SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

VOLUME 9 | number 6, November 2020

The Spanish economy: Outlook for recovery

WHAT MATTERS

The potential **impact of a COVID-19 vaccine** on the Spanish economy

The **NGEU recovery package in Spain**: Structural challenges and proposal analysis

Spain's fiscal context: A regional perspective

Foregone revenues in respect of Spain's key taxes

Taxing the digital economy: Is the DST the right solution?

Consolidation in the EU banking sector: Scope and timing

Net interest income in the context of COVID-19

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SEFO

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Letter from the Editors

In the past few weeks, there has been a renewed sense of optimism in financial markets following the announcements from various vaccine producers regarding the high success rates in interim COVID-19 vaccine trails. A vaccine scenario would accelerate positive trends and underpin a more constructive near-term outlook for the global, and in particular, the Spanish economy.

In light of these scientific breakthroughs, we start off the November issue of *Spanish and International Economic & Financial Outlook (SEFO)* by assessing the anticipated impact of a COVID-19 vaccine on the path of Spain's recovery.

Spain has been one of the countries most affected by the COVID-19 crisis. Lack of consumer confidence is one of the key factors behind under-performance. Another is the size of tourism and other services sectors most dependent on mobility. Thus, while indicators point to an encouraging strengthening of manufacturing in recent months, output in the hospitality sector in September was 50% below pre-crisis levels. Looking forward, a vaccine would improve both consumer confidence and mobility prospects, thus triggering a sustained recovery. According to estimates presented in this article, by the end of the projection period, GDP would be slightly above 3% higher than in a no-vaccine scenario. However, a vaccine is not expected to make a significant dent in government debt, which could remain close to 120% of GDP. There are also risks associated with these forecasts related to the potential legacy of long-term unemployment and business failure, as well as the ability to absorb EU funds and the pace of economic reforms.

We then approach the topic of Spanish recovery from a longer-term, more structural perspective, exploring how the latest plan presented by the current administration will attempt to align its structural reform agenda with the general principles and priorities of the European recovery plan NGEU. In response to the economic damage wrought by COVID-19, on July 21st, 2020, the European Council agreed to an exceptional recovery package, the NGEU, sized at 750 billion euros. In examining the NGEU's potential effects on the Spanish economy, it is important to first note that despite much-needed progress on correcting imbalances and structural reforms post-financial crisis, Spain was already showing clear signs of reform fatigue before the onset of COVID-19. Indeed, convergence with the EU had, depending on the particular metric, either stalled or reversed. Thus, interrupting this trend must be a key goal of any recovery package for Spain. However, there are several obstacles that could undermine or minimise the effectiveness of the NGEU in Spain: (1) difficulty in reaching political and social consensus; (2) fund absorption deficits; and, (3) managerial issues. In the best-case scenario, assuming all those obstacles can be overcome, the effects of the structural reform programmes will only materialise in

the medium-to longer-term. For this reason, the biggest challenge policymakers must address is the timing mismatch between the urgency of the situation and the long-term nature of the recovery initiatives. The vital issue at present is to prop up as much of the productive business fabric as possible.

The November *SEFO* then shifts its focus to fiscal policy. We first provide an analysis of Spain's public finances at the regional level, taking into consideration the budgetary impact of COVID-19. Next, we discuss the estimated foregone revenues from Spain's current tax structure as regards to the country's main taxes. Finally, we provide an assessment of the tax on digital services, which remains stalled at the international level given lack of agreement, but has nonetheless been adopted by several Member States, including Spain.

Spain entered 2020 in a complicated financial situation with the budget from 2019 having carried over and the reduction of the deficit having stalled at 3% of GDP. However, any fiscal consolidation effort was halted by the EU's activation of the Stability and Growth Pact's escape clause in light of the COVID-19 crisis in March. As a result of a collapse in tax revenue and increased spending, the Funcas' consensus forecast anticipates that Spain will post a 12.4% deficit in 2020. In comparison to the central government, Spain's regional governments have presented a surplus of 0.44% in the first eight months of the year. This is attributed to both the amount of tax revenue transferred and advanced by the central government to the regional governments. Looking forward, the crisis will have a differential impact on regional finances and it will be necessary to reform the regional financing system in tandem with an overhaul of the Spanish tax system to address the financial consequences of the health crisis.

Governments provide tax breaks to both individuals and companies in the form of allowances, exemptions, rate relief, credits and deferrals. By focusing on tax breaks for personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT), which together account for 85% of Spain's total tax revenue in recent years, it is possible to determine the costs of these tax policies. The analysis conducted reveals that all of the foregone tax revenues, or tax expenditures, associated with these three taxes amount to 77.18 billion euros per annum, of which 61% is absorbed by VAT, 36% by PIT and the remaining 3% by CIT allowances and credit. In addition, the personal and household allowances in respect of personal income tax imply an additional annual collection cost of 24.53 billion euros. Those figures clearly indicate that there is adequate room for manoeuvre in the Spanish tax system to reduce the marginal tax burden without foregoing revenue. In other words, rationalisation of the existing tax benefits would be sufficient to finance a tax reform package that would deliver a more efficient and simpler tax system with greater revenue-collection.

The emergence of digital business models and the differing definitions of taxable presence adopted by countries has led to the significant erosion of tax bases and profit shifting (BEPS) from high-tax countries to low-tax jurisdictions. Although the EU Commission's proposal represents the most advanced and structured attempt to incorporate the concept of a virtual permanent establishment (PE) into the international income tax legal framework, resistance from some Member States has placed it on hold. Consequently, some Member States, including Spain, have introduced their own Digital Services Tax (DST). While implementation issues may be common to many taxes, there are unique structural and design challenges inherent to the DST. In terms of the former, there are issues relating to under which circumstances the DST applies, who would bear the burden of the levy, and the characterization of the equalization tax. The design issues focus on the taxable base, the scope, the rate, and the enforcement of the tax. In light of these challenges, an international approach would ultimately be better suited to achieve a multilateral and long-term solution to the international tax issues raised by the digital economy.

The last two articles of the November *SEFO* analyze COVID-19's impact on the financial sector. First, we discuss how increased profitability pressures on banks, exacerbated by lower-for-longer rates in the context of pandemic-driven

economic deterioration, have seemingly accelerated the prospects for consolidation within national borders across the Spanish financial sector.

The merger between CaixaBank and Bankia has sparked commentary surrounding the possibility of a new wave of consolidation across the European banking sector. In recent years, M&A activity had been muted compared with the period directly following the financial crisis. Specifically, there were 385 deals between 2009 and 2012, compared to 236 between 2016 and 2019. In Spain, the number of deposit-taking entities has declined by 31.4% (from 280 to 192) since 2007. Notably, evidence shows that there is still surplus capacity in the banking sector, thereby justifying additional consolidation. The changing nature of financial services, as well as the entrance of both Big Tech and larger fintech firms, has confirmed the benefits associated with scale such as data processing, multi-channel services, and digitalisation. Moreover, the economic consequences of COVID-19 have further depressed interest rates, necessitating a defensive cost-cutting strategy among Europe's banks. Nevertheless, it is important to underline that consolidation is just one of the strategies banks can pursue to boost their profitability and market value.

Second, we deconstruct the underlying trends that have resulted in the decreased profitability of the European, and Spanish, banking sectors – the further compression of net interest income as a consequence of the pandemic. Banks have taken a leading role in implementing the measures introduced to halt the economic effects of COVID-19. As a result, lending momentum has been altered significantly, marked by sharp growth in business lending and a slowdown in household lending compared to prior years. In the household segment, it is worth highlighting the moratoria extended on both mortgages and consumer loans, which impacted this trend. During the second quarter of 2020, the stock of outstanding business debt registered strong year-on-year growth, increasing almost 50 billion euros in one quarter. This comes after a decade long contraction in business lending and can be explained by the banks' participation in channelling 90% of the loans guaranteed by the government to businesses. Despite the increase in the stock of credit issued, banks experienced a contraction in net interest margin during the first half of 2020 (-3%). This paradox is due to the negative contribution of average loan book rates (driven by the downtrend in EURIBOR as well as narrower credit spreads), which more than offset the positive effect of the growth in the stock of outstanding credit.

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What´s Ahead (Next Month)

Month	Day	Indicator / Event
December	3	Social Security registrants and official unemployment (November)
	4	Eurogroup meeting
	9	Industrial production index (October)
	10	ECB monetary policy meeting
	10-11	European Council meeting
	11	CPI (November)
	18	Foreign trade report (October)
	23	Non-financial accounts: Central Government, Regional Governments and Social Security (October)
	23	Non-financial accounts, State (November)
	23	Balance of payments quarterly (3rd. quarter)
	23	GDP (3rd. quarter, 2nd. estimate)
	28	Retail trade (November)
	30	Balance of payments monthly (October)
	30	Preliminary CPI (December)
	30	Quarterly sector accounts (3rd. quarter)
January	5	Social Security registrants and official unemployment (December)
	12	Industrial production index (November)
	15	CPI (December)
	15	Financial Accounts Institutional Sectors (3rd. quarter)
	21	ECB monetary policy meeting
	28	Labour Force Survey (4th. quarter)
	29	Retail trade (December)
	29	Preliminary CPI (January)
	29	Balance of payments monthly (November)
	29	GDP (4th. quarter, advance estimate)

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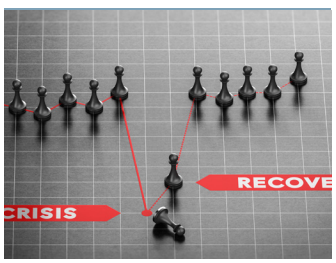
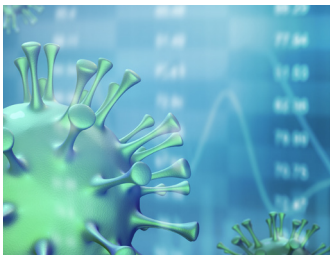
What Matters





Regulation and Economic Outlook

Key Facts

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The potential impact of a COVID-19 vaccine on the Spanish economy

Prevailing trends in Spain's economy include the divergence in performance between the manufacturing and services sectors, as well as the rise in precautionary savings among households. A vaccine would tackle both recessionary factors and help GDP return to pre-crisis levels by early 2023, one year earlier than in a no-vaccine scenario.

Raymond Torres and María Jesús Fernández

Abstract: Spain has been one of the countries most affected by the COVID-19 crisis. Lack of consumer confidence is one of the key factors behind under-performance. Another is the size of tourism and other services sectors most dependent on mobility. Thus, while indicators point to an encouraging strengthening of manufacturing in recent months, output in the hospitality sector in September was 50% below pre-crisis levels. Looking forward, a vaccine would improve both consumer confidence and mobility prospects, thus triggering a sustained recovery. According to estimates presented in this article, by the end of the projection period, GDP would be slightly above 3% higher than in a no-vaccine scenario. However, a vaccine is not expected to make a significant dent in government debt, which could remain close to 120% of GDP. There are also risks associated with these forecasts related to the potential legacy of long-term unemployment and business failure, as well as the ability to absorb EU funds and the pace of economic reforms.

> The manufacturing industry stands out in the third quarter with growth of 33%, as do the retail, hospitality and transport services sectors, where growth reached 42.5%.

Recent performance of the Spanish economy

According to the provisional figures, Spanish GDP registered growth of 16.7% in the third quarter, recovering 59% of the output lost in the previous two quarters. Nevertheless, GDP was still 8.7% lower year-on-year.

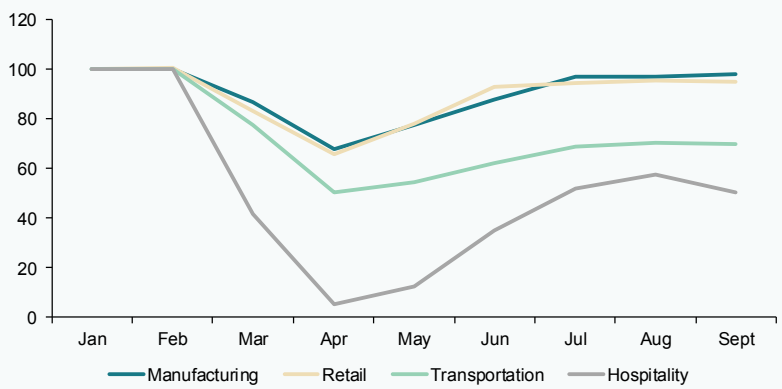
All components of consumption and investment recovered strongly quarter-on-quarter. Trade also had a positive impact, with growth in exports outweighing the increase in imports. In tourist service exports, however, the recovery was very timid. In real terms, the volume of exports amounted to a scant 26% of the 3Q19 figure. The number of tourists visiting the country was just 20% of 3Q19 arrivals.

Otherwise, growth in GDP was widespread across all sectors. The manufacturing industry stands out with growth of 33%, as do the retail, hospitality and transport services sectors, where growth reached 42.5%. Despite the third quarter rebound, however, those services remained at very depressed levels in comparison with pre-crisis levels. Conversely, the trend in manufacturing and construction exhibited a less severe drop from pre-COVID levels.

Judging by several indicators, the divergence between the various sectors widened as the quarter unfolded, with manufacturing and construction continuing to recover as the services sector once again stalled. Within the services sector there are also notable differences between the various sub-sectors. The most affected were hospitality (in September output was tracking 50% below pre-crisis levels) together with administrative and auxiliary services, whereas the shortfall in

Exhibit 1

Trend in select sub-sectors (Jan. 2020 rebased to 100)



Source: INE (IPI and IASS).

> “In September, the industrial production index in Spain had recovered to around 3% below January-February levels, compared to 9% relative underperformance in Germany, 5% in France and 4% in Italy.”

the retail sector was much smaller (at around 5%), with the transportation sub-sector somewhere in the middle (Exhibit 1).

The trend in Spanish manufacturing has been very favourable in comparison with the rest of Europe according to the industrial production index. Whereas the contraction in output was bigger in Spain at the onset of the crisis than in the rest of the major eurozone economies, the subsequent recovery has been stronger. In September, the industrial production index in Spain had recovered to around 3% below January-February levels, compared to 9% relative underperformance in Germany, 5% in France and 4% in Italy.

Turning to the fourth quarter, the indicators released so far point to an interruption in the recovery in GDP as a result of the restrictions imposed to combat the second wave of the pandemic. Tourism took another hit in September and October, according to air passenger numbers, while the services PMI fell significantly in September and then dropped further in October. Although the manufacturing PMI continued to strengthen (with the above-mentioned sector discrepancies widening) the combined reading for the manufacturing and services sectors has fallen below the third-quarter average.

The trend in Social Security contributor numbers in October clearly illustrates the sector divergence. Whereas the manufacturing industry, construction and parts of the services sector continued to create jobs and bring people out of the furlough scheme, the hospitality sector registered, as it had in September, a sharp decrease in employment, a phenomenon that not only hit seasonal hires but also permanent jobs.

In short, the economic theme throughout the unfolding recovery has been the relative strength of the manufacturing and construction sectors, in marked contrast to the plight of certain services sectors, particularly hospitality, which is bearing the brunt of the economic fallout from the pandemic. Moreover, the tightening of restrictions since September in Spain and in most of the European Union will inevitably have significant knock-on effects across the entire economy.

Outlook

Key assumptions

The prospects for the economy will continue to be shaped by how the pandemic unfolds. In the near-term, the economy is bound to feel the impact of the restrictions reimposed on business activities and mobility in order to curb the second wave of transmission. Although measures have been taken all across the country and in all of Spain’s main European trading partners, these restrictions are softer than those imposed last spring. Over the medium-term, however,

> “It is likely that, thanks to the vaccine, private spending will increase in 2021 by an amount equivalent to half of the surplus savings triggered by the pandemic.”

the advent of a highly effective vaccine bodes well for a significant improvement in the economic outlook. Our forecasts assume that vaccination begins in the spring of 2021 and gradually ramps up throughout the second half of the year across both Spain and the rest of the EU, as the European health authorities have suggested.

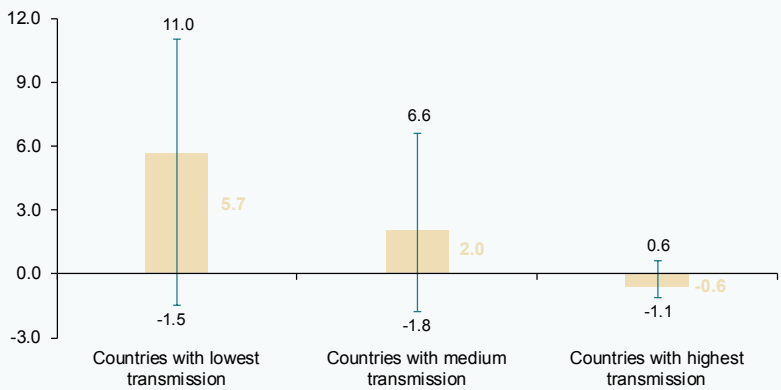
The existence of a COVID-19 vaccine will erode the two main recessionary forces that have depressed economic activity. Firstly, as restrictions are gradually lifted, uncertainty will be reduced, facilitating the gradual normalisation in household savings. Judging by what has transpired in the countries that have had the greatest success in tackling the pandemic (Exhibit 2), and the trend observed in Asia during the SARS-Cov1 crisis, it is likely that thanks to the vaccine, in 2021 private spending will increase by an amount equivalent to half of the surplus savings triggered by the pandemic. The rest of that surplus should disappear in 2022, when the savings rate is forecast to return to 8.8%, which comes close to its estimated equilibrium rate. By comparison to a no-vaccine scenario, consumer spending would increase by 14 billion euros in 2021 and by a further 25.6 billion euros in 2022.

Secondly, as vaccination becomes widespread, a recovery in overseas travel is expected, a trend already on display in Asia, where the pandemic appears to be largely under control. Considering the anticipated timing of the rollout of the vaccine, the tourism sector will only make a partial recovery in 2021. Our assumption is that the sector will recover to 50% of 2019 levels in 2021, compared to 30%

Exhibit 2

Economic sentiment is inversely correlated with the incidence of the virus

Change in the consumer confidence index between June and October
In percentage points



Notes: (1) The "countries with lowest transmission" are: Australia, New Zealand, South Korea, Japan and Finland. The "countries with medium transmission" are: Germany, Denmark, Portugal, Lithuania, Estonia, Latvia and Poland. The "countries with highest transmission" are: Spain, France, Netherlands, Belgium and the UK.

(2): To group the countries into the various categories, the analysis relies on average daily cases in the months of September and October per 100,000 inhabitants, as reported by the European Centre for Disease Prevention and Control.

(3): Highest and lowest values within country group represented.

Source: OECD.

> “We are estimating a yield on 10-year Spanish government bonds of 0.2%, widening to just 0.35% in 2022.”

in 2020. By 2020, the recovery is expected to be far more palpable (85% of 2019 levels for the year but back up at 90% by the fourth quarter). In a no-vaccine scenario, we estimate that tourism activity would be at 40% of pre-pandemic levels in 2021 and only slightly higher, at 50%, in 2022.

As for economic policy, we assume that exceptionally favourable financing conditions will persist thanks to the quantitative easing measures deployed by the European Central Bank (ECB) in response to the pandemic. We therefore expect interest rates to remain ultra-low throughout the forecast horizon. Specifically, we are estimating a yield on 10-year Spanish government bonds of 0.2%, widening to just 0.35% in 2022. Both EURIBOR and the cost of the long-term refinancing operations (TLTRO III) are expected to remain in negative territory.

Fiscal policy is similarly expected to remain markedly expansionary. Our forecasts assume an increase in public spending, partly financed from the Next Generation EU recovery funds, totalling 14 billion euros in 2021 and 28 billion euros in 2022. We estimate a GDP multiplier effect of slightly over 1 for investment projects and lower than unity for the other types of spending.

In 2021, we also layer in the pension and public pay increases announced by the Spanish government. For 2022, we assume that pensions will increase by the same amount again but that public pay will be frozen. We have not factored in any of the tax hikes included in the draft state budget as they have yet to be passed. What is included is the minimum basic income scheme, relying on the government's estimates to that end.

Forecasts

Due to the fresh spike in transmission and the resulting restrictions on certain activities, which will hit certain sectors especially hard, we are forecasting a GDP contraction of 5% in the fourth quarter. That forecast is underpinned by the ongoing decline in private sector demand, particularly consumption, which Christmas is not expected to mitigate. Foreign trade should remain a source of good news, in line with the recent manufacturing performance and the relatively favourable competitive position of Spanish exporters. The gap is likely to widen between the manufacturing sector, which is expected to better withstand this new recessionary episode, and the services sector, particularly the segments that are more dependent on human contact such as the tourism, hospitality, restaurant, arts and leisure activities. By the end of 2020, we estimate that manufacturing activity will be back to 3% below pre-crisis levels, with the hardest-hit services segments at around 40%.

We are forecasting a GDP contraction of 12% in 2020 as a whole, a one percentage point improvement from our September forecasts (before the third-quarter growth estimate was released, *i.e.,* 16.7% according to the National Statistics Office, compared to a forecast 11.6%). All components of demand except for public spending are expected to detract from GDP growth in 2020.

The economic weakness anticipated in the final months of 2020 is expected to linger at the start of 2021. However, as the year unfolds, the recovery should gain traction thanks to the arrival of the vaccine and supported, albeit to a lesser extent, by the EU funds. For 2021, we are forecasting GDP growth of 6.7%, down from the 7.9% estimated in September. This time all components of demand are expected to make a positive contribution to growth, with government spending contributing the least. It is worth highlighting the expected rebound in private consumption, unlocked by a growing propensity to spend as uncertainty regarding

> “By the end of the projection period, the vaccine will raise GDP by slightly above 3% compared to a no-vaccine scenario.”

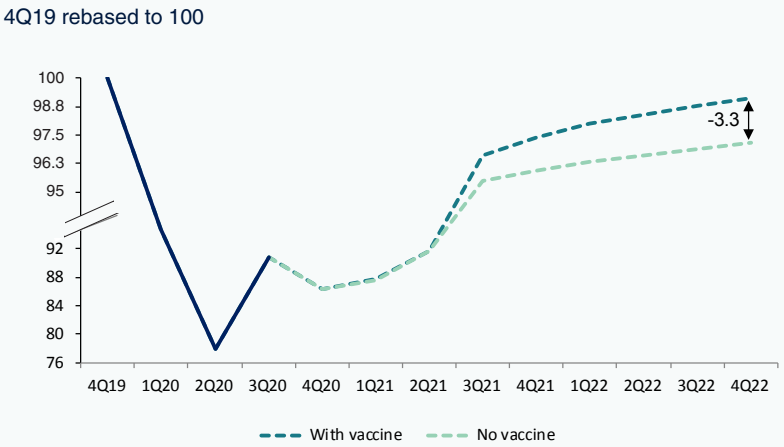
the path of the pandemic begins to dissipate. A recovery is also estimated for investment, particularly in the public sector, where growth is forecast at close to 40% (albeit starting from very low levels). Foreign trade is expected to buoy GDP, driven by renewed growth across Spain's trading partners, as well as a slight improvement in tourism during the second half of the year.

Growth should consolidate in 2022, at 6.2%, underpinned by the same interplay of drivers, notably private consumption, investment in capital goods and tourism. Nevertheless, GDP is not expected to regain all of the ground lost since the start of the crisis until early 2023, one year sooner than in the no-vaccine scenario (Exhibit 3). By the end of the projection period, the vaccine will raise GDP by slightly above 3% compared to a no-vaccine scenario.

The persistence of the external surplus during the pandemic is worth highlighting. It is a positive development (especially considering the collapse in tourism receipts, and the disruption of supply chains induced by the pandemic), and owes much to the relatively favourable competitive position of Spanish exporters. The current account is expected to present a surplus of between 1% and 2% of GDP throughout the projection horizon.

The job market is likely to act as a growth stabiliser, instead of exacerbating the crisis like in previous recessions. We expect that the ongoing furlough scheme, the financial support extended to the self-employed and the internal flexibility measures taken by private enterprises (*e.g.*, arrangements for working from home) will continue to cushion the impact of the pandemic on employment.

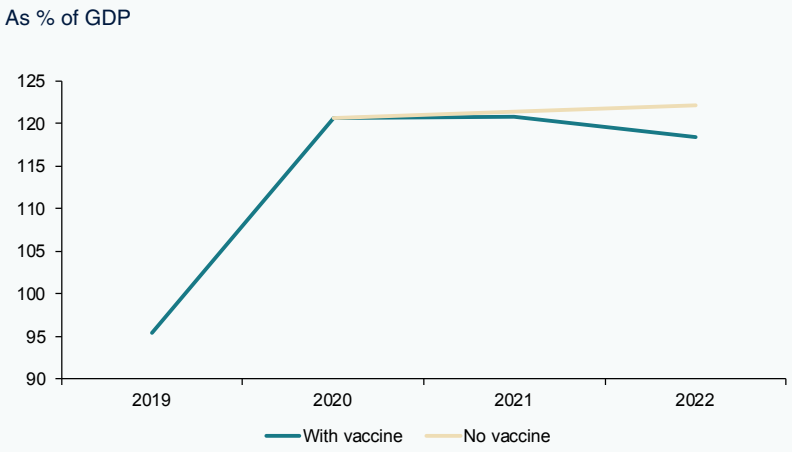
Exhibit 3 **GDP forecasts with and without a vaccine**



Source: INE and Funcas forecasts.

Exhibit 4

Public debt forecasts with and without a vaccine



Source: Bank of Spain and Funcas forecasts.

Nonetheless, it will be some time before the economic recovery starts to create new jobs. We are forecasting an increase in unemployment in 2021, due to the return of discouraged, inactive job-seekers, followed by an incipient recovery from 2022. For that year, we are forecasting an average rate of unemployment of 15.5%, up 1.4 percentage points from 2019.

The increase in public spending and collapse in tax revenue will take a toll on the public deficit, which we are forecasting at 11.5% in 2020. As noted, the 2021 estimates factor in the decisions already taken or announced, notably the growth in public spending funded by the EU recovery plan. The result of those assumptions, coupled with the interplay of the automatic stabilisers, will result in an estimated reduction in the deficit to 8.6% of GDP, largely in the structural component. Fiscal policy is expected to remain markedly expansionary in 2022, with the deficit declining towards 5.5% of GDP that year. Public debt will probably stagnate at high levels of close to 120% of GDP, albeit falling slightly below that level in 2022. Therefore, the advent of the vaccine is not expected to make a significant dent in Spain's pre-existing imbalances (Exhibit 4).

Main risks

It is important to underline the margin of error implicit in any forecasting exercise in a context as uncertain as this. One of the biggest unknowns is how effective the recently-announced vaccines will be. Although the World Health Organization and many experts believe we will have an effective remedy in 2021, it is still unclear what percentage of the population will be willing to have the vaccination or how long the immunity created will last. The estimates presented above show

> "As such, the growth-enhancing effects of a vaccine will not make a significant dent in Spain's public debt and unemployment imbalances."

Table 1

Economic forecasts for Spain, 2020-2022

Annual rate of change in percentages, unless otherwise indicated

	Actual data				Funcas forecasts			Change from last set of forecasts (a)	
	2007 average	2013 average	2019 average	2019	2020	2021	2022	2020	2021
1. GDP and components, constant prices									
GDP	3.7	-1.3	2.6	2.0	-12.0	6.7	6.2	1.0	-1.2
Final consumption, households and NPISHs	3.7	-2.1	2.2	0.9	-14.6	7.4	7.3	1.1	-0.2
Final consumption, government	4.2	0.9	1.4	2.3	3.8	1.7	0.5	-1.8	-1.5
Gross fixed capital formation	6.1	-7.6	4.5	2.7	-14.5	7.9	9.4	3.6	-2.0
Construction	5.5	-10.7	3.9	1.6	-16.2	7.8	5.8	0.9	-1.8
Capital goods and other products	7.5	-2.7	5.0	3.7	-12.8	8.0	12.8	6.3	-2.3
Exports of goods and services	6.5	1.8	4.0	2.3	-19.2	11.8	7.4	4.7	-3.9
Imports of goods and services	8.7	-4.0	4.4	0.7	-17.0	10.1	7.5	4.7	-2.6
Domestic demand (b)	4.4	-3.1	2.6	1.4	-10.7	5.9	6.0	0.9	-0.9
Net exports (b)	-0.7	1.8	0.0	0.6	-1.3	0.8	0.2	0.1	-0.3
GDP, current prices: - billions of euros	--	--	--	1,244.8	1,107.4	1,194.9	1,282.1	--	--
- % change	7.3	-0.8	3.4	3.4	-11.0	7.9	7.3	1.0	-1.0
2. Inflation, employment and unemployment									
GDP deflator	3.5	0.5	0.8	1.4	1.1	1.1	1.0	-0.1	0.2
Household consumption deflator	3.1	1.7	0.7	1.0	0.4	0.9	1.3	0.1	-0.3
Total employment (national accounts, FTEs)	3.3	-3.4	2.5	2.3	-8.7	2.6	6.0	0.7	-1.2
Unemployment rate (Spanish labour force survey)	12.5	20.2	18.8	14.1	16.5	17.0	15.5	-0.5	-0.2
3. Financial equilibrium (% of GDP)									
National savings rate	16.7	18.8	21.7	22.9	21.2	22.2	22.5	-0.1	-0.4
- of which, private savings	13.3	22.9	23.6	23.8	30.4	27.8	24.3	-0.9	-0.6
National investment rate	26.7	21.7	19.4	20.8	20.2	20.3	20.9	0.1	0.0
- of which, private investment	17.9	17.8	17.2	18.7	17.8	17.7	18.2	0.0	-0.3
Current account surplus/(deficit)	-4.5	-2.9	2.3	2.1	1.0	1.9	1.7	0.1	0.0
Spain's net lending (+) or borrowing (-) position	-3.7	-2.4	2.7	2.5	1.3	2.2	1.8	-0.5	-0.6
- Private sector	-3.8	6.4	6.6	5.3	12.8	10.8	7.2	-1.1	0.0
- Govt. deficit excl. financial sector bailout expenditure	-0.9	-8.1	-3.9	-2.9	-11.5	-8.6	-5.5	0.7	-0.6
Government debt, EDP criteria	52.2	67.6	98.4	95.5	120.6	120.8	118.4	1.0	0.4
4. Other variables									
Eurozone GDP	-0.3	0.7	1.7	1.2	-7.5	5.0	3.5	0.5	-0.5
Household savings rate (% of GDI)	9.5	8.8	6.4	6.3	17.2	13.2	8.8	0.0	-0.9
Gross borrowings, households (% of GDI)	93.3	128.5	102.0	92.7	89.1	81.7	76.5	-0.8	0.9
Gross borrowings, non-financial corporates (% of GDP)	91.5	133.4	103.1	92.8	108.5	100.6	95.6	-1.4	-0.4
Spain's gross external borrowings (% of GDP)	60.6	162.4	168.3	169.3	196.1	183.3	174.8	-1.7	0.6
12-month Euribor (annual average %)	3.74	1.90	0.01	-0.22	-0.30	-0.46	-0.45	-0.06	-0.26
Yield on 10Y Spanish bonds (annual average %)	5.00	4.74	1.58	0.66	0.39	0.20	0.35	-0.01	-0.25

(a) Percentage-point change between the current estimates and the last set of forecasts.
(b) Contribution to GDP growth in percentage points.

Sources: 1996-2019: INE and Bank of Spain; Forecasts 2020-2022: Funcas.

Table 2

Quarterly forecasts for the Spanish economy

Percentage change at constant prices, unless otherwise indicated

Forecasts in shaded area

Period		GDP	Private cons.	Public cons.	GFCF	Exports	Imports	Contrib. to growth GDP (1)		Employ. (2)	Unemploy. rate
								Domestic demand	Net exports		
2014		1.4	1.7	-0.7	4.1	4.5	6.8	1.9	-0.5	1.0	24.4
2015		3.8	2.9	2.0	4.9	4.3	5.1	3.9	-0.1	3.2	22.1
2016		3.0	2.7	1.0	2.4	5.4	2.6	2.0	1.0	2.8	19.6
2017		3.0	3.0	1.0	6.8	5.5	6.8	3.1	-0.2	2.9	17.2
2018		2.4	1.8	2.6	6.1	2.3	4.2	3.0	-0.5	2.6	15.3
2019		2.0	0.9	2.3	2.7	2.3	0.7	1.4	0.6	2.3	14.1
2020		-12.0	-14.6	3.8	-14.5	-19.2	-17.0	-10.7	-1.3	-8.7	16.5
2021		6.7	7.4	1.7	7.9	11.8	10.1	5.9	0.8	2.6	17.0
2022		6.2	7.3	0.5	9.4	7.4	7.5	6.0	0.2	6.0	15.5
QoQ change, in % (SCA data)											Unemploy. rate
2018	I	0.5	0.4	0.8	0.0	0.5	0.3	0.5	0.0	0.5	16.7
	II	0.5	0.4	0.7	3.9	-0.6	1.3	1.1	-0.6	0.7	15.3
	III	0.6	0.0	0.8	-0.4	0.6	-0.8	0.1	0.5	0.9	14.6
	IV	0.6	0.3	0.5	0.9	0.8	0.5	0.5	0.1	0.5	14.4
2019	I	0.5	0.4	0.2	1.2	0.3	-0.2	0.4	0.1	0.7	14.7
	II	0.4	-0.3	0.9	-0.3	1.5	0.3	-0.1	0.4	0.4	14.0
	III	0.4	0.8	0.6	1.1	0.2	1.3	0.7	-0.4	0.1	13.9
	IV	0.4	0.1	0.9	-1.0	0.2	-1.1	0.0	0.4	0.8	13.8
2020	I	-5.2	-6.7	1.3	-4.8	-7.4	-5.8	-4.5	-0.7	-1.9	14.4
	II	-17.8	-20.0	0.3	-22.1	-33.4	-29.5	-15.6	-2.2	-17.7	15.3
	III	16.7	20.2	1.1	19.9	34.3	28.4	14.5	2.2	16.0	16.3
	IV	-5.0	-8.0	2.0	-4.6	1.7	1.5	-5.0	0.0	-4.4	19.9
2021	I	1.5	2.1	1.3	5.0	-1.9	1.0	2.5	-1.0	0.7	19.3
	II	4.6	5.7	0.0	4.3	4.8	3.3	4.0	0.6	2.1	17.3
	III	5.3	6.1	-2.5	3.3	9.2	3.9	3.5	1.8	2.5	15.7
	IV	0.8	3.3	-1.9	-3.9	0.9	0.6	0.7	0.1	0.4	15.7
YoY change, in % (SCA data)											
2018	I	2.9	2.6	2.3	5.5	3.8	5.7	3.3	-0.4	2.7	--
	II	2.3	2.2	2.6	8.8	2.1	6.8	3.7	-1.4	2.5	--
	III	2.3	1.4	2.9	5.6	1.8	3.2	2.7	-0.4	2.6	--
	IV	2.3	1.0	2.8	4.5	1.3	1.3	2.2	0.0	2.7	--
2019	I	2.2	1.1	2.2	5.7	1.1	0.8	2.1	0.1	2.8	--
	II	2.1	0.4	2.4	1.3	3.2	-0.1	0.9	1.2	2.5	--
	III	1.8	1.2	2.2	2.8	2.7	2.0	1.5	0.3	1.8	--
	IV	1.7	1.0	2.6	0.9	2.1	0.3	1.0	0.7	2.1	--
2020	I	-4.2	-6.1	3.7	-5.1	-5.6	-5.4	-3.9	-0.2	-0.5	--
	II	-21.5	-24.7	3.1	-25.8	-38.1	-33.5	-19.0	-2.5	-18.4	--
	III	-8.7	-10.2	3.7	-11.9	-17.0	-15.7	-7.9	-0.8	-5.5	--
	IV	-13.6	-17.5	4.8	-15.2	-15.8	-13.5	-12.5	-1.1	-10.4	--
2021	I	-7.4	-9.7	4.8	-6.4	-10.8	-7.2	-6.1	-1.4	-8.0	--
	II	17.8	19.4	4.4	25.3	40.5	36.0	16.0	1.7	14.1	--
	III	6.3	5.3	0.7	7.9	14.2	10.0	4.7	1.5	0.8	--
	IV	12.8	18.3	-3.1	8.8	13.3	9.1	11.1	1.6	5.8	--

(1) Contribution to GDP growth in percentage points.
(2) Full-time equivalent jobs. SCA data = seasonally and calendar adjusted data.

Source: INE and Funcas (forecasts).

> “It is crucial that the EU recovery plan provides an impetus for reforms to improve how the economy operates and reduces the economic and social imbalances weighing on Spain.”

that in the absence of a vaccine, the Spanish economy would take one year longer to recover to pre-pandemic levels compared to the baseline scenario.

There are other downside risks. Firstly, the bouts of economic reopening and closure may leave a legacy of long-term unemployment and business failure, heightening the risk of a financial crisis. Moreover, those sources of hysteresis imply a loss of productive fabric that will be hard to reverse.

Uncertainty regarding the timing of disbursement of EU funds, the potential for poor management of those funds at various levels of government and the economy's ability to absorb them are other significant risks that could dampen the forecast for recovery. It is crucial that the EU plan provides an impetus for reforms to improve how the economy operates and reduces the economic and social imbalances weighing on Spain. In the current climate those reforms are also essential for generating confidence in the economy's growth potential and solvency. If not, concerns could increased over the sustainability of public debt, with dire economic and social consequences. In sum, with the EU stimulus package alone and in the absence of an ambitious reform programme aimed at correcting Spain's shortcomings and boosting its productivity, Spain risks falling behind the rest of the developed economies.

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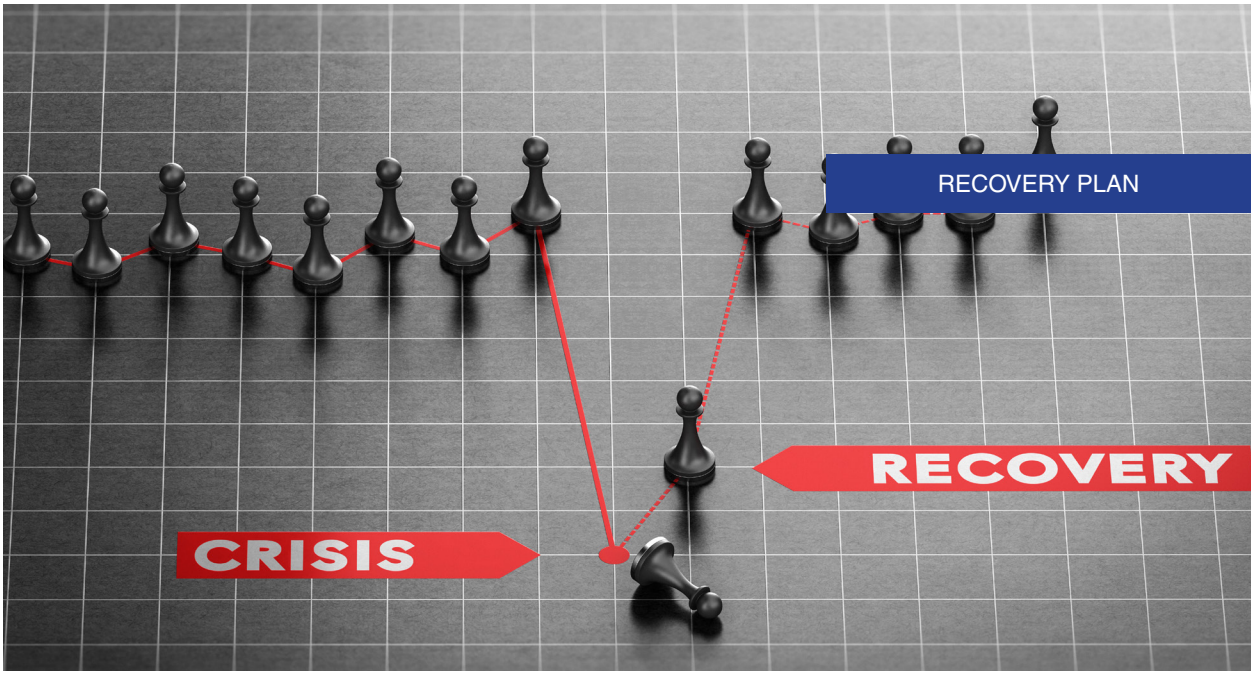


The NGEU recovery package in Spain: Structural challenges and proposal analysis

While the Next Generation EU (NGEU) recovery package was launched to counteract the economic ramifications of COVID-19, its success will depend on reversing the divergence between the economic performance of Spain and the EU, which pre-dates the crisis. Unfortunately, the biggest obstacle to achieving this will be the timing mismatch between the urgency of the situation and the long-term nature of any recovery initiatives.

Ramon Xifré

Abstract: In response to the economic damage wrought by COVID-19, on July 21st, 2020, the European Council agreed to an exceptional recovery package, the Next Generation EU (NGEU), sized at 750 billion euros. In examining the NGEU's potential effects on the Spanish economy, it is important to first note that despite much-needed progress on correcting imbalances and structural reforms post-financial crisis, Spain was already showing clear signs of reform fatigue before the onset of COVID-19. Indeed, convergence with the EU had, depending on the particular metric, either stalled or reversed. Thus, interrupting this trend must be a key goal of any recovery package for Spain. However, there are several obstacles that could undermine or minimise the effectiveness of the NGEU in Spain: (1) difficulty in reaching political and social consensus; (2) fund absorption deficits;

and, (3) managerial issues. In the best-case scenario, assuming all those obstacles can be overcome, the effects of the structural reform programmes will only materialise in the medium-to longer-term. For this reason, the biggest challenge policymakers must address is the timing mismatch between the urgency of the situation and the long-term nature of the recovery initiatives. The vital issue at present is to prop up as much of the productive business fabric as possible.

