SEFO

SPANISH AND INTERNATIONAL
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The ECB´s shift back towards QE: Impact on the banking sector

funcas

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SPANISH AND INTERNATIONAL
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Letter from the Editors

The publication of the September issue of *Spanish and International Economic & Financial Outlook (SEFO)* coincides with an important turning point in the monetary policy stances of key global central banks, such as the ECB and the Fed, towards a renewed bout of monetary easing. As global headwinds persist and inflation falls below expectations, many of the world's central banks find themselves back on the path towards exceptionally low rates and accommodation as they struggle to meet their mandates. At the September meeting, the ECB cut rates for the first time since 2016 and announced that it will restart its QE scheme in November. The Fed applied its second rate cut (following the first in July) since 2008 in September and markets are increasing expectations of the return to some form of renewed QE in the near future, particularly after recent tensions in money markets.

In light of these developments, this month's *SEFO* pays tribute to the growing debate over the limits and potential impact of such ultra-low rate policies and exceptional measures — in particular on European and Spanish banks.

We start the debate over monetary policy at the European level. The deeper debate about the most recent decision to loosen European monetary policy centres around when monetary instruments should be used to respond to negative contingencies, how monetary policy decisions are transmitted to the real economy, and how other macroeconomic policy instruments can be brought into the mix. In terms of negative contingencies, the ECB's Governing Council has expressed concern that the negative deposit rates and asset purchases may be close to an inflection point beyond which the costs of the policy change would outweigh the benefits. This challenge is complicated by the fact that European private banks are not all equally exposed to central bank credit, which means that the costs and benefits of monetary accommodation are unevenly distributed. Lastly, there is the struggle to address the consequences of the monetary transmission mechanism that creates differences traced back to structural factors, which are more difficult to ignore in times of relative stress. Going forward, incoming ECB President Christine Lagarde will need to forge a new consensus on the timing and content of monetary policy and on the implications of Europe's existing monetary transmission mechanism. She will also need to encourage those national governments with fiscal space to become more active in their use of fiscal policy, and she will need to start a conversation about what are the alternatives that are available in the event that no consensus is reached within the eurozone countries on further policy actions and/or that national governments provide insufficient fiscal stimulus.

We then focus on what QE means for the European banking system overall, as well as for the case of Spanish banks. With the eurozone's Main Refinancing Operations rate having stagnated at zero percent, inflation has remained frustratingly below the ECB's target of 'below but close to 2%'. The situation has notable parallels with Japan, where interest rates have lingered at 0% and inflation below 2% for two decades. For this reason, it is pertinent to consider lessons that could be drawn from Japan and to gain insight into what might lie in store for Europe's banks. The persistence of ultra-low interest rates in Japan has exerted systemic downward pressure on banks' unit margins. Interestingly, European banks' net interest margins are currently the same as those achieved by Japanese banks in the early years of the century. Since then, however, Japanese banks' net interest margins have fallen to around 0.6-0.7%. Japanese banks do benefit from two advantages not shared by their European counterparts, namely lower NPL ratios and a far lighter cost structure. Turning to profitability levels, Japanese banks have achieved a reasonably low, but stable, ROE of between 5% and 7%. Meanwhile, capitalisation levels are below those of European banks, where ratios of capital to assets have increased by over 50%. This divergence could be due to the difficulty for Japanese banks to raise capital in light of offering such a low ROE, and/or less stringent regulatory capital requirements in the context of a low volatility/low risk climate.

In the case of Spain, the countries six largest banks posted earnings in the first half of 2019 that were down 11% from the same period in 2018. While the ECB lowered its deposit rate an additional 10 basis points further into negative territory in September 2019, the central bank also introduced a tiered-deposit rate with the goal of offsetting the pressure on banks' margins. However, this provides only partial support for bank profitability. Looking at the empirical evidence, it becomes clear that while asset non-performance improves when rates fall, the effect on net interest margins is greater, thereby reducing a bank's profitability. Negative rates can even have the opposite effect on stimulating credit than the one intended due to their influence on markets' expectations. More broadly, negative rates can distort yield curves, exacerbating debt accumulation and potentially impacting financial stability. Finally, they can impact exchange rates, which warrants careful consideration in the context of today's trade tensions.

Also, related to the banking sector, we discuss recent amendments to Europe's Bank Recovery and Resolution Directive (BRRD) in the face of implementation of the Minimum Requirement for own funds and Eligible Liabilities (MREL). With an eye to preventing the use of public funds to shore up weakened financial institutions, there is now an international consensus that entities must be equipped to 'bail in' their losses in an orderly manner. In this context, in 2015, the Financial Stability Board approved the total-loss absorbing capacity (TLAC) standard, endorsed by the G20. TLAC stipulates that global systemically important institutions (G-SIIs) must hold a minimum level of own funds and liabilities capable of absorbing losses. Following approval of the TLAC at the international level, the European Union has revised its bank resolution directive to adapt its equivalent concept, the MREL, accordingly. Significantly, MREL regulations capture more financial institutions than the TLAC, prioritise equity, subordinated debt and non-preferred senior debt instruments to meet the new capital requirements and set specific minimum thresholds for larger-sized entities. Consequently, this new regulation will influence the size and types of instruments entities issue.

While monetary measures are in the spotlight, outgoing President Draghi's remarks remind us that we should not underestimate the importance of fiscal policy. The next section of *SEFO* provides an in-depth analysis of Spain's near-term fiscal outlook and path towards fiscal target compliance, as well as an analysis of the very important issue of tax decentralisation as applied to the regional governments in Spain.

Having brought its fiscal deficit under the threshold of 3% of GDP, Spain exited the excessive deficit procedure in 2018. That target

was met following a decade's-long hard work in the context of a harsh economic crisis that saw a substantial increase in Spain's public debt. Indeed, between 2008 and 2012, the ratio of debt-to-GDP increased by a total of 46.2 percentage points, compared to the eurozone average of 21.2 points. Significantly, it took Spain ten years to rein in its deficit, twice the EU-28 and eurozone average. However, Spain has now set an ambitious target outlined in its Updated Stability Programme, which includes achieving a balanced budget in 2022. Spain's independent fiscal institution, the AIReF, believes the country will miss that mark, albeit narrowly, estimating a deficit of 0.5% for that year. Either way, Spain is currently facing two sources of instability in terms of attaining the sought-after fiscal equilibrium. The first is external, namely that generated by the global economic slowdown. The second is internal and relates to the political uncertainty prevailing in Spain since 2015, which is proving a serious obstacle to passing budgets and implementing targeted fiscal consolidation measures.

Like many other countries, the decentralisation process in Spain has made more progress in terms of granting its regions spending responsibility rather than revenue powers. However, ensuring fiscal autonomy at the sub-central level is important as it supports a regional government's political autonomy, strengthens political accountability among voters, and disincentivizes large public deficits. Nevertheless, Spain's current decentralised tax system compares favourably with other countries. According to the OECD, on the expense and revenue side, Spain ranks 5th and 6th, respectively. Furthermore, the OECD's effective measurement of tax autonomy places Spain first within the EU. This suggests that the focus should not be on increasing the extent of tax decentralisation in Spain but redesigning the context in which tax autonomy is exercised. To accomplish this, it is vital to tighten the so-called 'soft budget constraint' in the regional sphere and fine-tune most of the taxes transferred. Such action would involve reforming tax management and the partial alignment of environmental taxes collected by the regions with a nationwide green tax strategy.

Lastly, we close this issue of *SEFO* with a reflection over the impact of the great recession on income inequality and its relationship to consumption. The great recession has had a long-lasting impact on Spanish households, with consumption still below pre-crisis levels. Given the importance consumption plays in a country's GDP, it is necessary to go beyond the analysis of aggregated statistics to identify behavioural patterns across household groups, with the goal of gleaning insight into past patterns and future projections of consumption. Interestingly, the latest data show that while income inequality has fallen, it is still higher than in 2007. On the other hand, wealth is less unequally dispersed and those households in economic hardship have fallen. That said, with the exception of retirees, Spaniards' income levels have yet to fully re-bound. The combined effect of these developments means consumption remains lower than in 2007. Interestingly, there has been a slowdown in the improvement in consumption this year despite an increase in gross disposable income. This suggests household spending could be influenced by factors such as uncertainty emanating from global trade disputes and other factors that are remnants from the crisis still observable today.

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What´s Ahead (Next Month)

Month	Day	Indicator / Event
October	2	Social Security registrants and official unemployment (September)
	8	Industrial production index (August)
	9	Eurogroup meeting
	11	CPI (September)
	15	Financial Accounts Institutional Sectors (2nd quarter)
	17-18	European Council meeting
	22	Foreign trade report (August)
	24	ECB monetary policy meeting
	24	Labour Force Survey (3rd quarter)
	29	Retail trade (September)
	29	Non-financial accounts: Central Government, Regional Governments and Social Security (August)
	29	Non-financial accounts, State (September)
	30	Preliminary CPI (October)
	31	Balance of payments monthly (August)
	31	GDP 3rd quarter, advance estimate
November	5	Social Security registrants and official unemployment (October)
	6	Industrial production index (September)
	7	Eurogroup meeting
	14	CPI (October)
	21	Foreign trade report (September)
	28	Non-financial accounts: Central Government, Regional Governments and Social Security (September)
	28	Non-financial accounts, State (October)
	28	Retail trade (October)
	28	Preliminary CPI (November)
	29	Balance of payments monthly (September)

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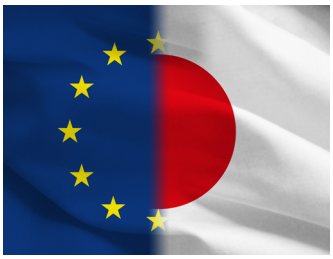
What Matters



Regulation and Economic Outlook

Key Facts

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Three debates over European monetary policy

Issues relating to negative contingencies, the transmission of monetary policy decisions to the real economy, and the deployment of other macroeconomic policy instruments are at the heart of the current debate over the ECB's monetary policy. If the institution is to overcome these challenges, it will need to address the timing and content of monetary policy and the uneven effects of monetary accommodation on banks, as well as convince governments to engage in fiscal stimulus.

Erik Jones

Abstract: The deeper debate about the most recent decision to loosen European monetary policy centres around when monetary instruments should be used to respond to negative contingencies, how monetary policy decisions are transmitted to the real economy, and how other macroeconomic policy instruments can be brought into the mix. In terms of negative contingencies, the ECB's Governing Council has expressed concern that the negative deposit rates and asset purchases may be close to an inflection point beyond which the costs of the policy change would outweigh the benefits. This challenge is complicated by the fact that European private banks are not all equally exposed to central bank credit, which means that the costs and benefits of monetary accommodation are unevenly distributed. Lastly, there is the struggle to address the consequences of the monetary transmission mechanism that creates differences traced back to structural

factors, which are more difficult to ignore in times of relative stress. Going forward, incoming ECB President Christine Lagarde will need to forge a new consensus on the timing and content of monetary policy and on the implications of Europe's existing monetary transmission mechanism. She will also need to encourage those national governments with fiscal space to become more active in their use of fiscal policy, and she will need to start a conversation about what are the alternatives that are available in the event that no consensus is reached within the eurozone countries on further policy actions and/or that national governments provide insufficient fiscal stimulus.

Introduction

The decision of the European Central Bank's (ECB) Governing Council to loosen its monetary policy stance on September 12th, 2019, has ignited a very public debate about the costs and benefits of unconventional monetary policy within the European central banking community. This debate is not simply a question of rich *versus* poor, creditor *versus* debtor, or north *versus* south. Indeed, the superficial divisions often used to frame the debate tend to gloss over and distract attention from more fundamental concerns.

The deeper conversation is about when monetary policy should be used to respond to negative contingencies, how monetary policy decisions are transmitted to the real economy, and how other macroeconomic policy instruments can be brought into the mix. None of these issues has a clear solution and each reveal powerful assumptions about how macroeconomic policies and macroeconomic performance interact. The new leadership of the ECB will inherit a major intellectual challenge guiding this conversation toward consensus – particularly given the content of the recent policy decision.

Uncertainty, confidence, and timing

The debate about negative contingencies arose in the monetary policy accounts for the Governing Council meetings held in April and June 2019. The challenge raised in both meetings was to bolster market confidence in the face of uncertainty. In the April meeting, the ECB's outgoing Chief Economist, Peter Praet, noted the potential for a difficult British exit from the European Union or trade conflict between the United States and China to depress business confidence in Europe – and in Germany in particular. [1] Whether such things will ultimately come to pass is less important than the rising possibility that they might happen and the inherent difficulty in anticipating how they will impact productive investment. Hence, the more these issues are present in the minds of the business community, the less willing that community will be to undertake investment and the more likely it becomes that economic performance across the euro area will slow down under the influence of this uncertainty. Incoming Chief Economist Philip Lane reiterated these concerns in his presentation to the Governing Council in June. [2] He enumerated a list of contingencies that included Brexit, trade wars, and a general cooling down of emerging market economies, to suggest that their impact on the confidence of the business community was already sufficient to warrant some response.

The difficulty within the Governing Council was to decide what that response should be. That response has a specific temporal dimension. As the accounts of the June meeting reveal, members of the Governing Council recognized that the ECB's monetary policy was already very accommodative. The main policy rates were at the zero

> "Participants in the ECB Governing Council meetings expressed concern that the settings on the instruments may be close to an inflection point beyond which the costs of the policy change would outweigh the benefits."

lower bound, the deposit rate was negative, the Governing Council was committed to reinvest the principal of any bonds already held on the ECB's balance sheet, and they had planned a new round of Targeted Long-Term Refinancing Operations to roll out in September 2019 in order ensure that banks retained continuous access to net stable funding. Hence, the questions the Governing Council faced was whether this level of accommodation was sufficient; whether it would help to reassure market participants that such accommodation will extend into the foreseeable future; whether it would be necessary to add to the accommodative policy stance pre-emptively; or, whether it would be sufficient to underscore that all policy instruments remain available for use.

These last two temporal elements are in tension because of the policy context. Participants in the meetings expressed concern that the settings on the instruments may be close to an inflection point beyond which the costs of the policy change would outweigh the benefits – either because the costs would increase or because the influence of the policy change on macroeconomic performance would diminish. Thus, adding to the accommodative stance pre-emptively could undermine the credibility of statements that all instruments remain available for use. In the end, both meetings resulted in a subtle change for the ECB's forward guidance – acknowledging that the policy is already accommodative and underscoring that this accommodation would remain in place so long as necessary. This shift left unaddressed the question about whether to use the instruments pre-emptively or to hold them in case of need.

Any ambivalence as to whether the Governing Council should add accommodation pre-emptively or hold in reserve the possibility to extend the policy later lasted through the July meeting. [3] That is when the Governing Council instructed its policy committees to draw up arrangements for the further reduction in the deposit rate, the exclusion of some part of excess reserves from negative interest rate charges, and the restarting of net purchases within the large-scale asset purchasing program – meaning purchases beyond the reinvestment of maturing assets on the ECB's balance sheets. The accounts of that meeting are interesting because of the number of occasions where the record points out that credit conditions are lax, that they have eased since the start of the year, and that the evidence suggests that banks are passing lower borrowing costs along to non-financial corporations. Hence, while the record makes clear that uncertainties are increasing and inflation expectations are falling, what remains ambiguous is the extent to which the Governing Council can improve macroeconomic performance beyond providing reassurance that monetary policy will remain accommodative and that the ECB can inject further liquidity should conditions worsen significantly.

That ambiguity dissipated on September 12th. ECB President Mario Draghi accepted that the policy instruments may be at an inflection point. Nevertheless, he argued that the faster-than-expected deterioration in economic performance coupled with the increased risk that external factors like a 'hard Brexit' would create an external shock necessitated immediate action. Certainly, the evidence for deterioration in inflation expectations exists. Both market-based and survey-based measures of future price increases headed in the wrong direction. Meanwhile, the ECB's own estimates of inflation over the next three years shifted significantly, particularly with respect to the coming year (Table 1). The euro area is not in recession, but a strong deceleration is underway and the ECB is not meeting its inflation target.

> "Weakness may lie on the demand side and yet loosening monetary conditions in the absence of demand for investment is unlikely to be effective."

Table 1 **ECB estimates of future price movements**

Annual percentage change

	2019	2020	2021
March projections	1.4	1.3	1.6
June projections	1.3	1.4	1.6
September projections	1.2	1.0	1.5

Source: European Central Bank.

The response from the Governing Council in its September monetary policy meeting was to lower the deposit rate, exempt some excess reserves from the negative deposit rate, restart net asset purchases, and improve the conditions surrounding the new allotment of targeted long-term refinancing operations (TLTROs). The question is whether and to what extent further scope for monetary accommodation exists beyond these changes. If it does not, then the hope has to be that this strengthened accommodation will provide a sufficient buffer for liquidity conditions in the event that some negative shock to performance takes place. For those voices that subsequently came out against the policy change, the possibility that the ECB might have expended the last of its ammunition constitutes a problem. Whatever the current state of macroeconomic conditions, the evidence from credit markets still pointed to lax borrowing conditions and ample monetary accommodation. [4] Weakness may lie on the demand side and yet loosening monetary conditions in the absence of demand for investment is unlikely to be effective – apart, perhaps, from the short-term boost to confidence that comes from seeing the ECB move into action. Moreover, or so the argument runs, any psychological boost to be had from further accommodation should be held in reserve to offset (or push back against) a potential change in market sentiment.

The transmission of monetary policy

This question about timing connects to a debate about the monetary transmission mechanism – which is the set of relationships that links a change in the policy rates or the ECB's balance sheet to more general macroeconomic conditions. This debate has been very well covered by Miguel Carrión Àlvarez (2019). What Carrión shows is the complex manner through which the different policy instruments both create and redistribute the credit of the European Central Bank. The creation of central bank credit takes place when the ECB purchases privately held assets as part of its asset purchasing program. Initially, this credit shows up as deposits held by banks with the ECB or one of its corresponding institutions – collectively known as the Eurosystem. The challenge is therefore to create incentives for the banks to withdraw those deposits in order to fund some other private asset or investment opportunity – which is what stimulates economic performance. That challenge is complicated by the fact that whoever receives the money withdrawn from the Eurosystem by one bank is only going to deposit that money into another – which means eventually it winds up back at the ECB or one of its corresponding institutions.

The incentives for banks to withdraw deposits held in the Eurosystem come from the demand for borrowing in the private sector and from the deposit rate offered by the ECB. When this deposit rate is negative, it constitutes a tax on private banks. The higher monetary policymakers set that negative rate, the larger the tax and the greater the incentive for banks to recycle any deposits they hold in the Eurosystem through the

private sector. Creating central bank credit through further asset purchases constitutes part of the transmission mechanism; creating the incentives for private banks to cycle that central bank credit through the private sector by lowering the deposit rate to create a greater tax on excess deposits is another. Who pays the tax differs depending upon who ends up accumulating central bank credit, but the amount of the tax charged by the Eurosystem (of central banks) on the European private banking sector does not.

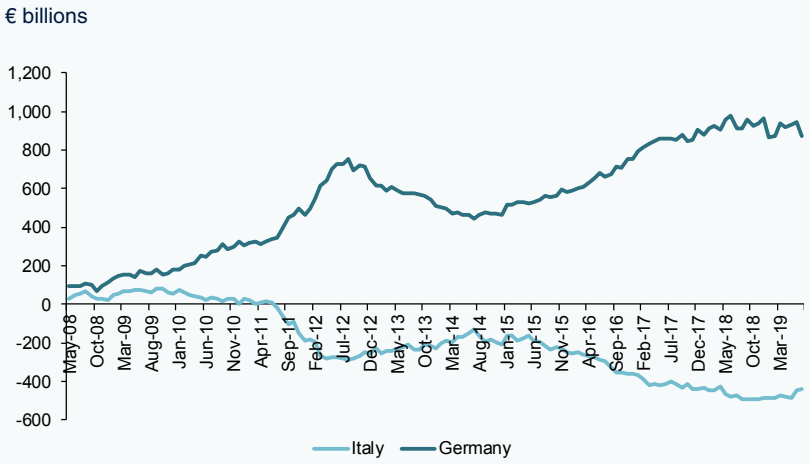
The problem for the Eurosystem is that European private banks are not all equally exposed to central bank credit. This tends to vary by country. The Governing Council's decision to exempt a large share of central bank deposits from the negative deposit rate has implications that vary by country as well. The new policy compensates those banks that have generous access to credit, but at the cost of lowering the incentives for those banks that have less access to central bank deposits to lend to the private sector. The provision of long-term refinancing operations with subsidized borrowing costs for banks (TLTROs) that meet set targets for private sector lending adds to the balance sheet of the ECB and helps to equalize access to central bank credit while at the same time strengthening the incentives for those banks that access such facilities to recycle that credit through the private sector. By implication, this policy also adds to the overall tax charged against the banks for holding reserves in ways that vary from one country to the next. The conclusion to draw from this analysis is that the costs and benefits of monetary accommodation are unevenly distributed no matter how the monetary accommodation is structured. The only pieces missing from Carrión's analysis of the new policies are: (a) the mechanism that connects the more attractive banks for savers to those that have more difficulty getting access to central bank credit; and, (b) the possibility that either banks or actors in the private sector might take some of the liquidity created by the Eurosystem out of the euro area via the exchange rate. These elements are worth noting because they tend to fuel the controversy over the monetary transmission mechanism.

Target2 is the mechanism that connects the banks in those countries that are more attractive to savers with the banks in those countries that have more difficulty gaining access to central bank liquidity. The notion of 'attractiveness' is crucial here. This is not a question about which countries save more and which save less; it is a question about which countries are more likely to 'attract' savings from across the European financial space. Countries that are more attractive for savers receive surplus deposits and show a positive balance in their overall relationship with the Eurosystem as they build up reserve holdings; countries that are less attractive for savers require access to central bank liquidity and show a negative balance as they borrow against collateral. Moreover, both the large-scale assets purchased by the ECB and the targeted long-term refinancing operations tend to exacerbate these positions as central bank credit is created and then recycled through actors in the private sector. [5] A quick comparison of the Target2 positions for Germany and Italy is illustrative; just look at what happens after the ECB started experimenting with unconventional monetary policy settings in the spring of 2014 (Exhibit 1). As a result, the operation of these policies creates the impression that one group of countries is lending into the Eurosystem the same funds that another group of countries is borrowing. In this way, the same structural elements that make some

"Who pays the tax differs depending upon who ends up holding onto the central bank credit, but the amount of the tax charged by the Eurosystem (of central banks) on the European private banking sector does not."

Exhibit 1

Target2 balances for Germany and Italy



Source: ECB.

banks in some countries more attractive than others from a savings perspective, appears to create another form of inequity (Schelkle 2017, Chapter 9).

The exchange rate is the mechanism that connects the European financial system to the outside world. Both banks and private sector borrowers can use the credit they access to purchase assets abroad. When they do so, they draw down on the overall pool of liquidity available in the euro area because they trade domestic credit for foreign exchange held by the Eurosystem, putting downward pressure on the domestic currency, increasing competitiveness. For national economies that have a relatively straightforward commercial relationship with the outside world, such downward pressure on the exchange rate constitutes another branch of the monetary transmission mechanism.

Unfortunately, the effectiveness of the exchange rate channel is less evident for national economies with more complex commercial relationships – particularly when the interaction between central banks across countries is taken into account. This is one of the points Australian Reserve Bank Governor Philip Lowe pointed out in a widely cited speech at the August 2019 monetary symposium at Jackson Hole. [6] The currency may depreciate without offering much in terms of macroeconomic stimulus, particularly if domestic investment is held down by uncertainty (see above). In such a case, export driven economies that might automatically be assumed to benefit from competitive movements in the exchange rate might find little to celebrate in seeing domestic savings converted into foreign assets. Meanwhile, those economies that tend to rely heavily on imports find their costs rising with any downward movement in the euro. [7] The result in both contexts is another form of structural inequity that can give rise to very different interpretations of the costs and benefits of an accommodative monetary policy.

“ The effectiveness of the exchange rate channel is less evident for national economies with more complex commercial relationships. ”

Monetary policy and fiscal policy

The monetary transmission mechanism has unintended consequences that create differences traced back to structural factors related to market perceptions of creditworthiness and commercial relations with the outside world. In turn, these structural differences can foster differences in perception. During normal times, when monetary policy is part of a wider framework of macroeconomic instruments and when the settings applied to monetary policy instruments are well understood, such differences are relatively easily overlooked. In less normal times, when monetary policy assumes much of the burden for macroeconomic stabilisation and when the settings on monetary instruments are more difficult to interpret, the differences in perceptions increase in significance.

The big question is how to diminish the significance of these differences. One possibility would be to find some way to increase monetary accommodation without running in the first instance through the banking channel. If monetary authorities could give central bank credit directly to private sector actors, that would offer one solution. However, such actions would not eliminate the pooling of deposits on the balance sheets of specific banks or in the Target2 positions of specific countries nor would they eliminate the exchange rate impact. But they would make it easier to ensure that the initial injection of liquidity was evenly distributed. This would also make it easier for the Eurosystem to avoid creating distortions in the secondary markets for those instruments involved in the asset purchasing program. This is the 'helicopter money' solution. As Mario Draghi made clear in the September 12th press conference, however, this solution is essentially a form of fiscal policy – and so does not fall within the remit of the ECB. [8]

The other solution is to encourage national governments to engage more actively in providing fiscal stimulus both to strengthen the euro area economy and to take some of the burden off monetary policy (and so lessen the need for extensive monetary accommodation). The difficulty with this solution is that the ECB has little leverage over national policymakers. On the contrary, so long as the Governing Council retains room for maneuver, national policymakers have an incentive to rely on the ECB to shoulder responsibility for macroeconomic stabilisation. Much of Draghi's recent press conference can be read as an expression of frustration about this situation. Time and again Draghi made it clear that the ECB has done its part to stabilise macroeconomic performance in the euro area, that monetary policy without fiscal policy will ultimately prove to be ineffective, and that those national governments that have room to undertake fiscal expansion also have an obligation to add their weight to the stimulus package. It is unclear whether this rhetoric has had any impact – or whether the weeks that remain of Draghi's mandate are time enough to drive the argument. This leaves open the possibility that –whether intentionally or not– Draghi may have used up the ECB's room for maneuver in terms of monetary policy, leaving national governments with a stark choice between using fiscal policy to stabilise macroeconomic performance or allowing Europe's macroeconomy to fluctuate without further stimulus.

Whatever room may be left for the ECB to add to its monetary accommodation, it appears evident that Mario Draghi's successor, Christine Lagarde, is determined to promote a more balanced macroeconomic policy mix. In her testimony before the European Parliament, Lagarde also pledged to conduct a review of the ECB's approach

> "So long as the Governing Council retains room for manoeuvre, national policymakers have an incentive to rely on the ECB to shoulder responsibility for macroeconomic stabilisation."

to its price stability mandate. [9] If she is to be successful in this endeavor, it will not be enough to bridge the gap between creditor and debtor, rich and poor, or north and south. Lagarde will need to forge a new consensus on the timing and content of monetary policy, on the implications of Europe's existing monetary transmission mechanism, and on the alternatives that are available in the event that national governments refuse to play their part. This is a complex agenda. She will benefit greatly if the euro area can move toward a more normal framework for monetary policymaking and away from crisis management. Hopefully this latest round of accommodation will be sufficient to move the euro area toward a period of greater stability. If that does not happen, these three debates about European monetary policy will be at the centre of attention, and Lagarde's ability to convince national policymakers to engage in fiscal stimulus may prove decisive.

Notes

[1] 'Account of the Monetary Policy Meeting, 9-10 April 2019,' (Frankfurt: European Central Bank, 23 May 2019). https://www.ecb.europa.eu/press/accounts/2019/html/ecb.mg190523~3e19e27fb7.en.html

[2] 'Account of the Monetary Policy Meeting, 5-6 June 2019,' (Frankfurt: European Central Bank, 11 July 2019). https://www.ecb.europa.eu/press/accounts/2019/html/ecb.mg190711~16eb146254.en.html

[3] 'Account of the Monetary Policy Meeting, 24-25 July 2019,' (Frankfurt: European Central Bank, 22 August 2019). https://www.ecb.europa.eu/press/accounts/2019/html/ecb.mg190822~63660ecd81.en.html

[4] See, for example, Raymond Torres, 'La magia de Mario Draghi,' *Funcas Blog* (16 September 2019). https://blog.funcas.es/la-magia-de-mario-draghi/

[5] Other studies (*e.g.* Alves, P. *et al.*, 2018) give a different explanation to Target 2 balances, linking them to ECB quantitative easing measures.

[6] See Philip Lowe, 'Remarks at Jackson Hole Symposium,' (25 August 2019). https://www.bis.org/review/r190826a.htm

[7] Patrick Honohan and Philip Lane (2003, pp. 74-77, 95) noted the disparate influence of exchange rates on relative cost structures early in the life of the euro area.

[8] The transcript of the 12 September 2019 press conference is found on the ECB website. The comment about helicopter money as a form of fiscal policy arises in the question and answer period, https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190912~658eb51d68.en.html

[9] The text of Lagarde's opening statement before the European Parliament on 4 September 2019 can be found here: http://www.europarl.europa.eu/cmsdata/186560/Opening%20Statement%20by%20Christine%20Lagarde%20to%20the%20ECON%20Committee-original.pdf

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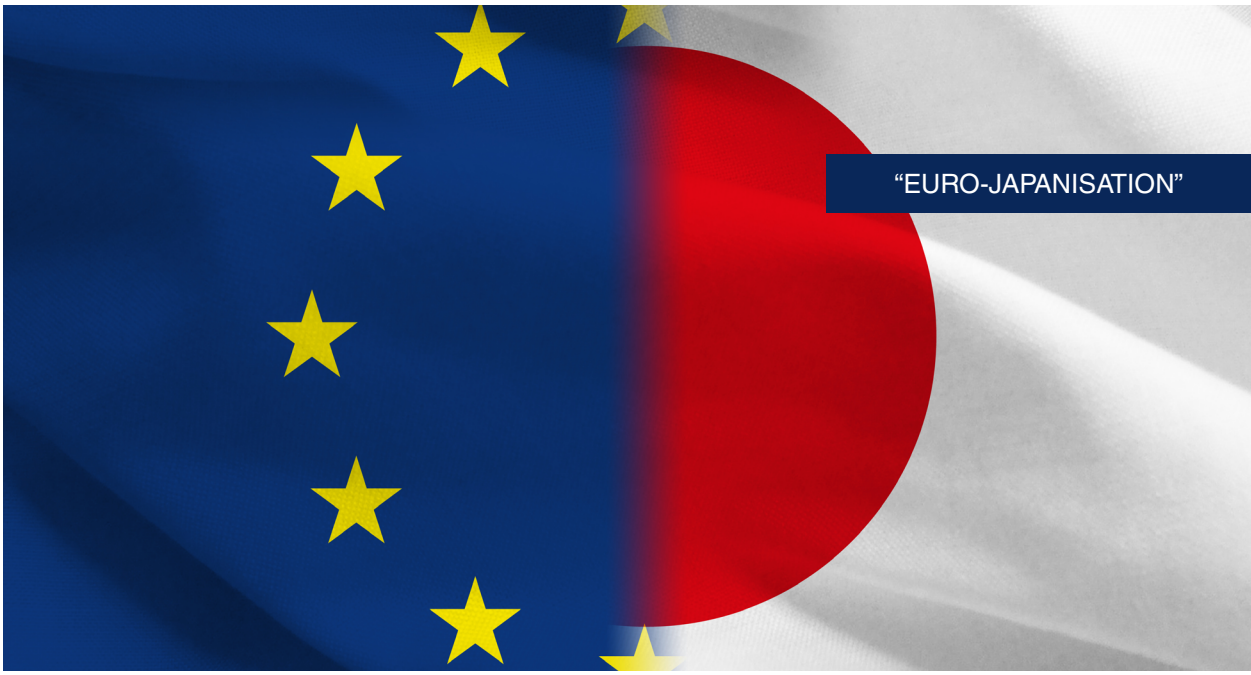


‘Japanisation’ of Europe: Takeaways from Japan’s banks, 15 years later

The persistence of zero interest rates and stubbornly low inflation in the eurozone mirrors the two-decade long situation in Japan. For this reason, it is possible to glean some lessons from the experience of Japanese banks and anticipate what might lie in store for eurozone banks’ net interest margins, business volumes and profitability levels.

Ángel Berges, Federica Troiano and Fernando Rojas

Abstract: With the eurozone’s Main Refinancing Operations rate having stagnated at zero percent, inflation has remained frustratingly below the ECB’s target of ‘below but close to 2%’. The situation has notable parallels with Japan, where interest rates have lingered at 0% and inflation below 2% for two decades. For this reason, it is pertinent to consider lessons that could be drawn from Japan and to gain insight into what might lie in store for Europe’s banks. The persistence of ultra-low interest rates in Japan has exerted systemic downward pressure on banks’ unit margins. Interestingly, European banks’ net interest margins are currently the same as those achieved by Japanese banks in the early years of the century. Since then, however, Japanese banks’ net interest margins have fallen to around 0.6-0.7%. Japanese banks do benefit from two advantages not shared

> During the last 25 years, inflation in Japan has only topped the 2% target twice, and just for a short time, heavily influenced by the fiscal policies implemented by the Japanese government.

by their European counterparts, namely lower NPL ratios and a far lighter cost structure. Turning to profitability levels, Japanese banks have achieved a reasonably low, but stable, ROE of between 5% and 7%. Meanwhile, capitalisation levels are below those of European banks, where ratios of capital to assets have increased by over 50%. This divergence could be due to the difficulty for Japanese banks to raise capital in light of offering such a low ROE, and/or less stringent regulatory capital requirements in the context of a low volatility/low risk climate.

Zero rates in Japan and the EZ: 15 years of hindsight

The ECB reduced the rate on its main monetary policy instrument, known as the Main Refinancing Operations (MRO) rate, to zero percent a little over five years ago. Before that, it had cut rates aggressively in response to the crisis (from 4% to 1%). In 2011, it made the decision to raise the rate by half a percentage point (to 1.5%), reversing it just a few months later. Further cuts then followed, with the rate ultimately falling to 0%, where the MRO has stood for nearly four years now.

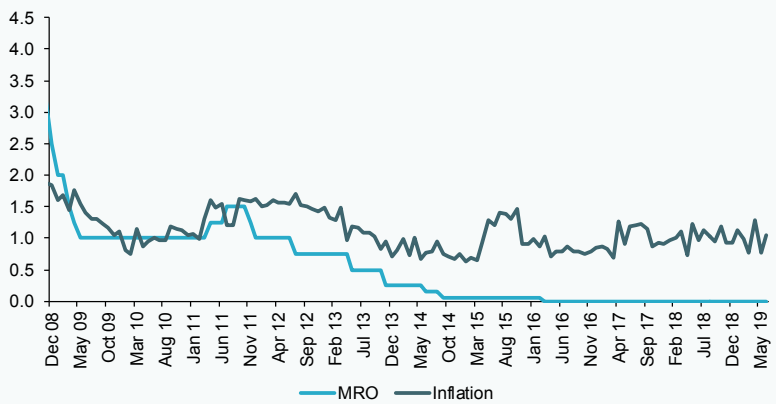
That zero-rate policy, complemented by other non-conventional measures — successive rounds of LTRO/TLTRO; negative rates on the deposit facility; the massive asset buyback programmes, *etc.* — have not been enough to increase inflation in the eurozone (EZ) to the targeted goal of "below but close to 2%". This is by no means a criticism of the ECB's actions; to the contrary, had it not intervened in the manner it did, the narrative would probably be considerably worse. Nevertheless, it must be acknowledged that the marginal effects of additional measures are clearly diminishing. For this reason, it is useful to examine a longer track record pursuing a similar inflation target.

Specifically, the Bank of Japan (BoJ) embarked on an aggressive series of

Exhibit 1

Benchmark inflation rates in the eurozone

Since 2008

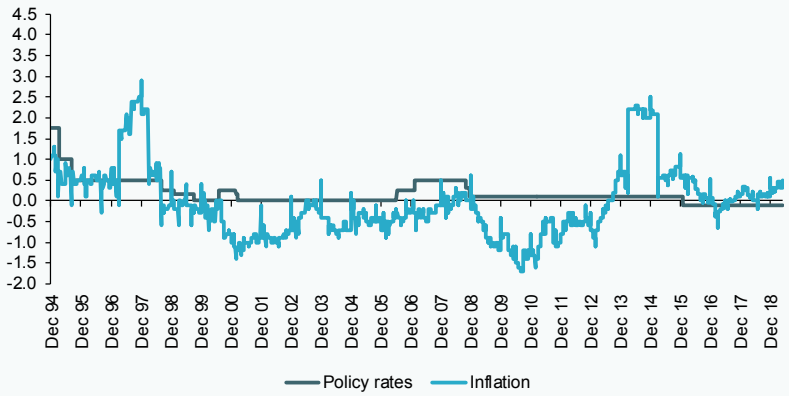


Source: Afi, Macrobond.

Exhibit 2

Benchmark inflation rates in Japan

Since 1994



Source: Afi, Macrobond.

benchmark rate cuts in 1993. Its policy rate would reach zero percent in 1999, where it has remained ever since. The BoJ attempted to raise rates twice, in 2000 and 2006. Those attempts had to be abandoned in the context of wholly unanchored inflation expectations. During the last 25 years, inflation has only topped 2% for two short periods of time, heavily influenced by the fiscal policies implemented by the Japanese government. Indeed, episodes of negative or scantly positive inflation, such as that observed during the last four years, have been far more common.

Putting structural considerations and other differences aside (demographics, expansionary fiscal policies, *etc.*), a prolonged period of zero percent rates lies in store for the EZ. Given that prospect, we believe it is pertinent to analyse how Japanese banks have fared in a similar environment and to compare the situation with European banks.

Banks and zero rates: The eurozone following in Japan's footsteps

If interest rates in the EZ emulate those of Japan with a 15-year lag, we should be able to draw conclusions about the banks' future by analysing their balance sheets, specifically in terms of the weight of loans in the overall economy, as depicted in Exhibit 3. The ratio of credit to GDP peaked in Japan (at close to 170%) in the mid-1990s and was followed by a long period of intense deleveraging over the course of more than a decade. Credit to GDP eventually settled at around 130% of GDP, a level at which it has been stable for the last decade, with credit growing in line with GDP, *i.e.*, at between 1% and 2% per annum.

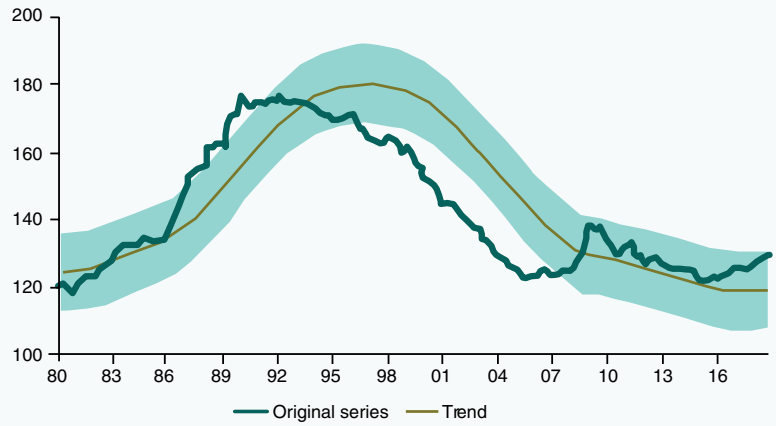
In the aftermath of previous excesses (the bubbles of the 80s and early 90s), Japanese banks have seen business volumes grow, albeit reduced and balanced (in terms of GDP). As a result, the banks have avoided unpleasant surprises in terms of risk, having absorbed the adverse legacy left behind by the historical crisis of the 80s.

