SEFO

SPANISH AND INTERNATIONAL
ECONOMIC & FINANCIAL OUTLOOK

VOLUME 8 | number 2, March 2019

Spain's financial sector: Challenges and risks

funcas

WHAT MATTERS

The **Spanish economy** in 2018 and forecasts for 2019–2021

The future of blockchain in the European banking system

Accelerating the pace of **non-performing loan reduction** in Europe

A snapshot of **Spain's mortgage market**

The impact of **IFRS 16** on lease accounting

The need for caution on Spain's recent **minimum wage** hike

Deficit reduction in Spain: Uncertainty persists

Forward guidance and price stability: **The European Central Bank** seeks to chart a clearer path

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

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Printed in Spain

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

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

SEFO

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Letter from the Editors

The March issue of *Spanish and International Economic & Financial Outlook (SEFO)* comes out just weeks after the ECB's surprise announcement to delay the start of its interest rate normalization cycle at least through the end of the year, relative to prior expectations of a rate hike sometime in the third quarter of 2019. The more dovish stance by the ECB –echoing a similar shift recently adopted by the Fed– underscores concerns over the deterioration in the eurozone growth outlook, on the back of the overall deterioration in global economic prospects. Within this context, yield curves are expected to stay relatively flat – implying intermediation remains a fairly non-profitable activity for banks. To assuage resulting concerns over a credit squeeze that could exacerbate the economic slowdown, the ECB has launched a new series of TLTROs. However, while liquidity should remain cheap, bank profitability will remain a challenge.

In this context, we start off this issue of *SEFO* with a comparative analysis of profitability of the European and US banking sectors, as well as an exploration of a potentially new area of financial sector systemic risk. Financial institutions in both the US and eurozone have had to contend with challenges including a flattening yield curve and more stringent capital requirements. Nevertheless, US banks have proven more resilient, with average RoE virtually twice that reported by EU financial institutions. These differences can be attributed to a multitude of factors including a more robust economic recovery in the US and an uptick in US banks' M&A activity, which has not been mirrored by EU banks. While European banks have improved their overall capital and NPL ratios, their lower levels of profitability should remain a concern. Going forward, with the next round of stress tests scheduled for this year, it remains to be seen whether new data will inspire greater confidence in the banking industry on either side of the Atlantic.

We then examine a new potential area of systemic risks in the financial sector on which European regulators have begun to focus their attention. Their concerns centre around the overlap of portfolios held by the four main types of financial sub sectors: banks, insurance corporations, investment funds and pension funds. European Central Bank data on the size and composition of these portfolios in both the eurozone and Spain reveal a high degree of interconnectedness in the securities held by these four actors, indicating a significant source of potential systemic risk. Nevertheless, there were some notable differences in the composition of these portfolios in Spain *versus* the eurozone as a whole. For example, Spanish banks are the major holders of securities in the country, whereas across the rest of the eurozone, this asset is primarily held by investment funds. Moreover, in Spain, the heightened risk profile in financial markets originates largely from investment funds. These entities may not pose

a risk to the solvency of the financial system as a whole, but through responses by investors, have the potential to trigger sudden market swings.

Next, given recent legislative changes affecting the Spanish housing sector, we present an assessment of the current challenges in Spain's rental market. It is becoming rather fashionable to describe the dynamics in Spain's rental market as exhibiting characteristics of a "bubble", but close analysis casts doubt on this claim. First, it is necessary to highlight that any analysis of housing market dynamics is restricted both by the limited quality and breadth of available data. Second, while it is true that the financial crisis and subsequent recovery have coincided with a rise in the demand for rental properties, some indicators, such as the rate of severe housing deprivation, in Spain have remained below the EU-28 average, suggesting prices are still relatively affordable. Moreover, there is little empirical evidence to support popular misconceptions as regards the reasons for recent rental price increases, such as the growth of large-scale investors as landlords, as well as home sharing platforms. That said, previous public policy measures in this area have failed to adequately address problems in the rental market. Going forward, it will be important to carefully assess the impact of any measures adopted to ensure the incentivisation, rather than restriction, of rental supply, as well as to assess any potential impact on inequality.

The next two articles in this number center on the real economy. First, we analyze the resilience of the Spanish economy in the fairly unlikely event of potential adverse shocks. Second, we look at the recent weakness exhibited by Spain's external sector for the first time since the financial crisis.

The current baseline scenario is for positive, albeit slower, economic growth of 2.1% in 2019. However, given the risk of further international tensions, it is useful to consider how the economy might fare under a potential materialization of more adverse circumstances. In order to do so, two relatively low probability stress scenarios are modelled. The first consists of weaker global and European growth, as well as a sharp increase in oil prices, while the second amplifies these effects and adds a major financial shock of a similar magnitude to the one that triggered the sovereign debt crisis almost a decade ago. In the first risk scenario, it is estimated that Spanish growth would fall to 1.8% in 2019, resulting from weaker exports and a slower pace of job creation and consumer spending. While the economy would see a more dramatic reduction in growth in 2020, a tepid recovery would follow in 2021. In the extreme risk scenario, which adds to the previous one a financial shock, the economy would enter a recession in 2019. It would begin to stabilise in 2020, with moderate growth returning in 2021. Significantly, there would be a rise in public borrowings over the entire projection period, peaking at 105.7% of GDP, a record high. However, the overall impact would be less severe than experienced in the sovereign debt crisis, due to the stronger financial health of Spain's private sector and the absence of any evidence of a bubble nor of credit propping up present employment levels. Despite an overall improved resilience, Spain has reduced capacity to deploy fiscal stimulus in response to shocks. Another vulnerability is the high level of oil dependency under the current energy model.

Drilling down further, global trade growth expanded by just 3.3% last year, falling from 4.7% in 2017. However, the picture is somewhat worse for Spain, where the slowdown was more intense. Particularly noteworthy is the reduction in demand from the UK, which began in 2017 and failed to recover in 2018. From a sectoral performance, the automotive industry performed weakest with a 1.5% contraction in current prices. That said, the broad nature of the slowdown in Spain's external sector suggests that traditional factors relating to a specific export market, sector, unit labour costs or exchange rate movements alone cannot account for this downward trend. It therefore remains to be seen whether the recent figures point to a one-off event, or the start of a more prolonged period of weakness in Spain's export performance.

We close this *SEFO* with a status update on the progress of reform of the regional financing system. The regional financing system has been generating positive results (on an accrual basis) since 2014, in contrast with the prior period which, with the exception of 2010, was characterised by economic contraction. The improved performance, tied to the economic recovery, has had an even bigger impact in budgetary terms, given that the payments on account in 2014-2015 did not reflect the economy's real dynamism. The aggregate of the payments on account, coupled with the definitive settlements received in 2016 and 2017, registered year-on-year growth of 9.5% and 7%, respectively.

This improved regional fiscal performance has been particularly apparent in Catalonia, Murcia, Valencia, the Canary Islands, the Balearic Islands and Madrid. The recent positive fiscal dynamics –as evidenced by compliance with regional deficit targets– together with the difficulty for regional governments to reach agreement – has slowed reform momentum. Lastly, the panorama is further complicated by divisions on the delicate issue of potential regional debt restructuring, not only in the academic field but also within the regional governments themselves.

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What´s Ahead (Next Month)

Month	Day	Indicator / Event
April	2	Social Security registrants and official unemployment (March)
	5	Industrial production index (February)
	5	Eurogroup meeting
	10	ECB monetary policy meeting
	12	CPI (March)
	15	Financial Accounts Spanish Economy (4th quarter 2018)
	24	Foreign trade report (January)
	25	Labour Force Survey (1st quarter 2019)
	30	Non-financial accounts, Central Government (March)
	30	Non-financial accounts, Regional Governments and Social Security (February)
	30	Preliminary CPI (April)
	30	Retail trade (March)
	30	Preliminary GDP (1st quarter 2019)
	30	Balance of payments monthly (February)
May	6	Social Security registrants and official unemployment (April)
	9	European Council
	9	Industrial production index (March)
	14	CPI (April)
	16	Eurogroup meeting
	21	Foreign trade report (March)
	28	Non-financial accounts, Central Government (April)
	28	Non-financial accounts, Regional Governments and Social Security (March)
	30	Retail sales (April)
	30	Preliminary CPI (May)
	31	Balance of payments monthly (March)

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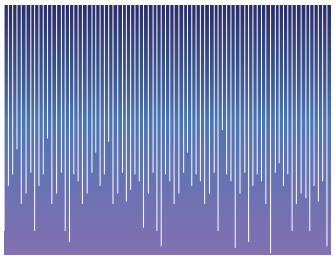
What Matters



Regulation and Economic Outlook

Key Facts

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Analysing differences in bank profitability: Europe *versus* the US

The trend in US and European bank profitability has diverged over the last few years, with US banks consistently more profitable and better capitalised than their European counterparts. While financial institutions on both sides of the Atlantic are becoming more resilient, it is not certain whether 2019 stress tests will help boost confidence in the banking industry.

Santiago Carbó Valverde, Timothy Cobau and Francisco Rodríguez Fernández

Abstract: Financial institutions in both the US and eurozone have had to contend with challenges including a flattening yield curve and more stringent capital requirements. In 2009, the spread between long- and short-term government bond yields stood at four percentage points in both the eurozone and the US. That spread has since narrowed to within one percentage point in the US and two percentage points in Europe, making it hard to generate net interest income. Nevertheless, US banks have proven more resilient, with average RoE virtually twice that reported by EU financial institutions. These differences can be attributed to a multitude of factors including a more robust economic recovery in the US and an uptick in US banks' M&A activity, which has not been mirrored by EU

> “In the US, the resolution of the crisis was swifter and more resounding in terms of monetary policy as well as toxic asset provisioning and bank bailouts — injecting both liquidity and calm into the markets.”

banks. While European banks have improved their overall capital and NPL ratios, their lower levels of profitability should remain a concern. Going forward, with the next round of stress tests scheduled for this year, it remains to be seen whether new data will inspire greater confidence in the banking industry on either side of the Atlantic.

Introduction

The banking sector continues to face challenges as it makes its way back to pre-crisis profitability levels. However, the analytical timeframe used to assess banks' progress must be taken into consideration. Specifically, bubbles and incipient markets that no longer exist may have inflated the margins posted prior to 2007.

Putting these concerns aside and disregarding the fact that the generation of new business capable of boosting shareholder value is a test common to all financial entities, significant differences are evident between US and European bank profitability. Despite numerous attempts by analysts to explain these differences, it is hard to pinpoint a single underlying factor. Exhibit 1 sums up some of the main forces at work. In the US, the resolution of the crisis was swifter and more resounding in terms of monetary policy as well as toxic asset provisioning and bank bailouts — injecting both liquidity and calm into the markets. In contrast, the effort was more uneven in the EU. Quantitative easing was gradual and the provisioning requirements have been neither consistent nor sufficiently convincing for the market in several cases. As a result, ten years after the major European bank bailouts, we are still witnessing episodes of stress and uncertainty with respect to the solvency of Italian banks.

Although one of the issues identified with the resolution of failing banks was the existence of too many 'too big to fail' banks, the average size of financial institutions has increased. Consequently, regulators are now obliged to flag those big banks that pose systemic risk and supervise them accordingly. In general, US banks have been increasing rapidly in size (market value) through organic business growth and M&A activity. However, this pattern has not been repeated in Europe. In fact, some of the EU banks that had been relatively prominent players in the US have pared back their presence, with a few even suggesting they might exit the market altogether.

Lastly, the banking industry's financial situation differs substantially on either side of the Atlantic. In the US, rates have already increased several times, a firm expression of the gradual rollback of the Federal Reserve's quantitative easing effort. In the eurozone, rate hikes remain on hold. This interest gap may prove persistent over time as comments from the Federal Reserve and European

> “The interest gap between the US and EU may prove persistent over time as comments from the Federal Reserve and European Central Bank regarding the influence of a potential economic slowdown on interest rates indicate we will not see major changes for some time.”

> "The average Common Equity Tier 1 (CET1) capital ratio of all 87 European banks after a three-year stress period was 10.1%, up from 8.8% in 2016."

Central Bank regarding the influence of a potential economic slowdown on interest rates indicate we will not see major changes for some time.

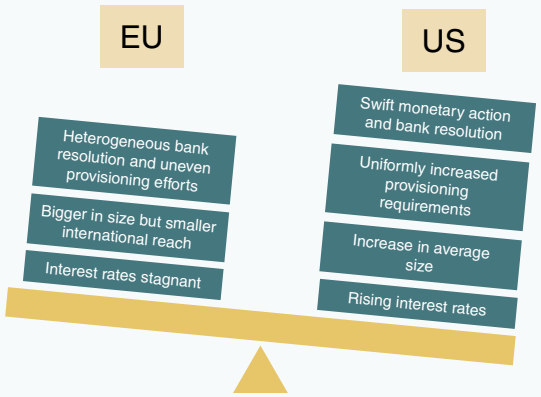
This paper analyses the differences in profitability between the banks in the EU and the US along the dimensions depicted in Exhibit 1. This requires paying particularly close attention to the messages of supervisory authorities regarding the improvement in capital adequacy and lending conditions in both regions. These messages serve as exercises in communication and transparency and are designed to reduce market concerns about banks' ability to generate profits, their solvency and resistance to stress.

On February 1st, the European Central Bank (ECB) issued a press release outlining its "aggregate" analysis of the stress tests conducted in 2018. It is worth noting that its pool of participants was broader than previous exercises. While the European Banking Authority's (EBA) stress tests included thirty-three eurozone banks, the ECB analysed an additional fifty-four significant entities that are under its direct supervision.

The ECB emphasised that the European banks "show improved capital basis with higher capital buffers than in 2016", when the last comparable stress tests were performed. The average Common Equity Tier 1 (CET1) capital ratio of all 87 banks after a three-year stress period was 10.1%, up from 8.8% in 2016. The ECB also highlighted that those medium-sized banks included in the tests have become better capitalised. Under the adverse macroeconomic scenario, these banks had an average final CET1 of 11.8%, compared to 8.5% in 2016.

On January 25th, 2019, the ECB also published its supervisory banking statistics for the third quarter of 2018. That report showed that the total capital ratio (CET1 and Tier 2 capital) increased slightly as a percentage of risk-

Exhibit 1 **Key factors for assessing the profitability gap between EU and US banks**



Source: Authors' own elaboration.

weighted assets to 17.83% in the third quarter. Additionally, the non-performing loan (NPL) ratio had trended downward to 4.17%.

The ECB noted that "average CET1 capital ratios at the participating Member State level range from 11.75% in Spain to 25.27% in Luxembourg." It also revealed a worrisome large divergence in asset quality. Although the average NPL ratio is low, it is over 40% in Greece and is now above 10% in Italy.

The main issue from a comparative perspective with the US is the lack of uniform protection. If problems such as those affecting the Italian banks could be ring-fenced, other EU banks' reputation and market values might remain unaffected. However, although not yet having materialised, the potential for contagion remains a key concern. This is primarily due to the incomplete state of the EU's Banking Union, whose resources and ability to intervene still fall short of desirable levels.

The news emanating from the US strikes a different tone. The improvement in the main capital adequacy and profitability indicators (with the indicated differences to the EU) has been accompanied by a period of strong business momentum. Banks in the US have benefited from both organic growth as a result of the expanding American economy and numerous M&A transactions. However, the regulators have expressed concern about how these ongoing structural changes in the banking industry might impact the real economy. Indeed, an interesting debate emerged in February. Senator Elizabeth Warren sent a letter to the president of the Federal Reserve, Jerome Powell, suggesting that "the Board's anaemic scrutiny of applications for mergers and acquisitions raises concerns that the Board, under your leadership, may oversee a wave of bank consolidation-to the detriment of consumers and the financial system." Powell responded by acknowledging the importance of addressing this concern since any change in the competitive landscape could reduce small and medium sized enterprises' access to capital.

Interestingly, the numerous European financial institutions operating in the US have not participated in the recent M&A growth in that jurisdiction. Although this matter requires more exhaustive analysis, one possible explanation is the change in business structure and the manner in which the European banks do business in comparison to the US banks. Since the crisis, some of the major European banks operating in the US have lost market share in the investment and corporate banking segments to domestic banks. Many of these European banks have been forced to shift their specialisation and refocus their core businesses on retail banking. However, the European banks core competencies and market share in the retail banking sphere is based in their home markets. It is here where some of these institutions are gradually concentrating their businesses, pulling back from the US, to the benefit of America's dominant financial institutions.

The financial context in Europe *versus* the US

Rarely has the intrinsic link between the banking sector and monetary system been as tangible as in recent years. Quantitative easing (QE) and the subsequent abundance of liquidity have flattened the yield curve for fixed-income securities (government bonds). This means that the spread between the yields offered on short-dated bonds are barely lower than those offered on longer-dated paper. This unusual dynamic indicates

"Banks in the US have benefited from both organic growth as a result of the expanding American economy and numerous M&A transactions."

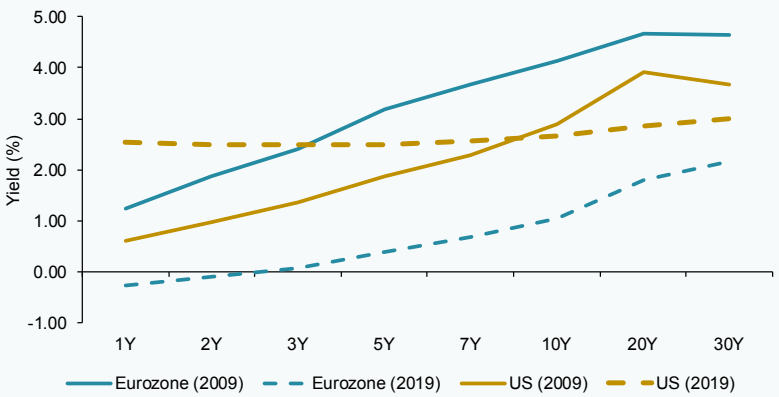
> “Ten years ago, the spread between long-term and short-term government bond yields was as wide as four percentage points in the eurozone and the US alike, but has now narrowed to within one percentage point in the US and two percentage points in Europe.”

a lingering uncertainty in the market and has contributed to the creation of an atypical financial context.

As shown in Exhibit 2, ten years ago, the spread between long-term and short-term bond yields was as wide as four percentage points in the eurozone and the US alike. That spread has narrowed to within one percentage point in the US and two percentage points in Europe. It is worth noting, however, that absolute rate levels have also shifted. Average yields are currently higher in the US (following the rate hikes by the Federal Reserve) than in the eurozone, whereas the situation was the opposite a decade ago. Nevertheless, it looks as if the US is resisting the 3% threshold. This would raise public borrowings costs, which would have a knock-on effect on private borrowing costs, complicating the situation for both American corporates and banks. The adjustment in the fixed-income market is likely to be gradual, given the Fed’s recent messages about the need for “patience” before embarking on new rate hikes.

The US and EU diverge even more significantly in their respective banks’ stock market values. Exhibit 3 compares the performance of the Dow Jones US Banks and the STOXX Europe 600 Banks indices between 2009 and February 2019. Until 2015, the correlation between the two indices was considerable, albeit with the US index underperforming its European counterpart. Since then, however, the US banks have initiated a valuation gap that appears to reflect their relatively strong capitalisation and earnings momentum. The end of 2018 was a particularly bleak period for European banks’ stock prices.

Exhibit 2 **Government bond yield curves in the US and eurozone over the past decade (2009 *vs.* 2019)**

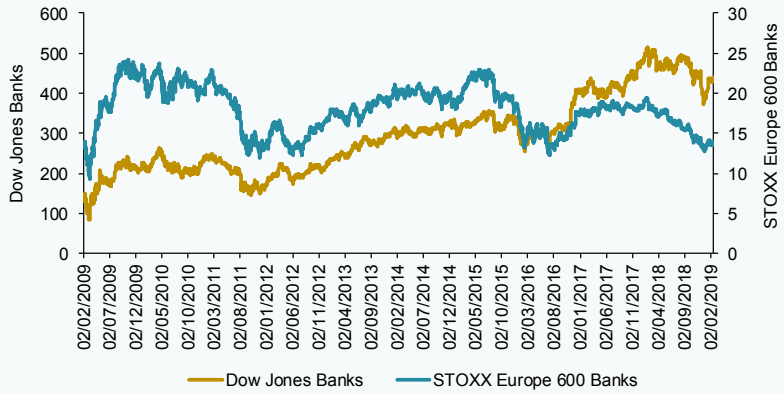


Note: 2019 figures until February.

Sources: ECB, Federal Reserve and authors’ own elaboration.

Exhibit 3

Dow Jones US Banks *vs.* STOXX Europe 600 Banks (2009-2019)



Note: 2019 figures until February.

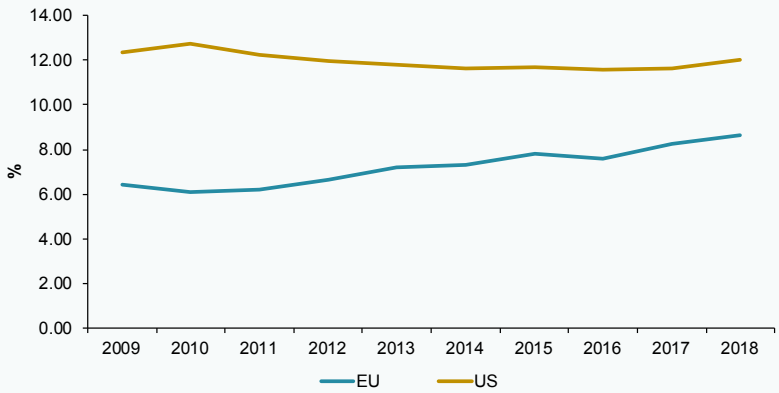
Source: Bloomberg and authors' own elaboration.

A comparison of bank profitability and other indicators on both sides of the Atlantic

The push to generate profits originates chiefly from competitive and market pressure but also stringent regulatory requirements, too. Capital requirements have tightened considerably so that banks are now building up larger capital buffers (over and above the minimum levels required). Here too the situation is different in Europe compared to the US. Exhibit 4 uses World Bank data to compare the two regions. The benchmark ratio used is the total capital ratio (Tier 1, 2 & 3) as a percentage of total bank assets. As shown

Exhibit 4

Ratio of total capital to total assets in the US *vs.* the EU (2009-2018)



Source: World Bank Financial Indicators and authors' own elaboration.

> “Looking at the return on equity (RoE), there is an increase from 2% at the end of the crisis in the US to 12% at year-end 2018. In the EU, however, RoE remains lower in absolute terms and the trend has been more erratic.”

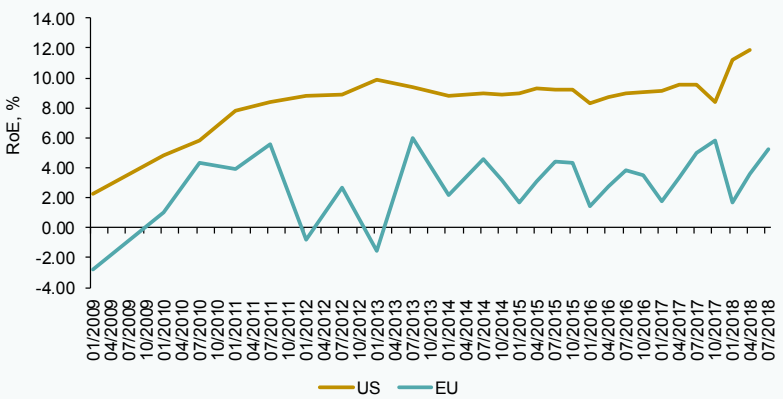
in the exhibit, the strong recapitalisation effort that followed the bailouts in the US put that ratio at around 12%, where is has stayed since then. In the EU, however, that capital ratio averaged roughly half of that number in 2009, rising to below 10% by the end of 2018.

The gap in profitability holds no matter which metric is used. Looking at the return on equity (RoE) (Exhibit 5), there is an increase from 2% at the end of the crisis in the US to 12% at year-end 2018. In the EU, however, RoE remains lower in absolute terms and the trend has been more erratic. The situation became particularly unstable in 2012 when the sovereign debt crisis reached its peak. Since then, European banks have yet to completely shake off lingering questions about the health of their assets. In recent years, the RoE in the EU has ranged between around 2% and 6%, about half of the US level.

The gap remains if we look at the return on assets (RoA) (Exhibit 6), which stood at close to 1.4% in the US at the end of 2018, compared to under 0.4% in the EU.

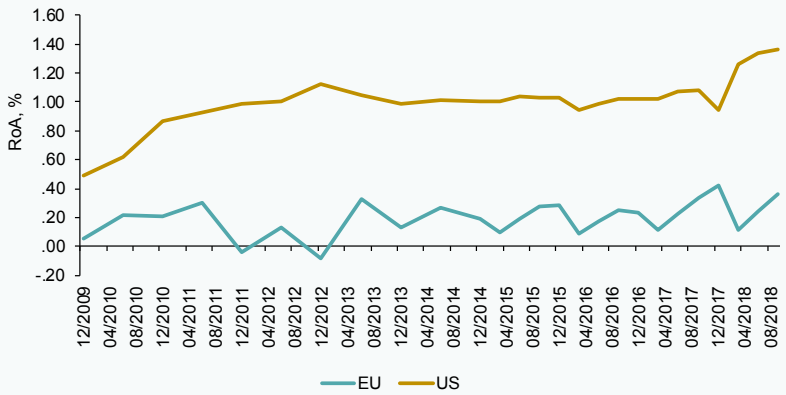
Lastly, the ability to generate net interest income (interest earned on loans less the cost of funding, primarily deposits) has been conditioned –on both sides of the Atlantic– by persistently low interest rates. Even following the recent rate increases, US financial institutions struggled to push their net interest margins to 3.5%, whereas the average in Europe is currently languishing under 1%.

Exhibit 5 **Quarterly trend in the banks' return on equity (RoE) in the US *vs.* the EU (1Q09-3Q18)**



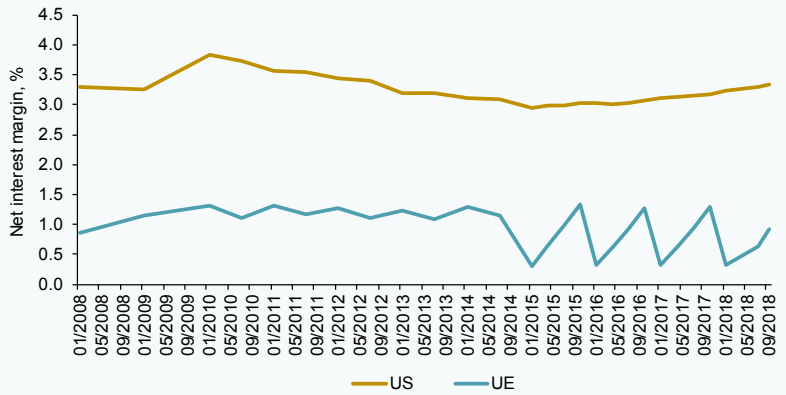
Sources: ECB, Federal Reserve and authors' own elaboration.

Exhibit 6 **Quarterly trend in the banks' return on assets (RoA) in the US *vs.* the EU (1Q09-3Q18)**



Sources: ECB, Federal Reserve and authors' own elaboration.

Exhibit 7 **Quarterly trend in the banks' net interest margin (NII / total assets) in the US *vs.* the EU (1Q08-3Q18)**



Sources: ECB, Federal Reserve and authors' own elaboration.

Conclusion

The comparative analysis outlined in this paper shows the US banks are better capitalised and more profitable than their European counterparts. In terms of solvency, the gap does appear to be gradually narrowing. Conversely, the profitability gap has proved consistent. Lastly, monetary policy has had an adverse impact on both US and European banks. Despite differences in absolute levels (rates are higher in the US), the considerable flattening of yield curves is making it hard to generate net interest income in both regions.

Although capital adequacy is an essential macroprudential tool, the supervisors also

“ Most analysts believe that the US stress tests are not only more rigorous than the eurozone tests but also more consistent from one year to the next. ”

need to generate credibility in the market with respect to the banks' ability to withstand episodes of stress. Notably, both the US and Europe are getting ready for the next round of stress tests. In the US, the systemic banks will undergo two sets of stress tests, the Dodd-Frank Act stress tests (DFAST) and the Capital Analysis and Review (CCAR) tests. In 2019, the stress tests will concentrate on adverse economic scenarios including an unemployment rate of 10% and more stringent tests of corporate and real estate loans. Most analysts believe that the US stress tests are not only more rigorous than the eurozone tests but also more consistent from one year to the next. In the eurozone, the approach to assessing banks' asset quality continues to be piecemeal. The authorities began by analysing credit risk, turning later to market and liquidity risk. The new metric slated for 2019 is the introduction of specific tests to calculate the banks' "period of survival". This refers to the number of days a bank can continue to operate using available cash and collateral. [1] The purpose is to analyse how the banks would function during a crisis with no access to market funding.

Whether 2019 will boost confidence in the banks in Europe and the US –and their market values– remains an open question. What the data do tell us is that EU financial institutions have been harder hit in relative terms due to the dent in confidence caused by isolated cases, such as that of Italy, relating to the health of the country's banking industry and debates over fiscal policy. In the US, however, in addition to having to make a greater provisioning effort, financial institutions have been able to leverage a period of vigorous and protracted economic growth, which has been accompanied by tax reforms. Nevertheless, it is worth noting that these tailwinds and headwinds will not necessarily last in the medium term.

Notes

[1] https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190206~3fc0116031.en.html

Santiago Carbó Valverde. CUNEF, Bangor University and Funcas

Timothy Cobau. Fulbright Fellow, Funcas

Francisco Rodríguez Fernández. University of Granada and Funcas

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Overlapping securities holdings across distinct financial sector actors: Spain *versus* the Eurozone

The interrelationship of the portfolios held by the various sub-sectors of the financial system has recently caught the attention of regulators tasked with overseeing potential sources of systemic risk. Close analysis of data shows not only a high degree of overlap in terms of investment strategy among these entities in both Spain and the Eurozone, but also an increase in the aggregate risk profile of the overall securities holdings of Spanish financial intermediaries.

Ángel Berges and Fernando Rojas

Abstract: European regulators have begun to focus their attention on a new area of potential systemic risk in the region's financial markets. Their concerns centre around the overlap of portfolios held by the four main types of financial sub sectors: banks, insurance corporations, investment funds and pension funds. European Central Bank data on the size and composition of these portfolios in both the Eurozone and Spain reveal a high degree of interconnectedness in the securities held by these four actors, indicating a significant source of potential systemic risk. Nevertheless, there were some notable differences in the composition of these portfolios in Spain *versus* the Eurozone

“ With the publication of Royal Decree-Law 22/2018 on December 14th, Spain has become one of the most recent countries to establish an institution tasked with supervising systemic risk in financial markets. ”

as a whole. For example, Spanish banks are the major holders of securities in the country, whereas across the rest of the Eurozone, this asset is primarily held by investment funds. Moreover, in Spain, the heightened risk profile in financial markets originates largely from investment funds. These entities may not pose a risk to the solvency of the financial system as a whole, but through responses by investors, have the potential to trigger sudden market swings.

Introduction

In recent years, systemic risks across financial markets have increasingly been the focus of both regulators and financial supervisors. These risks originate within the various financial sub-sectors (banks, insurers, investment funds and pension funds) and can have implications for the broader financial system.

It is in this context that we see the creation of new supervisory institutions. These institutions are based on two prevailing models. The first consists of a sector-specific model currently used in Spain (*i.e.*, separate bank, insurance and pensions and investment fund watchdogs). The second, known as the ‘twin peaks’ regime in the UK, splits the supervisory roles between a prudential supervisor and a conduct watchdog, each with responsibility over the full spectrum of banks, investment funds, insurers and pension funds.

With the publication of Royal Decree-Law 22/2018 on December 14th, Spain has become one of the most recent countries to establish an institution tasked with supervising systemic risk in financial markets. This law outlined macroprudential tools and included a period of public consultation on draft legislation for the creation of the so-called Financial Stability Council Macroprudential Authority.

The main purpose of this initiative is to oversee the systemic risk associated with various financial institutions, their interactions and pattern of conduct. Such institutions include banks, insurers, investment funds and pension funds. Because each institution collects and holds clients’ savings, the similar treatment of these funds could amplify the potential for systemic risk in the event of liquidity shocks in the main markets or assets in which those entities invest.

Overlapping investment strategies

It is against this backdrop that the European Central Bank’s (ECB) most recent Financial Stability Review highlighted the overlap of securities portfolios among the four categories of financial institutions: banks, insurance corporations, investment funds and pension funds. If those four main types of financial sector entities pursue primarily overlapping investment strategies, they are assuming the same type of market risk and thus amplifying systemic risk in the event of a sudden, sharp drop in those securities’ market prices.

The potential size of this source of systemic risk will depend on two factors. The first is the extent to which their investment strategies overlap. The second is the absolute size of the investment portfolios in the various subsectors.

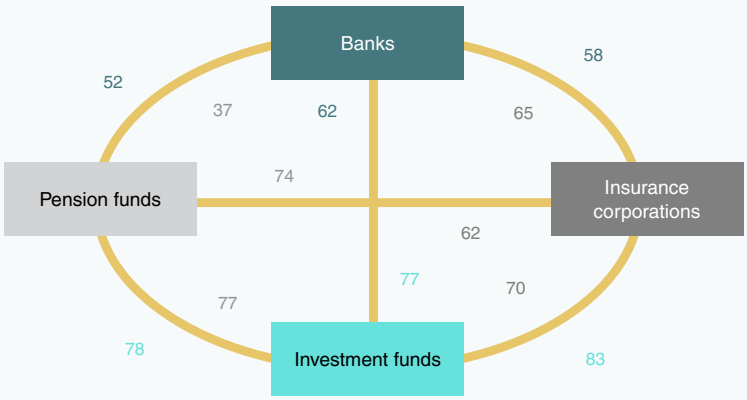
To assess the first effect, the ECB looked at the overlap in securities in the investment portfolios of the four categories of financial institutions. This analysis relied on data from June 2018, the results of which have been extracted from the report and are shown in Exhibit 1.

Each of the four entities is represented by a specific colour. Additionally, there are

> “There is a significant degree of overlap in the securities held by the various types of entities and, by extension, significant systemic risk, as they are exposed to market dynamics that are very similar in nature.”

Exhibit 1 **Common securities holdings of Eurozone financial sectors (June 2018)**

Percentage



Source: ECB Statistical Data Warehouse *and authors' own elaboration.*

links joining each pair of sectors, which indicate the sum of the common holdings of the two Eurozone financial sectors. This is expressed as a percentage of total holdings of the sector and represented by the corresponding colour.

As an example, we will look at banks, which are depicted in dark blue. The exhibit tells us that of the total securities holdings of the banks, 58% corresponds with the holdings of the insurance corporations, 52% with pension funds, and 62% with investment funds.

Alternatively, if we analyse the securities held by the investment funds (depicted in lighter blue), we observe that of their total securities holdings, 77% overlap with those of the banks, 78% with those of the pension funds, and 83% with those of the insurers. The same logic can be followed for the insurance corporations and the pension funds.

Without getting into the details of which pairs of sectors present the highest levels of overlap, it is clear that the percentages of interconnectedness are very high in most of the pairings. This indicates a significant degree of overlap in the securities held by the various types of entities and, by extension, significant systemic risk, as they are exposed to market dynamics that are very similar in nature.

Securities holdings of banks, insurers and funds: Spain *versus* the Eurozone

Having observed the high level of overlap in securities holdings across the four categories

> In the Eurozone, the financial institutions hold securities portfolios with an aggregate value of around 16 trillion euros, which is 1.5 times the size of the Eurozone's GDP and over 80% of the total capitalisation of member states' existing bond and stock markets.

of financial intermediaries, it is now necessary to round out the analysis with a quantitative estimate of the size of the portfolios. This exercise will provide insight into the possible systemic risk derived from these holdings.

To arrive at that estimate, we compare Spain with the Eurozone as a whole, using data taken from the Spanish economy's financial accounts for the former and the ECB's Statistical Data Warehouse for the latter.

Table 1 sums up the estimated value of the securities holdings at year-end 2017 in each of the financial sectors for both Spain and the Eurozone. The figures are provided in billions of euros and the Spanish figures are also expressed as a percentage of the Eurozone total.

The figures are relatively high regardless of the parameter used to compare them. In the Eurozone, the financial institutions hold securities portfolios with an aggregate value of around 16 trillion euros, which is 1.5 times the size of the Eurozone's GDP and over 80% of the total capitalisation of member states' existing bond and stock markets. The last percentage is provided merely to give an idea of scale and should not be interpreted as an example of these entities' dominance in the European securities markets. Non-European investors also invest in the European securities markets and European financial institutions also invest in markets outside of Europe.

By financial institution category, the investment funds have the largest portfolios (6.4 trillion euros), followed by the banks and insurers,

Table 1 **Securities holdings by financial institution category in the Eurozone and Spain**

€ Bn	EUR	SP	SP/EUR
Banks	4,100	650	15.9%
Investment funds	6,400	250	3.9%
Insurers	4,500	250	5.6%
Pension funds	1,500	100	6.7%
TOTAL	16,000	1,250	7.6%

Sources: Bank of Spain, ECB's Statistical Data Warehouse *and authors' own elaboration.*

“ In Spain, the banks are the major securities holders, with an aggregate position (650 billion euros) that exceeds the other three categories combined, in contrast to the Eurozone, where the investment funds are the biggest holders of securities. ”

with portfolios of just over 4 trillion euros each.

In Spain, the aggregate securities portfolios of the various financial institutions' balance sheets totalled 1.25 trillion euros, which is 7.6% of the Eurozone total, and somewhat less significant in terms of GDP (1.2 times GDP in Spain *vs*. 1.5 times in the Eurozone) and securities market penetration (70% in Spain *vs*. 80% in the Eurozone).

Analysis of this data shows a key point of divergence between Spain and the Eurozone. In Spain, the banks are the major securities holders, with an aggregate position (650 billion euros) that exceeds the other three categories combined, in contrast to the Eurozone, where the investment funds are the biggest holders of securities.

It should be noted that the role of the banks as investors in securities has declined considerably in recent years in both the Eurozone and Spain, with the latter seeing a more pronounced movement in this direction. This downward trend is largely attributable to the trend in fixed-income holdings, particularly sovereign bond portfolios. Between 2013 and the middle of 2018, the fixed-income assets on the banks' balance sheets have contracted by 25% in the Eurozone and 40% (200 billion euros) in Spain. The country's banking system played an essential role as a primary purchaser of Spanish government bonds at the height of the financial crisis when foreign investors largely fled the market.