Introduction

The COVID-19 crisis has led to both human and economic losses, creating a level of instability that is unprecedented in recent times. Unfortunately, despite recent progress on the vaccine front, it is still too soon to estimate when the pandemic might end, its total impact or the nature of the subsequent economic recovery. The IMF's October 2020 *World Economic Outlook (WEO)* forecasts a contraction in Spanish GDP of 12.8% in 2020, the biggest in the EU, and a recovery of 7.2% in 2021. However, those forecasts were made before infection rates began to spike again during the second half of October, prompting the government to declare a second state of emergency on October 26th.

In general terms, the economic policy responses in the EU and eurozone to this formidable shock appear to be up to the task. The ECB has rolled out a new 1.35 billion-euro pandemic emergency purchase programme (PEPP) aimed at reducing borrowing costs and boosting credit flows in the eurozone. The purpose of this paper is to examine the other major instrument put together by the European institutions –The Next Generation EU recovery package.

To that end, we provide a brief overview of the programme, pointing out certain features that will be relevant to the more detailed analysis that follows. We then take a look back at the EU's record with structural reform programmes over the past two decades, focusing on the most recent one, the Europe 2020 Strategy. That programme provides a framework for measuring the Spanish economy's track record with such structural challenges over the past 20 years. We then briefly review some of the recent proposals published in Spain regarding the use of the NGEU funds. Lastly, we draw certain conclusions and provide some opinions.

The Next Generation EU recovery plan [1]

Building from the Commission's initial proposals in May, on July 21st, 2020, the European Council agreed to an exceptional recovery package, the Next Generation EU (NGEU), sized at 750 billion euros.

The agreement authorises the European Commission to issue up to 750 billion euros worth of debt on behalf of the European Union. The NGEU funds are in addition to the 1.07 trillion euros available under the Multi-Annual Financial Framework (MFF) for a combined support package of 1.82 trillion euros. The NGEU funds will be channelled via seven spending programmes and are articulated as both loans (360 billion euros) and grants (390 billion euros). The commitments must be made before the end of 2023 and the funds paid out before the end of 2026. The largest component of the NGEU is the Recovery and Resilience Facility (RRF), which accounts for nearly 90% of the total. In the case of the RRF grants, which amount to 312 billion euros, 70% of the commitments must be awarded in 2021 and 2022 on the basis of three criteria: the rate of unemployment between 2015 and 2019; GDP per capita; and the size of the population. The remaining 30%

> "The IMF's October 2020 *World Economic Outlook (WEO)* forecasts a contraction in Spanish GDP of 12.8% in 2020, the biggest in the EU, and a recovery of 7.2% in 2021."

> "The NGEU funds will be channelled via seven spending programmes and are articulated as both loans (360 billion euros) and grants (390 billion euros)."

of the RRF grants must be committed in full in 2023. [2]

The member states must draw up national recovery and resilience plans in which they must present their structural reform programmes and investment projects for 2021-2023. The Commission will then evaluate those plans on the basis of a series of criteria, including: (1) consistency with the country-specific recommendations set down in the European Semester; (2) reinforcement of the member state's growth potential, job creation and economic and social resilience; and, (3) the contribution to the country's green and digital transition.

The Spanish government presented its Recovery, Transformation and Resilience Plan (*España Puede,* Office of the Presidency, 2020a) in October 2020. That plan contained 10 guiding policies for structural reforms aligned with the general NGEU priorities.

According to the government's estimates (Office of the Presidency, 2020b), Spain will receive approximately 60 billion euros from the RRF in non-repayable transfers and may be eligible to access up to 80 billion euros of loans. With respect to the REACT EU fund, Spain will receive a little over 12 billion euros for deployment between 2021 and 2022.

The budget plan presented by the government to the European Commission on September 15th, 2020, and the general state budget for 2021 feature investments totalling 27 billion euros to be funded from these new schemes.

European structural reform plans

The structural challenges facing Spain in its quest to lock in an economically, socially and environmentally sustainable growth model have been the topic of debate and analysis for much time and are related with the plans the EU has devised to achieve similar objectives throughout the entire region.

The past 20 years have been marked by a succession of programmes designed to trigger reforms across the EU member states. The Lisbon Strategy was launched in March 2000 with the aim of turning Europe into the "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". That strategy was articulated around two pillars, the economic and social dimensions; a third dimension –environmental– was added later. A review of the progress in 2004 proved disappointing, prompting a revision of strategy. The new strategy was approved in 2006 with four primary initiatives: investing more in knowledge and innovation; unlocking business potential, especially for SMEs; increasing employment opportunities for priority categories; and, a new focus on climate change and energy policy in Europe.

The progress made on those general objectives was similarly deemed to fall short of the mark.

> "According to the government's estimates, Spain will receive approximately 60 billion euros from the Recovery and Resilience Facility (RRF) in non-repayable transfers and may be eligible to access up to 80 billion euros of loans."

> “Employment has recovered since 2013 but continues to lag the EU average significantly, by around five percentage points in 2019 (68.5% in the EU-27 versus 63.3% in Spain).”

In March 2010, the European Commission presented its proposed Europe 2020 Strategy which set similar targets in search of “smart, sustainable and inclusive” growth. An effort was made to translate the 2020 Strategy into more concrete lines of initiative and new mechanisms for coordinating economic policy among the member states were articulated. Seven “flagship initiatives” were defined to focus the effort and channel resources while the EU was to deliver on five “headline targets” by 2020:

- Rate of employment of 75% among men and women aged between 20 and 64;
- 3% of EU GDP invested in innovation;
- Delivery of the “20/20/20 targets” for climate change and energy (*i.e.*, cutting emissions by 20%; generating 20% of energy from renewable sources; and, boosting energy efficiency by 20%);
- Reduction in the school drop-out rate to below 10% and increase in the share of 30-34 year-olds having completed third-level or equivalent education to at least 40%;
- Lifting at least 20 million people out of the risk of poverty and exclusion.

Beyond the validity of the above quantitative targets, that selection of priorities and goals provides a proxy for measuring Spain’s progress in relation to the rest of the EU member states, the subject of the next section, which updates previous work in this field (Xifré 2014, 2017).

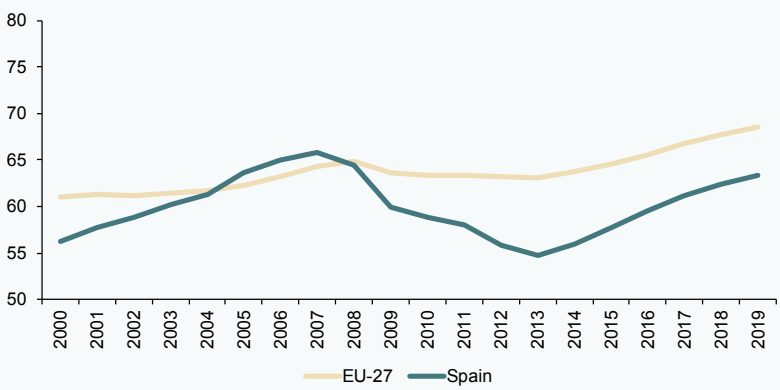
How the Spanish economy has evolved structurally since 2000

Exhibit 1 shows the number people aged between 15 and 64 who are employed as a percentage of the total number of people

Exhibit 1

Rate of employment among people aged 15 to 64

Employees as percentage of total population in age group

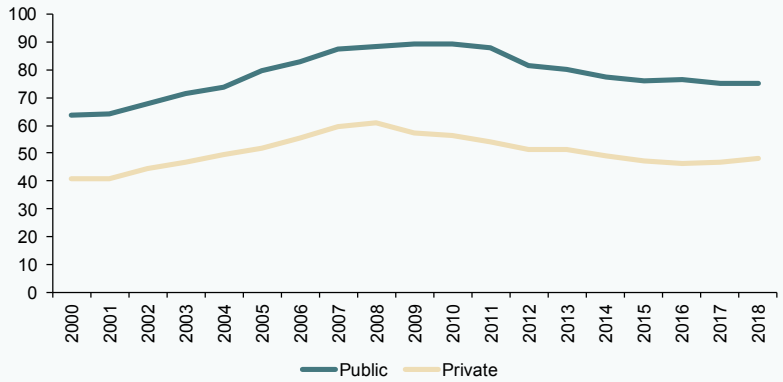


Source: Eurostat.

Exhibit 2

Expenditure on R&D in Spain with respect to the EU-27 in the public and private sectors

EU-27 average = 100



Source: Eurostat.

in that age bracket for Spain and the EU-27 between 2000 and 2019. In 2000, Spain's employment rate started out five points below the EU average. The ensuing process of convergence meant that the employment rate in Spain rose above the EU-27 average between 2005 and 2007. However, the crisis that began in 2008 reversed that trend, with Spain suffering far higher job losses than the rest of the EU; indeed Spain would lose jobs until 2013. Employment has recovered since 2013 but continues to lag the EU average significantly, by around five percentage points in 2019 (68.5% in the EU-27 *versus* 63.3% in Spain).

Exhibit 2 provides R&D intensity (proportion of gross domestic expenditure dedicated to research and development) in Spain in relation to average R&D intensity for the EU-27, broken out between the public sector (including universities) and the private sector. Public sector R&D intensity came close to the European average, reaching 89% in 2010, but has since lost dynamism, falling to 75% by 2018, which is similar to 2005 levels. The private sector never converged to the same degree; the nearest it got was in 2008 when R&D intensity stood at 61% of the EU average. Since then it has lost ground, with intensity standing at just 48% of the EU average in 2018, which is comparable to 2003 levels.

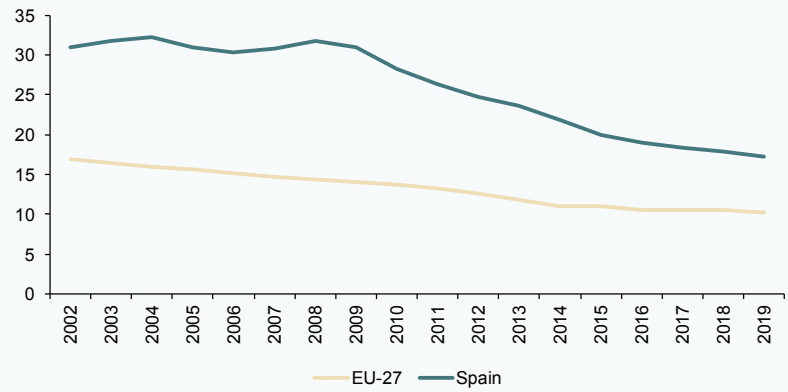
Exhibit 3 shows the rate of early school leavers, *i.e.,* the percentage of the population aged between 18 and 24 that had completed at most a lower secondary education and were not enrolled in further education or training. The analysis shows that although Spain has improved considerably on this indicator, reducing the drop-out rate from 30.9% in 2002 to 17.3% in 2019, the level of early school leavers in Spain remains significantly above the EU-27 average (2019: 10.2%).

Exhibit 4 depicts the percentage of the population at risk of poverty or social exclusion according to Eurostat. It illustrates how that percentage rose sharply during the years of crisis and the aftermath (between 2008 and 2014), since trending lower, to 25.3% in 2019, which is equivalent to the level seen a decade ago. The comparison with the EU-27 average

Exhibit 3

Early school leavers

Percentage



Source: Eurostat.

reveals that once again, despite the progress made, Spain is failing to keep up.

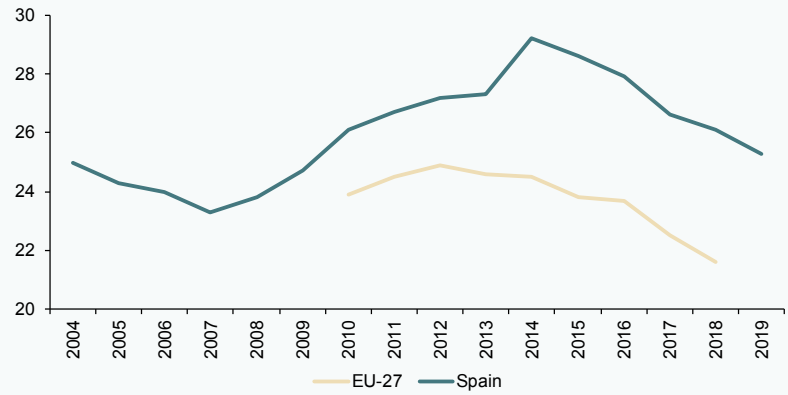
Analysing the recent performance on energy transition and climate change mitigation is particularly complex, as shown in Díaz, Marrero and Puch (2020).

It is worth analysing another two factors that are relevant to understanding the

Exhibit 4

Population at risk of poverty or exclusion

Percentage

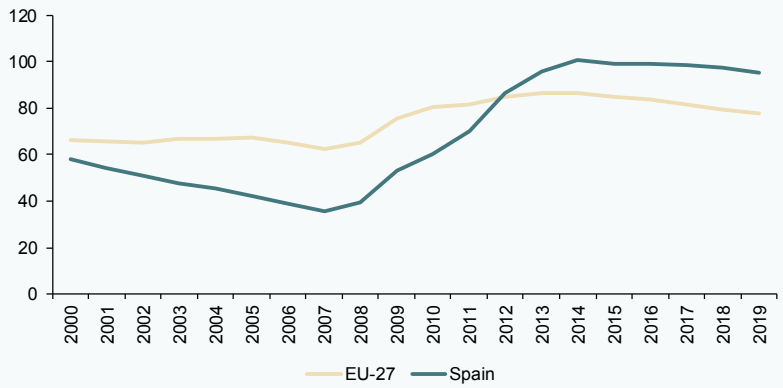


Source: Eurostat.

Exhibit 5

Public debt

As a percentage of GDP



Source: Eurostat.

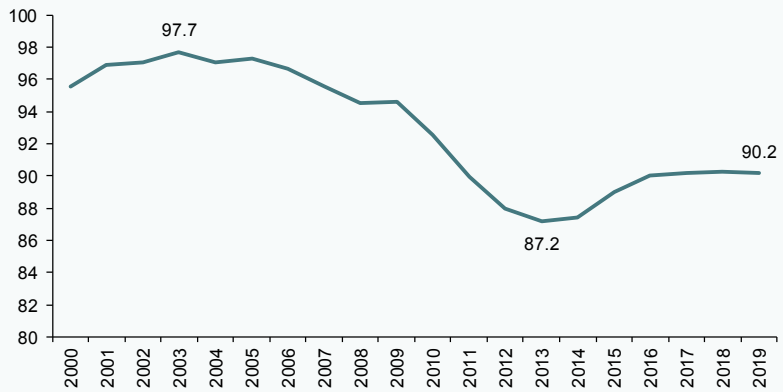
context in which the NGEU package will be implemented.

Exhibit 5 shows public debt as a percentage of GDP for Spain and the EU-27 average. It depicts significant deleveraging between 2000 and 2007, driven by unsustainable growth, to leave public debt at 35.8% in 2007 (26 percentage points below the EU average). Public debt climbed sharply between 2008

Exhibit 6

GDP per capita in Spain relative to the EU-27

EU-27 average = 100



Source: Eurostat.

> Public debt climbed sharply between 2008 and 2013 as a result of the crisis and its ramifications, stabilising at close to 100% of GDP from 2014.

and 2013 as a result of the crisis and its ramifications, stabilising at close to 100% of GDP from 2014. This is more than 17 percentage points above the EU average, which has been trending slightly but steadily lower since 2008.

As a snapshot indicator, echoing the above observations, Exhibit 6 shows GDP per capita in Spain in relation to the EU-27 average between 2000 and 2019. The exhibit confirms that for much of that period Spain has been lagging the EU in terms of per-capita income. Following a period of brief and not very intense convergence in the early part of this century, the gap between Spain and the EU average widened between 2004 and 2013. 2014 marked the start of another short bout of convergence, which ended in 2016. Between 2016 and 2019, GDP per capita in Spain has been hovering at around 90% of the European average, which is seven percentage points below peak convergence at the start of the century.

Various proposals for using NGEU funds

In light of those structural gaps and the major opportunity posed by the NGEU recovery package, a number of proposals have been published recently to provide guidance on how to maximise the impact of the programme and support Spain's economic recovery. In this section we reference a few of these.

Spanish think tank FEDEA has published a number of proposals, most notably one whose title translates as "In favour of political and social consensus around an inclusive reactivation and growth strategy", in which 130 experts from different fields, coordinated by Ángel de la Fuente (De la Fuente, 2020) participated. The document identifies a significant number of measures for roll out in the short- and longer-term. Beyond the considerable battery of measures put forward, the common thread running through the document is an effort to defend "the need to reach broad political and social consensus around a strategy designed to emerge from the crisis as quickly as possible and lay the foundations for tackling the complicated economic and social challenges that lie in store in the medium- and longer-term."

Several of those same authors, together with others, have drawn up a complementary document focused around eight priority areas (Conde-Ruiz, 2020). That document makes explicit references to which instrument (NGEU, investment, reforms or a combination thereof) is needed to achieve each of the economic policy targets.

On the industrial policy front, Arrilucea *et al.* (2020) similarly flag the need for "national consensus for industry". Such an agreement needs to pave the way for an industrial policy that is targeted at clear objectives or missions. In addition to decarbonisation and digitalisation, those missions include goals such as increasing the number of years that Spain's elderly can live autonomous by five years, and turning Spain into a top-class scientific destination. The authors advocate for the adoption and adaptation of the

> A 'national consensus for industry' needs to pave the way for an industrial policy that is targeted at clear objectives or missions.

> “On the topic of absorption, recall that during the current budget period, 2014-2020, Spain has only spent 34% of its available Cohesion Funds.”

necessary instruments, including long-term financing facilities and stable collaboration between the public and private sectors.

In the field of education, the paper by Gortázar (2020) proposes earmarking 10 billion euros of NGEU funds to the education system articulated around four key lines of action: (1) rescuing the students affected the most by the crisis; (2) infrastructure (physical and digital); (3) training and up-skilling for key players (students, parents, school teachers, school principals, vocational training teachers); and, (4) digitalisation of systems management.

The paper by Hidalgo (2020) is an example of the contributions that are not structured around specific areas of policy initiative but rather tackle a complementary, procedural and highly important issue – the steps Spain needs to take to improve its ability to absorb the European funds. He highlights five levers or areas for improvement: (1) planning with administrative capabilities in mind; (2) planning as far ahead of time as possible; (3) creating teams of expert professionals with a track record in public contracting; (4) creating centralised tender management agencies and offices; (5) simplifying and eliminating overlap in fund management procedures. Some of those issues are also addressed by Darvas (2020b) and Alcidi, Gros and Corti (2020).

Lastly, it is important to point out the insistence with which one of the world’s greatest experts in R&D support policy, Andreu Mas-Colell, has advocated for earmarking some of the new funds to cross-cutting projects with the power to attract, retain and win back people with talent. Mas-Colell has recommended adding 400 contracts a year to the 300 that are generated under the various programmes already in existence (Ramon y Cajal, ICREA, Ikerbasque, Emergia, *etc.*) with a view to being able to hire 700 highly trained scientists and researchers per year over the next 10 years. Such a process, according to this expert, “can change a country” (Mas-Colell, 2020).

Assessment and conclusions

Despite much-needed progress made post-crisis, it is important to underline that the Spanish economy was already showing clear signs of structural reform fatigue before the onset of COVID-19. That is evident in a lack of convergence towards the EU averages along some indicators (percentage of the population in employment; R&D intensity in the public and especially the private sector; and public debt as a percentage of GDP). In other cases, the weakness is manifest in slower progress (reduction in early school leavers and in the percentage of the population at risk of poverty and exclusion). The indicator that sums up that structural fatigue is the stagnation in per-capita GDP in Spain with respect to the EU average, which has been stuck at 90% since 2016, well below the peak of 98% of 2003. The crisis generated by COVID-19 is therefore ravaging an economy that was no longer converging with the EU-27. Implementation of the NGEU needs, ultimately, to help revive this convergence process of Spain towards the EU.

Additionally, there are a number of observations about the proposals published on the matter of how to use the NGEU funds in Spain. The proposals are ambitious and need solid social and political consensus to facilitate implementation as in many instances the investment ideas are tied to legislative reforms that have been in the pipeline for many years. Indeed, the call for broad consensus is one of the explicit objectives in the majority of those reformist manifestos. However, even if such a degree of consensus is achieved, there are still problems related with the absorption and public management of the funds. On the topic of absorption, recall that during the current

budget period, 2014-2020, Spain has only spent 34% of its available Cohesion Funds (Torres and Fernández, 2020). In regard to management, the public administration is reasonably nimble at managing the programmes already in existence but it is unclear whether it could be similarly adept at handling new spending programmes which will probably also require collaboration with regional governments, as seen recently with the minimum income scheme.

Lastly, and in line with Bandrés *et al.* (2020), it is highly likely there will be a significant timing mismatch between the urgent need to prop up and revive the economy in the short-run and the raft of structural reforms whose full effects will take several years to materialise. Given the way the NGEU package has been designed and reviewing some of the main proposals for using it, what appears to be missing is an economic policy initiative that can provide direct stimulus from the end of 2020 and throughout 2021. Past experience, in less critical situations, suggests that the scars from the crisis could prove very long-lasting in terms of both unemployment and business failures. That is probably the biggest challenge facing the Spanish economy and society — propping up as much of the productive business fabric as is possible.

Notes

[1] For the most updated information, go to https://www.consilium.europa.eu/es/policies/eu-recovery-plan/ (consulted on October 15th, 2020).

[2] For more detailed information, refer to Carrión Álvarez (2020a, 2020b, 2020c) for a comprehensive explanation of the programme; Bandrés *et al.* (2020), Torres and Fernández (2020) and Doménech (2020) for analysis of the importance of the NGEU package for Spain and an estimation of its impact; Darvas (2020a) for an explanation of the changes between the proposal and the final agreement; Pisani-Ferry (2020) for an overview of the package from the broader European perspective; Fuest and Pisani-Ferry (2020) for an analysis of the new EU financing scheme; and Pazos-Vidal (2020) for a comparison between the MFF and NGEU.

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Spain's fiscal context: A regional perspective

While the Spanish general government deficit is forecast at 12.4% this year, the regional governments posted a surplus during the first eight months of the year. However, the regional governments' finances will experience greater pressure in the following years, necessitating reform of both the regional financial system and Spain's overall tax system.

Santiago Lago Peñas

Abstract: Spain entered 2020 in a complicated financial situation with the budget from 2019 having carried over and the reduction of the deficit having stalled at 3% of GDP. However, any fiscal consolidation effort was halted by the EU's activation of the Stability and Growth Pact's escape clause in light of the COVID-19 crisis in March. As a result of a collapse in tax revenue and increased spending, the Funcas' consensus forecast anticipates that Spain will post a 12.4% deficit in 2020. In comparison to the central government, Spain's regional governments have presented a surplus of 0.44% in the first eight months of the year. This is attributed to both the amount of tax revenue transferred and advanced by the central government to the regional governments. Looking forward, the crisis will have a differential impact on regional finances and it will be necessary to reform the regional financing system in tandem with an overhaul of the Spanish tax system to address the financial consequences of the health crisis.

And then COVID-19 came along [1]

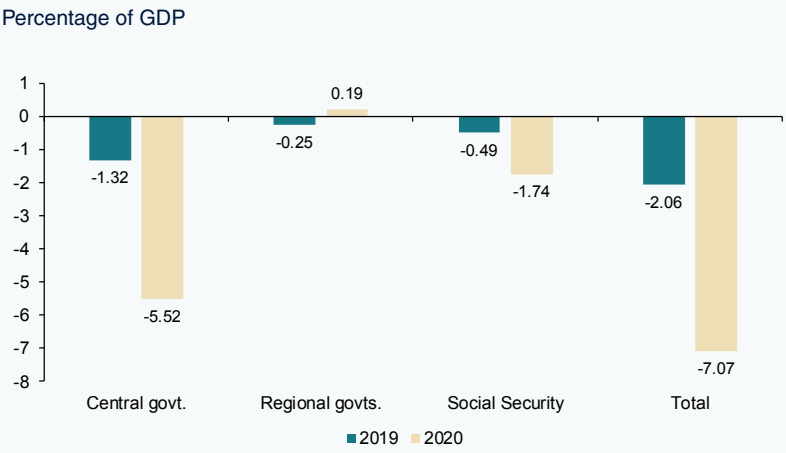
Spain began 2020 under a budget that had carried over from 2019 and a stalling deficit reduction-effort, with the structural deficit stagnant at 3% of GDP (Lago-Peñas, 2020). However, those concerns would become secondary in March. Compliance with the EU's fiscal stability rules was deprioritised when, at the end of that same month, the European Commission and the Council of the European Union activated the general escape clause of the Stability and Growth Pact (SGP). That decision occurred in tandem with Europe's rapid, forceful, and coordinated response to the COVID-19 crisis. This action aligned with the International Monetary Fund (IMF), which stated unequivocally that "high levels of public debt are not the most immediate risk. The near-term priority is to avoid a premature withdrawal of fiscal support" (IMF, 2020).

In September, it was decided that the escape clause would remain activated in 2021; and in early October the Spanish Cabinet asked Congress to activate the escape clause provided for in Organic Law 2/2012 on Budget Stability and Financial Sustainability, a decision that was first endorsed by Spain's Independent Authority of Fiscal Responsibility (AIReF, 2020a). That request was approved on October 21st.

The collapse in tax revenue and growth in expenditure, analysed in detail by Sanz-Sanz and Romero-Jordán (2020), have driven a massive increase in the deficit, with the revenue shortfall responsible for approximately two-fifths of the increase and the remaining three-fifths explained by a surge in spending (Ministry of Finance, 2020b). As shown in Exhibit 1, the deficit, measured as a percentage of GDP and excluding local government, widened from 2.06% in the first eight months of 2019 to 7.07% in the same period of 2020. That five-point widening is primarily attributable to the central government, whose deficit increased by 4.2 percentage points. The Social Security deficit also widened considerably from 0.49% to 1.74%. Surprisingly, the regional governments' public finances improved, from a deficit of 0.25% in 8M19 to a surplus of 0.19%, evidencing the central government's strategic decision to protect them from the

Exhibit 1

Budget outturn. Deficit (-) or surplus (+) in the first eight months of 2020 by subsector, excluding local government



Source: Author's own elaboration based on Ministry of Finance report (2019b).

> "Measured as a percentage of GDP and excluding local government, the deficit widened from 2.06% in the first eight months of 2019 to 7.07% in the same period of 2020."

fiscal crisis. We will analyse that strategy in detail further on.

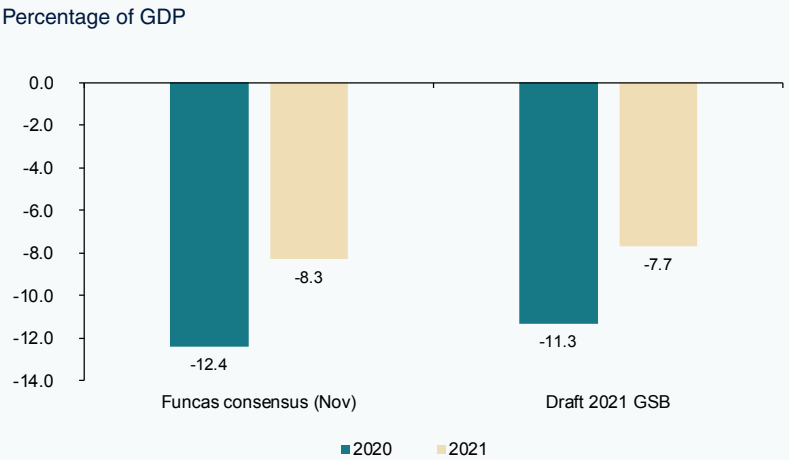
Outlook for 2020 and 2021

Exhibit 2 provides the Funcas consensus forecast for Spain's public deficit in 2020 and 2021 (Funcas, 2020) and the forecasts set down by the Spanish government in its draft general state budget for 2021 (2021-GSB). For 2020, the consensus forecast is for a deficit of 12.4%, which is slightly more than one percentage point above the government's estimate (11.3%). The difference between the two figures essentially boils down to the forecast contraction in GDP: the Funcas consensus estimate is for a contraction of 11.8%, whereas the government is forecasting a fall of 11.2%. AIReF (2020b) provides a range of deficit forecasts which run from 11.6% (at all levels of government) in the best-case scenario to 14.1% in the worst-case scenario.

On a comparative basis, Spain is on track to record one of the highest deficits in 2020. According to the International Monetary Fund (IMF, 2020), Spain's deficit will rank fifth among the 35 developed economies analysed in its report. The reason is not the discretionary fiscal measures adopted, as Spain is among the least active on that front, placing just 19th among the 20 advanced economies analysed by the IMF. Instead, the origin of the higher deficit lies with the combination of an extremely high structural deficit, one of the highest output gaps among the OECD nations, and the fact that the

Exhibit 2

Overall deficit forecast for 2020: (i) Funcas consensus; and (ii) Spanish government



Sources: Author's own elaboration based on Ministry of Finance (2020a) and Funcas (2020).

> “According to the International Monetary Fund, Spain’s deficit will rank fifth among the 35 developed economies analysed in its report.”

Spanish deficit is particularly sensitive to GDP growth rates. The estimates made by Mourre *et al.* (2019) rank Spain among the EU nations with one of the highest elasticities of budget balance to output gap. Every point of contraction in GDP adds 0.6 percentage points to the deficit.

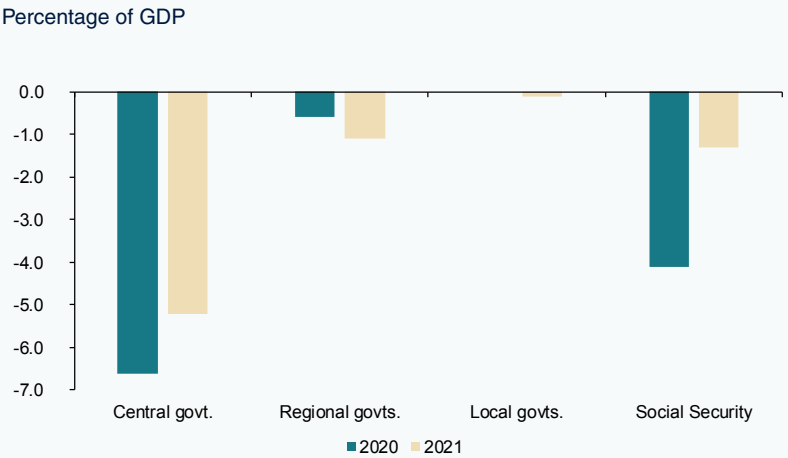
The high uncertainty regarding the remainder of 2020 is nothing compared to the forecasts for 2021 which are extraordinarily sensitive to the direction the pandemic takes and the effectiveness of the vaccines being developed. With those caveats in mind, the Spanish government and Funcas panel of analysts are calling for a significant rebound in GDP and a considerable improvement in the deficit, with the former estimating a deficit of 7.7% and the latter, 8.3%.

Regional government protection strategy

The budget surplus at the regional government level depicted in Exhibit 1 is worth highlighting as it had been over a decade – before the Great Recession – since the regional tier has recorded a surplus. And that is even though COVID-19 has necessitated extraordinary spending, particularly on the health front. The surplus in the first eight months of the year was running at 4.85 billion euros, which is equivalent to 0.44% of GDP (Ministry of Finance, 2020b). Moreover, the tax revenue transferred to the regional governments (inheritance & gift tax; stamp duty; gaming taxes; and car registration tax) has collapsed as a result of the economic slump and the fact that most of the governments have provided tax relief measures that are translating into the deferral of tax payments. According to

Exhibit 3

Forecast 2020 and 2021 deficits by sub-sector*



** After the assumption by the central government of a portion of the deficits of the Social Security and regional governments.*

Source: Ministry of Finance (2020a).

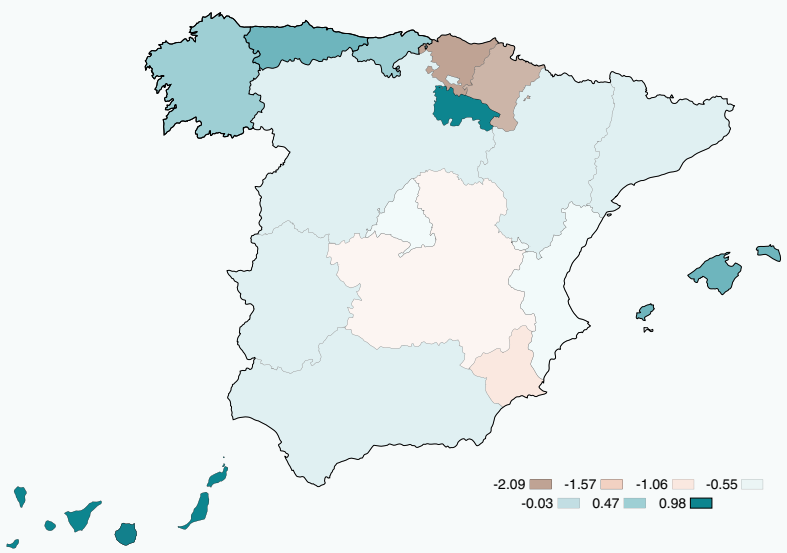
> "The regional governments' surplus in the first eight months of the year was running at 4.85 billion euros, which is equivalent to 0.44% of GDP."

the data compiled by the Ministry of Finance, their tax revenue was 25% lower year-on-year (equivalent to 0.2% of GDP) as of July.

Nevertheless, the central government has opted to protect the regional governments from the financial fallout from the health crisis, taking a different track to that of other federal states such as the US, where the fiscal crisis triggered by COVID-19 at the sub-central government level is very serious (Clemens and Veuger, 2020). The central government has instead opted for a combination of measures affecting the amounts transferred and advanced to the regional governments. By the end of August, 6 billion euros corresponding to the first tranche of the 16 billion-euro COVID-19 fund set up a few months earlier had already been transferred; 325 million euros had been deployed from the extraordinary fund set up to cover basic social service benefits; another 300 million euros had been transferred under the health and pharmacy benefits programme; and, execution of the State Housing Plan funding had been brought forward (447 million euros). Additionally, the definitive settlements paid under the regional financing system in respect of 2018 were higher than anticipated and the expected increase in advance payments corresponding to 2020 financing system settlement were already transferred between March and April (Ministry of Finance, 2020b). The latter decision is of particular importance as it lies

Exhibit 4

Deficit/surplus by region during the first eight months of 2020



Source: EpData.es based on Ministry of Finance (2019b).

> AIReF estimates an overall deficit at the regional government level of between 0.4% and 0.9% of GDP this year.

at the heart of the regional governments' income stream and means that the central government is transferring them funds as if the pandemic had not occurred, assuming the burden of the corresponding deficit and deferring the required adjustments until 2022, which is when the 2020 regional financing arrangements will be definitively settled.

The consequences of these developments are illustrated in Exhibit 4. Most of the regional governments are presenting surpluses or very narrow deficits. Only the two regional governments with their own separate financing schemes (Basque region and Navarre), whose tax revenue is suffering the impact of the crisis, are reporting sizeable deficits of around 2% of their GDP. Despite the transfer of tranches 2, 3 and 4 of the COVID-19 fund, this situation is bound to deteriorate as the year unfolds as healthcare and other expenditure induced by the pandemic increase sharply. For that reason, AIReF (2020b) estimates an overall deficit at the regional government level of between 0.4% and 0.9% of GDP.

The strategy of protecting the regional governments' finances is set to continue in 2021. Indeed, the financial support implied by the European recovery package means that the regional governments will see record spending ceilings. The 2021-GSB contemplates a slight reduction in income under the regional financing system from 116 billion euros in 2020 to 114 billion euros in 2021. Money from the extraordinary COVID-19 fund is also forecast to decrease from 16 billion euros in 2020 to 13.49 billion euros in 2021. However, the regional governments' deficit ceiling will be lifted to 1.1% of Spanish GDP in 2021, which will easily offset the above-mentioned reductions in income. [2] Most importantly, the regional governments will be handed direct management of 18.79 billion euros of the new European Community funds to support their economic recovery (Ministry of Finance, 2020a).

It is important to recall that the economic crisis is hitting Spain's regional economies in differing degrees, varying above all as a function of their productive structures and the intensity of the health crisis. Taking note once again of the uncertainty clouding all economic forecasts, Exhibit 5 illustrates the diversity in the depth of the recession in 2020 and in the scale of the rebound anticipated in 2021. The exhibit, drawn up using estimates prepared by BBVA Research (2020), orders the regions by the net impact calculated for the two-year period. If we rebase 2019 to 100, in 2021 the Spanish economy would be back up at 93.7, with Castile-La Mancha at 95.5 and the Balearic Islands at 91.1.

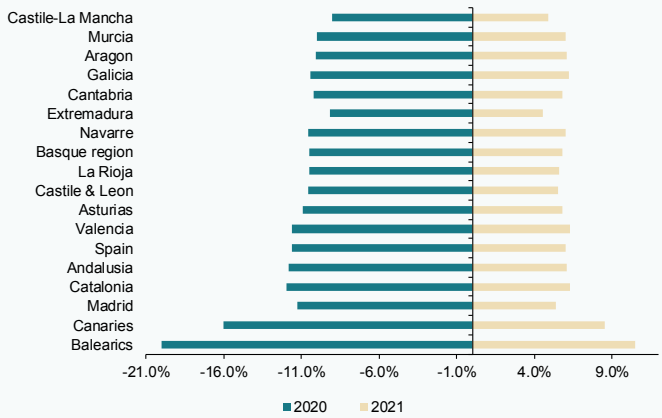
The regional economies affected the most are the two archipelagos and, to a lesser degree, the two largest economies: Madrid and Catalonia. In general, there is no clear correlation between the impact of the crisis and GDP per capita prior to the pandemic, suggesting that the crisis will not accentuate regional inequalities observed in 2019. However, it will have a differential impact on the regional finances, despite the strong interregional levelling implicit in Spain's

> There is no clear correlation between the impact of the crisis and GDP per capita prior to the pandemic, suggesting that the crisis will not accentuate regional inequalities observed in 2019.

Exhibit 5

Regional GDP growth forecasts for 2020 and 2021

Percentage terms ordered from lowest to highest accumulated net impact



Source: Author's own elaboration based on BBVA Research estimates (2020).

approach. The deviation with respect to the average will be higher in the regions that are more reliant on fiscal autonomy, whether by virtue of having relatively higher GDP per capita or due the idiosyncratic nature of their financing systems (Canary Islands, Basque region and Navarre).

Unresolved issues and pending reforms

The pandemic has turned the regional reform agenda on its head. We started 2020 with broad consensus about the need to make strong progress on three fronts: reforming the regional financing system; getting the regional authorities back in the financial markets for debt placement purposes; and tightening fiscal governance to enhance budget stability at the regional level. [3] However, the pandemic catapulted the need to guarantee the regions' financial sufficiency in the short-term to the top of the agenda. That has been achieved by combining three instruments: transfer of regional financing system advance payments as if nothing had changed; extraordinary funds to cover the unforeseen expenses; and, liquidity guarantees. As a whole, the regional governments will head into 2021 with the idea that funding will not be an issue, that their fiscal stability duties are on hold and that the European funds will allow them to contemplate investments of an unprecedented scale.

Without a doubt, the extraordinary nature of current events justifies a shift in priorities and plans. However, it is important not to lost sight of the fact that the pandemic and the solutions being rolled out to address

> "The high level of advance payments made in 2020 and 2021 will generate record negative settlements in 2022 and 2023, which will jeopardise the regions' financial sufficiency in those years."

> “Unquestionably, part of the solution to the challenges posed by the insufficiency of the financial facility funds is to reform the regional financing system in tandem with an overhaul of the Spanish tax system.”

it will complicate an exit. The high level of advance payments made in 2020 and 2021 will generate record negative settlements in 2022 and 2023, which will jeopardise the regions' financial sufficiency in those years. In all likelihood it will be necessary to adopt a solution similar to that used in 2008 and 2009 – spreading the negative settlement sums out evenly over a period of 10 years or longer. However, it is probable that such a strategy would not be sufficient to avoid sharp fiscal consolidation, particularly on the spending side. The depth of the recession in 2020 means that Spain will not revisit 2019 GDP levels until 2022 or 2023. And a recovery in GDP will take some regions longer than others. That will aggravate the sufficiency problem. This second major economic crisis of the century should open our eyes to the virtues of more responsible budget management, marked by budget surpluses and deleveraging during expansionary cycles, putting surplus regional financing transfers aside for years when growth is weaker.

The pandemic and its management have also shone the spotlight once again on the institutional deficiencies presented by Spain's model of autonomous financing. The coordination and co-governance required of federal states warrants taking a fresh look at the structures in place.

Lastly, the management of even more regional debt in the hands of the state will increase the scale of this issue. Unquestionably, part of the solution to the challenges posed by the insufficiency of the financial facility funds (particularly the regional liquidity fund) is to reform the regional financing system in tandem with an overhaul of the Spanish tax system.

Notes

[1] The author would like to thank Diego Martínez (UPO) for his valuable input and Fernanda Martínez and Alejandro Domínguez for their assistance.

[2] Although the headline deficit target for the regional governments is 2.2%, that figure includes the 13.49 billion euros from the COVID-19 fund, which will be financed from debt taken on by the central government. The portion of the deficit to be financed by the regional governments is 1.1%.

[3] On the first two matters, the report issued by the committee of experts (multiple authors, 2018) remains very much on point. On the third matter, and for some additional clarity on the second, we recommend reading the work of Martínez-Lopez (2020).

