

The war in Ukraine and implications for Spain

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Spanish economy

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A preliminary assessment

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SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

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Letter from the Editors

The global economy faces a supply shock as a result of the impact of the conflict in Ukraine on energy and other key commodity markets. This shock has the dual consequence of exacerbating inflationary pressures already becoming entrenched as a result of the pandemic, as well as delaying the economic recovery. Growing risks for stagflation are more aggravated in Europe, due to its proximity to the hostilities and its dependence on Russian gas. The scenario is also accelerating the outlook for monetary policy normalization. Such a scenario is particularly worrisome for Spain, which is still lagging in the post-pandemic recovery and carries a high public debt burden.

Within this uncertain context, the March issue of *Spanish and International Economic & Financial Outlook (SEFO)* begins with an analysis of the impact of the conflict in Ukraine on the Spanish economy. The conflict in Ukraine is exacerbating pre-existing tensions in European energy markets, hugely dependent on Russia for supplies, with oil and gas prices already up 12% and 15%, respectively, since the start of hostilities. Those pre-existing tensions are precisely what drove the sharp uptick in inflation in Spain since mid-2021, with inflation becoming widespread from last summer on, affecting a growing number of goods and services. Since the eruption of the conflict in Eastern Europe, initial expectations that commodity prices

would start to ease by spring have been set aside, painting a worrying picture for inflation, already at its highest levels in decades, with a severe impact on consumer purchasing power and, by extension, economic growth. Spain's economic recovery is therefore more complicated – promising more inflation and less growth. A supportive monetary policy and smart fiscal policy are crucial to containing the risks. The permanent nature of the energy shock, along with the geopolitical context, also underlines the need for a higher profile role for the EU in coming years, notably as regards European-wide fiscal, technology and energy policy. Spain would be wise to understand these dynamics and, framed by its clear European commitment, bring its contribution to the table.

Also on the macro level, we provide a comprehensive assessment of Spain's recent labour reform. The long-standing structural problems in Spain's labour markets have translated into significant inequality and loss of economic efficiency. In efforts to address these issues, the labour reform approved at the end of 2021 represents a broad social agreement that dissipates some uncertainties, at least in the short-term, regarding the framework governing labour relations since the reform of 2012. Indeed, in addition to introducing improvements, such as narrowing the set of available contracts for employers and workers and increasing the focus on training,

the reform maintains several of the achievements secured over the last decade, such as those related to dismissals, firm-level flexibility mechanisms (*i.e.*, furlough schemes), and contracting/subcontracting arrangements. However, due to the limitations shaped by sharply-clashing starting positions across the various negotiating parties, the reform is not sufficiently ambitious to tackle the structural problems affecting the Spanish labour market. In calibrating the ‘flexicurity’ trade-off, the reform leans towards security, introducing elements of rigidity and ultimately restricting temporary hiring rather than stimulating open-ended hiring, potentially weighing on employment growth. A few months into the reform, preliminary evidence points to some favourable improvement in labour market trends. However, it is too soon to draw any definitive conclusions. The coming years will be key to determining how the private and public sectors implement the reform and how the legal system interprets these changes.

We then track the recent evolution of another important segment for the Spanish economy, the housing, and in particular, mortgage market. Spain’s mortgage market is recovering gradually in the wake of the pandemic, with new transactions outstripping loan repayments. Mortgage lending activity began to register year-on-year growth in April 2021, which has stabilised at around 0.7% in recent months. Average mortgage interest rates are climbing slowly, nudged along by global market trends, and rates could move higher again if the ECB is forced to withdraw its quantitative easing rapidly to curb inflation. Mortgage renegotiations are also on the rise, and we are seeing a rapid switch from floating to fixed-rate mortgages. While it is hard to quantify the potential relationship between monetary policy trends and the Spanish mortgage market, interbank rates –the key benchmark for many floating-rate mortgages– are rising strongly in the eurozone, albeit still in negative territory, which could provide upside support to bank profitability. The mortgage market recovery is, however, very recent, and has not yet consolidated. Lingered and new sources

of uncertainty (pandemic, inflation, conflict in Ukraine) are affecting savings and borrowing patterns in ways that are hard to gauge. 2022 could well be a year of stable, yet moderate, growth. It will be worthwhile to monitor potential changes in key variables for this market, including interest rates and inflation.

The next section of this *SEFO* explores issues related to the capital markets. First, we look broadly at the performance and outlook for eurozone peripheral debt, mainly that of Spain and Italy, within the evolving monetary policy context. Next, we examine recent trends in the behaviour of foreign capital inflows to Spain, offering some considerations regarding the possible impact on investor confidence of an accelerated normalization of monetary policy.

The potential withdrawal of monetary stimulus measures marks a very significant milestone for the price of public debt issued by peripheral eurozone member states. The ECB has been the biggest investor in peripheral sovereign bonds in recent years, acting as a price-taker with the unwavering objective of preventing episodes of financial fragmentation that hinder the correct transmission of monetary policy and increase the risk of financial instability. The heightened probability of accelerated withdrawal of the ECB’s monetary stimulus will likely be accompanied by the rebalancing of the relative prices of EMU peripheral sovereign debt. Indeed, the main consequence of the anticipated ECB policy shift –albeit subject to significant uncertainty related to the degree of economic fallout from the escalation of geopolitical tensions– is that the market needs to define a new equilibrium price for Spanish and Italian debt relative to that of Germany. Nonetheless, the improvement in those economies’ structural health, the ECB’s commitment to preventing fresh episodes of financial fragmentation and the outlook for strong progress towards European integration should help to reduce the risk of episodes of intense stress in the eurozone sovereign debt markets.

An analysis of IMF and Bank of Spain data ranging from the onset of the financial crisis of

2007-2008 through the present reveals that seven countries (France, Germany, Luxembourg, the US, the Netherlands, Italy and the UK) account for over two-thirds of total foreign investment (portfolio and direct) into Spain. Consequently, Spain's high level of foreign debt leaves the country vulnerable to potential interest rate increases, as a higher percentage of Spanish income would get transferred abroad as debt service. To shore up international investor confidence, Spain needs to make its public debt more sustainable, as public borrowings have increased significantly in recent years, rising from 95.5% of GDP in 2019 to 121.8% of GDP as of September 2021, in contrast to the deleveraging observed in the private sector. The challenge of improving public debt sustainability is currently more pressing given the growing prospects of an increase in the risk premium if the ECB accelerates the withdrawal of its debt repurchases to tackle rising inflation.

Moving past current debt dynamics, on a related note, we look at the importance going forward of upcoming changes of EU fiscal rules from a Spanish perspective. There are currently two key fiscal processes playing out simultaneously across EU countries: i) a recovery in national finances following the tremendous shock caused by the pandemic; and, ii) the reform of the EU's Stability and Growth Pact (SGP). The interplay of these processes is particularly key in Spain –a country that has been among the hardest hit by this crisis, with GDP contracting (-10.8%) in 2020, and expected to be among the last of the EU-27 to revisit pre-pandemic GDP levels. While Spain's recent fiscal performance has been better than expected, this will likely prove temporary, and in the absence of structural changes aimed to address the country's high level of structural deficit, Spain's fiscal imbalances will remain among the highest in the EU-27 in 2024. Indeed, without a reduction in the structural deficit, the total deficit would stagnate at over 4% and public debt would continue to trend higher, reaching 135% by 2050. Going forward, the EU is set to resume the task of reforming its existing fiscal rule framework, with an eye to correcting the issues of the past and taking into consideration

the impact of the pandemic on many member states' performance on current targets. As different European and national actors debate their positions, Spain's seat at the negotiating table would be strengthened if the country were to, in parallel, present a credible path towards fiscal consolidation.

Finally, we examine the performance of the financial sector, specifically banks' cost of equity relative to their outlook for profitability. The banking sector was one of the hardest hit during the worst months of the pandemic, with losses at one point reaching as high as 50%. The corollary has been a more intense recovery of European and Spanish bank stocks, until the rally was truncated by the escalation of geopolitical tensions between Russia and Ukraine. That intense post-pandemic rally is largely attributable to: i) the improvement in sector earnings in 2021, in particular in the case of the Spanish banks, which recognized more provisions in 2020 and have benefitted in 2021 from non-recurring gains; and, ii) a shift in the outlook for European benchmark rates, specifically an end to negative rates that have remained intact over the last five years, especially EURIBOR, of greatest relevance to the retail banking business. Despite that recovery, the banking sector continues to trade at a price-to-book ratio of less than one, highlighting the gap between the cost of equity (a parameter which is not directly observable and thus has to be estimated) demanded by investors and the returns generated by the sector. That said, if the ROE generated by the sector in 2021 proves sustainable in time, there could be scope for upside in bank valuation. Nevertheless, recent developments on the geopolitical front have raised concerns over the banks' stock market rally, as they have complicated central banks' task of controlling inflation without dampening recovery prospects. This scenario is raising uncertainty over the ultimate pace of monetary policy normalization, an expectation that has largely driven the revaluation in bank stocks observed in recent months.

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What's Ahead (Next Month)

Month	Day	Indicator / Event
April	4	Social Security registrants and official unemployment (March)
	4	Eurogroup meeting
	8	Industrial production index (February)
	12	Financial Accounts Spanish Economy (4 th quarter)
	13	CPI (March)
	14	ECB monetary policy meeting
	18	Foreign trade report (February)
	28	Labour Force Survey (1 st quarter)
	28	Preliminary CPI (April)
	29	Retail trade (March)
	29	Non-financial accounts, State (March)
	29	Non-financial accounts: Central Government, Regional Governments and Social Security (February)
	29	Preliminary GDP (1 st quarter)
	29	Balance of payments monthly (February)
May	4	Social Security registrants and official unemployment (April)
	6	Industrial production index (March)
	13	CPI (April)
	17	Foreign trade report (March)
	23	Eurogroup meeting
	27	Retail sales (April)
	30	Non-financial accounts, State (April)
	30	Non-financial accounts: Central Government, Regional Governments and Social Security (March)
	30	Preliminary CPI (May)
	31	Balance of payments monthly (March)

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What Matters



5 **The conflict in Ukraine and the Spanish economy**

The invasion of Ukraine is adding upward pressure to energy markets, which were already the main obstacle to Spain's recovery before the conflict. The precise effects of the crisis will depend on its scale and duration, but already the projections are for markedly higher inflation, significant cuts in consumer purchasing power and lower economic growth.

Raymond Torres and María Jesús Fernández



13 **The 2021 labour market reform: A preliminary assessment**

The 2021 labour reform represents a broad social agreement that dissipates some uncertainties over labour relations since the approval of the previous reform in 2012; however, the reform is not sufficiently ambitious to tackle many of the structural problems affecting the Spanish labour market. Preliminary evidence points to some favourable improvement in labour market trends following the reform's implementation, but the coming years will be key to determining its ultimate success.

Rafael Doménech



23 **The recovery of the Spanish mortgage market**

Spain's mortgage market is recovering gradually in the wake of the pandemic, with new transactions outstripping loan repayments. This recovery, however, is very recent, and has not yet consolidated, with lingering and new sources of uncertainty affecting savings and borrowing patterns in ways that are difficult to gauge.

Santiago Carbó Valverde and Francisco Rodríguez Fernández



31 **EMU peripheral sovereign debt: Resilience in the face of monetary policy and geopolitical risks**

Looming ECB policy normalisation will likely lead to the rebalancing of relative prices for EMU peripheral sovereign debt. Nonetheless, improved economic fundamentals, the ECB's commitment to preventing fresh episodes of financial fragmentation and favourable prospects for European integration should help reduce the risk of episodes of intense stress in the eurozone sovereign debt markets.

José Manuel Amor, Salvador Jiménez and Javier Pino, A.F.I.



47 **Spain's dependence on foreign capital flows and the need for improved public debt sustainability**

Seven countries currently account for over two-thirds of total foreign investment into Spain. To shore up international investor confidence, Spain needs to make its public debt more sustainable, a task that is currently more pressing given the potential for an increase in risk premium within the context of a normalisation of ECB monetary policy.

Joaquín Maudos



57 **Implications for Spain of the reform of the EU's fiscal rules**

Spain, being one of the countries hardest hit by the crisis and with pronounced fiscal imbalances, has a lot at stake in the process currently underway of reforming the EU's fiscal rules. As various European and national actors debate their positions, Spain's seat at the negotiating table could be further strengthened by a commitment to credible fiscal consolidation in the medium-term.

Santiago Lago Peñas



65 **Cost of equity for Spanish and European banks**

The banks' earnings recovery in 2021, and the prospect of rate normalisation in the relatively near future, drove significant growth in the Spanish and European banks' share prices up until the outbreak of the crisis between Russia and Ukraine injected fresh market volatility. Nevertheless, the perception remains that the banks' return on equity (ROE) does not sufficiently cover the estimated cost the market attributes to that capital (COE); however, if recent favourable ROE performance is sustainable over time, there could be significant room for upside in bank stock valuations.

Marta Alberni, Ángel Berges and María Rodríguez, A.F.I.

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The conflict in Ukraine and the Spanish economy

The invasion of Ukraine is adding upward pressure to energy markets, which were already the main obstacle to Spain's recovery before the conflict. The precise effects of the crisis will depend on its scale and duration, but already the projections are for markedly higher inflation, significant cuts in consumer purchasing power and lower economic growth.

Raymond Torres and María Jesús Fernández

Abstract: The conflict in Ukraine is exacerbating pre-existing tensions in European energy markets, hugely dependent on Russia for supplies, with oil and gas prices already up 12% and 15%, respectively, since the start of hostilities. Those pre-existing tensions are precisely what drove the sharp uptick in inflation in Spain since mid-2021, with inflation becoming widespread from last summer on, affecting a growing number of goods and services. Since the eruption of the conflict in Eastern Europe, initial expectations that commodity prices would start to ease by spring have been set aside,

painting a worrying picture for inflation, already at its highest levels in decades, with a severe impact on consumer purchasing power and, by extension, economic growth. Spain's economic recovery is therefore more complicated – promising more inflation and less growth. A supportive monetary policy and smart fiscal policy are crucial to containing the risks. The permanent nature of the energy shock, along with the geopolitical context, also underlines the need for a higher profile role for the EU in coming years, notably as regards European-wide fiscal, technology and energy policy. Spain would be wise to

understand these dynamics and, framed by its clear European commitment, bring its contribution to the table.

Energy prices, the key impediment for the recovery already before the crisis, have soared...

The initial effects of the conflict are hitting the energy markets, hugely dependent on Russia for supplies, particularly hard. Russia holds one-quarter of the world's gas reserves and is practically the only producer in a position to adjust extraction and exports as a function of market swings or its own interests.

It is also the second largest exporter of oil and its reserves account for almost 5% of the world total. Russia is likewise home to 41% of known reserves of palladium, an essential component for the technology and electric vehicle sectors. It supplies cereals and several of the minerals responsible for causing supply bottlenecks around the world.

The geopolitical shock has already had an impact on gas and oil prices, which are up 12% and 15%, respectively, since the start of the hostilities. Both markets are very volatile, inclined to overreact, leaving the door open to a potential correction, as we have seen more recently. However, prices are likely to trend higher. Firstly, because Russia uses energy to exert pressure on importing nations. Secondly, it is likely that Russia will deviate some of its exports to China. All of which without considering the potential unavailability of the gas pipeline that runs through war-torn Ukraine. Above all, the EU has already made up its mind to reduce its dependence on Russian energy.

...threatening even higher inflation...

As is well known, Russian gas is a crucial input for electricity price formation in the European

wholesale markets, even in countries like Spain whose exposure to Russia is relatively small. Higher electricity bills are precisely what caused the sharp uptick in inflation observed in the country since mid-2021.

Headline inflation actually began 2021 at very low levels –close to zero– and started to inch higher from March, reaching 6.5% in December of last year and 7.6% by February of this year (Exhibit 1). Initially, the run-up in inflation was driven exclusively by energy products and was the consequence of oil price normalisation following the sharp correction sustained the year before on account of the pandemic, as well as higher electricity prices. Core inflation, therefore, remained at close to zero. Thus, the initial increase in inflation was not a structural increase in the inflation rate, with the exception of electricity prices, but rather the growth in inflation was simply the reflection of price recovery in a very limited number of products following the reopening of the economy.

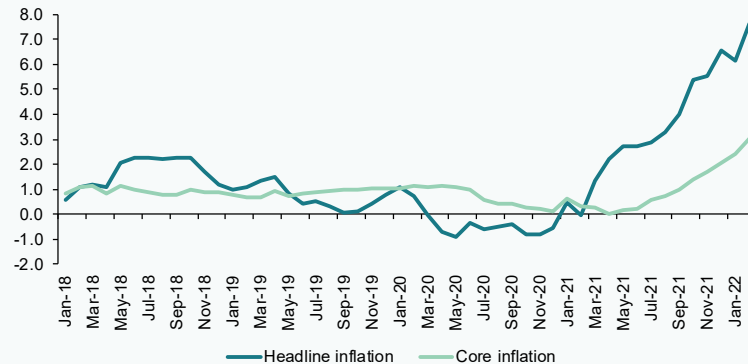
Other forces began to come into play from the summer, however. Oil prices continued to climb even after recovering pre-pandemic levels, likewise pushing fuel prices above those thresholds. Indeed, price increases had become widespread across all international energy and food commodity markets. Meanwhile, shipping costs surged and certain semi-finished products, such as chips, began to run scarce due to malfunctions derived from the pausing and subsequent rebooting of the economy in the wake of the pandemic, as well as sharp growth in demand and international trade. All of which sent production costs soaring, translating into record growth in the industrial price index, which sustained inflation of over 30% during the final months of the year, and of over 10% even stripping out energy products.

“ The geopolitical shock has already had an impact on gas and oil prices, which are up 12% and 15%, respectively, since the start of the hostilities. ”

Exhibit 1

Inflation rates

Annual percentage change of CPI



Source: INE.

In addition to the factors listed above, one of the factors that drove consumer price inflation from the summer on was the sharp increase in electricity prices, shaped in turn by the growth in international natural gas prices. Finally, core inflation began its ascent. Indeed, core

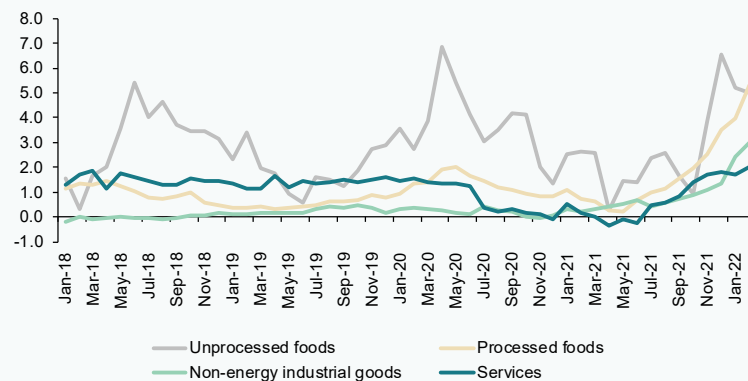
inflation went from readings of 0.6% in the first half of the year to 2.1% by December and 3% in February 2022 (Exhibit 1).

The rise in core inflation was partially driven by price recovery in certain service sectors where

Exhibit 2

Inflation rates by main components

Annual percentage change of CPI by component



Source: INE.

“ The generalisation of inflationary pressures is attributable to the passing on of higher production costs (derived from the increase in commodity and shipping costs) to end retail prices. ”

prices had fallen at the start of the pandemic, such as hotels and international tour packages, *i.e.*, due to non-structural, transient circumstances. However, inflation also rose, particularly from October, in other service categories whose prices had not corrected in 2020, and in non-energy industrial goods (which, likewise, were not adversely affected by the pandemic) and processed foods. Unprocessed food prices were highly erratic all year long, not uncommon for this category; it was not until December that inflation reached relatively high levels, of over 5%, albeit not an anomalous reading (Exhibit 2).

In short, inflation became widespread from last summer on, affecting a growing number of goods and services in consumers' shopping baskets. From then on, the number of CPI sub-components registering rising inflation began to increase, while the number of sub-components in which inflation was falling

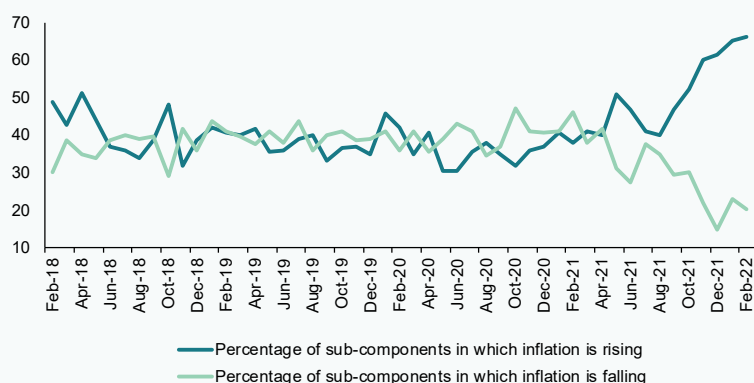
started to come down (Exhibit 3). By the same token, the number registering an inflation rate of over 2%, which before the pandemic stood at around 17% of all sub-components, had risen to 34% by last December and 54% by February of this year. This generalisation of inflationary pressures is attributable to the passing on of higher production costs (derived from the increase in commodity and shipping costs) to end retail prices.

The pattern across the broader eurozone was largely similar to that of Spain, although the increase in headline inflation was less intense, so that the spread between the two rates, which had been favourable for Spain until April, swapped sign, and has been in the eurozone's favour since then (Exhibit 4). That was the result of more intense growth in energy product prices in Spain, whereas core inflation was lower in Spain than in the

Exhibit 3

CPI sub-components in which the rate of inflation is rising or falling

Percentage of all sub-components

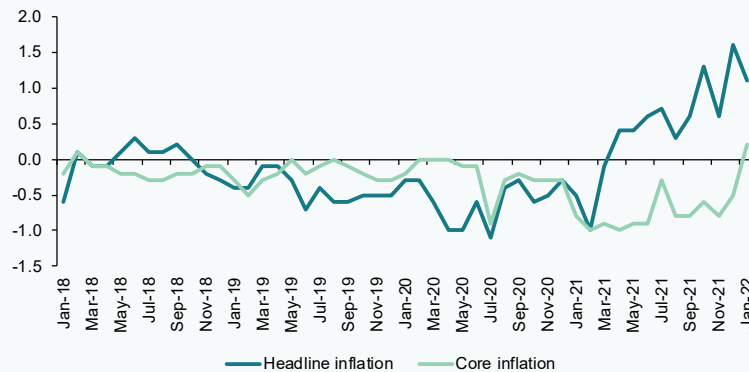


Source: Funcas, based on INE data.

Exhibit 4

Spread between Spain-eurozone inflation rates

Percentage points



Source: Eurostat.

eurozone all year long. However, the spread on core inflation also shifted in favour of the eurozone in January 2022.

... and less growth

Although uncertainty regarding the outlook for inflation has been high ever since the onset of the current inflationary outbreak, it was generally expected that commodity prices would start to ease by the spring and that the disruption affecting shipping and other sectors would dissipate. That would have unlocked a gradual decline in inflation during the second half of the year. However, the eruption of the war in Ukraine and the attendant worsening of existing tensions in the international energy and food commodity markets paints a worrying picture for inflation, already at its highest levels in decades, with a severe impact on consumer purchasing power and production costs, and, by extension, economic growth.

All of which will lead to a loss of household purchasing power and erode business margins. Even assuming a moderate impact, presuming gas prices unchanged at 100 euros per bcm and oil prices at 100 dollars a barrel (15 dollars less than at present), the Spanish economy's CPI would increase by over two percentage points relative to Funcas' pre-conflict scenario. In other words, inflation would remain above 8% for a few months before starting to come down, so that the average rate for all of 2022 would be around 6.8%, compared to our January forecast of 3.7%.

We are therefore looking at a loss of household purchasing power. Collectively bargained salaries are currently increasing at an annual rate of 2.6%, according to February data. To keep up their spending, Spanish households could use some of the savings set aside during the pandemic; however, that would undermine the economy's growth potential

“ Since last April, Spain is facing higher inflation than the eurozone, thereby reverting the earlier favourable differential. ”

“ Based on our current assumptions, inflation would remain above 8% for a few months before starting to come down, so that the average rate for all of 2022 would be around 6.8%, compared to our January forecast of 3.7%. ”

in future years. A slump in consumption therefore looks inevitable in the short- and medium-term.

Spanish businesses will also encounter new difficulties in the form of costs that were already rising sharply before the conflict. In January, the industrial price index registered year-on-year growth of 35.7%, fuelled by energy products (91.4%) and, to a lesser degree, non-energy products (12%, the highest level since 1984). That sharp upward trend echoes, above all, the surge in the cost of commodities and other crucial inputs for the productive process, such as chips and metals. So far, the growth in those costs has only been partially passed on to end prices by non-energy firms, suggesting that profits have been eroded. That unquestionably explains the social unrest taking hold in sectors, such as transport and agriculture.

The corollary is a slowdown in corporate investment, due to the pressure on profits, exacerbation of supply-chain bottlenecks in products affected by the shortage of inputs and, above all, a sense of heightened uncertainty on account of the war playing out in Eastern Europe. Without a doubt, the European funds can offset this risk to a degree. For that to happen, however, in addition to resolving the delays in their management, it is important to prioritise deployment of the funds so as not to add further to inflation. Some sectors, like construction, were already seeing costs spiral

before the conflict, not to mention supply issues.

In short, the crisis promises more inflation and less growth. In the best case scenario, *i.e.*, a relatively short-lived conflict and an agreement between the parties, the impact will be transient, so that the recovery would lose steam but continue. However, if it drags on or spreads to other countries, there would be a risk of stagflation, thus exacerbating social unrest. A prospect of grave concern for a country like Spain that is still lagging in the recovery in the wake of the pandemic and carries a high public debt burden.

Economic forecasting in a climate like this is affected by significant uncertainty regarding the performance of factors that are impossible to predict and for which we can only draw up hypotheses and a range of scenarios. Delivery of such forecasts is, therefore, conditional upon materialization of those assumptions. Against that backdrop, Funcas has revisited its growth and inflation forecasts, starting from a baseline scenario in which oil prices remain at around 120 dollars all year and gas and electricity prices hover around 25% above the levels prevailing in January and February of this year. In that scenario, our GDP forecast for 2022 would be 1.4 percentage points lower than our January forecast, at 4.2%, while our inflation forecast increases to an annual average of 6.8%, up from the 3.7% we were forecasting in January (Table 1). As

“ If the conflict drags on or spreads to other countries, there would be a risk of stagflation – a prospect of concern for a country like Spain that is still lagging in the recovery in the wake of the pandemic and carries a high public debt burden. ”

Table 1

Change in Funcas' forecasts

In percentage

	Before the conflict in Ukraine (January 2022)	After onset of the conflict (March 2022)
GDP growth	5.6	4.2
Inflation (average annual rate)	3.7	6.8

Source: Funcas.

for the expected quarterly profile, we are not expecting a recession –negative growth–, although we could see growth stall in one or more quarters, putting Spain on the cusp of stagflation. At any rate, the significant carry-over momentum implied by the sharp growth registered in the second half of 2021 makes it unlikely that annual growth will dip below 3%.

The crucial role of economic policy and sanctions

Economic policy has a key role to play. Without a doubt, the ECB will have to fine-tune its interest rate strategy in the face of significantly more persistent inflation than had been expected, with the markets currently discounting rate increases by the end of the year, if not sooner. However, it also needs to provide enough liquidity and withdraw its public bond repurchases as gradually as the situation requires. It is crucial to prevent fresh episodes of sovereign risk stress. The risk of an interruption in financing flows is particularly significant for the more indebted countries such as Spain.

Fiscal policy, meanwhile, presents more of a dilemma. In the event of a prolonged conflict, it is the only policy lever capable of mitigating, to a degree, the impact of the run-up in energy

prices on household income and economic growth. However, that strategy faces obvious limits due to the debt piled up during the pandemic. That is why a growing number of people in Brussels are calling for hydrocarbon and electricity reforms to lessen the impact of gas prices.

Management of the sanctions imposed on Russia will also be key to determining the length of the conflict. Partial disconnection from the SWIFT platform and, above all, the freezing of nearly half of the 630 billion dollars of Russia's foreign exchange reserves, are causing a run on deposits, devaluation of the rouble and increasing disarray in the financial system. Major western companies have withdrawn from the Russian market. Russia is therefore watching on as its economy nears collapse and social unrest mounts, both of which argue in favour of an agreement with Ukraine and a shorter conflict. Chinese affinity, however, in harmony with the joint declaration sealed during the Winter Olympics, has been on display, breathing life into Russia's strategy (support that will unquestionably come at a price).

On balance, the conflict unleashed in Eastern Europe complicates Spain's economic

“ Though the Russian invasion may be nearing collapse and social unrest mounts, it is unclear whether this would lead to an agreement with Ukraine and a shorter conflict any time soon. ”

recovery. A supportive monetary policy and smart fiscal policy action, in coordination with the rest of the EU, are crucial to containing the risks. However, the pre-conflict investment priorities –decarbonisation and reforms negotiated with the social parties– are as valid as ever, framed by the durable and unavoidable nature of the energy shock, even if we are lucky enough to witness a truce between Russia and Ukraine.

A new world order

Lastly, the need for coordinated European action, in economic and defence policy alike, is more important than ever in the current context of international polarisation. Behind the macroeconomic fallout from the conflict lurk geopolitical trends that have been on display for years and are now coming to the fore. China's support for Russia, while not unconditional, reinforces the Asian giant's position in its battle with the US and foreshadows changes in the multilateral system. Elsewhere, the crisis is highlighting the EU's defence and energy vulnerabilities. Germany's recent decision to increase its military spending is significant in that respect. And reducing dependence on Russian oil will unquestionably be one of Brussels' top priorities. All of which bodes for a higher-profile role for the EU in fiscal, technology and energy policy in the coming years. Spain would be wise to understand these dynamics and, framed by its clear European commitment, bring its contribution to the table.

**Raymond Torres and María Jesús
Fernández. Funcas**



The 2021 labour market reform: A preliminary assessment

The 2021 labour reform represents a broad social agreement that dissipates some uncertainties over labour relations since the approval of the previous reform in 2012; however, the reform is not sufficiently ambitious to tackle many of the structural problems affecting the Spanish labour market. Preliminary evidence points to some favourable improvement in labour market trends following the reform's implementation, but the coming years will be key to determining its ultimate success.

Rafael Doménech

Abstract: The long-standing structural problems in Spain's labour markets have translated into significant inequality and loss of economic efficiency. In efforts to address these issues, the labour reform approved at the end of 2021 represents a broad social agreement that dissipates some uncertainties, at least in the short-term, regarding the framework governing labour relations since the reform of 2012. Indeed, in addition to introducing improvements, such as narrowing the set of available contracts for employers and workers

and increasing the focus on training, the reform maintains several of the achievements secured over the last decade, such as those related to dismissals, firm-level flexibility mechanisms (*i.e.*, furlough schemes), and contracting/subcontracting arrangements. However, due to the limitations shaped by sharply-clashing starting positions across the various negotiating parties, the reform is not sufficiently ambitious to tackle the structural problems affecting the Spanish labour market. In calibrating the 'flexicurity' trade-off, the

“ With the exception of the COVID-19 crisis, unlike in other countries, the most common response by Spain’s labour market to adverse shocks in demand or supply has been to destroy jobs rather than reduce wages or working hours. ”

reform leans towards security, introducing elements of rigidity and ultimately restricting temporary hiring rather than stimulating open-ended hiring, potentially weighing on employment growth. A few months into the reform, preliminary evidence points to some favourable improvement in labour market trends. However, it is too soon to draw any definitive conclusions. The coming years will be key to determining how the private and public sectors implement the reform and how the legal system interprets these changes.

Introduction

Over the past four decades, approximately half of the gap in income per person of working age in Spain relative to the most advanced European economies has been attributable to labour market inefficiencies and inequities. Between 1980 and 2021, the rate of unemployment in Spain averaged 16.9% (more than double the rate in the aforementioned countries), marking a low of 8.2% in 2007 and a high of 26.1% in 2013, revealing how cyclical employment has been. Given that youth unemployment tends to double that of the overall labour force, it is hardly surprising that Spain fares relatively poorly in the opportunities it creates for its young people. Moreover, the incidence of temporary employment has been among the highest in the EU for decades. All of which has meant that the flows from employment to unemployment and vice versa have been very volatile. In contrast, part-time employment, particularly that which is voluntary, is far less prevalent than in neighbouring countries.

Unemployment in Spain is very high but worse still is the rate of long-term unemployment. The evidence shows that, unlike in other countries, the most common response by the labour market to adverse shocks in demand or supply has been to destroy jobs rather than reduce wages or working hours. The only exception to that pattern in decades was the COVID-19 crisis, when the furlough scheme paved the way for an adjustment via hours worked rather than job destruction. Lastly, it is worth highlighting the existence of significant regional disparity, marked by huge differences in unemployment rates that are adversely correlated with regional labour productivity levels.

All of these problems translate into significant inequality as unemployment and temporary work is concentrated more heavily in more vulnerable, lower-income population groups. As shown later on, the evidence shows that unemployment has been responsible for 80% of the change in inequality in Spain over the last three decades. Furthermore, these labour market weaknesses imply an important loss of economic efficiency. Firstly, because a large percentage of working-age people are not working. Secondly, because employment instability affects the stock of human capital by interrupting the accumulation of skills and work experience. In sum, the anomalous manner in which the job market functions in Spain has a huge cost in terms of social wellbeing.

“ The anomalous manner in which the job market functions in Spain has a huge cost in terms of social wellbeing. ”

Since the Spanish labour market's deficiencies are structural and well documented, the European Commission has been making specific recommendations for their resolution for years now. The rollout in 2020 of the NGEU recovery fund in response to the COVID-19 economic crisis requires the countries receiving those funds to take corrective action in order to adopt those country-specific recommendations. As a result, component #23 of Spain's Recovery, Transformation and Resilience Plan encompasses a raft of measures designed to make the labour market function more efficiently, specifically including the labour reform approved at the end of 2021.

The economic policy behind the 2021 labour reform

To understand the economic policy behind the 2021 reform, it is important to understand the social partners' starting positions. That of the employer and business associations was to preserve, to the extent possible, the aspects of the 2012 reform that rendered the labour market more flexible and prevent any backtracking towards more rigid labour relations. Unfortunately, the key aim of the unions, part of the government and some of the other political parties was to repeal the 2012 reforms and some of those pushed through in 2010, without having rigorously analysed their effects or reached a consensus with respect to the structural problems afflicting Spain's labour market, such as those pointed out by the Strategic Foresight Office (2021) and Andrés and Doménech (2015). The problem is that if the reforms are articulated around a biased or potentially misguided diagnosis, it is unlikely they will resolve the structural problems undermining the labour market.

Criticism of the labour reforms of 2010 and, above all, 2012 has centred on the precarious nature of employment, the decline in real earnings and, as a result of the first two phenomena, the increase in inequality. The evidence, in contrast, suggests that during the recovery staged in the wake of the Great Recession and the sovereign debt crisis, until the onset of the pandemic, the labour market fared better on all three counts than during the previous growth cycle, from 1994 to 2007.

Exhibit 1 provides the incidence of temporary work from the first quarter of 1994 until the last quarter of 2019, relative to the unemployment rate. The average between 1994 and 2007 was 33.1%. In contrast, the average between 2013 and 2019 was 25.4%, nearly eight points lower. At the end of 2019 when unemployment stood at 13.8%, the incidence of temporary work was 26.1%, compared to 32.8% when unemployment was at that same level during the previous growth cycle. The reforms of 2010 and 2012 reduced the gap in the cost of laying off workers on open-ended contracts and set objective criteria for such layoffs (OECD, 2013), unquestionably helping reduce the incidence of temporary work, as did the shift in the economy's sectoral make-up (for example, reduced weight of construction) and in the pattern of growth (for example, growth in exports and exporting firms, which tend to hire relatively fewer temporary workers).

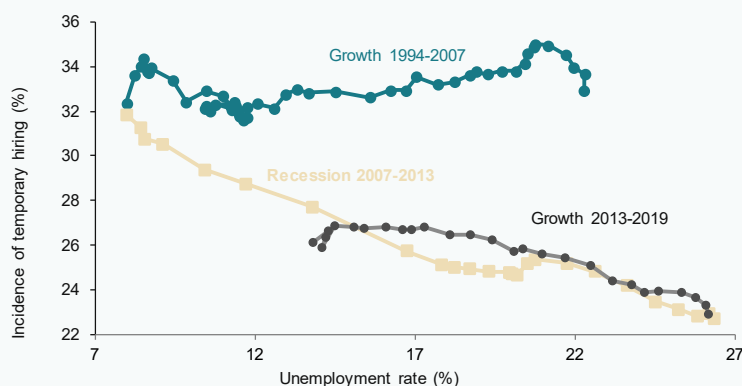
It is worth noting, however, that the changes in the sectoral structure do not appear to be sufficient to explain the significant reduction in the use of temporary hiring arrangements between the two growth cycles. In fact, if we decompose the reduction between that prompted by the changes in sector weightings and that attributed to other factors, we

“ Criticism of prior labour reforms has centred on the precarious nature of employment, the decline in real earnings and, consequently, the increase in inequality; yet, evidence suggests that the labour market fared better on all three counts during the period from the GFC to the onset of the pandemic than during the previous growth cycle. ”

Exhibit 1

Spain: Unemployment and incidence of temporary hiring, 1Q1994-1Q2019

Percentage, SCA



Source: BBVA Research based on INE statistics.

observe the existence of a component that is common across all sectors. Despite enormous differences in the incidence of temporary hiring from one sector to another (54% in the primary sector *versus* just 8% in the financial sector), the movements in the weight of the various industries explain a scant few tenths of a point of the reduction in incidence. The reason is that, with the exception of the education, health and government sectors, the incidence of temporary work has fallen across the board. Between 1995 and 2020, it decreased by 6.7 points in the primary sector, 7.3 points in services, 13.5 points in manufacturing and 27.8 in construction.

Another common criticism of the earlier reforms is the fact that the average duration of temporary contracts has shortened, increasing contract turnover. However, even though the

previous reforms increased incentives for open-ended relative to temporary contracts, none of the reforms altered the relative attractiveness of one kind of temporary arrangement over another. Therefore, the reason for the growth in turnover as the prevalence of temporary hiring came down must lie elsewhere, with technological transformation and digital disruption potentially responsible for the greater use of shorter-duration contracts.

A complementary aspect of job precariousness is the rate of part-time employment, especially that which is involuntary. However, here too we find no major changes with respect to the previous situation. According to Eurostat data as of 2019, the rate of part-time employment in Spain was 14.4% that year, seven points below the EU average

“ The trend in real wages during the years of growth between 2013 and 2019 was better than that observed during the previous cycle, between 1994 and 2007. ”

Exhibit 2

Trend in real wages per FTE worker, Spain 1994-2020



Source: BBVA Research based on INE statistics.

and similar to the level observed in the years prior to the Great Recession. Moreover, the percentage of involuntary part-time work (53% in 2021) is very similar to that observed, for example, in 2011 (54%). If, in addition to these aspects, we consider the incidence of low-paid work, overqualified work and the nature of working hours (for example, the study compiled by the union Comisiones Obreras and the International Economics Institute at Alicante University, 2021), we conclude that precariousness was similar or less prevalent in 2019 than in the years before the Great Recession.

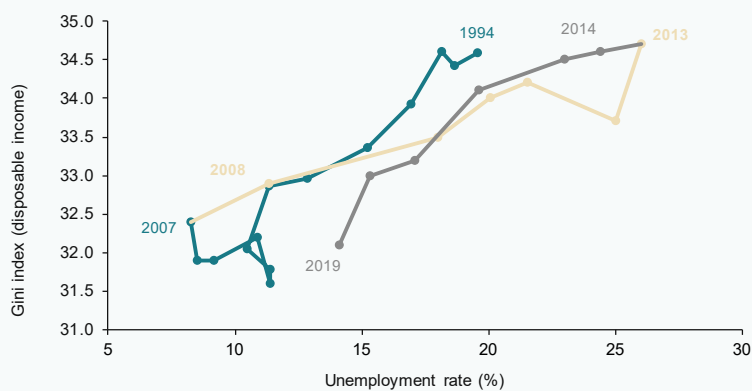
The precariousness allegedly introduced by the reform of 2012 has also been interpreted through the prism of wage devaluation, *i.e.*, a reduction in real earnings. Nor, however, does the evidence corroborate that critique. Exhibit 2 depicts the trend in real average earnings per full-time equivalent employee using the GDP deflator to convert the nominal figures into real ones, relative to the rate of unemployment. That analysis shows how the trend in real wages during the years of growth between 2013 and 2019 was better than that observed during the previous cycle, between 1994 and 2007. The recovery initiated in 2013 ushered in a reduction in unemployment in

tandem with stability in average real earnings. From the start of the recovery in early 2013 until the first quarter of 2020, unemployment came down by 12.6 points, from 26.4% to 13.8%. During that period, real wages increased by 0.1%, *i.e.*, virtually stable, for every one-point reduction in unemployment. The negative composition effect of the changes in employment on real wages that characterised previous growth cycles and recessions was not repeated during those years. In contrast, between 1994 and 2007 both unemployment and average real wages trended lower. During the previous expansionary phase, from the second quarter of 1994 until the first quarter of 2007, the rate of unemployment came down 14.3 points (from 22.3% to 8%), but real average wages decreased by 6.1%. That implied a reduction in real wages of 0.43 percentage points for every one-point reduction in the unemployment rate.

Lastly, the third common criticism of the 2012 reform is that, as a result of the precarious nature of the job market, inequality has increased. Exhibit 3 depicts the trend in inequality, measured using disposable income after taxes and transfers, between 1994 and 2019. The first observation is that inequality is closely correlated with unemployment:

Exhibit 3

Unemployment and inequality, Spain 1994-2019



Sources: BBVA Research based on INE, de la Fuente (2016) and Prados de la Escosura (2008).

the coefficient is 0.87, so confirming that the best strategy for reducing inequality in Spain is to increase the rate of employment. The second observation is that in the growth cycle initiated in 2013, inequality was nearly one point lower than in 1994-2007 at the same level of unemployment. In fact, in 2019, the Gini index was at a similar level as it was in 2005 and 2006, and actually lower than it was 2007, even though unemployment was around six points higher.

The evidence presented in Exhibits 1 to 3 shows that it is not accurate to attribute the precariousness prevailing in the job market or the structural problems it has been carrying on its shoulders for years to the reforms of 2010 and 2012.

