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SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1. FINANCIAL MARKETS

The financial markets evolution in the first two month period of the year was conditioned by the expectations of a possible interest rate rise by the Federal Reserve in its next meeting to be held in March, as well as by the political uncertainty in Europe and the US economic policy measures. In this context, the major stock indices on both sides of the Atlantic rebounded, European public debt yields increased and the euro appreciated slightly against the dollar.

The ECB maintains the interest rates and the monetary stimulus and revises the growth and inflation forecasts upwards

The Governing Council of the European Central Bank (ECB), on its meeting held on 9th March, decided to maintain the interest rates on the main financing operations, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. The Governing Council also announced that it expects the official interest rates to remain at the current levels, or lower, over an extended period. With regard to the non-conventional monetary policy measures, the Governing Council confirmed that it will continue making purchases under the asset purchase programme at their current level of 80 billion euros per month until the end of March and that, from April 2017, net purchases will continue at a pace of 60 billion euros per month until the end of December 2017, or until a later date if necessary. If the outlook was less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment of the inflation path, the Governing Council intends to increase the programme in terms of size and/or duration. Moreover, the ECB deleted from its statement the phrase about the Governing Council's willingness to act, if necessary, using all instruments available within its mandate to achieve the inflation target, and announced a slightly upward revision of the real GDP and inflation growth forecasts in the Eurozone for 2017 and 2018 as compared to the December forecasts.

The Fed maintains the interest rates and reaffirms the short-term increase expectations

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 31st January and 1st February, decided to maintain the target range for the Federal Funds rate at 0.50% to 0.75%. According to the statement that followed the meeting, labour market indicators have continued to improve, extending the strong creation of employment and the unemployment rate standing at minimum levels. In order to determine the timing and size of the forthcoming adjustments of the interest rate target range, the FOMC will assess the progresses in achieving the employment and inflation objectives, taking into account a wide range of information, including measures of labour market conditions, indicators of labour market, inflation pressures and inflation expectations, and the international context. Even though the uncertainty regarding the future rate increases is maintained after publishing the minutes of this meeting on the 22nd February, the expectations of a possible increase in the next FOMC meeting, scheduled for 14th and 15th March have increased.

The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 30th and 31st January, the Bank of Japan (BoJ) decided to keep the negative interest to current accounts that financial institutions hold at the Bank (-0.1%). Similarly, the BoJ decided to keep its asset purchase programme unchanged, expanding the monetary base at an annual pace of approximately 80 trillion yen, and the exchange-traded funds programme

(ETFs), which in the meeting held in July last year was increased to an annual pace of 6 trillion yen in its outstanding balance, in comparison to the previous 3.3 trillion.

Table 1.1. **Financial and monetary indicators**

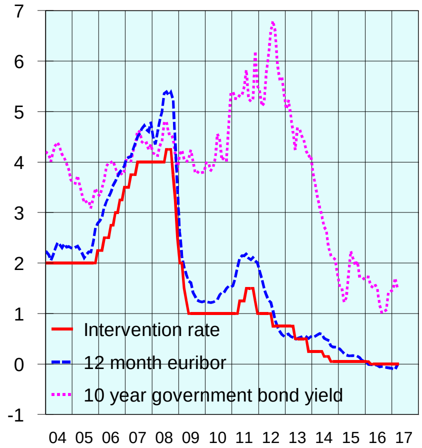
			2016				2017	
	2015	2016	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
A) Interest rates (percentages)[1]								
Official rates (2)								
Eurozone	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.50	0.75	0.50	0.50	0.50	0.75	0.75	0.75
Japan	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	-0.02	-0.26	-0.30	-0.31	-0.31	-0.32	-0.33	-0.33
12 months	0.17	-0.03	-0.06	-0.07	-0.07	-0.08	-0.10	-0.11
Debt market (3)								
3 years	0.36	0.07	-0.04	-0.05	0.11	0.04	-0.02	0.05
5 years	0.81	0.40	0.12	0.12	0.41	0.35	0.32	0.55
10 years	1.74	1.40	1.04	1.07	1.42	1.44	1.47	1.70
Bank rates (3)								
Loans and credit. Synthetic rate	2.94	2.67	2.65	2.75	2.64	2.44	2.68	-
Mortgage loans (households)	2.50	2.32	2.37	2.31	2.33	2.19	2.23	-
Deposits. Synthetic rate	0.29	0.15	0.11	0.10	0.11	0.09	0.09	-
B) Spreads (basis points)[1]								
Spain-Germany 10 years	120	125	110	104	119	114	113	138
USA-Germany 10 years	159	169	168	172	174	221	210	211
C) Eurozone monetary aggregates[4]								
M1	10.50	8.80	8.40	8.00	8.50	8.80	8.40	-
M2	5.20	4.80	5.00	4.60	4.90	4.80	4.70	-
M3	4.70	5.00	5.10	4.50	4.80	5.00	4.90	-
D) Exchange rates[1]								
Dollar/euro	1.110	1.107	1.121	1.103	1.080	1.054	1.061	1.064
% (4)	-11.8	-3.1	-0.1	-1.9	0.6	-3.1	-2.3	-4.4
Yen/euro	134.3	120.4	114.2	114.5	116.9	122.4	122.1	120.2
% (4)	-10.0	-7.5	-15.3	-15.1	-11.1	-7.5	-4.8	-6.7
Yen/dollar	121.0	108.9	101.9	103.8	108.3	116.1	115.1	112.9
%(4)	2.0	-4.6	-15.2	-13.5	-11.6	-4.6	-2.6	-2.4
Effective nominal euro rate	92.3	94.8	95.4	95.5	95.0	94.2	94.4	93.9
% (4)	-6.6	1.8	1.6	2.0	4.2	1.8	0.8	-1.2
E) Stock market indexes % [5]								
Madrid General Index	-7.4	-2.2	-8.4	-4.4	-9.4	-2.2	-0.1	2.2
IBEX 35	-7.2	-2.0	-8.0	-4.2	-9.0	-2.0	-0.4	2.2
Eurostoxx – 50	3.8	0.7	-8.1	-6.5	-6.6	0.7	-1.8	0.9
Dow Jones	-2.2	13.4	5.1	4.1	9.7	13.4	0.5	5.3
Standard & Poors 500	-0.7	9.5	6.1	4.0	7.6	9.5	1.8	5.6
Nikkei 225	9.1	0.4	-13.6	-8.5	-3.8	0.4	-0.4	0.0

(1) Average available daily data for each period. (2) At the end of each period. (3) Spanish market. (4) Year-on-year variation as %. For years. Dec./Dec. variation. (5) Percentage variation over the period of the year that has gone by.
Source: European Central Bank and Banco de España.

The BoE maintains the interest rates and the asset purchase programme

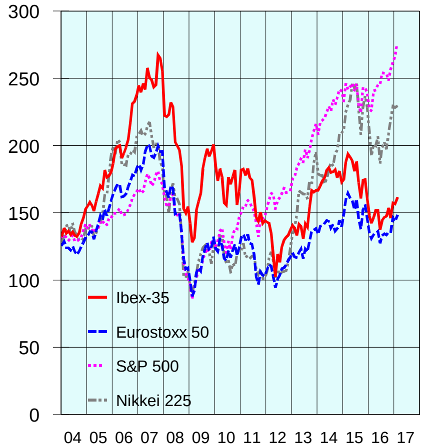
The Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 1st February, decided to keep the Official Bank Rate at 0.25% (in force since 3rd August last year) and to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion pounds and 10 billion, respectively.

G 1.1 INTEREST RATES
monthly averages (a)



(a) Except the corresponding ECB intervention rate at the end of each month.
Source: ECB and Banco de España.

G 1.2 STOCK EXCHANGE
last day of the month. January 2003 = 100



Source: Bolsa de Madrid, Nasdaq and Stoxx.

The 12 month Euribor remains negative

In the interbank market of the Eurozone, interest rates extended the downward path in the first two month period of the year. The continuation of the accommodative monetary policy by the ECB, caused a downward shift in the yield curve, standing the 1, 6 and 12-month Euribor on 3rd March at -0.371%, -0.237% and -0.113%, respectively (-0.368%, -0.221% and -0.082% in late last year). More specifically, the 12-month Euribor fall during this period is explained by the decrease in risk premiums required in this market, since the Euribor-OIS differential fell by 4 b.p., while the Overnight Index Swap (OIS), which indicates the rates expectations, increased 1 b.p. from the level recorded at the end of December last year.

European public debt yields increase

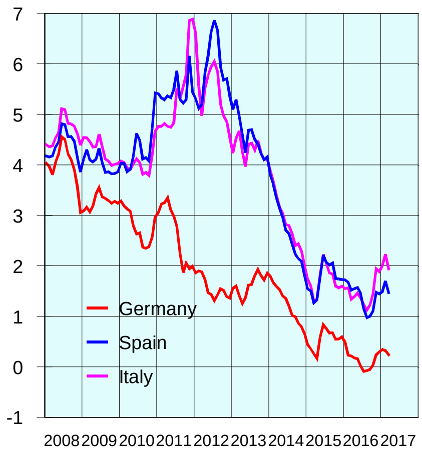
In the secondary public debt market, the higher expectations of an increase in the interest rates in the US, together with the increase in inflation in the Eurozone and the electoral uncertainty context in Europe, edged upwards the European yields, despite the ECB's extension of the monetary stimuli. Thus, the 10-year Spanish bond yield stood at 1.76% on 3rd March, 36 b.p. above the figure recorded on 30th December last year. On the other hand, the German bond yield rose 15 b.p. in the same period, up to 0.36%, the Spain-Germany differential standing at 140 b.p., 21 b.p. above the level recorded in late December last year. Meanwhile, the Spain-Italy differential stood at -35 b.p., compared to -42 b.p. recorded on 30th December.

Table 1.2. **Ten-years government bond yields**
% and basis points

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16	Jan-31-17	Mar-03-17	Variation in bp		Dec-30-16	Jan-31-17	Mar-03-17	Variation in bp	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.21	0.44	0.36	-8	15					
Holland	0.35	0.58	0.44	-14	9	14	14	8	-6	-6
Finland	0.35	0.62	0.47	-15	12	14	18	11	-7	-3
Austria	0.42	0.69	0.54	-15	12	21	25	18	-7	-3
Belgium	0.55	1.00	0.82	-18	27	34	56	46	-10	12
France	0.68	1.05	0.95	-10	27	47	61	59	-2	12
Ireland	0.77	1.18	1.00	-18	23	56	74	64	-10	8
Spain	1.40	1.64	1.76	12	36	119	120	140	20	21
Italy	1.82	2.27	2.11	-16	29	161	183	175	-8	14
Portugal	3.78	4.19	3.92	-27	14	357	375	356	-19	-1
Greece	7.11	7.82	7.09	-73	-2	690	738	673	-65	-17

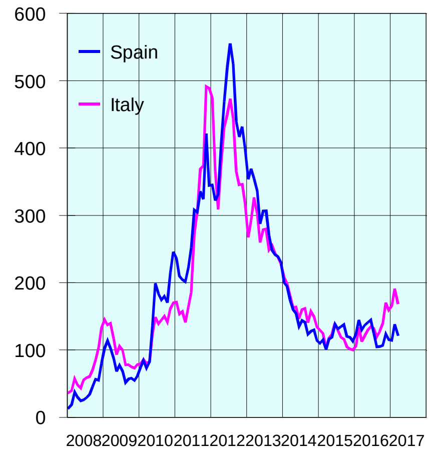
Source: Financial Times.

G 1.3 PUBLIC DEBT YIELDS (a)
monthly data in percentage



(a) For the 10-year Bond.
Source: Financial Times.

G 1.4 DIFFERENTIALS WITH GERMANY (a)
monthly data in basis points



(a) For the 10-year Bond.
Source: Financial Times.

Stock indices rebound in February

In the stock markets, the main indices on both sides of the Atlantic registered mixed results during January, in a context of volatility resulting from the uncertainty associated with the United Kingdom leaving the European Union and the future economic policy decisions in the United States. However, they edged upwards in February, driven by the expectations of fiscal stimuli in the United States, as well as by the favourable macroeconomic data and the business results, in a context of rising interest rate expectations in the United States. In Europe, the Eurostoxx 50 index rose by 3.4% during the period between 30th December 2016 and 3rd March this year. In Spain, the IBEX 35 presented a similar profile to that observed in the rest of

European indices, registering an increase of 4.8% in that period. In the US market, the S&P 500 index rose by 6.4%, in a context of expectations about the Fed gradually increasing interest rates.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level Mar-03-17	% Variation Jan-31-17	Dec-30-16
Germany	DAX	12,027.36	4.3	4.8
France	CAC 40	4,995.13	5.2	2.7
Italy	FTSE MIB	19,664.45	5.8	2.2
Spain	IBEX 35	9,798.50	5.2	4.8
Eurozone	EUROSTOXX 50	3,403.39	5.3	3.4
United Kingdom	FTSE 100	7,374.26	3.9	3.2
United States	S&P 500	2,383.12	4.6	6.4
Japan	NIKKEI 225	19,469.17	2.2	1.9
China	SHANGHAI COMP	3,218.31	1.9	3.7
Mexico	IPC	47,414.57	0.9	3.9
Brazil	BOVESPA	66,785.53	3.3	10.9
Argentina	MERVAL	19,265.45	1.1	13.9

Source: Bolsa de Madrid. Infobolsa. Stoxx and Financial Times.

The euro appreciates slightly against the dollar

With respect to the currency market, the euro exchange rate aganst the dollar registered a rising path in January, coinciding with the inflation rebound in the Eurozone, in a context of uncertainty regarding the future economic policy decisions in the United States. However, the euro edged downwards in February, partially offsetting the appreciation accumulated in the previous month, due to the electoral uncertainty in several European countries, as well as the rising expectations of an increase in the US interest rates in the short term. As a result, in the period between late December 2016 and early March this year, the euro appreciated by 0.2% and 0.9% against the dollar and the pound, respectively, and depreciated by 2.1% against the yen, trading at the end of the 3rd March session at 1.0565 dollars, 0.8636 pounds and 120.83 yen. In the same period, the euro depreciated by 0.6% in nominal effective terms.

The M3 broad monetary aggregate slows down slightly in January…

The M3 broad aggregate slowed down by one tenth in January 2017, registering a y-o-y increase of 4.9%, as a result of the growth rate moderation of marketable instruments (1.3 points, down to 7.5%) and overnight deposits (9.3%, compared to the 9.8% registered in the previous month), partially offset by the lower decline in other short-term deposits (-2.2%, compared to the –2.6% recorded in December) and the acceleration of currency in circulation (one tenth, up to 3.6% y-o-y).

Table 1.4. **Eurozone monetary aggregates**

Monetary aggregates	January 2017 Balance (Billions €)	% Year-on-year variation November 2016	December 2016	January 2017
1. Currency in circulation	1,082	3.8	3.5	3.6
2. Overnight deposits	6,156	9.4	9.8	9.3
M1 (= 1 + 2)	**7,238**	**8.5**	**8.8**	**8.4**
3. Other short-term deposits (= 3.1. + 3.2.)	3,508	-1.9	-2.6	-2.2
3.1. Term deposits up to two years	1,330	-5.5	-7.6	-6.8
3.2. Deposits redeemable at notice up to three months	2,178	0.6	0.7	0.8
M2 (= M1 + 3)	**10.746**	**4.9**	**4.8**	**4.7**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	691	3.1	8.8	7.5
4.1. Repurchase agreements	75	-15.8	-5.8	-7.3
4.2. Money market funds shares units	517	4.9	8.8	9.3
4.3. Securities other than shares up to two years	98	12.1	23.8	11.2
M3 (= M2 + 4)	**11,436**	**4.8**	**5.0**	**4.9**

Source: European Central Bank.

…while financing to the private sector in the Eurozone accelerates

The main counterpart to M3, the financing to the private sector in the Eurozone, accelerated by two tenths in January, up to 2.7% y-o-y, due to the higher growth of securities other than shares (7.0%, compared to the 6.2% registered in the previous month) and shares and other equity (3.0%, compared to the 0.7% recorded in the previous month), while the growth rate of loans stabilised at 2.2%. Within loans, those received by households increased by 2.4% in comparison to the same period last year, two tenths more versus December 2016, and those received by non-financial corporations moderated the growth rate by two tenths, to 1.7%.