In that business climate, the fact that interest rates have remained at zero for nearly two decades has exerted systematic downward pressure on Japanese banks' unit margins. These dynamics are evidenced in the following exhibits, which compare the performance of Japanese banks (since 2000)

Exhibit 3

Ratio of credit to GDP

Percentage



Source: Bank of Japan, Financial System Report, *April 2019.*

against that of their European counterparts (since 2009). Note that European banks' net interest margins are currently the same (approximately 1.2%) as those achieved by the Japanese banks in the early years of the century. However, since then, Japanese banks' net interest margins have fallen to around 0.6-0.7%.

The gross value of net interest margins includes fee and commission income, which is low in Japan (around 0.3% of assets, less than half the percentage presented by European banks), and other income, mainly from holding and trading securities, a source of revenue that is somewhat more significant in Japan compared to Europe.

The sum of these components yields the gross margin, which since the turn of the century and the introduction of zero rates, has fallen in Japan to 1.2% from 2%, the level currently reported by European banks.

Faced with such depressed margins, Japanese banks have exhibited two advantageous factors in comparison with their European peers. Firstly, the virtual absence of non-performing loans, and thus a scant provisioning burden. Granted, this occurred after having dealt with the toxic assets left behind by the crisis of the 80s and 90s, when their NPL ratios had topped the 10% mark.

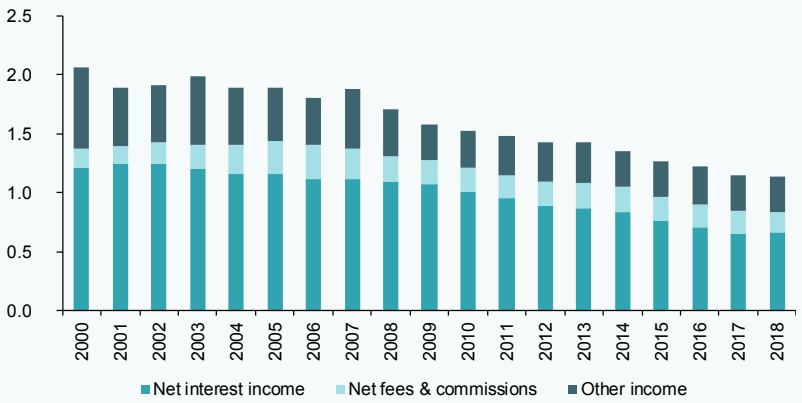
Secondly, a far lighter cost structure, in terms of personnel and general expenses, compared to European banks. Specifically, the expense-to-assets ratio of 1.4% currently presented by European banks is closer to that reported by the Japanese

> "European banks' net interest margins are currently the same as those achieved by the Japanese banks in the early years of the century."

Exhibit 4

Breakdown of bank income in Japan

Percentage



Source: Afi, Bank of Japan.

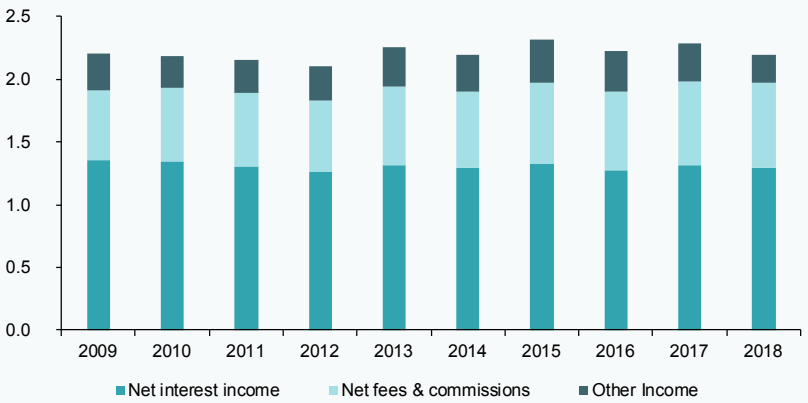
banks in 2000. Since then, Japanese banks have brought this metric down to 0.6%. However, this trend has been helped by growth in assets held by Japanese banks over the last decade, growth which has yet to be mirrored by European banks.

The growth in assets held by Japanese banks in recent years indicates that these entities have orientated their business strategies towards volume growth (positive volume effect for net interest income) to offset lower rates on new loans (negative rate effect).

Exhibit 5

Breakdown of bank income in the EZ

Percentage

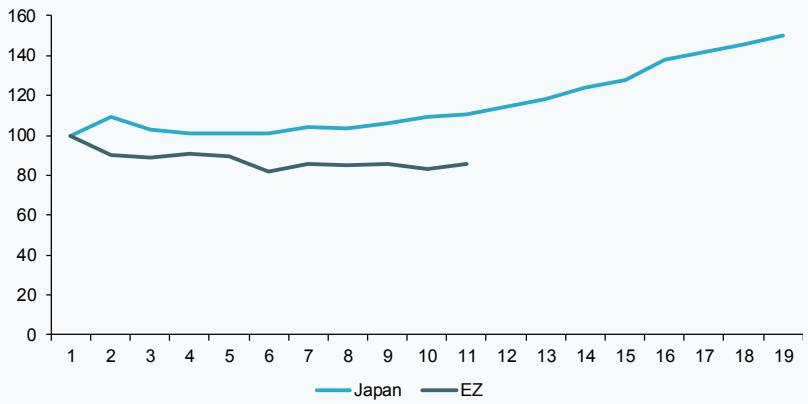


Source: Afi, ECB Statistical Data Warehouse.

Exhibit 6

Bank assets, relative trend

Base 100 = 2000 for Japan and 2009 for the EZ



Sources: Afi, ECB Statistical data Warehouse, Bank of Japan.

Conclusion: Profitability and solvency

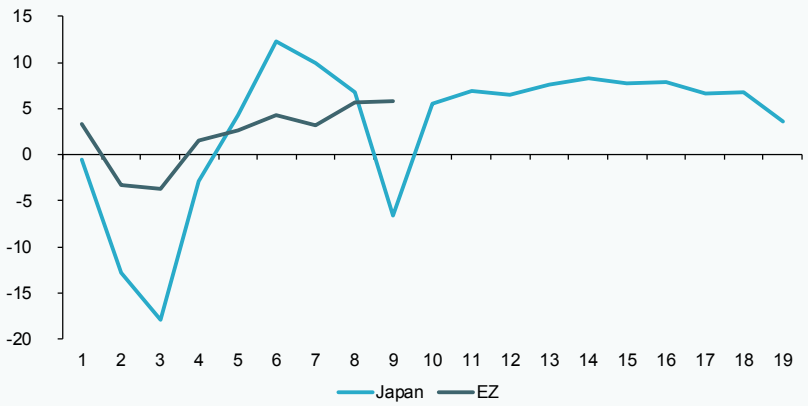
Aggregating the above metrics (asset volumes, margins as a percentage of assets, expense structure and risk cost) yields the key parameter in determining the viability of a bank or a banking system as a whole, namely its ability to generate a return on the capital it is required to hold. Exhibit 7 compares the return on equity (ROE) in Japan and the EZ over different time horizons in each instance: from 2000 for Japan and from 2009 for the EZ. Exhibit 8 illustrates the same trend in terms of the weight of equity over total assets, which is a proxy for solvency without risk weighting.

Exhibit 7

ROE

Base = 2000 for Japan; 2009 for the EZ

Percentage



Sources: Afi, ECB Statistical data Warehouse, Bank of Japan.

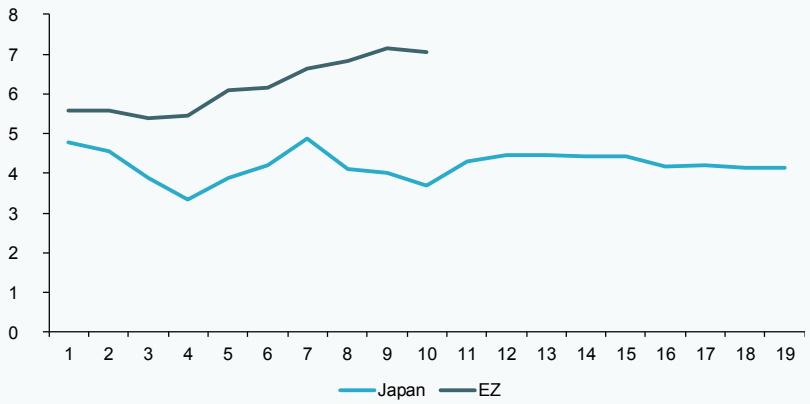
> "The decade lead commanded by Japan compared to Europe has translated into a reasonably stable, yet reduced, ROE of between 5% and 7%."

Exhibit 8

Equity/assets

Base = 2000 for Japan; 2009 for the EZ

Percentage



Sources: Afi, ECB Statistical data Warehouse, Bank of Japan.

Two conclusions jump out from these comparisons. In terms of profitability, the decade lead commanded by Japan over Europe has translated into a reasonably stable yet reduced ROE, of between 5% and 7%. It has tended towards the lower end of that range in the last two years and at no time veered towards the 10% mark, which is often cited as the cost of capital required by the market in order to invest in bank stocks.

This observation leads us directly to the second conclusion, drawn from the comparison between the two systems' ratios of capital to assets. While in Europe that ratio has increased by over 50%, largely in response to tighter regulations in the wake of the crisis, in Japan the capital ratio has remained stable at a level that is well below the European ratio.

One possible reason for the Japanese banks' low capitalisation could be the difficulty in raising capital when offering such a low ROE, in light of the prevailing growth in business volumes. Alternatively, in an industry exhibiting such low volatility and credit risk as the Japanese banking system for more than a decade, it is feasible that the supervisor no longer needs to insist on higher levels of capital.

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Bank profitability in the new monetary paradigm

In light of persistently low interest rates, increasing attention has been paid to the effects of loose monetary policy on banks' margins. Empirical research suggests that the positive effects of reducing rates to below zero percent are outweighed by the adverse effects on bank profitability and, potentially, on overall financial stability.

Santiago Carbó Valverde, Pedro Cuadros Solas and Francisco Rodríguez Fernández

Abstract: Due to fears of recession and evidence of weak inflation, central banks returned to an expansionary monetary track in 2019. In light of this, debate has centred around the adverse impact of prolonged, low interest rates on banks' margins. For instance, Spain's six largest banks posted earnings in the first half of 2019 that were down 11% from the same period in 2018. While the ECB lowered its deposit rate an additional 10 basis points further into negative territory in September 2019, the central bank also introduced a tiered-deposit rate with the goal of offsetting the pressure on banks' margins. However, this provides only partial support for bank profitability. Looking at the empirical evidence, it becomes clear that

while asset non-performance improves when rates fall, the effect on net interest margins is greater, thereby reducing a bank's profitability. Negative rates can even have the opposite effect on stimulating credit than the one intended due to their influence on markets' expectations. More broadly, negative rates can distort yield curves, exacerbating debt accumulation and potentially impacting financial stability. Finally, they can impact exchange rates, which warrants careful consideration in the context of today's trade tensions.

Introduction

The policy response to the financial crisis unleashed a decade ago has been predominantly monetary. This was justified by the understanding that if stimulus measures became considerable, it would be important not to leave them in place for too long in order to prevent a spike in inflation. As a result, the United Stated embarked on a period of monetary tightening in 2015, which would lead to successive rate hikes in subsequent years. Conversely, the eurozone would have to wait until 2018 to raise the possibility of a similar move. However, in 2019, those policies have been rolled back and new expansionary measures aimed at boosting liquidity and reducing interest rates are on the table. In the absence of fiscal stimulus measures on either side of the Atlantic, there is additional pressure on monetary authorities to take action. However, backtracking on the announced tightening path is tantamount to acknowledging that something may not be going as planned as regards the central banks' projections. Furthermore, the effectiveness of expansionary monetary measures has been called into question. This is a point of contention in the eurozone where official interest rates stand at 0%, so that further cuts would result in interest rates entering negative territory.

From an aggregate perspective, the challenge with ultra-low rates is determining their effectiveness in reigniting inflation. However, it is also important to consider how negative interest rates distort financial markets, banking business and real estate services, and whether these effects are offset by the theoretical benefits derived from higher inflation. An analysis of these dynamics is beyond the scope of this article whose objective is to evaluate the impact low interest rates have on Spanish banks' earnings by examining what leading studies and empirical evidence have to say about the effects of negative interest rates.

The banks' aggregate earnings for the first half of the year appear to demonstrate the effect loose monetary policy has had on these institutions' profitability. Spain's six largest banks, whose recent results are shown in Exhibit 1, earned 7.54 billion euros in the first half of 2019, down 11% from the 8.43 billion euros reported for the same period of 2018.

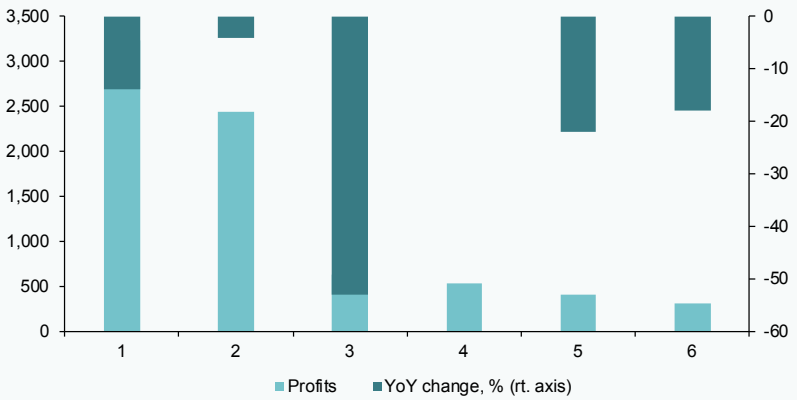
As analysed in this paper, the net interest margin (the difference between revenue generated from a bank's interest-bearing assets and expenses borne on its interest-bearing liabilities) has been particularly affected by low interest rates.

Earnings season in the Spanish banking sector was followed by important announcements by the European Central Bank on July 25th. The interest rates for refinancing operations, the marginal lending facility and the deposit facility were left unchanged at 0.00%, 0.25% and -0.40%, respectively. The ECB's Governing Council said it expects "the key ECB interest rates to remain at their present or lower levels through the first half of 2020". As for its liquidity operations, the ECB said it intends to continue reinvesting the principal payments from maturing securities purchased

"Spain's six largest banks earned 7.54 billion euros in the first half of 2019, down 11% from the 8.43 billion euros reported for the same period of 2018."

Exhibit 1

First-half of 2019 results for the six largest Spanish banks and year-on-year change



Note: The rate of change observed at Sabadell (+340%) is not shown in the exhibit on account of its exceptional nature, owing to non-recurring charges recognised in 1H18 to cover provisions at its subsidiary, TSB.

Sources: Results reported by the individual banks and the authors' own elaboration.

under the asset purchase programme. It underlined the fact that the ECB stands ready to adjust all of its instruments to ensure inflation moves towards its aim in a sustained manner. That point had prompted discussion among analysts about a possible rate cut at an upcoming meeting, a move which would put benchmark rates into negative territory. For technical and practical reasons, it also implied contemplating changes to the deposit facility rate. There had also been intense debate about the possibility of a tiered system (different remuneration rates for different tranches) for those deposits in order to help alleviate bank margins. Regarding this possibility, the ECB said that "the Governing Council has tasked the relevant Eurosystem Committees with examining options, including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases."

On September 12th, the ECB's Governing Council cut the deposit facility rate by 10 basis points to -0.50%. The interest rates for main refinancing operations and the marginal lending facility were left unchanged at 0.00% and 0.25%, respectively. The Governing Council said that it expects the ECB's official interest rates to remain at their present or lower levels "until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics." It also said that "net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of 20 billion euros as from November 1st" and that it intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme. Elsewhere, it announced changes in the modalities of

" On September 12th, the ECB's Governing Council cut the deposit facility rate by 10 basis points to -0.50%. "

a new series of quarterly targeted longer-term refinancing operations (TLTRO III) "to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy." Lastly, the Council has decided to introduce a two-tier system for reserve remuneration whereby part of the banks' excess liquidity holdings will be exempt from the negative deposit facility rate.

Monetary policy alone does not account for all of the pressure on bank profits. Regulation is also playing a significant role. On August 5th, the European Banking Authority (EBA) presented estimates of the EU banks' capital requirements under Basel III. It reported that full implementation would, under "conservative assumptions", increase the European financial institutions' minimum capital requirement by 24.4% on average, implying an aggregate capital shortfall of 135.1 billion euros, or 91.1 billion euros in terms of common equity tier (CET1) capital. Moreover, that pressure is concentrated overwhelmingly at the large, global banks, which account for 99% of the requirement, with the medium-sized and small banks comprising 0.9% and 0.1%, respectively.

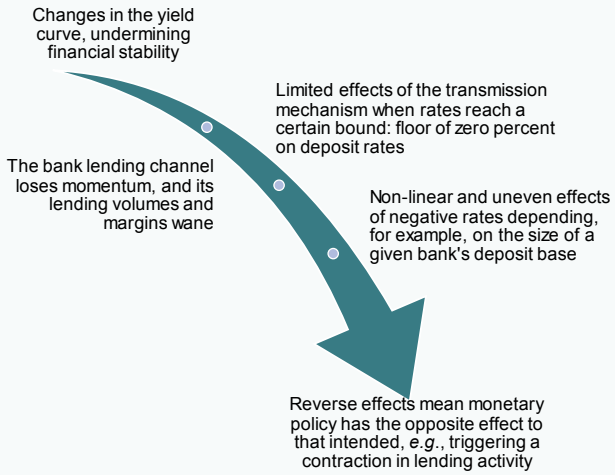
Negative rates and bank profitability

Academic and empirical research provide insight into the potential impact of negative rates on the banking sector. Exhibit 2 sums up the literature's main ideas, which can be distilled into the following five points:

- The main transmission mechanism through which negative benchmark rates act is the yield curve. Negative rates can exacerbate circumstances where short-term rates are higher than long-term rates. This happens in part because the effectiveness of reducing rates could have a floor beyond which monetary policy becomes less effective or even ineffective (effective lower bound or ELB). Simultaneously, the market receives signals regarding the structure of debt remuneration, which adversely affects the long end of the curve.

- In a broad range of situations, bank deposit remuneration does not tend to drop below zero percent. Rarely do the banks offer their deposit holders negative rates as it is

Exhibit 2 **Negative interest rates and banking business volumes**



Source: Authors' own elaboration.

> “Negative rates can exacerbate circumstances where short-term rates are higher than long-term rates.”

considered an anomaly that would be hard for customers to comprehend. [1]

- Several studies show that the bank lending channel becomes less effective when rates are at or near zero percent. The ECB itself has observed that lending volumes remain at modest levels despite the fact that the official rate stands at zero percent. Although funding costs for the banks are lower, banks are more affected by the drop in rates on interest-earning assets, so that their net interest margins decline.

- Interest rates do not have a linear impact on credit, nor do they have the same effect in all countries or on all banks. For example, banks with bigger deposit bases are relatively more affected as they cannot reduce the rates on their interest-bearing liabilities as much as they need to.

- Related to the non-linear effects mentioned above, monetary policy can even have the opposite of the intended effect whereby expectations and an ineffective lending channel result in lending volumes contracting rather than rising following a rate cut.

Trend in interest rates and bank margins in Spain

Having cut rates on several occasions since 2013, the ECB's official rates have remained constant for the last three years. At its meeting in March 2016, the ECB's Governing Council implemented its last rate cut across the board- the rates for the main refinancing operations and marginal lending facility falling by five basis points each- while it lowered the rate on its deposit facility by 10 basis points. Since then, rates have stood at 0.00% and 0.25% for main refinancing operations and the marginal lending facility, while the deposit facility rate now stands at -0.50%, following the latest 10 basis point cut in September 2019.

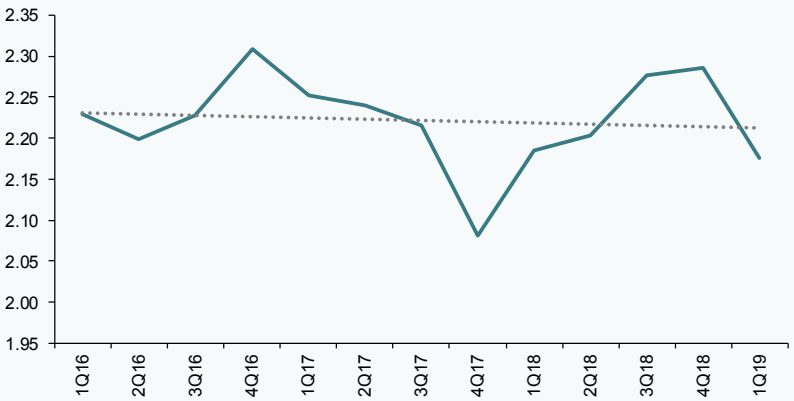
In parallel, bank margins in Spain have been relatively stagnant since the first quarter of 2016, as shown in Exhibit 3. Over the last three years, the interest margin over total assets has oscillated within a range of 2.08% and 2.31%, hitting a low of 2.08% in the last quarter of 2017. Although banks' net interest margins recovered slightly in 2018, the results for the first quarter of 2019 show a setback. This has also been confirmed by the second-quarter numbers, pending the official aggregate figures for the sector as a whole. Although exhaustive econometric analysis is needed to determine the ultimate impact of the monetary environment (details to follow) on banks' margins, the impact of official interest rates on bank margins is influenced by expectations to a considerable degree. Indeed, in the second half of 2018, expectations focused on rate hikes and that began to show (positively, albeit marginally) in the net interest margin. However, in 2019, with the sudden shift back to a more accommodative policy (new liquidity facilities and the prospect of 'negative rates'), margins have contracted once more.

Regardless, there are factors and business strategies which are enabling the banks to

> “Although banks' net interest margins recovered slightly in 2018, the results for the first quarter of 2019 show a setback, in part, influenced by expectations shaped by the more accommodative monetary stance.”

Exhibit 3

Net interest income over average total assets in Spain's banking system, 2016-2019



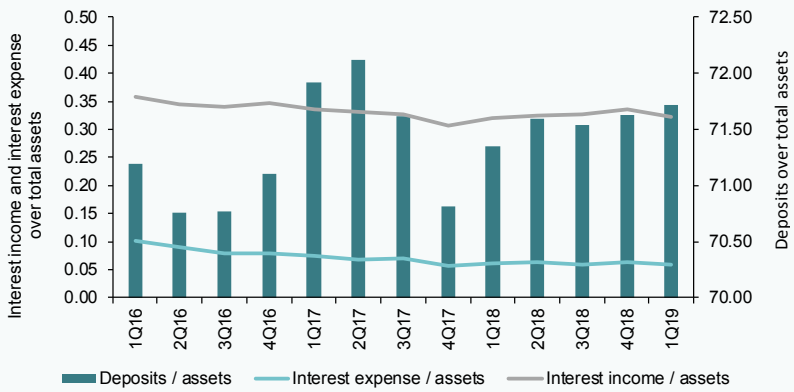
Source: Bank of Spain and authors' own elaboration.

mitigate the fallout from the ECB's loose monetary policy. It is worth recalling that the Spanish banking sector has eliminated its surplus capacity and made a significant asset provisioning effort.

Exhibit 4 illustrates the trend in the components of the banks' net interest margin, distinguishing between interest income and interest expense. Interest income, expressed as a percentage of assets, eased slightly from 0.36% in the first quarter of 2016 to 0.32% in the first quarter of 2019. The drop in interest income, partially attributable to low interest rates, has been offset by a contraction in interest expense, from 0.10%

Exhibit 4

Trend in interest income, interest expense and deposits as a percentage of total assets in the Spanish banking system, 2016-2019



Source: Bank of Spain and authors' own elaboration.

> "The drop in interest income, partially attributable to low interest rates, has been offset by a contraction in interest expense, from 0.10% of assets to 0.06%."

of assets to 0.06%. The simultaneous drop in interest income and interest expense means that the spread between the two has remained at around 0.26% (quarterly) from the first quarter of 2016 to the first quarter of 2019. However, this dynamic has its limits and is unlikely to continue indefinitely, particularly if rates enter negative territory, as rates on deposit remuneration will hardly follow suit. Moreover, the Spanish banks have replenished their deposit bases as a percentage of total assets in recent years. According to the academic reasoning outlined previously in this paper, that development leaves them more vulnerable to a negative rate environment.

Conclusions: Fallout from negative rates under debate

It is difficult to determine the extent to which negative interest rates for the ECB's main financing operations could erode the banks' earning. That said, most academic theories and empirical research suggest there is a causal link. Funcas is in the process of analysing the literature that addresses these concerns. This project also looks at some of the empirical evidence in Spain. The preliminary conclusions (in line with other studies) are:

- Monetary policy becomes less effective as rates fall closer to 0%. The bank lending channel loses functionality and ultra-low rates can have the opposite effects to those sought by policymakers (*i.e.,* less credit), by generating negative expectations about the economy.
- Although lower interest rates can have the positive impact of reducing asset non-performance, the adverse effect on banks' net interest margins is greater, so that the net effect on bank profitability is negative.
- The banks that fund themselves to a greater degree via deposits are more exposed to negative rates, which they are unable to fully pass on to their deposit holders. Longer term, the persistence of loose monetary policy has potentially negative implications for financial stability.
- The impact of negative interest rates on profitability is higher the lower a bank's capital ratios.
- The empirical evidence suggests that to date, the ECB's quantitative easing has had positive effects on lending volumes, though they have increased by less than was expected.
- Although in some cases, including that of Spain, net interest margins over total assets may look similar to those reported before the crisis, it is important to note a range of 'composition' effects which can ultimately have a negative impact on profitability: currently, together with the net interest margin, total credit and asset volumes are also waning and if the trend continues (or deteriorates in an adverse macroeconomic scenario), margins could contract further.

Lastly, beyond the ramifications for the banking sector, it is important to consider

> "The adverse effect on banks' net interest margins is greater than the positive impact of reducing asset non-performance."

other adverse effects of negative interest rates. Those include price formation difficulties in the financial markets and exacerbation of debt accumulation. There is also the possibility of cash hoarding, insofar as those holdings are not penalised by negative rates. Lastly, we must not forget the nexus between negative interest rates and exchange rates and the potential implications in the event of trade tensions, as is currently the case.

Notes

[1] Negative remuneration on accounts and/or negative mortgage rates have legal restrictions in some jurisdictions. In Spain, for example, the new real estate credit law expressly states, in relation to operations at variable interest (Article 21.4), that "the remuneration interest in such operations may not be negative".

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The new European Bank Resolution Directive in the face of MREL adaptation

In order to align itself with the new international paradigm, the European Union has amended its Bank Recovery and Resolution Directive (BRRD) to adapt its own rules on loss absorbing standards. These regulations set the minimum requirement for own funds and liabilities capable of absorbing losses by entities and are expected to influence the size and types of instruments issued by banks.

Marta Martínez Guerra

Abstract: With an eye to preventing the use of public funds to shore up weakened financial institutions, there is now an international consensus that entities must be equipped to 'bail in' their losses in an orderly manner. In this context, in 2015, the Financial Stability Board approved the total-loss absorbing capacity (TLAC) standard, endorsed by the G20. TLAC stipulates that global systemically important institutions (G-SIIs) must hold a minimum level of own funds and liabilities capable of absorbing losses. Following approval of the TLAC at the international level, the European Union has revised its bank resolution directive to adapt its equivalent concept, the

Minimum Requirement for own funds and Eligible Liabilities (MREL), accordingly. Significantly, MREL regulations capture more financial institutions than the TLAC, prioritise equity, subordinated debt and non-preferred senior debt instruments to meet the new capital requirements and set specific minimum thresholds for larger-sized entities. Consequently, this new regulation will influence the size and types of instruments entities issue. [1]

Background: The bail-in concept and loss-absorbing capacity requirements

In light of the massive amounts of public funds mobilised to tackle the financial crisis of 2008, a global paradigm shift has taken place regarding the management of ailing financial institutions. The new international consensus – first reached by the G-20 and later by the European Union (EU) – is that entities must be equipped to absorb or 'bail in' their losses in an orderly manner to minimise the use of public funds. As such, the banks are required to build up a sufficient level of own funds and liabilities to absorb any losses they may incur, to ensure their viability, and to reduce the negative impact on financial stability.

If an entity goes through a resolution process, the losses will be assigned to its creditors. However, given the specific nature of the banking business and the entities' liability structure, this may impose losses on deposit holders, which could undermine confidence in the banking system. To prevent this, banks are obliged to increase the percentage of funding held in the form of debt and equity. Unlike deposits, those liabilities are typically held by professional investors and tend not to present as dual creditor-customers.

From the TLAC to the MREL

In 2015, the Financial Stability Board (FSB) approved the total loss absorbing capacity standard (TLAC) endorsed by the G-20. The standard stipulates that the global systemically important institutions (G-SIIs) hold a minimum level of own funds and liabilities capable of absorbing losses.

That level was set at 18% of total risk-weighted assets (RWAs) in 2022, to be met mainly with equity and subordinated debt (recall that under the Basel requirements banks are already required to hold capital equivalent to at least 8% of their RWAs in addition to the so-called pillar 2 capital requirements and capital buffers).

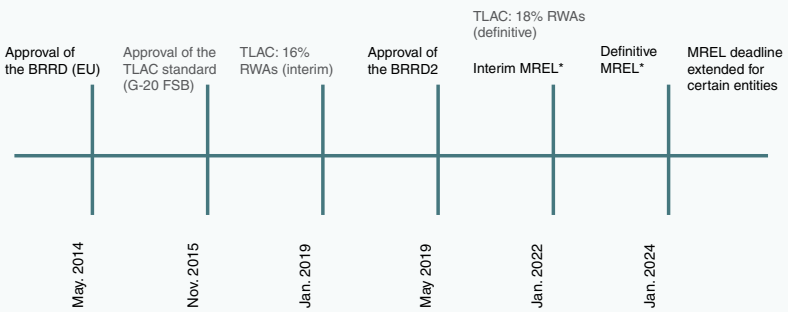
Although the EU formulated a comprehensive regulatory and institutional framework addressing bank resolution in 2014 (reinforced for Banking Union in the eurozone), approval of the TLAC standard has prompted the need to revisit the European equivalent, the Minimum Requirement for own funds and Eligible Liabilities (the MREL). The TLAC lacks any legal weight until each country adopts it as binding resolution. The European Union is currently undergoing this process as part of this reform procedure.

Nevertheless, the recently approved amendments to the Bank Recovery and Resolution Directive (BRRD), known as BRRD2, coupled with the new Capital Requirements Regulation, go beyond the mere incorporation of the TLAC standard.

The main differences between the TLAC and the MREL are as follows:

> "While the initial goal was to transpose the TLAC into EU legislation and facilitate the G-SIIs' simultaneous compliance with both regulations, in practice the new MREL has emerged as a more exacting instrument than the TLAC."

Exhibit 1 **TLAC/MREL requirements: Implementation timeline**



**MREL calculated as per the BRRD2. The entities are already bound by MREL requirements under the original BRRD.*

Source: Author's own elaboration.

- The TLAC only affects the G-SIIs, whereas the MREL is binding for all EU financial institutions.

- The minimum TLAC requirement is the same for all entities (18% of RWAs), whereas the MREL is set entity by entity, based on the formulae and valuations contemplated in the BRRD2.

- The TLAC must be met through subordinated instruments (equity, subordinated debt and non-preferred senior debt, with minimal exceptions), whereas the MREL can be met in part by other instruments.

In short, while the initial goal was to transpose the TLAC into EU legislation and facilitate the G-SIIs' simultaneous compliance with both regulations, in practice the new MREL has emerged as a more exacting instrument than the TLAC, as it will require a significant number of entities to fulfil a requirement of own funds and eligible liabilities higher than 18% of RWAs. In practice, these new requirements represent progress in reducing risk in the EU's financial system. However, it will mean a considerable compliance effort on the part of the banks.

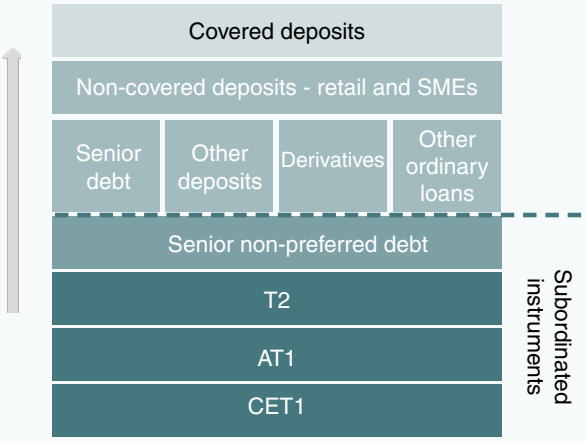
Financial instruments eligible for the MREL

The MREL must, in principle, be met from equity, subordinated debt, senior debt (preferred or non-preferred) and uncovered non-preferred deposits unbreakable before one year. It cannot be met from covered deposits, derivatives or secured instruments.

However, the BRRD2 requires banks to meet the MREL with a significant percentage of subordinated instruments (those that in insolvency proceedings would absorb losses before excluded instruments): equity, subordinated debt and non-preferred senior debt. The subordination requirement stems from the fact that those instruments are easier to bail in and less prone to litigation than other liabilities (senior debt and corporate deposits) that rank *pari passu* with excluded liabilities, such as derivatives.

Elsewhere, the BRRD2 implements the TLAC criteria for eligible instruments. For example, it permits the use of structured notes; however, to ensure that the presence of embedded derivatives does not erode their loss-absorbing capacity, the amount of principal repayable at maturity must be fixed or increasing.

Exhibit 2 **Loss absorption hierarchy in the event of entity resolution***



**Under Spanish regulations.*
Source: Author's own elaboration.

It is also worth noting that to ensure the liabilities are available for write-down and conversion if necessary, eligible debt instruments must have a residual maturity of more than one year and the holder of that debt cannot have the right to redeem it within that period.

In addition, the BRRD2 reinforces the obligation to include in any instrument subject to the laws of a country outside the EU a clause that consents to potential write-down and conversion powers under European bank resolution legislation for them to compute for the MREL (albeit recognising that in some circumstances it may be impossible to include that clause, such as in a public tender).

As for the potential sale of such instruments to retail customers, the European Parliament tightened the disclosure and disclaimer obligations for banks. The new legislation moves beyond MIFID II in terms of retail investor protection by extending the requirement to carry out a suitability test when selling eligible subordinated liabilities (mainly non-preferred senior debt) to retail investors. The Member States are also entitled to extend that requirement to other instruments eligible for the MREL.

The BRRD2 places restrictions on the volume of MREL instruments that can be placed with retail customers, entitling the national competent authorities to opt between imposing a 50,000 euro minimum denomination for MREL instruments or to limit the percentage of retail financial portfolios that can be invested in eligible liabilities to 10%, in addition to a minimum initial investment of 10,000 euros. All of these requirements will apply to instruments issued from December 28th, 2020.

"The new legislation moves beyond MIFID II in terms of retail investor protection by extending the requirement to carry out a suitability test when selling eligible subordinated liabilities (mainly non-preferred senior debt) to retail investors."

Characteristics of the MREL: Calibration and subordination

The rationale underpinning the MREL calculation is that it should be sufficient to enable the absorption of potential losses and provide a bank with enough capital for it to continue operating in accordance with applicable capital requirements. A more detailed calculation formula has now been established at the directive level (and at the regulatory level for Banking Union purposes), whereas previously the resolution authorities (those responsible for setting the MREL entity by entity) had more freedom.

The MREL is made up of a loss-absorption allowance (LAA) and a recapitalisation allowance (RCA), plus a market confidence buffer (MCB):

$$MREL = LAA + RCA + MCB$$

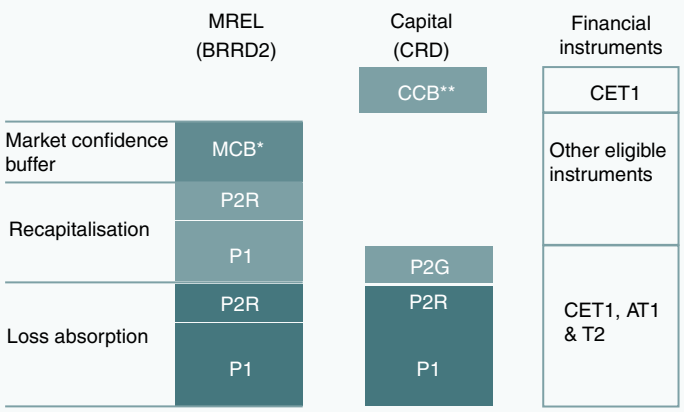
The basic formula applicable to all entities builds from the existing capital requirements as per the related directive (CRD) and is expressed as a percentage of risk-weighted assets (RWAs) and total risk exposure (using the leverage ratio formula), in keeping with the TLAC and Basel standards.

The instruments used by the banks to meet their capital requirements will also be eligible for MREL purposes, except for the combined capital buffer required under the CRD, which will have to be calculated separately.

Upward and downward adjustments can be made to this basic formula for each entity, primarily through the recapitalisation component, considering that:

- The recapitalisation requirement can be expected to decline as the entity emerging from a resolution will have a smaller asset base following the materialisation of losses and the resolution actions;
- Resorting to resolution tools other than the bail-in (sale of business tool or the creation of bridge bank or asset management vehicle) could also reduce the recapitalisation requirement;
- If the strategy followed to address the crisis is liquidation and not resolution, the resolution authority can decide that it is not necessary to fulfill the recapitalisation allowance.

Exhibit 3 **MREL calculation based on existing capital requirements (CRD)**



MCB: market confidence buffer, equivalent to the combined capital buffer without the countercyclical capital buffer.

***CCB: combined capital buffer*

Source: Author's own elaboration.

> “The Directive’s real significance lies in the requirement of binding minimum percentages to be covered from subordinated instruments for the larger-sized entities.”

However, the real significance of the Directive lies in the requirement of binding minimum percentages to be covered from subordinated instruments (equity, subordinated debt and non-preferred senior debt) for the larger-sized entities. For this purpose, the Directive has classified the banks as follows:

- Group 1: G-SIIs (the original targets of the TLAC standard).
- Group 2: Large or ‘top-tier’ banks- resolution groups with assets of over 100 billion euros.
- Group 3: Other banks.

However, the resolution authorities can decide that certain group 3 entities receive top-tier equivalent subordination treatment if it is considered probable that their non-viability could pose systemic risk. This is called the ‘fishing’ option.

In addition, for up to 30% of the G-SIIs, top-tier banks, and those banks captured under the fishing option that also fall under the responsibility of a single resolution authority, the subordination percentage can be increased above those thresholds (maximum of 2P1+2P2R+CCB) if there are impediments to resolvability, the entities’ resolution strategies are not credible or the entities are among the top 20% riskiest institutions within the Banking Union.

For the rest, the subordination percentage decision will be taken entity by entity on the

Exhibit 4 **MREL to be met from subordinated instruments by entity size**

Group 1: G-SIIs	Group 2: Top-tier banks	Group 3: Other
The requirement is the higher of the following:		No creditor worse-off principle***
■ 18% of RWAs* ■ 6.75% of LRE** ■ 8% of total assets	■ 13.5% of RWAs ■ 5% of LRE** ■ 8% of total assets Capped at 27% of RWAs (except for banks deemed top-tier under fishing option)	

** Imposed by the TLAC standard.*

***LRE: Leverage ratio exposure.*

****According to the ‘no creditor worse off’ (NCWO) principle, no creditor should incur greater losses under a resolution procedure than they would have incurred if the institution had been wound up under normal insolvency proceedings.*

Source: Author’s own elaboration.

basis of the 'no creditor worse off' (NCWO) principle, similarly subject to the cap described above.