The assessment of the 2012 reform by Doménech, García and Ulloa (2018) concludes that it prevented greater job destruction in the wake of the sovereign debt crisis over the course of 2012, and that, if the reform had been in place in 2008, it could have prevented a roughly eight-point increase in the unemployment rate between 2009 and 2012. In addition, it is fair to say that the reform of 2012 paved the way for a rapid reduction in unemployment without accumulating the macroeconomic imbalances that led to the crisis of 2008, all of which accompanied by a better performance in temporary hiring, real wages and inequality relative to the previous wave of growth, from 1994 to 2007. That being said, it is important to note that it is very hard to isolate the effects of the labour market reforms from other factors taking place during

“ The assessment of the 2012 reform concludes that it prevented greater job destruction in the wake of the sovereign debt crisis over the course of 2012, and that, had the reform been in place in 2008, it could have prevented a roughly eight-point increase in the unemployment rate between 2009 and 2012. ”

the same period. Even using methods to pinpoint which structural factors are behind the trend in variables such as employment and real wages, it is hard to separate the effects of the reform of 2012 from other factors, such as the Employment and Collective Bargaining Agreement hammered out that same year. What this sort of structural assessment does tell us is that the labour market worked more efficiently and contributed to higher growth and a more balanced recovery (refer, for example, to Boscá *et al.*, 2021). Complementing that conclusion, Stepanyan and Salas (2020) conclude that the labour reform of 2012 helped bolster job creation and the equitable distribution of household income without a significant impact on the risks of encountering poverty.

Contents of the 2021 reform

Royal Decree-Law 32/2021, of December 28th, 2021, on urgent measures to reform and transform the labour market and guarantee job stability, reflects the agreement reached between the social partners and the government to deliver some of the milestones promised to the European Commission as a prerequisite for disbursement of the NGEU funds.

In light of the analysis provided in the last section, it is certainly good news that an agreement was reached that includes unions, employer associations and the government, helping create social harmony and reducing uncertainty in the labour market, all the more so in light of the tremendous uncertainty implied by the post-pandemic recovery and, in recent weeks, that created by Russia's invasion of Ukraine. In recent years, the proposals made by the unions and certain political parties to repeal the changes introduced by the reform of 2012 and amend labour regulations has been a source of uncertainty for the productive sector which,

with this latest reform, has, fortunately and for the most part, dissipated.

It is also good news that the 2021 reform respects many of the changes introduced in 2010 and 2012. The costs of dismissing people on open-ended contracts and, by extension, the gap with respect to the cost of terminating temporary contracts, have been left intact. The latest reform has not made any changes to the objective rules for proceeding with dismissals. Businesses can still opt out of higher-level collective bargaining agreements. Other measures left in place include the furlough scheme, the option of reducing working hours and employers' unilateral ability to make substantial changes to employment terms for economic, technological, organisational or productive reasons. The experience gained from the sovereign debt and COVID-19 crises is that firm-level flexibility mechanisms such as these have been crucial in reducing job destruction rates (refer, for example, to the evidence provided by Boscá *et al.* [2017], on the separation rate since 2012).

The new reform narrows the suite of contracts, essentially boiling the choice available to employers and workers down to three contract types: open-ended (the default option), temporary (for specific reasons) and training. Within open-ended contracts, the so-called "fixed-discontinuous" contract has been made more flexible. Works contracts automatically become open-ended contracts; however, the end of the works that originate the initial hire constitutes objective grounds for terminating the contract. It would have been a positive development if that criterion had been applied more generally to other types or activities and sectors as it would have helped pin down the objective grounds for dismissal and reduce the legal uncertainty felt by businesses regarding the termination of open-ended contracts, further eating into the incidence of temporary hiring.

“ The experience gained from the sovereign debt and COVID-19 crises is that firm-level flexibility mechanisms have been crucial in reducing job destruction rates. ”

The approved reform leaves contracting and subcontracting arrangements intact, clarifying that multi-service firms need to apply sectoral collective agreements in each of the professions and services they offer. The reform opted for an intermediate solution which, on the one hand, restricts competition between companies susceptible to competing by leveraging their own collective agreements to offer lower prices and, on the other, stops short of banning business outsourcing and subcontracting, which would have been an extremely inefficient measure in economic terms and would have been tantamount to an assault on companies' right to freely organise their productive processes.

Another positive development is the importance attached to the dual vocational training scheme and training contracts. For that strategic play to work out, the training programmes will need to be well designed and satisfy the specific emerging needs of the productive system. For those contracts to boost youth employment, it would be a good idea to assess to what extent having to pay the minimum wage to young people with no prior work experience who are joining the job market is a limitation in certain sectors, positions, regions and companies, particularly SMEs. In other European countries, the minimum wage for youths with no prior work experience is lower than that for other works for a limited time. The difference between the two could be covered, at least partially, by a public wage supplement.

As for the firm-level flexibility mechanisms, the labour reform commits to the furlough scheme (a mechanism in use for decades, which made it possible to keep millions of people in work during the pandemic thanks to its combination of wage supplements and rebates from the state) and introduces a new employment flexibility and stabilisation

mechanism (RED, which means net in Spanish), which has yet to be implemented.

With a few caveats, the aspects itemised so far constitute advances for Spain's labour relations, and fall on the plus side of the column, alongside the aspects of the 2012 reform left intact. However, it is not all good news. The 2021 reform is not sufficiently ambitious to tackle the structural problems afflicting the labour market. In calibrating the 'flexicurity' trade-off, the reform leans towards security in open-ended hiring and also in temporary hiring by means of longer-duration contracts, introducing elements of rigidity as a result. For example, unlike the 2012 reform, this round of reforms has opted above all to toughen temporary hiring terms and conditions. In addition to introducing the notion that all contracts will be presumed open-ended, the reform narrows the criteria for making temporary hires, establishes limits on how long temporary contracts can be used and penalises their successive rollover. What the reform does, therefore, is to restrict temporary hiring rather than stimulate open-ended hiring, for example by accounting for severance entitlements at the individual worker level to ensure their portability between jobs, reducing the gap in those termination benefits between temporary and open-ended contracts (or changing their sign) or increasing legal certainty around indefinite hiring.

Another rigidity introduced is the reinstatement of the primacy of higher-level collective agreements over firm-level agreements for wage-setting purposes. Although this change only affects 8% of all workers, most studies (for example, OECD, 2019) find evidence in favour of providing the flexibility needed to align wages with business productivity. It is worth recalling that in Spain the collective bargaining

“ While constituting an advance for Spain's labour relations, the 2021 reform is not sufficiently ambitious to tackle the structural problems afflicting the labour market. ”

agreements negotiated at the firm level reveal a wage premium with respect to higher-level agreements beyond that attributable to the characteristics of the companies and workers in question. As for the return to indefinite ultra-activity, most collective bargaining agreements already contained negotiated clauses to avoid the one-year limit on ultra-activity introduced by the 2012 reform.

Initial effects of the labour reform

The reform's ability to reduce the incidence of temporary hiring in Spain will depend largely on whether the hiring that has traditionally taken the temporary route will be redirected to the –more stable– fixed-discontinuous contract where the employer-worker relationship is not severed, and which is propitious to accumulating experience and preventing the loss of productivity. A few months into the reform, the preliminary evidence looks positive, although it is too soon to draw conclusions, for which it is necessary to verify whether the initial trends consolidate over time. The trend in open-ended contracts is positive and that is a good sign. Conversions to open-ended contracts approached the 100,000 mark in February 2022, compared to an average of around 60,000 in prior years. New open-ended contracts increased by a factor of 2.2 to around 225,000, compared to an average of around 100,000 prior to the reform. Elsewhere, the number of fixed-discontinuous contracts increased to close to 70,000 in February 2022, compared to an average of around 20,000 in previous years.

As a result of that increase in open-ended hiring, the incidence of temporary arrangements in new hires has decreased from a monthly average of 90% before the reform to 77%. It remains to be seen, when the next labour force survey is released, how these changes in hiring flows are affecting the

overall incidence of temporary work relative to total wage-earners. It will also be important to evaluate what portion of the reduction we are seeing in temporary hiring is driven by conversions to fixed-discontinuous contracts of works contracts in the construction sector that used to be classified as temporary and are now considered open-ended, as opposed to a more widespread decrease in temporary hiring.

The figures also reveal a reduction in the number of contracts with a duration of less than one month, which accounted for 40% of all temporary contracts in 2021. The surcharge of 26 euros per short-duration contract makes it more expensive to use, a measure that should serve to stretch out the average duration of temporary contracts, which in 2021 barely topped 53 days. It is conceivable that the reduction we are seeing in short-duration contracts is attributable to that penalty. However, a similar decrease was also observed during the final months of 2021, as a result of more intense Social Security inspection activity in this area. Without a doubt, contract duration, and not just temporary *versus* open-ended hiring, is one of the metrics to watch closely.

In addition to monitoring the trend in hiring arrangements and contract duration and ensuring compliance with the new regulations, the authorities need to ensure that the drop in temporary hiring does not come at the cost of slower growth in employment. For now, growth in Social Security contributors amounted to 0.3% in February 2022, a scant 0.1 of a percentage point below the average for the previous decade.

Conclusions

The labour reform approved at the end of 2021 represents a broad social agreement

“ In addition to monitoring the trend in hiring arrangements and contract duration and ensuring compliance with the new regulations, the authorities need to ensure that the drop in temporary hiring does not come at the cost of slower growth in employment. ”

that dissipates some uncertainties, at least in the short-term, regarding the framework governing labour relations since the reform of 2012. In addition to introducing improvements, the reform does not reverse important achievements etched out over the last decade. However, due to economic policy restrictions shaped by sharply-clashing starting positions, the reform is not sufficiently ambitious to tackle the structural problems affecting the Spanish labour market by moving towards greater “flexicurity”, as seen in central and northern Europe. Although the reform will foreseeably reduce temporary hiring in the private sector as temporary contracts have been made more onerous, open-ended contracts have not been rendered more flexible. Given that legal uncertainty and the cost of terminating open-ended contracts (both ordinary and fixed-discontinuous) remain higher relative to temporary contracts, it is possible that a portion of the targeted or expected conversions will not take place, weighing on growth in employment. The coming years will be key to seeing how the private and public sectors implement the reform and how the legal system interprets these changes.

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The recovery of the Spanish mortgage market

Spain's mortgage market is recovering gradually in the wake of the pandemic, with new transactions outstripping loan repayments. This recovery, however, is very recent, and has not yet consolidated, with lingering and new sources of uncertainty affecting savings and borrowing patterns in ways that are difficult to gauge.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: Spain's mortgage market is recovering gradually in the wake of the pandemic, with new transactions outstripping loan repayments. Mortgage lending activity began to register year-on-year growth in April 2021, which has stabilised at around 0.7% in recent months. Average mortgage interest rates are climbing slowly, nudged along by global market trends, and rates could move higher again if the ECB is forced to withdraw its quantitative easing rapidly to curb inflation. Mortgage renegotiations are also on the rise, and we are seeing a rapid switch from floating to fixed-rate mortgages. While it

is hard to quantify the potential relationship between monetary policy trends and the Spanish mortgage market, interbank rates –the key benchmark for many floating-rate mortgages– are rising strongly in the eurozone, albeit still in negative territory, which could provide upside support to bank profitability. The mortgage market recovery is, however, very recent, and has not yet consolidated. Lingering and new sources of uncertainty (pandemic, inflation, conflict in Ukraine) are affecting savings and borrowing patterns in ways that are hard to gauge. 2022 could well be a year of stable, yet moderate, growth. It will be worthwhile to monitor

potential changes in key variables for this market, including interest rates and inflation.

Introduction

Now that the chief geopolitical risk for 2022 has materialised, economic analysis is clouded by considerable uncertainty. The armed conflict in Ukraine has set off a chain reaction that will end up altering economic decisions. Decisions related to housing and the mortgage market are sensitive to turbulence in key variables that are currently the subject of considerable uncertainty, including inflation, savings and interest rates.

Since the global financial crisis and its ensuing ramifications for European sovereign debt, the real estate and mortgage markets in Spain have been far less buoyant and excessive relative to the early twenty-first century. Imperative house price correction and household deleveraging are largely responsible for the trends unfolding since 2008. However, in the last five years, leaving aside the pandemic on account of its extraordinary nature, there have been some signs of recovery in both transaction volumes and prices. However, mortgages did not embark on much of a recovery until far more recently.

In quantitative terms, the mortgage segment is one of the key lending markets. Its performance is particularly important. Several factors explain why mortgages are recovering. Normalisation of economic and social activity after the worst of the pandemic, with a recovery underway and brighter prospect for this year, is helping households reconsider investments that, on account of their size, constitute important lifetime financial decisions. A significant portion of the savings pent up during the past two years

has been channelled into home spending and investment. However, recent figures point to weaker household savings, suggesting that this factor will not necessarily be a significant sustainable driver in the medium-term. That also explains why mortgage lending is beginning to increase in the context of greater interest in housing: having depleted savings, credit plays a bigger role, all the more so in a climate of ultra-low rates, albeit with tightening on the horizon. Right now, the military deployment in Ukraine warrants caution with respect to the economic and financial behaviour of the main implicated parties –potential borrowers and banks.

Although low rates had not played much of a role in the mortgage market until now, the still-expansionary monetary context is encouraging would-be buyers to invest before potential rate hikes materialise. Lastly, intensification in competition on the supply side in recent months, with the odd new tech player coming on the scene, is also likely a factor. There are offers right now not seen for years, particularly deals targeted at younger buyers, with loans for up to 80% of property appraisal values.

At any rate, risks in the mortgage market would appear to be limited for the time being. House prices are rising but in an inflationary context, making it too soon to talk about a bubble. For the medium-term, things look far from explosive –housing supply in Spain is set to increase, even as the population ages, which should mitigate price pressure, except in the unlikely scenario of intense growth in demand for housing from non-residents.

The incipient mortgage market recovery is not exclusive to Spain. In other major economies, including the US, the market already showed signs of significant growth in 2021, with price

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“ When thinking about demand for housing and mortgages, it is important to note that an element of two factors –prevailing high level of financial savings and relatively low non-performance– is critical. ”

growth of up to 19%. In 2022, with rate hikes on the horizon, the market is expected to cool a little so that price increases are expected to remain within 3%. Some institutions, such as the Mortgage Bankers Association, think prices could actually fall in the US in 2022, by around 2%. In Europe, the market is very heterogeneous. Interestingly, Germany registered price growth of up to 12% (highly unusual), compared to 4% in Spain, with the outlook for 2022 very similar. It is possible that the prospect of rate increases in 2023 will somewhat weigh on that growth.

In this paper, we analyse recent data for the Spanish market in relation to financing and mortgage terms and conditions, such as loan size and maturities. Lastly, we draw a few conclusions and share our outlook for how the mortgage market might fare in 2022.

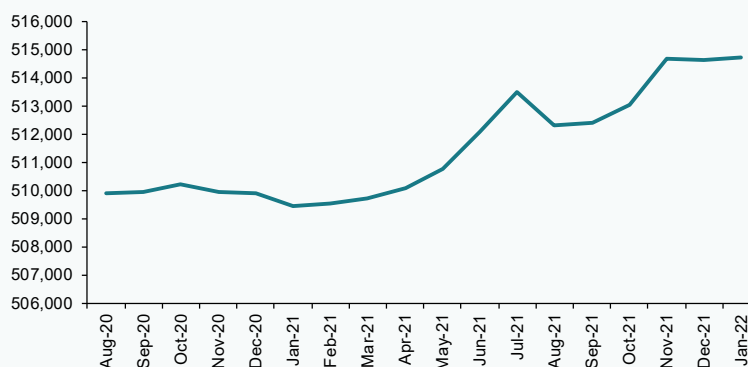
Mortgage lending activity

Sustainable growth in mortgage lending requires propitious monetary and financial stability conditions. The most recent Bank of Spain data, which date to January 2022, indicate that household deposits are growing at a year-on-year rate of 4.6%. Spanish households held 959.6 billion euros on deposit as of January 2022. Elsewhere, non-performance of private resident sector loans stood at 4.29% in December 2021, having remained fairly stable throughout the pandemic. When thinking about demand for housing and mortgages, it is important to note that an element of both of those factors –prevailing high level of financial savings and relatively low non-performance– is critical. For example, a high percentage of household deposits are sight deposits and stem from significant growth in precautionary savings related with the pandemic. And part

Exhibit 1

Stock of outstanding mortgage loans

Millions of euros

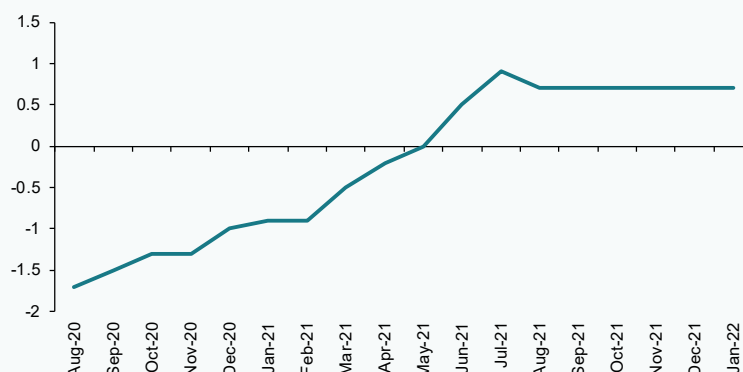


Source: Bank of Spain and authors' own elaboration.

Exhibit 2

YoY rate of growth in home financing

Percentage



Source: Bank of Spain and authors' own elaboration.

of the incipient recovery in the real estate and mortgage markets reflects the release of some of those savings; however, the upside is, obviously, limited. As for non-performance, the ratio has ultimately stayed low for much longer than anyone was expecting for an economy encountering difficulties as severe as those induced by the pandemic. The rollout and extension in time of mechanisms such as the furlough scheme, credit moratoria, various aid packages and bankruptcy leniency is likely to be responsible for some of that trend; however, some amount of additional non-performance will likely be inevitable once those supports are removed.

The mortgage market is recovering gradually, with new transactions outstripping loan repayments. However, the recovery has only become palpable very recently and is not yet linear, as shown in Exhibit 1. Having ground to

a halt in 2020, with the total stock of mortgage loans actually contracting at the height of the pandemic, in 2021, home lending etched out a couple of spikes before moving on to sustain moderate, yet stable, growth towards the end of that year and beginning of 2022. As shown in Exhibit 2, mortgage lending began to register year-on-year growth from April 2021, which has stabilised at around 0.7% in recent months.

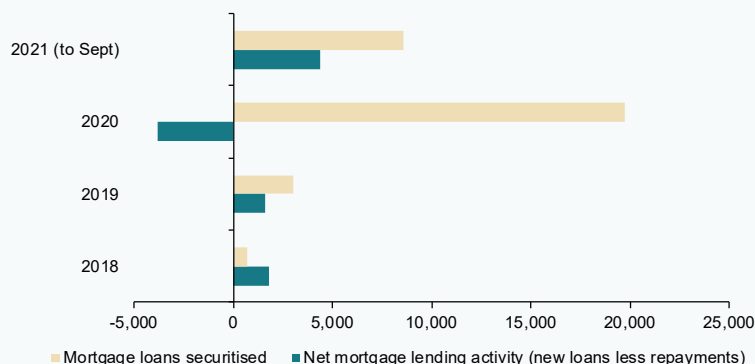
However, the actual flow of credit (new loans less repayments) has only recovered very recently (Exhibit 3). Note that at the times of lowest market volumes, the banks stepped up their securitisation activity as an alternative way to generate liquidity and business. Securitisation accounts for between 22% and 25% of the stock of outstanding credit. There is therefore upside in the securitisation business in the months to come, all the more so when rates start to rise.

“ Transaction volumes are back at pre-pandemic levels and the percentage of transactions financed by a mortgage is increasing, albeit not linearly. ”

Exhibit 3

Net lending activity and new mortgage securitisation flows

Millions of euros



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

Mortgage market dynamics: Transaction volumes, mortgages, interest rates and terms and conditions

The property ownership transfer and mortgage records kept by Spain's statistics office, the INE, offer interesting insights into how the home financing market is changing in terms of both supply and demand. As shown in Table 1, transaction volumes are back

at pre-pandemic levels and the percentage of transactions financed by a mortgage is increasing, albeit not linearly. The numbers reveal, in general, a rising need for financing.

Elsewhere, as shown in Table 2, average mortgage interest rates are climbing slowly, nudged along by global market trends and rates could move higher again if the ECB is forced to withdraw its quantitative easing

Table 1

Mortgage market in Spain: Transactions, mortgages and amounts

	Dec-21	Nov-21	Oct-21	Oct-20	Oct-19
Transaction volumes	48,119	49,895	46,242	37,605	42,825
Houses mortgaged	32,905	36,220	36,249	28,248	29,691
Mortgages/transactions	68.4	72.6	78.4	75.1	69.3
Amount loaned (€ 000)	6,710,560	5,005,203	5,006,386	3,811,213	3,837,182
Average mortgage size	157,086	138,189	138,111	134,920	129,237

Source: INE and authors' own elaboration.

Table 2

Mortgage market in Spain: Interest rates, terms and contract renegotiations

	Dec-21	Nov-21	Oct-21	Oct-20	Oct-19
Average interest rate (%)	2.59	2.59	2.59	2.47	2.42
Average term (years)	24	24	23	25	23
Percentage of mortgages at fixed rates	65.8	64.3	64.4	46.9	42.9
Percentage of mortgages at floating rates	34.2	35.7	35.6	53.1	57.1
Amendments to mortgage contracts	12,013	17,043	17,219	7,716	3,377
Percentage of amendments involving rate structure changes	21	17	17	26	35

Source: INE and authors' own elaboration.

rapidly. Mortgage renegotiations are also on the rise and we are seeing a rapid switch (or renegotiation) from floating- to fixed-rate mortgages.

It is hard to quantify the potential relationship between monetary policy trends and the Spanish mortgage market. On the one hand, the ECB's decisions are currently subject to an additional degree of uncertainty due to the escalation of the conflict in Ukraine and its ramifications for inflation, among other things. Elsewhere, it is not easy to establish a direct relationship between expectations for official rates and mortgage rates. What we are seeing is that interbank rates –the key benchmark for many floating-rate mortgages– are rising strongly in the eurozone, even though there is no set timeline for ECB tightening yet. At any rate, those rates remain negative,

limiting their impact. In addition, as noted above, three out of every four new mortgages are being arranged at fixed rates, further limiting the impact of movements in market interest rates. Nevertheless, developments in other markets where rate signals are clearer provide some clues. Take the US for example. The average fixed rate on a 30-year mortgage increased by a net 0.5% in 2021 to 2.65%. Most analysts believe rates will increase a further 0.5% in 2022. Those estimates may fall short of the mark, however. The Mortgage Bankers Association reported that the average rate on a 30-year mortgage increased to 3.64% in January, compared to 3.11% in December. That is the highest monthly jump since 2013.

Meanwhile, the Bank of England raised rates from 0.1% to 0.25% in December, and subsequently in February and March, such

“ Interbank rates –the key benchmark for many floating-rate mortgages– are rising strongly in the eurozone, even though there is no set timeline for ECB tightening yet. ”

that the Bank Rate stands at 0.75%. However, 74% of mortgaged homeowners in the UK have fixed-rate loans and are not affected by the measure.

Conclusions

The Spanish mortgage market is increasingly showing signs of recovery. Savers are holding their deposits primarily in sight accounts, with term account deposits falling considerably, suggesting that the banks could resort to securitisation in 2022 to finance growth in mortgages, particularly the securitisation of new and more profitable mortgages. A lot will depend on the ECB's liquidity facilities.

If mortgages continue to be switched from floating to fixed interest rates, the banks could see their profitability increase in the near-term (because official rates are still below mortgage rates). Judging by the trend in mortgage terms and conditions over the last two years, and with all due caution, rates on new mortgages could increase by around 0.2 percentage points a year in the absence of official rate hikes and by between 0.5 and 0.7 points for every 25bp increase in official rates (increases that are not yet on the horizon).

Purely anecdotal evidence gleaned from mortgage market prospecting points to a proliferation of aggressive offers for new loans, compared to the conservative approach taken in recent years (*e.g.*, loan-to-value rates of 80% and even 90%). That relative aggressiveness is coming primarily from the neobanks, whose market share is still very small.

Santiago Carbó Valverde and Francisco Rodríguez Fernández. University of Granada and Funcas

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EMU peripheral sovereign debt: Resilience in the face of monetary policy and geopolitical risks

Looming ECB policy normalisation will likely lead to the rebalancing of relative prices for EMU peripheral sovereign debt. Nonetheless, improved economic fundamentals, the ECB's commitment to preventing fresh episodes of financial fragmentation and favourable prospects for European integration should help reduce the risk of episodes of intense stress in the eurozone sovereign debt markets.

José Manuel Amor, Salvador Jiménez and Javier Pino

Abstract: The potential withdrawal of monetary stimulus measures marks a very significant milestone for the price of public debt issued by peripheral eurozone member states. The ECB has been the biggest investor in peripheral sovereign bonds in recent years, acting as a price-taker with the unwavering objective of preventing episodes of financial fragmentation that hinder the correct transmission of monetary policy and increase

the risk of financial instability. The heightened probability of accelerated withdrawal of the ECB's monetary stimulus will likely be accompanied by the rebalancing of the relative prices of EMU peripheral sovereign debt. Indeed, the main consequence of the anticipated ECB policy shift –albeit subject to significant uncertainty related to the degree of economic fallout from the escalation of geopolitical tensions– is that the market

needs to define a new equilibrium price for Spanish and Italian debt relative to that of Germany. Nonetheless, the improvement in those economies' structural health, the ECB's commitment to preventing fresh episodes of financial fragmentation and the outlook for strong progress towards European integration should help to reduce the risk of episodes of intense stress in the eurozone sovereign debt markets.

Introduction

During the last two years, we have witnessed two episodes of stress in eurozone peripheral sovereign bond spreads.[1] The first took place in conjunction with the health crisis induced by COVID-19 starting towards the end of February 2020. The second episode, which began at the end of the summer of 2021, and is largely attributable to expectations that monetary stimulus measures will be rolled back, above all, but also the reintroduction of the EU fiscal rules, remains ongoing. Matters have just been complicated considerably by the war in Ukraine, the consequences of which are still highly unpredictable. During this second episode, the magnitude of the widening

in spreads has –so far– been mild by comparison with that of the spring of 2020 but is nonetheless considerable.

Our study of both periods starts from an analysis of the fundamental factors that generated the tension in peripheral bond spreads and the monetary and fiscal policy measures that helped mitigate that tension. Then, to identify the type of underlying risk behind the spread widening in each episode, we take stock of other market variables that provide additional insight. Lastly, the ongoing geopolitical tensions from the war in Ukraine prompt us to look forward, with all due caution, at where the factors that could shape peripheral bonds spreads could be headed.

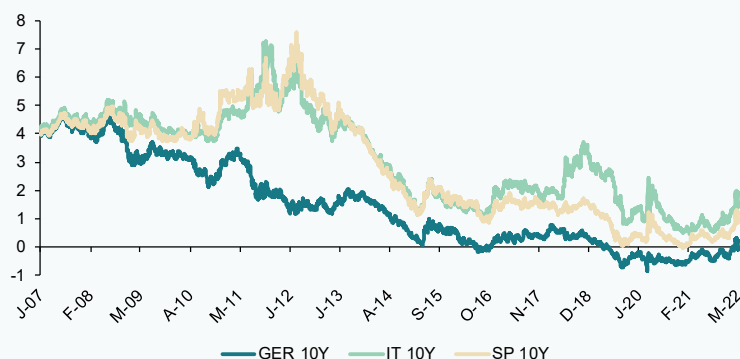
Dimensions of the risk premium and its interpretation

The difference in yields on sovereign bonds in the eurozone periphery and Germany is the measure most widely used to track the credit risk premium of the former. However, this measure can –and we think should– be rounded out with an analysis of other market variables to enrich our analysis of how the

Exhibit 1

Yields on 10Y sovereign bonds

IRR, percentage

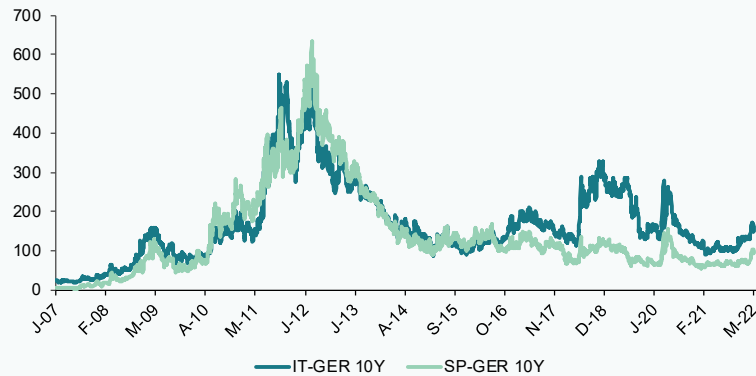


Source: Afi, Bloomberg.

Exhibit 2

Risk premium: Spread between Spanish and Italian *versus* German 10Y bonds

Basis points



Source: Afi, Bloomberg.

market is interpreting that risk at any given point in time and to help identify the nature of the factors the market associates with changes in the perceived ability of one country to repay its debt relative to that of another more creditworthy nation.

The key to the analysis is to identify to what extent the movement in country risk premiums is attributable to expectations regarding the direction of monetary policy; a shift in the equilibrium between market supply and demand vis-à-vis the advent or withdrawal of key players (with the central banks playing a leading role); sudden shifts in general risk aversion related with changes in the macro-financial environment; the potential impact of a widespread reduction in market liquidity on less 'liquid' markets; or, the emergence of

idiosyncratic risks associated with the political or economic situation of a specific country or group of countries.

Our analysis will factor in two variables –in addition to standard 10-year yield spreads– aimed at capturing the intensity of the idiosyncratic nature of the movements in spreads:

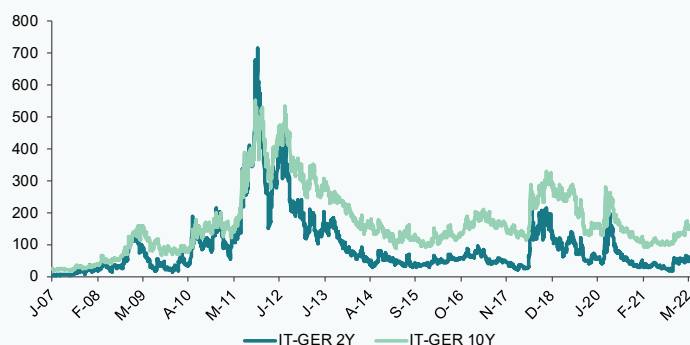
- The term structure of risk premiums, captured by means of the difference between the 2-year and 10-year risk premiums. At times of low and medium sovereign risk stress, the slope between short- and long-term risk premiums is sharp and relatively stable. In contrast, as shown by observation of the trend in that slope, during episodes of sharp growth in idiosyncratic risk, such as

“ It is necessary to complement yield spread analysis with other market variables that can provide enhanced insight into the intensity of the idiosyncratic nature of episodes of sharp volatility in spreads. ”

Exhibit 3

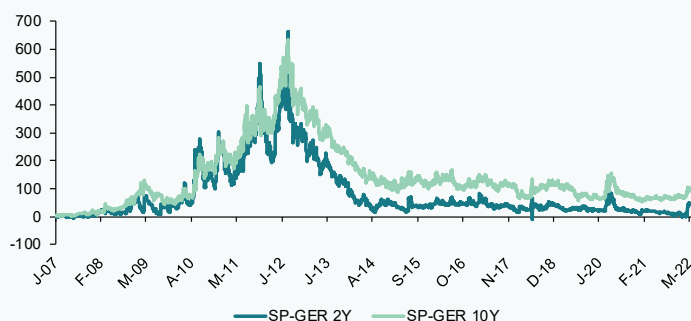
a. Trend in Italian country risk slope since 2007: Spread between 2Y and 10Y risk premiums

Basis points



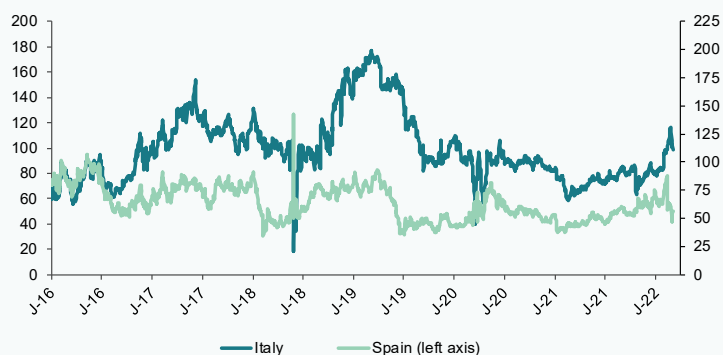
b. Trend in Spanish country risk slope since 2007: Spread between 2Y and 10Y risk premiums

Basis points



c. Trend in the spread between the 2Y and 10Y risk premiums of Italy and Spain

Basis points



Source: Afii, Bloomberg.

Exhibit 4

Spread between 5Y CDSs in USD over Italian and Spanish debt, 2003 vs. 2014 contracts

Basis points



Source: Afi, Bloomberg.

the sovereign debt crisis of 2011-2012, the political uncertainty affecting Italy in the spring of 2018 and the first few weeks after the onset of COVID-19 – that slope flattens out substantially.

- The difference between the price of ISDA [2] 2014 and 2003 credit default swaps (CDSs) in US dollars over peripheral issuer debt. This measure is key to capturing the quintessential idiosyncratic risk specific to the eurozone debt markets, *i.e.*, that of redenomination of the sovereign debt of a eurozone country into another currency. Given that the 2003 contract does not provide effective protection against that potential credit event while the 2014 contract does, the difference between the price of the two contracts is a proxy for the intensity of that risk. A glance at Exhibit 4 shows how, in the case of Italian debt, the 2018 political crisis drove a substantial increase in that country's redenomination risk premium.

We could also look at a third variable designed to capture the impact of a reduction in general market liquidity [3] on peripheral

versus German yield spreads. Peripheral risk premiums tend to widen due to those securities' reduced liquidity relative to German debt, without that widening necessarily reflecting an impairment of underlying credit risk. While acknowledging its existence, we do not deem it necessary for our analysis due to its reduced role in the formation of risk premiums by comparison with the other factors considered.

Having defined these variables, we now analyse the recent episodes of Spanish and Italian country risk premium widening with the aim of pinpointing what role each factor played in that widening.

Onset of COVID-19 and response by the European authorities

The onset of the crisis induced by COVID-19 in early 2020 triggered a bout –short but intense– of stress for the debt spreads of the governments of the countries dubbed as the eurozone “periphery” (Italy, Spain, Portugal and Greece). The cause of the increase in the relative risk of those countries' debt is well known and lies with

“ The cause of the increase in the relative risk of peripheral countries’ debt following the onset of the COVID-19 crisis is well known and lies with the perceived asymmetric impact of a growth shock on countries with very different economic and fiscal positions. ”

the perceived asymmetric impact of a growth shock on countries with very different economic and fiscal positions. From levels of around 70 and 130 basis points for the 10-year spreads between Spanish and Italian bonds over German yields, respectively, the market moved swiftly to levels of 145 and 265 basis points by mid-March.

The rapid and considerable widening in yield spreads took place in parallel with an increase (of a similar magnitude to the increase in debt market spreads) in the price of 5-year CDS coverage, similarly higher for Italy than Spain. The movement in the slope between 2-year and 10-year spreads, particularly in Italy, and the increase in the spread between CDS contracts, or the ISDA spread, likewise

more pronounced in Italy, indicate that the idiosyncratic risk component played a significant role in both countries, albeit more significant in Italy. The message sent by the market was clear: the looming shock induced by the health crisis would have an idiosyncratic impact on more vulnerable economies.

The rapid monetary response, first of all, and, at a later stage, the attendant economic policy response, limited the magnitude and scope of that movement, with spreads narrowing quickly once again and the risk premium slope returning to similar, or slightly higher than pre-crisis levels, by the early summer. The reduction in CDS and ISDA spreads was slower and more gradual and it took until early

Table 1

Analysis of events impacting the trend in Spanish and Italian bond yields during the COVID-19 crisis

February 2020–February 2021

	10Y bond IRR (%)			Risk premium (bp)		Risk premium 10Y-2Y (bp)		5Y CDS (bp)		ISDA spread (bp)		Volat (%)	Expected increase in MDF (bp)		
	Germany	Italy	Spain	Italy	Spain	Italy	Spain	Italy	Spain	Italy	Spain	€ rates	1 year	2 years	3 years
17/02/2020 (1)	-0.40	0.90	0.29	131	69	87	49	98	33	30	11	69	-7	-3	4
18/03/2020 (2)	-0.24	2.43	1.22	267	146	40	58	269	168	58	39	145	-9	6	22
23/04/2020 (3)	-0.43	1.98	1.05	241	147	73	68	239	135	60	37	68	-14	-2	6
04/06/2020 (4)	-0.32	1.42	0.55	174	88	92	61	171	75	44	23	64	-5	2	9
21/07/2020 (5)	-0.46	1.09	0.35	155	82	90	56	161	73	40	22	45	-8	-8	-4
12/02/2021 (6)	-0.43	0.48	0.16	91	59	62	39	74	37	29	12	33	-4	2	10

(1) Pre onset of COVID-19.

(2) ECB announcement of PEPP.

(3) EU announced €540bn safety net package (ESM, SURE, EIB) + Recovery Fund announcement.

(4) ECB announces increased size of PEPP.

(5) Technical details of Recovery Fund.

(6) Spreads reach their post COVID-19 crisis low.

Source: Afi, Bloomberg.

2021 for them to revisit pre-COVID levels. The reason for the different speeds with which the variables analysed readjusted may have had to do with the differential impact on the bond market (a physical market with finite supply) relative to the CDS market (a synthetic market with theoretically infinite supply) of the ECB's massive bond buyback announcement.

The monetary policy initiatives that helped rectify the situation included the decisions taken by the ECB's Governing Council on March 18th, 2020, to create the pandemic emergency purchase programme (PEPP) [4] and, later, on July 4th, 2020, to increase that fund in size, from 600 billion euros to 1.35 trillion. The key reason these measures were effective at compressing peripheral spreads lies, in our opinion, with the flexible nature of this buyback programme under which the ECB could repurchase debt in any jurisdiction (or national market), in any structure, and for as long as was necessary. Under the PEPP, the ECB's debt repurchases can deviate from the ceiling set by the capital key that governs the rest of the buyback programmes created by it, so reinforcing the signal sent to the market that the instrument was a genuine neutraliser of any issues potentially encountered by any eurozone sovereign in accessing the bond markets.

Complementing that monetary policy thrust, the national governments of the EU approved a raft of decisive countercyclical fiscal stimulus measures financed by debt issued by the European institutions. Key developments included the announcement on April 23rd, 2020, [5] of: (i) a safety net package of 540 billion euros to finance the negative impact on EU workers (SURE programme), lend support to businesses by means of loan guarantees channelled by the European Investment Bank (EIB) and a liquidity facility channelled by

the ESM to the national governments; and, (ii) the creation of a very sizeable (as yet undefined) recovery fund –which would take the form of the Next Generation EU or NGEU funds– to make a fundamental contribution to the reconstruction of Europe's economies. That fund –ultimately sized at 750 billion euros– was approved on July 21st, 2020. The message sent by these measures was similarly clear: substantial –and unprecedented for the EU– reinforcement of common fiscal policy structured so as not to harm the public finances of the individual member states.

In short, the combination of ultra-lax and unfettered monetary policy –in the form of the PEPP– in support of the countries most vulnerable to economic deterioration, coupled with a forceful fiscal policy thrust, financed at the EU level so as to have a very limited impact on individual states' public finances, sent a very powerful message that made a big difference in minimising the perceived risk of fiscal deterioration in the countries most exposed to a negative shock that, while common to all, was destined to have an asymmetric impact at the national level.

Summer 2021 to the present: Expected rollback of unconventional monetary policy and negative shock derived from the war in Ukraine

The second episode of stress in peripheral debt spreads, which remains ongoing, began at the end of the summer of 2021, spurred by the impact that the consolidating recovery post-COVID-19 and, above all, persistently high inflation readings had on market expectations regarding the scale –more pronounced– and timing –sooner– of the withdrawal of monetary stimulus measures by the central banks.

In parallel with the economic recovery and surge in inflation, the market began to price in

“ Ultra-expansionary and seemingly limitless monetary policy, coupled with a common and powerful fiscal response, were crucial to minimising the perceived risk of fiscal deterioration in the countries most vulnerable to the negative shock induced by COVID-19. ”

“ The combination of movements in market variables suggests that an increase in idiosyncratic risk has had little to do with the increase in country risk premiums, with the first fortnight of the war in Ukraine not having had a significant impact on these levels. ”

the renewal, albeit less exacting than was the case until 2019 –of policy pressure in the EU to address fiscal imbalances in the eurozone and reinstate the fiscal rules [6] suspended since February 2020.

The current geopolitical situation, the consequences of which remain highly uncertain, runs the risk of seriously exacerbating the trend in inflation during the next 12 months, while weighing on economic growth, complicating the monetary policy response and raising the fear of a fresh episode of asymmetric fallout throughout the eurozone. By the same token, partially mitigating the above, the uncertainty introduced by the current scenario could well temper the monetary authorities' decision-making when it comes to withdrawing their stimulus measures, while helping reinforce unity at the European Union level and the institutional architecture around which the eurozone is articulated.

During this second period, spreads between Spanish and Italian 10-year bonds and their German counterparts began to widen, very gradually, from the summer of 2021. That trend accelerated somewhat towards the end of the year, although still at a moderate pace, taking off more considerably in February 2022. At that juncture, the Spanish and Italian risk premiums rose to 100 and 170 basis points, respectively. In parallel to spread widening in the bond markets, CDS spreads began to widen, but by considerably less, reaching just over 50 basis points in Spain and 100 basis points in Italy. In that same vein, signalling very moderate growth in idiosyncratic risk, the slope depicted by the spread between 2-year and 10-year risk premiums not only has not flattened, but has steepened, while the ISDA spread has increased slightly in the case of Italy, while holding stable for Spanish debt. That combination of movements suggests that an increase in idiosyncratic risk has had little to do with the increase in country risk premiums.

Table 2

Analysis of events impacting the trend in Spanish and Italian bond yields following the shift in expectations regarding the withdrawal of central bank stimulus measures

August 2021 to March 2022

	10Y bond IRR (%)			Risk premium (bp)		Risk premium 10Y-2Y (bp)		5Y CDS (bp)		ISDA spread (bp)		Volat (%)	Expected increase in MDF (bp)		
	Germany	Italy	Spain	Italy	Spain	Italy	Spain	Italy	Spain	Italy	Spain		1 year	2 years	3 years
05/08/2021 (1)	-0.50	0.53	0.20	103	70	75	55	72	30	30	10	32	-2	2	7
01/11/2021 (2)	-0.10	1.21	0.63	132	73	74	67	86	34	34	10	64	28	47	55
14/02/2022 (3)	0.28	1.97	1.30	169	101	101	57	106	41	51	12	76	94	126	126
10/03/2022 (4)	0.27	1.90	1.26	163	100	102	59	102	44	48	11	102	75	96	110

(1) Fear of cyclical downturn and deterioration of COVID health crisis (Delta variant).

