	--	--	1.8	1.6	14.0	13.0	0.6	0.4	-2.5	-2.1
Centro de Predicción Económica (CEPREDE-UAM)	0.7	3.4	0.4	4.6	1.3	1.7	--	--	1.5	1.6	2.3	1.7	13.8	13.0	0.9	0.6	-2.1	-1.7
CEOE	1.3	1.5	2.2	2.4	1.0	1.2	0.8	1.1	1.8	1.7	2.0	1.8	13.8	12.4	0.8	0.6	-2.2	-1.8
Equipo Económico (Ee)	2.5	2.6	3.1	2.7	1.1	1.4	1.0	1.2	1.5	1.7	2.1	1.7	13.8	12.7	0.8	0.7	-2.5	-2.3
Funcas	1.9	3.1	2.4	2.9	1.2	1.3	1.0	1.1	2.1	1.3	1.8	1.4	13.8	12.6	0.4	0.6	-2.3	-2.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.5	3.2	3.0	1.5	1.4	1.2	1.3	--	--	1.9	1.5	13.8	12.8	0.7	0.7	-2.2	-1.9
Instituto de Estudios Económicos (IEE)	1.8	--	3.7	--	1.6	--	0.9	--	1.6	--	1.9	--	14.2	--	1.2	--	-2.2	--
Intermoney	1.0	2.8	0.7	2.7	1.3	1.5	1.0	1.3	--	--	2.2	1.6	13.8	13.0	0.7	0.7	-2.4	--
Repsol	0.4	1.6	-0.6	2.2	1.6	1.6	1.2	1.3	1.6	1.5	2.2	2.0	13.8	12.4	0.6	0.3	-2.2	-1.8
Santander	0.3	2.1	-0.3	2.3	1.1	1.5	0.9	1.2	1.8	2.0	2.0	1.4	13.9	13.0	0.5	0.4	--	--
Solchaga Recio & asociados	2.4	3.0	2.3	3.0	1.1	1.6	1.0	1.4	--	--	2.2	1.8	14.0	13.3	0.5	0.3	-2.3	-2.0
CONSENSUS (AVERAGE)	1.7	2.6	1.9	2.9	1.3	1.5	1.0	1.2	1.8	1.8	2.0	1.7	13.8	12.7	0.7	0.6	-2.3	-1.9
Maximum	2.8	3.8	3.7	4.6	1.6	1.7	1.2	1.5	2.1	2.7	2.4	2.1	14.4	13.3	1.2	0.8	-2.1	-1.7
Minimum	0.3	1.5	-0.6	1.0	1.0	1.2	0.8	1.1	1.4	1.3	1.7	1.4	13.4	12.1	0.3	-0.2	-2.5	-2.3
Change on 2 months earlier[1]	-0.9	-0.1	-1.4	-0.3	-0.1	0.0	-0.1	-0.1	0.1	0.1	0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	0.1
- Rise[2]	2	4	1	1	2	3	0	2	3	2	7	3	1	3	1	4	5	5
- Drop[2]	12	7	12	8	8	7	8	7	1	1	2	2	7	4	7	5	5	2
Change on 6 months earlier[1]	-1.3	--	-1.5	--	-0.3	--	-0.2	--	0.2	--	0.0	--	0.0	--	-0.3	--	-0.2	--
Memorandum items:																		
Government (April 2019)	2.7	2.8	3.1	2.9	--	--	--	--	2.1	2.2	2.1	1.8	13.8	12.3	0.7	0.7	-2.0	-1.1
Bank of Spain (March 2019)	3.3	4.0	3.6	4.6	1.2 (7)	1.5 (7)	1.1 (8)	1.5 (8)	--	--	1.6	1.6	14.2	13.2	1.1 (9)	0.8 (9)	-2.5	-2.0
EC (May 2019)	2.3	2.9	2.7	3.0	1.1 (7)	1.4 (7)	--	--	--	--	2.0	1.7	13.5	12.2	0.9	0.9	-2.3	-2.0
IMF (April 2019)	2.5	3.5	2.7	3.2	1.2	1.6	--	--	--	--	1.6	0.6	14.2	14.1	0.8	0.8	-2.3	-2.3
OECD (November 2018)	2.8	4.0	2.9	4.1	1.9 (7)	1.7 (7)	1.6 (8)	1.7 (8)	2.0	2.0	2.0	1.8	13.8	12.5	1.0	1.0	-1.8	-1.2

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

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

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

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

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

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

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

[8] *HIPC excluding energy and food.*

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

Table 2

Quarterly Forecasts – May 2019

	Quarter-on-quarter change (percentage)							
	19-IQ	19-IIQ	19-IIIQ	19-IVQ	20-IQ	20-IIQ	20-IIIQ	20-IVQ
GDP[1]	0.7	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Euribor 1 yr [2]	-0.11	-0.08	-0.06	0.01	0.08	0.15	0.20	0.28
Government bond yield 10 yr [2]	1.13	1.30	1.38	1.43	1.48	1.55	1.62	1.69
ECB main refinancing operations interest rate [2]	0.00	0.00	0.01	0.03	0.08	0.17	0.20	0.28
Dollar / Euro exchange rate [2]	1.13	1.14	1.15	1.17	1.17	1.18	1.18	1.19

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

Table 3

CPI Forecasts – May 2019

Monthly change (%)				Year-on-year change (%)	
May-19	Jun-19	Jul-19	Aug-19	Dec-19	Dec-20
0.4	0.3	-0.5	0.1	1.6	1.3

Table 4

Opinions – May 2019

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	6	12	4	13	1
International context: Non-EU	1	9	8	4	13	1
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	0	18	5	13	0
Monetary policy assessment[1]	0	2	16	0	5	13

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

Key Facts

This page was left blank intentionally.

Economic Indicators

Table 1

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

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction			Equipment & others products				
						Total	Housing	Other constructions					
Chain-linked volumes, annual percentage changes													
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	2.3	2.1	5.3	6.2	6.9	5.5	4.3	2.3	3.5	2.9	-0.3
2019		2.2	1.7	1.6	4.7	5.8	7.4	4.0	3.6	1.9	2.4	2.3	-0.1
2020		1.8	1.4	0.9	3.5	3.9	5.4	2.2	3.1	3.1	2.9	1.7	0.1
2021		1.8	1.4	0.8	3.0	3.0	4.3	1.5	3.1	3.0	2.7	1.6	0.1
2018	I	2.9	3.0	2.2	3.9	5.8	9.8	1.9	2.1	3.8	4.8	3.1	-0.2
	II	2.6	2.3	2.0	7.5	7.0	7.1	6.8	8.0	2.6	5.1	3.3	-0.7
	III	2.5	1.9	2.2	5.3	5.7	6.4	5.1	4.8	1.7	2.3	2.7	-0.2
	IV	2.3	1.9	2.2	4.4	6.3	4.6	8.1	2.5	1.0	1.7	2.5	-0.2
2019	I	2.4	1.4	2.0	4.7	4.6	3.1	6.2	4.8	-0.5	-1.2	2.2	0.2
	II	2.3	1.7	2.0	3.4	4.9	6.1	3.7	1.9	1.1	0.7	2.1	0.2
	III	2.1	1.8	1.4	4.9	7.1	9.5	4.4	2.6	3.3	4.1	2.3	-0.2
	IV	1.9	1.7	1.1	5.9	6.4	10.8	1.8	5.4	3.8	6.2	2.5	-0.6
2020	I	1.7	1.7	1.0	4.6	5.6	7.9	3.0	3.6	5.1	7.2	2.2	-0.5
	II	1.8	1.5	0.9	3.7	4.5	6.8	2.0	2.9	3.0	3.5	1.9	-0.1
	III	1.9	1.1	0.9	2.9	2.7	3.4	1.9	3.0	2.5	1.3	1.4	0.4
	IV	2.0	1.0	0.9	2.7	2.8	3.7	1.9	2.6	1.9	-0.2	1.3	0.7
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2018	I	2.5	3.5	2.6	4.9	9.1	12.6	5.3	0.7	4.0	7.4	3.4	-0.9
	II	2.4	0.3	1.3	13.5	8.8	1.6	17.0	18.6	0.5	3.2	3.2	-0.8
	III	2.2	2.4	3.4	0.7	2.2	5.1	-0.7	-0.7	-3.2	-3.4	2.2	0.0
	IV	2.2	1.7	1.5	-0.9	5.3	-0.6	11.8	-6.9	3.0	-0.1	1.2	1.1
2019	I	2.9	1.3	1.7	6.0	2.3	6.6	-1.9	9.9	-2.0	-4.4	2.1	0.8
	II	1.7	1.6	1.4	8.1	10.1	13.9	6.1	6.1	7.0	11.2	2.9	-1.1
	III	1.8	2.4	0.9	6.4	10.7	19.3	2.0	2.0	5.3	10.4	3.0	-1.3
	IV	1.3	1.6	0.6	3.2	2.7	4.1	1.2	3.6	5.3	8.2	1.9	-0.6
2020	I	2.0	1.2	1.2	0.9	-0.8	-3.9	2.8	2.8	2.8	-0.8	0.9	1.0
	II	2.3	1.0	0.8	4.6	5.8	9.2	2.0	3.2	-1.1	-3.1	1.7	0.6
	III	2.0	0.8	0.8	2.9	3.3	4.9	1.6	2.4	3.2	1.1	1.2	0.7
	IV	1.7	1.2	0.8	2.6	3.2	4.9	1.2	2.0	2.8	2.0	1.4	0.3
		Current prices (EUR billions)	Percentage of GDP at current prices										
2012		1,040	58.8	19.7	19.8	10.9	4.9	6.0	8.9	30.7	29.2	98.5	1.5
2013		1,026	58.3	19.7	18.8	9.7	4.1	5.6	9.0	32.2	29.0	96.7	3.3
2014		1,038	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	57.9	19.3	19.9	10.0	4.4	5.5	9.9	32.9	30.6	97.7	2.3
2016		1,119	57.5	18.9	19.9	9.9	4.8	5.1	10.1	33.1	30.0	96.8	3.2
2017		1,166	57.5	18.5	20.5	10.3	5.2	5.0	10.2	34.3	31.4	97.1	2.9
2018		1,208	57.7	18.4	21.2	10.8	5.6	5.2	10.4	34.3	32.3	98.0	2.0
2019		1,246	57.6	18.4	21.9	11.3	6.0	5.3	10.6	34.1	32.8	98.6	1.4
2020		1,284	57.3	18.2	22.2	11.5	6.3	5.2	10.7	34.4	32.9	98.4	1.6
2021		1,322	57.1	18.0	22.5	11.7	6.6	5.1	10.8	34.7	33.0	98.3	1.7

** Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

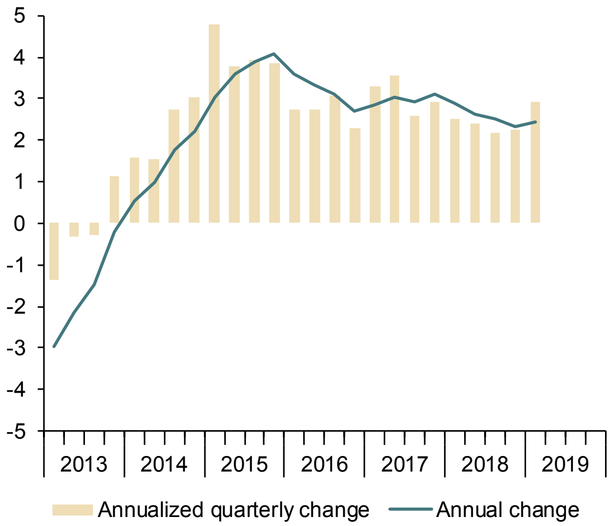


Chart 1.2 - Contribution to GDP annual growth

Percentage points

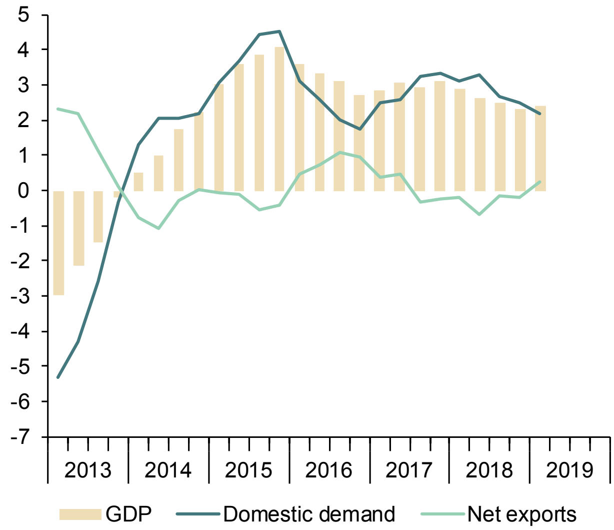


Chart 1.3 - Final consumption

Annual percentage change

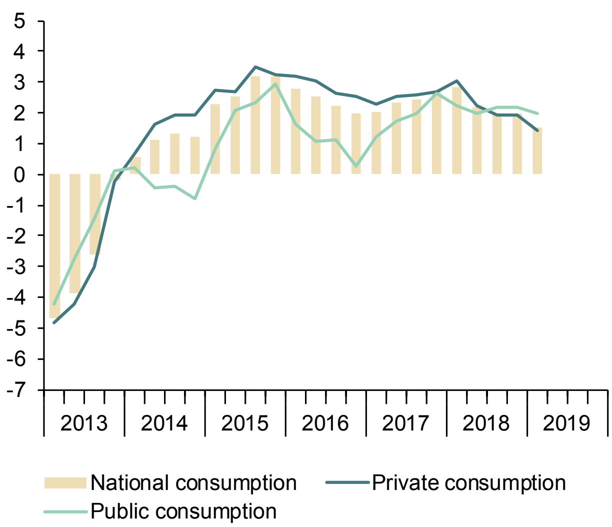


Chart 1.4 - Gross fixed capital formation

Annual percentage change

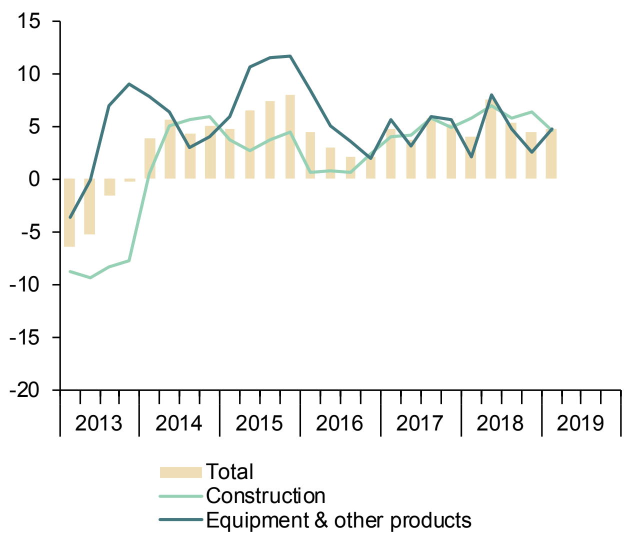


Table 2

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										
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
2018		2.7	2.6	1.1	1.4	7.6	2.7	2.2	2.8	1.4
2017	II	2.9	-2.5	4.2	3.7	6.5	2.6	1.8	2.8	4.2
	III	2.9	-0.8	4.0	4.6	6.0	2.5	1.6	2.9	3.1
	IV	3.1	0.4	4.9	5.4	6.8	2.5	2.2	2.6	2.7
2018	I	2.9	2.8	2.6	2.8	7.5	2.6	2.1	2.7	3.0
	II	2.8	4.8	2.0	2.5	7.5	2.5	2.0	2.6	1.0
	III	2.7	-0.5	1.1	1.0	8.1	2.7	2.4	2.8	0.9
	IV	2.5	3.6	-1.3	-0.5	7.2	3.0	2.5	3.1	0.9
2019	I	2.7	-0.1	0.4	1.2	6.9	3.0	3.0	3.0	-0.3
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate										
2017	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	2.5	6.1	-1.2	-1.3	8.5	2.8	1.7	3.1	2.6
	II	2.8	5.1	1.2	2.1	8.4	2.6	2.2	2.7	-1.2
	III	2.3	-13.8	-1.1	-1.7	7.7	3.4	3.0	3.5	0.7
	IV	2.3	19.5	-4.1	-1.3	4.1	3.1	3.2	3.1	1.4
2019	I	3.5	-7.9	5.5	5.9	7.6	3.1	3.7	2.9	-2.1
		Current prices EUR billions)	Percentage of value added at basic prices							
2012		954	2.5	17.4	13.2	6.7	73.5	18.5	54.9	9.0
2013		936	2.8	17.5	13.4	5.8	74.0	19.0	55.0	9.6
2014		944	2.7	17.6	13.7	5.6	74.1	18.8	55.4	9.9
2015		981	2.9	17.6	13.7	5.7	73.9	18.6	55.3	10.2
2016		1,015	3.0	17.6	13.8	5.9	73.6	18.4	55.1	10.2
2017		1,057	3.0	18.0	14.2	6.1	72.9	18.0	54.9	10.3
2018		1,093	2.9	17.7	14.0	6.5	72.9	18.0	54.9	10.5