Recently, the market for sovereign bonds has rebounded, which coupled with the impact of the ECB's asset buyback programmes, has exerted strong downward pressure on both public and private bond yields, making this asset class less attractive to the banks. The fact that these trends have been magnified in Spain explains the relatively greater drop in fixed-income assets, and by extension, securities holdings among the Spanish banks.

That reduction in the banks' securities holdings coincided with an expansion of the investment funds' portfolios. In fact, investment funds in the Eurozone have now surpassed the banks as the biggest holders of securities. Although the Spanish banks continue to hold the primary position in the securities markets, the investment funds have narrowed the gap. This is driven by a shift of household savings to investment funds from banks, thereby increasing the value of the former's assets under management.

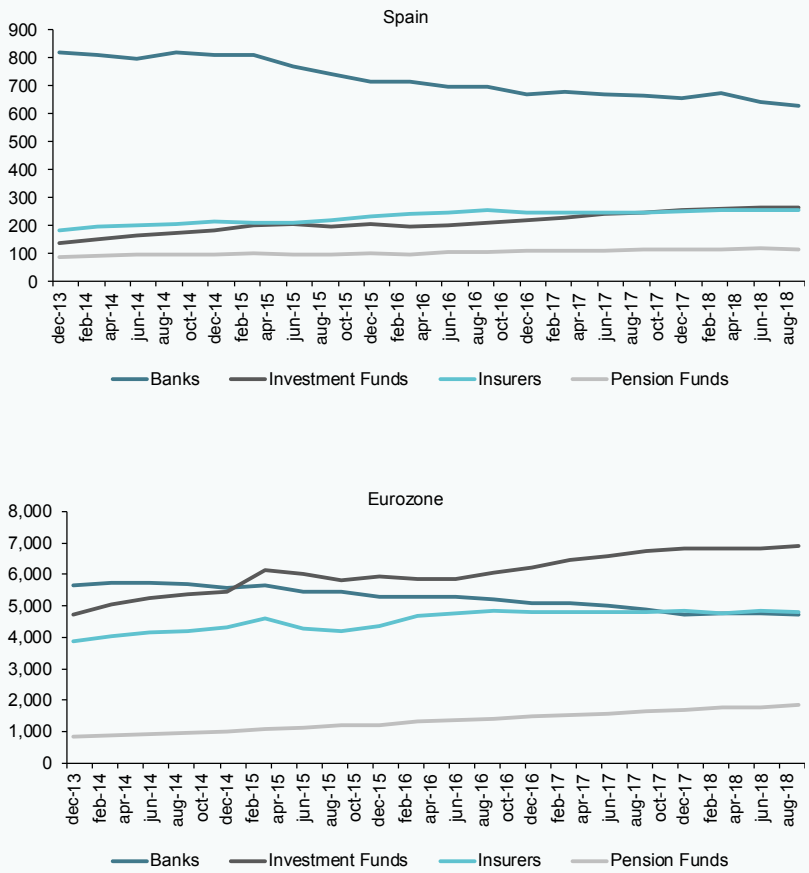
It is logical to suppose that the shift in the relative weights of the various financial intermediaries' securities holdings will impact the overall allocation of invested assets. If this is indeed the case, they may follow different investment strategies. That is what we have attempted to show by comparing the aggregate composition of the various portfolios. This comparison distinguishes the major classes of assets included in these entities' financial statements including short-term fixed-income securities, long-term fixed-income securities, equities, and investments in investment funds (both fixed-income and equity securities).

Although we have the relevant data for each of the four financial subsectors in Spain, we do not have a breakdown for the insurance corporations and pension funds for the Eurozone. These two entities are combined in

Exhibit 2

Securities holdings by financial institution category: Trend since the crisis

Billions of euros



Sources: Bank of Spain, ECB's Statistical Data Warehouse *and authors' own elaboration.*

the same category, which we have replicated for the Spanish analysis. Note that the aggregation of those two types of entities barely translates into a loss of information because the make-up of the insurers' and pension funds' portfolios is very similar.

That nuance aside, Exhibit 3 illustrates the composition of the holdings of the three categories of financial institutions in Spain and the Eurozone. This analysis reveals a clear difference in investment focus. The banks' securities holdings are strongly biased towards fixed-income securities in both Spain (85%) and the Eurozone (76%) with Spanish banks holding somewhat longer-dated paper. The banks' propensity to invest in fixed-income securities makes sense given that these portfolios are used to managing interest rate risk derived from banks' various balance sheet headings.

> “Banks’ securities holdings are strongly biased towards fixed-income securities in both Spain (85%) and the Eurozone (76%) with Spanish banks holding somewhat longer-dated paper.”

Equities do not play that same role and the risk profile of this asset class makes them less appropriate, particularly in the new capital framework (Basel III), which assigns very high capital requirement weightings to equity holdings.

The tendency to invest in fixed income is also evident among both the insurance companies and pension funds, albeit less pronounced compared to the banks (78% in Spain and 48% in the Eurozone). Conversely, investment funds’ portfolios are generally balanced

Exhibit 3 **Breakdown of portfolios by financial institution category**

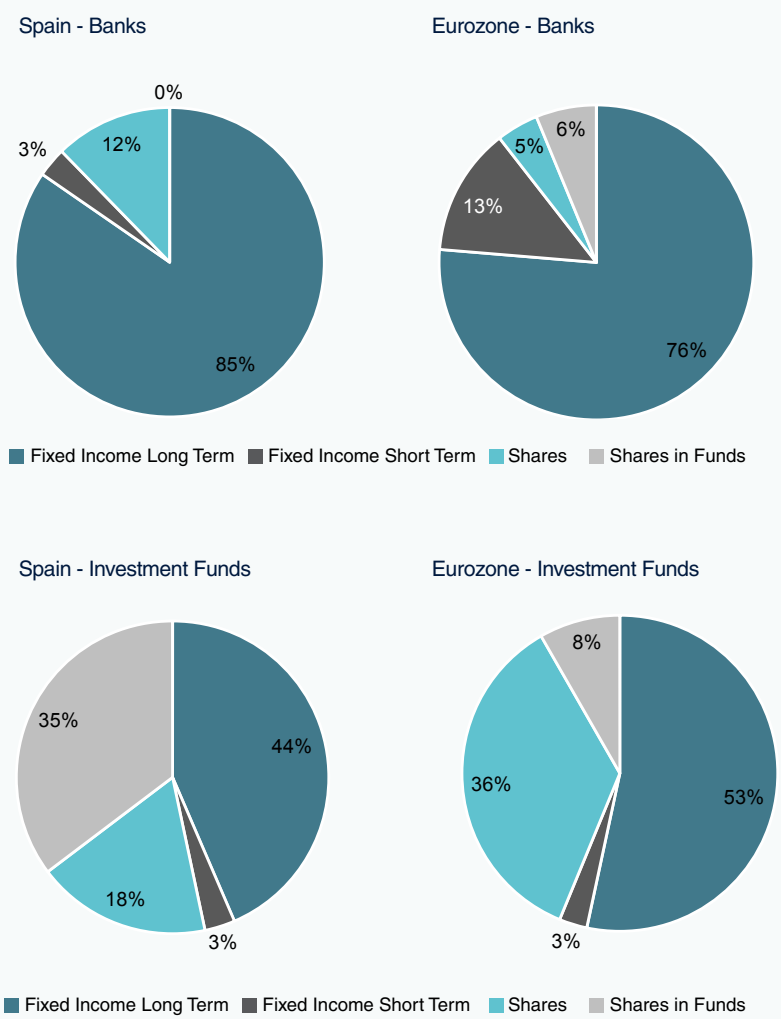
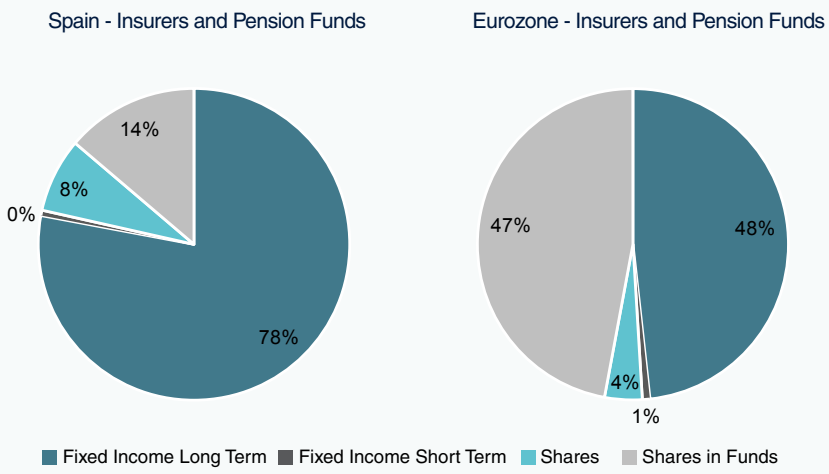


Exhibit 3 **Breakdown of portfolios by financial institution category**

(Continued)



Sources: European Central Bank, Bank of Spain, Afi.

between fixed income and equity securities, either directly or through investments in other investment funds.

Given these differences in investment patterns, it becomes clear that the aggregate risk profile of the overall securities holdings of the Spanish financial intermediaries has increased. That heightened risk profile is primarily attributable to the investment funds, unincorporated vehicles whose market risk is assumed by their investors. This means that the systemic risk associated with these positions does not impact the solvency of the system as a whole but has the potential to affect the responses by fund investors to sudden market swings.

This is another area on which the ECB has focused in its most recent *Financial Stability Review*. Specifically, it concludes that the sensitivity of investment fund subscription and redemption flows to market movements is currently quite low (correlation of around 0.2), but that the trend is likely pro-cyclical, in which case it could amplify sudden market movements.

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A.F.I. - Analistas Financieros Internacionales

The rental market challenge in Spain

There has been widespread talk of the emergence of a "bubble" in the Spanish rental market, yet underlying data do not support such a theory. Any policy measures adopted to address the increase of market rents in specific cities should carefully assess the potential impact on the overall supply of rentals.

José García Montalvo

Abstract: It is becoming rather *fashionable* to describe the dynamics in Spain's rental markets as exhibiting characteristics of a "bubble", but close analysis casts doubt on this claim. First, it is necessary to highlight that any analysis of housing market dynamics is restricted both by the limited quality and breadth of available data. Second, while it is true that the financial crisis and subsequent recovery have coincided with a rise in the demand for rental properties, some indicators, such as the rate of severe housing deprivation, in Spain have remained below the EU-28 average, suggesting prices are still relatively affordable. Moreover, there is little empirical evidence to support popular misconceptions as regards the reasons for recent rental price increases, such as the growth of large scale investors as landlords, as well as home sharing platforms. That said, previous public policy measures in this area have failed to adequately address problems in the rental

> “In 2005, the percentage of Spain’s population renting accommodations (including reduced rent and free accommodations) was 19.4%, with 9.5% of the entire population paying rents at market prices.”

market. Going forward, it will be important to carefully assess the impact of any measures adopted to ensure the incentivisation, rather than restriction, of rental supply, as well as to assess any potential impact on inequality.

Introduction

Recently, a myriad of analysts and media pundits have begun to talk about a “rental market bubble” due to the sharp rise in Spain’s rental prices in some large cities. This widespread concern, coupled with an increase in evictions for non-payment of rent, lead to a Royal Decree-Law outlining amendments to the so-called Urban Lease and Civil Procedure Acts. In fact, one of the reasons Podemos, one of Spain´s left-wing parties, gave for not voting in favour of the state budget was the exclusion of its rent control proposal, which the government had agreed to in exchange for the party’s support. This paper reviews recent developments in the rental market in Spain and certain misconceptions regarding its evolution. In so doing, it will also draw attention to the scarcity of reliable data available on this issue and the effects that different policies aimed at tackling the rental bubble have had on this market.

Characteristics of Spain’s rental market

During the past 30 years, the incidence of rentals as a fraction of home occupancy in Spain has been very low in comparison with countries with a similar level of development. In the EU-28, where the percentage of rentals in overall home occupancy stood at 30.7%, the percentage of the population paying market price rent stood at 19.8% in 2016. In 2005, the percentage of Spain’s population renting accommodation (including reduced rent and free accommodations) was 19.4%, with 9.5% of the entire population paying rents at market prices. These numbers represent a shift in the size of Spain’s rental market. At the beginning of the 1950s, more than 50% of houses were rented in Spain. The subsequent approval of strict rent controls reduced the supply of rentals, which coupled with house price growth, incentives to support home purchases (tax deductions, the absence of taxation on owner-occupied homes, deductions on real estate capital gains, *etc.*) fed what some termed a “culture of ownership.” The partial deregulation of rents following the so-called Boyer Act was offset by new incentives for home-buying, so that the percentage of rentals continued to trend lower until nearly the start of the crisis in 2008. It was at this point that analysts began to predict that rental prices would become the next area of focus in the Spanish real estate market (García Montalvo and Garicano, 2009; García Montalvo, 2011) and proposed changes to improve the market’s regulation (FEDEA, 2009).

Since the start of the crisis, demand for rental housing has been on the rise. This shift has been underpinned by more stringent mortgage requirements and the elimination of the tax breaks on home purchases. Other

> “In 2017, rented living arrangements (other than free accommodations) stood at 16.9%, which is considerably higher than the percentage observed a decade ago.”

factors that have also contributed to this trend include the prevalence of homeowners struggling to make their monthly mortgage payments, a new awareness of the risks associated with homeownership, and a certain shift in attitude whereby ownership is no longer viewed the only socially acceptable living arrangement. It is also worth noting that the growth in the sharing economy has fed the rise in rental demand, too. While the supply of rental housing has increased, demand has outstripped this growth. This can be attributed to small investors who have snapped up rental housing, attracted by the relatively high yields on rental properties. As a result, the incidence of house rentals is significantly above pre-crisis levels. In 2017, rented living arrangements (other than free accommodations) stood at 16.9%, [1] which is considerably higher than the percentage observed a decade ago.

The need for reliable statistics about the rental market

The complex adjustment to this new equilibrium, marked by a much higher incidence of rentals than before the crisis, has resulted in a significant mismatch between supply and demand, which has been amplified by political interests. Unfortunately, there is a lack of relevant data and statistics on rentals in Spain. The incidence of rentals can be gleaned from the census or the so-called *Living Conditions Survey*. However, neither of these sources is designed to estimate appropriately this percentage. The quality and breadth of statistics on rental prices is even more unsatisfactory following the flawed survey of rental housing of 2006. The survey, carried out by the so called *Observatory of Rental Housing (Observatorio de la Vivienda en Alquiler)*, and initiative of the Housing Department and the Public Society for Renting (Sociedad Pública de Alquiler), [2] generated results that were contested by researchers and participants in the market. Thus, those data that are currently available on the rental market generally comes from real estate portals and therefore do not reflect market prices but rather landlords' ask prices.

Consequently, most analysts and media reports rely on the information provided by the various portals. Unfortunately, the quantity of information gathered on market rents from the portals is often times inversely proportionate to its quality. For that reason, there are significant differences between the ask price provided by the portals and actual market rents. [3] To make matters worse, the difference between the two is unstable over time, so that the growth rates are similarly not comparable. The gap between landlords' and tenants' expectations is evident in the difference between the ask price and the final price.

That fact skews the picture considerably. For example, let us assume a portal advertises one apartment for 5,000 euros a month and another 12 for 500 euros. The average rent is 846 euros. Because the 5,000 euros rent is so much higher, say that apartment and only six of the 500 euros apartments were for rent. What happens to the average rent? According to the portal, it has increased by 35%. What would happen if the six apartments are rented out but the owner looking to rent for 5,000 euros reconsiders and lowers the price to 2,500 euros? According to the portal, the average would have fallen by 7%. The fact that cheaper houses are rented out quickly and more expensive properties take longer to rent skews the figures.

How could one assess the quality of supply-side data? One possibility would be to compare the portals' data with the rents effectively paid. Regrettably, this is not a realistic exercise. However, in Barcelona the security deposits posted with the official housing market body —INCASOL— make it possible to draw a relationship between ask

“ Unfortunately, the quantity of information gathered on market rents from the portals is often times inversely proportionate to its quality. ”

“ It is important to highlight that between the third quarter of 2015 and 2016, the average ask rent increased by 18.5%. However, the prices at which leases were actually signed increased by a narrower 8%. ”

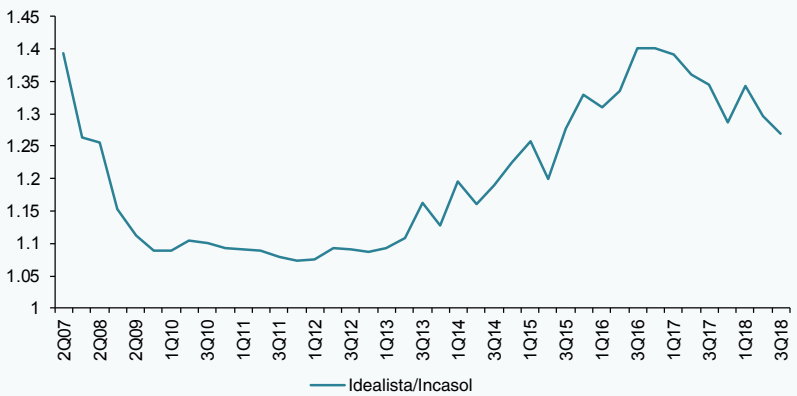
and market price. Exhibit 1 depicts the ratio of rents in Barcelona according to one of the portals, Idealista, divided by the rents derived from the deposits placed with INCASOL.

Exhibit 1 illustrates how during periods of recession the ratio approaches 1, whereas in times of growth the ratio rises rapidly. That back and forth is logical. An economic expansion is correlated with an increase in demand for rental property, thereby pushing ask prices above market prices. The opposite happens when the economy slows or contracts.

Another way of checking the correlation between real estate portal rents and security deposits is by analysing the growth rates. Exhibit 2 shows how during an economic contraction, the rents published on the real estate portals fall at a faster rate than the market rates, while boom times rents showed higher rates of growth. During periods of stability, such as between 2010 and 2012, the rates of change between these two metrics are similar. It is important to highlight that between the third quarter of 2015 and 2016, the average ask rent increased by 18.5%. However, the prices at which leases were actually signed increased by a narrower 8%. As well, the portal estimated that at the beginning of 2018, there was a reduction in rents of 2.4%, whereas the price at which rents closed increased by 4.4%.

The rental figures for the city of Barcelona show that the portals' numbers are not a good indicator of real market rents. The fact that the relationship between the two indicators is not proportionate, *i.e.*, the ratio changes over time, means that the portals' listed rents should not be used by the rental market. There is urgent need for an official statistical series tracking rents that avoids the pitfalls of the originally constructed (Ministry of Public Works and Urbanism) housing price index and rental statistics of 2006.

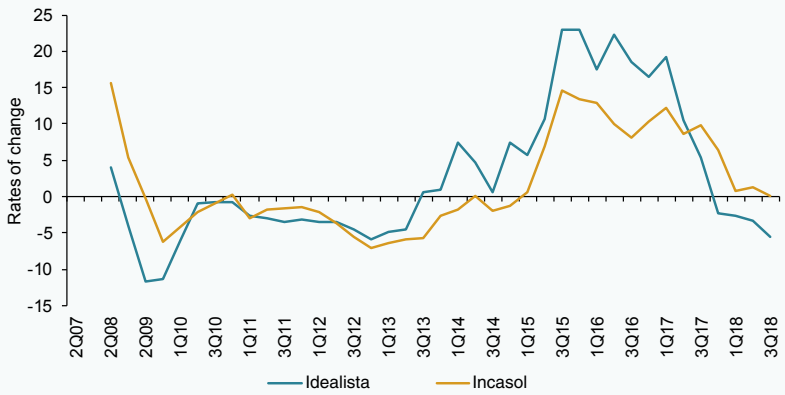
Exhibit 1 **Ratio of average monthly rent per m² – Idealista/Incasol**



Sources: Idealista, Incasol and author's own elaboration.

> “In early 2019, for example, the media continued to insist that rents were rising uncontrollably in Barcelona even though ask prices had been falling for months.”

Exhibit 2 **Rate of change in monthly rent in €/m²: Idealista *versus* Incasol**



Sources: Idealista, Incasol and author's own elaboration.

The weakness of rental data and the lack of benchmark statistics mean that the information echoed by the media and certain politicians fails to reflect the real trend in rents. During times of growth, propaganda that rents were rising faster than they really were fuelled the entire process. In early 2019, for example, the media continued to insist that rents were rising uncontrollably in Barcelona even though ask prices had been falling for months. Using the most recent data for the third quarter of 2018, some newspapers claimed that rents in Barcelona were still increasing at 5% year-on-year when the reality was that rents per square metre had stabilised. That growth of 5% relates to total rents and not rent per square metre.

Why are rents rising in big cities?

The fast rise of rental prices in big Spanish cities, particularly Madrid and Barcelona, has spawned the notion of a “rental market bubble”. Indeed, one of the clearest indicators of the bubble in house prices in the past, in addition to the astounding growth in credit, was actually the low yields on rentals. That yield bottomed at 2%. Why would anyone want to pay an astronomical price for housing when it was offering such a low return in

> “While house prices can rise unfettered so long as the availability of credit continues to increase, the same cannot be said of rent, which is capped by household income.”

> “The latest EU estimates from 2016 indicate that the severe housing deprivation rate in Spain (1.7%) is well below the EU-28 average (4.8%), the eurozone average (3.5%) and even below that of countries such as Sweden, France or Germany.”

comparison with other assets? The only explanation is that the expectation was that prices would continue their ascent and buyers would realise capital gains. Ultimately, it was such unrealistic expectations about the outlook for prices, together with abundant credit, that fed bubbles. Today, with rental yields between 5% and 7%, house prices are determined by the rents they can secure. Lastly, while house prices can rise unfettered so long as the availability of credit continues to increase, the same cannot be said of rent, which is capped by household income.

The rapid rise of rents in certain major cities has triggered an examination of its causes. Here, it is important to avoid raising concerns supported by a biased selection of housing affordability indicators. The latest EU estimates from 2016 indicate that the severe housing deprivation rate in Spain (1.7%) is well below the EU-28 average (4.8%), the Eurozone average (3.5%) and even below that of countries, such as Sweden, France or Germany. Secondly, the housing affordability ratio (the percentage of households that spend more than 40% of their equivalised disposable income on housing) stood at 10.2% in Spain, which is again below the EU-28 (11.1%) and Eurozone (11%) averages. Owner occupied housing in Spain has very low levels of housing deprivation. Looking at the segments of the population living on reduced rent or in free accommodations (10.6%), Spain continues to compare favourably with the EU-28 (13%) and the Eurozone (11.8%). The affordability issue is concentrated exclusively in the market rent segment (a very small percentage of the housing market), where this ratio is 43% in Spain, which is significantly above the EU-28 average (28%).

Without a doubt, the increase in the percentage of disposable income spent on rent in the market price rental sector has created enormous housing access issues. This has been compounded by the rise of temporary work contracts and low salaries in Spain, which makes getting a mortgage more difficult. There are two main problems in tackling this situation. Firstly, the almost complete absence of accurate information about the fundamental market variables prevents rigorous analysis of the root causes. Secondly, because it is so hard to obtain empirical results, the recommendations for tackling the problem are based on ideological “hypotheticals” and proposals for measures that have previously failed.

The first alleged culprits are the large-scale investor landlords. However, contrary to popular misconceptions, the supply of homes for rent remains dominated by small, local property owners (small investors, pensioners, *etc.*). Over 2.3 million Spaniards declare property tax receipts on their tax returns. Large-scale investors represent less than 5% of the market. It is hard to conceive that these landlords could be exercising monopoly

> “Large-scale investors represent less than 5% of the market, making it hard to conceive that these landlords could be exercising monopoly power, controlling prices and pushing them higher at their discretion.”

power, controlling prices and pushing them higher at their discretion. When debating measures for protecting tenants, it is important to recall that on the other side of the contractual relationship there could be a pensioner or small saver who rents out his property to top up his income.

The second alleged culprit is the home sharing arrangements, or holiday apartments. There was a lot of controversy around the impact of home sharing in the summer of 2018 when the anti-trust authority, the CNMC, engaged in a debate with Madrid's municipal government. The CNMC published a report which indicated that there was no evidence that home sharing was having an impact on rents. It is too simplistic to assume that all holiday apartments would be on the long-term rental market if, for example, platforms like Airbnb were banned. Many of the apartments for rent on those platforms are available to rent for very short periods of time, which tend to coincide with periods when their primary occupants are away. Others might not be put on the market because their owners might think that standard rents are insufficient to compensate them for the risk of renting out their properties. What's more, the present conditions may have played a key role in the decision to buy and then subsequently rent out those properties. Therefore, the impact of home sharing depends on the relative size of the sector and its impact on the supply of rental homes. That effect can only be analysed using empirical evidence, not theoretical arguments.

The most simplistic approach is to interpret the coincidence between the start of the home sharing boom and the increase in rents. However, it requires putting aside the fact that this coincides with economic growth and a fall in unemployment. There are also other *ad hoc* factors such as the 20% contraction of rentals in Barcelona between 2008 and 2013. In sum, that coincidence is anything but credible evidence. Moreover, in Barcelona the number of leases registered with INCASOL increased by 23% between 2015 and 2017. Even more significant is the doubling of the number of leases since the start of the crisis.

The empirical evidence suggests that there is no correlation on a district-level between the number or proportion of holiday apartments in Barcelona and the increase in rents. Obviously, that evidence is weak as it is not based on credible causal analysis but it does make it hard to justify claims that home sharing is having a significant impact on conventional rents. So, how did Madrid's municipal authorities justify their claim that the proliferation of apartments for use by tourists had led to an "astronomical" increase in rents? The crux of the argument is based on an interpretation of a report by members of a neighbourhood association. The authors attempt to be more quantitative, indicating that the "the statistical evidence about the movement in prices in the Central District with respect to the rest of the city appears to endorse, at least partially, this hypothesis." But the report does not provide evidence that rents in the Central District have deviated from the average trend for all of Madrid, given that there are other districts where rents have gone up more sharply. In short, districts that have seen that highest increase in holiday apartments are not where rents have gone up the most. The report concludes with the authors noting that they had "encountered significant limitations due to the absence of sufficient data series, making it hard to establish robust and conclusive models." Despite adding that there are many other factors that affect rental prices, the report ends by claiming that there is a correlation between home sharing and rental prices.

Given the challenge of finding empirical evidence in Spain, we need to look at what has happened in cities in other countries. Such an exercise is always complicated because

"Districts that have seen that highest increase in holiday apartments are not where rents have gone up the most."

extrapolating data from one city and applying it to another implies making a number of assumptions. Due to the novelty of the home sharing phenomenon, there are few published studies. The only one that can be described as in any way rigorous examines the issue in Boston. (Han and Merante, 2017). The authors concluded that a standard deviation increase in Airbnb listings would imply a 0.4% increase in ask rents, when rents in the city of Boston are growing at over 5%. That increase is barely statistically significant. The study, which also complains about the lack of good data, relied on ask rents rather than market rents, which partially undermines its credibility.

In short, the CNMC is right to state there is no evidence of a correlation between home sharing and rents. This is not to say there is not a correlation but that there is not enough information for a reliable study to determine whether such a correlation exists.

Another factor coincides with the arrival of Airbnb in 2014, namely the start of the economic recovery. The city of Barcelona has benefitted significantly from the effects of the economic recovery. Taxable income per tax-payer in Barcelona was higher by 2015 than in 2008 and by June 2017 there were fewer registered job-seekers in Barcelona than in December 2008. Between the start of the recovery and 2017 (estimate based on latest figures available) Barcelona's GDP increased by 12.6% in constant prices. Similarly, between the end of 2013 and the end of 2016, GDP per capita increased by 8.5%. But what has happened in terms of income distribution? Whereas in 2008 wages and salaries plus social security accounted for 75% of all income, by 2014 (last year for which these figures are available) they represented 81% due to the lower weight of benefits. That economic recovery must explain at least some of the rental market's rebound.

The third culprit may relate to demographics. In the case of Barcelona, the population has remained constant for the last six years while the average household size has increased somewhat, implying fewer households. Moreover, the number of young people at the age of leaving home, supposedly the biggest source of demand, has fallen. It is true that foreigners from wealthier countries have increased in number since 2014 and the Latin American community has shrunk but the impact on per capita income is insignificant with respect to the rental market in Barcelona (assuming they rent and do not buy).

Finally, another explanation is the scarcity of rental housing supply and the market's attendant inability to adjust without major swings in rentals.

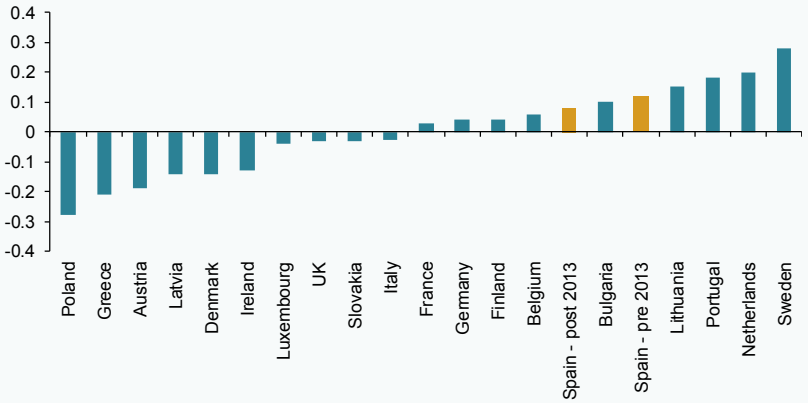
Recent policy proposals

In theory, there are plenty of public policies that could influence the dynamics of Spain's housing market. The question is deciding when to apply them, which are most effective and which cause the least collateral damage. The Royal Decree-Law (RDL) on urgent measures in housing and rentals has placed public policy on rentals back in focus. Any legislative changes introduced alter the delicate balance between landlords and tenants and therefore must be studied and formulated with care in order to avoid creating new adverse effects in the market. The first question relates to the current state of that balance in Spain. The country offers tenants reasonable levels of protection as referenced by OECD and EU indicators. Exhibit 3 provides the composite indicator of the relationship between tenants and landlords for the EU member states. Lower values of the composite indicator reflect lower degrees of tenant protection. The exhibit shows that Spain is well positioned in terms of tenant protection, even after the reforms of 2013.

The changes in the RDL include extending lease terms from three to five years and capping security deposits at two months' rent, except for long-term leases and leases arranged by large landlords, which are set to a minimum of seven years. Lengthening the term of lease agreements is reasonable considering the fact that renting is an increasingly more popular option, although it is unclear why large landords should be subject to a different regime. That measure gives tenants greater stability. In addition, the adjustment of rents throughout the life of the contract will be limited by CPI inflation.

Exhibit 3

Composite indicator of the tenant-landlord relationship in the EU



Source: Cuerpo, Kalantaryan and Pontuch (2014).

Nevertheless, it will not necessarily effect the growth of rents if the price trend proves protracted. If rents continue to increase, the price for accommodations will simply reset to market prices, triggering an accumulated five-year rise in prices instead of a three-year increase. Moreover, leases have tended to have terms of over three years. Their duration has averaged 4.5 years. It is also worth noting that the minimum lease term only applies to the landlord and not the tenant, giving the latter an advantage that is not usually considered. When rents fall, as was the case in Barcelona between 2008 and 2013 (-20%), tenants can unilaterally break or threaten to break their leases to their advantage. That phenomenon was widespread in Barcelona during the initial stage of the financial crisis and forced landlords to drop their rents.

The RDL also capped the size of the security deposit paid to landlords at two months' rent. It seems reasonable not to let landlords ask for five or six month rent as security, however, capping that deposit could still push more vulnerable tenants out of the market if the cap is not accompanied by other measures. For example, a public subsidy could be set up to pay for insurance against default by tenants affected by this cap.

The most controversial aspect of the public debate surrounds the introduction of rent controls. Although the RDL did not contemplate this potential policy, it did appear in the agreement struck between the Socialist (PSOE) administration and Podemos. It has been long established by empirical evidence that this policy is ineffective. Regrettably, this erroneous approach, which involves the introduction of price controls in the rental market, attracts significant support. A good example of this is hyperinflation in Venezuela, which started with measures aimed at controlling prices in response to accusations that merchants were escalating prices. Those price controls distorted markets and had no effect on inflation, that at the end of 2018 rose to 1,000,000%, a record high. This occurred because policymakers failed to adequately examine the situation as well as the long-term direct and indirect consequences of price controls. In Venezuela, the central bank is rapidly printing money, causing prices to skyrocket. This means price controls will have no effect so long as the authorities persist with this policy.

Nobel Prize winning economist Paul Krugman has referred to rent controls as "among the best-understood issues in all of economics, and—among economists, anyway—one of the least controversial". Consequently, the tendency to paint the issue as one that is still under debate among economists is patently false. There is an abundance of empirical

“ A recent study by Diamond, McQuade and Qian (2018) shows that rent controls in San Francisco prompted many owners of rental units to sell them, driving a significant contraction in rental housing supply and more inequality as the buyers, on account of the steep house prices, were high-income households. ”

evidence about first-generation rent controls (those that limit rents in absolute terms, rent caps or ceilings). The studies point to a reduction in the supply of rental homes, an adverse impact on mobility and a suboptimal allocation of resources that benefits some tenants and damages others. A recent study by Diamond, McQuade and Qian (2018) shows that rent controls in San Francisco prompted many owners of rental units to sell them, driving a significant contraction in rental housing supply. This reaction generated more inequality as the buyers of the houses that exited rental market were high-income households. There is not enough evidence to draw conclusions about the effectiveness of the so-called second generation rent controls, which limit the growth in rents rather than their absolute levels (rental brakes or rent stabilisation). However, informal observations indicate a minor impact on rental price growth alongside evidence of black-market payments to circumvent the controls and reduction in the supply of rental units. In addition, these controls have disincentivized building maintenance. Berlin is frequently referenced in debates about rent controls but less often discussed is their negative impact in that city. Also, while these policies may have been well-intentioned, it is important to keep in mind that any success occurred in a different institutional and real estate context. Could rent policies possibly have the same impact in a city where 70% of houses are for rent as in a city where just over 25% are for rent?

The adjustment of supply and demand in the Spanish rental market might have been smoother if a significant amount of public housing was available for rent. Unfortunately, policymakers have focused on providing subsidies for lower income households to assist in home ownership ambitions instead of lowering their rental costs. This may have been effective for winning votes, but it had the deleterious impact of redirecting resources that could have been used to increase the stock of social housing available for rent. Looking at the houses built between 1980 and 2008, that stock would now exceed 2 million units. The crisis offered opportunities for municipal and regional authorities to quickly and cheaply increase their stock of social housing for rent. The bargain prices at which the banks were selling foreclosed housing made this the ideal source of new social housing. Instead of taking advantage of the opportunity, governments chose to building new public housing without restricting its use to social rents. Then, when the pace of production fell short of forecasts, they resorted to controversial measures, such as the obligation imposed by the Barcelona municipal government on private developers to earmark 30% of the houses they build to social housing. That measure is bound to have a limited effect (around 300 units per annum) and serves to heighten the sector’s legal uncertainty.

A situation has therefore developed where strong demand has been met by an inadequate

“ Policymakers have focused on providing subsidies for lower income households to assist in home ownership ambitions instead of lowering their rental costs. ”

supply response. Given that it is very hard to influence demand for rentals, at least not without fuelling a fresh bout of irresponsible mortgage lending, any measures that trigger a contraction in supply without clear and proven benefits should be avoided. This makes it all the harder to justify government decisions that undermine legal certainty, such as allowing or encouraging squatters or considering the application of retroactive criteria. Legal uncertainty drives landlords to look for higher returns to compensate for the greater risk they are assuming and could prompt many to sell their properties, further restricting the supply of rental housing. Moreover, the increase in financial market volatility over the past year means the housing market now looks like a safe haven for investors. This has helped keep prices afloat and made landlords far more sensitive to the risks implicit in renting, given the clear-cut returns on sales.

Conclusion

After 40 years of erratic housing policy, it is important to acknowledge that the current issues surrounding the Spanish rental market will not be easily resolved. The incorporation of basic economic principles and a shared commitment to address these issues could prevent them from reappearing in the future. Regional and municipal authorities should also promote the mobilisation of public land through public-private initiatives and speed up the planning approval process. Most important of all, public policy must incentivise the supply of rental units, not discourage it, when there is a shortage of rental accommodation.

Notes

[1] That percentage refers to rents at market prices and at below market prices but does not include other arrangements, such as free accommodations.

[2] The *Observatory and the Public Society* was dismantled in the following years and the name of the Department of Housing has since changed.

[3] Reports by Tecnocasa show that the discount associated with ask prices is highly pro-cyclical.

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José García Montalvo. Professor of Economics at Universitat Pompeu Fabra and Research Professor (Barcelona GSE and IVIE)

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The Spanish economy in response to potential shocks

While baseline scenarios suggest the Spanish economy's performance will remain positive, especially when compared with the rest of Europe, relatively low probability heightened risk scenarios developed in this paper highlight areas of potential weakness. That said, Spain's economy is stronger than it was at the start of the *Great Recession*, indicating the impact of potential adverse shocks would be less harmful than previously experienced.

Raymond Torres and María Jesús Fernández

Abstract: The current baseline scenario is for positive, albeit slower, economic growth of 2.1% in 2019. However, given the risk of further international tensions, it is useful to consider how the economy might fare under a potential materialization of more adverse circumstances. In order to do so, two relatively low probability stress scenarios are modelled. The first consists of weaker global and European growth, as well as a sharp increase in oil prices, while the second amplifies these effects and adds a major financial shock of a similar magnitude to the one that triggered the sovereign debt crisis almost a decade ago. In the first risk scenario, it is estimated that Spanish growth would fall to 1.8% in 2019, resulting from weaker exports and a slower pace of job creation and consumer spending. While the economy would see a more

dramatic reduction in growth in 2020, a tepid recovery would follow in 2021. In the extreme risk scenario, which adds to the previous one a financial shock, the economy would enter a recession in 2019. It would begin to stabilise in 2020, with moderate growth returning in 2021. Significantly, there would be a rise in public borrowings over the entire projection period, peaking at 105.7% of GDP, a record high. However, the overall impact would be less severe than experienced in the sovereign debt crisis, due to the stronger financial health of Spain's private sector and the absence of any evidence of a bubble nor of credit propping up present employment levels. Despite an overall improved resilience, Spain has reduced capacity to deploy fiscal stimulus in response to shocks. Another vulnerability is the high level of oil dependency under the current energy model.