Timeline for meeting the MREL

The deadline for meeting the new directive's MREL requirements is January 1st, 2024. The resolution authorities are already imposing MREL obligations under the original directive on entities, such as the Single Resolution Board within the Banking Union.

Before that, by January 1st, 2022, the banks must meet certain interim milestones to be set by the resolution authorities. The G-SIIs, top-tier banks and those under the fishing option must meet their minimum subordination requirements by this date.

The authorities are entitled to extend the deadline beyond 2024 depending on the financial situation of the bank in question, its ability to rollover issues as they mature and their ability to meet the requirements on time. To this end, they may also consider the weighting of deposits and CET1 equity, the lack of debt instruments in their funding models, and access to capital markets for eligible liabilities.

MREL disclosure requirements and penalties for breaches

The BRRD2 obliges banks, other than the G-SIIs, to publish their MREL levels annually. The G-SIIs, subject to the TLAC standard, must do so quarterly. Note that the entities already have to publicly disclose their MREL requirements via price-sensitive notices under securities market law. However, entities whose strategy in the event of a crisis is liquidation are exempted from disclosing this information, which in practice implies giving the market additional information.

Failure to adequately fulfill the MREL could impede a bank's orderly resolution, triggering the need to mobilise public funds or impose losses on sensitive creditors such as deposit holders. Such a situation could become a source of financial market instability. As a result, the resolution authorities need the power to oblige banks to comply with these requirements on an expedited basis.

If a bank fails to meet its MREL, the resolution authorities can prohibit them from issuing dividends and other distributions associated with CET1 and AT1 capital, as well as variable remuneration and discretionary pension benefits. The penalties can be imposed in a proportionate way as soon as the breach occurs, and after six months at the latest, barring grave financial market turbulence, among other circumstances.

These penalties are already foreseen in the event of banks' failure to comply with their prudential requirements. Such penalties may pose a problem for banks as they could make their issues less attractive.

How will the MREL be applied to the various entities?

The banks that present the greatest systemic risk, and for which fulfilling a sufficient MREL is crucial, are often large cross-border groups with material subsidiaries within (and beyond) the EU.

This means that the total MREL that banks need to satisfy includes those amounts specified by various resolution authorities in the jurisdictions of the parent bank and its subsidiaries. The eurozone's Banking Union has helped by unifying institutions. However, the 'single authorities' (ECB, Single Resolution Board) coexist with the national competent authorities, in addition to having

"The total MREL that banks needs to satisfy includes those amounts specified by resolution authorities in the jurisdictions of the parent bank and its subsidiaries."

to engage with authorities of states outside the Banking Union.

Against this backdrop, the BRRD2 urges the resolution authorities to take joint decisions. However, in the event of disagreement, the decisions of the resolution authority of the entity under its jurisdiction shall prevail.

In general, each resolution group will be obliged to meet an MREL requirement, called the 'external MREL', to be issued by the resolution entity (group main undertaking from a resolution perspective) and acquired by external third-party creditors.

In this respect, the BRRD2 contemplates the possibility of splitting a financial group into several parts or resolution groups, isolated from each other in the event of resolution, so as to stem potential contagion. Each resolution group must have its own external MREL. In Spain, banks such as BBVA and Santander will be subject to this arrangement known as the multiple point of entry system, due to their long-standing exposure to regions outside of the EU such as Latin America.

In parallel to the external MREL, the rest of the group entities (other than the main undertaking) must have their own MREL – the so-called 'internal MREL' – to ensure their loss-absorbing capacity and reduce their dependence on the parent bank. Unlike the external MREL, the internal MREL can be met using financial instruments acquired by other entities within the same group.

At the start of the negotiations, the European Commission proposed letting the European cross-border financial groups meet their internal MRELs with guarantees from the resolution entity, which would have given them greater freedom to allocate resources within the group while complying with the external MREL as a whole.

However, it failed to build the consensus needed to implement that cross-border exemption, which would have facilitated, according to its advocates, wider integration in the single market. What was allowed was an exemption from the internal MREL for group entities operating in a single country.

Exceptionally, credit institutions permanently affiliated to a central body ("cooperative networks") will be allowed to meet their external MREL at the group level.

Other changes designed to facilitate execution of a bank resolution

The resolution authorities have been given greater powers to suspend the payment or delivery obligations of an entity under resolution. That power, sometimes referred to as 'moratorium' power, is designed to reduce instability emanating from an entity while resolution measures are executed. The main novelties are:

- The resolution authorities can suspend deposit withdrawals. However, that suspension will not be automatic. It will require a careful assessment (particularly in respect to covered deposits held by natural persons and micro, small and medium-sized enterprises). Alternatively, they can allow deposit holders to withdraw an "appropriate daily amount".

- The suspension can start from when the supervisor (the ECB) determines a bank to be "failing or likely to fail", without having to wait for a resolution decision.

> "BRRD2 contemplates the possibility of splitting a financial group into several resolution groups, isolated from each other in the event of resolution so as to stem potential contagion."

- The suspension may be left in place for two business days at most (the Commission's initial proposal was for up to five days).

Beyond the MREL

Although the requirement that the banks build up an adequate MREL should usher in greater stability in the financial system and prevent the use of public funds, the size of the MREL and the types of instruments needed to comply with it mean banks must make certain changes to their funding structures. The new requirements are having a particular impact on the size and type of securities banks issue, spurring a burgeoning market for senior non-preferred debt issues.

Elsewhere, definitive implementation of the new directive will depend not only on its transposition by the Member States (deadline: December 28th, 2020), but also the regulatory technical standards adopted by the Commission at the behest of the European Banking Authority (EBA) and how each resolution authority interprets the directive in its MREL policies and bank resolution plans.

Lastly, the new Commission will have to face the pending revision of the resolution directive in order to continue to fine-tune (notwithstanding the limited amount of hands-on experience to date) implementation of the resolution procedures and management of bank non-viability in general – key aspects of financial stability in the EU.

Notes

[1] The opinions expressed in this paper are the sole responsibility of the author and do not necessarily represent the opinion of the Ministry of Economy and Business. The author would like to thank Sara González Losantos and Javier Ortega Castro for their contributions to the directive negotiations process.

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Marta Martínez Guerra. Senior Advisor of the Sub-Directorate General for the Legislation of Banks and Banking and Payment Services within the Spanish Ministry of Economy and Business

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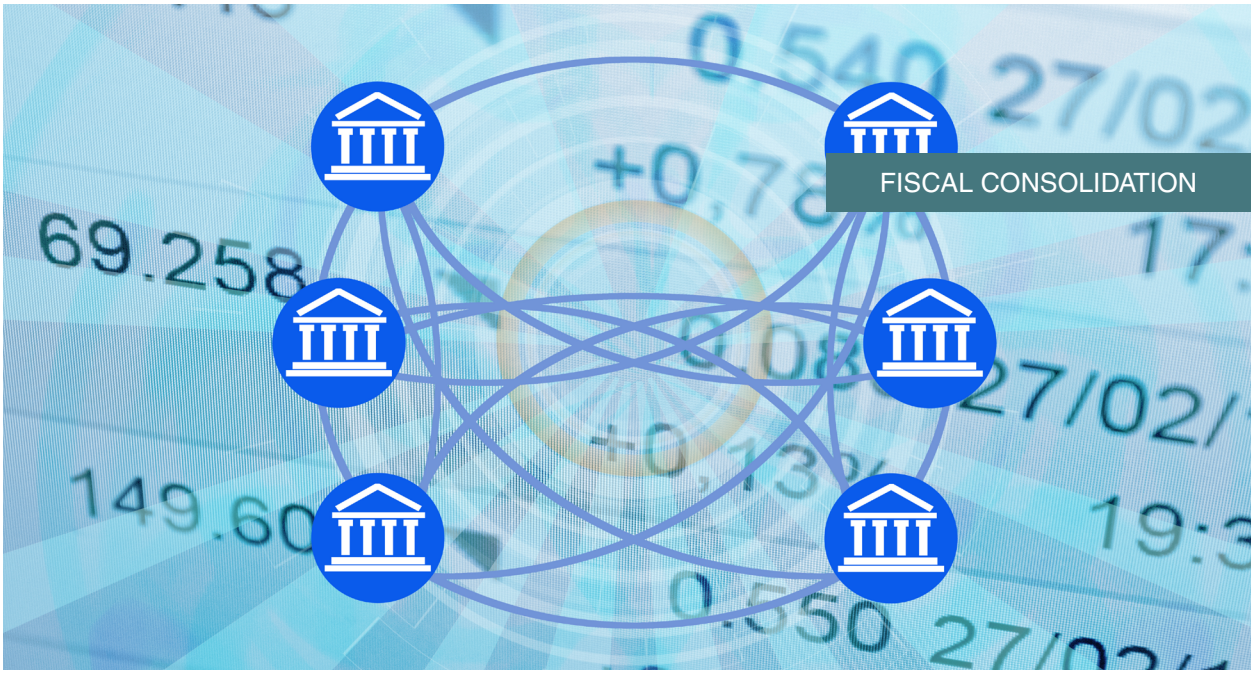


Zero-deficit target for 2022: Where is Spain coming from and where is it headed?

Although Spain managed to bring its fiscal deficit under the 3% threshold set by the EU in 2018, there are doubts as to whether it will achieve its balanced budget target in 2022. Challenges which could undermine achieving this goal include the global economic slowdown as well as domestic political uncertainty, which reduces the probability of approving a budget that could achieve the targeted fiscal consolidation measures.

Desiderio Romero-Jordán and José Félix Sanz-Sanz

Abstract: Having brought its fiscal deficit under the threshold of 3% of GDP, Spain exited the excessive deficit procedure in 2018. That target was met following a decade's-long hard work in the context of a harsh economic crisis that saw a substantial increase in Spain's public debt. Indeed, between 2008 and 2012, the ratio of debt-to-GDP increased by a total of 46.2 percentage points, compared to the eurozone average of 21.2 points. Significantly, it took Spain ten years to rein in its deficit, twice the EU-28 and eurozone average. However, Spain has now set an ambitious target outlined in its Updated Stability Programme, which includes achieving a balanced budget in 2022. Spain's independent fiscal institution,

the AIReF, believes the country will miss that mark, albeit narrowly, estimating a deficit of 0.5% for that year. Either way, Spain is currently facing two sources of instability in terms of attaining the sought-after fiscal equilibrium. The first is external, namely that generated by the global economic slowdown. The second is internal and relates to the political uncertainty prevailing in Spain since 2015, which is proving a serious obstacle to passing budgets and implementing targeted fiscal consolidation measures. [1]

Introduction: Spain exits the excessive deficit procedure

After a painful decade, Spain managed to bring its fiscal deficit below the threshold of 3% in 2018. Specifically, it reduced its deficit from 3.03% of GDP in 2017 to 2.48%, thus enabling it to exit the excessive deficit procedure (EDP) outlined in article 126 of the Treaty on the Functioning of the European Union. As a result, in early June 2019, the Commission proposed terminating the procedure, which had applied to Spain since 2009. [2] However, the European Commission's preventative arm continues to keep a close eye on Spain's public finances. In fact, the Commission recommended that Spain introduce new budget cuts to reduce its high borrowing levels, which had reached 97.1% of GDP in 2018. It also suggested that Belgium, France and Italy make further cuts.

In April 2019, the Spanish government sent the European Commission an updated version of its Stability Programme for 2019-2022 (hereinafter, the USP). According to the USP, the government is targeting a balanced budget in 2022. The roadmap towards that goal entails interim deficit targets of 2.0% in 2019, 1.1% in 2020 and 0.4% in 2021. In tandem with these deficit targets, the USP also aims to reduce public borrowings from 97.1% of GDP in 2018 to 88.7% in 2022. However, the opinion issued by the European Commission on the USP states that there is a risk that the borrowing targets set for 2019 and 2020 (of 95.8% and 94.0%, respectively) will not be met. For this reason, the Commission has proposed a structural annual adjustment of 0.65% of GDP, which corresponds to maximum annual growth in nominal public spending of 0.9%. In nominal terms, that adjustment is equivalent to approximately 7.8 billion euros per annum (European Commission, 2019). For illustrative purposes, that figure is roughly equivalent to Spain's defence budget for all of 2018. The Commission has also recommended using any windfall gains to accelerate the deleveraging effort.

In sum, following its exit from the EDP, Spain still faces significant challenges and has much work to do to further the fiscal consolidation effort. As shown later, there are two obstacles in its path. The first is the slowdown in the global economy, which is having a direct impact on the Spanish economy. The second is the ongoing political uncertainty in Spain, which since 2015 has made it extraordinarily difficult to form a government with enough clout to inject stability into the budget cycle. This article first analyses the path taken by Spain to exit the EDP in comparative terms. It then looks at the zero-deficit target set by the government for 2022.

Where is Spain coming from? A decade-long effort to abandon the EDP

The path taken by Spain to exit the EDP proved long and replete with difficulties of an economic but also a social and political nature that are worth highlighting. For illustrative purposes, Exhibit 1 depicts the trend in Spain's deficit relative to the eurozone average. It shows how Spain went from having a surplus of 1.9% in 2007 to a deficit of 4.4% in 2008, the first year of the crisis. Just one year later, in 2009, the deficit surged to 11.0%, well above the eurozone average of 6.2%. The imbalance between public revenue and expenditure

> "The roadmap towards achieving a balanced budget entails interim deficit targets of 2.0% in 2019, 1.1% in 2020 and 0.4% in 2021."

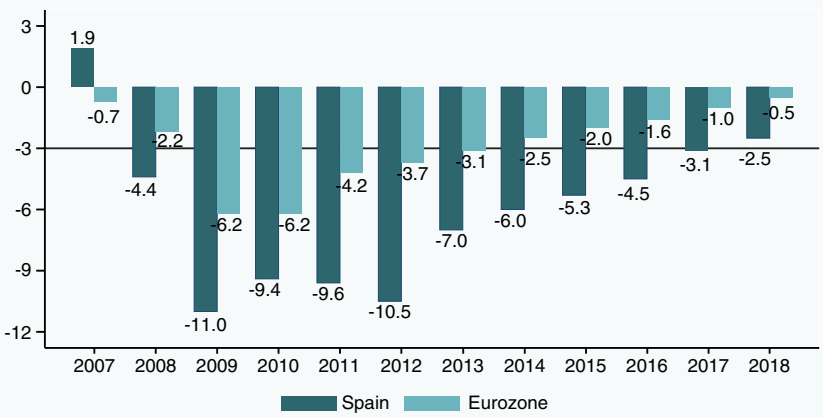
> “Between 2009 and 2012, Spain’s cumulative deficit amounted to 432.2 billion euros, which is roughly equivalent to 41.5% of GDP in 2012.”

would remain at very high levels for the next three years: 9.4% in 2010; 9.6% in 2011 and 10.5% in 2012. Between 2009 and 2012, the cumulative deficit amounted to 432.2 billion euros, which is roughly equivalent to 41.5% of GDP in 2012. Those figures paint a clear picture of the intensity of the impact of the crisis on government borrowings. At year-end 2008, public borrowings stood at 39.5% of GDP. Just four years later, that ratio had climbed to 85.7%. [3] In short, between 2008 and 2012, the ratio of debt-to-GDP increased by a total of 46.2 percentage points, compared to the eurozone average of 21.2 points. Only Ireland (77.5 points) and Greece (50.2) saw their ratios surge by more.

Most of the European Union member states, including Spain, saw their public deficits peak in 2009. Spain recorded a deficit of 11.0% that year (*vs.* 6.2% in the eurozone) and went on to notch up sizeable deficits, sometimes in the double digits, for the next four years in a row. Indeed, those figures mark all-time highs in the history of Spanish democracy. On average, the eurozone countries took five years to bring their deficits down below 3%, whereas Spain took ten years. Drilling down into the figures reveals significant differences in the levels at which the various member states’ deficits peaked, the number of years needed to bring them below 3%, the percentage points by which those deficits had to be cut to attain that target and the average annual pace of their consolidation efforts. Exhibit 2 shows the peak deficits recorded in the eurozone between 2007 and 2018. Leaving Ireland aside as an exceptional case, the exhibit reveals four categories of countries in terms of peak deficit levels. The first group encompasses the countries whose deficits either did not exceed the 3% threshold (Sweden, Estonia and Luxembourg) or whose deficits did so but only very marginally (Finland: 3.2% and Denmark: 3.5%). The second group consists of the

Exhibit 1

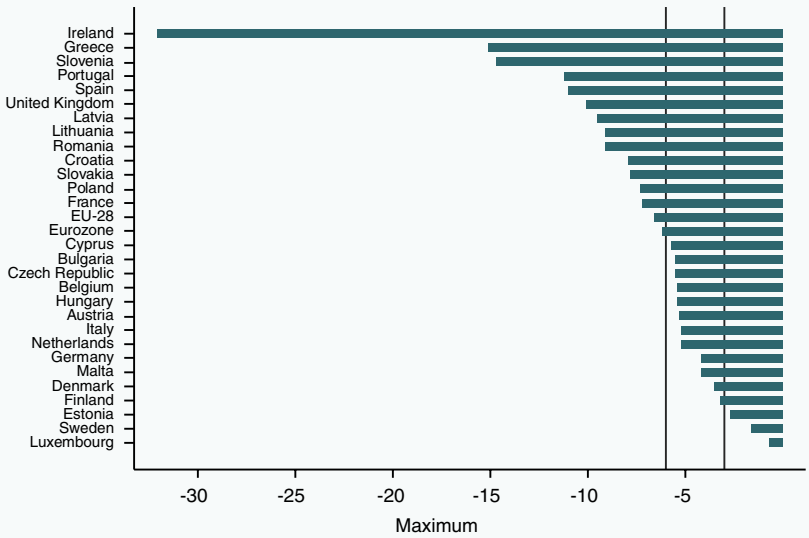
Public deficit in Spain and Eurozone 2007-2018



Source: Eurostat (2019).

Exhibit 2

Maximum level reached by public deficit since 2007



Source: Eurostat (2019).

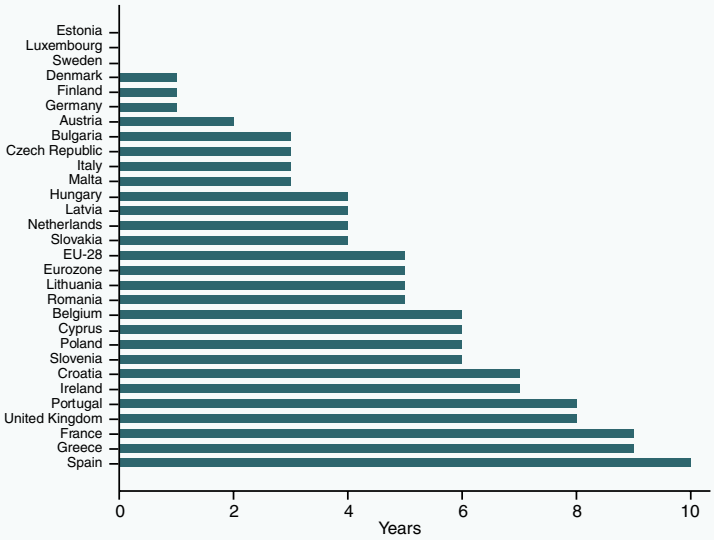
countries whose deficits peaked somewhere between 3% and 6%. It includes Germany (4.2%), Belgium (5.4%), Austria (5.3%), Italy (5.2%) and the Netherlands (5.2%). The third group covers deficit peaks of between 6% and 10% and only includes France within the EU-15; France's deficit hit a high of 7.2% in 2009. The last group includes the countries whose deficits went above the 10% mark. It includes three Mediterranean markets (Spain, Portugal and Greece), as well as Slovenia, Ireland and the UK.

Across the European Union, there are significant differences in the number of years required to go from peak deficit levels to below 3% and in the average pace of the associated fiscal consolidation efforts. As shown in Exhibit 3, at ten years, Spain is the country that took the longest to rein in its deficit. That is twice the EU-28 and the eurozone averages of five years. Behind Spain lie Greece and France (9 years), the UK and Portugal (8 years) and Ireland and Croatia (7 years). The average annual pace of adjustment is depicted in Exhibit 4. Ireland is a case apart: having recorded a deficit of 32.1% in 2010, it managed to slash it to 1.9% in 2015, implying an average annual adjustment in its deficit-to-GDP ratio of 4.3 percentage points. That figure is very significantly above the pace of adjustment observed for the EU countries as a whole, of 0.74 percentage points. Leaving Ireland aside, the countries that recorded the highest deficits during the crisis (in descending order: Greece, Slovenia, Portugal, Spain, the UK and Latvia) reduced their ratios at very different speeds. The fastest paces were observed in Greece and Slovenia with average annual reductions in their deficit-to-GDP ratios of 1.73 and 1.98 percentage points, respectively, followed by Portugal (1.15), the UK (0.90) and, in last place, Spain (0.85). In the rest of the countries, the pace of adjustment varies

> "At ten years, Spain is the eurozone country that took the longest to rein in its deficit."

Exhibit 3

Number of years with a deficit higher than 3% since 2007

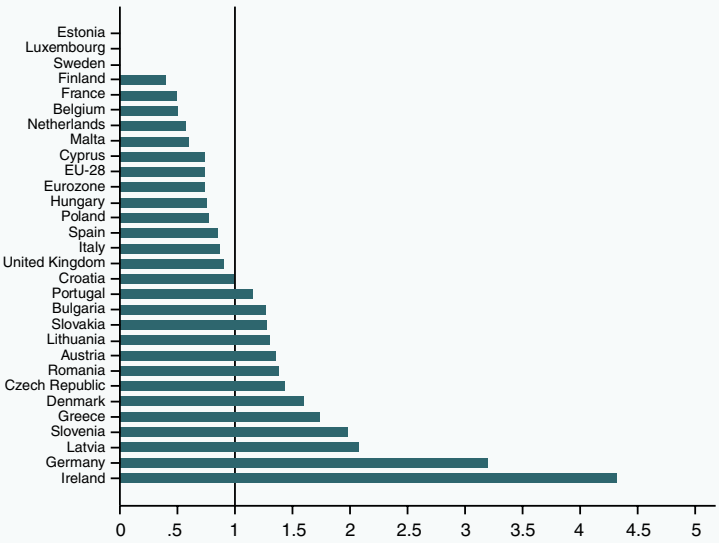


Source: Eurostat (2019) and authors' own elaboration

significantly. Germany, for example, slashed its deficit from 4.2% to 1.0% in just one year. In contrast, France took nine years to bring its deficit from 7.2% to 2.8%, with an average annual reduction of 0.49 percentage points. The comparison between France and Spain is interesting. Both countries took almost the same number of years to bring their deficits

Exhibit 4

Average annual adjustment of public deficit



Source: Eurostat (2019) and authors' own elaboration

> “In nominal terms, Spanish GDP would not top 2007 levels until 2015.”

below 3%. However, Spain started from a much higher level (11% *vs.* 7.2%) and reduced its deficit at a far more intense annual pace (0.85 percentage points *vs.* 0.49).

However, the pace of adjustment in Spain was slower than in other EU-15 economies which recorded similar peak deficit levels. Specifically, Portugal's deficit went nearly as high as Spain's (11.2%) but was reduced with somewhat greater annual intensity (1.15 percentage points *vs.* 0.85). In the UK, the deficit peaked below that of Spain (10.1%) and was brought down at a slightly faster pace (0.9 percentage points *vs.* 0.85). Lastly, it is worth noting that the pace of the deficit cuts in Spain was highly uneven from one year to the next: a 3.5 percentage point reduction in the deficit-to-GDP ratio in 2013, 1.0 in 2014, 0.7 in 2015, 0.8 in 2016, 1.4 in 2017 and, finally, 0.6 points in 2018.

However, the effort made by Spain to deliver the 3% target was intense in socioeconomic terms. Firstly, the economic crisis had a very significant impact on Spanish GDP. In the decade between 2008 and 2018, Spain faced four years of intense crisis in which its GDP contracted. Specifically, Spanish GDP contracted by 3.6% in 2009, 1.0% in 2011, 2.9% in 2012 and 1.7% in 2013. In fact, in nominal terms, Spanish GDP would not top 2007 levels until 2015. [4] Secondly, the crisis had a dramatic impact on unemployment in Spain, which rose from 8.2% in 2007 to 26.1% in 2013, compared to the EU average of 10.5% (surpassed only in Greece, where unemployment peaked at similar levels in 2012). The crisis was particularly devastating for those under 25. where the rate of unemployment reached 56.9% in the first quarter of 2013. Thirdly, it is important to note that the effort to rein in the public deficit in Spain took place in a context in which the 'at risk of poverty and/or exclusion' (AROPE) index tracked by Eurostat peaked at 28.1% in Spain in 2014 (which is the equivalent of 13.1 million people).

Where is Spain headed? The zero-deficit target for 2022

According to the USP, Spain will balance its budget in 2022. Delivery of that fiscal consolidation target means navigating two significant challenges over the next three years. The first is external: weak global economic growth. The second is domestic: political instability in Spain is affecting budgetary approval, timing and content. On the external horizon, the global economy is faced with significant uncertainty as a result of a combination of factors, notable among which are the UK's exit from the European Union, a harder than expected landing in China and trade war proliferating in the Trump-Xi Jinping era. Against that backdrop, the International Monetary Fund recently shaved its forecasts for global growth in 2019 and 2020 by 0.1 percentage points (to 3.2% and 3.5%, respectively) (IMF, 2019). Nevertheless, Spain continues to post solid growth, above that of the European Union, fuelled by strong domestic demand (2.2% in 2019 and 2.0% in 2020 *vs.* 1.4% and 1.6% in the EU) (Funcas, 2019).

> “The rotation between the two traditional parties with clear mandates between 1982 and 2015 has given way to a new era of weaker governments, marked by voter fragmentation.”

As for the political uncertainty, the rotation between the two traditional parties (PSOE on the left and Partido Popular on the right) with clear mandates between 1982 and 2015 has given way to a new era of weaker governments, marked by voter fragmentation. The reason is the advent and rise of new parties on either side of the political spectrum in the general elections of 2015, 2016 and 2019 (Unidas Podemos, Ciudadanos and Vox). The governments resulting from those elections have faced tremendous difficulty in getting budgets through and in rolling out budget policies designed to accelerate fiscal consolidation. Indeed, the state budget of 2017, drawn up by the government led by Mariano Rajoy (Partido Popular) had to be carried over in 2018 (as had also happened with the 2016 budget). President Rajoy lost power to Pedro Sánchez on June 1st, 2018, as a result of the no-confidence vote presented by the Socialist party. President Sánchez, however, agreed to take on the 2018 budget formulated by Mariano Rajoy's government, whose approval took until July 3rd, 2018. [5] Unfortunately, Pedro Sánchez's administration was not able to push its 2019 budget through as it failed to secure enough votes from other parties, forcing it to call fresh general elections in April 2019. And so, the 2018 budget was rolled over (the third budget carry-over since 2015), once again leaving control over the deficit at the mercy of the growth anticipated in tax revenue from economic momentum alone. Indeed, the Sánchez administration had intended to add a host of tax measures to its 2019 budget in order to increase tax revenue this year by around 5.6 billion euros. Since that has not been possible, Sánchez is planning to bring the measures in 2020 once he gets his budget for that year approved. However, since Sánchez has failed to form a government, Spain will once again face general elections, the fourth since 2015. As a result, the state budget would

Table 1 **GDP growth**

	2019	2020	2021	2022
Spanish government[1]	2.2	1.9	1.8	1.8
European Commission[2]	2.1	1.9	–	–
IMF[3]	2.1	1.9	–	–
OECD[2]	2.2	1.9	–	–
AIReF	2.3	2.1	2.0	1.9
Bank of Spain[4]	2.2	1.9	–	–
Funcas[5]	2.2	2.0	1.8	–

Notes: (1) April 2019, (2) November 2018, (3) April 2019, (4) March 2019, (5) September 2019.
Source: Updated Stability Programme (USP) and authors' own elaboration.

"The 2018 budget was rolled over (the third budget carry-over since 2015), once again leaving control over the deficit at the mercy of the growth anticipated in tax revenue from economic momentum alone."

have to be carried over again, for the fourth time since 2015.

Table 1 shows the growth rates forecast for Spain between 2019 and 2022. For comparative purposes, it provides the current estimates of the main international organisations (EC, IMF and OECD), alongside those formulated in Spain by the AIReF, the Bank of Spain and Funcas. It is worth highlighting the role played by the AIReF as public and independent fiscal control body. Set up at the behest of the European Union, one of its core missions since 2014 has been to continuously assess the budget cycle and public debt situation. The government's forecasts point to growth of 2.2% in 2019, easing slightly to 1.8% in both 2021 and 2022. The table reveals considerable consensus about where growth is headed in 2019 and 2020. Specifically, the forecasts for growth in 2019 range between 2.1% and 2.3%, the official forecast being 2.2%. In 2021 and 2022, the official estimates point to growth of 1.8% in both years, which is slightly below those presented by the AIReF (0.2 percentage points less in 2021 and 0.1 percentage point less in 2022). Despite the differences, the AIReF has expressly endorsed the macroeconomic projections presented in the USP, describing the growth projections as prudent.

Framed by those growth forecasts, the government estimates provided in Table 2 reveal fiscal deficit targets of 2.0% in 2019; 1.1% in 2020; 0.4% in 2021; and a balanced budget in 2022. The government's estimate for a deficit of 2.0% in 2019 coincides with the estimates presented by the OECD and the AIReF. Other forecasts, such as those of the IMF, Bank of Spain and Funcas, point to a slightly higher —between 0.1 and 0.5 points

Table 2 **Public deficit estimates**

	2017	2018 (A)	2019 (F)	2020 (F)	2021 (F)	2022 (F)
Spanish government[1]	-3.03	-2.47	-2.0	-1.1	-0.4	0.0
European Commission[2]			-2.1	-1.9	–	–
IMF[3]			-2.3	-2.3	–	–
OECD[2]			-2.0	-1.4	–	–
AIReF			-2.0	-1.1	-0.4	-0.5
Bank of Spain[4]			-2.5	-2.0	–	–
Funcas[5]			-2.2	-2.0	-1.7	–

Notes: (1) April 2019, (2) May 2019, (3) April 2019, (4) March 2019, (5) September 2019.
Source: Updated Stability Programme (USP) and authors' own elaboration.

> "The lower growth in public revenue forecast by the AIReF (0.3 percentage points) coupled with its forecast for a narrower reduction in the public spending ratio (0.2 percentage points) explains the 0.5 point shortfall with respect to the government's deficit forecast."

Table 3 **Breakdown of the increase in public revenue (% of GDP) forecast for 2018-2022, government *vs.* AIReF**

	Total	Cycle	Existing measures	New measures
1) Government estimates	1.8	1.1	0.2	0.5
Income and wealth tax	1.2	1.0	0.0	0.2
Social security contributions	0.6	0.3	0.2	0.1
Other	0.0	-0.2	0.0	0.2
2) AIReF estimates	1.5	1.0	0.1	0.4
Income and wealth tax	0.8	0.6	0.0	0.2
Social security contributions	0.5	0.2	0.2	0.1
Other	0.2	0.2	-0.1	0.1
Difference	0.3	0.1	0.1	0.1

Source: AIReF (2019).

of GDP— deficit. Several factors contribute to the differences. Firstly, the breakdown of the forecast GDP: the official estimates contemplate stronger domestic demand and weaker external demand, favouring higher public revenue in the former. Secondly, the official estimates contemplate stronger job and wage growth, which translates into higher revenue from social security contributions, even though public spending is expected to offset the positive impact on the deficit. Lastly, the official estimates contemplate a higher GDP deflator and therefore higher growth in nominal GDP, implying stronger growth in the denominator of the deficit-to-GDP ratio.

The fiscal consolidation roadmap contemplated in the USP has also been endorsed by the AIReF. Nevertheless, that institution believes it is improbable that Spain will balance its budget in 2022, instead forecasting a deficit of 0.5% that year. The reasons become clear if we look at Table 3. The government expects to lift public revenue by 1.8 percentage points of GDP between 2018 and 2022, estimates which the AIReF views as optimistic, instead forecasting

Table 4 **Forecast ratio of public spending-to-GDP for 2018-2022 (%), government *vs.* AIReF**

	2018	2019	2020	2021	2022
Government estimates	41.3	41.1	41.0	40.7	40.7
AIReF estimates	41.3	41.1	40.9	40.8	40.9
Difference	0.0	0.0	0.1	0.1	0.2

Source: AIReF (2019).

an increase of 1.5 percentage points. By the same token, the USP is estimating a decrease in the ratio of public spending-to-GDP from 41.1% in 2019 to 40.7% in 2022. However, the AIReF is forecasting a 0.2 percentage point smaller reduction, to 40.9%. In sum, the lower growth in public revenue forecast by the AIReF (0.3 percentage points) coupled with its forecast for a narrower reduction in the public spending ratio (0.2 percentage points) explains the 0.5 point shortfall with respect to the government's deficit forecast.

Drilling down into the revenue figures, Table 5 breaks down the forecasts, distinguishing between the effect of the economic cycle and the impact of the planned new tax measures. It shows how the biggest impact is expected to come from the forecast economic growth, specifically an increase in tax revenue equivalent to 1.1 percentage points of GDP, according to the government's forecasts. Of that increase, 1 percentage point corresponds to income tax and 0.3 percentage points to social security contributions. As for the new tax measures, the government is planning to bring in a fiscal package, which will include changes in the main tax instruments (personal income tax, corporate income tax, VAT and excise duties) as well as new taxes (a tax on financial transactions and on certain digital services). Specifically, the new tax on financial transactions will constitute a levy of 0.2% on the brokered purchase of shares in publicly traded Spanish companies with a market cap of over 1 billion euros (*i.e.*, excluding SMEs and unlisted companies). And the new tax on certain digital services has been set

Table 5 **New tax measures**

Tax	Measure	Impact according to govt. forecasts (from 2020)	Impact according to AIReF
Personal income tax	Increase in marginal rates in high-income brackets	328	245 | 255
Corporate income tax	Limits on relief minimum rate over taxable income	1,776	1,650 | 1,900
	Tax rate cut for SMEs	-260	-242 | -278
Value added tax	Rate cut for veterinary services	-35	-35
	Rate cut for e-books	-24	-24
	Gender taxation	-18	-18
Excise duty	Fuel tax	670	649 | 693
New taxes	Tax on financial transactions	850	420 | 850
	Tax on certain digital services	1,200	546 | 968
Property tax		339	0 | 8
Anti-fraud efforts		828	350 | 570
TOTAL		5,654	3,541 | 4,889

Source: AIReF (2019).

at 3% of revenue from online advertising, online intermediation services, and the sale of user data by companies with worldwide revenue of over 750 million euros and with revenue in Spain of over 3 million euros. With these two new taxes, the government expects to raise 850 million euros and 1.2 billion euros, respectively. The tax revenue forecasts for each of the measures included in the tax package are itemised in Table 5. The government expects to collect 5.65 billion euros. However, the AIReF is forecasting lower revenue, of between 3.54 and 4.89 billion euros, *i.e.*, between 14% and 38% below the government's forecasts. As for the new taxes, the AIReF is forecasting revenue of between 966 million euros and 1.82 billion euros, compared to the government forecast of 2.05 billion euros.

The roadmap set out by the government contemplates four years of deficit-cutting to eliminate the deficit by 2022. Specifically, it is aiming to reduce Spain's deficit by 0.47 percentage points of GDP in 2019, 0.90 in 2020, 0.7 in 2021 and 0.4 in 2022. Those figures are equivalent to an annual correction of 0.62 percentage points of GDP, which is less than the average of 0.85 percentage points eked out during the 10 years it took to get Spain out from under the excessive deficit procedure. According to the USP, the biggest adjustment will come in 2020, followed by that forecast for 2021. As already noted, the reason for that spike is the carry-over of the 2019 budget, which has prevented the introduction of the package of tax reforms which, according to the Sánchez administration, will take effect in 2020.

Notes

[1] The authors would like to thank María Jesús Fernández (Funcas).

[2] With the exception of Estonia and Sweden, all of the European Union member states are under surveillance by the European authorities for breach of their deficit and debt targets.

[3] The outcome of this situation is well known. Spain's sovereign risk premium climbed steadily to peak at 637 basis points in July 2012.

[4] This adverse climate explains why Spain has been obliged to ask for extensions to deficit target deadlines on four occasions since 2009. In 2016, the Commission recommended that penalties be applied to Spain and Portugal for failure to do enough to correct their deficits. In the end, however, it opted against the fines in order to avoid generating an adverse impact on growth in the two economies.

[5] In normal times, the 2018 budget should have been approved before the end of 2017.

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Tax decentralisation in Spain: Significant progress and remaining challenges

While decentralisation in Spain prioritised devolving spending rather than revenue power to its regions, it scores comparatively better than other federal OECD countries for tax decentralisation at present. For this reason, reform should focus on redesigning the context in which tax autonomy is exercised rather than increasing tax decentralisation itself.

Santiago Lago Peñas

Abstract: Like many other countries, the decentralisation process in Spain has made more progress in terms of granting its regions spending responsibility rather than revenue powers. However, ensuring fiscal autonomy at the sub-central level is important as it supports a regional government's political autonomy, strengthens political accountability among voters, and disincentivizes large public deficits. Nevertheless, Spain's current decentralised tax system compares favourably with other countries. According to the OECD, on the expense and revenue side, Spain ranks 5th and 6th, respectively.

> “In the absence of tax autonomy, political autonomy remains incomplete.”

Furthermore, the OECD's effective measurement of tax autonomy places Spain first within the EU. This suggests that the focus should not be on increasing the extent of tax decentralisation in Spain but redesigning the context in which tax autonomy is exercised. To accomplish this, it is vital to tighten the so-called 'soft budget constraint' in the regional sphere and fine-tune most of the taxes transferred. Such action would involve reforming tax management and the partial alignment of environmental taxes collected by the regions with a nationwide green tax strategy.

Introduction [1]

Spain's transition to democracy ushered in a period of intense and swift decentralisation [2]. However, the process occurred faster in terms of spending responsibility than in revenue powers. This is often the case, as it is usually easier for central governments to relinquish spending powers than their tax collection authority. In parallel, sub-central governments are more likely to request new spending responsibilities than tax collection powers since a financing regime based on transfers entails a lower political cost than one articulated around taxes, whether collected directly or indirectly.

Ensuring fiscal autonomy at the sub-central level is important for three reasons. The first is that in the absence of tax autonomy, political autonomy remains incomplete. Under such circumstances, a regional government cannot calculate their budget. Moreover, the system's financial sufficiency remains conceptually undefined, as it can only be identified endogenously, via interaction between governments and voters. It is the democratic process of choosing both the level of spending and the corresponding tax burden in each jurisdiction that should determine the fiscal menu. In this respect, the debates around autonomy and sufficiency converge. Regional governments should have their own tax instruments and strong tax collection powers, coupled with hard budget constraints imposed by the central government. It is vital to articulate that there will be no bailouts, explicit or implicit, or cost-free handouts from the central government.

The second reason is that without fiscal autonomy, political responsibility and accountability to the voter become diluted. It is essential that voters are aware of the cost of the public goods and services they demand so their choice of government and by extension regional expenditure is informed and rational.

Lastly, we know that significant vertical imbalances between decentralised expenses and revenue sources undermine fiscal stability and generate higher public deficits (Lago-Peñas, Martínez-Vázquez and Sacchi, 2019).