** Seasonally and Working Day Adjusted.*

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

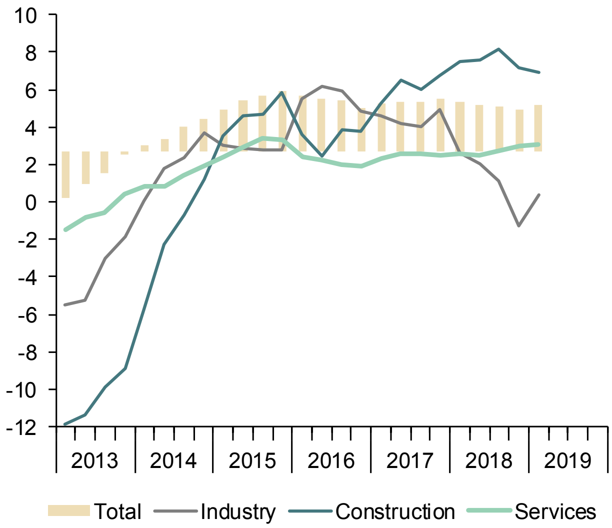


Chart 2.2 - GVA, Industry

Annual percentage change

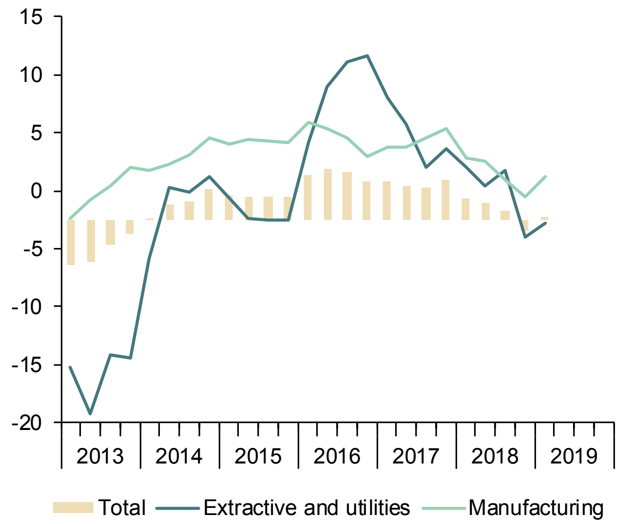


Chart 2.3 - GVA, services

Annual percentage change

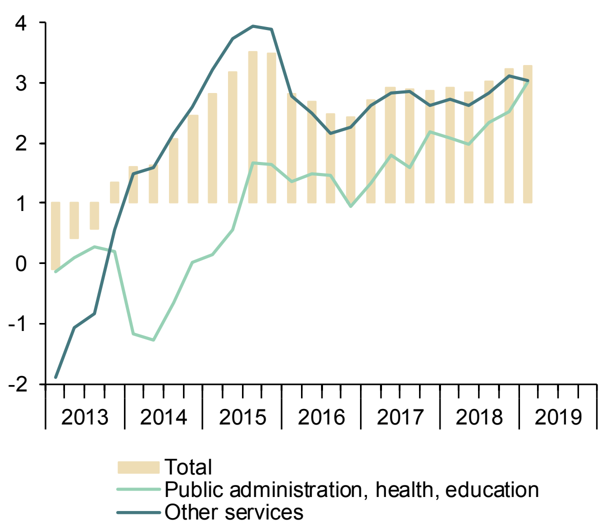


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

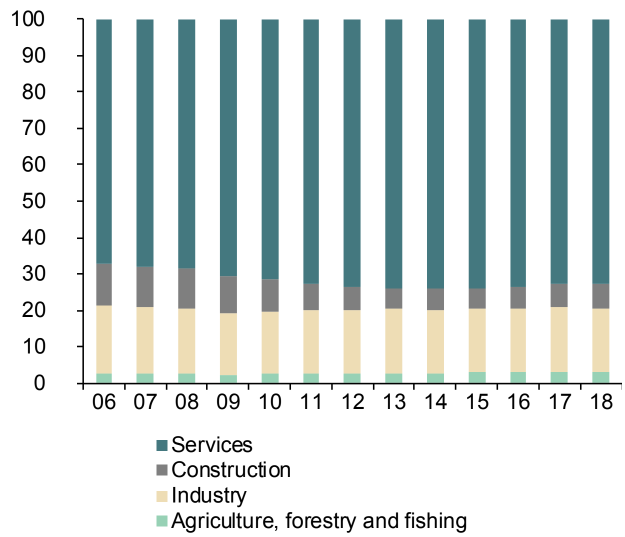


Table 3

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, SWDA													
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	101.4	106.7	103.2	96.8	93.7	110.9	94.5	117.5	107.9	91.9	87.7
2019		110.5	103.3	107.0	105.4	98.5	94.5	--	--	--	--	--	--
2020		112.5	104.8	107.4	106.8	99.5	94.2	--	--	--	--	--	--
2021		114.5	106.3	107.7	108.2	100.4	94.0	--	--	--	--	--	--
2017	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	107.3	100.4	106.9	102.8	96.2	93.7	111.0	95.0	116.8	107.5	92.0	88.2
	II	107.9	101.1	106.7	103.0	96.5	93.4	111.5	94.9	117.6	107.8	91.7	87.4
	III	108.5	101.8	106.6	103.4	97.0	93.8	111.1	94.2	117.9	108.2	91.8	87.6
	IV	109.1	102.4	106.5	103.7	97.4	93.7	110.7	93.8	118.1	108.2	91.7	87.8
2019	I	109.9	103.2	106.5	104.2	97.8	94.5	112.3	94.9	118.3	107.7	91.0	88.1
Annual percentage changes													
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	2.5	0.1	0.8	0.8	-0.2	1.4	1.1	0.3	0.6	0.3	-0.3
2019		2.2	1.8	0.3	2.1	1.8	0.9	--	--	--	--	--	--
2020		1.8	1.5	0.3	1.3	1.0	-0.3	--	--	--	--	--	--
2021		1.8	1.4	0.3	1.3	1.0	-0.2	--	--	--	--	--	--
2017	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	2.9	2.6	0.3	0.5	0.2	-1.0	2.8	3.0	-0.2	0.3	0.6	-0.7
	II	2.6	2.5	0.1	0.8	0.6	-0.4	2.5	1.9	0.6	0.6	0.0	-0.9
	III	2.5	2.4	0.1	1.1	1.0	0.0	1.0	0.4	0.6	0.9	0.3	0.0
	IV	2.3	2.6	-0.3	1.1	1.3	0.6	-0.5	-0.9	0.4	0.6	0.2	0.4
2019	I	2.4	2.8	-0.4	1.3	1.7	0.8	1.2	-0.1	1.3	0.2	-1.0	-0.2

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

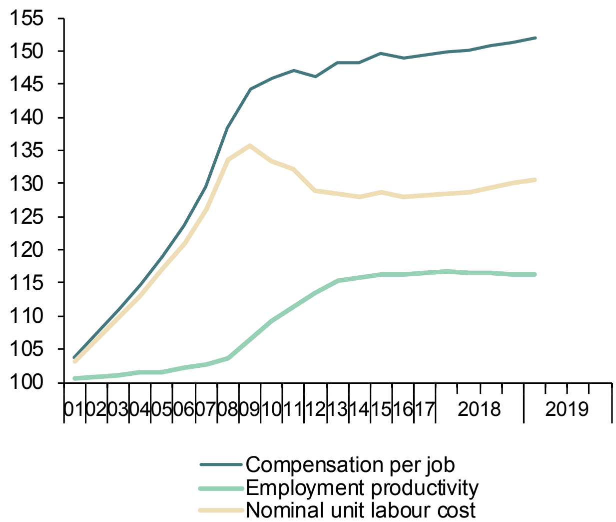
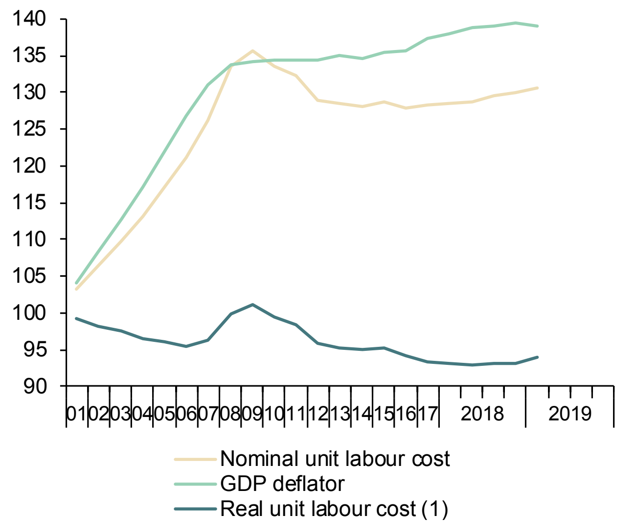


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

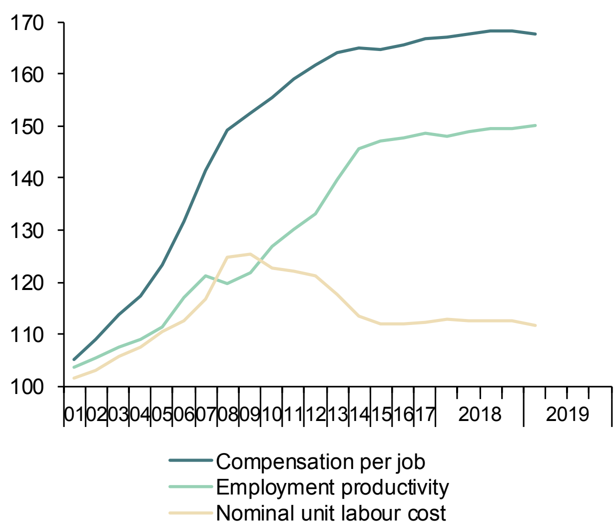
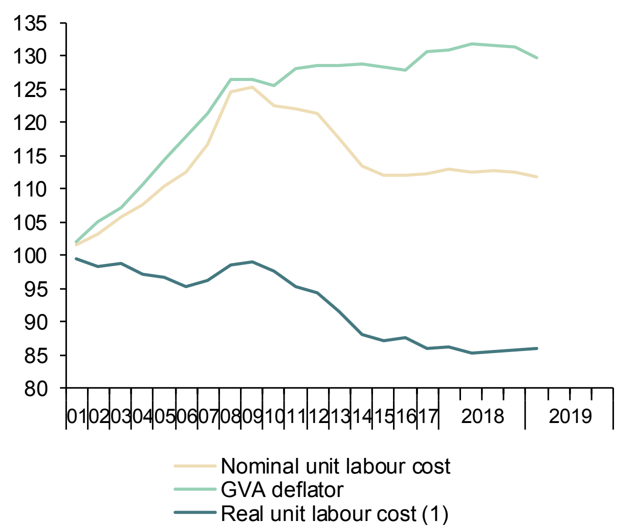


Chart 3.4 - Real ULC, manufacturing industry

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	Compen-sation of employees	Gross operating surplus	Gross national disposable income	Final national consum-ption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
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		1,208.2	569.7	511.8	1,196.0	919.7	276.3	264.9	47.1	42.4	22.9	21.9	0.9	1.5
2019		1,245.6	593.7	519.3	1,234.1	946.6	287.6	282.1	47.7	41.7	23.1	22.6	0.4	0.7
2020		1,283.8	611.4	534.9	1,272.0	969.9	302.1	293.8	47.6	41.7	23.5	22.9	0.7	0.8
2021		1,321.7	629.6	550.7	1,308.8	993.1	315.6	306.0	47.6	41.7	23.9	23.2	0.7	0.8
2017	I	1,128.6	532.9	479.4	1,119.7	862.3	257.4	232.3	47.2	42.5	22.8	20.6	2.2	2.3
	II	1,140.7	537.2	485.8	1,129.7	870.3	259.4	235.7	47.1	42.6	22.7	20.7	2.1	2.2
	III	1,152.3	542.1	491.6	1,140.3	878.0	262.3	240.8	47.0	42.7	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	1,178.0	552.3	504.1	1,164.5	894.4	270.1	248.9	46.9	42.8	22.9	21.1	1.8	2.1
	II	1,188.5	557.7	507.5	1,175.7	902.4	273.4	255.0	46.9	42.7	23.0	21.5	1.5	1.9
	III	1,199.0	563.6	510.1	1,185.9	911.2	274.8	259.7	47.0	42.5	22.9	21.7	1.3	1.6
	IV	1,208.2	569.7	511.8	1,196.0	919.7	276.3	264.9	47.1	42.4	22.9	21.9	0.9	1.5
		Annual percentage changes							Difference from one year ago					
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	0.2
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	0.7
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	-0.2
2018		3.6	4.1	2.6	3.6	3.8	2.9	7.6	0.2	-0.4	-0.2	0.8	-1.0	-0.7
2019		3.1	4.2	1.4	3.2	2.9	4.1	6.5	0.6	-0.7	0.2	0.7	-0.5	-0.8
2020		3.1	3.0	3.0	3.1	2.5	5.1	4.1	-0.1	0.0	0.4	0.3	0.3	0.1
2021		3.0	3.0	3.0	2.9	2.4	4.5	4.2	0.0	0.0	0.4	0.3	0.0	0.0
2017	I	3.5	2.8	4.5	3.9	2.6	8.5	3.7	-0.3	0.4	1.1	0.0	1.0	0.4
	II	3.7	2.9	4.6	3.8	3.1	6.3	4.0	-0.4	0.4	0.6	0.1	0.5	0.1
	III	3.9	3.1	4.6	3.8	3.4	5.3	5.8	-0.3	0.3	0.3	0.4	-0.1	-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	4.4	3.6	5.2	4.0	3.7	4.9	7.2	-0.3	0.3	0.1	0.5	-0.4	-0.2
	II	4.2	3.8	4.5	4.1	3.7	5.4	8.2	-0.2	0.1	0.3	0.8	-0.5	-0.3
	III	4.0	4.0	3.8	4.0	3.8	4.8	7.9	0.0	-0.1	0.2	0.8	-0.6	-0.5
	IV	3.6	4.1	2.6	3.6	3.8	2.9	7.6	0.2	-0.4	-0.2	0.8	-1.0	-0.7