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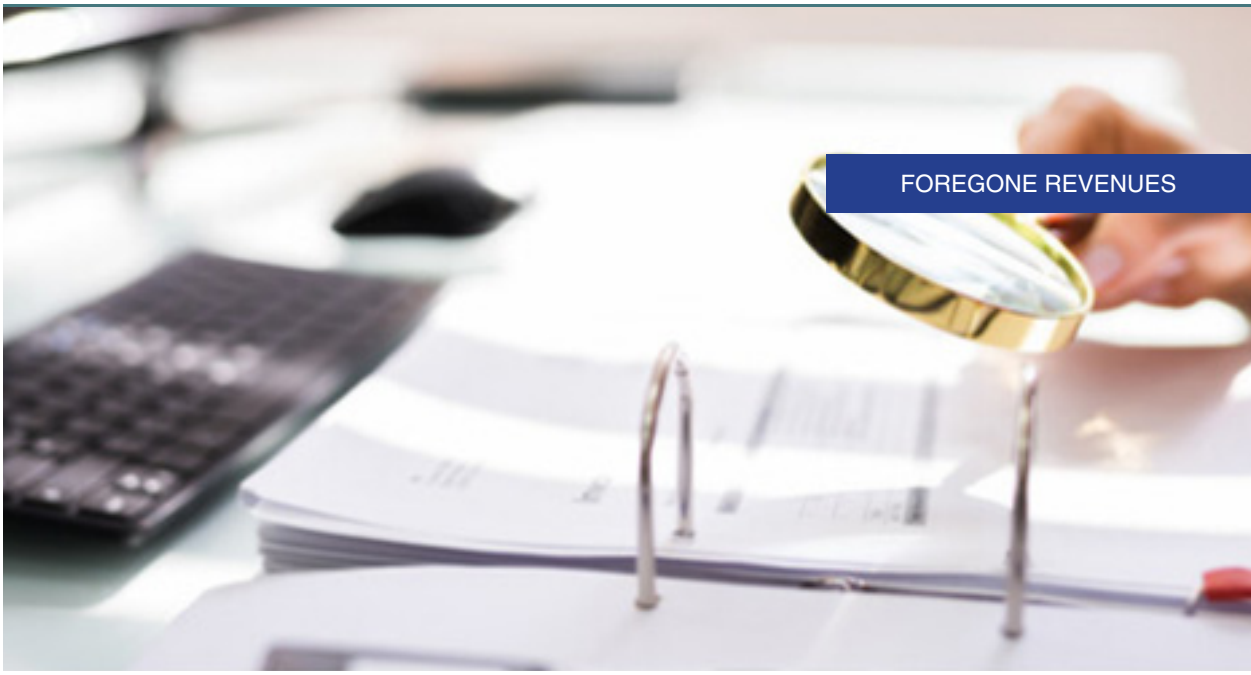


Foregone revenues in respect of Spain's key taxes

As a result of tax breaks for personal income tax, value-added tax, and corporate income tax, the Spanish government foregoes 77.18 billion euros worth of revenue each year. However, closer analysis shows there is room to rationalise existing tax benefits in order to increase the efficiency and simplicity of the Spanish tax system.

José Félix Sanz-Sanz and Desiderio Romero-Jordán

Abstract: Governments provide tax breaks to both individuals and companies in the form of allowances, exemptions, rate relief, credits and deferrals. By focusing on tax breaks for personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT), which together account for 85% of Spain's total tax revenue in recent years, it is possible to determine the costs of these tax policies. The analysis conducted reveals that all of the foregone tax revenues, or tax expenditures, associated with these three taxes amount to 77.18 billion euros per annum, of which 61% is absorbed by VAT, 36% by PIT and the remaining 3% by CIT allowances and credit. In addition, the personal and household allowances in respect of personal income tax imply an additional annual collection cost of 24.53 billion euros. Those figures clearly indicate that there is adequate room for manoeuvre in the Spanish tax system to reduce the marginal tax burden without foregoing revenue. In other words, rationalisation of the existing tax benefits would be sufficient

to finance a tax reform package that would deliver a more efficient and simpler tax system with greater revenue collection.

Introduction

In order to achieve their economic and social objectives, governments provide tax breaks to both individuals and companies. This tax relief can take many forms including allowances (deductions from the base), exemptions (exclusions from the base), rate relief (lower rates), credits (reductions in liability) and tax deferrals (postponing payments). In each instance the legislator assigns a socio-economic objective to the cost of a reduction in revenue. That loss of tax revenue is equivalent to a *sui generis* form of public spending which is channelled via the tax system, hence the term "tax expenditures". Importantly, foregone tax revenue can imply a significant cost. For example, Spain's independent fiscal institute, AIReF (2020), recently assessed 13 tax benefits, assigning a total cost in terms of revenue of 34.25 billion euros, which it estimates account for 60% of total tax relief awarded under the Spanish tax system. That means that the annual tax relief granted in Spain is, according to AIReF, equivalent to 57.08 billion euros, or 5% of GDP. As we shall see, this figure actually underestimates the true cost.

For tax policy transparency purposes, it is important to calculate the revenue foregone as a result of tax relief. In this case, knowledge of tax expenditures is a vital input for assessing the suitability of the underlying relief. However, it is not easy to quantify the revenue foregone as a result of tax relief for several reasons. Firstly, there is a lack of consensus as to how to define tax benefits. Secondly, tax expenditures are defined as a deviation from a "baseline" taxation scenario. Nevertheless, that *counterfactual* is neither easy to identify nor is it necessarily the only alternative outcome. In other words, there is no consensus about the "baseline" or benchmark scenario against which comparison is possible. Lastly, the way in which a given form of tax relief is articulated impacts the complexity of calculating the lost tax revenue.

In this paper, we quantify the foregone tax revenue, or tax expenditure, associated with the main Spanish taxes: personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT). Those three concepts account for the bulk of the Spanish system's tax collection. According to the tax revenue series compiled by the Spanish tax authority, those three taxes alone have accounted for approximately 85% of total tax revenue in recent years. Given their significance, this paper will concentrate exclusively on evaluating those three taxes. Note, however, that while the estimates in respect of PIT and VAT reflect nearly all available tax relief, the CIT analysis is not as exhaustive due to a lack of data. In the case of CIT, it was only possible to quantify the foregone tax revenue associated with allowances and credits, *i.e.* only a limited portion of existing CIT tax relief.

The revenue foregone as a result of the tax relief reported in this paper is calculated by comparing the *status quo* revenue situation, as each tax is currently applied, with an alternative – *counterfactual* – scenario in which the tax relief has not been provided. However, it is worth singling out certain disadvantages with this approach. Firstly, the alternative scenario does not contemplate potential behavioural changes of taxpayers in response to the elimination of the tax relief, which could affect tax revenue. Also, the procedure of sequentially eliminating tax relief could

> "The analysis conducted reveals that all of the foregone tax revenues associated with these three taxes amount to 77.18 billion euros per annum, of which 61% is absorbed by VAT, 36% by PIT and the remaining 3% by CIT allowances and credit."

jeopardise the viability of the resulting tax by rendering it excessive. In sum, the resulting tax may turn out to be economically non-viable. Under such circumstances, the results obtained from this line of analysis may not be meaningful. For example, the elimination of the main relief from PIT analysed here would mean that the current existing marginal PIT tax rates would apply directly to taxpayers' pre-tax income, which is implausible.

The analysis conducted reveals that all of the foregone tax revenues associated with these three taxes amount to 77.18 billion euros per annum, of which 61% is absorbed by VAT, 36% by PIT and the remaining 3% by CIT allowances and credit. These figures suggest that by reducing this tax relief, Spain could finance a tax reform agenda that is more efficient, simpler, and boosts revenue. In addition to the above figures, the analysis performed shows that the existing tapering or phase-out of the earned income allowance is hugely distortionary, as its existence lifts the marginal rate for people earning salaries of between 13,115 and 16,825 euros by 250%, from 24% to 60%. Moreover, the revenue cost typically ascribed to pension plans is significantly overstated due to the failure to factor in the tax borne on the benefits when they are actually received. Lastly, the VAT analysis suggests that Spain could keep collection at close to current levels with a single rate of close to 10% if the various exemptions and rate relief were eliminated.

PIT tax expenditures

The foregone revenue from the PIT tax was calculated using the tax microdata published by IEF, the tax studies institute, and AEAT, Spain's tax authority, for the most recent year available. The information contained in Table A1 of the appendix shows that foregone PIT tax revenues totalled 27.7 billion euros in 2017, of which 19.68 billion euros were applied as deductions from the tax base, 3.23 billion euros as deductions from taxable income and the remaining 5.45 billion euros from reductions in liability (credit). What that means is that the bulk of foregone tax revenues are applied to the tax base (gross income) (71.05%). Below is a more detailed description of foregone PIT tax revenue, referenced to the concepts itemised in Table A.1 of the appendix. The table provides the revenue cost, the number of beneficiaries and the per-capita saving for each type of tax expenditure.

Foregone tax revenues in respect of earned income

The foregone revenue associated with earned income totals 12.86 billion euros. Some 99% (12.74 billion euros) is derived from the following two concepts.

- The standard personal allowance of 2,000 euros applied to all wage-earning taxpayers (9.32 billion euros).
- An additional personal allowance whereby the wage-earners that meet certain requirements can reduce their taxable income further [1] (3.42 billion euros).

Those two components of foregone revenue alone account for 46% of total PIT-related tax relief. From an economic standpoint, the reduction in net earned income has two negative effects. First, the reduction constitutes a violation of the principle of generality of a tax insofar as it affects the fairness of the tax and limits the redistributive power of PIT by removing wealthier taxpayers from the scope of the tax. [2] Secondly, the phase-out of the allowance for earnings between 13,115 euros and 16,825 euros – above this bracket the allowance goes from its maximum amount to total elimination, has a perverse effect on the magnitude of the marginal rates. As illustrated in Exhibit 1, those earners bear an effective marginal rate of 60%, compared to the 24% they would bear if that allowance did not exist. as currently designed. [3] The explanation lies with the fact that for every additional 100 euros earned by those taxpayers, they lose 150 euros of personal allowance, in addition to incurring the marginal income tax rate of 24% on incremental earnings. These effects suggest the additional personal allowance should be reassessed.

Foregone tax revenues associated with the treatment of savings and home equity

Spanish PIT is articulated around two components. Since 2007, savings income has

> “ PIT also allows for a deduction equivalent to 60% of the net income derived from house rentals, for an annual cost of 1.23 billion euros. ”

been taxed at lower marginal rates than other earned income. The distancing from an all-encompassing taxable base in which all income is taxed at the same rates has an annual cost of 5.59 billion euros. In addition to the different treatment of savings income, PIT also allows for a deduction equivalent to 60% of the net income derived from house rentals in a quest to boost the supply of residential properties. The goal of that incentive is to foster a downtrend in rental prices. The annual cost of that relief amounts to 1.23 billion euros. In sum, the two incentives combined imply a revenue cost of 6.82 billion euros.

Foregone tax revenues generated by the allowance for joint tax returns

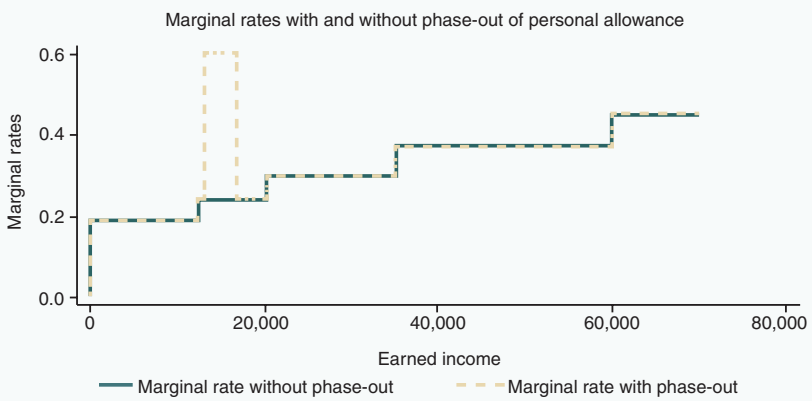
Ever since the Constitutional Court declared the articles of the PIT implementing regulations that obliged the accumulation of all income obtained by the members of a given household void in 1989, there have been measures for reducing the tax burden in respect of joint PIT returns. As currently designed, the households entitled to this allowance are those in which just one household member earns an income or where one of the spouses earns significantly less than the main wage-earner. Two-parent tax-paying household units are currently entitled to an allowance of 3,400 euros (2,150 euros for single-parent households). As shown in Table A.1 of the appendix, the revenue cost of this tax expenditure is 2.98 billion euros.

Foregone tax revenues associated with contributions to pension/welfare systems

With the aim of increasing the purchasing power of employees and the self-employed after they retire, the pension/welfare systems

Exhibit 1

Effect of the additional earned income allowance on the marginal tax burden



Source: Authors' own elaboration based on the IRPF regulations for 2019, simulation in Stata 16.1.

> "Around 1.5% of the earned income declared annually in recent years stemmed from pension plan benefits, which is equivalent to around 1.5 billion euros of PIT revenue a year."

allow them to receive their income over their life spans. Such assets play a clear social role by encouraging employees and the self-employed to *self-transfer* their income from their years in the workforce to their retirement. Pension plans are the savings instrument most widely used in Spain. Their tax treatment is similar to state pensions: contributions are deducted from the tax base of the contributor such that no income tax is paid on those sums during the years of saving and when the relevant event occurs – usually retirement – the benefits are taxed at the amount of capital accumulated (contributions ± capital gains/losses) at the then-prevailing income tax rates for wage earners. That means that the only tax benefit awarded in respect of such income is, in the best case scenario, the ability to defer the payment of the corresponding income tax from the time of the contribution until receipt of the benefit. In fairness, savers are penalised in respect to any capital gains insofar as such gains constitute savings income that, rather than being taxed at the lower rates applied to savings income, are taxed at more onerous earned income tax rates.

Surprisingly, errors are made when calculating the revenue cost associated with these assets. The mistakes consist of computing only the deductibility of the contributions as revenue foregone, neglecting the fact that such deductions revert when the associated benefits are received, at which point they are taxed as earned income. For example, around 1.5% of the earned income declared annually in recent years stemmed from pension plan benefits, which is equivalent to around 1.5 billion euros of PIT revenue a year. The recovery of that revenue when the pension plan benefits are received is missed if only the deductibility of the original contributions is taken into account. That is the case with the tax benefits assessment recently published by AIReF (2020), which estimates pension plan-related tax expenditure at 1.64 billion euros per annum.

As shown in the appendix, the real revenue cost of pension plans needs to be measured as the difference between the tax savings generated by the contributor when paying into a pension (1.81 billion euros) and the present value of the tax payable when the benefits are collected (1.56 billion euros). In sum, the effective revenue cost of the contributions made to pension plans in 2017 is 250 million euros (1.81 billion euros minus 1.56 billion euros). [4]

Those figures suggest that the revenue argument for eliminating the current treatment of pension plan contributions is extremely tenuous. All the more so considering that fact that if the deductibility of pension plan contributions were to be eliminated, any subsequent capital gains would no longer be taxable at earned income but rather at savings income rates.

Foregone tax revenues associated with reductions in liability (credit)

Lastly, Table A.1 of the appendix shows the foregone tax revenues associated with reductions in liability. Of the total 5.45 billion euros of foregone tax revenue associated with

> "Of the 5.45 billion euros of foregone tax revenue associated with reductions in liability, 3.28 billion euros corresponds to general credit in respect of the tax liability before deductions and 2.07 billion euros is applied against the tax liability after deductions and withholdings."

> “ VAT tax relief totalled 47.38 billion euros in 2017. ”

such credit, 3.28 billion euros corresponds to general credit in respect of the tax liability before deductions (1.63 billion euros of state tax payable and 1.65 billion euros of regional tax payable) and 2.07 billion euros is applied against the tax liability after deductions and withholdings. The credit within the purview of the regional governments is scant, at just 385 million euros.

The revenue cost of minimum personal and household allowances

Qualifying minimum personal and household [5] allowances as tax relief is debatable. However, Table A.2 of the appendix provides the revenue cost of the minimum personal and household PIT allowances in 2017, which amounted to 24.53 billion euros. [6]

VAT tax expenditures

There are two ways in which VAT can be altered to generate tax relief: exemptions and rate relief. Since this tax came into being in 1986, a catalogue of services, which can be grouped into the following seven categories, has been deemed exempt: (i) postal services; (ii) medical, hospital and social welfare services; (iii) education and professional training services; (iv) services provided by non-profits and sports federations; (v) state lotteries and betting games; (vi) financial and insurance services; and (vii) rental of one’s

Table 1 **Tax relief generated by VAT exemptions and reduced rates**

Millions of euros

1. Exemptions	Net expenditure	Tax relief
Postal services	108	23
Medical and hospital services	16,049	3,370
Education services	11,120	2,335
Home rental	20,614	4,329
Social protection	6,941	1,458
Insurance services	9,569	2,009
Financial services	20,281	4,259
Total exempt services	*84,682*	*17,783*
2. Reduced rates	Net expenditure	Tax relief
Foodstuff taxed at 4%	36,131.7	6,142.4
Foodstuff taxed at 10%	40,050.0	4,405.5
Medicines	11,777.9	2,002.2
Public transport	13,071.2	1,437.8
Leisure and cultural services	24,602.9	2,706.3
Press and books	4,417.3	750.9
Hospitality and food services	110,474.0	12,152.1
Total goods and services taxed at reduced rates	*240,525.0*	*29,597.4*
Total	*325,207*	*47,380*

Source: Authors’ own elaboration based on INE data.

> "The comparison between VAT tax revenue in 2017 - 63.65 billion euros - and the amount of tax relief - 47.38 billion euros - provides a clear picture of the significant revenue cost of the exemptions and reduced rates."

primary abode. For various different socio-economic reasons, these services are exempt from VAT, unlike the vast majority of services which are levied at the standard rate of VAT. Since its reform in 2012, the above-mentioned standard rate has been 21%, while the reduced rates are 4% and 10%. [7]

The calculations provided next refer exclusively to the household sector of the economy. To that end, we use the aggregate household private consumption figures included in Spain's National Accounts using the COICOP/ECOICOP classification at the 2-digit level. Except for very specific goods and services, that level of disaggregation is sufficiently broad to enable the allocation of the correct rate to each spending category. A more detailed allocation of the rates borne by the goods/services included in each spending category would require the use of the microdata from the Household Budget Survey which uses the COICOP/ECOICOP classification at the 4-digit level. However, household budget surveys present certain issues such as the infrequency of purchase or the concealment of expenditures that undermine their usefulness as a credible proxy for total existing VAT tax relief. In other words, while the household budget survey may be appropriate for analysing the breakdown of household consumption by socioeconomic categories, it is not the right database for estimating the overall tax relief embedded in indirect taxation.

Using the National Accounts consumption data for 2017, Table 1 synthesises the tax relief generated by VAT exemptions and rate relief. It shows that VAT tax relief that year totalled 47.38 billion euros. Of that sum, 62.5% corresponded to exemptions and the remaining 37.5% to reduced rates. Specifically, the tax relief generated by the reduced rates amounted to 29.6 billion euros, of which 30% was generated by goods and services taxed at the super-reduced rate, with the remaining 70% stemming from goods and services taxed at the 10% reduced rate.

The comparison between VAT tax revenue in 2017 – 63.65 billion euros – and the amount of tax relief – 47.38 billion euros – provides a clear picture of the significant revenue cost of the exemptions and reduced rates. By eliminating that tax relief and replacing it with a single flat rate of close to 10%, the government would generate similar revenue levels. That simple back-of-the-envelope calculation evidences the scope for VAT revenue growth at much lower than current rates.

CIT tax expenditures

The structure of corporate income tax makes the measurement of the associated foregone tax revenues complex. The potential sources of relief from CIT include the following:

- Non-accounting adjustments with the purpose of recognising measurement differences between accounting and tax rules. Those adjustments affect the size of the tax base and, by extension, the amount of tax borne.
- Tax relief with respect to the tax base such as reserves for investments.
- Reduced CIT rates for certain types of companies, including SMEs, open-ended mutual funds (SICAVs) and real estate investment funds (REITs or SOCIMIs in Spanish).

> “ The tax relief generated by CIT allowances and credit totalled 2.1 billion euros in 2017. ”

- Allowances in respect of tax payable legislated for differing socio-economic reasons: income earned in Ceuta and Melilla; the profits of ‘specially-protected cooperatives’, income from home rentals; and, the profits obtained from the provision of local services.

- Deductions for certain kinds of investments (including investments in R&D, technological innovation, film production and the purchase of fixed assets) and job creation.

It is not possible to arrive at an overall estimate of those tax benefits without access to government corporate income tax records. Unfortunately, unlike in the case of PIT, sample microdata from the CIT returns is not publicly available. We only have access to the aggregate information included in the CIT statistics published by the tax authority each year. Moreover, for the purposes of measuring the extent of CIT relief, those statistics only contain the revenue cost of the credits awarded for qualifying investments and job creation. In other words, the aggregate data available can only be used to compute a small part of all existing CIT expenditures, making it impossible to estimate the tax relief applied to the tax base and that deriving from the existence of reduced rates. Based on those statistics, the amount of relief generated by the credit existing in 2017 was 250.5 million euros. 57.4% of that relief corresponds to the credit awarded for profits obtained from the provision of local services. Meanwhile, the relief generated by credit for qualifying investments and employment in 2017 amounted to 1.82 billion euros. 59.7% of that sum derived from activities related with investments in R&D, innovation and job creation. In sum, the tax relief generated by CIT allowances and credit totalled 2.1 billion euros in 2017.

Notes

[1] That allowance is regulated in Article 20 of Spain’s PIT Act. Specifically, in 2019, the amounts awarded in respect of this additional allowance are as follows:

Amount of the additional personal allowance in respect of earned income in 2019	
Positive net income	Amount of the allowance
13,115 euros or less	5,565 euros
Between 13,115 and 16,825 euros	5,565 - [1.5x (net earned income - 13,115)]

[2] The allowance, despite its high costs in terms of efficiency by increasing the marginal rates borne by moderate earners, has been the subject of systematic increases over time. By way of comparison, in 2017 this allowance was significantly lower:

Amount of the additional personal allowance in respect of earned income in 2017	
Positive net income	Amount of the allowance
11,250 euros or less	3,700 euros
Between 11,250 and 14,450 euros	3,700 - [1.15625 x (net earned income - 11,250)]

[3] Exhibit 1 assumes that the regional governments replicate the state rate structure at the regional level. However, because the regional governments have legislative powers that enable them to design their own rates, the range of marginal rates generated by this allowance varies depending on the region in which the taxpayer resides, from 57% to 61%. Refer to Table A.3 of the appendix.

[4] If we assume that the standard pension plan in 2017 is capable of generating an average annual return equal to the cumulative return on Spanish pension plans between 2003 and 2018, which according to the *Inverco Watch* amounted to 2.11%, then, considering that the annual contributor is aged 50, implying 17 years until retirement, the 5.2 billion euros contributed to pension plans in 2017 will become a little over 7.41 billion euros of earned income down the line. Those earnings will generate deferred tax revenue of around 2.22 billion euros, whose present value discounted back to 2017 is 1.56 billion euros.

[5] It is also debatable whether some of the other forms of tax benefits discussed so far are in fact tax relief. For example, the allowance for joint marital returns could be seen as a tool designed to align the taxpayers' tax burden with the households' means. Others such as double taxation deductions are questionable as tax relief as they are articulated to correct a technical issue.

[6] Although these items continue to be referred to as personal and household allowances, the term allowance is actually a misnomer. These amounts have actually been structured as reductions in the PIT liability (credit) since 2017.

[7] Specifically, the super-reduced rate of 4% is levied on many food staples (bread, milk, eggs, fresh produce), medicines, books and prostheses. The reduced rate of 10% applies to all other food products (including meat and fish), public transport, new housing, hospitality and food services, water services and cultural services, among others.

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APPENDIX

Table A1 **Revenue cost of the main PIT-related tax expenditures**

2017*

Tax expenditure	Amount (millions of euros)	Revenue cost (millions of euros)	Number of beneficiaries	Savings per capita per beneficiary (euros)
Earned income				
Union dues	247	74	1,863,327	39.85
Professional association dues	159	53	634,235	83.34
Standard allowance of 2,000 euros	35,673	9,315	18,087,240	514.99
Additional earned income allowances	17,441	3,420	6,046,763	565.53
Total		*12,862*		
Differential tax treatment for savings and property income				
Different tax rate	30,344	5,587	11,489,711	486.23
60% rental income allowance	4,033	1,234	1,724,945	715.24
Total		*6,821*		
Joint returns				
Allowance for joint returns (two-parent + single-parent)	11,299	2,981	3,598,470	828.4
Total		*2,981*		
Contributions to pension/savings schemes				
Corporate pension plans	1,007	386	589,333	654.84
Individual pension plans	4,060	1,378	2,243,104	614.33
Individual pension plans - spouse	87	29	61,470	465.67
Individual pension plans - disability	31	11	11,342	949.3
Individual pension plans - sports professionals	11	5	893	5,476.13
Total		*1,809/250©*		
Credit against tax liability				
General deductions from tax payable - state tranche				
Deduction for investment in regular abode (a)	1,262	1,262	3,935,718	320.6
Deduction for start-ups (b)	6	6	2,170	2,581.51
Deduction for donations	263	263	3,569,671	73.64
Deduction for business incentives	9	9	8,522	1,021.00
Deduction for rent of regular abode (a)	94	94	458,256	205.34
Total		*1,633*		
General deductions from tax payable - regional tranche				
Deduction for investment in regular abode (a)	1,281	1,281	3,935,490	325.57
Deduction for donations	263	263	3,569,668	73.64
Deduction for business incentives	9	9	8,522	1,020.99
Deduction for rent of regular abode (a)	94	94	458,256	205.34
Total		*1,647*		

Table A1 **Revenue cost of the main PIT-related tax expenditures**

2017*

Continued

Tax expenditure	Amount (millions of euros)	Revenue cost (millions of euros)	Number of beneficiaries	Savings per capita per beneficiary (euros)
Regional deductions				
Regional deductions	385	385	1,680,907	229.1
Total		*385*		
Credit against tax payable after allowances and withholdings				
Deductions from tax payable after allowances				
Double international taxation deduction	292	292	56,780	5,135.23
International tax transparency deduction	1	1	812	1,584.31
Total		*293*		
Deductions from tax payable after allowances and withholdings				
Deduction for maternity	768	768	852,617	900.73
Deduction for offspring with disability	313	313	300,503	1,041.15
Deduction for ancestors with disability in taxpayer care	40	40	35,270	1,134.77
Deduction for > 3 children	659	659	662,976	994.63
Total		*1,780*		

** Per beneficiary should be understood as the number of returns with access to the corresponding tax benefit.*

© 1,809 million euros correspond to the upfront cost of the deductibility of the contributions made during the year under analysis. However, when the taxes paid on the benefits received are factored in, the effective cost of the pension schemes decreases very significantly to 250 million euros.

a.- Transitional regime.

b.- Applies to the state tranche only.

Source: Authors' own elaboration based on the IRPF regulations for 2017, simulation programmed in Stata 16.1.

Table A2

Revenue cost of minimum personal and household allowances in respect of PIT

2017*

Allowance	Amount (millions of euros)	Revenue cost (millions of euros)	No. of returns eligible	Savings per capita per beneficiary
Taxpayer min. allowance				
State tranche	119,217	11,326	19,913,115	568.75
Regional tranche	119,283	12,083	19,913,115	606.78
Total		*23,409*		
Min. allowance for offspring				
State tranche	23,966	2,282	7,745,728	294.6
Regional tranche	24,006	2,440	7,745,728	315.06
Total		*4,722*		
Min. allowance for ancestors				
State tranche	261	25	122,698	202.26
Regional tranche	261	26	122,698	211.88
Total		*51*		
Min. allowance for disability				
State tranche	12,667	1,218	2,133,374	570.93
Regional tranche	12,688	1,306	2,133,374	611.97
Total		*2,524*		
Min. allowances accumulated in standard base				
Standard tax base - state tranche	122,266	11,697	18,437,010	634.41
Standard tax base base - regional tranche	122,342	12,481	18,437,010	676.93
Total		*24,178*		
Min. allowances accumulated in savings base				
Savings tax base - state tranche	1,811	174	3,272,394	53.04
Savings tax base - regional tranche	1,815	174	3,274,314	53.13
Total		*348*		

** The effective revenue cost of application of the minimum allowances is 24.53 billion euros (24.18 + 0.35).*

Source: Authors' own elaboration based on the IRPF regulations for 2017, simulation programmed in Stata 16.1.

Table A3

Increase in marginal tax burden triggered by the phase-out of the earned income allowance - earners with income of between 13,115 euros and 16,825 euros

By region

Region	Marginal rate without allowance	Marginal rate with allowance	Increase in marginal tax burden (points)
Andalusia	0.240	0.60	36.00
Aragon	0.245	0.61	36.75
Asturias	0.240	0.60	36.00
Balearic Islands	0.2375	0.59	35.63
Canary Islands	0.235	0.59	35.25
Cantabria	0.240	0.60	36.00
Castile-Leon	0.240	0.60	36.00
Castile-La Mancha	0.240	0.60	36.00
Catalonia	0.240	0.60	36.00
Valencia	0.230	0.57	34.50
Extremadura	0.245	0.61	36.75
Galicia	0.2375	0.59	35.63
Madrid	0.2320	0.58	34.80
Murcia	0.2424	0.61	36.36
La Rioja	0.236	0.59	35.40

Source: Authors' own elaboration based on the IRPF regulations for 2017, simulation programmed in Stata 16.1.

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Taxing the digital economy: Is the DST the right solution?

Given the lack of progress on an EU-wide proposal, increasing digitalization of commerce has prompted several Member States to adopt their own Digital Services Tax (DST). Going forward, should agreement be reached at the international level, this would help address some of the unique structural and design challenges associated with DSTs, enhancing the overall efficacy of the tax.

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Abstract: The emergence of digital business models and the differing definitions of taxable presence adopted by countries has led to the significant erosion of tax bases and profit shifting (BEPS) from high-tax countries to low-tax jurisdictions. Although the EU Commission's proposal represents the most advanced and structured attempt to incorporate the concept of a virtual permanent establishment (PE) into the international income tax legal framework, resistance from some Member States has placed it on hold. Consequently, some Member States, including Spain, have introduced their own Digital Services Tax (DST). While implementation issues may be common to many taxes, there are unique structural and design challenges inherent to the DST. In terms of the former, there are issues relating to under which circumstances the DST applies, who would bear the burden of the levy, and the characterization of the equalization tax. The design issues focus on the taxable base, the scope, the rate, and the enforcement of the tax. In light of

> To address the growing importance of the digital economy and its related tax challenges, most OECD countries have developed responses in an attempt to preserve or re-establish their taxing power.

these challenges, an international approach would ultimately be better suited to achieve a multilateral and long-term solution to the international tax issues raised by the digital economy.

Introduction

In recent years, new digital business models have emerged, which have made many of the traditional criteria for identifying a taxable presence in a certain jurisdiction – *i.e.,* residence and permanent establishment (PE) – outdated, as they imply a physical connection to the country. With this in mind, several multinational enterprises (MNEs) have designed their supply chains in such a way that limits their taxable presence in high-tax countries (Allevato, 2019). Relatedly, certain jurisdictions have enacted and granted MNEs extremely favorable tax treatments – especially through advance rulings (Allevato, 2018).

All of this has resulted in the significant erosion of tax bases and profit shifting (BEPS) from high-tax countries (*i.e.,* the source and market countries of most of the digital businesses) to low-tax jurisdictions (OECD, 2013). To address the growing importance of the digital economy and its related tax challenges, most OECD countries have developed responses in an attempt to preserve or re-establish their taxing power.

In particular, over the last decade, the tax policy-making discussion, at both the domestic and international level, has revolved around two main sets of countermeasures, which, in principle, contradict each other. On the one hand, there is the attempt to restructure the existing international corporate income tax legal framework, and on the other hand, there has been the development of a completely new international tax legal framework to tax the digital economy.

The first option would implement substantial adjustments to the existing corporate income tax framework. Such adjustments would enable source countries to exercise their taxing powers over multinational companies that have a significant market presence within their territory. Such changes would re-align the taxable presence to the market presence, without ring-fencing multinational digital firms from other traditional businesses. To achieve the realignment of taxable and market presence, some scholars have advocated the continued use of the corporate income tax with the introduction of a new concept of virtual PE, which would apply whenever there exists a significant digital presence in the source country.

Prominent scholars advanced the proposal for a virtual PE to solve the BEPS issue (see Collin and Colin, 2013). In 2018, the OECD also discussed it in its Interim Report (OECD, 2018) and, most importantly, since then it has been the subject of the EU Commission's directive proposal (European Commission,

> Multilateral proposals maintain that source countries should be entitled to tax cross-border business income anytime a foreign enterprise has a significant digital presence within their territory.

2018b). All these proposals maintain that source countries should be entitled to tax cross-border business income anytime a foreign enterprise has a significant digital presence within their territory. [1] By now, the EU Commission's proposal represents the most advanced and structured attempt to incorporate the concept of a virtual PE into the international income tax legal framework. [2]

However, this proposal encounters two feasibility problems. First, the introduction of the virtual PE requires unanimous consensus to be effective, at least among all the jurisdictions that are part of a certain economic and geographical region, which, in the case of the EU Commission's directive proposal, includes all EU member countries. Otherwise, the effectiveness of the virtual PE would vanish or be weakened, similar to the amendments to the treaty concept of PE in the Multilateral Instrument (MLI), [3] which are currently impaired by the fact that certain key-jurisdictions, such as the United States, have not signed it or made reservations on certain measures. Second, the significant digital presence threshold would not apply to European-sourced income derived by corporations that are resident of an extra-EU country with which the EU source country has entered into a Double Tax Treaty (DTT). In such cases, the traditional PE threshold would continue to apply.

Implementing a new tax paradigm

Although the adoption of the virtual PE can theoretically represent a technically appropriate systematic solution to the BEPS issue, its practical implementation could actually prove ineffective and extremely time consuming to adopt. The question thus revolves around what can be done in the meantime. An increasing number of scholars, policy makers, and governments have considered implementing new types of taxes, which would enable source/market countries to collect tax revenues based on where the users of the digital firms are located (Kofler, Mayr and Schlager, 2017). On this subject, the public debate has reached an advanced stage, with some countries having already adopted their own new taxes. Among these new levies, the so-called "Digital Services Tax" has currently gained most of the attention of policy-makers and governments. While implementation issues may often accompany the introduction of many new taxes, there are specific challenges inherent to the implementation of a DST. Therefore, the next paragraphs will be dedicated to the main features and challenges related to the implementation of such a levy.

The Digital Services Tax

The Digital Services Tax (DST) belongs to the category of taxes defined as "equalization levies", since, as stated by the OECD in the BEPS Action 1's Final Report, this levy represents a type of excise tax on digital transactions aimed at compensating for the "lost" profit taxes whose effectiveness is impaired by the development of new business models (see Collin and Colin, 2013). The ultimate policy aim of the DST is to tax large non-resident taxpayers, which have a significant economic and market presence in a source/market country but do not meet the PE threshold.

India was the first country that unilaterally adopted and concretely implemented the DST. Such a levy, which corresponds to a 6% tax rate applicable to revenues from digital transactions, is a withholding tax on payments to foreign companies for online advertising services provided to Indian businesses, or to PEs of other non-resident enterprises. [4] Being a withholding tax, it poses a significant compliance burden on the Indian client, although the actual taxpayer is the non-

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resident advertiser. The significant economic presence threshold for the application of the equalization tax is met if the annual aggregated value of the payments exceeds USD 15,000.

In March 2018, the EU Commission released a directive proposal for an EU-wide DTS (European Commission, 2018a) along with the already-mentioned directive proposal for the adoption of a significant digital presence concept. Both proposals are part of a plan drawn up by EU institutions to cope with the tax challenges associated with the digital economy.

According to the EU Commission's proposal, the DST will apply to gross revenue, net of value added tax arising from the provision within the EU territory for the following categories of digital services:

- Placing a digital interface of advertising targeted at users of that interface;
- Making a multi-sided digital interface available to users, which allows them to find other users to interact with, and which may also facilitate the provision of underlying supplies of goods or services directly between users; and,
- Transmitting data collected about users and generated from users' activities on digital interfaces.

The common feature of these services is the strong reliance on user participation and data obtained from users.

Due to the mounting opposition from Ireland and the Nordic Member States in the ECOFIN meeting of May 2019, the project for the implementation of an EU-wide DST is currently on hold and, most likely, will not be concluded anytime soon. [5] Hence, the scenario is fragmented with some Member States unilaterally going ahead and introducing their own DST, while others have refused any action at all. As of October 2020, Austria, France, Hungary, Italy, Poland, and Spain [6] have adopted a DST, while Belgium, the Czech Republic, and Slovakia have published proposals for the enactment of a DST (Asen, 2020). Although most of these implemented or proposed DSTs substantially attempt to mirror the EU Commission proposal, they differ significantly in their structure.

In the following paragraphs, several structural and design characteristics of Member States' DSTs will be discussed, with a particular focus on the Spanish DST.

Structural issues

The first structural characteristic concerns the circumstances under which a DST applies, namely only to digital service transactions. This contravenes the economic concept of tax neutrality [7] and would thus ring fence the digital economy industry. This may end up unduly favoring firms operating in other industries, *i.e.,* those whose core business does not fall under the umbrella of the digital economy. Indeed, as some scholars rightly argue, nowadays, even traditional businesses rely on intangible assets, data collection, and digital platforms to offer their products and services remotely. It is therefore unclear why only fully-fledged digital businesses' transactions should be tax liable (see Olbert and Spengel, 2019).

An additional element which may influence the effectiveness of equalization levies is

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whether the burden of such a levy would ultimately be borne by the service provider or by other weaker players. Indeed, the fact that large businesses will be legally subject to the tax does not necessarily imply that such a tax will ultimately be borne by them or by their shareholders. There is plenty of evidence showing that businesses with strong market power – which is the case for the large MNEs targeted by the DST – are able to pass on the tax burden to consumers. [8] Some authors have even warned that part of the tax burden can be borne by suppliers (Dyreng *et al.,* 2019) or employees (Fuest, Peichl and Siegloch, 2017). Making the DST deductible from the corporate income tax would help avoid such risks.

Finally, the general concern among scholars is the characterization of the equalization tax. Although the aim is to re-establish source countries' taxing power over business income generated within their territories and compensate for corporate income tax revenue losses, there is a consensus that this would not qualify as an income tax because the taxable base is derived from gross revenues rather than profits. Also, the Spanish DST is expressly characterized by law as an indirect tax, which places the equalization tax outside of the scope of the existing tax treaties. From a policy perspective, the advantage would be that the application of such a tax would not be in violation of the DTTs (*i.e.,* Article 7 or Article 5 of DTTs). The disadvantage would be that countries of residence of multinationals would not have a duty to grant relief (*i.e.,* tax credit or a deduction) for the equalization tax paid in the source countries. This would constitute a serious double taxation issue if the equalization taxes were to be levied on tax-payers resident in high-tax countries. [9]

Design issues

The main design questions concerning the DST center on the determination of the taxable base, the scope, the rate, and the enforcement of the tax (see Kofler, Mayr and Schlager, 2017).

The first design issue is constituted by the fact that, since the DST applies to gross revenues, loss-making businesses would in principle also be subject to the payment of the tax. However, if loss-making businesses were tax liable without any relief (*e.g.,* tax losses carryforward or tax losses carryback), this could distort investments (Bethmann, Jacob and Müller, 2018), put start-up firms at a disadvantage, discourage entrepreneurship (Cullen and Gordon, 2007), and even create additional profit shifting incentives (De Simone, Klassen and Seidman, 2017). According to proponents of the DST, the only cost which should be deductible from its taxable base is the VAT. As such, no other business expenses would be tax deductible from gross revenues. Such a feature may trigger cascade effects from the DTS not just on intra-group transactions (unless such transactions were excluded from

> “Narrowing the scope of the application of an equalization levy to the revenues arising from cross-border digital transactions would likely raise WTO law and EU law issues because of the discriminatory nature of such a choice.”

the DST, as most governments and policy makers advocate), but also on transactions between independent platforms (Di Tanno and Marchetti, 2019). Therefore, appropriate mechanisms should be introduced to prevent such risks.

As far as the scope of the DST is concerned, an issue that has been extensively discussed is whether such a tax should apply only to cross-border transactions or whether it should also apply to purely domestic transactions. As argued so far, it is clear that the ultimate target of such a tax should be to tax cross-border digital transactions due to the misalignment between the market presence and the taxable presence of MNEs in the source countries. However, narrowing the scope of the application of an equalization levy to the revenues arising from cross-border digital transactions would likely raise WTO law and EU law issues because of the discriminatory nature of such a choice (see Kofler, Mayr and Schlager, 2017). This is the reason why both the EU and most Member States which have recently adopted a DST – including Spain – have opted to extend the scope of application to purely domestic transactions.

Other sensitive aspects entail the definition of "digital transactions" and the criteria to determine the threshold for the application of the tax, *i.e.* the significant economic presence. One of the biggest problems arising from the fragmentation of the various EU Member States' unilateral initiatives after the failure to approve the EU Commission-proposed EU-wide DST is the fact that each country made different choices in regard to the definition of digital transactions falling within the scope of application of their DST. Some of them – like Italy and Spain [10] – tried to strictly mirror the scope as defined in the Commission's proposals. Others, deviated significantly. [11]

Furthermore, most policymakers claim that the DST should be paid only in regard to services rendered by businesses that have a significant economic presence. For example, in its proposal for the implementation of a EU-wide DST, the EU Commission has established that the tax is due only by those businesses which, in a given fiscal year, have reached at least 750 million euros of total annual worldwide revenues and 50 million euros of annual intra EU revenues arising from digital transactions. Most of the EU Member States which have so far unilaterally introduced the DST have adopted the same revenue thresholds as the EU Commission's proposal (although they have adapted the internal market threshold to the size of their domestic market). In particular, the Spanish DST will apply to service providers featuring more than 750 million of total annual worldwide revenue and 3 million euros of total annual revenue arising from digital activities in Spain. Special rules for corporate groups are also set forth.

In order to determine whether an entity surpasses the thresholds, the entire group turnover will be considered. If such turnover meets the two thresholds, any entity belonging to the group will qualify as a potential taxpayer. While such thresholds provide firms with certainty about the applicability of the DST, they could also provide firms with incentives to report or manipulate revenues by keeping revenues just below the thresholds triggering the tax. This opportunistic behavior (*i.e.,* so-called "bunching") would not be surprising – since firms respond to incentives – as has been extensively documented in the prior literature (see Almunia and Lopez-Rodriguez, 2018). Such threshold issues are exacerbated when MNEs, which by definition operate in multiple jurisdictions, report their financial information using different accounting standards (Balakrishnan *et al.,* 2019).