(2) Expectation that discontinuation of PEPP in 1Q22 would be announced at Governing Council meeting of 16/12/21, along with start of rate hikes towards end of 2022.

(3) Local high in risk premiums (since June 2020).

(4) On the rise again in wake of geopolitical tension in Ukraine.

Source: Afi, Bloomberg.

“ The rise in bond market spreads, in tandem with the discounting of ECB rate hikes and an earlier end to net debt purchases, coupled with the volatility in the cost of options over euro interest rates, would appear to indicate that the change in monetary policy is the factor weighing most heavily on the recent upward shift in peripheral risk premiums. ”

The first fortnight of war in Ukraine has not had a significant impact on these levels.

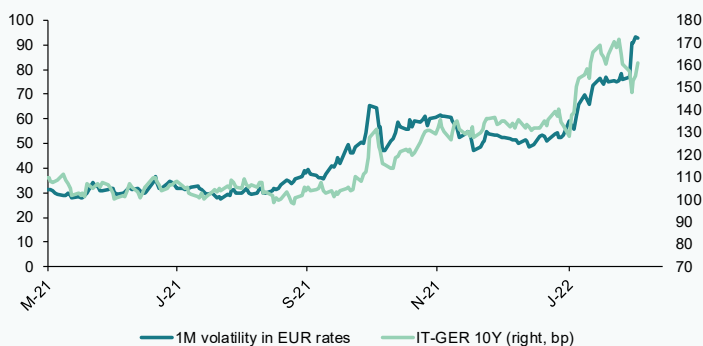
In sum, the levels reached by the variables being analysed in relation to peripheral risk premiums during this second episode are well below those attained during the first episode, suggesting that the market perceives that the increase in the risk associated with Spanish and Italian debt is moderate. We can state that, so far, most of the upward movement in the variables used as proxies for the risk premium during this second episode has more to do with the search for a new equilibrium in the relative price of peripheral debt compared to core eurozone sovereigns ahead of an expected change in monetary policy direction (fewer repurchases and rising rates). The rise in bond market spreads, in tandem with the discounting of a benchmark rate hike by the

ECB and an earlier end to net purchases of debt, coupled with the volatility in the cost of options over euro interest rates (reflecting uncertainty regarding their outlook), would appear to indicate that the change of tack in monetary policy is the factor weighing most heavily on the recent upward shift in peripheral risk premiums. Exhibits 5 and 6 illustrate the trend in these variables over the last 12 months, evidencing clear-cut correlation since last summer.

We think it is a good idea at this juncture to look back at the sequence of events punctuating monetary policy messaging by the Federal Reserve and ECB between autumn 2021 and today.

■ In the US, Fed signals shifted clearly –towards tightening– at the end of

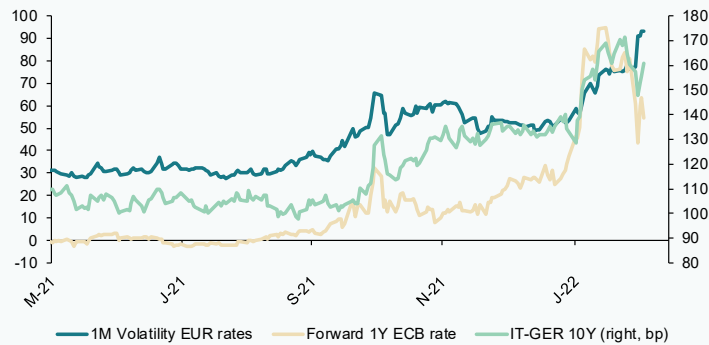
Exhibit 5 EUR rate volatility (%) and 10Y Italian debt risk premium (bp)



Source: Afi, Bloomberg.

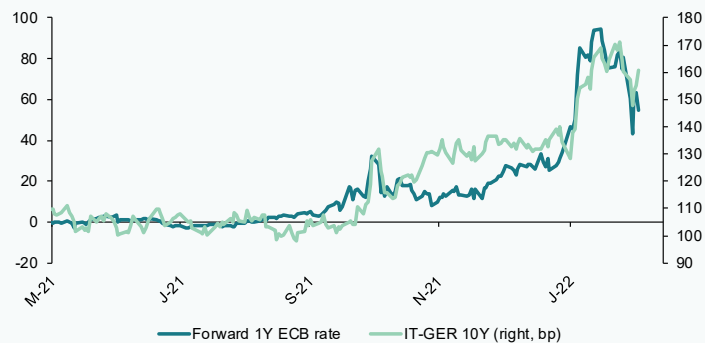
Exhibit 6

a. EUR rate volatility (%), discounted forward 12-ECB rate (bp) and 10Y Italian risk premium (bp)

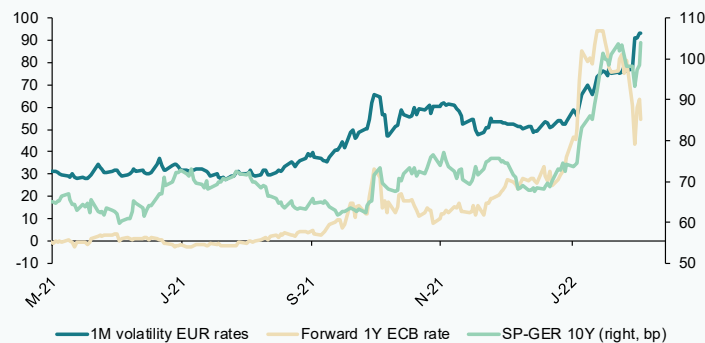


b. Discounted forward 12-ECB rate and 10Y Italian debt risk premium (bp)

Basis points



c. EUR rate volatility (%), discounted forward 12-ECB rate (bp) and 10Y Spanish risk premium (bp)



Source: Afii, Bloomberg.

November, a shift later confirmed following the FOMC meeting held in mid-December and that meeting's minutes, which were published mid-January. Sharp economic growth –with the US economy at close to full employment– and the medium-term inflation risk prompted the Fed to move the end of its US Treasury and MBS [7] repurchasing activity forward and to acknowledge in clear terms that it will be necessary to similarly bring key rate hikes forward and to step up their intensity (FOMC members' median projection for benchmark rates in 2022 and 2023 has increased considerably). Those expectations gained more traction in early 2022 as inflation readings continued to come in ahead of forecasts. The dramatic increase in global geopolitical tension caused by the war in Ukraine is adding additional inflationary pressures, such that bigger and faster rate increases cannot be ruled out.

- In the case of the ECB, expectations for the withdrawal of monetary stimulus, specifically a reduction in repurchasing activity and increase in benchmark rates, began to be reflected clearly in the short-term euro rate curve in early November, a trend that gained intensity from the end of 2021, with the market pricing in a forward 12-month rate of nearly 100 basis points by the middle of February. That trend in rates is underpinned by messaging by the ECB which has become gradually more contractionary as surprises on the inflationary front (higher than estimated readings) increased the probability of non-compliance with the medium-term inflation target and the risk of second-round effects against the backdrop of continued robust economic recovery.

Market expectations that the ECB would announce the discontinuation of the PEPP at the end of March 2022 gained traction in November and early December and were confirmed by the monetary authority at its last Governing Council meeting of the year, on December 16th. Net purchases under the PEPP would indeed be discontinued from March 31st of this year and the ECB would increase the pace of its monthly debt

purchases under its legacy programme, the APP, from 20 billion euros at present to 40 billion euros during the second quarter, after which they will be reduced to 30 billion euros in the third quarter and back down to 20 billion by the fourth quarter. Reinvestment of the sizeable volume of maturing principal payments has been left intact for the APP and extended for the PEPP until at least the end of 2024 (by an additional year).

Considering that the monetary policy sequence established by the ECB dictates that –so far– rates will not be increased for some time after the end of net purchasing activity, the market logically interpreted the steps taken to reduce net purchases as a sign that the decision to start to hike rates will also come sooner than initially estimated.

The additional jump in inflation readings in December and January –with a higher number of basket components sustaining sharp price growth– in tandem with signs of ongoing recovery in the eurozone labour market shifted the consensus existing at the time of Governing Council meeting of December, nudging the message towards a more hawkish stance. That shift in message, which was already evident in the press conference given by the ECB's President, Christine Lagarde, at the Governing Council meeting of February 3rd, and, above all, the declarations made by relevant members of the monetary authority after that meeting, presaged the possibility that the timing of the end of net debt purchases could be brought forward to the third quarter of 2022, with the first rate increase following at the end of the year. At present, as shown in Table 2, the ECB rate discounted by the market has shot up, with the market pricing in a rate of almost 100 basis points in 12 months' time and assigning a considerable probability to the possibility of a first rate hike at the end of the summer, which logically implies the end of net ECB purchases as early as the summer.

The outbreak of war in Ukraine, intensification of overall risk aversion

and the dislocation of global energy prices constitute a negative shock for growth and spell greater inflationary pressures. The intensity of that impact remains highly uncertain and will be key to shaping the ultimate ECB monetary policy response and EU economic policy actions. At the Governing Council meeting of March 10th, the announcement that net purchases under the APP would be slowed (specifically, reduced in the second quarter and potentially discontinued in the third), albeit depending on the trend in inflation and financing terms prevailing in early summer, has increased the probability that the ECB will start to increase rates as early as autumn 2022.

The current environment is propitious for greater risk premium stability relative to prior episodes

At this point of our analysis, we can conclude that in the current episode of spread widening in the eurozone periphery (which began last summer and has accelerated in early 2022), the role of idiosyncratic risk is proving limited; rather, the key variable driving spreads is the search for a new equilibrium price for this asset in the wake of the shift in the monetary policy *status quo*, as regards both the direction in which rates are headed and the magnitude of net debt purchases.

Looking to the future, attention should focus on three key factors which, in our opinion, will be fundamental in determining whether we could see a substantial increase in risk at the idiosyncratic level with systemic consequences for the peripheral eurozone's debt markets. Those three factors are: (i) the structural vulnerabilities or imbalances specific to each country; (ii) the degree of progress (or setbacks) in completing the

EU's and eurozone's institutional architecture; and, (iii) the forcefulness of the ECB's commitment to limiting the risk of eurozone fragmentation.

■ As regards structural imbalances, we are confident in saying that in both Spain and Italy the degree of vulnerability to the potentially asymmetric impacts of macroeconomic shocks is far lower than before the onset of the sovereign debt crisis at the start of the last decade. Table 3 illustrates that comparison for both economies. Among the various indicators selected to make this point-current account deficit, net international investment position, total borrowings (public and private sector), financial excesses (overall and property sector) and bank capitalisation –the only two not to have improved since 2010 are the ratio of public debt to GDP and the structural public deficit.

Political instability constitutes additional structural weakness that affects Italy in particular. The government formed by the coalition comprising Salvini's Lega Nord and the Five Star Movement following the elections of 2018, with their populist measures and markedly anti-European bias, sent investors into a panic: the country risk premium shot above 325 basis points, clearly fuelled by idiosyncratic risk factors. At the time, a significant percentage of the population supported anti-euro and anti-EU positions (around 30%). Today, despite the fact that general elections are still on the horizon, according to the polls, the likelihood of a coalition government formed by Fratelli d'Italia (far right with anti-European leanings) and Salvini's Lega, with patchy support from the central-right, has fallen, as Italian sentiment towards Europe and the euro has improved (just

“ The structural vulnerabilities of each country, the degree of progress on the EU's and eurozone's institutional architecture and the ECB's commitment to limiting the risk of eurozone fragmentation will be key variables to watch in peripheral eurozone sovereign debt markets. ”

Table 3

Structural indicators in Spain and Italy: 2021 vs. 2010

	Spain		Italy	
	2010	2021	2010	2021
Current account deficit, % of GDP	-3.7	0.3	-3.3	3.5
Structural public deficit, % of GDP	-6.8	-4.7	-3.7	-8.0
Public debt, % of GDP	60.5	120.6	119.2	154.4
Private debt, % of GDP	203.2	146.4	123.1	118.7
NIIP, % of GDP (1)*	-91.0	-85.5	-20.1	2.3
Real estate gap (2)	16.1	1.8	12.4	-4.7
Credit gap (3)	6.6	-16.4	13.9	-7.6
Banking system assets, % of GDP*	326	326	157	174
Banking system solvency (CET1 ratio, %)*	9.6	14.5	8.8	17.1

(1) Net international investment position.

(2) Growth in real estate lending relative to trendline.

(3) Growth in overall lending relative to trendline.

(*) Data as of year-end 2020.

Source: Afi, Bloomberg.

17% of those polled for the Eurobarometer of February 2022 expressed opposition to the eurozone), making the possibility of a repeat of the episode of spring 2018 remote. Political risk has been further reduced by the fact that the Five Star Movement has abandoned its anti-European discourse, with Lega similarly toning down its message, together with the long list of structural reforms approved by the current government under Mario Draghi and the sizeable investments in the pipeline thanks to the NGEU funds.

■ Even though, as we have analysed in this paper, the incipient change in direction in ECB monetary policy is bound to alter the relative equilibrium price of eurozone peripheral debt, the actions taken by that monetary authority since 2012 constitute, taken as a whole, a key stability factor that limits the probability of a repeat of the episodes of stress in idiosyncratic and systemic risk originating in those countries. From the now famous “Whatever it takes” uttered by Mario Draghi in July 2012, to creation of its tremendously flexible debt

“ Even though the incipient change in ECB policy is bound to alter the relative equilibrium price of eurozone peripheral debt, the actions taken by that monetary authority since 2012 limit the probability of a repeat of the episodes of stress in idiosyncratic and systemic risk originating in those countries. ”

repurchase programme, the PEPP (net purchase and reinvestment flexibility), the ECB's actions have demonstrated the institution's total commitment to minimising the risk of potential financial fragmentation impeding normal transmission of monetary policy and thereby jeopardising delivery of price stability and eurozone financial stability targets. Turning back to the nearer-term outlook, it is important to note that the end of net asset purchases does not mean the end of debt purchases by the ECB, which will continue to reinvest repayments of the nearly 5 trillion of public and private debt assets on its balance sheet as of February 2022 until at least the end of 2024.

- The last key factor suggesting greater stability in peripheral eurozone risk premiums lies with the progress etched out on the construction of the European project and on completion of the institutional architecture of the EU and eurozone. Although the steps required to reinforce the European project constitute a mammoth task that will surely take time to achieve, a lot of progress has been made during the last decade. That jolted progress has been forced by a succession of crises, as is the way in Europe. The Global Financial Crisis and the eurozone sovereign debt crisis sowed the seeds for the banking union project which, although still incomplete (lack of consensus regarding the implementation of a pan-European deposit insurance scheme), has taken very important steps towards financial stability and crisis management with the creation of the single resolution and supervision mechanisms.

The common economic reconstruction effort in the wake of the pandemic, best exemplified by the Next Generation Recovery Fund (NGEU), has been financed from the EU's common budget, with the EU itself poised to issue more than 600 trillion euros of bonds between 2021 and 2024. Another clear example of the progress made is evident in the so-called European fiscal rules, which, having been suspended following the onset of COVID-19 for a period of three years, will be reintroduced in 2023. They will first be revised, with all

signs pointing to rule simplification and governance enhancement so that they fulfil their remit of controlling the member states' public finances, while eliminating harmful side effects of their implementation as originally formulated.

Looking ahead, the new paradigm ushered in by the war between Russia and Ukraine is a wake-up call for the EU in relation to its foreign security and defence, its energy dependence and other considerations of a geopolitical nature hitherto neglected and constitutes an opportunity for taking the EU's institutional cohesion and stability a step further. The commitment to invest heavily in defence mechanisms at the EU level and resort once again to the issue of common debt to finance that effort is a key vector of that forward thrust. In our opinion, the issue of eurobonds –common debt on global markets– has an impact of similar or even greater proportion than that induced by the ECB's debt purchase programmes: it sends the market an unequivocal signal that Europe will share costs (of the pandemic, of the war, of whatever comes along) without overburdening individual countries' debt levels.

Conclusion

The potential withdrawal of monetary stimulus measures marks a very significant milestone for the price of the public debt issued by peripheral eurozone member states. The ECB has been the biggest investor in peripheral sovereign bonds in recent years, acting as a price-taker with the unwavering objective of preventing episodes of financial fragmentation that hinder the correct transmission of monetary policy and increase the risk of financial instability.

The main consequence of the looming change in the direction of ECB monetary policy –probable but subject to significant uncertainty on account of the economic fallout from the heightened geopolitical tension caused by the war between Russia and Ukraine– is that the market needs to define a new equilibrium point for the price of Spanish and Italian debt relative to that of Germany.

Nevertheless, the mitigation of structural imbalances in the peripheral issuer nations, the ECB's commitment to preventing fresh episodes of financial fragmentation in the eurozone, the progress made in terms of European unity and the gradual fine-tuning of its institutional architecture are all playing a decisive role in reducing the risk of a repeat of episodes of intense idiosyncratic and systemic risk that send the sovereign debt risk premiums of the eurozone's peripheral issuers soaring.

Notes

[1] We limit our analysis to the trend in Spanish and Italian bond spreads, *i.e.*, excluding Greek and Portuguese debt.

[2] International Swaps and Derivatives Association.

[3] Liquidity is not always observable; it is a concept, not a metric. A good definition of liquidity could be: "In a functional and efficient market, it should be possible to obtain a bid or ask price for a reasonable volume of any instrument at any time." That price might not be the desired price, but there would be a level at which the bid and ask prices would cross. When markets become 'illiquid', that matching does not take place. The liquidity risk of an instrument depends on the ease with which it can be sold at, or very close to, theoretical fair value.

[4] <https://www.ecb.europa.eu/press/govcdec/otherdec/2020/html/ecb.gc200504~fbc1bc4114.es.html>

[5] <https://www.consilium.europa.eu/en/meetings/european-council/2020/04/23/>

[6] Stability and Growth Pact (SGP).

[7] Mortgage-backed securities.

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Spain's dependence on foreign capital flows and the need for improved public debt sustainability

Seven countries currently account for over two-thirds of total foreign investment into Spain. To shore up international investor confidence, Spain needs to make its public debt more sustainable, a task that is currently more pressing given the potential for an increase in risk premium within the context of a normalisation of ECB monetary policy.

Joaquín Maudos

Abstract: An analysis of IMF and Bank of Spain data ranging from the onset of the financial crisis of 2007-2008 through the present reveals that seven countries (France, Germany, Luxembourg, the US, the Netherlands, Italy and the UK) account for over two-thirds of total foreign investment (portfolio and direct) into Spain. Consequently, Spain's high level of foreign debt leaves the country vulnerable to potential interest rate increases, as a higher percentage of Spanish income would get transferred abroad as debt service. To shore up international investor

confidence, Spain needs to make its public debt more sustainable, as public borrowings have increased significantly in recent years, rising from 95.5% of GDP in 2019 to 121.8% of GDP as of September 2021, in contrast to the deleveraging observed in the private sector. The challenge of improving public debt sustainability is currently more pressing given the growing prospects of an increase in the risk premium if the ECB accelerates the withdrawal of its debt repurchases to tackle rising inflation.

“ The healthier an economy and the more solid its macroeconomic fundamentals, the higher the likelihood of capturing foreign investor appetite and the lower the cost of so doing. ”

Introduction [1]

For an economy to grow and prosper, it needs investment –the main source of economic growth and job creation. Often a country cannot save enough to finance its investments, forcing it to look abroad for savings, so taking on foreign borrowings. However, to borrow abroad, a country needs to be attractive to foreign investors and that appeal in turn depends on how risky those investors perceive their investments to be. The healthier an economy and the more solid its macroeconomic fundamentals (borrowing levels, growth expectations, stability, *etc.*), the higher the likelihood of capturing foreign investor appetite and the lower the cost of so doing.

That investor appetite materialises in two main ways –direct investment and portfolio investment. When they invest directly, foreign investors take a long-term approach (buying shares or debt securities in companies for a stake of over 10%). When investors do not have a long investment horizon or high degree of influence over their investees, they invest in securities (equity and debt securities and investment funds).

The purpose of this article is to analyse the trend in foreign investor appetite with respect to the Spanish economy, breaking the data down by country and distinguishing between direct and portfolio investments. We focus

on the breakdown by source country so as to analyse the key trends from the last change of cycle, in 2007-2008, until today. Given that the period analysed runs from 2007 until the end of 2020, we are able to analyse the impact of the financial crisis that broke out in 2007, the situation when things became critical in 2012 (the year in which the risk premium rose above 600bp, when Spain had to ask for financial assistance from the European authorities) and the situation in 2020, following several years of growth since the economy emerged from recession during the second half of 2013. That enables us to identify the countries that show the greatest appetite for the Spanish economy and the shifts that have taken place since 2007.

Trend in foreign investment in Spain

Foreign investment in Spanish assets takes the form of direct investment, portfolio investing and other investments. Direct investment in turn takes the form of a long-term investments, bringing significant managerial influence over the investees, specifically equity interests of more than 10% (which can materialise in investments in shares, other equity instruments, profit reinvestment, property investments and intercompany loans). Investments with a shorter-time horizon without the ambition to influence are considered portfolio investments (investments in shares and investment funds, debt securities with an original maturity of

“ By components, direct investment has been far more stable and remained in positive territory, while portfolio investment, in contrast, has been more volatile, contracting notably between 2010 and 2012. ”

more than one year and debt securities with an original maturity of one year or less). There is a third type of investments that gets classified under “Other investments” in the official statistics and constitutes, mainly, loans and deposits. That category also includes, albeit separated in the statistics, the change in the Bank of Spain's liabilities vis-à-vis the Eurosystem.

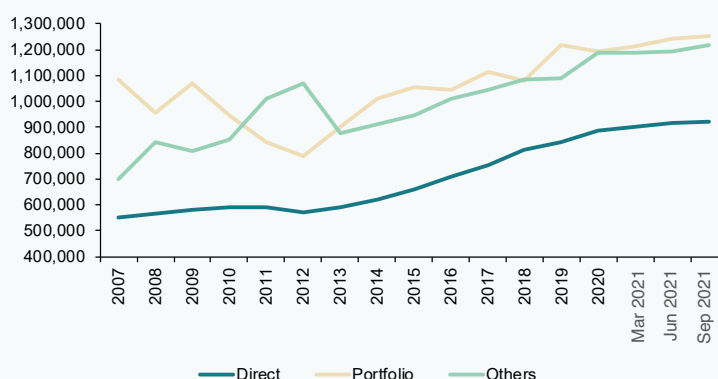
As shown in Exhibit 1, the movement in the Spanish economy's foreign liabilities is cyclical in nature. Liabilities increased by 250 billion euros in 2007 (before the onset of the financial crisis), by just 150 billion euros

in 2008 and one year later, a year in which the Spanish economy contracted by 3.8%, by around 50 billion euros. When Spain came out of recession in 2013, the growth in liabilities recovered but remained at levels far below those of 2007, shaped by the deleveraging effort of the private sector. By components, direct investment has been far more stable and remained in positive territory. Portfolio investment, in contrast, has been more volatile, contracting in some years, notably between 2010 and 2012. Lastly, other investments have proven similarly volatile; the significant decrease observed in 2013 is attributable to the Bank of Spain.

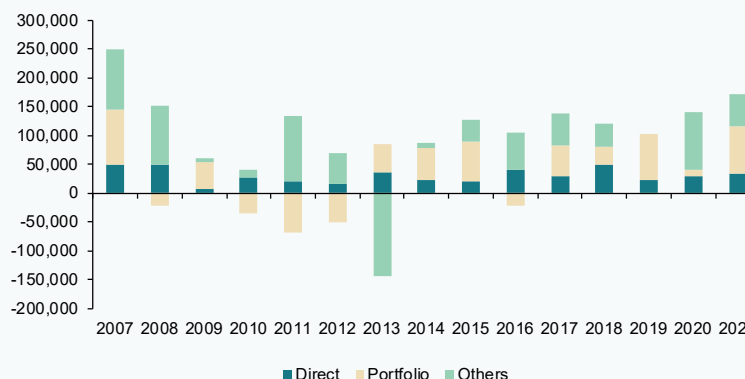
Exhibit 1

Foreign investment in Spain

a. Stock of investment (millions of euros)



b. Net change in Spain's foreign liabilities (millions of euros)



Source: Bank of Spain and author's own elaboration.

As a result of those annual changes, the stock of foreign direct investment has been rising almost continually to stand at 920 billion euros by September 2021. In the case of portfolio investment, the 2007-2008 financial crisis had a clear impact and the recovery in the wake of the recession that the crisis induced has driven that component to 1.25 trillion euros today. “Other investments” currently stand at 1.22 trillion euros, to put Spain’s foreign liabilities at 3.39 trillion euros in total.

Within portfolio investments, the composition by agent has changed substantially since 2007, a pattern that clearly reflects the contrasting trends in public *versus* private sector leverage. In the public sector, the debt owed to foreign investors multiplied by a factor of 3.3 between 2007 and September 2021, with the ratio of public debt-to-GDP surging from 35.8% to 121.8% over that same timeframe. In contrast, intense private sector deleveraging has driven a reduction in that sector’s foreign liabilities of close to 30%. The most recent data, as of the third quarter of 2021, indicate that public debt accounts for 47.6% of Spain’s total foreign liabilities, [2] compared to just 16.4% in 2007. In other words, the 166 billion euro increase in foreign portfolio investment in Spain between 2007 and 2021 masks a decrease of 253 billion euros of private debt and an increase of 419 billion euros of public debt.

Which countries make portfolio investments in Spain?

The Bank of Spain’s balance of payments statistics include details about foreign portfolio investing in Spain but do not provide a country-by-country breakdown. The IMF does provide that information by country (in dollars). In our analysis, we take the

percentage breakdown by country provided by the IMF and apply those percentages to the total euro investment figures published by the Bank of Spain. That information is provided in Table 1 for 2007 (year of the change in cycle), 2012 (year of maximum tension in the financial markets) and 2020 (last year available in the IMF series).

Before the onset of the financial crisis, three countries accounted for over half of the portfolio investments in Spain: Germany, France, and at a considerable distance, the US. Germany and France each held nearly 20% of foreign portfolio investment in Spain, whereas the US held 10.8%. Luxembourg, the UK, the Netherlands and Ireland held percentages of between 5% and 10% so that seven countries held three-quarters of portfolio investment. Of the countries with holdings of between 1% and 5%, just one country (Japan) is non-European and two (Japan and Norway) are non-EU. In Latin America, Brazil was the biggest foreign investor in 2007, but with just 0.2% of total portfolio holdings.

Following the intense impact of the financial crisis, which intensified with the sovereign debt crisis of 2010 and reached its zenith in the summer of 2012 when the risk premium on Spanish sovereign bonds traded at over 600bp and Spain had to ask for financial assistance to bail out its banking sector, the portfolio investment country breakdown was hardly any different, with France, Germany and the US still Spain’s biggest creditors, accounting for half of the total investment. The only change worth highlighting at that juncture is the increased relative importance of Italy, whose share doubled from 2.6% to 5.2%.

“ The shift in the mix of Spanish public *versus* private sector debt in the hands of foreign investors over the last 15 years reflects contrasting trends in public and private sector borrowings, with the former increasing significantly while the latter deleveraged. ”

Table 1

Foreign portfolio investment in Spain

2007			2012			2020		
	Millions of euros	%		Millions of euros	%		Millions of euros	%
Germany	214,520	19.7	France	168,033	21.3	France	184,576	15.5
France	201,519	18.5	Germany	137,300	17.4	Germany	157,113	13.2
United States	116,992	10.8	United States	89,342	11.3	United States	141,362	11.9
Luxembourg	94,332	8.7	Luxembourg	64,588	8.2	Italy	117,096	9.8
United Kingdom	80,069	7.4	United Kingdom	54,342	6.9	Luxembourg	107,669	9.0
The Netherlands	66,021	6.1	The Netherlands	48,262	6.1	SEFER + SSIO	102,307	8.6
Ireland	63,542	5.8	Italy	40,872	5.2	Ireland	65,429	5.5
SEFER + SSIO	42,991	4.0	Ireland	35,775	4.5	Japan	63,501	5.3
Belgium	36,432	3.4	Belgium	25,041	3.2	The Netherlands	46,695	3.9
Italy	28,803	2.6	Japan	22,174	2.8	United Kingdom	36,577	3.1
Japan	26,732	2.5	Norway	21,602	2.7	Portugal	28,514	2.4
Norway	25,629	2.4	Portugal	17,621	2.2	Belgium	24,942	2.1
Portugal	15,707	1.4	SEFER + SSIO	16,278	2.1	Norway	19,754	1.7
Sweden	11,637	1.1	Austria	8,498	1.1	Austria	14,404	1.2
Rest of the World	62,016	5.7	Rest of the World	40,695	5.1	Rest of the World	82,879	5.8
TOTAL	1,086,940	100	TOTAL	790,422	100	TOTAL	1,192,819	100

Note: SEFER + SSIO = securities held as foreign exchange reserves and securities held by international organisations holdings.

Sources: Bank of Spain, IMF and author's own elaboration.

Bigger changes are observed when we compare the country breakdown in 2012 with that of 2020. By that year, the first three countries no longer held half of total investments, but rather 40%, with Italy joining the ranks (increasing its share from 5.2% to 9.8%) to round out that 50%. It is also worth highlighting the loss of relative importance of France (from 21.3% to 15.5%) and Germany

(from 17.4% to 13.2%), while the US has kept its share at close to 12%. Another trend worth pointing out is the halving of the UK's share of portfolio investment (in fact, the UK is one of the few countries to reduce its exposure in absolute terms) and the increased in Japanese holdings (from 2.8% to 5.3%). None of the Latin American countries has a meaningful position, as the biggest investor in the region,

“ France, Germany, the US, Italy and Luxembourg are the countries with the healthiest appetites for portfolio investments in Spain, while the UK, in contrast, has more than halved its share of total foreign portfolio investment. ”

“ Netherlands, Luxembourg, the UK, Germany and France are the countries with the biggest direct investments in Spain, accounting for 62.5% of the total, with the US being Spain’s biggest investor outside of Europe. ”

Brazil, commands a share of just 0.04%. Russia, the focus of the world’s attention right now in the context of its war with Ukraine, only has marginal portfolio investments in Spain, at just 164 million dollars.

In short, in the case of portfolio investment, the most recent data indicate that France, Germany, the US, Italy and Luxembourg are the countries with the strongest appetites for Spanish securities, accounting for 60% of the total. The UK, which in 2012 was Spain’s fifth largest creditor, has fallen down the ranking,

having more than halved its relative exposure to Spain’s foreign investment portfolio.

Which countries hold the biggest direct investments in Spain?

As we did with the portfolio investment statistics, in analysing foreign direct investment (FDI) we applied the percentage breakdowns gleaned from the IMF database to the investment figures reported each year by the Bank of Spain. That exercise gives rise to the analysis summed up in Table 2, which shows the main sources of inward FDI

Table 2 Foreign direct investment in Spain

2009			2012			2020		
	Millions of euros	%		Millions of euros	%		Millions of euros	%
The Netherlands	131,012	22.6	The Netherlands	135,790	23.8	The Netherlands	130,403	14.7
Luxembourg	76,822	13.2	Luxembourg	90,193	15.8	Luxembourg	126,624	14.3
United States	61,784	10.7	France	55,555	9.7	United Kingdom	114,750	13.0
United Kingdom	60,730	10.5	United Kingdom	54,049	9.5	Germany	93,266	10.5
France	54,005	9.3	Italy	41,919	7.3	France	87,881	9.9
Italy	53,488	9.2	United States	37,702	6.6	Italy	46,553	5.3
Germany	35,127	6.1	Germany	36,815	6.4	United States	39,622	4.5
Belgium	21,523	3.7	Switzerland	16,768	2.9	Switzerland	37,234	4.2
Switzerland	15,087	2.6	Belgium	14,559	2.5	Belgium	22,070	2.5
Portugal	11,141	1.9	Portugal	11,052	1.9	Mexico	21,457	2.4
Ireland	9,132	1.6	Brazil	8,251	1.4	Not Specified	19,659	2.2
Not Specified	6,535	1.1	United Arab Emirates	6,929	1.2	Portugal	18,650	2.1
Sweden	5,566	1.0	Not Specified	6,217	1.1	Sweden	15,980	1.8
Uruguay	5,532	1.0	Ireland	5,867	1.0	Ireland	14,841	1.7
Rest of the World	32,492	5.6	Rest of the World	49,285	8.6	Rest of the World	95,852	10.8
TOTAL	579,975	100	TOTAL	570,952	100	TOTAL	884,842	100

Sources: Bank of Spain, IMF and author's own elaboration.

in Spain in 2009, 2012 and 2020. Here it is not possible to provide information dating to the crisis of 2007, as the IMF database only includes information from 2009.

Focusing first of all on the most recent figures, for 2020, we note that five countries account for nearly two-thirds of FDI in Spain: Netherlands, Luxembourg, the UK (each with exposures of over 100 billion euros), Germany and France. If we add Italy, the US and Switzerland to the list, we get to a combined exposure of 75%. No other single country accounts for more than 2.5% of Spain's total stock of FDI. The only Latin American country in the ranking of the top 15 investors is Mexico, whose direct investment stands at over 21 billion euros. Russia's direct investments in Spain are again relatively small, at 3.36 billion euros, which is more, however, than Spain has invested there (591 million euros).

Direct investment in Spain has become more geographically diversified since 2012, the year when financial market stress was at its peak. For example, whereas in 2012 Spain's biggest direct investor was the Netherlands, which accounted for 23.8% of the total, by 2020 it garnered a nearly 10pp-smaller share. It is worth highlighting the growth in Germany's

and the UK's stock of FDI in Spain, the former having multiplied by 2.6x and the latter, by 2.1x. In contrast, Italy's and the US' positions have increased by much less, by 11% and 5%, respectively. Albeit with far smaller positions in absolute terms, Switzerland and Ireland have increased their direct investments far more significantly, more than doubling their positions between 2012 and 2020.

Another noteworthy characteristic is that the Netherlands has been Spain's biggest direct investor at least since 2009, even though its share of the total has declined. Luxembourg remains its second biggest investor, but by contrast its position has increased by 65% since 2012. The US and Italy have reduced their share of direct investments over the past decade.

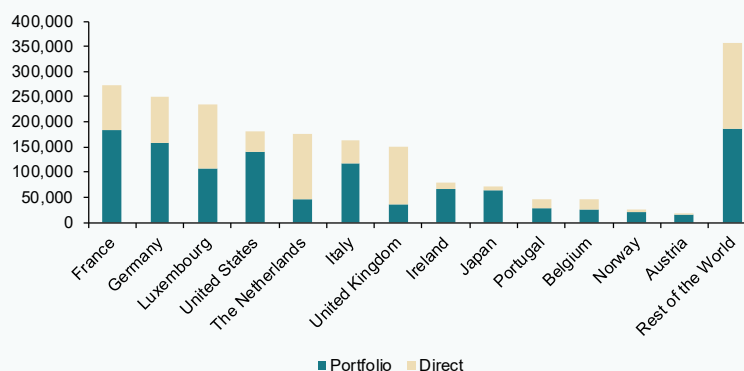
Which countries invest the most in Spain?

Considering portfolio and direct investment together, France, Germany and Luxembourg are Spain's biggest investors, with positions of over 760 billion euros, or 36% of the total, between them: France holds 272.5 billion euros of investments in Spain, Germany holds 250 billion euros and Luxembourg, 234

Exhibit 2

Ranking of Spain's biggest investors by country, 2020

Millions of euros



Sources: Bank of Spain, IMF and author's own elaboration.

billion euros. The countries with positions sized between 150 and 200 billion euros are the US (181 billion), the Netherlands (177 billion), Italy (164 billion) and the UK (151 billion), such that the seven countries listed account for more than two-thirds of foreign investment in Spain. Outside of Europe, only Japan merits mentioning (72 billion euros).

Conclusions

The analysis of the key trends in foreign direct investment and portfolio investment in Spain presented in this paper shows that the Spanish economy's indebtedness has been possible thanks to the appetite displayed by third countries. Portfolio investment, although still pretty concentrated, is becoming increasingly geographically diversified, which is a positive development. In 2020, five countries (France, Germany, the US, Italy and Luxembourg) accounted for 60% of the total.

In the case of direct investment, having stagnated around the time of the financial crisis of 2007-08, the stock of FDI recovered as Spain emerged from recession in 2013, climbing to 920 billion euros by September 2021, which is good news for the country, as those investments tend to get channelled into more innovative companies that employ more skilled labour. FDI also often helps recipient companies expand internationally and become more competitive.

The Spanish economy's high level of foreign debt obliges it to remain attractive to overseas investors, if nothing else in order to be able to continuously refinance its existing debt. That means Spain needs to become more competitive to increase its potential growth and attract foreign investment. Although the Spanish economy had decreased its negative net international investment position from 97.7% of GDP in mid-2014 to 70% by the end of 2021, it remains heavily indebted to foreign investors in net terms (in the EU only Portugal, Cyprus, Ireland and Greece are more dependent in that respect), leaving it vulnerable to the potential rate hikes looming on the horizon. To that end, it is vital for Spain to continue to generate a net lending position in the years to come in order to reduce its foreign

debt. That requires making the economy more competitive (which is where structural reforms come into play) and reducing the main source of Spain's need for financing in the first place, which is its structural deficit. While the private sector has been deleveraging in recent years (leaving it more solvent), the opposite has happened in the public sector, so that Spain now must reduce its indebtedness to ensure the sustainability of its debt and generate international investor confidence.

Since the start of the financial crisis in 2007, and with greater intensity since the onset of the sovereign debt crisis in Europe in 2010, which peaked in Spain in the summer of 2012 (with the banking sector bailout), Spain's country risk premium has been kept in check thanks largely to the ECB's intervention. The monetary authority's debt repurchase programmes, which have been consistently rolled over to help tackle a succession of negative shocks (the most recent being the COVID-19 crisis) have been decisive in keeping the risk premium, and thereby Spain's borrowing costs, under control. A very clear indicator of just how much Spain owes the ECB is the fact that today some 33% of its public debt is held by the ECB, which is therefore one of our main "guarantors". That support makes Spain's debt more sustainable by bringing down its borrowing cost. The risk is that as those buyback programmes get rolled back (which is likely to happen sooner than originally expected so that the ECB can pursue its inflation target) and rates are increased, the sustainability of Spanish debt will deteriorate, thus the country will have to transfer more of its income abroad to service its debt. No matter what way one looks at it, the government needs to prioritise public sector deleveraging and reducing the structural deficit.

Unfortunately, the complicated macroeconomic scenario of stagflation has become more likely within the context of the outbreak of the war between Ukraine and Russia. This will complicate fiscal consolidation efforts, given the additional pressures of the potential rise in ECB rates to face the increase in inflation. In this context, efficiency in controlling public spending is more important than ever.

Notes

[1] This article falls under the scope of research project ECO2017-84828-R of the Spanish Ministry of the Economy, Industry and Competitiveness and AICO2020/217 of the Valencian Government.

[2] According to the Spanish Treasury's statistics, non-resident investors hold 43.4% of all Spanish public debt (as of November 2021), making them the largest holders, followed by the Bank of Spain (which holds 33.1%). In 2007, the Bank of Spain only held 3.1% of Spanish public debt, indicating the scale of the ECB's debt repurchase programmes.

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Implications for Spain of the reform of the EU's fiscal rules

Spain, being one of the countries hardest hit by the crisis and with pronounced fiscal imbalances, has a lot at stake in the process currently underway of reforming the EU's fiscal rules. As various European and national actors debate their positions, Spain's seat at the negotiating table could be further strengthened by a commitment to credible fiscal consolidation in the medium-term.

Santiago Lago Peñas

Abstract: There are currently two key fiscal processes playing out simultaneously across EU countries: i) a recovery in national finances following the tremendous shock caused by the pandemic; and, ii) the reform of the EU's Stability and Growth Pact (SGP). The interplay of these processes is particularly key in Spain –a country that has been among the hardest hit by this crisis, with GDP contracting (-10.8%) in 2020, and expected to be among the last of the EU-27 to revisit pre-pandemic GDP levels. While Spain's recent fiscal performance has been better than expected, this will likely prove temporary, and

in the absence of structural changes aimed to address the country's high level of structural deficit, Spain's fiscal imbalances will remain among the highest in the EU-27 in 2024. Indeed, without a reduction in the structural deficit, the total deficit would stagnate at over 4% and public debt would continue to trend higher, reaching 135% by 2050. Going forward, the EU is set to resume the task of reforming its existing fiscal rule framework, with an eye to correcting the issues of the past and taking into consideration the impact of the pandemic on many member states' performance on current targets. As different

European and national actors debate their positions, Spain's seat at the negotiating table would be strengthened if the country were to, in parallel, present a credible path towards fiscal consolidation.

Introduction [1]

We are currently watching two processes play out in the EU public finance arena. On the one hand, a recovery in national finances following the tremendous shock caused by the pandemic. On the other hand, reform of the Stability and Growth Pact (SGP). Although the two processes have different origins, they are now intertwined.

The revision of the bloc's fiscal rules got underway just a few weeks before COVID-19 began its global spread; that effort was halted in order to activate the SGP escape clause to tackle the fallout from the coronavirus; and it was resumed towards the end 2021, by which time the fiscal panorama was worse and more asymmetrical than that observed in 2019. Public deficits and debt are further than ever from their limits of 3% and 60%, respectively, and the distance to target varies considerably by country.

In that context, Spain was one of the countries hardest hit by the crisis— it is still far from achieving pre-pandemic metrics and its fiscal imbalances are more pronounced than those of other countries. As a result, the reintroduction of the fiscal rules will prove a major challenge and the form their reintroduction takes will shape budget policy considerably over the coming years.

Spain has a lot at stake in the process of reforming the EU's fiscal rules and it is essential to understand the matrix of possible solutions and strategies. Without a doubt, a commitment to fiscal stability is the way

to prevent situations, such as the stress experienced with the risk premium during the GFC. However, that need not be incompatible with setting reasonable and feasible targets without triggering a bout of extreme fiscal austerity that would only prove counter-productive on account of its negative effects for the economy and politics.

The aim of this paper is to lay out the scenarios under debate in the European Union today and to outline where Spain stands, paying particular attention to the positions of the central government, the Bank of Spain and Spain's independent fiscal institution, AIREF.

The outlook for Spain's fiscal deficit and debt

Spain's GDP contracted (-10.8%) by more than the EU-27 average in 2020 and the recovery staged in 2021 (+5.0%) does not make up for even half of the ground lost. Spain looks set to be the last country to revisit pre-pandemic GDP levels. Nevertheless, its public deficit has performed better than expected in 2020 and 2021. Without a doubt, the various income protection schemes have successfully weakened the link between contracting GDP and taxable revenue and paved the way for unexpectedly good news in terms of revenue dynamics. The forecasts for 2021 improved as the year unfolded and are currently all more optimistic than the official government forecast, established in the budget, which continue to call for a deficit of 8.4%. The Funcas consensus forecast (2022) is for a deficit of 7.3%; AIREF has weighed in at a lower 7.0% (AIREF, 2022a) and the Bank of Spain (2021) is currently forecasting a deficit of 7.5%.