(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

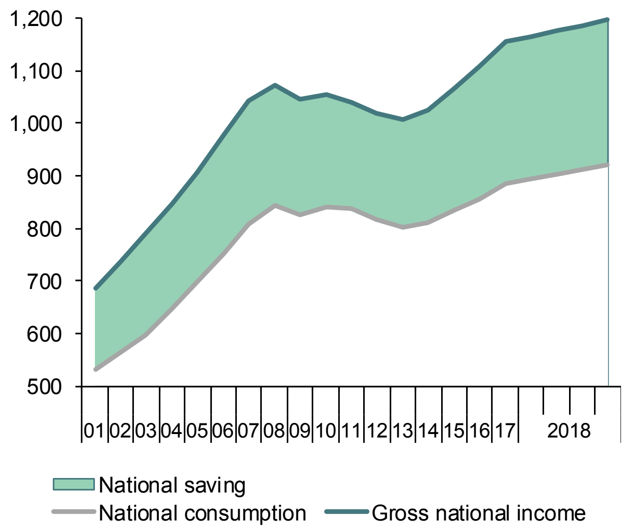


Chart 4.2 - National income, consumption and saving rate

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

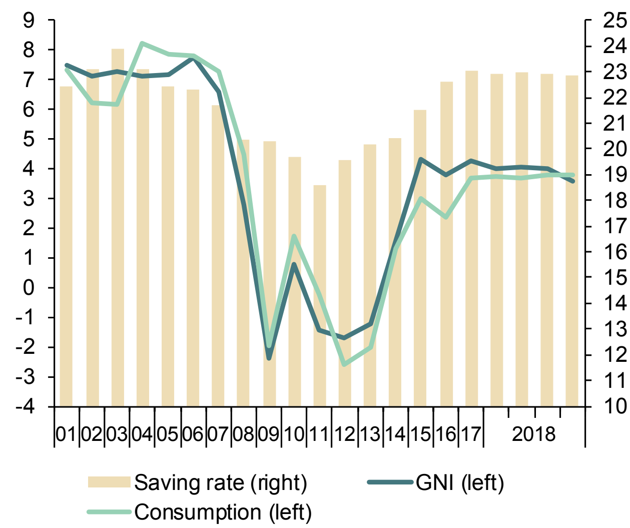


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

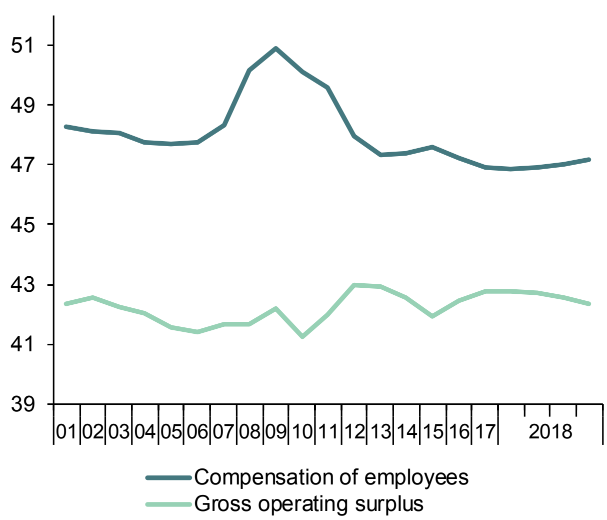


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

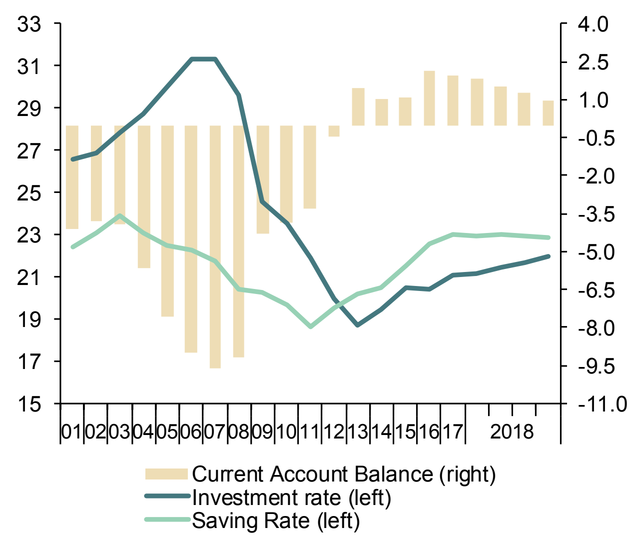


Table 5

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		
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		733.8	697.1	35.6	49.2	4.9	4.1	-1.2	283.6	213.6	188.5	17.7	15.6	2.6
2019		755.4	717.2	37.2	54.4	4.9	4.4	-1.5	288.7	217.7	199.0	17.5	16.0	1.9
2020		773.9	735.8	37.1	58.7	4.8	4.6	-1.8	299.4	225.8	206.1	17.6	16.1	1.9
2021		793.6	754.8	37.7	62.8	4.8	4.8	-2.0	309.5	232.9	213.9	17.6	16.2	1.8
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	716.3	677.0	37.8	42.9	5.3	3.6	-0.6	280.6	211.6	179.6	18.0	15.3	3.2
	II	720.9	683.4	36.1	45.1	5.0	3.8	-0.9	282.3	214.0	181.8	18.0	15.3	3.2
	III	727.1	690.4	35.3	46.5	4.9	3.9	-1.1	282.8	213.0	187.0	17.8	15.6	2.7
	IV	733.8	697.1	35.6	49.2	4.9	4.1	-1.2	283.6	213.6	188.5	17.7	15.6	2.6
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
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		3.2	4.0	-9.2	16.1	-0.7	0.4	-0.8	2.0	1.5	6.4	-0.4	0.4	-0.7
2019		3.0	2.9	4.4	10.6	0.1	0.3	-0.3	1.8	1.9	5.6	-0.2	0.4	-0.7
2020		2.4	2.6	-0.3	8.0	-0.1	0.2	-0.3	3.7	3.7	3.6	0.1	0.1	0.0
2021		2.5	2.6	1.8	6.9	0.0	0.2	-0.2	3.4	3.2	3.8	0.0	0.1	-0.1
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	2.2	4.0	-22.3	16.7	-1.7	0.4	-1.5	6.3	5.7	6.1	0.3	0.3	-0.1
	II	2.2	3.8	-21.7	18.7	-1.5	0.5	-1.5	5.0	6.4	5.2	0.4	0.2	0.3
	III	2.8	4.0	-16.4	16.0	-1.1	0.4	-1.1	3.8	5.0	7.3	0.2	0.5	-0.2
	IV	3.2	4.0	-9.2	16.1	-0.7	0.4	-0.8	2.0	1.5	6.4	-0.4	0.4	-0.7

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

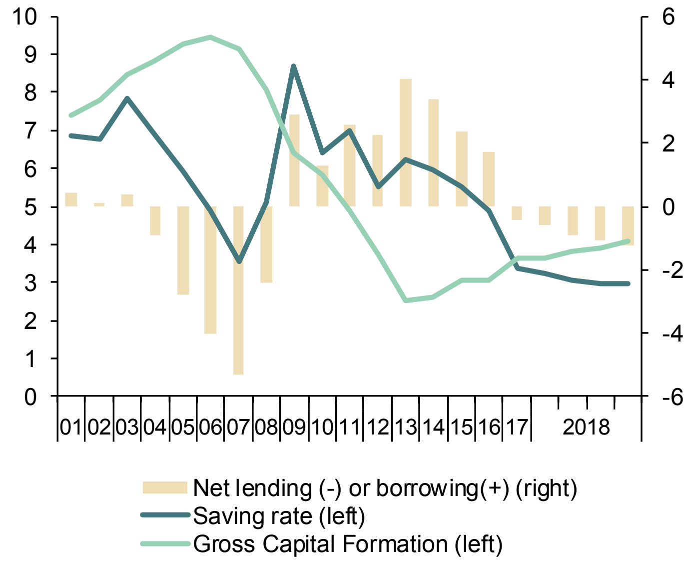


Chart 5.2 - Non-finantial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

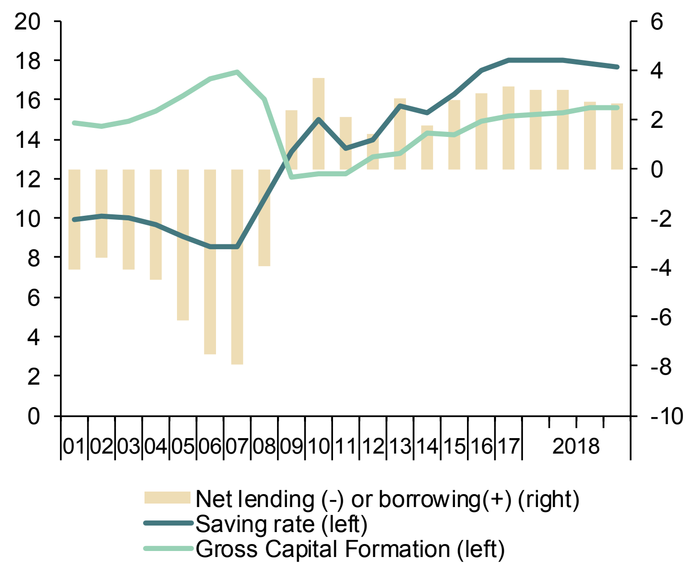


Table 6

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

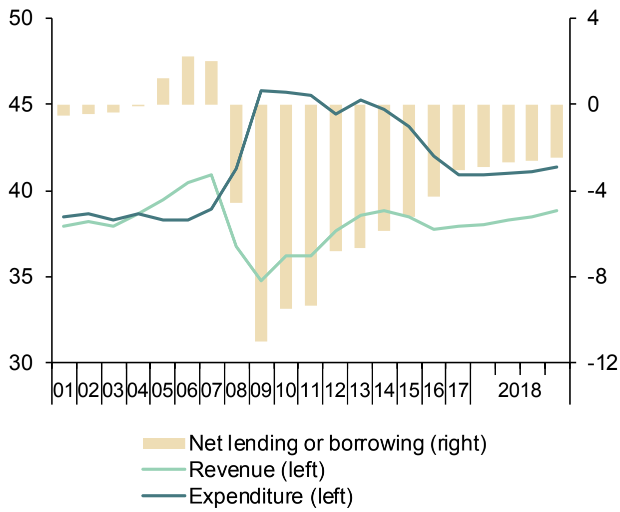
Forecasts in yellow

		Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contribu-tions receivable	Compen-sation of employees	Interests and other capital incomes payable (net)	Social bene-fits payable	Subsidies and net current transfers payable	Gross disposable income	Final consump-tion expendi-ture	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
		EUR Billions, 4-quarter cumulated operations													
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		155.9	141.4	129.0	150.1	127.0	22.2	185.1	21.2	221.0	222.6	-1.7	28.3	-30.0	-29.9
2019		160.1	147.7	135.7	157.4	130.9	22.7	193.6	21.8	231.9	229.4	2.5	30.7	-28.2	-28.2
2020		163.1	152.8	139.6	164.9	133.6	23.4	201.1	22.2	240.2	234.1	6.1	32.2	-26.2	-26.2
2021		166.0	157.1	143.7	172.0	136.0	24.6	209.0	22.8	246.4	238.4	8.1	32.7	-24.6	-24.6
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	152.3	136.6	120.7	144.5	123.5	22.2	178.9	20.5	208.9	216.8	-7.9	26.8	-34.7	-34.3
	II	153.2	138.7	122.5	146.5	124.3	21.6	180.3	20.2	214.4	218.2	-3.8	28.3	-32.1	-32.0
	III	154.6	139.9	125.2	148.3	125.6	21.6	183.0	20.2	217.5	220.3	-2.9	28.6	-31.4	-31.3
	IV	155.9	141.4	129.0	150.1	127.0	22.2	185.1	21.2	221.0	222.6	-1.7	28.3	-30.0	-29.9
		Percentage of GDP, 4-quarter cumulated operations													
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	10.7	12.4	10.5	1.8	15.3	1.8	18.3	18.4	-0.1	2.3	-2.5	-2.5
2019		12.9	11.9	10.9	12.6	10.5	1.8	15.5	1.7	18.6	18.4	0.2	2.5	-2.3	-2.3
2020		12.7	11.9	10.9	12.8	10.4	1.8	15.7	1.7	18.7	18.2	0.5	2.5	-2.0	-2.0
2021		12.6	11.9	10.9	13.0	10.3	1.9	15.8	1.7	18.6	18.0	0.6	2.5	-1.9	-1.9
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	1.7	17.8	18.4	-0.7	2.3	-2.9	-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
	III	12.9	11.7	10.5	12.4	10.5	1.8	15.3	1.7	18.2	18.4	-0.2	2.4	-2.6	-2.6
	IV	12.9	11.7	10.7	12.4	10.5	1.8	15.3	1.8	18.3	18.4	-0.1	2.3	-2.5	-2.5

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

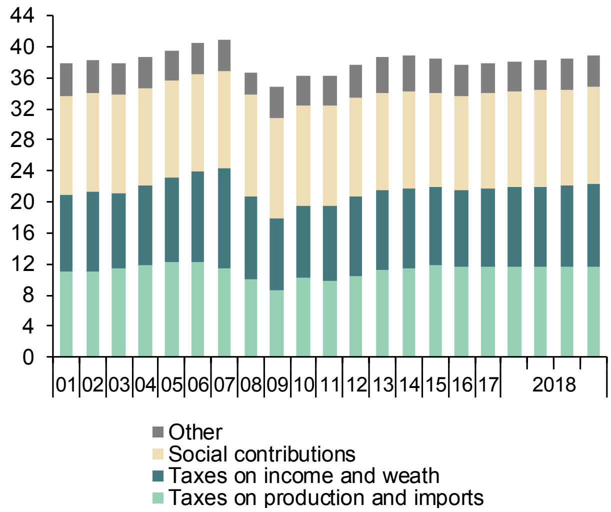


Chart 6.3.- Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

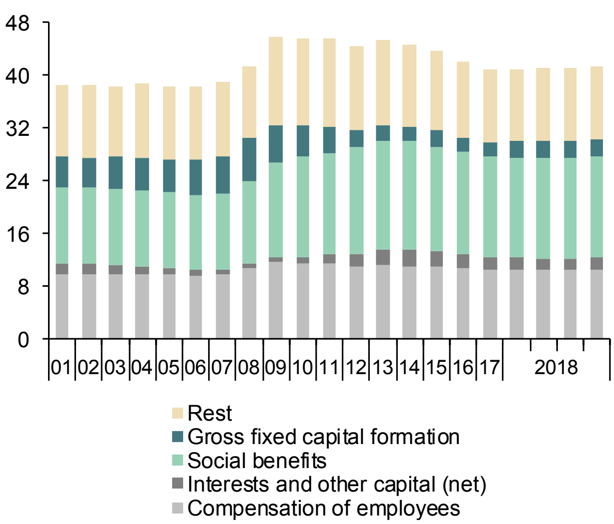
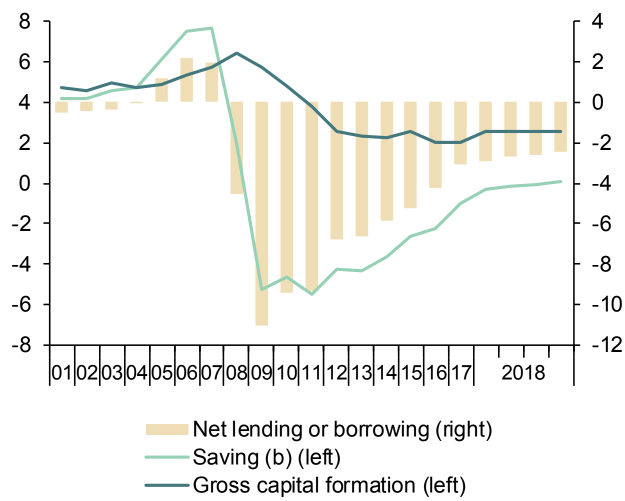


Chart 6.4 - Public sector: Saving, investment and deficit (a)

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				
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		-16.3	-2.8	6.3	-17.1	-29.9	1,047.3	293.1	25.8	41.2	1,173.1
2019		-14.8	-1.0	5.2	-17.6	-28.2	--	--	--	--	1,200.3
2020		-13.4	-0.9	5.2	-17.1	-26.2	--	--	--	--	1,225.4
2021		-11.8	-0.9	5.2	-17.1	-24.6	--	--	--	--	1,249.0
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	-21.8	-3.2	7.0	-16.4	-34.3	1,028.6	289.7	29.0	27.4	1,161.7
	II	-18.6	-2.8	6.1	-16.7	-32.0	1,034.7	293.3	29.4	34.9	1,165.8
	III	-18.3	-2.6	5.8	-16.2	-31.3	1,048.5	292.4	28.0	34.9	1,177.5
	IV	-16.3	-2.8	6.3	-17.1	-29.9	1,047.3	293.1	25.8	41.2	1,173.1
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
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	-0.2	0.5	-1.4	-2.5	86.7	24.3	2.1	3.4	97.1
2019		-1.2	-0.1	0.4	-1.4	-2.3	--	--	--	--	96.3
2020		-1.0	-0.1	0.4	-1.3	-2.0	--	--	--	--	95.4
2021		-0.9	-0.1	0.4	-1.3	-1.9	--	--	--	--	94.5
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	87.4	24.6	2.5	2.3	98.7
	II	-1.6	-0.2	0.5	-1.4	-2.7	87.2	24.7	2.5	2.9	98.2
	III	-1.5	-0.2	0.5	-1.4	-2.6	87.6	24.4	2.3	2.9	98.3
	IV	-1.3	-0.2	0.5	-1.4	-2.5	86.7	24.3	2.1	3.4	97.1