" The Spanish DST will apply to service providers featuring more than 750 million euros of total annual worldwide revenue and 3 million euros of total annual revenue arising from digital activities in Spain. "

“ Placing the compliance burden directly on the service provider would provide relief to clients but it could also prove extremely complex and require significant monitoring activities. ”

As for the tax rate, there is the risk that countries may start competing with each other by setting lower tax rates. Indeed, prior experience with the corporate income tax have shown that countries compete with each other over mobile tax bases by setting lower tax rates (Devereux and Loretz, 2013). It therefore follows that countries could even engage in tax competition over the equalization tax, and this would raise tax arbitrage and base erosion issues. Such problems have already materialized, with Poland setting its rate at 1.5% compared with France, Italy, and Spain who set their DST rate at 3%, Austria and the Czech Republic who adopted a 5% tax rate, and Hungary's 7.5% rate (see Asen, 2020).

With respect to the enforcement of the DST, there is the question of whether countries adopting this levy should rely on the client of the digital services to act as a withholding agent, similar to the Indian equalization tax, or whether the compliance burden should be placed on the service provider. Choosing one option over the other is particularly relevant for cross-border transactions. With the withholding mechanism, the source country would collect the tax, which is in line with the policy rationale of the equalization levy. However, this solution would impose a compliance burden on the client of the digital services, which could be particularly burdensome for business-to-customer transactions. Conversely, placing the compliance burden directly on the service provider would provide relief to clients but it could also prove extremely complex and require significant monitoring activities. This latter policy option has been chosen by the EU Commission and by all of those Member States that have unilaterally introduced a DST, including Spain, whose DST would require service providers to file periodic returns for the computation of the required tax amount, and would also impose on providers not established in Spain the appointment of a tax representative.

Either way, since the policy rationale of the equalization tax is to re-establish the taxing power of the source countries over digital transactions, the application of an equalization tax will always require setting forth clear rules to determine where an online service takes place. This is not an easy task at all for policy makers, since various rules may be available and choosing between them may lead to extremely different consequences and results. [12] And different countries may choose different rules and criteria, therefore creating room for international tax fragmentation and thus excessive compliance burden or tax arbitrage.

Finally, there are inconsistencies among countries about whether the DST should follow cash or accrual accounting to identify when the tax is due. Choosing one option over the other may have significant practical implications.

As far as the Spanish DST is concerned, digital services falling within the scope of its application are deemed to be connected to the Spanish territory, and thus taxable, when their users are located in Spain. Importantly, specific rules have been developed for each type of digital service. These rules are centred on the place where the electronic devices of the users have been utilized, which is determined by means of their internet protocol address (IP) or other means such as the devices' geolocation. [13]

It is also worth noting that, according to the relevant Spanish law and its Explanatory Memorandum, the DST will be triggered when the user is deemed to be located within the Spanish territory at the time of the digital

interaction, regardless of whether a monetary payment takes place. [14]

Final remarks

The aforementioned paragraphs have illustrated how, in deciding whether and how to implement a DST, a government should take many structural and design questions into consideration. The response to such policy challenges is multifaceted, and its implementation and implications are difficult to plan and estimate due to the borderless nature of the digital economy's businesses.

Such complexity and uncertainty is exacerbated if, instead of proceeding in a multilaterally coordinated way, countries belonging to the same market region end up resorting to unilateral measures, as is the current trend.

The EU Commission argues "divergent national approaches within the EU can fragment the Single Market, increase tax uncertainty, destabilize the level playing field and open new loopholes for tax abuse." (European Commission, 2017) In this regard, longstanding literature on tax competition dating back to the seminal works of Wilson (1986) and of Zodrow and Mieszkowski (1986), along with the policy recommendations of the EU and the OECD against "harmful tax competition" (*i.e.,* the so-called "race to the bottom"), shows that countries strategically compete over mobile tax bases (European Commission, 1997), and this eventually raises tax arbitrage and base erosion issues.

Given the aforementioned challenges, an international approach would be preferable to achieve a multilateral and long-term solution to the international tax issues raised by the digital economy.

In particular, the international community – specifically, the OECD and the G20, which have established the OECD/G20 Inclusive Framework on the Base Erosion and Profit Shifting project (BEPS) – agreed on a Programme of Work leading to the enactment of substantial adjustments to the current international tax legal framework, aimed at resolving the tax challenges arising from the digitalization of the economy (OECD, 2019). The Programme of Work is based on two pillars:

- The revision of the profit allocation and rules, in order to achieve an apportionment of taxing powers between the jurisdictions involved by the MNEs' businesses which could be deemed to be more consistent with the actual digital and economic presence and the value creation (Pillar 1).

- The design of a system aimed at ensuring that MNEs – in the digital economy and beyond – pay a minimum level of tax (Pillar 2).

For both Pillars, the OECD has released consultation documents advancing technical solutions, [15] which require coordinated changes to domestic law and tax treaties. This Programme of Work returns to the idea of cooperative multilateral actions aimed at revitalizing the effectiveness of the corporate income tax and the achievement of its revenue-raising, redistributive and regulatory purposes on a global scale, rather than shifting to a new international tax paradigm and framework based on new taxes. On October 12th, 2020, two reports on the state of the discussion on the implementation of Pillar 1 and Pillar 2 (so-called "Blueprints") have been released, and the Inclusive Framework on BEPS now aims at reaching political agreement by mid-2021. [16] This aim has been confirmed also during the G20 meeting of November 22, 2020. [17] This makes it worth postponing, where it is still possible, the implementation of the DST.

Notes

[1] For an in-depth analysis of the EU Proposal for the introduction of the "significant digital presence" concept, please see Escribano (2018).

[2] Specifically, a foreign enterprise should be deemed to have a "significant digital presence" in the source country anytime it: (i) generates over €7 million annual revenues from digital services; or, (ii) has more than 100,000 users accessing their digital services; or, (iii) concludes over 3,000 business contracts for digital services in the member country.

[3] Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, available at https://www.oecd.org/tax/treaties/multilateral-convention-to-implement-tax-treaty-related-measures-to-prevent-beps.htm

[4] This tax was introduced in 2016. For more details, please see Wagh (2016).

[5] 'Nordic countries oppose EU plans for digital tax on firms' turnover', Reuters, 1 June 2018, available at https://www.reuters.com/article/us-eu-digital-tax/nordic-countries-oppose-eu-plans-for-digital-tax-on-firms-turnover-idUSKCN1IW337

[6] Spain's DST has been introduced by means of Law No. 4/2020, approved by the Spanish Congress and Senate, and published in the *Spanish Official Gazzette* on October 16th, 2020. The DST will apply from January 16th, 2021.

[7] A central theme in the design of corporate tax systems is the neutrality of taxes with respect to investment decisions (*e.g.,* tangible and intangible assets). See, Sandmo (1974) and Auerbach, Devereux and Simpson (2008).

[8] As Fullerton and Metcalf write "the standard assumption about the corporate income tax that the burden falls 100% on capital is commonly believed to be false." (Fullerton and Metcalf, 2002).

[9] The OECD has suggested that the levy be structured "to apply only to situations in which the income would otherwise be untaxed or subject only to a very low rate of tax". However, the OECD does not provide detail as to how such an alignment between the corporate income tax and the equalization tax should be concretely achieved. See OECD (2018) 115 and 364.

[10] According to the legislation ultimately approved by the Senate, Spain's DST, like the proposed EU-wide DST, should apply to: *a)* Online advertising services targeted at users; *b)* Online intermediary services; and, *c)* Data transmission services. Furthermore, most of the digital transaction excluded from Spain's DST would coincide with those situations noted in the EU's proposed directive.

[11] For example, the Austrian and the Hungarian taxes target exclusively online advertising transactions. See Asen (2020).

[12] For example, in cases of transactions leading to data transfer, the Spanish draft law set forth a legal presumption that the location of any digital device corresponds to the IP address.

[13] More specifically, in the case of targeted advertisement, the amount of times the add appears on the device of users located in Spain during the relevant tax period will be taken into account. Regarding the intermediary services, the connection to the Spanish territory shall be assessed based on the number of users involved in such operations during the tax period, using a device in Spain. As to the transmission of users' data, the allocation of taxable revenues to Spain will correspond to the number of users located in Spain who are involved in the generation of the data transmitted during the tax period in question. See Explanatory Memorandum, Section VI.

[14] Explanatory Memorandum, Section VII.

[15] "OECD invites public input on the Secretariat Proposal for a "Unified Approach" under Pillar One", available at https://www.oecd.org/tax/oecd-invites-public-input-on-the-secretariat-proposal-for-a-unified-approach-under-pillar-one.htm; "OECD secretariat invites public input on the Global Anti-Base Erosion (GloBE) Proposal under Pillar Two", available at https://www.oecd.org/tax/oecd-secretariat-invites-public-input-on-the-global-anti-base-erosion-proposal-pillar-two.htm

[16] *OECD/G20 Inclusive Framework on BEPS invites public input on the Reports on Pillar One and Pillar Two Blueprints,* available at https://www.oecd.org/tax/beps/oecd-g20-inclusive-framework-on-beps-invites-public-input-on-the-reports-on-pillar-one-and-pillar-two-blueprints.htm.

[17] G20 Summit: G20 leaders united to address major global pandemic and economic challenges, 22 November 2020, available at https://www.consilium.europa.eu/en/press/press-releases/2020/11/22/g20-summit-g20-leaders-united-to-address-major-global-pandemic-and-economic-challenges/

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Consolidation in the EU banking sector: Scope and timing

After several years of limited consolidation across the European banking sector, the announced merger between CaixaBank and Bankia has bolstered expectations of renewed M&A activity. This expectation is further supported by the existence of surplus capacity, digitalisation trends, and the economic consequences of COVID-19 for banks.

Santiago Carbó Valverde and Francisco Rodríguez Fernández

Abstract: The merger between CaixaBank and Bankia has sparked commentary surrounding the possibility of a new wave of consolidation across the European banking sector. In recent years, M&A activity had been muted compared with the period directly following the financial crisis. Specifically, there were 385 deals between 2009 and 2012, compared to 236 between 2016 and 2019. In Spain, the number of deposit-taking entities has declined by 31.4% (from 280 to 192) since 2007. Notably, evidence shows that there is still surplus capacity in the banking sector, thereby justifying additional consolidation. The changing nature of financial services, as well as the entrance of both Big Tech and larger fintech firms, has confirmed the benefits associated with scale such as data processing, multi-channel services, and digitalisation. Moreover, the economic consequences of COVID-19 have further depressed interest rates, necessitating a defensive cost-cutting strategy among Europe's banks. Nevertheless, it is important to underline that consolidation is just one of the strategies banks can pursue to boost their profitability and market value.

> “The EU banking sector suffered from surplus capacity which, combined with the funding difficulties in the wholesale banking market and general restructuring processes underway, reduced the number of larger-than-average entities.”

Introduction: Mergers as a strategic response and other challenges facing the EU banking sector

The waves of consolidation in the EU banking sector have been driven by different factors and taken place with varying intensity since the financial crisis. Initially, many banks across Europe absorbed other entities whose viability had become compromised. At the same time, the banking sector suffered from surplus capacity which, combined with the funding difficulties in the wholesale banking market and general restructuring processes underway (branch and employee downsizing), reduced the number of larger-than-average entities. Efficiency gains have also encouraged consolidation as part of the gradual transition of banking services to a multi-channel digital environment. The new business paradigm has once again evidenced the virtues of economies of scale in the sector, prompting the banks to seek size via organic and M&A-led growth.

There are certain paradoxes associated with this ‘size-friendly’ environment. Despite a high number of merger discussions among European financial institutions in recent years, many never actually occurred. One explanation for this is the scarcity of “windows of opportunity” in the markets. The banks’ share prices have been subject to swings that have only accelerated in the past year. In a short period of time, the outlook has shifted from one of rate tightening and curve normalisation to a situation of renewed monetary easing and prolonged low rates to combat the economic ramifications of COVID-19.

Perhaps conscious of that mismatch between consolidation expectations and opportunities, on July 1st, 2020, the European Central Bank issued a note in which it announced “supervisory tools to facilitate sustainable consolidation projects”. Concretely, the ECB alluded to two top-priority issues:

- It signalled that capital requirements would not hinder sustainable integration plans. Specifically, the ECB would not penalise credible plans and would be open to temporary favourable capital treatments in order to speed up viable mergers.

- It also announced that the negative goodwill, or badwill, which arises when assets are acquired for less than their carrying amount will be taken into account and “preferably used to increase resistance”. This was perhaps the most important and commented on measure announced in recent months in terms of facilitating mergers involving businesses that may have sustained losses in an adverse economic climate (*e.g.*, a pandemic). Indeed, the ECB signalled that “Consolidation may help euro area banks achieve economies of scale, become more efficient and improve their capacity to face new challenges.... and is important for increasing the resilience of banks and their

> “Banking is an intermediation service market and digitalisation is dictating a transition from vertical relationships to articulation around platforms.”

capacity to service the economy, including in the context of the coronavirus (COVID-19) pandemic."

The recently announced merger between CaixaBank and Bankia in Spain has injected new energy into the debate about the possibility of a fresh wave of mergers in the European banking sector. In Spain, the bank restructuring process has been particularly intense (having started with a considerably denser branch network relative to the European average), sparking the expectation that more deals may lie in store. That being said, mergers should not be viewed in the same manner as 20 years ago. The way the banks compete, the size and shape of the market, the way prices are formed and the manner in which the inputs are collected and their prioritisation (data being the most important input today) have all changed. Banking is an intermediation service market and digitalisation is dictating a transition from vertical relationships (the banks sell and the consumers pay a price) to articulation around platforms (multiple services and bundled prices). That is extraordinarily relevant with or without mergers. What we are observing in other services that operate around platforms (technology-based services, for example) is that scale is fundamental.

The banking sector is in the process of transitioning to a multi-platform business model. It is harder for the banks to concentrate the banking business in their conventional intermediation activity (taking short-term funds and making long-term loans) with rates low and curves flat (difference between long-term and short-term rates). Although other fee- and commission-generating services are gaining importance, competition for those fees has been fierce. Furthermore, consumers believe they are entitled to receive many services at low or zero cost, a notion that is proving hard to shake. With rates so low, the ability to generate income is shifting to the platforms and new ways of providing financing and capturing savings, underpinned by new risk measurement techniques based on big data. However, only big banks can generate the necessary big data, providing a new rationale for the emphasis on scale.

The changing nature of the marketplace, accelerate by COVID-19, is yet another challenge faced by the banking sector. In particular, proximity matters much less than previously. Consumers can access online financial services offered by numerous providers and the market for many products is no longer as regional. Competition in retail banking is intense and increasingly concentrated in intangible, non-branch channels. For these reasons, market concentration does not necessarily lead to monopolistic power. Several examples in the industrial economy have demonstrated that there can be more competition among a few concentrated rivals than between dozens of players that carve up businesses or markets or collude on prices. On the matter of distance, the geographic rationale for mergers is debatable as cross-border mergers remain few and far between due to the tendency to protect national champions. The banks themselves have also exhibited a reduced appetite for cross-border deals. This suggests that the financial crisis and Banking Union initiative have not sparked the integration needed in terms of mergers and acquisitions. It looks as if each country will have to have national players with a sufficient presence in each service market in order to compete across open platform markets. Indeed, where we are seeing the European banks increasingly cooperating is on the creation of common payment platforms in an attempt to compete with incumbents such as Visa or MasterCard.

"Where we are seeing the European banks increasingly cooperating is on the creation of common payment platforms in an attempt to compete with incumbents such as Visa or MasterCard."

> “Since 2007, the number of Spanish deposit-taking entities has declined by 31.4% (from 280 to 192).”

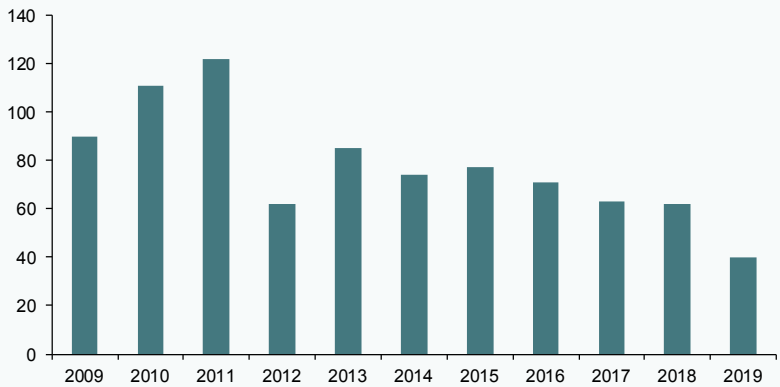
Bank size indicators in the EU and limits on cross-border transactions

As shown in Exhibit 1, despite the expected uptick in mergers and acquisitions in the European banking sector, the reality is that the number of transactions completed in recent years has been considerably lower than the volumes observed in the years following the financial crisis. Between 2009 and 2012, 385 deals closed, falling to 236 between 2016 and 2019, with momentum waning as the expectations of a recession became stronger.

Uncertainty has intensified in 2020 with the onset of COVID-19. The pandemic is bound to have an adverse impact on the banks' financial statements, mainly via increased non-performance. Whether or not that will trigger an episode of financial instability similar to 2008 remains to be seen. The Spanish and European banks are better capitalised and their asset quality is higher than a decade ago. Moreover, they have recorded provisions and impairment losses in anticipation. Against that backdrop, it looks likely that COVID-19 could make the merger route look like an opportune defence strategy for some. So long as competition is duly protected, growth in scale may be the best way to tackle a crisis of this nature. In the short-term, a merger delivers volume-driven growth at a time of negative rates and rising non-performance. Moreover, when mergers are confined to the home market, they can bring significant cost savings by eliminating overlap. The prevailing dynamics encourage concentration within a given country in a bid to boost profitability and capital. Given the international uncertainty and exchange-rate instability, it makes more sense to boost assets in euros.

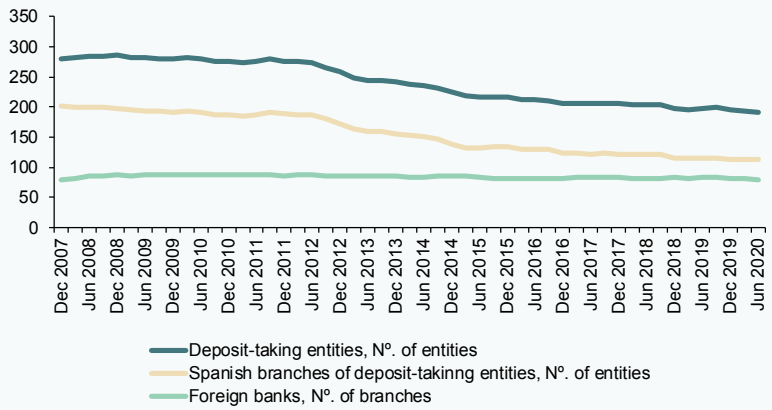
It is worth considering the Spanish banking sector from a strictly institutional perspective. Since 2007, the number of deposit-taking

Exhibit 1 **M&A deal volumes in the EU banking sector**



Source: S&P Global and authors' own elaboration.

Exhibit 2 **Trend in the number of deposit-taking entities in Spain**



Source: Bank of Spain and authors' own elaboration.

entities has declined by 31.4% (from 280 to 192). That downsizing is mainly attributable to the mergers arranged in the wake of the financial crisis which reshaped the Spanish banking landscape. Although this process is forecast to continue, the current macroeconomic and financial uncertainty is bound to be a truly conditioning factor.

In the EU, there is considerable scope for bank consolidation. If we use the Herfindahl-Hirschman Index (HHI) to measure market concentration (calculated by squaring the market share of each firm competing in a market and then summing the resulting numbers) we note that concentration in Spain is a scant 0.12 (on a scale from 0 to 1) and is even lower in other European Union markets (Exhibit 3). Although the indicators are calculated at the national scale (and not for sub-markets such as provinces or regions), they paint a picture of moderate concentration levels. Business volumes tend to be concentrated among the largest banks in each country. The CR5 indicator shows how the five largest banking institutions account for over 60% of assets. Nevertheless, as we noted earlier, increased concentration does not imply reduced competition and the growing influx of non-bank players (including even from BigTech) is expected to further intensify competition.

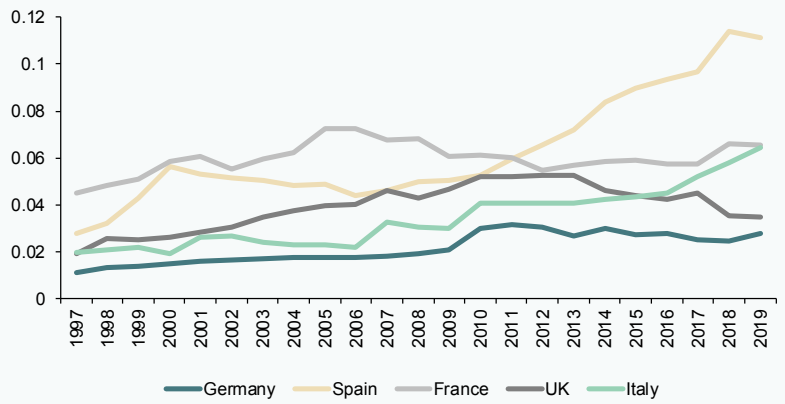
As the landscape for new mergers and acquisitions takes shape, intense restructuring has continued. However, the restructuring effort has been uneven across countries between 2002 and 2019. As shown in Exhibit 4, countries such as Germany, Spain and the UK have downsized their branch networks substantially, whereas in others, including France and Italy, that effort has been

"Increased concentration does not imply reduced competition and the growing influx of non-bank players (including even from BigTech) is expected to further intensify competition."

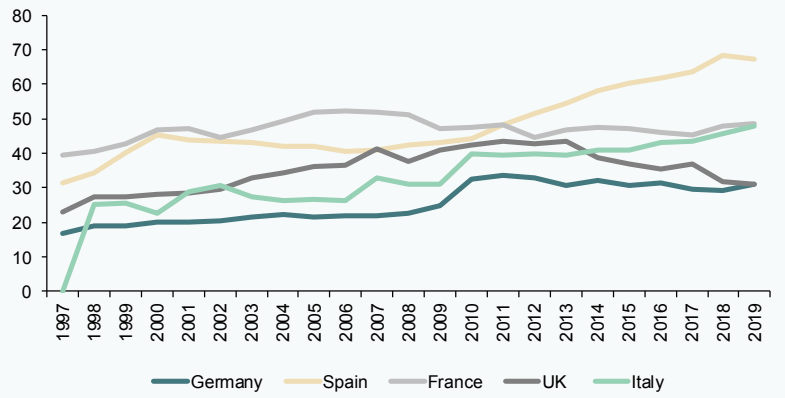
Exhibit 3

Bank concentration in the EU. HHI and CR5 indices

HHI (scale: 0 - 1)



CR5 (percentage)



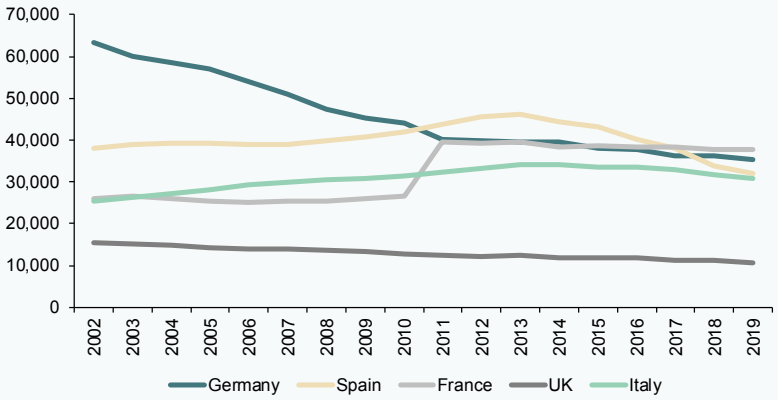
Source: ECB and authors' own elaboration.

considerably less noticeable. Job-wise, the cuts have been less noticeable. Once again, though, the UK, Spain and Germany stand out, with net reductions in banking sector employment of 31.4%, 28.7% and 23.2%, respectively.

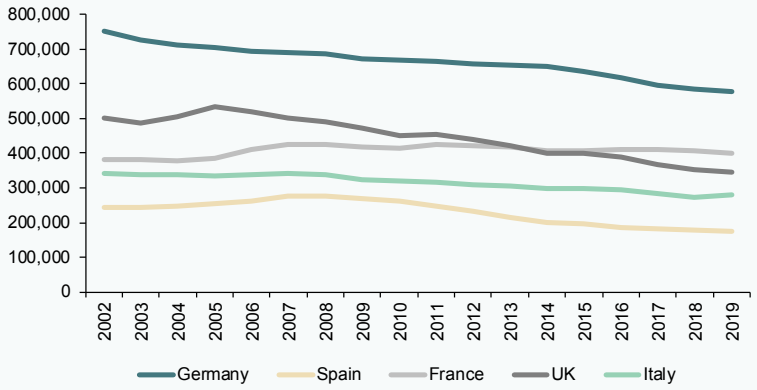
> "The UK, Spain and Germany stand out, with net reductions in banking sector employment of 31.4%, 28.7% and 23.2%, respectively."

Exhibit 4 **Trend in number of branches and bank employees**

Branches



Employees



Source: ECB and authors' own elaboration.

Conclusions

The recently announced merger between CaixaBank and Bankia has garnered a lot of attention across the EU, having been interpreted as the potential catalyst for a fresh wave of M&A activity in the European banking sector. Although certain regulatory considerations and the need to intensify the cost-cutting effort could encourage more M&A activity, it is important to note such activity requires market stability, which has been undermined by COVID-19.

Although mergers may provide a partial solution to the major challenges the banking sector is facing, they are not a complete panacea. In the current competitive climate, customers are of increasing value as units of information for banks, which must now compete with other information and risk

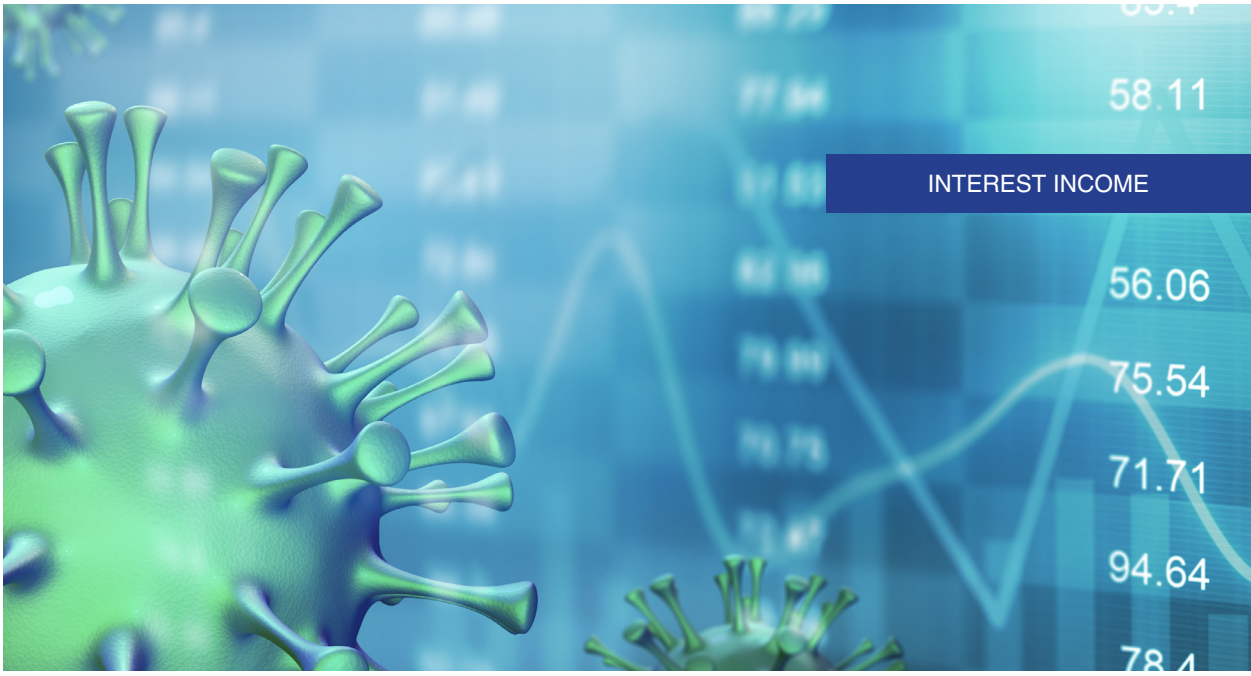
> “Although certain regulatory considerations and the need to intensify the cost-cutting effort could encourage more M&A activity, such activity requires market stability, which has been undermined by COVID-19.”

management platforms for these data. Moreover, these new types of banking services do not provide the same benefits associated with economies of scale.

Scale is also a key strategy in the medium-term for competing with the technology newcomers, who are encroaching on the territory of traditional financial institutions. The banks still provide the bulk of financial services and probably will continue to do so for a long time. However, the competitive threat posed by BigTech and the larger fintech firms is real. Gaining scale also appears necessary to compete technologically.

Santiago Carbó. CUNEF, University of Granada, Bangor University and Funcas

Francisco Rodríguez. University of Granada and Funcas



Net interest income in the context of COVID-19

COVID-19 has contributed to both a significant uptick in business lending and a slowdown in household lending. While the overall stock of credit issued has increased, net interest income during 1H2020 contracted thanks to the negative contribution of average loan book rates.

Ángel Berges, María Rodríguez and Fernando Rojas

Abstract: Banks have taken a leading role in implementing the measures introduced to halt the economic effects of COVID-19. As a result, lending momentum has been altered significantly, marked by sharp growth in business lending and a slowdown in household lending compared to prior years. In the household segment, it is worth highlighting the moratoria extended on both mortgages and consumer loans, which impacted this trend. During the second quarter of 2020, the stock of outstanding business debt registered strong year-on-year growth, increasing almost 50 billion euros in one quarter. This comes after a decade long contraction in business lending and can be explained by the banks' participation in channelling 90% of the loans guaranteed by the government to businesses. Despite the increase in the stock of credit issued, banks experienced a contraction in net interest margin during the first half of 2020 (-3%). This paradox is due to the negative contribution of average loan book rates (driven by the downtrend in EURIBOR as well

as narrower credit spreads), which more than offset the positive effect of the growth in the stock of outstanding credit.

Background

Despite not having had time to fully digest the effects of the last crisis, the banking system has had a fresh crisis thrust upon it. The origins of this crisis are neither financial nor economic, however, it will have significant ramifications for the banks. Specifically, there is the potential impairment of their assets through lockdowns, and social distancing measures as well as their prominent role in channelling credit and relief toward the companies and households most affected by the crisis.

To analyse the effects of the pandemic on the banks' net interest income it is necessary to factor in the regulatory and accounting measures introduced relating to capital adequacy, liquidity and provisions, as detailed in a previous paper (Alberni, Rodríguez and Rojas, 2020).

Even more important, however, are the measures passed to facilitate corporate financing at a time when businesses are seeing their revenue collapse and a moratoria on mortgages and consumer loans has been extended to groups hit particularly hard by the pandemic. Both have affected the flow and stock of credit to enterprises and households, with the resulting inflection points in business volumes being one of the key factors shaping the trend in the banks' net interest income. In addition to those measures, these loans have become less profitable due to the acceleration in the downtrend in interest rates, the tightening of spreads on new loans (largely implicit in the terms on which the guarantees are awarded) and also the non-accrual of interest on certain transactions affected by loan moratoria.

Given the confluence of those opposing forces, it is necessary to analyse the impact of each on the trend in net interest income at a time when the banks –and their share prices (Aires, Alberni and Berges, 2020)– are extraordinarily sensitive to their ability to generate net interest income.

Beyond those measures, it is worth flagging those that have distorted the stock of private sector credit: (i) the two public guarantee schemes passed by the government to guarantee that credit continues to flow to Spain's businesses; and, (ii) in the household sector, the introduction of temporary relief from mortgage and consumer loan debt servicing.

These distortions have negatively impacted banks' net interest income generation. Consequently, it is necessary to first consider their timing, analysing those that are affecting business lending separately from those that are reshaping household lending.

Credit during the pandemic: Opposite trends in business and household lending

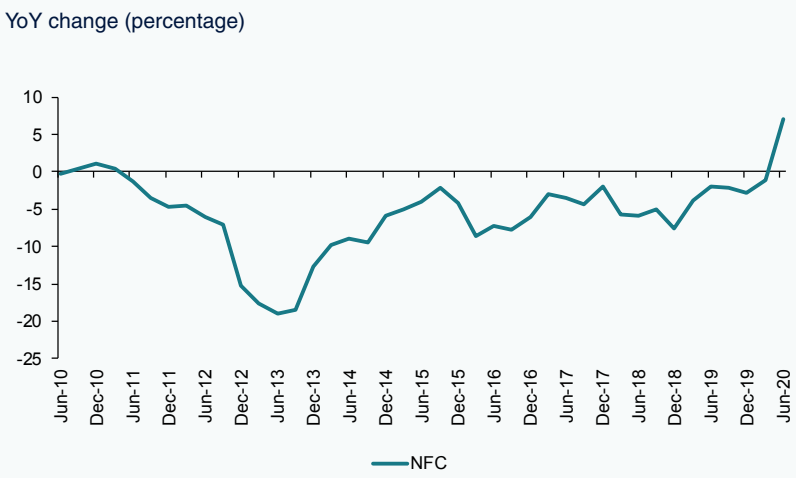
The most noteworthy development in lending volumes during the months hardest hit by the pandemic has been the inflection point in the trends observed in recent years, marked by sharp growth in business lending and a considerable slowdown (even contraction) in household credit (mortgage and consumer credit).

During the second quarter of 2020, the stock of outstanding business debt registered strong year-on-year growth, increasing by almost 50 billion euros in one quarter. This comes after a decade long contraction in business lending.

"During the second quarter of 2020, the stock of outstanding business debt registered strong year-on-year growth, increasing by almost 50 billion euros in one quarter."

Exhibit 1

Trend in the stock of corporate credit



Source: Bank of Spain, Afi.

This reversal of the trend in corporate credit can only be explained by the high volume of new credit triggered by the first guarantee scheme approved by the government. That programme, which amounted to 100 billion euros, was designed to alleviate the liquidity pressures facing businesses and the self-employed, whose income was collapsing due to the ban of all non-essential activities.

Over 90% of that scheme was channelled via the banks, evidencing its impact on the trend in bank loans to enterprises. The profiles of the loans awarded (Exhibits 2 and 3) perfectly mirror the activation pattern of the various tranches of the scheme, much of which was concentrated in April and May.

The slowdown, and even change in trend, observed in the ensuing months, particularly during the summer, may be the result of a dual effect: (i) a degree of 'saturation' of the businesses and/or of the self-employed qualifying for financing without assuming excessive credit risk; and, (ii) a certain 'holding pattern' before the launch of the new credit scheme that began in September.

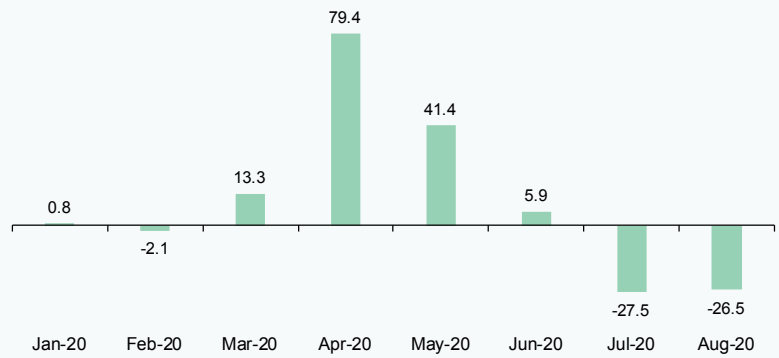
The new 40 billion euro guarantee scheme departs from the 'fire-stopping' tactics taken by the first programme. It takes a far more proactive approach to the issuance of credit, with a major focus on digitalisation and sustainability investments. These more restrictive characteristics suggest that demand for the second guarantee programme is likely to be considerably lower than for its predecessor. This in turn will likely lead to a substantial slowdown in business lending growth in comparison with the first half of the year.

> "Mortgage lending, which had already been easing, and consumer lending both contracted during the pandemic, breaking with a period of sharp growth in recent years."

Exhibit 2

Loans to SMEs

YoY change, month by month (percentage)



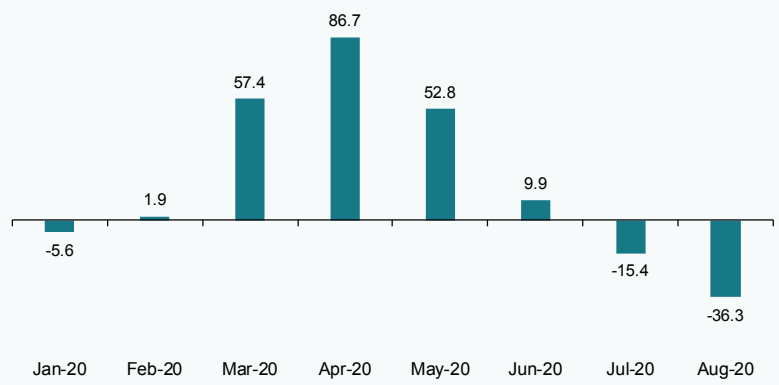
Source: Bank of Spain, Afi.

In the case of household credit, the dynamic during the pandemic was radically different to that observed in business lending. Mortgage lending, which had already been easing, and consumer lending both contracted, breaking with a period of sharp growth in recent years.

Exhibit 3

Loans to large enterprises

YoY change, month by month (percentage)

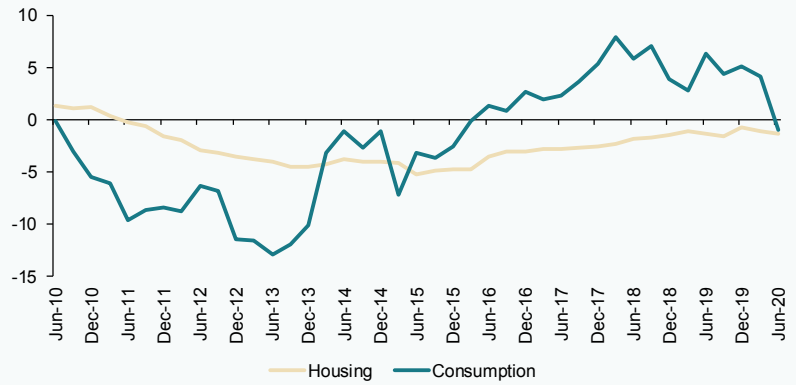


Source: Bank of Spain, Afi.

Exhibit 4

Trend in the stock of household credit

YoY change (in percentage)



Source: Bank of Spain, Afi.

This shift, particularly in consumer credit, is due to the collapse in private consumption, attributable to both a more conservative attitude towards spending and the fact that it was much harder to consume during lockdown. That contraction in consumption, which was particularly intense during the three months of 'hard' lockdown and only partially made up for afterwards, is echoed in the sharp drop in new consumer credit, as is illustrated in Exhibit 6.

In the case of mortgage lending, the trend illustrated by the issuance of new credit (Exhibit 5) also reveals a sharp contraction during the months of lockdown (March, April and May), mirroring the trend in home purchases. However, in contrast to the trend in consumer credit, mortgage lending recovered strongly during the summer, with growth of over 20% in new credit.

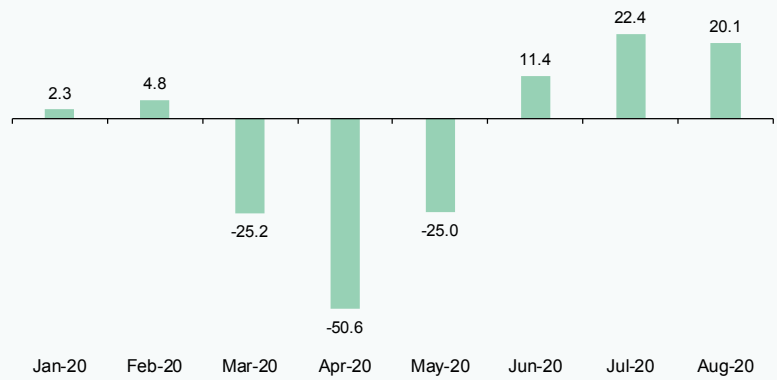
That recovery in the issuance of mortgages is closely correlated with the uptick in housing transaction volumes. By July, housing transaction volumes were at very similar levels to those observed before the lockdown, having experienced a deep slump that saw volumes fall by almost 70% at one point. Notwithstanding the improvement in transaction volumes and correction in prices, the year-on-year series may be subject to upward distortion on account of a 'base effect'. That base effect originates from the introduction in 2019 of the Real Estate Credit Agreements Act, which during the first few months after it took effect, had the effect of slowing new lending due to technicalities associated with the rollout of the new customer information platforms stipulated in the new legislation.

"By July, housing transaction volumes were at very similar levels to those observed before the lockdown, having experienced a deep slump that saw volumes fall by almost 70% at one point."

Exhibit 5

Mortgage loans

YoY change, month by month (percentage)



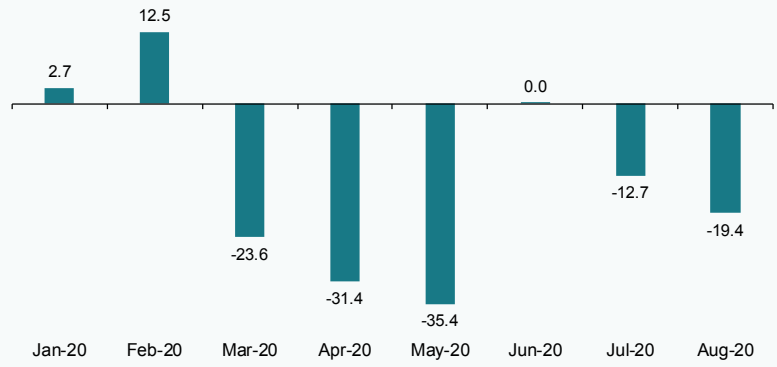
Source: Bank of Spain, Afi.