Introduction

Following five years of growth since the start of the recovery, the Spanish economy's fundamentals remain relatively solid. While observers expect the pace of growth will slow, the expansion has not generated imbalances in the private sector nor are there domestic indicators that suggest growth is likely to completely stall. In our baseline scenario,

Table 1 **The Funcas baseline scenario**

Probability: 75%

Percentages

	2018	2019	2020	2021
GDP	2.5	2.1	1.8	1.7
Private consumption	2.4	2.2	1.8	1.6
Public consumption	2.3	1.3	1.2	1.2
Gross fixed capital formation	5.2	4.0	3.0	2.1
- Construction	5.5	4.1	3.1	2.2
- Equipment and other products	4.9	3.8	2.9	2.1
Exports	2.2	2.0	2.4	2.5
Imports	3.6	3.1	2.9	2.5
Domestic demand (contribution)	2.9	2.4	1.9	1.6
External sector (contribution)	-0.4	-0.3	-0.1	0.1
Inflation rate	1.7	1.1	1.3	1.5
Employment	2.5	1.7	1.4	1.3
Unemployment rate	15.3	13.9	12.7	11.6
Current account of the BoP (% of GDP)	0.8	0.6	0.4	0.4
Household savings rate	4.4	4.1	3.8	3.7
Public borrowings (% of GDP)	97.4	95.9	94.8	93.6

Source: Funcas.

> "Under the baseline scenario, GDP is forecast to grow by 2.1% in 2019, slowing gradually in subsequent years as it converges towards its potential."

GDP is forecast to grow by 2.1% in 2019, slowing gradually in subsequent years as it converges towards its level of potential output growth (Table 1). As a result, unemployment and public borrowing –the key imbalances in the Spanish economy– should continue to shrink. Spain is expected to continue to record a trade surplus throughout the projection period, albeit smaller than in recent years.

However, these forecasts are based on the assumption of a stable external environment, marked by continued but slowing global growth (higher than during the years of crisis) and historically low interest rates. The purpose of this paper is to assess how the Spanish economy would perform if the international context and/or financial conditions were to prove less benign. [1] Firstly, we analyse the impact of weaker growth on the global and European economies and an increase in oil prices. For that risk scenario, we take the most pessimistic forecasts for international trade and oil prices, which would constitute a trade shock. Secondly, to model a scenario of heightened risk, we layer a financial shock onto the trade shock scenario. The financial shock is approximated by an increase in interest rates and risk premia of a similar magnitude to that which triggered the sovereign debt crisis in 2010-2012. Lastly, the article draws from the analysis some considerations about the Spanish economy's strengths and weaknesses.

Note that the entire simulation exercise is conducted under the assumption of 'no policy changes', *i.e.,* assuming that no new economic policy measures are taken during the projection period.

Risk scenario

In the risk scenario, the disruption resulting from trade wars and, in the case of Europe, a 'no deal' Brexit, together with oil prices at the upper end of the estimate range (85 dollars per barrel), would reduce growth in the global and European economies to below the levels contemplated in the baseline scenario. GDP growth in the eurozone would fall to around 1% in 2019 and embark on a modest recovery from the second half of 2020, once the impact of the above-mentioned sources of disruption had been absorbed. Although the US economy would also recover, China's domestic imbalances would hamper its growth rate, negatively impacting the global economy (Appendix 1).

These assumptions are fairly improbable compared to those contemplated in the baseline scenario. However, recent developments in the European economy and international markets have lent weight to the warnings issued by international organisations and the European Central Bank (ECB). [2] As a result, the likelihood of the risk scenario materialising is allocated a probability of between 20% and 25%, *versus* a 75% probability for the baseline scenario.

In the risk scenario, the exchange rate would remain at around the recent level of 1.13 dollars per euro throughout 2019, as the delay in normalising monetary policy would impede the appreciation forecast in the baseline scenario. The improved economic outlook for 2020 would likely prompt the ECB to start increasing its benchmark rates that year, giving rise to moderate euro appreciation.

Slower growth and the financial markets' perception of greater uncertainty would push the Spanish risk premium higher in 2019, specifically putting the yield on 10-year government bonds at an estimated 1.50%. In subsequent years, the premium would be expected to stabilize at a relatively high level, while the improvement in the medium-term outlook would continue to nudge yields towards the 2.2% mark in 2021.

“ The probability of the risk scenario materialising is estimated at between 20% and 25%, *versus* a 75% probability for the baseline scenario. ”

The wage growth forecast in this scenario would be lower than in the baseline scenario due to reduced upward pressure on the back of slower job growth.

Adverse international conditions would translate into lower export growth. Reduced external demand, coupled with heightened uncertainty and the growth in production costs derived from the increase in energy prices, would lower investment growth. The combination would result in a slower pace of job creation, which, coupled with the higher rate of inflation, would diminish growth in consumption. Consumer spending would also be negatively affected as residents boost their savings in the face of uncertain prospects. However, the increase in salaries as a result of the growth in public sector pay, the minimum wage hike and the increase in pensions would partially mitigate this effect. As a result, economic growth, at 1.8% in 2019, would be lower than in the baseline (Table 2 and Exhibit 1A).

In 2020, despite a slight recovery in exports, investment is forecast to continue to ease as a result of several factors. These include the adverse effect of the increase in the risk premium on interest rates, the lagged impact of the increases in labour costs introduced the previous year (the minimum wage hike and the increase in the Social Security cap) and more pronounced weakening in consumer spending. The latter would be shaped by the end of the above-mentioned salary measures, which had augmented household income. Taken together, these dynamics would slow GDP growth to 1.2%.

In 2021, GDP would experience a slight recovery, albeit remaining at a low level. The improvement would stem from stronger export performance and, above all, higher

Table 2 **The Funcas risk scenario**

Probability: 20%-25%

Percentages

	2018	2019	2020	2021
GDP	2.5	1.8	1.2	1.5
Private consumption	2.4	1.9	0.9	1.4
Public consumption	2.3	1.3	1.2	1.2
Gross fixed capital formation	5.2	3.2	1.8	2.1
- Construction	5.5	3.8	2.0	2.0
- Equipment and other products	4.9	2.7	1.5	2.1
Exports	2.2	1.7	2.0	2.1
Imports	3.6	2.5	1.9	2.2
Domestic demand (contribution)	2.9	2.0	1.1	1.5
External sector (contribution)	-0.4	-0.2	0.1	0.0
Inflation rate	1.7	1.4	1.2	1.0
Employment	2.5	1.5	0.8	1.1
Unemployment rate	15.3	14.1	13.4	12.5
Current account of the BoP (% of GDP)	0.8	0.0	-0.2	-0.4
Household savings rate	4.4	4.2	3.9	4.1
Public borrowings (% of GDP)	97.4	96.9	97.1	97.0

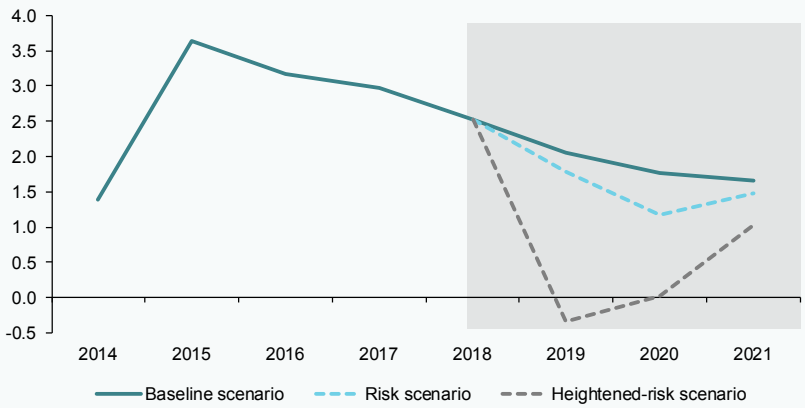
Source: Funcas.

> “The current account would go from a surplus to a deficit, mainly due to higher oil prices and, to a lesser extent, the increase in net interest payments on external debt.”

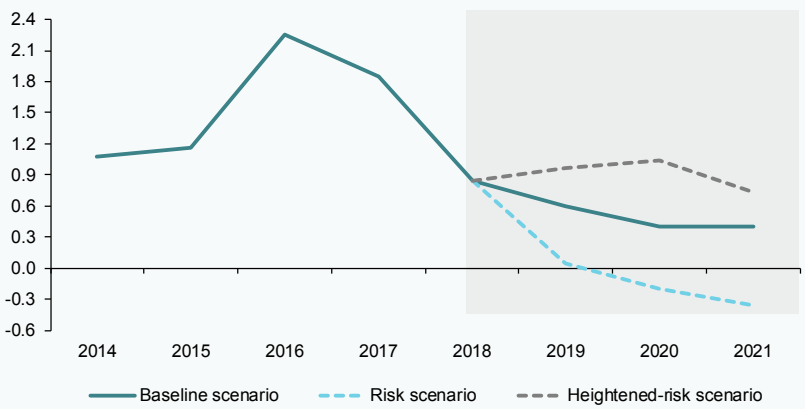
Exhibit 1

Growth and current account balance in the three Funcas scenarios for the Spanish economy

1A.GDP, annual growth



1B.Current account balance (% of GDP)

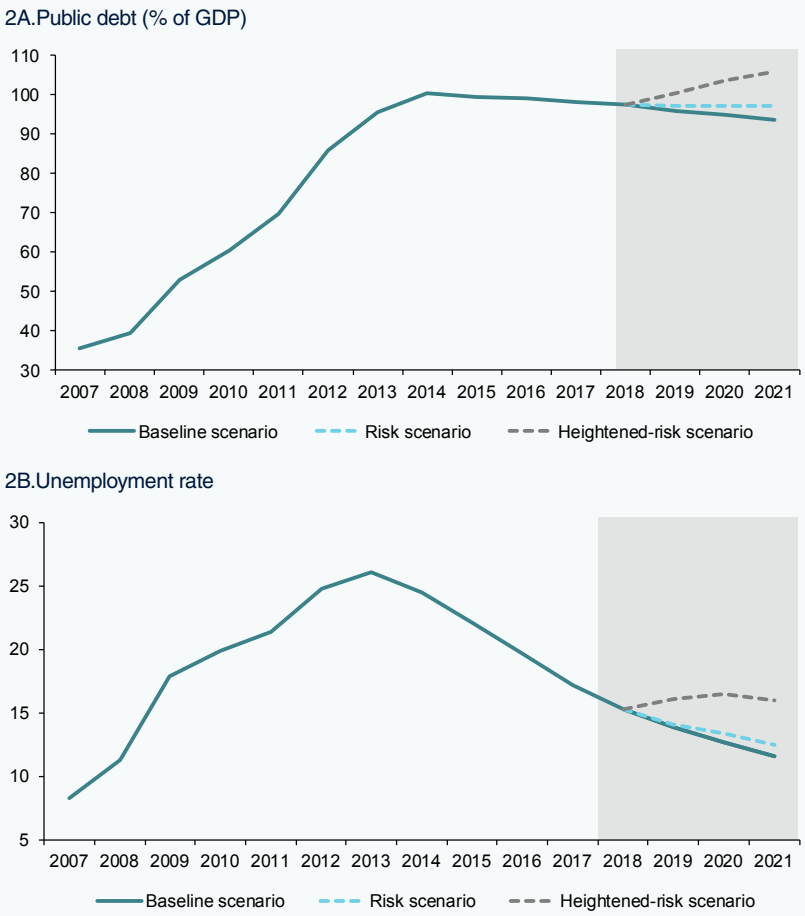


Source: Funcas.

investment in capital goods, buoyed by the brighter economic outlook, a stable risk premium and a slower increase in unit labour costs. As a result, employment would recover, boosting consumption and, ultimately, GDP and job creation. The outcome would be a recovery in growth to 1.5%.

The unemployment rate would stand at 12.5% in 2021, which is nearly one percentage point above the baseline scenario (Exhibit 2B). The current account would go from a surplus to a deficit, mainly due to the high price of oil imports and, to a lesser extent, the increase in net interest payments on external debt

Exhibit 2 **Public borrowings and unemployment in the three Funcas scenarios for the Spanish economy**



Source: Funcas.

(Exhibit 1B). Lastly, the public deficit would deteriorate to 2.6% of GDP, compared to the 1.9% estimated in the baseline scenario. Public indebtedness would come down slightly in 2019 but would climb once again in the following two years to end 2021 at 97% of GDP (Exhibit 2A).

Heightened-risk scenario

In the heightened-risk scenario, we assume a more pronounced deterioration in the external environment than in the previous risk scenario. The model relies on the most pessimistic analysts' projections, which reflect the outcome of increased trade tensions and a marked reduction in Chinese growth. In addition, the current slowdown in the European economy would intensify, bordering on recession during the second half of 2019. Specifically, growth in the eurozone would fall to 0.8% in 2019 and 0.5% in 2020. Although the eurozone would begin to recover in 2021 with GDP growth of 1%, it would remain below its potential output growth rate.

Secondly, in the heightened risk scenario, we layer in a financial shock similar to that which took place at the time of the sovereign debt crisis a decade ago. We assume that

> “Given the extreme underlying assumptions, the probability of the heightened-risk scenario, which combines external shocks along with a credit crunch, is estimated at less than 5%.”

financial fragmentation would halt eurozone capital flows in the next few months, with two implications. Firstly, the risk premium would climb to similar levels to those registered in 2011, *i.e.*, close to 300 basis points (virtually three times the risk premium currently observed in the markets). Secondly, the private sector would face a credit crunch, which would push Spain's households from a net borrowing position to equilibrium. Conversely, the corporate sectors' current financing surplus would cushion the blow of a credit crunch.

The materialisation of these assumptions is improbable on account of the magnitude of the shocks modelled and the likelihood of them all happening simultaneously. As a result, the probability ascribed to the heightened-risk scenario is less than 5%.

In this weakened environment, the Spanish economy would enter recession in 2019, due to the collapse in domestic demand. Private consumption –the variable with the greatest weight in GDP– would contract as a result of the credit crunch, prompting a sharp increase in household savings (Table 3). Indeed, the household savings rate is forecast to increase by one full percentage point to 5.5%. The freeze in credit, coupled with higher interest rates,

Table 3 **The Funcas heightened-risk scenario**

Probability: 0%-5%

Percentages

	2018	2019	2020	2021
GDP	2.5	-0.3	0.0	1.0
Private consumption	2.4	-1.0	0.0	1.5
Public consumption	2.3	1.3	0.8	0.8
Gross fixed capital formation	5.2	-3.2	-3.2	0.0
- Construction	5.5	-6.4	-4.6	-1.9
- Equipment and other products	4.9	0.0	-1.8	1.8
Exports	2.2	1.4	1.6	1.7
Imports	3.6	-0.6	0.0	1.8
Domestic demand (contribution)	2.9	-1.0	-0.5	1.0
External sector (contribution)	-0.4	0.7	0.5	0.0
Inflation rate	1.7	1.3	1.2	1.2
Employment	2.5	-0.8	-0.5	0.7
Unemployment rate	15.3	16.1	16.5	16.0
Current account of the BoP (% of GDP)	0.8	1.0	1.0	0.7
Household savings rate	4.4	5.5	5.5	5.1
Public borrowings (% of GDP)	97.4	100.2	103.4	105.7

Source: Funcas.

> “Private consumption —the variable with the greatest weight in GDP— would contract as a result of the credit crunch, prompting a sharp increase in household savings.”

would also affect residential investment. On the other hand, investment in capital goods would manage the shock better, thanks to the corporate sector's healthy financial situation. The downturn in international markets would take a toll on exports, which would grow by just 1.4%, similar to the rate observed in 2012 at the height of the crisis. However, in line with the predicted contraction in domestic demand and historical elasticities, imports would also decline. Consequently, trade would provide a positive net contribution to growth.

Following the initial adjustment in the face of shocks, consumer spending would stabilise in 2020. It would then embark on a slight recovery in 2021 as credit restrictions are gradually rolled back and precautionary savings diminish. Keeping with the recovery in the European economy, the slowdown in exports would level off in 2020, seeing further improvements in 2021. As a result, investment would start to rebound that year. Overall, GDP would stabilise in 2020 and register modest growth in 2021.

Bearing in mind the assumption that fiscal policy would remain neutral, the public deficit would edge towards 5% of GDP in 2021 under the heightened-risk scenario. The result would be an increase in public debt over the entire projection period, peaking at 105.7% of GDP, a record high (Exhibit 2A).

The recession would also take a toll on the job market. A net 215,000 jobs would be lost between 2019 and 2020 and only two-thirds of those jobs would be recovered in 2021, so that the unemployment rate would stand at 16% (Exhibit 2B). Though high, the unemployment rate would be nearly ten percentage points below the peak recorded in the aftermath of the crisis.

In short, even assuming the highly adverse shocks of this scenario, the Spanish economy would fare much better than it did during the midpoint of the last crisis. That is because of two factors:

- Fewer jobs would be lost in the Spanish economy than during the sovereign debt crisis. That event coincided with the bursting of the real estate bubble, which in turn triggered a major correction in the construction sector. This dynamic is responsible for much of the job losses during the crisis, while the rise in the risk premium compounded the trend. The spike in unemployment also made households more cautious. Out of a fear that they would lose their jobs, many families reduced their spending, thereby exacerbating the recession. The current situation is different as there are no clear signs of a bubble and credit does not appear to be propping up present employment levels in any sector. As a result, a financial shock would have

> “In the heightened-risk scenario, a net 215,000 jobs would be lost between 2019 and 2020 and only two-thirds of those jobs would be recovered in 2021, so that the unemployment rate would stand at 16% and the Spanish economy would be much less affected than during the *Great Recession*.”

a similar impact to that of an ordinary recession. Thus, in the heightened-risk scenario, employment would move broadly in line with GDP, as suggested by the elasticities associated with a 'bubble-free' recession. This means fewer jobs would disappear than in the sovereign debt crisis. Additionally, labour productivity would increase at an annual rate of close to 0.5% over the forecasting horizon, roughly four times less than during the crisis.

- The private sector is also in a stronger financial position than during the sovereign debt crisis. At the end of 2018, Spain's non-financial enterprises had reduced their debt levels by no less than 320 billion euros, compared to 2010. As a result, an interest rate shock would have a significantly smaller impact than that observed a decade ago. Faced with a shock of a similar magnitude, Spain's enterprises would economise almost 25 billion euros in interest expenses, allowing them to navigate the recession with comparatively less difficulty than in the previous downturn. In addition, Spain's households, having deleveraged (albeit by less than in the case of enterprises), would save around 10 billion euros in interest expenses. Lastly, Spanish financial institutions are also in a relatively healthier position in terms of exposure to non-performing loans, capital ratios and liquidity.

Strengths and weakness in the face of potential shocks

In conclusion, the Spanish economy has improved its resilience to external shocks or a financial meltdown similar in magnitude to the *Great Recession*. The deleveraging undertaken by the private sector in recent years, coupled with the absence of bubbles or sectors in which a significant percentage of jobs is artificially propped up by credit, are important achievements that explain the improved resilience of the Spanish economy.

The flip side is that there is little room for fiscal manoeuvring in order to offset the effects of a possible shock. The public deficit and the high level of public borrowings restrict the government's capacity to adopt stimulus measures that would damper the effects of a recession and help speed up the recovery. The markedly pro-cyclical nature of the labour market is another weakness which erodes the economy's ability to respond to recessionary episodes. Lastly, Spain's high dependence on oil leaves the economy vulnerable to potential swings in international markets. Spain should prioritise correcting these imbalances and adopt new reforms that would transform the energy model. Such efforts would help prolong the current expansionary phase and leave Spain less exposed to potential turbulence.

Notes

[1] This paper updates the scenarios modelled one year ago (Torres and Fernández, 2018).

[2] Refer to the *OECD's Economic Outlook* (2019) and the *ECB's Macroeconomic Projections* (2019).

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

Appendix 1. Key assumptions underpinning the scenarios for the Spanish economy

Table 1A

Baseline scenario

	2018	2019	2020	2021
Global GDP growth	3.7	3.3	3.3	3.3
Eurozone GDP growth	1.8	1.4	1.4	1.6
Oil prices	73	65	65	65
LT interest rates	1.43	1.25	1.75	2.00
Risk premium	1.02	1.00	1.00	1.00
ST interest rates	-0.32	-0.17	0.25	0.75
Euro exchange rate	1.18	1.15	1.20	1.20
Productivity	0.0	0.3	0.3	0.3
Wage growth	1.0	2.1	1.2	1.2

Risk scenario

	2018	2019	2020	2021
Global GDP growth	3.7	3.0	2.8	2.8
Eurozone GDP growth	1.8	1.0	1.1	1.3
Oil prices	73	78	85	85
LT interest rates	1.43	1.50	2.00	2.20
Risk premium	1.02	1.40	1.50	1.50
ST interest rates	-0.32	-0.30	0.00	0.25
Euro exchange rate	1.18	1.13	1.15	1.15
Productivity	0.0	0.3	0.3	0.3
Wage growth	1.0	1.9	1.0	1.0

Heightened-risk scenario

	2018	2019	2020	2021
Global GDP growth	3.7	2.4	2.5	2.7
Eurozone GDP growth	1.8	0.8	0.5	1.0
Oil prices	73	78	85	85
LT interest rates	1.43	2.88	3.28	3.48
Risk premium	1.02	2.78	2.78	2.78
ST interest rates	-0.32	-0.30	-0.30	-0.30
Euro exchange rate	1.18	1.15	1.20	1.20
Productivity	0.0	0.3	0.5	0.7
Wage growth	1.0	1.5	0.8	0.8

Source: Funcas.

Spanish exports: Weak performance in 2018

For the first time since the financial crisis, Spain's export performance has trended below international growth rates. The contraction in 2018 was observed broadly across sectors and markets, suggesting it unlikely that traditional explanatory variables alone could account for this weak performance.

María Jesús Fernández

Abstract: The global economy performed unevenly in 2018, with a notable slowdown in Europe and an uptick in US growth thanks, in part, to the Trump administration's tax cuts. Drilling down further, global trade growth expanded by just 3.3% last year, falling from 4.7% in 2017. However, the picture is somewhat worse for Spain, where the slowdown was more intense. Particularly noteworthy is the reduction in demand from the UK, which began in 2017 and failed to recover in 2018. From a sectoral performance, the automotive industry performed weakest with a 1.5% contraction in current prices. That said, the broad nature of the slowdown in Spain's external sector suggests that traditional factors relating to a specific export market, sector, unit labour costs or exchange rate movements alone cannot account for this downward trend. It therefore remains to be seen whether the recent figures point to a one-off event, or the start of a more prolonged period of weakness in Spain's export performance.

> The trade war unleashed by the US was undoubtedly the most significant development on the international front in 2018.

International backdrop

The European economy slowed considerably in 2018, with the contraction more pronounced during the latter half of the year. This was largely due to new emission tests and standards that temporarily paralysed the automotive industry. The slowdown in China also played a significant part, taking a toll on the German economy, which nearly entered a technical recession. Italian GDP contracted for two quarters in a row amidst the ongoing conflict between the Italian government and the European Commission over the former's deficit target, while the French economy's performance was undermined by the *gilets jaunes* disturbances.

Outside of Europe, the picture was mixed. In contrast with the EU, growth in the US accelerated, fuelled by the Trump administration's tax cuts. China registered its lowest level of growth since 1990. Otherwise, the IMF's January estimates show that emerging economies expanded close to 2017 levels, thanks to greater momentum in other emerging countries, such as India.

The trade war unleashed by the US was undoubtedly the most significant development on the international front in 2018. The decision to impose tariffs on several products had the biggest impact on Chinese exports, although in some cases it also hit European producers (as in the steel sector). These moves, exacerbated by the threat of more tariff hikes on other vulnerable products, such as European-made cars and nearly everything 'made in China', were followed by retaliation on the part of the EU and China.

The uncertainty regarding the new trade regime that will emerge from talks finally underway between the US and the EU on the one hand, and the US and China on the other, and their impact on the global value chains, may have had an adverse effect on international investment decisions. This was further compounded by ongoing Brexit negotiations. The spectre of a 'no deal' Brexit and the failure to define the model that will govern future trade relations between the UK and the EU may also help explain the slump in the European economy during the second half of 2018. In the UK, these developments have been a significant factor in the downtrend in capital goods investment since 2016.

Against this backdrop, growth in global trade slowed in 2018, from 4.7% to 3.3%, according to the CPB World Trade Monitor. Particularly notable is the slowdown in global trade observed in the fourth quarter. Nevertheless, the annual rate of global trade growth continues to remain above the average since 2011.

Spanish exports in 2018

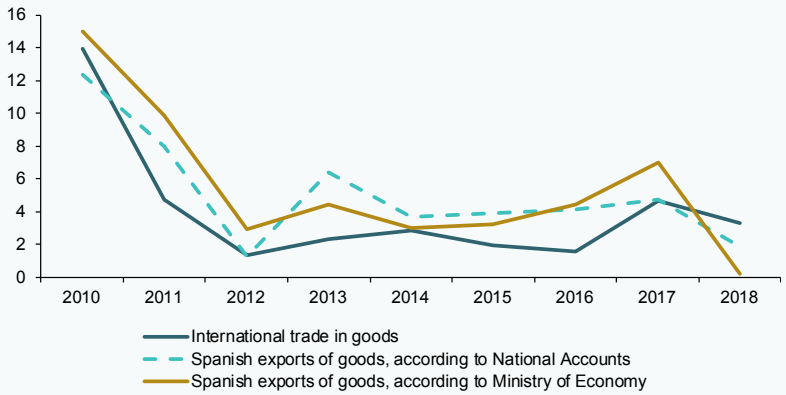
Spanish exports of goods and services experienced a dramatic slowdown in growth last year. According to the provisional national accounting figures, growth in goods exports eased in real terms from 4.7% in 2017 to 1.8% in 2018. However, the Ministry of the Economy [1] estimates that the slowdown

> According to the provisional national accounting figures, growth in Spanish goods exports eased in real terms from 4.7% in 2017 to 1.8% in 2018.

Exhibit 1

International trade and Spanish exports of goods

Rates of growth in volume, %



Sources: CPB World Trade Monitor, National Statistics Institute and Ministry of Economy.

was far more pronounced, with export growth dropping from 7% in 2017 to 0.2% in 2018. Either way, the slowdown was more intense than the trend observed in global trade and marked the first clear-cut underperformance with respect to the global export growth for the first time since the start of the crisis (Exhibit 1).

The performance was worse than calculated by traditional models for estimating the export demand function. [2] These models rely on explanatory variables, such as demand in export markets, domestic demand and certain measures of competitiveness including the nominal effective exchange rate or the real effective exchange rate based on unit labour costs (ULCs). Consequently, some of the slowdown could be attributed to reduced growth in export markets, the strength of domestic demand, the euro's appreciation, or the slight loss of competitiveness in terms of ULCs. However, these factors alone are an insufficient explanation of Spain's weak export performance in 2018.

Trend in exports by destination market

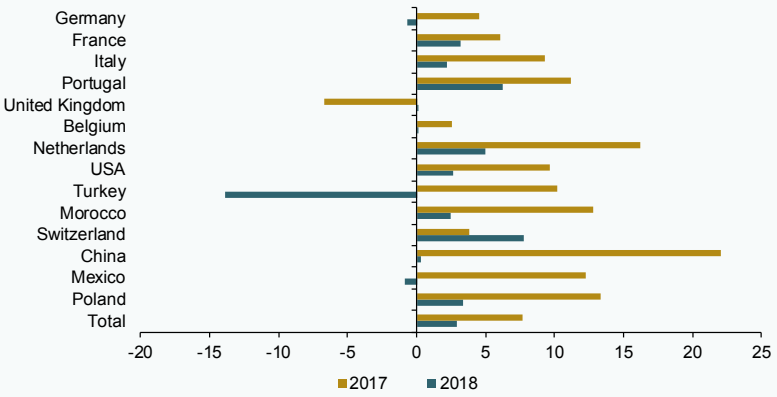
The slowdown in exports of goods was widespread across markets and economic sectors. A slowdown in the pace of purchasing of Spanish goods was observed in nearly all the important export destinations in both Europe and the rest of the world (Exhibit 2). Turkey saw a particularly pronounced reduction in demand for Spanish goods. The country, hit by a currency crisis that led to the depreciation of the lira against the euro by nearly 40%, purchased 13.9% fewer goods from Spain in current prices. Exports to China also slumped: having registered growth of 22% in 2017, they stagnated in 2018. The countries that saw the greatest uptick in demand for Spanish exports in 2018 were Portugal and France. That said,

> "A slowdown in the pace of purchasing of Spanish goods was observed in nearly all the important export destinations in both Europe and the rest of the world."

Exhibit 2

Exports in current prices to main destinations

Annual rates of growth,%



Source: Spanish Customs Agency.

in both instances their purchases increased by less than in 2017.

In the UK, which is the fifth largest market for Spanish exports, growth was virtually nil in 2018, following a contraction of 6.7% in 2017. That contraction was the only one recorded among the major export markets in 2017 and was the result of the depreciation of the sterling, the slowdown in consumption and the drop in capital goods investment suffered by that country as a result of the uncertainty triggered by Brexit.

As a result, sales of capital goods to the UK fell hard in 2017. But the automotive sector fared the worst, slumping by 21%, so that the capital goods sector actually overtook the automotive sector in terms of Spanish exports. The downtrend in both sectors continued in 2018 but was offset by an improvement in others, including oil derivatives, medicines, iron, steel and certain chemical products.

Trend in exports by sector

Virtually all sector categories saw their exports slow in 2018 (Exhibit 3). Energy products (mainly oil derivatives) was the best-performing category, despite registering lower growth than in 2017. The automotive sector (cars, motorbikes and parts) was the worst-performing sector with exports contracting by 1.5% in current prices. Looking at the sub-segment comprised of just cars and motorbikes, the decline was even sharper at 4.1%, extending the significant contraction of 5.5% previously registered in 2017. The slowdown in manufactured consumer goods, specifically textile goods, which account for 10% of Spanish exports, was also noteworthy.

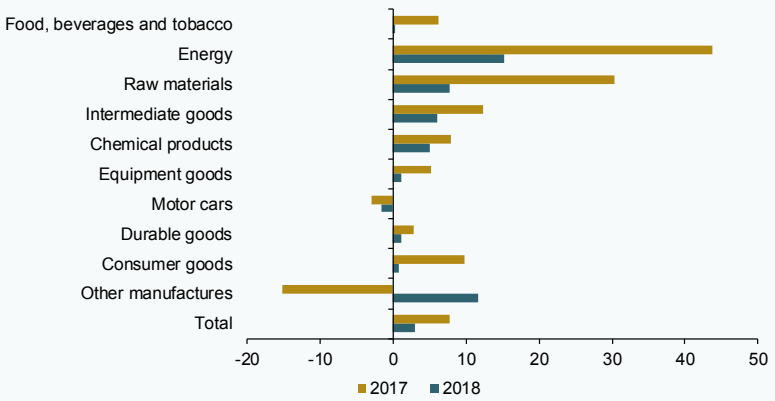
The primary market for exports of Spanish cars and motorbikes (excluding parts) is Germany, which consumes around 20% of these goods, followed by France at 19%, and Italy and the UK, both with shares of around 10.5%. In total, eight countries (those listed above plus Belgium, Turkey, Portugal and

> “The automotive sector was the worst-performing, with exports contracting by 1.5% in current prices.”

Exhibit 3

Exports in current prices by sector

Annual rates of growth,%



Source: Spanish Customs Agency.

Austria) account for 75% of Spanish exports in this sector. Although the UK market accounted for nearly half of the decline in total sales, the downturn was widespread, marked by negative figures in six of the above-mentioned export markets. Most of the major destination markets also contracted in 2018. After the UK, Turkey had the largest adverse impact on export growth in 2018. Note that this trend contrasts with the expansion of automotive exports from the EU as a whole, which registered growth in both 2017 and 2018 (the latter based on provisional data to November).

Conclusions

For the first time since the start of the crisis, exports of Spanish goods clearly underperformed in terms of international trade growth. However, the slowdown in Spain's main export markets, exchange rate movements, the trend in cost competitiveness and strong domestic demand do not fully explain the weak performance in 2018.

Similarly, the underwhelming performance of a specific sector or market cannot account for the broad-based slowdown. The UK was one of the worst-performing markets, with Spanish exports unable to recover from the sharp fall suffered in 2017 on the back of the uncertainty sparked by Brexit. The worst-performing sector was the automotive sector, which also contracted in 2017. Still, growth was weaker in nearly every sector category.

It is too soon to tell whether Spain's poor export performance in 2018 will prove a one-off event or is the start of a protracted slowdown. The weakness of the automotive sector over the last two years is particularly worrisome. However, it should be noted that the sector has been affected by a series of *ad hoc* circumstances and that both export and

> "The UK was one of the worst-performing markets, with Spanish exports to the UK falling sharply in 2017 on the back of the uncertainty sparked by Brexit."

production volumes registered growth that was considerably above the EU average in prior years. Given its importance to Spain's productive and export performance, it will be important to monitor the ongoing export trends in the automotive industry, particularly in light of the far-reaching transformation in which it is immersed.

Notes

[1] Customs figures deflated using the unit value indices compiled by the Ministry of the Economy.

[2] Several models have been used to estimate real exports of goods for both the figures in national accounting terms and for those calculated by the Ministry of the Economy, using annual data for the period since the start of the crisis in order to capture possible structural changes with respect to the prior period. The models, which include a mechanism that corrects for error, introduce different measures of the lagged exchange rate or, alternatively, the real effective exchange rate based on ULCs, growth in imports in the main export markets and lagged growth in domestic demand as explanatory variables. In every instance, the results reveal that the growth in exports in 2018 was lower than predicted based on the explanatory factors, with errors that were above the average for the period, albeit within the confidence intervals.

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

Spain's regional financing system in times of economic growth: Good results temper demand for reform

Despite shortcomings in Spain's regional financing system, the push for reform has weakened due to numerous factors related to the economic recovery and the general difficulty of reaching consensus. Current conditions suggest that if reform does take place, it will be piecemeal, notwithstanding the potential risks associated with such a strategy.

Susana Borraz

Abstract: The regional financing system has been generating positive results (on an accrual basis) since 2014, in contrast with the prior period which, with the exception of 2010, was characterised by economic contraction. The improved performance, tied to the economic recovery, has had an even bigger impact in budgetary terms, given that the payments on account in 2014-2015 did not reflect the economy's real dynamism. The aggregate of the payments on account, coupled with the definitive settlements received in 2016 and 2017, registered year-on-year growth of 9.5% and 7%, respectively. This improved regional

fiscal performance has been particularly apparent in Catalonia, Murcia, Valencia, the Canary Islands, the Balearic Islands and Madrid. The recent positive fiscal dynamics –as evidenced by compliance with regional deficit targets– together with the difficulty for regional governments to reach agreement – has slowed reform momentum. Lastly, the panorama is further complicated by divisions on the delicate issue of potential regional debt restructuring, not only in the academic field but also within the regional governments themselves.

Introduction

Although the conditions for reform negotiations have been propitious, the debate surrounding Spain's regional financing system ("RFS") appears to have quieted in the last year. The country's strong economic performance has expanded overall tax receipts (including those of the state) while simultaneously improving the prospects for a fresh transfer of resources from the state to the regional governments in order to increase the coverage of fundamental public services. [1] In addition, both experts and members of the government began discussing the need for debt restructuring, which garnered some controversy due to concerns about moral hazard and the advisability of regional governments gradually making their way back to the capital markets.

Two specific factors have, however, undermined expectations for reform:

- Agreement by all stakeholders is required to initiate reform [2] and the political climate does not guarantee that consensus will be easily reached. This is made all the more challenging by the fact that agreement would have to be reached at a time when other demands are being made on government funds, including reform of Social Security Funds.
- The current, positive dynamics in the financing system are reversing the adverse legacy of Spain's economic contraction. This uptick in growth is having a particularly beneficial impact on the regions that were previously the most vocal proponents of reform.

This paper analyses the rebound of Spain's regional financing system and assesses the extent to which the regions benefit from this positive performance.

Trends in RFS definitive settlements and their budgetary impact

Examining the definitive regional financing system settlements on like-for-like terms (eliminating coverage of competencies that are unique to certain regions), the results available up to 2016 [3] reveal that the funding peak reached in 2007 under the previous system (on non-comparable terms) has been surpassed. From a geographic perspective, the worst years in terms of results were 2011 and 2013, after which the economic recovery took hold. In fact, excluding 2009 and 2010, the years of system ramp-up, average annual growth was higher in 2014-2016 than the average contraction during the three previous years (+4% YoY *vs.* -3.1% YoY).

Another important point illustrated in Exhibit 1 is that the funds' impact on the budget, subject to regional settlement, [4] begins to accelerate from 2015 and peaks in 2016, thanks mainly to the trend in settlements from

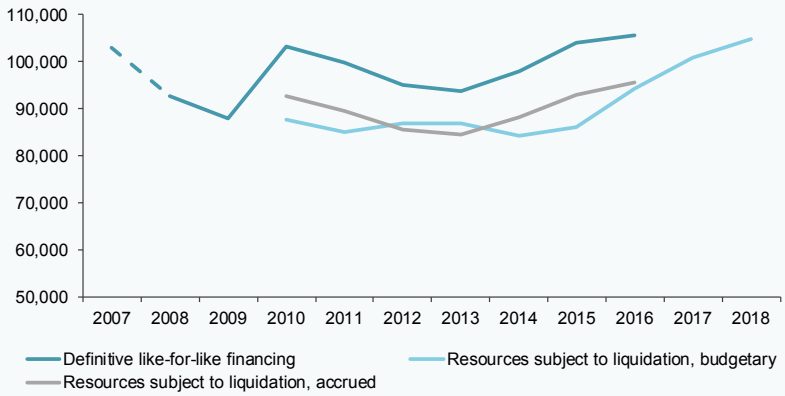
> "Excluding 2009 and 2010, the years of system ramp-up, average annual growth of regional financing system settlements was higher in 2014-2016 than the average contraction during the three previous years."

"The 2014 settlement was particularly high due to the significant difference between the payments on account made that year and actual economic dynamics, which implied far higher tax receipts than had been budgeted."

Exhibit 1

Trends in definitive, like-for-like regional system funding and in transferable funds (payments on account and settlements) using accrual versus budget accounting criteria

Millons of euros



Source: Ministry of Finance and Afi.

two years earlier (2014). The 2014 settlement was particularly high due to the significant difference between the payments on account made that year (which were in fact lower than in 2013) and actual economic dynamics, which implied far higher tax receipts than had been budgeted. This resulted in an exceptional boost for the regional budgets. In 2016, those funds increased by 10% and in 2017 by 7%. In 2018, marked by a slowdown in payments on account (from +6.4% YoY to +4% YoY), coupled with the forecast maintenance of settlement levels with respect to prior years, the budget impact eased (+3.8% YoY).