(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

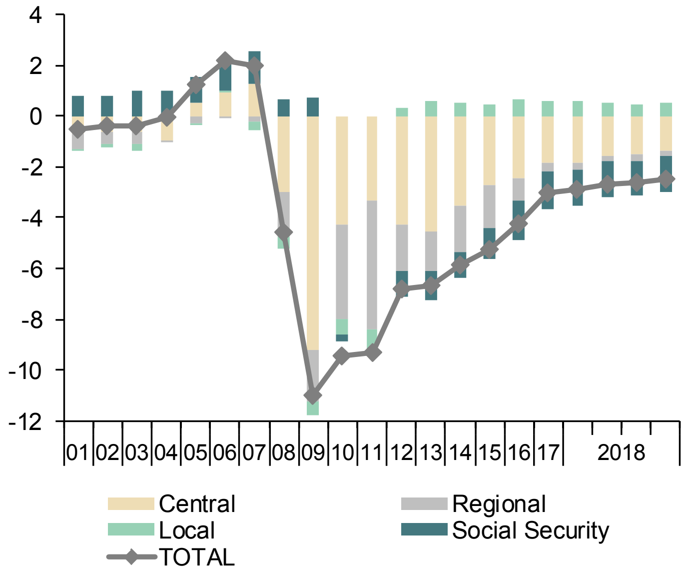


Chart 7.2 - Government debt

Percent of GDP

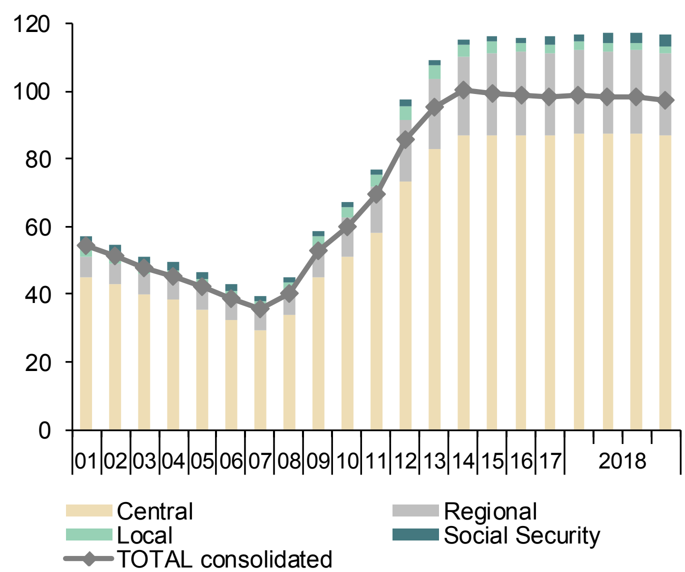


Table 8

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	Manufac turing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses
2012	86.3	43.1	16,335.3	255.7	97.1	2,113.9	43.8	-17.6	96.7	-37.1
2013	90.6	48.3	15,855.2	250.2	95.5	2,021.6	48.5	-14.0	94.2	-30.7
2014	100.7	55.1	16,111.1	249.8	96.8	2,022.8	53.2	-7.1	96.1	-16.3
2015	107.6	56.7	16,641.8	254.0	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016	105.6	54.9	17,157.5	254.1	101.8	2,124.7	53.1	-2.3	102.7	-5.4
2017	108.3	56.2	17,789.6	258.7	105.0	2,191.0	54.8	1.0	107.0	2.2
2018	108.0	54.6	18,364.5	259.4	105.3	2,250.9	53.3	-0.1	108.5	-0.2
2019 (b)	104.9	54.1	18,579.3	90.3	107.2	2,263.2	51.3	-4.1	104.1	-4.9
2017 II	107.5	57.4	17,724.5	64.8	104.4	2,182.9	54.9	-0.5	106.2	6.1
III	108.6	56.1	17,868.4	64.3	105.0	2,199.9	53.5	-0.1	107.5	0.8
IV	110.0	55.2	18,019.4	65.5	107.7	2,217.5	55.9	4.3	108.5	4.8
2018 I	109.6	56.6	18,160.5	65.4	106.0	2,235.2	55.3	2.8	108.9	1.2
II	109.4	55.4	18,294.0	64.7	105.5	2,246.2	53.8	1.2	109.0	2.9
III	106.7	52.7	18,420.6	65.2	105.5	2,256.4	52.4	-2.6	109.0	-2.4
IV	106.4	53.7	18,579.2	64.2	104.7	2,265.9	51.8	-1.9	108.9	-2.4
2019 I (b)	105.2	54.5	18,714.0	64.0	105.7	2,274.8	51.1	-3.8	109.0	-5.9
2019 Feb	104.4	53.5	18,712.5	21.3	105.8	2,274.4	49.9	-5.2	109.1	-6.7
Mar	106.7	55.4	18,760.1	21.3	104.5	2,278.3	50.9	-2.2	--	-6.1
Apr	104.1	52.9	18,807.1	21.2	--	2,282.1	51.8	-4.9	--	-2.1
	Percentage changes (c)									
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	-0.1	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	--	--	3.2	0.3	0.3	2.7	--	--	1.4	--
2019 (d)	--	--	3.1	-2.1	-0.1	1.8	--	--	2.1	--
2017 II	--	--	4.2	3.8	3.6	3.4	--	--	5.0	--
III	--	--	3.3	-2.9	2.3	3.2	--	--	5.0	--
IV	--	--	3.4	8.0	10.8	3.2	--	--	3.9	--
2018 I	--	--	3.2	-0.7	-6.2	3.2	--	--	1.6	--
II	--	--	3.0	-4.1	-1.7	2.0	--	--	0.4	--
III	--	--	2.8	2.7	-0.1	1.8	--	--	-0.2	--
IV	--	--	3.5	-5.7	-3.0	1.7	--	--	-0.3	--
2019 I (e)	--	--	2.9	-1.5	4.1	1.6	--	--	0.4	--
2019 Feb	--	--	0.2	-0.6	-1.0	0.1	--	--	0.1	--
Mar	--	--	0.3	-1.2	-1.2	0.2	--	--	--	--
Apr			0.3	1.0	--	0.2	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annualized percent change from previous period

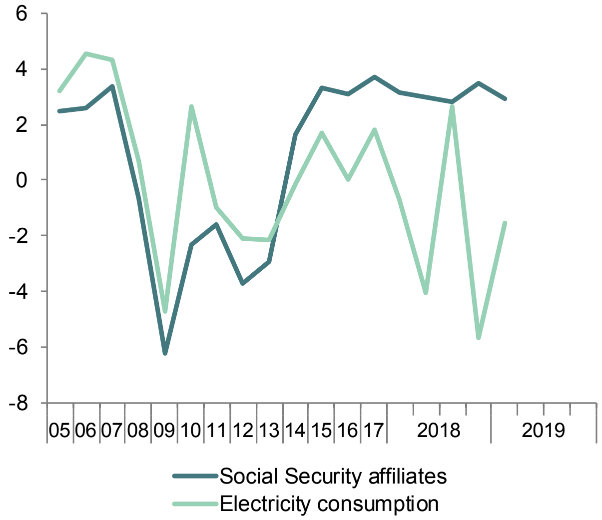


Chart 8.2.- General activity indicators (II)

Index

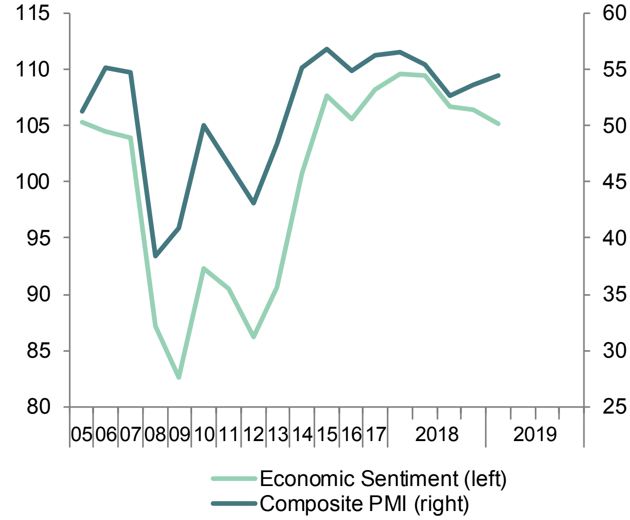


Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

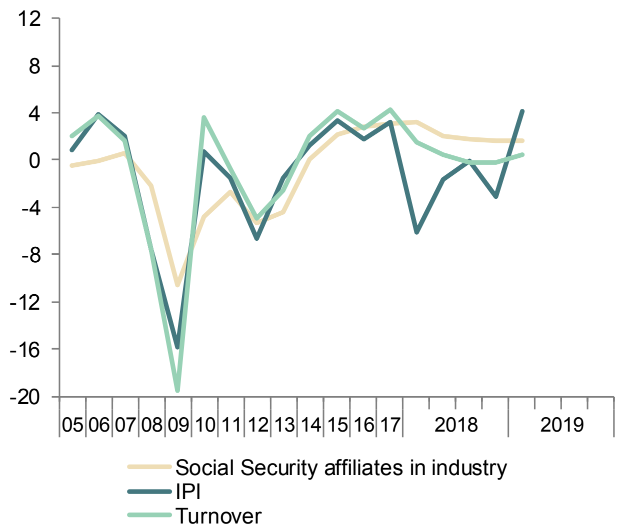


Chart 8.4 - Industrial sector indicators (II)

Index

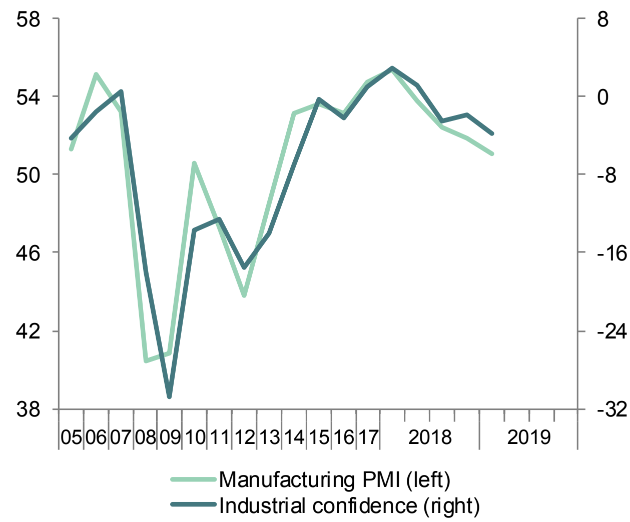


Table 9

Construction and services sector indicators (a)

		Construction indicators					Service sector indicators					
		Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
		Thousands	2015=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	Thousands	2015=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2012		1,135.5	101.2	-54.9	7.4	8.5	11,907.2	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	9.2	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8
2017		1,118.8	111.5	-26.9	12.7	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018		1,194.1	114.2	-4.6	16.7	19.8	13,781.3	117.5	54.8	340.2	262.9	21.7
2019 (b)		1,238.1	122.1	-2.3	5.3	3.4	13,920.4	110.9	54.8	53.6	52.6	15.5
2017	II	1,110.2	110.7	-24.7	2.9	4.2	13,285.6	110.3	57.8	85.5	61.6	23.3
	III	1,126.2	111.8	-23.5	3.4	3.7	13,400.8	111.8	56.8	85.5	62.7	25.2
	IV	1,149.1	112.8	-15.7	3.8	4.0	13,515.0	113.6	54.6	85.4	63.8	22.3
2018	I	1,164.4	112.9	-4.3	3.8	4.7	13,629.0	115.5	56.8	85.3	64.6	23.5
	II	1,182.2	113.4	-4.1	3.9	5.2	13,726.5	117.1	55.8	85.3	65.3	23.5
	III	1,205.9	115.3	-8.3	4.4	4.9	13,822.9	118.6	52.6	85.6	66.3	21.6
	IV	1,224.7	118.8	-1.6	5.0	5.0	13,941.4	119.8	54.0	86.4	67.9	18.0
2019	I (b)	1,244.4	124.0	-0.6	5.3	3.4	14,048.1	120.8	55.3	87.3	69.7	15.5
2019	Feb	1,245.0	124.0	-7.2	1.8	1.7	14,046.7	121.0	54.5	29.1	23.2	18.4
	Mar	1,249.8	125.9	-1.1	1.8	--	14,084.7	--	56.8	29.2	23.4	13.1
	Apr	1,252.1	--	-7.5	--	--	14,129.7	--	53.1	--	--	15.2
		Percentage changes (c)										
2012		-17.0	-28.2	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013		-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014		-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015		4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016		2.6	2.6	--	-1.6	29.0	3.4	4.2	--	7.4	11.0	--
2017		6.2	8.6	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018		6.7	2.4	--	31.4	24.5	3.3	5.8	--	-0.1	5.8	--
2019 (d)		7.0	12.1	--	23.3	14.6	3.1	5.6	--	-0.5	6.0	--
2017	II	7.4	6.5	--	24.0	29.3	4.4	5.9	--	1.8	8.3	--
	III	5.9	4.3	--	49.7	28.9	3.5	5.7	--	0.0	7.7	--
	IV	8.4	3.6	--	69.6	24.8	3.5	6.6	--	-0.5	6.8	--
2018	I	5.4	0.3	--	59.6	18.9	3.4	6.6	--	-0.5	5.3	--
	II	6.2	1.6	--	35.2	23.5	2.9	5.8	--	-0.1	4.4	--
	III	8.3	6.9	--	28.3	32.7	2.8	5.1	--	1.5	6.2	--
	IV	6.4	12.9	--	33.0	23.3	3.5	4.2	--	3.8	9.9	--
2019	I (e)	6.6	18.6	--	40.4	15.8	3.1	3.5	--	4.1	11.1	--
2019	Feb	0.5	1.5	--	28.3	3.3	0.2	0.4	--	0.3	0.9	--
	Mar	0.4	1.5	--	-24.8	--	0.3	--	--	0.3	0.9	--
	Apr	0.2	--	--	--	--	0.3	--	--	--	--	--

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

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

Chart 9.1 - Construction indicators (I)

Annualized percentage changes from previous period and index

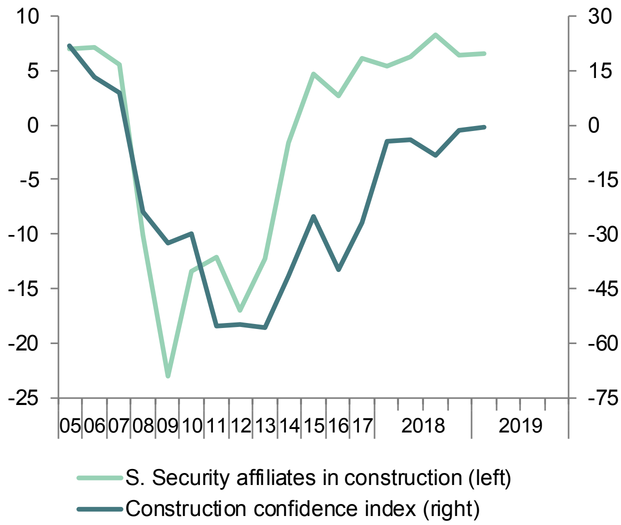


Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

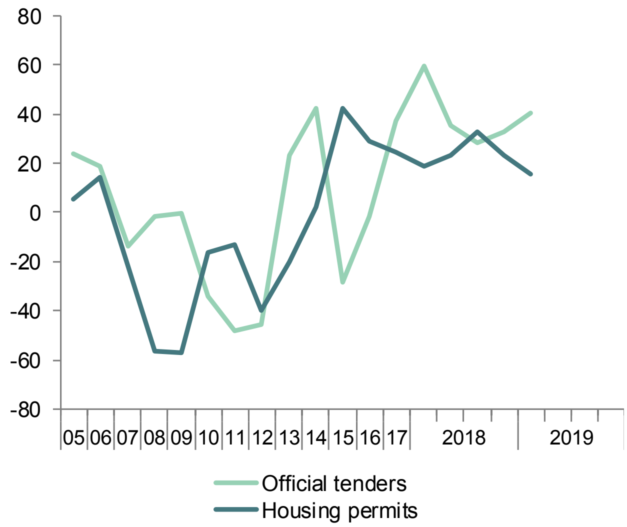


Chart 9.3 - Services indicators (I)