Table 1.5. **Financing to private sector in the Eurozone (1)**

	January 2017 Balance (Billions €)	%Year-on-year variation November 2016	December 2016	January 2017
Financing to the private sector	**12,883**	**2.4**	**2.5**	**2.7**
Loans	**10,693**	**2.1**	**2.2**	**2.2**
Households	**5,423**	**2.1**	**2.2**	**2.4**
House purchases	*4,051*	*2.5*	*2.7*	*2.7*
Consumer credit	*619*	*3.6*	*3.9*	*4.1*
Other lending	*753*	*-1.2*	*-1.4*	*-0.8*
Non-financial corporations	**4,313**	**1.8**	**1.9**	**1.7**
Insurance companies & pension funds	**115**	**-6.7**	**-9.0**	**-8.6**
Other financial intermediaries	**842**	**4.2**	**5.3**	**4.5**
Securities other than shares	**1,403**	**7.4**	**6.2**	**7.0**
Shares and other equities	**787**	**-0.7**	**0.7**	**3.0**

(1) Assets of the Monetary Financial Institutions (MFI).
Source: European Central Bank.

The financing stock to the private sector in Spain moderates the y-o-y rate of decline in January…

The financing stock to the private non-financial sector in Spain moderated the y-o-y fall rate in January by two tenths, to 0.5%. This lower decrease is due to the evolution of the financing received by firms, which rose by 0.1% y-o-y, following the 0.2% fall of the previous month, which in turn is explained by the acceleration of the securities other than shares and foreign loans. On the other hand, financing received by households recorded a y-o-y rate of -1.4%, a figure identical to the one registered in the previous month, due to the fact that the acceleration of other bank loans offset the largest fall of bank loans for housing.

Table 1.6. **Financing to non-financial sectors resident in Spain**

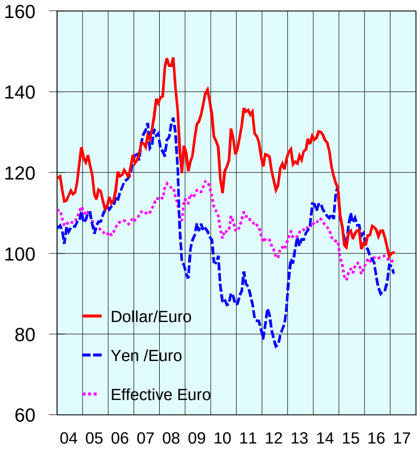
	January 2017 Balance (Billions €)	% Year-on-year variation		
		November 2016	December 2016	January 2017
Non-financial corporations and households	**1,615**	**-0.8**	**-0.7**	**-0.5**
Non-financial corporations	**905**	**-0.2**	**-0.2**	**0.1**
Bank loans	*526*	*-1.1*	*-1.0*	*-1.0*
Securities (1)	*91*	*1.0*	*4.5*	*7.5*
External loans	*288*	*1.2*	*0.0*	*0.1*
Households	**710**	**-1.6**	**-1.4**	**-1.4**
Bank loans. Housing	*542*	*-3.2*	*-3.0*	*-3.1*
Bank loans. Other	*168*	*3.6*	*4.2*	*4.5*
General Government	**-**	**2.5**	**3.0**	**-**
Total financing	**-**	**0.5**	**0.8**	**-**

(1) Other than shares.
Source: Banco de España.

…and new loan and credit operations to households and SMEs accelerate

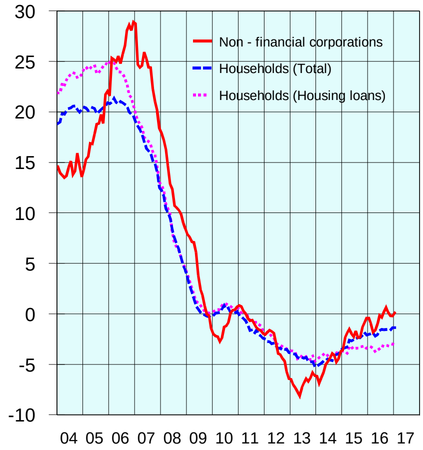
The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 7.4% y-o-y in January 2017, almost one point more compared to December 2016. This acceleration is due to the higher increase of credits for house purchases (6.5% versus 5% in the previous month) and to the lower fall recorded by credits for other purposes (-11.8% in comparison to the -12.4% registered in the previous month), partially offset by the slight slowdown of credit for consumption (two tenths, down to 28.2%). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose, in cumulative terms for the last twelve months up to January this year, by 3.1% y-o-y, 0.4 points more than in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 31.7% y-o-y, a drop 1.1 points lower than in December last year.

G 1.5 EXCHANGE RATES
monthly averages. January 2003 = 100



Source: European Central Bank (ECB).

G 1.6 CREDIT IN SPAIN
year on year percentage change



Source: Banco de España (BE).

2. DEMAND AND PRODUCTION

According to the latest Quarterly National Accounts data published by the INE corresponding to the fourth quarter of 2016, the Spanish economy extended the expansionary trend started in 2013, recording a significant growth, intensive in terms of job creation. The most recent short-term indicators show a positive trend, in a context of dynamism in the labour market and favourable financial conditions.

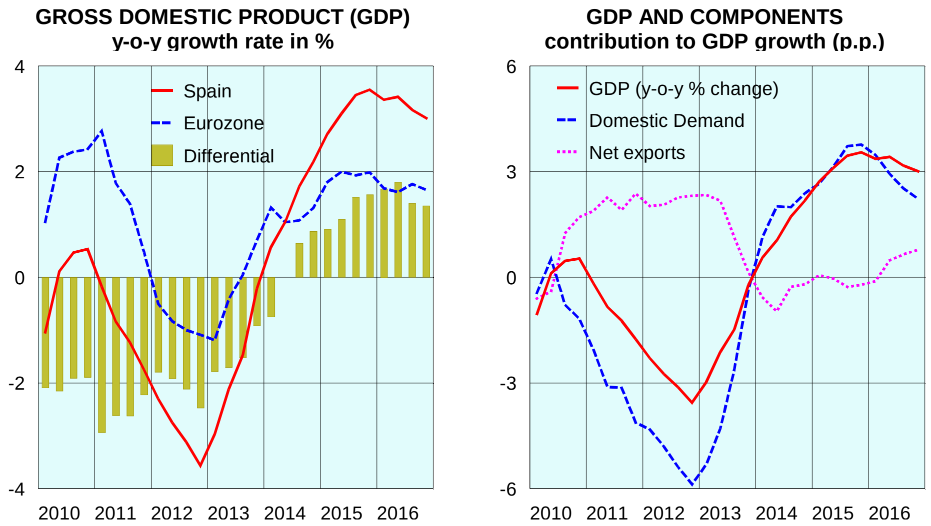
The Spanish economy grows by 3.2% in 2016, the same as in 2015

According to the Quarterly National Accounts results, the GDP, in volume, with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.7% in the fourth quarter of 2016, similar to the rate registered in the previous quarter, linking thirteen consecutive quarters of positive q-o-q rates. In y-o-y terms, the GDP grew by 3% in the fourth quarter, two tenths less than in the previous quarter.

The main economic growth driver continued to be the domestic demand, although the GDP composition is more balanced. The contribution of domestic demand to the y-o-y GDP growth moderated for the fourth consecutive quarter, reaching 2.2 percentage points, three tenths lower than the previous quarter. The contribution of net external demand was positive, as in the previous two quarters, reaching 0.8 percentage points, one tenth more than in the previous quarter. In line with the GDP evolution, the number of employees in terms of full-time equivalent employment grew by 2.7% y-o-y in the fourth quarter of 2016. This means the creation of almost half a million full time jobs in the last year.

With these figures, the real GDP ended 2016 with an average annual growth of 3.2%, a rate equal to the one recorded in 2015 and the highest since 2007. The growth composition is more balanced: domestic demand continues to be the main growth driver, contributing with 2.8 percentage points to the GDP growth, while the contribution of net external demand was 0.5 percentage points, after two years of negative contributions (-0.1 points in 2015), due to a slowdown in imports of goods and services steeper than in exports. Thus, in the past year both domestic and net external demand recorded positive contributions to the GDP growth for the first time since 2000.

G 2.1 QUARTERLY NATIONAL ACCOUNTS
Chain-linked volume. Seasonally and calendar adjusted data (sac)



Sources: INE (QNA-2010), seasonally and calendar adjusted data and Eurostat.

The most recent indicators of global activity for Spain point to the maintenance of a sustained growth

The most recent global activity short-term qualitative indicators point to a high dynamism of the activity in early 2017. Thus, the 1.3 points increase registered in February by the *Economic Sentiment Index* (ISE) published by the European Commission should be noted, reaching the level of 108.7 (1990-2016 average= 100), the highest since December 2015. This result is reflected in the improved confidence of most of its components, except in the retail and consumer sectors, where it worsened. In the Eurozone, the Economic Sentiment Indicator rose by one tenth in February in comparison to the previous month, reaching the level of 108, the highest since March 2011, so the Spanish differential improved by 1.2 points, from -0.5 points in January up to +0.7 points in February.

The *composite PMI*, published by Markit, points in the same direction, which reached the level of 57 in February, 2.3 points higher than the figure registered in the previous month, and the highest of the last eighteen months. On the other hand, the OECD *composite leading indicator* for Spain, designed to anticipate the turning points in the economic activity with regards to its trend, remained stable in January 2017 for the sixth consecutive month at 100.5, above its long term average (100=long term average) since November 2013. This indicator matches the one corresponding to the Eurozone and is above the indicator for the OECD countries as a whole (100), as it has been happening for more than three years.

Likewise, *total large firm sales*, with deflated, fixed-sample and calendar adjusted data, grew by 3.6% y-o-y in January, a rate one tenth higher compared to that of December. This was due to exports, which grew by 9.1% y-o-y, 2.8 points higher in comparison to the figure observed in the previous month, partially offset by the 0.7 points slowdown registered by domestic sales, down to 2.1% y-o-y.

2.1. - Domestic demand

Private consumption accelerates in 2016

Among the domestic demand components, the good performance of *Final Consumption Expenditure of Households and Non-profit Institutions Serving Households (NPISHs)* stands out, driven by the job creation as well as by the low interest rates context and the improvement of financing conditions. Thus, the y-o-y growth rate of private consumption remained stable in the fourth quarter of last year at 3%, contributing with 1.7 points to GDP growth, and ending 2016 with an average annual growth of 3.2%, three tenths higher than in 2015. In q-o-q terms, private consumption accelerated by two tenths, up to 0.8%.

Table 2.1. **Quarterly National Accounts**

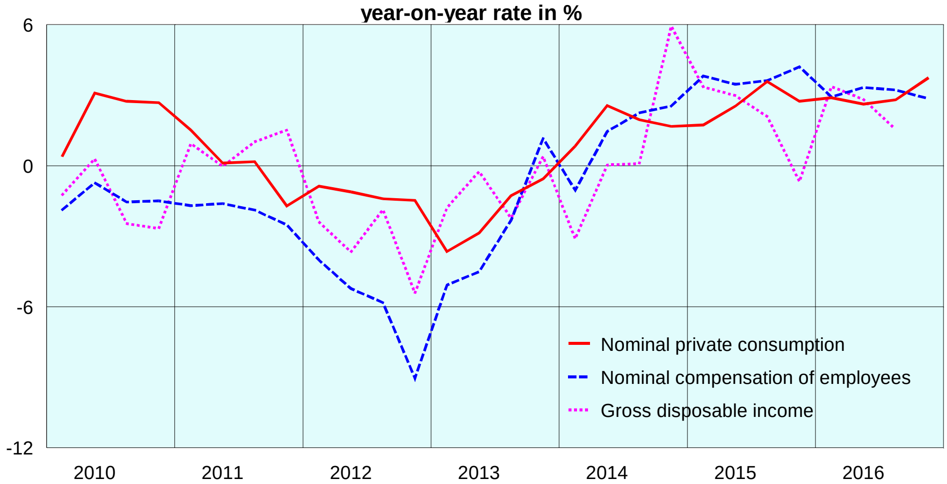
Chain-linked volume base 2010; corrected data from seasonal and calendar effects

				year-on-year change				q-o-q change	
	2014	**2015**	**2016**	**I-16**	**II-16**	**III-16**	**IV-16**	**III-16**	**IV-16**
DEMAND									
Domestic consumption	1.1	2.6	2.6	3.1	2.7	2.4	2.2	0.6	0.5
- Private consumption	1.6	2.9	3.2	3.6	3.4	3.0	3.0	0.6	0.8
- Public consumption	-0.3	2.0	0.8	1.7	0.7	0.8	0.0	0.5	-0.2
Gross fixed capital investment	3.8	6.0	3.1	4.3	3.4	2.6	2.2	-0.1	0.5
- Equipment (1)	8.1	8.8	5.0	7.4	5.7	4.2	2.6	0.1	0.0
- Construction	1.2	4.9	1.9	2.3	1.8	1.6	1.9	0.1	0.7
- Intelectual Property Products	3.5	3.6	2.9	4.0	3.2	2.0	2.4	-1.0	1.5
Change in inventories (2)	0.3	0.1	0.1	0.2	0.2	0.1	0.0	0.0	0.0
Domestic demand (2)	1.9	3.3	2.8	3.5	2.9	2.5	2.2	0.5	0.6
Exports of goods and services	4.2	4.9	4.4	3.8	6.5	2.9	4.4	-1.2	2.0
- Goods (fob)	3.6	4.4	3.0	2.2	6.0	1.0	3.0	-2.2	1.6
- Services	6.0	6.0	7.5	7.6	7.5	7.2	7.8	0.9	3.0
Imports of goods and services	6.5	5.6	3.3	4.5	5.4	1.0	2.3	-2.0	1.8
- Goods (fob)	6.3	5.8	1.7	3.3	4.6	-1.5	0.4	-3.5	1.9
- Services	7.1	4.6	10.7	10.5	9.1	12.6	10.4	4.7	1.6
Net foreign balance (2)	-0.5	-0.1	0.5	-0.1	0.5	0.7	0.8	0.2	0.1
GROSS VALUE ADDED									
Agriculture (3)	-1.6	-2.9	3.4	5.0	2.7	3.1	2.9	0.5	3.8
Industry. Total	1.8	5.5	2.4	2.7	2.8	1.7	2.2	0.2	1.3
- Manufacturing	3.1	7.0	3.1	4.4	3.8	2.4	2.0	0.3	0.7
Construction	-1.2	0.2	2.5	2.1	2.0	2.9	3.0	0.4	0.1
Services	1.4	2.6	3.4	3.4	3.6	3.4	3.1	0.8	0.5
GDP m.p.	**1.4**	**3.2**	**3.2**	**3.4**	**3.4**	**3.2**	**3.0**	**0.7**	**0.7**
GDP at current prices	1.1	3.7	3.6	3.3	3.8	3.3	3.7	0.5	1.3

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing.
Source: INE *(CNE-2010).*

The short-term indicators, in general, point to the continuation of the expansionary trend of private consumption in the first months of 2017, albeit at more moderate rates. Among the quantitative indicators, *domestic sales in large companies of consumer goods and services*, with deflated, fixed-sample and calendar adjusted data, grew by 3.4% y-o-y in January 2017, a rate two tenths higher in comparison to the figure registered in the previous month. Likewise, and according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), passenger car registrations ended the period January-February with an average y-o-y growth of 4.8%, below that of the fourth quarter of 2016 (9%). However, *retail sales*, with work

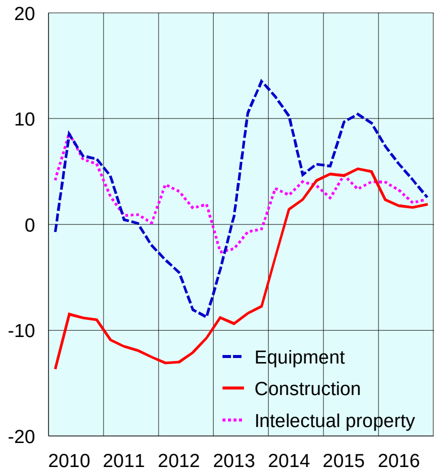
G 2.2 PRIVATE CONSUMPTION
year-on-year rate in %



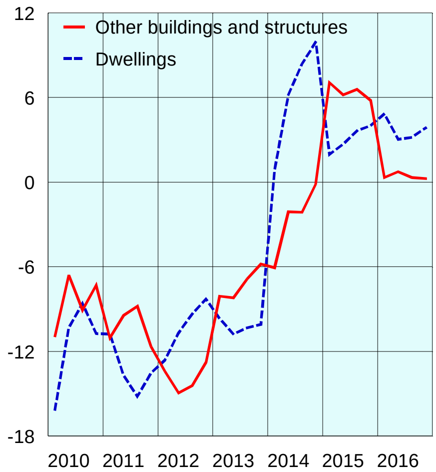
Sources: INE (QNA-2010).

calendar and price adjusted data, experienced a y-o-y fall of 1.3% in January, in comparison to the 2.8% increase registered in December 2016. By groups, this decrease is explained by the non-food component, which registered a rate of -2.4% (+3.4% in the previous month), while the food component rose by 0.9%, 2.2 points less than in December. On the other hand, amongst the qualitative indicators, the consumer confidence indicator (CCI), published by the CIS, stood at the 96.7 level in the first two month period of the year, compared to 96.9 in the last quarter of 2016.