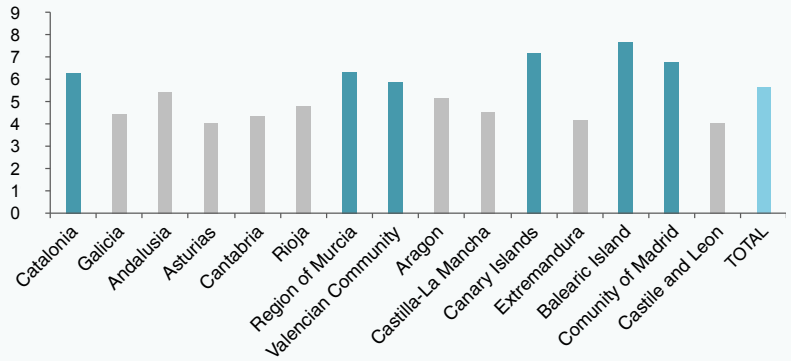
As shown in Exhibit 2, the regions that have demonstrated an above average performance as a result of this source of funding are Catalonia, Murcia, Valencia, the Canary Islands, [5] the Balearic Islands and Madrid. Coincidentally, these are the regions that had pushed most aggressively for reform of Spain's regional financing system.

The trends at the regional government level can be attributed to different sources of funds within the RFS (Exhibit 3). The best-performing funds have been the tax-driven sources. Those corresponding to non-tax funds (Global Sufficiency Fund and Fundamental Public Service Guarantee Fund) have had a relatively weak performance. For example, the Sufficiency Fund has experienced a gradual reduction in tax receipts due to the

Exhibit 2

Average YoY change in the budget impact of RFS payments on account and settlements from two years earlier

Percentage

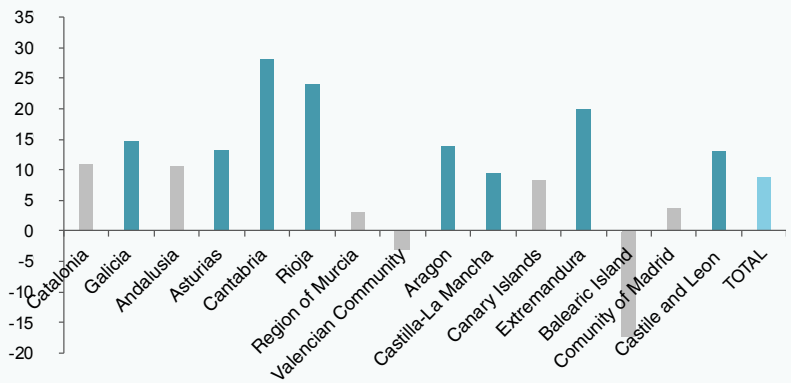


Source: Ministry of Finance and Afi.

Exhibit 3

Weight of Global Sufficiency Fund in funds generated by the RFS (excluding Convergence Funds/including unique competencies)

Percentage



Source: Ministry of Finance and Afi.

application of article 21.2 of Law 22/2009, which regulates the regional financing system and amends certain tax rules. [6] As a result, the regions where the Sufficiency Fund had a higher weight in RFS funding when the new system was introduced have been adversely affected. Furthermore, these same regions have benefitted less from the improved momentum in revenue (below average growth). In contrast, the strong performance in the tax receipts shared with the state has benefitted the regions with greater fiscal capacity to a higher degree. [7]

Trends in other regional funds that do not originate with the RFS

It is also important to consider whether this increase in funding has been accompanied by

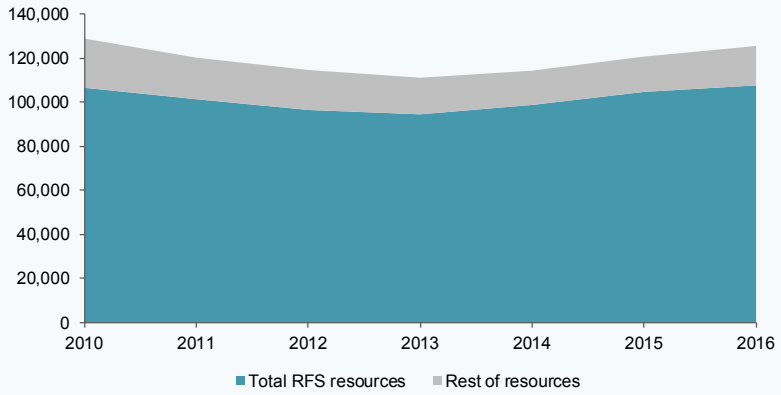
equivalent growth in the funds unconnected with the RFS (other taxes such as regional taxes, wealth tax, the levy on bank deposits, the Interterritorial Compensation Fund, grants, EU funding, [8] *etc.*). As shown in Exhibits 4 and 5 below, the other sources of funds have been characterised by a more consistent downward trend. This was especially pronounced in 2011 and 2013, followed by a timid recovery in 2015 and a sharper rebound in 2016.

In terms of total funds (RFS and non-RFS), the regional governments have gone from having 128.9 billion euros of funding in 2010 to 125.6 billion euros in 2016. Although a big picture analysis shows a reduction of 2.6% in the years analysed, it breaks down into an average annual contraction of 4.8% between 2011 and 2013, followed by an average recovery during the next three years of 4.2% year-on-year.

Exhibit 4

Trend in RFS *vs.* non-RFS funds

Millions of euros

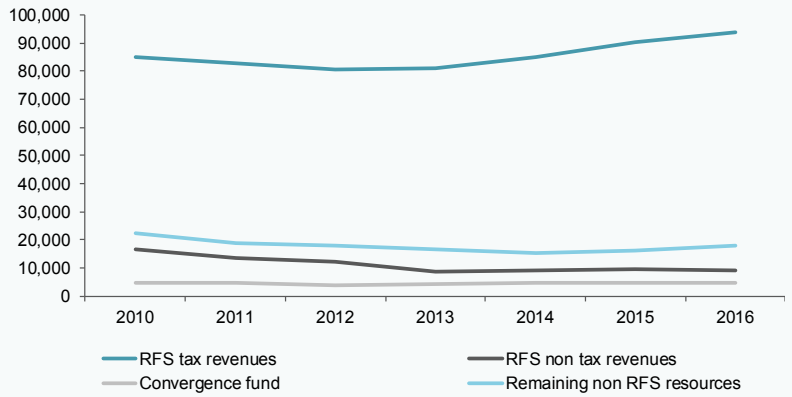


Source: Ministry of Finance and Afi.

Exhibit 5

Trend in RFS funds by type and in non-RFS funds

Millions of euros

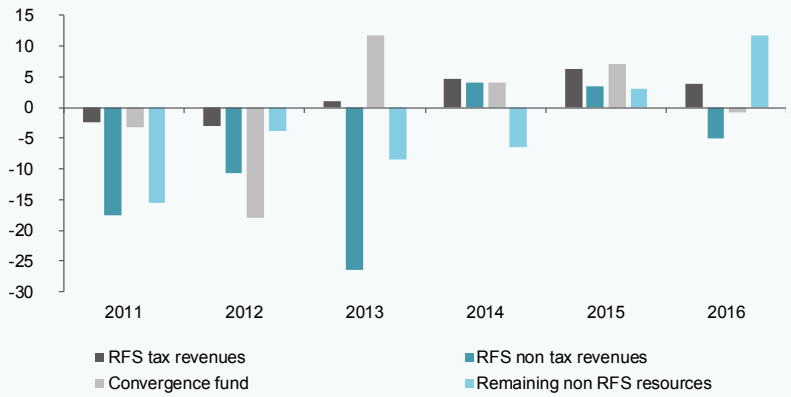


Source: Ministry of Finance and Afi.

> “In terms of total funds (RFS and non-RFS), the regional governments have gone from having 128.9 billion euros of funding in 2010 to 125.6 billion euros in 2016.”

Exhibit 6 **Year-on-year change by RFS source of funds and other sources**

Percentage



Source: Ministry of Finance and Afi.

Conclusion

The current regional financing system was due for its five-year review so that the Fiscal Policy Board could assess possible modifications. Allowing for a margin of at least one year for the preparation of *ad-hoc* studies, that review is at least three years behind schedule.

The regional governments and regional financing experts have used that extra time to perform multiple diagnoses and study possible reforms. Notably, this has been spearheaded not only from within the government, but also by think-tanks, the Permanent Assessment Committee and the Expert Committee. However, the key points surrounding future negotiations remain contentious. The first set of anticipated hurdles relate to the relationship between the state and regional governments. This is due to the imbalance between the two levels of government in terms of financing their respective competencies. The second set of hurdles has to do with the relationship among the regional governments with respect to the methodology for dispersing the funds: whether or not to abandon the *status quo*; the scope of any levelling (partial or total); and the new key variables (and their corresponding weights) in the adjusted population calculations for the financing of essential public services. The third challenge concerns the need to restructure the regional governments' debt while keeping in mind the limitation posed by the risks associated with moral hazard.

Given the complications associated with it, the review's delay is the most conservative course of action that could have been taken. That said, it does imply risks that should not be ignored. The main risk is that kicking the can down the road means negotiations will ultimately be tackled at a time when the economy may be less buoyant. Weaker growth prospects and the challenge of re-structuring the Social Security deficit would leave less

room for the transfer of funds. Additionally, the longer the negotiations are delayed, the likelier they will coincide with an even more critical economic situation. This would make it harder to predict the dynamic performance of a new system, thus hindering the regional governments' decision-making ability.

It therefore seems likely that a consensus around the system's reform will emerge in piecemeal. There are not only negotiation risks to consider but also the issue of incentives. The current system generates positive effects during periods of economic expansion, which are particularly pronounced in the regions with greater fiscal capacity. Furthermore, the relative position of the regions is likely to shift as certain regions age and struggle to attract new residents. The ideal consensus may well consist of tackling more *ad-hoc* modifications for which agreement is assured and, simultaneously, weighing up a specific response to legacy under-funding, while maintaining the structural traits of the current system.

Notes

[1] Recall that approval of the current financing regime (2009) brought an increase in regional government funds of around 11 billion euros with the idea of financing that transfer with the increase in the general VAT rate (2010). However, the intensification of the economic crisis in the early years of the new system prevented that mechanism from translating into higher funding. Instead, it merely mitigated a reduction in funding that would have been more severe in the absence of this new system.

[2] Moreover, certain regions stood to lose out from the –albeit gradual– rollback of the *status quo*. Not to mention the likely confrontations over the new key allocation variables –adjusted population (and its relative weight)– as a result of the conflicting interests of regions with greater fiscal capacity (and populations) relative to those that are gradually losing population and/or whose populations are ageing.

[3] Last year of definitive settlements.

[4] The funds subject to regional transfer are obtained from payments on account and the settlements made two years later (personal income tax, VAT, business tax) and funds (the so-called Sufficiency Fund and the Fundamental Public Service Guarantee Fund). To visualise the impact on each budget, one has to take the payments made on account in the year in question plus the settlement paid, *i.e.*, that corresponding to two years earlier. Note that the 'Definitive funding' series contains taxes that are traditionally transferred but not subject to settlement, which are estimated in regulatory terms.

[5] The growth in the Canary Islands is attributable above all to changes in the Competitiveness Fund calculation.

[6] "The changes in the state tax rates in respect of the duty on manufacturing and VAT shall determine the revision of the provisional or definitive Global Sufficiency Fund in the amount of the increase or decrease in tax revenue estimated for each autonomous region or city. That revision shall be made by the Ministry of Finance *ex officio*, without the need for approval from the Mixed Committees."

[7] The regions that presented a negative Global Sufficiency Fund have benefitted from the overall reduced weight of this source of financing.

[8] That information is broken down quantitatively in the regional governments' finance department reports until 2016 (last RFS settlement).

Susana Borraz. A.F.I. - Analistas Financieros Internacionales

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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)

Bank of Spain Circular amending Circular 8/2015 on the information for determining the bases for calculating contributions to the Credit Institutions Deposit Guarantee Scheme (Circular 1/2019, published in the Official State Journal on February 8th, 2019)

The Circular, which is due to take effect on August 8th, 2019, amends Circular 8/2015 with the aim of improving the collection of individual information about each deposit-maker by the entities bound by the Credit Institutions Deposit Guarantee Scheme (the Scheme).

The amendments stem from the results of the first round of stress tests performed by the Bank of Spain with respect to the Scheme in 2017. As part of those tests, the Bank of Spain included a routine test of the files containing information at the individual depositor level —the single customer view or SCV— for a sample of entities that contribute to the Scheme.

The results of those stress tests revealed the need to amend Annex 2 of Circular 8/2015, in order to add new fields with the depositors' contact information; specify the definition of certain fields, the content of which was not well enough explained; and, to permit the use of certain special characters, which are necessary to correctly process some of the depositors' contact information.

As a guide, the amendments also provide examples of how the file should be filled out in certain circumstances.

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Spanish economic forecasts panel: March 2019*

Funcas Economic Trends and Statistics Department

2019 GDP growth estimate unchanged at 2.2%

During the final quarter of 2018, GDP growth rose to 0.7%, an acceleration of 0.1 percentage points with respect to the first three quarters of the year. Judging from provisional figures, this growth was underpinned by a slowdown in national demand and a recovery in exports. Growth for the year came in at 2.5%.

The indicators available for the first quarter of this year are mixed. Industrial activity recovered in January but the PMI index, confidence indicators and Social Security contributor numbers for the manufacturing sector point to a downturn in February. Retail sales remained robust in January, as did the service sector indicators.

The consensus forecast for 2019 GDP growth stands at 2.2%, unchanged from the last set of forecasts. That figure is also in line with the current forecasts of the international organisations, the Spanish government and the Bank of Spain. The breakdown of that growth is expected to be even with quarterly growth of 0.5%, similarly unchanged.

National demand is forecast to contribute 2.4 percentage points of growth, unchanged from the January forecasts. The downward revision to the forecast for growth in investment is notable. The external sector, meanwhile, is expected to detract from growth by 0.2 percentage points.

The forecast for 2020: 1.9%

This was the first survey to gather estimates for 2020. The consensus forecast is for GDP growth of 1.9%, implying a 0.3 percentage point slowdown with respect to the 2019 forecast. Nevertheless, growth will likely remain above the eurozone average.

The anticipated slowdown is attributable mainly to a weaker contribution by national demand, in turn driven by a slowdown in private consumption and gross fixed capital formation, which are expected to grow by 0.2 and 0.5 percentage points less than forecast in 2019, respectively. The negative contribution by the external sector is expected to narrow in 2020 compared to the 2019 forecast.

Subdued inflation in 2019 and 2020

The inflation rate has eased since the start of the year and is hovering at around 1% in year-on-year terms. Elsewhere, oil prices, having finished 2018 at an 18-month low, have begun a gradual ascent, reaching almost 68 dollars a barrel in mid-February. Since then, they have fallen back somewhat to around 64 dollars.

Inflation is expected to firm up until the start of the second quarter and to end the year at around 1.4%, 0.1 percentage points below the last set of consensus forecasts. As for 2020, inflation is forecast at 1.5%. However, it is worth highlighting the lack of consensus in this respect, with the forecasts ranging from a low of 1.1% to a high of 2%.

The year-on-year rates forecast for December 2019 and December 2020 are 1.6% and 1.5%, respectively.

The unemployment rate continues to trend lower

According to the Social Security numbers, average growth in contributors in January and February was somewhat lower than the average monthly growth observed in the preceding months, in line with the slowdown in economic activity. The numbers reveal a slight slowdown with respect to the prior quarter in manufacturing and services, whereas the construction sector is showing signs of acceleration.

In terms of full-time equivalent jobs, growth in 2019 is estimated at 1.9%, unchanged with respect to the last Panel, slowing to 1.6% in 2020. That would translate into the creation of the equivalent of 367,000 and 315,000 jobs (net) in 2019 and 2020, respectively.

The forecasts for growth in GDP, job creation and wage compensation yield implied forecasts for growth in productivity and unit labour costs (ULC): the implied growth in productivity is 0.3% in 2019 and 2020; implied growth in ULCs is 1.4% in both years.

The rate of unemployment is expected to fall to 13.9% in 2019 (0.1pp above the last set of forecasts) and to 12.8% in 2020.

Narrowing external surplus

According to provisional figures, the current account surplus amounted to 10.1 billion euros in 2018, down 52% year-on-year. The heavy correction is the result of the sharp increase in the trade deficit and, to a lesser extent, the reduction in the surplus in tourism and other services.

The consensus forecast is for a continued current account surplus throughout the projected period, amounting to 0.7% of GDP in 2019 (down 0.2pp from the last survey) and 0.6% in 2020.

The public deficit looks set to narrow, albeit missing targets

In the first 11 months of last year, the deficit at all levels of government (except for the local corporations) stood at 18 billion euros, down 29% year-on-year. The improvement can be observed at the state government, Social Security Funds and regional government levels. The regional governments recorded a surplus of 1.3 billion euros during that period. The Social Security Funds deficit narrowed thanks to the positive trends in the state public employment service (SEPE for its acronym in Spanish) and the Social Security System, whose deficit declined thanks to faster growth in revenue from contributions relative to benefits, despite acceleration in the latter.

The analysts are expecting the overall deficit to come down over the next two years. For 2019, they are forecasting a deficit equivalent to 2.3% of GDP (up 0.1pp from the last survey) and for 2020, they are forecasting 2%, suggesting the government will miss its deficit targets.

Sharp deterioration in the international environment

The global economy continues to weaken, prompting the main international organisations to trim their forecasts once again. The IMF forecast global growth of 3.5% in 2019 in January (down 0.2pp from its previous update), while the OECD's interim outlook projections in March anticipate growth of 3.3% (similarly 0.2pp lower than it had previously forecast). The global economy is expected to recover slightly in 2020.

All of the factors singled out in our last report (trade tensions, a pronounced slowdown in China, financial turbulence in certain emerging markets) continue to weigh on the global economy. The downside is concentrated in the European economy, which has been weakening since mid-2018 and is not yet showing clear signs of recovery. In addition to the recession in Italy, the impact of social revolts in France and the increasing uncertainty surrounding Brexit, the German economy has experienced an expectedly sizeable slump. As a result, the European Commission and the ECB have cut their forecasts for the eurozone sharply. In 2019, GDP will grow by 1.3% according to the Commission and by 1.1% according to the ECB. For 2020, both organisations foresee growth of 1.6%.

The analysts have taken stock of the deterioration in the external environment. Twelve now view the European environment as unfavourable, twice the number who held that belief in the last survey. However, four analysts expect the environment to improve in the coming months, compared to only one in January. As for the situation outside the EU, the majority of analysts continue to see the environment as unfavourable or neutral. However, the number of analysts who expect to see an improvement in the coming months has increased somewhat (four are currently optimistic, compared to two in January).

Monetary policy remains expansionary

In the absence of inflationary pressure and in the context of weak growth, the ECB has decided to push back the normalisation of its monetary policy. It does not intend to raise the benchmark rate before the end of the year (at the time of the last survey, rate increases were expected to begin in the third quarter) and the buyback of public debt securities will continue, at least as long as rates remain stable. The ECB has announced it will organise a third round of targeted longer-term refinancing operations (TLTRO-III) as the securities repurchased during the second round

mature. Meanwhile, 12-month Euribor, despite a very slight uptick, remains in negative territory (-0.108% to date in March *vs.* -0.129% at the time of the last report).

This shift in monetary policy is evident in the analysts' assessments. All bar two believe that the ECB's benchmark rate will stay at 0% all year. By year-end 2020, they are forecasting a rate of just 0.29%. Euribor is expected to track in parallel. At year-end it is expected to be at virtually nil (*versus* 0.14% in the last report), rising to 0.32% by the end of 2020. The yield on 10-year Spanish government bonds is expected to stand at 1.64% at the end of 2019 (down 22 basis points from the January assessment) and at 1.88% at the end of 2020.

Slight euro appreciation forecast

The euro has stabilised against the dollar at around 1.15, which is relatively low in comparison with the average of recent years. The lag between the economic cycle and monetary policy in Europe *versus* the US may be contributing to euro weakness. However, as conditions converge, the euro may regain some of the ground lost in recent quarters. That is the opinion of the majority of analysts surveyed and is unchanged from January.

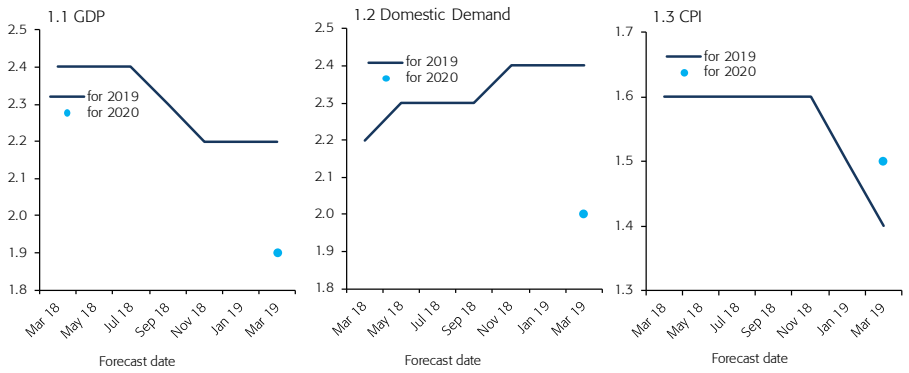
No major changes in analysts' take on macroeconomic policy

Most analysts continue to view monetary policy as expansionary and believe that that is the correct stance in the current environment. The analysts are more divided on fiscal policy. Most view it as expansionary. However, while thirteen analysts believe it should be neutral (two more than in January), five would like to see fiscal tightening (two fewer).

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: Funcas Panel of Forecasts.

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

Spanish economic forecasts panel: March 2019*

Funcas Economic Trends and Statistics Department

Table 1

Economic Forecasts for Spain – March 2019

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

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and capital goods		GFCF construction		Domestic demand	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.1	2.0	2.1	1.9	2.1	2.0	3.0	3.6	3.2	3.8	3.4	3.9	2.3	2.2
Axesor	2.3	1.9	2.0	1.6	2.5	1.2	3.5	2.8	3.2	2.3	3.6	2.9	2.4	1.8
Banco Bilbao Vizcaya Argentaria (BBVA)	2.4	2.0	2.1	1.8	2.4	1.7	4.6	4.6	3.9	4.2	4.9	4.7	2.6	2.4
Bankia	2.2	1.8	2.0	1.5	2.1	1.8	4.4	3.6	5.3	4.0	4.0	3.4	2.6	2.0
CaixaBank	2.1	2.0	2.0	1.9	1.8	1.2	3.6	2.9	3.3	3.0	3.6	2.9	2.2	2.0
Cámara de Comercio de España	2.0	1.9	1.7	1.7	2.3	1.5	3.1	2.9	2.9	4.6	3.9	2.2	2.0	1.8
Cemex	2.2	2.0	2.1	2.0	1.7	1.7	4.4	4.2	4.2	4.0	5.0	5.0	2.5	2.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	2.1	1.9	1.8	1.5	2.1	1.0	4.0	3.7	3.5	3.3	4.7	4.1	2.3	1.8
Centro de Predicción Económica (CEPREDE-UAM)	2.3	2.1	2.0	1.8	2.4	2.5	4.1	4.8	2.7	5.1	4.8	4.7	2.4	2.6
CEOE	2.2	1.8	2.0	1.9	2.1	1.8	3.9	3.1	3.5	3.4	4.1	3.0	2.3	2.1
Equipo Económico (Ee)	2.2	1.9	2.1	1.8	1.7	1.7	4.1	2.8	4.0	2.5	4.4	3.1	2.4	1.8
Funcas	2.1	1.8	2.2	1.8	1.3	1.2	4.0	3.0	3.8	2.9	4.1	3.1	2.4	1.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.2	1.9	2.0	1.9	1.7	1.5	4.0	3.0	5.0	3.0	4.0	3.0	2.3	1.9
Instituto de Estudios Económicos (IEE)	2.1	--	1.9	--	2.1	--	5.1	--	5.8	--	6.3	--	2.7	--
Intermoney	2.1	1.8	1.8	1.6	2.0	1.2	3.4	2.6	2.7	2.2	4.0	3.0	2.2	1.7
Repsol	2.2	2.1	2.0	1.9	2.3	1.9	4.0	3.7	3.2	3.5	4.7	4.0	2.3	2.2
Santander	2.1	2.0	2.1	1.9	2.6	1.7	2.5	2.5	1.8	2.0	2.8	2.9	2.3	2.0
Solchaga Recio & asociados	2.2	2.0	1.8	1.6	2.0	1.4	4.5	3.4	5.0	3.5	4.8	4.0	2.5	2.0
CONSENSUS (AVERAGE)	2.2	1.9	2.0	1.8	2.1	1.6	3.9	3.4	3.7	3.4	4.3	3.5	2.4	2.0
Maximum	2.4	2.1	2.2	2.0	2.6	2.5	5.1	4.8	5.8	5.1	6.3	5.0	2.7	2.6
Minimum	2.0	1.8	1.7	1.5	1.3	1.0	2.5	2.5	1.8	2.0	2.8	2.2	2.0	1.7
Change on 2 months earlier[1]	0.0	--	0.0	--	0.1	--	-0.3	--	-0.9	--	0.0	--	0.0	--
- Rise[2]	4	--	6	--	9	--	4	--	1	--	3	--	6	--
- Drop[2]	3	--	3	--	3	--	10	--	10	--	7	--	4	--
Change on 6 months earlier[1]	-0.1	--	0.1	--	0.4	--	-0.4	--	-0.6	--	-0.2	--	0.1	--
Memorandum items:														
Government (January 2019)	2.2	--	1.7	--	1.4	--	4.4	--	5.0	--	4.5	--	--	--
Bank of Spain (December 2018)	2.2	1.9	1.9	1.5	1.6	1.2	4.7	3.6	5.9	3.8	4.5	3.7	--	--
EC (February 2019)	2.1	1.9	--	--	--	--	--	--	--	--	--	--	--	--
IMF (January 2019)	2.2	1.9	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2018)	2.2	1.9	1.8	1.5	1.6	1.3	3.8	3.8	--	--	--	--	2.3	1.9

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

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

Table 1 (Continued)

Economic Forecasts for Spain – March 2019

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

	Exports of goods & services		Imports of goods & services		CPI (annual av.)		Core CPI (annual av.)		Labour costs[3]		Jobs[4]		Unempl. (% labour force)		C/A bal. of payments (% of GDP)[5]		Gen. gov. bal. (% of GDP)[6]	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Analistas Financieros Internacionales (AFI)	2.3	2.6	3.1	3.4	1.0	1.4	1.1	1.4	1.4	1.5	2.0	1.9	13.8	12.6	0.7	0.7	-2.2	-1.6
Axesor	2.6	2.7	2.9	2.4	1.6	1.5	1.3	1.5	2.0	1.8	2.0	1.5	13.7	12.5	0.3	-0.2	-2.5	-1.9
Banco Bilbao Vizcaya Argentaria (BBVA)	5.2	4.5	6.2	5.7	1.3	1.5	--	--	1.9	2.2	2.2	1.7	13.8	12.6	1.0	0.7	-2.3	-2.0
Bankia	1.8	1.9	2.9	2.7	1.1	1.6	1.0	1.3	1.9	1.7	2.0	1.5	13.8	12.7	0.7	0.7	--	--
CaixaBank	3.1	4.0	3.5	4.1	1.6	1.7	1.0	1.5	2.3	2.7	2.2	1.6	13.6	12.2	0.6	0.6	-2.3	-1.9
Cámara de Comercio de España	2.8	2.9	2.9	2.9	1.5	1.1	0.9	0.9	--	--	1.7	1.6	14.4	13.3	0.8	0.8	--	--
Cemex	1.8	1.5	2.7	2.6	1.3	1.5	1.0	1.1	--	--	1.8	1.7	13.9	12.7	1.0	0.8	-2.5	-2.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.1	3.3	3.8	3.2	1.2	1.7	1.1	1.7	--	--	1.8	1.6	14.0	13.0	0.7	0.8	-2.5	-2.1
Centro de Predicción Económica (CEPREDE-UAM)	3.3	3.9	3.8	5.6	1.4	1.5	--	--	1.4	1.3	1.9	1.7	14.0	12.9	0.7	0.1	-2.2	-1.9
CEOE	2.1	1.4	2.6	2.4	1.1	1.3	0.9	1.1	1.8	1.7	2.1	1.8	13.8	12.4	0.8	0.6	-2.2	-1.8
Equipo Económico (Ee)	2.4	2.6	3.1	2.7	1.2	1.3	1.2	1.4	1.4	1.7	2.1	1.7	13.8	12.6	1.0	0.9	-2.6	-2.5
Funcas	2.0	2.4	3.1	2.9	1.1	1.3	1.0	1.1	2.1	1.3	1.7	1.4	13.9	12.7	0.6	0.4	-2.1	-1.9
Instituto Complutense de Análisis Económico (ICAE-UCM)	2.7	2.5	3.2	3.0	1.5	1.4	1.4	1.3	--	--	1.9	1.5	13.8	12.8	0.9	0.8	-2.1	-1.9
Instituto de Estudios Económicos (IEE)	1.8	--	3.7	--	1.6	--	0.9	--	1.6	--	1.9	--	14.2	--	1.2	--	-2.2	--
Intermoney	2.0	2.2	2.2	1.9	1.3	1.5	1.1	1.4	--	--	1.9	1.5	14.0	13.2	0.7	0.7	-2.3	--
Repsol	2.3	2.1	2.5	2.7	1.6	1.6	1.2	1.3	1.6	1.5	2.2	2.0	13.8	12.4	0.6	0.3	-2.2	-1.8
Santander	2.0	2.1	2.5	2.3	1.3	2.0	1.1	1.5	1.5	1.7	1.8	1.6	14.1	13.0	0.5	0.4	-2.2	--
Solchaga Recio & asociados	3.0	3.8	4.0	4.0	1.7	1.7	1.4	1.6	--	--	1.5	1.5	14.4	13.5	0.6	0.5	-2.4	-2.1
CONSENSUS (AVERAGE)	2.6	2.7	3.3	3.2	1.4	1.5	1.1	1.3	1.7	1.7	1.9	1.6	13.9	12.8	0.7	0.6	-2.3	-2.0
Maximum	5.2	4.5	6.2	5.7	1.7	2.0	1.4	1.7	2.3	2.7	2.2	2.0	14.4	13.5	1.2	0.9	-2.1	-1.6
Minimum	1.8	1.4	2.2	1.9	1.0	1.1	0.9	0.9	1.4	1.3	1.5	1.4	13.6	12.2	0.3	-0.2	-2.6	-2.5
Change on 2 months earlier[1]	0.0	--	-0.1	--	-0.1	--	-0.1	--	0.0	--	0.0	--	0.1	--	-0.2	--	-0.1	--
- Rise[2]	4	--	5	--	1	--	2	--	6	--	6	--	8	--	0	--	1	--
- Drop[2]	9	--	8	--	10	--	10	--	2	--	4	--	2	--	11	--	9	--
Change on 6 months earlier[1]	-1.0	--	-0.5	--	-0.2	--	-0.2	--	0.1	--	0.0	--	0.2	--	-0.6	--	-0.3	--
Memorandum items:																		
Government (January 2019)	2.8	--	3.1	--	--	--	--	--	2.1	--	1.8	--	14.0	--	1.0	--	-1.3	--
Bank of Spain (December 2018)	3.4	4.0	4.1	4.1	1.6 [7]	1.6 [7]	1.5 [8]	1.7 [8]	--	--	1.6	1.6	14.3	13.3	0.8 [9]	0.7 [9]	-2.4	-2.0
EC (February 2019)	--	--	--	--	1.2 [7]	1.5 [7]	--	--	--	--	--	--	--	--	--	--	--	--
IMF (January 2019)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
OECD (November 2018)	2.8	4.0	2.9	4.1	1.9 [7]	1.7 [7]	1.6 [8]	1.7 [8]	2.0	2.0	2.0	1.8	13.8	12.5	1.0	1.0	-1.8	-1.2

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

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

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

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

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

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

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

[8] *HIPC excluding energy and food.*

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

Table 2

Quarterly Forecasts – March 2019

	19-I Q	19-II Q	19-III Q	19-IV Q	20-I Q	20-II Q	20-III Q	20-IV Q
GDP[1]	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Euribor 1 yr [2]	-0.11	-0.09	-0.04	0.02	0.08	0.19	0.25	0.32
Government bond yield 10 yr [2]	1.35	1.45	1.54	1.64	1.67	1.75	1.81	1.88
ECB main refinancing operations interest rate [2]	0.00	0.00	0.01	0.02	0.08	0.18	0.18	0.29
Dollar / Euro exchange rate [2]	1.15	1.16	1.16	1.17	1.18	1.19	1.19	1.20

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

Table 3

CPI Forecasts – March 2019

Monthly change (%)				Year-on-year change (%)	
Mar-19	Apr-19	May-19	Jun-19	Dec-19	Dec-20
0.4	0.8	0.4	0.3	1.6	1.5

Table 4

Opinions – March 2019

Number of responses

	Currently			Trend for next six months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	6	12	4	10	4
International context: Non-EU	2	9	7	4	9	5
	Is being			**Should be**		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	0	1	17	5	13	0
Monetary policy assessment[1]	0	2	16	0	7	11

[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* (ESA 2010, Base 2010)
Forecasts in yellow

		GDP	Private consumption	Public consumption	Gross fixed capital formation				Equipment & others products	Exports	Imports	Domestic demand (a)	Net exports (a)
					Total	Construction							
						Total	Housing	Other constructions					
Chain-linked volumes, annual percentage changes													
2012		-2.9	-3.5	-4.7	-8.6	-12.3	-10.3	-13.9	-3.5	1.1	-6.4	-5.1	2.2
2013		-1.7	-3.1	-2.1	-3.4	-8.6	-10.2	-7.3	2.8	4.3	-0.5	-3.2	1.5
2014		1.4	1.5	-0.3	4.7	4.2	11.3	-1.1	5.2	4.3	6.6	1.9	-0.5
2015		3.6	3.0	2.0	6.7	3.6	-0.9	7.4	9.9	4.2	5.4	3.9	-0.3
2016		3.2	2.9	1.0	2.9	1.1	7.0	-3.7	4.7	5.2	2.9	2.4	0.8
2017		3.0	2.5	1.9	4.8	4.6	9.0	0.6	5.0	5.2	5.6	2.9	0.1
2018		2.5	2.4	2.3	5.2	5.5	6.2	4.8	4.9	2.2	3.6	2.9	-0.4
2019		2.1	2.2	1.3	4.0	4.1	5.0	3.1	3.8	2.0	3.1	2.4	-0.3
2020		1.8	1.8	1.2	3.0	3.1	4.1	2.0	2.9	2.4	2.9	1.9	-0.1
2018	I	2.8	3.1	2.2	3.8	5.6	9.3	1.9	2.0	3.3	4.4	3.1	-0.2
	II	2.5	2.2	1.9	7.0	6.3	6.7	5.8	7.7	2.3	4.6	3.1	-0.6
	III	2.4	2.1	2.1	5.5	5.5	6.4	4.5	5.4	1.3	2.5	2.8	-0.4
	IV	2.4	2.1	3.0	4.6	4.8	2.7	7.0	4.4	1.8	3.1	2.7	-0.3
2019	I	2.4	1.9	2.2	5.4	5.4	4.5	6.2	5.4	1.1	2.0	2.7	-0.3
	II	2.2	2.4	1.9	3.3	4.0	4.5	3.3	2.7	1.7	2.7	2.5	-0.3
	III	2.0	2.2	1.2	3.1	3.4	4.0	2.5	2.9	3.2	3.8	2.1	-0.1
	IV	1.7	2.2	0.1	4.2	3.9	7.0	0.5	4.5	2.0	3.7	2.2	-0.5
2020	I	1.7	2.0	0.6	3.2	2.4	3.8	0.8	4.1	2.8	3.9	2.0	-0.3
	II	1.8	1.8	1.2	3.1	3.2	4.5	1.7	3.1	2.4	3.1	2.0	-0.1
	III	1.8	1.7	1.4	3.0	3.5	4.2	2.8	2.5	2.3	2.7	1.9	-0.1
	IV	1.9	1.6	1.6	2.7	3.3	3.8	2.8	2.1	2.1	2.1	1.8	0.1
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2018	I	2.2	3.6	2.6	4.1	8.0	10.5	5.2	0.4	2.1	5.8	3.3	-1.1
	II	2.3	0.0	1.0	12.3	7.0	2.1	12.6	18.0	1.2	2.7	2.7	-0.4
	III	2.2	3.1	3.4	3.4	4.0	6.8	1.1	2.7	-3.5	-0.6	3.2	-1.0
	IV	2.8	1.9	4.9	-0.9	0.5	-7.5	9.7	-2.4	7.7	4.4	1.6	1.2
2019	I	2.2	2.6	-0.5	7.3	10.3	18.4	2.0	4.3	-0.8	1.6	2.9	-0.8
	II	1.5	2.2	0.0	3.7	1.4	2.0	0.8	6.1	3.6	5.7	2.0	-0.6
	III	1.7	2.0	0.3	2.6	1.5	4.7	-2.0	3.7	2.4	3.6	1.9	-0.2
	IV	1.5	1.9	0.4	3.1	2.5	3.6	1.2	3.6	2.8	4.1	1.8	-0.3
2020	I	2.2	1.8	1.6	3.5	4.2	5.0	3.2	2.8	2.4	2.2	2.1	0.1
	II	2.0	1.5	2.4	3.4	4.7	4.8	4.5	2.0	2.0	2.4	2.0	-0.1
	III	1.7	1.6	1.2	2.2	2.9	3.2	2.4	1.6	2.0	2.0	1.6	0.0
	IV	1.6	1.4	1.2	1.8	1.6	2.0	1.2	2.0	2.0	1.6	1.4	0.2
		Current prices (EUR billions)	Percentage of GDP at current prices										
2012		1,040	58.8	19.7	19.8	10.9	4.9	6.0	8.9	30.7	29.2	98.5	1.5
2013		1,026	58.3	19.7	18.8	9.7	4.1	5.6	9.0	32.2	29.0	96.7	3.3
2014		1,038	58.6	19.5	19.3	9.9	4.5	5.4	9.4	32.7	30.3	97.6	2.4
2015		1,081	57.9	19.3	19.9	10.0	4.4	5.5	9.9	32.9	30.6	97.7	2.3
2016		1,119	57.5	18.9	19.9	9.9	4.8	5.1	10.1	33.1	30.0	96.8	3.2
2017		1,166	57.5	18.5	20.5	10.3	5.2	5.0	10.2	34.3	31.4	97.1	2.9
2018		1,207	57.9	18.4	21.3	10.8	5.6	5.1	10.5	34.2	32.3	98.1	1.9
2019		1,252	57.7	18.3	21.7	11.0	5.9	5.2	10.7	33.9	32.2	98.2	1.8
2020		1,292	57.6	18.2	22.1	11.3	6.1	5.2	10.8	34.0	32.5	98.4	1.6

** Seasonally and Working Day Adjusted.*

(a) Contribution to GDP growth.