Annualized percentage change from previous period

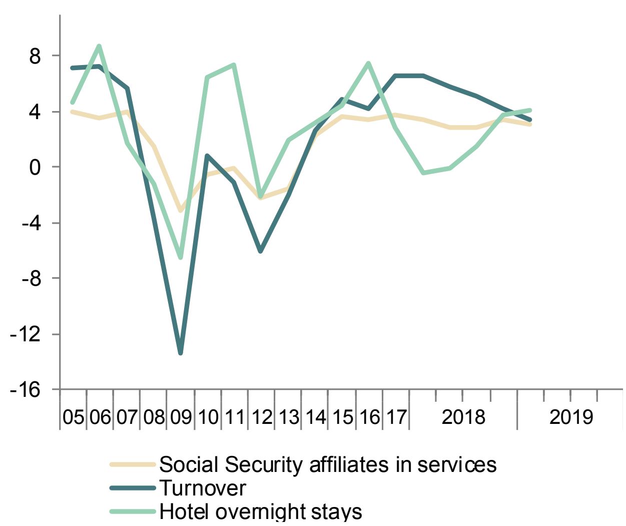


Chart 9.4 - Services indicators (II)

Index

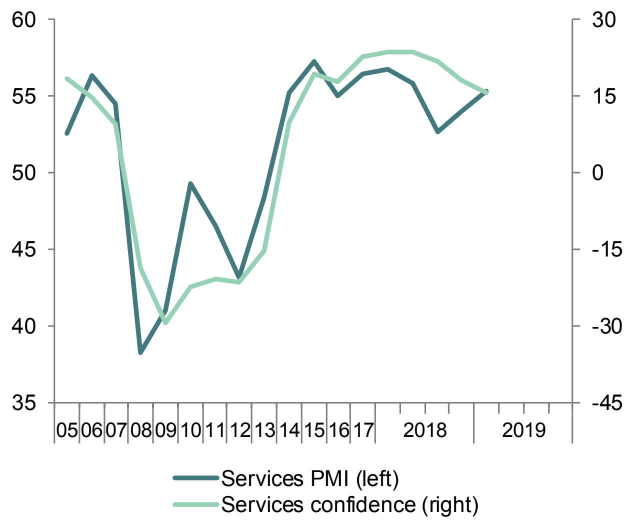


Table 10

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)
		2015=100 (smoothed)	Thousands (smoothed)	Balance of responses	Million (smoothed)	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100 (smoothed)
2012		98.8	710.6	-33.7	102.1	-24.2	107.7	-38.6	60.6
2013		95.0	742.3	-28.1	100.6	-21.8	107.6	-33.5	68.9
2014		96.0	890.1	-14.5	104.7	-9.1	137.5	-16.5	81.6
2015		100.0	1,094.0	-4.7	110.3	-3.1	180.3	0.2	93.3
2016		103.9	1,230.1	-6.3	114.2	-1.4	191.3	-0.2	97.2
2017		104.7	1,341.6	-3.4	115.8	2.2	207.6	4.9	103.3
2018		105.4	1,424.0	-4.2	116.5	-5.7	230.0	12.4	105.4
2019 (b)		101.8	345.3	-5.1	20.4	-3.4	55.9	11.4	98.5
2017	II	104.8	328.8	-3.2	28.9	3.9	51.1	7.6	103.9
	III	105.1	340.2	-1.4	28.9	4.5	53.0	-2.0	103.1
	IV	105.2	351.9	-2.5	29.0	-2.8	55.0	12.4	102.7
2018	I	105.2	358.8	-3.9	29.0	-0.4	56.5	13.8	104.1
	II	105.3	362.6	-3.0	29.0	-5.1	57.6	15.7	106.2
	III	105.5	359.0	-3.7	29.2	-10.9	58.0	11.3	107.0
	IV	106.0	344.4	-6.2	29.6	-6.7	57.8	8.8	105.8
2019	I (b)	106.8	332.1	-4.8	30.1	-3.1	57.9	10.9	105.0
2019	Feb	106.8	110.7	-5.4	10.0	5.7	19.3	0.6	--
	Mar	107.0	109.5	-2.0	10.1	-2.7	19.3	20.7	--
	Apr	--	--	-6.1	--	-4.1	--	12.8	--
					Percentage changes (c)				
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		0.7	6.1	--	0.5	--	10.8	--	2.0
2019 (d)		1.5	-5.8	--	-1.2	--	1.0	--	4.0
2017	II	1.6	10.1	--	1.3	--	8.4	--	4.2
	III	1.0	14.7	--	0.8	--	15.5	--	-3.2
	IV	0.3	14.5	--	1.2	--	15.9	--	-1.5
2018	I	0.3	8.1	--	-0.1	--	11.8	--	5.5
	II	0.3	4.3	--	-0.1	--	7.8	--	8.5
	III	0.8	-4.0	--	2.4	--	2.9	--	2.8
	IV	2.0	-15.2	--	5.7	--	-1.9	--	-4.4
2019	I (e)	2.8	-13.6	--	6.7	--	1.1	--	-2.9
2019	Jan	0.2	-1.2	--	0.5	--	0.1	--	--
	Feb	0.2	-1.1	--	0.6	--	0.2	--	--
	Mar	0.3	-1.1	--	0.6	--	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.

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

Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses

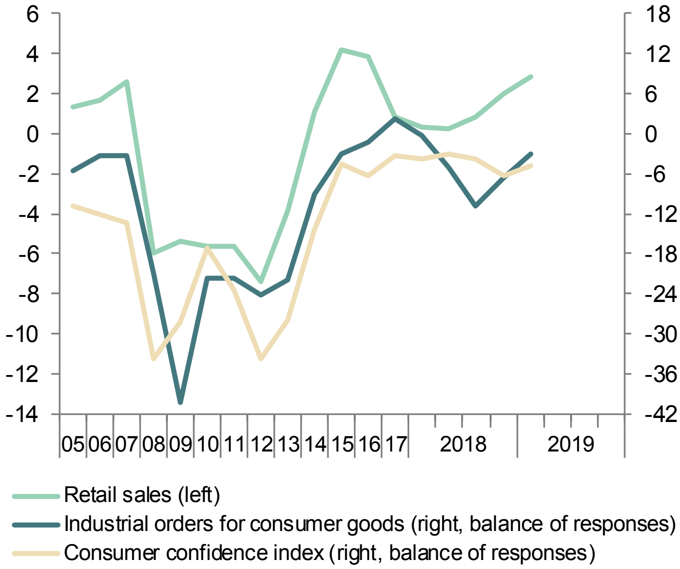


Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

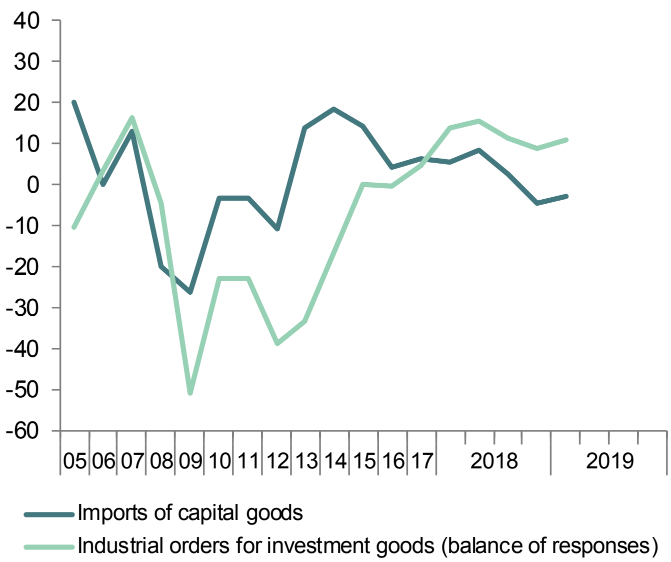


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign
									Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
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	38.6	16.3	23.8
2018		30.2	22.8	--	19.3	--	3.5	--	74.9	63.4	15.3	34.4	14.3	21.9
2019		30.2	22.8	--	19.7	--	3.1	--	74.8	64.5	13.8	--	--	--
2020		30.2	22.8	--	20.0	--	2.9	--	75.0	65.5	12.6	--	--	--
2021		30.1	22.9	--	20.3	--	2.6	--	75.4	66.7	11.4	--	--	--
2017	II	30.0	22.7	22.7	18.8	18.7	3.9	4.0	75.1	62.0	17.2	39.5	16.4	23.6
	III	30.0	22.8	22.7	19.0	18.8	3.7	3.9	75.2	62.8	16.4	36.0	15.5	22.7
	IV	30.1	22.8	22.8	19.0	18.9	3.8	3.9	75.1	62.6	16.5	37.5	15.6	23.6
2018	I	30.1	22.7	22.7	18.9	19.0	3.8	3.8	74.7	62.1	16.7	36.3	15.7	24.3
	II	30.2	22.8	22.8	19.3	19.2	3.5	3.6	75.1	63.5	15.3	34.7	14.3	21.9
	III	30.2	22.9	22.8	19.5	19.3	3.3	3.5	75.0	64.0	14.6	33.0	13.7	20.6
	IV	30.3	22.9	22.8	19.6	19.5	3.3	3.4	74.9	64.0	14.4	33.5	13.5	20.8
2019	I	30.3	22.8	22.9	19.5	19.6	3.4	3.3	74.6	63.6	14.7	35.0	13.8	20.9
		Percentage changes (d)							Difference from one year ago					
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	-5.9	-2.4	-2.8
2018		0.4	0.3	--	2.7	--	-11.2	--	-0.2	1.3	-2.0	-4.2	-2.0	-1.9
2019		0.2	0.1	--	1.9	--	-9.5	--	-0.1	1.0	-1.5	--	--	--
2020		-0.2	0.0	--	1.5	--	-8.9	--	0.2	1.1	-1.2	--	--	--
2021		-0.3	0.1	--	1.4	--	-8.9	--	0.3	1.1	-1.1	--	--	--
2017	II	-0.1	-0.6	-0.8	2.8	2.7	-14.4	-14.2	-0.5	1.7	-2.8	-7.0	-2.7	-3.7
	III	0.0	-0.3	-0.4	2.8	2.8	-13.6	-13.3	-0.3	1.7	-2.5	-6.0	-2.6	-2.1
	IV	0.1	0.1	0.0	2.6	2.7	-11.1	-11.2	-0.1	1.5	-2.1	-5.5	-2.3	-1.1
2018	I	0.2	-0.1	-0.1	2.4	2.4	-10.8	-11.2	-0.3	1.3	-2.0	-5.3	-2.1	-1.2
	II	0.4	0.5	0.4	2.8	2.8	-10.8	-10.7	0.0	1.5	-1.9	-4.8	-2.0	-1.7
	III	0.5	0.3	0.3	2.5	2.5	-10.9	-10.6	-0.2	1.2	-1.8	-3.0	-1.8	-2.1
	IV	0.6	0.5	0.4	3.0	3.0	-12.3	-12.3	-0.2	1.4	-2.1	-3.9	-2.0	-2.8
2019	I	0.7	0.7	0.7	3.2	3.2	-11.6	-12.1	-0.1	1.5	-2.0	-1.4	-1.9	-3.4

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

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

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

Annual / annualized quarterly growth rates and percentage of active population

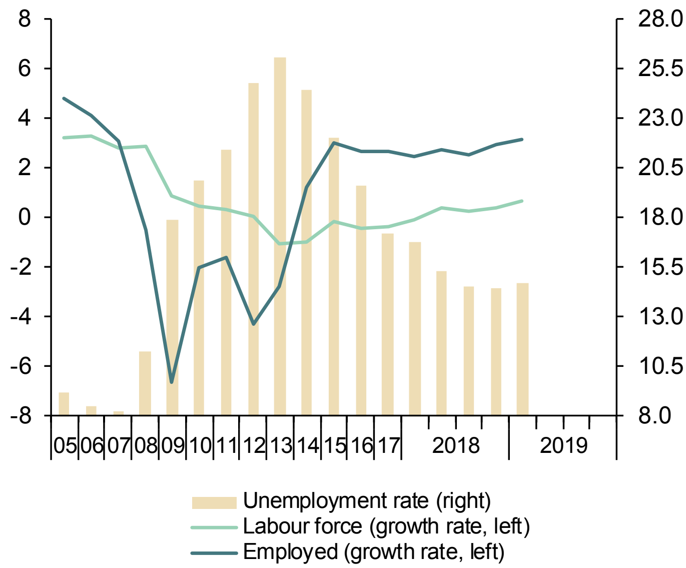


Chart 11a.2 - Unemployment rates, S.A.

Percentage

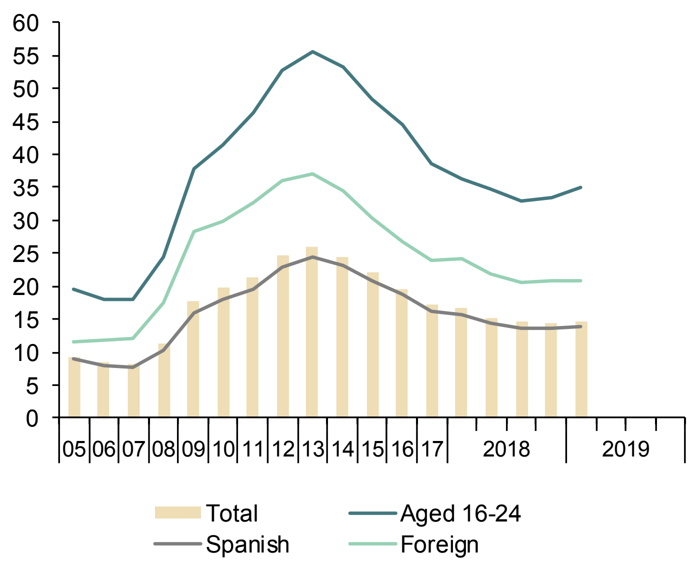


Table 11b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees							
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
		Million (original data)											
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		0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31
2019 (c)		0.84	2.71	1.28	14.64	16.36	4.23	12.12	25.9	3.11	16.57	2.90	14.90
2017	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
	IV	0.83	2.71	1.28	14.75	16.45	4.42	12.03	26.9	3.11	16.67	2.89	14.80
2019	I	0.84	2.71	1.28	14.64	16.36	4.23	12.12	25.9	3.11	16.57	2.90	14.90
		Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
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		-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2019 (d)		0.7	1.2	11.2	3.0	3.6	2.7	3.9	-0.2	1.0	3.2	3.1	0.0
2017	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
	IV	0.6	-0.1	11.9	3.0	3.3	3.9	3.1	0.2	1.1	2.9	3.2	0.0
2019	I	0.7	1.2	11.2	3.0	3.6	2.7	3.9	-0.2	1.0	3.2	3.1	0.0