Once that base effect is accounted for, it is forecast that growth in mortgage lending will ease from the highs of the summer months to around 10% to 12%, depending on the direction the pandemic takes and the measures introduced to counteract its spread.

Exhibit 6

Consumer credit

YoY change, month by month (percentage)



Source: Bank of Spain, Afi.

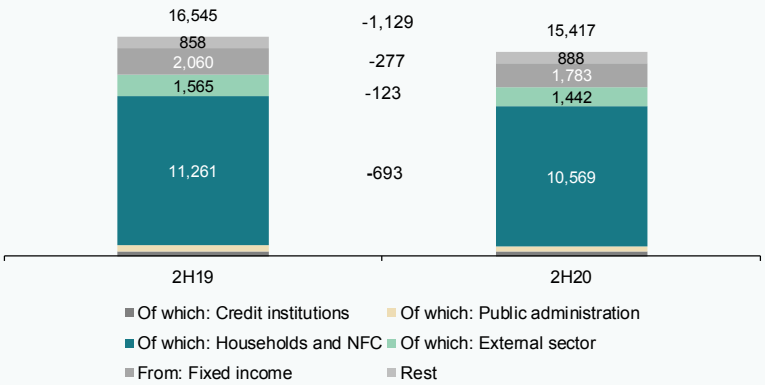
Net interest income and margin: Falling despite growth in lending volumes

The aforementioned dynamics in lending during the pandemic –sharp growth in business lending more than offset by the slump in household lending– should be evident in the trend in net interest income and margin, with the growth in the stock of outstanding credit, unseen in a decade, making a positive contribution.

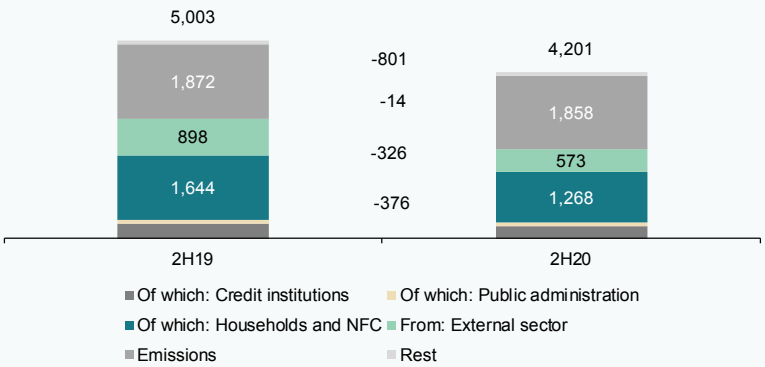
Exhibit 7

Breakdown of net interest margin

Breakdown of net interest income (€ m)



Breakdown of interest expense (€ m)



Source: Bank of Spain, Afi.

> "The decline in net interest margin is the result of a much narrower drop in interest expense (around 800 million euros) compared to net interest income (over 1.1 billion euros)."

> The sum of the two adverse rate effects (base rate and spread) exceeds the positive effect of the growth in the average stock of outstanding credit.

Nevertheless, net interest margin declined by 3% year-on-year across the Spanish banking system in the first half of 2020. As shown in Exhibit 7, the decline in net interest margin, which in fact accelerated with respect to the downtrend of recent years, is the result of a much narrower drop in interest expense (around 800 million euros) compared to net interest income (over 1.1 billion euros).

The significant decline in net interest income, particularly that generated by loans to enterprises and households, is somewhat paradoxical considering the fact that the overall stock of credit increased for the first time in ten years during the period.

To explain that paradox we need to take a look at the three main components of net interest income, namely:

- The average outstanding balance of interest-earning credit (volume effect).
- The benchmark rate of interest, measured using 12-month Euribor (base or benchmark rate effect).
- The spread applied over the above benchmark rate (spread or credit risk premium effect).

We perform that analysis separately for each of the three key credit segments, which are:

- Business loans
- Mortgages
- Consumer credit

The breakdown of the contribution to the change in net interest income by each of those three effects is shown in Table 1 below and yields some very interesting conclusions.

Firstly, it is worth highlighting the adverse effect on all segments of the base rate effect due to the acceleration in the downtrend in Euribor, which was six basis points lower on average in the first half of 2020 compared to the first half of 2019.

Next, we note that the credit spread (between the average rate charged on the outstanding loan book and average benchmark rates) was

Table 1 **Net interest income by credit segment: Breakdown of effects**

	Effects composition (mill. €)		
	Volume	Base rates	Spread
NFS	180	-120	-80
Housing	-10	-130	0
Consumption	5	-50	-35

Source: Bank of Spain.

“ In the corporate segment, the Spanish banks have been responsible for channelling over 90% of the guarantees provided, reaching more than 500,000 businesses (including the self-employed). ”

constant in the mortgage business but narrowed in the business lending and consumer credit segments.

The spread narrowing in the corporate lending segment is particularly noteworthy and is probably attributable to an increase in competitive pressure in the segment that is most attractive to the banks on account of its growth potential, particularly in the context of state guarantees.

Indeed, the sum of the two adverse rate effects (base rate and spread) exceeds the positive effect of the growth in the average stock of outstanding credit. This is the most resounding conclusion in relation to the business lending segment.

In the other two segments –consumer credit and mortgages– the ‘volume effect’ is nil or slightly negative, such that the combined rate effect (base and spread) materialises in the contraction observed in net interest income in both segments.

Conclusions

Since the first half of the year, the Spanish banking sector has played a leading role in channelling the support measures to the sectors and groups most affected by the pandemic. In the household segment it is worth highlighting the moratoria extended on both mortgages and consumer loans. In the corporate segment, the Spanish banks have been responsible for channelling over 90% of the guarantees provided, reaching more than 500,000 businesses (including the self-employed).

The banks’ role in articulating the public guarantee scheme has boosted their loan books, following a decade long contraction in the stock of outstanding credit.

Paradoxically, however, that increase in the stock of credit was accompanied by a contraction in the banks’ net interest margin during the first half of 2020 (-3%), and has even accelerated with respect to the trend observed during the last three years.

The explanation for that paradox lies with the negative contribution by average loan book rates (driven by the downtrend in Euribor as well as narrower credit spreads), which more than offset the positive effect of the growth in the stock of outstanding credit.

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Ángel Berges, María Rodríguez and Fernando Rojas. A.F.I. - Analistas Financieros Internacionales, S.A.

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Recent key developments in the area of Spanish financial regulation

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

CNMV Circular amending the Circular 5/2013 and Circular 4/2013 (Circular 1/2020, published in the *Official State Journal* on October 12th, 2020)

This new Circular amends the content of the annual corporate governance and annual director remuneration reports regulated in CNMV Circulars 5/2013 and 4/2013, aligning them with the amendments made as part of the partial revision of the Code of Corporate Governance applicable to listed companies in Spain.

The most noteworthy changes made to Circular 4/2013 on annual director remuneration reports are as follows:

- The report template for listed companies has been updated for that appended to the new Circular (Schedule I of Appendix I). The new template must be filled out following the instructions provided therein.

- The term "significant event" has been eliminated, in keeping with the changes made to the Securities Market Act by Royal Decree-Law 19/2018 in relation to market abuse. It is replaced with the expression, "other relevant information".

- Two new headings have been added so that companies explain the criteria used to verify whether the conditions on which variable remuneration is contingent have been met.

The most noteworthy changes made to Circular 5/2013 on annual corporate governance reports are as follows:

- The report template for listed companies and the statistical appendix have been replaced by the new templates provided in schedules I and V of appendix II of the new Circular.

- The term "significant event" has been eliminated, in keeping with the changes made to the Securities Market Act by Royal Decree-Law 19/2018 in relation to market abuse, replacing it with the expression, "other relevant information".

- The boundary of the reporting requirement for business relationships and conflicts of interest has been expanded to contemplate not only situations in which the listed company and its parent are publicly traded but rather all instances in which the listed company is under the control of another entity, listed or otherwise.

- The new wording formally sets down the fact that in authorising the annual financial statements, boards must strive to ensure that, to the best of their knowledge, the corresponding accounting principles and criteria have been correctly applied.

- Reports must provide information on gender diversity. The company must explain whether the measures taken by their appointments committees to foster gender diversity in the board of directors include that of encouraging the company to have a significant number of female executives. They must also disclose information about the number of women in senior management.

- The new Circular clarifies the rules recommended in the Code of Corporate Governance. Companies must implement

measures that ensure directors report on and resign in circumstances that could harm the company's credibility and reputation. Such situations must specifically include those that affect or involve directors, regardless of whether they are related with their actions at the company itself.

- It is suggested that the board assess any situation involving a director that could undermine the company's credibility and reputation in order to determine the appropriate course of action without delay.

The new Circular will apply to the annual corporate governance and director remuneration reports which the bound entities are required to present for the year ending on December 31st, 2020, and thereafter. A series of rules have been introduced for the 2020 annual corporate governance reports such that the companies state whether they comply with the recommendations that have been updated or, in the case of non-compliance, provide an explanation.

Spanish economic forecasts panel: November 2020*

Funcas Economic Trends and Statistics Department

Estimated 2020 GDP contraction improves 0.2pp to 11.8%

According to Spain's National Statistics Office, the INE, Spanish GDP grew by 16.7% in 3Q20, which is almost 4 percentage points above the last Panel consensus forecast. However, in October and November, due to new restrictions imposed to stem the second wave of COVID-19 infections, the indicator suggests that the recovery has stalled.

For 2020 as a whole, the consensus forecast is now for a contraction of 11.8%, 0.2 percentage points less unfavourable than the last consensus forecast (Table 1). The improvement is the result of the higher than expected official 3Q20 growth estimate, which more than offsets the downward revision in most analysts' forecasts for the last quarter: a contraction of 3% (Table 2) versus growth of 3.9% as of last September.

Domestic demand is expected to detract 10.6 percentage points from growth, while foreign demand detracts the remaining 1.2 percentage points of forecasted growth. By comparison with the last set of forecasts, the private consumption and investment estimates have improved slightly, albeit still pointing to sharp contractions. The estimates continue to foreshadow a hefty fall in both exports and imports, with the net contribution largely unchanged compared to September.

The forecast for 2021 has been cut by 0.8pp to 6.5%

Most of the analysts have layered the European Union funds into their estimates, albeit by differing amounts. Most also assume that the effects of the vaccine on the economy will start to become tangible during the second half of 2021.

For next year, 14 out of the 20 analysts have trimmed their growth forecasts, leaving a consensus of 6.5%, down 0.8 percentage points from September. Note that the downward revision of the annual forecast reflects the *knock-on-effect* of the weak figure anticipated for the fourth quarter rather than a deterioration in the outlook for next year, for which the quarterly estimates are actually higher than they were in September (rising to 4% by the third quarter).

The rebound in 2021 is expected to be fuelled mainly by an uptick in domestic demand, which is expected to contribute 6.2 percentage points of GDP growth (down 0.4 percentage points from September). That growth is in turn projected to be driven by an improvement in all of its components other than public expenditure, where growth is forecast to ease (although here the analysts have upgraded their forecasts by 1 percentage point). Foreign trade is expected to contribute 0.3 percentage points to growth, down 0.4 percentage points from the last set of forecasts.

CPI forecasts for 2020 and 2021 trimmed slightly

The headline inflation rate continues the downward trend initiated during the peak months of the pandemic, due to a fresh correction in oil prices and price easing in other categories, notably services.

The analysts' estimates for average inflation have been trimmed a scant 0.1 percentage points to -0.3% and 0.9% in 2020 and 2021, respectively. The forecasts for core inflation have also been reduced by 0.1 percentage point to 0.8% for both years. Most of the panellists believe inflation will remain in negative territory for the rest of the year and early 2021.

The year-on-year rates forecast for December 2020 and December 2021 stand at -0.4% and +1.3%, respectively (Table 3).

Unemployment estimated to reach 17.5% in 2021

Over 50% of all of the jobs lost between March and April have been recovered since May. In addition, more than 2.7 million furloughed workers are back at work. The number of people covered by the furlough

scheme has decreased from a high of nearly 3.4 million at the end of April to around 600,000 at the end of October. However, the trend is very different between sectors. While construction is nearly back to pre-crisis employment levels, with just 0.5% of its job-holders still on furlough as of the end of October, in the hospitality, transport, culture and travel agency sectors, employment is 6% below February levels and nearly 10% of their employees remain on furlough.

The consensus forecast for employment, in terms of full-time equivalents, is for a contraction of 7.2% in 2020 (a 0.6 percentage point improvement from September) and a recovery of 3.1% in 2021 (down 0.4 percentage points from the last set of forecasts). The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC). Productivity is expected to fall by 4.6% this year and advance by 3.4% in 2021. ULCs, meanwhile, are expected to increase by 6.5% in 2020 and fall back by 3% in 2021.

That would put average annual unemployment at 16.9% this year and 17.5% in 2021, which is 0.9 and 0.3 percentage points better than forecast in September.

The external balance will remain in surplus, though less than in the previous consensus

To August, Spain presented a current account surplus of 3.45 billion euros, down 13.66 billion euros from the same period of 2019. That sharp reduction is due to a 53% decline in the trade balance, driven mainly to the slump in tourism receipts, which more than offset the improvement in the income deficit.

The consensus forecast is for a surplus of 0.6% of GDP in 2020, unchanged from the last set of forecasts, rising to 1.2% in 2021, down 0.1 percentage points from September.

Public deficit expected to widen

The fiscal deficit, excluding local authorities, amounted to 78.13 billion euros in the first eight months of 2020, compared to 25.65 billion euros during the same period in 2019. That downturn is the result of a 17.16 billion euro drop in revenue coupled with growth of 35.33 billion euros in spending, of which around 27.9 billion euros is related to COVID-19 expenditure.

The analysts are currently estimating a public deficit in Spain of 12.4% of GDP in 2020, which is 0.1 percentage points wider than they were forecasting in September. The deficit forecast for 2021 stands at 8.3%, up 0.9 percentage points.

External environment expected to improve in the coming months

The third-quarter economic recovery has been widespread. In the eurozone, GDP recovered to 4.4% below year-earlier levels and in the US, to 2.9% below. China, meanwhile, reported year-on-year growth of 4.9%.

Nevertheless, more recent indicators point to a deterioration in economic momentum since September, spearheaded by the services industry. The eurozone PMI contracted sharply in November due to the new restrictions introduced to curb the second wave of COVID-19 infections. All signs suggest that the European economy will contract again in the fourth quarter.

In line with recent trends, virtually all of the analysts describe the external environment as unfavourable. They also agree that things will improve in the coming months, both within the EU and beyond.

EURIBOR and bond yields continue to trend lower

The ECB's monetary stimulus strategy continues to be felt in the markets. In October and the early weeks of November, 12-month EURIBOR continued to trend lower, reaching -0.48%. The yield on Spanish bonds, meanwhile, dipped below 0.10%, while the spread over German bonds narrowed to 65 basis points. The analysts expect that both interest rates will move only slightly up from current levels next year.

Recent euro stability

Since the September survey, the euro has been trading steadily against the dollar at between 1.17 and 1.18. The analysts believe the exchange rate will remain close to current levels throughout 2021.

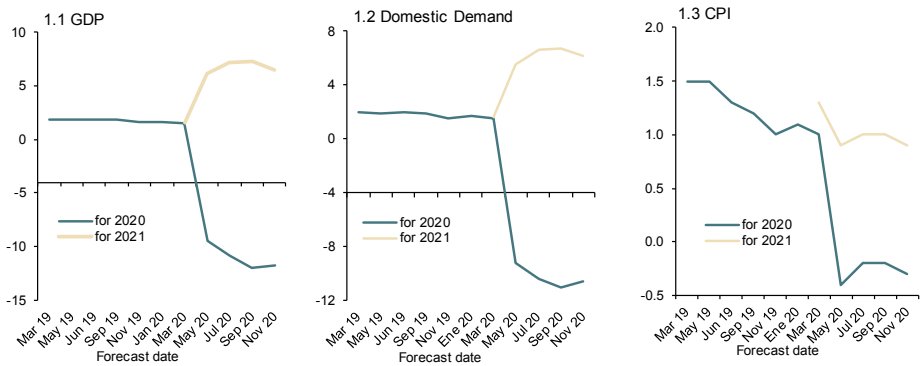
Fiscal policy needs to prop up the economy

The analysts unanimously consider that both monetary and fiscal policy are expansionary and nearly all of them believe they should remain so for the coming months. No major changes in the ECB's benchmark rates are expected over the projection horizon.

Exhibit 1

Change in forecasts (Consensus values)

Annual rates in %



Source: Funcas Panel of Forecasts.

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

Spanish economic forecasts panel: November 2020*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – November 2020

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[3]	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Analistas Financieros Internacionales (AFI)	-11.7	6.4	-13.4	6.7	3.6	4.0	-12.7	6.9	-17.6	10.5	-14.4	5.4	-9.6	5.8
Axesor	-11.8	6.6	-13.0	8.0	3.7	3.9	-17.4	3.1	-22.1	6.8	-17.3	5.7	--	--
BBVA Research	-11.5	6.0	-14.2	7.0	3.6	3.3	-17.8	7.7	-25.9	4.9	-19.8	4.3	-11.0	6.5
Bankia	-13.0	6.0	-15.9	6.6	4.2	2.2	-18.6	9.8	-26.5	14.2	-20.3	8.4	-11.7	5.8
CaixaBank Research	-11.4	6.0	-13.8	6.4	3.5	2.6	-14.2	6.0	-16.4	10.7	-16.7	4.4	-10.0	5.1
Cámara de Comercio de España	-13.0	8.6	-15.6	11.8	5.3	2.3	-21.1	6.1	-21.3	12.1	-23.2	4.0	-13.2	8.8
Cemex	-12.0	5.5	-13.6	5.0	3.7	2.2	-14.5	7.2	-20.7	11.5	-14.0	5.6	-10.0	4.6
Centro de Estudios Economía de Madrid (CEEM-URJC)	-11.6	8.3	-14.1	9.8	3.5	-1.1	-14.4	9.6	-17.0	16.3	-17.2	8.0	-10.5	7.0
Centro de Predicción Económica (CEPREDE-UAM)	-10.8	8.7	-12.5	9.9	3.5	1.6	-12.6	12.4	-15.4	16.1	-14.7	13.1	-9.1	8.4
CEOE	-11.5	7.0	-13.4	7.0	4.3	1.0	-18.8	12.6	-22.3	18.5	-21.4	12.5	-10.2	6.8
Equipo Económico (Ee)	-12.0	6.8	-14.5	7.9	4.5	-0.5	-20.6	7.5	-21.5	6.9	-23.7	8.1	-11.6	5.7
Funcas	-12.0	6.7	-14.6	7.4	3.8	1.7	-14.5	7.9	-12.8	8.8	-16.2	7.8	-11.1	6.1
Instituto Complutense de Análisis Económico (ICAE-UCM)	-12.0	6.0	-14.2	7.4	3.5	3.1	-17.9	6.4	-22.1	7.6	-20.7	5.7	-11.1	6.2
Instituto de Estudios Económicos (IEE)	-12.0	6.0	-13.8	5.5	4.0	0.5	-19.1	12.7	-23.1	20.0	-21.6	12.0	-10.5	5.9
Intermoney	-11.5	5.6	-13.5	6.7	3.4	1.5	-15.4	8.7	-14.6	6.7	-15.5	12.0	-10.0	5.8
Mapfre Economics	-11.8	6.7	-13.1	7.3	3.8	2.0	-16.5	8.7	--	--	--	--	-10.3	6.1
Repsol	-11.0	6.8	-12.9	8.2	3.5	1.6	-13.2	9.5	-15.1	12.6	-15.5	11.0	-9.5	6.7
Santander	-11.3	7.0	-13.6	6.8	3.6	9.5	-14.1	6.6	-16.7	9.4	-16.2	6.6	-10.3	7.1
YGroup Companies	-12.0	5.0	-15.0	4.5	3.0	2.0	-15.0	5.0	-15.5	6.0	-17.0	5.0	-11.5	3.7
Universidad Loyola Andalucía	-11.3	5.0	-13.3	5.5	2.8	1.1	-14.2	7.0	-16.5	9.4	-16.1	7.4	-10.4	4.9
CONSENSUS (AVERAGE)	-11.8	6.5	-13.9	7.3	3.7	2.2	-16.1	8.1	-19.1	11.0	-18.0	7.7	-10.6	6.2
Maximum	-10.8	8.7	-12.5	11.8	5.3	9.5	-12.6	12.7	-12.8	20.0	-14.0	13.1	-9.1	8.8
Minimum	-13.0	5.0	-15.9	4.5	2.8	-1.1	-21.1	3.1	-26.5	4.9	-23.7	4.0	-13.2	3.7
Change on 2 months earlier[1]	0.2	-0.8	0.0	-0.4	-0.8	1.0	1.8	-1.9	2.9	-2.4	1.8	-2.0	0.1	-0.4
- Rise[2]	8	1	6	4	2	10	10	3	12	2	8	3	--	--
- Drop[2]	4	14	7	10	12	4	5	12	2	12	6	10	--	--
Change on 6 months earlier[1]	-2.3	0.4	-2.8	0.3	-1.2	0.8	3.5	1.0	5.2	-0.4	2.5	1.1	-1.7	0.8
Memorandum items:														
Government (October 2020)[4]	-11.2	7.2 /9.8	-12.6	8.3 /10.7	6.3	0.5 /2.6	-17.5	6.9 /14.2	--	--	--	--	-9.7	6.1 /9.3
Bank of Spain (September 2020)	-10.5 /-12.6	7.3 / 4.1	-11.2 /-13.1	9.4 / 5.5	5.4 / 5.6	-1.3 /-1.2	-19.5 /-21.9	6.0 / 2.4	--	--	--	--	--	--
EC (November 2020)	-12.4	5.4	-14.6	4.5	6.0	2.1	-17.3	3.8	-23.4	5.8	--	--	-10.7	3.7
IMF (October 2020)	-12.8	7.2	-14.8	9.1	3.7	0.2	-16.2	10.3	--	--	--	--	-11.1	7.2
OECD (June 2020)	-11.1/-14.4	7.5 / 5.0	-13.4/-17.3	9.7 / 7.1	3.2	1.2	-20.1/-24.7	10.3/6.2	--	--	--	--	--	--

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

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

[3] *Contribution to GDP growth, in percentage points.*

[4] *Forecasts for a baseline scenario as well as a scenario that includes investment funded by the EU recovery plan.*

Table 1 (Continued)

Economic Forecasts for Spain – November 2020

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

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Wage earnings[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[6]	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Analistas Financieros Internacionales (AFI)	-21.5	16.5	-17.0	15.6	-0.3	0.7	0.8	0.7	--	--	-8.3	6.7	15.7	16.7	0.7	1.4	-12.3	-8.2
Axesor	-21.7	11.2	-17.4	10.6	-0.1	1.1	--	--	--	--	-2.2	0.7	19.9	17.0	0.5	0.9	-12.0	-7.0
BBVA Research	-21.4	11.9	-21.8	13.5	-0.2	0.7	0.8	0.5	1.5	-1.0	-8.8	3.6	17.0	17.5	0.1	0.2	-13.0	-8.9
Bankia	-22.6	12.6	-20.8	13.4	-0.2	0.9	--	--	0.6	1.1	-8.4	4.0	16.0	17.1	0.2	1.2	--	--
CaixaBank Research	-19.9	10.0	-17.8	8.0	-0.4	1.0	0.7	0.6	1.7	2.1	-7.3	0.0	16.0	17.9	1.1	1.6	-12.4	-9.2
Cámara de Comercio de España	-19.7	12.1	-20.6	13.2	-0.4	1.0	0.9	1.2	--	--	-8.7	3.8	18.5	18.1	1.0	1.7	-12.8	-7.0
Cemex	-21.6	15.8	-17.4	13.5	-0.3	1.0	1.0	1.0	--	--	-8.0	1.8	--	--	0.0	1.0	-13.0	-9.5
Centro de Estudios Economía de Madrid (CEEM-URJC)	-20.2	18.5	-17.9	15.3	-0.2	0.6	0.8	0.8	--	--	-7.1	2.6	18.9	18.6	0.7	1.4	-11.5	-8.4
Centro de Predicción Económica (CEPREDE-UAM)	-19.5	16.6	-16.2	17.0	-0.3	0.8	--	--	5.4	-2.1	-7.5	4.8	15.7	16.0	0.2	0.0	-10.4	-5.9
CEOE	-24.7	7.5	-22.2	7.0	-0.3	0.9	0.8	0.8	1.6	0.5	-7.6	3.6	15.8	18.2	0.0	1.0	-12.5	-9.0
Equipo Económico (Ee)	-21.5	15.4	-22.4	13.2	-0.3	0.8	0.7	0.7	1.2	0.7	-6.5	2.9	19.1	18.4	0.8	0.9	-14.2	-8.8
Funcas	-19.2	11.8	-17.0	10.1	-0.3	0.7	0.7	0.7	1.6	1.0	-8.7	2.6	16.5	17.0	1.0	1.9	-11.5	-8.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	-19.9	10.9	-19.1	12.4	-0.2	0.9	0.8	0.9	--	--	-8.7	3.5	18.7	17.5	0.7	1.1	-12.0	-8.0
Instituto de Estudios Económicos (IEE)	-25.3	8.0	-22.2	7.5	-0.2	0.8	0.8	0.7	1.5	0.3	-7.7	2.9	15.9	18.8	-0.5	0.5	-13.0	-7.5
Intermoney	-20.5	10.3	-17.0	11.6	-0.2	1.0	0.8	1.0	--	--	-7.9	3.0	15.9	16.2	0.8	1.2	-12.7	-9.8
Mapfre Economics	-22.1	11.4	-19.9	9.6	-0.2	1.0	0.7	1.0	--	--	-3.7	0.9	17.8	18.3	0.9	1.4	-12.4	-7.6
Repsol	-20.8	16.8	-18.1	15.2	-0.3	0.9	0.8	0.8	2.0	0.5	-7.9	7.7	15.8	16.0	0.4	1.1	-13.0	-9.0
Santander	-19.9	11.7	-17.7	12.6	-0.1	1.4	0.7	0.7	1.6	1.2	-3.4	0.8	15.9	16.7	1.0	1.5	--	--
YGroup Companies	-20.0	12.0	-18.0	8.0	-0.5	0.5	1.0	1.0	--	--	-8.5	3.0	16.0	18.0	0.8	2.0	-13.0	-9.0
Universidad Loyola Andalucía	-19.8	12.0	-17.2	11.7	-0.3	0.4	0.7	0.8	--	--	-7.8	3.9	16.0	18.4	0.8	1.1	-12.0	-7.6
CONSENSUS (AVERAGE)	-21.1	12.7	-18.9	11.9	-0.3	0.9	0.8	0.8	1.9	0.4	-7.2	3.1	16.9	17.5	0.6	1.2	-12.4	-8.3
Maximum	-19.2	18.5	-16.2	17.0	-0.1	1.4	1.0	1.2	5.4	2.1	-2.2	7.7	19.9	18.8	1.1	2.0	-10.4	-5.9
Minimum	-25.3	7.5	-22.4	7.0	-0.5	0.4	0.7	0.5	0.6	-2.1	-8.8	0.0	15.7	16.0	-0.5	0.0	-14.2	-9.8
Change on 2 months earlier[1]	0.4	-1.2	0.0	-0.8	-0.1	-0.1	-0.1	-0.1	0.0	-0.8	0.6	-0.4	-0.9	-0.3	0.0	-0.1	-0.1	-0.9
- Rise[2]	9	3	9	5	0	1	1	1	2	0	12	7	4	6	5	2	8	1
- Drop[2]	5	11	5	10	9	9	8	7	4	6	5	11	15	11	8	6	7	13
Change on 6 months earlier[1]	-1.0	2.0	2.7	3.0	0.1	0.0	0.4	0.0	0.6	0.6	0.4	-1.3	-3.3	-0.4	-0.9	-0.3	-1.6	-1.2
Memorandum items:																		
Government (October 2020)[8]	-22.7	11.7 /18	-20.0	8.6 /17.1	--	--	--	--	2.3	0.4	-8.4	5.6 /7.2	17.1	16.9/16.3	1.0	1.9/0.8	-11.3	-7.7
Bank of Spain (September 2020)	-20.7 /-25.2	11.5 /7.4	-18.7 /-22	8.4 /4.9	-0.2/-0.3[7]	1.0/0.8[7]	0.7 /0.6[7]	0.8/0.5[7]	--	--	--	--	17.1 /18.6	19.4/ 22.1	--	--	-10.8 /-12.1	-7.0/-9.9
EC (November 2020)	-22.1	14.2	-18.9	9.4	-0.2[7]	0.9[7]	--	--	1.9	0.0	-8.7	3.5	16.7	17.9	1.8	2.5	-12.2	-9.6
IMF (October 2020)	-25.5	10.1	-22.3	10.6	-0.3	0.8	--	--	--	--	--	--	16.8	16.8	0.5	0.9	-14.1	-7.5
OECD (June 2020)	-16.7/-19.8	9.5/5.7	-18/-21.1	10.7/ 7.5	0/-0.2[7]	0.3/-0.2[7]	0.4/0.3[7]	0.3/ 0[7])	--	--	--	--	19.2 / 20.1	18.7 / 21.9	2.3	2.0	-10.3/-12.5	-6.2/-9.6

[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] *Forecasts for a baseline scenario as well as a scenario that includes investment funded by the EU recovery plan.*

Table 2

Quarterly Forecasts – November 2020

	20-I Q	20-II Q	20-III Q	20-IV Q	21-I Q	21-II Q	21-III Q	21-IV Q
GDP[1]	-5.2	-17.8	16.7	-3.0	1.9	2.8	4.0	2.2
Euribor 1 yr [2]	-0.27	-0.15	-0.42	-0.41	-0.39	-0.36	-0.34	-0.33
Government bond yield 10 yr [2]	0.52	0.51	0.27	0.26	0.32	0.37	0.42	0.46
ECB main refinancing operations interest rate [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ECB deposit rates [2]	-0.5	-0.5	-0.5	-0.5	-0.50	-0.50	-0.50	-0.50
Dollar / Euro exchange rate [2]	1.11	1.13	1.18	1.17	1.17	1.17	1.17	1.17

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

Table 3

CPI Forecasts – November 2020

Year-on-year change (%)					
Oct-20	Nov-20	Dec-20	Jan-21	Dec-20	Dec-21
-0.8	-0.6	-0.5	-0.4	-0.4	1.3

Table 4

Opinions – November 2020

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	1	0	19	12	8	0
International context: Non-EU	0	1	19	13	7	0
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	0	20	0	1	19
Monetary policy assessment[1]	0	0	20	0	0	20

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

Key Facts

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Economic Indicators

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation			Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction	Equipment & others products				
		Chain-linked volumes, annual percentage changes									
2014		1.4	1.7	-0.7	4.1	3.0	5.2	4.5	6.8	1.9	-0.5
2015		3.8	2.9	2.0	4.9	1.5	8.2	4.3	5.1	3.9	-0.1
2016		3.0	2.7	1.0	2.4	1.6	3.1	5.4	2.6	2.0	1.0
2017		3.0	3.0	1.0	6.8	6.7	6.9	5.5	6.8	3.1	-0.2
2018		2.4	1.8	2.6	6.1	9.3	3.1	2.3	4.2	3.0	-0.5
2019		2.0	0.9	2.3	2.7	1.6	3.7	2.3	0.7	1.4	0.6
2020		-12.0	-14.6	3.8	-14.5	-16.2	-12.8	-19.2	-17.0	-10.7	-1.3
2021		6.7	7.4	1.7	7.9	7.8	8.0	11.8	10.1	6.0	0.8
2022		6.2	7.3	0.5	9.4	5.8	12.8	7.4	7.5	6.0	0.2
2019	I	2.2	1.1	2.2	5.7	5.3	6.1	1.1	0.8	2.1	0.1
	II	2.1	0.4	2.4	1.3	2.7	0.1	3.2	-0.1	0.9	1.2
	III	1.8	1.2	2.2	2.8	0.9	4.7	2.7	2.0	1.5	0.3
	IV	1.7	1.0	2.6	0.9	-2.2	4.1	2.1	0.3	1.0	0.7
2020	I	-4.2	-6.1	3.7	-5.1	-7.0	-3.2	-5.6	-5.4	-3.9	-0.2
	II	-21.5	-24.7	3.1	-25.8	-27.7	-23.8	-38.1	-33.5	-19.0	-2.5
	III	-8.7	-10.2	3.7	-11.9	-15.2	-8.7	-17.0	-15.7	-7.9	-0.8
	IV	-13.6	-17.5	4.8	-15.2	-14.9	-15.4	-15.8	-13.5	-12.5	-1.1
2021	I	-7.4	-9.7	4.8	-6.4	-3.5	-9.4	-10.8	-7.2	-6.1	-1.4
	II	17.8	19.4	4.4	25.3	32.8	17.8	40.5	36.0	16.0	1.7
	III	6.3	5.3	0.7	7.9	5.9	9.8	14.2	10.0	4.7	1.5
	IV	12.8	18.3	-3.1	8.8	0.6	17.0	13.3	9.1	11.1	1.6
		Chain-linked volumes, quarter-on-quarter percentage changes									
2019	I	0.5	0.4	0.2	1.2	0.0	2.3	0.3	-0.2	-1.8	2.4
	II	0.4	-0.3	0.9	-0.3	-0.4	-0.3	1.5	0.3	-1.8	2.1
	III	0.4	0.8	0.6	1.1	-0.6	2.7	0.2	1.3	-1.1	1.4
	IV	0.4	0.1	0.9	-1.0	-1.3	-0.6	0.2	-1.1	-0.1	0.5
2020	I	-5.2	-6.7	1.3	-4.8	-4.8	-4.8	-7.4	-5.8	-18.1	12.9
	II	-17.8	-20.0	0.3	-22.1	-22.6	-21.6	-33.4	-29.5	-62.5	44.7
	III	16.7	20.2	1.1	19.9	16.6	23.1	34.3	28.4	58.1	-41.4
	IV	-5.0	-8.0	2.0	-4.6	-1.0	-8.0	1.7	1.5	-20.0	15.1
2021	I	1.5	2.1	1.3	5.0	8.0	2.0	-1.9	1.0	9.9	-8.4
	II	4.6	5.7	0.0	4.3	6.6	2.0	4.8	3.3	16.0	-11.4
	III	5.3	6.1	-2.5	3.3	-7.0	14.8	9.2	3.9	14.1	-8.7
	IV	0.8	3.3	-1.9	-3.9	-6.0	-2.0	0.9	0.6	2.9	-2.1
		Current prices (EUR billions)	Percentage of GDP at current prices								
2013		1,020	59.0	19.9	17.4	8.7	8.7	33.0	29.0	96.1	3.9
2014		1,032	59.4	19.6	17.8	8.8	8.9	33.5	30.4	96.9	3.1
2015		1,078	58.5	19.5	18.0	8.7	9.3	33.6	30.6	97.0	3.0
2016		1,114	58.2	19.1	18.0	8.6	9.4	33.9	29.9	96.0	4.0
2017		1,162	58.4	18.6	18.7	9.0	9.7	35.1	31.5	96.4	3.6
2018		1,204	58.2	18.7	19.5	9.7	9.7	35.1	32.4	97.3	2.7
2019		1,245	57.3	18.9	19.9	10.0	9.9	34.9	31.9	97.0	3.0
2020		1,107	55.3	22.4	19.4	9.6	9.8	31.5	29.3	97.8	2.2
2021		1,195	55.5	21.3	19.6	9.7	9.9	33.1	30.1	97.1	2.9
2022		1,282	56.2	20.2	20.2	9.7	10.6	33.4	30.6	97.3	2.7

**Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

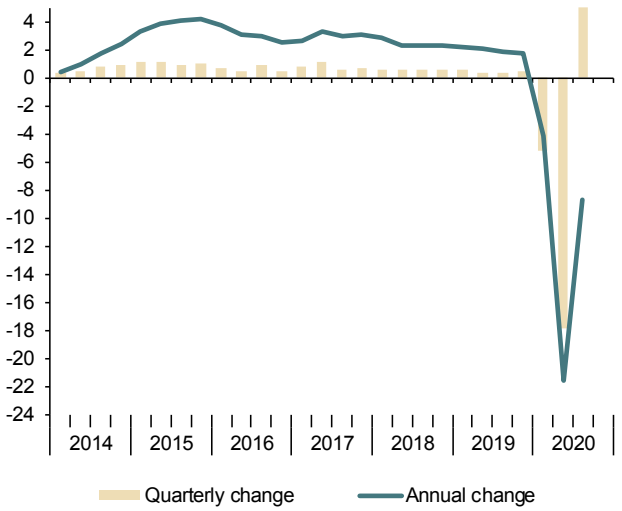


Chart 1.2 - Contribution to GDP annual growth

Percentage points

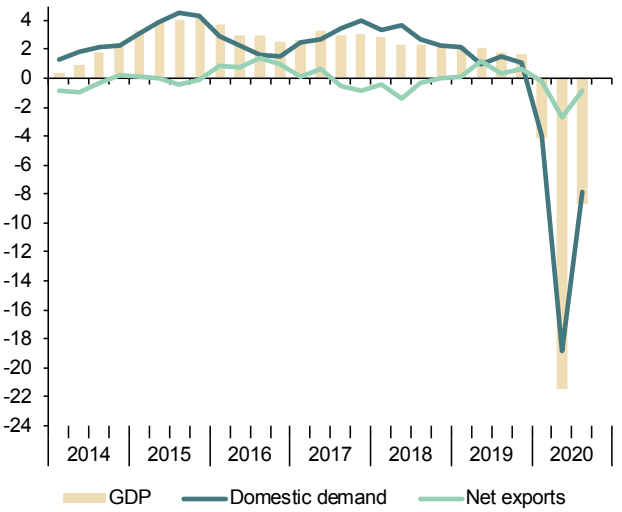


Chart 1.3 - Final consumption

Annual percentage change

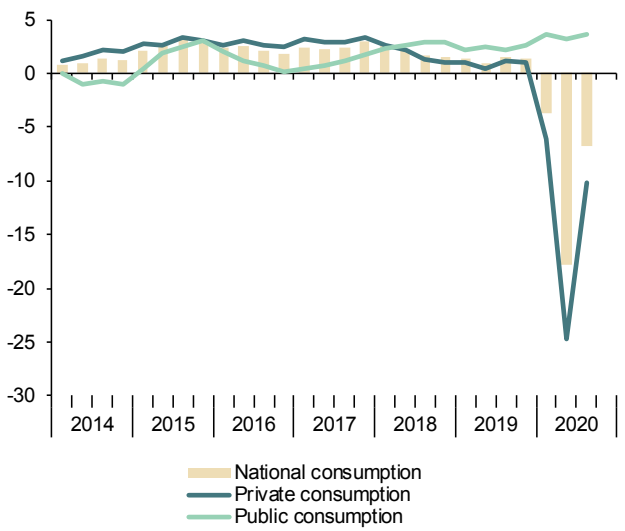


Chart 1.4 - Gross fixed capital formation

Annual percentage change

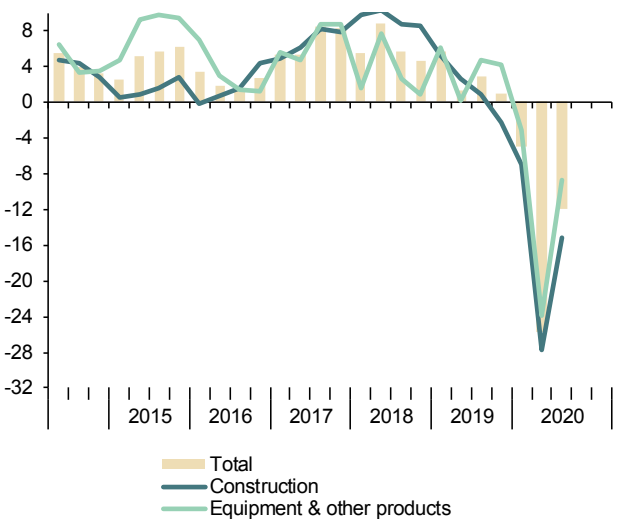


Table 2

National accounts: Gross value added by economic activity SWDA*

		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								
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		3.1	-3.7	4.0	5.7	2.0	3.3	2.5	3.5	1.9
2018		2.5	7.5	0.6	0.0	4.1	2.6	1.0	3.1	1.8
2019		2.1	-2.3	1.7	1.2	4.3	2.2	1.2	2.6	0.1
2020 (a)		-11.2	3.7	-10.8	-12.4	-15.1	-11.5	0.9	-15.4	-14.5
2018	IV	2.3	8.2	-0.2	-0.8	6.0	2.3	0.6	2.9	1.5
2019	I	2.4	0.7	0.7	0.3	6.8	2.5	0.8	3.0	0.7
	II	2.3	-4.4	1.6	0.7	5.8	2.4	1.5	2.7	0.2
	III	2.0	0.0	2.4	1.9	3.2	1.9	1.0	2.2	0.0
	IV	1.9	-5.3	2.1	2.0	1.7	2.2	1.5	2.4	-0.3
2020	I	-3.7	-0.2	-5.2	-5.9	-6.6	-3.2	0.9	-4.6	-8.8
	II	-21.3	6.3	-23.8	-27.3	-27.5	-21.3	-0.2	-28.0	-23.4
	III	-8.5	5.0	-3.6	-4.0	-11.0	-9.8	1.8	-13.5	-11.3
		Chain-linked volumes, quarter-on-quarter percentage changes								
2018	IV	0.6	5.6	0.3	0.3	1.5	0.4	0.0	0.5	0.1
2019	I	0.6	-4.0	0.7	0.6	1.4	0.7	0.4	0.7	0.1
	II	0.4	-2.7	0.7	0.3	0.6	0.5	0.6	0.4	-0.2
	III	0.4	1.4	0.7	0.7	-0.3	0.3	0.0	0.5	-0.1
	IV	0.5	0.1	-0.1	0.4	-0.1	0.7	0.4	0.7	-0.2
2020	I	-4.9	1.1	-6.4	-7.2	-6.9	-4.7	-0.1	-6.1	-8.4
	II	-17.9	3.6	-19.1	-22.5	-21.9	-18.3	-0.5	-24.3	-16.2
	III	16.8	0.2	27.4	33.0	22.5	15.0	2.0	20.7	15.7
		Current prices EUR billions)	Percentage of value added at basic prices							
2014		940	2.8	16.4	12.4	5.7	75.2	18.7	56.5	9.8
2015		978	3.0	16.4	12.4	5.8	74.9	18.5	56.4	10.1
2016		1,011	3.1	16.2	12.4	5.9	74.8	18.4	56.5	10.2
2017		1,053	3.1	16.2	12.5	5.9	74.8	18.1	56.7	10.3
2018		1,090	3.1	16.1	12.3	6.1	74.7	17.9	56.8	10.5
2019		1,129	2.9	16.1	12.3	6.4	74.5	18.0	56.5	10.3

(a) Period with available data over the same period past year.