G 2.3 GROSS FIXED CAPITAL FORMATION
y-o-y growth rate in %



G 2.4 GFCF IN CONSTRUCTION
y-o-y growth rate in %



Source: INE (QNA-2010), seasonally and calendar adjusted data.

As for the *Final Consumption Expenditure of the General Government*, in volume and in q-o-q terms, it went from growing 0.5% in the third quarter of 2016 to falling down by 0.2% in the fourth quarter, while in y-o-y terms it recorded a null variation, compared to a 0.8% increase in the previous quarter. In 2016 as a whole, public consumption grew by 0.8%, a rate 1.2 points lower than in 2015.

Fixed capital investment slows down in 2016

With regard to investment, *Gross Fixed Capital Formation* (GFCF) moderated four tenths the y-o-y growth rate in the fourth quarter of last year, to 2.2%. By components, the slowdown in investment is explained by the evolution of equipment goods and cultivated assets, which slowed down by 1.6 points, down to 2.6% y-o-y; while construction and intellectual property products accelerated three and four tenths, respectively, up to 1.9% and 2.4%.

In q-o-q terms, the gross fixed capital formation rose by 0.5% in the fourth quarter of 2016 following the 0.1% decline registered in the previous quarter, due to the acceleration of investment in construction, six tenths, to 0.7%, as well as to the rise in intellectual property products investment (1.5%, versus the 1% fall in the third quarter). On the other hand, investment in equipment goods and cultivated assets stabilised, following the slight increase registered in the previous quarter (0.1%).

Table 2.2 **Domestic demand indicators**
Year-on-year change or balances in %

			2016				**2017**	**Latest**
	2016	**2017(1)**	**I**	**II**	**III**	**IV**	**I(1)**	**Data**
Households & bussiness financing (2)	-2.4	-4.6	-2.6	-2.0	-1.9	-3.0	-4.6	Jan.17
Private Consumption								
Composite Consumption Indicator (3)	3.7	-	3.8	4.2	3.5	3.4	-	T.IV.16
Consumer Goods. Apparent cons. (3)	2.6	-	6.3	2.1	0.6	1.7	-	Dec.16
IPI consumer goods (adjusted)	2.1	-1.3	3.0	2.4	1.6	1.3	1.3	Jan.17
Consumer goods imports (vol.)	7.1	-	8.6	9.1	4.6	6.2	-	Dec.16
Retail sales index (4)	3.6	-1.0	3.8	3.8	3.9	3.0	-1.0	Jan.17
Passenger car registrations	10.9	4.8	6.9	17.2	9.7	9.0	4.8	Feb.17
Real wages (5)	3.3	-	3.8	4.1	3.3	2.1	-	T.IV.16
Consumer goods. Capacity utiliz. (%)	75.6	73.6	75.7	75.4	74.6	76.6	73.6	T.I.17
Consumer confide. indicator (balances)	-3.8	-3.2	-2.5	-3.2	-6.1	-3.2	-3.2	Feb.17
Large firms sales. Consumption (6)	5.3	3.4	5.3	6.2	5.3	4.5	3.4	Jan.17
Households financing (2)	-2.1	-4.6	-2.3	-1.6	-1.8	-2.9	-4.6	Jan.17
Equipment Investment								
Composite Equipment Indicator (3)	5.7	-	6.7	5.3	6.7	4.3	-	T.IV.16
Capital Goods. Apparent cons.(3)	3.4	-	4.5	4.3	3.8	1.1	-	Dec.16
IPI consumer goods (adjusted)	3.4	-0.1	8.1	4.9	1.5	-0.7	-0.1	Jan.17
Capital goods imports (vol.)	4.1	-	1.6	10.9	2.1	2.1	-	Dec.16
Corporations financing (2)	0.4	-8.6	1.7	2.2	1.1	-3.4	-8.6	Jan.17
Truck registrations	11.3	24.6	11.0	17.9	10.6	6.3	24.6	Jan.17
Capital goods. Capacity utilization (%)	81.7	82.9	81.5	80.2	83.6	81.7	82.9	T.I.17
Large firms sales. Capital (6)	3.3	3.3	3.7	4.5	1.2	3.3	3.3	Jan.17

(1) Available period data. (2) Deflated by CPI. (3) Adjusted for seasonal, calendar and outliers effects. (4) Adjusted for calendar effects; at constant prices. (5) QNA series; seasonal and calendar effects adjusted divided by household consumption deflator. (6) Calendar adjusted; deflated & fixed sample.
Sources: SGACPE (MEIC), BE, INE, DA, ANFAC, MESS, CE and AEAT.

In 2016, the gross fixed capital formation grew by 3.1% on an annual average (6% in 2015). This was due to the increase in domestic and external demand, as well as to the favourable financial conditions, the restructuring of the balance sheets of companies and the improvement of the business expectations. The slowdown in fixed capital investment is due to the moderation of 3.8 points in the pace of increase of investment in equipment goods and cultivated assets, down to 5%, as well as the 3 points slowdown of investment in construction (1.9% in 2016, versus the 4.9% recorded in the previous year). The less favourable evolution of investment in construction was due to the investment component of other constructions, which went from registering an average annual growth of 6.4% in 2015 to grow by 0.4% in 2016. On the other hand, housing investment accelerated by six tenths, up to 3.7%.

Short-term indicators of investment in equipment show favourable signs in the first months of 2017

The most recent indicators of equipment investment show positive signs. Thus, the *Industrial Climate Indicator of Investment Goods* showed a balance of 2.1 points in the period from January to February 2017, 1.1 points higher than in the fourth quarter of last year, and the *capital goods productive capacity utilisation* rose 1.2 points, reaching 82.9% in the first quarter of the year. In the same line, *domestic large firms´ sales of equipment and software*, with deflated, fixed-sample and calendar adjusted data, intensified the growth pace by 1.8 points, up to 3.3% y-o-y, and *truck registrations*, according to the figures provided by the ANFAC, gained momentum in January this year, registering a y-o-y growth of 24.6%, almost twice as much as in December 2016 (12.5%).

With regards to residential investment, short-term indicators show mixed signals. Thus, the number of *housing sales* experienced a y-o-y growth of 18.1% in January, 11.3 points higher than in the previous month, due to the 7.2% increase of new housing purchases, following the fall recorded in the previous month (-6.5%) and to the 10.6 points acceleration of used housing purchases, up to 20.7%. On the other hand, the number of *mortgages on housing* rose by 6.9% y-o-y in December, versus the 32.2% increase registered in the previous month, so the year 2016 ended with an average annual increase of 14%, 6.8 points lower in comparison to the figure observed in 2015. Meanwhile, the *private housing price index*, published by the INE, increased by 4.5% y-o-y in the fourth quarter of 2016, half a point more than in the previous quarter, ending the year with an average annual growth of 4.7%, 1.1 points higher versus 2015 (3.6%). In real terms, the private housing price in the last quarter of last financial year slowed down by seven tenths, down to 3.5% y-o-y, ending 2016 with an average annual growth of 4.9% (4.1% in 2015). On the other hand, according to figures from the Bank of Spain, *financing to households for housing* intensified the fall by one tenth in January 2017 versus the previous month, to record a y-o-y rate of -3.1%.

2.2.- Foreign demand

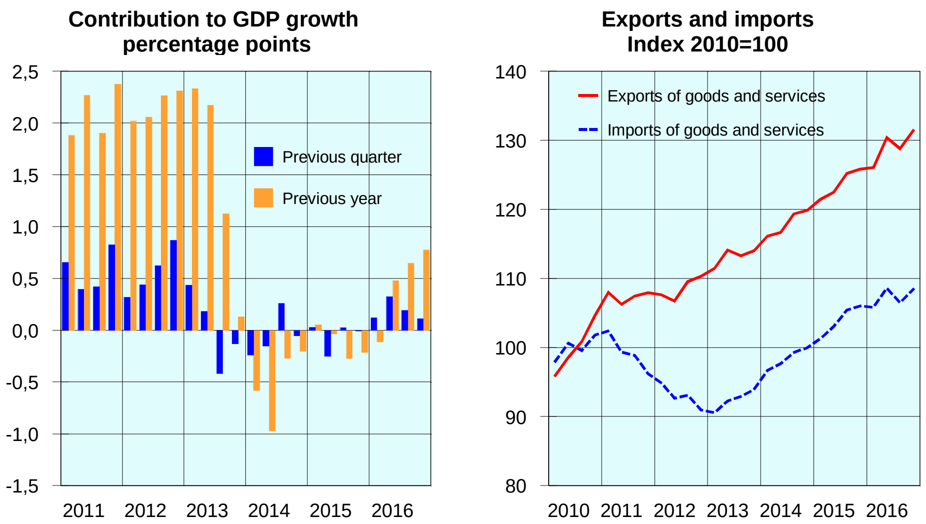
The external sector contributes with eight tenths to GDP y-o-y growth

In the fourth quarter of 2016, according to QNA figures, the external sector contributed with one tenth to the GDP q-o-q variation, after a contribution of two tenths in the previous quarter, as a result of an increase in goods and services exports (2% q-o-q) above that of imports (1.8%), after these flows registered falls of 1.2% and 2%, respectively, in the third quarter of 2016. In y-o-y terms, the net external demand contributed with eight tenths to the GDP variation in the fourth quarter of 2016, one tenth more than in the third quarter, because exports accelerated more than imports (1.5 and 1.3 points respectively, up to 4.4% and 2.3%).

2016 ended with net external demand contributing with 0.5 points to the average GDP growth, compared to the negative contribution of 0.1 points in 2015, due to a slowdown in exports of goods and services (half a point, to 4.4%) lower than the figure registered by imports (2.4 points, to 3.3%). Thus, both domestic and external demand recorded positive contributions to GDP growth in 2016, a fact that had not been seen since 2000.

Compared with the major economies of the European Union, the q-o-q rate of Spanish real exports (2%) was higher than that of Italy (1.9%), Germany (1.8%) and France (1.3%) and lower than that of the United Kingdom (4.1%), while the y-o-y rate of exports from Spain (4.4%) was higher than that of Germany (4.1%), Italy (3.8%), France (1.9%) and the United Kingdom (-0.4%).

G 2.5 EXTERNAL SECTOR



Source: INE.

Real exports of goods and services accelerate

Real exports of goods and services accelerated in the fourth quarter of 2016, after the moderation observed in the previous quarter, in a context in which a clear and widespread recovery is not being observed in the evolution of the activity of the main trading partners and the major emerging economies.

In y-o-y terms, exports of goods and services increased by 4.4% in the fourth quarter of 2016, compared to the 2.9% rise registered in the third quarter, with increases of 3% in goods and of 7.8% in services, rates 2 and 0.6 points higher than those registered in the previous period. In q-o-q terms, exports rose by 2%, compared to the 1.2% decrease recorded in the third quarter, due to the rises of goods and services exports of 1.6% and 3%, respectively, after the fall of 2.2% in goods and the 0.9% rise in services, recorded in the previous quarter.

In the fourth quarter of 2016, the evolution of the activity of Spain’s main trading partners was uneven. The GDP q-o-q growth rate intensified three tenths in Germany (0.4%), two in France (0.4%), and one in the United Kingdom (0.7%); while it moderated one tenth in Italy (0.2%) and four in the United States (0.5%). In the major emerging economies, a slowdown was generally observed: of one tenth in China (1.7%), two tenths in Korea (0.4%), four tenths in Mexico (0.7%) and five tenths in Taiwan (0.5%), while Brazil and Indonesia recorded a negative growth (-0.9% and -1.8%, respectively). On the other hand, India registered an acceleration of 1.8 points, up to 2.1%.

Competitiveness improves slightly against the developed countries

On the other hand, in the fourth quarter of 2016, the competitiveness trend index based on consumer prices against the developed countries, prepared by the Secretary of State for Trade, reported a gain of competitiveness of 0.1% y-o-y, due to a -0.5% decline in relative prices, higher than the 0.3% appreciation of the nominal effective exchange rate. Against the European Union, a competitiveness loss of 1.8% was recorded, confirming the trend change that began in the third quarter, after eleven quarters of competitiveness increases, due to the appreciation in the nominal effective exchange rate (1.9%), partially offset by the slight fall in the relative consumer prices index (-0.1%). Finally, a competitiveness gain of 0.6% with regard to the BRICS countries was recorded, resulting from a decrease of the relative prices index (-2.4%), which more than offset the appreciation of the nominal exchange rate index (1.9%)

Table 2.3 **Foreign trade by category of goods, volume**

	Weight in Total	**Year-on-year change (%)**					**Contribution to growth**		
	2015	**2015**	**2016**				**2016**		
		IV	**I**	**II**	**III**	**IV**	**II**	**III**	**IV**
Total exports	**100.0**	**3.7**	**2.5**	**7.1**	**0.0**	**4.3**	**7.1**	**0.0**	**4.3**
Consumer goods	*38.1*	*11.2*	*5.5*	*12.7*	*1.2*	*3.3*	*4.3*	*0.4*	*1.2*
Foods	13.7	4.4	2.8	5.5	0.5	2.3	0.7	0.1	0.3
Others goods	24.5	15.5	6.9	16.7	1.6	3.8	3.6	0.4	0.9
Cars	11.9	15.3	4.7	19.7	-0.4	0.8	2.0	0.0	0.1
Capital goods	*8.6*	*7.5*	*2.8*	*16.4*	*-4.5*	*-5.0*	*1.7*	*-0.5*	*-0.5*
Excl. heavy trans. equipment	8.4	7.8	3.0	16.9	-3.8	-7.5	1.7	-0.4	-0.8
Intermediate goods	*53.2*	*-1.9*	*0.1*	*1.8*	*-0.1*	*6.6*	*1.1*	*0.0*	*3.6*
Energy	3.6	-12.4	-12.7	-27.0	-16.3	12.4	-1.0	-0.6	0.4
Non-energy	49.6	-1.1	0.8	3.8	1.1	6.2	2.1	0.6	3.2
Total imports	**100.0**	**7.3**	**4.6**	**4.7**	**-1.1**	**2.9**	**4.7**	**-1.1**	**2.9**
Consumer goods	*27.0*	*8.1*	*8.6*	*9.1*	*4.6*	*6.2*	*2.2*	*1.2*	*1.6*
Foods	6.8	6.4	8.5	13.3	10.0	6.5	0.8	0.6	0.4
Others goods	20.2	8.7	8.5	7.6	2.6	6.2	1.4	0.5	1.2
Cars	5.3	12.5	8.0	2.5	-1.6	5.5	0.1	-0.1	0.3
Capital goods	*8.2*	*11.9*	*1.6*	*10.9*	*2.1*	*2.1*	*1.0*	*0.2*	*0.2*
Excl. heavy trans. equipment	8.1	11.5	1.3	10.9	1.7	2.2	1.0	0.2	0.2
Intermediate goods	*64.8*	*6.3*	*3.2*	*2.2*	*-4.0*	*1.4*	*1.5*	*-2.5*	*1.1*
Energy	14.1	-7.0	-4.0	-11.2	-11.9	-1.8	-1.4	-1.6	-0.2
Non- energy	50.7	10.0	4.9	5.4	-1.9	2.1	2.9	-0.9	1.3

Sources: Customs and SGACPE

Real exports of goods gain market share in 2016

In this context, the real exports of goods y-o-y growth rate in the fourth quarter of 2016 (3%) has been higher than that registered by the world trade of goods (1.5% according to the Central Planning Bureau of the Netherlands), resulting in a real market share gain of 1.8% y-o-y in 2016 as a whole, reaching 1.91%.

According to *Customs* figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) recorded a positive rate in December (3.7%), mainly due to the positive contribution from the member countries of the European Union, which account for two thirds of the total exports.

According to Customs figures, in y-o-y terms, real exports of goods grew by 4.3% in the fourth quarter of 2016, after remaining stable in the third quarter. By type of product the higher dynamism of the volume of exports of all groups except capital goods was noticeable, which increased their fall by 0.5 percentage points, to -5% y-o-y. Among the other products, exports of consumer goods accelerated, both for food consumption (2.3%, a rate 1.8 points higher than in the third quarter) and for non-food consumption (3.8%, a rate 2.2 points higher in comparison to the figure registered in the previous quarter); exports of non-energy intermediate goods registered a 6.2% rise, versus the 1.1% recorded in the previous quarter; and energy intermediate goods rose by 12.4%, compared to the 16.3% fall recorded in the third quarter.