The objectives of this paper are threefold. Firstly, to analyse the current status of tax decentralisation at the regional level in Spain; secondly, to compare that level within the international context; and thirdly, to identify

> “Significant vertical imbalances between decentralised expenses and revenue sources undermine fiscal stability and generate higher public deficits.”

“ The fact that regional governments cannot levy taxes on items that are taxed by the other two levels of government limits the value of a region’s direct taxation. ”

potential challenges and possible solutions ahead of the imminent review of the regional financing regime.

Regional taxation at present

Two models of fiscal federalism co-exist in Spain, with one system for two specific regions –the Basque region and Navarra (which encompass around 6% of the Spanish population)– and the system for Spain’s other 15 autonomous regions. The former takes its inspiration from the fiscal confederation approach. This means the central government’s tax authority has been minimised, with subcentral governments exercising most of that power. The lack of fiscal autonomy has never been an issue with this arrangement. In the rest of Spain, the regime is based on a more orthodox model of fiscal federalism. These regions finance themselves partly via taxes and grants from the central government. The debate around fiscal responsibility has centred on the second model, which is also the focus of this article.

Regional tax collection can be divided into two main categories: regional taxes collected directly and centrally-collected taxes transferred to the regions. In 2018, the number of own regional tax instruments stood at 82; however, their combined contribution was less than 2% of revenue across the 15 regions who participate in this second model. Moreover, those instruments are concentrated around taxes associated with the environment and natural resources. Around 80% of overall tax revenue stems from the taxation of water including levies on sanitation, discharges, reservoirs, *etc*. (REAF, 2018). The fact that regional governments cannot levy taxes on items that are taxed by the other two levels of government limits the value of a region’s own taxation. In some cases, regional governments’ tax collection has encroached upon the central government’s territory, forcing the regional administrations to withdraw their tax instruments to prevent double taxation issues.

Therefore, the regional governments really obtain their fiscal autonomy through those taxes transferred from the central government. Tax decentralisation in Spain got underway with the reforms implemented in 1997. Since then, additional steps have expanded the regional governments’ array of tax instruments (see Table 1). The three key takeaways are: (i) the assignment percentages are high; (ii) the main taxes continue to be managed by the state tax agency (AEAT for its acronym in Spanish); and, (iii) the taxation of consumption (VAT and excise duties) is subject to tax harmonisation rules at the European Union level, which prevents the differentiation of rates between the various regions and, by extension, the existence of regional autonomy. The only area where progress has proved possible (but not without difficulties) is the fuel tax. It is also worth highlighting the non-transfer of corporate income tax, which aligns with the recommendations from fiscal federalism theory. It advises against decentralisation of corporate income tax for reasons such as: distortion of the efficient location of various corporate activities; sensitivity to the economic cycle; the existence of significant imbalances in the distribution of the taxable income; surplus costs associated with decentralised administration and the possibility of tax exporting (Martínez-Vázquez, 2013). The experiences in the Basque region and Navarra, where corporate income tax is decentralised, provides empirical evidence that the above recommendation is warranted.

Table 1 **Snapshot of regional tax decentralisation**

	% of revenue assigned	Policy-making authority	Tax management	Regional assignation criteria
Corporate income tax	0	No	No	---
Personal income tax	50	Yes	No	Tax payer's residence
VAT	50	No	No	Regional consumption
Excise duties	58	No	No	Regional consumption
Tax on electricity consumption	100	No	No	Regional consumption
Fuel excise duty, regional tranche(*)	100	Yes	No	Regional consumption
Motor vehicles registration tax(**)	100	Yes	No	Tax payer's residence
Property tax	100	Yes	Yes	Tax payer's residence
Inheritance & gift tax	100	Yes	Yes	Residence of the deceased or donor | Location of the properties
Property transfer tax and stamp duty (***)	100	Yes	Yes	Taxable event in the region in question
Gaming tax	100	Yes	Yes	Regional gaming

(*) The original tax on retail sales of certain fuels (IVMDH for its acronym in Spanish) was eliminated in 2013 to make way for an excise duty on fuel for which the rate can vary from one region to the next.

(**) Although legally permitted, no regional government has assumed the management of this tax.

(***) ITPAJD for its acronym in Spanish.

Source: Expert Committee (2018).

Decentralisation in Spain, a comparative analysis

Exhibits 1 and 2 illustrate the public spending and tax decentralisation dynamics for the members of the OECD with intermediate governments in between their central and local governments. The data include percentage of public spending and tax collection controlled by the members' regional governments [3]. On the expense side, only Canada, Switzerland, the US and Mexico are more decentralised than Spain. On the revenue side, Spain ranks sixth, just behind Australia and further behind Canada, Switzerland, Germany and the US.

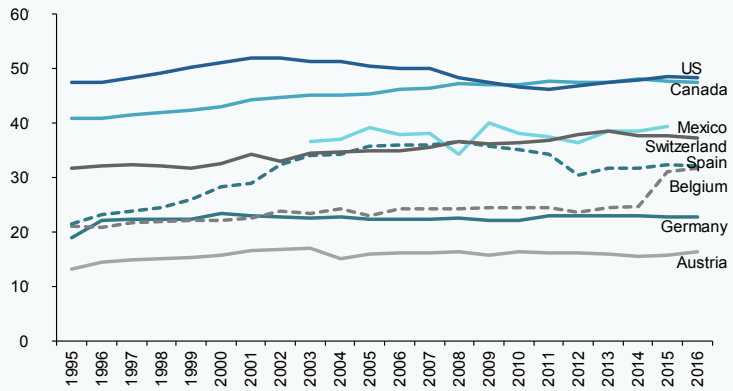
However, it is insufficient to focus on the share of decentralised tax collection. In some cases, tax revenues are not accompanied by decision-making power and therefore do not depict real autonomy. Germany is the classic example. The *Länder* finance themselves mainly through a regime of regional participation in a broad array of taxes.

To overcome this limitation, the OECD has estimated the effective level of autonomy. For the purpose of this article, we have selected the last year for which data is available (2014) and the information on the percentage of regional revenue that stems from taxes for which the

> “In the European Union (EU), Spain is currently the leader in effective tax decentralisation.”

Exhibit 1

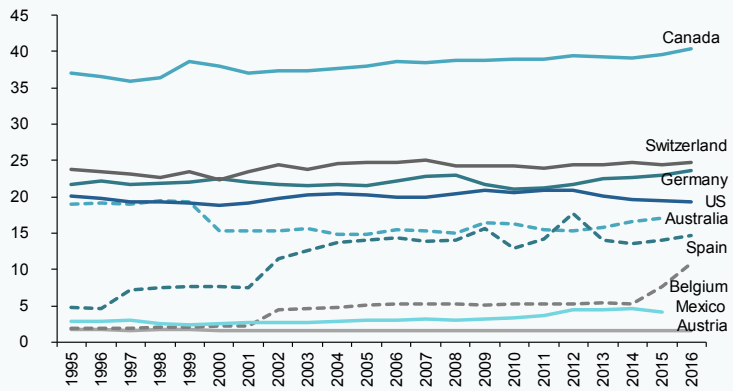
Percentage of public expenditure in the hands of regional governments in OECD nations



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

Exhibit 2

Percentage of tax collection in the hands of regional governments in OECD nations

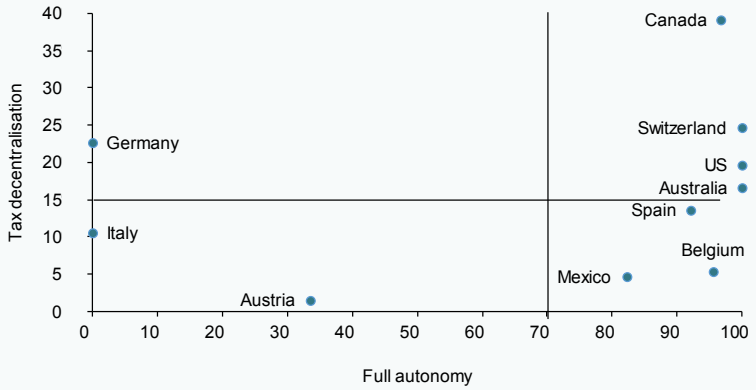


Source: OECD statistics (2019) and author's own elaboration.

sub-central governments have the power to modify the rates without having to consult the central government. The results are shown in Exhibit 3. The vertical axis depicts the percentage of taxes in regional hands provided in Exhibit 2. In the European Union (EU), Spain is currently the leader in effective tax decentralisation. The regions in Italy and

Exhibit 3

Degree of tax decentralisation and full policy-making capacity in 2014



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

Germany do not enjoy true autonomy, while in Austria and Belgium, the taxes under regional control are scant. Spain also ranks in the top 5 worldwide, behind Canada, Switzerland, the US and Australia (Lago Peñas and Vaquero, 2016).

Outstanding challenges and possible solutions

In light of the above, one could conclude that further tax decentralisation is not a pressing issue in Spain. Between the reforms of 1997, 2002 and 2009, Spain has done an adequate job decentralising its tax system. However, certain issues and challenges remain. As pointed out by the dedicated Expert Committee (2018), and illustrated in Exhibits 2 and 3, the focus should not be on increasing decentralisation as much as redesigning the context in which tax autonomy is exercised.

To accomplish this, it is vital to tighten the so-called 'soft budget constraint' at the regional tier (Fernández Llera, Lago Peñas and Martínez-Vázquez, 2013). Following the regional financing reforms undertaken to date, the regional governments have seen their resources increase significantly (particularly in 2009) without having to raise taxes and assume the corresponding political cost, either individually or collectively. This situation has also been buoyed by the central government's financing instruments, which over the past decade supported regional fiscal deficits (particularly the so-called Regional Liquidity Fund). The regions have been able to finance their deficits, even those that missed the stipulated limits, at zero or almost-zero cost. Although the Great Recession had the effect of raising regional taxes (Solé-Ollé, 2015), its contribution to fiscal adjustment has been marginal compared to expenditure cuts.

Secondly, there is a need to fine-tune most of the taxes transferred, including aspects of their management, and to align environmental taxes collected by the regions with a nationwide green tax strategy. The main changes include:

- The current VAT and excise duties revenues sharing should be replaced by regional tranches. Decision-making regarding those tranches would be taken by the regional governments collectively. Although this solution poses challenges, they are not insurmountable. Spain's Fiscal and Financial Policy Council could provide the forum for debate among the regions. A qualified majority could also prevent the need for outright consensus. Any regions that were not in agreement with changes

to the regional tranche could compensate their citizens with changes in other regional taxes. Given the amount of tax raised via VAT and excise duties, the regional governments would benefit considerably, while the central government could permanently end the regions' demands for new revenue transfers. Thus, this solution could solve the soft budget constraint problem and the mismatches between public service preferences and the corresponding tax burdens. As noted in the introduction, it is the synchronisation of these two aspects that enables the endogenous determination of financial sufficiency.

- In the case of personal income tax, regions should enjoy the speed and transparency of decisions taken at the central government level. The current asymmetry and time lag are problematic and significantly discourage the use of the regional tranche. For example, if the central government decides to raise rates, that increase is reflected in tax payers' withholdings within weeks. In contrast, if a regional government takes a decision in December 2019 to increase personal income tax rates in the next fiscal year, withholdings do not change in 2020. The increase is only felt by the tax payer when he or she presents the corresponding annual tax return in the spring of 2021; and transfers of the additional funding to the regions do not occur until July 2022. Furthermore, citizens also need to be informed clearly in their payrolls and other sources of income about which portion of their withholdings is going to finance regional competencies. The assistance programmes and tax returns need to unambiguously illustrate that citizens really pay two taxes. While they coexist under the same legal umbrella and name, they correspond to two different tax authorities.

- On the wealth taxation front, which includes property, inheritance and gift tax, it is necessary to first address whether or not it is advisable to maintain these instruments as part of the Spanish tax system. The arguments and international experience are stronger for inheritance tax than property tax. The report issued by the Expert Committee on the Spanish tax system in 2014 took a similar stance. Regardless, if one or both of these taxes are maintained, consistency is key. Either policy-setting power has to be recentralised or a tax floor needs to be set at the state level to end counterproductive competition among the regions.

- The regional governments can play a meaningful role in the implementation of new or reformulated tax instruments under the umbrella of the country's 'green tax reforms'. Although discussion of these reforms dates back nearly two decades, it has since been set aside. The regional and central governments should work together to define a catalogue of appropriate taxes for optional implementation at the regional level. That effort should leverage the experience of regional governments in defining in detail the instruments that would substitute the existing direct taxes in favour of greater simplicity and legal certainty.

- Lastly, the regions need to be involved to a greater degree in tax management tasks. These are primarily in the hands of the AEAT, which is perceived as a state agency disconnected from the regional authorities. As recommended by the Expert Committee in 2018, the long-term objective should be to create an integrated joint agency with state and regional representation that would service the various levels of government. Bilateral consortia between the AEAT and the regional agencies would be an interim step towards formalising this strategy.

Notes

[1] The author would like to thank Alejandro Domínguez for his assistance.

[2] Lago-Peñas, Fernandez Leiceaga and Vaquero (2017) provide a comprehensive overview of the process.

[3] The OECD data used in this section are taken from its fiscal decentralisation database (OECD, 2019). Specifically, the figures in the database's Table 1 are used to calculate effective

tax autonomy (Exhibit 3), the figures in Table 5 to calculate decentralised public expenditure (Exhibit 1) and the figures in Table 9 to estimate taxation (Exhibit 2).

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CONSUMPTION

Household income inequality and its impact on consumption

Although income inequality has declined and wealth levels have improved, Spanish income and consumption rates are still weak compared to pre-crisis levels. These dynamics indicate that the consequences of the financial crisis, including fewer opportunities for permanent employment and a reduction in savings, are still having a negative impact on Spanish households.

Gonzalo García and Diana Posada

Abstract: The great recession has had a long-lasting impact on Spanish households, with consumption still below pre-crisis levels. Given the importance consumption plays in a country's GDP, it is necessary to go beyond the analysis of aggregated statistics to identify behavioural patterns across household groups, with the goal of gleaning insight into past patterns and future projections of consumption. Interestingly, the latest data show that while income inequality has fallen, it is still higher than in 2007. On the other hand, wealth is less unequally dispersed and those households in economic hardship have fallen. That said, with the exception of retirees, Spaniards' income levels have yet to fully re-bound. The combined effect of these developments means consumption remains lower than in 2007. Interestingly, there has been a slowdown in the improvement in

consumption this year despite an increase in gross disposable income. This suggests household spending could be influenced by factors such as uncertainty emanating from global trade disputes and other factors that are remnants from the crisis still observable today.

Introduction

The use of aggregate figures to analyse an economy's performance can pose challenges for economists. As information that captures dissimilarities and the behaviour of different agents is often lost in these analyses, it is increasingly common to supplement aggregate statistics with more detailed information from government registers and surveys. In Spain's case, trends in the distribution of household incomes provide insight into past patterns and future projections of consumption. In this report, we use the most recent data on household income distribution to determine the implications for Spain's economy.

There are three sources of information on the distribution of income and wealth in Spain:

- The *Quality of Life Survey (EQLS)*. This is an annual survey that is harmonised across Europe and designed to provide information on income as well as the level and composition of poverty and social exclusion. It can also be used to make comparisons between EU countries. The 2018 edition provides a snapshot of the situation of families in 2017.

- The *Survey of Household Finances (EFF)*. This survey is published by the Bank of Spain and examines the finances of households, supplementing the aggregate information drawn from the financial accounts. The most recent publication includes data from 2014 and was used by the Bank of Spain to prepare its 2018 report on income, consumption and wealth inequalities in Spain.

- The *Luxembourg Income Study (LIS)* includes data from survey campaigns in high- and middle-income countries, which can be used to draw international comparisons of both income and wealth.

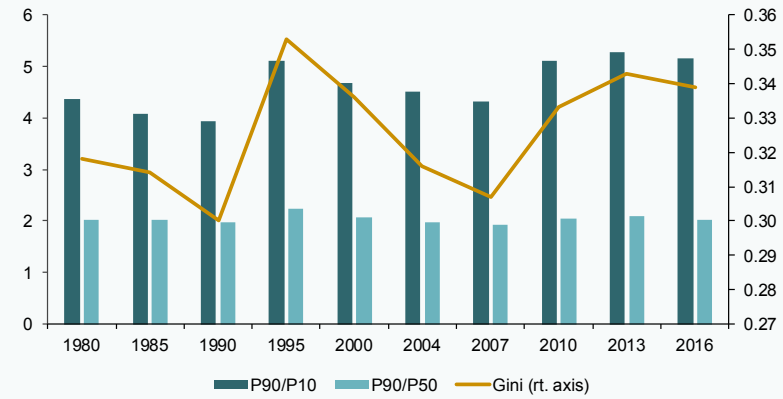
- The *World Inequality Database (WID)*. This is a free database prepared by a group of economists whose objective is to standardize and improve the quality and scope of public statistics that cover the global and evolving distribution of income and wealth. The database combines survey information with tax records and National Accounting data. The objective of the project is the preparation of National Distributive Accounts, which allow macroeconomic data to be regularly and coherently integrated with the income and wealth distribution structure.

The data show the negative impact of the crisis on the incomes of households in the lowest percentiles, with cuts in working hours having a significant effect. Exhibit 1 demonstrates how the Gini coefficient –a synthetic measure of income distribution– rose significantly when the crisis hit (indicating greater inequality) and has started to level off in recent years. This pattern is also reflected in the difference between percentiles at different points on the distribution curve. Looking at the income of the 90th percentile and the 10th percentile of income earners, the difference between the two hovered around 5 during the crisis, and has subsequently fallen in the latest data collected by the *LIS*.

“ Looking at the income of the 90th percentile and the 10th percentile of income earners, the difference between the two hovered around 5 during the crisis, and has subsequently fallen in the latest data collected by the *LIS*. ”

Exhibit 1

Income distribution indicators in Spain (Gini coefficient and quotients between distribution percentiles)



Source: Afi, LIS.

These dynamics partially explain why inequality in Spanish net incomes was among the highest in the EU. Conversely, due to home ownership, wealth was less unequally dispersed. The impact on consumption was partly and temporarily cushioned by pensions and government transfers such as unemployment benefits. These households had minimal savings and tight finances due to a lack of financial assets, so their propensity to consume out of wage income when they found work during the recovery was high. This incongruity warrants closer examination in light of the on-going recovery, a stronger job market and improved salaries, which have corrected the relative decline in household incomes in the lowest percentiles of the distribution curve.

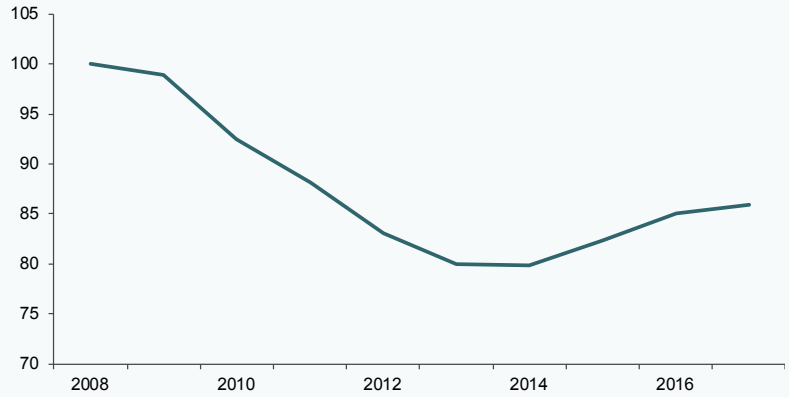
Income inequality

According to the *EQLS,* the average household income per annum was 28,417 euros in 2017 – up 3.1% y-o-y. Average household incomes have been on the rise for four years in a row, although they are still lower than pre-crisis levels. This is especially true for real incomes in 2017, which remained 9% below the average in 2008 (Exhibit 2). This decline is due to the considerable reduction of household incomes at the middle and lower ends of the distribution curve. These groups are primarily composed of families with unemployed or retired members. Although the average income of retirees is in line with pre-crisis levels, this is not the case for the unemployed, whose income is 20% lower. While unemployment has fallen considerably from 26% in 2013 to below 15% today, the unemployed did not see their income begin to rise until 2016.

While household incomes have not fully rebounded, the economic recovery has reduced inequality, measured as the ratio between average incomes in the 20th and 80th percentiles. This ratio decreased by 9% in 2018 y-o-y to 6, which is almost a point below the maximum reached in 2015. Despite

> “Average household incomes have been on the rise for four years in a row, although they are still lower than pre-crisis levels.”

Exhibit 2 **Real median household income (2008=100)**



Source: Afi, INE.

this improvement, income inequality is still greater than before the crisis, when the ratio stood at 5.6. That said, WID data indicate that the income earned before taxes by the top one percent and the richest ten percent increased in 2015 and 2016, standing this last year at 9.8% and 30.7% of total income, respectively.

Moreover, the recovery has reduced the proportion of families facing economic hardship. This improvement has been especially intense in the lowest deciles of the distribution curve (Exhibit 3). For example, 34% of households currently report they cannot afford a weeklong vacation once a year, down from 46% in 2013. However, the change in the proportion of families without any emergency funds is less positive. Around 36% of families are without any emergency funds, compared to 42.4% in 2014.

That said, at 21.5%, the percentage of the population at risk of poverty or social exclusion (measured by the AROPE indicator) is still high, despite having fallen by half a point. As the risk of poverty and becoming severely materially deprived have not changed since the last survey, the decrease in the AROPE indicator is most likely due to job creation, which reduces the percentage of the population with low work intensity.

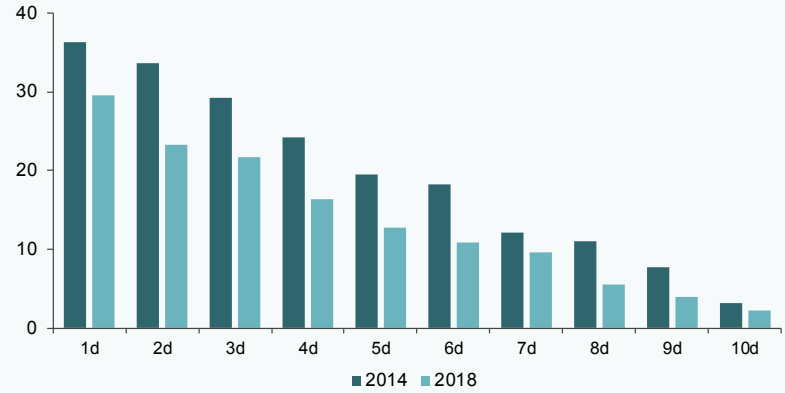
The wealth effect

To a lesser extent, the accumulation of wealth (both financial and real estate) has reduced inequality between families. Households have accumulated a considerable stock of net financial assets worth 187% of GDI in 2018 compared to 107% before the crisis. This increase has been largely due to the deleveraging of households together with the accumulated revaluation of financial assets. The recovery in housing prices has boosted the non-financial wealth of families through the revaluation of real estate such

> “The recovery in housing prices has boosted the non-financial wealth of families through the revaluation of real estate such that the current real estate cycle is helping to close the wealth gap that widened during the crisis.”

Exhibit 3

Percentage of people declaring that they struggle to make ends meet at the end of the month by decile



Source: Afi, INE.

that the real estate wealth of families in terms of GDI has increased by almost 90 percentage points since 2014 to stand at 718% in 2018.

It is important to note that wealth is usually more concentrated than income. However, the high proportion of real estate *versus* financial wealth held by Spanish households means that inequality in terms of wealth is lower than in other developed economies. The current real estate cycle is therefore helping to close the wealth gap that widened during the crisis.

Consumption

The Household Budget Survey (EPF) in Spain offers insight into families' consumption decisions. In 2017, average household spending totalled 29,317 euros – 3.5% higher than in 2016 but still down 7.5% from the 2008 figure. Looking at the evolution of spending broken down by the type of breadwinner (self-employed, employee, pensioner, *etc.*), it becomes clear that with the exception of pensioners whose spending has increase by 5.6%, all households are consuming less than in 2008. Although each group is spending considerably less in real terms, the reduction in spending among pensioners has been the least pronounced. Since 2014, spending by all groups has stabilised, with some limited increases concentrated among households with wage earners and self-employed breadwinners. In other words, spending by those cohorts most sensitive to the general economic recovery has risen the most, which fuels consumption, at least in the near term.

Figures are also available for consumption broken down by the net income of breadwinners. These data show that spending by households with net incomes of less than 1,000 euros a month fell between 2016 and 2017, while those on higher incomes spent more. However, this situation can lead to a ladder effect, *i.e.* if the main breadwinner's income increases, the household will move

“ Since 2014, spending by those cohorts most sensitive to the general economic recovery has risen the most, which fuels consumption, at least in the near term. ”

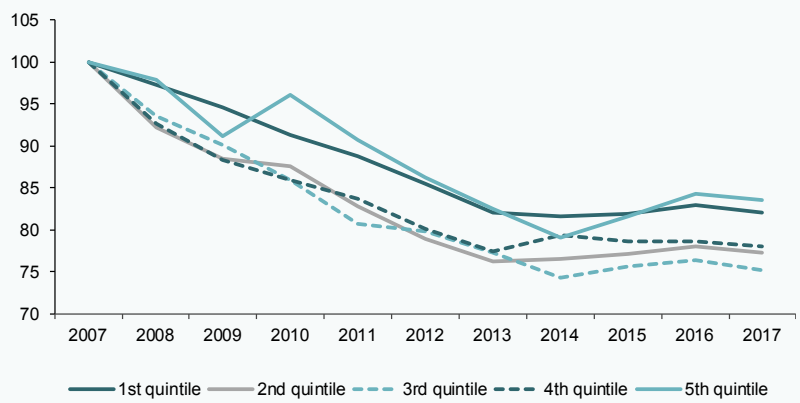
> “Final consumption expenditure fell from 0.6% in the third quarter of 2018 to 0.26% in the first round of second quarter data this year.”

into a higher category. This is clearly shown in the distribution of households by this classification, where those with incomes of less than 1,500 euros made up 44% of the total in 2016, falling to 41.2% in 2017 – a 2.8 percentage point decrease. This scenario also supports consumption as more households find themselves in higher income categories.

Nevertheless, average spending per household broken down by quintiles shows that in real terms all cohorts are well below 2007 levels, with the third quintile experiencing the greatest cumulative decline of 25%. There has also been an 18% decrease for the lowest quintile (Exhibit 4). The poorest quintile's spending may have fallen in order to re-allocate income to cover their basic needs. However, this would mean that the propensity to consume would still be high in the event of potential increases in income.

The above analysis may be useful to understand the recent trajectory of households' final consumption expenditure. According to the Quarterly National Accounts, this spending category has weakened in the last year. Specifically, it fell from 0.6% in the third quarter of 2018 to 0.26% in the first round of second quarter data this year. Interestingly, the slowdown has coincided with an improvement in the growth rate of gross disposable income, thanks to considerable wage growth. The uncertainty derived from the global industrial recession, ongoing trade disputes, and the implications on automobile purchases derived from uncertainty over environmental standards has encouraged households to moderate their spending and slightly raise their savings, which has fallen to historical lows. Although the situation for households at the lower end of the income distribution is precarious, as employment rates improve, it is likely that consumption will pick up, too. However, the vulnerability of this component of GDP to any negative shock has probably been exacerbated.

Exhibit 4 **Average spending by category (2007=100)**



Source: Afi, INE.

Conclusion

In summary, despite the inevitable time lag, the data show that while employment rates and household finances in the lowest deciles of the distribution curve have improved, these households' situation remains still precarious. This is partly due to the high propensity to consume wages earned by these segments. As well, income and consumption are still weak compared to pre-crisis levels. These dynamics indicate that the consequences of the financial crisis, including fewer opportunities for permanent employment and a reduction in savings, are still having a negative impact on Spanish households.

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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)

CNMV Resolution on product intervention measures in respect to binary options and contracts for differences (Resolution of June 27th, 2019, published in the *Official State Journal* on June 29th)

Spain's National Securities Market Commission, the CNMV for its acronym in Spanish, has introduced product intervention measures with respect to: (i) binary options; and, (ii) contracts for differences (CFDs), which took effect on July 2nd and August 1st, respectively. The restrictions apply to all entities marketing these products in Spain.

The key measures adopted by the CNMV, which are applicable to the provision of services in Spain and coincide with those adopted by the European Securities and Markets Authority (ESMA), are the following:

- *A prohibition on the marketing, distribution or sale of binary options* to retail investors.
- *Restrictions on the marketing, distribution or sale of CFDs* to retail investors.
  - *Leverage limits* on the opening of a position between 30:1 for major currency pairs and 2:1 for cryptocurrencies, according to the volatility of the underlying asset.
  - A *margin close-out rule* on a per account basis.
  - A *negative balance protection* measure on a per account basis.
  - A *restriction on the incentives* offered to trade CFDs.
  - A *standardised risk warning*, including the percentage of losses on a CFD provider's retail investor accounts.

The Resolution also reiterates the requirement to *collect written acknowledgement* of the particular complexity of CFDs from retail investors. The CNMV deems it *good practice* for entities to establish appropriate procedures for requesting *additional collateral* before the margin close-out threshold is reached.

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Spanish economic forecasts panel: September 2019*

Funcas Economic Trends and Statistics Department

GDP growth estimated at 2.2% in 2019, 0.1pp down from the last survey [1]

Second-quarter GDP growth came in at 0.5%, 0.1pp lower than our Panel members were estimating. The slowdown was evident in most of the services and manufacturing industry related indicators. On the other hand, certain aspects of private consumption, such as retail sales, were stronger than forecast.

The consensus is for third- and fourth-quarter GDP growth of 0.5% (no change from the last survey, published in July). For 2019 as a whole, the consensus forecast points to growth of 2.2%, down 0.1pp from the July report. Ten of the analysts have trimmed their forecasts, whereas none has revised them upwards.

The expected composition of that growth has shifted: net exports are now expected to contribute 0.1pp (compared to a neutral contribution forecasted in last survey) and domestic demand 2.1pp, down 0.2pp from the July consensus estimate. The average forecasts for private and public consumption have been cut by 0.1pp. However, the most significant change is the 0.6pp downward revision to forecast investment in capital goods (driven above all by estimated growth in investment in machinery and equipment, which has been cut by 1.2pp to 3.3%). The forecast for growth in imports has been reduced by 0.5pp to 1.1%, whereas estimated growth in exports is unchanged from July.

Growth forecast for 2020: Unchanged at 1.9%

The consensus forecast for GDP growth in 2020 is unchanged at 1.9%. The only subtle difference is that the analysts are now expecting a slight slowdown in quarterly growth, to 0.4%, to begin in the second quarter (Table 2), as opposed to the third quarter, which is what they forecast in July.

The contraction in growth forecast for next year is attributable to a slowdown in all components of domestic demand and a less favourable contribution by net trade (0% in 2020 *versus* 0.1% in 2019).

Inflation continues to ease

Inflation has fallen to around 0.4% in recent months, from around 1% at the start of the year, due to the drop in the prices of unprocessed food and, above all, energy products. Inflation is expected to remain at current levels for the rest of the year, reaching slightly higher in November and December. Note, however, that due to the timing of the survey, the analysts' forecasts do not factor in developments in oil prices relating to the drone attacks on Saudi Arabian oil-producing facilities.

The consensus forecast for average inflation in 2019 has been reduced by 0.3pp to 0.8%; the forecast for core inflation has been revised downward by 0.1pp to 0.9%, which would put it above headline inflation for the first time since 2016. Looking to 2020, headline and core inflation are both forecast at 1.2%. The year-on-year rates of change in December of this year and next are currently forecast at 1% and 1.2%, respectively (Table 3).

Signs of slowdown in the job market

According to the Social Security contributor figures, the rate of job growth continued to weaken in July and August, in tandem with the overall pattern of economic weakening. All sectors are losing momentum.

The consensus forecasts for growth in employment is unchanged at 2.2% for 2019 and down 0.1pp to 1.6% for 2020. The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULCs). Productivity is not expected to improve this year but is expected to advance by 0.3% in 2020. ULCs, meanwhile, are expected to increase by 1.9% in 2019 (up 0.2pp from the July report) and 1.5% in 2020 (down 0.2pp *vs*. July).

The average annual unemployment rate is expected to continue to trend lower to 13.9% in 2019 and 12.9% in 2020, which is nevertheless slightly higher than was being forecast in July.

External surplus continues to shrink

To June, Spain presented a current account deficit of 1.2 billion euros, compared to the 1.64 billion euro surplus recorded in the first half of 2018, shaped by the erosion of the trade surplus and increase in the income deficit.

The consensus forecasts for the current account are unchanged from July: a surplus of 0.6% of GDP in 2019 and of 0.5% in 2020.

Public deficit forecasts unchanged

The fiscal deficit, excluding local authorities, amounted to 26.33 billion euros in the first half of 2019, compared to 22.42 billion euros in the same period of 2018. The deterioration is the result of faster growth in spending relative to revenue, at all levels of government.

The consensus forecasts for the public deficit in Spain are unchanged from July: 2.3% of GDP in 2019 and 1.9% in 2020. Those numbers would imply missing the government's targets by 0.3pp and 0.8pp, respectively.

The external environment has deteriorated by more than expected

When the analysts submitted their forecasts, a barrel of Brent oil was trading at around $60. As a result, this survey does not reflect the spike in oil prices prompted by the recent drone attacks on Saudi Arabian oil extraction facilities. However, even without factoring in those events, the global economy is slowing down faster than was originally expected. The main economic indicators, such as the global PMIs, point to a drop in manufacturing activity levels and slower growth in services, trends that have become more pronounced since the last report was compiled in July.

The global slowdown reflects a host of factors that are reinforcing each other. On the one hand, according to recent estimates, global trade contracted during the first half of the year. The tariff war between the two main economic powers is showing little sign of dissipating. Elsewhere, the Chinese economy continues to slow, while growth in the US is beginning to show signs of sluggishness. Lastly, the industrial sector is facing major structural changes that are weighing on output. All of which is exacerbated by Brexit-induced uncertainty.

The European economy, highly dependent on exports, is one of the most affected. The ECB's September forecasts point to growth in the eurozone of 1.1% in 2019 (down 0.1pp from its June forecasts) and of 1.2% in 2020 (down 0.2pp).

The analysts have become more pessimistic about the outlook for the external environment since July. Sixteen and fourteen of them now see the environment in the EU and beyond the EU as adverse, respectively (fourteen and eleven, respectively, in July). Moreover, eight believe that the situation will deteriorate further in Europe, whereas none of them believed this in July. Lastly, not a single analyst is expecting an improvement in the coming months.

Monetary policy looks set to remain expansionary throughout the projection horizon

The analysts submitted their forecasts and assessments before September's ECB Governing Council meeting, at which significant monetary policy decisions were announced in a bid to counteract the deterioration in Europe's economic prospects and disappointing inflation figures. Specifically, the central bank is rekindling its government debt asset purchase programme (APP), to the monthly amount of 20 billion euros. It is also cutting the rate on its deposit facility by 0.1pp (to -0.5%) and stepping up support for its long-term refinancing operations (TLTRO–III). Lastly, the ECB is introducing a two-tier deposit rate system in order to mitigate the penalisation of the bank reserves placed on deposit.

The markets had already begun to price in the shift towards a more accommodative stance. 12-month EURIBOR has dipped from the readings anticipated in the last report, staying solidly in negative territory (and this situation is largely unchanged in the wake of the ECB's announcements last Thursday). The yield on 10-year Spanish bonds remains at record lows, below 0.3% (down 0.1pp from July).

The analysts' assessment of the monetary situation is largely unchanged, with nearly all of the opinion that monetary policy is expansionary. They also

agree that these conditions will persist throughout the coming months. The yield on the 10-year bond is barely expected to move in the next few months and is forecast at 0.65% at the end of 2020, down from the last forecast of 0.92%. 12-month EURIBOR is expected to remain in negative territory for the entire forecast horizon, at even lower readings than were being forecast in July. Lastly, the number of analysts who believe that the prevailing accommodative monetary policy is what the Spanish economy needs right now has increased from eleven to thirteen.

Euro largely stable against the dollar

Since the July assessment, the euro has depreciated slightly against the dollar. The analysts believe that the Federal Reserve's monetary policy easing in the US, potentially more pronounced than in Europe, will translate into a slight appreciation of the euro against the dollar in the quarters to come. They are forecasting an exchange rate of EUR/USD1.14 at the end of the projection period, down a scant USD0.02 from the last report.

Most analysts view fiscal policy as expansionary

There is little change in the analysts' assessment of fiscal policy. While the number who believe the current policy stance is neutral has increased, the majority continue to view it as expansionary.

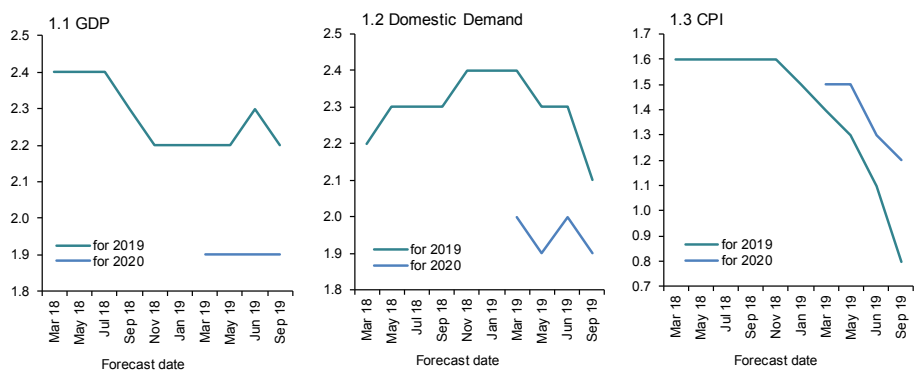
Notes

[1] Note that the survey responses were collected before the National Statistics Office (INE) published its revised national accounting figures.