However, the favourable evolution of the deficit is likely to prove temporary and should not lead us to downplaying the gravity of

“ Spain looks set to be the last country to revisit pre-pandemic GDP levels; nevertheless, its public deficit has performed better than expected in 2020 and 2021. ”

“ In the absence of structural changes in the taxation system and/or spending cuts, Spain looks set to become one of the countries in the EU-27 with higher total and structural deficits. ”

the imbalances underlying Spain's public finances. Exhibit 1 depicts the Spanish government's and the Bank of Spain's public deficit projections for 2021-2024, additionally mapping out the trend in the structural deficit, *i.e.*, the amount of the budget deficit not attributable to cyclical dynamics. The cyclical component will be neutral in 2022 and will reduce the overall deficit in 2023 and 2024. Note that all three plot lines meet at around 5% in 2022; in 2024, the overall deficit is still above the 3% threshold with the structural deficit at over 4%. Furthermore, depending on the final duration of the conflict in Ukraine, these figures could deteriorate significantly.

In other words, in the absence of structural changes in the taxation system and/or spending cuts, the structural deficit will remain close to the highs reached in 2020-

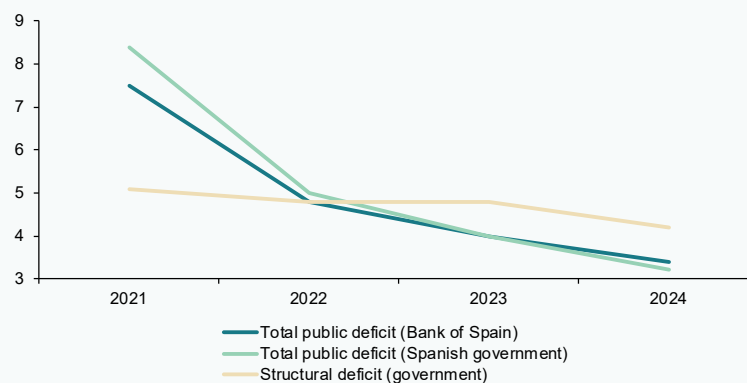
2021, making Spain one of the countries in the EU-27 with higher total and structural deficits. According to the projections of the EU Independent Fiscal Institutions Network (2021a), in 2024 the five countries with the highest overall deficits will be the Czech Republic, Belgium, France, Slovakia and Spain.

The deficit situation spills over to the public debt scenario depicted in Exhibit 2. It is true that the recovery in nominal GDP in 2021 and 2022 and the growth forecast for 2023 and 2024 will drive substantial growth in the debt-to-GDP ratio's denominator, pushing public sector leverage down from the peak of 2020, of around 125%, to levels closer to 113%. However, in 2024 Spain would remain within the EU-27 quartile of most heavily indebted countries, alongside Greece, Italy,

Exhibit 1

Public deficit forecasts, 2021-2024

Percentage of GDP

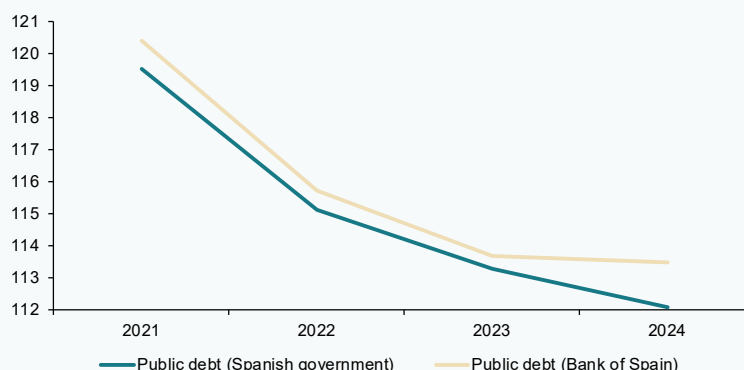


Sources: Author's own elaboration based on Bank of Spain (2021) and Ministry of Finance and Civil Service figures (2021).

Exhibit 2

Public debt forecasts, 2021-2024

Percentage of GDP



Sources: Author's own elaboration based on Bank of Spain (2021) and Ministry of Finance and Civil Service figures (2021).

Portugal, France and Belgium, still more than 50 percentage points of GDP above the current threshold of 60%, which only 14 of the EU-27 would manage to comply with (EU Independent Fiscal Institutions, 2021a). Combining the public debt and deficit figures, leaving Greece –an outlier– aside, and assuming no new revenue or expenditure measures, France, Belgium and Spain are the three countries with the most imbalanced fiscal situations in the medium-term.

Exhibit 3 provides complementary insight into the scale of the pending fiscal adjustment (AIReF, 2021). The left-hand panel shows the projected trend in the total deficit under three scenarios: an annual reduction in the structural deficit of between 0.05% and

0.10% of GDP; a bigger adjustment, of 0.25%-0.50%; and a no-change scenario, in which the primary structural deficit remains constant at 2.5%. The right-hand panel depicts the consequences of those scenarios for Spain's debt-to-GDP ratio. To eliminate the total deficit by the end of the decade, Spain would have to slash its structural deficit by more than half a point of GDP each year. And even with an adjustment of that magnitude, it would take more than 20 years to bring debt-to-GDP under 60%. Without cutting the structural deficit, the total deficit would stagnate at over 4% and public debt would continue to trend higher, reaching 135% by 2050.

It is clear that Spain must tackle its structural deficit problem and clean up its accounts,

“ The recovery in nominal GDP in 2021 and 2022 and the growth forecast for 2023 and 2024 will drive substantial growth in the debt-to-GDP ratio's denominator, pushing public sector leverage down from the peak of 2020, of around 125%, to levels closer to 113%. ”

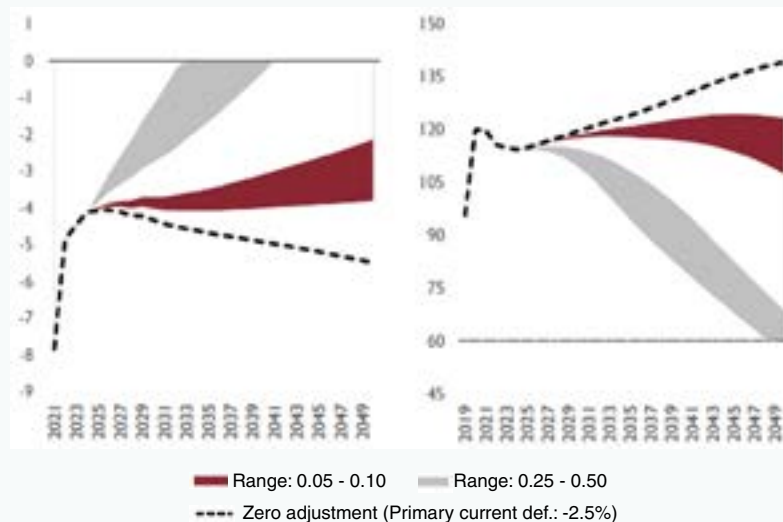
Exhibit 3

Fiscal consolidation paths and debt projections

Annual reduction in structural deficit (in percentage points of GDP) until structural balance is achieved)

Overall deficit (% of GDP) adjustment scenarios, alternative consolidation paths

Debt simulation (% of GDP) under the deficit scenarios



Source: AIReF (2021).

having failed to do so in the past. That being said the new fiscal rules need to assume that bringing debt below 60% within the decade is a target that Spain and other countries in a similar predicament are unlikely to be able to achieve.

The outlook for reform of the current fiscal rules

On October 19th, 2021, the European Commission officially resumed a review of its fiscal rules with the aim of coming up with a concrete proposal, debating it and reaching agreement in 2022, which would enter into

force in 2023 (European Commission, 2021); although it is true that, depending on the final economic impact of the invasion by Russia of Ukraine, this timeline could be extended another year. Framed by broader reform of the EU's fiscal policy framework, which is set to include new supranational risk-sharing and investment financing instruments (related in particular to environmental sustainability and digitalisation), the need for the reform of the EU's existing fiscal rules became evident in 2020 and has only been reinforced in 2022 (Feás *et al.*, 2021). Rules that have proven complex and hard to apply, that have failed to neutralise the pro-cyclical effect of fiscal policy

“ The EU's existing fiscal rules need to be replaced by a new framework designed to correct outstanding issues and take stock of how the pandemic has moved many EU-27 nations' public deficit and debt metrics further than ever from the benchmark thresholds in place since the end of the 1990s. ”

and whose credibility has become impaired. Rules, in short, that need to be replaced by a new framework designed to correct those issues and take stock of how the pandemic has moved many EU-27 nations' public deficit and debt metrics further than ever from the benchmark thresholds in place since the end of the 1990s, when interest rates and potential outputs were different than those we are observing and projecting today.

As is only logical, the European Commission has yet to take an official position. However, we do know where very important institutions' thinking is headed and there appears to be a degree of consensus. The European Fiscal Board (2021), consistent with its stance since 2018, suggests replacing the current framework with three complementary elements: a medium-term debt anchor; a simple expenditure benchmark with a built-in debt brake; and a general escape clause. It also defends keeping the 3% threshold for public deficits, calls for reinforcing the supervision and oversight carried out by the national fiscal authorities and acknowledges that the debt anchor would have to be adapted for the conditions prevailing in each country.

The European Central Bank (ECB, 2021) has taken a similar stance, albeit less concrete, likewise advocating for a more prominent spending rule and agreeing on the need for a realistic, gradual and sustained reduction in public debt. The manifest signed by the finance ministers of Austria, Denmark, Latvia, Slovakia, the Czech Republic, Finland, Netherlands and Sweden in September 2021 is even less precise but emphasises the need to reduce public debt ratios and adapt the prevailing rules without jeopardising fiscal sustainability. The manifest underscores

that reform quality should count more than speed, opening the door to reactivation of the existing rules until such time as an agreement is reached (Blümel *et al.*, 2021). However, that would create a dilemma for the European authorities, who would be faced with choosing between reapplication of the existing rules, thus generating an intense negative shock for GDP and employment across a considerable number of member states, or accepting widespread breach of those rules, ruining the framework's credibility altogether.

In short, it is unlikely that fiscal rule reform will culminate in a radically different approach, such as that proposed by Blanchard, Leandro and Zettelmeyer (2021), who call for doing away with all numerical rules. Note additionally, that although there is some consensus around the general approach, many aspects of the spending rule and potential benchmark debt levels still have to be pinned down. It is also conceivable that the expenditure rule will be based on structural budget balance instead of a debt target, so implying smaller-scale reforms (EU Independent Fiscal Institutions, 2021b). That could be a plus from the economic policy standpoint.

State of play

The existence of differing positions among the member states' governments regarding how the fiscal rules should be reformed and the need to reach an agreement over the course of 2022 explains the prudent tone and, above all, lack of specifics we are seeing in public posturing. As with the fewer than 400 words issued by the ministers of finance in the above-mentioned manifest, we need to comb through public statements made by Spain's Minister for Economic Affairs, Nadia Calviño, for clues as to where the Spanish government stands.

“ The existence of differing positions among the member states' governments regarding how the fiscal rules should be reformed and the need to reach an agreement over the course of 2022 explains the prudent tone and, above all, lack of specifics we are seeing in public posturing. ”

One of her clearest interventions took place at a meeting with the President of the Eurogroup on February 7th, 2022, (Calviño and Donohoe, 2022) in which she called for a realistic and pragmatic budget consolidation roadmap, with deficit and debt reduction pathways adapted for each country's situation in order to shore up their public finances in the long-term, while facilitating growth, quality job creation and investment in the twin green and digital transition in parallel.

Her words address two different claims. The first has to do with the need for adjustment paths adapted for the diverse universe of fiscal parameters and is completely reasonable from the point of view of Spain's economy and vital for the reasons outlined previously. However, her claim that certain investments should be left out of the calculations may be harder to sell, due to the problems that tend to affect such exemptions or 'golden rules', namely the issues encountered in drawing the eligibility line and the evidence that they tend to contribute to the accumulation of financial liabilities in the same manner as eligible expenses (AIReF, 2022). At any rate, that issue could fade to the background to the extent that the Next Generation EU instrument, a pan-European investment mechanism focused precisely on enabling the twin transition, becomes a permanent feature of the EU's governance architecture (Feás *et al.*, 2021).

The AIReF is clearer about where it stands (2022). Spain's fiscal institution is in favour of the three-pronged solution comprising a net primary spending rule, a long-term debt anchor (for which the benchmark could be left at 60%) and an escape clause. The AIReF makes three further clarifications. The first is that it would be compatible to leave the long-term benchmark of 60% in place for all countries and, in parallel, set specific interim targets for each country that give rise to asymmetric paths for convergence towards the long-term anchor. The second is that although the structural deficit would lose its current function, it should be left as an input for proposed expenditure path assessment purposes, alongside the debt anchor. The third is that "green" investments should not be carved out from the spending

rule but addressed using centralised fiscal instruments, as suggested above.

Lastly, the document by Alloza *et al.* (2021) provides a glimpse into where the Bank of Spain, the country's other important independent body in the area of fiscal policy analysis and oversight, stands. The central bank also advocates for a spending rule, debt anchor and escape clause but emphasises other key aspects. The first is understanding that the spending rules are part of the EU's fiscal policy governance architecture, which also includes supranational instruments for risk-sharing in the event of symmetrical and asymmetric shocks, the structural reform agendas, greater integration of the EU's capital markets and completion of the final phase of the banking union project. The second is that the reforms should not enshrine the 3% and 60% thresholds, but rather recalibrate them in light of the current macroeconomic conditions (interest rates, potential growth) and the economies' structural transformations. The third relates to the need to address the asymmetries in fiscal positions from 2022 either by setting debt anchor convergence paths at different speeds or creating "redemption funds" at the European scale to even out the countries' starting positions. Lastly, Alloza *et al.* (2021) emphasises a few additional matters that could reinforce compliance with the fiscal rules, specifically, coordinated national fiscal policies and the role of the independent fiscal institutions at both the European and national levels.

Conclusions

Budget consolidation in Spain is not merely necessary to comply with external rules. Fiscal stability is worthwhile in its own right and social and political commitment is needed to map out a credible and coherent medium-term strategy. Structurally imbalanced public accounts curtail the ability to respond to future crises, leave Spain vulnerable to international financial volatility, harm the country's reputation and standing in international economic forums and distort the relationship between the benefits of spending and the sacrifices implied by the associated taxes, passing the burden on to future generations.

The European fiscal rules need to be reformulated and adapted and it is very reasonable to demand that they be adapted for the various countries' different realities. However, Spain's position at the negotiating table would be stronger if, in parallel to presenting its demands, it presented a credible fiscal consolidation plan for gradually but steadily correcting its structural deficit.

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[1] The author would like to thank Diego Martínez López and Javier Pérez for the feedback and suggestions.

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Cost of equity for Spanish and European banks

The banks' earnings recovery in 2021, and the prospect of rate normalisation in the relatively near future, drove significant growth in the Spanish and European banks' share prices up until the outbreak of the crisis between Russia and Ukraine injected fresh market volatility. Nevertheless, the perception remains that the banks' return on equity (ROE) does not sufficiently cover the estimated cost the market attributes to that capital (COE); however, if recent favourable ROE performance is sustainable over time, there could be significant room for upside in bank stock valuations.

Marta Alberni, Ángel Berges and María Rodríguez

Abstract: The banking sector was one of the hardest hit during the worst months of the pandemic, with losses at one point reaching as high as 50%. The corollary has been a more intense recovery of European and Spanish bank stocks, until the rally was truncated by the escalation of geopolitical tensions between Russia and Ukraine. That intense post-pandemic rally is largely attributable to: i) the improvement in sector earnings in 2021, in particular in the case of the Spanish banks, which recognized more provisions in 2020 and have benefitted in 2021 from non-

recurring gains; and, ii) a shift in the outlook for European benchmark rates, specifically an end to negative rates that have remained intact over the last five years, especially EURIBOR, of greatest relevance to the retail banking business. Despite that recovery, the banking sector continues to trade at a price-to-book ratio of less than one, highlighting the gap between the cost of equity (a parameter which is not directly observable and thus has to be estimated) demanded by investors and the returns generated by the sector. That said, if the ROE generated

“ The stock market recovery staged by the banking sector has also been far more intense than in other sectors, with Spanish banks’ market value almost back at pre-pandemic levels prior to the escalation of geopolitical tensions. ”

by the sector in 2021 proves sustainable in time, there could be scope for upside in bank valuation. Nevertheless, recent developments on the geopolitical front have raised concerns over the banks’ stock market rally, as they have complicated central banks’ task of controlling inflation without dampening recovery prospects. This scenario is raising uncertainty over the ultimate pace of monetary policy normalization, an expectation that has largely driven the revaluation in bank stocks observed in recent months.

Recovery in the European banks’ market value

The geopolitical crisis and conflict unleashed between Russia and Ukraine in recent weeks has fuelled market uncertainty and volatility and translated into sharp stock market corrections in every sector, corrections that

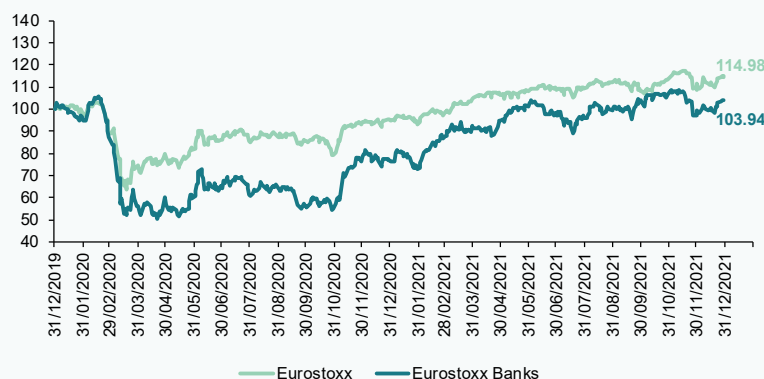
have hit the banks particularly hard on account of their pro-cyclical nature.

Those developments mark a drastic turnaround in the trend in the banks’ stock market valuations, having rallied strongly for the last 18 months following the intense correction suffered during the initial months of the pandemic, when restrictions were at their harshest. At the height of the pandemic, the European and Spanish banking sectors were the hardest hit, with 50% of their value wiped out at one point, which is nearly twice the loss sustained by the market as a whole. However, the recovery staged since then has also been far more intense in banking compared to other sectors. The Spanish banks’ market value was almost back at pre-pandemic levels before geopolitical tensions spiralled out of control in the last couple of weeks.

Exhibit 1

Trend in the Eurostoxx vs. the Eurostoxx Banks

Indexed to December 2019

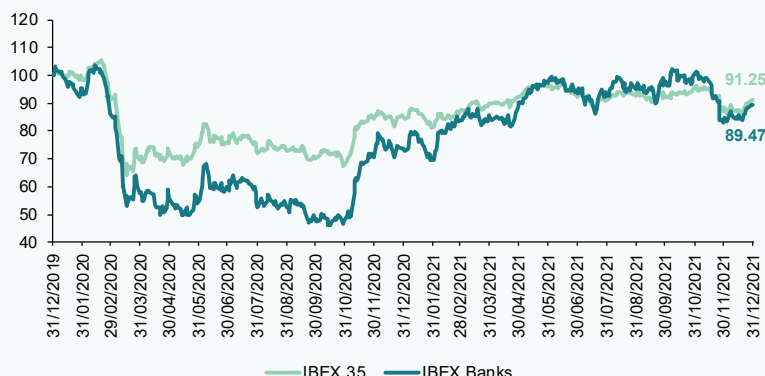


Source: Afi, based on Bloomberg figures.

Exhibit 2

Trend in the Ibex 35 and Ibex Banks

Indexed to December 2019



Source: Afi, based on Bloomberg figures.

Such sharp movements in market value in both directions clearly evidence the pro-cyclical or higher-risk nature of the banking sector, whose 'beta' coefficient is well above 1.

Factors underpinning the rally

Drilling down deeper into the factors possibly underpinning the rally in bank stocks following the worst months of the pandemic, it is worth highlighting two points: one related with the sector's performance during the past year; and the other triggered by a more upbeat outlook for the retail banking business.

The first relates to the banks' healthy earnings performance in 2021, having frontloaded their non-performance provisions in 2020. The earnings momentum in 2021 could continue over the coming years given that provisioning remains high relative to pre-pandemic levels,

leaving the banks with margin to absorb potential increases in non-performance with a charge against those provisions.

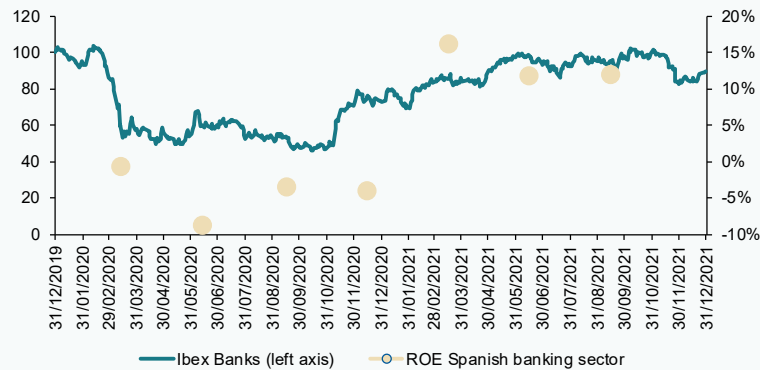
The improvement in banks' earnings was observed across the European sector but was particularly robust in Spain, as shown in Exhibit 4. The exhibit shows the significant jump in profitability over the past two years for a broad sample of European and Spanish banks, with all of them situated above the diagonal line. The year-on-year growth in ROE in 2021 is particularly noteworthy in the case of the Spanish banks, which recognised significantly more provisions in 2020 and also benefitted from non-recurring gains in 2021, further shoring up their reported earnings.

Within the overall upward trend in sector profitability, the individual banks' returns remain remarkably uneven, a factor which the

“ In addition to the recovery in earnings, the market has started to discount a scenario of rate normalisation, following more than five years of negative rates, further bolstering the banks' stock market valuations. ”

Exhibit 3

Trend in Ibox Banks (indexed to Dec. 2019) and the Spanish banking sector's ROE



Note: ROE data at the consolidated level.

Sources: Authors' own elaboration based on Bloomberg and the EBA (2022b).

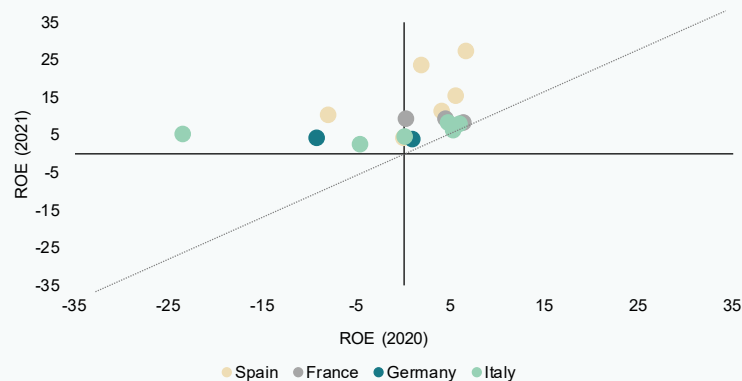
market undoubtedly takes into consideration when ascribing value. That is evident in Exhibits 5 and 6, which show the correlation between the relative value of each bank (measured using their price-to-book ratios) and their return on equity metrics (ROE).

As shown, there is a clear-cut positive correlation between the two variables, indicating that the market assigns more value to the banks that generate –and that it expects will generate– higher returns on their capital. That positive correlation is clearer

Exhibit 4

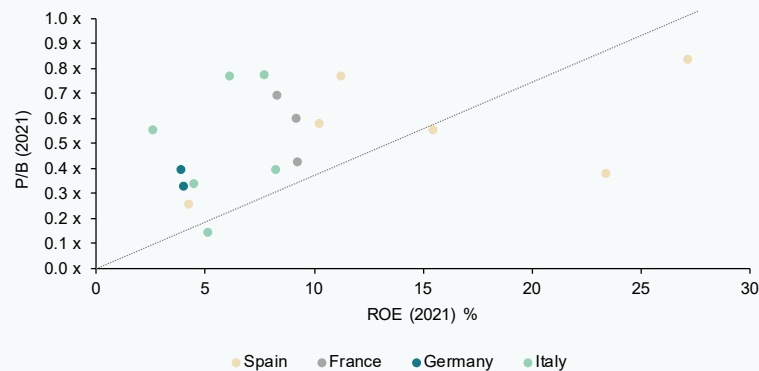
Trend in the main European banking sectors' ROEs

Percentages



Source: Authors' own elaboration based on SNL.

Exhibit 5

Correlation between P/B and ROE (2021)

Source: Authors' own elaboration based on SNL.

still and increases in explanatory power if, as shown in Exhibit 6, we strip out the non-recurring gains recognised by certain banks (particularly those immersed in mergers and other M&A activity) in 2021 as those items had a significant impact on their reported

earnings, so distorting a more recurring vision of their ROE.

In addition to pricing in the banks' earnings momentum last year, the market has discounted another important possible

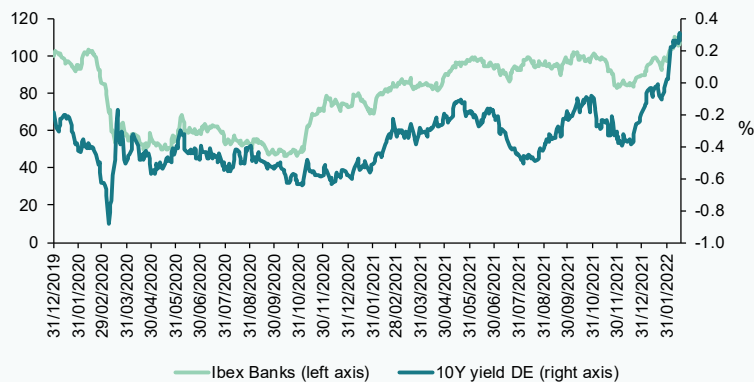
Exhibit 6

Correlation between P/B and ROE, excluding non-recurring profits (2021)

Source: Authors' own elaboration based on SNL.

Exhibit 7

Trend in Ibox Banks (indexed to Dec. 2019) vs. 10Y German bond yield



Source: Afi, based on Bloomberg figures.

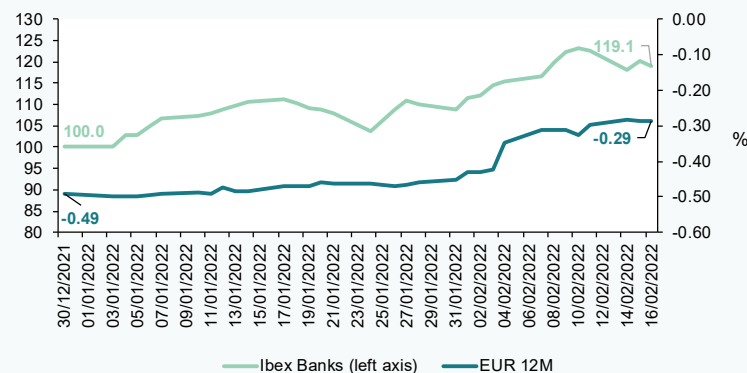
development: normalisation of interest rates, after more than five years in negative territory, which would have a positive impact on banks' margins and, by extension, sector profitability.

The outlook for an increase in rates relevant to the banking business, implicit in the yield

curves, started to play a significant role in the final months of 2021, when the Federal Reserve began to clearly signal its intention of raising rates in relative quick succession in 2022 – in fact the Federal Reserve has already made the first rise in March. Meanwhile, the European Central Bank (ECB), despite

Exhibit 8

Trend in Ibox Banks (indexed to Dec. 2019) vs. 12-month EURIBOR



Source: Afi, based on Bloomberg figures.

“ Notwithstanding the significant rally sustained by the European banks over the past year and a half, most of the entities continue to trade below their book values, suggesting that a significant number of the banks are not generating the returns required by investors (cost of equity). ”

initially appearing more reluctant to raise its benchmark rates, started to send similar signals in the early weeks of this year, albeit stressing that the intensity and nature of the spike in inflation in Europe is very different than in the US and, as a result, less of an argument for rate hikes, foreshadowing later and less intense rate increases on this side of the Atlantic.

Regardless, that shift in expectations regarding the outlook for rates provided the banks' market valuations with an additional boost. As shown in Exhibit 7, long-term risk-free rates (represented in the case of Europe by the yield on German bonds) have historically been closely positively correlated with the banks' market values. An analysis

of more recent trends (Exhibit 8) highlights how the prospect of sooner and faster rate hikes in the eurozone and the impact of that expectation on short-term interest rates until mid-February intensified the correlation between sector valuation and 12-month EURIBOR, insofar as the latter movement should prove highly beneficial for the European banks, particularly those whose assets are more sensitive to rate changes.

Estimated cost of equity in European banking

Notwithstanding the significant rally sustained by the European banks over the past year and a half, most of the entities continue to trade below their book values, suggesting that a significant number of the banks are not

Exhibit 9 **Cost of equity estimates for euro area banks**

Percentage

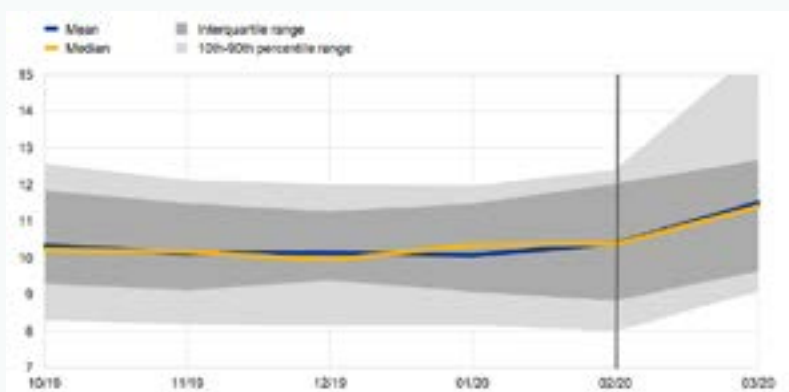


Source: ECB (2021).

Exhibit 10

Cost of equity estimates for the European banks around the COVID-19 outbreak

Percentage



Source: ECB (2021).

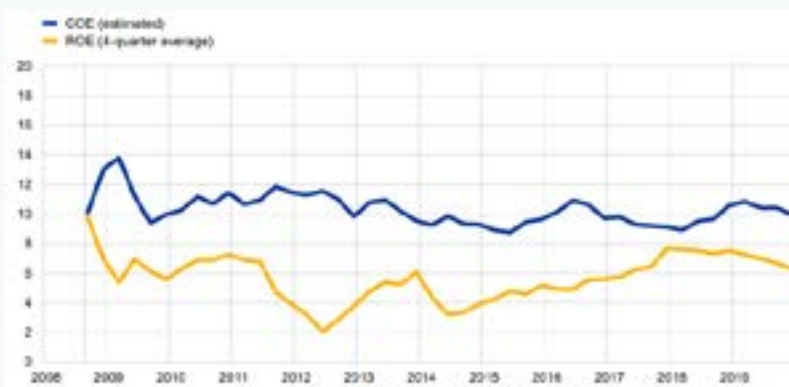
generating the returns required by investors (cost of equity). The European supervisor has been noting for several years its concern about the sector's low profitability and, above all, its low market valuation, which impedes the issuance of shares in order to shore up capital.

Given that the cost of equity is not a directly observable variable, it is necessary to rely on estimates such as those published on a recurring basis by the ECB. As shown in Exhibit 9, at the end of 2019, the banks' cost of equity estimates vary significantly, ranging between 8% in

Exhibit 11

Cost of equity and ROE of the European banks

Percentage



Source: ECB (2021).

the 10th percentile and 12% in the 90th. Those estimates also highlight the distress generated by the pandemic as regards the banks' cost of equity. That upward movement began in February when the financial markets sustained heavy losses in the wake of the COVID-19 outbreak and continued throughout the months of harshest restrictions and greatest uncertainty (Exhibit 10).

Using those estimates, the gap between the COE estimates and ROEs of the European banks in recent years (Exhibit 11) highlights how the return demanded by their shareholders (cost of equity) has trended systematically and substantially above the return generated by the sector, justifying the contraction in the European entities' price-to-book ratios, which are widely trading under 1x, since the financial crisis.

The European regulator, the European Banking Authority (EBA), recently published its estimate of the sector's cost of equity and return on capital based on its estimates and/or the self-assessments of a broad sample of banks.

According to the EBA's most recent *Risk Assessment Questionnaire*, which dates to October 2021, a significant ~40% of the sample estimate their sustainable long-term ROE at around 8-10%, while approximately 25% believe returns will be a little higher, at 10-12%.

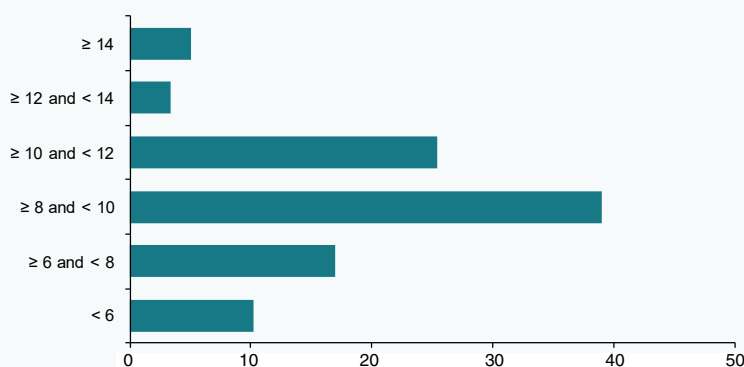
In parallel, a significant share (again ~40%) of those same entities put their estimated COE at levels of between 8 and 10%.

To complement the estimates published by the ECB and EBA, it is worth taking a look at the cost of equity implicit in how the market is valuing the banks in terms of price-to-book ratios that remain under 1x despite the sector rally sustained throughout the months of brightening economic outlook.

Assuming that the ROE generated by the European banks in 2021 (without considering non-recurring gains) is sustainable at cruising speed, that level of profitability coupled with current valuations in terms of price-to-book imply a cost of equity for the European banks as a whole of around 13-14%, albeit, as found by the ECB, with significant differences from

Exhibit 12 ROE level that European banks needs to operate on a longer term basis

Percentage

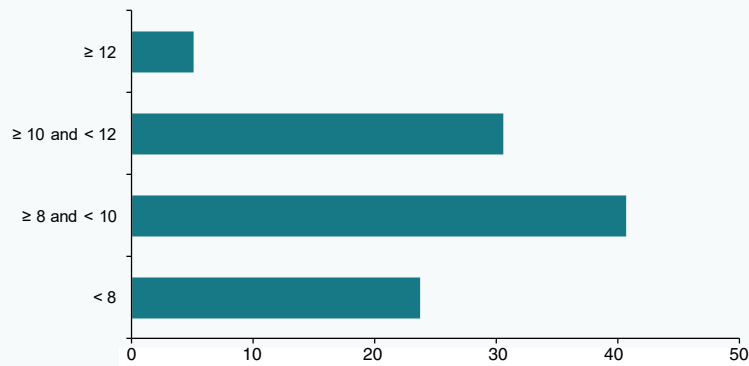


Source: Authors' own elaboration based on the EBA (2022b).

Exhibit 13

Cost of equity estimated by the European banks

Percentage



Source: Authors' own elaboration based on the EBA (2022b).

one bank to the next. That estimate is at the upper end of the range estimated by the ECB and above the levels estimated by the main European banks themselves in the most recent *Risk Assessment Questionnaire* published by the EBA.

There are at least two possible explanations for such a significant gap between the implicit cost of equity and return on equity. On the one hand, it could relate to investors' perception that the ROE generated by the sector in 2021 (even before non-recurring items) is not sustainable in time, which is why they value the entities at a price-to-book of less than one. In contrast, by way of a more optimistic alternative, it is possible that last year's ROE is indeed sustainable in time, so implying significant upside in bank valuations, assuming a cost of equity of around 10% based on the self-assessed estimates of a significant percentage of the European banks.

Conclusions

The banking sector, in keeping with its procyclical nature, was one of the hardest hit during the worst months of the pandemic crisis; the corollary has been a more intense recovery until the rally was truncated by the crisis between Russia and Ukraine. That intense post-pandemic rally is largely attributable to the improvement in sector earnings in 2021, as well as a shift in the outlook for rates, specifically an end to the abnormality of negative rates, especially EURIBOR, of greatest relevance to the retail banking business.

Despite that recovery, the banking sector continues to trade at a price-to-book ratio of less than one, highlighting the gap between the cost of equity demanded by investors and the returns generated by the sector, which, if the ROE generated by the sector

“ It is possible that last year's ROE is indeed sustainable in time, so implying significant upside in bank valuations. ”

in 2021 proves sustainable in time, could imply bank valuation upside. Nevertheless, recent developments on the geopolitical front have raised concerns over the banks' stock market rally, as they have complicated central banks' task of controlling inflation without dampening recovery prospects. This scenario is raising uncertainty over the ultimate pace of monetary policy normalization, an expectation that has largely driven the revaluation in bank stocks observed in recent months.

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Marta Alberni, Ángel Berges and María Rodríguez. A.F.I. - Analistas Financieros Internacionales, S.A.

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Recent key developments in the area of Spanish financial regulation

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

Royal Decree-law 1/2022 amending Law 9/2012, Law 11/2015 and Royal Decree 1559/2012 (published in the Official State Journal on January 19th, 2022)

The purpose of Royal Decree-law 1/2022 is to modify the legal regime governing SAREB, the entity that manages the assets derived from banking sector restructuring, and eliminate the limits on the State's shareholding in it, opening the door for a possible increased public ownership interest. It also adjusts SAREB's supervisory and audit regime and how delivery of its objectives is monitored, leaving intact the current supervisory and penalty regime attributed to the Bank of Spain.

In addition, it regulates the procedure under which the fund for orderly bank restructuring, FROB for its acronym in Spanish, can acquire additional interests in SAREB, with the ultimate aim of taking control of that entity. The idea is for the FROB to be able to take a majority shareholding in SAREB without the latter becoming a state corporation.

Royal Decree-law 1/2021 took effect the day after its publication.

Royal Decree-law 2/2022 taking urgent measures and extending certain existing measures to address situations of social and economic vulnerability (published in the Official State Journal on February 23rd, 2022)

Among other matters, Royal Decree-law 2/2022 extends the term of certain of the housing protection measures introduced by Royal Decree-law 11/2020 adopting complementary urgent measures in the social and economic arenas to mitigate the impact of COVID-19. Specifically, it extends the

suspension of home eviction and foreclosure proceedings in the circumstances and following the procedures already contemplated until September 30th, 2022 and extends the deadline for applying for the landlord or lessor compensation contemplated in Royal Decree-law 37/2020, on urgent measures for addressing circumstances of social and economy vulnerability in the areas of housing and transport, until October 31st, 2022.

In keeping with those changes, the deadlines contemplated in Royal Decree 401/2021, which outlines the procedure for awarding that compensation, have likewise been extended until October 31st, 2022.

Royal Decree-law 2/2022 took effect the day after its publication.

Bank of Spain Circular 6/2021 amending the Circular 4/2019 (published in the Official State Journal on December 29th, 2021)

The overriding purpose of this new Circular is to update Circular 4/2017, commonly known as the Accounting Circular, as follows:

- Introducing the changes in the International Financial Reporting Standards adopted by the European Union as a result of Regulation (EU) 2021/25, which amends IAS 39 and IFRSs 4, 7, 9 & 16, in response to interbank offered rate reform.
- Making adjustments to the treatment of forborne exposures outlined in Annex 9 to keep it aligned with the FINREP treatment following modification of Commission Implementing Regulation (EU) 2021/451.
- Eliminating certain provisions of Annex 9 in relation to transaction origination whose

content is already addressed in the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) which the Bank of Spain has taken on board in respect of less significant credit institutions and specialised lending institutions and are used by the ECB for the significant banks under the latter's direct supervision.

- Updating the alternative solutions for collective estimation of credit risk loss allowances and the haircuts applied to assets forborne or received in lieu of payment.
- Updating the Economic and Monetary Union (EMU) statistical data requirements in keeping with the changes introduced in Regulation (EU) 2021/379 of the European Central Bank, requiring new information with respect to additional data requirements and modifying certain existing data requirements and definitions.
- Simplifying the confidential financial statement submission requirements applicable to the branches of foreign credit institutions with operations in Spain that are headquartered in a European Economic Area Member State.

In addition, introducing *ad hoc* changes to the individual confidential financial statements required under the Accounting Circular in order to introduce new data requirements to verify standard compliance, gather statistical information and make technical adjustments and corrections.

Circular 6/2021 also modifies Circular 4/2019 so as to eliminate the provision regarding forecasts for prudential supervision purposes as it was referenced to the "Granting of transactions" section of Annex 9 of the Accounting Circular, which has been eliminated.

In terms of the staggered entry into effect of Circular 6/2021, note the following:

- The new confidential financial statement submission requirements applicable to the

branches of foreign credit institutions with operations in Spain that are headquartered in a European Economic Area Member State will apply for the first time to data as of January 31st, 2022.

- The changes to the separate confidential financial statements will apply for the first time to data as of January 31st, 2022, for those reported monthly, as of March 31st, 2022, for those submitted quarterly, as of June 30th, 2022, for those sent twice-yearly and as of December 31st, 2022, for the annual statements.
- The updated EMU statistical data requirements will apply for the first time to data as of January 31st, 2022, for those reported monthly and as of March 31st, 2022, for those submitted quarterly.
- The new criteria for reclassifying forborne exposures out of non-performing will apply from December 31st, 2021. However, the banks can choose to apply the new criteria from June 30th, 2021.
- The new schedules with alternative solutions for collective estimation of credit risk loss allowances and the haircuts applied to assets forborne or received in lieu of payment will apply from June 30th, 2022.

Bank of Spain Circular 1/2022 for specialised lending institutions in respect of liquidity, prudential requirements and reporting obligations, amending Circulars 1/2009 and 3/2019 (published in the Official State Journal on February 3rd, 2022)

The purpose of Circular 1/2022 is to round out the solvency regulations applicable to specialised lending institutions ("SLIs") and adapt their reporting requirements. Specifically:

1. With respect to liquidity:

- The Circular introduces liquidity requirements inspired by the CRR

liquidity coverage ratio (LCR), including a buffer in three categories of liquidity akin to those required of banks, with minimum composition requirements for each category of liquidity, which have been adapted for how SLIs operate.