Within the non-food consumer goods group, car exports increased by 0.8% y-o-y, after the 0.4% fall registered in the third quarter (+19.7% in the second quarter). Its contribution to the growth of total exports was of one tenth, after the null contribution of the previous quarter.

Exports of goods to the Eurozone recover in the fourth quarter

According to Customs data, in the fourth quarter of 2016, exports in volume to the European Union (EU) and the Eurozone grew by 5.9% and 7.8% respectively in y-o-y terms, after being stable in the previous quarter. The nominal sale growths to Benelux, France and Italy and the decline of those to the United Kingdom stood out. Exports to the rest of the world recovered, recording a 1.2% increase, following the slight decrease (-0.1%) registered in the previous quarter. The breakdown by geographic destination outside the European Union reveals growths of a certain size of nominal sales to China, India and Mexico, while those to Brazil, Argentina and Venezuela registered double-digit falls. Consequently, contributions to the total increase in exports to the EU and the rest of the world were of 3.9 and 0.4 points, respectively, in the fourth quarter of 2016, following the null contributions registered in the third quarter.

Spending in final consumption of non-residents in the economic territory rebounds

According to QNA figures, the *expenditure of non-resident households* in the economic territory, in volume, increased by 4.1% q-o-q in the fourth quarter of 2016, versus the 0.7% fall recorded in the previous quarter, and increased by 9.3% y-o-y, one percentage point more than in the previous quarter. For the first quarter of 2017, the main indicators of foreign tourism, inbound tourists and foreign overnight stays in domestic hotels, show favourable signals, with y-o-y growth rates in January of 10.7% and 9.3% respectively.

For the fourth quarter of last year, *real exports of non-tourism services* grew by 2.2% q-o-q, two tenths more than in the third quarter. In y-o-y terms, they registered an increase of 6.8%, three tenths higher than the figure recorded in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the third quarter of 2016, the services with greater contribution to the nominal growth of exports were business services (5.4 p.p.), telecom, computer and information technology services (1.5 p.p.); transport (0.7 p.p.) and insurances and pensions (0.5 p.p.); while goods transformation services without transfer of ownership (-0.9 p.p.); maintenance and repair (-0.3 p.p.); financial (-0.1 p.p.) and construction (-0.1 pp) contributed negatively.

Real imports of goods recover in the fourth quarter

Furthermore, *goods and services imports*, in real terms and according to QNA figures, rose by 1.8% q-o-q in the fourth quarter of 2016, versus the 2% decrease recorded in the third quarter. By components, goods imports rose by 1.9% q-o-q and services imports by 1.6% in comparison to the rates of -3.5% and 4.7% of the previous quarter. In y-o-y terms, imports of goods and services grew by 2.3 percent, almost one and a half points more than in the third quarter, with imports of goods increasing by 0.4 percent and services by 10.4 percent.

Table 2.4 **Foreign trade by group of countries, volume**

	Weight in Total	**Year-on-year change (%)**					**Contribution to growth**		
	2015	**2015**	**2016**				**2016**		
		IV	**I**	**II**	**III**	**IV**	**II**	**III**	**IV**
Total exports	**100.0**	**3.7**	**2.5**	**7.1**	**0.0**	**4.3**	**7.1**	**0.0**	**4.3**
EU	*64.8*	*5.2*	*4.8*	*8.1*	*0.0*	*5.9*	*5.3*	*0.0*	*3.9*
Euro-area	50.4	3.8	5.1	7.7	0.0	7.8	4.0	0.0	4.0
Non-EU	*35.2*	*0.9*	*-2.2*	*5.2*	*-0.1*	*1.2*	*1.8*	*0.0*	*0.4*
USA	4.6	-2.4	7.0	13.6	-9.8	4.5	0.6	-0.5	0.2
Latin America	6.1	4.3	-10.2	-4.2	-7.3	-6.4	-0.2	-0.5	-0.4
China	1.8	17.0	13.9	28.3	9.9	18.7	0.5	0.2	0.3
Other countries (1)	11.0	6.5	2.8	7.1	3.7	0.7	0.8	0.4	0.1
Total imports	**100.0**	**7.3**	**4.6**	**4.7**	**-1.1**	**2.9**	**4.7**	**-1.1**	**2.9**
EU	*56.0*	*8.9*	*2.7*	*3.7*	*-0.5*	*-0.3*	*2.2*	*-0.3*	*-0.2*
Euro-area	44.5	8.8	2.1	3.7	2.0	1.0	1.7	0.9	0.5
Non-EU	*44.0*	*4.9*	*7.2*	*6.2*	*-1.8*	*7.7*	*2.5*	*-0.8*	*3.1*
USA	4.7	14.3	5.3	-1.0	-10.7	28.1	-0.1	-0.6	1.4
Latin America	5.6	-13.1	-11.3	-5.9	-1.3	9.2	-0.3	-0.1	0.4
China	8.6	23.0	13.0	17.4	3.0	2.6	1.2	0.3	0.2
Other countries (1)	10.3	5.8	10.8	9.2	-0.8	4.1	0.8	-0.1	0.4

(1) Maghreb, Middle East and Russia.
Sources: Customs and SGACPE.

According to *Customs* figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume during the last three months versus the previous three months) became positive in December (2.2%), following the -1.2% recorded in September, reflecting a positive contribution of non-OECD countries and non-EU members of the OECD, versus the negative contribution of imports from the EU. By products, the positive contribution of non-energy intermediate goods and to a lesser extent of non-food consumer goods, stand out.

In y-o-y terms and according to Customs figures, *imports of goods* in volume, deflated by unit value indices, rose by 2.9% in the fourth quarter of 2016, in contrast to the 1.1% decrease in the third quarter.

By type of product and in volume, in the fourth quarter of 2016 the positive contribution of consumer goods rose four tenths (up to 1.6 points) and the imports of intermediate goods recorded a positive contribution (1.1 points, following the -2.5 fall registered in the third quarter), while that of capital goods was maintained (0.2 points). Consumer goods, registered the highest growth rate (6.2%), and within them, food recorded a 6.5% increase, while the most important component of non-food consumption, i.e. passenger cars, recovered up to 5.5% y-o-y, after the 1.6% fall registered in the third quarter.

By geographical areas, real imports of goods from the European Union slowed down 0.3% y-o-y in the fourth quarter of 2016, two tenths less than in the previous quarter and those from the Eurozone slowed down one percentage point, down to 1%. On the other hand, imports from outside the EU went from registering a 1.8% fall in the third quarter to recording a 7.7% rise in the fourth quarter. In the breakdown by geographical origin, and in nominal terms, the growth of purchases from the United States, Japan, the Middle East, India and Mexico are remarkable. On the other hand, those from the United Kingdom, sub-Saharan Africa, Brazil and, above all, Venezuela fell sharply.

G 2.6 EXPORTS AND IMPORTS OF GOODS AND SERVICES
percentage of GDP

Source: INE.

Tourism services imports accelerate

According to QNA figures, in the fourth quarter of 2016, *real spending of households resident abroad* rose by 8.2% q-o-q, following the 6.1% rise observed in the third quarter. On the other hand, *imports of non-tourism services* fell by 0.6% q-o-q, following the 4.3% rise registered in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate were business (5.3%) and intellectual property (1.4%).

The surplus of the balance of goods and services increases

In the fourth quarter of the year, the surplus of the goods and services balance, calculated with gross data at current QNA prices, stood at 2% of the quarterly GDP, three tenths more than in the previous year, due to the lower deficit of goods (-1.7% of GDP compared to the -2% registered a year earlier), and to a slight increase in the surplus of services (3.7% of GDP, one tenth higher than in the same period last year). Within the services sector, the tourism net revenue surplus (1.9% of GDP) remained stable, compared to the percentage recorded in the fourth quarter of 2015, while the non-tourism services (1.8% of GDP) rose one tenth.

2.3.- Productive activity

Activity increases in all productive sectors

From the *supply* point of view, the Gross Value Added (GVA) in volume and with calendar and seasonally adjusted data increased in all productive sectors. Thus, the GVA of the industrial sector accelerated half a point in the fourth quarter of 2016, up to 2.2% y-o-y, and the GVA of the construction sector rose one tenth, up to 3%. On the other hand, the GVA of services and agriculture, farming, forestry and fishing moderated the y-o-y growth rate three and two tenths, respectively, to 3.1% and 2.9%.

In q-o-q terms, the largest increase in the GVA corresponded to the primary sector (3.8%, a rate 3.3 points higher in comparison to the figure recorded in the previous quarter), followed by industry, whose GVA went from growing 0.2% in the third quarter to 1.3% in the fourth quarter. On the other hand, the GVA of construction and services both moderated the growth rate by three tenths, to 0.1% the former and 0.5% the latter.

In the year as a whole, the activity accelerated in all sectors, except in industry, which went from growing 5.5% in 2015 to registering a 2.4% increase in 2016. Thus, the GVA of the primary sector grew by 3.4% last year (-2.9% in 2015); that of construction by 2.5%, a rate 2.3 points higher compared to the figure registered in the previous year; and that of services by 3.4% (2.6% in 2015).

Activity indicators in the industry sector continue the upward trend

Amongst the indicators of the industrial sector, the *Turnover Index in Industry* (ICNI), with calendar adjusted data, registered a 6.8% y-o-y rate in December (5.3% in November), ending 2016 with an average annual increase of 0.7%, one point lower than the figure recorded in 2015 (1.7%). The lower dynamism of the ICNI in 2016 was due to the 5.6 points slowdown of equipment goods, down to 5.5% y-o-y, and to the 1% fall in intermediate goods, compared to the 3% growth recorded in the previous year. Consumer goods registered an increase of 3.4% (2.2% in 2015), and energy goods ended last year with a 15.6% fall, moderating the rate of decline by more than seven points compared to 2015. On the other hand, the *Industry New Orders Index* (INOI), adjusted for calendar effects, registered a 1% y-o-y decline in December, versus the 6.1% rise registered in the previous month, ending 2016 with an average annual growth of 0.4%, 2.3 points lower than the figure recorded in 2015. This slowdown was due to the lower dynamism of equipment goods, which registered a y-o-y variation of 3.8%, 10.4 points lower than that registered in the previous year, and to the 1.1% fall recorded by intermediate goods, compared to the 2.6% rise observed in 2015. Energy ended 2016 with an annual decline of 15.6%, after the 22.5% drop of the previous year, and consumer goods accelerated one point, up to 3.5%.

Table 2.5 **Employment and productivity**

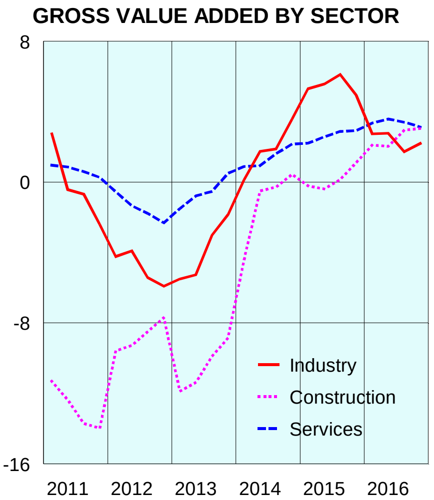
Year-on-year change (%)

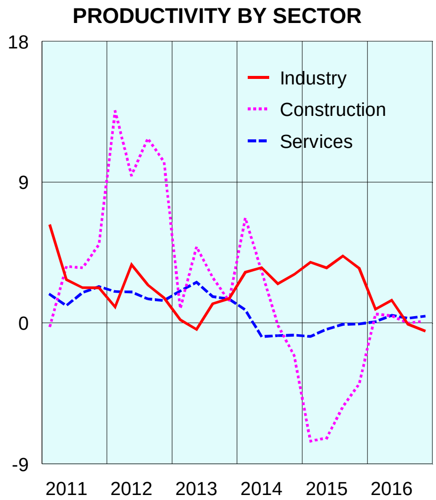
				2015		2016			
	2014	**2015**	**2016**	**III**	**IV**	**I**	**II**	**III**	**IV**
EMPLOYMENT (1)									
Agriculture (2)	0.8	1.2	3.3	4.3	4.6	5.6	2.1	2.8	2.8
Industry total	-1.2	1.6	1.9	1.8	1.4	1.8	1.3	1.8	2.7
Manufacturing	-1.3	2.0	2.4	2.2	1.9	2.5	1.9	2.2	2.9
Construction	-3.1	6.6	2.2	5.8	5.2	1.5	1.6	2.9	2.9
Services	1.8	3.0	3.0	3.0	3.0	3.3	3.1	3.1	2.7
Total	1.1	3.0	2.9	3.0	3.0	3.1	2.7	2.9	2.7
PRODUCTIVITY (3)									
Agriculture (2)	-2.3	-4.1	0.1	-8.3	-0.8	-0.6	0.6	0.3	0.1
Industry total	3.1	3.8	0.4	4.3	3.5	0.9	1.4	-0.1	-0.5
Manufacturing	4.4	4.9	0.8	5.6	5.0	1.9	1.9	0.1	-0.9
Construction	1.9	-6.1	0.3	-5.3	-3.9	0.6	0.5	0.0	0.1
Services	-0.4	-0.4	0.3	-0.1	-0.1	0.1	0.5	0.3	0.4
GDP per employee	0.3	0.2	0.4	0.4	0.6	0.3	0.7	0.3	0.3

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs).
Source: INE *(CNE-2010).*

The most recent indicators of the industrial sector show, in general, signs of greater activity dynamism in the first months of 2017. Thus, the *Industrial Production Index* (IPI) accelerated in January 2017, recording a y-o-y growth rate of 2.5%, with calendar adjusted data, half a point more than in the December last year. According to the economic use of goods and in y-o-y terms, the strongest IPI dynamism in January, with calendar adjusted data, was due to the strong boost of energy, which accelerated 8.3 points in comparison to December last year, up to 9.8% y-o-y and, to a lesser extent, to the more moderate fall of equipment goods (-0.1% compared

G 2.7 GROSS VALUE ADDED AND PRODUCTIVITY BY SECTOR
year-on-year growth rate in %





Source: INE (QNA-2010), seasonally and calendar adjusted data.

to the -1.1% registered in the previous month), partially offset by the 1.3% decline in consumer goods (1.5% increase in December), and the 2.1 points slowdown in intermediate goods, down to 3.2% y-o-y. Among the qualitative indicators, the industry confidence indicator, according to the European Commission, increased 1.6 points in February compared to the previous month, reaching the level of 1.7, as a result of the improvement of order portfolio and stock of finished products components, partially offset by the slight deterioration of the production expectations component. On the other hand, the manufacturing PMI fell eight tenths in February in comparison to the previous month, to the level 54.8, as a result of the more moderate increase in both production and new orders.

Mixed signals in the construction sector indicators

With regards to the construction sector, among the leading indicators, according to new construction permits, the *building surface in new construction* registered a 5.5% y-o-y growth in December 2016, significantly moderating its growth rate by more than 25 points compared to the previous month. This strong slowdown was due to the lower increase of both the non-residential component (20.9%, against 67.1% in the previous month) and the residential component (1%, compared to the 22.9% recorded in November). In 2016 as a whole, the building surface in new construction accumulated an average annual increase of 20.1%, compared to the 37.9% increase registered in 2015, mainly due to the evolution of the non-residential component, which decreased by 2%, compared to the 27.4% increase registered in 2015 as a whole and, to a lesser extent, to the slowdown of the residential component (29%, a rate 13.6 points lower than in 2015).

With regards to the *Production Index in the Construction Industry* (PICI), published by Eurostat, experienced a 5.4% y-o-y increase in December last year, compared to the 2.4% decrease recorded in the previous month, with deflated and calendar adjusted data. This PICI dynamism is explained by the evolution of the civil works component, which accelerated 8.2 points, reaching a y-o-y increase of 21.9%, as well as by the building component, which rose by 2.7%, versus the 5.1% fall registered in November. Thus, 2016 ended with an average annual growth of the PICI of 5.1%, 3.3% points higher than in 2015 (1.8%), due to the favourable performance of the civil works component, which accelerated 4.5 points last year, up to 13.5%, and the building component, which registered an increase of 3.5% (compared to the 0.4% recorded a year earlier).

On the other hand, *cement apparent consumption* increased by 16.6% y-o-y in January 2017, compared to the 3.8% decrease recorded in the previous month. This rebound is due to the increase in domestic sales and imports, whose respective rates reached 17.8% and 3% (compared to the 2.7% and 10.5% falls observed in the previous month). Furthermore, exports declined by 0.2%, compared to the 9.8% fall registered in December.

Among the qualitative indicators, the *confidence* in the sector should be noted, as it points towards an improvement in February 2017 of almost thirty points according to data from the European Commission.