** Seasonally and Working Day Adjusted.*

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

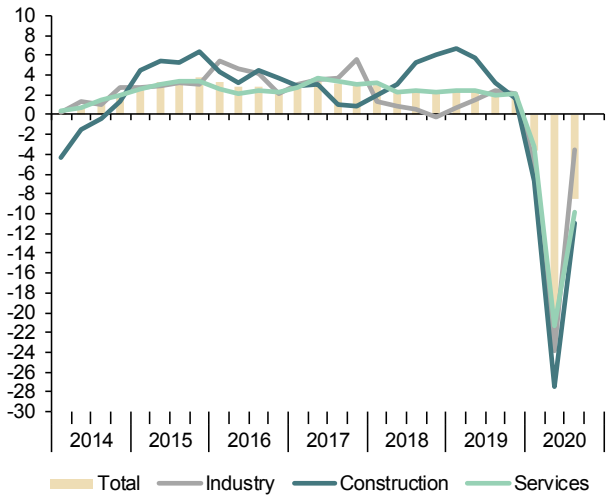


Chart 2.2 - GVA, Industry

Annual percentage change

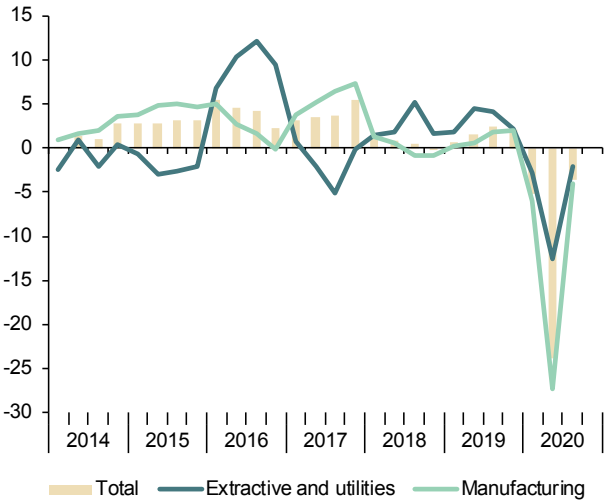


Chart 2.3 - GVA, services

Annual percentage change

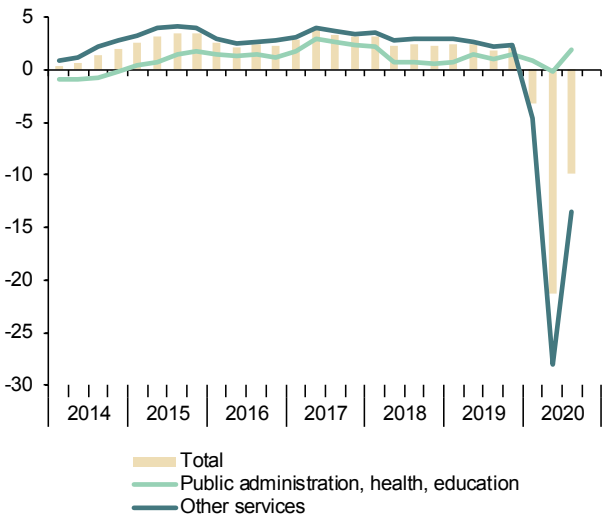


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

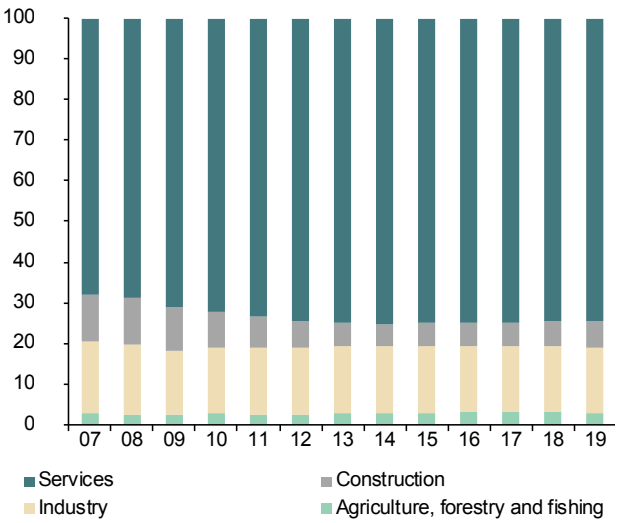


Table 3

National accounts: Productivity and labour costs

Forecasts in yellow

		Total economy						Manufacturing Industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
		Indexes, 2010 = 100, SWDA											
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		106.1	98.4	107.8	102.1	94.7	92.9	108.1	88.6	122.0	107.0	87.7	89.9
2018		108.7	101.0	107.6	103.1	95.8	92.8	108.2	90.5	119.6	107.9	90.2	90.9
2019		110.8	103.3	107.3	105.3	98.1	93.8	109.5	92.4	118.5	109.0	92.0	90.6
2020		97.5	94.3	103.4	106.9	103.4	97.8	--	--	--	--	--	--
2021		104.0	96.7	107.6	108.0	100.4	93.9	--	--	--	--	--	--
2022		110.5	102.5	107.8	109.1	101.2	93.7	--	--	--	--	--	--
2018	IV	109.6	102.0	107.5	103.8	96.6	93.0	108.1	90.6	119.3	108.9	91.3	91.6
2019	I	110.2	102.7	107.3	104.4	97.3	93.8	108.8	91.9	118.4	108.4	91.5	91.5
	II	110.6	103.1	107.3	105.2	98.1	93.9	109.1	92.4	118.1	108.8	92.1	90.8
	III	111.0	103.2	107.5	105.6	98.3	93.9	109.8	93.0	118.1	109.1	92.3	91.0
	IV	111.4	104.1	107.1	105.8	98.8	93.6	110.3	92.4	119.4	109.9	92.1	89.1
2020	I	105.6	102.1	103.4	105.8	102.3	97.4	102.3	92.2	111.0	108.5	97.7	97.9
	II	86.8	84.1	103.2	108.3	104.9	99.4	79.3	77.9	101.7	104.3	102.5	98.8
	III	101.3	97.5	103.8	106.7	102.7	97.3	105.4	85.1	123.9	106.8	86.2	84.6
		Annual percentage changes											
2014		1.4	1.0	0.4	0.3	-0.1	0.1	2.1	-1.9	4.0	0.7	-3.2	-3.3
2015		3.8	3.2	0.6	0.6	-0.1	-0.6	4.6	2.4	2.2	-0.7	-2.9	-2.6
2016		3.0	2.8	0.2	-0.6	-0.8	-1.1	2.3	3.5	-1.1	0.1	1.2	0.4
2017		3.0	2.9	0.1	0.7	0.6	-0.7	5.7	3.0	2.5	1.4	-1.1	-0.4
2018		2.4	2.6	-0.2	1.0	1.2	0.0	0.0	2.1	-2.0	0.8	2.9	1.1
2019		2.0	2.3	-0.3	2.1	2.4	1.0	1.2	2.2	-0.9	1.1	2.0	-0.3
2020		-12.0	-8.7	-3.6	1.6	5.4	4.3	--	--	--	--	--	--
2021		6.7	2.6	4.0	1.0	-2.9	-4.0	--	--	--	--	--	--
2022		6.2	6.0	0.2	1.0	0.8	-0.2	--	--	--	--	--	--
2018	IV	2.3	2.7	-0.4	1.3	1.8	0.5	-0.8	0.5	-1.2	0.4	1.6	0.9
2019	I	2.2	2.8	-0.6	1.9	2.5	1.2	0.3	1.6	-1.3	1.2	2.5	0.8
	II	2.1	2.5	-0.4	2.3	2.8	1.3	0.7	2.0	-1.3	1.2	2.5	0.3
	III	1.8	1.8	0.1	2.3	2.2	0.8	1.9	3.1	-1.1	1.0	2.1	0.4
	IV	1.7	2.1	-0.4	1.9	2.3	0.7	2.0	1.9	0.1	0.9	0.9	-2.7
2020	I	-4.2	-0.5	-3.7	1.3	5.1	3.9	-5.9	0.4	-6.3	0.1	6.8	7.0
	II	-21.5	-18.4	-3.8	2.9	7.0	5.9	-27.3	-15.7	-13.8	-4.1	11.2	8.7
	III	-8.7	-5.5	-3.4	1.0	4.6	3.5	-4.0	-8.5	4.9	-2.1	-6.7	-7.0

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

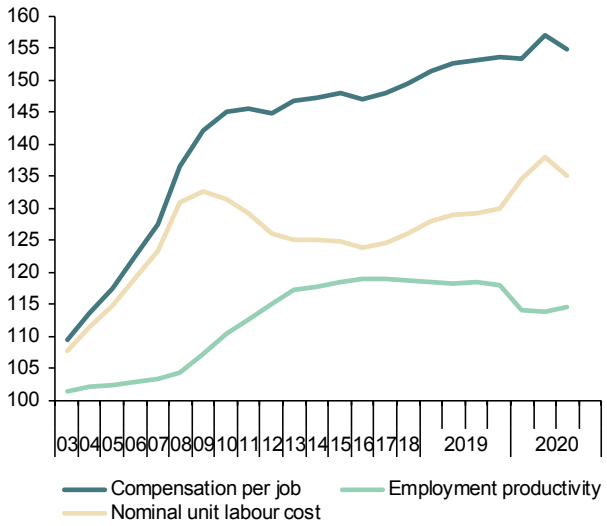
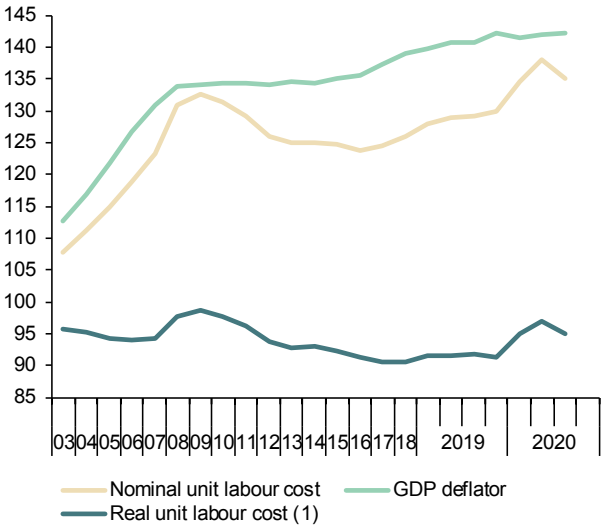


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

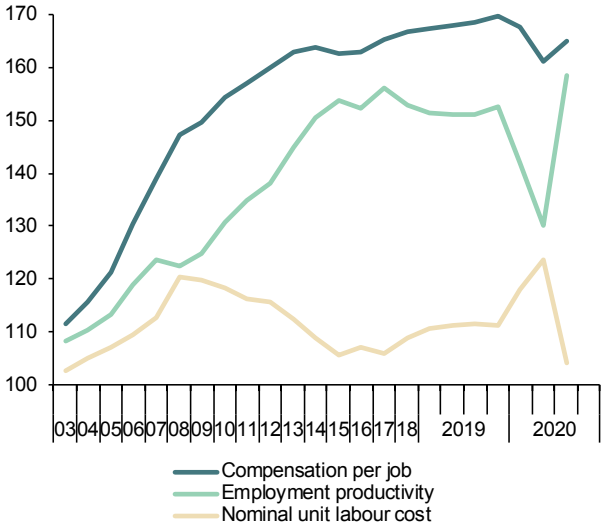
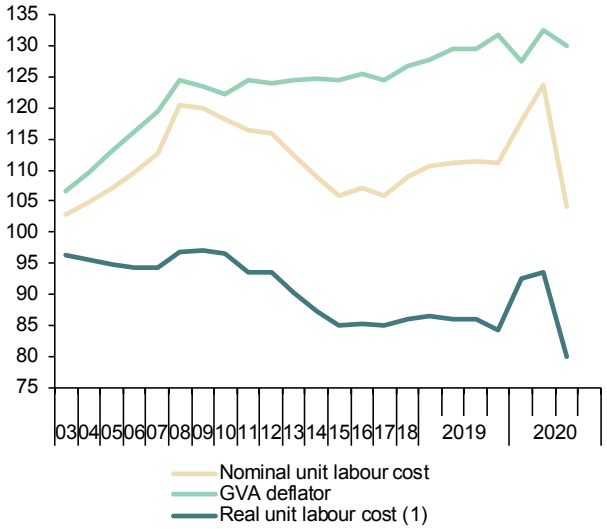


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by manufacturing GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in yellow

		Gross domestic product	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					
2014		1,032.2	473.5	455.4	1,017.7	815.4	202.3	184.8	45.9	44.1	19.6	17.9	1.7	2.1
2015		1,077.6	492.9	472.6	1,066.7	840.1	226.5	204.7	45.7	43.9	21.0	19.0	2.0	2.7
2016		1,113.8	503.7	495.8	1,104.8	860.5	244.3	208.9	45.2	44.5	21.9	18.8	3.2	3.4
2017		1,161.9	523.7	518.4	1,152.2	894.4	257.7	225.5	45.1	44.6	22.2	19.4	2.8	3.0
2018		1,204.2	544.9	533.2	1,194.7	925.0	269.7	246.5	45.2	44.3	22.4	20.5	1.9	2.4
2019		1,244.8	571.0	546.4	1,233.7	948.7	285.0	258.6	45.9	43.9	22.9	20.8	2.1	2.5
2020		1,107.4	533.2	476.2	1,094.2	859.5	234.7	223.2	48.2	43.0	21.2	20.2	1.0	1.3
2021		1,194.9	554.0	528.8	1,182.8	917.9	264.9	242.3	46.4	44.3	22.2	20.3	1.9	2.2
2022		1,282.1	594.3	563.3	1,268.2	979.6	288.6	267.4	46.4	43.9	22.5	20.9	1.7	1.8
2018	IV	1,204.2	544.9	533.2	1,194.7	925.0	269.7	246.5	45.2	44.3	22.4	20.5	1.9	2.4
2019	I	1,214.5	551.7	535.4	1,205.3	931.2	274.1	252.7	45.4	44.1	22.6	20.8	1.8	2.2
	II	1,225.0	558.7	538.8	1,215.3	937.2	278.1	255.0	45.6	44.0	22.7	20.8	1.9	2.4
	III	1,234.7	564.9	542.1	1,224.3	942.9	281.4	257.8	45.7	43.9	22.8	20.9	1.9	2.4
	IV	1,244.8	571.0	546.4	1,233.7	948.7	285.0	258.6	45.9	43.9	22.9	20.8	2.1	2.5
2020	I	1,235.5	573.9	535.6	1,225.8	942.9	282.9	256.3	46.4	43.3	22.9	20.7	2.2	2.5
	II	1,171.2	554.1	505.1	1,161.7	902.2	259.5	240.5	47.3	43.1	22.2	20.5	1.6	1.8
	III	1,146.9	547.5	495.6	--	887.1	--	232.1	47.7	43.2	--	20.2	--	--
		Annual percentage changes							Difference from one year ago					
2014		1.2	1.3	0.1	1.7	1.3	3.0	5.2	0.1	-0.5	0.3	0.7	-0.3	-0.5
2015		4.4	4.1	3.8	4.8	3.0	12.0	10.8	-0.1	-0.3	1.4	1.1	0.3	0.5
2016		3.4	2.2	4.9	3.6	2.4	7.8	2.0	-0.5	0.7	0.9	-0.2	1.1	0.7
2017		4.3	4.0	4.6	4.3	3.9	5.5	8.0	-0.2	0.1	0.3	0.7	-0.4	-0.4
2018		3.6	4.0	2.8	3.7	3.4	4.6	9.3	0.2	-0.3	0.2	1.1	-0.8	-0.6
2019		3.4	4.8	2.5	3.3	2.6	5.7	4.9	0.6	-0.4	0.5	0.3	0.2	0.0
2020		-11.0	-6.6	-12.9	-11.3	-9.4	-17.6	-13.7	2.3	-0.9	-1.7	-0.6	-1.1	-1.2
2021		7.9	3.9	11.0	8.1	6.8	12.8	8.5	-1.8	1.3	1.0	0.1	0.9	0.9
2022		7.3	7.3	6.5	7.2	6.7	9.0	10.4	0.0	-0.4	0.3	0.6	-0.2	-0.4
2018	IV	3.6	4.0	2.8	3.7	3.4	4.6	9.3	0.2	-0.3	0.2	1.1	-0.8	-0.6
2019	I	3.5	4.4	2.3	3.7	3.2	5.3	10.3	0.4	-0.5	0.4	1.3	-0.9	-0.7
	II	3.5	4.7	2.3	3.5	3.1	5.2	8.2	0.5	-0.5	0.4	0.9	-0.5	-0.3
	III	3.4	4.8	2.2	3.4	2.7	5.9	7.2	0.6	-0.5	0.5	0.7	-0.2	-0.1
	IV	3.4	4.8	2.5	3.3	2.6	5.7	4.9	0.6	-0.4	0.5	0.3	0.2	0.0
2020	I	1.7	4.0	0.0	1.7	1.3	3.2	1.4	1.0	-0.7	0.3	-0.1	0.4	0.3
	II	-4.4	-0.8	-6.3	-4.4	-3.7	-6.7	-5.7	1.7	-0.9	-0.5	-0.3	-0.3	-0.5
	III	-7.1	-3.1	-8.6	--	-5.9	--	-10.0	2.0	-0.7	--	-0.6	--	--

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

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

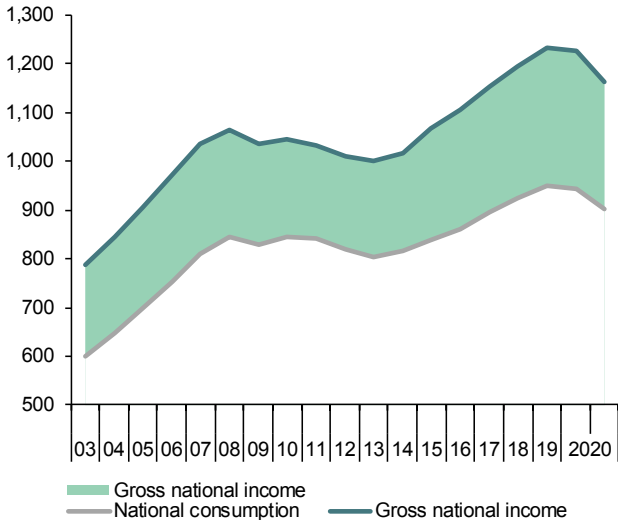


Chart 4.2 - National income, consumption and saving rate

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

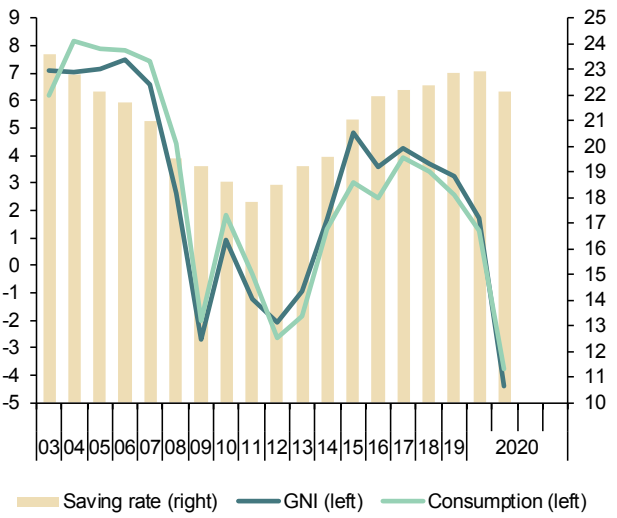


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

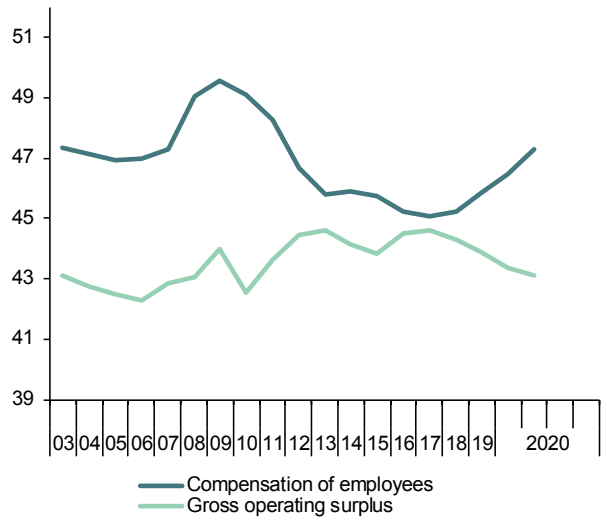


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

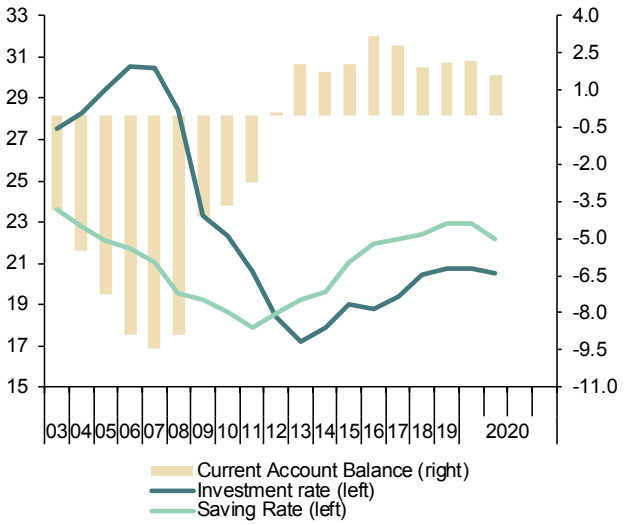


Table 5

National accounts: Household and non-financial corporations accounts

Forecasts in yellow

		Households							Non-financial corporations					
		Gross disposable income (GDI)	Final consumption expenditure	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing
		EUR Billions, 4-quarter cumulated operations				Percentage of GDI	Percentage of GDP		EUR Billions, 4-quarter cumulated operations			Percentage of GDP		
2014		656.2	612.7	41.5	30.2	6.3	2.9	1.0	228.7	171.7	127.7	16.6	12.4	4.7
2015		682.2	630.2	49.0	30.5	7.2	2.8	1.7	241.0	185.1	140.4	17.2	13.0	4.4
2016		700.6	648.3	49.2	31.8	7.0	2.9	1.4	255.3	196.2	149.2	17.6	13.4	4.4
2017		722.9	678.1	41.8	36.8	5.8	3.2	0.2	267.0	200.7	160.6	17.3	13.8	3.6
2018		744.9	700.3	41.8	40.9	5.6	3.4	-0.1	272.9	201.2	177.1	16.7	14.7	2.2
2019		764.6	713.8	48.0	42.5	6.3	3.4	0.3	281.6	218.2	187.5	17.5	15.1	2.7
2020		742.5	611.9	127.8	35.0	17.2	3.2	8.2	208.6	161.4	158.3	14.6	14.3	0.5
2021		767.2	663.0	101.4	36.2	13.2	3.0	5.3	253.0	200.3	170.1	16.8	14.2	2.8
2022		793.4	720.9	69.7	37.5	8.8	2.9	2.4	261.0	203.7	187.9	15.9	14.7	1.4
2018	III	738.4	695.5	40.0	38.6	5.4	3.2	-0.1	272.7	204.1	174.3	17.1	14.6	2.7
	IV	744.9	700.3	41.8	40.9	5.6	3.4	-0.1	272.9	201.2	177.1	16.7	14.7	2.2
2019	I	749.6	704.2	42.9	42.0	5.7	3.5	-0.1	274.4	204.0	180.6	16.8	14.8	2.2
	II	756.9	706.8	47.9	42.2	6.3	3.4	0.3	276.9	207.7	184.2	16.9	15.0	2.2
	III	760.7	710.6	47.1	42.7	6.2	3.5	0.2	278.1	210.2	185.1	17.0	15.0	2.3
	IV	764.6	713.8	48.0	42.5	6.3	3.4	0.3	281.6	218.2	187.5	17.5	15.1	2.7
2020	I	766.8	703.9	60.3	41.6	7.9	3.4	1.3	272.0	208.1	183.7	16.8	14.9	2.1
	II	748.3	662.1	83.6	36.6	11.2	3.1	3.8	249.9	199.6	171.6	17.0	14.6	2.5
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
2014		0.0	1.8	-19.8	-2.7	-1.6	-0.1	-1.0	0.0	2.5	11.3	0.2	1.1	-0.6
2015		4.0	2.9	18.1	1.1	0.9	-0.1	0.7	5.4	7.8	10.0	0.5	0.7	-0.3
2016		2.7	2.9	0.5	4.2	-0.2	0.0	-0.3	5.9	6.0	6.2	0.4	0.4	0.0
2017		3.2	4.6	-15.2	15.7	-1.3	0.3	-1.2	4.6	2.3	7.7	-0.3	0.4	-0.8
2018		3.0	3.3	0.1	11.2	-0.2	0.2	-0.3	2.2	0.3	10.2	-0.6	0.9	-1.4
2019		2.6	1.9	14.9	3.8	0.7	0.0	0.4	3.2	8.4	5.9	0.8	0.4	0.5
2020		-2.9	-14.3	166.0	-17.7	10.9	-0.3	7.9	-25.9	-26.1	-15.6	-3.0	-0.8	-2.2
2021		3.3	8.3	-20.6	3.5	-4.0	-0.1	-2.9	21.3	24.1	7.5	2.2	-0.1	2.2
2022		3.4	8.7	-31.2	3.5	-4.4	-0.1	-2.9	3.1	1.7	10.5	-0.9	0.4	-1.4
2018	III	3.2	3.6	-3.2	9.1	-0.4	0.2	-0.4	3.9	3.9	11.2	0.0	1.0	-0.9
	IV	3.0	3.3	0.1	11.2	-0.2	0.2	-0.3	2.2	0.3	10.2	-0.6	0.9	-1.4
2019	I	2.9	2.9	4.7	15.3	0.1	0.3	-0.3	1.9	0.6	9.5	-0.5	0.8	-1.2
	II	3.3	2.5	18.6	12.3	0.8	0.3	0.3	2.0	1.0	9.5	-0.5	0.8	-1.2
	III	3.0	2.2	17.9	10.7	0.8	0.2	0.3	2.0	3.0	6.2	-0.1	0.4	-0.4
	IV	2.6	1.9	14.9	3.8	0.7	0.0	0.4	3.2	8.4	5.9	0.8	0.4	0.5
2020	I	2.3	-0.1	40.6	-1.0	2.1	-0.1	1.4	-0.9	2.0	1.7	0.0	0.0	-0.1
	II	-1.1	-6.3	74.7	-13.2	4.9	-0.3	3.6	-9.7	-3.9	-6.8	0.1	-0.4	0.3

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

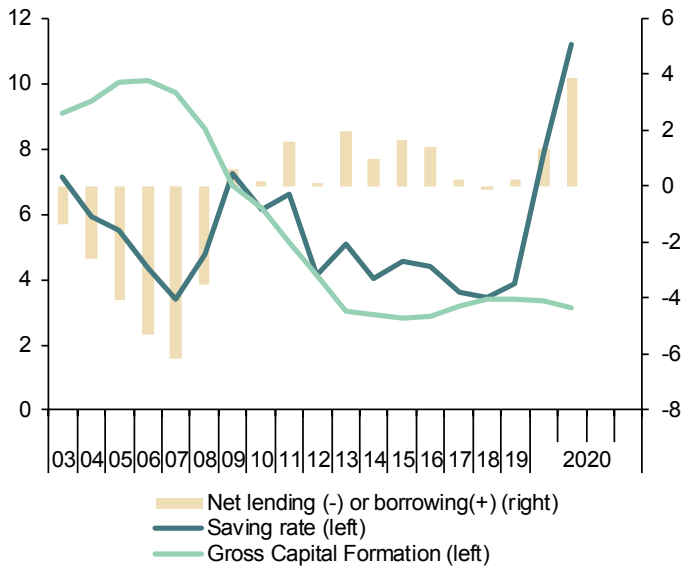


Chart 5.2 - Non-financial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

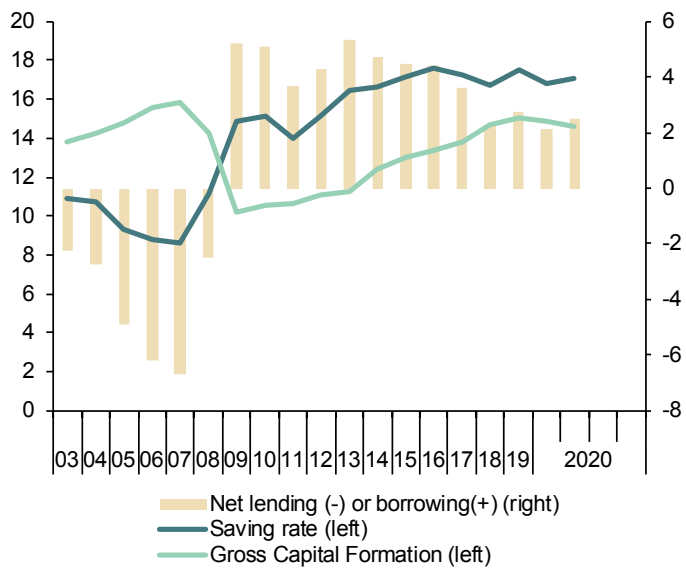


Table 6

National accounts: Public revenue, expenditure and deficit

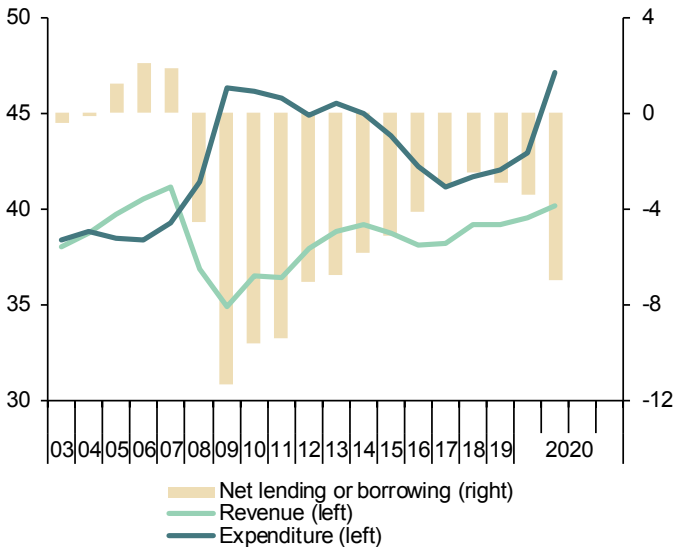
Forecasts in yellow

		Non financial revenue					Non financial expenditures							Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		Taxes on production and imports	Taxes on income and wealth	Social contributions	Capital and other revenue	Total	Compensation of employees	Intermediate consumption	Interests	Social benefits and social transfers in kind	Gross capital formation and other capital expenditure	Other expenditure	Total		
		1	2	3	4	5=1+2+3+4	6	7	8	9	10	11	12=6+7+8+9+10+11	13=5-12	14
		EUR Billions, 4-quarter cumulated operations													
2014		118.5	104.4	129.0	52.7	404.6	115.0	56.3	35.5	198.5	32.4	28.0	465.7	-61.1	-59.7
2015		126.4	107.1	131.5	52.1	417.2	119.2	59.0	32.4	198.6	35.4	28.3	473.0	-55.8	-55.2
2016		128.9	110.0	135.6	50.3	424.8	121.5	58.7	30.7	203.0	30.4	28.4	472.7	-48.0	-45.6
2017		135.1	116.9	142.4	49.1	443.5	123.5	59.9	29.3	207.4	30.6	28.0	478.7	-35.1	-34.6
2018		141.2	127.3	149.5	53.8	471.7	127.6	62.1	29.3	216.6	36.4	29.6	501.6	-29.9	-29.8
2019		142.8	129.2	160.7	55.1	487.8	134.5	64.5	28.4	229.6	34.8	31.6	523.4	-35.6	-35.6
2020		122.0	120.9	159.4	53.1	455.3	139.8	72.3	25.1	268.2	36.1	41.1	582.5	-127.2	-127.2
2021		131.1	128.1	156.3	66.7	482.2	143.3	74.3	26.2	260.2	45.5	35.9	585.4	-103.2	-103.2
2022		141.3	135.2	164.3	81.5	522.4	145.5	75.2	27.5	253.3	57.1	33.8	592.3	-70.0	-70.0
2018	III	139.6	123.0	147.7	51.4	461.8	126.0	61.4	29.3	213.6	34.1	28.9	493.4	-31.6	-31.5
	IV	141.2	127.3	149.5	53.8	471.7	127.6	62.1	29.3	216.6	36.4	29.6	501.6	-29.9	-29.8
2019	I	142.5	127.1	152.5	55.0	477.1	129.4	62.9	28.9	219.5	36.4	30.5	507.4	-30.3	-30.5
	II	142.4	129.0	155.3	55.2	481.8	131.7	63.2	29.3	224.0	36.3	31.1	515.7	-33.9	-33.8
	III	143.2	130.8	158.0	55.8	487.8	132.9	63.7	28.8	226.0	37.3	32.1	520.8	-33.0	-32.9
	IV	142.8	129.2	160.7	55.1	487.8	134.5	64.5	28.4	229.6	34.8	31.6	523.4	-35.6	-35.6
2020	I	141.4	130.3	161.4	55.7	488.8	135.8	66.0	27.9	232.8	36.8	31.8	531.1	-42.3	-42.3
	II	131.7	126.2	159.6	52.9	470.5	136.9	66.8	26.6	248.9	36.8	35.9	551.8	-81.4	-81.4
		Percentage of GDP, 4-quarter cumulated operations													
2014		11.5	10.1	12.5	5.1	39.2	11.1	5.5	3.4	19.2	3.1	2.7	45.1	-5.9	-5.8
2015		11.7	9.9	12.2	4.8	38.7	11.1	5.5	3.0	18.4	3.3	2.6	43.9	-5.2	-5.1
2016		11.6	9.9	12.2	4.5	38.1	10.9	5.3	2.8	18.2	2.7	2.6	42.4	-4.3	-4.1
2017		11.6	10.1	12.3	4.2	38.2	10.6	5.2	2.5	17.9	2.6	2.4	41.2	-3.0	-3.0
2018		11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
2019		11.5	10.4	12.9	4.4	39.2	10.8	5.2	2.3	18.4	2.8	2.5	42.1	-2.9	-2.9
2020		11.0	10.9	14.4	4.8	41.1	12.6	6.5	2.3	24.2	3.3	3.7	52.6	-11.5	-11.5
2021		11.0	10.7	13.1	5.6	40.4	12.0	6.2	2.2	21.8	3.8	3.0	49.0	-8.6	-8.6
2022		11.0	10.5	12.8	6.4	40.7	11.3	5.9	2.1	19.8	4.5	2.6	46.2	-5.5	-5.5
2018	III	11.7	10.3	12.4	4.3	38.7	10.6	5.2	2.5	17.9	2.9	2.4	41.4	-2.6	-2.6
	IV	11.7	10.6	12.4	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
2019	I	11.7	10.5	12.5	4.5	39.2	10.6	5.2	2.4	18.0	3.0	2.5	41.7	-2.5	-2.5
	II	11.6	10.5	12.7	4.5	39.3	10.7	5.2	2.4	18.3	3.0	2.5	42.0	-2.8	-2.8
	III	11.6	10.6	12.8	4.5	39.5	10.8	5.2	2.3	18.3	3.0	2.6	42.2	-2.7	-2.7
	IV	11.5	10.4	12.9	4.4	39.2	10.8	5.2	2.3	18.4	2.8	2.5	42.1	-2.9	-2.9
2020	I	11.4	10.5	13.0	4.5	39.5	11.0	5.3	2.3	18.8	3.0	2.6	42.9	-3.4	-3.4
	II	11.2	10.8	13.6	4.5	40.2	11.7	5.7	2.3	21.2	3.1	3.1	47.1	-6.9	-6.9

Source: IGAE and Funcas (Forecasts).

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

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures.