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 19 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 19 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: September 2019*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – September 2019

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

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF construction		Domestic demand	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.2	1.9	1.7	1.6	1.8	2.0	3.8	3.5	3.7	4.0	4.6	3.7	2.2	2.2
Axesor	2.4	2.0	1.9	1.7	1.9	1.2	4.5	3.6	3.8	3.1	4.5	4.2	2.5	2.0
BBVA Research	2.3	1.9	1.8	1.7	1.8	1.7	3.1	3.4	3.9	3.0	3.1	3.5	2.1	2.1
Bankia	2.2	1.8	1.5	1.4	2.2	1.9	3.2	2.8	3.2	2.6	3.8	3.0	2.0	1.8
CaixaBank Research	2.2	1.7	1.5	1.6	1.6	1.4	2.9	2.9	2.9	3.0	3.5	2.7	1.8	1.8
Cámara de Comercio de España	2.2	1.9	1.9	1.7	2.2	1.8	4.5	4.6	4.3	4.4	4.8	4.8	2.2	1.7
Cemex	2.2	1.8	1.7	1.7	1.7	1.7	3.5	3.1	3.3	3.0	4.3	3.8	2.0	1.9
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.3	1.9	1.7	1.6	1.9	1.5	3.6	3.4	4.0	3.3	4.1	3.8	2.1	1.9
Centro de Predicción Económica (CEPREDE-UAM)	2.3	2.1	1.7	1.7	1.9	1.7	2.8	4.5	1.8	4.4	3.9	4.9	1.9	2.2
CEOE	2.1	1.8	1.9	1.9	1.9	1.8	3.9	3.0	3.7	3.2	4.4	2.9	2.3	2.0
Equipo Económico (Ee)	2.4	2.1	2.0	1.8	2.2	2.0	4.1	3.5	4.0	3.4	4.3	3.5	2.2	2.0
Funcas	2.2	2.0	1.9	1.7	1.7	0.9	4.9	3.9	4.0	3.9	5.6	4.0	2.5	2.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	1.9	1.8	1.7	1.7	1.3	3.3	3.3	3.7	3.3	3.9	3.4	2.1	2.0
Instituto de Estudios Económicos (IEE)	2.3	1.8	1.7	1.5	1.9	1.6	4.2	3.9	4.0	3.6	4.4	4.1	2.2	2.0
Intermoney	2.1	1.8	1.6	1.5	1.7	1.4	2.8	2.6	2.0	1.7	3.9	3.6	1.9	1.8
Repsol	2.1	1.7	1.4	1.3	1.6	1.8	2.7	2.2	2.2	0.8	3.8	3.5	1.6	1.5
Santander	2.2	1.7	1.5	1.3	1.6	1.3	2.4	1.9	1.9	1.0	3.3	2.5	1.7	1.4
Solchaga Recio & asociados	2.2	1.8	1.5	1.4	1.8	1.6	3.6	3.3	3.3	3.0	4.3	4.0	2.1	1.9
Universidad Loyola Andalucía	2.3	1.9	1.5	1.5	1.8	1.6	3.0	2.4	3.1	2.2	3.2	2.5	1.9	1.7
CONSENSUS (AVERAGE)	2.2	1.9	1.7	1.6	1.8	1.6	3.5	3.3	3.3	3.0	4.1	3.6	2.1	1.9
Maximum	2.4	2.1	2.0	1.9	2.2	2.0	4.9	4.6	4.3	4.4	5.6	4.9	2.5	2.2
Minimum	2.1	1.7	1.4	1.3	1.6	0.9	2.4	1.9	1.8	0.8	3.1	2.5	1.6	1.4
Change on 2 months earlier[1]	-0.1	0.0	-0.1	-0.1	-0.1	0.0	-0.6	-0.2	-1.2	-0.5	-0.1	-0.1	-0.2	-0.1
- Rise[2]	0	1	1	0	3	2	0	1	0	2	3	3	1	1
- Drop[2]	10	8	12	12	8	3	12	10	12	8	9	8	12	10
Change on 6 months earlier[1]	0.0	0.0	-0.3	-0.2	-0.3	0.0	-0.4	-0.1	-0.4	-0.4	-0.2	0.1	-0.3	-0.1
Memorandum items:														
Government (April 2019)	2.2	1.9	1.9	1.6	1.9	1.5	4.0	3.5	--	--	--	--	--	--
Bank of Spain (June 2018)	2.4	1.9	1.8	1.7	1.7	1.3	4.1	3.9	3.7	3.5	4.6	4.3	--	--
EC (July 2019)	2.3	1.9	--	--	--	--	--	--	--	--	--	--	--	--
IMF (July 2019)	2.3	1.9	--	--	--	--	--	--	--	--	--	--	--	--
OECD (May 2018)	2.2	1.9	1.7	1.6	1.9	1.6	3.8	3.9	--	--	--	--	2.2	2.1

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

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

Table 1 (Continued)

Economic Forecasts for Spain – September 2019

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

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[6]	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	0.7	2.6	0.4	3.1	0.7	0.8	0.9	1.2	1.4	1.5	2.4	2.1	13.9	12.8	0.5	0.5	-2.3	-1.8
Axesor	2.2	2.9	2.6	3.0	0.8	1.3	1.1	1.0	2.0	1.8	2.8	1.7	13.4	12.8	0.8	0.5	-2.3	-2.0
BBVA Research	1.7	3.5	0.8	4.1	0.8	1.3	--	--	2.6	2.5	2.2	1.6	13.7	12.7	0.7	0.4	-2.2	-1.9
Bankia	1.7	1.9	1.2	2.2	0.8	1.4	0.9	1.3	1.8	1.6	2.4	1.5	13.8	12.8	0.7	0.5	--	--
CaixaBank Research	2.0	2.6	0.8	3.2	0.8	1.2	0.9	1.3	2.2	2.7	2.4	1.9	13.8	12.3	0.6	0.4	-2.3	-1.5
Cámara de Comercio de España	1.5	2.9	2.0	2.9	0.8	1.4	0.7	1.1	--	--	2.2	1.7	13.8	12.9	0.8	0.8	-2.4	-1.8
Cemex	1.3	1.3	0.9	1.8	0.8	1.2	1.0	1.1	--	--	2.0	1.7	13.9	12.7	0.5	0.3	-2.5	-2.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	1.1	2.5	0.6	2.6	0.8	1.4	1.0	1.3	-	-	2.1	1.7	13.9	12.8	0.8	0.6	-2.5	-2.1
Centro de Predicción Económica (CEPREDE-UAM)	1.6	3.0	0.4	3.4	0.8	1.1	--	--	1.8	1.7	2.3	1.6	14.1	13.6	0.4	0.9	-1.6	-1.2
CEOE	1.3	1.5	2.2	2.4	0.8	1.1	0.9	1.1	1.9	1.7	2.3	1.8	13.8	12.4	0.5	0.4	-2.2	-1.8
Equipo Económico (Ee)	1.7	1.9	1.5	2.0	0.8	1.4	1.0	1.3	1.8	1.5	2.1	1.7	13.8	12.6	0.8	0.7	-2.5	-2.3
Funcas	2.0	2.3	2.8	2.7	0.8	1.1	0.9	1.1	2.1	1.4	2.2	1.7	13.7	12.4	0.6	0.5	-2.2	-2.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.4	2.4	0.9	2.7	0.8	1.2	1.3	1.4	--	--	2.2	1.6	13.8	12.9	0.7	0.6	-2.1	-2.1
Instituto de Estudios Económicos (IEE)	1.4	2.1	1.2	3.2	1.1	1.3	1.2	1.5	1.9	2.2	2.0	1.6	14.0	13.1	0.5	0.4	-2.3	-1.8
Intermoney	1.6	1.9	0.8	2.1	0.8	1.0	0.8	1.0	--	--	2.2	1.7	13.9	13.1	0.2	0.1	-2.3	--
Repsol	1.8	2.3	0.3	1.8	0.9	1.3	0.9	1.1	1.6	1.5	2.3	1.5	13.8	12.8	0.6	0.3	-2.3	-2.0
Santander	1.8	2.5	0.5	1.8	0.7	1.1	0.9	1.3	1.3	--	2.3	1.1	14.0	13.5	0.4	0.3	--	--
Solchaga Recio & asociados	1.5	2.3	1.0	2.6	0.9	1.0	0.8	1.1	--	--	2.0	1.6	14.1	13.2	0.6	0.4	-2.5	-2.1
Universidad Loyola Andalucía	1.4	2.5	0.1	2.0	0.8	0.8	0.9	0.8	--	--	1.9	1.6	13.9	12.8	0.7	0.5	-2.3	-1.9
CONSENSUS (AVERAGE)	1.6	2.4	1.1	2.6	0.8	1.2	0.9	1.2	1.9	1.8	2.2	1.6	13.9	12.9	0.6	0.5	-2.3	-1.9
Maximum	2.2	3.5	2.8	4.1	1.1	1.4	1.3	1.5	2.6	2.7	2.8	2.1	14.1	13.6	0.8	0.9	-1.6	-1.2
Minimum	0.7	1.3	0.1	1.8	0.7	0.8	0.7	0.8	1.3	1.4	1.9	1.1	13.4	12.3	0.2	0.1	-2.5	-2.3
Change on 2 months earlier[1]	0.0	-0.1	-0.5	-0.3	-0.3	-0.1	-0.1	0.0	0.1	-0.1	0.0	-0.1	0.2	0.2	0.0	0.0	0.0	0.0
- Rise[2]	6	4	2	1	0	0	4	3	3	1	4	1	8	9	1	2	3	1
- Drop[2]	7	8	9	12	15	11	6	5	2	2	5	6	0	0	4	6	2	4
Change on 6 months earlier[1]	-1.0	-0.3	-2.2	-0.6	-0.6	-0.3	-0.2	-0.1	0.2	0.1	0.3	0.0	0.0	0.1	-0.1	-0.1	0.0	0.1
Memorandum items:																		
Government (April 2019)	2.7	2.8	3.1	2.9	--	--	--	--	2.1	2.2	2.1	1.8	13.8	12.3	0.7	0.7	-2.0	-1.1
Bank of Spain (June 2018)	1.6	3.2	1.4	3.8	1.1[7]	1.3[7]	1.2[8]	1.5[8]	--	--	2.0	1.6	13.9	13.0	1.0[9]	0.9[9]	-2.4	-1.8
EC (July 2019)	--	--	--	--	0.9[7]	1.2[7]	--	--	--	--	--	--	--	--	--		--	--
IMF (July 2019)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (May 2018)	0.8	3.7	0.6	4.3	1.0 [7]	1.6[7]	1.0[8]	1.5[8]	1.8	2.0	2.3	1.6	13.8	12.7	0.8	0.7	-2.0	-1.4

[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 (HIPC).*

[8] *HIPC excluding energy and food.*

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

Table 2

Quarterly Forecasts – September 2019

	19-I Q	19-II Q	19-III Q	19-IV Q	20-I Q	20-II Q	20-III Q	20-IV Q
GDP[1]	0.7	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Euribor 1 yr [2]	-0.11	-0.19	-0.35	-0.36	-0.34	-0.32	-0.28	-0.23
Government bond yield 10 yr [2]	1.13	0.52	0.27	0.29	0.39	0.47	0.57	0.65
ECB main refinancing operations interest rate [2]	0.00	0.00	0.00	-0.01	-0.01	-0.01	-0.01	-0.01
Dollar / Euro exchange rate [2]	1.13	1.13	1.11	1.11	1.12	1.12	1.14	1.14

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

Table 3

CPI Forecasts – September 2019

Year-on-year change (%)				
Sep-19	Oct-19	Nov-19	Dec-19	Dec-20
0.4	0.3	0.6	1.0	1.2

Table 4

Opinions – September 2019

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	3	16	0	11	8
International context: Non-EU	0	5	14	0	11	8
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	5	14	6	12	1
Monetary policy assessment[1]	0	1	18	0	6	13

[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 (1)

		GDP	Private consumption	Public consumption	Gross fixed capital formation				Equipment & others products	Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction							
						Total	Housing	Other constructions					
Chain-linked volumes, annual percentage changes													
2012		-3.0	-3.3	-4.2	-7.4	-10.4	-5.3	-15.0	-3.4	0.9	-5.8	-4.9	2.0
2013		-1.4	-2.9	-2.1	-3.8	-8.2	-7.6	-8.7	1.3	4.4	-0.2	-2.9	1.4
2014		1.4	1.7	-0.7	4.1	3.0	9.9	-2.6	5.2	4.5	6.8	1.9	-0.5
2015		3.8	2.9	2.0	4.9	1.5	-3.2	5.7	8.2	4.3	5.1	3.9	-0.1
2016		3.0	2.7	1.0	2.4	1.6	8.9	-4.8	3.1	5.4	2.6	2.0	1.0
2017		2.9	3.0	1.0	5.9	5.9	11.5	0.2	5.9	5.6	6.6	3.0	-0.1
2018		2.4	1.8	1.9	5.3	6.6	7.7	5.3	4.1	2.2	3.3	2.6	-0.3
2019		2.2	1.9	1.7	4.9	5.6	8.0	3.1	4.0	2.0	2.8	2.4	-0.2
2020		2.0	1.7	0.9	3.9	4.0	5.4	2.3	3.9	2.3	2.7	2.1	-0.1
2021		1.8	1.4	0.8	3.1	3.0	4.2	1.5	3.1	2.9	2.6	1.7	0.1
2018	I	2.8	2.6	1.7	4.7	7.2	11.6	2.4	2.5	3.9	4.8	3.0	-0.1
	II	2.3	2.0	1.7	7.7	7.3	8.5	5.9	8.1	3.1	6.2	3.1	-0.8
	III	2.2	1.6	1.9	5.2	6.0	7.0	4.8	4.5	1.6	2.5	2.4	-0.2
	IV	2.1	1.2	2.1	3.6	5.9	4.1	8.1	1.4	0.2	-0.2	2.0	0.1
2019	I	2.1	1.0	2.0	4.0	3.3	2.7	4.1	4.6	0.1	-1.0	1.7	0.4
	II	2.1	0.8	2.0	0.9	1.9	3.2	0.3	-0.1	2.1	-0.9	1.1	1.1
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2018	I	2.2	2.1	2.4	2.3	9.0	9.5	8.1	-3.6	0.8	1.6	2.4	-0.2
	II	1.9	0.8	1.5	11.9	5.8	2.3	10.0	18.0	0.5	3.8	2.9	-1.0
	III	2.1	1.1	2.4	1.8	4.6	5.1	4.0	-0.8	-3.9	-5.3	1.7	0.4
	IV	2.4	0.9	2.1	-1.2	4.5	-0.2	10.3	-6.3	3.5	-0.8	0.9	1.5
2019	I	2.1	1.2	1.8	3.8	-1.3	3.6	-6.8	9.0	0.4	-1.5	1.4	0.7
	II	2.0	0.2	1.5	-0.9	0.1	4.6	-5.2	-1.9	8.7	4.1	0.3	1.7
		Current prices (EUR billions)	Percentage of GDP at current prices										
2012		1,031	59.5	20.0	18.5	9.9	4.6	5.3	8.6	31.5	29.4	97.9	2.1
2013		1,020	59.0	19.9	17.4	8.7	3.9	4.8	8.7	33.0	29.0	96.1	3.9
2014		1,032	59.4	19.6	17.8	8.8	4.2	4.6	8.9	33.5	30.4	96.9	3.1
2015		1,078	58.5	19.5	18.0	10.0	4.0	4.6	9.3	33.6	30.6	97.0	3.0
2016		1,114	58.2	19.1	18.0	9.9	4.4	4.2	9.4	33.9	29.9	96.0	4.0
2017		1,162	58.4	18.6	18.7	10.3	4.8	4.2	9.6	35.2	31.6	96.4	3.6
2018		1,202	58.3	18.6	19.4	9.6	5.3	4.3	9.8	35.1	32.4	97.3	2.7
2019		1,239	58.2	18.6	20.0	9.9	5.7	4.2	10.1	35.0	32.6	97.7	2.3
2020		1,277	58.1	18.4	20.3	10.1	6.0	4.1	10.3	35.1	32.9	97.8	2.2
2021		1,313	58.0	18.3	20.6	10.2	6.2	4.1	10.4	35.5	33.2	97.8	2.2

** Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

(1) Forecasts pending update after the annual revision of the National Accounts series.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

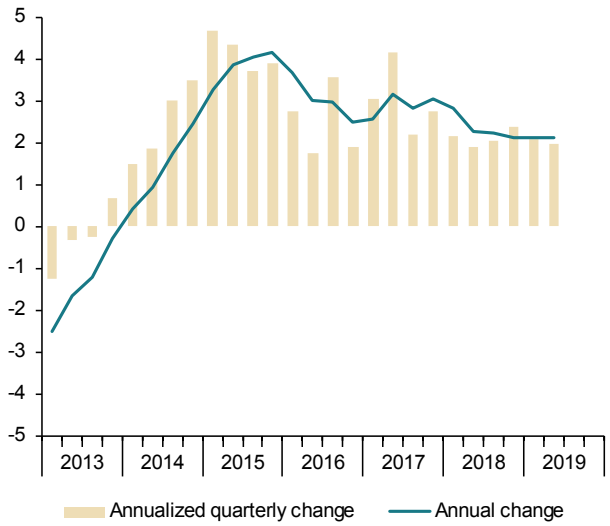


Chart 1.2 - Contribution to GDP annual growth

Percentage points

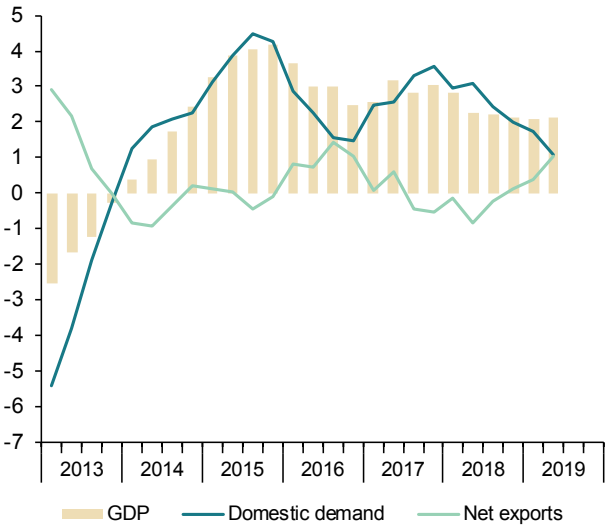


Chart 1.3 - Final consumption

Annual percentage change

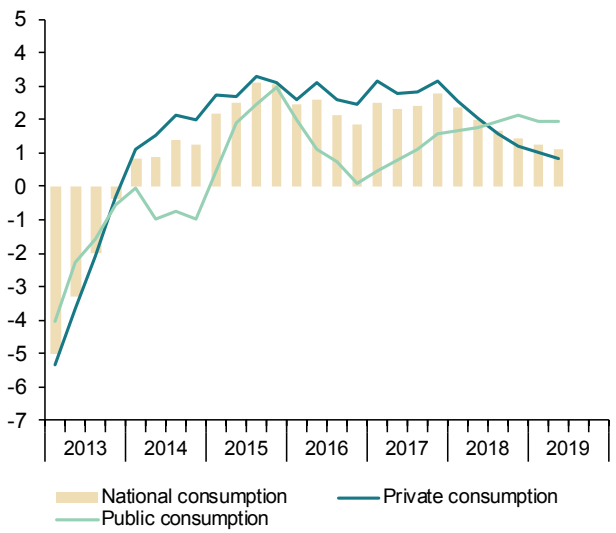


Chart 1.4 - Gross fixed capital formation

Annual percentage change

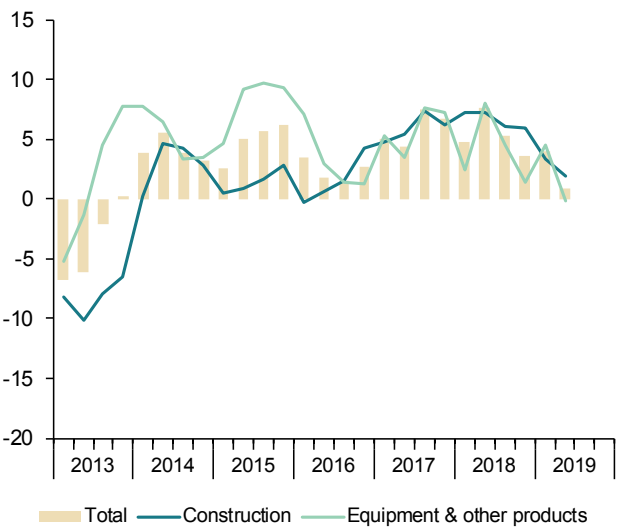


Table 2

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								
2012		-2.9	-9.4	-5.3	-5.8	-9.6	-1.4	-1.7	-1.3	-3.8
2013		-1.3	13.9	-4.0	-1.0	-10.3	-0.4	0.2	-0.7	-3.1
2014		0.9	-1.3	1.3	2.1	-1.3	1.1	-0.7	1.7	6.1
2015		3.3	4.7	3.0	4.6	5.4	3.1	1.1	3.8	9.6
2016		2.8	4.8	4.1	2.3	3.9	2.4	1.4	2.7	5.2
2017		2.9	-3.0	3.1	4.9	4.9	2.9	1.5	3.4	2.8
2018		2.5	5.9	-0.4	0.7	5.7	2.7	1.7	3.0	1.2
2017	III	2.8	-2.8	2.6	5.6	4.4	3.0	1.4	3.5	2.8
	IV	3.1	0.9	4.1	6.5	5.2	2.8	1.4	3.3	2.3
2018	I	2.9	5.9	0.5	1.8	5.2	3.1	1.9	3.5	2.3
	II	2.3	7.8	-0.1	1.2	5.4	2.4	1.2	2.8	1.4
	III	2.4	3.0	-0.2	0.1	6.1	2.6	1.8	2.8	0.9
	IV	2.3	6.9	-1.6	-0.4	5.9	2.7	2.0	2.9	0.0
2019	I	2.3	0.1	-0.6	0.0	5.0	2.9	1.9	3.2	-0.3
	II	2.3	-4.0	0.0	-0.4	4.3	2.9	2.0	3.2	-0.1
		Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate								
2017	III	2.2	5.4	-0.7	2.8	3.2	2.7	0.9	3.3	1.8
	IV	2.9	8.3	3.0	2.3	6.4	2.3	1.7	2.6	1.9
2018	I	2.2	9.7	-1.1	-0.3	5.3	2.4	1.1	2.8	1.6
	II	2.0	8.0	-1.5	0.0	6.8	2.2	1.0	2.6	0.4
	III	2.3	-12.2	-1.1	-1.4	6.0	3.4	3.6	3.4	-0.4
	IV	2.8	25.7	-2.8	0.0	5.5	2.9	2.3	3.1	-1.4
2019	I	2.3	-15.8	3.2	1.4	1.8	3.0	0.7	3.7	0.2
	II	2.0	-8.5	0.8	-1.4	4.1	2.6	1.5	2.9	1.2
		Current prices EUR billions)	Percentage of value added at basic prices							
2012		948	2.6	16.3	12.1	6.6	74.5	18.5	56.0	8.7
2013		932	2.9	16.4	12.2	5.8	74.9	18.9	56.0	9.4
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	12.6	6.0	74.7	18.0	56.7	10.3
2018		1,088	3.1	15.9	12.4	6.2	74.8	18.0	56.9	10.5

* *Seasonally and Working Day Adjusted.*

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

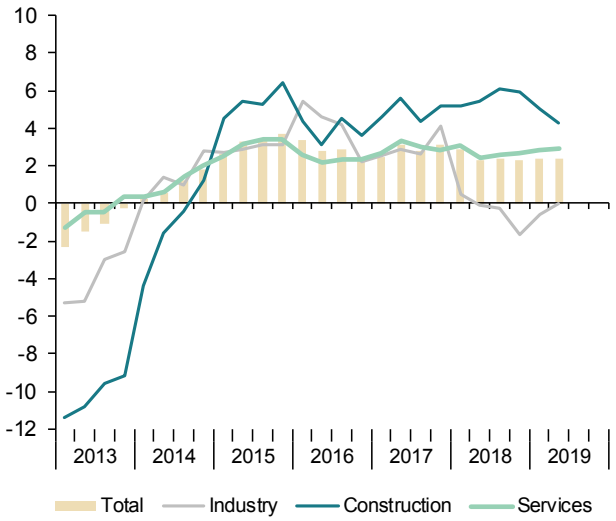


Chart 2.2 - GVA, Industry

Annual percentage change

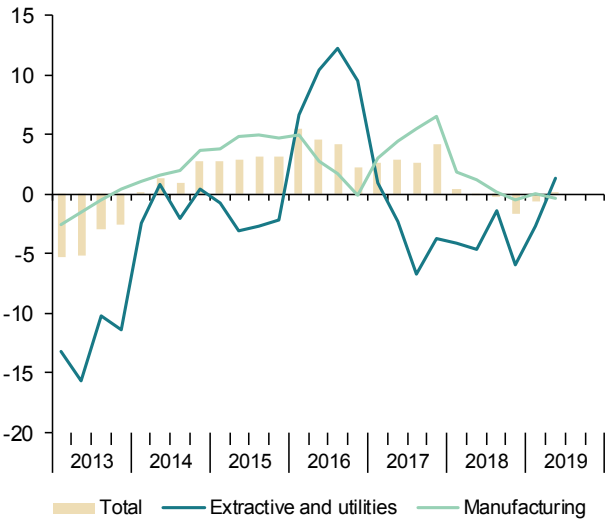


Chart 2.3 - GVA, services

Annual percentage change

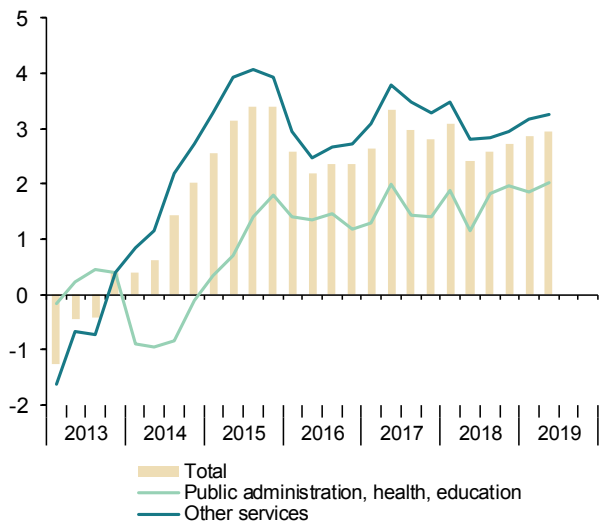


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

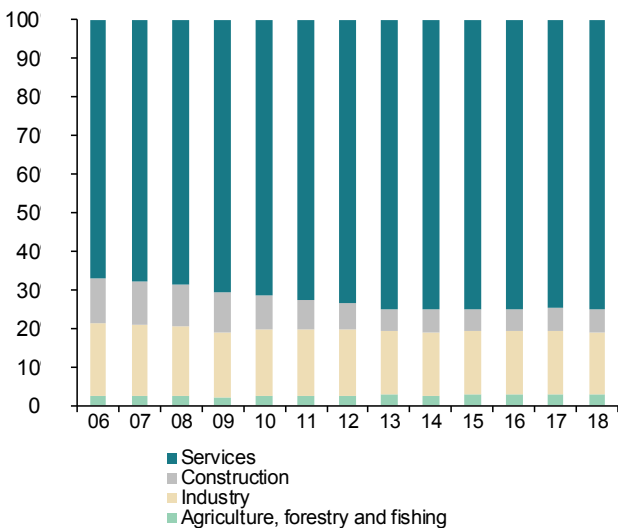


Table 3

National accounts: Productivity and labour costs

Forecasts in yellow (1)

		Total economy						Manufacturing Industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
		Indexes, 2010 = 100, SWDA											
2012		96.4	92.4	104.3	99.9	95.7	96.1	94.6	87.6	108.0	103.6	95.9	98.8
2013		95.0	89.3	106.4	101.1	95.1	95.1	93.7	82.7	113.2	105.4	93.1	95.3
2014		96.3	90.2	106.8	101.4	95.0	95.2	95.6	81.2	117.7	106.1	90.2	92.2
2015		100.0	93.0	107.5	102.0	94.9	94.6	100.0	83.1	120.3	105.4	87.6	89.8
2016		103.0	95.6	107.7	101.4	94.1	93.5	102.3	86.0	119.0	105.5	88.7	90.2
2017		106.0	98.3	107.8	102.1	94.7	92.9	107.3	89.2	120.3	106.5	88.5	89.4
2018		108.5	100.8	107.6	103.2	95.9	92.9	108.0	91.0	118.7	107.0	90.1	90.0
2019		110.9	103.1	107.6	105.3	97.9	94.1	--	--	--	--	--	--
2020		113.1	104.8	107.9	106.8	99.0	94.1	--	--	--	--	--	--
2021		115.1	106.4	108.3	108.3	100.0	94.1	--	--	--	--	--	--
2017	III	106.4	98.7	107.7	102.1	94.8	92.7	100.2	89.7	111.8	106.1	94.9	89.3
	IV	107.1	99.3	107.9	102.5	95.0	92.7	100.8	90.8	111.1	107.9	97.1	90.1
2018	I	107.7	99.8	107.9	102.6	95.0	92.7	100.7	90.9	110.8	106.4	96.0	89.8
	II	108.2	100.5	107.7	102.8	95.5	92.6	100.7	91.1	110.5	106.7	96.5	89.3
	III	108.7	101.2	107.5	103.4	96.2	93.3	100.4	91.0	110.3	107.1	97.1	90.1
	IV	109.4	101.9	107.3	103.8	96.7	93.1	100.4	90.9	110.4	107.9	97.7	91.0
2019	I	109.9	102.5	107.3	104.4	97.3	94.1	100.7	91.8	109.7	107.5	98.0	91.1
	II	110.5	102.9	107.4	104.9	97.7	93.2	100.4	92.4	108.6	107.6	99.1	90.9
		Annual percentage changes											
2012		-3.0	-5.0	2.1	-0.4	-2.5	-2.4	-5.8	-8.1	2.4	2.0	-0.4	0.0
2013		-1.4	-3.3	2.0	1.3	-0.7	-1.1	-1.0	-5.5	4.8	1.7	-2.9	-3.5
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		2.9	2.8	0.0	0.7	0.7	-0.7	4.9	3.7	1.1	1.0	-0.2	-0.9
2018		2.4	2.5	-0.2	1.0	1.2	0.1	0.7	2.0	-1.3	0.5	1.8	0.7
2019		2.2	2.2	0.0	2.1	2.1	1.2	--	--	--	--	--	--
2020		2.0	1.7	0.3	1.4	1.1	0.0	--	--	--	--	--	--
2021		1.8	1.5	0.3	1.4	1.1	0.0	--	--	--	--	--	--
2017	III	2.8	2.9	0.0	0.9	0.9	-0.5	5.6	3.8	1.7	0.6	-1.1	-0.8
	IV	3.0	2.9	0.1	0.8	0.6	-0.9	6.5	4.1	2.3	1.9	-0.5	-1.1
2018	I	2.8	2.6	0.2	0.6	0.4	-0.7	1.8	3.6	-1.7	0.4	2.2	0.6
	II	2.3	2.4	-0.2	0.9	1.1	0.0	1.2	2.9	-1.7	0.6	2.3	0.5
	III	2.2	2.5	-0.3	1.2	1.5	0.6	0.1	1.5	-1.4	0.9	2.3	0.9
	IV	2.1	2.7	-0.5	1.2	1.8	0.5	-0.4	0.2	-0.6	0.0	0.6	1.0
2019	I	2.1	2.7	-0.6	1.7	2.4	1.4	0.0	1.0	-1.0	1.0	2.0	1.5
	II	2.1	2.4	-0.3	2.0	2.3	0.6	-0.4	1.4	-1.7	0.9	2.6	1.8

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

(1) Forecasts pending update after the annual revision of the National Accounts series.

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

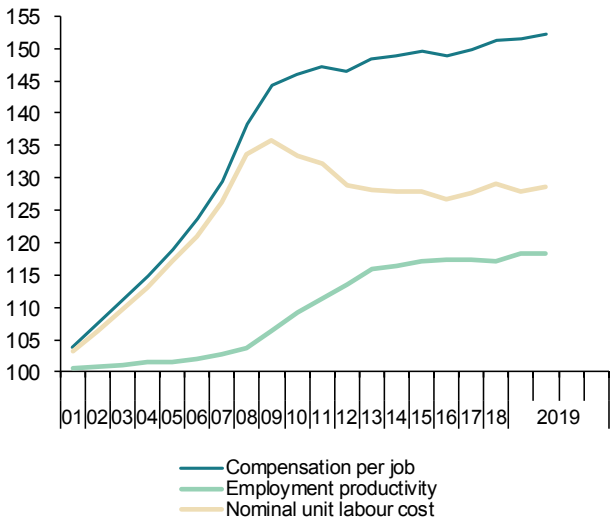
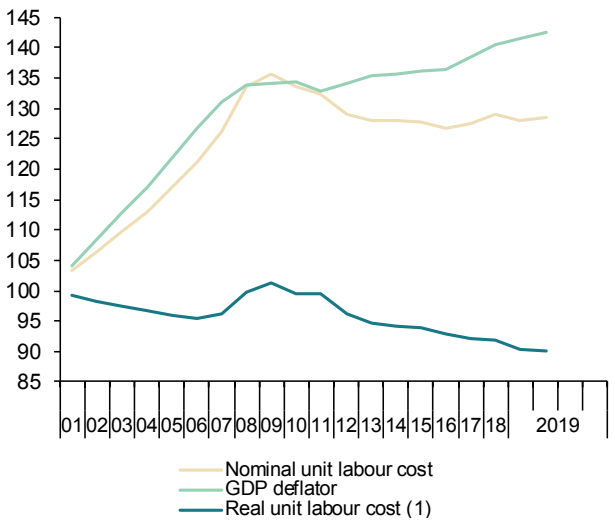


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

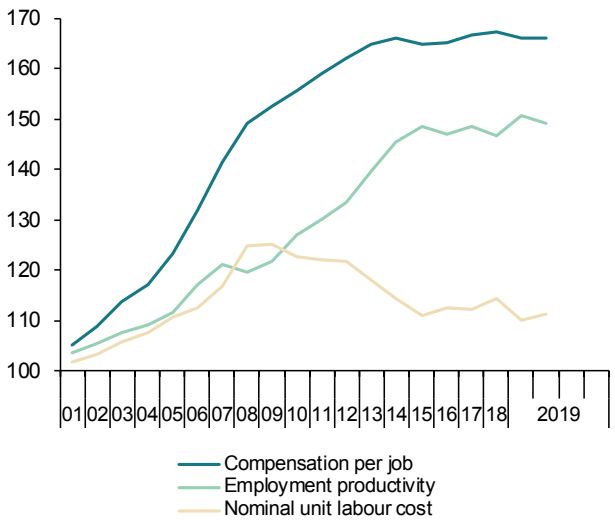
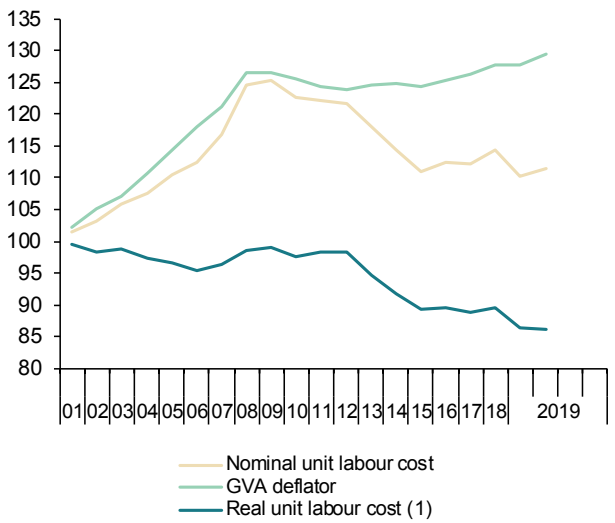


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in yellow (1)

		Gross domestic product	Compen-sation of employees	Gross operating surplus	Gross national disposable income	Final national consum-ption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
2012		1,031.1	481.4	458.5	1,011.2	819.7	191.5	190.1	46.7	44.5	18.6	18.4	0.1	0.7
2013		1,020.3	467.5	455.0	1,001.9	804.6	197.3	175.7	45.8	44.6	19.3	17.2	2.1	2.8
2014		1,032.2	473.5	455.4	1,017.3	815.4	201.9	184.8	45.9	44.1	19.6	17.9	1.7	2.1
2015		1,077.6	492.9	472.6	1,063.8	840.1	223.7	204.7	45.7	43.9	20.8	19.0	1.8	2.4
2016		1,113.8	503.7	495.8	1,102.7	860.5	242.1	208.9	45.2	44.5	21.7	18.8	3.0	3.2
2017		1,161.9	523.4	518.7	1,150.3	894.6	255.7	225.7	45.1	44.6	22.0	19.4	2.6	2.8
2018		1,202.2	544.6	531.8	1,189.9	924.6	265.3	244.9	45.3	44.2	22.1	20.4	1.7	2.2
2019		1,248.2	595.9	520.0	1,235.7	946.2	289.5	282.3	47.7	41.7	23.2	22.6	0.6	0.9
2020		1,286.5	615.7	533.4	1,274.9	972.2	302.7	295.7	47.9	41.5	23.5	23.0	0.5	0.8
2021		1,321.8	634.9	546.9	1,311.0	995.9	315.2	308.3	48.0	41.3	23.7	23.3	0.4	0.7
2017	III	1,148.9	518.1	512.0	1,137.0	886.0	251.0	220.8	45.1	44.6	21.8	19.2	2.6	2.8
	IV	1,161.9	523.4	518.7	1,150.3	894.6	255.7	225.7	45.1	44.6	22.0	19.4	2.6	2.8
2018	I	1,173.3	528.2	524.1	1,159.8	902.0	257.8	228.9	45.0	44.7	22.0	19.5	2.5	2.7
	II	1,182.8	533.2	527.1	1,170.9	908.9	261.9	234.9	45.1	44.6	22.1	19.9	2.3	2.6
	III	1,192.0	538.8	529.2	1,179.5	917.1	262.4	239.1	45.2	44.4	22.0	20.1	2.0	2.3
	IV	1,202.2	544.6	531.8	1,189.9	924.6	265.3	244.9	45.3	44.2	22.1	20.4	1.7	2.2
2019	I	1,211.2	551.0	533.0	1,199.1	931.2	267.9	250.9	45.5	44.0	22.1	20.7	1.4	1.9
	II	1,222.7	557.4	537.0	--	938.1	--	254.0	45.6	43.9	--	20.8	--	--
		Annual percentage changes							Difference from one year ago					
2012		-3.1	-6.2	-1.2	-1.9	-2.6	1.3	-13.1	-1.6	0.8	0.8	-2.1	2.9	3.0
2013		-1.0	-2.9	-0.8	-0.9	-1.8	3.1	-7.6	-0.9	0.1	0.8	-1.2	2.0	2.1
2014		1.2	1.3	0.1	1.5	1.3	2.3	5.2	0.1	-0.5	0.2	0.7	-0.5	-0.6
2015		4.4	4.1	3.8	4.6	3.0	10.8	10.8	-0.1	-0.3	1.2	1.1	0.1	0.3
2016		3.4	2.2	4.9	3.7	2.4	8.3	2.0	-0.5	0.7	1.0	-0.2	1.2	0.8
2017		4.3	3.9	4.6	4.3	4.0	5.6	8.1	-0.2	0.1	0.3	0.7	-0.4	-0.4
2018		3.5	4.0	2.5	3.4	3.4	3.7	8.5	0.2	-0.4	0.1	0.9	-0.9	-0.6
2019		3.8	4.6	1.6	3.3	2.9	4.8	6.6	--	--	--	--	--	--
2020		3.1	3.3	2.6	3.2	2.7	4.6	4.7	--	--	--	--	--	--
2021		2.9	3.1	2.5	2.8	2.4	4.1	4.2	--	--	--	--	--	--
2017	III	4.0	3.4	4.4	4.0	3.6	5.3	6.1	-0.2	0.2	0.3	0.4	-0.1	-0.3
	IV	4.3	3.9	4.6	4.3	4.0	5.6	8.1	-0.2	0.1	0.3	0.7	-0.4	-0.4
2018	I	4.4	3.9	4.9	4.1	3.8	4.8	8.3	-0.2	0.2	0.1	0.7	-0.6	-0.4
	II	4.0	4.0	4.0	4.0	3.5	5.8	9.3	0.0	0.0	0.4	1.0	-0.6	-0.4
	III	3.8	4.0	3.3	3.7	3.5	4.5	8.3	0.1	-0.2	0.2	0.8	-0.7	-0.5
	IV	3.5	4.0	2.5	3.4	3.4	3.7	8.5	0.2	-0.4	0.1	0.9	-0.9	-0.6
2019	I	3.2	4.3	1.7	3.4	3.2	3.9	9.6	0.5	-0.7	0.2	1.2	-1.1	-0.8
	II	3.4	4.5	1.9	--	3.2	--	8.1	0.5	-0.6	--	0.9	--	--

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

(1) Forecasts pending update after the annual revision of the National Accounts series.