The activity dynamism in the services sector continues

With regard to the services sector, the available short-term indicators show favourable signs. The *Services Sector Turnover Index* (SSTI) with work calendar adjusted data, increased by 6.5% y-o-y in December 2016, four tenths more than in the previous month. This acceleration was reflected in its two main components: trade, which grew by 6.9% y-o-y, two tenths more than in the previous month, and other services, which rose by 5.6% (4.9% in the previous month). 2016

Table 2.6 **Activity and Production Indicators**
Year-on-year change or balances in %

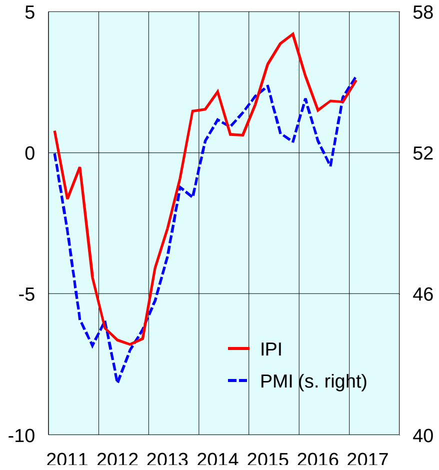
INDICATORS	2016	2017(1)	2016 I	2016 II	2016 III	2016 IV	2017 I(1)	Latest data
Composite Activity Indicator (2)	2.8	-	2.9	2.6	2.7	3.0	-	Q.IV.16
Electric power consumption (3)	-0.1	3.1	-1.0	0.8	0.2	-0.2	3.1	Feb.17
Non energy imports (vol.)	4.3	-	5.9	7.1	0.7	3.6	-	Dec.16
Economic Sentiment Indicator (90-16=100)	106.3	108.1	107.1	105.9	105.0	107.2	108.1	Feb.17
Large Firms Sales (4)	2.5	3.6	1.6	3.2	2.2	3.0	3.6	Jan.17
Large Firms Sales. Domestic (4)	2.5	2.1	1.8	3.4	2.6	2.5	2.1	Jan.17
Industry								
Composite Industry Indicador (2)	1.8	-	2.0	1.6	1.4	2.4	-	Q.IV.16
IPI calendar adjusted	1.8	2.5	2.6	1.4	1.6	1.8	2.5	Jan.17
Large Firms Sales. Industry (4)	2.5	3.9	2.1	3.7	1.9	2.3	3.9	Jan.17
Industry goods Exports (vol.)	6.0	-	5.6	16.9	0.4	1.2	-	Dec.16
Employment (LFS)	1.6	-	1.7	-0.4	0.5	4.7	-	Q.IV.16
Social Security covered workers (5)	2.8	2.9	2.8	2.7	2.7	2.8	2.9	Feb.17
Industry confidence indicator (balances)	-2.3	0.9	-1.9	-2.8	-3.8	-0.6	0.9	Feb.17
Industry capacity utilization %	78.6	78.8	79.0	77.8	78.4	79.1	78.8	Q.I.17
Construction								
Composite Construction Indicator (2)	1.9	-	3.4	1.7	1.7	0.9	-	Q.IV.16
Cement Apparent Consumption	-3.2	16.6	-1.0	-3.9	-4.0	-3.5	16.6	Jan.17
Large Firms Sales.Construction (4)	-4.6	1.0	-0.5	-6.3	-3.7	-6.1	1.0	Jan.17
Employment (LFS)	0.0	-	-2.7	-1.4	2.3	2.0	-	Q.IV.16
Social Security covered workers (5)	2.6	4.8	2.6	2.1	2.7	3.3	4.8	Feb.17
Official bidding (at current prices)	-3.7	-	-4.5	-40.0	48.4	15.4	-	Dec.16
Floorage approvals: total	20.1	-	40.4	5.1	17.0	21.4	-	Dec.16
Floorage approvals: housing	29.0	-	60.4	28.4	13.7	19.6	-	Dec.16
Construction confidence indicator (balances)	-39.6	-45.3	-31.7	-40.4	-44.3	-42.0	-45.3	Feb.17
Mortgages. Amount borrowed	9.1	-	18.2	21.4	-6.2	6.6	-	Dec.16
Housing: Prices per sq meter	1.9	-	2.4	2.0	1.6	1.5	-	Q.IV.16
Services								
Composite Services Indicator (2)	3.8	-	3.9	3.8	3.6	3.9	-	Q.IV.16
Large Firms Sales. Services (4)	2.9	3.0	1.9	3.5	2.7	3.5	3.0	Jan.17
Railway passengers	4.1	0.1	5.1	3.7	6.6	1.3	0.1	Jan.17
Railway traffic goods (Tm per km)	-7.3	-1.3	-5.8	-12.0	-8.1	-2.9	-1.3	Jan.17
Air traffic passengers	11.0	10.0	14.4	9.8	9.7	11.7	10.0	Jan.17
Hotel overnight stays	7.1	3.5	13.4	7.1	5.3	5.7	3.5	Jan.17
Foreign tourists	10.3	10.7	13.9	10.4	8.2	11.1	10.7	Jan.17
Employment (LFS)	2.9	-	3.8	3.2	3.0	1.7	-	Q.IV.16
Social Security covered workers (5)	3.2	3.4	3.1	3.0	3.3	3.5	3.4	Feb.17
Services confidence indicator (balances)	17.8	19.7	18.8	17.5	16.0	18.7	19.7	Feb.17
Retail trade confidence indicator (balances)	12.4	11.6	14.2	11.3	12.1	11.9	11.6	Feb.17

(1) Available period data. (2) Adjusted for seasonal, calendar and outliers effects. (3) Adjusted for calendar and temperature effects. (4) Calendar adjusted, deflated and fixed sample. (5) Total system. Monthly average.
Sources: SGACPE (MEIC), REE, DA, CE, AEAT, INE, MESS, OFICEMEN, MFOM, RENFE and AENA.

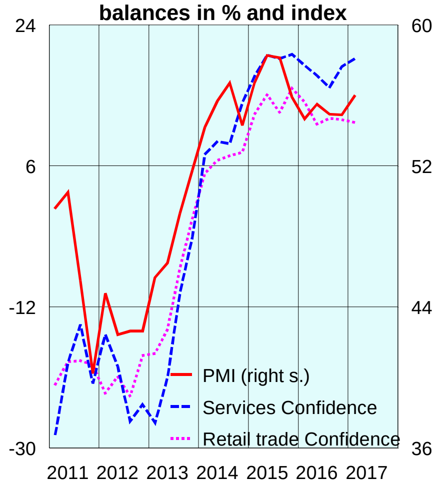
ended with an average annual increase in the SSTI of 4.4%, four tenths lower than that of 2015 (4.8%).

Among the most recent indicators of the services sector, the *services PMI* gained momentum in February, reaching the level of 57.7, 3.5 points higher than in the previous month and above the level registered in the Eurozone (55.5). The increase in customer demand and the higher trade activity were the main factors that contributed to this expansion of the activity, the strongest since September 2015.

G 2.8 INDUSTRY PRODUCTION and PMI
y-o-y growth rate in % and index



G 2.9 SERVICES ACTIVITY INDICATORS
balances in % and index



Sources: INE, EC and Markit Group.

Tourism extends the expansionary trend in January

In January 2017, indicators related to tourism continue showing very positive signs. Thus, it must be highlighted that 3.9 million *tourists* visited Spain, a figure 10.7% higher than the one recorded than a year earlier, according to preview data of the Survey on Tourist Movements on Border (FRONTUR), published by the INE. The *total expenditure* by tourists who visited Spain during this month reached € 4.3 billion, a rate 13.8% higher when compared to the figure recorded a year earlier (19.3% in December 2016), which resulted in an average expenditure increase per person of 2.8%.

On the other hand, *overnight stays in hotels* grew by 3.5% y-o-y in January 2017, seven tenths less than in the previous month. This evolution is due to the higher fall rate in hotel overnight stays by Spanish nationals, which decrease for the second consecutive month (-6.1% y-o-y, versus -1.2% in December), partially offset by the acceleration of foreign overnight stays, which rose by 9.3% y-o-y, 1.2 points more than in the previous month. Also, *air passenger traffic* recorded a 10% y-o-y growth during this month, which implies a slowdown of 2.6 points compared to the previous month, as a result of the slower pace of international traffic, which went from growing 16.3% in December down to 12.1% in January, while the growth of the domestic component remained stable at 5.9% y-o-y.

3. PRICES

The CPI y-o-y rate stands at 3% in January, mainly due to the rise in energy prices

The Consumer Price Index (CPI) accelerated 1.4 points in January 2017, registering a 3% y-o-y rate, mainly due to the increase of energy prices, specifically electricity and fuel prices. According to the flash estimate, the CPI also registered a rise of 3% in February. The CPI monthly variation rate reached -0.5% in January 2017, 1.4 points higher than that of the same month of 2016 (-1.9%).

Energy products prices increase by 17.5% y-o-y

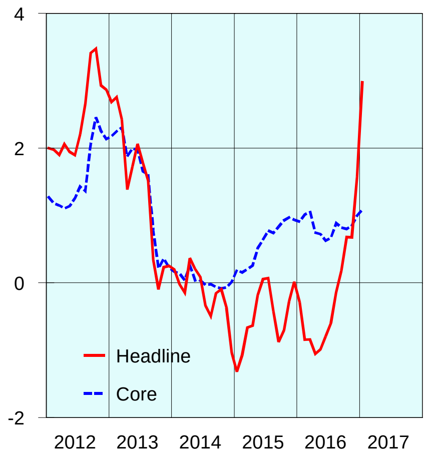
Energy products prices rose by 17.5% y-o-y in January, compared to the 5.3% increase registered in December 2016. This evolution is due to the sharp acceleration (22.5 points) in electricity prices, which registered a 26.2% y-o-y variation rate in January (3.7% in December) and, to a lesser extent, to the evolution of fuels and lubricant prices, which increased their growth rate by 7.9 points, up to 13.9%.

The sharp upturn in electricity prices in January 2017 is largely due to the reduced proportion of wind power and hydro power in electricity production, in favour of coal and natural gas (combined cycle), in comparison with the figures observed in the same month of the previous year, coupled with the coincidence of high growth rates in the prices of these two raw materials in the international markets.

Likewise, it should be also noted that both the significant rebound recorded in January of this year (8.8% m-o-m) and the base effect associated with the drop of a similar intensity recorded in the same month of last year (-10.6% m-o-m) affected the electricity CPI acceleration. A similar evolution, although with less impact, was observed in the fuels and gas component of the CPI.

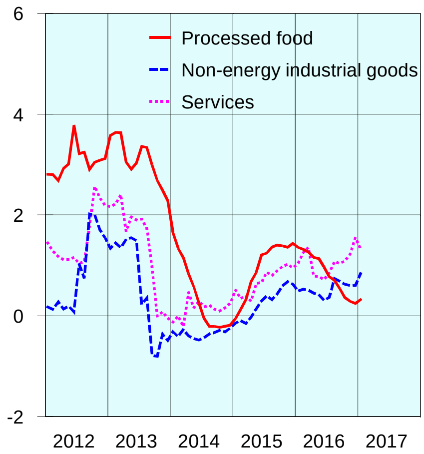
Non-processed food prices registered an acceleration of six tenths, up to 2.7% y-o-y, mainly due to the increase in fresh vegetables and legumes prices, which increased their growth rate by more than ten points, up to 17.9%.

G 3.1 CONSUMER PRICES
year-on-year change in %



Source: INE.

G 3.2 CORE INFLATION BREAKDOWN
year-on-year change in %



Source: INE.

Table 3.1 **Main price indicators**

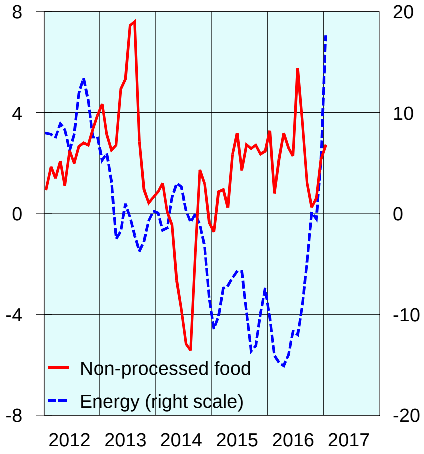
	Annual average			Year-on-year change in %					
				2016					2017
	14	**15**	**16**(1)	**Jan.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**	**Jan.**
CPI: Total	-0.2	-0.5	-0.2	-0.3	-0.8	-0.8	0.2	1.6	3.0
Core inflation (2)	0.0	0.6	0.8	0.9	1.1	0.6	0.8	1.0	1.1
CPI excl. food and energy	0.0	0.5	0.8	0.8	1.0	0.6	0.9	1.2	1.2
CPI excl. energy	-0.1	0.7	0.9	1.1	1.1	0.7	0.8	1.1	1.2
CPI food	-0.1	1.2	1.3	1.9	1.5	1.4	0.7	0.8	1.1
- Non-processed	-1.2	1.8	2.7	3.3	2.2	2.3	1.2	2.1	2.7
- Processed	0.4	0.9	0.3	1.4	1.3	1.0	0.5	0.2	0.3
CPI excl. food	-0.2	-1.0	-0.6	-0.9	-1.5	-1.4	0.0	1.8	3.5
- Industrial goods	-0.5	-2.7	-2.4	-2.9	-4.5	-3.6	-1.0	-2.0	5.8
- Energy	-0.8	-9.0	-8.6	-10.3	-14.8	-11.7	-4.8	-5.3	17.5
- Non-energy industrial goods	-0.4	0.3	0.5	0.5	0.5	0.3	0.7	0.6	0.8
- Total services	0.1	0.7	1.1	1.0	1.4	0.7	1.0	1.6	1.3
CPI manufactured goods (3)	-0.1	0.5	0.6	0.8	0.8	0.6	0.6	0.5	0.6
Industrial Producer Prices: Total	-1.3	-2.1	-3.1	-4.2	-5.4	-4.5	-2.0	2.9	7.5
Energy	-3.1	-8.8	-10.8	-15.0	-17.7	-14.7	-6.3	8.3	26.6
Non-energy IPP	-0.8	0.3	-0.4	-0.4	-1.0	-0.7	-0.5	1.0	1.8
Consumer goods	-0.5	1.1	0.2	0.4	0.0	0.2	-0.1	1.2	1.4
- Durable	0.5	0.2	1.2	0.9	1.0	1.4	1.2	1.1	0.2
- Non-durable	-0.5	1.2	0.2	0.4	-0.1	0.1	-0.2	1.2	1.5
- Food	-1.0	1.3	-0.1	0.3	-0.5	-0.2	-0.5	1.5	1.8
- Non-food	0.4	0.7	0.8	0.8	0.8	1.1	0.6	0.6	0.8
Capital goods	0.2	0.8	0.6	0.8	0.7	0.5	0.2	0.6	0.8
Intermediate goods	-1.5	-0.7	-1.5	-1.7	-2.7	-2.2	-1.1	1.1	2.7
Unit Value Indices (UVI): Imports	-2.3	-2.5	-3.1	-2.2	-9.0	-3.3	-1.7	2.8	-
- Consumer goods	1.1	7.0	1.4	4.1	0.9	0.7	1.3	1.0	-
- Consumer food	3.4	4.2	4.2	2.9	-1.6	-3.0	-3.6	3.6	-
Exports	-0.9	0.6	0.6	-1.0	-3.2	-2.0	-0.2	0.3	-
Prices received by farmers (4)	-	6.4	-4.3	-1.7	-3.9	0.1	-6.2	-	-
GDP Deflator	-0.3	0.5	0.3	..	0.0	0.4	0.2	0.6	..
Private Consumption Deflator	0.2	-0.2	-0.2	..	-0.6	-0.9	-0.2	0.8	..

(1) Average of the period available data.
(2) General CPI excluding non-processed food and energy.
(3) Processed food and non-energy industrial goods.
(4) Change reference year 2010=100. MAPM. A only supply data from January 2014. Lastest data is September.
Sources: INE, DA, MAPM and SGACPE.

Core inflation stands at 1.1%

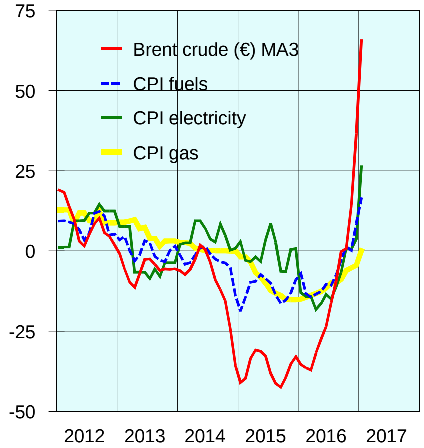
Core inflation, which excludes the most volatile elements from the general index (non-processed food and energy), rose by one tenth in January, up to 1.1%, due to the acceleration in non-energy industrial goods and processed food prices, partially offset by the slower pace of growth in services prices.