Chart 6.2 - Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

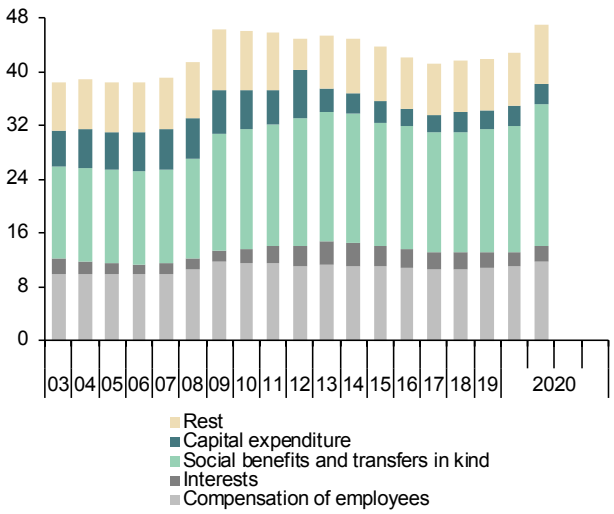


Table 7

Public sector balances, by level of Government

Forecasts in yellow

		Net lending (+)/ net borrowing (-) (a)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period				
2014		-35.9	-18.7	5.5	-10.6	-59.7	901.4	237.9	38.3	17.2	1,039.4
2015		-28.2	-18.9	4.6	-12.9	-55.2	939.3	263.3	35.1	17.2	1,070.1
2016		-25.7	-9.5	7.0	-17.4	-45.6	968.4	277.0	32.2	17.2	1,104.6
2017		-20.6	-4.2	6.9	-16.8	-34.6	1,011.5	288.1	29.0	27.4	1,145.1
2018		-15.7	-3.3	6.5	-17.3	-29.8	1,047.3	293.4	25.8	41.2	1,173.4
2019		-16.2	-6.8	3.8	-16.1	-35.6	1,061.2	295.1	23.2	55.0	1,188.9
2020		--	--	--	--	-127.2	--	--	--	--	1,336.1
2021		--	--	--	--	-103.2	--	--	--	--	1,443.6
2022		--	--	--	--	-70.0	--	--	--	--	1,518.9
2018	III	-18.0	-2.8	5.5	-16.0	-31.5	1,048.7	292.4	28.0	34.9	1,177.7
	IV	-15.7	-3.3	6.5	-17.3	-29.8	1,047.3	293.4	25.8	41.2	1,173.4
2019	I	-17.8	-3.3	5.9	-15.3	-30.5	1,066.0	296.9	26.0	43.1	1,196.7
	II	-17.2	-4.1	5.8	-18.3	-33.8	1,072.0	300.6	26.2	48.7	1,207.4
	III	-11.4	-8.5	4.8	-17.7	-32.9	1,070.3	298.1	25.2	52.4	1,203.8
	IV	-16.4	-7.1	3.7	-15.9	-35.6	1,061.2	295.1	23.2	55.0	1,188.9
2020	I	-16.5	-8.0	3.1	-20.9	-42.3	1,094.9	298.3	22.9	55.0	1,224.6
	II	-54.8	-6.0	1.3	-21.8	-81.4	1,159.2	305.7	25.0	68.9	1,291.1
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2014		-3.5	-1.8	0.5	-1.0	-5.8	87.3	23.1	3.7	1.7	100.7
2015		-2.6	-1.8	0.4	-1.2	-5.1	87.2	24.4	3.3	1.6	99.3
2016		-2.3	-0.9	0.6	-1.6	-4.1	86.9	24.9	2.9	1.5	99.2
2017		-1.8	-0.4	0.6	-1.4	-3.0	87.1	24.8	2.5	2.4	98.6
2018		-1.3	-0.3	0.5	-1.4	-2.5	87.0	24.4	2.1	3.4	97.4
2019		-1.3	-0.5	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020		--	--	--	--	-11.5	--	--	--	--	120.6
2021		--	--	--	--	-8.6	--	--	--	--	120.8
2022		--	--	--	--	-5.5	--	--	--	--	118.4
2018	III	-1.5	-0.2	0.5	-1.3	-2.6	87.8	24.5	2.3	2.9	98.6
	IV	-1.3	-0.3	0.5	-1.4	-2.5	87.0	24.4	2.1	3.4	97.4
2019	I	-1.5	-0.3	0.5	-1.3	-2.5	87.8	24.4	2.1	3.5	98.5
	II	-1.4	-0.3	0.5	-1.5	-2.8	87.5	24.5	2.1	4.0	98.6
	III	-0.9	-0.7	0.4	-1.4	-2.7	86.7	24.1	2.0	4.2	97.5
	IV	-1.3	-0.6	0.3	-1.3	-2.9	85.3	23.7	1.9	4.4	95.5
2020	I	-1.3	-0.6	0.3	-1.7	-3.4	88.6	24.1	1.9	4.5	99.1
	II	-4.7	-0.5	0.1	-1.9	-6.9	99.0	26.1	2.1	5.9	110.2

(a) Excluding financial entities bail-out expenditures.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

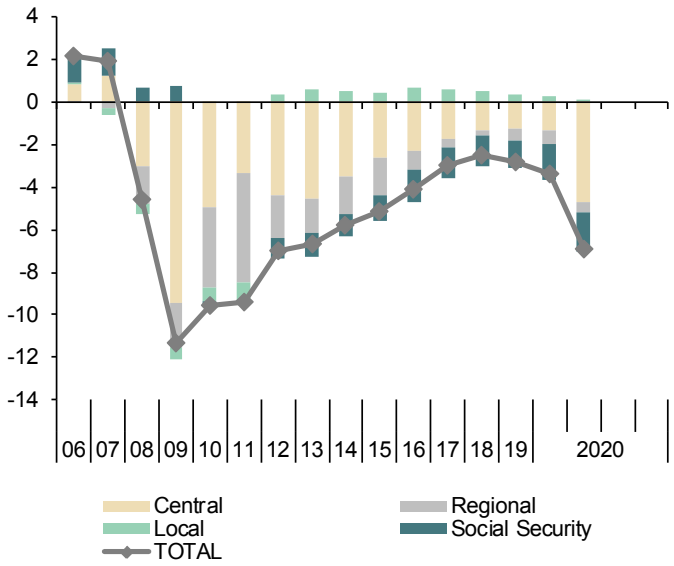


Chart 7.2 - Government debt

Percent of GDP

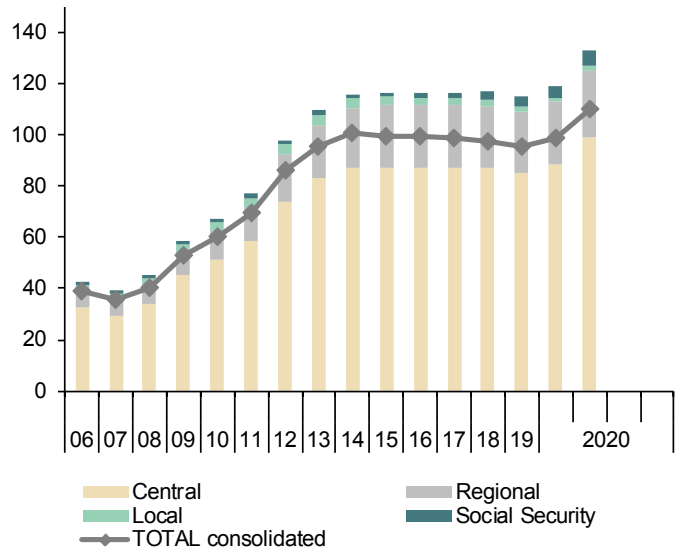


Table 8

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses
2013	90.1	48.3	15,855.2	250.0	95.5	2,021.6	48.5	-14.0	93.2	-30.7
2014	100.5	55.1	16,111.1	249.6	96.8	2,022.8	53.2	-7.1	95.3	-16.3
2015	107.8	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	108.4	56.2	17,789.6	258.4	105.0	2,191.0	54.8	1.0	107.1	2.2
2018	108.0	54.6	18,364.5	259.3	105.3	2,250.9	53.3	-0.1	108.4	-0.2
2019	104.1	52.7	18,844.1	251.8	106.1	2,283.2	49.1	-3.9	108.9	-5.0
2020 (b)	89.3	40.8	18,409.9	195.6	93.4	2,238.2	46.9	-14.6	93.9	-32.5
2019 I	104.8	54.5	18,708.3	63.6	106.1	2,273.9	51.1	-3.8	109.3	-5.8
II	104.3	52.4	18,808.4	63.2	106.9	2,281.0	49.9	-4.6	109.5	-2.7
III	105.6	52.0	18,885.3	62.2	106.5	2,286.5	48.2	-2.0	108.8	-4.5
IV	101.8	51.9	18,969.0	62.8	105.1	2,291.5	47.2	-5.2	105.6	-7.0
2020 I	101.2	43.3	18,904.2	61.8	99.4	2,284.4	48.2	-5.4	99.2	-7.7
II	77.1	29.4	17,957.3	55.0	80.9	2,201.9	39.4	-27.8	94.0	-53.5
III	89.5	48.5	18,321.9	59.8	101.1	2,227.3	51.4	-11.9	93.7	-38.7
IV (b)	89.5	44.1	18,519.3	20.7	--	2,241.5	52.5	-10.8	--	-25.7
2020 Aug	88.1	48.4	18,365.7	19.7	101.0	2,232.5	49.9	-11.8	93.8	-37.8
Sep	89.7	44.3	18,474.5	19.9	101.8	2,237.0	50.8	-11.1	--	-33.2
Oct	89.5	44.1	18,519.3	20.1	--	2,241.5	52.5	-10.8	--	-25.7
					Percentage changes (c)					
2013	--	--	-2.9	-2.2	-1.6	-4.4	--	--	-1.9	--
2014	--	--	1.6	-0.2	1.3	0.1	--	--	2.3	--
2015	--	--	3.3	1.7	3.4	2.2	--	--	4.8	--
2016	--	--	3.1	0.0	1.8	2.8	--	--	2.8	--
2017	--	--	3.7	1.8	3.2	3.1	--	--	4.2	--
2018	--	--	3.2	0.3	0.2	2.7	--	--	1.2	--
2019	--	--	2.6	-2.9	0.7	1.4	--	--	0.5	--
2020 (d)	--	--	-2.2	-5.8	-12.1	-1.9	--	--	-13.2	--
2019 I	--	--	0.7	-0.5	1.2	0.4	--	--	0.3	--
II	--	--	0.5	-0.7	0.7	0.3	--	--	0.2	--
III	--	--	0.4	-1.5	-0.4	0.2	--	--	-0.7	--
IV	--	--	0.4	1.0	-1.3	0.2	--	--	-2.9	--
2020 I	--	--	-0.3	-1.7	-5.4	-0.3	--	--	-6.0	--
II	--	--	-5.0	-10.9	-18.6	-3.6	--	--	-5.3	--
III	--	--	2.0	8.7	25.1	1.2	--	--	-0.3	--
IV (e)	--	--	1.1	4.0	--	0.6	--	--	--	--
2020 Aug	--	--	1.3	0.5	0.4	0.9	--	--	0.3	--
Sep	--	--	0.6	1.0	0.8	0.2	--	--	--	--
Oct	--	--	0.2	3.1	--	0.2	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annual percentage changes

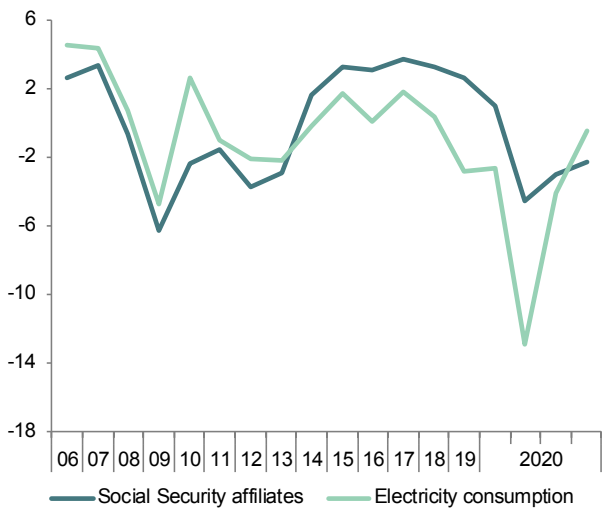


Chart 8.2 - General activity indicators (II)

Index

Chart 8.3 - Industrial sector indicators (I)

Annual percentage changes

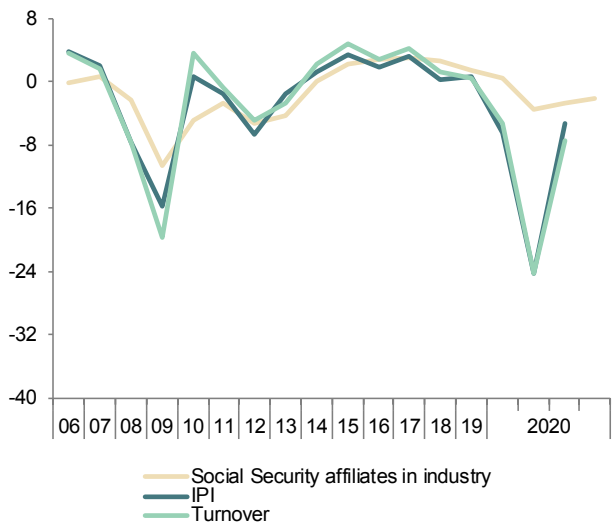


Chart 8.4 - Industrial sector indicators (II)

Index

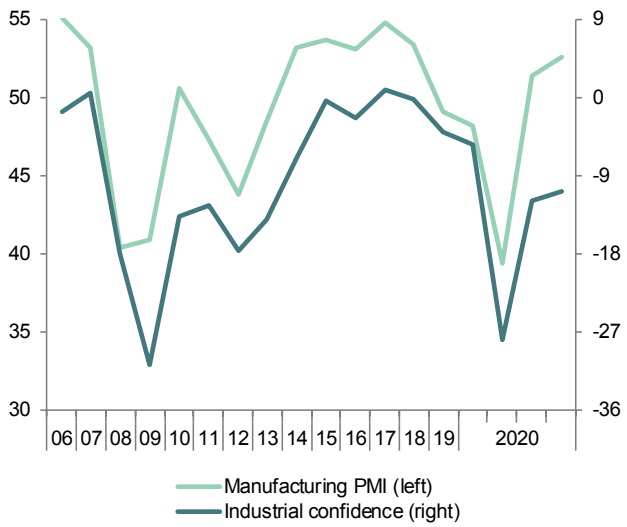


Table 9

Construction and services sector indicators (a)

	Construction indicators					Service sector indicators					
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	2015=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	Thousands	2015=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2012	1,135.5	101.2	-54.9	7.4	8.5	11,909.7	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	340.0	262.9	21.7
2019	1,254.9	124.8	-7.0	18.2	20.0	14,169.1	122.2	53.9	343.0	276.9	13.9
2020 (b)	1,227.9	108.0	-19.1	9.3	10.0	13,828.5	99.2	39.6	80.5	69.0	-25.7
2019 I	1,244.3	123.0	-0.6	5.0	5.2	14,041.0	121.7	55.3	88.3	69.3	15.5
II	1,251.8	125.0	-7.8	4.8	5.5	14,135.5	123.0	53.1	88.4	70.5	14.8
III	1,258.7	123.7	-7.4	4.4	4.8	14,208.3	122.9	53.5	84.3	69.8	14.2
IV	1,265.1	118.9	-12.4	4.0	4.5	14,287.9	118.8	53.6	70.2	62.7	11.0
2020 I	1,253.7	110.9	-8.6	3.5	4.6	14,250.7	109.0	42.5	44.6	44.8	7.8
II	1,166.6	107.1	-26.3	3.1	3.1	13,470.8	99.0	28.4	21.7	23.3	-47.1
III	1,250.3	112.3	-24.3	2.9	2.2	13,728.1	95.3	47.3	10.2	11.1	-35.9
IV (b)	1,259.7	--	-13.0	--	--	13,896.6	--	41.4	--	2.0	-30.8
2020 Aug	1,257.9	112.2	-26.4	1.0	1.0	13,756.4	94.9	47.7	3.4	3.7	-38.3
Sep	1,259.4	114.6	-25.9	0.9	--	13,848.4	--	42.4	2.5	2.8	-35.8
Oct	1,259.7	--	-13.0	--	--	13,896.6	--	41.4	--	2.0	-30.8
					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	--	-1.7	29.0	3.4	4.2	--	7.4	11.0	--
2017	6.2	8.7	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018	6.7	2.5	--	30.8	24.5	3.3	5.8	--	-0.2	5.8	--
2019	5.1	9.2	--	10.1	1.3	2.8	4.0	--	0.9	5.3	--
2020 (d)	-2.1	-13.5	--	-33.6	-28.4	-2.3	-17.7	--	-71.0	-71.3	--
2019 I	1.6	3.3	--	32.4	11.0	0.7	1.3	--	1.5	2.3	--
II	0.6	1.6	--	23.2	6.8	0.7	1.1	--	0.2	1.7	--
III	0.6	-1.0	--	0.5	-3.4	0.5	-0.1	--	-4.7	-1.1	--
IV	0.5	-3.9	--	-19.1	-8.8	0.6	-3.3	--	-16.7	-10.1	--
2020 I	-0.9	-6.7	--	-30.9	-11.0	-0.3	-8.3	--	-36.4	-28.5	--
II	-7.0	-3.4	--	-35.5	-43.2	-5.5	-9.2	--	-51.5	-48.0	--
III	7.2	4.8	--	-34.1	-23.2	1.9	-3.7	--	-53.1	-52.3	--
IV (e)	0.8	--	--	--	--	1.2	--	--	--	-46.9	--
2020 Aug	2.0	2.1	--	-34.2	-2.5	1.3	-1.0	--	-21.8	-21.3	--
Sep	0.1	2.1	--	-33.2	--	0.7	--	--	-25.8	-23.8	--
Oct	0.0	--	--	--	--	0.3	--	--	--	-29.6	--

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

Sources: European 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)

Annual percentage changes and index

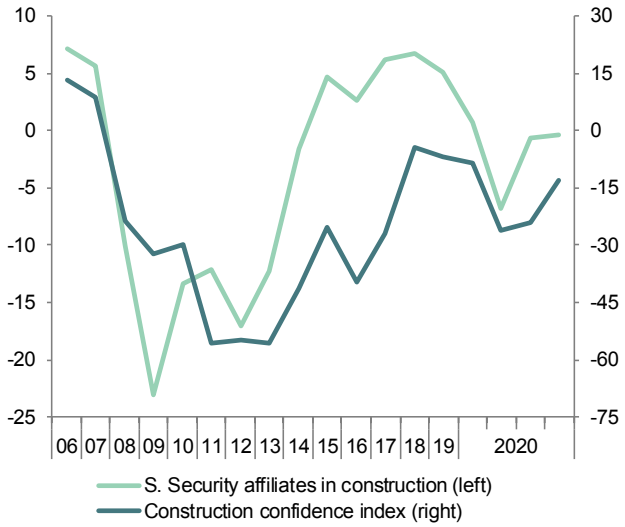


Chart 9.2 - Construction indicators (II)

Annual percentage changes

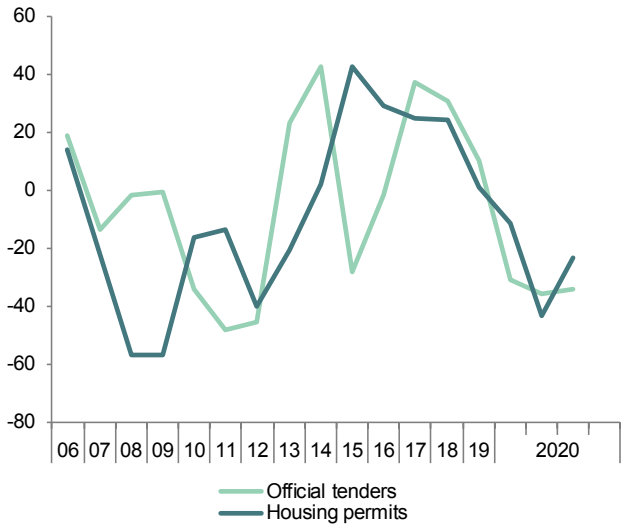


Chart 9.3 - Services indicators (I)

Annual percentage changes

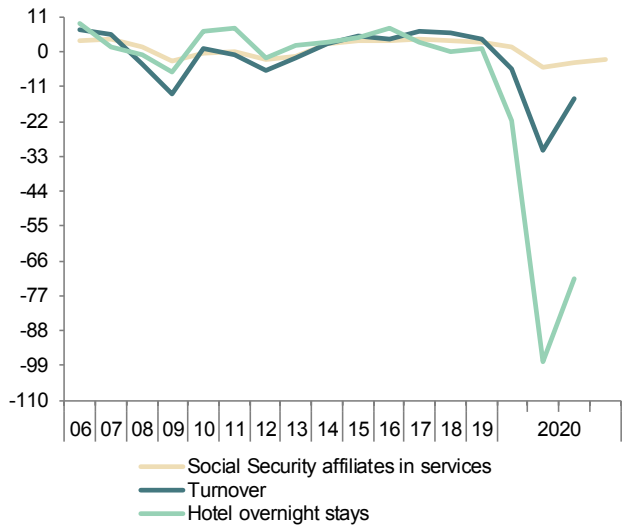


Chart 9.4 - Services indicators (II)

Index

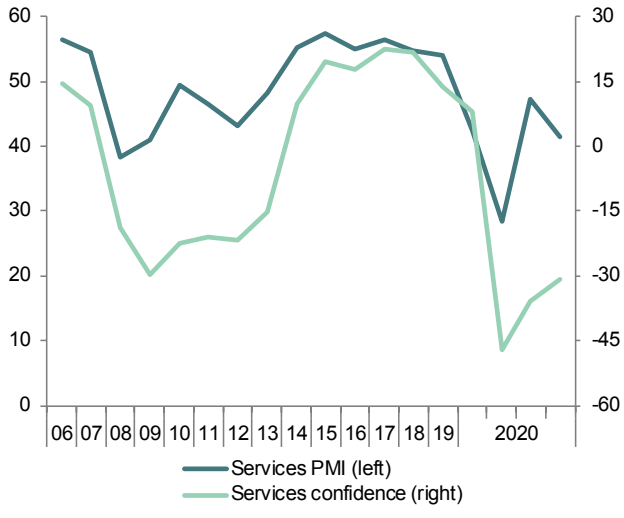


Table 10

Consumption and investment indicators (a)

		Consumption indicators					Investment in equipment indicators		
		Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	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		98.7	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	-5.6	230.0	12.4	105.4
2019		107.9	1,375.6	-6.3	119.6	-2.8	220.9	8.8	105.6
2020 (b)		97.0	655.3	-22.2	43.2	-25.5	116.9	-26.4	92.2
2019	I	107.2	346.6	-4.8	30.2	-1.5	57.7	10.9	106.6
	II	108.2	345.8	-4.0	30.6	-1.0	56.6	16.4	107.2
	III	108.0	335.8	-5.8	30.0	-6.2	53.7	6.8	105.0
	IV	105.3	303.3	-10.5	26.9	-2.6	48.1	1.2	100.0
2020	I	100.2	243.8	-10.3	20.0	-3.3	40.5	-11.4	94.4
	II	97.6	212.5	-27.9	13.0	-41.4	38.3	-41.0	93.2
	III	100.8	247.4	-26.9	11.6	-32.9	45.1	-28.9	98.9
	IV (b)	--	--	-26.7	--	-22.7	--	-19.9	--
2020	Aug	100.8	82.4	-28.7	3.8	-38.5	15.0	-29.4	98.9
	Sep	102.3	88.1	-26.3	3.9	-31.2	16.0	-10.6	101.4
	Oct	--	--	-26.7	--	-22.7	--	-19.9	--
		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	--	0.6	--	10.8	--	2.0
2019		2.3	-3.4	--	2.7	--	-4.0	--	0.2
2020 (d)		-8.5	-37.8	--	-55.2	--	-29.5	--	-11.6
2018	IV	0.6	-2.2	--	1.7	--	-0.5	--	-2.6
2019	I	1.0	-0.5	--	1.7	--	-0.4	--	2.6
	II	0.9	-0.2	--	1.3	--	-1.9	--	2.2
	III	-0.1	-2.9	--	-1.9	--	-5.2	--	-7.9
	IV	-2.5	-9.7	--	-10.3	--	-10.4	--	-17.8
2020	I	-4.9	-19.6	--	-25.8	--	-15.7	--	-20.6
	II	-2.6	-12.8	--	-34.6	--	-5.5	--	-5.0
	III	3.3	16.4	--	-11.3	--	17.8	--	27.2
2020	Jul	1.3	6.3	--	-2.6	--	6.4	--	2.3
	Aug	1.5	7.1	--	0.4	--	6.8	--	2.5
	Sep	1.5	6.9	--	1.1	--	6.7	--	2.5

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

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

Chart 10.1 - Consumption indicators

Annual percentage changes and balance of responses

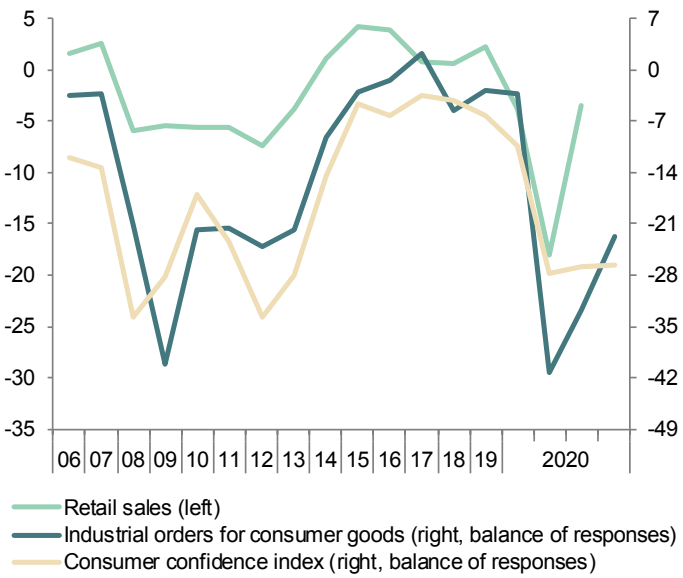


Chart 10.2 - Investment indicators

Annual percentage changes and balance of responses

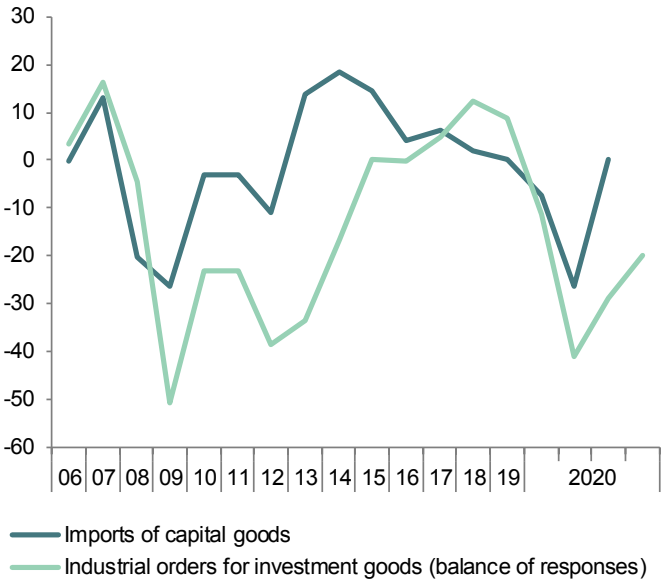


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16 or more	Labour force		Employment		Unemployment		Participation rate aged 16 or more (a)	Employment rate aged 16 or more (b)	Unemployment rate (c)			
											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					
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	--	3.2	--	58.6	50.4	14.1	32.6	13.2	20.1
2020		39.6	22.8	--	19.1	--	3.7	--	57.6	48.2	16.2	--	--	--
2021		39.7	23.3	--	19.4	--	3.9	--	58.7	48.9	16.7	--	--	--
2022		39.7	23.3	--	19.9	--	3.4	--	58.7	48.9	14.6	--	--	--
2018	IV	39.0	22.9	22.8	19.6	19.4	3.3	3.4	58.6	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	50.0	14.0	33.2	13.1	20.3
	III	39.3	23.1	23.0	19.9	19.7	3.2	3.4	58.6	50.0	13.9	31.7	13.1	19.3
	IV	39.4	23.2	23.1	20.0	19.8	3.2	3.3	58.7	50.3	13.8	30.5	12.8	20.0
2020	I	39.5	23.0	23.0	19.7	19.8	3.3	3.3	58.3	50.0	14.4	33.0	13.3	21.2
	II	39.6	22.0	21.9	18.6	18.4	3.4	3.5	55.4	46.6	15.3	39.6	13.9	24.9
	III	39.6	22.9	22.9	19.2	19.0	3.7	3.9	57.8	47.9	16.3	40.4	14.8	25.7
		Percentage changes (d)							Difference from one year ago					
2014		-0.3	-1.0	--	1.2	--	-7.3	--	-0.4	0.7	-1.7	-2.3	-1.4	-2.5
2015		0.0	-0.1	--	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	--	2.3	--	-6.6	--	0.0	0.7	-1.2	-1.8	-1.1	-1.8
2020		0.8	-1.0	--	-3.5	--	13.9	--	-1.1	-2.1	2.1	--	--	--
2021		0.3	2.3	--	1.7	--	5.4	--	1.2	0.7	0.5	--	--	--
2022		0.0	0.1	--	2.7	--	-12.7	--	0.0	0.0	-2.1	--	--	--
2018	IV	0.8	0.5	0.2	3.0	0.7	-12.3	-2.6	-0.2	1.1	-2.1	-3.9	-2.0	-2.8
2019	I	0.9	0.7	0.1	3.2	0.6	-11.6	-2.5	-0.1	1.1	-2.0	-1.4	-1.9	-3.4
	II	1.0	0.9	0.4	2.4	0.3	-7.4	0.5	-0.1	0.7	-1.3	-1.5	-1.3	-1.7
	III	1.1	1.0	0.4	1.8	0.2	-3.4	1.2	0.0	0.4	-0.6	-1.3	-0.6	-1.3
	IV	1.0	1.3	0.4	2.1	0.9	-3.4	-2.5	0.1	0.5	-0.7	-3.0	-0.7	-0.8
2020	I	1.0	0.7	-0.4	1.1	-0.4	-1.2	-0.4	-0.2	0.0	-0.3	-2.0	-0.4	0.4
	II	0.9	-4.6	-4.9	-6.0	-6.7	4.3	6.0	-3.2	-3.5	1.3	6.5	0.8	4.7
	III	0.7	-0.8	4.4	-3.5	3.0	15.8	12.0	-0.8	-2.1	2.3	8.8	1.7	6.3

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

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

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

Annual growth rates and percentage of active population

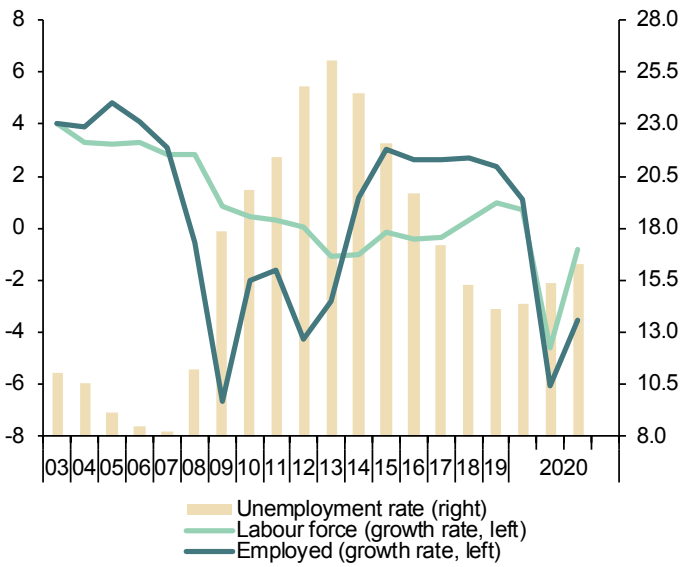


Chart 11a.2 - Unemployment rates, S.A.

Percentage

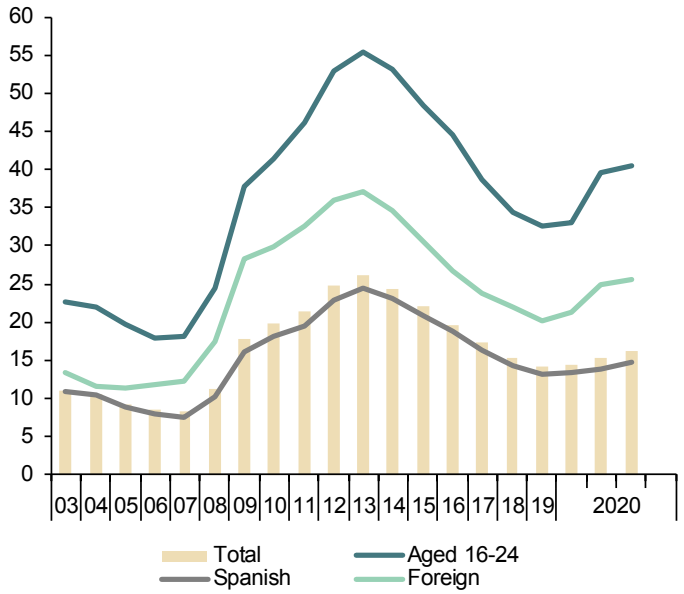


Table 11b

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)											
2014	0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91
2015	0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74
2016	0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21
2017	0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97
2018	0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31
2019	0.80	2.76	1.28	14.94	16.67	4.38	12.29	26.3	3.11	16.95	2.83	14.30
2020 (c)	0.76	2.70	1.23	14.46	16.06	3.84	12.23	23.9	3.09	16.49	2.66	13.90
2018 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
III	0.75	2.82	1.27	15.04	16.79	4.48	12.31	26.7	3.08	17.09	2.79	14.03
IV	0.79	2.76	1.28	15.13	16.85	4.40	12.45	26.1	3.12	17.30	2.67	13.38
2020 I	0.78	2.77	1.28	14.85	16.56	4.14	12.42	25.0	3.12	16.83	2.85	14.47
II	0.76	2.64	1.17	14.03	15.53	3.47	12.06	22.4	3.08	16.12	2.49	13.36
III	0.73	2.69	1.25	14.51	16.11	3.89	12.21	24.2	3.07	16.52	2.65	13.84
	Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
2014	-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015	0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016	5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017	5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2
2018	-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2019	-1.9	2.0	4.6	2.4	2.7	0.6	3.5	-0.6	0.5	2.3	2.3	0.0
2020 (d)	-4.8	-2.3	-3.4	-2.8	-3.3	-12.2	-0.1	-2.5	-0.5	-2.0	-7.5	-0.7
2018 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
III	-2.9	3.3	2.4	1.7	2.2	-0.7	3.3	-0.8	-0.3	1.6	2.8	0.1
IV	-3.8	2.0	0.3	2.5	2.4	-0.5	3.4	-0.8	0.3	3.8	-7.7	-1.4
2020 I	-6.5	2.2	-0.3	1.4	1.2	-2.2	2.4	-0.9	0.2	1.6	-1.8	-0.4
II	-5.7	-4.4	-8.4	-6.2	-7.0	-21.1	-1.9	-4.0	-1.2	-4.3	-15.8	-1.5
III	-2.0	-4.5	-1.6	-3.5	-4.1	-13.0	-0.8	-2.5	-0.5	-3.3	-4.8	-0.2

(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

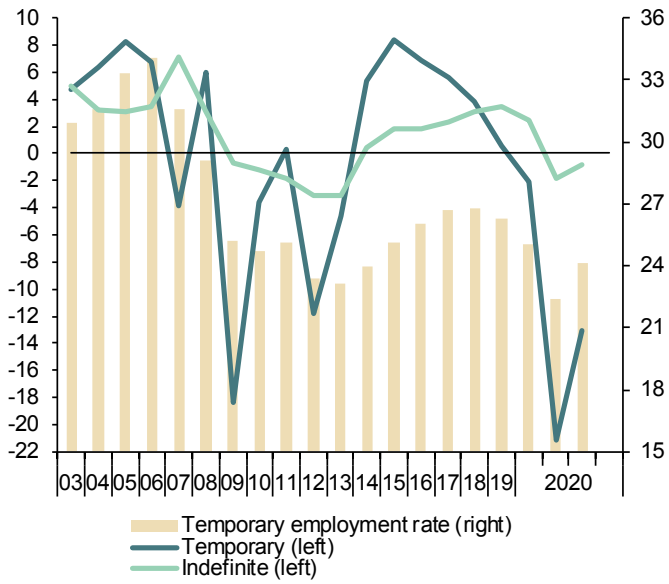


Table 12

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 2019		100.00	65.72	80.55	24.81	40.91	14.83	7.51	11.95	22.34
Indexes, 2016 = 100										
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	104.6	102.2	107.8	113.2	104.0
2020		104.1	103.6	103.6	100.6	105.4	103.6	112.1	102.1	106.3
2021		104.8	104.3	104.4	100.8	106.4	104.5	115.6	100.9	108.1
Annual percentage changes										
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	1.0	0.9	0.3	1.4	0.5	1.9	-1.2	0.9
2020		-0.3	0.6	0.7	0.2	0.8	1.3	4.0	-9.9	2.2
2021		0.7	0.7	0.7	0.2	0.9	0.9	3.1	-1.1	1.6
2020	Jan	1.1	1.0	1.0	0.3	1.4	1.0	3.5	0.0	1.8
	Feb	0.7	1.1	1.2	0.4	1.5	1.3	2.7	-3.3	1.8
	Mar	0.0	1.0	1.1	0.3	1.4	1.4	3.9	-9.7	2.2
	Apr	-0.7	0.9	1.1	0.3	1.3	1.9	6.9	-17.1	3.5
	May	-0.9	0.9	1.1	0.1	1.3	2.0	5.4	-17.7	3.1
	Jun	-0.3	0.8	1.0	0.1	1.3	1.7	4.1	-11.9	2.5
	Jul	-0.6	0.4	0.6	0.4	0.4	1.4	3.1	-10.7	2.0
	Aug	-0.5	0.2	0.4	0.3	0.2	1.2	3.5	-9.3	2.0
	Sep	-0.4	0.3	0.4	0.2	0.3	1.1	4.2	-8.5	2.1
	Oct	-0.8	0.1	0.3	0.0	0.1	1.0	4.1	-11.1	2.0
	Nov	-0.7	0.2	0.3	0.0	0.2	1.0	3.5	-10.0	1.9
	Dec	-0.5	0.1	0.3	0.1	0.1	1.2	3.5	-8.9	1.9
2021	Jan	-0.7	0.2	0.3	0.1	0.2	1.2	3.8	-10.4	2.1
	Feb	-0.5	0.2	0.3	0.1	0.2	0.9	4.4	-8.8	2.0
	Mar	0.2	0.3	0.3	0.2	0.3	0.7	3.7	-3.2	1.7
	Apr	0.7	0.3	0.3	0.2	0.4	0.3	0.8	4.1	0.5
	May	1.0	0.4	0.4	0.3	0.5	0.2	2.2	5.0	0.9
	Jun	0.8	0.5	0.5	0.3	0.7	0.5	3.1	1.4	1.4
	Jul	0.8	0.6	0.7	0.1	0.9	0.8	4.0	-0.4	1.9
	Aug	0.8	0.8	0.8	0.2	1.1	0.9	3.4	-0.7	1.7
	Sep	1.0	1.0	1.0	0.3	1.4	1.2	3.2	-0.8	1.9
	Oct	1.4	1.2	1.2	0.3	1.7	1.3	3.0	1.6	1.9
	Nov	1.3	1.2	1.2	0.3	1.7	1.4	3.0	0.9	1.9
	Dec	1.4	1.3	1.3	0.3	2.0	1.4	3.0	0.5	1.9

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation rate (I)

Annual percentage changes

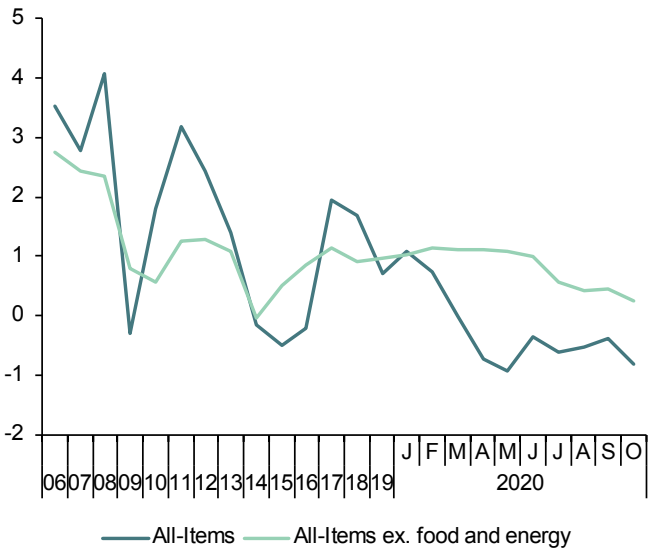


Chart 12.2 - Inflation rate (II)

Annual percentage changes

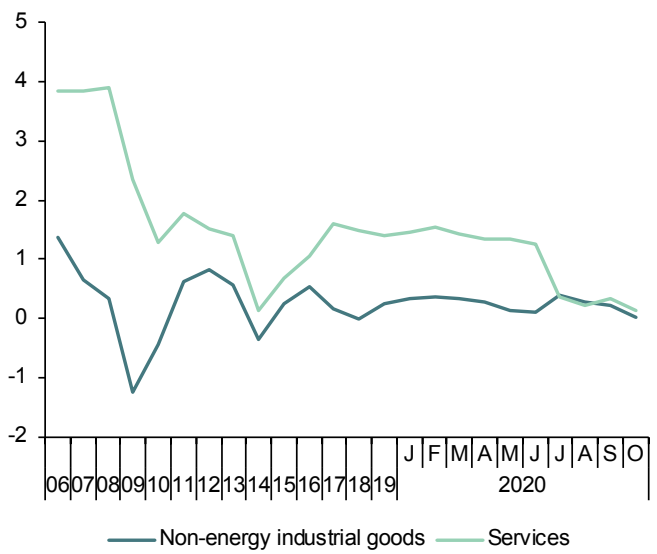


Table 13

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)	m² 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				
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	155.4	--
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	156.2	--
2017		102.1	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		104.7	103.6	103.2	83.3	79.8	57.7	148.7	146.4	155.7	162.7	--
2020 (b)		105.5	99.0	103.0	84.7	79.0	54.5	141.7	138.3	152.0	169.4	--
2018	IV	104.0	105.2	103.0	80.9	78.7	56.6	152.2	152.7	150.6	166.8	--
2019	I	103.9	104.2	103.0	82.1	79.6	57.3	144.1	140.5	155.2	152.2	--
	II	104.6	104.3	103.4	83.0	79.6	59.0	150.6	149.2	155.0	160.4	--
	III	104.7	103.3	103.2	84.3	79.7	58.2	144.3	140.6	155.9	167.0	--
	IV	105.7	102.8	103.0	83.8	80.4	56.5	155.7	155.4	156.6	171.2	--
2020	I	105.2	101.4	103.5	84.7	79.8	58.9	145.3	141.5	156.7	158.5	--
	II	105.6	96.3	102.6	84.8	78.3	50.1	138.1	135.1	147.2	180.3	--
	III (b)	105.8	99.2	102.8	--	--	--	--	--	--	--	--
2020	Jul	--	99.2	102.7	--	--	--	--	--	--	--	--
	Aug	--	99.1	102.7	--	--	--	--	--	--	--	--
	Sep	--	99.4	102.9	--	--	--	--	--	--	--	--
						Annual percent changes (c)						
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	0.7	0.7
2016		0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.0
2017		1.3	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018		1.2	3.0	1.1	6.7	3.4	-1.6	1.0	1.0	1.0	1.4	1.8
2019		1.4	-0.4	0.1	5.1	3.2	0.7	2.2	1.9	3.4	2.6	2.3
2020 (d)		1.1	-4.8	-0.2	2.7	-0.7	-6.3	-3.9	-4.5	-2.0	8.4	1.9
2018	IV	1.2	3.1	0.8	6.6	3.9	3.0	0.9	0.9	0.7	1.2	1.8
2019	I	1.2	1.9	0.2	6.8	4.4	-2.1	2.1	1.7	3.0	2.5	2.2
	II	1.4	0.9	0.3	5.3	3.1	0.9	2.5	2.1	3.6	3.1	2.2
	III	1.3	-2.2	0.1	4.7	3.1	4.5	2.2	1.9	3.0	2.3	2.3
	IV	1.6	-2.3	0.0	3.6	2.1	-0.2	2.3	1.8	4.0	2.7	2.3
2020	I	1.2	-2.7	0.4	3.2	0.3	2.8	0.8	0.7	1.0	4.2	2.0
	II	1.0	-7.7	-0.7	2.1	-1.7	-15.1	-8.3	-9.4	-5.0	12.4	2.0
	III (e)	1.0	-3.9	-0.4	--	--	--	--	--	--	--	1.9
2020	Aug	--	-3.5	-0.4	--	--	--	--	--	--	--	1.9
	Sep	--	-3.3	-0.2	--	--	--	--	--	--	--	1.9
	Oct	--	--	--	--	--	--	--	--	--	--	1.9

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

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

Chart 13.1 - Housing and urban land prices

Index (2007=100)

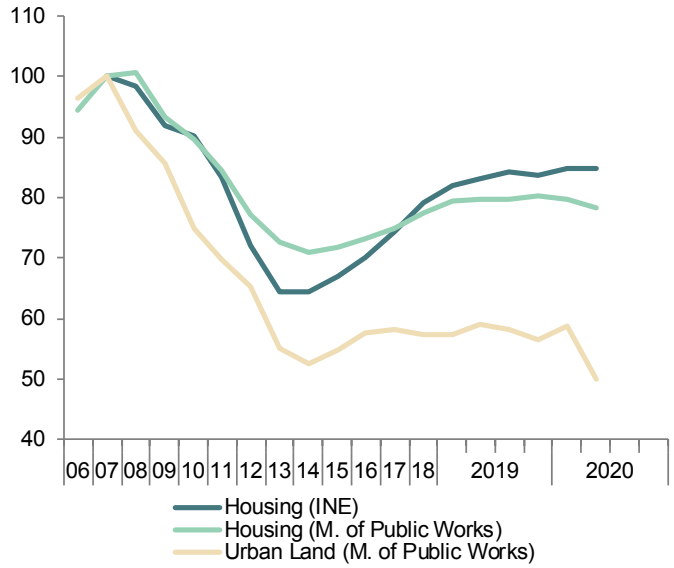


Chart 13.2 - Wage costs

Annual percent change

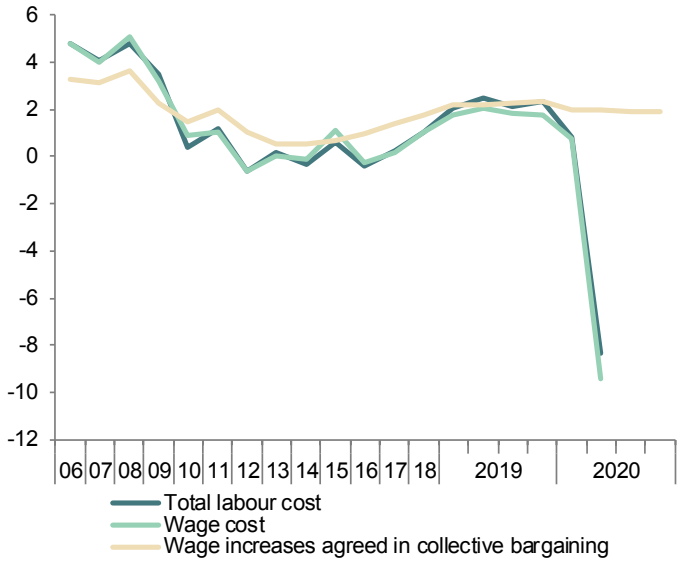


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2014		155.2	109.4	141.9	114.0	107.3	106.3	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		184.0	112.1	164.2	137.2	110.9	123.8	15.6	8.1	-2.9	-0.3	1.3
2019		187.1	112.9	165.9	138.3	110.8	124.9	15.9	8.3	-2.7	-0.4	1.4
2020 (b)		163.8	111.8	146.5	115.0	107.3	107.2	12.7	8.3	-1.2	0.2	1.4
2018	IV	183.6	113.5	161.8	138.2	113.7	121.5	13.7	9.8	-3.2	-0.4	0.6
2019	I	183.4	112.8	162.7	137.8	110.1	125.1	14.0	9.5	-3.1	-0.5	0.8
	II	197.5	111.7	176.8	142.7	110.4	129.3	14.9	10.4	-2.3	-0.1	1.0
	III	185.6	112.5	165.0	139.7	109.5	127.6	13.9	9.8	-3.2	-1.0	0.4
	IV	187.2	114.3	163.8	135.2	113.1	119.5	14.1	9.9	-2.1	0.1	0.9
2020	I	175.4	113.4	154.8	128.9	111.1	116.1	13.5	9.0	-2.4	-0.2	0.8
	II	141.5	111.6	126.8	96.3	104.7	91.9	11.0	7.1	-0.5	0.3	1.7
	III	174.4	110.5	157.9	119.7	105.5	113.5	13.8	8.6	-0.8	0.5	1.6
2020	Jul	173.8	112.7	154.2	117.9	105.7	111.6	14.1	8.1	-0.5	0.8	2.0
	Aug	171.7	109.1	157.4	120.0	105.0	114.3	13.4	8.6	-1.2	0.2	1.4
	Sep	177.9	109.8	162.0	121.1	105.8	114.5	13.8	9.0	-0.6	0.4	1.4
		Percentage changes (c)								Percentage of GDP		
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.8	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		3.3	3.0	0.3	5.7	4.5	1.2	3.4	3.1	-2.9	-0.3	1.3
2019		1.7	0.7	1.0	0.8	-0.1	0.8	1.7	1.7	-2.6	-0.4	1.4
2020(d)		-12.6	-0.4	-12.3	-17.2	-2.4	-15.2	-10.3	-16.0	--	--	--
2018	IV	-1.3	0.8	-2.0	0.3	1.0	-0.7	-2.1	-0.1	-3.1	-0.4	0.6
2019	I	-0.1	-0.6	0.5	-0.3	-3.1	2.9	2.4	-3.6	-3.0	-0.5	0.8
	II	7.7	-0.9	8.7	3.6	0.2	3.3	6.1	10.0	-2.2	-0.1	1.0
	III	-6.0	0.7	-6.7	-2.1	-0.8	-1.3	-6.4	-5.6	-3.1	-1.0	0.4
	IV	0.9	1.6	-0.7	-3.2	3.4	-6.4	1.0	0.7	-2.0	0.1	0.8
2020	I	-6.3	-0.8	-5.5	-4.6	-1.8	-2.9	0.0	0.0	-2.5	-0.2	0.8
	II	-19.3	-1.6	-18.0	-25.3	-5.7	-20.8	0.0	0.0	-0.6	0.3	2.1
	III	23.2	-1.0	24.5	24.3	0.7	23.4	0.0	0.0	-0.8	0.5	1.7
2020	Jul	4.0	1.3	2.6	10.4	-1.0	11.5	7.1	-0.9	--	--	--
	Aug	-1.2	-3.2	2.1	1.8	-0.7	2.5	-5.1	5.6	--	--	--
	Sep	3.6	0.6	2.9	0.9	0.7	0.2	2.7	5.0	--	--	--

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

Source: Ministry of Economy.