Source: INE and Funcas (Forecasts).

Chart 1.1 - GDP

Percentage change

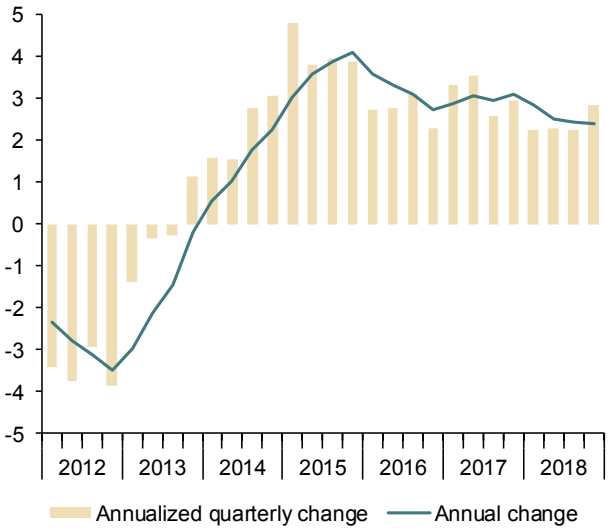


Chart 1.2 - Contribution to GDP annual growth

Percentage points

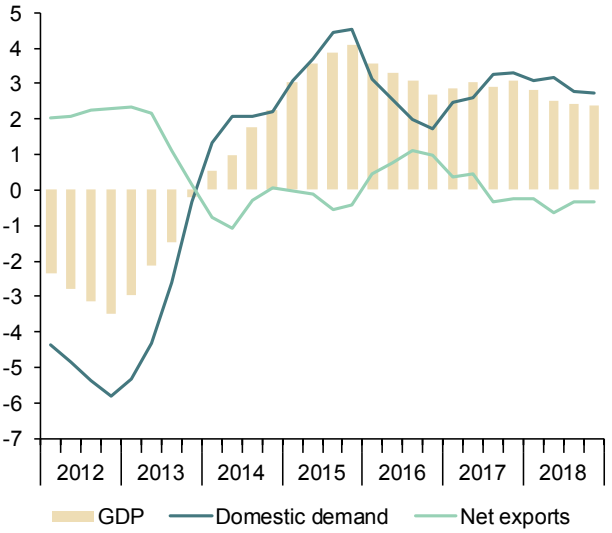


Chart 1.3 - Final consumption

Annual percentage change

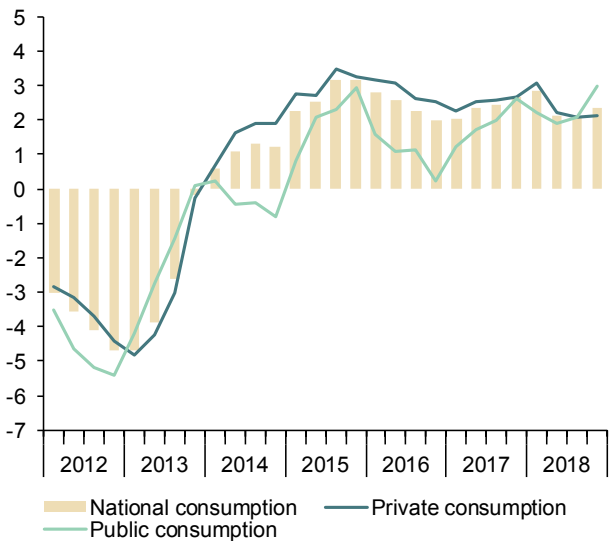


Chart 1.4 - Gross fixed capital formation

Annual percentage change

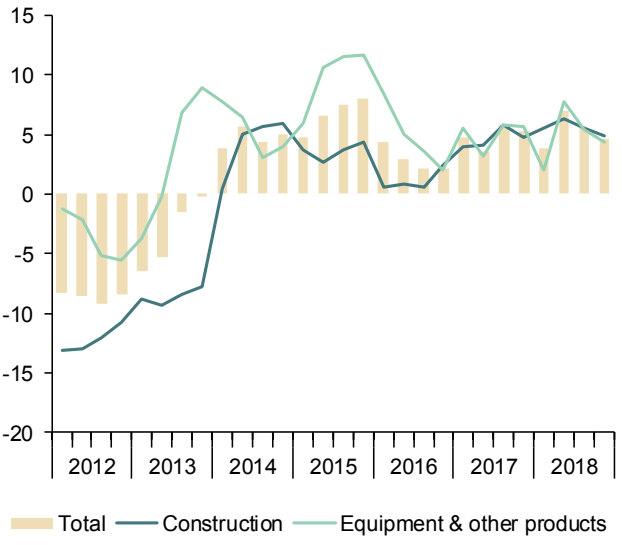


Table 2

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

		Gross value added at basic prices								
				Industry			Services			
		Total	Agriculture, forestry and fishing	Total	Manufacturing	Construction	Total	Public administration, health, education	Other services	Taxes less subsidies on products
		Chain-linked volumes, annual percentage changes								
2012		-2.8	-9.7	-4.9	-5.2	-8.8	-1.5	-1.8	-1.4	-4.0
2013		-1.5	13.6	-3.9	-0.2	-10.5	-0.6	0.1	-0.8	-4.3
2014		1.1	-1.2	2.0	3.0	-2.0	1.3	-0.8	2.0	4.0
2015		3.1	3.6	2.9	4.2	4.7	3.0	1.0	3.7	9.2
2016		3.0	8.2	5.6	4.7	3.5	2.1	1.3	2.4	4.8
2017		2.9	-0.9	4.4	4.4	6.2	2.5	1.7	2.7	3.3
2018		2.6	1.8	1.2	1.4	6.8	2.6	2.2	2.8	1.9
2017	I	2.8	-0.7	4.6	3.7	5.3	2.3	1.3	2.6	3.4
	II	2.9	-2.5	4.2	3.7	6.5	2.6	1.8	2.8	4.2
	III	2.9	-0.8	4.0	4.6	6.0	2.5	1.6	2.9	3.1
	IV	3.1	0.4	4.9	5.4	6.8	2.5	2.2	2.6	2.7
2018	I	2.8	2.2	2.5	2.7	7.1	2.6	2.2	2.7	2.9
	II	2.7	3.4	2.0	2.5	6.8	2.4	2.0	2.6	1.1
	III	2.5	-1.5	1.2	1.0	7.1	2.6	2.4	2.7	1.3
	IV	2.4	3.2	-1.1	-0.5	6.3	2.9	2.2	3.1	2.4
		Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate								
2017	I	3.5	-3.2	8.2	9.1	5.7	2.5	2.1	2.6	1.3
	II	3.2	-2.7	3.4	3.1	8.1	3.0	2.6	3.1	6.8
	III	2.7	6.1	2.5	4.5	5.4	2.4	1.5	2.7	1.1
	IV	3.1	1.8	5.7	4.9	7.9	2.1	2.5	2.0	1.7
2018	I	2.2	3.7	-1.4	-1.5	7.1	2.7	2.1	2.9	2.2
	II	2.6	2.2	1.4	2.2	6.8	2.5	2.0	2.7	-0.6
	III	2.2	-12.8	-0.7	-1.5	6.6	3.2	2.9	3.3	2.0
	IV	2.5	22.9	-3.7	-1.1	4.8	3.1	1.7	3.5	6.2
		Current prices EUR billions)	Percentage of value added at basic prices							
2012		954	2.5	17.4	13.2	6.7	73.5	18.5	54.9	9.0
2013		936	2.8	17.5	13.4	5.8	74.0	19.0	55.0	9.6
2014		944	2.7	17.6	13.7	5.6	74.1	18.8	55.4	9.9
2015		981	2.9	17.6	13.7	5.7	73.9	18.6	55.3	10.2
2016		1,015	3.0	17.6	13.8	5.9	73.6	18.4	55.1	10.2
2017		1,057	3.0	18.0	14.2	6.1	72.9	18.0	54.9	10.3
2018		1,092	2.9	17.8	14.0	6.5	72.9	18.0	54.9	10.5

* *Seasonally and Working Day Adjusted.*

Source: INE.

Chart 2.1 - GVA by sectors

Annual percentage change

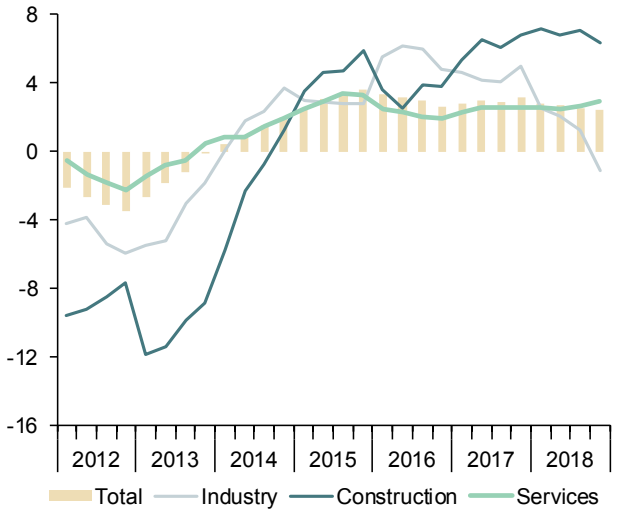


Chart 2.2 - GVA, Industry

Annual percentage change

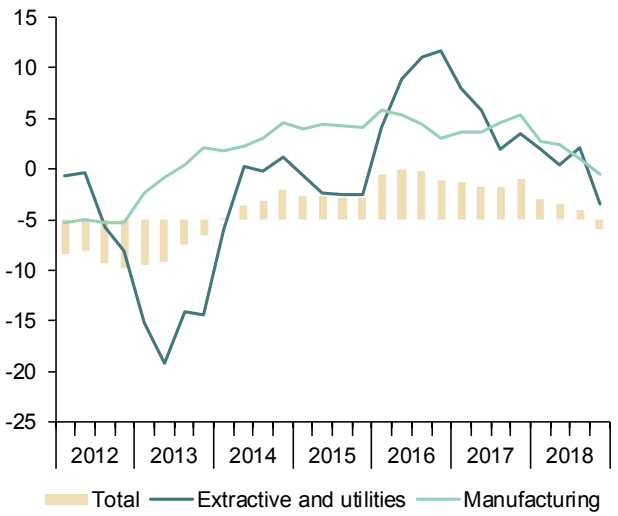


Chart 2.3 - GVA, services

Annual percentage change

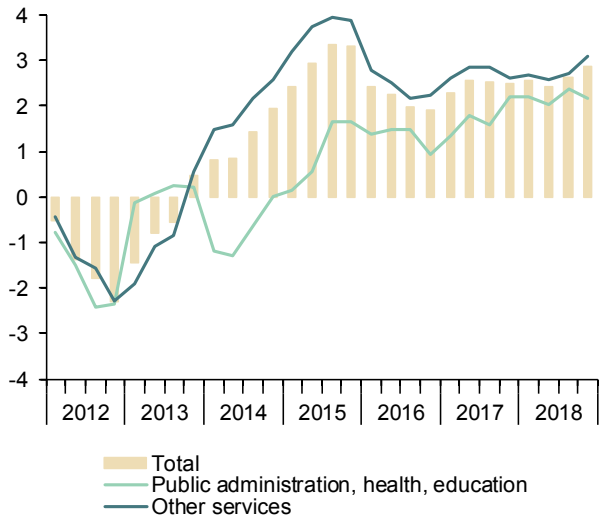


Chart 2.4 - GVA, structure by sectors

Percentage of value added at basic prices

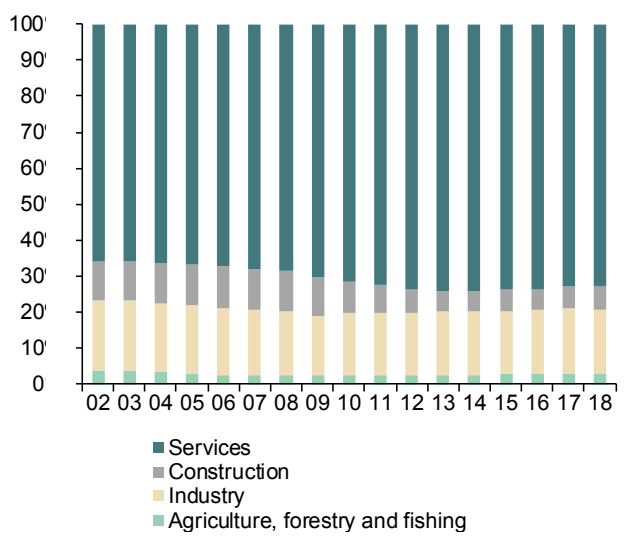


Table 3

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

Forecasts in yellow

		Total economy						Manufacturing Industry					
		GDP, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)
		1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
		Indexes, 2010 = 100, SWDA											
2012		96.1	92.6	103.8	100.3	96.6	96.5	93.6	89.1	105.0	103.9	99.0	96.6
2013		94.5	89.4	105.7	101.6	96.2	95.7	93.4	84.9	110.0	105.6	96.0	93.7
2014		95.8	90.3	106.0	101.7	95.9	95.7	96.1	83.8	114.7	106.2	92.6	90.2
2015		99.3	93.3	106.4	102.6	96.5	95.7	100.2	86.4	116.0	105.9	91.3	89.4
2016		102.4	96.2	106.5	102.1	95.8	94.8	104.8	90.0	116.5	106.4	91.4	89.8
2017		105.5	98.9	106.6	102.4	96.0	93.9	109.4	93.5	117.1	107.3	91.7	88.0
2018		108.1	101.4	106.6	103.4	97.0	93.9	111.0	94.5	117.5	108.2	92.1	87.9
2019		110.3	103.2	106.9	105.6	98.7	94.0	--	--	--	--	--	--
2020		112.3	104.6	107.3	106.9	99.6	93.6	--	--	--	--	--	--
2017	I	104.2	97.8	106.6	102.4	96.1	94.6	108.0	92.2	117.1	107.1	91.5	88.9
	II	105.2	98.7	106.6	102.2	95.9	93.8	108.8	93.1	116.9	107.2	91.7	88.1
	III	105.8	99.3	106.5	102.3	96.1	93.8	110.0	93.9	117.2	107.3	91.5	87.6
	IV	106.6	99.8	106.8	102.6	96.1	93.2	111.3	94.7	117.6	107.6	91.5	87.4
2018	I	107.2	100.3	106.8	102.9	96.3	93.8	110.9	95.0	116.7	107.5	92.1	88.2
	II	107.8	101.1	106.6	103.0	96.6	93.7	111.5	95.3	117.0	107.8	92.1	88.0
	III	108.4	101.8	106.5	103.5	97.2	94.1	111.1	94.4	117.7	108.8	92.4	88.0
	IV	109.1	102.4	106.6	104.1	97.7	94.0	110.8	93.1	119.0	108.7	91.3	87.3
		Annual percentage changes											
2012		-2.9	-4.8	2.0	-0.6	-2.5	-2.6	-5.2	-7.4	2.3	1.7	-0.6	-1.0
2013		-1.7	-3.4	1.8	1.4	-0.4	-0.7	-0.2	-4.8	4.8	1.6	-3.1	-3.0
2014		1.4	1.0	0.3	0.1	-0.2	0.0	3.0	-1.3	4.3	0.6	-3.5	-3.8
2015		3.6	3.3	0.3	0.8	0.5	0.0	4.2	3.1	1.1	-0.2	-1.3	-0.9
2016		3.2	3.0	0.1	-0.5	-0.6	-0.9	4.7	4.2	0.4	0.5	0.1	0.5
2017		3.0	2.9	0.1	0.3	0.2	-1.0	4.4	3.8	0.5	0.8	0.3	-2.0
2018		2.5	2.5	0.0	1.0	1.0	0.1	1.4	1.1	0.3	0.8	0.5	-0.1
2019		2.1	1.7	0.3	2.1	1.8	0.1	--	--	--	--	--	--
2020		1.8	1.4	0.3	1.3	1.0	-0.4	--	--	--	--	--	--
2017	I	2.9	2.7	0.2	0.4	0.2	-0.5	3.7	3.9	-0.2	0.8	1.0	-0.7
	II	3.1	2.9	0.1	0.0	-0.1	-1.4	3.7	4.0	-0.3	0.8	1.1	-2.3
	III	2.9	2.9	0.0	0.4	0.4	-0.8	4.6	3.7	0.8	0.6	-0.2	-2.4
	IV	3.1	2.9	0.2	0.5	0.3	-1.5	5.4	3.6	1.7	1.0	-0.7	-2.5
2018	I	2.8	2.6	0.3	0.5	0.3	-0.8	2.7	3.1	-0.3	0.3	0.7	-0.7
	II	2.5	2.5	0.0	0.8	0.8	0.0	2.5	2.3	0.1	0.6	0.4	-0.2
	III	2.4	2.5	-0.1	1.1	1.2	0.3	1.0	0.6	0.4	1.4	1.0	0.4
	IV	2.4	2.6	-0.2	1.5	1.6	0.8	-0.5	-1.7	1.2	1.0	-0.2	-0.1

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

Source: INE and Funcas (Forecasts).

Chart 3.1 - Nominal ULC, total economy

Index, 2000=100

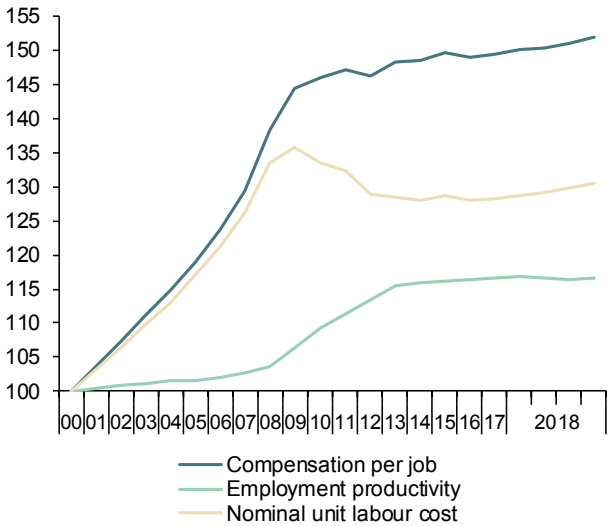
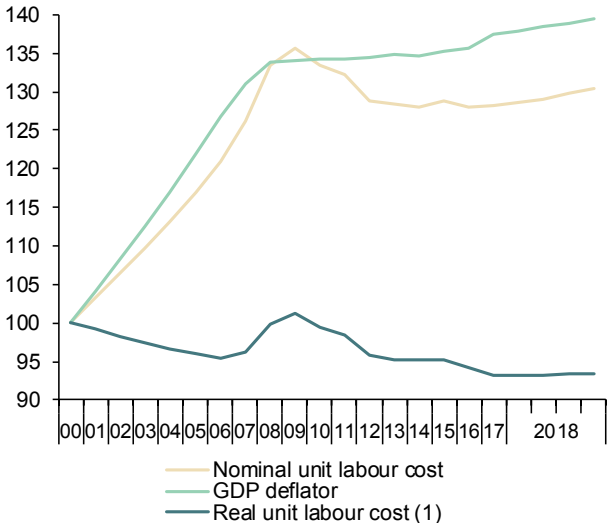


Chart 3.2 - Real ULC, total economy

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Chart 3.3 - Nominal ULC, manufacturing industry

Index, 2000=100

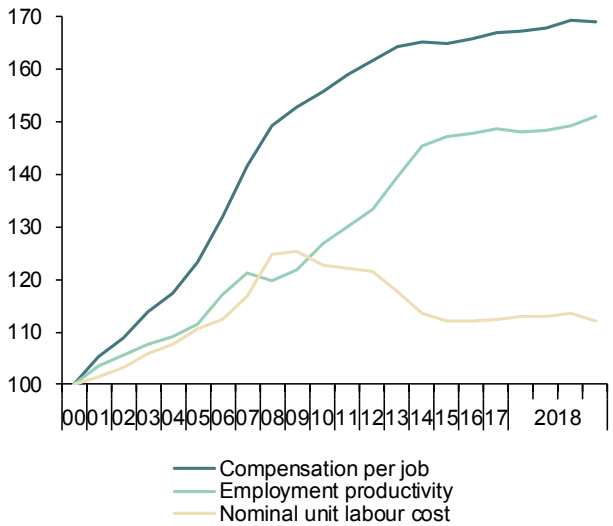
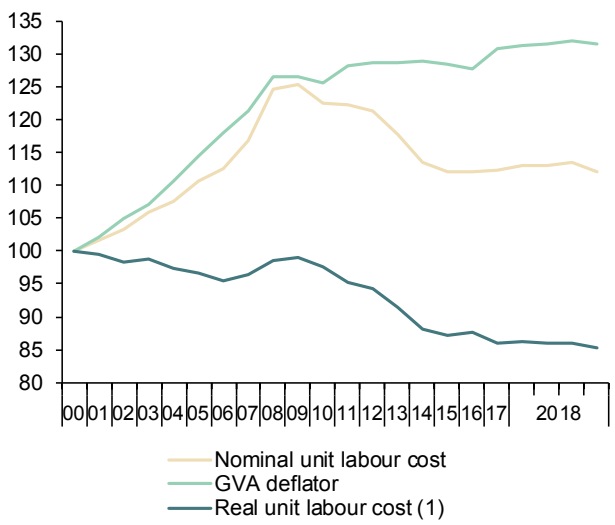


Chart 3.4 - Real ULC, manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

Table 4

National accounts: National income, distribution and disposition (ESA 2010, Base 2010)

Forecasts in yellow

		Gross domestic product	Compen-sation of employees	Gross operating surplus	Gross national disposable income	Final national consum-ption	Gross national saving (a)	Gross capital formation	Compen-sation of employees	Gross operating surplus	Saving rate	Investment rate	Current account balance	Net lending or borrowing
		EUR Billions, 4-quarter cumulated transactions							Percentage of GDP					
2012		1,039.8	498.8	446.7	1,019.9	816.6	203.3	207.9	48.0	43.0	19.5	20.0	-0.4	0.1
2013		1,025.7	485.3	440.4	1,007.3	800.4	206.9	191.9	47.3	42.9	20.2	18.7	1.5	2.1
2014		1,037.8	491.6	441.8	1,023.0	810.7	212.2	201.9	47.4	42.6	20.4	19.5	1.0	1.5
2015		1,081.2	514.6	453.5	1,067.4	834.9	232.4	221.0	47.6	41.9	21.5	20.4	1.1	1.7
2016		1,118.7	528.6	475.2	1,107.6	854.8	252.7	228.6	47.2	42.5	22.6	20.4	2.2	2.4
2017		1,166.3	547.3	499.0	1,154.7	886.2	268.6	246.1	46.9	42.8	23.0	21.1	1.9	2.2
2018		1,206.9	570.6	509.7	1,193.0	920.1	272.2	264.3	47.3	42.2	22.6	21.9	0.7	1.0
2019		1,252.4	592.4	526.3	1,237.6	951.5	286.2	278.9	47.3	42.0	22.8	22.3	0.6	0.8
2020		1,292.1	608.8	545.0	1,276.4	979.6	296.8	292.2	47.1	42.2	23.0	22.6	0.4	0.6
2017	I	1,129.7	532.5	480.2	1,119.7	863.8	255.9	232.3	47.1	42.5	22.7	20.6	2.1	2.3
	II	1,141.5	536.8	486.1	1,129.7	871.0	258.8	235.7	47.0	42.6	22.7	20.6	2.0	2.2
	III	1,152.1	541.7	490.6	1,140.3	878.0	262.3	240.8	47.0	42.6	22.8	20.9	1.9	2.1
	IV	1,166.3	547.3	499.0	1,154.7	886.2	268.6	246.1	46.9	42.8	23.0	21.1	1.9	2.2
2018	I	1,176.5	551.9	502.7	1,164.4	893.8	270.6	249.0	46.9	42.7	23.0	21.2	1.8	2.1
	II	1,186.3	557.2	504.8	1,174.7	901.3	273.4	255.0	47.0	42.6	23.0	21.5	1.5	1.8
	III	1,196.3	563.6	507.3	1,184.8	910.7	274.1	259.9	47.1	42.4	22.9	21.7	1.2	1.5
	IV	1,206.9	570.6	509.7	--	920.1	--	264.3	47.3	42.2	--	21.9	--	--
		Annual percentage changes							Difference from one year ago					
2012		-2.9	-6.1	-0.6	-1.7	-2.6	2.1	-11.3	-1.6	1.0	0.9	-1.9	2.9	3.0
2013		-1.4	-2.7	-1.4	-1.2	-2.0	1.8	-7.7	-0.7	0.0	0.6	-1.3	1.9	2.0
2014		1.2	1.3	0.3	1.6	1.3	2.6	5.2	0.1	-0.4	0.3	0.7	-0.5	-0.6
2015		4.2	4.7	2.6	4.3	3.0	9.5	9.5	0.2	-0.6	1.0	1.0	0.1	0.2
2016		3.5	2.7	4.8	3.8	2.4	8.7	3.5	-0.3	0.5	1.1	0.0	1.1	0.7
2017		4.3	3.5	5.0	4.3	3.7	6.3	7.7	-0.3	0.3	0.4	0.7	-0.2	-0.2
2018		3.5	4.2	2.1	3.3	3.8	1.4	7.4	0.3	-0.6	-0.5	0.8	-1.3	-1.1
2019		3.8	3.8	3.2	3.7	3.4	5.1	5.5	0.0	-0.2	0.3	0.4	-0.1	-0.2
2020		3.2	2.8	3.6	3.1	3.0	3.7	4.8	-0.2	0.2	0.1	0.3	-0.2	-0.2
2017	I	3.7	2.8	4.4	3.9	2.9	7.6	3.7	-0.4	0.3	0.8	0.0	0.8	0.4
	II	3.7	2.9	4.4	3.8	3.1	6.0	4.0	-0.4	0.3	0.5	0.1	0.4	0.1
	III	3.8	3.1	4.2	3.8	3.4	5.4	5.8	-0.3	0.2	0.4	0.4	0.0	-0.3
	IV	4.3	3.5	5.0	4.3	3.7	6.3	7.7	-0.3	0.3	0.4	0.7	-0.2	-0.2
2018	I	4.1	3.7	4.7	4.0	3.5	5.7	7.2	-0.2	0.2	0.3	0.6	-0.3	-0.2
	II	3.9	3.8	3.9	4.0	3.5	5.7	8.2	-0.1	0.0	0.4	0.8	-0.5	-0.4
	III	3.8	4.0	3.4	3.9	3.7	4.5	7.9	0.1	-0.2	0.1	0.8	-0.7	-0.6
	IV	3.5	4.2	2.1	--	3.8	--	7.4	0.3	-0.6	--	0.8	--	--

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

Source: INE and Funcas (Forecasts).

Chart 4.1 - National income, consumption and saving

EUR Billions, 4-quarter cumulated

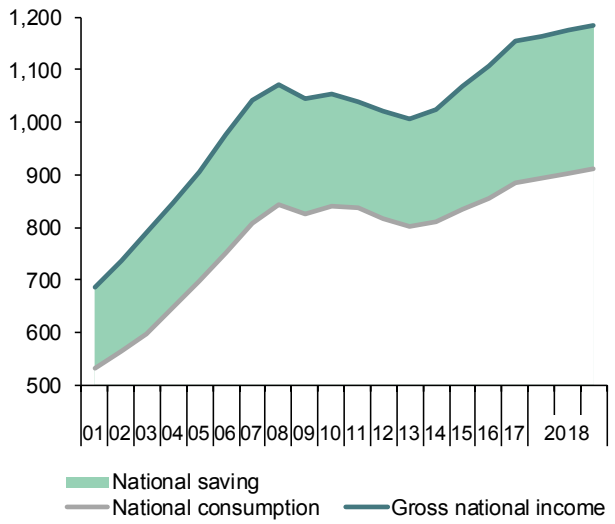


Chart 4.2 - National income, consumption and saving rate

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

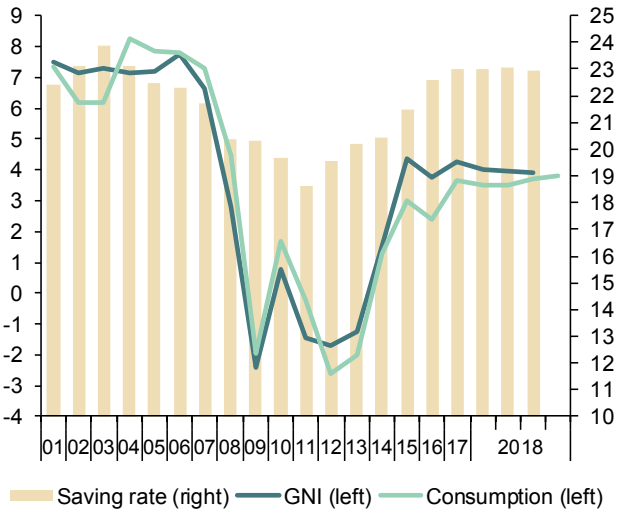


Chart 4.3 - Components of National Income

Percentage of GDP, 4-quarter moving averages

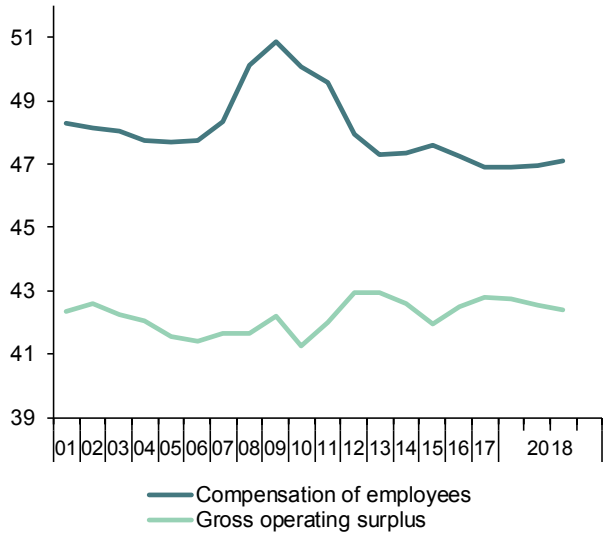


Chart 4.4 - Saving, Investment and Current Account Balance

Percentage of GDP, 4-quarter moving averages

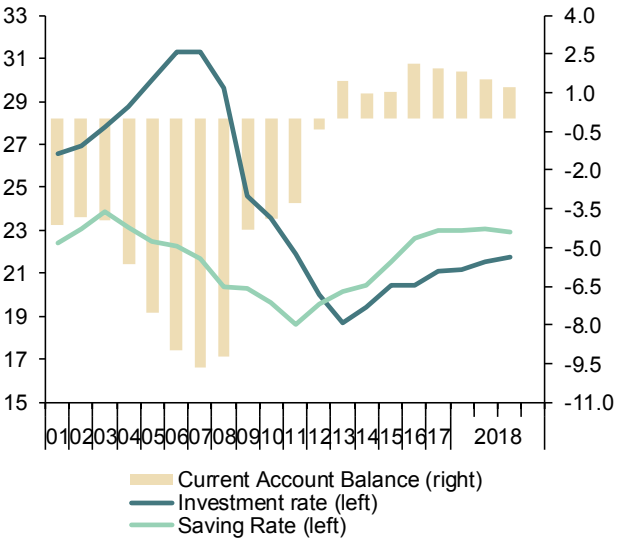


Table 5

National accounts: Household and non-finantial corporations accounts (ESA 2010, Base 2010)

Forecasts in yellow

		Households							Non-finantial corporations					
		Gross disposable income (GDI)	Final con-sum-ption expen-diture	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing	Gross operating surplus	Gross saving	Gross capital formation	Saving rate	Gross capital formation	Net lending or borrowing
		EUR Billions, 4-quarter cumulated operations				Percentage of GDP			EUR Billions, 4-quarter cumulated operations			Percentage of GDP		
2011		694.2	618.9	74.7	52.2	10.8	4.9	2.6	232.8	144.8	131.4	13.5	12.3	2.1
2012		670.6	611.3	57.2	38.8	8.5	3.7	2.2	234.6	144.8	136.5	13.9	13.1	1.4
2013		664.4	598.5	63.9	25.7	9.6	2.5	4.0	235.0	160.5	136.2	15.7	13.3	2.9
2014		671.8	608.7	62.1	27.0	9.2	2.6	3.4	236.9	158.8	148.5	15.3	14.3	1.8
2015		687.0	626.0	59.6	33.2	8.7	3.1	2.4	246.2	175.9	154.1	16.3	14.3	2.8
2016		699.7	643.6	54.7	34.4	7.8	3.1	1.7	260.6	195.1	167.2	17.4	14.9	3.0
2017		711.2	670.5	39.2	42.4	5.5	3.6	-0.4	278.0	210.4	177.2	18.0	15.2	3.3
2018		730.0	698.6	29.9	47.3	4.1	3.9	-1.4	286.0	216.4	188.6	17.9	15.6	2.8
2019		755.4	722.7	31.2	51.1	4.1	4.1	-1.6	293.8	221.5	198.6	17.7	15.9	2.3
2016	IV	699.7	643.6	54.7	34.4	7.8	3.1	1.7	260.6	195.1	167.2	17.4	14.9	3.0
2017	I	701.2	651.3	48.7	36.8	6.9	3.3	1.0	263.9	200.2	169.4	17.7	15.0	3.3
	II	705.4	658.1	46.1	38.0	6.5	3.3	0.6	268.9	201.1	172.7	17.6	15.1	3.0
	III	707.3	663.9	42.2	40.1	6.0	3.5	0.0	272.4	202.9	174.3	17.6	15.1	2.9
	IV	711.2	670.5	39.2	42.4	5.5	3.6	-0.4	278.0	210.4	177.2	18.0	15.2	3.3
2018	I	716.3	677.1	37.8	43.0	5.3	3.7	-0.6	280.5	211.7	179.2	18.0	15.2	3.2
	II	720.1	683.4	35.3	45.2	4.9	3.8	-1.0	281.5	213.4	180.6	18.0	15.2	3.2
	III	726.4	690.7	34.4	47.1	4.7	3.9	-1.2	281.6	212.5	185.2	17.8	15.5	2.7
		Annual percentage changes				Difference from one year ago			Annual percentage changes			Difference from one year ago		
2011		0.8	0.0	7.5	-17.1	0.7	-0.9	1.3	-1.3	-10.5	-0.5	-1.4	0.1	-1.6
2012		-3.4	-1.2	-23.4	-25.6	-2.2	-1.1	-0.3	0.8	0.0	3.9	0.4	0.9	-0.7
2013		-0.9	-2.1	11.7	-33.9	1.1	-1.2	1.8	0.1	10.9	-0.2	1.7	0.2	1.4
2014		1.1	1.7	-2.9	5.1	-0.4	0.1	-0.6	0.8	-1.1	9.0	-0.3	1.0	-1.1
2015		2.3	2.8	-3.9	23.1	-0.6	0.5	-1.0	3.9	10.8	3.8	1.0	-0.1	1.0
2016		1.8	2.8	-8.3	3.5	-0.9	0.0	-0.6	5.9	10.9	8.5	1.2	0.7	0.2
2017		1.6	4.2	-28.3	23.1	-2.3	0.6	-2.1	6.7	7.8	6.0	0.6	0.2	0.3
2018		2.6	4.2	-23.8	11.6	-1.4	0.3	-1.0	2.9	2.9	6.4	-0.1	0.4	-0.5
2019		3.5	3.4	4.4	8.2	0.0	0.2	-0.2	2.7	2.3	5.3	-0.2	0.2	-0.5
2016	IV	1.8	2.8	-8.3	3.5	-0.9	0.0	-0.6	5.9	10.9	8.5	1.2	0.7	0.2
2017	I	1.6	3.3	-17.5	12.2	-1.6	0.2	-1.4	5.6	10.6	6.9	1.1	0.5	0.5
	II	1.6	3.8	-21.5	12.2	-1.9	0.3	-1.6	6.2	7.1	8.1	0.6	0.6	-0.3
	III	1.7	4.1	-25.3	18.0	-2.2	0.4	-1.9	5.8	4.6	6.0	0.2	0.3	-0.3
	IV	1.6	4.2	-28.3	23.1	-2.3	0.6	-2.1	6.7	7.8	6.0	0.6	0.2	0.3
2018	I	2.1	4.0	-22.4	16.9	-1.7	0.4	-1.6	6.3	5.8	5.8	0.3	0.2	-0.1
	II	2.1	3.8	-23.4	18.9	-1.6	0.5	-1.6	4.7	6.1	4.6	0.4	0.1	0.2
	III	2.7	4.0	-18.5	17.5	-1.2	0.5	-1.2	3.4	4.7	6.2	0.2	0.4	-0.2

Source: INE and Funcas (Forecasts).