G 3.3 CPI VOLATILE COMPONENTS
year-on-year change in %



Source: INE.

G 3.4 ENERGY PRICES
year-on-year change in %



Sources: INE and Reuters.

Services prices y-o-y rate decreased by three tenths, from 1.6% in December down to 1.3% in January. Insurance prices, despite their four tenths acceleration, up to 4% y-o-y, contributed negatively to the evolution of the general index y-o-y variation rate, due to the significant reduction of their weight on the new base, associated with the expenditure estimation change, which is now considered an insurance expense net of indemnifications. On the other hand, the telephone and fax services growth rate fell by six tenths, down to 2.9%, and long-distance public transport services intensified the pace of decline from 0.2% in December down to 2.4% in January.

Non-energy industrial goods increased their growth rate by two tenths, up to 0.8%, after recording rates of 0.6% for the last three months. It should be noted that pharmaceutical products prices went from a 1.2% decline in December to a growth of the same magnitude in January, influenced by the base effect associated with the decrease they experienced in the same month of last year (-2.1% m-o-m in January 2016, compared to the 0.3% increase in the same period of 2017).

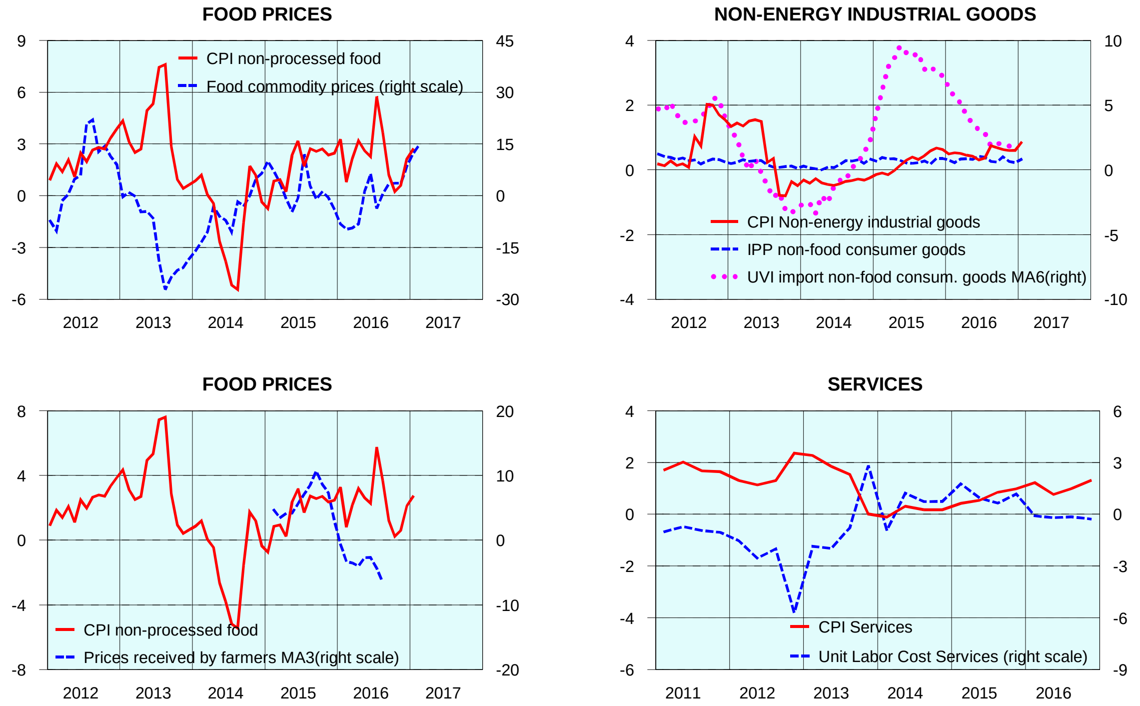
Prices of processed food, beverages and tobacco accelerated by one tenth, up to 0.3% y-o-y. In food as a whole, prices grew with greater intensity than in the previous month, three tenths more, reaching 1.1% y-o-y.

According to the flash estimate, the CPI y-o-y rate stands at 3% in February

According to the INE's flash estimate, the y-o-y rate of the national CPI stabilised at 3% in February. According to the INE, the drop in electricity prices stands out in this behaviour.

G. 3.5 COMPONENTS AND MAIN LEADING INDICATORS

Year-on-year change in %



Sources: INE, MAPM, Customs and SGACPE.

Spain's inflation differential against the Eurozone stands at 1 p.p. in February

The harmonised inflation, estimated by the Spanish HICP flash estimate, also stood at 3% y-o-y in February, while the Eurozone's HICP flash estimate, calculated by Eurostat, recorded a y-o-y variation of 2%. If February final figures confirm the estimates, Spain's inflation differential against the Eurozone would be of 1 point, one tenth less than in January.

The PPI rebounded in January

The Producer Price Index (PPI) registered a 1.9% increase in January 2017 compared to the previous month, versus the 2.5% fall registered in the same month of 2016.

In y-o-y terms, the PPI y-o-y variation rate stood at 7.5%, 4.6 points higher than that registered in December. This acceleration, the largest of the time series, is mainly explained by the evolution of energy prices, although the other components also contributed positively.

Energy production prices rose by 26.6% y-o-y in January, the highest rate since July 2008, compared to the 8.3% increase recorded in December. This rebound is mainly explained by the base effect associated with the strong reduction of the component in January 2016, of 9.7% m-o-m, the largest of the time series, and, to a lesser extent, by the 5.5% m-o-m growth in January of this year.

In this evolution of the energy component, the electricity, gas, steam and air-conditioning supply component (whose prices rose by 19.7% y-o-y, 17.9 points more than in the previous month and the highest growth rate since September 1984) and, to a lesser extent, coke and oil refining (whose prices increased by 51.6%, the highest pace since November 2000, following the 26.4% registered in December) stand out.

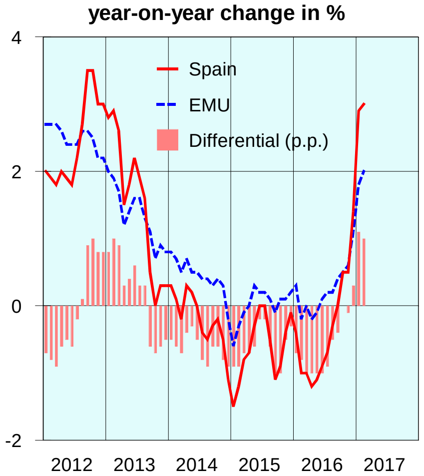
Table 3.2 **Inflation differential against main competitors** (1)

	2014	2015	2016(2)	2016 Jan.	Mar.	Jun.	Sep.	Dec.	2017 Jan.
Eurozone	-0.6	-0.6	-0.5	-0.7	-1.0	-1.0	-0.4	0.3	1.1
Core inflation	-1.0	-0.4	-0.1	-0.2	-0.1	-0.3	-0.2	-0.1	0.2
- Proc. food.	-1.3	0.4	0.1	0.6	0.8	0.3	-0.3	-0.9	-0.7
- Non-energy industrial goods	-0.4	-0.2	-0.1	-0.3	-0.3	-0.1	0.1	-0.1	0.2
- Services	-1.2	-0.7	-0.2	-0.3	-0.2	-0.5	-0.3	0.1	0.0
Non-proc. food.	0.7	-0.1	0.6	1.1	0.5	0.5	0.2	-0.2	1.3
Energy	1.1	-2.2	-3.5	-4.9	-6.1	-5.2	-1.8	2.7	9.3
EU	-0.7	-0.6	-0.6	-0.7	-1.0	-1.0	-0.4	0.2	1.2
OECD	-1.9	-1.2	-1.4	-1.5	-1.8	-1.8	-1.2	-0.4	-
USA	-1.8	-0.7	-1.6	-1.8	-1.9	-1.9	-1.5	-0.7	0.4

(1) Differences in percentage points between the annual variation in the CPI for Spain and other areas or countries. For Spain and the EU countries, these rates have been calculated with harmonised price indices.
(2) Average of the period available data.
Sources: Eurostat and OECD.

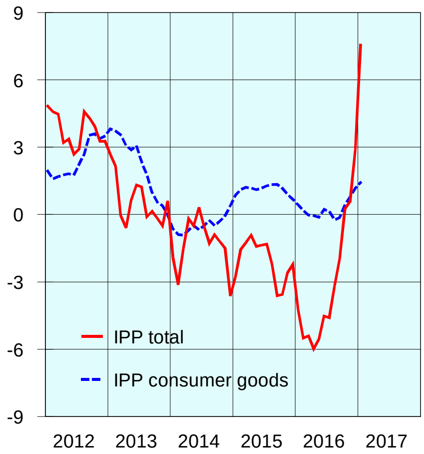
Non-energy goods production prices increased their y-o-y growth rate by eight tenths in January, up to 1.8%, the highest rate since March 2013. This acceleration was mainly due to the evolution of intermediate goods prices, which grew by 2.7%, 1.6 points more than in the previous month. In turn, this evolution was mainly influenced by metallurgy prices, which increased by 20.1%, a rate almost seven points higher than in December (13.2%), as well as by the chemical industry prices, which grew by 1.6% in January, after falling by 0.7% in December.

G 3.6 HARMONISED CPI
year-on-year change in %



Feb 2017 data are provisional.
Sources: INE and Eurostat.

G 3.7 INDUST. PRODUCER PRICES (IPP)
year-on-year change in %



Source: INE.

Consumer goods also contributed to the non-energy PPI acceleration, registering a y-o-y variation rate of 1.4%, two tenths higher than in December. By components, this intensification in the growth rate is explained by the evolution of non-durable consumer goods prices, which accelerated by three tenths, up to 1.5%. On the other hand, durable consumer goods prices moderated their growth rate by nine tenths, down to 0.2%. Consumer prices of food, beverages and tobacco, as a whole, increased by 1.8% (1.5% in December). On the other hand, equipment goods prices intensified their growth rate by two tenths, up to 0.8% y-o-y.

4. LABOUR MARKET

In the fourth quarter of 2016, labour market statistics point to an extension of the employment creation dynamism, both in the case of the Labour Force Survey (LFS) and of the register of Social Security covered workers. In January and February 2017, an intensification in the pace of job creation is observed, according to published figures of covered workers.

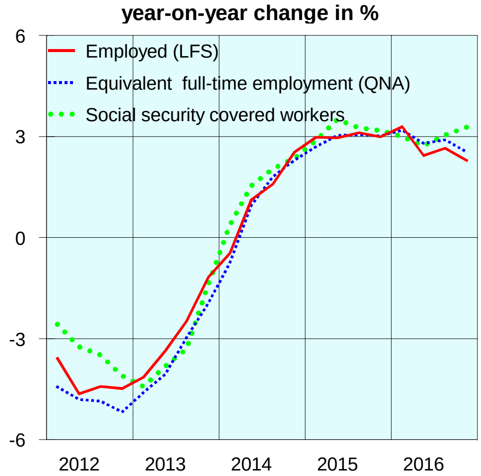
More than 400,000 net jobs were created in 2016

According to LFS data, published by the INE, in the fourth quarter of 2016 the number of employed people decreased by 19,400, in comparison to the increase of 45,500 in the same quarter of 2015. The employed population amounted to 18,508,100 people, a figure lower, by 0.1%, than the one of the previous quarter. With seasonally adjusted data, the q-o-q variation rate stood at 0.4%, a rate three tenths below that of the previous quarter. In comparison to the same quarter of 2015, employment increased by 413,900 people, 2.3%, rate four tenths lower than the one registered in previous quarter.

In the same direction, according to the Quarterly National Accounts (QNA) figures, full-time equivalent employment, with seasonally and calendar adjusted data, grew by 0.4% q-o-q in the fourth quarter, four tenths less than in the previous quarter; and it increased by 2.7% in y-o-y terms, two tenths less than in the period between July and September.

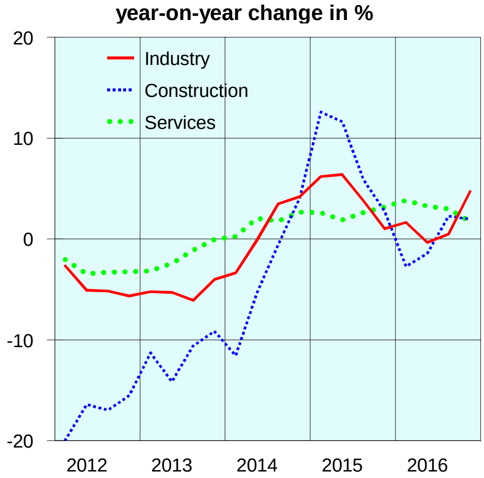
According to the information published by the Ministry of Employment and Social Security, the number of Social Security covered workers, with seasonally adjusted data, rose by 0.9% q-o-q in the fourth quarter of 2016, two tenths more in comparison to the third quarter. In y-o-y terms, and with unadjusted data, the number of Social Security covered workers accelerated by three tenths, recording a rate of 3.3% in the fourth quarter.

G 4.1 EMPLOYMENT INDICATORS
year-on-year change in %



Sources: INE (LFS and QNA) and MESS.

G 4.2 NON-AGRICULTURAL EMPLOYMENT
year-on-year change in %



Source: INE (QNA).

Table 4.1 **Summary of employment market indicators**

	Latest figures (1)		Year on year change in%					
	Thousands	Annual Δ	2015-III	2015-IV	2016-I	2016-II	2016-III	2016-IV
Labour Force Survey								
In work	22745.9	-127.8	-0.1	-0.7	-0.3	-0.6	-0.2	-0.6
- Men	12166.9	-84.0	-0.4	-1.1	-0.8	-1.0	-0.9	-0.7
- Women	10578.9	-43.9	0.1	-0.2	0.2	-0.1	0.6	-0.4
Rate of employment (2)(*)	59.0	-	0.0	-0.3	-0.2	-0.4	-0.2	-0.5
- Men	64.8	-	-0.1	-0.6	-0.4	-0.6	-0.6	-0.6
- Women	53.4	-	0.1	-0.1	0.1	-0.1	0.2	-0.4
In work	18508.1	413.9	3.1	3.0	3.3	2.4	2.7	2.3
- Non-agricultural sector	17691.3	376.9	3.0	2.8	3.1	2.4	2.6	2.2
- Industry	2579.1	115.7	3.8	1.0	1.7	-0.4	0.5	4.7
- Construction	1079.3	20.8	5.9	2.7	-2.7	-1.4	2.3	2.0
- Services	14032.9	240.4	2.6	3.2	3.8	3.2	3.0	1.7
- Men	10071.9	208.6	3.0	3.2	3.4	2.1	2.2	2.1
- Women	8436.2	205.4	3.2	2.7	3.1	2.8	3.2	2.5
- Foreign nationals	2008.3	59.6	3.7	4.5	4.5	3.8	3.8	3.1
- Full time	15675.1	424.6	2.8	3.4	4.0	3.0	3.5	2.8
- Part time	2833.0	-10.7	4.8	0.8	-0.2	-0.6	-1.9	-0.4
Rate of part-time employment (3)(*)	15.3	-	0.2	-0.3	-0.6	-0.5	-0.7	-0.4
Wage earners	15385.4	396.6	3.7	3.5	3.8	2.9	3.0	2.6
- Private Sector	12399.3	411.2	4.1	3.7	4.2	3.3	3.7	3.4
- Public Sector	2986.1	-14.6	2.1	2.5	2.1	1.3	0.6	-0.5
- On a permanent contract	11312.5	169.9	1.6	1.6	1.8	2.0	1.9	1.5
- On a temporary contract	4072.9	226.7	10.1	9.5	10.1	5.5	6.2	5.9
Rate of workers on temporary contracts (4)(*)	26.5	-	1.5	1.4	1.4	0.6	0.8	0.8
Self-employed	3122.7	17.3	0.3	0.6	1.1	0.3	0.7	0.6
Unemployed	4237.8	-541.7	-10.6	-12.4	-12.0	-11.2	-10.9	-11.3
- Men	2095.1	-292.5	-12.0	-15.4	-15.1	-13.1	-13.4	-12.3
- Women	2142.7	-249.2	-9.2	-9.2	-8.7	-9.2	-8.4	-10.4
- Under the age of 25	613.9	-73.7	-11.6	-15.5	-14.3	-9.7	-15.6	-10.7
- Having no previous job	429.8	-38.9	-2.1	-16.4	-19.9	-15.8	-16.9	-8.3
Rate of unemployment (5)(*)	18.6	-	-2.5	-2.8	-2.8	-2.4	-2.3	-2.3
- Men	17.2	-	-2.6	-3.3	-3.3	-2.6	-2.5	-2.3
- Women	20.3	-	-2.3	-2.2	-2.2	-2.2	-2.0	-2.3
- Young people (aged 16-24)	42.9	-	-5.8	-5.6	-4.9	-2.7	-4.6	-3.3
MEMBERSHIP OF THE S.S. (6)								
Total no. workers covered	17748.3	580.5	3.3	3.2	3.0	2.7	3.0	3.3
Wage earners	14552.3	552.1	3.6	3.6	3.4	3.1	3.5	3.8
Self-employed	3195.9	28.5	1.7	1.4	1.2	1.0	0.9	0.9
- Foreign nationals	1702.2	89.6	3.9	4.6	5.4	4.5	5.1	5.5
EMPLOYMENT OFFICES								
Registered unemployment	3750.9	-402.1	-8.2	-7.9	-8.1	-7.9	-9.1	-9.4
Registered contracts	1452.5	75.0	9.6	10.9	6.1	9.9	6.9	7.1
- Permanent (7)(*)	10.4	-	0.0	-0.3	0.2	0.6	0.6	0.5
- Part time (7)(*)	33.8	-	-0.3	-0.2	0.1	0.4	0.6	0.3

(1) Fourth quarter for the Labour Force Survey and the month of february for Membership of the S.S. and Spanish Public Employment Service figures.
(2) Percentage of people in work, over the population aged 16 or over.
(3) Percentage of people in part-time employment over the total number of people in employment.
(4) Percentage of wage earners on temporary contracts.
(5) Percentage of unemployed over total labour force.
(6) Mean daily figure.
(7) Percentage over the total number of contracts.
(*) The end columns show the change over the previous year in percentage points.
Sources: INE (LFS) and MESS.