(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

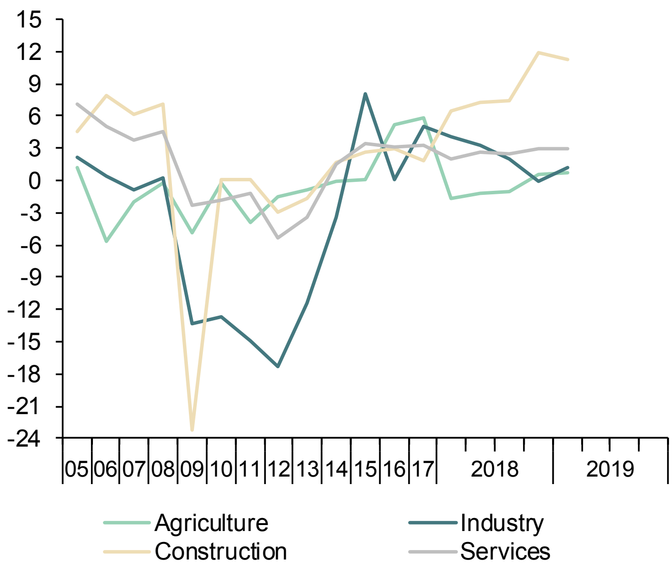


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

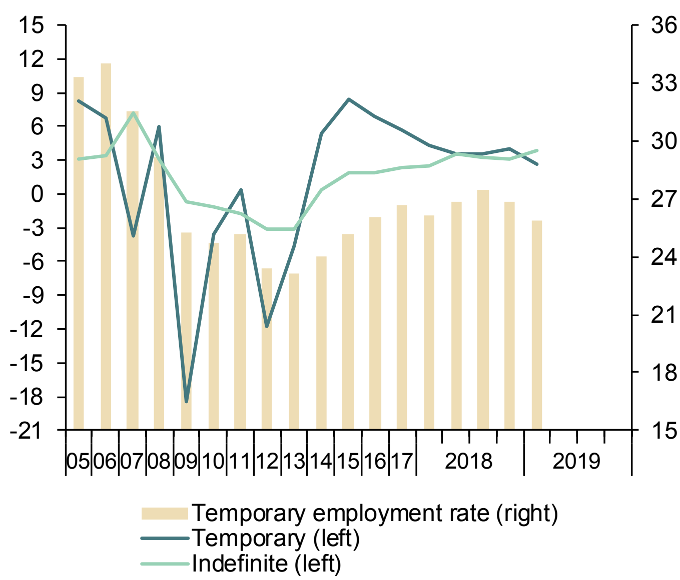


Table 12

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	66.27	80.76	25.15	41.12	14.49	7.29	11.95	21.78
Indexes, 2016 = 100										
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	100.2	103.1	101.7	105.8	114.7	103.1
2019		104.9	103.1	103.0	100.4	104.7	102.4	108.1	116.7	104.2
2020		106.3	104.3	104.1	100.7	106.5	103.4	110.4	119.1	105.7
Annual percentage changes										
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018		1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8
2019		1.2	1.0	1.0	0.2	1.5	0.7	2.2	1.8	1.1
2020		1.3	1.2	1.1	0.3	1.7	1.0	2.1	2.1	1.4
2019	Jan	1.0	0.9	0.8	0.1	1.4	0.4	2.3	1.5	1.0
	Feb	1.1	0.7	0.7	0.1	1.1	0.4	3.4	2.6	1.4
	Mar	1.3	0.7	0.7	0.2	1.1	0.4	2.0	5.6	0.9
	Apr	1.5	1.1	1.0	0.2	1.7	0.4	2.0	4.6	1.0
	May	0.9	0.9	0.8	0.2	1.4	0.5	1.5	1.2	0.8
	Jun	1.0	1.0	0.9	0.2	1.5	0.6	1.0	1.3	0.7
	Jul	1.1	1.1	1.0	0.3	1.6	0.7	2.2	1.3	1.2
	Aug	1.1	1.1	1.1	0.3	1.7	0.7	2.6	0.4	1.3
	Sep	1.0	1.2	1.1	0.3	1.7	1.0	2.9	-0.9	1.6
	Oct	0.9	1.1	1.1	0.3	1.7	0.9	2.3	-1.5	1.4
	Nov	1.2	1.1	1.1	0.2	1.6	1.2	2.2	1.0	1.6
	Dec	1.7	1.1	1.1	0.2	1.7	1.3	2.3	5.1	1.6
2020	Jan	1.8	1.1	1.2	0.2	1.7	1.4	3.1	5.2	2.0
	Feb	1.5	1.2	1.2	0.2	1.7	1.3	2.8	2.9	1.8
	Mar	1.5	1.2	1.2	0.3	1.8	1.2	3.2	2.5	1.8
	Apr	1.5	1.2	1.2	0.3	1.8	1.1	2.8	2.3	1.7
	May	1.4	1.3	1.2	0.3	1.8	1.1	2.5	1.6	1.5
	Jun	1.3	1.2	1.2	0.4	1.8	1.0	2.0	1.6	1.3
	Jul	1.2	1.2	1.1	0.4	1.7	0.9	1.3	1.6	1.0
	Aug	1.1	1.1	1.1	0.4	1.6	0.8	1.1	1.5	0.9
	Sep	1.1	1.1	1.1	0.4	1.6	0.7	1.3	1.5	0.9
	Oct	1.2	1.2	1.1	0.4	1.6	0.7	1.9	1.3	1.1
	Nov	1.2	1.2	1.1	0.4	1.6	0.7	1.9	1.4	1.1
	Dec	1.2	1.2	1.1	0.4	1.6	0.7	1.9	1.4	1.1

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

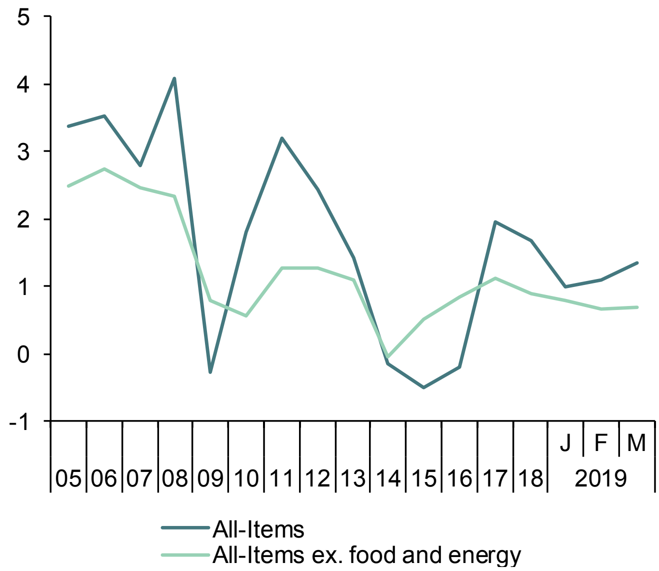


Chart 12.2 - Inflation rate (II)

Annual percentage changes

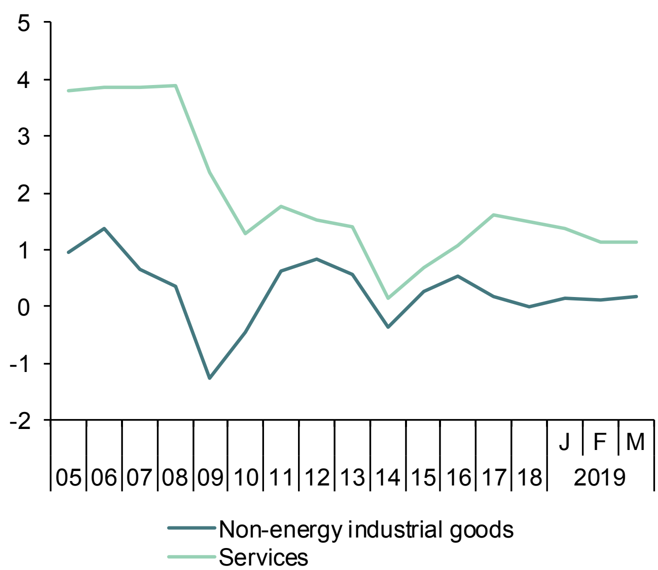


Table 13

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices: Total	Industrial producer prices: Excluding energy	Housing prices: Housing Price Index (INE)	Housing prices: m^2 average price (M. Public Works)	Urban land prices (M. Public Works)	Labour Costs Survey: Total labour costs per worker	Labour Costs Survey: Wage costs per worker	Labour Costs Survey: Other cost per worker	Labour Costs Survey: Total labour costs per hour worked	Wage increase agreed in collective bargaining
		2010=100	2015=100		2007=100			2000=100				
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	155.2	--
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		103.3	104.1	103.0	79.3	77.4	57.3	145.4	143.8	150.6	158.6	--
2019 (b)		103.6	104.2	103.0	--	--	--	--	--	--	--	--
2017	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	58.2	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	149.5	164.9	--
2018	I	102.7	102.2	102.9	76.9	76.2	58.5	141.2	138.1	150.7	148.7	--
	II	103.3	103.4	103.1	78.8	77.2	58.5	147.0	146.2	149.6	155.6	--
	III	103.4	105.6	103.1	80.5	77.3	55.7	141.3	138.0	151.4	163.3	--
	IV	103.9	105.2	103.0	80.9	78.7	56.6	152.2	152.7	150.6	166.8	--
2019	I (b)	103.6	104.2	103.0	--	--	--	--	--	--	--	
2019	Jan	--	104.3	102.9	--	--	--	--	--	--	--	--
	Feb	--	104.3	103.0	--	--	--	--	--	--	--	--
	Mar	--	104.0	103.1	--	--	--	--	--	--	--	--
Annual percent changes (c)												
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	0.3	0.5
2014		-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015		0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	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		1.0	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.5	1.8
2019 (d)		0.8	1.9	0.2	--	--	--	--	--	--	--	2.2
2017	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	1.2	0.8	1.4	6.2	1.4	-2.6	0.7	0.8	0.3	1.0	1.5
	II	1.0	3.0	1.1	6.8	2.6	-2.1	0.6	0.5	1.0	0.9	1.6
	III	1.0	5.0	1.1	7.2	2.2	-4.3	1.9	1.9	1.9	2.7	1.7
	IV	0.8	3.1	0.8	6.6	0.4	3.0	0.9	0.9	0.7	1.2	1.8
2019	I (e)	0.8	1.9	0.2	--	--	--	--	--	--	--	2.2
2019	Feb	--	1.7	0.1	--	--	--	--	--	--	--	1.8
	Mar	--	2.4	0.1	--	--	--	--	--	--	--	2.2
	Apr	--	--	--	--	--	--	--	--	--	--	2.2

(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)

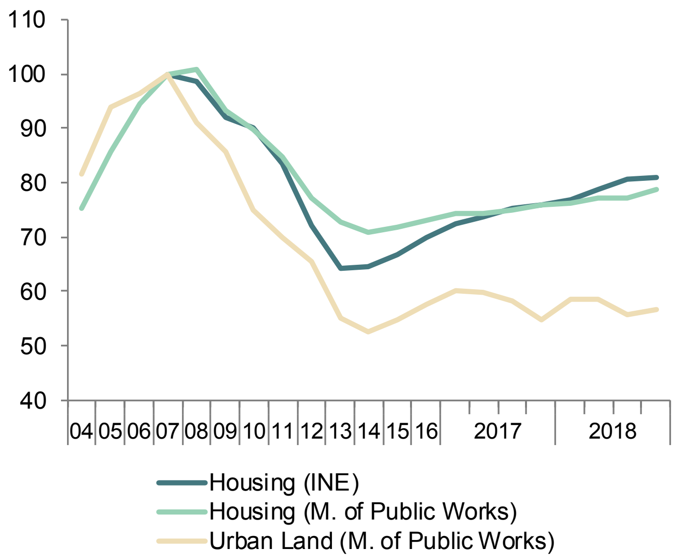


Chart 13.2 - Wage costs

Annual percent change

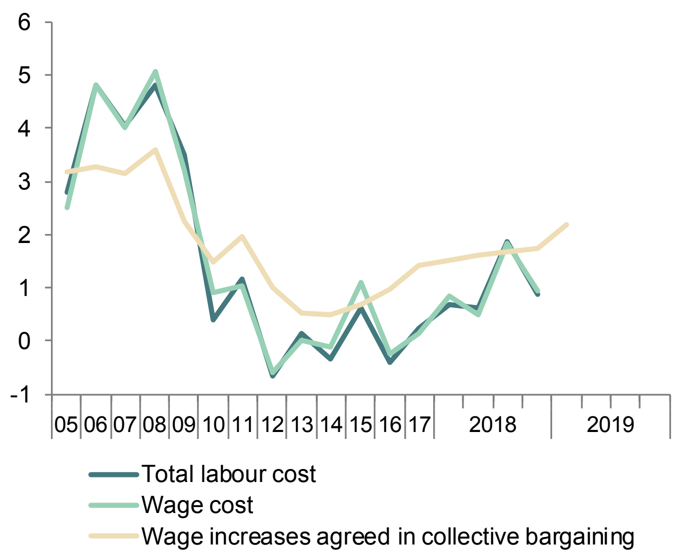


Table 14

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				
2012		145.9	110.7	131.9	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	98.7	12.3	7.3	-1.4	2.1	1.4
2014		155.2	109.4	141.9	114.0	107.3	106.3	12.7	7.3	-2.1	1.1	0.9
2015		161.2	110.1	146.5	118.0	104.6	112.9	13.5	7.3	-2.1	0.2	0.6
2016		165.4	108.2	153.0	117.5	101.3	116.1	14.2	7.2	-1.4	0.3	1.2
2017		178.2	108.9	163.7	129.8	106.1	122.4	15.1	7.9	-2.2	0.0	1.3
2018		183.9	112.1	164.1	136.9	110.9	123.5	15.6	8.2	-2.8	-0.3	1.3
2019 (b)		183.0	112.3	162.9	138.1	108.6	127.2	15.3	7.5	-3.6	-0.4	1.6
2017	I	177.6	108.5	163.7	131.0	107.2	122.2	15.2	7.6	-2.6	0.1	1.2
	II	180.1	107.7	167.2	127.5	104.6	121.9	15.2	7.9	-1.6	0.4	1.7
	III	179.2	108.8	164.7	130.3	105.1	124.0	14.8	8.1	-2.2	-0.2	1.1
	IV	185.4	110.2	168.2	133.2	107.5	123.9	15.6	8.1	-2.0	0.1	1.4
2018	I	184.8	110.9	166.7	134.9	108.2	124.7	15.7	7.9	-2.4	0.1	1.4
	II	184.0	111.3	165.4	136.7	109.1	125.2	15.5	8.1	-2.8	-0.4	1.1
	III	186.3	112.7	165.4	138.6	112.5	123.1	15.6	8.3	-2.9	-0.3	1.3
	IV	186.5	113.5	164.3	139.9	113.7	123.0	15.6	8.3	-3.1	-0.3	1.3
2018	Dec	181.2	111.9	161.9	135.7	112.7	120.4	15.4	7.8	-3.0	-0.4	1.5
2019	Jan	182.9	111.7	163.7	139.9	109.5	127.8	15.4	8.1	-3.6	-0.7	1.1
	Feb	183.2	113.0	162.1	136.3	107.7	126.6	15.8	7.7	-2.9	-0.4	1.6
		Percentage changes (c)								Percentage of GDP		
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		7.7	0.7	7.0	10.5	4.7	5.5	6.5	10.1	-2.3	0.0	1.3
2018		3.2	3.0	0.2	5.4	4.5	0.9	3.1	3.5	-2.8	-0.2	1.3
2019(d)		0.3	1.8	-1.5	2.2	0.5	1.7	0.6	-0.4	--	--	--
2017	I	15.6	-1.1	16.9	30.0	12.9	15.1	4.5	2.1	-2.7	0.1	1.3
	II	5.8	-2.7	8.7	-10.2	-9.1	-1.2	0.3	3.7	-1.6	0.4	1.7
	III	-2.0	4.1	-5.9	9.1	1.7	7.2	-2.4	3.1	-2.3	-0.2	1.1
	IV	14.5	5.3	8.8	9.0	9.4	-0.4	5.4	-0.1	-2.0	0.1	1.4
2018	I	-1.3	2.3	-3.6	5.2	2.6	2.5	0.6	-2.1	-2.4	0.1	1.4
	II	-1.6	1.4	-3.0	5.4	3.5	1.8	-1.8	2.3	-2.8	-0.4	1.1
	III	5.1	5.1	0.0	5.8	13.1	-6.5	0.7	2.3	-2.9	-0.3	1.3
	IV	0.4	3.1	-2.6	3.7	4.1	-0.3	0.2	-0.1	-3.1	-0.3	1.3
2018	Dec	-2.6	-2.0	-0.6	-2.2	-1.2	-1.0	0.1	-7.5	--	--	--
2019	Jan	0.9	-0.2	1.1	3.1	-2.9	6.1	0.0	2.8	--	--	--
	Feb	0.1	1.1	-1.0	-2.6	-1.7	-0.9	2.4	-4.2	--	--	--

(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. (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