- That buffer may not fall below 10% of gross outflows in general (25% for banks), or below 5% (0% or 10%, depending on the circumstances, for banks) if certain circumstances are met in terms of the liquidity risk profile of the SLI's activities and the composition of their balance sheets.
 - The same treatment as applies to banks is applied to SLIs that can calculate the volume and probability of liquidity outflows associated with certain products and services.
 - A real forecast for operating expenses associated with the SLI's activities is added to the ratio denominator in the event of grave financial instability. Those outflows are assigned an outflow rate of 100%.
 - Outflow rates of between 0% and 50% are assigned to maturities of group borrowings so long as there are firm commitments to roll the financing over or it can be demonstrated that they are refinanced consistently over time, even in situations of grave financial instability.
 - The Circular sets out the circumstances in which an asset is considered liquid.
 - It likewise establishes the criteria for valuing the assets comprising the liquidity buffer.
 - It introduces the regime applicable in the event of non-compliance with the liquid asset eligibility criteria, the alternative liquidity treatment approaches, the rules regarding liquidity inflows and outflows and the minimum buffer requirement.
 - The disclosure requirements introduced are similar to those required of banks.
 - Lastly, the Circular introduces a new reporting statement for hybrid SLIs that must be submitted annually to reflect the sum of their capital requirements under payment service activities.
2. With respect to capital adequacy:
- The Circular establishes the circumstances in which SLIs have to prepare the yearly internal capital adequacy assessment report (ICAAP). The Bank of Spain will carry out the review and supervisory assessment.
 - The SLIs' solvency framework has been rounded out to adapt their reporting requirements for their type of activity, business model, size and relevant importance.
 - The Circular regulates their reporting requirements in the area of solvency and the rules for adapting the general information required of the banks for the specific circumstances of SLIs.
 - It determines the frequency with which they must provide the Bank of Spain with information regarding the following:
 - own funds, capital requirements, large exposures, leverage and non-performance loans;
 - own funds of hybrid SLIs;
 - liquidity buffer;
 - sources of financing structure;
 - balance sheet interest rate risk; and,
 - remuneration.
3. The Circular introduces the possibility of requiring the provision of a guarantee covering all of the activities of SLIs controlled by foreign persons by means of

a surety insurance policy, joint guarantee, pledge of cash or securities admitted to trading on a secondary market or issued by the central government of a member state or guarantees of similar quality that the Bank of Spain may deem eligible in each set of circumstances.

Lastly, the new Circular amends Circular 1/2009 to reduce the threshold for having to report shareholders that do not qualify as financial institutions from 2.5% to 1% in the case of SLIs and it amends Circular 3/2019 to stipulate that credit institutions that evaluate the materiality of credit obligations past due consider that when an obligation is past its due date by more than 90 days consecutively it is in default.

Circular 1/2022 will take effect three months after its publication.

Spanish economic forecasts panel: March 2022*

Funcas Economic Trends and Statistics Department

Spanish GDP grew by 5% in 2021

According to provisional figures, the Spanish economy grew by 2% in 4Q21, which, if maintained in the definitive report, would imply annual growth of 5%, 0.1% above the consensus forecast in January.

Forecast growth for 2022 has been cut by one point in the wake of the conflict in Ukraine

The consensus forecast for GDP growth in 2022 stands at 4.8%, down 0.8% from the last survey. However, four analysts have responded that they have not yet modified their forecasts to incorporate the impact of the invasion of Ukraine. Considering only those who have layered in that impact, the average GDP forecast drops to 4.6%, down one percentage point from the January consensus.

The range between the high and low predictions is unusually wide, even if we only consider the analysts who have already adjusted their forecasts, evidencing significant differences in the starting assumptions on which each participant bases their baseline scenarios. Uncertainty over where the conflict in Ukraine is headed, potential new sanctions and energy product prices is currently very high and the analysts' growth forecasts may differ significantly depending on the assumptions made regarding those sources of uncertainty.

Significant upward revision to CPI forecasts

Inflation has continued to trend higher, reaching 7.6% in February, with core inflation at 3%. Pre-existing inflationary pressures, derived from higher commodity prices and supply-chain bottlenecks, have only worsened since the invasion of Ukraine, leaving the inflation outlook even more uncertain. The average forecast for headline inflation in 2022 has increased by 1.9 percentage points to 5.4%, while the consensus for core inflation now stands at 2.8%, up 0.8 percentage points. The increase is even higher for both rates if we only consider the forecasts that have been modified to factor in

the impact of the war: 5.8% for headline inflation and 3% for core inflation.

The unemployment rate should continue to trend lower

According to the still-provisional quarterly accounts, full-time equivalent (FTE) employment increased by 6.7% in 2021. Moreover, the Social Security contributor reports suggest that job creation has continued in the first two months of the year, albeit slowing from the second half of last year. The average forecast for 2022 has been trimmed by half a point to 3.5% (3.4% excluding the analysts who have not yet revised their forecasts).

The unemployment rate averaged 14.8% in 2021. The consensus forecast for 2022 is for 13.9%, three decimals less than in the last report, despite lower growth projections (in this case the forecast is unchanged if we only take the analysts who have factored in the impact of the war).

The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC). Productivity per FTE job, which decreased by 1.7% in 2021, is expected to increase by 1.3% this year. Meanwhile, ULCs are expected to increase by 0.7% in 2022, having increased by 1.2% in 2021.

Ongoing balance of payments surplus

Again based on provisional figures, the current account balance of payments showed a surplus of 8.43 billion euros in 2021, or 0.7% of GDP, down a little from the prior-year surplus of 9.25 billion. The consensus forecast is for a surplus of 0.7% once again in 2022 (unchanged if we only consider the panellists who have factored in the war impact).

2021 public deficit below the government's forecast

To November 2021, the overall public deficit, excluding local government, was running at

55.48 billion euros, which is equivalent to 4.6% of annual GDP. December, however, always has a big impact on the deficit, which is why the analysts are forecasting an average annual deficit of 7.3% of GDP.

The average deficit forecast for 2022 is 5.5% of GDP (5.7% considering only those that have updated their forecasts for the war), compared to a forecast of 5.4% as of January.

External environment clouded by the war

The global economy faces a supply shock as a result of the impact of the conflict on energy and other core commodity markets. The disruption of supplies exported from Russia and the prospect of escalating sanctions and retaliation measures have sent the price of energy products soaring. Since the last Panel survey, TTF gas prices have jumped 34%, marking all-time highs in the first few days after the invasion. Oil prices have also swung wildly: a barrel of Brent is trading above the \$100 per barrel mark, compared to \$89 in January, having peaked at over \$130. Basic food and feedstock products, such as wheat and corn, have etched out similar patterns on the back of plummeting exports from Ukraine. Elsewhere, bottlenecks in the supply of metals and chips, highly dependent on Russian commodities, have intensified.

The shock has the dual consequence of aggravating the inflationary pressures already being felt since the pandemic and delaying economic recovery. Europe is one of the regions most exposed to the risk of stagflation due to its proximity to the hostilities and its dependence on Russia, especially for gas, a key input for electricity generation. In its latest projections, the ECB raised its forecast for CPI to between 5.1% (baseline scenario) and 7.1% (assuming stressed energy prices), up 2 to 4 percentage points compared to its December forecasts, respectively. Elsewhere, it trimmed its forecast for eurozone GDP in 2022 by half a point to 3.7%, and to 2.3% in its adverse scenario.

The analysts have factored those trends into their assessment with the majority now clearly pessimistic regarding the international context in the EU and beyond. Nearly all think that such a negative context will continue for the coming months or even deteriorate further.

Central banks walking fine line of containing inflation without harming economy

Before the conflict, monetary authorities had announced plans to scale down the stimulus measures rolled out during the pandemic. Their position was never easy: they were aiming to curb inflation without affecting the post-pandemic recovery. Faced now with the risk of stagflation, that dilemma has become even trickier. For now, the central banks have opted to stick with the rollback of their public debt purchase programmes, with the ECB even accelerating its timeline for so doing, while opening the door to initial rate hikes. This highlights central banks' concerns over inflation trends and possible second-round effects on wages.

Already, markets are discounting a rate increase. 12-month EURIBOR (which can be regarded as a leading indicator for the deposit facility rate, controlled by the ECB) has tightened from close to -0.5% in January to -0.24% at the time of writing this panel. Elsewhere, the yield on 10-year Spanish bonds has doubled since our last report, to above 1.3%. The risk premium has also widened a little, pricing in the looming rollback of public debt purchase volumes, with the Spanish benchmark 10 year bond reflecting a spread over its German counterpart of close to 100bp –still a moderate level by past standards.

Analysts expect market rates to continue to inch higher over the projection horizon (Table 2), reflecting sharper tightening than they had been forecasting in January.

Euro depreciation

In light of the ongoing shift in US monetary policy and the prospect of sharper and sooner rate hikes than in the eurozone, the dollar has tended to appreciate against the euro since the last survey. Going forward, the analysts are forecasting scant movement in the exchange rate until the end of the forecast horizon (Table 2).

Macroeconomic policy remains expansionary

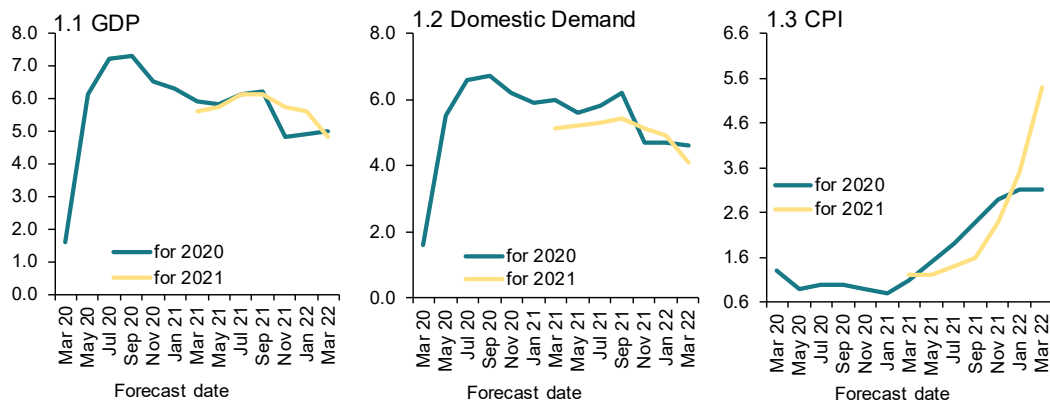
There has been little change in the analysts' assessment of macroeconomic policy since our last Panel. There is virtual unanimity about the expansionary character of prevailing policies.

Elsewhere, most of them think that the current orientation is the right one, although the number of forecasters who think that monetary policy should become more neutral has increased slightly (Table 4). Lastly, one of the ECB's key rates –the rate on the deposit facility– is expected to be increased a little in the fourth quarter of 2022.

Exhibit 1

Change in forecasts (Consensus values)

Annual rates in %



Source: Funcas Panel of Forecasts.

* The Spanish Economic Forecasts Panel is a survey run by Funcas which consults the 20 research departments listed in Table 1. The survey, which dates back to 1999, is published bi-monthly in the months of January, March, May, July, September and November. The responses to the survey are used to produce a “consensus” forecast, which is calculated as the arithmetic mean of the 20 individual contributions. The forecasts of the Spanish Government, the Bank of Spain, and the main international organisations are also included for comparison, but do not form part of the consensus forecast.

Spanish economic forecasts panel: March 2022*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – March 2022

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

	GDP ¹		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF construction		Domestic demand ⁴	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Analistas Financieros Internacionales (AFI)	5.0	6.0	4.6	4.9	3.0	2.9	4.1	8.1	15.2	8.5	-3.0	8.6	4.6	5.0
BBVA Research	5.0	5.5	4.6	6.3	3.0	2.1	4.1	11.6	15.2	6.5	-3.0	15.5	4.6	6.3
CaixaBank Research	5.0	5.5	4.6	3.9	3.0	0.3	4.1	7.2	15.2	8.0	-3.0	5.1	4.6	4.8
Cámara de Comercio de España	5.0	4.3	4.6	2.0	3.0	2.3	4.1	4.5	15.2	10.6	-3.0	1.2	4.6	3.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	5.0	4.6	4.6	4.3	3.0	2.3	4.1	5.4	15.2	6.3	-3.0	6.0	4.6	3.9
Centro de Predicción Económica (CEPREDE-UAM)	5.0	5.7	4.6	4.3	3.0	0.7	4.1	11.7	15.2	15.1	-3.0	9.7	4.6	5.2
CEOE	5.0	4.7	4.6	3.6	3.0	3.0	4.1	7.0	15.2	11.0	-3.0	3.4	4.6	3.8
Equipo Económico (Ee)	5.0	4.6	4.6	4.0	3.0	2.1	4.1	4.4	15.2	5.0	-3.0	1.0	4.6	3.7
EthiFinance Ratings	5.0	5.3	4.6	4.6	3.0	1.7	4.1	4.9	15.2	--	-3.0	--	4.6	--
Funcas	5.0	4.2	4.6	2.5	3.0	1.1	4.1	7.5	15.2	8.4	-3.0	8.8	4.6	3.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	5.0	5.3	4.6	5.4	3.0	2.6	4.1	6.0	15.2	8.8	-3.0	5.4	4.6	4.6
Instituto de Estudios Económicos (IEE)	5.0	4.3	4.6	3.7	3.0	3.1	4.1	4.7	15.2	5.5	-3.0	2.5	4.6	3.4
Intermoney	5.0	5.5	4.6	4.6	3.0	2.2	4.1	9.6	15.2	9.9	-3.0	9.2	4.6	5.1
Mapfre Economics	5.0	4.8	4.6	4.6	3.0	1.5	4.1	6.1	15.2	--	-3.0	--	4.6	3.9
Oxford Economics	5.0	4.8	4.6	4.2	3.0	1.9	4.1	7.2	15.2	5.3	-3.0	4.0	4.6	4.2
Repsol	5.0	3.8	4.6	1.2	3.0	0.5	4.1	7.0	15.2	8.2	-3.0	3.7	4.6	2.2
Santander	5.0	4.8	4.6	1.9	3.0	0.2	4.1	8.6	15.2	12.5	-3.0	3.7	4.6	3.4
Metysis	5.0	2.9	4.6	3.8	3.0	1.5	4.1	5.7	15.2	4.2	-3.0	6.5	4.6	3.7
Universidad Loyola Andalucía	5.0	4.8	4.6	4.5	3.0	2.3	4.1	8.2	15.2	8.0	-3.0	2.8	4.6	4.2
CONSENSUS (AVERAGE)	5.0	4.8	4.6	3.9	3.0	1.8	4.1	7.1	15.2	8.3	-3.0	5.7	4.6	4.1
Maximum	5.0	6.0	4.6	6.3	3.0	3.1	4.1	11.7	15.2	15.1	-3.0	15.5	4.6	6.3
Minimum	5.0	2.9	4.6	1.2	3.0	0.2	4.1	4.4	15.2	4.2	-3.0	1.0	4.6	2.2
Change on 2 months earlier ²	0.1	-0.8	-0.7	-1.4	-0.2	-0.2	0.3	-0.9	2.5	0.3	-0.9	-1.9	-0.1	-0.8
- Rise ³	12	1	5	2	2	5	16	3	12	6	4	1	5	0
- Drop ³	5	14	14	15	16	11	3	15	4	9	11	14	8	15
Change on 6 months earlier ²	-1.2	-1.3	-3.0	-1.5	0.1	-0.5	-2.5	-2.1	4.1	-0.3	-6.9	-4.6	-1.6	-1.3
Memorandum items:														
Government (July 2021)	6.5	7.0	7.3	6.9	2.5	1.5	9.0	12.4	16.5	18.3	6.1	10.4	6.5	6.7
Bank of Spain (December 2021)	4.5	5.4	4.3	5.1	3.0	-0.2	3.9	7.8	--	--	--	--	4.2	4.4
EC (November 2021)	5.0	5.6	--	--	--	--	--	--	--	--	--	--	--	--
IMF (January 2022)	4.9	5.8	--	--	--	--	--	--	--	--	--	--	--	--
OECD (December 2021)	4.5	5.5	4.4	4.5	3.2	2.5	3.8	8.1	--	--	-4.4	1.9	4.3	4.8

¹ Note that for 2021, the National Statistics Institute (INE) has already published 2021 data; thus, these values are no longer forecasts. However, for consistency with the panel format, we include the column with uniform values across panelists for 2021.

² Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

³ Number of panellists revising their forecast upwards (or downwards) since two months earlier.

⁴ Contribution to GDP growth, in percentage points.

Table 1 (Continued)

Economic Forecasts for Spain – March 2022

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	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Analistas Financieros Internacionales (AFI)	13.4	10.0	12.8	7.2	3.1	4.3	0.8	1.7	-0.5	--	6.7	2.5	14.8	14.4	0.8	1.1	-7.9	-4.9
BBVA Research	13.4	15.1	12.8	18.3	3.1	3.2	0.8	2.1	-0.5	2.6	6.7	4.7	14.8	13.6	1.0	-0.2	-6.8	-4.8
CaixaBank Research	13.4	11.5	12.8	8.1	3.1	4.5	0.8	2.6	-0.5	2.3	6.7	4.5	14.8	13.0	0.7	1.3	-7.1	-5.2
Cámara de Comercio de España	13.4	11.5	12.8	6.8	3.1	6.7	0.8	3.4	-0.5	--	6.7	3.2	14.8	14.5	--	0.8	--	-5.9
Centro de Estudios Economía de Madrid (CEEM-URJC)	13.4	9.6	12.8	8.2	3.1	7.2	0.8	3.8	-0.5	-	6.7	2.5	14.8	14.9	1.1	1.0	-7.6	-5.8
Centro de Predicción Económica (CEPREDE-UAM)	13.4	11.7	12.8	10.7	3.1	5.2	0.8	--	-0.5	1.3	6.7	4.7	14.8	13.3	0.9	1.5	-7.5	-5.4
CEOE	13.4	11.1	12.8	8.9	3.1	5.9	0.8	2.8	-0.5	2.0	6.7	3.6	14.8	13.9	0.7	0.0	-7.5	-6.3
Equipo Económico (Ee)	13.4	11.9	12.8	10.1	3.1	7.8	0.8	3.4	-0.5	2.5	6.7	3.4	14.8	13.5	1.0	0.6	-7.6	-5.4
EthiFinance Ratings	13.4	15.6	12.8	11.8	3.1	4.1	0.8	2.1	-0.5	--	6.7	--	14.8	13.5	--	0.5	--	-5.0
Funcas	13.4	8.7	12.8	7.4	3.1	6.8	0.8	3.1	-0.5	0.7	6.7	1.9	14.8	14.0	0.7	0.4	-6.6	-5.8
Instituto Complutense de Análisis Económico (ICAE-UCM)	13.4	9.8	12.8	7.1	3.1	4.0	0.8	2.5	-0.5	--	6.7	4.2	14.8	13.5	0.9	1.0	-7.0	-4.8
Instituto de Estudios Económicos (IEE)	13.4	9.6	12.8	7.0	3.1	5.6	0.8	2.8	-0.5	2.0	6.7	3.1	14.8	14.2	0.7	-0.5	-7.5	-6.8
Intermoney	13.4	9.9	12.8	8.7	3.1	6.1	0.8	3.2	-0.5	--	6.7	3.7	14.8	14.2	0.9	1.0	-7.5	-5.8
Mapfre Economics	13.4	7.7	12.8	5.4	3.1	4.5	0.8	2.9	-0.5	--	6.7	--	14.8	13.9	1.0	1.2	-7.0	-5.3
Oxford Economics	13.4	8.1	12.8	6.1	3.1	5.8	0.8	3.2	-0.5	--	6.7	--	14.8	13.9	--	1.0	--	-5.6
Repsol	13.4	11.2	12.8	6.6	3.1	6.2	0.8	3.1	-0.5	2.3	6.7	3.5	14.8	13.3	0.7	0.0	-7.9	-5.5
Santander	13.4	12.1	12.8	8.0	3.1	6.1	0.8	2.7	-0.5	--	6.7	--	14.8	13.6	--	--	--	--
Metyis	13.4	8.1	12.8	8.9	3.1	4.6	0.8	2.8	-0.5	--	6.7	3.4	14.8	14.5	0.8	0.7	-7.1	-6.0
Universidad Loyola Andalucía	13.4	11.0	12.8	8.5	3.1	4.5	0.8	2.5	-0.5	--	6.7	3.0	14.8	13.6	--	0.7	--	-4.9
CONSENSUS (AVERAGE)	13.4	10.7	12.8	8.6	3.1	5.4	0.8	2.8	-0.5	2.0	6.7	3.5	14.8	13.9	0.8	0.7	-7.3	-5.5
Maximum	13.4	15.6	12.8	18.3	3.1	7.8	0.8	3.8	-0.5	2.6	6.7	4.7	14.8	14.9	1.1	1.5	-6.6	-4.8
Minimum	13.4	7.7	12.8	5.4	3.1	3.2	0.8	1.7	-0.5	0.7	6.7	1.9	14.8	13.0	0.7	-0.5	-7.9	-6.8
Change on 2 months earlier ¹	0.7	-0.5	0.6	-0.9	0.0	1.9	0.0	0.8	-0.2	0.3	0.5	-0.5	-0.3	-0.3	-0.2	-0.6	0.1	-0.1
- Rise ²	16	7	16	6	0	16	0	14	1	4	9	1	1	4	1	1	7	5
- Drop ²	3	11	3	12	0	2	0	1	4	1	4	11	18	12	8	14	2	10
Change on 6 months earlier ¹	2.3	-1.8	1.4	-1.7	0.7	3.8	0.1	1.6	-1.2	0.5	1.9	0.1	-0.8	-0.8	-0.1	-0.5	0.8	0.2
Memorandum items:																		
Government (July 2021)	10.0	10.3	10.3	10.0	--	--	--	--	--	--	4.0	2.7	15.2	14.1	--	--	-8.4	-5.0
Bank of Spain (December 2021)	11.9	9.1	11.3	6.5	3.0 ⁷⁾	3.7 ⁷⁾	0.5 ⁸⁾	1.8 ⁸⁾	--	--	7.4 ⁹⁾	3.8 ⁹⁾	15.0	14.2	--	--	-7.5	-4.8
EC (November 2021)	--	--	--	--	3.0 ⁷⁾	3.6 ⁷⁾	--	--	--	--	--	--	--	--	--	--	--	--
IMF (January 2022)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (December 2021)	11.7	10.7	11.4	8.5	2.9	3.2	0.4	1.2	3.1	3.2	2.5	2.3	15.0	14.2	0.6	1.0	-8.1	-5.4

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 (HICP).⁸ Harmonized Index excluding energy and food.⁹ Hours worked.

Table 2

Quarterly Forecasts – March 2022

	21-I Q	21-II Q	21-III Q	21-IV Q	22-I Q	22-II Q	22-III Q	22-IV Q
GDP ¹	-0.7	1.2	2.6	2.0	0.7	0.6	1.0	1.0
Euribor 1 yr ²	-0.49	-0.48	-0.49	-0.50	-0.38	-0.29	-0.22	-0.10
Government bond yield 10 yr ²	0.31	0.43	0.33	0.40	1.05	1.18	1.25	1.34
ECB main refinancing operations interest rate ²	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
ECB deposit rates ²	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.46	-0.34
Dollar / Euro exchange rate ²	1.19	1.21	1.18	1.13	1.11	1.10	1.11	1.11

Forecasts in yellow.

¹ Qr-on-qr growth rates.

² End of period.

Table 3

CPI Forecasts – March 2022

Year-on-year change (%)				
Mar-22	Apr-22	May-22	Jun-22	Dec-22
7.8	7.3	6.9	6.3	3.1

Table 4

Opinions – March 2022

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	3	15	3	9	7
International context: Non-EU	0	4	15	4	8	7
	Is being			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment ¹	0	0	19	1	5	13
Monetary policy assessment ¹	1	0	18	1	8	10

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

Key Facts

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Economic Indicators

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation			Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction	Equipment & others products				
Chain-linked volumes, annual percentage changes											
2014		1.4	1.7	-0.7	4.1	3.0	5.2	4.5	6.8	1.9	-0.5
2015		3.8	2.9	2.0	4.9	1.5	8.2	4.3	5.1	3.9	-0.1
2016		3.0	2.7	1.0	2.4	1.6	3.1	5.4	2.6	2.0	1.0
2017		3.0	3.0	1.0	6.8	6.7	6.9	5.5	6.8	3.1	-0.2
2018		2.3	1.7	2.3	6.3	9.5	3.4	1.7	3.9	2.9	-0.6
2019		2.1	1.0	2.0	4.5	7.1	1.9	2.5	1.2	1.6	0.5
2020		-10.8	-12.0	3.3	-9.5	-9.6	-9.5	-20.1	-15.2	-8.6	-2.2
2021		5.0	4.6	2.9	3.8	-2.2	10.3	12.4	11.9	4.6	0.3
2022		4.2	2.5	1.1	7.5	8.8	6.2	8.7	7.4	3.6	0.5
2020	I	-4.3	-5.0	2.2	-2.9	-1.4	-4.5	-7.1	-5.1	-3.5	-0.9
	II	-21.5	-24.1	2.7	-22.2	-20.3	-24.4	-38.3	-31.6	-18.2	-3.3
	III	-8.7	-8.9	3.6	-7.3	-7.8	-6.8	-19.7	-14.5	-6.4	-2.2
	IV	-8.8	-10.0	4.7	-5.7	-8.8	-2.4	-15.3	-9.5	-6.5	-2.3
2021	I	-4.3	-6.2	3.8	-2.6	-9.7	5.2	-7.3	-3.8	-3.0	-1.2
	II	17.7	23.1	3.7	18.5	9.2	29.3	39.4	38.9	17.3	0.4
	III	3.4	2.7	3.1	-0.6	-6.7	6.0	14.8	12.2	2.5	0.9
	IV	5.2	2.3	1.3	3.7	-2.8	10.3	15.8	11.1	3.6	1.7
Chain-linked volumes, quarter-on-quarter percentage changes											
2020	I	-5.4	-6.2	1.2	-3.0	-2.2	-3.9	-8.3	-5.5	-4.3	-1.1
	II	-17.7	-20.0	0.8	-19.9	-18.4	-21.5	-32.7	-27.6	-15.2	-2.4
	III	16.8	21.0	1.1	20.6	16.5	25.3	30.0	26.5	15.4	1.4
	IV	0.2	-0.8	1.4	0.6	-1.8	3.2	5.6	4.5	-0.1	0.3
2021	I	-0.7	-2.2	0.4	0.1	-3.2	3.6	0.3	0.4	-0.6	0.0
	II	1.2	4.9	0.8	-2.5	-1.4	-3.5	1.3	4.5	2.1	-0.9
	III	2.6	1.0	0.5	1.2	-0.4	2.7	7.1	2.2	1.0	1.6
	IV	2.0	-1.2	-0.4	4.9	2.3	7.4	6.5	3.5	1.0	1.1
	Current prices (EUR billions)	Percentage of GDP at current prices									
2014	1,032	59.4	19.6	17.8	8.8	8.9	33.5	30.4	96.9	3.1	
2015	1,078	58.5	19.5	18.0	8.7	9.3	33.6	30.6	97.0	3.0	
2016	1,114	58.2	19.1	18.0	8.6	9.4	33.9	29.9	96.0	4.0	
2017	1,162	58.4	18.6	18.7	9.0	9.7	35.1	31.5	96.4	3.6	
2018	1,203	58.1	18.7	19.4	9.7	9.7	35.2	32.4	97.3	2.7	
2019	1,244	57.3	18.8	20.1	10.4	9.7	35.0	32.0	97.1	2.9	
2020	1,122	56.0	21.9	20.3	10.6	9.7	30.6	29.1	98.5	1.5	
2021	1,203	55.7	21.4	20.0	9.9	10.0	34.3	32.8	98.5	1.5	
2022	1,288	56.4	20.7	20.3	10.3	10.0	36.0	35.2	99.2	0.8	

*Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

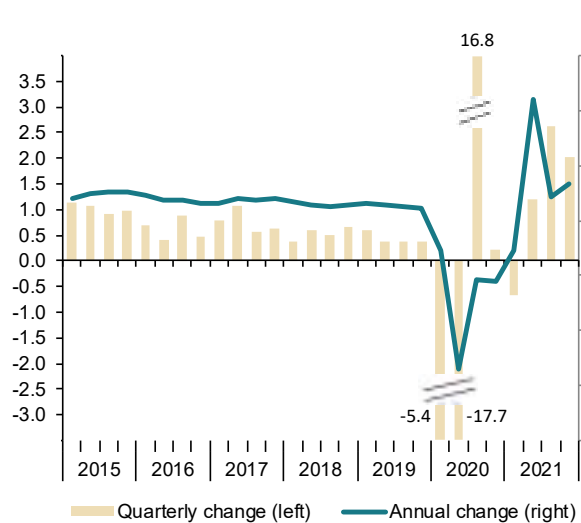


Chart 1.2 - Contribution to GDP annual growth

Percentage points

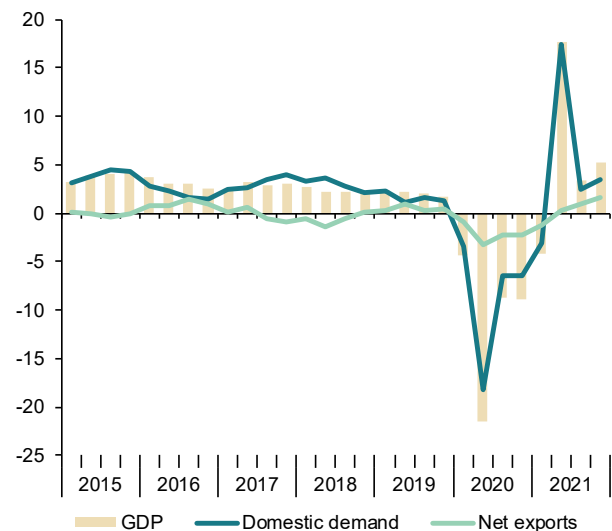


Chart 1.3 - Final consumption

Annual percentage change

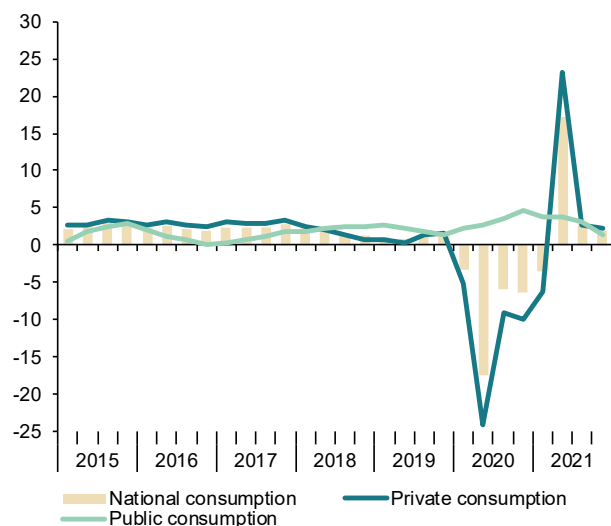


Chart 1.4 - Gross fixed capital formation

Annual percentage change

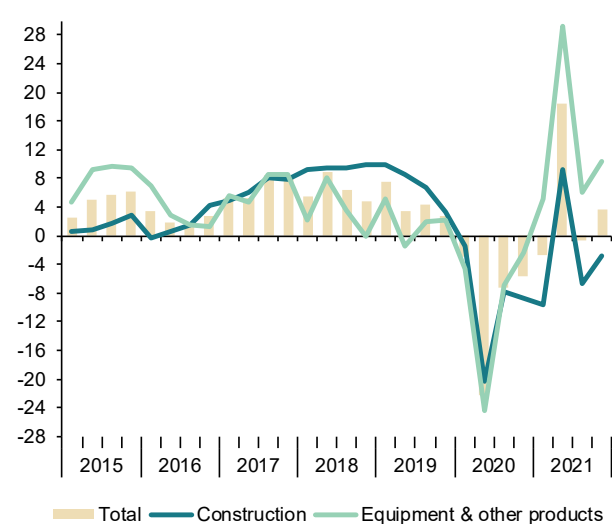


Table 2

National accounts: Gross value added by economic activity SWDA*

Gross value added at basic prices									
			Industry			Services			
	Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
Chain-linked volumes, annual percentage changes									
2015	3.3	4.7	3.0	4.6	5.4	3.1	1.1	3.8	9.6
2016	2.8	4.8	4.1	2.3	3.9	2.4	1.4	2.7	5.2
2017	3.1	-3.7	4.0	5.7	2.0	3.3	2.5	3.5	1.9
2018	2.3	7.5	0.0	-1.1	2.3	2.6	1.7	2.9	2.1
2019	2.2	-2.5	1.4	0.7	5.3	2.3	1.3	2.6	1.1
2020	-10.8	4.3	-10.1	-12.1	-11.3	-11.5	-0.1	-15.1	-11.0
2021	4.8	-5.5	5.3	6.0	-4.1	5.9	3.5	6.9	6.4
2020	I	-4.1	0.2	-5.6	-7.0	-2.9	-4.1	-1.1	-5.0
	II	-21.7	6.7	-24.8	-29.2	-25.1	-21.8	-1.2	-28.4
	III	-8.7	3.1	-5.8	-6.9	-7.4	-9.8	0.2	-13.0
	IV	-8.8	7.3	-4.4	-5.3	-9.6	-10.3	1.8	-14.1
2021	I	-4.5	-2.5	0.0	-0.6	-11.0	-5.0	3.7	-7.9
	II	17.3	-6.3	23.5	29.1	11.2	17.7	5.0	23.3
	III	3.5	-8.7	0.1	0.8	-8.5	5.8	3.0	6.9
	IV	5.3	-4.3	1.2	0.3	-5.0	7.5	2.2	9.5
Chain-linked volumes, quarter-on-quarter percentage changes									
2020	I	-5.4	1.7	-5.9	-7.1	-4.3	-5.6	-1.6	-6.9
	II	-18.0	3.7	-19.9	-23.8	-22.1	-18.1	0.3	-24.3
	III	17.1	-2.1	25.7	32.0	23.9	15.8	1.2	22.3
	IV	0.4	4.0	0.9	1.4	-2.2	0.3	1.9	-0.3
2021	I	-1.0	-7.6	-1.5	-2.5	-5.7	-0.1	0.2	-0.3
	II	0.7	-0.3	-1.2	-1.1	-2.7	1.5	1.6	1.4
	III	3.4	-4.7	2.0	3.1	2.0	4.1	-0.8	6.0
	IV	2.1	9.0	2.0	0.9	1.6	1.8	1.1	2.1
	Current prices EUR billions)	Percentage of value added at basic prices							
2014	940	2.8	16.4	12.4	5.7	75.2	18.7	56.5	9.8
2015	978	3.0	16.4	12.4	5.8	74.9	18.5	56.4	10.1
2016	1,011	3.1	16.2	12.4	5.9	74.8	18.4	56.5	10.2
2017	1,053	3.1	16.2	12.5	5.9	74.8	18.1	56.7	10.3
2018	1,089	3.0	16.0	12.2	5.9	75.0	18.1	56.9	10.5
2019	1,128	2.9	16.0	12.1	6.3	74.9	18.1	56.8	10.3
2020	1,024	3.4	16.1	12.1	6.2	74.2	20.5	53.7	9.6
2021	1,089	3.0	17.0	12.5	5.8	74.3	20.1	54.1	10.5

* Seasonally and Working Day Adjusted.

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

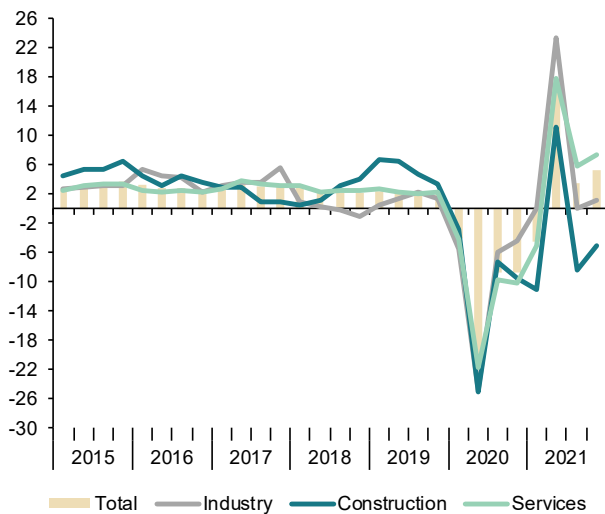


Chart 2.2 - GVA, Industry

Annual percentage change

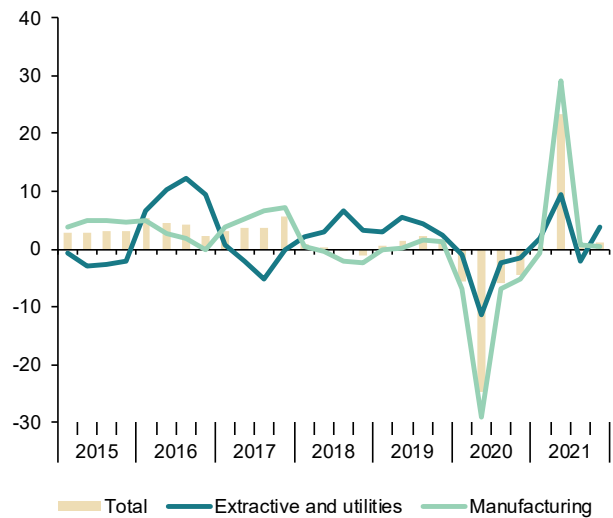


Chart 2.3 - GVA, services

Annual percentage change

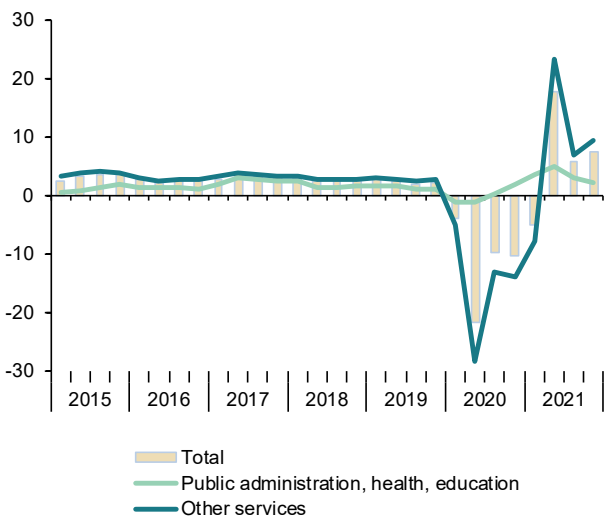


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

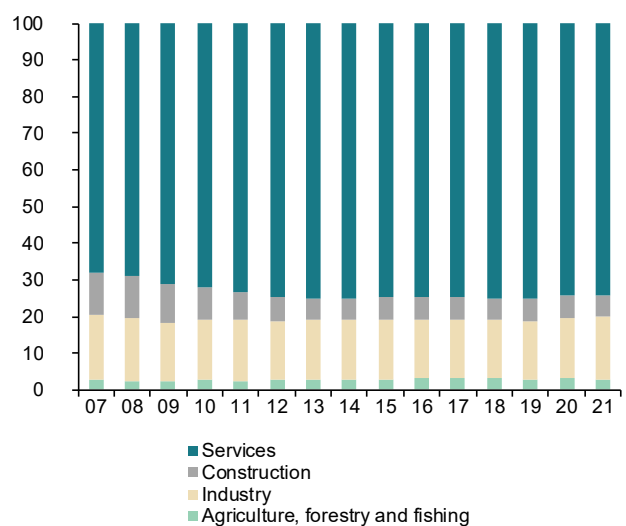


Table 3

National accounts: Productivity and labour costs

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, 2015 = 100, SWDA												
2014	96.3	96.9	99.4	99.4	100.1	100.6	95.6	97.7	97.9	100.7	102.9	102.6
2015	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2016	103.0	102.8	100.2	99.4	99.2	98.8	102.3	103.5	98.9	100.1	101.2	100.4
2017	106.1	105.8	100.3	100.1	99.8	98.1	108.1	106.6	101.4	101.5	100.1	100.1
2018	108.5	108.1	100.4	101.9	101.5	98.6	106.9	108.7	98.3	102.7	104.5	102.4
2019	110.8	110.9	99.9	104.5	104.6	100.4	107.6	110.0	97.8	104.3	106.6	102.5
2020	98.8	102.5	96.4	105.8	109.8	104.2	94.6	101.5	93.2	101.8	109.2	101.6
2021	103.7	109.4	94.8	105.3	111.1	103.2	100.3	103.4	96.9	102.4	105.6	94.7
2022	108.0	111.5	96.8	106.0	109.5	99.0	--	--	--	--	--	--
2020	I	105.4	109.6	96.2	104.5	108.6	104.0	99.9	109.5	91.3	104.8	114.8
	II	86.8	90.0	96.5	107.9	111.8	106.4	76.1	92.3	82.4	100.4	121.8
	III	101.4	104.7	96.8	105.7	109.1	103.1	100.5	101.0	99.5	100.7	101.2
	IV	101.6	105.9	96.0	105.5	109.9	103.6	101.9	103.2	98.7	101.0	102.2
2021	I	100.9	107.0	94.3	106.0	112.4	106.1	99.4	102.4	97.0	103.4	106.6
	II	102.1	106.9	95.5	103.9	108.8	102.5	98.3	102.7	95.7	101.4	105.9
	III	104.8	111.1	94.3	105.3	111.7	103.8	101.3	102.9	98.5	103.1	104.7
	IV	106.9	112.6	94.9	105.8	111.4	100.6	102.2	105.7	96.7	101.8	105.2
Annual percentage changes												
2014	1.4	1.0	0.4	0.3	-0.1	0.1	2.1	-1.9	4.0	0.7	-3.2	-3.3
2015	3.8	3.2	0.6	0.6	-0.1	-0.6	4.6	2.4	2.2	-0.7	-2.9	-2.6
2016	3.0	2.8	0.2	-0.6	-0.8	-1.1	2.3	3.5	-1.1	0.1	1.2	0.4
2017	3.0	2.9	0.1	0.7	0.6	-0.7	5.7	3.0	2.5	1.4	-1.1	-0.4
2018	2.3	2.2	0.1	1.8	1.7	0.5	-1.1	2.0	-3.1	1.1	4.4	2.3
2019	2.1	2.6	-0.5	2.5	3.1	1.8	0.7	1.1	-0.5	1.6	2.1	0.1
2020	-10.8	-7.6	-3.5	1.3	5.0	3.9	-12.1	-7.7	-4.7	-2.4	2.4	-0.9
2021	5.0	6.7	-1.7	-0.5	1.2	-0.9	6.0	1.9	4.0	0.6	-3.3	-6.8
2022	4.2	1.9	2.2	0.7	-1.5	-4.1	--	--	--	--	--	--
2020	I	-4.3	-0.6	-3.7	0.9	4.8	4.0	-7.0	-0.2	-6.8	0.7	7.3
	II	-21.5	-18.8	-3.4	3.3	6.9	5.8	-29.2	-16.1	-15.6	-3.8	14.0
	III	-8.7	-5.6	-3.2	0.7	4.1	2.5	-6.9	-8.6	1.9	-3.4	-5.1
	IV	-8.8	-5.2	-3.8	0.4	4.4	3.3	-5.3	-5.9	0.7	-3.5	-4.2
2021	I	-4.3	-2.3	-2.0	1.4	3.5	2.0	-0.6	-6.4	6.2	-1.3	-7.1
	II	17.7	18.9	-1.0	-3.7	-2.7	-3.6	29.1	11.2	16.1	1.0	-13.1
	III	3.4	6.2	-2.6	-0.3	2.3	0.7	0.8	1.9	-1.0	2.4	0.7
	IV	5.2	6.4	-1.1	0.3	1.4	-2.9	0.3	2.5	-2.1	0.8	-2.8