On the other hand, according to LFS data, the employment rate of the population over 16 years old rose one point in the fourth quarter, compared to the figure registered in the same period of 2015, standing at 48%.

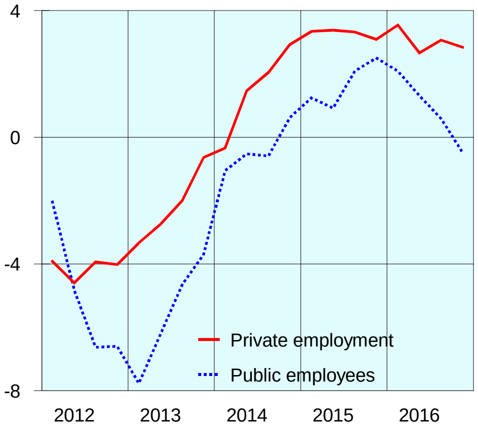
The increase of employment in the fourth quarter affected all the major branches of activity

According to LFS figures, the y-o-y rise in employment mainly affected the services and industry sectors, where it increased by 240,400 (1.7%) and 115,700 (4.7%) employed people, respectively. On the other hand, the number of employed people rose by 20,800 people (2%) in construction and by 37,000 (4.7%) in agriculture.

43% of the jobs created were of a permanent nature

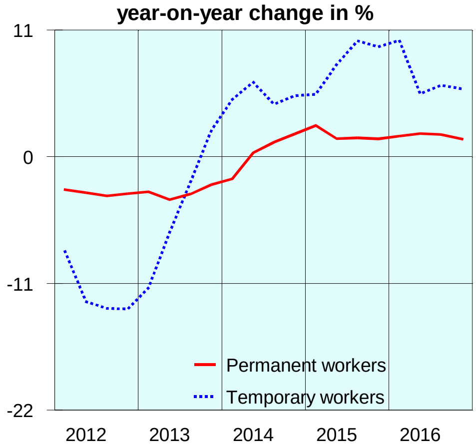
Focusing on the professional status of workers, in y-o-y terms, wage employees rose by 396,600, registering a y-o-y variation rate of 2.6%, compared to the 3% recorded in the previous quarter, and the number of self-employed workers increased by 14,000, 0.5%, versus the 0.7% of the third quarter.

G 4.3 PRIVATE AND PUBLIC EMPLOYMENT
year-on-year change in %



Source: INE (LFS).

G 4.4 EMPLOYEES ACORDING TO CONTRACT DURATION
year-on-year change in %



Source: INE (LFS).

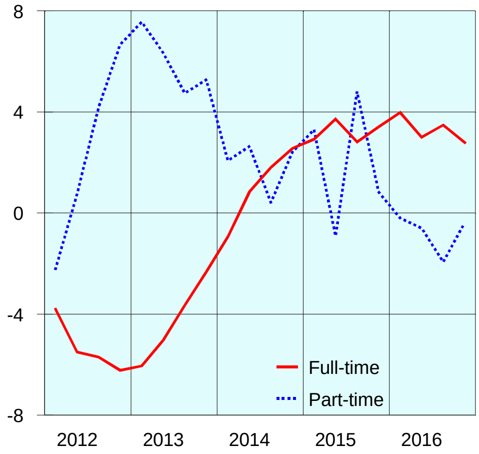
By type of contract, the y-o-y increase of wage employment was of 169,900 workers with a permanent contract (1.5% y-o-y, and 43% of the net wage job creation) and 226,700 workers with a temporary one (5.9% y-o-y, and 57% of the wage job creation). As a result of this evolution of employment, the temporary rate stood at 26.5%, eight tenths higher compared to a year earlier.

Regarding working hours, full-time workers rose by 2.8% y-o-y, seven tenths less than in the previous quarter, and part-time workers fell by 0.4%, compared to the sharper decline of the previous quarter (-1.9%). As a result, the weight of part-time workers on the total decreased by four tenths compared to a year earlier, standing the partiality rate at 15.3%. The proportion of those who work part-time because they could not find a full-time job stood at 9.3% of the total employed people, which is four tenths lower than in the same quarter of 2015.

Unemployment falls at a y-o-y rate of 11.3%

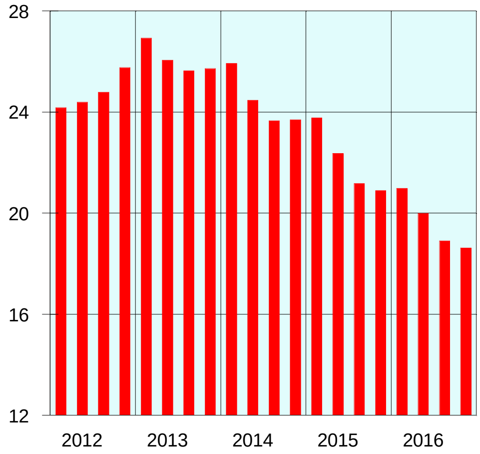
Unemployment fell by 83,000 people in the fourth quarter of 2016, compared to the decline of 71,300 people in the same period of 2015, which is the largest fall in unemployment in a fourth quarter of the time series. Thus, the total number of unemployed people stood at 4,237,800, which is the lowest level since the third quarter of 2009.With seasonally adjusted data by the INE, the q-o-q variation in the number of unemployed people stood at -3.8%, versus the -3.2% of the third quarter, the seasonally-adjusted unemployment linking fifteen consecutive quarters of decline. During the last year, unemployment fell by 541,700 people, which results in a y-o-y decline rate of 11.3%, four tenths higher than the previous quarter. The unemployment rate fell 2.3 points compared to a year earlier, down to 18.6% of the labour force.

G 4.5 EMPLOYMENT BY WORKING HOURS
year-on-year change in %



Source: INE (LFS).

G 4.6 UNEMPLOYMENT RATE
% of labour force

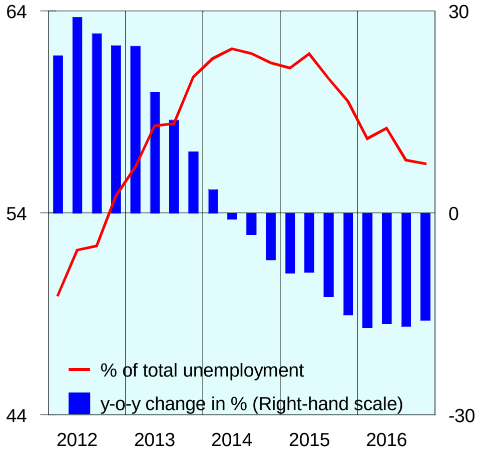


Source: INE (LFS).

Youth unemployment and long-term unemployment continue to fall

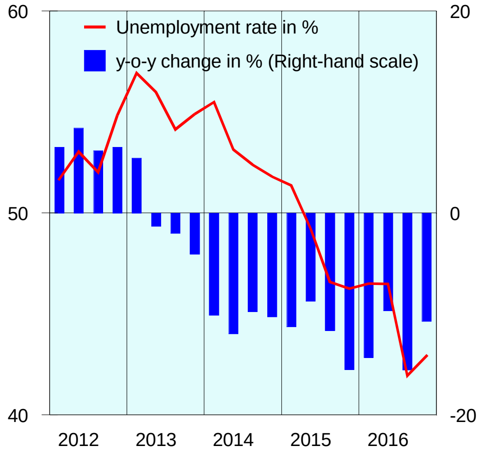
By age groups, all of them registered unemployment falls during the quarter, except for those aged 55 and over, the largest falls focusing on the people between 25 and 54 years old (55,700 unemployed people less) and between 20 and 24 years old (24,700 unemployed people less). The group of those aged 55 and over registered 6,100 unemployed people more.

G 4.7 INCIDENCE OF
LONG-TERM UNEMPLOYMENT(1)



Source: INE (LFS).

G 4.8 YOUTH UNEMPLOYMENT



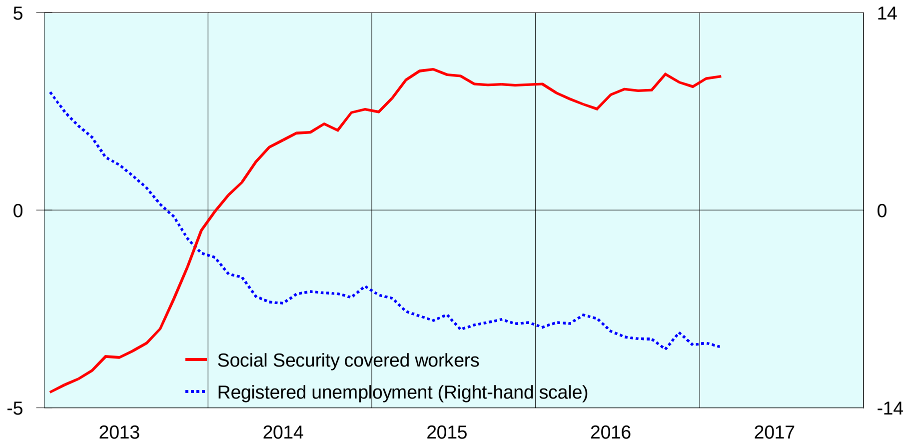
Source: INE (LFS).

Long-term unemployment, defined as the group of people unemployed for over one year, fell by 16.1% y-o-y in the fourth quarter of 2016, according to Eurostat figures, reaching a proportion of 47.8% on the total number of unemployed people, which represents a reduction of 2.7 points compared to the same period of 2015.

Social Security covered workers increases by 3.4% y-o-y up to February 2017...

According to the latest labour market information, as shown by the Social Security covered workers records, employment accelerated by one tenth in the two-month period from January to February compared to the fourth quarter of 2016, registering a y-o-y rate of 3.4%. This is due to the acceleration of employment in all activity branches, with the construction sector standing out. Here, Social Security covered workers grew by 4.8% y-o-y in the period between January and February, (3.3% in the fourth quarter of 2016).

G 4.9 S.S. COVERED WORKERS AND REGISTERED UNEMPLOYMENT
year-on-year change in %



Source: MESS.

…and registered unemployment falls by 9.5% y-o-y

With regard to registered unemployment, the rate of decline sharpened one tenth in the two-month period, up to 9.5% y-o-y. The main branches explaining this evolution are construction, whose y-o-y rate fell from -16.7% in the fourth quarter of 2016 down to -18% in the period from January to February 2017, and agriculture, which decreased from -10.3% down to -13%.

Unit labour costs fall for the sixth consecutive quarter

According to the Quarterly National Accounts figures, compensation per employee rose by 0.1% y-o-y in the fourth quarter of 2016, a rate one tenth higher than in the previous quarter, and apparent labour productivity rose by 0.3%, as in the previous quarter, so unit labour costs fell by 0.2% y-o-y, linking six consecutive quarters of declines.

The agreed wage increase in collective bargaining agreements stands at 1.2% up to February

According to the Collective Bargaining Agreements Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise stood at 1.2% up to February (with the information available up to the end of February 2017), one tenth above the wage increase agreed in the financial year 2016. By sectors, wage increases continue to be higher in industry (1.4%) and services (1.2%) than in construction (0.9%) and agriculture (0.9%).

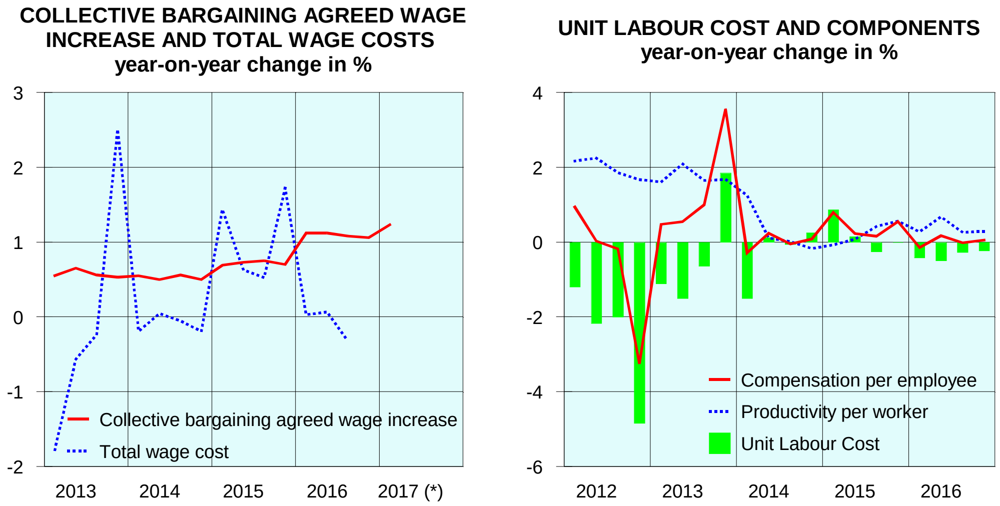
Table 4.2 **Wage indicators**
(year-on-year change in %)

	2014	2015	2016 (1)	2015		2016			
				III	IV	I	II	III	IV
WAGES FROM COLLECTIVE BARGAINING (2)									
All sectors	0.5	0.7	1.1	0.8	0.7	1.1	1.1	1.1	1.1
- Agriculture	0.7	0.7	0.9	0.8	0.7	0.9	0.9	0.9	0.8
- Industry	0.6	0.7	1.1	0.7	0.7	1.1	1.1	1.1	1.1
- Construction	0.1	0.8	0.9	0.9	0.8	0.7	0.9	0.9	0.9
- Services	0.5	0.7	1.1	0.7	0.7	1.2	1.2	1.1	1.1
TOTAL LABOUR COSTS PER WORKER									
All sectors	-0.3	0.6	-0.3	0.3	1.2	-0.2	-0.1	-0.5	-
- Industry	1.3	-0.4	0.3	-0.4	-0.4	0.5	0.3	0.0	-
- Construction	-0.2	-1.1	-1.8	-0.3	-2.1	-2.2	-1.4	-1.9	-
- Services	-0.6	1.0	-0.2	0.5	1.9	-0.2	-0.1	-0.4	-
WAGE COSTS PER WORKER									
All sectors	-0.1	1.1	-0.1	0.5	1.7	0.0	0.1	-0.3	-
- Industry	1.5	0.4	0.4	0.2	0.6	1.0	0.4	-0.2	-
- Construction	0.7	-0.7	-1.4	-0.1	-1.9	-1.7	-0.9	-1.7	-
- Services	-0.5	1.4	0.0	0.7	2.3	0.0	0.1	-0.2	-
NON-WAGE COSTS PER WORKER									
All sectors	-1.0	-0.7	-0.8	-0.5	-0.3	-1.0	-0.6	-0.9	-
- Industry	0.7	-2.6	0.1	-2.1	-3.4	-0.7	0.3	0.6	-
- Construction	-2.3	-2.0	-2.7	-0.7	-2.5	-3.5	-2.4	-2.3	-
- Services	-1.0	-0.1	-0.8	0.0	0.7	-0.8	-0.6	-1.1	-
COMPENSATION PER EMPLOYEE (3)									
All sectors	0.0	0.4	0.0	0.2	0.6	-0.1	0.2	0.0	0.1
- Agriculture	-3.3	6.0	1.3	4.5	7.8	1.9	2.6	0.4	0.2
- Industry	0.7	-0.7	0.2	-0.8	-0.6	0.6	0.2	0.0	-0.1
- Construction	0.4	-1.0	-1.5	-0.5	-2.4	-1.6	-1.6	-2.0	-1.0
- Services	0.0	0.8	0.1	0.6	1.1	0.0	0.3	0.2	0.1
LABOUR COST PER UNIT OF PRODUCT (4)									
All sectors	-0.3	0.2	-0.4	-0.3	0.0	-0.4	-0.5	-0.3	-0.2
- Agriculture	-1.0	10.5	1.2	13.9	8.6	2.5	2.1	0.1	0.1
- Industry	-2.4	-4.4	-0.3	-4.8	-4.0	-0.3	-1.2	0.1	0.4
- Construction	-1.4	5.3	-1.8	5.1	1.6	-2.1	-2.0	-2.0	-1.1
- Services	0.4	1.1	-0.2	0.6	1.2	-0.1	-0.2	-0.2	-0.3

(1) Available period data.
(2) Aggregate figures. The years include the reviews from wage revision clauses.
(3) Equivalent full-time employment. Figures corrected for seasonal factors.
(4) Compensation per employee/labour productivity. Figures corrected for seasonal factors.
Sources: MESS and INE (Quarterly survey of labour costs and National Accounts Base 2010).