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

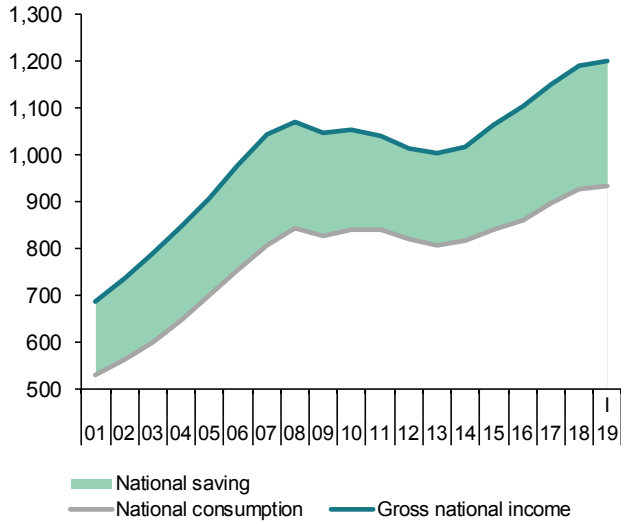


Chart 4.2 - National income, consumption and saving rate

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

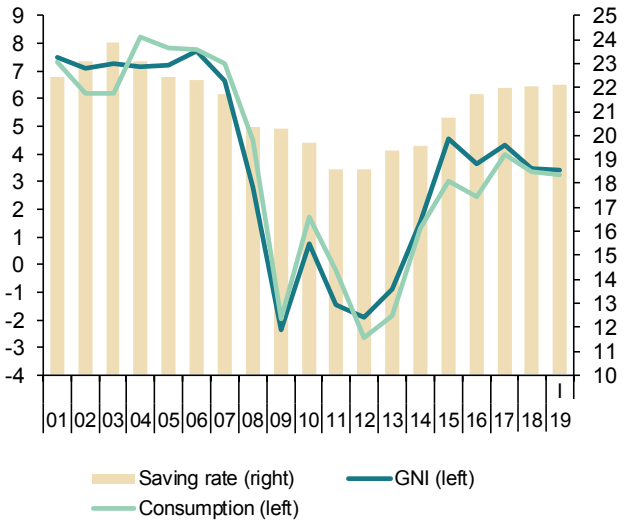


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

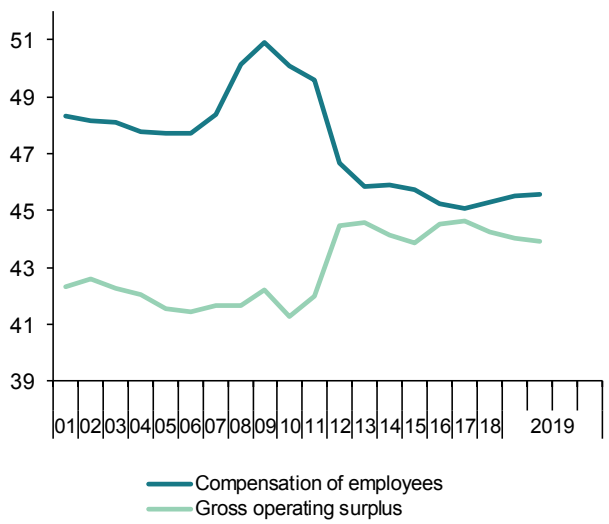


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

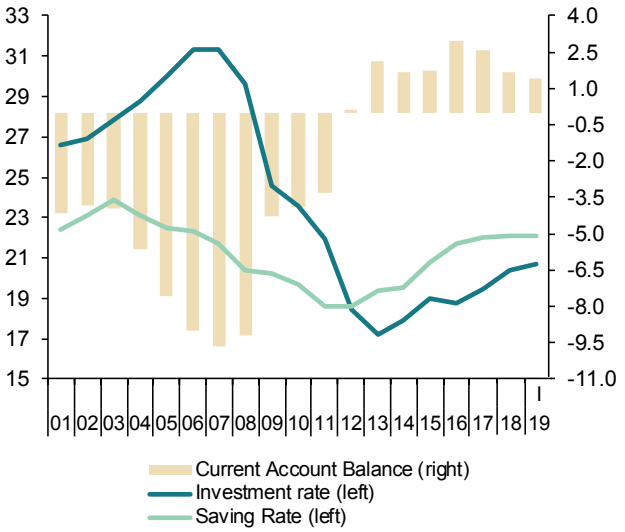


Table 5

National accounts: Household and non-financial corporations accounts

Forecasts in yellow (1)

		Households							Non-finantial 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		
2012		670.6	611.3	57.2	38.8	8.5	3.7	2.2	234.6	144.8	136.5	13.9	13.1	1.4
2013		664.4	598.5	63.9	25.7	9.6	2.5	4.0	235.0	160.5	136.2	15.7	13.3	2.9
2014		671.8	608.7	62.1	27.0	9.2	2.6	3.4	236.9	158.8	148.5	15.3	14.3	1.8
2015		687.0	626.0	59.6	33.2	8.7	3.1	2.4	246.2	175.9	154.1	16.3	14.3	2.8
2016		699.7	643.6	54.7	34.4	7.8	3.1	1.7	260.6	195.1	167.2	17.4	14.9	3.0
2017		711.2	670.5	39.2	42.4	5.5	3.6	-0.4	278.0	210.4	177.2	18.0	15.2	3.3
2018		733.8	697.1	35.6	49.2	4.9	4.1	-1.2	283.6	212.3	189.1	17.6	15.7	2.5
2019		755.7	716.9	37.7	54.7	5.0	4.4	-1.5	290.4	220.2	199.8	17.6	16.0	2.0
2020		779.1	738.0	40.0	59.1	5.1	4.6	-1.6	299.4	224.9	208.5	17.5	16.2	1.7
2021		799.3	757.3	40.9	63.1	5.1	4.8	-1.8	308.0	229.9	216.6	17.4	16.4	1.4
2017	II	705.4	658.1	46.1	38.0	6.5	3.3	0.6	268.9	201.1	172.7	17.6	15.1	3.0
	III	707.3	663.9	42.2	40.1	6.0	3.5	0.0	272.4	202.9	174.3	17.6	15.1	2.9
	IV	711.2	670.5	39.2	42.4	5.5	3.6	-0.4	278.0	210.4	177.2	18.0	15.2	3.3
2018	I	716.3	677.0	37.8	42.9	5.3	3.6	-0.6	280.6	211.6	179.6	18.0	15.3	3.2
	II	720.9	683.4	36.1	45.1	5.0	3.8	-0.9	282.3	214.0	181.8	18.0	15.3	3.2
	III	727.1	690.4	35.3	46.5	4.9	3.9	-1.1	282.8	213.0	187.0	17.8	15.6	2.7
	IV	733.8	697.1	35.6	49.2	4.9	4.1	-1.2	283.6	212.3	189.1	17.6	15.7	2.5
2019	I	739.5	701.8	36.8	51.3	5.0	4.2	-1.3	281.7	211.0	189.7	17.4	15.6	2.3
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
2012		-3.4	-1.2	-23.4	-25.6	-2.2	-1.1	-0.3	0.8	0.0	3.9	0.4	0.9	-0.7
2013		-0.9	-2.1	11.7	-33.9	1.1	-1.2	1.8	0.1	10.9	-0.2	1.7	0.2	1.4
2014		1.1	1.7	-2.9	5.1	-0.4	0.1	-0.6	0.8	-1.1	9.0	-0.3	1.0	-1.1
2015		2.3	2.8	-3.9	23.1	-0.6	0.5	-1.0	3.9	10.8	3.8	1.0	-0.1	1.0
2016		1.8	2.8	-8.3	3.5	-0.9	0.0	-0.6	5.9	10.9	8.5	1.2	0.7	0.2
2017		1.6	4.2	-28.3	23.1	-2.3	0.6	-2.1	6.7	7.8	6.0	0.6	0.2	0.3
2018		3.2	4.0	-9.2	16.1	-0.7	0.4	-0.8	2.0	0.9	6.7	-0.5	0.5	-0.8
2019		3.0	2.8	5.8	11.2	0.1	0.3	-0.2	2.4	3.7	5.7	0.1	0.4	-0.5
2020		3.1	2.9	6.2	8.0	0.1	0.2	-0.1	3.1	2.1	4.4	-0.2	0.2	-0.4
2021		2.6	2.6	2.1	6.8	0.0	0.2	-0.2	2.9	2.2	3.9	-0.1	0.2	-0.3
2017	II	1.6	3.8	-21.5	12.2	-1.9	0.3	-1.6	6.2	7.1	8.1	0.6	0.6	-0.3
	III	1.7	4.1	-25.3	18.0	-2.2	0.4	-1.9	5.8	4.6	6.0	0.2	0.3	-0.3
	IV	1.6	4.2	-28.3	23.1	-2.3	0.6	-2.1	6.7	7.8	6.0	0.6	0.2	0.3
2018	I	2.2	4.0	-22.3	16.7	-1.7	0.4	-1.5	6.3	5.7	6.1	0.3	0.3	-0.1
	II	2.2	3.8	-21.7	18.7	-1.5	0.5	-1.5	5.0	6.4	5.2	0.4	0.2	0.3
	III	2.8	4.0	-16.4	16.0	-1.1	0.4	-1.1	3.8	5.0	7.3	0.2	0.5	-0.2
	IV	3.2	4.0	-9.2	16.1	-0.7	0.4	-0.8	2.0	0.9	6.7	-0.5	0.5	-0.8
2019	I	3.2	3.7	-2.9	19.7	-0.3	0.6	-0.7	0.4	-0.3	5.6	-0.6	0.3	-0.9

(1) Forecasts pending update after the annual revision of the National Accounts series.

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

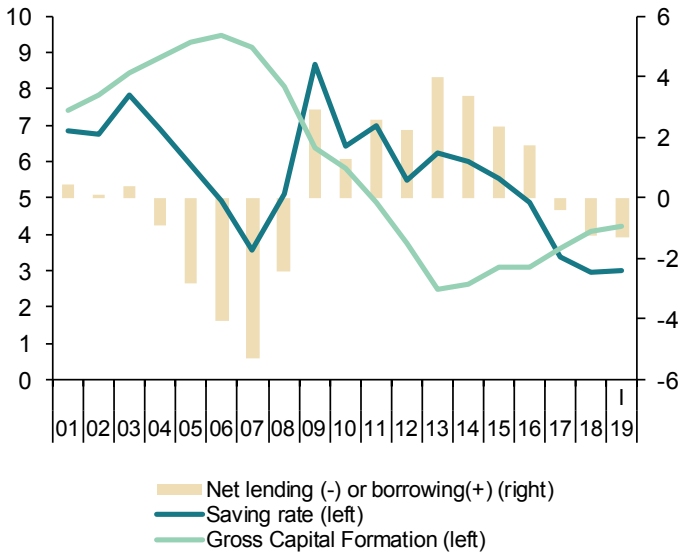


Chart 5.2 - Non-finantial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

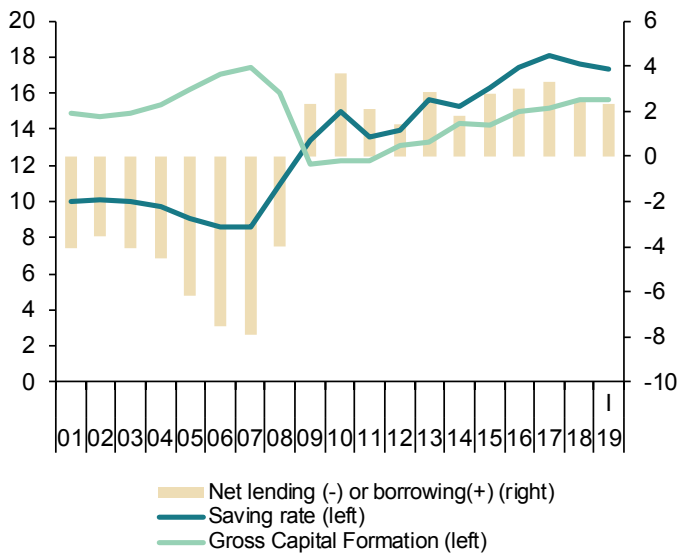


Table 6

National accounts: Public revenue, expenditure and deficit

Forecasts in yellow (1)

		Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contribu-tions receivable	Compen-sation of employees	Interests and other capital incomes payable (net)	Social bene-fits payable	Subsidies and net current transfers payable	Gross disposable income	Final consump-tion expendi-ture	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
		EUR Billions, 4-quarter cumulated operations													
2012		142.2	108.2	106.4	131.9	113.9	20.3	168.6	18.6	167.2	205.3	-38.1	70.8	-108.8	-70.6
2013		143.0	114.6	105.2	128.2	114.7	24.1	170.8	20.6	160.8	201.9	-41.1	30.6	-71.7	-68.4
2014		143.4	119.2	105.6	130.1	115.2	25.7	171.1	20.6	165.7	202.0	-36.3	25.6	-61.9	-60.6
2015		147.5	127.0	109.2	132.3	119.4	24.4	170.6	21.3	180.3	208.9	-28.6	28.4	-57.0	-56.5
2016		149.6	129.0	110.9	136.0	121.5	23.1	174.1	20.5	186.4	211.2	-24.8	25.2	-50.0	-47.6
2017		151.7	134.7	118.6	143.1	123.0	22.6	177.7	19.8	204.9	215.7	-10.7	25.2	-35.9	-35.4
2018		155.9	141.4	129.0	150.1	127.0	22.2	185.1	21.2	221.0	222.6	-1.7	28.3	-30.0	-29.9
2019		162.6	147.8	130.9	162.9	133.4	21.9	193.5	22.0	233.0	229.4	3.6	26.9	-26.9	-26.9
2020		165.8	153.3	136.4	166.0	136.2	21.5	200.9	22.4	239.9	234.3	5.7	27.1	-26.4	-26.4
2021		168.7	157.6	140.0	173.5	138.7	21.3	209.2	21.9	248.1	238.6	9.5	27.5	-23.0	-23.0
2017	II	150.0	132.7	115.1	139.5	121.6	22.8	175.5	20.0	197.3	212.9	-15.6	25.0	-40.6	-39.7
	III	150.8	134.0	118.7	141.2	122.3	22.6	176.3	20.0	203.6	214.1	-10.5	24.9	-35.3	-34.8
	IV	151.7	134.7	118.6	143.1	123.0	22.6	177.7	19.8	204.9	215.7	-10.7	25.2	-35.9	-35.4
2018	I	152.3	136.6	120.7	144.5	123.5	22.2	178.9	20.5	208.9	216.8	-7.9	26.8	-34.7	-34.3
	II	153.2	138.7	122.5	146.5	124.3	21.6	180.3	20.2	214.4	218.2	-3.8	28.3	-32.1	-32.0
	III	154.6	139.9	125.2	148.3	125.6	21.6	183.0	20.2	217.5	220.3	-2.9	28.6	-31.4	-31.3
	IV	155.9	141.4	129.0	150.1	127.0	22.2	185.1	21.2	221.0	222.6	-1.7	28.3	-30.0	-29.9
2019	I	157.2	142.8	128.5	153.8	128.5	21.3	187.8	21.8	223.0	224.6	-1.5	28.0	-29.6	-29.7
		Percentage of GDP, 4-quarter cumulated operations													
2012		13.8	10.5	10.3	12.8	11.0	2.0	16.4	1.8	16.2	19.9	-3.7	6.9	-10.6	-6.8
2013		14.0	11.2	10.3	12.6	11.2	2.4	16.7	2.0	15.8	19.8	-4.0	3.0	-7.0	-6.7
2014		13.9	11.5	10.2	12.6	11.2	2.5	16.6	2.0	16.1	19.6	-3.5	2.5	-6.0	-5.9
2015		13.7	11.8	10.1	12.3	11.1	2.3	15.8	2.0	16.7	19.4	-2.7	2.6	-5.3	-5.2
2016		13.4	11.6	10.0	12.2	10.9	2.1	15.6	1.8	16.7	19.0	-2.2	2.3	-4.5	-4.3
2017		13.1	11.6	10.2	12.3	10.6	1.9	15.3	1.7	17.6	18.6	-0.9	2.2	-3.1	-3.0
2018		13.0	11.8	10.7	12.5	10.6	1.8	15.4	1.8	18.4	18.5	-0.1	2.4	-2.5	-2.5
2019		13.0	11.8	10.5	13.0	10.7	1.8	15.5	1.8	18.7	18.4	0.3	2.2	-2.2	-2.2
2020		12.9	11.9	10.6	12.9	10.6	1.7	15.6	1.7	18.7	18.2	0.4	2.1	-2.0	-2.0
2021		12.7	11.9	10.6	13.1	10.5	1.6	15.8	1.7	18.7	18.0	0.7	2.1	-1.7	-1.7
2017	II	13.2	11.7	10.1	12.3	10.7	2.0	15.4	1.8	17.3	18.7	-1.4	2.2	-3.6	-3.5
	III	13.1	11.7	10.3	12.3	10.6	2.0	15.3	1.7	17.7	18.6	-0.9	2.2	-3.1	-3.0
	IV	13.1	11.6	10.2	12.3	10.6	1.9	15.3	1.7	17.6	18.6	-0.9	2.2	-3.1	-3.0
2018	I	13.0	11.7	10.3	12.3	10.5	1.9	15.3	1.8	17.8	18.5	-0.7	2.3	-3.0	-2.9
	II	13.0	11.7	10.4	12.4	10.5	1.8	15.3	1.7	18.1	18.5	-0.3	2.4	-2.7	-2.7
	III	13.0	11.7	10.5	12.5	10.5	1.8	15.4	1.7	18.3	18.5	-0.2	2.4	-2.6	-2.6
	IV	13.0	11.8	10.7	12.5	10.6	1.8	15.4	1.8	18.4	18.5	-0.1	2.4	-2.5	-2.5
2019	I	13.0	11.8	10.6	12.7	10.6	1.8	15.5	1.8	18.4	18.5	-0.1	2.3	-2.4	-2.5

(1) Forecasts pending update after the annual revision of the National Accounts series.

Source: INE and Funcas (Forecasts).

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

Percentage of GDP, 4-quarter moving averages

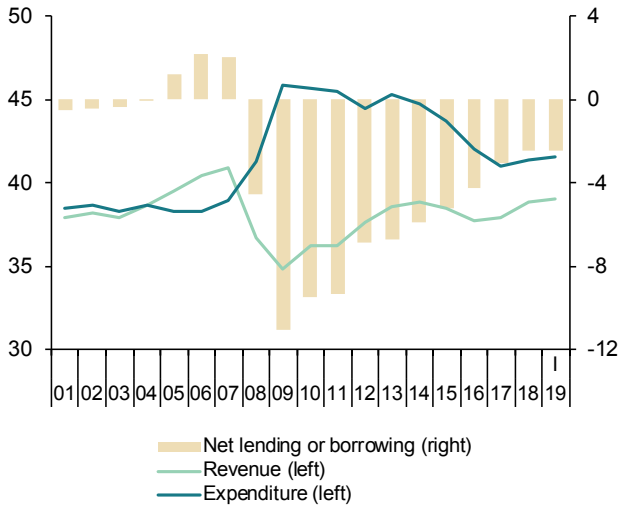
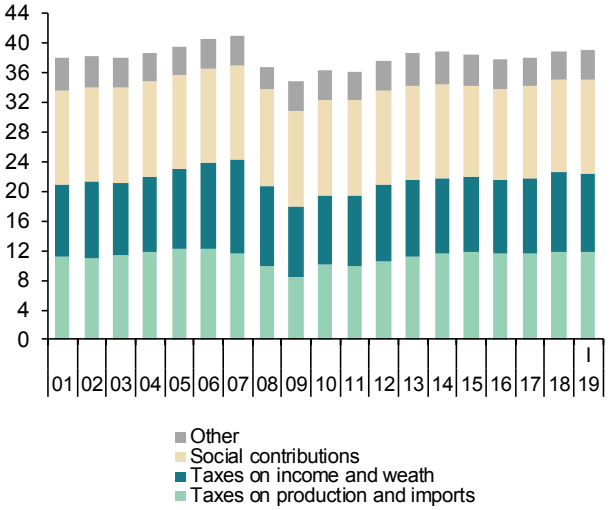


Chart 6.2 - Public sector: Main revenues

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures

Chart 6.3.- Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

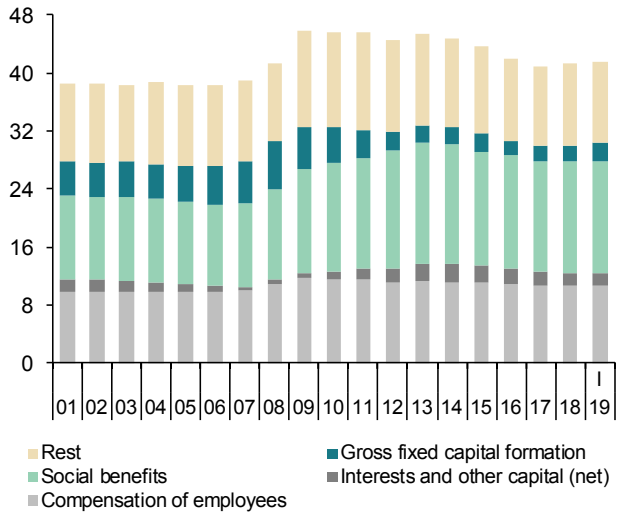
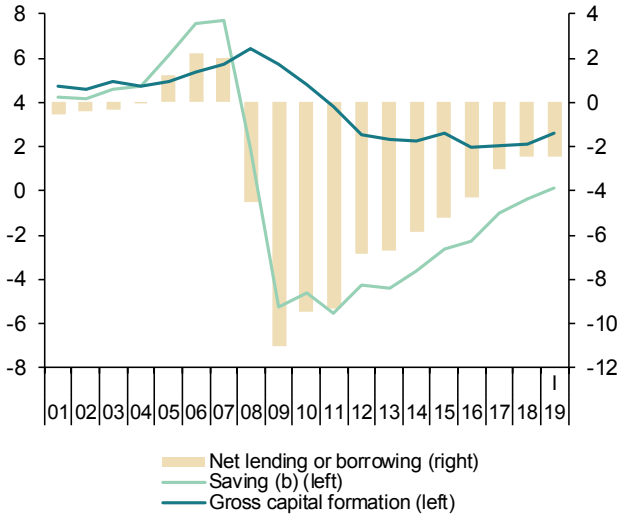


Chart 6.4 - Public sector: Saving, investment and deficit (a)

Percentage of GDP, 4-quarter moving averages



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

Table 7

Public sector balances, by level of Government

Forecasts in yellow (1)

		Net lending (+)/ net borrowing (-) (a)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period				
2012		-44.3	-19.4	3.3	-10.2	-70.6	761.9	189.2	44.0	17.2	891.5
2013		-46.4	-16.2	5.7	-11.5	-68.4	850.2	210.5	42.1	17.2	979.0
2014		-36.8	-18.5	5.5	-10.8	-60.6	902.5	237.9	38.3	17.2	1,041.6
2015		-29.3	-18.7	4.6	-13.0	-56.5	940.4	263.3	35.2	17.2	1,073.9
2016		-27.2	-9.6	7.0	-17.7	-47.6	969.6	277.0	32.2	17.2	1,107.2
2017		-21.5	-4.2	7.1	-16.8	-35.4	1,010.8	288.1	29.1	27.4	1,144.4
2018		-16.3	-2.8	6.3	-17.1	-29.9	1,047.3	293.1	25.8	41.2	1,173.1
2019		--	--	--	--	-26.9	--	--	--	--	1,198.0
2020		--	--	--	--	-26.4	--	--	--	--	1,224.0
2021		--	--	--	--	-23.0	--	--	--	--	1,246.4
2017	II	-19.2	-10.7	7.4	-17.1	-39.7	994.9	285.9	32.4	17.2	1,135.1
	III	-17.0	-6.9	7.3	-18.1	-34.8	998.8	284.4	30.5	23.2	1,133.4
	IV	-21.5	-4.2	7.1	-16.8	-35.4	1,010.8	288.1	29.1	27.4	1,144.4
2018	I	-21.8	-3.2	7.0	-16.4	-34.3	1,028.6	289.7	29.0	27.4	1,161.7
	II	-18.6	-2.8	6.1	-16.7	-32.0	1,034.7	293.3	29.4	34.9	1,165.8
	III	-18.3	-2.6	5.8	-16.2	-31.3	1,048.5	292.4	28.0	34.9	1,177.5
	IV	-16.3	-2.8	6.3	-17.1	-29.9	1,047.3	293.1	25.8	41.2	1,173.1
2019	I	-18.6	-2.8	5.9	-14.2	-29.7	1,069.8	296.7	26.0	43.1	1,200.3
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2012		-4.3	-1.9	0.3	-1.0	-6.8	73.9	18.3	4.3	1.7	86.5
2013		-4.5	-1.6	0.6	-1.1	-6.7	83.3	20.6	4.1	1.7	96.0
2014		-3.6	-1.8	0.5	-1.0	-5.9	87.4	23.1	3.7	1.7	100.9
2015		-2.7	-1.7	0.4	-1.2	-5.2	87.3	24.4	3.3	1.6	99.7
2016		-2.4	-0.9	0.6	-1.6	-4.3	87.0	24.9	2.9	1.5	99.4
2017		-1.9	-0.4	0.6	-1.4	-3.0	87.0	24.8	2.5	2.4	98.5
2018		-1.4	-0.2	0.5	-1.4	-2.5	87.1	24.4	2.1	3.4	97.6
2019		--	--	--	--	-2.2	--	--	--	--	96.1
2020		--	--	--	--	-2.0	--	--	--	--	95.2
2021		--	--	--	--	-1.7	--	--	--	--	94.2
2017	II	-1.7	-0.9	0.6	-1.5	-3.5	87.5	25.1	2.9	1.5	99.8
	III	-1.5	-0.6	0.6	-1.6	-3.0	86.9	24.8	2.7	2.0	98.7
	IV	-1.9	-0.4	0.6	-1.4	-3.0	87.0	24.8	2.5	2.4	98.5
2018	I	-1.9	-0.3	0.6	-1.4	-2.9	87.8	24.7	2.5	2.3	99.1
	II	-1.6	-0.2	0.5	-1.4	-2.7	87.5	24.8	2.5	3.0	98.6
	III	-1.5	-0.2	0.5	-1.4	-2.6	88.0	24.6	2.4	2.9	98.9
	IV	-1.4	-0.2	0.5	-1.4	-2.5	87.1	24.4	2.1	3.4	97.6
2019	I	-1.5	-0.2	0.5	-1.2	-2.5	88.3	24.5	2.1	3.6	99.0

(a) Excluding financial entities bail-out expenditures.

(1) Forecasts pending update after the annual revision of the National Accounts series.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

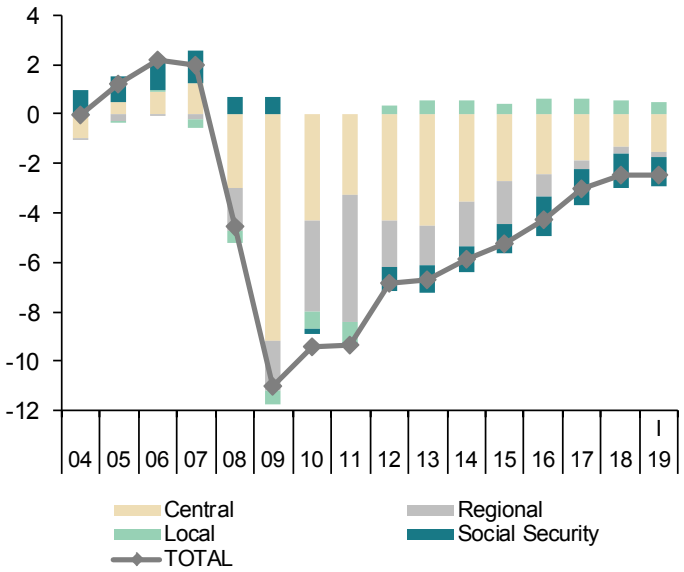


Chart 7.2 - Government debt

Percent of GDP

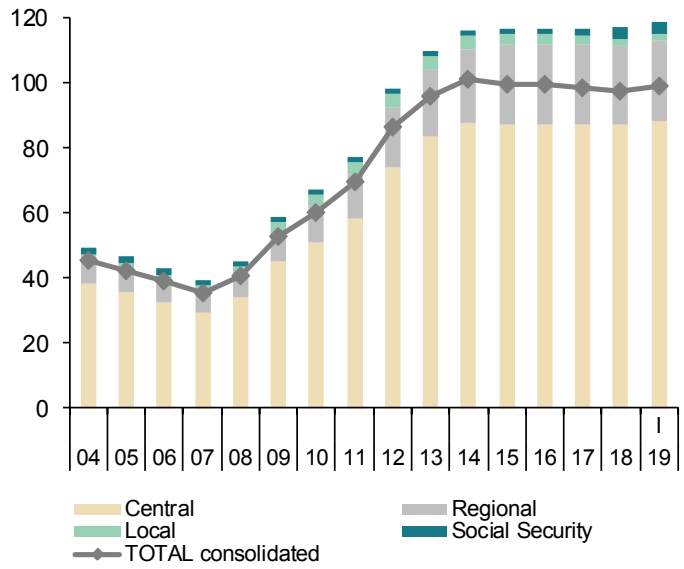


Table 8

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufac turing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses
2012	86.3	43.1	16,335.3	255.7	97.1	2,113.9	43.8	-17.6	96.7	-37.1
2013	90.6	48.3	15,855.2	250.0	95.5	2,021.6	48.5	-14.0	94.2	-30.7
2014	100.7	55.1	16,111.1	249.6	96.8	2,022.8	53.2	-7.1	96.1	-16.3
2015	107.6	56.7	16,641.8	253.8	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016	105.6	54.9	17,157.5	253.8	101.8	2,124.7	53.1	-2.3	102.7	-5.4
2017	108.3	56.2	17,789.6	258.4	105.0	2,191.0	54.8	1.0	107.0	2.2
2018	108.0	54.6	18,364.5	259.2	105.3	2,250.9	53.3	-0.1	108.6	-0.2
2019 (b)	105.3	53.1	18,797.4	169.5	108.8	2,278.3	50.0	-3.3	110.7	-4.0
2017 IV	110.0	55.2	18,019.6	65.4	107.8	2,217.5	55.9	4.3	108.6	4.8
2018 I	109.6	56.6	18,157.2	65.3	106.1	2,234.5	55.3	2.8	109.0	1.2
II	109.4	55.4	18,292.2	64.7	105.2	2,246.5	53.8	1.2	109.1	2.9
III	106.7	52.7	18,428.2	65.2	105.5	2,257.4	52.4	-2.6	109.1	-2.4
IV	106.4	53.7	18,582.0	64.1	104.8	2,265.6	51.8	-1.9	108.9	-2.4
2019 I	105.2	54.5	18,704.3	63.9	106.0	2,273.1	51.1	-3.8	109.1	-5.9
II	104.8	52.4	18,810.2	63.2	106.8	2,280.8	49.9	-4.6	109.3	-2.7
III (b)	106.4	52.2	18,873.1	41.7	106.3	2,286.7	48.5	-0.7	--	-3.3
2019 Jun	104.8	52.1	18,836.4	21.0	106.7	2,282.4	47.9	-4.8	109.4	-1.0
Jul	105.4	51.7	18,859.2	20.9	106.3	2,284.9	48.2	-3.0	--	-6.3
Aug	107.3	52.6	18,887.1	20.8	--	2,288.5	48.8	1.6	--	-0.2
					Percentage changes (c)					
2012	--	--	-3.7	-2.1	-6.7	-5.3	--	--	-4.9	--
2013	--	--	-2.9	-2.2	-1.6	-4.4	--	--	-2.6	--
2014	--	--	1.6	-0.2	1.3	0.1	--	--	2.0	--
2015	--	--	3.3	1.7	3.4	2.2	--	--	4.1	--
2016	--	--	3.1	0.0	1.8	2.8	--	--	2.7	--
2017	--	--	3.7	1.8	3.2	3.1	--	--	4.3	--
2018	--	--	3.2	0.3	0.3	2.7	--	--	1.5	--
2019 (d)	--	--	2.8	-2.5	0.8	1.6	--	--	0.8	--
2017 IV	--	--	3.4	7.6	11.0	3.2	--	--	3.9	--
2018 I	--	--	3.1	-1.2	-5.9	3.1	--	--	1.6	--
II	--	--	3.0	-3.3	-3.4	2.2	--	--	0.5	--
III	--	--	3.0	3.2	1.3	2.0	--	--	-0.3	--
IV	--	--	3.4	-6.4	-2.7	1.5	--	--	-0.4	--
2019 I	--	--	2.7	-1.7	4.6	1.3	--	--	0.5	--
II	--	--	2.3	-4.0	2.9	1.4	--	--	0.9	--
III (e)	--	--	1.3	-3.8	-2.0	1.0	--	--	--	--
2019 Jun	--	--	0.1	-1.1	-0.2	0.1	--	--	0.1	--
Jul	--	--	0.1	0.0	-0.4	0.1	--	--	--	--
Aug	--	--	0.1	0.1	--	0.2	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annualized percent change from previous period

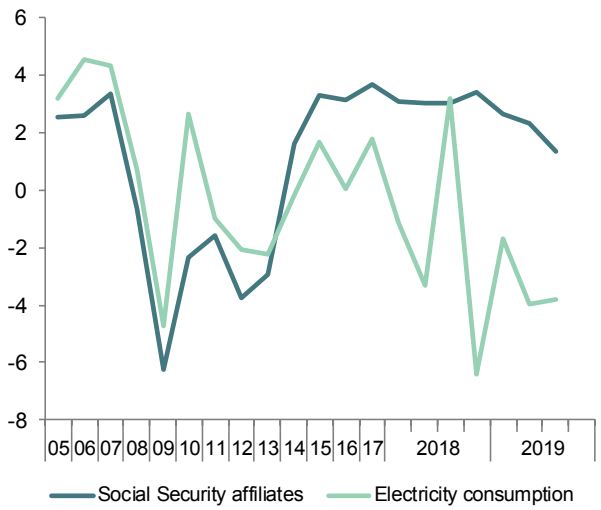


Chart 8.2.- General activity indicators (II)

Index

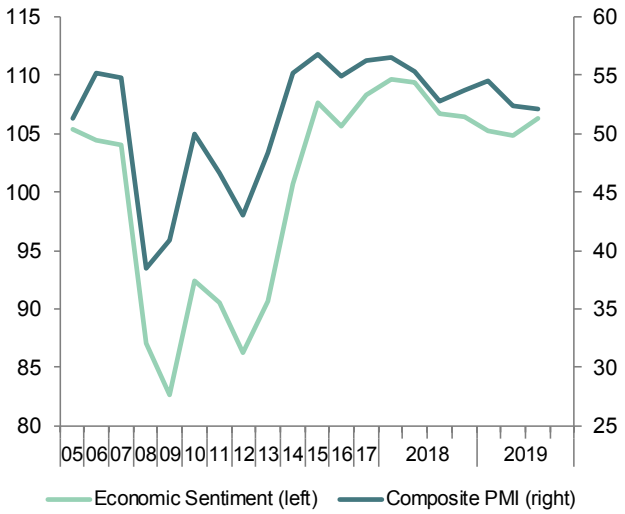


Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

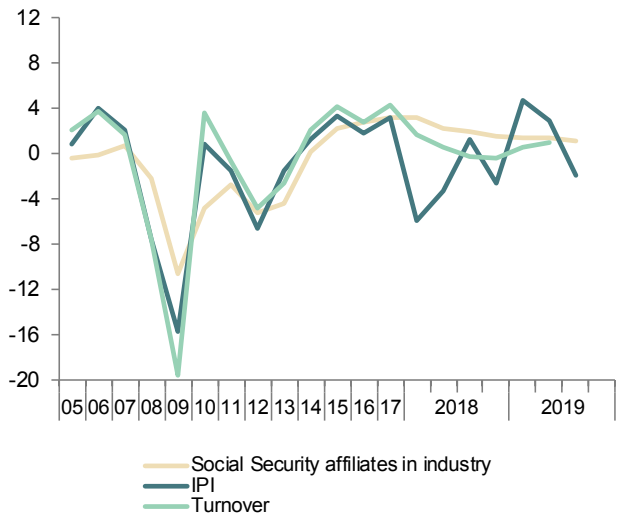


Chart 8.4 - Industrial sector indicators (II)

Index

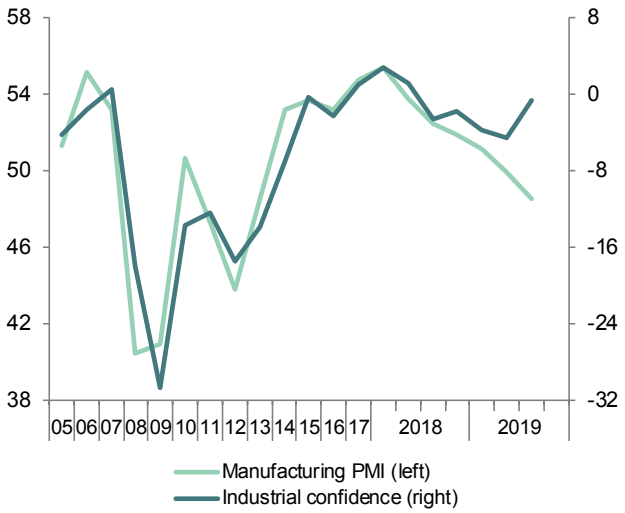


Table 9

Construction and services sector indicators (a)

	Construction indicators					Service sector indicators					
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	2015=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	Thousands	2015=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2012	1,135.5	101.2	-54.9	7.4	8.5	11,907.2	94.8	43.1	280.7	193.2	-21.5
2013	996.8	93.6	-55.6	9.2	6.8	11,727.9	92.9	48.3	286.0	186.5	-15.3
2014	980.3	92.8	-41.4	13.1	6.9	11,995.5	95.3	55.2	295.3	194.9	9.9
2015	1,026.7	100.0	-25.3	9.4	9.9	12,432.3	100.0	57.3	308.2	206.6	19.4
2016	1,053.9	102.6	-39.6	9.2	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8
2017	1,118.8	111.5	-26.9	12.7	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018	1,194.1	114.2	-4.6	16.6	19.8	13,781.3	117.5	54.8	340.1	262.9	21.7
2019 (b)	1,252.4	129.7	-4.6	12.0	8.9	14,121.7	119.8	54.1	192.8	186.3	14.9
2017 IV	1,148.3	112.8	-15.7	3.8	4.0	13,515.9	113.6	54.6	85.4	63.7	22.3
2018 I	1,165.0	112.9	-4.3	3.8	4.7	13,626.1	115.4	56.8	85.3	64.6	23.5
II	1,183.2	113.6	-4.1	3.9	5.2	13,724.4	117.1	55.8	85.3	65.4	23.5
III	1,205.3	115.6	-8.3	4.4	4.9	13,828.8	118.6	52.6	85.7	66.4	21.6
IV	1,223.9	118.8	-1.6	4.9	5.0	13,944.6	119.9	54.0	86.3	67.6	18.0
2019 I	1,244.7	122.6	-0.6	5.1	5.2	14,040.7	121.3	55.3	86.6	68.4	15.5
II	1,253.1	125.3	-7.8	5.2	3.7	14,136.5	122.7	53.1	86.8	68.5	14.8
III (b)	1,256.0	126.7	-6.0	1.8	--	14,197.1	--	53.6	29.0	45.6	14.1
2019 Jun	1,254.0	126.0	6.9	1.7	--	14,162.4	123.1	53.6	28.9	22.8	11.5
Jul	1,255.8	126.7	-3.5	1.8	--	14,184.1	--	52.9	29.0	22.8	13.8
Aug	1,256.1	--	-8.4	--	--	14,210.0	--	54.3	--	22.8	14.4
Percentage changes (c)											
2012	-17.0	-28.2	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013	-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015	4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016	2.6	2.6	--	-1.6	29.0	3.4	4.2	--	7.4	11.0	--
2017	6.2	8.6	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018	6.7	2.4	--	31.1	24.5	3.3	5.8	--	-0.2	5.8	--
2019 (d)	6.0	11.0	--	41.3	10.4	3.0	5.1	--	1.6	5.1	--
2017 IV	8.3	3.4	--	69.5	24.8	3.4	6.6	--	-0.6	6.7	--
2018 I	5.9	0.4	--	59.5	18.9	3.3	6.5	--	-0.4	5.8	--
II	6.4	2.4	--	35.1	23.5	2.9	5.9	--	0.2	5.3	--
III	7.7	7.3	--	27.6	32.7	3.1	5.3	--	1.4	6.2	--
IV	6.3	11.5	--	30.6	23.3	3.4	4.5	--	2.8	7.3	--
2019 I	7.0	13.2	--	35.8	11.0	2.8	4.6	--	1.8	4.6	--
II	2.7	9.1	--	34.4	12.8	2.8	4.8	--	0.7	0.8	--
III (e)	0.9	4.6	--	27.1	--	1.7	--	--	0.3	-0.7	--
2019 Jun	0.1	0.6	--	23.8	--	0.2	0.4	--	0.0	-0.1	--
Jul	0.1	0.6	--	5.4	--	0.2	--	--	0.0	-0.1	--
Aug	0.0	--	--	--	--	0.2	--	--	--	-0.1	--