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

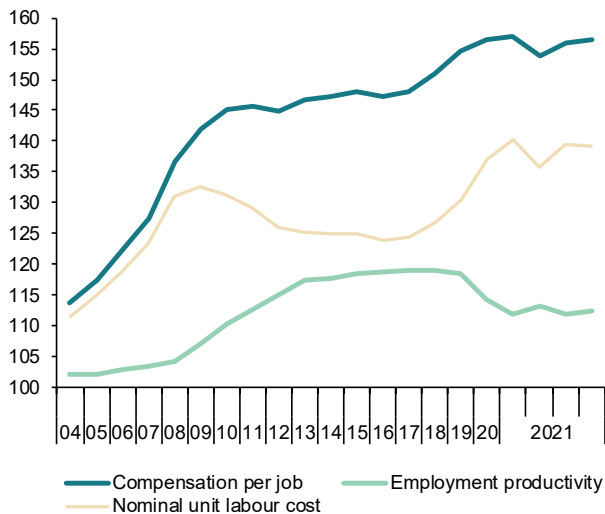
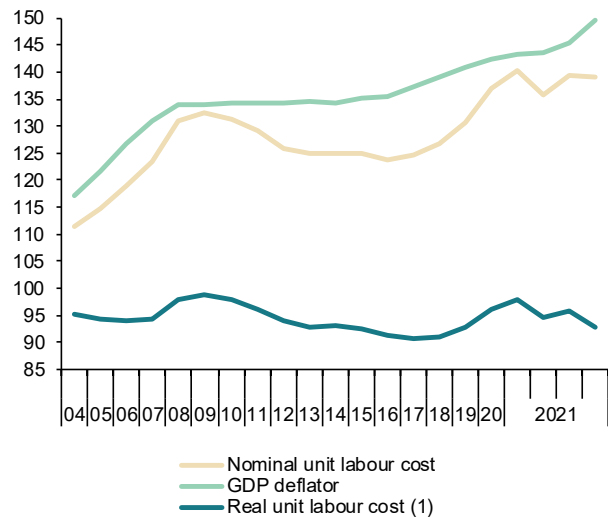


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

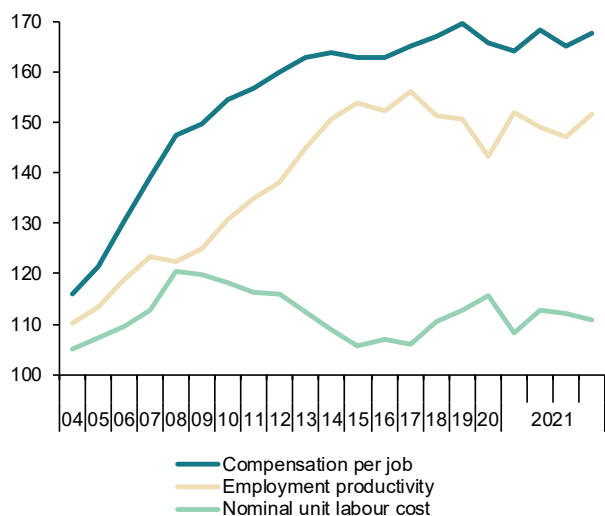
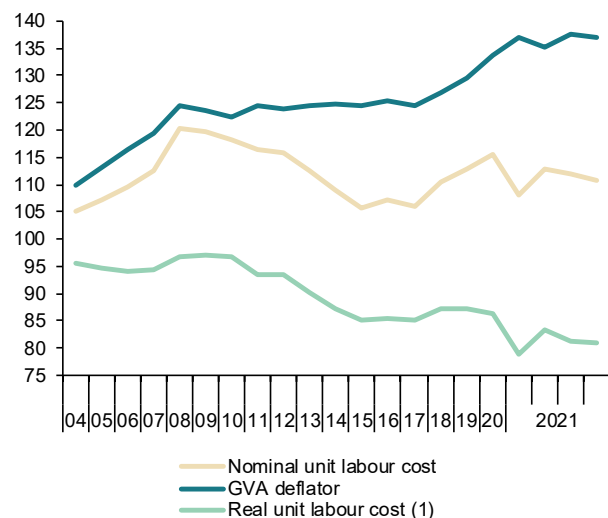


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by manufacturing GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in yellow

		Gross domestic product	Compensation of employees	Gross operating surplus	Gross national disposable income	Final national consumption	Gross national saving (a)	Gross capital formation	Compensation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
2014		1,032.2	473.5	455.4	1,017.7	815.4	202.3	184.8	45.9	44.1	19.6	17.9	1.7	2.1
2015		1,077.6	492.9	472.6	1,066.7	840.1	226.5	204.7	45.7	43.9	21.0	19.0	2.0	2.7
2016		1,113.8	503.7	495.8	1,104.8	860.5	244.3	208.9	45.2	44.5	21.9	18.8	3.2	3.4
2017		1,161.9	523.7	518.4	1,152.2	894.4	257.7	225.5	45.1	44.6	22.2	19.4	2.8	3.0
2018		1,203.3	545.7	531.4	1,193.2	924.2	269.0	246.4	45.4	44.2	22.4	20.5	1.9	2.4
2019		1,244.4	575.9	540.9	1,234.1	948.0	286.1	259.9	46.3	43.5	23.0	20.9	2.1	2.4
2020		1,121.9	543.9	476.4	1,114.7	873.3	241.4	232.1	48.5	42.5	21.5	20.7	0.8	1.2
2021		1,203.0	574.4	505.2	1,192.8	927.5	264.8	257.8	47.7	42.0	22.0	21.4	0.6	1.4
2022		1,288.0	588.0	560.0	1,282.6	993.9	288.6	283.9	45.7	43.5	22.4	22.0	0.4	2.2
2020	I	1,233.3	578.1	530.0	1,225.3	943.3	282.0	258.1	46.9	43.0	22.9	20.9	1.9	2.5
	II	1,169.2	558.1	501.5	1,162.1	902.2	260.0	243.0	47.7	42.9	22.2	20.8	1.4	1.9
	III	1,146.7	550.9	491.9	1,139.5	888.6	250.9	238.0	48.0	42.9	21.9	20.8	1.1	1.4
	IV	1,121.9	543.9	476.4	1,114.7	873.3	241.4	232.1	48.5	42.5	21.5	20.7	0.8	1.2
2021	I	1,113.4	541.3	471.6	1,104.4	866.4	238.0	232.2	48.6	42.4	21.4	20.9	0.5	1.1
	II	1,159.7	556.6	488.7	1,153.1	903.1	250.0	243.9	48.0	42.1	21.6	21.0	0.5	1.4
	III	1,174.3	564.9	489.0	1,167.5	914.0	253.5	247.9	48.1	41.6	21.6	21.1	0.5	1.7
	IV	1,203.0	574.4	505.2	—	927.5	—	257.8	47.7	42.0	—	21.4	—	--
Annual percentage changes									Difference from one year ago					
2014		1.2	1.3	0.1	1.7	1.3	3.0	5.2	0.1	-0.5	0.3	0.7	-0.3	-0.5
2015		4.4	4.1	3.8	4.8	3.0	12.0	10.8	-0.1	-0.3	1.4	1.1	0.3	0.5
2016		3.4	2.2	4.9	3.6	2.4	7.8	2.0	-0.5	0.7	0.9	-0.2	1.1	0.7
2017		4.3	4.0	4.6	4.3	3.9	5.5	8.0	-0.2	0.1	0.3	0.7	-0.4	-0.4
2018		3.6	4.2	2.5	3.6	3.3	4.4	9.3	0.3	-0.5	0.2	1.1	-0.9	-0.7
2019		3.4	5.5	1.8	3.4	2.6	6.4	5.5	0.9	-0.7	0.6	0.4	0.2	0.1
2020		-9.8	-5.6	-11.9	-9.7	-7.9	-15.6	-10.7	2.2	-1.0	-1.5	-0.2	-1.3	-1.2
2021		7.2	5.6	6.0	7.0	6.2	9.7	11.0	-0.8	-0.5	0.5	0.7	-0.2	0.2
2022		7.1	2.4	10.9	7.5	7.2	9.0	10.2	-2.0	1.5	0.4	0.6	-0.2	0.8
2020	I	1.5	4.4	-0.7	1.7	1.4	2.7	2.0	1.3	-1.0	0.3	0.1	0.2	0.3
	II	-4.6	-0.7	-6.5	-4.4	-3.6	-7.0	-5.0	1.9	-0.9	-0.6	-0.1	-0.5	-0.5
	III	-7.2	-3.2	-8.6	-7.0	-5.6	-11.4	-8.1	2.0	-0.7	-1.0	-0.2	-0.8	-1.0
	IV	-9.8	-5.6	-11.9	-9.7	-7.9	-15.6	-10.7	2.2	-1.0	-1.5	-0.2	-1.3	-1.2
2021	I	-9.7	-6.4	-11.0	-9.9	-8.2	-15.6	-10.0	1.7	-0.6	-1.5	-0.1	-1.4	-1.4
	II	-0.8	-0.3	-2.6	-0.8	0.1	-3.8	0.4	0.3	-0.8	-0.7	0.2	-0.9	-0.6
	III	2.4	2.5	-0.6	2.5	2.9	1.0	4.2	0.1	-1.3	-0.3	0.4	-0.7	0.3
	IV	7.2	5.6	6.0	—	6.2	—	11.0	-0.7	-0.5	—	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

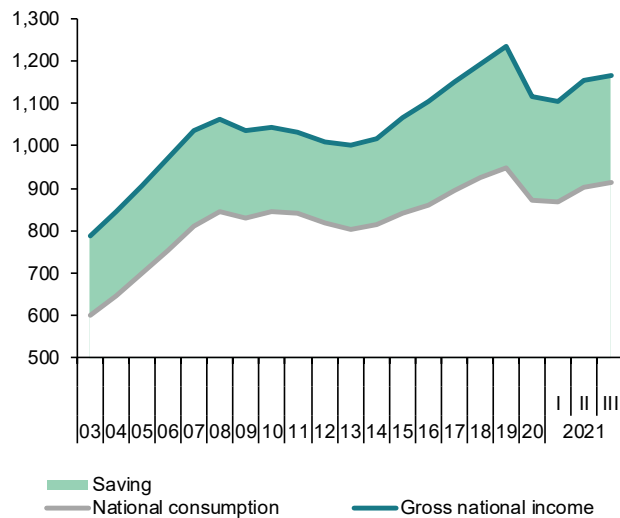


Chart 4.2 - National income, consumption and saving rate

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

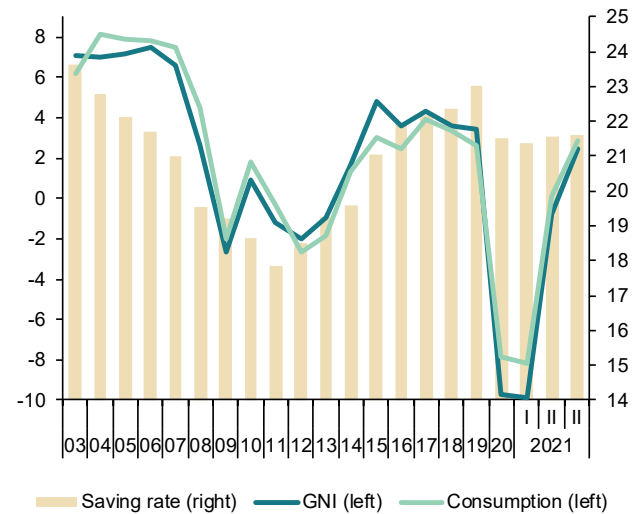


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

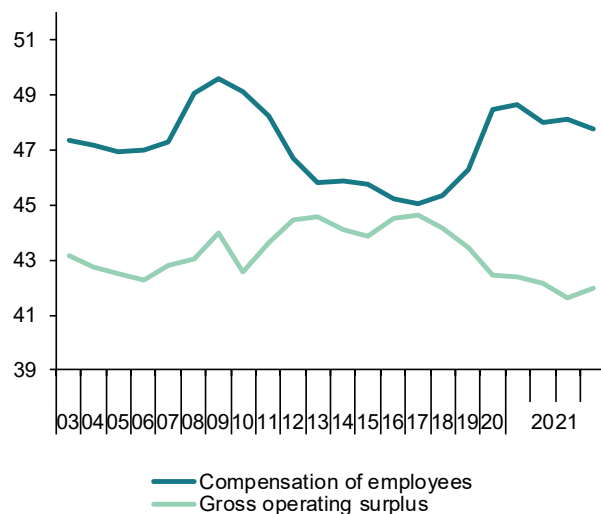


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

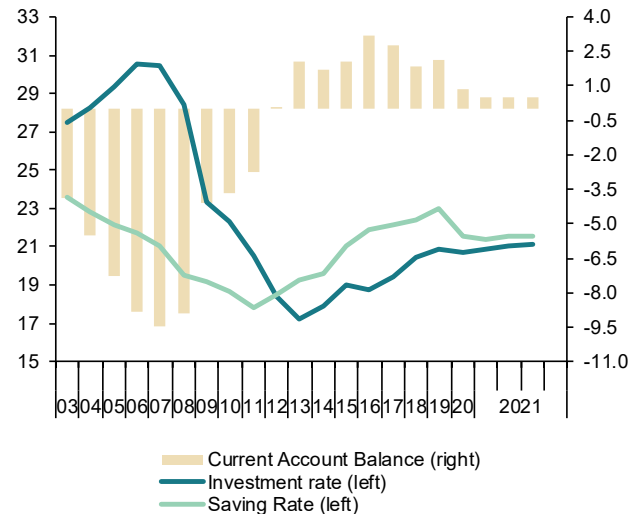


Table 5

National accounts: Household and non-financial corporations accounts

Forecasts in yellow

		Households							Non-financial corporations					
		Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing
		EUR Billions, 4-quarter cumulated operations				Percentage of GDI	Percentage of GDP		EUR Billions, 4-quarter cumulated operations				Percentage of GDP	
2014		656.2	612.7	41.5	30.2	6.3	2.9	1.0	228.7	171.7	127.7	16.6	12.4	4.7
2015		682.2	630.2	49.0	30.5	7.2	2.8	1.7	241.0	185.1	140.4	17.2	13.0	4.4
2016		700.6	648.3	49.2	31.8	7.0	2.9	1.4	255.3	196.2	149.2	17.6	13.4	4.4
2017		722.9	678.1	41.8	36.8	5.8	3.2	0.2	267.0	200.8	160.6	17.3	13.8	3.6
2018		743.6	699.5	41.3	40.7	5.5	3.4	-0.1	271.2	200.4	177.2	16.7	14.7	2.1
2019		780.9	713.6	64.5	42.0	8.3	3.4	1.7	274.4	203.0	189.2	16.3	15.2	1.3
2020		742.5	628.0	110.7	41.2	14.9	3.7	6.1	224.6	180.7	154.7	16.1	13.8	2.8
2021		759.5	677.0	78.6	59.8	10.4	5.0	1.4	236.9	182.7	151.7	15.3	12.7	3.1
2022		811.4	731.8	75.8	65.8	9.3	5.1	0.6	268.8	203.0	170.7	15.7	13.2	3.7
2019	IV	780.9	713.6	64.5	42.0	8.3	3.4	1.7	274.4	203.0	189.2	16.3	15.2	1.3
2020	I	782.1	703.8	75.4	42.6	9.6	3.4	2.5	263.8	193.8	183.8	15.7	14.9	0.9
	II	758.5	662.0	93.6	40.1	12.3	3.4	4.4	242.9	191.7	169.8	16.4	14.5	2.0
	III	753.8	648.4	102.0	41.4	13.5	3.6	5.2	234.9	184.1	162.1	16.1	14.1	2.1
	IV	742.5	628.0	110.7	41.2	14.9	3.7	6.1	224.6	180.7	154.7	16.1	13.8	2.8
2021	I	740.4	616.0	120.6	46.6	16.3	4.2	6.6	222.6	178.1	152.5	16.0	13.7	2.8
	II	749.9	648.5	97.3	53.4	13.0	4.6	3.6	236.4	185.1	156.6	15.9	13.5	3.0
	III	752.0	653.8	95.4	58.7	12.7	5.0	3.0	236.9	185.2	152.2	15.8	12.9	3.4
Annual percentage changes						Difference from one year ago			Annual percentage changes				Difference from one year ago	
2014		0.0	1.8	-19.8	-2.7	-1.6	-0.1	-1.0	0.0	2.5	11.3	0.2	1.1	-0.6
2015		4.0	2.9	18.1	1.1	0.9	-0.1	0.7	5.4	7.8	10.0	0.5	0.7	-0.3
2016		2.7	2.9	0.5	4.2	-0.2	0.0	-0.3	5.9	6.0	6.2	0.4	0.4	0.0
2017		3.2	4.6	-15.2	15.7	-1.3	0.3	-1.2	4.6	2.3	7.7	-0.3	0.4	-0.8
2018		2.9	3.2	-1.2	10.6	-0.2	0.2	-0.3	1.6	-0.2	10.3	-0.6	0.9	-1.5
2019		5.0	2.0	56.4	3.3	2.7	0.0	1.8	1.2	1.3	6.7	-0.3	0.5	-0.8
2020		-4.9	-12.0	71.6	-1.9	6.6	0.3	4.5	-18.2	-11.0	-18.2	-0.2	-1.4	1.4
2021		2.3	7.8	-29.0	45.0	-4.6	1.3	-4.7	5.5	1.1	-1.9	-0.8	-1.1	0.4
2022		6.8	8.1	-3.6	10.1	-1.0	0.1	-0.8	13.4	11.1	12.5	0.5	0.6	0.6
2019	IV	5.0	2.0	56.4	3.3	2.7	0.0	1.8	1.2	1.3	6.7	-0.3	0.5	-0.8
2020	I	4.0	0.0	64.5	2.5	3.5	0.0	2.3	-2.8	-3.7	1.3	-0.8	0.0	-0.9
	II	-1.0	-6.3	62.6	-3.3	4.8	0.0	3.3	-10.9	-3.7	-8.7	0.1	-0.7	0.7
	III	-2.5	-8.7	71.0	-1.2	5.8	0.2	3.9	-13.8	-7.9	-13.4	-0.1	-1.0	0.8
	IV	-4.9	-12.0	71.6	-1.9	6.6	0.3	4.5	-18.2	-11.0	-18.2	-0.2	-1.4	1.4
2021	I	-5.3	-12.5	59.9	9.5	6.6	0.7	4.1	-15.6	-8.1	-17.0	0.3	-1.2	1.9
	II	-1.1	-2.0	4.0	33.4	0.6	1.2	-0.8	-2.7	-3.5	-7.8	-0.4	-1.0	1.0
	III	-0.2	0.8	-6.4	42.0	-0.8	1.4	-2.1	0.9	0.6	-6.1	-0.3	-1.2	1.4

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

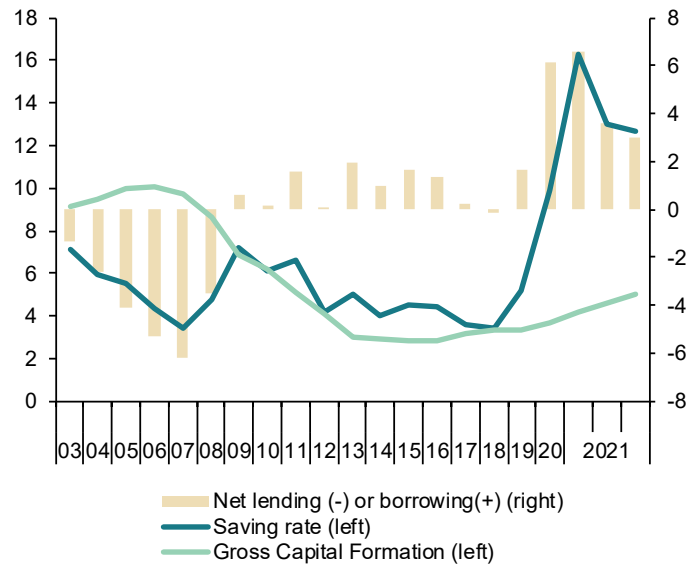


Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

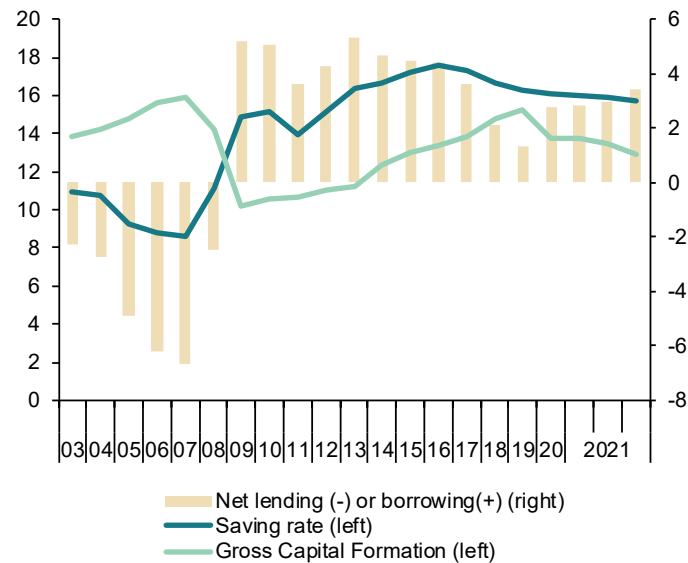


Table 6

National accounts: Public revenue, expenditure and deficit

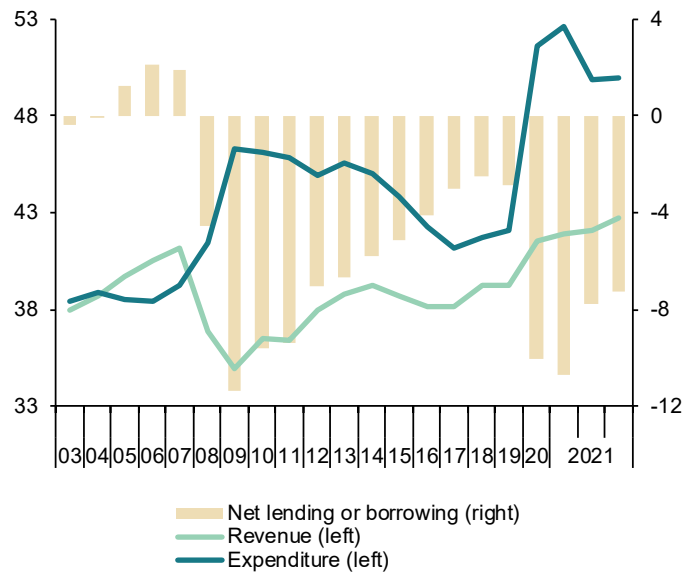
Forecasts in yellow

	Non financial revenue					Non financial expenditures							Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing(-) excluding financial entities bail-out expenditures
	Taxes on production and imports	Taxes on income and wealth	Social contributions	Capital and other revenue	Total	Compensation of employees	Intermediate consumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expenditure	Total		
	1	2	3	4	5=1+2+3+4	6	7	8	9	10	11	12=6+7+8+9+10+11	13=5-12	14
EUR Billions, 4-quarter cumulated operations														
2014	118.5	104.4	129.0	52.7	404.6	115.0	56.3	35.5	198.5	32.4	28.0	465.7	-61.1	-59.7
2015	126.4	107.1	131.5	52.1	417.2	119.2	59.0	32.4	198.6	35.4	28.3	473.0	-55.8	-55.2
2016	128.9	110.0	135.6	50.3	424.8	121.5	58.7	30.7	203.0	30.4	28.4	472.7	-48.0	-45.6
2017	135.1	116.9	142.4	49.1	443.5	123.5	59.9	29.3	207.4	30.6	28.1	478.8	-35.3	-34.8
2018	141.2	127.3	149.5	53.8	471.7	127.6	62.1	29.3	216.6	36.4	29.8	501.8	-30.0	-30.0
2019	143.0	129.1	160.7	55.5	488.3	134.7	64.7	28.4	229.6	35.1	31.6	524.0	-35.8	-35.7
2020	126.5	125.3	162.2	51.3	465.4	140.5	66.5	25.2	262.2	52.4	41.5	588.3	-122.9	-113.0
2021	144.2	135.9	169.5	64.2	513.8	148.3	69.8	25.0	256.4	54.5	38.8	592.8	-79.1	-79.1
2022	154.8	137.4	170.3	75.9	538.4	151.4	72.7	27.1	264.7	60.0	37.5	613.4	-75.0	-75.0
2019 IV	143.0	129.1	160.7	55.5	488.3	134.7	64.7	28.4	229.6	35.1	31.6	524.0	-35.8	-35.7
2020 I	141.9	130.6	161.6	56.2	490.2	135.9	64.6	27.9	234.2	37.4	32.1	532.0	-41.8	-41.8
II	131.9	126.6	161.6	53.5	473.6	137.0	65.0	26.6	250.3	38.0	37.5	554.4	-80.8	-80.9
III	128.4	126.7	161.5	52.3	468.8	138.4	65.4	26.0	255.9	38.5	38.8	563.0	-94.2	-94.2
IV	126.5	125.3	162.2	51.3	465.4	140.5	66.5	25.2	262.2	52.4	41.5	588.3	-122.9	-113.0
2021 I	126.5	126.1	163.3	49.6	465.5	142.4	67.1	25.4	266.5	50.7	42.9	595.0	-129.5	-119.4
II	136.4	132.2	164.9	54.3	487.9	144.8	68.3	25.5	259.0	51.2	39.7	588.4	-100.5	-90.6
III	141.8	133.6	167.3	59.5	502.3	146.3	69.5	25.2	259.2	57.4	40.0	597.6	-95.3	-85.4
Percentage of GDP, 4-quarter cumulated operations														
2014	11.5	10.1	12.5	5.1	39.2	11.1	5.5	3.4	19.2	3.1	2.7	45.1	-5.9	-5.8
2015	11.7	9.9	12.2	4.8	38.7	11.1	5.5	3.0	18.4	3.3	2.6	43.9	-5.2	-5.1
2016	11.6	9.9	12.2	4.5	38.1	10.9	5.3	2.8	18.2	2.7	2.6	42.4	-4.3	-4.1
2017	11.6	10.1	12.3	4.2	38.2	10.6	5.2	2.5	17.9	2.6	2.4	41.2	-3.0	-3.0
2018	11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
2019	11.5	10.4	12.9	4.5	39.2	10.8	5.2	2.3	18.5	2.8	2.5	42.1	-2.9	-2.9
2020	11.3	11.2	14.5	4.6	41.5	12.5	5.9	2.2	23.4	4.7	3.7	52.4	-11.0	-10.1
2021	12.0	11.3	14.1	5.3	42.7	12.3	5.8	2.1	21.3	4.5	3.2	49.3	-6.6	-6.6
2022	12.0	10.7	13.2	5.9	41.8	11.8	5.6	2.1	20.5	4.7	2.9	47.6	-5.8	-5.8
2019 IV	11.5	10.4	12.9	4.5	39.2	10.8	5.2	2.3	18.5	2.8	2.5	42.1	-2.9	-2.9
2020 I	11.5	10.6	13.1	4.6	39.7	11.0	5.2	2.3	19.0	3.0	2.6	43.1	-3.4	-3.4
II	11.3	10.8	13.8	4.6	40.5	11.7	5.6	2.3	21.4	3.2	3.2	47.4	-6.9	-6.9
III	11.2	11.1	14.1	4.6	40.9	12.1	5.7	2.3	22.3	3.4	3.4	49.1	-8.2	-8.2
IV	11.3	11.2	14.5	4.6	41.5	12.5	5.9	2.2	23.4	4.7	3.7	52.4	-11.0	-10.1
2021 I	11.4	11.3	14.7	4.5	41.9	12.8	6.0	2.3	24.0	4.6	3.9	53.5	-11.6	-10.7
II	11.8	11.4	14.2	4.7	42.0	12.5	5.9	2.2	22.3	4.4	3.4	50.7	-8.7	-7.8
III	12.1	11.4	14.2	5.1	42.7	12.4	5.9	2.1	22.0	4.9	3.4	50.8	-8.1	-7.3

Source: IGAE and Funcas (Forecasts).

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

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.

Chart 6.2 - Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

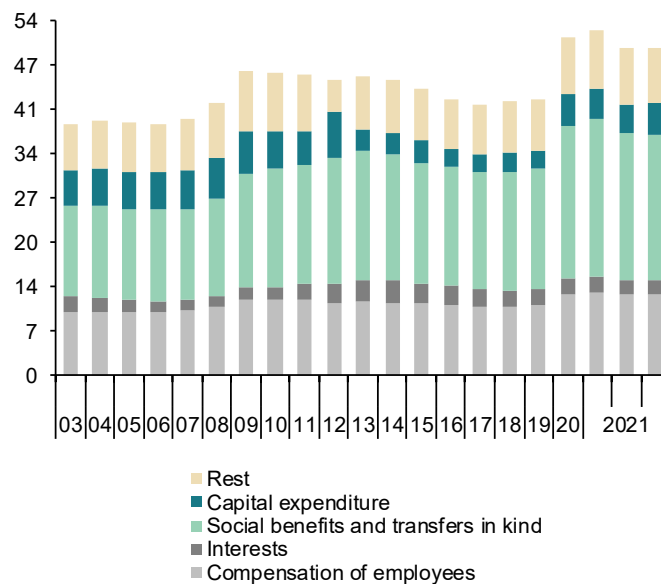


Table 7

Public sector balances, by level of Government

Forecasts in yellow

		Net lending (+)/ net borrowing (-) (a)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
EUR Billions, 4-quarter cumulated operations						EUR Billions, end of period					
2014		-35.9	-18.7	5.5	-10.6	-59.7	901.4	237.9	38.3	17.2	1,039.4
2015		-28.2	-18.9	4.6	-12.9	-55.2	939.3	263.3	35.1	17.2	1,070.1
2016		-25.7	-9.5	7.0	-17.4	-45.6	968.4	277.0	32.2	17.2	1,104.6
2017		-20.6	-4.2	6.7	-16.8	-34.8	1,011.5	288.1	29.0	27.4	1,145.1
2018		-15.7	-3.3	6.3	-17.3	-30.0	1,047.3	293.4	25.8	41.2	1,173.4
2019		-16.4	-7.3	3.8	-15.9	-35.7	1,061.2	295.1	23.2	55.0	1,188.8
2020		-84.2	-2.4	2.9	-29.3	-113.0	1,206.6	304.0	22.0	85.4	1,345.8
2021		--	--	--	--	-79.1	--	--	--	--	1,427.8
2022		--	--	--	--	-75.0	--	--	--	--	1,500.8
2019	IV	-16.4	-7.3	3.8	-15.9	-35.7	1,061.2	295.1	23.2	55.0	1,188.8
2020	I	-15.0	-8.2	3.8	-22.3	-41.8	1,095.0	298.3	22.9	55.0	1,224.5
	II	-54.5	-6.6	2.5	-22.2	-80.9	1,159.2	305.7	25.0	68.9	1,291.0
	III	-64.7	-2.0	3.5	-30.9	-94.2	1,177.7	301.9	23.7	74.9	1,308.2
	IV	-84.2	-2.4	2.9	-29.3	-113.0	1,206.6	304.0	22.0	85.4	1,345.8
2021	I	-90.2	-3.4	3.3	-29.2	-119.5	1,247.8	307.7	22.1	85.4	1,393.1
	II	-70.9	-0.9	4.2	-23.1	-90.7	1,273.4	312.0	22.6	91.9	1,424.7
	III	-79.7	-4.0	4.2	-15.0	-94.5	1,281.4	312.2	22.3	91.9	1,432.2
Percentage of GDP, 4-quarter cumulated operations						Percentage of GDP					
2014		-3.5	-1.8	0.5	-1.0	-5.8	87.3	23.1	3.7	1.7	100.7
2015		-2.6	-1.8	0.4	-1.2	-5.1	87.2	24.4	3.3	1.6	99.3
2016		-2.3	-0.9	0.6	-1.6	-4.1	86.9	24.9	2.9	1.5	99.2
2017		-1.8	-0.4	0.6	-1.4	-3.0	87.1	24.8	2.5	2.4	98.6
2018		-1.3	-0.3	0.5	-1.4	-2.5	87.0	24.4	2.1	3.4	97.5
2019		-1.3	-0.6	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020		-7.5	-0.2	0.3	-2.6	-10.1	107.5	27.1	2.0	7.6	120.0
2021		--	--	--	--	-6.6	--	--	--	--	118.7
2022		--	--	--	--	-5.8	--	--	--	--	116.5
2019	IV	-1.3	-0.6	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020	I	-1.2	-0.7	0.3	-1.8	-3.4	88.8	24.2	1.9	4.5	99.3
	II	-4.7	-0.6	0.2	-1.9	-6.9	99.1	26.1	2.1	5.9	110.4
	III	-5.6	-0.2	0.3	-2.7	-8.2	102.7	26.3	2.1	6.5	114.1
	IV	-7.5	-0.2	0.3	-2.6	-10.1	107.5	27.1	2.0	7.6	120.0
2021	I	-8.1	-0.3	0.3	-2.6	-10.7	112.1	27.6	2.0	7.7	125.1
	II	-6.1	-0.1	0.4	-2.0	-7.8	109.8	26.9	2.0	7.9	122.8
	III	-6.8	-0.3	0.4	-1.3	-8.0	109.1	26.6	1.9	7.8	122.0

(a) Excluding financial entities bail-out expenditures.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

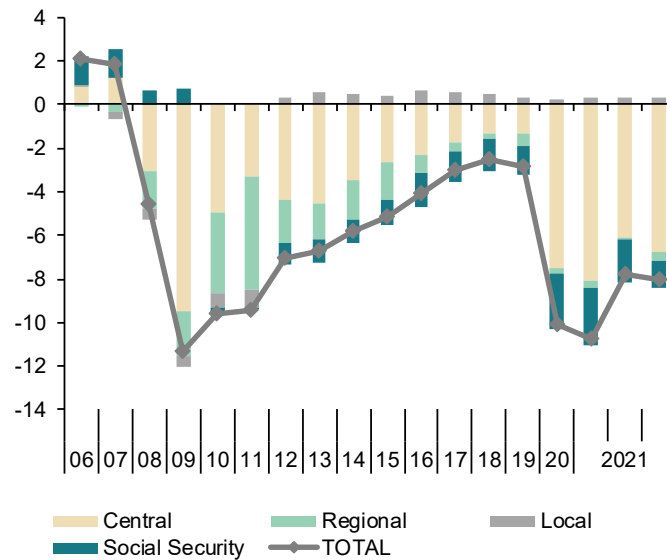


Chart 7.2 - Government debt

Percent of GDP

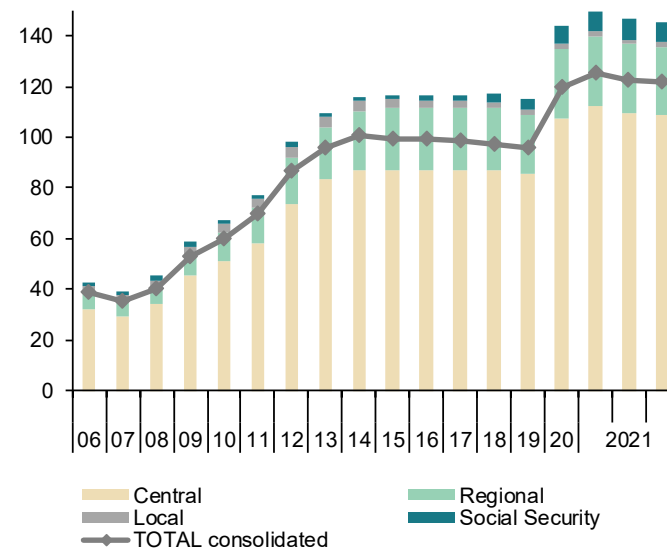


Table 8

General activity and industrial sector indicators (a)

		General activity indicators				Industrial sector indicators					
		Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
		Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses
2014		100.6	55.1	16,111.1	247.2	96.8	2,022.8	53.2	-7.1	95.3	-16.3
2015		107.9	56.7	16,641.8	251.4	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016		105.7	54.9	17,157.5	252.1	101.8	2,124.7	53.1	-2.3	102.7	-5.4
2017		108.6	56.2	17,789.6	256.4	105.1	2,191.0	54.8	1.0	107.1	2.2
2018		108.2	54.6	18,364.5	257.9	105.3	2,250.9	53.3	-0.1	108.4	-0.2
2019		104.5	52.7	18,844.1	251.2	106.1	2,283.2	49.1	-3.9	108.9	-5.1
2020		89.9	41.5	18,440.5	239.1	95.8	2,239.3	47.5	-14.0	98.8	-30.0
2021		104.7	55.3	18,910.0	244.2	102.8	2,270.4	57.0	0.4	104.3	-1.7
2022 (b)		110.1	52.2	19,214.2	45.8	101.3	2,291.4	56.5	7.6	--	11.6
2020	II	78.1	29.4	17,957.3	55.0	80.7	2,201.9	39.4	-27.8	82.3	-53.3
	III	89.9	48.5	18,321.9	59.7	99.8	2,227.3	51.4	-11.9	102.8	-38.8
	IV	89.8	44.8	18,592.5	61.8	102.9	2,244.1	51.1	-11.0	107.1	-20.2
2021	I	93.5	46.1	18,634.2	61.4	103.2	2,245.5	53.1	-7.3	104.2	-12.7
	II	107.0	58.9	18,666.3	61.3	102.6	2,258.5	59.2	2.5	102.8	-1.5
	III	108.4	59.6	19,018.8	60.1	101.7	2,280.7	58.8	2.1	103.9	0.2
	IV	109.7	56.6	19,320.5	61.0	104.4	2,296.9	56.9	4.4	106.4	7.2
2022	I(b)	110.1	52.2	19,487.2	40.2	104.7	2,309.3	56.5	7.6	--	11.6
2021	Dec	108.3	55.4	19,408.5	20.2	104.8	2,303.1	56.2	5.3	105.9	11.6
2022	Jan	108.9	47.9	19,478.6	20.2	104.7	2,306.8	56.2	6.1	--	9.2
	Feb	111.3	56.5	19,495.8	20.2	--	2,311.8	56.9	9.1	--	14.0
Percentage changes (c)											
2014		--	--	1.6	-0.1	1.3	0.1	--	--	2.3	--
2015		--	--	3.3	1.7	3.4	2.2	--	--	4.9	--
2016		--	--	3.1	0.3	1.8	2.8	--	--	2.8	--
2017		--	--	3.7	1.7	3.2	3.1	--	--	4.3	--
2018		--	--	3.2	0.6	0.2	2.7	--	--	1.2	--
2019		--	--	2.6	-2.6	0.7	1.4	--	--	0.5	--
2020		--	--	-2.1	-4.8	-9.7	-1.9	--	--	-9.3	--
2021		--	--	2.5	2.1	7.3	1.4	--	--	5.5	--
2022 (d)		--	--	4.4	-1.8	1.3	2.8	--	--	--	--
2020	II	--	--	-5.0	-10.8	-19.8	-3.6	--	--	-20.7	--
	III	--	--	2.0	8.6	23.7	1.2	--	--	24.9	--
	IV	--	--	1.5	3.5	3.1	0.8	--	--	4.2	--
2021	I	--	--	0.2	-0.6	0.3	0.1	--	--	-2.8	--
	II	--	--	0.2	-0.2	-0.6	0.6	--	--	-1.3	--
	III	--	--	1.9	-1.8	-0.8	1.0	--	--	1.1	--
	IV	--	--	1.6	1.4	2.6	0.7	--	--	2.4	--
2022	I(e)	--	--	0.9	-1.1	0.3	0.5	--	--	--	--
2021	Dec	--	--	0.3	0.2	-0.5	0.2	--	--	-2.5	--
2022	Jan	--	--	0.4	-1.6	-0.1	0.2	--	--	--	--
	Feb	--	--	0.1	0.1	--	0.2	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annual percentage changes

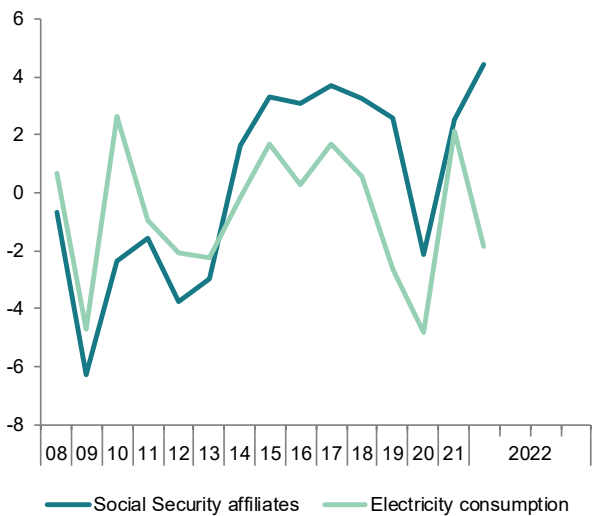


Chart 8.2 - General activity indicators (II)

Index

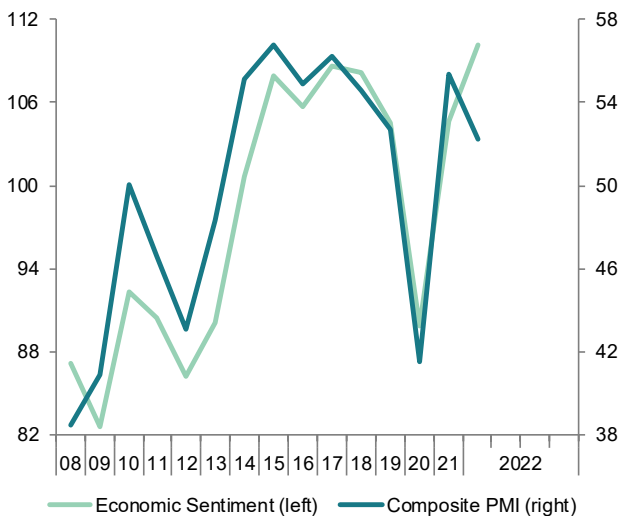


Chart 8.3 - Industrial sector indicators (I)