Chart 5.1 - Households: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

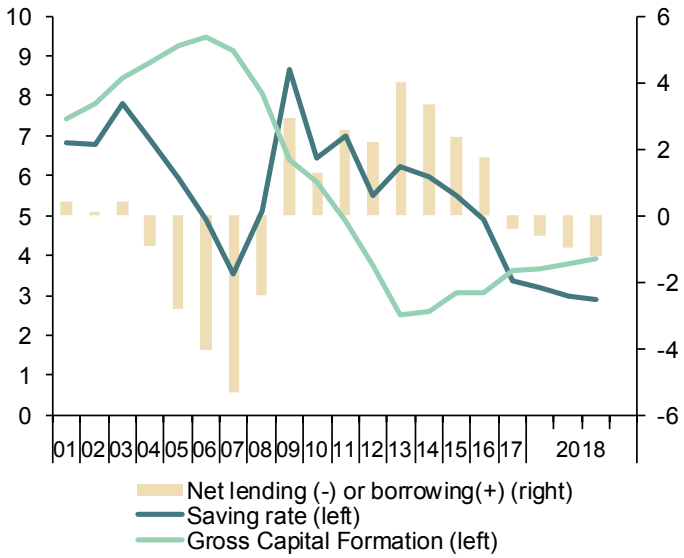


Chart 5.2 - Non-finantial corporations: Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

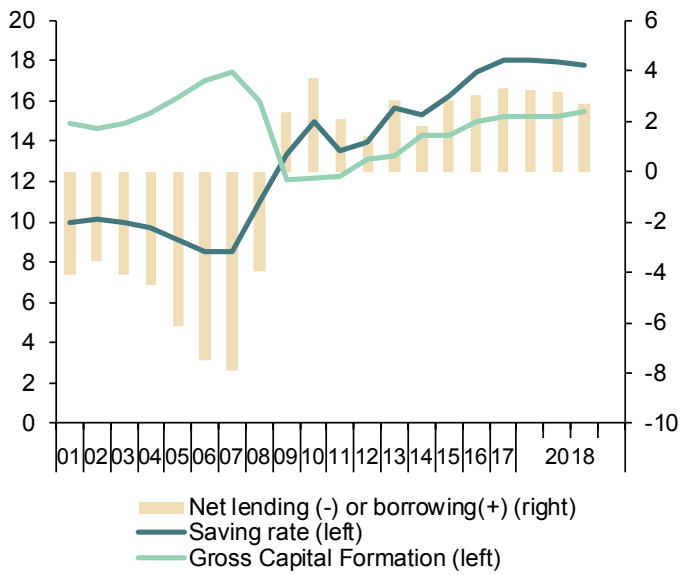


Table 6

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

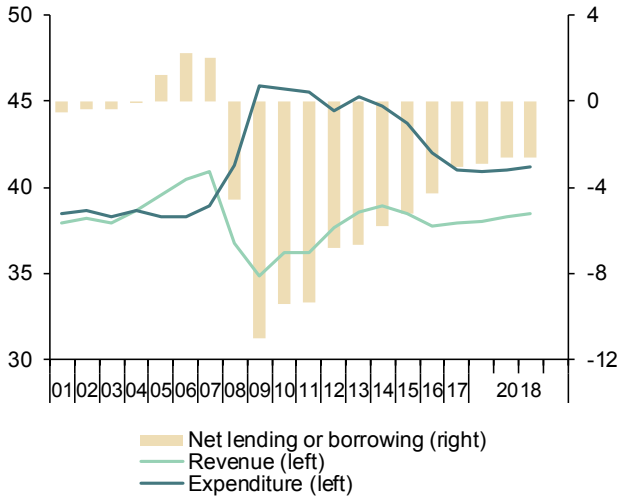
Forecasts in yellow

		Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contribu-tions receivable	Compen-sation of employees	Interests and other capital incomes payable (net)	Social bene-fits payable	Subsidies and net current transfers payable	Gross disposable income	Final consump-tion expendi-ture	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
		1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
		EUR Billions, 4-quarter cumulated operations													
2012		142.2	108.2	106.4	131.9	113.9	20.3	168.6	18.6	167.2	205.3	-38.1	70.8	-108.8	-70.6
2013		143.0	114.6	105.2	128.2	114.7	24.1	170.8	20.6	160.8	201.9	-41.1	30.6	-71.7	-68.4
2014		143.4	119.2	105.6	130.1	115.2	25.7	171.1	20.6	165.7	202.0	-36.3	25.6	-61.9	-60.6
2015		147.5	127.0	109.2	132.3	119.4	24.4	170.6	21.3	180.3	208.9	-28.6	28.4	-57.0	-56.5
2016		149.6	129.0	110.9	136.0	121.5	23.1	174.1	20.5	186.4	211.2	-24.8	25.2	-50.0	-47.6
2017		151.7	134.7	118.6	143.1	123.0	22.6	177.7	19.8	204.9	215.7	-10.7	25.2	-35.9	-35.4
2018		155.7	142.0	127.6	150.2	126.7	21.5	186.8	20.7	219.9	222.2	-2.2	30.2	-32.5	-32.2
2019		159.6	149.7	134.5	157.8	130.5	21.4	194.5	21.4	233.8	228.8	5.0	31.8	-26.7	-26.7
2020		163.4	154.8	140.8	164.3	134.0	22.0	201.4	22.1	243.9	234.9	9.0	33.6	-24.6	-24.6
2016	IV	149.6	129.0	110.9	136.0	121.5	23.1	174.1	20.5	186.4	211.2	-24.8	25.2	-50.0	-47.6
2017	I	150.2	130.9	112.0	137.8	121.9	23.0	174.6	19.1	192.3	212.5	-20.2	26.1	-46.3	-43.7
	II	150.0	132.7	115.1	139.5	121.6	22.8	175.5	20.0	197.3	212.9	-15.6	25.0	-40.6	-39.7
	III	150.8	134.0	118.7	141.2	122.3	22.6	176.3	20.0	203.6	214.1	-10.5	24.9	-35.3	-34.8
	IV	151.7	134.7	118.6	143.1	123.0	22.6	177.7	19.8	204.9	215.7	-10.7	25.2	-35.9	-35.4
2018	I	152.3	136.7	120.7	144.5	123.5	22.3	178.9	20.6	208.9	216.8	-7.8	26.7	-34.5	-34.2
	II	153.1	138.8	122.5	146.5	124.2	21.7	180.1	20.5	214.4	217.9	-3.5	28.2	-31.7	-31.5
	III	154.5	140.0	125.1	148.3	125.5	21.6	183.0	20.7	217.1	220.0	-2.9	28.9	-31.8	-31.7
		Percentage of GDP, 4-quarter cumulated operations													
2012		13.7	10.4	10.2	12.7	11.0	2.0	16.2	1.8	16.1	19.7	-3.7	6.8	-10.5	-6.8
2013		13.9	11.2	10.3	12.5	11.2	2.3	16.6	2.0	15.7	19.7	-4.0	3.0	-7.0	-6.7
2014		13.8	11.5	10.2	12.5	11.1	2.5	16.5	2.0	16.0	19.5	-3.5	2.5	-6.0	-5.8
2015		13.6	11.7	10.1	12.2	11.0	2.3	15.8	2.0	16.7	19.3	-2.6	2.6	-5.3	-5.2
2016		13.4	11.5	9.9	12.2	10.9	2.1	15.6	1.8	16.7	18.9	-2.2	2.3	-4.5	-4.3
2017		13.0	11.6	10.2	12.3	10.5	1.9	15.2	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.0
2018		12.9	11.8	10.6	12.4	10.5	1.8	15.5	1.7	18.2	18.4	-0.2	2.5	-2.7	-2.7
2019		12.7	12.0	10.7	12.6	10.4	1.7	15.5	1.7	18.7	18.3	0.4	2.5	-2.1	-2.1
2020		12.6	12.0	10.9	12.7	10.4	1.7	15.6	1.7	18.9	18.2	0.7	2.6	-1.9	-1.9
2016	IV	13.4	11.5	9.9	12.2	10.9	2.1	15.6	1.8	16.7	18.9	-2.2	2.3	-4.5	-4.3
2017	I	13.3	11.6	9.9	12.2	10.8	2.0	15.5	1.7	17.0	18.8	-1.8	2.3	-4.1	-3.9
	II	13.1	11.6	10.1	12.2	10.7	2.0	15.4	1.8	17.3	18.6	-1.4	2.2	-3.6	-3.5
	III	13.1	11.6	10.3	12.3	10.6	2.0	15.3	1.7	17.7	18.6	-0.9	2.2	-3.1	-3.0
	IV	13.0	11.6	10.2	12.3	10.5	1.9	15.2	1.7	17.6	18.5	-0.9	2.2	-3.1	-3.0
2018	I	12.9	11.6	10.3	12.3	10.5	1.9	15.2	1.7	17.8	18.4	-0.7	2.3	-2.9	-2.9
	II	12.9	11.7	10.3	12.3	10.5	1.8	15.2	1.7	18.1	18.4	-0.3	2.4	-2.7	-2.7
	III	12.9	11.7	10.5	12.4	10.5	1.8	15.3	1.7	18.1	18.4	-0.2	2.4	-2.7	-2.6

Source: INE and Funcas (Forecasts).

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

Percentage of GDP, 4-quarter moving averages



(a) Excluding financial entities bail-out expenditures

Chart 6.2 - Public sector: Main revenues

Percentage of GDP, 4-quarter moving averages

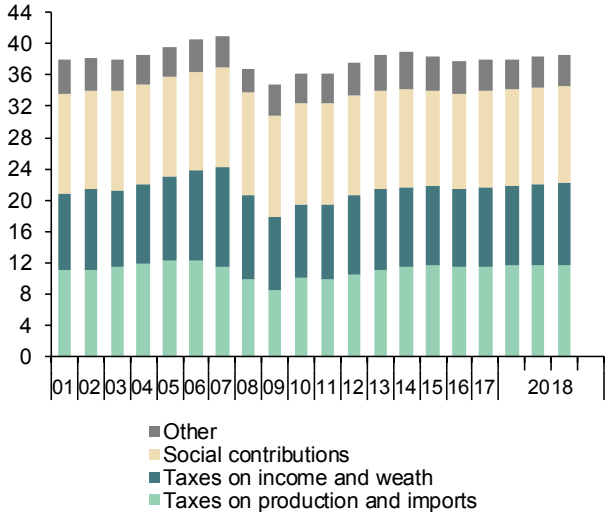


Chart 6.3.- Public sector: Main expenditures

Percentage of GDP, 4-quarter moving averages

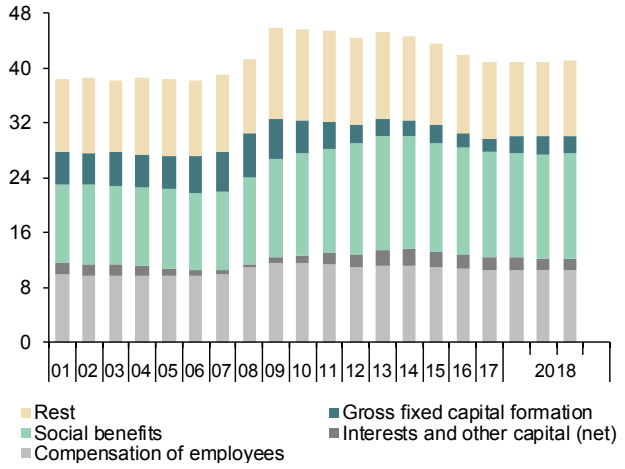
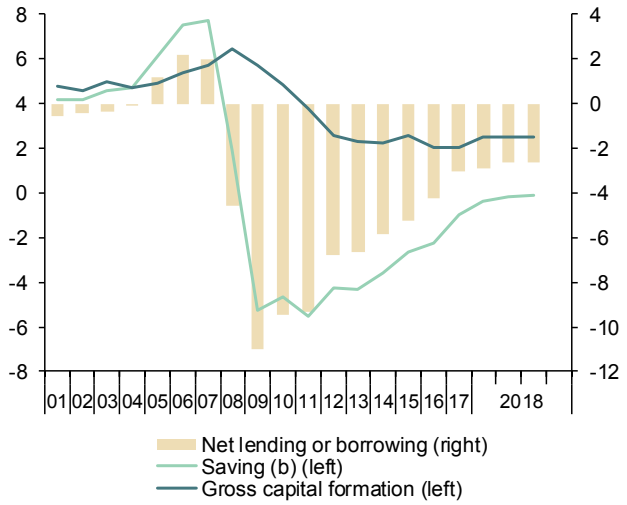


Chart 6.4 - Public sector: Saving, investment and deficit (a)

Percentage of GDP, 4-quarter moving averages



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

Table 7

Public sector balances, by level of Government

Forecasts in yellow

		Net lending (+)/ net borrowing (-) (a)					Debt				
		Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	Total Government (consolidated)
		EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period				
2012		-44.3	-19.4	3.3	-10.2	-70.6	761.9	189.2	44.0	17.2	891.5
2013		-46.4	-16.2	5.7	-11.5	-68.4	850.2	210.5	42.1	17.2	979.0
2014		-36.8	-18.5	5.5	-10.8	-60.6	902.5	237.9	38.3	17.2	1,041.6
2015		-29.3	-18.7	4.6	-13.0	-56.5	940.4	263.3	35.2	17.2	1,073.9
2016		-27.2	-9.6	7.0	-17.7	-47.6	969.6	277.0	32.2	17.2	1,107.2
2017		-21.5	-4.2	7.1	-16.8	-35.4	1,010.8	288.1	29.1	27.4	1,144.4
2018		-18.2	-2.3	6.0	-17.7	-32.2	--	--	--	--	1,175.8
2019		-13.3	-1.0	5.2	-17.6	-26.7	--	--	--	--	1,201.5
2020		-11.8	-0.9	5.2	-17.1	-24.6	--	--	--	--	1,225.0
2016	IV	-27.2	-9.6	7.0	-17.7	-47.6	969.6	277.0	32.2	17.2	1,107.2
2017	I	-22.2	-10.7	7.2	-18.1	-43.7	986.6	279.4	31.7	17.2	1,126.3
	II	-19.2	-10.7	7.4	-17.1	-39.7	994.9	285.9	32.4	17.2	1,135.1
	III	-17.0	-6.9	7.3	-18.1	-34.8	998.8	284.4	30.5	23.2	1,133.4
	IV	-21.5	-4.2	7.1	-16.8	-35.4	1,010.8	288.1	29.1	27.4	1,144.4
2018	I	-21.9	-3.1	7.1	-16.3	-34.2	1,027.6	289.7	29.0	27.4	1,160.7
	II	-18.8	-2.5	6.2	-16.4	-31.5	1,032.9	293.3	29.4	34.9	1,164.0
	III	-19.0	-2.7	6.0	-16.0	-31.7	1,046.7	292.4	28.0	34.9	1,175.7
		Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP				
2012		-4.3	-1.9	0.3	-1.0	-6.8	73.3	18.2	4.2	1.7	85.7
2013		-4.5	-1.6	0.6	-1.1	-6.7	82.9	20.5	4.1	1.7	95.5
2014		-3.5	-1.8	0.5	-1.0	-5.8	87.0	22.9	3.7	1.7	100.4
2015		-2.7	-1.7	0.4	-1.2	-5.2	87.0	24.4	3.3	1.6	99.3
2016		-2.4	-0.9	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0
2017		-1.8	-0.4	0.6	-1.4	-3.0	86.7	24.7	2.5	2.3	98.1
2018		-1.5	-0.2	0.5	-1.5	-2.7	--	--	--	--	97.4
2019		-1.1	-0.1	0.4	-1.4	-2.1	--	--	--	--	95.9
2020		-0.9	-0.1	0.4	-1.3	-1.9	--	--	--	--	94.8
2016	IV	-2.4	-0.9	0.6	-1.6	-4.3	86.7	24.8	2.9	1.5	99.0
2017	I	-2.0	-0.9	0.6	-1.6	-3.9	87.3	24.7	2.8	1.5	99.7
	II	-1.7	-0.9	0.6	-1.5	-3.5	87.2	25.0	2.8	1.5	99.4
	III	-1.5	-0.6	0.6	-1.6	-3.0	86.7	24.7	2.7	2.0	98.4
	IV	-1.8	-0.4	0.6	-1.4	-3.0	86.7	24.7	2.5	2.3	98.1
2018	I	-1.9	-0.3	0.6	-1.4	-2.9	87.3	24.6	2.5	2.3	98.7
	II	-1.6	-0.2	0.5	-1.4	-2.7	87.1	24.7	2.5	2.9	98.1
	III	-1.6	-0.2	0.5	-1.3	-2.6	87.5	24.4	2.3	2.9	98.3

(a) Excluding financial entities bail-out expenditures.

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

Chart 7.1 - Government deficit

Percent of GDP, 4-quarter cumulated operations

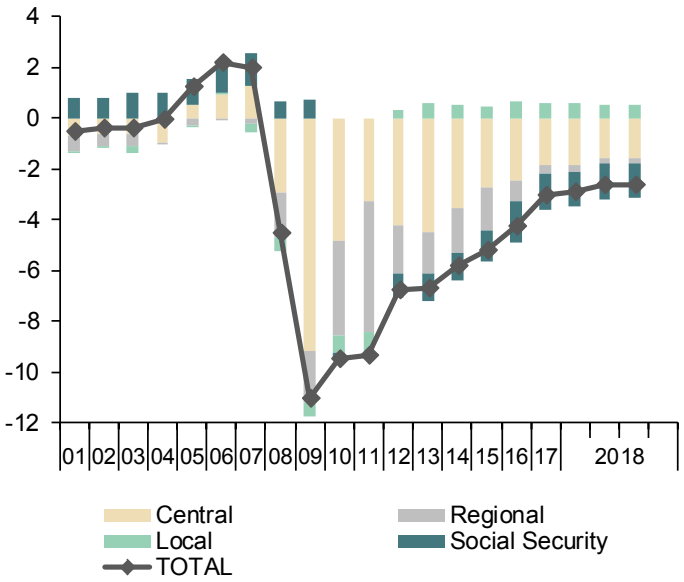


Chart 7.2 - Government debt

Percent of GDP

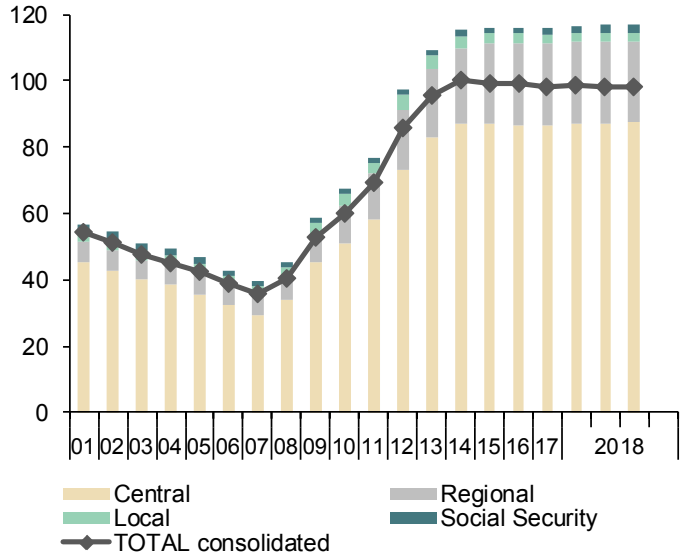


Table 8

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates (f)	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufac turing PMI index	Industrial confidence index	Manufacturing Turnover index deflated	Industrial orders
	Index	Index	Thousands	1,000 GWH	2015=100	Thousands	Index	Balance of responses	2015=100 (smoothed)	Balance of responses
2012	86.3	43.1	16,335.3	255.7	97.1	2,113.9	43.8	-17.6	96.7	-37.1
2013	90.6	48.3	15,855.2	250.2	95.5	2,021.6	48.5	-14.0	94.2	-30.7
2014	100.7	55.1	16,111.1	249.8	96.8	2,022.8	53.2	-7.1	96.1	-16.3
2015	107.6	56.7	16,641.8	254.0	100.0	2,067.3	53.6	-0.3	100.0	-5.4
2016	105.6	54.9	17,157.5	254.1	101.8	2,124.7	53.1	-2.3	102.6	-5.4
2017	108.3	56.2	17,789.6	258.7	105.0	2,191.0	54.8	1.0	106.9	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 (b)	104.4	54.0	18,438.8	48.0	104.7	2,254.9	51.2	-4.6	--	-5.7
2017 II	107.5	57.4	17,726.6	64.8	104.4	2,182.7	54.9	-0.5	106.2	6.1
III	108.6	56.1	17,867.8	64.3	105.0	2,200.2	53.5	-0.1	107.5	0.8
IV	110.0	55.2	18,018.0	65.6	107.7	2,217.5	55.9	4.3	108.6	4.8
2018 I	109.6	56.6	18,160.2	65.3	106.0	2,234.3	55.3	2.8	109.1	1.2
II	109.4	55.4	18,297.0	64.7	105.5	2,246.8	53.8	1.2	109.1	2.9
III	106.7	52.7	18,421.5	65.2	105.5	2,257.2	52.4	-2.6	108.7	-2.4
IV	106.4	53.7	18,577.6	64.3	104.7	2,265.8	51.8	-1.9	107.7	-2.4
2019 I (b)	104.4	54.0	18,684.0	43.0	106.8	2,271.2	51.2	-4.6	--	-5.7
2018 Dec	104.3	53.4	18,621.7	21.5	103.2	2,268.1	51.1	-3.4	107.3	-1.1
2019 Jan	104.4	54.5	18,663.4	21.4	106.8	2,270.4	52.4	-4.0	--	-4.7
Feb	104.4	53.5	18,704.6	21.4	--	2,272.0	49.9	-5.2	--	-6.7
					Percentage changes (c)					
2012	--	--	-3.7	-2.1	-6.7	-5.3	--	--	-4.9	--
2013	--	--	-2.9	-2.2	-1.6	-4.4	--	--	-2.6	--
2014	--	--	1.6	-0.1	1.3	0.1	--	--	2.0	--
2015	--	--	3.3	1.7	3.4	2.2	--	--	4.1	--
2016	--	--	3.1	0.0	1.8	2.8	--	--	2.7	--
2017	--	--	3.7	1.8	3.2	3.1	--	--	4.2	--
2018	--	--	3.2	0.3	0.3	2.7	--	--	1.4	--
2019 (d)	--	--	3.0	-0.7	2.9	1.8	--	--	--	--
2017 II	--	--	4.3	4.0	3.5	3.4	--	--	4.7	--
III	--	--	3.2	-2.9	2.3	3.2	--	--	5.0	--
IV	--	--	3.4	8.2	10.9	3.2	--	--	4.3	--
2018 I	--	--	3.2	-1.5	-6.2	3.1	--	--	1.9	--
II	--	--	3.0	-3.6	-2.0	2.3	--	--	0.1	--
III	--	--	2.8	2.8	0.0	1.9	--	--	-1.6	--
IV	--	--	3.4	-5.4	-2.8	1.5	--	--	-3.6	--
2019 I (e)	--	--	2.3	1.2	8.0	1.0	--	--	--	--
2018 Dec	--	--	0.3	-2.0	-1.2	0.1	--	--	-0.4	--
2019 Jan	--	--	0.2	1.8	3.4	0.1	--	--	--	--
Feb	--	--	0.2	-0.4	--	0.1	--	--	--	--

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

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

Chart 8.1 - General activity indicators (I)

Annualized percent change from previous period

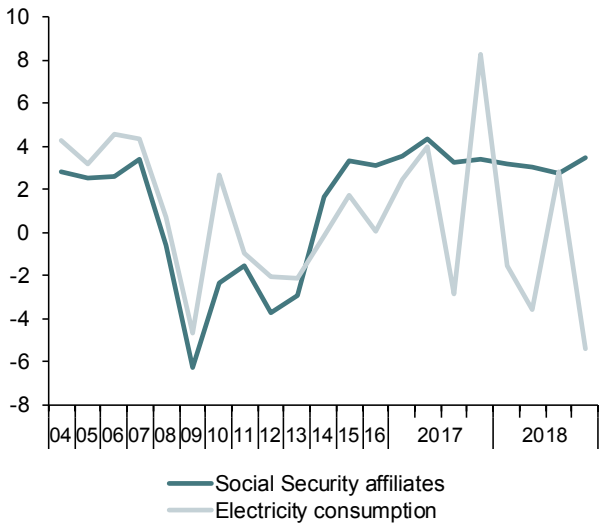


Chart 8.2.- General activity indicators (II)

Index

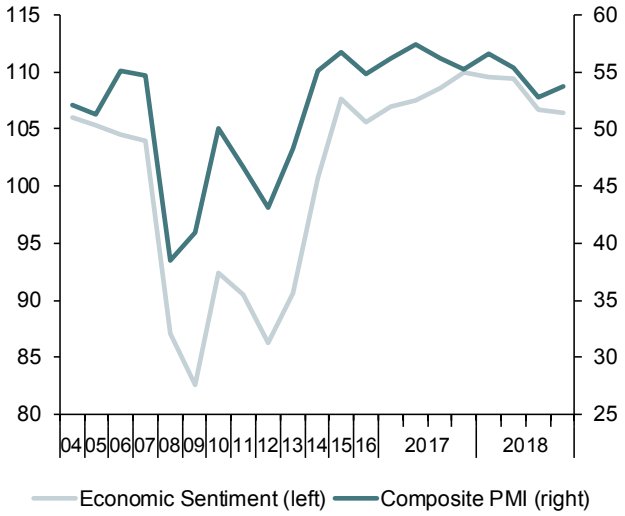


Chart 8.3 - Industrial sector indicators (I)

Annualized percent change from previous period

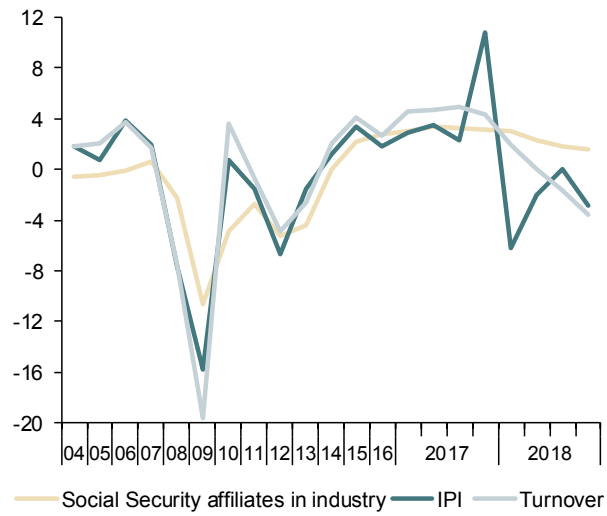


Chart 8.4 - Industrial sector indicators (II)

Index

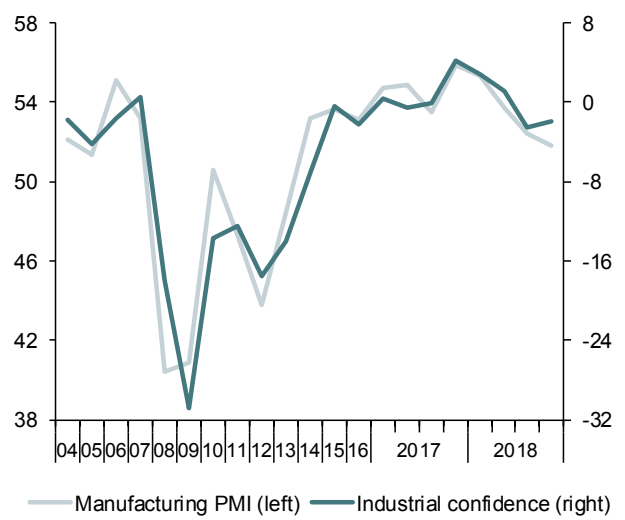


Table 9

Construction and services sector indicators (a)

	Construction indicators					Service sector indicators					
	Social Security Affiliates in construction	Industrial production index construction materials	Construction confidence index	Official tenders (f)	Housing permits (f)	Social Security Affiliates in services (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	2015=100 (smoothed)	Balance of responses	EUR Billions (smoothed)	Million m^2	Thousands	2015=100 (smoothed)	Index	Million (smoothed)	Million (smoothed)	Balance of responses
2012	1,135.5	101.2	-54.9	7.4	8.5	11,907.2	94.8	43.1	280.7	193.2	-21.5
2013	996.8	93.6	-55.6	9.2	6.8	11,727.9	92.9	48.3	286.0	186.5	-15.3
2014	980.3	92.8	-41.4	13.1	6.9	11,995.5	95.3	55.2	295.3	194.9	9.9
2015	1,026.7	100.0	-25.3	9.4	9.9	12,432.3	100.0	57.3	308.2	206.6	19.4
2016	1,053.9	102.6	-39.6	9.2	12.7	12,851.6	104.2	55.0	331.2	229.4	17.8
2017	1,118.8	111.5	-26.9	12.7	15.9	13,338.2	111.0	56.4	340.6	248.4	22.5
2018	1,194.1	114.3	-4.6	16.8	19.8	13,781.3	117.5	54.8	340.2	262.9	21.7
2019 (b)	1,220.9	106.4	-0.4	2.6	--	13,798.3	--	54.6	15.5	16.5	16.8
2017 II	1,110.5	110.7	-24.7	2.9	4.2	13,288.1	110.3	57.8	85.5	61.6	23.3
III	1,124.6	111.8	-23.5	3.4	3.7	13,401.8	111.8	56.8	85.5	62.7	25.2
IV	1,147.6	112.8	-15.7	3.8	4.0	13,514.9	113.7	54.6	85.4	63.8	22.3
2018 I	1,166.8	113.1	-4.3	3.7	4.7	13,626.3	115.6	56.8	85.3	64.6	23.5
II	1,183.7	113.7	-4.1	3.8	5.2	13,728.5	117.2	55.8	85.3	65.3	23.5
III	1,203.1	115.3	-8.3	4.4	4.9	13,826.3	118.4	52.6	85.7	66.3	21.6
IV	1,222.7	117.6	-1.6	5.7	5.0	13,941.3	119.1	54.0	86.5	68.0	18.0
2019 I (b)	1,243.3	119.4	-0.4	2.3	--	14,021.5	--	54.6	29.1	23.1	16.8
2018 Dec	1,230.0	118.5	-6.9	2.1	1.5	13,978.6	119.2	54.0	29.0	22.9	13.6
2019 Jan	1,239.4	119.4	6.5	2.3	--	14,005.8	--	54.7	29.1	23.1	15.1
Feb	1,247.3	--	-7.2	--	--	14,037.2	--	54.5	--	--	18.4
Percentage changes (c)											
2011	-12.2	-9.8	--	-47.9	-13.2	-0.1	-1.1	--	7.3	6.0	--
2012	-17.0	-28.2	--	-45.5	-39.9	-2.2	-6.1	--	-2.1	-5.0	--
2013	-12.2	-7.5	--	23.2	-20.3	-1.5	-2.0	--	1.9	-3.5	--
2014	-1.7	-0.9	--	42.6	2.2	2.3	2.6	--	3.2	4.6	--
2015	4.7	7.8	--	-28.2	42.6	3.6	4.9	--	4.4	6.0	--
2016	2.6	2.6	--	-1.6	29.0	3.4	4.2	--	7.4	11.0	--
2017	6.2	8.6	--	37.1	24.8	3.8	6.6	--	2.8	8.3	--
2018 (d)	6.7	2.5	--	32.2	24.5	3.3	5.8	--	-0.1	5.8	--
2017 II	6.7	6.6	--	24.2	29.3	4.5	5.9	--	1.7	8.3	--
III	5.2	4.0	--	49.9	28.9	3.5	5.6	--	0.0	7.7	--
IV	8.5	3.6	--	69.3	24.8	3.4	6.8	--	-0.5	6.8	--
2018 I	6.9	0.9	--	57.5	18.9	3.3	7.0	--	-0.5	5.2	--
II	5.9	2.1	--	31.5	23.5	3.0	5.7	--	0.0	4.5	--
III	6.7	5.8	--	28.3	32.7	2.9	4.1	--	1.7	6.5	--
IV	6.7	8.3	--	50.0	23.3	3.4	2.3	--	4.1	10.5	--
2019 I (e)	6.9	6.2	--	78.3	--	2.3	--	--	2.9	7.8	--
2018 Dec	0.8	0.8	--	23.4	27.7	0.3	0.1	--	0.4	0.9	--
2019 Jan	0.8	0.8	--	92.5	--	0.2	--	--	0.4	1.0	--
Feb	0.6	--	--	--	--	0.2	--	--	--	--	--

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

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

Chart 9.1 - Construction indicators (I)

Annualized percentage changes from previous period and index

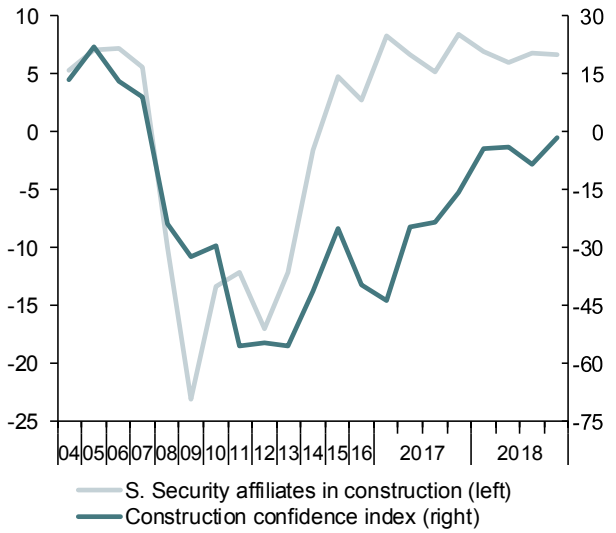


Chart 9.2 - Construction indicators (II)

Annualized percentage changes from previous period

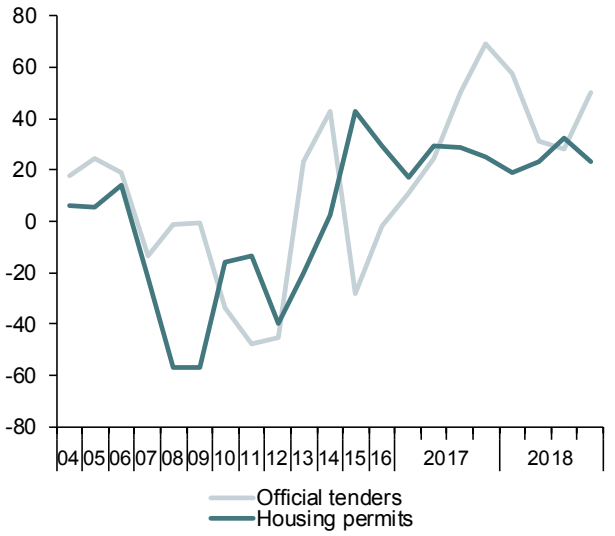


Chart 9.3 - Services indicators (I)

Annualized percentage change from previous period and index

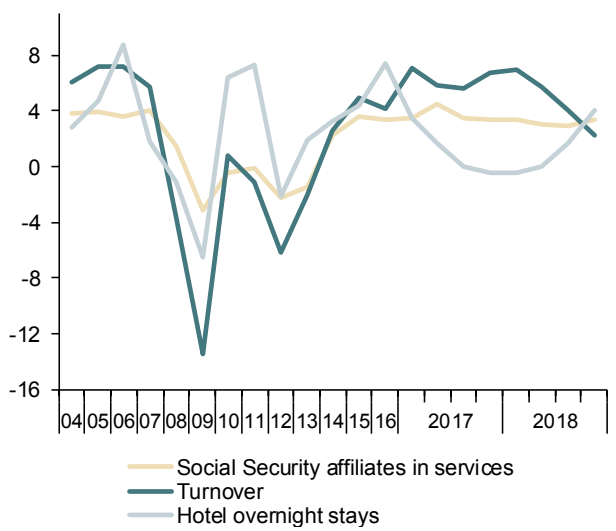


Chart 9.4 - Services indicators (II)

Index

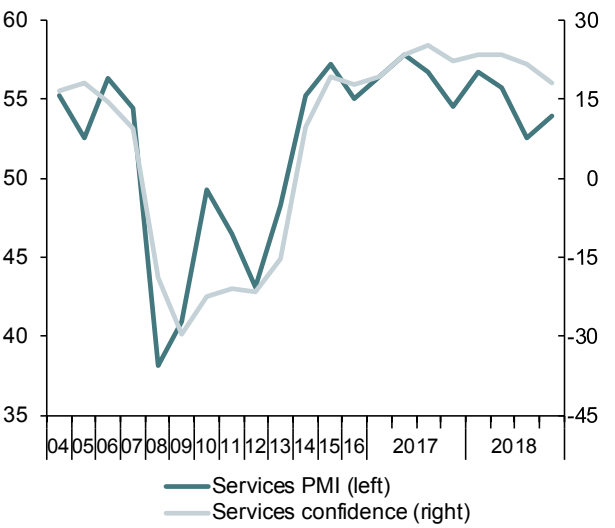


Table 10

Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Imports of capital goods (volume)
	2015=100 (smoothed)	Thousands (smoothed)	Balance of responses	Million (smoothed)	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100 (smoothed)
2012	98.8	710.6	-33.7	102.1	-24.2	107.7	-38.6	60.6
2013	95.0	742.3	-28.1	100.6	-21.8	107.6	-33.5	68.9
2014	96.0	890.1	-14.5	104.7	-9.1	137.5	-16.5	81.6
2015	100.0	1,094.0	-4.7	110.3	-3.1	180.3	0.2	93.3
2016	103.9	1,230.1	-6.3	114.2	-1.4	191.3	-0.2	97.2
2017	104.7	1,341.6	-3.4	115.8	2.2	207.6	4.9	103.3
2018	105.4	1,424.0	-4.2	116.5	-5.8	230.0	12.4	105.4
2019 (b)	107.6	102.6	-6.2	5.5	-3.0	18.4	6.0	--
2017 II	104.8	328.8	-3.2	28.9	3.9	51.1	7.6	103.9
III	105.1	340.3	-1.4	28.9	4.5	53.0	-2.0	103.1
IV	105.1	352.0	-2.5	29.0	-2.8	55.0	12.4	102.8
2018 I	105.3	358.8	-3.9	29.0	-0.6	56.5	13.8	104.4
II	105.4	362.9	-3.0	29.0	-5.2	57.6	15.7	106.6
III	105.5	359.4	-3.7	29.2	-10.8	58.1	11.3	106.6
IV	105.8	344.1	-6.2	29.6	-6.5	57.7	8.8	103.3
2019 I (b)	106.1	111.3	-6.2	10.0	-3.0	19.2	6.0	--
2018 Dec	105.9	112.9	-7.2	9.9	-1.6	19.2	9.3	101.7
2019 Jan	106.1	111.3	-6.9	10.0	-12.1	19.2	11.4	--
Feb	--	--	-5.4	--	6.1	--	0.6	--
Percentage changes (c)								
2012	-7.4	-12.1	--	-8.4	--	-24.2	--	-10.9
2013	-3.9	4.5	--	-1.4	--	-0.1	--	13.7
2014	1.1	19.9	--	4.1	--	27.8	--	18.4
2015	4.2	22.9	--	5.3	--	31.1	--	14.4
2016	3.9	12.4	--	3.6	--	6.1	--	4.1
2017	0.8	9.1	--	1.4	--	8.5	--	6.4
2018	0.7	6.1	--	0.6	--	10.8	--	2.0
2019 (d)	0.9	-6.2	--	0.8	--	2.5	--	--
2017 II	1.6	10.1	--	1.1	--	8.4	--	4.1
III	0.9	14.8	--	0.9	--	15.6	--	-3.2
IV	0.3	14.4	--	1.5	--	16.0	--	-1.0
2018 I	0.5	8.0	--	0.0	--	11.8	--	6.3
II	0.3	4.6	--	-0.1	--	7.9	--	8.6
III	0.5	-3.8	--	2.4	--	2.9	--	0.3
IV	1.2	-16.0	--	5.6	--	-2.6	--	-12.0
2019 I (e)	1.0	-11.4	--	3.9	--	-0.9	--	--
2018 Nov	0.1	-1.6	--	0.5	--	-0.2	--	-1.4
Dec	0.1	-1.5	--	0.5	--	-0.1	--	-1.6
2019 Jan	0.1	-1.5	--	0.5	--	-0.1	--	--