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

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

Chart 9.1 - Construction indicators (I)

Annualized percentage changes from previous period and index

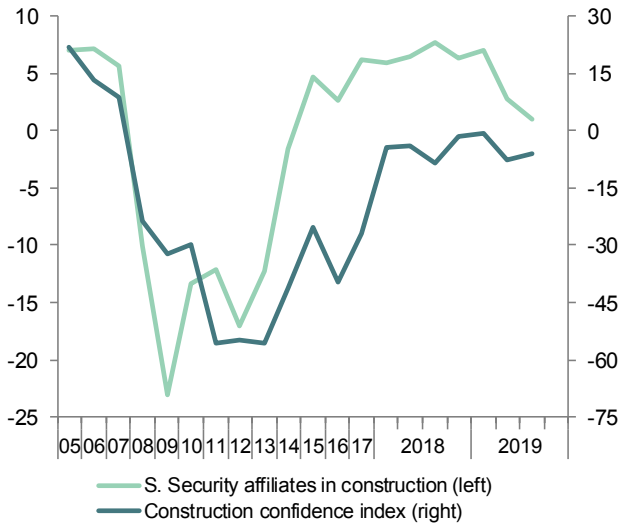


Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

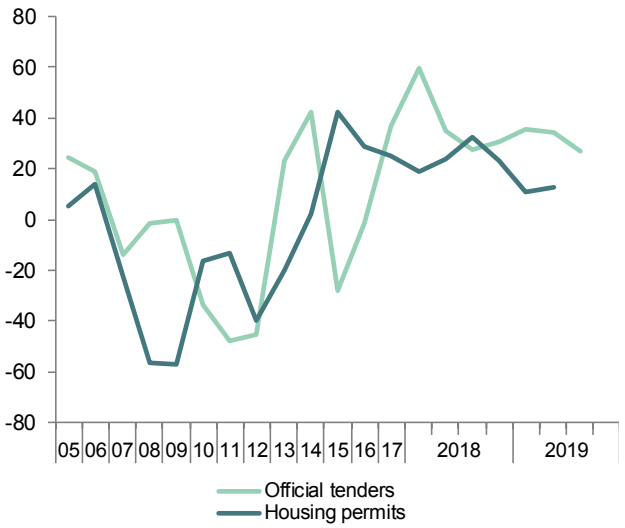


Chart 9.3 - Services indicators (I)

Annualized percentage change from previous period

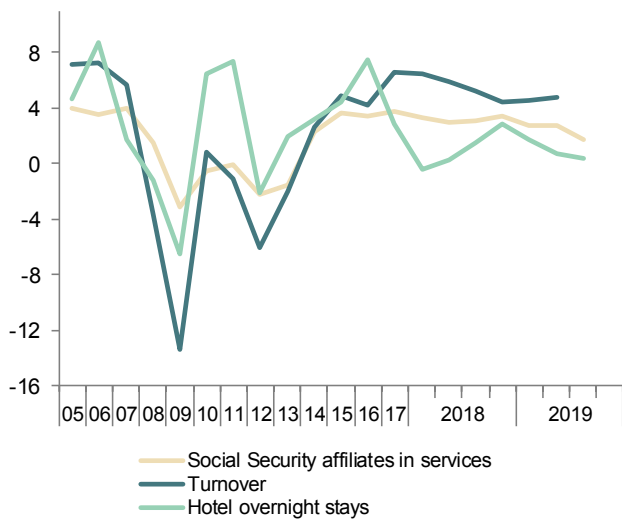


Chart 9.4 - Services indicators (II)

Index

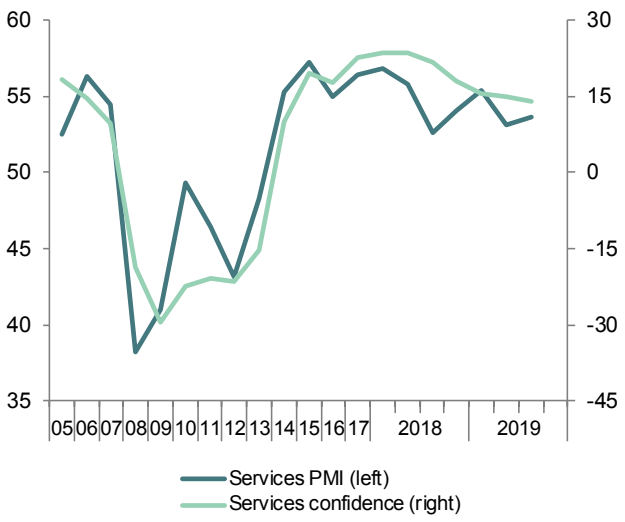


Table 10

Consumption and investment indicators (a)

		Consumption indicators					Investment in equipment indicators		
		Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Imports of capital goods (volume)
		2015=100 (smoothed)	Thousands (smoothed)	Balance of responses	Million (smoothed)	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100 (smoothed)
2012		98.8	710.6	-33.7	102.1	-24.2	107.7	-38.6	60.6
2013		95.0	742.3	-28.1	100.6	-21.8	107.6	-33.5	68.9
2014		96.0	890.1	-14.5	104.7	-9.1	137.5	-16.5	81.6
2015		100.0	1,094.0	-4.7	110.3	-3.1	180.3	0.2	93.3
2016		103.9	1,230.1	-6.3	114.2	-1.4	191.3	-0.2	97.2
2017		104.7	1,341.6	-3.4	115.8	2.2	207.6	4.9	103.3
2018		105.4	1,424.0	-4.2	116.5	-5.7	230.0	12.4	105.4
2019 (b)		105.7	880.6	-4.7	66.7	-3.0	135.8	12.8	105.3
2017	IV	105.2	352.0	-2.5	29.0	-2.8	54.9	12.4	102.7
2018	I	105.3	358.3	-3.9	29.0	-0.4	56.6	13.8	104.0
	II	105.3	362.0	-3.0	29.0	-5.1	57.8	15.7	106.1
	III	105.5	359.0	-3.7	29.2	-10.6	58.2	11.3	106.8
	IV	106.0	346.2	-6.2	29.5	-6.6	57.5	8.8	105.8
2019	I	106.8	338.3	-4.8	29.8	-3.2	56.6	10.9	105.8
	II	107.7	333.8	-4.0	30.2	-2.0	55.3	16.4	107.3
	III (b)	108.3	110.0	-5.6	10.1	-4.3	18.1	10.3	--
2019	Jun	108.0	110.7	-2.1	10.1	-0.7	18.3	18.4	107.9
	Jul	108.3	110.0	-4.9	10.1	-4.3	18.1	10.3	--
	Aug	--	--	-6.2	--	-4.3	--	10.3	--
		Percentage changes (c)							
2012		-7.4	-12.1	--	-8.4	--	-24.2	--	-10.9
2013		-3.8	4.5	--	-1.4	--	-0.1	--	13.7
2014		1.1	19.9	--	4.1	--	27.8	--	18.4
2015		4.2	22.9	--	5.3	--	31.1	--	14.4
2016		3.9	12.4	--	3.6	--	6.1	--	4.1
2017		0.8	9.1	--	1.4	--	8.5	--	6.4
2018		0.7	6.1	--	0.5	--	10.8	--	2.0
2019 (d)		2.0	-5.2	--	4.0	--	-2.4	--	1.2
2017	IV	0.3	14.2	--	1.3	--	15.4	--	-1.6
2018	I	0.4	7.4	--	0.2	--	12.2	--	5.3
	II	0.2	4.1	--	-0.1	--	9.1	--	8.3
	III	0.7	-3.2	--	1.8	--	2.9	--	2.5
	IV	2.0	-13.5	--	4.6	--	-4.9	--	-3.8
2019	I	2.9	-8.9	--	4.5	--	-6.1	--	0.2
	II	3.4	-5.1	--	4.7	--	-8.5	--	5.6
	III (e)	2.3	-4.4	--	3.5	--	-6.6	--	--
2019	May	0.3	-0.5	--	0.4	--	-0.8	--	0.6
	Jun	0.3	-0.5	--	0.4	--	-0.8	--	0.6
	Jul	0.3	-0.6	--	0.4	--	-0.9	--	--

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

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

Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses

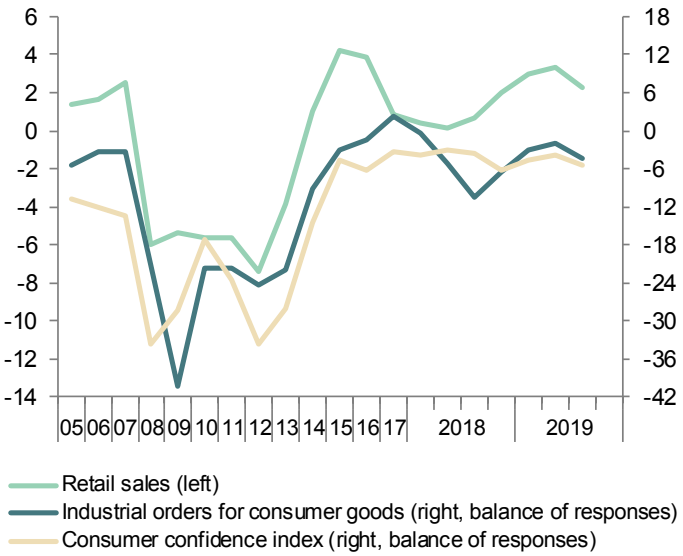


Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

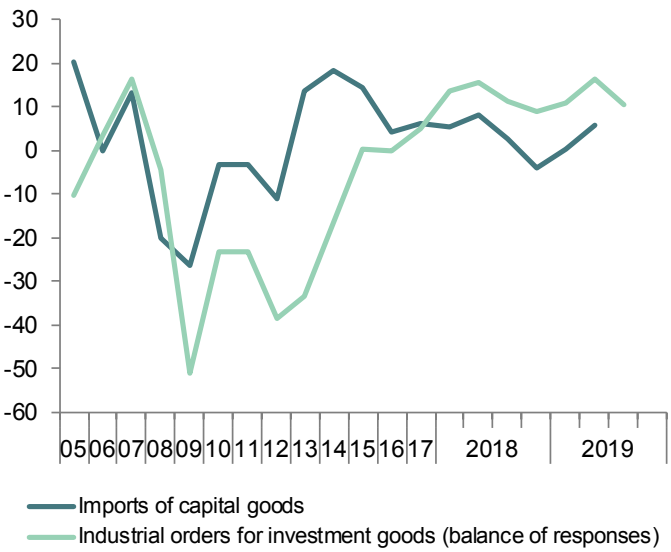


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate aged 16 or more (a)	Employment rate aged 16 or more (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
2012		38.8	23.4	--	17.6	--	5.8	--	60.4	45.4	24.8	52.9	23.0	35.9
2013		38.6	23.2	--	17.1	--	6.1	--	60.0	44.4	26.1	55.5	24.4	37.0
2014		38.5	23.0	--	17.3	--	5.6	--	59.6	45.0	24.4	53.2	23.0	34.5
2015		38.5	22.9	--	17.9	--	5.1	--	59.5	46.4	22.1	48.3	20.9	30.5
2016		38.5	22.8	--	18.3	--	4.5	--	59.2	47.6	19.6	44.4	18.7	26.6
2017		38.7	22.7	--	18.8	--	3.9	--	58.8	48.7	17.2	38.6	16.3	23.8
2018		38.9	22.8	--	19.3	--	3.5	--	58.6	49.7	15.3	34.4	14.3	21.9
2019		39.3	23.0	--	19.8	--	3.3	--	58.6	50.3	14.2	--	--	--
2020		39.5	23.2	--	20.1	--	3.1	--	58.7	50.8	13.4	--	--	--
2021		39.8	23.3	--	20.4	--	2.9	--	58.6	51.2	12.5	--	--	--
2017	III	38.7	22.8	22.7	19.0	18.8	3.7	3.9	58.8	48.6	16.4	36.0	15.5	22.7
	IV	38.7	22.8	22.8	19.0	18.9	3.8	3.9	58.8	48.8	16.5	37.5	15.6	23.6
2018	I	38.8	22.7	22.7	18.9	19.0	3.8	3.8	58.6	48.9	16.7	36.3	15.7	24.3
	II	38.8	22.8	22.8	19.3	19.2	3.5	3.6	58.6	49.4	15.3	34.7	14.3	21.9
	III	38.9	22.9	22.8	19.5	19.3	3.3	3.5	58.6	49.6	14.6	33.0	13.7	20.6
	IV	39.0	22.9	22.8	19.6	19.4	3.3	3.4	58.5	49.8	14.4	33.5	13.5	20.8
2019	I	39.1	22.8	22.9	19.5	19.6	3.4	3.3	58.5	50.0	14.7	35.0	13.8	20.9
	II	39.2	23.0	23.0	19.8	19.6	3.2	3.3	58.6	50.1	14.0	33.2	13.1	20.3
		Percentage changes (d)							Difference from one year ago					
2012		-0.5	0.0	--	-4.3	--	15.9	--	0.4	-2.3	3.4	6.7	3.5	3.3
2013		-0.5	-1.1	--	-2.8	--	4.1	--	-0.4	-1.1	1.3	2.6	1.5	1.1
2014		-0.3	-1.0	--	1.2	--	-7.3	--	-0.4	0.7	-1.7	-2.3	-1.4	-2.5
2015		0.0	-0.1	--	3.0	--	-9.9	--	-0.1	1.4	-2.4	-4.9	-2.1	-4.0
2016		0.1	-0.4	--	2.7	--	-11.4	--	-0.3	1.2	-2.4	-3.9	-2.2	-3.8
2017		0.3	-0.4	--	2.6	--	-12.6	--	-0.4	1.1	-2.4	-5.9	-2.4	-2.8
2018		0.6	0.3	--	2.7	--	-11.2	--	-0.2	1.0	-2.0	-4.2	-2.0	-1.9
2019		1.0	1.0	--	2.2	--	-5.9	--	0.0	0.6	-1.0	--	--	--
2020		0.6	0.7	--	1.7	--	-5.1	--	0.0	0.5	-0.8	--	--	--
2021		0.7	0.4	--	1.5	--	-6.2	--	-0.1	0.4	-0.9	--	--	--
2017	III	0.3	-0.3	-0.4	2.8	2.8	-13.6	-13.3	-0.4	1.2	-2.5	-6.0	-2.6	-2.1
	IV	0.3	0.1	0.0	2.6	2.7	-11.1	-11.1	-0.2	1.1	-2.1	-5.5	-2.3	-1.1
2018	I	0.4	-0.1	-0.1	2.4	2.4	-10.8	-11.1	-0.3	0.9	-2.0	-5.3	-2.1	-1.2
	II	0.5	0.5	0.4	2.8	2.8	-10.8	-10.8	-0.1	1.1	-1.9	-4.8	-2.0	-1.7
	III	0.6	0.3	0.3	2.5	2.6	-10.9	-10.6	-0.2	0.9	-1.8	-3.0	-1.8	-2.1
	IV	0.8	0.5	0.4	3.0	3.0	-12.3	-12.3	-0.2	1.1	-2.1	-3.9	-2.0	-2.8
2019	I	0.9	0.7	0.6	3.2	3.1	-11.6	-12.0	-0.1	1.1	-2.0	-1.4	-1.9	-3.4
	II	1.0	0.9	0.8	2.4	2.4	-7.4	-7.4	-0.1	0.7	-1.3	-1.5	-1.3	-1.7

(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; annualized quarterly percentage changes for S.A. data.

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

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

Annual / annualized quarterly growth rates and percentage of active population

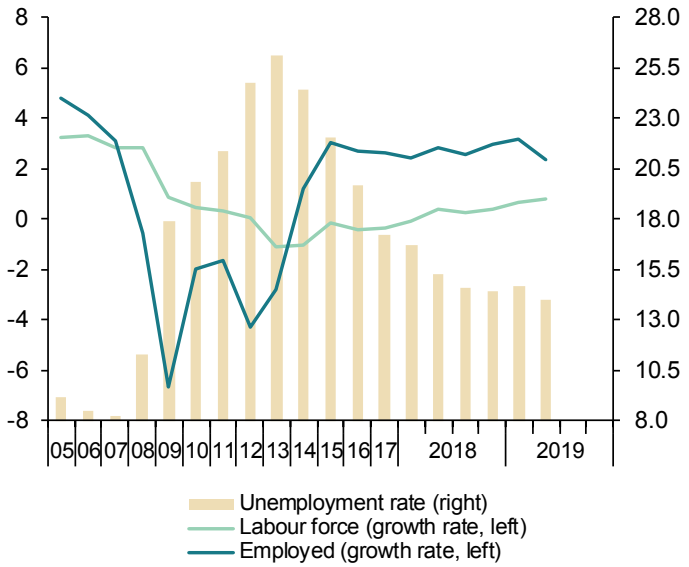


Chart 11a.2 - Unemployment rates, S.A.

Percentage

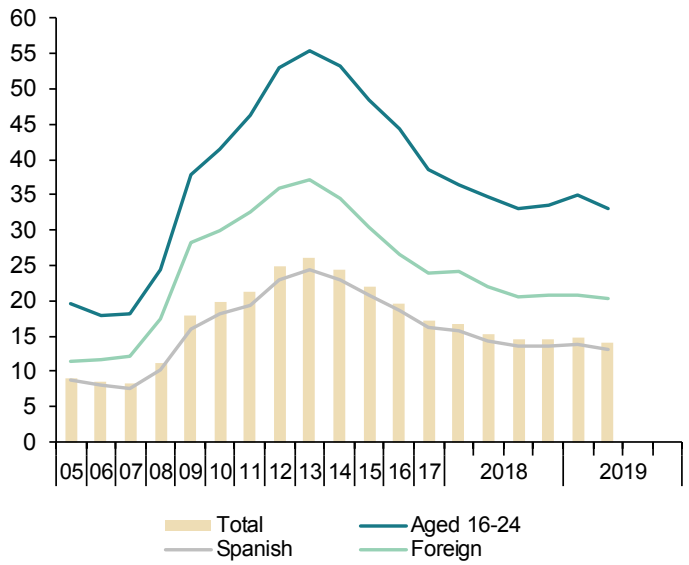


Table 11b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees							
						By type of contract						
	Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
	Million (original data)											
2012	0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.49
2013	0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.80
2014	0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91
2015	0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74
2016	0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21
2017	0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97
2018	0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31
2019 (c)	0.82	2.74	1.28	14.80	16.52	4.32	12.21	26.1	3.12	16.71	2.93	14.90
2017 II	0.83	2.64	1.13	14.21	15.69	4.21	11.48	26.8	3.12	15.94	2.87	15.26
2017 III	0.78	2.67	1.15	14.45	15.91	4.36	11.55	27.4	3.14	16.32	2.73	14.31
IV	0.82	2.71	1.14	14.32	15.92	4.25	11.67	26.7	3.08	16.19	2.81	14.77
2018 I	0.83	2.68	1.15	14.21	15.79	4.12	11.67	26.1	3.08	16.06	2.81	14.91
II	0.82	2.72	1.22	14.58	16.26	4.36	11.90	26.8	3.09	16.71	2.64	13.63
III	0.77	2.73	1.24	14.79	16.43	4.51	11.93	27.4	3.09	16.81	2.71	13.90
IV	0.83	2.71	1.28	14.75	16.45	4.42	12.03	26.9	3.11	16.67	2.89	14.80
2019 I	0.84	2.71	1.28	14.64	16.36	4.23	12.12	25.9	3.11	16.57	2.90	14.90
II	0.81	2.76	1.28	14.95	16.69	4.40	12.29	26.4	3.12	16.85	2.95	14.90
	Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
2012	-1.6	-4.6	-17.3	-3.0	-5.3	-11.8	-3.1	-1.7	1.1	-5.3	2.3	0.9
2013	-0.9	-5.2	-11.4	-1.7	-3.5	-4.6	-3.1	-0.3	0.4	-4.3	6.0	1.3
2014	-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015	0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016	5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017	5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2
2018	-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2019 (d)	-0.4	1.4	8.1	2.8	3.1	1.8	3.6	-0.3	1.0	2.0	7.4	0.6
2017 III	4.5	5.5	4.3	2.1	3.3	4.9	2.7	0.4	0.6	3.1	1.1	-0.2
IV	0.5	5.1	6.0	2.1	3.5	4.4	3.2	0.2	-1.5	3.3	-1.0	-0.5
2018 I	-1.6	4.1	6.5	2.0	2.9	4.4	2.4	0.4	-0.5	3.2	-2.1	-0.7
II	-1.2	3.3	7.2	2.6	3.6	3.6	3.6	0.0	-1.2	4.8	-8.1	-1.6
III	-1.1	2.1	7.4	2.4	3.3	3.5	3.2	0.1	-1.5	3.0	-0.4	-0.4
IV	0.6	-0.1	11.9	3.0	3.3	3.9	3.1	0.2	1.1	2.9	3.2	0.0
2019 I	0.7	1.2	11.2	3.0	3.6	2.7	3.9	-0.2	1.0	3.2	3.1	0.0
II	-1.6	1.5	5.0	2.5	2.7	1.0	3.3	-0.4	1.0	0.9	11.9	1.3

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

Source: INE (Labour Force Survey).

Chart 11b 1.- Employment by sector

Annual percentage changes

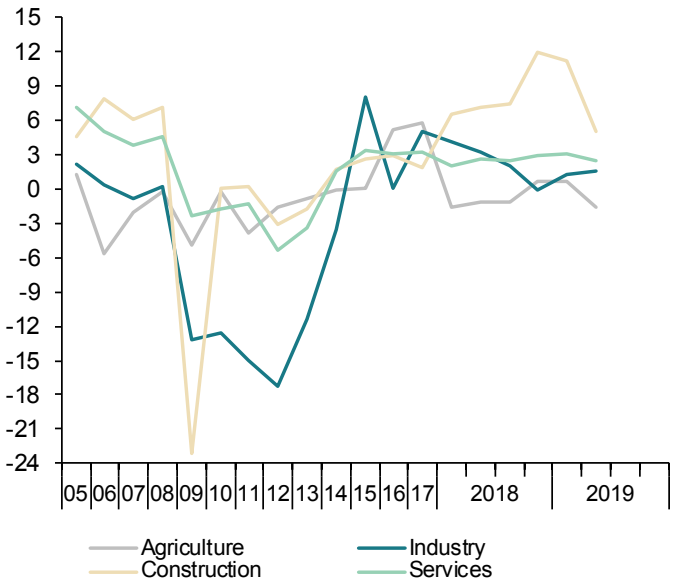


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

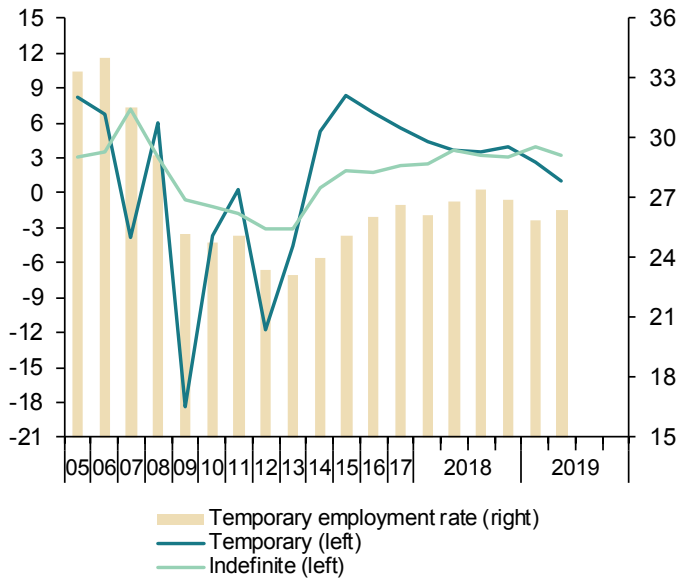


Table 12

Index of Consumer Prices

Forecasts in yellow

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2018		100.00	66.27	80.76	25.15	41.12	14.49	7.29	11.95	21.78
					Indexes, 2016 = 100					
2013		100.9	98.7	98.5	99.6	98.1	97.9	97.3	121.3	97.7
2014		100.7	98.7	98.6	99.2	98.3	98.2	96.0	120.3	97.6
2015		100.2	99.2	99.2	99.5	98.9	99.2	97.7	109.4	98.7
2016		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2017		102.0	101.1	101.1	100.2	101.6	100.7	102.6	108.0	101.3
2018		103.7	102.1	102.0	100.2	103.1	101.7	105.8	114.7	103.1
2019		104.4	103.0	102.9	100.4	104.5	102.4	108.3	113.1	104.3
2020		105.4	104.0	103.9	100.7	106.0	103.4	111.2	112.8	105.9
					Annual percentage changes					
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018		1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8
2019		0.7	0.9	0.9	0.3	1.4	0.7	2.4	-1.3	1.2
2020		1.0	1.0	1.0	0.3	1.4	1.0	2.7	-0.3	1.6
2019	Jan	1.0	0.9	0.8	0.1	1.4	0.4	2.3	1.5	1.0
	Feb	1.1	0.7	0.7	0.1	1.1	0.4	3.4	2.6	1.4
	Mar	1.3	0.7	0.7	0.2	1.1	0.4	2.0	5.6	0.9
	Apr	1.5	1.1	0.9	0.2	1.7	0.3	1.8	5.4	0.8
	May	0.8	0.8	0.7	0.2	1.2	0.3	1.0	1.3	0.6
	Jun	0.4	1.0	0.9	0.2	1.4	0.4	0.6	-2.6	0.5
	Jul	0.5	0.9	0.9	0.3	1.4	0.5	1.6	-2.4	0.9
	Aug	0.3	1.0	0.9	0.4	1.4	0.6	1.5	-4.5	0.9
	Sep	0.1	1.0	1.0	0.4	1.4	1.0	2.2	-7.2	1.4
	Oct	0.0	1.0	1.0	0.4	1.4	1.0	2.2	-7.5	1.4
	Nov	0.5	1.0	1.1	0.3	1.4	1.4	4.3	-5.2	2.4
	Dec	1.1	1.0	1.1	0.3	1.4	1.7	5.6	-1.3	3.0
2020	Jan	1.2	1.0	1.1	0.3	1.4	1.6	6.1	-1.3	3.1
	Feb	0.9	1.0	1.1	0.3	1.4	1.4	5.2	-2.5	2.7
	Mar	0.9	1.0	1.0	0.3	1.4	1.1	5.2	-2.9	2.5
	Apr	0.7	1.0	1.0	0.4	1.5	0.9	4.7	-3.9	2.2
	May	0.6	1.0	1.0	0.3	1.5	0.7	4.2	-3.8	1.9
	Jun	1.0	1.0	0.9	0.4	1.4	0.6	3.3	0.1	1.6
	Jul	1.0	1.0	1.0	0.3	1.4	0.9	2.6	-0.1	1.5
	Aug	1.1	1.0	1.0	0.3	1.4	0.9	1.9	1.2	1.3
	Sep	1.2	1.0	1.0	0.3	1.4	1.0	1.2	2.8	1.1
	Oct	1.1	1.0	1.0	0.3	1.4	1.0	0.8	2.3	0.9
	Nov	1.0	1.0	0.9	0.3	1.4	0.9	-1.2	2.4	0.2
	Dec	1.0	0.9	1.0	0.3	1.4	1.0	-1.5	2.4	0.2

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

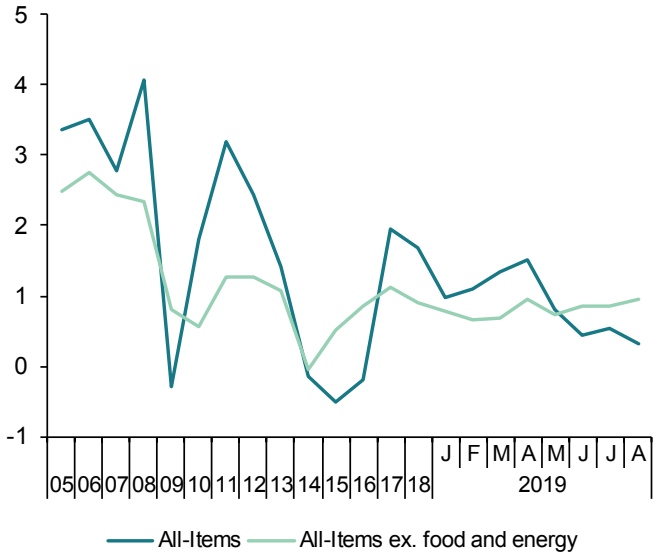


Chart 12.2 - Inflation rate (II)

Annual percentage changes

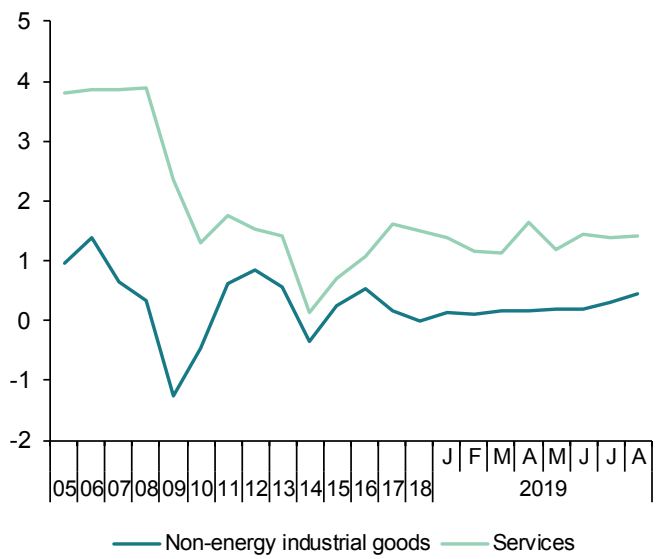


Table 13

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	m^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2010=100	2015=100		2007=100			2000=100				
2012	99.7	102.9	99.8	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	100.1	103.5	100.5	64.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014	99.9	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015	100.5	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016	100.8	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.3	156.3	--
2017	102.2	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.3	--
2018	103.3	104.1	103.0	79.3	77.4	57.3	145.4	143.8	150.6	158.5	--
2019 (b)	104.3	104.3	103.2	82.5	79.6	57.3	147.4	144.9	155.1	156.3	--
2017 IV	102.7	102.1	102.2	75.8	75.8	54.9	150.9	151.3	149.5	164.9	--
2018 I	102.6	102.2	102.9	76.9	76.2	58.5	141.2	138.1	150.7	148.6	--
II	103.2	103.4	103.1	78.8	77.2	58.5	147.0	146.2	149.6	155.6	--
III	103.3	105.6	103.1	80.5	77.3	55.7	141.3	138.0	151.4	163.3	--
IV	104.0	105.2	103.0	80.9	78.7	56.6	152.2	152.7	150.6	166.8	--
2019 I	103.6	104.2	103.0	82.1	79.6	57.3	144.1	140.5	155.2	152.2	--
II	105.0	104.3	103.4	83.0	--	--	150.6	149.2	155.0	160.4	--
III (b)	--	104.2	103.3	--	--	--	--	--	--	--	--
2019 May	--	104.7	103.3	--	--	--	--	--	--	--	--
Jun	--	103.6	103.4	--	--	--	--	--	--	--	--
Jul	--	104.2	103.3	--	--	--	--	--	--	--	--
Annual percent changes (c)											
2012	-0.1	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.0
2013	0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.5
2014	-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015	0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	0.7
2016	0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.1	1.0
2017	1.4	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018	1.1	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.4	1.8
2019 (d)	1.3	1.1	0.2	6.0	4.4	-2.1	2.3	1.9	3.3	2.8	2.3
2017 IV	1.5	2.6	2.1	7.2	0.9	-10.9	0.7	0.5	1.5	0.7	1.4
2018 I	1.2	0.8	1.4	6.2	1.4	-2.6	0.7	0.8	0.3	1.0	1.5
II	1.0	3.0	1.1	6.8	2.6	-2.1	0.6	0.5	1.0	0.9	1.6
III	0.9	5.0	1.1	7.2	2.2	-4.3	1.9	1.9	1.9	2.7	1.7
IV	1.3	3.1	0.8	6.6	0.4	3.0	0.9	0.9	0.7	1.2	1.8
2019 I	0.9	1.9	0.2	6.8	1.5	-2.1	2.1	1.7	3.0	2.4	2.2
II	1.7	0.9	0.3	5.3	1.2	--	2.4	2.1	3.6	3.1	2.2
III (e)	--	-1.3	0.2	--	--	--	--	--	--	--	--
2019 Jun	--	-0.8	0.2	--	--	--	--	--	--	--	2.2
Jul	--	-0.8	0.1	--	--	--	--	--	--	--	2.3
Aug	--	--	--	--	--	--	--	--	--	--	2.3

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

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

Chart 13.1 - Housing and urban land prices

Index (2007=100)

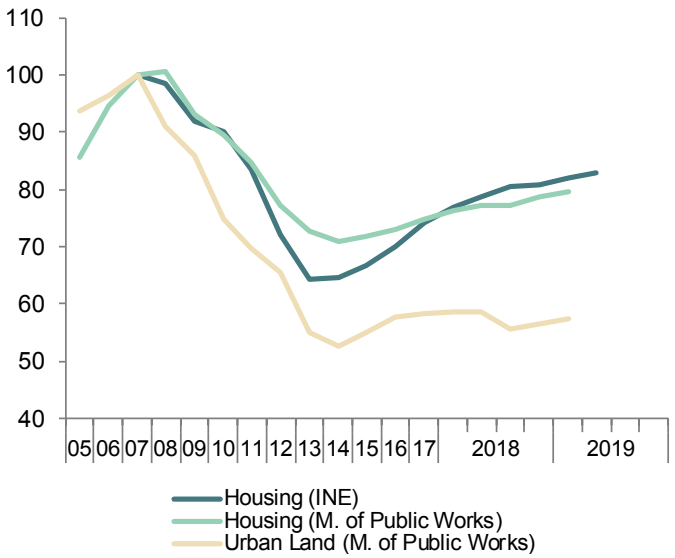


Chart 13.2 - Wage costs

Annual percent change

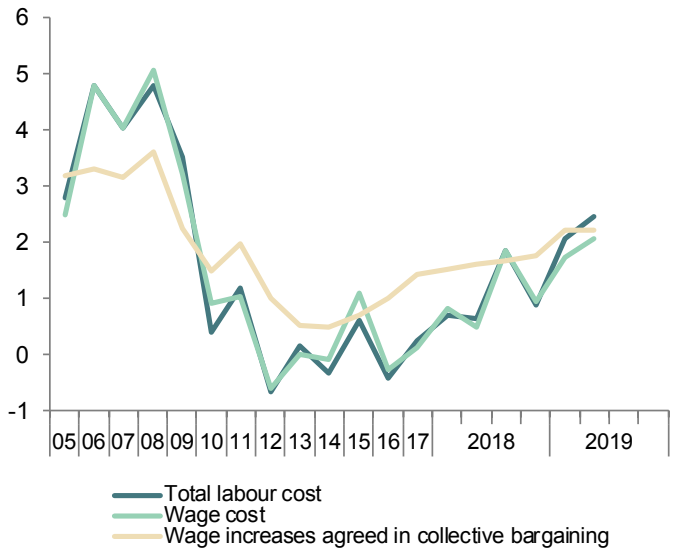


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2012		145.9	110.7	131.9	110.7	114.7	96.6	11.9	6.9	-2.7	1.2	1.0
2013		152.1	110.5	137.7	108.3	109.8	98.7	12.3	7.3	-1.4	2.1	1.4
2014		155.2	109.4	141.9	114.0	107.3	106.3	12.7	7.3	-2.1	1.1	0.9
2015		161.2	110.1	146.5	118.0	104.6	112.9	13.5	7.3	-2.1	0.2	0.6
2016		165.4	108.2	153.0	117.5	101.3	116.1	14.2	7.2	-1.4	0.3	1.2
2017		178.2	108.9	163.7	129.8	106.1	122.4	15.1	7.9	-2.2	0.0	1.3
2018		183.9	112.1	164.1	136.9	110.9	123.5	15.6	8.2	-2.8	-0.3	1.3
2019 (b)		188.3	112.2	167.8	138.6	110.2	125.8	16.3	8.3	-2.5	0.0	1.8
2017	III	179.2	108.8	164.7	130.3	105.1	123.9	14.8	8.2	-2.2	-0.2	1.1
	IV	185.3	110.2	168.1	133.2	107.5	123.9	15.6	8.1	-2.0	0.1	1.4
2018	I	185.5	110.9	167.4	135.0	108.2	124.8	15.8	8.0	-2.3	0.2	1.5
	II	183.2	111.3	164.6	136.6	109.1	125.2	15.4	8.1	-2.9	-0.5	1.0
	III	186.3	112.6	165.4	138.5	112.5	123.1	15.5	8.3	-2.9	-0.3	1.3
	IV	186.4	113.5	164.2	139.8	113.7	123.0	15.6	8.3	-3.1	-0.3	1.3
2019	I	183.7	112.8	162.9	138.3	110.1	125.6	15.6	8.0	-3.2	-0.6	1.4
	II	193.0	111.7	172.8	139.0	110.4	125.9	16.2	8.5	-2.1	0.0	1.9
2019	Apr	193.1	112.8	171.2	137.3	113.2	121.3	16.3	8.5	-1.8	-0.3	1.9
	May	193.3	111.0	174.1	141.6	109.4	129.5	16.1	8.7	-2.6	0.0	1.7
	Jun	192.5	111.3	172.9	138.1	108.7	127.0	16.2	8.5	-2.0	0.3	2.1
		Percentage changes (c)								Percentage of GDP		
2012		5.1	2.1	2.9	-2.0	4.7	-6.3	0.5	14.1	-3.1	1.4	1.2
2013		4.3	-0.2	4.5	-2.2	-4.2	2.1	3.1	6.3	-1.6	2.5	1.7
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.8	0.4	-2.3	0.2	0.7
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	5.3	-2.3	-1.6	0.3	1.2
2017		7.7	0.7	7.0	10.5	4.7	5.5	6.5	10.1	-2.3	0.0	1.3
2018		3.2	3.0	0.2	5.4	4.5	0.9	3.1	3.5	-2.8	-0.3	1.3
2019 (d)		1.7	1.0	0.7	1.6	1.5	0.2	1.5	2.2	--	--	--
2017	III	-0.5	4.1	-4.4	9.0	1.7	7.1	-2.2	3.8	-2.3	-0.2	1.1
	IV	14.3	5.3	8.6	9.2	9.4	-0.2	5.5	-0.4	-2.0	0.1	1.4
2018	I	0.4	2.3	-1.8	5.6	2.6	2.9	1.2	-2.0	-2.3	0.2	1.5
	II	-5.0	1.4	-6.4	5.0	3.6	1.4	-2.8	1.6	-2.9	-0.5	1.0
	III	7.1	5.1	1.9	5.5	13.1	-6.7	0.9	3.3	-2.9	-0.3	1.3
	IV	0.1	3.1	-2.8	3.9	4.1	-0.2	0.3	-0.5	-3.1	-0.3	1.3
2019	I	-5.8	-2.6	-3.2	-4.3	-12.0	8.7	0.0	-4.3	-3.1	-0.6	1.3
	II	21.9	-3.7	26.5	2.1	0.9	1.2	3.9	7.3	-2.1	0.0	1.9
2019	Apr	4.8	-0.7	5.6	-1.0	-0.1	-0.8	4.6	5.2	--	--	--
	May	0.1	-1.6	1.7	3.2	-3.4	6.8	-1.1	2.4	--	--	--
	Jun	-0.4	0.3	-0.7	-2.5	-0.6	-1.9	0.7	-2.5	--	--	--

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

Source: Ministry of Economy.