Annual percentage changes

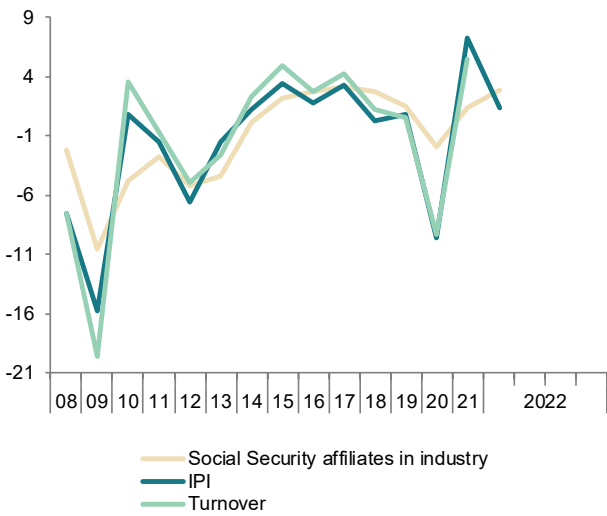


Chart 8.4 - Industrial sector indicators (II)

Index

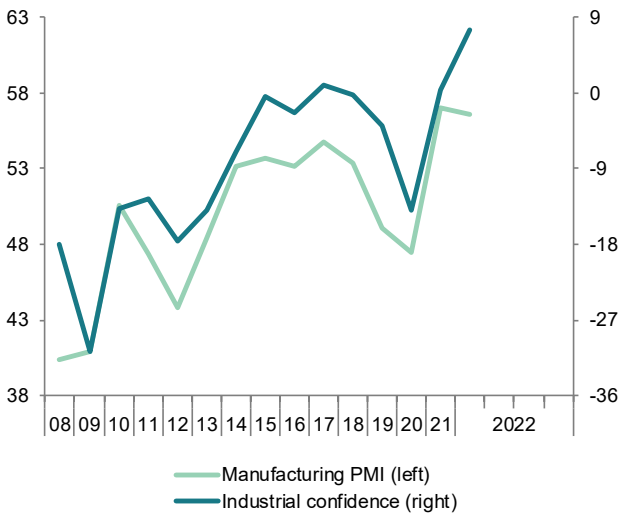


Table 9

Construction and services sector indicators (a)

		Construction indicators					Service sector indicators					
		Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
		Thousands	2015=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m ²	Thousands	2015=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
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	104.1	55.0	331.2	229.4	17.8
2017		1,118.8	111.5	-26.9	12.7	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018		1,194.1	114.2	-4.6	16.6	19.8	13,781.3	117.5	54.8	340.0	262.9	21.7
2019		1,254.9	124.8	-7.0	18.2	20.0	14,169.1	122.2	53.9	343.0	276.9	13.9
2020		1,233.1	110.7	-18.4	14.1	16.1	13,849.2	102.9	40.3	92.2	75.6	-26.2
2021		1,288.6	124.1	-2.0	23.7	19.7	14,235.1	119.3	55.0	172.2	119.4	6.8
2022 (b)		1,301.3	106.5	-0.9	2.3	--	14,518.2	--	51.6	10.5	22.1	16.7
2020	II	1,166.6	91.9	-26.3	2.9	3.3	13,470.8	84.5	28.4	1.9	1.2	-47.1
	III	1,250.3	117.7	-24.3	2.9	3.9	13,728.1	105.5	47.3	24.3	16.9	-35.9
	IV	1,263.5	119.5	-14.4	4.9	4.2	13,958.9	108.2	43.0	14.9	12.7	-29.4
2021	I	1,261.4	120.8	-11.8	4.2	4.5	14,000.3	110.2	44.3	12.7	10.6	-25.5
	II	1,281.0	125.3	2.2	6.4	5.0	14,008.1	116.0	58.8	22.8	16.4	10.2
	III	1,300.4	124.2	1.2	6.4	5.1	14,327.0	121.3	59.6	57.8	39.4	18.8
	IV	1,312.3	125.4	0.4	6.8	5.2	14,604.4	129.1	57.4	68.9	49.4	23.5
2022	I (b)	1,323.9	122.0	-0.9	2.3	--	14,761.4	--	51.6	19.3	30.6	16.7
2021	Dec	1,320.0	123.5	1.5	2.8	1.6	14,686.9	128.7	55.8	22.2	16.4	15.1
2022	Jan	1,323.5	122.0	-3.4	2.3	--	14,754.0	--	46.6	19.3	14.3	17.3
	Feb	1,324.3	--	1.7	--	--	14,768.8	--	56.6	--	16.3	16.0
Percentage changes (c)												
2014		-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015		4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016		2.6	2.6	--	-1.7	29.0	3.4	4.1	--	7.4	11.0	--
2017		6.2	8.6	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018		6.7	2.5	--	30.8	24.5	3.3	5.8	--	-0.2	5.8	--
2019		5.1	9.2	--	10.2	1.3	2.8	4.0	--	0.9	5.3	--
2020		-1.7	-11.3	--	-22.8	-19.8	-2.3	-15.8	--	-73.1	-72.7	--
2021		4.5	12.1	--	68.6	22.7	2.8	16.0	--	86.7	57.8	--
2022 (d)		5.1	2.5	--	69.6	--	5.3	--	--	340.2	343.7	--
2020	II	-7.0	-19.9	--	-33.5	-39.4	-5.5	-26.3	--	-97.3	-97.8	--
	III	7.2	28.0	--	-36.3	-18.9	1.9	24.8	--	1,190.7	1,295.7	--
	IV	1.1	1.6	--	16.0	-7.8	1.7	2.6	--	-38.5	-24.9	--
2021	I	-0.2	1.1	--	25.2	-4.1	0.3	1.9	--	-15.0	-16.6	--
	II	1.6	3.7	--	118.0	48.9	0.1	5.3	--	79.9	54.5	--
	III	1.5	-0.9	--	118.5	31.4	2.3	4.6	--	153.4	140.6	--
	IV	0.9	1.0	--	39.0	23.8	1.9	6.4	--	19.2	25.5	--
2022	I(e)	0.9	-2.7	--	69.6	--	1.1	--	--	-15.8	-7.2	--
2021	Dec	0.7	-3.5	--	14.3	26.4	0.4	-3.1	--	-7.3	-3.6	--
2022	Jan	0.3	-1.2	--	69.6	--	0.5	--	--	-12.7	-12.8	--
	Feb	0.1	--	--	--	--	0.1	--	--	--	13.9	--

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

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

Chart 9.1 - Construction indicators (I)

Annual percentage changes and index

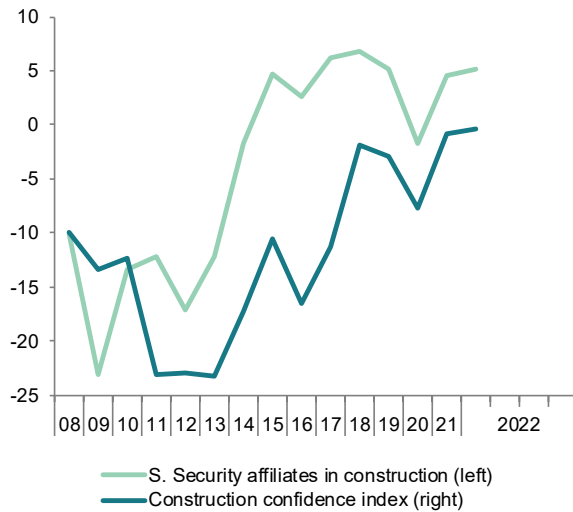


Chart 9.2 - Construction indicators (II)

Annual percentage changes

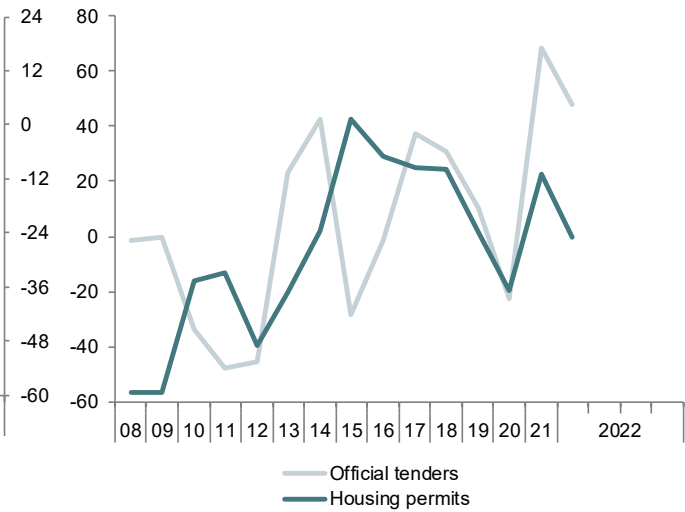


Chart 9.3 - Services indicators (I)

Annual percentage changes

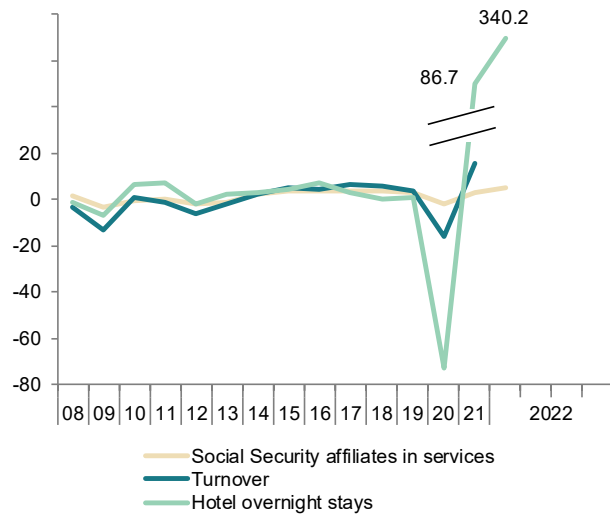


Chart 9.4 - Services indicators (II)

Index

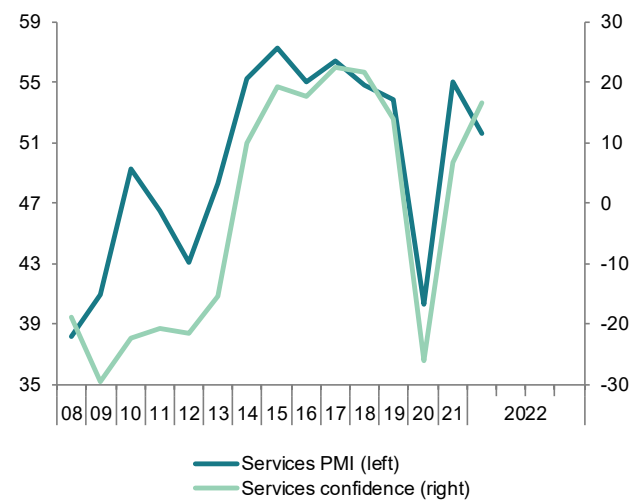


Table 10

Consumption and investment indicators (a)

		Consumption indicators				Investment in equipment indicators		
		Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Imports of capital goods (volume)
		2015=100 (smoothed)	Thousands (smoothed)	Balance of responses	Million (smoothed)	Balance of responses	Thousands (smoothed)	2005=100 (smoothed)
2014		96.0	890.1	-14.5	104.7	-9.1	137.5	81.6
2015		100.0	1,094.0	-4.7	110.3	-3.1	180.3	93.3
2016		103.9	1,230.1	-6.3	114.2	-1.4	191.3	97.2
2017		104.7	1,341.6	-3.4	115.8	2.2	207.6	103.3
2018		105.4	1,424.0	-4.2	116.5	-5.6	230.0	105.4
2019		107.9	1,375.6	-6.3	119.6	-2.9	220.9	105.6
2020		100.4	939.1	-22.8	51.2	-25.5	170.8	100.0
2021		103.9	953.7	-13.3	90.5	-11.5	186.9	111.1
2022 (b)		102.8	120.2	-10.7	4.5	-2.2	23.6	113.4
2020	II	88.0	108.3	-27.9	1.6	-41.5	25.1	94.4
	III	104.5	302.9	-26.9	17.0	-32.8	52.7	101.3
	IV	105.1	301.5	-26.3	9.5	-23.7	52.7	107.7
2021	I	102.1	199.0	-22.1	8.6	-18.1	50.4	110.4
	II	104.1	250.7	-11.1	15.5	-15.3	49.2	110.8
	III	104.1	244.3	-9.1	30.7	-10.7	43.6	111.7
	IV	105.7	256.6	-10.8	28.0	-1.9	43.1	115.2
2022	I(b)	102.8	133.2	-10.7	8.0	-2.2	27.6	119.0
2021	Dec	103.2	89.1	-13.1	9.1	-0.6	14.5	116.9
2022	Jan	102.8	60.9	-12.0	8.0	-4.2	13.5	119.0
	Feb	--	72.3	-9.4	--	-0.2	14.2	--
Percentage changes (c)								
2014		1.1	19.9	--	4.1	--	27.8	18.4
2015		4.2	22.9	--	5.3	--	31.1	14.4
2016		3.9	12.4	--	3.6	--	6.1	4.1
2017		0.8	9.1	--	1.4	--	8.5	6.4
2018		0.7	6.1	--	0.6	--	10.8	2.0
2019		2.3	-3.4	--	2.7	--	-4.0	0.2
2020		-6.9	-31.7	--	-57.2	--	-22.6	-5.3
2021		3.5	1.6	--	76.9	--	9.4	11.1
2022 (d)		3.8	7.1	--	175.2	--	-15.9	18.9
2020	II	-14.7	-57.6	--	-93.5	--	-40.8	-0.6
	III	18.7	179.6	--	965.7	--	110.0	32.6
	IV	0.6	-0.5	--	-44.1	--	0.0	27.5
2021	I	-2.8	-34.0	--	-9.3	--	-4.2	10.6
	II	1.9	26.0	--	79.6	--	-2.4	1.6
	III	0.0	-2.6	--	97.5	--	-11.4	3.1
	IV	1.5	5.0	--	-8.8	--	-1.2	13.3
2022	I(e)	-2.7	-22.1	--	-13.7	--	-3.6	13.7
2021	Dec	-6.1	5.0	--	5.3	--	4.0	1.6
2022	Jan	-0.3	-31.6	--	-11.3	--	-7.1	1.8
	Feb	--	18.6	--	--	--	4.9	--

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

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

Chart 10.1 - Consumption indicators

Annual percentage changes and balance of responses

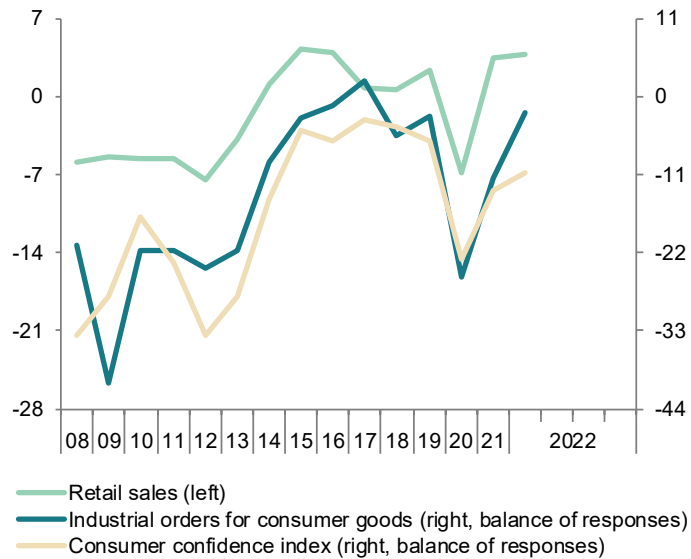


Chart 10.2 - Investment indicators

Annual percentage changes and balance of responses

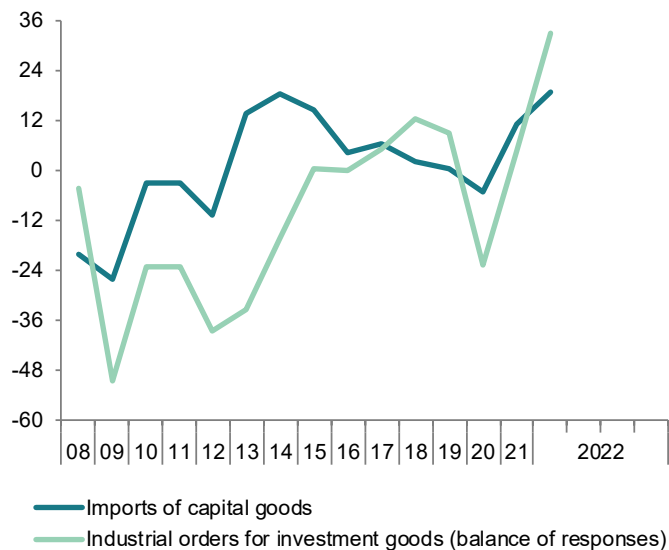


Table 11a

Labour market (I)

Forecasts in yellow

	Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate aged 16 or more (a)	Employment rate aged 16 or more (b)	Unemployment rate (c)				
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted			Total	Aged 16-24	Spanish	Foreign	
										Seasonally adjusted				Original
	I	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13	
Million								Percentage						
2014	38.5	23.0	--	17.3	--	5.6	--	59.6	45.0	24.5	53.2	23.0	34.5	
2015	38.5	22.9	--	17.9	--	5.1	--	59.6	46.4	22.1	48.3	20.9	30.5	
2016	38.5	22.8	--	18.3	--	4.5	--	59.2	47.6	19.6	44.4	18.7	26.6	
2017	38.7	22.7	--	18.8	--	3.9	--	58.8	48.7	17.2	38.6	16.3	23.8	
2018	38.9	22.8	--	19.3	--	3.5	--	58.7	49.7	15.3	34.4	14.3	21.9	
2019	39.3	23.0	--	19.8	--	3.2	--	58.6	50.4	14.1	32.6	13.2	20.1	
2020	39.6	22.7	--	19.2	--	3.5	--	57.4	48.5	15.5	38.3	14.1	24.6	
2021	39.7	23.2	--	19.8	--	3.4	--	58.5	49.9	14.8	34.9	13.5	23.1	
2022	39.8	23.5	--	20.2	--	3.3	--	59.0	50.7	14.0	--	--	--	
2020	I	39.5	23.0	23.2	19.7	19.9	3.3	58.7	50.4	14.2	32.1	13.3	21.2	
	II	39.6	22.0	21.9	18.6	18.6	3.4	55.5	46.9	15.4	38.8	13.9	24.9	
	III	39.6	22.9	22.8	19.2	19.0	3.7	57.5	48.1	16.3	41.2	14.8	25.7	
	IV	39.6	23.1	23.0	19.3	19.3	3.7	58.1	48.7	16.2	40.9	14.5	26.6	
2021	I	39.6	22.9	23.1	19.2	19.4	3.7	58.3	49.0	15.8	38.7	14.4	26.2	
	II	39.6	23.2	23.2	19.7	19.6	3.5	58.5	49.5	15.3	37.6	13.9	23.8	
	III	39.6	23.4	23.3	20.0	19.9	3.4	58.7	50.2	14.5	31.6	13.5	21.7	
	IV	39.7	23.3	23.3	20.2	20.1	3.1	58.6	50.7	13.4	31.5	12.2	20.9	
Percentage changes (d)								Difference from one year ago						
2014	-0.3	-1.0	--	1.2	--	-7.3	--	-0.4	0.7	-1.7	-2.3	-1.4	-2.5	
2015	0.0	-0.2	--	3.0	--	-9.9	--	-0.1	1.4	-2.4	-4.9	-2.1	-4.0	
2016	0.1	-0.5	--	2.7	--	-11.5	--	-0.3	1.2	-2.4	-3.9	-2.2	-3.8	
2017	0.3	-0.3	--	2.6	--	-12.5	--	-0.4	1.1	-2.4	-5.9	-2.4	-2.8	
2018	0.6	0.3	--	2.7	--	-11.2	--	-0.2	1.0	-2.0	-4.2	-2.0	-1.9	
2019	1.0	0.9	--	2.3	--	-6.8	--	0.0	0.7	-1.2	-1.8	-1.1	-1.8	
2020	0.8	-1.3	--	-2.9	--	8.8	--	-1.2	-1.9	1.4	5.7	0.9	4.5	
2021	0.2	2.1	--	3.0	--	-2.8	--	1.1	1.3	-0.7	-3.4	-0.6	-1.5	
2022	0.5	1.3	--	2.2	--	-3.7	--	0.5	0.9	-0.7	--	--	--	
2020	I	1.0	0.7	1.0	1.1	1.1	-1.2	0.4	0.0	-0.1	-1.6	-0.4	0.4	
	II	0.9	-4.6	-4.6	-6.0	-6.0	4.3	4.3	-3.2	-3.5	1.3	6.4	0.8	4.7
	III	0.7	-0.8	-1.0	-3.5	-3.6	15.8	14.6	-1.0	-2.1	2.2	8.6	1.7	6.3
	IV	0.5	-0.4	-0.5	-3.1	-3.2	16.5	16.0	-0.6	-1.9	2.3	9.6	1.6	6.6
2021	I	0.3	-0.6	-0.4	-2.4	-2.4	10.3	11.2	-0.4	-1.3	1.7	6.6	1.1	5.0
	II	0.2	5.6	5.7	5.7	5.8	5.2	5.1	3.0	2.6	-0.1	-1.3	0.1	-1.2
	III	0.1	2.4	2.3	4.5	4.4	-8.2	-8.9	1.2	2.1	-1.8	-9.6	-1.3	-3.9
	IV	0.2	1.0	0.9	4.3	4.3	-16.6	-16.4	0.4	2.0	-2.8	-9.5	-2.3	-5.7

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

Source: INE (Labour Force Survey) and Funcas.

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

Annual growth rates and percentage of active population

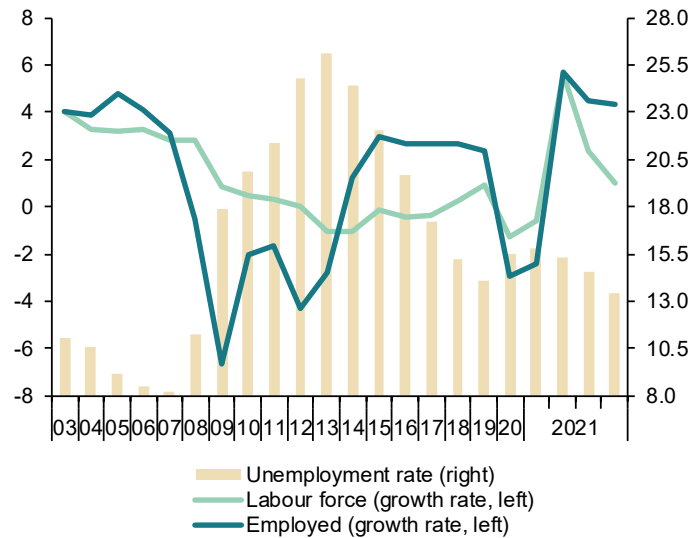


Chart 11a.2 - Unemployment rates

Percentage

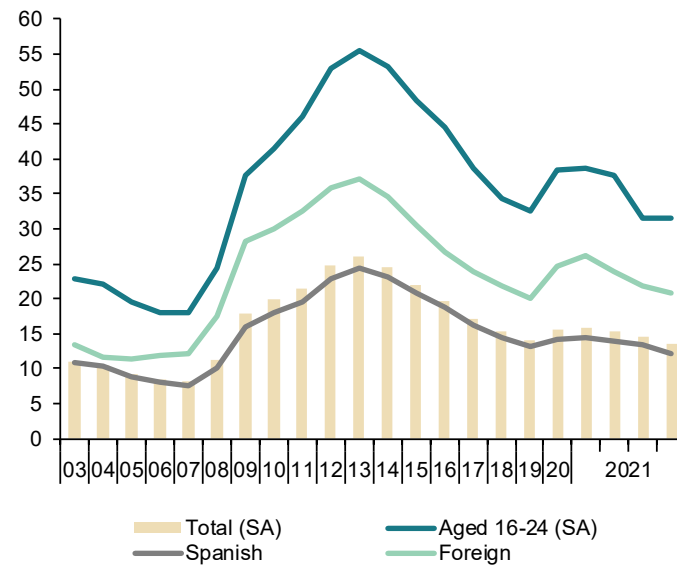


Table 11b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day			
	Agriculture	Industry	Construction	Services	Employees				Self employed	Full-time	Part-time	Part-time employment rate (b)	
					Total	By type of contract							
						Temporary	Indefinite	Temporary employment rate (a)					
	I	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12	
Million (original data)													
2014	0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91	
2015	0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74	
2016	0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21	
2017	0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97	
2018	0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31	
2019	0.80	2.76	1.28	14.94	16.67	4.38	12.29	26.3	3.11	16.95	2.83	14.30	
2020	0.77	2.70	1.24	14.49	16.11	3.88	12.23	24.1	3.09	16.51	2.70	14.05	
2021	0.80	2.70	1.29	14.98	16.63	4.17	12.46	25.1	3.15	17.03	2.74	13.87	
2020	I	0.78	2.77	1.28	14.85	16.56	4.14	12.42	25.0	3.12	16.83	2.85	14.47
	II	0.76	2.64	1.17	14.03	15.53	3.47	12.06	22.4	3.08	16.12	2.49	13.36
	III	0.73	2.69	1.25	14.51	16.11	3.89	12.21	24.2	3.07	16.52	2.65	13.84
	IV	0.78	2.69	1.28	14.59	16.24	4.00	12.24	24.6	3.10	16.55	2.80	14.47
2021	I	0.80	2.64	1.26	14.50	16.10	3.83	12.27	23.8	3.10	16.51	2.70	14.04
	II	0.81	2.67	1.32	14.87	16.51	4.14	12.37	25.1	3.16	16.84	2.84	14.41
	III	0.76	2.73	1.29	15.25	16.92	4.40	12.52	26.0	3.11	17.33	2.70	13.46
	IV	0.84	2.77	1.29	15.29	16.97	4.31	12.67	25.4	3.21	17.45	2.74	13.56
Annual percentage changes								Difference from one year ago	Annual percentage changes			Difference from one year ago	
2014	-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1	
2015	0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2	
2016	5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5	
2017	5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2	
2018	-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7	
2019	-1.9	2.0	4.6	2.4	2.7	0.6	3.5	-0.6	0.5	2.3	2.3	0.0	
2020	-4.0	-2.3	-2.6	-3.0	-3.4	-11.4	-0.5	-2.2	-0.5	-2.6	-4.6	-0.3	
2021	4.9	0.1	3.8	3.3	3.2	7.6	1.8	1.0	1.8	3.2	1.7	-0.2	
2020	I	-6.5	2.2	-0.3	1.4	1.2	-2.2	2.4	-0.9	0.2	1.6	-1.8	-0.4
	II	-5.7	-4.4	-8.4	-6.2	-7.0	-21.1	-1.9	-4.0	-1.2	-4.3	-15.8	-1.5
	III	-2.0	-4.5	-1.6	-3.5	-4.1	-13.0	-0.8	-2.5	-0.5	-3.3	-4.8	-0.2
	IV	-1.5	-2.5	-0.3	-3.6	-3.6	-9.0	-1.7	-1.5	-0.6	-4.3	4.8	1.1
2021	I	1.7	-4.6	-1.3	-2.3	-2.8	-7.5	-1.2	-1.2	-0.6	-1.9	-5.3	-0.4
	II	6.2	0.9	13.3	6.0	6.3	19.2	2.6	2.7	4.4	14.1	1.1	
	III	4.2	1.5	3.5	5.1	5.0	13.0	2.5	1.8	1.5	4.9	1.6	-0.4
	IV	7.4	2.7	0.4	4.8	4.5	7.7	3.5	0.8	3.5	5.5	-2.2	-0.9

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed.

Source: INE (Labour Force Survey).

Chart 11b.1 - Employment by sector

Annual percentage changes

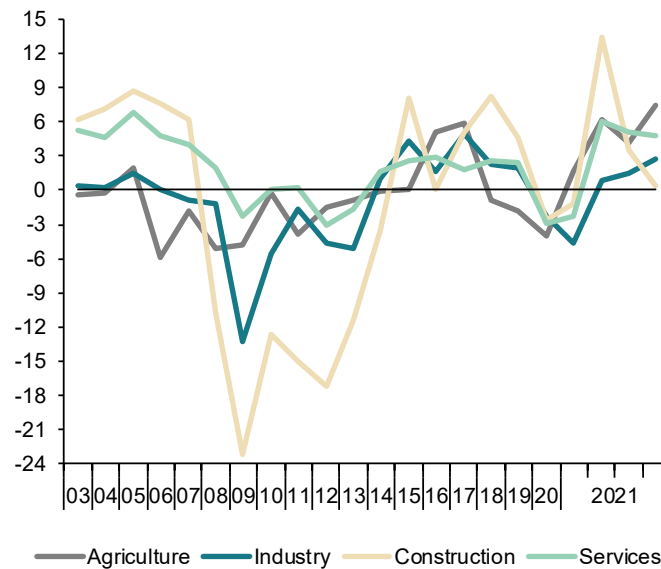


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

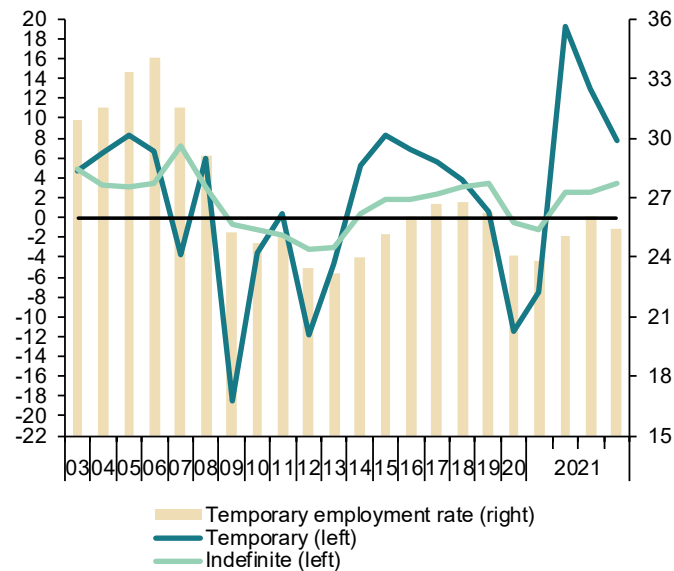


Table 12

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 2021		100.00	62.28	79.09	23.28	39.01	16.81	8.92	11.98	25.73
Indexes, 2021 = 100										
2015		93.4	95.2	95.0	98.2	93.4	94.5	85.4	88.2	91.4
2016		93.2	96.0	95.8	98.7	94.4	95.3	87.4	80.6	92.6
2017		95.0	97.0	96.8	98.9	95.9	96.0	89.6	87.1	93.8
2018		96.6	97.9	97.7	98.9	97.3	96.9	92.4	92.4	95.5
2019		97.3	98.9	98.5	99.2	98.7	97.5	94.2	91.3	96.3
2020		97.0	99.4	99.2	99.4	99.4	98.7	97.7	82.5	98.4
2021		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2022		106.8	102.6	103.1	103.0	102.3	104.7	104.8	134.0	104.7
Annual percentage changes										
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018		1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8
2019		0.7	1.0	0.9	0.3	1.4	0.5	1.9	-1.2	0.9
2020		-0.3	0.6	0.7	0.2	0.8	1.3	3.7	-9.6	2.1
2021		3.1	0.6	0.8	0.6	0.6	1.3	2.4	21.2	1.7
2022		6.8	2.6	3.1	3.0	2.3	4.7	4.8	34.0	4.7
2021	Jan	0.5	0.4	0.6	0.3	0.5	1.1	2.5	-1.8	1.6
	Feb	0.0	0.1	0.3	0.2	0.1	0.7	2.6	-4.2	1.4
	Mar	1.3	0.1	0.3	0.3	0.0	0.6	2.6	8.4	1.3
	Apr	2.2	-0.1	0.0	0.4	-0.4	0.3	0.2	21.4	0.3
	May	2.7	0.1	0.2	0.5	-0.1	0.2	1.4	24.0	0.6
	Jun	2.7	0.1	0.2	0.7	-0.3	0.7	1.4	23.5	0.9
	Jul	2.9	0.4	0.6	0.4	0.5	1.0	2.4	20.7	1.5
	Aug	3.3	0.5	0.7	0.6	0.6	1.2	2.6	23.5	1.6
	Sep	4.0	0.8	1.0	0.7	0.9	1.5	1.6	28.8	1.6
	Oct	5.4	1.2	1.4	0.9	1.4	2.0	0.9	39.5	1.6
	Nov	5.5	1.5	1.7	1.1	1.7	2.5	3.9	35.9	3.0
	Dec	6.5	1.6	2.1	1.4	1.8	3.5	6.5	40.2	4.6
2022	Jan	6.1	2.0	2.4	2.4	1.7	4.0	5.2	33.0	4.4
	Feb	7.6	2.4	3.0	3.0	2.0	5.3	5.0	44.3	5.2
	Mar	8.6	2.6	3.1	3.0	2.2	5.3	4.6	52.4	5.1
	Apr	8.1	2.7	3.2	3.0	2.5	5.2	4.8	46.1	5.1
	May	7.8	2.7	3.2	3.1	2.4	5.1	4.7	42.9	5.0
	Jun	7.4	2.8	3.3	3.1	2.5	5.0	5.5	38.1	5.2
	Jul	7.6	3.0	3.4	3.2	2.8	5.0	5.2	38.5	5.1
	Aug	7.3	3.2	3.5	3.2	3.0	4.9	4.6	34.9	4.8
	Sep	6.5	2.8	3.2	3.1	2.5	4.7	5.5	28.9	5.0
	Oct	5.4	2.5	2.9	3.1	2.2	4.4	6.1	21.2	5.0
	Nov	5.3	2.4	2.7	3.0	2.0	4.0	4.3	23.0	4.1
	Dec	4.1	2.4	2.5	2.9	2.0	3.1	2.2	15.9	2.8

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation rate (I)

Annual percentage changes

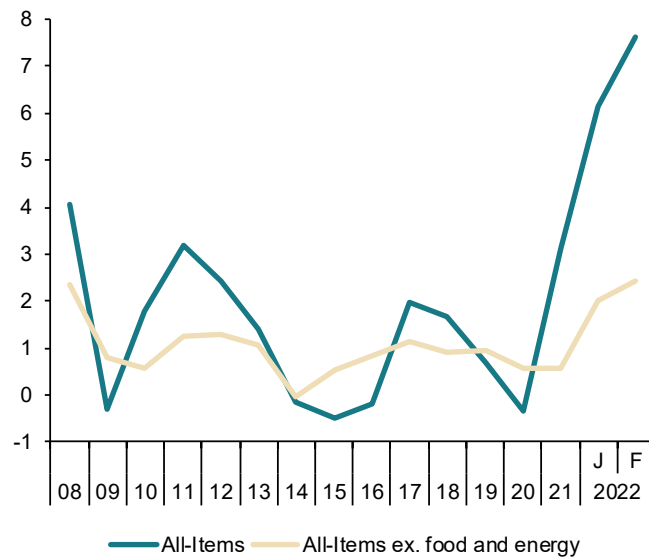


Chart 12.2 - Inflation rate (II)

Annual percentage changes

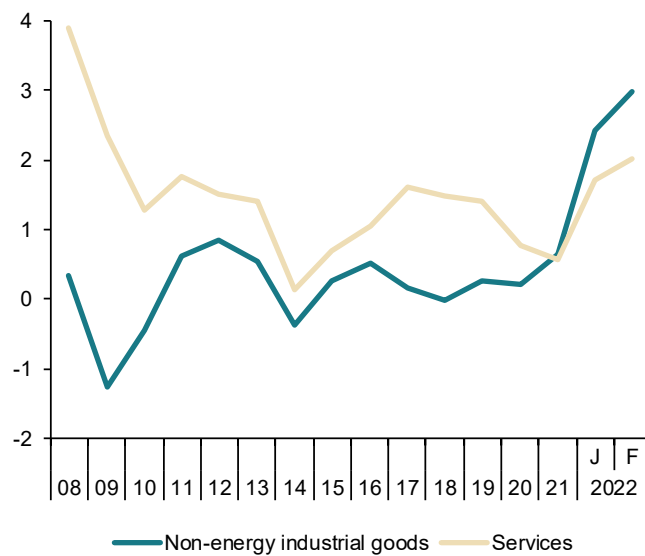


Table 13

Other prices and costs indicators

		GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
			Total	Excluding energy	Housing Price Index (INE)	m ² average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
			2015=100	2015=100	2007=100	2007=100		2000=100	2000=100	2000=100	2000=100	
2014		99.5	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.4	--
2015		100.0	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016		100.3	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.4	156.2	--
2017		101.6	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.2	--
2018		102.9	104.1	103.0	79.3	77.4	57.3	145.4	143.8	150.6	158.5	--
2019		104.2	103.6	103.2	83.3	79.8	57.7	148.7	146.4	155.7	162.7	--
2020		105.4	99.2	103.1	85.0	78.9	52.3	145.4	142.6	154.1	173.3	--
2021		107.7	116.4	110.3	88.2	80.6	54.3	154.0	151.5	161.5	172.3	--
2022 (b)		--	141.5	117.6	--	--	--	--	--	--	--	--
2020	II	105.1	96.3	102.6	84.8	78.3	50.1	138.1	135.1	147.2	180.2	--
	III	105.9	99.2	102.8	85.7	78.8	49.3	142.7	139.2	153.5	174.0	--
	IV	106.1	99.9	103.6	85.0	78.9	51.0	155.5	154.4	159.1	180.5	--
2021	I	105.9	104.0	106.2	85.4	79.0	49.0	147.3	142.9	160.7	163.5	--
	II	106.2	110.3	109.5	87.5	80.2	58.3	156.4	154.6	161.8	170.8	--
	III	107.6	118.2	111.4	89.3	80.8	52.4	149.7	146.2	160.3	175.2	--
	IV	110.8	132.9	114.4	90.4	82.4	57.5	162.5	162.2	163.3	179.7	--
2022	I(b)	--	141.5	117.6	--	--	--	--	--	--	--	--
2021	Nov	--	132.1	114.5	--	--	--	--	--	--	--	--
	Dec	--	136.3	115.4	--	--	--	--	--	--	--	--
2022	Jan	--	141.5	117.6	--	--	--	--	--	--	--	--
Annual percent changes (c)												
2014		-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.1	0.5
2015		0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.7	0.7
2016		0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.0
2017		1.3	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018		1.2	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.5	1.8
2019		1.3	-0.4	0.1	5.1	3.2	0.7	2.2	1.9	3.4	2.6	2.3
2020		1.1	-4.3	0.0	2.1	-1.1	-9.4	-2.2	-2.6	-1.0	6.5	1.9
2021		2.2	17.3	7.0	3.7	2.1	3.7	5.9	6.3	4.8	-0.6	1.5
2022 (d)		--	35.7	12.0	--	--	--	--	--	--	--	2.3
2020	II	1.0	-7.7	-0.7	2.1	-1.7	-15.1	-8.3	-9.4	-5.0	12.3	2.0
	III	1.6	-3.9	-0.4	1.7	-1.1	-15.2	-1.1	-0.9	-1.6	4.2	1.9
	IV	1.0	-2.8	0.5	1.5	-1.8	-9.7	-0.1	-0.7	1.6	5.4	1.9
2021	I	1.4	2.6	2.6	0.9	-0.9	-16.9	1.4	1.0	2.6	3.1	1.6
	II	1.0	14.5	6.7	3.3	2.4	16.3	13.2	14.4	9.9	-5.2	1.6
	III	1.6	19.1	8.4	4.2	2.6	6.2	4.9	5.0	4.4	0.7	1.5
	IV	4.4	33.1	10.4	6.4	4.4	12.7	4.5	5.1	2.7	-0.4	1.5
2022	I(e)	--	36.1	10.8	--	--	--	--	--	--	--	--
2021	Dec	--	35.2	10.9	--	--	--	--	--	--	--	1.5
2022	Jan	--	35.7	12.0	--	--	--	--	--	--	--	2.0
	Feb	--	--	--	--	--	--	--	--	--	--	2.3

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

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

Chart 13.1 - Housing and urban land prices

Index (2007=100)

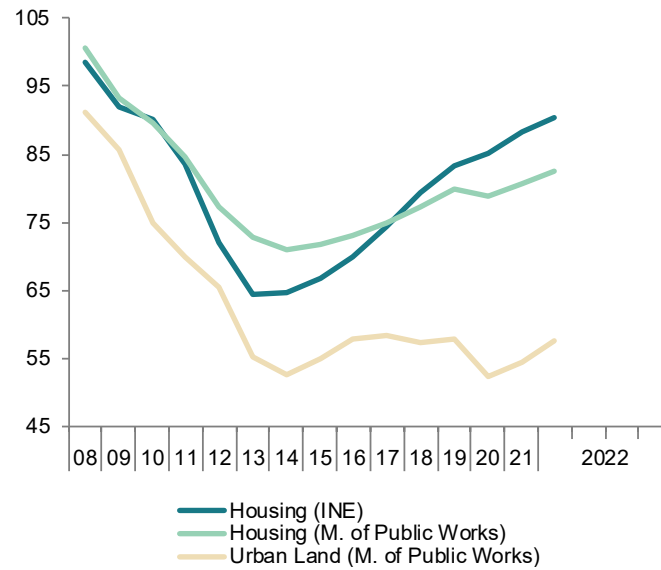


Chart 13.2 - Wage costs

Annual percent change

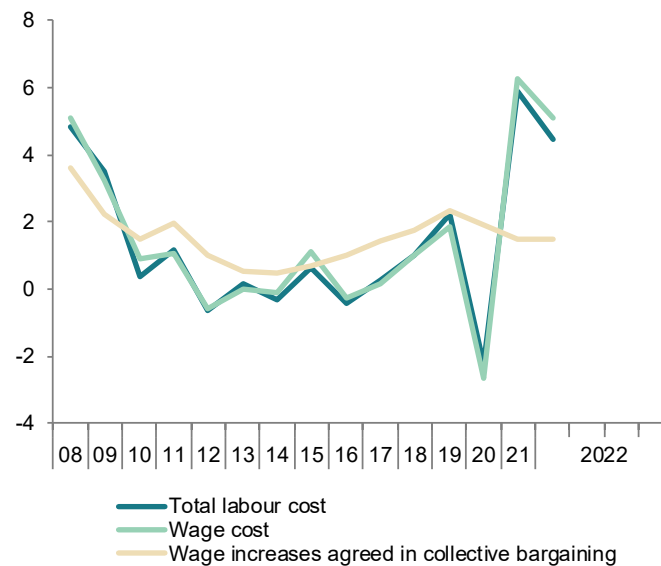


Table 14

External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)	
	Nominal	Prices	Real	Nominal	Prices	Real						
	2005=100			2005=100								EUR Billions
2014		155.2	109.4	141.9	114.0	107.3	106.3	11.4	8.7	-2.1	1.1	0.4
2015		161.2	110.1	146.5	118.0	104.6	112.9	12.0	8.9	-2.1	0.2	0.2
2016		165.4	108.2	153.0	117.5	101.3	116.1	12.5	8.8	-1.4	0.3	0.4
2017		178.2	108.9	163.7	129.8	106.1	122.4	13.6	9.5	-2.2	0.0	0.6
2018		184.0	112.1	164.2	137.2	110.9	123.8	14.1	9.7	-2.9	-0.3	0.7
2019		187.7	112.9	166.3	138.4	110.8	125.0	14.3	9.9	-2.6	-0.3	0.8
2020		168.5	112.1	150.6	117.9	107.4	109.4	13.2	8.6	-1.1	0.3	1.3
2021		205.6	120.8	170.1	147.6	117.7	125.4	16.3	10.1	-2.2	0.1	2.1
2022(b)		215.6	132.2	163.1	171.5	130.7	131.2	16.7	8.8	-6.1	-2.7	2.6
2020	I	176.5	113.4	155.7	129.7	111.1	116.8	13.6	9.0	-2.4	-0.2	0.9
	II	140.7	111.6	126.1	96.1	104.7	91.8	11.0	7.0	-0.5	0.2	1.7
	III	176.4	110.5	159.7	120.2	105.5	114.0	13.8	8.8	-0.6	0.6	1.5
	IV	180.9	112.5	160.8	123.8	107.4	115.2	14.0	9.2	-0.7	0.5	1.2
2021	I	187.3	115.2	162.6	129.9	110.6	117.4	14.8	9.2	-1.1	0.7	1.8
	II	208.8	119.4	174.9	145.8	115.8	125.9	16.4	10.3	-1.4	0.5	1.9
	III	210.6	122.4	172.0	150.4	119.6	125.8	16.7	10.3	-2.1	0.3	2.4
2021	IV	215.6	126.2	170.9	164.4	124.1	132.4	17.1	10.6	-4.1	-0.9	2.2
	Nov	216.5	125.5	172.5	165.0	123.0	134.1	16.9	10.8	-4.1	-0.8	2.3
	Dec	219.9	128.4	171.2	169.7	126.5	134.2	17.5	10.7	-4.6	-1.2	2.3
2022	Jan	215.6	132.2	163.1	171.5	130.7	131.2	18.1	9.5	-5.5	-2.1	3.1
Percentage changes (c)										Percentage of GDP		
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.3	1.8	-2.3	0.2	0.2
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	4.7	-0.1	-1.6	0.3	0.4
2017		7.7	0.7	7.0	10.5	4.7	5.5	8.3	6.9	-2.3	0.0	0.7
2018		3.3	3.0	0.3	5.7	4.5	1.2	3.9	2.5	-2.9	-0.3	0.7
2019		2.0	0.7	1.3	0.9	-0.1	0.9	1.8	2.2	-2.5	-0.3	0.8
2020		-10.2	-0.7	-9.5	-14.8	-3.1	-12.5	-8.2	-13.1	-1.2	0.3	1.4
2021		22.0	7.8	13.0	25.2	9.6	14.6	23.8	17.3	-2.2	0.1	2.0
2022(d)		24.6	16.0	7.4	42.2	21.8	16.7	18.6	17.4	--	--	--
2020	I	-5.1	-0.8	-4.4	-3.4	-1.8	-1.6	-2.9	-8.3	-9.9	-0.7	3.6
	II	-20.3	-1.6	-19.0	-25.9	-5.7	-21.4	-19.3	-21.8	-2.7	1.0	8.2
	III	25.4	-1.0	26.6	25.0	0.7	24.2	25.7	25.0	-2.6	2.7	6.2
	IV	2.6	1.8	0.7	3.0	1.8	1.1	1.1	4.9	-3.0	1.9	5.1
2021	I	3.5	2.4	1.1	5.0	3.0	1.9	6.4	-0.8	-4.6	2.7	7.3
	II	11.5	3.6	7.6	12.3	4.7	7.2	10.8	12.6	-5.8	2.1	7.7
	III	0.9	2.6	-1.6	3.2	3.2	-0.1	1.6	-0.2	-8.2	1.0	9.3
	IV	2.4	3.0	-0.7	9.3	3.8	5.3	2.2	2.5	-15.5	-3.2	8.3
2021	Nov	2.9	0.8	2.1	4.2	0.2	3.9	0.6	6.7	--	--	--
	Dec	1.6	2.3	-0.7	2.8	2.8	0.0	3.7	-1.7	--	--	--
2022	Jan	-2.0	3.0	-4.8	1.1	3.4	-2.2	3.5	-10.9	--	--	--

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

Source: Ministry of Economy.