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

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

Chart 10.1 - Consumption indicators

Percent change from previous period and balance of responses

Chart 10.2 - Investment indicators

Percent change from previous period and balance of responses

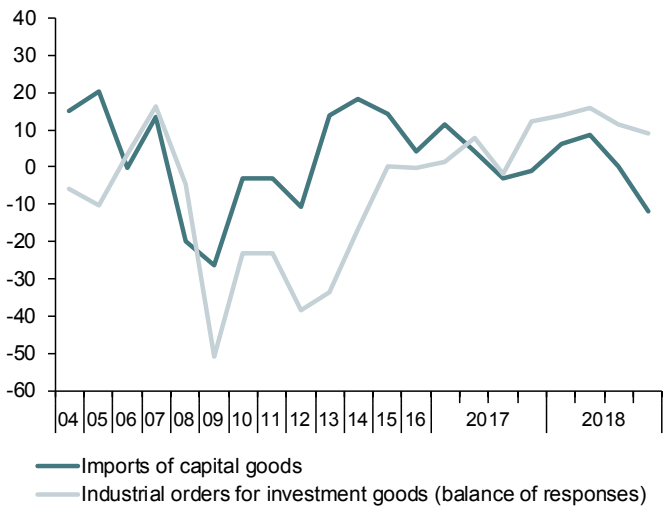


Table 11a

Labour market (I)

Forecasts in yellow

		Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
											Total	Aged 16-24	Spanish	Foreign
			Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
		1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
		Million							Percentage					
2012		30.9	23.4	--	17.6	--	5.8	--	75.3	56.5	24.8	52.9	23.0	35.9
2013		30.6	23.2	--	17.1	--	6.1	--	75.3	55.6	26.1	55.5	24.4	37.0
2014		30.3	23.0	--	17.3	--	5.6	--	75.3	56.8	24.4	53.2	23.0	34.5
2015		30.2	22.9	--	17.9	--	5.1	--	75.5	58.7	22.1	48.3	20.9	30.5
2016		30.1	22.8	--	18.3	--	4.5	--	75.4	60.5	19.6	44.4	18.7	26.6
2017		30.1	22.7	--	18.8	--	3.9	--	75.1	62.1	17.2	38.6	16.3	23.8
2018		30.2	22.8	--	19.3	--	3.5	--	74.9	63.4	15.3	34.3	14.3	21.9
2019		30.2	22.8	--	19.7	--	3.2	--	74.8	64.4	13.9	--	--	--
2020		30.2	22.8	--	19.9	--	2.9	--	75.0	65.5	12.7			
2017	I	30.0	22.7	22.8	18.4	18.5	4.3	4.2	75.0	60.8	18.8	41.7	17.8	25.5
	II	30.0	22.7	22.7	18.8	18.7	3.9	4.0	75.1	62.0	17.2	39.5	16.4	23.6
	III	30.0	22.8	22.7	19.0	18.8	3.7	3.9	75.2	62.8	16.4	36.0	15.5	22.7
	IV	30.1	22.8	22.8	19.0	18.9	3.8	3.9	75.1	62.6	16.5	37.5	15.6	23.6
2018	I	30.1	22.7	22.7	18.9	19.0	3.8	3.8	74.7	62.1	16.7	36.3	15.7	24.3
	II	30.2	22.8	22.8	19.3	19.2	3.5	3.6	75.1	63.5	15.3	34.7	14.3	21.9
	III	30.2	22.9	22.8	19.5	19.3	3.3	3.5	75.0	64.0	14.6	33.0	13.7	20.6
	IV	30.3	22.9	22.9	19.6	19.5	3.3	3.4	74.9	64.0	14.4	33.5	13.5	20.8
		Percentage changes (d)							Difference from one year ago					
2012		-0.5	0.0	--	-4.3	--	15.9	--	0.4	-2.3	3.4	6.7	3.5	3.3
2013		-1.1	-1.1	--	-2.8	--	4.1	--	0.0	-0.9	1.3	2.6	1.5	1.1
2014		-0.9	-1.0	--	1.2	--	-7.3	--	0.0	1.2	-1.7	-2.3	-1.4	-2.5
2015		-0.5	-0.1	--	3.0	--	-9.9	--	0.2	1.9	-2.4	-4.9	-2.1	-4.0
2016		-0.4	-0.4	--	2.7	--	-11.4	--	-0.1	1.8	-2.4	-3.9	-2.2	-3.8
2017		0.0	-0.4	--	2.6	--	-12.6	--	-0.3	1.6	-2.4	-5.9	-2.4	-2.8
2018		0.4	0.3	--	2.7	--	-11.2	--	-0.2	1.3	-2.0	-4.2	-2.0	-2.0
2019		0.2	0.1	--	1.8	--	-8.9	--	-0.1	1.0	-1.4	--	--	--
2020		-0.2	0.0	--	1.4	--	-8.6	--	0.2	1.1	-1.2	--	--	--
2017	I	-0.2	-0.6	0.2	2.3	3.1	-11.2	-11.4	-0.3	1.4	-2.2	-4.8	-2.0	-4.3
	II	-0.1	-0.6	-1.2	2.8	2.5	-14.4	-16.5	-0.5	1.7	-2.8	-7.0	-2.7	-3.7
	III	0.0	-0.3	0.8	2.8	3.2	-13.6	-9.8	-0.3	1.7	-2.5	-6.0	-2.6	-2.1
	IV	0.1	0.1	0.3	2.6	1.9	-11.1	-6.8	-0.1	1.5	-2.1	-5.5	-2.3	-1.1
2018	I	0.2	-0.1	-0.3	2.4	2.1	-10.8	-11.5	-0.3	1.3	-2.0	-5.3	-2.1	-1.2
	II	0.4	0.5	0.6	2.8	3.8	-10.8	-14.4	0.0	1.5	-1.9	-4.8	-2.0	-1.7
	III	0.5	0.3	0.4	2.5	2.4	-10.9	-9.5	-0.2	1.2	-1.8	-3.0	-1.8	-2.1
	IV	0.6	0.5	0.8	3.0	3.7	-12.3	-13.7	-0.2	1.4	-2.1	-3.9	-2.0	-2.8

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

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

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

Annual / annualized quarterly growth rates and percentage of active population

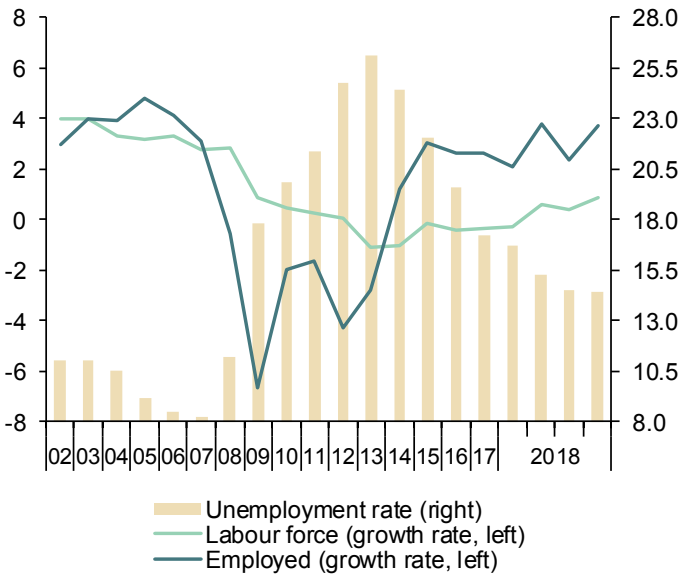


Chart 11a.2 - Unemployment rates, S.A.

Percentage

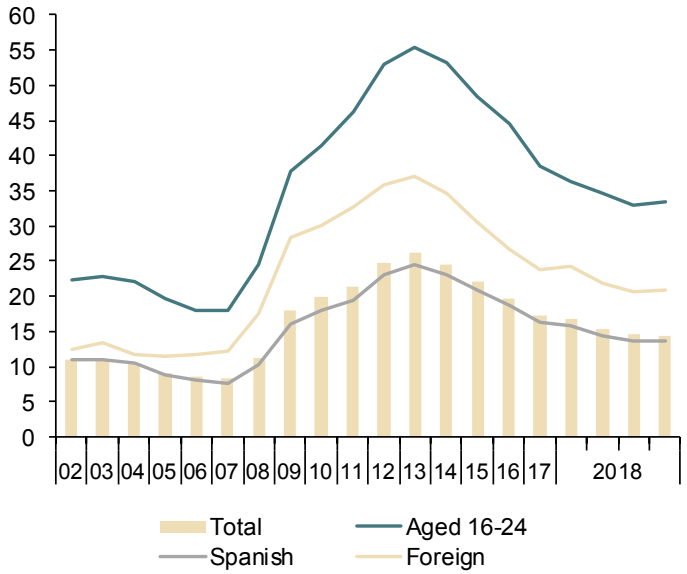


Table 11b

Labour market (II)

		Employed by sector				Employed by professional situation					Employed by duration of the working-day		
						Employees							
							By type of contract						
		Agriculture	Industry	Construction	Services	Total	Tempo-rary	Indefinite	Temporary employment rate (a)	Self employed	Full-time	Part-time	Part-time employment rate (b)
		1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
		Million (original data)											
2012		0.74	2.48	1.16	13.24	14.57	3.41	11.16	23.4	3.06	15.08	2.55	14.49
2013		0.74	2.36	1.03	13.02	14.07	3.26	10.81	23.1	3.07	14.43	2.71	15.80
2014		0.74	2.38	0.99	13.23	14.29	3.43	10.86	24.0	3.06	14.59	2.76	15.91
2015		0.74	2.48	1.07	13.57	14.77	3.71	11.06	25.1	3.09	15.05	2.81	15.74
2016		0.77	2.52	1.07	13.97	15.23	3.97	11.26	26.1	3.11	15.55	2.79	15.21
2017		0.82	2.65	1.13	14.23	15.72	4.19	11.52	26.7	3.11	16.01	2.82	14.97
2018		0.81	2.71	1.22	14.59	16.23	4.35	11.88	26.8	3.09	16.56	2.76	14.31
2017	I	0.85	2.57	1.08	13.94	15.34	3.95	11.39	25.8	3.10	15.56	2.87	15.59
	II	0.83	2.64	1.13	14.21	15.69	4.21	11.48	26.8	3.12	15.94	2.87	15.26
	III	0.78	2.67	1.15	14.45	15.91	4.36	11.55	27.4	3.14	16.32	2.73	14.31
	IV	0.82	2.71	1.14	14.32	15.92	4.25	11.67	26.7	3.08	16.19	2.81	14.77
2018	I	0.83	2.68	1.15	14.21	15.79	4.12	11.67	26.1	3.08	16.06	2.81	14.91
	II	0.82	2.72	1.22	14.58	16.26	4.36	11.90	26.8	3.09	16.71	2.64	13.63
	III	0.77	2.73	1.24	14.79	16.43	4.51	11.93	27.4	3.09	16.81	2.71	13.90
	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
		Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
2012		-1.6	-4.6	-17.3	-3.0	-5.3	-11.8	-3.1	-1.7	1.1	-5.3	2.3	0.9
2013		-0.9	-5.2	-11.4	-1.7	-3.5	-4.6	-3.1	-0.3	0.4	-4.3	6.0	1.3
2014		-0.1	1.0	-3.5	1.7	1.5	5.3	0.4	0.9	-0.4	1.1	1.9	0.1
2015		0.1	4.3	8.1	2.6	3.4	8.3	1.9	1.1	1.1	3.2	1.9	-0.2
2016		5.1	1.6	0.0	2.9	3.1	6.8	1.8	0.9	0.7	3.3	-0.8	-0.5
2017		5.8	5.0	5.1	1.9	3.2	5.6	2.3	0.6	-0.1	2.9	1.0	-0.2
2018		-0.8	2.3	8.3	2.5	3.3	3.8	3.1	0.1	-0.5	3.5	-1.9	-0.7
2017	I	9.0	3.6	4.8	1.4	2.7	5.6	1.7	0.7	0.1	2.4	1.5	-0.1
	II	9.5	5.6	5.2	1.7	3.3	7.7	1.8	1.1	0.3	2.9	2.5	-0.1
	III	4.5	5.5	4.3	2.1	3.3	4.9	2.7	0.4	0.6	3.1	1.1	-0.2
	IV	0.5	5.1	6.0	2.1	3.5	4.4	3.2	0.2	-1.5	3.3	-1.0	-0.5
2018	I	-1.6	4.1	6.5	2.0	2.9	4.4	2.4	0.4	-0.5	3.2	-2.1	-0.7
	II	-1.2	3.3	7.2	2.6	3.6	3.6	3.6	0.0	-1.2	4.8	-8.1	-1.6
	III	-1.1	2.1	7.4	2.4	3.3	3.5	3.2	0.1	-1.5	3.0	-0.4	-0.4
	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

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed.
Source: INE (Labour Force Survey).

Chart 11b 1.- Employment by sector

Annual percentage changes

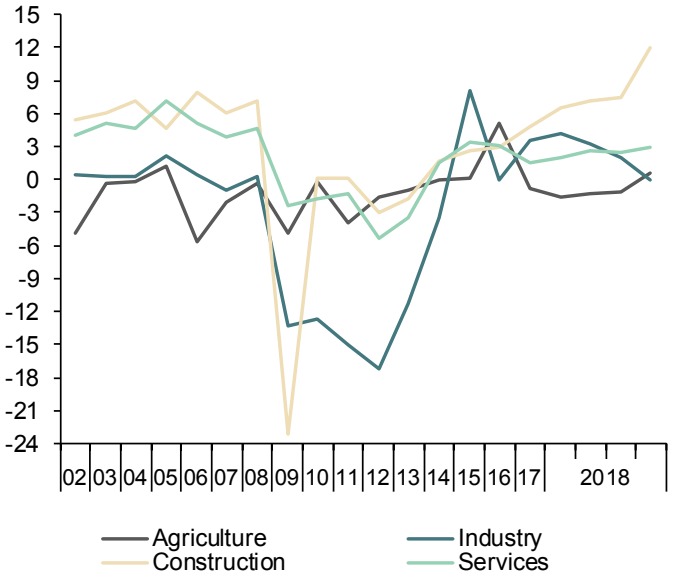


Chart 11b.2 - Employment by type of contract

Annual percentage changes and percentage over total employees

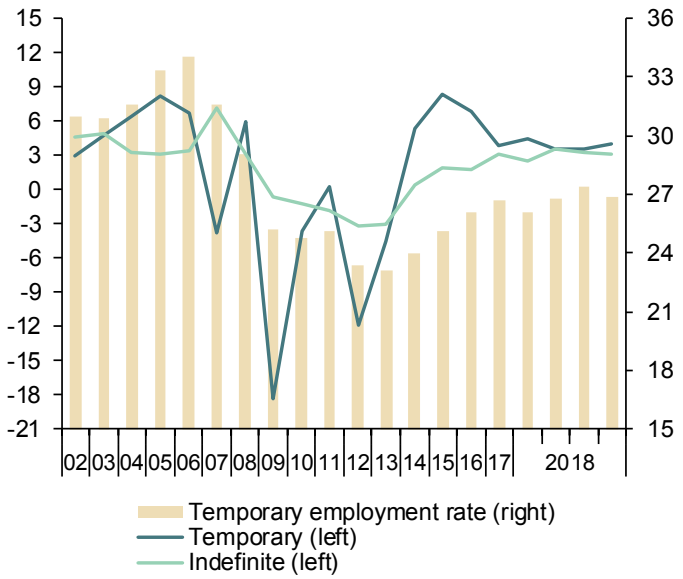


Table 12

Index of Consumer Prices

Forecasts in yellow

		Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed food	Energy	Food
				Total	Non-energy industrial goods	Services	Processed food			
% of total in 2018		100.00	66.27	80.76	25.15	41.12	14.49	7.29	11.95	21.78
					Indexes, 2016 = 100					
2012		99.5	97.6	97.1	99.0	96.8	94.9	93.9	121.2	94.6
2013		100.9	98.7	98.5	99.6	98.1	97.9	97.3	121.3	97.7
2014		100.7	98.7	98.6	99.2	98.3	98.2	96.0	120.3	97.6
2015		100.2	99.2	99.2	99.5	98.9	99.2	97.7	109.4	98.7
2016		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2017		102.0	101.1	101.1	100.2	101.6	100.7	102.6	108.0	101.3
2018		103.7	102.1	102.0	100.2	103.1	101.7	105.8	114.7	103.1
2019		104.8	103.1	103.0	100.4	104.7	102.4	108.2	116.1	104.3
					Annual percentage changes					
2012		2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013		1.4	1.1	1.4	0.6	1.4	3.1	3.6	0.0	3.2
2014		-0.2	0.0	0.0	-0.4	0.1	0.4	-1.2	-0.8	-0.1
2015		-0.5	0.5	0.6	0.3	0.7	0.9	1.8	-9.0	1.2
2016		-0.2	0.8	0.8	0.5	1.1	0.8	2.3	-8.6	1.3
2017		2.0	1.1	1.1	0.2	1.6	0.7	2.6	8.0	1.3
2018		1.7	0.9	0.9	0.0	1.5	1.0	3.1	6.1	1.8
2019		1.1	1.0	1.0	0.3	1.5	0.7	2.3	1.3	1.1
2018	Jan	0.6	0.8	0.8	-0.2	1.3	1.1	1.6	-1.7	1.3
	Feb	1.1	1.1	1.1	0.0	1.7	1.4	0.3	1.4	1.0
	Mar	1.2	1.1	1.2	-0.1	1.9	1.3	1.6	1.3	1.4
	Apr	1.1	0.7	0.8	0.0	1.1	1.4	2.0	2.3	1.6
	May	2.1	1.1	1.1	0.0	1.8	1.3	3.5	7.8	2.0
	Jun	2.3	1.0	1.0	-0.1	1.6	1.0	5.4	9.9	2.5
	Jul	2.2	0.9	0.9	0.0	1.5	0.8	4.0	11.2	1.9
	Aug	2.2	0.8	0.8	-0.1	1.3	0.7	4.6	11.1	2.0
	Sep	2.3	0.8	0.8	-0.1	1.3	0.8	3.7	12.0	1.8
	Oct	2.3	1.0	1.0	0.1	1.6	1.0	3.5	10.7	1.8
	Nov	1.7	0.9	0.9	0.1	1.5	0.6	3.5	6.4	1.5
	Dec	1.2	1.0	0.9	0.2	1.5	0.5	3.2	2.1	1.3
2019	Jan	1.0	0.9	0.8	0.1	1.4	0.4	2.3	1.5	1.0
	Feb	1.1	0.7	0.7	0.1	1.1	0.4	3.4	2.6	1.4
	Mar	1.4	0.7	0.7	0.2	1.1	0.4	2.8	6.0	1.2
	Apr	1.5	1.1	1.0	0.2	1.6	0.4	2.7	4.6	1.1
	May	0.9	0.9	0.8	0.2	1.4	0.4	2.0	0.6	0.9
	Jun	0.9	1.0	0.9	0.2	1.5	0.5	1.2	0.7	0.8
	Jul	1.0	1.1	1.0	0.3	1.6	0.8	1.9	0.6	1.2
	Aug	1.0	1.1	1.1	0.4	1.6	0.8	1.7	-0.3	1.1
	Sep	0.9	1.2	1.1	0.4	1.7	1.0	2.3	-1.7	1.4
	Oct	0.8	1.1	1.1	0.3	1.6	0.9	2.5	-2.4	1.4
	Nov	1.1	1.1	1.1	0.3	1.6	1.2	2.5	0.1	1.6
	Dec	1.6	1.1	1.1	0.3	1.6	1.3	2.6	4.2	1.7

Source: INE and Funcas (Forecasts).

Chart 12.1 - Inflation Rate (I)

Annual percentage changes

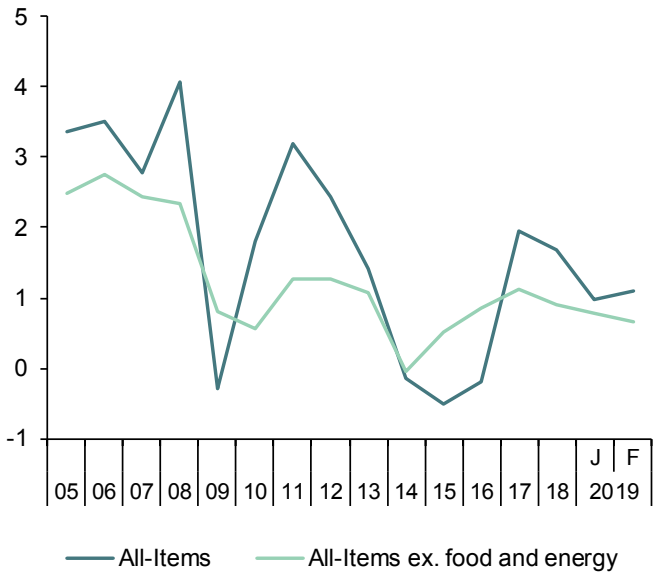


Chart 12.2 - Inflation rate (II)

Annual percentage changes

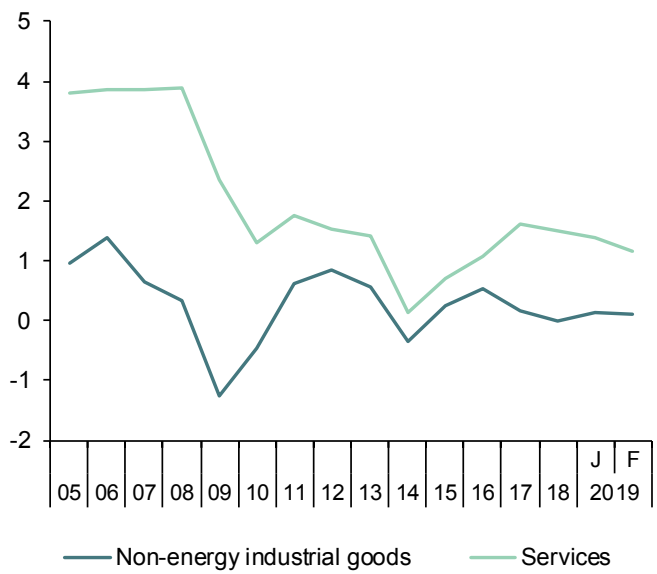


Table 13

Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increase agreed in collective bargaining
		Total	Excluding energy	Housing Price Index (INE)	m^2 average price (M. Public Works)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	2010=100	2015=100		2007=100			2000=100				
2012	100.1	102.9	99.8	72.0	77.2	65.4	143.6	141.1	151.3	154.7	--
2013	100.5	103.5	100.5	64.3	72.7	55.1	143.8	141.1	152.2	155.2	--
2014	100.3	102.1	99.7	64.5	71.0	52.6	143.3	140.9	150.7	155.5	--
2015	100.8	100.0	100.0	66.8	71.7	54.9	144.2	142.5	149.6	156.5	--
2016	101.1	96.9	99.6	70.0	73.1	57.8	143.6	142.1	148.3	156.3	--
2017	102.3	101.1	101.9	74.3	74.8	58.2	144.0	142.3	149.1	156.3	--
2018	103.3	104.1	103.0	79.3	77.4	57.6	143.2	140.8	150.6	155.8	--
2019 (b)	--	104.4	103.0	--	--	--	--	--	--	--	--
2017 II	102.3	100.4	101.9	73.8	74.4	59.7	146.1	145.5	148.1	154.2	--
III	102.4	100.5	102.0	75.2	74.9	58.2	138.7	135.5	148.7	159.0	--
IV	103.1	102.1	102.2	75.8	75.8	54.9	150.9	151.3	149.5	164.9	--
2018 I	102.6	102.2	102.9	76.9	76.2	58.5	141.2	138.1	150.7	148.7	--
II	103.1	103.4	103.1	78.8	77.2	58.5	147.0	146.2	149.6	155.6	--
III	103.3	105.6	103.1	80.5	77.3	55.7	141.3	138.0	151.4	163.3	--
IV	103.9	105.2	103.0	80.9	78.7	--	--	--	--	--	--
2019 I (b)	--	104.4	103.0	--	--	--	--	--	--	--	
2018 Nov	--	105.2	103.1	--	--	--	--	--	--	--	--
Dec	--	104.1	102.8	--	--	--	--	--	--	--	--
2019 Jan	--	104.4	103.0	--	--	--	--	--	--	--	--
Annual percent changes (c)											
2012	0.1	3.8	1.7	-13.7	-8.7	-6.4	-0.6	-0.6	-0.8	-0.1	1.0
2013	0.4	0.6	0.7	-10.6	-5.8	-15.7	0.2	0.0	0.6	0.3	0.5
2014	-0.2	-1.3	-0.8	0.3	-2.4	-4.6	-0.3	-0.1	-1.0	0.2	0.5
2015	0.5	-2.1	0.3	3.6	1.1	4.3	0.6	1.1	-0.7	0.6	0.7
2016	0.3	-3.1	-0.4	4.7	1.9	5.3	-0.4	-0.3	-0.8	-0.2	1.0
2017	1.2	4.4	2.3	6.2	2.4	0.8	0.2	0.1	0.5	0.0	1.4
2018	0.9	3.0	1.1	6.7	3.4	-3.0	1.1	1.0	1.1	1.5	1.8
2019 (d)	--	1.8	0.3	--	--	--	--	--	--	--	2.2
2017 II	1.3	4.8	2.5	5.6	2.0	1.8	-0.1	0.0	-0.3	-0.1	1.3
III	1.2	3.3	2.1	6.6	1.8	7.4	0.4	0.3	0.7	-0.3	1.4
IV	1.8	2.6	2.1	7.2	0.9	-10.9	0.7	0.5	1.5	0.7	1.4
2018 I	1.1	0.8	1.4	6.2	1.4	-2.6	0.7	0.8	0.3	1.0	1.5
II	0.8	3.0	1.1	6.8	2.6	-2.1	0.6	0.5	1.0	0.9	1.6
III	1.0	5.0	1.1	7.2	2.2	-4.3	1.9	1.9	1.9	2.7	1.7
IV	0.8	3.1	0.8	6.6	0.4	--	--	--	--	--	1.8
2019 I (e)	--	1.8	0.3	--	--	--	--	--	--	--	--
2018 Nov	--	2.9	0.9	--	--	--	--	--	--	--	1.7
Dec	--	1.7	0.5	--	--	--	--	--	--	--	1.8
2019 Jan	--	1.8	0.3	--	--	--	--	--	--	--	2.2

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

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

Chart 13.1 - Housing and urban land prices

Index (2007=100)

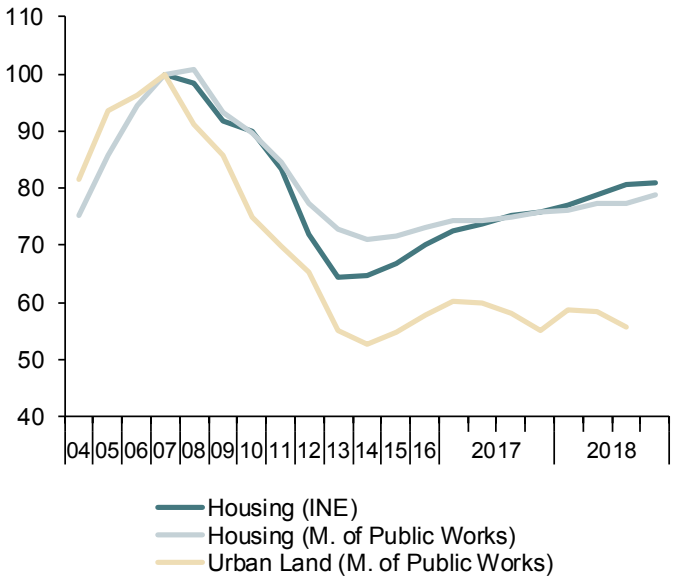


Chart 13.2 - Wage costs

Annual percent change

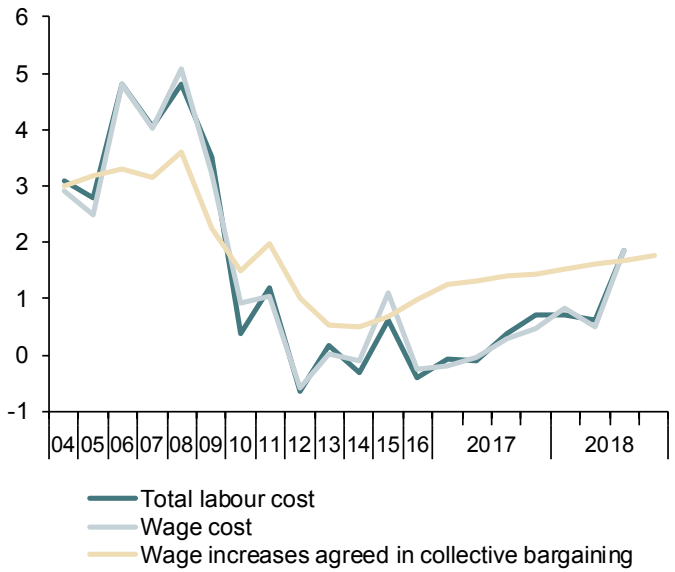


Table 14

External trade (a)

		Exports of goods			Imports of goods			Exports to EU countries (monthly average)	Exports to non-EU countries (monthly average)	Total Balance of goods (monthly average)	Balance of goods excluding energy (monthly average)	Balance of goods with EU countries (monthly average)
		Nominal	Prices	Real	Nominal	Prices	Real					
		2005=100			2005=100			EUR Billions				
2012		145.9	110.7	131.8	110.7	114.7	96.6	11.9	6.9	-2.7	1.2	1.0
2013		152.1	110.5	137.7	108.3	109.8	98.6	12.3	7.3	-1.4	2.1	1.4
2014		155.2	109.4	141.8	114.0	107.3	106.3	12.7	7.3	-2.1	1.1	0.9
2015		161.2	110.1	146.4	118.0	104.6	112.8	13.5	7.3	-2.1	0.2	0.6
2016		165.4	108.2	152.9	117.5	101.3	116.0	14.2	7.2	-1.4	0.3	1.2
2017		178.2	108.9	163.7	129.8	106.1	122.3	15.1	7.9	-2.2	0.0	1.3
2018		185.4	112.1	165.4	137.5	110.9	124.0	15.6	8.2	-2.8	-0.3	1.3
2017	I	177.7	108.5	163.8	131.1	107.2	122.3	15.2	7.6	-2.6	0.1	1.2
	II	180.1	107.7	167.1	127.6	104.6	121.9	15.2	7.9	-1.6	0.4	1.7
	III	179.2	108.8	164.6	130.3	105.1	124.0	14.8	8.1	-2.2	-0.2	1.1
	IV	185.3	110.2	168.1	133.0	107.5	123.8	15.6	8.1	-2.0	0.1	1.4
2018	I	184.9	110.9	166.8	135.0	108.2	124.8	15.7	8.0	-2.4	0.1	1.4
	II	183.9	111.3	165.3	136.7	109.1	125.3	15.5	8.1	-2.8	-0.4	1.1
	III	186.3	112.7	165.4	138.5	112.5	123.1	15.6	8.3	-2.9	-0.3	1.3
	IV	186.4	113.5	164.2	139.7	113.7	122.9	15.6	8.3	-3.1	-0.3	1.3
2018	Oct	192.1	114.4	167.9	145.1	114.2	127.1	16.0	8.6	-3.4	-0.1	1.5
	Nov	185.9	114.2	162.8	138.5	114.1	121.3	15.4	8.5	-2.9	-0.5	1.0
	Dec	181.2	111.9	161.9	135.5	112.7	120.2	15.4	7.9	-3.0	-0.3	1.5
		Percentage changes (b)								Percentage of GDP		
2012		5.1	2.1	2.9	-2.0	4.7	-6.3	0.5	14.1	-3.1	1.4	1.2
2013		4.3	-0.2	4.5	-2.2	-4.2	2.1	3.1	6.3	-1.6	2.5	1.7
2014		2.0	-0.9	3.0	5.2	-2.3	7.7	3.5	-0.4	-2.4	1.3	1.0
2015		3.8	0.6	3.2	3.5	-2.5	6.1	5.8	0.4	-2.3	0.2	0.7
2016		2.6	-1.7	4.4	-0.4	-3.1	2.8	5.3	-2.3	-1.6	0.3	1.2
2017		7.7	0.7	7.0	10.5	4.7	5.5	6.5	10.1	-2.3	0.0	1.3
2018		3.2	3.0	0.2	5.4	4.5	0.9	2.6	3.3	-2.8	-0.3	1.3
2017	I	15.9	-1.1	17.2	30.7	12.9	15.8	4.5	2.4	-2.7	0.1	1.3
	II	5.5	-2.7	8.4	-10.4	-9.1	-1.4	0.3	3.4	-1.6	0.4	1.7
	III	-2.0	4.1	-5.9	8.8	1.7	7.0	-2.4	3.1	-2.3	-0.2	1.1
	IV	14.5	5.3	8.7	8.7	9.4	-0.7	5.4	-0.1	-2.0	0.1	1.4
2018	I	-0.9	2.3	-3.1	6.2	2.6	3.5	0.6	-1.7	-2.4	0.1	1.4
	II	-2.1	1.4	-3.5	4.9	3.5	1.4	-1.7	1.9	-2.8	-0.4	1.1
	III	5.2	5.1	0.1	5.5	13.1	-6.7	0.7	2.4	-2.9	-0.3	1.3
	IV	0.2	3.1	-2.7	3.3	4.1	-0.7	0.2	-0.2	-3.0	-0.3	1.3
2018	Oct	2.6	-1.3	3.9	-1.6	-0.4	-1.2	4.6	-1.1	--	--	--
	Nov	-4.6	2.5	-7.0	-3.5	1.8	-5.2	-6.4	-1.1	--	--	--
	Dec	5.6	0.3	5.3	7.8	0.4	7.5	6.2	4.3	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data.

Source: Ministry of Economy.

Chart 14.1 - External trade (real)

Percent change from previous period

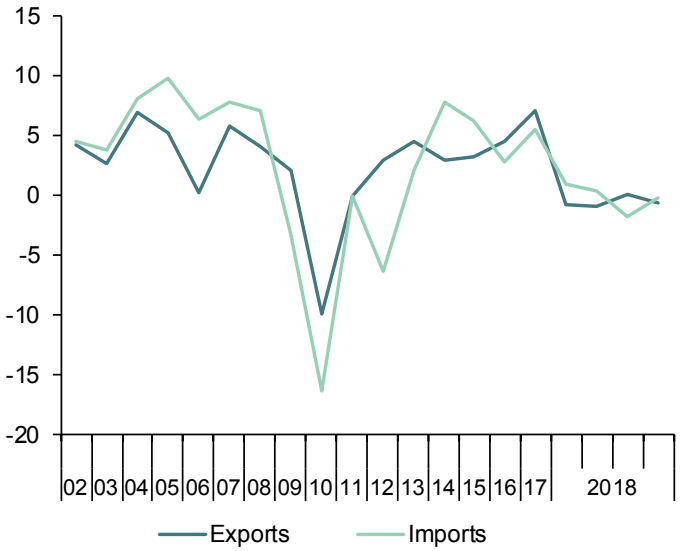


Chart 14.2 - Trade balance

EUR Billions, moving sum of 12 months

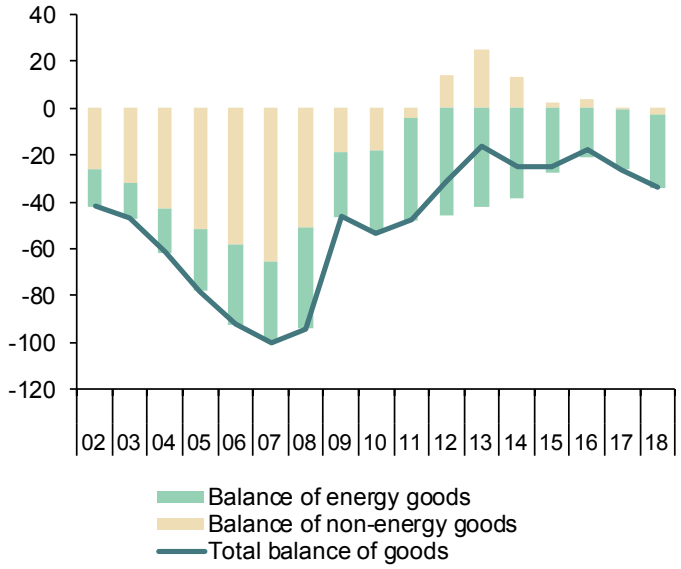


Table 15

Balance of Payments (according to IMF manual)

(Net transactions)

		Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
		Total	Goods	Services	Primary Income	Secondary Income			Financial account, excluding Bank of Spain					Bank of Spain	
									Total	Direct investment	Porfolio investment	Other investment	Financial derivatives		
		1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions															
2012		-2.40	-29.25	45.25	-7.01	-11.39	5.18	2.77	170.51	-21.12	55.40	144.57	-8.35	-168.76	-1.02
2013		15.59	-14.01	47.78	-5.29	-12.89	6.58	22.17	-84.89	-18.54	-52.99	-14.40	1.04	118.19	11.13
2014		11.22	-22.22	47.89	-3.37	-11.09	5.05	16.27	-15.39	6.48	-5.44	-17.71	1.28	27.49	-4.17
2015		12.55	-21.59	47.51	-2.90	-10.47	7.07	19.62	-1.59	-8.51	16.12	-9.14	-0.06	1.49	-19.72
2016		25.25	-15.27	51.24	1.06	-11.78	2.54	27.79	29.47	19.04	-3.22	15.11	-1.46	-23.38	-21.70
2017		21.51	-21.84	55.47	-1.21	-10.91	2.68	24.19	57.63	6.75	35.97	17.91	-3.00	-48.27	-14.83
2018 (a)		-5.36	-23.42	33.02	-5.70	-9.27	2.33	-3.04	54.26	28.14	15.70	12.24	-1.83	-32.56	24.73
2016	IV	9.92	-4.95	11.78	5.84	-2.75	0.94	10.86	14.83	1.01	21.01	-8.13	0.93	-12.46	-8.49
2017	I	-1.37	-6.21	8.83	-0.46	-3.53	0.41	-0.96	-21.54	-4.55	-36.87	20.80	-0.93	16.35	-4.24
	II	5.81	-3.42	15.26	-3.56	-2.47	0.57	6.38	5.13	-4.97	31.97	-21.81	-0.07	-2.40	-3.65
	III	6.66	-7.26	19.09	-1.84	-3.33	0.55	7.21	-13.81	14.99	-21.56	-8.57	1.34	26.00	4.99
	IV	10.41	-4.96	12.29	4.66	-1.58	1.16	11.57	10.31	3.46	-4.80	12.61	-0.96	-14.79	-16.06
2018	I	-4.16	-6.39	6.79	-0.73	-3.83	0.75	-3.41	14.08	14.46	0.96	-0.87	-0.47	-8.82	8.67
	II	-1.04	-6.96	11.25	-3.44	-1.88	0.88	-0.16	5.08	1.11	0.62	3.38	-0.03	0.24	5.48
	III	-0.17	-10.07	14.99	-1.52	-3.56	0.70	0.53	32.62	6.53	-2.15	27.97	0.27	-16.79	15.30
	IV	--	--	--	--	--	--	--	2.48	6.04	16.28	-18.23	-1.61	-7.19	-4.71
			Goods and Services		Primary and Secondary Income										
2018	Oct	1.87	3.60		-1.73		0.21	2.08	4.15	10.29	6.68	-12.47	-0.36	-0.64	1.44
	Nov	3.48	2.73		0.76		0.29	3.78	9.03	-0.29	-0.29	10.11	-0.51	-2.77	2.49
	Dec	5.06	1.00		4.06		0.66	5.72	9.07	2.66	-8.95	15.98	-0.62	-0.49	2.86
Percentage of GDP															
2012		-0.2	-2.8	4.4	-0.7	-1.1	0.5	0.3	16.4	-2.0	5.3	13.9	-0.8	-16.2	-0.1
2013		1.5	-1.4	4.7	-0.5	-1.3	0.6	2.2	-8.3	-1.8	-5.2	-1.4	0.1	11.5	1.1
2014		1.1	-2.1	4.6	-0.3	-1.1	0.5	1.6	-1.5	0.6	-0.5	-1.7	0.1	2.6	-0.4
2015		1.2	-2.0	4.4	-0.3	-1.0	0.7	1.8	-0.1	-0.8	1.5	-0.8	0.0	0.1	-1.8
2016		2.3	-1.4	4.6	0.1	-1.1	0.2	2.5	2.6	1.7	-0.3	1.4	-0.1	-2.1	-1.9
2017		1.8	-1.9	4.8	-0.1	-0.9	0.2	2.1	4.9	0.6	3.1	1.5	-0.3	-4.1	-1.3
2018 (a)		-0.6	-2.6	3.7	-0.6	-1.0	0.3	-0.3	6.1	3.2	1.8	1.4	-0.2	-3.7	2.8
2016	IV	3.4	-1.7	4.0	2.0	-0.9	0.3	3.7	5.1	0.3	7.2	-2.8	0.3	-4.3	-2.9
2017	I	-0.5	-2.2	3.2	-0.2	-1.3	0.1	-0.3	-7.8	-1.6	-13.3	7.5	-0.3	5.9	-1.5
	II	2.0	-1.2	5.2	-1.2	-0.8	0.2	2.2	1.7	-1.7	10.8	-7.4	0.0	-0.8	-1.2
	III	2.3	-2.5	6.6	-0.6	-1.2	0.2	2.5	-4.8	5.2	-7.5	-3.0	0.5	9.0	1.7
	IV	3.4	-1.6	4.0	1.5	-0.5	0.4	3.8	3.4	1.1	-1.6	4.1	-0.3	-4.8	-5.3
2018	I	-1.4	-2.2	2.4	-0.3	-1.3	0.3	-1.2	4.9	5.0	0.3	-0.3	-0.2	-3.1	3.0
	II	-0.3	-2.3	3.7	-1.1	-0.6	0.3	-0.1	1.7	0.4	0.2	1.1	0.0	0.1	1.8
	III	-0.1	-3.4	5.0	-0.5	-1.2	0.2	0.2	11.0	2.2	-0.7	9.4	0.1	-5.6	5.1
	IV	--	--	--	--	--	--	--	0.8	1.9	5.2	-5.8	-0.5	-2.3	-1.5

(a) Period with available data.