Up to February, 238 opt-outs were registered, affecting 4,171 workers, 19.4% less than in the same period of last year. As usual, most of the opt-outs submitted (91.2%) indicate that they have been "pulled away from" the wage amount agreed.

G 4.10 WAGE INDICATORS



(*) Data for I.Q.2017 refers to February.
Sources: INE (ETCL and QNA) and MESS.

5. PUBLIC SECTOR

The General Government EDP Debt stands at 99.3% of GDP in the fourth quarter of 2016

The General Government Debt, according to the Excessive Deficit Protocol (EDP) methodology stood at 99.3% of GDP in the fourth quarter of 2016 (€ 1,105.6 billion), a percentage one point lower than in the previous quarter.

By subsectors, the State EDP Debt stood at 85.4% of GDP (€ 950.8 billion), six tenths lower than the figure registered in the third quarter. The Debt of other bodies belonging to the Central Government reached 3.5% of GDP (€ 38.9 billion), a percentage one tenth lower than that of the previous period. On the other hand, the ratio of the Regional Government EDP Debt on GDP rose one tenth in the last quarter of last year versus the previous quarter, up to 24.8% (€ 275.7 billion). Regarding the Social Security subsector, the EDP Debt reached 1.5% of GDP (€ 17.2 billion) versus the 1.6% of GDP registered in the previous period. The Local Government subsector registered in the period between October and December 2016 an EDP Debt equal to 2.9% of GDP (€ 31.9 billion 31,937 million), two tenths lower compared to that of the period between July and September, and thus extending the downward path that began in mid-2013.

6. BALANCE OF PAYMENTS

The surplus of the current account balance reaches 2% of GDP in 2016, the highest figure in the time series

According to the available Balance of Payments data, in 2016, the Spanish economy generated a net lending to the rest of the world of € 26.9 billion (2.4% of GDP), versus a net lending of € 21.7 billion (2% of GDP) last year.

The *current account* balance accumulated a surplus of € 22.3 billion, equivalent to 2% of GDP, a figure higher than the one recorded last year (1.4% of GDP) and the highest in the current time series. This increase was due to the improvement of the surplus in goods and services of € 6.1 billion, which reached € 32.3 billion (2.9% of GDP) and, to a lesser extent, to the reduction of € 1.5 billion of the primary and secondary income deficits, which reached € 10.0 billion (-0.9% of GDP).

In parallel, the financial balance registered net capital outflows amounting to € 34.0 billion, versus net outflows of € 25.2 billion a year earlier. This evolution was due to an increase in the net capital outflows excluding the Bank of Spain standing at € 87.6 billion, partially offset by an increase in the net debtor position of the Bank of Spain, standing at € 53.6 billion.

Table 6.1. **Balance of payments. Non-financial operations (1)**

€ millions

	January-December 2015			January-December 2016		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	**430,828**	**409,095**	**21,736**	**442,973**	**416,113**	**26,859**
Current account	**423,030**	**408,306**	**14,724**	**437,243**	**414,934**	**22,306**
Goods and services	356,872	330,644	26,229	368,618	336,288	32,328
Tourism	*50,895*	*15,654*	*35,241*	*54,532*	*18,492*	*36,040*
Primary and secondary income	66,158	77,662	-11,503	68,625	78,646	-10,023
Capital account	**7,798**	**789**	**7,008**	**5,730**	**1,179**	**4,552**

(1) The sum of the items does not always match the total due to rounding.
Source: Banco de España.

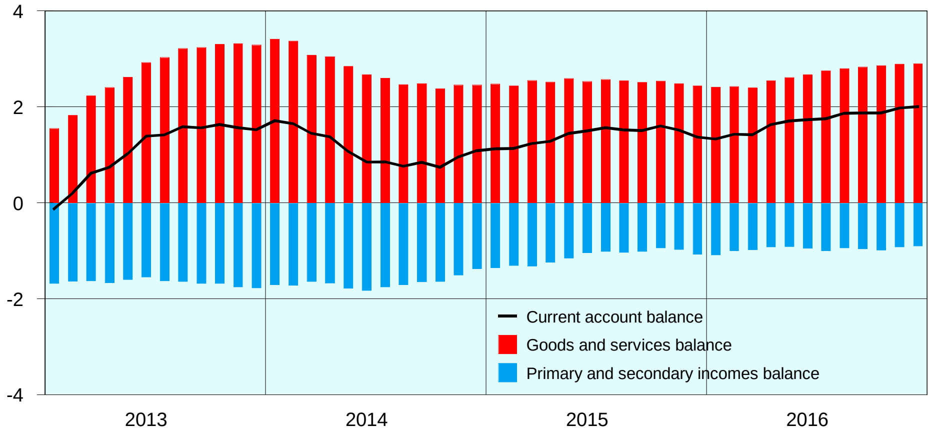
The surplus of goods and services increases

The exchanges of goods and services with the rest of the world in 2016 resulted in a surplus of € 32.3 billion, 23.3% higher compared to the figure recorded in 2015. In nominal terms, exports increased by 3.3% and imports by 1.7%. These rates were 2 and 3.8 points lower, respectively, than the ones registered in 2015.

The trade balance improves due to the reduction of the energy deficit

The Balance of Payments only provides disaggregated data between the balances of goods and services for the first nine months of 2016. According to Customs data, which show a similar evolution, the trade deficit decreased by 22.4% in 2016, due to the lower trade energy goods trade deficit, which decreased by 25.1%, (in line with the evolution of the price of imported oil which, measured in euros, became 21.5% cheaper on average during the year), while the non-energy balance surplus fell by 45.2%. Using the unit value indices of the Ministry of Economy, Industry and Competitiveness, the real terms of trade improved by 1.4%, continuing the 3.2% improvement of 2015 and contributing to the trade deficit reduction.

G 6.1 CURRENT ACCOUNT BALANCE
12-month cumulated. Percentage of GDP



Sources: Banco de España and SGACPE.

Tourism revenues accelerate...

The *balance of tourism services* accumulated in 2016 a surplus of € 36.0 billion, 2.3% higher than in 2015. This result reflects an increase of 7.1% of tourism revenues, 3.3 points higher compared to the figure registered in 2015. Spending by foreign tourists, according to the Tourist Expenditure Survey (EGATUR), increased by 9% y-o-y in the period (6.7% in the previous year), and tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 10.3%, versus the 5.6% recorded last year.

...as well as tourism payments

Tourism payments, as a result of Spanish residents travelling abroad, grew by 18.1% in 2016 compared to a year earlier. This rate is 2.8 points higher than the one recorded in 2015.

The deficit of primary and secondary income falls

The *balance of primary and secondary income* accumulated a deficit of € 10.0 billion in 2016, 12.9% lower than that recorded in 2015, due to a revenue increase (3.7%) higher than that of payments (1.3%), in comparison to the 0% and -3.4% rates registered last year. There is only data available split into primary and secondary income up to September 2016. The only available data up to December 2016 is included in the secondary income and, in particular, is provided by the Directorate General of the Treasury and Financial Policy corresponding to financial flows with the European Union, which show a contraction in the net current transfers received from the EU of € 3.1 billion, 589 billion higher to that registered a year earlier, with a fall in revenues (-2.5%) and an increase of payments (3.6%). With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, rose by 13.6%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy fell by 5.3%. On the payments side, within public payments for the EU, the VAT Resource (4.7%), those related to the GNI Resource (1.2%) and Traditional Own Resources (9.1%), grew.

Table 6.2 **Financial flows with the European Union**

	Million euro					% y-o-y change		Accumulated amounts: Million euro		Accumulated amounts: % y-o-y change
	2015	2016				2016		2015	2016	2016
	IV	I	II	III	IV	III	IV	I-IV	I-IV	I-IV
Net current transfers	**-1,504**	**1,047**	**-361**	**-1,656**	**-2,103**	**206.4**	**39.9**	**-2,484**	**-3,073**	**23.7**
- Revenue	**810**	**4,428**	**1,489**	**1,115**	**903**	**7.7**	**11.5**	**8,143**	**7,935**	**-2.5**
Refunds CAP	503	4,000	931	856	608	42.1	21.0	6,753	6,396	-5.3
ESF	169	355	491	213	186	-40.0	9.9	1,095	1,245	13.6
Other subsidies	138	73	67	46	109	-40.7	-21.1	294	295	0.2
- Payments	**2,314**	**3,381**	**1,849**	**2,771**	**3,007**	**75.9**	**29.9**	**10,627**	**11,009**	**3.6**
VAT	135	493	206	332	344	82.1	153.9	1,314	1,375	4.7
GNI	1,734	2,373	1,294	2,009	2,140	102.1	23.4	7,727	7,817	1.2
Traditional Own Resources	373	346	348	337	409	3.7	9.6	1,319	1,439	9.1
Other	71	169	1	93	114	25.3	59.5	268	378	41.0
Capital transfers	**807**	**812**	**861**	**277**	**707**	**-83.8**	**-12.5**	**4,791**	**2,657**	**-44.5**
ERDF	699	775	814	251	678	-84.8	-2.9	4,370	2,519	-42.4
Cohesion Fund	13	3	0	0	11	-99.3	-11.5	256	15	-94.3
Other	96	34	47	26	17	272.6	-82.2	165	124	-24.5

Sources: D. G. Tesoro and SGACPE.

The surplus of the capital balance decreases

In 2016 the *capital balance* generated a surplus of € 4.6 billion, 35% lower in comparison to last year. This rate is due to a fall in revenues (-26.5%) and to a strong increase in payments (49.4%). Capital transfers from the EU fell by 44.5% in comparison to 2015, to € 2.7 billion. The most important quantitatively were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. In this regard, the decline of those received by the Cohesion Fund, that barely reach fifteen million euros, and those corresponding to the ERDF (-42.4%, to € 2.5 billion) stand out. However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they finance.

Net capital outflows in financial transactions with the rest of the world, excluding the Bank of Spain

In 2016, the *financial account* recorded net capital outflows amounting to € 34.0 billion, versus the net outflows of € 25.2 billion registered a year earlier. Excluding the Bank of Spain, the financial account recorded net capital outflows worth € 87.6 billion (7.9% of GDP), higher than the net outflows registered in 2015 (€ 65.3 billion). This result includes a positive balance (investments) in asset transactions and a negative balance in liability transactions (disinvestments).

The change in liabilities generates net capital outflows…

The change in liabilities generated net capital outflows in 2016 as a whole worth € 6.5 billion, in comparison to the net inflows of € 63.6 billion registered a year earlier. The direct investment balance rose by 7.5% in comparison to 2015, reaching net inflows of € 24.5 billion, which were mainly channelled toward other resident sectors (only the breakdown by instrument for the first nine months of the year is available). On the other hand, portfolio investment recorded net outflows amounting to € 8.8 billion (net inflows of € 76.0 billion in 2015), mainly due to the results of Monetary Financial Institutions. Finally, other investments (loans, deposits and repos) recorded net outflows of € 22.2 billion, 36.9% less than the net outflows seen in 2015, mainly corresponding to the financial private sector.

Table 6.3 **Balance of payments. Financial operations (1)**

Millions of euros

	January-December 2015			January-December 2016		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	**88,793**	**63,602**	**25,185**	**27,513**	**-6,526**	**34,044**
- Excluding Bank of Spain	**128,953**	**63,602**	**65,344**	**81,106**	**-6,526**	**87,636**
Direct investment	***52,194***	***22,817***	***29,376***	***45,762***	***24,536***	***21,228***
Monetary financial institutions	11,814	-415	12,229	6,627	1,285	5,342
Other resident sectors	40,382	23,235	17,147	39,136	23,250	15,886
Portfolio investment	***70,141***	***76,013***	***-5,872***	***24,901***	***-8,820***	***33,723***
General Government	-3,049	62,697	-65,746	106	6,479	-6,373
Monetary financial institutions	-1,235	15,437	-16,672	-3,216	-16,721	13,505
Other resident sectors	74,425	-2,121	76,546	28,011	1,418	26,593
Other investment	***7,855***	***-35,228***	***43,080***	***12,772***	***-22,242***	***35,016***
General Government	-1,070	-8,931	7,861	1,038	-2,695	3,733
Monetary financial institutions	9,549	-25,870	35,419	5,526	-19,678	25,204
Other resident sectors	-624	-427	-197	6,208	131	6,077
Financial derivatives	***-1,237***	-	***-1,237***	***-2,329***	-	***-2,329***
- Bank of Spain	**-40,160**	-	**-40,160**	**-53,593**	-	**-53,593**
Reserves	5,067	-	5,067	8,234	-	8,234
Claims on the Eurosystem	-50,929	-	-50,929	-59,707	-	-59,707
Other net assets	5,702	-	5,702	-2,118	-	-2,118
- Net errors and omissions	**3,451**	-	**3,451**	**7,187**	-	**7,187**

(1) The sum of the items sometimes does not match the total due to rounding.
Source: Banco de España.

...and Spain's investment abroad moderates

The change in assets with the rest of the world, excluding the Bank of Spain, accumulated in 2016 net capital outflows (investments) of € 81.1 billion, 37.1% lower compared that of the last year. Direct investment accumulated capital outflows amounting to € 45.8 billion, 12.3% lower compared to those recorded in 2015, coming mainly from other resident sectors. The portfolio investment balance fell by 64.5%, registering net outflows of € 24.9 billion, mainly corresponding to the non-financial private sector. On the other hand, other investment recorded net outflows amounting to € 12.8 billion, 62.6% higher than a year earlier, led by the private, financial and non-financial sectors. Finally, financial derivatives registered net inflows of € 2.3 billion, versus the net outflows of € 1.2 billion registered in the previous financial year.

The net position of the Bank of Spain vis-à-vis the Eurosystem increases

Current, capital and financial, transactions generated a reduction of € 53.6 billion of net assets of the Bank of Spain, a figure that includes an increase of the reserves standing at € 8.2

billion, a reduction (increase of the net position) of € 59.7 billion assets vis-à-vis the Eurosystem and a reduction of € 2.1 billion in other net assets.

The NIIP improves in the third quarter of 2016

The *Net International Investment Position* (NIIP) decreased its debtor balance in the third quarter of 2016, compared to the same period of 2015, by € 9.4 billion, reaching € 979.7 billion. The debtor NIIP accounted to 88.7 % of GDP in the third quarter of 2016, 4.2 points less than in the previous year. Assets amounted to € 1.8 trillion, 6.4% more compared to a year earlier, and liabilities € 2.7 trillion, 3.6% more compared to the same period of a year earlier. Furthermore, the gross external debt stood in the third quarter of 2016 at € 1.9 trillion (171.2% of GDP), versus the € 1.8 trillion registered in the same quarter of 2015 (170.5% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 820 billion in the third quarter of 2016, 8% less than a year earlier, recording a reduction in the debtor balance of the various components: direct investment, 27%, down to € 47.1 billion; portfolio investment, 3.4% down to € 587.5 billion; and another investment, 19.2%, down to € 176.9 billion.

The Bank of Spain increased its debtor balance by € 62.2 billion in the third quarter of 2016 compared to a year earlier, up to € 160 billion, equivalent to 14.5% of GDP. This increase is explained by the expansion of the Bank of Spain debtor balance vis-à-vis the Eurosystem (€ 77 billion), while, on the other hand, reserves rose by € 10.3 billion and the balance of other net assets went from € -4.5 billion to € 18 million.

March 2017