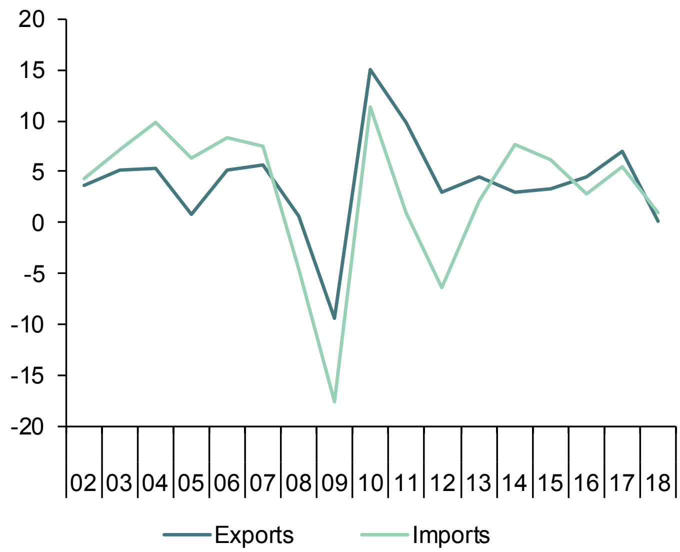


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

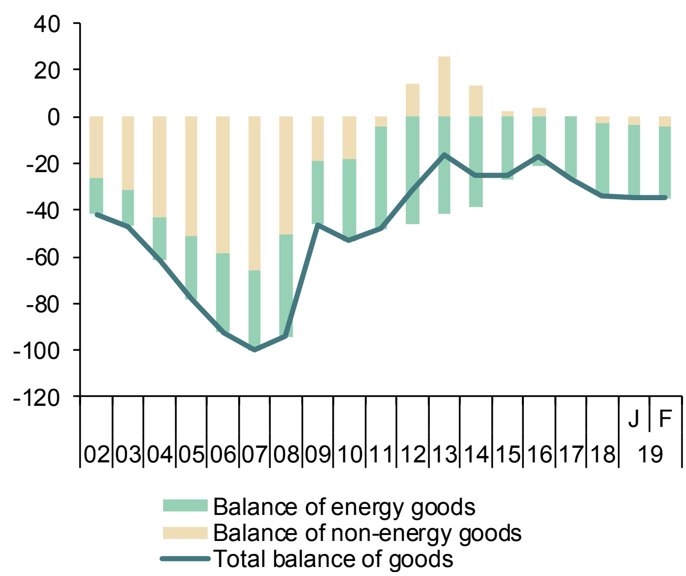


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
									Financial account, excluding Bank of Spain					Bank of Spain	
		Total	Goods	Services	Primary Income	Secondary Income			Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions															
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		11.26	-31.36	54.88	-0.28	-11.98	6.38	17.64	37.19	-10.14	1.54	44.90	0.90	-14.85	4.70
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	-1.97	-6.30	9.02	-1.14	-3.56	0.73	-1.24	1.64	-2.48	3.42	-0.82	1.52	-3.14	-0.27
	II	3.61	-6.91	15.36	-3.13	-1.71	0.74	4.35	17.74	-17.24	12.85	23.05	-0.92	-14.53	-1.14
	III	2.98	-9.98	18.17	-1.71	-3.50	1.10	4.08	-1.43	-3.93	-4.75	6.52	0.73	6.71	1.20
	IV	6.64	-8.17	12.34	5.69	-3.21	3.81	10.45	19.25	13.51	-9.98	16.15	-0.43	-3.89	4.91
			Goods and Services		Primary and Secondary Income										
2018	Dec	4.15	0.17		3.98		3.03	7.18	11.23	2.75	-9.95	18.92	-0.50	-0.49	3.56
2019	Jan	-1.47	-0.64		-0.83		0.41	-1.07	-8.44	-4.91	-1.99	-2.12	0.59	2.75	-4.62
	Feb	-2.77	0.38		-3.15		0.23	-2.54	-6.73	-0.30	-12.96	6.42	0.11	3.80	-0.38
Percentage of GDP															
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		0.9	-2.6	4.5	0.0	-1.0	0.5	1.5	3.1	-0.8	0.1	3.7	0.1	-1.2	0.4
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	-0.4	-1.2	0.3	-0.4	0.6	-0.9	1.2	-0.3	0.5	-1.1	-0.1
	II	1.2	-2.3	5.0	-1.0	-0.6	0.2	1.4	5.8	-5.6	4.2	7.5	-0.3	-4.7	-0.4
	III	1.0	-3.4	6.1	-0.6	-1.2	0.4	1.4	-0.5	-1.3	-1.6	2.2	0.2	2.3	0.4
	IV	2.1	-2.6	3.9	1.8	-1.0	1.2	3.3	6.1	4.3	-3.2	5.1	-0.1	-1.2	1.6

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

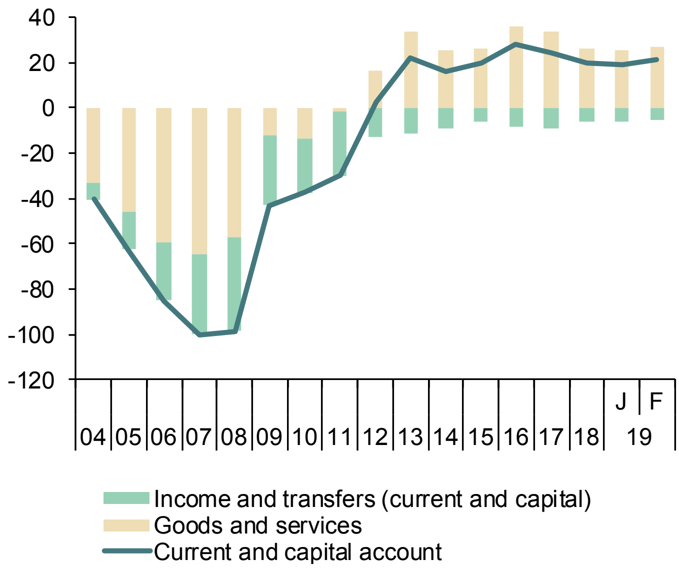


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

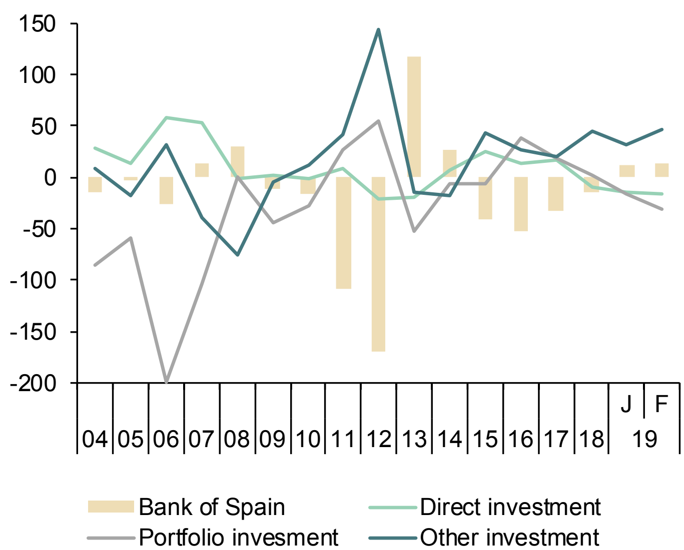


Table 16

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in manufacturing (Spain/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
2012		103.6	90.0	115.1	99.3	98.2	101.1	102.9	104.6	98.3	111.7
2013		102.0	92.9	109.9	100.8	99.5	101.3	103.5	104.4	99.1	113.4
2014		100.1	92.9	107.7	100.6	100.0	100.7	102.1	102.8	99.3	112.4
2015		98.1	90.1	108.9	100.0	100.0	100.0	100.0	100.0	100.0	108.8
2016		97.1	88.0	110.4	99.7	100.3	99.4	96.9	97.9	98.9	108.7
2017		97.2	87.1	111.6	101.7	101.8	99.9	101.2	100.7	100.5	110.2
2018		96.3	86.4	111.4	103.5	103.6	99.9	103.8	103.3	100.4	110.9
2019 (a)		--	--	--	103.4	103.5	99.9	103.8	104.0	99.8	109.5
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	110.1
	III	--	--	--	101.3	101.8	99.5	100.8	100.4	100.3	110.1
	IV	--	--	--	102.6	102.4	100.2	102.2	101.4	100.8	111.3
2018	I	--	--	--	101.7	102.1	99.7	102.2	102.1	100.1	110.7
	II	--	--	--	104.1	103.8	100.3	103.2	102.8	100.4	111.4
	III	--	--	--	103.6	104.1	99.5	105.0	104.0	100.9	110.3
	IV	--	--	--	104.4	104.3	100.1	104.7	104.3	100.4	110.9
2019	Feb	--	--	--	102.5	103.3	99.2	103.9	104.0	99.9	109.3
	Mar	--	--	--	103.9	104.4	99.6	103.7	104.1	99.6	109.7
	Apr	--	--	--	105.0	--	--	--	--	--	--
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2012		-1.0	1.3	-2.3	2.4	2.5	-0.1	3.8	2.9	0.9	2.3
2013		-1.5	3.2	-4.6	1.5	1.3	0.2	0.6	-0.2	0.8	1.5
2014		-1.9	0.0	-2.0	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-0.9
2015		-2.0	-3.0	1.1	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.1
2016		-1.0	-2.3	1.4	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	-0.1
2017		0.1	-1.0	1.1	2.0	1.5	0.5	4.5	2.8	1.7	1.3
2018		--	--	--	1.7	1.7	0.0	2.5	2.6	-0.1	0.6
2019 (b)		--	--	--	1.3	1.1	0.2	1.6	1.9	-0.3	-1.1
2017	I	--	--	--	2.7	1.8	0.9	6.9	4.2	2.7	-0.1
	II	--	--	--	2.1	1.5	0.6	4.8	3.4	1.4	-0.3
	III	--	--	--	1.8	1.4	0.4	3.6	2.5	1.1	-1.4
	IV	--	--	--	1.6	1.4	0.2	2.7	2.3	0.4	-1.9
2018	I	--	--	--	1.1	1.1	0.0	0.8	1.4	-0.6	-3.4
	II	--	--	--	1.8	1.8	0.0	2.8	2.5	0.3	-3.5
	III	--	--	--	2.3	2.3	0.0	4.2	3.6	0.6	-3.0
	IV	--	--	--	1.8	1.8	0.0	2.4	2.8	-0.4	-2.6
2019	Feb	--	--	--	1.1	1.5	-0.4	1.5	1.9	-0.4	-1.2
	Mar	--	--	--	1.3	1.4	-0.1	2.1	2.0	0.1	-1.1
	Apr	--	--	--	1.6	--	--	--	--	--	--

(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 manufacturing (Spain/EMU)

1998=100

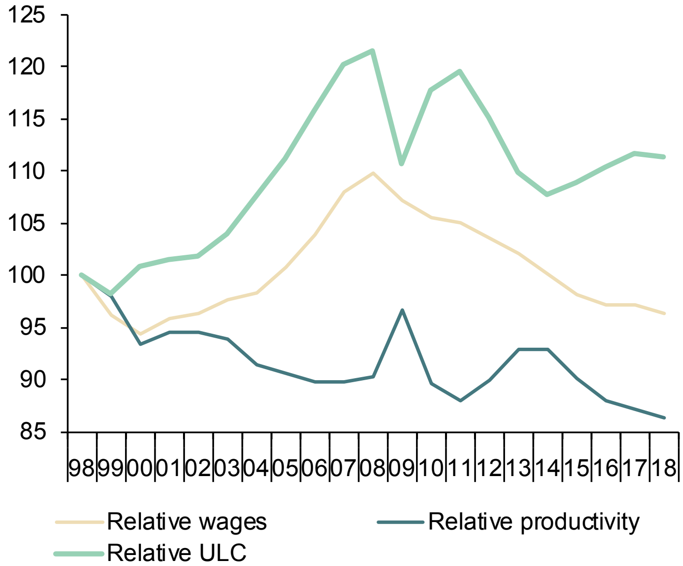


Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

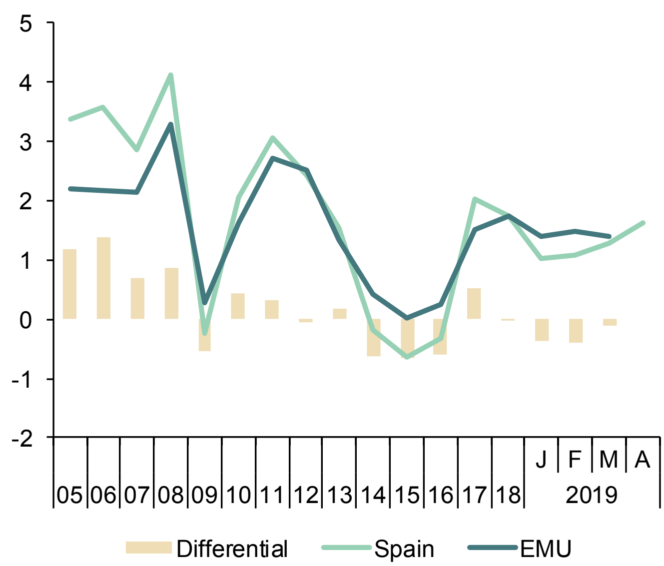


Table 17a

Imbalances: International comparison (I)

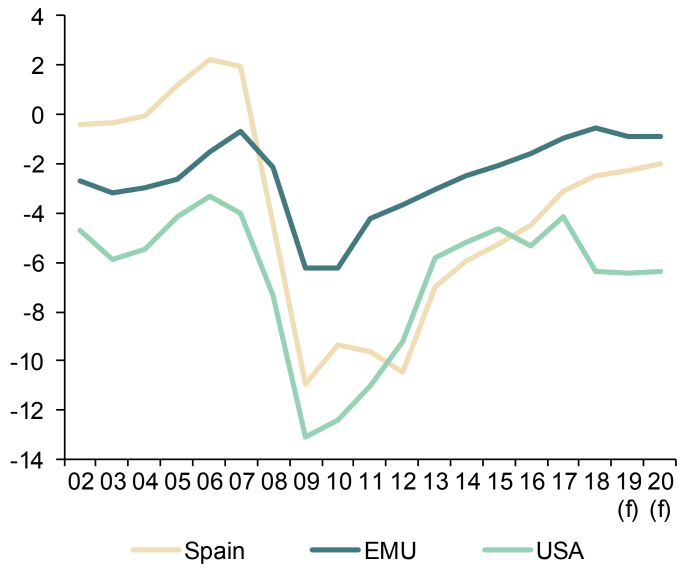
(In yellow: European Commission Forecasts)

	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	-133.9	-460.5	392.1	6,003.5	8,883.7	-90.7	26.5	-594.0
2007	20.8	-63.3	-576.0	384.7	6,113.2	9,361.0	-104.1	18.2	-728.5
2008	-49.3	-208.7	-1,084.5	440.6	6,626.6	10,856.6	-102.9	-58.3	-866.1
2009	-118.2	-579.6	-1,896.6	569.5	7,364.5	12,548.9	-46.5	50.7	-564.3
2010	-101.4	-592.5	-1,863.1	650.1	8,121.9	14,324.7	-42.0	56.7	-497.7
2011	-103.2	-416.3	-1,709.1	744.3	8,586.8	15,522.9	-35.3	79.4	-412.4
2012	-108.8	-362.0	-1,493.3	891.5	9,044.2	16,737.7	-4.6	218.1	-206.8
2013	-71.7	-304.6	-977.4	979.0	9,357.5	17,604.3	15.0	273.4	-208.2
2014	-61.9	-252.6	-905.9	1,041.6	9,603.0	18,323.6	10.3	308.0	-76.6
2015	-57.0	-215.2	-843.4	1,073.9	9,720.1	19,091.9	11.4	349.6	-169.2
2016	-50.0	-168.4	-992.1	1,107.2	9,897.1	19,986.3	24.1	375.0	-318.9
2017	-35.9	-110.5	-808.4	1,144.4	9,991.5	20,498.5	22.4	438.5	-329.3
2018	-30.0	-60.5	-1,310.2	1,173.1	10,090.7	22,008.7	11.3	418.2	-440.0
2019	-28.8	-107.2	-1,383.7	1,206.3	10,215.0	23,061.0	11.3	397.5	--
2020	-26.4	-114.1	-1,419.5	1,241.7	10,355.0	24,194.7	11.9	391.3	--
	Percentage of GDP								
2006	2.2	-1.5	-3.3	38.9	67.4	64.3	-9.0	0.3	-4.3
2007	1.9	-0.7	-4.0	35.6	65.0	64.8	-9.6	0.2	-5.0
2008	-4.4	-2.2	-7.4	39.5	68.7	73.8	-9.2	-0.6	-5.9
2009	-11.0	-6.2	-13.1	52.8	79.2	86.9	-4.3	0.5	-3.9
2010	-9.4	-6.2	-12.4	60.1	85.0	95.5	-3.9	0.6	-3.3
2011	-9.6	-4.2	-11.0	69.5	87.6	99.9	-3.3	0.8	-2.7
2012	-10.5	-3.7	-9.2	85.7	91.8	103.3	-0.4	2.2	-1.3
2013	-7.0	-3.1	-5.8	95.5	94.1	104.9	1.5	2.7	-1.2
2014	-6.0	-2.5	-5.2	100.4	94.4	104.6	1.0	3.0	-0.4
2015	-5.3	-2.0	-4.6	99.3	92.3	104.8	1.1	3.3	-0.9
2016	-4.5	-1.6	-5.3	99.0	91.4	106.8	2.2	3.5	-1.7
2017	-3.1	-1.0	-4.1	98.1	89.1	105.2	1.9	3.9	-1.7
2018	-2.5	-0.5	-6.4	97.1	87.1	107.4	0.9	3.6	-2.1
2019	-2.3	-0.9	-6.5	96.3	85.8	107.8	0.9	3.3	--
2020	-2.0	-0.9	-6.4	95.7	84.3	109.0	0.9	3.2	--

Source: European Commission Forecasts, Spring 2019.