Chart 14.1 - External trade (real)

Annual percent change

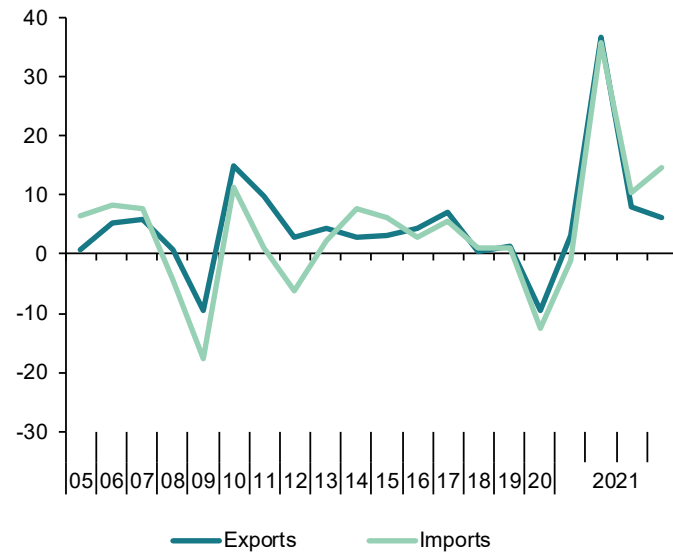


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

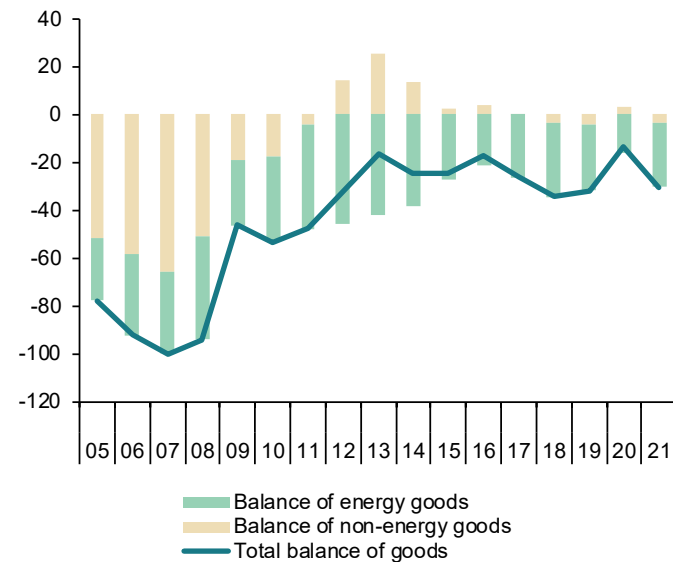


Table 15

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

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain	
									Total	Direct investment	Portfolio investment	Other investment	Financial derivatives		
1=2+3+4+5		2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14	
EUR billions															
2014		17.54	-21.26	53.25	-3.79	-10.67	4.54	22.08	-10.00	10.68	-2.67	-19.03	1.01	27.14	-4.94
2015		21.83	-20.68	53.44	-0.24	-10.69	6.98	28.80	69.47	30.07	-5.16	40.75	3.81	-40.79	-0.12
2016		35.37	-14.28	58.70	2.75	-11.80	2.43	37.80	89.49	11.19	46.65	29.09	2.57	-54.02	-2.34
2017		32.21	-22.04	63.93	0.44	-10.13	2.84	35.05	68.01	12.46	25.08	22.74	7.72	-32.63	0.33
2018		22.61	-29.31	62.00	1.73	-11.81	5.81	28.42	46.64	-16.87	15.13	49.43	-1.05	-14.25	3.98
2019		26.19	-26.76	63.22	2.69	-12.96	4.22	30.40	10.48	6.62	-48.01	59.42	-7.55	14.82	-5.11
2020		9.25	-9.09	25.62	6.59	-13.87	4.47	13.72	98.22	19.60	53.67	32.05	-7.09	-80.98	3.53
2021 (a)		6.59	-10.11	25.16	2.04	-10.50	6.00	12.59	33.26	-23.00	21.29	32.46	2.52	-10.53	10.15
2019	IV	7.60	-5.94	13.30	2.88	-2.64	2.06	9.66	17.67	2.21	4.03	11.45	-0.02	-4.49	3.52
2020	I	0.16	-6.17	8.94	1.33	-3.95	0.74	0.90	46.43	-2.76	31.55	15.79	1.86	-43.40	2.13
	II	1.99	0.51	3.72	0.30	-2.54	0.73	2.71	1.76	5.14	-3.72	-3.26	3.60	5.62	4.67
	III	2.12	-2.71	7.55	0.10	-2.82	0.90	3.02	13.58	7.95	4.64	-0.98	1.98	-0.54	10.03
	IV	4.99	-0.73	5.41	4.86	-4.56	2.10	7.09	6.23	2.14	-7.38	11.19	0.28	5.70	4.84
2021	I	-0.76	-1.54	3.77	0.92	-3.91	0.68	-0.08	2.10	-4.56	3.66	1.33	1.67	-3.00	-0.83
	II	3.00	-1.42	6.68	1.16	-3.42	2.66	5.66	24.11	-16.20	15.43	24.71	0.16	-14.40	4.05
	III	4.35	-7.15	14.71	-0.04	-3.18	2.66	7.01	7.05	-2.24	2.20	6.41	0.68	6.88	6.93
		Goods and Services		Primary and Secondary Income											
2021	Oct	2.14	3.34	-1.20			0.72	2.86	-1.82	-1.86	10.10	-11.39	1.32	3.76	-0.92
	Nov	1.01	0.39	0.62			0.77	1.78	8.16	-0.48	-5.27	15.04	-1.14	-4.79	1.58
	Dec	-1.31	-1.72	0.42			2.43	1.12	24.56	4.30	-4.52	24.70	0.09	-21.80	1.64
Percentage of GDP															
2014		1.7	-2.1	5.2	-0.4	-1.0	0.4	2.1	-1.0	1.0	-0.3	-1.8	0.1	2.6	-0.5
2015		2.0	-1.9	5.0	0.0	-1.0	0.6	2.7	6.4	2.8	-0.5	3.8	0.4	-3.8	0.0
2016		3.2	-1.3	5.3	0.2	-1.1	0.2	3.4	8.0	1.0	4.2	2.6	0.2	-4.9	-0.2
2017		2.8	-1.9	5.5	0.0	-0.9	0.2	3.0	5.9	1.1	2.2	2.0	0.7	-2.8	0.0
2018		1.9	-2.4	5.2	0.1	-1.0	0.5	2.4	3.9	-1.4	1.3	4.1	-0.1	-1.2	0.3
2019		2.1	-2.2	5.1	0.2	-1.0	0.3	2.4	0.8	0.5	-3.9	4.8	-0.6	1.2	-0.4
2020		0.8	-0.8	2.3	0.6	-1.2	0.4	1.2	8.8	1.7	4.8	2.9	-0.6	-7.2	0.3
2021 (a)		0.8	-1.2	2.9	0.2	-1.2	0.7	1.4	3.8	-2.6	2.4	3.7	0.3	-1.2	1.2
2019	IV	2.3	-1.8	4.1	0.9	-0.8	0.6	3.0	5.4	0.7	1.2	3.5	0.0	-1.4	1.1
2020	I	0.1	-2.1	3.1	0.5	-1.4	0.3	0.3	16.0	-1.0	10.9	5.5	0.6	-15.0	0.7
	II	0.8	0.2	1.5	0.1	-1.0	0.3	1.1	0.7	2.0	-1.5	-1.3	1.4	2.2	1.9
	III	0.8	-1.0	2.7	0.0	-1.0	0.3	1.1	4.8	2.8	1.6	-0.3	0.7	-0.2	3.6
	IV	1.7	-0.2	1.8	1.6	-1.5	0.7	2.4	2.1	0.7	-2.5	3.7	0.1	1.9	1.6
2021	I	-0.3	-0.5	1.3	0.3	-1.4	0.2	0.0	0.8	-1.6	1.3	0.5	0.6	-1.1	-0.3
	II	1.0	-0.5	2.2	0.4	-1.1	0.9	1.9	8.0	-5.4	5.1	8.2	0.1	-4.8	1.3
	III	1.5	-2.4	5.0	0.0	-1.1	0.9	2.4	2.4	-0.8	0.7	2.2	0.2	2.3	2.3

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

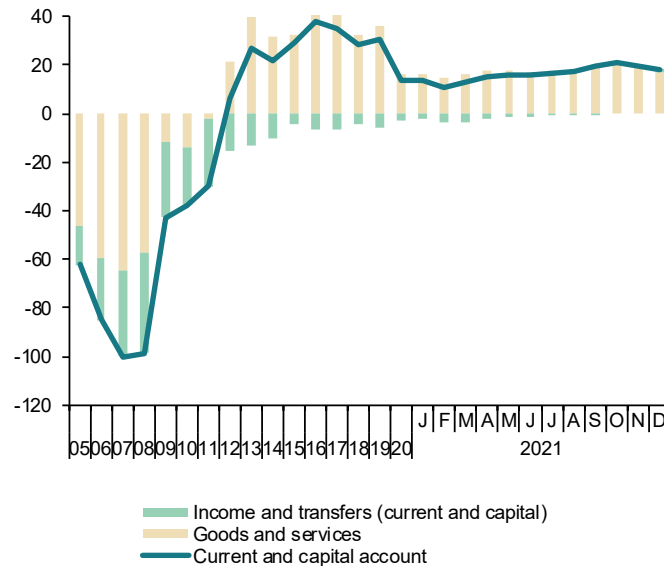


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

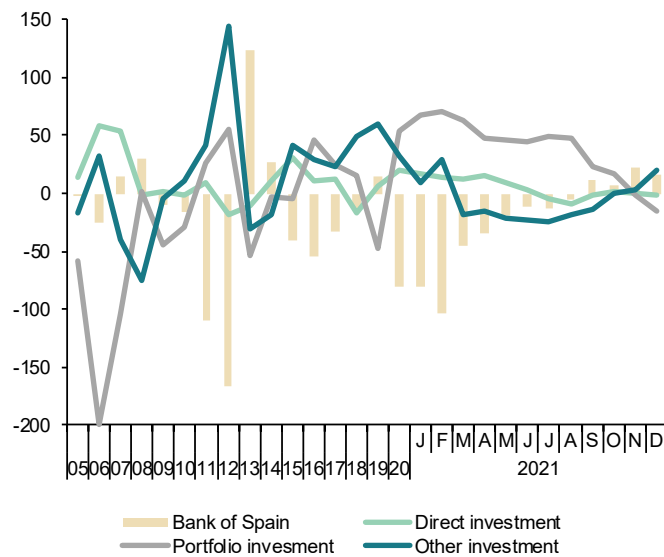


Table 16

Competitiveness indicators in relation to EMU

	Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU) (a)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries	
	Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU		
	1998=100			2015=100			2015=100				1999 I =100
2014	102.2	99.7	102.6	100.6	100.0	100.7	102.1	102.8	99.3	112.2	
2015	99.4	99.9	99.4	100.0	100.0	100.0	100.0	100.0	100.0	107.8	
2016	98.1	96.7	101.4	99.7	100.3	99.4	96.9	97.9	98.9	108.0	
2017	97.7	96.4	101.4	101.7	101.8	99.9	101.2	100.7	100.5	109.7	
2018	97.4	93.3	104.4	103.5	103.6	99.9	103.8	103.3	100.4	110.5	
2019	97.6	94.0	103.9	104.3	104.8	99.5	103.4	103.7	99.8	109.1	
2020	95.4	93.4	102.2	103.9	105.1	98.9	99.8	101.2	98.6	108.5	
2021	97.4	95.0	102.6	107.0	107.8	99.3	135.3	127.4	106.2	108.9	
2022(b)				110.7	111.2	99.5	101.6	102.8	98.8	108.4	
2020	I	--	--	--	103.6	104.7	98.9	101.6	102.8	98.8	107.7
	II	--	--	--	104.5	105.5	99.1	97.3	99.9	97.4	108.6
	III	--	--	--	103.4	105.1	98.4	99.7	100.6	99.2	108.2
	IV	--	--	--	104.1	105.0	99.1	100.4	101.4	99.0	109.3
2021	I	--	--	--	104.1	105.8	98.4	104.1	104.1	100.1	108.2
	II	--	--	--	106.9	107.4	99.5	109.5	107.2	102.2	109.5
	III	--	--	--	106.9	108.0	99.0	116.3	112.2	103.7	108.3
	IV	--	--	--	110.2	109.9	100.3	128.3	120.4	106.6	109.4
2021	Dec	--	--	--	111.1	110.4	100.7	131.2	122.6	107.0	109.8
2022	Jan	--	--	--	110.3	110.7	99.6	135.3	127.4	106.2	108.4
	Feb	--	--	--	111.2	111.7	99.5	--	--	--	--
Annual percentage changes						Differential	Annual percentage changes		Differential	Annual percentage changes	
2014	-1.7	0.2	-1.9	-0.2	0.4	-0.6	-1.3	-1.5	0.2	13.0	
2015	-2.8	0.3	-3.1	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.9	
2016	-1.3	-3.2	2.0	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	0.2	
2017	-0.4	-0.3	0.0	2.0	1.5	0.5	4.5	2.8	1.7	1.5	
2018	-0.7	-1.7	1.0	1.7	1.7	0.0	2.5	2.6	-0.1	0.8	
2019	-0.5	1.1	-1.6	0.8	1.2	-0.4	-0.3	0.3	-0.6	-1.3	
2020	-2.0	0.9	-3.0	-0.3	0.3	-0.6	-3.3	-2.5	-0.8	-0.6	
2021 (c)	--	--	--	3.0	2.6	0.4	30.6	20.8	9.8	0.1	
2020	I	--	--	--	0.7	1.1	-0.4	0.7	1.1	-0.4	-1.1
	II	--	--	--	-0.6	0.2	-0.8	-0.6	0.2	-0.8	-1.1
	III	--	--	--	-0.6	0.0	-0.6	-0.6	0.0	-0.6	-0.3
	IV	--	--	--	-0.8	-0.3	-0.5	-0.8	-0.3	-0.5	0.4
2021	I	--	--	--	0.5	1.1	-0.6	2.5	1.2	1.3	0.4
	II	--	--	--	2.3	1.8	0.5	12.5	7.3	5.2	0.9
	III	--	--	--	3.4	2.8	0.6	16.6	11.5	5.1	0.1
	IV	--	--	--	5.8	4.6	1.2	27.8	18.8	9.0	0.1
2021	Dec	--	--	--	6.6	5.0	1.6	29.6	20.4	9.2	0.2
2022	Jan	--	--	--	6.2	5.1	1.1	30.1	23.4	6.7	-0.3
	Feb	--	--	--	7.6	5.9	1.7	--	--	--	--

(a) EMU excluding Ireland and Spain. (b) Period with available data. (c) Growth of available period over the same period of the previous year.

Sources: Eurostat, Bank of Spain and Funcas.

**Chart 16.1 - Relative Unit Labour Costs
in manufacturing (Spain/Rest of EMU)**

1998=100

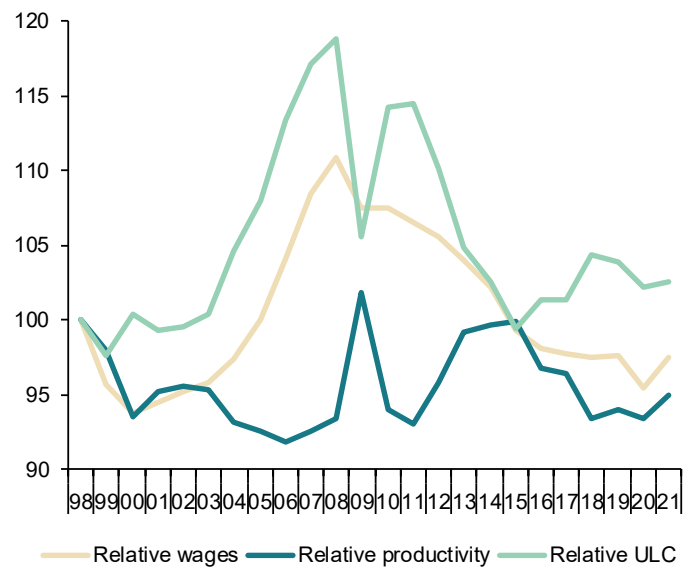


Chart 16.2 - Harmonized Consumer Prices

Annual growth in % and percentage points

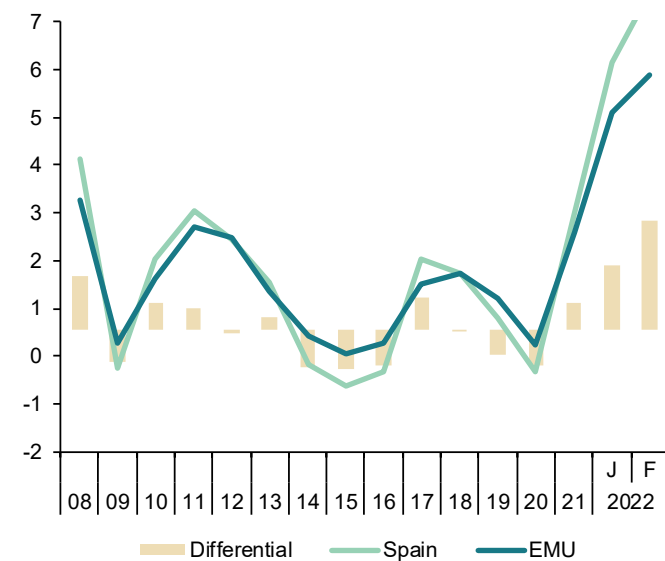


Table 17a

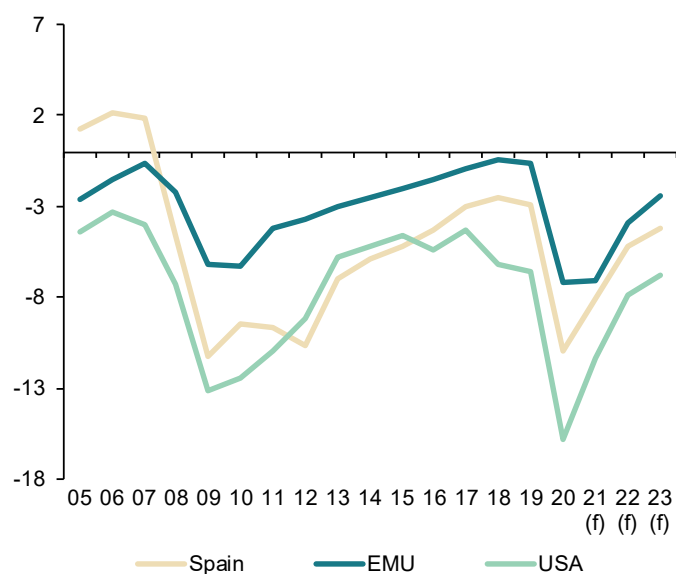
Imbalances: International comparison (I)
(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	Spain	EMU	USA	Spain	EMU	USA	Spain	EMU	USA
Billions of national currency									
2008	-50.7	-208.0	-1,084.5	440.6	6,700.8	10,844.6	-98.8	-49.1	-704.2
2009	-120.6	-578.3	-1,896.6	569.5	7,440.5	12,535.2	-43.7	64.9	-383.1
2010	-102.2	-598.3	-1,863.1	649.2	8,199.1	14,316.3	-39.2	59.1	-439.8
2011	-103.6	-416.1	-1,709.1	743.0	8,658.8	15,518.1	-29.0	88.5	-460.3
2012	-110.7	-366.2	-1,493.3	889.9	9,114.9	16,740.3	0.9	230.0	-423.9
2013	-71.8	-300.4	-977.3	977.3	9,429.4	17,597.5	20.8	285.1	-352.1
2014	-61.1	-251.0	-910.4	1,039.4	9,674.6	18,328.2	17.5	320.1	-376.2
2015	-55.8	-208.7	-837.2	1,070.1	9,792.7	19,089.9	21.8	359.2	-424.7
2016	-48.0	-159.7	-1,003.6	1,104.6	9,973.5	19,986.4	35.4	390.5	-403.7
2017	-35.3	-104.5	-839.2	1,145.1	10,052.2	20,642.2	32.2	414.5	-372.9
2018	-30.0	-50.6	-1,282.7	1,173.4	10,153.5	21,972.3	22.6	417.7	-440.3
2019	-35.8	-77.1	-1,419.1	1,188.8	10,240.3	23,188.6	26.2	371.0	-479.8
2020	-122.9	-821.7	-3,291.5	1,345.8	11,323.2	26,531.3	9.3	300.8	-587.1
2021	-96.1	-869.1	-2,615.2	1,436.7	12,167.3	29,623.6	4.0	379.5	-819.9
2022	-66.7	-503.1	-1,936.9	1,509.4	12,662.4	31,566.2	10.6	408.9	-883.5
2023	-56.2	-318.7	-1,733.9	1,572.5	13,046.5	33,302.6	14.1	463.5	-893.7
Percentage of GDP									
2008	-4.6	-2.2	-7.3	39.7	69.6	73.4	-8.9	-0.5	-4.8
2009	-11.3	-6.2	-13.1	53.3	80.2	86.6	-4.1	0.7	-2.6
2010	-9.5	-6.3	-12.4	60.5	86.0	95.1	-3.7	0.6	-2.9
2011	-9.7	-4.2	-11.0	69.9	88.4	99.5	-2.7	0.9	-3.0
2012	-10.7	-3.7	-9.2	86.3	92.7	103.0	0.1	2.3	-2.6
2013	-7.0	-3.0	-5.8	95.8	94.9	104.5	2.0	2.9	-2.1
2014	-5.9	-2.5	-5.2	100.7	95.1	104.4	3.1	1.7	-2.1
2015	-5.2	-2.0	-4.6	99.3	93.1	104.9	3.4	2.0	-2.3
2016	-4.3	-1.5	-5.4	99.2	92.2	106.9	3.6	3.2	-2.2
2017	-3.0	-0.9	-4.3	98.6	89.6	106.0	3.7	2.8	-1.9
2018	-2.5	-0.4	-6.2	97.5	87.5	107.0	3.6	1.9	-2.1
2019	-2.9	-0.6	-6.6	95.5	85.5	108.5	3.1	2.1	-2.2
2020	-11.0	-7.2	-15.8	120.0	99.3	127.0	2.6	0.8	-2.8
2021	-8.1	-7.1	-11.4	120.6	100.0	129.3	3.1	0.3	-3.6
2022	-5.2	-3.9	-7.9	118.2	97.9	128.6	3.2	0.8	-3.6
2023	-4.2	-2.4	-6.8	116.9	97.0	129.8	3.4	1.0	-3.5

Source: European Commission Forecasts, Autumn 2021.

Chart 17a.1 - Government deficit

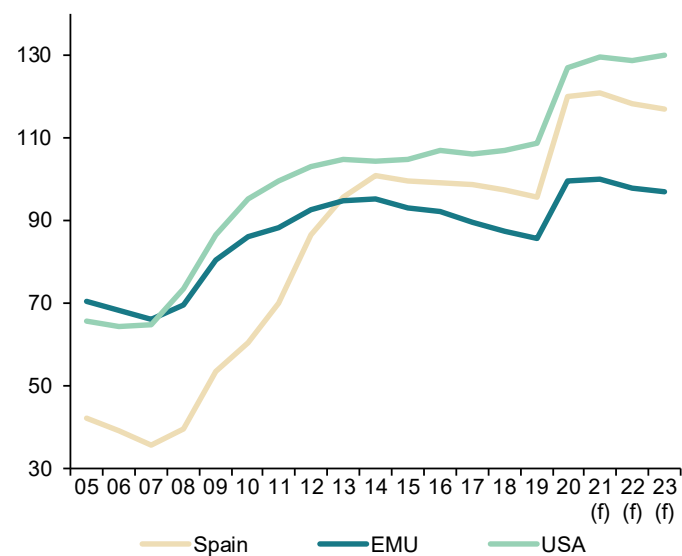
Percentage of GDP



(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	4,771.4	8,940.4	954.1	7,273.3	8,180.5
2006	783.5	5,193.1	9,940.3	1,171.9	7,914.9	9,000.7
2007	879.3	5,561.2	10,625.0	1,371.6	8,673.8	10,136.1
2008	916.7	5,774.0	10,577.3	1,460.0	9,363.5	10,709.7
2009	908.9	5,880.7	10,441.3	1,473.5	9,458.0	10,192.1
2010	905.2	6,021.5	9,992.3	1,498.0	9,696.1	10,060.1
2011	877.9	6,104.5	9,785.5	1,458.3	10,085.7	10,296.1
2012	840.9	6,097.0	9,537.1	1,339.2	10,245.9	10,839.2
2013	793.6	6,057.7	9,437.0	1,267.9	10,273.1	11,352.2
2014	757.8	6,064.6	9,387.3	1,203.7	10,645.3	12,121.6
2015	733.3	6,127.9	9,492.8	1,183.7	11,194.0	12,931.4
2016	718.5	6,232.8	9,658.8	1,166.5	11,534.4	13,588.5
2017	711.0	6,395.1	9,928.8	1,146.6	11,711.1	14,548.9
2018	709.6	6,582.3	10,203.9	1,138.0	12,016.1	15,515.6
2019	708.6	6,809.2	10,481.2	1,150.1	12,385.1	16,270.1
2020	701.3	7,000.7	10,919.7	1,199.3	12,810.8	17,718.4
Percentage of GDP						
Percentage of GDP						
2005	70.8	56.5	68.6	102.9	86.1	62.7
2006	78.0	58.4	71.9	116.7	89.0	65.1
2007	81.8	59.2	73.4	127.5	92.4	70.0
2008	82.6	60.0	71.6	131.6	97.3	72.5
2009	85.0	63.4	72.1	137.8	102.0	70.4
2010	84.4	63.2	66.4	139.6	101.7	66.8
2011	82.5	62.3	62.7	137.1	103.0	66.0
2012	81.6	62.0	58.7	129.9	104.2	66.7
2013	77.8	61.0	56.0	124.3	103.4	67.4
2014	73.4	59.6	53.5	116.6	104.6	69.1
2015	68.0	58.2	52.1	109.8	106.4	71.0
2016	64.5	57.6	51.7	104.7	106.7	72.7
2017	61.2	57.0	51.0	98.7	104.4	74.7
2018	59.0	56.7	49.7	94.6	103.6	75.6
2019	56.9	56.8	49.0	92.4	103.3	76.1
2020	62.5	61.4	52.3	106.9	112.4	84.8

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

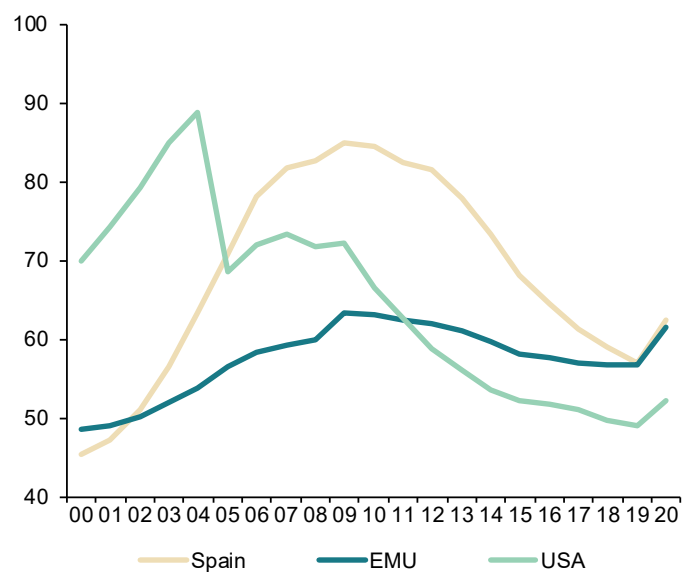
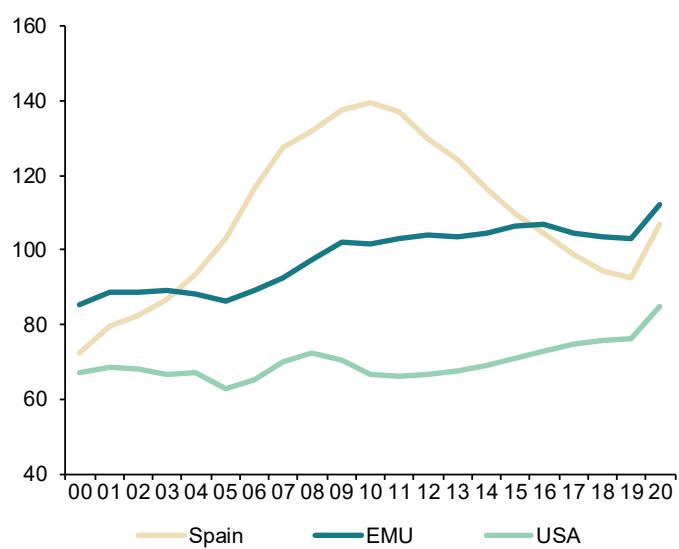


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: March 15th, 2022

Highlights		
Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.3	December 2021
Other resident sectors' deposits in credit institutions (monthly average % var.)	1.9	December 2021
Doubtful loans (monthly % var.)	-0.2	December 2021
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	2,201,468	February 2022
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	289,689	February 2022
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	16	February 2022
"Operating expenses/gross operating income" ratio (%)	59.57	September 2021
"Customer deposits/employees" ratio (thousand euros)	11,929.24	September 2021
"Customer deposits/branches" ratio (thousand euros)	102,795.08	September 2021
"Branches/institutions" ratio	105.33	September 2021

A. Money and Interest Rates

Indicator	Source	Average 2001-2019	2020	2021	2022 February	2022 March 15	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.1	12.3	6.9	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.4	-0.545	-0.572	-0.533	-0.500	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	1.8	-0.499	-0.501	-0.349	-0.258	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.4	0.03	0.5	1.1	1.2	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.8	1.3	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Monetary authorities have shown increased concerns over inflation and the invasion of Ukraine has only added upward pressures on prices, mainly through increases in the cost of energy. In this context, interbank rates increased in the first half of March. The 1-year interbank rate went from -0.533% in February to -0.500% by March 15th, and the 3-month Euribor increased from -0.349% to -0.258% over the same period. As for the Spanish 10-year bond yield, it increased to 1.2%.

B. Financial Markets

Indicator	Source	Average 2001-2018	2019	2020	2021 December	2022 January	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	22.1	288.7	28.8	22.93	19.03	(Traded amount/outstanding balance) × 100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	19.8	87.2	18.5	10.95	16.02	(Traded amount/outstanding balance) × 100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.5	0.01	0.34	0.00	0.13	(Traded amount/outstanding balance) × 100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.6	1.2	0.63	0.60	0.82	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.5	-0.54	-0.54	-0.69	-0.60	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec 1987=100)	Bank of Spain	727.5	1,311.87	1,289.02	-	-	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	0.1	1.2	-0.6	4.67	-1.99	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	2.6	-7.4	10.7	-29.57	15.37	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	1,007.1	881.6	718.9	861.8	818.69 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,703.6	8,812.9	7,347.3	8,713.8	8,236.1 (a)	Base dec 1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.6	13.2	15.1	12.4	14.5 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange		-		-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2018	2019	2020	2021 December	2022 January	Definition and calculation
18. Commercial paper: Trading balance (% chg.)	Bank of Spain and AIAF	-	-	-	-	-	AIAF fixed-income market
19. Commercial paper: Three-month interest rate	Bank of Spain and AIAF	-	-	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	0.9	-14.4	5.1	-10.5	2.0	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	12.9	30	35.4	140	-50	IBEX-35 shares concluded transactions

(a) Last data published: March 15th, 2022.

Comment on "Financial Markets": The stock market followed an erratic pattern in the first half of March amid substantial volatility mainly due to uncertainty related to the invasion of Ukraine. The IBEX-35 decreased to 8,236 points, and the General Index of the Madrid Stock Exchange to 819. During January (last month available), there was a decrease in transactions of outright spot T-bills to 19.03 and an increase in spot government bonds transactions to 16.02. There was an increase in Ibex-35 futures of 2% and a decrease in options of 50%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2018	2019	2020	2021 Q2	2021 Q3	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-1.4	2.5	1.2	1.4	1.7	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	1.7	2.2	7.1	4.8	4.2	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	270.1	282.0	335.3	331.8	327.4	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	63.7	56.9	62.5	61.4	59.8	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.5	5.9	1.8	2.8	-0.8	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.2	0.3	0.3	2.1	-0.7	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2021Q3, the financial savings to GDP in the overall economy increased by 1.7%. There was an increase in the financial savings rate of households of 4.2%. The debt to GDP ratio of the economy reached 327%. Finally, there was a decrease in the stock of financial assets on households' balance sheets of 0.8% and of 0.7% in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2017	2018	2019	2021 November	2021 December	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	6.1	-4.7	0.2	0.9	-0.3	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	7.0	0.7	0.3	1.1	1.9	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	9.95	-0.9	-0.3	-3.9	1.2	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	9.3	-8.8	0.5	2.2	0.9	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.2	-0.6	-1.6	2.5	2.2	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	-0.3	-2.3	-1.7	-0.5	-0.2	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	2.6	-1.4	-1.1	25.4	-7.5	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	7.8	-4.1	0.3	0.5	0.8	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 December show a decrease in bank credit to the private sector of 0.3%. Data also show a decrease in financial institutions' deposit-taking of 1.9%. Holdings of debt securities grew 1.2%. Doubtful loans decreased 0.2% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2018	2019	2020	2021 June	2021 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	179	114	113	112	112	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	76	81	78	79	81	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	231,976	176,838	175,185	-	175,185 (a)	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	37,607	23,851	22,589	20,823	20,330	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	371,551	642,118	1,774,798	2,132,054	2,201,468 (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	79,421	132,611	260,971	290,262	289,689 (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	26,049	102	3	34	16 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2020.

(b) Last data published: February 28th, 2022.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In February 2022, recourse to Eurosystem funding by Spanish credit institutions reached 289.7 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 604 billion euros in February 2022 and 4.8 trillion euros for the entire Eurozone banking system.

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

Indicator	Source	Average 2000-2018	2019	2020	2021 Q2	2021 Q3	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	49.11	53.30	54.90	57.96	59.57	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	4,219.37	9,574.38	11,173.92	11,620.24	11,929.24	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	27,149.27	74,450.04	89,952.10	100,175.86	102,795.08	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2018	2019	2020	2021 Q2	2021 Q3	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	194.96	123.09	116.74	109.02	105.33	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.24	7.7	8.1	8.6	8.6	Branch size indicator
48. "Equity capital" (monthly average % var.)	Bank of Spain	0.04	0.25	-2.4	-0.7	-0.6	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.43	0.59	0.4	0.4	0.5	Profitability indicator; defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	5.78	6.96	-0.7	5.9	6.5	Profitability indicator; defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2021Q3, there was a relative increase in the profitability of Spanish banks.

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 (foreign-born)	New exits (born in Spain)
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	701,997	33,053
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	441,051	39,211
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	344,992	51,666
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	368,170	66,803
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	417,655	74,873
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	492,600	71,508
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	592,604	63,754
2018	46,722,980	43.1	19.1	80.5	85.9	53.6	29.3	13.7	715,255	56,745
2019	47,026,208	43.3	19.3	80.9	86.2	53.7	29.6	14.4	827,052	61,338
2020	47,450,795	43.6	19.4	79.6	85.1	53.5	29.8	15.2	523,618	41,708
2021●	47,344,649	43.8	19.7			53.4	30.2	15.4		
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	1.6
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.9
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.0
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.1
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.3
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.5
2017	18,512	2.52	14.2	11.4	7.4	7.0	2.11	35.3	33.2	2.7
2018	18,581	2.51	14.3	11.5	7.1	6.6	2.04	35.6	33.4	2.9
2019	18,697	2.52	14.9	11.2	7.1	6.7	1.95	36.0	33.9	3.1
2020	18,794	2.52	15.0	11.4	3.8	4.1	1.63	37.1	34.9	3.5
2021	18,919	2.50								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	ID INE	ID INE	MNP

Table 2 (Continued)

Households and families

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.72	45.8	10.4	65.8
2017	30.9	1.25	1.71	46.8	10.5	66.1
2018	31.0	1.20	1.65	47.3	11.1	65.3
2019	31.1	1.17	1.59	48.4	11.5	64.1
2020	31.2	1.12	1.45	47.6	10.3	65.8
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).

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 (millions 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	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	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	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	4.32
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,598	4.31
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1,303,252	190,143	47,579	4.25
2017	21.4	6.6	28.5	41.2	1,767,179	676,311	667,984	1,287,791	209,754	49,458	4.24
2018	20.5	6.4	29.2	42.4	1,750,579	667,287	675,971	1,290,455	217,840	50,807	4.23
2019	19.3	6.3	30.3	44.7	1,749,597	673,740	706,533	1,296,379	237,118	53,053	4.26
2020	17.7	6.1	31.3	44.8	1,622,353●	684,804●	772,417●	1,340,632●	248,460●	55,266●	4.93●
2021	16.4	5.8	32.3	46.7							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	INE National Accounts

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

● Provisional data.

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
	Unemployment total	Retirement		Permanent disability		Widowhood		Unemployment	Social Security		Other
		Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)		Retirement	Disability	
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019	807,614	6,038,326	1,138	957,500	975	2,361,620	712	912,384	259,570	193,122	14,997
2020	1,828,489	6,094,447	1,162	952,704	985	2,352,680	725	1,017,429	261,325	188,670	13,373
2021	922,856	6,165,349	1,190	949,765	994	2,353,987	740	969,412	262,177	184,378	11,892
2022	834,060♦	6,227,556♦	1,247♦	951,156♦	1,034♦	2,352,877♦	775♦	908,685♦	264,821♦	183,995♦	11,150♦
Sources	INEM	INSS	INSS	INSS	INSS	INSS	INSS	INEM	IMSSERSO	IMSSERSO	IMSSERSO

INEM: Instituto Nacional de Empleo.

INSS: Instituto Nacional de la Seguridad Social.

IMSSERSO: Instituto de Mayores y Servicios Sociales.

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

■ Data refer to January-February.

♦ Data refer to January.

Table 5

Social protection: Health care

	Expenditure		Resources				Satisfaction*		Time on waiting list (days)	
	Public expenditure (% GDP)	Public expenditure (millions of €)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people assigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people assigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures	First specialist consultations per 1,000 inhabitants
2008	6.1	67,344	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	6.6	71,136	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	6.3	64,734	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	6.2	63,507	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	6.2	66,489	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	6.1	67,724	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	6.0	69,312.0	1.9	0.8	3.4	0.6	6.7	7.5	106	66
2018	6.0	72,157	2.0	0.8	3.5	0.7	6.6	7.5	129	96
2019	6.1	75,929	2.0	0.8	3.5	0.7			115	81
2020	7.6●	85,383●							148	99
2021									121	75
Sources	EUROSTAT	EUROSTAT	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

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

● Provisional data.

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Notes

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