Source: Bank of Spain.

Chart 15.1 - Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

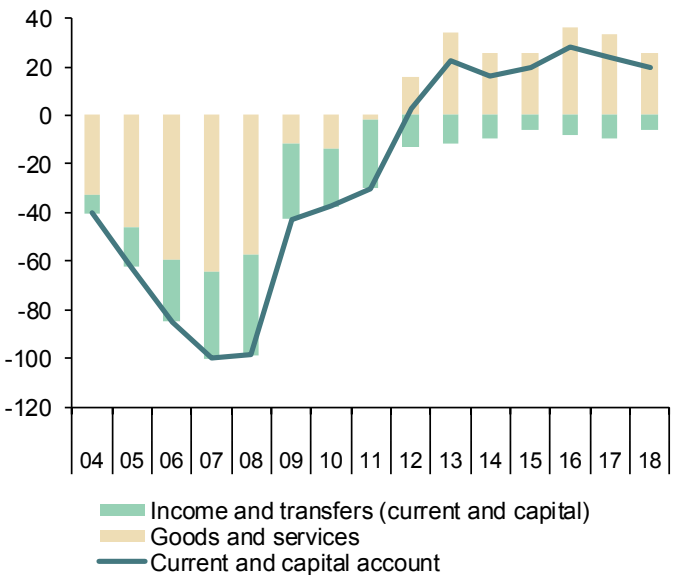


Chart 15.2 - Balance of payments: Financial account

EUR Billions, 12-month cumulated

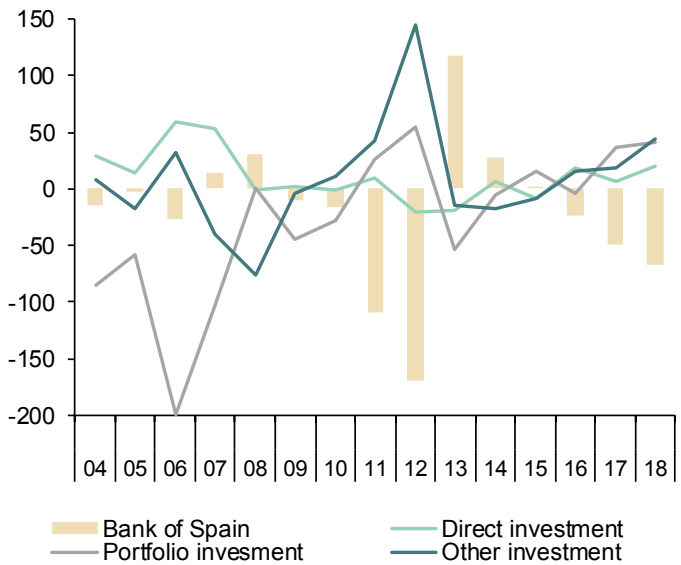


Table 16

Competitiveness indicators in relation to EMU

		Relative Unit Labour Costs in Manufacturing (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
		Relative hourly wages	Relative hourly productivity	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
		1998=100			2015=100			2015=100			1999 I =100
2012		103.6	90.0	115.1	99.3	98.2	101.1	102.9	104.6	98.3	111.7
2013		102.0	92.9	109.9	100.8	99.5	101.3	103.5	104.4	99.1	113.4
2014		100.1	92.9	107.7	100.6	100.0	100.7	102.1	102.8	99.3	112.4
2015		98.1	90.1	108.9	100.0	100.0	100.0	100.0	100.0	100.0	109.0
2016		97.1	88.0	110.4	99.7	100.3	99.4	96.9	97.9	98.9	108.9
2017		97.2	87.1	111.6	101.7	101.8	99.9	101.2	100.7	100.5	110.3
2018		96.3	86.4	111.4	103.5	103.6	99.9	103.8	103.3	100.4	111.0
2019 (a)		--	--	--	102.4	103.0	99.4	103.9	104.0	99.9	109.5
2017	I	--	--	--	100.7	101.0	99.7	101.4	100.7	100.7	109.2
	II	--	--	--	102.2	102.0	100.2	100.4	100.2	100.2	110.3
	III	--	--	--	101.3	101.8	99.5	100.8	100.4	100.3	110.4
	IV	--	--	--	102.6	102.4	100.2	102.2	101.4	100.8	111.4
2018	I	--	--	--	101.7	102.1	99.7	102.2	102.1	100.1	110.7
	II	--	--	--	104.1	103.8	100.3	103.2	102.8	100.4	111.6
	III	--	--	--	103.6	104.1	99.5	105.0	104.0	100.9	110.7
	IV	--	--	--	104.4	104.3	100.1	104.6	104.3	100.3	111.0
2018	Dec	--	--	--	104.0	104.1	100.0	103.7	103.7	100.0	110.7
2019	Jan	--	--	--	102.3	103.0	99.3	103.9	104.0	99.9	109.5
	Feb	--	--	--	102.5	--	--	--	--	--	--
		Annual percentage changes					Differential	Annual percentage changes		Differential	Annual percentage changes
2012		-1.0	1.3	-2.3	2.4	2.5	-0.1	3.8	2.9	0.9	2.3
2013		-1.5	3.2	-4.6	1.5	1.3	0.2	0.6	-0.2	0.8	1.5
2014		-1.9	0.0	-2.0	-0.2	0.4	-0.6	-1.3	-1.5	0.2	-0.9
2015		-2.0	-3.0	1.1	-0.6	0.0	-0.6	-2.0	-2.8	0.8	-3.0
2016		-1.0	-2.3	1.4	-0.3	0.3	-0.6	-3.1	-2.1	-1.0	-0.1
2017		0.1	-1.0	1.1	2.0	1.5	0.5	4.5	2.8	1.7	1.3
2018		--	--	--	1.7	1.7	0.0	2.5	2.6	-0.1	0.6
2019 (b)		--	--	--	1.1	1.4	-0.3	1.4	1.9	-0.5	0.3
2017	I	--	--	--	2.7	1.8	0.9	6.9	4.2	2.7	-0.1
	II	--	--	--	2.1	1.5	0.6	4.8	3.4	1.4	-0.3
	III	--	--	--	1.8	1.4	0.4	3.6	2.5	1.1	-1.4
	IV	--	--	--	1.6	1.4	0.2	2.7	2.3	0.4	-1.9
2018	I	--	--	--	1.1	1.1	0.0	0.8	1.4	-0.6	-3.4
	II	--	--	--	1.8	1.8	0.0	2.8	2.5	0.3	-3.3
	III	--	--	--	2.3	2.3	0.0	4.2	3.6	0.6	-2.8
	IV	--	--	--	1.8	1.8	0.0	2.4	2.8	-0.4	-2.5
2018	Dec	--	--	--	1.2	1.3	-0.1	1.2	1.8	-0.6	-0.6
2019	Jan	--	--	--	1.0	1.4	-0.4	1.4	1.9	-0.5	-1.0
	Feb	--	--	--	1.1	--	--	--	--	--	--

(a) Period with available data. (b) Growth of available period over the same period of the previous year.

Sources: Eurostat, Bank of Spain and Funcas.

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

1998=100

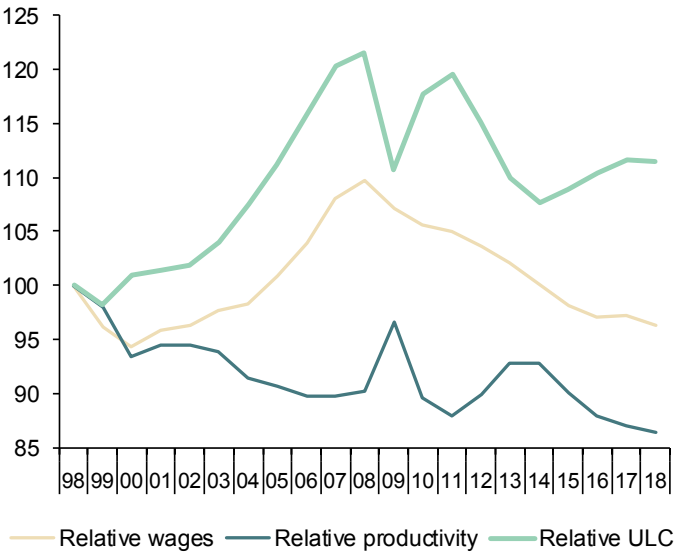


Chart 16.2.- Harmonized Consumer Prices

Annual growth in % and percentage points

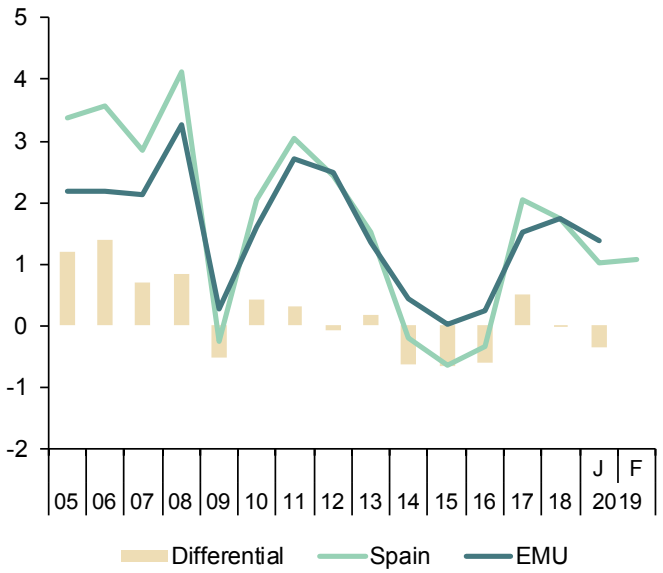


Table 17a

Imbalances: International comparison (I)

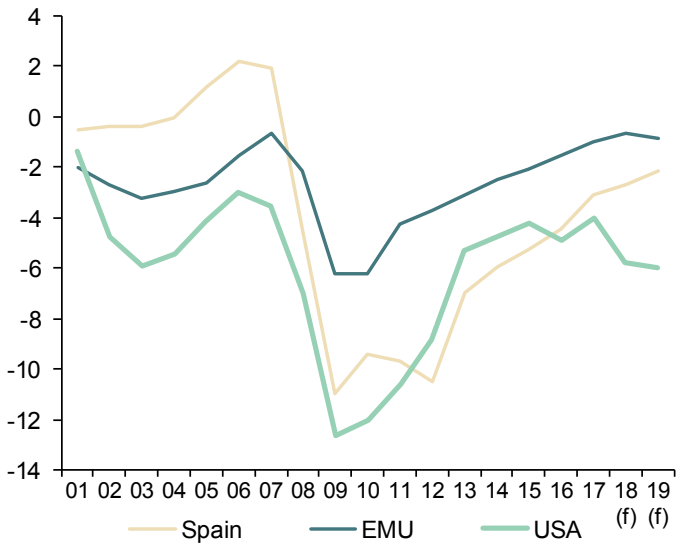
(In yellow: European Commission Forecasts)

	Government net lending (+) or borrowing (-)			Government consolidated gross debt			Current Account Balance of Payments (National Accounts)		
	Spain	EMU	USA	Spain	EMU	USA	Spain	EMU	USA
					Billions of national currency				
2006	22.2	-133.8	-411.6	392.1	6,003.4	8,879.5	-90.7	27.4	-594.0
2007	20.8	-63.2	-513.6	384.7	6,113.2	9,356.6	-104.1	18.6	-728.5
2008	-49.3	-208.7	-1,033.3	440.6	6,626.5	10,851.1	-102.9	-57.6	-866.1
2009	-118.2	-579.4	-1,827.4	569.5	7,364.4	12,541.3	-46.5	51.3	-564.3
2010	-101.4	-592.5	-1,797.7	650.1	8,099.9	14,316.0	-42.0	57.2	-497.7
2011	-103.2	-416.3	-1,646.6	744.3	8,564.5	15,512.8	-35.3	80.1	-412.4
2012	-108.8	-362.0	-1,430.7	891.5	9,021.7	16,726.4	-4.6	218.2	-206.8
2013	-71.7	-304.5	-894.0	979.0	9,334.8	17,592.7	15.0	273.4	-208.2
2014	-61.9	-252.5	-832.5	1,041.6	9,580.4	18,311.9	10.3	308.2	-76.6
2015	-57.0	-215.5	-765.2	1,073.9	9,698.4	19,080.1	11.4	352.5	-169.2
2016	-50.0	-168.5	-920.0	1,107.2	9,874.2	19,959.1	24.1	376.2	-318.9
2017	-35.9	-108.0	-781.6	1,144.4	9,962.4	20,498.5	22.4	444.4	-329.3
2018	-32.4	-73.2	-1,186.8	1,175.6	10,084.8	21,685.3	14.6	446.1	--
2019	-27.0	-100.2	-1,282.3	1,211.4	10,208.0	23,055.0	12.5	438.5	--
					Percentage of GDP				
2006	2.2	-1.5	-3.0	38.9	67.4	64.3	-9.0	0.3	-4.3
2007	1.9	-0.7	-3.6	35.6	65.0	64.7	-9.6	0.2	-5.0
2008	-4.4	-2.2	-7.0	39.5	68.7	73.8	-9.2	-0.6	-5.9
2009	-11.0	-6.2	-12.6	52.8	79.2	86.8	-4.3	0.6	-3.9
2010	-9.4	-6.2	-12.0	60.1	84.8	95.5	-3.9	0.6	-3.3
2011	-9.6	-4.2	-10.6	69.5	87.3	99.8	-3.3	0.8	-2.7
2012	-10.5	-3.7	-8.8	85.7	91.6	103.3	-0.4	2.2	-1.3
2013	-7.0	-3.1	-5.3	95.5	93.9	104.8	1.5	2.7	-1.2
2014	-6.0	-2.5	-4.8	100.4	94.2	104.5	1.0	3.0	-0.4
2015	-5.3	-2.0	-4.2	99.3	92.1	104.7	1.1	3.3	-0.9
2016	-4.5	-1.6	-4.9	99.0	91.2	106.7	2.2	3.5	-1.7
2017	-3.1	-1.0	-4.0	98.1	88.9	105.2	1.9	4.0	-1.7
2018	-2.7	-0.6	-5.8	96.9	86.9	105.8	1.2	3.8	--
2019	-2.1	-0.8	-6.0	96.2	84.9	107.3	1.0	3.6	--

Source: European Commission Forecasts, Autumn 2018.

Chart 17a.1 - Government deficit

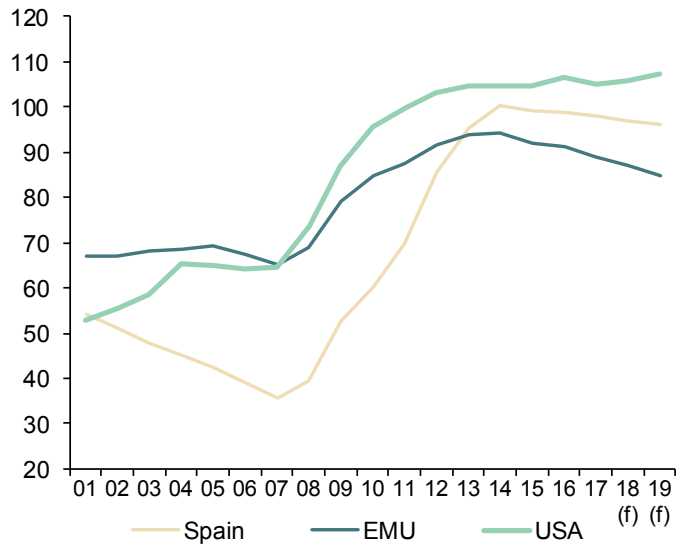
Percentage of GDP



(f) European Commission forecast.

Chart 17a.2 - Government gross debt

Percentage of GDP



(f) European Commission forecast.

Table 17b

Imbalances: International comparison (II)

	Household debt (a)			Non-financial corporations debt (a)		
	Spain	EMU	USA	Spain	EMU	USA
	Billions of national currency					
2005	656.2	4,764.5	12,034.5	925.0	6,968.1	8,172.1
2006	783.5	5,187.5	13,319.7	1,158.8	7,590.8	8,988.9
2007	879.3	5,555.5	14,242.5	1,344.5	8,353.3	10,114.8
2008	916.7	5,768.6	14,111.5	1,422.6	8,998.2	10,679.9
2009	908.9	5,876.1	13,952.8	1,406.1	9,078.0	10,165.1
2010	905.2	6,019.4	13,737.2	1,429.4	9,272.2	10,020.3
2011	877.9	6,103.4	13,588.6	1,415.7	9,654.5	10,278.0
2012	840.9	6,097.0	13,595.7	1,309.8	9,837.1	10,781.8
2013	793.3	6,052.1	13,729.2	1,230.6	9,837.7	11,264.9
2014	757.2	6,055.4	13,984.8	1,179.2	10,286.5	11,972.2
2015	733.8	6,120.4	14,173.1	1,154.5	10,834.2	12,780.2
2016	721.2	6,223.1	14,614.6	1,140.9	11,176.9	13,467.2
2017	712.7	6,381.4	15,158.7	1,126.1	11,353.4	14,393.3
2018	--	--	15,627.7	--	--	15,243.4
	Percentage of GDP					
2005	70.5	56.3	92.3	99.4	82.3	62.7
2006	77.7	58.2	96.4	115.0	85.2	65.1
2007	81.4	59.1	98.6	124.4	88.8	70.0
2008	82.1	59.8	95.9	127.4	93.4	72.6
2009	84.2	63.2	96.6	130.3	97.6	70.4
2010	83.7	63.0	91.6	132.2	97.1	66.8
2011	82.0	62.2	87.4	132.3	98.5	66.1
2012	80.9	61.9	83.9	126.0	99.9	66.6
2013	77.3	60.9	81.8	120.0	98.9	67.1
2014	73.0	59.5	79.8	113.6	101.1	68.3
2015	67.9	58.1	77.8	106.8	102.9	70.1
2016	64.5	57.5	78.1	102.0	103.2	72.0
2017	61.1	56.9	77.8	96.6	101.4	73.9
2018	--	--	76.2	--	--	74.4

(a) Loans and debt securities.

Sources: Eurostat and Federal Reserve.

Chart 17b.1 - Household debt

Percentage of GDP

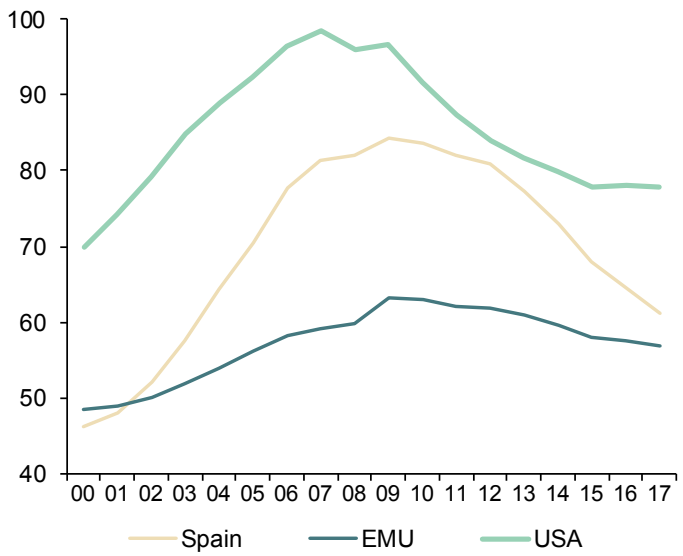
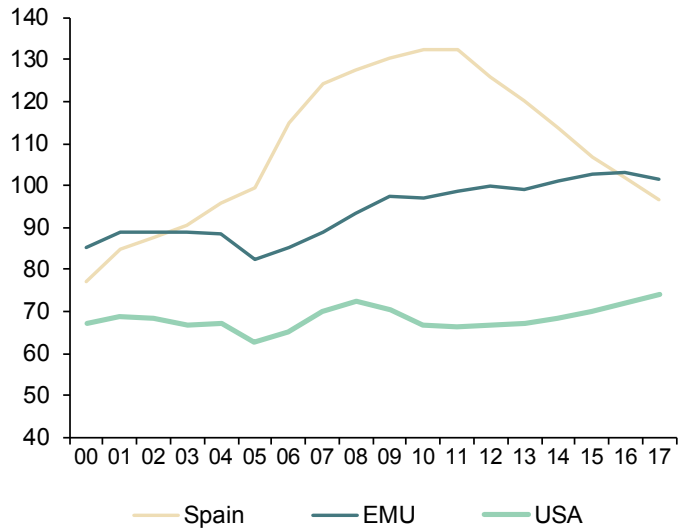


Chart 17b.2 - Non-financial corporations debt

Percentage of GDP



50 Financial System Indicators

Updated: February 28th, 2019

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-1.5	December 2018
Other resident sectors' deposits in credit institutions (monthly average % var.)	1.1	December 2018
Doubtful loans (monthly % var.)	-4.4	December 2018
Recourse to the Eurosystem L/T (Eurozone financial institutions, million euros)	723,814	January 2019
Recourse to the Eurosystem L/T (Spanish financial institutions, million euros)	167,296	January 2019
Recourse to the Eurosystem (Spanish financial institutions million euros) - Main refinancing operations	46	January 2019
"Operating expenses/gross operating income" ratio (%)	54.03	December 2017
"Customer deposits/employees" ratio (thousand euros)	6,532.25	December 2017
"Customer deposits/branches" ratio (thousand euros)	47,309.12	December 2017
"Branches/institutions" ratio	122.22	December 2017

A. Money and Interest Rates

Indicator	Source	Average 2001-2016	2017	2018	2019 January	2019 February	Definition and calculation
1. Monetary Supply (% chg.)	ECB	5.6	4.7	4.1	3.8	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	1.9	-0.329	-0.309	-0.308	-0.308	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	2.2	-0.186	-0.117	-0.109	-0.108	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.0	1.5	1.4	1.3	1.2	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	3.9	1.4	1.5	-	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

Comment on "Money and Interest Rates": Interbank rates have remained mostly unchanged in February. The 3-month interbank stayed at -0.308% and the 1-year Euribor increased to -0.108% from -0.109%. The ECB has reiterated its plans to change the stance of monetary policy, but has now stated that interest rates will not be increased until at least through the end of 2019, although it will act cautiously given the deceleration of the Eurozone economy. As for the Spanish 10-year bond yield, it fell to 1.2%.

B. Financial Markets

Indicator	Source	Average 2001-2015	2016	2017	2018 December	2019 January	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	44.4	102.6	54.60	119.00	187.32	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	76.1	55.1	27.60	66.41	104.06	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	1.2	0.4	3.46	0.17	0.41	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.4	1.9	4.76	1.84	2.36	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	1.7	0.0	-0.7	-0.50	-0.46	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	726.2	1,104.9	1,127.71	1,164.63	1,190.97	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average % chg.)	Bank of Spain and Madrid Stock Exchange	0.4	0.2	-1.3	-5.9	6.1	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	3.9	0.7	2.2	-5.3	6.8	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	1,018.0	943.6	1,055.4	911.8	936.4 (a)	Base 1985=100
15. Ibex-35 (Dec 1989=3000)	Bank of Spain and Madrid Stock Exchange	9,880.1	8,790.9	10,451.5	8,539.9	9,277.7 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	16.2	23.6	15.8	12.1	12.8 (a)	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (% chg.)	Bank of Spain and Madrid Stock Exchange	5.3	55.9	-	-	-	Variation for all stocks

B. Financial Markets (continued)

Indicator	Source	Average 2001-2015	2016	2017	2018 December	2019 January	Definition and calculation
18. Commercial paper. Trading balance (% chg.)	Bank of Spain and AIAF	1.6	0.1	-	-	-	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	2.2	0.0	-	-	-	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (% chg.)	Bank of Spain	1.4	-0.4	0.6	-6.14	4.70	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	10.6	5.8	5.8	58.5	-72.3	IBEX-35 shares concluded transactions

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

Comment on "Financial Markets": During January, there was an increase in transactions with outright spot T-bills to 187.3% and also of spot government bonds transactions to 104.1%. The stock market has improved in February with the IBEX-35 up to 9,278 points, and the General Index of the Madrid Stock Exchange to 936.

C. Financial Saving and Debt

Indicator	Source	Average 2008-2015	2016	2017	2018 Q2	2018 Q3	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-2.3	2.1	2.0	1.8	1.5	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	2.1	2.6	0.5	0.2	-0.1	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	261.5	297.0	287.4	285.8	282.8	Public debt. non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	64.6	64.4	61.3	60.8	59.7	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average % chg.)	Bank of Spain	0.5	0.6	3.8	2.9	-1.0	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average % chg.)	Bank of Spain	-1.5	1.1	-0.1	1.8	-1.2	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During 2018Q3, the financial savings to GDP in the overall economy fell to 1.5% of GDP. There was a decrease in the financial savings rate of households from 0.2% to -0.1%. The debt to GDP ratio fell to 59.7%. Finally, the stock of financial assets on households' balance sheets registered a decrease of 1%, and there was a 1.2% fall in the stock of financial liabilities.

D. Credit institutions. Business Development

Indicator	Source	Average 2001-2015	2016	2017	2018 November	2018 December	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	7.3	-4.1	-0.4	0.7	-1.5	Lending to the private sector percentage change for the sum of banks. savings banks and credit unions
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	7.8	-0.1	2.4	0.5	1.1	Deposits percentage change for the sum of banks. savings banks and credit unions
30. Debt securities (monthly average % var.)	Bank of Spain	9.5	-11.6	-3.7	0.5	-1.3	Asset-side debt securities percentage change for the sum of banks. savings banks and credit unions
31. Shares and equity (monthly average % var.)	Bank of Spain	10.7	-1.0	0.7	0.7	0.6	Asset-side equity and shares percentage change for the sum of banks. savings banks and credit unions
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-2.2	-4.5	-1.7	-2.8	-1.0	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	0.2	-3.6	-3.8	-0.6	-4.4	Doubtful loans. Percentage change for the sum of banks. savings banks and credit unions
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	-1.8	-22.2	-3.5	-1.2	7.8	Liability-side assets sold under repurchase. Percentage change for the sum of banks. savings banks and credit unions
35. Equity capital (monthly average % var.)	Bank of Spain	9.0	-0.3	-1.2	0.2	-0.6	Equity percentage change for the sum of banks, savings banks and credit unions

Comment on "Credit institutions. Business Development": The latest available data as of December 2018 show a decrease in bank credit to the private sector of 1.5%. Data also show an increase in financial institutions deposit-taking of 1.1%. Holdings of debt securities fell 1.3%. Doubtful loans decreased 4.4% compared to the previous month.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source	Average 2000-2014	2016	2017	2018 June	2018 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	195	124	122	122	122	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	74	82	83	82	81	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	243,544	189,280	187,472	187,472(a)	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,110	28,643	27,320	26,707	26,474	Total number of branches in the banking sector
40. Recourse to the Eurosystem: long term (total Eurozone financial institutions) (Euro millions)	Bank of Spain	-	527,317	726,540	754,505	723,814 (b)	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem: long term (total Spanish financial institutions) (Euro millions)	Bank of Spain	-	138,455	170,445	169,424	167,296(b)	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main refinancing operations (Euro millions)	Bank of Spain	22,682	1,408	96	35	46 (b)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: December 2017.

(b) Last data published: January 2019.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In January 2019, recourse to Eurosystem funding by Spanish credit institutions reached 167.3 billion euro.

MEMO ITEM: From January 2015, the ECB also offers information on the asset purchase programs. The amount borrowed by Spanish banks in these programs reached 338 billion euro in January 2019, and 2.6 trillion euro for the entire Eurozone banking system.

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

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

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

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

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During 2017, most of the profitability and efficiency indicators improved for Spanish banks. Productivity indicators have also improved since the restructuring process of the Spanish banking sector was implemented.

Social Indicators

Table 1

Population

Population										
	Total population	Average age	65 and older (%)	Life expectancy at birth (men)	Life expectancy at birth (women)	Dependency rate	Dependency rate (older than 64)	Foreign-born population (%)	New entries (all nationalities)	New entries (EU-27 born) (%)
2006	44,708,964	40.6	16.7	77.7	84.2	47.5	24.6	10.8	840,844	37.6
2008	46,157,822	40.8	16.5	78.2	84.3	47.5	24.5	13.1	726,009	28.4
2010	47,021,031	41.1	16.9	79.1	85.1	48.6	25.0	14.0	464,443	35.6
2012	47,265,321	41.6	17.4	79.4	85.1	50.4	26.1	14.3	370,515	36.4
2014	46,771,341	42.1	18.1	80.1	85.7	51.6	27.4	13.4	399,947	38.0
2015	46,624,382	42.4	18.4	79.9	85.4	52.4	28.0	13.2	455,679	36.4
2016	46,557,008	42.7	18.6	80.3	85.8	52.9	28.4	13.2	534,574	33.4
2017	46,572,132	42.9	18.8	80.4	85.7	53.2	28.8	13.3	637,375	39.3
2018	46,722,980	43.1	19.1			53.6	29.3	13.7		
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.

Table 2

Households and families

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

Table 2 (continued)

Households and families

	Fertility					
	Median age at first child, women	Total fertility rate (Spanish women)	Total fertility rate (Foreign women)	Births to single mothers (%)	Abortion rate	Abortion by Spanish-born women (%)
2006	29.3	1.31	1.69	28.4	10.6	
2008	29.3	1.36	1.83	33.2	11.8	55.6
2010	29.8	1.30	1.68	35.5	11.5	58.3
2012	30.3	1.27	1.56	39.0	12.0	61.5
2014	30.6	1.27	1.62	42.5	10.5	63.3
2015	30.7	1.28	1.66	44.4	10.4	65.3
2016	30.8	1.27	1.70	45.8	10.4	65.8
2017	30.9	1.24	1.70	46.8		
Sources	ID INE	ID INE	ID INE	ID INE	MSAN	MSAN

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

Marriage rate: Number of marriages per thousand population.

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

Divorce rate: Number of divorces per thousand population.

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

Table 3

Education

	Educational attainment				Students involved in non-compulsory education					Education expenditure	
	Population 16 years and older with primary education (%)	Population 30-34 with primary education (%)	Population 16 years and older with with tertiary education (%)	Population 30-34 with tertiary education (%)	Pre-primary education	Secondary education	Vocational training	Under-graduate students	Post-graduate studies (except doctorate)	Public expenditure (thousands of €)	Public expenditure (%GDP)
2006	32.9	8.4	15.6	25.3	1,557,257	630,349	445,455	1,405,894	16,636	42,512,586	4.22
2008	32.1	9.2	16.1	26.9	1,763,019	629,247	472,604	1,377,228	50,421	51,716,008	4.63
2010	30.6	8.6	17.0	27.7	1,872,829	672,213	555,580	1,445,392	104,844	53,099,329	4.91
2012	28.5	7.5	17.8	26.6	1,912,324	692,098	617,686	1,450,036	113,805	46,476,414	4.47
2014	24.4	6.1	27.2	42.3	1,840,008	690,738	652,846	1,364,023	142,156	44,846,415	4.32
2015	23.3	6.6	27.5	40.9	1,808,322	695,557	641,741	1,321,698	171,043	46,597,784	4.31
2016	22.4	6.6	28.1	40.7	1,780,377	687,595	652,471	1.303.252	190,143	47,578,997	4.25
2017	21.4	6.6	28.5	41.2	1,758,271•	675,990•	657,143•				
2018	20.5	6.4	29.2	42.4							
Sources	LFS	LFS	LFS	LFS	MECD	MECD	MECD	MECD	MECD	MECD	Contabilidad Nacional del INE

LFS: Labor Force Survey.

MECD: Ministerio de Educación, Cultura y Deporte.

INE: Instituto Nacional de Estadística.

• Provisional data.

Table 4

Social protection: Benefits

	Contributory benefits*							Non-contributory benefits			
		Retirement		Permanent disability		Widowhood		Social Security			
	Unemployment total	Total	Average amount (€)	Total	Average amount (€)	Total	Average amount (€)	Unemployment	Retirement	Disability	Other
2006	720,384	4,809,298	723	859,780	732	2,196,934	477	558,702	276,920	204,844	82,064
2008	1,100,879	4,936,839	814	906,835	801	2,249,904	529	646,186	265,314	199,410	63,626
2010	1,471,826	5,140,554	884	933,730	850	2,290,090	572	1,445,228	257,136	196,159	49,535
2012	1,381,261	5,330,195	946	943,296	887	2,322,938	602	1,327,027	251,549	194,876	36,310
2014	1,059,799	5,558,964	1000	929,484	916	2,348,388	624	1,221,390	252,328	197,303	26,842
2015	838,392	5,641,908	1,021	931,668	923	2,353,257	631	1,102,529	253,838	198,891	23,643
2016	763,697	5,731,952	1,043	938,344	930	2,364,388	638	997,192	254,741	199,762	21,350
2017	726,575	5,826,123	1,063	947,130	936	2,360,395	646	902,193	256,187	199,120	19,019
2018	751,172	5,929,471	1,091	951,838	946	2,359,931	664	853,437	256,842	196,375	16,472
2019■	859,155	6,000,191	1,130	954,031	971	2,361,540	707	920,813	257,043	194,987	15,671
Sources	BEL	BEL	BEL	BEL	BEL	BEL	BEL	BEL	IMSERSO	IMSERSO	IMSERSO

BEL: Boletín de Estadísticas Laborales.

IMSERSO: Instituto de Mayores y Servicios Sociales.

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

■ Data refer to January.

Table 5

Social protection: Health care

	Expenditure				Resources				Satisfaction		Patients on waiting list	
	Total (% GDP)	Public (% GDP)	Total expenditure ($ per inhabitant)	Public expenditure (per inhabitant)	Medical specialists per 1,000 inhabitants	Primary care doctors per 1,000 people 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
2006	7.76	5.62	2,391	1,732	1.6	0.7	2.8	0.6	5.6	7.0	70	54
2008	8.29	6.10	2,774	2,042	1.8	0.8	3.0	0.6	6.4	7.0	71	59
2010	9.01	6.74	2,886	2,157	1.8	0.8	3.2	0.6	6.6	7.3	65	53
2012	9.09	6.55	2,902	2,095	1.8	0.8	3.1	0.6	6.6	7.5	76	53
2014	9.08	6.36	3,057	2,140	1.8	0.8	3.1	0.7	6.3	7.5	87	65
2015	9.16	6.51	3,180	2,258	1.9	0.8	3.2	0.7	6.4	7.5	89	58
2016	8.98	6.34	3,248	2,293	1.9	0.8	3.3	0.6	6.6	7.6	115	72
2017	8.84	6.25	3,370	2,385		0.8		0.6	6.7	7.5	106	66
Sources	OECD	OECD	OECD	OECD	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS	INCLASNS

OECD: Organisation for Economic Co-operation and Development.

INCLASNS: Indicadores clave del Sistema Nacional del Salud.

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Notes

Orders or claims:

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

ISSN: 2254 - 3880
9772254388005

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