Chart 17a.1 - Government deficit

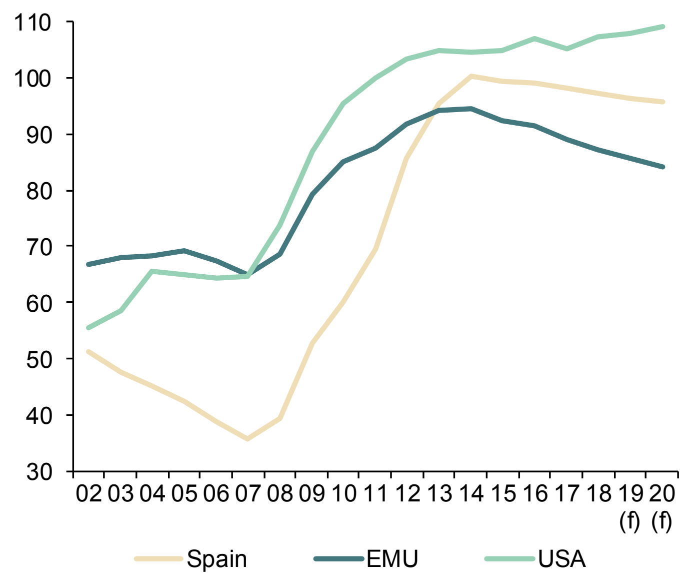
Percentage of GDP



(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	12,034.5	925.0	6,968.1	8,172.1
2006	783.5	5,187.5	13,319.7	1,158.8	7,590.8	8,988.9
2007	879.3	5,555.5	14,242.5	1,344.5	8,353.3	10,114.8
2008	916.7	5,768.6	14,111.5	1,422.6	8,998.2	10,679.9
2009	908.9	5,876.1	13,952.8	1,406.1	9,078.0	10,165.1
2010	905.2	6,019.4	13,737.2	1,429.4	9,272.2	10,020.3
2011	877.9	6,103.4	13,588.6	1,415.7	9,654.5	10,278.0
2012	840.9	6,097.0	13,595.7	1,309.8	9,837.1	10,781.8
2013	793.4	6,052.1	13,729.2	1,230.6	9,837.7	11,264.9
2014	757.3	6,055.4	13,984.8	1,180.0	10,286.5	11,972.2
2015	733.9	6,120.4	14,173.1	1,155.3	10,834.2	12,780.2
2016	721.3	6,223.1	14,614.6	1,141.9	11,176.9	13,467.2
2017	712.8	6,381.4	15,158.7	1,124.3	11,353.4	14,393.3
2018	712.0	--	15,627.7	1,125.8	--	15,243.4
	Percentage of GDP					
2005	70.5	56.3	92.3	99.4	82.3	62.7
2006	77.7	58.2	96.4	115.0	85.2	65.1
2007	81.4	59.1	98.6	124.4	88.8	70.0
2008	82.1	59.8	95.9	127.4	93.4	72.6
2009	84.2	63.2	96.6	130.3	97.6	70.4
2010	83.7	63.0	91.6	132.2	97.1	66.8
2011	82.0	62.2	87.4	132.3	98.5	66.1
2012	80.9	61.9	83.9	126.0	99.9	66.6
2013	77.4	60.9	81.8	120.0	98.9	67.1
2014	73.0	59.5	79.8	113.7	101.1	68.3
2015	67.9	58.1	77.8	106.9	102.9	70.1
2016	64.5	57.5	78.1	102.1	103.2	72.0
2017	61.1	56.9	77.8	96.4	101.4	73.9
2018	58.9	--	76.2	93.2	--	74.4

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

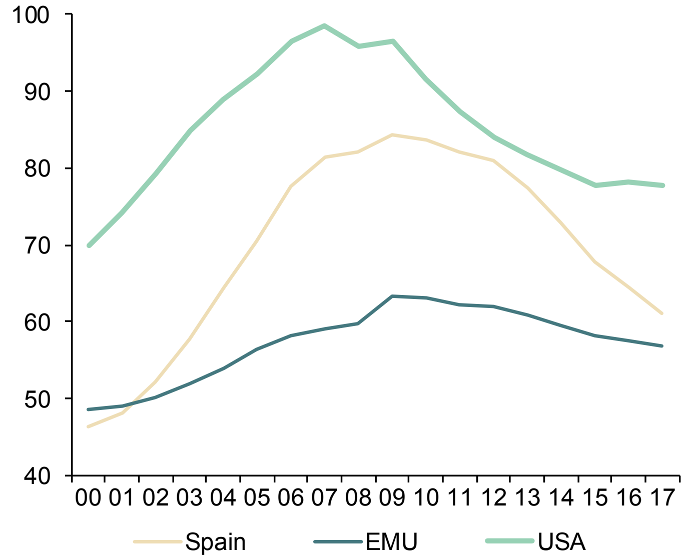
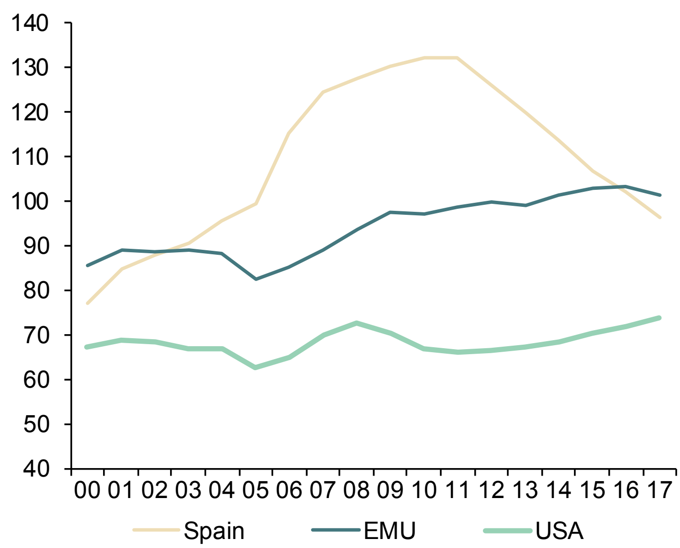


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: April 30th, 2019

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-1.5	February 2019
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.4	February 2019
Doubtful loans (monthly % var.)	-0.6	February 2019
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	722,083	March 2019
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	167,161	March 2019
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	231	March 2019
"Operating expenses/gross operating income" ratio (%)	54.39	December 2018
"Customer deposits/employees" ratio (thousand euros)	9,461.19	December 2018
"Customer deposits/branches" ratio (thousand euros)	68,190.72	December 2018
"Branches/institutions" ratio	109.28	December 2018

A. Money and Interest Rates

Indicator	Source	Average 2001-2016	2017	2018	2019 March	2019 April	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.6	4.7	4.1	4.5	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.9	-0.329	-0.309	-0.309	-0.310	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.2	-0.186	-0.117	-0.112	-0.114	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.0	1.5	1.4	1.0	1.0	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.9	1.4	1.5	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates have fallen in April. The 3-month interbank rate decreased from 0.309% in March to 0.310% in April, and the 1-year Euribor fell to -0.114% from -0.112%. The ECB has reconfirmed its plan to change the stance of monetary policy and it suggested interest rates could go up following the end of 2019, although it will act cautiously given the deceleration of the Eurozone economy. As for the Spanish 10-year bond yield, it remained at 1%.

B. Financial Markets

Indicator	Source	Average 2001-2016	2017	2018	2019 February	2019 March	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	16.3	54.60	84.19	178.15	203.05	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	17.5	27.60	49.25	91.36	95.83	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.4	3.46	1.07	0.77	1.08	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.3	4.76	1.84	1.53	1.15	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.7	-0.7	-0.52	-0.40	-0.40	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	676.8	1,127.1	1,164.63	1,189.53	1,209.72	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	-1.3	-5.9	2.4	-0.1	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	3.2	2.2	-5.3	-21.9	7.3	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	1,013.32	1,055.4	862.6	936.4	963.9 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,732.1	10,451.5	8,539.9	9,277.7	9,560.2 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.8	15.8	12.2	13.1	12.9 (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	-	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2016	2017	2018	2019 February	2019 March	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.6	-	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.2	-	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.4	0.6	-6.14	-5.27	5.9	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.6	5.8	58.5	16.6	95.2	IBEX-35 shares concluded transactions

(a) Last data published: April 28th, 2019.

Comment on "Financial Markets": During March, there was an increase in transactions with outright spot T-bills to 203.05% and also of spot government bonds transactions to 95.83%. The stock market has improved in April with the IBEX-35 up to 9,560 points, and the General Index of the Madrid Stock Exchange to 964. There was also an increase in Ibex-35 futures and financial options of 5.9% and 95.2%, respectively.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2015	2016	2017	2018 Q3	2018 Q4	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.3	2.1	2.0	1.6	1.5	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	-0.1	0.1	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	283.6	280.7	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	59.6	58.9	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	-1.5	-1.6	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	-1.1	0.1	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2018Q4, the financial savings to GDP in the overall economy fell to 1.5%. The financial savings rate of households increased from -0.1% to 0.1%. The debt to GDP ratio fell to 58.9%. Finally, the stock of financial assets on households' balance sheets registered a decrease of 1.6%, and there was a 0.1% increase in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2016	2017	2018	2019 January	2019 February	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	6.5	-0.4	-4.7	-0.8	-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	7.3	2.4	0.7	-0.5	0.4	Deposits percentage change for the sum of banks. savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	108.1	-3.7	-0.9	-0.5	1.7	Asset-side debt securities percentage change for the sum of banks. savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	9.9	0.7	-8.8	1.1	0.8	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	-2.3	-1.7	-0.6	-0.8	-0.2	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.1	-3.8	-2.3	-0.01	-0.6	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	-3.0	-3.5	-1.4	-24.5	-5.2	Liability-side assets sold under repurchase. Percentage change for the sum of banks. savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	8.4	-1.2	-4.1	-0.06	0.1	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 February 2019 show a decrease in bank credit to the private sector of 1.5%. Data also show an increase in financial institutions deposit-taking of 0.4%. Holdings of debt securities fell 1.7%. Doubtful loans decreased 0.6% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2001-2015	2016	2017	2018 September	2018 December	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	194	124	122	122	115	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	75	82	83	81	83	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	246,618	189,280	187,472	187,472(a)	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,047	28,643	27,320	26,474	26,011	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	318,141	527,317	762,540	737,065	722,083 (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	65,106	138,455	170,445	168,012	167,161 (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	20,270	1,408	96	111	231 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2017.

(b) Last data published: March 2019.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In March 2019, recourse to Eurosystem funding by Spanish credit institutions reached 167,161 billion euros.

MEMO ITEM: From January 2015, the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 336 billion euros in March 2019, and 2.6 trillion euros for the entire Eurozone banking system.

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

Indicator	Source	Average 2000-2013	2014	2015	2016	2017	2018	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	50.89	47.27	50.98	54.18	54.03	54.39	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	9,461.19	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	68,190.72	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2013	2014	2015	2016	2017	2018	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	205.80	142.85	229.04	139.84	122.22	109.28	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.1	6.8	6.57	7.05	6.97	7.20	Branch size indicator
48. "Equity capital (monthly average % var.)	Bank of Spain	0.11	0.07	0.01	-0.62	0.84	-0.79	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.45	0.49	0.39	0.26	0.44	0.57	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	4.25	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2018, 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) (%)
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	80.3	85.8	52.9	28.4	13.2	534,574	33.4
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	637,375	39.3
2018	46,722,980	43.1	19.1			53.6	29.3	13.7		
2019•	47,007,367	43.4	19.3			53.6	29.6	14.3		
Sources	EPC	EPC	EPC	ID INE	ID INE	EPC	EPC	EPC	EVR	EVR

ID INE: Indicadores Demográficos INE.

EPC: Estadística del Padrón Continuo.

EVR: Estadística de Variaciones Residenciales.

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

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

• 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 (%)
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.04
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.26
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.46
2017	18,512	2.52	14.2	11.4	7.3	6.9	2.10	35.3	33.2	2.67
2018	18,581	2.51								
2019▪	18,652	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 (%)
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	46.8		
Sources	ID INE	ID INE	ID INE	ID INE	MSAN	MSAN

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

Marriage rate: Number of marriages per thousand population.

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

Divorce rate: Number of divorces per thousand population.

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

■ *Data refer to January-Mach.*

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)
2008	32.1	9.2	16.1	26.9	1,763,019	629,247	472,604	1,377,228	50,421	51,716,008	4.63
2010	30.6	8.6	17.0	27.7	1,872,829	672,213	555,580	1,445,392	104,844	53,099,329	4.91
2012	28.5	7.5	17.8	26.6	1,912,324	692,098	617,686	1,450,036	113,805	46,476,414	4.47
2014	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846,415	4.32
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,597,784	4.31
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1,303,252	190,143	47,578,997	4.25
2017	21.4	6.6	28.5	41.2	1,758,271●	675,990●	657,143●			49,458,049	4.24
2018	20.5	6.4	29.2	42.4							
2019■	19.8	6.6	29.9	43.8							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	Contabilidad Nacional del INE

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

• *Provisional data.*

■ *Data refer to January-March.*

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood			Social Security		
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019	812,604■	6,010,200●	1,133●	954,300●	971●	2,360,000●	709●	923,860■	258,312■	194,941■	15,671■
Sources	BEL	BEL	BEL	BEL	BEL	BEL	BEL	BEL	IMSERSO	IMSERSO	IMSERSO

BEL: Boletín de Estadísticas Laborales.

IMSERSO: Instituto de Mayores y Servicios Sociales.

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

■ *Data refer to January-March.*

● *Data refer to January-April.*

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction		Patients on waiting list (days)	
	Total (% GDP)	Public (% GDP)	Total expenditure ($ per inhabitant)	Public expenditure (per inhabitant)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people asigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people asigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures	First specialist consultations
2008	8.29	6.10	2,774	2,042	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	9.01	6.74	2,886	2,157	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	9.09	6.55	2,902	2,095	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	9.08	6.36	3,057	2,140	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	9.16	6.51	3,180	2,258	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	8.98	6.34	3,248	2,293	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	8.84	6.25	3,370	2,385		0.8		0.6	6.7	7.5	106	66
2018									6.6	7.5		
Sources	OECD	OECD	OECD	OECD	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

OECD: Organisation for Economic Co-operation and Development.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

This page was left blank intentionally.

Notes

Orders or claims:

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

ISSN: 2254 - 3880
9772254388005

funcas