Chart 14.1 - External trade (real)

Percent change from previous period

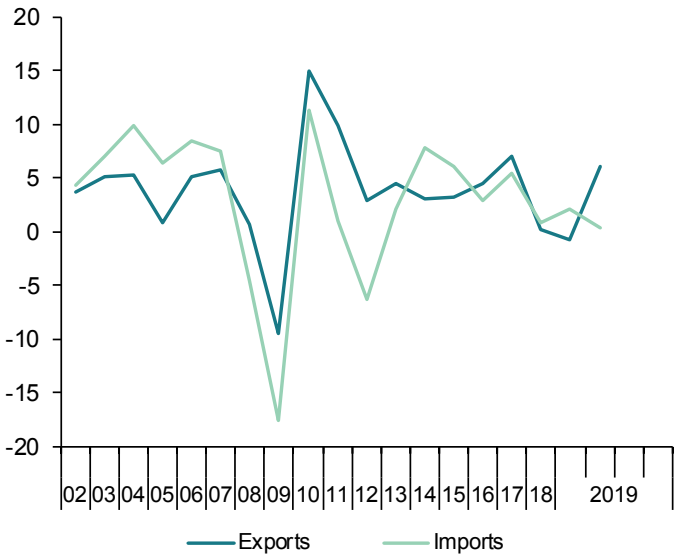


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

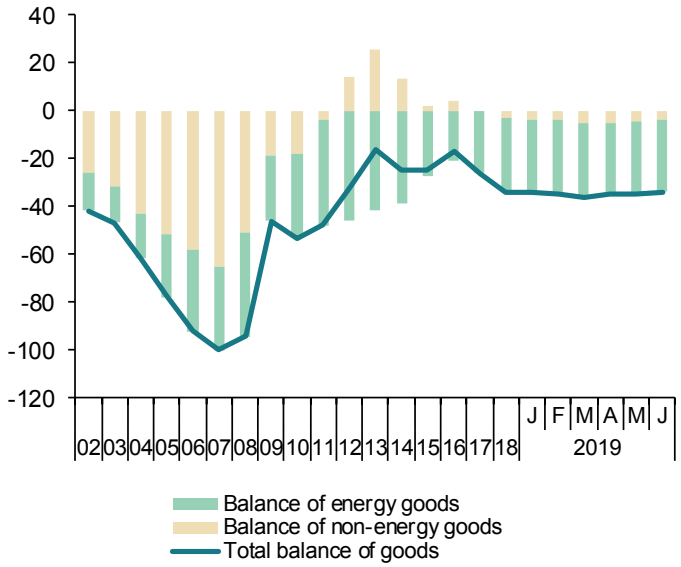


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain	
									Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions															
2012		-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013		15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014		11.22	-22.22	47.89	-3.37	-11.09	5.05	16.27	-15.39	6.48	-5.44	-17.71	1.28	27.49	-4.17
2015		12.55	-21.59	47.51	-2.90	-10.47	7.07	19.62	62.08	25.57	-5.38	43.09	-1.19	-40.16	2.30
2016		25.25	-15.27	51.24	1.06	-11.78	2.54	27.79	77.46	14.43	39.18	26.80	-2.94	-52.63	-2.96
2017		21.51	-21.84	55.47	-1.21	-10.91	2.68	24.19	53.60	16.90	18.19	20.73	-2.23	-32.06	-2.66
2018		11.15	-31.35	54.78	-0.30	-11.98	6.27	17.42	36.96	-9.35	0.57	44.46	1.28	-14.81	4.73
2019 (a)		-5.55	-8.90	8.80	-0.63	-4.82	0.67	-4.88	-3.32	-3.60	-23.14	24.80	-1.38	1.69	3.24
2017	II	5.81	-3.42	15.26	-3.56	-2.47	0.57	6.38	-3.68	3.94	-4.04	-3.20	-0.39	5.85	-4.21
	III	6.66	-7.26	19.09	-1.84	-3.33	0.55	7.21	7.83	7.28	4.50	-2.81	-1.14	-0.24	0.39
	IV	10.41	-4.96	12.29	4.66	-1.58	1.16	11.57	11.50	8.73	-10.59	12.38	0.98	5.70	5.63
2018	I	-1.97	-6.30	9.02	-1.14	-3.56	0.73	-1.24	1.64	-2.48	3.42	-0.82	1.52	-3.14	-0.27
	II	3.61	-6.91	15.36	-3.13	-1.71	0.74	4.35	17.74	-17.24	12.85	23.05	-0.92	-14.53	-1.14
	III	2.98	-9.98	18.17	-1.71	-3.50	1.10	4.08	-1.43	-3.93	-4.75	6.52	0.73	6.71	1.20
	IV	6.53	-8.17	12.24	5.68	-3.22	3.70	10.23	19.02	14.30	-10.94	15.71	-0.05	-3.85	4.94
2019	I	-5.55	-8.90	8.80	-0.63	-4.82	0.67	-4.88	-3.32	-3.60	-23.14	24.80	-1.38	1.69	3.24
			Goods and Services		Primary and Secondary Income										
2019	Apr	-0.41	2.64		-3.05		0.38	-0.04	4.85	-0.90	5.53	-0.04	0.25	-1.29	3.59
	May	2.70	3.49		-0.78		0.25	2.95	8.31	3.36	-0.14	5.54	-0.45	-1.00	4.36
	Jun	2.05	3.96		-1.91		0.29	2.35	5.99	6.85	-19.61	19.19	-0.44	-1.77	1.87
Percentage of GDP															
2012		-0.2	-2.8	4.4	-0.7	-1.1	0.5	0.3	16.4	-2.0	5.3	13.9	-0.8	-16.2	-0.1
2013		1.5	-1.4	4.7	-0.5	-1.3	0.6	2.2	-8.3	-1.8	-5.2	-1.4	0.1	11.6	1.1
2014		1.1	-2.2	4.6	-0.3	-1.1	0.5	1.6	-1.5	0.6	-0.5	-1.7	0.1	2.7	-0.4
2015		1.2	-2.0	4.4	-0.3	-1.0	0.7	1.8	5.8	2.4	-0.5	4.0	-0.1	-3.7	0.2
2016		2.3	-1.4	4.6	0.1	-1.1	0.2	2.5	7.0	1.3	3.5	2.4	-0.3	-4.7	-0.3
2017		1.9	-1.9	4.8	-0.1	-0.9	0.2	2.1	4.6	1.5	1.6	1.8	-0.2	-2.8	-0.2
2018		0.9	-2.6	4.6	0.0	-1.0	0.5	1.4	3.1	-0.8	0.0	3.7	0.1	-1.2	0.4
2017	II	2.0	-1.2	5.2	-1.2	-0.8	0.2	2.2	-1.3	1.3	-1.4	-1.1	-0.1	2.0	-1.4
	III	2.3	-2.5	6.6	-0.6	-1.2	0.2	2.5	2.7	2.5	1.6	-1.0	-0.4	-0.1	0.1
	IV	3.4	-1.6	4.0	1.5	-0.5	0.4	3.8	3.8	2.9	-3.5	4.1	0.3	1.9	1.9
2018	I	-0.7	-2.2	3.1	-0.4	-1.2	0.3	-0.4	0.6	-0.9	1.2	-0.3	0.5	-1.1	-0.1
	II	1.2	-2.3	5.0	-1.0	-0.6	0.2	1.4	5.8	-5.7	4.2	7.6	-0.3	-4.8	-0.4
	III	1.0	-3.4	6.1	-0.6	-1.2	0.4	1.4	-0.5	-1.3	-1.6	2.2	0.2	2.3	0.4
	IV	2.1	-2.6	3.9	1.8	-1.0	1.2	3.2	6.0	4.5	-3.5	5.0	0.0	-1.2	1.6
2019	I	-1.9	-3.0	3.0	-0.2	-1.6	0.2	-1.6	-1.1	-1.2	-7.8	8.4	-0.5	0.6	1.1

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

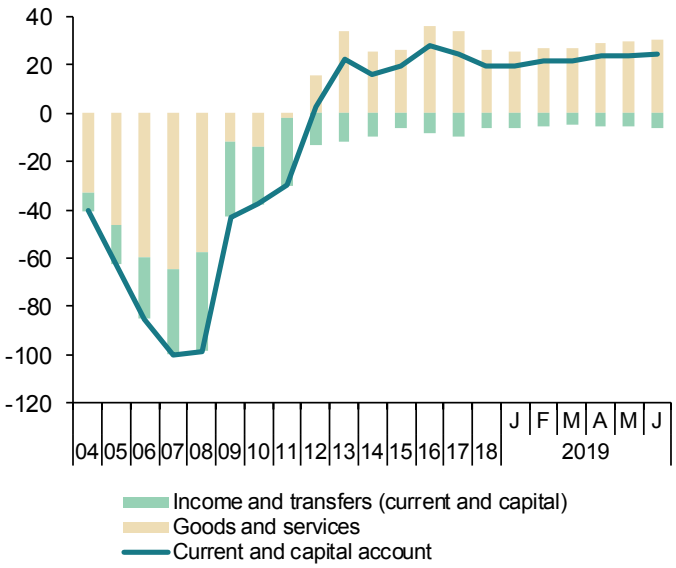


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

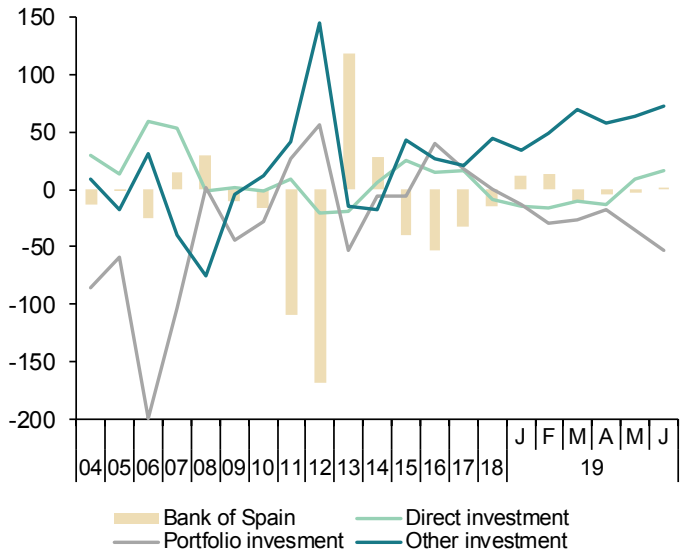


Table 16

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in manufacturing (Spain/Rest of EMU) (a)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
		Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			2015=100			2015=100			1999 I =100
2012		104.4	90.0	116.1	99.3	98.2	101.1	102.9	104.6	98.3	111.7
2013		102.8	93.0	110.5	100.8	99.5	101.3	103.5	104.4	99.1	113.4
2014		100.7	93.2	108.0	100.6	100.0	100.7	102.1	102.8	99.3	112.4
2015		98.4	92.0	106.9	100.0	100.0	100.0	100.0	100.0	100.0	108.8
2016		97.2	89.6	108.4	99.7	100.3	99.4	96.9	97.9	98.9	108.7
2017		97.3	88.8	109.5	101.7	101.8	99.9	101.2	100.7	100.5	110.2
2018		95.3	88.6	107.6	103.5	103.6	99.9	103.8	103.3	100.4	110.9
2019 (b)		--	--	--	104.0	104.5	99.6	103.9	103.9	100.0	109.8
2017	III	--	--	--	101.3	101.8	99.5	100.8	100.4	100.3	110.1
	IV	--	--	--	102.6	102.4	100.2	102.2	101.4	100.8	111.3
2018	I	--	--	--	101.7	102.1	99.7	102.2	102.1	100.1	110.7
	II	--	--	--	104.1	103.8	100.3	103.2	102.8	100.4	111.4
	III	--	--	--	103.6	104.1	99.5	105.0	104.0	100.9	110.3
	IV	--	--	--	104.4	104.3	100.1	104.7	104.3	100.4	110.9
2019	I	--	--	--	102.9	103.5	99.4	103.8	104.0	99.8	109.5
	II	--	--	--	105.2	105.3	99.9	104.1	103.9	100.2	110.3
2019	May	--	--	--	105.3	105.2	100.1	104.4	104.0	100.4	110.4
	Jun	--	--	--	105.2	105.4	99.8	103.4	103.5	99.9	110.3
	Jul	--	--	--	104.0	104.9	99.1	103.7	103.6	100.1	109.3
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2012		-1.0	1.3	-2.3	2.4	2.5	-0.1	3.8	2.9	0.9	2.3
2013		-1.6	3.4	-4.8	1.5	1.3	0.2	0.6	-0.2	0.8	1.5
2014		-2.1	0.2	-2.2	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-0.9
2015		-2.3	-1.2	-1.0	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.1
2016		-1.2	-2.6	1.4	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	-0.1
2017		0.1	-0.9	1.0	2.0	1.5	0.5	4.5	2.8	1.7	1.3
2018		--	--	--	1.7	1.7	0.0	2.5	2.6	-0.1	0.6
2019 (c)		--	--	--	1.0	1.4	-0.4	0.9	1.2	-0.3	-1.0
2017	III	--	--	--	1.8	1.4	0.4	3.6	2.5	1.1	-1.4
	IV	--	--	--	1.6	1.4	0.2	2.7	2.3	0.4	-1.9
2018	I	--	--	--	1.1	1.1	0.0	0.8	1.4	-0.6	-3.4
	II	--	--	--	1.8	1.8	0.0	2.8	2.5	0.3	-3.5
	III	--	--	--	2.3	2.3	0.0	4.2	3.6	0.6	-3.0
	IV	--	--	--	1.8	1.8	0.0	2.4	2.8	-0.4	-2.6
2019	I	--	--	--	1.1	1.4	-0.3	1.6	1.9	-0.3	-1.0
	II	--	--	--	1.1	1.4	-0.3	0.8	1.1	-0.3	-0.5
2019	May	--	--	--	0.9	1.2	-0.3	1.1	1.1	0.0	-0.9
	Jun	--	--	--	0.6	1.3	-0.7	-0.8	0.2	-1.0	-1.1
	Jul	--	--	--	0.6	1.0	-0.4	-0.8	-0.2	-0.6	-0.9

(a) EMU excluding Irland 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

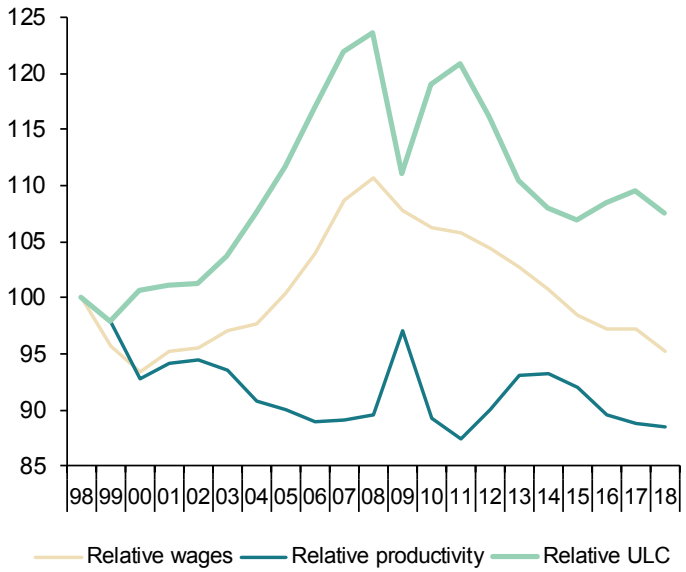


Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

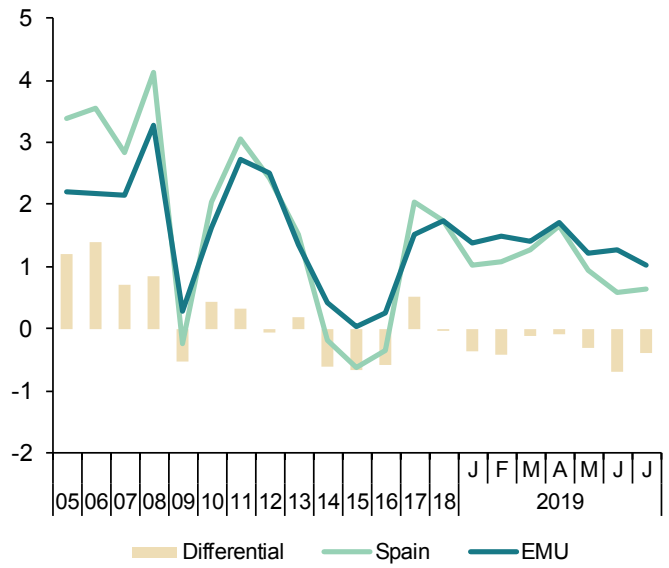


Table 17a

Imbalances: International comparison (I)

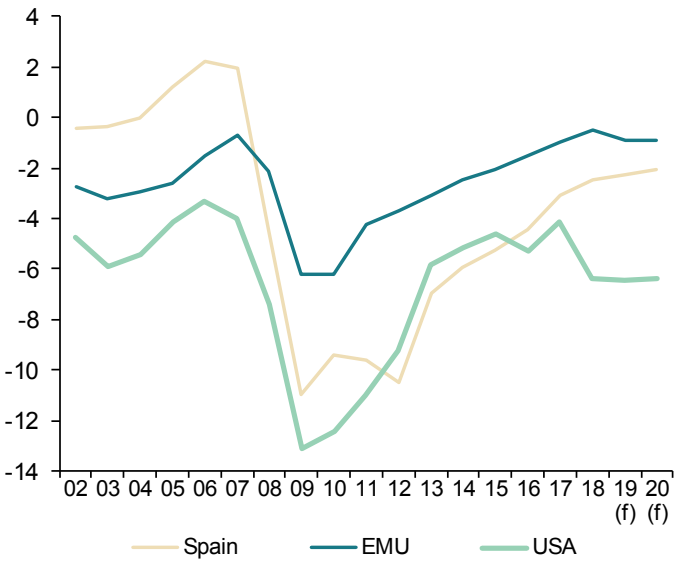
(In yellow: European Commission Forecasts)

	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					
2006	22.2	-133.9	-460.5	392.1	6,003.5	8,883.7	-90.7	26.5	-594.0
2007	20.8	-63.3	-576.0	384.7	6,113.2	9,361.0	-104.1	18.2	-728.5
2008	-49.3	-208.7	-1,084.5	440.6	6,626.6	10,856.6	-102.9	-58.3	-866.1
2009	-118.2	-579.6	-1,896.6	569.5	7,364.5	12,548.9	-46.5	50.7	-564.3
2010	-101.4	-592.5	-1,863.1	650.1	8,121.9	14,324.7	-42.0	56.7	-497.7
2011	-103.2	-416.3	-1,709.1	744.3	8,586.8	15,522.9	-35.3	79.4	-412.4
2012	-108.8	-362.0	-1,493.3	891.5	9,044.2	16,737.7	-4.6	218.1	-206.8
2013	-71.7	-304.6	-977.4	979.0	9,357.5	17,604.3	15.0	273.4	-208.2
2014	-61.9	-252.6	-905.9	1,041.6	9,603.0	18,323.6	10.3	308.0	-76.6
2015	-57.0	-215.2	-843.4	1,073.9	9,720.1	19,091.9	11.4	349.6	-169.2
2016	-50.0	-168.4	-992.1	1,107.2	9,897.1	19,986.3	24.1	375.0	-318.9
2017	-35.9	-110.5	-808.4	1,144.4	9,991.5	20,498.5	22.4	438.5	-329.3
2018	-30.0	-60.5	-1,310.2	1,173.1	10,090.7	22,008.7	11.3	418.2	-440.0
2019	-28.8	-107.2	-1,383.7	1,206.3	10,215.0	23,061.0	11.3	397.5	--
2020	-26.4	-114.1	-1,419.5	1,241.7	10,355.0	24,194.7	11.9	391.3	--
				Percentage of GDP					
2006	2.2	-1.5	-3.3	38.9	67.4	64.3	-9.0	0.3	-4.3
2007	1.9	-0.7	-4.0	35.6	65.0	64.8	-9.6	0.2	-5.0
2008	-4.4	-2.2	-7.4	39.5	68.7	73.8	-9.2	-0.6	-5.9
2009	-11.0	-6.2	-13.1	52.8	79.2	86.9	-4.3	0.5	-3.9
2010	-9.4	-6.2	-12.4	60.1	85.0	95.5	-3.9	0.6	-3.3
2011	-9.6	-4.2	-11.0	69.5	87.6	99.9	-3.3	0.8	-2.7
2012	-10.5	-3.7	-9.2	85.7	91.8	103.3	-0.4	2.2	-1.3
2013	-7.0	-3.1	-5.8	95.5	94.1	104.9	1.5	2.7	-1.2
2014	-6.0	-2.5	-5.2	100.4	94.4	104.6	1.0	3.0	-0.4
2015	-5.3	-2.0	-4.6	99.3	92.3	104.8	1.1	3.3	-0.9
2016	-4.5	-1.6	-5.3	99.0	91.4	106.8	2.2	3.5	-1.7
2017	-3.1	-1.0	-4.1	98.1	89.1	105.2	1.9	3.9	-1.7
2018	-2.5	-0.5	-6.4	97.1	87.1	107.4	0.9	3.6	-2.1
2019	-2.3	-0.9	-6.5	96.3	85.8	107.8	0.9	3.3	--
2020	-2.0	-0.9	-6.4	95.7	84.3	109.0	0.9	3.2	--

Source: European Commission Forecasts, Spring 2019.

Chart 17a.1 - Government deficit

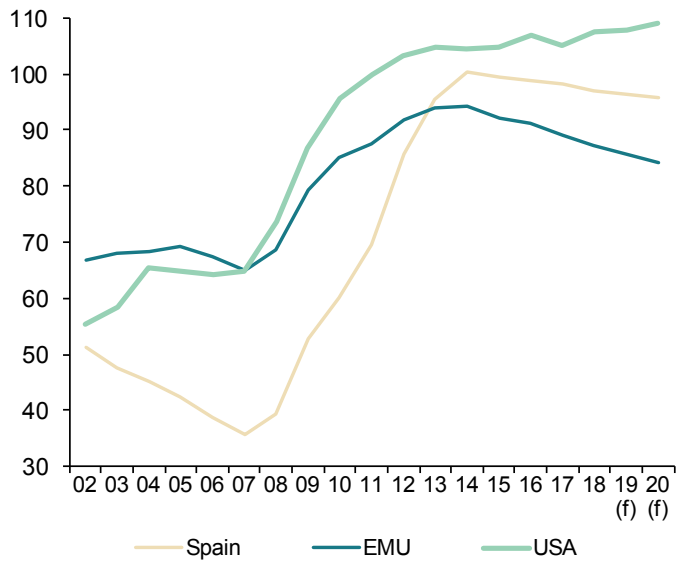
Percentage of GDP



(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP



(f) European Commission forecast.

Table 17b

Imbalances: International comparison (II)

	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU	USA	Spain	EMU	USA
			Billions of national currency			
2005	656.2	4,764.5	12,034.4	925.0	6,968.1	8,172.0
2006	783.5	5,187.5	13,319.7	1,158.8	7,590.8	8,989.0
2007	879.3	5,555.5	14,242.5	1,344.5	8,353.3	10,114.9
2008	916.7	5,768.6	14,111.5	1,422.6	8,998.2	10,679.8
2009	908.9	5,876.1	13,952.7	1,406.1	9,078.0	10,166.7
2010	905.2	6,019.4	13,737.2	1,429.4	9,272.2	10,022.9
2011	877.9	6,103.4	13,588.1	1,415.7	9,654.5	10,280.6
2012	840.9	6,097.0	13,588.5	1,309.8	9,837.1	10,785.3
2013	793.4	6,052.1	13,725.4	1,230.6	9,837.7	11,250.7
2014	757.3	6,055.4	13,973.9	1,180.0	10,286.5	11,980.4
2015	733.9	6,120.4	14,153.9	1,155.3	10,834.2	12,786.5
2016	721.3	6,223.1	14,586.5	1,141.9	11,176.9	13,472.8
2017	712.8	6,381.4	15,143.8	1,124.3	11,353.4	14,415.0
2018	712.0	--	15,612.6	1,125.8	--	15,322.2
			Percentage of GDP			
2005	70.5	56.3	92.3	99.4	82.3	62.7
2006	77.7	58.2	96.4	115.0	85.2	65.1
2007	81.4	59.1	98.6	124.4	88.8	70.0
2008	82.1	59.8	95.9	127.4	93.4	72.6
2009	84.2	63.2	96.6	130.3	97.6	70.4
2010	83.7	63.0	91.6	132.2	97.1	66.9
2011	82.0	62.2	87.4	132.3	98.5	66.1
2012	80.9	61.9	83.9	126.0	99.9	66.6
2013	77.4	60.9	81.8	120.0	98.9	67.0
2014	73.0	59.5	79.8	113.7	101.1	68.4
2015	67.9	58.1	77.7	106.9	102.9	70.2
2016	64.5	57.5	78.0	102.1	103.2	72.0
2017	61.1	56.9	77.7	96.4	101.4	74.0
2018	58.9	--	76.2	93.2	--	74.8

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

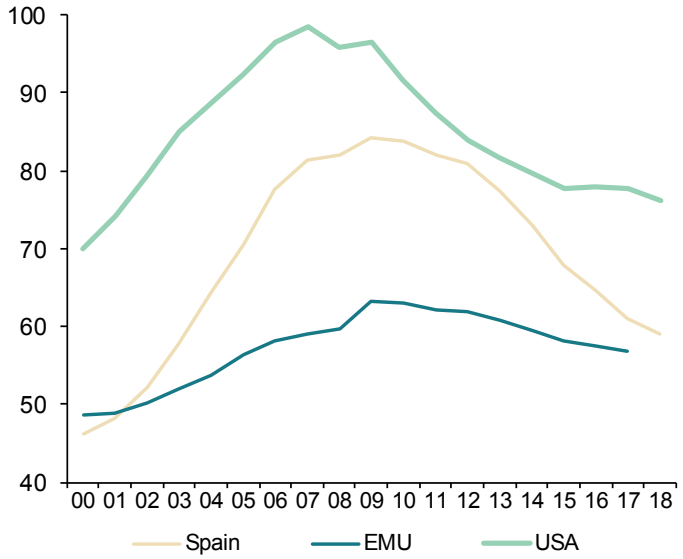
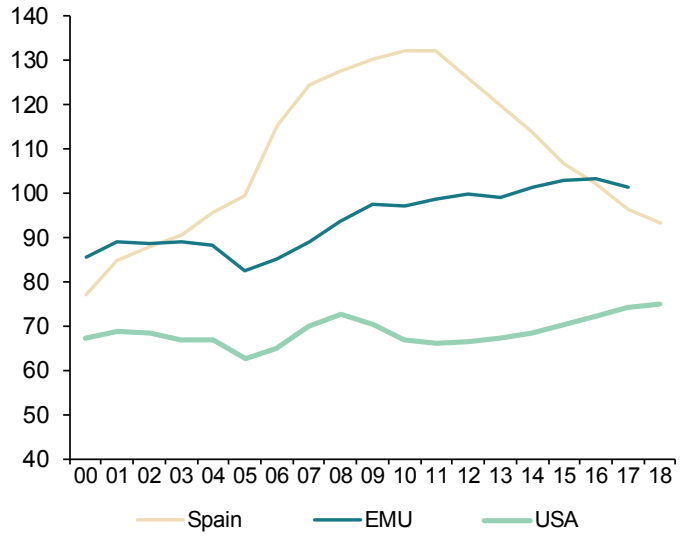


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: September 15th, 2019

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	1.0	June 2019
Other resident sectors' deposits in credit institutions (monthly average % var.)	2.1	June 2019
Doubtful loans (monthly % var.)	-3.9	June 2019
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	692,543	August 2019
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	148,513	August 2019
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	152	August 2019
"Operating expenses/gross operating income" ratio (%)	54.39	December 2018
"Customer deposits/employees" ratio (thousand euros)	9,461.19	December 2018
"Customer deposits/branches" ratio (thousand euros)	68,190.72	December 2018
"Branches/institutions" ratio	109.28	December 2018

A. Money and Interest Rates

Indicator	Source	Average 2001-2016	2017	2018	2019 August	2019 September	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.6	4.7	4.1	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.9	-0.329	-0.309	-0.436	-0.437	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.2	-0.186	-0.117	-0.407	-0.373	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.0	1.5	1.4	0.10	0.37	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.9	1.4	1.5	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates followed an unequal path in the first fortnight of September. The 3-month interbank rate decreased from -0.436% in August to -0.437%, and the 1-year Euribor increased from -0.407% to -0.373%. These figures do not entirely reflect yet the latest decisions of the ECB, significantly expanding its stimulus program. As for the Spanish 10-year bond yield, it grew to 0.37%.

B. Financial Markets

Indicator	Source	Average 2001-2016	2017	2018	2019 June	2019 July	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	16.3	54.60	84.19	215.9	278.5	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	17.5	27.60	49.25	97.5	100.9	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.4	3.46	1.07	0.23	0.00	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.3	4.76	1.84	1.06	1.20	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.7	-0.7	-0.52	-0.51	-0.52	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	676.8	1,127.1	1,164.63	1,300.74	1,298.81	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.4	-1.3	-5.9	-0.7	-2.2	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	3.2	2.2	-5.3	4.6	-2.7	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec 1985=100)	Bank of Spain and Madrid Stock Exchange	1,013.32	1,055.4	862.6	926.1	915.2 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,732.1	10,451.5	8,539.9	9,198.8	9,137.9 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.8	15.8	12.2	13.2	13.1 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	5.3	-	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2016	2017	2018	2019 June	2019 July	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.6	-	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.2	-	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.4	0.6	-6.14	14.5	0.3	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.6	5.8	58.5	28.5	-28.6	IBEX-35 shares concluded transactions

(a) Last data published: September 15th, 2019

Comment on "Financial Markets": During July, there was an increase in transactions with outright spot T-bills to 278.5% and also of spot government bonds transactions to 100.9%. The stock market has registered a significant volatility in the first fortnight of September with the IBEX-35 at 9,138 points, and the General Index of the Madrid Stock Exchange at 915. There was also an increase in Ibex-35 futures of 0.3% and a decrease in financial options of 28.6%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2015	2016	2017	2018	2019 Q1	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.3	2.1	2.0	1.5	1.2	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.1	2.6	0.5	0.1	0.1	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	261.5	297.0	287.4	280.7	284.3	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	64.6	64.4	61.3	58.9	58.4	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.5	0.6	3.8	-1.6	3.9	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.5	1.1	-0.1	0.1	0.1	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2019Q1, the financial savings to GDP in the overall economy fell to 1.2% of GDP. There was an increase in the financial savings rate of households of 0.1%. The debt in securities to GDP ratio fell to 58.4%. Finally, the stock of financial assets on households' balance sheets registered an increase of 3.9%, and there was a 0.1% growth in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2016	2017	2018	2019 May	2019 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	6.5	-0.4	-4.7	0.1	1.0	Lending to the private sector percentage change for the sum of banks. savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	7.3	2.4	0.7	0.5	2.1	Deposits percentage change for the sum of banks. savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	108.1	-3.7	-0.9	0.8	-0.1	Asset-side debt securities percentage change for the sum of banks. savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	9.9	0.7	-8.8	-1.9	0.7	Asset-side equity and shares percentage change for the sum of banks. savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.3	-1.7	-0.6	-1.1	0.2	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.1	-3.8	-2.3	-0.6	-3.9	Doubtful loans. Percentage change for the sum of banks. savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-3.0	-3.5	-1.4	-0.7	1.5	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	8.4	-1.2	-4.1	0.5	0.1	Equity percentage change for the sum of banksn u savings banks and credit unions.

Comment on "Credit institutions. Business Development": The latest available data as of June show an increase in bank credit to the private sector of 1.0%. Data also show a growth of financial institutions deposit-taking of 2.1%. Holdings of debt securities fell 0.1%. Doubtful loans decreased 3.9% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2001-2015	2016	2017	2018 December	2019 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	194	124	122	115	115	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	75	82	83	83	81	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	246,618	189,280	187,472	181,999(a)	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,047	28,643	27,320	26,011	25,755	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	318,141	527,317	762,540	725,455	692,543 (b)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem: long term (total Spanish financial institutions) (Euro millions)	Bank of Spain	65,106	138,455	170,445	167,421	148,513 (b)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	20,270	1,408	96	167	152 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2018.

(b) Last data published: August 2019.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In May 2019, recourse to Eurosystem funding by Spanish credit institutions reached 148.5 billion euro.

MEMO ITEM: From January 2015, the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 330 billion euro in August 2019, and 2.6 trillion euro for the entire Eurozone banking system.

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

Indicator	Source	Average 2000-2013	2014	2015	2016	2017	2018	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	50.89	47.27	50.98	54.18	54.03	54.39	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions´ P&L accounts
44. "Customer deposits/ employees" ratio (Euro thousands)	Bank of Spain	3,519.51	5,892.09	5,595.62	5,600.48	6,532.25	9.461.19	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	21,338.27	40,119.97	36,791.09	39,457.04	47,309.12	68.190.72	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2013	2014	2015	2016	2017	2018	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	205.80	142.85	229.04	139.84	122.22	109.28	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.1	6.8	6.57	7.05	6.97	7.20	Branch size indicator
48. "Equity capital (monthly average % var.)	Bank of Spain	0.11	0.07	0.01	-0.62	0.84	-0.79	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.45	0.49	0.39	0.26	0.44	0.57	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	6.27	6.46	5.04	3.12	3.66	4.25	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2018, most of the profitability and efficiency indicators improved for Spanish banks. Productivity indicators have also improved since the restructuring process of the Spanish banking sector was implemented.

Social Indicators

Table 1

Population

Population										
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (all nationalities)	New entries (EU-28 born) (%)
2006	44,708,964	40.6	16.7	77.7	84.2	47.5	24.6	10.8	840,844	37.6
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	726,009	28.4
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	464,443	35.6
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	370,515	36.4
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	399,947	38.0
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	455,679	36.4
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	534,574	33.4
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	637,375	39.3
2018	46,722,980	43.1	19.1	80.5•	85.9•	53.6	29.3	13.7		
2019•	47,007,367	43.4	19.3			53.6	29.6	14.3		
Sources	EPC	EPC	EPC	ID INE	ID INE	EPC	EPC	EPC	EVR	EVR

ID INE: Indicadores Demográficos INE.

EPC: Estadística del Padrón Continuo.

EVR: Estadística de Variaciones Residenciales.

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

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

• Provisional data.

Table 2

Households and families

	Households				Nuptiality					
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Marriage rate (Spanish)	Marriage rate (foreign population)	Divorce rate	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
2006	15,856	2.76	11.6	10.3	9.3	9.5	2.86	32.2	29.7	2.08
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.04
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.26
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.46
2017	18,512	2.52	14.2	11.4	7.4	7.0	2.10	35.3	33.2	2.67
2018	18,581	2.51	14.3	11.5	6.9•	6.4•				2.90
2019▪	18,665	2.52								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	ID INE	ID INE	MNP

Table 2 (continued)

Households and families

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2006	29.3	1.31	1.69	28.4	10.6	
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.70	45.8	10.4	65.8
2017	30.9	1.25	1.71	46.8	10.5	66.1
2018	31.0	1.19	1.63			
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).

• Provisional data.

▪ Data refer to January-June.

Table 3

Education

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (thousands of €)	Public expenditure (%GDP)
2006	32.9	8.4	15.6	25.3	1,557,257	630,349	445,455	1,405,894	16,636	42,512,586	4.22
2008	32.1	9.2	16.1	26.9	1,763,019	629,247	472,604	1,377,228	50,421	51,716,008	4.63
2010	30.6	8.6	17.0	27.7	1,872,829	672,213	555,580	1,445,392	104,844	53,099,329	4.91
2012	28.5	7.5	17.8	26.6	1,912,324	692,098	617,686	1,450,036	113,805	46,476,414	4.47
2014	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846,415	4.32
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,597,784	4.31
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1.303.252	190,143	47,578,997	4.25
2017	21.4	6.6	28.5	41.2	1,767,179	676,311	667,984	1,287,791	209,754	49,458,049	4.24
2018	20.5	6.4	29.2	42.4	1,747,374•	667,426•	677,083•	1,293,892•	214,528•		
2019▪	19.6	6.6	30.0	44.3							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	Contabilidad Nacional del INE

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

• Provisional data.

▪ Data refer to January-June.

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood			Social Security		
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2006	720,384	4,809,298	723	859,780	732	2,196,934	477	558,702	276,920	204,844	82,064
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019▪	776,846	6,017,987	1,135	955,806	973	2,359,976	710	906,432	258,968	194,191	15,309
Sources	BEL	BEL	BEL	BEL	BEL	BEL	BEL	BEL	IMSERSO	IMSERSO	IMSERSO

BEL: Boletín de Estadísticas Laborales.

IMSERSO: Instituto de Mayores y Servicios Sociales.

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

▪ Data refer to January-July.

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction		Time on waiting list (days)	
	Total (% GDP)	Public (% GDP)	Total expenditure ($ per inhabitant)	Public expenditure (per inhabitant)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people asigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people asigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures	First specialist consultations per 1,000 inhabitants
2006	7.76	5.62	2,391	1,732	1.6	0.7	2.8	0.6	5.6	7.0	70	54
2008	8.29	6.10	2,774	2,042	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	9.01	6.74	2,886	2,157	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	9.09	6.55	2,902	2,095	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	9.08	6.36	3,057	2,140	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	9.16	6.51	3,180	2,258	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	8.98	6.34	3,248	2,293	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	8.84	6.25	3,370	2,385	1.9	0.8	3.4	0.6	6.7	7.5	106	66
2018									6.6	7.5		
Sources	OECD	OECD	OECD	OECD	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

OECD: Organisation for Economic Co-operation and Development.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

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Notes

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