Chart 14.1 - External trade (real)

Annual percent change

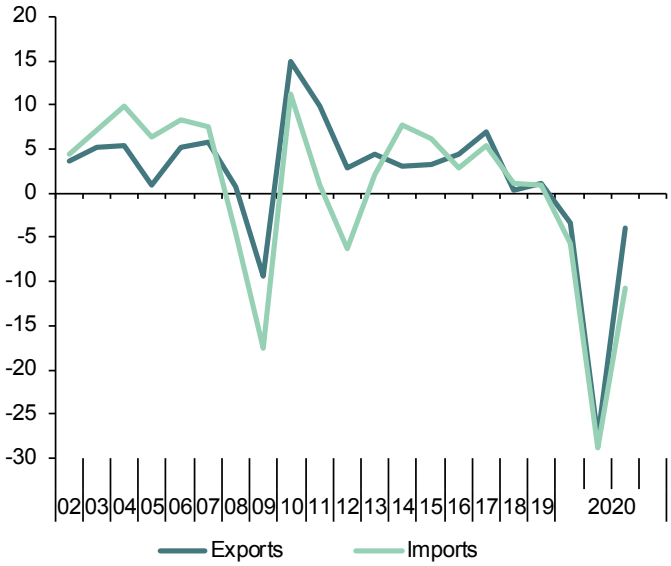


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

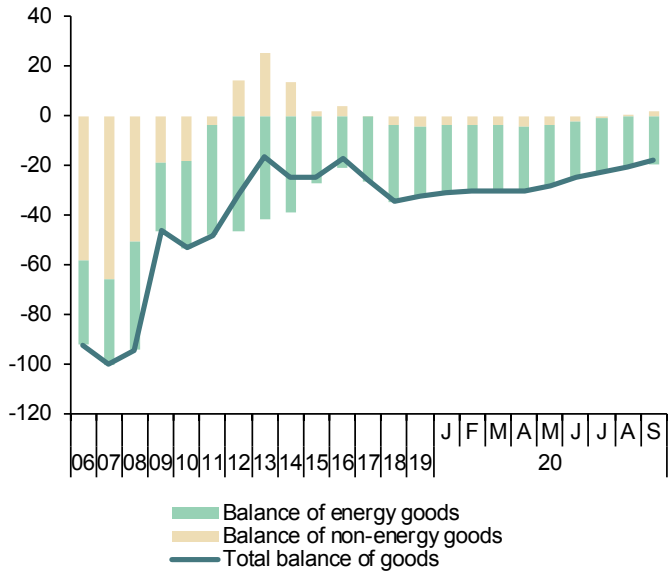


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
									Financial account, excluding Bank of Spain					Bank of Spain	
		Total	Goods	Services	Primary Income	Secondary Income			Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions															
2014		17.54	-21.26	53.25	-3.79	-10.67	4.54	22.08	-10.00	10.68	-2.67	-19.03	1.01	27.14	-4.94
2015		21.83	-20.68	53.44	-0.24	-10.69	6.98	28.80	69.47	30.07	-5.16	40.75	3.81	-40.79	-0.12
2016		35.37	-14.28	58.70	2.75	-11.80	2.43	37.80	89.49	11.19	46.65	29.09	2.57	-54.02	-2.34
2017		32.21	-22.04	63.93	0.44	-10.13	2.84	37.80	68.01	12.46	25.08	22.74	7.72	-32.63	-2.42
2018		23.22	-29.68	62.45	2.20	-11.74	5.81	29.03	47.49	-13.35	15.24	46.35	-0.75	-14.25	4.20
2019		26.57	-26.47	63.93	1.86	-12.74	4.21	27.83	48.19	9.97	-50.98	59.32	-8.26	14.82	-17.43
2020 (a)		0.65	-5.35	12.47	0.66	-7.13	1.26	1.92	48.19	2.38	27.83	12.53	5.46	-37.78	8.49
2018	III	7.81	-9.19	21.21	-0.68	-3.52	0.87	8.68	8.78	2.78	3.73	-0.22	2.47	0.07	0.17
	IV	5.47	-7.70	12.93	3.36	-3.12	3.81	9.28	31.95	5.81	-6.10	31.97	0.27	-16.89	5.79
2019	I	-1.36	-8.01	10.37	0.70	-4.43	0.76	-0.60	7.21	6.52	19.73	-18.07	-0.97	-7.42	0.39
	II	10.98	-3.94	18.43	-1.25	-2.27	0.84	11.82	45.79	6.18	11.05	26.37	2.19	-35.09	-1.12
	III	8.66	-9.23	21.65	-0.29	-3.47	0.54	9.20	18.82	-3.73	11.84	9.34	1.37	-7.02	2.60
	IV	8.30	-5.29	13.48	2.69	-2.58	2.08	10.37	17.67	2.21	4.03	11.45	-0.02	-4.49	2.81
2020	I	-0.79	-5.97	8.90	0.52	-4.24	0.68	-0.12	46.43	-2.76	31.55	15.79	1.86	-43.40	3.14
	II	1.45	0.62	3.57	0.14	-2.89	0.58	2.03	1.76	5.14	-3.72	-3.26	3.60	5.62	5.35
			Goods and Services		Primary and Secondary Income										
2020	Jun	1.97	2.47		-0.51		0.17	2.13	10.71	1.89	-9.11	18.02	-0.09	-7.17	1.41
	Jul	1.45	3.64		-2.19		0.24	1.69	2.93	6.69	6.55	-10.34	0.03	3.45	4.69
	Aug	1.35	1.91		-0.55		0.18	1.54	-0.82	0.54	5.85	-9.57	2.35	3.94	1.58
Percentage of GDP															
2014		1.7	-2.1	5.2	-0.4	-1.0	0.4	2.1	-1.0	1.0	-0.3	-1.8	0.1	2.6	-0.5
2015		2.0	-1.9	5.0	0.0	-1.0	0.6	2.7	6.4	2.8	-0.5	3.8	0.4	-3.8	0.0
2016		3.2	-1.3	5.3	0.2	-1.1	0.2	3.4	8.0	1.0	4.2	2.6	0.2	-4.9	-0.2
2017		2.8	-1.9	5.5	0.0	-0.9	0.2	3.3	5.9	1.1	2.2	2.0	0.7	-2.8	-0.2
2018		1.9	-2.5	5.2	0.2	-1.0	0.5	2.4	3.9	-1.1	1.3	3.8	-0.1	-1.2	0.3
2019		2.1	-2.1	5.1	0.1	-1.0	0.3	2.2	3.9	0.8	-4.1	4.8	-0.7	1.2	-1.4
2020 (a)		0.1	-1.0	2.3	0.1	-1.3	0.2	0.4	8.9	0.4	5.1	2.3	1.0	-7.0	1.6
2018	III	2.6	-3.1	7.1	-0.2	-1.2	0.3	2.9	3.0	0.9	1.3	-0.1	0.8	0.0	0.1
	IV	1.7	-2.4	4.1	1.1	-1.0	1.2	2.9	10.1	1.8	-1.9	10.1	0.1	-5.4	1.8
2019	I	-0.5	-2.7	3.5	0.2	-1.5	0.3	-0.2	2.4	2.2	6.6	-6.1	-0.3	-2.5	0.1
	II	3.5	-1.2	5.8	-0.4	-0.7	0.3	3.7	14.5	2.0	3.5	8.4	0.7	-11.1	-0.4
	III	2.8	-3.0	7.1	-0.1	-1.1	0.2	3.0	6.2	-1.2	3.9	3.1	0.4	-2.3	0.8
	IV	2.6	-1.6	4.1	0.8	-0.8	0.6	3.2	5.4	0.7	1.2	3.5	0.0	-1.4	0.9
2020	I	-0.3	-2.1	3.1	0.2	-1.5	0.2	0.0	16.0	-1.0	10.9	5.4	0.6	-14.9	1.1
	II	0.6	0.2	1.4	0.1	-1.2	0.2	0.8	0.7	2.1	-1.5	-1.3	1.4	2.2	2.1

(a) Period with available data

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

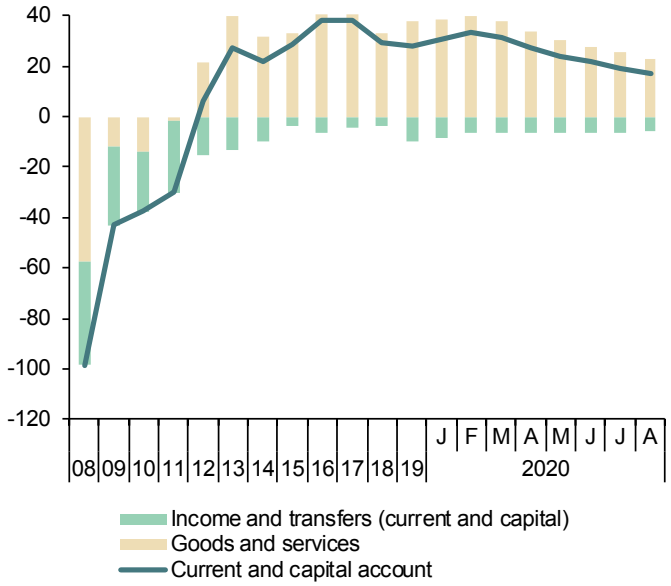


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

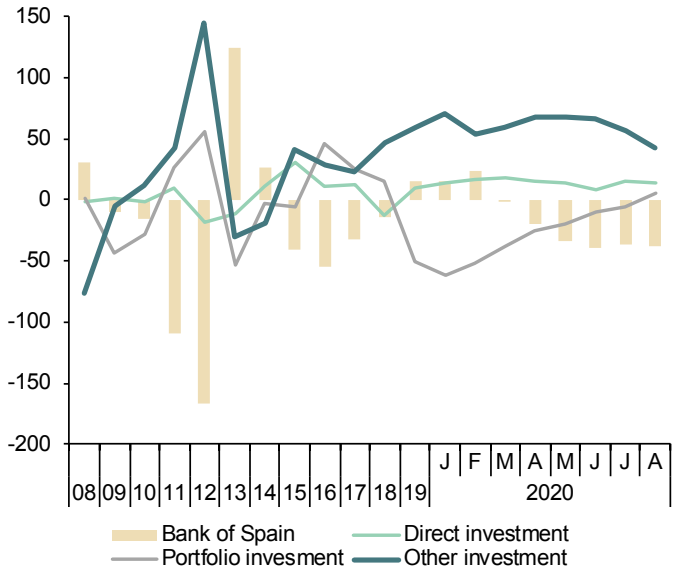


Table 16

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
2013		102.8	98.1	104.8	100.8	99.5	101.3	103.5	104.4	99.1	113.5
2014		101.0	98.2	102.8	100.6	100.0	100.7	102.1	102.8	99.3	112.2
2015		98.6	96.8	101.8	100.0	100.0	100.0	100.0	100.0	100.0	107.8
2016		97.3	93.6	103.9	99.7	100.3	99.4	96.9	97.9	98.9	108.0
2017		97.3	92.8	104.8	101.7	101.8	99.9	101.2	100.7	100.5	109.7
2018		96.2	91.2	105.5	103.5	103.6	99.9	103.8	103.3	100.4	110.5
2019		96.2	92.3	104.2	104.3	104.8	99.5	103.4	103.7	99.8	109.1
2020 (b)		--	--	--	103.9	105.1	98.8	99.5	101.1	98.5	108.2
2018	III	--	--	--	103.6	104.1	99.5	105.0	104.0	100.9	110.0
	IV	--	--	--	104.4	104.3	100.1	104.7	104.3	100.4	110.5
2019	I	--	--	--	102.9	103.5	99.4	103.8	104.0	99.8	109.0
	II	--	--	--	105.2	105.3	99.9	104.1	103.9	100.2	109.8
	III	--	--	--	104.0	105.1	99.0	103.1	103.4	99.7	108.6
	IV	--	--	--	105.0	105.3	99.6	102.8	103.4	99.5	108.9
2020	I	--	--	--	103.6	104.7	98.9	101.6	102.8	98.8	107.8
	II	--	--	--	104.5	105.5	99.1	97.3	99.9	97.4	108.6
2020	Aug	--	--	--	103.2	104.9	98.4	99.5	100.5	99.0	108.3
	Sep	--	--	--	103.7	105.0	98.8	100.0	100.7	99.3	108.9
	Oct	--	--	--	104.0	105.2	98.9	--	--	--	--
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2013		-1.4	3.2	-4.5	1.5	1.3	0.2	0.6	-0.2	0.8	2.0
2014		-1.7	0.2	-1.9	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-1.1
2015		-2.4	-1.5	-0.9	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.9
2016		-1.3	-3.2	2.1	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	0.2
2017		0.0	-0.9	0.8	2.0	1.5	0.5	4.5	2.8	1.7	1.5
2018		-1.1	-1.8	0.6	1.7	1.7	0.0	2.5	2.6	-0.1	0.8
2019		0.0	1.2	-1.2	0.8	1.2	-0.4	-0.3	0.3	-0.6	0.0
2020 (c)		--	--	--	-0.3	0.4	-0.7	-4.0	-2.6	-1.4	-0.8
2018	III	--	--	--	2.3	2.3	0.0	4.2	3.6	0.6	0.2
	IV	--	--	--	1.8	1.8	0.0	2.4	2.8	-0.4	-0.5
2019	I	--	--	--	1.1	1.4	-0.3	1.6	1.9	-0.3	-1.3
	II	--	--	--	1.1	1.4	-0.3	0.8	1.1	-0.3	-1.2
	III	--	--	--	0.4	1.0	-0.6	-1.8	-0.6	-1.2	-1.3
	IV	--	--	--	0.5	1.0	-0.5	-1.8	-0.9	-0.9	-1.4
2020	I	--	--	--	0.7	1.1	-0.4	-2.1	-1.2	-0.9	-1.1
	II	--	--	--	-0.6	0.2	-0.8	-6.5	-3.8	-2.7	-1.1
2020	Aug	--	--	--	-0.6	-0.2	-0.4	-3.0	-2.6	-0.4	-0.2
	Sep	--	--	--	-0.6	-0.3	-0.3	-2.7	-2.7	0.0	0.4
	Oct	--	--	--	-0.9	-0.3	-0.6	--	--	--	--

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

Sources: Eurostat, Bank of Spain and Funcas.

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

1998=100

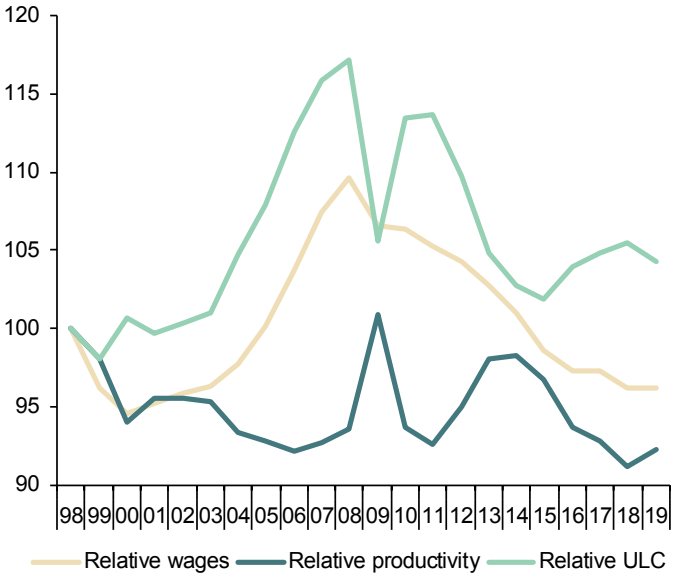


Chart 16.2 - Harmonized Consumer Prices

Annual growth in % and percentage points

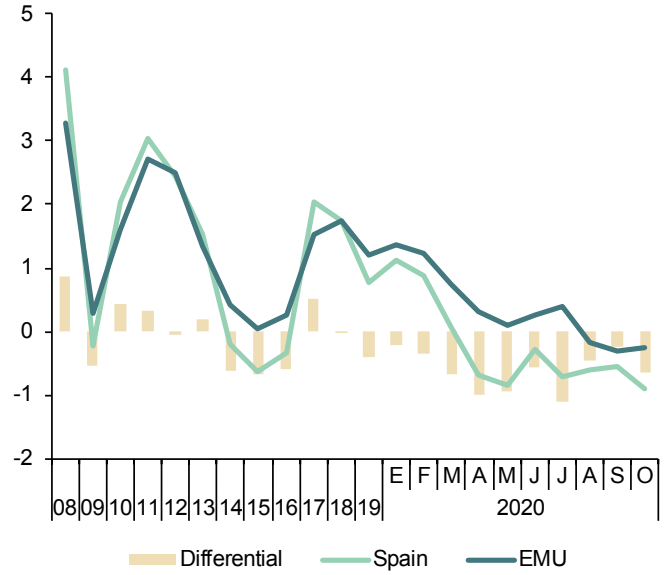


Table 17a

Imbalances: International comparison (I)

(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	Spain	EMU	USA	Spain	EMU	USA	Spain	EMU	USA
					Billions of national currency				
2008	-50.7	-207.4	-1,084.5	440.6	6,700.8	10,838.3	-98.8	-49.8	-859.7
2009	-120.6	-577.8	-1,896.6	569.5	7,440.5	12,525.9	-43.7	63.4	-558.6
2010	-102.2	-597.8	-1,863.1	649.2	8,199.1	14,301.9	-39.2	61.5	-491.3
2011	-103.6	-414.4	-1,709.1	743.0	8,658.8	15,501.9	-29.0	89.3	-404.9
2012	-110.7	-364.6	-1,493.3	889.9	9,114.9	16,718.0	0.9	226.2	-201.5
2013	-71.8	-299.3	-977.4	977.3	9,429.4	17,582.1	20.8	281.8	-203.6
2014	-61.1	-250.2	-910.9	1,039.4	9,674.6	18,299.9	17.5	317.0	-79.0
2015	-55.8	-207.7	-842.3	1,070.1	9,792.7	19,072.3	21.8	360.1	-186.4
2016	-48.0	-158.9	-1,009.4	1,104.6	9,973.5	19,991.2	35.4	390.2	-315.2
2017	-35.1	-104.2	-831.8	1,145.1	10,065.8	20,688.3	32.2	410.1	-260.1
2018	-29.9	-53.5	-1,357.9	1,173.4	10,167.0	22,031.9	23.2	400.5	-409.8
2019	-35.6	-74.1	-1,532.8	1,188.9	10,254.7	23,293.5	26.4	364.2	-515.6
2020	-134.4	-981.7	-3,157.5	1,320.6	11,408.2	26,451.0	20.3	291.3	--
2021	-111.9	-761.2	-1,501.7	1,426.2	12,098.8	27,952.7	29.5	312.1	--
2022	-106.8	-580.9	-1,069.9	1,532.9	12,659.2	29,022.6	34.4	350.7	--
					Percentage of GDP				
2008	-4.6	-2.2	-7.4	39.7	69.6	73.7	-8.9	-0.5	-5.8
2009	-11.3	-6.2	-13.1	53.3	80.2	86.7	-4.1	0.7	-3.9
2010	-9.5	-6.3	-12.4	60.5	86.0	95.4	-3.7	0.6	-3.3
2011	-9.7	-4.2	-11.0	69.9	88.4	99.7	-2.7	0.9	-2.6
2012	-10.7	-3.7	-9.2	86.3	92.7	103.2	0.1	2.3	-1.2
2013	-7.0	-3.0	-5.8	95.8	94.9	104.7	2.0	2.8	-1.2
2014	-5.9	-2.5	-5.2	100.7	95.2	104.4	1.7	3.1	-0.5
2015	-5.2	-2.0	-4.6	99.3	93.1	104.6	2.0	3.4	-1.0
2016	-4.3	-1.5	-5.4	99.2	92.2	106.6	3.2	3.6	-1.7
2017	-3.0	-0.9	-4.3	98.6	89.7	105.9	2.8	3.7	-1.3
2018	-2.5	-0.5	-6.6	97.4	87.7	106.9	1.9	3.5	-2.0
2019	-2.9	-0.6	-7.2	95.5	85.9	108.7	2.1	3.1	-2.4
2020	-12.2	-8.8	-15.3	120.3	101.7	127.9	1.8	2.6	--
2021	-9.6	-6.4	-6.9	122.0	102.3	128.7	2.5	2.6	--
2022	-8.6	-4.7	-4.7	123.9	102.6	128.7	2.8	2.8	--

Source: European Commission Forecasts, Autumn 2020.

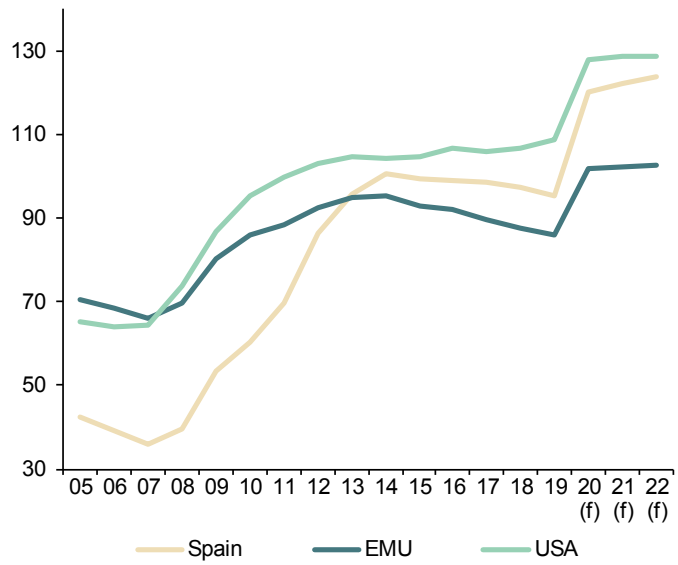
Chart 17a.1 - Government deficit

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	4,768.9	12,033.2	954.1	7,018.0	8,145.7
2006	783.5	5,191.3	13,318.5	1,171.9	7,620.4	8,968.7
2007	879.3	5,560.2	14,241.5	1,371.6	8,401.5	10,100.3
2008	916.7	5,773.7	14,110.4	1,460.0	9,061.5	10,666.3
2009	908.9	5,881.0	13,951.1	1,473.5	9,149.0	10,155.2
2010	905.2	6,022.2	13,735.6	1,498.0	9,324.1	10,016.6
2011	877.9	6,105.5	13,586.7	1,458.3	9,695.2	10,271.7
2012	840.9	6,098.7	13,586.5	1,339.2	9,871.9	10,774.9
2013	793.6	6,059.9	13,722.9	1,267.9	9,873.2	11,241.1
2014	757.8	6,067.6	13,971.2	1,207.7	10,329.5	11,972.3
2015	733.3	6,131.1	14,164.4	1,183.7	10,885.9	12,772.9
2016	718.5	6,235.8	14,593.8	1,166.5	11,255.9	13,447.1
2017	711.0	6,397.8	15,147.2	1,153.1	11,460.9	14,389.4
2018	709.6	6,585.7	15,615.6	1,145.6	11,813.1	15,318.2
2019	708.6	6,810.4	16,148.6	1,155.8	12,075.9	16,058.0
			Percentage of GDP			
2005	70.8	56.5	92.3	102.9	83.1	62.5
2006	78.0	58.4	96.4	116.7	85.7	64.9
2007	81.8	59.2	98.5	127.5	89.5	69.9
2008	82.6	60.0	95.9	131.6	94.2	72.5
2009	85.0	63.4	96.6	137.8	98.7	70.3
2010	84.4	63.2	91.6	139.6	97.8	66.8
2011	82.5	62.3	87.4	137.1	99.0	66.1
2012	81.6	62.0	83.9	129.9	100.4	66.5
2013	77.8	61.0	81.8	124.3	99.4	67.0
2014	73.4	59.7	79.7	117.0	101.6	68.3
2015	68.0	58.3	77.7	109.8	103.5	70.1
2016	64.5	57.7	78.0	104.7	104.1	71.9
2017	61.2	57.0	77.6	99.2	102.2	73.7
2018	58.9	56.8	75.9	95.1	101.9	74.4
2019	56.9	57.1	75.4	92.9	101.2	74.9

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

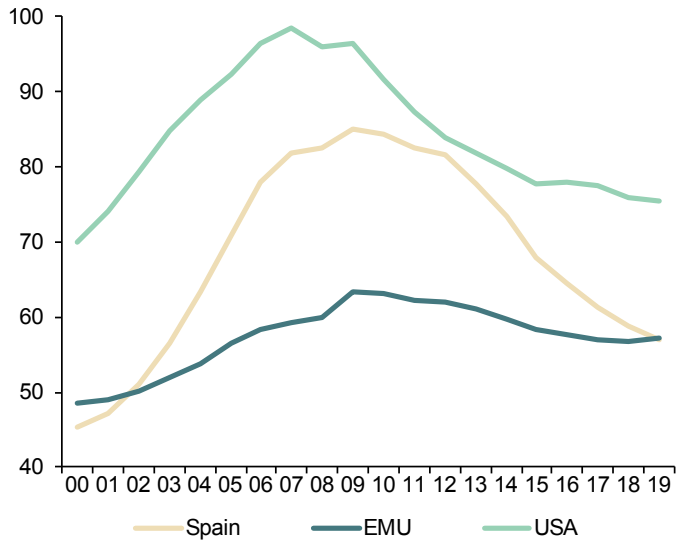
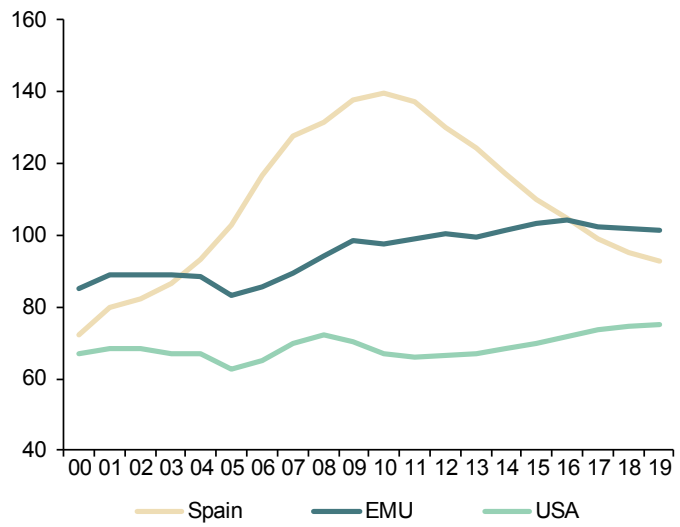


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: November 15th, 2020

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.3	August 2020
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.3	August 2020
Doubtful loans (monthly % var.)	-0.2	August 2020
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	1,752,889	September 2020
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	260,661	September 2020
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	3	September 2020
"Operating expenses/gross operating income" ratio (%)	64.03	June 2020
"Customer deposits/employees" ratio (thousand euros)	10,952.96	June 2020
"Customer deposits/branches" ratio (thousand euros)	85,243.93	June 2020
"Branches/institutions" ratio	122.34	June 2020

A. Money and Interest Rates

Indicator	Source	Average 2001-2017	2018	2019	2020 October	2020 November 15	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.2	4.1	5.0	-	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.7	-0.309	-0.354	-0.523	-0.513	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.1	-0.117	-0.249	-0.489	-0.468	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	3.8	1.4	0.6	0.1	0.1	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.9	1.5	-	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates increased during the first half of November, after reaching record-lows in October amid the persistence of COVID-19. The 3-month interbank rate went from -0.523% in September to -0.513% in mid-November, and the 1-year Euribor from -0.489% to -0.468%. Monetary policy has accentuated its expansionary stance with the latest decisions of the Federal Reserve and the ECB, significantly expanding the stimulus program due to the concerns surrounding the effects of COVID-19. As for the Spanish 10-year bond yield, it stands at 0.1%.

B. Financial Markets

Indicator	Source	Average 2001-2016	2018	2019	2020 August	2020 September	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.4	84.2	288.7	25.16	28.85	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	18.1	49.2	87.2	13.26	17.13	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.5	1.07	0.01	-	0.22	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	0.5	1.84	1.2	0.52	0.35	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	0.6	-0.52	-0.54	-0.50	-0.67	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	701.8	1,164.63	1,311.87	-	-	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	0.3	-5.9	1.2	3.1	-3.2	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	3.1	-5.3	-7.4	-37.2	57.8	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	1,015.6	862.6	881.6	685.95	768.72 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,772.1	8,539.9	8,812.9	6,969.5	7,783.7 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	15.8	12.2	13.2	16.9	18.7 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange		-	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2016	2018	2019	2020 August	2020 September	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF		-	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF		-	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.3	-6.1	-14.4	-12.9	22.8	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.3	58.5	30	-50	480	IBEX-35 shares concluded transactions

(a) Last data published: November 15th, 2020.

Comment on "Financial Markets": The stock market recovered some ground during the first half of November due to the news on advances in COVID-19 vaccines. The IBEX-35 went up to 7,784 points, and the General Index of the Madrid Stock Exchange to 769. During September (last month available), there was an increase in transactions with outright spot T-bills to 28.85 and of spot government bonds transactions to 17.13. There was an increase in Ibex-35 futures of 22.8% and of options of 480%.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2017	2018	2019	2020 Q1	2020 Q2	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-1.8	2.4	2.5	2.5	1.8	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	1.9	0.1	2.2	2.0	2.7	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	269.1	280.7	282.0	284.7	313.9	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	64.2	58.9	56.9	57.0	60.6	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.8	-1.6	5.9	-4.5	3.3	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.4	0.1	0.3	-0.8	7.7	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2020Q2, the financial savings to GDP in the overall economy increased 1.8% of GDP. There was an increase in the financial savings rate of households of 2.7%. The debt to GDP ratio of the economy reached 313.9%. Finally, there was an increase in the stock of financial assets on households' balance sheets of 3.3%, and of 7.7% in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2017	2018	2019	2020 July	2020 August	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	6.1	-4.7	0.2	-1.2	-0.3	Lending to the private sector percentage change for the sum of banks. savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	7.0	0.7	0.3	-0.7	0.3	Deposits percentage change for the sum of banks. savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	9.95	-0.9	-0.3	-0.5	0.2	Asset-side debt securities percentage change for the sum of banks. savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	9.3	-8.8	0.5	-0.6	-0.1	Asset-side equity and shares percentage change for the sum of banks. savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.2	-0.6	-1.6	-1.8	-1.6	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).
33. Doubtful loans (monthly average % var.)	Bank of Spain	-0.3	-2.3	-1.7	-0.2	-0.2	Doubtful loans. Percentage change for the sum of banks. savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	2.6	-1.4	-1.1	-17.4	9.3	Liability-side assets sold under repurchase. Percentage change for the sum of banks. savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	7.8	-4.1	0.3	0.1	0.2	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 August show a decrease in bank credit to the private sector of 0.3%. Data also show an increase of financial institutions deposit-taking of 0.3%. Holdings of debt securities increased 0.2%. Doubtful loans fell 0.2% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2001-2015	2016	2017	2019 December	2020 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	194	124	122	113	113	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	75	82	83	81	79	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	246,618	189,280	187,472	176,838 (a)	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,047	28,643	27,320	23,565	23,341	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	688,007	1,752,889 (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	142,966	260,661 (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	2	3 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2018.

(b) Last data published: September 2020.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In September 2020, recourse to Eurosystem funding by Spanish credit institutions reached 260.6 billion euros.

MEMO ITEM: From January 2015, the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 444 billion euros in September 2020, and 3.4 trillion euros for the entire Eurozone banking system.

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

Indicator	Source	Average 2000-2017	2018	2019	2020 Q1	2020 Q2	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	48.8	54.39	53.30	56.92	64.03	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions´ P&L accounts
44. "Customer deposits/ employees" ratio (Euro thousands)	Bank of Spain	3,911.03	9,461.19	9,574.38	10,040.37	10,952.96	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	24,735.07	68,190.72	74,450.04	78,602.17	85,243.93	Productivity indicator (business by branch)

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

Indicator	Source	Average 2000-2017	2018	2019	2020 Q1	2020 Q2	Definition and calculation
46. "Branches/institutions" ratio	Bank of Spain	198.71	131.36	123.09	123.24	122.34	Network expansion indicator
47. "Employees/branches" ratio	Bank of Spain	6.19	7.2	7.7	7.9	7.5	Branch size indicator
48. "Equity capital (monthly average % var.)	Bank of Spain	0.09	-0.79	0.25	-1.12	-3.01	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	48.8	54.39	53.30	56.92	64.03	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	3,911.03	9,461.19	9,574.38	10,040.37	10,952.96	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2020Q2, there was a fall in the profitability of Spanish banks, driven by the effects of COVID-19, to some extent due to the substantial provisions made to cover potential losses.

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) (%)
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	701,997	33,053
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	441,051	39,211
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	344,992	51,666
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	368,170	66,803
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	417,655	74,873
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	492,600	71,508
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	592,604	63,754
2018	46,722,980	43.1	19.1	80.5	85.9	53.6	29.3	13.7	715,255	56,745
2019	47,026,208	43.3	19.3	80.9	86.2	53.7	29.6	14.4	827,052	61,338
2020●	47,431,256	43.6	19.4			53.5	29.8	15.2		
Sources	EPC	EPC	EPC	ID INE	ID INE	EPC	EPC	EPC	EVR	EVR

ID INE: Indicadores Demográficos INE.

EPC: Estadística del Padrón Continuo.

EVR: Estadística de Variaciones Residenciales.

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

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

● *Provisional data.*

Table 2

Households and families

	Households				Nuptiality					
	Households (thousands)	Average household size	Households with one person younger than 65 (%)	Households with one person older than 65 (%)	Marriage rate (Spanish)	Marriage rate (foreign population)	Divorce rate	Mean age at first marriage, men	Mean age at first marriage, women	Same sex marriages (%)
2008	16,742	2.71	12.0	10.2	8.5	8.4	2.39	32.4	30.2	1.62
2010	17,174	2.67	12.8	9.9	7.2	7.9	2.21	33.2	31.0	1.87
2012	17,434	2.63	13.7	9.9	7.2	6.7	2.23	33.8	31.7	2.04
2014	18,329	2.51	14.2	10.6	6.9	6.5	2.17	34.4	32.3	2.06
2015	18,376	2.54	14.6	10.7	7.3	6.5	2.08	34.8	32.7	2.26
2016	18,444	2.52	14.6	10.9	7.5	6.8	2.08	35.0	32.9	2.46
2017	18,512	2.52	14.2	11.4	7.4	7.0	2.11	35.3	33.2	2.67
2018	18,581	2.51	14.3	11.5	7.1	6.6	2.04	35.6	33.4	2.90
2019	18,697	2.52	14.9	11.2	7.0●	6.6●				
2020■	18,786	2.52								
Sources	LFS	LFS	EPF	EPF	ID INE	ID INE	ID INE	ID INE	ID INE	MNP

Table 2 (Continued)

Households and families

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

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

Marriage rate: Number of marriages per thousand population.

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

Divorce rate: Number of divorces per thousand population.

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

■ *Data refer to January-September.*

● *Provisional data.*

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)
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	1,750,106	667,287	675,971	1,290,455	217,840	50,807,185	4.23
2019	19.3	6.3	30.3	44.7	1,747,087	673,171	714,292	1,309,791●	234,214●		
2020■	17.9	6.1	31.2	44.8							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	INE National Accounts

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

■ *Data refer to January-September.*

● *Provisional data.*

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood			Social Security		
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019	807,614	6,038,326	1,138	957,500	975	2,361,620	712	912,384	259,570	193,122	14,997
2020■	2,017,704◆	6,088,718■	1,158■	955,240■	985■	2,354,339■	724■	1,017,242◆	261,657◆	189,522◆	13,538◆
Sources	INEM	INSS	INSS	INSS	INSS	INSS	INSS	INEM	IMSERSO	IMSERSO	IMSERSO

INEM: Instituto Nacional de Empleo.

INSS: Instituto Nacional de la Seguridad Social.

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-August.*

◆ *Data refer to January-September.*

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction*		Patients on waiting list (days)	
	Total (% GDP)	Public (% GDP)	Total expenditure ($ per inhabitant)	Public expenditure (per inhabitant)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people asigned	Specialist nurses per 1,000 inhabitants	Primary care nurses per 1,000 people asigned	With the working of the health system	With medical history and tracing by family doctor or pediatrician	Non-urgent surgical procedures	First specialist consultations per 1,000 inhabitants
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	8.80	6.25	3,370	2,385	1.9	0.8	3.4	0.6	6.7	7.5	106	66
2018	8.90	6.20	3,323	2,341	2.0	0.8	3.5	0.7	6.6	7.5	129	96
2019											115	81
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.

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

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Notes

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